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BUSINESS REVIEW

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The Texas Economy: Full Steam Ahead

The single most critical variable to the health of the Texas economy is the performance of the economy of the entire United States. We are not heading toward anything like the boom in 1984, which posted a 6.8 percent increase in real GNP, the highest for any peacetime year since 1937 and the highest for any year since 1951. However, a significant acceleration in real GNP is occurring now, primarily because of a strong increase in exports brought about by the decline in the dollar on foreign exchange markets since March 1985. Consumers are continuing to spend at ever increasing record levels, and consumer confidence, as measured by the University of Michigan Index of Consumer Sentiment, has remained at high levels for the longest period of time since the "glory years" of the 1960s. It is quite likely that the over \$2 trillion increase in the net worth of consumers resulting from the rise in stock prices over the past five years has contributed both to consumer spending and to consumer confidence.

Furthermore, with the growth in export demand and the increasing appetite of consumers for goods made in America, we are on the verge of a sustained rise in business fixed investment for capital goods and new and expanded production facilities. The increase of manufacturing employment by 70,000 jobs in July is a harbinger of this encouraging development.


It is becoming increasingly clear that the concerns expressed by many analysts about a sharp rise in the rate of inflation, which appeared to be reasonable based on the inflation numbers for the first few months of 1987, were considerably overblown. It looks as though we had an inflationary spike brought on by cold weather and by sharp

rises in food and energy costs. The increase in unit labor costs remains below 2 percent for the first half of 1987 and shows no signs of accelerating.

Once again, Detroit has guaranteed a strong third quarter by declaring a clearance sale on the inventories built up at automobile dealers around the country. With record low financing of 1.9 percent being offered to consumers, most analysts expect automobile sales in the third quarter to rise to an annual rate of a little over 12 million, from the 10.2 million level of the first half of 1987.

All of these developments are extremely good news for the Texas economy. Most people are unaware that Texas is a major source of goods and services for the rest of the world. In fact, only California had more exports than Texas over the past several years. Thus, an increase in exports from the United States is wonderful news for the Texas economy. It means more jobs in Texas in lumber and wood products, stone, clay, and glass products, especially in gypsum plants, where we are the world's lowest cost, most efficient producer, in fabricated metal industries, in oilfield and other nonelectrical machinery, in electric and electronic equipment, where 3,700 new jobs have been created in Texas in the past year, and in transportation equipment, where 4,800 jobs have been added in the past twelve months. Growth in exports will also contribute to employment gains in instruments, food and kindred products, textile mill products, apparel and other finished textile products, paper, and the chemical industry, where Texas is the third largest producer in the country.

Exports are so important to Texas that only Connecticut has a higher proportion of its labor force employed in producing goods and services for foreigners. The dependence of the Texas economy on exports is such that over 100,000



people could lose their jobs if the trade bill currently pending (in the U.S. Senate) is enacted. It is very difficult to understand why the primary sponsor of the trade bill is the senior senator from Texas.

Protectionism is a game that makes the entire world a poorer place and costs jobs and reduces economic growth everywhere. It would be especially harmful to Texas. One can only hope that such a bill, and the even more destructive Textile and Apparel Act of 1987, will not be passed by Congress or, if the two are passed, they will not be enacted over the nearly certain presidential veto that would follow.

Total employment in Texas in July was 7,753,000 on a seasonally adjusted basis. This was up 97,000 from June and only 25,000 below the record high reached in May. The unemployment rate in July was 8.3 percent, the lowest since the 8.1 percent of March 1986 and a significant drop from the 8.8 percent of July 1986.

It is probably worth explaining why we choose to focus on total employment and not to waste much time looking at the rate of unemployment. The major reason is that employment is the far more important series; it measures people who are earning income and, in the Texas and U.S. economies, it is personal income that determines economic growth. Also, the unemployment rate is simply a residual based on the results of a number of decisions made by individuals. The first and most critical decision is whether an individual wants to be in the labor force. For the entire United States, the labor force participation rate, the fraction of the resident population over age 16 that wants to work, hit 65.8 percent in July, marginally below the 66.1 percent rate reached in May 1987. In Texas, the labor force participation rate is 69.0 percent, well above the national average. No one knows why a so much higher proportion of the people in Texas want to work than in the country as a whole, but it has a major effect on the unemployment rate. For example, if our labor force participation rate were only the national average of 65.8 percent and we had the same levels of employment, there would not be a single unemployed person in the state and every newspaper, radio and television station in the world would be running feature stories on the "miracle" of the Texas economy. Of course, many of these organizations are already running such stories, but the pace would really pick up if our labor force participation rate were

to fall off by a few percentage points. So, if you want a reliable gauge of the health of the economy of Texas, look at the change in total employment (the doughnut) and not at the unemployment rate (the hole).

The Texas legislature approved a budget for the 1987-89 biennium in a special session. They gave us a record tax increase for any state, which we did not need, but they did enact a valuable new feature for Texas that provides that any excess of revenues over expenditures this biennium will go into a stabilization or "rainy day" fund. If the U.S. economy continues to perform well over the next two years, a reasonably safe assumption, then Texas will also do well and the stabilization fund should have about \$3 billion in it. That should be adequate to prevent any future budget crisis, at least for the rest of this century.

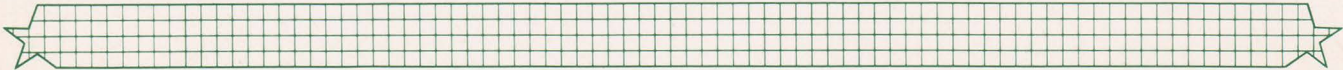
Oil and gas drilling activity in Texas is now about 50 percent higher than it was a year ago. Some very significant expenditures are being made and planned for drilling activity in the Gulf of Mexico, and large increases in activity are occurring on land as well. These developments will translate quickly into more employment growth for the state.

The only weak area of the Texas economy for the next year or so is likely to be in construction employment. While residential building has stopped its decline, the commercial sector is not likely to provide any employment growth until late 1988. There will be considerable activity related to new highway construction and also some activity related to new manufacturing facilities, but it will be some time before the need for new office and retail space adds directly to employment gains.

A significant spur to employment will occur in 1988 if the voters approve the Build Texas program in November. This \$1.1 billion program is a well conceived, supply-side initiative designed to improve the infrastructure of Texas to provide for increased future growth. It would account for several thousand new construction jobs in 1988 and beyond.

All other aspects of the Texas economy look healthy, except for parts of the financial area. Employment is expected to continue to increase in both durable and nondurable manufacturing, as well as in mining, transportation, wholesale and retail trade, communications, and other services.

More foreclosures and bankruptcies will occur, but the number will decline. There will also be more bank and thrift failures and mergers. None of this should have any effect on depositors in



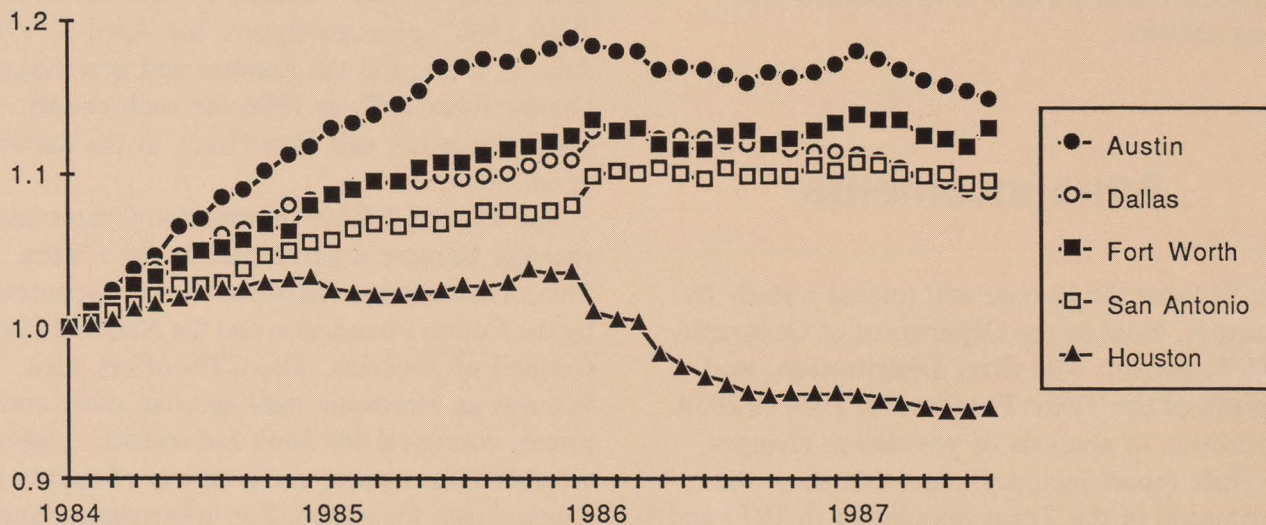
Employment and Unemployment Rate by Metropolitan Area

Area	Total nonagricultural employment (thousands)			Total employment (thousands)			Unemployment rate
	July 1987	July 1986	Percentage change	July 1987	July 1986	Percentage change	July 1987
Abilene	49.2	49.4	-0.4	52.9	50.0	5.8	8.5
Amarillo	77.3	77.5	-0.3	99.0	93.3	6.1	6.6
Austin	348.5	353.1	-1.3	413.5	397.9	3.9	6.9
Beaumont-Port Arthur	126.7	129.2	-1.9	147.0	141.3	4.0	13.1
Brazoria	56.6	56.7	-0.2	77.2	72.4	6.6	10.3
Brownsville-Harlingen	64.6	64.5	0.2	85.8	80.3	6.9	14.5
Bryan-College Station	46.7	46.8	-0.2	55.7	53.3	4.5	6.2
Corpus Christi	126.1	129.2	-2.4	151.3	147.3	2.7	12.0
Dallas	1,300.9	1,341.3	-3.0	1,389.1	1,359.8	2.2	6.7
El Paso	184.2	182.8	0.8	215.2	201.6	6.8	11.0
Fort Worth-Arlington	514.2	511.6	0.5	657.8	622.2	5.7	7.5
Galveston-Texas City	69.6	71.2	-2.2	100.8	97.9	3.0	11.2
Houston	1,373.9	1,397.1	-1.7	1,525.6	1,463.6	4.2	9.3
Killeen-Temple	68.8	69.0	-0.3	90.1	84.1	7.1	7.9
Laredo	34.7	35.3	-1.7	40.2	37.8	6.4	15.0
Longview-Marshall	64.0	65.2	-1.8	74.4	71.5	4.1	11.1
Lubbock	89.0	90.3	-1.4	107.8	104.3	3.4	6.8
McAllen-Edinburg-Mission	86.4	85.4	1.2	121.1	114.4	5.9	18.0
Midland	43.2	44.3	-2.5	48.5	46.6	4.1	9.2
Odessa	43.2	43.3	-0.2	52.1	49.7	4.8	10.6
San Angelo	36.1	36.4	-0.8	44.6	42.6	4.7	6.3
San Antonio	490.1	494.1	-0.8	574.9	548.1	4.9	8.3
Sherman-Denison	37.7	37.3	1.1	47.4	45.0	5.3	8.0
Texarkana	45.0	45.0	0.0	54.5	52.8	3.2	8.4
Tyler	60.3	62.1	-2.9	73.3	70.4	4.1	9.1
Victoria	27.9	28.4	-1.8	36.7	34.7	5.8	8.7
Waco	76.6	76.6	0.0	88.7	83.6	6.1	8.2
Wichita Falls	50.1	50.1	0.0	55.6	53.1	4.7	7.6
Total Texas	6,466.0	6,549.6	-1.3	7,882.5	7,558.7	4.3	8.7
Total United States	101,932.0	99,440.0	2.5	114,652.0	111,832.0	2.5	6.1

Note: These data reflect the Bureau of Labor Statistics' redefined metropolitan areas in Texas. Data are not seasonally adjusted. All 1987 figures are subject to revision, with the exception of Texas and U.S. total employment.

Source: Texas Employment Commission and U.S. Bureau of Labor Statistics.

Nonagricultural Employment in Five Largest Texas Metropolitan Areas (January 1984=1.00)

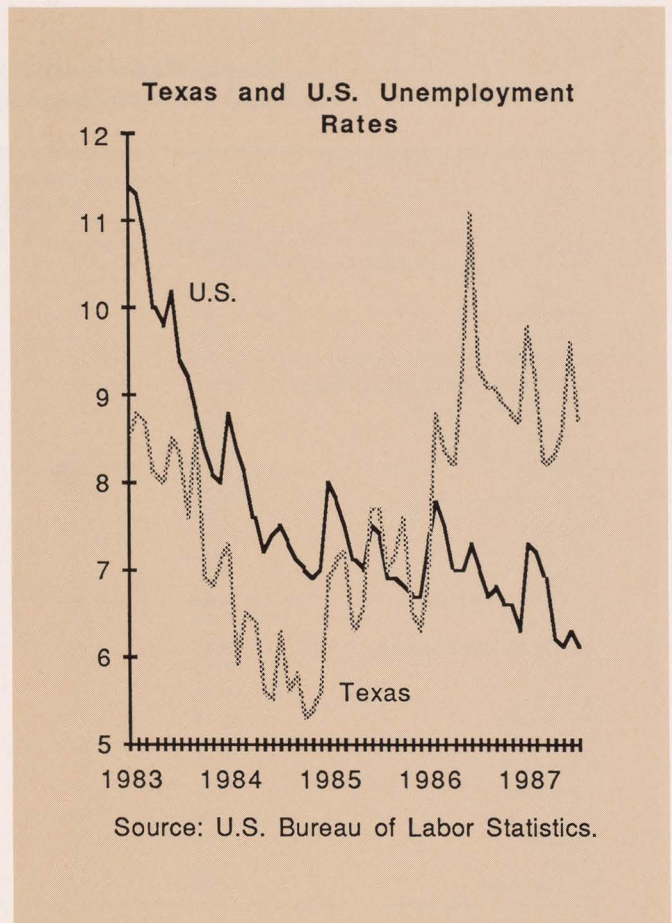


federally insured institutions (banks, credit unions, and savings and loan associations), so long as they do not have more than \$100,000 in any single account, which is the current maximum for insurance coverage. Since the advent of federal deposit insurance in 1934, not one depositor has ever lost a single cent in an insured account. There is no reason to expect that this pattern will not be maintained by the U.S. Congress forever.

The Texas economy is performing quite well. Employment is growing strongly, even in formerly sluggish sectors such as most of manufacturing and oil and gas exploration and production. Personal income is at record levels and rising after falling for the last three quarters of 1986. The increase in taxes was not enough to scare away corporations planning to move to Texas or expand their operations here, and we avoided the one tax that clearly discourages business activity, an income tax.

The final economic results for 1987 will show the Texas economy at record levels and will set the stage for an even more impressive economic performance for Texas in 1988.

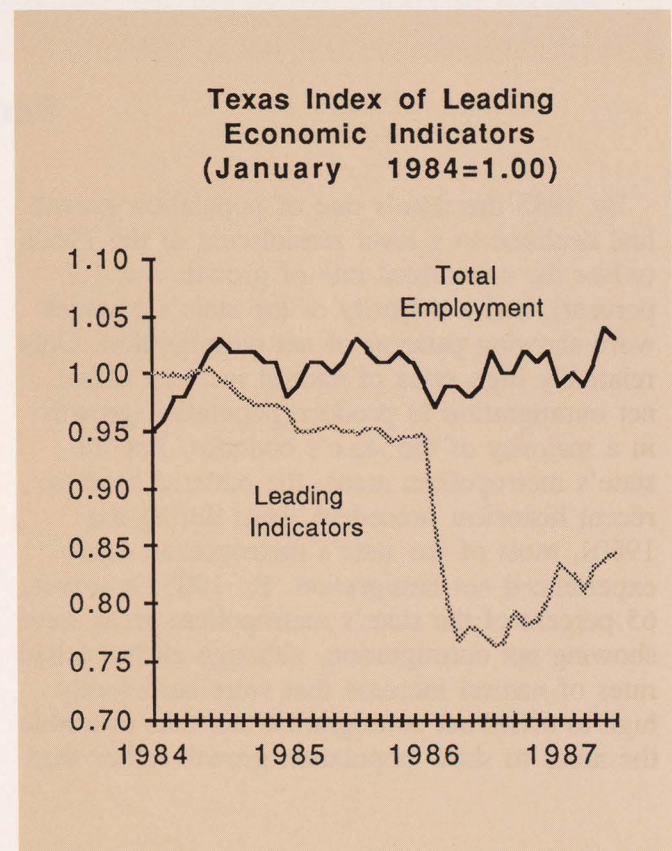
—James F. Smith
Director and Chief Economist



Components of the Texas Index of Leading Economic Indicators (April 1987—June 1987)

Measure	Apr.	May	Jun.
Manufacturing weekly hours	41.30	41.80	41.19
Retail sales (billions of 1967 dollars)	2.67	2.58	2.64
New housing permits (thousands)	4.22	4.37	4.92
U.S. wellhead price of oil (1967 dollars per barrel)	4.48	4.51	4.69
Initial claims for unemployment insurance (claims per thousand employees)	13.03	11.51	11.81
Leading indicators index (January 1984=1)	0.83	0.84	0.84

Note: All figures are seasonally adjusted.
Sources: Texas Employment Commission, U.S. Bureau of the Census, and U.S. Department of Energy.



Annual Population Change and Net Migration for Standard Metropolitan Statistical Areas in Texas, 1980-85

SMSA	Annual population change (percentage)				Annual net migration (percentage)			
	1980-82	1982-84	1984-85	1980-85	1980-82	1982-84	1984-85	1980-85
Abilene	2.75	1.96	-0.36	1.90	1.80	0.95	-1.46	0.85
Amarillo	1.80	3.09	0.49	1.96	0.68	1.51	-0.58	0.76
Austin	3.87	5.74	6.94	5.64	2.70	3.98	5.59	4.10
Beaumont-Port Arthur-Orange	1.87	-0.76	-1.03	0.30	0.91	-0.81	-1.82	-0.29
Brownsville-Harlingen-San Benito	3.40	4.71	1.11	3.64	1.40	1.67	-0.41	1.19
Bryan-College Station	6.83	4.99	0.67	5.28	5.57	2.95	-0.54	3.55
Corpus Christi	2.80	1.56	0.33	1.90	1.37	0.64	-0.88	0.66
Dallas-Fort Worth	3.22	3.83	3.93	3.81	2.07	2.14	2.74	2.36
El Paso	2.34	3.27	1.28	6.47	0.64	0.45	-0.33	0.38
Galveston-Texas City	2.68	1.29	0.25	1.71	1.63	0.79	-0.76	0.86
Houston	5.28	1.99	0.93	3.31	3.77	0.06	-0.46	1.54
Killeen-Temple	0.49	2.74	-0.34	1.19	-1.48	0.11	-2.20	-1.04
Laredo	4.11	4.03	0.81	3.62	1.98	2.62	-0.94	1.73
Longview-Marshall	4.00	1.24	0.48	2.31	3.15	0.12	-0.22	1.20
Lubbock	0.68	2.00	-0.31	1.00	-0.56	-0.88	-1.59	-0.73
McAllen-Pharr-Edinburg	4.20	5.79	1.81	4.63	2.06	2.50	0.17	1.96
Midland	9.19	3.22	2.90	6.12	7.50	5.02	1.30	6.03
Odessa	7.46	-0.11	0.19	3.19	5.64	1.81	-1.36	2.91
San Angelo	3.18	3.42	-0.36	2.69	2.17	1.57	-1.40	1.26
San Antonio	2.59	3.12	2.52	2.90	1.40	1.12	1.32	1.33
Sherman-Denison	1.19	1.64	1.52	1.46	0.77	0.92	1.16	0.92
Texarkana	0.76	1.57	1.90	1.31	0.11	1.06	1.46	0.74
Tyler	2.84	3.50	2.74	3.23	2.01	2.08	1.91	2.11
Victoria	3.59	0.28	0.95	1.86	2.16	-1.39	-0.43	0.27
Waco	1.04	2.23	0.83	1.49	0.38	1.33	0.13	0.71
Wichita Falls	2.05	-0.17	-0.67	0.68	1.10	-1.10	-1.49	-0.26

Source: Steve H. Murdock, Kenneth Backman, and Sean-Shong Hwang, *Update 1987: The Continued Slowdown in Texas Population Growth*, Series 1987, No. 1 (Austin: Texas State Data Center, 1987), pp. 7-8, 12.

Summary

By 1985 the state's rate of population growth had declined to a level reminiscent of the 1960s (when the annualized rate of growth was 1.7 percent), and a majority of the state's counties were showing patterns of net outmigration. Only relatively high rates of natural increase offset net outmigration to produce population growth in a majority of the state's counties. For the state's metropolitan areas, the patterns have no recent historical precedent; even during the 1960s, most of the state's metropolitan areas experienced net immigration. By 1985, however, 65 percent of the state's metropolitan areas were showing net outmigration, although all but 6 had rates of natural increase that were sufficiently high to offset net outmigration and thus to enable the areas to show population growth rather than

decline. The state's most rural counties are experiencing population loss, with only suburban counties retaining patterns of relatively rapid growth. Finally, nearly all regions of the state are experiencing both a slowdown in population growth and an increasing rate of net outmigration.

Although the trends we have described are based on U.S. Census Bureau population estimates, not on actual population counts, and trends for only a few years may be misleading, there appears to be little doubt that the slowdown in Texas population growth is real, extensive, and pervasive. The causes for these patterns appear to be largely economic, and it seems unlikely that growth will return to the levels of the 1970s and early 1980s until the Texas economy shows a substantial recovery.


— Steve H. Murdock

Editor: Lois Glenn Shrout

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Announcements

In October the Bureau will release a study by Robert K. Holz of the Department of Geography at U.T. Austin: **The Size, Distribution, and Growth of the Texas Population, 1980 to 2030.** In addition to analysis of population changes, the Holz report includes maps that show the distribution of the Texas population in 1970 and 1980 and population projections for the state



from 1990 through 2030. To order, call Dan Hardy at (512) 471-5179.

The August issue of **Texas Economic Indicators** carries the latest population data for all 254 counties in Texas. "County Population Growth, 1980-1986" presents figures for April 1, 1980, July 1, 1986, and the number and percentage change from 1980 to 1986 for each county. To order the issue, call Dan Hardy at the number given above.

The Natural Fibers Information Center has recently become a participant in the Cotton Telecommunication Network, a system sponsored by the Cotton Foundation and the National Cotton Council of America. The CTN offers such features as electronic mail service, daily cotton prices, cotton-related news and research, regional weather information, and a variety of supply and demand data for cotton. For information, contact Margaret Herring at (512) 471-1616.