

TEXAS

BUSINESS REVIEW

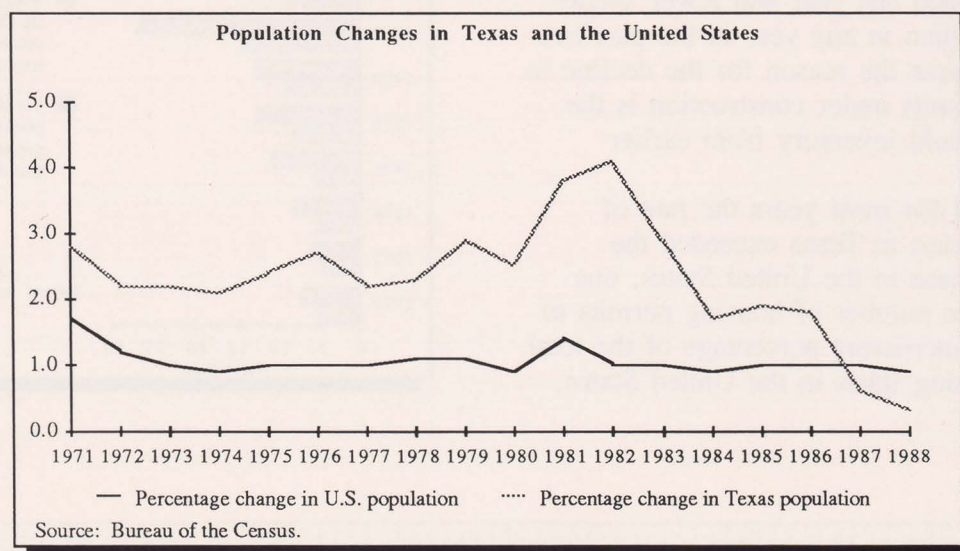
Bureau of Business Research
College and Graduate School of Business, University of Texas at Austin

October 1989

The Texas Economy: The Housing Market in Texas

Both population and employment growth in Texas have exceeded that of the nation for the better part of the past twenty years. At the same time, median Texas housing prices have typically been lower than the national average. But from 1980 to 1985, Texas population and employment growth moved well out of the normal range and housing prices moved well above the national median. It may be little consolation to those who have watched their property values plummet in the past four years, but given the population increase projected through the end of the century and a gradual absorption of the current supply of new housing, the Texas housing market through the next decade may return to a scenario reminiscent of the seventies.

The U.S. population has been increasing at just under 1 percent a year. During the boom years between 1980 and 1985, the average annual increase for Texas was 2.9 percent and in one year exceeded 4 percent. The rate of population growth in the state has now dropped to only 1.4 percent per year, averaged over the past three years, as a result of the dramatic migration out of Houston and the small cities in West and South Texas. Even in the midst of the worst year of the recent decline, Dallas, San Antonio, Austin, and El Paso experienced positive net in-migration and, because of our very young population, Texas still has a natural increase of nearly 200,000 each year. So in absolute numbers the population of the state has continued to increase each year. The comparison of the state's rate of increase from one year to the next with the rate of population increase of the United States as a whole shows only one



year (1987) that the rate of increase in Texas was lower than the U.S. rate.

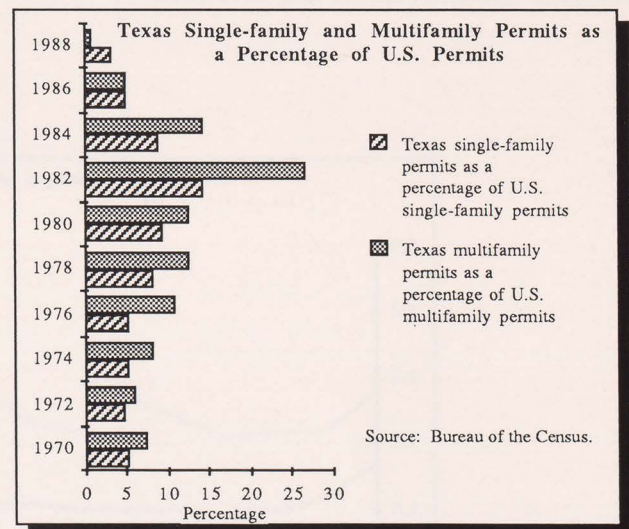
Of course, it is employment opportunity that attracts people. During the first part of the decade Texas had a lower unemployment rate than the United States, and the state also had a slower increase in that rate; since 1985 the Texas growth in unemployment has been higher than that in the nation, and the actual unemployment rate has exceeded the U.S. rate. This year, however, both initial and continued unemployment claims have dropped, and it is only in the oil and gas and construction industries that we continue to see a decline both in levels of employment and in total personal income. Much of the increase in Texas employment in the early eighties was attributable either to construction or the oil and gas industry. In the classic real estate story, construction workers migrate into a community to build a major project, causing a housing shortage. New construction workers arrive in town to build new housing units, and they cause a more severe shortage. This goes on until the major project is finished. The original workers then move on, the secondary workers follow, and suddenly there is a housing glut. In the Texas story, the number of housing permits averaged 58,799 multifamily and 54,080 single-family permits a year through the decade of the seventies. By contrast, during the period from 1980 through 1985, the number of permits authorized averaged 99,418 and 75,909, nearly double those of the preceding decade; in 1983 the total number of permits issued reached 265,594. Activity since 1985 has declined dramatically with fewer than 4,000 multifamily unit permits issued last year and fewer single-family permits than in any year in the past two decades. Of course the reason for the decline in the number of units under construction is the existence of unsold inventory from earlier years.

Recalling that for most years the rate of population increase in Texas exceeded the population increase in the United States, one might expect the number of housing permits to be a gradually increasing percentage of the total number of housing starts in the United States.

Single-family permits from 1970 to 1976 stayed within the 5 to 7 percent range and were generally increasing from one year to the next. Beginning in 1977 and through 1982, there was a rapid increase in the proportion of the nation's single-family housing construction concentrated in Texas. The multifamily market (here defined to include duplexes and three- and four-unit apartments as well as larger multifamily projects) underwent an even more severe change over the years, from a relatively stable 10 percent of the nation's permits to over 25 percent and now down to less than 1 percent.

New construction of both single- and multifamily housing far outpaced the rest of the country during the boom years. Although the population was growing faster than the nation and job creation was well ahead, the majority of the jobs were in the oil industry and the construction industry so that with the collapse in oil prices, the state became the demonstration of that old real estate story.

The market for the sale of existing single-family homes has been anything but stable over the past twenty years. The number of existing homes sold varied from the 50,000 to 60,000 range in the first four years of the seventies to twice that number in 1978 and 1979 and then declined to approximately 90,000 homes per year in the eighties. Values of single-family homes in Texas rose steadily from 1970 to 1985 but have been dropping since then. In the four



Employment and Unemployment Rate by Metropolitan Area

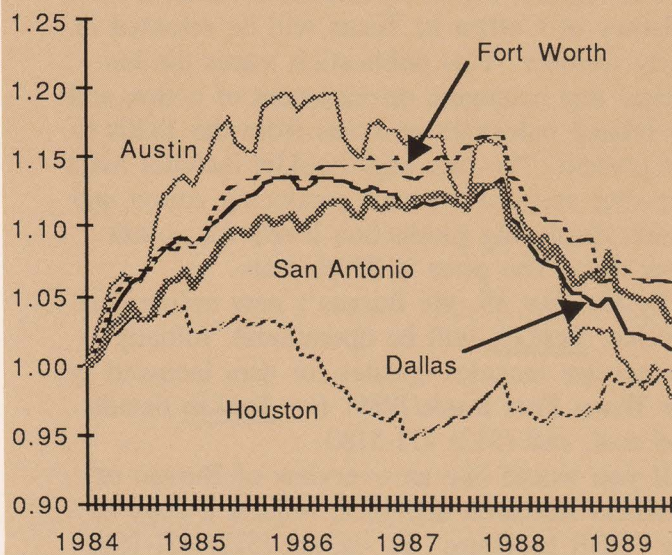
Area	Total nonagricultural employment (thousands)			Total employment (thousands)			Unemployment rate July 1989
	July 1989	July 1988	Percentage change	July 1989	July 1988	Percentage change	
Abilene	48.4	48.2	0.4	49.6	50.4	-1.6	7.1
Amarillo	76.7	77.7	-1.3	93.6	96.6	-3.1	5.8
Austin	346.1	344.1	0.6	395.4	402.5	-1.8	6.2
Beaumont-Port Arthur	134.0	132.2	1.4	148.6	149.7	-0.7	9.8
Brazoria	60.8	58.6	3.8	78.4	77.7	0.9	7.7
Brownsville-Harlingen	70.2	68.2	2.9	88.9	87.9	1.1	12.8
Bryan-College Station	49.3	47.5	3.8	56.4	55.5	1.6	5.1
Corpus Christi	127.1	123.8	2.7	146.5	146.6	-0.1	8.8
Dallas	1,348.3	1,344.3	2.8	1,380.8	1,414.4	-2.4	6.2
El Paso	195.4	190.6	2.5	218.6	219.1	-0.2	11.0
Fort Worth-Arlington	538.7	526.2	2.4	660.1	662.3	-0.3	6.0
Galveston-Texas City	73.2	72.9	0.4	101.3	103.8	-2.4	8.0
Houston	1,474.2	1,435.2	2.7	1,563.2	1,552.6	0.7	6.5
Killeen-Temple	72.3	71.0	1.8	90.4	90.7	-0.3	7.8
Laredo	40.1	38.0	5.5	43.6	42.2	3.3	11.9
Longview-Marshall	66.6	66.7	-0.2	73.7	75.3	-2.1	9.2
Lubbock	94.4	92.8	1.7	109.3	110.4	-1.0	6.2
McAllen-Edinburg-Mission	96.8	91.0	6.4	129.7	125.5	3.4	16.3
Midland	43.5	44.6	-2.5	45.9	47.7	-3.8	6.9
Odessa	41.5	42.8	-3.0	47.5	50.7	-6.3	9.4
San Angelo	36.0	35.9	0.3	42.2	43.3	-2.5	6.0
San Antonio	505.1	495.0	2.0	567.0	571.0	-0.7	8.0
Sherman-Denison	36.7	37.7	-2.7	45.0	47.4	-5.1	6.3
Texarkana	45.4	43.9	3.4	54.1	53.8	0.6	7.5
Tyler	60.9	60.3	1.0	70.0	70.8	-1.1	7.7
Victoria	27.8	27.5	1.1	34.3	34.6	-0.9	6.5
Waco	78.7	77.9	1.0	86.9	87.6	-0.8	6.3
Wichita Falls	50.0	50.7	-1.4	53.7	55.7	-3.6	6.4
Total Texas	6,779.6	6,645.5	2.0	7,813.2	7,888.9	-1.0	7.3
Total United States	108,507.0	105,560.0	2.8	119,502.0	117,066.0	2.1	5.3

Note: Data are not seasonally adjusted. Figures for 1988 have undergone a major revision; previously published 1988 figures should no longer be used. Revised figures are available upon request. All 1989 figures are subject to revision, with the exception of Texas and U. S. total employment.

Sources: Texas Employment Commission and U.S. Department of Labor, Bureau of Labor Statistics.

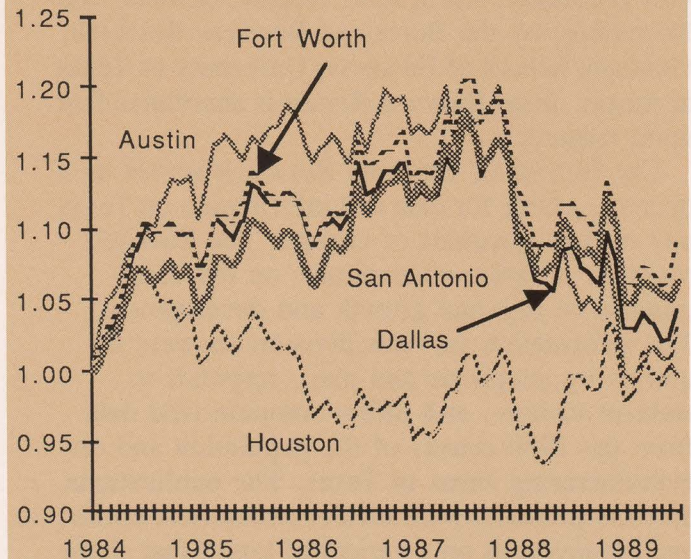
Nonagricultural Employment in Five Largest Texas Metropolitan Areas

(January 1984=1.00)



Total Employment in Five Largest Texas Metropolitan Areas

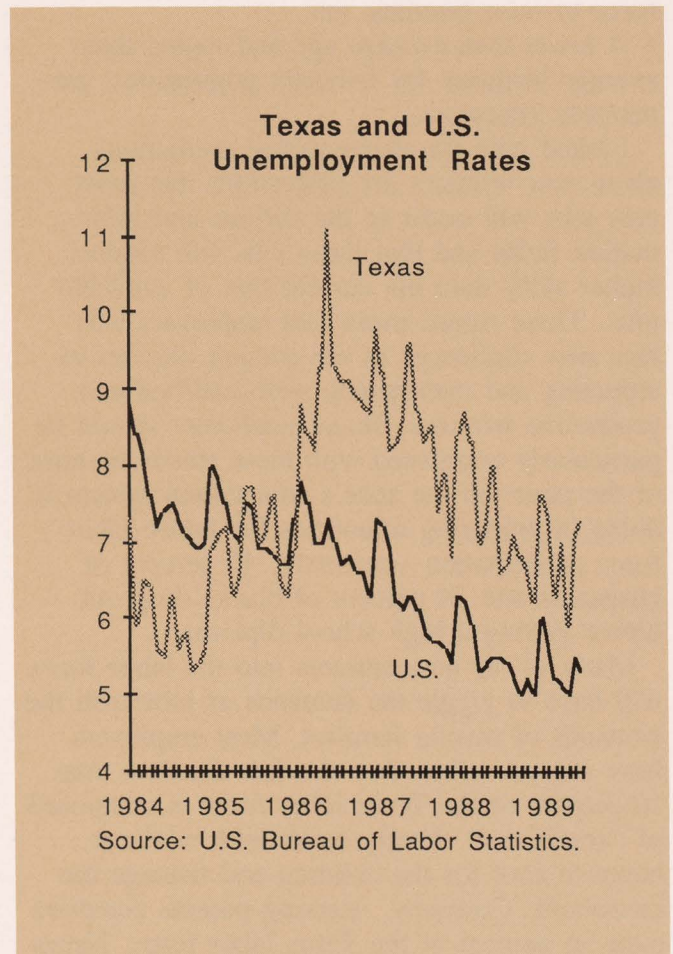
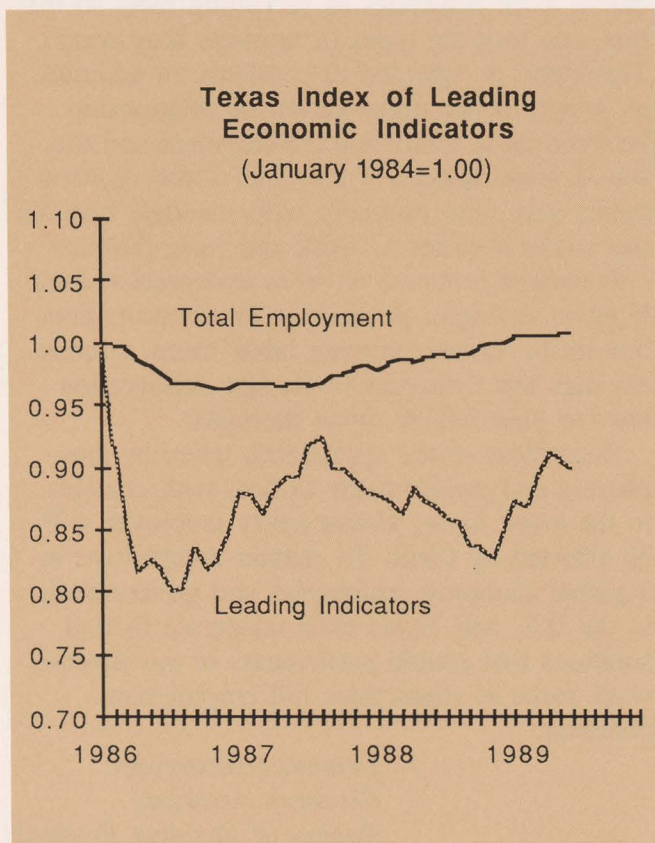
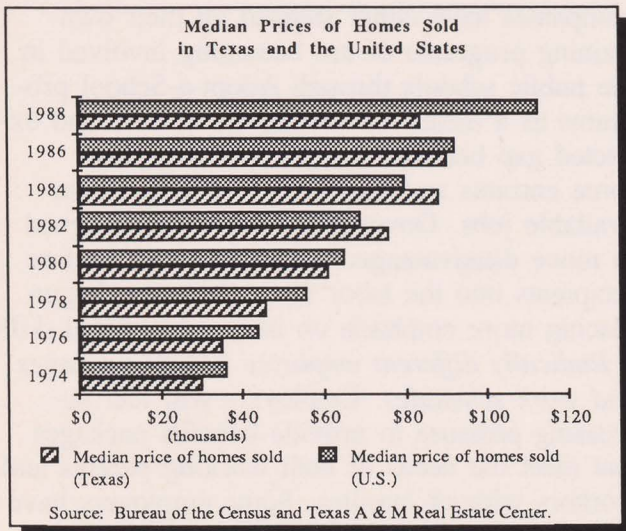
(January 1984=1.00)



major cities, housing prices have dropped generally below the national average. The median price for an existing home sold in Texas in May 1989 dropped to \$66,330 as reported by Multiple Listing Services; the national median was \$93,500. This is in stark contrast to 1985, when the U.S. median was \$84,300 and the Texas median was \$92,895. The accompanying chart shows the changing relationship.

Population growth in Texas is once again above the national average; both existing and new unemployment claims have declined; the total number of persons employed in Texas has been higher each year since 1987; the existing oversupply of housing is being absorbed at prices below the national average; very little speculative building is occurring. Many factors, including the immense acreage platted and approved as single-family subdivisions and multi-family building lots but held in institutional or governmental hands, prevent precise estimates of the point at which the housing construction industry will revive. But the housing market in Texas appears poised for a reprise of the seventies in the nineties.

— *Susanne Ethridge Cannon*
Department of Finance
University of Texas at Austin



Labor Force Trends in Texas

The U.S. Department of Labor estimates that 85 percent of new entrants into the labor force from now through the year 2000 will be either women or minorities. White males, who made up 42 percent of the Texas labor force in 1980, will comprise only 35 percent of the labor force by the year 2000. This dramatic diversification of the labor force arises from several factors:

- The entry of the “baby bust” generation into the labor force, meaning that to replace retiring workers and to fill newly created jobs, employers must attract new workers from groups that have traditionally had low rates of labor force participation (i.e., women);
- The decline in real wages since the early 1970s coupled with a dramatic increase in housing costs over the same time period, causing most young families to need two incomes;
- The increasing percentage of American women with college degrees and better job opportunities for women, which combine to strengthen women’s attachment to the labor force and increase the opportunity costs of leaving the labor force to raise families; and
- A lower-than-average age and higher-than-average birthrate for minority populations, particularly Hispanics.

Linked with the demographic predictions about new workers are projections that most new jobs will occur in the service and information fields and that these jobs will require higher skills than the current mix of available jobs. These trends mean that employers will face new challenges in the coming decades in attracting and maintaining well-qualified and productive workers. Texas employers should be particularly concerned with these trends because of the poor job the state’s educational system is doing in preparing minorities for future labor force participation—currently, 45 percent of Hispanics and 34 percent of blacks drop out before getting a high school diploma.

Many of the new entrants into the labor force will have to juggle the demands of jobs with the demands of raising families. Most employers have not yet adjusted to the fact that less than 10 percent of the Texas labor force is composed of “traditional” family heads with wives at home to care for the children and manage the household. Currently, working parents comprise over 36 percent of the Texas labor force. Issues

that affect the health and well-being of an entire generation, such as the availability of reliable and affordable child care, are still largely considered family problems rather than societal concerns.

As more employers become aware of the implications of the changing labor force, we can expect to see a number of initiatives on the part of both employers and the government, such as:

Greater emphasis on the education and training of new labor force entrants. A number of companies have either stepped up their own training programs or are becoming involved in the public schools through Adopt-a-School programs as a means of closing the current and expected gap between the skills of new labor force entrants and those required to perform available jobs. Government programs designed to move disadvantaged individuals and welfare recipients into the labor force have also begun placing more emphasis on basic educational skills.

Radically different employee benefit packages and work schedules. Employers will feel increasing pressure to provide benefits packages that meet the needs of both working parents and workers without families. Some employers have already begun to use such options as flexible benefits, parental leave, child care, and alternative work schedules as recruiting tools so that they can hire the types of workers they want. This trend is expected to continue. In addition, as society better understands the relationship between early childhood development and the future preparedness of the labor force, governments may (and probably will) mandate benefits that make it easier to work and raise families.

Increased pressure to relax immigration laws. If labor shortages develop in some occupations due to the slower-growing labor force, employers may ask Congress to change immigration laws to help relieve those shortages.

Regardless of the approaches taken by employers and governments to deal with changes in the labor force, almost every employer will be affected by them. To remain competitive in a global economy, employers and governments in the U.S. and Texas must cooperate to find solutions that enable participants in our diverse work force to reach their full employment potential.

— Deanna Schexnayder
Research Associate
Bureau of Business Research



Bureau of Business Research

P.O. Box 7459

Austin, TX 78713-7459

NONPROFIT ORG.

U.S. Postage

PAID

Austin, Texas

Permit No. 1630



Editor: Lois Glenn Shrout

Texas Business Review is published six times a year (February, April, June, August, October, and December) by the Bureau of Business Research, Graduate School of Business, University of Texas at Austin. *Texas Business Review* is distributed free upon request.

The Bureau of Business Research serves as a primary source for data and information on Texas and on the dynamics of change. The Bureau's research program concentrates on the determinants of regional growth and development. The information services division answers inquiries by telephone and mail, responds to walk-in visitors, and offers computerized data from the 1980 census of the population and on manufacturing firms in Texas. The publications division produces periodicals, directories, books, and monographs on a variety of topics that shape the development of the Texas economy.

Announcements

The Natural Fibers Information Center's **History of Cotton in Texas** will be released in early October. This publication traces the historical and economic development of cotton and its related industries in Texas from the 1820s to the present. The fifty-page booklet includes maps showing areas of the state producing cotton and charts displaying production levels for cotton over time. The price is \$5 plus tax.

By October 15, the Bureau's new online data service, **TexLib**, will be operational. Initially the service includes updates for data included in the **Texas Fact Book/1989**. For **TexLib** details and cost, call (512) 471-5180.

If you would like an overview of Bureau of Business Research activities, request a copy of the "BBR brochure" by calling (512) 471-1616 or writing P.O. Box 7459, Austin, Texas 78713.