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The Texas Economic Climate

It's becoming an all-too-familiar story—interest rates keep rising, but strong economic recovery continues. In June, continuing pressures on short-term rates forced large commercial banks to once again increase their prime lending rate from 12.5 to 13.0 percent. At the same time, the U.S. Department of Commerce revised its estimate of first quarter gross national product (GNP) growth from a boom rate of 8.8 percent to an even higher rate of 9.7 percent. The government also released its "flash" estimate of second quarter GNP growth, which at 5.7 percent may indicate some economic slowdown, but the growth of the national economy still remains well above its long-term sustainable rate of about 3 percent.

In Texas, economic recovery continues, but growth remains below the national rate and there are some signs that the state's growth rate is also slowing. Total nonfarm employment in the state increased to a seasonally-adjusted level of 6,322,000 in May, and it is poised to pass its peak of 6,349,000 of March 1982. However, after peaking at 5.1 percent in the fourth quarter of 1983, the growth rate in state nonfarm employment slowed to an estimated 1.9 percent in the second quarter of this year. U.S. employment growth has also been slowing, but the second quarter 1984 growth rate is well above Texas' at 4.0 percent (see table 1).

While employment in the service-producing sector is reaching record levels, the weak recovery in goods-producing industries is preventing a stronger rebound in overall state employment. Among goods-producing sectors, mining and manufacturing have experienced moderate rebounds

since employment bottomed in mid-1983, but employment in construction continues to slide because of overbuilt office, condominium, and apartment markets in many parts of the state.

News on state unemployment continues to be good. In June, the state's unemployment rate was reported at a seasonally adjusted 4.8 percent—a drop of almost one percentage point from the May rate of 5.7 percent. It must be stressed, however, that because of a relatively small sample size monthly changes in the state unemployment rate can be deceiving and quarterly averages are much more accurate. The state unemployment rate dropped from a peak of 8.5 percent in the first quarter of 1983 to 6.5 percent in the first quarter of 1984, then declined to 5.8 percent in the second quarter.

The Energy Picture

World oil markets are stable and oil prices are firm. The escalation of the Iran-Iraq War in recent months has helped keep oil prices from declining, but the recent behavior in spot prices indicates that

Table 1

Nonfarm Employment Growth Rates
at Annual Rates
(First quarter 1983 to second quarter 1984)

Area	1983				1984	
	1	2	3	4	1	2
Texas	-0.7	-0.5	1.3	5.1	3.4	1.9*
United States	0.5	3.4	3.7	5.8	4.8	4.0*

*Estimate based on May data.

oil traders do not believe that the war will lead to a major increase in prices.

Persons in the drilling industry can now breathe a sign of relief. After dropping through the first four months of 1984, the Hughes U.S. rotary rig count has now turned around. The rig count rebounded very strongly from 2,120 in April to 2,277 in May and now stands 18 percent above its level of one year ago.

Now that the normal beginning-of-the-year decline in drilling activity is over, the rig count will almost certainly continue to increase for the rest of the year. In fact, the strength of the May rebound has caused us to revise our estimate of the average rig count for 1984 from 2,500 to 2,600-2,650.

Statewide Outlook

The outlook for the Texas economy for the rest of this year remains unchanged from two months ago: the state economic recovery now has so much momentum behind it that nothing short of a major drop in oil prices or a significant increase in interest rates could cause a recession this year. The outlook for 1985 and beyond also is basically positive if the U.S. economic recovery re-

mains intact, oil prices stay firm, and oil and gas drilling continues its strong rebound.

After bottoming at 1.36 (1973=1.0) in February 1983, the Bureau of Business Research index of leading economic indicators for Texas has remained stuck at 1.41 to 1.42 for the past five months (see figure 1). Over the past three months (March to May), all of the five indicators have remained relatively unchanged, except for a small recovery in new housing permits from its bottom in March (see table 3).

The leading indicator index appears to be saying that the Texas economic recovery will continue but a major acceleration in growth is not likely. On the other hand, the probable strong second-half rebound in oil and gas drilling should fuel activity in Texas oil and gas services and drilling-related manufacturing, and this development may reverse the slowing growth trend of the first half of the year and lead to some acceleration in the state's growth in the second half.

Agriculture

Twenty-five years ago agriculture produced about 6.5 percent of the total economic output in Texas. Today, this figure has declined to about 1.8 percent. Still, agriculture is a major component of the economy in many parts of the state, especially in West Texas and the Panhandle.

Agriculture is a notoriously volatile industry; over the past few years, farm incomes in Texas have been squeezed by low product prices, poor harvests resulting from drought or bad weather, and high costs of energy and other inputs. State cash receipts from farm marketing peaked at \$10.1 billion in 1979 but had fallen to \$9.4 billion by 1983. Over the same period, farm proprietors' income, which represents net income after expenses, fell from \$2.3 billion to \$692 million (it actually bottomed at about \$689 million in 1982).

Several factors, however, now indicate that some improvement in the state's agricultural sector appears likely. First, product prices are improving somewhat and input costs, especially for energy-related inputs, are under control. (High interest rates, however, continue to be a serious problem.) Second, a return to reasonably normal weather should improve yields and harvests. Third, the federal government's payment-in-kind (PIK) pro-

Figure 1

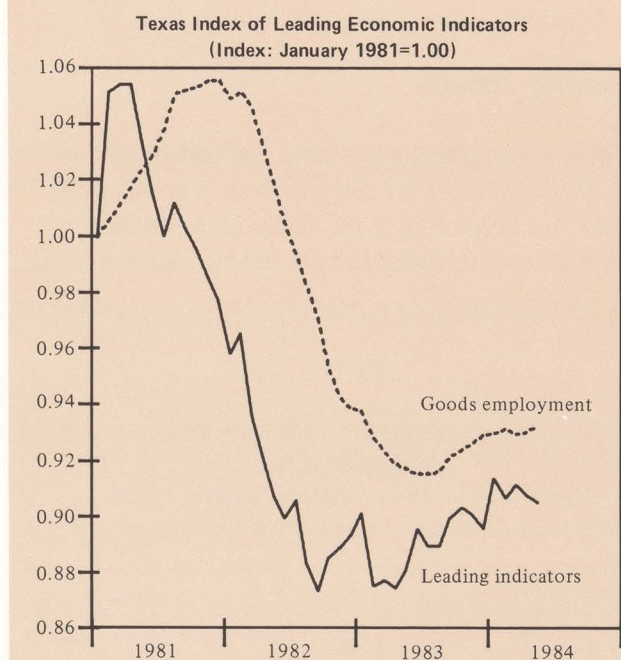


Figure 2

Nonagricultural Employment in Four Largest Texas Metropolitan Areas
(Index: January 1981=1.00)

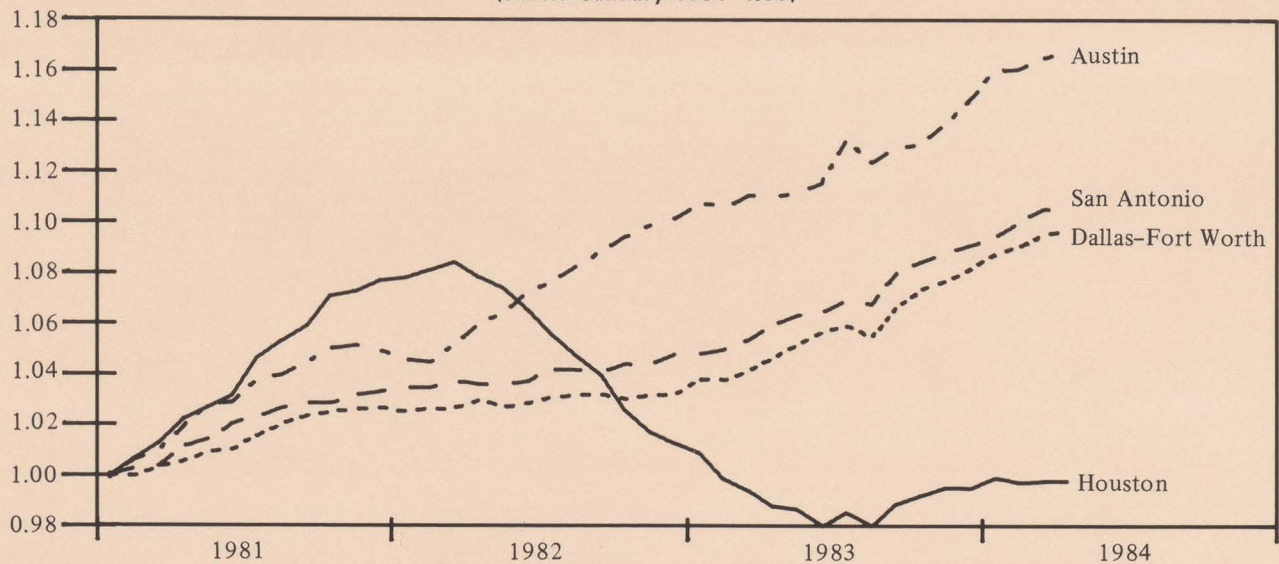


Table 2

Nonagricultural Employment and Unemployment by Metropolitan Area

Area	Nonagricultural employment (thousands)			Unemployment rate
	April 1984	April 1983	Percentage change	April 1984
Abilene	57.9	57.9	—	4.6
Amarillo	79.6	76.8	3.6	4.6
Austin	298.3	283.8	5.1	3.7
Beaumont-Port Arthur-Orange	140.1	141.7	-1.1	12.1
Brownsville-Harlingen-San Benito	63.3	61.5	2.9	14.5
Bryan-College Station	46.3	45.3	2.7	3.9
Corpus Christi	128.7	130.7	-1.5	9.0
Dallas-Fort Worth	1,646.7	1,570.4	4.9	3.9
El Paso	166.7	163.6	1.9	9.8
Galveston-Texas City	67.8	67.6	0.3	10.4
Houston	1,517.9	1,502.2	1.0	7.3
Killeen-Temple	62.5	59.3	5.4	5.2
Laredo	30.2	29.6	2.0	20.8
Longview-Marshall	67.1	67.4	-0.4	8.8
Lubbock	91.5	91.6	-0.1	6.1
McAllen-Pharr-Edinburg	78.1	79.0	-1.1	23.0
Midland	54.9	50.1	9.6	4.1
Odessa	57.4	54.4	5.5	5.6
San Angelo	37.6	37.1	1.3	4.3
San Antonio	450.4	432.4	4.2	5.1
Sherman-Denison	34.4	34.1	0.9	5.7
Texarkana	46.5	45.7	1.8	8.4
Tyler	58.0	56.8	2.1	4.8
Waco	76.2	73.1	4.2	4.3
Wichita Falls	53.5	51.8	3.3	4.6
Total Texas	6,313.3	6,143.9	2.8	6.4

Source: Texas Employment Commission.

gram is temporarily bolstering farm incomes. After reaching a low point of \$0.2 billion (at an annual rate) in the third quarter of 1983, farm proprietors' income in the state skyrocketed to \$1.9 billion in the fourth quarter. The major factor leading to this resurgence in farm income was the cotton PIK payments, which were made in October.

Retail Sales and Bank Deposits

In recent years, various government policies, including personal income tax cuts, reductions in capital gains tax rates, liberalized depreciation schedules, and the deregulation of financial institutions, have purportedly been aimed at increasing savings and investment and thus restoring health to a sluggish economy. Have these policies worked? Yes, but for the wrong reasons.

After declining through the second half of 1981 and all of 1982, the U.S. economy rebounded and moved into a period of strong economic recovery beginning in early 1983. The recovery, however, has been led by increased consumer spending, not

by increased business investment. From the end of 1982 to the end of 1983, national consumer spending increased 9.0 percent. During 1983, personal consumption expenditures as a percentage of disposable income reached 92.4 percent—the highest rate since 1963. Corresponding to the higher rate of consumer spending, the personal savings rate has declined and personal savings as a percentage of disposable income reached 4.9 percent in 1983, the lowest rate since 1949 (the personal savings rate actually peaked at 8.6 percent in 1975 during the low point of the 1973–1975 recession).

Although it has shown some signs of reviving since mid-1983, business investment, relative to the overall economy, has generally declined over the past few years. In 1979, total business fixed investment peaked at 12.0 percent of the gross national product—by 1983, this rate had dropped to 10.5 percent.

In Texas, the best measures of consumer spending and savings are retail sales and bank deposits. Typically, during a recession, consumers cut back their spending and save their earnings (if they are working) because of fears of unemployment, while during a recovery they increase spending dramatically. During the low point of the 1981–1982 recession, for example, retail sales growth dropped while the growth in bank deposits remained strong. During 1983, the pattern has been somewhat uneven, but with the beginnings of economic recovery, retail sales growth has surged while bank deposits growth has dropped.

Despite the recent recovery in retail sales, Texas retail sales as a percentage of personal income has generally declined over the past ten years. Sales as a percentage of income peaked at 53.5 percent in 1973, and by 1983 the rate reached 47.9 percent (the rate bottomed at 47.5 percent in 1982). In part, the trend of declining retail sales relative to income reflects the problems in the state economy in the past two years, but most of the decline can probably be explained by a shift in consumer spending away from goods and toward services. Nationally, the percentage of consumer spending on services has generally increased since the end of World War II, and this proportion increased from 43.8 percent in 1973 to 49.8 percent in 1983. Similar figures are not available for Texas, but the state is almost certainly following national trends.

—Thomas R. Plaut
Research Economist

Table 3

Components of the Texas Index of Leading Economic Indicators (March–May 1984)

Measure	March	April	May
Manufacturing weekly hours	41.8	41.9	41.9
Retail sales (billions of 1967 dollars)	2.56	2.50	2.50
New housing permits (thousands)	16.92	19.36	19.08
U.S. wellhead price of oil (1967 dollars per barrel)	8.46	8.41	8.38
Initial claims for unemployment insurance (claims per thousand employees)	8.96	9.01	9.10
Leading indicators index (January 1973=1)	1.42	1.41	1.41

Note: All figures are seasonally adjusted.

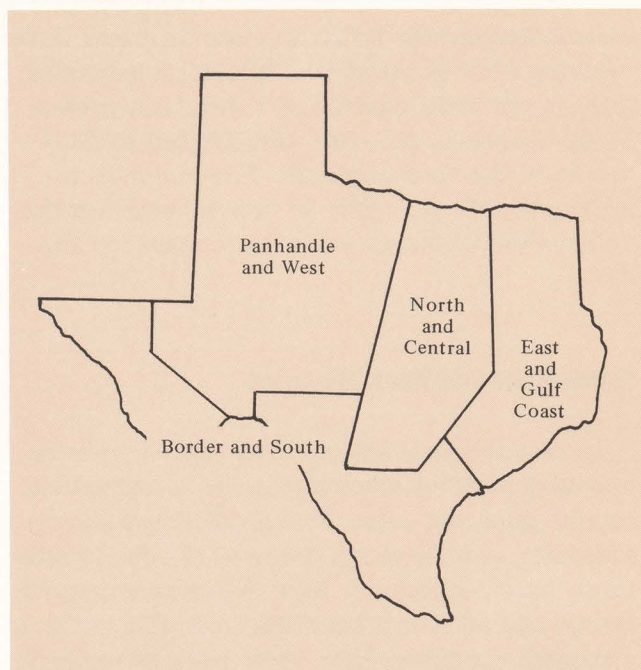
Sources: Texas Employment Commission, U.S. Bureau of the Census, and U.S. Department of Energy.

High Technology in the North and Central Region

The growth of population, employment, and gross product in the North and Central region of Texas during the last decade was influenced to a large extent by the predominance of manufacturing, especially in the computer and electronics industries. Although the three major metropolitan areas in this region accounted for only 31.8 percent of the state's population in 1982, they provided 40.6 percent of manufacturing employment and over two-thirds of high-technology employment in Texas. About half of the state's 1,500 high-technology manufacturing firms are located in the North and Central region.

The Austin, Dallas-Fort Worth, and San Antonio metropolitan areas are the major areas of high-technology growth and employment in the state. The composition of employment in each area, however, is quite different. Austin's manufacturing sector accounts for only 10.8 percent of wage and salary employment in the area. Yet more than 44 percent of Austin's manufacturing employment is in high-technology industries. Austin is electronics based, as a number of its high-technology firms manufacture office computing and accounting machines, electronic components and accessories, and measuring and controlling instruments. In addition, a number of research and development firms are locating in the Austin area, taking advantage of the University of Texas and the skilled work force.

In comparison to Austin, the Dallas-Fort Worth Metroplex is more industrialized, yet the manufacturing base is not as concentrated in the high-technology sectors. Manufacturing employment represents 18 percent of total employment, but high-technology employment accounts for more than 28 percent of the manufacturing base in the



Metroplex. The area's high-technology economy revolves around producers of communication equipment, electronic components and accessories, and aerospace and defense systems.

One out of ten of San Antonio's wage and employment workers is involved in manufacturing. Of these employees, only 16.6 percent are within the high-technology sector. San Antonio's high-technology base consists of firms producing electronic components as well as those manufacturing surgical, medical, and dental instruments.

The growth of high-technology employment that the region experienced in the 1970s has continued into this decade despite the effects of the national recession. From 1980 to 1983, a surge of growth in high-technology manufacturing occurred in the three major metropolitan areas; employment grew by an average annual rate of 5.6 percent in Austin, 3.8 percent in Dallas-Fort Worth, and 10.9 percent in San Antonio (see table). Employment growth in this sector suffered in 1982 as the state

began to feel the effects of national recession and a shake-out in the computer industry. Nonetheless, employment in these sectors increased in 1983, and the outlook remains bright.

—Susan Goodman
Research Associate

High-Technology Employment, 1980-1983

Metropolitan area	1980	1981	1982	1983	Average annual growth rate 1980-1983
Austin	12,490	14,001	13,905	14,701	5.6
Dallas-Fort Worth	77,881	88,888	86,158	87,000	3.8
San Antonio	5,971	6,970	7,836	8,138	10.9

Source: Texas Employment Commission.



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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 and investigates specific issues for clients. 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

For further information on the following publications and data services and their costs, contact the Bureau's information services division (512/471-1616). **Population Estimates:** The Census Bureau has recently released population estimates for 1982 by county and metropolitan statistical area (MSA). Included in the data are estimates of net migration. **Per Capita Income:** Data for 1982 by county and MSA are now available. **Texas Trends:** This concise summary of historical, current, and forecast data on the Texas economy is available free on request.

Every month, **Texas Industrial Expansion** reports on new and expanding manufacturing firms in Texas, as well as other business news in the manufacturing sector. The cost of a one-year subscription is \$20. Another monthly newsletter, the **Natural Fiber Abstract Service**, reports on cotton, wool, mohair, and the textiles industry in general. Subscriptions to the newsletter are free.