

# TEXAS

## BUSINESS REVIEW

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

October 1984

### The Texas Economic Climate

As the fourth quarter of this year begins, we turn our attention from the 1984 World Series to the number-one rankings in college football, a new football coach who is trying to make the Houston Oilers league contenders, and Gary Hogeboom, who is trying to demonstrate that he has matured into a starting quarterback for the Dallas Cowboys. Meanwhile, the presidential campaign brings economic issues into sharp focus as the candidates vie for votes.

This fall season is an appropriate time to assess the recent performance of the nation's economy and to look at national economic trends that will influence the Texas economy in the months ahead.

#### The National Economic Picture

National nonfarm employment growth, which continued from June into July, posted a gain of 302,000. Manufacturing employment, which averaged a gain of over 80,000 a month during the first six months of the year, surged in July with an increase of 105,000. Initial unemployment claims rose from 350,000 in June to 375,000 during the first three weeks of July, but during the final week fell 33,000 to post a month-end average of 347,000.

On the other hand, personal consumption spending, which averaged 0.8 percent increases each month through the first five months of the year, increased only 0.2 percent in June, and this trend continued into July. Weekly business borrowing, with a peak gain of \$1.9 billion in April, averaged

\$0.9 billion in July after accounting for a strong increased demand for \$1.7 billion in credit in the final week of July.

The national housing market appears to be softening somewhat. Existing single-family sales decreased by 2.3 percent in June, resulting in a seasonally adjusted annual sales rate of just under 3 million dwellings.

The long anticipated slowdown in the nation's economic growth rate appears to be slowly taking shape. A national decline in new housing starts and a decrease in the personal consumption expenditure rate seem to be the primary culprits. The near-term outlook is not drastic, however, because overall consumer spending will continue to increase as a result of rising real incomes. Thanks to optimistic consumers (61 percent of the respondents in a recent national poll indicated they expect

Table 1

#### U.S. Employment by Sector (In thousands and seasonally adjusted)

| Sector                              | July 1984* | July 1983 | Percentage change |
|-------------------------------------|------------|-----------|-------------------|
| Goods-producing                     | 25,126     | 23,414    | 7.3               |
| Mining                              | 1,002      | 946       | 5.9               |
| Construction                        | 4,380      | 3,947     | 11.0              |
| Manufacturing                       | 19,744     | 18,521    | 6.6               |
| Service-producing                   | 69,252     | 66,860    | 3.6               |
| Transportation and public utilities | 5,179      | 5,001     | 3.6               |
| Finance, insurance, and real estate | 5,677      | 5,478     | 3.6               |
| Trade                               | 21,775     | 20,836    | 4.5               |
| Services                            | 20,692     | 19,723    | 4.9               |
| Government                          | 15,931     | 15,822    | 0.7               |
| Total                               | 94,378     | 90,274    | 4.5               |

\*Preliminary.

Source: U.S. Bureau of Labor Statistics.



good times financially in the economy during the next year), renewed confidence in the stock and bond markets, expected modest inventory building, and increased government spending, the nation's economy should grow at an average of 4.2 percent during the rest of 1984.

### The Federal Deficit

The federal budget deficit continues to be a nagging problem with no easy solution. The Con-

spring of 1985. Short-term rates could increase by 275 basis points and long-term rates by 225 points. There are many stimuli in the economy to cause this belief. The federal deficit outlook in the short run is not good and will increase the competition in the credit markets. In addition, oil prices appear to be stabilizing after a period of decline, and any upward movement will place pressure on production costs. Labor costs are creeping up, and the resolution of the United Auto Workers contract negotiations will have a pronounced effect on future trends in wages.

## *The long anticipated slowdown in the nation's economic growth rate appears to be slowly taking shape.*

gressional Budget Office anticipates that the baseline deficit will be over \$200 billion by 1987 and approaching \$260 billion by the end of the 1980s.

What's the reason? There is no simple answer, but a number of factors seem to be influencing the deficit. First, tax revenues have not been increasing at the same rate as economic growth. An increase in IRAs and other nontaxable retirement options, lower inflation, a rapid increase in investments with a shorter depreciable life (resulting in higher depreciation allowances), and declining windfall profits taxes are all explanations for the dampened rate of growth in federal revenues.

Second, most of the easy federal expenditure reductions have occurred. The remainder are laden with political controversy. Cost-of-living increases for people on Social Security have been approved and will only make cuts in other entitlement programs more difficult. Many observers believe they have been cut too far already.

Third, major tax reform will probably not occur until the late 1980s because too many proponents have proposals that will influence the form and outcome of tax restructuring. The debate will be vitriolic but will not result in a substantive change in the next couple of sessions of Congress.

### Interest Rates

Interest rates should be increasing slowly this fall and remain relatively constant through the

The Federal Reserve Board is expected to remain consistent in its policy of not permitting the growth in reserves to match the demands in the credit market. Even though corporate borrowing, as mentioned earlier, has cooled somewhat from the heated market in the spring, credit demand is still increasing. This situation will cause very competitive demands on the spot markets, and the flow

Figure 1

Texas Index of Leading Economic Indicators  
(January 1981=1.00)

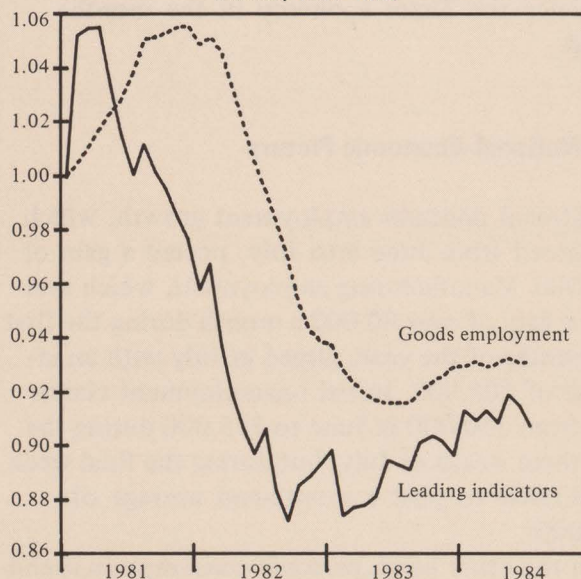




Figure 2

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

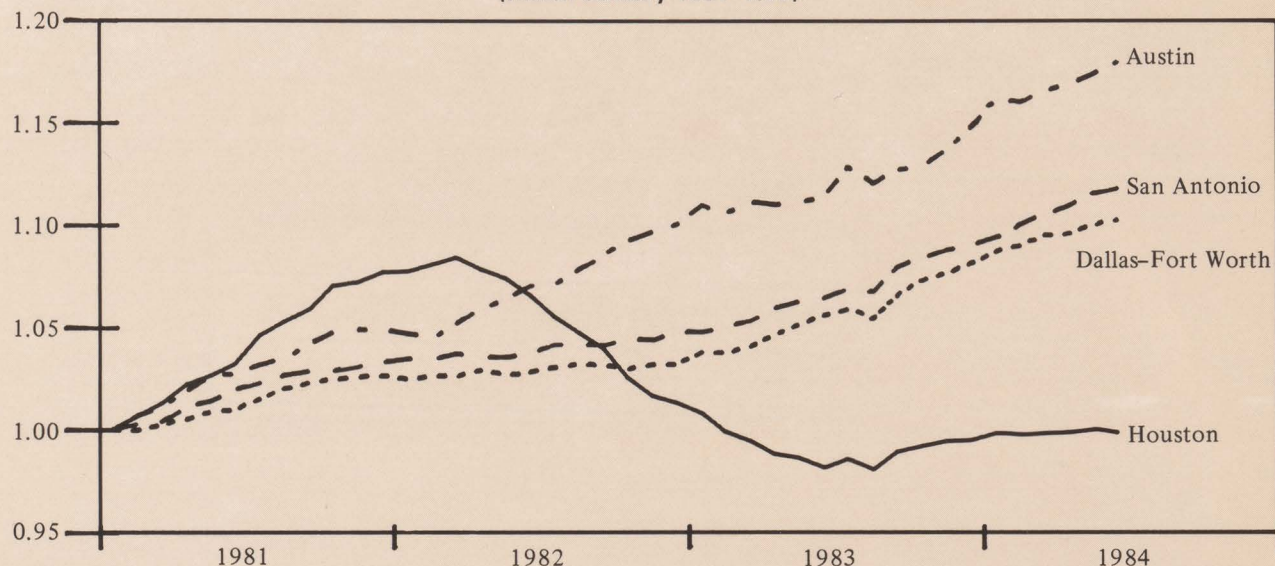


Table 2

**Nonagricultural Employment and Unemployment by Metropolitan Area**

| Area                             | Nonagricultural employment<br>(thousands) |           |                   | Unemployment<br>rate |
|----------------------------------|---|-----------|-------------------|----------------------|
|                                  | June 1984                                 | June 1983 | Percentage change | June 1984            |
| Abilene                          | 57.0                                      | 57.5      | -0.9              | 3.7                  |
| Amarillo                         | 79.9                                      | 76.7      | 4.2               | 4.1                  |
| Austin                           | 292.5                                     | 276.2     | 5.9               | 3.2                  |
| Beaumont-Port Arthur-Orange      | 142.3                                     | 141.1     | 0.7               | 10.8                 |
| Brownsville-Harlingen-San Benito | 62.8                                      | 60.9      | 3.1               | 12.1                 |
| Bryan-College Station            | 44.3                                      | 42.6      | 4.0               | 3.7                  |
| Corpus Christi                   | 129.8                                     | 128.1     | 1.3               | 7.8                  |
| Dallas-Fort Worth                | 1,655.6                                   | 1,585.8   | 4.4               | 3.5                  |
| El Paso                          | 169.0                                     | 164.6     | 2.7               | 8.5                  |
| Galveston-Texas City             | 69.6                                      | 68.9      | 2.4               | 8.7                  |
| Houston                          | 1,525.8                                   | 1,500.1   | 1.7               | 6.3                  |
| Killeen-Temple                   | 63.9                                      | 59.9      | 6.7               | 4.9                  |
| Laredo                           | 30.4                                      | 29.8      | 2.0               | 16.3                 |
| Longview-Marshall                | 67.5                                      | 67.5      | -                 | 7.4                  |
| Lubbock                          | 90.4                                      | 88.9      | 1.7               | 5.1                  |
| McAllen-Pharr-Edinburg           | 77.4                                      | 78.4      | -1.3              | 17.1                 |
| Midland                          | 57.2                                      | 50.2      | 13.9              | 3.5                  |
| Odessa                           | 58.9                                      | 54.4      | 8.3               | 4.3                  |
| San Angelo                       | 37.7                                      | 36.9      | 2.2               | 3.8                  |
| San Antonio                      | 457.6                                     | 435.9     | 5.0               | 4.7                  |
| Sherman-Denison                  | 34.7                                      | 34.2      | 1.5               | 4.8                  |
| Texarkana                        | 47.5                                      | 46.1      | 3.0               | 7.8                  |
| Tyler                            | 58.3                                      | 56.8      | 2.6               | 4.3                  |
| Waco                             | 76.5                                      | 73.6      | 3.9               | 4.1                  |
| Wichita Falls                    | 54.4                                      | 52.4      | 3.8               | 3.9                  |
| Total Texas                      | 6,347.9                                   | 6,176.8   | 2.8               | 5.5                  |

Source: Texas Employment Commission.



of capital to meet these demands will generate pressure on the Federal Reserve to increase interest rates.

Foreign holdings of assets pegged to the U.S. dollar will continue to increase, but, as investment requirements to fuel the economic recovery in other countries increase, the rate of growth in holdings of U.S. assets may be dampened and some domestic inflationary pressure may occur.

As we can see, inflationary pressures at the national level will have a ripple effect on the Texas economic recovery.

### Financial Institutions

There is one other national trend that deserves close monitoring. The problems of the Continental Illinois and Financial Corporation of America may be the beginning of a major restructuring of the nation's financial institutions. Thrift institutions in particular thrive when they can borrow short-term money and make long-term loans at rates where the cost of the short-term money is lower than the long-term rate return. Obviously the

situation in 1981 and 1982, when the circumstances were reversed, had a devastating effect on thrift institutions. As a result, the recovery for these institutions has been difficult and has taxed the managerial skills of thrift-institution managers. As one response to volatile interest rates, banks have adopted adjustable rate mortgages (ARMs). This development has generated problems that were not anticipated, however.

The deregulation of deposit interest rates occurred before variable mortgage interest was permitted. The effect has been a dramatic increase in money market accounts and a decline in fixed-rate deposits and passbook savings. The deposit base is now tied directly to the open-market interest rates rather than the asset base of the thrift institution. Margins are thin. Thrift institutions are forced to manage asset-and-deposit portfolios. There is some pessimism about their ability to do this effectively.

Deregulation in financial markets has increased competition for deposits and loans. Many thrift institutions are offering below-market rates during the initial years of an ARM and have bought money through brokered short-term credit markets. Jumbo CDs held by savings and loan institutions have increased from \$53.5 billion in January 1983 to \$102.4 billion in June 1984 and now represent 14 percent of all thrift deposits. This situation brings additional pressure on the operating margins and could result in a new form of "managerial Darwinism." Watch this environment closely, as the ability of the thrifts to manage this sensitive situation will affect the financial strength of the nation and the future economic strength of the Texas economy.

We will continue to monitor the nation's economic recovery and report on the factors that influence long-term economic strength. As you review the Texas leading indicators and the regionally specific data presented here, you will conclude that the Texas economy is increasingly like the nation's and thus susceptible to events beyond the control of Texas business and governmental institutions.

By the way, I believe Houston will be a league contender in two years and that Hogeboom, after overcoming the initial starting quarterback jitters, will settle in and Dallas could go all the way to the Super Bowl.

—Victor L. Arnold  
Director

**Table 3**

**Components of the Texas  
Index of Leading Economic Indicators  
(May-July 1984)**

| Measure   | May   | June  | July  |
|---|-------|-------|-------|
| Manufacturing weekly hours  | 41.9  | 41.8  | 41.8  |
| Retail sales (billions of 1967 dollars)                                   | 2.62  | 2.59  | 2.57  |
| New housing permits (thousands)   | 19.39 | 17.34 | 15.32 |
| U.S. wellhead price of oil (1967 dollars per barrel)                      | 8.45  | 8.38  | 8.34  |
| Initial claims for unemployment insurance (claims per thousand employees) | 9.09  | 8.17  | 9.01  |
| Leading indicators index (January 1981=1)                                 | 0.92  | 0.92  | 0.91  |

Note: All figures are seasonally adjusted.

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

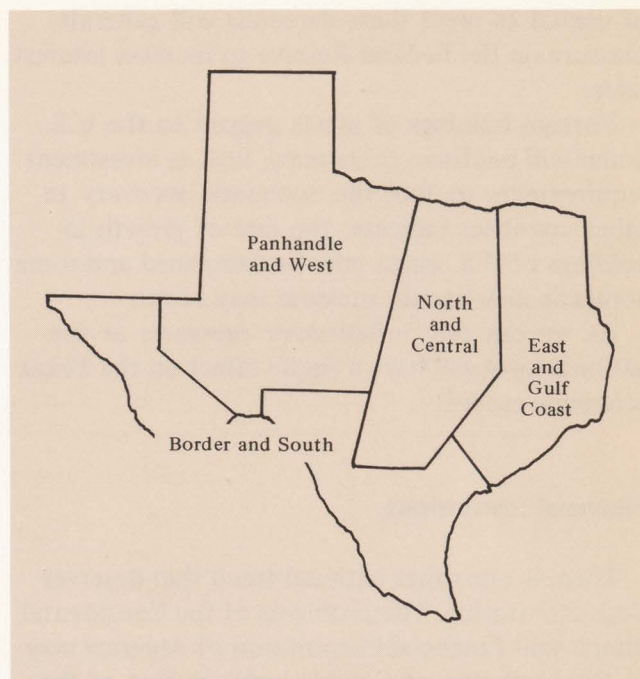


## Petrochemicals in the East and Gulf Coast Region

In the June issue, Susan Tully pointed out that the East and Gulf Coast region has enjoyed the highest growth in gross product, nonagricultural employment, personal income, and population among the four main regions of Texas between 1973 and 1981. Much of this growth is attributable to the petrochemical industry, which continues to be the region's predominant manufacturing industry. In 1981, for example, the petrochemical industry accounted for the following shares of the region's total manufacturing activity: 11 percent of employment, 27 percent of value added, 31 percent of value of shipments, and 34 percent of new capital expenditures.

The largest petrochemical concentration in the world is located in this region and accounts for about 37 percent of existing production capacity in the United States. Texas and Louisiana dominate the U.S. petrochemical industry with shares of 43 percent and 21 percent respectively. The East and Gulf Coast region accounts for 85 percent of Texas petrochemical production capacity. Among the six metropolitan areas in the region, Texarkana and Tyler do not produce much in the way of petrochemicals. The Longview-Marshall area, with its Eastman Kodak plant, contributes about 2.5 percent of the region's existing capacity. The other three areas, Houston, Beaumont-Port Arthur-Orange, and Galveston-Texas City, account for the remaining 97.5 percent of existing capacity.

In terms of capacity, employment, value added, value of shipments, and new capital expenditures, Houston is far ahead of Beaumont-Port Arthur-



Orange, which ranks second, and Galveston-Texas City, which is third. Most of the industrial organic chemicals and plastics are produced in the Houston and Galveston-Texas City areas, while most of the rubber products come from the Beaumont-Port Arthur-Orange area.

The petrochemical industry in the United States is already rather mature, especially in comparison to the emerging producers in various energy-rich nations in the Middle East, Latin America, and Far East Asia, as well as Canada. Consequently, expansion of the region's petrochemical industry, especially in the production of primary and intermediate petrochemicals, is unlikely to occur in the years to come. Based on the results of an investment planning model of the world petrochemical industry that has been developed at the Bureau of Business Research, no growth in capacity in place for the Texas-Louisiana Gulf Coast will occur between 1984 and 1990. There are other avenues of growth and expansion, however. Perhaps the most promising route is a move toward producing specialty chemicals that have a high value added. Such highly refined chemicals are not likely to be produced by energy-rich foreign nations in the foreseeable future.

—Parviz Manouchehri Adib  
Research Associate

**1983 Distribution of Petrochemical Capacities in Texas  
(In percentage)**

| Location                          | Primary petrochemicals | Intermediate petrochemicals | Total |
|-----------------------------------|------------------------|-----------------------------|-------|
| East and Gulf Coast               | 84.8                   | 85.2                        | 85.0  |
| South Gulf Coast                  | 8.1                    | 6.8                         | 7.4   |
| Elsewhere in state                | 7.1                    | 8.0                         | 7.6   |
| Texas as percentage of U.S. total | 48.0                   | 40.0                        | 43.0  |

Note: Based on seventy-two most important petrochemicals produced in Texas.





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Editor: Charles F. Dameron, Jr.

*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.

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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 data services and their costs, contact the Bureau's information services division (512/471-1616).

**Census Data:** All of the kinds of data from the 1980 census of population and housing that have been available by county are now available by zip code and by school district in Texas. Also, equal employment opportunity data from the 1980 census of the population are now offered for 505 occupations by race and by sex for counties, metropolitan areas, cities with populations of 50,000 or more, and states.

**Manufacturing Retrieval Service:** Mailing labels containing the names of manufacturing plants from the 1984 *Directory of Texas Manufacturers* can be obtained in a variety of groupings.