

DALLAS FED

Federal Reserve Bank of Dallas

September 1983

Gas Market Slump Reflected in State Revenues

In 1979, revenues from taxes on natural gas production accounted for about 10 percent of total tax receipts in each of the Eleventh Federal Reserve District states (Louisiana, New Mexico, Oklahoma, and Texas). Since 1979, the price paid for natural gas produced in each of these states has risen while production has declined. Because the four states have used different methods for taxing natural gas, the response of natural gas tax revenues to changing market conditions has varied across the states.

From 1979 to 1982, increased revenue from natural gas taxation eased the revenue required from other sources in New Mexico, Oklahoma, and Texas. In Louisiana, a decline in revenue from natural gas taxes deepened the revenue required from other sources. In 1983, however, demand for natural gas has weakened, reducing the revenue from taxes on natural gas production in New Mexico and Louisiana and slowing its growth in Texas and Oklahoma.

State taxes on gas production fall into two broad categories. Oklahoma and Texas rely on a value tax, assessing taxes at rates of 7.0 and 7.5 percent of wellhead value, respectively. Most natural gas produced in Louisiana, on the other hand, is taxed at a unit rate of 7.0 cents per thousand cubic feet (Mcf). Gas from less productive wells is taxed at 1.3 or 3.0 cents per Mcf. Although New Mexico mixes the taxing methods, assessing rates of 8.7 to 13.9

cents per Mcf and 2.73 to 3.35 percent of wellhead value, more than 50 percent of its natural gas tax revenue comes from the unit tax.

When gas prices rise, states with value-based taxes automatically receive increased revenue per Mcf marketed, while states with unit-based taxes receive higher revenues per Mcf only if the legislature increases the tax rates. Despite declining production of natural gas in Oklahoma and Texas, sharply increased prices boosted

revenues from natural gas taxation (Table 1). Furthermore, in these two states, revenues from gas taxes increased at a faster rate than revenue from other tax sources (Table 2).

In Louisiana, where the state government does not share in increased gas values, revenue from natural gas taxation has declined with production. During this same period, New Mexico increased its revenue from natural gas taxes largely by raising the unit tax

(Continued on back page)

Texas Border Benefits From Maquiladoras

The Texas-Mexico border has been hard-hit by the 1982 peso devaluations. This is particularly true for cities dependent upon retail purchases from Mexicans. Nevertheless, the border is beginning to attract increased industrial investment resulting from devaluation-induced reductions in Mexican labor costs. Increased job opportunities from a widening industrial base should reduce unemployment along the border.

The Texas border typically has had high rates of unemployment. Moreover, jobless rates have been higher in cities with less diversified economies (see overleaf). The peso devaluations exacerbated this problem. The labor market impact was greatest in cities with high concentrations of retail employment. The largest post-devaluation rise in unemployment was

in Laredo. More than 35 percent of all nongovernment jobs in Laredo are in the retail sector, while fewer than 10 percent are in manufacturing. El Paso, by contrast, was the border city least affected. El Paso has the most diversified and largest economy along the Texas border. Its share of retail employment, albeit higher than the Texas average, falls second to its share of manufacturing employment.

Cities along the border have started to see the longer-term effects of the peso devaluations. There is growing interest among American firms to locate plants on the Mexican side of the border to take advantage of the decline in Mexican labor costs. These plants, called "maquiladoras," mostly assemble goods for shipment to the United States. Producers pay U.S. duties only

(Continued on back page)

Table 1
STATE TAX REVENUES FROM
NATURAL GAS PRODUCTION
 Millions of Dollars

Fiscal Year	Louisiana	New Mexico	Oklahoma	Texas
1979	198	85	124	554
1980	174	103	181	734
1981	161	162	222	902
1982	159	188	344	1,057
1983	142e	172	352p	1,085e

p = preliminary, subject to revision.
 e = estimated, projection based on less than 12 months of data
 na = not available

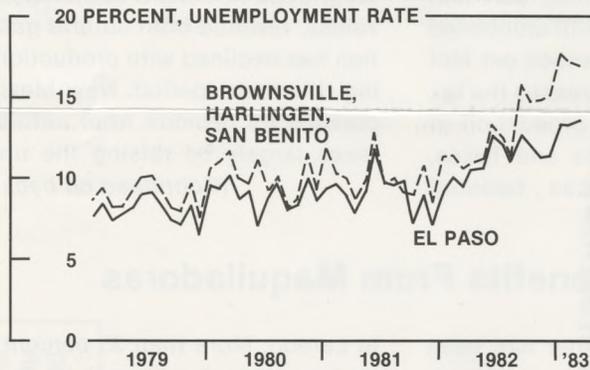
SOURCES FOR BOTH TABLES: Controller for the Department of Revenue, State of Louisiana.
 New Mexico State Taxation and Revenue Department.
 Office of the Controller and Office of State Finance, State of Oklahoma.
 Texas State Comptroller of Public Accounts.
 Federal Reserve Bank of Dallas.

Table 2
REVENUES FROM
NATURAL GAS TAXATION
 Percent of State Tax Receipts

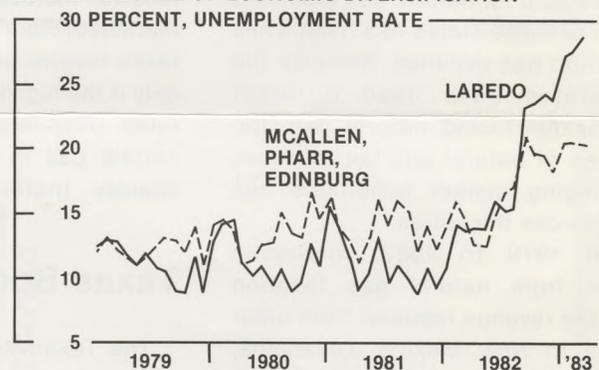
Fiscal Year	Louisiana	New Mexico	Oklahoma	Texas
1979	10.2	10.1	9.2	10.3
1980	8.2	11.1	11.3	11.6
1981	7.2	14.3	10.9	11.6
1982	5.7	15.9	14.2	12.2
1983	na	na	na	12.7e

UNEMPLOYMENT RATES FOR TEXAS—MEXICO BORDER SMSAs

HIGHEST DEGREE OF ECONOMIC DIVERSIFICATION¹



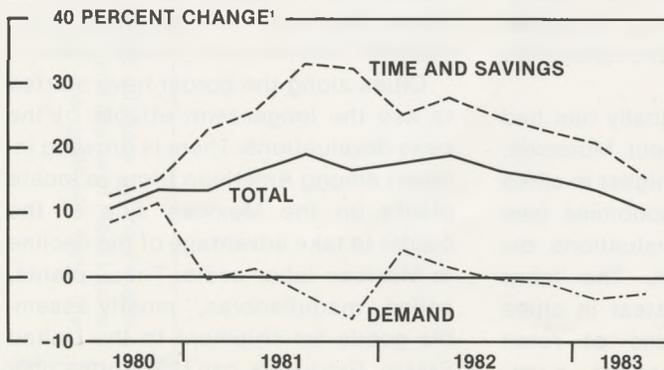
LOWEST DEGREE OF ECONOMIC DIVERSIFICATION¹



1. As measured by the ratio of manufacturing employment to total nongovernment employment.
 SOURCES: County Business Patterns.
 Texas Employment Commission.

DEPOSITS—ALL MEMBER BANKS

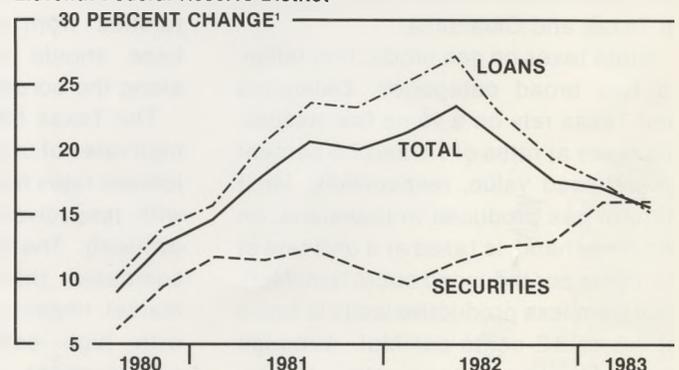
Eleventh Federal Reserve District



1. Percent change from same quarter in previous year.

BANK CREDIT—ALL MEMBER BANKS

Eleventh Federal Reserve District



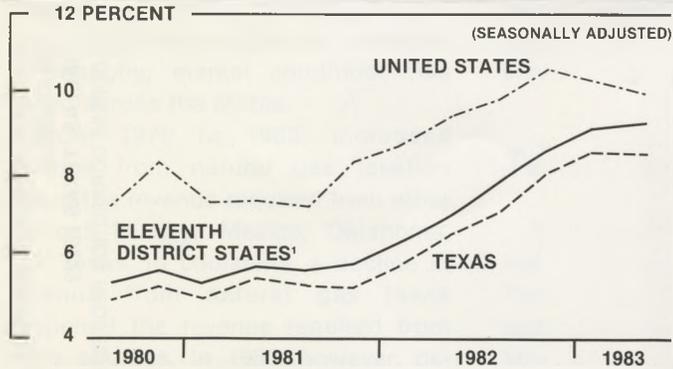
1. Percent change from same quarter in previous year.

DISTRICT BRIEFS

The recovery is well underway in the District, but the energy sector still lags.

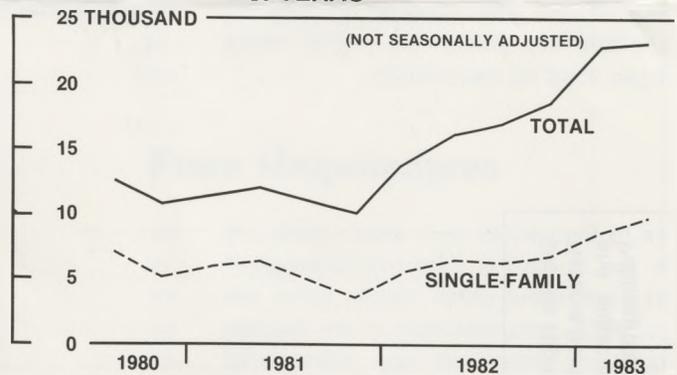
- *Industrial production* in Texas rebounded from its low point in November and has been stable since March. Production of *nondurable goods* and *housing-related durable goods* is up significantly, but output of *energy-related durable goods* is still declining.
- *Employment* growth in Texas this year has been slow. This is typical in the early stages of a recovery as employers increase hours worked by their existing staffs before hiring additional workers.
- The *rig count* in Texas hit a low of 669 rigs in June, but increased to 752 rigs in the week of August 22. The U.S. rig count has risen steadily since its trough in April largely because of increased drilling in California and Alaska.
- *Department store sales* exceed year-ago levels, and are particularly strong in Austin, San Antonio, and Dallas-Fort Worth.
- Nearly 3,000 permits for *residential construction* were issued in June, an all-time record.
- S&Ls in Texas closed nearly twice the volume of mortgage loans in the first six months of this year as in the same period last year.
- Year-over-year increases in *bank credit* at District member banks have been slowing since the middle of 1982 because of weak business loan demand. The slowdown in loan growth has been partially offset by increased security holdings.
- The *consumer price index* increased 3.1 percent in Dallas-Fort Worth, 2.4 percent in Houston, and 2.6 percent in the U.S. in the year ending June 1983. Larger increases in housing costs in the Dallas-Fort Worth area explain most of the difference in price gains in that area.

UNEMPLOYMENT RATE



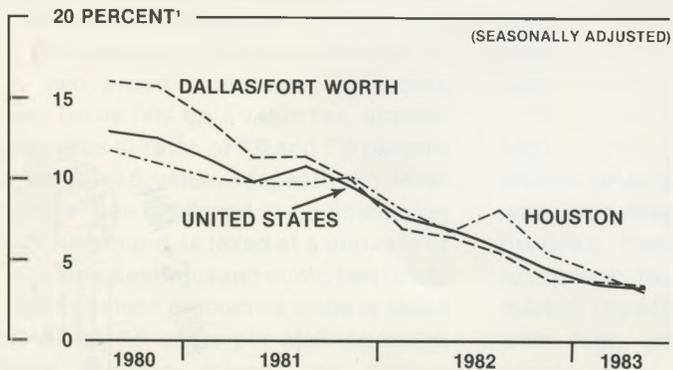
1. Louisiana, New Mexico, Oklahoma, and Texas.
 SOURCES: Texas Employment Commission.
 U. S. Department of Labor, Bureau of Labor Statistics.

HOUSING PERMITS: TEXAS



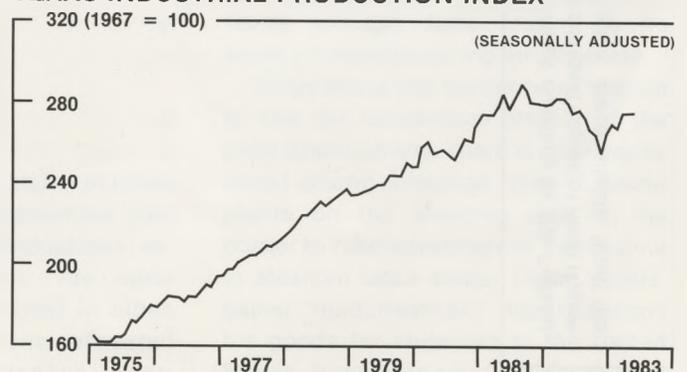
SOURCE: Department of Commerce, Bureau of the Census.

CONSUMER PRICE INDEX



1. Percent change from same month in previous year.
 SOURCE: U. S. Department of Labor, Bureau of Labor Statistics.

TEXAS INDUSTRIAL PRODUCTION INDEX



SOURCE: Federal Reserve Bank of Dallas.

Gas Market Slump (cont.)

rate an average of 3.7 cents per Mcf in 1981. The data in Table 1 indicate that from fiscal year 1979 to fiscal year 1983, revenues from natural gas taxation rose 184 percent in Oklahoma, 102 percent in New Mexico, and 96 percent in Texas, while falling 34 percent in Louisiana.

In addition, for each of the four states, the data in Table 1 reveal either a slowing of the rate of growth or an absolute reduction in revenues from natural gas taxes during fiscal year 1983. Reduced gas demand and a slowing in the growth of gas prices have pushed revenues from gas taxation below previously anticipated levels, even in those states with value-based natural gas taxes. Given expectations of continued weakness in the natural gas market, all four District states can be expected to face increasing pressure to raise tax rates on natural gas, to increase revenue from other

sources, or to restrain the rate of growth in state government expenditures.

—Stephen P. A. Brown

—Ronald H. Schmidt

Texas Border (cont.)

on the value added in Mexico. These duties are small relative to savings incurred from using low-cost Mexican labor. Firms usually build a more capital-intensive plant on the U.S. side of the border to link the U.S. market to the Mexican plants. These plants widen the industrial base along the border. Border cities also benefit because maquiladora workers spend part of their income in the United States.

The surge in maquiladoras appears to be occurring in most cities on the

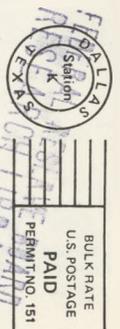
Mexican side of the border. The increase has been largest in Ciudad Juarez (across the border from El Paso), which has a large number of maquiladoras and offers prospective firms the most developed industrial parks. Still, the broad-based nature of the maquiladora increase suggests that most Texas border regions will experience industrial growth.

The increase in economic diversification resulting from this industrial expansion is likely to lead to reductions in average unemployment rates along the Texas-Mexico border. Because most of the maquiladora expansion is recent, however, significant employment gains resulting from industrial growth will probably not be seen until 1984. High unemployment rates, reflecting the depressed economic conditions in Mexico, are likely to continue this year.

—Alberto E. Davila

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