The Economic Outlook for Texas

The Texas economy lagged the U.S. economy both into and out of the last recession. But the State's economy is clearly in recovery now. Some sectors have a more favorable growth outlook than others, but the recovery is likely to be sustained well beyond 1984.

Housing construction has played a major role in the state's recovery. The decline in interest rates last fall boosted residential construction in Texas faster than in the U.S. as a whole. In the fourth quarter of 1982, Texas housing permits were up 83 percent over a year earlier, compared to a 61-percent increase for the nation. Housing construction is likely to continue at high levels throughout much of next year, but it is unlikely to match the 1983 pace of activity. Concerns about overbuilding of multifamily units, particularly in the Dallas area, are growing. And, if mortgage rates remain above those prevalent in early 1983, the level of single family construction could be moderately lower next year. Commercial construction during the first three quarters of 1983 has been another major source of strength in the Texas economy, as value of nonresidential construction contracts exceeded year-earlier levels and was only 4.9 percent below 1981's record for the same period. Nonresidential construction should remain strong in 1984. The upturn in oil and gas drilling, which began in May in the U.S. and in July in Texas, has also helped the state's recovery. Declines in the price of and demand for energy and the concomitant reduction in oil and gas drilling brought the energy-dependent sectors of the Texas economy into a substantial recession. The state's energy sector is now slowly recovering. Oil and gas drilling typically lags changes in industrial production by one to two quarters. During the last cycle, U.S. industrial production bottomed out in November 1982 while the U.S. rig count did not turnaround until May 1983, about two quarters behind the trough in industrial production.

The strong U.S. recovery, together with relatively stable oil prices in 1984, suggest that the drilling expansion will continue next year. The production of energy-related durable goods including primary and fabricated metals and some portions of the oil-field equipment industry—a part of nonelectrical machinery—should continue a recovery that is already in process (see overleaf). Progress is thus expected in working off excess inventories of drill bits and tubular goods other than drill-

Texas Housing: A National Leader

The housing industry has emerged as one of the strongest sectors of the Texas economy. The surge in residential construction during the past two years brought Texas into the forefront in housing construction nationwide (see overleaf). The strong performance of the energy sector prior to 1982 and the effect that sector has had on the demographic characteristics of the state, stimulated a construction boom in Texas.

The rapid growth in Texas construction is highlighted by examining changes in the state's share of U.S. housing permits (see overleaf). In 1978, housing permits issued in Texas accounted for nearly 9 1/2 percent of all private permits issued in the country. By 1982, Texas' share of U.S. permits had grown to just over 20 percent. This increase did not follow a steady upward trend. Texas' permit share grew at a healthy pace throughout 1978 and 1979, but it leveled off during the 1980 recession. The state's share of total U.S. permits surged upward again in 1981 and early 1982, but it fell during the last year and a half before rising again this fall.

The housing recovery in Texas preceded the national turnaround. But as growth picked up in the rest of the country, Texas' share of total housing permits began to decline. Initially, that decline reflected faster growth elsewhere in the country, but during the summer of 1983, the number of permits issued in Texas fell faster than the volume of U.S. permits. Despite this slowdown, for all of 1983, Texas is likely to issue a larger number of permits than will be issued in any other state in the nation.

The rise in permit activity in Texas is primarily the result of the sharp increase in multifamily construction.
TOTAL PRIVATE HOUSING PERMITS ISSUED
The three leading states
(Thousands of Units)

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<tbody>
<tr>
<td>Texas</td>
<td>169.7</td>
<td>150.0</td>
<td>127.5</td>
<td>135.8</td>
<td>201.2</td>
<td>234.6</td>
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<tr>
<td>Florida</td>
<td>163.9</td>
<td>175.7</td>
<td>174.2</td>
<td>146.2</td>
<td>103.8</td>
<td>157.7</td>
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<tr>
<td>California</td>
<td>245.3</td>
<td>211.5</td>
<td>144.4</td>
<td>104.2</td>
<td>85.0</td>
<td>139.7</td>
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<tr>
<td>U.S. Total</td>
<td>1,800.5</td>
<td>1,551.8</td>
<td>1,190.6</td>
<td>985.5</td>
<td>1,000.5</td>
<td>1,363.9</td>
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1. Not seasonally adjusted.
2. Figures are for the year-to-date through October.
Federal Reserve Bank of Dallas.

TEXAS SHARE OF PRIVATE U.S. HOUSING PERMITS

35 PERCENT
(AVERAGE SEASONALLY ADJUSTED)

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<td>MULTIFAMILY</td>
<td>29</td>
<td>23</td>
<td>17</td>
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<td>TOTAL</td>
<td>29</td>
<td>23</td>
<td>17</td>
<td>11</td>
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<td>SINGLE-FAMILY</td>
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1. A three period, centered moving average was used to smooth the series.
The latest figures have not been averaged.
Federal Reserve Bank of Dallas.

TEXAS DURABLE GOODS PRODUCTION INDICES

700 (1976 = 100)

- NONELECTRICAL MACHINERY
- DURABLE GOODS
- PRIMARY METALS
- FABRICATED METALS

PRIME DEFENSE CONTRACTS IN TEXAS ADMINISTERED BY DEFENSE CONTRACTS ADMINISTRATION SERVICES

8.5 BILLIONS OF DOLLARS
(FISCAL YEARS)

1. Percent change from same quarter in previous year.

DEPOSITS—ALL MEMBER BANKS
Eleventh Federal Reserve District

40 PERCENT CHANGE

- TIME AND SAVINGS
- TOTAL
- DEMAND

BANK CREDIT—ALL MEMBER BANKS
Eleventh Federal Reserve District

30 PERCENT CHANGE

- LOANS
- TOTAL
- SECURITIES

1. Percent change from same quarter in previous year.
DISTRICT BRIEFS

The recovery continues as drilling and retail sales accelerate and industrial production increases.

- Widespread returns of discouraged workers to the labor market generated an increase in the Texas unemployment rate to 8.6 percent in September from 7.3 percent in August. But the unemployment rate dropped back to 7.4 percent in October, well below the 9.0 percent peak last March. Unemployment rates also have been falling elsewhere in the District.
- The Texas Industrial Production Index, which fell in August largely because of Hurricane Alicia, rose in September to its second highest value for 1983. The TIPI for September was below its July value, but was greater than a year ago.
- Department store sales continue to exceed year-earlier levels, even in Houston and El Paso, which have been slow to recover from the recession.
- The rotary rig count in Texas rose to 932 rigs in the week of November 21, a 39 percent increase over the low of 669 rigs during the week of June 27.
- The number of housing permits issued in Texas increased 17 percent in October after declining for three consecutive months. The increase was dominated by a 22 percent rise in the number of multifamily permits taken out by builders. More single-family permits were issued as well.
- Consumer prices are rising faster in Dallas-Fort Worth than in the U.S. and in Houston. The Dallas-Fort Worth CPI increased 3.8 percent for the year ending in October while the U.S. and Houston CPIs rose 2.9 and 2.1 percent, respectively.
- Loan growth at District member banks has picked up steam since August. Business loans at large banks, though retreated in October bringing year-over-year growth down to 6½ percent.

**UNEMPLOYMENT RATE**

12 PERCENT

(SEASONALLY ADJUSTED)

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**HOUSING PERMITS: TEXAS**

30 THOUSAND

(NOT SEASONALLY ADJUSTED)

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<td>Total</td>
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<td>Single-family</td>
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**CONSUMER PRICE INDEX**

20 PERCENT

(SEASONALLY ADJUSTED)

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<td>United States</td>
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<td>Houston</td>
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**TEXAS INDUSTRIAL PRODUCTION INDEX**

290 (1967 = 100)

(SEASONALLY ADJUSTED)

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Economic Outlook (cont.)

ling rigs. Production of energy-related equipment is not likely to reach record 1981 levels for several years.

Some portions of the state also will continue to benefit from a U.S. military buildup that is now in its third year of major growth (see overleaf). Military contracting accounts for a relatively small share of U.S. GNP and of industrial production, but for areas such as Dallas/Fort Worth, Austin and San Antonio, the contribution is and will continue to be substantial. Finally, although retail sales in the hard-hit Gulf Coast and border areas still are well below 1981 levels, retail spending in the rest of the state is strong.

Further declines in unemployment and continued increases in employment are likely next year. Although monthly labor statistics are volatile, labor market conditions should continue to improve in most sectors of the state. Recovery in the energy sector and along the border will remain sluggish, but growth in the rest of the Texas economy is likely to parallel advances in the national economy.

—William C. Gruben

Texas Housing (cont.)

Texas’ share of total U.S. multifamily permits grew from around 12 percent in March of 1981 to nearly 30 percent in June of 1982. During that period, multifamily activity was increasing in Texas while it was generally declining nationwide. High interest rates had sharply curtailed multifamily construction in most areas of the country, but in Texas, large increases in rental rates more than offset high borrowing costs. The surge in energy exploration attracted a large number of workers into the state. Builders did not respond immediately to the increased demand for rental housing. Occupancy rates climbed sharply, and rental rates rose. This paved the way for the large volume of multifamily units which were constructed during the last 30 months.

The current pace of construction activity is unlikely to be sustained next year. Apartment occupancy rates in most major Texas cities have already fallen and rental rates, after adjusting for inflation and rental “inducement perks”, are declining. The construction industry will continue to play a major role in the Texas economy in the foreseeable future. But, if Texas is to maintain its leading role in U.S. housing construction, increased production of single family units will probably have to offset declines in multifamily activity.

—Brian L. Galuardi