Recovery and Deregulation Stimulate Loan Growth at Texas Credit Unions

Last year, after four years of extremely weak growth, lending at federal credit unions in Texas began to grow suddenly and quickly. While the state's economic recovery explains much of this change, both the weakness and surge in credit union lending growth were also motivated by changes in the financial regulatory environment. The interaction of cyclical economic forces and changing regulations has determined much of the recent history of these credit unions.

The Effects of Regulation on Credit Unions in the 1970s

For most of the 1970s, loans, deposits, and membership at federal credit unions in Texas grew at a rapid rate. Strong employment and income growth in the state is a partial explanation, but credit union lending grew at nearly double the rate of consumer lending at small Texas banks during this period (Chart 1). A key reason for the stronger growth at credit unions through 1978 was that financial regulation enabled credit unions to pay higher interest rates on deposits than the Regulation Q ceiling on similar bank deposits. The establishment of federal share insurance in 1971 may also have contributed to credit union growth. This insurance eliminated any difference in risk between credit union shares and insured bank deposits.

Lending at federal credit unions in 1979 and 1980 was severely depressed by the effects of usury ceilings and credit controls. From 1934 through early 1980, federal credit unions had been prohibited from lending at interest rates greater than 12 percent. The sharp rise in market interest rates in 1979 made lending at the usury ceiling rate unprofitable, and federal credit unions sharply reduced loan growth. In early 1980, Congress addressed the problem of flat loan growth at credit unions by raising the interest rate ceiling (Chart 2). But in March 1980 credit controls were imposed on all providers of unsecured consumer credit. These controls increased the cost of extending consumer credit and sharply depressed consumer loan growth at all depository institutions. The usury ceiling and the credit controls were the primary causes for loans at credit unions in Texas to decline at a 3.4-per-

Falling Oil Prices and Texas Employment Growth

Throughout the 1970s and into the 1980s, the energy-dependent Texas economy benefited from the sharp increases in prices of energy. This was reflected in nonagricultural employment in Texas, which grew at a faster pace than in the United States over this period. But declining real oil prices since mid-1981 have reversed that trend. Employment growth in Texas is now lagging that in the nation as a whole.

Oil Prices and Employment Growth in Texas

Since 1970, nonagricultural employment growth in Texas has typically outpaced employment growth in the nation. The growth pattern in the current recovery, however, is an exception. During the two-year period following the economic troughs of the 1970s, employment growth in the United States averaged 2.6 percentage points, while employment growth in Texas averaged 4.4 percentage points. In the early 1980s, U.S. employment declined slightly, while employment in Texas, buoyed by rising oil prices, increased at a 3.8-percent annual rate. But employment growth in the state during the latest recovery has been less than half that in the nation (Chart 3). This change in the pattern of employment growth primarily reflects differences in oil price movements.

The previous three recoveries were accompanied by rising oil prices, with Texas benefiting accordingly. During the current recovery, however, the impact of falling oil prices has sharply reduced employment in the Texas energy industries. Since late 1982, employment in the oil field machinery sector has fallen more than 14 percent, while employment in oil and gas extraction, including the service sector,
Chart 1
CONSUMER LOAN GROWTH AT FEDERAL CREDIT UNIONS AND SMALL COMMERCIAL BANKS IN TEXAS

FEDERAL CREDIT UNIONS

SMALL BANKS


SOURCES: Board of Governors, Federal Reserve System. National Credit Union Administration.

Chart 2
FEDERAL CREDIT UNION USURY CEILING RATE AND NEW-CAR LOAN RATE AT COMMERCIAL BANKS

FEDERAL CREDIT UNION USURY CEILING RATE

COMMERCIAL BANK NEW-CAR LOAN RATE


SOURCES: Board of Governors, Federal Reserve System. National Credit Union Administration.

Chart 3
TEXAS AND U.S. NONAGRICULTURAL EMPLOYMENT GROWTH (Average Annual Growth Rates)

5 PERCENT

NOV. 70-NOV. 72 MAR. 75-MAR. 77 JULY 80-JULY 82 NOV. 82-MAY 84


Chart 4
GROWTH IN OIL PRICES AND ENERGY-RELATED EMPLOYMENT IN TEXAS (Average Annual Growth Rates)

15 PERCENT

NOV. 70-NOV. 72 MAR. 75-MAR. 77 JULY 80-JULY 82 NOV. 82-MAY 84


LOANS—LARGE WEEKLY REPORTERS
Eleventh Federal Reserve District

60 PERCENT

BUSINESS (NOT SEASONALLY ADJUSTED)

REAL ESTATE

TOTAL

1981 1982 1983 '84

SOURCES: Federal Reserve Bank of Dallas.

DEPOSITS—LARGE WEEKLY REPORTERS
Eleventh Federal Reserve District

35 PERCENT

TOTAL

TIME AND SAVINGS

1981 1982 1983 '84

1. Percent change from same quarter in previous year. SOURCE: Federal Reserve Bank of Dallas.
• The Texas unemployment rate jumped to 6.1 percent in July. Although still below April’s 6.8 percent, the size of the increase was a surprise. The June level was only 4.8 percent. A likely explanation is the creation of summer jobs earlier than usual, resulting in a sharp drop in the June rate.

• The Texas industrial production index rose in May and was 13.3 percent above the May level last year. Construction, paper products, and electronics continue to be the strong manufacturing sectors. Texas manufacturing growth, held back by the sluggish energy sector, is finally catching up to the nation’s.

• Preliminary data indicate a 3-percent decline in the Texas rig count in August. The number of active rigs was 14 percent higher than a year earlier. Additional improvement depends on oil price stability.

• The year-to-year increase in the June consumer price index was 2.9 percent for Houston, 3.7 percent for Dallas-Fort Worth, and 4.2 percent for the United States. The increases in the Eleventh District cities were less than in the nation as a whole because of smaller gains in the cost of housing.

• Residential construction in Texas is showing the effects of higher interest rates and overbuilding. Multifamily housing permits declined, on a year-to-year basis, for the second straight month in June and were 10 percent below the June 1983 total. An even larger decline was registered for single-family units.

• Real estate lending at large banks in the Eleventh District is slowing. The year-to-year increase had slipped to 35 percent in July, compared with year-to-year growth rates as high as 50 percent in late 1983 and early 1984.

• The growth rate in total deposits at Eleventh District financial institutions increased in the second quarter, reversing the pattern of the preceding five quarters. Even so, the rate of growth, at 12.5 percent, remained below the 1983 average of 15.0 percent.

**UNEMPLOYMENT RATE**

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<th>Year</th>
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<th>Texas</th>
<th>Eleventh District</th>
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<tr>
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<tr>
<td>1984</td>
<td>5.0</td>
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**HOUSING PERMITS: TEXAS**

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<td>8</td>
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<tr>
<td>1984</td>
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**CONSUMER PRICE INDEX**

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<th>Dallas/Fort Worth</th>
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<td>1984</td>
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**TEXAS INDUSTRIAL PRODUCTION INDEX**

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<tbody>
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<tr>
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<td>1983</td>
<td>260</td>
</tr>
<tr>
<td>1984</td>
<td>280</td>
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</tbody>
</table>

Sources:
- Texas Employment Commission.
- Federal Reserve Bank of Dallas.
Credit Unions (cont.)

The Business Cycle and Credit Union Lending

By the end of 1980, both the interest rate ceiling and the credit controls had been lifted; nevertheless, lending activity at the state’s credit unions remained low. The recession from mid-1981 through 1982 was the primary cause of slow loan growth. Credit union loans grew at an annual rate of only 3.2 percent in 1981 and 1982. But in 1983, the first year of economic recovery, loan growth at federal credit unions in Texas accelerated rapidly. Unconstrained by regulations, credit unions were able to respond to the strong demand for consumer credit.

Loan growth at the state’s federal credit unions is expected to remain strong in 1984. The Texas economy continues to recover. Employment and incomes have risen substantially, and consumers appear to have confidence in a continued recovery. Finally, the increase in interest rates this year is unlikely to cause significant slowing in the growth of loan demand at federal credit unions in Texas in the near term.

—Robert T. Clair

Oil Prices (cont.)

has declined 6 percent.

Spillover Effects and the Outlook for Texas Employment

Weakness in the energy sector has also spilled over to other sectors of the Texas economy. Because of declining demand from the energy industries, manufacturing employment in the state is still below the level reported for the end of 1983. In contrast to average growth of 3.1 percent in the last three recoveries, manufacturing employment in Texas has fallen during the latest upturn (Chart 4). Similarly, employment growth in the wholesale and retail trade sectors has been moderate relative to growth rates during earlier recoveries.

Economic recovery in the industrialized countries has led to an increase in the demand for petroleum products since late 1983. The increase in demand has buoyed oil prices and strengthened the sagging energy industries in Texas. But further declines in oil prices are possible, given the excess capacity of world oil producers. Declining oil prices would threaten the modest recovery in the Texas oil and gas industry. Employment growth in the nation would then continue to outpace that in Texas.

—Gary M. Ziegler