Texas Faces Income Slowdown Despite Tie to National Growth

Slumping oil prices will continue to slow personal income growth in Texas, but the stimulus provided by faster national economic expansion will eventually bring Texas income growth back near the national rate. Despite the Texas economy's reliance on the energy industry, national economic conditions historically have influenced changes in Texas personal income more than have oil prices. In addition to slowing income growth, declining oil prices will alter the composition of personal income sources by reducing the importance of the goods-producing sector as an income source.

Income Growth Related to Oil Prices and Diversification

National economic conditions play a greater role in Texas personal income growth than do oil prices because of the state's economic diversification. While oil prices were rising, industries such as electronics, defense contracting, and services also grew in importance. These industries make their output and employment decisions based on the demand for their products nationally, thus tying the state's personal income closely to national economic conditions. Statistical analysis indicates that a 10-percent rise in gross national product increases Texas personal income by a corresponding 10 percent. In contrast, a 10-percent increase in the price of domestic crude oil only increases personal income in the state by about 1 percent.

Rising oil prices in the early 1970s pushed Texas personal income growth above that of the nation (see Chart 1). Prior to 1973, national and Texas personal income had grown at about the same rate. From 1973 to 1982, however, Texas personal income grew an average of three percentage points faster than national personal income. Since 1982, when oil prices began to decline, Texas income growth rates, which currently are falling, have averaged about one percentage point less than the nation. The data in Chart 1, nevertheless, reveal that variations in personal income growth in Texas move in tandem with national income growth.

Oil Prices and Income Sources

Oil price movements also change the relative contribution to personal income of various sectors of the Texas economy. In particular, rising oil prices have increased the share of personal income derived from the goods-producing sectors—mining, manufacturing, and construction. The share of personal income that Texas derived from these sources rose steadily while oil prices were increasing (see Chart 2). By 1979, the share of Texas personal income from these sectors had ex-

(Continued on back page)
Chart 1
GROWTH IN PERSONAL INCOME ADJUSTED FOR INFLATION

10 PERCENT CHANGE FROM PREVIOUS YEAR

SOURCES: U.S. Department of Commerce.
Federal Reserve Bank of Dallas.

Chart 2
SHARE OF PERSONAL INCOME FROM GOODS-PRODUCING SECTOR

37 PERCENT OF TOTAL

NOTE: Goods-producing sector consists of mining, manufacturing, and construction.
SOURCES: U.S. Department of Commerce.
Federal Reserve Bank of Dallas.

Chart 3
TEXAS INFLATION-ADJUSTED RETAIL SALES

4,200 MILLION 1972 DOLLARS

SOURCES: U.S. Department of Commerce.
Federal Reserve Bank of Dallas.

Chart 4
TEXAS RETAIL TRADE EMPLOYMENT

1,300 THOUSAND WORKERS

SOURCES: U.S. Department of Labor.
Federal Reserve Bank of Dallas.

LOANS—LARGE WEEKLY REPORTERS
Eleventh Federal Reserve District

75 PERCENT

SOURCES: Federal Reserve Bank of Dallas.

DEPOSITS—LARGE WEEKLY REPORTERS
Eleventh Federal Reserve District

30 PERCENT

SOURCES: Federal Reserve Bank of Dallas.
DISTRICT BRIEFS

• The Texas economy grew more rapidly in the fourth quarter of 1985 than in the third. This is evident in the growth of nonagricultural employment. Virtually all of the employment growth occurred in the service-producing sector. Despite this growth, the quarterly unemployment rate for Texas rose above the nation's rate for the first time since 1966.
• The weakness of the energy sector threatens to reverse the recent gains in total employment in Texas. The precipitous decline in oil prices is likely to lead to further deterioration in the energy sector. The year-to-year decrease in the drilling rig count is maintaining a 30-percent rate. Both of the leading indicators of drilling, well permits and the seismic crew count, point to continued decreases in the rig count.
• Slowing absorption rates and expectations of a slowly growing District economy have reduced construction activity. The largest drop has been in nonresidential construction. The value of construction contracts for nonresidential projects fell sharply during the final months of 1985 and into early 1986. Residential construction has also declined. In contrast, nonstructural building, including such public facilities as streets and highways, surged in January.
• The fall in the exchange value of the dollar has not provided enough stimulus to District manufacturing to offset the effects of the weak energy industry and declining construction activity. Defense spending and brisker growth in the rest of the nation are leading to some improvement, but District manufacturing employment continues to decline.
• The situation for agriculture remains bleak. Export markets are still deteriorating, and prices for major agricultural products are falling. The number of District farmers and ranchers suffering from financial stress is growing.
• The relative strengths of the regional economies in the District can be seen in the changes in the consumer price index during 1985. The inflation rate in Dallas–Fort Worth closely matched the national increase in prices. In Houston, declining real estate prices held inflation down to only a 1-percent increase.

---

UNEMPLOYMENT RATE

<table>
<thead>
<tr>
<th>Year</th>
<th>States</th>
<th>Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>UNITED STATES</td>
<td>ELEVENTH DISTRICT STATES</td>
</tr>
<tr>
<td>1984</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

1. Louisiana, New Mexico, and Texas.

Sources: Texas Employment Commission.
Federal Reserve Bank of Dallas.

HOUSING PERMITS IN TEXAS

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Single-Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>18,000</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>6,000</td>
<td></td>
</tr>
</tbody>
</table>

Sources: U.S. Bureau of the Census.
Federal Reserve Bank of Dallas.

CONSUMER PRICE INDEX

<table>
<thead>
<tr>
<th>Year</th>
<th>Houston</th>
<th>Dallas–Fort Worth</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>8%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>1984</td>
<td>6%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>1985</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

1. Percent change from same quarter in previous year.

Federal Reserve Bank of Dallas.

TEXAS INDUSTRIAL PRODUCTION INDEX

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>240 (1967 = 100)</td>
</tr>
<tr>
<td>1984</td>
<td>300</td>
</tr>
<tr>
<td>1985</td>
<td>320</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of Dallas.
Income Slowdown (cont.)

ceed the national average. In the 1980s, slower national economic growth and declining world oil prices induced the share of personal income from goods-producing industries to fall faster in Texas than in the nation.

Effect of Recent Events

Despite its greater relative importance for Texas personal income, national economic growth has not been rapid enough to offset the effect in Texas of recent oil price declines. Gross national product in the last year has grown by only a little over 2 percent, while in recent months, oil prices have fallen by about 50 percent. This means that even if national economic growth accelerates this year, personal income in Texas is likely to grow more slowly or even decline. Furthermore, falling oil prices will hasten the decline in the share of Texas personal income derived from goods-producing industries.

—William T. Long III

Retail Industry (cont.)

between the path of actual sales and the simulated path sales would have followed if real income were held constant at its January 1979 level (Chart 3). These results indicate the importance of personal income in influencing retail sales.

Retail Employment Linked to Personal Income

The statistical analysis also indicates that retail employment was closely related to personal income over the period. Retail employment depended primarily on real retail sales, which, in turn, were strongly influenced by real personal income. Through these linkages, personal income had a strong influence on retail employment. Based on a simulation of the model, increases in real disposable personal income after January 1979 account for 78 percent of the growth in retail employment since that time. The importance of personal income for the retail industry is confirmed by the increasing positive gap between the path of actual retail employment and the simulated path retail employment would have followed if real income were held constant at its January 1979 level (Chart 4).

Low Growth in 1986

Growth in the Texas retail industry in 1986 is likely to be low. Because of slowing growth in key Texas industries, particularly in the energy sector, growth in real personal income in the state will probably decline further this year. As a result, downward pressure will be placed on growth in consumer spending, retail sales, and retail employment. Furthermore, although other forces, such as increases in personal wealth, have recently offset the negative effects of slowing income growth, it is uncertain whether they will continue to do so much longer. For the Texas retail industry, 1986 will likely be a slow year.

—Jeffery W. Gunther