Demographics Favor Long-Term Texas Growth

The number of persons moving from Texas in 1987 exceeded the number of newcomers to the state by 90,000 (Chart 1). Last year was the first year of record that migration did not add to the growth of the Texas population. However, the natural rate of population increase (births less deaths) of 1.2 percent per year more than offset migration from the state, making for a net gain of 0.6 percent.

Movement out of state will likely continue until improved economic conditions create enough jobs to stem the outflow. In the meantime, the state's young, fast-growing population will bolster the state's economy. Unlike the U.S. economy, which is beginning to experience labor shortages and reduced consumer demands, Texas continues to have an expanding labor force that can easily accommodate job growth and whose appetite for consumer products is rising rapidly.

The Pig in the Python

The age distribution of the U.S. population has been characterized as a pig moving through a python. An acceleration in the birthrate following the Great Depression, sustained by the generation of "baby boomers" born from 1946 to 1961, skewed the age distribution to the younger age levels (Chart 2). In the 1960s, however, the U.S. birthrate began to decline markedly as couples opted for fewer offspring. The birthrate remained low in the 1970s as many women decided to defer childbearing and to seek careers of their own.

Indications of smaller numbers of adolescents have become widespread in recent years. High school enrollments across the United States have decreased noticeably, which is reflected in a slower-growing labor force. Spot shortages of workers in many areas of the country have been widely publicized. And shortages will grow more acute as increasing numbers of older workers begin to retire in a few years.

Shifting Economic Tides

The postwar population boom significantly affected the performance of the U.S. economy. More of everything was required to accommodate a growing population. That achievement produced an average rate of economic growth, after adjustment for inflation, of 3.0 percent to 3.5 percent annually. However, the U.S. economy is starting to feel the effects of the decline in the birthrate that began in the early 1960s. A slowdown in the growth of the labor force is already apparent. But equally as important, changes in the age distribution of the population are beginning to have a profound effect on the composition of consumer spending.

Acquisition of goods and services takes place at predictable stages in the family life cycle. As a proportion of total spending, expenditures for motor vehicles are greatest when the heads of households are less than 25 years of age (Chart 3). Automobile purchases then fall through the remainder of the life cycle except between the ages of 45 and 54, with that temporary upturn reflecting the need for additional vehicles for teenage children. Housing expenditures also move predictably over the life cycle. They absorb the largest proportion of total expenditures when the household head is age 25 to 34 and fall sharply when he is 45 or older. In general, then, the acquisition of goods, especially major purchases, occurs early in the life cycle of a household. Once a full complement of goods is acquired, buying becomes a process of replacement and upgrading of items as they wear out. Purchases then move increasingly toward services.

The impact of fewer births after 1961 and fewer persons now less than 27 years of age is already noticeable for some categories of spending. Unit automobile sales have leveled off during this decade, reflecting a decline in the number of first-time buyers. The current trend in car sales will be mirrored in housing in the coming decade. Since the median age of the first-time home buyer is 28, a prolonged slump in new housing starts is only a couple of years away. The U.S. household formation rate has been running at an annual rate of 1.7 million units in recent years, or in line with the number of new housing units started since 1983. As the baby-boom generation ages, however, the household formation rate will fall sharply, reaching nearly 1 million by the year 2000. This suggests a significant slowing in growth as the housing industry and its suppliers adjust to a shrinking market.

A partial reversal of current demographic trends, nevertheless, is in sight. U.S. births have increased in this

(Continued on back page)
Chart 1
NET MIGRATION TO TEXAS


Chart 2
TOTAL U.S. BIRTHS


Chart 3
SELECTED HOUSEHOLD EXPENDITURES, BY AGE GROUP, 1984


Chart 4
PROJECTED AGE DISTRIBUTION, 1990

SOURCES: U.S. Bureau of the Census. Author's calculations.

LOANS—LARGE WEEKLY REPORTERS
Eleventh Federal Reserve District

1. Percent change from same quarter in previous year.
SOURCE: Federal Reserve Bank of Dallas.

DEPOSITS—LARGE WEEKLY REPORTERS
Eleventh Federal Reserve District

1. Percent change from same quarter in previous year.
SOURCE: Federal Reserve Bank of Dallas.
DISTRICT BRIEFS

Overall, the District economy continues to grow, although several sectors remain weak.

- Nonagricultural employment in the Eleventh District increased in January after decreasing slightly in December. Other than in December, employment has increased every month since June 1987. Recently, employment has grown in both manufacturing and service industries.
- The seasonally adjusted drilling rig count in the District edged up in February after declining in each of the previous four months. The February rig count was 22.2 percent higher than a year earlier but was 9.6 percent lower than its previous peak reached in September 1987. A recent increase in well permit applications points to a continued firming of the rig count.
- District construction remains very weak. The total value of construction contracts is trending down, with both residential and nonresidential building on the decline. The weakness in contracts has recently been reflected in construction employment, which has decreased significantly. A recent sharp drop in residential building permits suggests further declines in residential construction.
- Manufacturing activity in the District continues to expand at a steady pace. Construction-related manufacturing is the only major sector experiencing significant declines. Production of electric and electronic equipment, apparel, and defense-related goods is increasing moderately. Steel production is still growing strongly.
- District banks continue to experience declines in deposits and loans. Total deposits at financial institutions remain below year-earlier levels. At large banks, business and real estate loans remain below their levels a year before, with particularly large declines appearing in the business loan category.

UNEMPLOYMENT RATE

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(QUARTERLY AVERAGES,
SEASONALLY ADJUSTED)

ELEVENTH DISTRICT STATES

TENNESSEE UNITED STATES

1. Louisiana, New Mexico, and Texas.

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

HOUSING PERMITS IN TEXAS

16 THOUSAND

(QUARTERLY AVERAGES,
SEASONALLY ADJUSTED)

TOTAL SINGLE-FAMILY

1985 1986 1987

Federal Reserve Bank of Dallas.

CONSUMER PRICE INDEX

8 PERCENT

(SEASONALLY ADJUSTED)

DALLAS–FORT WORTH UNITED STATES

HOUSTON

1. Percent change from same quarter in previous year.

Federal Reserve Bank of Dallas.

TEXAS INDUSTRIAL PRODUCTION INDEX

320 (1967 = 100)

300 310 320

280 290

1985 1986 1987

SOURCE: Federal Reserve Bank of Dallas.
decade, as women who had deferred childbearing during the 1970s have decided to have families. As a result, an "echo" of the baby boom, or another population bulge, is developing (Chart 2). Elementary school enrollments and sales of children's products are already rising. But it will be another 10 years before the slowdown in numbers of first-time car buyers is reversed and still another 10 years before the downward trend in home building is reversed.

Implications for Texas

Compared with the nation as a whole, Texas has a higher birthrate and a younger population (Chart 4). From 1980 to 1986, the number of Texans less than 5 years of age increased 28 percent, and the number 5 to 17 years old increased nearly 10 percent. The comparable figures for the nation are 10 percent and 5 percent, respectively. That Texas has a fairly young population serves to bolster the state's labor force and provide an expanding market for consumer goods.

Even though the troubled Texas economy is losing population and jobs to other states, the outflow is only temporary. Demographic characteristics of the state's population will swing business conditions for the better once the current problems are resolved. A young, fast-growing population has advantages in a nation that is aging rapidly. It offers a ready pool of workers that can accommodate corporate relocations and business expansions. And its pattern of spending will lend support to markets plagued by sagging national demand. Thus, population is the basic fuel that will drive the Texas economy to outperform the nation in the future.

—Edward L. McClelland
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