



# Houston Business

A Perspective on the Houston Economy

## Transfer Payments and Personal Income in Houston

*This article is a brief look at the role of transfer payments in Houston in recent years, with a focus on the numbers rather than the policy issues that drive such payments. Where, and how, do transfers contribute to the local economy?*

People receive personal income either for participation in production or through transfer payments for which they perform no current personal services. Payment for participation in production can include remuneration of employees through wages, salaries, bonuses, commissions, tips and the like; benefits paid by employers through pension and profit-sharing plans, group health and unemployment insurance, and the like; the earnings of sole proprietors and partnerships; and property and investment income from rent, interest or investment dividends.

To arrive at total local personal income, we must also include transfer payments. The majority of these payments are made by the government to individuals for Social Security, Medicare, Medicaid, unemployment insurance or income maintenance. Offsetting these payments, as deductions to personal income, are payments made by individuals for which they receive no current services, such as payments to the Social Security system, for unemployment insurance or for temporary disability insurance.

Table 1 summarizes how all these types of personal income come together for the Houston consolidated metropolitan statistical area (CMSA). The table compares Houston's 1999 personal income and its 1989–99 percentage growth rates with those of the United States, Texas, Dallas–Fort Worth and eight “peer” metro areas. Houston was the nation's 10th largest metropolitan area in 1999; the peer metro areas are the four metros just larger and the four just smaller than Houston.

Table 1 shows the most rapid growth in personal income in Texas (3.8 percent), Houston (4.3 percent) and Dallas–Fort Worth (4.2 percent). During the 1990s, both Houston and Dallas–Fort Worth were well within the nation's top 10

Table 1

## Components of Personal Income: Houston and Selected Comparisons

	Percentage share of total personal income, 1999					Percentage growth rate, 1989–99, adjusted for inflation				
	U.S.	Texas	Houston	Peer metros*	Dallas–Fort Worth	U.S.	Texas	Houston	Peer metros*	Dallas–Fort Worth
Personal income	100.0	100.0	100.0	100.0	100.0	2.2	3.8	4.3	2.7	4.2
Wages and salaries	57.4	58.2	60.0	62.4	65.0	2.4	4.0	3.9	3.1	4.6
Benefits	6.4	6.3	5.9	6.4	6.3	0.2	1.1	1.2	0.7	1.6
Proprietor's income	8.5	13.3	17.3	8.2	12.7	3.1	6.9	8.8	4.2	6.4
Investment income	19.0	15.4	13.8	17.6	14.3	1.5	1.6	2.5	3.2	2.4
Transfer payments	13.1	11.4	8.3	11.0	7.8	3.3	4.9	5.5	3.1	5.1
Adjustments†	-4.5	-4.6	-5.2	-5.5	-6.1	—	—	—	—	—
Population	—	—	—	—	—	1.1	1.9	2.2	1.2	2.3
Per capita income	—	—	—	—	—	1.2	1.9	2.1	1.4	2.0

\* Peer metros are the four metro areas just larger than Houston in 1999 (Philadelphia, Boston, Detroit and Dallas–Fort Worth) and the four just smaller (Atlanta, Miami, Seattle and Phoenix).

† Adjustments are payments made for Social Security, Medicare, disability insurance and other programs. A small adjustment for place of residence is also included.

SOURCE: Bureau of Economic Analysis, *Regional Economic Information System 1969–99*.

metro areas in generation of either income or jobs, and the two combined make up half the state's economy. For all areas in Table 1, the fastest growth comes outside the large wage and salary category, primarily from proprietor's income and transfer payments. This article is a brief look at the role of transfer payments in Houston in recent years, with a focus on the numbers rather than the policy issues that drive such payments. Where, and how, do transfers contribute to the local economy?<sup>1</sup>

Any economic stimulus from transfer payments comes after we deduct the payments individuals make to either public pensions, insurance premiums or current taxes to support these same transfer programs. The negative adjustments in Table 1 reflect these deductions. The individuals who make the payments and receive the benefits represent very different groups, turning payments literally into a "transfer" from one pocket to another. Like the need for a police force, a fire department or an army, the need for public medical services or a social safety net is sometimes called a "regrettable expenditure" by economists. In other words, while these expenditures are necessary, they may not yield the same kind of satisfaction as a new car or dress.

### TRANSFERS BY TYPE

Table 2 summarizes transfer payments by type in the Houston CMSA from 1969 through 1999. These payments are dominated by government payments to individuals (93.4 percent in 1999), with the remainder government payments to nonprofit organizations such as uni-

versities or hospitals, business gifts to either nonprofits or individuals, or business payments to individuals due to legal judgments.

The retirement and disability line is dominated by Social Security retirement payments, although other public pension and disability categories are included here. Medical payments comprise almost all Medicare expenditures for the aged, plus Medicaid or other public medical assistance. Medical payments have driven much of the rapid growth in transfer payments in the 1990s; the share of medical payments in local transfers has more than doubled in the past 20 years.

Income maintenance consists of Supplemental Security Income (SSI) or other payments for the aged, blind or disabled. Family assistance is mostly Aid to Families with Dependent Children until 1997, when it was replaced by Temporary Assistance for Needy Families. Food stamps are included as income maintenance, along with other programs such as the government's Women, Infants and Children program, energy assistance and earned income tax credits.

Unemployment insurance consists primarily of state-administered unemployment programs. The "other payments" category is a miscellaneous collection of programs ranging from crime victim compensation to disaster relief.

Generally, the pattern of long-term growth in transfer payments illustrated by Table 2 for Houston is representative of that seen in the other regions in Table 1. Texas, Dallas–Fort Worth and the peer metros all experienced similar growth from 1969 through 1999. Federal expenditures and policies play such a large role in these transfers that many state-specific policy

**Table 2**

Transfers by Type in Houston  
(Percent share of total transfers, 1969–99)

	1969	1979	1989	1999
Government payments				
to individuals	88.7	89.4	91.0	93.4
Retirement and disability	48.9	48.6	44.5	35.7
Medical payments	16.5	21.0	28.1	42.8
Medicare	12.7	15.3	20.1	25.3
Other public assistance	3.4	5.5	7.6	17.4
Income maintenance	7.1	7.8	10.6	9.2
Supplemental Security	4.7	2.3	2.3	2.6
Family assistance	2.1	1.2	1.7	0.7
Food stamps	0.0	3.3	4.5	1.5
Unemployment insurance	1.4	2.1	2.7	2.0
Other payments	14.8	9.9	5.1	3.7
Nongovernment payments	11.3	10.6	9.0	6.6

SOURCE: Bureau of Economic Analysis, *Regional Economic Information System 1969–99*.

differences get lost in the detail.

Table 3 shows the same government payments groups, but with annual growth rates for each category for 1989–99. In each column, the medical payments category jumps out as the biggest driver of expenditures. For example, all medical payments grew at a 10.2 percent annual rate in Houston in the 1990s, with public assistance medical costs increasing at 14.9 percent per year.

The differences between the two columns of Table 3 in the growth of transfer payments seem to be driven primarily by overall economic growth rates and by rapid personal income growth. This conclusion extends to the other regions in Table 1 as well.

### COUNTY DIFFERENCES IN THE HOUSTON CMSA

Transfer payments made inside the eight-county Houston CMSA show substantially more diversity than is apparent among the metro areas of Table 1. Table 4 shows the share of transfer

**Table 3**

Government Transfers to Individuals by Type  
(Annual percentage growth, 1989–99, adjusted for inflation)

	Houston	United States
Government payments		
to individuals	5.8	3.4
Retirement and disability	3.1	1.9
Medical payments	10.2	6.0
Medicare	8.0	4.6
Other public assistance	14.9	8.1
Income maintenance	3.9	3.1
Supplemental Security	7.2	4.3
Family assistance	-4.5	-3.1
Food stamps	-5.8	-0.9
Unemployment insurance	4.1	0.5

SOURCE: Bureau of Economic Analysis, *Regional Economic Information System 1969–99*.

**Table 4**

Roles of Transfers Inside the Houston CMSA

Area/County	Percent share transfers, 1999	Annual percentage growth, 1989–99, adjusted for inflation	
		Transfers	Personal income
CMSA	8.3	5.5	4.3
Brazoria	11.2	5.9	3.1
Chambers	12.0	6.6	4.5
Fort Bend	5.9	9.8	5.7
Galveston	13.3	4.6	2.5
Harris	7.7	5.2	4.2
Liberty	20.8	4.9	3.2
Montgomery	9.3	7.8	7.3
Waller	11.6	5.1	3.8

SOURCE: Bureau of Economic Analysis, *Regional Economic Information System 1969–99*.

payments in personal income running as high as 20.8 percent in Liberty County and as low as 5.9 percent in Fort Bend County. Percentage growth of transfers was highest in Fort Bend County and lowest in Galveston County. Once again, percentage growth of transfer payments seems to be strongly and positively influenced by overall personal income growth.

The counties also show much more variety in the mix of transfer payments they receive. Retirement income hit a high in Montgomery County in 1999, accounting for 41.8 percent of all transfer payments in the county. The low was in Waller County at 32.7 percent. For medical services, the high was 48.7 percent of transfers in Liberty County, and the low was 36 percent in Fort Bend County. Montgomery County received the smallest share of income maintenance (5.8 percent) and Harris County the highest (9.9 percent).

These large local differences in transfer payment patterns are a product of metro areas engaging in internal residential segregation that divides inner city from suburb, rich from poor and urban from rural. Transfer payment types vary with the needs of affluent suburbs (many of which are found in Fort Bend and Montgomery counties), the inner city (Harris County) and areas of rural poverty and aging population (Liberty and Waller counties). These differential needs average out when we look at the metro area as a whole, but they show up more clearly when we examine the components of the metro area.

### NOTE

<sup>1</sup> A future article will return to the question of rapid growth in proprietor's income, a potentially healthy sign of entrepreneurial activity.

**H**ouston continues to show resilience during a national economic slowdown, as the year-to-date average for job growth is running at 2.9 percent through April. Despite growing strength upstream, preliminary data from the Houston Purchasing Managers Index shows a modest slowdown in the pace of expansion in May. Local retail sales, auto sales and home sales all remain strong.

#### RETAIL AND AUTO SALES

Retail sales are very good, although some promotions and discounts have been necessary to keep goods moving. Discount and specialty stores seem to be doing best.

Auto sales in April rocketed to a 39 percent increase over the sales in the same month last year. Given the way the data are collected, some of the weakness observed in the first quarter of this year may have been a reporting problem, and the April data finally count earlier sales. These figures put Houston less than 5 percent behind the record pace of last year.

#### HOUSING AND REAL ESTATE

More good news is to be found in Houston's single-family housing. After a sluggish start to this year for existing homes, April sales ran 7.2 percent faster than the same month last year. New home sales in April jumped 11.8 percent compared with last April. New home inventories are 2.5 percent below last year, starts are up 35 percent and traffic is up 14 percent.

Office rents rose sharply over the first half of this year, especially in the central business district, but should flatten in the second half of the year. About 6,000 new apartment units are expected to be completed through the rest of 2001. With 2,000 units already open, the total for this year will fall under the 9,400 units built in 2000.

#### UPSTREAM ACTIVITY

Crude oil prices held steady near \$28 in recent weeks. Crude inventories continue to build and are currently about 8 percent higher than a year ago. Natural gas prices have steadily drifted downward, falling under \$4 per thou-

sand cubic feet. Mild spring weather and a forecast of normal weather ahead have allowed record levels of injections into storage, although inventories remain about 11 percent below the six-year average for this time of year.

Domestic oil and natural gas exploration continues to grow, with the rig count quickly moving from 1,200 to 1,262 rigs in recent weeks. The number of rigs directed to natural gas exploration has topped 1,000. Rumors have as many as 10 rigs ready to leave the Gulf of Mexico for international waters, which is good news as it indicates that international activity may finally be about to heat up. Day rates for onshore rigs, offshore rigs and supply boats, as well as prices for all kinds of equipment, are reported to be rising rapidly.

#### REFINING AND PETROCHEMICALS

Virtually all the news in oil product markets has been related to gasoline, as prices have spiked to record levels. Gasoline inventories remain near the very low levels of last year, and inventories of reformulated gasolines are about 10 percent below last year's. The highly fragmented market for reformulated fuel all but guarantees spot shortages across the country. High import levels have helped moderate domestic shortages.

The rise in gasoline prices is generating excellent prices for refiners, with very strong profit margins. To take advantage of these profits, the refinery system is operating at near full capacity.

Petrochemical capacity has continued to come back on line following the spike in natural gas prices over the winter. Natural gas prices have drifted downward, and chemical prices moved upward until recently, easing pressure on very poor profits. However, in recent weeks, the return of existing capacity to production, along with the addition of new capacity, has allowed inventories to build and prices to fall again. Demand remains weak, especially as high natural gas feedstock prices keep U.S. producers locked out of export markets. Normally, 15 percent of U.S. petrochemicals are exported, and currently very little is leaving the Gulf Coast.

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