

Revising Texas Economic History

Numerous times in the past few years, we have reported in these pages that a Texas recovery appeared to be just under way. How could we continue to make such statements for more than a year? The answer: Data revisions are changing our view of the economy.

Data revisions are a continuing difficulty in assessing the Texas economy. The effects of data revisions are quite visible in the Texas Coincident Index, which is one of the broadest and most reliable measures of state economic activity. Developed by the Federal Reserve Bank of Dallas, the index combines changes in employment, the unemployment rate and gross state product.

As shown in Chart 1, the Texas Coincident Index has given us a constantly changing picture of the Texas economy since May 2003. In that month, we thought the Texas economy reached its trough in October 2002 and grew during the next six months (November 2002

through April 2003). Subsequent revisions of the index indicated that the trough occurred later. As of June 2004, it looks as though the Texas economy reached its trough in August 2003 and grew during the next nine months (September 2003 through May 2004).

Although these revisions may prompt us to regard the index with some skepticism, the changes are the result of revisions to the underlying data series used to construct the index. In other words, the comprehensive measures of Texas economic activity represented in the index were undergoing constant revision, and the coincident index was dragged along for the ride.

At turning points in the economy, most economic data series are subject to substantial revision, which is one of the principal reasons why the National Bureau of Economic Research's Panel on Business Cycles waits so long after a recovery is under way to date the end of a national recession. For example, the

Table 1

What We Thought We Knew When

Information as of	Date of trough	Subsequent months of Texas growth
May 2003	Oct. 2002	6
June 2003	Sept. 2002	8
July 2003	Dec. 2002	6
Aug. 2003	April 2003	3
Sept. 2003	April 2003	3
Oct. 2003	March 2003	6
Nov. 2003	March 2003	6
Dec. 2003	June 2003	5
Jan. 2004	June 2003	6
Feb. 2004	Aug. 2003	5
March 2004	Sept. 2003	5
April 2004	Sept. 2003	6
May 2004	Sept. 2003	7
June 2004	Aug. 2003	9

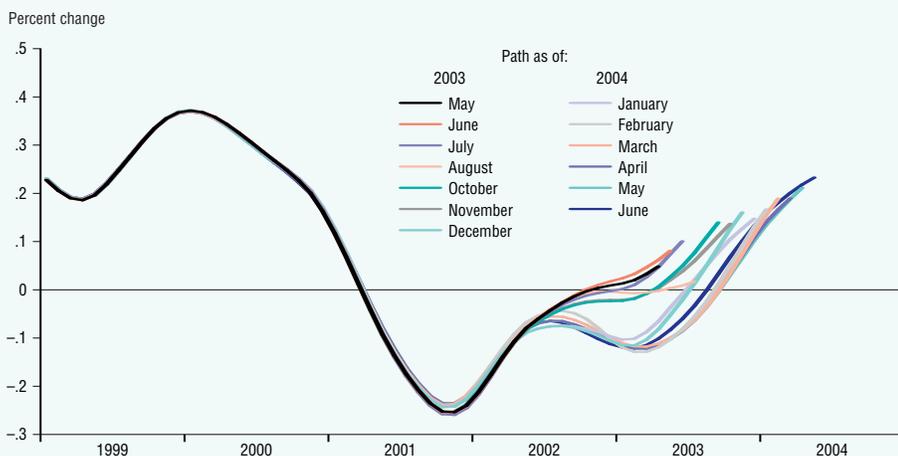
panel waited until July 17, 2003—more than a year and a half after the U.S. economy's most recent trough—to announce that the event had occurred in November 2001. Were Texas to have such a panel, it likely would be close to marking the Texas trough sometime in or near third quarter 2003, but it probably would want to wait for further data revisions before pinpointing the exact month.

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Chart 1

Texas Coincident Index



NOTES: Because the chart represents changes in the coincident index, a trough is indicated when the data rise above the zero axis. No change in data for September 2003.

SOURCE: Federal Reserve Bank of Dallas.