Long-Term Performance: Per Capita Income In Houston

Per capita income is a basic measure of economic welfare. This sum of wages, salaries, profits, interest, rents and transfer payments averaged over the population is widely used to compare the standards of living in different regions. Measured over time, per capita income is also a valuable summary indicator of the performance of regional wages, jobs, property values and government transfers.

The Commerce Department recently released detailed per capita income data for counties and metropolitan areas in the United States for 1994. This article examines the growth of Houston’s per capita income from 1969 to 1994 and compares Houston’s growth with that of other regions.

Per capita income in Houston in 1994 was $23,046, number two among the state’s metropolitan areas behind Dallas ($24,480) but well above the state average ($19,716). Fort Worth ($21,412) and Austin ($20,611) rank second and third, respectively, among the state’s major metropolitan areas, with the border city of El Paso ranking near the bottom at only $12,940.

Comparisons Over Time

Assessing Houston’s long-term economic performance can be difficult. The size and length of the boom, bust and recovery the city experienced in the 1970s and 1980s dominate the last 25 years of economic data. Equally remarkable were the loss of 225,000 jobs between 1982 and 1987 and then the recovery of these jobs by mid-1990. The Houston experience forces a long-term perspective, and we need to look at all 25 years from 1969 to 1994.
Further, Houston cannot simply be described in terms of trends in the United States, Texas or the state’s other metro areas because the city was often out of sync with them. The local bust and much of the recovery took place during the long 1982–90 national expansion, but Houston continued to experience strong growth through the 1990–91 national recession. Then Houston came to a standstill from 1991 to 1993, just as the national expansion firmly took root. Only since 1994 has the local economy slowly gained speed and rejoined national growth trends. Within Texas, Houston’s growth pattern has contrasted with that in the Interstate 35 corridor, particularly in Dallas, Fort Worth, Austin and San Antonio. Houston’s part of the “Texas recession” began in 1982, whereas the I-35 corridor’s economy did not slow until 1986, and these cities experienced a much shorter and milder recession.

Finally, we need to adjust for price level differences over time and between cities. The depth of the Texas recession shows up in measures of the price level, particularly in lower office and apartment rental rates and home prices. We have used the consumer price index (CPI) to adjust for price changes. It is not the best deflator for personal income measures, but it is the best that provides geographic detail.1

Table 1 summarizes the growth rate of Houston’s per capita income for the 25-year period from 1969 to 1994 and compares it with the rates for the United States, Texas and Dallas. Houston’s average for the period is 1.6 percent per year, ahead of the United States by 0.2 percent and just matching statewide trends. The table also shows growth rates varying widely during the local boom (1969–82), bust (1982–87) and recovery (1987–94). Dallas shows more consistent patterns of growth over time, although its 25-year average is, remarkably, identical to that of Texas and Houston.

**Sources of Change in Per Capita Income**

What contributed to income growth in these various periods? We partitioned Houston’s job growth into five factors that together account for overall growth. Table 2 shows total real per capita income growth in Houston, with the top line of the table matching that of Table 1. In the rows below is the list of factors that contribute to local income growth and the percentage points each contributed to the total. The contributions by column add up to total income growth.2 The factors are as follows:

1. Industry mix — As the national economy grows, compensation rates grow more rapidly in some industries than others. What if Houstonians are compensated at the national rate at the beginning and end of each period? Houston could still perform better or worse than the nation because of its industry mix. In those years when national compensation patterns favor the Houston industry mix, this factor is positive. In years when the dominant local industries see national compensation grow slowly, this factor is negative.

2. Competitive factors— This is a catchall category that encompasses the reasons a region’s wages and salaries grow, apart from industry mix and national compensation trends. These are local factors that make a region competitive. Quality of the labor force, the cost of doing business, the cost of living and access to growing markets are examples.
3. Job growth — This is job growth relative to population growth. When job growth outpaces population growth, per capita income goes up.

4. Property income — The contribution to growth of rent, interest and corporate profits.

5. Transfer Payments — The contributions of transfers from the public sector to individuals through public retirement programs, unemployment compensation, Medicare and so on.

Some of these factors vary substantially with the business cycle. During the long expansion from 1969 to 1982, for example, allowing Houston compensation rates to grow at the national rate, as dictated by the industry mix factor, would have held per capita income growth back by 0.8 percent per year. Competitive factors worked to push it up 1.3 percent per year. In contrast, the bust years of 1982–87 would have benefited by 1.8 percentage points per year if national compensation rates had materialized in Houston. At the same time, competitive factors held per capita income growth back by nearly the same amount. Employment growth is another large contributor, predictably positive in good times and negative in bad. The negative contribution of property income after 1987 reflects falling property values in the region in the 1980s, as well as falling interest rates. Also, the large role of transfers during 1982–87 partly reflects hard economic times, as unemployment compensation is a key component.

The first column in Table 2 is perhaps the most meaningful, as it covers 25 years and averages out cyclical events. It begins in 1969 before the oil boom and ends in 1994, when Houston’s recovery was complete and the city was enjoying healthy and moderate expansion. Overall income growth of 1.6 percent was driven mainly by job growth (0.9 percentage points) and the city’s competitive advantages (0.4 points). Transfer payments (0.2 points) and industry mix (0.1 points) made small contributions.

Table 3 shows the same results averaged over 25 years for the United States, Texas and Dallas and compares them with Houston’s results. Once we back up and take a long-term perspective, all these regions show far more similarities than differences. The overall figures and the percentage-point contributions are broadly similar for all regions, and for Dallas and Houston, in particular, they are virtually identical. Texas makes statewide gains of 0.2 percentage points due to competitive factors, half the 0.4 percent achieved in Dallas and Houston, implying that many of the state’s competitive advantages may be concentrated in the state’s two largest metro areas.

CONCLUSION

It has been difficult in recent years to describe the performance of the Houston economy. It has hit remarkable highs and lows and often run counter to trends in the nation and other parts of Texas. Using real per capita income growth over 25 years as a measure of long-term development reveals that Houston averaged an economic growth rate that exceeded the nation’s, was much like that of Texas and equaled that of the Dallas metropolitan area. Job growth is the biggest determinant of income growth in all regions examined.

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NOTES

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1 In Texas, the CPI is available only for the Houston and Dallas metropolitan areas. To deflate statewide Texas data, we used a deflator available for the southern United States.

Oil and natural gas markets have been the center of local economic interest in recent weeks. Petrochemical markets look weak compared with their record performance in 1995 but are rebounding from a poor first quarter. Refiners were hurt by a combination of stable crude prices and falling gasoline prices. Retail, auto, housing and real estate markets all show underlying strength.

RETAIL AND AUTO SALES

Auto sales in June were up 8 percent compared with last June, and first-half sales are up 6 percent from the same period in 1995. Sport-utility vehicles continue to lead the auto market, with some models scarce and expensive. Inventory is in good shape as dealers begin to clear their lots for the new models.

Retail sales are making small gains on a same-store basis, still relying on heavy promotions and discounts. Retailers are making planned sales levels this year, largely on the basis of more realistic sales forecasts, and inventory is under control. Plans for the coming holiday season have been made; retailers anticipate only a 1- or 2-percent increase in sales over last year.

ENERGY PRICES

Crude oil prices have dropped from $24 to $20 a barrel since the last Beige Book survey, largely because of pending Iraqi sales of crude for humanitarian purposes. Prices have remained surprisingly strong, however, helped by continued low inventory, the substitution of oil for natural gas under industrial and utility burners and a demand for domestic oil products 2.5 percent stronger than last year.

Natural gas prices initially strengthened in recent weeks, from $2.20 to $2.60 per thousand cubic feet, on news of hot weather on the East Coast and in the Southwest. The primary concern, however, has been whether storage fields can be refilled before the heating season begins in November, and prices fell back to $2.20 in late July as cooler weather saw storage levels begin to rise.

OIL FIELD SERVICES AND MACHINERY

Oil service and machinery companies report increased activity, still led by drilling for natural gas. Domestic activity is up about 8 percent compared with last year, with Texas and Louisiana accounting for more than half of the increase. Offshore activity in the Gulf of Mexico remains flat because available rigs have been put to work, and all but four or five Gulf rigs are looking for natural gas. Day-rates continue to rise, and many rigs are now booked through 1997 and beyond.

REFINING AND PETROCHEMICALS

Petrochemical producers enjoyed improving margins and solid demand. Demand for plastic packaging products has been particularly strong, with rising prices, low inventories and scattered shortages of some grades. This has been offset by weakness in the demand for products tied to synthetic fibers, caused by slow export sales. After a poor first quarter, basic ethylene and propylene increased in price a few cents, falling feedstock prices saved a few cents in production costs, and margins are again solid.

Refiners saw wholesale gasoline prices weaken to four-month lows in mid-June, down 15–20 cents from spring levels. They regained about half of this decline on the basis of stronger-than-expected driving over the Fourth of July weekend. With crude oil prices holding steady near $20 per barrel, profit margins on the Gulf Coast were hurt by low gasoline prices.

REAL ESTATE

Local real estate markets have been strong throughout 1996 and show fundamental strength. Apartment occupancy rates are high, and investor interest remains strong. Quality warehouse space is no longer available, and the market has turned to both build-to-suit and speculative construction. Leasing of office space has improved in the central business district, and investor interest in older suburban office buildings is high.