

the Southwest ECONOMY

THE FEDERAL RESERVE BANK OF DALLAS

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A Closer Look at the Southwest Recovery

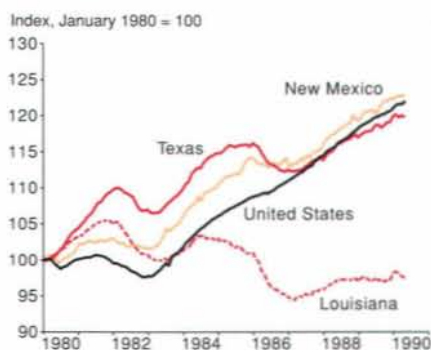
Editor's Note: This article is an adaptation of testimony that Harvey Rosenblum, senior vice president and director of research for the Federal Reserve Bank of Dallas, presented before the U.S. House of Representatives' Committee on Banking, Finance and Urban Affairs on June 22, 1990, in Houston, Texas.

The Southwest economy continues to recover from the 1986 downturn induced by declining oil prices, but the degree of economic progress varies widely among states. Recently, employment growth has been fairly broad-based across Texas, Louisiana and New Mexico, but the recovery is still not complete. Although the Southwest has surpassed its pre-1986 levels of employment and real income, U.S. growth by both measures has been considerably stronger. As a result, while the Southwest economy has grown for more than three years, it has yet to regain its pre-1986 share of national income and employment, and there is little evidence to suggest it will do so in the next year or two.

The Southwest Recovery

Texas and Louisiana felt the effects of the 1986 energy-price shock most

Chart 1
Total Nonagricultural Employment



severely, and employment in both states dropped dramatically. New Mexico's employment, however, declined only slightly (Chart 1).

During 1989, some areas of the Southwest were nonparticipants in the economic recovery, and some areas were participating more fully than others. Although the stage of recovery varies widely among the states, New Mexico, Louisiana and all regions of Texas experienced moderate employment growth during the first five months of 1990.

Louisiana

Despite some recent growth, Louisiana still has not fully recovered from its recession. Louisiana experienced a substantial drop in employment in 1986, but its employment decline began in 1984, predating the sharp drop in energy prices by two years. In the past three years of extremely sluggish growth, Louisiana has regained less than one job for every two jobs lost during its two-and-one-half-year decline. Louisiana has only recently experienced some encouraging increases in employment growth. In the first five months of 1990, Louisiana's employment growth rate doubled, rising to 0.7 percent from 0.3 percent in 1989. Employment increased in all Louisiana metropolitan areas except Alexandria, where employment has remained constant for the past several

years. Employment growth has been strongest in Baton Rouge and Lake Charles. Louisiana's population has been decreasing since 1986 and continues to fall, although the rate of decline is slowing.

New Mexico

In New Mexico, the 1986 energy-price shock brought a mild slowdown to a strong economy, followed by a quick rebound. Between January 1987 and December 1989, New Mexico's employment grew at about the same rate as the nation's. New Mexico has regained about seven jobs for each of the few lost in the 1986 downturn. Largely as a result of declines in con-

struction, New Mexico's job growth has recently moderated, but overall employment expansion remains higher than in Texas or Louisiana. In some areas, such as Las Cruces and Santa Fe, high growth rates persist. Partly as a result of continued expansion in the state's employment, population growth remains strong.

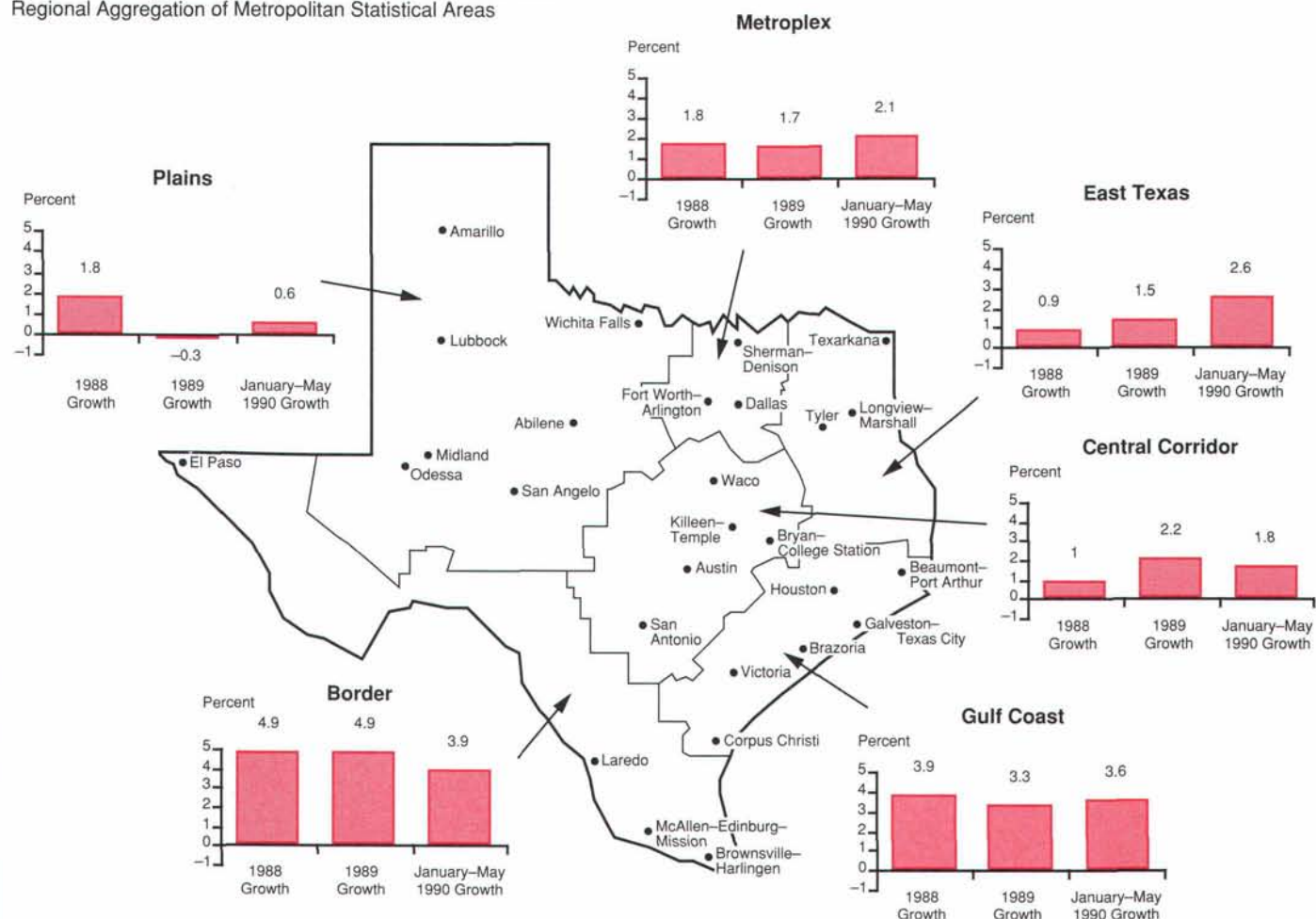
Texas

During the past five years, Texas' economic experience has more closely resembled that of Louisiana than that of New Mexico. Like Louisiana, Texas' employment fell markedly during the 1986 oil-price decline. Unlike Louisiana, however, Texas has now gained almost

two jobs for each one lost during the 1986 downturn, and employment is well above its prerecession peak. The underlying strength of the Texas economy is particularly noteworthy because the state has continued to grow despite shortages of credit. (See the Economic Commentary in this issue for more information about the Texas credit shortage.)

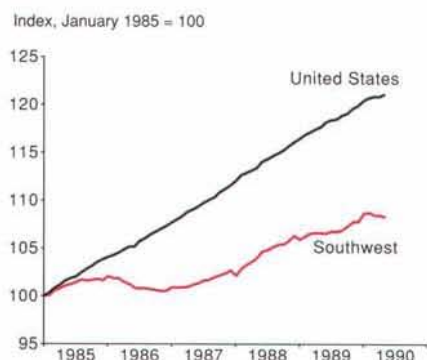
By far the largest of the three states of the Eleventh Federal Reserve District, Texas can be reasonably divided into six regions: the Border, the Gulf Coast, the Central Corridor, East Texas, the Metroplex and the Plains (Chart 2). During the first five months of 1990, employment growth accelerated in the Plains, the Metroplex, East Texas and

Chart 2
Growth in Nonagricultural Employment, 1988, 1989 and 1990*
Regional Aggregation of Metropolitan Statistical Areas



* Data for 1990 are January-May over the same period in previous year.

Chart 3
Private Service-Producing Employment

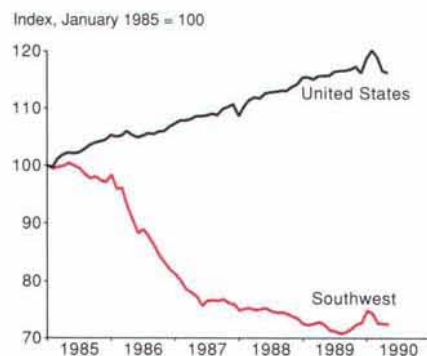


the Gulf Coast. Employment in the Border region slowed because of the severe winter freeze, which reduced citrus and vegetable crops and dampened otherwise strong growth in this region.

Over the past few years, the strongest employment gains by far have occurred in the Gulf Coast (dominated by Houston) and Border regions. The metropolitan areas of the Central Corridor (dominated by San Antonio and Austin), East Texas, and the Metroplex (dominated by Dallas and Fort Worth) have all shown sluggish employment gains. Employment growth in the Plains region has been particularly weak, with employment losses recorded in 1989.

Despite recent broad-based growth, employment remains below pre-recession levels in some parts of Texas. Even in the Houston metropolitan area, where growth has been quite strong and well above national trends, the

Chart 4
Construction Employment



economy has not yet switched from recovery to expansion—total employment is still below the prior peak that occurred in 1982.

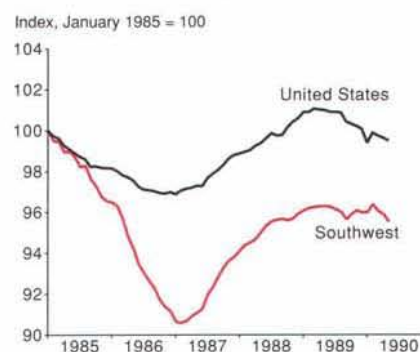
Houston is only one of the metropolitan areas where recovery is far from complete. Some smaller cities where current employment levels are well below prior peaks are Amarillo, Wichita Falls, Corpus Christi and Beaumont. In a few of these cases, the prior peak occurred in 1981 or 1982. In contrast, Dallas has had very modest employment growth, yet the brevity and the limited extent of the job losses were sufficiently mild that Dallas has surpassed its prior peak employment. San Antonio never experienced a definable recession; instead, in 1985, it shifted abruptly from employment growth of about 25,000 per year during 1982–84 to annual gains of only a few thousand. In Austin, the level of employment has surpassed its early-1986 peak only in the past few months.

Employment Growth Slower in the Southwest than in the Nation

Economic growth in 1990 has been broad-based across economic sectors as well as regions. Throughout much of the recovery, strength in the narrowly defined service sector, including business and health services, offset declines in the construction and finance, insurance and real estate (FIRE) sectors. This pattern changed in 1990. While growth in narrowly defined services has slowed, growth in the construction and FIRE sectors is no longer declining. Thus, while growth has increased only moderately this year, it has become more widespread across economic sectors.

The Southwest's recent broad-based growth, however, continues more slowly than growth at the national level. Since 1986, employment has been expanding at a slower rate in the Southwest than in the rest of the country (Charts 3, 4, 5 and 6). In the past 12 months, employment grew 2.2 percent in the nation and 1.4 percent in the Southwest. While employment in

Chart 5
Manufacturing Employment



construction and FIRE has improved in the Southwest, these sectors are still growing more slowly than the national average. Only the manufacturing sector has been outperforming the nation, and even this phenomenon has not been positive. While U.S. manufacturing employment fell 1.5 percent in the past year, Southwest manufacturing employment dropped only 0.8 percent.

Southwest Income Growth Slower than National Average

Income growth adds another perspective on economic expansion. Since 1982, per capita income has grown faster in the nation than in the Southwest (Charts 7 and 8). As a percentage of the U.S. average, per capita income in Texas, New Mexico and Louisiana is less than it was two decades ago. With the exceptions of Dallas–Fort Worth and Midland, per capita income is below the national

Chart 6
Mining Employment

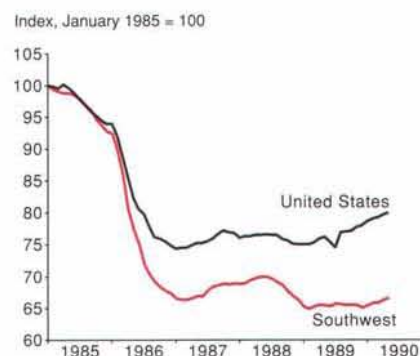
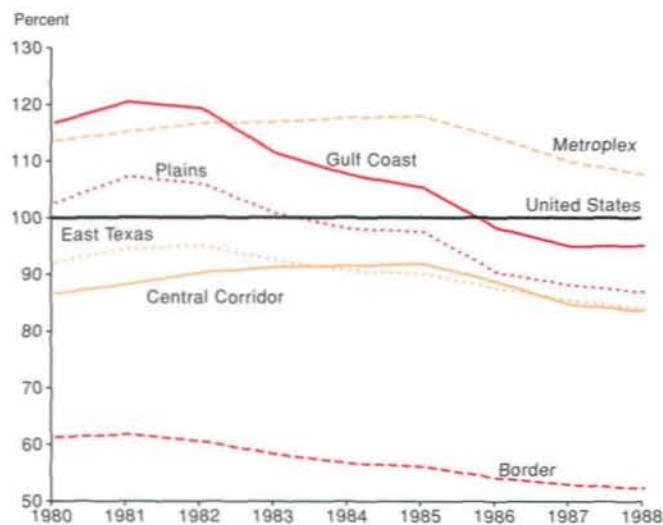
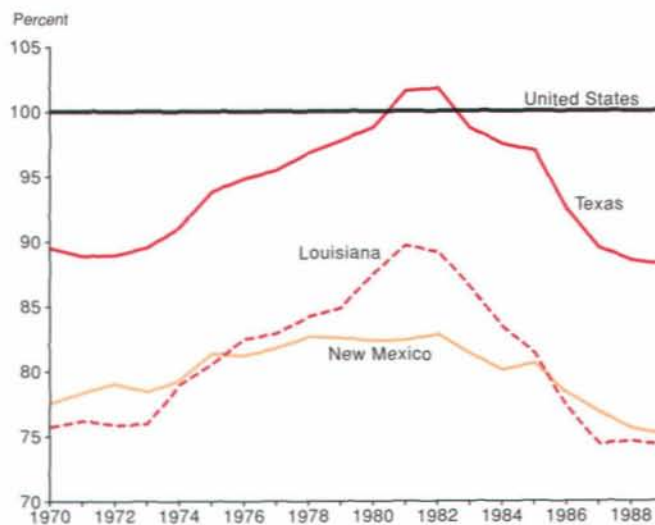


Chart 7

Texas Per Capita Personal Income as a Percentage of U.S. Per Capita Personal Income by Region, 1980-88

**Chart 8**

Per Capita Personal Income as a Percentage of U.S. Per Capita Personal Income by State, 1970-89



average for all metropolitan areas.

In 1982, Texas ranked 16th among the states in the level of income per capita. That same year, Louisiana ranked 31st and New Mexico ranked 39th. By 1989, Texas' rank had fallen to 32nd, Louisiana's had fallen to 46th and New Mexico's had fallen to 45th. In Louisiana, 1981 was the last full year in which personal income growth exceeded the national average. Every year since 1982, income has grown more slowly in Texas and New Mexico than nationally. Moreover, in 1982, Texas' personal income per capita exceeded the national average by 2 percent, but by 1989, per capita personal income in Texas was 12 percent below the U.S. average. New Mexico's and Louisiana's personal income per capita never exceeded the nation's, and their positions have steadily weakened as well.

Southwest personal income levels and gains are quite diverse. For example, the per capita income level in Texas' Metroplex remains above the national average, while the income level along the Texas border is only slightly more than one-half the national average. The fastest-growing metropolitan areas in terms of employment are in New Mexico and along the Texas-Mexico border. Yet, El Paso, Laredo,

Las Cruces, Brownsville-Harlingen and McAllen-Edinburg-Mission rank among the 10 metropolitan areas with the lowest per capita personal income in the nation. To some extent, the job growth along the border and in New Mexico may have been fueled by low labor costs. (Houma-Thibodaux, La., also ranks among the 10 metropolitan areas with the lowest per capita income in the nation.)

Recovery: Weak but Stable

Although the Southwest economy is now beginning its fourth year of recovery, the region has not recaptured its prerecession share of national income and employment. Yet, important changes have occurred. The Southwest economy has diversified since the collapse of the energy sector crippled the economy in 1986. Now, the Southwest economy is more like that of the nation because it is very much less dependent on one region or economic sector for growth.

The service-producing sector has become a vital part of the Southwest economy. Many services, such as financial and business services, are exported from the Southwest, which integrates the region's economy and the nation's economy. Because the

Southwest economy has become more dependent on the nation's economy, the region is more susceptible to changes at the national level. The recent slowing of the national economy has slowed the Southwest economy.

The condition of the Southwest economy is still relatively fragile. Any prolonged decline in the nation's economy could easily be transmitted to the Southwest and precipitate another regional downturn.

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