

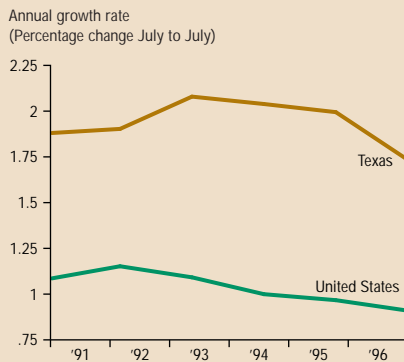
Texas Faces Tight Labor Market

A SHORTAGE OF WORKERS may be hindering economic growth in Texas, and labor constraints are unlikely to ease soon. Employers across much of the state report difficulty in finding qualified workers for both high- and low-skilled positions. With unemployment rates in major Texas cities near 5, or even 4, percent, labor market tightness may soon translate into upward pressure on wages.

Labor force growth in Texas slowed precipitously last year. The state's labor force grew by less than 1.2 percent in 1996, its slowest annual growth rate since 1989. This slowdown underlies much of firms' difficulty finding workers. In the first two months of 1997, however, labor force growth has rebounded (*Chart 1*).

Formerly discouraged workers and individuals facing an end to transfer payments are likely the main sources of this recent surge in labor force growth. Texas mirrors the nation in these trends. As the national economy enters the seventh year of the upswing in the business cycle, workers laid off because of the recession or restructuring are reentering the labor market as the likelihood of finding a job increases. Restrictions

Chart 2
Population Growth
In Texas Outstrips Nation's
But Is Falling



SOURCE: Bureau of the Census.

on food stamp eligibility and requirements that welfare recipients find work have also pushed people into the labor market.

Although the recent numbers suggest that labor market tightness may be easing, employers are unlikely to see a quick turnaround in the number and quality of job applicants. The potential workers entering the labor market may not meet employers' expectations; in particular, their skills are unlikely to match the needs of Texas' growing high-tech industry. In addition, the recent trend in Texas' population growth does not bode well for the size of the labor force.

Slower population growth in Texas last year was another cause of the low labor force growth rate. The Texas population has grown considerably faster than the United States' in the 1990s, but Texas' population growth slowed last year (*Chart 2*).

A fall in the number of people migrating here from other states underlies the recent slowdown in Texas' population growth. Net domestic migration declined by more than 40 percent last year from 1995 (*Chart 3*). Fewer people relocated to Texas as the economy in other parts of the country—particularly

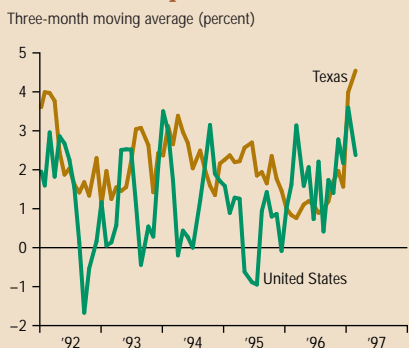
California—improved, and more people left Texas. Net domestic migration is likely to remain relatively low as the Texas and national economies grow at similar rates. International migration to Texas rose slightly in 1996 but has remained fairly constant in recent years.

The short-term outlook for Texas' labor force growth is not optimistic. There are relatively few skilled people who meet the needs of Texas' expanding high-tech firms, and interstate competition for such workers is fierce. In addition, it remains to be seen how well former public assistance recipients will adapt to the labor market. Domestic migration is likely to remain relatively low, and immigration from across the border may slow if Mexico's expansion continues.

In the long run, however, its age distribution positions Texas as a favorable labor market for employers. Texas has a young population—only four states have a higher fraction of their population under age 18 or under age 5. In addition, almost 10 percent of Texas' population is between the ages of 18 and 24. In the next few decades, Texas' young workforce is likely to be a magnet to firms, boosting the state's economic growth.

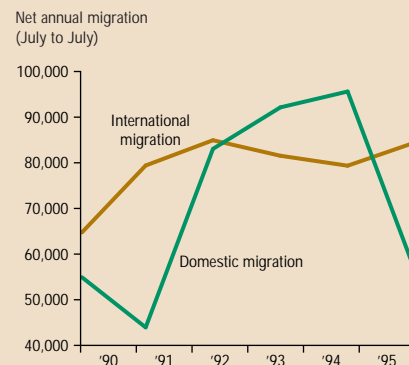
—Madeline Zavodny

Chart 1
Texas Labor Force Growth
Rate Picks Up



SOURCE: Bureau of Labor Statistics, Household Survey.

Chart 3
Domestic Migration
To Texas Slows



SOURCE: Bureau of the Census.

Regional Update

EMPLOYMENT GROWTH IN the Eleventh District rebounded in February after a January lull, and the expansion continued in March. Job growth was broad based, with construction employment surging in February after a January decline and the energy sector maintaining its recent strength. Economic indicators suggest District employment growth will continue at a moderate pace.

The District posted annualized nonfarm job growth of 5.9 percent in February and 2.9 percent in March, after a decline of 2.1 percent in January. The District's first-quarter growth rate was 2.3 percent. Texas accounted for the drop in January and most of the subsequent upswing, while job growth was steady in Louisiana and New Mexico expanded at a faster rate in February than in recent months.

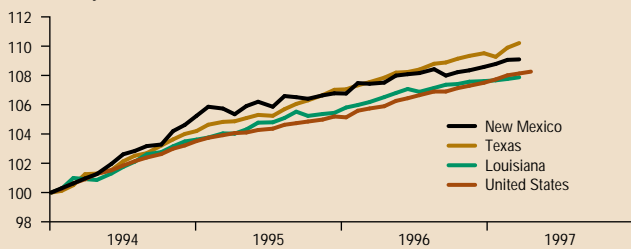
Job growth in Texas was 2.6 percent in the first quarter, with employment growing at 6.8 percent in February and 3.4 percent in March. With job growth at 5.8 percent in February and 0.3 percent in March, New Mexico posted first-quarter employment growth of 1.9 percent. Jobs in Louisiana expanded at a rate of 1 percent in the first quarter, growing 2 percent in February and 1.3 percent in March.

Economic indicators suggest continued moderate growth. After a strong increase in January, the Texas Leading Index rose again in February. The index was boosted by the Texas Stock Index, as well as a drop in new unemployment claims and a rise in the national leading index.

—Madeline Zavodny

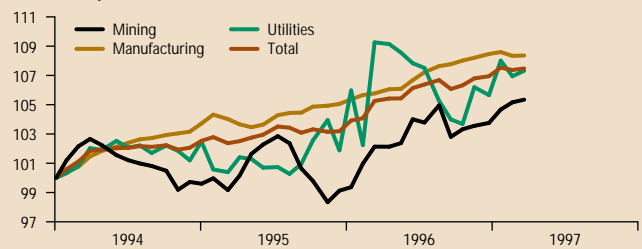
Total Nonfarm Employment

Index, January 1991 = 100



Texas Industrial Production Index (TIPI)

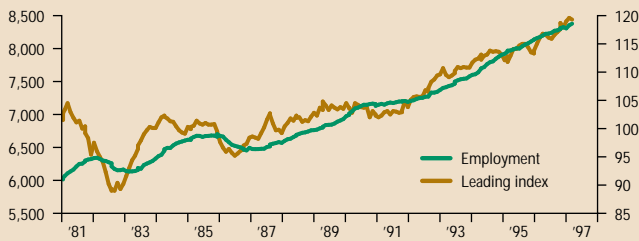
Index, January 1991 = 100



Texas Leading Index and Nonfarm Employment

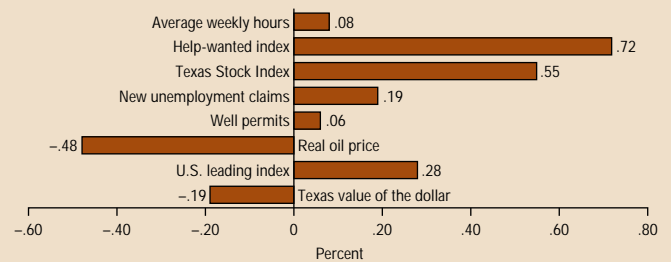
Thousands of persons

Index, 1987 = 100



Net Contributions of Components to Change in Leading Index

January–March 1997



Regional Economic Indicators

Texas employment*

Total nonfarm employment*

	Texas Leading Index	TIPI total	Texas employment*				Private service-producing	Total nonfarm employment*		
			Mining	Construction	Manufacturing	Government		Texas	Louisiana	New Mexico
3/97	119.3	124.6	160.9	445.4	1,062.7	1,470.5	5,238.8	8,378.3	1,823.8	701.8
2/97	119.6	124.5	160.8	443.5	1,061.6	1,466.6	5,222.4	8,354.9	1,821.9	701.6
1/97	119.0	124.7	158.9	434.0	1,057.2	1,463.7	5,192.5	8,306.3	1,820.3	699.8
12/96	117.9	124.0	157.6	441.1	1,058.9	1,461.8	5,205.6	8,325.0	1,819.4	698.5
11/96	118.8	123.8	157.3	440.2	1,058.1	1,458.1	5,197.4	8,311.1	1,818.7	697.0
10/96	117.6	123.3	156.8	440.0	1,057.5	1,454.1	5,188.0	8,296.4	1,816.0	696.2
9/96	117.1	123.0	156.7	437.4	1,057.6	1,449.2	5,176.0	8,276.9	1,815.2	694.7
8/96	116.6	123.7	156.7	437.9	1,057.0	1,453.7	5,165.1	8,270.4	1,811.5	697.5
7/96	115.9	123.3	156.6	435.8	1,054.8	1,448.3	5,144.9	8,240.4	1,807.0	695.8
6/96	116.1	123.0	156.2	436.0	1,054.6	1,447.8	5,132.9	8,227.5	1,810.3	695.3
5/96	116.6	122.2	156.0	435.1	1,053.3	1,452.5	5,127.4	8,224.3	1,805.7	694.7
4/96	116.8	122.2	155.8	431.4	1,050.6	1,450.8	5,109.3	8,197.9	1,800.9	691.6

* in thousands.

Further Information on the Data

For more information on employment data, see "Reassessing Texas Employment Growth" (*Southwest Economy*, July/August 1993). For TIPI, see "The Texas Industrial Production Index" (Dallas Fed *Economic Review*, November 1989). For the Texas Leading Index and its components, see "The Texas Index of Leading Indicators: A Revision and Further Evaluation" (Dallas Fed *Economic Review*, July 1990).

Online economic data and articles are available on the Dallas Fed's BBS, Fed Flash, (214) 922-5199 or (800) 333-1953, and WWW home page, www.dallasfed.org.