Regional Roundup

Strong Economic Activity in Austin and San Antonio

Austin experienced continued healthy growth in 1997, although job gains were only about half the very robust pace of 1992–95. A rebound in the semiconductor industry was a leading contributor to growth in Austin last year. Overall, manufacturing employment grew 4.2 percent, which was more than twice the state average.

The San Antonio economy grew at a strong pace in 1997 after slowing in 1995 and 1996. The improvement in growth was concentrated in the trade and service sectors. A main factor behind the strength was a rebound in the purchasing power of Mexican nationals as a greater percentage of the population began to feel the recovery in Mexico. Also stimulating growth was strength in the telecommunications and insurance industries.

In 1998, economic activity in Austin and San Antonio should continue to grow briskly, although the rate is likely to slow. San Antonio should continue to benefit from the expanding Mexican economy, but growth in Mexico should moderate from the very fast pace of 1997. Also, increases in the rapidly growing service sector in San Antonio will likely be offset somewhat by job declines at Kelly Air Force Base. And although Asian demand for high-tech products is expected to decline in 1998, most Austin high-tech manufacturers should continue to benefit from strong demand in the United States, Europe and Latin America.

— Keith R. Phillips

D/FW Metroplex Leads the State

After accelerating forcefully in 1996, the Dallas/Fort Worth economic powerhouse coasted into high gear in 1997, cooling slightly but ending the year with very strong job growth. High-tech manufacturing and a growing distribution hub continue to drive the metroplex economy, stimulating construction, business services and wholesale and retail trade. After increasing 5.1 percent in 1996, employment rose an estimated 4.7 percent in the D/FW metroplex in 1997, adding more jobs than any other region of the state.

Texas is the nation’s second largest high-tech employer, and the D/FW metroplex is home for over half of those workers. D/FW manufacturing employment increased strongly in 1997, rising nearly 3 percent. Expansion of high-tech and other manufacturers stimulated demand for retail and business services, such as legal, accounting and temporary workers. Job growth in the service sector was robust in 1997, although slightly slower than in 1996. This growth was constrained perhaps by hiring difficulties, as there were widespread reports that employers were having problems finding workers.

New or expanding companies often cite a favorable business climate, low cost of living and sound higher education system as reasons for locating in Texas. A solid transportation infrastructure is also an important reason firms choose the D/FW area.

In the center of North America, D/FW is a focal point of road, rail and air connections to the world. From the metroplex, distributors can ship to anywhere in the United States within 48 hours. Continuing expansion of D/FW’s distribution and warehousing facilities stimulated job growth and continued to attract new manufacturers in 1997. The Fort Worth area saw particularly brisk expansion in transportation and manufacturing, and the strong employment gains in these industries pushed the area’s job growth above the year-earlier rate.

Expansion of the metroplex economy should continue into the next century, although job growth is likely to cool further in 1998. The D/FW economy will likely be affected by weaker demand for goods and services from slower U.S. and Asian markets, as well as by competition from cheaper Asian imports. Still the area’s expansion should continue and will be boosted by construction of a $1.3 billion semiconductor factory that is planned for Fort Worth.

— Fiona Sigalla

Steadier Growth Ahead for El Paso

El Paso should post stable employment growth in 1998, led by gains in construction and both wholesale and retail trade. More widespread growth in Mexico’s economy will translate into a steadier inflow of Mexican shoppers to border retail outlets in 1998. The city’s manufacturing industry, by contrast, will continue to witness more of the structural change that has
characterized it for much of the past several years. The apparel industry, El Paso’s traditional manufacturing niche that employs over 42 percent of the city’s workers in this sector, has been on a steady decline. However, supplier industries that cater to the dynamic maquiladora market across the border—plastic-injection molding, metal stamping, and electronic and automotive components—have emerged as new and consistent sources of manufacturing jobs. Nevertheless, unskilled workers displaced by the apparel industry cannot be immediately absorbed by these higher skilled jobs, creating a labor-mismatch dilemma for El Paso and placing the spotlight on the city’s insufficient infrastructure of vocational training and retraining programs. Funding for such programs, however, is steadily becoming available to the city through local, state and federal sources. Therefore, the city should be better able to absorb higher skilled manufacturing industries in the future, especially those that will relocate and/or expand in El Paso to supply their growing maquiladora customers across the border.

— Lucinda Vargas

Houston Heats Up

Houston had a banner year in 1997, following a good one in 1996. Once all the data are collected and revised, they will show Houston job growth was near 5 percent between December 1996 and December 1997, the city’s best performance since 1990. Strong employment gains and a tight labor market pulled the local unemployment rate to 4.5 percent late in 1997.

It was not just employment that provided good economic news for Houston in 1997. New home sales, housing starts and existing home sales were up at double-digit rates over those of 1996; Harris County automobile sales ran at record levels; and occupancy rose sharply in the Houston office market, with notable gains downtown. The Houston Purchasing Managers Index averaged 61.6 in 1997, indicating vigorous sales, high rates of production and growing lead times in the local manufacturing sector.

The key factors driving local growth in 1997 were an accelerating U.S. economy and expansion in oil exploration, drilling and production. The positive turnaround in drilling and oil services was dramatic, as the Baker Hughes rig count moved over 1,000 for the first time since 1990-91. High levels of drilling activity were driven by two years of oil prices that averaged over $20 per barrel and natural gas prices that averaged over $2 per thousand cubic feet. No city is better poised to take advantage of a surge in oil field activity, with 65,000 local jobs tied to oil and oil-related machinery industries. For Houston, it brought two years of strong growth in oil services, durable manufacturing and business services.

Look for another good year in Houston in 1998. Tight labor markets and shortages of oil-related equipment and skills will prevent a repeat of 1997’s 5 percent job gain. But fundamentals should remain positive in oil markets unless oil prices slip under $17 per barrel for an extended period.

— Robert W. Gilmer

Slower Growth Outside Major Metropolitan Texas

Economic activity outside Texas’ major metropolitan areas continued to expand in 1997, although nonagricultural employment growth slowed from 3 percent in 1996 to an estimated 1.7 percent in 1997. High energy prices and rebounding retail trade in South Texas stimulated economic activity, but agricultural communities were still feeling the effects of the 1996 drought and changes in farm subsidies. Nearly a third of Texas’ nonagricultural employment is outside the major metro areas. Consequently, although the area’s employment growth rate slowed in 1997, this portion of the state was still the third-largest source of new jobs in Texas, following Dallas and Houston.

A thriving energy industry provided strong stimulus to Texas in 1997, and the benefits of increased drilling and exploration were felt across the state. High oil prices and new technologies spurred exploration in parts of Texas that have seen little activity since the oil bust of 1982. Employment growth was particularly strong—up 4.2 percent in Midland and Odessa, where economic activity has been solid for a number of years.

A rebounding Mexican economy spurred retail sales and other economic activity along the Texas-Mexico border in 1997. Border towns such as Laredo, Brownsville and McAllen are retail centers serving South Texas and northern Mexico. Retail sales and economic activity had dropped sharply in these cities following the peso devaluation and Mexican recession that began in late 1994. Mexico’s economy continued to recover and expand in 1997, and border cities benefited from the increase in purchasing power of Mexican nationals. In 1997, employment increased 8 percent in Laredo, 6 percent in McAllen and 4 percent in Brownsville.

Cities supporting Texas’ agricultural economy added fewer nonagricultural jobs in 1997 than in 1996. Texas farm and ranch income is expected to be up in 1997, following drought and low cattle prices in 1996. Higher calf prices and a large supply of feeder calves helped boost the state’s cattle feeding industry and provide a large market for Texas grain. Although many crop prices were lower in 1997 than in 1996, favorable weather conditions stimulated production after some planting delays in the spring. Texas cotton farmers harvested a million bales more in 1997, from fewer acres, than in 1996. Record corn and peanut production is expected. Declining government payments and increased planting flexibility, however, continue to push a restructuring of the farm sector that is likely to continue for several years. Some producers—most notably dairy and rice farms—discontinued operations in 1997. Although the Texas agricultural industry remains strong, the restructuring will affect the growth rates of agricultural communities.

— Fiona Sigalla