Texas Economy Cools in 2000

The Texas economy has known nothing but growth for more than a decade now. Steady employment gains and an increasingly diverse marketplace have been the hallmarks of this expansion. After 13 years of positive job growth, Texas came through once again. The Lone Star State added over 338,000 jobs last year despite a sizable falloff of domestic activity in the closing months of 2000.

However, Texas did not escape the economic softening in 2000 unscathed. Every sector except finance, insurance and real estate (FIRE) saw weakened employment growth during the second half. And statewide nonfarm employment growth waned from 5.1 percent in the first quarter to 2.8 percent in the fourth (Chart 1).

Several factors curbed the rate of economic growth during the latter half of 2000. Higher interest rates and weakened U.S. and world economies negatively affected the Texas business environment. Excess capacity and increased input costs hurt the chemical and refining sector, and high technology suffered as sales of computers, semiconductors and telecommunications equipment ebbed from high levels.

Consumer confidence took several hits toward (Continued on page 2)

Bank Competition in the New Economy

Numerous economic forces, including technological innovations and prudent monetary and fiscal policy, account for the unprecedented growth and prosperity experienced over the past decade. However, an important, and often overlooked, factor is the relative stability and health of the banking system. A healthy, vibrant banking sector helps ensure that financial capital is directed to those businesses that would benefit most, thereby enhancing the nation’s economic well-being.

Although the banking system has not experienced major problems over the past decade, it has undergone substantial changes; in particular, its market structure has been evolving. This evolution is due primarily to two factors: (1) financial deregulation, in particular the repeal of restrictive laws; and (2) technological innovations related to computers and the Internet. Both factors have the potential to produce long-lasting effects on market structure not (Continued on page 6)
the end of the year as households began to internalize the effects of weakened investment portfolios and diminished equity values. Spending on consumer goods fluctuated as the so-called wealth effect adjustment began to work its way through the Texas economy.

Despite second-half weakening, Texas fared well overall. Annual employment growth registered a lofty 3.7 percent gain in 2000, easily surpassing the national figure of 1.6 percent. While high energy prices are generally unfavorable to the U.S. business climate, they continue to be a positive force for Texas by helping pump up cash flows and employment for oil and gas companies. Texas exports to Mexico, which make up about half the total, surged nearly 31 percent in the first three quarters over the same period in 1999. Texas exports to Asia improved dramatically over 1999, increasing more than 50 percent in the first three quarters of 2000.

The construction sector added 30,000 jobs in 2000, and the value of residential building contracts increased 14.7 percent (Chart 2). Even manufacturing employment, which has been anemic for three years, edged higher by 14,700 jobs (1.4 percent)—a good showing for an industry that lost 178,000 jobs nationwide. Gross state product (GSP) increased 2.7 percent in the first three quarters of 2000, and the December unemployment rate remained in check at 3.7 percent.

Energy

Fervent world demand and OPEC production controls combined to send energy prices through the roof in 2000. Oil prices tripled from 1998 levels, and natural gas prices quadrupled from 1999. The industry woke up to the high prices: Texas oil and gas employment grew 3.6 percent (4,900 jobs) on the year. Additionally, the number of oil and gas drilling rigs continued to rise, exceeding 400 by year-end.

Energy companies had a heyday in 2000. Many oil firms, including Irving-based Exxon Mobil Corp., realized record fourth-quarter profits. With an increase of 124 percent over 1999, the firm’s 2000 net income gain was the largest ever recorded by a U.S. corporation. Such improvements did not go unnoticed on Wall Street; energy sector investments garnered 10.2 percent in aggregated returns during 2000.

Only 5.2 percent of Texas GSP comes from the oil and gas industry (down from about 20 percent in the early 1980s), but high prices improved the financial viability of many energy firms and helped buttress the economy against slowing in other sectors. There was a downside, however; elevated oil and gas prices boosted production costs for chemical-manufacturing firms, punishing earnings.

Exports and Mexico

Texas trade conditions continued very strong in 2000. Total exports during the first three quarters exceeded $78 billion, a 24.7 percent increase over the same period in 1999 and the largest percentage gain since 1987. Texas exports accounted for 13.4 percent of total U.S. exports in 2000 (second only to California’s 15.2 percent share). Put a different way, over $1 in every $8 of exports
goods shipped from U.S. ports came from Texas.

Export trade makes up 14 percent of Texas’ total economic output. The state ranks third in per capita exports, behind Vermont and Washington. Three industries made up the lion’s share of Texas exports in 2000: electronics accounted for 26.8 percent of the total; industrial equipment (including computers), 17.6 percent; and chemicals, 14.8 percent.

Much of the state’s international output goes directly to Mexico (Chart 3). Thus, the overall economic climate in Mexico is key to maintaining the good times in Texas foreign trade. Texas’ southerly neighbor did not disappoint in 2000, swallowing up $38.3 billion in exports over the first three quarters. This translated into a 31 percent jump over 1999. Real Mexican GDP grew 5.3 percent; and chemicals, 14.8 percent.

High Technology

High-tech manufacturing has made steady gains in Texas in the past decade. The cumulative output of firms like Texas Instruments, Dell Computer Corp. and Compaq Computer Corp. now makes up 4.9 percent of Texas GSP, a marked increase from the 1.7 percent share in 1990. Not only has high tech contributed more to GSP, but expansion of the industry has fueled much of the statewide economic growth over the past decade as well. The high-tech sector accounts for over 10 percent of Texas GSP growth in the past 10 years.

The year 2000 turned out to be quite a speed bump for high tech in Texas, though. Telecommunication service providers substantially underperformed the market, which led to widespread consolidation and company failures. Weaker than expected earnings among computer and semiconductor firms and a bubble bursting in the Internet sector also contributed to slowing in the Texas technology sector.

Initially, stock values took the brunt of the blow, but by midyear the damage had bled over into employment levels as well. The stock market served the sector a severe comeuppance in March and April, and many firms saw their equity values plummet. By year-end, aggregate returns for technology-based portfolios were all in the red. Nationwide, semiconductor firms were down 19.8 percent, telecom 33.1 percent, and online retail and information 47.3 percent and 54.1 percent, respectively.

Texas employment in durable manufacturing (which includes high tech) started the year out strong, increasing 4.9 percent in the first three months. But subsequent quarters exhibited steady declines in the growth rate; by the fourth quarter, job growth had slowed to 1.1 percent.

Metropolitan Areas

Texas is a summation of its parts; five major metropolitan areas make up almost 70 percent of the state’s total employment. Job growth was positive in every major area in Texas in 2000 (Charts 4 and 5). Here’s how each metro area fared for the year.

Austin. Predictions that Austin’s super-tight labor market would choke job growth in 2000 seemed unfounded. Nonfarm employment surged ahead another 4.5 percent (29,500 jobs) despite an average unemployment rate of 2 percent. The unemployment rate held steady at 2 percent from July to November before dropping to an exceptional 1.7 percent in December. While job growth fell off in September and October, it recovered in November and December, increasing 5.1 percent and 4.3 percent, respectively.

A 10 percent jump in durable goods employment (7,200 jobs) and a 7.5 percent increase in wholesale trade employment led job growth in 2000. Services employment increased 6.4 percent, and transportation, communications and public utilities (TCPU) employment grew 3.6 percent.

High demand for software, semiconductors and consumer electronics sustained the Austin business environment in early 2000. Fallout from the 1997...
Asian financial crisis had a less-than-expected effect on the economy, thanks to pent-up demand for high-tech goods.Nevertheless, Austin was not immune to high-tech market difficulty. As the dot.com center of Texas, Austin saw three major Internet companies fold in 2000. Eight more are expected to follow in 2001.

Falling equity prices may have affected spending for some high-end products late in the year. Sales of homes priced above $500,000 dropped off near the end of 2000, suggesting that New Economy employees were not “feeling” as rich.

The economic and high-tech situation in Austin is still very good, however. There seemed to be no slowing in business investment; venture capital funding for the first three quarters of 2000 reached a record $1.3 billion on 102 deals, up from $407 million on 75 deals in the first three quarters of 1999.\(^9\)

Dallas/Fort Worth. Dallas’ favorable business environment and large airport hub, combined with a growing national economy, kept the city on a solid growth path throughout 2000. The local economy profited from major construction activity, early strength in the high-tech sector and robust international and domestic trade. Total nonfarm employment grew a whopping 4.8 percent (92,900 jobs) from January to December.

TCPU employment led all sectors, with an 8.3 percent growth rate in 2000. Employment in construction and services followed, increasing 7.1 percent and 6 percent, respectively. Dallas continued its role as a major distribution center and retail outlet. As a result, jobs in both wholesale and retail trade increased more than 4 percent. But later in 2000, air and ground freight business declined in the wake of a slowing national economy.

Homebuilding in Dallas was particularly strong in 2000. Single-family building permits increased 16.3 percent from January to November.\(^10\) An oversupply in the multifamily market squelched apartment building, however. Multifamily permits dropped 40.5 percent on the year. While increased energy prices translated into statewide growth in mining employment, these jobs did not show up in Dallas. Mining employment declined 4.6 percent on the year because of industry consolidation and firm relocations to Houston. Though not as extreme as Austin’s, the Dallas labor market was among the tightest in the state, registering a 2.8 percent unemployment rate in December.

The Fort Worth economy plowed ahead in 2000 and continues to benefit from economic synergies with Dallas. Overall nonfarm employment grew a solid 3.5 percent (27,400 jobs) for the year. Construction employment outpaced all other sectors in Cowtown, increasing 11.8 percent. FIRE jobs rose 7.4 percent; TCPU employment, 4.7 percent; and wholesale trade employment, 3.7 percent.

Recent investment in the Fort Worth Alliance Airport and the adjacent industrial park has catalyzed an increase in economic activity. High-tech prospects...
in Fort Worth are strong and continue to gain steam, as evidenced by a recent American Electronics Association study that pinpointed the combined Dallas/Fort Worth area as the fastest-growing high-tech center in the country. However, Fort Worth saw employment losses in mining and manufacturing in 2000. The December unemployment rate registered 2.6 percent.

**El Paso.** Spurred by steady growth in the maquiladoras, increases in the number of call centers and high construction activity, El Paso’s economy continued to chug along at a fairly strong pace. Overall nonfarm employment grew 1.8 percent (4,500 jobs) in 2000. Much of this growth was fueled by firms tied to the maquiladora industry, as jobs in transportation, warehousing, finance, accounting and customs were rapidly added to the economy.

TCPU employment rose 9.2 percent on the year, while services employment increased 3 percent. The apparel industry in El Paso continues to suffer in NAFTA’s wake, but emerging maquiladoras have absorbed many displaced workers.

El Paso is a growing hot spot for call centers. Recent investments by insurance and telemarketing firms pushed call center employment to about 9,300 workers. The new centers are increasing their reliance on modern information technology and are demanding employees with better skills. As a result, wages in business services have been climbing. Construction employment increased 5.5 percent, and retail trade grew 1.1 percent, but manufacturing employment declined. The December unemployment rate came in at a record low 7.3 percent.

**Houston.** The Houston economy continued to ride a wave triggered by the coincidence of a strong U.S. and global economy and high energy prices. During 2000, Houston nonfarm employment grew 3.6 percent, adding 73,200 jobs to the local economy. Employment gains were led mostly by the service-producing sectors, with retail trade and TCPU both increasing 3.9 percent and FIRE growing 2.5 percent. Services employment rose 3.6 percent and manufacturing employment 3 percent. Houston’s unemployment rate fell to 3.5 percent in December, a half percentage point below the national rate of 4 percent.

While higher oil prices stoked economic activity in Houston, employment growth in the energy sector was somewhat muted in 2000. Mining employment (which includes oil and gas extraction) grew a moderate 2.9 percent, compared with 3.6 percent statewide. Construction employment grew 6.4 percent. Single-family permits rose 6.2 percent through November, as Houston experienced rather strong demand for new homes. However, multifamily permits dropped 25.6 percent over the same period.

**San Antonio.** Military downsizing and declines in mining and manufacturing employment dampened San Antonio’s economic growth throughout most of 2000. However, relative strength in the service-producing sector kept the local economy moving. The combined effect of these forces put total nonfarm employment growth at 2.3 percent (16,400 jobs) on the year. As in most Texas metropolitan areas, San Antonio’s labor market was squeezed tight, with the unemployment rate measuring 3 percent in December.

Kelly Air Force Base is set to shut down the last of its operations in 2001. Employment at the facility has dropped from 20,000 in the early 1990s to about 2,400 employees, who will leave over the next several months. Despite this loss and declines in manufacturing employment, the San Antonio economy is in good shape.

Wholesale trade employment grew 3.2 percent in 2000, and retail trade increased 2.7 percent. Services employment grew 2.9 percent. The peso’s current strength relative to the dollar, combined with the near completion of construction at the downtown convention center, promises to stimulate retail sales. In addition to a solid trade sector, business services employment will continue to grow as call centers locate in San Antonio.

**Outlook**

Moderated economic growth is anticipated in 2001, with a slowing U.S. economy the primary threat to Texas. High energy prices and sustained export trade with Mexico and Asia should buffer the state against unfavorable economic winds, however. Statewide growth is expected to surpass that of the United States as a whole in 2001.

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**Notes**

Thanks to Bill Gilmer, Keith Phillips and Lucinda Vargas for their input and to Mine Yücel and Steve Brown for helpful comments.

1 All percent changes in employment levels are annualized; seasonal and other adjustments by the Federal Reserve Bank of Dallas.


3 Some of the record increase in net income emanated from the proceeds from asset sales related to the 1999 merger of Exxon Corp. and Mobil Corp.

4 These figures from Stock Performance by Industry, The Year in Review, 2000, Morningstar, Inc.

5 Seasonal adjustment by the Federal Reserve Bank of Dallas.

6 These figures from Texas A&M International University’s College of Business Administration and Graduate School of International Trade, measure the U.S. dollar values of total trade activity through the border cities, including transshipments.

7 High-tech manufacturing is defined here by Standard Industrial Classifications 357, 366 and 367.


10 Building permit figures and construction contract values are measured in five-month moving averages.