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# State of the Economy

## Texas Outpaces Nation In Personal Income Growth

By M.A. Anari and Mark G. Dotzour

Since June 1999, the Federal Reserve has attempted to slow the U.S. economy by increasing interest rates six times. While there are signs that the Fed's tightening may be working, Texas' economy is still growing faster than the economy of the United States.

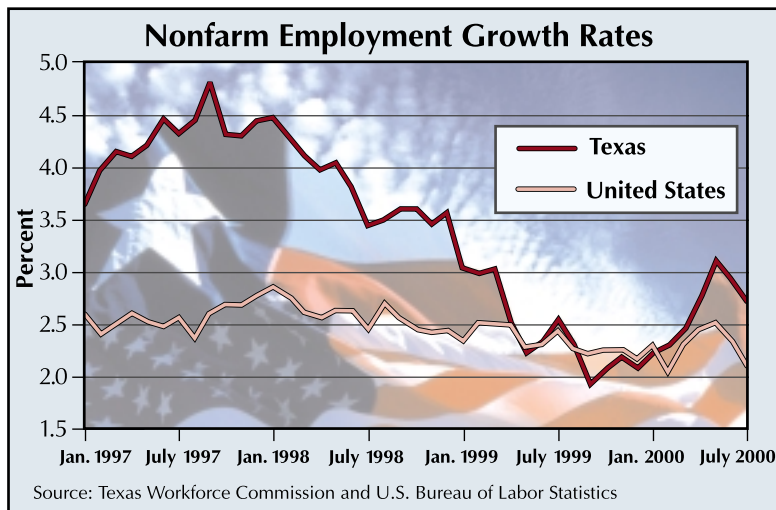
The chart shows that the Federal Reserve rate hikes have succeeded in slowing the rate of job growth in Texas and the



Because of higher population growth rates, Texas' labor force also has grown faster than the nation's. Since 1990, the state's labor force has increased 21.7 percent, compared with 11.8 percent nationwide. As a result, Texas' unemployment rate has remained higher than the U.S. rate despite the state's higher employment growth rates.

Since July 1999, seasonally adjusted Texas nonfarm employment has increased by 2.7 percent compared with 2.1 percent nationwide. Employment growth has been highest in the construction industry, fueled by continued real estate development and roadway expansion. Job growth in all service-producing sectors, other than the government sector, grew faster than the state average. Mining and manufacturing sectors performed less than the state average.

Past U.S. business cycles have been characterized by a reduction in white unemployment and large metropolitan area unemployment in the early stages of economic



nation. U.S. job growth has slowed from nearly 3 percent per year in January, 1998 to just over 2 percent in the first quarter of this year. The Texas economy has slowed as well. Job growth has slowed from the torrid 5-percent pace in the summer of 1997 to just above 2 percent in fall 1999.

However, the American economy and Texas have shown a rebound in job growth since the first of the year. The chart clearly indicates that the Federal Reserve may have achieved its target of a "soft landing" for the economy.

Texas' strong economy is reflected in the growth rates of the state's industrial production index and Texas' personal income. Since June of last year, the Texas index of industrial production has increased much like the nation's. At the same time Texas recorded higher personal income growth rates than did the nation.



**EMPLOYMENT GROWTH** has been highest in the construction industry, fueled by continued real estate development and roadway expansion.



**HOMEBUILDERS** are providing affordable housing in El Paso, where unemployment is lower than any time in the past decade.

**Texas Metropolitan Statistical Areas Ranked by Nonfarm Employment Growth Rate, July 2000**

| Metropolitan Area           | Employment Growth Rate July 1999 to July 2000 |
|-----------------------------|---|
| 1. McAllen-Edinburg-Mission | 6.3   |
| 2. Austin-San Marcos        | 4.6   |
| 3. Laredo                   | 4.0   |
| 4. Lubbock                  | 3.8   |
| Victoria                    | 3.8   |
| 6. Brownsville-Harlingen    | 3.7   |
| Dallas                      | 3.7   |
| 8. Abilene                  | 3.6   |
| 9. Fort Worth-Arlington     | 3.4   |
| 10. Houston                 | 3.1   |
| Bryan-College Station       | 3.1   |
| 12. Sherman-Denison         | 2.5   |
| 13. Amarillo                | 2.4   |
| 14. El Paso                 | 2.3   |
| 15. Killeen-Temple          | 2.2   |
| 16. Tyler                   | 1.9   |
| Corpus Christi              | 1.9   |
| San Antonio                 | 1.9   |
| 19. San Angelo              | 1.6   |
| 20. Odessa-Midland          | 1.6   |
| 21. Galveston-Texas City    | 1.4   |
| 22. Longview-Marshall       | 1.3   |
| 23. Texarkana               | 1.0   |
| 24. Waco                    | 0.4   |
| 25. Wichita Falls           | -0.3  |
| 26. Brazoria                | -0.8  |
| 27. Beaumont-Port Arthur    | -0.9  |
| Texas                       | 2.7   |

Source: Texas Workforce Commission

expansion. This current economic expansion resulted in a fall in unemployment among Hispanics and blacks and in smaller metro areas as well. The Texas-Mexico border regions illustrate this trend.

The current economic expansion (the longest in U.S. history) is having a significant impact on the border area. The unemployment rate in the McAllen-Edinburg-Mission Metropolitan Statistical Area (MSA) was 22.4 percent in 1990; it fell 4.6 percentage points to 18.2 percent in 1997. Between 1997 and July 2000, the area's unemployment rate decreased another 4.6 percentage points to 13.6 percent. The area ranked first in terms of the employment growth rate among Texas metropolitan areas in July 2000 (see table).

Another area with a historically high unemployment rate, Brownsville-Harlingen, ranked sixth in employment growth. From 1990 to 1998, the unemployment rate hovered around 12.5 percent, but since 1998, the rate has fallen dramatically to 8.7 percent by July 2000. Laredo, another border region with high unemployment, had an unemployment rate of 15.3 percent in 1995 in the aftermath of the peso devaluation. Strength in the transportation and construction industries have caused the rate of unemployment to fall to just 6.9 percent. Major expansions of call centers in El Paso has caused the unemployment rate to fall there to less than 9 percent, lower than any time in the past decade. ♣

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