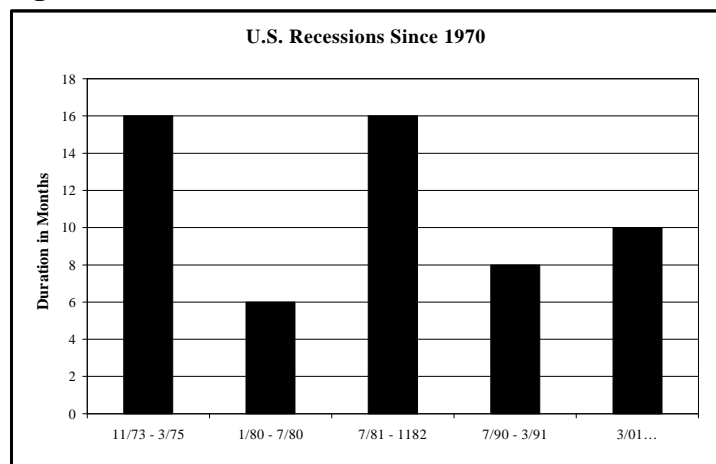


Recession and Texas

by Bryce Bayles, David Mass and Jeremy Triplett

What is a recession? Most people think of a lack of job security, reduced business investment, and evaporating retirement funds. Recessions have cost U.S. citizens on average 1.7 million jobs over the last three decades. The duration of recessions since 1970 averaged 11.5 months. The longest recessions since 1970 were the 1973-1975 recession and the 1981-1982 recession, each lasting 16 months. The shortest recession was in 1980, which lasted only six months (see figure 1.1). Have Texans felt the impact of these recessions as much as the rest of the country? Using indicators such as Gross Domestic Product (GDP) and Gross State Product (GSP), the number of unemployed, and Nonagricultural employment data (an estimate of jobs in a given area), this article will compare how the Texas and United States economies fared during periods of recession.

Fig. 1.1



Defining a Recession

In order to understand how Texas compares to the nation during periods of economic slowdown, the term "recession" needs to be defined. Leading economists agree that a recession is defined as periods when real output falls for two consecutive quarters. The Real GDP measures U.S. output. Because GDP is only measured each quarter, other indicators are used to pinpoint the specific timing of a slowdown. The output of a state is measured by Real GSP. GSP is the most equivalent indicator to GDP when comparing state output to national output. Therefore, for the purposes of this article, the assumption is being made that GSP is analogous to GDP (Note: GSP and GDP figures are measured in 1996 dollars). In national recessions since 1970, GDP decreased on average by 21 percent. Texas GSP during the same periods actually increased by an average of 25 percent. Industrial production, measured monthly by the Federal Reserve, is used in the National Bureau of Economic Research's (NBER) determination of a peak in the business cycle. Recessions are also usually associated with periods of declining employment. When

business' output is falling, fewer workers are needed, resulting in higher unemployment.

Texas versus U.S.

Since 1970, the NBER has declared five national recessions. How did the Texas economy perform compared to the national economy upon entering, during, and recovering from these recessionary periods?

Leading into the last five recessions, the Texas economy fared better than the U.S. in output and nonagricultural employment losses. Again, assuming GDP is comparable to GSP, then Texas has not been in a recession during the same time the U.S. has since 1970. Does this mean that the Texas economy has not been adversely effected by U.S. recessions? The average number of unemployed for the nation during the first four months of the 1973-1975 recession grew by 26.3 percent while the average number of unemployed in Texas grew by 31 percent. However, the U.S. continued to add jobs during the first three months of the 1980 recession, gaining 0.8 percent (compared to a 1.3 percent gain the previous year). Texas employment during the same period grew by 0.9 percent, or 48,300 workers, while in the previous year job growth had doubled with an additional 1.9 percent, or 101,800 workers.

During the middle period of each of the past recessions, Texas often mirrored the nation's economy. In the last four recessions, the number of unemployed in Texas tracked with the nation's trend of gains and losses. For example, during the recession of 1990-1991, the total number of unemployed in the U.S. rose by 9.2 percent; Texas followed with a gain in unemployment of 4.5 percent. Nonagricultural employment during the 1973-1975, 1980, and the 1981-1982 recessions showed that Texas again paralleled the U.S. economy. For example, national nonagricultural employment grew by 0.2 percent while Texas added 0.7 percent. The number of unemployed in the U.S. and Texas increased by 8.3 percent and 14.5 percent respectively during the recessions between 1973 and 1982.

Toward the end of the last five U.S. recessions, Texas' economy recovered at a faster rate than the nation. For instance, at the close of the 1980 recession, Texas added 45,000 jobs, or 0.8 percent, while the nation lost almost 1.2 million jobs, a decline of 1.3 percent. The number of unemployed in the state dropped by 4.7 percent while unemployment in the U.S. rose by 2.4 percent at the close of the 1990-1991 recession.

Although Texas has experienced economic slowdowns during national recessions, it has never declined to the levels the U.S. has during these recessions. On average, entering into last five national recessions, Texas nonagricultural employment has grown by 1.0 percent, while national employment typically falls by 0.1 percent. The number of unemployed in Texas usually mirrors that of the U.S.. The number of unemployed in Texas grows by an average of 6.2 percent and the U.S.

increases by 6.1 percent. As the recession progresses, the Texas economy begins to fall in line with the U.S. economy. The number of unemployed in Texas rises on average by 14.5 percent, while nationally, unemployment grows by 8.3 percent. Both Texas and the nation tend to add nonagricultural jobs in tandem, with Texas adding an average of 0.7 percent and the U.S. adding 0.2 percent. As the national economy begins to emerge from a recessionary period, Texas typically has already started to recover. With an increase of 7.6 percent, the number of unemployed in Texas grew at a slower pace than the U.S., which continued to increase by 20 percent. The number of nonagricultural jobs in Texas slipped on average by 0.1 percent, while the U.S. continued to decline by losing 1.1 percent. In comparing the last five recessions using these economic indicators, it is apparent that Texas lagged the nation going into recessionary periods, then patterned that of the U.S. economy, and recovering from the recessions, Texas recuperated faster than the nation.

Was Texas in a Recession between 1985-1986?

By our definition, Texas has never been in a recession concurrently with the U.S. - based on the GSP-equals-GDP qualifier, nonagricultural employment data, and the number unemployed - but what about the opposite? Has Texas ever experienced its own recession? During 1985, Saudi Arabia saturated the market with excess oil production causing oil prices to tumble. This slashed Texas oil prices from a high of \$30 per barrel to a low of \$11 per barrel (See

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Fig. 1.2

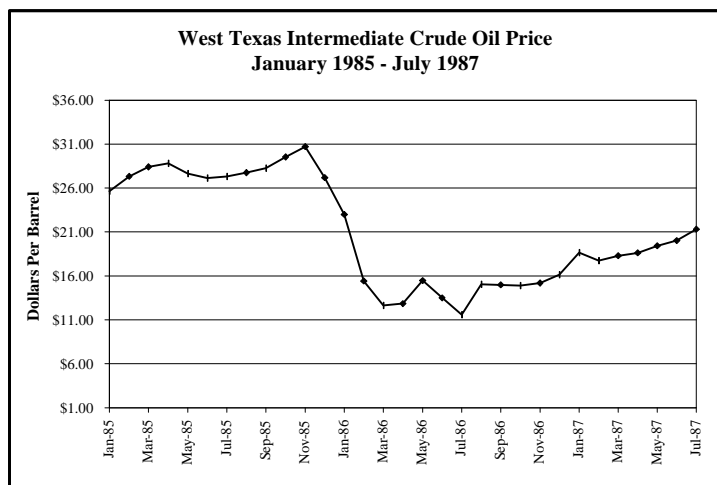


figure 1.2). The number of operational oil rigs in Texas at that time dropped by 132 rigs in the first three quarters of 1985. This drop contributed to a 45,400 increase in unemployment. The unemployment rate at this time rose five-tenths of a percentage point

from 6.7 percent to 7.2 percent. Then times continued to worsen for Texas as the unemployment rate peaked at 10.1 percent in June of 1986. For the first time, Texas GSP dropped for three consecutive quarters, thus by definition, thrusting Texas into a recession.

Current Recession

The U.S. economy, on the heels of the longest sustained growth period in history, was declared by the NBER to have slipped into a recession in March of 2001. How has this affected Texas? Are we experiencing our first recession since the oil price plummet of the mid-1980s? The latest benchmarked data reveal that since March 2001, the number of nonagricultural jobs in Texas have decreased by only 0.01 percent while U.S. nonagricultural employment has grown by 0.5 percent. The decline in Texas employment can be attributed to decreases in jobs over many different industries. Layoffs in the High-Tech field have contributed to a 32 percent increase

in the number of unemployed statewide over the past ten months. Through the first ten months of the 2001 U.S. recession, Texas' highest unemployment rate of 5.4 percent is still three-tenths of a percentage point lower than the lowest rate during the 1990-1991 national recession. By definition, Texas is not in a recession yet since GSP has not fallen for two consecutive quarters. Since March of 2001, GSP in Texas has actually grown by 0.8 percent, or \$6.2 billion.

Projections

After reviewing the past five U.S. recessions, it is apparent that Texas has not been in a recession at the same time as the U.S.. Economists at DRI-WEFA predict the U.S. will come out of recession in 2002. The latest GDP information for fourth quarter 2001 indicates a growth of 0.2 percent which may suggest a rebound for the U.S. economy. Software and High-tech companies are expected to rebound in the second and third quarters of 2002 due to streamlining of business organization and a drop in computer prices. The Texas Comptroller of Public Accounts expects state GSP to grow by about 4 percent over the next two years. Due to tax cuts and lower interest rates by the fed, consumer confidence will rise which in turn will increase spending and stimulate the economy. Texas employment is forecast to increase at a rate of 1.6 percent going into 2003, with a slight decrease in unemployment expected by the second quarter of 2002.

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