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# The Texas Economy: Recession, Recovery and Beyond

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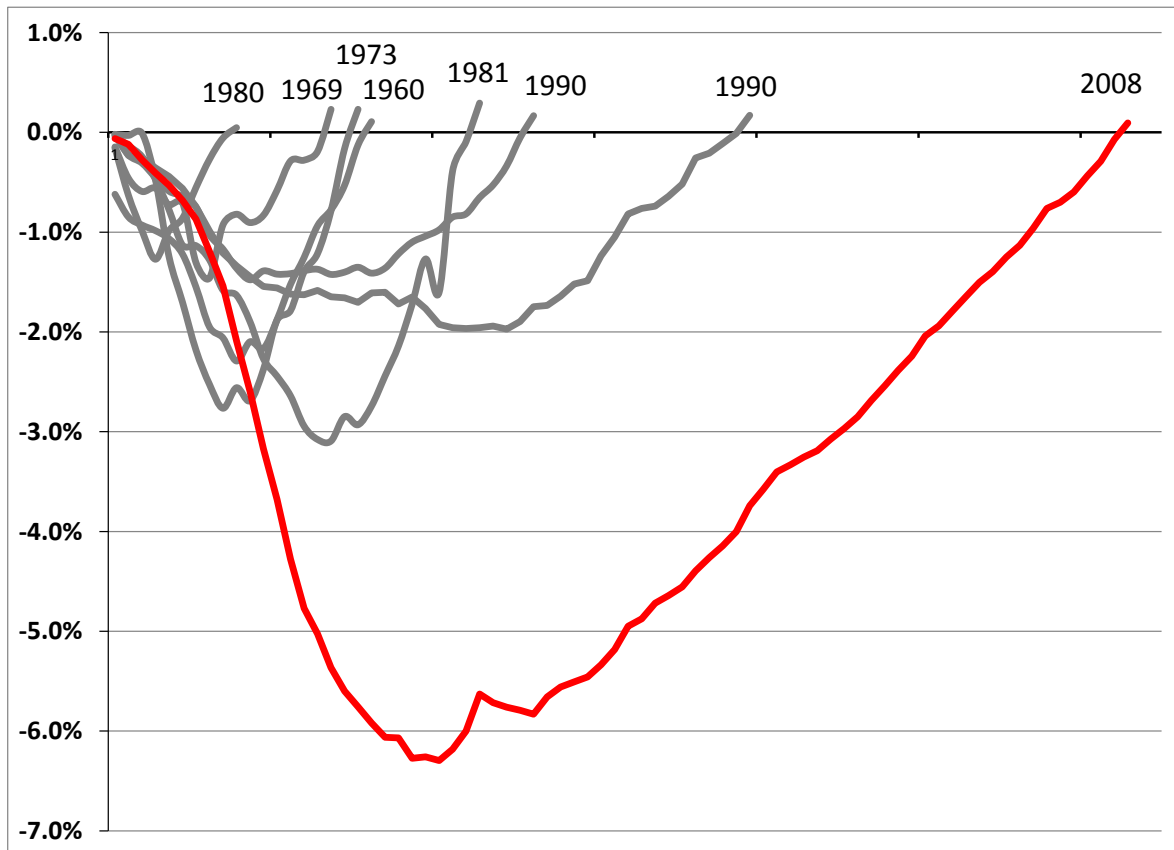
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## U.S. Recession Job Losses and Recovery

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The above chart show the monthly number in jobs of each recession since 1960 compared to the pre-recession peak on a percentage basis (each tick mark represents one year).

Source: U.S. Bureau of Labor Statistics

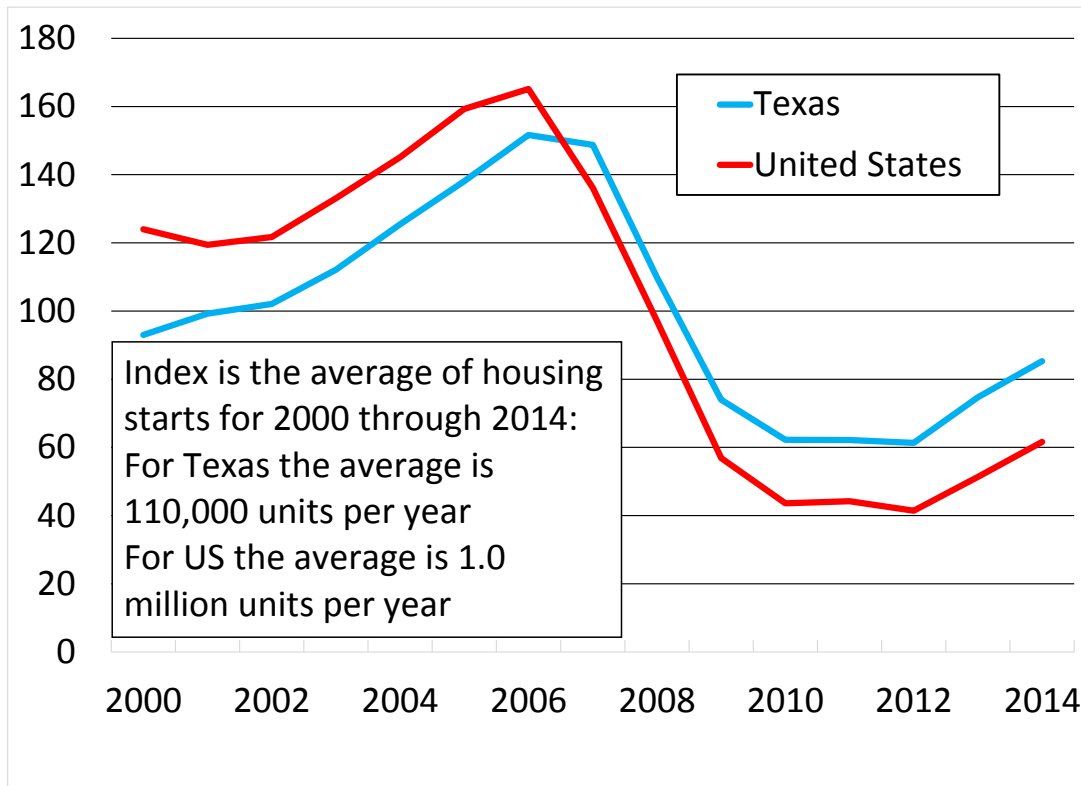
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- The recession of 2008 and beyond was the worst global recession since World War 2.
  - The magnitude of job losses and the length of recovery was roughly twice of any prior recession.
  - The U.S. economy lost over 6% of its jobs, and did not recover to pre-recession levels for over 6 years.
  - Essentially, the U.S. economy lost over 6 years of growth during the recent recession.
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## Housing Permits, Texas and the U.S.

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*The above chart presents an index comparing the annual number of single family housing permits issued in Texas and in the U.S. to the average number of permits issued on an annual basis since the year 2000. An index value of 100 indicates a sustainable level of growth. An index above 100 indicates potential speculative building and an index value below 100 indicates potential unmet need.*

*Source: Texas Real Estate Research Center.*

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- The U.S. recession was triggered by a collapse in the housing market after years of an unsupportable level of building. Construction today remains lower than historical averages would suggest is necessary:
  - Housing credit remains tight,
  - Younger households are less likely to purchase a home of their own
- Texas saw an abnormally high level of housing construction during the building boom, but less so than the nation as a whole. Construction in Texas during the recovery is stronger than the nation as a whole.



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## The Great Recession: Job Decline and Recovery

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	Texas	United States
Jobs Lost During Recession	(431,000)	(8,555,000)
Percent Decline	(4.1%)	(6.2%)
New Jobs Since Pre-Recession Peak	1,145,000	2,227,000
Percent Increase	10.8%	1.6%

Source: U.S. Bureau of Labor Statistics.

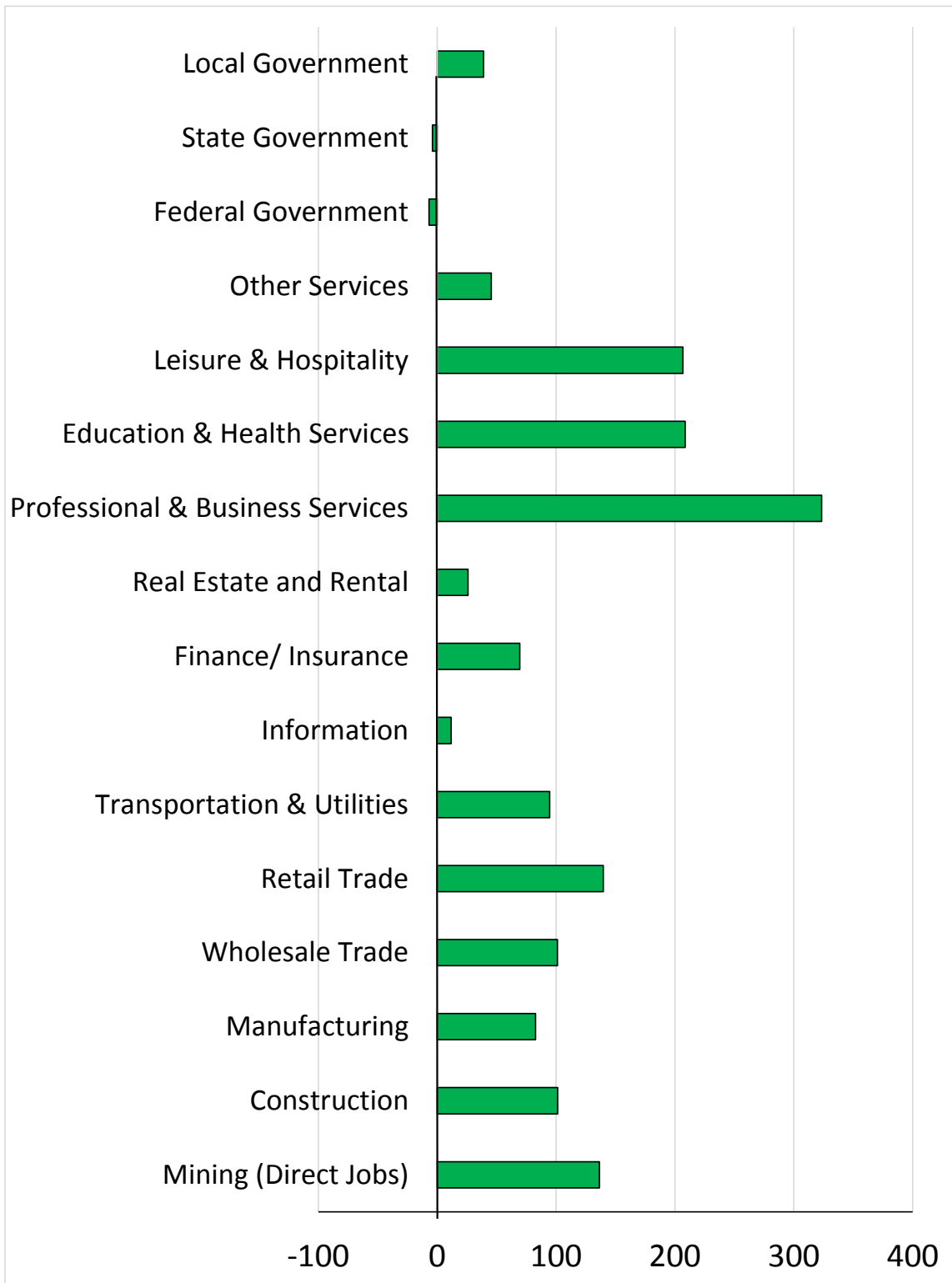
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- The U.S. economy lost nearly 9 million jobs during the recession—over 6 percent of the nation’s workforce—and through an anemic recovery only recently has surpassed the pre-recession peak.
- Texas lost just over 430,000 jobs during the recession, but today sets a new record for total jobs each month. Texas today has over 1.1 million more jobs than it did at its pre-recession peak.
- Over half of the net jobs regained nationally since the recession are in Texas.

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## Texas Job Growth Since the Recession Bottom

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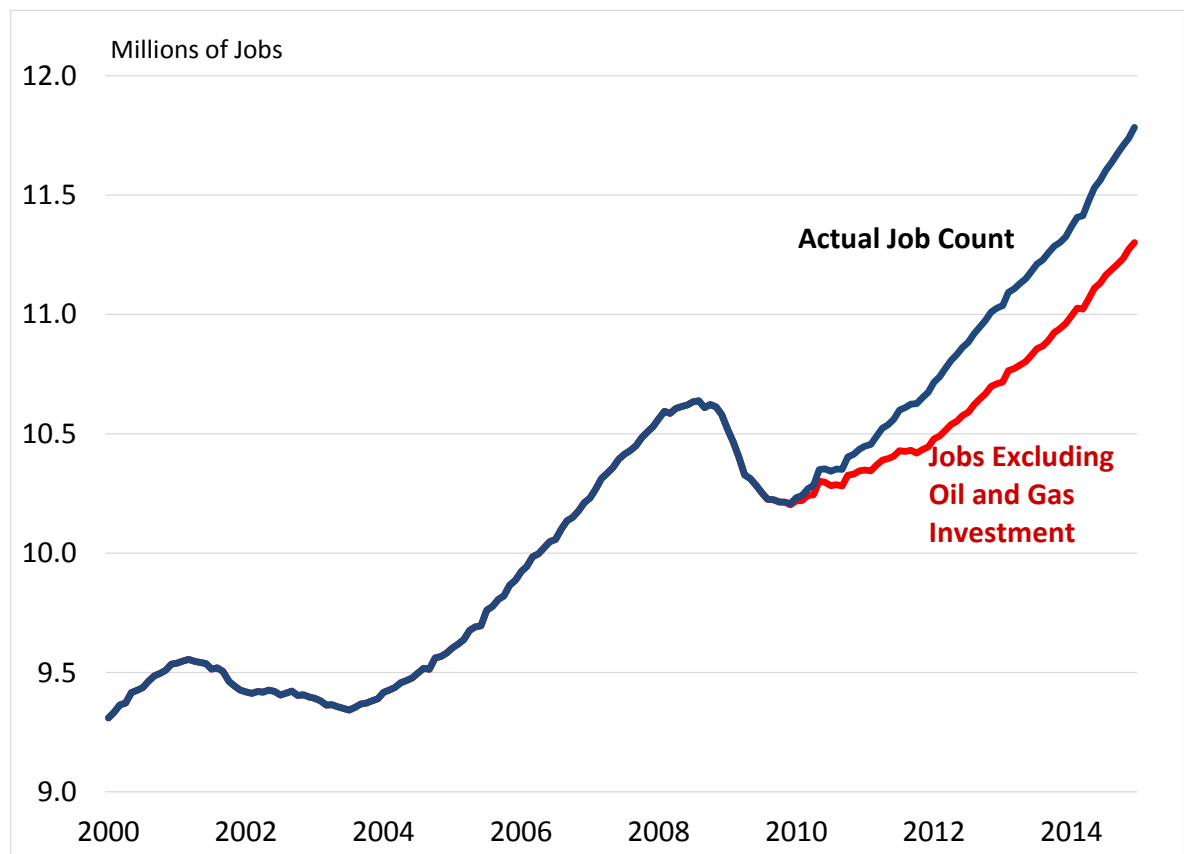


Note: Thousands of Jobs

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## The Texas Recovery: With and Without Oil and Gas

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*The above chart shows the actual number of jobs in Texas since the year 2000. The blue line represents the actual number of jobs. The red line represents the number of jobs unrelated to oil and gas investment (not just the jobs in the oil field, but also support jobs in manufacturing and services).*

*Source: U.S. Bureau of Labor Statistics and Texas Taxpayers and Research Association.*

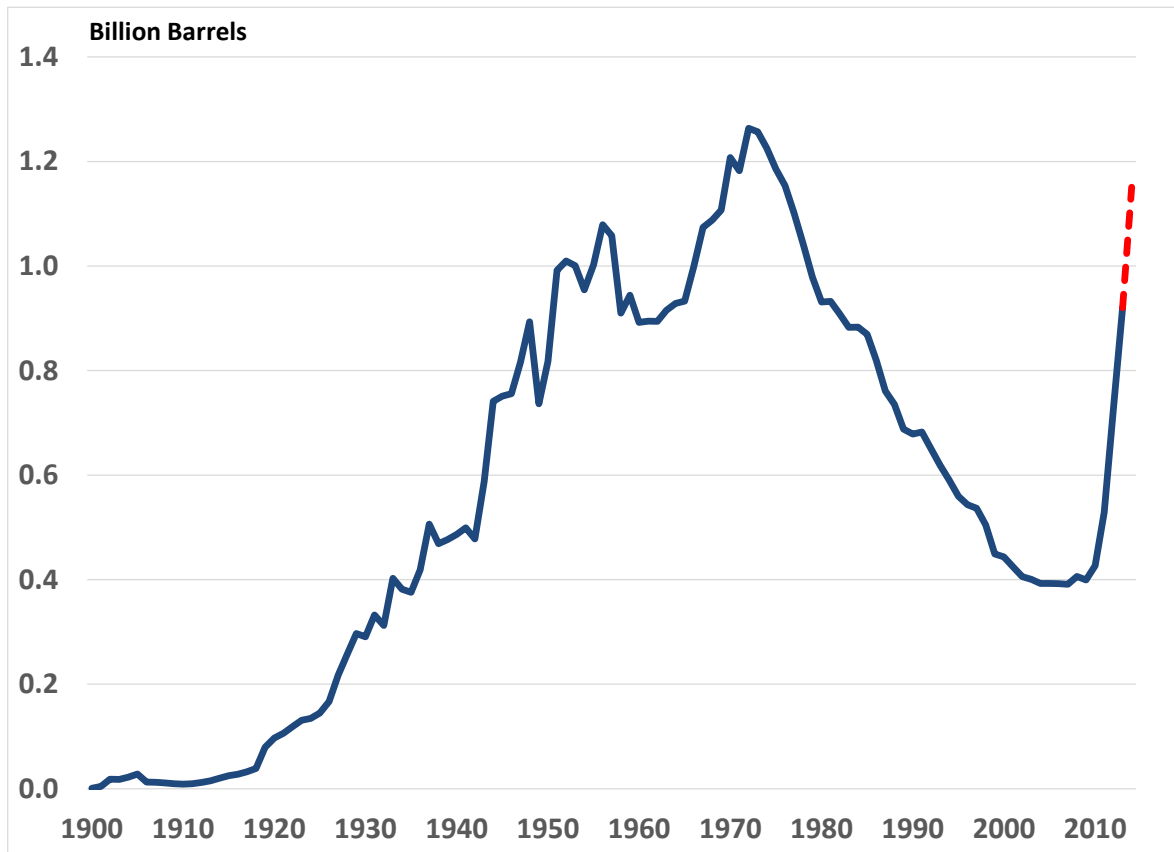
- Texas' economic fortunes have been buoyed by new investment in oil and gas—accounting for about a third of the job gains since the bottom of the recession (including indirect and induced jobs).
- Still, 2 of every 3 jobs created during the recovery has not been related to investment in oil and gas.



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## Texas Oil Production: 1900 to Present

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The above chart shows the number of barrels of crude oil produced in Texas produced since 1900. The red line represents an estimate for 2014 (final data is not yet available).

Source: Texas Railroad Commission and the U.S. Energy Information Agency.

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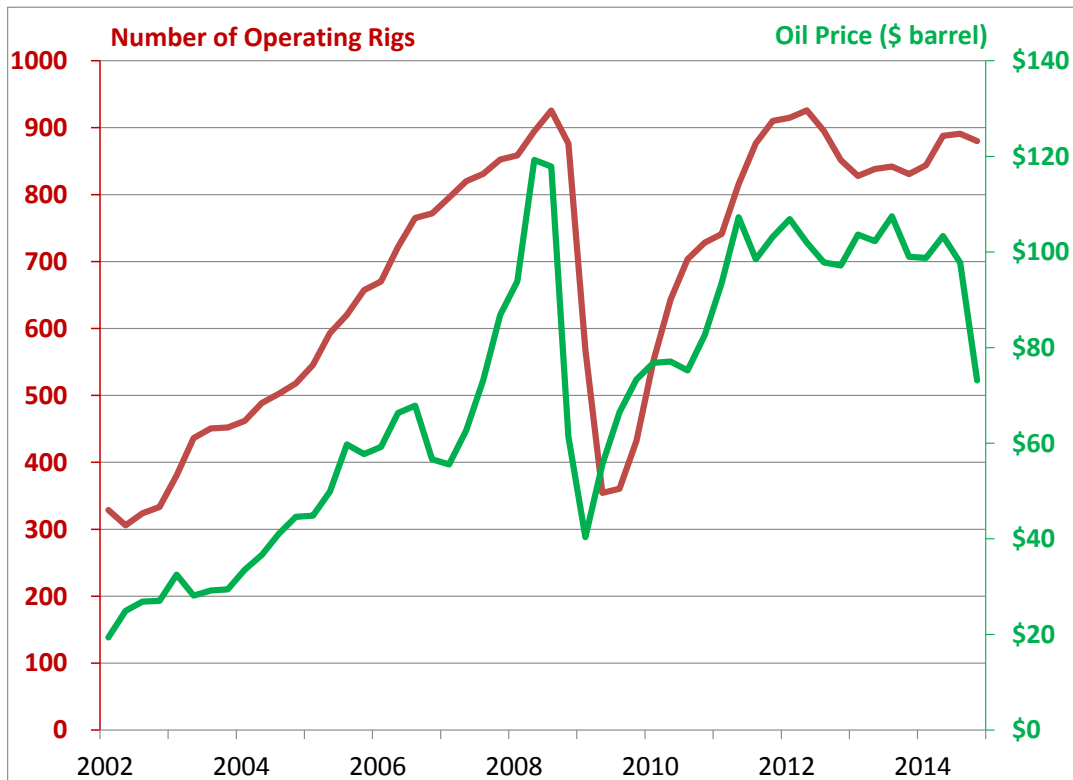
- Texas crude oil production peaked in the early 1970s at over 1.2 billion barrels. Since that peak, oil production declined at an average rate of roughly 4 percent until the early 2000s.
- The advent of hydraulic fracturing coupled with new horizontal drilling technology has allowed previously unrecoverable reserves to become productive.
- Texas may set a new record for crude oil production in 2015—almost 40 years after many thought the petroleum industry was on its way to oblivion.



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## Oil Prices and the Texas Rig Count

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*The above chart matches the average number of rotary drilling rigs running in Texas on a monthly basis (shown in red) and the price of West Texas Intermediate crude oil (shown in green).*

*Source: Hughes Tool Company and the U.S. Energy Information Agency.*

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- The Texas rig count represents the level of investment in oil and gas extraction. Including indirect and induced jobs, each rig represents perhaps about 600 to 1,200 jobs in Texas over an extended period of time.
- All Texas producing areas are seeing a retrenchment of investment. The Eagle Ford in South Texas may be in the best position to weather the downturn because of lower recovery costs.
- Most recently, the price of West Texas Intermediate Crude is about \$50 per barrel and the number of rigs running in Texas is 576.



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# Notes About Tax Incidence

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There are two basic types of taxpayers:

1. *Businesses*, and
2. *Individuals*.

In Texas, *individuals* incur direct taxes on many of their purchases and their real estate, but unlike most states, not on their income.

*Businesses* may incur taxes on their purchases (e.g. sales tax, fuels taxes), their real estate and personal assets (e.g. property tax), and be subject to special industry taxes on gross receipts (e.g. utilities, insurance). Businesses respond to taxes in one of three ways:

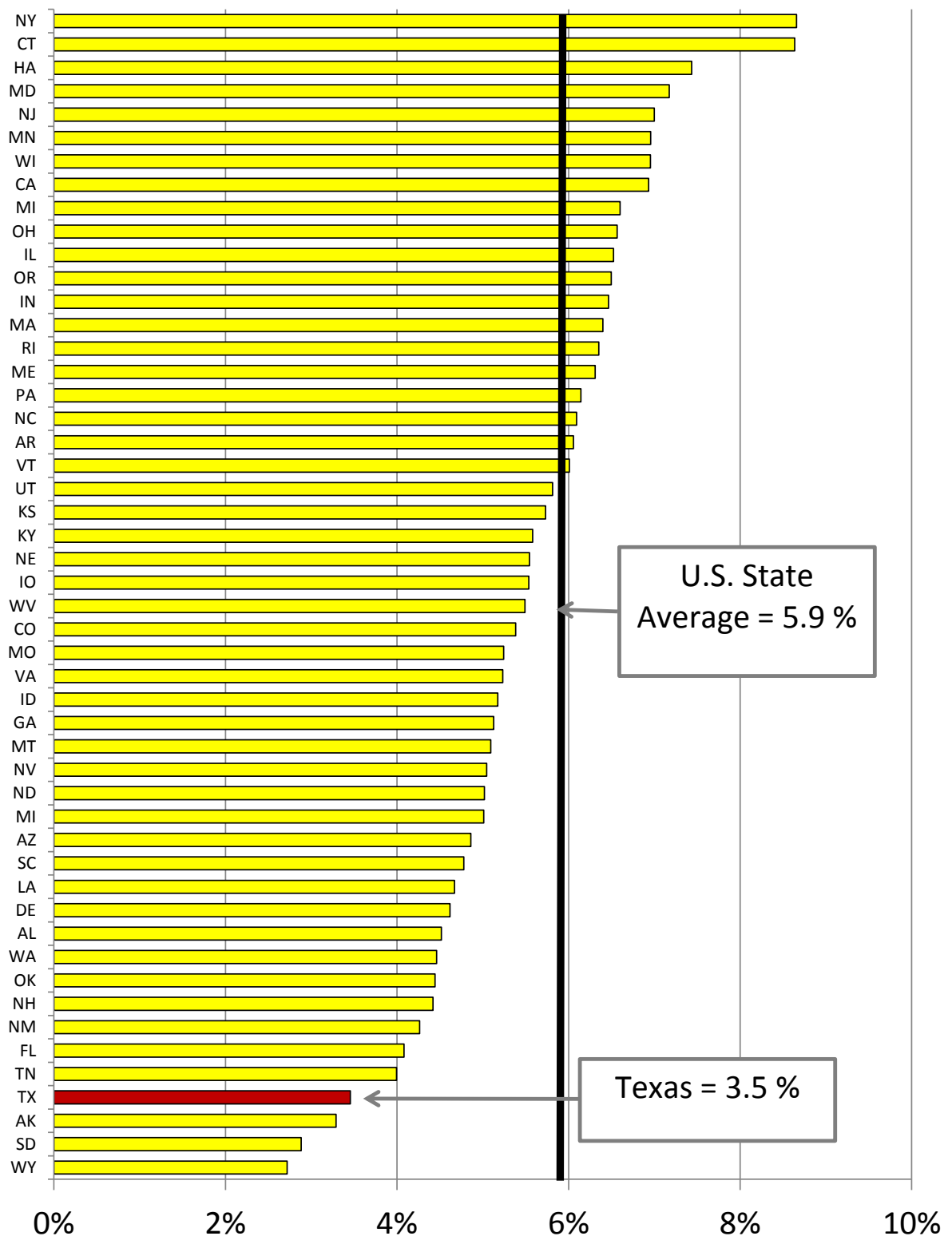
1. Pass the cost of the tax forward to individuals in the form of higher prices,
2. Pass the tax backward to owners in the form of lower profits, and/or
3. Pass the tax backward to individuals by reducing expenses, such as payroll or relocating or shifting investment to a lower cost location.

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Note about the initial incidence assignments in this analysis...

- Sales and motor vehicle sales taxes: tax due is on the sale of a taxable item and is paid by the *purchaser*. For example, while a retailer collects the tax and remits it to the state, the tax is paid by the purchaser.
- Property tax is paid by the *owner* of the property, whether an individual or a business.
- Though assessed on the refiner, motor fuels taxes are assigned to the consumer, since state law requires the tax be passed on to the consumer.
- Franchise tax is paid by the business entity.
- Severance taxes and industry gross receipts taxes are paid by the business.
- Excise taxes on consumer products (tobacco and alcohol) are predominately paid by the consumer.

# Individual Tax Burden Relative to Personal Income



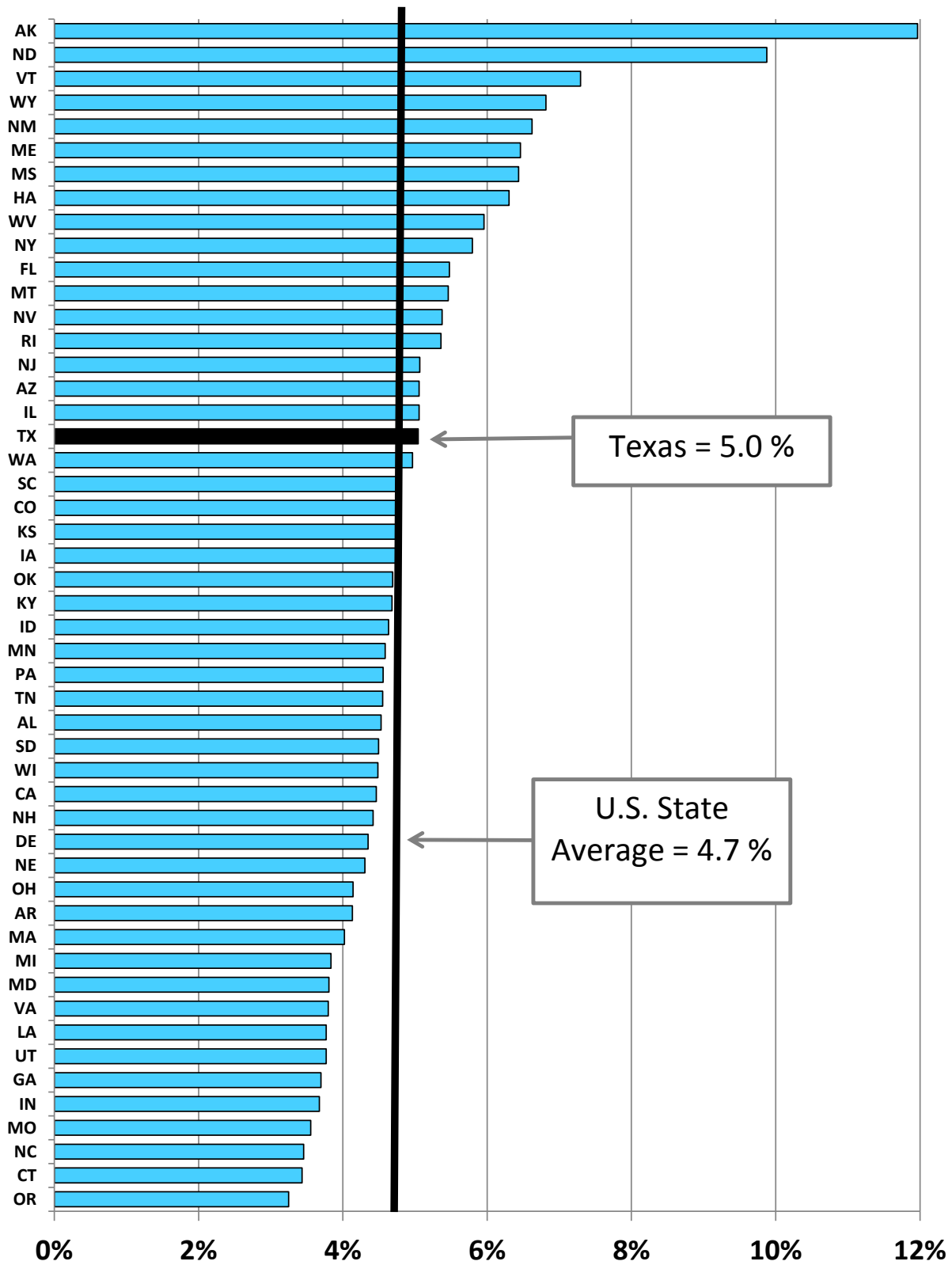
U.S. State Average = 5.9 %

Texas = 3.5 %

: Derived from Council on State Taxation: Total State and Local Business Taxes, 2013.

Source

# Business Taxes Relative to Private Economic Output

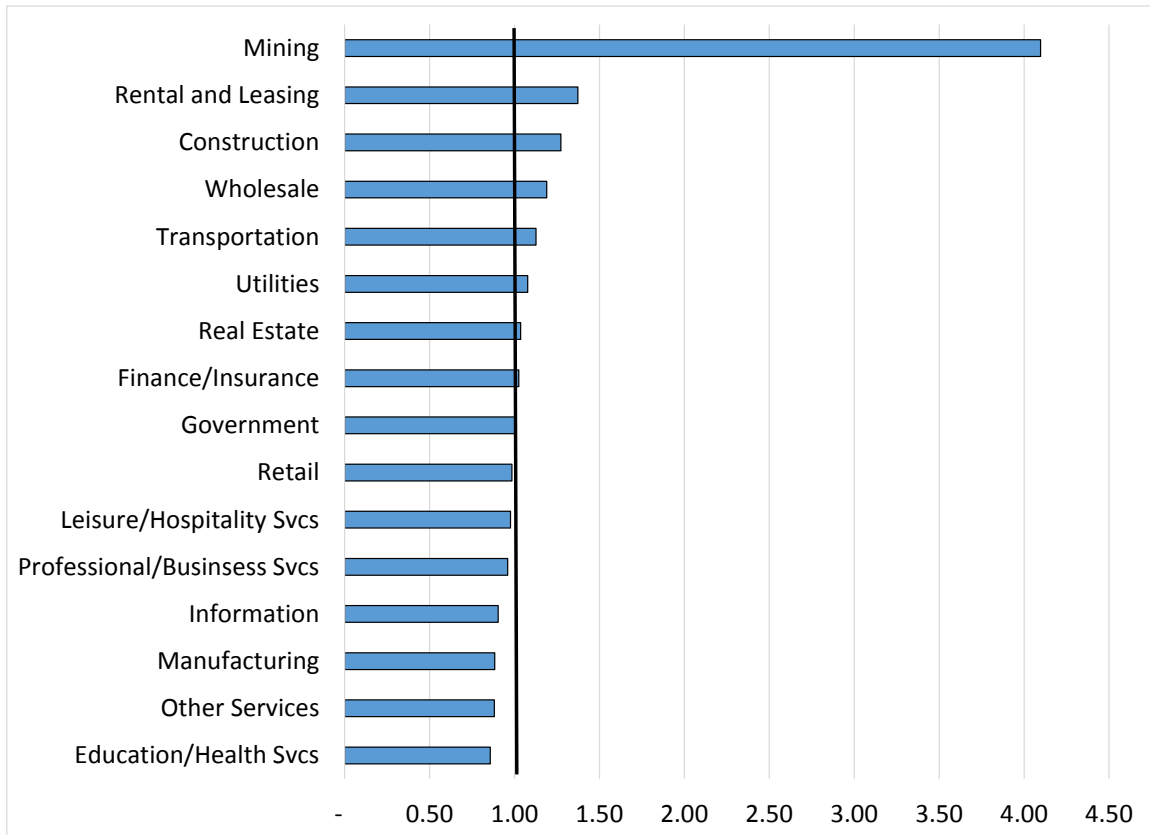


Source: Council on State Taxation: Total State and Local Business Taxes, 2012.

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## Texas's Economic Composition Versus the U.S.

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*The above chart compares the proportion of jobs in the Texas economy to that of the United States. For example, an index value of 2 means that industry is two times more important in Texas than in the U.S. as a whole.*

*Source: U.S. Bureau of Labor Statistics.*

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- Direct jobs in oil and gas extraction are 4.5 times more prevalent in Texas compared to the U.S. as a whole.
- As would be expected from a more rapidly growing state, Texas has more vibrant construction and leasing industries.
- Surprisingly, in spite of healthy manufacturing in refining, chemicals, and technology, manufacturing is underrepresented in the Texas economy compared to the nation as a whole.

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## Opportunities and Challenges of Texas' Business Climate

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Texas Positives	Texas Challenges
<ul style="list-style-type: none"><li>• Real estate costs</li><li>• Favorable labor laws</li><li>• Favorable regulatory environment</li><li>• Favorable judicial environment</li><li>• Centrally-located within the U.S.</li><li>• Climate</li><li>• Growing population</li><li>• Stable and affordable energy supplies</li><li>• Lack of a state personal income tax</li><li>• Competitive tax incentives</li></ul>	<ul style="list-style-type: none"><li>• Water availability</li><li>• Transportation infrastructure</li><li>• Labor skills gap</li><li>• High taxes on business, particularly property and sales taxes</li><li>• Overly complex and relatively less generous school tax limitation program (Chapter 313)</li></ul>

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# Thoughts About the Texas Economic Outlook

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- The recent drop in oil prices will hurt the Texas economy as oil and gas companies sharply reduce their capital budgets—cuts that will be felt in other parts of the economy.
- Texas job growth will slow the longer oil prices remain weak.
- Texas should outpace US job growth in 2015 unless oil prices remain weak for a prolonged period of time.
- Construction, Services and Trade will be the bright spots in the Texas economy.

Downside Risks	Upside Risks
<ul style="list-style-type: none"> <li>• Oil prices continue to be volatile</li> <li>• Oil prices stabilize below \$50 a barrel (for Texas)</li> <li>• European political instability (Russian &amp; Ukraine)</li> <li>• European financial instability (Russian &amp; Greek economies)</li> <li>• Middle East political instability</li> <li>• Terrorist events</li> <li>• Strong US dollar may hurt US exports</li> </ul>	<ul style="list-style-type: none"> <li>• Credit availability</li> <li>• Stronger housing recovery</li> <li>• Strong consumer</li> <li>• Low gasoline prices</li> <li>• Oil prices stabilize at \$65 or above (for Texas)</li> <li>• Stability of U.S. financial markets</li> </ul>