THE Independence Voice

From: MARK SPRAGUE, ITC State Director of Information Capital

We received mixed new on the economy this month. On the one hand, real estate prices are up, GDP growth has improved, and the headline unemployment rate fell to 7.4%. On the other hand, a more detailed look at the unemployment situation reveals that we still have a long way to go to full recovery nationally.

Unemployment has improved but seems to be stuck at 7.4% nationally. Texas is faring better – the state unemployment rate is at 6.5%, Austin 5.4%, Houston 6.1%, DFW 6.6%, and San Antonio 6.7%. In July, only 92,000 of the 266,000 jobs created were full-time — just 35% of the total. You may wonder why the total number of jobs created isn't 162,000, the number commonly used by news services. That number is calculated from the Labor Department's survey of employers. The 266,000 is calculated from the department's household survey. For the year through July, 953,000 jobs have been created, but only 222,000 were full-time – representing just 23% of the total job gains.

This caused a spike of 0.5 percentage points in U6 (considered a truer unemployment picture than what the media reports) to 14.3%. National GDP is up by to 1.7%.

The headline job number doesn't matter - what matters is the Fed's reaction to the number. Federal Reserve policy is working, but not as much as everyone wants it to. Judging by GDP and wages, it isn't working to stimulate economic growth. Corporate profits have improved dramatically, but most of America has not felt it in their pocket book. Quantitative easing has kept rates artificially low, which helps keep the interest cost on the record U.S. debt at affordable levels. That said, there is really nothing the Fed has done that has impacted job growth, and that is without question the most important factor in continued economic growth. The good news is that the unemployment rate has improved. But does the consumer believe it has improved?

As has been the case for almost three years, gains in private employment have been partly offset by losses in public employment, especially in state and local governments. Government payrolls continue to fall. Here in Texas, it is estimated we will lose close to 160,000 government jobs because of the sequester, around 99,000 in defense cuts and 60,500 in non-defense spending, and they have fallen about 18,000 a month since June. Over that period the drop in government employment has offset about 13% of the payroll job gains that have occurred in the private sector.

To put it in perspective, if the economy adds about 208,000 jobs per month, which was the average monthly rate for the best year of job creation in the 2000s, then it will take until February 2024—almost eleven years—to close the job gap. Given a more optimistic rate of 321,000 jobs per month, which was the average monthly rate for the best year of job creation in the 1990s, the economy will reach pre-recession employment levels by December 2016—over three and a half years from now. That type of growth would definitely show that the economy is back on a quicker mend.

As stated, the jobs recovery has not been as robust. Rather, it's been a slow, long haul. The U.S. economy lost nearly 8.8 million jobs between January 2008 and February 2010, but has since gained back only about 6.2 million jobs, still about 2.6 million below pre-recession levels. Meanwhile, the population has grown, and some jobseekers have given up. The percentage of workers staying unemployed an extended period of time is the highest it has been since the Great Depression.

If we look at our large metros nationally, eemployment has rebounded from its low point in 92 of the 100 largest metropolitan areas by the second quarter of 2011 according to BLS, but Of the 100 largest metro areas, 65 saw their unemployment rates decline during the first quarter 2013, versus 35 in which the rate rose. Forty-two (42) metro areas experienced unemployment rate declines during each of the last four quarters. In no large metro area, however, was the unemployment rate in the first quarter of 2013 below its pre-recession low, and rates remain above 6 percent in all but 16 large metro areas. Only four cities nationally made a complete jobs recovery: El Paso, Houston, Austin, and San Antonio.

Texas is recovering more quickly for several reasons. First, the region lost a smaller portion of its employment during the recession. When the recovery began, Texas had less ground to make up. Second, Texas' core industries - oil, gas and technology - are booming again. Employment in oil and gas extraction passed its pre-recession peak in June 2010. Nearly all the jobs lost in equipment manufacturing have been recovered. 100% have been recouped in oilfield services. And third, the region continues to draw residents from other states—some with jobs, some looking for jobs and others looking to start businesses here. Texas's job growth and population growth is driving the demand for consumer goods and services, creating jobs and opportunities along the way.

Another indicator that the state's economy has been comparatively healthy comes from the U.S. Census Bureau 2010 report that Texas added more people (nearly 4.3 million) than any other state between the census counts of 2000 and 2010. If Texas' population base weren't growing, the region wouldn't be generating jobs in health care, personal services, retail trade, accommodation, food services, and educational services. A growing population translates into an expanding consumer market. Those transplanted workers are spending their paychecks in local stores, restaurants, theatres and housing communities.

What's drawing people to Texas? Not any one factor. If one lives in an expensive metro such as New York, Los Angeles or San Francisco, the region's low cost of living, especially moderately priced housing, may be the draw. If one lives in an area with harsh winters, such as Chicago or Pittsburgh, the region's mild climate may be the draw. If one lives in a city with limited job opportunities, such as Detroit or Buffalo, the region's growing economy may be the draw. If one lives in a rural area or small metro, Texas's offering of rural plus cosmopolitan nature may be the draw.

So what are the take-aways of all this?

1) There is not a quick fix for the economy nationally. Texas will be OK and projected to continue to have a healthy economy. And based on projected population growth and job creation will remain in a growth mode for the next 3 to 5 years.

2) Texas continues with strong job and population growth; however everything is tied to the national and international economy. The Texas region cannot continue to have strong growth with the national and global economy in turmoil.

3) Although employment numbers have started recovery in the Texas region; housing, construction and government employment growth still lag behind and are a good 24+ months from recovering presently. As housing and construction continue to turn strong, the Texas market should rebound stronger than the rest of the country because of the pent up demand and continued growth. The Texas unemployment rate has been at or below the national rate for 78 consecutive months.

4) Texas's growth is in the urban metros with just under 65% of the state's population in the big four metros. Remember D/FW and Houston would be ranked by themselves as one of the 20 most populous states nationally, (numbers 17 and 19, respectively). Economies in all 4 cities were in the top 20 best performing in the nation.

5) Consumer confidence continues to erode nationally. Pre-recession, the Conference Board index stayed healthy in the 90 range. Today, the U.S. consumer confidence index stays unexpectedly cooled in July as Americans became less optimistic about the outlook for the economy. The U.S. consumer confidence index was 80.3 in July 2013, down 2.2 percent from June 2013, but 22.8 percent higher than one year ago. Analysts median forecast in a Bloomberg business survey called for a gain to 84.7. The gauge reached an almost six-year high of 84.5 in May. Potentially the recent increases in mortgage rates and prices at the gas pump may have restrained consumers' views on the economy in the next six months. The Texas region's consumer confidence index was 106.3 in July 2013, up 7.5 percent from June 2013, and 14.8 percent higher than one year ago. So clearly consumers in Texas are more optimistic than the rest of the nation. Which in turn translates to better consumer spending in our state.

6.) True job creation and wage improvement at a national level will be paramount in the recovery. It doesn't take a rocket scientist to understand that. However the continued lack of confidence nationally shown in the economy continues to hold back business expansion. As Ben Bernanke said in the summer of 2011, "Until we see a period of sustained job creation, we cannot consider the recovery to be truly established."

All this said, Texas sits better positioned than most states as the national economy continues along the bottom. Austin, Houston and San Antonio have a leg up, having turned positive in the last 18 months. All three see stronger real estate and economic absorptions across all channels. D/FW has begun to see improvement the last 180 days, and should begin to be as strong as the other Texas metros shortly.

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