

Texas' Economic, Labor Market, and Fiscal Situation

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Outline

- Information about the state of Texas' economy, labor market, and fiscal situation.
- Updated monthly to include the latest jobs data and periodically when other economic and fiscal data are updated.
- Conservative Texas Budget [priorities](#) for prosperity.

Economic & Fiscal Situation to Prosperity

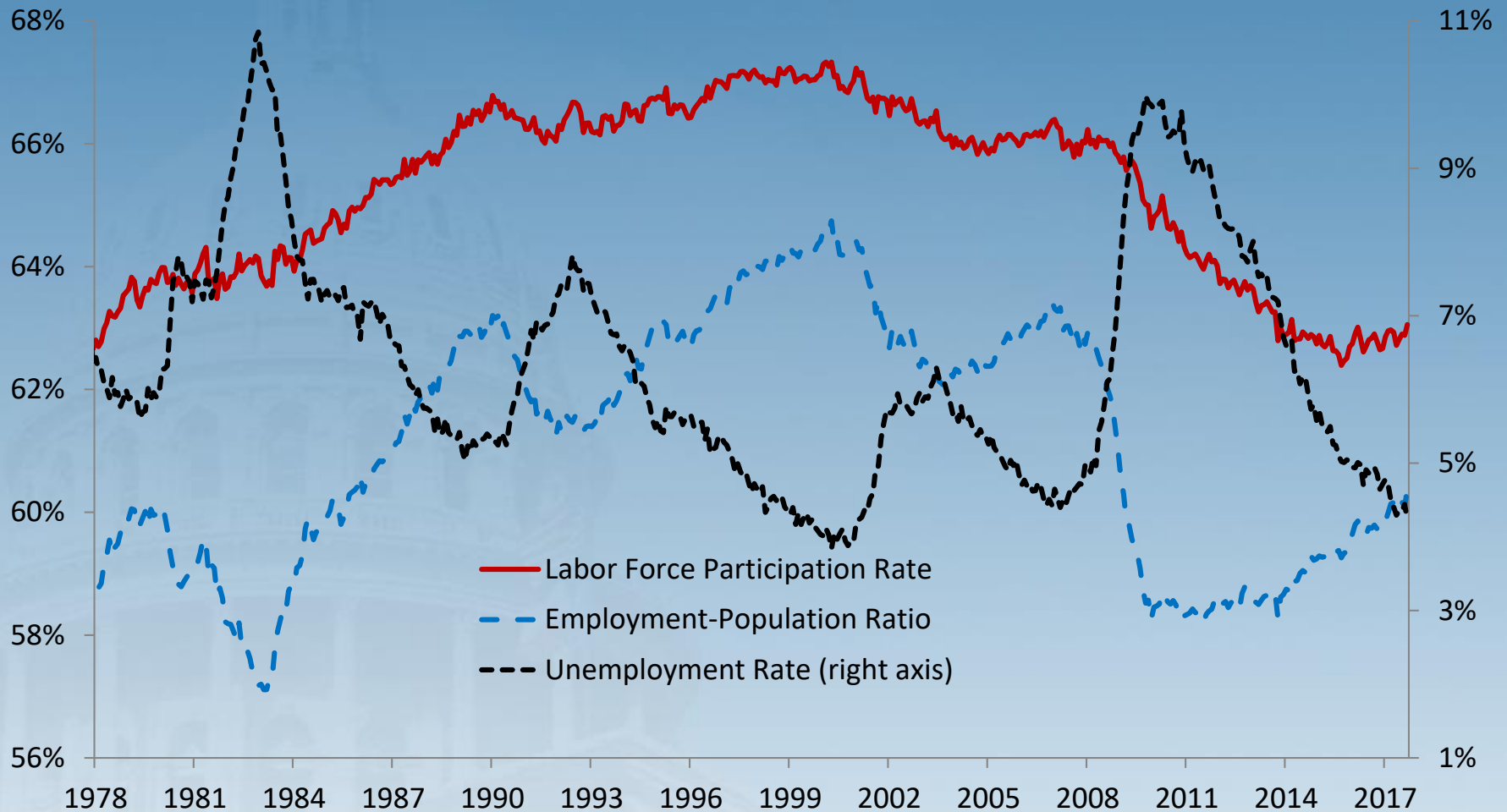
- Texas is 11th largest world economy, including CA:
 - Economy growing faster after slower 2015 & 2016
 - Federal pro-growth reforms could boost growth
 - Federal Reserve tightening credit: rates too low for too long
 - Low oil prices (~10% of real private economy/+20% in 80s)
- 2015 Texas Legislature:
 - Passed a 2016-17 conservative budget
 - Left billions of dollars on table & \$10 B in Rainy Day Fund
 - Passed \$4 B in tax and fee relief
- 2017 Texas Legislature:
 - Sustained 2016-17 conservative budget with supplemental
 - Passed a 2018-19 conservative budget
 - Spent \$1 B in RDF & Delayed \$1.8 B transportation funds
 - Did not raise major taxes or fees

Institutions Matter: Texas Model Works

Measure	U.S.	Texas	Florida	California	New York
Economic Freedom of North America (2016)	16 th (World)	3 rd	2 nd	43 rd	47 th
State Business Tax Climate Index (2018)	--	13 th	4 th	48 th	49 th
State-Local Tax Burden (2016)	--	46 th	34 th	6 th	1 st
Avg. U-3 Unemployment Rate (2003-16)	6.5%	5.9%	6.5%	7.9%	6.4%
Avg. U-6 Underutilization Rate (2003-16)	11.8%	10.7%	12.2%	14.6%	11.3%
Avg. Labor Force Participation Rate (2000-16)	65.1%	66.2%	61.8%	64.7%	62.1%
Avg. Employment-Population Ratio (2000-16)	61.0%	62.4%	58.0%	59.9%	58.3%
Total Civilian Emp. (12/07-12/16), ex. TX	+4,112,000	+1,726,000	+709,000	+1,217,000	-44,000
Total Nonfarm Emp. (12/07-12/16), ex. TX	+5,337,000	+1,576,000	+561,000	+1,160,000	+689,000
Avg. Top 1% Income Shares (2000-13)	20.3%	21.3%	23.9%	25.8%	29.7%
Avg. Top 10% Income Shares (2000-13)	47.5%	48.8%	52.0%	54.2%	56.6%
Supplemental Poverty Measure (2014-16)	14.7%	14.7%	18.7%	20.4%	16.0%

Source: TPDF, [*A Labor Market Comparison: Why the Texas Model Supports Prosperity*](#) (updated)

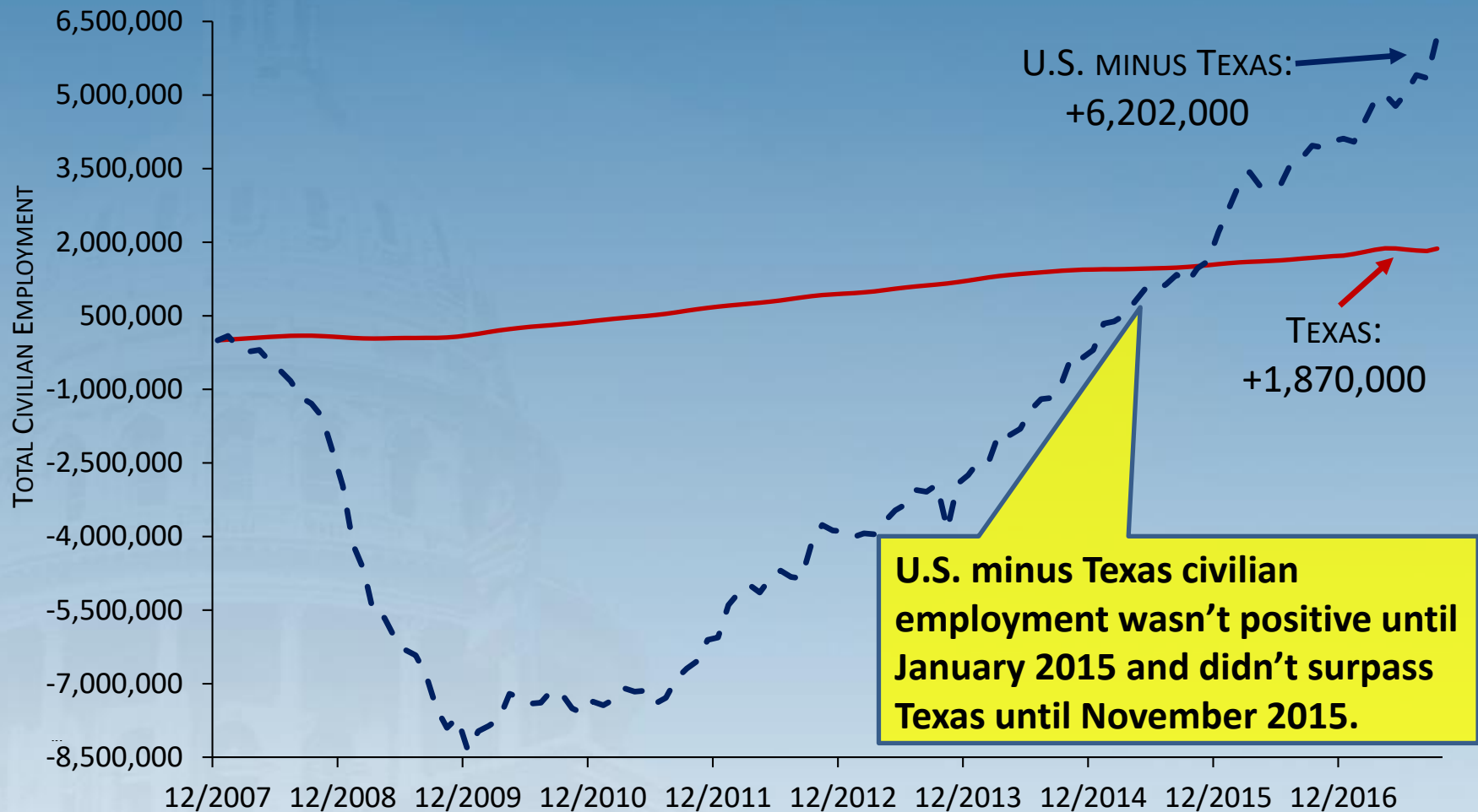
U.S. Labor Market Sends Mixed Signals



Source: BLS, <https://www.bls.gov/news.release/empsit.nr0.htm>

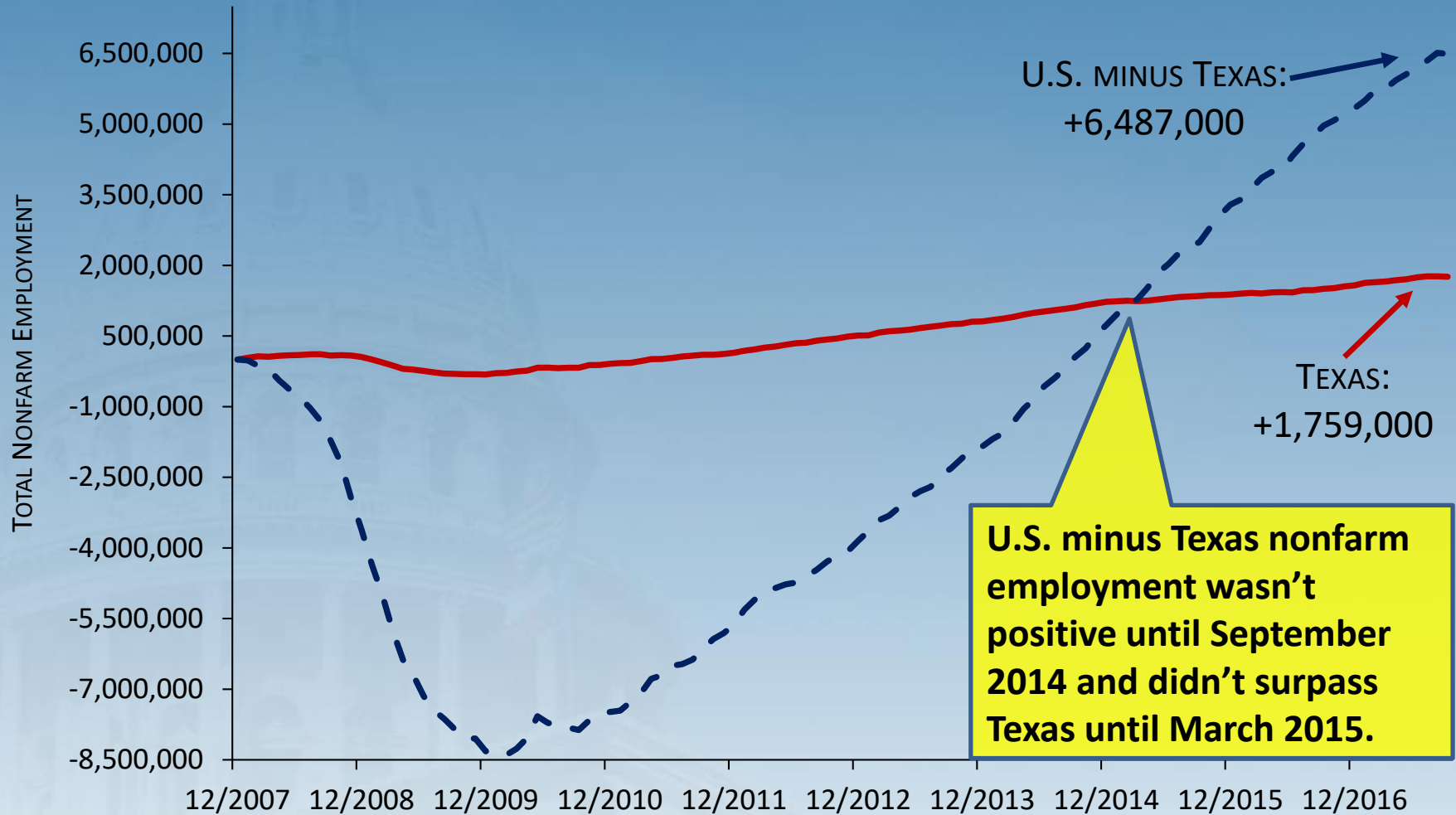
Texas, America's Jobs Engine

Texas has created 23% of total U.S. employment increase since pre-Great Recession



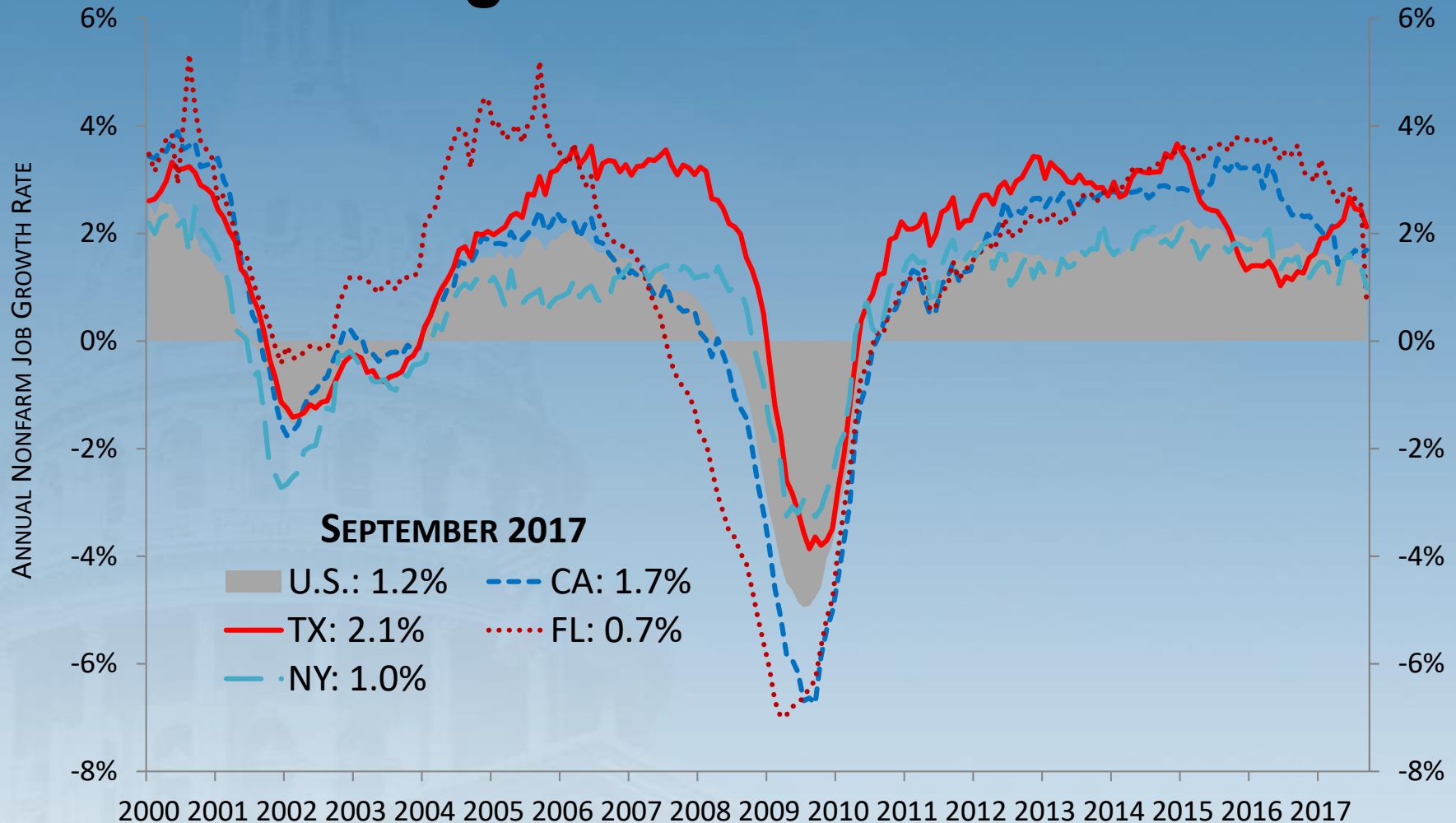
DATA ARE CUMULATIVE MONTHLY TOTAL CIVILIAN EMPLOYMENT FROM THE U.S. BUREAU OF LABOR STATISTICS FROM 12/2007 TO 9/2017.

Texas has Created 21% of All Nonfarm Jobs Since Great Recession Started



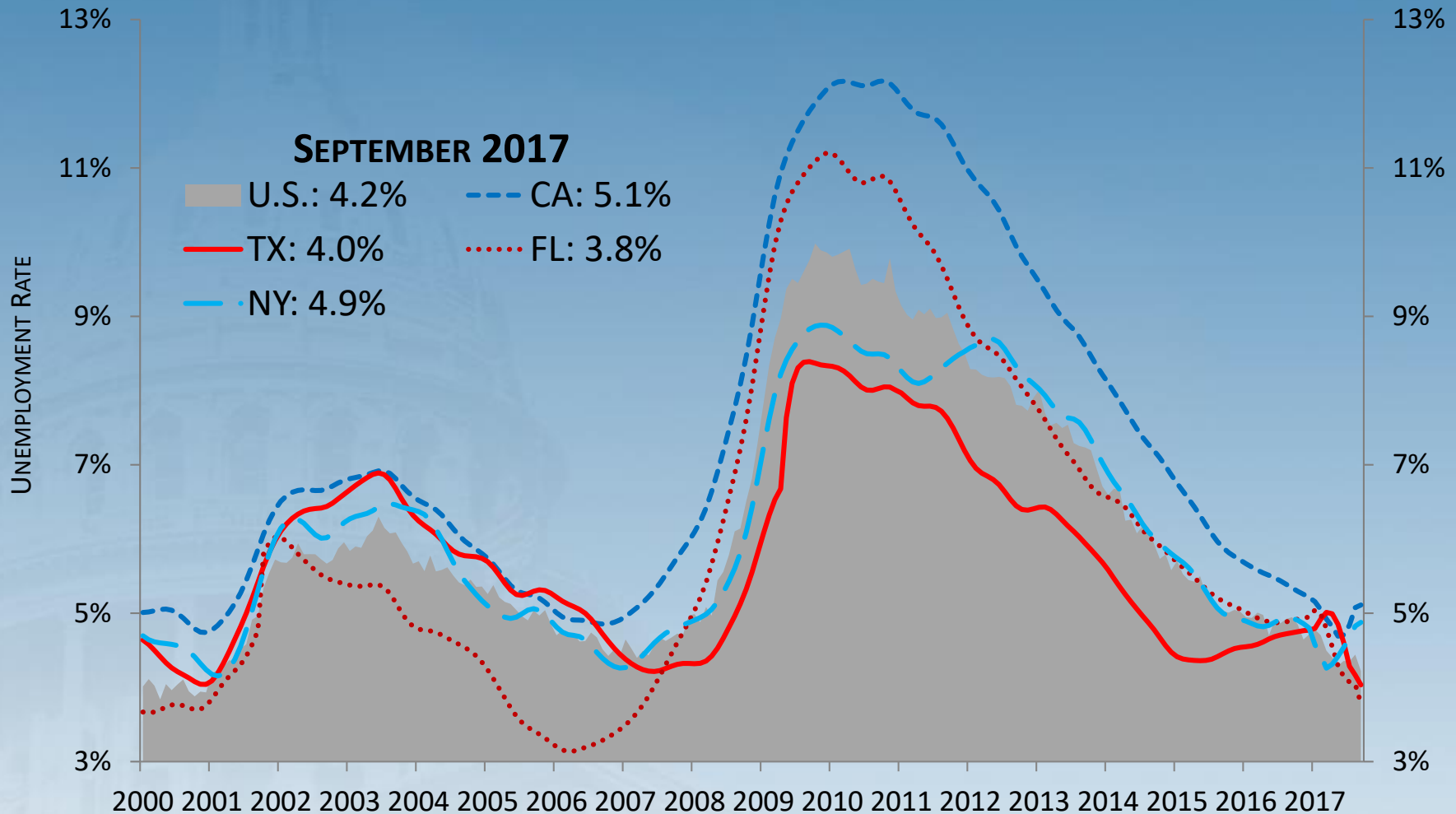
DATA ARE CUMULATIVE MONTHLY TOTAL NONFARM EMPLOYMENT FROM THE U.S. BUREAU OF LABOR STATISTICS FROM 12/2007 TO 9/2017.

Texas Created 256,100 Net Nonfarm Jobs During the Last 12 Months



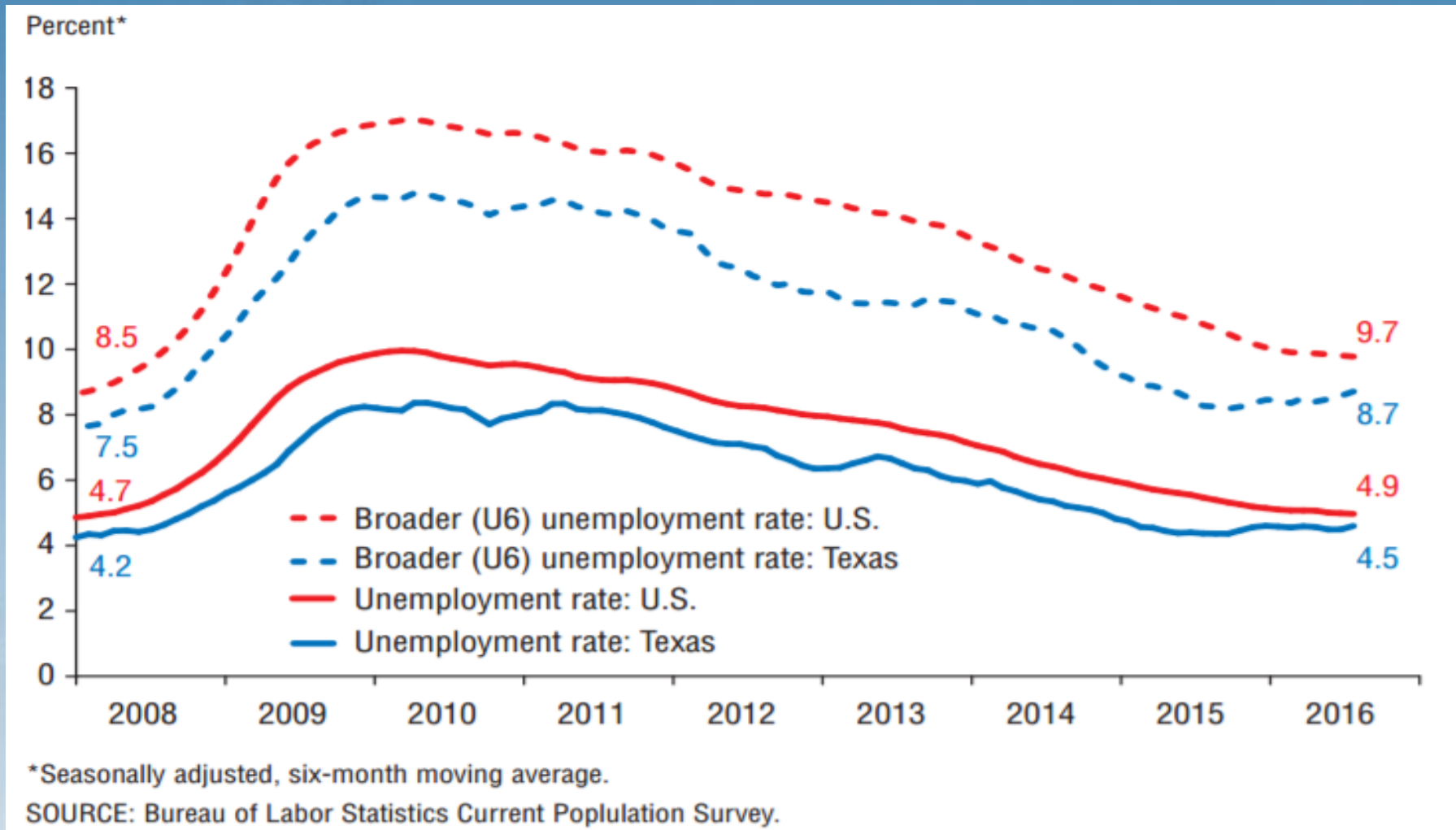
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Texas' Unemployment Rate At or Below 5% for 39 Consecutive Months



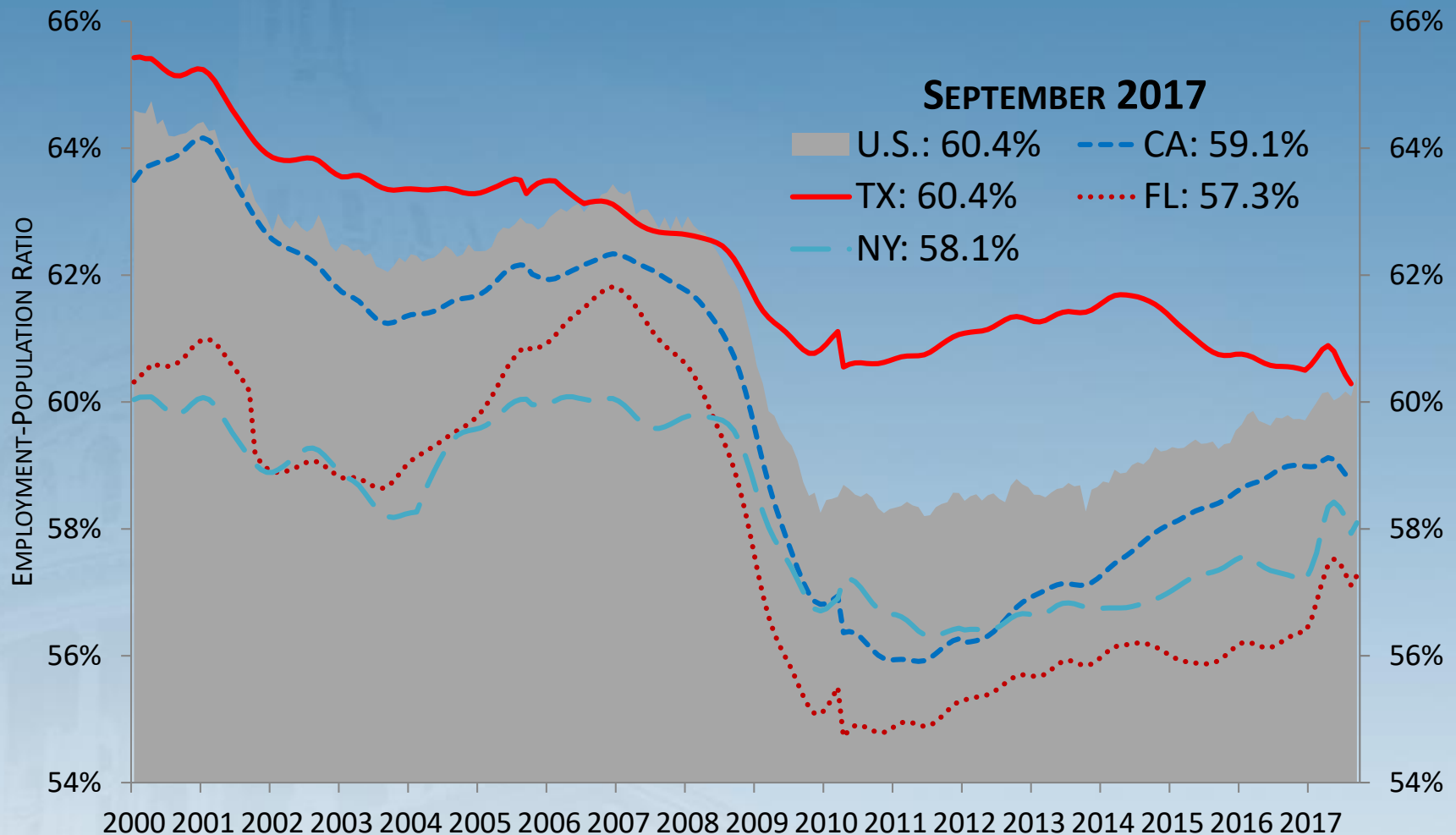
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Lower Unemployment Rates in Texas Since Great Recession



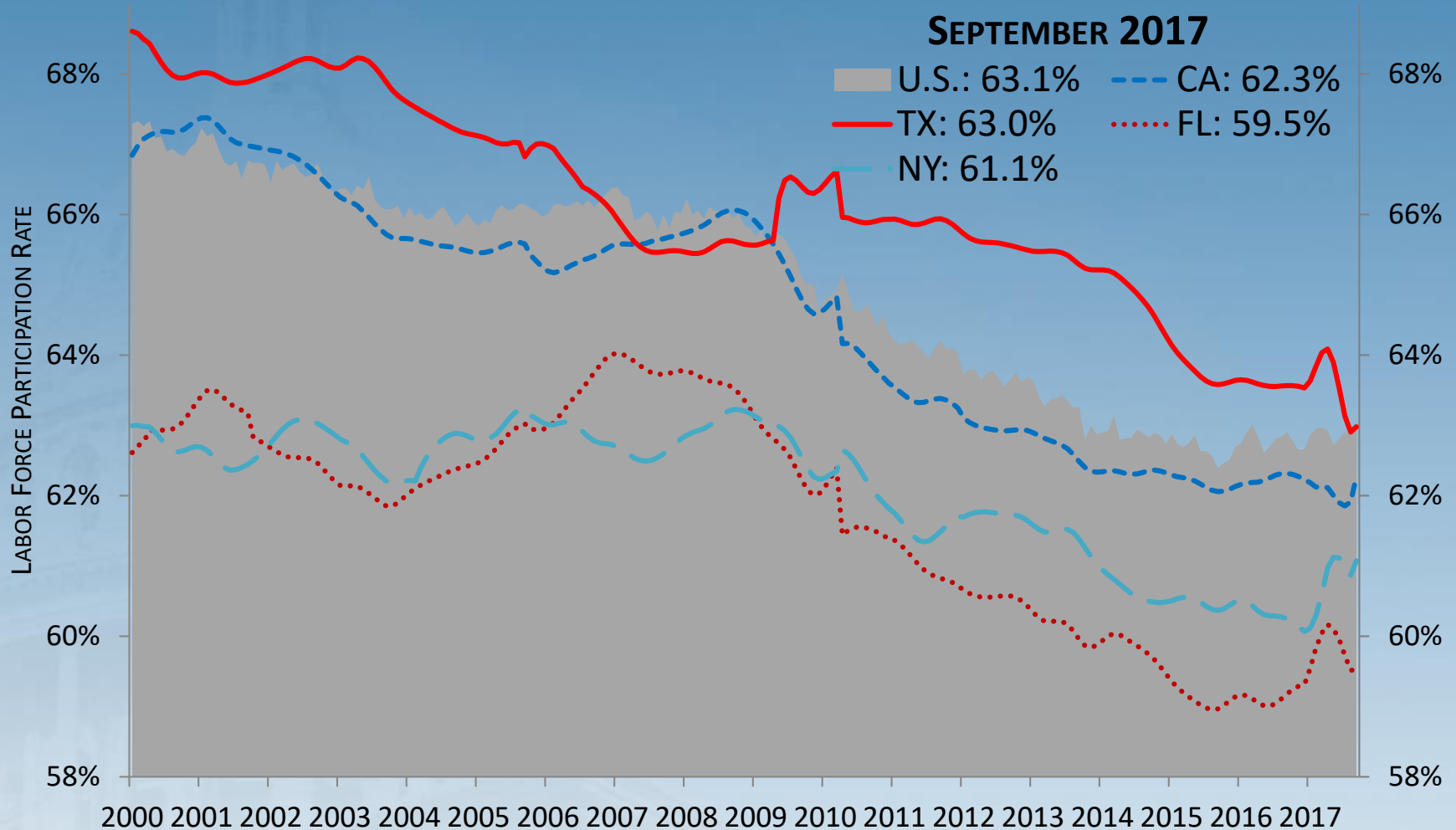
Source: Dallas Fed, [Less Involuntary Part-Time Work Suggests Texas Economic Strength](#), Third Quarter 2016.

Texas' Employed Population Rate Remains Above Others Since 2008



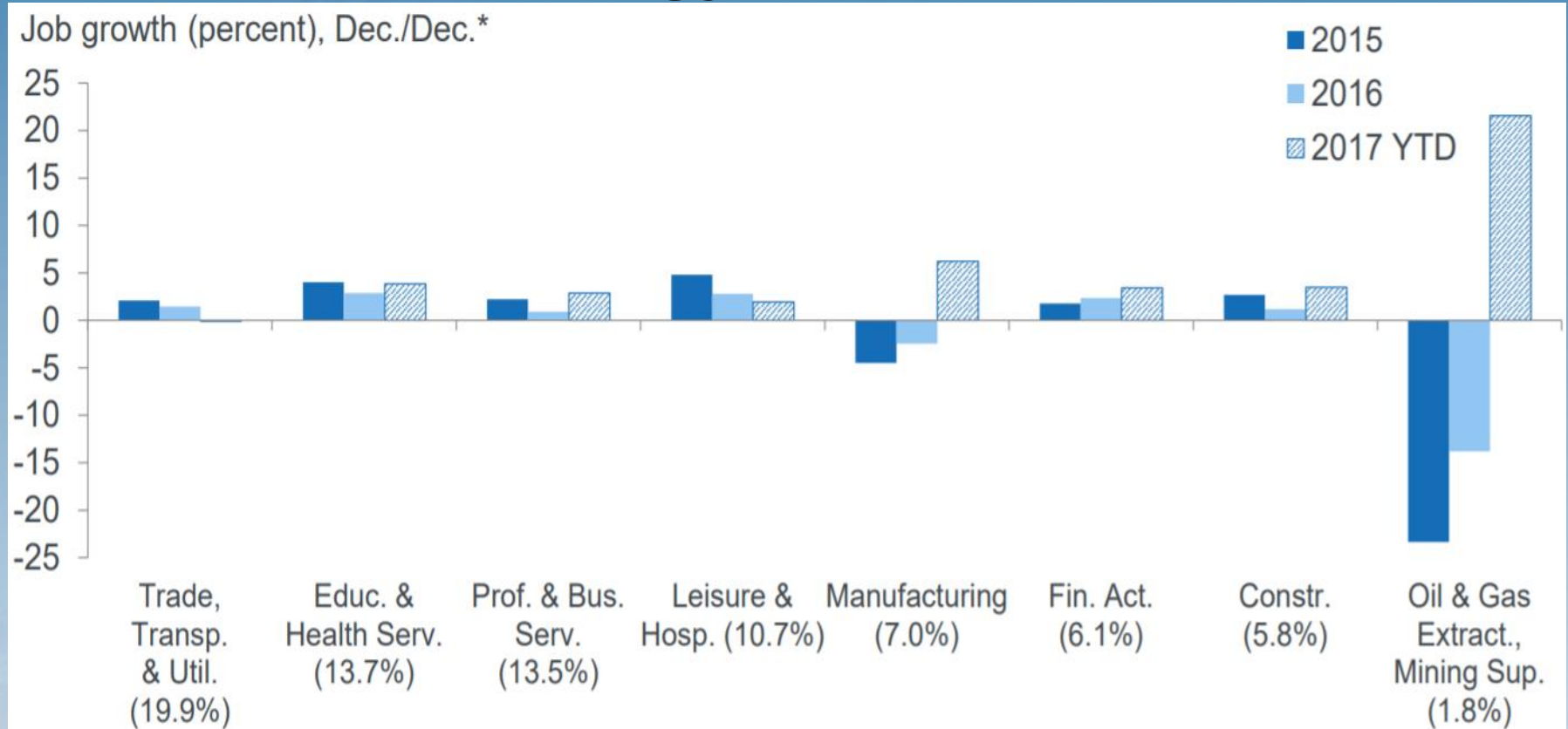
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Texas' Labor Force Participation Rate Remains At/Above Others Since 2009



SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Texas Job Creation Positive in Most Sectors in 2017, Energy Sector Rebounds



*Seasonally adjusted, annualized rate.

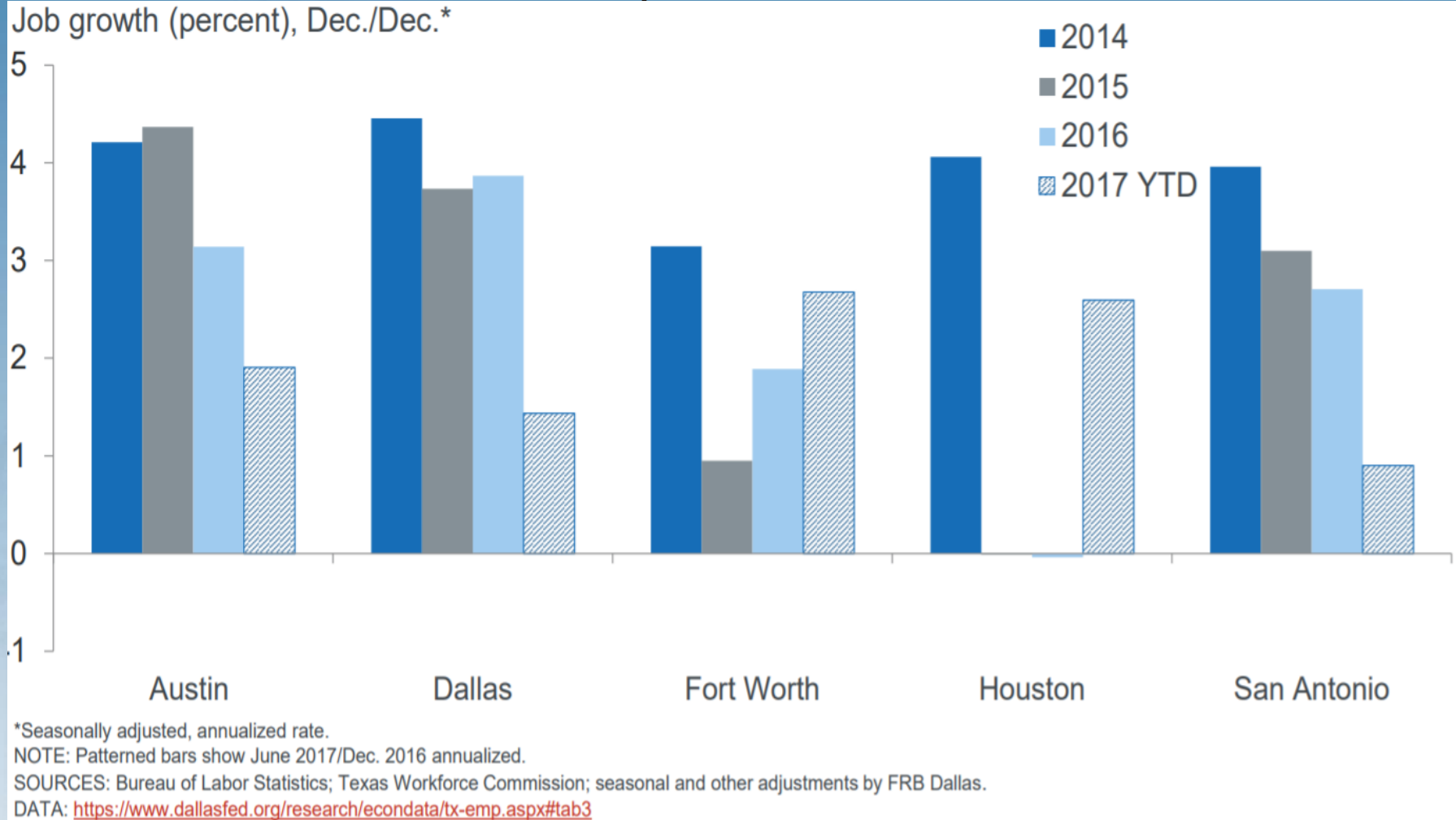
NOTES: Numbers in parentheses are share of state employment accounted for by each sector. Patterned bars show June 2017/Dec. 2016 annualized job growth.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

DATA: <https://www.dallasfed.org/research/econdata/tx-emp-ind.aspx>

Source: Dallas Fed, [Your Texas Economy](#).

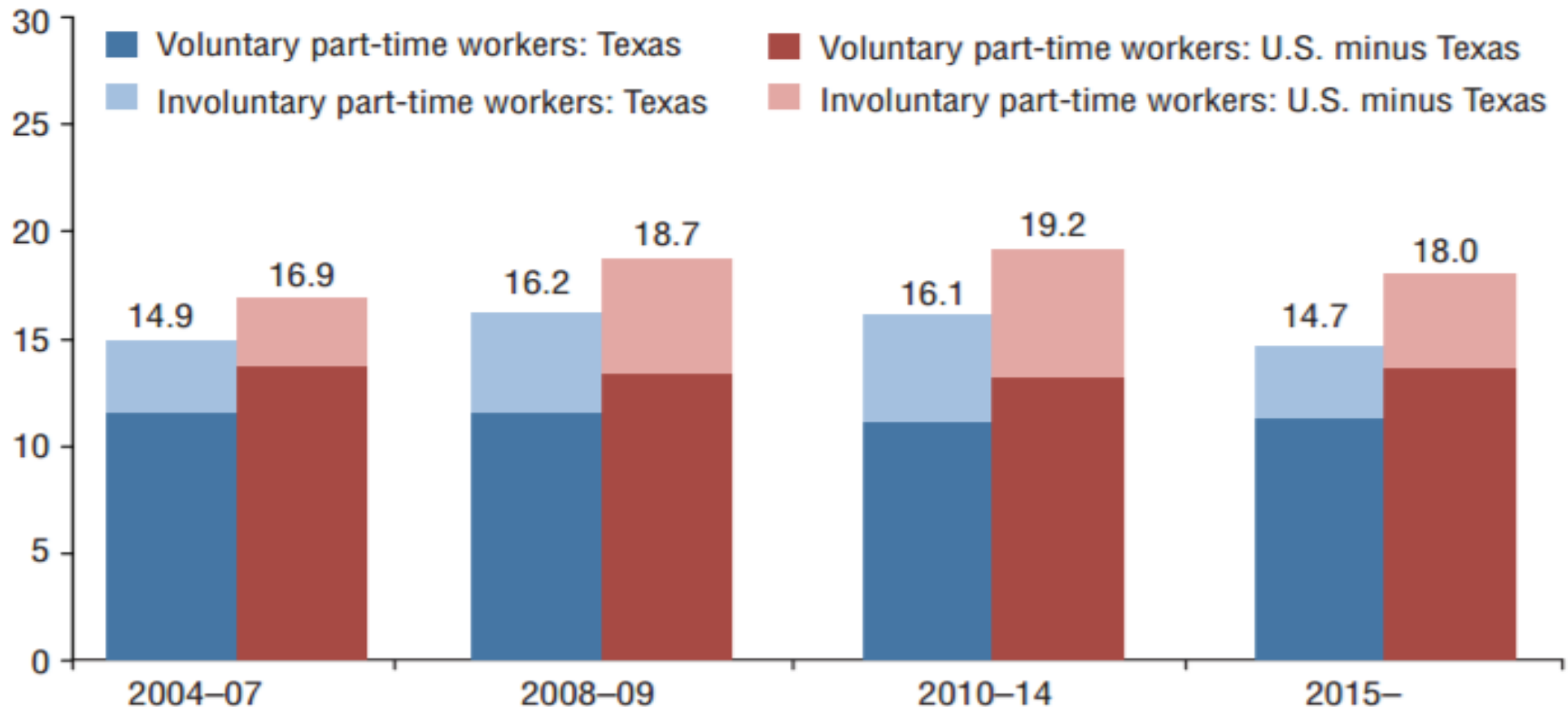
Texas' Metro Areas have Positive Job Creation in 2017, Houston Rebounds



Source: Dallas Fed, [Your Texas Economy](#).

Texas has Smaller Share of Part-Time Workers than Rest of U.S.

Share of workers (percent)*

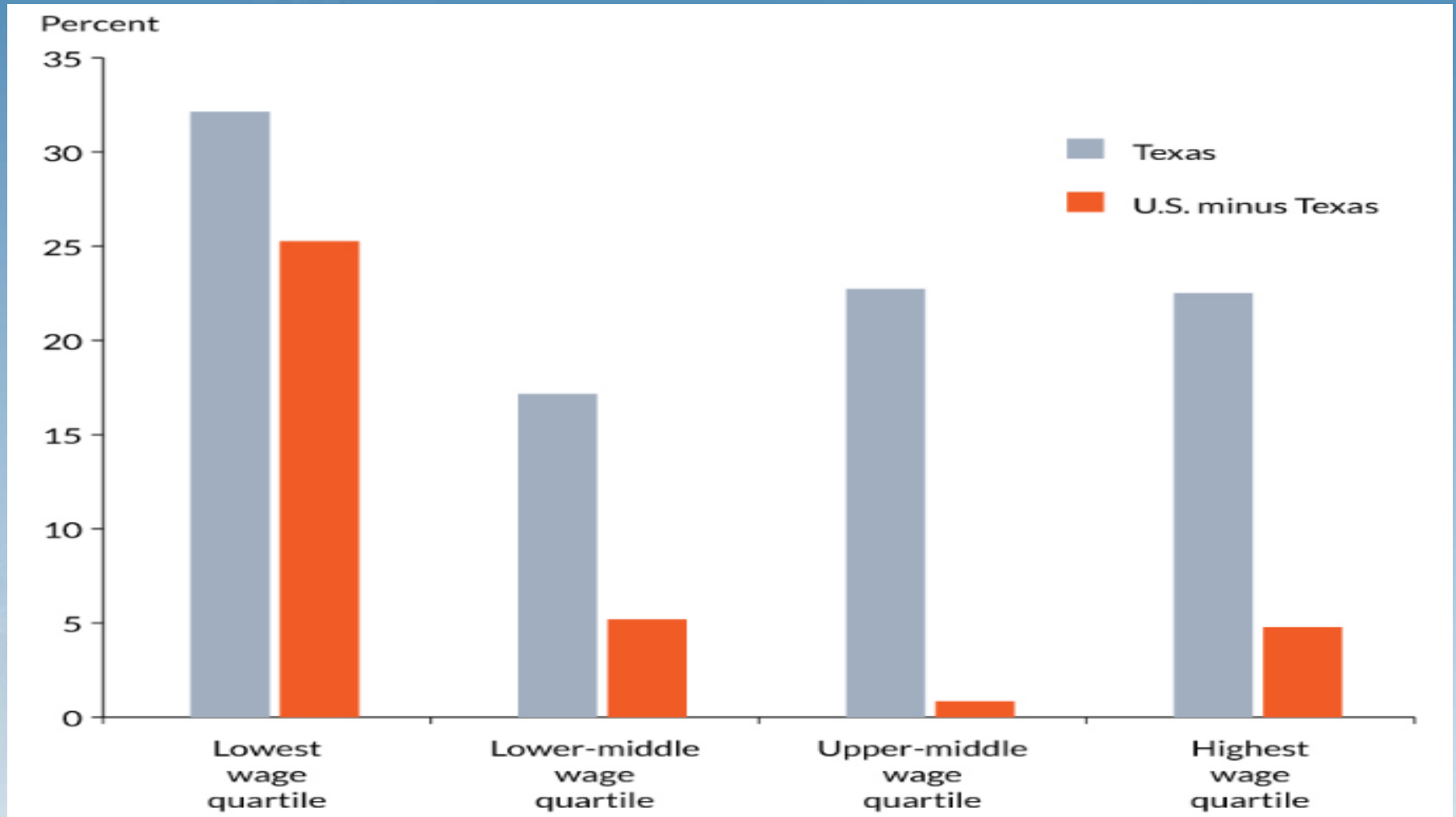


*Excludes usually full-time workers who voluntarily worked fewer than 35 hours during the reference week.

SOURCE: Bureau of Labor Statistics Current Population Survey.

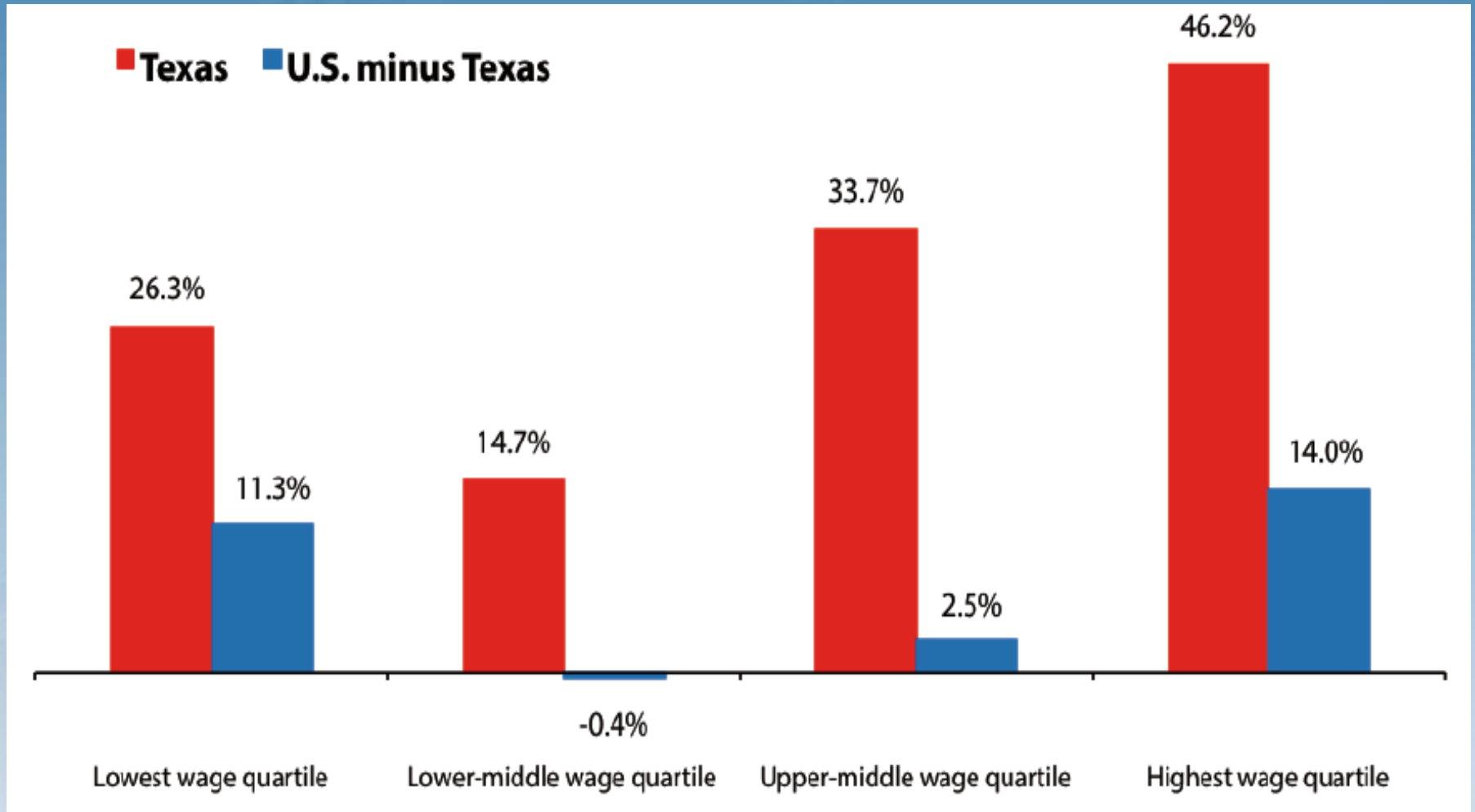
Source: Dallas Fed, [Less Involuntary Part-Time Work Suggests Texas Economic Strength](#), Third Quarter 2016.

Not Just Low Wage Jobs: Job Growth Across Wage Quartiles from 2005–2014



Source: Dallas Fed, [Annual Report 2015](#)

Job Growth Across Wage Quartiles, 2000–14

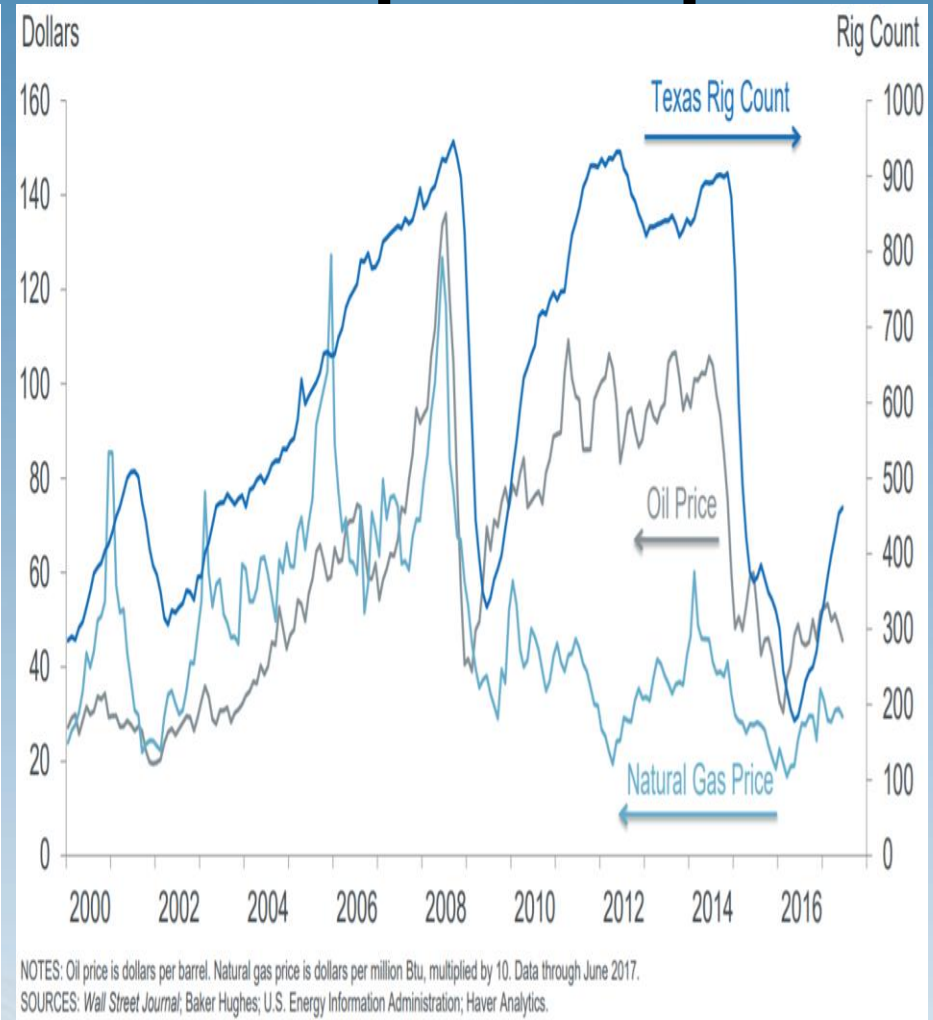
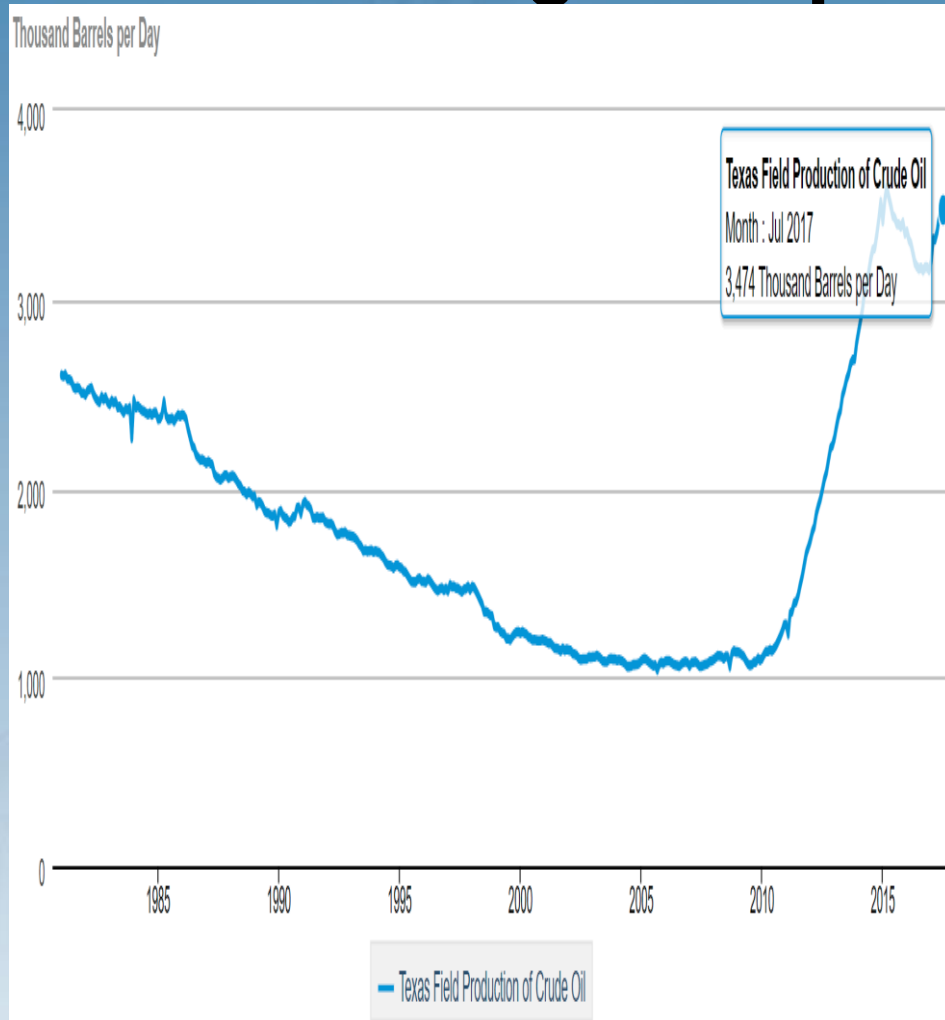


Source: TPPF, [*A Labor Market Comparison: Why the Texas Model Supports Prosperity*](#)

Economic Challenges

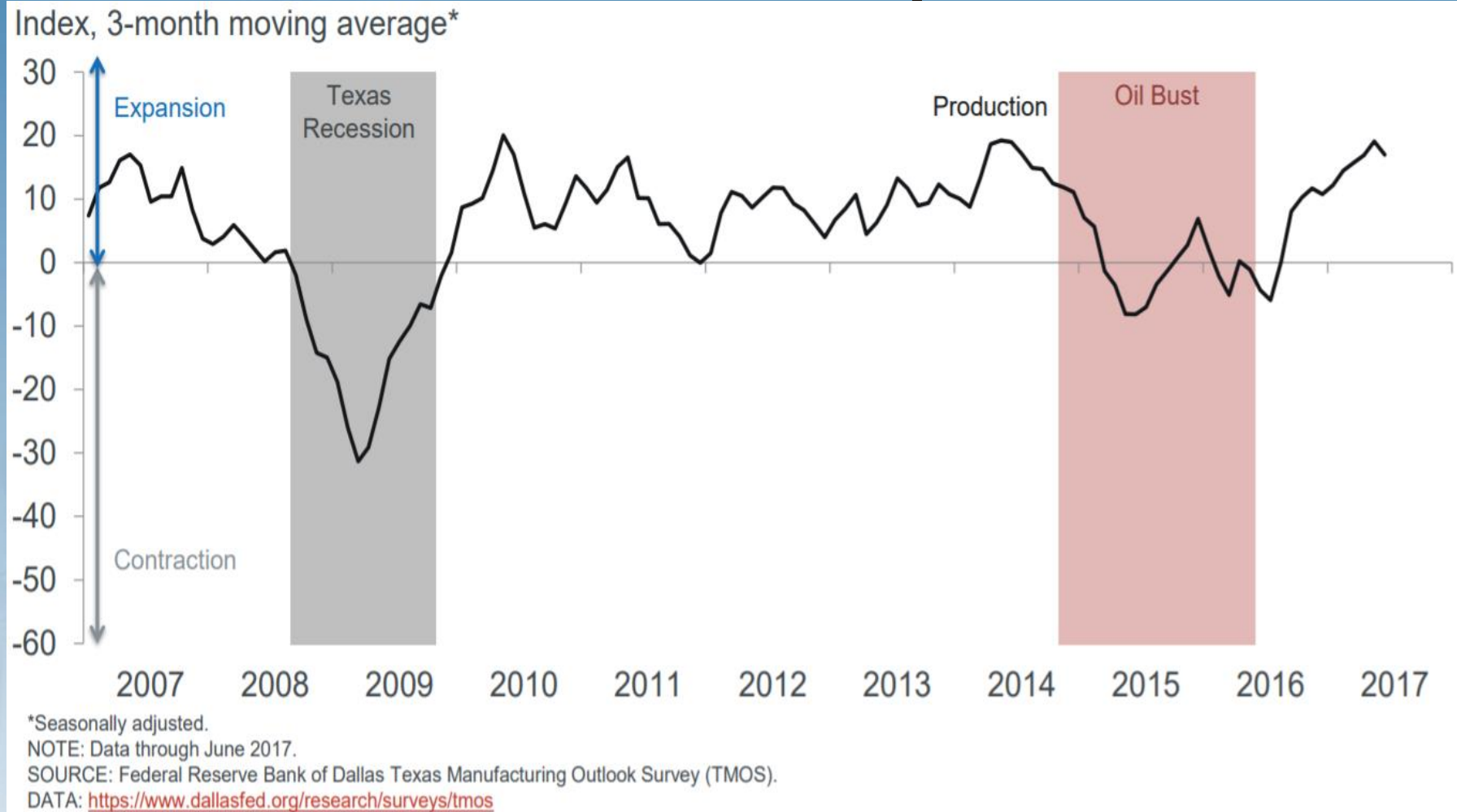
- Mining industry 1980s:
 - 21% of real private economy; 5% of labor force
- Mining industry today:
 - ~10% of real private economy; ~2% of labor force
- More diversification from market activity, [NAFTA](#), pro-growth policies
- Still, lower oil prices, slower global growth, & federal government policies may be impediments
- TX will one day have another recession

Oil prod/day down only 3% in Texas since March '15 high despite 55% drop in oil prices



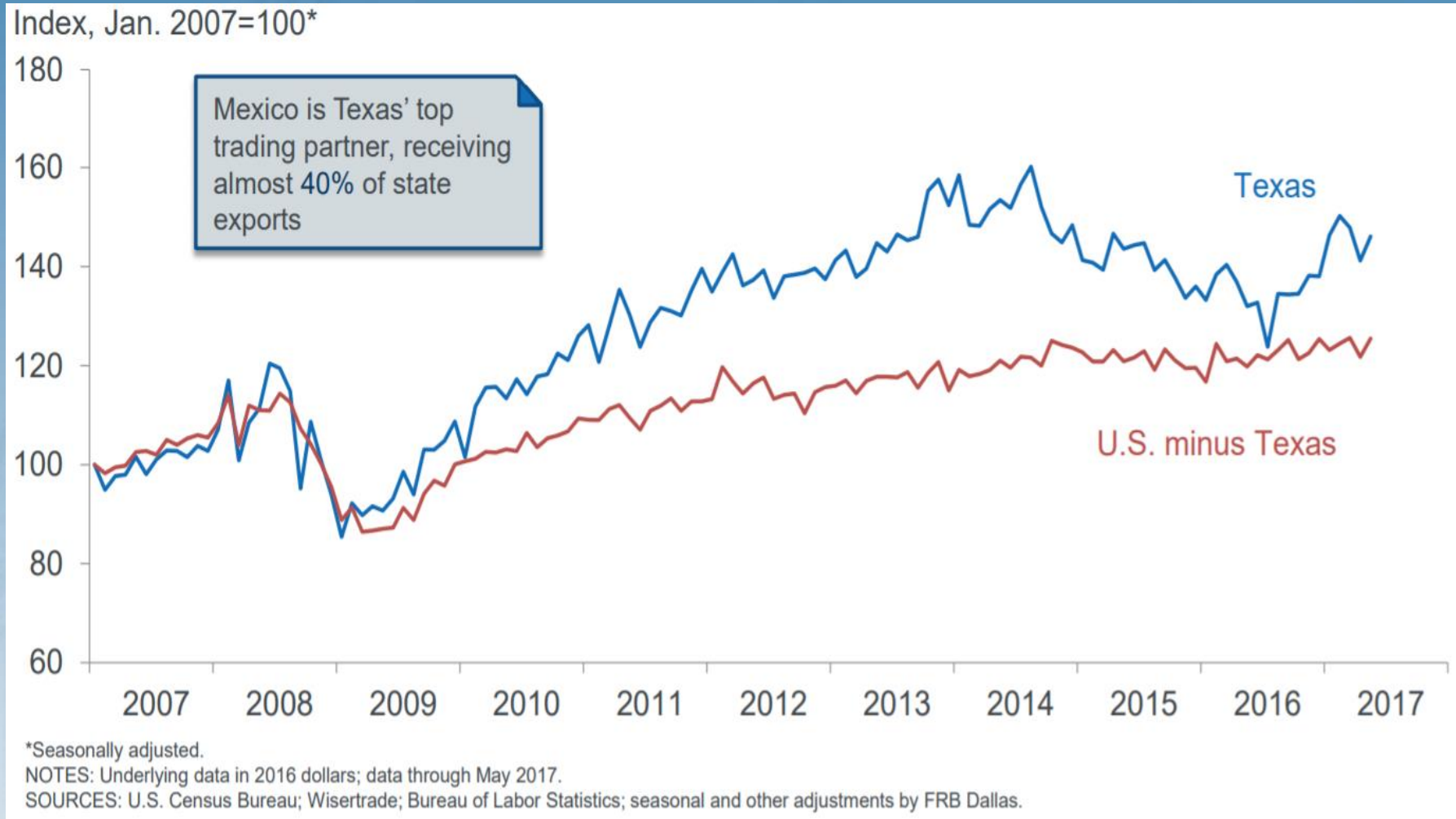
Source: [Energy Information Administration](#) &
Dallas Fed, [Your Texas Economy](#).

Texas' Manufacturing Sector Continues to Expand



Source: Dallas Fed, [Your Texas Economy](#).

Texas' Exports Rebound as Energy Sector Rebounds



Source: Dallas Fed, [Your Texas Economy](#).

Fiscal Prospects Support Opportunity

- No recent examples of consecutive conservative budgets, defined as growth less than pop+inf:
 - 2003 dealt with a \$10 billion shortfall and passed a conservative budget but massive spending increase in 2005
 - 2011 passed a budget below pop+inf but delayed payments for Medicaid & education led to a large increase in 2013
- 2015: Passed potential 2016-17 conservative budget, provided tax relief, and left money on the table
- 2017: Sustained 2016-17 conservative budget, passed potential 2018-19 conservative budget, and did not raise major taxes or fees

Revenue Problem in '17? More GR Available Excluding Lege Priority on Transportation

BIENNIAL REVENUE ESTIMATE A CLOSER LOOK

January 2017

The Biennial Revenue Estimate is issued by the Comptroller at the start of every legislative session before Texas legislators begin budgeting for the next biennium. The estimate tells lawmakers how much they can spend, which in turn affects every Texan.

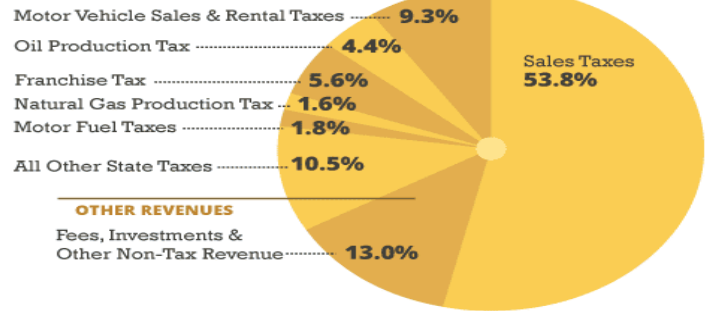
Revenue Available for General Purpose Spending

		2016-17	2018-19	
General Revenue-Related (GR-R) Revenues from Sales Taxes (Before allocation to State Highway Fund)	+	\$56.83	\$61.97	In Billions of Dollars
Sales Taxes Allocated to State Highway Fund	-	\$0.0	\$4.71	
Net GR-R Revenues from Sales Taxes	=	\$56.83	\$57.26	SUBTOTAL
Other GR-R Revenues	+	\$45.61	\$49.21	
Total GR-R Revenues	=	\$102.45	\$106.47	SUBTOTAL
Beginning Balance (Funds carried forward from 2016)	+	\$7.29	\$1.53	
Total GR-R Revenue & Fund Balances	=	\$109.73	\$108.00	SUBTOTAL
Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds	-	\$2.0	\$3.13	
Total Revenue Available for General-Purpose Spending	=	\$107.73	\$104.87	TOTAL

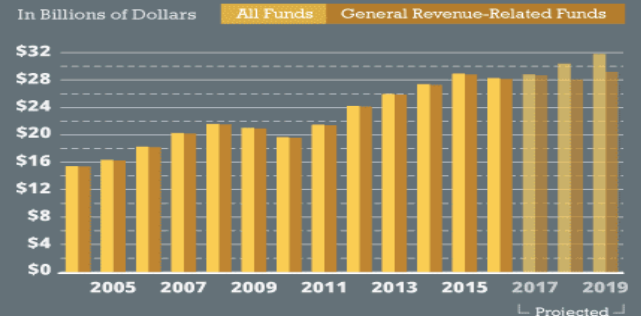
In 2015, voters approved Proposition 7, which requires the Comptroller to direct some tax revenues to the State Highway Fund starting in fiscal 2018.

General Revenue-Related Revenues

STATE TAX REVENUES



Annual Net Sales Tax Collections

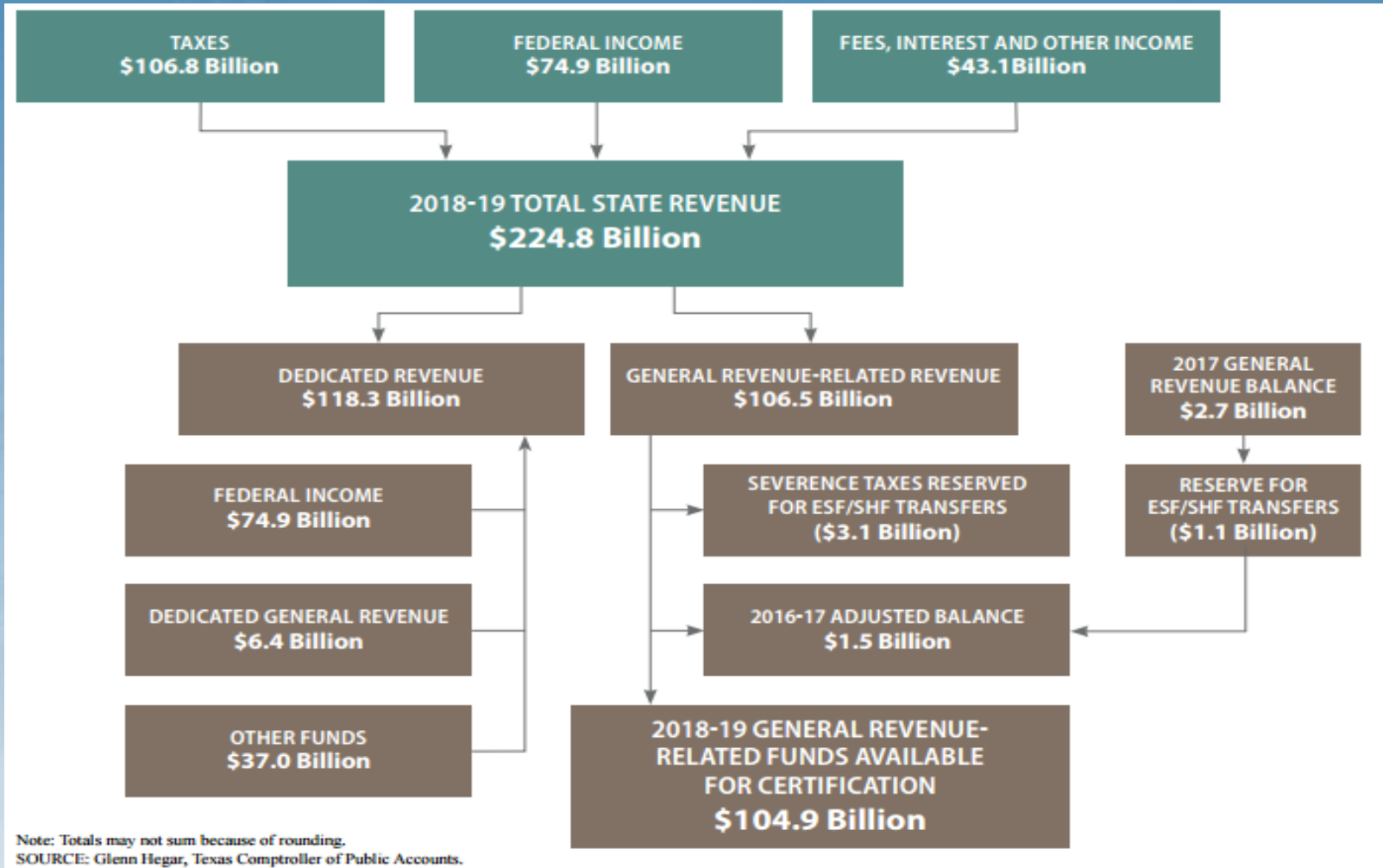


Glenn Hegar

Texas Comptroller of Public Accounts

Source: Texas Comptroller, [Biennial Revenue Estimate](#)

Estimated Up 7.5% Above 2016-17 Approps



Source: Texas Comptroller, [Biennial Revenue Estimate](#)

CRE Higher Than BRE Primarily Because Legislature Delayed Transportation Funds

A CLOSER LOOK

CERTIFICATION REVENUE ESTIMATE

October 2017

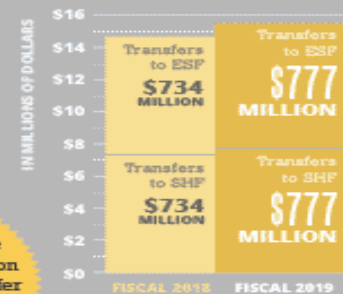
Prior to the legislative session, the Comptroller issues a Biennial Revenue Estimate (BRE) to tell lawmakers how much they can spend over the next two years. After the legislative session, the Comptroller issues a Certification Revenue Estimate (CRE) to reflect legislative activity and the most current economic information, as well as to take into account final revenue numbers for the recently ended fiscal year.

Revenue Available for General-Purpose Spending in the 2018-19 Biennium

		BIENNIAL REVENUE ESTIMATE January 2017	CERTIFICATION REVENUE ESTIMATE October 2017	
General Revenue-Related (GR-R) Revenues from Sales Taxes (Before allocation to State Highway Fund)	+	\$61.97	\$62.31	In Billions of Dollars
Sales Taxes Allocated to State Highway Fund	-	\$4.71	\$3.23	
Net GR-R Revenues from Sales Taxes	=	\$57.26	\$59.08	SUBTOTAL
Other GR-R Revenues	+	\$49.21	\$49.52	
Total GR-R Revenues	=	\$106.47	\$108.60	SUBTOTAL
Beginning Balance (Funds carried forward from 2017)	+	\$1.53	\$0.88	
Change in GR-Dedicated Account Balances from the BRE	+	N/A	\$1.22	
Total GR-R Revenue & Fund Balances	=	\$108.00	\$110.70	SUBTOTAL
Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds	-	\$3.13	\$3.37	
Total Revenue Available for General-Purpose Spending	=	\$104.87	\$107.33	TOTAL

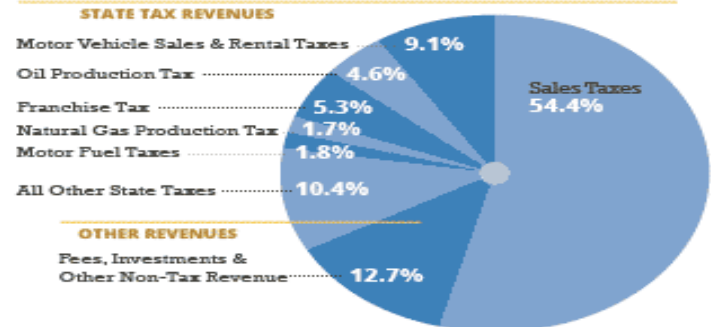
Legislative action during the 85th Regular Session deferred one transfer payment into the 2020-21 biennium.

Severance tax transfers to the Rainy Day Fund and the State Highway Fund



In addition to sales tax related transfers to the highway fund, in each biennium, amounts previously reserved are transferred to the state's Economic Stabilization Fund (ESF), also known as the "Rainy Day Fund," and the State Highway Fund (SHF).

Projected General Revenue-Related Revenues



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Texas Comptroller of Public Accounts

Source: Texas Comptroller, [Certification Revenue Estimate](#)

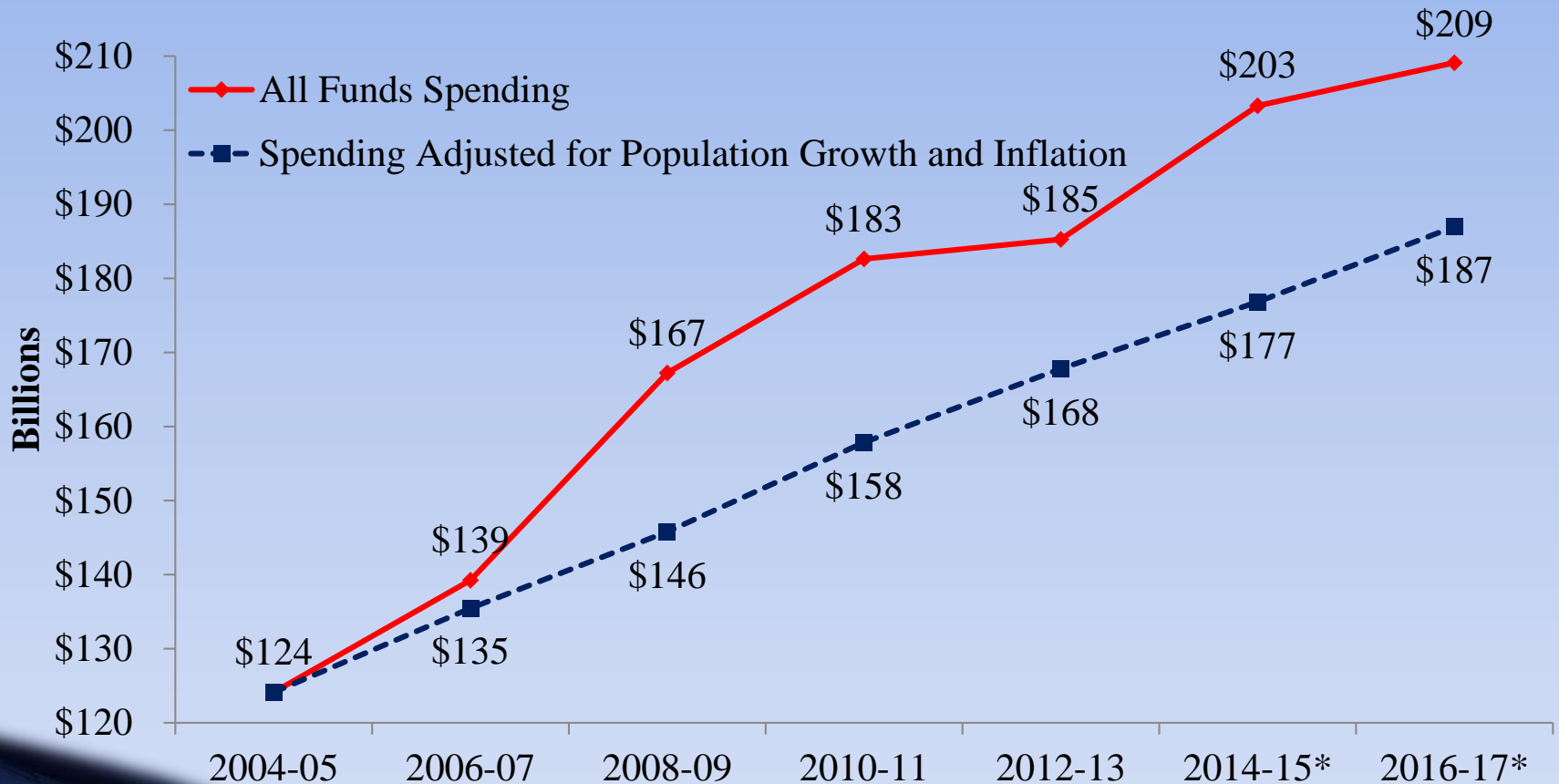
Texas Comptroller's

Certification Revenue Estimate 2018-19

\$ in Thousands	FY2016 (CRE) Actual	FY2017 (CRE) Estimated	FY2018 (CRE) Estimated	FY2019 (CRE) Estimated
Real GDP	0.3%	3.0%	3.7%	3.2%
Nonfarm Employment	1.4%	2.0%	2.1%	2.0%
Unemployment Rate	4.6%	4.7%	4.4%	4.1%
Taxable Oil Price	\$41.40	\$48.77	\$50.00	\$53.00
Sales Tax	\$28,245,801	\$28,900,035	\$30,490,044	\$32,040,056
Franchise Tax	\$3,881,176	\$3,242,219	\$3,581,406	\$3,792,687
Total Tax Collections	\$48,476,226	\$49,643,422	\$52,300,554	\$54,813,042
Total Net Revenue	\$111,280,871	\$111,195,221	\$111,468,208	\$113,080,421

- 2018-19: \$940 M expected ending balance
- “Projecting continued modest expansion”
- 8% Official Spending Limit by LBB

Spending Problem: Budget Up 11.8% More than Pop+Inf since 04-05 Budget



2016-17 Conservative Texas Budget To Sustain Stage 3: 6.5% Pop+Inf

Type of Funds	2016-17 GAA+Sup	2016-17 CTB Limits	2016-17 Spending Limits
State Funds	\$142.10 B	\$142.32 B	\$215.6 M
All Funds	\$211.7 B	\$215.22 B	\$3.51 B

Note: Find explanation [here](#).



2018-19 Conservative Texas Budget

Passed Stage 1: 4.5% Pop+Inf

Type of Funds	2018-19 GAA*	2018-19 CTB Limits	2018-19 GAA v CTB
State Funds	\$146.58 B	\$147.45 B	-\$872.0 M
All Funds	\$218.44 B	\$218.51 B	-\$74.7 M

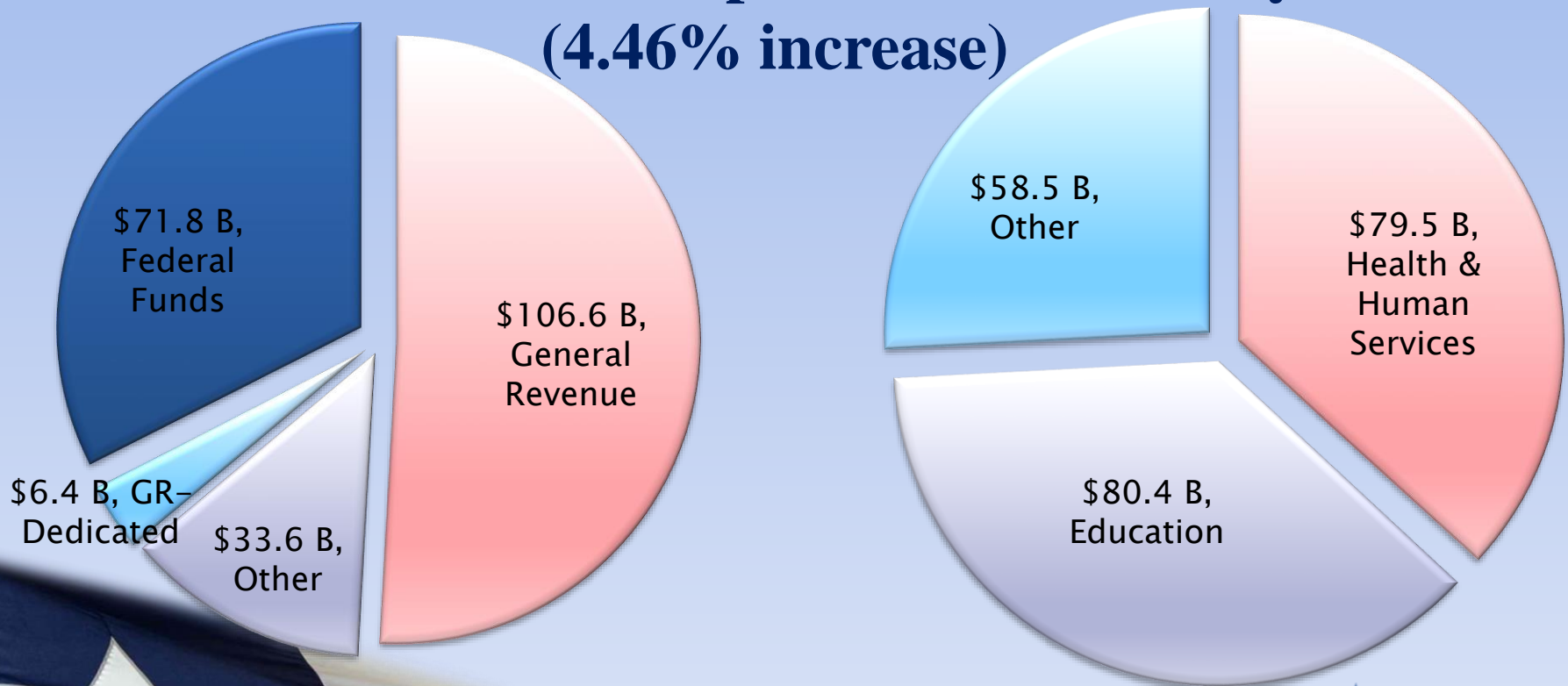
*Includes delayed \$1.8 billion Proposition 7 transportation payment

Note: Find explanation [here](#).



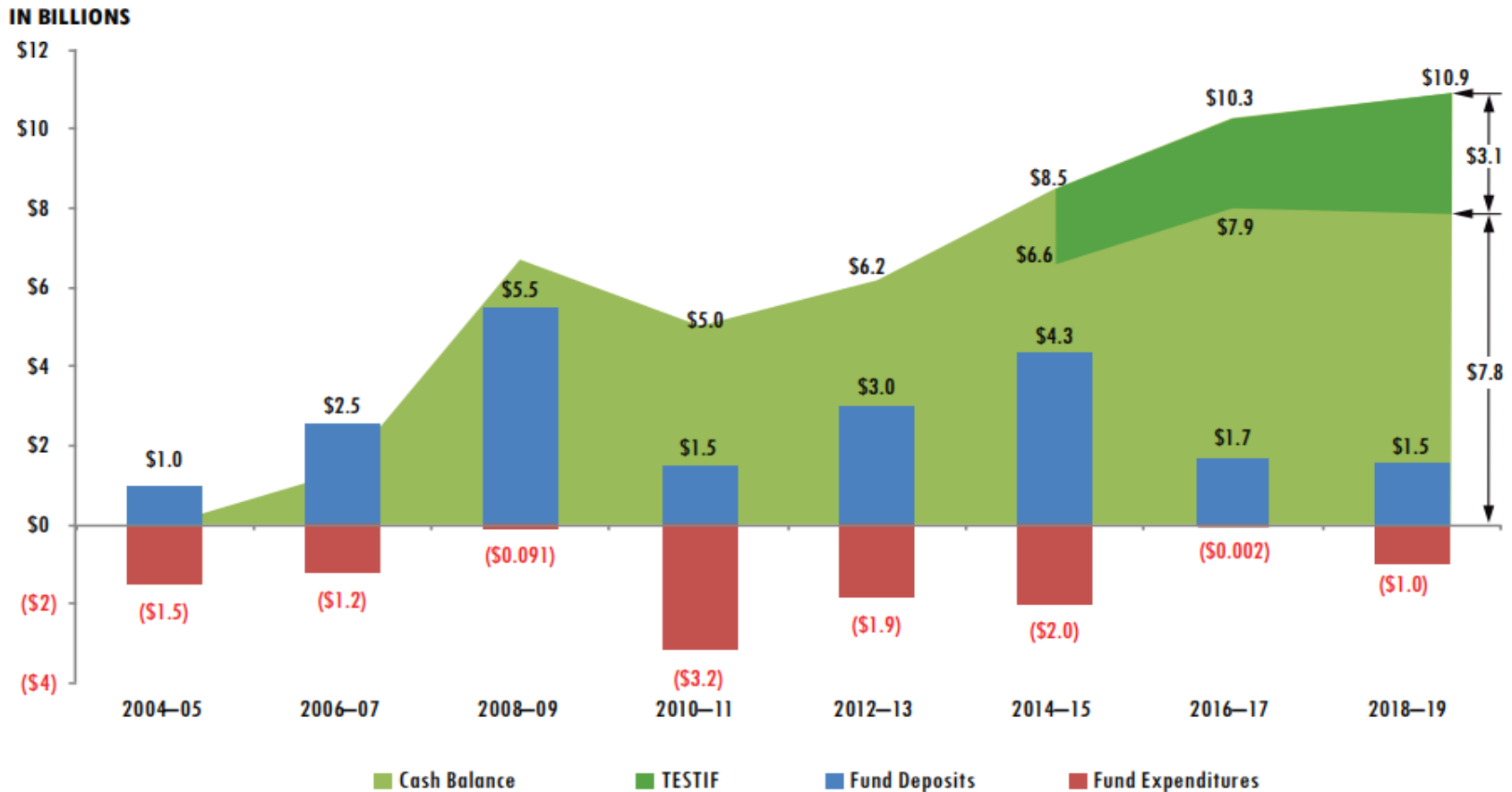
Texas Government Budget

2018-19 Total Approps: \$218.4 B
with \$1.8 B transportation fund delay
(4.46% increase)



Rainy Day Fund: CRE \$11.2 billion

85th Legislature Appropriated \$990 M



NOTE: Fiscal years 2017 to 2019 are projections based on the Comptroller of Public Accounts' 2017 Biennial Revenue Estimate.
 SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

Source: [Texas Comptroller](#), [Legislative Budget Board](#), and [TPPF](#)

2018-19 Conservative Texas Budget To Sustain Stage 2: 4.5% Pop+Inf

Type of Funds	2018-19 GAA*	2018-19 CTB Limits	2018-19 Supplemental Limits
State Funds	\$146.58 B	\$148.50 B	\$1.92 B
All Funds	\$218.44 B	\$221.23 B	\$2.79 B

*Includes delayed \$1.8 billion Proposition 7 transportation payment

Note: Find explanation [here](#).



Conservative Texas Budget Coalition:

Fiscal Recap of the 2017 Legislative Session

- Passed a conservative budget at this stage with the 2018-19 budget increase of 4.46% < pop+inf of 4.5%
- Failed to eliminate the business margin tax
- May provide meaningful property tax reform (Special)
- May reform weak tax and expenditure limit (Special)
- Failed to create the Sales Tax Reduction (STaR) Fund
- Passed increase in budget transparency (need more)

Gov't spending is ultimately paid for by taxation, so we must control spending to have the best opportunity for Texans to prosper.

Taking these steps now and in the future will secure that the American Dream is not dead – it has simply moved to the **Lone Star State.**



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