After decades of faring better than the rest of the country, Texas’ economic growth has lagged both the nation’s and its own past performance for almost three years.

The most recent U.S. recession was short-lived, beginning in March 2001 and ending that November, according to the National Bureau of Economic Research. It took Texas another 20 months—until July 2003—to bottom out, based on the Texas Coincident Index. Employment growth picked up in Texas in 2004. But while the 1.7 percent increase put Texas on par with the nation, it still left the state below its historical pace. What are the reasons for Texas’ prolonged downturn? Why did the state lose its edge?

Past Performance

Texas employment growth, on average, exceeded the nation’s from 1970 through 2004, with a 2.8 percent rate to the country’s 1.8 percent (Chart 1). The
Texas Economy Follows Oil Prices

Detrended Texas employment

2005 U.S. dollars per barrel

Oil price

Employment cycles

NOTE: Employment data are seasonally adjusted and have had the time trend removed.


After oil prices crashed, Texas diversified and the industry became a much smaller share of the state’s economy.

High oil prices were a boon to the Texas economy and helped it grow, even during national recessions, as seen in Chart 3. Oil prices that nearly tripled from $4 to above $10 per barrel (refiners’ acquisition cost) sent the United States into recession in December 1973 but boosted output and employment in Texas (Chart 3a). Oil prices started creeping up again in the late 1970s and rose from around $12 per barrel in 1978 to almost $30 when Iraq invaded Iran in September 1980. The U.S. economy went into recession—again, without Texas (Chart 3b).

But just as high oil prices helped Texas, low ones hurt it. The nation went into recession again in August 1981, and Texas followed 10 months later, the result of oil prices that began falling from record highs in March 1982 and the pull of the national downturn (Chart 3c).

Texas had its own recession in 1986, when oil prices collapsed and the real estate boom cratered. Low oil prices benefited the national economy but sent Texas into a steep decline. However, Texas skirted the national recession again in 1990, when West Texas Intermediate crude spiked to $45 per barrel with the Iraqi invasion of Kuwait (Chart 3d).

This Time Around

Texas looked much more like the nation in the 2001 recession than it did in past downturns, for two reasons (Chart 4). First, although oil prices were high, this recession was primarily due to a high-tech bust, not an oil price shock. Second, high oil prices do not help the Texas economy as much as they have in the past.

The collapse of high tech in the recent recession was greatly felt in Texas. The state had a larger share of high-tech employment than the U.S. average, so job losses in those industries were relatively higher. From March 2001 through July 2003 (the Texas recession), 39 percent of the jobs lost nationwide were in high tech—426,800 of them in manufacturing and 610,000 in services. Fifty-one percent of the 208,900 jobs lost in Texas were in high tech—51,900 of them in manufacturing and 55,500 in services.

The events of September 11 also contributed to Texas’ steep downturn. The transportation industry is important to the state’s economy and has a larger share of total employment than in the nation. Transportation was especially hard hit by fallout from the terrorist attacks, with the sector losing 280,000 jobs nationwide from March 2001 to July 2003. These job losses plus those in high tech constituted 50 percent of the total U.S. employment decline. Texas lost 21,200 transportation jobs, which, combined with its high-tech losses, accounted for 62 percent of the state’s total.2

Chart 5 illustrates Texas’ high-tech roller coaster. California is included as a comparison, along with the United States. High tech grew very fast in the 1990s but came back down just as fast. High-tech production in Texas grew six times as fast as the state’s overall output. During the recession, Texas high-tech manufacturing lost 107,400 jobs, nearly a third of its employment. Even though California started with a higher base and therefore grew less in percentage terms, more jobs were created in Texas. During the build-up, total high-tech manufacturing jobs increased by 47,000 in Texas, while they rose by only 17,000 in California. In semiconductors, for example, California added 22,000 jobs, while Texas added 35,000. Texas also grew faster than the nation in telecom services, adding 50,000 jobs during the ‘90s, then losing 30,000 during the recession.

Elsewhere in this publication, “Do Higher Oil Prices Still Benefit Texas?” discusses how the relationship between oil and the Texas economy has evolved. When the industry was a larger share of the Texas economy, higher oil prices were always a net benefit to the state. That...
changed in the late 1980s, when volatile energy prices helped erode the prominence of energy-intensive and energy-producing industries.

After oil prices crashed, Texas diversified and the industry became a much smaller share of the state’s economy. For example, oil and gas output, which accounted for nearly 20 percent of total Texas output in 1981, accounts for only about 6 percent today. Similarly, oil and gas jobs account for only 2 percent of Texas employment, down from a high of about 5 percent in 1982. The upshot is that rising oil prices benefit Texas much less now than they did in the past.

Texas is still a large producer and exporter of oil and gas, and when prices go up, it helps producers, royalty owners and the state through increased severance taxes. So, unlike the rest of the country, Texas gets an offset. But that offset is much less now than it was 25 years ago.

In sum, Texas’ economic performance has been below par over the last three years. Unlike other downturns, the 2001 recession was primarily due to a high-tech bust, not an oil price shock. And although oil prices were relatively high, they did not benefit Texas as much as in the past because the state economy has diversified. In addition, high tech grew very fast in Texas in the 1990s, to a share that was higher than the national average. Texas’ higher share of industries that were hard-hit in the recent recession was a major factor in the state’s prolonged downturn.

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Notes
1. The Texas Coincident Index aggregates the movements of key regional indicators—employment growth, the unemployment rate and gross state product—to gauge the state’s overall economic direction.
2. One point to note is that both high-tech and transportation employment were falling even before the onset of the recession. The two sectors were responsible for 73 percent of all job losses in Texas from December 2000 to July 2003.