WHAT’S IN STORE FOR TEXAS CITIES?

Houston’s Steady Growth Should Continue

Houston’s wage and salary job growth averaged 2.7 percent in 1994 and 3.1 percent in 1995 and held to a steady pace near 2.5 percent throughout 1996. The Houston labor market has tightened month by month since 1994, with the unemployment rate dipping below 5 percent in late 1996.

For Houston, 1997 promises to be more of the same: job growth near 2.5 percent and economic expansion driven by factors similar to those that have been at work since 1994. According to the best estimates available, Houston’s growth industries remain divided 50–50 between those related to oil and natural gas and those independent of energy. A strong national economy, operating at full employment, and high levels of industrial capacity utilization since 1994 have provided a powerful stimulus to Houston’s big nonenergy companies, such as Compaq Computers, Continental Airlines, BFI and American General Insurance.

Important weaknesses continue, however, at two of Houston’s biggest non-oil growth centers: the Texas Medical Center (TMC) and the Johnson Space Center (JSC). Cost containment in medical care has led to a steady reduction in jobs at the TMC. Similarly, budget cuts sustained by the National Aeronautics and Space Administration have led JSC to cut several hundred jobs per year. Neither center is a major drag on overall growth, but these centers are not providing Houston the billions of dollars in stimulus they delivered from 1987 to 1991.

Energy will be the key to Houston’s growth in 1997. Oil prices over $20 per barrel and natural gas over $2 per thousand cubic feet generated big cash flows for oil extraction, services and machinery companies in 1996, which in turn will bring numerous capital projects to Houston in 1997. Houston’s oil service and durable manufacturing industries surged through late 1996, and this growth should carry over well into 1997.

—Robert W. Gilmer

San Antonio, Austin
Poised for Job Growth

Employment growth in most parts of South Texas should pick up in 1997. As the Mexican recovery spreads beyond the export sectors and real wages begin to increase, the return of Mexican shoppers and vacationers to the border and San Antonio will boost these economies.

Although employment growth in South Texas has surpassed the state average over the past 10 years, the region’s performance since 1994 has been relatively weak. The main factors behind the weakness are the sharp fall in the peso’s value in late 1994 and the semiconductor price collapse in early 1996.

The importance of the tourism industry to San Antonio appears to have softened the blow of the peso devaluation there. The continued flow of U.S. tourists to these areas likely had an important positive impact, but the failure of Mexican tourists to return in large numbers weakened employment growth in 1996.

While the improvement in the Mexican economy this year will boost the tourism industry in San Antonio, several other factors will restrain growth. The 1996 drought and a lawsuit filed by an environmental group resulted in tight residential water restrictions and an increased perception among businesses that the city may not have an adequate water supply to maintain a strong long-run rate of economic growth. Cutbacks in the military also represent a challenge to the city. Overall, growth in 1997 will likely be close to the modest pace experienced in 1996.

Austin, one of the nation’s fastest growing metropolitan areas in the 1990s, had the state’s strongest employment growth in 1995. Job growth slowed sharply last year; however, as semiconductor prices fell and overall manufacturing employment growth slowed from 8.4 percent in 1995 to 2 percent in 1996. Another factor likely affecting employment growth in Austin is tightness in the labor market. The city’s unemployment rate averaged 3.1 percent in the first 10 months of 1996 even as employment growth slowed. The pace of growth in Austin is likely to accelerate in 1997 as semiconductor prices bottom out and the high-tech sector continues to gain momentum.

—Keith R. Phillips

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High-Tech and Distribution Fuel D/ FW Expansion

The Dallas/Fort Worth metroplex continued to expand briskly in 1996, even as the overall Texas expansion was slowing. The metroplex attracts manufacturers and service companies with good distribution facilities and a “business friendly” environment. Metroplex wages and construction and real estate costs remain a bargain compared with those in other major U.S. cities. D/FW’s location in the center of North America allows businessespeople to communicate easily with firms on both coasts and fly nonstop to most business centers worldwide. Ninety-six percent of the U.S. market can be served by truck or rail from D/FW warehouses in 48 hours.

In 1996, metroplex employment increased 3.6 percent, up slightly from 3.4 percent job growth in 1995. Firm expansions and relocations helped feed growth in the real estate and construction industries. Dallas and Fort Worth office markets surged in 1996. In suburban Dallas, office occupancy rates rose above the U.S. average and, for the first time in over a decade, construction plans were under way downtown. Homebuilding also remained quite strong.

Over half of Texas’ high-tech jobs are in D/FW companies. These firms felt the impact of the 1996 downturn in the electronics industry, but the effects were less damaging to the D/FW economy than to Austin’s because of the metroplex’s economic diversity. The metroplex also has a large share of telecommunications manufacturers, which continued to expand strongly.

With relatively low costs, good location and adequate water supply, the metroplex should continue to grow strongly into the next century.

—Fiona Sigalla

Mexican Recovery Boosts Border Outlook

Positive developments in the Mexican economy have given the Texas–Mexico border a healthy outlook for 1997. Border retailers will profit as the number of Mexicans making the trip north for their purchases increases in 1997. As the No. 1 state exporter to Mexico, Texas will benefit from increased U.S.–Mexico trade flows in 1997, and Texas border cities, as ports of entry for this trade, will benefit through increased activity in transportation services, customs and legal services, and warehouse/distribution facilities.

Mexico’s maquiladora industry, 70 percent of which is concentrated along the U.S. border, grew strongly for two years. Maquiladoras’ dynamic expansion translates into increased opportunities for border cities in supplying maquiladora companies with components, transportation and warehouse/distribution infrastructure, and legal, accounting, financial and other professional services.

Although double-digit unemployment rates persist, employment along the border has picked up. All major border cities have recorded a reduction in their unemployment rates from a year ago.

The border’s much-lamented double-digit unemployment rate may have a silver lining. To the extent that such high unemployment rates indicate excess labor, border cities have an advantage in attracting new company relocations and expansions. For example, the plastics-injection molding industry has found a niche in El Paso, and more companies in this field are locating in the city to take advantage of its inexpensive labor and lucrative maquiladora market across the border.

Thus, the border’s proximity to Mexico, combined with its excess labor force, offers potential growth for border cities. Some of this growth is already materializing and will surely become more evident throughout 1997.

—Lucinda Vargas