



Texas Twist: Why Did State's Unemployment Fall Below Nation's?

By Anil Kumar

State policymakers may gain valuable insights by determining how this remarkable 1.4 percentage point gap emerged in the U.S. unemployment rate minus the Texas rate.

Symbolic of Texas' relative economic health during the recent recession, the unemployment rate has trailed U.S. joblessness by an average 1 percentage point since January 2007. This marks a reversal of a trend from the 1990s through 2006, when the state averaged 0.4 percentage point more unemployment than the nation (*Chart 1*).

No one feature seems responsible for the shift. Institutional factors such as less unionization and a lower minimum wage than most other large states may account for reduced Texas unemployment but cannot explain the recent reversal.

Business cycle factors contribute to the gap as well. Texas and U.S. recessions don't always overlap, and even when they do, the intensity differs. The smaller impact of the housing bubble in Texas has helped keep the unemployment rate lower in the current housing-led recession.

A part of the gap may also be due to Census Bureau undercounting of undocumented individuals in the Current

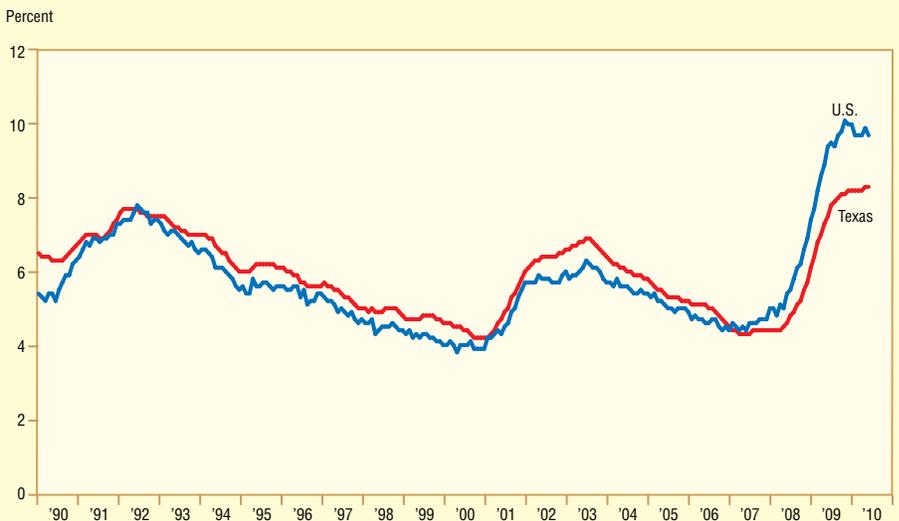
Population Survey. Not accounting for the undocumented will probably lead to underestimating joblessness in a recession.

The Texas industrial mix is also different, with a lower share of manufacturing in total employment relative to the U.S. Rising oil and gas prices tend to benefit the state, though the unemployment rate gap seems to have evolved independently of energy sector volatility after 2007. Additionally, the economy is aided by a more than 1 percentage point lead over the nation in average job growth over the past 10 years.

While the lower unemployment rate in Texas has received much media attention, specific causes for the transition to lower joblessness than in the nation have been much less explored. Is it due to changes in demographics, industrial mix or state policy? Perhaps it's the result of a change in data collection and analysis? State policymakers may gain valuable insights by determining how this remarkable 1.4 percentage point gap emerged in the U.S. unemployment rate mi-

Chart 1

Texas Unemployment Rate Dips Below U.S. Rate Before Recent Recession



SOURCES: Haver Analytics; Bureau of Labor Statistics.

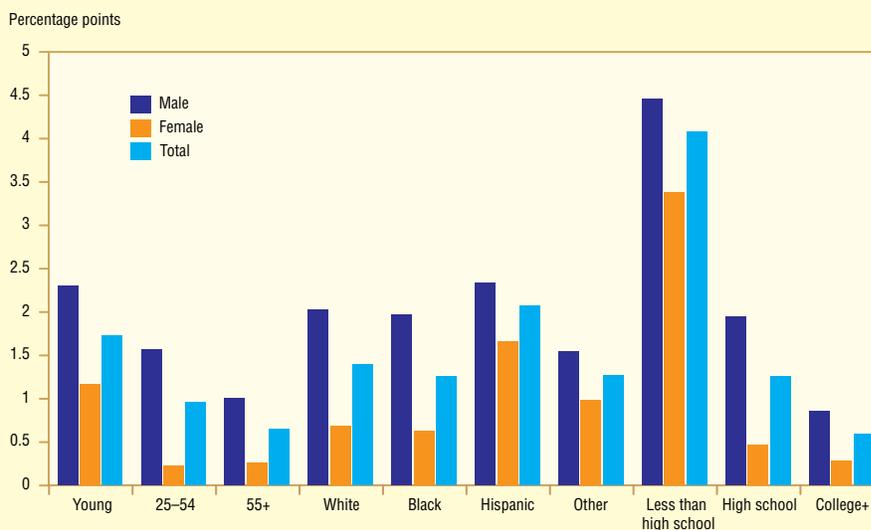
Demographics account for a small portion of the approximately 1 percentage point higher U.S. unemployment.

Chart 2 U.S.–Texas Jobless Gap Reverses Among Key Groups

A. U.S.–Texas Unemployment Rate Gap (Pre-2007)



B. U.S.–Texas Unemployment Rate Gap (Post-2007)



NOTE: Bars reflect the difference between U.S. and Texas unemployment rates (in percentage points).

SOURCES: Current Population Survey, January 1998–December 2009, Bureau of Labor Statistics; author's calculations.

nus the Texas rate, from pre-2007 (1998–2006) to post-2007 (2007–09).¹

To be sure, demographics would suggest more, not less, unemployment in Texas, with its higher-than-the-nation percentage of young people, minorities and workers without a college degree—all categories with an above-average jobless rate. The difference in jobless rates by group is plotted in Chart 2. Before 2007, higher Texas unemployment (the negative numbers) was primarily driven by younger people, prime-age workers (25–54 years old), blacks and workers with a high school diploma (Chart 2A). After 2007 and

the onset of the U.S. recession, the picture is vastly different. U.S. joblessness currently surpasses Texas' among all key groups (Chart 2B). For example, workers nationally without a high school diploma have an unemployment rate 4 percentage points above those in Texas post-2007, compared with 1.5 percentage points pre-2007.

Data collection methods can't account for the overall shift, and how unemployment is calculated hasn't changed since 2007 (see box, "Data-Related Explanations"). The change in the U.S.–Texas unemployment rate gap largely reflects improved labor mar-

Data-Related Explanations

The unemployment rate is calculated from the Current Population Survey, a household-based telephone survey that's subject to sampling variability and low response rates among certain demographic groups. To make the sample representative of U.S. and state populations, the Bureau of Labor Statistics uses population-weighted responses to calculate the jobless figure and other measures of labor market activity. Every January, the population weights are revised to reflect new Census Bureau estimates for each demographic segment. As a result, there are two possible data-related explanations for divergence of the U.S.–Texas unemployment rate gap since 2007.

In some years, revising the population count of a particular group can produce significant changes in the demographic composition of Texas relative to the nation. For example, in January 2008, the estimated Hispanic population was revised lower because of Census Bureau methodology changes used to calculate international migration. While the total civilian, noninstitutional population fell by 745,000 in the U.S., the estimate of people with Hispanic and Latino ethnicity declined by 349,000. The Hispanic population reduction disproportionately affected Texas, likely trimming Texas' unemployment rate relative to the nation because of that demographic group's higher-than-average unemployment rate.

To assess the impact of population adjustments, the weights in December 2007 were used to estimate the unemployment rate for all subsequent months. Holding weights fixed had little impact on the pattern of the gap.

A second possible source of difference is the Bureau of Labor Statistics' use of alternative methodologies for estimating the unemployment rates for states. To circumvent imprecision resulting from states' smaller sample sizes, official unemployment rates aren't estimated from direct counts of the jobless as a percentage of the labor force in the Current Population Survey—the way the national figure is calculated. Instead, the bureau uses model-based estimation for the states. This difference in methodology of the national and the state unemployment rate hasn't changed since 2007 and, therefore, probably played no role in the U.S.–Texas gap becoming positive.¹

¹ The Bureau of Labor Statistics last revised the methodology for calculating state unemployment rates in 2005, but the revisions were applied to all previous years to maintain comparability.

The comparatively larger proportion of people looking for work nationally at a time of decreasing employment widened the unemployment rate gap with Texas, leaving the state in a relatively better position.

ket prospects in the state versus the nation, with a broad-based shift for all demographic groups after January 2007.

Role of Demographics

Texas has a relatively larger share of teens, Hispanics and high school dropouts and fewer college graduates—all correlated with the unemployment rate. But did that mix change much after 2007?

Demographics evolve slowly and it is unlikely that they shifted enough in a decade to contribute significantly to lowering Texas joblessness vis-à-vis the nation. In Chart 3, the U.S.–Texas unemployment gap is divided into parts: a portion explained by differences in demographic composition such as sex, age, race and education and a part attributable to other factors, such as industrial composition of the workforce and business cycles.² The gap is shown for either side of the 2007 turning point.

The pre-2007 gap can largely be explained by variation in demographic composition, especially differences in education and race. Post-2007 is very different. Demographics account for a small portion of the approximately 1 percentage point higher

U.S. unemployment. A comparison of pre- and post-2007 suggests that demographics, as expected, had little to do with the gap's reversal; rather, the increase in the contribution of other factors dominates.

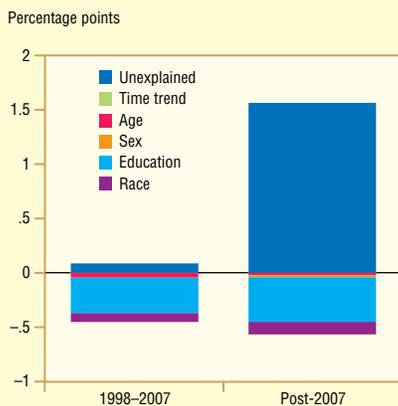
Seeking Work vs. Employed

Two indicators that help explain the unemployment rate could provide clues to why Texas joblessness dipped below the nation's. The labor force participation rate is the proportion of the adult population working or looking for work, and the employment/population ratio is the proportion actually on the job. The difference between them approximates the unemployment rate.³ Declining joblessness might be due to fewer people seeking work or a higher proportion of employed individuals.

A falling unemployment rate because discouraged workers left the labor force isn't desirable and reflects economic weakness. Conversely, a larger proportion of employed people indicates labor-market strength. During the past decade, the Texas labor force participation rate was consistently higher than the nation's, though it sharply dropped to the U.S. rate as the recession took hold (*Chart 4*).

Chart 3
Demographic Factors Fail to Account for U.S.–Texas Jobless Rate Gap after 2007

(Contribution to U.S.–Texas unemployment rate gap)



SOURCES: Current Population Survey, January 1998–December 2009, Bureau of Labor Statistics; author's calculations.

Construction's share of total employment rose sharply in Texas relative to the nation, where housing led the recession.

During the downturn, the proportion of Texans in the labor force began stabilizing, while nationally it declined.

Meanwhile, the state's share of people employed followed the nation until the recession, when it fell, though less precipitously than across the country (*Chart 5*).

The comparatively larger proportion of people looking for work nationally at a time of decreasing employment widened the unemployment rate gap with Texas, leaving the state in a relatively better position.

Fewer Jobs, Still Looking

Comparing before and after 2007, the relative difference in the percentage of U.S. and Texas populations working or willing to work narrowed across most demographic categories (*Table 1*). Overall, the nation and state labor force participation rate each declined during the pre-2007 period. But the Texas rate fell faster as population growth outstripped labor force expansion.

Before 2007, Texas labor force participation exceeded that of the U.S. for all groups except Hispanics, younger workers, those 25–54 years old and females. Texans with less than a high school diploma were comparatively more likely to seek work or be employed—their participation exceeded the nation's by more than 5 percentage points.

In the post-2007 period, Texas' diminishing labor force participation rate and slowly falling employment rates dampened rising joblessness in the state. The trend was

mirrored among key Texas demographic segments (*Table 2*). Meanwhile, U.S. joblessness grew faster, reflecting an overall greater proportion of the population willing to work amid a paucity of positions. As more people across the country sought fewer jobs, the unemployment rate gap swung in favor of Texas (*Chart 6*).

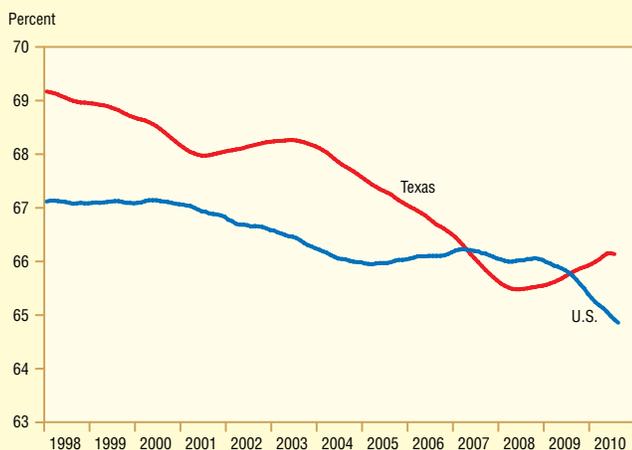
The bottom line: The national unemployment rate increased 1.6 percentage points while Texas joblessness rose 0.2 percentage point from pre- to post-2007, leading to the gap in average unemployment between the two periods of 1.4 percentage points.

Other Structural Factors

Other structural factors may hold the unemployment rate down, but they were present both before and after 2007. They include differences in union coverage, minimum wage laws, trends in real wages and the relative generosity of the unemployment insurance system across states.

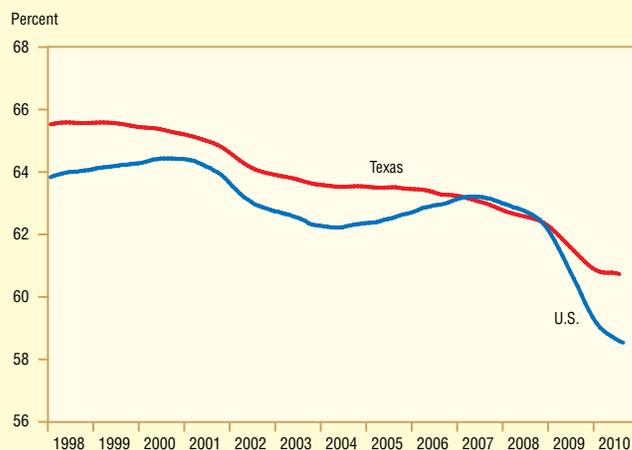
Changes in the industrial structure of Texas employment compared with that of the U.S. might explain the unemployment rate gap. While the relative share of manufacturing and services remained roughly stable after 1998, the share of construction rose dramatically in Texas after the nationwide housing meltdown, which disproportionately affected the rest of the nation. Rising oil and natural gas prices also tend to benefit Texas while hurting the rest of the nation. But energy prices rose sharply and then

Chart 4
Labor Force Participation Rate Declines Faster in Texas Than in U.S. Through 2007



SOURCES: Current Population Survey, January 1998–July 2010, Bureau of Labor Statistics; author's calculations.

Chart 5
Employment/Population Ratio Falls More Steeply in U.S. Than in Texas Post-2007



SOURCES: Current Population Survey, January 1998–July 2010, Bureau of Labor Statistics; author's calculations.

Table 1

Labor Force Participation Rate

| | Texas | | | U.S. | | |
|----------------|--------------------|---------------------|-------------------------|--------------------|---------------------|-------------------------|
| | Pre-2007 (percent) | Post-2007 (percent) | Percentage point change | Pre-2007 (percent) | Post-2007 (percent) | Percentage point change |
| Male | 77 | 75 | -2 | 74 | 73 | -1 |
| Female | 59 | 57 | -2 | 60 | 59 | 0 |
| Young | 61 | 56 | -6 | 63 | 58 | -5 |
| 25-54 | 83 | 81 | -1 | 83 | 83 | 0 |
| 55+ | 37 | 40 | 3 | 35 | 39 | 5 |
| White | 68 | 65 | -3 | 67 | 66 | -1 |
| Black | 69 | 65 | -4 | 65 | 63 | -2 |
| Hispanic | 67 | 66 | -1 | 68 | 68 | 0 |
| Other | 68 | 68 | 0 | 66 | 66 | 0 |
| Less than h.s. | 49 | 47 | -2 | 44 | 42 | -1 |
| High school | 71 | 68 | -3 | 69 | 67 | -2 |
| College+ | 80 | 78 | -2 | 79 | 78 | -1 |

SOURCES: Current Population Survey, January 1998–December 2009, Bureau of Labor Statistics; author's calculations.

Table 2

Employment/Population Ratio

| | Texas | | | U.S. | | |
|----------------|--------------------|---------------------|-------------------------|--------------------|---------------------|-------------------------|
| | Pre-2007 (percent) | Post-2007 (percent) | Percentage point change | Pre-2007 (percent) | Post-2007 (percent) | Percentage point change |
| Male | 73 | 71 | -2 | 70 | 68 | -3 |
| Female | 56 | 54 | -2 | 57 | 56 | -1 |
| Young | 54 | 49 | -5 | 56 | 50 | -6 |
| 25-54 | 79 | 78 | -2 | 80 | 78 | -2 |
| 55+ | 36 | 38 | 2 | 33 | 38 | 4 |
| White | 66 | 63 | -3 | 64 | 62 | -2 |
| Black | 62 | 58 | -4 | 59 | 56 | -3 |
| Hispanic | 63 | 62 | -1 | 64 | 63 | -1 |
| Other | 65 | 65 | 0 | 63 | 62 | -1 |
| Less than h.s. | 45 | 42 | -2 | 39 | 36 | -2 |
| High school | 67 | 64 | -3 | 65 | 62 | -3 |
| College+ | 78 | 76 | -2 | 77 | 75 | -2 |

SOURCES: Current Population Survey, January 1998–December 2009, Bureau of Labor Statistics; author's calculations.

plummeted precipitously during 2007–09 even as the U.S.–Texas unemployment rate gap widened in favor of Texas.

Conclusion

Prior to the recession, the number of people in the Texas labor force rose faster than in the nation, but population grew even more quickly—producing a large decline in the proportion of people in the labor force. Meanwhile, in the U.S, labor force participation fell less rapidly and greater unemployment occurred.

Texas' home prices remained relatively

stable. Construction's share of total employment rose sharply relative to the nation, where housing led the recession. The sturdiness of the construction sector and the reversal in the unemployment rate gap after 2007 suggest a possible relationship.

In the coming months, it is very likely that the gap will narrow, although it may not disappear anytime soon.

Three reasons help explain this probable narrowing of the gap. Texas' labor force participation rate has shown signs of stabilizing since 2008. Second, there appear to be no structural explanations for the difference

to persist. Finally, the U.S.–Texas gap tends to creep up before each national recession and then narrow. It happened in 2001 when both the U.S. and Texas entered the recession, just as in 2008, although the primary drivers of the two downturns were different.

Kumar is a senior research economist and advisor in the Research Department at the Federal Reserve Bank of Dallas.

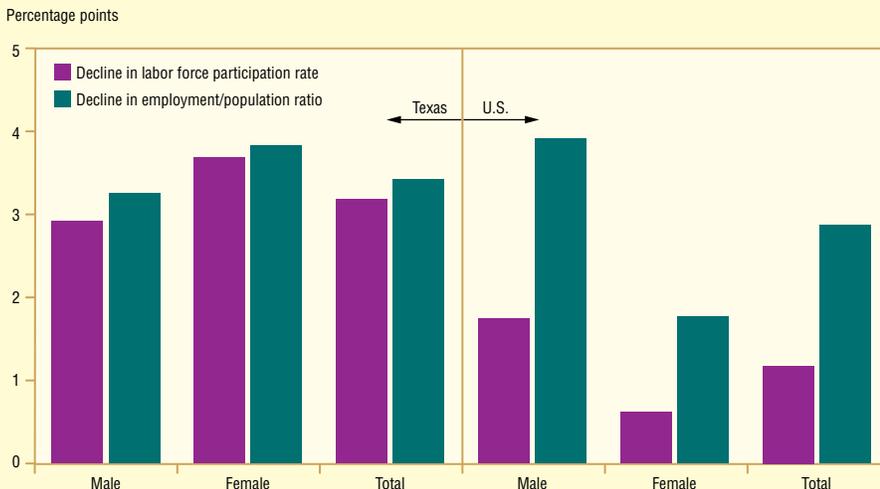
Notes

¹ Throughout the article, unless otherwise stated, “the unemployment rate gap” or “the gap” refers to the unemployment rate of the U.S. minus the unemployment rate of Texas; pre-2007 refers to 1998–2006; and post-2007 refers to 2007–09. For the sake of enhanced comparability, the unemployment rate and other labor market indicators for Texas are calculated directly using the Current Population Survey data, similar to how they're used for the national estimates. The data in this article are from the Current Population Survey from January 1998 through December 2009. To deal with the imprecision problem of smaller state samples and the seasonality of the monthly labor force statistics, a 12-month moving average is used whenever appropriate.

² This analysis is performed using the well-known Blinder–Oaxaca decomposition. See “Wage Discrimination: Reduced Form and Structural Estimates,” by Alan Blinder, *Journal of Human Resources*, vol. 8, no. 4, 1973, pp. 436-55, and “Male-Female Wage Differentials in Urban Labor Markets,” by Ronald Oaxaca, *International Economic Review*, vol. 14, no. 3, 1973, pp. 693–709.

³ For a detailed discussion, see “The Labor Market in the Great Recession,” by Michael Elsby, Bart Hobijn and Aysegül Sahin, *Brookings Papers on Economic Activity*, Spring 2010, pp. 1–48.

Chart 6
Decomposing the Rising Unemployment Rate, Post-2007



SOURCES: Current Population Survey, January 1998–December 2009, Bureau of Labor Statistics; author's calculations.