A Reprint from *Tierra Grande*, the Real Estate Center Journal

In the last decade of the second millennium, the U.S. economy recorded its longest period of economic expansion thanks to low unemployment, low inflation and high productivity growth. From 1992 to 2000, the U.S. gross domestic product (GDP) increased by 34.4 percent in real terms. Meanwhile, the GDP deflator, an aggregate measure of inflation, rose 16.4 percent, or an average annual rate of about 2 percent.

As the nation's unemployment rate fell from 7.4 to less than 5 percent, Federal Reserve Board Chairman Alan Greenspan warned that the law of supply and demand had not been repealed and hinted that inflation might be inevitable in a tight labor market if the economy continues on its high-flying course. To slow the economy, the Fed raised the federal funds rate in four increments from 4.75 percent in May 1999 to 6.50 percent in May 2000.

In the fourth quarter 2000, the Fed's hope for a soft landing of the U.S. economy was put in doubt by layoff news, an 8 percent drop in the S&P 500, high corporate bond yields and vanishing bank credit. Based on the downturn in stocks and higher interest rates, many concluded the U.S. economy was headed for a hard landing.

While financial data pointed to the possibility of a recession, macroeconomic data provided a more optimistic view. Layoffs were mostly concentrated in manufacturing, which accounts for 15 percent of the U.S. economy in terms of gross domestic product or employment. Inflation remained tame while the service-producing sector, 80 percent of the economy, continued to create more jobs, although at slower rates.

A Commerce Department report shows the U.S. economy grew at an annual rate of 2 percent in first quarter 2001, up from 1 percent in fourth quarter 2000. The first-quarter growth rate was the strongest since the 2.2 percent posted in third quarter 2000. If these preliminary results are confirmed, the longest economic expansion on record is now entering its tenth straight year.

Growth of the U.S. economy in the first quarter is mainly the result of consumer spending, which accounts for two-thirds of U.S. economic growth and is the most important component of aggregate demand.

The Commerce Department reported that consumer spending rose to a 3.1 percent annual rate for the first quarter, up from 2.8 percent in fourth quarter 2000. Spending data portray a more bullish view of consumer confidence than several recent surveys of consumer sentiments.

By cutting short-term interest rates, the Fed hopes to strengthen consumer spending while raising business confidence. Unlike the 1991 recession, the current economic slowdown is mainly the result of lower spending by firms. Lower interest rates and better-than-expected first quarter corporate earnings are expected to have a positive impact on business confidence in the second half of the year.

The Texas Economy

The Texas economy, like the U.S. economy, cooled in the second half of 2000. Between May 2000 and March 2001, nonfarm employment growth rates for the United States decreased from 2.5 percent to 0.9 percent. At the same time, Texas growth rates fell from 3.5 to 2.8 percent. In recent months, the slowdown in the U.S. employment growth rate has been particularly severe in the goods-producing sector, which remains negative. The state's economy has growth rates of more than 3 percent in the service-producing sector, coupled with growth rates of more than 1 percent in the goods-producing sector.

Texas' unemployment rate fell to 3.7 percent in December 2000 but increased to 4.1 percent by March. The U.S. economy posted its lowest unemployment rate, 3.9 percent, in September 2000 in March the rate stood at 4.3 percent.

Almost all major sectors of the Texas economy gained jobs between March 2000 and March 2001. After a long period of job losses, the state's mining sector, helped by higher oil prices, posted the largest employment growth rate among Texas industries in March 2001. Growth of the state's construction employment fell from 7.1 percent in March 2000 to 3.2 percent in March 2001. The state's manufacturing sector is no longer losing jobs, but the recovery is not yet strong.

Over the past year, the annual employment growth rate in the state's transportation, communications and utilities sector remained above 4 percent, and the sector posted the highest growth rate of employment in the state's service-producing sector. Since February 2000, the employment growth rate in the state's trade sector has fallen from 3.7 percent to 1.9 percent. Employment in the state's finance, insurance and real estate sector rose 1.5 percent between March 2000 and March 2001.

Texas Metropolitan Statistical Areas Nonagricultural Employment Growth, March 2000 to March 2001

Rank	Metropolitan Area	Employment Growth Rate
1	McAllen-Edinburgh-Mission	4.4
2	Austin-San Antonio	4.0
2	Dallas	4.0
4	Brownsville-Harlingen	3.6
5	Laredo	3.5
6	Fort Worth-Arlington	3.3
7	San Antonio	2.9
8	Odessa-Midland	2.8
	Texas	**2.8**
9	Victoria	2.7
10	Houston	2.6
11	Lubbock	1.9
11	Tyler	1.9
13	Bryan-College Station	1.8
14	Killeen-Temple	1.6
15	Texarkana	1.3
16	Wichita Falls	1.2
16	Amarillo	1.2
18	Brazoria	0.8
19	El Paso	0.7
20	Corpus Christi	0.1
20	Beaumont-Port Arthur	0.1
22	Waco	–0.1
23	San Angelo	–0.2
24	Longview-Marshall	–0.3
25	Galveston-Texas City	–0.5
26	Sherman-Denison	–0.9
27	Abilene	–1.6

Source: Texas Workforce Commission

Texas Metropolitan Statistical Areas Ranked by Nonagricultural Unemployment Rate in March 2001

Rank	Metropolitan Area	Unemployment Rate
1	Bryan-College Station	1.4
2	Austin-San Marcos	2.5
3	San Angelo	2.6
4	Lubbock	2.8
5	Amarillo	3.0
5	Wichita Falls	3.0
7	Dallas	3.2
7	Fort Worth-Arlington	3.2
7	San Antonio	3.2
7	Tyler	3.2
11	Waco	3.4
12	Houston	3.5
12	Victoria	3.5
14	Abilene	3.7
15	Sherman-Denison	3.8
16	Killeen-Temple	4.0
	Texas	**4.0**
17	Odessa-Midland	4.1
18	Longview-Marshall	4.7
19	Galveston-Texas City	4.9
20	Corpus Christi	5.0
21	Brazoria	5.1
22	Beaumont-Port Arthur	6.9
23	Laredo	7.0
24	El Paso	7.4
25	Brownsville-Harlingen	7.7
26	McAllen-Edinburgh-Mission	12.8

Unemployment data for Texarkana not available

Source: Texas Workforce Commission

Real Estate and the State's Economy

Despite higher mortgage rates in 2000, the number of single-family homes sold in Texas rose 2.4 percent while the average home price increased by 10.4 percent. Higher sales volume and home prices and a fall in average inventory from 5.2 months in 1998 to 4.5 months in 2000 suggest that the Texas real estate market continues to be robust despite a slowing economy.

Austin's high-flying economy has lost momentum. Between August 2000 and March 2001, Austin's nonfarm employment growth rate fell from 6 percent to 4 percent. Despite cooling of the region's economy, Austin ranked second among Texas metro areas in employment growth rate for the year ending March 2001. The metro area also had the second lowest unemployment rate.

The pattern of employment cycles for the Dallas metro area is similar to statewide averages. The metro area ranked second in employment growth rate and had the seventh lowest unemployment rate. The nonfarm employment growth rate for Fort Worth-Arlington remains above the statewide averages.

Since January 2001, the nonfarm employment growth rate for Houston's metro area decreased from 3.1 to 2.6 percent, a sign of cooling. The Houston metro area ranked tenth in employment growth rate between March 2000 and March 2001 and had the 12th lowest unemployment rate. The annual growth rate of nonfarm employment for the San Antonio metro area in March 2001 (2.9 percent) was above the statewide average rate. The area ranked seventh in employment growth and had the seventh lowest unemployment rate among Texas metro areas.

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Tierra Grande (ISSN 1070-0234), formerly *Real Estate Center Journal*, is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, $20 per year.