



Texas Income Recovery

By Ali Anari

Economic recessions not only mean higher unemployment rates but also lower income growth rates for those who manage to keep their jobs, lower profits for firms and lower revenues for government at the local, state and federal levels. Analyzing Texas income cycles is an important part of the business cycle monitoring research program at the Real Estate Center.

Business Cycles and Income

According to Arthur Burns, former chairman of the Federal Reserve, "He who would understand business cycles must master the workings of an economic system organized largely in a network of free enterprises searching for profit. The problem of how business cycles come about is therefore inseparable from the problem of how a capitalist economy functions."

Figure 1. Education and Health Services Industry Income

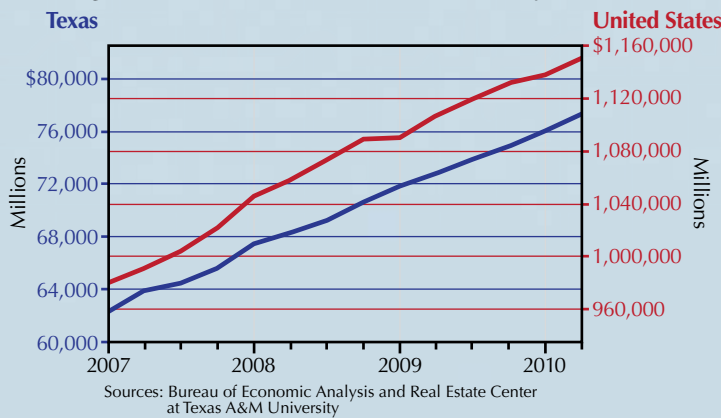


Figure 2. Leisure and Hospitality Industry Income

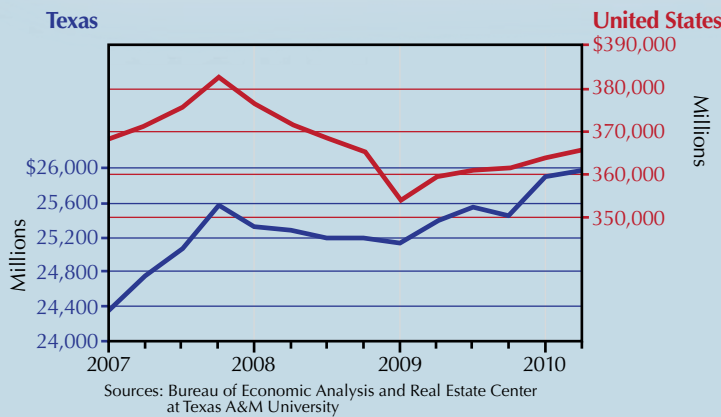


Figure 3. Government Sector Income

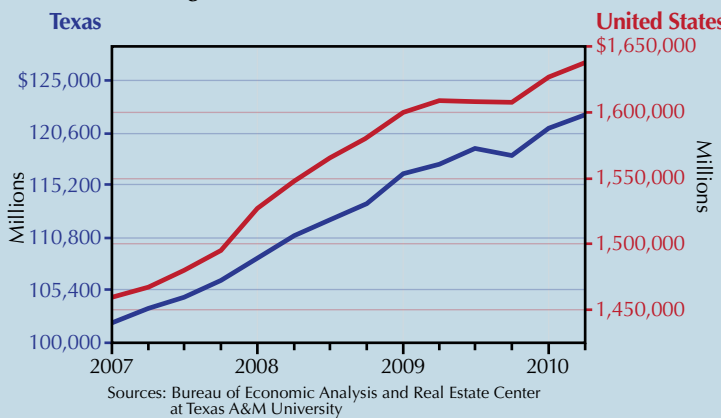
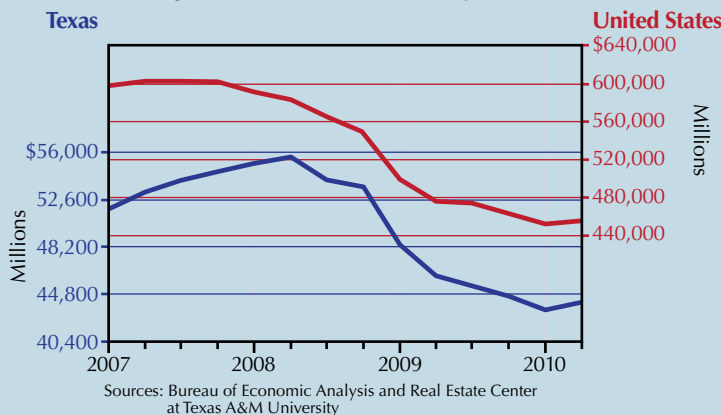


Figure 4. Construction Industry Income



Firms' optimism or pessimism about their expected profits leads them to produce more or less output, resulting in cyclical fluctuations in output, income and employment. Similarly, consumers' optimism or pessimism about their expected income levels leads to more or less consumption of goods and services, resulting in cyclical fluctuations in consumption and output.

Texas Income in the Great Recession

The Great Recession began in fourth quarter 2007 (2007Q4), according to the Business Cycle Dating Committee of the National Bureau of Economic Research. From 1990 until then, the average annual growth rate of Texas income was 6.1 percent. But during the recession, the state's total income fell from a peak of \$976,435 million in 2008Q3 to \$953,358 million in 2009Q3, a decline of 2.4 percent compared with 2.9 percent for the United States (Table 1). Since hitting bottom, the state's income has rebounded to \$988,087 million in 2009Q2, an increase of 3.6 percent.

The state's total wage and salary disbursements decreased from a prerecession peak of \$506,531 million in 2008Q3 to \$487,783 million in 2009Q3, a decrease of 3.7 percent, less than the 5.1 percent for the nation (Table 1). Wage and salary disbursements increased to \$500,589 million in 2010Q2.

Proprietors' income in Texas (income received by businesses operated by their owners) fell from a peak of \$144,738 million in 2008Q3 to \$124,371 million in 2009Q3, a 14.1 percent decrease compared with a 9.9 percent decline for the United States (Table 1).

Income from dividends, interest and rent in Texas decreased by 4.8 percent from its prerecession peak of \$165,537 million in 2008Q4 to \$157,589 million in 2009Q3, compared with an 8.3 percent decrease for the nation (Table 1).

Growing contributions from transfer payments played a key role in boosting income in Texas and the United States during the Great Recession. Transfer receipts are government payments received by individuals and nonprofit institutions for which no current services are performed.

Total transfer receipts excluding unemployment benefits in Texas rose 28.2 percent, from \$114,969 million in 2007Q4 to 147,359 million in 2010Q2, compared with 25 percent for the United States (Table 2). State unemployment insurance benefits increased from \$1,250 million in 2007Q4 to \$6,979 million in 2010Q2 (Table 2). Since the beginning of the recession in 2007Q4, the

Texas in the Great Recession

Table 1. Total Income and its Major Components

	Precession Peak Income \$Million	Trough Income \$Million	2010Q2 Income \$Million	Peak to Trough Decline Rate (Percent)	
				Texas	United States
Total Income	976,435	953,358	988,087	2.4	2.9
Wages and Salaries Income	506,531	487,783	500,589	3.7	5.1
Proprietors' Income	144,738	124,371	129,336	14.1	9.9
Dividends, Interest and Rent	165,537	157,589	161,445	4.8	8.3
Private Nonfarm	645,529	603,903	621,359	6.4	5.7

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University

Table 2. Transfer Income Receipts and Components

	2010Q2	2007Q4	Growth Rate (Percent)	
			Texas	United States
Total Transfer Payments	154,338	116,218	32.8	30.5
Unemployment Insurance	6,979	1,250	458.3	307.7
Transfer Income Excluding Unemployment Insurance	147,359	114,969	28.2	25.0

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University

Table 3. Income Generated by 'Recession Proof' Industries and Government Sector Fourth Quarter 2007 to First Quarter 2010

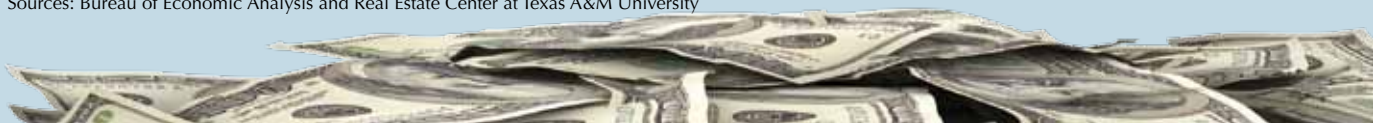
Industry	2010Q2 \$Million	2007Q4 \$Million	Percent Change	
			Texas	United States
Educational and Health Services	77,293	65,614	17.8	13.2
Leisure and Hospitality	25,981	25,580	1.6	-4.4
Government Sector	121,749	105,954	14.9	9.6

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University

Table 4. Income Generated by Industry from Peak to Trough

Industry	Peak \$Million	Trough \$Million	2010Q2 \$Million	Peak-Trough Decline Rate (Percent)	
				Texas	United States
Construction	55,630	42,659	43,356	23.3	25.0
Mining	71,257	56,260	60,527	21.0	19.7
Information	22,189	19,661	19,661	11.4	5.8
Manufacturing	81,418	73,433	75,036	9.8	11.1
Trade	88,951	83,224	85,699	6.4	8.3
Professional and Business Services	108,576	101,972	106,761	6.1	5.4
Financial Activities	60,415	57,230	58,277	5.3	14.6
Transportation, Warehousing, Utilities	42,513	40,470	42,305	4.8	4.5
Other Services	25,009	24,416	25,093	2.3	4.9

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University



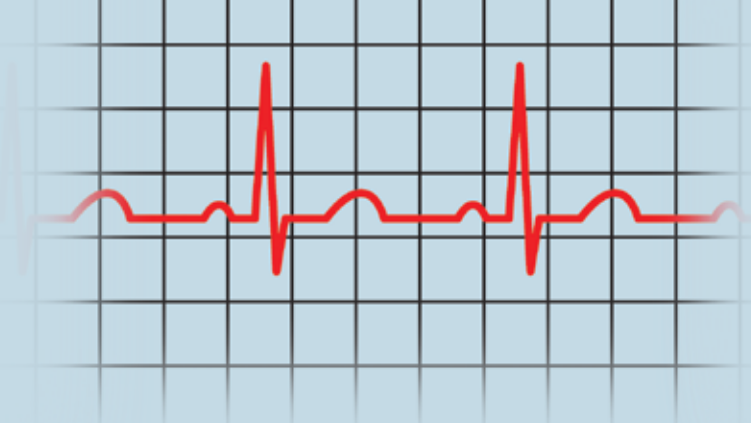


Figure 5. Mining Industry Income

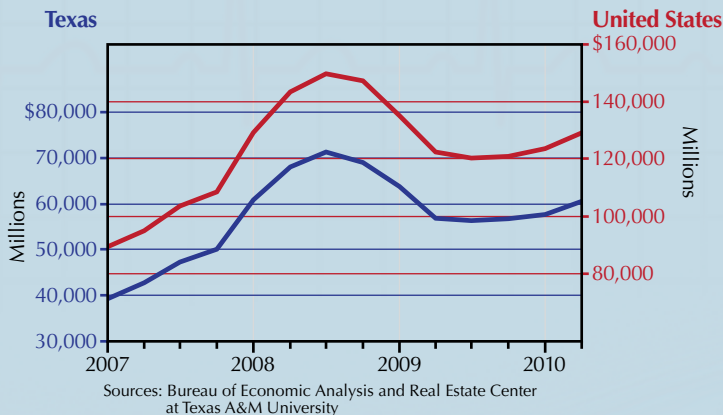


Figure 6. Information Industry Income

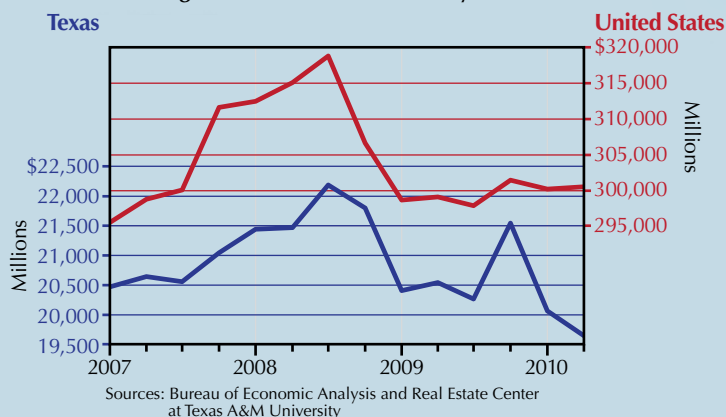


Figure 7. Manufacturing Industry Income

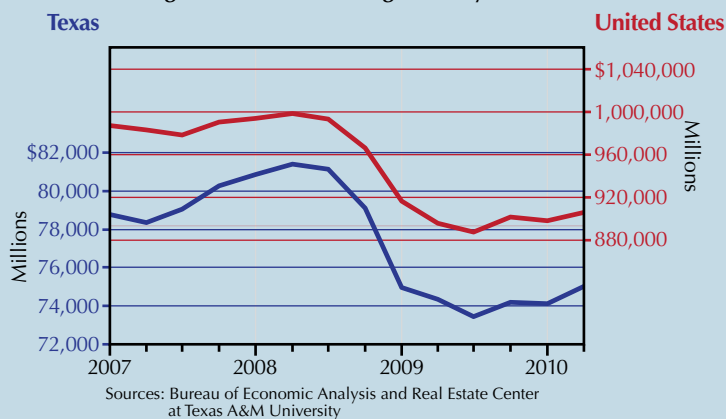
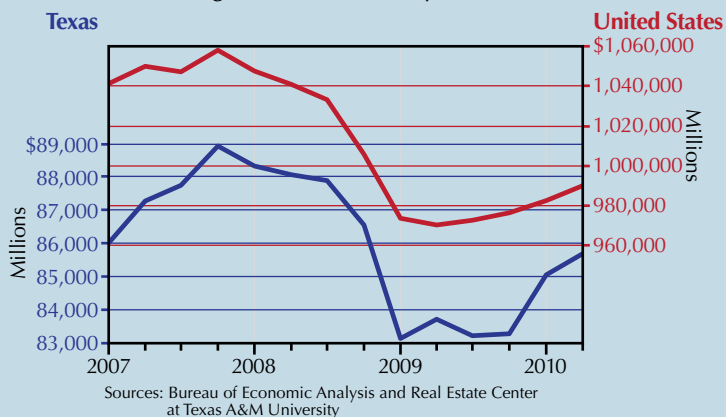


Figure 8. Trade Industry Income



state's total transfer payments increased by 32.8 percent, compared with 30.5 percent for the nation.

Texas Income by Industry

Two Texas industries, the education and health services industry, and the leisure and hospitality industry, continued to generate additional income throughout the recession. Education and health services income rose 17.8 percent compared with 13.2 percent for the nation (Table 3 and Figure 1). The state's leisure and hospitality industry's income rose 1.6 percent compared with a decline of 4.4 percent for the nation (Table 3 and Figure 2).

Income generated in the Texas government sector rose 14.9 percent during the Great Recession compared with 9.6 percent for the nation. Both were helped by expenditures under the American Recovery and Reinvestment Act of 2009 (Table 3 and Figure 3).

The state's construction industry has suffered more than other industries. Construction income fell from a prerecession peak of \$55,630 million in 2008Q2 to a trough of \$42,659 million in 2010Q1, a decline of 23.3 percent compared with 25 percent for the nation's construction industry (Table 4 and Figure 4). Construction income rebounded to \$43,356 million in 2010Q2, an increase of 1.6 percent.

Oil prices fell from more than \$140 per barrel in 2008 to around \$80 per barrel in 2010, reducing Texas' mining income from a peak of \$71,257 million in 2008Q3 to \$56,260 million in 2009Q3. This decline of 21 percent compared with a 19.7 percent decline for the U.S. mining industry (Table 4 and Figure 5). Since then, the state's mining income has increased to \$60,527 million, a 7.6 percent increase.

Texas' information industry experienced a triple dip recession (Figure 6). Income generated in this industry fell from a prerecession peak of \$22,189 million in 2008Q3 to \$20,408 million in 2009Q1, then rose to \$20,540 million in 2009Q2 before falling again to \$20,272 million in 2009Q3. Since then, the industry has experienced another fragile recovery. Income in 2010Q2 was \$19,661 million, lower than the prerecession peak by 11.4 percent (Table 4).

Texas manufacturing income fell 9.8 percent from a peak of \$81,418 million in 2008Q2 to \$73,433 million in 2009Q3, less than the national average of 11.1 percent (Figure 7). Since bottoming out in 2009Q3, Texas' manufacturing income has risen to \$75,036 million in 2010Q2, a 2.2 percent increase (Table 4).

Figure 9. Professional and Business Services Industry Income

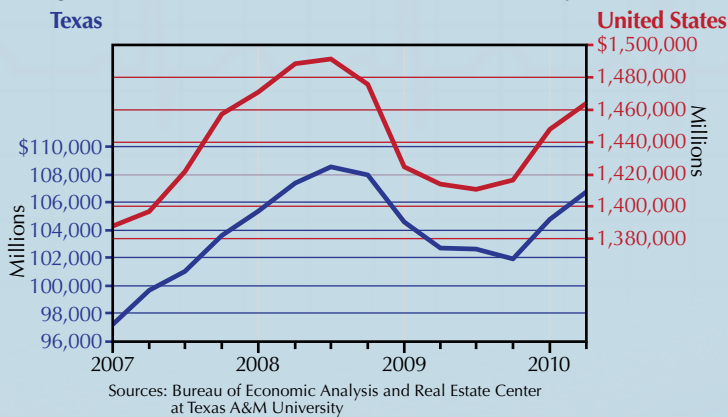


Figure 10. Financial Activities Income

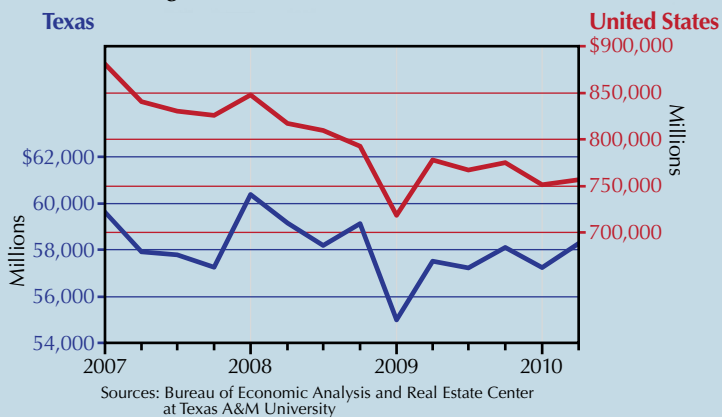


Figure 11. Transportation, Warehousing, and Utilities Industry Income

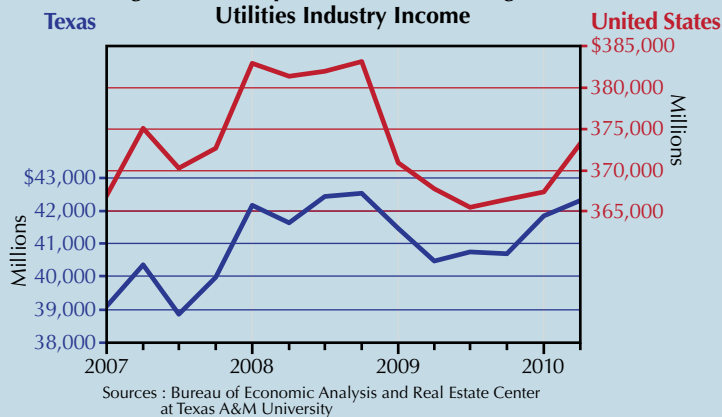
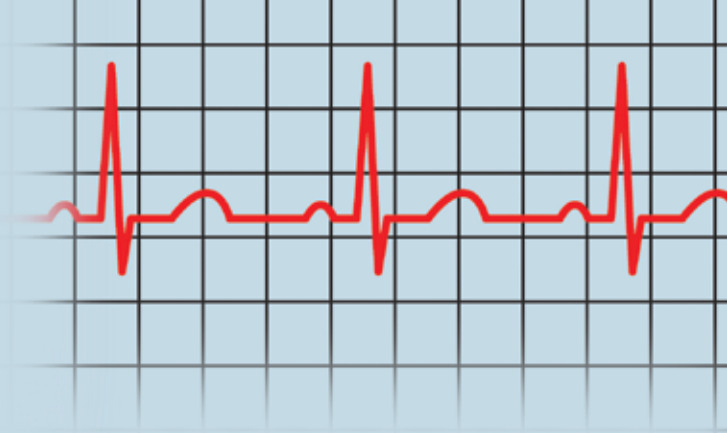
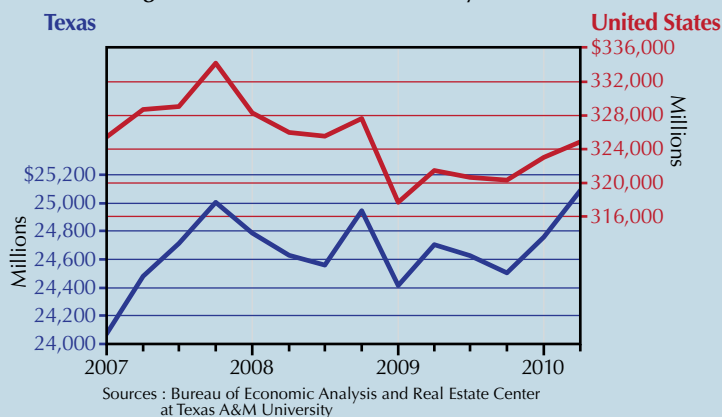


Figure 12. Other Services Industry Income



Income volume in the state's trade industry fell from a prerecession peak of \$88,951 million in 2007Q4 to \$83,224 million in 2009Q3, a 6.4 percent decline rate, compared with 8.3 percent for the United States (Table 4 and Figure 8). Since 2009Q3, trade income has recovered, rising to \$85,699 million.

Income in the state's professional and business services industry fell from a prerecession peak of \$108,576 million in 2008Q3 to \$101,972 million in 2009Q4, a 6.1 percent decline rate compared with 5.4 percent for the nation (Table 4 and Figure 9). After hitting bottom, the professional and business services industry's income rose to \$106,761 million in 2010Q2.

The state's financial activities industry experienced a double dip recession (Figure 10). Income generated in this industry fell from a prerecession peak of \$60,415 million in 2008Q1 to \$57,230 million in 2009Q3, rose to \$58,104 million in 2009Q4 then fell again to \$57,234 million in 2010Q1 (Table 4). Income generated by this industry rose to \$58,277 million in 2010Q2 but the recovery looks fragile.

Income in the state's transportation, warehousing and utilities industry and the other services industry (repair and maintenance, personal and laundry services, religious, civic and professional organizations) also experienced a triple dip recession, but is now experiencing a recovery (Table 4; Figures 11 and 12).

According to Center research, the state's aggregate income is recovering at a slow pace. Government expenditures at the national and state levels are playing a significant role in boosting the state's income. But income generated by the nation's private sector has not yet recovered its prerecession peak level. Given the current slow pace of income recovery in the nation, it is not likely that the U.S. government will cut government expenditures soon. ➔

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THE TAKEAWAY

Texas' aggregate income is improving but at a slow pace. The income increases are in part attributable to government spending at both the state and national levels. Government spending is unlikely to be cut anytime soon. Private sector income recovery is lagging behind.





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