



Presentation to the  
**Legislative Budget Board**

The Honorable David Dewhurst and the Honorable Joe Straus,  
Co-Chairs

**Report on State Fiscal and  
Economic Conditions**

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Presented by:  
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# Report on State Fiscal and Economic Conditions

As amended by SB 1 in the 82<sup>nd</sup> Legislature, 1<sup>st</sup> Called Session,  
Section 322.003(f), Government Code requires:



The Legislative Budget board shall hold a public hearing each state fiscal year to receive a report from the comptroller and receive invited testimony regarding the financial condition of this state. The report from the comptroller shall include, to the extent practicable:

1. information on each revenue source included in determining the estimate of anticipated revenue for purposes of the most recent statement required by Section 49a, Article III, Texas Constitution, and the total net revenue actually collected from that source for the state fiscal year as of the end of the most recent state fiscal quarter;
2. a comparison for the period described by Subdivision (1) of the total net revenue collected from each revenue source required to be specified under that subdivision with the anticipated revenue from that source that was included for purposes of determining the estimate of anticipated revenue in the statement required by Section 49a, Article III, Texas Constitution
3. information on state revenue sources resulting from a law taking effect after the comptroller submitted the most recent statement required by Section 49a, Article III, Texas Constitution, and the estimated total net revenue collected from that source for the state fiscal year as of the end of the most recent state fiscal quarter;
4. a summary of the indicators of state economic trends experienced since the most recent statement required by Section 49a, Article III, Texas Constitution; and
5. a summary of anticipated state economic trends and the anticipated effect of the trends on state revenue collections.

# Jobs



- Texas' employment was 10,784,000 in June 2012, an increase of 12,900 jobs from May 2012, and a gain of 231,800 jobs (2.2 percent) from June 2011. The U.S. one-year growth was 1.4 percent.
- Texas' unemployment rate in June 2012 was 7.0 percent, and the U.S. rate was 8.2 percent.
- The national recession caused Texas nonfarm employment to begin falling in September 2008. Through December 2009 we lost 427,600 net jobs, a decline of 4.0 percent.
- Texas employment rebounded and passed the pre-recession peak in December 2011 and as of June 2012 exceeds that peak by 144,000 jobs. The U.S., through June 2012, has recovered only 44 percent of the 8.8 million net jobs lost in the recession.

# Income and Gross Product



- Texas total personal income increased by 6.6 percent in fiscal 2011.
- Since the beginning of the national recession (first quarter of 2008) to the first quarter of 2012 (the latest estimate) Texas personal income increased by 8.8 percent, compared to 6.3 percent nationally.
- Texas' real gross state product for fiscal 2011 was \$1.14 trillion, an increase of 3.8 percent from 2010 and 5.6 percent more than the 2008 pre-recession peak of \$1.08 trillion.
- If it were a nation, Texas would rank as the fourteenth largest economy in the world, behind Australia and ahead of Mexico.

# Housing



- The Texas construction industry lost 17 percent of its jobs from October 2008 to February 2010, followed by nearly two more years with little growth or mild losses. In late calendar 2011 signs of recovery appeared.
- Single-family housing permits during the 12 months ending in May 2012 are up 15 percent from the previous 12 months, and multi-family housing permits were up by 92 percent.
- The inventory of existing single-family homes for sale was 6 months in June 2012, a substantial improvement from its 18 year high of 8.2 months in mid-2011.

# Oil and Natural Gas



- After oil prices plunged in the second half of calendar 2008, the subsequent oil price increases—as economic conditions stabilized and began to improve—were instrumental in the Texas economy recovering more quickly than the nation.
- In June 2012 the average NYMEX futures price for light sweet crude oil was over \$82 per barrel—down from a peak of \$134 in June 2008, but well above the recent bottom of \$39 in February of 2009.
- The average monthly NYMEX futures price for (dry) natural gas reached almost \$13.50 per million BTUs in June 2008. The price fell to below \$4 in the middle six months of calendar 2009, rebounded briefly, and has been generally falling since. In June 2012, the average price was \$2.51.
- The number of operating oil and natural gas drilling rigs in Texas increased from an average of 329 in June 2009 (a 7-year low) to 932 in June 2012.
- The oil and natural gas industry represented 17 percent of the Texas gross product in 2011, a share that continues to hold at around five times the industry's share of the national economy.



# Manufacturing



- The value of Texas manufacturing to the state's nominal gross product increased markedly in two years, from \$139 billion (12 percent of GSP) in 2009 to \$192 billion (15 percent of GSP) in 2011, according to the U.S. Bureau of Economic Analysis.
- Higher manufacturing productivity, as measured by gross product per worker, and high wages in energy-related manufacturing, have resulted in the total value of manufacturing production to increase much faster than employment alone.
- The strong manufacturing sector helps explain why Texas remains the leading exporting state, comprising 16.9 percent of the U.S. total in 2011 or more than twice the state's population share.
- The top five manufacturing export items, accounting for 80 percent of the 2011 total value, were petroleum products; petrochemicals; electronic components and equipment; oil and gas instruments and rig equipment; and transportation equipment.

# Summary of Anticipated State Economic Trends



- We expect the benefits from Texas' economic advantages—relatively low living costs, an attractive business climate, a central Sunbelt location, and a balanced mix of industries—will continue.
- However, given the continuing fallout from the financial and economic conditions in the European Union, the slowing economic growth in China and India, and sluggish U.S. economic growth, employment growth in Texas is expected to slow somewhat over the next year, with personal income and gross product growth easing as well.
- Total nonfarm employment in Texas is expected to increase by 2.1 percent in fiscal 2012, an improvement over 1.7 percent growth in 2011. In 2013 growth will slow to 1.7 percent.
- The Texas unemployment rate, which averaged 8.1 percent in fiscal 2011, is projected to be 7.2 percent in 2012, and fall slightly to 7.0 percent in 2013.
- Total personal income in Texas is forecast to grow by 5.2 percent in fiscal 2012 and by 4.2 percent in 2013.
- Texas real gross product growth in fiscal 2012 is projected to be 3.1 percent, followed by 2.8 percent growth in 2013.
- The Texas population, fueled by net migration and our relatively higher birth rates, will average 26.5 million in fiscal 2013.



# Anticipated Effect of the Economic Trends on State Revenue Collections



- As noted above, the Texas economy continues to improve. However, as we also noted, the national economy appears to be slowing—which may affect Texas—and weaker international economic conditions may impact the U.S. and Texas economies. Those concerns were highlighted by last week's release of the U.S. real gross domestic product estimate for the 2<sup>nd</sup> quarter of 2012, showing annualized growth from the 1<sup>st</sup> quarter of only 1.5 percent.
- The data provided to the Board show that for fiscal 2012, to date, revenue collections, notably the sales and use tax, the motor vehicle sales tax, and the oil and natural gas production taxes, have been robust. Periodically, and especially during a period of recovery from recession, rapid growth in tax revenue is observed. However, given that our revenue streams tend to move with the business cycle, this period of rapid growth should not be expected to be ongoing.
- As the national economy slows the Texas economy is expected to slow as well, although still outpacing the national economy. Slowing growth in employment and personal income will be reflected in slowing tax collections, particularly in the consumption taxes such as the general sales tax and the motor vehicle sales tax. Diminishing global demand for oil, as economic growth slows, will have the effect in Texas of reduced revenue from the oil production tax.

# Anticipated Effect of the Economic Trends on State Revenue Collections



- The changes in revenue collections stemming from the cyclical ups and downs of economic activity may be most clearly seen over a long span of time; in a more compressed time frame, it is not unusual for tax collections to lag changes in economic activity. Therefore, the slowing in international and national economies now becoming evident has not yet manifested itself in slower Texas revenue collections. As preparations are beginning to be made for the convening of the 83rd Texas Legislature less than six months away, the current and future course of the state economy will be monitored and analyzed, as will revenue collections.

# Questions?



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