



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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Report on State Fiscal and Economic Conditions

As amended by SB 1 in the 82nd Legislature, 1st 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.

Summary of the Indicators of State Economic Trends Since the December 2013 Certification Revenue Estimate

Jobs



- Texas' employment was 11,550,000 in June 2014, an increase of 19,100 jobs from May 2014, and a gain of 371,000 jobs (3.3 percent) from June 2013. The U.S. one-year job growth for the same period was 1.8 percent.
- Texas' unemployment rate in June 2014 was 5.1 percent, and the U.S. rate was 6.1 percent, both down over one percentage point from a year earlier.
- Texas employment rebounded and in November 2011 passed the pre-recession employment peak and as of June 2014 exceeds that peak by over 900,000 jobs. The U.S., in May 2014, finally recovered all of the 8.7 million jobs lost in the recession --- approximately two and a half years after Texas.

Summary of the Indicators of State Economic Trends Since the December 2013 Certification Revenue Estimate

Income and Gross Product



- Texas total personal income increased by 4.1 percent in fiscal 2013.
- Since the beginning of recovery from recession (first quarter of 2010) to the first quarter of 2014, Texas personal income increased by 26.2 percent, compared to 18.9 percent nationally.
- Texas' estimated real gross state product for fiscal 2013 was \$1.38 trillion, an increase of 4.4 percent from 2012.
- If it were a nation, Texas would rank as the twelfth largest economy in the world, behind Canada and ahead of Australia.

Summary of the Indicators of State Economic Trends Since the December 2013 Certification Revenue Estimate

Housing



- Single family housing permits during the 12 months ending in June 2014 are up 9.2 percent from the previous 12 months, and multi-family housing permits were up by 18.5 percent.
- Existing home sales during the 12 months ending June 2014 were up 7.5 percent from the previous 12 months. MLS sales of existing homes are approaching, but have not reached the 2006 sales level of approximately 292,000 units.
- Prices for both new and existing homes are increasing. Over the past year, the average for each category has increased over \$10,000 to \$212,000 for new single family homes and to \$194,000 for existing homes.
- The inventory of existing single family homes for sale was 3.8 months in June 2014, a substantial improvement from its 18 year high of 8.2 months in mid-2011.

Summary of the Indicators of State Economic Trends Since the December 2013 Certification Revenue Estimate

Oil and Natural Gas



- In June 2014, the average NYMEX price for light sweet crude oil was approximately \$105 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 price for (dry) natural gas reached almost \$13 per million BTUs in June 2008. The price fell to below \$4 in the middle six months of calendar 2009. In June 2014, the average price was \$4.59.
- The number of operating oil and natural gas drilling rigs in Texas has increased from an average of 329 in June 2009 (a 7-year low) to 898 in mid-July 2014, consisting of 824 oil rigs and only 74 natural gas rigs.
- The production of oil in Texas has more than doubled since 2007 to over 745 million barrels in calendar year 2013.

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 favorable mix of industries—will continue.
- Total nonfarm employment in Texas is expected to increase by 3.2 percent in fiscal 2014, and by 3.0 percent in 2015.
- The Texas unemployment rate, which averaged 6.5 percent in fiscal 2013, is projected to average 5.6 percent in 2014 and 5.0 percent in 2015.
- Total personal income in Texas is forecast to grow by 4.2 percent in fiscal 2014, and by 4.8 percent in 2015.
- Texas real gross product growth in fiscal 2014 is projected to be 3.5 percent, followed by growth of 3.6 percent in 2015.
- The Texas population will average 26.8 million this year – fiscal 2014 – and increase to 27.3 million in 2015.

Anticipated Effect of the Economic Trends on State Revenue Collections



- The Texas economy continues to expand. Texas real GDP increased rapidly as the state moved through recovery, with the rate of growth moderating this year and next.
- 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, such a period of rapid growth should not be expected to be ongoing. For example, the state sales tax grew at 9.4 and 12.6 percent in fiscal 2011 and 2012, respectively. Then the growth rate moderated to 7.2 percent in 2013. And we are currently tracking at 5.2 percent this year.

Anticipated Effect of the Economic Trends on State Revenue Collections



- The rate of growth of the Texas economy is expected to outpace that of the national economy. Growth in employment and personal income will be reflected in steady growth in tax collections, particularly in the consumption taxes such as the general sales tax and the motor vehicle sales tax. Stable conditions surrounding the price and demand for oil will support continued robust revenue collections from the oil production tax, though the revenue growth will be at a slower pace than in recent years.
- As preparations are beginning to be made for the convening of the 84th Texas Legislature, the current and future course of the state economy will be monitored and analyzed, as will revenue collections.

Questions?



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