

Digging a Little Deeper into Texas' Economic Success

By W. Michael Cox and Richard Alm

Texas' annual GDP of \$1.6 trillion sums up the collective efforts of millions of workers and thousands of companies sprawled across a dozen or so major economic sectors. Most of the time, we discuss all this activity in broad terms, focusing on state-level GDP growth, job creation, unemployment rates and the like.

While these general measures give a sense of the economy's overall health, they sometimes obscure what's going on beneath the surface. At any given time, some parts of the economy may be prospering while others struggle—often for a variety of reasons, some obvious and others hidden.

State economies can be studied a number of ways—by total employment, by output, by industry, by region, by metropolitan area. In this issue of *The Tea & Economics*, we slice up state-wide real GDP by sector to examine the patterns of Texas' growth and how they compare with a few other big states.

The Texas economy's overall success is well-known. From 1997 to 2015, its output of goods and services rose faster than any other state, increasing by nearly 81 percent. Among the six biggest states, California and Florida had been leading the pack until 2008-09, but Texas zoomed ahead in the past six years (see *chart 1*). New York, Pennsylvania and Illinois grew at the slowest pace over this 18-year period.

Using Bureau of Economic Analysis data, we decompose aggregate state economic growth into 15 sectors. Over the past two decades, the top category for Texas has been wholesale and retail trade, with a cumulative growth rate of 13.4 percent (see *chart 2*, page 10).

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The state's population increased by 8.5 million since 1997, and retailers have been opening stores to serve the new Texans, particularly in fast-growing places like Collin and Denton counties in the Dallas-Fort Worth (DFW) area. The state's central location and transportation infrastructure give it an edge in key aspects of wholesale trade, including warehousing and distribution.

Manufacturing ranks second to trade, expanding by 12.5 percent since 1997. The state's factories churn out cars and trucks, petrochemicals, oilfield equipment, electronics and many other products for domestic and global markets.

In 2015, Texas stood out as the nation's No. 1 state in factory output.

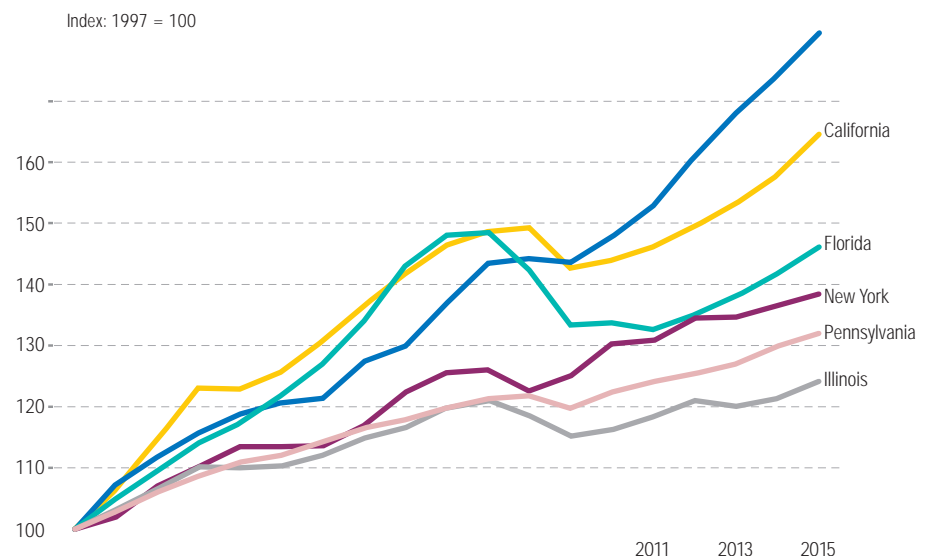
Texas' growing manufacturing might seem surprising in light of persistent reports of a decline in America's traditional industrial economy. Keep in mind, however, that we're looking at output and not employment. The real story of U.S. manufacturing over the past few decades has been rapid productivity gains—getting more output with fewer workers.

In fact, U.S. factories' total value added has never been higher—\$2.2 trillion in 2015, up from \$1.8 trillion in 1997. A large share of those gains have come to Texas, a state that offers reasonable wages, right-to-work laws that check union power, easy transport and abundant inputs, such as the oil and natural gas needed by the petrochemical industry.

Texas' next two sectors are professional and business services at 11.6 percent and finance, insurance and

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TEXAS LEAPS AHEAD OF OTHER BIG STATES IN GROWTH



up an ever-larger chunk of U.S. GDP in a globalizing economy.

Texas lagged other big states in information, a knowledge-based sector that includes software and computer technology. In testament to Silicon

manufacturing and mining (oil and gas).
A growing population, fed by migration
from other states, no doubt added fuel to
the Texas economy in this period.

References

Cox, W. Michael and Alm, Richard, "Taking an In-Depth Look at the 'Texas Model'," *The Texas Economist*, January 2016. Available at <http://www.oneilcenter.org>.

Cox, W. Michael and Alm, Richard, "Unlike the 1980s, Texas Keeps Growing with Oil Prices Low," *The Texas Economist*, March 2016. Available at <http://www.oneilcenter.org>.

GDP data: U.S. Department of Commerce, Bureau of Economic Analysis. Available at bea.gov. Note: We use 1997 as our starting point because it was the first year of consistent data collected under the North American Industry Classification Codes.

Next issue: *The Texas Economist* will continue its inquiry into the origins of the Texas model, exploring how revolution,

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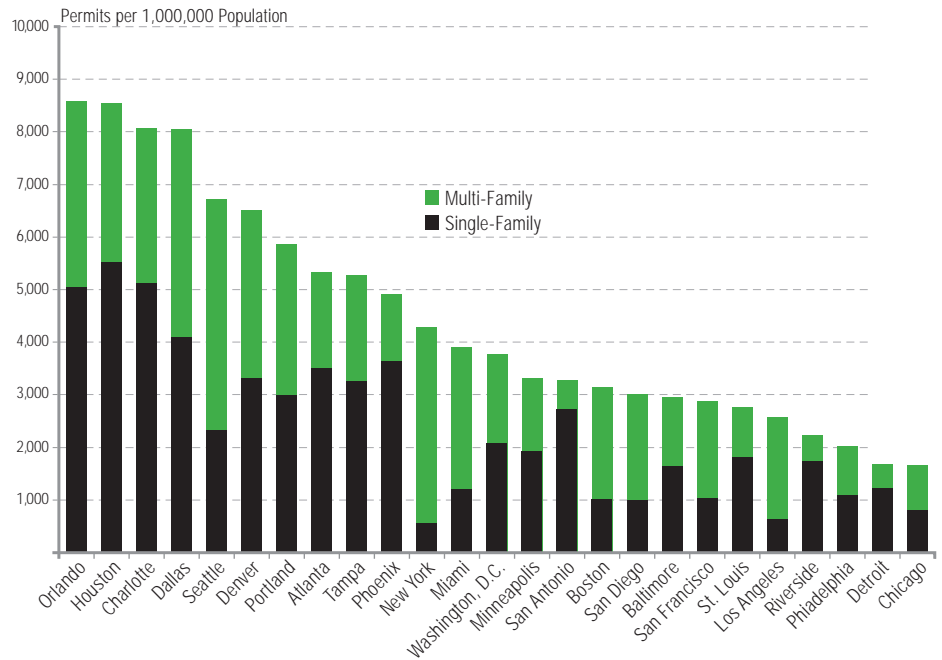
CHARTING THE TEXAS ECONOMY

Building Boom: Houston, DFW Rank Near Top in Housing Permits

Texas claims two of the nation's most vibrant big-city housing markets, according to Census Bureau data. Among the nation's 25 largest metropolitan areas (MSAs), New York led in building permits in 2015 with 86,424, followed by the Dallas-Fort Worth (DFW) area at 57,146 and Houston at 56,901.

In terms of building permits per 1 million people, Houston finished second to Orlando (see chart). DFW wasn't far behind, coming in fourth in a virtual tie with Charlotte.

The Top 25 MSAs differ in the composition of building activity as well as its pace. San Antonio, with less than half the permits of Texas' two other big cities, has the highest share of single-family houses at 82.8 percent. Houston leans toward single-family construction (64.6 percent). DFW is evenly split between apartments (49.2 percent) and stand-alone homes (50.8 percent).



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