

Texas bucks national unemployment trend

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Move to Texas

Finding work may not be quite that simple, but it sure seems that way. While the nation's job growth has limped along since the economic recovery began two years ago, the Lone Star State is enlarging payrolls in Texas-size fashion.

From June 2009 to June 2011 the state added 262,000 jobs, or half the USA's 524,000 payroll gains, according to the Federal Reserve Bank of Dallas and the Bureau of Labor Statistics. Even by a more conservative estimate that omits states with net job losses, Texas' advances make up 30% of the 1 million additions in the 34 states with net growth.

The stunning showing could play a role in the presidential race. Texas Gov. Rick Perry is signaling he may run for the Republican nomination. If he does, he's likely to ground his campaign in his state's outsized job growth.

Texas' big gains are partly a reflection of its population growth. But the recent job gains are outpacing the rate of population growth in Texas, the nation's second-largest state, with 25 million residents — about 8% of the U.S. population.

The state's payrolls have risen 2.9% since the end of the recession, third behind North Dakota and Alaska and far outpacing the USA's 0.4% growth, according to the BLS. Also, Texas' 8.2% unemployment rate is well below the nation's 9.2%.

"For one large state to grow (jobs) so much faster than the rest of the nation is very unusual," says Moody's economist Ed Friedman.

Economists point to an array of factors, including high energy prices that set off an oil-drilling frenzy, rising exports and a conservative banking industry that helped the state sidestep the housing crash.

Yet while energy has been a spark — employment in natural gas, oil and other mining sectors rose by 45,000, or 23%, since the recession ended — growth has been broad-based. During the past two years, professional and business services added 74,000 jobs; education and health care gained 91,000; and leisure and hospitality grew by 29,000, according to BLS.

State officials cite a pro-business climate that Perry helped foster that's drawing scores of businesses from high-cost states — a trend that took on urgency for firms that got lean in the economic downturn.

The 10-year Texas governor is "really focused on creating an environment where people can risk their capital and get a return on investment, and that, in turn, creates jobs for Texans," says Lucy Nashed, spokeswoman for the state's economic development office.

Nashed notes Texas has no state or corporate income tax and keeps regulations at a minimum to allow businesses to grow quickly. She says Perry also has worked to develop a skilled workforce by requiring additional public school classes and pushing through tort reform to limit frivolous lawsuits. The state, meantime, has doled out more than \$600 million in grants and investments since 2003 to recruit out-of-state companies and help Texas firms expand.

Does Perry really deserve credit?

Yet some question Perry's role in the so-called Texas Miracle.

James Galbraith, a professor of government at the University of Texas-Austin, largely attributes the state's job growth to the energy and export booms. Texas, he notes, has never had an income tax. From 1990 to 2000, before Perry took office, Texas payrolls swelled 36%, compared with 21% for the nation.

"Rick Perry did not come and find a high-tax, high-service state and dismantle it," Galbraith says. "For something to contribute, there (has to be) a change. There's been a change in oil prices."

Others say the state's low tax burdens exact a high cost: fewer state services. Perry, for example, refused to raise taxes to close a \$27 billion budget gap last spring. Instead, the Legislature slashed more than \$4 billion in funding for public schools the next two years, a move that's likely to lead to tens of thousands of teacher layoffs.

"We're not preparing our children to compete in tomorrow's economy," says Scott McCown, head of Texas' Center for Public Policy Priorities.

Texas ranks 44th in the USA in per-student expenditures and 43rd in high school graduation rates, McCown says. Seventeen percent of Texans lived below the poverty level in 2009, compared with 14% for the nation. The state leads in the percentage of the population with no health insurance and was ninth in income inequality in the mid-2000s, the latest data available, according to McCown and the Economic Policy Institute.

McCown says Texas should not serve as a job-growth paradigm for the rest of the nation.

"If you're saying you want to look like Texas, you're saying you want to be poor and have less health care," he says.

The state's relatively low wages, particularly for low-skilled jobs, stems in part from its status as a right-to-work state with little unionization. That dampens consumer spending and limits economic growth, McCown says. In June, average hourly earnings for private-sector employees in Texas were about 5% lower than the U.S. average.

But Mark Dotzour, chief economist at Texas A&M's Real Estate Center, says the state's lower pay helps it compete in a global economy. "Either you choose to have low-wage jobs or you choose to have no jobs at all," he says.

The state's reasonable cost of living, he adds, makes it possible for many residents to live comfortably on lower salaries. The Dallas area ranks 10th in housing affordability among 82 metro areas with more than 1 million residents, while Houston is 15th, according to the Demographia International Housing Affordability Survey. That's partly because Texas has an abundance of cheap land — another draw for firms looking to relocate.

Other reasons for the state's robust job growth:

- The energy boom. Oil prices have nearly tripled since early 2009. High prices spark more exploration and production. Meanwhile, technological breakthroughs have let companies extract natural gas embedded in shale deposits. Barnett Shale in Fort Worth is one of the USA's largest gas fields, and drilling began at the Eagle Ford Shale in South Texas in 2008. The number of oil and gas rigs in the state has jumped to 850 from 330 in July 2009, says Ana Orozco, economist for IHS Global Insight. Each rig employs a few dozen workers and leads to hiring by engineering firms, pipeline builders and other services.

- Exports. Overseas shipments by Texas' strong computer, electronics, petrochemical and other industries rose 21% last year, compared with 15% for the nation, according to the Dallas Federal Reserve Bank. The state also benefits from its proximity to Latin American countries that are big importers of U.S. goods, Friedman says. The surge creates jobs for Texas manufacturers and ports.

- No housing crash. Texas never had a housing boom but also avoided the bust that decimated consumer credit and home construction in much of the rest of the nation. While prices of single-family homes more than doubled from January 2000 to their mid-2000s peak in cities such as Los Angeles, Miami and Las Vegas, they rose less than 27% in the Dallas/Fort Worth market, according to the S&P/Case-Shiller Home Price index.

Meanwhile, Texas banks burned by the savings-and-loan crisis in the 1980s were less eager than those in other states to approve risky mortgages. And Texas law limits mortgage debt, including home-equity loans, to 80% of a home's value.

"People didn't use their houses like ATMs," says Dallas Fed Vice President Mine

Yucel.

Texas still was hit by the recession. Annual permits for single-family homes declined 59% from their 2005 peak to 2010, but that's less than the nation's 73% plunge, according to Texas A&M. Similarly, employment fell 4% in the downturn; the USA's overall drop was 6.3%. Texas has recovered 380,000 jobs since its December 2009 low and is now just 54,000 shy of its 10.6 million peak.

- Population growth. Texas' population grew by 4.3 million, or 21%, during the past decade, more than twice the national pace. About half the total was because of births, but Texas also gained 849,000 residents via state-to-state migration, second only to Florida.

Texas thus benefits from a virtuous cycle: More people are moving there for work, generating consumer demand that creates still more jobs. That's expanded the workforce, keeping the unemployment rate at 8.2% —ranked just 26th in the nation — despite the strong payroll advances.

One recent arrival is Ife Oyedokun, 26, who this month moved to the Austin area from Philadelphia, where he worked as a high school counselor, to be closer to his family. Within two weeks he had a job as a rehabilitation specialist for a growing outpatient facility for the mentally ill.

"I was very surprised," he says. "With just how the economy is now, I figured three, four, five months" to find a job.

'Hunting' for possible relocations

Companies also are feeling the pull.

Corporate giants including Fluor, Toyota and Medtronic recently moved headquarters or operations to Texas, and eBay, AT&T, Samsung and Cirrus Logic have expanded there. Samsung added about 700 jobs in Austin since last year, enlarging a plant that makes chips for smartphones.

Area business leaders, meanwhile, have aggressively courted out-of-state companies.

The Dallas Regional Chamber this month sent a letter to 50 Illinois corporations, urging them to consider a move to Texas. The mailing includes a side-by-side comparison of the two states that notes Illinois recently raised corporate and personal income taxes and highlights Texas' lower housing, labor and other expenses.

"States with heavy-duty business taxes, personal taxes or regulatory mind-sets define themselves as our targets," says Chamber CEO Jim Oberwetter. "That's just

where we go hunting."

Texas has particularly tried to lure high-tech California companies to lower-cost technology corridors in Austin, Dallas and San Antonio. Medtronic, the Minneapolis-based medical device giant, has moved customer support for its diabetes unit from the Los Angeles area to San Antonio in the past 22 months, creating 750 jobs in Texas.

Jeff Ruiz, head of Medtronic's Texas operations, says the company was drawn by labor costs that are "significantly lower" than those in Los Angeles and a large, high-quality workforce. Ruiz also points to more affordable real estate and the lack of a state corporate tax, though he says the latter was a minor factor. The company, which also received \$14 million in incentives from the state — a figure Ruiz says was comparable with other offers — chose San Antonio from among more than 900 U.S. cities it evaluated.

For some, the benefits are more basic.

Marketing firm Red Ventures this year opened a San Antonio office that's expected to grow to 250 employees from 60 by year's end, says spokeswoman Kylie Craig. Besides the region's ample talent pool, other draws were the city's non-stop flights to Red Ventures' other offices in Miami and Charlotte and its 7.3% unemployment rate.

In cities with high jobless rates, "We're having to sift through (many) unqualified applicants."

Then there's Texas' laid-back lifestyle and lower costs, assets that prompted Vermillion, a start-up developer of blood tests with 29 employees, to move from Fremont, Calif., to Austin about a year ago. "We found it very difficult to recruit people into California because of the cost of living, traffic, congestion," says CEO Gail Page.

The corporate relocations and expansions are having a ripple effect on restaurants, hospitals and other service businesses. Winstead, a Dallas law firm with about 270 lawyers statewide, has added 50 since last year to handle the extra workload from firms, such as Comerica Bank, that have moved to Texas the past few years, says Mike Baggett, Winstead's chairman emeritus.

And after cutting staff in 2009 and 2010, DeMontrond Automotive in Houston has hired about 20 employees the past few months in response to a 20% jump in revenue, says owner George DeMontrond. Houston lost 120,000 jobs in the recession but has gained about 50,000 the last seven months.

"I think people who have held off and not purchased large-ticket items because of uncertainty are a little bit more ready to do it," DeMontrond says.

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