

TEXAS BUSINESS & COMMERCIAL QUARTERLY

★ JOHN W. FAINTER, JR. ★ SECRETARY OF STATE ★

Falling oil prices due to the world oil glut and the problems associated with the devaluation of the Mexican peso have focused attention on the resiliency of the Texas economy. Through publication of the Texas Business & Commercial Quarterly, the Secretary of State makes information collected by his office available to government officials and the business and economic community in an effort to assist in planning for the state's economic future. If you are not currently subscribing to the Quarterly, you may receive future issues by completing the subscription form on the last page of this publication. The economic commentary in this issue was prepared by Celia Morgan and Howard Savage, professors in the Department of Finance and Economics at Southwest Texas State University, and was based on data collected by the Secretary of State's office.

THE TEXAS BORDER ECONOMY

Any meaningful analysis of the economy of the Texas border must take into consideration economic events in Mexico. The following is a short, incomplete chronology of recent Mexican economic events.

Prior to 1976, the peso in the world exchange market had been remarkably stable for more than 20 years. In 1976, however, Mexico yielded to external and internal pressure and devalued the peso. The devaluation reduced the price of the peso relative to a dollar from \$0.08 to \$0.0435. Along the Texas border, the result was to increase Texas prices and decrease Mexico prices. This change in prices brought on a decline in sales volume on the Texas side of the border which became evident in late 1976 and continued into 1977. However, economic recovery along the border began in 1977, and the economic pace (especially retail trade) quickened from 1977 through 1981.

One reason for the quickening of this pace on the Texas side of the border was the Mexican defense of the overvalued peso. If exchange rate equilibrium was achieved by the peso devaluation of 1976, the peso became overvalued very shortly thereafter. This overvaluation occurred due to the inflation rate in Mexico and a fixed dollar value peso.

Table 1 should help in understanding this phenomenon. This table presents the rate of inflation in Mexico, a price index, the official peso value, the real peso value, and an index of border retail sales (apparel and general merchandise) for 1975 through 1982.

It can be seen from this table that the rate of inflation in Mexico averaged about 35 percent (1975-1982) and ranged from about 16 percent (1978) to about 99 percent (1982). The index of prices in Mexico perhaps gives a better picture ranging from 100 in 1975 to about 711 in 1982. Although they are not presented in the table, prices in the United States, as measured by the consumer price index, rose at an average rate of 9 percent and ranged from about 6 to 14 percent over the same interim. It should be noted that the merchandise price increase in the United States was less than the increase in the consumer price index. Behind the relative price increases, the real story was that, given the official exchange rate, goods and even services purchased in Texas were bargains.

This fact becomes abundantly clear by reference to Table 1. At the end of every year from 1976 through 1982, the official value of the peso was above the real value. The magnitude of the difference also increased in each year, until the official value was approximately twofold the real value at the close of 1981. The result of this phenomenon was predictable. Mexican citizens capitalized on the bargain prices in Texas and Texas border business boomed (Table 1 sales index). As the more knowledgeable and affluent Mexican citizen attempted to hedge against the ravages of domestic inflation, there were also sizable capital flows. The next result was inevitable and should have been predicted. Mexico expended its foreign exchange holdings in a valiant effort to defend the peso before yielding to fate. The first devaluation came in February of 1982 and the second round came in August of the same year. The August round was accompanied by President Portillo's imposition of exchange controls and bank nationalization. In each case, the actions came amidst great uncertainty and were, in essence, too little and too late (Table 1).

February's sudden change in relative prices resulted in a decline in Texas border sales activity. The second price change, accompanied by exchange controls, created havoc and signaled the onset of increasing economic distress on the border. Most of the distress and havoc arose from relative price changes. In spite of the exchange controls, a type of parallel financial system came into being along the border. Dollars and pesos were available at a price, but this market was not orderly and was subject to widespread confusion and disorder. A very unhealthy business climate resulted.

The Madrid administration, which came to power in Mexico in late 1982, has restored a degree of order to the market. A major portion of the exchange controls was removed and the peso was further devalued. This allows for a legal flow of commerce across the border. However, relative prices have changed and few, if any, of the bargains are on the Texas side of the border.

The peso history of stability before 1976 and the quick recovery of the border economy after the 1976 devaluation left border business totally unprepared for the abrupt radical changes which occurred in 1982. The changes, especially the one in August, resulted in unsold inventory, work force reduction, and general business distress. These phenomena have been severe and sudden, and the full impact may yet manifest itself.

TABLE 1

Mexico Inflation Rate¹, Mexico Price Index (1975=100)²
 Official Peso Value³, Estimated Real Peso Value⁴
 and an
 Index of Retail Sales Growth Texas-Mexico⁵

Date	Mexico Inflation ¹	Index ²	Official Value ³ Peso per \$1	Real Value ⁴	Index ⁵
1974	Base Year	100	12.5	Base Year	100
1976	27.2	127.2	23.0	27.7	101.4
1977	20.7	153.3	23.0	31.6	105.6
1978	16.2	178.4	23.0	33.9	108.5
1979	20.0	214.1	23.0	36.6	132.2
1980	29.8	277.9	23.0	41.6	176.6
1981	28.7	357.7	25.0	48.8	258.5
1982	98.7	710.7	70.0	90.5	124.8
1983			148.5		

(1st of Yr)

¹ Computed from: Banamex, Banco Nacional de Mexico, various issues

² *The Federal Reserve Bulletin*, various issues

³ Estimates Real Peso Value computer on the basis of purchasing power parity

⁴ Computed on the basis of data from the quarterly reports of sales, Comptroller of Texas

TABLE 2

Secretary of State of the State of Texas, Statutory Filings,
 Corporations Section Transactions, Texas (SMSA's),
 the Texas border SMSA's, the Rest of Texas (SMSA's),
 Quarterly, Yearly 1981-1982

	Texas	Texas Border	Rest of Texas
Total 1981	37645	1886	35759
First Quarter	9028	439	8589
Second Quarter	9847	498	9349
Third Quarter	9964	490	9474
Fourth Quarter	8806	459	8374
Total 1982	37357	1942	35415
First Quarter	9224	491	8733
Second Quarter	8931	491	8733
Third Quarter	8355	427	7928
Fourth Quarter	10847	533	10314

Source: Secretary of State Statutory Filings Division, Corporations Section (March, 1983), and *Texas Business and Commercial Quarterly*, Vol. 1, No. 2, and Vol. 1, No. 3, September 1982, January, 1983.

Data from the Office of the Secretary of State support the hypothesis that the overall impact is yet to come. Table 2 presents some comparative statistics from the Secretary of State's Statutory Filings Division, Corporations Section as to total SMSAs, border SMSAs and the non-border SMSAs.

Generally, the state's total level of corporate charter filings was slightly less in 1982 than in 1981 (Table 2). In the second and third quarters of 1982 the decline was very noticeable. From the third quarter to the fourth quarter of 1982, the increase in the number of total corporation charters was about 2000 (Table 2), an increase of about 23 percent. This would appear to be a clear indication of some improvement in the business outlook for the fourth quarter of 1982.

The Texas border economy, including the Brownsville-Harlingen-San Benito, El Paso, Laredo, and McAllen-Pharr-Edinburg SMSAs followed the trend with a lag. In comparing 1982 to 1981, the rate of corporation charter filings was up in the first quarter, declined slightly in the second quarter, dropped sharply in the third quarter, and recovered in the fourth quarter, to finish slightly ahead of the 1981 number. The increase in numbers during this time was 56, and the present increase was about 3 percent for the year. Sixteen percent was the border rate of increase for this time period's final quarter. These numbers suggest a decline in rate of growth in the business sector on the border and in Texas, as opposed to an absolute decline.

It is possible that the border businesses opted for the corporation as the best organizational structure to weather the storm. The benefits of incorporating may explain the increased filings. Limitation of shareholders liability to actual investment, the ease with which stock can be transferred from one person to another regardless of the domicile of either the issuing corporation or the investor, and the relatively settled, predictable nature of corporate law, may have been persuasive to both Mexican as well as American investors, and encouraged incorporation. Additionally, President Miguel de la Madrid Hurtado took office on December 1, 1982, and most of the increase in the fourth quarter can be attributed to the increase during the month of December. The increase in corporate filings in the fourth quarter could have been prompted by the optimism generated by the anticipated stabilizing influence of the new Madrid Administration.

The border economy has been subjected to severe distress as a result of the economic problems in Mexico. Sales of merchandise have fallen drastically and unless the problem is alleviated, the economic disruption along the border could worsen.

SECRETARY OF STATE BAROMETERS

Business and commercial data accumulated by the Secretary of State include total transactions, net additions to the business stock, commercial code filings, and corporate charters granted by standard metropolitan statistical area. The fourth quarter figures for these series are discussed in the following section.

Total Transactions

Business related activity, indicated by the total transactions recorded by the Statutory Filings Division of the Texas Secretary of State's Office, indicate that business activity and expansion proceeded throughout 1982. Total transactions recorded by the Secretary of State for the fourth quarter of 1982 are presented in Table 3. The Corporations Section recorded 54,236 total transactions in the fourth quarter, an increase of 4,292 from the previous quarter and an increase of 8,621 over the same quarter one year ago.

The data in Table 3, however, show that the larger number of transactions stemmed mainly from increases in new business activity. Increases in new articles of incorporation

(2,087), new limited partnerships (631), and information letters (837) account for 83 percent of the increase in total transactions between the third and fourth quarters of 1982. Comparing the fourth quarter of 1982 with the same quarter one year ago, increases in articles of incorporation (1,971), new limited partnerships (422), and information letters (1,351) account for 43 percent of the change recorded.

The favorable Texas business climate is reflected in the data in Table 3. Some 12,043 new corporate charters were recorded in the fourth quarter of 1982, about 20 percent above both the third quarter and the same quarter one year ago. A total of 1,633 certificates of authority were recorded in the October to December period, a 63 percent increase over the previous quarter and a 35 percent increase over the October to December period last year. The 890 filings for limited partnerships during the third quarter were 93 percent of recordings during the July to September period and during the fourth quarter of 1981. These data suggest that the Texas business structure continues to grow as businesses from other states continue to move to Texas and as Texas entrepreneurs continue to establish new corporations.

Table 3

TYPE OF TRANSACTIONS	1982 FOURTH QUARTER	1982 THIRD QUARTER	CHANGE FROM 3RD QUARTER 1982 TO 4TH QUARTER 1982	1981 FOURTH QUARTER	CHANGE FROM 4TH QUARTER 1981 TO 4TH QUARTER 1982
TOTALS	54,236	49,944	4,292	45,615	8,621
Articles of Incorporation	12,043	9,956	2,087	10,072	1,971
Articles of Incorporation (non-profit)	1,078	1,001	77	952	126
Professional Corporations	326	328	(2)	455	(129)
Professional Associations	143	250	(107)	262	(119)
Certificate of Authority	890	948	(58)	955	(65)
Limited Partnerships	1,633	1,002	631	1,211	422
Limited Partnership Amendments	1,083	821	262	956	127
Limited Partnership Cancellations	76	65	11	62	14
Trust Companies	3	0	3	1	2
Trust Companies Amendment	2	3	(1)	0	2
Articles of Amendment (profit)	3,623	4,748	(1,125)	3,485	138
Articles of Amendment (non-profit)	228	263	(35)	222	6
Articles of Amendment (professional corporation)	44	228	(184)	30	14
Articles of Amendment (professional association)	150	49	101	26	124
Amended Certificate of Authority	348	432	(84)	249	99
Articles of Corrections	94	53	41	0	94
Name Reservations	2,662	2,880	(218)	2,689	(27)
Name Registration	72	70	2	70	2
Dissolutions	1,471	1,246	225	819	652
Withdrawals	169	179	(10)	115	54
Terminations	58	58	000	44	14
Information Letters	4,607	3,770	837	3,256	1,351
Articles of Merger	229	160	69	235	(6)
Change of Registered Agent and Office	2,750	4,410	(1,660)	2,845	(95)
Reinstatements	687	1,156	(469)	735	(48)
No Pay Forfeitures	17	26	(9)	41	(24)
Forfeitures	816	427	389	51	765
Certifications	17,618	14,077	3,541	14,507	3,111
Assumed Names	1,316	1,338	(22)	1,270	46

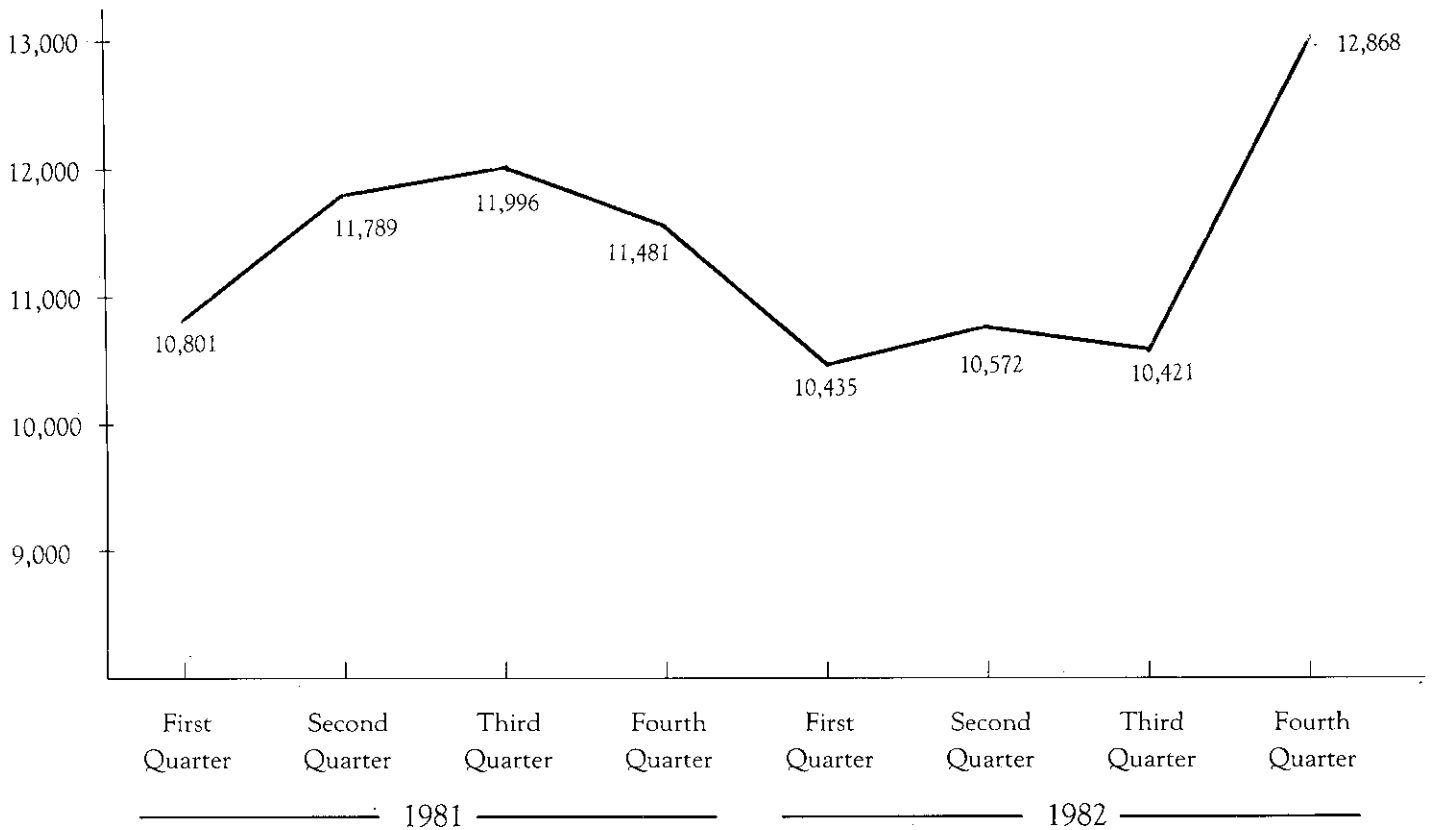
Net Additions to the Business Stock

The quarterly net additions to the business stock for 1981 and 1982 are shown in Figure 1. These data show that the smaller expansion of the stock of business corporations which began in the fourth quarter of 1981 turned around in the fourth quarter of 1982. The 12,868 net additions recorded in the fourth quarter of 1982 are 23 percent greater than those recorded in the previous quarter and 12 percent greater than net additions recorded during the fourth quarter one year ago. In fact, the net additions recorded during October through December are seven percent greater than the previous high quarter, the third quarter in 1981.

The 44,296 net additions to the business stock in Texas recorded by the Secretary of State's Office in 1982 were only four percent less than those recorded in 1981. Thus, the Texas business community continued to expand, although at a slower rate.

The business stock includes all existing corporations, limited partnerships, and certificates of authority recorded by the Secretary of State. The revised net additions to the business stock equal the sum of new corporate charters, new limited partnerships, and new certificates of authority minus the sum of voluntary dissolutions, withdrawals, and terminations.

Figure 1
 Net Additions to the Business Stock by Quarter
 1981 1982 (Revised)



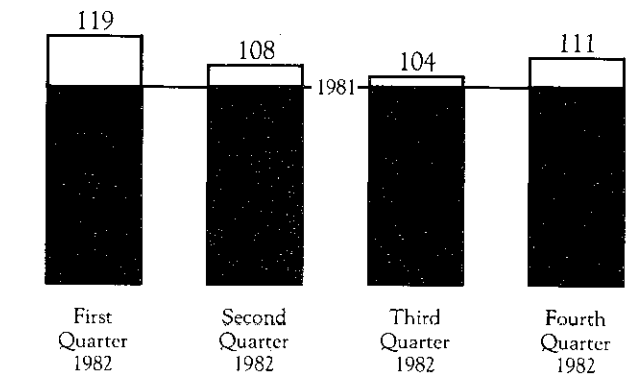
Source: Secretary of State, Statutory Filings Division, Corporations Section (January, 1983)

UCC Filings

The fourth quarter increase in the growth of the Texas business structure is supported by the data base recorded at the Uniform Commercial Code Section of the Secretary of State's Office. The growth rates of the annual UCC filings implied by the quarterly UCC filings in 1982 over filings in the respective quarter of 1981 are shown in Figure 2. The 87,870 UCC filings during the fourth quarter of 1982 are 11 percent greater than filings recorded during the same period in 1981. The 352,101 UCC filings during 1982 also are about 11 percent greater than the previous year.

The dollar value of these filings is not known because the filings have no stated value when filed with the Secretary of State's Office. If, however, the real value per unit does not change, the increase in UCC filings indicates increased credit requirements. Increased credit requirements may arise from increased business activity and from credit extension desired by existing businesses.

Figure 2
 Index of Uniform Commercial Code
 Financing Statements, Federal Tax Liens
 and Utility Security Agreements



Source: Secretary of State, Statutory Filings Division, Uniform Commercial Code Section (October 1982)

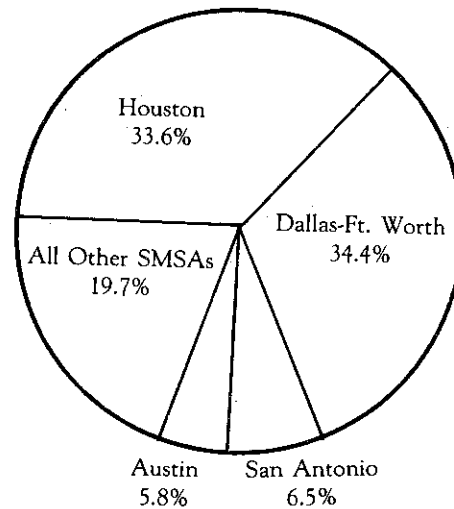
New Business Incorporation in SMSA Areas

Corporate charters granted in the fourth quarter of 1982 reflect the trend of the state. Filings decreased in October and November but were on the upswing in December. The fourth quarter filings were 10,847 (Table 4).

This compares to 9,244 in the first quarter, 8,931 in the second quarter, and 8,355 in the third quarter. The major metropolitan centers once again led the way with the largest number of charters being granted in the Dallas/Fort-Worth Metroplex (3,725). This was followed by Houston with 3,644 (Table 4). These two metropolitan centers accounted for 34.4% and 33.6%, respectively, or 68% of the charters granted in SMSAs. Austin (5.8%) and San Antonio (6.5%) were the other major centers of charter activity (Figure 3):

As to relative activity, Dallas had the largest increase in percentage of SMSA filings, increasing from 30% to 34%. Houston declined relatively from 40% to about 34% (Table 4).

Figure 3
Breakdown of New Business Incorporations by SMSA
October-December, 1982



Source: Secretary of State, Statutory Filings Division, Corporations Section (January 1983)

Table 4
New Business Incorporations by
Texas Standard Metropolitan Statistical Area

	OCTOBER	NOVEMBER	DECEMBER	4TH QUARTER TOTALS	1982 TOTALS
Abilene	26	32	43	101	369
Amarillo	29	36	63	128	382
Austin	183	174	276	633	1,960
Beaumont-Port Arthur-Orange	46	35	59	140	504
Brownsville-Harlingen-San Benito	40	36	44	120	481
Bryan-College Station	22	23	27	72	280
Corpus Christi	45	85	147	277	831
Dallas-Ft. Worth	954	1,123	1,648	3,725	12,126
El Paso	64	74	77	215	804
Galveston-Texas City	31	28	18	77	331
Houston	992	982	1,670	3,644	13,388
Killeen-Temple	15	11	30	56	187
Laredo	26	17	21	64	197
Longview-Marshall	31	27	37	95	354
Lubbock	22	34	50	106	361
McAllen-Pharr-Edinburg	49	36	49	134	460
Midland	20	28	75	123	474
Odessa	25	19	27	71	465
San Angelo	11	11	17	39	126
San Antonio	172	175	359	706	2,184
Sherman-Denison	13	9	15	37	147
Texarkana	6	6	3	15	65
Tyler	24	20	54	98	309
Victoria	12	12	9	33	131
Waco	22	18	39	79	251
Wichita Falls	9	15	35	59	190
Totals	2,889	3,066	4,892	10,847	37,357

Source: Secretary of State, Statutory Filings Division, Corporations Section

THE TEXAS BUSINESS OPPORTUNITY ACT

The Texas Business Opportunity Act (Texas Civil Statutes, Article 5069-16.01 *et seq.*) became effective August 31, 1981. The Act requires persons marketing business opportunities to register the business opportunity for sale or lease in Texas. The seller must also provide the Secretary of State with a list, updated every six months, of all salespersons attempting to sell the business opportunity. The purpose of the disclosure statement is to allow a potential buyer to make an informed decision whether or not to get involved with the opportunity rather than one based on possibly exaggerated representations by the seller. The statements in the disclosure statement are not reviewed by the Secretary of State. Copies of a file may be obtained according to the following fee schedule:

- 1) Total File of a Business Opportunity Registrant—ten dollars (\$10.00).
- 2) Partial File—fifty cents (\$.50) per page.
- 3) Certified Copies—one dollar (\$1.00) per page plus one dollar (\$1.00) for the certificate.
- 4) Certificate of Record or No Record—two dollars (\$2.00).

Further information and material on the Business Opportunity Act may be obtained by contacting the Business Opportunity Section of the Statutory Filings Division, P.O. Box 13563, Austin, Texas 78711-3563, or by calling (512) 475-1769.

The following is a list of the Business Opportunities that have registered in Texas since July 31, 1982.

Name	Location	Business
Wall Enterprises, Inc.	Dallas, Texas	Franchises for sales and installation of storm windows
Temporary Health Care Services	Southfield, Michigan	Franchises for the purpose of supplying temporary health care personnel
Brigade 2001, Inc.	Houston, Texas	Distribution of fire extinguishers and related products
Hip Pocket, Inc.	Bedford, Texas	Operate restaurants featuring Pita sandwiches
New Frontier Vitamin Store	Paris, Texas	Sales of vitamin stores
Langenwalter-Harris Chemical Company	Anaheim, California	Franchises for marketing and applying carpet and upholstery dyes.
Chambers Security System, Inc.	San Antonio, Texas	Franchises for installation and service of electronic security equipment
Foto Now, Inc.	Houston, Texas	Photo and film processing
The Sirloin Franchisors, Inc.	Tri-City Shopping Center	Restaurant franchises
K-Bob's Inc.	Dallas, Texas	Restaurant franchises
Three Worlds, Inc.	Lubbock, Texas	Retail sale of childrens and maternity clothing and furniture
Color-Glo International, Inc.	Minneapolis, Minnesota	Franchise for sale and application of re-dyeing products and windshield repair techniques.
Professional Diet Systems, Inc.	Salt Lake City, Utah	Nutrition and dietary business
Valets International Corporation	Irving, Texas	Franchise for laundry, dry-cleaning, and related personal convenience services.
Professional Diet Centers, Inc.	Midland, Texas	Franchises of diet consulting centers
World Wide Systems, Inc.	Marietta, Georgia	Vending machines
Lamco, Inc.	Houston, Texas	Sales of railroad tank cars
NTS Communications, Inc.	Lubbock, Texas	Long Distance telephone service
Cross Timbers Oil Company, Inc.	Stephenville, Texas	Distributorships of petroleum products
Control Video Corporation	McLean, Virginia	Computer video subscription services
Business Marketing Systems	Cleveland, Ohio	Stop-Smoking Centers
Forex, Inc.	San Antonio, Texas	Franchises for sale of air conditioning parts
Chad's Rainbow, Inc.	Dallas, Texas	Franchise for teaching and marketing of child development toys.



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