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TEXAS ECONOMY IN RECOVERY*

Texas is on the move once again. The economic recovery, beginning in 1987, promises an even more prosperous future than with the oil boom of the 1970s. Positive signs of recovery abound: declining initial unemployment insurance claims, a continuous fall in the state unemployment rate, a recovery in retail sales, an improvement in the small business optimism index, healthy job growth in agriculture and services, and a drop in the rate of business failures. The recovery is, however, painfully slow and uneven geographically and sectorally.

The dramatic declines in the price of oil in 1981 and in the winter of 1985 caused immediate and substantial problems not only for the oil and oil-related industries but also for the entire state. Today's employment level in the mining sector, which includes oil and gas jobs, is about 60 percent of the height of employment in 1982. The number of rotary rigs operating in Texas today is about a fourth of that in 1981.

The ripple effects of the collapse in the oil industry gradually but visibly spread to real estate markets and even to financial institutions. Today, new homes are built in Texas at the annual rate of approximately 45,000 compared to some 270,000 in 1983. The high vacancy rates for offices and commercial buildings in major cities throughout Texas are well known. Many financial institutions are struggling to survive the wave of bad loans, poor management, and capital flight.

Sales, oil and gas taxes represent the three largest sources of revenue for the state of Texas. The decline in tax collections from these sources aggravated further the already troublesome fiscal conditions of state government. With the decline in the revenue from taxes, the state was forced to retrench some activities, including support for public and higher education, the state prison system, mental health programs, and welfare programs.

More immediate problems surface in local tax districts. The declining value of properties caused a decline in ad valorem tax collections used mainly for local school operations. A dwindling source of revenue and a lower share to be received from the state jeopardize the ability of many local districts to implement the increasing number of legislative mandates resulting from recent public school reforms.

Yet, thanks to its diversified economic base, Texas has made a definite turnaround. Some 460,000 jobs were created in Texas during the last two years. The Texas unemployment rate, although still higher than the national average, shows a downward trend. The unemployment rate in Texas declined by some 3 percentage points from 10.0 percent in June 1986 to 7.0 in September 1988. Employment in agriculture, transportation and utilities, trade, and services continues to expand. Employment in the service sector, for example, increased by approximately 9 percent for the past two years. Texas

personal income, reaching some \$235 billion in first quarter of 1988, surges ahead. Retail sales have rebounded by some 11 percent for the last two years. In particular, durable goods sales increased by some 18 percent between August 1986 and August 1988. Population has stabilized, and the business bankruptcy rate is falling.

The manufacturing industry led the Texas economy in the course of its recovery. Some 62,000 manufacturing jobs have been created during the last twelve months alone. Indeed, international trade, reflecting, for example, a 50 percent depreciation of U.S. dollars against Japanese yen and deutsche marks in the last three years, emerges as one of the most striking characteristics of the Texas economy in recovery. According to the U.S. Department of Commerce, Texas ranked second, after California, in exports in the amount of some \$20 billion in 1987. Texas' comparative advantage lies in manufacturing of petrochemicals, primary metals, computers and electronics, and nonelectrical machinery.

Texas offers a healthy business climate to attract new industries to the state. State and local governments provide well-maintained roads and highways, good public health, environment, and safety, and effective education. Texas has limited unionization and a relatively low cost of living. The strongest asset of all is perhaps its relatively young, productive work force. With the projected population increase of some 20 percent for Texas between 1986 and 2000, compared to 11 percent for the nation, Texas will continue to be a large source of productive workers and consumers.

The fruits of the recovery, nonetheless, are distributed unevenly. Geographically, some MSAs, including Dallas, Austin, Fort Worth, El Paso, and San Antonio, are better off while Beaumont-Port Arthur-Orange, Corpus Christi, Houston, and most smaller MSAs are in need of improvements. While employment in mining and construction in particular remains dismal, the prospect for new jobs in other areas is brighter than ever.

The recovery is helping accelerate the process of shaping Texas from an oil-based to a service-based economy. The Texas economy is becoming more diversified, intertwined with the national and international markets. Barring a national recession and a significant reversal in exchange rates, Texas can be expected to continue with a strong recovery.

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RETAIL SALES TRENDS IN WICHITA FALLS, TEXAS 1981 - 1987

By: Robert L. Taylor, Ph.D.

Economically the state of Texas, and Wichita Falls, weathered hard times during the 1980's. One area of the economy which has felt the direct impact of these hard times is retail sales. Retail sales have historically correlated closely to general economic conditions. An analysis of retail sales performance in Wichita Falls gives a mixed indication of the impact the state of the economy has had.

Retail sales data for Wichita Falls, covering the period 1981-1987, are analyzed in this paper. All data used in the paper are from the **Sales and Marketing Management Survey of Buying Power**. Overall retail sales and retail sales for six product/service categories are analyzed. The six individual categories for which sales trends are analyzed are food stores, eating and drinking places, general merchandise, furniture and accessories, automobiles and accessories, and drugs. Retail sales are analyzed on two bases, unadjusted data and inflation adjusted data (using a base period of 1982-84). Adjusted data gives a better indication of how well the retail sector of Wichita Falls has fared over the period.

OVERALL RETAIL SALES TRENDS

From 1981 through 1987 retail sales in Wichita Falls showed a healthy gain of 23.5 percent in total dollars. Total retail sales increased from \$699.7 million in 1981 to \$864.5 million in 1987. However, when the data are adjusted for inflation the numbers are not as encouraging. On an adjusted basis total retail sales actually dropped slightly, by 1.14 percent (see table 1). This decrease compares with a statewide adjusted increase of 6.05 percent in total retail sales over the same time period. Even more disturbing is the retail sales performance on a per household and per capita basis. Adjusted retail sales per household in Wichita Falls fell by 8.15 percent (from \$22,575 to \$20,736) and per capita sales dropped by 7.74 percent (from \$8,216 to \$7,580). An encouraging note, however, is that the low point occurred in 1983 and there have been small gains in total retail sales, per household sales and per capita sales since 1983 (see figures 1 and 2).

All sectors of the retail economy in Wichita Falls have not felt the impact of the economic slowdown to the same degree. There are in fact retail sectors which have enjoyed substantial gains during the 1980's.

RETAIL SECTOR TRENDS

Using data from the **Sales and Marketing Management Survey of Buying Power** six retail sectors are analyzed. (refer to figure 3 for data on all six groups).

Food Stores - Retail Trends

A business is classified as a food store if it is an establishment selling food primarily for home consumption. In total dollars food stores in Wichita Falls enjoyed a 20.2 percent increase in sales (from \$132 million to \$158.7 million) over the relevant time period. The effect of inflation, however, resulted in adjusted retail sales dropping 3.82 percent. Adjusted retail sales in food stores reached a low in 1984 when sales dropped to \$115.5 million. Since 1984 sales have rebounded, and reached \$139.7 million in 1987. Sales in 1987, however, were still less than the high of \$145.3 million in 1981. An analysis of sales in eating and drinking places explains much of the decrease in food store sales over the period.

Eating and Drinking Places - Retail Trends

Eating and drinking places are defined as establishments selling prepared food and drinks for consumption on or near the premises or for take-out; including restaurants, lunch counters, and concessions.

The largest gain in any single retail category was in sales in eating and drinking places. In total dollars, sales increased by 61 percent (from \$54.2 million to \$87.3 million) between 1981 and 1987. Even when adjustments for inflation are made sales were up by 28.84 percent. This substantial gain would explain much of the decrease in the sale of food for home consumption. The increase has been consistent each year since 1981. As more people dine out, in lieu of eating at home, this trend should continue.

General Merchandise - Retail Trends

Data for general merchandise include sales in department stores, limited-price variety stores ("5 & 10s"), and general merchandise stores.

Sales in general merchandise stores have held at an acceptable, although unimpressive, level over the period. Although total dollar sales increased by 33 percent (from \$100.9 million to \$134.2 million), adjusted sales increased only 6.45 percent. Department store type merchandise is a category which would be expected to feel the direct affects of an economic slowdown.

Furniture/Accessories/Appliances - Retail Trends

This category includes a combination of several subgroups that sell goods for furnishing the home; including furniture, floor coverings, draperies, glass and chinaware, stoves, refrigerators, and other household appliances.

Sales in this product category increased 37.3 percent in total dollars (from \$39.9 million to \$54.9 million) and 9.85 percent in adjusted dollars. Although not the top performing retail category it is a healthy gain considering the economic conditions during much of the period. The strength in this product category is very likely accounted for by the increase in the number of households in Wichita Falls over the period. From 1981 through 1987 Wichita Falls had a net gain of 2600 households, representing a 7.6 percent increase. Establishing new households often entails purchasing new furniture, appliances, and home accessories.

Automobiles/Accessories - Retail Trends

This category of products includes retail outlets selling automotive vehicles, as well as motorcycle dealers, household trailer dealers, boat dealers, and stores selling automotive accessories and supplies.

Of all the retail categories studied, this product category had the most dismal performance. On a total dollar basis retail sales in this category increased by only 12 percent over the period (from \$155.4 million to \$174.1 million). When adjustments for inflation are made the result is a decrease of 10.9 percent, not an encouraging sign. Of the seven years studied, 1981 was the best year for automotive related products with adjusted sales of \$170.9 million. The worst year was 1982, when adjusted sales fell to \$140.7 million. A recovery appeared underway after 1982 as adjusted sales rose steadily to \$163.1 million in 1986. However, a decline occurred in 1987 when adjusted sales fell to \$153.2 million. Since many of the items in this product category can be considered luxury items this rather flat trend in sales is not surprising.

Drug Store Sales - Retail Trends

Drug stores include stores selling prescription and proprietary drugs as well as other health and beauty aids.

This product category is another bright spot in the economy in Wichita Falls. This product category posted the second highest gain among all the product categories. Total dollar sales in this group increased 58.2 percent over the period (from \$13.5 million to \$21.4 million). Even when adjustments for inflation are made the category showed a 26.6 percent gain over the period.

SUMMARY

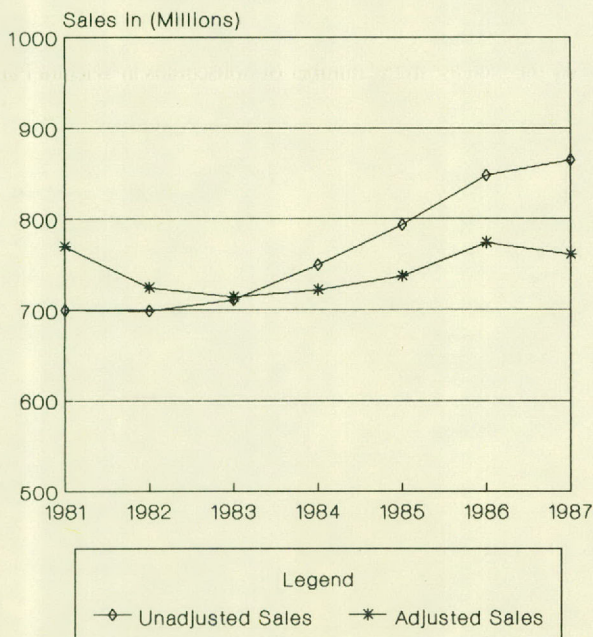
Although the total retail picture in Wichita Falls has not been encouraging throughout most of the 1980's there have been some areas which have enjoyed good growth. On an adjusted basis, total retail sales were essentially flat from 1981 through 1987. An increase in population over the period is the factor that allowed adjusted retail sales to hold steady throughout the period. Had there not been a population increase the retail sales trend would have been negative. This fact is evident from the decrease shown in per capita and per household retail sales.

Table 1
Retail Sales Change 1981 vs. 1987

Category	Change (Unadjusted)	Change (Adjusted)*
Total Retail Sales	14.8 %	(1.14%)
Sales per Household	15.3 %	(7.74%)
Sales per capita	15.3 %	(7.74%)
Restaurant sales	61.0 %	28.84%
General Mdse.	33.0 %	6.45%
Furniture/Accessories	37.3 %	9.85%
Automobiles/Acc	12.0 %	(10.39%)
Drug store Items	58.2 %	26.60%
Food Sales	20.2 %	(3.82%)

*Base Period=1982-84

Figure 1
Total Retail Sales - Wichita Falls
(Adjusted and Unadjusted for Inflation)*

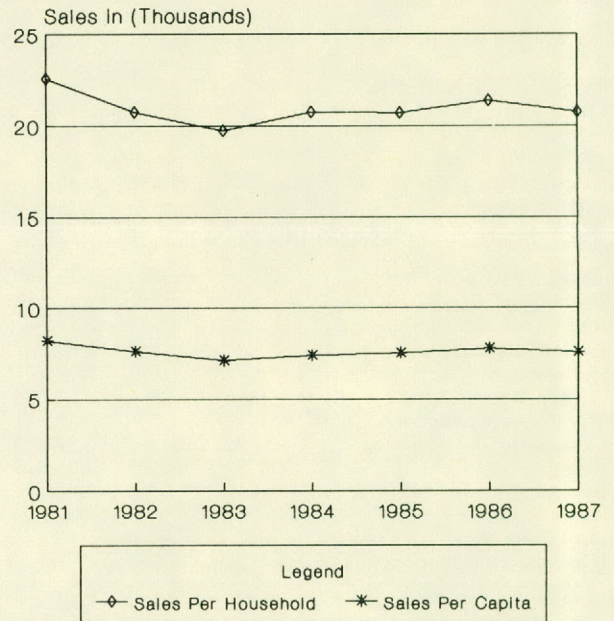


Source: Sales and Marketing Management
Survey of Buying Power
(Base period = 1982-84)

The two areas showing the greatest strength were sales in eating and drinking places and drug store sales. Both categories enjoyed increases of approximately 28 percent on an adjusted basis.

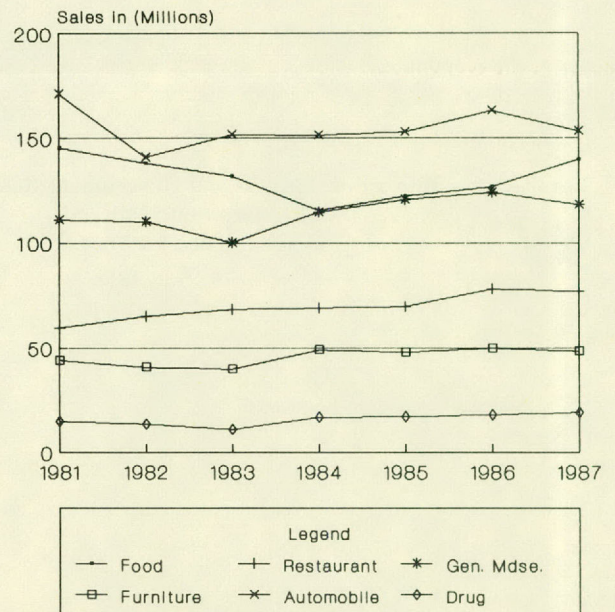
The category showing the weakest performance was in automobiles, automobile accessories, boats and supplies. Improving economic conditions will hopefully bring all retail categories back to a more acceptable growth rate.

Figure 2
Retail Sales Per Household & Per Capita
(Adjusted for Inflation)*



Source: Sales and Marketing Management
Survey of Buying Power
(Base Period = 1982-84)

Figure 3
Retail Sales By Product Category
(adjusted for inflation)*



Source: Sales and Marketing Management
Survey of Buying Power
(Base Period = 1982-84)

SELECTED BUSINESS STATISTICS
Wichita Falls, Texas

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988*</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>OCT</u>	<u>NOV</u>
Building Permits Issued¹												
Grand Total												
Number	1,567	1,635	1,587	1,577	1,446	1,657	9,697	1,518	5,018	2,488	737	600
Valuation (000)	45,375	73,236	45,959	68,942	40,951	31,105	48,377	11,051	18,905	9,557	2,970	5,894
New Residences												
Number	363	539	428	341	141	111	63	22	21	12	5	3
Valuation (000)	10,451	15,223	14,914	18,589	9,995	7,296	4,368	1,522	1,554	743	294	255
Help Wanted Ads (Inches) ²	37,800	31,331	45,088	35,858	29,179	32,085	44,948	10,139	12,982	13,822	4,474	3,531
City Sales Tax Allocated ³ (Thousand Dollars)	6,078	5,918	6,448	6,950	6,483	6,023	5,105	1,284	1,737	1,656	428	--
Employment (Avg) ⁴												
Civilian Labor Force	67,517	67,488	70,150	61,492	56,492	58,650	58,356	57,167	58,633	59,267	58,400	--
Unemployment	4,204	4,392	3,283	3,475	4,667	4,542	3,778	4,467	3,567	3,300	3,200	--
Unemployment Rate	6.21	6.525	4.675	5.65	8.25	7.73	6.5	7.8	6.1	5.6	5.5	--
Natural Gas Consumed ⁵ (Billions of Cu. Ft.)												
Residential	2,547	2,437	2,515	2,346	2,105	2,199	1,803	1,192	358	187	66	--
Commercial	1,300	1,282	1,303	1,173	1,108	1,120	920	556	192	124	48	--
Industrial	4,496	4,742	5,091	5,372	5,824	8,242	7,821	2,516	2,153	2,453	699	--
Natural Gas Customers (Avg) ⁶												
Residential	31,781	31,265	30,966	30,661	30,348	29,743	29,717	29,729	30,193	29,228	29,119	--
Commercial	2,974	2,977	2,968	3,015	3,116	3,127	3,083	3,196	3,090	2,963	2,970	--
Industrial	52	45	43	43	41	40	37	38	37	37	37	--
Water Consumed ⁷ (Millions of Gallons)	6,569	7,302	8,158	7,090	6,999	7,570	7,147	1,537	2,167	2,839	604	--

1 Building Permits issued figures are for Wichita Falls.

2 Help Wanted Ads information furnished by Wichita Falls Times & Record News.

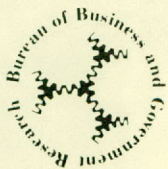
3 City Sales Tax Allocated figures are reported by the State Comptroller's Office.

4 Employment-related figures are for Wichita Falls SMSA.

5 & 6 Natural Gas Consumed and Natural Gas Customers figures are inclusive of Wichita County.

7 Figures for water consumption are for the City of Wichita Falls only.

* Employment and Natural Gas Customers 1988 figures represent average of first three quarters.



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