

Cross Timbers Business Report

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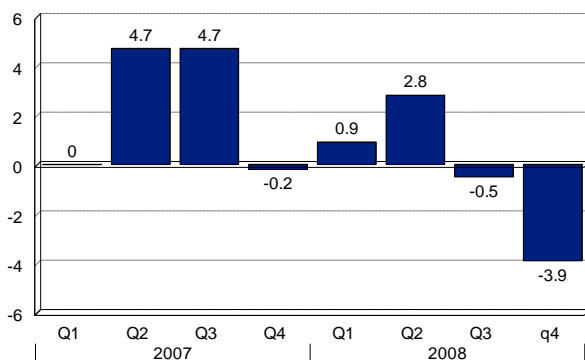
Output Data Confirm Deepening Recession

By Jack Reynolds

The nation's economic woes continue as the inflation-adjusted value of goods and services produced by workers and capital, known as real gross domestic product, or GDP, shrank at a 3.9 percent annual rate in the last quarter of 2008. This is the largest contraction in twenty-six years.

Changes in Real GDP

Annual Percentage Rates



Source: Bureau of Economic Analysis, U. S. Department of Commerce

This loss comes on the heels of the official announcement by the National Bureau of Economic Research (NBER) that the United States economy has been in a recession since December 2007. The NBER is the agency responsible for dating American business cycles, and this recent data supports their conclusions.

The weakness in activity was broadly based. Consumer spending on services and durable goods dropped by 7.1 percent and 3.5 percent, while outlays for nondurable goods plummeted 22.4 percent, its weakest showing in twenty-one years. Residential investment continued its three year decline, falling 23.6 percent.

The loss in overall growth can also be attributed to the 20.1 percent loss in business investment. Investment in equipment and software saw its weakest performance in fifty years, falling by 27.8 percent, and investment in structures saw its steepest decline since 1975, dropping 19.1 percent.

It was the drop in consumer inflation, however, that took many economists by surprise. Prices of consumer goods contained in GDP fell by 5.5 percent, the steepest decline on record. This startling drop in inflation led to a 3.3 percent increase in real disposable income (which fell by 8.8 percent in the third quarter) and a 2.9 percent increase in the much ballyhooed savings rate, up from 1.2 percent in the third quarter.

Business inventories, on the other hand, grew by \$6.2 billion after falling \$29.6 billion the quarter before. This increase marked the first gain in business inventories in more than a year, adding 1.3 percentage points to growth, the largest contribution to growth in eleven quarters.

Similarly, international trade contributed 0.1 percentage point to growth, when exports fell 19.7 percent and imports fell 15.7 percent. Government spending rose 1.9 percent and contributed 0.4 percentage point.

Jack Reynolds is a junior majoring in economics and mathematics at Tarleton State University

Deflation Shockwaves Felt as Consumer Prices Tumble

By Kathleen Gorka

The Department of Labor recently reported that consumer prices declined by 0.1 percent between December 2007 and December 2008, which marks the lowest inflation rate in 54 years. This is good news for weary consumers, whose wallets were stretched after a summer season of near-record high inflation. The CPI (Consumer Price Index), commonly used to measure inflation, revealed dramatic fluctuations of prices, as depicted in the graph below. Inflationary spikes of up to 12.8 percent during mid-summer were followed by a deflation rate of 19.9 percent in November. Last year's slight price decline

compares to a 4.1 percent increase for the 12 months ending December 2007.

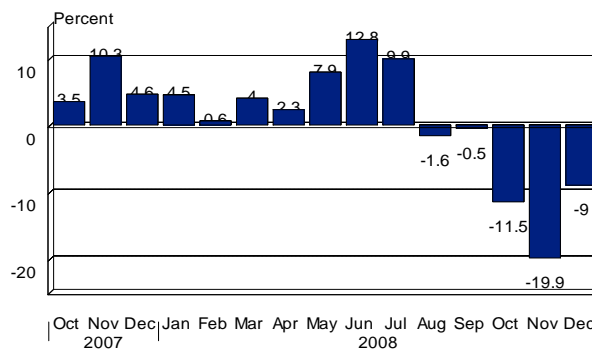
The core CPI, which excludes energy and food items, remained virtually unchanged last year, although it did show a 0.3 percent decline in the fourth quarter. These values mark the slowest movement in this indicator in 5 years. The slow gain in the core index is primarily attributed to stagnation in the prices of shelter, medical care and motor vehicles. Housing, the largest segment, was unchanged, and apparel ended the year down 1.0 percent. The most significant declines were recorded in motor vehicles, air fares, and public transportation.

Though not contained in the core CPI, energy costs directly affect the economy by raising prices on items like raw materials, food, transportation and plastics. Energy prices were the largest contributor to inflation in mid-2008 and caused almost 90 percent of the decreases at year-end.

Price reductions, known as deflation, resulted from a severe recession that has been rocking the U.S. economy for the past year. Further deflationary pressures may be setting in, according to chief economist, Mark Zandi, at Moody's Economy.com. "Given the [shaking] economy, es are under extreme pressure to lower prices." Consumer prices plunged at a 13.5 percent annual rate during 2008's

INFLATION RATES

(Annual Changes in Consumer Prices)



Source: Bureau of Labor Statistics

final three months, and some economists fear this trend might continue.

There does seem to be some hope. A beneficial by-product of recession, price reductions, has added more disposable income to some worker's pocketbooks. Federal Reserve President, Janet Yellen, also remains optimistic, "[Though] it seems likely that inflation will move...below levels consistent with price stability," she is confident that deflationary forces can be contained.

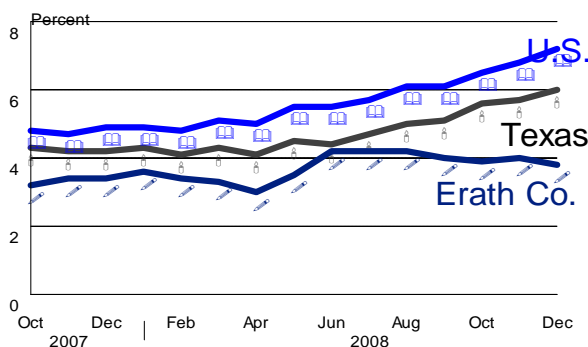
Kathleen Gorka is a senior majoring in economics at Tarleton State University

Local Unemployment Trends Run Counter to State and National Patterns

By Jessica Gruetzner

The final quarter of 2008 showed unemployment rates for the United States and Texas continuing to increase. After closing the third quarter with a 6.1 percent rate, the United States' jobless figure climbed to 7.2 percent by December. The unemployment rate for December 2007 was 4.9 percent. The nation's 5.8 percent annual jobless figure for last year is 1.2 percent higher than the value posted the year earlier.

UNEMPLOYMENT RATES



Sources: U.S. Bureau of Labor Statistics and Texas Workforce Commission

Texas also experienced an increase in its unemployment rate and closed 2008 with a 6.0 percent figure. The state's average jobless rate for last year was 4.8 percent, which lies slightly above the 4.3 percent value posted in 2007.

Erath County's unemployment pattern countered national and state trends by actually decreasing from 4.1 percent in the third quarter to 3.9 percent in the fourth quarter of last year. Last year's average jobless rate of 3.8 percent rests slightly above the 3.7 percent figure noted the year before.

Bosque County ended 2008 with an annual average unemployment rate of 4.7 percent. This value is slightly higher

than the 4.5 percent and 4.6 percent figures posted in 2007 and 2006.

Eastland County noted an average jobless rate of 4.6 percent last year. This value marks an increase over the 4.3 percent value for 2007 but compares favorably to the 4.7 percent value posted in 2006.

Comanche County's jobless rate averaged 4.0 percent in 2008. This figure compares favorably to the 4.1 percent value noted the year before and the 4.7 percent mean calculated for 2006.

Hamilton County's 3.8 percent average jobless value for 2008 is identical to the value noted the year before and falls well below the 4.6 percent figure posted two years earlier.

The U.S. Bureau of Labor Statistics collects and reports national and state unemployment statistics on a monthly basis, while the Texas Workforce Commission manages county and other local data. National and state figures are adjusted for normal seasonal fluctuations, while county figures are unadjusted.

Jessica Gruetzner is a senior marketing major at Tarleton State University

The College of Business Administration at Tarleton State University presents the Cross Timbers Business Report (<http://www.tarleton.edu/cobaweb/ctbr/index.html>) as a service to local residents. It is written by the members of Delta Mu Delta, a business honor society, as well as other involved students. This report is distributed without charge to any interested person or organization. To subscribe to this publication or make suggestions regarding its content, write William L. Beaty, Editor, P.O. Box T-920, Tarleton Station, TX 76402, phone 254-968-9622, or E-mail beaty@tarleton.edu.

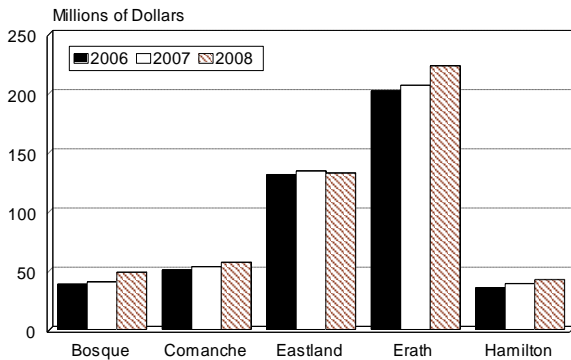
Local Counties Report Sales Gains

By Matt Hillman

Total retail sales in the Cross Timbers area increased 6.4 percent in the first six months of 2008, compared to the same period in 2007, according to the State Comptroller's Office's recent quarterly report. During that time, four of the five Cross Timbers counties produced sales increases. Only Eastland County noted a decline.

RETAIL SALES

Area Counties, January - June



Source: State Comptroller's Office

Bosque County's first half retail sales did extremely well with a total of \$48.2 million, which gave the county a growth rate of 20.4 percent over the same period in 2007. Bosque's

2008 total marks an increase of 26.3 percent over the same period in 2006.

With total sales of \$56.7 million, Comanche County posted a 7.1 percent increase between 2007 and 2008. Last year's January-June aggregate represents a 13.0 percent gain over the same period in 2006.

Eastland County noted a 1.3 percent decline in sales in 2008's first half with a sales total of \$132.0 million. Last year's sales remained 1.0 percent above the figure for the same period two years earlier, however.

Erath County posted an increase in sales of 8.0 percent during last year's first half over the value for the year before. The county's \$222.6 million figure represents a gain of 10.6 percent over 2006.

Hamilton County, with a first-half 2008 sales aggregate of \$42.1 million, witnessed gains of 8.8 percent and 19.9 percent over the two previous years' totals.

The Texas State Comptroller's Office releases retail sales data reports on a quarterly basis. Statistics for a given quarter are typically released five to six months after the end of the period.

Matt Hillman is pursuing a Master of Business Administration degree at Tarleton State University

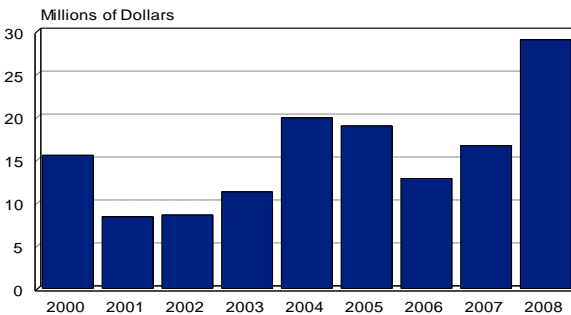
City Building Permit Values Hit Record Levels

By Jessica Moorhouse

Total 2008 building permit values in Stephenville increased by 74 percent over the figure for 2007 and surged an astronomical 126.2 percent over the value for 2006, according to City of Stephenville reports.

BUILDING PERMITS

Stephenville, January - December



Source: City of Stephenville

After a two-year decline in building permit values from 2004 to 2006 and an increase of 30 percent in 2007, construc-

tion values in 2008 soared to an estimated \$28.9 million, compared to \$16.6 million in 2007. In dollar values, new permits in 2008 spiked in January with the issuance of a permit for the 192-unit apartment complex located at 2825 West Frey. Other significant permits include one in March for the Community Nursing Home, another in June for the Super 8 Hotel, and still another in September for the construction of a science lab addition for Stephenville Independent School District. The value of the construction projects for the month of January alone totaled over \$9.7 million and constituted more than 33 percent of the total 2008 construction figure.

City residents should note that all construction projects require permits, which may be obtained through Troy Curtis, Building Inspector for the City of Stephenville. Residential and commercial permit information can be found on the city web site (<http://www.ci.stephenville.tx.us/>) or by calling the inspector's office at 254-965-7887.

Jessica Moorhouse is a senior accounting major at Tarleton State University.

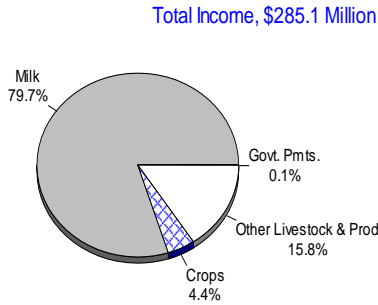
Erath's Agricultural Receipts Follow Familiar Pattern in 2008

By Candice Tabor

Milk production and sales continued to dominate Erath County's agricultural income in 2008, contributing almost four of every five dollars generated by this sector.

AGRICULTURAL INCOME BY SOURCE

Erath County, 2008



Source: Agricultural Extension Service

According to the Texas AgriLife Extension Service, farm revenues totaled \$285.1 million in 2008, a 9.8 percent jump over 2007 and a 38.9 percent spike over the 2006 aggregate.

Revenue figures were compiled from milk, livestock, and crop sales, as well as direct government payments.

The most dominant receipts in 2008 were derived from milk sales. Almost 80 percent of the county's total agricultural income was received from this source. In monetary terms, these receipts equaled \$227.3 million. This figure represents a 5.6 percent gain over the 2007 value and a 40.8 percent jump over the 2006 figure.

Sales of livestock such as, horses, beef cattle, poultry, goats, and sheep, contributed 15.8 percent, or \$44.9 million. This number represents a dramatic increase over values of \$28.5 million in 2007 and \$31.5 million in 2006.

Crops, including ensilage, hay and nursery products contributed 4.4 percent to total agricultural income last year. This number declined 5.7 percent from the 2007 total but advanced 26.8 percent over the 2006 value.

Government payments made up only 0.1 percent of total revenues in 2008 and fell far below values for the two previous years.

Candice Tabor is a senior majoring in economics at Tarleton State University

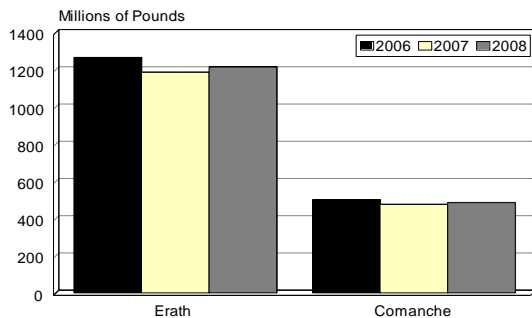
Milk Markets Continue Dynamic Trends

By Nelly DiCiccio

Erath County continued to hold the number one position in the state's wholesale milk market throughout 2008. Comanche County began and ended 2008 as the sixth highest producer. These two Cross Timbers counties account for almost 20 percent of all milk produced in the state. However, Texas' production pattern continues to show fundamental shifts as more farmers move into northwestern areas of the state.

MILK PRODUCTION

Area Counties, January - December



Source: Market Administrator's Report

Erath County's dairy farmers produced 1.2 billion pounds of milk during 2008. This value represents a gain of 2.4 percent over 2007 but a loss of 4.0 percent from 2006. Erath maintained its position as Texas' top milk producer and accounted for 14.5 percent of the state's total output as of December 2008. Erath County's increase in milk output was accompanied by a reduction in the number of dairy farmers. The producer census declined from 90 to 88 between January and December last year.

Comanche County rebounded to the sixth highest producing county in the state after falling to the ninth position in August and September of 2008. County producers turned out 484.8 million pounds of milk last year, which represents a 2.0 percent gain over the year before but a 2.8 percent loss when compared to the 2006 value. Dairy producers in Comanche County produced 5.8 percent of the state's total output as of December 2008. Comanche County reported a total of 28 producers in January of last year; by December, this number had decreased to 27.

Perhaps the most significant dynamic in the state's milk market has been the movement of farms to the south plains and panhandle regions. In December of last year, seven of the state's ten top counties were located in these areas. Six years ago, only one came from this locale. Future trends in this evolution remain open to debate, however. Although some west Texas counties show triple-digit gains, others report weak advances, and still others note declines.

Milk production data for the southwest marketing area are collected and published on monthly basis by the Market Administrator's office in Carrollton, Texas.

Nelly DiCiccio is pursuing a Master of Business Administration degree at Tarleton State University