THE GINN ECONOMIC BRIEF

TEXAS ECONOMIC SITUATION SEPT. 2021 | VANCE GINN, PhD, CHIEF ECONOMIST

OVERVIEW: Texans' livelihood is improving after much destruction from forced business shutdowns by governments in response to COVID-19. Recently, some normalcy returned as the Texas economy was fully opened on March 10, 2021, contributing to less unemployment and an improved civil society. The regular and second special sessions of the 87th Texas Legislature supported this normalcy, with wins of sound fiscal and regulatory legislation, more paths to opportunity, and another Conservative Texas Budget. More successes may be realized during the third special session called by Gov. Greg Abbott by advancing more pro-growth policies to spend responsibly and eliminate property taxes thereby supporting the recovery and withstanding Washington's anti-growth policies.

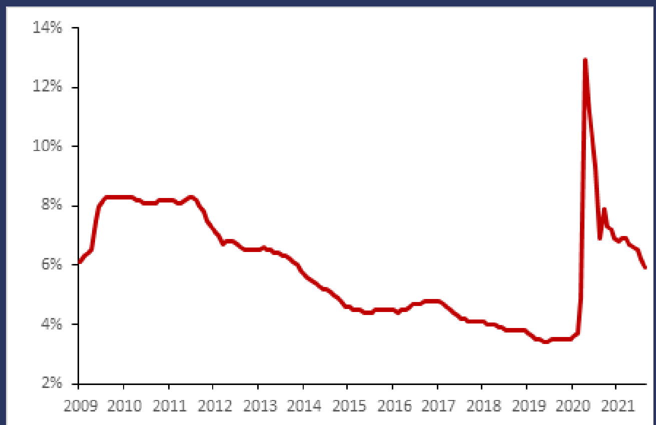
5.9%

TX UNEMPLOYMENT RATE AUGUST 2021

What should Texas do with ARPA funds?

Click for the answer!

TEXAS UNEMPLOYMENT RATE



LABOR MARKET: The table below highlights information from the Texas Workforce Commission's latest jobs report for August 2021. Employment in Texas increased by 39,300 in August 2021, resulting in increased employment in 15 of the last 16 months. This included 37,500 net new jobs in the private sector and 1,800 more jobs in the government sector. Total employment was up by 681,000 compared to a year ago—an increase of 5.6%—with the private sector adding 682,200 jobs (6.8% increase) and the government shedding 1,200 jobs (0.1% decrease)—a welcomed sign of efficiency. But since pre-shutdowns February 2020, the private sector has employed 191,400 fewer people. Compared with April 2019, when private sector employment was also about 10.8 million, Texans face challenges such as a lower labor force participation rate, a lower employment-population rate, and a higher unemployment rate.

	JUNE 2009	APRIL 2019	FEBRUARY 2020	APRIL 2020	AUGUST 2021
Labor Force Participation Rate	66.4%	63.8%	64.0%	60.2%	62.3%
Employment-Population Rate	61.1%	61.6%	61.6%	52.4%	58.6%
Unemployment Rate (U3)	8.0%	3.5%	3.7%	12.9%	5.9%
Private Sector Employment	8.5M	10.8M	11.0M	9.6M	10.8M

Data compare the following: 1) June 2009—Dated trough of that U.S. recession, 2) April 2019—Near current private sector employment, 3) February 2020—Dated peak of the last U.S. expansion, 4) April 2020—Dated trough of the last U.S. recession, and 5) August 2021—Latest data available.

Figure 1
State Unemployment Rates by Political Representation, August 2021

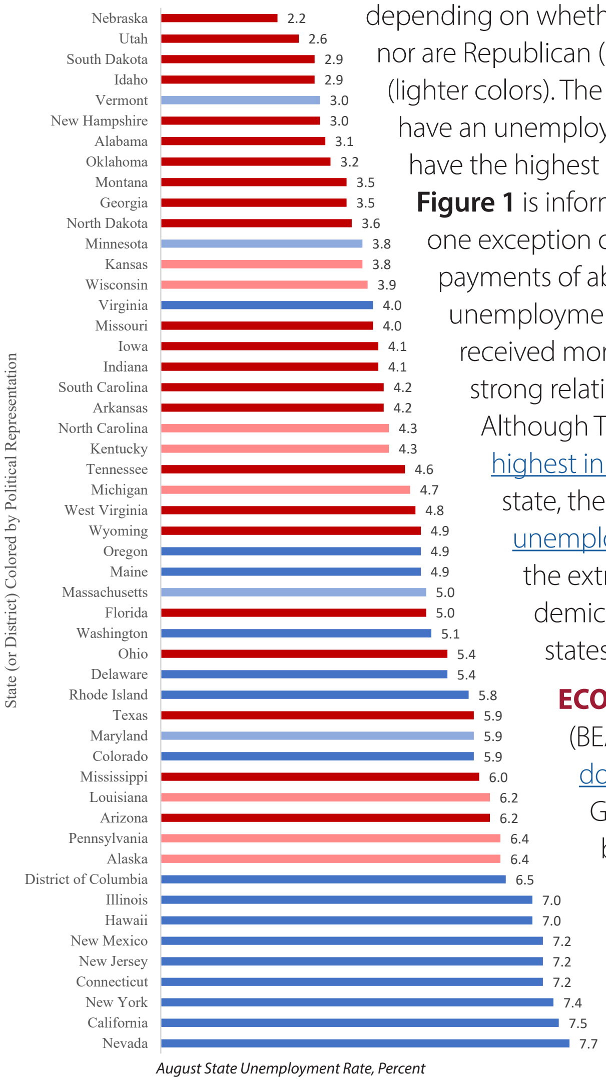


Figure 1 compares the unemployment rate in red states and blue states depending on whether both chambers of the legislature and the governor are Republican (dark red), Democrat (dark blue), or some combination (lighter colors). The results show that 22 red states but only 3 blue states have an unemployment rate under 4.9%, while the 8 states and D.C. that have the highest unemployment rates are dark blue—all over 6.4%. **Figure 1** is informative because only Republican governors, with the one exception of Louisiana, ended the supplemental unemployment payments of about $1,200 per month that were on top of each state's unemployment payments and created a situation where people often received more than they did while working. These data indicate a strong relationship between sound policy and low unemployment. Although Texas's 5.9% unemployment rate in August ranks 10th highest in the nation and is the third-highest rate for a dark red state, the state's labor market is continuing to improve after the unemployment bonus stopped on June 26. States that ended the extra unemployment payments early approached pre-pandemic levels of employment 37% faster in August than those states that continued the extra payments.

ECONOMIC GROWTH: The U.S. Bureau of Economic Analysis (BEA) recently released the state-level report on real gross domestic product (GDP) for Q1:2021. Texas had the lowest GDP growth rate of 4.3% on an annualized basis, well below the 6.4% U.S. average, as the state was hit by another wave of the pandemic and had harsh government restrictions on businesses in response. This followed Texas's GDP growth declines of 6.2% in Q1:2020 and 29% in Q2 during the depths of the recession but then increases of 29.7% in Q3 and 7.5% in Q4 for a total decline of 3.5% in 2020—matching the U.S. average decline. It was the state's first annual decline since 2009 and ranked 23rd among states, with slower growth than the other large states of California (-2.8%) and Florida (-2.9%). GDP for Q2:2021 will be released on October 1.

BOTTOM LINE: As Texas recovers from forced shutdowns and removes government barriers, the economic outlook for Texans should improve more quickly to at least recover the tangible prosperity experienced in February 2020. The Texas Model was fortunately strengthened by the 87th Legislature which followed most of the Foundation's recommendations of less government spending, taxing, and regulating. And the labor market will likely continue to improve after the recently ended new federal unemployment bonus.

RECOMMENDATIONS

The recent fiscal successes during the Texas Legislature's regular session should be improved upon during the third special session by using most if not all the state surplus as a down payment to eliminating property taxes. Also, the funds sent by the U.S. Congress through the America Rescue Plan Act (ARPA) should be used responsibly, if they are used at all. Specifically, ARPA funds should be used to pay off the unemployment insurance trust fund debt and replenish what was in the fund before the shutdowns, fund only one-time expenditures like building the border wall, and cut school district M&O property taxes. If we follow free-market capitalism, which best supports human flourishing, Texans will recover more quickly, better resist D.C.'s overreach, and see improved prosperity for generations to come.