

**Dillard College of Business Administration  
Bureau of Business and Government Research**

# **Wichita Falls Regional Economic Outlook Report**

**3rd Quarter, 2014**





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**Volume 9 Number 3 3rd Quarter, 2014**

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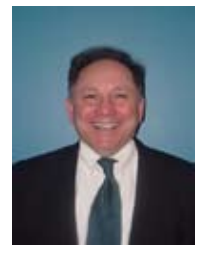
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# The Director's Report

The Dillard College of Business Administration (DCOBA) takes seriously its mission of serving the broader regional community. In that regard, the Economic Outlook Report continues to play a very special and pivotal role. This report presents our findings for the Wichita Falls area economy for the Third Quarter of 2014. The publication is produced by DCOBA's Bureau of Business and Government Research (BBGR) under the direction of Dr. John E. Martinez.

The BBGR constructs a quarterly General Business Index (WFGBI) for the greater Wichita Falls area based on a systematic treatment of all relevant officially-collected economic indicators. The purpose for constructing economic indices, such as the WFGBI, is to better assess general upswings and downswings in our regional economy through a systematic treatment of all officially collected economic indicators.

In addition to the WFGBI, the BBGR also constructs a number of other important sector indices of the local economy: housing, state sales and use tax collections, oil and gas, employment and personal income growth trends.

We invite you to read the analysis and commentary for the Third Quarter of 2014. The information provided in this latest edition should help us have a more informed opinion about the short-term economic outlook for the local economy.

Sincerely,

John E. Martinez, Ph.D.  
*Director, Bureau of Business and Government Research*

# Analysis Report - Third Quarter, 2014

by Dr. John E. Martinez

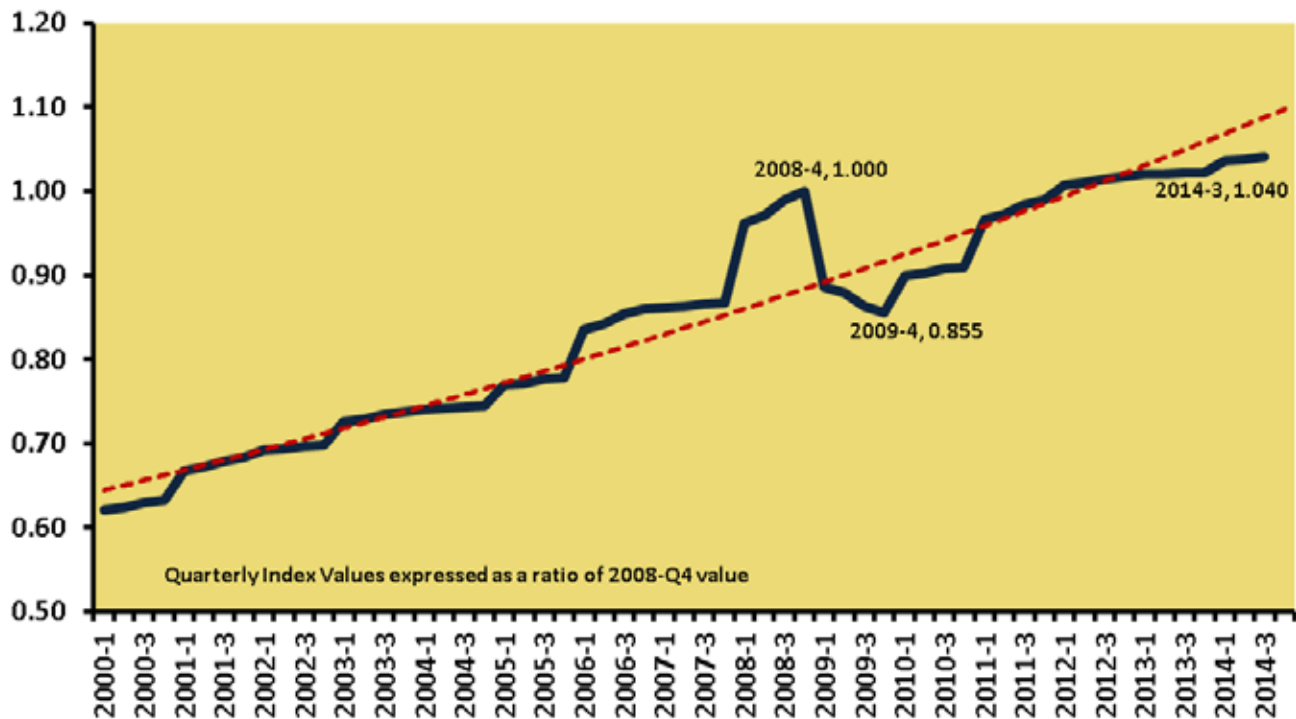
For any area economy - local, state, or national - there is a bewildering array of economic indicators that are collected to help gauge its general overall economic health. As might be expected, individual economic indicators are often ambiguous and sometimes contradictory; one indicator may be signaling an upswing while another maybe pointing to a downswing. A composite index constructed from individual indicators can help clear up such ambiguity by condensing all the relevant variables into a consistent picture of an area's overall economic well-being.

## General Business Index for the Wichita Falls Region

The purpose of constructing a General Business Index (GBI), such as the one presented in Chart 1 below, is to provide a systematic treatment of all officially collected and relevant economic indicators.

Chart 1 provides a birds-eye view of the aggregate performance of the Wichita Falls Metropolitan Statistical Area (MSA) economy from the third quarter of 2004 through the third quarter of 2014. After falling precipitously for much of 2008 and 2009, the local Wichita Falls economy (as measured by the Wichita Falls General Business Index WFGBI), has been steadily growing for the past five years at a very modest pace. However, local area economic performance has been more or less in a holding pattern over the past year. For Chart 1, the potential level of economic activity is based on a linear trend for the ten-year period of 2004 through 2014. Based on this most recent ten-year period, the Wichita Falls economy is operating only slightly below its potential.

**Chart 1 - Wichita Falls Quarterly Economic Index  
Actual & Potential**



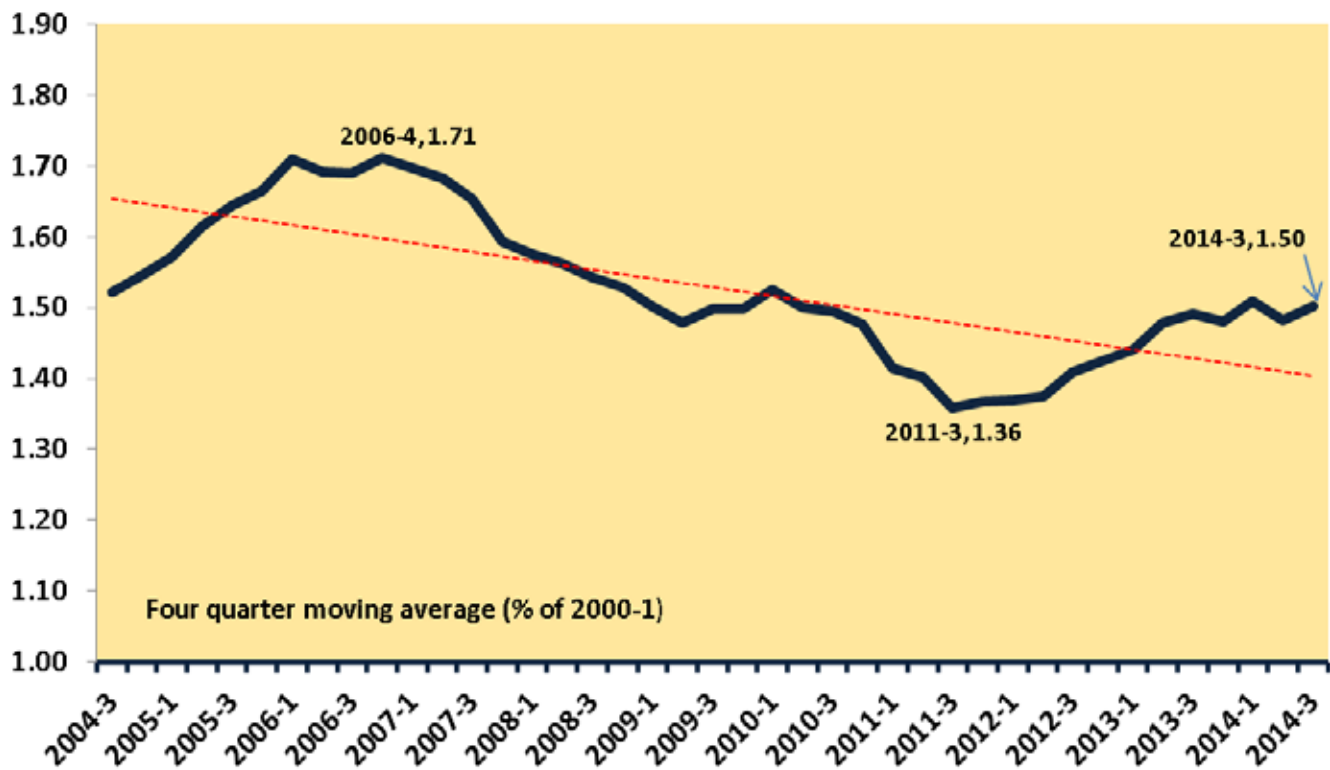
## Housing Conditions Index for the Wichita Falls Region

The BBGR of DCOBA also constructs a quarterly Housing Conditions Index (WFHCI) for the Wichita Falls area. The WFHCI is a composite index constructed for purposes of signaling directional changes in local housing activity. It covers the period from the third quarter of 2004 through the third quarter of 2014.

As Chart 2 (below) reveals, local housing conditions were on a downward trajectory since midyear 2006 until the third quarter of 2011. However, since that time, the WFHCI appears to have turned around with three years of slow, but continuous, growth.

The WFHCI is a composite index based on a number of key monthly housing statistics: unit sales, dollar sales volume, average and median sales price, total listings and months of housing inventory on hand. The data is collected on a monthly basis for individual metropolitan areas in Texas by the Real Estate Center at Texas A&M University.

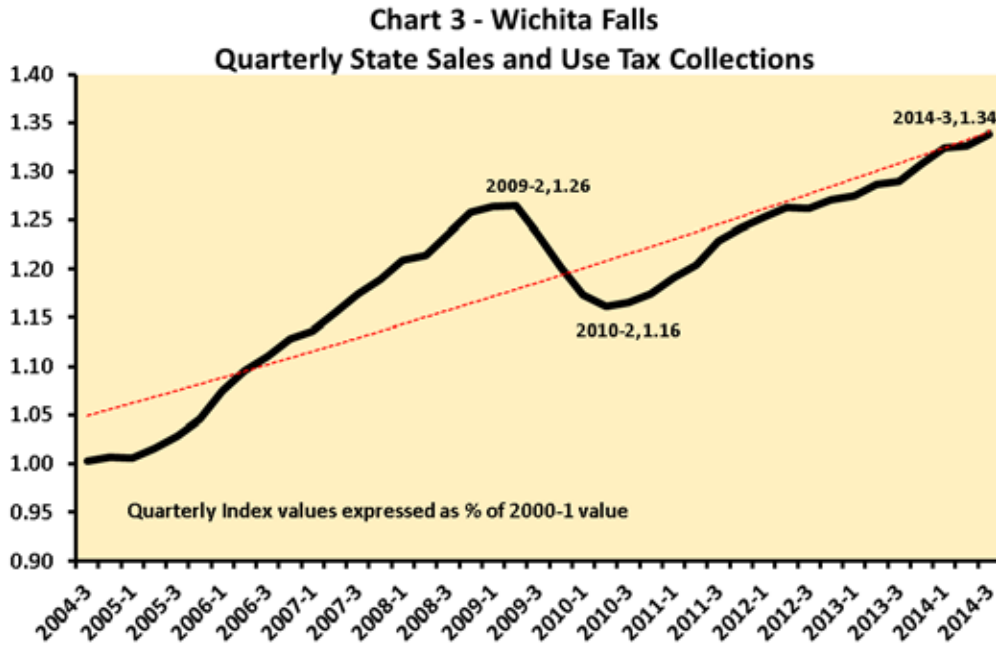
**Chart 2 - Wichita Falls Quarterly Housing Conditions Index**



Though the trend may have reversed itself in 2011, local housing growth has been rather anemic, at least when compared to growth in other metro areas in Texas. From the third quarter of 2011 through the third quarter of 2014, sales volume and unit sales have fallen slightly in Wichita Falls while increasing significantly in the Abilene and San Angelo MSAs. A similar pattern is also detected for average sales price. The average price of homes sold increased by more than 10 percent in Abilene and San Angelo while decreasing slightly in Wichita Falls. Moreover, the problem in Wichita Falls is compounded because of flat population growth. Wichita Falls is the only MSA in Texas that has not experienced population growth in the past ten years.

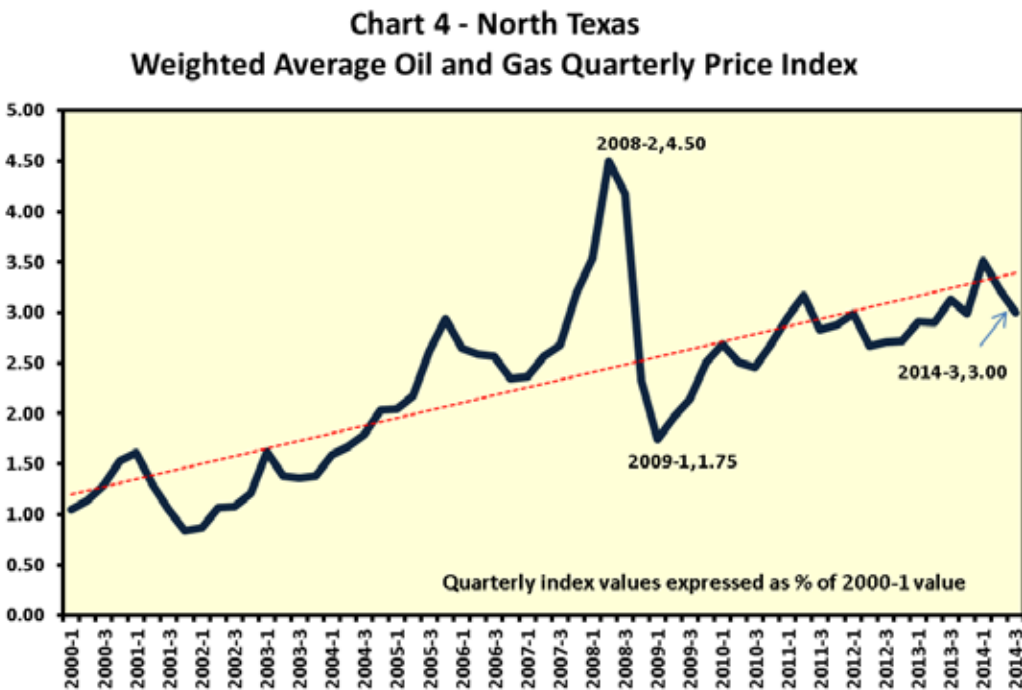
## State Sales and Use Tax Collections Index for the Wichita Falls Region

The BBGR also constructs a Quarterly State Sales and Use Tax Collections Index (WFSUT) for the Wichita Falls area. As indicated in Chart 3 (below), state sales and use taxes began falling in mid-year 2009, but the index has risen steadily since mid-year 2010.



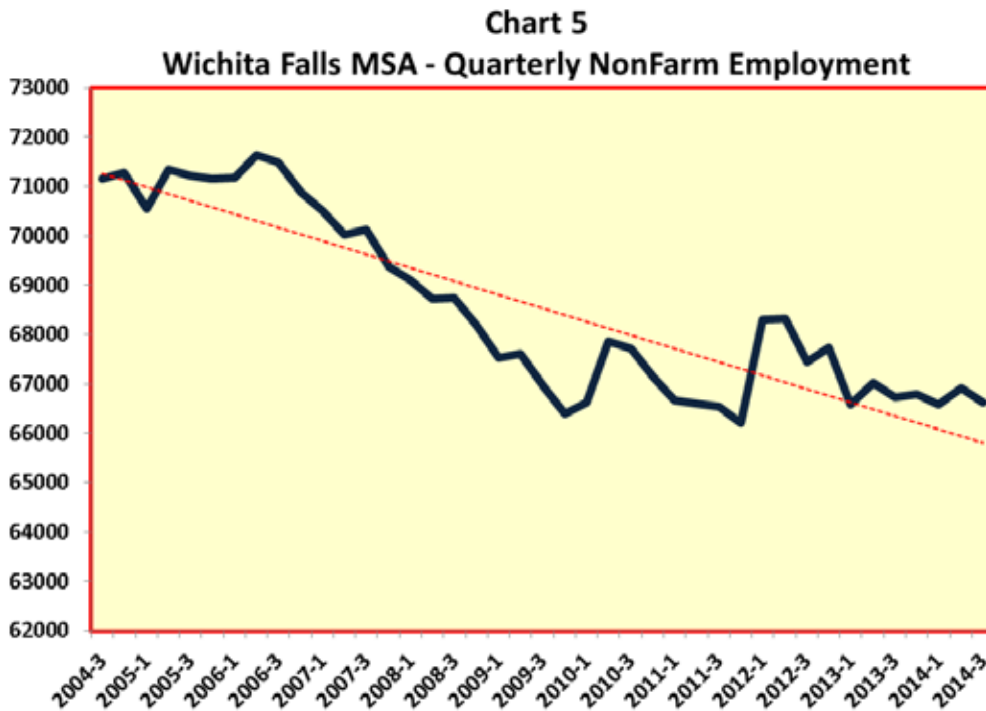
## Weighted Average Oil and Gas Price Index for the North Texas Region

Since energy comprises one of the largest sectors of the Wichita Falls and North Texas region, the BBGR also constructs a Weighted Average Oil and Gas Price Index (WAGPI). Though the WAGPI dropped significantly in 2008, it climbed steadily through the first quarter of 2014. However, as Chart 4 (below) reveals, the index took a dip in the current quarter.

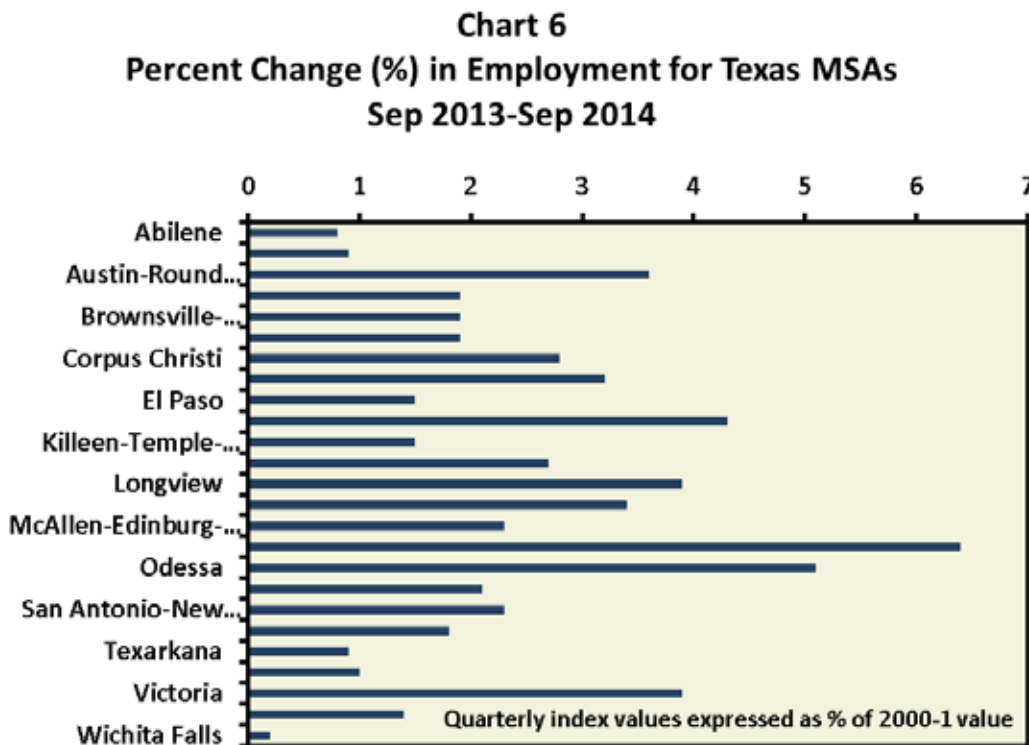


## Employment Trends for the Wichita Falls Region

Mirroring its dormant population growth pattern, total non-farm employment in the Wichita Falls region has steadily declined over the past 10 years. As Chart 5 (below) illustrates, total employment fell quite significantly from 2006 through 2009. However, employment growth in the area has held fairly steady since 2009, falling only modestly over the past three years.



As Chart 6 (below) reveals, employment growth in Wichita Falls over the past year was the smallest among all the metropolitan areas in the State.



As Chart 7 (below) indicates, most of the sectors comprising the local economy increased, if only slightly from April, 2014, through September, 2014. Only the Government sector employment experienced a decline during this time.

**Chart 7 - Employment Statistics for Wichita Falls MSA, TX**

Data Series	Apr 2014	May 2014	June 2014	July 2014	Aug 2014	Sept 2014
<b>Labor Force Data</b>						(P)
Civilian Labor Force (1)	69.9	70.2	70.9	71.0	70.0	70.2
Employment (1)	66.8	66.9	67.1	67.0	66.1	66.7
Unemployment (1)	3.1	3.3	3.9	4.0	3.8	3.4
Unemployment Rate (2)	4.4	4.7	5.4	5.6	5.5	4.9
<b>Nonfarm Wage and Salary Employment</b>						
Total Nonfarm (3)	57.4	57.9	58.0	57.5	57.2	57.7
Mining, Logging, and Construction (3)	3.7	3.8	3.9	3.9	3.9	3.8
Manufacturing (3)	5.0	5.0	5.0	5.0	5.0	5.0
Trade, Transportation, and Utilities (3)	11.5	11.6	11.6	11.7	11.6	11.5
Information (3)	1.1	1.1	1.1	1.1	1.1	1.1
Financial Activities (3)	2.8	2.8	2.8	2.7	2.7	2.8
Professional and Business Services (3)	3.4	3.4	3.4	3.4	3.4	3.5
Education and Health Services (3)	9.0	9.1	9.0	9.0	9.0	9.2
Leisure and Hospitality (3)	6.1	6.2	6.2	6.1	6.1	6.3
Other Services (3)	2.6	2.6	2.9	2.8	2.7	2.7
Government (3)	12.2	12.3	12.1	11.8	11.7	11.8
12-month % change	-0.8	0.0	-0.8	-0.8	-1.7	-1.7

Data extracted on: October 31, 2014  
Source: U.S. Bureau of Labor Statistics

Footnotes  
(1) Number of persons, in thousands, not seasonally adjusted.  
(2) In percent, not seasonally adjusted.  
(3) Number of jobs, in thousands, not seasonally adjusted.  
(P) Preliminary

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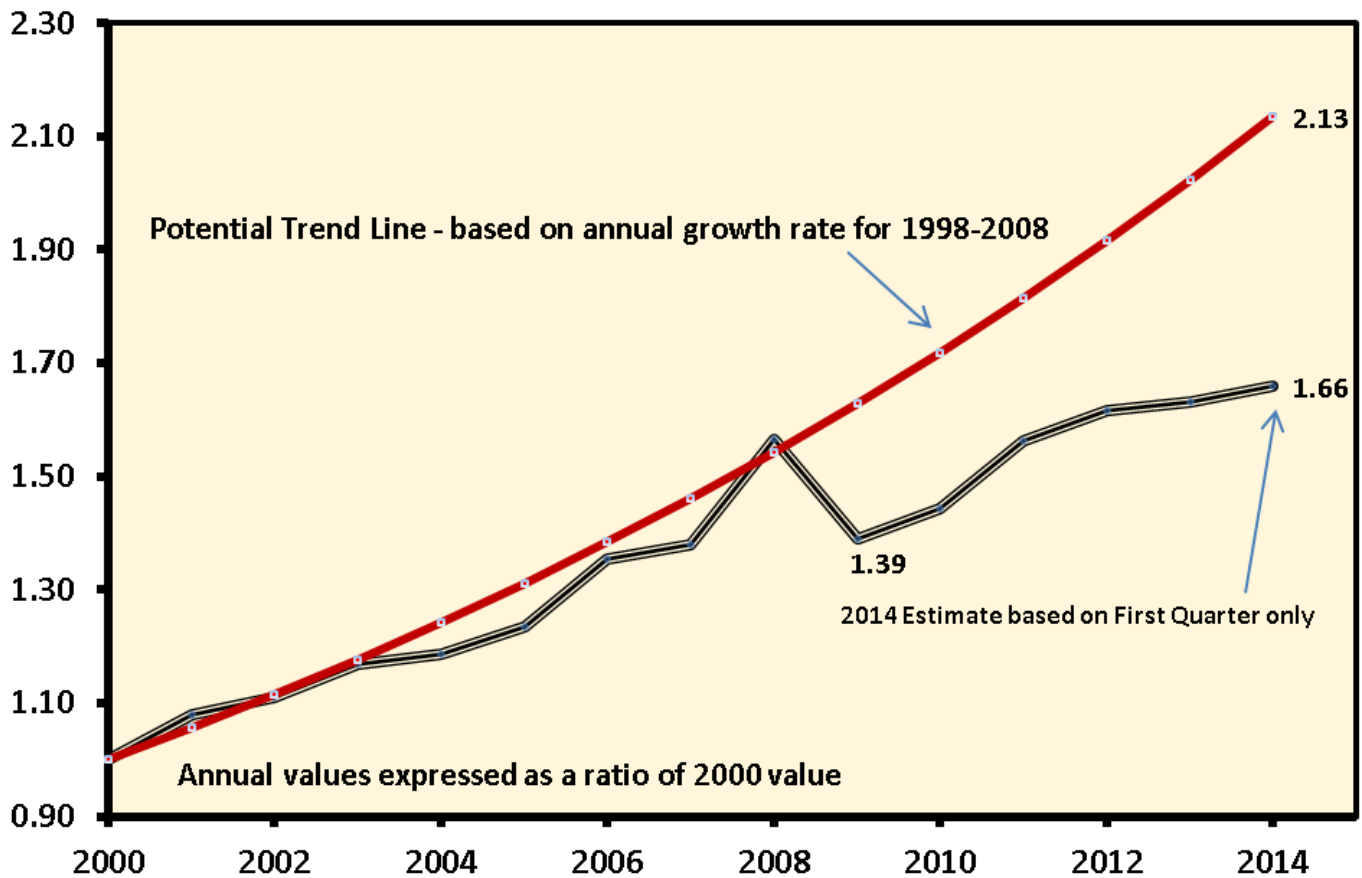
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## Annual Personal Income Growth Index for the Wichita Falls Region

Chart 8 provides a birds-eye view of the local area economy from 2000 through 2014. As the chart indicates, the local area economy appeared to have stalled in late 2007, taking a severe nosedive throughout much of 2008 and 2009. Since late 2009, the local area economy has rebounded, albeit at a much weaker pace than desired. Most recently, that growth seems to have tapered off a bit. While no region has complete immunity from a national recession, the short-term outlook for the Wichita Falls area economy does not look as bleak as some might have suggested, especially as the indirect and induced effects of recent business expansions percolate, even if somewhat slowly, throughout the general economy.

**Chart 8 - Annual Personal Income Growth Index for Wichita Falls MSA  
Actual and Potential**



### Summary and Conclusions

Based on the most recent information available, the local Wichita Falls economy does not appear to be hitting on all cylinders. At the same time, the likelihood of the local economy lapsing into a recession for the remainder of 2014 is minimal at best. Based on all the information provided above, the Wichita Falls economy has shown no significant signs of either strength or weakness for much of this year, and that situation is not likely to change for the remainder of 2014.

# Growth Prospects for the Wichita Falls Economy in 2014

by Dr. John E. Martinez

No local economy is completely immune from a national recession; a persistent national economic downturn should eventually produce a local economic slowdown as well. However, the good news is that the national economy in the third quarter grew at its fastest pace for the year. Though a significant part of the increase came from the reversal of temporary factors previously restraining growth, the expansion was a welcome outcome for an economy that looked on the brink of recession not that long ago.

There are always isolated signs of an imminent slowdown even in the face of an expanding local economy. However, signs of imminent collapse are not likely to be systemic for the Wichita Falls economy. The local housing sector continues to show weakness, but there does not appear to be any convincing evidence supporting the conclusion of a local recession - at least not based on the most recent information available at the local level.

Any adverse threat to local economic performance in the coming months will most likely come from factors outside our immediate influence, primarily from national and global demand shocks. As an empirical validation of that claim, over 80 percent of local employment volatility in recent years can be traced to external forces. This does not mean that local policies are irrelevant. To the contrary, area leaders have been relatively effective in reacting to the perfect storm of events that has hit the Wichita Falls economy over the past several years. And, just as importantly, they are being especially proactive in dealing with potential threats that may loom on the horizon.

Since 2010, local economic recovery has mirrored that for the nation - growing slowly but still considerably below longer trend capacity. Though the local recovery has been especially weak, the recent growth pattern is welcome nonetheless. However, it is considerably below the trend growth rate from 2000 to 2007. Based on that growth rate trend, our potential income should be over \$7 billion.

The Wichita Falls economy will face challenges over the short run horizon. Federal fiscal uncertainty could hamper expansion at SAFB over the coming months. If automatic defense spending cuts, as outlined in the federal Budget Control Act, go into effect, then the U.S. Air Force may have to cut funding at SAFB. Given SAFB prominence in the local economy, a hiring slowdown would noticeably impact job growth in the Wichita Falls MSA. More tragically, another round of Base Realignment and Closure (BRAC) could result in mass layoffs. In that event, Wichita Falls would no doubt slip into a sustained recession. Luckily, another round of BRAC is not expected in 2014. Though area leaders are taking a very proactive stand in this regard, there's no certainty in any political decision coming from the nation's capital.

Amid dwindling state aid and falling enrollment, MSU like most state entities, is slowing hiring plans. As a result, the University may even initiate voluntary separation agreements by offering buyouts for certain workers to take early retirement. Because of the recession and weak recovery, the growth of state aid to higher education has slowed in recent years. Falling state revenue, tuition and fees account for an ever larger share of the operating budget than they did before the recession. As a result of the higher educational costs, along with increased competition from other area colleges, enrollment at MSU could potentially decline over the next several years. MSU is one of the engines of economic growth and it is so in large part because of its ability to attract students and talent to the area.

Oil and gas production could be a source for future growth for the region if oil and gas prices rise significantly. However, falling natural gas prices appear to be slowing current activity in the Barnett Shale. On the bright side, many electricity providers use natural gas to power their grids, and if recent weather trends continue and natural gas prices rise steadily over the next several years, it should support above-average industry growth.

In past recessions, SAFB has provided a cushion for the local economy. However, if Congress cannot find an alternative to its proposed defense cuts, a significant drag on the economy is to be expected. Beyond 2010, industry level output data is not available for most MSAs. Based on local employment growth patterns, it would appear that value-added output from government has trended downward in the last two years. Thus, without a change in governmental policy, it is not likely that SAFB, MSU, or any other governmental unit will serve as a catalyst for local economic growth over the near term.

Area leaders have been making a strong push to attract new businesses to the area. Despite those efforts, there is no economic driver on the local scene that is likely to generate robust economic growth in the near future. As such, it is thus likely that the Wichita Falls economy will remain in a holding pattern over the next several quarters – provided, of course, there is no significant adverse shock to the national or global economy.



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