



## THE STATE OF WORKING TEXAS 2008

As the national recession enters a second year, Texas is retreating from a three-year period of economic expansion and broad-based job growth. This three-part report examines Texas' impressive macroeconomic performance during the most recent business cycle; the composition and participation of our labor force; and the pressures facing Texas workers, including rising costs of living, staggering debt burdens, and stagnant wages. With jobs and profits harder to come by, Texas will need to respond to the immediate challenges posed by an impending global recession while crafting a more sustainable economic development strategy that equally considers the economic needs of companies and working families. *The State of Working Texas 2008* is the latest in a series of joint projects of CPPPP and the Economic Policy Institute, which published *The State of Working America 2008/2009* earlier this year.

- From 2000-2007, Texas median wages rose by only 23 cents, adjusted for inflation.
- The Texas unemployment rate has risen from 4.3 percent (Oct. 2007) to 5.6 percent (Oct. 2008).
- For the first time in more than 30 years, Texas' labor force participation rate fell below the U.S. average in 2007.

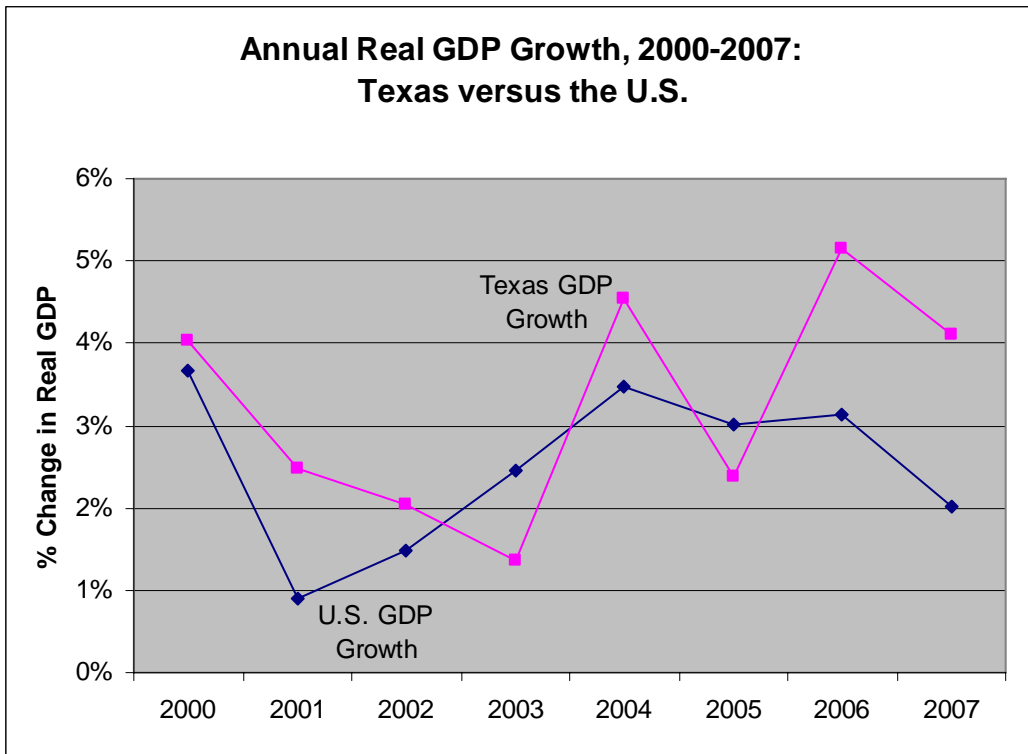
### PART I: THE TEXAS ECONOMY STANDS OUT

During the most recent business cycle—measured from the peak cyclical year of 2000 to the most recent cycle's peak in 2007—the Texas economy performed impressively. State GDP, population, employment, and exports all grew, in many cases exceeding national growth rates or the growth rates of peer states, such as California, Florida, New York, North Carolina, and Pennsylvania.

#### State Gross Domestic Product (GDP)

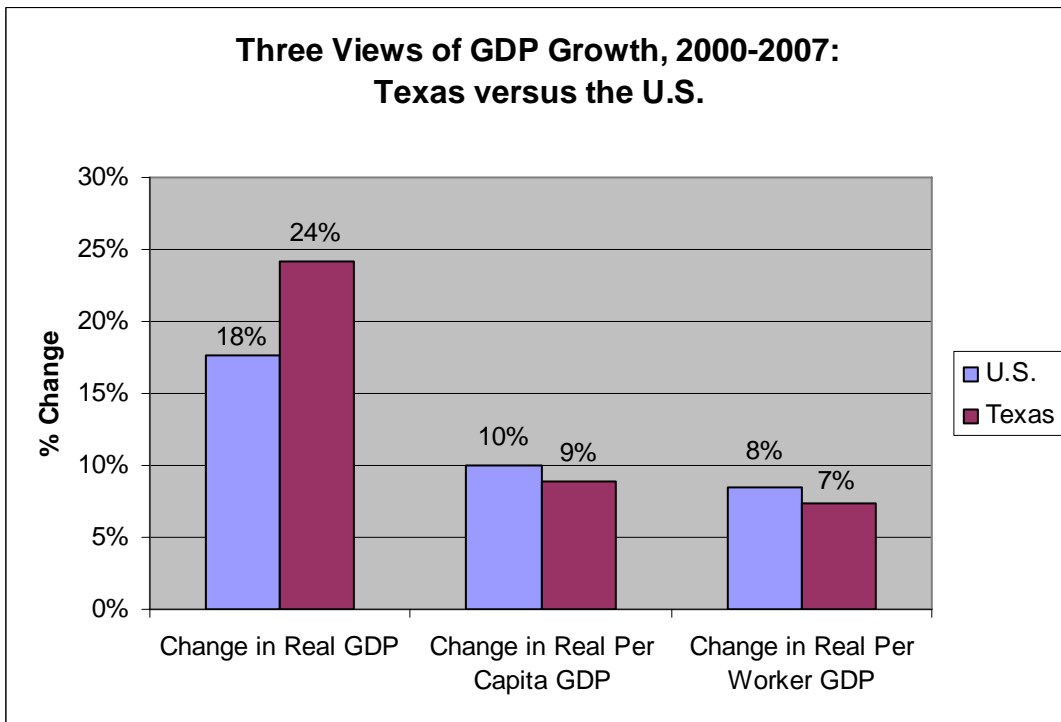
Texas's real GDP grew an impressive 24 percent over the business cycle to \$903 billion (in 2000 dollars), maintaining Texas's claim to the third-largest state economy after California and New York. Over the same time period, the nation's GDP grew by only 18 percent. During this cycle, Texas surpassed all but one of its peer states in GDP growth rate (Florida).

The figure below shows our year-by-year real GDP growth contrasted with national year-by-year growth. With the exception of 2003 and 2005, Texas consistently had a higher GDP growth rate than the country as a whole during this business cycle, and for the last two years, our GDP growth rate has been two full points higher than the national average. Our growth has been more volatile, however, with as much as a 4-point jump in growth rate between consecutive years.



Source: CPPP Analysis of Bureau of Economic Analysis data, 2008.

Our healthy annual growth rates resulted in the 24 percent total GDP growth mentioned above. The following chart illustrates this above-average growth, as well as growth in per capita GDP and growth in per worker GDP.



Source: CPPP Analysis of Bureau of Economic Analysis data, 2008.

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Despite above-average total GDP growth, Texas experienced less growth on the per-individual measures than did the country as a whole. Our real per capita GDP grew by 9 percent but less than the national rate (10 percent). Our real per worker GDP grew by 7 percent but less than the national 8 percent. What drives these below-average growth rates in Texas? Our extraordinary population and employment trends may provide some insight as newer workers tend to be less productive overall.

We shall examine both of these topics in greater detail in subsequent sections of this report, but to explain these growth rates, let us consider a few numbers at the heart of these trends. During this business cycle, the population of Texas grew by 14 percent, more than twice the national population growth rate.

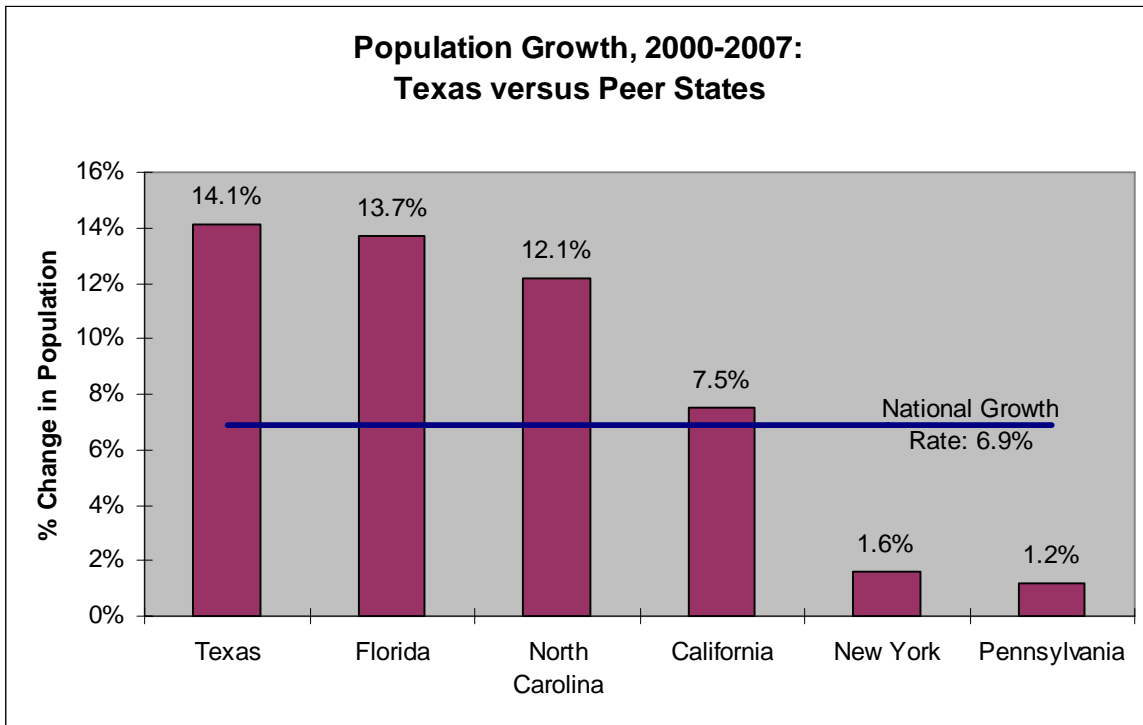
Likewise, during this business cycle, Texas employment grew by 11 percent, while national employment grew by only 6 percent. In turn, our per worker GDP growth rate was slightly lower than the national rate. While per worker GDP is sometimes used as a measure of worker productivity (and growth of the former as a measure of growth), such logic would be inapplicable due to the productivity lag during dramatic employment and population growth.

## **Exports**

Texas stands out in many measures, but our performance in exports has been particularly notable. In 2006, Texas had \$97 billion in manufacturing exports, representing the largest share of total U.S. manufacturing exports (11.8 percent). Texas had the third highest volume of non-manufacturing exports, worth \$6.5 billion, or 6 percent of the national total. In all, Texas had \$119 billion in total exports, which was the second highest of all states, after only California. Exports make up a substantial portion of our state's GDP, 13.7 percent in 2006, far higher than in any of our peer states and the fourth highest among all the states. In 2007, our export level rose even higher to \$131 billion, representing nearly a 10 percent growth in a single year.

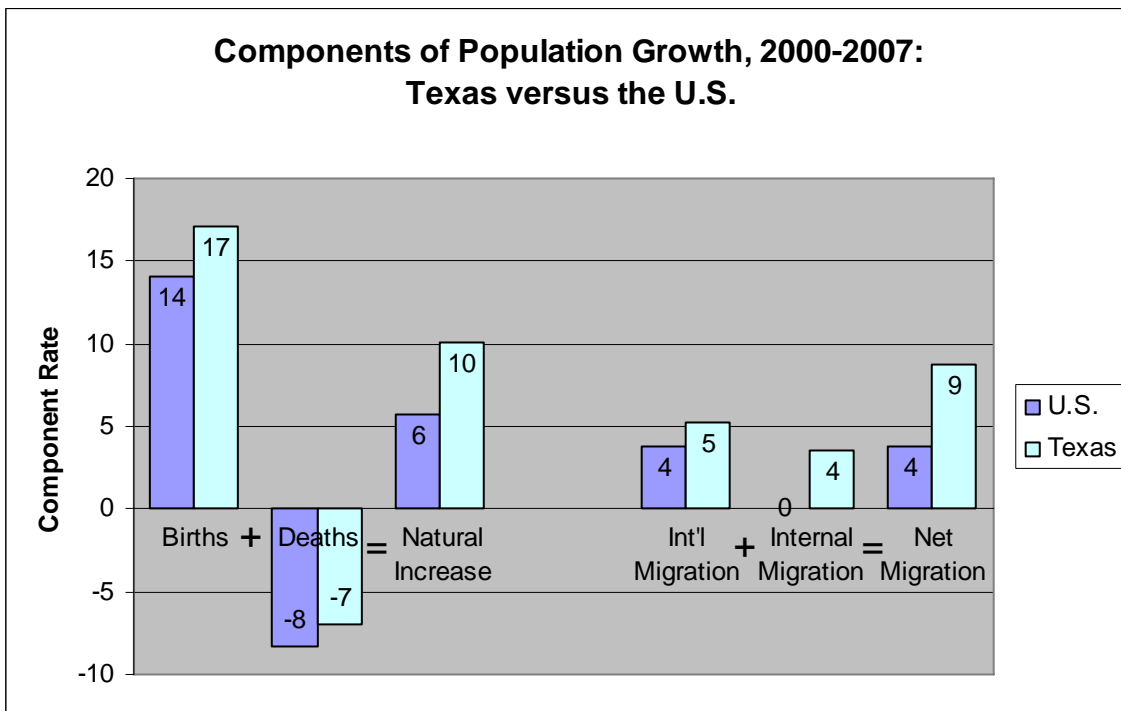
## **Population Growth**

As mentioned, the Texas population is growing rapidly, at more than twice the national rate. The Census put the Texas population at 21 million in July 2000; by July 2007, that estimate had grown by 14 percent to 24 million, ranking us sixth among the states in population growth rate during the last business cycle. Furthermore, Texas is growing more quickly than any of our peer states, as illustrated in the chart below.



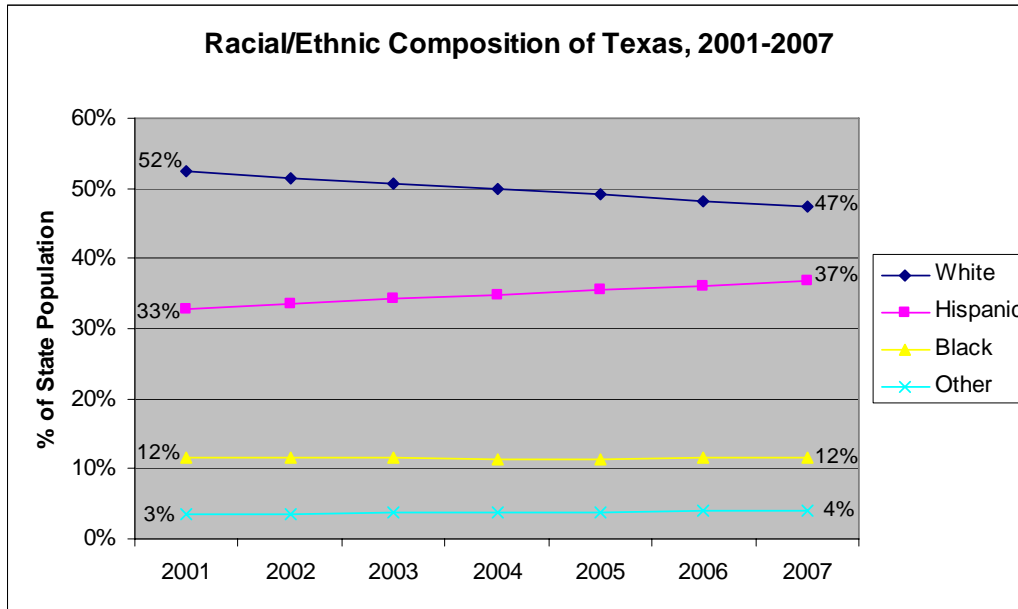
Source: CPPP Analysis of U.S. Census Data, 2007.

Several factors drive Texas' population growth: the second-highest birth rate in the U.S., the fourth-lowest death rate, a slightly higher than average international migration rate, and high internal migration (from other states). **Our population growth owes more to natural increase (births – deaths) than to net migration (international migration + internal migration).**



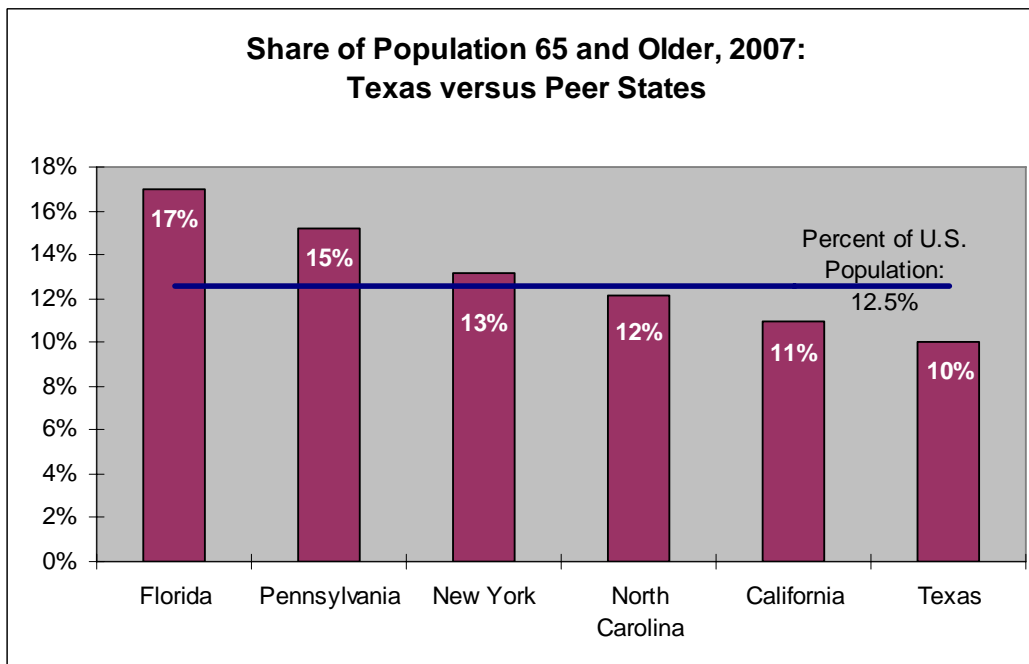
Source: CPPP Analysis of U.S. Census Data, 2007.

The demographics of Texas are changing, however. During this business cycle, Texas became a “majority-minority” state, with the White, non-Hispanic segment of our population dropping just beneath 50 percent for the first time in 2004. Although the absolute size of the White population remained steady, it declined as a share of the population as the absolute sizes of the Hispanic, Black, and Other (ethnic) populations increased. The Hispanic population, in particular, is growing rapidly and rising as a percentage of the total state population, while the share of the Black and Other populations remain steady.



Source: CPPP Analysis of U.S. Census Data, 2007.

Compared to other states, Texas has an unusually small elderly population. In fact, Texas has one of the smallest 65+ population shares in the entire country: our rank is 48 of 51. Only Georgia, Utah, and Alaska have smaller 65 and older shares.



Source: CPPP Analysis of U.S. Census Data, 2007.

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The increasing number of overall Texans, along with the relatively younger demographic, will pose unique challenges for the Texas economy and workforce in the years ahead. The younger population is more likely to be low-income and under-skilled than years past. As a result, Texas may need to take dramatic steps to secure its footing in the global economy.

## **Jobs & Employment**

From 2000 to 2003, the Texas economy slowed considerably, posting a modest contraction in overall nonfarm employment. By 2004, the state economy began to improve as Texas employers began consistently adding jobs. In fact, from 2003 to 2007, Texas employment grew nearly twice as fast as the U.S. as a whole; our state economy added nearly a million jobs. During the same period, the population of Texas grew by about two million.

Just recently, the national recession—underway by December 2007—caught up with Texas. Our unemployment rate shot up, and in September 2008, the state posted a monthly job loss for only the second time in four years. For our purposes in this section, though, we shall focus primarily on the 2003-2007 growth period and not return to the rising unemployment of 2008 until Part III's discussion of the economic pressures on Texas workers.

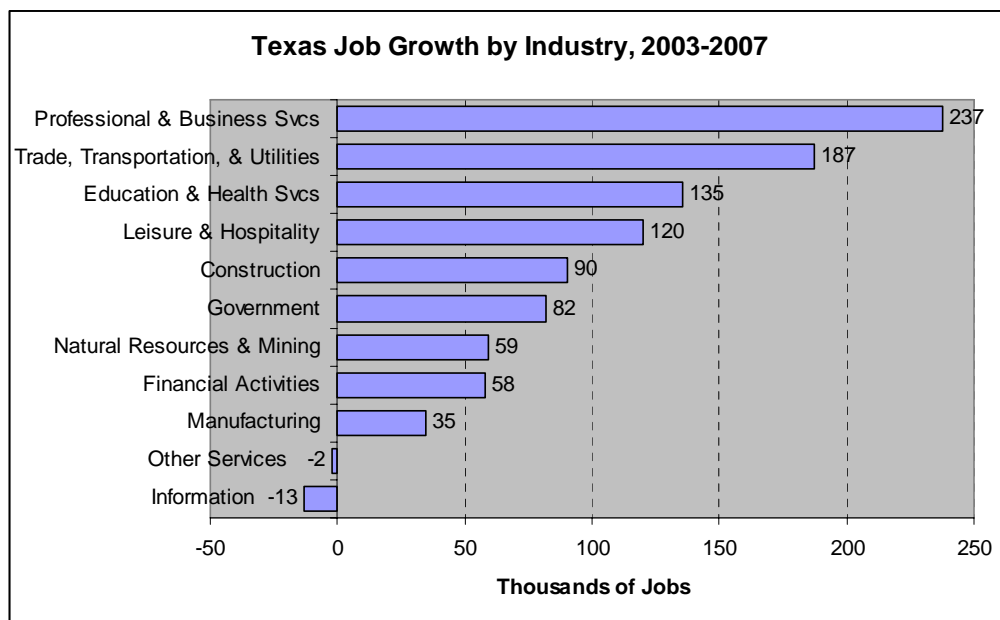
### **Comparison with Other States: Job Growth in the 2000s**

As mentioned, the period from 2000 through 2007 includes two distinct periods. From 2000-03, job growth slowed considerably as the U.S. economy suffered negative employment growth (-1.4 percent). During this contraction, the Texas employment picture was slightly better than the U.S. as it shed jobs at half the rate of the U.S. pace (-0.7 percent). When the U.S. economy picked up in 2004, Texas employers led the way, posting a 10.6 percent increase in total nonfarm employment from 2003-07, nearly double the national growth rate.

Relative to other states, Texas posted the seventh-best performance in job growth during this period. In terms of absolute jobs, Texas employers created 989,000 nonfarm jobs—the most of any state—during this period of economic growth. With 791,000 nonfarm jobs created, Florida came in a distant second. Virtually all states saw job growth during these years, with only Michigan losing nonfarm jobs.

### **Job Growth by Industry in Texas (2003-2007)**

Several industry sectors contributed to broad-based job growth during this period. The Professional and Business Services industry played the biggest role in this absolute job growth, adding more than 235,000 jobs. The Trade, Transportation, and Utilities supersector added the next highest number of jobs, more than 185,000, and the Health and Education supersector came in third with more than 135,000 jobs created.



Source: *Economic Policy Institute Analysis of Current Employment Statistics Survey Data, 2008; CPPP Analysis.*

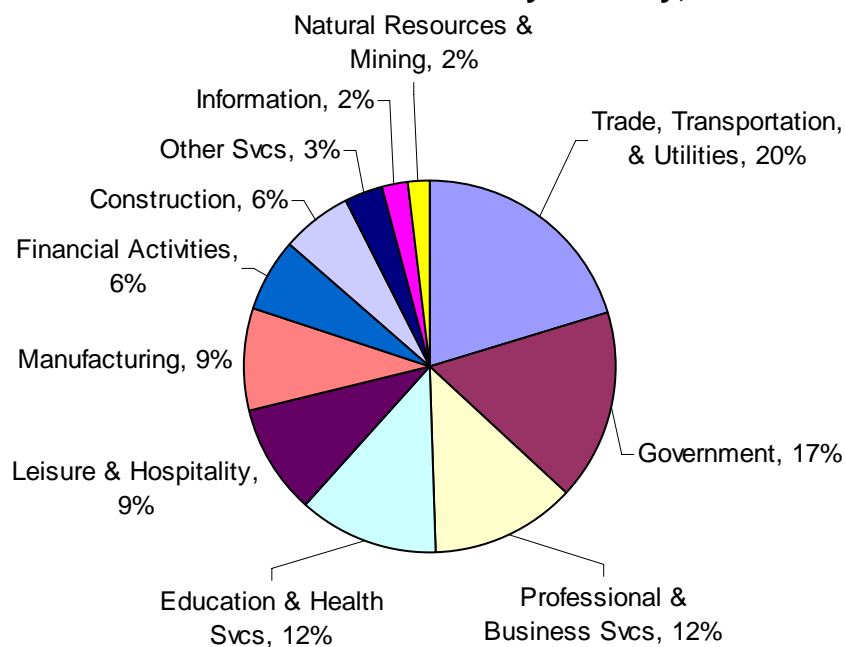
### A Comparison with U.S. Industry Trends

While the Manufacturing sector continues to shed jobs nationally, Texas manufacturers bucked this trend, creating nearly 35,000 jobs since 2003. In Texas, state and local governments added jobs at a quicker pace than the U.S. as a whole, creating more than 80,000 jobs since 2003. Even though the Information sector continued weak employment outcomes, this trend mirrored the national decline in this sector, and Information jobs currently represent only 2 percent of total employment in Texas.

### Current Distribution of Texas Jobs by Industry

As a result of uneven growth across industries, the Texas economy has undergone a gradual shift in its employment landscape. Some industries have become a larger part of the Texas employment base, while some sectors have declined in relative significance. In 2003, the three largest employment sectors comprised nearly half of all employment in the state, with the Trade, Transportation, & Utilities industry, Government, and the Education & Health Services industry ranking the highest. By 2007, Professional & Business Services had edged out Education & Health Services for the third slot in the employment picture, due to the outstanding job creation discussed above. This sector includes attorneys, security guards, and accountants, among many other professions. Today, the sectoral distribution of Texas jobs is as follows:

### Distribution of Texas Jobs by Industry, 2007



Source: Economic Policy Institute analysis of Current Employment Statistics survey data, 2008; CPPP Analysis

The Professional and Business Services sector grew the most as a share of the total employment base from 2003 to 2007, increasing by 1.2 points. Natural Resources and Mining, while not a major contributor to absolute job growth, experienced the second-largest growth in its share of total employment, due to its relatively small share in 2003. On the other end of the spectrum, Government posted the largest drop in its share of total employment, even though it added more than 80,000 jobs during this period. Manufacturing, too, experienced a drop in its share while also adding jobs over this time.

#### Industries Outperforming Overall Job Growth Rate in Texas (2003-2007)

As natural gas and oil production exploded throughout Texas, the Natural Resources & Mining industry posted the most significant job growth rate, nearly doubling that of the next high-growth industry from 2003 to 2007. The complete list of industries that exceeded the overall job growth rate in Texas (10.6 percent) includes:

- Natural Resources & Mining supersector (40.4 percent)
- Professional & Business Services supersector (22.5 percent)
- Construction sector (16.3 percent)
- Leisure & Hospitality supersector (14 percent)
- Education & Health Services supersector (12.1 percent)
- Wholesale Trade sector (11.6 percent)
- Transportation & Utilities sector (11.4 percent)

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Throughout the U.S., Natural Resources and Mining posted the strongest employment gains, with significant job growth in Alaska, Arkansas, Colorado, Oklahoma, and Utah leading the way.

### Industries Lagging Overall Job Growth Rate in Texas (2003-2007)

Only two industries actually lost jobs over this period: the Information sector (-5.6 percent) and the Other Services sector (e.g. hairstylists, auto mechanics, and dry-cleaners (-0.6 percent). The following sectors produced employment gains over this period, but at a slower clip than the overall job growth rate:

- Financial Activities supersector (9.9 percent)
- Retail Trade sector (8.4 percent)
- Government (5 percent)
- Manufacturing sector (3.9 percent)

### A Glance at Service-Oriented Sectors (2005-2007)

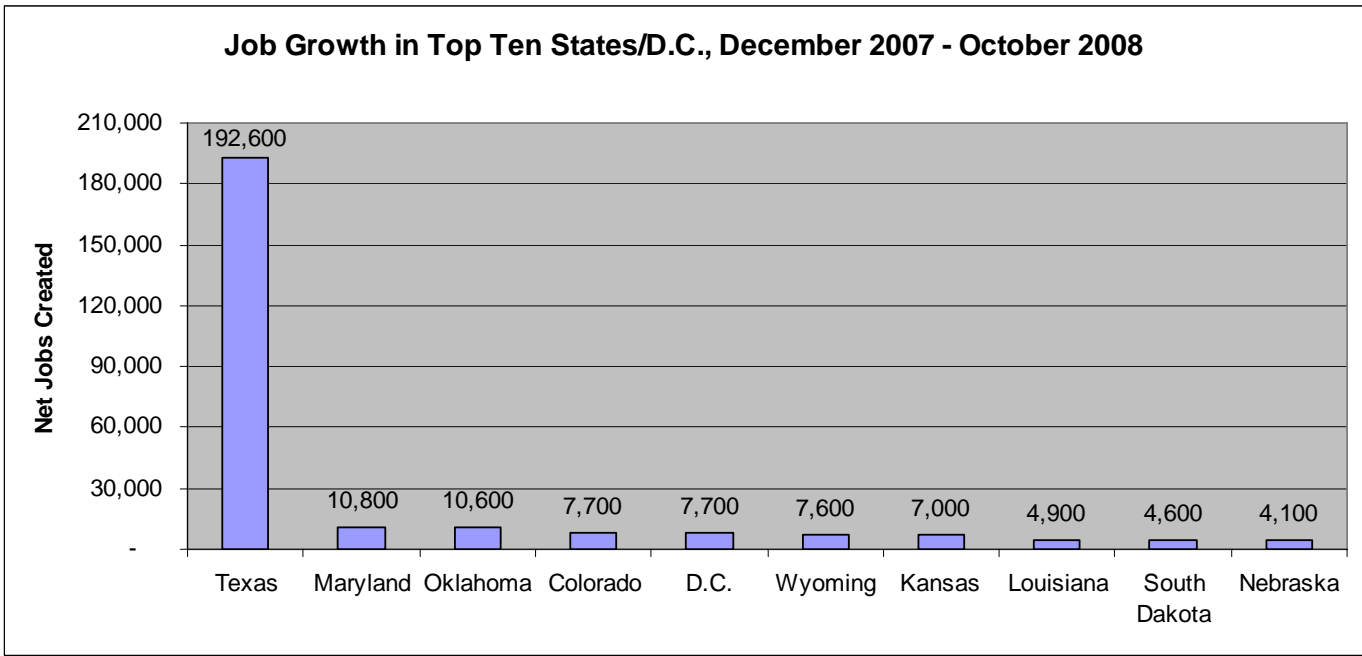
As Texas' population has swelled, the retail sector has posted better-than-average job growth over the last few years when compared to the rest of the country. Between 2005 and 2007, Texas employers created approximately 50,000 jobs in the Retail Trade sector, a 4.5 percent increase in jobs. In the U.S. as a whole, retail employment rose only 1.4 percent over this time. *Since 2005, the Texan retail boom has represented nearly 24 percent of the entire U.S. retail job growth.*

In the Leisure & Hospitality sector, Texas posted recent gains at a rate higher than the national average, although not as notably higher as in the Retail sector. Between 2005 and 2007, Texas employment in this sector rose 7.9 percent with more than 72,000 new jobs created, while national employment grew by 5.1 percent. Across the U.S., growth in this sector was considerably more balanced than Retail growth, as all but three states posted positive Leisure & Hospitality job growth during this time.

Together, these two sectors comprised 19.7 percent of Texas' overall nonfarm employment growth since 2005. These sectors demand attention as the state and national economy enters recession, as these industries are most susceptible to weak consumer activity. Declining retail and travel/leisure expenditures could have a negative impact on these sectors and on the overall jobs picture in Texas.

### What's Happened since the Recession Began?

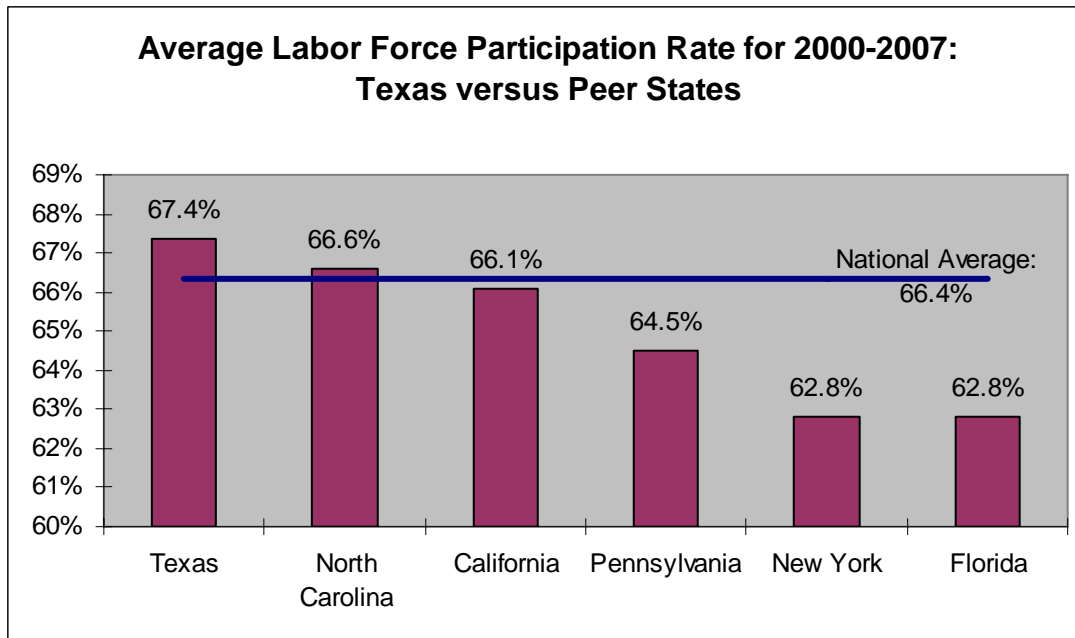
Since the beginning of current recession, the U.S. economy has shed more than 1.5 million (net) jobs over these past 12 months. Most of the country feels the jobs pinch, as 34 states had net job losses since December 2007. Texas, however, has stood out because of its continued job growth in the face of strong national headwinds. In terms of job creation, Texas dwarfed all other states, creating a net of nearly 193,000 additional jobs since December, while 2<sup>nd</sup>-ranked Maryland created just 11,000 new jobs. In fact, although Texas is one of 16 states (and D.C.) that have enjoyed net job growth, *Texas created seven of every 10 new jobs in the nation during this period.*



Source: Bureau of Labor Statistics, 2008.

## Part II: THE TEXAS LABOR FORCE: COMPOSITION AND PARTICIPATION

A large, hard-working, and diverse group makes up the Texas labor force. Since 1979, Texans have participated in the labor force at an average rate more than two points higher than the average national rate. During the last business cycle, Texas labor force participation declined, but still remained a full point above average and exceeded the labor force participation rates in all of our peer states, as shown below.

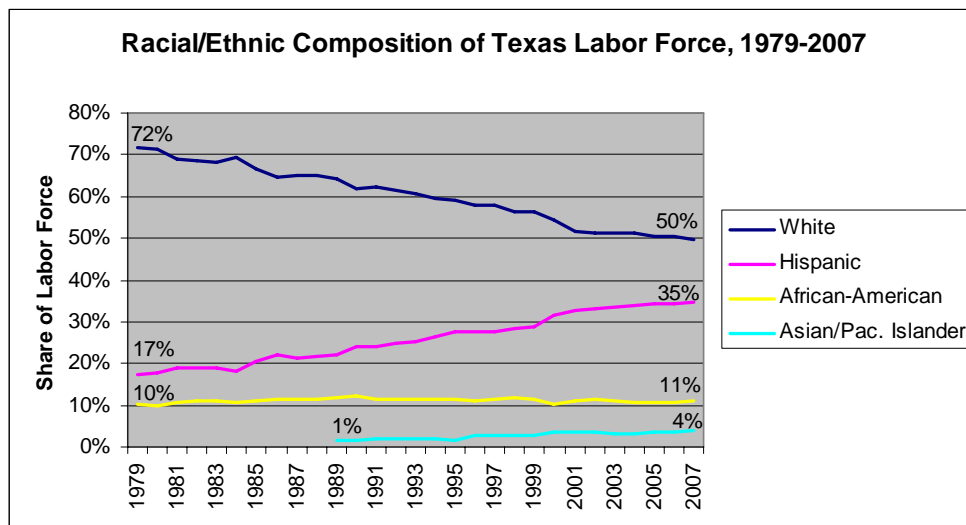


Source: Economic Policy Institute analysis of Current Population Survey data: CPPP Analysis.

While analyzing the Texas labor force, several important trends emerge, reflecting shifts among our demographic groups. This section will describe the current portrait of our workforce while analyzing recent shifts and trends that are transforming our economy.

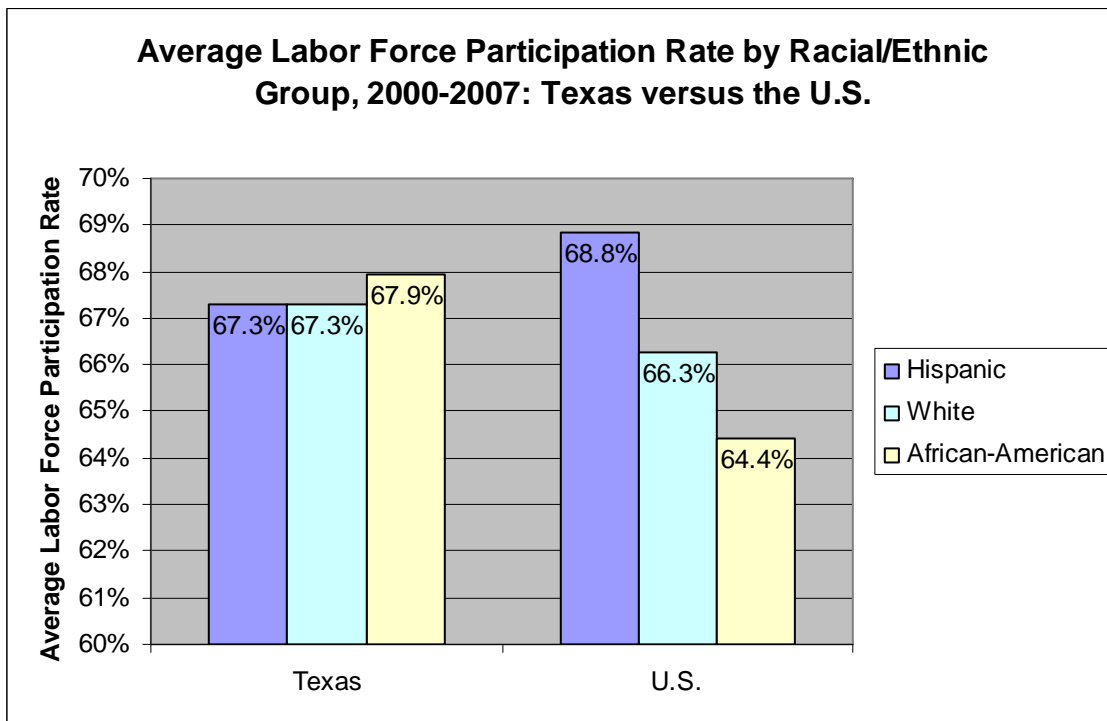
### Racial/Ethnic Composition & Participation

Since 1979, Whites have dropped dramatically as a proportion of the Texas labor force (72 percent to 50 percent), while the Hispanic share has grown almost as dramatically (17 percent to 35 percent). African Americans have made up a steady 10-12 percent share of the labor force since 1979, and Asians and Pacific Islanders grown from a negligible share before 1989 to a 4 percent share in 2007. These labor force trends align with the broader population trends discussed earlier. In fact, compared to our current population makeup, our labor force composition aligns nearly completely, indicating that Texas' major racial/ethnic groups are proportionally represented in the labor force.



Source: Economic Policy Institute analysis of Current Population Survey data, CPPP Analysis.

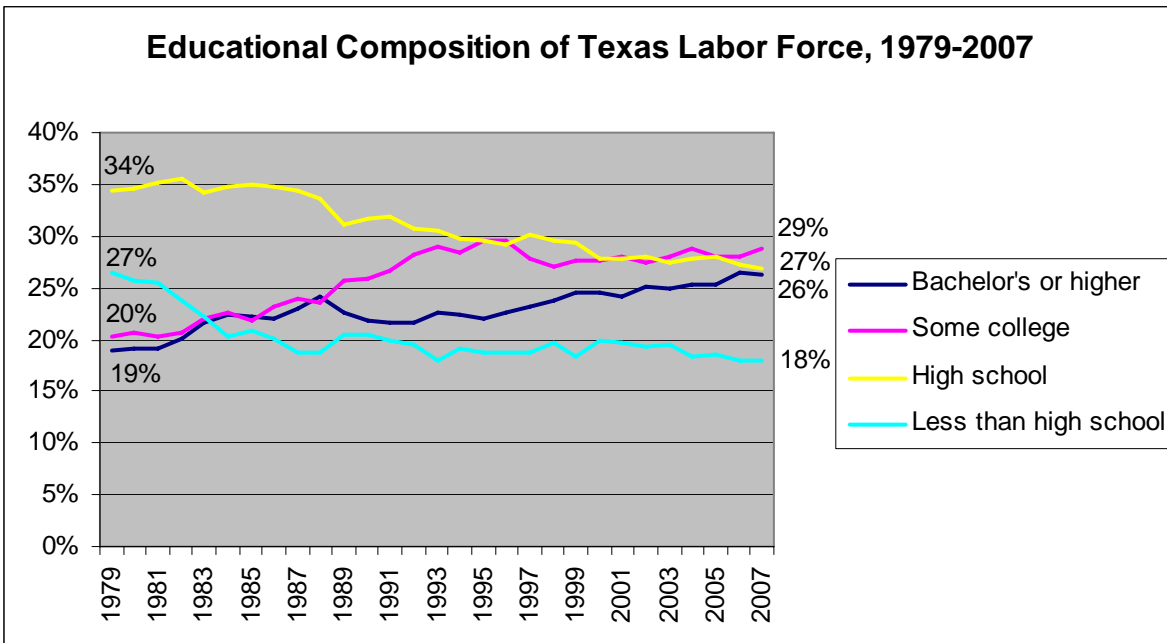
Indeed, Texas labor force participation rates by Whites, Blacks, and Hispanics are actually far more equal than they are at the national level. During the last business cycle, the gap in Texas between the most and least active groups' average participation rates was less than one-sixth as wide as the national gap (0.7 points versus 4.4 points), as illustrated below.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

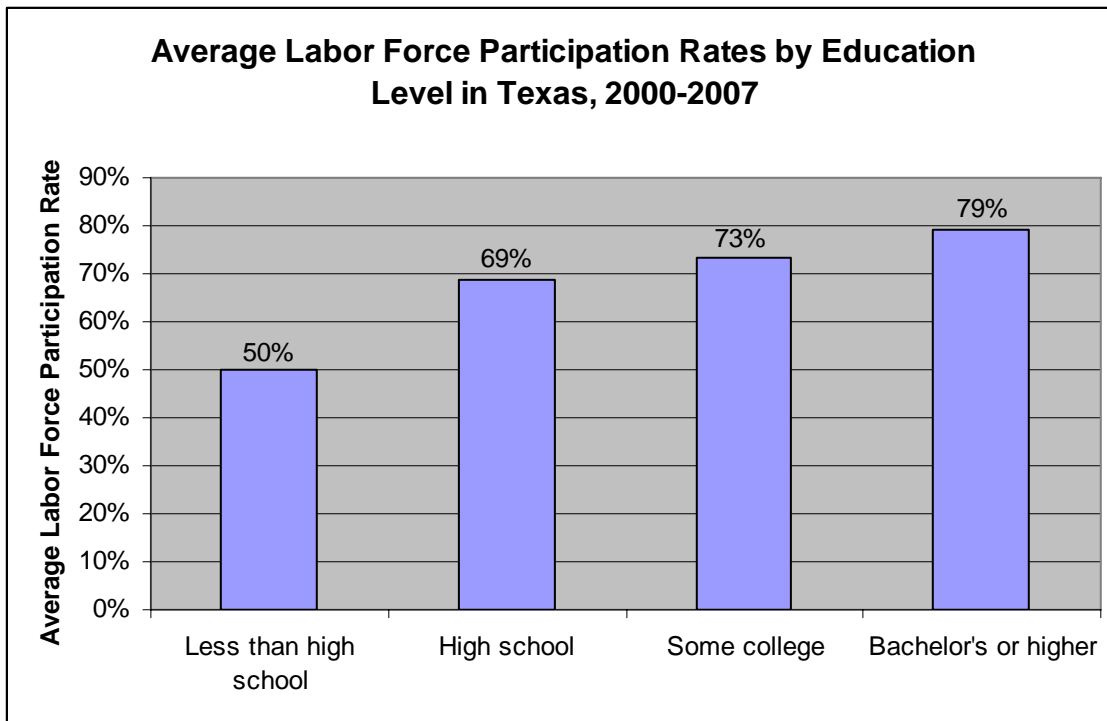
### Composition & Participation by Educational Level

Over the past few decades, the labor force of Texas grew more educated. Since 1979, the share of our workers seeking higher education increased from 39 percent to 55 percent, with more than a quarter of all Texas workers holding a bachelor’s degree or higher. The portion of our labor force with less than a high school education dropped the most, but leveled off, remaining within 1-2 points of the current 18 percent since 1991. The share of Texas workers with only a high school credential has dropped as well. While these high school graduates were the largest share of the labor force until 1995, they have held a share roughly equal to that of workers with some college education (but less than a bachelor’s degree) since 1995. Today, the Texas labor force has approximately equal shares of workers with a bachelor’s degree or higher, workers with some college education, and workers with only a high school education, and a somewhat smaller share of workers with less than a high school education. In terms of the business cycle, 3 percent of our workers rose from the high-school-or-less group into higher education since 2000.



Source: Economic Policy Institute analysis of Current Population Survey data, CPPP Analysis.

Rising educational trends are a good sign for labor force participation, among many other economic measures. In Texas, as in the rest of the country, higher educational levels are correlated with increased labor force participation rates. For example, Texas workers with less than a high school education had only a 50 percent participation rate on average during the last business cycle; workers with a bachelor's degree or higher, on the other hand, had an average participation rate of 79 percent.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

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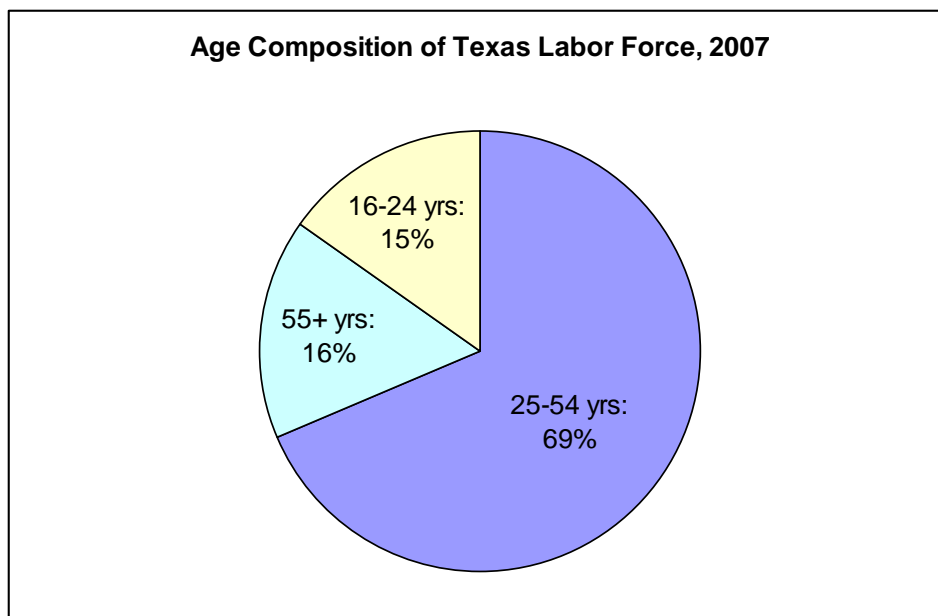
## Gender Composition & Participation

Men outnumber women in the Texas labor force. The gender split has hovered between 56-to-44 percent or 55-to-45 percent (men-to-women) every year since it leveled off in 1987. This split is slightly more lopsided than it is at the national level. Over the same twenty year period, the average national gender split in the labor force was 54-to-46 percent, and from 1999 to 2003 women even comprised 47 percent of the labor force nationally.

The difference in these ratios is likely due to *less* participation by men at the national level than at the state level, rather than *more* participation by women nationally than state-wide, as one might expect. Between 1987 and 2007, the average labor force participation rate for women was 59 percent both in Texas and across the nation. Men, on the other hand, participated in the labor force at 78 percent rate in Texas, but nationally that rate was only 75 percent. Since men have been participating in the labor force at a lower rate nationally than in Texas, the same-as-Texas level of participation by women nationally results in the more egalitarian U.S. gender composition.

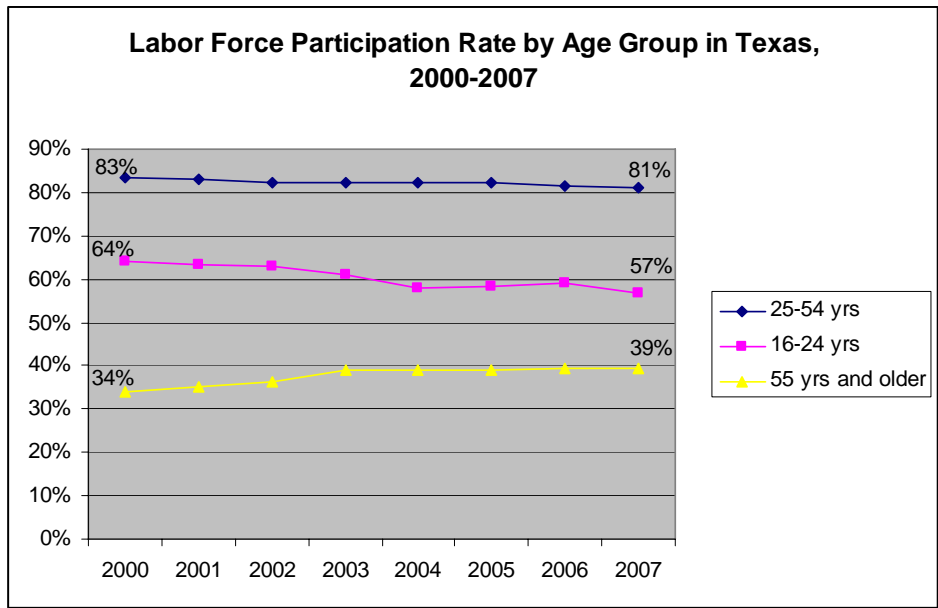
## Age Composition & Participation

More than two-thirds (69 percent) of the Texas labor force is what would typically be considered “working age,” between ages 25 and 54. Another 15 percent of the labor force is youth, ages 16 to 24, and workers 55 and older make up the other 16 percent. This distribution of the labor force parallels the national labor force age composition (68 percent, 15 percent, and 17 percent, respectively).



*Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.*

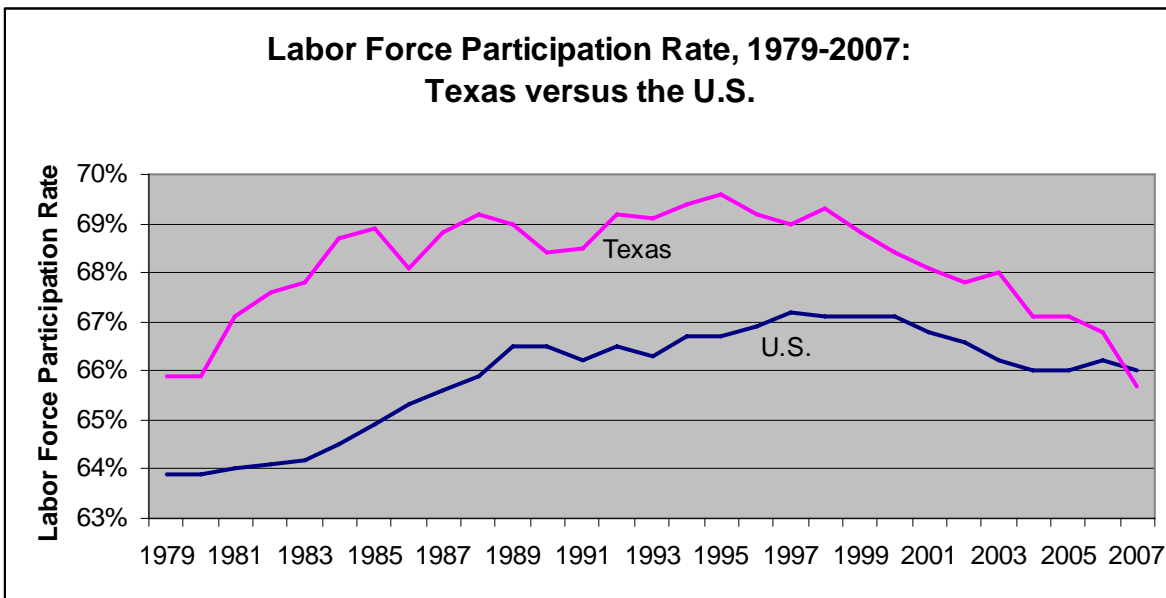
These older workers claimed a larger share of the labor force than youth for the first time in 2007, reflecting changing labor force participation rates by these two demographic groups. Youth labor force participation has dropped from its peak rate of 72 percent participation in 1984, down to 57 percent in 2007, as more and more Texans under age 25 chose to pursue postsecondary education rather than join the workforce after high school. Simultaneously, the labor force participation rate by Texans 55 and older climbed from a low of 31 percent participation in 1993 to 39 percent in 2007, as individuals live longer and an increasing number delay retirement. The change in these participation rates during the most recent business cycle is shown below.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

### What's Happened in the Recent Slowdown?

Texas consistently had well-above-national-average labor force participation since 1979—until just recently. Although the Texas labor force participation rate has declined steadily since 1995, it dropped precipitously in 2007, falling just beneath the national rate for the first time in at least 28 years. In terms of the demographic groups analyzed above, this recent drop in participation was measured for every race/ethnicity, every educational level, both genders, and every age group. In other words, the recent economic downturn is worsening an already troubling trend and driving workers from every group in Texas out of the labor force.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

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The worsening labor force participation rate in Texas is an alarming signal for policymakers, as such a trend points to several negative factors, including a skills-job mismatch, labor market alienation, and inadequate access to postsecondary education and training. This dynamic may also point to the need for more sustained attention to work supports (e.g. child care access) to incentivize more Texans to enter and remain in the labor force.

### **PART III: PRESSURES ON THE TEXAS WORKER**

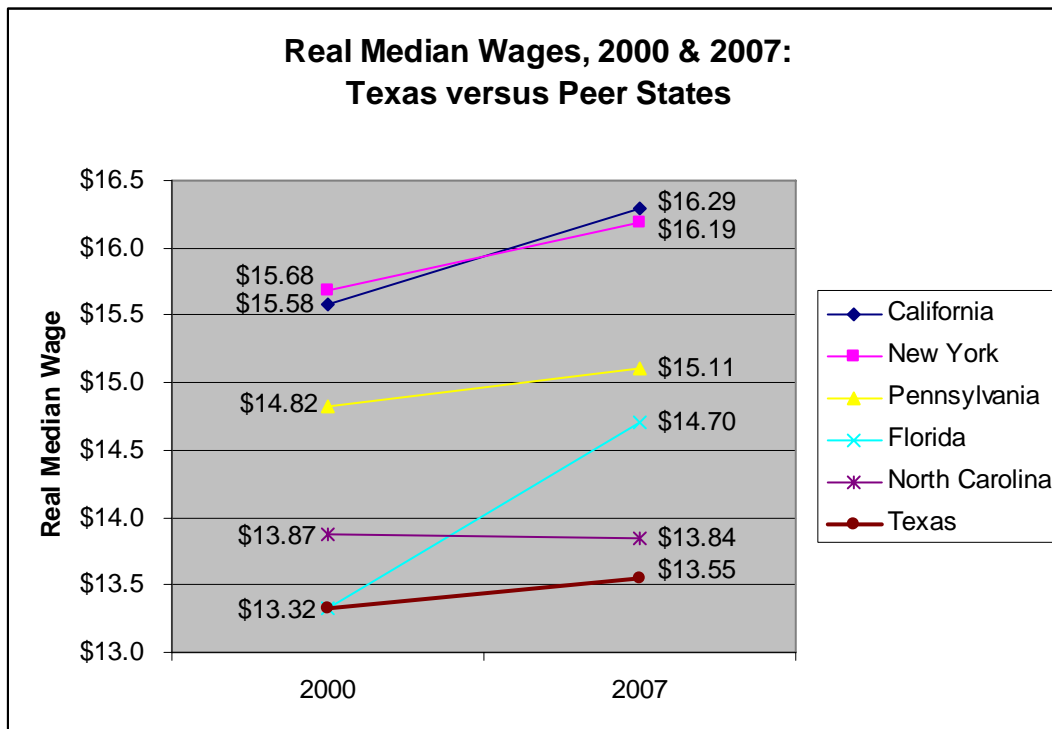
But if the economy is so healthy and our labor force so dedicated, then why are Texas workers feeling so strained? Before the recent downturn, basic costs like food, gas, mortgages, college tuition, and health insurance had risen considerably, while workers' wages are stagnating, unemployment is increasing, and underemployment is high and rising. In other words, the cost of living outpaces our ability to pay. At the same time, more household budgets are increasingly crippled by heavy debt burdens, compounded by high-cost and dangerous credit products. For many segments of the Texas labor force, this struggle is even more difficult due to stagnant wages.

#### **Texas Wages in Comparison**

From the peak of the previous business cycle in 2000 to the most recent peak in 2007, real median wages in Texas rose by just 23 cents to settle at \$13.55/hour, more than 10 percent below the national median wage (\$15.10). Although the country as a whole experienced wage stagnation (overall median wage growth was just 2.5 percent), those 23 cents in Texas represent even less growth, only 1.7 percent.

Since 2000, Texas median wage growth also lagged behind our neighbors in the West South Central Region, Arkansas, Louisiana, and Oklahoma. These states posted healthy wage gains during this period that were larger than our gain by a factor of 2.5 or more. However, the recent year-to-year analysis shows that Texas median wages picked up ground from 2006-07 while wages in these neighboring states fell or stagnated. In dismal, absolute dollar terms, only Mississippi and Louisiana had higher shares of their hourly-paid workers employed at or below the Federal minimum wage in 2007 than those of Texas.

Compared to our peer states, too, Texas rewards work less, as depicted below. Texas lagged behind all but one of our peer states in median wage growth between 2000 and 2007, leaving our workers with the lowest 2007 median wage in the comparison group. We also shared the title of lowest 2000 median wage with Florida at \$13.32, but Florida raised its median wage by an enviable 10.4 percent over this business cycle—six times our wage growth.



Source: Economic Policy Institute analysis of Current Population Survey data.

## Median Wages by Demographic within Texas

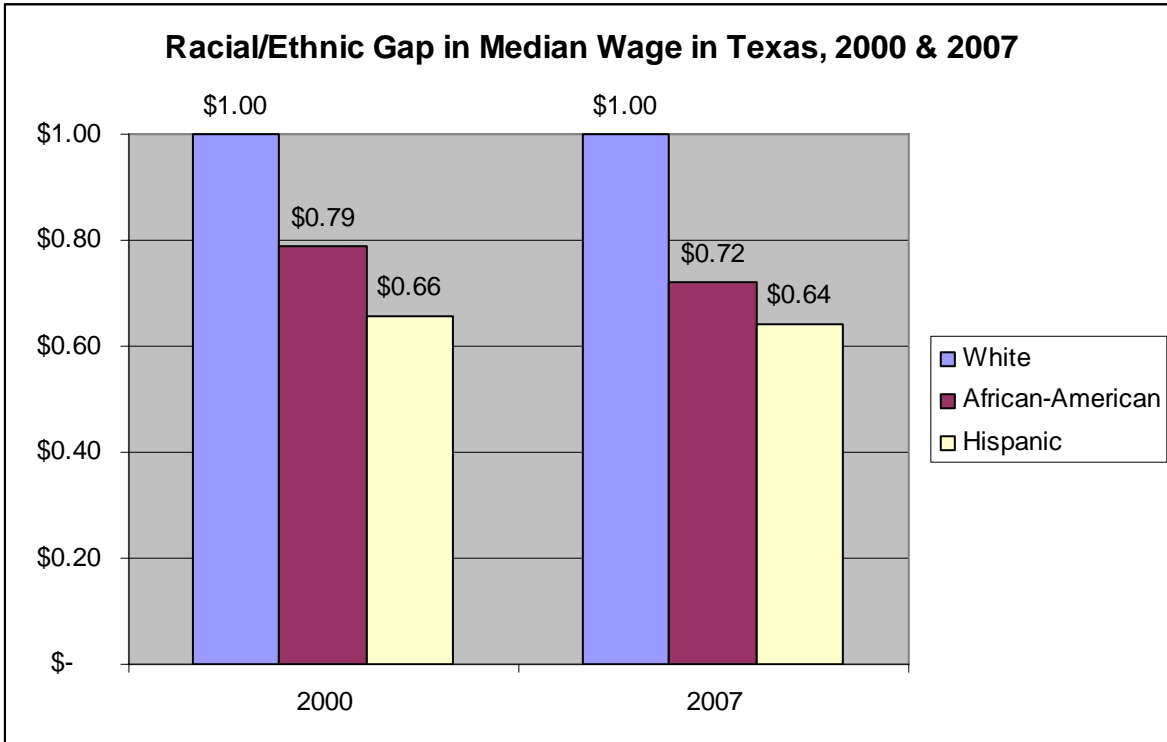
The recent economic cycle produced more uneven results among demographic groups than the previous economic boom of the late 1990s. From 1995-2000, real median wages for each major demographic group (gender, ethnicity, educational level) grew by at least 6.5 percent. The real wages for Texas workers overall grew 7.9 percent during this span. The news has not been so good when examining the most recent business cycle. Since 2000, only two groups of workers—White (4.7 percent) and Female (2.8 percent)—posted decent gains, while three groups—African Americans, workers with some college education and those without a high school degree—saw their real wages decline.

### Ethnicity

#### *Medium Term (since 2000)*

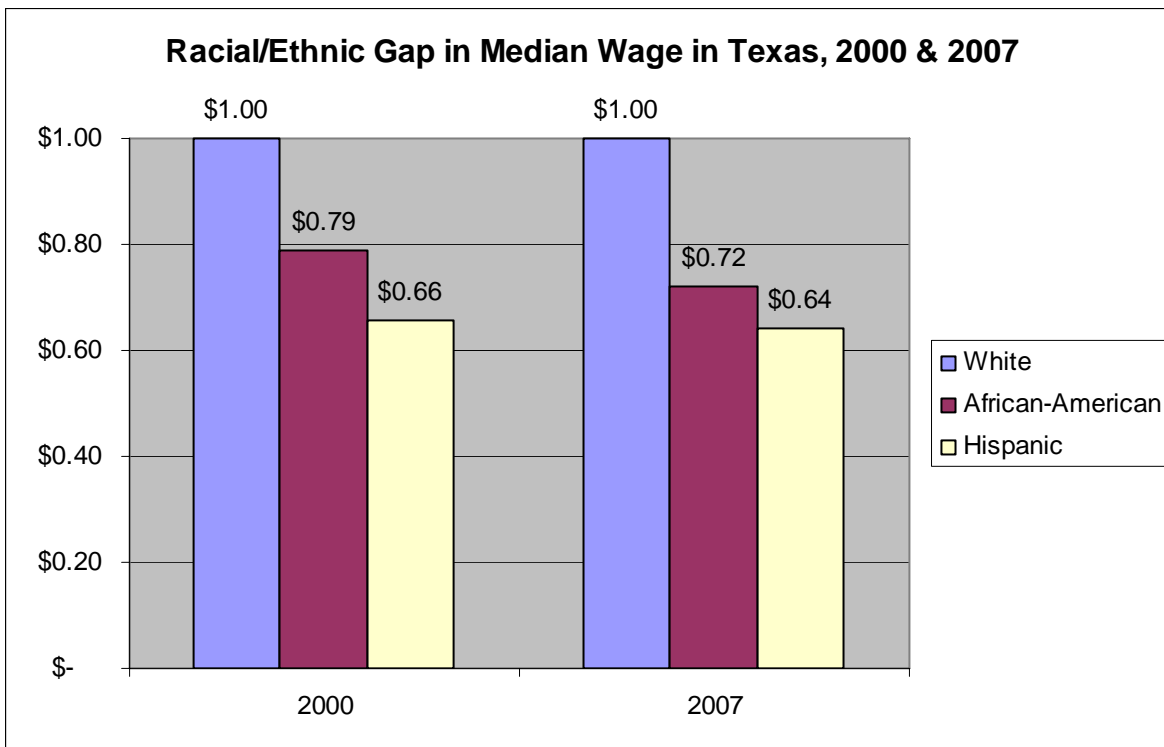
Since 2000, all but African American workers experienced real median wage growth. White workers achieved the highest wage growth (4.7 percent), while the real wages of Hispanic Texans rose modestly (2.4 percent). While the wages for African Americans rose during the 1990s, their median real wages declined substantially in this business cycle (-4.1 percent). Almost three-quarters of this business cycle's wage growth for White workers occurred during the first year, indicating that the declining economic trends of 2001 were delayed in fully reaching this segment of the population; when we remove the 2000-2001 growth and look only at 2001 to 2007, White wage growth drops from the 4.7 percent down to 1.3 percent. African American workers were hit the most quickly, on the other hand: 31 percent of the wage loss they experienced during this business cycle occurred in the first year. Hispanics, however, started and ended the business cycle with the lowest median wages of all three groups (\$10.84/hour in 2007, versus \$12.21 for African Americans and \$16.92 for Whites), despite their modest wage growth.

Driven by these differences in growth, Texas' wage gap among ethnic groups is growing. Despite their increased earnings, Hispanic workers now suffer from a wider ethnic wage gap with Whites than they did in 2000, due to White workers' higher wage growth. The Hispanic-African American wage gap shrank, but sadly this narrowing is only due to African American wages falling; the African American-White wage gap grew since 2000 as well. Today in Texas, for every \$1 earned by White workers, African American workers earn \$0.72, and Hispanic workers earn \$0.64.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

As shown by comparing the diagrams above and below, the 2007 African American-White wage gap in Texas is wider than the U.S. average. Although this national wage gap also widened since 2000, ours widened by more than twice as much. The 2007 Texas Hispanic-White wage gap is also wider than U.S. average, but unlike the nation as a whole, this gap widened in Texas while it shrank nationwide.



Source: Economic Policy Institute analysis of Current Population Survey data.

#### Short Term (since 2006)

From 2006-07, the real wages for Hispanic workers surged 4.2 percent, doubling the year-to-year wage gains for White workers (2.1 percent). However, African American workers lost ground to inflation and a 1.1 percent drop in *nominal* wages, resulting in a 3.9 percent decline in real earnings over the previous year. This year-to-year wage deterioration marked the steepest drop for any demographic group (ethnicity, gender, or educational level) in Texas.

#### Gender

##### Medium Term (since 2000)

Overall, female workers have made some progress towards closing the gender wage gap, as their real wages rose 2.8 percent since 2000 compared to a sluggish 1 percent growth rate for male workers in Texas. Net, Texas female workers have closed \$0.18, or 6 percent, of the 2000 gap. As of 2007, female workers' median wage is \$12.23/hour, while male workers' is \$14.84/hour. In other words, Texas female workers earn \$0.82 for every \$1 earned by men, as shown in the diagram below. Also as depicted below, the current Texas gender wage gap is slightly smaller than the U.S. average, despite more dramatic national gains since 2000. While we closed just 6 percent of our 2000 gender wage gap, the country as a whole closed 15 percent of the national gap between 2000 and 2007.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

*Short Term (since 2006)*

Although female workers made progress over the whole of the business cycle, they lost considerable ground over the last year, as real wages declined slightly from 2006, while male workers gained over inflation with a 1.9 percent jump in real earnings. In fact, the overall yearly boost in real median earnings is due entirely to male workers.

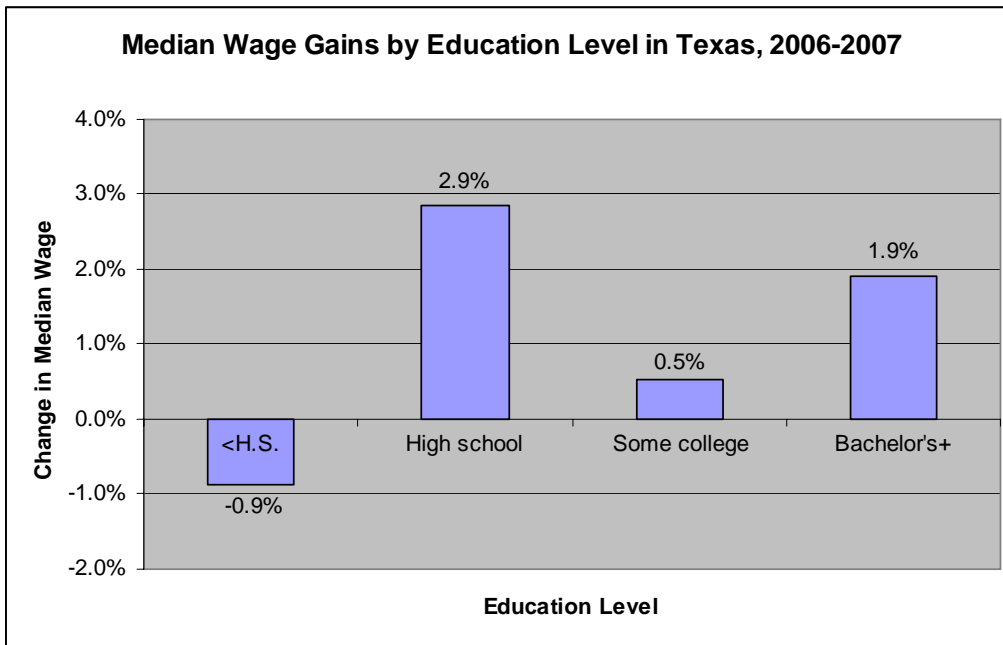
**Education Level**

*Medium Term (since 2000)*

Since 2000, median wage growth across educational levels has been sporadic and even paradoxical. Over this period, the only groups to post real wage improvement were workers with only a high school diploma, whose median wages grew mildly (1.2 percent), and workers with a bachelor’s degree or higher, whose median wages grew even more weakly (0.7 percent). Surprisingly, workers with some college education (but less than a bachelor’s) were hit the hardest, registering a 4.4 percent decline since 2000.

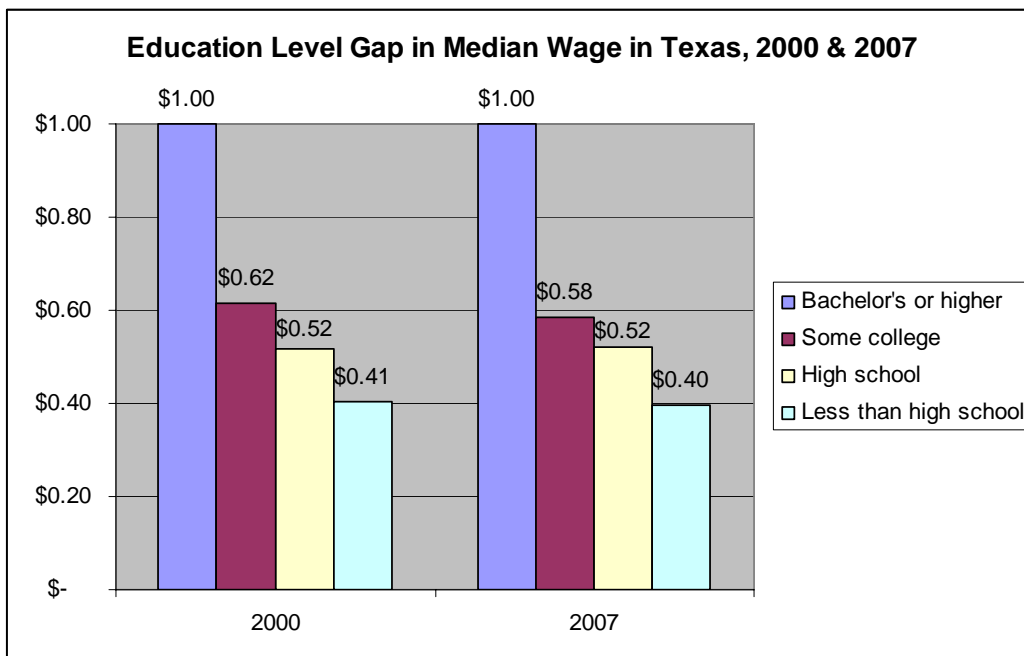
*Short Term (since 2006)*

This longer-term trend became even more pronounced over the past year. Texas workers with only a high school education again posted the largest real wage gain from 2006-07, with a 2.9 percent increase, with bachelor’s degree workers, workers with some college, and high school dropouts once more trailing high school-only workers, as shown below



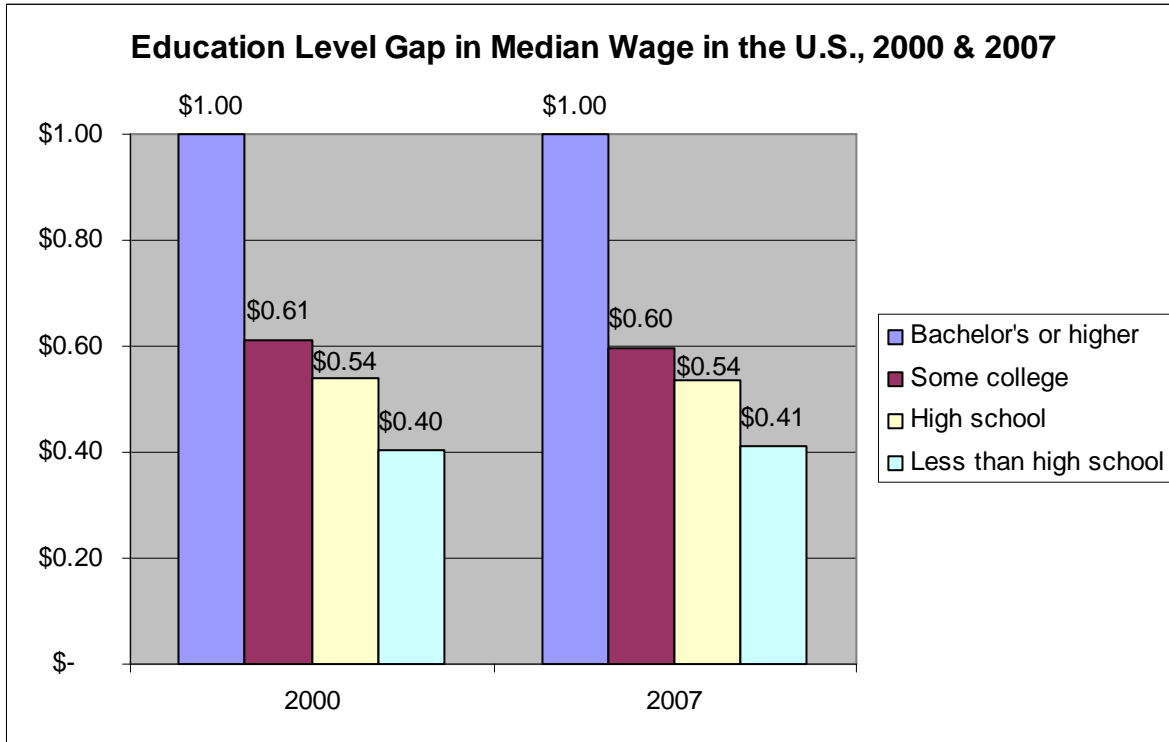
Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

Despite the recent wage gains by workers with only a high school education, higher educational attainment continues to produce higher earnings. Workers with a bachelor's degree in Texas still earn almost twice the wage of a worker with only a high school diploma. Specifically, the former has a median wage of \$22.86/hour, while the latter earns \$11.89. (To round out the picture, median wages for workers with some college and for workers with less than high school are \$13.34 and \$9.06, relatively.) In relative terms, for every \$1 earned by a 4-year college graduate, a worker with only a high school diploma earns \$0.52, as illustrated below. Furthermore, the relative wages of Texas workers with some college and of workers with less than a high school education have actually both dropped slightly since 2000.



Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

Across the U.S., workers with some college also saw their median wages decline slightly relative to workers with a bachelor's degree (as in Texas), and the national wage gap for high school-only workers also remained static. Unlike Texas, however, high school dropout workers' relative wages increased nationally. As shown by comparing the diagrams above and below, the wage gap between workers with a bachelor's degree and workers of any other educational level is wider in Texas than across the country, although only by one or two relative cents (points).



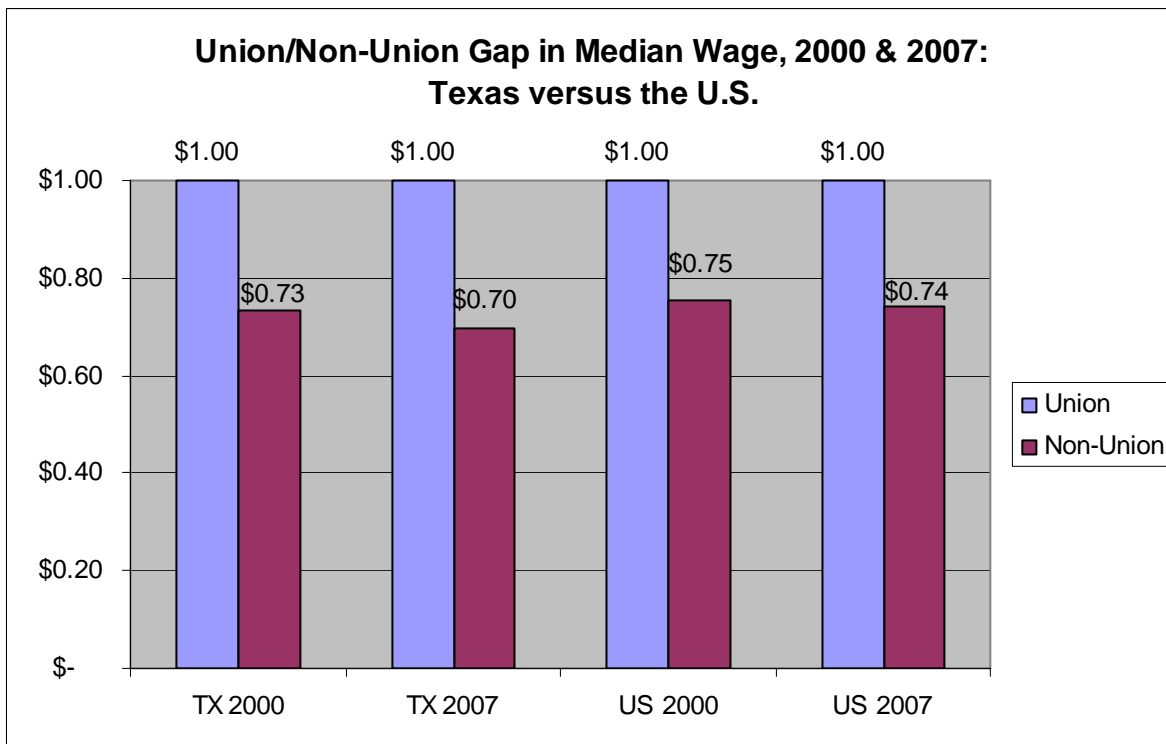
Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

## Union Wages

Workers covered by a union contract comprise a very small share of the Texas labor force, but they hold a competitive advantage in wages compared to their non-unionized counterparts. Indeed, only 5.7 percent of Texas workers were union members or covered by a union contract at work in 2007, which is the 48<sup>th</sup> smallest share out of 51, as well as less than half the national coverage rate (13.3 percent). Only Georgia, Virginia, and North Carolina have smaller proportions of union-covered workers (5.4 percent, 4.8 percent, and 3.9 percent, respectively).

The data show that Texas union workers make considerably more (>\$5/hr) than non-union workers and have fared much better since 2000 in terms of median wage improvement. Non-union workers have seen a slight gain in wages (0.9 percent, to \$13.12/hour), while the real wages of union workers have climbed 6 percent (to \$18.81) since 2000.

In relative terms, for every \$1 earned by a Texas union worker in 2007, a Texas non-union worker earned \$0.70. That gap has widened considerably since 2000. Compared to the national average, Texas union wage gap is much wider, with an average U.S. non-union worker earning \$0.74 for every \$1 earned by an average U.S. union worker. Since 2000, the national union/non-union wage gap widened slightly, as well.

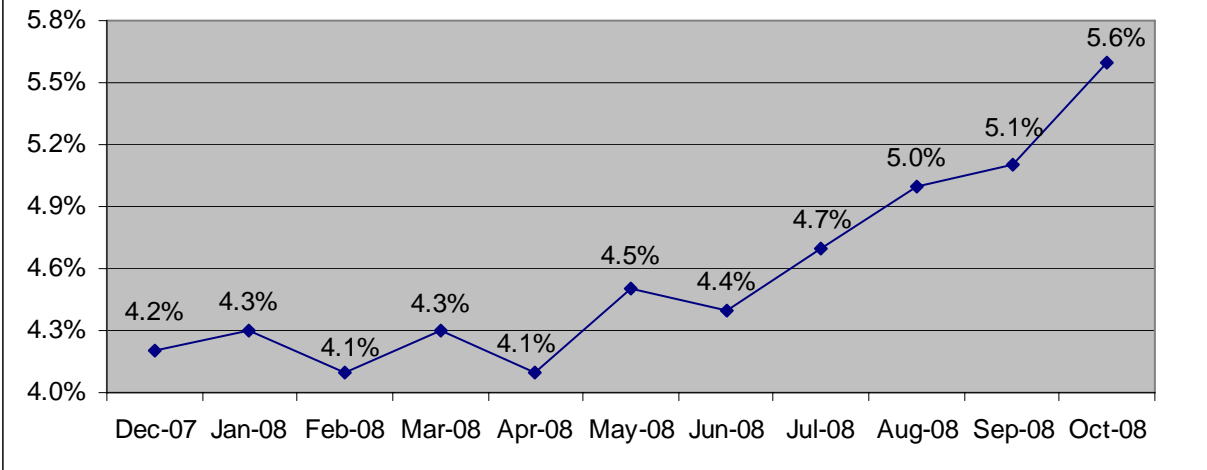


*Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.*

### **Unemployment in the Current Recession**

Despite our exceptional job growth from 2003 to 2007 and even into 2008, Texas has been unable to completely shake the economic blues plaguing the nation. Since December 2007, every state except Arkansas has endured a rising unemployment rate, and Texas is no exception. The seasonally adjusted Texas unemployment rate ticked up in January 2008 from a low of 4.2 percent in December 2007, reversing a steady trend of improvement and kicking off a rapid, volatile climb to the current 5.6 percent (see chart below). To put the steepness of this jump into context, note that while it took nearly 3 years for the unemployment rate to improve from the last 5.6 percent (January 2005) to the 4.2 percent low of December 2007, it took only 10 months for unemployment to revert back to a 5.6 percent rate. Texas' unemployment rate point jump is just slightly below the national average (1.5 points) for this period. Moreover, as mentioned in the section on job growth, September saw Texas post only its second monthly statewide job loss in four years. This shedding of 4,000 jobs is likely responsible for the half-point unemployment rate hike in October and could further drive up unemployment statistics in future months. It is worth noting that the unemployment rate typically peaks long after the end of a recession, so we can expect the unemployment rate to be at elevated levels for several months before eventually receding.

### Texas Unemployment Rate in the Current Recession (December 2007 - October 2008)



Source: Bureau of Labor Statistics, 2008.

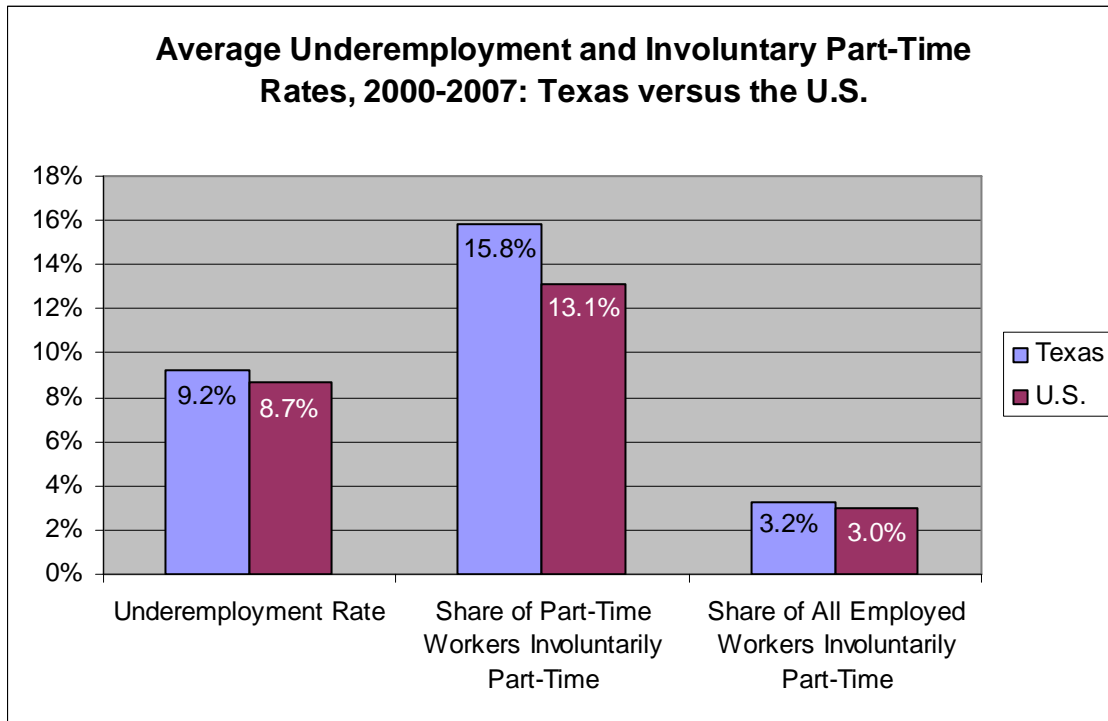
Unemployment has profound implications for the economic well-being of workers and their families, and many turn to the financial assistance of unemployment insurance (UI) to help them bridge the gap between jobs. When job growth is limited or negative, however, that gap lengthens as workers require more time to find their next jobs. In turn, more families fall at risk of exhausting their UI benefits, which normally only last for 26 consecutive weeks.

Because of the worsening economic conditions and the resultant risk to family economic stability, the President signed a federal law in June to make some UI claimants eligible for a 13-week extension of benefits. This federal extension helps Texans, but not enough given the degree of the economic downturn. In September 2008, almost 12,000 unemployed Texans exhausted their state UI benefits, a 40 percent increase over the previous year. Furthermore, the National Employment Law Project (NELP) projects that more than 44,000 more unemployed Texans will exhaust their federal extension benefits from October to December 2008. And Texas is not alone; only three states—neighboring Arkansas, Oklahoma, and New Mexico—have NOT seen an increase in UI exhaustion from 2007.

### Underemployment

Unfortunately, unemployment is not the only route through which Texans experience limited access to work. In addition to lay-offs, workers may have their ability to earn wages restricted by the number of hours they are assigned to work. These are the involuntary part-time workers, those who want to work full-time but whose hours are capped by economic reasons. Marginally attached workers are also available for work and have looked for a job in the past 12 months, but they are not counted in unemployment figures because they have not looked for work in the past four weeks. They may be discouraged workers, those who have given up looking because they believe there are no appropriate jobs available to them, or they may be conditionally interested individuals, who want to work but face other barriers, such as child care problems. These three major groups—the unemployed, involuntary part-time workers, and marginally attached workers—comprise the underemployed population.

In Texas, our underemployment rate averaged 9.2 percent over the last business cycle. Texans fared worse than the nation on this measure: the national average underemployment rate for 2000-2007 was 8.7 percent. Among our part-time workers, a higher-than-average share of them was working part-time involuntarily (15.8 percent in Texas versus 13.1 percent nationally). The same is true when looking at the base of all employed workers: 3.2 percent of all those employed in Texas were involuntarily part-time, while only 3 percent of all those employed nationally were.

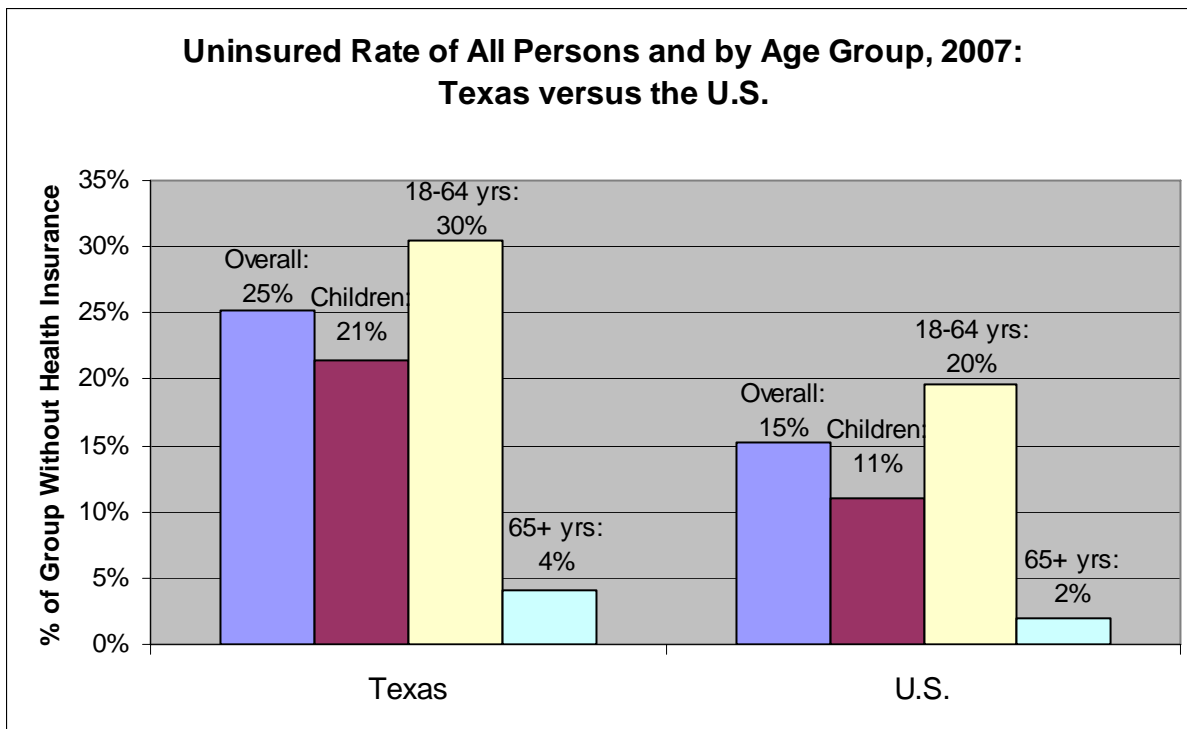


Source: Economic Policy Institute analysis of Current Population Survey data; CPPP Analysis.

Texans work full-time more than the country does on average (80 percent versus 77 percent); therefore, we have a smaller share of part-time workers (involuntary and voluntary) to begin with. In fact, Texas has a larger share of full-time workers than four of our five peer states, in addition to the nation overall. Of our part-time workers, however, a disproportionate number are part-time involuntarily, this time worse than the nation (as stated) and worse than four of five peer states.

## Health Insurance

More than one in four Texans lacks health insurance. Among all the states and the District of Columbia, we have the highest uninsured rate (25.2 percent) and the second highest absolute number of uninsured individuals, nearly 6 million. Texas also has the highest rate of uninsured children under 18, a remarkable 21.4 percent. This rate is nearly twice the national uninsured rate for children, as shown below, and is equal to 1.4 million Texas kids at risk of not receiving the health care they need. The same pattern is unfortunately true of our working age (18-64 year-old) population, among whom three out of ten individuals lack health insurance, and of our older population, which suffers from twice the national uninsured rate for their age group.



Source: U.S. Census Bureau, Current Population Survey, 2008 Annual Social and Economic Supplement.

For the 4.4 million working-age Texans without health insurance for themselves, regular and preventive health care is often too expensive to buy out-of-pocket, so many will not seek care until a condition has critically worsened and become far more costly to treat, throwing the family’s finances into chaos. Parents of the 1.4 million uninsured children in Texas face the same difficult decisions when their kids get sick or injured: seek unaffordable treatment now, or postpone treatment and risk a financial and/or health crisis down the road.

The 75 percent of Texans who have health insurance face an increasingly challenging situation as well, due to rising premiums, deductibles, copayments, and the like. Medicare premiums, for example, rose by 11 percent in a single year between 2007 and 2008 in Texas.

## FORECLOSURES AND TEXAS

Over the past few years, foreclosures have reached elevated levels across several U.S. regions. However, Texas fared relatively better, partly due to stable real estate prices and strong job growth. From 2003-2006, Texas foreclosure rates surpassed the national average, but beginning in 2007, the U.S. rate surpassed the Texas foreclosure rate, and the gap has widened considerably. However, Texas’ high exposure to subprime mortgages, the declining job market, and an expedited foreclosure process will place more Texans at risk for foreclosure in the months ahead. In Texas, subprime loans are five times more likely to experience delinquencies compared to prime loans. Overall, more than 100,000 Texas home loans (monthly average) were delinquent (60 days or more) from 2007-2008.

Even though foreclosures have been low relative to the rest of the country, they have accelerated since 2007, with foreclosure sales increasing nearly 30 percent over the past year in Texas. In particular, the subprime adjustable-rate mortgage (ARM) is at the center of the foreclosure crisis, especially because of their high foreclosure rate and many of these loans will continue to reset to higher rates in the coming months. In the 4<sup>th</sup> quarter of 2007, nearly 17 percent of subprime ARMs were seriously delinquent (90 days or more), nearly eight times the foreclosure rate for all home loans. In Texas, the seriously delinquent rate

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for subprime ARMs has tripled since 2005, according to the Mortgage Bankers Association. This significant rise in delinquencies occurred during the most prolific labor market in recent Texas history.

## CONCLUSION

While Texas fared better than many other states in the most recent business cycle, our state is now feeling the effects of the recession. In many ways, *The State of Working Texas 2008* is a tale of two economies: one, showing economic vitality at the macro level with generally healthy exports, industries, and firms; the other, revealing intense household economic pressure amid wage compression, rising costs, and heavy consumer debt. These dueling realities pose a challenge to policymakers as the Texas economy slows. The worsening economic outlook will require our state to take near-term actions to respond to the economic meltdown while laying the groundwork for future prosperity for both Texas business and workers.

To learn more about the state of working families across the country, see the Economic Policy Institute's national report, *The State of Working America 2008/2009*, available at <http://www.stateofworkingamerica.org/>.

*CPPP thanks Julie Montgomery, an intern from the L.B.J. School, for her assistance on this report.*

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