



THE STATE OF WORKING TEXAS 2005

What's the Latest on the Texas Economy?, which provides a brief look at the state of Texas' economy, was written in conjunction with the Economic Policy Institute of Washington, D.C. (whose Labor Day report is located on their website at www.epinet.org) and supported by the Working Families Project.

What's the Latest on the Texas Economy? tells a mixed story. Over the past several months, the Texas unemployment rate has improved considerably – in July matching the national average of 5.0%. However, rising long-term unemployment and the declining labor force participation rate indicate underlying problems with the Texas labor market. More importantly, Texas workers have been experiencing wage and income stagnation over the past two decades, limiting the pace of economic growth and the ability of those individuals at or near the poverty level to work their way out of poverty. In addition, educational attainment continues to be a major factor in determining income. Texas' high share of workers with less than a college education keeps overall wages lower than the national average.

HOW IS THE LABOR MARKET PERFORMING IN TEXAS?

Most industry Sectors Suffered Declining Employment

Since 2000, only a few industry sectors in have experienced job growth in Texas. The remaining sectors either stayed relatively flat or suffered sharp declines in overall employment. As expected, the sharpest declines took place in the manufacturing sector (including durable and non-durable goods) with a 20% drop in jobs from 2000-04. This trend mirrored the 20.5% national decline in the manufacturing sector. As a result, manufacturing represents a decreasing share of total non-farm employment in Texas – now accounting for 9.4% of total jobs, compared to the nationwide manufacturing share of 10.9%.

The high-tech bubble and subsequent burst hit Texas harder than the nation as a whole. From 2000 to 2004, information sector employment plummeted 20.6% in Texas – shedding nearly 47,000 information jobs during the four-year period. By comparison, the U.S. information sector dropped 15.7% during the same period. In both Texas and the nation the information industry comprises about 2.4% of non-farm employment.

In Texas, the following industry sectors also experienced slight declines of 2% or less from 2000-04:

- Retail Trade
- Wholesale Trade
- Professional & Business Services

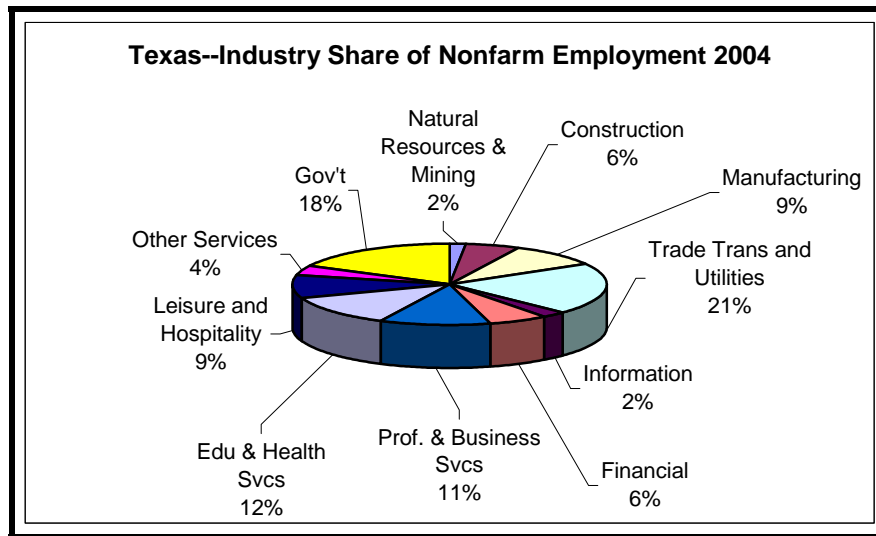
A Few Sectors Increased Employment

The Texas labor market experienced growth in many of the same industries that saw nationwide increases over the last four years. In particular, four industries grew by more than 5% from 2000-04. These industries include:

- Education and Health Services (12.4% growth)
- Leisure and Hospitality (7.2% growth)
- Natural Resources and Mining (6.2% growth)

- Government (5.7% growth)

Together, these four industries comprise over 40% of total non-farm employment in Texas. The following chart illustrates the entire industry breakdown for non-farm employment in Texas:



Source: Economic Policy Institute analysis of Current Employment Statistics survey data.

WHERE ARE TEXAS' UNEMPLOYED WORKERS?

The Good News

As of July 2005, Texas' unemployment rate (seasonally adjusted) matches the nationwide rate of 5.0%. In many ways, the statewide decrease in unemployed persons has paralleled the national job recovery and overall decrease in the unemployment rate. Overall, unemployment in Texas has been dropping steadily since 2002, when the statewide unemployment rate reached a recent high-water mark -- 6.3%. The current Texas unemployment rate of is the lowest since 2001, when the statewide unemployment rate bottomed at 4.2%.

The Bad News

While the Texas unemployment picture has improved significantly, other recent labor market trends raise concern. The most worrisome aspect of the unemployment rate is the number of Texans who are "long-term unemployed," which has spiked considerably since 2000. In 2000, 9.5% of unemployed workers in Texas were considered long-term unemployed – unemployed for more than 26 weeks. That figure jumped to 17.5% in 2004.

Unemployment Rates Vary Greatly among Metropolitan Areas

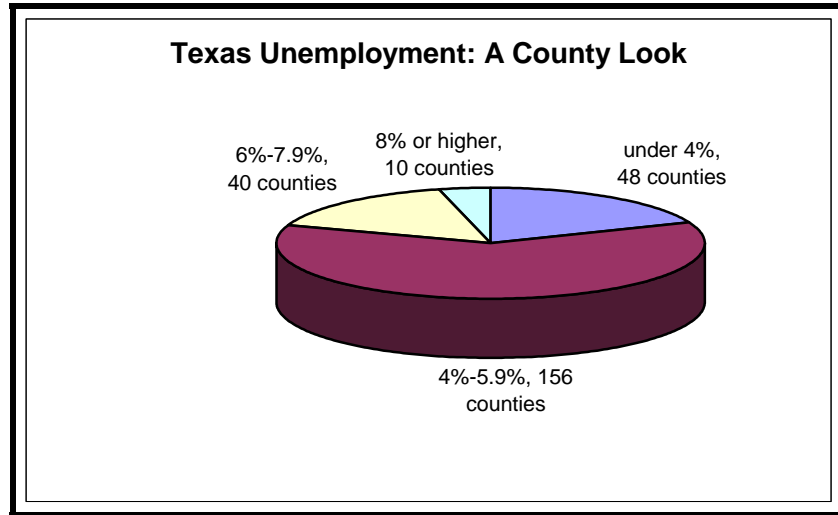
Texas has 25 Metropolitan Statistical Areas, or MSAs. Four Texas MSAs have unemployment levels at or exceeding 7% for July 2005. At 7.7% the McAllen-Edinburg-Pharr MSA has the highest unemployment rate in Texas, followed by the Brownsville-Harlingen (7.2%), Beaumont-Port Arthur (7.1%), and El Paso MSAs (7.0%). Chronic poverty, lower educational attainment, and lagging economic investment have kept unemployment rates high in these regions of the state – providing challenges to local workforce professionals in those regions.

Seven Texas MSAs have unemployment rates at or below 4.5%. The Midland MSA has the lowest unemployment rate in Texas at 3.8%, as of July 2005. Other MSAs with relatively low unemployment rates include: Amarillo (3.9%); College Station-Bryan (4.0%); Abilene (4.2%); San Angelo (4.2%); Austin-Round Rock (4.3%); and Lubbock (4.3%). These lower rates may be due to a more diversified economy and more highly educated workforce.

Fewer Counties are Suffering Severe Unemployment

In July 2004, nine Texas counties experienced severe unemployment rates (at or above 10%). As of July 2005, five Texas counties (Willacy at 10%, Presidio at 10.2%, Starr at 10.7%, Maverick at 11.3%, and Zavala at 12.3%) had severe unemployment. All of these counties are located along the Texas/Mexico border—an area that has experienced chronic unemployment and underinvestment.

The following graph shows a county analysis of the unemployment rate in Texas for July 2005:



Source: Texas Labor Market Information, July 2005.

WHAT DOES THE LABOR FORCE LOOK LIKE IN TEXAS?

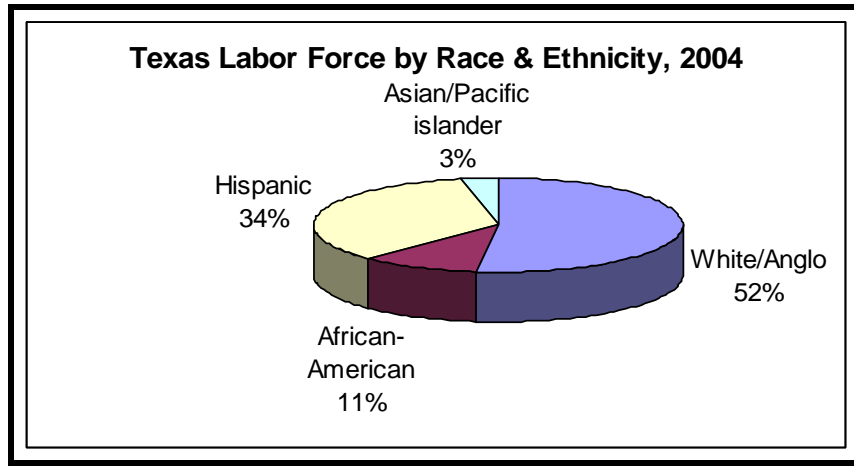
The Aging of the Texas Workforce

The demographics of the Texas labor force share some similarities with the nation as a whole. In particular, the age distribution of the Texas workforce is virtually identical to the U.S. labor force, according to 2004 figures. Approximately 70% of the Texas labor force is between the ages of 25 and 54. The 16-24 age group comprises about 15% of the Texas labor force, with the over-55 age group making up the remaining 14.5%. Of particular note is the high unemployment rate (12.1%) encountered by Texas youth in 2004—more than double the statewide average.

Like the U.S. workforce, the Texas labor force has been steadily aging over the past decade. In 1994, 10.5% of the Texas labor force was over-55; by 2004, the over-55 age group represented 14.5% of the state's labor force—only slightly lower than national over-55 share of 15.6%. As the first baby boomers turn 60 next year, the aging of the workforce is a national trend that poses several challenges to the workforce system, including potential shortages in skilled labor..

Racial & Ethnic Breakdown of the Texas Workforce

The racial and ethnic composition of the Texas labor force differs significantly from the nation as a whole. The 2004 labor force makeup is as follows:



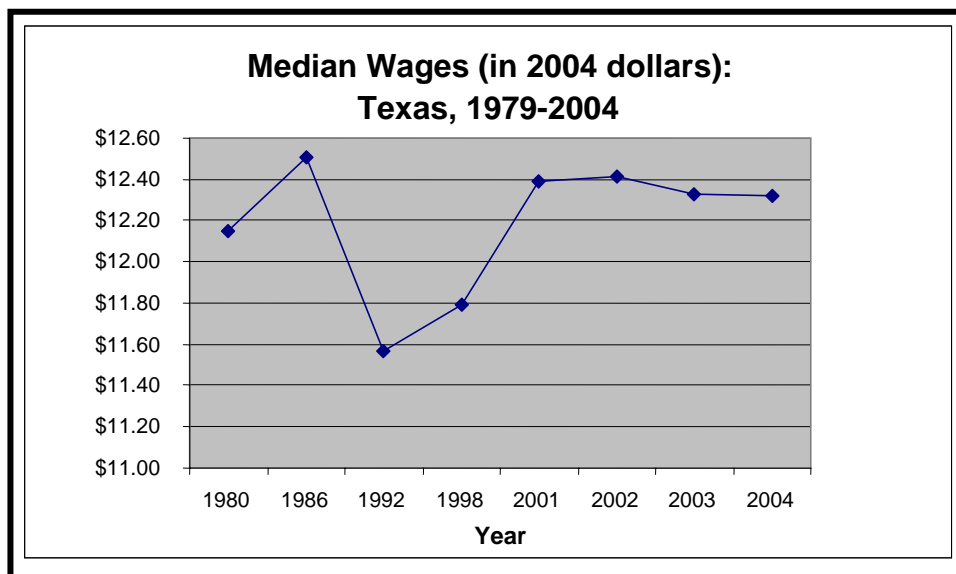
Source: Economic Policy Institute analysis of Current Population Survey data

In general, the labor force participation of Whites/Anglos has been decreasing, while the Hispanic share of the Texas labor force has increased steadily over the past decade. Since 1994, the White/Anglo share of the labor force has declined from 59.5% to 52%, while the Hispanic share has increased from 26.5% to 34%. The African-American labor force share has decreased slightly, while the Asian/Pacific Islander share has increased from 1.9% in 1994 to 3% in 2004.

HOW MUCH ARE TEXAS WORKERS EARNING?

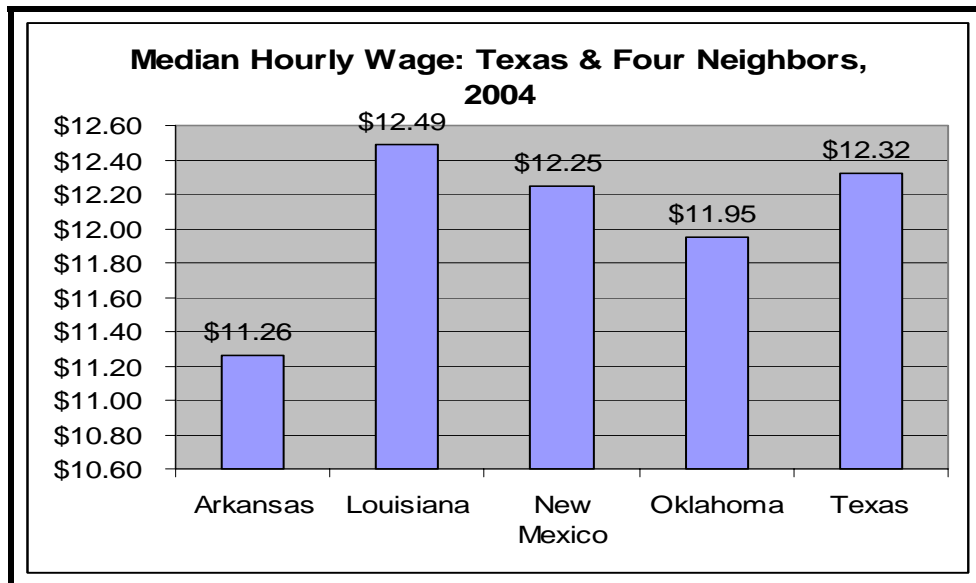
The most significant challenge facing the Texas labor market and workforce is wage stagnation. Adjusted for inflation, wages in Texas are actually \$0.19 lower than they were in 1986. In addition, the Texas household median hourly wage is nearly 12% lower than the national average (\$12.32 in Texas versus \$13.99 nationally).

Median hourly wages earned by female workers in Texas, adjusted for inflation, have increased steadily since 1995 to \$11.34 in 2004. Male wages, however, have been virtually stagnant since 1998, and are at considerably lower levels than during the early to mid-1980s.



Source: Economic Policy Institute analysis of Current Population Survey data

Texas wages are in the middle of the pack in comparison to its four neighboring states:

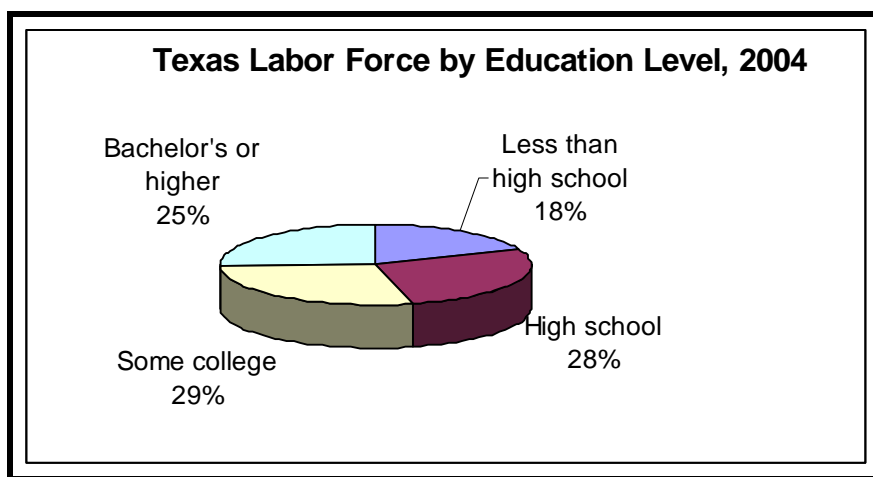


Source: Economic Policy Institute analysis of Current Population Survey data

While the share of Texas workers earning below the poverty level has remained relatively steady over the past few decades, the state’s 17.6% rate is much higher than the national average of 12.7%. The “working poor” – people who earn less than 200% of the poverty level – account for 40.4% of Texas workers, compared to the national average of 31.2% (2004).

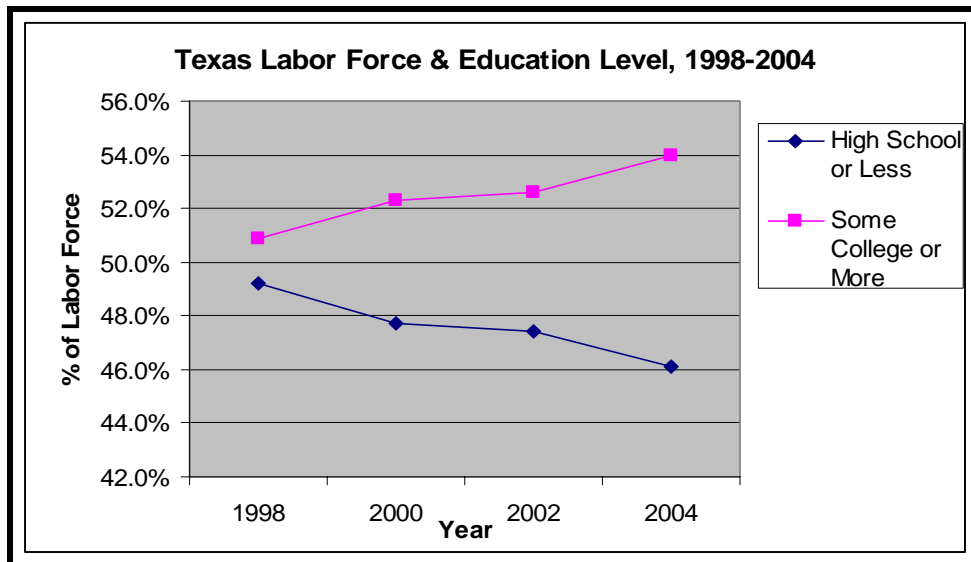
LOW LEVELS OF EDUCATIONAL ATTAINMENT HOLD BACK TEXAS WORKERS

Texas faces significant challenges in improving the educational level of its labor force. More than 18% of the Texas labor force did not finish high school, compared with 12.5% nationally. Texas’ labor force is also weaker than the national average in the percentage of workers who only possess a high school diploma or who have attained at least a bachelor’s degree.



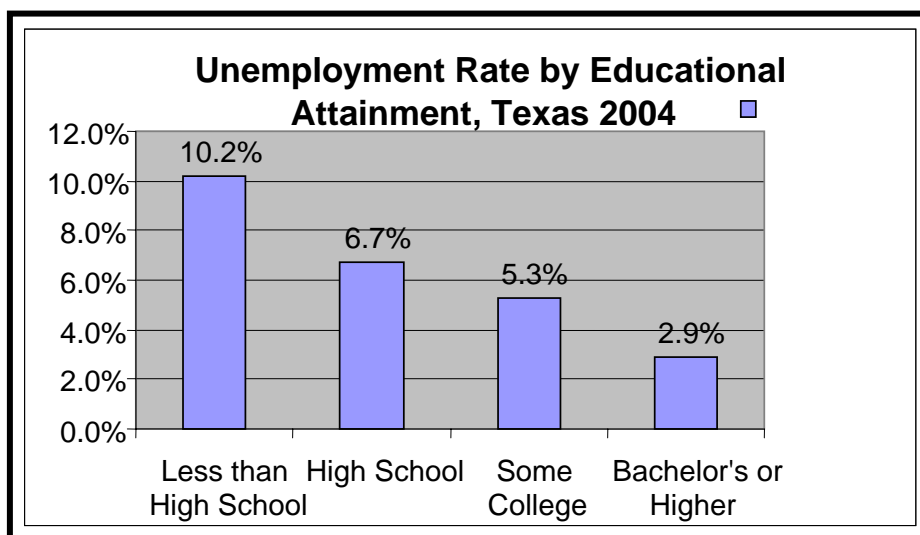
Source: Economic Policy Institute analysis of Current Population Survey data

Over the past several years, however, the overall educational level of the Texas labor force has improved as the share of workers who have attended some college or finished a bachelor’s degree has increased steadily since 1998.



Source: Economic Policy Institute analysis of Current Population Survey data

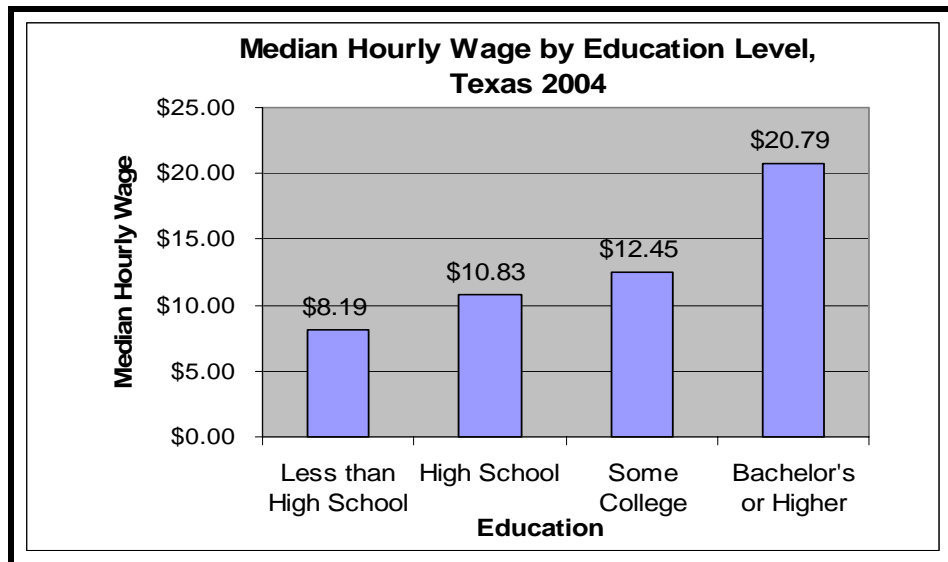
The increasing level of educational attainment may eventually help reduce unemployment in Texas, since a high school dropout is more than three times more likely to be unemployed than a four-year college graduate.



Source: Economic Policy Institute analysis of Current Population Survey data, 2004

Not surprisingly, educational attainment plays a significant role in determining median wage levels for Texas workers. A Texas worker who did not complete high school earned a median hourly wage of \$8.19 in 2004, compared to \$20.79 for workers with at least a bachelor's degree. The smallest earnings difference occurred between the Texas workers with a high school diploma and those who have attended some college, with high school workers earning a median hourly wage of \$10.83 and workers who had some college earning a median hourly wage of \$12.45.

The following graph illustrates the strong relationship between educational attainment and wages.



Source: Economic Policy Institute analysis of Current Population Survey data

Regardless of education level, all groups have experienced virtual wage stagnation since 1999.

OTHER NOTABLE TRENDS

- The underemployment rate has also jumped since 2000. The underemployment rate is a composite figure that includes unemployed persons, marginally attached workers, and part-time workers unable to find suitable full-time employment. In 2000, Texas had a 7.4% underemployment rate. By 2004, Texas had a 10.6% underemployment rate, surpassing the U.S. average of 9.6%.
- Underemployment by persons without a high school degree has declined since 1996, from 20.7% to 18.7% in 2004
- Texas' labor participation rate has declined slightly, from 68.4% in 2000 to 67.1% in 2004. The labor force participation rate measures the civilian labor force in proportion to the civilian non-institutional population (ages 16 and over).
- 51.1% of Texas employees have employer-provided health insurance—one of the lowest rates among the 50 states; the US average is 57.3%
- Union membership in Texas has declined to 5% of all workers (down from 7.5% in 1993)—the fifth lowest rate in the U.S.
- At 23.6%, Texas has the fourth lowest percentage of unemployed workers who receive unemployment insurance benefits (behind Utah, Colorado, and South Dakota.) The U.S. average is 36.2%.