

The Texas Model: 2014 Q2 Employment Update

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This brief highlights multiple labor market measures through the second quarter of 2014 comparing those for the top four most populated states—California, Texas, New York, Florida—and national averages. These data show unequivocally that Texas remains the land of opportunity. This success is supported by the state’s limited government philosophy that should be doubled down upon next legislative session.¹

During the second quarter, Texas employers added 148,200 net nonfarm jobs—an average of 49,400 per month. This amounts to an 18 percent share of all jobs created nationwide over this period in a state with only 8 percent of the country’s population and about 10 percent of total economic output. Over the last year, the addition of 382,200 net jobs in Texas was more new jobs than any other state. These employment gains increased the annual job growth rate to 3.4 percent, which is higher than those of the national average and other highly populated states (see Figure 1).

Key Points

- Texas’ labor market success is supported by the state’s limited government philosophy that should be doubled down upon next legislative session.
- The majority of jobs added in Texas have been high paying jobs since 2000, which is not the case for the rest of the nation.
- The Texas Legislature should take steps to continue its robust job growth so it will remain the land of opportunity.

These jobs created over the last year were in all 11 major industries including both high and low-paying positions. According to the Federal Reserve Bank of Dallas, the majority of jobs added in Texas have been in the upper two wage quartiles since 2000, which is not the case for the rest of the nation.²

Texas’ labor force participation rate remained essentially unchanged during the second quarter at 65.1 percent compared with the first quarter. This is in contrast with the national average and the other highly populated states (see Figure 2). With little change in the participation rate and a large increase in employment, the Lone Star State’s unemployment rate fell by 0.4 percent to 5.1 percent from the first to second quarters—ranked 16th lowest nationwide in June—with total unemployed declining to 656,000, improving the outlook for many Texans.

Figure 1: Texas Job Growth Rate Tops the Charts

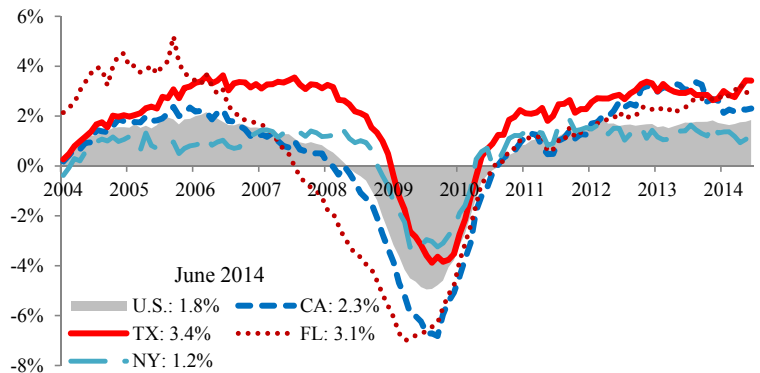
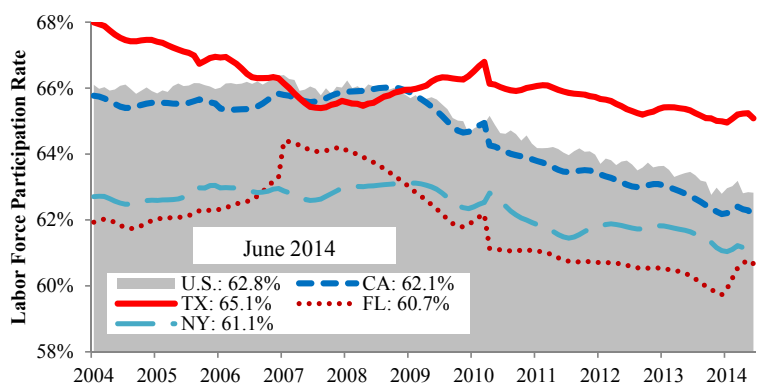


Figure 2: More Texans Have a Job or Are Searching for One



Texas' unemployment rate has been equal to or below the national average since January 2007, or 91 consecutive months, and is more than a full percentage point lower than the nation's rate. The relatively low rate in Texas is even more impressive when considering that it has been substantially lower than those rates in the other three most populated states for years (see Figure 3).

With so many individuals dropping out of the labor force in many states and a large increase in Texas' labor force compared with other states from interstate migration, the unemployment rate tends to poorly signal the health of a state's or the nation's labor market. A better measure of employment at all levels is the percentage of the adult population who are employed because those who stop looking swayed it less (see Figure 4).

A comparison of these employment-population ratios shows that Texas has truly performed better than these other states and the nation. Texas' current 61.8 percent ratio is nearing the highs before the recession. On the other hand, the other states remain far below their pre-recession levels. An important difference is that these other states have seen a lower unemployment rate from a drop in the percentage in the labor force, as noted from the depressed employment-population ratios, compared with the abundant job growth in Texas.

As the 2015 legislative session approaches, the 84th Texas Legislature would be wise to take steps to advance the success of the Texas model. This would include reducing the bottom line of the budget by creating a mechanism to return available funds to taxpayers through a reduction of the state sales tax rate, eliminating the business margin tax, limiting state spending to the rate of population growth plus inflation; and implementing zero-based budgeting. These steps will help Texas remain the land of opportunity. ★

Note on charts: Seasonally adjusted data are from the Bureau of Labor Statistics.

Figure 3: Texas Job Growth Leads to Lower Unemployment Rate

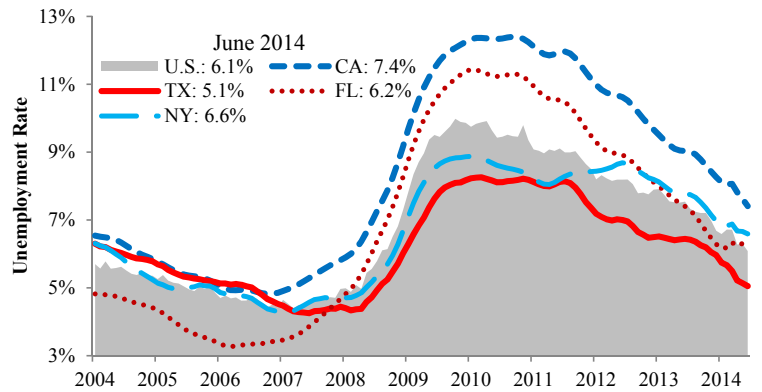
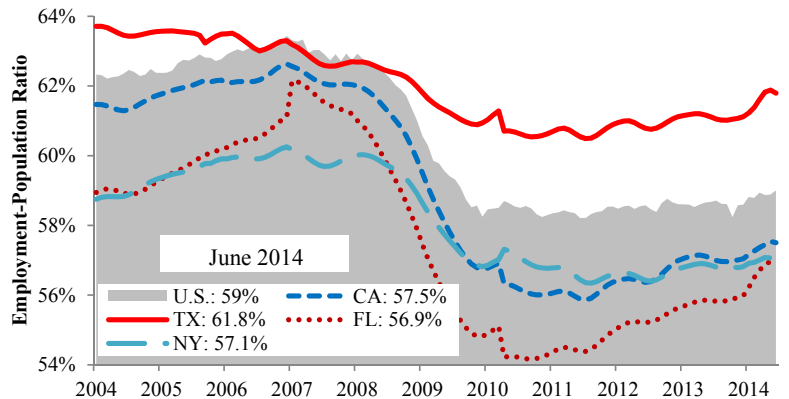


Figure 4: Larger Share of Texas Population Employed



¹ Data throughout the brief are seasonally adjusted from the U.S. Bureau of Labor Statistics.

² Federal Reserve Bank of Dallas, *Texas Leads Nation in Creation of Jobs at All Pay Levels* (First Quarter 2014).

