# The 30th Annual Perryman Economic Outlook Conference

## US AND TEXAS FORECAST HIGHLIGHTS

## 2013-2018

To download further forecast detail, methodology, and explanation of terms, see www.perrymangroup.com/STForecast/2013DFW.pdf

### Overview

The US economy has been growing at a modest pace, with average monthly job gains of 185,000 (over the twelve months ending in September). Housing market recovery has also been ongoing. However, the situation in Washington (with the partial shutdown and potential debt ceiling issues) has been weighing on the economy. Even though an agreement was reached to end the shutdown, it was largely a temporary reprieve. While economic growth is expected, underlying fiscal issues have not yet been dealt with and continue to dampen performance expectations, particularly as the next deadline nears.

### Partial Shutdown and Debt Ceiling

The partial shutdown this fall highlighted the serious problem in our federal government of an inability to agree on a budget, and it is likely that a similar situation will arise in January when the current arrangement expires. The last time the Senate actually passed a budget was in 2009, with continuing resolutions providing budget authority for Federal agencies to keep operating since then. However, the Congress struggled to even reach a joint resolution this time.

The partial shutdown set the stage for the far more critical issue: whether the debt ceiling would be dealt with in a timely manner. It wasn't until time was running out that an agreement was struck. Although not reaching a deal wouldn't necessarily mean the US government would go into immediate default (because there would be enough money coming in to cover interest and other key payments such as Social Security for a while), not acting on the debt ceiling would have caused some major problems and far greater disruptions than the partial shutdown. If no action had been taken, the ability to meet bond obligations would be threatened over time, putting the entire global financial system at risk. Failure to extend would also likely have sent financial markets into a tailspin.

Because the debt ceiling really deals with money that is already spent, it should be raised without damaging brinksmanship, and attention should be turned to fixing the underlying problem. What is essential over the long term is finding a path toward fiscal responsibility. Deficits are running in the range of $1 trillion per year, and until budgets are crafted which narrow the gap between expenditures and revenues, long-term risks will continue to grow. Recently enacted programs (including the Affordable Care Act which became the flashpoint this time around) are pointing to larger deficits in the future, and faster economic growth is unlikely to be enough. The solution is going to require concessions from both sides of the Congressional aisle.

At some point in time, a real and meaningful budget must be passed (not just a stop-gap action to keep the doors open a few more weeks or months). Until the United States government begins to move toward a fiscally responsible and sustainable path through the budgeting process, our future prosperity is compromised to some extent. If the decision is made not to honor our debts (highly doubtful even in this environment), economic performance would certainly be affected.

The short-term solution merely shifted the timeline out by a few months, and the debt ceiling will have to be dealt with again in January. Even with the dysfunctional situation in Washington, however, doomsday scenarios are extremely unlikely.

**Short-Term Outlook for the United States 2013-2018**

| Key Indicator | 2013 Level | 2018 Level | Growth Rate* 2013-2018 | Increase 2013-2018 |
|---|---|---|---|---|
| **Real Gross Product** (2005$) | $14.56 trillion | $17.11 trillion | 3.28% | $2.55 trillion |
| **Population** | 316.42 million | 330.49 million | 0.87% | 14.07 million |
| **Employment** (civilian non-agricultural employment) | 135.76 million | 146.67 million | 1.56% | 10.91 million |
| **Real Personal Income** (by place of residence in 2005$) | $11.62 trillion | $13.02 trillion | 2.30% | $1.40 trillion |
| **Industrial Production Index** (2005=100) | 104.1 | 122.0 | 3.23% | n/a |
| **Consumer Price Index** (2005=100) | 119.6 | 138.1 | 2.93% | n/a |
| **Interest Rates** (Long-Term, 20 yr. Bonds) | 2.81% | 4.23% | n/a | n/a |

*Compound Annual Growth Rate, meaning that it reflects changes in the base from which growth is calculated.

## Other Factors Influencing the Outlook

Future prosperity, both as individuals and as a society, is tied to improving **education levels** (particularly for states which are lagging, such as Texas). The US Bureau of the Census recently released a report indicating that college enrollment dropped by about half a million students from 2011 to 2012. However, older students accounted for much of the decrease in enrollment. In fact, more than half of the total overall drop fell within one relatively small group: part-time male students over the age of 25, who numbered fewer than 1.5 million persons in 2011 (less than 7.3% of total college enrollment of 20.4 million). Between 2011 and 2012, enrollment among this group fell by 243,000, which is a full 52.0% of the overall decline. The most likely reason such students would leave higher education is obtaining a job. There is still a need to increase educational attainment, but the recent enrollment decline is more of a positive signal about available jobs than it is a negative signal about education.

There is reason to believe that the US **manufacturing sector** is set for a rebound after more than a decade of job losses and factory closures. Strength in basic industries such as manufacturing is important to long-term prosperity, and a shift in locations back to the United States could notably alter future performance. Over time, the United States is becoming more competitive, with one of the highest rates of output per hour worked and rising productivity. The United States also has advantages in shipping and other logistics. At the same time, wage rates in China, which is a primary competitor for certain types of manufacturing operations, are rising rapidly (double digits per year), eroding cost advantages. In early 2010, national manufacturing employment bottomed out at about 11.5 million, and has recently increased to almost 12 million, and surveys are indicating that a significant proportion of companies are now considering moving production facilities back to the United States.

The **trade deficit** has recently been improving. The rise in domestic oil production, which has been enabled by technological advances such as hydraulic fracturing (fracking), is helping in two ways: reducing the need for imported crude and increasing the potential for exporting various refined and other petroleum-derived products. As European and other global economies improve, there will be more capacity for those countries to afford to buy US products. The oil boom here is likely to keep increasing the proportion of crude oil produced domestically, reducing the need for imports.

## Forecast for the US Economy

The Perryman Group's most recent outlook for the US economy calls for continuing moderate growth, with performance affected by the outcome of budget negotiations. Based on information available to date, TPG is projecting growth in real gross product (RGP) of 3.28% over the next five years. Employment is forecast to expand at a 1.56% pace, resulting in an addition of 10.9 million jobs.

## Forecast for the Texas Economy

Texas added almost 275,000 jobs during the 12 months ending in August. This pace has been enough to keep the state's rate of unemployment below that of the nation as a whole. Recent data related to housing permits, sales volume, and prices indicate ongoing improvement in the single-family residential market. In fact, there are signs that prices in some markets are rising very rapidly, with builders unable to keep up with demand for new houses. Consumer confidence in the state has also been staying relatively high. Oil and gas exploration and production activity is another source of economic strength.

While the national situation certainly has the potential to slow growth in the state, and The Perryman Group's most recent outlook for Texas indicates that the state is likely to see a healthy rate of expansion in real gross product of 4.52% over the next five years. The services and mining sectors are expected to continue to be major contributors to this expansion, with a particularly strong growth rate also expected in the construction segment. Employment growth is projected to be 2.31% through 2018, for a gain of some 1.42 million jobs over the period.

**Short-Term Outlook for Texas 2013-2018**

| Key Indicator | 2013 Level | 2018 Level | Growth Rate* 2013-2018 | Increase 2013-2018 |
|---|---|---|---|---|
| **Real Gross Product** (2005$) | $1.28 trillion | $1.60 trillion | 4.52% | $316.78 billion |
| **Population** | 26.57 million | 28.88 million | 1.68% | 2.31 million |
| **Wage & Salary Employment** | 11.70 million | 13.12 million | 2.31% | 1.42 million |
| **Real Personal Income** (by place of residence in 2005$) | $973.65 billion | $1.20 trillion | 4.30% | $228.27 billion |
| **Real Retail Sales** (2005$) | $369.52 billion | $465.03 billion | 4.71% | $95.51 billion |

*Compound Annual Growth Rate, meaning that it reflects changes in the base from which growth is calculated.

# The Economic Outlook for the Dallas-Fort Worth Area and Colleyville

## Overview

Among the stronger centers for economic growth in the nation, the Metroplex is benefitting from expansion in a variety of sectors both traditional and emerging. Although national uncertainty has the potential to affect performance to some extent, the region is expected to continue to see growth at a rate surpassing most parts of the country. During the next five years, The Perryman Group's forecast indicates building momentum for the area (assuming national economic issues are dealt with to avoid the worst problems).

| Short-Term Outlook for Dallas-Fort Worth-Arlington Metropolitan Statistical Area (MSA) 2013-2018 | | | | |
|---|---|---|---|---|
| **Key Indicator** | **2013 Level** | **2018 Level** | **Growth Rate* 2013-2018** | **Increase 2013-2018** |
| **Real Gross Product** (2005$) | $396.56 billion | $493.45 billion | 4.47% | $96.89 billion |
| **Population** | 6.76 million | 7.37 million | 1.73% | 605,100 |
| **Wage & Salary Employment** | 3.27 million | 3.68 million | 2.41% | 413,100 |
| **Real Personal Income** (by place of residence in 2005$) | $268.93 billion | $330.36 billion | 4.20% | $61.43 billion |
| **Real Retail Sales** (2005$) | $105.21 billion | $132.63 billion | 4.74% | $27.43 billion |
| **Housing Permits** | 36,060 | 46,363 | 5.15% | 10,303 |

*Compound Annual Growth Rate, meaning that it reflects changes in the base from which growth is calculated.

## Forecast for the Region

The economy of Colleyville is clearly tied to the larger regional business complex. Most economic sectors in the Dallas-Fort Worth metropolitan area have experienced job gains in the past year, though some industries were shedding positions.

Over the next five years, employment in the region is forecast to expand by some 413,100 net new positions, with particularly strong rates of growth in the services, mining, and trade segments.

Output (real gross product) expansion of almost $96.9 billion is expected over the 2013 to 2018 period, with a number of industry segments experiencing yearly growth exceeding 4%.

## Outlook for Colleyville

Colleyville is emerging as a center for business operations, with particularly strong activity in aviation and retail segments. The city is well-positioned to capitalize on desirable outgrowth (both residential and commercial) from the larger metropolitan areas nearby.

The Perryman Group's analysis indicates that the area will continue to define itself as a commercial center city.

| Estimated 2013-2018 Dallas-Fort Worth-Arlington Metropolitan Statistical Area Employment and Output (RGP) Growth by Sector | | | | |
|---|---|---|---|---|
| *Sector* | *Compound Annual Growth Rate* | *Employment Gain/Loss* | *Compound Annual Growth Rate* | *Output Gain/Loss ($ million)* |
| Agriculture | 0.47% | 100 | 2.35% | $33.469 |
| Mining | 2.95% | 4,800 | 7.15% | $10,002.987 |
| Construction | 2.01% | 16,900 | 3.34% | $2,617.709 |
| Durable Mfg. | 1.03% | 9,700 | 4.14% | $8,459.738 |
| Nondurable Mfg. | 0.85% | 3,300 | 4.28% | $3,897.967 |
| Trade | 2.33% | 63,600 | 4.48% | $12,288.139 |
| TWU* | 1.51% | 11,400 | 3.93% | $3,865.071 |
| Information | 1.73% | 7,400 | 4.48% | $6,283.867 |
| FIRE* | 1.69% | 23,300 | 3.81% | $17,407.054 |
| Services | 3.36% | 249,500 | 5.26% | $28,772.498 |
| Government | 1.12% | 23,100 | 2.42% | $3,263.844 |
| **TOTAL** | | **413,100** | | **$96,892.343** |

*TWU is Transportation, Warehousing, & Utilities; FIRE is Finance, Insurance, & Real Estate