

**Ports and Waterways Conference  
Remarks by Augustín Redwine  
Galveston, Texas  
June 25, 1996**

**Texas Economic Outlook**

*Intro: Brief talk about Research Division, recent rprts (Railroad Merger, Drought, Texas Beef Cattle Industry, Home Equity Lending, GOG rprts, FN articles on Gulf Coast.....and topic of the speech)*

First, a little history.

In 1905, a group of Texas businessmen met in the Victoria, Texas Opera House to discuss developing a system of inland waterways in the United States. Their bold proposal was to connect 18,000 miles of navigable waters from the Great Lakes, through the Mississippi Valley and along the Louisiana and Texas coastlines.

The economic catalysts for the meeting were a growing population in the Gulf coast region, the 1901 discovery of the Spindletop oil field in Beaumont, Texas and the realization by local

industrialists that shipping goods by rail was expensive and a cheaper mode of freight transportation was needed to and from the Louisiana and Texas areas.

The waterway concept was born and, after several years of effort on the part of several individuals and organizations, the waterway was completed in 1949.

Just 7 years later, in 1956, Time magazine called the GIWW one of the world's great historic waterways, ranking it with the Mississippi, Germany's Kiel Canal, the Suez Canal and the Panama Canal. The article also called the GIWW the chief reason for the greatest boom in Gulf Coast history. As one poetic Texan said then, the GIWW is

***“ A shining strand linking together the jewels of progress into a fabulous necklace along the curving bosom of the Gulf.”***

Today, more than 90 years after the Victoria Opera House meeting, the Gulf Intracoastal Waterway (GIWW) parallels the Gulf of Mexico's coastline, stretching 1,300 miles from Brownsville, Texas to St. Marks, Florida. Texas has the largest section of the GIWW; more

than 400 miles connecting the state's industrial and agricultural complexes to national and international markets through a number of deep-water and shallow-draft ports.

In Texas, the GIWW serves a region of 5 million people. A region that produces two-thirds of the nation's petrochemical production and contains almost one-third of the nation's petroleum industry. The GIWW provides the commercial fishing industry with direct access to the fertile fishing grounds of the different bay regions. Furthermore, the GIWW provides Texas residents with a wide range of recreational activities, including sport fishing, pleasure boating, swimming and camping.

As the 20th century comes to a close, there is no doubt that the GIWW has been an unparalleled success. Yet, as past events indicate, it is evident that as the national economy goes, so goes the Texas economy, and so goes the GIWW.

So then, what is the Texas economic outlook? How will the various components of Texas' economy—the jewels of progress—do in the near future? What about the effect of the drought on agricultural, the trade liberalization of NAFTA on trade and transportation, the growth of the high-tech industry on manufacturing and the outlook for the oil and gas industry.

In short, I am going to talk about the weather, trade, trains, computers, stepchildren and oil.

**The Drought:** First, the weather. The drought is serious and is likely to have a significant impact on state agricultural production. By late May, 99 of the state's 254 counties—39 percent—had been declared drought disaster areas by the governor.

The National Weather Service says crop conditions are “fair to very poor” for the bulk of the state's cotton, wheat, grain sorghum and corn crop. And, only the irrigated rice crop along the coast appears to be in fairly good shape.

The Texas Department of Agriculture estimates that drought conditions lasting into the summer and fall could cut Texas cotton,

wheat and sorghum production by as much as 40-50 percent and reduce corn production by 30 percent.—resulting in losses to state crop producers totaling as much as \$1.5 billion in 1996.

The effect on the cattle and beef industry? Its painfully simple, beef cows are selling for less and its costing more to feed them because of poor range conditions.

So far this year, Texas has lost a total of \$420 million in cattle sales, compounded by higher feed costs totaling \$412 million—total year-to-date livestock loss from the drought, \$840 million.

Overall, TDA estimates drought losses for Texas crop and livestock producers of up to \$2.4 billion in agricultural sales—20 percent of 1995 total sales. Furthermore, because of the strong linkages between agricultural producers, their suppliers and downstream marketers, this lost production would translate into a high-end estimate of \$6.5 billion in lost gross sales.

In summary, an extended drought would have a significant, but not devastating impact on the Texas economy. Other factors could

mitigate the impact on Texas—for example, the drought could end more quickly than it arrived.

**NAFTA and transportation:** Lets talk about international trade. Because of NAFTA trade between Mexico and Texas was expected to increase. There was a slight decrease in trade with Mexico in 1995—due to the peso devaluation—Texas exports to Mexico decreased by 8 percent, or about \$2 billion. But, Texas exports to Mexico are 7.3 percent higher than in 1993, or \$1.5 billion. And, first-quarter of 1996 numbers are up.

In fact Texas trade to almost all major Trade Blocs is up in 1995: South America (34 percent), Central America (19 percent), Canada (25 percent), Europe (30 percent), ASEAN countries (18 percent) and East Asia (56 percent)—a total of \$9 billion.

**Trains:** On another front, in September 1995, the stakes for access to the Gulf Coast industrial complex and to Mexico increased with the proposed Southern Pacific and Union Pacific merger.

The proposed merger of the SP and UP systems is of great significance to the state. According to a January 1996 Comptroller's Office survey, shippers along the Gulf Coast are aware that the

merger would create a dominant carrier in the state. And, there is disagreement among shippers as to whether the merger would be beneficial or not.

Still, since the SP-UP system would operate in several important markets in the state, it is important that policy makers develop solutions that benefit Texas shippers. The proposed merger is being reviewed by the newly-formed Surface Transportation Board.

A final decision on the proposed merger was to be made by April 1997, but I understand from one of the sessions this morning that a decision will be made next week, July 3rd.

And now to computers

**Manufacturing and the High-Tech Industry:** Texas continues to astound observers with its burgeoning high-tech industries. But, despite the fact that Samsung announced plans to build a \$1.3 billion memory chip plant in Austin, there is a blip of caution on the horizon.

Most of the rapid growth of Texas' manufacturing sector over the past two years has been driven by high-tech industries. In 1994 and 1995, computers/industrial machinery and electronics together accounted for over 60 percent of the 22,000 annual gain in total manufacturing jobs.

Most of the activity has been in the Dallas-Fort Worth Metroplex and the Austin area. And although high-tech is probably the key to rapid growth and development in some areas of Texas—and this is the blip—it is also a notoriously cyclical industry, historically switching from extended periods of rapid growth to relatively short, but steep downturns.

Currently, the high-tech sector, nationally and in Texas, is experiencing a major slowdown due to slowing demands for personal computers and falling memory chip prices. This slowdown is not expected to be as steep as in the 1980s.

Still, it will affect the state because Texas is a major producer of these products. But the state's favorable business environment and relatively low production costs will cushion the impact.



Consequently, job growth in the state's electronics industry is expected to slow from 7.4 percent in 1995 to a still-healthy 5.9 percent in 1996. In the next two years, however, growth will slow to 2.9 percent in 1997 and 2.4 percent in 1998.

Other than high-tech industries, most of the other manufacturing jobs produced in the state in the past two years have been produced by a wide web of construction-related industries including lumber and wood products, furniture and fixtures; stone, clay and glass products and primary/fabricated metal products.

Job growth in these sectors will slow as the state's construction sector begins to level-off.

In summary, manufacturing employment will grow somewhat slower over the next two-three years than in the recent past, averaging 15,000 jobs annually, a 1.4 percent annual rate compared to 2.2 percent in 1995.

And now to the stepchildren

Trade, services and government have historically been treated by some observers as the stepchildren of the Texas economy, arguing that they contribute little because they are simply “taking in each others laundry,” rather than generating new income from beyond our borders.

But it is antiquated thinking that is not consistent with current economic activity.

Many of Texas’ services industries, such as accounting, engineering and a wide range of other professional and business services serve a wide range of clients from outside Texas and throughout the world.

Overall, trade, services and government accounted for almost half of the state’s economic output and nearly 70 percent of its jobs in 1995. The services industries have been the largest sources of new jobs in the Texas economy for the past few years.

In 1995, business/professional, health and other services generated 113,000 new jobs , or almost 40 percent of the new jobs in

the state. The strong growth is directly related to increased manufacturing activity and the revival of growth in health services. Overall, services employment increased by 5.6 percent in 1995, its highest rate in 5 years.

Over the next two to three years, services will continue to be the state's most important source of new jobs, but growth will slow with the overall economy.

The outlook for wholesale trade and retail calls for moderate growth with both sales and employment growing at somewhat slower rates than the past three years.

While military employment has been falling for more than 10 years and federal civilian jobs have been declining since 1990, state and local government employment has been growing fairly rapidly. It has been boosted by state prison construction and in response to rapid population growth in many local communities and school districts.

Over the next three years, the outlook for these three levels of government looks quite different. State government employment

growth will slow dramatically as state prison construction ebbs and population growth will slow also. Federal employment will continue to decline, but at a slower rate as the pace of defense cutbacks across the nation moderates.

Overall, total government employment will increase by 1.3 percent through 1998.

**Petroleum Industry:** Finally, several historical events affected the Texas Gulf Coast region's economy and influenced industrial development along its waterways but none more dramatically than the discovery of oil in East Texas.

When the Spindletop oil field blew in 1901, it ushered in the Texas oil and gas industry. Oil refineries and related industries located along the Gulf Coast to be near the oil wells and water transportation. Later, during World War II, the availability in Texas of raw materials for petrochemical production to meet the nation's demand for synthetic rubber quickly made the state the center for petrochemical production.

Currently the area between Corpus Christi and the Louisiana border is home to the largest petrochemical complex in the world—containing 250 chemical plants, 30 refineries and 74 gas-processing plants. In early 1995, Texas Gulf Coast's 30 refineries had a crude oil capacity of 3.9 million barrels per day, more than 25 percent of total U.S. refinery capacity, compared to California's 24 refineries at 1.9 million barrels per day capacity and Louisiana's 18 refineries at 2.3 million barrels per day.

But the thrill is gone for the oil and gas exploration industry as 1995 turned out to be another not-so-great year for the state's first major industry. Oil and gas drilling activity fell again in 1995 and employment in this industry dropped for the fourth-straight year.

The outlook for 1996 through 1998 is somewhat better as oil prices are expected to continue to gradually increase as gasoline and other petroleum demands increase, while natural gas prices—pushed upward by the severe 1995-96 winter—have regained most of their lost ground.

OK, so now what.

Well, the message may be a little boring but in general—barring a major economic catastrophe—Texas will continue to experience moderate economic growth through the end of this century. After increasing at a near-boom rate averaging 4 percent in 1994 and 1995, Gross State Product growth is expected to slow to 3.2 percent in 1996 and to a more sustainable rate of 2.8 percent in 1997 and 2.5 percent in 1998.

Employment growth will follow a similar trend, falling from a 3.7 percent increase in both 1994 and 1995 to 2.5 percent in 1996 and to just over 2.0 percent annually in 1997 and 1998.

Finally, population growth will slow somewhat as net migration into the state tapers.

Many unknowns remain: how long will the drought last, how will the computer industry do, what will happen with the Railroad merger and what will happen afterwards—whether the merger is approved or not.

But, just as the men of Victoria in 1905 rose to meet the challenges of the Texas economy at the start of the 20th century,

the men and women of the Texas maritime industry will be equal to the challenges of the 21st century.

Thank you.