Waco Metro Area Economic Outlook for 2016

by

Tom Kelly, Director

Baylor Center for Business and Economic Research

Waco is one of 381 Metropolitan Statistical Areas ([MSAs](http://www.bea.gov/regional/definitions/nextpage.cfm?key=metropolitan%20areas)) in the nation. In 2013 Falls County was added to McLennan County for a combined [population](http://www.bea.gov/regional/definitions/nextpage.cfm?key=population) of 258,974 persons that ranked 180th in the nation. In 2013, Waco’s average per capita personal income ([PCPI](http://www.bea.gov/regional/definitions/nextpage.cfm?key=per%20capita%20personal%20income)) of $35,922 (reported in November 2014 by the U.S. Bureau of Economic Analysis.) ranked 284th in the United States and amounted to 80 percent of the national average of $44,765. Over the ten-year period from 2003-2013 the gap narrowed between Waco’s average personal income per capita and the average of all U.S. metro areas with an average annual growth rate locally of 3.6% compared to with 3.2% nationwide.

In addition to higher PCPI the Waco economy is experiencing growth in employment. Figure 1 shows seasonally-adjusted quarterly household employment since 2000, a period that included recessions in 2001 and 2008-09. Over the 15-year period Waco employment increased at an average annual rate of 0.4% that is the same average since the beginning the 2008-09 recession. However, over the six quarters ending in 1st quarter 2015 employment increased at an annual rate of 1.7%, completely closing the gap with the past fifteen-year trend and setting the stage for faster growth in the future. Projected household employment will continue to grow next year an annual pace well above the trend rate.

Source: U.S. Bureau of Labor Statistics

Waco MSA Unemployment Rate

The BLS household survey is used to measure the unemployment rate equal to the percentage of unemployed persons in the labor force that consists of area residents above age 16 who are either employed or actively seeking employment and are not serving in the military or otherwise institutionalized. The local labor force can change due to demographic trends, net migration, and the presence of workers who may be encouraged or discouraged from seeking employment based on local job opportunities, skill and education requirements, geographic access, length of time unemployed, and other cyclical and structural forces. Some of these forces changed in 2013 when Falls County was added to McLennan County as part of the Waco MSA.

The Waco seasonally-adjusted labor force, employment, and the unemployment rate for each quarter since 1st quarter 2013 are shown in Table 1. The quarterly average unemployment rate decreased over the two-year period from 6.8% in first quarter 2013 to 4.4% in first quarter 2015. This decline in the unemployment rate has not always been the result of employment growth, but it also reflects change in the labor force that decreased during the fourth quarter in 2013 and 2014 by more than the decrease in employment. However, in the first three quarters of 2014 and the 1st quarter of 2015 employment growth exceeded positive growth in the labor force.

Changes in the labor force due to regional migration as well as the labor participation rate make it difficult to rely solely on the unemployment rate to measure cyclical performance. This is especially true in Texas where economic growth has occurred more rapidly in oil producing areas.

Table 2 shows the considerable variation in 1st quarter labor force and employment growth rates among the 25 Texas metro areas. Despite the variation among geographic areas the unemployment rate in every Texas metro area decreased during 1st quarter 2015 compared with the same period in 2014, lowering the Texas State average to 4.3 percent.

Table 1

Waco MSA Annual Percent Change in Seasonally-Adjusted

Labor Force and Employment, and the Unemployment Rate

|  |  |  |  |
| --- | --- | --- | --- |
| Year.Qtr | Labor Force | Employment | Unemploy- ment Rate |
| 2013.1 | -0.1 | -0.2 | 6.8 |
| 2013.2 | 0.8 | 1.0 | 6.7 |
| 2013.3 | -0.4 | -0.4 | 6.6 |
| 2013.4 | -1.1 | -0.7 | 6.2 |
| 2014.1 | 0.8 | 1.2 | 5.8 |
| 2014.2 | 0.1 | 0.5 | 5.4 |
| 2014.3 | 0.4 | 0.2 | 5.6 |
| 2014.4 | -0.8 | -0.1 | 4.8 |
| 2015.1 | 0.3 | 0.7 | 4.4 |

Source: U.S. Bureau of Labor Statistics

Both the Waco and the Killeen-Temple metro areas experienced slower growth in the labor force along with positive growth in employment that lowered their unemployment rates to 4.2% and 4.9%, respectively.

The Killeen-Temple area is facing the economic impact of defense budget cuts and the uncertainty of a potential loss of future troop, civilian workers, and family members totaling over 40,000 in an immediate “area of influence” population of nearly 420,000 persons. Certainly, the entire Central Texas region would be impacted by future household location decisions.

Table 2

Annual Percent Change in Texas Metro Area 1st Qtr. 2014 and 2015 Labor Force and Employment and Quarterly Average Unemployment Rates

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Texas Metro Area | 1st Qtr. 2014 Average  Yearly Percent Change | | Average | 1st Qtr. 2015 Average  Yearly Percent Change | | Average |
|  | Labor  force | Employ-  ment | Unempl. Rate | Labor  force | Employ-  ment | Unempl. Rate |
| Abilene | 0.65 | 1.54 | 4.7 | 0.33 | 1.32 | 3.8 |
| Amarillo | 0.64 | 1.41 | 4.0 | -1.04 | 0.64 | 3.1 |
| Austin-Round Rock | 3.33 | 4.36 | 4.5 | 0.59 | 1.69 | 3.5 |
| Beaumont-Port Arth. | -1.64 | 0.06 | 9.1 | 1.22 | 4.14 | 6.5 |
| Brownsville-Harling. | 1.62 | -0.46 | 9.2 | -1.59 | 0.46 | 7.4 |
| College Station-Bryan | 2.32 | 3.26 | 4.3 | -1.30 | -0.39 | 3.5 |
| Corpus Christi | 0.91 | 1.76 | 5.6 | 0.82 | 1.79 | 4.8 |
| Dallas-Ft Worth-Arl. | 2.08 | 3.11 | 5.5 | 1.45 | 2.86 | 4.2 |
| El Paso | 0.39 | 1.82 | 7.1 | -2.43 | -0.72 | 5.5 |
| Houston-Sugar Land | 1.89 | 2.87 | 5.4 | 1.00 | 2.11 | 4.3 |
| Killeen-Temple | 0.57 | 1.41 | 6.3 | -0.51 | 1.05 | 4.9 |
| Laredo | 0.71 | 1.52 | 5.6 | 0.86 | 2.03 | 4.5 |
| Longview | -1.26 | -0.52 | 5.5 | 1.60 | 3.02 | 4.2 |
| Lubbock | 1.18 | 2.20 | 4.2 | 0.07 | 0.96 | 3.4 |
| McAllen-Edin.-Miss. | 1.23 | 2.36 | 9.7 | -0.57 | 1.49 | 7.8 |
| Midland | 4.74 | 5.35 | 3.2 | 6.43 | 6.88 | 2.8 |
| Odessa | 3.00 | 3.63 | 3.8 | 6.03 | 6.37 | 3.5 |
| San Angelo | -0.85 | -1.55 | 4.5 | 0.86 | 1.58 | 3.8 |
| San Antonio | 1.75 | 2.75 | 5.1 | 1.04 | 2.37 | 3.9 |
| Sherman-Denison | 1.33 | 2.87 | 5.4 | -0.64 | 0.69 | 4.1 |
| Texarkana | -2.24 | -2.02 | 7.1 | -0.58 | 1.05 | 5.5 |
| Tyler | 0.92 | 1.86 | 5.9 | 0.47 | 2.03 | 4.4 |
| Victoria | 1.86 | 2.95 | 4.6 | 1.77 | 2.75 | 3.7 |
| Waco | 0.08 | 1.06 | 5.5 | -0.04 | 1.31 | 4.2 |
| Wichita Falls | -0.82 | 0.14 | 5.2 | -1.82 | -0.81 | 4.2 |
| State of Texas | 1.71 | 2.74 | 5.6 | 0.71 | 2.00 | 4.3 |

Source: U.S. Department of Labor

Central Texas Inflation and Cost of Living

Figure 2 shows the bi-monthly central Texas consumer price index from 2012 through early 2015. The lower price of gasoline has lowered transportation costs of food and other delivered items helping to reduce the cost of living from an annual average of 3.1 percent in 2011 to below 1 percent since November 2014. The lower inflation rate combined with increased wage income has increased disposable income and retail spending by area households.

The core inflation rate that excludes food and energy averaged 1.2% in 2014. In May 2015 the core annual rate of inflation was 1.6% largely due to the rising cost of housing. However, despite a 2.3% increase in the median price, the Waco housing affordability index continues to exceed the Texas index by 16% and the national index by 27%. The ACCRA cost of living index for Waco is a relatively low 92.1 based on the U.S. average of 100 for all metro areas.

Source: Baylor Center for Business & Economic Research

Waco MSA Industry Performance

In addition to a monthly survey of households the BLS also gathers industry employment data from a survey of nonfarm establishments. Figure 3 shows the total number of monthly employees in nonfarm establishments in the Waco economy since the beginning of 2013. In February 2015 the number of nonagricultural workers reached a record high of 113.1 thousand that is 2.9% higher than the same month in the previous year. This is the fastest annual rate of increase for any month since the beginning of 2000. Although the rate of increase cooled off in March, positive growth occurred in seven of the ten major industry categories.

Source: U.S. Bureau of Labor Statistics

Table 3 shows the average number of employees in June and the average annual rate of growth in employment in each major industry category over the first six months of 2015. Employment growth occurred in every sector category except manufacturing, information, and government, resulting in average monthly employment in in 2015 that was 1.8% higher than during the first six months in 2014, although the annual pace of employment growth slowed slightly during the second quarter with June’s annual growth rate equal to 1.2%.

Table 3

Waco MSA June Total and Average Annual Rate of

Growth in Monthly Industry Sector Employment

January 2015 - June 2015

|  |  |  |
| --- | --- | --- |
| Industry | June 2015 Employment  (thousands) | Average Annual Growth Rate |
| Construction | 6.5 | 4.5 |
| Manufacturing | 14.4 | -1.4 |
| Trade, Trans., Utilities | 19.3 | 0.3 |
| Information | 1.2 | -9.9 |
| Financial Activities | 6.4 | 3.6 |
| Prof. and Bus. Services | 11.8 | 12.1 |
| Education and Health | 18.3 | 0.6 |
| Leisure and Hospitality | 12.1 | 3.8 |
| Other Services | 4.4 | 2.0 |
| Government | 18.9 | -0.8 |
| Total | 113.3 | 1.8 |

Source: U.S. Bureau of Labor Statistics

The fastest rate of employment growth occurred in professional and business services. Employment in construction, financial activities, and leisure and hospitality also grew at above the average annual rate. Trade employment also increased with the opening of new retail stores in the area.

Source: U.S. Bureau of Labor Statistics

More precise measures of quarterly industry employment and average weekly wage per worker are reported for NAICS industries. Figure 4 shows indexes of quarterly employment and average weekly wages for Waco MSA nonfarm industries since 2010 based on 1st quarter 2010 = 100. In late 2014 the annual rate of increase in both employment and wages increased. Monthly employment estimates and retail spending in the first half of 2015 continue to support projections of stronger growth in wage income over the next year.

Table 4 shows employment and mean and median annual wage income among occupations in the Waco MSA economy based on the May 2014 survey by the U.S. Bureau of Labor Statistics. Growth in employment and wages are obviously important measures of improvement in the Waco economy that reflect both gains in labor productivity of existing workers and the growth of higher paying occupations in the area. The location quotient for each major occupational category, equal to the the percent of employment locally divided by the percent in the same occupation in nationwide, is also shown. A higher relative frequency of jobs in occupational categories paying higher incomes, such as top level management, are largely responsible for the variation in average wage incomes among metro areas.

Among Waco MSA occupations with a location quotient above one, only two catagories, namely education, training, and library workers and installation, maintenance, and repair workers, received average incomes that exceeded the total area average. Several occupations with high location quotients pay below average wage incomes and also have relatively little variance in income received within the major occupation category (shown in columns 4 and 5). More variability occurs in some occupations, such in legal, healthcare, and education, that reward gains in productivity and experience that generate a mean wage income that is well above the median.

Table 4

Waco MSA Employment and Annual Income in Occupations in May 2014

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Total | Location |  | Inc. |  |
| Occupation Category | Employed | Quotient1 | Annual $ Mean | Std. Dev.2 | Annual $ Median |
| Management | 3,320 | 0.65 | 97,560 | 2.9 | 79,630 |
| Business and Financial Operations | 4,170 | 0.80 | 61,570 | 1.7 | 57,200 |
| Computer and Mathematical | 1,880 | 0.64 | 70,530 | 3.1 | 64,040 |
| Architecture and Engineering | 1,580 | 0.85 | 74,060 | 5.0 | 68,520 |
| Life, Physical, and Social Science | 660 | 0.75 | 53,590 | 3.5 | 47,220 |
| Community and Social Service | 1,350 | 0.91 | 43,900 | 2.7 | 41,790 |
| Legal | 550 | 0.68 | 80,770 | 9.2 | 68,710 |
| Education, Training, and Library | 7,970 | 1.24 | 46,590 | 6.3 | 43,180 |
| Arts, Design, Entertain, Sports | 1,100 | 0.80 | 48,830 | 8.8 | 38,300 |
| Healthcare Practitioners/tech. | 4,770 | 0.80 | 88,850 | 7.9 | 61,980 |
| Healthcare Support | 2,460 | 0.82 | 28,720 | 3.5 | 26,570 |
| Protective Service | 2,150 | 0.85 | 43,480 | 3.4 | 40,940 |
| Food Preparation and Serving | 10,230 | 1.09 | 19,120 | 1.5 | 18,030 |
| Building Cleaning/Maintenance | 3,250 | 0.97 | 22,230 | 2.2 | 19,990 |
| Personal Care and Service | 4,010 | 1.26 | 21,160 | 5.5 | 18,410 |
| Sales and Related | 10,550 | 0.97 | 33,840 | 3.2 | 23,410 |
| Office and Administrative Support | 17,860 | 1.08 | 32,620 | 1.9 | 29,240 |
| Farming, Fishing, and Forestry | 160 | 0.48 | 27,410 | 7.9 | 23,560 |
| Construction and Extraction | 5,290 | 1.31 | 34,020 | 2.1 | 30,450 |
| Installation, Maintenance, Repair | 5,060 | 1.26 | 40,790 | 3.0 | 38,780 |
| Production | 8,380 | 1.23 | 33,690 | 4.7 | 29,740 |
| Transport and Material Moving | 6,440 | 0.91 | 28,670 | 2.3 | 25,810 |
| Total for All Occupations | 103,190 | 1.00 | 40,060 | 2.9 | 30,500 |

1Percent of Waco total major occupation employment divided by percent of total in the U.S.

2Standard deviation around to the average income of workers classified in each major category.

Source: U.S. Bureau of Labor Statistics.

The May 2014 survey shows the value of experience and productivity with an annual mean income for all Waco occupations of $40,060 that is considerably higher than the median income of $30,500. Unfortunately, persons in lower income households often work in occupations that offer lower initial wage incomes, less job stability, and smaller gains derived from work experience and training.

The Prosper Waco initiative is developing ideas and strategies that enable younger workers to develop skills needed to gain entry and sustain employment in higher paying occupations identified by local employers that face a shortage of skill-matching applicants.

Manufacturing

Historically, the manufacturing sector has been a major contributor to employment and income in the Waco economy. Waco is fortunate to have an intensive and diversified manufacturing sector that is relatively stable, so that while not directly benefitting from the boom in oil and gas production that led the Texas post-recession recovery, Waco has not suffered from the recent downturn in energy production. Indeed, as an importer of petroleum-based products the lower price of gasoline has increased disposable income and spending by area households.

Figure 5 shows that while the manufacturing sector has not faced the influence of falling oil prices on revenues, some sectors have been adversely affected by the defense budget sequester, the rising value of the dollar, and the slowing global demand for U.S. manufactured goods in Europe and other parts of

the global economy.

In addition to demand forces a significant reason for fewer manufacturing jobs is the increase in labor productivity that has increased output per worker. Firms have been able to outsource nonproduction jobs, such as waste management, that previously were labeled as manufacturing jobs into the category of jobs by local establishments that provide professional and business services on a contract basis.

Waco is also fortunate that the relatively large and diversified manufacturing sector is enabling firms to benefit from supply chain management that enhances net revenue by reducing resource costs. Rising labor productivity has enabled employers to pay higher wages per worker and even lower the cost of labor when there are temporary disruptions in market revenues.

Source: U.S. Bureau of Labor Statistics

Source: U.S. Bureau of Labor Statistics

Figure 6 shows average employment and average weekly wage per worker in 2014 among various manufacturing industry sectors. The two largest sectors of Waco manufacturing in terms of employment are transportation equipment and food products. The capital intensive transportation equipment sector pays the highest average weekly wage.

Source: U.S. Bureau of Labor Statistics

Figure 7 shows the 2014 percent change in employment and wages in the five largest manufacturing sectors. In 2014 transportation equipment and food processing both lost jobs, but wage income in food processing increased as average weekly wages per worker grew faster than the rate of reduction in employment. If the average weekly wage in food processing grows in 2015 at the same annual rate as 2014 it will amount to $900 that is close to the $930 per week needed to reach 200 percent of the current poverty level for a family of four. In chemical products, fabricated metals, and machinery both employment and average weekly wages increased substantially in 2014 compared with the previous year with average wage income that exceed 200% of the poverty level.

Figure 8 shows that although employment and wage income may change among sectors, Waco metro area’s total real output continues to grow due to increases in productivity. From June 2008 to June 2009 Waco manufacturing employment decreased by fourteen hundred jobs during the Great Recession, but rising labor productivity enabled total real output to remain relatively stable.

Over the 12-year period from 2001 to 2013 Waco manufacturing output increased at an average annual rate of 7.13% compared with 2.04% for all U.S. metro areas. More recently, from 2009-13 the annual rate of growth in Waco manufacturing output averaged 5.34% that included annual growth of 7.45% in 2013.

Waco’s diversified manufacturing sector has proven its ability to grow despite influences that temporarily slow the pace of growth. In 2013 manufacturing output amounted to 26.9% of Waco’s real GDP compared with an average of 11.9% of real GDP produced by all metro areas in the U.S. economy. Substantial localization agglomeration economies are continuing to identify Waco as a prime site for manufacturing in the Southwest region and beyond.

Source: U.S. Department of Commerce

Business and Professional Services

Since the 2009 recession, while Waco manufacturers added about 2 hundred primarily production jobs, new and existing local business and professional service firms increased employment by 24 hundred workers.

The continuous increase in monthly employment is shown in figure 9. During 4th quarter 2014 the number of Waco professional and technical service workers increased 3.2 percent compared with 4th quarter 2013. Average weekly earnings per worker amounted to $1,455 that was 11.2 percent higher than during fourth quarter 2013 while total wage earnings increased area income at an annual rate of $2.15 million.

The increase in business and professional service employment reflects both an increase in volume of existing companies and the development of new entrepreneurs that are attracted to a cluster of professional service firms.

Younger business and professional service employees are discovering Waco as a place to live that offers an attractive living environment with affordable housing, transportation without congestion, growing cultural attractions and outdoor activities, and an increasing number of like-minded professionally trained entrepreneurs. Hence, while employment in business and professional services in Waco amounts to 10.4 percent of total nonagricultural employment compared with 13.4 percent statewide, figure 10 shows that Waco is narrowing the gap with annual employment growth averaging 12 percent while statewide growth averages around 4 percent.

Over the next year the number of business and professional services workers will to continue to increase, although the recent relatively high growth rate will be increasingly difficult to maintain as the level of employment rises.

Source: U.S. Bureau of Labor Statistics

Source: U.S. Bureau of Labor Statistics

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Healthcare and Social Assistance

Healthcare and social assistance establishments in the Waco MSA employed over 14.5 thousand workers in fourth quarter 2014. However, as shown in figure 11, after reaching 15,125 jobs in the mid-2010 employment in Waco’s healthcare and social assistance sector decreased by 2.8% in mid-2011 while statewide employment in the industry increased over 2.6%.

By the middle of 2014 Waco employment in healthcare and social services had fallen by 425 jobs compared with mid-2010. The primary reason for the dip in employment was fewer hospital employees due to consolidation and rising productivity, but jobs cuts ended in mid-2014 and are projected to increase with the rising future demand for healthcare and social services.

Source: U.S. Bureau of Labor Statistics

Figure 12 shows that despite the reduction in employment, the growth rate in gross sales by healthcare and social services increased over the same period. But by mid-2014 the increase in sales per worker have reached their limit with future increases in sales requiring additional hiring of workers to meet local area demands for increased healthcare and social services.

Source: Texas Comptroller of Public Accounts

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Educational Services

Monthly BLS local employment estimates consolidate educational services with healthcare services that are subsequently separated in quarterly reports. Waco MSA 4th quarter 2014 employment in educational services averaged 13.4 thousand, only about 1.2 thousand less than in healthcare and social services. Average weekly earnings per worker in 4th quarter 2014 in educational services amounted to $848 compared with $858 in healthcare and social services. The 2014 annual rate of growth in gross sales in healthcare and social services was 8.5% compared with an annual growth of 9.5% in educational services.

Figure 13 shows quarterly indexes of employment and average weekly wages received by employees of establishments in the education industry from 1st quarter 2010 through 4th quarter 2014. Although the annual rate of employment remained relatively stable, wage income per worker in 4th quarter 2014 averaged about 15% higher than during the 1st quarter of 2010 while the Central Texas rate of inflation increased by 8.1%, resulting in an average annual rate of increase in real wage income per worker of 1.4%.

Baylor University is the most important component affecting the education industry’s impact on the local economy. Fall 2014 enrollment at Baylor University reached 16 thousand, 6.5% higher than in Fall 2011 creating an annual economic impact of $1.9 billion on the Central Texas economy that does not include construction in progress on the $100 million Paul Foster Business and Innovation building that opened in Fall 2015. The importance of Baylor’s $2 billion annual impact on local area employment is evident when examining the Waco MSA location quotient equal to the percent of local non-public education industry employment divided by the same percentage statewide. With a location quotient value of 3.0 education has by far the highest location quotient among industry sectors in the Waco MSA.

The presence of MCC and TSTC add significantly to the impact of higher education on the Waco economy, enabling students to remain in Waco to enhance career opportunities to meet employer needs in the local economy and beyond.

Source: U.S. Bureau of Labor Statistics

Hospitality and Accommodations

Perhaps the most direct measure of area visitor activity is the occupancy rate and percentage change in room revenue received by hotels. Table 5 shows the performance of 41 Waco hotels in comparison with other Texas metro areas, measured by their 2013-14 percent change in nights sold, revenue, and percent occupancy that in 2014 averaged 66.4% locally. Nights sold increased 7.0% compared to Texas statewide average of 5.1%, room revenue increased 12.2% compared to 8.6% statewide, and room revenue increased 12.2% compared to 4.0% statewide. Waco’s hotel performance has attracted three new hotel investments along I-35 that when completed will add about 300 rooms to further meet growing visitor traffic since the opening of Baylor’s McLane Stadium for football games and other events and the continued expansion of convention and business visitors. June 2015 hotel-motel tax receipts in the greater Waco area were 19.3% higher than in June 2014 even before the likely sellout of McLane Stadium this football season.

Table 5

Metro Area Hotel Performance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Metro Area | Nights sold | 2013-14 Percent Change | | |
|  | 000's | Nights sold | $ Revenue | Occupancy |
| Midland | 1100 | 18.2 | 34.6 | 5.0 |
| Odessa | 891 | 10.0 | 18.6 | 0.8 |
| San Angelo | 596 | -0.3 | -0.5 | -6.5 |
| College Station-Bryan | 1155 | 15.2 | 24.8 | 11.1 |
| Austin-Round Rock | 8414 | 3.6 | 10.4 | 1.8 |
| Houston-Baytown-Sugar Land | 20952 | 5.4 | 10.8 | 3.2 |
| Dallas MD | 18023 | 5.0 | 8.4 | 4.4 |
| Victoria | 613 | 14.6 | 17.4 | 5.4 |
| Lubbock | 1209 | 2.3 | 6.9 | 0.7 |
| Laredo | 966 | 1.7 | 0.6 | -0.6 |
| Waco | 868 | 7.0 | 12.2 | 6.9 |
| El Paso | 2133 | 3.1 | 8.7 | 1.2 |
| San Antonio | 10805 | 3.7 | 6.4 | 2.9 |
| Ft. Worth-Arlington MD | 7624 | 5.4 | 9.0 | 3.4 |
| Amarillo | 1358 | 1.0 | 3.7 | 2.9 |
| McAllen-Edinburg-Pharr | 1512 | 9.5 | 15.0 | 9.1 |
| Tyler | 275 | 5.2 | 7.4 | 4.6 |
| Beaumont-Pt. Arthur | 1314 | 17.8 | 21.0 | 14.5 |
| Longview | 584 | 5.0 | 6.5 | 4.4 |
| Wichita Falls | 470 | 6.6 | 6.1 | 8.0 |
| Sherman-Denison | 292 | 3.2 | 5.6 | 6.8 |
| Killeen-Temple-Ft Hood | 1042 | 8.9 | 10.5 | 5.0 |
| Abilene | 623 | 7.4 | 12.4 | 7.5 |
| Corpus Christi | 2463 | 0.4 | 4.1 | -0.4 |
| Brownsville-Harlingen | 1386 | 3.0 | 8.0 | 2.4 |
| Texarkana (TX) | 275 | -3.8 | -6.5 | -7.0 |
| Texas Total | 25647 | 5.1 | 8.6 | 4.0 |

Source: Office of the Governor, Texas Economic Development and Tourism

Sales in the arts, entertainment, and recreation industry have benefitted from the growth in local discretionary income as well as the increase in visitor traffic. Figure 14 shows Waco quarterly sales in by arts, entertainment, and recreation establishments for the years 2012 through 2014. Seasonal influences are more pronounced in the second and fourth quarters, but quarterly sales in each year have increased relative to the same quarter of the previous year. Fourth quarter 2014 sales were 4.9% greater than during the same quarter in 2013.

Source: Texas Comptroller of Public Accounts

While spending by visitors on entertainment and recreation enhances local resident spending, it represents only a small portion of direct visitor spending. Figure 15 shows the Texas Travel Research Model annual estimates of direct spending by visitors to the Waco MSA. In 2014 spending by visitors totaled $514.4 million, representing the fifth year of steady growth following a 10.9% downturn in 2009 due to the global recession. The economic impact of this direct spending is much greater due to the multiplier effect from induced and indirect local spending derived from the initial spending by visitors.

Source: Texas Travel Research Model

The success of Baylor’s athletic program and facilities, tourist attractions such as the Mammoth Site, development of regional events such as the Starburst golf tournament, the central location of the remodeled Waco convention center within walking distance of downtown Waco attractions, and the national attention on Waco created by HGTV’s “Fixer Upper” show featuring Chip and Joanna Gains are a few reasons for the growth in visitor income that creates sales and employment in arts and entertainment, food service, and accommodations that will continue to increase at a healthy pace in 2015 and 2016.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Retail Sales

Recent gains in income and falling gasoline prices have increased household disposable income and retail sales. The increase in Waco retail sales continues to attract investors, further adding to employment and wage income. Figure 16 shows quarterly average employment by retail trade establishments in the Waco MSA from 1st quarter 2011 through 4th quarter 2014. Seasonal influences result in lower average employment in the first quarter following above average employment in the fourth quarter. The influences of seasonal forces in the first and fourth quarters were lower in 2014 compared with earlier years, adding to the stability of trade employment. The upward trend in retail trade employment led to an average of 125 more jobs in 2014 than in 2013.

Quarterly indexes of trade employment and wages, shown in figure 17, indicate that in 4th quarter 2014 there were fewer part time workers resulting in weekly wages per worker that averaged 5.6% higher during 4th quarter 2013.

Source: U.S. Bureau of Labor Statistics

Source: U.S. Bureau of Labor Statistics

From 4th quarter 2010 until 4th quarter 2014 Waco employment in retail trade increased 9.4% and average wage income increased 20.7% for an average annual rate of 2.4% and 4.8%, respectively. The annual rate of increase in 4th quarter 2014 total wage income compared with 4th quarter 2013 amounted to 4.5%. The increase in 4th quarter 2014 more than offset the rate of inflation resulting in higher average real income of 3.6%.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Waco MSA Sales Tax Receipts

Table 6 shows total 2014 sales in the Waco MSA for all and selected industries that are the major sources of sales taxes received by the state and local jurisdictions. The largest contributor to sales tax receipts is retail trade, even though in 2014 it accounted for only 31.9% of total industry sales. Also, because of local retail tax exemptions for food at home, drugs, and gasoline purchases only 38.4% of total retail trade is subject to local sales taxes. In contrast to tax exempt food at home, accommodation and food service sales are subject to the highest percentage of sales subject to taxes, amounting to 87.8% in 2014.

Retail trade, accommodations and food service have significantly added to the annual growth in local retail sales tax revenue. Growth in wholesale trade and construction also contributed to growth in taxable sales that exceed the industry average. Interestingly, sales taxes on manufactured goods increased even though total manufacturing sales decreased in 2014. Although sales tax rebates are closely correlated with spending by households, the local sales tax base is also affected by performance in industries other than retail trade.

Table 6

Waco MSA 2014 Sales, Percent Subject to Sales Tax, and Annual Percent Change in

Total Sales and Taxable Sales in Waco MSA

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| Industry | Waco MSA Sales 2014 | Percent of Total | Percent Taxed | Annual  % Change MSA Sales | Ann. % Change Taxable Sales |
| All Industries | 11,394,604,121 | 100 | 22.2 | 4.1 | 6.4 |
| Construction | 1,030,786,618 | 9.1 | 10.1 | 18.7 | 10.1 |
| Manufacturing | 2,697,155,094 | 23.7 | 4.3 | -6.5 | 12.9 |
| Wholesale Trade | 1,216,774,338 | 10.7 | 12.1 | 2.9 | 9.4 |
| Retail Trade | 3,633,681,810 | 31.9 | 38.4 | 2.9 | 4.4 |
| Accom./Food Service | 448,311,485 | 3.9 | 87.8 | 7.1 | 7.1 |

Source: Texas Comptroller of Public Accounts

Table 7

July 2015 Year-to-date Sales Tax Rebates by McLennan and

Falls County Jurisdictions in Waco MSA

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| City/ County | Current | 2015 Payments | 2014 Payments | Annual % Change |
| Rate | To Date | To Date |
| Bellmead | 1.50% | $1,987,497 | $1,905,717 | 4.3% |
| Beverly Hills | 1.50% | $305,436 | $289,133 | 5.6% |
| Bruceville Eddy | 1.00% | $42,052 | $38,254 | 9.9% |
| Crawford | 1.50% | $29,411 | $28,415 | 3.5% |
| Gholson | 1.50% | $19,486 | $18,839 | 3.4% |
| Hallsburg | 1.00% | $3,414 | $5,850 | -41.6% |
| Hewitt | 1.50% | $920,386 | $897,660 | 2.5% |
| Lacy Lakeview | 1.50% | $684,426 | $668,834 | 2.3% |
| Leroy | 1.00% | $2,820 | $2,152 | 31.0% |
| Lorena | 1.50% | $171,979 | $164,988 | 4.2% |
| Mart | 1.25% | $66,683 | $66,222 | 0.7% |
| McGregor | 1.50% | $708,458 | $567,615 | 24.8% |
| Moody | 1.50% | $53,493 | $50,747 | 541.0% |
| Riesel | 1.25% | $25,671 | $31,042 | -17.3% |
| Robinson | 1.50% | $711,428 | $700,284 | 1.6% |
| Ross | 1.00% | $15,481 | $23,203 | -33.3% |
| Waco | 1.50% | $20,548,885 | $19,397,628 | 5.9% |
| West | 1.50% | $317,210 | $300,594 | 5.5% |
| Woodway | 1.50% | $1,339,354 | $1,238,275 | 8.2% |
| McLennan County Total |  | $27,953,573 | $26,395,452 | 5.9% |
| Golinda | 1.50% | $7,337 | $45,858 | -84.0% |
| Lott | 1.50% | $35,431 | $36,050 | -1.7% |
| Marlin | 1.50% | $404,815 | $401,719 | 0.8% |
| Rosebud | 1.50% | $76,239 | $73,256 | 4.1% |
| Falls County Total |  | $523,821 | $556,883 | -5.9% |

Source: Texas Comptroller of Public Accounts

Table 7 reports July 2015 year-to-date sales tax rebates for cities in McLennan and Falls Counties that show taxable sales growth has continued in 2015 with year-to-date tax rebates increasing 5.9% in McLennan County that more than offsets lower sales tax receipts in Falls County.

Although the Federal Reserve is signaling a policy to increase interest rates, the expectation of rising mortgage rates is encouraging rising home sales that further encourage purchases of furniture, appliances, and other taxable durable goods.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Home Sales and Construction

Figure 18 shows that the annual rate of change in monthly construction employment increased every month since July of last year following a brief period of slower growth early in the year. Growth in construction jobs has been driven by growth in Baylor facilities and commercial projects, but the recent increase in existing housing sales is leading to more residential construction both in downtown Waco and the surrounding municipal areas. Growth and increased stability of employment in the local economy coupled with relatively low mortgage rates and rising rental prices have increased the demand for single family housing. Rising demand has reduced the inventory of existing homes for sale from 1,363 in January 2013 to 999 in June 2015. The average length of time to sell a home over the same period has decreased from 7.6 months to 4.5 months.

Source: U.S. Bureau of Labor Statistics

Figure 19 shows the number of MLS single family homes sold in the Waco MSA since January 2013. In general, when the average length of time to sell a residence decreases below 6.0 months, home sales shift from a seller’s to a buyer’s market. This length of selling time in Waco reached 6 months in October 2014, decreased every month through June 2015, and is projected to remain low in the near future.

Lower inventories are putting upward pressure on home prices. Figure 20 shows that the median price of MLS

Source: Texas A&M Real Estate Research Center

Source: Texas A&M Real Estate Research Center

single family homes sold in the Waco MSA increased with the faster pace of sales and reduced inventories. Upward price pressure and the expectation of rising interest rates will encourage growth in demand for existing housing that will exceed available supply over the next year.

Rising rental prices along with increased job security is increasing the demand for existing housing between $150,000 and $250,000 at what many real estate specialists cite as the best market in many years. Mortgage rates are unlikely to surge upward next year, but upward pressure could take place as the Fed begins to raise the federal funds rate. The short supply will encourage more spending next year on new home construction in addition to remodeling of existing housing in response to pent-up demand that has accumulated over the past two years.

Figure 21 shows that while there have been more single family housing starts over the past year the pace of growth has lagged the rate of sales of existing housing. A primary reason for the slow pace of growth in single family housing has been the development of multiunit housing. In 2014 there were 814 over 5-family multiunit dwellings constructed in the Waco MSA with an average value per unit of $91,100. This total exceeded the 609 single family units constructed over the same period, although the average unit value of new single family homes amounted $198,900. May 2015 year-to-date multifamily building permits total 332 dwelling units compared with 188 single family dwelling units. A more stable job market will increase the relative demand for single-family owner-occupied housing over the next year.

Source: Texas A&M Real Estate Research Center

Population and Net Migration

The creation of higher paying jobs in a region is a highly competitive process that depends on area resources, infrastructure and amenities, geographic location, and often direct inducements to attract potential investors and workers. Table 8 shows the Texas State Data Center’s projected population in the Waco MSA based on the 2000-10 migration rate and 50% of the past 10-year rate over future five-year intervals to the year 2050. According to estimates by the U.S. Census Bureau and Texas A&M Center for Real Estate Research, mid-year population over the past 5 years ending in 2014 increased at an average annual rate of 0.86 percent, resulting in Waco MSA population of 260,330 persons. At the same rate of growth in 2015, Waco MSA mid-year population would number 262,580 that lies between the estimates based on last decade’s average migration rate and 50% of that rate.

An area that is adding rapidly to its population is generally characterized by growth in employment opportunities that exceeds the regional average. Interestingly, during the period from 2009 to 2011 Waco’s population increased at an average annual rate of 1.2%, but from

Table 8

Projected Population in the Waco MSA 2015 – 2050

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Migration Rate | Year | Age | Total Pop | Annual % chg. |
| 2000-2010 | 2010 | All (0-85+) | 252,772 |  |
| 2000-2010 | 2015 | All (0-85+) | 263,208 | 0.81 |
| 2000-2010 | 2020 | All (0-85+) | 274,757 | 0.86 |
| 2000-2010 | 2025 | All (0-85+) | 287,879 | 0.94 |
| 2000-2010 | 2030 | All (0-85+) | 301,130 | 0.90 |
| 2000-2010 | 2035 | All (0-85+) | 313,061 | 0.78 |
| 2000-2010 | 2040 | All (0-85+) | 324,043 | 0.69 |
| 2000-2010 | 2045 | All (0-85+) | 335,007 | 0.67 |
| 2000-2010 | 2050 | All (0-85+) | 346,550 | 0.68 |
| 0.5 x 2000-2010 | 2010 | All (0-85+) | 252,772 |  |
| 0.5 x 2000-2010 | 2015 | All (0-85+) | 261,563 | 0.69 |
| 0.5 x 2000-2010 | 2020 | All (0-85+) | 271,168 | 0.72 |
| 0.5 x 2000-2010 | 2025 | All (0-85+) | 281,628 | 0.76 |
| 0.5 x 2000-2010 | 2030 | All (0-85+) | 291,572 | 0.70 |
| 0.5 x 2000-2010 | 2035 | All (0-85+) | 300,430 | 0.60 |
| 0.5 x 2000-2010 | 2040 | All (0-85+) | 308,660 | 0.54 |
| 0.5 x 2000-2010 | 2045 | All (0-85+) | 316,886 | 0.53 |
| 0.5 x 2000-2010 | 2050 | All (0-85+) | 325,432 | 0.53 |

Source: Texas State Data Center

2012 to 2014 Waco’s annual population growth averaged only 0.6%, as the energy sector propelled job growth in other parts of the State.

Conceptually, a metro area includes an integrated labor market, resulting in Falls County being added to McLennan Country in 2013 to define the Waco MSA. The growth rate in Waco MSA population that historically consisted of only McLennan County was negatively impacted by the 2013 inclusion of Falls County into the metropolitan area. In mid-year 2014 estimated Waco MSA population amounted to 260,430 persons of which 16,989 or 6.5% lived in Falls County. Over the period from the April 1 2010 Census to July 2014 population in McLennan County increased 3.6% while Falls County population decreased by 4.9%, resulting in a 3.0% combined increase in population of in the Waco MSA that currently includes both counties. Since the 2010 Census to July 2014 Texas estimated total population grew 7.2% while the U.S.A. population increased 3.2%. Since mid-year 2014 falling oil and gas prices has lowered the employment growth gap between the Waco MSA and the state, but Waco’s population is still projected to grow only about one-half the statewide growth rate as workers continue to concentrate in areas within and adjacent to the State’s largest metro areas, especially in the cities of Houston, Dallas-Ft. Worth, and San Antonio that define the “Texas Triangle.”

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Summary and Highlights

Analysts often measure the relative economic performance of an economy by its growth in income per capita. Figure 22 shows indexes of annual average personal income per capita for the Waco MSA and the U.S. metro areas since 1990 based on the year 1969.

Historically, from 1969 to 2007 Waco and USA income per capita increased at about the same pace, even though Waco’s economy was generally more stable. However, during the 2008-09 U.S. recession while the national average income per capita fell 3.9% Waco’s average per capita income actually increased 0.7%. Beginning in 2010 following the official recession the rate of recovery in Waco was about the same as the U.S. metro area average, but over the eight years since 2005 the average annual rate of change in income per capita was 3.4% in Waco compared with 2.7% nationwide.

The growth of an area depends on its rate of increase in income per capita plus its rate of increase in population. The Waco metro area’s long-run economic growth relative to the average for all U.S. metro areas that also reflects growth in population is best captured by the change in real GDP shown in figure 23 that plots annual indexes based on the year 2001 for Waco versus the average of all 381 metro areas in the United States. Over the 12-year period since 2001 the annual rate of growth in real GDP in the Waco economy averaged 2.6% compared with 2.0% for all U.S. metro areas. From 2011 to 2013 Waco’s average growth was 2.7% compare with 2.2% for all U.S. metro areas.

Source: U.S. Department of Commerce

Source: U.S. Department of Commerce

Table 8 shows 2013 real GDP in millions of chained 2009 dollars and the percentage of output produced in major industry sectors in the Waco MSA and in all 381 U.S. metro areas. By far, the largest single industry sector contributing to local GDP is manufacturing that in 2013 accounted for 26.94% of Waco real GDP compared with only 11.89% of total real output produced by all 381 U.S. metro areas. The second largest differential was in educational services (not including public schools) with 3.18% in the Waco MSA due compared with 1.11% nationwide. Construction output in 2013 accounted for 5.03% of local real GDP compared with 3.69% nationwide. Perhaps surprisingly is the higher relative contribution of retail trade output, amounting to 6.67% locally versus 5.68% nationwide.

The concentration of manufacturing firms has resulted in localization agglomeration economies that are widening the gap between growth in Waco manufacturing output and the total of all U.S. metro areas manufacturers.

Growth in professional and business services has narrowed the gap in output between Waco and U.S. metro areas and is attracting a younger entrepreneurial group that will further favorably impact the arts, recreation, entertainment, and food service sector.

New retail establishments, hotels, development in Downtown Waco, and Baylor University facilities have contributed to a dramatic increase in construction spending in Waco. Single family home building permits totaled to 224 over the first six months of 2015, reaching the highest quarterly rate since 2008. The number of closed housing sales over the first six months of 2015 totaled a record high of 1,352 units, amounting to a 27 percent increase from the first six months of 2014. The share of 2013 real GDP in Waco MSA construction output is 36.3% higher than the share among all U.S. metro areas. Over the last year the McLennan County tax base has increased 6 percent, mostly due to commercial and multifamily housing.

The share of real GDP in retail trade exceeded that U.S. metro average in 2012 and 2013. Growth in discretionary income among local residents and visitors has increased the pace of growth in retail sales output since 2011. Over the past two years durable goods sales have increased substantially, led by spending on autos and trucks.

Table 8

Waco MSA 2013 Real GDP by Industry

In chained 2009 dollars

|  |  |  |  |
| --- | --- | --- | --- |
| Industry | Waco 2013 Real GDP | Percent of | 2013 Total |
|  | millions in 2009 dollars | Waco MSA | U.S. MSAs |
| Total All Industries | $9,257 | 100 | 100 |
| Construction | $466 | 5.03 | 3.69 |
| Manufacturing | $2,494 | 26.94 | 11.89 |
| Wholesale trade | $485 | 5.24 | 5.94 |
| Retail trade | $617 | 6.67 | 5.68 |
| Finance and insurance | $551 | 5.95 | 6.82 |
| Real estate and rental and leasing | $537 | 5.80 | 14.06 |
| Professional and business services | $591 | 6.38 | 13.00 |
| Educational services | $294 | 3.18 | 1.11 |
| Health care and social assistance | $706 | 7.63 | 7.30 |
| Arts, recreation, accommodation, and food services | $299 | 3.23 | 3.83 |
| Other services, except government | $210 | 2.27 | 2.06 |
| Government | $1,211 | 13.08 | 12.19 |

Source: U.S. Bureau of Economic Analysis

The location of Waco along the Interstate 35 corridor coupled with the success of Baylor’s athletic teams, the development of visitor attractions, such as the Mammoth Park, excellent accommodations, food service, convention facilities, leisure and hospitality events, and national recognition from HGTV’s “Fixer-Upper” have put Waco on the map that is successfully attracting investors.

Perhaps the strongest force favoring Waco’s future is its leadership and active participation of its citizens who have observed the fruits of their efforts. We have a history of turning outside disturbances into long run successes. We survived the closing of James Connally Air Force Base in 1968 the year before I moved to Waco that is now Texas State Technical College and a major industrial airport. We overcame the loss 1,400 jobs with the closing of General Tire in 1985 that in now the Baylor Research and Innovation Collaborative (BRIC) that is launching high-tech development in Waco. We worked hard to capture the Bush Presidential Library on the site that is now McLane Stadium. We have turned a frequently flooding Brazos river into a constant level Brazos River Corridor that is a major catalyst for the continued development of Downtown Waco.

Whatever the challenge, we have the community commitment and the resources to “fix-it.” In my mind, based on recent performance, the future of the Waco economy has never seemed brighter than it is today!