**WACO METRO AREA ECONOMIC OUTLOOK FOR 2017**

by

Tom Kelly, Director

Baylor Center for Business and Economic Research

 Preliminary estimates of the number of July 2016 employed persons among Waco MSA households, shown in figure 1, amounted to 117,017 workers, a 2.2% annual rate of change from the same month of the previous year. Over the same period the labor force increased by 2,643 persons while the unemployment rate of 4.6% remained at the same rate that was reported in July 2015. Hence, over the past year Waco experienced proportionally faster growth in both the labor force and employment that has generated strong momentum for continued population and job growth over the next year.

Source: U.S. Bureau of Labor Statistics

In addition to its household survey the BLS establishment survey of wage and salary workers, shown in figure 2, also demonstrates stronger annual growth momentum over the most recent two years. Estimates of July 2016 Waco MSA nonfarm wage and salary employment is 2.3% higher than during the same month in 2015. This exceeds the 1.5% annual rate of growth in Texas nonfarm workers that has been slowed by the slump in oil and gas employment in many other parts of the state. As an importer of oil and gas products Waco benefits from lower gasoline prices that not only increase local disposable household income but also contributes to travel-related expansion in spending by visitors that is stimulating growth in the local hospitality industry.

 Source: U.S. Bureau of labor Statistics

 Figure 3 shows monthly seasonally-adjusted nonfarm wage and salary employment in the Waco metro area since January 2006 compared with its trend value that includes the peak to trough downturn and slow recovery from the 2008-09 global economic recession. By May 2008 Waco wage and salary employment had fallen below its trend level and despite a brief surge in July 2010 it took until early 2012 before positive growth resumed. From early 2012 through mid-2016 wage and salary employment growth averaged 2.2% per year that not only closed its gap with the ten-year predicted trend by May 2014, but over the most recent 26 months created four thousand more jobs than predicted by the ten-year trend rate of growth.

 Source: U.S. Bureau of labor Statistics

**The Waco MSA Unemployment Rate**

 The Texas Workforce Commission along with the U.S. Bureau of Labor Statistics reports the labor force and number of persons employed based on a monthly household survey. The labor force consists of area residents above age 16 who are either employed or actively seeking employment and are not serving in the military nor otherwise institutionalized. The labor force can change due to seasonal influences, demographic trends, net migration, and the percentage of workers who are encourage or discouraged from actively seeking employment. The unemployment rate is the percent of the labor force that are not currently employed that may change due to local job opportunities, skill and education requirements, geographic access, length of time employed, and other cyclical and structural factors that vary among metropolitan areas throughout the country. Table 1 shows the percent change in the Waco MSA quarterly average labor force and employment along with quarterly average unemployment rate since the first quarter of 2014.

 **Table 1**

**Waco MSA Annual Percent Change in Quarterly Seasonally-adjusted Labor Force and**

**Employment and the Average Quarterly Unemployment Rate**

|  |  |  |  |
| --- | --- | --- | --- |
|  Year. Quarter | Labor ForceAnnual % Change | EmploymentAnnual % Change | Unemployment Rate |
| 2014.Q1 | -0.3 | 3.8 | 5.4 |
| 2014.Q2 | -0.3 | 4.7 | 5.2 |
| 2014.Q3 | -0.9 | 3.6 | 4.9 |
| 2014.Q4 | 2.7 | 8.0 | 5.8 |
| 2015.Q1 | -1.2 | 3.8 | 4.0 |
| 2015.Q2 | -4.1 | 0.4 | 4.1 |
| 2015.Q3 | -1.1 | -0.6 | 5.4 |
| 2015.Q4 | -0.5 | 1.5 | 5.2 |
| 2016.Q1 | 3.9 | 5.4 | 3.9 |
| 2016.Q2 | 6.7 | 7.5 | 4.0 |

Source: Texas Workforce Commission

 During the first half of 2016 there has been an abrupt change in the components of the unemployment rate compared with 2015 when negative growth in the labor force helped to mitigate the slower growth rate in employment. During the first half of 2016 stronger growth in household employment has exceeding stronger growth in the labor force compared with a year ago. An immediate impact of faster growth in the labor force and employment is population growth that has increased local sales tax receipts and the demand for housing that, in turn, increases in local sales and property tax revenue.

**Table 2**

**Texas Metro Area Annual Percent Change in Seasonally-adjusted**

**Labor Force and Employment and the Unemployment Rate**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Texas Metro Area  |  1st Qtr. 2016 Average |   | 2nd Qtr. 2016 Average |   |
|  Yearly Percent Change | Percent | Yearly Percent Change | Percent |
|   | Labor force | Employ- ment | Unemployed  |  Labor force |  Employ- ment | Unemployed |
|   |  |  |  |
| Abilene  | 2.1 | 2.6 | 3.8 | 1.9 | 2.4 | 3.8 |
| Amarillo  | 2.4 | 3.0 | 3.0 | 4.7 | 5.3 | 3.0 |
| Austin-Round Rock  | 13.8 | 15.6 | 3.1 | 12.1 | 13.2 | 3.1 |
| Beaumont-Port Arthur | -1.6 | 0.1 | 6.4 | -0.4 | 0.6 | 6.5 |
| Brownsville-Harling. | 4.3 | 6.6 | 6.7 | 7.2 | 7.9 | 7.0 |
| College Station-Bryan  | 12.1 | 12.6 | 3.5 | 12.9 | 13.2 | 3.5 |
| Corpus Christi  | 8.2 | 6.0 | 5.5 | 9.9 | 7.4 | 5.6 |
| Dallas-Ft Worth-Arlington | 11.0 | 13.2 | 3.7 | 11.7 | 13.1 | 3.7 |
| El Paso  | 8.1 | 10.9 | 4.8 | 8.5 | 10.4 | 4.8 |
| Houston-Sugar Land | 2.9 | 1.3 | 4.8 | 3.0 | 0.5 | 5.1 |
| Killeen-Temple  | 10.1 | 12.8 | 4.3 | 8.7 | 9.9 | 4.4 |
| Laredo  | 8.2 | 7.7 | 4.7 | 7.4 | 7.3 | 4.7 |
| Longview  | -4.3 | -7.8 | 5.3 | 2.4 | -1.2 | 5.8 |
| Lubbock  | 6.3 | 7.0 | 3.3 | 8.2 | 8.9 | 3.3 |
| McAllen-Edin.-Mission | 4.8 | 5.8 | 7.6 | 6.8 | 8.4 | 7.6 |
| Midland  | -14.1 | -17.4 | 4.0 | -9.0 | -8.9 | 4.4 |
| Odessa  | -16.8 | -24.6 | 5.7 | -5.9 | -13.6 | 6.3 |
| San Angelo  | 2.4 | 0.8 | 4.3 | 6.6 | 5.8 | 4.3 |
| San Antonio | 7.8 | 9.1 | 3.6 | 8.0 | 8.7 | 3.7 |
| Sherman-Denison  | 8.2 | 9.9 | 3.7 | 6.3 | 7.2 | 3.7 |
| Texarkana  | 7.1 | 11.0 | 4.4 | 3.8 | 7.3 | 4.3 |
| Tyler | 6.6 | 7.7 | 4.2 | 8.0 | 8.6 | 4.4 |
| Victoria  | 0.3 | -2.6 | 4.5 | 6.1 | 2.2 | 5.0 |
| Waco  | 3.9 | 5.4 | 3.9 | 6.7 | 7.5 | 3.9 |
| Wichita Falls | -0.9 | -1.6 | 4.5 | -1.2 | -1.4 | 4.3 |
| State of Texas | 7.6 | 7.7 | 4.3 | 7.8 | 7.5 | 4.5 |
| United States | 6.1 | 8.1 | 5.0 | 4.8 | 6.4 | 4.9 |
| Source: BLS |  |  |  |  |  |  |
|  |

 Economic performance among metro areas is largely determined by the composition of its economic base that includes industry sectors that produce goods and services for export that adds to local area income. Table 2 shows considerable variation among Texas metro areas in the annual rate of growth in the labor force and employment as well as the unemployment rate. Areas that are largely dependent on oil and gas extraction, such as Midland and Odessa, have experienced significant losses in their labor force and employment. Although Houston is larger and more diversified its rate of growth has decreased significantly in response to the reduction in payrolls and staff by energy companies and their suppliers. The impact of the declining energy sector caused Texas weekly wages to decline 1.4 percent over the first three months of the year to an average of $861 in March that was 5.7 percent below their $913 peak in February 2015. The Waco Metro Area is an importer of energy resources and has benefitted from the 70 percent drop in oil prices price between June 2014 and February 2016 that only recently have stabilized.

**Table 3**

**Waco MSA Private 1st Quarter 2016 Employment and Wages**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Industry | 1st Qtr. Private | Avg. 1st Qtr. | Avg. Weekly  | March L.Q. | March L.Q. |
|   | Establishments | Employment | Wage | Employment | Wage |
| Construction  | 466 | 6,645 | $802 | 1.32 | 1.31 |
| Manufacturing | 246 | 16,212 | $1,199 | 1.67 | 2.06 |
| Wholesale trade | 299 | 4,471 | $901 | 0.97 | 0.79 |
| Retail trade | 792 | 12,043 | $509 | 0.97 | 1.15 |
| Information | 64 | 1,048 | $937 | 0.48 | 0.29 |
| Professional and technical services | 378 | 2,931 | $1,154 | 0.42 | 0.37 |
| Management of enterprises | 19 | 569 | $1,135 | 0.32 | 0.18 |
| Administrative and waste services | 297 | 7,771 | $497 | 1.09 | 1.03 |
| Education services | 73 | 3,904 | $1,282 | 1.75 | 3.32 |
| Health care and social assistance | 546 | 13,688 | $722 | 0.93 | 1.01 |
| Arts, entertainment, recreation | 62 | 666 | $286 | 0.43 | 0.24 |
| Accommodation and food services | 473 | 10,598 | $292 | 1.03 | 1.06 |
| Other services, except public admin. | 470 | 2,802 | $659 | 0.82 | 1.06 |
| Unclassified | 6 | 22 | $649 | 0.08 | 0.08 |

Source: Bureau of Labor Statistics

In general, variance in the pace of growth in any region is determined primarily by its traded sector that generally makes up about one-third of regional workers and about one-half of regional income. Table 3 shows the 1st quarter 2016 composition of employment and average weekly wage among private employers in the Waco economy, along with their location quotients that equal to the percent of local employment and wages divided by the percent of national employment and wages in the same industry. Industry sectors with a location quotient of greater than one generally produce excess output that is trades with other regions outside of the area. The proportionally higher weekly wage income per worker in the traded sector is generally due to higher average labor productivity that increases their wage and salary incomes relative to workers that produce local goods and services.

**Manufacturing Outlook**

 The Waco manufacturing sector has historically been a major component of its economic base that with a wage income location quotient of 2.06 locally added more than twice the national percent average to private sector wage income during the first quarter of 2016. Figure 4 shows average monthly wage and salary employment among Waco manufacturing firms from January 2012 through July 2016.

Source: U.S. Bureau of labor Statistics

July 2016 wage and salary employment by manufacturers made up 16.8% of privately employed and 14.1% of all wage and salary workers in the Waco metro area. These local percentage significantly exceed the statewide percentages of 8.3% private and 7.0% of total statewide wage and salary employment. Waco employment increased every month from the previous year since 2012 except for a modest downturn in early fall 2014. Growth in 2015 Waco manufacturing employment was especially strong with positive news continuing in 2016 even though Texas manufacturing job have decreased since January 2015 primarily due to the downturn in oil and gas production.

The mid-year 2016 *Economic Development News* released by the Waco Chamber of Commerce announced expansions by five industrial firms in 2016 that upon completion will increase capital investment by $222.65 million and create 446 additional jobs in the Waco MSA. However, on September 1st Waco’s largest manufacturing employer announced a layoff of 120 workers primarily due to fewer contracts from the U.S. Department of Defense. The reduction in personnel is a repeat of recent reductions that included 200 layoffs in 2014 and 114 reductions in 2015. Not all of these reductions consist of production wage earners, but layoffs have also included professional and support personnel. In addition to L-3 cuts due to fewer defense contracts companies that export goods outside of the U.S., such as Caterpillar, are facing the dual adverse effects of slower global demand and the stronger value of the dollar.

The Texas manufacturing outlook published by the Federal Reserve shows that producers are predicting a modest improvement in manufacturing over the next year as energy companies complete their adjustments to lower oil and gas prices. Historically, the diversity of the Waco manufacturing sector that has enabled it to maintain positive growth in manufacturing employment in 2016 will continue to enable producers to maintain at least moderate growth over the next year.

**Business and Professional Services Outlook**

Figure 5 shows that an important source of local employment growth has been by professional and business service firms. Although quarterly growth in 2015 failed to keep pace with the rapid pace of growth in second and fourth quarter of 2014, positive growth in 2016 compared with the same month in 2015 resumed in February of 2016. The 9.1% annual rate of increase in July 2016 was the fastest growing industry sector in Waco, helping to close the gap with statewide professional and business service industry employment that increased at only a 1.2% rate over the same period.

Source: U.S. Bureau of Labor Statistics

Although the business and profession services sector has increased consistently since February 2016 the current rate of growth has leveled off since its remarkable surge in 2014 that significantly narrowed the gap in relative employment compared with the state industry average. There is room for additional employment in the professional and business service sector although some of the growth in 2016 has replaced layoffs that occurred in 2015. A realistic projection over the next year is moderate and more stable growth in local professional and business service employment that reflects the development of a more experienced and mature labor force.

**Construction Industry Outlook**

 Waco MSA monthly construction employment compared with the same month of the previous year, shown in figure 6, has increased since January 2014 and is projected to continue to increase over the next year. The growth in Waco MSA construction is for both commercial and residential projects supported by expanding local population, employment, and income and growth in visitor spending, especially since the completion of Baylor’s on campus McLane stadium on banks of the Brazos River.

Source: U.S. Bureau of Labor Statistics

 Commercial developers have focused on both the downtown area and major intersections and investment properties along Interstate 35. Multiple projects including hotels, assisted living venues, and multi-family properties are being developed along with retail development in the Central Texas Marketplace and Legends Crossing at the intersection of I-35 and State Highway 6. The renovation of the downtown Waco silos by Chip and Joanna Gains, of “fixer upper” fame, are attracting additional investments in downtown Waco. “Big-box” retailers, such as Gander Mountain and Cabela’s, are being attracted by Waco’s growing potential for retail expansion. Industrial construction to expand existing facilities by firms, such as Sherwin-Williams and Allergan, reflect their need to expand industrial capacity in the face of growing demand. The City of Waco is planning to expand its riverfront development along both banks of the Brazos River.

 Table 4 shows that population growth and pent-up demand for housing in the Waco MSA has significantly increased new housing starts since 2013 with July 2016 year-to-date single and multiunit permits up significantly compared with the same period of the previous year. The Waco housing market is in the middle of a perfect storm where the strong economy is supporting supply and demand at affordable prices even with rising appreciation in home prices.

**Table 4**

**Waco MSA Total Annual and July Year-to-Date Housing Building Permits**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | Total  | Units | Single | Unit | Two | Units | 3 & 4  | Units | 5 or more | Units |
|   | Yearly  | Thru July | Yearly | Thru July | Yearly | Thru July | Yearly | Thru July | Yearly | Thru July |
| 2011 | 387 | 273 | 311 | 210 | 24 | 24 | 0 | 0 | 52 | 39 |
| 2012 | 532 | 369 | 375 | 231 | 36 | 26 | 0 | 0 | 121 | 112 |
| 2013 | 469 | 323 | 404 | 284 | 36 | 10 | 0 | 0 | 29 | 29 |
| 2014 | 1271 | 769 | 411 | 223 | 46 | 10 | 0 | 0 | 814 | 536 |
| 2015 | 1286 | 644 | 379 | 242 | 78 | 70 | 88 | 0 | 741 | 322 |
| 2016 |   | 865 |   | 233 |   | 58 |   | 32 |   | 542 |

Source: <http://www.census.gov/construction/bps/msamonthly.html>

**Education and Health Services Outlook**

 Figure 7 shows the number of private sector jobs (in thousands) in Waco’s education and health care service industries each month compared with the same month of the previous year. Since August 2013 Waco has added 1.2 thousand additional private sector education and health service jobs that reached 20 thousand workers in August 2016.

Source: U.S. Bureau of Labor Statistics

Table 1 shows that with the presence of Baylor University the education industry with location quotients of 1.75 for employment and 3.32 for wage income is a significant contributor to Waco’s basic income generated by export demand. The healthcare industry also generate a slightly higher proportion of wage income locally than the national average with proportionally fewer workers, reflecting a higher average wage per worker locally than the national average. The Baylor freshman class of 3,503 includes more than 35 percent from out of state. Baylor’s fall enrollment of 16,959 students, of whom 14,348 are undergraduates, is the largest in University history. The projected economic impact during the 2016 academic year of Baylor University on the Waco economy is $2.09 billion.

 The Waco healthcare industry also generates a higher proportion of wage income locally than the national average with proportionally fewer workers, reflecting a higher average wage per worker locally than nationally. Income and employment in education and healthcare services have increased at an average annual rate of 2% over the past three years with surge in August of 3.6% that also reflects recent expansions in extended health care facilities. The outlook for health and education employment is continued by at least 2 percent next year that matches the average growth rate in the last three years.

**Leisure and Hospitality Outlook**

 Over the three-month period from June through August 2016 Waco employment in the leisure and hospitality industry was the fastest growing sector, averaging an annual growth rate of 6.2% (see figure 8). The increase in employment coincides with the opening of the Silos by Chip and Joanna Gains, hosts of the “Fixer-upper” television show that has attracted up to 30 thousand out of town visitors per week into downtown Waco. The early September designation by the Texas Commission of the Arts of the Waco Downtown Cultural District recognizes the impact that the creative sector is having on economic development that benefits all Central Texas communities by enhancing a thriving local cultural life that is attracting and retaining the talent of a growing number of “footloose” entrepreneurs that are creating new companies. The Downtown Cultural District spans the Brazos River and is connected by the DASH free bus services as well a bike trails that includes a concentration of entertainment venues, retail, restaurants, museums, the farmer’s market, and historic landmarks. By locating within the confines of Waco’s Public Improvement District and Tax Incremental Fund zones new and existing investors will may respond to incentives for new development.

 While the leisure and hospitality industry has provided a significant boost to employment some of the gains are seasonal. The good news is that visitor spending during the summer months brings income into the area that places less demand on year around infrastructure. The proximate location of additional Baylor University students during the non-summer months also enhances the success of events attended by all are residents within the central business district.

Figure 8 shows that service jobs in Waco’s leisure and hospitality industry increased significantly the summer months of 2016 compared a year ago. In general, while service jobs pay average weekly wages that amount to 74% of workers in the goods sector they offer more desirable non-pay characteristics, such as lower physical demands and a more comfortable working environments, than jobs in goods production. Economic studies have cited non-pay compensation as offsetting about one-half the decline in wage income as workers shift from production work to lower-pay service jobs. Sales in the arts, entertainment, and recreation industry will continue to benefit from both the increase in visitor attractions and growth in local discretionary income.

 Source: Bureau of Labor Statistics

 The direct impact of the hospitality industry is reflected by the increase in the number of hotel rooms and occupancy rates, especially when compared with other metro areas in the State. The seasonally adjusted annual rate of Texas statewide second quarter 2016 hotel room revenues increased 3.5% over the average annual rate in 2015. This statewide gain was a combination of a strong 8.5% increase in the areas of the State without oil and gas (O&G) resources with a 2.6% decrease in O&G areas. Second quarter hotel room revenues dropped 39% in Odessa, 30% in Midland, 12% in Angelo and Victoria, 7.7% in Beaumont-Pt. Arthur, 2.5% in Houston-Baytown-Sugarland, and 8.9% in non-Metro Areas compared with 2015. In contrast second quarter hotel room revenue in non-oil and gas intensive areas increased, including a gain of 12.2% in Dallas-Ft. Worth-Arlington, 11.1% in Austin-Round Rock, 7.3% in San Antonio, and an amazing 19.6% in Waco.

 Table 5 shows that in 2015 Waco’s annual percent change in room revenue amounted to 10.1% compared with the state metro average of 3.3%. The recent development of new hotel facilities added 400 additional rooms with nights sold increasing from an annual rate of 237 thousand in 2015 to 270 thousand in 2nd quarter 2016. More rooms and a 2.8% increase in the average occupancy rate resulted in a 13.9% increase in nights sold in 2nd quarter 2016 compared with the average in 2015. Over the first half of 2016 Waco’s hotel room occupancy rate increased to 72.3% to rank 3rd among Texas metro areas with a statewide average of 65.6%, resulting in a 19.1% gain in room revenue compared to a statewide average gain of only 1.4%.

**Table 5**

**Texas Metro Area Hotel Occupancy Rates and Annual Rate of Change in Room Revenue**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Year of**  | **2015** | **First half**  | **2016** |
| **Metro Area** | **Occupancy**  | **$ Revenue** | **Occupancy** | **$ Revenue** |
|  | **%** | **% Chg** | **%** | **% Chg** |
| Austin-Round Rock | 76.1 | 15.0 | 77.4 | 10.0 |
| Dallas MD | 70.6 | 11.1 | 76.2 | 10.7 |
| Waco | 68.3 | 10.1 | 72.3 | 19.1 |
| Wichita Falls | 62.1 | 2.2 | 67.8 | 8.1 |
| El Paso | 66.8 | 6.9 | 67.6 | 1.1 |
| Ft Worth-Arlington MD | 66.8 | 8.4 | 67.0 | 5.2 |
| Lubbock | 65.8 | 3.2 | 66.9 | 6.6 |
|  **State Average** | **64.9** | **3.3** | **65.6** | **1.4** |
| San Antonio | 63.2 | 2.2 | 65.3 | 3.1 |
| Houston-Baytown-Sugarland | 66.2 | 0.5 | 64.6 | -2.7 |
| Amarillo | 66.8 | 9.5 | 64.2 | 3.2 |
| Beaumont-Pt Arthur | 62.1 | 5.2 | 62.3 | -9.2 |
| College Station-Bryan | 65.1 | -5.1 | 62.0 | -0.2 |
| Killeen-Temple-Ft Hood | 56.8 | -3.2 | 60.3 | -0.9 |
| Brownsville-Harlingen | 65.1 | -1.0 | 59.6 | 1.9 |
| Texarkana (Tx) | 53.4 | 16.0 | 59.5 | 18.7 |
| McAllen-Edinburg-Pharr | 60.5 | -0.8 | 59.4 | -4.7 |
| Laredo | 64.8 | -10.8 | 59.3 | -9.6 |
| Corpus Christi | 56.1 | 4.4 | 58.2 | 1.7 |
| Tyler | 58.7 | 7.9 | 57.0 | -11.9 |
| Sherman-Denison | 55.2 | -9.5 | 55.3 | 9.6 |
| Abilene | 58.2 | 1.3 | 55.1 | -6.2 |
| Midland | 65.2 | -21.8 | 52.5 | -33.2 |
| Longview | 57.6 | -0.5 | 52.4 | -14.8 |
| Victoria | 54.5 | -22.1 | 50.6 | -17.7 |
| Odessa | 60.1 | -25.8 | 48.5 | -43.9 |
| San Angelo | 60.1 | -0.5 | 47.6 | -21.2 |
| Non Metro  | 54.9 | -8.7 | 53.3 | -12.5 |

 Source: Source Strategies, Inc.

**Waco Annual Growth in Real GDP**

 Although the U.S. Department of Labor provides monthly estimates of wage and salary employment that are used to monitor more up-to-date industry performance, the U.S. Department of Commerce recently released its 2015 measure of annual real GDP among U.S. Metropolitan Areas. Table 6 compares the annual percentage change in chain-weighted real GDP in 2014 and 2015 for the U.S. and Waco Metro Area economies.

**Table 6**

**U.S. and Waco MSA Annual Percent Growth in Change Weighted**

**Real GDP by Industry in 2014 and 2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **U.S.** | **Waco** | **U.S.** | **Waco** |
| **Industry** | **2014** | **2014** | **2015** | **2015** |
| All industry total | 2.3 | 2.3 | 2.5 | 3.0 |
|  Private industries | 2.6 | 2.7 | 2.9 | 3.3 |
|  Construction | 1.0 | -2.5 | 5.5 | 7.6 |
|  Manufacturing | 1.7 | -3.5 | 1.6 | 4.6 |
|  Durable goods manufacturing | 1.6 | -5.9 | 1.0 | 3.6 |
|  Nondurable goods manufacturing | 1.7 | 0.0 | 2.3 | 5.9 |
|  Wholesale trade | 3.4 | 9.4 | 3.1 | 2.3 |
|  Retail trade | 2.0 | 2.1 | 3.7 | 3.5 |
|  Finance, insurance, real estate | 2.3 | 7.1 | 1.8 | -0.3 |
|  Professional and business services | 4.2 | 12.2 | 4.8 | 7.9 |
|  Educational services | 2.0 | 5.2 | -0.1 | 0.0 |
|  Health care and social assistance | 2.3 | -0.6 | 3.5 | 5.1 |
|  Arts, entertainment, and recreation | 3.1 | 7.3 | 2.7 | 2.3 |
|  Accommodation and food services | 3.1 | 7.1 | 1.5 | 2.1 |
|  Other services, except government | 2.6 | 7.5 | 1.4 | 1.2 |
|  Government | 0.0 | -0.4 | -0.3 | 0.6 |
| Private goods-producing industries | 2.2 | -2.1 | 3.5 | 5.7 |
| Private services-providing industries | 2.7 | 5.7 | 2.8 | 1.9 |

 Source: U.S. Department of Commerce

 Real GDP growth in 2015 in the Waco economy Increased 3.0% compared with 2.3% nationwide. Private industry output increased 3.3% led by stronger construction and manufacturing performance, continued growth in professional and business services, and recovery in health care and social assistance output compared with the previous year. The biggest turnaround in 2015 output was by private goods-producing industries that grew 5.7% following a third quarter 2014 slump in both construction and durable goods manufacturing.

Sources: U.S. BEA and BLS

 The increase in Waco MSA real GDP performance reflects both growth in labor employment and productivity. Based on continued growth in quarterly wage and salary employment in 2016 the pace of current real output growth in the Waco MSA has exceeded 3% while the U.S. economy struggled to achieve an annual growth rate of 1.4% during the second quarter of the year.

**Conclusion**

 Over the past two years the Waco economy has outperformed not only the U.S. economy but also the Texas economy that slowed due to the downturn in oil and gas production. New methods of extracting oil and gas have allowed the Texas economy to become energy sufficient rather than dependent upon energy practices by countries around the world; however, it is evident that the future success of regional economies will depend on their ability to innovate and change in response to new technologies rather than to the presence of natural resources.

 The strength and resilience of the Waco economy is due to its diversification and attractive location that is increasingly gaining the attention of a growing group of entrepreneurs that are engaged in the development and expansion of business activities. Waco is enhanced by the growing communication and collaboration among organization that share the mission to make Waco a better place to live. The most obvious symbols of this mission is reflected by the development of the Brazos River corridor that has been enhanced by the new Baylor McLane Stadium along with investments, such as the “fixer upper” Silos and the Downtown Cultural District, that continue to enhance the business district. The presence of museums, art galleries, performance venues, the Farmer’s Market, restaurants, and shops have significantly increased growth in visitors spending that has attracted new hotel investments that are experiencing record level occupancy rates and rising revenues.

Waco is experiencing a growing number of entrepreneurs from among a large group of young persons that have flocked to Texas locations along the I-35 corridor from Dallas to San Antonio that are increasingly being attracted to Waco by growing economic opportunity along with affordable housing and less congestion. On October 26th of his year the first introductory meeting of 1 Million Cups marked the local presence of Waco as its 100th participant in a nationwide organization that established by the Ewing Marion Kauffman Foundation based in Kansas City. Jake Cockerill, the Greater Waco Chamber of Commerce’s manager of entrepreneurship and innovation that is a new position created this year, announced the new program for every Wednesday morning during which two early-stage startups will each present their company to an audience of mentors, advisers and other entrepreneurs. Cockerill announced that “the program is geared toward entrepreneurs, but we want the whole community to know what’s going on in their city.” He said he thinks Waco can follow the lead of such “goliaths” as Dallas, Austin and Houston in making business feel welcome and appreciated, and that this program is a step in that direction. He also helps coordinate and promote such programs as Waco Young Professionals, a group of about 100 people with the potential to be Waco’s leaders of the future who regularly meet for lunch, where they hear speakers and take tours of local industry. He also helps promote the “After 5” mixers held at the Baylor Club at McLane Stadium, and the Waco Collegiate Forum, which focuses on keeping college graduates in Waco by exposing them to local business and industry through a speaker series and a summer internship program with local companies.

Stronger growth in the labor force and employment in 2016 is projected to continue in 2017 that is increasing the demand for new construction and retail sales to satisfy the demands of households. The outlook for hospitality, accommodations, and food service industries continues to be favorable next year as Waco continues to attract new investors along I-35 as well in the central business district in response to growing population and income as well as visitor spending. Health care and assisted living facilities are projected to continue expanding their services next year due to rising income, population growth, and the aging of retired baby boomers. While growth in the local economy is putting upward pressure on prices, the September 2016 annual rate of inflation in Central Texas was still only 2%, although it is the highest rate in three years, led by an annual increase of 7.6% in medical costs and 4.7% in housing prices.