Recession Strikes Texas, but Not in Oil-Bust Way

By JIM YARDLEY

HOUSTON, Nov. 30 — Only a year ago, the bad old days seemed to be back here in the nation's energy capital. One of the city's flagship companies, Enron, had filed for bankruptcy, firing more than 4,500 workers. Other energy giants teetered. The swagger this city had shown as the rest of the nation was mired in recession quickly dissolved into worried talk of an economic collapse rivaling the oil bust era of the 1980's.

But what has happened in the last 12 months here and throughout the old oil patch of Texas, Oklahoma and New Mexico has been more complicated than the boom-or-bust cycles that once defined the regional economy. Economists say that Texas, the powerhouse of the region, is now in recession. But it is a recession that reveals how the state's economy has diversified so broadly that the old assumptions no longer apply.

The demise of Houston, for example, never happened. The city has absorbed various layoffs and managed, essentially, to break even in a bad year. One survey of former Enron employees concluded that 70 percent of them have found work. Stephen Schwarz, 38, spent nearly six months jobless after losing a six-figure salary and healthy bonuses at Enron. Then he landed a contract position at a major oil company.

"For most people that I know," Mr. Schwarz said, "before they had to do anything drastic, it worked out."

Yet elsewhere the picture was more grim and reflected, for better and worse, how much more closely Texas is now interwoven not only with the national economy but also with the fortunes of Mexico. In Austin and Dallas, the state's technology and telecommunications corridor, which boomed in the 1990's, continued to suffer layoffs this year, as those industries struggled to recover nationally. The excesses of the earlier good times were evident in real estate listings in Austin, where scores of houses valued at more than $1 million sat on the market.

The economic fallout from Sept. 11 also reverberated into Texas. The security crackdown at bridges along the Mexican border inflicted big losses in retail sales in cities like Brownsville and El Paso, as long crossing delays led Mexican shoppers to stay home. In Dallas, convention business dropped off as part of a national tourism slowdown, while the problems troubling the airline industry in general have also struck the hometown of American Airlines. Economists say the Dallas-Fort Worth metroplex has suffered because the nationwide manufacturing slowdown has hurt the region's status as a major distribution hub and center of business logistics.

"What you have is one of the hardest hit major metropolitan areas in the country," said Dr. Bernard L. Weinstein, director of the Center for Economic Development and Research at the University of North Texas, in Denton. "The irony is that two years ago, we had the lowest unemployment rate in the country..."
among the 15 largest metro areas.

Fiscal challenges will also dominate debate when the Texas Legislature convenes in January and faces a budget shortfall estimated to be between $5 billion and $12 billion. Since 1995, lawmakers have enjoyed surpluses that have led to the passage of tax cuts. Republicans, who now control all houses of government in Texas, have ruled out tax increases, but shrinking tax collections will make it difficult to meet rising costs for entitlements like Medicaid.

In New Mexico and Oklahoma, the neighboring states usually in the shadow of Texas, the year has been surprisingly more benign. Unemployment remains high in New Mexico, but the state has actually performed slightly better than the rest of the nation in the recession. Oklahoma has benefited from having little involvement in high-tech and other industries at the center of the recession.

Instead, economists say that Oklahoma's manufacturing base and food-processing industries have helped the state move steadily through the tough economy.

Nor do economists believe that Texas will remain in the economic muck. Fiona Sigalla, an economist with the Federal Reserve Bank in Dallas, said that the state remained in a recession but that there were signs that the economy was beginning to pick up steam. Ms. Sigalla and other economists predicted that Dallas, in particular, would begin to see improvements by the middle of next year. She noted that Texas has always claimed to have a friendly business climate and a capacity for being economically flexible enough to reinvent itself.

"The one thing Texas has always done is boom," Ms. Sigalla said.

Yet economists also agree that for this to happen, the national economy must first begin a true recovery. No one elixir can reinvigorate the state as a whole because the Texas economy is now built on so many pieces. But nor, as in years long past, can the state simply ride energy prices, regardless of the national economy. Even now, with oil prices considered high and natural gas prices again rising, the energy industry has been cautious, waiting for signs of a larger recovery.

"Diversification has its benefits, but it has its downsides," said Barton Smith, director of the Institute for Regional Forecasting at the University of Houston. "We're not going to recover until the national economy recovers."

**Enron Fell; Houston Didn't**

Anyone who doubts the economic upheaval that shook Houston need only pause at the foot of the city's newest — and emptiest — skyscraper. The silver Enron tower, a twin of the original Enron building across the street, was completed after the company filed for bankruptcy. For several months, the building housed UBS Warburg, the international firm that had bought Enron's trading unit. But UBS Warburg left, and the building's only tenants seem to be security guards.

A year ago, a common assumption was that Enron could become a domino that would knock down much of Houston. Unquestionably, the ramifications of its collapse have been broad. Energy companies like Dynegy, El Paso Corporation, Reliant, Williams and others have had their stock prices plunge and in some cases have laid off employees. The energy trading business that poured so much wealth into Houston is stagnant, and more layoffs and bankruptcies could follow. Other big corporate employers, too, like Continental Airlines and Compaq Computers, have had a difficult year.
Mr. Smith, the University of Houston economist, said it might seem natural to assume that there were parallels to the 1980's oil bust, but there were not. He said the energy sector in Houston had lost 15,100 jobs since early 2001. By comparison, he said, Houston lost 250,000 energy jobs in the 1980's. The economic devastation rippled through other parts of the Texas economy, including real estate, banking and publishing.

"It was a blood bath," he said. "What Houston is experiencing now is nothing."

Over all, Houston, which has more than 2.1 million jobs, broke even in employment in the last 12 months, losing a net 300 jobs, according to state work-force statistics. By way of explanation, Mr. Smith pointed out that in 2000, while Enron ranked first among corporations in revenues, it ranked only 18th in the number of jobs it supplied in the city. That same year, Mr. Smith said, Dynegy ranked fifth in revenues but 83rd in employment. He added that the concerns of many former Enron employees that they would be shunned by other employers were apparently unfounded.

Mr. Schwarz, the former Enron employee, said most of his friends at the company found jobs between February and May. He said those who struggled were the younger employees hired directly out of college at soaring salaries.

"The bust had certainly restored some balance between your actual experience and your pay and responsibility," Mr. Schwarz said.

The energy industry still accounts for 49 percent of Houston's economy, but the city managed to plug along because of other sectors. Public construction projects, including football and basketball stadiums, highways and a light-rail line, provided stimulus. The city's enormous Texas Medical Center also continues to expand, while the Port of Houston remains a major economic factor.

Still, the slumping economy was evident. The market for high-end housing slowed noticeably in Houston, as For Sale signs suddenly appeared in fashionable areas like West University Place. (Economists note that the market for mid-priced houses remains healthy, partly because of record low interest rates.) The commercial real estate market, particularly downtown, softened. The collapse of the stock market, as well as the problems at Enron and other big corporations, was a blow to nonprofit organizations and other charities that depend on donations from companies and wealthy individuals.

Economists say it is possible that the Houston economy will simply tread water until the national economy improves. "Nothing is doing really super well," Mr. Smith said. "But no part of the economy is doing really super bad."

The Shrinking Dallas Dollar

For most of the 1990's, Austin was the place to be in Texas. High-technology industries like semiconductor manufacturers and dot-com businesses transformed a funky university and state government town into a place that created more than 17,000 "millionaire households" from 1994 through 1999, according to one study.

But unemployment in Austin has jumped; it was 5.1 percent in October, up from 1.8 percent in October 2000, as technology companies across the country continued to struggle.

A similar trend began ripping through Dallas in what became the beginning of a two-year run of layoffs in that city's telecommunications industry. Companies like Nortel Networks and Alcatel, each with

large operations in the Dallas area, have announced layoffs of tens of thousands of employees around the world.

Mr. Weinstein, the University of North Texas economist, said the Dallas-Fort Worth area was down about 15,000 jobs from the same time last year. "It has been a jobless recovery here and elsewhere," he said. "I hope that will change."

The forecast, though, is one of cautious optimism, particularly for Dallas. Mr. Weinstein said the location and the transportation infrastructure made Dallas a vital distribution hub. He and other economists still predict that more layoffs could be coming, including possibly in the airline industry, yet there are signs of new economic activity that offer some optimism.

Bill Sproull, vice president for economic development at the Greater Dallas Chamber of Commerce, said the Dallas-Fort Worth area had shown "remarkable resilience in the face of an economic downturn" but conceded that the problems in telecommunications may not yet be over.

"It continues to bleed," Mr. Sproull said. "I don't know that it has hit bottom yet."

Still, he pointed to a handful of hopeful signs. First, he said the Defense Department buildup for the war on terrorism had brought new contracts to Lockheed Martin, Raytheon and Boeing, all military contractors with operations in the metropolitan area. He also said that "prospect activity," or contacts by new businesses expressing interest in the Dallas area, rose 40 percent this year over last.

Mr. Weinstein predicted a gradual rebound as companies come to Dallas because commercial real estate is suddenly cheap and available, while the local work force is considered highly skilled. Mr. Smith, the University of Houston economist, agreed that both Dallas and Austin benefit from a talented work force and the advantages of strong universities, particularly in Austin, that can be incubators for new business.

**Bottom Line at the Border**

President Bush's announcement last week that Mexican trucks may soon begin traveling inside the United States was only the latest reminder of the newfound economic significance of the Texas-Mexico border. The border region is historically one of the poorest in the nation, with high rates of unemployment, yet there was significant economic investment in the 1990's as the North American Free Trade Agreement expanded trade between Mexico and the United States.

Cities like Brownsville, Harlingen and McAllen in the Rio Grande Valley benefited from investment as corporations built factories known as maquiladoras on the Mexican side of the border. Laredo, meanwhile, became the busiest inland port in the country as thousands of trucks poured back and forth every day between the countries. Only El Paso, at the western edge of Texas, did not enjoy much growth in the 1990's. Textile factories closed there after the trade agreement.

But in the last year, the whole border region has had a downturn. Keith Phillips, a Federal Reserve Bank economist based in San Antonio, said some manufacturers were closing maquiladoras and moving to China and Southeast Asia for cheaper labor. He said this had been particularly true around El Paso, where the factories in electronics and apparel have been hard hit by the recession.

Mr. Phillips said the maquiladoras on the Mexican side of the Rio Grande Valley, by contrast, were mostly in the automobile industry, which remained strong until recent months. Now, though, those

factories are shedding jobs at a time when the Mexican economy is suffering and the value of the peso has plummeted. The result for the Texas side of the border, he said, has been a slowing of economic growth.

M. Ray Perryman, an economic consultant based in Waco, Tex., said that despite such fluctuations, the trade agreement would ensure a certain level of growth for the border in the near future. He said communities like McAllen and Harlingen were often included on lists of the country's fastest-growing communities. Yet, he said, much of that growth is in the sort of low-wage jobs that are contributing to a widening gap in Texas between rich and poor.

"We sort of have the growth-without-prosperity cycle," he said.

Besides the trade agreement, the pressing economic issue on the border is the water war with Mexico. American farmers in the Rio Grande Valley, as well as their Mexican counterparts, have demanded that the Mexican government release water from reservoirs into the Rio Grande, as demanded by treaty. The continuing drought had severely damaged crops in many areas of Texas and also offered a hint at what will most likely be one of the hottest economic issues of the coming decade — the control of water at a time when state population grows at an explosive pace.

Stepsister Turns Cinderella

Oklahoma is the butt of countless jokes told in Texas, but it can boast a better rate of economic growth. Chad Wilkerson, a policy economist at the Kansas City Federal Reserve, said Oklahoma had grown slightly ahead of the national average in the last year, largely because it was not exposed to the technology and telecommunications collapse.

The exception was Tulsa, hometown of the Williams Companies, the energy giant that has suffered in the post-Enron downturn. Mr. Wilkerson said the troubles of Williams Communications, a high-tech subsidiary, has been Oklahoma's only real fallout from the technology bust.

By contrast, Oklahoma has added a small number of jobs because its manufacturing base is focused on heavy machinery and other industries less damaged by the slow economy. The state also has food processing plants for meat and chicken that have continued steadily along. Mr. Wilkerson said New Mexico, traditionally one of the poorest states, has had fairly high but stable unemployment rates. He said Albuquerque has had relatively healthy retail sales despite the slowdown and noted that the computer chip company, Intel, was expanding a manufacturing plant there.