

Cross Timbers Business Report

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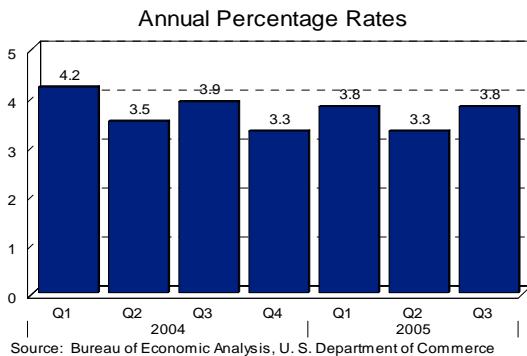
Fall 2005

Output Report Shows Surprising Strength

By Trevin Vaughn

Despite the devastating effects of hurricanes Katrina and Rita, real GDP in the third quarter rose by a hefty 3.8 percent. This expansion follows the general growth trend of the past year and a half, even though the U.S. has experienced two catastrophic hurricane seasons, higher inflation, and rising oil prices.

Changes in Real GDP



Consumer spending during the third quarter was strong with emphasis placed on durable goods and services. Expenditures on motor vehicles and parts rose by \$19.2 billion from the second quarter total, and household durable outlays rose by \$13.8 billion. This growth was due in part to

greater factory incentives as well as the possibility of rising interest rates, which discouraged consumers from postponing durable good purchases. The service sector posted a \$34.8 billion increase from the second quarter. Overall, consumer spending accounted for approximately 72 percent of third-quarter GDP growth.

Gross private domestic investment grew by 2.3 percent in the third quarter, which compares favorably to the 3.7 percent decline noted in the previous period. Most of the growth in this expenditure category came from residential construction, equipment, and software.

Net exports showed little growth, with exports expanding by 0.8 percent and imports exhibiting no change, but a hefty 3.2 percent expansion in government expenditure, due in part to hurricane relief efforts, offset part of this weakness.

Though the United States was greatly affected by two hurricanes during the past quarter, GDP still follows a steady growth trend, which is significantly higher than the 3 percent expansion required to maintain full employment. The Department of Commerce releases gross domestic product data on a quarterly basis. All preliminary data are subject to at least two revisions.

Trevin Vaughn is a junior majoring in economics at Tarleton State University

Consumer Prices Surge

By Lindsay Morrison

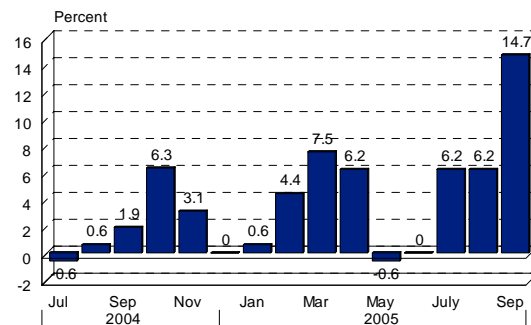
In September, the Consumer Price Index (CPI) rose at a 14.7 percent annual rate – the biggest increase since March 1980. Most of the increase resulted from a 12 percent increase in energy prices, which was expected after Hurricanes Katrina and Rita. These hurricanes damaged oil refineries in the Gulf Coast, causing gas prices to rise above \$3 a gallon. For the fifth straight month, the core index, which excludes food and energy items, rose at an annual rate of only 1.2 percent. Inflationary concerns brought about by this report encouraged the Federal Reserve to raise interest rates again in its November meeting, making it the 12th change since June 2004.

After a 7.5 annual percentage increase in March, the inflation rate declined to 6.2 percent in April, then nosedived to -0.6 percent in May. It leveled off to zero in June, and rebounded to 6.2 percent in July and August. Then in

September, the rate escalated to 14.7%. More than 90 percent of this surge was due to the rising energy prices.

INFLATION RATES

(Annual Changes in Consumer Prices)



The consumer price index is used to measure inflation as well as adjust social security benefits and employee wages for changes in price. The CPI is a widely quoted economic

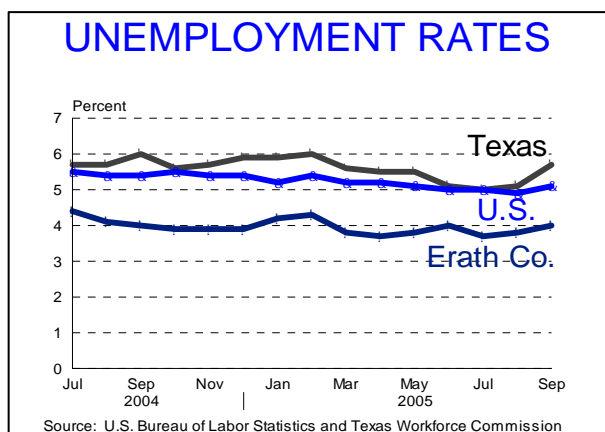
statistic that is collected and reported monthly by The Bureau of Labor Statistics.

Lindsay Morrison is a Graduate Student working on a MS in Management at Tarleton State University

Unemployment Rises in September

By Rachel O'Dell

During the third quarter of 2005 the U.S. unemployment rate fluctuated within a narrow range. The nation's annual jobless rate is well below the unemployment statistic for the previous year. Starting from a level of 5 percent in July the U.S. unemployment rate declined to 4.9 percent in August then rebounded to 5.1 percent in September. The average jobless rate of 5.1 percent for the first nine months of 2005 lies significantly below last year's mean rate of 5.6 percent.



The Texas unemployment rate for July was 5.0 percent; the August rate was 5.1 percent, and the September rate was 5.7 percent. Some of the jump in the September tally may have resulted from the fact that the Texas-Louisiana border was hit by hurricanes this summer, which displaced many jobs along the coast. Texas's average unemployment rate for the first three quarters of this year is 5.5 percent. This value lies well below the 6.0 percent figure reported for 2004.

In the Cross Timbers Area all five counties reported lower jobless figures than the national and the state averages between July and September. The rates for these counties are also below last year's third quarter unemployment statistics.

Bosque County's jobless rate declined from 5.1 percent in June to 4.9 percent in July, decreased to 4.8 percent in August, and then rebounded to 5.1 percent in September. The annual average of 5.0 percent for the first nine months of 2005 compares favorably to the 5.7 percent figure posted the previous year.

In Comanche County the jobless rate declined from 4.8 percent in June to 4.4 percent in July then rose to 4.6 and 4.7 percent in August and September. The 4.7 percent average for the first three quarters of this year is well below the 5.1 percent mean noted for the same period last year.

In Eastland County, the jobless rate declined from 5.2 percent in June to 4.9 percent in July to 4.8 percent in August and then rose to 5.0 percent in September. This county's annual average of 5.0 percent lies below the 5.5 percent statistic reported last year.

In Erath County, the jobless rate declined from 4.0 percent in June to a 3.7 percent in July, posted a slight rise to 3.8 percent in August, and then showed a continued advance to 4.0 in September. The annual average of 3.9 percent for this year's first three quarters compares favorably to the 4.3 percent mean for the same months of 2004.

In Hamilton County, the jobless rate declined from 4.4 percent in June to a 4.0 percent in July. The rate stayed at 4.0 percent in August and then rose to 4.2 percent in September. The annual average of 4.3 percent for the first nine months of this year is slightly below the 4.5 percent figure posted last year.

National and state labor market data are collected and reported by the U.S. Bureau of Labor Statistics and are adjusted for normal seasonal variation. County statistics are reported by the Texas Workforce Commission and are not seasonally adjusted.

Rachel O'Dell is an MBA graduate student at Tarleton State University.

The College of Business Administration at Tarleton State University presents the Cross Timbers Business Report (<http://www.tarleton.edu/~econ/ctbr.htm>) as a service to local residents. It is written by the members of Delta Mu Delta, a business honor society. This report is distributed without charge to any interested person or organization. To subscribe to this publication or make suggestions regarding its content, write William L. Beaty, Editor, P.O. Box T-920, Tarleton Station, TX 76402, phone 254-968-9622, or E-mail beaty@tarleton.edu.

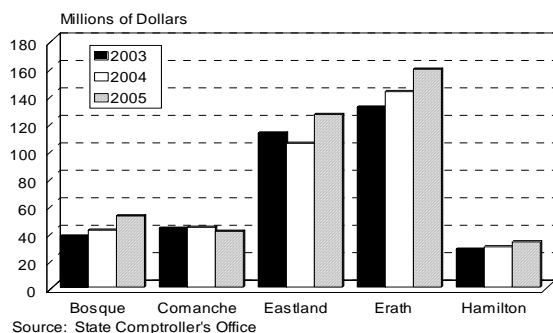
2005 First Quarter Gross Sales Increase in Four Counties

By Kallen Hayes

The first-quarter of 2005 *State Sales and Use Tax Analysis Report* shows that four of the five Cross Timbers Counties experienced increases in gross sales compared to first quarter sales for 2004. Cumulative sales in 2004 increased from 2003 figures in three counties.

GROSS SALES

Area Counties, January-March



Comanche County was the only county to experience a decrease in its gross sales between 2004 and 2005. The county's \$40.5 million total falls 6.7 percent below the figure for the first three months of 2004 and lies 5.4 percent below the value posted for the same period in 2003. The county's 2004 cumulative gross sales also declined, as it posted \$219.9 million in sales, a 9.1 percent deterioration from the year-before figure.

Bosque County posted the highest gain (25 percent) for its first quarter sales over the same period in 2004. Its sales total of \$51.7 million represents an advance of almost 40 percent over the 2003 value. Bosque's 2004 cumulative gross sales climbed 6.2 percent from 2003 to \$213.2 million.

Eastland County's 2005 first quarter sales of 125.6 million showed an increase of 20.1 percent over 2004 and a gain of 12.0 percent over 2003. Its 2004 cumulative sales total of \$605.1 million showed a slight decline from 2003's \$609.9 million.

Hamilton County posted a 12.5 percent increase in its first quarter gross sales from the year before, as it revealed \$32.9 million in sales. Its 2004 cumulative sales of \$184.8 million represent the highest percent gain (12.5 percent) of the five Cross Timbers counties over the 2003 value.

Erath County posted both the highest cumulative gross sales for 2004 and the highest first quarter sales for 2005. The county's 2004 sales were \$683.5 million marking a 6.9 percent increase over 2003. First quarter sales of 158.5 million this year increased 11.4 percent from 2004.

Gross sales for these and other Texas counties can be found in the *State Sales and Use Tax Analysis Report*, which is released every quarter. This report is given out by the State Comptroller's Office. Gross sales are released about six months following end of the reporting period.

Kallen Hayes is a senior majoring in economics and horticulture at Tarleton State University

Per Capita Incomes Decline in Cross Timbers Counties

By Aaron Clough

From 2002 to 2003, four of the five Cross Timbers Counties experienced declines in their per capita incomes. Bosque County was the only area county to show an increase over this span.

Per capita income of \$22,310 rose a modest 0.3 percent in Bosque County between 2002 and 2003. This small increase represents the only advance in per capita personal income of the five counties in the Cross Timbers market area. Despite this gain Bosque slipped from 122nd to 153rd in per capita personal income ranking among Texas's 254 counties.

Eastland County's per capita personal income figure of \$23,504 fell \$20 (0.1 percent) from the previous year's value. Eastland declined from 104th to 110th in income ranking over this between 2002 and 2003.

Comanche also displayed a small decrease in per capita income. Its total of \$23,477 fell 0.3 percent from the previous year. Between 2002 and 2003 Comanche County's income rank fell from 92nd to 111th.

Hamilton County posted a 1.5 percent drop in per capita income, from \$24,117 in 2002 to \$23,763 in 2003. Hamilton's ranking among Texas counties eroded from 79th to 104th over this period.

Erath County displayed the largest drop in per capita income among Cross Timbers counties in 2003. Its per capita income of \$23,332 reflects a loss of 2.3 percent when compared to the year before. The county's income rank also dropped sharply over this time – from 81st in 2002 to 119th in 2003

Although Bosque was the only county to show an increase in the per capita income, it had the lowest overall per capita income of the five counties with \$22,310. It was followed by Erath County with \$23,332, Comanche County with \$23,477, Eastland County with \$23,504, and Hamilton County with \$23,763.

Between 2001 and 2003 four of the five Cross Timbers counties showed a rise in per capita personal income. Between these years per capita personal income increased by 0.6 percent in Bosque County, by 3.7 percent in Comanche County, by 1.7 percent in Eastland County, and by 1.6 percent in Hamilton County. Erath County's per capita real income decreased by 0.9 percent over this span.

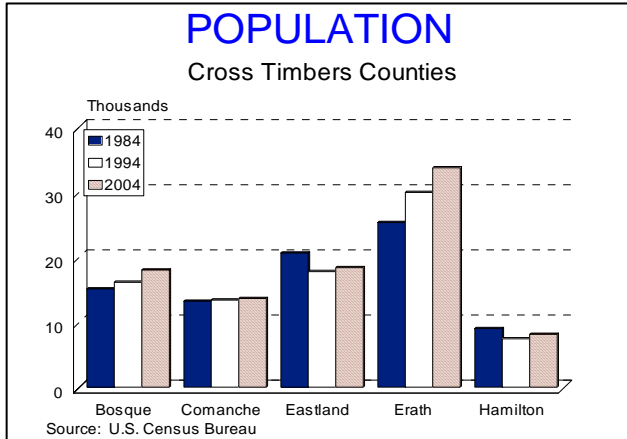
The Bureau of Economic Analysis collects and reports personal income data on an annual basis.

Aaron Clough is a senior management major at Tarleton State University

Cross Timbers Counties Reveal Uneven Population Patterns

By Jackie Woods

The United States Bureau of the Census recently reported 2004 population estimates for the five Cross Timbers Counties. All counties noted gains over the past ten years, but two counties reported losses when compared to values posted twenty years earlier.



Driven by enrollment growth at Tarleton State University and a balanced economy, Erath County noted the strongest growth trend of any Cross Timbers county over

the past twenty years. Its 2004 population estimate of 33,704 represents a gain of 12.6 percent over the 1994 value and an increase of 33.2 percent over the 1984 statistic.

Bosque County reported a population of 18,002 in 2004. This value is 11.7 percent above the estimate for ten years earlier and is 19.2 percent greater than the 1984 total.

Hamilton County's 8,115 population represents a rise of 9.1 percent over the estimate for 2004 but shows a 9.8 percent erosion from the estimated population twenty years earlier.

Eastland County posted a population total of 18,379 last year. This value is 3.5 percent above the 1994 estimate but shows a loss of 10.8 percent when compared to 1984.

Comanche County's 13,616 population value for 2004 is 1.7 percent above the 1994 estimate and is 3.2 percent greater than the value posted in 1984.

In addition to its decennial population count, the Bureau of the Census reports annual population estimates for all of the nation's political subdivisions.

Jackie Woods is a junior marketing major at Tarleton State University

Agricultural Prices Higher

By Cole Tierney

According to the data from the Texas Agricultural Statistics Service a rise in prices of livestock and products more than offset a decline in crop prices to yield a moderate gain in the all farm products price index over the past year. Meanwhile, the purchasing power ratio of U.S. agricultural products deteriorated, as a slight increase in prices received by farmers fell short of a larger advance in prices paid.

In September 2004 the livestock and products price index stood at 114 percent of the 1990-1992 average. It rose as high as 127 in April 2005 before ending at 123 in September of this year. These movements represented a net gain of 8 percent over the past year.

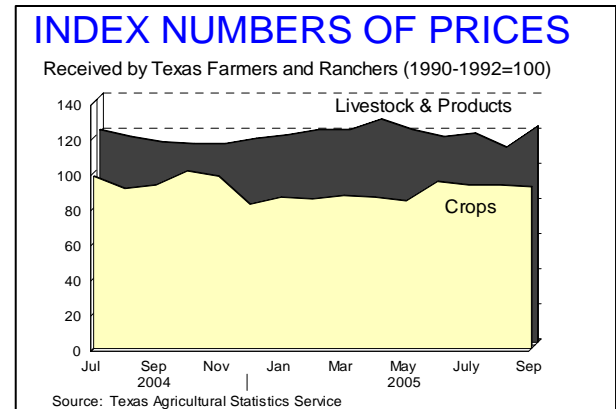
The all crop index deteriorated by one point from September 2004 to September 2005, as it slid from 93 percent to 92 percent of the base-year average.

The all farm products price index ended 2005's third quarter with a value of 112. This estimate is 4.7 percent higher than its September 2004 level.

Beef cattle prices ended the third quarter at \$89.00 per hundredweight. Although this value is lower than April's \$94.30, it was 1.6 percent higher than the previous September's level. Beef cattle prices in Texas also were higher than the United States as a whole, as U.S. farmers and ranchers received only \$87.50 in September 2005.

Texas wholesale milk prices, which ended the third quarter at \$15.80 per hundredweight, were virtually unchanged from the previous September's level. Average

milk prices in the United States stood at \$15.10 in September 2005.



The U.S. index of prices received by farmers inched from 115 percent of the 1990-1992 average in September 2004 to 116 percent in September 2005. Meanwhile the index of prices paid by farmers advanced from 134 to 142. The result these movements was a deterioration in the purchasing power ratio of farm products from 85.7 percent of the 1990-1992 average in September 2004 to 81.7 percent this September.

Cole Tierney is a senior interdisciplinary business major at Tarleton State University.