

Cross Timbers Business Report

Published by the College of Business Administration, Tarleton State University
Articles by Members of Delta Mu Delta, William L. Beaty and Elizabeth Cowles, Editors

Volume 19, No.2

Winter 2006

Fourth-Quarter Output Growth Drops Sharply

By William L. Beaty

A dramatic slowdown in consumer durable spending contributed to a sharp deceleration in the nation's output growth during the fourth quarter, according to a recent report from the Department of Commerce. Weakness or outright declines in other sectors failed to offset this pattern, as the economy grew at its slowest rate in three years.

Real gross domestic product (GDP) the inflation-adjusted measure of the nation's output of goods and services grew at an anemic 1.1 percent annual rate in 2005's final quarter. This expansion falls far below the 4.1 and 3.3

percent growth rates recorded in the third and second periods.

Weak automobile sales contributed to a 17.5 percent drop in durable goods purchases during last year's final three months. Expansions of 5.1 percent and 3.2 percent in durable good and service expenditures only offset part of this decline, resulting in only a 1.1 percent growth in consumer spending during the fourth quarter. This expansion reflects the weakest growth rate since the second quarter of 2001.

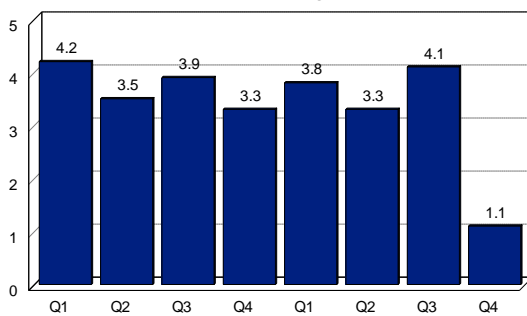
Led by a substantial rise in inventories, business investment rose at a healthy 12.2 percent rate during last year's final period. This advance compares favorably to the 5.3 percent expansion in the third quarter and the 3.7 percent decline noted in the second quarter.

Net exports acted as a brake on economic growth between October and December as a 2.4 percent advance in exports failed to offset a 9.1 percent surge in imports. Governmental outlays also pulled output growth lower, as a weak 0.4 percent rise in state and local outlays fell short of the 7.0 percent drop in federal government purchases.

The Department of Commerce collects and reports national output data on a quarterly basis. This preliminary report will be revised twice before being posted as a final estimate.

Changes in Real GDP

Annual Percentage Rates



Source: Bureau of Economic Analysis, U. S. Department of Commerce

Unemployment Picture Improves

By Lindsay Morrison

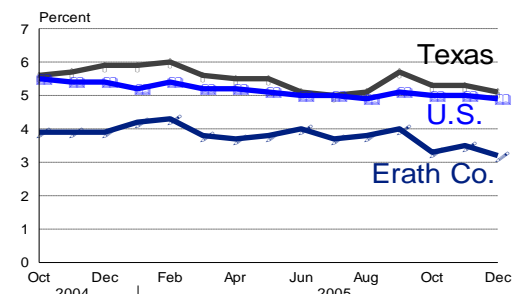
The last quarter of 2005 showed a decrease in unemployment rates in the United States, Texas, and Erath County. In October and November, the U.S. rate was steady at 5 percent, and then declined to 4.9 percent in December. That value is down from the December 2004 rate of 5.4 percent. The average unemployment rate of 5.1 percent for 2005 is significantly lower than the rate of 5.5 percent estimate for 2004.

The jobless patterns in Texas mirrored those of the U.S., with a steady rate of 5.3 percent in October and November, then a decrease to 5.1 percent in December. Texas has gained over 153,000 jobs in the past year. The average rate of unemployment for 2005 is 5.4 percent, which is lower than 2004's average of 5.9 percent.

Locally, counties in the Cross Timbers area continue to see unemployment rates that are lower than the national and

state averages. Also, all of their annual average rates have dropped compared to 2004's values. Looking at the last

UNEMPLOYMENT RATES



Source: U.S. Bureau of Labor Statistics and Texas Workforce Commission

quarter, all counties saw an increase in rates from October to November, followed by decreases in December.

Bosque County had an unemployment rate of 4.3 percent in October, which increased to 4.5 percent in November and then dropped back to 4.4 percent in December. The annual rate decreased from 5.6 percent in 2004 to 4.9 percent in 2005.

Comanche County also saw a rate of 4.0 percent in October rise to 4.1 percent in November, followed by a decrease to 4.0 percent in December. Looking at the annual rate, the figures show a rate of 5.0 percent in 2004, compared to 4.5 percent in 2005.

Similarly, Eastland County had of rate of 4.1 percent in October, a 4.5 percent rate in November, and a 4.1 percent rate in December. The annual estimate for 2005 is 4.8 percent, which is below last year's figure of 5.4 percent.

In Erath County, the unemployment rate increased from 3.3 percent in October to 3.5 percent in November, and then decreased to 3.2 percent in December. Annually, the rate dropped from 4.2 percent in 2004 to 3.8 percent in 2005.

Finally, in Hamilton County the rate in October was 3.4 percent, which then increased to 3.8 percent in November, followed by a small decrease to 3.7 percent in December. The annual rate dropped from 4.4 percent in 2004 to 4.1 percent in 2005.

The U.S. Bureau of Labor Statistics collects and reports national and state data and adjusts the information for seasonal variation. The local county information is reported by the Texas Workforce Commission and is not adjusted seasonally.

Lindsay Morrison is a Graduate Student working on a MS in Management 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.

Inflation Moderates in Fourth Quarter

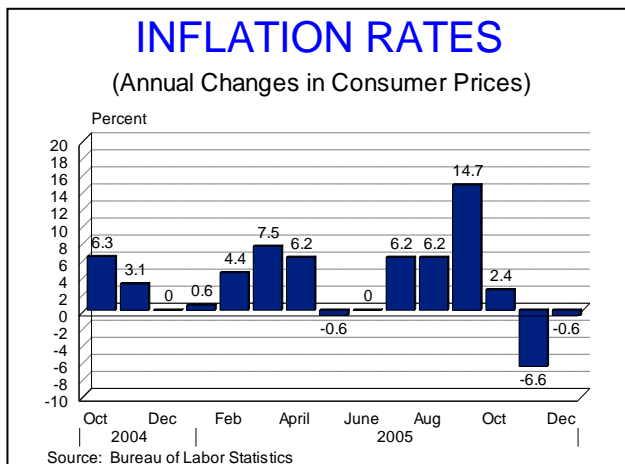
By Julie Ward

A sharp decline in energy prices pulled the nation's inflation rate for the fourth quarter into negative territory and moderated 2005's overall level of price increases. In December, the Consumer Price Index (CPI) declined at a 0.6 percent annual rate. This figure compares to a 2.4 percent rise in October and a 6.6 percent drop in November. The majority of December's decrease resulted from a 24.6 decrease in transportation prices, which reflected a 35.2 percent decrease in energy prices. Hurricanes Katrina and Rita which shut down oil refineries along the Gulf coast, pushed the price of gasoline above \$3 a gallon and brought the

inflation rate to a peak of 14.7 percent in September. In October, cooling energy prices reduced the inflation rate to 2.4 percent. Further deductions in energy costs contributed to a 6.6 percent price plunge in November.

According to The Wall Street Journal, the Fed expects core inflation for the first part of 2006 to be high and then to moderate later in the year. The Consumer Price Index is published monthly by the Bureau of Labor Statistics. The CPI is the most often cited economic inflation measure.

Julie Ward is a senior majoring in economics at Tarleton State University.



Changing of Guard at Federal Reserve

By Elizabeth Cowles

The Federal Reserve and the nation have witnessed the end of an era. After 18 years as Chairman of the Federal Reserve, Alan Greenspan presided over his last Federal Open Market Committee meeting on January 31, 2006. Many observers believed Greenspan to be the most successful Chairman in Federal Reserve's history. His last day as Chairman coincided with the first Federal Open Market Committee meeting for 2006. On the same day, the Senate approved the nomination of Greenspan's replacement, Ben Bernanke, as the next Fed Chairman.

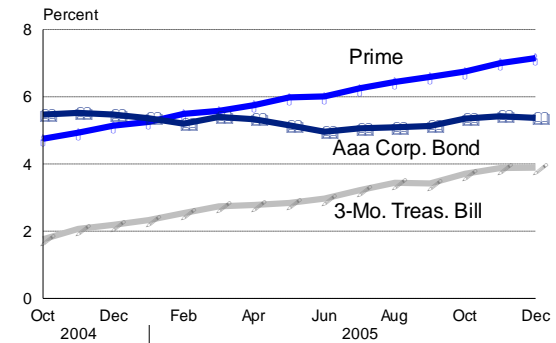
As of December 2005 the prime interest rate continued its rise, surpassing that of the Aaa corporate bond interest rate by almost two percentage points. The Aaa corporate bond rate has seen only an incremental rise since July 2005. The rate on the three month Treasury bill continues to increase steadily.

The prime rate has risen since July 2004 after remaining at 4.0 percent for 12 consecutive months. The prime rate for December 2005 averaged 7.15 percent – an increase of more than 2 percent over the December 2004 rate. The interest rate on the three month Treasury bill for December 2005 was 3.89 percent, an increase over the December 2004 rate of 2.19 percent. Aaa corporate bond rates decreased,

moving to 5.37 percent for December of 2005 from 5.47 percent in December 2004.

INTEREST RATES

Averages of Daily Figures



Source: Federal Reserve System

The Federal Reserve collects and reports interest rate values on a regular basis. Economists follow movements in this indicator closely both because they affect the cost of borrowing and because they serve as indicators of Federal Reserve policy.

Elizabeth Cowles is a senior sociology major at Tarleton State University

Sales Taxes Advance

By Blake Williams

The latest reports from the State Comptroller's Office show that sales tax allocations for 2005 rose across the board for Cross Timbers area counties. When compared to the 2003 and 2004 totals, the report shows that the sales tax rebates have steadily increased for the past two years.

Comanche had cumulative sales tax allocations of \$424,915 in 2005, which showed an increase of 4.1 percent

over 2004. Last year's total demonstrated a 7.9 percent gain over the sales tax allocations of 2003.

Eastland achieved cumulative sales tax allocations of \$840,744 in 2005, which amounted to an increase of 11.6 percent over 2004. Sales tax allocations of 2005 were 16.8 percent higher than the 2003 aggregate.

Dublin accumulated sales tax allocations of \$277,479 in 2005 and improved by 4.7 percent over 2004. Sales tax allocations in Dublin increased by 17 percent from 2003 to 2005.

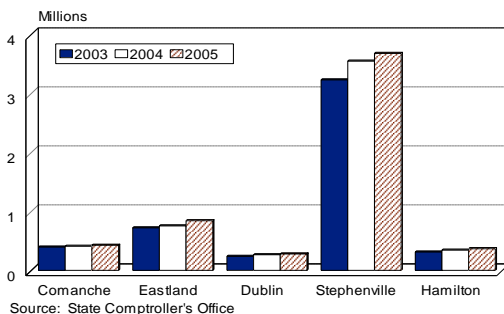
Stephenville had sales tax allocations of \$3,676,652 in 2005 which represented a 3.7 percent improvement over 2004. Sales tax returns in 2005 showed a much larger increase of 13.9 percent over the figure for 2003.

Hamilton received sales tax allocations totaling \$366,588 in 2005, and this figure reflected a 7.1 percent increase over 2004's value. Sales tax allocations increased by a whopping 18.2 percent from 2003 to 2005, representing the single largest percentage increase in the Cross Timbers Area.

Blake Williams is a graduate student working on an M.B.A. at Tarleton State University

SALES TAX ALLOCATIONS

Area Cities, January - December

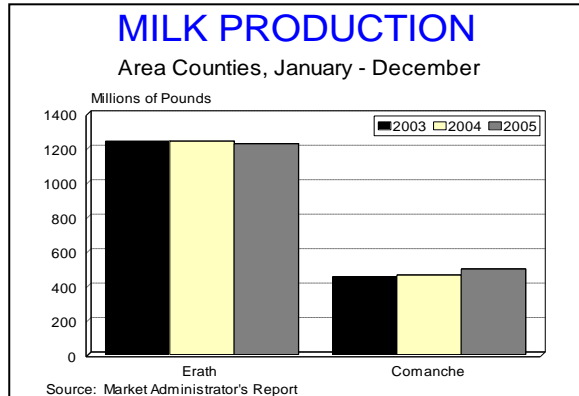


Source: State Comptroller's Office

Area Milk Production Remains Stable

By Kallen Hayes

Erath County experienced a slight decline of 1.2 percent in its 2005 milk production, when compared to the previous year. The county remains Texas' largest milk producer; however, this decline continues a four year downward trend in production. Erath County produced 1,222.9 million pounds of milk in 2005, down from the 2004 figure



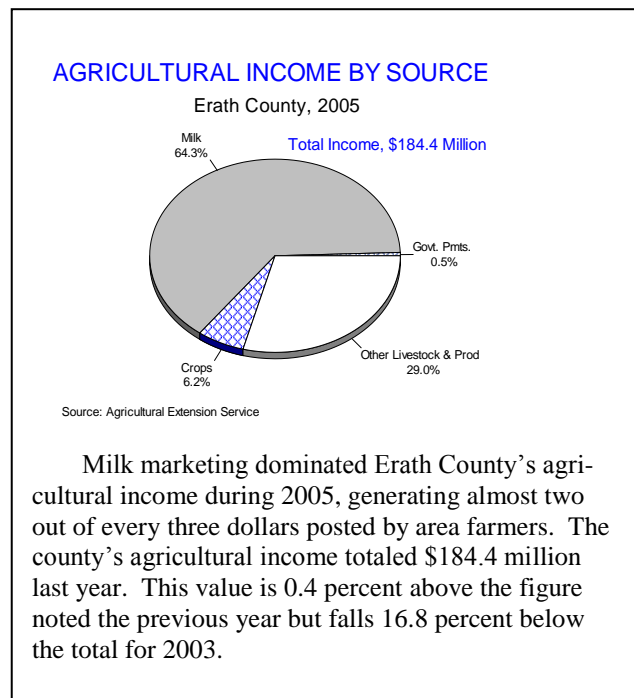
of 1,237.6 million pounds. The county's percentage contribution to the statewide total milk output dropped from 20 percent in 2004 to 19 percent in 2005. Compare those figures to that of 2002, when the county produced 25 percent of the state's total milk output, and it becomes apparent that the county's position as the leading producer has weakened in the past few years. In conjunction with the production decline, Erath County also experienced a slight drop in the total number of milk producers operating in the county. In 2004 there were 108 producers; in 2005, the number fell to 107.

In contrast to Erath County's figures, Comanche county has continued to expand in its milk production. The county realized a significant gain in its milk production from 2004 to 2005 with an increase of 7.6 percent. In 2004, 460.3 million pounds of milk were produced in the county, in 2005, the figure increased to 495.4 million pounds.

restingly, however, the county saw a decrease in its number of milk producers from 33 in 2004, to 30 in 2005. Comanche county remains Texas's third largest milk producer, and is close to overtaking Hopkins County as the second largest.

Total milk output in Texas increased by 12.3 percent from the 2004 figure of 5,986.2 million pounds to a total of 6,416.6 million pounds in 2005. This growth comes despite 15.9 percent decline in the number of producers from 794 in 2004 to 743 in 2005.

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



Milk marketing dominated Erath County's agricultural income during 2005, generating almost two out of every three dollars posted by area farmers. The county's agricultural income totaled \$184.4 million last year. This value is 0.4 percent above the figure noted the previous year but falls 16.8 percent below the total for 2003.