

Current Economic Situation, COVID-19

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Texas businesses are no strangers to natural disasters. Small business owners have weathered hurricanes, tornadoes, floods, wildfires, and more. These disasters are short events, although they may be followed by lengthy recovery periods.

The COVID-19 pandemic is different in many ways. This event is longer and unknown. Whereas a hurricane hits and moves on within a few days (albeit with massive physical destruction), pandemics can last weeks or months. Pandemics are also widespread rather than contained to a relatively defined geography. Furthermore, pandemics negatively shock both supply and demand. Each of these characters strengthen recessionary forces.

Many businesses, especially nonessential retail and service businesses have been shuttered by “Stay at home” and “shelter in place” measures. The retail industry employs 1.66 million of Texas’s 17.6 million workers (9.4 percent) and is the second largest non-government employer in Texas, behind healthcare and social assistance.ⁱ Nationally 9.6 percent of workers are retail employees. Essential businesses such as grocery stores, gas station, health and personal care stores, general merchandisers, and building material suppliers employ about half of these retail workers. However, many of the state’s personal service, entertainment, and accommodation employees are also prevented from working.

The U.S. Department of Labor reported a record 3.3 million Americans filed for unemployment benefits the week ending March 21, 2020, up from 282,000 the previous week and a marked increase from the previous record of 695,000 weekly claims in 1982.ⁱⁱ New unemployment claims the week ending March 28 doubled to a new record of 6.6 million claims.ⁱⁱⁱ Many economists are predicting a recession, the duration and severity of which will be affected by the longevity of the pandemic. Early models predicted improving conditions once quarantine restrictions are reduced, but longer event will extend the recession.^{iv} Sales and employment could remain below around 32 percent, although other models predict rates as low as 10.5 percent or as high as 40 percent.^v

Texas and the U.S. are currently in uncharted territory. Economic concerns are exacerbated by a sharp decline in oil prices resulting from tensions between Russia and Saudi Arabia, although the stock market ticked up April 2 on news the two entities had agreed to reduce oil supply. The price of West Texas intermediate crude dropped from more than \$47/barrel in early March 2020 to under \$15 by the end of March.^{vi} While oil and gas extraction makes up only 1.5 percent of Texas workers, 39.8 percent of U.S. oil and gas workers are employed in Texas.^{vii} Texas ranks first among all states in oil and gas extraction, petroleum and coal products manufacturing, and chemical manufacturing employment. The oil and gas industry also relies on a large number of employees in mining support and transportation. The state’s budget is also reliant upon oil and gas taxes.

ⁱ Bureau of Economic Analysis. Table SAEMP25N, 2018, pulled 4/1/2020.

ⁱⁱ Department of Labor. Press release, March 26, 2020. <https://oui.doleta.gov/press/2020/032620.pdf>

ⁱⁱⁱ Department of Labor data site: <https://oui.doleta.gov/unemploy/claims.asp>

^{iv} Burton et al. 2020. The U.S. and Michigan Economic Outlook for 2020–2022: an Interim Update, University of Michigan. [https://lsa.umich.edu/content/dam/econ-assets/Econdocs/RSQE%20PDFs/RSQE_Forecast_Update_\(2020.03\).pdf](https://lsa.umich.edu/content/dam/econ-assets/Econdocs/RSQE%20PDFs/RSQE_Forecast_Update_(2020.03).pdf)

^v Faria-e-Castro. 2020. Back-of-the-Envelope Estimates of Next Quarter’s Unemployment Rate. Federal Reserve Bank of St. Louis. <https://www.stlouisfed.org/on-the-economy/2020/march/back-envelope-estimates-next-quarters-unemployment-rate>

^{vi} US Energy Information Administration, 2020 data site: <https://www.eia.gov/dnav/pet/hist/RWTCD.htm>, <https://www.eia.gov/petroleum/data.php>

^{vii} Bureau of Economic Analysis. Table SAEMP25N, 2018, pulled 4/1/2020.