Current Economic Situation, COVID-19

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Texas Governor Greg Abbott marked Texas Independence Day March 2 by announcing the state would remove the statewide mask requirement and allow businesses to return to 100% occupancy on March 10. It is true that TX DSHS reports fewer COVID cases than earlier in 2021, but only about 1.8 percent of Texans are vaccinated.

Removing the mask mandate has generated a fair amount of comment, while increasing the occupancy of businesses and other facilities has been far less controversial. The mask mandate is not really an economic issue, although there are some interesting economic implications noted at the end of this publication. However, business occupancy has had a substantial effect on businesses, employment, local economies, and state tax receipts.

Occupancy limits have more strongly affected hospitality businesses, including restaurants and bars, than most other types of businesses. The few times I've ventured inside a restaurant, placards have marked tables as unavailable due to social distancing; there are roughly half the usual number of places to seat patrons. I haven't been to a play or concert (except my younger son's piano recitals) in a year. At the grocery and hardware stores, distancing mostly just spreads the same number of customers over a longer checkout line.

Nationally, the Bureau of Labor Statistics reports that, while the overall employment rate has fallen to 6.6 percent (not seasonally adjusted) as of February 2021, the arts, entertainment, and recreation unemployment rate (17.0 percent) is the worst within the overall leisure and hospitality sector (13.5 percent). Restaurant unemployment (12.2 percent) is better than accommodation (hotels, etc. at 16.5 percent). A year ago, in February 2020, just before the pandemic rocked the U.S., overall employment was at 3.8 percent, and leisure and hospitality unemployment was 5.7 percent.

Even more troubling for Texas, the unemployment rate for the mining, quarrying, and oil and gas extraction sector is 19.3 percent, essentially unchanged from December. The oil and gas sector made up 9.0 percent of the Texas economy in 2019. In February 2020 before oil prices crashed, the sector's unemployment rate was just 5.9 percent.

The oil sector's failure to rebound also levels a massive hit to the state's budget. Oil and natural gas production taxes constituted 8.7 percent of Texas tax collections in 2018. Oil taxes generated $3.9 billion for the state's coffers in 2019 and just $3.2 billion in 2020. Natural gas taxes took an even bigger hit, falling from $1.7 billion to $925 million.

The governor has limited ability to increase oil and gas demand. However, he can increase sales and alcoholic beverage taxes by increasing restaurant and bar capacities. Alcoholic beverage taxes are a small portion of the state's revenue, but sales tax makes up about 57.5 percent of the state's tax collections. Gross sales for the second quarter of 2020, the latest sales tax data available from the Texas Comptrollers historical database, were down almost $100 billion from the same quarter in 2019. Taxable sales were down almost $10 billion.

The Texas legislature, which meets in odd numbered years, is currently in session and needs cash—or least strong expectations that they will have cash when it is needed. The Texas Comptroller estimated smaller revenues for the 2022-23 biennium relative to the 2020-21 period in January. Mid-February, extreme cold exposed issues with the state's electricity grid. Governor Abbott declared reform of the grid an emergency item mid-February, which will likely require substantial funding. In symbolically opening the state, he may hope to signal consumers to increase overall expenditures. On the other hand, unemployed Texans don't necessarily have extra spending money. The Bureau of Labor Statistics' Unemployment Situation report continues to be an interesting read; if there is "good news", it may be that labor force participation is relatively stable.

The mask mandate does not have direct implications for the Texas economy. However, businesses must now adapt to the governor's guidance, local government directives (there are still provisions for local government to create additional restrictions), and consumer demands. A number of national chains almost immediately announced their intention to continue requiring masks. Initially HEB was expected to relax mask protocols, but more recent information from the Texas grocery chain indicated customers are still expected to mask in stores. It will be interesting to watch whether and how customers "vote with their feet" (and their dollar) as stores do or do not require masks. Observations of stores' and shoppers' reactions to changing requirements should show up as interesting sociology and economics publications in a couple of years.