**WACO METRO AREA ECONOMIC OUTLOOK FOR 2018**

by

Tom Kelly, Director

Baylor Center for Business and Economic Research

The Waco metro area economy generated continuous annual growth in employment over the 60-month period ending in modest growth in June and July, followed by negative growth over the months of August through October. As the Waco MSA labor market approached full employment it has been increasingly difficult to maintain the pace of job growth that was achieved during the previous year. Nevertheless, the Waco metro area continues to benefit from its growing recognition as a favorable location for both existing businesses and new investments that will continue to support favorable future growth in output and employment.

 **Figure 1**

**Annual Percent Change in Waco MSA Nonagricultural Employment**

Source: U.S. Bureau of Labor Statistics

Annual GDP growth produced by all U.S. Metro Areas and by the twenty-five Texas Metro Areas in 2016 that were recently released by the U.S. Department of Commerce are shown in Table 1. Specifically, annual real GDP in 2009 dollars produced among Texas Metro Areas compared for 2011, 2015, and 2016 show that Waco’s 2016 annual rate of increase in real GDP of 3.9% more than doubled the 1.7% average annual growth rate of the 382 metro areas in the United States. Nearly all the Texas metro areas from 2011 through 2015 experienced growth before declining energy prices in 2016 substantially slowed real GDP growth in energy intensive areas. However, since Waco is an importer of energy resources Waco’s economy has benefitted from lower energy prices.

**Table 1**

**U.S. and Texas Metro Area Real GDP and Average Annual Percent Change**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   |   | $Millions  |   | Yearly  | % Chg. |
|   | 2011 | 2015 | 2016 | 2011-15 | 2015-16 |
| U.S. Metropolitan Areas | 13,400,379 | 14,863,879 | 14,802,781 | 1.8 | 1.7 |
| Abilene  | 5,660 | 6,733 | 6,539 | 4.4 | -2.9 |
| Amarillo | 10,943 | 11,763 | 11,906 | 1.8 | 1.2 |
| Austin-Round Rock | 93,413 | 119,914 | 125,816 | 6.4 | 4.9 |
| Brownsville-Harlingen | 8,532 | 8,918 | 9,160 | 1.1 | 1.1 |
| College Station-Bryan | 7,531 | 8,782 | 8,599 | 3.9 | -2.1 |
| Corpus Christi | 17,991 | 20,625 | 20,268 | 3.5 | -1.7 |
| Dallas-Fort Worth-Arlington | 372,208 | 457,409 | 471,278 | 2.3 | 3.0 |
| El Paso | 24,318 | 24,841 | 25,380 | 0.5 | 2.2 |
| Houston-Woodlands-Sugar Land | 385,028 | 456,245 | 442,458 | 2.6 | -3.0 |
| Killeen-Temple | 15,502 | 15,212 | 15,817 | -0.1 | 4.0 |
| Laredo | 6,989 | 7,112 | 7,079 | 0.3 | -0.5 |
| Longview | 9,795 | 9,680 | 9,017 | 0.0 | -6.9 |
| Lubbock | 10,387 | 11,558 | 11,858 | 2.7 | 2.6 |
| McAllen-Edinburg-Mission | 15,525 | 17,175 | 17,303 | 2.6 | 0.7 |
| Midland | 19,827 | 29,777 | 29,591 | 10.7 | -0.6 |
| Odessa | 7,493 | 9,577 | 8,308 | 6.3 | -13.3 |
| San Angelo | 4,044 | 4,713 | 4,505 | 3.9 | -4.4 |
| San Antonio-New Braunfels | 83,814 | 103,032 | 109,348 | 5.3 | 3.1 |
| Sherman-Denison | 3,557 | 3,827 | 3,894 | 1.8 | 1.7 |
| Texarkana, TX-AR | 4,984 | 4,549 | 4,646 | -0.2 | 2.1 |
| Tyler | 11,798 | 14,286 | 14,537 | 4.9 | 1.8 |
| Victoria | 4,100 | 4,821 | 4,330 | 4.1 | -10.2 |
| **Waco** | **8,995** | **10,191** | **10,586** | **3.2** | **3.9** |
| Wichita Falls | 6,294 | 6,259 | 6,175 | 0.0 | -1.3 |

Source: U.S. Dept. of Commerce

 Table 2 shows that growth in real output has generated significant increases in the average annual percent change in quarterly estimates of employment and the labor force in the Waco Metro Area compared with the same quarter of the previous year. Early on during an expansion period employment growth often precedes growth in the labor force that responds with both a lower layoff rate and higher job finding rate among existing and potential workers. During the second quarter of 2016 growth in employment was more than matched by growth in the labor force that not only increased due to a higher the labor force participation rate of existing workers but also benefitted from net in migration of workers. After reaching a 7.5% record quarterly growth rate in employment in 2nd quarter 2016 the annual pace of employment growth slowed to about 2.2% over the following three quarters before falling to 0.5% in the second quarter of 2017. In September and October 2017 the unemployment rate in Waco fell below 4% due to a decrease in the labor force that exceeded the loss of local jobs compared with same month in the previous year. Certainly, the pace of local job growth is being impacted by the difficulty in finding relatively mobile skilled workers that are attracted by job opportunities in the gulf coast region that is recovering from the recent hurricane.

**Table 2**

**Annual Percent Change in Waco MSA Quarterly Labor Force,**

**Employment, and Unemployment Rate**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  Year. Quarter | Labor Force |  | Employment | Unemployment  |
| Annual % Change |  | Annual % Change | Rate |
| 2014.Q1 | -0.3 |  | 3.8 | 5.4 |
| 2014.Q2 | -0.3 |  | 4.7 | 5.2 |
| 2014.Q3 | -0.9 |  | 3.6 | 4.9 |
| 2014.Q4 | 2.7 |  | 8.0 | 5.8 |
| 2015.Q1 | -1.2 |  | 3.8 | 4.0 |
| 2015.Q2 | -4.1 |  | 0.4 | 4.1 |
| 2015.Q3 | -1.1 |  | -0.6 | 5.4 |
| 2015.Q4 | -0.5 |  | 1.5 | 5.2 |
| 2016.Q1 | 3.9 |  | 5.4 | 3.9 |
| 2016.Q2 | 6.7 |  | 7.5 | 4.0 |
| 2016.Q3 | 2.3 |  | 2.1 | 4.1 |
| 2016.Q4 | 2.4 |  | 2.4 | 4.1 |
| 2017.Q1 | 2.6 |  | 2.1 | 4.3 |
| 2017.Q2 | 0.7 |  | 0.5 | 4.3 |
| Source: Texas Workforce Commission |  |   |   |

**Waco’s Economic Momentum**

The City of Waco is the largest city in the Waco MSA that includes McLennan and Falls counties. About two-thirds of the workers employed in the City of Waco live outside of the Waco city limits, mostly within the Waco MSA. Over the past five years the Waco MSA’s population increased by 11.2%, reaching over 262,400 persons in 2015 followed by continued net population gains since that period. The Waco MSA’s attraction to outside residents includes not only rising employment opportunities, but the cost of living that is estimated to be at least 12 percent lower than the national average. The 2015 median household income of residents within the Waco MSA amounted to $42.2 thousand with approximately 22% below the poverty rate. By the middle of 2017 the Waco economy had not only recovered from the 2008-09 recession, but it had also generated an additional 11.2 thousand jobs compared with its early 2008 pre-recession peak.

The economic environment of Waco is benefitting from important initiatives that support economic growth within the city and the surrounding region by encouraging and supporting new investment by existing businesses, attracting new investors and workers looking to relocate, and encouraging the development of cultural activities that are attractive to tourists and entrepreneurs. Significant catalysts are providing momentum for downtown development, including the Waco Downtown Cultural District approved in 2016 by the Texas Commission on the Arts, the success of the Downtown Farmer’s Market, and Magnolia Market and Silos as the retail designation for HGTV’s “Fixer Upper” venue created by Chip and Joanna Gains. Other events include the Texas Food Truck Showdown, the Brazos Nights concerts, the Waco Wonderland holiday celebration. Proximity to Baylor Stadium and the development of walking corridors along Lake Brazos further encourage the development of the adjacent I-35 area that add to the momentum for growth in the downtown area. Downtown Waco continues to attract investors, such as the announcement of Jackson Station during the same summer 2017 week that the Waco City Council heard proposals for development around Heritage Square near Waco City Hall and the Waco Convention Center. Local attractions have contributed to a surge in visitors that has tripled the number of visitors over the past year and increased hotel revenues by 19 percent.

 Bond rating services continue to recognize Waco’s favorable growth that reflects its regional importance and ability to sustain stable economic and financial trends. According to the Perryman Group’s long-run forecast based on relative competitiveness and infrastructure development, by the year 2040 the Waco area population will have increased by over 59 thousand persons with employment growth averaging almost 1.5% per year while real GDP increases at a 3.3% annual pace and growth in personal income averages about 3.6% per year. Waco continues to benefit from the presence of Baylor University, MCC, and TSTC that support an educated workforce that is expanding in importance among prospective pools of labor. The Waco area benefits from eleven business parks including those sponsored by the Waco Industrial Foundation. Development of downtown Waco continues to focus on its ability to attract talented workers to the area, including “space-based” economic development that increases the quality of life to attract entrepreneurs and encourages people to want to live there.

Source: U.S. Dept. of Commerce

Figure 2 shows annual data available through 2015 that measures the average annual income per capita (PCPI) in Waco’s MSA compared with the U.S. average. Waco’s relative growth during the 2008-09 recession is due to its relative stability compared with many other parts of the country, especially in the housing market. The two years of relatively slow growth in PCPI during the 2011- 12 period is largely due to the more rapid growth in larger metro areas and in smaller metro area regions that benefitted from rising energy prices. Since 2012 Waco’s average annual income per capita has increased relative to the 382 Metropolitan Stastistical Areas (MSAs) in the nation. The 2014-2015 percent change in Waco’s personal income was 5.3% compared with 4.5% nationwide. Even after adjusting for faster population growth, Waco’s personal income per capita (PCPI) in 2015 was 4.2 percent higher than in 2014 while the national percent change was only 3.7 percent over the same period. Over the 2014-2015 period yearly net earnings were up 5.6% in Waco compared with 4.7% nationwide, while local income from dividends, interest, and rent increased 3.3% compared with 2.8% nationwide. Personal current transfer payments were up 5.6% locally compared with 5.4% nationwide primarily due to the relative increase in the population of retirees moving into Waco from other parts of the country. Real GDP growth since 2015 has undoubtedly further improved Waco’s ranking in personal income per capita among U.S. metro areas.

Table 3 shows that based on annual real GDP measures released on September 20, 2017 by the U.S. Bureau of Economic Analysis Waco’s 2016 growth of 3.9% was its fastest rate over the past five years, ranking 41st among all 382 metro areas in the U.S. economy.

|  |
| --- |
|  **Table 3** |
|  **Real Gross Domestic Product in Waco Metro Area** |
| Year | Millions of Chained | Annual Percent |
| (2009) Dollars | Change  |
| 2012 | $9,302  | 3.4 |
| 2013 | $9,650  | 3.7 |
| 2014 | $9,862  | 2.2 |
| 2015 | $10,191  | 3.3 |
| 2016 | $10,586  | 3.9 |
| Source: U.S. Bureau of Economic Analysis |  |

Table 4 shows the percent contribution by each sector to the 3.9 total annual percent change in Waco’s 2016 real GDP. Nearly every sector of the Waco economy exhibited positive output growth in 2016, although gains in non- durable manufactured goods served to offset losses in the durable sector. The strongest positive growth occurred in the output of finance, insurance, and real estate firms followed by significant growth in construction output and professional and business services, followed closely by education, healthcare, and social assistance.

**Table 4**

**Percent Contribution to Waco’s 2016 Change in Real GDP**

|  |  |
| --- | --- |
| Contribution to Percent Change in 2016 Real GDP | Waco MSA |
| Natural resources and mining | -0.1 |
| Construction | 0.5 |
| Durable goods manufacturing | -0.3 |
| Nondurable goods manufacturing | 0.3 |
| Trade | 0.4 |
| Transportation and utilities | 0.3 |
| Information | -0.1 |
| Finance, insurance, and real estate | 1.7 |
| Professional and business services | 0.5 |
| Education, healthcare, and social assistance | 0.4 |
| Arts, recreation, accommodation, and food services | 0.1 |
| Other services, except government | 0.1 |
| Government | 0.2 |
| Total  | **3.9** |

|  |
| --- |
| Source: U.S. Bureau of Economic Analysis |

As previously noted beginning in the third quarter of 2016 the annual rate of change in the monthly labor force and employment slowed, but because of their rapid growth early in the year the annual pace of growth in real GDP reached reached a five-year high. It’s too early to predict the annual rate of change in employment in the immediate future, since it includes the impact of slower job creation in several industries that had been growing until recently. But, there are a number of persons and investors, including retirees and businesses, that continue to be attracted to Waco’s favorable amenities, cost of living, and central location.

**Table 5**

**2017 Monthly Total and Annual Percent Change in Waco MSA Employment**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Industry Category | May | Jun | Jul | Aug |  Sep |  Oct |
| [Total Nonfarm](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 119.5 | [118.9](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 118.8 | 119.0 | 118.8 | 118.9 |
| 12-month % change | 0.9 | [0.1](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 0.3 | -0.3 | -0.6 | -0.4 |
| [Construction](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 7.4 | [7.5](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 7.5 | 7.4 | 7.4 | 7.3 |
| 12-month % change | 1.4 | [1.4](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 1.4 | 1.4 | 1.4 | 0.0 |
| [Manufacturing](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 16.4 | [16.5](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 16.6 | 16.5 | 16.5 | 16.4 |
| 12-month % change | 0.6 | [0.6](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 1.2 | 0.0 | 0.6 | 0.0 |
| [Trade, Transp., and Util.](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 20.2 | [20.2](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 20.2 | 20.3 | 20.3 | 20.4 |
| 12-month % change | -1.5 | [-1.5](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | -1.0 | -1.5 | -1.9 | -1.0 |
| [Information](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 0.9 | [0.9](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 1.0 | 1.0 | 1.0 | 1.0 |
| 12-month % change | -18.2 | [-18.2](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 0.0 | 0.0 | 0.0 | 0.0 |
| [Financial Activities](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 6.9 | [6.9](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 6.9 | 6.9 | 6.9 | 6.9 |
| 12-month % change | 1.5 | [0.0](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 0.0 | -1.4 | 0.0 | 0.0 |
| [Prof. and Business Services](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 12.4 | [11.6](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 11.6 | 11.8 | 11.8 | 11.9 |
| 12-month % change | 7.8 | [0.9](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | -1.7 | -3.3 | -3.3 | -3.3 |
| [Education and Health Serv.](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3)  | 19.9 | [19.9](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 19.9 | 20.2 | 20.0 | 20.1 |
| 12-month % change | 0.5 | [0.5](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 0.5 | 1.0 | -0.5 | -0.5 |
| [Leisure and Hospitality](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 12.0 | [12.0](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 11.7 | 11.6 | 11.6 | 11.4 |
| 12-month % change | 0.0 | [0.8](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 0.0 | -1.7 | -1.7 | -2.6 |
| [Other Services](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 3.9 | [4.0](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 4.1 | 4.0 | 3.9 | 3.9 |
| 12-month % change | 0.0 | [0.0](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 2.5 | 2.6 | 0.0 | 2.6 |
| [Government](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.3) | 19.5 | [19.4](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 19.3 | 19.3 | 19.4 | 19.6 |
| 12-month % change | 1.6 | [0.5](https://www.bls.gov/regions/southwest/tx_waco_msa.htm#eag_tx_waco_msa.f.p) | 1.0 | 1.0 | 1.0 | 2.1 |

Source: U.S. Bureau of Labor Statistics

**Manufacturing Outlook**

An important source of Waco’s income growth and stability can be attributed to its diversified center for advanced manufacturing of products that include transportation equipment, pharmaceuticals, electronic assembly, industrial equipment, building materials, and plastic and steel manufacturing that are not directly dependent on the price of locally produced energy resources. Waco MSA manufacturing employment amounts to approximately 14 percent of the workforce that is more than 1.5 times the state and national averages. Texas State Technical College, headquartered in Waco, is among the top ten in the nation in awarding two-year technical engineering and computer science degrees and is Texas’ No. 1 provider of precision production, manufacturing and engineering associate/certificate programs. Baylor University’s top-rated business, entrepreneurship and engineering programs that include the Baylor Research and Innovation Collaborative (BRIC) provide talent and research capacity that develops and promotes advanced technology training and [workforce development](https://en.wikipedia.org/wiki/Workforce_development).

Source: Texas Workforce Commission

 Figure 3 shows that manufacturing employment that reached a peak average of 16,167 workers in 4th quarter of 2006 decreased to a quarterly average of 14,272 in 4th quarter 2009, largely in response to the Great Recession. In 2010-11 manufacturing job growth reached stability before beginning to rise in 2012. In 2nd quarter 2015 the manufacturing sector reached a quarterly average of 16,177 workers that replaced the jobs lost during the recession, followed by an annual rate of job growth that averaged over eleven percent in 2016 before reaching stable growth through 1st quarter 2017. Although employment by Waco MSA manufacturing firms increased since 1st quarter 2015, the pace of growth decreased in 2017 with only 100 more manufacturing jobs in September 2017 compared with the same month a year ago.

The aerospace industry and other makers of transportation equipment are leading employers in the Waco economy. SpaceX, a designer, manufacturer, and launcher of advanced spacecraft employs about 500 engineering and technical professionals. L-3 Communications with about 1,300 employees modifies military and commercial aircraft at its facility at Texas State Technical College, even though it has recently experienced cuts in defense spending that has led to layoffs. Allergan is another advance manufacturing company that is adding skilled production jobs as it expands its facilities to produce eyecare pharmaceuticals. Waco is continuing to develop its manufacturing base to include higher technology products that attract higher educated and more productive workers that command higher real incomes. As shown in figure 4, during the 2008-09 recession and beyond the employment of more productive manufacturing workers has supported growth in real wages per worker even during periods of relatively slow employment growth.

Source: Texas Workforce Commission

Table 6 shows that the highest average weekly manufacturing wage occurs among firms that are more capital intensive and employ workers who are trained to perform in more advanced, higher technology sectors. For example, employment in more capital-intensive transportation equipment pays an average weekly wage that averages 2.6 times the average weekly wage in food processing.

**Table 6**

**Manufacturing Employment and Average Weekly Wage in 1st Qtr. 2017**

|  |  |  |
| --- | --- | --- |
| Selected Manufacturing Sectors | Employment | Avg. Weekly Wage |
| Food manufacturing | 3,186 |  $819 |
| Paper manufacturing |  620 | $1,213 |
| Petroleum and coal products  |  37 | $1,228 |
| Chemical products | 1,206 | $1,924 |
| Nonmetallic mineral product manufacturing |  998 | $1,359 |
| Fabricated metal product manufacturing | 1,088 | $1,128 |
| Electrical equipment and appliance mfg. |  121 |  $953 |
| Transportation equipment manufacturing | 4,201 | $2,148 |
| Furniture and related product manufacturing |  238 |  $756 |
| Miscellaneous manufacturing |  289 |  $762 |

Source: Texas Workforce Commission

**Business and Professional Services Outlook**

Following the Great Recession producers have not only managed their production workers more closely, but they outsourced other activities, such as legal, accounting, and marketing functions, to business and professional service firms that until recently became one of the fastest growing sectors in the Waco economy and beyond. Waco job growth from 2012 through 2014 was led by the professional and business services sector that added 700 jobs, or 7.6% annually. However, figure 5 shows that job growth in the sector leveled off in 2016. Waco’s September’s 2017 annual rate of business and professional services employment dropped by approximately 500 workers compared with September 2016. According to the Bureau of Labor Statistics, job growth in professional and technical occupations will trail only growth in healthcare and other forms of social assistance as the American population ages. Most of this growth is in computer systems design, especially mobile technologies, and in scientific and technical consulting that includes advice on planning and logistics, implementation of new technologies, and complying with workplace safety, environmental, and employee regulations. While it is too early to predict future growth in the number of local business and professional service jobs, Waco will face stronger competition from larger business and professional service firms that are headquartered in larger neighboring cities.

Source: Texas Workforce Commission

**The Education and Healthcare Outlook**

The Waco education and healthcare sector accounts for about 17 percent of all nonfarm employment that amounts to about 20,000 payroll jobs. Figure 6 shows that while remaining positive, the growth rate in total employment in the sector decreased during the summer months of 2017 compared with the previous two years.

Source: Texas Workforce Commission

The largest employer in this sector is Baylor University that in Fall 2017 served a record level of 17,059 students that includes 14,316 undergraduate and 2,743 graduate/professional students. In the healthcare industry the Waco metro area is served by two major hospitals, Scott & White and Providence, that along with surrounding clinics are part of an integrated local healthcare providers. Hospitals offer highly specialized medical services, but the BLS predicts that job growth will expand not only among healthcare specialists but also among providers of personal care and social assistance services as the population ages.

**The Leisure and Hospitality Outlook**

 During the 12 months of 2016, average employment in Waco’s leisure and hospitality sector increased by 1.8 percent reaching a maximum in May of 12 thousand payroll jobs. Some of the growth in the sector is attributed to the large number of visitors attracted by the Home and Garden Television series “Fixer Upper.” However, the growth of Baylor University student population, the new McLane football stadium and the development of cultural arts and museum attractions, such as the Waco Mammoth National Monument that had a record-breaking spring with thousands of people coming daily for public tours even as it reached capacity for end-of-the-school-year field trips.

 Source: Texas Workforce Commission

 Waco leisure and hospitality employment in decreased in 2017 August and September compared with the level and growth rate achieved during the same months in 2016. It’s too early to predict if the monthly pace achieved in 2016 will resurface next year, but the recent announcement that new episodes of “Fixer Upper” will end this year has given rise to concern regarding Waco’s ability to sustain the dramatic pace of growth in the hospitality industry that it has achieved recently. On the positive side the development of Waco as a designation for cultural arts exhibits and performances will help to support growth in visitor demand that will emerge in the future.

**Home Sales and Construction Outlook**

According to theTexas Workforce Commission, September 2017 jobs in the Waco MSA decreased from 119,500 to 118,600, a yearly decrease of 0.75% compared with September 2016. This marks a distinct change from the positive average 1.5% annual rate of growth in employment over the past five years. Despite the reduction in employment the September 2017 unemployment rate fell to 3.8% from 4.2% in September 2016. Clearly, the labor force decreased over the past year which raises the question of how this might affect population growth and the demand for housing.

 Figure 8 shows that despite seasonal changes the 12-month moving average of the number of single family homes sold in the Waco MSA have remained relatively stable over the last 21 months. September 2017 sales volume for single-unit housing increased 4.13% from 242 to 253 transactions compared with September 2016. However, over the same period the year-to-date average selling price has increased 22.03% from $182,244 to $222,389. The average price per square foot in September 2017 increased to $103 compared to $87 per square foot in September 2016. Year-to-date total dollar sales volume increased 27% from $44.1 million to $56.04 million. September 2017 monthly inventory for single-unit housing rose compared with September 2016 rose slightly from a 2.9 to 3.1-month supply and the number of days to sell increased from 83 to 87. The persistent relatively low inventory reflects a seller’s market with pent-up demand that is projected to continue to put upward pressure on the average home selling prices over the next year.

Source: Texas A&M Real Estate Center

**Table 7**

**Waco MSA Single Family Housing Performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   |  |  |  |   |   |
| Date | **Sales** | **Dollar** | **Average** | **Median** | **Total** | **Months** |
| **Volume** | **Price** | **Price** | **Listings** | **Inventory** |
| Jan-15 | 70 | 10,501,336 | 150,019 | 133,350 | 274 | 2.8 |
| Feb-15 | 77 | 11,281,772 | 146,517 | 139,500 | 285 | 2.8 |
| Mar-15 | 107 | 15,413,183 | 144,048 | 132,500 | 278 | 2.8 |
| Apr-15 | 117 | 19,393,874 | 165,760 | 144,750 | 312 | 3.1 |
| May-15 | 128 | 22,514,798 | 175,897 | 155,000 | 332 | 3.2 |
| Jun-15 | 132 | 24,184,226 | 183,214 | 157,500 | 341 | 3.3 |
| Jul-15 | 157 | 26,802,179 | 170,715 | 139,900 | 352 | 3.3 |
| Aug-15 | 140 | 20,841,544 | 148,868 | 134,000 | 368 | 3.4 |
| Sep-15 | 81 | 13,954,197 | 172,274 | 165,500 | 394 | 3.6 |
| Oct-15 | 120 | 18,522,625 | 154,355 | 126,000 | 371 | 3.4 |
| Nov-15 | 83 | 13,368,778 | 161,070 | 142,500 | 364 | 3.3 |
| Dec-15 | 107 | 18,106,670 | 169,221 | 154,000 | 341 | 3.1 |
| Jan-16 | 69 | 10,669,983 | 154,637 | 153,300 | 320 | 2.9 |
| Feb-16 | 85 | 11,979,140 | 140,931 | 125,900 | 324 | 2.9 |
| Mar-16 | 120 | 21,224,426 | 176,870 | 151,925 | 288 | 2.6 |
| Apr-16 | 136 | 21,926,523 | 161,224 | 140,812 | 282 | 2.5 |
| May-16 | 131 | 22,499,980 | 171,756 | 152,900 | 272 | 2.4 |
| Jun-16 | 145 | 26,557,258 | 183,154 | 150,000 | 257 | 2.2 |
| Jul-16 | 127 | 24,780,797 | 195,124 | 165,000 | 277 | 2.5 |
| Aug-16 | 119 | 19,842,299 | 166,742 | 147,000 | 284 | 2.6 |
| Sep-16 | 125 | 21,977,722 | 175,822 | 144,500 | 277 | 2.4 |
| Oct-16 | 125 | 21,081,023 | 168,648 | 140,000 | 279 | 2.4 |
| Nov-16 | 107 | 18,697,328 | 174,741 | 149,800 | 260 | 2.2 |
| Dec-16 | 88 | 15,676,198 | 178,139 | 162,500 | 252 | 2.2 |
| Jan-17 | 62 | 10,459,446 | 168,701 | 148,050 | 251 | 2.2 |
| Feb-17 | 85 | 11,951,312 | 140,604 | 137,000 | 225 | 2.0 |
| Mar-17 | 107 | 19,818,981 | 185,224 | 168,000 | 227 | 2.0 |
| Apr-17 | 124 | 21,194,116 | 170,920 | 159,900 | 227 | 2.0 |
| May-17 | 143 | 24,618,141 | 172,155 | 147,250 | 233 | 2.1 |
| Jun-17 | 160 | 32,077,975 | 200,487 | 179,950 | 274 | 2.4 |
| Jul-17 | 125 | 22,900,141 | 183,201 | 160,500 | 307 | 2.7 |
| Aug-17 | 114 | 23,005,847 | 201,806 | 162,500 | 310 | 2.7 |
| Sep-17 | 111 | 22,996,507 | 207,176 | 180,000 | 312 | 2.8 |

Source: Texas A&M Real Estate Center

Source: Texas A&M Real Estate Center

 Figure 9 shows the Waco MSA annual number of single family home building permits from the year 2000 through 2016. Waco’s annual rate of single family building permits peaked in 2005 before decreasing significantly in response to the mortgage crisis that led to the 2008-09 recession. After three years of very little growth the rate of home construction increased until 2013 and, except for seasonal changes (shown in figure 10), has increased at a relatively stable annual rate since that time.

Source: Texas A&M Real Estate Center

 Not surprisingly, a recent Census Bureau study finds that 86% of multiunit structures are rented, while 87% of single-family housing units are owner-occupied. The U.S. population is becoming increasingly urbanized, doubling in relative size over the past century from 39.6% in 1990 to 79% in 2000. More recently the urban population rose from 80.7% in 2010 to 85.6% in 2015. Even more significant is that from 2000 to 2010 most of the urban growth took place in the suburbs, but from 2010 to 2015 this pattern shifted in favor of growth in the urban core as young, educated Millennials (1981-1997 birth cohort) increasingly delayed family formation and sought more densely populated areas that increased the demand for multiunit housing.

 Over the most recent three-year period the Waco MSA has experienced a substantial increase in the number of multiunit housing permits. This pattern of urban housing demand is being observed in cities throughout the country based on two primary reasons that have emerged since the Great Recession; first, the passage of Baby Boomers into their senior years who downsize for larger single-unit housing into multiunit housing and assisted living centers, and, second, the preference of Millennials drawn to the urban core, often to be closer to work and nonwork activities such as shopping and recreation. A third, more local influence is the growth in Baylor student enrollment and former students who seek investment opportunities in the urban core area. The majority live in multiunit apartments that are consistent with their relatively small space requirements.

 September 2017 sales volume of single-unit residential housing in the Waco MSA increased 4.13% to from 242 to 252 transactions, while September year-to-date closings totaled 2,095 with a dollar volume of $56.04 million compared with $44.1 million over the same period in 2017. The average sales price increased 22.03% to $222,389 compared with a year ago, representing an average increase per square foot from $87 to $103. The strongest demand was for homes with a price above the median value of $179,500 that was 14.77% above the median price of $156,400. Compared with a year ago the inventory of single family homes rose from 2.9 to 3.1 months, and the average days to sell increased from 83 to 87.

**Table 8**

**Central Texas Cities Housing Affordability**

**3rd Quarter 2017**

|  |  |
| --- | --- |
|  **Housing Area** |  **THAI** |
| Dallas-Plano-Irving | 1.43 |
| Ft. Worth-Arlington | 1.73 |
| Waco | 1.79 |
| Temple-Killeen | 1.99 |
| Austin-Rd. Rock | 1.49 |
| San Antonio-New Braunfels | 1.57 |
|  **Texas Total** | **1.54** |

Source: Texas A&M Real Estate Center

Table 8 shows that despite the recent increase in selling prices local housing continues to be affordable according to the local Housing Affordability Index (THAI) that measures the capacity to purchase a house, which typically revolves around the ability to qualify for the purchase mortgage. It measures the ability of the median-income family to purchase the median-priced, existing house in the area using standard, conventional financing terms. Specifically, the equation is as follows: THAI = median family income (MFI) required to qualify for a conventional purchase mortgage (RI), where: RI = required monthly mortgage payment × 12 qualifying ratio (QR). The affordability index estimates for different areas are often compared to estimate overall housing affordability of one area relative to another. For example, if Area A has an affordability index of 1.2 and Area B has an affordability index of 0.90, then local housing prices are significantly higher relative to local income in Area B than in Area A, or housing is more affordable in Area A than in Area B. Waco’s THAI is higher than the Texas statewide average and exceeds the larger selected geographic areas along Interstate 35 for the third quarter of 2017.

**Conclusions**

Following the onset of the housing crisis and the national recession that began in late 2007 the Waco MSA experienced job losses from 2009 through 2011 that averaged 0.5% (about 600 jobs) annually. Manufacturing lost an average of 400 jobs per year, or 2.4%, while the wholesale and retail trade sector loss 200 jobs, or 1.3% per year. The local government sector recorded the most gains, adding 300 jobs. However, since 2012 the rate of growth in nonfarm payroll jobs has increased every year from a rate of 0.2% in 2012 to over 2% in 2015, driven by growth in the professional and business services sector and education and health sector.

 Over the past three years the Central Texas economy has demonstrated strength and resilience that has drawn the attention of a growing group of persons who have flocked to the Texas I-35 corridor and are taking notice of Waco as a favorable place to invest and enjoy affordable housing, less congestion, and growing amenities. The most obvious symbols of this activity are the development of the downtown business district, the Brazos River corridor that has been enhanced by the new Baylor McLane Stadium, the Farmer’s Market, the “fixer-upper” Silos, and the growing impact of museums, art galleries, and performance venues promoted by the Waco Cultural Arts District. The record high occupancy rates of existing hotels have attracted new hotel investors that will further enhance Waco as a favorable location for conventions and other visitor traffic next year. Health care and assisted living facilities are continuing to expand services due to rising income, population growth, and increase in retiring “baby boomers” who are attracted by Waco’s amenities and central Texas location. While recent growth in the local economy and relatively slow growth in housing starts is putting upward pressure on housing prices, Waco’s housing affordability rate remains favorable while the annual rate of inflation in Central Texas remains close to the national average of about 2 percent. The location of housing starts is partly due to the age distribution of the population. Generation X that reached their independent household formation age in the 1980s favored suburban locations. A higher percentage of the subsequent age group of Millennials have more recently favored multiunit housing nearer the urban core. As Millennials age, increasing family formation will once again favor suburban housing locations, although core multiunit housing demand will be replaced by subsequent Generation Z (1998-) households and retiring Baby Boomers. Although negative growth in local nonfarm employment and the labor force has decreased slightly since August 2017, employment and population are projected to continue to increase over the next three years with local population projected to increase by an average of 2,175 persons, or 0.8 percent annually.