

# Cross Timbers Business Report

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## Expanding Trade Deficit Hinders Fourth Quarter Growth

By Adelaide Odoteye

The U.S. economy experienced a 3.1 percent annual growth rate from October to December of 2004. This figure represents the lowest growth rate since a 1.9 percent increase in the first quarter of 2003. According to *The Wall Street Journal*, many analysts lowered their GDP forecasts for 2005 in the wake of a government report showing a 7.7 percent upsurge in the trade gap to a record \$60.3 billion in November.

Gross domestic product (GDP), a measure of all the goods and services produced in the U.S., rose by 3.1 percent in the fourth quarter of 2004, compared to the 3.9 percent and 3.3 percent growth rates posted in the third and second quarters. GDP is principally determined by consumer spending, business investment, government purchases, and net exports. Consumer spending, which comprises approximately two-thirds of GDP, grew by a robust 4.6 percent but still lagged behind the 5.1 percent advance reported in the previous quarter. Purchases of durable goods, such as cars and appliances intended to last at least three years, climbed by 6.7 percent compared to 17.2 percent in the third quarter. Purchases of non-durable goods, such as food and clothing, rose 5.8 percent – up from 4.7 percent in the third quarter.

Business investment mirrored the downward trend in consumer spending with a 10.3 percent increase in the fourth quarter, down from a 13 percent climb in the prior period.

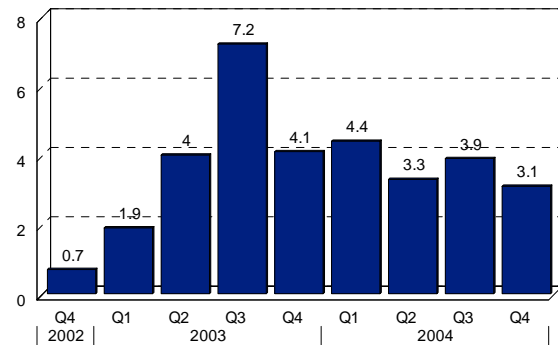
Federal government spending gained 1.6 percent, falling below a 4.8 percent rise in the third quarter. State and local government spending increased by 0.6 percent between October and December.

The overall effect of the country's yawning international trade deficit was to trim the fourth quarter's growth

rate by 1.73 percentage points. U.S. exports, which increase GDP, fell by 3.9 percent in the fourth quarter. Conversely, imports, which reduce GDP, grew by 9.1 percent. This downward trend in net exports compares unfavorably to the third quarter, when exports advanced 6 percent compared to a 4.6 percent increase in imports.

### Changes in Real GDP

Annual Percentage Rates



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

Despite the sluggish rate of growth in the third quarter, the picture for the entire year of 2004 was heartening. GDP expanded overall by 4.4 percent, in contrast to a 3 percent expansion in 2003 and a 1.9 percent growth in 2002. Furthermore, the Commerce Department will issue additional data in the near future that may lead to significant revisions of the current estimate of the fourth quarter's economic growth estimate.

*Adelaide Odoteye is a senior majoring in accounting at Tarleton State University.*

## Lower Jobless Rates Signal Stronger Labor Markets

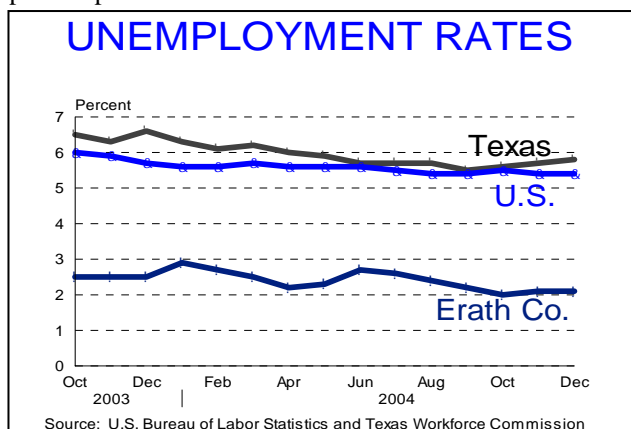
By Charles Elmore

The national unemployment rate fell slightly from 5.5 percent in October to 5.4 percent for the final two months of 2004's fourth quarter. Last year ended respectably with an increase of 20,000 jobs from November to December. A variety of jobs showed major gains, with professional and business services accounting for the majority of the growth. The nation's jobless rate averaged 5.5 percent in 2004. This figure compares favorably to the previous year's 6.0 percent average.

In contrast to the nation, Texas' unemployment rate has continually increased since September 2004. At the end of December, the state's unemployment figure was 5.8 percent. This change reverses the downward movement in the jobless rate of the previous year. Despite the weakness of last quarter, the state's 2004's average jobless rate of 5.9 percent falls well below the 6.7 percent average noted the previous year.

In the Cross Timbers Area, all five counties reported lower unemployment rates than either the nation or the state. All counties also noted lower unemployment rates in 2004 than in the previous year.

Bosque County's jobless rate declined from 4.4 percent in September to 4.0 percent in October and November before rising to 4.7 percent for December. The annual average of 4.9 percent falls well below the average figure of 6.1 percent posted in 2003.



In Comanche County, the unemployment rate bounced from 2.6 percent in October to 3.0 percent in November to 2.9 percent in December. Last year's average jobless figure of 3.5 percent falls slightly below the 3.6 percent mean noted the year before.

The Eastland County unemployment rate jumped from 2.8 percent in September to 3.4 percent in November then eased back to 3.3 percent at year's end. Eastland County's average 2004 unemployment rate of 3.5 percent compares favorably to the 3.9 percent average reported the previous year.

Erath County showed the lowest unemployment rate in the Cross Timbers area -- holding at 2.1 percent in November and December 2004. Last year's average jobless figure of 2.4 percent lies well below 2003's 2.8 percent average.

Hamilton County's unemployment rate eased from 2.4 percent in September to 2.3 percent in October then advanced to 2.4 percent and 2.7 percent in November and December. The annual average for 2004 stood at 2.8 percent. This value compares favorably to the 3.2 percent average noted the previous 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 this information does not reflect seasonal adjustments.

*Charles Elmore is a senior business management major at Tarleton State University.*

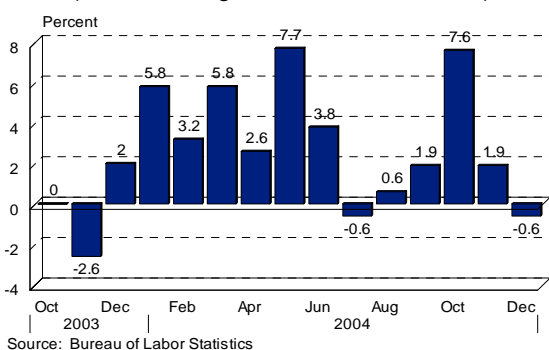
## Rising Fuel Prices Drive Consumer Prices Higher in 2004

By Ashley Winbourn

A measure of the average change in prices of a combination of goods and services purchased by urban consumers is represented by the consumer price index, or CPI. As indicated by the CPI, prices during 2004 rose at an overall rate of 2.7 percent over the previous year. Economists cite swelling oil prices in the first 10 months of last year as a major factor contributing to this increase.

### INFLATION RATES

(Annual Changes in Consumer Prices)



In 2004's fourth quarter, consumer prices surged at a 7.6 percent annual rate in October; November prices reflected a modest growth of only a 1.9 percent, and were

then followed by a decline of 0.6 percent in December. After a surge in prices for most of 2004, energy prices declined by 1.8 percent in December, contributing to the first decrease in consumer prices in 5 months. Steady food prices helped contribute to this drop. Core prices, which do not take in account volatile food and energy items, rose by 2.2 percent during 2004. This figure marks was the most substantial gain in this indicator since 2001.

The Bureau of Labor Statistics collects and releases CPI data on a monthly basis. All statistics are seasonally adjusted.

*Ashley Winbourn is a senior accounting major 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](mailto:beaty@tarleton.edu).*

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# Short-Term Rates Rise as Long-Term Rates Move Lower

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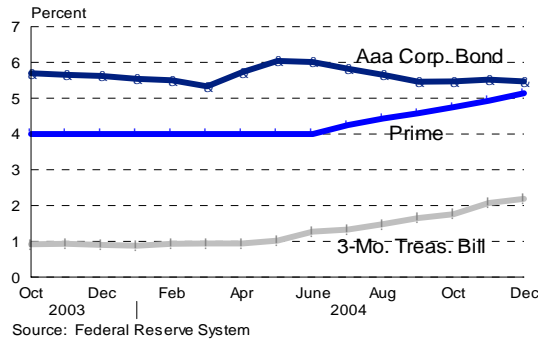
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By Ashley Mahone

In response to the Federal Reserve System's agenda to raise the federal funds rate target, short term interest rates increased in the latter half of 2004. Both the prime rate and

## INTEREST RATES

Averages of Daily Figures



the rate on three month Treasury bills have escalated since mid-year. The rates on low-risk Aaa corporate bonds decreased over this period, however.

The prime rate reflects the interest banks charge their lowest risk corporate borrowers on short-term loans. This rate is typically set about three percentage points higher than the federal funds rate. The prime rate held constant at 4 percent from July 2003 to June of 2004. When the Fed raised the funds rate target in June, the prime interest rate also began to steadily increase since that time. In December 2004, the prime interest rate averaged 5.14 percent.

The interest rate on three-month Treasury bills has been increasing since October of 2003 when it was 0.92 percent. As of December 2004, the interest rate on this instrument was 2.19 percent, the highest level since October of 2001.

The interest rate on Aaa corporate bonds hovered between 5.47 percent and 5.52 percent during the last quarter of 2004. This rate increased from 5.5 percent in January 2004 to 6 percent in May then declined to 5.5 percent by December.

Ashley Mahone is a senior, marketing major at Tarleton State University.

## Small Gross Sales Increases in Cross Timbers Counties

By Rachel O'Dell

The second-quarter of 2004 State Sales and Use Tax Analysis Report states that only one of the five Cross Timbers counties experienced a decrease on gross sales between 2003 and 2004.

Eastland County posted a decrease in gross sales for January-June 2004. Eastland posted a cumulative \$232.5 million in gross sales, which is down 7.2 percent from the previous year. Aggregate gross sales of last year fell 2.7 percent below the value posted for the same period in 2002.

Bosque County enjoyed the most significant increase in gross sales during the first half of 2004. Bosque gross sales soared by 37.4 percent last year over the previous year's figure. This county had total gross sales of \$102.5 million, in the January-June 2004 period. This value represents a gain of 23.6 percent over the past two years.

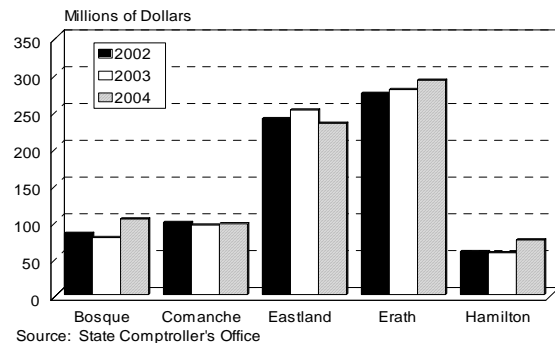
Comanche County showed the smallest increase in cumulative gross sales among the five Cross Timbers counties. Comanche County posted a 1.7 percent increase in sales between 2003 and 2004 and a 1.8 percent decline between 2002 and 2004.

Erath County showed a modest but steady increase in gross sales for the January-June 2004 period when compared to the previous two years. In the first half of 2004, Erath posted gross sales of \$291.1 million, which represents a 4.6 percent increase over the 2003 value and a 6.5 percent improvement over the 2002 figure.

Hamilton County showed the second largest increase in cumulative gross sales for the January-June 2004 period. These sales revenues amounted to \$74.1 million, which is 30.7 percent higher than the year before and 27.4 percent greater than the 2002 figure.

## GROSS SALES

Area Counties, January-June



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.

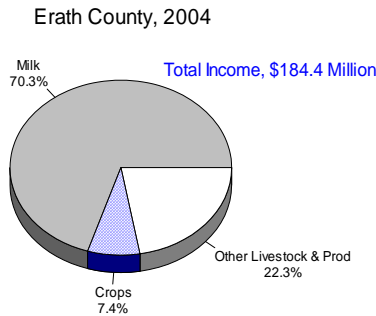
Rachel O'Dell is a senior, majoring in business management at Tarleton State University.

# Milk Sales Continue to Dominate County's Agricultural Economy

By Rachel Rasmussen

Agriculture represents one of Erath County's predominant businesses. According to the Agricultural Extension Service (AES), agricultural income for Erath County in 2004 consisted of sales equaling about 184.4 million dollars

## AGRICULTURAL INCOME BY SOURCE



Source: Agricultural Extension Service

by three different sources: milk, other livestock and products, and crops.

Got milk? According to the AES, Erath County does. Milk sales, which totaled \$129.6 million, accounted for 70.3 percent of all agricultural income in 2004. Other livestock and products, with total sales of \$41.2 million accounted for 22.3 percent. Crops contributed \$13.6 million and factored in 7.4 percent.

Milk sales were 22.2 percent lower in 2004 than in the previous year, and were 24 percent lower than in 2002. Livestock and product sales last year were 6.0 percent higher than the 2003 figure and 12.2 percent above the 2002 estimate. Crop sales showed gains of 2.0 percent and 17.8 percent over the previous two years.

*Rachel Rasmussen is an undergraduate in business at Tarleton State University*

# Area Milk Production Stabilizes

By Aubrey Gideon

Erath County dairy farmers have seen both their production total and their share of the state's total output shrink significantly over the past two years. Nevertheless, the county remains the state's largest producer, and more than 20 percent of all milk produced in Texas still originates in Erath. By contrast, Comanche's milk output has increased over the past two years, and the county appears poised to overtake Hopkins as the state's second largest producer.

Erath County produced 1,237.6 million pounds of milk in 2004. This total is virtually identical to the volume generated in 2003 but falls 6 percent short of the 2002 total. Erath's percentage of milk production in Texas has also declined since 2002 by more than 4 percentage points. The county currently produces 20.7 percent of the state's

total milk output, compared to 25.0 percent in 2002.

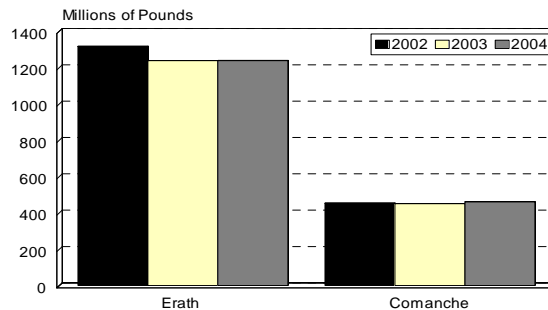
Comanche County saw a 2.2 percent increase in production from 2003 to 2004 and a 1.7 percent increase from 2002 to 2004. Cumulative output through December of last year was 460.3 million pounds. However, Comanche County's percentage of total output in Texas dropped from 8.6 percent in 2002, to 8.0 percent in 2003, and finally to 7.7 percent in 2004. Comanche remains the state's third largest milk producer.

Erath County's decline in milk output was accompanied by a reduction in its number of dairy farmers. In December 2002, Erath reported 113 dairy farmers, but by 2004 only 108 remained. The number of producers in Comanche County also decreased – from 37 to 33.

*Aubrey Gideon is a senior accounting major at Tarleton State University*

## MILK PRODUCTION

Area Counties, January - December



Source: Market Administrator's Report