Texas Recovery Alliance

Impact of Government Shutdowns on the Texas Economy

The Texas economy has been damaged by COVID-19. The government shutdowns of Texas businesses and bans on economic activity have compounded the damage. While public officials are well aware of the broad economic indicators, such as unemployment claims and bankruptcies, that make clear the state is facing economic erosion, they may be less aware of the extreme duress facing specific sectors of the Texas economy. They may also be unaware of the extent to which many Texas businesses face the prospect of permanent closure and, therefore, the prospect for our state to suffer longer-term economic and reputational damage under policies that allow less than full economic activity.

This paper is provided as a resource for our state leaders to direct a more comprehensive evaluation of the economic consequences resulting from COVID-19 and government restrictions on economic activity in Texas. It is our hope that the information will help return Texas to its proper role as an economic leader for the nation where human flourishing for all Texans is the goal.

I. ECONOMIC OVERVIEW

Economic output in Texas has dropped since February. The data makes clear that many Texas families and employers are struggling, with little hope for significant improvement until government reopens the economy and helps lead a recovery.[1]

Economic Indicators—According to the Texas Leading Index, while key economic measures in Texas show improvement from a low of 100.5 in April to 109.0 in July, this is the lowest since

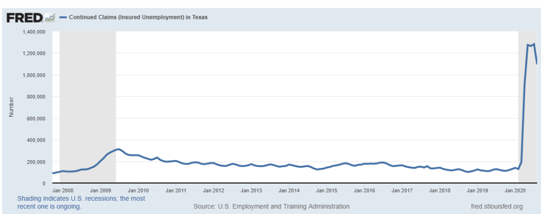
[1] Portions of this paper are based on the Texas Public Policy Foundation's "Overview of Texas's Economy, Sep. 18, 2020. *See*: https://files.texaspolicy.com/uploads/2020/09/18091225/Texas-Economy-Overview.pdf

October 2009 and is well below the 125.7 of February 2020 before the virus and the subsequent lockdowns.[2]

Jobs—The July 2020 Texas Workforce Commission Texas jobs report shows how the state's labor market weakened as a result of the COVID-19 from March to April. It also indicates a severe recession that was made worse by government restrictions on businesses in response to the virus. While the Texas's labor market has improved somewhat, a full recovery depends on ending all government shutdowns, and on raising confidence among Texans that commerce in the state can resume safely.

Texas Nonagricultural Wage and Salary Employment Seasonally Adjusted

INDUSTRY TITLE	Jul 2020*	Jun 2020	Jul 2019	Jun '20 to Jul '20		Jul '19 to Jul '20	
				Absolute Change	Percent Change	Absolute Change	Percent Change
Total Nonagricultural	12,118,700	12,087,300	12,813,100	31,400	0.3	-694,400	-5.4
Total Private	10,187,600	10,199,900	10,837,900	-12,300	-0.1	-650,300	-6.0
Goods Producing	1,796,200	1,808,300	1,935,000	-12,100	-0.7	-138,800	-7.2
Mining and Logging	190,100	191,300	250,000	-1,200	-0.6	-59,900	-24.0
Construction	737,300	743,600	776,500	-6,300	-0.8	-39,200	-5.0
Manufacturing	868,800	873,400	908,500	-4,600	-0.5	-39,700	-4.4
Service Providing	10,322,500	10,279,000	10,878,100	43,500	0.4	-555,600	-5.1
Trade, Transportation, and Utilities	2,410,600	2,418,300	2,512,600	-7,700	-0.3	-102,000	-4.1
Information	194,600	194,800	207,800	-200	-0.1	-13,200	-6.4
Financial Activities	804,100	802,100	803,700	2,000	0.2	400	0.0
Professional and Business Services	1,746,600	1,730,200	1,798,500	16,400	0.9	-51,900	-2.9
Education and Health Services	1,677,500	1,667,200	1,740,300	10,300	0.6	-62,800	-3.6
Leisure and Hospitality	1,147,800	1,168,800	1,394,900	-21,000	-1.8	-247,100	-17.7
Other Services	410,200	410,200	445,100	0	0.0	-34,900	-7.8
Government	1,931,100	1,887,400	1,975,200	43,700	2.3	-44,100	-2.2



Unemployment—The struggle for Texas families is also indicated by the Department of Labor's reported continued claims (insured unemployment).

This measure shows that unemployment insurance claims remain near a record high

Rank	State	COVID-19 Rate per 10K Businesses* ▼	COVID-19 Filings	Change in Filings YoY
1	Texas	14.18	852	462
2	New York	10.73	587	153
3	Nevada	8.25	56	30
4	Virginia	7.46	151	111
5	Mississippi	6.58	39	27

Bankruptcies— Chapter 11 bankruptcy filings in Texas have been on the rise since March. According to MoneyGeek, Texas leads the nation in rates of chapter 11 business and personal bankruptcy filings.

Texas has more than twice the number of filings since the same period last year (10,661 since February and 1,577 in August alone). These numbers are expected to increase, perhaps significantly, as loan defaults in numerous industry sectors begin to escalate.

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[2] Provided by the Federal Reserve Bank of Dallas, which summarizes the future of the state's economy in a composite measure of eight leading indicators: Texas value of the dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index, and average weekly hours worked in manufacturing.

Non-COVID Deaths—Emerging research suggests disruptions to the health care system and overall business activity is resulting in non-COVID-related deaths at rates that may actually exceed COVID-related deaths. According to the *Wall Street Journal*, "Researchers are finding growing evidence that the Covid-19 pandemic's deadly reach is stretching far beyond people who died from coronavirus infections."[3]

The Centers for Disease Control and Prevention (CDC) estimates there were between 202,000 and 263,000 excess deaths in the U.S. from January through August, measured against deaths from 2017 through 2019. The U.S. by the same point had roughly 188,000 known Covid-19 deaths.[4]

The CDC has also tracked thousands of deaths this year beyond expected levels for conditions that also include hypertension, strokes and diabetes. For example, the CDC reports about 16,000 more deaths from hypertension and about 10,000 more from diabetes through August, compared with the recent five-year average. The American Diabetes Association has reported evidence that a quarter of people with diabetes are rationing supplies like insulin and testing strips while they endure higher-than-average unemployment.[5] Additional data supports the view that government shutdowns and economic restrictions is causing health outcomes at least as deadly as COVID-19:

- The U.S. experiences 37,000 increased deaths for every 1% increase in unemployment.[6]
- Unemployment increases the risk of premature mortality by 63%.[7]
- The fatality rate for Covid-19 in non-institutionalized victims is 0.26% (or 0.01% for those under 40 years old) compared to an 0.8% fatality rate for flu (in other words, citizens not in nursing homes have a higher risk of dying from influenza).[8]

II. INDUSTRY SECTOR OVERVIEWS

Many industries in Texas are suffering as a result of COVID-19 and government-mandated limitations on their economic activity.

Hotel Industry—The hospitality industry employs 5.1 percent (8.3 million people) of the total U.S. workforce. Hotels directly employ 2.3 million workers, and with its supported markets contributes $660 billion to the national GDP. In Texas, more than 5,000 hotels employed over

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[3] The *Journal* reported that "From Alzheimer's disease deaths to fatal heart attacks, federal data show deaths in 2020 have exceeded those of previous years in numerous categories." *See* "Death Toll From Covid-19 Pandemic Extends Far Beyond Virus Victims. Doctors and researchers say more Americans are dying from heart attacks and other health issues; drop in ER visits, health screenings," *Wall Street Journal*, Sep. 19, 2020.
[4] *Ibid.*
[5] The CDC has also reported more deaths this year linked to coronary problems and strokes while also estimating a 42% decline in emergency-department visits at U.S. hospitals during a four-week period this spring. Among Alzheimer's and dementia patients, the CDC recorded about 200,000 U.S. deaths this year, up more than 27,000 when measured against the death average from the five prior years.
[6] *See Corporate Flight* by Barry Bluestone.
[7] McGill University study, 2011, https://www.livescience.com/13578-unemployment-health-mortality.html
[8] Annals of Internal Medicine, Sep. 2, 2020, https://www.acpjournals.org/doi/10.7326/M20-5352

335,000 Texans before shutdowns began. The hotel and hospitality industry has been an economic engine for Texas, generating $7 billion in annual tax revenue.

The industry has been decimated by mandated shutdowns. Hotel revenues have plummeted by 90%. Hotels are currently on pace to lose up to $400 million in room revenue per day.[9] This will result in state and local tax revenues dropping by $16.8 billion in 2020. Many Texas hotel owners have been forced to lay off or furlough as much as 90 percent of their employees, compared to 70% nation-wide.

With continued shutdowns, hotel mortgage delinquency rates will rise rapidly, threatening their ability to ever reopen. Delinquency rates under current conditions are projected to continue to rise through 2020 and peak in the 4th quarter of 2021, with pre-shutdown occupancy levels not expected to normalize until 2023 or 2024. Without immediate action to reopen the Texas economy, the hotel industry in Texas faces an existential crisis.

Currently, 40.9% ($8.6 billion) of securitized hotel loans in Texas are in default. If the economy is not fully reopened, that could grow to 81.0% ($17.1 billion), as an additional 40.1% of these loans are already on the default watchlist. According to Trepp, 66 % of the hotels in Houston financed with securitized debt are now delinquent.[10]

- Texas has lost 101,972 direct hotel jobs and 296,387 total jobs, according to the American Hotel & Lodging Association.[11]
- This equates to 30.1% direct hotel and 46.8% hotel industry jobs lost as a percent of Pre-COVID employment.[12]
- Texas will lose $940 million in annual state and local tax revenue due to the COVID-19 shutdowns, according to an Oxford Economics study.[13]
- As of July, Texas was lagging the nation in hotel revenue per available room recovery by 9%.
- The estimated per-month costs to Texas of continued shutdowns include $4.6 billion in business sales, $1.3 billion in wages & salaries, and $700 million in taxes.[14]

Live Events Industry—The live events industry in Texas includes more than 30,000 businesses and more than 1 million workers. The industry accounts for more than $87 billion in direct economic activity across the state. It is also an important part of a spectrum of interdependent industries, including Travel, Tourism, Hospitality, and Food & Beverage. Businesses in the industry provide event venues, planning and design services, catering, audio-visual, entertainment, rentals, décor, tents and stages, and more. Businesses also serve the broader business community in Texas through hosting of corporate meetings, trade shows, and conferences. The industry was on track for as much as a 9% growth in 2020.

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[9] 1. AHLA: State of the Hotel Industry Analysis: COVID-19 Six Months Later
[10] 2. New York Times: Struggling Hotel Owners, Some With Trump Ties, Seek Federal Bailout https://www.nytimes.com/2020/09/15/business/economy/hotel-owners-trump-federal-bailout.html
[11] AHLA: Texas's Hotel Industry, by the Numbers
[12] *Ibid*.
[13] Oxford Economics: COVID-19 Impact on Tax Revenue Generated by the Hotel Industry
[14] Based on RevPAR flatline for Texas from July 2020 vs 2019 industry data

The live events industry was the first to shut down and will likely be the last to fully reopen. It faces a more challenging recovery than most other hard-hit industries because live event businesses cannot offer to-go orders, curbside pickup, or mail-order services. The majority of Texas' live events businesses have experienced 90% or higher event cancellations, which began in March and currently extend through Q1 2021. It is likely that this negative trend will not change until consumer confidence around safety and health at events is restored.

This collapse in economic activity will have a significant impact on Texans whose livelihood depends on the industry, as well as communities that depend on the considerable revenues generated by live events.

- 75% of the live events industry workforce is unemployed.[15]
- 29% of live events production companies anticipate bankruptcy or closures.[16]
- The South by Southwest cancellation cost the Texas economy $356 million.[17]
- The Houston Livestock Show & Rodeo cancellation cost the Greater Houston area $391 million.[18]
- The Austin City Limits Music festival cancellation cost the Texas economy $265 million.[19]
- The State Fair of Texas cancellation will cost Texas $308 million in economic activity and up to 2,751 full time jobs.[20]

Travel and Cruise Industry—The U.S. travel and tourism industry generated over $1.6 trillion in economic output in 2017, supporting 7.8 million U.S. jobs. It accounted for 2.8% of GDP.

In Texas, 875,000 people a year normally depart on cruises from Galveston alone. An estimated 1.5 million cruise passengers and crew visited Texas during 2018, up 18 percent from 1.28 million in 2016. This generated $1.51 billion in direct spending in Texas, 26,241 Texas jobs, and $1.75 billion in income for Texans. Texas previously received 6.3 percent of the cruise industry's national direct expenditures, 6.2 percent of the industry's total employment impact, and 7.6 percent of the income impact.

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[15] Live Events Coalition: Message From the President: https://preview.hs-sites.com/_hcms/preview/content/33574151091?portalId=7512332&_preview=true&cacheBust=1597844144124&preview_key=qiiTIrvb

[16] Economic Impact Study Results Show Live Events Professionals Buried in COVID-19 Mix: https://www.prnewswire.com/news-releases/economic-impact-study-results-show-live-entertainment-professionals-buried-in-the-covid-19-mix-301025695.html

[17] Analysis of Economic Benefit from SXSW 2019: https://explore.sxsw.com/hubfs/2019%20SXSW%20Economic%20Impact%20Analysis%20-%2011.18.19%20OPT.pdf

[18] Houston Livestock Show & Rodeo: 2019 Economic Impact: https://www.rodeohouston.com/News/Article/ArtMID/494/ArticleID/2544/2019-Economic-Impact#:~:text=The%202019%20Houston%20Livestock%20Show%20and%20Rodeo%20generated%20a%20total,by%20Economics%20Analytics%20Consulting%2C%20LLC.

[19] Austin City Limits Musical Festival's Economic Impact Grows to Nearly $265 Million: https://www.bizjournals.com/austin/news/2019/04/29/austin-city-limits-musical-festivals-economic.html

[20] The Economic & Fiscal Impacts of the 2019 State Fair of Texas: https://bigtex.com/wp-content/uploads/2018/05/StateFair-ImpactStudy-0629.pdf

However, the industry has come to a screeching halt. As an example of the ongoing damage, a single Texas company based in Houston, Vacations to Go, was forced to lay off approximately 650 of its 900 employees as a result of the virus and government shutdowns.

Dental Industry—According to the Texas dental industry, the continuation of mask requirements is contributing to a decline in the oral health of patients, including an increase in bacterial formation, halitosis, build-up of cavity causing bacteria, and plaque build-up that exacerbates periodontal health issues.[21] In some practices, up to 50% of patients are being adversely impacted.

Government imposed mandates have also caused anxiety in many patients, leading to an increase in the number of teeth fractures dentists are seeing due to anxiety-induced bruxism, and to more Texans seeking help with debilitating head, neck and jaw pain which are directly correlated to increased anxiety and stress.[22] According to an article in the American Journal of Infection Control, "researchers reported that long-term use of N95s during the severe acute respiratory syndrome outbreak was associated with an increased frequency of headaches and physical discomfort."

As an example of the economic impact of the shutdowns on the dental industry, Dr. Christopher Wilson, who operates a dental practice in Midland, Texas reported that his practice has so far lost roughly 1,000 hours of patient contact as a result of the shutdowns, at an estimated cost of over $300,000 in lost revenues to his practice. The lockdowns have also lead to missed opportunities in his practice to diagnose and treat active diseases from cavities to oral cancer, which will lead to more urgent situations. Based on the increased cost to stay open—including for PPE and redundant cleaning requirements—patients in many practices will face increased fees of at least $10-$20 per appointment when fuller operations are able to resume.[23]

Texas Youth Camps Industry—More than 600 youth camps operate across Texas. In 2019, the camps provided 45,000 Texas jobs and services to 988,000 young Texans.[24] As a result of COVID-19 and related government restrictions, only 10% of the camps will operate in 2020—most of which will operate at just 25-50% capacity. This will result in losses of $608 million for the Texas youth camp industry in 2020.

The losses will come at a price for local economies in Texas. In 2019, youth camps contributed $900 million in direct and indirect revenues to the Texas economy, most notably in the Texas Hill Country and East Texas. In 2020, that amount has dropped nearly 90% so far.

Oilfield Services Industry—The Oilfield Services Industry provides personnel, equipment, and technical expertise to find, drill, complete, and produce oil and gas in Texas. The industry has suffered huge losses as a result of the government shutdowns.

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[21] https://www.washingtonexaminer.com/news/mask-mouth-dentists-warn-prolonged-use-of-masks-leading-to-poor-oral-hygiene

[22] *Ibid*., and "Correlation between symptoms and external cracked tooth characteristics: findings from the National Dental Practice-Based Research Network" https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5376224/

[23] https://www.nbcnews.com/health/health-news/dentists-extract-new-fee-patients-keep-rising-covid-19-costs-n1221256

[24] According to the American Camp Association, K&K Insurance, and Camp Association for Mutual progress.

For example, the onshore rig count in Texas fell from approximately 400 rigs in February to 97 rigs in mid-August. Currently, only 102 rigs are operating—a 75% drop. Given that each rig employs 25-30 people, a total of 7,500-9,000 jobs have been lost so far.

At the same time, the frac fleet count in Texas fell from approximately 160-200 fleets in February to 25-35 fleets in June. Total counts have rebounded to just 60-80 fleets today. Each frac fleet employs 35-50 people, resulting in total losses so far of 5,000 to 7,500 jobs. The recent economic improvements are expected to be temporary without an increase in drilling activity, and the subsequent lack of capital for new wells is expected to result in further drops in frac activity and jobs.

The frac sand industry had been strong in Texas, with sand mining plants operating all over the state. In February, approximately 30 sizable frac sand plants were operating in Texas (plus many more small operations). Today, half of those plants have shut down, resulting in termination of 60-80 employees at each plant. This amounts to more than 1,000 jobs that have been lost in just this single sector of the indusry.

Additional services and jobs remain threatened by the shutdowns. These range from seismic mapping, well logging, bit and mill manufacturing, steel casing manufacturing, cement pumping, mud & chemical providers, water transfer, frac sand providers, fluid end manufacturers, perf gun manufacturers, pipe inspectors, wellsite consulting, coil tubing providers, flowback control, drill out services, plug providers, and wellhead manufacturing. The list increases when supportive business and industries are considered.

III. CONCLUSION

The COVID-19 pandemic has presented numerous challenges to the nation. The same is true in Texas, where guidance from the federal government has changed, and initial actions were based on poor modeling and presumed medical best practices. Today, more is known about the virus, its threat to the safety and well-being of all age groups and demographics, and the effectiveness of the various measures that have been adopted by other states and countries to address the ongoing challenge.

In Texas in particular, a challenge has grown that is equal to the safety threat of virus spread. The Texas economy, once the pride of of all Texans and an engine for the nation, is suffering worse than in many other states. Broad indicators make clear that, while the economy may be mending, it is still suffering in ways that should be addressed boldly. In addition, entire industries that are critical to the economic well-being of Texas are on their backs, through no fault of their own.

Texas leaders must act to fully reopen the economy in order to save these critical industries—or more accurately, to allow them to save themselves. In addition, our elected officials must reassure all Texans that every business in the state can operate with the safety and well-being of all Texans in mind. The Texas economy needs to be fully open for business, and our leaders need to turn full attention to restoring confidence in every citizen that Texas will rise again.