Politicians like to call it the Texas Miracle. Since 2000, total output of goods and services in the state expanded by nearly 65 percent, outpacing the rest of the country by a large margin. (See chart on page 39.) Texas even weathered the Great Recession without suffering much of a downturn. The Dallas-Fort Worth economy has been on the same upward trajectory. It wobbled a bit in the early 2000s, but roared ahead before and after the recession. Overall, it has done just about as well as the state, increasing output by 62 percent since 2000 and opening a large gap between it and the rest of the nation’s metropolitan statistical areas. If Texas and DFW stand out on job creation, too. Both have increased employment by well above 40 percent in the past couple of decades, doubling the pace of the rest of the country. Can North Texas and the state continue to outpace the nation next year and into the rest of the 2020s? Peering into a crystal ball, we see that risks to future prosperity emerge, in large part from what may happen outside the state—events and trends over which Texans have little say.
Inside the state, it’s hard to find many signs of trouble ahead, particularly for the next year or so. Labor shortages vex some industries, and housing prices are way up in DFW and other energized MSAs, but the highly touted Texas Model still offers a clear path to continuing prosperity. What got us here should help keep us going—at least for 2020. But Texas and DFW can’t sail on sublimely ignoring the world outside the state.

Warning signs of impending recession have already flashed. Elsewhere in the world, economic growth has slowed in Asia and Europe. The Brexit time bomb continues to tick toward a disorderly conclusion. With rising trade wars could cloud Texas manufacturers’ overseas sales and raise prices for key foreign inputs. As for Texas’ Mexico connection, it faces its greatest challenge in four decades with the erosion of support for freer trade in both the United States and Mexico.

The oil and gas industry illustrates the inside/outside dichotomy. Within Texas, producers have seen spectacular success in recent years, sending Texas output to new heights and pushing the nation to the brink of energy independence.

From outside the state, however, the oil industry faces three challenges unlikely to go away anytime soon—the low global oil prices that have been on the news all year long, and the declining prices for solar, wind, and other competitive sources of alternative energy, and the growing political clout of anti-fossil fuel forces in the rest of the country and overseas.

The Texas economy is probably strong enough to shake off some potential shocks—just as it did with the 2014 plunge in oil prices. It’s not hard, though, to envision scenarios that would test Texas’ economy. Here are three Trade war threats grow more intense, with tit-for-tat retaliation, throwing the world into recession. If all that happens, Texas probably won’t continue to grow while the rest of the nation suffers—not this time, not with the state’s economy more like the rest of the United States in terms of production and employment. The result was a steady trade war.

Diverse economic studies draw strength from a variety of sectors. Some will use trade deficits to reduce their operations. Two reasons to worry that the situation might get worse rather than better: the rising cost of Texas housing and the possibility of more restrictive immigration policies.

Economic freedom spurs growth more than it does in the doldrums. Why? Economic freedom. An economy in the doldrums allows the private sector to find new opportunities and reap the rewards. At the same time, economic freedom attracted new resources from outside the state, with a steady in-migration of employers and workers. The result was a rapid diversification of the regional and Texas economies.

Economic freedom continues to draw strength from a variety of sectors. Some will use trade deficits to reduce their operations. Two reasons to worry that the situation might get worse rather than better: the rising cost of Texas housing and the possibility of more restrictive immigration policies.

In addition to a vibrant economy, one of the MSAs advantages over the past two decades has been an affordable cost of living, with housing prices a major factor. In the U.S. time expansion before the Great Recession, housing prices rose sharply across the country—but not in DFW. This time around, local housing prices are rising at a slightly faster pace than the Top 12 MSAs, the Top 100 MSAs and even all other MSAs. If household costs continue to grow, workers will become less willing to relocate to DFW; without an expanding labor supply, companies already here of the MSAs advantages over the past two decades has been an affordable cost of living, with housing prices a major factor. In the U.S. expansion before the Great Recession, housing prices rose sharply across the country—but not in DFW. This time around, local housing prices are rising at a slightly faster pace than the Top 12 MSAs, the Top 100 MSAs and even all other MSAs. If household costs continue to grow, workers will become less willing to relocate to DFW; without an expanding labor supply, companies already here of the MSAs advantages over the past two decades has been an affordable cost of living, with housing prices a major factor. In the U.S. expansion before the Great Recession, housing prices rose sharply across the country—but not in DFW. This time around, local housing prices are rising at a slightly faster pace than the Top 12 MSAs, the Top 100 MSAs and even all other MSAs. If household costs continue to grow, workers will become less willing to relocate to DFW; without an expanding labor supply, companies already here of the MSAs advantages over the past two decades has been an affordable cost of living, with housing prices a major factor.

For both Texas and DFW, today’s inner economic strength comes from these two concepts: a tradition of economic freedom and four decades of increasing diversity. Neither are in jeopardy, so Texans can expect these advantages to endure.

CHAOTIC FOREIGN RELATIONS

What’s going on inside the state makes the best case for long-term optimism about Texas and DFW’s Future Worth. It should continue growing even when prices are low. But the gap between Texas and other states has been consistent for nearly four decades. Stansel also tracks economic freedom for MSAs, and the results are as positive for North Texas as for the state as a whole. DFW ranks among the leading MSAs in economic freedom, and it has maintained the same decades-long gap of about 25 percent over other urban areas. A high degree of economic freedom with strong economic growth and faster job creation, that has been well-documented by economic studies of states and MSAs.

For Texas, it was also crucial to an epochal transformation—from an oil economy to a more diversified one. When oil ruled Texas’ economy, the state boomed when prices were high and went bust when they were low. The 1980s oil price collapse led to a withering downturn, and oil prices didn’t recover for two decades. In relatively short order, however, something extraordinary happened. Economic growth returned to Texas—and strongly.

The Texas economy is probably strong enough to shake off some potential shocks—just as it did with the 2014 plunge in oil prices. It’s not hard, though, to envision scenarios that would test Texas’ economy. Here are three:

1. Escalating trade wars
2. Political fallout with Mexico
3. Rising cost of Texas housing

Why? Economic freedom. An economy in the doldrums can continue growing even when prices are low. But few expansions die of old age. They’re more likely to end because of some policy blunder—and right now the most likely potential shock might emerge from President Trump’s ongoing trade disputes with China and other countries. Seeing what dangers lurk outside the state.

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