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Dear Client:

In September, for the first time in 15 months, the Texas Workforce Commission reported a positive annual rate of job growth for the Austin metro area. Does this mean we're out of the economic woods or have overcome the 2001 layoffs?

The director of consulting for Metrostudy's Central Texas division, **Eldon Rude**, says "The broadest measures of the Austin economy – job growth and the local unemployment rate – continue to indicate **slow growth**; however, **the single-family housing market has remained in relatively good shape.**"

As far as the positive annual rate of job growth in September, Rude says "While this information does not mean the Austin economy is out of the woods, it does suggest that **the region has overcome many of the layoffs that occurred in 2001.**" Rude says regional economists generally expect Austin to finish the year with only marginal job growth, and project the **addition of 7,000 to 10,000 new jobs in 2003.** This would be a 1.0% to 1.5% growth rate.

On the subject of housing, Metrostudy reported **2,424 new home starts** in the Austin region during the third quarter of 2002. This is a **10% increase** over the 2,185 starts recorded during the third quarter of 2001. But for the year, the annual starts rate of 9,058 units decreased 21% compared to the 11,490 annual starts reported through the third quarter of 2001.

The bulk of new home construction remains in the \$100,000 to \$150,000 price range.

In fact, Metrostudy points out this accounted for more than 41% of the annual starts in the Austin market during the last year. On the flip side, Rude noted the annual rate of new home starts priced above \$300,000 has declined more than 30% in the last year and starts above the \$500,000 price range have dropped more than 43% over the same period. "**Builders continue to re-tool their product lines in order to offer more affordable homes,**" Rude observed.

Metrostudy's third-quarter 2002 survey indicated there were **more than 3,200 new homes under construction in the Austin region.** This raises the question of whether there will be sufficient demand for those homes. If not, the inventory of unsold homes will build up and that might drive prices down. **The fourth quarter is the key here.** Meantime, Rude says Metrostudy is predicting there will be 7,500 to 8,000 new home starts in 2003. This is less than 10% below the average annual starts rate during the ten-year period from 1992-2001."

For the next five years, the rates of growth for various economic indicators in Texas will exceed the pace for the US as a whole. The Perryman Group's analysis of the Texas economy is quite positive over the 5-year horizon.

The group of economists also is projecting **inflation in Texas will be slightly lower than that of the US.** The projected inflation rate does not present any cause for alarm – only about 2.7% per year in the US from 2002 to 2007, and **2.5% per year for Texas** during that timeframe. At the same time, the Perryman Group is predicting interest rates will remain relatively low, but with an upward trend (after all, rates are so low now they must go up). The group thinks by 2007 the rate on long-term government bonds will total about 6.0%.

As far as jobs go, Texas should once again best the nation's predicted average of 1.5% per year. **The forecast job growth for Texas is about 2% per year** for the next five years. Where will the jobs be? Many of them will be in wholesale and retail trade as well as the services sectors. These industries will account for the lion's share of new jobs, but job growth will be pretty broad-based in Texas.

Population growth is where some big changes will occur in the Lone Star State relative to the US. Texas is still a magnet for people looking for job opportunities. Also, because of the relative youth of our population, Texas has a higher-than-average birth rate. For these reasons, The Perryman Group thinks **the number of people calling Texas home will increase by 1.8% per year for the next five years.** This is more than double the predicted US growth rate of 0.8% per year.

The twin indicators of economic vitality – **jobs and population** – **will continue to drive the Texas economy** and keep the state at the top of the national figures. This will push retail sales to grow by 6.6% per year, according to The Perryman Group that also forecasts a 5.3% per year increase in manufacturing output and 6.6% per year for real output growth over the 5 years.

This is already happening, by the way. **Texas has seen job growth for several quarters now, regaining much of the lost ground of the past couple of years.** The Perryman Group expects this to continue as worldwide economies recover and uncertainties dissipate. Remember, national and international conditions influence Texas economic patterns more now than in the past. And the state economy is increasingly wired into the international scene.

In the wake of the GOP sweep in Washington, what are the prospects your taxes will be cut? Good is the word we get from Washington, but not as big or broad as the GOP would like.

For example, the 2004 round of income tax rate cuts could be moved up to 2003, but with rising deficit worries, **the 2001 cuts may not be made permanent right away.** The odds for a permanent estate tax repeal are better, but it's no lock. You get the idea.

This week the Democratic Party selected Boston, the home of Sen. Ted Kennedy and presidential hopeful Sen. John Kerry, as the site of its 2004 national political convention. Does this mean the Republicans will select a city in President George W. Bush's home state for the 2004 GOP national political convention?

In a word, no. Why is that? Well because the three cities in Texas that have the resources to host such a national gathering politely said "thanks, but no thanks," when asked to bid. **San Antonio, Houston, and Dallas declined the opportunity to even bid for the gathering.** They weren't alone. As many as 18 of 26 cities asked by both Democrats and Republicans to bid decided they didn't want to get into the competition.

You may recall cities used to fight tooth and nail for the national exposure created by hosting the high-profile gathering that attracts armies of news media from around the nation and the world. But, in recent years the parties have already settled on their nominees through party primaries long before convention time, **therefore media coverage has dwindled – as the costs have risen.** Philadelphia spent \$66 million on the GOP gathering in 2000 and Los Angeles anted up about \$35 million for the Democrats. Can you imagine a city's cost for security alone in the 2004 War on Terrorism environment?

It's not as if the Big Three Texas convention cities are going out of the business of big gatherings. Houston, for instance, already has both the NFL's Super Bowl and Major League Baseball's All-Star Game in 2004. The decision not to jump into a bidding war for the political conventions appears to be a pragmatic judgment based on today's realities.

Sometimes the biggest meetings are not necessarily the best meetings when it comes to making a city a successful convention or meetings destination. The Austin Convention and Visitors Bureau is taking that tack in a tight time.

Conventions and meetings are great for the economy of a city. Attendees fill up hotel rooms, eat at restaurants, sample the attractions in the area – and then go home, **leaving behind a trail of cash that filters up and down the local economy.** But, convention and leisure tourism is down in Austin now. As an example, **Bob Lander**, head of the Austin CVB, reports hotel occupancy is still down about 12% year-to-date. So what is he doing about it?

This is where the small meetings come in. On 12/4/02, *Successful Meetings* magazine is hosting "Texas Marketplace" in Austin, where some 50 meeting planners will gather at the Hyatt Town Lake to scope out what Austin has to offer. The planners have been screened to ensure they are **considering Texas for an actual meeting**, but have not yet nailed down a site. If a handful of these folks like what they see, this will pay long-term dividends. Meantime, the biggest boost Austin will get in the immediate future is the **2004 session of the Texas Legislature** that starts in January and runs through May (unless a special session or two extends that timetable).

Many pollsters took a beating because they didn't accurately predict the national GOP sweep in last week's election, but the poll we told you about 11/01/02 nailed the Texas winners.

There's no question polling is more difficult in these days of heavy cell phone usage and the popularity of caller ID. **It's harder to get a statistically accurate sample.** As a result, it makes close races more iffy to predict. But, most statewide races in Texas weren't close – and the poll we shared with you prior to election day clearly reflected that.

Those who were way behind in the pre-election polling poo-pooed the polls with the predictable comment – “the only poll that counts is the one conducted on Election Day.” Well, the Election Day “poll” reflected what voters had told the pollsters earlier. A week before the election, the poll said **John Cornyn** would beat **Ron Kirk** by about 12 points in the USSenate contest; Cornyn won by nine.

The poll said Governor **Rick Perry** would take it by about 17 points over **Tony Sanchez**. Perry won by 15. The poll said **David Dewhurst** had the closest race, a margin of only two points over **John Sharp** for Lieutenant Governor. And, sure enough, Dewhurst won by only about five points. The rest of the statewide races ended up with roughly the same margins, and victors, predicted by the pollsters.

The margins were skewed slightly because the poll was conducted the week before the election (“if the election were held *today*, who would you vote for?” was the typical question asked.) Also, the Libertarian and Green parties had a small impact on the final tally. But, the **Greens and Libertarians got less than 5% of the votes**, so they will not be *automatically* included on the next statewide ballot in the spring of 2004.

If they are to be included next time around, they must get **more than 45,000 signatures** on petitions from people who do not vote in either the 2004 Democrat or Republican primaries.

Dr. Louis Overholster suggests the Dallas Cowboys change their name to the Dallas Possums – because they play dead at home and get killed on the road!

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