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Dear Client:

Just two weeks ago, we told you to “run, not walk, to refinance your home” – that there may not be a better time to refinance because “a refinancing window has opened and it may soon close.” Well, that window is now closing; mortgage rates are already ratcheting back upward.

The bottoming-out did not last very long. As quickly as the window opened, it started closing in these volatile credit times. Fixed and adjustable rate mortgages are moving up now and the real estate expert we quoted two weeks ago is saying the **rates are likely to continue going up.**

The TexasA&M Real Estate Center Chief Economist **Mark Dotzour** was right on the money when we reported what he said in our 2/15/08 edition. (Click on the “Archives” button at the top of this page to re-read the details of his analysis.)

The culprit in this quick turnaround: fear of inflation. While many wrongly assume mortgage rates are automatically affected when the Federal Reserve cuts interest rates, it is ten-year treasury bills that dictate mortgage interest rates.

“I think we’re in one of those weird situations where the Federal Reserve is likely to cut the one-day interest rate to banks, which will lower short-term treasuries, but **the ten-year treasury, which is what mortgages are priced on, is going to go up because of the continued fear of inflation,**” explained Dotzour.

He continued: “Commodity prices are going through the roof and bringing back big-time fear of inflation, and that’s starting to get priced into the ten-year treasury, which is going to mean **mortgage rates are likely going to continue to go up.**”

It’s worth noting that inflation has always been a factor, but Dotzour pointed out that *the fear of a global collapse of the banking system was greater than the fear of inflation.* This led to the drop in mortgage rates. **Now inflation fears are overriding the concerns that there will be a worldwide collapse in the financial markets.** As a result, mortgage interest rates are rising.

And, the bad news for those who have adjustable mortgages or are thinking about borrowing – or even those who are thinking about selling and must rely on the ability of buyers to get financing – is that **as long as the inflation news worsens, mortgage rates could continue to go up, maybe substantially.** This is important to watch.

The day-to-day economic ups-and-downs seem to seep regularly into the news cycles – so much so, that it is easy to lose track of the big picture. This is a shame because the long-term Texas and Austin perspective is quite positive.

It would be unwise, even foolish in some cases, to ignore the daily developments that impact doing business and making ends meet in your lives. But the **relentless nature (mostly negative, it seems) of these events tend to distort the perspective** that is necessary to make wise decisions. Let's take a moment to step back, take a deep breath, and look down the line.

First of all, where would you rather live or do business? Start with the fact that **this area deep in the heart of Texas is one of the best places, by most measures, you could select.** Add to this the opinion of others who share a similar view (as we have noted in several recent issues of this newsletter).

We're not talking about the opinion of those who like to come to Austin for a football game, Tex-Mex food and its live music and lakes – though they have a place in driving that economic force called tourism. For purposes of this discussion, we're talking about those who make or influence **decisions to invest manpower or resources into the local economy.**

Chief Executive is a controlled-circulation magazine, published since 1977, that reaches 42,000 CEOs and their peers and counts a total readership of 228,000. ***Chief Executive's* 4th annual CEO poll to select "best & worst states" to do business ranked Texas – for the 3rd year in a row – as the best state.**

The criteria for ranking included 1) Taxation & Regulation, 2) Workforce Quality, and 3) Living Environment. **Texas received an "A-" in Taxation & Regulation and a "B+" in the other two categories to nail down the top spot.**

Voicing the positive sentiment of many respondents, **Charles Hannabarger**, president/CEO of PSI Associates, said, "Texas has a **strong economy** with a **diversified economic base.** The **cost of living** is low and the **quality of life** is very good. The attitude and capabilities of the **workforce** are outstanding."

The CEOs who responded to the survey considered a broad range of other issues as well, such as proximity to resources, education and infrastructure.

FYI. Ranked behind Texas are: #2 Nevada, #3 North Carolina, #4 Virginia, #5 Arizona. At the very bottom is #51 California, followed by #50 New York, #49 Michigan, #48 Massachusetts and #47 New Jersey. The worst *two* states, California and New York, have held those same positions for three years. **"Overall, the message CEOs are sending is that over-taxed and over-regulated states are not conducive to the health of their businesses,"** said **Ed Kopko**, CEO/Publisher *Chief Executive* Group. Texas is well-positioned long-term for CEOs who will be deciding where to invest in their companies' future. But, there's more.

Well, if Texas taxes are low, is the state government fiscally sound?

One of the reasons Florida dropped from #3 last year in the CEO's poll to #10 this year was dissatisfaction with Florida's property taxes. After this survey was completed, **Florida voters earlier this month overwhelmingly approved a major overhaul of the property tax** so Florida may come back up in the CEO voting next year.

Texas will go into its next legislative session January 2009 with about **\$2.5 billion "on the table," and will still have about \$9 billion in a Rainy Day Fund**, in case of future financial emergencies. So Texas state government is strong financially for now.

One determinant of an area's long-term economic success is the competitiveness of a region in the quest for "businesses of the future" – the growth industries.

A perfect example of grabbing the wave of the future was found here in Austin in 1983 when civic and business leaders put on a full-court press to successfully woo MCC and SEMATECH. It marked the beginning of high tech in Austin, earning the moniker of the Silicon Hills of Austin, while at the same time **triggering one of the nation's most vibrant economic surges**. So what is the next "big thing" for the nation, and will Austin and Texas be a player?

By most measures, health care and all of its ancillary components will be a major growth engine for the next decade. Just this week, one estimate said that 20% of average expenditures could be associated in some way with health within ten years. This is big and getting bigger for a number of reasons.

In that connection, a Washington DC-based newsletter, *FierceBiotech*, named **Texas one of the top five biotechnology economic development regions in the world**. Wow! The impetus for this designation was the state's \$3 billion investment in cancer research, led by the UTSys's MD Anderson Cancer Center in Houston. "With hundreds of millions of dollars a year being funneled into cancer programs, you can expect an **immediate leap in the recruiting efforts underway for top oncology researchers**," according to the newsletter.

For several years now, we have been reporting on behind-the-scenes maneuvering to locate a medical school in Austin. The effort is now very public, and one economic study recently pointed out that a **university-backed, research-focused, medical school in Austin would generate \$2.38 billion in annual spending locally – creating 19,307 jobs in the Austin area**.

If this comes to pass in one form or another, it will be huge for the area's future economy. And it would complement a project that is further along – **an academic medical campus planned by TexasA&M in Round Rock**. All in all, Austin and Texas are well-positioned for the future.

With the high-profile presidential primary taking place Tuesday in Texas, here are some elements to watch for as the vote-counting unfolds in the hotly-contested Democratic primary.

It's generally accepted that **John McCain** will win the Texas Republican primary, even though Texas Congressman **Ron Paul** and **Mike Huckabee**, the former governor of neighboring Arkansas, are both on the ballot. So the knock-down, drag-out battle between democrats **Hillary Clinton** and **Barack Obama** – where every delegate and popular vote appears vital – has captured the lion's share of attention.

What do you need to look for as the vote rolls in? **The popular vote is easy** – just like in all elections. Who carries the state of Texas is the tally to watch. How the all-important delegates are counted – especially where the democrats are concerned — is where it gets a bit dicey and a lot complicated.

The Dems have divvied up Texas delegates by the 31 state senatorial districts based upon how many Democratic votes were cast in those districts for the 2004 presidential contest and the 2006 race for governor. **As a result, the senatorial district that includes Austin gets a proportionately greater number of delegates, because it voted heavily democratic on both occasions.** 126 out of 228 delegates are chosen this way.

Then, when the polls close, **caucuses are held in precincts.** And, depending upon who shows up for the caucuses, delegates are allocated there by their preferences. (Some are calling this a “prima-caucus” method) And finally, there are the elected **Democratic officials who, by virtue of their office, are superdelegates** who can cast votes however they see fit.

Apportioning the delegates will be the difficult task for Democrats.

Speaking of politics, **Dr. Louis Overholster** wanted to point out that Senator **John McCain** changed his position to now favor “waterboarding” – for the editor of *The New York Times*!

Sincerely



Editor/Publisher