

THE

*Neal Spelce*

# AUSTIN LETTER

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Dear Client:

**It seems every economic report you come across, the “R” word pops up. Even billionaire investor Warren Buffett says the US economy is essentially in a recession. But, in today’s world, recessions are more than likely *regional* – rather than national – in nature.**

There is no question there are serious problems with the economy. And there is no question the **Austin area is not totally immune from economic problems in other parts of the country.** For instance, as the housing crisis escalated elsewhere — causing the clamps to be tightened on lending requirements — local lenders fell under the same rigid restrictions.

**But the positive contrast between Texas, Austin and other parts of the nation is stark indeed.** Cynics will say, hang on, the problems are heading our way. Optimists will say, yeah but our fundamentals are too strong to fall as far as the others. But there is no question this is the place to be as the doom-and-gloom drumbeat continues elsewhere. Some examples:

Economist **Fiona Sigalla**, with the Federal Reserve Bank of Dallas, says “**A Texas recession isn’t in the forecast.** A relatively low cost of living continues to attract firms and residents to the state, and an economy that is more globally integrated than in other states boosts demand for Texas products and services.”

Sigalla went on to point out that **Texas is also one of the few states that benefits from high energy prices**, plus construction, she says, doesn’t appear too far ahead of demand. A business economist, **D’Ann Petersen**, says that a **weakening Texas housing market still remains healthier than the national average.**

Compare the two states in the national spotlight last week when presidential primaries were held in Texas and Ohio. Night and day! **Ohio has lost 200,000 manufacturing jobs since 2000**, home foreclosures are soaring, and real family income is lower now than in 2000. **The Texas economy has boomed since 2004, with nearly twice the rate of new job creation as the rest of the nation.**

A *Wall Street Journal* editorial put it this way: “Ohioans may not like to hear this, but for any company considering where to locate a new plant or move an existing one, the choice between Ohio and Texas isn’t even a close call. **The challenge for our national economy in a world of competition is to become more like Texas and less like Ohio.**” More, in the next item.

**Let's break it down further and examine some real fundamentals. When you do so, the Texas-Ohio comparison becomes even more telling.**

By most analyses, **Ohio's economy is the epitome of a failing situation** that leads to the declarations that a recession is imminent, if it is not there already. Michigan, Indiana and other states fit into Ohio's mold. We're only focusing on Ohio because the contrast is so obvious after the presidential primary spotlight shone so brightly on the two states.

There are a number of reasons for the demise of Ohio's economy – a lot **more than those related to just the housing crisis and subsequent credit crunch**. That's an easy explanation that ignores what is really *wrong* in Ohio and really *right* in Texas.

“Ohio, Indiana and Michigan are losing auto jobs, but many of these ‘runaway plants’ are not fleeing to China, Mexico or India,” reports *The Wall Street Journal*.

**“They've moved to more business-friendly US states, including Texas.**

GM recently announced plans for a new plant to build hybrid cars. Guess where? Near Dallas. In 2006 the Lone Star State exported \$5.5 billion of cars and trucks to Mexico and \$2.4 billion to Canada.”

While Ohio has lost 200,000 manufacturing jobs (see the previous story), Texas has gained 36,000 manufacturing jobs since 2004 and has **ranked as the nation's top exporting state for six years in a row**. Austin's exports rank 25<sup>th</sup> nationally and in 2006 contributed more than \$8.3 billion to the local economy.

Why is this? (It's certainly not because of the blistering heat that makes most of Texas unbearable during August.) Ohio politicians deplore plant closings even as they impose the **third highest corporate income tax in the country** (10.5%) and the **sixth highest personal income tax** (8.87%). **Texas has no income tax.**

**Nearly 1,000 new plants have been built in Texas since 2005**, from the likes of Microsoft, Samsung right here in the Austin area, and Fujitsu. Foreign-owned companies supplied Texas with 345,000 jobs.

Ohio has an economy burdened by high taxes and work rules that impose heavy costs on employers (Ohio workers can be forced to join a union whether they wish to or not, a “closed-shop” state). **On the other hand, Texas embraces free trade, keeps taxes low, doesn't impose unions on business** (a “right-to-work” state) and has tooled itself for 21<sup>st</sup> century global competition, according to the *Journal*.

This is what we mean by *regional* recessions. **Some regions, such as the dynamic Austin area in the midst of a state-on-the-move, have a solid economic underpinning** and are more able to withstand the shock waves when portions of the national economy start suffering. The “R” word may apply elsewhere, but it is not yet applicable to our region.

**Okay, okay, let's cut to the chase. What about the hardest hit portion of this economy – housing? The premise that this recession is *regional* is dramatically underscored when you compare Austin to other major cities in the US.**

Big, bold headlines this week pointed out that, nationally, homeowners' share of the equity in their homes fell to a low not seen since WWII. Falling home prices are the culprit. **Many homeowners are now “upside down,” with mortgages higher than the value of the home itself** – in more than 8.8 million homes, according to Economy.com. Obviously, this is serious.

This week, the Standard & Poors/Case-Shiller Home Price Index reports that **national home prices fell 8.9%**. Of the top 20 markets tracked by the Index, 17 of the metro areas reported annual price declines and the remaining three reported flat or moderate growth rates. **Also 14 of the metro areas reported record lows and eight are in double-digit decline.** This is a sobering trend.

The Austin area is *not* included in this Index. But when you compare what is happening here to the other 20 markets, you see how the Austin area region is not participating in this national recession palaver. **The median price for a single-family home in the Austin area is up 7% from a year ago.** Let this sink in for a moment. Now, let's compare it to all other metros in their list of twenty.

First of all, the three that reported growth rates did not come close to the Austin metro's dynamism. **Portland** is up 1.8%. **Seattle** is just barely hanging on with a 0.5% increase and **Charlotte** is expected to report a moderate increase. Remember, Austin is up 7%.

What about all the others? Take a look at the most recent Index numbers. They are all *down*. **Atlanta**, prices fell 3.4% year over year. **Boston** prices dropped 1.9%. **Chicago** had a modest decline. **Cleveland** prices fell 6.3%. **Dallas** had a modest decline of 2.4%. **Denver** home prices fell 4.5%. Detroit prices, hang on, are down 13.6%. **Los Angeles** dropped even more, down 13.7%. **Miami is the weakest market of all with prices declining 17.5%**.

There are more reporting falling values. **Minneapolis** sales prices have dropped 4.9%. **New York** dipped 5.6% year of year. **Las Vegas and Phoenix are tied for second as the weakest markets with 15.3% each in home price declines.** **San Diego** home prices fell 15%. **San Francisco** slipped into double-digit territory with an annual drop of 10.8%. **Tampa** home prices slipped 13.3%. And home prices in **Washington, DC** fell 9.4%. What was Austin again? UP 7%.

No wonder there is so much national hand-wringing — especially when you note these are all major media markets, **and home of those who run these numbers and those who report them on a national level.** As we said at the outset this week, the Austin area is not immune to national economic problems, but you need to keep a perspective on where *you* live and work.

**Texas Democrats have been widely cussed for their “vote twice, prima-caucus” presidential primary system. And rightly so. While other states report results timely, it may be 3/29/08 before Texas Democrats divvy up delegates for presidential candidates following the 3/4/08 election. How did this mess come to be?**

Blame it on the days when Texas was a one-party state. There were no Republican officeholders, so **the Dems fiercely divided into conservative and liberal camps**. And the control of the Texas Democratic Party was a prize that was hotly contested. The precinct conventions were the battleground on which the war to control the party was fought.

The 1950s and 1960s saw some rip-roaring intraparty battles. **Giants of Texas politics grappled**, most of the time in behind-the-scenes organizational activities, for control of the party machinery. For instance, Governor **John Connally** (conservative) against US Senator **Ralph Yarborough** (liberal).

It was truly a grass-roots exercise, starting with the precinct conventions (held at 7 pm the night of the party primary) where delegates were elected to the county convention, then on to the state convention. **These delegates were not pledged to any presidential candidate**. They were simply, as in the example above, either conservative or liberal – seeking to control the party machinery.

Later in the 1980s, after the Republican Party siphoned off most of the conservative Democrats, the remaining Dems started tweaking these precinct conventions (the word changed to “caucus” by the media in this election). **Out of that grew the hodge-podge which culminated 3/4/08** when Texas Dems could “vote twice” for their presidential candidate. By the way, the old liberal-conservative battles produced some real doozies – such as when **Jake Pickle** (later a Congressman) headed up the party and tried raising money, the liberal wing ran its own fund-raising campaign with the slogan **“Dollars for Democrats, but not a Nickel for Pickle.”**

**Dr. Louis Overholster** is a big believer in e-mail as an educational tool: “Otherwise, how would we ever know how many Nigerians with \$30 million need our help to get it out of the country?”

Sincerely



Editor/Publisher