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AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

The Texas economy is in better shape than most other states. We've reported items like this before, but now we have the most recent updates from two very credible sources.

With “v-o-l-a-t-i-l-i-t-y” being another way to spell “economy,” you need to be **ever vigilant for signs of movement** that might impact Texas and the Austin area specifically. As a result, we always try to report the latest info to you, even though it may seem like “old news.” In fact, if it sounds like same song, second verse – this is good news.

“The Texas economy is currently in better shape than most other states,” said Texas State Comptroller **Susan Combs**. “While we see a cooling in the economy, there are several aspects that show **the state is faring much better than what's happening on the national front.**”

“Employment in Texas continues to expand,” she continued. “From March 2007 to March 2008, **Texas gained about 214,000 jobs, which is more than the next four top job growth states combined.**”

The Comptroller's office is also keeping an eye on factors like energy prices. Combs notes that **high energy prices, in the short run, benefit the Texas economy because of high-paying jobs in oil and gas.** But she warns those gains could disappear in the long-run if high oil and gas prices persist and general price inflation accelerates and affects consumer behavior.

In another report, the **Federal Reserve Bank of Dallas** in May said the state's economy continues to outperform the nation. The energy sector is the bright spot in the Texas economy. The Fed called the **energy sector “perhaps the single most prominent sign of economic strength at this point.”** The Texas rig count and energy employment are near 20-year highs and energy prices, as you hear almost daily, are at all-time highs.

Economic signals *do* remain somewhat mixed. For instance, construction is stumbling. But at the same time, **Texas registered its best unemployment performance in almost 25 years** in February when it dipped to only 4.1%. In fact, overall payroll employment is rising in Texas each month, while national payroll employment dipped to negative figures in January. But just this week, there was some encouraging national economic news. Check out the next item.

Not so fast on all this recession talk. Dire predictions about a national recession are being scaled back. What's this? What's going on?

The first sentence of a front page story in *The Wall Street Journal* 5/14/08 read like this: **“a funny thing happened to the economy on its way to recession: it's taken a detour.”** The report goes on to say “that, at least, is the view of a growing number of economists – including some who not long ago were saying a recession was all but inevitable.” And the reasons for this turnabout in thinking?

The WSJ reports these economists are saying **stock and credit markets have steadily improved** since the Federal Reserve intervened to keep Bear Stearns Cos. from bankruptcy in early March, while a series of economic reports have been stronger than expected.

Also, the economists are citing swift policy responses, including a **sharp reduction in interest rates** by the Fed – to 2% from 5.25% last September – and the distribution of **fiscal-stimulus checks to millions of Americans**, as factors possibly easing the downturn.

Wachovia Corp now puts the odds of recession at 45%, down from 90% in April. Wachovia's global economist **Jay Bryson** says “A couple months ago it seemed like we were on the abyss. Things have changed ... The numbers we've seen recently haven't been as bad as we were led to believe a few months ago.”

There is no doubt that plenty of warning signs on the economy remain. But, until now, you were hard-pressed to find any so-called experts spouting anything other than gloom and doom as they assessed the national economy.

One Texas economist continues optimistic about the state's prospects and, in fact, says the slowdown in the construction of new homes is a good thing – especially nationally.

“We need fewer new homes built across the nation,” said **Mark Dotzour**, the chief economist at TexasA&M's Real Estate Center. And he also thinks **reduction of the supply of new homes is healthy for local Texas markets.**

This is what is happening now. The State Comptroller's office reports **single-family housing permits in Texas and, to a lesser extent existing home sales, are down over the past year.** But stable home prices in Texas have kept mortgage foreclosures well below the national rate.

Interestingly, even with a bit of a local slowdown here, homes are still selling faster in the Austin area – in many cases, twice as fast — than in the “sick” national home markets.

You may not realize it, but those 18-34 year olds that jam Austin's live music venues, cruise the warehouse district and East 6th Street, zip around our roadways, line up at movie houses, pack apartments, crowd popular eateries, etc. are one of the reasons for Austin's prosperity.

A recent study of the nation's 67 largest metros found that youthful spirit and economic vitality go hand in hand. The study compared communities that skewed young or old and found that **communities with large concentrations of young adults are more likely to prosper.**

In the study, Group No. 1 (that included the Austin metro) consisted of the 11 major markets where **more than 25% of all residents are 18 to 34 years old.** Austin weighs in at 29%. Group No. 2 contained 14 metros where **fewer than 22% are young adults.** Here's how they compared, according to bizjournals.com:

The young markets have been experiencing *population* growth of 2.1% per year since 2000. **That's seven times the growth rate of 0.3% for the old markets.**

The annual rate of job growth is 1.9% in the young metros, compared to 0.4% in their older counterparts.

Personal income is climbing at a median pace of 3.4% per year in the young markets. The corresponding figure is 2.8% on the old side.

The study reports it is clear that having a higher percentage of young adults can be an indicator of economic success. **It tells marketers where to concentrate their efforts, entrepreneurs where to start businesses and college graduates where to look for work.** And the Austin metro is among the best in the nation for job opportunities. Here are the Top Five metros:

1. **Raleigh.** This North Carolina metro was cited for population and job growth, the percentage of young adults with college degrees and a low cost of living.
2. **Austin.** The heaviest concentration of young adults in any major metro is found in Austin: 29% between the ages of 18-34.
3. **Washington.** The District of Columbia can be an expensive place to live, but paychecks for workers in their 20s and 30s are among the highest in the US.
4. **Las Vegas.** The economy has recently slowed in Vegas, yet it remains the national leader in job growth, averaging 4.9% per year.
5. **Phoenix.** The unemployment rate for 18-34 year olds in Phoenix is 5.4% — three full percentage points below the US average for this age group.

“College-educated young people are looking for greater control over where they live,” according to The Segmentation Co., a national research firm. **Quality-of-life issues are of prime importance** to these mobile young workers. They told The Segmentation Co. that they're **looking for places that offer strong professional opportunities, have good schools and are affordable and clean.** Hmmmm. Sounds like Austin scores on all key points.

Want to know which Texas Longhorn football games are expected to generate the most fan interest this fall? One way to gauge what UT Athletic officials think about this is to check out the single game ticket prices.

As a general rule, *seats* in newly-expanded Darrell K Royal – Texas Memorial Stadium are priced the same for home football games no matter if they are on the goal line or the 50-yard line. (Suites and special club access tix are another matter). But not all *games* are equal. And this is where fan interest comes in. **Basically, the more competitive the Longhorn opponent, the higher the single-game ticket price.** Also, traditional rivalries and anticipated ticket demand are factors that are considered. So, how does this play out for the 2008 football season?

The priciest *home game* ticket is the **UT/TexasA&M** 11/27/08 Thanksgiving night game (that's right; the Aggie game has been moved back to Turkey Day this year). The tab is **\$90 a ticket**. Three other home games have been priced at **\$80 a seat** – the 9/13/08 game with **Arkansas**, the 10/18/08 contest with **Missouri** and the 10/25/08 game with **Oklahoma State**.

The least expensive home games, at **\$65 a ticket**, are the home opener 8/30/08 with **Florida Atlantic** and the 9/20/08 contest with **Rice**. The remaining home game, 11/8/08, with **Baylor** is priced at **\$75 per ticket**.

However, the most expensive tickets of all are for games *not* played in Austin. The traditional big-ticket game against **Oklahoma** 10/11/08 in the Cotton Bowl in Dallas again takes top honors at **\$95 per ticket**. And, somewhat surprisingly, the contest with **Texas Tech** in Lubbock also goes for \$95 a ticket. The least expensive *away* games are **UTEP** 9/6/08 in El Paso at **\$40 per ticket**, **Colorado** 10/4/08 in Boulder and **Kansas** 11/15/08 in Lawrence at **\$60 per ticket**. There are seven home games this fall, one more than in 2007 and 2009. Season tickets for home games are priced at \$385 per ticket, with a priority deadline of 5/30/08.

Dr. Louis Overholster was wondering how it is that we put a man on the moon before we figured out it would be a good idea to put wheels on luggage!

Sincerely



Editor/Publisher