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# AUSTIN LETTER

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Dear Client:

**The most recent analysis of the past year (April to April) reveals the State of Texas is still outperforming the US economy and it's interesting to note where the biggest leaps in job growth are occurring.**

Overall, the state's non-farm employment **rose 2.6%** from April 2007 to April 2008. During this same time frame, the US employment grew at a substantially lower pace – **less than .5%**. And the **state's unemployment is still better** than the US. Texas dropped from 4.4% to 4.1% this year, while the **US numbers went the wrong way** – up from 4.5% to 5.0%. But it's fascinating to see where the job growth is occurring in Texas.

The leader in Texas' job growth rate – at 6.8% — is in a much-cussed industry segment. **Jobs were created at the fastest rate over the past year in the state's natural resources and mining industry** – more-so than in any other economic category. Yep. While practically everyone who pumps gas has almost gone cross-eyed watching the dollars speed by on the pump, the state and the related Texas industries are thriving because of higher oil prices.

Okay, pop quiz time. Can you name the other rate-leaders in order? We'll save you the exercise. **The state's professional and business services industry ranked second in job creation at 5%. The leisure and hospitality industry (arts, entertainment, recreation, accommodations and food services) ranked third at 4.2%.**

But what about the “hot” growth segments of health care and government? Shouldn't they be near the top? Well, they both fell behind **the state's construction industry that notched a 3.8% gain** to rank #4. The slowdown in homebuilding was apparently offset by new jobs in heavy and civil engineering construction, and specialty trade contractors.

**Education and health services managed to nail down the #5 slot**, with an annual growth rate of 3.5%. But **government** jobs, which are so prevalent in the Austin area, only grew by 0.8% to rank #10. **Manufacturing was the only loser**, with jobs decreasing by 0.4%. One of the big losers: computer and electronic product manufacturing, again jobs that are found in the Austin area. So, how is Austin faring? Check out the next item.

**There is no question the ripple effects from an ailing national economy are beginning to be felt in the Austin area, but it is instructive to remember that so far it is only a local *slowdown* and there is still a lot of strength in the Austin economy, with positive long-term prospects.**

As you'll recall from the previous item, US job growth has slowed to a trickle – less than one-half of a percent, while Texas growth came in at a solid 2.6%. Well – using the same April 2007 to April 2008 comparison – **Austin looks even better with a 2.7% job growth rate.** This is not as robust as in the past. So it can legitimately be called a slowdown. On the other side of the ledger, **Austin is enjoying a very solid 3.3% unemployment rate,** compared to the US's 5.0% and even energy-vibrant Houston's at 3.8%. By both job measures, the Austin area is performing right up there at the top of the nation's list – even though the pace is a bit slower.

**The biggest economic ripple effect impacting the Austin area emanates from the nation's housing meltdown and subsequent tightened credit parameters. So, as we gauge where the Austin metro stands, what does the national situation look like?**

Nationally, some below-the-radar changes are taking place that hint of an improving national picture that should ultimately inure to the benefit of the Austin metro. For instance, stock prices of some national homebuilders are up. Dominion in fact was up more than 84% recently and Pulte Homes was up by about 17% at one point. **This is probably the leading edge of a slow return to normalcy on the national housing scene,** as investors are moving back into this arena – anticipating what might happen in the next several months.

Also, Toll Brothers, one of the nation's largest builders with a huge presence in the Austin area, has been aggressively depleting its inventory of speculative homes. CEO **Robert Toll** told *The New York Times* his current sales philosophy: “We start off with modest incentives, then we increase them. **We might add an addition to the home for nothing, or a garden room off the kitchen, or give you a special kitchen package.** We will run specials like ‘this week only’ price reductions to create urgency.”

Even though Toll Brothers current balance sheet suffers because its average home price fell from \$711,000 to \$590,000, it **addresses a big problem overhanging the national market – a giant glut of unsold homes.** Toll remains positive: “I've seen this movie four or five times now, and I assure you this, too, shall pass.”

Again, the Austin area does not face this same problem – though the national homebuilders working in the Austin market are following the dictates of their home office and **aggressively selling off existing inventory while at the same time starting to build fewer homes than in the recent past.** But Austin differs, at times dramatically. For a look at how the Austin *housing market* stacks up according to one local analyst, check out the next item.

**Austin, along with most of Texas, ranks as one of the most affordable housing markets in the US, according to a local residential real estate analyst.**

The primary job of a company called Residential Strategies Inc (RSI) is to examine real estate markets up one side and down the other. And the head of RSI's Austin operations, **Mark Sprague**, points out the **Austin-Round Rock metro is ranked the 9<sup>th</sup> best in the nation for affordability** according to data compiled by PMI Mortgage Insurance. (By the way, the San Antonio metro edged past Austin in this index and was ranked 8<sup>th</sup> best in the nation.)

As we have reported in recent months, the median *price* of a home in the area has been rising steadily. Therefore the *value* of homes also is increasing. As a result, **every homeowner has a vested interest in what is happening to area real estate.** So, will rising prices/values cause problems? Not at all, as long as current conditions prevail in the near term.

**Current conditions can be affected if a glut of homes is suddenly available, or conversely, if "for sale" front-yard signs quickly diminish.** Based upon the *rate of sale* and the number of homes *listed for sale*, the pace of home sales can be determined. It is usually measured in how many months it would take to clear out the inventory.

**Sprague says that a 6-month supply of available homes is equilibrium.** More than a 6-month supply tends toward an oversupply situation and it becomes a buyer's market. Less than 6-months of inventory and the seller starts to gain an advantage. The greater the distance from the 6-months equilibrium – in either direction – moves the housing market toward economic extremes.

Sprague points out the **Austin housing market is in good shape, as far as total housing inventory is concerned. It is 5.7 months.** Advantage goes to neither buyer nor seller and, as a result, housing prices/values should remain on the same track as in recent months.

**The tightened credit requirements for those who want to buy a home could very soon result in a significant shift in the mix of home loan mortgage types, even as rates remain relatively low.**

Interest rates for mortgages are generally holding below 6%, as they have for more than a year. While quotes vary slightly from day-to-day, recently we saw a 5.88% rate for a 30-year mortgage, 5.42% for 15 years and 5.19% for a 1-yr Adjustable Rate Mortgage. While the rates should remain steady for awhile, **here is a trend to watch:** due to the tightened credit guidelines there may be as much as 35% of all loans currently being approved by Fannie Mae that will no longer be approved under a new system. The impact: **the FHA will probably be a major player in the mortgage world going forward.**

**You can be forgiven if you thought the weather felt like the Fourth of July this past Memorial Day weekend. Yes, it was *that* hot. And this may not bode well for summertime temps.**

Summer was late arriving in Central Texas last year, what with the heavy rains and cooler temps. But that was then and this is now. **It's *hotter earlier and drier earlier than last summer* and the prospects call for more heat and dryness.**

The respected chief meteorologist at the Lower Colorado River Authority, **Bob Rose**, said this week that "our current summer-like pattern is well ahead of schedule as evidenced by **long-standing record temperatures continuing to fall or being equaled.**" We've already experienced a 101-degree high in mid-May and this normally doesn't occur until mid-July.

But it's not only the heat. You can add the lack of rain to the misery index. According to Dr. **John Nielson-Gammon**, the Texas State Climatologist, **this May is on track to be the 7<sup>th</sup> driest on record, the 13<sup>th</sup> driest March-through-May period on record and the 7<sup>th</sup> driest December-through-May on record.** "So if you think the weather has been a little unusual lately, you're right," says Rose.

Talk about unusual. **Now you have to factor hurricanes into the equation.** Hurricane season starts Sunday 6/1/08, and as we write this, meteorologists are keeping an eye on a tropical development that could move into the Gulf of Mexico late next week. Hurricanes that put Texas in the crosshairs usually don't maintain strong wind velocities as they head inland to the Austin area. But, my oh my, some hurricanes in the past have caused serious flooding in the Austin area.

So get ready. Make your plans. At least, armed with this knowledge, it won't sneak up on you. Unless. As one sage said, "If you don't like the weather in Texas, wait a minute." However, that observation may not be applicable this summer.

**Dr. Louis Overholster** said it is so hot that when he gets into his pickup, his skin sticks to his beer.

Sincerely



Editor/Publisher