

Volume 30, Number 26

September 26, 2008

Dear Client:

There are two sides to the jobs coin: 1) jobs gained, and 2) unemployment. An analysis of the most recent numbers for that two-sided coin shows a comparatively good picture for the Austin area and Texas as a whole.

For Texas, the picture is quite impressive. In the 12 months through August 2008, Texas gained 252,000 jobs. Okay, that sounds like a big number. But it's even more impressive when you put it in context. **This increase is more than the next 14 top job-growth states – combined.** Over the last twelve months, Texas accounted for 45% of the entire job gains for all states.

Not only that, three big states that normally compete with Texas *lost* jobs, while Texas was leading the nation in job growth. Florida lost 99,000 jobs, California lost 73,000 and Michigan saw 70,000 jobs disappear. **Just from July to August 2008, the entire US economy lost 84,000 jobs, while Texas gained 6,700 jobs.** So the Texas trend is continuing and running counter to what is happening around the nation.

As for unemployment, the comparative good news continues. **The Texas unemployment rate has been at or below the national rate for 20 consecutive months.** The Texas unemployment rate in August 2008 was 5.0%, slightly up somewhat from a year ago when it was 4.3%. The US rate in August was 6.1%, but it is up considerably from a year ago when it was 4.7%.

The 5-county Austin-Round Rock metro area is still creating jobs as well. Through August 2008, **there were approximately 18,000 more jobs in the Austin metro area than was the case a year ago.**

But, as with the state, the unemployment percentage – while still in relatively good shape compared to other areas – is reflecting the softening economy as more people are looking for work. **Unemployment hit 4.5% in the Austin metro in August 2008. A year ago, the unemployment rate was 3.7%.**

A quick snapshot of Austin presents a picture of **growing government employment and an increase in the leisure and hospitality sectors.** Manufacturing is the category that is losing the most jobs, about 2,800 in the last 12 months. Government grew by 7,800 jobs in the past year, while leisure and hospitality gained 3,100 new positions.

How about a second opinion? A national business media group recently examined the job markets in the US and found the Austin market ranked #2 in the nation. Really? Really.

In fact, the study by American City Business Journals, Inc (ACBJ), the corporate parent of the *Austin Business Journal*, found the **top three metro job markets in the nation are Texas cities**. Energy-dynamic Houston is #1 and Dallas-Fort Worth is #3. Not only did three Texas metros sweep the top designations, San Antonio was near the top, coming in at #6. The only two metros that kept Texas from sweeping all the top spots were #4 Raleigh, NC and #5 Seattle.

The study used a nine-part formula to analyze employment trends in the nation's 100 largest labor markets. It examined primarily job growth and unemployment numbers. While the figures were not as current as those in our previous story, they are still fresh – covering the period from June 2007 to June 2008.

So what about Austin in this report? ACBJ reports “the study shows that **in the past five years, private-sector jobs in Austin have grown by almost 22%**. That’s about as fast as Las Vegas, which is often heralded as the fastest-growing American city.”

It went on to point out that “about two-thirds of business owners who belong to the Entrepreneurs’ Organization in Austin, which represents small businesses of all types, say they **plan to hire more workers in the coming months.**”

“**That’s a stark contrast to the national scene,**” the report continued, “where employers are projecting a continued decline in hiring for the fourth quarter, according to the latest Manpower Employment Outlook Survey conducted quarterly by Manpower Inc.”

Incidentally, ACBJ also reported a study in March identified Houston as one of the nation’s **10 most affordable housing markets**, with Dallas-Fort Worth and Austin close behind in 15th and 22nd respectively.

Want more? How about another study, this one out of California, that shows the Austin metro area ranks near the top — based on economic growth.

The Milken Institute in Santa Monica annually ranks the nation’s 200 largest metropolitan areas. This week it ranked **Austin-Round Rock 4th in the nation**. Again, Texas had a strong showing with McAllen-Edinburg-Mission coming in 7th, Killeen-Temple-Fort Hood 13th, San Antonio 15th, Houston-Sugar Land-Baytown 16th and Dallas-Plano-Irving landed the 23rd spot on the list. It was even better for Texas when Milken tallied the 124 small metros in the nation. Midland ranked first in the nation, Longview and Odessa came in at 7th and 10th respectively. And, at 37th, El Paso showed the biggest gain among small metros, jumping 85 spots from its 2007 position.

All this is well and good. The Austin area is near the top using a lot of measures, but there is no doubt there is a slowdown in some sectors. For instance, real estate.

Again, you probably wouldn't pick another area of the country in which to work and play, as these previous stories indicated. It's all relative. **But the Central Texas economy has seen more zip in the recent past than is evident now. And one of those slowing sectors is real estate.** Most of the slowdown is a reflection of what is happening outside the boundaries of our area (crashing financial markets, tightened credit and lending practices, etc.), but it is a slowdown nonetheless. And we need to keep this in perspective.

For instance, sales of homes in the metro area, tracked by the Multiple Listing Service run by the Austin Board of Realtors, are **off by about 20%** in an August 2008 to August 2007 comparison. And when adding up the sales through the first eight months of this year, there is still **about a 19% drop from a year ago.**

Even though *sales* of homes are off, **the average price of homes sold are up from a year ago – albeit slightly.** There has been no erosion in overall value of homes. But this statement comes with somewhat of a caveat.

Sales of pricier homes, rather than starter/affordable homes, will skew the average price upward. And many of those in the market for homes priced toward the lower end generally find it more difficult to come up with 20% down, thereby making it difficult to get a loan during these times of tightened credit.

If you look at the trend lines on home appreciation, it shows a decline. The rate of increase has been falling, so **home appreciation for the rest of the year may be fairly minimal, if at all.**

But there is some good news in hindsight. The Real Estate Center at TexasA&M reports that from the **1st quarter of 2007 to the 1st quarter of 2008, the percentage increase in the average home price in the Austin metro was a very significant 7.73%.** Only the energy-economy-fueled Midland (11.40%) and Odessa (13.04%) ranked higher during this period.

What conclusion can be drawn about the current residential real estate situation in the Austin area? First, **it is a buyer's market now – if a buyer can get a home loan. (And that's a big if.)** But if a buyer can qualify with a good credit score, has enough cash on hand to make a 20% down payment (or better yet, pay cash for the house), the buyer can drive a hard bargain. The seller, however, has to be ready to ride this out or be prepared to “get real” on pricing the property for sale.

The good news right now is that **homebuilders have slowed new construction considerably which will help “correct” the market** by removing a lot of inventory and bringing the market more in balance. New construction is likely to remain slow for the near future. But, remember, the local and state housing markets continue to be significantly stronger than the national market.

UTAustin has for years had one of the largest single campus student enrollments of any university in the nation. This year is no exception, even though a number of efforts have been undertaken in the past to reduce the size of the student body.

The preliminary enrollment for the fall semester is a tad more than 50,000 – 50,006, to be exact. While this is a large number, it is about **164 students less than were enrolled in the fall semester last year**. (This was part of a planned reduction because construction of lab facilities is not yet complete to handle the anticipated demand.) UTAustin appears resigned to working within a 50,000 student body range, even though it stresses facility capacities and impacts the student-faculty ratio.

One of the reasons UTAustin's enrollment stays at a high level is that **it takes more than four years for almost half of the students to graduate** – many take five or even six years. But there appears to be small progress on this front. Four-year graduation rates have increased from 51% to 52.5%. And five-year graduation rates have increased from 73% to 76.3%.

Think about this for a moment. Almost 48% of the students are still on campus after four years and 24% of the students take more than five years to graduate from UTAustin. **No wonder there is a huge enrollment**. This is not the only reason for 50,000 students to be tramping around the campus, but it certainly contributes.

There's another facet to the enrollment that is interesting to analyze. UTAustin has long had a policy of trying to increase minority enrollment – make **minorities a greater percentage of the total**. And, again, the fall figures show some progress in that direction. Hispanic student enrollment grew by 1.7%, Asian Americans by 0.4%, while African American enrollment increased by a significant 4.1%.

Dr. Louis Overholster has been overwhelmed this week by news about the financial crisis unfolding on Wall Street. In fact, he said the American economy seems to be getting so bad that Mexico is now calling for a fence along the border!

Sincerely



Editor/Publisher