

THE

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AUSTIN LETTER

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Dear Client:

Even though it is generally regarded as a *federal* problem, immigration was a big issue in some *Texas* legislative races. When state legislators convene in Austin in two months, they will find the national economic crisis has had a big impact on the immigration situation.

Immigration reform was once a red-hot issue, but as the US economy has cratered, immigration may be cooling as an issue. This doesn't mean those on opposite sides of the issue have lessened their passions, it simply means that **the problem itself has lessened. And you can credit/blame the economy.**

The recession will push immigration reform to a back burner in 2009. As jobs dry up, **fewer illegal immigrants are sneaking into the US and more of those already here are packing up and going home to their families.** Plus fewer employers find themselves in need of guest workers. They're much more likely to lay off help than to put more on their payrolls. This is the view of seasoned business/political observers, our friends at *The Kiplinger Washington Letter*.

In fact, **illegal immigration from Mexico is down by about 50% so far this year,** according to *Kiplinger*. Tighter border controls and high profile workplace raids are factors. But so is the job outlook.

Most immigrants do some kind of cost-benefit analysis before deciding whether to cross the border and how long to stay. **Fewer people are deciding to risk the move as the economic and social climates turn hostile,** *Kiplinger* reports.

The slowdown hasn't hit *legal* immigrants, who now outnumber *illegals*. There is still plenty of demand for entry visas, which are limited by statute. And it is too soon to say how foreign graduate students (of which there are plenty at UT Austin) will be affected. Whether they stay or go home will depend on where the job market is stronger.

At any rate, **many Texas legislators who took strong stances on the immigration issue will find the topic less volatile** when they come to Austin in January to try to affect some sort of state action. This could impact the legislative priorities of the leadership and shake up the mix of the stew of bills that will be awaiting consideration.

Many homeowners around the country are “upside down” or “underwater” because their mortgages are higher than the declining value of their homes. The Austin area has not seen a decline in home values and the prospects for the next few years still look good.

According to a study by the Center for Economic and Policy Research in conjunction with the National Low Income Housing Coalition, owners of mid-priced homes in the Austin-Round Rock metro area will see an **increase in equity value of their homes of more than \$61,000 between now and 2012.**

This is based on homes **priced at 75% of the median price and financed at between 6% and 8%**. Obviously this is just an average and based on the above assumptions. Your home could be higher or lower and your financing could also vary. But this reinforces the positive outlook for the stable Austin area housing market now and in the immediate future. And it underscores the fact the Austin area never experienced a housing bubble/burst like that of many other cities.

When the Federal Reserve announced last week it was lowering a key *short-term* interest rate by a half-percentage point to 1 percent, you didn't see many (if any) stories about what was happening to *long-term mortgage* interest rates. Bottom line: they've gone up.

The Fed lowered the overnight bank lending rate (called the “federal funds rate”) to a very low 1%. **This was good news to those who rely on consumer loans – such as credit cards, business loans and even home equity lines.** And the Fed left the door open to the possibility this rate could be lowered even more down the line to what was once unthinkable – lower than 1%. The hope of course is that this will spur economic activity during this economic crisis.

But long-term mortgages are also very much a player in this economic crisis. What happened here? Well, first of all, **remember mortgage rates track the rates in long-term Treasury bonds – not the fed funds rate.** And when the Fed lowered its short-term rates, it resulted in a *surge* in the 30-year mortgage rate.

According to CNNMoney.com, 30-year mortgage rates are now higher than a year ago. **Freddie Mac reported late last week that 30-year fixed-rate mortgages averaged 6.46%.** This is up from 6.06% the week before and even higher than the 6.26% interest rate this time last year.

CNNMoney.com also reports that **rates on *fifteen-year* fixed-rate mortgages also went up – to 6.19%** from 5.72% the previous week and 5.91% a year ago.

Even with this surge, **mortgage rates are still low.** But as you track this activity, be aware that another lowering of the fed funds rate – though not a certainty – should not be confused with the possibility that long-term mortgage rates will also drop. Quite the contrary.

Make no mistake. Even though short-term interest rates have gone down, credit requirements have not been lessened. So while the *cost* of borrowing is dropping, the *difficulty* of borrowing is not getting easier.

Even if the fed funds rate drops below 1% for the first time since the 1950s, your Austin banker is not going to drop the current stringent loan requirements. **If you have shaky credit, you may as well save a trip to the bank looking for personal or business loan.**

And if you have just “decent” credit, you may still want to wait until next year before talking to your banker about loaning you some money personally or for your business **and spend the interim trying to get your credit rating up a bit.**

As we have pointed out before, the Austin economy may be doing better than other places, but the lending requirements in place at Austin banks – and enforced by the regulators – are as **tight as they are in markets that are suffering economically.**

Residential Strategies, Inc. now offers further support for Real Estate Economist Mark Dotzour’s comments about Austin housing values that we published last week where he stated: “This market is good. This market is healthy. It’s not going down in price.”

Residential Strategies, Inc. (RSI) is a firm that tracks the Austin area real estate scene, especially from the homebuilders’ perspective. And RSI’s **Mark Sprague** added to Dotzour’s assessment about real estate values by telling us that “land sales have shown no price erosion yet either.”

“Yes, there have been some noteworthy foreclosures (Pacific Summit, etc.)”, he admitted. **“But those developers (primarily from out of town) overpaid at the height of the market.”**

Sprague also said “we are seeing land prices stabilize, with the players changing. **Builders are no longer the big parcel buyers and won’t be for quite a while.”**

You may soon see an iconic Texas symbol – the pickup truck – exported from this state.

Toyota Motor Corp set up its manufacturing facility just down the road in San Antonio to make Tundra pickup trucks, figuring Texans were the prime market. Well, when gas prices shot upward and the economy started tanking, Toyota stopped production in San Antonio of the Tundra in August. Now it is planning to **resume production in the Alamo City 11/10/08** and some of those Texas vehicles may be shipped to Latin America and/or the Middle East.

The long-discussed merger between two big airlines that serve Austin is now complete. So, what will be the impact for travelers at Austin-Bergstrom International Airport (ABIA)?

The big name carriers, Delta Air Lines and Northwest Airlines, will now start operating under one name – Delta. Essentially, **Delta acquired Northwest in an all-stock deal** valued at about \$3.1 billion at current Northwest share prices. How will this affect those who fly at ABIA?

Realistically, it won't make a major impact in the broad scheme of things at ABIA. After all, when you combine the total number of passengers flying *both* Delta and Northwest at ABIA in September, you come up with **only a 7.0% market share.** Compare this with Southwest's 36.3%, American's 23.9% and Continental's 10.3% market shares and you can see where the new Delta will stack up in the pecking order for Austin air travelers.

However, the new Delta will initially offer **375 destinations worldwide in 66 countries** through hubs in Atlanta (the HQ for the combined airline), Cincinnati, Detroit, Memphis, Minneapolis-St. Paul, New York-JFK, Salt Lake City and Tokyo-Narita – all under one flag now.

The question for the future is what will happen in terms of operations at ABIA. **It's entirely likely the new Delta will give up some of its gates in Austin** (reducing revenue for ABIA) as it combines operations for efficiency. Will existing airlines pick up the gate space to expand Austin service, or will a new carrier consider ABIA? And when will that become clear?

It's an interesting time at ABIA because, **for the first time in four years, ABIA passenger traffic fell (albeit slightly at 0.6%) in September**, compared to the previous year. Traffic is still up 4% for the year. But with air travel nationally likely to be curtailed due to the economic crisis, the impact at ABIA bears watching.

Dr. Louis Overholster quotes Mark Twain's prescription for keeping healthy: eat what you don't want, drink what you don't like and do what you'd rather not!

Sincerely



Editor/Publisher