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Dear Client:

Forty-three US states face a deficit within the year. Texas anticipates a surplus. The National Governors Association this week asked Congress for billions of bailout dollars to help states. Where does this leave Texas?

The National Governors Association argues that receipt of at least \$126 billion of federal funds would do far more to spur the economy than other federal stimulus efforts, as the money would be **spent by the states to rebuild infrastructure, increase unemployment benefits and expand social programs**. Is this quest for funds likely to succeed? In a word, yes.

Consider the political clout of just the 11 states that are anticipating the largest fiscal year 2009 budget shortfall (budget gap in *billions*, in parentheses): California (\$31.7), New York (\$6.4), Florida (\$5.1), New Jersey (\$2.9), Arizona (\$2.6), Massachusetts (\$2.6), Virginia (\$2.2), Georgia (\$1.8), Illinois (\$1.8), Nevada (\$1.5) and Ohio (\$1.3).

Texas is the largest state without a budget gap. The *other* states with a positive balance sheet are not large or powerful. They include Montana, Wyoming, North and South Dakota, Nebraska, Missouri, Indiana, West Virginia, Washington, Oregon, Alaska and Louisiana.

Consider further one of the core proposals of President-Elect Barack Obama's campaign, reiterated in a radio address after the election: "We'll put people back to work rebuilding our crumbling roads and bridges."

It sure looks like the deck is stacked for the states to get a big chunk of the bailout money. So where does this leave Texas? Good question. It depends on how the money is allocated and how the state's leaders respond. One national highway/transportation study estimates that **3,100 projects could break ground within three months after receiving the money. Texas has the highest number of projects in that category – totaling an estimated \$1.8 billion.**

So, should Texas – a model of governmental efficiency with gobs of cash in the bank – join the struggling states to **grab as much of the money as possible**? After all, tax dollars paid by Texans are part of the bailout funds. Or put it another way, **should Texas be denied funds, thereby being penalized for being a well-run state**? See the next item for more info.

While a majority of US governors (both Democrats and Republicans) were asking for federal bailout dollars this week, Texas Governor Rick Perry went on the record opposing state bailouts. And he did it in a very public way.

Perry joined with South Carolina's GOP Governor **Mark Sanford** to co-author an editorial commentary Tuesday in *The Wall Street Journal* that carried this sub-head: "Hard to believe, but not everyone in politics wants a free lunch." The two governors said "bailout after bailout" is "taking our country in a very dangerous direction – toward a '**bailout mentality**' where we **look to government rather than ourselves for solutions.**"

Does this mean Perry would turn down federal bailout funds? There is no question that he is opposed to the concept. He points with pride to Texas fiscal track record, while at the same time he criticizes states such as California that want the rest of the country to provide them with funds to help those fiscally unsound states balance their budget.

There's another facet to consider, however. Remember, you have been bombarded for some time now with reports that the **transportation infrastructure funds in Texas are inadequate**. This is the argument that has been made over and over again to support building toll roads. And the fast-growing Austin area is impacted importantly by this debate over funding for transportation infrastructure.

This is where the rubber meets the road, so to speak. Will Texas have access to the federal bailout dollars (a sizable portion of which Texans will eventually fund as part of the taxes paid to the federal government)? **Will Texas aggressively seek its "fair share?"** Or, will the governor stick to his philosophical guns and say in effect "**we don't need no stinkin' federal dollars, thank you.**"

Well, the governor's spokesperson this week said **the governor would be in favor of taking the money for Texas if it is available** – even though he dislikes the concept. Another question is whether there will be a battle over how the bucks are divvied up among the states – and how much will be allocated to each state. **The Texas Legislature convenes in Austin in a month. What will be its collective will?** You get the drift. It will be interesting to see what happens.

Some interesting facts bolster Texas' bragging that it is doing something right, as other states stumble and struggle financially.

With the 12th largest economy in the world – if it were considered a nation – **Texas now leads the US in job creation, gross state product, low unemployment rate and foreign direct investment.** And the governor's office credits "proactive state government policies and incentives, low taxes, reasonable regulations, solid infrastructure and good quality of life."

This week, the economists officially declared the *nation* has been in a recession for about one year. But the national economy is made up of many local and regional economies – and Austin is not yet participating in the national recession.

For years, we have been pointing out the nation's economy is rarely uniform – that it is made up of many regional, even local, economies. When one region is doing poorly, it doesn't mean another region in these vast United States is following suit. **Beverly Kerr**, the Austin Chamber's VP/Research, reminds us the Federal Reserve Bank of Dallas introduced a **new index in 2005 designed to more clearly define business cycles on a *regional* basis.**

This relatively new Index tracks metropolitan areas in Texas. It can show how one Texas metro's business cycle deviates from the state, the region and the nation — or even from the other metros around the state. These indexes cover the major economic bases as they keep track of movements in **non-agricultural employment, unemployment, inflation-adjusted wages and inflation-adjusted retail sales.** And they include data for the years preceding the introduction of the Index.

Without going into the esoteric mechanics of how the Index is formulated, it clearly tracks the economic fortunes month-by-month. For instance, it is really clear to see that Austin began the high-tech downturn in late 1998 and by the **beginning of 2001 the Austin metro area dived dramatically into negative area “below the line,” signaling the start of the depths of the local recessionary period and did not climb back “above the line” until mid-2003.** Many other Texas metros grew during this same period.

The recovery from the tech bust proceeded at a generally increasing rate through 2006, and from there growth rates remained positive, but at a decreasing rate, Kerr pointed out. While this is “old news,” it does **point to the validity of this Index**, as many of those who struggled through the tech troubles will attest.

So, what about right now? What does the local Index say is happening to our “local economy?” **The 5-county Austin metro peaked at the beginning of 2007, when it began a slow slip downward.** “The last three months of Austin's Index have registered a percent change of zero from month to month,” Kerr observed.

She further pointed out that “while no growth appears to be the current condition, **we have not moved into the negative territory** seen here in the early part of this decade. In fact, on a year-to-date basis (January through September), the average value of the Index is up for Austin in 2008 compared to the same period of 2007.”

Austin's numbers are better than those that triggered a “national” recession. And Austin is also showing better growth than Dallas, Fort Worth and San Antonio, but less than energy-driven Houston. **This is why “national” numbers need to be balanced with “local” conditions.**

Now, here are a few brief – but interesting – tidbits.

None of these items bears a relationship to the other, but you may find a nugget to interest you.

Who is the 2nd richest Austinite, following **Michael Dell**? Hint: *Forbes* puts his net worth at \$3.5 billion, following Dell's whopping \$17.3 billion. Give up? It is **John Paul Dejoria**, who made his fortune developing and peddling hair products.

After all the movement and mergers among financial institutions in recent months, which bank is the nation's most valuable – according to market cap? Well, it could change daily with stock price movement. But it will likely bounce back and forth between the Top Two: **Wells Fargo** and **J.P. Morgan Chase**.

The US Postal Service will raise rates on its shipping services (Express Mail, Priority Mail, etc.) 1/18/09. **Price changes on stamps will be announced in February 2009 and go into effect in May 2009.**

The advertising squeeze on newspapers is resulting in major cutbacks in the resources utilized to bring you the news. The *Houston Chronicle* and the *San Antonio Express-News* combined operations to cover the Texas State Capitol a couple of years ago. Now three other major Texas newspapers have cut back on the staff at the Capitol, while a one-man-gang covering State Capitol doings for papers in the Rio Grande Valley shut down completely.

The *Austin American-Statesman*'s current owners (it is up for sale) shut down its Washington DC bureau. And the *Dallas Morning News* and the *Fort Worth Star-Telegram* are in talks about sharing reporting resources. The loss of ad revenue not only means fewer pages, but fewer reporters to fill those pages.

Assessing the economic scene, **Dr. Louis Overholster** said he was reminded that Americans believe life is serious, but not hopeless. The British believe life is hopeless, but not serious.

Sincerely



Editor/Publisher