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Dear Client:

**As year-end 2008 economic numbers trickle in, forecasters are cautiously predicting what may happen in 2009. And one longtime Texas/US analyst suggests Texas will “maintain its role as a key economic leader for the US.”**

For some three decades, Texas-based economist **Ray Perryman** has been examining and analyzing thousands of data series pertaining to the US and Texas economies. He has done so once again.

**His view of the current national economy didn't reveal anything you didn't already know:** “during much of 2008, the nation traveled a rocky economic path filled with numerous challenges and difficulties.” **The same with Texas:** “it has not experienced the same degree of downturn prevalent in so many states.” **But his look ahead is what is intriguing.**

As for the nation, he didn't go out on a limb. Perryman took note of all the broad and proactive steps that have been proposed to improve the national economy and predicted that “none of these band-aids are likely to be the end-all that will lift our economy out of the doldrums.” But he did add a cautionary positive note when he observed: “the fact that **steps are continually being taken** to rectify the situation and the current and incoming administrations are in agreement that much more needs to be accomplished **bodes well for future constructive results.**”

As for Texas, he was more bullish noting that “**Texas has been one of the few bright economic oases around the country.**” And while acknowledging “it is likely that the state will experience some economic slowing ... Texas is expected to dodge the worst of the problems as the nation moves back to its historic growth patterns.” In other words, it appears **he doesn't think the recessionary tsunami sweeping over the nation will soon come crashing down on Texas.**

And make no mistake this tidal economic wave is covering more and more territory. For instance, **in August 2008 only 18 states reported monthly job losses, but in September the number had risen to 41, plus the District of Columbia.** So, Ray, why hasn't Texas experienced the same degree of downturn prevalent in so many other states? Let's take a more detailed look at his analysis and his forecast for the Lone Star State in the next item.

## **Texas has so far dodged the worst of the economic problems plaguing the nation. Why is this? And what does it mean going forward?**

As long as we have been continuously publishing this newsletter — 30 years in March 2009 — Texas economist **Ray Perryman**, has been tracking Texas trends. We have regularly relied upon him over these past three decades to provide **viable and actionable information**. His perspective is one to consider as we try to make sense of the changing economy.

Perryman gives a number of reasons why he believes Texas has not experienced the same degree of downturn prevalent in so many other states. Broadly, he cites its “moderately healthy economy and **longstanding efforts to promote economic diversity and a friendly business climate.**” He further points out that “countless businesses have expanded their operations and created new jobs in the state.” Let’s bore a little deeper into the details of his analysis.

He believes one of the reasons for the state’s relatively good showing is because Texas “continues to be very successful in competing with other states for **businesses seeking new locations and expansion opportunities and a highly sought-after destination for foreign investment.**” One way to measure this success is that Texas recently surpassed New York as the state with the most *FORTUNE* 500 companies’ headquarters.

Another factor: “Despite the fact that the Texas housing industry, facing higher costs and credit difficulties, has been trending downward since late 2006, **real estate prices in the state have remained fairly stable,**” he noted.

He also said “the **construction sector**, while impacted by the national economy, is **relatively healthy** even though the sales of new and existing homes are slow and potential buyers are extremely cautious.” While he didn’t put it this way, out of disaster comes opportunity. Even though portions of the state are still reeling from the effects of Hurricane Ike, he said “**rebuilding spending could amount to around \$8 billion in the near future.**” This will generate a lot of jobs and push dollars through all nooks and crannies of those local economies.

What about energy? “Although **oil prices** have recently experienced significant decreases, prior to this circumstance the **high costs benefited various business operations** in several metropolitan areas,” he said. “Additionally **natural gas output has increased substantially.**”

And he said Texas “continues to be the **nation’s leading exporter, up some 19.6%** through the third quarter, compared to the same period last year.”

Okay, okay, we get it. **But how will these factors, that have worked so well, play out in the near future?** We’ll examine his five-year forecast in the next item.

**Over the next five years, Texas is expected to continue to outperform the US. And one way it will do that is by adding approximately one million jobs.**

While the “twin storms” of Hurricane Ike and Wall Street disruptions will cause temporary difficulties, **they should not alter to any significant degree the overall positive expectations** once the turmoil of the next few months subsides. This is the view articulated by Texas economist **Ray Perryman**, who has made a business of forecasting Texas trends for 30 years.

Perryman is projecting the one million jobs that will be created in Texas over the next five years will be **“bolstered by the growing population, workforce preparation opportunities, and skill level achievements – as well as the quality of life across the state.”**

“Other important factors expected to enable Texas to maintain its economic vibrancy include the **state’s positive business environment, low taxes, its ‘right to work’ status, limited regulations, and infrastructure,**” declared Perryman. **“The strength of the energy sector** will also be a positive, as will the **progressive economic development climate.**

While he doesn’t spell it out specifically, Perryman’s information provides a checklist to watch. If he’s correct, it will be **important to see if any of these factors are changed materially** in the near term. If there are significant changes this would obviously alter his forecast.

Well, Ray, what about those million new jobs? What type jobs will they be? Are they burger flippers or software engineers or what? Perryman says the **services sector will account for the lion’s share of this growth in jobs – 52.74%.** **“The government and trade sectors combined will likely be responsible for about 27.21% of the total employment gain,”** he said.

All this breaks down to an increase of 519,500 jobs in services, 146,200 in trade and 121,900 in government jobs. **Employment should remain healthy over the next several years,** he predicts, though the rate of growth will likely be somewhat less than recent historic patterns.

**State Comptroller Susan Combs this week reinforced the job growth prediction.** “We led the nation for a very long time in job growth, and we expect to do that again,” she said Monday. She predicted that by 2011, Texas should return to generating an average of 20,000 jobs per month.

Wrap it up, Ray. Bottom-line-it for us. “Overall, the Lone Star State economy is projected to **gain strength and achieve modest expansion** in the short term,” he concludes. “Though the nation’s economic woes may cause some temporary lag in growth rates, they should not substantially alter the **state’s anticipated positive trend.**”

**“During the long Texas drought of the 1950s a joke, probably already as old as the state, was told again and again about a man who bet several of his friends it would never rain again, and he collected from two of them.” Is the Austin area moving in that direction?**

Lower Colorado River Authority (LCRA) meteorologist **Bob Rose** pointed out the above quote was from a book by **Elmer Kelton** about the record-setting drought in West Texas during the 1950s (“*The Time It Never Rained*”). Rose says “there’s no doubt the long drought of the 1950s is one of the worst on record for Texas.” **Now the Central Texas area, not the arid areas of west and south Texas, is matching record-setting numbers of a half-century ago.** (Click on the “archives” button at the top of the page to read our 1/6/09 in-depth analysis).

Rose says the **very dry weather in Central Texas in 2008**, “although not long enough in duration to qualify as a drought, is **matching if not exceeding, some of the bad drought years of the 1950s.** From the Hill Country to the middle Texas coast, rainfall through late December has been roughly 25% to 50% of normal.”

In Kelton’s book he states that **“drought,” by Texas definition, is a period of severely deficient moisture that laps over from one year into another.** “It often lasts two to three years in duration. Anything shorter, though it may be serious, is termed a ‘dry spell,’ as if more annoyance than hardship.” So, is Central Texas in the midst of a “drought” or a “dry spell?” “In reality, the dry weather of 2008 has not just been a dry spell but a very serious drought,” says Rose. **Whether it is a dry spell or a drought, it is continuing.**

**Most smaller streams in the Hill Country have dried up**, but some springs are maintaining base flows in the San Saba, Llano and Pedernales rivers, according to the LCRA. And the two big flood-control reservoir area lakes? **Lake Buchanan is about 7 feet below** the historic average for January. **Lake Travis is about 14 feet below** the historic January average.

With the opening of the Texas Legislature this week, **Dr. Louis Overholster** says he always has high hopes for a new legislative session: “In fact, the higher I am, the more hope I have!”

Sincerely



Editor/Publisher