THE Neal Spelce AUSTIN LETTER

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Dear Client:

In June, the Austin metro area lost its bragging rights as the only major US metro to post job *gains* during 2009, because from June 2008 to June 2009 jobs were actually *lost* in the Austin area. So, how did that impact Austin's ranking among the Top 50 US metros?

Not one whit, thank you. The 5-county Austin metro is still ranked **Number One as the best performing jobs economy among the nation's 50 biggest metropolitan areas**. The reason: the Austin metro lost the *fewest* jobs, by actual number as well as by percentage, of all the rest.

Austin's loss rate was quite moderate, -0.2%. The remainder of the Top Ten, in order, by percentage: **San Antonio, -0.7**% … **Virginia Beach, -1.0**% … **Fort Worth** and **Newark, -1.6**% … **Washington DC** and **Columbus, -1.7**%, **Memphis, -2.0**% … **Kansas City** and **Dallas, -2.1**%.

The median rate of loss among the 50 largest metros is -4.0% and nationally, the difference between June 2008 and June 2009 is -4.2%. The other big Texas metro, **Houston, posted a -2.7% job loss rate**, to rank 14th nationally.

Beverly Kerr, the Austin Chamber's VP/Research, noted "**Austin's cushion in the recession has been a growing government sector** that has, up until now, managed to cancel out the private industry job losses in the net change in total unemployment."

How does this break out? In June, **6,200 jobs were *added* to the government sector** compared to June last year, a 3.8% increase. However, **private industry *losses***, in the June to June timeframe totaled 7,400 (1.2%). Thus, the Austin metro ended up with a net loss of 1,200 in total employment.

Being #1 is great, but what about other US metros? **Are they close, or lagging way behind Austin's loss of 1,200 jobs**? You decide. **Albuquerque**, -13,000 jobs. **Raleigh**, -15,800 jobs. **Portland**, -54,700 jobs. **Seattle**, -65,100 jobs. **Atlanta**, -133,500 jobs. **Phoenix**, -141,100 jobs. Think these are problem cities? Look how many *California* cities are among the nation's worst. **San Jose**, **California's Silicon Valley**, lost 43,400 jobs. **Sacramento**, lost 46,200 jobs. **San Diego** lost 52,100 jobs. **Riverside-San Bernardino**, lost 76,300. **San Francisco-Oakland** lost 96,800 jobs and **Los Angeles** – hang on – lost 259,100 jobs. Now you know why you are seeing an upsurge in California license plates around town.

Speaking of jobs, look for businesses to start springing up in Central Texas around the Seguin area. Caterpillar's $170 million assembly plant is leaping out of the ground and Caterpillar has announced plans to hire 1,465 workers at the facility. But this is not all. Caterpillar suppliers are inquiring about development options in the area. And look for home construction to increase there.

It's happened. Thanks to being in the midst of the *most "exceptional" drought condition in the US*, Lake Travis dipped to a low elevation that hasn't been witnessed in 46 years.

Not only did the massive lake drop below a level we predicted last week (click on the "Archives" button at the top of the page and go to Volume 31, Number 18, July 31,2009), but the lake is now 30 feet below the historic August average level. **A drop of another 22 feet and the lake's elevation will be the lowest since the dams were built and Lake Travis was completed in 1942**.

More than 45 days of triple-digit temps so far this summer, have contributed to a rapid evaporation rate. And **no significant rainfall** is another culprit. In fact, the ongoing rainfall deficit actually started back in the fall of 2007. Also, the Lower Colorado River Authority (LCRA) that controls the levels of the Highland Lakes continues to **release water downstream for municipal**, **industrial**, **power generation**, **agricultural and environmental needs**.

Is there any relief in sight from these scorching, searing, dry days? Except for helter-skelter spotty showers, **there is nothing on the horizon for the next few weeks that will stop the drop in Lake Travis water or to break the drought**.

Well, aren't we in the midst of tropical storm/hurricane season that started June 1st? Some of these disturbances have triggered heavy rains in Central Texas in the past. What hurricanes? **There have been no tropical storms or hurricanes so far this year**. And this week the experts issued their August hurricane update and the updated forecast showed a **slight reduction in the number of predicted storms**.

But LCRA meteorologist **Bob Rose** says "conditions are looking to become more favorable for tropical development in the Atlantic in about another week. **So while things are currently quiet**, **I don't think they'll stay that way for much longer**." While no one is wishing for devastation from a major weather event, a shakeup in the atmospheric conditions could trigger rain in Central Texas.

Talk to Texas old-timers and they'll tell you there is another sign that rain may be in the offing. Look around you. *Some purple sage bushes are blooming*. **Old-timey weather-watching Texans will tell you that the "sage in bloom is like perfume" because it means rain will be coming in about a week or 10 days**. Keep your fingers crossed.

What is the outlook for homebuilders who are still active in the Austin area? And, by extension, what does this mean for those wanting to buy a new home?

One of the most important economic factors that play into the dynamics of residential real estate is employment. And, as you noted in the first item this week, Austin's job market is still tops in the nation – even though the latest numbers show that Austin lost jobs for the first time this year, when you compare June, 2009 to June, 2008. So, **what can you anticipate for homebuilding in the near term**?

Mark Sprague, is a partner in Residential Strategies, the firm that tracks the Austin market for homebuilders. He suggests **the 3rd quarter will see a further erosion in the annual start rate for new homes**. And he thinks the market appears **poised to hit bottom** from an annual rate standpoint in the 4th quarter 2009 and the 1st quarter 2010.

The competition in the homebuilding market is shrinking. **Sprague says six production builder programs are gone from Austin**. And the Pulte/Centex merger will further consolidate this market. He says the remaining builders understand the market will be tough for the foreseeable near term and they are "**in a survival mode**," **when it comes to spending cash**.

But homes are still selling this summer. Break it down for us, Mark. "The upper price points are feeling the brunt now," he points out. In fact, compared to a year ago, he reports **the sale of new homes priced above $300,000 are off by about 50%**.

The good news is that the **builders increased construction activity in the lower price points**. Sprague says the increase in sales of lower-priced homes has pulled the median new home price back to the levels of last year, around $213,000. And he said the $8,000 tax credit for first-time homebuyers, and the relatively low interest rates are **getting many new buyers off the sidelines**.

Of course, no report about homebuilding is complete without discussion of **lenders**. Sprague points out a number of factors. **Banks' appetite for new real estate lending has lessened**. Interim lending continues, but with more caution than before. Many loan lines are being reduced to private builders. And there is an increased cost to the builder. If a builder wants to build a speculative home, the builder better be prepared to put his first-born up as collateral – in addition to an arm and a leg (Exaggeration? Yeah. But it's tough to fund a spec home.).

Perspective is always important in this kind of analysis. Remember the last Austin downturn in the late 1980s? At that time the peak of home sales was 8,715 units. The trough was 1,910 units. **Sprague notes that from 2006 to what he estimates 2009 will show**, **the peak was 17,600 units**, **but the trough should be an estimated 6,400 units**. So the lowest number of units sold this year will still be more than three times the low tally in the late 1980s.

In this era of tightened spending and travel hassles, **you may be interested in what others are doing with their business travel budgets and the anticipated trends**.

Business travel isn't what it used to be. And our friends at *The Kiplinger Washington Editors* say it may never be again. They report that "firms and employees are making changes that will outlast the recession." They are **cutting down on the number of trips and the amount spent on each trip**. So what does this mean for you? What are the likely trends that will emerge?

> There will be more video-and-teleconferencing instead of intrafirm trips. Business class fares will be verboten, except on flights more than eight hours. More planning to get **cheaper fares and nonrefundable tickets** will become standard.
>
> Companies are limiting allowances for dining, especially for alcohol, and they'll **require per diem expensing**, **so workers will eat cheaply and pick economy hotels**. The firms implementing these procedures don't expect a whole lot of easing, even after the recovery begins.

If these trends become Standard Operating Procedure, the impact on airlines and hotels is obvious. So, how are they likely to respond? Kiplinger says to **look for hotels to cut back on guest services –** no more free shampoo or newspapers, for example, and fewer exercise rooms. Some are **curtailing restaurant hours and delaying painting and laying of new carpets**.

Look for the airlines to **increase fares**, **increase-and-add more fees**. Airlines have already cut back on the number of flights to trim capacity. They will likely continue this trend, meaning **fewer**, **but fuller**, **flights**.

As you and your business compete and claw for every advantage in this uncertain economy, **you need to be aware of what is happening out there –** especially at annual budget time.

Whenever things are not going quite right for **Dr**. **Louis Overholster**, he has a saying: "Did you ever have the feeling that you're in the middle seat in the airline of life!"

Sincerely

Editor/Publisher