

Volume 31, Number 24

September 11, 2009

Dear Client:

A year ago, the Austin metro was enjoying a relatively low 4.7% unemployment and new jobs were added monthly. The latest unemployment is 7.3% and job growth has stutter stepped to a standstill. What has this done to Austin's relative standing in the nation?

For the first several months of 2009, the 5-county Austin metro was the **only metro out of the 50 largest in the nation to record year-over-year job growth**. Then when the May statistics were released, the *increase* in jobs in the Austin area stopped. The most recent totals are for July (August employment stats will be released in about ten days). And the no-job-growth trend is continuing, while unemployment is rising.

Obviously, Central Texas is not alone in feeling the employment squeeze. But an analysis proves the situation in the **Austin area is still the best of the nation's 50 major metros**. Job losses since a year ago are a relatively moderate -0.2%. This keeps the **Austin metro as #1 in the nation, a distinction it has held all year**. Neighboring **San Antonio is #2** with a 12-month job loss rate of -0.8%.

No other major metro in the nation is below the 1% benchmark. But other Texas metros are near the top, **Fort Worth is #7** at -1.4% and **Dallas is #8** at 1.6%. Even Houston, with a -3.1% job loss rate, ranks 18th in the Top 50 major metros. Nationally the job loss rate is -4.2% and for Texas as a whole, it is -2.1%.

So what has buoyed Austin during this economic downturn? Government jobs. As we have pointed out since we began writing this newsletter in 1979, government payrolls have long been the **economic underpinning of the Austin market**. In fact, up until the high tech emergence in 1983, the Austin economy was dominated by state government and state university paychecks. Even with the subsequent diversified expansion of jobs, government payrolls are still a powerful economic force.

According to **Beverly Kerr**, VP/Research for the Austin Chamber, **5,400 government jobs have been added even as goods-producing jobs have declined**. There have been no notable layoffs at the state government or state university level in the Austin area. As a matter of fact, payrolls have increased in these two areas and the budgets are set for the next two years. These jobs offer a certain stability during uncertain economic times.

What is the prognosis for the Austin area economy? Some trend lines are indicating when an uptick might occur.

There are all sorts of Indexes and economic reports that regularly assimilate data from a variety of sources and chart them to see if a trend is emerging. When you aggregate these sources of economic information, a picture starts to emerge. **While any forecast is just that – a prediction, a guess, an estimate – it does offer a window to analyze what might happen, and when.** Let's look at info from one Texas institution that has the reputation for cranking out so much economic data that it is touted as a sure cure for insomnia.

The Federal Reserve Bank of Dallas breaks down information from a number of different datapoints and compiles its findings into a report the Dallas Fed calls the **Metro Business Cycle Index**. The objective: **to indicate the direction of each of Texas' individual metro economies.**

Without going into all the eye-glazing economic mumbo-jumbo, you can learn a little by looking at the results for the Austin metro area. The Business Cycle Indexes for both Texas and Austin remain in negative territory, but **the pace of decline has slowed – giving the trend line an upward turn – and perhaps signaling that the end of the downturn is in sight.**

“If you were to assume that the slope of the trend line stays constant, **Austin's economy would be expanding again by September 2010,**” reports the Austin Chamber's VP/Research **Beverly Kerr**. “While this may be further off than may be hoped for, it would still mean this period of contraction (as indicated by this Index) would be **several months shorter duration for Austin than the previous one, as well as being less deep.**”

Austin has been noted as an economic front-runner in Texas, and Texas has been the leading economic light for the nation. **So a look at where Texas may be headed is vital to Austin's future.** The Dallas Fed also prepares what it calls the Texas Index of Leading Indicators. As its name implies, this Index is a composite of eight indicators that tend to change direction *before* the overall economy does. Many look at it as a barometer of the future of the economy of the state of Texas.

This Index edged up 1.5% in April – its **first positive reading following 11 consecutive months of declines.** It was followed by an even more impressive *increase* of 3.8% in May and a *moderate decline* of less than 1% in June.

So what does this foretell? The authors note these recent changes in the Texas Leading Index suggest **employment will bottom out during the 3rd quarter** and then begin a gradual *increase* – leading to a **mild rebound in job growth next year** to about 1% to 1.5%. The reason the word “mild” was probably used is that the 30-year average for Texas job growth is 2.8%.

As we've reported, government payrolls are vital to the Austin area economy. So, how financially sound is Texas state government, especially now that sales tax collections have steeply declined?

The state official charged with overseeing the state's finances is State Comptroller **Susan Combs**. She and her staff of economists continually monitor the Texas economy and the revenue generated by various taxes and fees. By law, the Texas Legislature cannot spend more money than the State Comptroller certifies is – or, will be – available. **The spending budget for the next two years has been approved.** But with an economy that is not hitting on all cylinders, what does Combs think about the future fiscal health of the state?

The state's fiscal year started this month. Sales tax collections are anemic, down 11.6% from one year ago. This is important because, in a state with no income tax, sales taxes are a vital part of the revenue picture. **Combs says the loss of sales tax revenue has been somewhat offset by lower spending by state agencies.**

Helped by billions of federal economic stimulus dollars, the state's spending plan was put into place without tapping into reserves. The Rainy Day Fund is just what its name implies – money that is set aside, not to be spent unless the Texas Legislature taps it. **Combs said that when the current two-year budget cycle ends, the Rainy Day Fund balance should reach \$9.1 billion.**

When you look back at the previous stories this week, you'll note that most are predicting the **Texas economy will be back on track by 2011.** Combs said she also expects a full recovery by then. **This doesn't mean the Rainy Day Fund will be secure in 2011.** As a matter of fact, there are those who predict a budget shortfall that will exceed the Fund at that time. So, while everything seems okay so far, this is a situation that will bear monitoring.

Austin's home-grown economic stimulus program, *Opportunity Austin*, is raising money to increase the number of private sector jobs in the area. How is it coming along?

The Austin Chamber likes to point out that for every dollar in payroll generated by a company moving to Austin, the **Austin economy generates eight more.** These are dollars that flow to grocery stores, banks, restaurants, dry cleaners, car repair shops – you name it. So *Opportunity Austin* is a campaign to raise money that will ultimately be spent creating new jobs in the area.

***Opportunity Austin* has not yet met its goals. In fact, it is several million dollars short** of achieving the funding necessary to put a full-fledged outreach and attraction effort into motion, reports the Chamber. *Opportunity Austin* not only recruits businesses from around the world, but it also works to retain and build existing businesses, as well as to develop the talent to fill the new jobs and those created by expanding local businesses.

Keep an eye on JetBlue Airways. It is not a major factor for passenger travel at Austin's airport – yet. But it is on the move.

JetBlue is a long way from being competitive with Austin market-leader Southwest Airlines – even though it positions itself as a discount carrier. For one thing, it has significantly fewer flights and destinations from Austin-Bergstrom International Airport (ABIA). And travel habits are hard to change. Given that, **JetBlue is making a big push for your business.**

Initially, it is having some success. JetBlue's Austin passenger totals were up 4% in July, compared to July 2008. Overall, passenger totals at ABIA were down 6% for the same period. **And for the January-July 2009 year-to-date timeframe, JetBlue's passenger totals are up a whopping 30%, while all Austin passenger traffic was down 11%.** So, JetBlue is bucking the local travel trends.

This is not all. **JetBlue is making a major marketing push in this market.** One example is the agreement it entered into with the Texas Longhorns Athletic Program. JetBlue signs are plastered all around Darrell K Royal – Texas Memorial Stadium as the national championship buzz surrounds **more than 100,000 fans that show up at the stadium for each home game – not to mention the TV exposure.** And JetBlue is offering free flights for various Texas Longhorn promotions. Being associated with such a popular local entity as **Mack Brown's** highly-touted Longhorns is a big plus for JetBlue.

We'll keep an eye on JetBlue's totals for during the fall football season. All this is coming at a time when JetBlue is in the midst of a major reassessment of its business plan. For instance, **JetBlue is cutting three of its four remaining flights from Mineta San Jose Airport in the Silicon Valley.** When this occurs in January, Mineta San Jose will have only one JetBlue flight – to NYC. Of course, this is also a reflection on the Silicon Valley's economy.

Dr. Louis Overholster says he is working on a new book that he knows will make him a fortune. The title: "How to Get Out of Doing It Yourself!"

Sincerely



Editor/Publisher