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Dear Client:

Austin's business cycle Index should almost certainly cross securely into growth territory within the next month or two. At the same time, there are clear indications of a turnaround for the state.

These are not simply the musings of some sideline observers. They come from the Federal Reserve Bank of Dallas **Texas Economic Indicators** and particularly the **Regional Economic Update**. Also, it is evident in the indicators that make up the **Texas Business Cycle Index** and the **Texas Leading Index**.

As the Austin Chamber's VP/Research, **Beverly Kerr**, put it: they "provided what may be their **strongest statement to date that the state's economy is in recovery.**" And, using this information, she projected that Austin should "**almost certainly cross securely into growth territory**" within a matter of weeks.

Clear indications of the turnaround for the state of Texas include **surging retail sales, a manufacturing sector on the rebound** after a prolonged decline, and **climbing foreign exports**, according to Kerr.

Then there is the Texas Business Cycle Index. It tracks movements in **employment, unemployment** and **gross state product**. "March brought the third consecutive month of growth in the Index, which, according to the Dallas Fed, **signals that Texas is in recovery,**" Kerr pointed out.

How did this break down? The gross state product is moving upward. First quarter **job gains were widespread across industries** and, importantly, at a rate *twice the nation's increase*. Unemployment? Holding steady. What about unemployment claims? They fell to levels that suggest the **unemployment rate is at or near its high point**. All good signs.

Two areas to watch: **residential real estate** and **commercial real estate**. It may be July before we can tell about the impact of the homebuyer tax credit. The credit expired for a new sales contract April 30th but a home purchase contract completed by June 30th will still be counted. In the 2nd area, the Fed reported that "recent anecdotal reports suggest that the **commercial real estate sector may be nearing bottom.**"

One local commercial real estate expert sees “signs of renewal” in Austin but thinks rental rates may continue to fall in the immediate future.

“The close of the first quarter of 2010 marked the first step of economic recovery for the Austin real estate market,” noted **Spencer Hayes**, Managing Partner/Co-Founder of Oxford Commercial.

Hayes explained by pointing out “**the overall vacancy rate for office space decreased for the first time in years** and the overall vacancy rate for industrial product increased only slightly.”

He predicts **vacancy rates should continue to decrease throughout 2010** because of a halt in development of office and industrial space in the Austin area.

What about folks seeking the best deal on office space? Has the bottom been reached? Hayes thinks **rental rates may continue to fall in the immediate future**. But he cautioned that “as economic growth pushes occupancy rates upward, rental rates will soon follow suit.”

Well, what should we look for? Hayes says “how long it takes occupancy and rents to return to stabilized norms depends largely on the **leasing patterns of growth tenants and the rate of business relocation to Austin over the next two years.**” And he added that he believes the city will continue to outperform the country.

Another sign emerged this week that indicates a strengthening Austin economy. And it was a welcome indicator for area retailers.

Texas State Comptroller **Susan Combs** announced the state collected 1.4% more in sales tax revenue in April than it did the previous year – a modest *increase*, but it was more than welcome because it followed 14 consecutive months of year-over-year *declines*.

The city of Austin fared even better – much better, in fact. **Austin’s sales tax allocation was up 12.2% over last year.** Other area cities also felt the uptick.

In fact, the home of those busy Outlet Malls, **San Marcos, had an increase of 18.9% and Round Rock recorded an increase of 9%.**

These figures are what the economists call “lagging indicators.” The totals were announced in April for money that will go to the cities in May. But because of the collection and reporting process, **the bulk of the totals cover sales that actually occurred in March** and were reported to the state in April. So March was a better month in terms of retail activity.

One of the drivers for a resurging economy will be the creation of jobs in Austin and around the state. And business decision-makers continue to look upon Texas as having the best business and economic environment in the US.

For the *sixth* year in a row, a survey of CEOs by *Chief Executive Magazine* places Texas at the **top of the list for job growth and business development.**

The survey asked 651 CEOs to rank each state based on three general categories: 1) **taxation and regulation**, 2) **quality of workforce**, and 3) **living environment**. Additionally, states were evaluated based on five subcategories and those were ranked by importance by each individual CEO.

The study noted that **Texas scored high in all areas valued most by the CEOs**, who mentioned Texas' tax credits and business incentives as reasons to relocate or expand a business in Texas.

In another but unrelated ranking, **Texas is ranked as the second best state for small business and entrepreneurs.** The Small Business and Entrepreneurship Council, a non-partisan, non-profit small business advocacy organization, released its list of Best to Worst State Tax Systems for 2010 as part of its Business Tax Index.

The report analyzes and combines 16 different tax measures into one tax score for the 50 states and the District of Columbia. These measures include taxes such as income, capital gains, property, death/inheritance, unemployment and various consumption-based taxes such as state gas and diesel levies.

All is not economically rosy in Texas by any means. Take UTAustin. It announced this week it will cut \$14.6 million from its next budget that begins September 1st.

Most of the cuts – about 90% in fact – will come from administrative, not academic, units. **In addition to other savings, about 122 positions will be trimmed from the budget.** Put it another way: it will mean about 122 fewer people with UTAustin paychecks in their pocket, spending money on essentials (such as food, housing, etc.) and everyday activities throughout Austin.

Interestingly, some key faculty and staff will actually get pay raises in the slimmed-down budget as the remaining dollars are shifted around. “If we don’t do that, we won’t remain competitive and retain the best talent available,” said President **Bill Powers**. “We remain committed to pursuing our goal of becoming the leading public university in the nation.”

The number of eliminated positions could reach as high as 200 by August 31st 2011.

Even if rainfall is less than normal, what if more water could actually get into area aquifers? And in the process, what if the “cedar fever”-producing juniper trees could be reduced?

Ten years ago, a research project was launched to look at those questions. The results are expected later this year. On 600 acres in the Honey Creek State Natural Area near the Hill Country’s Guadalupe River State Park, instruments have been feeding data to satellites for the past decade. **The objective is to measure the effects of land restoration and management practices on the quality and quantity of rainfall runoff.**

David Langford, a member of the South Central Texas Regional Water Planning Group, says this effort by the Natural Resources Conservation Service and the US Geological Survey **“is the longest-running and largest research project of its kind in the nation.”**

One of the important aspects of this research project will be to see **how much the selective removal of water-sucking junipers can contribute to aquifer recharge.** It’s not just about junipers, though. There are many other variables. But it has long been felt that if the fast-spreading junipers can be controlled, more water can flow into aquifers, streams, etc.

Langford says that variables such as plants, animals, soils and geology, when functioning optimally, can reduce floods and replenish aquifers. He said **“water is released more slowly and steadily into springs, streams, rivers, lakes and eventually our bays and estuaries.** The research at Honey Creek will give us credible numbers to measure these effects.”

He points out that the 20 million Texans who live in urban areas directly benefit from rural conservation programs. Eventually, he feels these practices will create more water for Texans at a fraction of the financial and environmental costs of building new dams.

As he grows older, **Dr. Louis Overholster** is more accepting of all the changes going on around him. As he put it: “Change is inevitable – except from vending machines!”

Sincerely



Editor/Publisher