

THE

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AUSTIN LETTER

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Dear Client:

Long-known for its higher-paid *well*-educated workforce, the Austin area is now being recognized nationally for its faster wage growth for *less*-educated residents.

Called a “brain hub,” Austin was singled out this week for creating more work for less-educated residents. *The Wall Street Journal*, in its Tuesday edition, wrote: “Texas’s political and high tech capital shows one way to create good jobs for people who didn’t go to college: **attract highly skilled entrepreneurs, and watch the companies they start hire lower-skilled workers.**” This was referred to as a “recipe for middle-class jobs.”

The *Journal* report said Praxis Strategy Group, an economic development consultancy, estimates **Austin added 50,000 “middle-skill” positions in the past decade.** These are jobs that require a two-year associate’s degree or the equivalent work experience, and pay a median wage of \$17.30 an hour, or \$38,000 a year.

“That pace of growth is roughly four times faster than the nation’s as a whole, three times that of New York and Portland, Ore., and twice that of Phoenix.

Austin’s success in creating middle-class jobs runs against the grain of national trends,” reported the *Journal*.

“In recent decades, a select number of **brain hubs like Austin have attracted a higher percentage of well-educated workers and a lopsided share of new investment and young companies.** Beyond creating new middle-skill jobs, such brain hubs have generally higher incomes and for the most part have performed better through the recession,” the report continued. **“Austin’s success in creating a well-educated work force can raise the fortunes of lesser-educated workers as well.”**

A University of California-Berkeley economist, **Enrico Moretti**, says many lower level employees in highly-educated cities use the most productive technologies and act as complements to more-expensive workers, making it much **easier for companies to raise their wages faster than overall inflation.**

“Another force, Mr. Moretti notes, is called ‘human capital spillovers,’ a fancy way of saying that **many ‘middle-skill’ workers acquire skills that are much more valuable than their overall education level might suggest,**” noted *the Wall Street Journal*.

The degree to which the Texas economy has evolved over the past 50 years is striking. The story the numbers tell is one of an amazing transformation in Texas, with sweeping changes in the population and the business complex.

If you're a longtime Texan over the age of 60, you've witnessed this **"amazing transformation" and probably participated in it.** Even if you're a bit younger, you were likely involved over the last few decades of this evolution. Texas economist **Ray Perryman** has been practicing his craft for most of this period and here is some of what he has observed.

Not only has the population risen by more than 260%, it has also become increasingly urban. Perryman points out that in 1960, the Texas population stood at less than 9.6 million, with about 25% living in rural areas (46% if you count communities of less than 10,000 as rural). "Now," he says, "there are more than 25.1 million Texans and only 12% live in rural areas." Interestingly, **only 3% of 1960 Texans were foreign born**, while a full 73% were born in the Lone Star State. **Now, about 16% of the population was born in another country.**

Education levels across the state have risen sharply since 1960. At that time, of the age 25 and older population, 22% had only completed high school, 10% had some college and just 8% had a college degree. **Now, more than 79% of people age 25+ have completed high school and 25% of Texans have a bachelor's degree or higher.** "While Texas still has work to do in this area, the progress over the past 50 years is certainly notable," Perryman observed.

Another sweeping change is the participation of women in the workforce, which has risen dramatically since 1960. At that time, only 33% of females (age 14 and older) were in the civilian workforce, compared to 59% now (age 16 and older). The proportions are even higher in more urban Texas areas.

Additionally, looking back at the 1960 data, the differences in employment between men and women were striking. A full 29% of working Texas women had jobs classified as "clerical" (compared to just 6% of men). "Though the names of the occupational categories cloud the pattern to some degree," Perryman noted, **"the occupational choices for women in 1960 were largely clerical, nursing, teaching or housekeeping in nature."**

The composition of male jobs is also very different. For men, the largest occupational category in 1960 was craftsmen (19%), followed by operatives (those who operated vehicles and machinery) at 18%. Managers were 12% of the jobs.

It will come as no surprise that the **types of jobs have changed dramatically in the past half-century** – especially by industry categories. But it's interesting to reflect on the magnitude of those changes, which you can see in the next item.

The early Texas economy moved dramatically from cotton and cattle to oil and gas. But an even more radical economic change has occurred in most of our lifetimes.

Fifty years ago, **agriculture** accounted for 9% of employment in Texas; now it's about 1%, according to longtime Texas economist **Ray Perryman**. **Manufacturing** was about 16%; now it's 8%. **Mining** has dropped from 3% to 2%, **construction** is about the same at 8%, **trade** has dipped from 21% to 14%. On the flip side, the category of **finance, insurance and real estate** has grown from 4% 50 years ago to 7% now.

This leaves one category that has skyrocketed: services. In 1960, the largest composition of employment was **services, with 23%** (when you add business and repair services, personal services, entertainment and recreation services, and professional and related services).

Now, the services sector accounts for about 40% of all jobs in Texas.

This is an economic sea change in scope. Perryman points out that “**now we have entire clusters of industries that were basically inconceivable in 1960** (such as information).” Technology has not only allowed the development of new industries and types of occupations, but it has been a part of the shrinking employment in certain fields.

“As I've said many times,” commented Perryman, “*agriculture* is one of the most technology-intensive industries around, with improvements in machinery and methods **allowing far more production with a small fraction of the labor**. Similarly, we also produce far more *manufactured* products with a much lower proportion of the workforce.”

Think about this. **Most of this massive economic change has occurred in your lifetime.** And, as Perryman put it: “**One can only wonder what the next 50 years will bring.**”

When you drill down deep into Austin's current job growth picture, you find it is not uniform. As always there are some winners and some losers.

Let's look at the winners. In Austin, the industry adding the most jobs (October 2010-October 2011) and seeing the largest rate of growth over the last 12 months is **leisure and hospitality, which grew by 5.9% or 4,900 jobs**. The other industries with above average rates of growth locally are **manufacturing** (3.2% or 1,500 jobs), **financial activities** (3.3% or 1,400 jobs) **education and health services** (3.5% or 3,100 jobs) and **other services** (3.3% or 1,100 jobs).

This information comes from **Beverly Kerr**, VP/Research with the Austin Chamber, using info from the Texas Workforce Commission and the US Bureau of Labor Statistics.

A decision is expected next *week* that will impact the already-very-low levels of Lakes Travis and Buchanan next year.

You can now walk to the middle of Lake Travis at its widest point just above Mansfield Dam on the islands that have been exposed by the drought-induced low lake level. **If the drought continues, as the long-term forecasts seem to imply, it could be much worse next year.** So, the manager of the two Highland Lakes, the Lower Colorado River Authority (LCRA), will likely be given new authority to stem the flow of water downstream.

The trigger: if Lakes Travis and Buchanan contain **less than a combined 850,000 acre-feet** of water, the LCRA can take emergency measures to cut off water that flows downstream to rice farmers near the Gulf Coast. **The current forecasts call for the two lakes to contain less than 700,000 acre-feet** of water at the beginning of next year. Keep an eye on the weather.

Within the next *two weeks*, a decision is expected that could raise in-state tuition and mandatory fees at UTAustin for the next *two years*.

Such a recommendation is under review by UTAustin's president **Bill Powers** and he is expected to seek approval by December 15th. **The recommended increase for in-state undergrads is 2.6%**. This translates to a \$127 per semester increase to \$5,023 per undergrad in the 2012-2013 school year and a \$131 increase to \$5,154 in 2013-2014. **Undergrads from outside Texas and graduate students would see a 3.6% increase under the proposal.**

The panel that recommended the tuition increase included UTAustin administrators, faculty members and students. As in past tuition hikes, **a portion of the increase would be set aside for financial aid to students.**

While driving around Austin, **Dr. Louis Overholster** says he continues to be amazed that so many Austinites leave cars worth thousands of dollars in the driveway and put useless junk in the garage!

Sincerely



Editor/Publisher