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Dear Client:

By one important measure, the beginning of the next stage of economic recovery can be seen in Texas and the nation. Interestingly, however, the Austin area pace, while good, is not as vigorous as Texas' other major metros.

“The economy runs in cycles. It expands, and it contracts, and then it begins a new phase of expansion,” notes TexasA&M’s Real Estate Center Chief Economist **Dr. Mark Dotzour**. “In typical recessions, **new housing construction is one of the early signs of economic recovery**. The recovery has been slow, with limited job creation.”

“The lack of single-family home construction is the key reason. Typically, housing leads the economy out of a recession. **New construction jobs create spendable income and a foundation for sustained economic recovery,**” Dotzour explained.

He said *nationally* new single-family building permits fell from a seasonally-adjusted annual peak of 1.8 million to a recent annual rate of only 475,000 and have not recovered from that historic trough. **“This is why the economic recovery hasn’t rebounded faster. The construction jobs that go along with home building haven’t yet materialized,”** Dotzour concluded.

“However, that is changing in Texas,” he said. **“The number of new one-unit housing permits for the first four months of 2012 is up 17.9% from the same time in 2011.”** The major Texas metros are beating that percentage, but Austin is lagging behind. He cited January through April 2012 percentages:

The Houston metro recorded a 24.9% increase in single-family permits. **Dallas came in very close at 24.3%. San Antonio was not far behind at 23.2%.** But the **Austin metro recorded only an 8.5% increase** in permits.

What we may be seeing is what kept the Austin metro economy from cratering in the recent national housing bust. **Austin just plodded steadily along, not rapidly expanding the housing bubble until it burst, such as happened in so many other locations. Now the Austin area could be keeping that same steady pace upward.** It will bear watching. There is more from a different source that speaks to this same new home construction situation. Take a look at those details in the next item.

Although the new jobs picture in the Austin area is one of the best in the nation, it could get even better. The reason: construction is picking up big time and the multiplier effect for new jobs in construction is powerful.

Based on the info in the previous story, the Austin metro is lagging behind the percentage increase in construction permits for new homes. And once a permit is granted, construction is usually quick to follow. **If Austin simply matched the average percentage increase for the entire state, it would double Austin's January-April 2012 tally.** And that would still be less than the percentages racked up for Houston, Dallas and San Antonio during the first four months of 2012. With Austin's surging increase in population, can there be any doubt that this will occur?

Okay, this is just counting residential, single-family homes. Don't know if you've noticed, but the amount of **commercial construction is poised to blast off like a rocket ship.** Is that a construction crane piercing the downtown skyline? Well, you can bet construction companies are already placing orders to lease those cranes through 2013 – simply because of major construction jobs already announced.

There is no need to recite a long list. You'll remember a couple of the biggies: the 1,000-room upscale JWMarriott that should break ground any day now on Congress Avenue for a high-rise convention hotel (2,500 construction jobs!) and the **50-story Fairmont Hotel** near the Convention Center that says it will start construction on its 1,000 room high-rise next spring.

There are **other hotels** planned in the downtown area, along with a **36-story mixed use project, office towers** and **apartment buildings.** Also, construction *outside* the downtown area — such as in **The Domain** — will add more construction jobs. A number of projects on the drawing boards are kicking into building gear.

You get the picture. A lot of hammer-slamming will be the order of the day. And construction **jobs will proliferate – creating an economic multiplier effect** throughout the Austin metro.

Don't worry about the fact that the Austin metro's unemployment rate inched up from 5.5% in April to 5.8% in May. It's no big deal and it is easily explained.

First of all, months vary each year due to seasonal hiring. **May 2012's 5.8% compares to May 2011's 6.6%.** Now that's a significant apples-to-apples improvement. Also, 5.8% this May is still much better than the US 7.9% rate and the state's 6.9%

Perhaps more significant: **there were so many job seekers moving to Austin that even though more people found jobs, it was not enough to match Austin's huge in-migration.**

A very important presidential election is coming up, but you can't vote in this one. A new president of Mexico will be elected in a few days. The results will have implications for our economy and, importantly, for drug trafficking with the violence that is part of it.

America is the largest consumer of illegal drugs in the world. **And most of these drugs arrive from Mexico, then flow through Texas (Austin is included in a big way).** Money and weapons sent south contribute to the violence.

But the importance of Mexico to Texas and the US is more than drug-related. **Trade and manufacturing** are key economic factors. Also, **tourism** is important, as Mexico is the #1 foreign destination for Americans. And don't overlook issues of legal and illegal **immigration**.

Political control of Mexico is vital to the interests of the US and Texas. There will be a new president selected in the election Sunday, July 1st. After serving a 6-year term, a president of Mexico is prohibited from seeking re-election. So, who is running to succeed President **Felipe Calderon**? And how is the successor, and particularly the political party the candidate represents, likely to govern after taking the oath of office December 1st?

Enrique Pena Nieto is the favorite. He's young, 45. He is the new telegenic face of the old, autocratic and often corrupt Institutional Revolutionary Party, or PRI. PRI was ousted from power by Calderon's predecessor, **Vicente Fox**. Pena Nieto is a former governor of the state of Mexico, yet no one is quite sure how he will govern. **He says he will run a super-efficient government.**

Andres Manuel Lopez Obrador, who is referred to by his initials AMLO. The former mayor of Mexico City, 59, is the **face of the political left**. He is the candidate of the Party of Democratic Revolution or PRD. He lost by less than 1% to Calderon six years ago and has pledged to **end the business monopolies** that he says make Mexico less competitive.

Josefina Vazquez Mota is the first woman to run for president of Mexico. Vazquez Mota, 51, represents Calderon's ruling party, the National Action Party, PAN. Most of her proposals would continue to follow Calderon's lead. She served as Secretary of Education in Calderon's administration and **her candidacy is said to be a referendum on the past six years.**

How does the election stack up as election day looms. **The charismatic Pena Nieto has held a double-digit lead in the polls throughout the campaign. The other two are in a statistical tie for 2nd place.** But, in Mexico, the races tend to tighten as election day gets closer. **As for the drug war, AMLO has pledged to remove military troops** from the fight in six months. **Vazquez Mota will generally follow Calderon's US-backed strategies and Pena Nieto says he cares less about the drug trafficking and more about murder, extortion, kidnapping and robbery** that affect ordinary Mexicans. The election results should be known by July 2nd.

Plans to add Express Lanes to heavily-trafficked Loop1/MoPac are moving about as fast as you move when your vehicle is stuck during drive-time on the jam-packed north-south Austin roadway. But, they *are* moving along.

The most important current development is that funding got a nice bump when the policy board of CAMPO approved a plan to **use available state money to help finance the project.** The money will be repaid over 25 years. So what's on the drawing boards as we speak?

The express lanes will be *managed* to limit the number of vehicles in them at any one time. The plan is to ensure traffic will always flow – even when traffic in the general purpose lanes is at a standstill. Buses and vanpools will also be able to bypass Loop1/MoPac congestion.

Private vehicles will also be able to use the express lanes, but will be charged a toll. How much will the toll be? Depends. The amount of the toll will increase as the number of cars in the express lanes increases and decrease as fewer drivers choose to use the express lanes.

The planners claim this variable toll will allow the lanes to carry the maximum amount of traffic possible while continuing to flow. Without the tolls, they say the new lanes would simply fill with bumper-to-bumper traffic and become virtual parking lots at rush hour – kinda like now, under certain conditions.

The lanes will be implemented in existing Loop1/MoPac right-of-way **between Parmer Lane on the north end south to Lady Bird Lake in the downtown area.** Discussion of this option has been underway for most of a decade. Those opposing the concept claim Loop1/MoPac was originally built with taxpayer dollars – paid for once, already – so why charge another tax, tolls?

An anonymous bidder paid \$3.5 million to have lunch with Warren Buffett where the bidder can ask the billionaire for financial and career advice. **Dr. Louis Overholster** has his own financial advice to the bidder: never pay \$3.5 million for lunch!

Sincerely



Editor/Publisher