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Dear Client:

Who *are* these people moving from California to the Austin area and other Texas cities? Think it's mostly a march of millionaires escaping high California taxes as they head this way? Nope. Most of California's outward-bound migrants are low-to-middle income folks. And this could be a good thing for our economy.

According to the USCensus's American Community Survey, those leaving California are typically **employed in agriculture, construction, manufacturing, hospitality and to some extent natural-resource extraction. Their median household income is about \$40,000** – two-thirds of the statewide median – and about 95% earn less than \$80,000. Only one in ten has a college degree, compared with 30% of California's population. Incidentally, **roughly 40% of the people leaving are Hispanic.**

Hispanic? Isn't California's Hispanic population growing? Yes. By more than 1.5 million since 2005, because of high birth rates and foreign immigration. **But two Hispanics have moved out for every one that has moved in.**

It's not unusual for immigrants or their descendants to move to pursue a better life. That's the history of America. And speaking of history, look back at the Great Depression when some **1.3 million Americans flocked to California** from the middle of America.

John Steinbeck chronicled the **exodus from Oklahoma** in his Pulitzer Prize-winning book, *The Grapes of Wrath*. It was turned into a much-honored film in 1940 with the same name. Directed by **John Ford**, the film starred **Henry Fonda** as the Okie, Tom Joad.

The Wall Street Journal reported that “the Okies – poor as they may have been – **provided a gigantic pool of labor that fueled California's post-war boom** and helped transform the Golden State into the world's eighth-largest economy.”

In a sharp reversal of the 1930s, **Austin and Texas, as well as other Sun Belt cities and states, have supplanted the Golden State as a magnet for jobs and people**, while California has become America's leading job exporter. This pool of labor flocking into Austin should provide workers for jobs that are essential to a fast-growth economy. Not everyone is qualified for a high-tech job. But the high-tech jobs create *additional* jobs for low-to-middle income workers and this in-migration is providing people to fill those jobs in a robust Austin area economy.

Lest we become too enraptured with the Austin area's economic success, we should be reminded that, while Austin is a leader by many measures of success, other areas are also making major moves. And while this can be construed as being generous, frankly it also gives us insight into probable economic competition now and down the road.

It's a dog-eat-dog economic development battle out there. **Austin's (and Texas's) economic bark may be among the loudest for now and its bite feared by many competitors**, but a look around indicates the battleground is shifting. So, let's assess the changing landscape.

There are currently **four US growth corridors where a strong business climate and above-average population growth** have created an attractive place to live and do business, according to a new study by the Manhattan Institute. Those are the Great Plains, the Intermountain West, the Third Coast (including Texas, Austin and the Gulf States over to Florida) and the Southeastern industrial belt.

“Often historically poor, many of these areas have stayed hungry: **they continue to seek out ways to expand incomes and opportunities for their residents**,” the study's author, **Joel Kotkin**, observed. “Perhaps the biggest advantage that the corridors have today is their business climate.”

A Washington DC writer, **Michal Congar**, wrote that “energy policies have also played a huge role in these states' growth, especially an **openness to using fossil fuel-based oil and natural gas**.” The Texas leadership role in this area is well-documented in our newsletter and in a vast array of other news publications. But she quotes Kotkin about another, lesser-known example.

“An example of how well these policies work is the widening gap between California and North Dakota, which are **both rich in natural resources**,” Kotkin noted. “But while California lags, North Dakota is thriving. **North Dakota recently passed California as the nation's third-largest energy producer**, a development that would have been inconceivable a decade ago.”

States in these growth corridors were ranked in **11 of the top 15 spots in *Chief Executive* magazine's 2012 review of best business climates**. By contrast, California, New York, Illinois and Massachusetts were at the bottom of that list. “The corridors' growing success is a testament to the resiliency and adaptability of the American economy,” Kotkin wrote.

As for individual cities in the corridors that are lumped together with Austin in the high-tech hub categories – and therefore they are the **Austin area's competition now and in the future for high tech jobs – three stand out: Raleigh, Denver and Salt Lake City**. These are players about which Austin economic development specialists are keenly aware. And, of course there are others. The takeaway: the Austin area and the state are in a solid position. But they need to keep looking back over their shoulders.

The serious ongoing Texas drought is causing a devaluation of rural lands parched by lack of water, right? Wrong. It may be counter-intuitive, but rural land values are actually rising.

For instance, prior to 2011 the worst drought in Texas in terms of economic loss to agriculture was the year 2009. This was the year Texas agriculture sustained \$3.6 billion in economic losses. But a State Comptroller **study of 15 counties in 2009 saw land values increase**. Then, **in 2011 -- which was the worst single one-year drought in Texas history** – agriculture suffered \$7.6 billion in economic losses. Yet, in five out of those same 15 counties, **land values increased despite devastating crop losses**.

What's going on here? How can this be? The State Comptroller's office – which tracks assessed property value in Texas – says **it makes sense when you consider the principle that scarcity, combined with demand, creates value**. Texas population growth – 26 million today, 46 million projected by 2060 – puts further demands on farmers and ranchers to produce food.

Yeah, but. **The current drought shows few signs of abating and may significantly affect productivity in the future**. In fact, the drought could continue for perhaps another 5-to-10 years according to State Climatologist **John Nielson-Gammon**. Doesn't that diminish the value? On the contrary, this **underscores the increased value premise**.

As crop yields decline and less beef becomes available, the value of the commodity increases. The increased value of the commodity, combined with less land available to produce it, causes the value of the land to increase.

As a result, the State Comptroller's office is suggesting that, at the very least, **there is no indication that agricultural land values will decrease over the long term**. In fact, the prediction is increased commodity prices for those who make a crop, coupled with government payments and insurance, should indicate that **land prices will at least hold steady or contribute to a continued rise in land values**.

The Lower Colorado River Authority (LCRA) and the City of Austin jointly own the coal-fired Fayette Power Plant and each uses the electricity produced by the plant. With all the environmental controversy surrounding burning coal, what is the future of the Fayette Plant?

LCRA GM **Becky Motal** when asked by the *Fayette County Record* in La Grange about the plant's future said “we feel like its useful life is still there. There's a cost to reconfiguring a coal plant. **Decades down the road you would look at it. It depends on what the fuel mix is in the future**. What natural gas prices are? How competitive renewable energy is? Right now that's a plant that's needed by the grid. **We need that plant. We call it one of the jewels of our fleet**.” Based on those words, expect it to keep burning coal for two or three more decades.

How long will this oil and gas boom, triggered by shale formations south of Austin and in other states, last? Is the frenzied fracking activity going to soon deplete the oil and gas that is boosting the state's economy and making some Texans wealthy beyond their dreams? Maybe not, because billions of dollars are being invested to extend the life of those fields.

In the old wildcatter oil boom days of Texas, four most dreaded words were “that well’s gone dry.” Those words don’t have the same meaning today. **Russell Gold**, writing in *The Wall Street Journal*, claims that “right now, even with horizontal drilling and hydraulic fracturing, **new shale wells tap only a small percentage of the oil and gas trapped in small pores in the rock, leaving more than 75% behind.**”

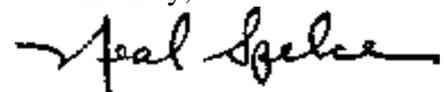
This doesn’t mean the big Texas drillers are letting it go at that. After all, they already own rights to hundreds of thousands of Texas acres where they can drill down more than a mile beneath the rattlesnake-ridden, god-forsaken land. As a result, **three of the biggies are scrambling** to make it cheaper and easier to coax more oil and gas from the ground.

Schlumberger, Halliburton and Baker Hughes have raised their research and development budgets by 24% from 2010 to a combined \$2.1 billion in 2012. Much of this research is focused on **understanding shale rocks better and developing improved tools** to get more oil and gas from these formations.

Gold quotes **Richard Spears** as saying: “From 2004 to 2012, the development of shales was basically, **hit it with a big sledgehammer and see what comes out. Now the question is who can do it the best and optimize the process.** Shales aren’t tube socks, a one-size-fits-all thing.” **Dan Hill** said “we are in the dawn of this new age, so now the whole industry is starting to look at this resource and figure out ways to get as much oil and gas out as it can.”

After reading this story, **Dr. Louis Overholster** said it seems the frackers remembered the bumper sticker in West Texas that appeared years ago after the last oil *bust*, and went something like this: “Please, Lord, let me have one more boom. I promise not to piss it all away this time!”

Sincerely,



Editor/Publisher