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Dear Client:

Mexico is the most important international trading partner for Texas – by far. Austin also benefits. Relations recently have been a bit dicey, especially with the NAFTA trade agreement between Canada, Mexico and the US under review. “Review” is a soft word. Soon NAFTA – that went into effect in 1994 -- may no longer resemble its former self. With a newly-elected president of Mexico starting a 6-year term December 1, 2018, let’s examine what may happen.

This is not the stuff of everyday headlines. In fact, many find a discussion of international trade pretty boring. **But this is very important for the future growth of the Austin area and the Texas state economy.** Take Texas first. **Texas has been the nation’s top exporting state for 14 years in a row. And Mexico, by far, is the top country for Texas exports -- \$97 billion to 2nd place Canada’s around \$30 billion in 2017. All other nations are back in the pack.**

Austin takes a big chunk of this dynamic export business. In fact, **the Austin-Round Rock area is the 26th largest exporter region in all of the US.** And it is growing. Exports grew 30% over a 10-year period from 2006 to 2016. The metro area exports approximately \$10 billion in goods and services a year. **More than 2,000 businesses in the Austin metro exported \$540 million worth of merchandise to Mexico in 2016.**

So what could impact this significant hunk of our economy? First of all, **President Donald Trump has long maintained the US gets the short end of the stick in NAFTA – saying the trade agreement favors Mexico and Canada.** He even called for abolition of NAFTA (which stands for North American Free Trade Agreement).

Now Trump is playing Mexico against Canada, saying the US might end up with two agreements, a different one for each nation. **He’s saying negotiations with Mexico started again July 26th and are “coming along nicely.” But talks with Canada are on hold.** Trump is even praising Mexico’s left-leaning president.

So, what is likely to happen? **Former US Ambassador to Mexico Tony Garza** (who lives and works in Austin and Mexico City) said the new Mexican president has his own man sitting in on current negotiations. **“The new administration’s embrace of the talks has sparked renewed optimism for a quick finish, with some negotiators even pointing to completion by the end of August,”** said Garza. Stay tuned.

An important development for Texas' economic wellbeing: local economists have declared an end to Houston's oil bust. Almost all of Houston's major energy companies are back in the black, ramping up spending and hiring to reflect higher crude oil prices and stronger profit margins, reported the *Houston Chronicle* this week.

The Greater Houston Partnership noted that 20 of the city's 25 largest oil producers and oilfield services companies posted profits. By comparison, **only five of those companies made money during the same period two years ago when US crude oil prices hovered near \$40/barrel and cost the Houston area tens of thousands of jobs.** Oil prices have been well above \$60 a barrel for most of this year.

The Dallas and Houston metro areas are ranked #2 and #3 in the US in employment growth, just behind the much larger NYC metro. In fact the combined expansion in Texas' two largest urban centers exceed that of the NYC and Los Angeles behemoths. Texas economist Ray Perryman calls this ranking -- of metros with more than one-million residents -- "particularly impressive." These rankings count the *actual number of jobs*. And, when it comes to *percentage growth*, the Austin metro ranked #2.

The 5-county Austin metro saw a 3.4% gain between June 2017 and June 2018, second only to the Orlando metro, that was up 3.6% according to Perryman. Houston was up 3.1% and Dallas came in at 3.0%. San Antonio was near the middle of the pack with a gain of 1.5%.

So what contributed to this strong performance of the state's large population centers? Perryman said some of **Dallas'** job gains were driven by professional and business services and construction in greater Dallas. On the **Fort Worth** side of the Metroplex, he singled out leisure and hospitality, along with trade, transportation and utilities.

Houston's job growth was in construction (due in part to rebuilding from Hurricane Harvey), as well as, a large surge of jobs in the professional and business services. For **Austin**, professional and business services also led the way.

This week, Perryman observed "**new Texas jobs run the spectrum from technology to finance to manufacturing to energy and most things in between.** The strong performance of Texas' largest population centers is complemented by notable gains in a number of smaller metropolitan areas, and the result is impressive job growth across the Lone Star State."

Our takeaway: it's not so much the impressive increase in jobs, it's the fact **the Texas economy is not a one-trick pony.** And Austin, as strong as it is with an important niche, is not an economic island. So, as Texas thrives, the Austin area benefits.

It won't be official until next week, but after that mandated date, the UTSystem leadership will continue a makeover resulting in some new names on name plates in the shiny new System offices in downtown Austin. James Milliken will become the next Chancellor of the UTSystem, after a 21-day waiting period, following his selection as the sole finalist for the position earlier this month. Prior to that, though, several key System execs announced they are moving on.

It's certainly not unusual for personnel changes to occur when a new CEO takes over a huge enterprise, especially one that serves **more than 235,000 students across eight academic colleges (including UTAustin) and six health institutions, with an annual operating budget of more than \$18 billion.** The UTSystem is a huge enterprise. No question. And the top exec can be expected to put his team in place, probably including some holdovers.

James Milliken will be the new Chancellor. He replaces Bill McRaven who, citing health reasons, announced last December he was stepping down. Coincidentally, Milliken, 61, a former chancellor of the City University of New York and former president of the University of Nebraska, was diagnosed with throat cancer, but was given a clean bill of health by the UTSystem.

A couple of top-level positions will be vacant before Milliken moves into the Chancellor's office. One position is that of **Deputy Chancellor David Daniel who had been a candidate for Chancellor when McRaven was selected.** Executive Director **Jana Pankratz** had also previously announced her retirement.

With an all-important legislative session looming in January, **Vice Chancellor Barry McBee**, who heads the office of governmental relations, is slated to transition to a chief of staff-type position September 1st, according to the *Texas Tribune*.

Milliken, who has years of high-level higher education administration experience, may have certain prospects in mind to be a part of his team. **Milliken will also be able to call on the very able former UTAustin president Larry Faulkner (who has been serving as interim chancellor since May) for guidance.** But with the academic year at all UTSystem institutions starting now, Milliken will no doubt have his track shoes on when he shows up for work to start earning his million-dollar-a-year-plus compensation package.

Did you know you know that in a little less than five years, Austin bike share riders have taken a million trips on Austin B-cycle bikes? You might have guessed this if you spend a lot of time in downtown Austin, because this is where the bikes are primarily stationed. But get ready for more. The current system that started with 11 stations in December 2013, will soon grow from its current 63 to 75 stations.

There are two very different proposals for high speed rail to connect Texas cities. One is privately-financed and would link the Dallas-Fort Worth metro to Houston. It's been around for several years. The other, more recent plan, would include Austin and San Antonio as it also inter-connects with Dallas-Fort Worth and Houston. Both are way behind the plans for high speed rail in California. So, how's that California bullet train working out for them?

“High speed rail in California has turned into a slow-motion train wreck,” editorialized the *Las Vegas Review-Journal*. “At least it provides a **case study in how inaccurate – or untruthful – government experts are when it comes to predicting the cost of new programs.**”

“In 2008, California voters approved a \$10 billion bond to start building a bullet train from San Francisco to Los Angeles,” reported the newspaper. Proponents promised that at **speeds of up to 220 mph, the train would zip between LA and SanFran in about 2½ hours for about \$50/person, without raising taxes.**

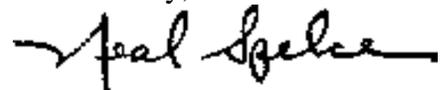
“**Surprise! Ten years later, none of that has happened,**” the newspaper noted. The cost of the bullet train has grown to \$78 billion, with the latest estimate putting the **final price at \$100 billion, with a completion date of 2033.** To save money, 1/3 of the route faces restrictions, so most trains would take more than 4 hours.

The train is on track to demand passengers pay higher prices for a slower trip. The rail agency is projecting prices at \$186. For comparison, **Southwest Airlines has midweek September flights from LA to San Francisco for \$48 a ticket.** This flight takes only one hour and 25 minutes.

The California rail authority has “decided to complete a line between Fresno and Bakersfield. No really. **It wants to show the train is viable and then dare elected officials to reject their requests for more money – and tax hikes,**” concludes the newspaper.

Speaking of trains, **Dr. Louis Overholster** says somewhere a country musician is writing a song about bullet trains that also includes truck drivin', cheatin' and beer-drinkin'. Wait for it.

Sincerely,



Editor/Publisher