

Research & Planning Division
Health & Human Services Dept.



TRAVIS COUNTY AUDITOR'S OFFICE
ECONOMIC OUTLOOK
December 2008

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Travis County

Summary

The Travis County economic indicators are perilously close to being unified in telling us that business is slow. Employment is up but so is the unemployment rate, and this tells us that there are not enough new jobs being created. Sales tax revenue for the City of Austin and per capita retail sales are down, and the usually dependable Austin-Round Rock Business-Cycle Index has fallen off. Housing sales are down, as are new permits. Even the downtown condominium market, according to *The Austin American-Statesman*, has cooled, hit by "global recession, shattered consumer confidence, frozen lending markets and stock market volatility".

Notice that we did say "close" to being unified. There is a little good news. The local Purchasing Managers Index moved up in October and has been above the neutral point for five months. Also, the decrease in demand in the economy has pushed down the prices of commodities as anyone has noticed who has bought gasoline anytime recently.

Nonetheless, the total picture is gloomy. We look for relatively decreased spending and slow job growth. Travis County will continue to outperform much of the country, but things will not be fun for much of 2009.

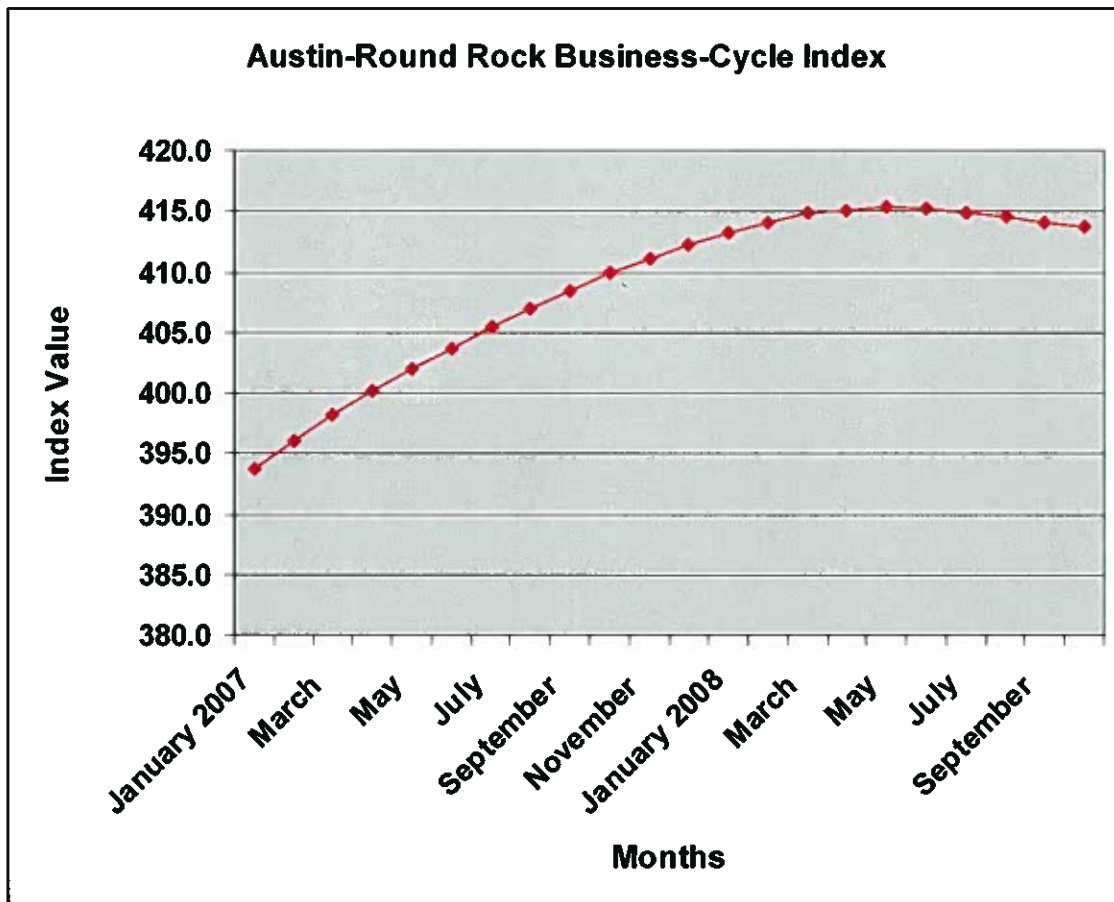
Indicators

AUSTIN-ROUND ROCK MSA EMPLOYMENT rose in October to 781,000, up 2,100 because of governmental hiring. The **UNEMPLOYMENT RATE** continued its rise with October's rate coming in at 4.8%.

AUSTIN MULTIPLE LISTING SERVICE (MLS) RESIDENTIAL ACTIVITY for October was 1,464 units, down—not surprisingly—from the 2007 figure of 1,910 units. For the calendar year to date, total sales have fallen 18.7%, although the average sale price for October was better than September’s and that of October last year.

INFLATION for Region VI (southwestern U.S.) urban CPI issued by the Bureau of Labor Statistics for the year ending with October was 3.66% as plummeting oil prices had an effect. The Median CPI, computed by the Federal Reserve Bank of Cleveland, dropped to 3.2% for the same period.

The Dallas Federal Reserve Bank’s **AUSTIN-ROUND ROCK BUSINESS CYCLE INDEX** finally reflects the local downturn in business activity that we had feared. Revised figures through October indicate that the local economy began contracting in June. The yearly average for 2008 still exceeds that of last year, but the trend is not good.



CITY OF AUSTIN RESIDENTIAL BUILDING PERMIT ACTIVITY PER 10,000 POPULATION in the third quarter of 2008 was 1,325 units. This compares to 3,874 units for the same quarter last year although the 2007 figures were helped by 2,777 units being permitted in the “Multi-Family 5+” category. One apartment complex can skew these numbers

noticeably.

RETAIL SALES PER EMPLOYED PERSON through two quarters of 2008 is at \$12,251, and we project that it will end up being around \$25,300 for the entire 12 months. This figure compares to \$26,378 for 2007.



TRAVIS COUNTY PERMITS through the first two months of the fiscal year are what one would expect---behind even last year. We do not expect any major improvement here.

Fiscal Year (through Nov.)	Driveway	Utility	Site Development
2005	422	49	655
2006	645	47	875
2007	263	38	485
2008	275	34	495
2009	157	37	282

CITY SALES TAX RECEIPTS for November were \$12.8 million, a drop of 8.8% from the 2007 figure for the same month. Our per capita forecast is now \$196.22; last year's figure was \$200.40.

The **AUSTIN AREA PURCHASING MANAGERS' INDEX** moved up nicely in October; it rose from 50.6 to 52.6, and this is the fifth consecutive month that the index has exceeded the “neutral” value of 50.0.

NON-RESIDENTIAL SQUARE FEET PERMITTED BY THE CITY OF AUSTIN for the third quarter totaled 1,430,000; this figure represents a 32% decrease from the same three-month period in 2007.

The Nation

Summary

Sad to say, no real improvement has taken place in the economy in the last month. The National Bureau of Economic Research (NBER), a self-described “private, nonprofit, nonpartisan, research organization”, announced in early December that the country is in a recession and has been for a year. While the NBER’s definition of a recession is not exactly clarity itself, the traditional definition—two consecutive quarters of negative GDP—will almost certainly confirm the NBER’s position when fourth quarter 2008 data are released early next year.

The Federal Reserve and Treasury did announce a plan to add another \$800 billion into the economy. About three-quarters of the money will be used to buying mortgage-backed securities, and the rest will go to loosening the consumer credit market (e.g. car loans and college loans.) The purpose is to make more money available for loans. Housing prices are coming down dramatically in some parts of the country—according to *CNNMoney*, 16.6% in the third quarter—but cash has not been available for the loans required to buy these cheaper homes. This \$800 billion effort may help here, but it will take time.

Meanwhile, things have deteriorated world-wide, despite the attempts of central banks to intervene. Germany (indeed, the entire euro zone) and Japan are officially in recessions, *The London Times* reports that the Bank of England expects to see formal evidence of a recession in the UK as soon as third-quarter figures are released, and Russia is letting the ruble float downward. Even the Chinese government has undertaken a stimulus package because its export-driven economy has fallen off. Well, at least the U.S. is not alone in its misery.

Our key measures have long been consumption expenditures and jobs, and we see now that both have turned down. The national unemployment rate is now at 6.5%, and—while some countries in the world would very glad to have such a rate—it is the highest in the U.S. in almost 15 years. At the same time, real per capita consumption expenditures turned down in the third quarter as people are battering down the hatches for the next few months. (Chris Ayres, who lives in and writes about Los Angeles for *The London Times*, reports that the “DIY [Do It Yourself] bug has struck like zombie fever” in Southern

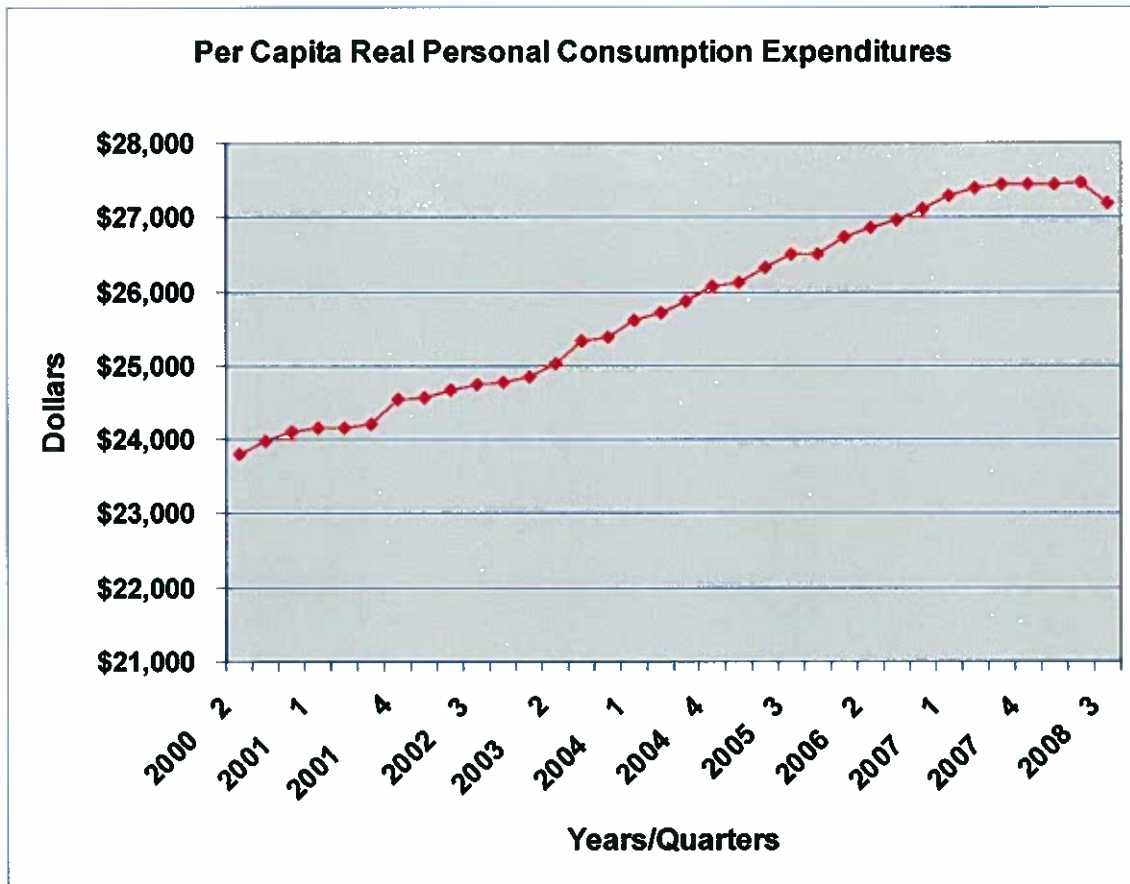
California. No wonder Ace Hardware has had a jump in profits and Home Depot's third-quarter profits were better than expected.)

Despite the best efforts of Congress and both the old and incoming Administrations—including assistance to CitiBank in November—it will be months before we see substantial improvement. Employment is a lagging measure—firms do not start hiring again until they are sure that profitability has returned—so we expect the unemployment rate to be high probably throughout 2009. With employment down, spending is not likely to be rebound anytime soon.

Indicators

PER CAPITA MANUFACTURING AND TRADE SALES slipped further in September, falling \$11 to \$3,866.21; this compares to the annual figure for calendar year 2007 of \$3,676.82. However, early October numbers are encouraging as a decline caused by hurricanes and a strike at Boeing has been left behind.

PER CAPITA REAL PERSONAL CONSUMPTION EXPENDITURES in the third quarter of the year fell 1% from the previous three-month period to \$27,178. Unless spending rebounds soon—and this does not appear likely—the country is in for a poor holiday season.



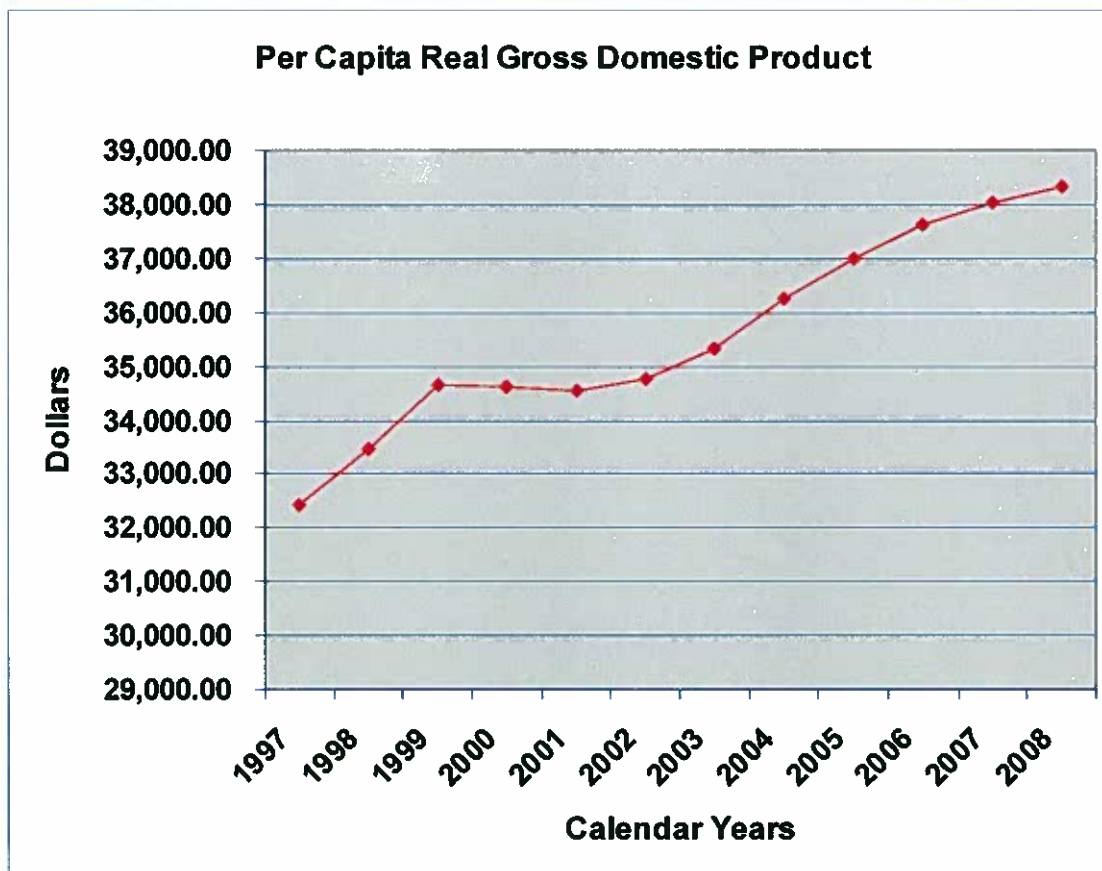
U.S. PRIVATELY-OWNED HOUSING PERMITS continued its fall in October. The figure for that month was 708,000 units on a seasonally adjusted annual rate, and that is down from September's revised number of 805,000 units. There are houses galore, and little need to start new ones.

MANUFACTURING CAPACITY UTILIZATION in October fell to 73.8%, bringing the average for the year down to 77.0%. For 2007, the annual capacity use was 79.4%

The **CHICAGO FED NATIONAL ACTIVITY (CFNAI-MA3) INDEX** once more reflects a falling economy. The only good news is that October's value of -2.09 was not as bad as the September number of -2.16; the bad news is that the September value was revised downward from -1.78. There is not much to cheer about here.

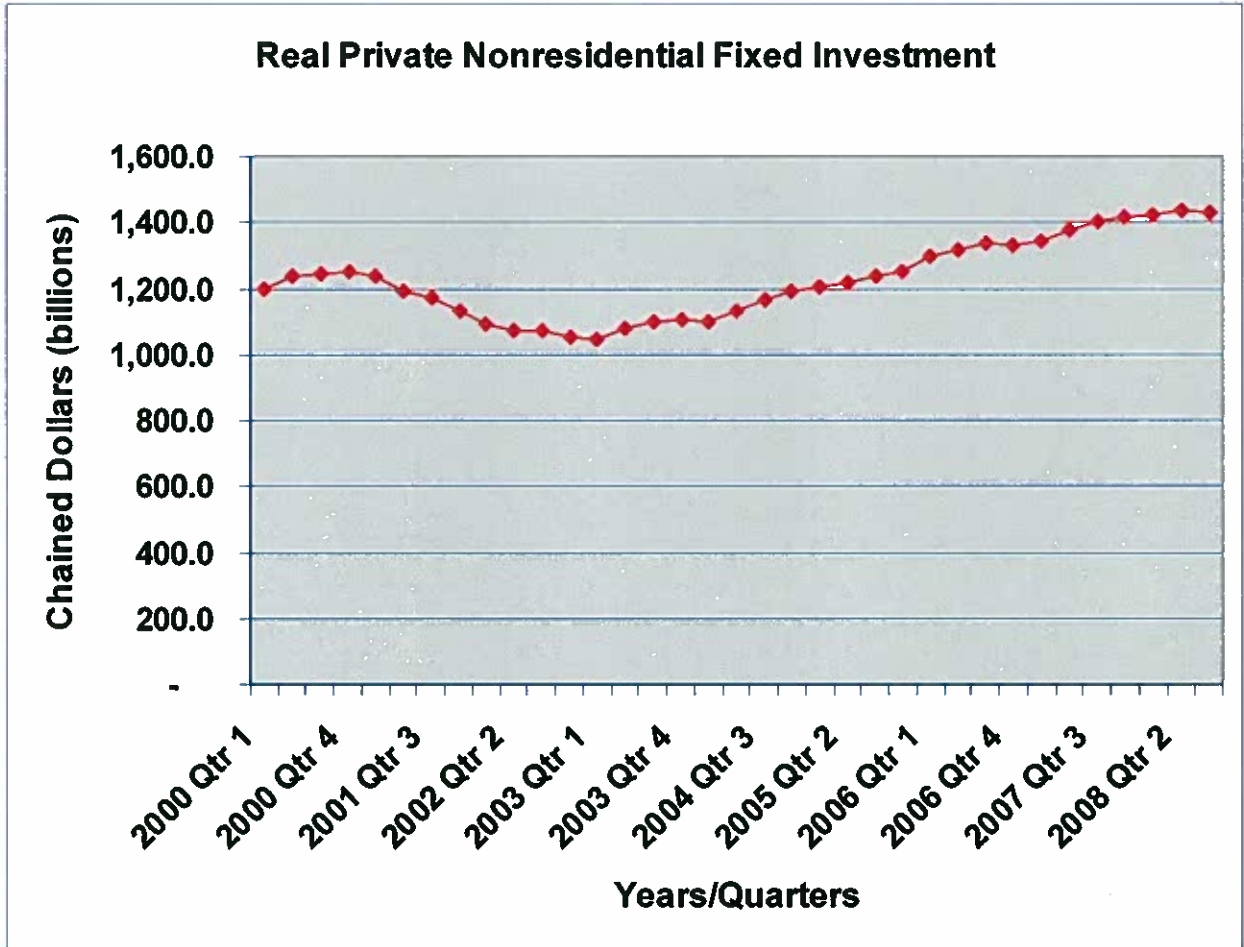
GOLD per-ounce price on December 1st was \$816.20, but it quickly dropped back into the \$780 range as the dollar strengthened against the euro.

PER CAPITA REAL GROSS DOMESTIC PRODUCT gave the first sign of a recession. Total GDP fell slightly (.063%) in the July-September period although it is still ahead of 2007 overall and on a per capita basis. We do not expect the fourth quarter total GDP figure to be any better, so we do look for a continued flattening in the slope of this graph line.



CORPORATE PROFITS is a quarterly indicator and only slightly revised this month. For the first half of 2008, the average quarterly profit is \$1.62 trillion; this compares to last year's \$1.835 trillion.

REAL PRIVATE NONRESIDENTIAL FIXED INVESTMENT fell in the third quarter to \$1.428 trillion, a \$3.5 billion drop from the previous quarter.



PER CAPITA MONTHLY VALUE OF MANUFACTURERS' NEW ORDERS dropped again in September. The calendar year 2008 value is now \$1,456.91, a figure that is 3.2% above the 2007 number, but the trend is not favorable.