



Today's Choices, Tomorrow's Future



November 8, 2013

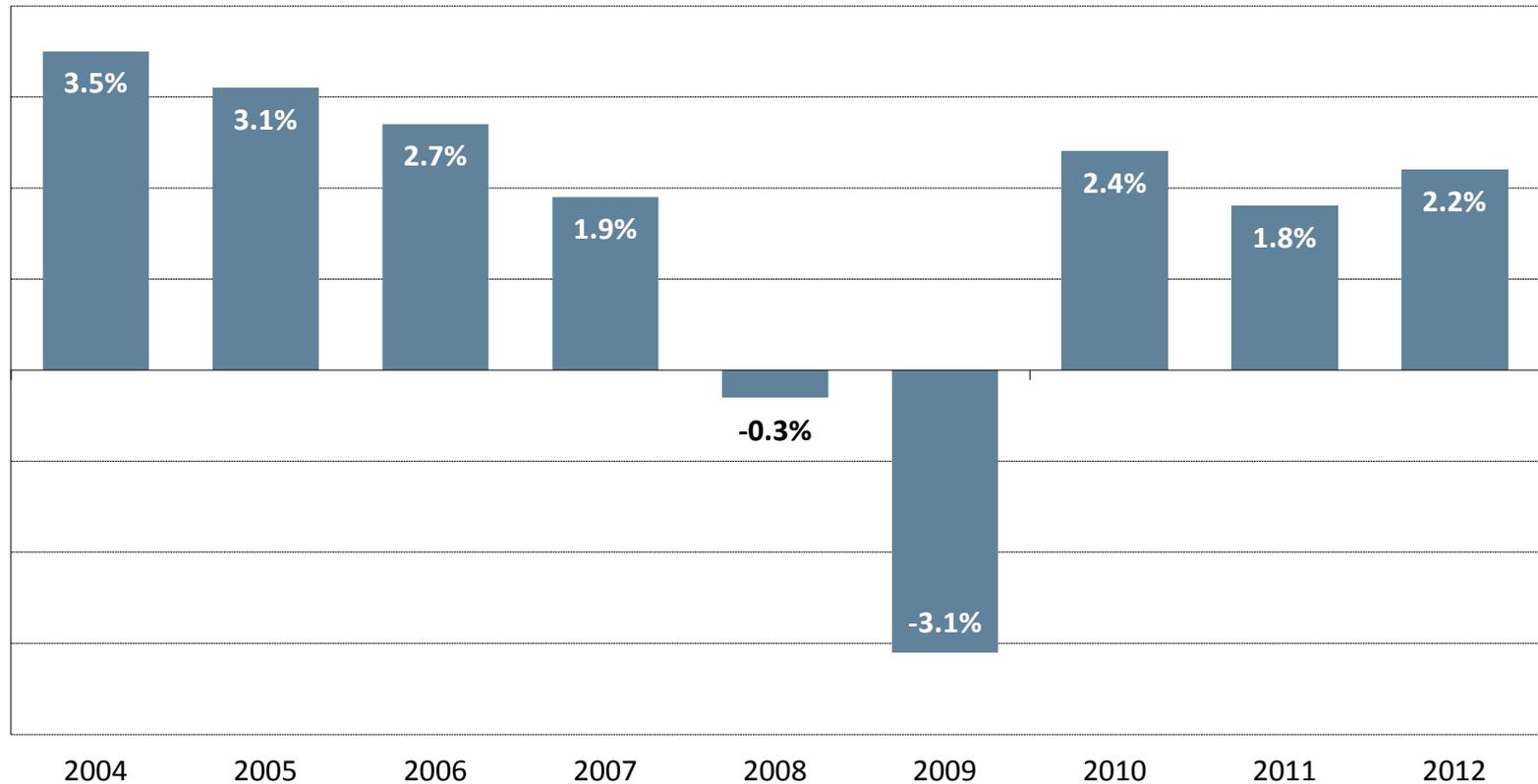
# National Economy

## Overview

- Economic recovery solidified somewhat during 2012, although slowdown in government spending (with more to come) has depressed overall growth rates. Job growth is now at a pace comparable with that pre-recession, but economy has yet to fully replace jobs lost from 2008-10.
- Companies have resumed net investment growth, indicating some confidence in the durability of the recovery. Meanwhile, housing (as measured as part of GDP) expanded for the first time in five years.
- Energy prices have remained fairly level in recent months, after substantial swings over the preceding four years. Core inflation (inflation minus food and energy) is stable, with little sign that either rising demand or high levels of debt will have an impact in the near future.
- As a result, expect interest rates to remain near record lows for the foreseeable future. Impact of the real estate bust is not over, but the peak is well past – issues related to credit-worthiness remain.
- Bottom line: improving economic fundamentals, but growth slowed by fiscal policy.

# National Economy

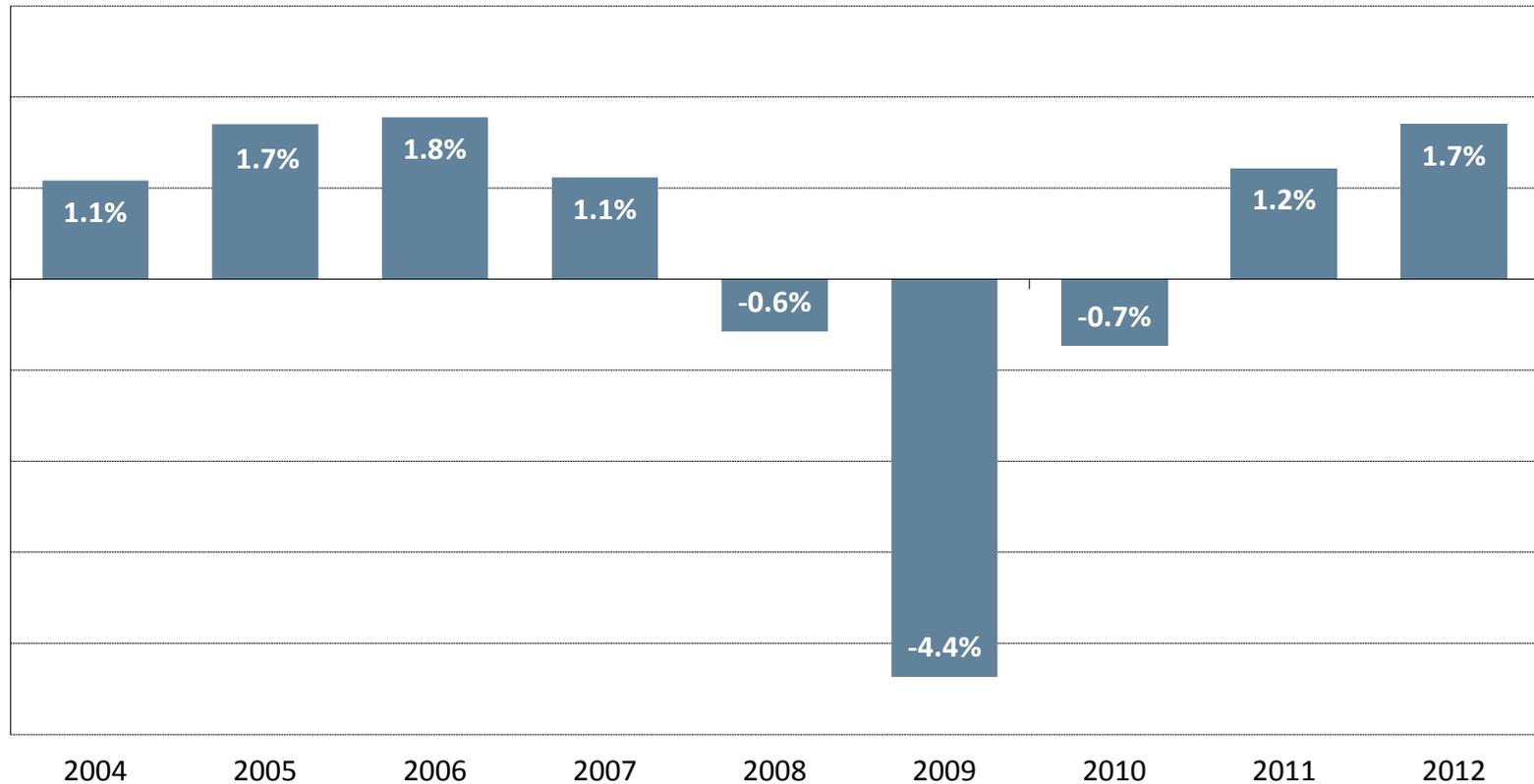
## GDP Growth



Source: BEA; TXP

# National Economy

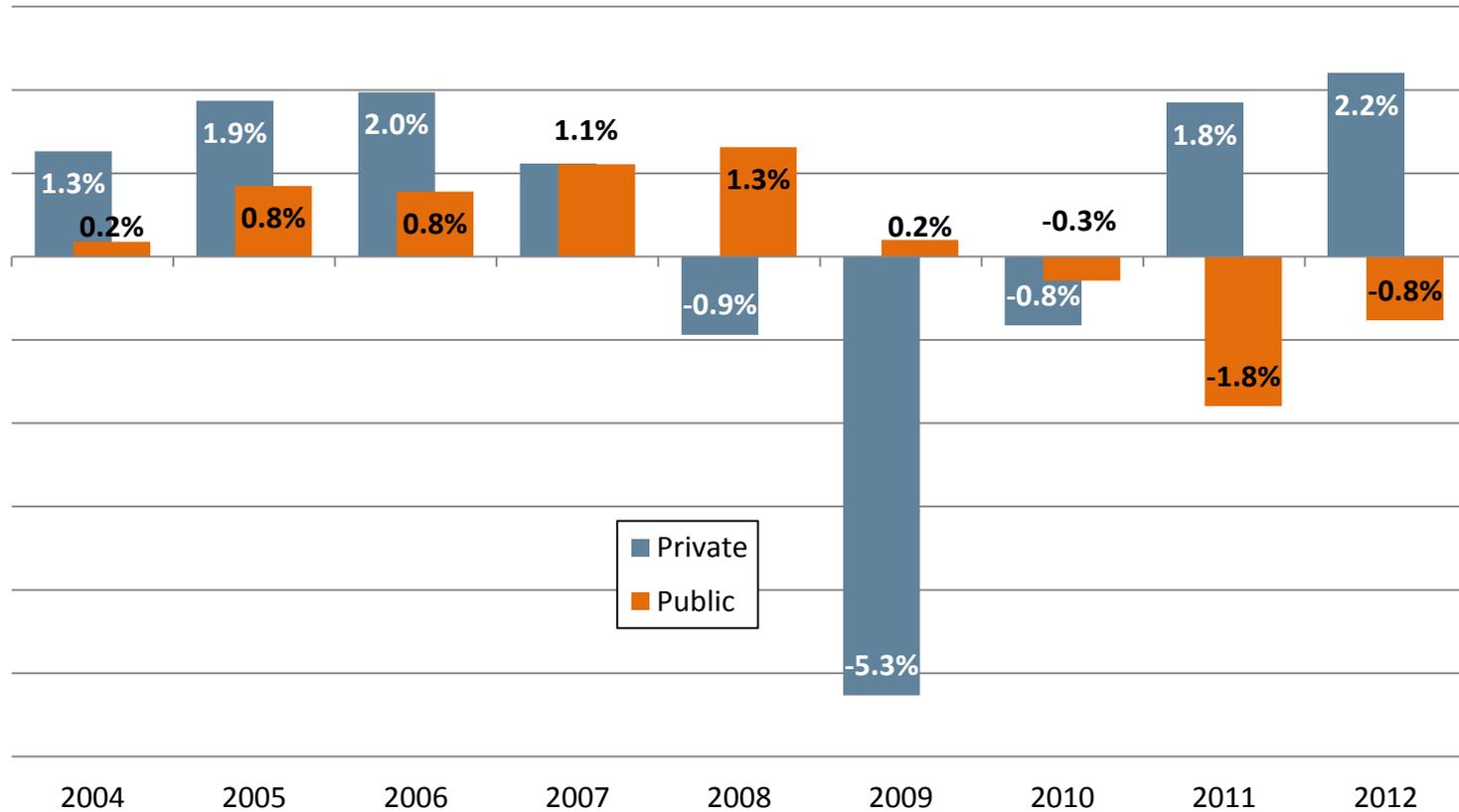
## Total Employment (12-Month Change)



Source: BLS; TXP

# National Economy

## Private v. Public Employment (12-Month Change)



Source: BLS; TXP

# National Economy

## Outlook

- GDP will remain positive in 2013 (1.5 to 2.0% growth anticipated), but rate remains below potential.
  - Fiscal tightening (automatic spending cuts due to sequester).
  - Higher effective federal tax rates (rise in marginal rate for top earners, expiration of 2% Social Security tax cut, increases related to Affordable Care Act) reduce disposable income. With slower consumer spending growth, hiring may be reduced, keeping unemployment fairly high.
  - Continued supply-demand imbalance in some real estate markets, with associated credit impacts.
- Longer-Term Outlook (*from Congressional Budget Office*)
  - ... underlying economic factors will lead to more rapid growth; 3.4% in 2014 and an average of 3.6% a year from 2015 through 2018. In particular, CBO expects that the effects of the housing and financial crisis will continue to fade and that an upswing in housing construction (though from a very low level), rising real estate and stock prices, and increasing availability of credit will help to spur a virtuous cycle of faster growth in employment, income, consumer spending, and business investment over the next few years.

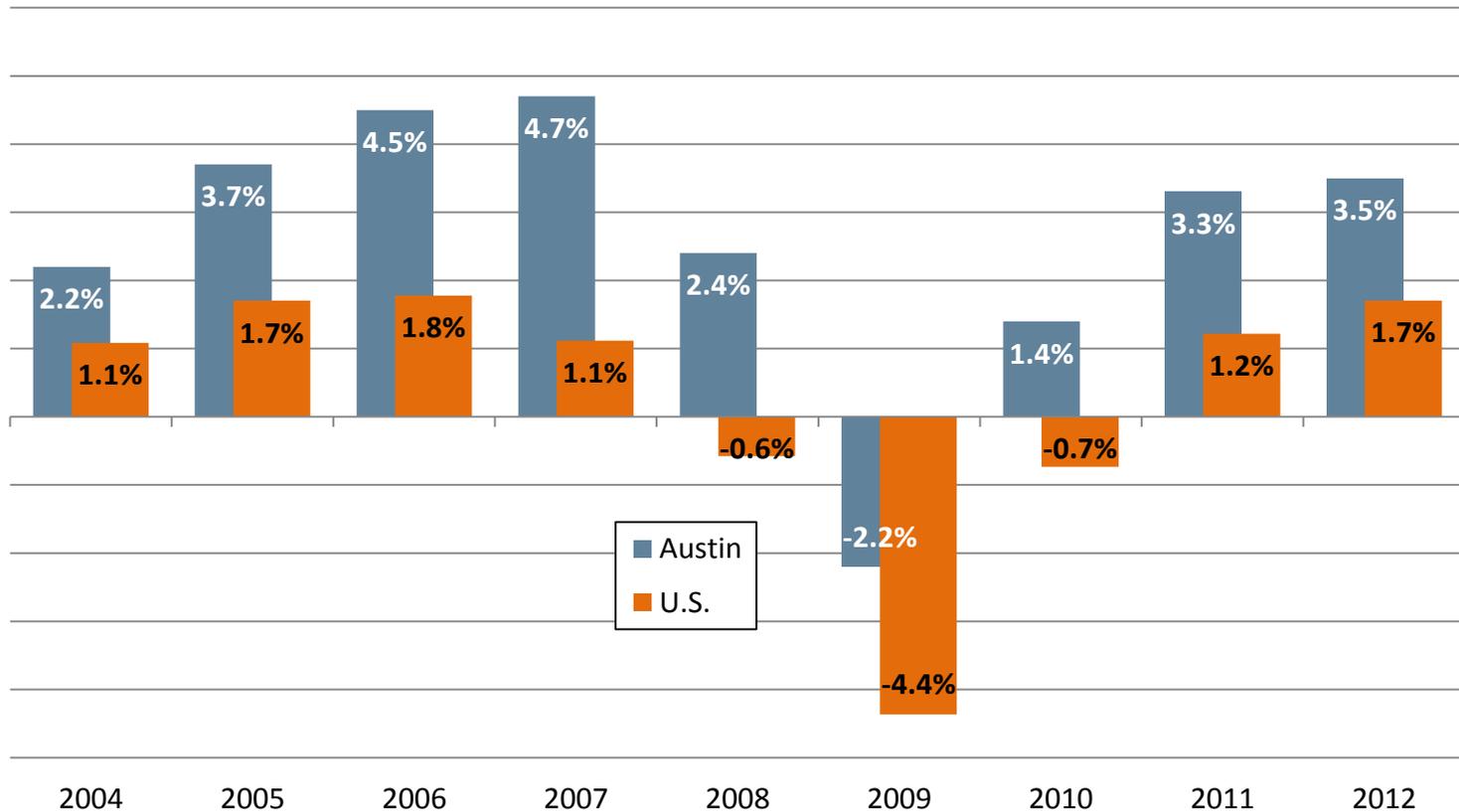
# Austin Area Economy

## Overview

- Austin's performance since the real estate boom and subsequent national recession arguably is the strongest among major metros across the nation, as aggregate indicators show solid performance from 2007 and last year.
- The recovery that began in 2010 continues as expected, as 28,200 net new jobs added during 2012. Private sector now accounts for all of the above, with a gain of about 29,000 net new jobs last year.
- Consumer spending shows strength. Current spending (and sales tax) above long-term trend levels.
- Multi-family benefitting from both factors that influence demand (job growth, household formation, changing credit standards for homebuyers) and an institutional investment focus. Home prices remain fairly balanced, especially compared to rest of the country. Record number of housing units permitted in City of Austin during 2012.
- Local venture capital continues strong post-recession activity.
- Tourism remains a growing element of the local economy - 2012 a record year for hotel revenue.

# Austin Area Economy

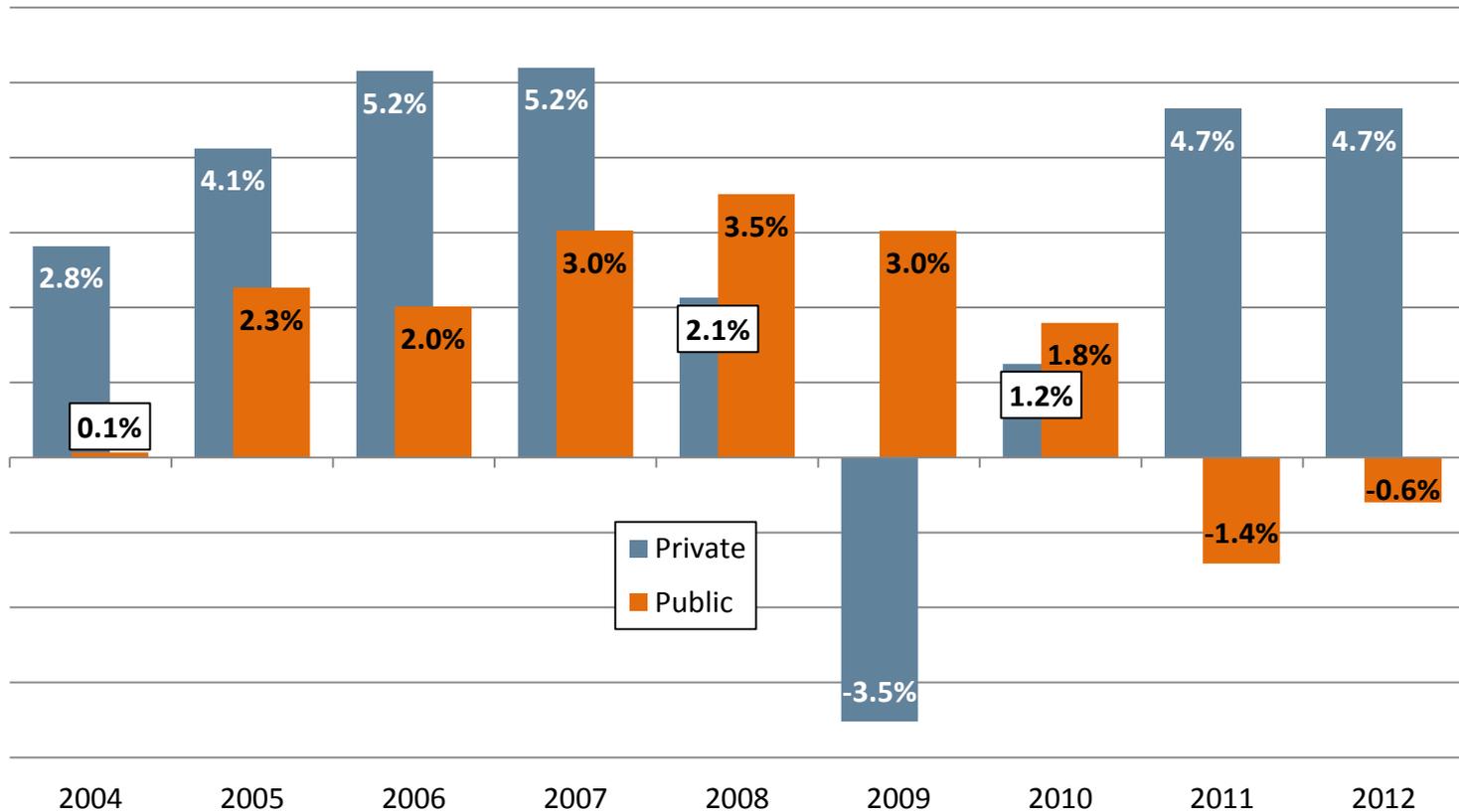
## Austin MSA Total Employment (12-Month Change)



Source: BLS; TXP

# Austin Area Economy

## Austin MSA Private v. Public Employment (12-Month Change)



Source: BLS; TXP

# Austin Area Economy

## Austin MSA Employment by Sector

	Employment (000s)			Change (Actual)		Change (%)	
	2007	2011	2012	07-'12	11-'12	07-'12	11-'12
Natural Resources/Construction	49.0	39.5	42.0	-7.0	2.5	-14.3%	6.3%
Manufacturing	59.7	49.7	50.9	-8.8	1.2	-14.7%	2.4%
Trade, Transportation, & Utilities	136.0	140.9	146.4	10.4	5.5	7.6%	3.9%
Information	21.9	20.6	21.8	-0.1	1.2	-0.5%	5.8%
Financial Activities	44.7	44.1	45.9	1.2	1.8	2.7%	4.1%
Professional & Business Services	106.0	117.4	124.3	18.3	6.9	17.3%	5.9%
Educational & Health Services	77.2	92.3	97.4	20.2	5.1	26.2%	5.5%
Leisure & Hospitality	78.3	89.4	92.9	14.6	3.5	18.6%	3.9%
Other Services	28.2	33.5	34.9	6.7	1.4	23.8%	4.2%
<b>Total Private</b>	<b>600.9</b>	<b>627.4</b>	<b>656.6</b>	<b>55.7</b>	<b>29.2</b>	<b>9.3%</b>	<b>4.7%</b>
<b>Government</b>	<b>156.6</b>	<b>167.7</b>	<b>166.6</b>	<b>10.0</b>	<b>-1.1</b>	<b>6.4%</b>	<b>-0.6%</b>
<i>Total Employment</i>	<i>757.5</i>	<i>795.0</i>	<i>823.2</i>	<i>65.7</i>	<i>28.2</i>	<i>8.7%</i>	<i>3.5%</i>

Source: BLS; TXP

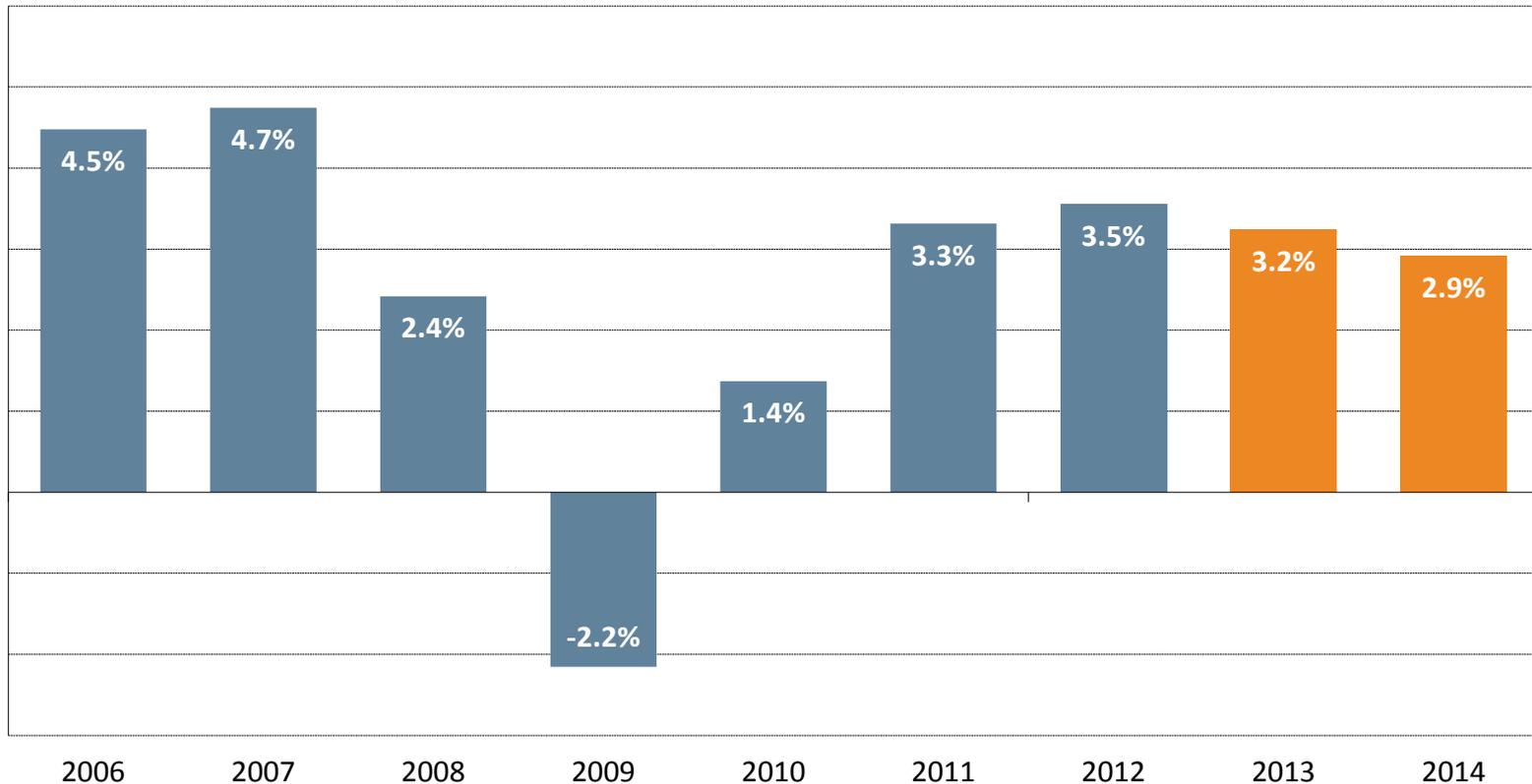
# Austin Area Economy

## Forecast

- Austin is clearly one of the brightest economic stars in the United States, a status that should be the case for some time. Economic performance will be fairly stable through 2014; slightly slower growth rates reflect a national slowdown as the impact of sequester is absorbed, as well as measurement against an improved base.
- Forecast is for the overall creation of 26,700 net new jobs in 2013, followed by 24,700 during 2014. Personal income should continue to expand in the 6-7% range.
- The private sector is projected to create 27,500 net new jobs this year, followed by 24,800 more the next year. Manufacturing is projected to add another almost 2,000 net jobs next year, with Business & Professional Services contributing another 6,100. All major private sector industry segments will grow.
- Other measures of the economy also should stay on track, although likely at somewhat slower rates. The exceptional of volume real estate in the pipeline will ripple through the economy over the next several years.

# Austin Area Economy

## MSA Total Employment Growth Forecast



Source: TXP

# Income Disparity

## Structural Issues

- Technology is inherent in everything. Several implications:
  - greatly reduced the need for workers in many industries, especially those that involve fairly routine tasks and/or are low value-added.
  - returns to intellectual capital are enhanced.
  - markets of all kinds are increasingly global – eBay, Amazon, etc. Puts strong downward pressure on prices.
- Off-shoring has moved much production (and many services) overseas, a trend not likely to change – commodities versus high value-add products and services.
- Consumer values increasingly embedded in consumption choices – how, where, and from whom are becoming as important as what.
- Speed and global access to financial markets increases volatility and returns to scale.
- Translation: Ability to manipulate knowledge and capital greater determinants of income/wealth than ever. Meanwhile, routine tasks, especially those involving production of goods, are much less valued.

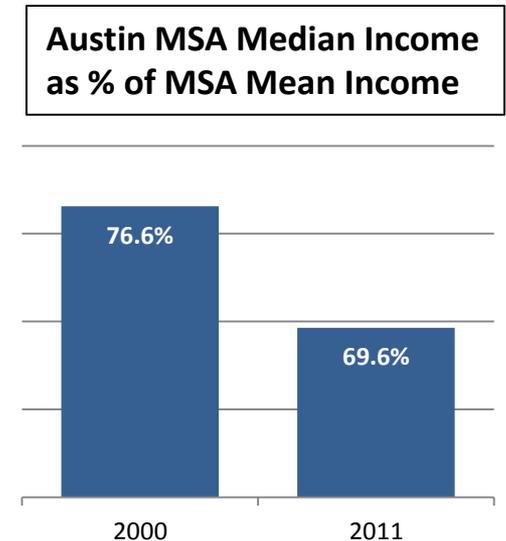
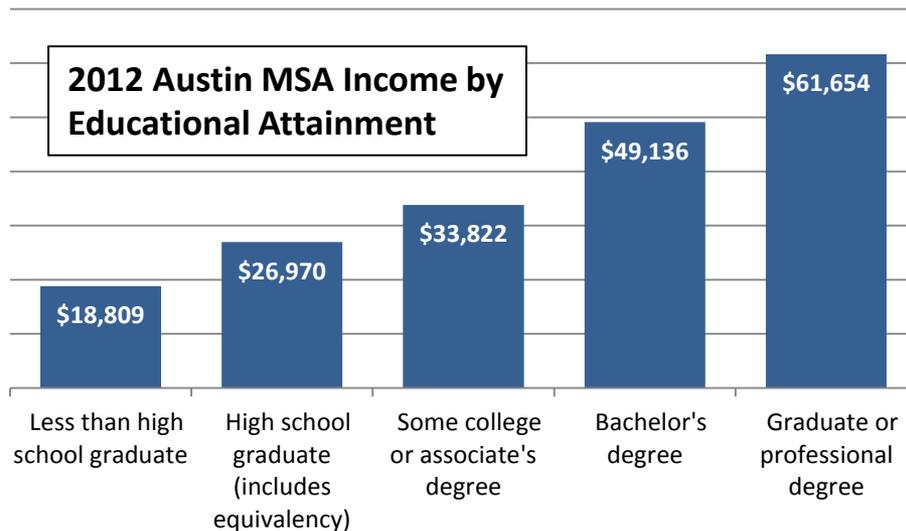
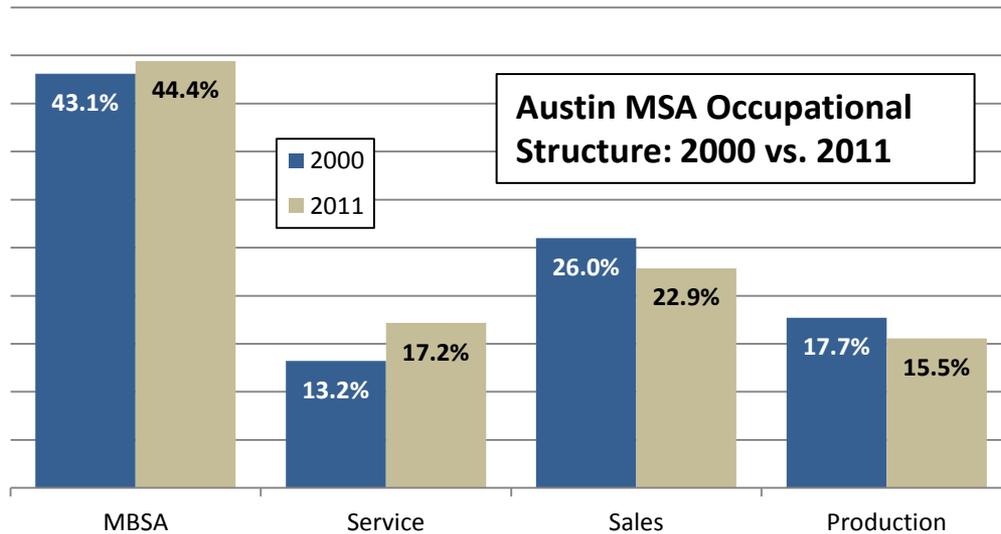
# Income Disparity

## Policy Context

- Much cited figure of “40 cents of every federal dollar spent is borrowed” is true; approximately 6 percent of federal budget spent on debt service (interest) – could increase significantly if interest rates rise.
  - Entitlements & Defense comprise the vast majority of spending; Transportation, Education, and Research roughly equal Debt Service.
- Tax structures have moved toward lower marginal tax rates, with preferential treatment for capital gains. Much of the responsibility for basic infrastructure has been pushed to states and localities.
  - Example: TXDOT unsuccessfully asked for a \$4 billion annual increase in funding - \$3 billion for new construction and \$1 billion for maintenance – just to maintain current levels of congestion and roadway conditions
- In newest budget, Public Safety consumes the equivalent of more than 95% of City of Austin sales and property taxes.
- Translation: very little funding available for the things that economists tend to believe can help promote economic growth and reduce income disparity – transportation, education (both workforce training and higher), and R&D.

# Income Disparity

## Austin Economic Structure



# Income Disparity

## Consequences

- 95% of the gains since the 2009 recession have accrued to the richest 1%.
  - highly skewed distribution can lower growth, if it translates into less equality of opportunity for the next generation. This seems to be happening. The gap in test scores between rich and poor children is 30-40% wider than it was 25 years ago: given that the distribution of innate intelligence is unlikely to have shifted so much in a generation, that suggests that rich youngsters are benefiting more than ever from their economic and social advantages.
- Common prescriptions to reduce inequality (federal & state)
  - Invest in education, job training, and research
  - Upgrade the nation's infrastructure
  - Reform the entire tax system, including sales & payroll taxes, to make it more progressive/flatter with fewer deductions
  - Constrain Wall Street's gambling behavior/end “too big to fail”
  - Increase the minimum wage and earned income tax credit to help move people out of poverty
  - Reduced regulation that adds to costs

# Income Disparity

## Local Focus

- Economic development policy that explicitly recognizes job creation for vulnerable segments of the population
  - Build medical-related cluster
    - 60% of the 15,000 total jobs associated with the medical school complex will not require a college degree – average wage for these positions \$40,000+
  - Expand and align job training programs; aggressively assist entrepreneurs with capital and business development
  - Coordinate City/County incentive policies – perhaps more focus on incentivizing existing companies for job creation that meets parameters?
- View transportation options as helping offset some of the impacts of disparity – likely will require greater resources, so education/marketing required
- Continue to bring affordability mindset to cultural, recreational, and other “quality of life” offerings



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