

Economy shifts into a lower gear

After years of robust growth, Austin begins to feel effect of U.S. slowdown.

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Austin's economy, which was firing on all cylinders a year ago, is losing momentum.

Job growth, a primary economic driver, has fallen to half the rate it was a year ago. Home sales were down for the 10th month in a row in April, even as new listings shot up 20 percent to a four-year high.

Foreclosures, which were down 8 percent in 2007 from the year before, are now rising. And sales tax rebates from the state are faltering — down 5 percent this month for the City of Austin, after several months of double-digit percentage increases during 2007.

"Welcome to the party," said Bud Weinstein, director for the Center for Economic Development at the University of North Texas. "When the national economy is faltering, Austin is eventually going to feel the pain, too. That's what's happening here."

The Central Texas economy is in better shape than many other parts of the country.

Forbes recently included Austin in a list of 10 "recession-proof cities," citing the city's low unemployment rate (3.3 percent last month) and high-tech economy.

But the vigorous growth the region enjoyed in 2006 and 2007 has slowed considerably, due in no small part to national trends such as the credit crunch that has made it harder for home buyers and companies to borrow money and high energy prices that are causing companies to cut back.

That is having an impact on the housing market, city budgets and the health of retailers.

And though the region's job market is still healthy, major employers have begun cutbacks.

Dell Inc. is closing a North Austin plant, cutting 900 jobs. Advanced Micro Devices Inc. recently laid off more than 400 people in Austin.

"You can't ignore the statistics, and statistics are telling us that housing is down, retail is down, consumer confidence is down," said Chris Ellis, principal with Endeavor Real Estate Group, a major local developer of projects such as Southpark Meadows. "People are being laid off — we're seeing all of those things in our market just like everywhere else. It's not gloom and doom, but it's slowing things down."

Endeavor is going ahead with new projects at the Domain and in Cedar Park but has delayed a large shopping center at Texas 130 and Parmer Lane until 2010, and it has backed out of a Bastrop project that was announced last year.

Experts say Austin can't escape the ripple effect from a national economy where employers have cut jobs for four months in a row and sharply rising energy costs are cutting into consumer spending and causing grief for corporations.

"Texas is doing better than the rest of the country, but we're not an island," Weinstein said. "Like it or not, we're part of the U.S., and our economy moves in the same direction."

He added: "But if I were an Austin resident, I wouldn't be particularly depressed about the local economy. There's still a lot of strength there — and the long-term growth prospects remain very, very positive."

Eldon Rude, Austin director of Metrostudy, which tracks the housing market, said the region is coming out "of a period of significant expansion in the housing market, and that activity was unlikely to sustain itself forever."

Austin economic consultant Angelos Angelou said that Austin's secret weapon during periods of slower growth is its diverse base of high-tech startups.

On that front, Austin is in better shape than it was a year ago.

First-quarter venture investment was \$133.6 million, more than double what it was a year ago.

"Entrepreneurship is a big factor in fueling job growth in Austin," Angelou said. "Startups draw skilled workers and venture capital. They feed the economy when the big companies take a break."

In other cities, when major employers cut jobs, those people leave town. In Austin, they consider starting their own company. "That culture makes us more resilient," he said.

In Austin, with Dell, AMD and Freescale Semiconductor Inc. all scaling back, the region's entrepreneurial instincts will be put to the test.

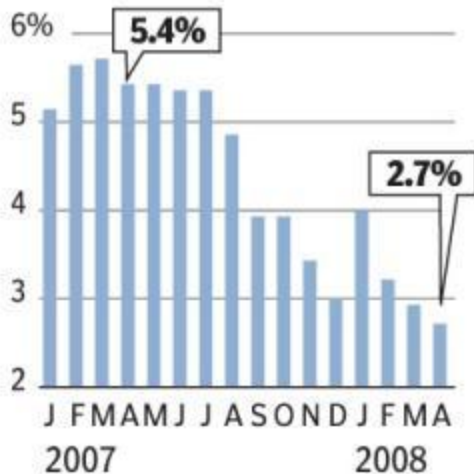
"The question is whether entrepreneurial job growth is going to give us the lift that we need," Angelos said. "Will it create enough jobs to overcome the challenge? That's the burning question."

Courtesy of JB Goodwin

Austin's economy slows down

Job growth

Central Texas job growth is half the rate it was a year ago but still a healthy 2.7 percent. Nationally, employers have cut jobs for four months running.

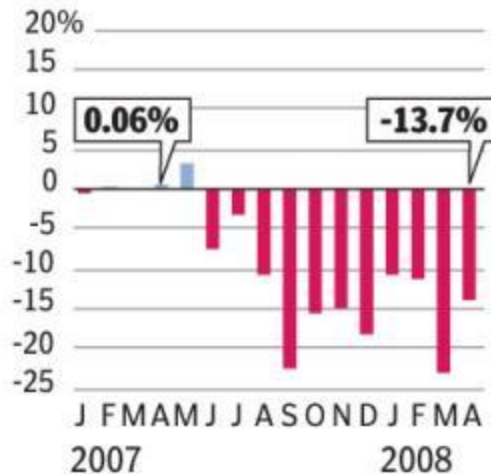


Source: Texas Workforce Commission

Home sales

Percent change over past year

Austin sales are down from last year, but that was the second-best year on record. Nationally, sales are at a nine-year low.

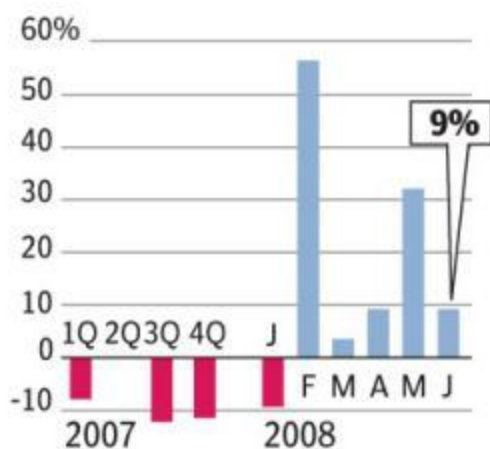


Source: Austin Board of Realtors

Foreclosures

Percent change over past year

Central Texas foreclosures were down 8 percent in 2007 but have crept up this year. Foreclosures are up by high double-digit increases in other cities.

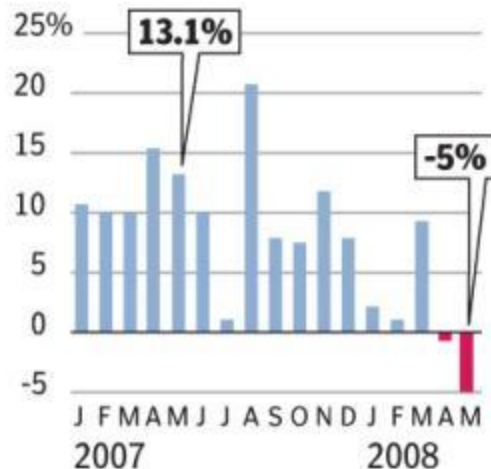


Source: Foreclosure Listing Service Inc.

Sales tax rebates

City of Austin

Sales tax rebates from the state are below forecasts, which could lead to city budget cuts.



Source: Texas comptroller's office