

Texas could see early exit from recession, economist says

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Texas will be "last in, first out" among states battling the recession, although a recovery that has already started will require patience, a leading economist says.

The Lone Star State proved resilient because of advantages such as weather, stable home prices and a political climate favorable for companies seeking new places to do business, said Ray Perryman, head of the Perryman Group and a longtime Texas economist.

Still, Perryman said Texas has seen its share of difficulty since the state got caught up in the national economic downturn in the summer of 2008. Job losses mounted last year, and the outlook remains bleak for commercial real estate.

"The long-term story when people look back at it will be one of last in, first out. It's also a story of us doing a little better than the rest of the country," Perryman said. "Nonetheless, there's going to be a legacy of pain. Three hundred thousand people did lose their jobs, and no one really escaped this."

As a measure of Texas faring better than most states, Perryman pointed to the 300,000 job losses, which, although a large number, represented about 4 percent of the losses nationally in a state that accounts for about 8 percent of the U.S. economy, he said. Using that formula, Texas had about half the job losses that might be expected.

One of the strongest signs of a recovering economy, Perryman said, is Texas enjoying job gains the past two months and three of the past six. He and other economists say that trend will continue, but at a modest rate. Analysts say the same thing about other sectors of the Texas economy.

"We don't expect a huge rebound back," said Laila Assanie, an associate economist with the Federal Reserve Bank of Dallas. "We expect a slow and steady recovery."

Jim Kee, chief economist with South Texas Money Management, said Texas will remain "a magnet for capital and people," giving it an advantage over other states. He said the unemployment rate might

remain steady at 8 percent, perhaps even go up slightly, because surveys show that the number of people migrating to Texas and looking for work outpaces the number of jobs added.

Kee says that's good, particularly as long as Texas continues to track about 2 percentage points behind the national jobless rate.

"The reason it's good is ultimately you want Texas to attract people and capital, but hiring doesn't take place as quickly as new job entrants can come in," Kee said.

The Dallas Beige Book, an overview of the Texas economy produced eight times a year by the Dallas Fed, pointed to commercial real estate as the weakest link. The report released Wednesday said commercial leasing activity was "feeble," and Assanie said that wasn't likely to change soon.

"It's definitely a headwind for any economic growth," Assanie said. "It might not be very significant, but it is still a headwind for us."

Perryman and Assanie said the retail sector had a better-than-expected holiday season, another small sign of improvement in the broader economy. The Texas comptroller's office has reported double-digit percentage drops in sales tax revenue for cities in recent months, but Perryman said that's more a reflection of slower business activity than consumer spending.

"And that's the case in most economic downturns in Texas," Perryman said.

Kee agreed that the Texas economy has bottomed out, saying an index of stock prices he keeps on smaller Texas companies is tracking ahead of national numbers in their category.

Perryman said Texas doesn't have the momentum of a recovery yet, but he said the state will be among the first to gain steam through its ties to the technology sector, which is showing signs of life. He said a recent bump in oil prices from below \$70 to nearly \$80 will help as well.

While Perryman said he thinks the Texas recovery will track ahead of the national recovery, Assanie said the improvements are likely to coincide with each other. She said recovery should be well under way before the end of the year. "We feel like we are sort of in the infant stages of that bottoming out and the recovery," Assanie said.

Courtesy of JB Goodwin