

The Perryman Report & Texas Letter



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Special Report

Factors Impacting the Long-Term Forecast

For more than a year and a half, the US has been facing myriad economic challenges associated with the recession. Many of these difficulties are expected to impact the nation's economic journey in the future. In this issue, Dr. Ray Perryman shares his projections for what's ahead over the long term (2008-2035) for both the economies of the nation and the Lone Star State and the growth anticipated for the various industrial sectors. Over this 27-year timeframe, despite short-term weakness in some areas, the US and Texas are poised to achieve significant growth in all key economic indicators.

Economic Development News from Around the State

This page focuses on some of the economic and development advancements in 11 communities scattered across the state, including both small and large projects. Check out this special feature regarding current business activities around Texas. If your community has similar endeavors underway or planned, let us know about them. For information on contacting the editors of this publication, see page 5.

SPECIAL REPORT

The Long-Term Forecast for the US and Texas Economies

The recession that began in December 2007 has presented immense challenges to the US and Texas economies. Employment rolls have dropped, and many consumers, with fears fueled by vanishing jobs as well as diminished home values and reduced retirement accounts, have cut back on spending, particularly on big-ticket purchases. While output growth is likely to turn positive very soon and other indicators are

at least declining at a slower pace, much difficulty still remains. In this issue, we highlight key findings from our recent forecast.

As a result of the massive economic problems emanating in part from the mortgage bungling and leveraging, it became essential for the governments around the world to become involved. The nonpareil circumstances have required tough decisions and necessitated bold

US Economic Indicators 2008-2035

Key Indicator	2008 Level	2035 Level	CAGR* 2008-2035
Real Gross Domestic Product (2000\$)	\$11.58 trillion	\$27.65 trillion	3.28%
Population	304.48 million	386.97 million	0.89%
Employment**	135.97 million	189.75 million	1.24%
Real Personal Income (by place of residence) (2000\$)	\$9.87 trillion	\$25.55 trillion	3.59%
Industrial Production Index (2000=100)	101.8	251.0	3.40%
Consumer Price Index (2000=100)	124.9	240.9	2.46%
Interest Rates (Long-term, 20-yr. bonds)	4.19%	5.78%	

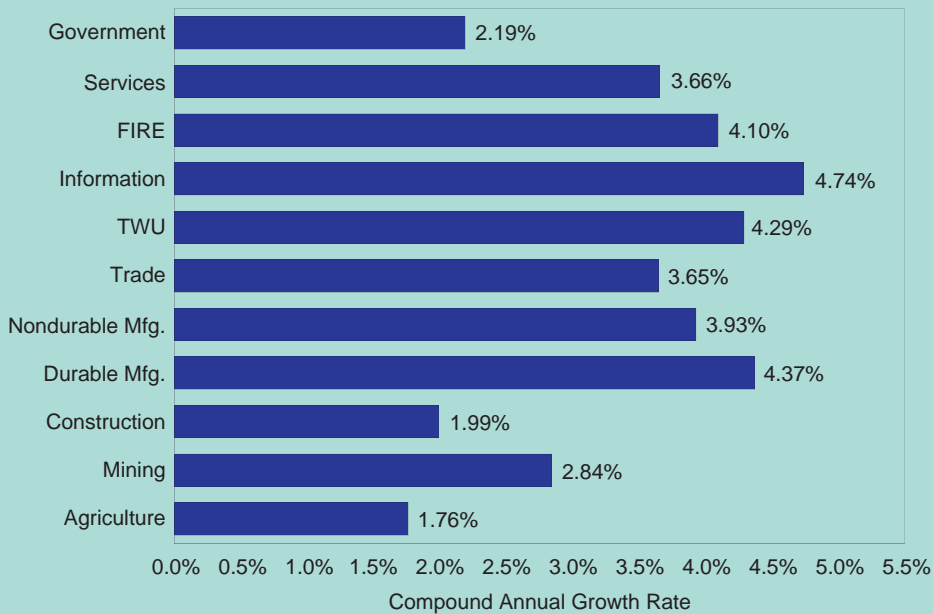
*Compound Annual Growth Rate **Civilian non-agricultural employment
Source: The Perryman Group

Texas Economic Indicators 2008-2035

Key Indicator	2008 Level	2035 Level	CAGR* 2008-2035
Real Gross Product (2000\$)	\$970.30 billion	\$2,595.80 billion	3.71%
Population	24.38 million	38.40 million	1.70%
Wage & Salary Employment	11.07 million	16.47 million	1.48%
Real Personal Income (by place of residence) (2000\$)	\$788.86 billion	\$2,476.93 billion	4.33%
Retail Sales** (current \$)	\$388.08 billion	\$2,356.32 billion	6.91%
Housing Permits	126,241	138,010	0.33%

*Compound Annual Growth Rate **Some of the historical values for retail sales have discontinuities due to inconsistent data sources and measurement approaches in the available information.
Source: The Perryman Group

Projected RGP (Output) Growth Rates by Sector for Texas 2008-2035



Note: FIRE is Finance, Insurance, & Real Estate
TWU is Transportation, Warehousing, & Utilities
Source: The Perryman Group

action—from the family level to the heights of government.

In the absence of any other consideration, competition tends to provide the outcomes which maximize

economic wellbeing. However, if a social priority is sufficiently compelling to outweigh the optimal efficiency (and it often is), it is within the power, and indeed, it is the responsibility of government to

make appropriate adjustments. Such actions are a part of the social contract that underlies the philosophy giving rise to Western democracies.

Government Response Ongoing

It is important that in our nation and state we have continuing access to the capital resources needed to implement technology, build large plants, and spur a steady stream of investment. It is also essential that the daily credit needed to fund small businesses, allow consumer purchases, and otherwise enable the normal, everyday function of the economy be available.

“These various initiatives are not “free lunches,” and will have consequences . . .”

Investment in the US economy through the stimulus plan and other mechanisms has presented a hope that societal costs arising from the economic downturn can be contained. The goal of this government action is to facilitate a recovery more rapidly and with less hardship than would be possible through purely private means given current credit and risk conditions. These various initiatives are not “free lunches,” and will have consequences as deficits climb and the recovery brings rising demand and inflationary pressures.

To the extent such endeavors can be accomplished through programs

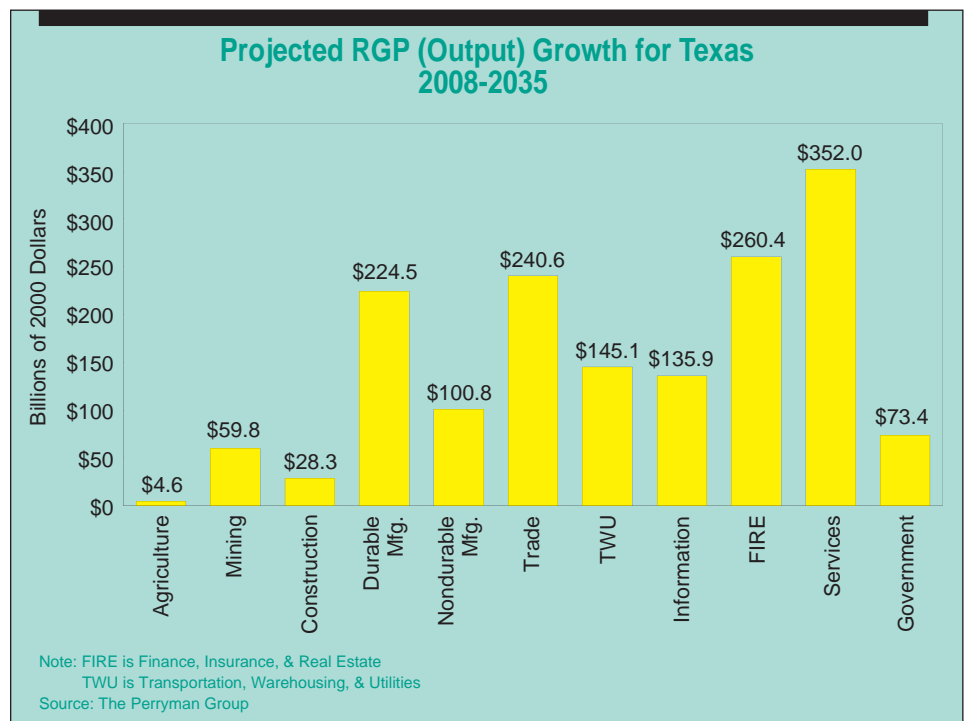
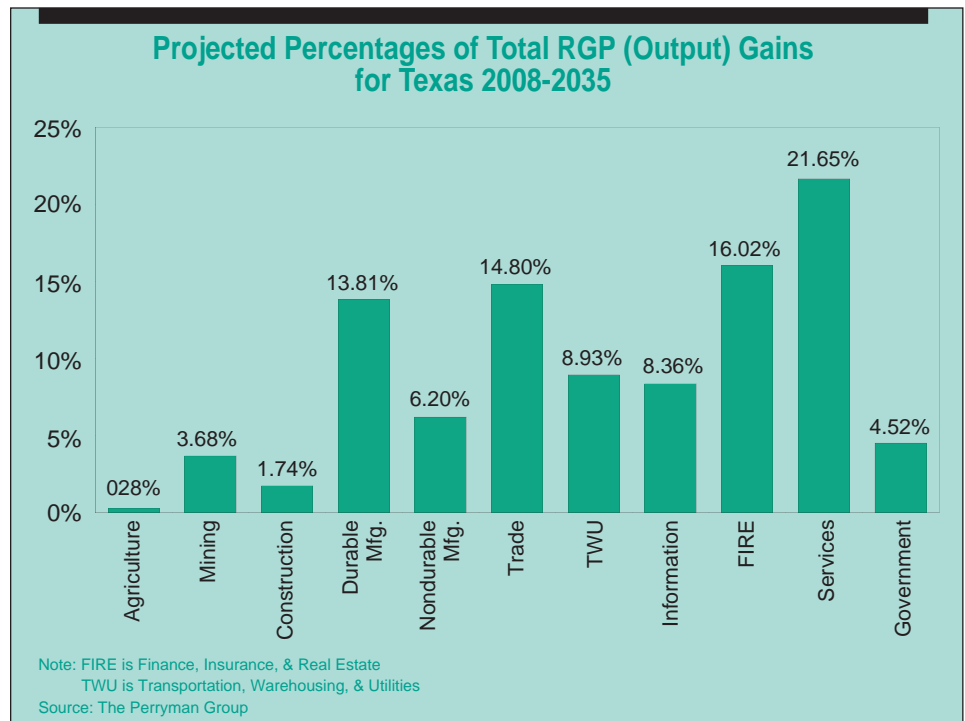
that simultaneously achieve desirable social aims, it brings added benefit. The responses to the various government infusions will certainly change the very nature of our financial markets, at least temporarily, but they will not eliminate our tendency to speculate.

“... there are signs that the worst may be over for many markets.”

Texas Still Better Positioned

The housing industry, which was a major contributing factor to the economic difficulties being experienced across the country, has been slow in recovering and, as a result, has put a crimp in the nation’s economic return to normalcy. While the national housing market is likely to continue to decline to some extent in the next few years, there are signs that the worst may be over for many markets. Texas did not see the large, speculative housing boom of a few years ago and, thus, has been less affected by the bursting of the bubble (but significantly impacted nonetheless).

Weakness stemming from the general economic slowdown is unavoidable, but the state is not facing the huge surplus of housing present in many regions of the country. Therefore, when the economy regains its momentum, the



Lone Star State will likely be quick to recover.

Even though we are still facing challenges such as health care coverage, fuel costs, volatile markets, and ongoing credit limitations, energy and technology are likely to be among the first sectors to enjoy a significant revival. Thus, in the long term, Texas is

forecast to continue to remain a national leader and maintain its economic vibrancy.

US Economic Indicators

The US economy is projected to experience moderate growth in all key economic indicators from 2008 to 2035. Real gross domestic product (in constant 2000 dollars) will

likely achieve a 3.28% compound annual growth rate in the 27-year period, climbing from \$11.58 trillion to \$27.65 trillion; the real personal income per annum expansion rate is anticipated to be 3.59%. The population of the nation is expected to increase by approximately 82 million people from 2008 to 2035, with some 53.8 million new jobs forecast.

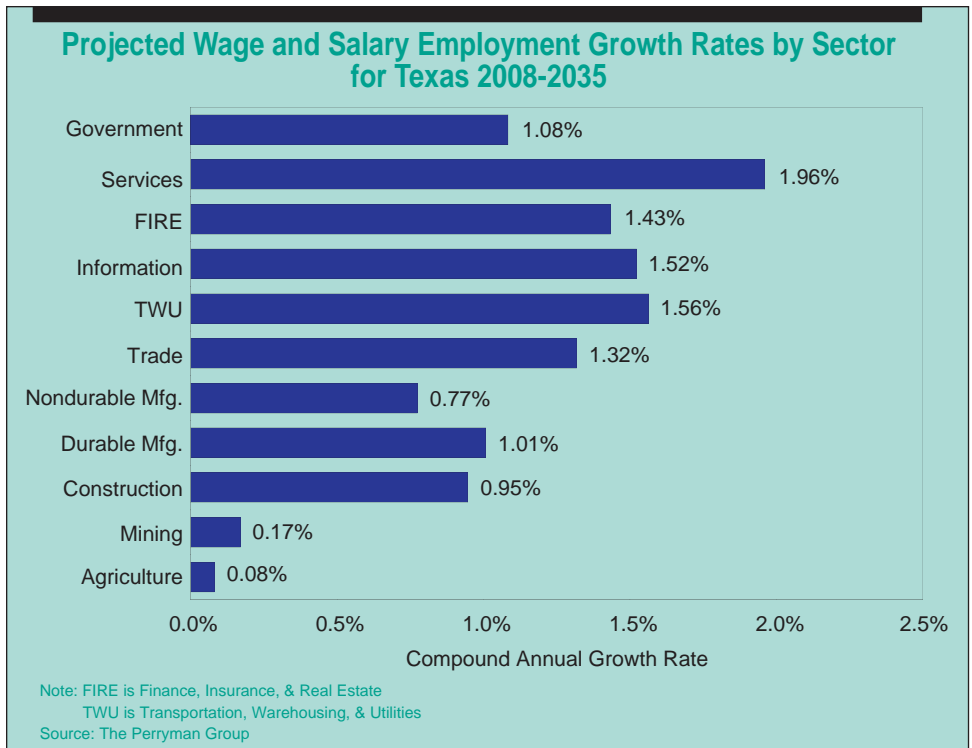
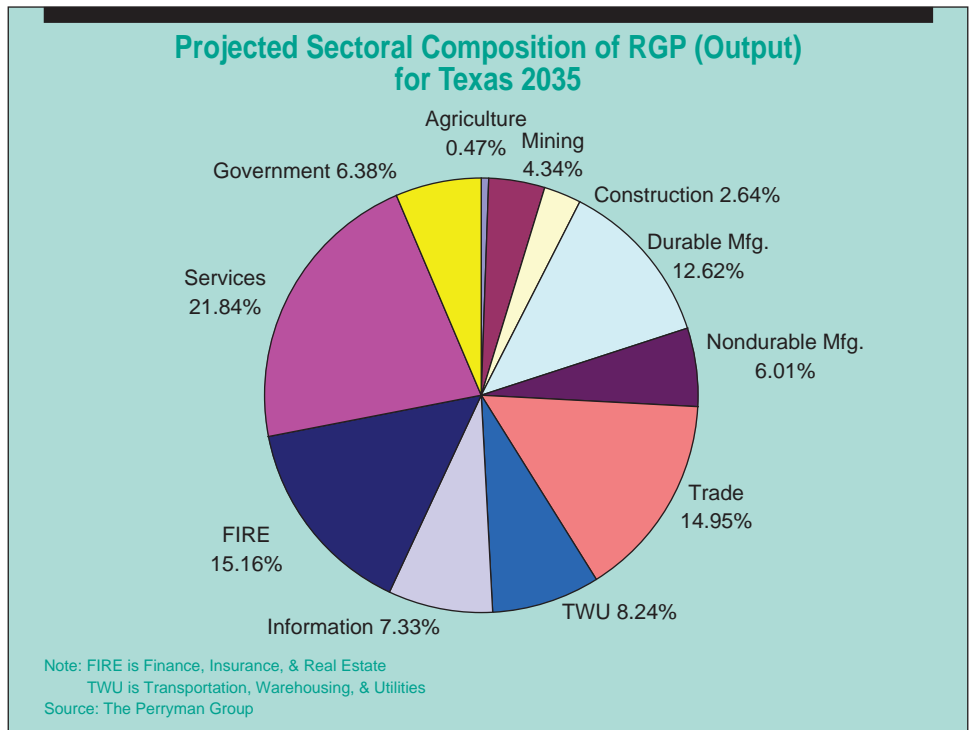
“Over the long-term forecast period, the Lone Star State is predicted to achieve substantial growth in all key indicators.”

Texas Economic Indicators

Over the long-term forecast period, the Lone Star State is predicted to achieve substantial growth in all key indicators, with compound annual growth rates exceeding those of the nation as a whole. The real gross product per annum expansion rate for this timeframe is expected to be 3.71%, reflecting a gain of about \$1.63 trillion. The state’s population is projected to grow by approximately 14 million from 2008 to 2035, with some 5.4 million new jobs added during this period.

Texas Real Gross Product Growth by Sector

The sectoral real gross product (RGP or output) per annum growth rates for the 2008-2035 timeframe are expected to range from 1.76% (agriculture) to 4.74% (information). Six other industrial sectors



are predicted to achieve long-term compound annual growth rates exceeding 3.0%.

Sectoral Contributions to Texas Real Gross Product Growth

Over the long term, four industrial sectors are projected to provide approximately two-thirds of the state’s overall output gain. The

sectors and anticipated percentages of RGP expansion are services (21.65%); finance, insurance, and real estate (16.02%); trade (14.80%); and durable manufacturing (13.81%). The contributions made to Texas’ total RGP gain during the forecast period are projected to vary from 0.28% (agriculture) to 21.65% (services).

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Economic Development News from Around the State

Sweetwater: Argentinean company to build 15,000 sq. ft. plant & 1,000 sq. ft. offices. EMA Electromecanica designs and makes electromechanical equipment for power distribution.

Fort Worth: Cook Children's Medical Center begins work on \$250 million expansion. Adding 540,000 sq. ft. to its complex making it the hospital's largest project ever. Ready in '11.

Beaumont: Holiday Inn & Suites and adjacent convention center wrap up renovations. 253-room hotel, 22,000 sq. ft. meeting space underwent \$7.5 mln makeover after Hurricane Ike.

Longview: Halliburton Energy Services expanding into area, creating 45 initial jobs. Company plans to invest \$51 million and move into a 100,000 sq. ft. space for its regional hub.

Waco: Hillcrest Baptist Medical Center recently opened the doors to its new campus. A \$185 million, 236-bed hospital. Two office buildings also being built next to the facility.

Midland: A \$115 million bond package approved for Midland Memorial Hospital. Will be used for makeover of current facility and the construction of a 7-story medical tower.

Odessa: Lufkin Industries consolidating operations, building \$8.5 million complex. To include a 25,000 square foot manufacturing facility and 10,000 square foot training center. 40,000 sq. ft. office building adjacent to Odessa Regional Medical Center opens up.

Mount Pleasant: Pace Shave to set up distribution center in 162,290 sq. ft. building. Supplies grocery and drug stores with generic razor blades. To eventually make products here.

Allen: \$184 million data center in the works for California-based Cisco Systems Inc. Will create 100-125 jobs for the 160,000 sq. ft. facility. Construction to start later this year.

Westlake: Deloitte LLP to build its learning and leadership development center here. \$300 mln investment, the 712,000 sq. ft. training center on 107 acres should be ready in 2011.

San Antonio: Medtronic, Inc., hiring around 1,400 over five years for a new facility. 150,000 sq. ft. Diabetes Therapy Management & Education Center opening later this summer. Affiliated Computer Services Inc., receives grant to add 300 jobs to its port operations.

Want to include a business announcement for your community?

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Texas Real Gross Product Composition

More than half (51.09%) of Texas real gross product is currently provided by three industries—services (22.16%); trade (15.21%); and finance, insurance, and real estate (13.72%). By 2035, approximately 51.95% of the state’s output will be generated by these industries. Sectors expected to provide a greater percentage of the Texas RGP in 2035 compared with 2008 and the percentage increases include durable manufacturing (1.99%); information (1.71%); finance, insurance, and real estate (1.44%); nondurable manufacturing (0.33%); and transportation, warehousing, and utilities (1.15%).

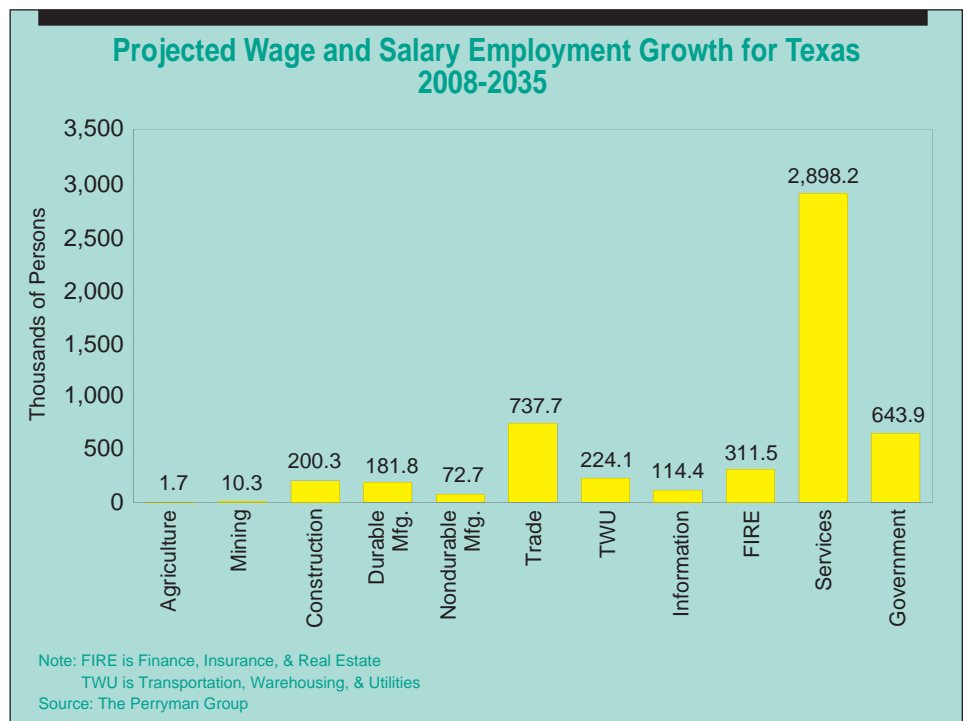
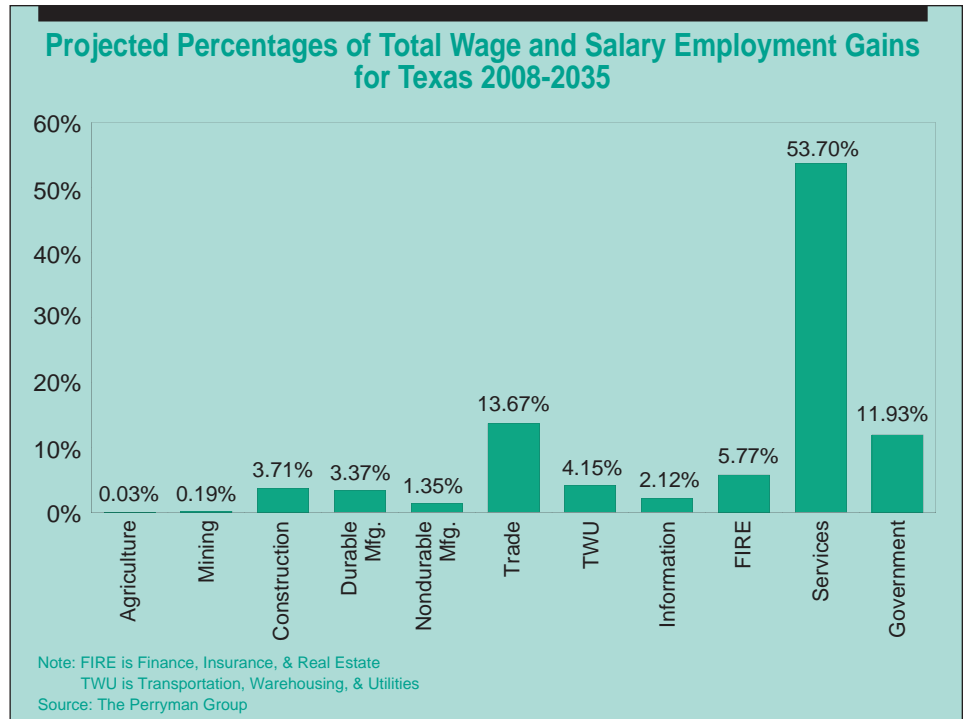
“Approximately 55.22% of the wage and salary jobs in Texas are in the services (37.99%) and government (17.23%) sectors.”

Texas Employment Growth by Sector

In the long term, the services sector is anticipated to be the fastest expanding source of jobs, with wage and salary employment gains of 1.96% per annum. The yearly hikes for the other industrial sectors are projected to range from 0.08% (agriculture) to 1.56% (transportation, warehousing, and utilities).

Sectoral Contributions to Texas Employment Growth

Over the forecast horizon, the services sector is projected to generate some 53.70%, or approximately



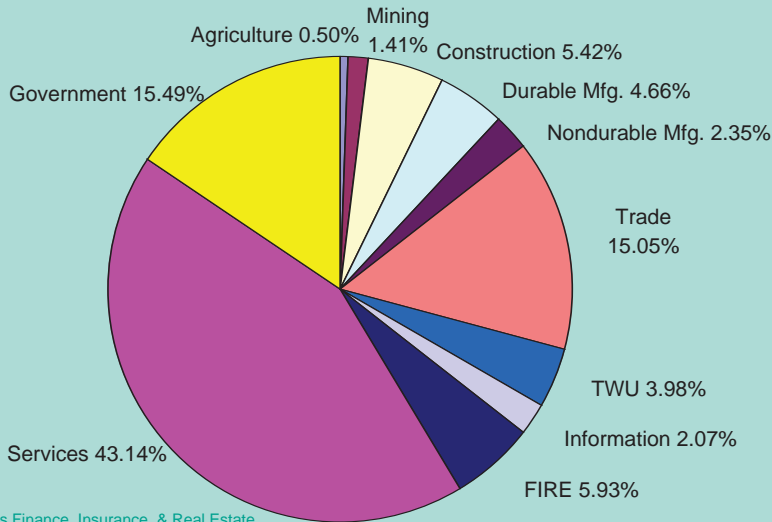
2.9 million, of the total number of wage and salary jobs to be created across the state. An additional 1.05 million workers will be added to the trade and finance, insurance, and real estate industries.

Texas Employment Composition

Approximately 55.22% of the wage and salary jobs in Texas are in the

services (37.99%) and government (17.23%) sectors. These two sectors are anticipated to provide 58.63% of the state’s total employment in 2035, with services accounting for 43.14% and government 15.49%. Moreover, about two out of every 10 jobs available in 2035 will be in the trade (15.05%) and finance, insurance, and real estate (5.93%) sectors.

Projected Sectoral Composition of Wage and Salary Employment for Texas 2035



Note: FIRE is Finance, Insurance, & Real Estate
 TWU is Transportation, Warehousing, & Utilities
 Source: The Perryman Group

Conclusion

Even though we are still facing challenges, history has proven that we possess the resiliency to recover and rebound.

Over the long term, the US is poised to achieve significant growth in all economic indicators including nearly 82 million people added to the population and some 54 million new jobs created.

With unemployment rising, credit being on a stingy streak, and consumers showing some restraint in major purchases, many Americans are looking for greener pastures, and Texas is where they are finding them. Based on information provided by the US Census Bureau, the Lone Star State remains highly attractive for people looking for a place to live and work.

Over the 2008-2035 timeframe, Texas will likely see per annum expansion in real gross product (RGP or output) of approximately 3.71% with real personal income climbing 4.33% on a yearly basis. More than 14 million new residents will call the Lone Star State home in the long term, and the employment rolls will achieve an increase of 5.4 million workers.

While the information sector should experience the greatest annual growth rate from 2008 to 2035, the services sector is projected to account for the largest percentage of output expansion (21.65%), reflecting growth of about \$352.0 billion over that period. In 2035, the services sector is forecast to generate approximately 21.84% of the state's total output.

The services sector is also expected to be Texas' fastest growing industry for jobs from 2008 to 2035, with a compound annual growth rate of 1.96%. Of the aggregate wage and salary jobs likely to be created in the 27-year forecast horizon, the services sector is projected to generate about 53.70% of the total and provide 43.14% of all employment in 2035.

In addition to the positive long-term projections for Texas, several other factors paint an encouraging picture for the state in the years ahead. Among them are the facts that Texas is one of the leading states in businesses seeking to expand or relocate and it has been the top exporting state for seven straight years.

Other characteristics that draw people and businesses to the Lone Star

State include: vibrant business climate, diversity of industries, educated workforce availability, opportunities for entrepreneurial endeavors, cultural programs, and quality-of-life enrichment activities.

Moreover, the underlying strength of the state's economy is quite good, infrastructure is sound, the economic development and the regulatory frameworks are solid, the cost structure is favorable, and export capabilities remain strong. These distinctions are expected to continue in the future.

Additionally, for four successive years, Texas has been ranked as the number one state in business development, due in part to the Texas Enterprise Fund, which was created by the 78th Legislature in 2003 to provide financial resources to help strengthen the state's economy, and the Texas Emerging Technology Fund (ETF), launched in September 2005.

As a result of the Enterprise Fund, some 54,000 new jobs have been created and more than \$14 billion generated in capital investments. By helping to spur the creation of several technology companies, the ETF has greatly enhanced Texas' global competitiveness and will continue to benefit the state economically while also providing opportunities for medical and scientific breakthroughs designed to improve our quality of life. Furthermore, because of the ETF, much highly sought-after research talent has made Texas home.

Thus, long-term projections call for Texas to maintain its economic vibrancy and remain a national leader in numerous key economic areas. ■

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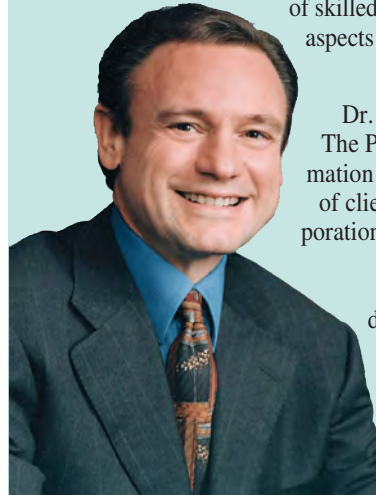
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For more information, contact Ray Perryman by emailing info@perrymangroup.com or calling 800.749.8705.

M. RAY PERRYMAN, PhD
President and Chief Executive Officer,
The Perryman Group
Institute Distinguished Professor of
Economic Theory and Method at the
International Institute for Advanced Studies

Dr. Perryman is a consummate economist, bringing a unique combination of credibility, creativity, energy, enthusiasm, excellence, and effective communication to every project. His experience and expertise run the gamut of academia, public policy, economic forecasting, popular writing, speaking engagements around the globe, and an active and diverse consulting practice. As President and CEO of The Perryman Group, he leads a team of skilled professionals specializing in all aspects of the strategic use of economic analysis.



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Author: M. Ray Perryman

Contributors: Eugene Baker, Virginia Gleghorn, and Nancy Risinger

Graphics & Layout Director: Shelia W. Smith

Research/Editing Assistants: Karen Amos, Elodia Cavazos, and D'Lee Garza

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510 N. Valley Mills Dr., STE 300, Waco, TX 76710-6076