



The Economic Climate Influencing Austin

Greenlights

Presented by TXP | June 25, 2009



The National Situation

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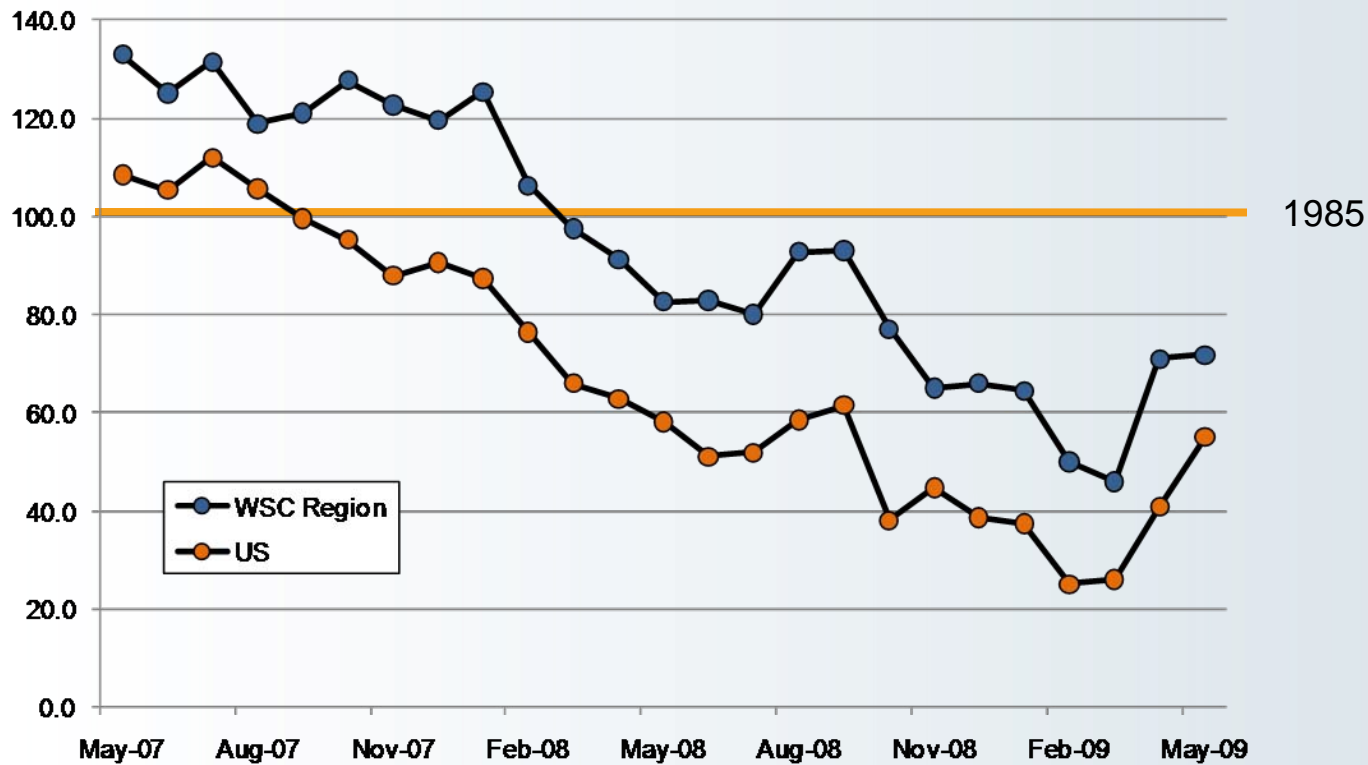
Economic Context

United States

- In first quarter 2009, real GDP declined by an initial annual rate of 6.1 percent, as consumption, business investment, and residential investment all fell substantially. Best guess for balance of year is a decline of 3-5%.
- Downturn in payroll employment remains widespread, as all major sectors have posted sizable losses. To date, the labor market has lost 6.0 million jobs since peaking in December 2007.
- Conditions in short-term funding markets have improved somewhat recently, with Libor spreads falling notably since the beginning of November.
- Housing market conditions remain exceptionally weak. The housing sector has continued to suffer the effects of compromised mortgage quality that caused the current flood of homes on the market.
- Some small signs of the bottom are evident: modest gains in consumer confidence/spending, better than anticipated jobs report, banking sector less vulnerable than anticipated, etc. Markets react well – combination of hope and reality.

National Context

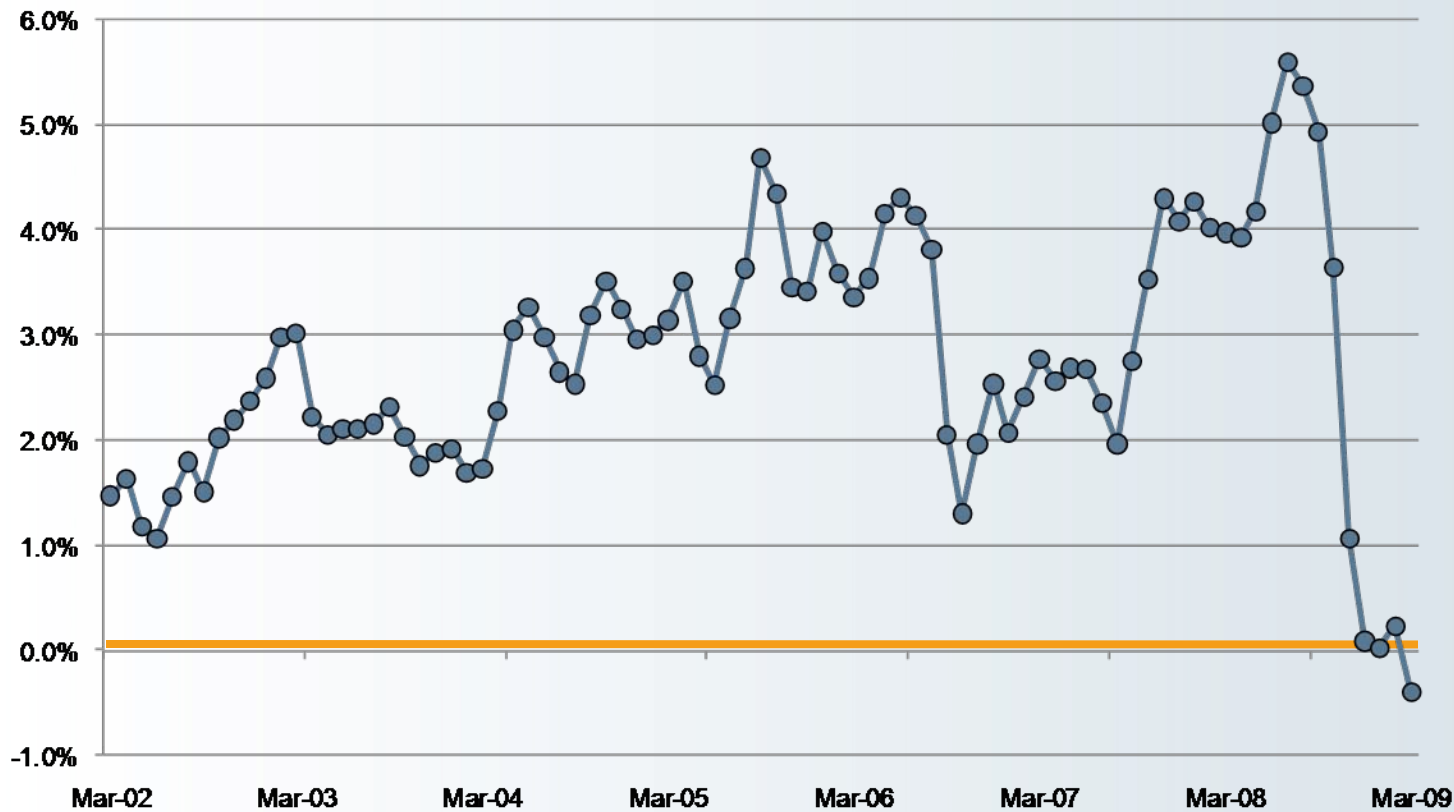
Consumer Confidence



Source: Conference Board

National Context

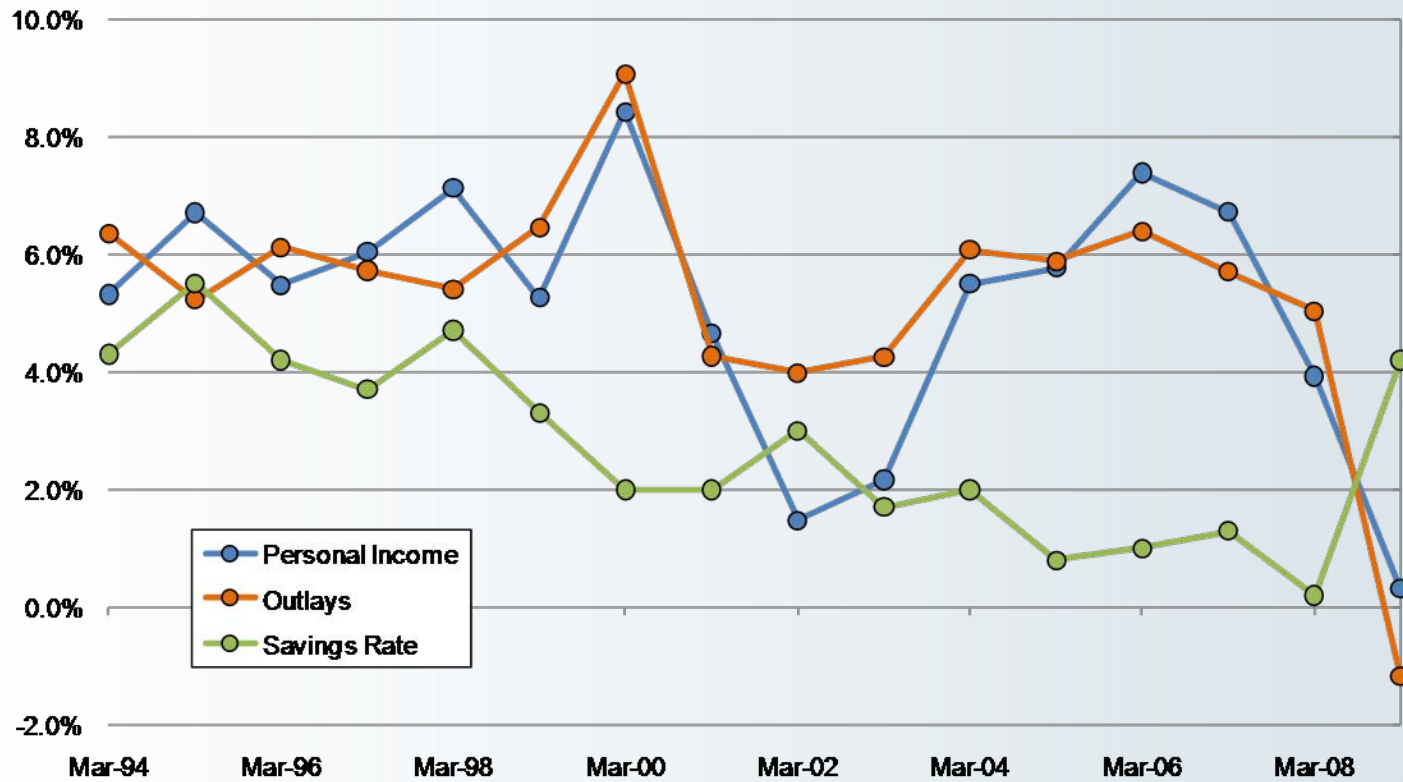
Consumer Price Index – 12-Month Change



Source: Bureau of Labor Statistics

National Context

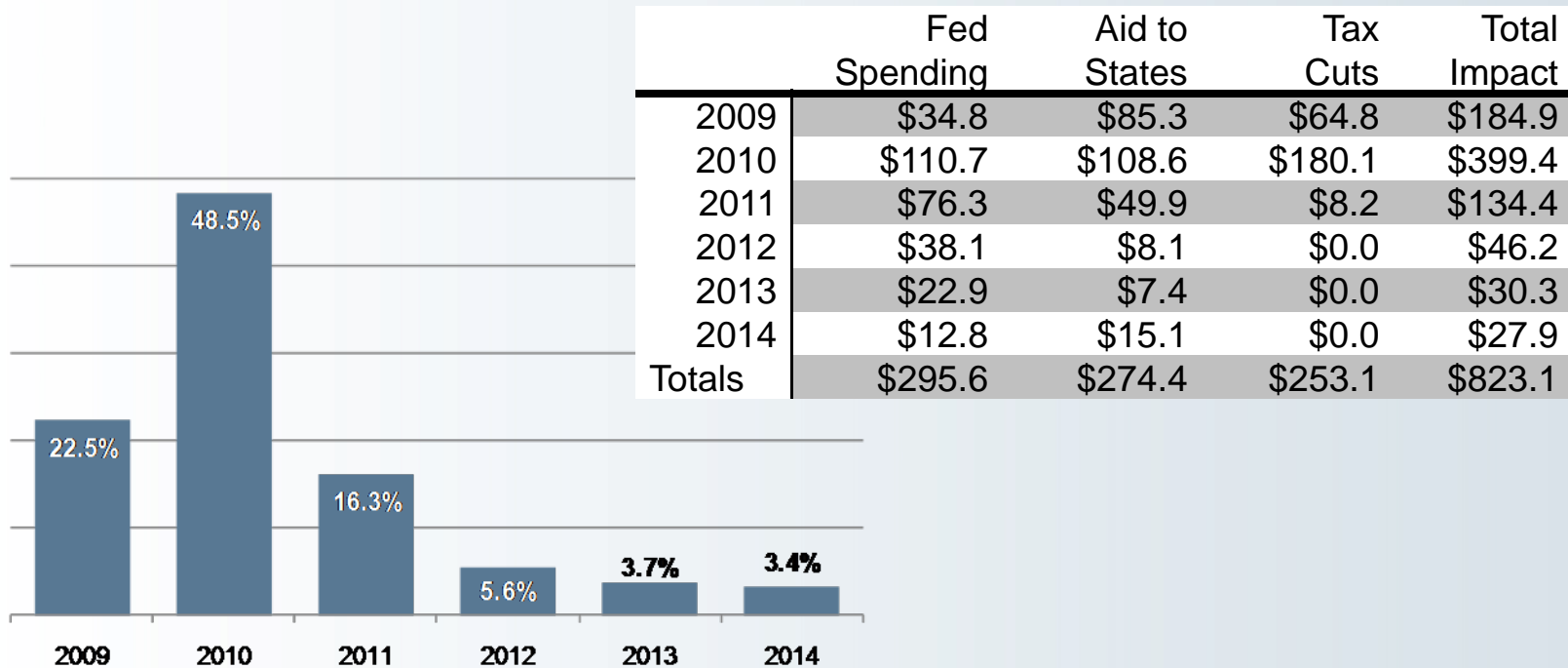
Retail Activity – 12 Month Change



Source: BEA

National Context

Elements of Stimulus (\$Billions)



	Fed Spending	Aid to States	Tax Cuts	Total Impact
2009	\$34.8	\$85.3	\$64.8	\$184.9
2010	\$110.7	\$108.6	\$180.1	\$399.4
2011	\$76.3	\$49.9	\$8.2	\$134.4
2012	\$38.1	\$8.1	\$0.0	\$46.2
2013	\$22.9	\$7.4	\$0.0	\$30.3
2014	\$12.8	\$15.1	\$0.0	\$27.9
Totals	\$295.6	\$274.4	\$253.1	\$823.1

Source: Congressional Budget Office, TXP

What Comes Next

- Efforts to deal with the financial crisis will be ongoing – “bailout” becomes “buy-in” becomes stimulus package, etc.
 - Stimulus gets mixed reviews, but market reacts more favorably to bank plan – stress test better than anticipated
 - Other industries still to come – auto sector next big step
- Fed commits to historically low rates for foreseeable future – flight to “quality/stability” makes this more feasible, although price isn’t really the problem at this point
 - Low rates attract some homebuyers, but impact largely marginal
 - Most banks have more credit than customers
- Back to the future on lending/credit availability – much lower leverage, focus on end-use and fundamentals. Asset values have to stabilize – suspension of “mark to market” a big step making collateral values more measurable, leading to some improvement in lending/credit.
- Consumer confidence shows glimmers of improvement.
- GDP likely to fall 3-5 points this year.
 - Positive growth for 2010



Austin Economic Forecast

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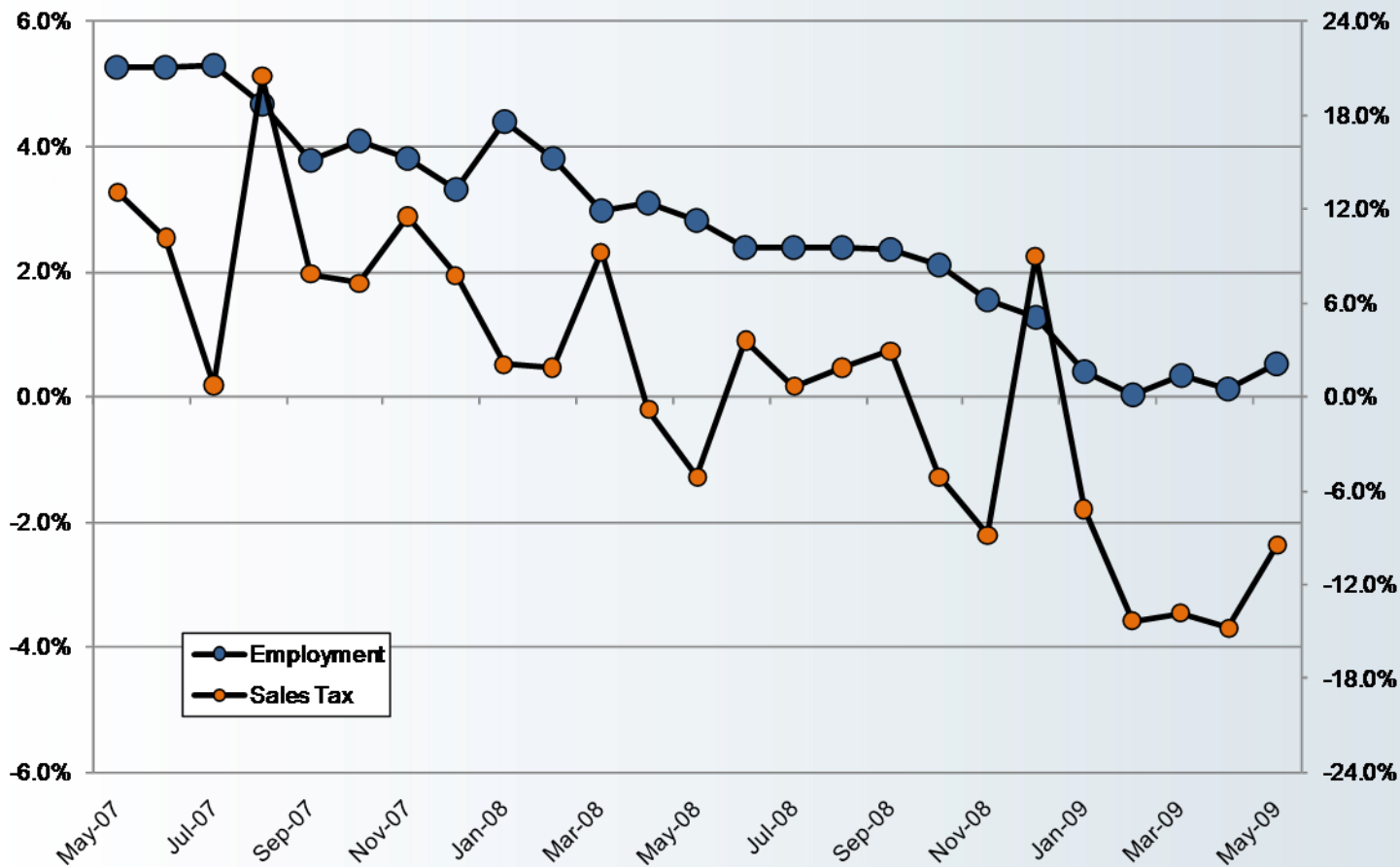
Austin MSA Economic Forecast

Near-Term

- Housing market problems, credit concerns, and national recession have a local impact, but Austin relatively well-positioned. Tourism will continue to out-perform other areas.
- Housing market softens, but does not crash – prices should drop further in the near future. Most real estate sectors over-built – next couple years to work-off excess inventory, although a lot shortage may occur sooner than expected.
- Consumer activity (and discretionary income) more negative than job market would indicate – combination of reduced income and caution.
- Preliminary estimate is for 2008 MSA job growth at 2.2%. 2009 forecasted to be -2.1% before a slight rebound in 2010 (1.2%) – a pattern comparable to 2002-03. Almost all sectors of the local economy will contract this year.
- Personal income falls sharply as well, while population is stagnant. Longer-term remains relatively positive for Austin area.

Austin MSA Indicators

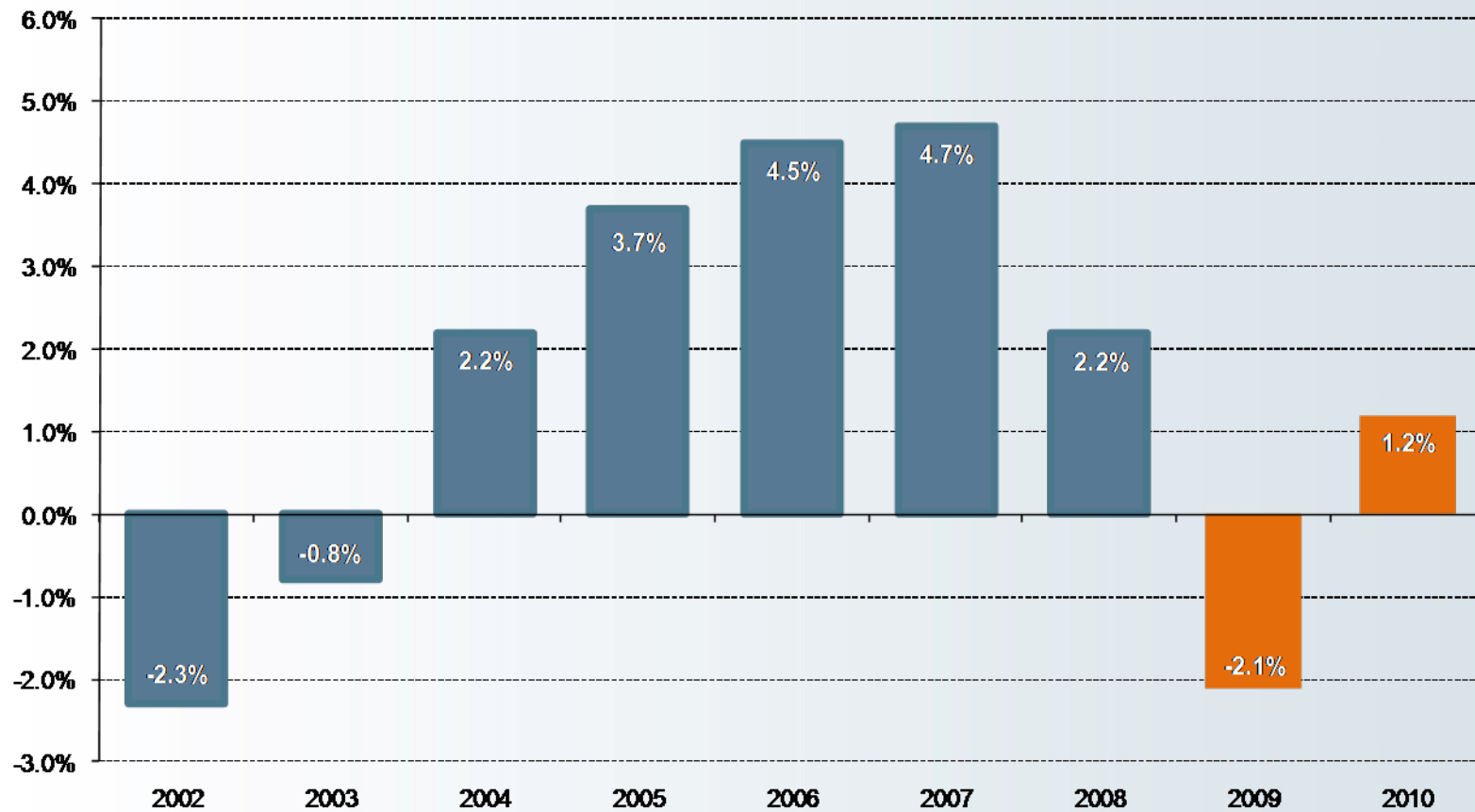
Employment Growth v. Sales Tax Revenue



Source: Bureau of Labor Statistics; TX Comptroller; TXP

Austin MSA Indicators

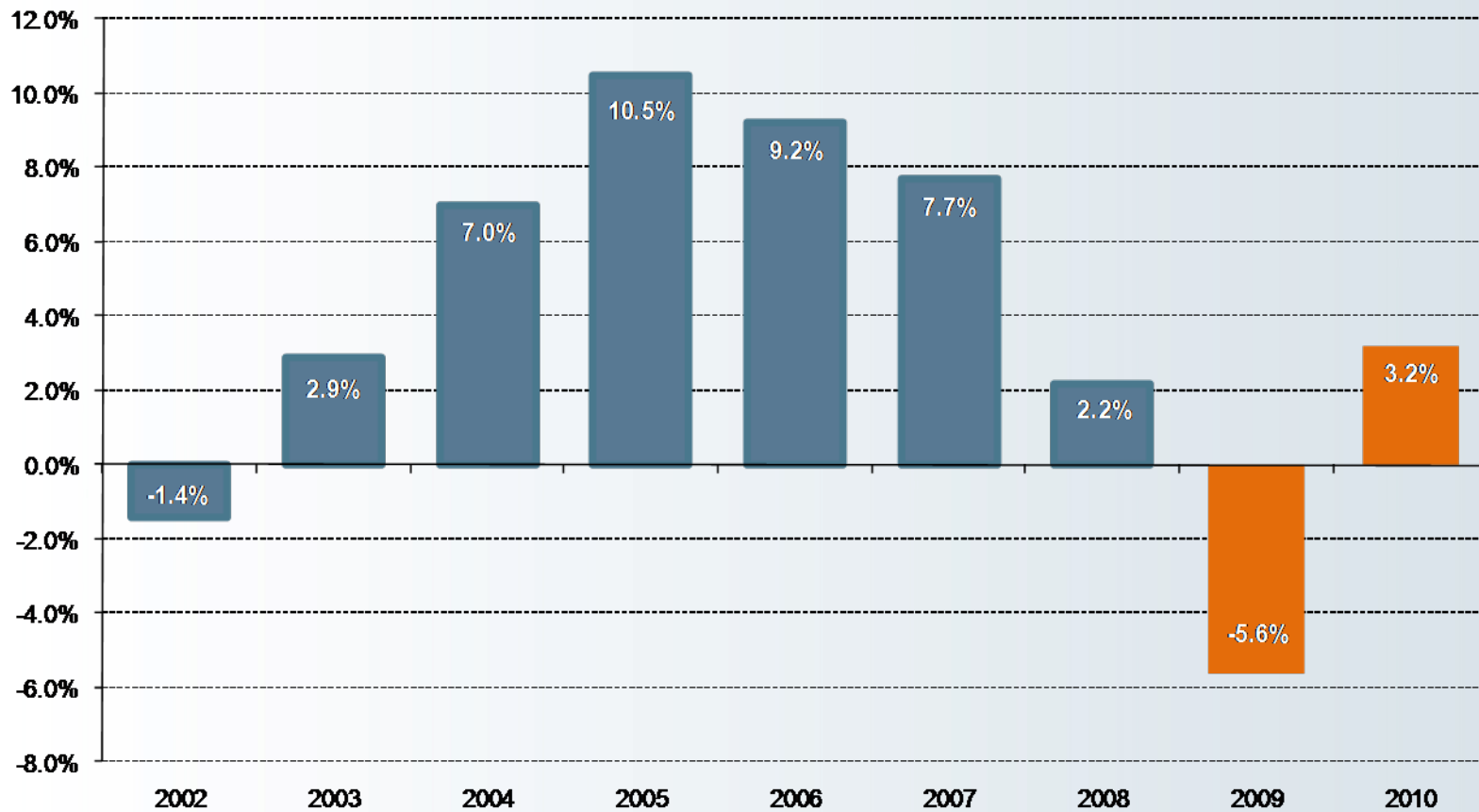
Total Employment Growth



Source: Bureau of Labor Statistics; TXP

Austin MSA Indicators

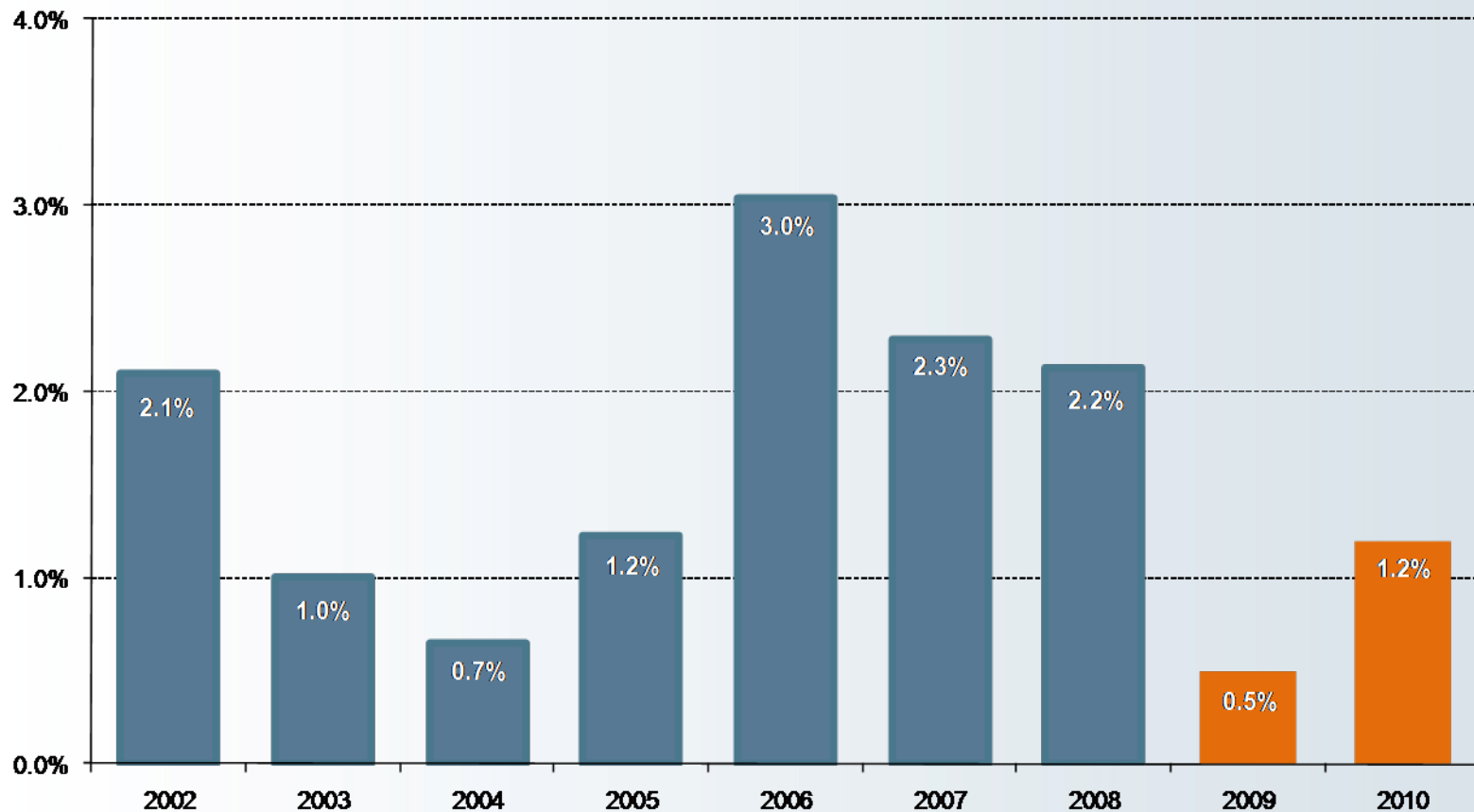
Total Personal Income Growth



Source: Bureau of Economic Analysis; TXP

Austin MSA Indicators

Total Population Growth – City of Austin



Source: Census Bureau; TXP

Conclusions

- Economics is part science and part art/psychology – science says continued sluggishness, but art says things are improving.
 - Measures that are turning around have to do with attitude – consumer confidence, stock market, etc.
- Resetting of real estate values is crucial to resumption of flow of capital – better understanding of collateral and working off excess inventory will set stage for future investment.
- Inflation remains non-existent overall, but energy will be higher go-forward – impact on consumer spending. Conventional wisdom is that debt has to yield inflation over time – not for the foreseeable future.
- Stimulus impacts more strongly felt next year, at least in non-psychological terms.
- Confidence and capacity to spend are slowly recovering – expect about another year before balance has been restored.