



BUSINESS

Recession insulation seen for Texas

Experts: Stable housing sector, job market would help weather storm

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Falling home prices, tightening credit, fears of recession ... the news just keeps getting worse.

At least on the national front. In Texas, a number of positive trends appear to insulate the Lone Star State from the worst of whatever is to come.

"Recent financial turmoil has increased uncertainty in the economic outlook and created more headwinds for the economy than expected," says Fiona Sigalla, an economist with the Federal Reserve Bank of Dallas, in a recent report on the regional economy. "But," the report continues, "Texas is in good shape to weather the storm."

Texans would be unlikely to escape all the fallout if there were a national recession. "We'll do better than the rest of the country. But if there's a national recession, we'll feel it here," said Bernard Weinstein, director of the Center for Economic Development and Research at the University of North Texas.

Texas companies, after all, depend on people in other states to buy their products. Many Dallas residents work for out-of-state firms and could be laid off in any cutbacks. And Texans watching all the bad news and seeing consumer confidence plummet would not be immune from the national malaise, affecting their own spending habits and, hence, local stores.

Nationally, the consumer confidence index fell to 99.8 in September, its lowest level in nearly two years, the Conference Board, a business-oriented research group, said this week. The index stood at 105.6 in August.

But a number of factors are working in this state's favor.

When home prices soared in recent years, Texas missed out on the party. Now, as the music stops in the nation's giddiest real estate markets, Texas has so far escaped the worst of the hangover.

Sales of previously owned homes plunged nearly 13 percent across the country in August from the year before, dropping to a five-year low, the National Association of Realtors said this week. North Texas sales declined as well, but by 10 percent, according to the North Texas Real Estate Information System.

Also, between April and June, U.S. housing prices registered their smallest increase since 1994, according to an index tracked by the Office of Federal Housing Enterprise Oversight.

Sales of new single-family homes in the U.S. fell 8.3 percent in August from their level in July – to an annual pace of 795,000 in August, the U.S. Commerce Department said Thursday. That's the lowest level in more than seven years. The median price shrank 7.5 percent.

But in Texas, home prices actually jumped 7 percent between June 2007 and the same month a year ago, according to the Office of Federal Housing Enterprise Oversight.

Dallas was one of only five major American cities in which home prices rose in July from the same month in 2006, according to Standard & Poor's S&P/Case-Shiller home price index, which tracks prices in 20 cities.

"There is some weakness in the Texas housing market, and the weakest spot is in the new homes for less than \$200,000 or so," said Mark Dotzour, chief economist at the Real Estate Center at Texas A&M University. "But my overall analysis of the state housing market is that it's still healthy."

Then there are jobs.

The state's job market is stronger than those in other parts of the country such as California, Florida and the Northeast.

While the nation lost 4,000 jobs last month, Texas gained 10,400. For the year, Texas has added 142,400 jobs – 20 percent of the national total.

And, as the nation's largest exporter, Texas is well-positioned to cash in on growing world markets even if Americans begin spending less.

Texas exported \$150.9 billion in 2006, an outsized chunk of the national total of just over a trillion dollars.

The state's exports totaled \$94.6 billion between this January and July, up nearly 12 percent over the same period a year ago, according to U.S. Census Bureau data processed by WisersTrade, a research group in Holyoke, Mass.

Exports to Mexico accounted for about a third of that. Trade with Mexico and Canada, the state's largest foreign markets, has been flat this year. But exports to every other top 10 market – including China, South Korea, Taiwan, the Netherlands and Brazil – have risen by double digits compared with their level last year.

The U.S. dollar's continued weakening – a result, in part, of the credit crises and the recent Fed decision to lower interest rates– will likely help Texas exports by making American goods a better bargain.

Economists – a notoriously contentious bunch – differ in their predictions for a recession.

Mr. Weinstein, the UNT economist, has begun throwing around the dreaded "R" word for recession, commonly defined as two consecutive three-month periods in which total economic activity falls. "I think there's at least a 75 percent chance of a recession," he said.

Other economists are less-pessimistic.

"The probability is higher than it was, but I still don't think it's going to happen," says Waco economist Ray Perryman, who predicts the U.S. economy will grow by as much as 3 percent this year, followed by around 2.5 percent next year.

Alan Greenspan, the former Federal Reserve Board chairman, said earlier this month that the U.S. economy was heading toward a slowdown. But he added that it is too soon to say whether it will fall into a recession.

Former Treasury Secretary Lawrence Summers said the threat of a recession is now at its highest level since the last serious slowdown in 2001, Bloomberg News reported Thursday. The chance "is not quite 50 percent, but somewhere in that neighborhood," he said.

On Sept. 18, the Fed responded to these darkening skies by cutting benchmark interest rates by half a

percentage point. Private-sector economists say there's room for more cuts between now and next spring.

That would help shore up the sinking national housing market.

Housing is just one industry, to be sure. But its decline is particularly worrisome because it has played an outsized role in fueling consumer spending – which accounts for some 70 percent of the U.S. economy.

Already, homebuilders are reporting widening losses and retailers are warning of slower sales.

The housing downturn "is a profoundly important development that's likely to make consumers more cautious, and that's likely to make the economy quite sluggish," said Stuart Schweitzer, global markets strategist at J.P. Morgan Private Bank in New York.

It seems like only yesterday that rising home prices and low interest rates combined to boost the feeling of well-being among American consumers.

Not only did people feel richer, but many of them actually had more money to throw around as they took cash out of their homes by refinancing or signing up for home equity loans.

"We have \$40,000 in credit card debt, but our home just appreciated by \$60,000. So I just go to the mortgage market and get money," said Barton Smith, an economics professor at the University of Houston, to explain the thinking during that oh-so-recent era. "You can do that as long as home prices are rising, but you can't do that anymore. Now you have to get spending in line with your income."

At the same time, consumers are dealing with other pressures. Gasoline prices, though down from their summer peak, remain relatively high.

Despite Texas' relative strength, Gail Cunningham, for one, says she already sees signs of trouble.

Her organization, Consumer Credit Counseling Service of Greater Dallas, advises people who are having trouble paying their bills. It received nearly 20 percent more requests for help in August than in February.

"January, February and March are typically our busiest season, because the holiday bills are hitting," Ms. Cunningham said. "If we're trending up from there, then the consumer's got trouble."

The state and the nation as a whole may yet avoid a recession, but the housing downturn and declining consumer confidence at the least spell sluggish growth for the foreseeable future. Many Americans in this consumer-driven economy will have to rein in their free-spending ways.

As the party winds down, that's a sobering thought.