

A Perspective on Income and Job Growth in San Antonio

**Breakfast with the FED
September 27, 2007**

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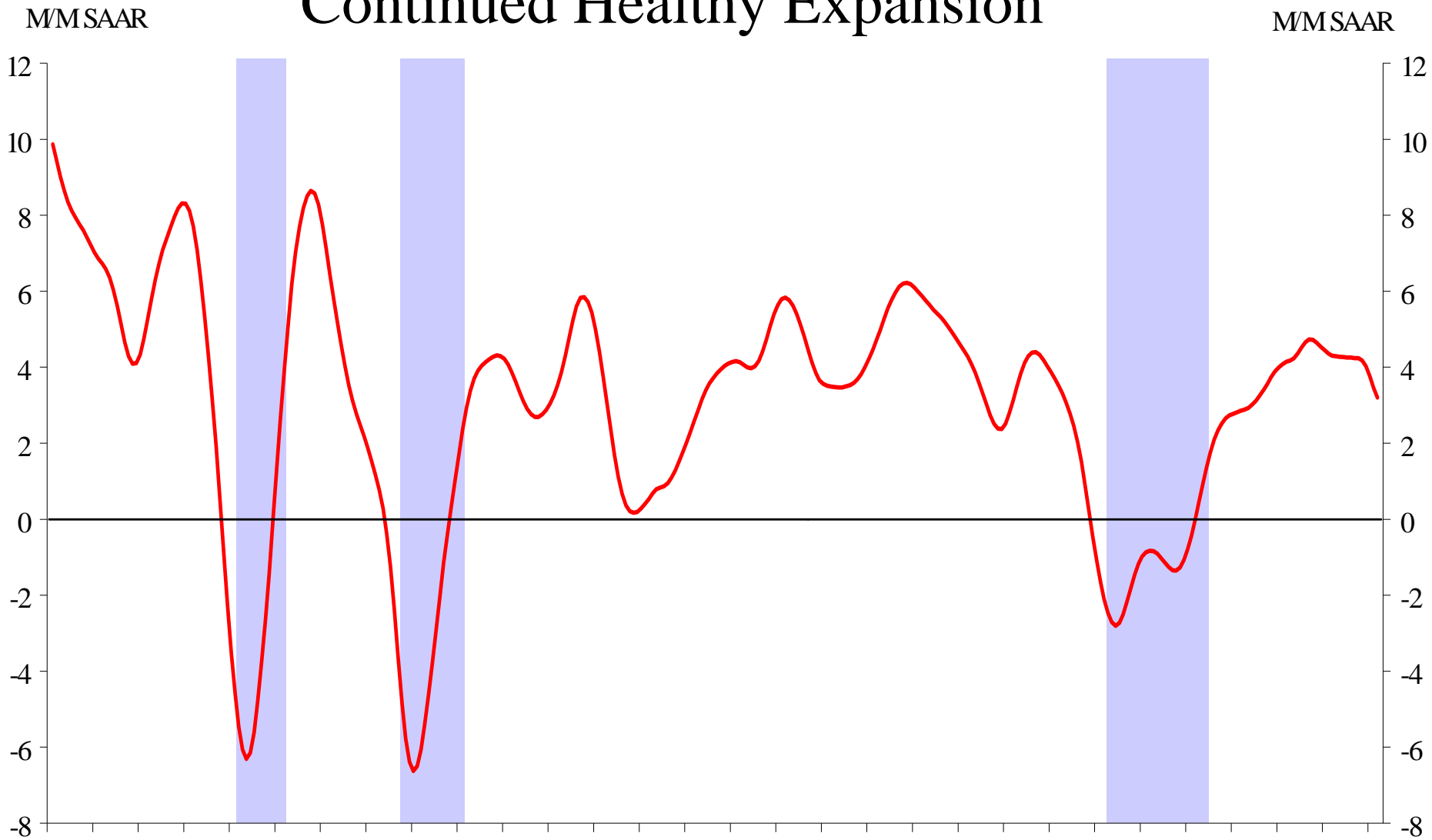
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National Economy is Slowing

- Real GDP grew 3.1% in 2005 and 2.9% in 2006, .7% in the first quarter and 4.0% for the second quarter (2.3 % for first half)
- Pace of growth will likely remain moderate
 - Recent financial turmoil unlikely to spread unless consumer spending slows sharply or credit crunch spreads
 - Home building declining
 - High-tech strong
- Overall looks like a downshift from about 3.5% to 2.0 to 2.5% growth
- Mixed signals on inflation – 6-month inflation above comfort zone (2%) but some cooling in recent months

Texas

Texas Business Cycle Index Shows Continued Healthy Expansion

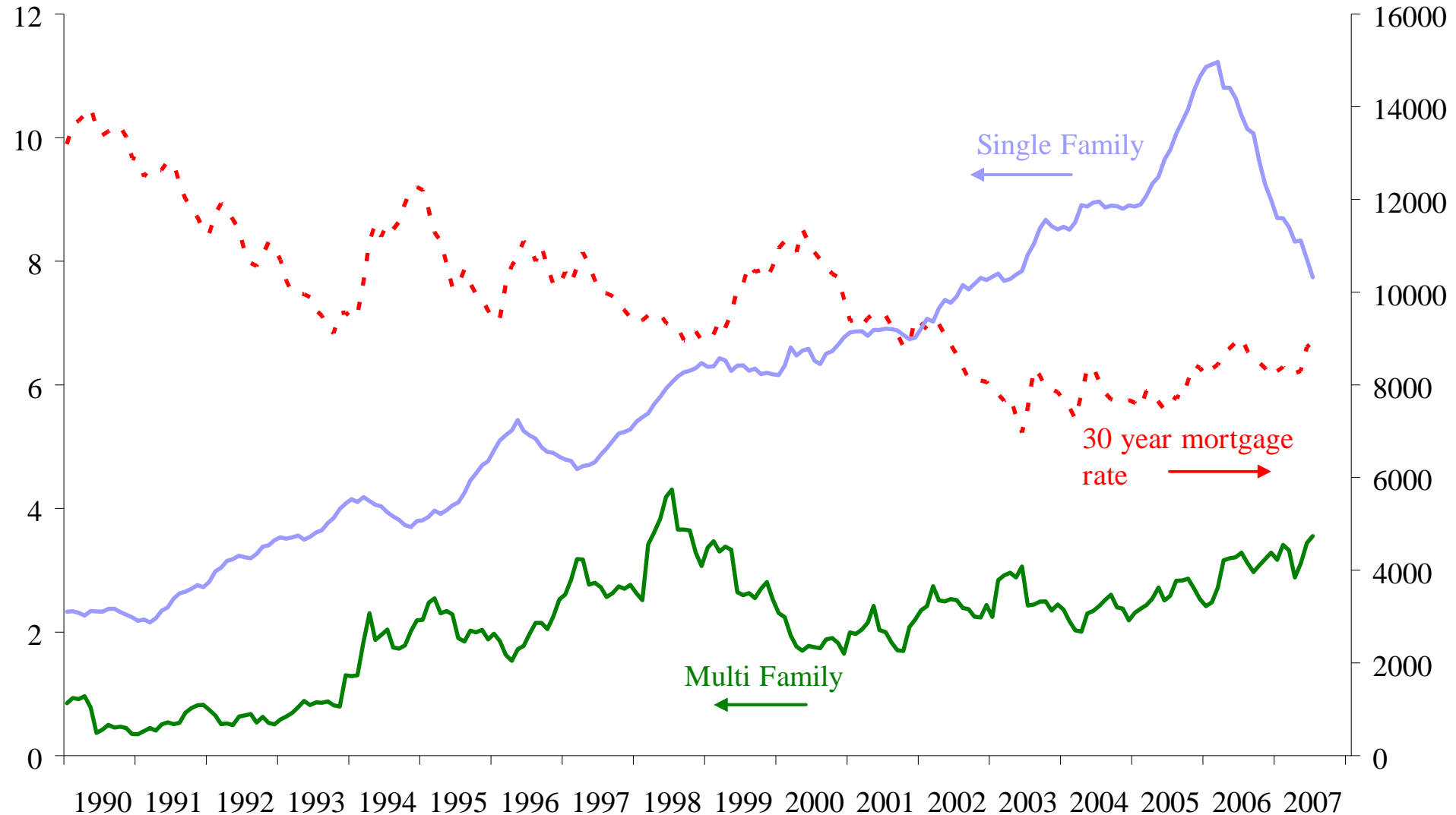


NOTE: Shaded areas represent Texas recession as defined by Yucel and Thompson. The line at April 2001 designates the start of a recession.

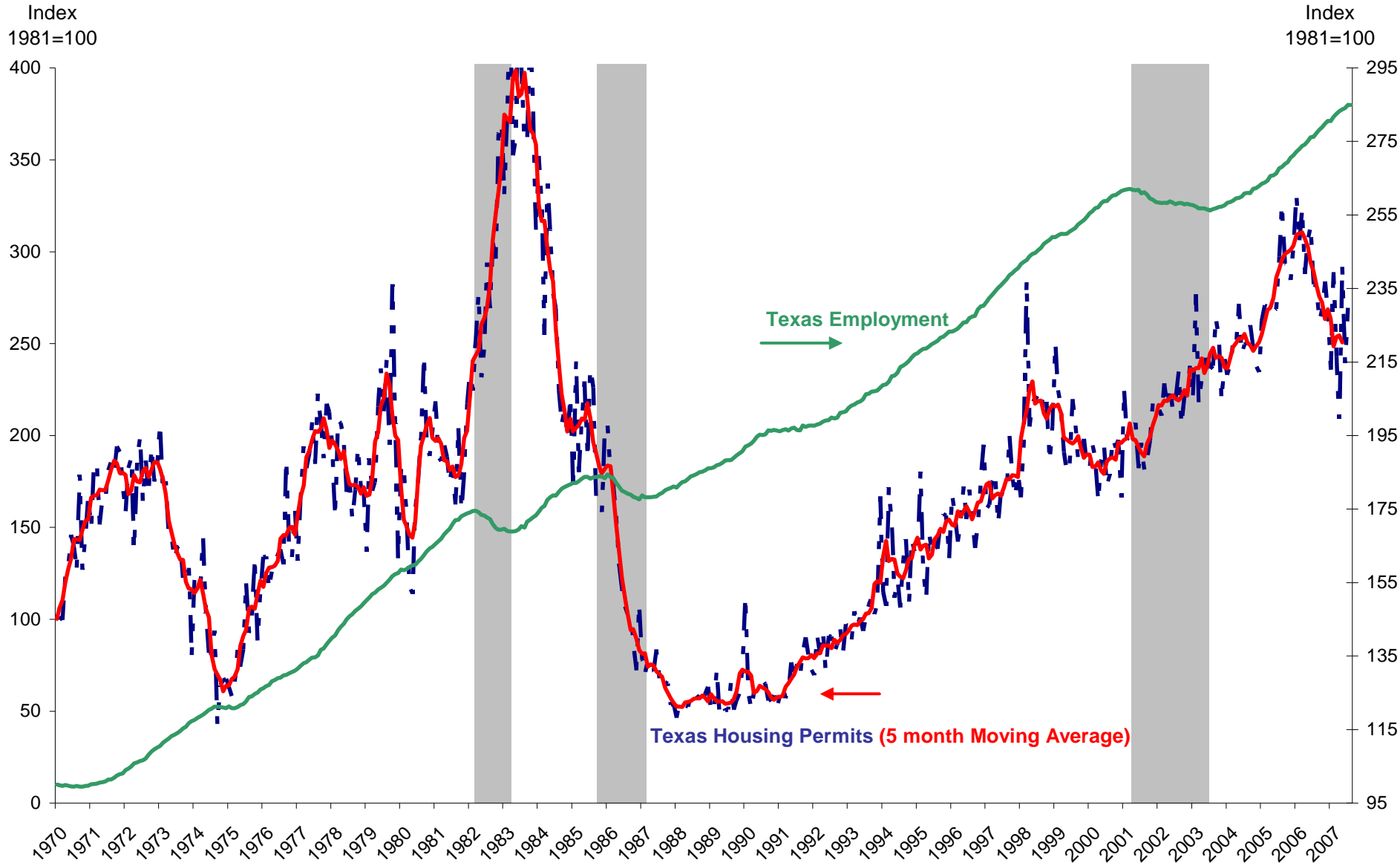
Single Family Building Starting to Decline

Number of permits
SA, 5MMA

Mortgage Rate



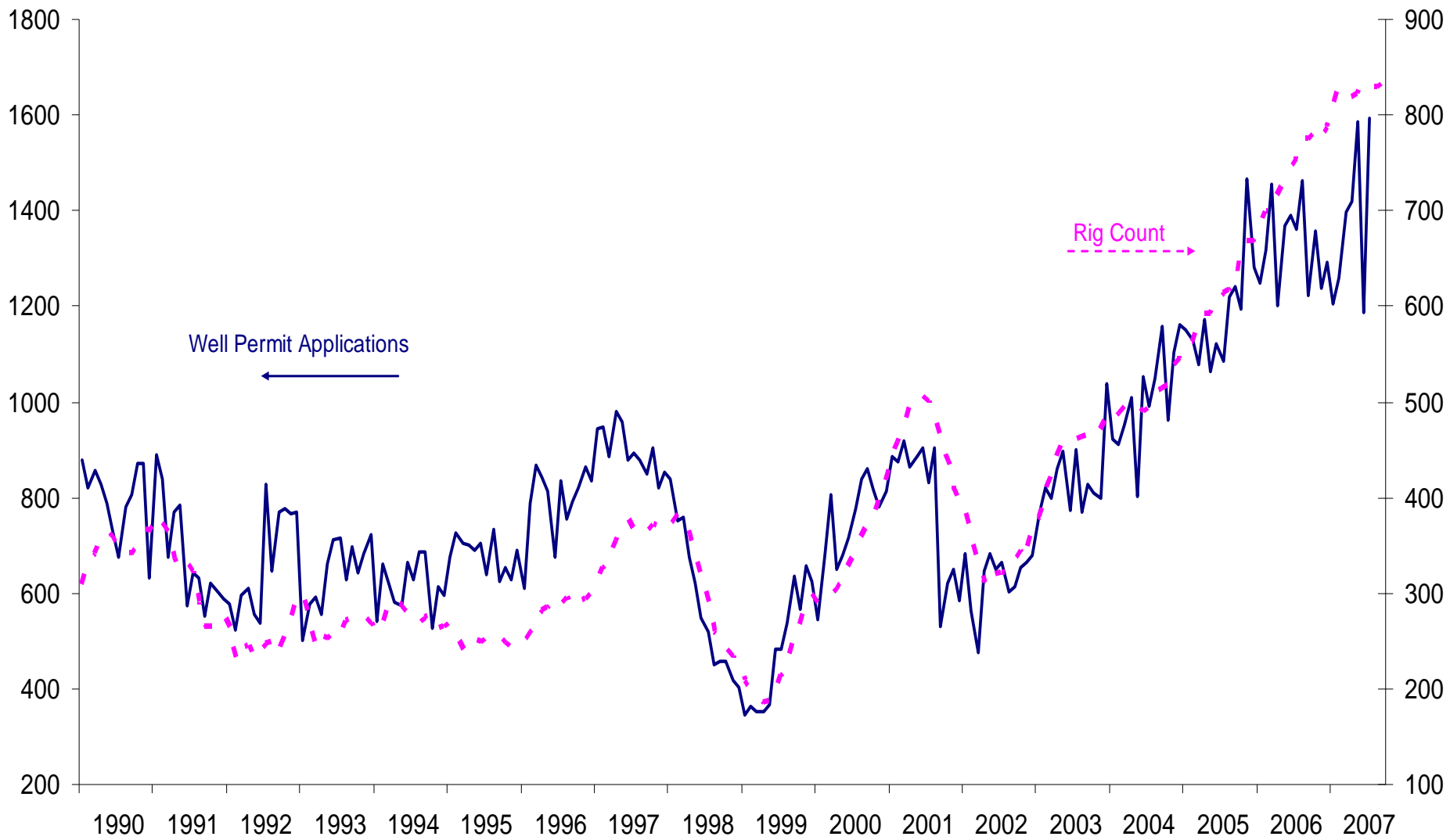
Past Evidence Suggests that a Slump in Home Building Can Occur Without Recession



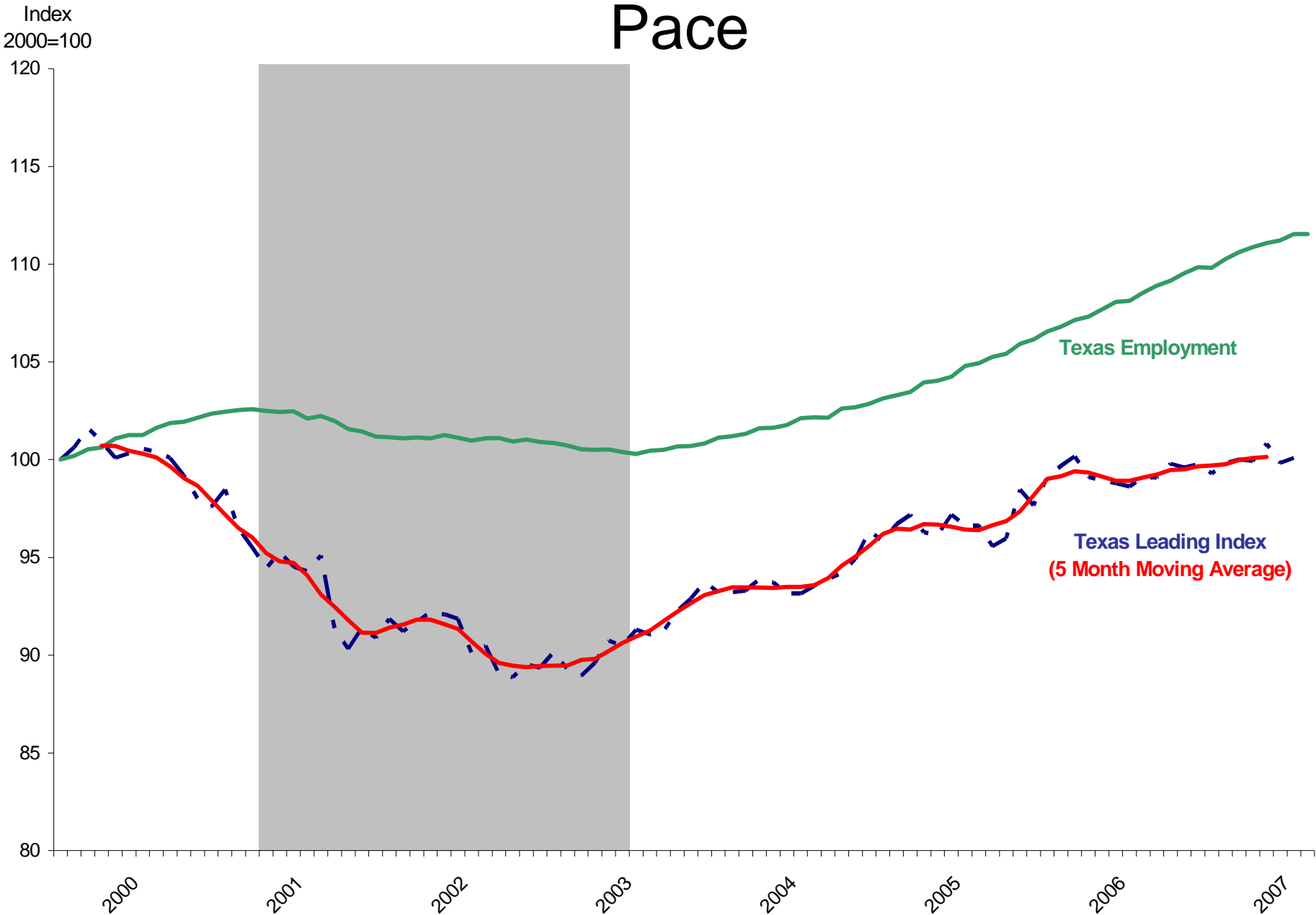
Energy price Impacts

- Overall, energy price shocks close to neutral on Texas job growth but positive on output growth - not like the early 1980s and J.R. Ewing
- Royalty payments, severance taxes increasing strongly due to new drilling for natural gas
- Now even more likely that jobs will grow faster than nation

Well Permits and Rig Count

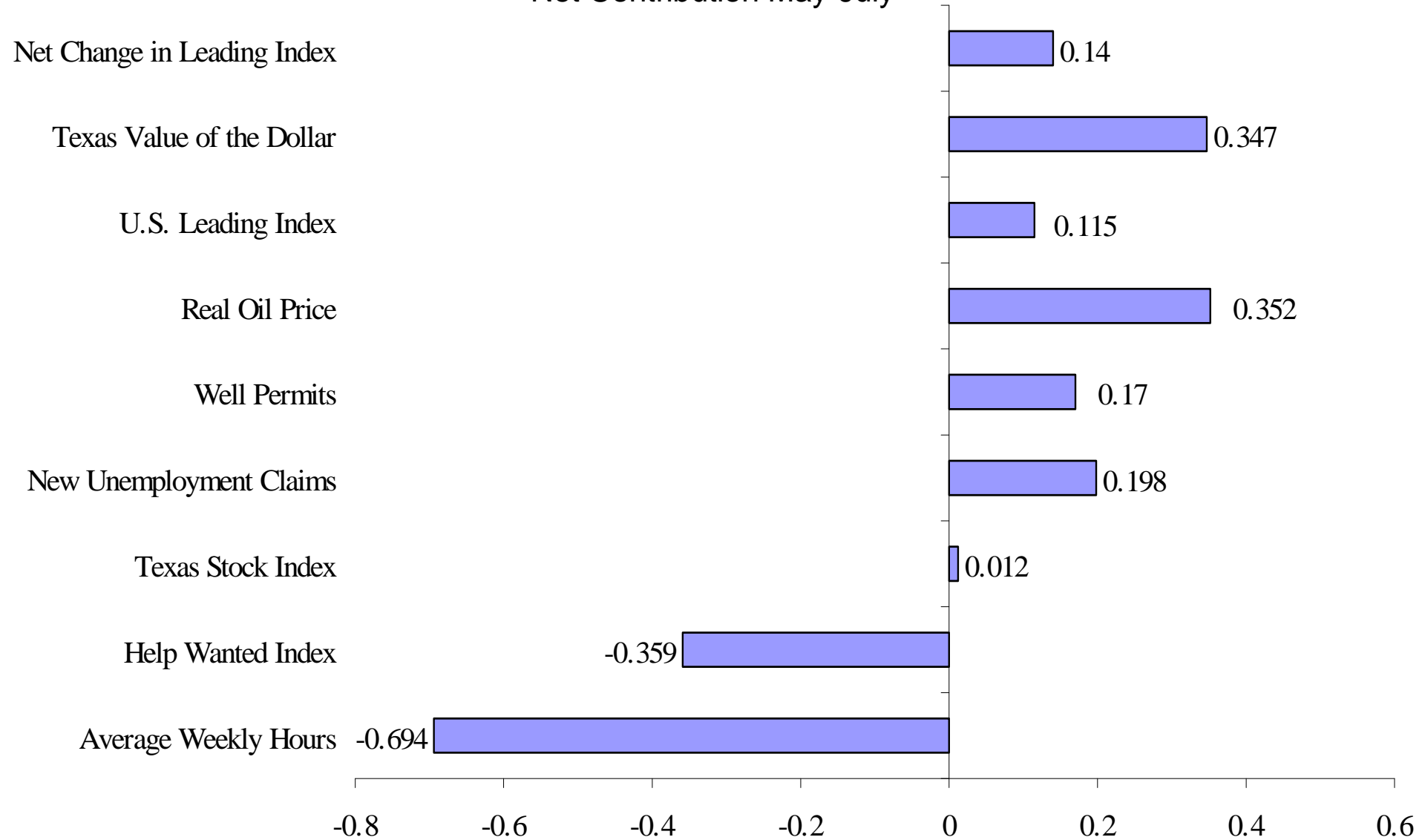


Leading Index Increasing at a Moderate Pace



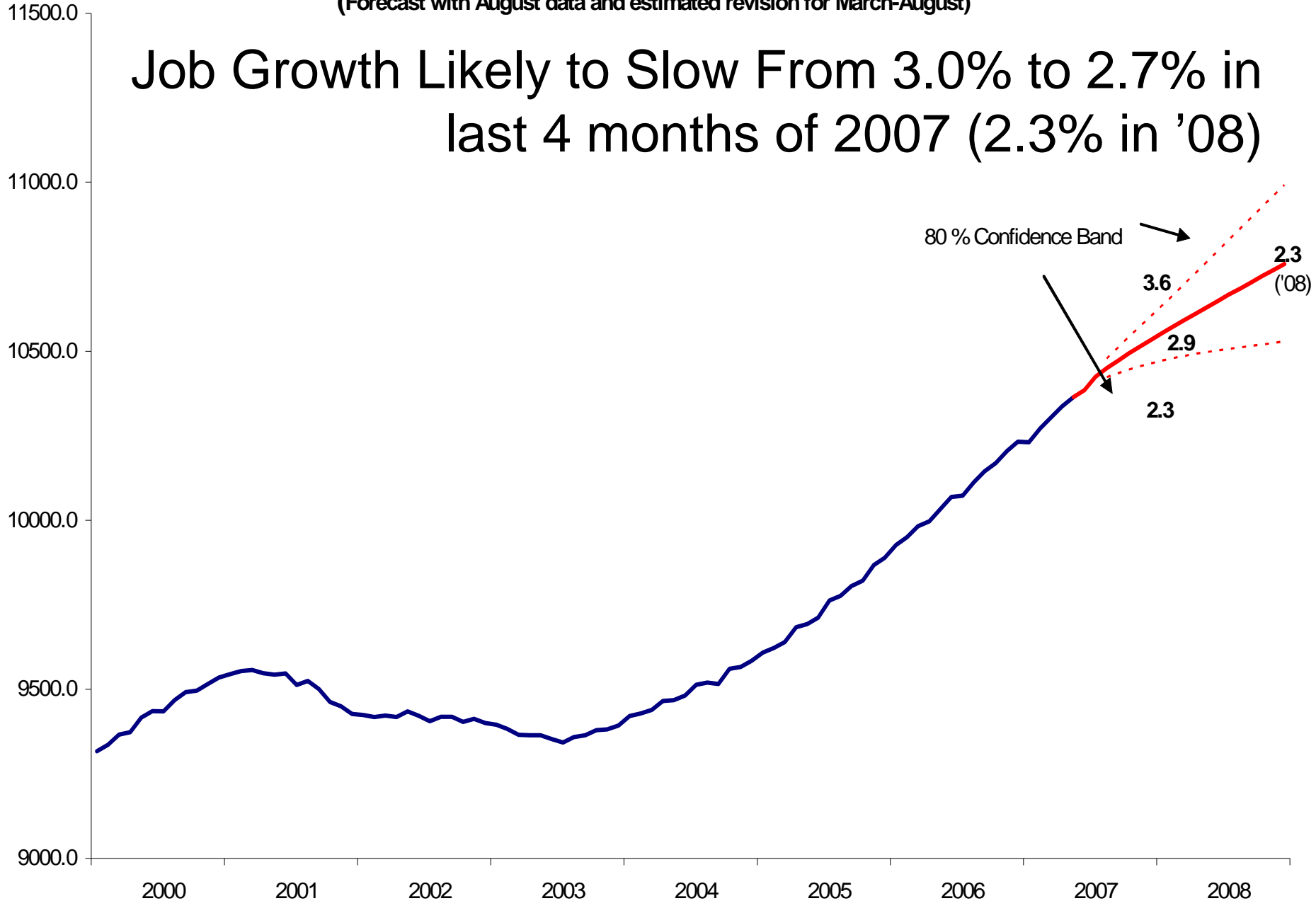
Most Leading Index Components Increasing Over Past 3 Months

Net Contribution May-July



(Forecast with August data and estimated revision for March-August)

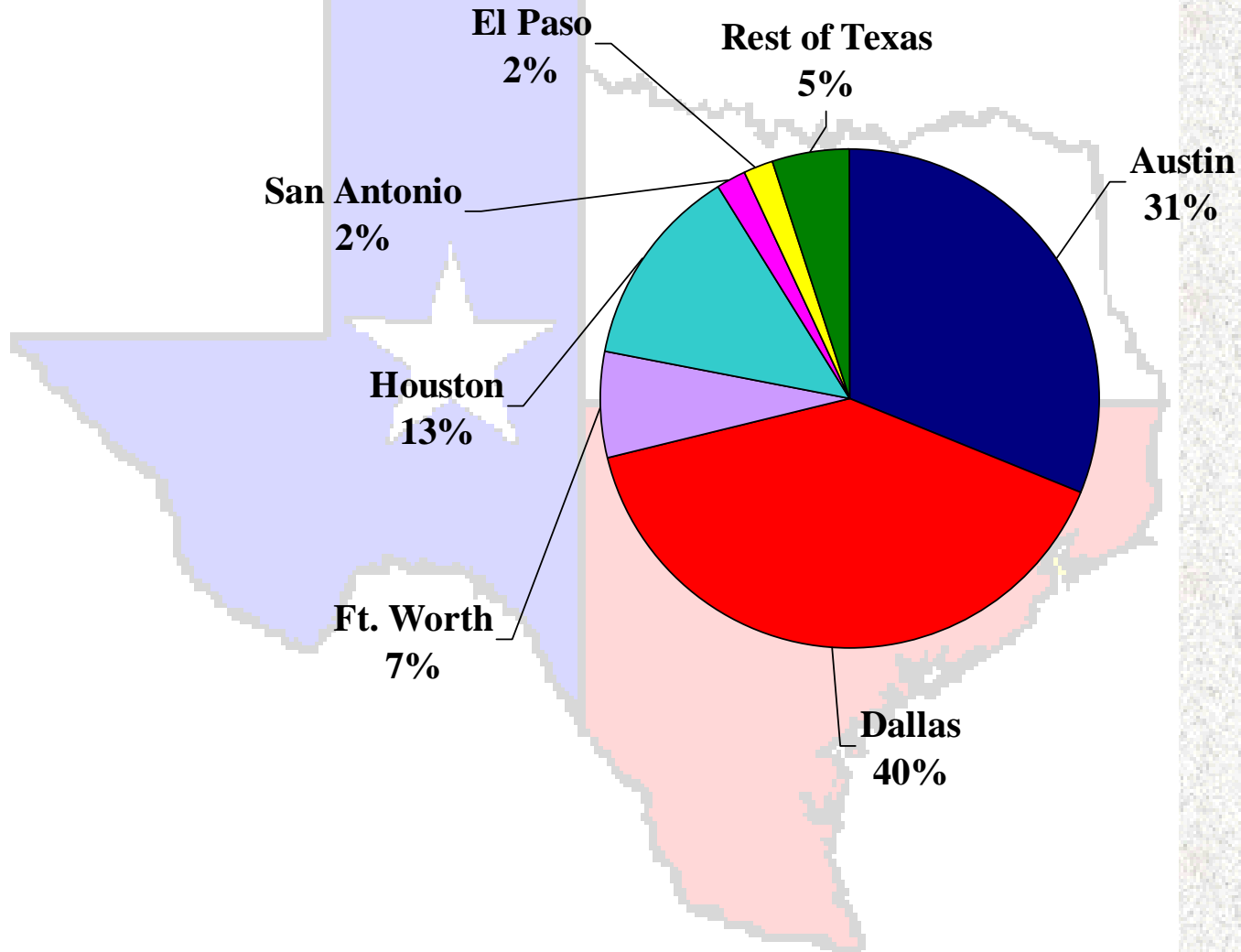
Job Growth Likely to Slow From 3.0% to 2.7% in last 4 months of 2007 (2.3% in '08)



Recent Economic Growth and Outlook for San Antonio

The Distribution of Texas High-Tech Jobs

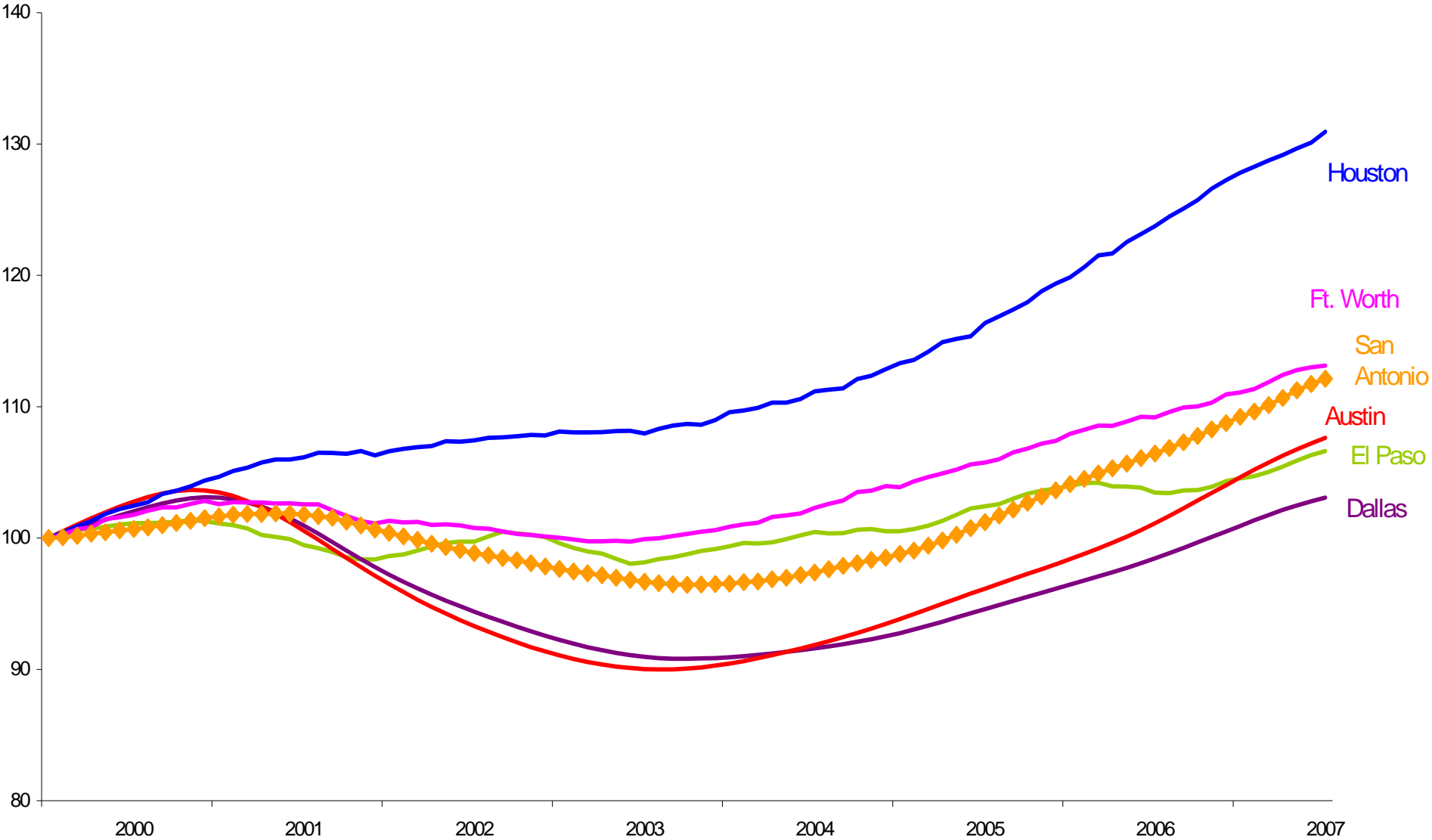
(City industry employment as a percent of total Texas industry employment)



No High-Tech Boom and Bust in San Antonio

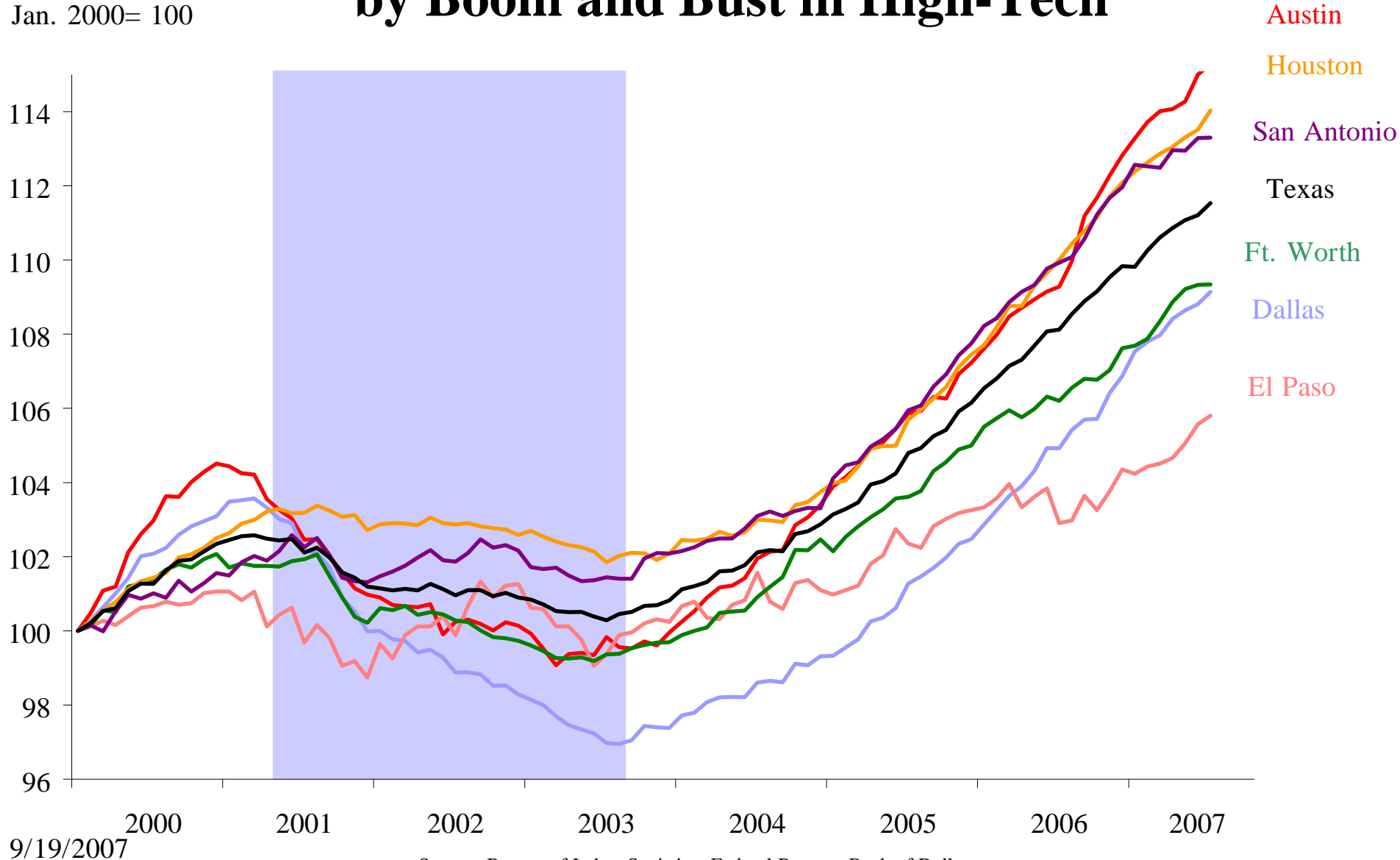
(Business Cycle Indexes)

Index
Jan 2000=100



San Antonio Jobs not Impacted Much by Boom and Bust in High-Tech

Index,
Jan. 2000= 100



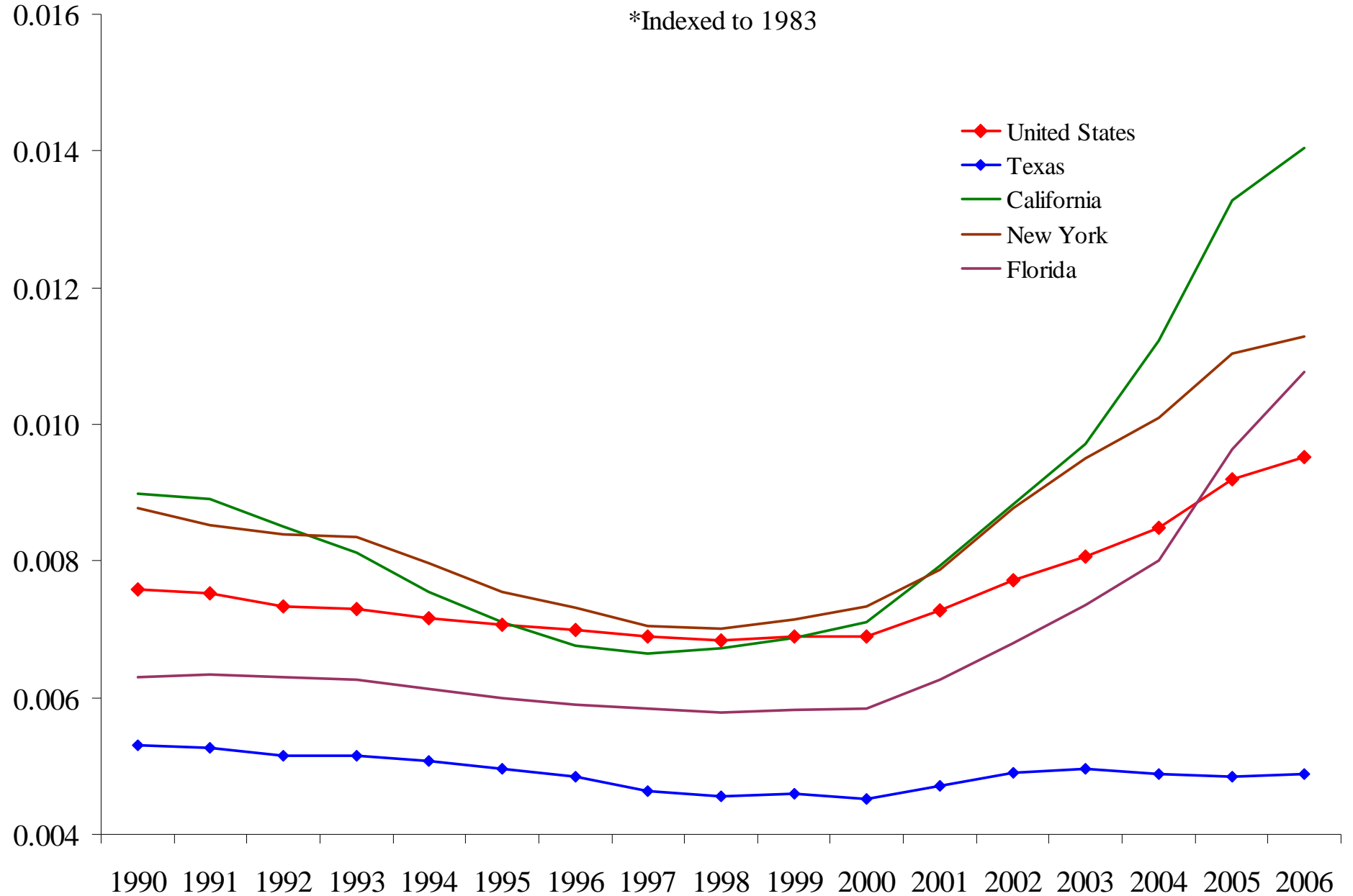
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas

Texas Housing Market Relatively Affordable

(House Price Index*/Per Capita Personal Income)

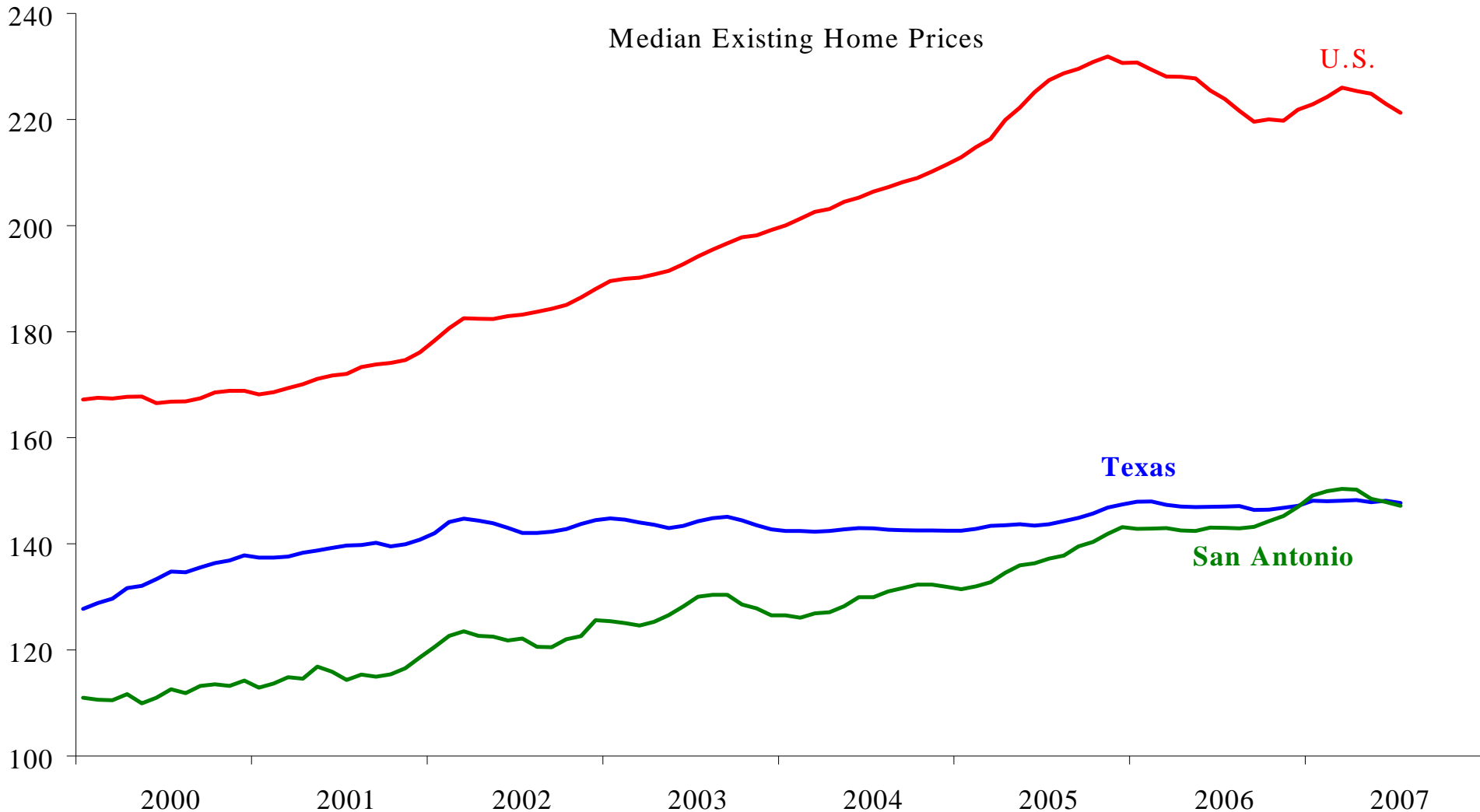
*Indexed to 1983

Affordability
Ratio



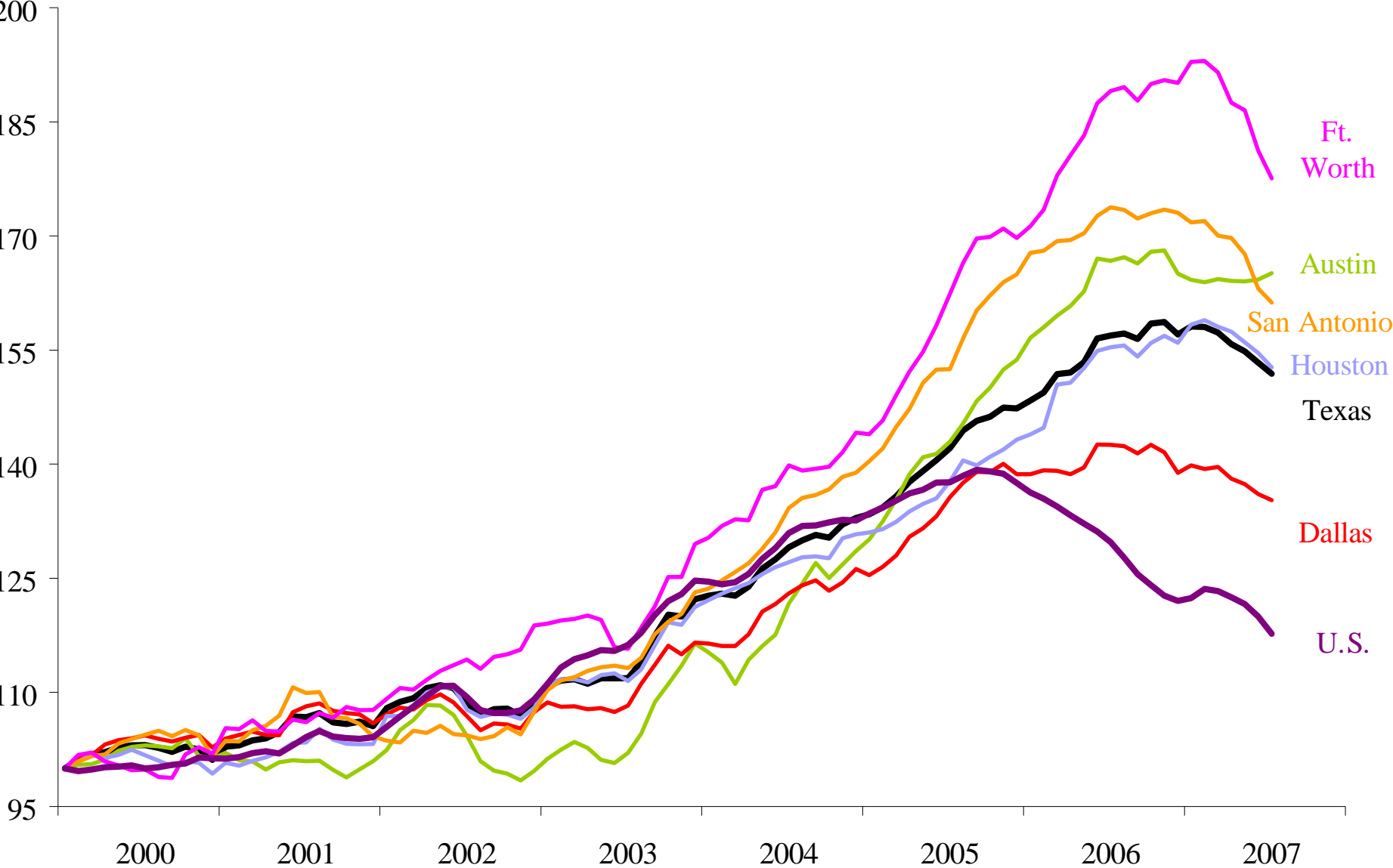
Median Home Prices in San Antonio Rising Faster than TX

Real \$, 1000s, 4MMA

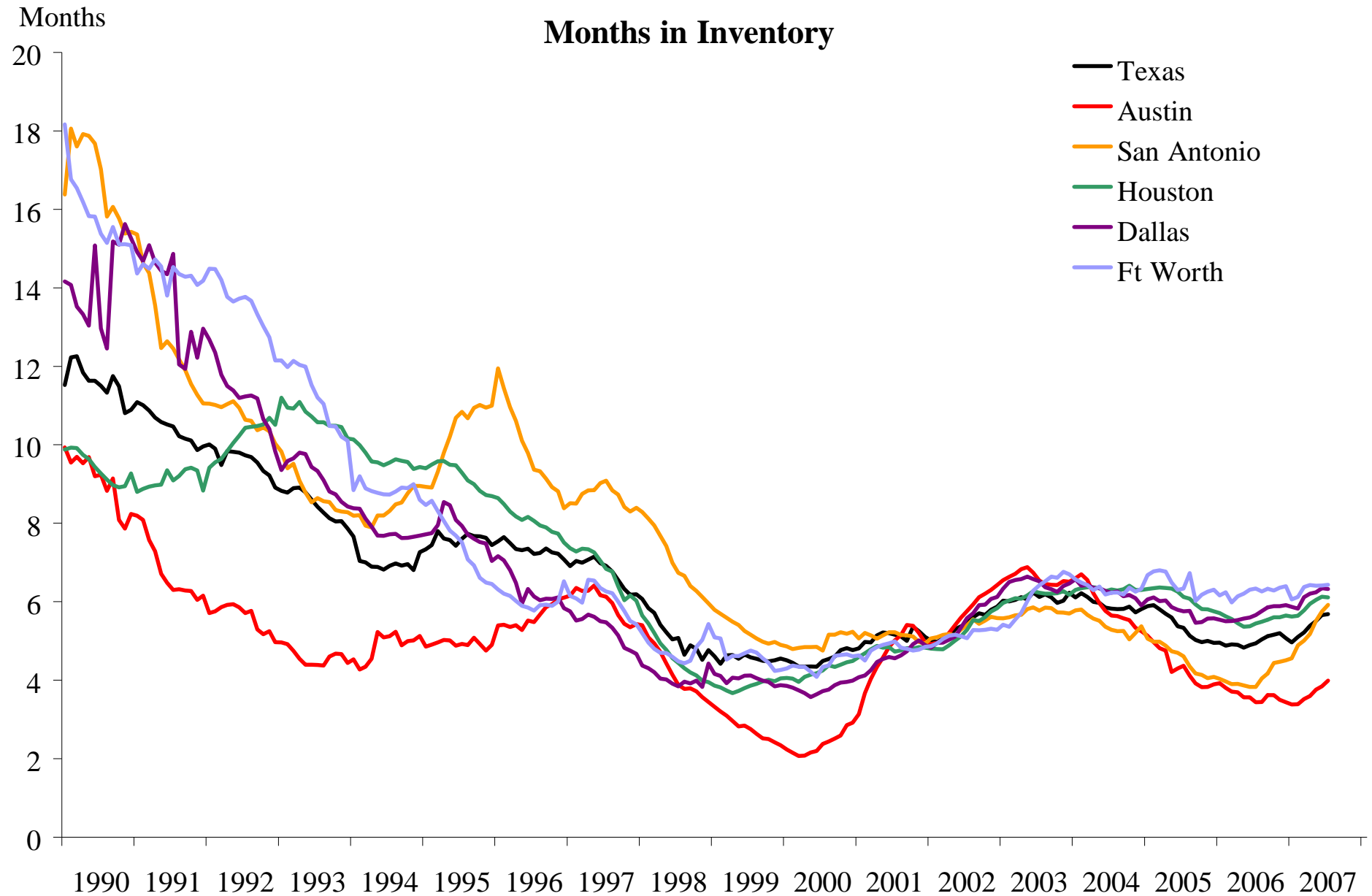


Existing Home Sales Weaken

Index, Jan'00= 100,
6MMA

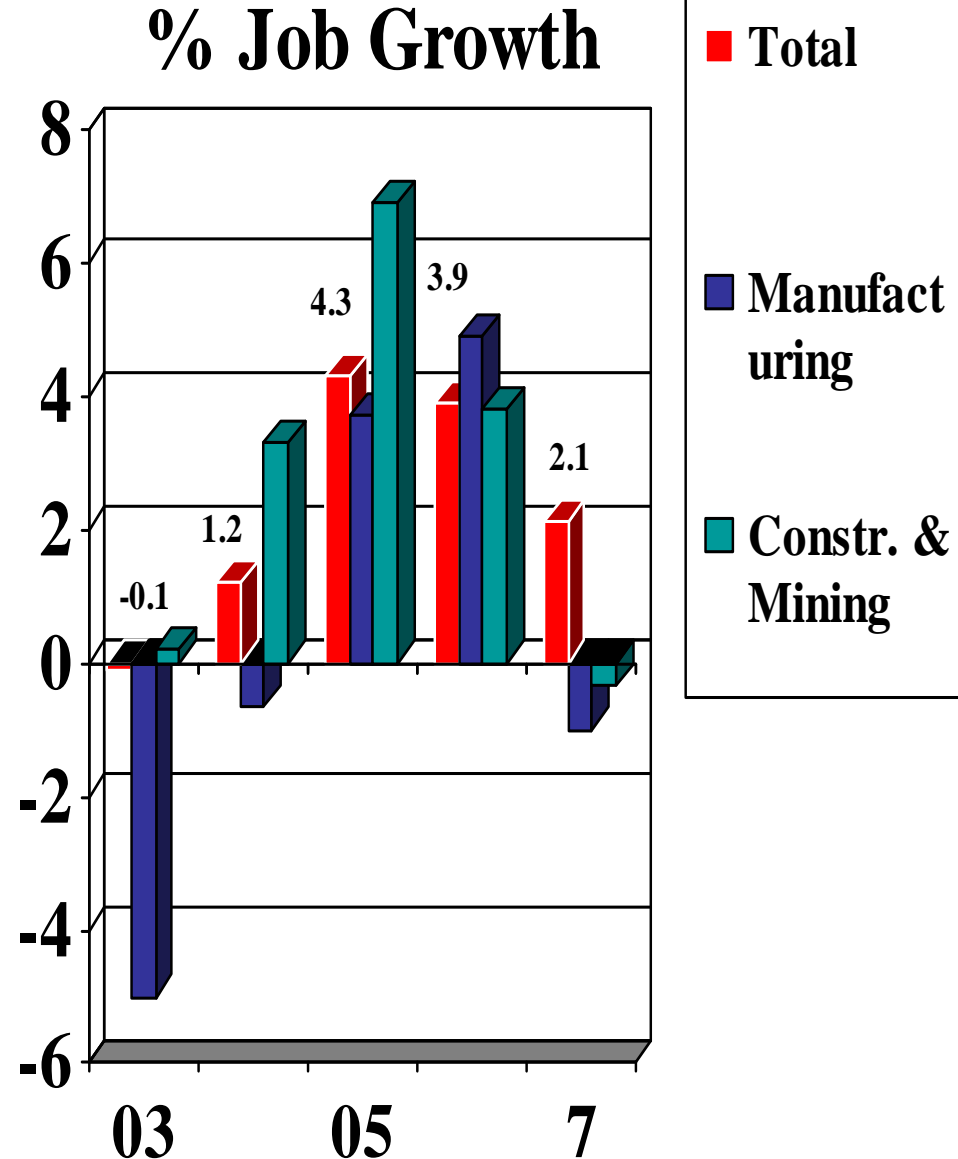


Home Inventories Rising but Remain Low



San Antonio Slowing in 2007 After Strong 2005 and 2006

- Toyota propelled manufacturing jobs in 2005 and 2006 (3.7 and 4.9%)
- San Antonio still gaining research and medical jobs from BRAC
- Construction jobs now declining after big gains in '05 and '06
- SA has smaller high-tech share – but growing, particularly IT security
- Health care, and financial services strong
- Job Growth likely to slow in 2007 to 2.5% from 3.9% in '06



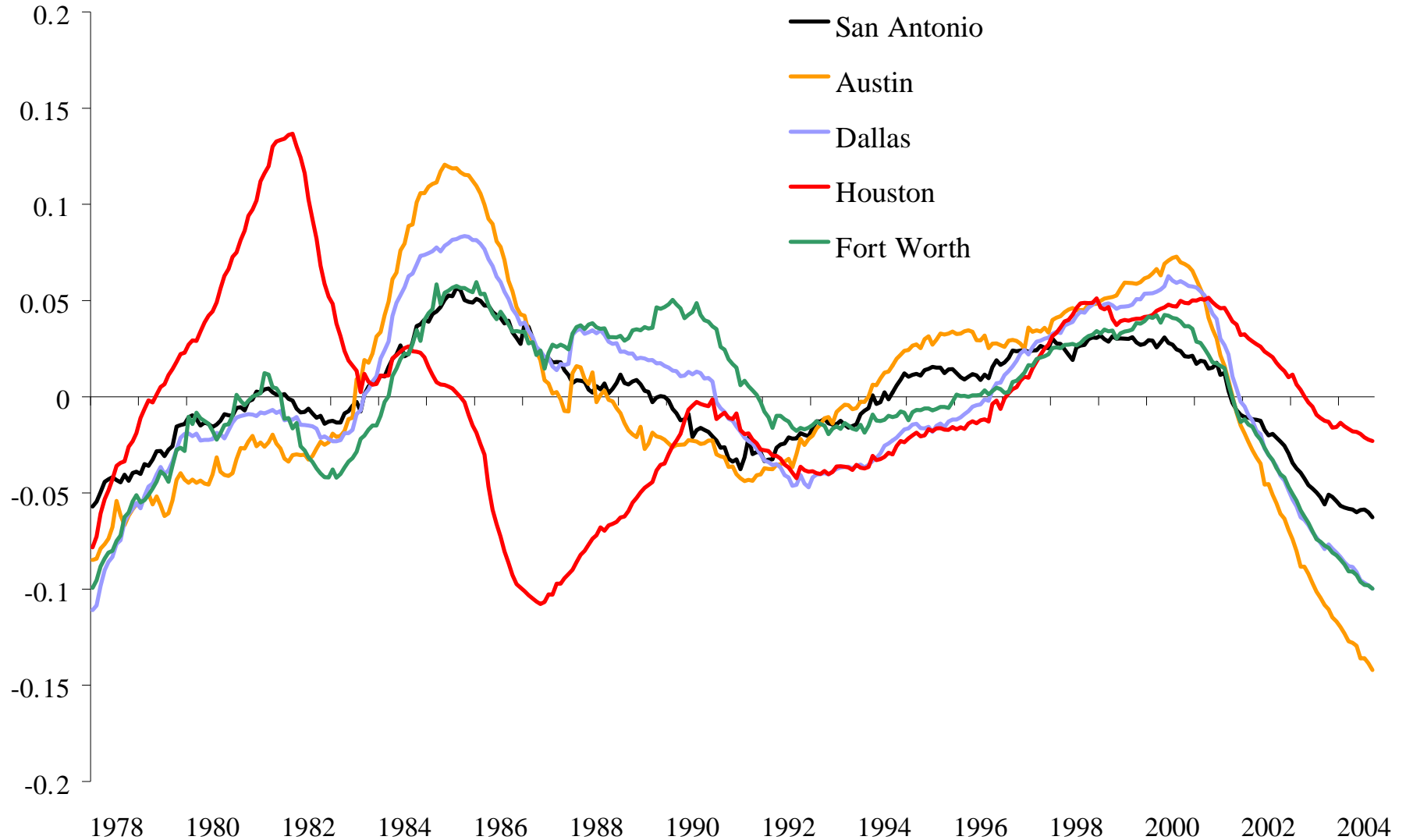
A Broader Look at the San Antonio Economy

San Antonio

- 7th largest *city* in U.S.
- The most representative regional unit is the Metropolitan Statistical Area (MSA) – this is the group of counties where people work and shop and travel regularly
- The San Antonio MSA is the 29th largest
- Historically has job growth slightly faster than state average and is considered a stable economy

San Antonio Employment Stable, Houston, Austin Volatile

Percent Deviation from Trend

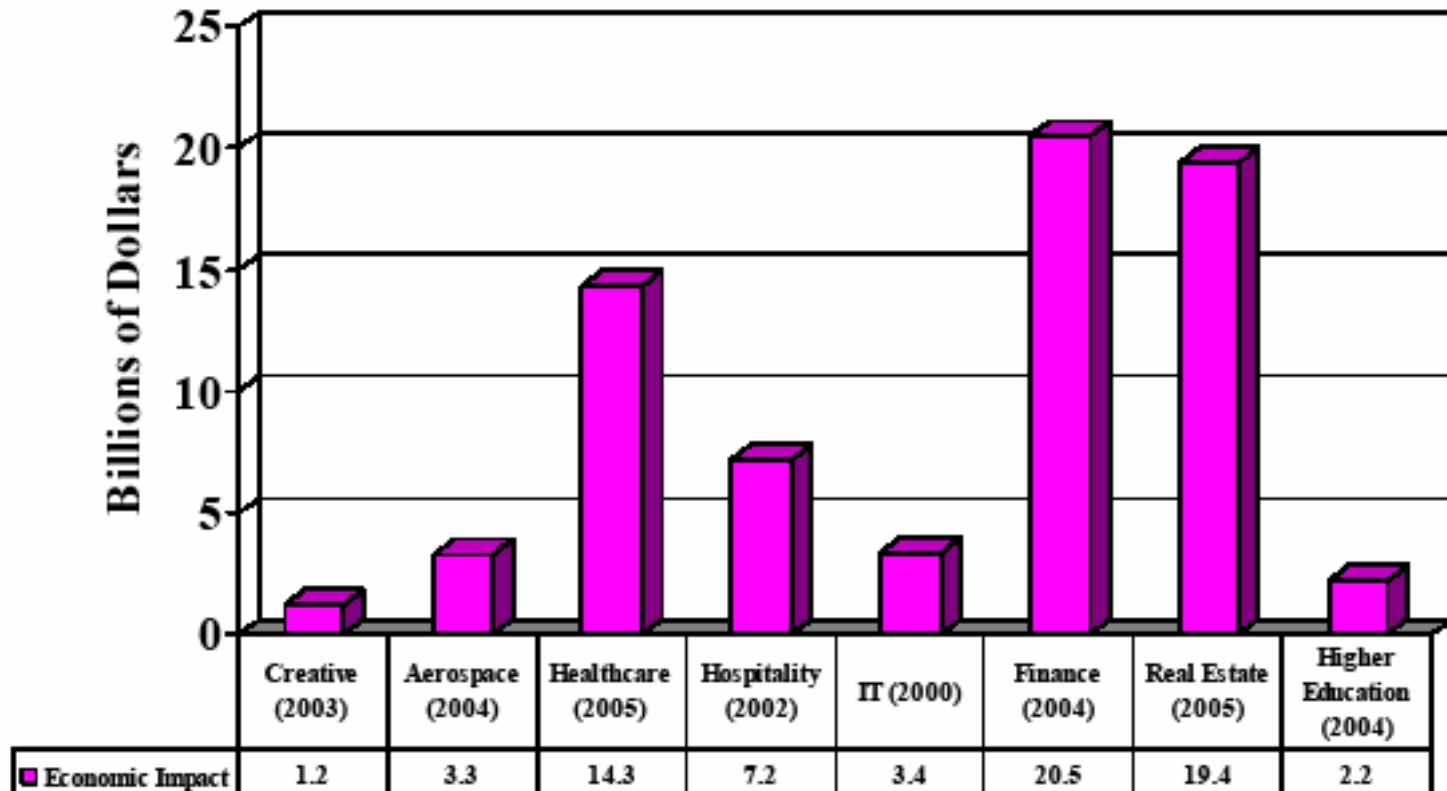


Shifting Job Shares Suggest Growing Economic Volatility in San Antonio

	Percent of Total Employment		
	Jan. 1990	Sep. 2004	Beta
Natural Resources & Mining	0.42	0.32	-1.51
Construction	4.41	5.48	2.05
Manufacturing	8.54	5.98	2.24
Trade, Transp & Utilities	19.38	17.88	0.99
Information	2.66	3.18	1.43
Financial Activities	8.27	8.15	0.00
Professional & Business Svc	8.10	12.22	2.18
Educational & Health Services	10.69	13.62	0.96
Leisure & Hospitality	10.54	11.14	0.79
Other Services	4.09	3.72	0.91
Government	22.85	18.35	0.38
	Jan. 1990	Sep. 2004	
Industry-Share Beta	0.991347594	1.052308839	

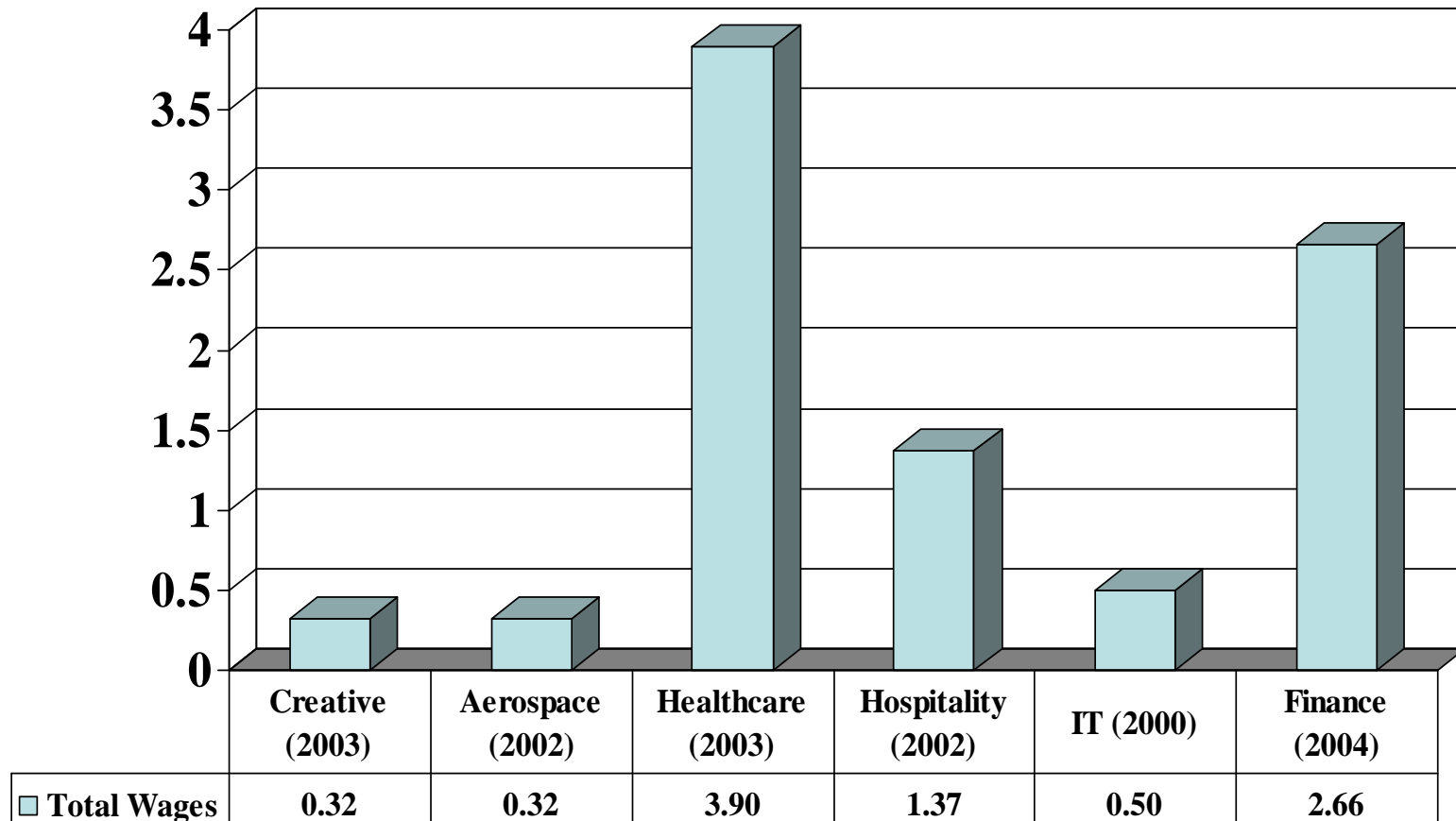
Finance Study Created Some Controversy- “Economic Impact” is Total Revenue (Not Local)

Economic Impact by Industry



NOTE: Healthcare includes the bioscience industry. All impacts are measured using the same methodology, except for the real estate and higher education impacts.

Total Wages May be Best Indicator of Local Impact (Wages, billions of dollars)



NOTE: Healthcare includes the bioscience industry

Everything's Relative – But to What?

- To get an idea of the economic performance of San Antonio compare income, wages, and occupational employment to similar cities
- To define Peer MSAs - looked for competitive MSAs of similar industrial structure, size, and region.
- Subjective and not perfect – but better than only comparing to Austin and Dallas

Population Varies Among Comparison Cities

Total Population

Dallas-Fort Worth-Arlington, TX (MSA)	6,006,094
Atlanta-Sandy Springs-Marietta, GA (MSA)	5,134,871
Phoenix-Mesa-Scottsdale, AZ (MSA)	4,039,182
San Jose-Sunnyvale-Santa Clara, CA (MSA)	2,941,454
Sacramento-Arden-Arcade-Roseville, CA (MSA)	2,067,117
Orlando-Kissimmee, FL (MSA)	1,984,855
San Diego-Carlsbad-San Marcos, CA (MSA)	1,948,437
San Antonio, TX (MSA)	1,784,826
Indianapolis-Carmel, IN (MSA)	1,669,370
Virginia Beach-Norfolk-Newport News, VA-NC (MSA)	1,647,400
Austin-Round Rock, TX (MSA)	1,506,425

US Census: 2006 American Community Survey

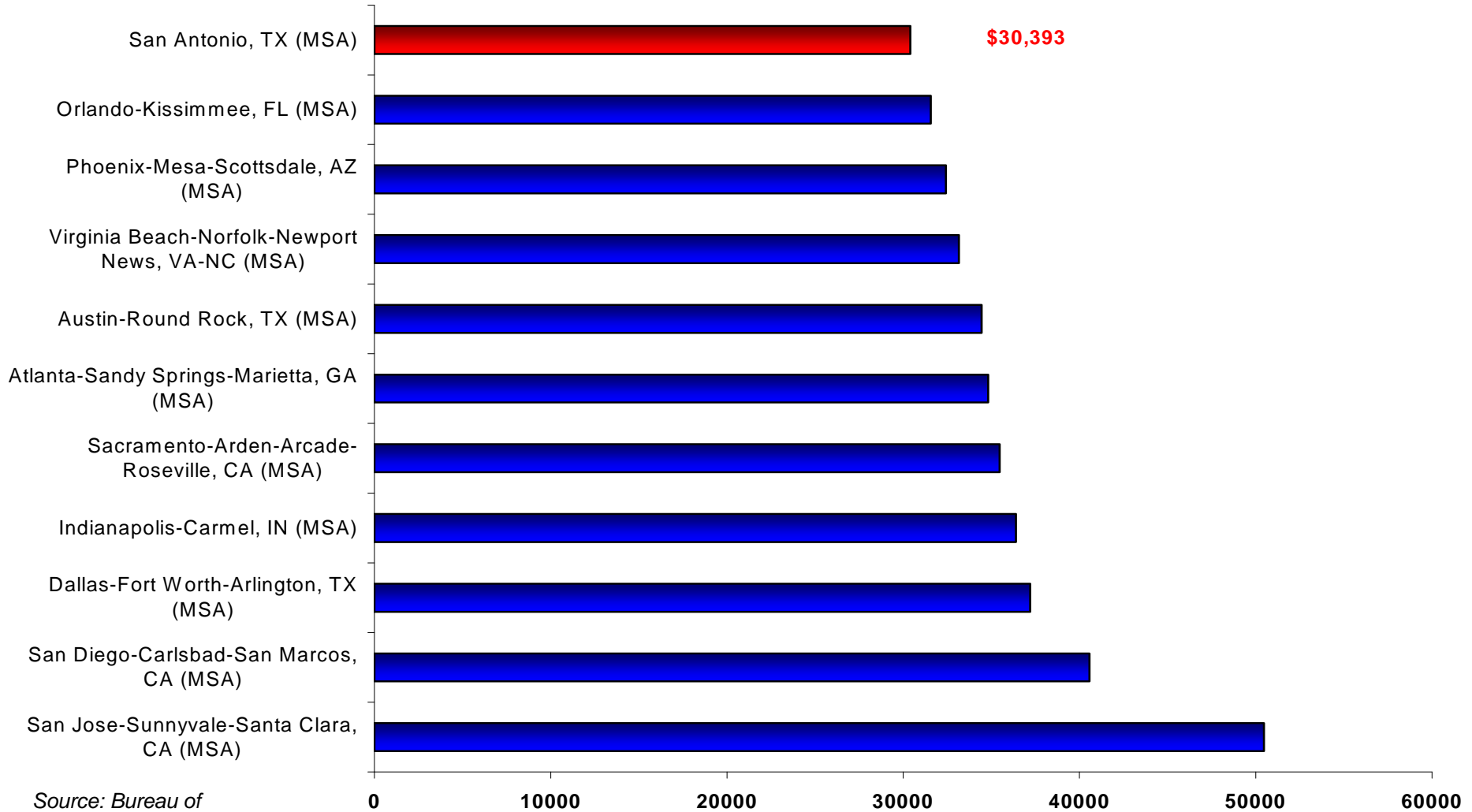
San Antonio Has Lowest Cost of Living

ACCRA - *Cost of Living Index*

San Jose-Sunnyvale-Santa Clara, CA (MSA)	166.2
San Diego-Carlsbad-San Marcos, CA (MSA)	150.6
Sacramento-Arden-Arcade-Roseville, CA (MSA)	120.1
Virginia Beach-Norfolk-Newport News, VA-NC (MSA)	102.4
Orlando-Kissimmee, FL (MSA)	100.8
Indianapolis-Carmel, IN (MSA)	98.1
Atlanta-Sandy Springs-Marietta, GA (MSA)	97.7
Austin-Round Rock, TX (MSA)	97
Phoenix-Mesa-Scottsdale, AZ (MSA)	96.8
Dallas-Fort Worth-Arlington, TX (MSA)	93.3
San Antonio, TX (MSA)	90.6

Per Capita Income Low In SA

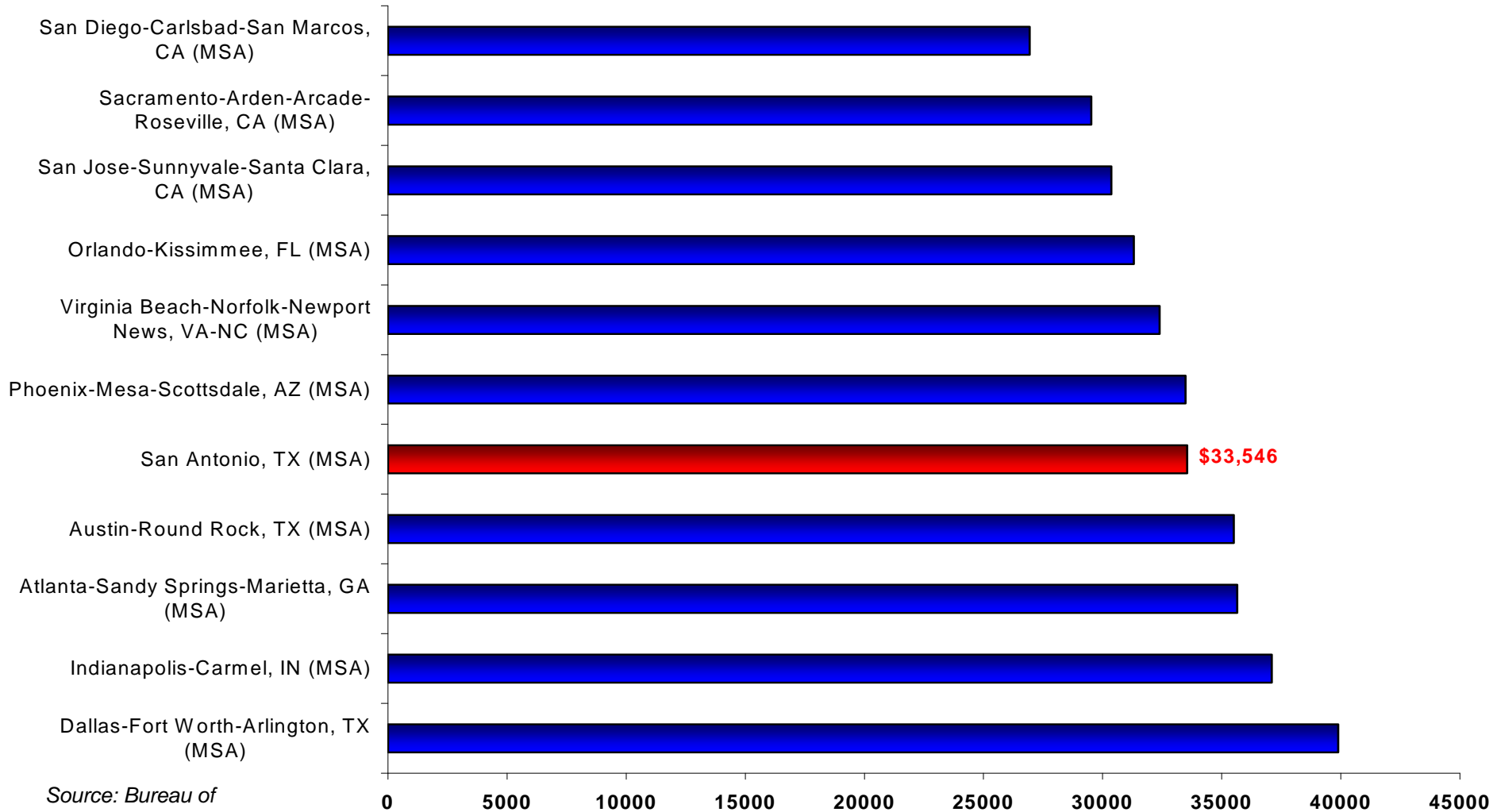
2005 Per Capita Income



Source: Bureau of Economic Analysis

SA Cost-of-Living Adjusted Incomes 5th Highest

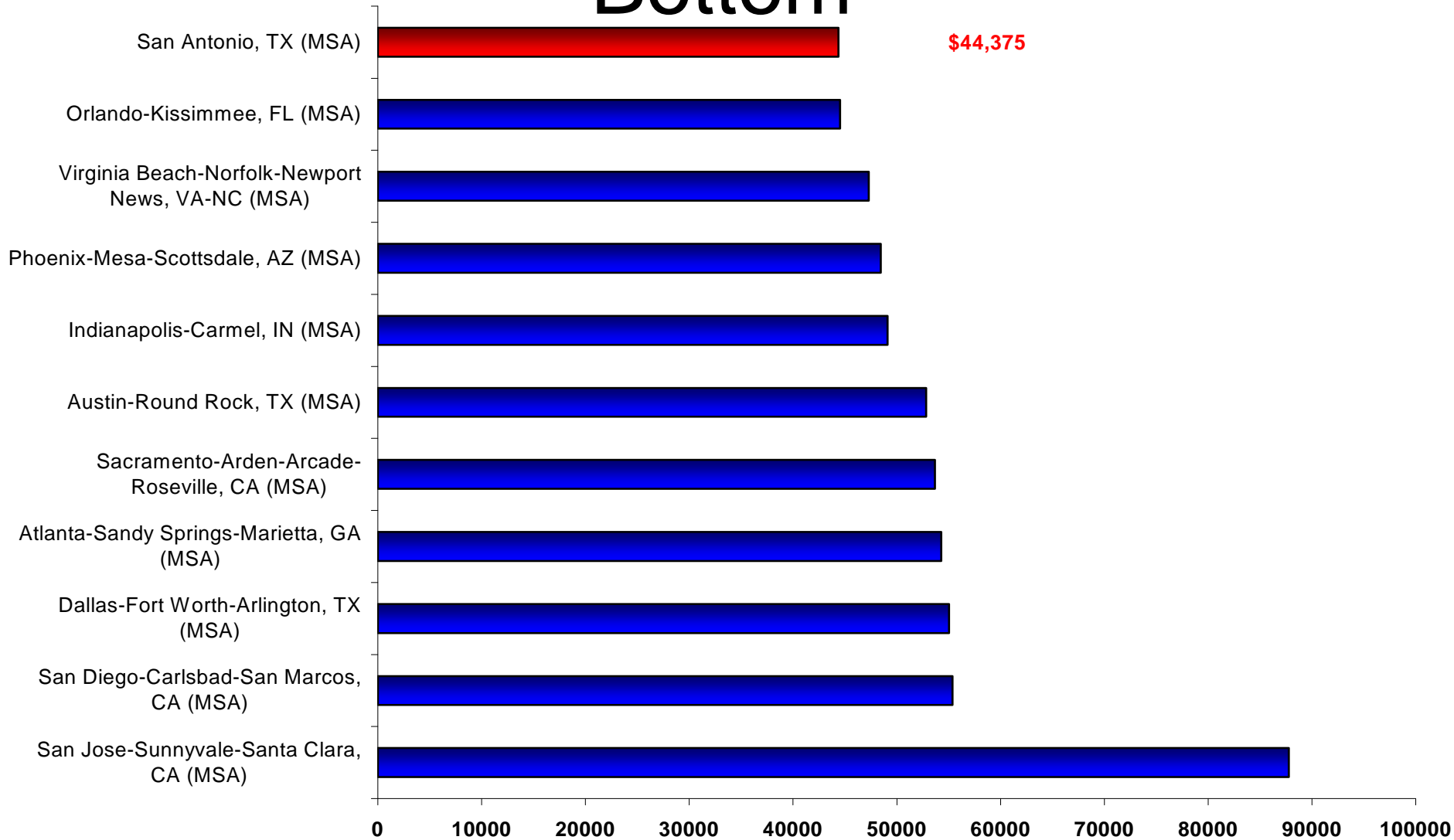
2005 Adjusted Per Capita Income



Source: Bureau of Economic Analysis

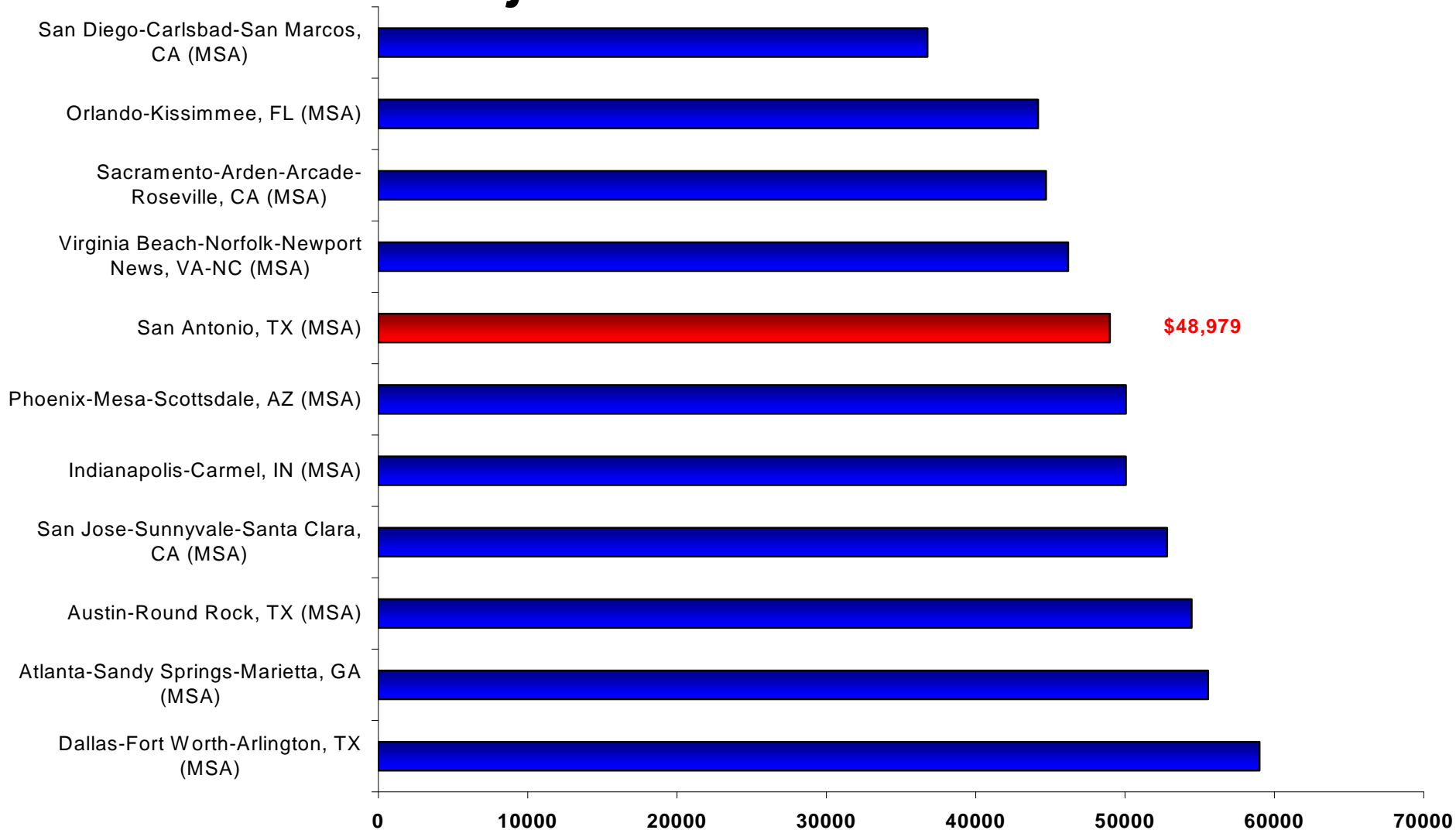
SA Wages Per Worker Also at the Bottom

2005 Wages and Benefits



But Closer to Middle when Adjusted for COL

2005 Adjusted Wages and Benefits



Source: Bureau of Economic Analysis

Pull Factor

What Matters to Firms Selling in National and International Markets is Nominal Wage – What Matters to Workers is Real Wage

Win-Win Situation Occurs when Region has Below Average Nominal Wages (Attracts Firms) and Above Average Real Wages (Attracts Workers)

San Antonio is an Attractive Place for High-Wage Occupations

	<i>Nominal Wages</i>			<i>Adjusted Wages</i>		
	<i>Peer Cities Average</i>	<i>San Antonio</i>	<i>Difference</i>	<i>Peer Cities Average</i>	<i>San Antonio</i>	<i>Difference</i>
Management	\$94,698.18	\$81,180.00	-\$13,518.18	\$87,600.59	\$89,602.65	\$2,002.06
Legal	\$85,862.73	\$73,900.00	-\$11,962.73	\$78,945.55	\$81,567.33	\$2,621.78
Computers and Math	\$68,627.27	\$59,560.00	-\$9,067.27	\$63,435.49	\$65,739.51	\$2,304.03
Architecture and Engineering	\$66,778.18	\$56,280.00	-\$10,498.18	\$61,563.36	\$62,119.21	\$555.84
Business and Finance	\$59,306.36	\$52,850.00	-\$6,456.36	\$55,107.06	\$58,333.33	\$3,226.28
Life, Physical, and Social Science	\$60,081.82	\$53,520.00	-\$6,561.82	\$55,518.43	\$59,072.85	\$3,554.42
Health Care Practitioners	\$64,716.36	\$55,790.00	-\$8,926.36	\$59,687.07	\$61,578.37	\$1,891.30

Source: 2006 Bureau Labor Statistics Occupational Employment Statistics

Also Attractive for Some Middle Wage Occupations

<i>Middle-Wage Occupations</i>	<i>Nominal Wages</i>			<i>Adjusted Wages</i>		
	<i>Peer Cities</i>	<i>San Antonio</i>	<i>Difference</i>	<i>Peer Cities</i>	<i>San Antonio</i>	<i>Difference</i>
	<i>Average</i>			<i>Average</i>		
Arts, Entertainment, and Media	\$45,933.64	\$38,840.00	-\$7,093.64	\$42,472.91	\$42,869.76	\$396.85
Education, Training, and Library	\$43,970.91	\$40,820.00	-\$3,150.91	\$40,633.91	\$45,055.19	\$4,421.28
Community and Social Services	\$40,489.00	\$35,540.00	-\$4,949.00	\$37,143.87	\$39,227.37	\$2,083.50
Construction and Extraction	\$37,370.91	\$28,360.00	-\$9,010.91	\$34,106.01	\$31,302.43	-\$2,803.58
Installation, Maintenance, and Repair	\$39,432.73	\$33,080.00	-\$6,352.73	\$36,558.04	\$36,512.14	-\$45.90
Protective Services	\$36,704.55	\$33,850.00	-\$2,854.55	\$33,969.08	\$37,362.03	\$3,392.95
Sales and Related	\$36,244.55	\$29,330.00	-\$6,914.55	\$33,457.93	\$32,373.07	-\$1,084.86

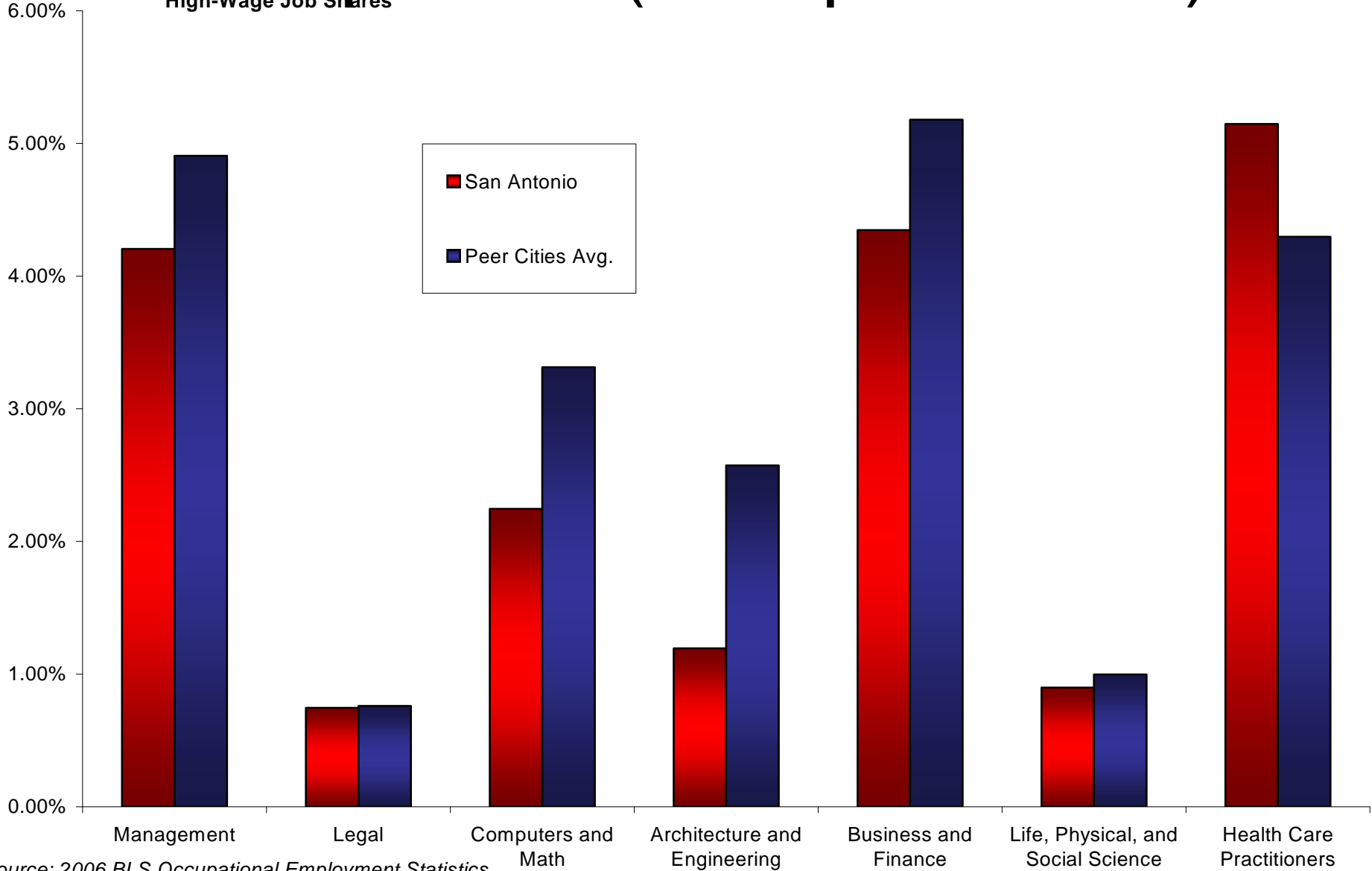
And Lower Wage Occupations

<i>Low-Wage Occupations</i>	<i>Nominal Wages</i>			<i>Adjusted Wages</i>		
	<i>Peer Cities</i>		<i>Difference</i>	<i>Peer Cities</i>		<i>Difference</i>
	<i>Average</i>	<i>San Antonio</i>		<i>Average</i>	<i>San Antonio</i>	
Office and Administrative Support	\$31,179.09	\$27,210.00	-\$3,969.09	\$28,899.74	\$30,033.11	\$1,133.37
Production	\$30,118.18	\$25,430.00	-\$4,688.18	\$27,989.65	\$28,068.43	\$78.79
Transportation and Material Moving	\$28,788.18	\$24,900.00	-\$3,888.18	\$27,016.27	\$27,483.44	\$467.18
Health Care Support	\$24,948.75	\$21,830.00	-\$3,118.75	\$23,824.78	\$24,094.92	\$270.14
Personal Care and Services	\$23,210.91	\$15,850.00	-\$7,360.91	\$21,564.78	\$17,494.48	-\$4,070.30
Building and Grounds	\$21,494.55	\$18,380.00	-\$3,114.55	\$19,917.77	\$20,286.98	\$369.20
Farming, Fishing, and Forestry	\$21,426.36	\$17,750.00	-\$3,676.36	\$20,120.45	\$19,591.61	-\$528.84
Food Preparation and Serving	\$18,268.18	\$16,580.00	-\$1,688.18	\$17,041.82	\$18,300.22	\$1,258.40

San Antonio is Ripe for Growth in High-Wage Occupations But Currently Has Lower Shares than Average of Peer Cities

SA has Lower Share of High Wage Occupations (Except Medical)

High-Wage Job Shares

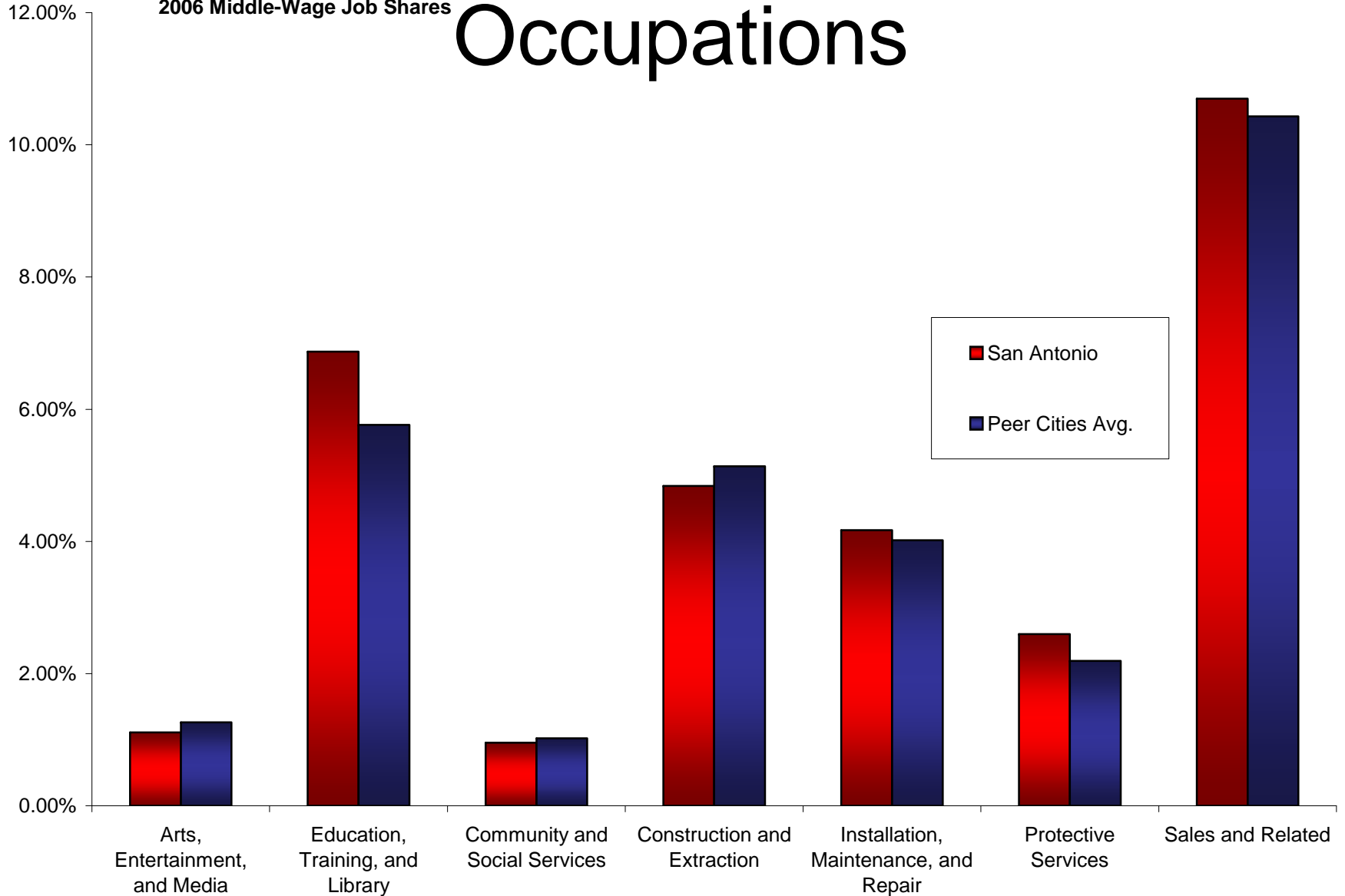


Source: 2006 BLS Occupational Employment Statistics

Close to Average on Middle Wage Occupations

Occupations

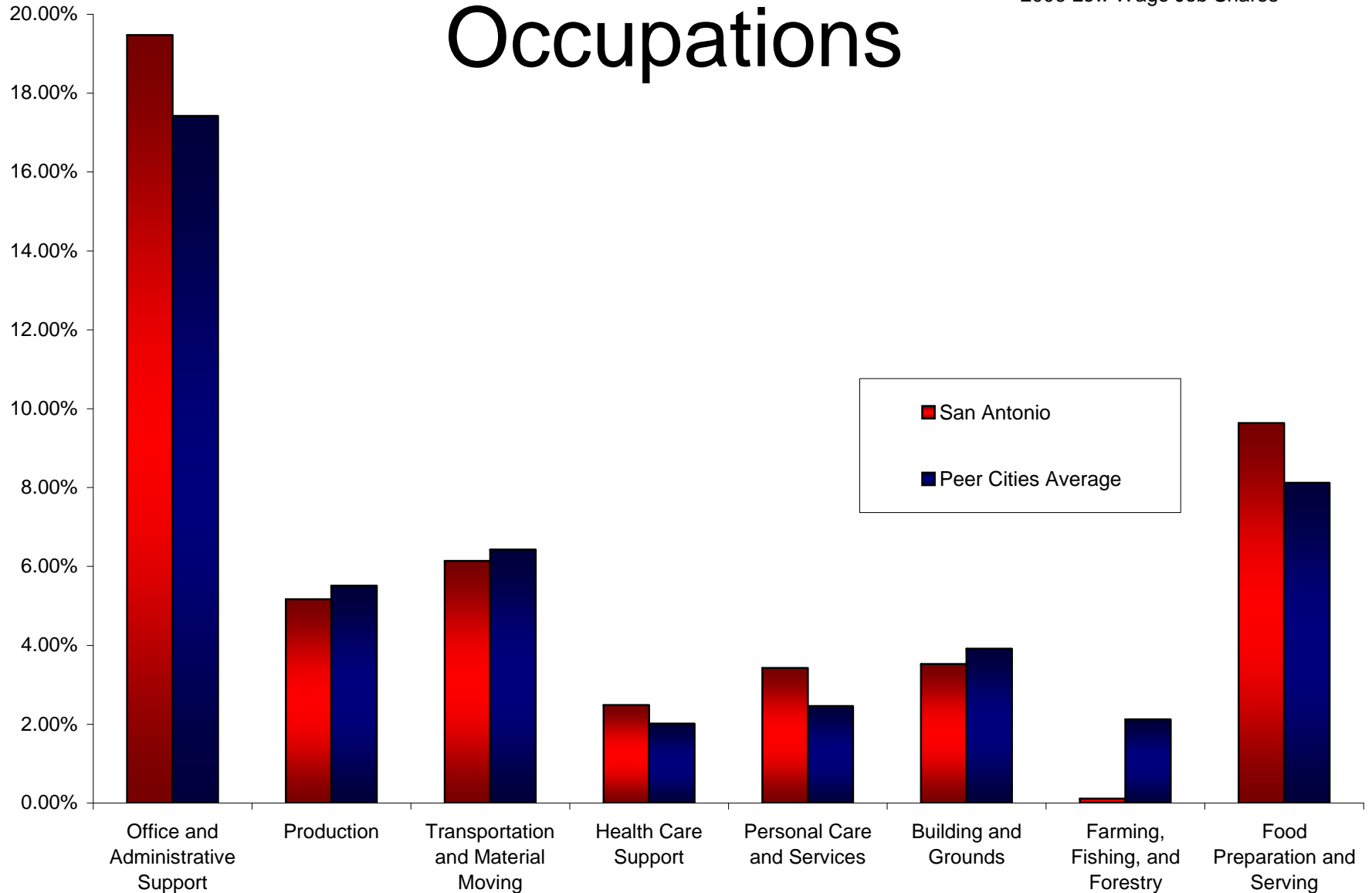
2006 Middle-Wage Job Shares



Source: Source: 2006 BLS Occupational Employment Statistics

And Higher Shares of Lower Wage Occupations

2006 Low Wage Job Shares

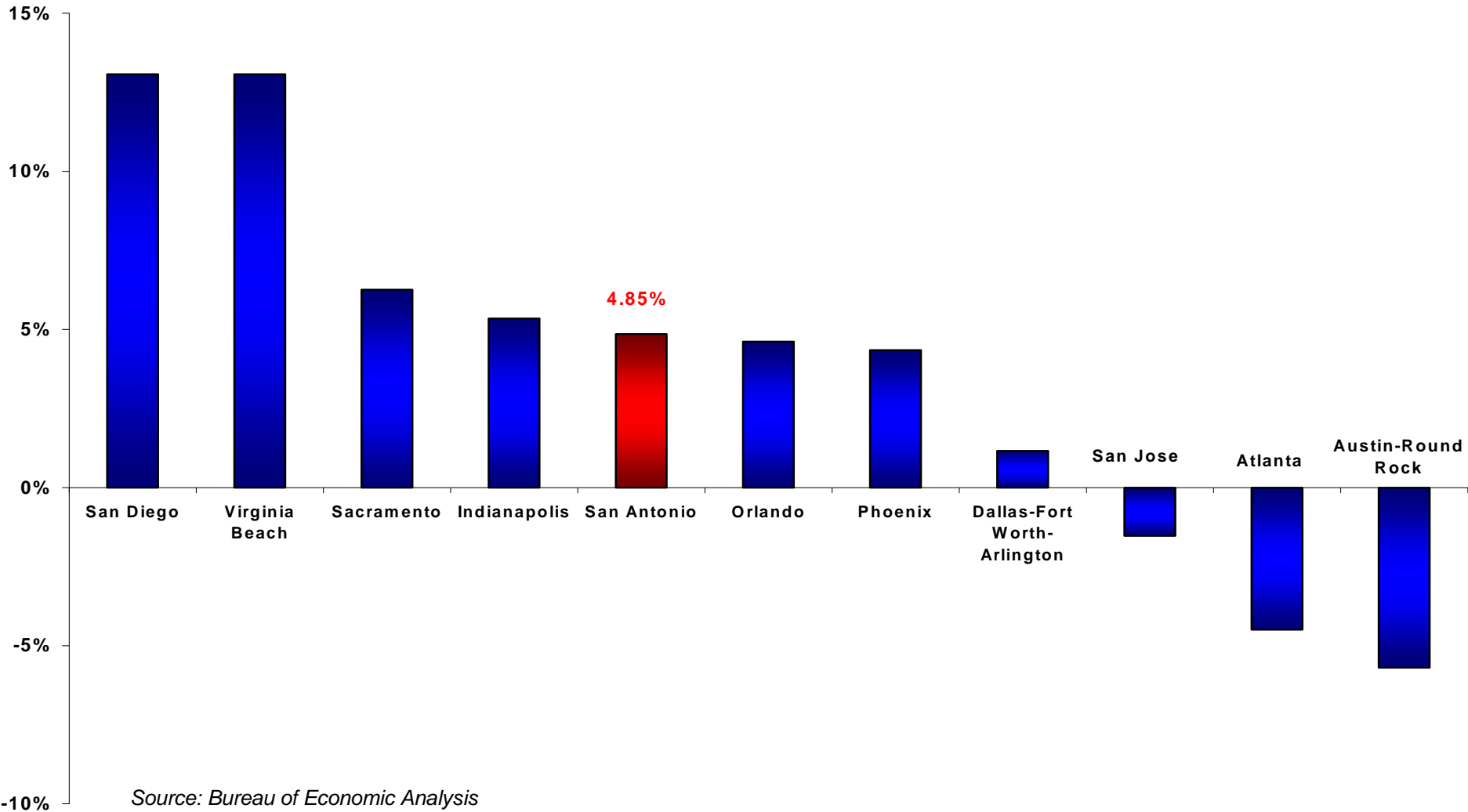


Source: 2006 BLS Occupational Employment Statistics

Pull Factors Likely Helping Income and Wage Growth

SA Real Per Capita Income Growing Strongly

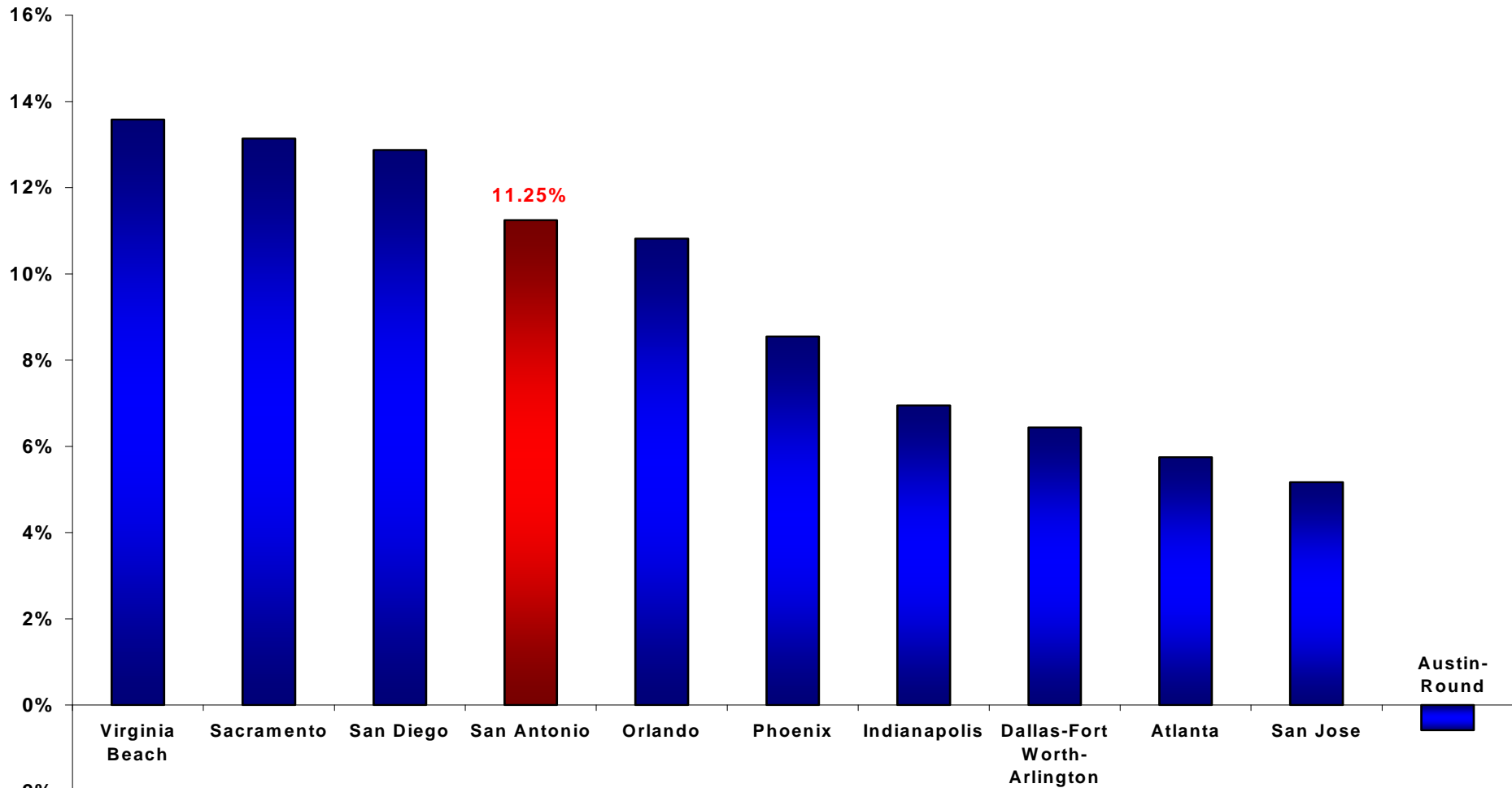
Per Capita Income GR (1999-2005)



Source: Bureau of Economic Analysis

SA Real Wages Also Growing Fast

Wages and Benefits GR (1999-2005)



Source: Bureau of Economic Analysis

Long-run Challenges

Health Care, Biotech, Financial Services and High-Tech Have Good Potential in S.A. But Education is Challenge

(Percentage of Adults Age 25 and Over with College Degrees)

San Jose-Sunnyvale-Santa Clara, CA (MSA)	43.4%
Austin-Round Rock, TX (MSA)	38.8%
San Diego-Carlsbad-San Marcos, CA (MSA)	33.4%
Atlanta-Sandy Springs-Marietta, GA (MSA)	33.3%
Sacramento-Arden-Arcade-Roseville, CA (MSA)	29.6%
Indianapolis-Carmel, IN (MSA)	29.5%
Dallas-Fort Worth-Arlington, TX (MSA)	29.4%
Orlando-Kissimmee, FL (MSA)	27.9%
Phoenix-Mesa-Scottsdale, AZ (MSA)	27.1%
Virginia Beach-Norfolk-Newport News, VA-NC (M	26.9%
San Antonio, TX (MSA)	24.0%

Summary

- U.S. economy likely to grow moderately in 2007 and first half of 2008.
- Texas remains stronger than the nation and will feel less impact from the weakness in housing and home financing.
- Home building declining but high-tech and manufacturing remain strong in most Texas markets.
- 2007 job growth will be about 2.9% in Texas and 2.5 % in San Antonio.
- San Antonio wages and incomes are low when compared to peer cities but closer to middle when adjusted for cost of living.
- Most SA occupations pay lower than average nominal wages but higher than average real wages. Since firms want low nominal wages and workers want high real wages, San Antonio is an attractive area for both firms and workers.
- Pull factor likely one reason that real incomes and wages have been growing strongly since 1999.
- In long-run, growth in biotech, health care, high-tech and financial services have good potential but need continued gains in educational attainment.
- Expansion of graduate programs at UTSA and Univ. of Texas Health Science Center good news for regions growth.

San Antonio Median Home Price Growing Faster than other TX MSAs

