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Economic outlook for North Texas in 2009 is better than most

From staff reports

The 2009 economy might not offer much to look forward to, but North Texas residents should at least appreciate where they live.

"Texas will gradually feel the recession, but we're about the last area to," said Bill Sirakos, chief economist at Cullen/Frost Bankers in San Antonio, one of the state's largest independent bank-holding companies. "If the recession is taking hold here, it's got a stranglehold everywhere else."

Tarrant County and the Metroplex were still creating jobs in November, a month that saw U.S. employers cut more than 500,000 workers nationwide. And although home values and sales have declined in the past year, North Texas has been ranked as one of the top 10 markets expected to recover in 2009.

That said, the area's top companies will have to deal with the same challenges facing the rest of the country.

Energy producers must come to grips with how the financial crisis has slashed demand and taken energy prices with it.

The tight credit market is constricting commercial real estate development, and sluggish consumer spending is pinching retailers and reducing demand for airlines.

But the region's economic diversification is another plus for the area, Sirakos said. It's no coincidence, he said, that Texas is one of about a dozen states with a balanced state budget, and "that is going to stand us in good stead."

Still, the recession, he said, "is like a gigantic snowball rolling downhill, and it's extremely difficult to stop. Sometimes you've got to let it roll to the bottom of the hill" before government, business and consumers have a chance to gain the upper hand.

Regional job market 'better than elsewhere'

The jobs outlook in North Texas will get worse before glimmers of improvement arise — perhaps in late 2009, predicts Bernard Weinstein, an economist at the University of North Texas in Denton.

"For a lot of reasons, we so far have avoided the economic tsunami that's battered the rest of the country," Weinstein said, citing resilience in the energy, logistics, defense and export-oriented industries. "I don't think the job outlook is great, but it's better than elsewhere."

According to the Federal Reserve Bank of Dallas, employment is still growing in the Metroplex but it has slowed recent months — up 0.8 percent for Dallas and Fort Worth through November.

Fort Worth has seen declines in manufacturing jobs, as well as in professional and business services, while the mining sector, which includes natural gas, "is still holding up fairly well," said the Fed's Laila Assanie.

Weinstein sees job figures turning negative in the first quarter, but better than the national rate.

"The real good news is that when the economy starts to turn, maybe late in 2009, DFW is going to benefit disproportionately," he said. "Always after a national downturn, at the bottom of business cycles, people and companies move into Texas." — Barry Shlachter

Airlines' profit hinges on fuel prices, travel demand

For the airline industry, the fortunes of 2009 will likely hinge on two factors: the economy and the price of oil.

The economic cool-down has already sapped demand for travel. That's pushed the major airlines, including Fort Worth-based American Airlines, to cut capacity by slashing flights and grounding hundreds of airplanes.

American, which is North Texas' largest employer, plans to shrink an additional 6 percent, and could contract further if necessary, executives say. Dallas-based Southwest Airlines is also pulling in the reins. No growth is planned for 2009, and the airline is prepared to cut capacity for the first time in its history if necessary.

"We have a situation today where we know the economy is shrinking, which is bad, but luckily the airlines have been shrinking as well," said Dan Garton, American's executive vice president of marketing.

"So the question is, did we shrink enough? Nobody knows for sure right now."

If oil prices rebound, passengers are likely to continue paying fees on items like checked bags, and some additional fees could surface as well.

"I don't think they've even begun to plumb the depths of the passenger fees," said airline consultant Stuart Klaskin of Klaskin, Kushner & Co.

— Trebor Banstetter

Housing may recover; foreclosures still high

This may be the year the housing market recovers in North Texas.

There is still enough of a glut to hold the market back from a rebound in the first quarter, said David Brown, director of the Dallas-Fort Worth region for MetroStudy. But he's looking for sales and prices to start gaining traction by midyear, and home builders are poised to start building again once demand returns. Foreclosures, though, are expected to remain at high levels for much of the year.

The past few months have been tough for sellers of new and existing homes. The slumping stock market, threat of job losses and plummeting consumer confidence have taken their toll.

"The consumer has just been battered," Brown said.

Analysts predict that the national real estate market will hit bottom in 2009, then stagnate through 2010. But the North Texas market is considered among the top in the country for real estate recovery.

Rising unemployment is expected to keep foreclosures high, although tightening of mortgage standards is expected to help by limiting at-risk borrowers, said George Roddy, president of Foreclosure Listing Service.

The news, however, is still good for buyers. "It's an incredible time to buy," Brown said.

— Andrea Jares

Gas prices could stabilize if OPEC cuts output

The outlook for energy prices in 2009 isn't spelled OPEC.

Instead, the most important letters are likely to be V, U or, heaven forbid, L — as in the shape of the curve that the current recession eventually traces: V for a sharp drop and rebound, U for a drawn-out affair, and L for, well, no end in sight.

In a poll of 33 industry analysts by Bloomberg News, crude oil — which recorded its biggest plunge in decades in 2008 — is expected to average \$60 a barrel next year if the Organization of Petroleum Exporting Countries makes the expected record production cuts to counter falling demand.

That would mean the end of plunging gasoline prices, but not the return to \$4-a-gallon fuel. Crude oil at \$60 would roughly translate into gasoline costing a little more than \$2 a gallon at the pump, after including the cost of refining, transportation, distribution and taxes.

When it comes to natural gas, Barclays Capital is bearish, forecasting continuing production gains from shale formations worldwide that could produce an average price of \$6.36 per 1,000 cubic feet in 2009.

That could be enough to stabilize drilling locally in the Barnett Shale, where the number of drilling rigs at work dropped about 20 percent in the last three months of 2008. — Jim Fuquay

Commercial real estate firms brace for hard times

Commercial real estate is bracing to suffer through one of its worst cycles of rising vacancy rates, softening of rental rates and increasing loan defaults, analysts with the Grubb & Ellis real estate firm predict.

And although Fort Worth-area markets have weathered the storm so far, don't expect that to last through 2009.

Fort Worth saw a few new office buildings open, construction continue on several mixed-used projects on the city's near west side and other retail centers open in 2008 — all signs of a strong market.

But some building sales didn't make it to closing because of tight credit markets, new construction slowed and signature office properties faced foreclosure — signs of a changing market.

Ben Loughry, managing partner of Integra Realty Resources in Fort Worth, says that some commercial sectors locally will be hit harder than others in 2009.

The most significant impact will be retail, as the sector sees more store closings and repositioning.

Don't look for too much new construction, either, because getting loans is more difficult than ever. And there's also concern that some new projects won't be able to fill available space — in office buildings and shopping centers.

"It's going to be a challenging year," Loughry said. "We're still in that gray area of how the economy is going to turn around."

— Sandra Baker

Analyst sees mixed bag for retail companies

As dismal as 2008 was for retailers, 2009 could be even rougher, particularly for retailers with the wrong merchandise or in a bad location, predicts Charles Wetzel, president of Buxton Co., the Fort Worth-based site-selection specialists.

Wetzel expects mass merchandisers involved in small electronics, bedding and office supplies to be scaling back. And malls that have neither moved with the times nor lined their thoroughfares with retailers that match their market will have a rough ride, although consumers may renew their interest in what had been fading outlet centers, Wetzel said.

It was one of the worst retail holiday seasons in decades, and most national analysts expect retailers to continue struggling into 2009.

Casual dining, too, is expected to continue to take a hit, but quick-service chains like Jack-in-the-Box, Chipotle, Jason's and Weatherford-based Chicken Express are likely to find more budget-minded families chowing down, Wetzel said.

Nationally, sales at full-service restaurants are projected to increase 1 percent over 2008, which becomes negative growth when adjusted for inflation. The quick-service segments will see 4 percent, which puts it into positive territory, said the National Restaurant Association, which predicts that Texas will fare better than other states.

As for clothing chains, Wetzel sees some hope in at least one struggling concept — Gap — although he said the outlook for department stores like Macy's, Dillard's and Neiman Marcus will depend on how well they cater to their customers' tastes.

Fido could keep things churning, however. Wetzel says that anything to do with pets — from mass merchandisers like Petco to "animal vacation lodging" — are well placed for the new year.

"Even in bad times, people will not cut back on the animals that love them," he said.

— Barry Shlachter

Lockheed Martin seeks funds for F-22, F-35

This will be a pivotal year for two key defense programs of Lockheed Martin and Fort Worth.

In the first few weeks of President-elect Barack Obama's term, his defense team faces a key decision on the fate of Lockheed's F-22 Raptor.

The Air Force, with Lockheed's vocal support, wants to continue buying F-22s at about \$180 million a copy. But the outgoing Pentagon bosses, particularly Deputy Defense Secretary Gordon England, have said that the 183 planes on order plus four more are enough and that the Air Force needs to devote its future spending to F-35s.

The 2009 defense budget allocated \$500 million for the Pentagon to either make a down payment on more F-22s or to shut down the production line, leaving the final decision to the new administration.

The Pentagon in November authorized an initial \$50 million payment for four more planes.

Defense Secretary Robert Gates, who has supported England's position on the F-22, will still be around come Jan. 21. But Obama has yet to say whom he will appoint as Gates' assistants, so no one knows how the new administration will proceed with the F-22.

As for the F-35, 2009 will be another crucial year for beginning to prove the aircraft's promised capabilities.

In the spring, Lockheed will begin to test the short-takeoff and vertical-landing capabilities of the F-35B, the most costly and technologically challenging version of the aircraft.

Lockheed hopes to begin securing foreign orders for the F-35 so it can plan for an orderly and efficient production increases in 2010 and beyond.

— Bob Cox

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