

Economy 2005: Play it again?

BY DANIEL C. BARTEL | STAFF WRITER

Kelly Roberts, president of Ricochet Fuel Distributors Inc. in Hurst, said she'll never forget the three big economic milestones of 2004: Oil at \$40 a barrel, oil at \$45 a barrel and oil at \$55 a barrel.

Roberts sells wholesale gasoline to any company that stores fuel on-site. Her customers, just like motorists at the gas pump, have felt the squeeze of rising oil prices.

But Ricochet, along with other Dallas-Fort Worth companies, is learning to cope with a rise not only in energy prices but in the cost of other basic goods as well, from steel and



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iron to lumber and food.

Because those escalating costs have hampered the economic recovery to some extent, experts are optimistic about growth next year — but cautiously so.

Thanks to economic globalization, which has accelerated competitiveness worldwide, North Texas companies are focused not so much on how to get ahead but how to keep up, said Fiona Sigalla, an economist with the Federal Reserve Bank in Dallas.

"The economy is changing again, and companies are spending more on capital rather than new jobs," Sigalla said. "High-tech companies and the airlines are having to restructure before they can really grow."

What can D-FW companies expect to see in the next 12 months, then? The answer depends on who you ask.

Last week, economists with the Texas Comptroller's Office said the state's economy would grow at a steady, albeit slower, pace than previously forecast.

Texas will grow at an annual rate of 3.3% in 2005, less than the 4.3% she originally forecast last spring, Texas Comptroller Carole Keeton Strayhorn said in a news release.

Gov. Rick Perry has a more bullish view of the Texas economy. He points as proof to recent job creation, increasing sales-tax revenues and higher severance-tax collections.

"I don't think anyone estimates that we're going to have (just 3.3% growth)," Perry told the *Dallas Business Journal*. "I think our growth in the state is certainly surpassing 3.3%."

Ray Perryman, an economist with The Perryman Group in Waco, said the North Texas economy next year should outpace the U.S. economy, which he sees growing at a 3.47% rate annually over the next five years. (See *Front Lines*, page 33.)

But others, like Dr. John Baen with the University of North Texas College of Business Administration, predict tougher sledding ahead.

Baen said the falling value of the U.S. dollar will lead to greater inflation, ratcheting the price of goods up further.

"Lenders and mortgage holders are getting their butts kicked with defaults," Baen said, citing the record number of North Texas home foreclosures in the last eight months.

In addition, he said, the continued uptick in interest rates could stave off plans by companies to make large capital improvements or by people to purchase homes.

"The economy is going to limp along in 2005," Baen said. "The only sector that's going to do well is oil and natural gas. Other than that, no sector is going to boom."

Realty uptick

Some industries have fared better than others, though. Real estate, for instance, has been stable throughout the latest economic downturn, Baen said.

On the commercial side, flat occupancy rates in office and industrial space are expected to improve in 2005, according to the Urban Land Institute in Washington D.C.

Bradford Cos., a commercial property manager and developer in Dallas, will attest to that.

The company filled 6 million square feet in 2004, about 33% more than the previous year, said Bradford President Kevin Santaularia. The company expects to do that and more in 2005, he said.

The supply of industrial space remains ample, but that won't deter developers from continuing to do spec building projects, he said.

It all comes back to location. "What you don't want to do is build a tech building in Richardson," Santaularia said. "But you might want to build a small office building off the (Dallas North) Tollway or in Pinnacle Park," where competition is less heated.

Homebuilding has been its own success story in the Metroplex in 2004.

Dallas-Fort Worth logged 44,500 annual starts in the past 12 months, up 15% from the same period a year ago, according to Metrostudy, a residential analysis firm in Dallas. In the fourth quarter of 2004 alone there were 13,400 homes starts, up 21% from a year ago, Metrostudy officials said.

Builders such as Houston-based David Weekley Homes are expecting continued growth in 2005, said Weekley's area president, Russell Rice.

But without new job creation — the linchpin of housing expansion — "it will be difficult to sustain our growth," Rice warned.

Economists are forecasting between 40,000 and 80,000 new jobs will be created in the Metroplex next year. Perryman, for example, is predicting 66,000 new jobs in North Texas in 2005, up from the 22,000 created so far this year.

At the same time, technological advancements have enhanced production and reduced the need to rehire workers. Nowhere is that more evident than in the manufacturing sector.

To keep pace with global competition, supply-chain management software maker, i2 Technologies Inc. (OTCBB: ITWO) in Dallas said it would devote additional revenue to enhancing technology, not making new hires. "We still have a lot of scrutiny on our spending, and we're very, very cautious," said Pallab Chatterjee, president of solution operations for i2. "The wave of reducing costs through offshore labor is not over yet."

There may be at least some hope on the jobs front, however. In 2005, employers are likely to create new positions as a result of several new federal laws, said Gary Moore, senior vice president of Comforce Corp. in Dallas, a national staffing service agency.

For example, there's been an unprecedented uptick in the need for internal au-

ditors as a result of Sarbanes-Oxley, the corporate governance law passed in 2002 that regulates how and when companies report earnings.

In health care, more physicians and hospitals are looking for workers conversant with the federal Health Insurance Portability and Accountability Act, or HIPAA, which protects patient privacy. Some have even gone so far as to hire chief privacy officers — CPOs — and staff, Moore said.

Moore said he has his own anecdotal evidence that jobs are returning. Workers who were happy to be working at all in the midst of joblessness three years ago now are transitioning to companies with better pay and benefits, he said.



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