

## **A Patient Strategy**

*Opportunity Houston* continues its series on economic challenges, speaking with Bill Gilmer, senior economist and vice president for the Houston branch of the Federal Reserve Bank of Dallas. Previously an economist for the Institute of Energy Analysis and the Tennessee Valley Authority, he's been a member of the Reserve Bank for the last 13 years. Widely published in respected publications such as the *International Business and Economics Research Journal* and *Energy Economics*, he's seen as a leading expert on the Gulf Coast economy. We asked Gilmer for his thoughts on how our city can prosper during uncertain economic times, the first three questions to be revisited by other economists in the coming months.

*What are the biggest economic challenges you expect to see over the next 12 months?*

GILMER: The economic crisis that we're in is a challenge for all of the country and for Houston the biggest part is how we're going to deal with the weakness of oil. Gas prices have been falling hard for the past six months—we've never seen the rig count fall in absolute numbers like it has. While the rest of the country slipped into recession in late 2007, we were immune. Not anymore.

*What is the first signal you will see that the economy is starting to improve?*

There are a couple big factors that drive Houston. We may want to separate them but can't. First, it's the success or failure of individual companies like Continental and AIG. For energy, what supported the sector has been the growth of developing Asia and we have the power of Houston in the global economy to help that along. The first positive sign for us will be a turnaround in the US economy and healing credit markets. Then it will be a turnaround in the housing market.

*What advice would you give for businesses riding through the economic downturn?*

They need to learn from past downturns that these problems are inevitable. We live in a city tied to a commodity cycle and that cycle goes both ways. I heard all the advice six months ago that the price of oil would go up forever but those voices are heard every time and they're always wrong.

*The nation is in a recession, and Houston is feeling the effects. How do you put into context what the Houston region is feeling relative to other major metropolitan areas?*

Up until now we were feeling good because we were doing better. In 2003 we were bumping through with no job growth but since then we've created 250,000 new jobs here and oil set us apart. Compared to cities like Las Vegas or Detroit we're doing very well but at the same time you have to recognize it could be tough times ahead of us. Housing in Houston will never see the kind of devastating problems that we saw in rest of country because we didn't restrict the supply of homes.

*How, and to what extent, do you see Houston benefiting from this year's stimulus package?*

The \$8,000 housing tax credit will go a long way toward buying a home here as opposed to other cities where people are being priced out. The government is trying to hide the stimulus in your paycheck because there was a criticism that people just used the stimulus checks to pay down their debt. The government can only spend money if they borrow it from us so I don't think there will be a lot of benefit.

*Beyond the stimulus package, what steps should the Obama Administration pursue to bring the nation out of recession?*

It would help to figure out a price for oil that's a fair price. Maybe it's 60 to 80 dollars but let's put a floor there and give it back to people at the end of the year in a tax rebate for less consumption of oil. Look for alternatives and if the winner is alternative solar wind or the electric car the floor will tell us.

*What industries in Houston (if any) will do well in 2009? Which are the most vulnerable?*

I would assume that the medical center in terms of patient care is likely to be affected positively by the stimulus package. There are a lot of provisions for health care in it. Technology has been one of the better performing sectors during the crisis—the NASDAQ hasn't suffered as much as other indexes—but it's tied to business spending and investment and it's going to be down sharply over the next couple of quarters.

*Energy is of critical concern to this part of the nation, and energy prices were exceptionally volatile last year. What do you see as the likely course of oil and gas prices over the next few years? Why?*

There was panic which seemed to work itself out...Over a 3-year period oil will be back because there's a global boon developing. 90% of the increase in oil consumption has been driven by developing Asia, Brazil and Russia—they won't stop driving cars or eating meat or competing with us for a higher standard of living.

*What features should a national energy policy include, and how might those affect Houston?*

It goes back to what I said about establishing a price floor for oil.

*A cap and trade program to reduce carbon dioxide emissions enjoys widespread but not universal business support. How might such a program affect Houston's economy?*

It ends up creating penalties for burning heavy oil but it's probably not as negative for Houston as one might think. Obviously some companies will shy away from Houston if they can't meet the standards.

*What role should the Houston region play in national energy policy? How do we get the nation's capital to work with the energy capital, as no administration has had success in the arena to date?*

I'm not sure what role they can play. We've gone back and forth from a strong free market approach to weaker in the last 25 years. I'm not sure there is an energy capital or national capital--just diverse points of view that never seem to be bridged.