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Dear Client:

During the high tech go-go years a decade ago, Austin ranked among the nation's fastest growing cities. But from 2000-2004, Austin's population growth slowed so dramatically it was only the 107th fastest growing US city of 100,000 or more. This slow growth trend is now changing.

Recently-released USCensus Bureau data from April 1, 2000 through July 1, 2004 shows **San Antonio, Houston, Dallas and Fort Worth were among the nation's leaders in population growth**, while Austin took a breather. In fact, the state as a whole grew from a population of more than 20.8 million to nearly 22.5 million – a 7.9% gain.

San Antonio was the leader of the pack. The Alamo City had a 2004 population of more than 1.2 million – a four-year jump of 8%. (The only other big city nationwide to gain more than 5% was Phoenix, population 1.4 million.) **If San Antonio keeps growing at its current pace, it will pass San Diego to become the nation's 7th largest city by 2010.** Remember now, we're talking about population *inside* the city limits – not the full metro area.

To look *forward*, you need to break down these four year numbers. When you do that, this is where **you can see a new growth trend emerging for the city of Austin.** While Austin's 2000-2004 population increase placed it way down the list as the 107th fastest growing big US city, the numbers start to change when you look at the last year of the reporting period.

In 2004, Austin's city population of 681,300 made it the 70th fastest growing. And when you add other factors since 2004 — such as record-setting home sales, gains in the number of jobs, low unemployment, etc. – it becomes apparent **Austin is in the midst of an upward population growth pattern that is speedier than in the first three years of this century.** Look for future USCensus Bureau numbers to reflect this new trend.

Incidentally, during this four-year horizon, 72% of Texas cities either maintained their existing populations, or showed an increase. Interestingly, of the cities above 100,000, **Abilene, Beaumont and Wichita Falls actually recorded declines.** The other cities that lost population were smaller, rural communities scattered around the state.

Speaking of population, what about those who are out of work? How do we stack up?

Quite nicely, thank you. Of course this is an all-important measure of the economic vitality of an area. It's one thing to say there are a lot of people living there, but it's another to make sure a significant, healthy percentage are earning wages, buying goods and services, and paying taxes – to maintain a high quality of life.

No matter how you break out the numbers, **the Austin area is one of the best cities, as well as metro areas, in the state for a person to find a job.** Take just the city of Austin, for instance. The September 2005 unemployment percentage in Austin was a solid 4.8% — compared to Houston at 6.6%, Dallas at 6.3%, Fort Worth at 5.9% and San Antonio at 5.2%.

The other cities within our metro all have a solid employment underpinning, with Cedar Park's very good 3.2% September 2005 unemployment leading the way over San Marcos (3.6%), Round Rock (4.1%) and Georgetown (4.5%).

When you take in the wider metro areas, the picture is the same. The Austin-Round Rock Metropolitan Statistical Area (MSA) recorded the same 4.8% unemployment. This compares to the Houston-Baytown-Sugar Land MSA's 6.2%, Dallas-Fort Worth-Arlington MSA's 5.6% and the San Antonio MSA's at 5.3%.

Even the county-by-county breakout keeps our region at the top of the list. Our five MSA counties (Travis, 4.9%; Williamson, 4.4%; Hays, 4.4%; Bastrop, 5.0% and Caldwell, 5.6%) are better than the state's average of 5.7%.

Interestingly, when you look statewide at how many people are seeking jobs, there was an increase in September. According to the Texas Workforce Commission, "the majority of September's gain can be attributed to the **relocation of Louisiana residents to Texas**, particularly in the Houston, San Antonio and Dallas areas." It appears Hurricane Katrina is "reshaping" Louisiana in more ways than the physical devastation she loosed upon the state.

So, how's the recovery coming along in New Orleans? Can you start planning a weekend getaway to the city, a favorite destination for Austinites? And what about Mardi Gras next February?

We're told the basic industry in New Orleans – tourism and conventions – is making a comeback. In fact, about 15,000 hotel rooms are back on the market and the city expects to have **28,000 hotel rooms ready for occupancy by Mardi Gras** on 2/28/06. Don't worry about the crowds of years past. Years will be needed to convince tourists to come flooding back in quantities to match pre-Katrina levels.

In case you missed it, the first biotechnology center in Texas will change the way cancer is treated in the future and it will bring new jobs and industries to Central Texas.

But the center is not in the Austin area, it is located just north of us — in Temple. And it is being called “part one of the most exciting opportunity to come to Temple and the region.” “It brings a wealth of new ideas and individuals and keeps us on the cutting edge,” said Dr. **Alfred B. Knight**, CEO of the Scott & White medical complex in Temple.

Voters in Temple created the Temple Health and Bioscience District, the first of its kind in the state. The nationally-recognized Scott & White, long a bedrock complex in Temple, recruited a world-renowned cancer research team, led by Dr. **Arthur Frankel**. Frankel, a native of Austin, moved from Wake Forest University School of Medicine to Temple. He brought with him more than \$6 million in grants from the National Institutes of Health.

“Dr. Frankel is arguably one of, if not the, **top investigators in the world in the area of drug development for cancers** that have been until now considered incurable,” said **Nancy Birdwell**, Scott & White’s Chief Development Officer. Dr. Frankel’s team is focused on new drug development and production, as well as finding new ways to use lethal toxins to treat cancer. (Meanwhile, another newly recruited and internationally recognized researcher, **Alexzander Asea**, PhD, is exploring immunotherapy applications to coax the body’s own defenses into fighting deadly diseases.)

“With the continual recruitment of researchers, scientists and pharmaceutical companies, Temple is set to become the epicenter for the development of new drugs,” Birdwell added.

Even though you may still be checking the price-per-gallon signs at service stations, the word we get is prices will stay about this low, or a bit lower, until next spring.

This prediction is predicated on “normal” circumstances. All bets are off if cataclysmic events occur in the Middle East or elsewhere. Thank goodness hurricane season ends 11/30/05. What will force prices back up next spring will be **tight supplies and strong demand from overseas**. If you use diesel for your personal or business vehicles, diesel prices are still up there and are not expected to taper off before climbing even higher into next year.

You may not be aware of this, but **one effect of high fuel prices is higher postal rates**. A first-class stamp will go to 39 cents next year and the US Postal Service is saying it will jump to 42 cents the following year, in 2007. The Postal Service operates about 212,000 fleet vehicles and complains that fuel costs this year added about \$500 million to its budget. Hence the increase in what it charges to consumers for its services.

Fuel prices have also impacted air fares and hammered the airline industry, but – believe it or not – Southwest Airlines is making big bucks as a result of what it did about fuel prices.

You may have noticed Southwest Airlines 3rd quarter profit almost doubled the previous year. It rose to \$227 million, or 28 cents per share, from \$119 million, or 15 cents per share last year. This profit – the envy of the airline industry – included **\$87 million in one-time gains** from Southwest's strategy on how to deal with stratospheric jet fuel prices.

These numbers really brought home what we've told you in the past – Southwest was smarter than a tree full of owls (as well as a bit lucky!) when it **locked in jet fuel prices months in advance** of when it needed the fuel. This hedging, considered among the best in the industry, protected Southwest from jet fuel price spikes.

“We continue to mitigate record-high jet fuel prices with our successful hedging program, which resulted in a \$295 million benefit from settled contracts in 3rd quarter 2005,” said CEO **Gary Kelly**. But he did caution the 4th quarter may not be quite as good because of Hurricanes Katrina and Rita.

However, Southwest Airlines is continuing its hedging strategy into 2006 and reports it is **more than 70% hedged for next year**.

It wasn't just the fuel hedging that helped Southwest Airlines (the carrier that hauls more Austin area passengers than any other). The airline's **quarterly traffic increased 19%** as operating income rose to \$273 million from \$191 million a year ago. As a result, even if Southwest did not have the one-time profit gain due to hedging, **it would still have reported earnings of 21 cents per share**, well above Wall Street projections of 18 cents per share.

College basketball season kicked off this week in Austin, prompting **Dr. Louis Overholster** to recall what TexasA&M basketball coach Shelby Metcalf told a player who received four F's and one D: “Son,” said the coach, “it looks to me like you're spending too much time on one subject!”

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