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Dear Client:

It doesn't take a Harvard economist to conclude the economy is good and, more importantly, that people think the economy is good. But what does that mean in terms of the goods and services Texans are actually buying in these heady economic times? The Comptroller's sales and use tax analysis contains some interesting data on this question.

By far, most of the sales tax collected in this state is at the retail level. The Comptroller subdivides retail trade into ten categories: building materials, general merchandise, food stores, automotive, clothing, home furnishings, restaurants, drug stores, liquor stores, and miscellaneous. Between the fourth quarter of 1998 and the same period in 1999, gross sales in **nine of the ten categories were up** — only clothing sales saw a relatively slight 1.3% decline on \$3.26 billion in gross sales.

Most categories, by contrast, showed healthy increases. Interestingly, **drug stores topped the list** with a 16.8% increase on more than 2.5 billion in gross sales -- an increase of more than \$400 million from the year before.

As we have reported in previous newsletters, the **cost of drugs is a growing concern** at all levels of government, and much of this increase is probably attributable to increased usage of both prescription and over-the-counter medications from 1998 to 1999. Indeed, only \$610 million of these sales were taxable during the period: prescription drugs and (since last fall) over-the-counter meds are exempt from tax.

The other big increases in gross sales are in liquor stores (15.7%), building materials (14.9%), and miscellaneous retail (13.9%). At the same time, sales of food stores increased 3.2%, home furnishing 4.8%, restaurants 5.6%, and automotive 6.1%. **But in our Austin-San Marcos MSA, sales of home furnishings skyrocketed 77%** to almost \$1.2 billion, followed by liquor stores (25.5%, this could be a sign of both good times and bad times!), drug stores (15.1%), restaurants (14.5%), and building materials (14.1%). Bucking the statewide trend, even clothing sales increased in Austin (9.3%). Where did the Austin MSA fall below the state norm? Only miscellaneous sales declined, and that by a modest 1.2%.

Austin's building boom is clearly reflected, as are our growing tendencies to eat out more, consume more pharmaceutical products, and -- perhaps, curiously -- buy more alcoholic beverages (you can supply your own analysis here).

Next week's Republican National Convention in Philadelphia is a historic one: the first Republican convention was convened in the City of Brotherly Love in 1856. The GOP nominee that year? The famous Californian, **John C. Frémont**. Frémont lost the general election that year, ironically to Pennsylvanian **James Buchanan**, a northern Democrat acceptable to the South. Of Frémont's 114 electoral votes (to Buchanan's 174), all came from Free States; Frémont failed to carry a single southern state. Republicans would have to wait until 1860 and **Abraham Lincoln** to elect their first president.

In the pivotal year of 1856, Republicans who came to Philadelphia supported a protective tariff and vehemently opposed extending slavery into US territories. In the pivotal year of 2000, the GOP Philadelphia convention is likely to contain a strong endorsement of free trade and opposition to abortion rights.

The convention's 45,000 delegates, media, sponsors, and other participants will gather at Comcast-Spectacor's First Union Center, a \$210 million state-of-the-art high-tech sports arena. According to the Republican National Committee, corporate sponsors and media can choose from 126 private suites for hospitality rooms and broadcast venues.

Indeed, the RNC has already raised more than \$40 million in cash and in-kind contributions from just 200 donors, including familiar names such as Microsoft, Phillip Morris, Enron, AT&T, PEPSICO, Bell Atlantic, International Paper, and State Farm Insurance Companies.

For their money, convention sponsors will get special recognition on the Host Committee's convention website, a private reception each night of the convention, and VIP tickets to convention-related activities and events. This package presumably includes front row seats for Governor **George W. Bush's** coronation and campaign kick-off speech 8/3/00.

Governor Bush pulls into Philadelphia with a full head of steam. One highly respected national publication, the *Evans-Novak Political Report*, puts Bush substantially ahead in the electoral college, 298 votes to Vice President **Al Gore's** 239. Most people tend to forget the **electoral college tally is the most important vote of all**. Some successful presidential candidates in the past have not won a majority of the popular vote, but have carried enough key electoral college states to put them over the top. Remember, if a candidate only carries a state by a single vote, he gets *all* of that state's votes in the electoral college. So the big states really matter.

As we reported months ago, the most important battleground states (where no candidate has a substantial lead, such as Bush does in Texas and Florida) are still the industrial northeast, Ohio Valley, and Great Lakes: Pennsylvania, New Jersey, Ohio, Michigan, Illinois. **Ralph Nader's** recent surge in popularity with labor could hurt Gore in these states; a **Pat Buchanan** resurgence (however unlikely) could likewise cut into Bush.

State budgets across the country continue to benefit from strong economic growth, although most states are predicting a slower rate of growth than last year.

According to the Nelson A. Rockefeller Institute of Government, located at State University of New York in Albany, economic forecasters in each of the fifty states are projecting a **slowdown in the national economy for calendar 2000 and 2001**. However, as the survey points out, states predicted lower than actual growth in 1999 (2.4% projected to 4.1% actual), so this year's forecast of 3.4% real GDP growth in 2000 and 3.1% in 2001 is actually more optimistic than last year.

The survey also finds **significant regional differences** in state forecasts for their own local economies. New England states, for example, project employment growth at or just below the national median state employment growth of 1.6%, while southeastern, southwestern, and western states are more likely to predict healthy employment growth.

States forecasting well-below median employment growth include Maine, Pennsylvania, Wisconsin, North Dakota, West Virginia, and Hawaii, Louisiana, and Tennessee, several of which are weathering **current budget crises** even in the midst of the nation's general economic prosperity. Nevertheless, as the survey notes, conservative forecasting models are responsible for some of this pessimism.

It is interesting to note that **states tend to undershoot most economic predictors:** real GDP, nominal GDP, employment, retail sales, personal income, wages and salaries, corporate profits, and inflation. States base budget figures for economy-sensitive programs such as Medicaid, prisons, and welfare on economic forecasts because it is better to be conservative than to face budget shortfalls later.

States estimate that Medicaid populations will continue to increase by 2.4% in 2000 and 1.7% in 2001, although Texas is forecasting a respective 3.3% and 2.6% *decline* in Medicaid caseloads. By contrast, most states predict a steep drop in the population receiving welfare payments (TANF) — 11% in 2000 and 4.8% in 2001 (Texas 5.9% and 10.2%). Finally, most states believe their prison populations will increase: 4.4% in 2000 and 3.8% in 2001. **Texas anticipates a slight prison population increase in 2000** (0.5%) and slight **decrease** in 2001 (0.1%).

Overall, states are generally bullish, but the report warns that continuing stock market volatility and reduced consumer spending could require forecast revisions.

Continental Airlines has moved past Delta to become the third largest carrier in Austin with 15 daily flights. That includes a recent additional daily flight to Newark/New York and a new non-stop flight to Cleveland. Continental, by the way, has leased another gate to handle the growth.

In your electric bills this summer, a piece of self-promotion from Austin Energy touted what a good deal you're getting. But what about that "hidden tax" on your electric bill? With the hustle and bustle of electric deregulation last year, one might think our city-owned electric utility may not be as competitive as investor-owned giants like Entergy, Central and Southwest Corporation, Reliant Energy, and TXU.

But that's not necessarily the case. **Austin Energy claims it will ensure customers receive the same benefits, if not a better deal,** than that received by other Texans in the coming new electricity market. The utility says citizens will benefit in two ways by utilizing city-owned power. First, residents and businesses get reliable, low-cost electric service. Second, **the city gets the benefit of the utility's profits** to supplement city services. Austin Energy claims last year's **\$61.2 million in profits** was bigger than the combined budgets of Austin Emergency Medical Services, Parks and Recreation, and Austin libraries.

The implication here is that utility profits fund basic city services without the necessity of property tax increases. But, one could argue that using excess profits generated by electric rates to fund city services is **tantamount to a "hidden tax,"** one that is imbedded in electric rates so it doesn't have to be out in the open. Private utilities distribute profits back to shareholders in the form of dividends. A question a perceptive voter should ask: **Might Austin Energy return part of its profits to ratepayers, either in the form of lower rates or a rebate?**

During this hot, dry spell, city officials have placed Austin under outdoor watering restrictions. But remember, this is not due to lack of water. The City of Austin has failed to keep up with the growth by not building infrastructure fast enough to deliver the abundant water supply to its customers as needed during peak periods.

This year's running of the bulls just concluded in Pamplona, Spain. **Dr. Louis Overholster** decided to start training now for next year's event. He knows how difficult and dangerous these powerful, sexually-charged, yet dim-witted animals can be, so he's going to work out with a pro football team!

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