

THE

Real Speake

AUSTIN LETTER

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Dear Client:

Almost every major semiconductor company in the world has a chip design center in the Silicon Hills of Austin – there are more than 50 of them, employing as many as 6-7,000 engineers. This is the second largest chip design center concentration in the US (trailing only the Silicon Valley). That's why it was such an exclamation point last week when IBM, Toshiba and Sony officially launched a new Austin chip design center, where the three corporate giants will invest more than \$400 million in the next five years to produce a "supercomputer on a chip."

Just because the sale of personal computers has slowed, forcing computer manufacturers like Dell to scale back, don't let that lull you into thinking all Austin high tech companies are struggling. For instance, according to economist **Angelos Angelou**, the chip design sector of Austin's high tech economy has been **growing about 20% per year** and there is no let up in sight. The IBM/Toshiba/Sony joint effort is an example of that.

Code-named "Cell," the chip design center (which will be housed in IBM's North Austin facility), kicks off high-gear hiring this week – hosting a job fair at the Renaissance Hotel, 4/23-24/01. Applications are already being accepted on-line at www.ibm.com/employment/us. At its peak, the center will be staffed with nearly **300 skilled computer architects and chip designers**. Angelou estimates 70% of the 300-person workforce will earn an *average* of more than \$100,000 per year.

The new microchips designed here will employ the world's most advanced research technologies and chip-making techniques, with features smaller than 0.10 microns – 10,000 times thinner than a human hair. The end result will be devices which **you, the consumer, can use** and are **more powerful than IBM's Deep Blue Supercomputer**, operate at low power and access the broadband Internet at ultra high speeds. This has a WOW!" factor in capital letters.

To give you an idea of why this chip design sector of the high tech industry is growing and advancing technologically at warp speed, consider we're not talking about selling computers or dot-com startups dreaming of IPOs. We're talking about **everyday devices used all over the world**, in which these chips are imbedded to make them even better. For instance, as recently as 1980 there were no microchips in your home. **Now the average home has more than 200 chips. Thirty percent of the value of your car is in the computer chips** found throughout your auto's operating parts. This very important, *thriving* sector of the Silicon Hills high tech economy – chip design centers – is changing the way you, and the world, live every day.

Speaking of high tech hirings, let's analyze Austin's workforce — job creation and layoffs — now that the first quarter is in our rear-view mirror. To get a more meaningful perspective on where we're headed in the final three quarters, we need to start with what happened in 2000. And then, with the help of economist **Angelos Angelou**, we'll do a little crystal balling for you.

Angelou points out the Austin metro area enjoyed a phenomenal job growth in 2000, even though the economy started showing signs of softness in June of last year (remember the problems at dr.koop.com and other dot-com debacles?). **There was a net gain of 36,000 new jobs** in the Austin area last year. 36,000! That's a growth rate of an unbelievable 5.8%.

Even more impressive, Angelou points out the net gain occurred in spite of the fact there were **2,500 announced layoffs** and Dell Computer's workforce was **reduced by another 1,500**, primarily through attrition.

What about this year, 2001? **Already, there have been 9,000 layoffs announced so far.** (By the way, most of the companies that "announce" layoffs are those who are trying to send a signal to investors they are responding to the economic climate. Many other companies lay off employees without any fanfare.) Angelou, who always tries to be conservative in his predictions, and purposefully underestimates the final result, estimated a net job gain for the Austin area in 2001 at 25,000.

He points out that in January 2001, the Austin area experienced a year-to-year job gain of 31,000 and in February the year-to-year job gain dropped to 29,000. March numbers are not yet available. Angelou is keeping a close eye on the totals and admits **he may have to revise his 25,000 net job gain number downward at mid-year.** But, even so, he says a downward revision would **not go below a 3% gain** for the year. "And," he notes, "most communities would kill to have a job gain as great as 3%."

Who are these high tech employees who have been laid off? Angelou groups them into three age-group categories – **middle age** (40-55 years old), **high-20's to early-30's** and **new graduates.** He says the latter two categories are rebounding quickly. The new grads may have to accept a downward salary adjustment, but they are young, re-employable and ambitious.

Those whose age is in the high-20's to early-30's have probably **all been re-employed by now**, Angelou says. They worked hard and played hard by partying and networking with employees of other tech companies. This was the age group that made up the bulk of the high tech layoffs.

But those **hardest hit by the layoffs are the middle aged.** Angelou said they were devoting their lives and loyalties to their company (Motorola, for example) and their family, with not much extracurricular activity, and as a result are not as wired-in to the job market as their younger counterparts.

Bottom line: yes, layoffs have had an impact, but the net job growth should still be strong.

If you're interested in what the Texas Legislature does for you (or to you!), you may want to delay your summertime travel until July – even though the 77th session of the Legislature will officially end Memorial Day, 5/28/01. That's because there is growing talk about a Special Session, called to wrap up the politically-thorny redistricting issue.

The governor of Texas is empowered to call a Special Session anytime, for almost any purpose. Most governors avoid doing so because, while the governor limits which items can be considered in a Special Session, there has been all kinds of **mischief pop up during limited-agenda Special Sessions**. Especially if our part-time legislators are unhappy about spending even more time in Austin, away from their families and businesses.

Current thinking among legislative insiders is **redistricting lines for Texas House and Senate members will be adopted before 5/28/01**, because legislators are a lot more concerned about themselves and their re-election futures, than about members of the US Congress. So, they'll come back in a Special Session to draw the lines for Texas Congressional districts.

Special Sessions are scheduled for 30-day blocks. But that doesn't mean they must extend the full 30 days. In fact, some Special Sessions in the past have lasted only a few days. As we get to the end of May, and Congressional Districts have not yet been drawn, legislative leaders will probably confer with the Governor and they will more than likely agree to **begin a Special Session Tuesday, 5/29/01, the day following adjournment** of the Regular Session.

Obviously a lot can happen (or *not* happen) between now and Memorial Day, but if the legislative session is important to you or your business, you would be well advised to follow the lead of Governor **Rick Perry**. He's leaving his options open and not going to take his two-week vacation in Mexico until July.

Texas is moving into a full-court press mode, prepping for a visit to the Dallas/Ft. Worth area 4/25-26/01 by officials of the Boeing Company seeking a site for its Headquarters operations. The Boeing delegation didn't get a warm reception, literally, when it made a site visit to Denver. The day the Boeing officials arrived in the Mile High City, a massive snowstorm shut down Denver, including its highly-touted airport. The D/FW weather should be more accommodating.

By the way, **Ira Lipstet**, an attorney with Jenkens & Gilchrist, points out that one advantage touted by Texas – no corporate income tax – is not an advantage. He notes the **Corporate Franchise tax in Texas** “acts in an identical manner to a corporate income tax for those corporations that have net taxable income ... almost any companies generating a substantial amount of income are going to end up paying tax on income.” He does say many companies have taken other legal forms, such as partnerships, to avoid the franchise tax altogether.

The Austin area economy breathed a huge sigh of relief this week when new numbers showed a big rebound in retail sales, following a scary January. It looks like a year-to-year decline in January retail sales in Austin – as measured by sales tax collections – was a blip, not the beginning of a downturn trend.

In our letter to you 3/23/01, we pointed out **retail sales inside the city limits of Austin were down 0.08%** in January 2001, compared to January 2000. Travis County was up only 0.19%. We told you we would keep an eye on the February totals to see whether January's very uncharacteristic mushiness in retail sales might be a negative portent of things to come.

Well, the February sales tax collections released this week by the State Comptroller showed a very bright retail sales picture indeed. City of Austin retail sales, February-to-February comparison, **showed a healthy 9.46% increase** and **Travis County was up 8.98%** for the same period. The statewide average was up 4.8%. It appears the scary January numbers were an aberration.

The other big retail areas were also way up. **Williamson County was up 27.17%** (with Round Rock proper even stronger at +28.61%) and **Hays County was up 20.62%**, with outlet-mall-driven San Marcos up 12.75%.

This is really important. The sales tax collections are as good a precise measure of retail activity as you can get, and the numbers only lag a couple of months behind, so we can get a **reasonably current look at where retail stands.**

But, of equal value, is what this says about consumer confidence. When negative business news abounds (layoffs, stock market dives, etc.), consumers generally start hanging onto their bucks, taking a wait-and-see attitude. Retail is the first to suffer when this occurs. But, that's not happening here. Austinites are showing a solid confidence in our economy.

Dr. Louis Overholster has this advice to the new graduates about to enter the workforce: "Never wear a backward baseball cap to an interview unless you're applying for the job of umpire!"

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Sincerely



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