

THE

Neal Spelce

AUSTIN LETTER

www.AustinLetter.com

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

Volume 23, Number 10

June 8, 2001

Dear Client:

There were 26,700 more people working in the Austin metro area in April 2001 (the latest figs available) than in April, 2000 -- in spite of some high tech economic hiccups that resulted in headline-grabbing layoffs. In addition, in the most recent month-to-month comparison, there were 800 more people working in April than in the month before. Both are good signs.

“We’ve heard a lot about layoffs recently, but the fact is, the number of jobs is still increasing,” said Austin Mayor **Kirk Watson**. “Critical industries like healthcare and semiconductors are actively hiring and recruiting workers.”

There is no doubt our economy is still growing during this national downturn. **It’s just not growing at the breakneck pace** it has in the past. In fact, while we are adding more workers to our payrolls, we are still seeing an increase in the unemployment ranks -- because our population continues to increase.

Our metro area’s April 2001 unemployment stood at 2.7%, an amazingly low number. (We’re the envy of most of the nation’s metro areas, because we’ve been in the 2 percentile range since 1977.) But a year ago, it was a stunning 1.8%. So, yes, the ranks of the unemployed are swelling in the Austin area, but remember most economists say **any unemployed percentage below 4% is “full employment.”** Williamson County, by the way, notched a 2.1% unemployment, while Hays County recorded 2.5%, compared to Travis County’s 2.8%.

Other major metros in the Lone Star State are doing **better than the state or the nation as a whole in the unemployment category**. Fort Worth/Arlington and San Antonio both recorded 3.2% unemployment in April. Dallas came in at 3.4% and Houston at 3.5%. Even Waco, not known in the past for its dynamic economy, was clocked at 3.3%. Texas’s April unemployment was 4%. The Texas Workforce Commission reported the highest level of employed Texans ever recorded for the month of April. US unemployment was 4.2%.

With this talk about workers and jobs, it’s important to remember what Greater Austin Chamber of Commerce President/CEO **Mark Hazelwood** says: “an educated workforce is one reason why Austin has enjoyed tremendous economic success over the years.” Hazelwood also emphasizes that a **highly educated and trained workforce** will continue to be the lifeblood of Austin’s economic health into the future.

What about borrowing money for your business? Not venture capital, just a plain ole ordinary business loan. What are the prospects in the Austin area these days? First of all, interest rates are low and may go even lower. The Fed's series of interest rate cuts have already shaved prime down to 7%, and most analysts are expecting another half-percentage-point cut before this fall. So, money is relatively cheap.

But, there's a psychology at work out there that you need to factor into any borrowing equation. Just as economists like to talk about "*consumer confidence*" as an indicator of the vitality of the economy, there is such a thing as "*banker confidence*" as well. Bankers read all the same headlines about slowdowns and layoffs, and their **naturally conservative tendencies become more bolstered** with every story they read about some economic problem.

Banks have the bucks to lend. But, when you walk in to your loan officer these days to get some of that relatively inexpensive money, you need to be aware that your request is going to be scrutinized quite closely. Not only is a good credit rating a must, but **additional collateral and tighter restrictions -- in addition to a solid pay-back plan** -- are probably going to be part of your borrowing equation.

If your request is a bit marginal, you could end up getting slapped with a **higher interest rate**, offsetting the cheap money lure that may have enticed you into the bank in the first place. So the advantage of a low-interest loan just vanishes.

Money's not tight, as it has been at times in the past. However, after a record-setting economic run, the psychology of these slow times is playing a role in tight lending policies.

As far as consumer confidence is concerned, you can look for an uptick next month. Why July -- when summer seems to slow down just about everything? Because, every taxpayer in the US will get a paycheck from Uncle Sam, and you can bet most taxpayers will not let that money burn a hole in their pockets. After all, we are not a nation of savers. We're spenders.

In July, the Internal Revenue Service will start mailing \$300 checks to single taxpayers and \$600 checks to those filing joint returns. The amount is not so large that it overwhelms most taxpayers, but it is **large enough to be considered "mad money" by many**. You know what that means. Buy that doodad you've wanted, take a trip, or use it as a down payment on a larger purchase you've been thinking about -- anything, just spend it.

Right behind receipt of that cashable check, most taxpayers in August will also see a bit more in their paychecks. It will represent a little less withholding for the new tax rates, but believe me, **many taxpayers will look at it as a nice little pay raise** and probably run right out and spend, spend, spend. Also, just as school is starting at the end of summer, Texans will get another state sales-tax-free shopping period. Austin area retailers should be licking their chops.

You win some and you lose some -- especially if you're a major institution with a legislative agenda. That's what happened to UTAustin as it jockeyed for funds and flexibility during the recently concluded legislative session. For years now, UTAustin has seen its legislative appropriations dwindle as a percentage of its total funding. That makes it more important for the flagship institution to find other ways to increase its revenues.

In our 4/27/01 edition, we told you of a two-pronged aggressive push by UTAustin to raise tuition and to retain 100% of the money it gets from research awards and grants. A bill was sent to the governor that would **raise tuition**, but UTAustin failed to get legislative approval for its move to keep 100% of its research revenue.

UTAustin fared especially well on the tuition increase. There were actually two bills to raise tuition. One would increase costs by \$1 a semester credit hour and the other authorized a **\$2 a semester credit hour hike**. The \$2 measure is the one passed by the legislature.

It actually raises tuition by \$2 per semester credit hour, *each year*, for the next five years. The cost to the students will rise steadily from **\$40 per semester credit hour to \$50 by the 2005-2006 academic year**. Before this increase, Texas ranked 32nd among all the states in total tuition and fees paid.

UTAustin was also given the authority to institute a pilot program that uses the higher tuition as an incentive to speed up graduation rates. UTAustin officials have long been concerned by the large student population. In fact, UTAustin has more students than any college or university in the US. One of the factors contributing to the large numbers of students is **the majority of them do not graduate within four years**. It's common for UTAustin students to take five to six years to earn an undergraduate degree. This adds significantly to the overcrowding.

The pilot program would allow two colleges at UTAustin (such as engineering, business or communication) to **charge a flat rate for tuition -- no matter how many credit hours the student takes**. For instance, a student would pay tuition for only 14 hours, even though the student might take 18 semester credit hours. Many students now take a lighter course load, such as 14 hours, but there is no way to graduate in four years carrying such a light load. The pilot program will test whether "discounted tuition" would help speed up graduation rates.

You may recall this past year there were a number of TV and newspaper reports about UTAustin staff members' complaints concerning low salaries. The legislature included staff members in the state employee pay raise appropriation. So, the **university staff members will get a 4% pay increase** when the state's fiscal year begins in September.

Overall, the general appropriation for UTAustin increased for the next two years. But, faculty members did not get designated pay raises.

Airlines are among the most nimble competitors in the old economy. Prices and deals go up and down daily based on load factors, fuel prices and demand. That's why it's all the more amazing to analyze the results of Texas-based Southwest Airlines, a company that is laser-focused -- rarely breaking from its longtime, low-fare business model.

Southwest Airlines' track record in Austin illustrates the company's success. Passenger activity at Austin-Bergstrom International Airport (ABIA) for the year through April shows **Southwest Airlines is more-than solidifying its market-leading position.** Its passenger totals are up 7%, at a time the overall totals are up only 3%.

Second place American Airlines is down 8%, third-place Continental (on a much smaller passenger base) is up 7% and 4th place Delta is down 4%. **Southwest is not only outperforming its competitors, but the dynamic Austin market itself.**

Of all ABIA passengers, 38% flew on Southwest Airlines January through April 2001. Second place American Airlines, which is losing market share to its feisty competitor, has dipped to a 23.2% market share for the same period. Continental's market share is 10.4% and Delta's is 9.6%. The spread between Southwest and the rest of the field is widening.

The first quarter of 2001 has not been a good one for the airline industry. Dallas-Fort Worth-based American lost money. Houston-based Continental lost money. So did Delta and United. But Southwest Airlines not only made money, its profits were up 65% from a year ago. And, if that is not amazing enough, it means that, **since 1973 when Southwest first became profitable as a tiny Texas commuter airline, it has never lost a penny -- ever.** No other airline has ever come close to that record. Southwest proves if your business model is on-target, you don't have to be nimble, changing every time the competitive and market winds blow a different direction.

Dr. Louis Overholster's airline passenger's prayer: May the person in front of you never recline their seat. May the cabin attendant begin serving peanuts on your row. And may your on-time departure stand only two hours on the runway before taking off!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher