

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 33

November 16, 2001

Dear Client:

The high technology boom that pushed overall unemployment to record lows in Silicon Valley and San Francisco has turned to a bust. And ex-dot-comers are leaving the Bay Area as unemployment climbs beyond what we're seeing here in the Silicon Hills of Austin.

It's instructive to examine what is going on California's Bay Area. Yes, the area is a **competitor of Austin's**, but it's more than that. The Silicon Valley is where the high tech momentum reached such a peak that it changed the way the world lives and does business. Since the **Austin area is continually compared to that region**, how do the two economies compare today?

Last month, the **unemployment rate in San Francisco hit 6%**, up from 2.8% a year ago. Just south of San Francisco, in **Santa Clara County**, the heart of Silicon Valley, **the rate was 6.4%**, up from an amazingly low 1.6% a year earlier. **The Austin area's unemployment hit 4.5%** in October 2001, compared to 1.8% in October the year before. Obviously, our California counterparts have a greater percentage of their workforce out of work.

Truck rental companies report being **inundated with requests for one-way trucks out of San Francisco**, according to *The New York Times*. The Valencia Street U-Haul, one of the company's main branches in the city is getting requests for 15 one-way trucks a day, up from around 6 before September 11, 2001.

The terrorist tragedy on the opposite coast 9/11/01 apparently intensified the downturn in the Bay Area. The *Times* reported the renters were typically 20 to 32 years old and they "expressed angst about the **high cost of living, an inability to get jobs and living in a city where terror could strike.**"

"**Silicon Valley has always been cyclical**, as different technologies emerge and inspire great bubbles of enthusiasm," reported the *Times*. "Indeed, there are those who say a biotechnology boom is just around the corner. But, it is a far cry from the heyday of the dot-com bubble."

What about the economic future of the Bay Area? The Director of the Center for the Continuing Study of the California Economy said he did not expect the downturn to be as marked or as **long-lasting as the aerospace collapse** in Southern California in the early 1990's when a million people left the area. But, he did say the events of 9/11/01 are delaying recovery.

As expected, retailers in the two biggest counties in the five-county Austin metro area took a hit in September, when the world stood still following the 9/11/01 terrorist attacks. But, encouragingly, Bastrop, Hays and Caldwell counties still managed to show an increase in retail sales, as measured by sales tax collections, over the previous year.

Travis County (-12.64%) and the City of Austin (-13.42%) retail sales were down substantially in September, as reflected in sales tax collections. Williamson County (-2.71%) was also down, but less slow. State Comptroller **Carole Keeton Rylander**, the collector of the sales taxes statewide, said “The September 11 terrorist attacks **reduced sales tax collections for a few days, but we bounced back**. Confident, resilient, defiant Texans soon returned to living our lives and conducting our business as usual.”

Notwithstanding Rylander’s optimistic take on the sales tax collections, we still need to get fourth quarter numbers to tell if the Austin metro area is starting a **turnaround from a disturbing trend** we’ve been telling you about for several months now. Retail sales generally have been below last year and below the state’s average for much of this year. The 9/11/01 impact skews the numbers somewhat, so **the verdict is still out** as to whether retail sales will bounce back in time for the busiest time of the year – the holiday buying season.

Remember all the cussing that went on about the effort and cost required to implement Y2K protections two years ago? Well, there was a big benefit 21 months after that turn-of-the-century effort. Because of Y2K concerns, federal regulators forced banks and brokerage houses to update their systems in preparation for possible disruptions.

As a result, **nearly all your financial records are stored electronically, usually in multiple locations**. So, when the 9/11/01 terrorists severely damaged many brokerage and investment operations at the World Trade Center and in nearby buildings, all your records were secure. **Y2K gets partial credit for that** – and for the protection you will enjoy in the event of any future crisis involving financial assets of this country.

As we alerted you 10/26/01, the Austin Independent School District this week formally called a bond election for 2/2/02. It will not affect your tax rate if the voters approve \$49 million to be spent for repairs and renovations to about 100 schools.

Also in February, voters in Georgetown, as a result of action taken this week, will go to the polls to decide whether to **kick out the mayor and a majority of the City Council**. Voters signed enough petitions to force that election. And, you can look for an election to be called in Round Rock in February. This election is being forced by about ten restaurants that gathered signatures for a **vote to allow them to sell mixed drinks**, as nearby businesses are able to do.

The Chair of the Travis County Republican Party took issue with our analysis of the 11/6/01 election, where we told you “Travis County Republicans did *not* muster enough muscle to make an impact in the special election for Austin mayor.” And he didn’t mince words.

Here’s the complete text of **Alan Sager**’s first e-mail to me: “C’mon Neal. What you wrote about Republicans and **Greg Gordon** was pure fantasy. **Gus (Garcia)** out spent Greg by 9-1. The pro-bond group and environmentalists outspent us 20-1. Yet we made Bond #2 the lowest of the 4 and raised the turnout 10,000 or more above what was expected. Next time call me before you make stuff up!”

He followed up the first missive **three minutes later** with this one: “A final note. For what Greg spent we did quite well. Remember, we also told our voters to vote for the bonds and if our voters did not come out, the road bonds might have been in trouble. Look at the precinct results and you will see our impact.” Thanks, Alan, for your observations.

Sager first focused on *spending* by the victor, Garcia, compared to the GOP candidate, Gordon. He failed to point out, however, that the candidate who, as we said in our 11/9/01 issue “**didn’t campaign, turned down TV interviews and didn’t accept campaign contributions,**” **Eric Mitchell, got 2,000 more votes than Gordon.** Gordon ran third, with only 13% of the vote, to Garcia (60%) and Mitchell (17%). Gordon, obviously, greatly outspent Mitchell, yet lost to him.

Sager is correct when he said the Parks Bond Proposal got fewer votes than the three road bonds. But, in analyzing the precinct results, the Bond #2 (**parks proposal**) **total tally was not that far off the road bonds.** The parks bond total was only 1,642 votes less than one road bond item, only 901 votes less than another and 5,917 votes less than the third road bond. **The parks issue passed handily without active GOP support – 41,157 to 31,687 (56% to 44%).**

Sager is a bright, energetic partisan GOP chair. And he can be forgiven his search for the most positive outlook for his party’s effort. But we stand by our analysis the GOP effort did not muster enough muscle to make an impact in the special mayoral election. **The results (and that’s what counts) speak for themselves.** By the way, another politically savvy subscriber who has been involved in a number of local campaigns, usually **on the business side of issues**, e-mailed us saying he felt last week’s analysis was “**particularly insightful and on target.**” We appreciate both observations.

Speaking of elections, you need to know the three Austin City Council members, whose terms will be up a little more than a year from now, are taking steps to seek re-election. Jackie Goodman, Beverly Griffith and Daryl Slusher are gathering signatures on a petition to bypass term limit restrictions that would keep them from seeking re-election.

“David Lereah is way off his mark.” That’s the reaction from one Austinite to our 11/9/01 letter where we quoted Lereah as saying: **“expect the 30-year fixed mortgage interest rate to stay about 6.7%, then gradually rise to 7.2% by the end of next year.”** In other words, Lereah thinks now’s the time to buy a home or refinance a higher-rate mortgage, before rates inch upward.

So, if Lereah is “off his mark,” then which direction is Lereah, the chief economist of the National Association of Realtors, “off” – too high or too low? **John Harris**, with Austin’s Avenue One Realtors, thinks **long-term mortgage rates will sink even lower and kick off a major building boom.** Really? That’s pretty bullish for the housing industry. So, what’s Harris’s logic? How does he come to that conclusion?

“With the recent government announcement to not issue 30-year bonds, there will **soon be a shortage of long-term (read: safe) investments,**” Harris begins. “Purchases for FNMA and other mortgage-backed securities will grow faster than demand for loans.” He feels this will cause long-term rates to fall further.

There’s more to his logic. “Throw in the current international turmoil and cautious purchasing attitudes and **mortgage loans will approach 6% before they see 7%.**”

If it gets this far, then what?” “We will see a **building boom** (wrapped in red, white and blue) that will make for the **greatest expansion in modern US history,**” Harris concludes. Strong words.

Nothing impacts housing sales like low interest rates – especially in the mid-to-low cost range, where the majority of sales occur. These are interesting times. We’ll watch it with you to see if the direction is up, as Lereah predicts – or down even further, as Harris suggests.

Dr. Louis Overholster swears he overheard this conversation between two turkeys in a barnyard. “I’m really worried. I’m plump, tender, fully-grown – and it’s almost Thanksgiving!” The other turkey responded: “You think you have troubles? I’m in tech stocks!”

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