

THE

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AUSTIN LETTER

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Dear Client:

As the nation struggles to gain its economic footing in the aftermath of the 9/11/01 terrorist attacks, Texas remains in a solid position to rebound at a faster pace than the nation itself.

Prior to the hijacking attacks on New York City and Washington, DC, Texas had weathered the economic slowdown better than the nation as a whole.

Texas remains a growth leader among the 50 states. In fact, economists with the State Comptroller reported that **in the rate of job growth from June 2000 to June 2001, Texas ranked fifth** – behind only Nevada, Florida, Wyoming and Colorado. By mid-year, 28 states had annual job growth rates below 1% and seven of them lost jobs over the past year. And, in spite of well-publicized layoffs, **Texas ranked third in the number of new jobs** added over the past year (221,000) – behind California (310,000) and Florida (229,000).

The Texas and Austin area economies are intertwined more closely than ever before in US history with what happens nationwide, even globally. So, as the nation's economy struggles, so does the economy here. But, since Austin and Texas had not slowed as much as the rest of the nation prior to the terrorist attacks, **we are better equipped to rebound faster** than most other states and regions.

Also, **Texas also has some counter-cyclical industries that help.** Take oil and gas — in years past the backbone of our state's economy. It has been replaced in recent years by high tech and the service sector, but now **higher oil and gas prices have boosted the state's oil and gas industry.** Remember, there is a much greater concentration of oil and gas producers in Texas than nationwide. And, the strength of this industry has **propped up the state's aggregate economy** by mitigating the cutbacks in the consuming sectors.

Obviously, a rebound in the national economy would benefit Texas. And, steps taken earlier this year are just now being felt. We're talking about interest rate cuts. Federal funds interest rates are at their lowest levels since the early 1990s. **But, interest rate cuts earlier in the year are just now beginning to show their effects, as they work their magic with a long lag time.** Part of the optimism for the near future is in the positive effects of the Fed's interest rate cuts.

As the nation rebounds, **Texas should lead the pack in economic recovery.** The acceleration in the Mexican economy also will help Texas. But, remember, it will be a slow process.

Speaking of Mexico, if your view of our neighbor's economy is limited to infrequent visits to the border to buy curios, Chiclets, cheap liquor and velvet paintings, you should realize Mexico is a huge market for electronic goods made in the Austin area and around the state.

Among the top destinations for electronic equipment and components from Texas, Mexico leads the list by a wide margin. In fact, **Texas sends four times more electronic goods to Mexico than it does to the second country on the list, Canada.** Japan, the Philippines, Taiwan and Malaysia follow, in this order, way down the list.

The maquiladora industry in Mexico, along the Texas border, absorbs **a large share of these exports.** Under the maquiladora system, Mexico imports components from the United States and transforms them into higher-value goods, which are then shipped back to companies in the United States.

UTAustin's Bureau of Business Research says the US and Mexican economies are well suited for this kind of manufacturing and intra-industry trade because they are so complementary. **Mexico benefits from the creation of jobs and the transfer of manufacturing know-how** and, in many cases, **US companies gain a source of cost-competitive sub-assemblies,** which become part of a higher value-added good produced in the United States.

Are you wondering why the City of Austin has not jumped on board the deregulation train so the current customers of Austin Energy could shop around for the best utility rates?

Well, first of all, **the Texas deregulation law did not include city-owned electric utilities and electric cooperatives in the pilot program** that got underway statewide this summer. Customers of investor-owned electric utilities can participate. That's why customers in the northern part of our metro area, such as in Williamson County, can choose between their current utility company TXU, or a competitor.

If you're a customer of Austin Energy, **the only way for you to have the opportunity to shop around for the best deal is for the Austin City Council to vote on whether it wishes to participate in deregulation.** The same holds true for customers of electric cooperatives, such as the Pedernales Electric Coop, located in the western portion of our metro area.

In fairness, few, if any, of the 73 city-owned electric utilities in Texas and the 77 electric cooperatives are indicating they intend to participate when deregulation starts 1/1/02. Most, like Austin, are apparently taking a wait-and-see attitude. They're also motivated by the fact that **once a City or a cooperative votes to participate in deregulation, it cannot withdraw.** If you're interested in Austin Energy moving toward deregulation, you need to keep an eye on how the Texas pilot program works next year. Then work with the Austin City Council.

Was Ross Perot correct when he said years ago that the “giant sucking sound you’ll hear” are jobs leaving the US for Mexico as a result of the implementation of the North American Free Trade Agreement (NAFTA)? Well, not really, though a relatively few jobs have left the US.

“The naysayers argued the NAFTA free-trade zone would cause the loss of millions of jobs in the US as businesses moved their operations south of the border to take advantage of the cheaper labor available,” says Texas economist **Ray Perryman**. “In fact, over the last few years, some US manufacturing jobs have gone elsewhere. However, **the exit of lower-paying jobs from the US had already begun** well before the signing of NAFTA.”

The governments of the United States and Mexico approved the North American Free Trade Agreement in November 1993. The Canadian government followed suit the next month, thereby establishing a process intended to **eliminate trade barriers among the three countries within 15 years**.

When NAFTA went into effect on 1/1/94, groups and individuals argued endlessly and heatedly over how the trade pact may alter the future of each country in the years ahead. The predictions for the US economy varied from ecstatic joy brought on by **seemingly unlimited market possibilities** to gloom and doom wrought by expected **drastic loss in jobs** for American workers.

And, Texas and the Austin area were in the midst of the debate. Since Texas has the longest border of any US state with a foreign country, NAFTA was generally viewed as an **economic boon to the Lone Star State**. All you have to do is look at the increased truck traffic on IH35, the route that runs through the heart of Austin and Texas connecting Mexico and Canada, to see the increased trade.

“As we take stock of NAFTA today, we find a **stream of business activity is growing each year**, as well as some losses in low-paying jobs have occurred (primarily in the manufacturing sector and not always to Mexico), although whether or not they were really the result of NAFTA is highly questionable,” Perryman analyzed.

“Many analysts attribute the rise to business activity stimulated by the growing trade exchange with Mexico,” Perryman said. “**This growth exceeds even my expectations, which many regarded as optimistic at the time.**” He pointed out exports from Mexico to the US have been up dramatically, 241%, since NAFTA was implemented.

Perryman concludes that a “review of NAFTA’s overall effect on the US economy unequivocally demonstrates that, so far, results are substantial net gains, not losses. Even as our leaders work out the laws governing trade traffic across the border, **I predict the accord’s future impact will prove ever more advantageous to the US, Mexico and Canada**. Economic progress takes time, but NAFTA is moving us in the right direction.”

It's that time of year again when publications such as this one (which has print as well as web subscribers) to publish certain information about print circulation and ownership. This relates to our Periodical Mailing Permit, formerly known as the Second Class Mailing Permit. This is important because it gives a "preferred" status to newspapers/newsletters to help ensure timely mail delivery.

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