

THE

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AUSTIN LETTER

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Dear Client:

What's going on here? The actual number of unemployed people in the Austin area is more than double what it was a year ago – and yet, our economy is still growing. How can that be? We've long been told the unemployment stats are a great indicator of the economy's health. You know: if you've got a job, you're spending money, pushing the economy along; if you don't have a job, you're a drain on an area's economic resources. So, what gives?

“When we have layoffs in one area of our economy, we have job growth in another,” says **Larry Jones** of the Texas Workforce Commission when speaking about the Austin economy. The headlines have almost screamed at you throughout this year with word of layoffs. The most recent: Samsung Austin Semiconductor reduced its 1,000 employees by about 90 at its northeast Austin fabrication plant.

“Principally, we see the services industries adding jobs as the population grows. And, that's making up for job losses in the high tech area,” Jones notes. *“As the population grows”* is the operative phrase here. People are still moving here at a rapid rate. No matter how much our economy slows, we still have greener grass compared to other, struggling metro areas.

And, when those people move here, most of them find jobs. In fact, the Greater Austin Chamber of Commerce reports that **more than 70 businesses have announced this year alone that they are expanding or adding jobs.** Jobs are being created at a faster rate than layoffs are occurring.

Yes, the percentage of those unemployed jumped from an extremely low 2.0% in August 2000 to 4.5% in August 2001. But, that is balanced by the fact there were **10,900 more people working in the Austin area in August 2001 than in August 2000**, when we had one of the nation's lowest unemployment rates. More than 1,000 new jobs a month are being created in the Austin area.

What about this climbing unemployment rate? Well, let's keep it in perspective. A year ago, our unemployment rate was obscenely low. Help Wanted signs were everywhere. So we've more than doubled a very low number. The Austin metro area rate of 4.5% is lower than the nation's 4.9% and the state rate of 5.1%. **“We're still in fairly good shape,”** concludes Jones, as he looks at Austin. **“Any employment rate under 5% is still considered good.”**

Some of the biggest business news to come out of the terrorist attacks on the US related to the battering of the airline industry. Major airlines have cut schedules by about 20%, laid off tens of thousands employees each and received massive federal financial assistance. But, what about Texas-based Southwest Airlines, the airline that carries more passengers than any other at Austin-Bergstrom International Airport (ABIA)?

Southwest is doing better than any other airline. It's really amazing. **Southwest has not laid off a single employee. Zero, zip, nada, none.** The carrier has made only a minor schedule adjustment when it started service to a new market. It has weathered lost revenue resulting from the nationwide shutdown, decreased passenger loads and increased security costs.

Not to minimize what is a very tough time for Southwest (and all airlines), but **Southwest is doing okay so far.** One of the reasons it's hanging in there, when its competitors have instituted draconian cuts to stave off potential financial disaster, is the step Southwest took in the hours after terrorists seized four jetliners.

Southwest Airlines' brass – Chair **Herb Kelleher**, CEO **James Parker**, CFO **Gary Kelly** – knew instinctively air travel would never be the same and that passengers would be skittish about getting back on a plane. They huddled and asked **how much cash did Southwest have and where it could get more.**

By the next morning, September 12th, Southwest had tapped banks for a **\$475 million line of credit.** It called up Boeing and postponed delivery of eleven more Boeing 737 jets, **delaying payment of about \$330 million.** Within hours, Southwest helped its future cash position significantly. This not only helped the airline, but it helped keep investor confidence when all other airlines were being hammered unmercifully in the market.

This slavish devotion to cash and financial fundamentals helps explain why Southwest avoided layoffs. It also helps that Southwest has been the most profitable of all airlines over the years. As a result of what they did in the airline's boardroom in Dallas, the Austin air travel market is much more stable. **Southwest Airlines carries more than 37% of all passengers who fly in and out of Austin.** It's closest competitor, American Airlines, carries 24% — followed by Continental (10%) and Delta (9%). A relatively healthy Southwest is good for Austin.

By the way, it'll be a couple of weeks before ABIA releases the report that details passenger traffic for September. **Since all airports were shut down for days after 9/11/01, and most airlines ramped up slowly, you can expect the figures to be pretty dismal.** Year-to-date passenger traffic was up only 1.7% through August. It'll be interesting to see how much that number is sliced based upon September's tallies. **The same holds true for cargo activity.** Due to the economic slowdown this year – particularly in the high tech sector – cargo shipments were already declining before 9/11/01 (down in August 28% from the previous year, for example). Year to date cargo shipments were up only 1%. We'll watch this for you.

There will be eight names on the 11/6/01 special election for mayor of Austin, but only two names really count as you handicap the race. And one of them is the prohibitive favorite. But because there are so many names from which to choose, you should go ahead and circle 12/8/01 on your calendar – the date for a possible runoff.

No matter how you slice it, **former Austin City Council member Gus Garcia is the odds-on favorite** to be elected to fill out the un-expired term of Mayor **Kirk Watson**. (Watson, you'll recall, will step down as soon as his successor is sworn in, to make a statewide race for Texas Attorney General.) Garcia lined up key backers by jumping into the contest early, has already raised a substantial sum of campaign cash and has a built-in base from his previous campaigns for public office, including a term as President of the Austin School Board.

The person poised to provide Garcia with the stiffest challenge is another former City Council member who was often on opposite sides of the issues with Garcia – **Eric Mitchell**. Mitchell leans right; Garcia leans left. Mitchell is African American; Garcia is Hispanic. Mitchell, in the past, had support from big bucks developers; Garcia, in the past, had support from the environmentalist's volunteer armies. The political battle lines are clearly drawn between the two.

It's difficult, at this early stage, to assess just how formidable a candidate Mitchell will be. He *could* be strong. He's aggressive and certainly not afraid to stand toe-to-toe with anyone. **But, Garcia has already co-opted some of the business backing that would naturally gravitate to Mitchell's political views.** And Mitchell has yet to lay out how deeply he's committed to a vigorous campaign.

So the **next few weeks will be critical to Mitchell's bid** for mayor. He has to come out of the chute early — with planning, campaign organization building, fund-raising, etc. – to overcome Garcia's head start. Early voting starts in just ten days, 10/22/01. For the record, here are the candidates in the order in which they will appear on the ballot: **Ray Blanchette, David "Breadman" Blakely, Jennifer Gale, Greg Gordon, Gus Garcia, Leslie Cochran, Allen Phillips,** and **Eric Mitchell**. By the way, Travis County will conduct the election for the city.

The Austin mayor's race will have plenty of company on the 11/6/01 ballot. When you walk into the booth, you will also be asked to vote on 19 state constitutional amendments and several local bond elections relating to transportation issues. By and large, amendments and bond issues are usually yawners, attracting only a small percentage of registered voters to the polls.

There's no reason to think this election will be different. So, if there is to be a reasonable turnout, the mayor's race will have to generate the interest. That will happen only *if* Mitchell stirs the campaign pot — and that remains to be seen. Bottom line: even though the November ballot will be full, it's entirely likely the voter turnout will be small – once again.

Downtown traffic patterns are being disrupted once again. Streets, parking and alleyways are being used to shoot films for worldwide distribution. But, a positive side to all the disruption is that Austin could see a second record-breaking year for film production in the Austin area.

With **Robert Rodriguez's** *Spy Kids* sequel already wrapped and other feature films slated to start soon, the city **should surpass last year's \$121.9 million in economic impact in the area.** The director of film marketing for the Austin Convention and Visitor Bureau, **Gary Bond**, says "Although many filmmakers are turning to Canada and New Zealand for production, Austin is getting its fair share of business."

Two big budget feature films and two television shows are going into production this fall. The feature film, *Rolling Kansas*, produced by **Thomas Hayden Church** of the TV comedy series *Wings* is now in pre-production. *The Live of David Gale*, a feature film produced by **Nicholas Cage** and starring **Kevin Spacey**, is beginning production this month.

Along with these big screen productions, some TV films are underway as well. The National Network's (formerly Nashville Network) first traveling comedy/talk show, *Pop Across America*, films before a live audience this fall. And the Showtime series *Going to California* (similar to the old *Route 66* series that filmed in Austin decades ago) also makes a shooting stop in town.

The disruption caused by these productions is minimal because they normally shoot at night. The nighttime schedule is preferred because it's easier for filmmakers to control their shooting environment when surrounding activity is minimal and lighting can be precisely set for the circumstances, without worrying about clouds casting daytime shadows.

Dr. Louis Overholster observes that cell phones are what people use to call anywhere in the world – from anywhere in the world – and usually for no reason in the world!

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