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Dear Client:

If you look all the way back to WorldWarII, you'll find the average US recession has lasted about 11 months. With the good economic news rolling out all this week, adding onto earlier positive indicators, it looks like this national downturn will be no different than the average. This means the light is shining bright at the end of the tunnel and the nation is about to come out into the sunlight soon – probably within months.

Of course, Texas decided not to participate in the national recession (see State Comptroller **Carole Keeton Rylander's** comments in our 1/11/02 edition). But since the Lone Star State is such a national economic leader and **our economy is intertwined inextricably with the national – even global – economy**, we obviously are deeply interested in what's going on outside our borders. So, the good news on the national scene is good news for us.

(When we point out Texas isn't in the midst of a full-blown recession, we don't mean to minimize the pain felt by the **23,000 Austin area workers who were laid off or were re-located in 2001**. For them, the pain is real. But even with that obvious personal difficulty factored into the stats, our workforce actually increased by 2.2%, growing from 672,100 to 687,000. This is legitimate, healthy growth.)

As we've reported repeatedly throughout the past year, the Austin metro area is poised to take advantage of the nation's emergence from the recession at a much more vigorous economic pace than the nation itself. For instance, economist **Angelos Angelou says *this year Austin will add more than 16,000 jobs and next year that number will zoom to 29,400*** – almost as high as the go-go days of 1999 and 2000.

That's not all. Angelou (who has been involved in Austin's economic growth as well as charting it) says **retail sales**, which went up 2% this *past year*, will **increase 3% *this year* and double (6%) *next year***.

What about high tech? Angelou predicts there will be a whopping **55% increase in semiconductor chip sales** from 2001 to 2004 and a **53% increase in semiconductor equipment sales** during the same period. He predicts global IT spending will zoom 33% from 2001 to 2004, but global PC sales will increase only 4% during that time. But, no matter the specifics, **as the nation rushes out of the recession, the Austin area will be laps ahead of the pack in economic growth.** And it starts within months.

What is it about our economy that makes us more viable than most? Well, first of all, the entire state is in a much better economic position than during the 1970s and the 1980s.

The state's economy is more diversified. For instance, last year the majority of new jobs were created in the services sector. As a result, the impact of energy prices isn't felt nearly as much as it once was. In fact, Texas is now as much of a consumer of oil as it is a producer of oil.

The last great recession in Texas was back in the mid-to-late 1980s. It was called the oil bust (in Houston and West Texas) and/or the real estate recession (in Austin and Dallas) and/or the financial institution fiasco (in Houston, Austin and Dallas).

Back then, home sales fell by more than 7% and property values fell by more than 5%, according to the Real Estate Center at TexasA&M. **If the current market suffers a comparable drop, sales volume would still be higher than any year prior to 1999.** Of course, sales volume is not expected to take a big nosedive like it did back then. For one thing, mortgage rates, at around 10% back then, were much higher than they are today.

The economy and housing market are in many ways much stronger than they were in the mid-1980s. Oh sure, the high tech balloon has been deflated somewhat.

But high tech is not as important to the state's economy as oil was at the time of the big oil bust.

Also, home prices are elevated now because of a relative **shortage of inventory** in relation to demand and the **low, low interest rates**. In the 1980s, home prices were pushed up, primarily due to inflation – which the Fed has kept under control for years now.

There are plenty of other examples. But, it's clear the economic engine driving Texas is vastly different now than in the past, and residential real estate is one of the strongest underpinnings of the current Austin area and Texas economy.

With the sale of million dollar hillside mansions screeching to a halt and less pricier (but still high-priced) homes slowing measurably, has this pushed the housing sales pace below other Texas cities? Not really.

Austin is still the hottest housing market in Texas as far as total number of sales is concerned. When you count the number of Multiple Listing Service sales per 1,000 population, as TexasA&M's Real Estate Center has done, **the Austin metro area tops all others in Texas.** The Austin area tallied **13.2 sales per 1,000 population** last year, while the Dallas metro was second with 12.8. The others in the Top Ten, in order: Houston, 12.1; San Angelo, 11.0; Odessa-Midland, 10.9; and Fort Worth, 10.7: Tyler, 10.6; Abilene, 10.5; Wichita Falls, 10.4 and Lubbock, 10.3. These numbers include some projections, but are the most recent.

The up-or-down vote on the \$25 billion Hewlett-Packard/Compaq Computer merger is getting nasty as it goes down to the wire. The merger has huge implications in Austin because the two companies are in direct competition with Round Rock-based Dell Computer. A full-page ad in *the New York Times* illustrates the fact.

The 2/20/02 ad, aimed at HP shareholders, asks: “**Why on earth would you vote for a merger that benefits Sun, Dell and IBM? You wouldn’t and you shouldn’t.**” Then the ad directly quotes Dell, Sun and IBM execs gleefully contemplating the competitive possibilities if the merger is approved by HP and Compaq’s shareholders.

Michael Dell was quoted as saying “It’s just a delightful series of opportunities for us that emerge from this. (HP and Compaq) are going to be doing a lot of things that have nothing to do with adding value to customers, whereas we’re going to be doing things for ours. Dell’s President/COO **Kevin Rollins** was asked 2/14/02 if Dell has seen actual sales as a result of customer confusion caused by the proposed merger, said “We actually have,” according to the ad.

Sun’s **Scott McNealy** quips that part of his plan to cope with the recession is “just answer the phone calls from HP and Compaq customers.” Another high tech exec was quoted as saying, “If I was IBM, I’d be hoping this merger goes through.”

By the way, this unusual ad carried a footnote that says “Permission to use quotation was neither sought nor obtained.” The ad is part of the **Hewlett family’s open opposition to the merger** and it closed with the comment “A \$25 billion mistake is not the HP way.”

Those who sport “Pray For Me, I Drive 183” bumper stickers got some good news late this week, or partial good news. A new three-lane frontage road was opened on a portion of the mammoth construction project. This should help traffic flow.

The Texas Department of Transportation (TxDOT) helped motorists traveling south on US183 from RM 620 by opening the new three-lane frontage road between Woodland Village Drive and Fathom Circle late Thursday.

The new lanes are part of the project to convert US813 to a controlled access freeway just past RM620. The new road will feature three main lanes and three frontage road lanes – in each direction.

What’s next? **The new northbound frontage road will extend from Pond Springs Road to RM620, possibly by August** (TxDOT always likes to say “weather permitting”). To keep your perspective: after many, many years of work, this massive project will let you drive from way northwest to the airport, without a stoplight. Patience is a mandatory virtue for motorists.

In two weeks, some of the biggest names in show biz will be coming to Austin for the Texas Film Hall of Fame induction gala. It will be a star-studded evening with more celebrities prancing around on the stage of Austin Studios Hangar 4 than Austin has seen in sometime, if ever. But one Austinite, largely unknown outside of inside film circles, may wield more power than most of the big Hollywood names.

It's hard to single out one celebrity for top billing at the 3/1/02 gala. Some of those being honored, or presenting the honors, include: Academy-Award winners **Sissy Spacek** and **Marcia Gay Harden**, screenwriters **Bill Broyles** (*Cast Away* and *Apollo 13*) and **Bill Wittliff** (*Lonesome Dove* and *The Perfect Storm*), legendary actress **Cyd Charisse**, director **Terrence Malick** (*Badlands* and *The Thin Red Line*), sometime actor **Willie Nelson**, actors **Dennis Hopper** and **Cheech Marin**, singer **Lyle Lovett**, Motion Picture Association prexy **Jack Valenti** and TV superanchor **Dan Rather**. Oh yeah, the music will be provided by The Flatlanders (**Joe Ely**, **Jimmie Dale Gilmore** and **Butch Hancock**). Quite a list!

But if you pick up the 2/22/02 Oscar Guide issue of *Entertainment Weekly*, you'll find Austinite **Harry Knowles** prominently featured in an article titled "Prince Harry: How an online Knowles-it-all conquered Hollywood". A community college dropout, the 30-year-old Knowles operates his website, <http://www.aint-it-cool-news.com> from his Austin home with, as *EW* put it: "an undeniable sway over the (film) industry ... capable of invoking fear."

What's the source of this power? First of all, **his website – somehow, someway – publishes insider information on Hollywood movies and moves long before anyone else.** And his movie reviews carry an unbelievable wallop. After panning *Rollerball* following an early screening, MGM bumped the release date from August to February to do some repair work on the flick. Dreamworks' head of production **Michael De Luca** says "we're all on the Internet in Hollywood ... so people overreact and freak out when they see stuff exposed on his website." Check out the article.

Dr. Louis Overholster says his new car gets five miles to the gallon; his teens get the other twenty!

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