

THE

Neal Spelce

# AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail [News@AustinLetter.com](mailto:News@AustinLetter.com)

Volume 23, Number 49

March 22, 2002

Dear Client:

**The semiconductor industry – one of Austin’s high tech mainstays – could be facing some serious long-term concerns. You need to know that looming on the horizon are potential investigations into allegations that workers in semiconductor plants have unusually high rates of cancer, birth defects and miscarriages.**

We just returned from a quick trip to Northern California (where the Silicon Valley is facing more economic problems than the Silicon Hills of Austin; more about that shortly). While there, we picked up on some **serious concerns about how the use of powerful chemicals in the semiconductor production processes can affect workers.** These concerns have been around for a while, and to somewhat offset these concerns, just this week the semiconductor industry association said it will conduct a comprehensive survey of the health of all its workers.

What are the critics saying? According to an article in next month’s *International Journal of Occupational and Environmental Health*, semiconductor production is “one of the most chemical-intensive industries ever conceived.” **It depends heavily on known carcinogens and other toxic materials.** Its famous “clean rooms” and bunny suits are designed to protect pricey products from particulate pollution, not to eliminate fumes from the air workers breathe.

There’s more. **Henry Norr**, who writes a tech column for the *San Francisco Chronicle*, quotes a California medical school professor, who was scathing about the semiconductor industry’s record: “This is an industry with a lot of highly intelligent and progressive people – **it’s disappointing that it’s not doing much better than asbestos, tobacco or lead (industries).**”

Up to this point, the medical concerns have been largely kept off the public radar. With the Semiconductor Industry Association looking into the problem on behalf of its members, not much has surfaced publicly. It looks as if that’s about to change. Pick up a copy of the April issue of *Mother Jones* magazine. **Susan Q. Stranahan** writes about employees who fell ill after working at IBM semiconductor production facilities in California, New York and Vermont. The title of her investigative article: “**The Clean Room’s Dirty Secret.**”

Austin’s economy relies heavily on the semiconductor industry. We haven’t seen Austin’s name pop up yet, but consider this a very important “heads up.”

**The Silicon Valley is mired in a downturn even as the national economy is improving. You hear phrases such as “soaring unemployment,” “shrinking jobs” and “skyrocketing vacancies.” How does that compare with the Silicon Hills of Austin? Well, it’s a matter of degree, but we’re better off.**

We’ve seen signs of a leveling off in the Austin area, with some parts of our economy on the upswing. Jobs, for example. Even with layoffs and relocations, the number of jobs in the Austin area increased this past year. Our education and government base provided a solid cushion as other economic sectors nose-dived. The clouds have parted over the Silicon Hills of Austin and blue sky is peeking through. We’re doing well in two of the three categories: unemployment and jobs.

Not so in the Silicon Valley. **Sam Zuckerman**, who tracks the California tech economy, writes: “Even as the national economy moves into positive territory and some parts of the tech market stabilize, **the main indicators of the valley’s economic health – job creation, unemployment, office vacancy rates – are still deteriorating and are expected to do so for months to come.**”

Zuckerman points out that, yes, the consumer’s appetite for electronic gear is on the rise, but **the all-important business sector has shown little sign of bouncing back.** He rightly notes that businesses binged on tech equipment in the late 1990s. Outsized investments in computers, servers, routers and software, netted paltry benefits and contributed to one of the steepest plunges in corporate profits ever measured. And, he says, there is no recovery at all in telecommunications.

As we’ve reported to you on a regular basis, Austin’s unemployment rose to the 5% range by the end of the downturn. And at 5.3% in February, it’s still better than the state and national average. On the other hand, Santa Clara County (which is the heart of Silicon Valley) saw its **unemployment zoom to 7.3% in February** and one researcher who tracks these numbers in the Silicon Valley is predicting it could **peak at 8% or even 8.5% in the months ahead.** This is what we mean when we talk about “a matter of degree.”

Another very significant example of why the Silicon Hills of Austin is not suffering as much as the Silicon Valley. Remember, as we told you 3/15/02, the Austin area actually created 2,900 more jobs in the downturn of 2001 than we had in the boom year of 2000. This contrasts with the **Silicon Valley where the number of jobs declined 73,900** during the same period. And, the folks who track the California numbers say the valley’s agony is far from over.

The negative area where we are in roughly the same boat as the Silicon Valley is in the office market vacancy category. **Both tech centers have seen the vacancy rates go way up.** You can check past issues of our weekly letter over recent months to see where we stand. The Silicon Valley had about a 15% vacancy rate at the end of 2001 (compared to 1.3% at the end of 2000). Overall though, you can see we’re coming along at a better rate than the valley.

**What was the population gain inside the City of Austin from 1990 to 2000? Hang on! The gain was greater than the *entire* population in 1960. But, as dramatic as that increase was, *how* the city changed may be even more important.**

The Hispanic population has grown inside the city limits, while the white and African American population has dropped significantly as a percentage of the total from 1990 to 2000. **Ryan Robinson**, the City of Austin Demographer, points out the white population dropped in Austin from 62% to 53% and the African American population, which had been a steady 10%-12% in the past dropped to 9% in 2000. During this same period, the Hispanic population grew to 31%.

Some of the change in these numbers can be attributed to the way the USCensus Bureau has **modified its classification system**. Robinson speculates, for instance, that it's likely the new categorization of 1.6% who list themselves in the multi-racial category were previously listed as African American. Robinson also notes that part of the Hispanic increase is due to international immigration.

As a result of this change Robinson says that **in the coming years, no specific ethnicity will represent a clear majority**. He says the metro area is experiencing the same impact, but at a much slower rate. By the way, Robinson, speaking at The Chamber's Public Policy Forum, also said **fewer families with children now live in Austin's urban core**. He says less than 20% of those who live in Central Austin are two-parent households with children.

**George W. Bush is not even halfway through his first term, and by all accounts, is pushing hard to extend his presidency to the maximum eight years. But, that time frame is not keeping six cities in Texas from moving aggressively to try to land his presidential library that will house his papers, artifacts and memorabilia after he leaves office.**

Six is a new number. We told you some time ago that Austin, College Station, Waco and Dallas were in the mix. Now you can add Lubbock and Arlington to the tally. What do these six cities have in common? **They all house major higher education institutions and they all claim some connection or tie to Bush.** And each city/institution likes its chances.

The connections: **UTAustin** is near the capital where Bush served as governor ... **Texas A&M/College Station** boasts of his father's presidential library ... **SMU/Dallas** is **Laura Bush's** alma mater and near the family's former home ... **Baylor/Waco** is near the family's ranch in Crawford ... **TexasTech/Lubbock** is in West Texas where Bush was raised ... and **UTArlington** is where Bush was in business as part owner of the Texas Rangers baseball team.

One reason for this early scramble is money. Most presidential libraries have been funded, for the most part, by private donations. **It's easier to raise money for a sitting president.** But, the educational institution itself is a big key. We'll keep an eye on this for you.

**The high profile knock-down, drag-out battle that culminated this week with the Hewlett-Packard/Compaq merger voting had some interesting fallout. Not the least of which will be the ultimate impact on Austin's biggest private employer, Dell Computer.**

The execs at Dell have to be rubbing their hands in glee at the prospects of HP/Compaq company execs focusing practically all of their high-level energies on trying to merge the two companies – no small task. At the same time **Dell will relentlessly focus on increasing market share** in this highly competitive world. Put your money on Dell.

Poor Houston. After the Enron debacle with so many employees ending up on the street, now **Compaq will likely lay off thousands after the merger is completed.** Both Compaq and HP execs have estimated at least 15,000 jobs will be eliminated after the merger. You can bet most of them will be at Compaq.

Other fallout. Wonder what the execs at the Teacher Retirement System of Texas here in Austin will do following the merger. **Their money managers voted their 5.9 million shares of Hewlett-Packard stock against the merger.** It'll be interesting to see what they plan to do with their holdings, along with other big funds that also voted "no."

Finally, if you think a big-time merger isn't big-time expensive, think again. One national newspaper, citing industry insiders, is estimating **the cost for the battle alone – hang on to your hat – was as much as \$180 million, more than most huge political campaigns!**

That's the amount spent by both sides, with the "For" folks outspending the "No" side by about 3-to-1. Where did it all go? A lot of full-page **newspaper ads** in the nation's biggest newspapers. And maybe as much as \$3 million to wage a **direct mail** campaign aimed at all the shareholders. Not to mention the **lawyers, the PR people, the ad agencies,** etc. Hmmmmmm. What if all that money had been spent on battling Dell?

**Dr. Louis Overholster** says the question is not at what *age* he wants to retire, but at what *income!*

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