

THE

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AUSTIN LETTER

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Dear Client:

“Down-the-ballot” races struggle for attention in political races. The marquee contests, such as Governor, Lt. Gov. and USSenator, seem to get most of the money and attract most of the media attention. As a result, the other statewide candidates who start out way behind (especially low-name-ID candidates) have a hard time catching up as Election Day nears.

This is why it's instructive to analyze early poll results. You know, the ones that say “If the election were held today ...”. Many tend to discount polls this far ahead of Decision Day, 11/5/02 – especially since they show so many undecided likely voters. But at this early stage, we like to focus on the *spread* to see what might happen in the down-ballot races.

Based on the spread, Republican State Comptroller **Carole Keeton Rylander** seems to be in the best shape of all the down-ballot statewide candidates. She is being challenged by Democratic attorney **Marty Akins**. The former Austin mayor and school board president has 41% support, compared to the former Longhorn football quarterback's 21%. That's **a hefty 20-point spread**. Based on the difficulty down-ballot candidates have raising money and getting attention — in face of all the noise created by the candidates for Governor, Lt. Gov. and USSenator — **Akins has to be considered a huge long-shot to unseat Rylander.**

All other down-ballot Republicans hold polling leads now, but the spread is less than the Rylander-Akins race. For instance, in the race for Attorney General, Democrat former Austin mayor **Kirk Watson** is very close on the heels of Republican former Supreme Court Justice **Greg Abbott**. The 6-point spread means the Watson-Abbott contest should be a real horse race.

Other down-ballot contests have a wider spread. For Land Commissioner, the GOP-er **Jerry Patterson** has a 14-point spread over Dem-er **David Bernsen**, and for Agriculture Commissioner, incumbent Republican **Susan Combs** has a comfortable 12-point spread over Democrat **Tom Ramsey**. And, Railroad Commissioner **Michael Williams**, a Republican, holds a 10-point spread over Democrat challenger **Sherry Boyles**.

What this tells us is, **absent any major scandals or widespread “foot-in-mouth” disease**, Rylander should win in a runaway. Patterson, Combs, and Williams will have an easy time of it, and Watson has a very real chance of emerging the winner over Abbott for Attorney General.

An astonishing 45% of high tech workers in our 5-county metro area still worry about being laid off. Compare that to only 11% of non tech workers who are concerned they may be laid off, and you can see the psychological impact on our high tech workforce. This is significant.

When breadwinners worry about whether they'll have a job in a few weeks or months, it impacts a variety of decisions – such as making major purchases that would either increase monthly obligations or deplete current cash. They also begin husbanding resources – eating out less, taking fewer trips, renting videos instead of going to the movies, etc. **The psychology of possibly losing your job has a very real, measurable impact on the economy.** This is being felt throughout our economy.

Jeff Montgomery, through his Central Texas Directions polling firm, measured job security concern. He's been testing business-related issues twice yearly since 1995, and he points out that in May 2001 only 13% said they had concerns about being laid off. So, this is a recent phenomenon. He also points out that 69% of *all* Central Texans personally know someone who has been laid off in the last six months, up nine points from a year ago.

Checking back over numbers compiled by the Greater Austin Chamber of Commerce, you can get a picture of the layoff impact. In 2000, there were 2,661 *announced* business layoffs (1,862 of those were in high tech). In 2001, the number of *announced* business layoffs skyrocketed to 23,098 (19,085 came from high tech), and in the first four months of 2002, the *announced* business layoffs have been 3,494 (2,894 in high tech). The 2002 pace is well below 2001, but layoffs are still occurring. By the way, there were 10 *announced* business closures in 2000, 47 in 2001 and 12 through April 2002.

Picking up on what we told you last week — if the state of Texas faces a fiscal crisis when the Texas Legislature convenes in Austin January 2003, then state government might move into a belt-tightening period with layoffs a possibility — it's interesting to see where job growth has occurred in the Austin area in the past year. **Every major industry employment sector of our metro area economy lost jobs from April 2001 to April 2002, except government.** Public payrolls have kept our local economy afloat.

Think about this! This is good news/bad news. Manufacturing (-13.0%), Construction (-1.2%), Trade, Retail and Wholesale (-1.1%), and Services (-0.2%) all lost jobs while only Government (+5.2%) created jobs. It's good because government payrolls have been a strong underpinning of our economy. It's bad because it is our soft underbelly as we work our way out of the downturn.

This underscores what we told you 6/14/02. State government is facing a shortfall in revenue next year. **If our legislative leaders decide to cut costs instead of raising revenue, Austin (with its heavy reliance on state jobs) could be especially vulnerable economically as the rest of our economy struggles to rebound.** We'll keep any eye on this for you.

Seattle is one of Austin's present and future competitors. Along with the Silicon Valley, it competes with the Silicon Hills of Austin for companies and brains. And, it has the same new "creative" economy that makes about a half dozen or so US cities the best and brightest. So, how does Seattle stack up to Austin today?

We spent the better part of this past week in the beautiful city of Seattle, enjoying the rare blue skies and 70-degree summertime temps (a tough job, but someone has to do it!), checking out what Seattle is doing – rightly and wrongly – in comparison with Austin. **Though bigger, Seattle is a lot like Austin** – green trees, a lot of water, rolling hills, high tech everywhere, clean city streets, a vibrant music scene, friendly people, higher education institutions – **only with more places to buy a cuppa coffee.**

But, the Seattle economy is struggling right now – maybe more so than Austin. For instance, **there are more people out of work in Seattle than in Austin.** Jobs remain scarce and the layoffs continue to mount. May's unemployment in the Seattle metro area was 6.6%, compared to 5.4% in Austin. Here in the home of Microsoft, high tech jobs are down (from 63,200 a year ago to 57,200 in May).

While we were in Seattle this week, two high tech companies announced more layoffs. **TTM Technologies**, a maker of printed circuit boards, reduced its workforce by a third last year, and said it will cut another 138 positions in August. Streaming media company **Loudeye Technologies** conducted five rounds of layoffs in the past 18 months and this week chopped 37% of its workforce.

But, high tech is not the only culprit. The aerospace industry is an even bigger part of that equation. **Boeing alone has dropped from 79,500 jobs a year ago to 65,300 in May 2002.** When you add it all up, there are now 3.6% fewer jobs in the Seattle area than there were a year ago.

Housing, albeit pricey, remains a bright spot in Seattle (thank heaven for low interest rates!). A house remains on the market in The Emerald City for about 48 days, compared to 55 days in Austin. But, you're going to pay more in Seattle. The median closing price of a home in King County in May was \$250,000. In Austin, we think it's high here at \$159,950.

Office space? Downtown vacancy rates held steady in the 2nd quarter – a good sign – but, they dropped in the high tech suburbs. **Downtown Seattle office vacancy rates in May were 18.6%, and in the suburbs the vacancy rate was 15.0%.** As far as rental rates, the downtown rates dropped 14.7% in the past year, and in the suburbs the office rental rates dipped 13.3%.

In summary, Seattle is still feeling the effects of the downturn that started for them two years ago. As a result, **Austin has a competitive advantage right now**, although we have a much bigger advantage over the Silicon Valley. And remember, everything is relative. While it's a "down" time, it's certainly not a "disaster" time in Austin — or with our competitor cities.

Just because Dell Computer is one of the world's most successful computer companies, and revolutionized the tech industry, doesn't mean it hasn't made mistakes. How it handled one of its biggest failures is becoming a case history in knowing the nature of your core business.

Last year, Round Rock-based Dell pulled in \$31.2 billion in revenues. That's simply amazing when you realize it was only 18 years ago this kid named **Michael Dell** dropped out of UT Austin to pursue his against-the-grain idea of selling computers directly to the consumer, in defiance of the established concept of working through retailers. Did Dell ever have second thoughts? **Did Dell ever try the retail approach? Yes. And it failed.**

"In the early '90s we took a foray into retailing. That was a mistake," Dell told about 25 entrepreneurs recently in Chicago, as reported by *Fortune Small Business*. **"At the time, the conventional wisdom was that direct sales was only a niche market, and we believed that."**

"Then these **wholesale warehouse clubs emerged**, what became CompUSA and Sam's Club. It wasn't quite the dealer channel, it wasn't quite direct. And we said, 'Why don't we try this'? **It will be a great way for us to get to the consumer,**" reasoned Dell.

"But it kind of violated a lot of the principles that helped the company succeed. **It destroyed the integrity of the customer relationship** that Dell is really based on. The relationship became one between the *store* and the customer," admitted Dell.

"Fortunately," said Dell, "it never became a very big part of the business, so we were able to shut it off quickly." Lesson learned. Or as that great philosopher **Darrell Royal** once said, Dell learned to "dance with the one who brung you!"

Speaking of great philosophers, when **Dr. Louis Overholster** was told by a patient that he had broken his leg in two places, Dr. Overholster had this sage bit of advice for his patient: "Quit going to those places."

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Sincerely



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