

THE

Neal Spelce

AUSTIN LETTER

www.AustinLetter.com

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

Volume 25, Number 1

April 4, 2003

Dear Client:

The housing market has been the strongest segment propping up our ailing economy and some reports indicate it, too, is finally softening. Is this the final straw on our economic camel's back?

Not necessarily. And to understand why, it's important to analyze the actions likely to be taken to keep that from happening. Housing is more important to the economy than just what it means to buyers and sellers of homes – even to Realtors and financial institutions.

There are many economists who believe consumers have helped keep this economy afloat by spending. Analysts say consumer spending accounts for two-thirds of economic activity. And many of those consumer bucks, circulating through the economy in the Austin area, the state and around the country, have come as a result of **home equity loans and re-financing of homes**. This has been driven by very low mortgage interest rates.

The word we are getting from Washington is the Fed may soon take some unusual actions to further drive down mortgage interest rates. That's right. Even though interest rates have been hovering near all-time lows, the Federal Reserve Board could make some moves to **push mortgage rates even lower**.

We understand the way the Fed will go about this will be to buy back 10-year US Treasury bonds – enough to possibly **drive down mortgage interest rates by as much as one percentage point**. Remember, as we told you in some detail in our 12/13/02 edition, mortgage interest rates are most closely tied to the 10-year US Treasury bond, not the Fed funds rate that has been cut 12 times and now stands at 1.25%.

The theory goes, if mortgage rates nosedive dramatically from all-time lows, this will **trigger another round of re-financings**. Obviously, this would help prop up the economy. It would also be good news for the housing industry, because **significantly lower interest rates would spur more home sales** (lower interest rates mean lower monthly payments – more homes affordable to more people). This could be the push needed to reinvigorate a slumping housing market.

This is something to watch. It could be just what the doctor ordered for the ailing economy.

Interestingly, jobs are still being created in Texas during this downturn, and the Austin metro area actually saw a *decrease* in unemployment in February, compared to a year ago.

While the numbers are not dramatic (one analyst referred to the recent unemployment reports as “marching in place”), the **Austin area is moving in a more positive direction** than the other big metros in Texas. Hey, we’ll take whatever we can get these days.

Here’s how the latest stats stack up. In February 2003, the state’s unemployment rate was 6.6% — not much change. The Austin metro area came in at 5.5%. Of course it’s helpful our 5-county area is doing better than the state as a whole, but **what makes this 5.5% number even better is that it represents a dip from the 5.7% recorded in February 2002.** Not much of a move, but at least it’s in the right direction.

The other major metro areas headed a bit south. Again, it was not a big move, but **unemployment increased in February this year, compared to last year.** For instance, unemployment in **Dallas** stood at 7.2% in February 2003 (a lot worse than Austin) and that was up from 7% a year ago. **Houston** also moved in the wrong direction – from 5.4% a year ago to 6.4% this February.

Those two big metros weren’t the only ones whose unemployment percentage increased. **Fort Worth-Arlington** went from 6.1% to 6.3%, **San Antonio** (beating Austin both years) headed in the wrong direction from 5% to 5.2% and **El Paso** went from 9% to 9.4%.

The Chair of the Texas Workforce Commission indicated concern about those areas that showed an increase in unemployment, but **Diane Rath** said “Nevertheless, we’re still gaining jobs in Texas, and I’m confident that **our diverse and dynamic economy remains strong** and poised for improvement in the coming months.

Not many folks are traveling these days – and that means you can cash in on some good deals.

Airlines, hotels and cruise ships are all hurting. Bookings are low for all three and that means you can cut some deals. **The Internet and travel agencies are the best places to shop around to find the best prices** – especially for leisure travel.

As for business meetings and conventions, many hotels are scrapping cancellation fees. In fact, the word we get is that some will **re-schedule conferences six months out with no penalty.** Of course it’s a Catch-22 situation for those who want to travel and schedule meetings. Times are tough, so that reduces money spent on meetings and on leisure travel. But, if you can scrape up the funds, you can find some good deals right now.

In less than two weeks, early voting begins in the election for a majority of the Austin City Council. Yet you can hardly tell campaigning is underway except for a few signs here and there.

There's still time for the campaign for mayor and three council positions to heat up. But it sure is starting out slowly. **The early voting period begins 4/16/03 and runs through 4/29/03 for the 5/3/03 election.** If you want a list of early voting, as well as Election Day, polling places and hours of operation, go to www.cityofaustin.org/election.

During both the early voting period and on Election Day, the **new electronic voting machines will be used.** Called eSlate, this will be the first time this system will be used in all aspects of voting for one election in Austin.

Incidentally, if this slow start to the campaign for Mayor and Council members results in a low voter turnout, it could **possibly help passage of two propositions to benefit the Austin Community College** that will be on the 5/3/03 ballot. The first proposition would increase ACC's existing tax cap from 5 cents to 9 cents per \$100 valuation. The second would authorize \$99.1 million for facility improvements, including additional classroom space, science labs and parking. It would be financed by a 1 cent per \$100 for General Obligation bonds.

ACC's tax rate has remained constant since 1986, but there are always those opposed to increasing taxes. The reason a low turnout may help passage is that the large ACC community of faculty, students and staff – along with other supporters, such as the Greater Austin Chamber of Commerce – could conceivably turn out enough of their own to carry a low turnout election.

What if you lived in the Dallas metro area and someone told you every single office building in downtown Dallas was vacant? This is how much office space is sitting idle in the Dallas area.

The vacant space is spread all around the Dallas area, not just in downtown. But when you add up all the unoccupied space, it totals a **whopping 42 million square feet – more than all the office buildings in downtown Dallas.** And there's another 7 million square feet of space available for sub-leasing. The overall vacancy rate, not counting sublease space: 26%.

We've been telling you for more than a year about the large amount of vacant office space in Austin. But Dallas is really suffering. And it's getting worse. The first quarter that just ended saw so many tenants moving out of office space in Dallas the area notched a **record decline in net leasing.**

Dallas is feeling the effects of a general down economy. And this is exacerbated by the **nosedive in the telecom industry, as well as the continued high tech sluggishness.** As here in Austin, companies are not willing to make commitments to lease space right now.

If you've been near a TV or newsstand for the past few weeks, you know it's "Iraq Around The Clock." We've been asked what role our allies, and detractors, will play after the hostilities cease.

For the answer, we turned to our friends in Washington, *The Kiplinger Washington Editors*. They had some interesting insights. As you might expect, the Kiplinger experts think there will be some "scores to settle." For instance, **the big prize of rebuilding Iraq's oil industry will go to our allies and their petroleum companies** – such as the UK (BP), Spain (Repsol YPF), Italy (Eni) and Royal Dutch/Shell. "But for the French and Russian oil giants, it'll be the back of the line," notes Kiplinger.

Germany will also pay the price for its opposition to US policies, according to Kiplinger. **Military bases are a great economic boost** for any area (remember the uproar in Austin when it was announced Bergstrom Air Force Base would be shut down?). Well, those smaller European countries that supported the US – Poland, Romania and Bulgaria – will have more US troops stationed there. And guess where they will come from? Germany.

Turkey will get little US help for its troubled economy after blowing its chance to get a fast \$6 billion in US assistance by refusing to host our troops. On the other side of the coin, our close ally from down under that sent troops and support to help the US in Iraq, **Australia, will likely get a free trade pact with the US**. This will not only help Australia, but will also open up new trade opportunities for many US companies.

Of course the downside to this reward/"punishment" scenario is that it will **not help US diplomatic relations with the French, Germans and Russians anytime soon**.

This edition of the newsletter marks a milestone for us. The words at the beginning of this week's issue, Volume 25, Number 1, signify we are beginning our 25th year with this enterprise. We thank you for being a part of the journey. To close, we hope you remember Dr. Louis Overholster's words of wisdom: "*Education* is when you read the fine print. *Experience* is what you get if you don't!"

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. Periodicals 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