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Dear Client:

Sales tax collections – a measure of retail sales – are down in Texas, Austin and Travis County so far this year. But Williamson and Hays counties, with their lead cities of Round Rock and San Marcos, are running counter to the negative trend and showing positive results through the first six months of 2003. This could indicate new shopping behaviors.

The sales tax is the biggest single revenue generator for the State of Texas, since the Lone Star State is one of the few in the nation without a personal income tax. Years ago, the Texas Legislature allowed cities to levy their own sales tax, usually 1% on top of the state tax. The state then collects the money and rebates the local portion back to the cities. It's become quite a revenue generator for cities with vibrant retail operations.

As a result, the local sales tax collections become a **barometer of how much consumers are spending** in any given region and, of course, how well or poorly the retail establishments are doing. The 5-county Austin-Round Rock metro area is delivering mixed results so far this year.

Austin (-6.7%) and Travis County (-5.46%) are down for the year. But faster growing Round Rock (+19.72%) and Williamson County (+16.31%) are showing strong numbers. Even San Marcos (+2.11%) and Hays County (+2.94%) are doing better than last year.

These are the most current numbers, reported in June by the State Comptroller's office. However, they reflect local **sales taxes collected in April** and reported to the Comptroller in May. So, from a retailer's perspective, you're looking at revenue for the first four months of this year. Remember these totals are *year-to-date*, not one month compared to a year ago.

What does all this mean? Well, obviously it means Travis County retailers have not bounced back yet, and **consumers in Travis County are still holding onto their hard-earned bucks**. Williamson County retailers are doing well (as is Dell, with its facility in Round Rock). **San Marcos continues to benefit from the Outlet Malls**, located on IH35 south of the city, that continue to be a magnet for tour buses and shoppers from Mexico. But, there may be another trend developing here. With the increase in retail establishments in Round Rock and Williamson County, **residents north of Austin no longer have to come into the Capitol City for much of their shopping needs**. This is a trend that could continue far into the future.

If you only read the headline “Austin Jobless Rate Climbs, Following Summer Pattern,” you missed the good news. The percentage of unemployed persons in the Austin area went down once again compared to last year – the most valid comparison.

Yes, the unemployment percentage went up slightly from 5.3% in April to 5.5% in May. But it almost always goes up each year in May as workers seek summer employment. The true picture reflecting **our area’s climb up from the downturn** is visible when you *compare year-to-year*, removing any seasonal variation. Last year in May, the 5-county metro unemployment percentage was 5.6%, now it is 5.5%. Small progress, but progress. And not an increase.

The state’s May 2003 unemployment was 6.8% — pretty high. The Dallas metro was 7.0%. Houston metro, 6.7%. Fort Worth metro, 6.2%. The San Antonio metro area beat Austin’s 5-county metro, at 5.1%.

You can expect the Austin metro area unemployment percentage to go up in June, because as usual, even more workers flood the market seeking summer employment. So don’t be alarmed when you see the rise over May. Check out how June compares to June 2002. This will give you a truer picture of Austin’s return to economic vitality.

The respected chief economist and co-founder of Economy.com has laid out a roadmap to recovery showing when Austin’s high tech economy will rev up again.

“You will know that the recovery has started when businesses get over their fascination with cost cutting,” claims **Mark Zandi**, writing in *FSB*’s June 2003 issue. And, he says, “there are **good reasons to believe that the cost-cutting wave has crested.**” As businesses restock inventories, Zandi expects the hubs of distribution and travel – like Atlanta, Chicago, Dallas, Denver, Minneapolis and Memphis – will be among the first to benefit.

Then companies will increase their sales, marketing and advertising budgets, Zandi says. “**As sales increase, businesses will begin to purchase new computer hardware and software,**” he predicts, because “the economic life of the average computer is about two years, and it’s been at least that long since many businesses last upgraded.”

This is where Austin will benefit. “**Tech-dominant economies such as Austin, Phoenix, Portland and Sacramento will gain traction first,**” he says. “Bulkier tech economies – like the Bay Area’s and Boston’s – won’t respond quite as nimbly, but they will follow soon as well.”

Zandi then ticks off all the other economies and businesses that will follow the recovery leaders listed here, saying the nation should be traveling the road to recovery soon.

American consumers have stuffed themselves with economic “Thanksgiving Dinner,” so to speak, and they are full.

This is the view of **Mark Dotzour**, chief economist with the TexasA&M Real Estate Center. And he doesn't think the lowering of interest rates this week by the Federal Reserve Board will make that much difference. His logic:

In the 1990s, Americans bought lots of gizmos. Today most consumers have a cell phone, DVD player, CD player and a computer. Many have new cars and new houses. As a result, Dotzour says, **“many ‘have-to-have’ toys of yesterday are the market’s ‘got-that’ toys of today.”**

Automobile dealers, acting like grandmothers who keep offering another biscuit, have been serving up super financing deals. **“This helped new car sales in spite of a lack of real appetite for them,”** Dotzour says.

Businesses, experiencing a slowdown in consumer demand, are also not spending. The Federal Reserve has been tempting businesses with extra slices of low-interest-rate pie. “But lately, many companies are saying they are full,” says Dotzour. **“They do not need to borrow no matter how sweet the deal is.”**

So, what does this mean for the economy? Dotzour says **inflation, which is fueled by spending, is unlikely in the near future.** “There is some risk of deflation, in which prices, wages and profits spiral downward,” he noted, “but the government should be able to keep this at bay by expanding the money supply and lowering interest rates” – which it did Wednesday.

What about even lower mortgages? Remember low mortgage rates are not a function of a lower prime interest rate that we saw this week. They are a function of Treasury bonds, as we have reported to you periodically. But mortgage rates could drop even more, because Dotzour says “the Federal Reserve may act later this year to purchase long-term Treasury bonds in an attempt to lower ten-year Treasury bond rates. If it does, **mortgage rates will be pushed ever lower.**”

Times are tough for arts groups. But at least the Austin Symphony Orchestra has not shut down – as symphonies have in many cities, including nearby San Antonio.

“While many arts organizations are hurting, the economy has been particularly challenging to symphony orchestras, with some collapsing and others near bankruptcy,” reported the *Wall Street Journal* last week. In fact, many of the **symphony orchestras that have shut down are in cities remarkably similar to Austin.** The *WSJ* reports the following orchestras have called it quits in recent months: San Jose Symphony, Colorado Springs Symphony, Tulsa Philharmonic, San Antonio Symphony, Savannah Symphony and the Florida Philharmonic.

You already know Austin Congressman Lloyd Doggett is one of the Democratic members of Congress targeted by GOP leaders for removal through the redistricting process. But, there are others who are also wearing bull's-eyes on their backs.

The big target is Dallas area's **Martin Frost**. He has long been a thorn in the GOP's side due to his senior post as House Minority Whip. Frost's long, steady climb to the Dem's leadership post started when he was first elected in 1979 – long before the Republicans began dominating the ballot boxes in the Dallas area. What the GOP will likely do is substitute Republican-leaning suburbs for his African American precincts (shifting them to one of two black members of Congress from Texas, **Eddie Bernice Johnson**).

There are other Dems who could find their districts drastically changed. For instance, over in deep East Texas, two Democrats, **Jim Turner** and **Max Sandlin**, could end up in the same district – forcing one out of Congress. The same thing could happen in Southeast Texas where Dems **Gene Green** and **Nick Lampson** could be placed in the same district.

Other Democrats who could be redistricted out of a job include West Texan **Charlie Stenholm** (whom **George Bush** reportedly considered for USAgriculture Secretary), **Chet Edwards** from Waco and **Chris Bell** from Houston.

By the way, **all these Democratic members of Congress are white males**. The GOP will likely come up with a map that doesn't dilute – it might even enhance – minority representation in Congress, so the new map would not run afoul of civil rights tests. But if say, **a freshman Hispanic Democrat, replaced a senior experienced white Democrat**, the GOP feels like it will still gain – even though the number of GOP seats would not increase by that single switch. Obviously this picture is purely speculative until the Texas Legislature passes a redistricting bill (if it does), after it returns to Austin for a special 30-day session called for this purpose, 6/30/03.

Dr. Louis Overholster wonders why anyone would want to go to Congress anyway: "Washington is like Salem. If they're not lynching somebody 24 hours a day, they're not happy!"

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