

THE

Real Estate

AUSTIN LETTER

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Dear Client:

In this our final issue of 2003, let's polish the crystal ball to give you a little insight into the year 2004 and what it will bring for you as far as interest rates, inflation, jobs, business spending, etc. are concerned.

The source for this knowledgeable look at 2004 is our friends, The Kiplinger Washington Editors, who have been **tracking trends for businesses and the economy for eighty years**. They've seen it all — and then some. Here's what they see for your 2004 planning.

After three years of playing it close to the vest, **business spending will gain a solid 10%** next year – up from only 1.5% in 2003.

The Federal Reserve will probably **bump up the interest rate about a quarter-point, perhaps in late June**. It'll be 2005 before the Fed gradually tightens monetary policy.

The benchmark prime lending rate should rise to 5% next year. **Figure on 30-year fixed-rate mortgages reaching 6.75%** in 2004 versus 6% today.

Inflation will only hit 2% in 2004, a tad lower than in 2003.

Corporate profit growth will end this year at about 14%, but it will be slightly lower – **13% next year**.

Job creation will be dramatic – a 12-fold increase over this year. But the US unemployment rate won't fall much – maybe a few tenths of a point below 6% by the end of 2004.

The job gain will buoy consumer spending. **Look for consumers to shell out about 3.5% more next year**.

All in all, a healthy outlook as you make plans for 2004. However, this doesn't mean something couldn't go awry. As the Kiplinger editors put it: "The threat of terrorism continues to loom, and **there is fear of an attack on US soil in the midst of a heated presidential campaign**." So all bets are off if a major terrorist event damages the nation's psyche and dampens confidence.

If you're planning to have a baby in Texas, you now have a better chance of finding an obstetrician, reports *The Wall Street Journal*.

The reason the *Journal* gave for the claim: "That's because tort reform is beginning to **lower costs for doctors who want to practice medicine** in the Lone Star State. The reform comes just in time, too, since at least 150 of the state's 254 counties are without an obstetrician."

"Earlier this year Texans passed a constitutional amendment and the legislature enacted a \$250,000 cap on non-economic damages," the report continued. "These **reforms are bringing medical malpractice insurance rates back down** from the stratosphere."

If this is true, how about some concrete examples? "The state's largest med-mal insurer will **lower rates by 12% beginning January 1** – a boon to the 42% of Texas doctors insured by the Texas Medical Liability Trust," noted the *Journal*. "Another insurer, the Doctors Company, says it **won't raise rates** for Texas doctors, thanks to the caps."

"Meanwhile, the state Department of Insurance has **told other insurers to reconsider planned rate hikes** in light of the new tort environment. And it reports that some of the insurers that left the state are discussing a return," added the *Wall Street Journal*.

Why is a national newspaper focusing on this Texas development? "**The Texas experience flies in the face of arguments that caps have nothing to do with med-mal rates,**" reported the *Journal*. "Such arguments have stood in the way of progress in Pennsylvania – home of the nation's worst doctor shortage – as well as in the USSenate. But it's hard to make that argument to two-out-of-five Texas doctors who will get smaller insurance bills next year."

The news article may be a bit premature in its reference to med-mal caps being the end-all to high premiums. **The Texas experience could help determine if there is a cause and effect.** But it will probably take some time for this experience to play out.

Now that TASUS Corporation has selected a 38-acre site in Georgetown to build a 100,000 sq.ft. manufacturing facility to supply the Toyota plant in San Antonio, what will be its economic impact in Williamson County?

It will generate \$1.4 million in net property taxes for the city, county and schools there in the first 6 years. The construction and operation of the plant will **create 205 jobs** and contribute **\$8.2 million to the local economy** by 2010, according to the Lower Colorado River Authority. The plant's total capital investment is estimated at \$13.3 million within five years.

With the big news of Saddam Hussein's capture this week butting up against the distractions of the holiday season, political developments have not been in the forefront. Enjoy it while you can.

Right after the first of the year, and building throughout 2004, the political drumbeats will become louder and more frequent. A **presidential election year** is always important, but this time around, Texas **contests for the US Congress** will be even more in the spotlight – depending upon how the redistricting brouhaha of this year is finally resolved.

Kicking off in January, President **George W. Bush** will continue to travel the country scarfing up big bucks in anticipation of a strong challenge from the Democratic nominee, whoever that may be. Bush will be on the ballot in the primaries, but with no GOP opponent, he'll likely **only spend early campaign bucks in the "battleground" states** to offset some of the Dem's criticisms.

It's another story for the Ds. **You'll get a good idea of the eventual nominee fairly soon.** The Iowa caucuses (1/19/04) and the New Hampshire primary (1/27/04) have been the focus of most of the effort and national political stories. But this overlooks the rest of the political calendar.

Just one week after the New Hampshire vote, there will be primaries in Arizona, Delaware, Missouri, New Mexico, Oklahoma and South Carolina. These elections will be held 2/3/04. Then four days later (2/7/04) Michigan Dems will vote for their party's nominee, followed the next day (2/8/04) by voting in Maine and two days after that (2/10/04), Tennessee and Virginia Ds will vote.

These quick succession elections will go a long way to determine the Democratic standard bearer, with only two or three Dems likely left standing. **But mark 3/2/04 on your calendar.** The key states of California, Connecticut, Georgia, Maryland, Massachusetts, Minnesota, New York, Ohio, Rhode Island and Vermont all vote that day. And when the sun rises the next day, you'll probably know the name of Bush's opponent.

If this scenario plays out, Texas Democrats will be left out in the cold. This is because their nominee will probably be selected a week before they go to the primary polls, 3/9/04. The Texas Dem's consolation prize will be to select their nominees for the US Congress, in what could be newly-redrawn districts.

As was the case four years ago, Texas will not be a presidential battleground in the Fall. The Dems will concede the state's electoral votes to Texan Bush. **This means you will be spared much of the TV campaign ads.** But if you're traveling to Florida, Ohio, Pennsylvania or Michigan, don't turn on the TV. These big electoral vote states will get the lion's share of the presidential campaign dollars. Why? Here's the 2000 victory margin: **Florida, Bush by .01% ... Ohio, Bush by 3.51% ... Pennsylvania, Gore by 4.17% and Michigan, Gore by 5.13%.**

We've been asked: if everybody is supposed to be banking at ATMs and on the Internet, why are banks buying more banks to get branch locations and why are new branches springing up all around the Austin area?

The short answer: an ATM machine, or the impersonal Internet, can't sell you more banking services. **Banks are just like retailers these days.** They need to get you in the front door of a branch so they can get more of your business.

Taking a cue from retailers, they may offer a new customer a "loss leader" – such as free checking – so they can **sit you down with a "relationship banker" and sign you up for more goodies.** And those goodies, such as a home equity line of credit, generate a lot more profit for the financial institution.

Sure, ATMs and the Internet save banks – and their customers – a lot of time and expense, and they've become a necessary part of banking business in this high tech age. But old fashioned **selling of services, inside a bank building, is still the bedrock of banking.**

As the New Year nears, attorneys in the Travis County Bar Association have named two of their own as "Distinguished Lawyers for 2004."

The award recognizes Travis County attorneys who have practiced 30 years or more and have "significantly contributed to the profession and the community." **Larry Temple**, of Temple and Temple, and **Mike Cook**, of Jenkins & Gilchrist, are the 2004 designees.

As you make the holiday party rounds, **Dr. Louis Overholster** says one nice thing about telling a *clean* joke is there's a good chance no one has heard it before! Speaking of the holiday season, we now take a two-week year-end break, as we have done for 25 years of publishing this letter. The next newsletter edition will carry a 1/9/04 cover date. We hope you and your family have a joyous and fulfilling holiday season. And we thank you for the opportunity to be of service to you.

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Sincerely



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