

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**The economy is hitting on all cylinders as we begin 2004. Even the Texas state budget cutbacks have not stopped an improving employment situation in the Austin area.**

Get ready for a good economic year – nationally, as well as locally. **It all starts with the national economy**, because the Austin area in the last few decades has been less insulated from the ups and downs of nationwide economic fortunes. And the best information we've been able to glean about 2004 national trends can be succinctly summed up with these bullet points:

**Lower unemployment.** Higher corporate profits. **Stronger business spending.** Stronger farm sector. Stronger earnings in financial institutions. Continuing health care boom. Another good year in stocks. **Moderate inflation.** Interest rates rising, but very slowly. **Housing market good**, but cooling a bit. Auto sales up, but profits slim due to “deals” offered buyers.

There *are* some weaker spots nationally. Retailers will keep discounting, so profits will not grow much. Commercial construction will stay slow because of high vacancy rates that still exist in office buildings and apartments. The travel industry, hammered hard by 9/11/01, will recover slightly, but will still be way short of the records set in 2000. **But even as these areas exhibit some weakness, they are also showing signs of improvement.**

The big economic concern as the economy was improving last year was for the large number of jobless, nationally and locally. **When the Texas Legislature, facing a huge budget shortfall, balanced the budget by slashing spending (instead of raising taxes), some claimed the spending cuts would put a number of state employees out of work.** And because Austin has more state employees than any other metro area, it was felt our metro would take a big unemployment hit this past fall when the new budget went into effect.

Well, it didn't reverse the positive declining unemployment picture in the Austin metro. **In fact, the Austin metro area December unemployment rate dropped below 5% for the first time in a long time.** With a 4.8% unemployment percentage, Austin led all Texas metro areas. For instance, Dallas tallied 6.2% ... Fort Worth-Arlington, 5.5% ... Houston, 6.3% and San Antonio, 5%.

Solid growth and higher profits in 2004 are the prospects for Austin, as well as the nation.

**It's too early for biotech and nanotech to transform anything – their time has not yet arrived. It's the information revolution, despite the bubble-bursting of the past few years, that really is leading us into decades of prosperity.** Let's use the beginning of the year to look ahead.

In spite of claims to the contrary, “the main hope for future economic golden eras remains that tarnished cluster of technologies we call information technology,” declares one of this nation's foremost economic thinkers, **W. Brian Arthur**. And he makes a strong case when he says “the information revolution is causing deep structural transformations in the country.”

“At its heart, the information revolution is about transformation – **transformation of the very structures and processes by which the economy works**. The productivity statistics corroborate that,” says Arthur. “Since 1995, output per hour has grown 2.5% annually. We can **expect that growth to continue** because it will take decades for the digital transformation to work through.”

“Who will benefit from the digital transformation? Technology companies will, of course, but only to some degree,” Arthur writes in an essay in *FORTUNE* magazine. “**The main beneficiaries will be the rest of the economy** – the Wal-Marts, Fords and Fed-Exes of business that use the new technology most effectively and intelligently.”

Even though high-tech newcomers such as India, China, Finland and Ireland are making technology inroads, Arthur feels the US will “retain its position at the top.” He maintains “truly **high-level, novel technology, and not just the manufacture of it, cannot be put in place at any time by any country**. Real high tech is not mere knowledge lifted from technical journals and applied to some purpose; it is craft – deep craft.”

This sort of expertise “builds upon itself within small groups in particular high-tech labs and **in particular localities, so that once a region** – or a country, for that matter – gets ahead in a set of specific advanced technologies it becomes difficult to challenge,” he says. “The detailed expertise needed to push the edge is simply not available outside. Of course, there will still be competition. Other countries do have first-rate science bases and will certainly **challenge the US in particular technology markets**,” he admits. “But when it comes to the deep craft of technology, it's America's game to lose.”

Arthur acknowledges the glamour of digital technologies wore off “when technology crashed a few years ago.” However he went on to say: “What is going on, like all deep change, is slow, almost unnoticeable. But it is not the mere adoption of computing, nor the building of an information infrastructure. It is something more profound – the building of a neural system for the economy. **It parallels the Industrial Revolution**, whose machines provided the energy sources – a muscular system, if you like – for the economy. **Of the two revolutions, the digital one will turn out to be deeper**. And it is still only beginning.”

**Yes, there is a lot of talk about how the GOP may pick up bigger margins in the USHouse and USSenate after this year's elections, but there will be other changes in the USSenate that are not as widely known.**

One of the reasons there is speculation the Republicans may gain a bigger edge in the USHouse is due to the re-drawing of Congressional districts in Texas, if the plan is upheld by the USSupreme Court. And, the odds favor the GOP in the USSenate because four Southern Democrats (**Zell Miller** of Georgia, **Ernest Hollings** of South Carolina, **John Edwards** of North Carolina and **Bob Graham** of Florida) are not seeking re-election in states where Republicans have a chance of winning – and there are fewer vulnerable GOP Senators.

The *little-known* change we're referring to assumes Republicans maintain a majority in the USSenate. **The GOP has a party rule that requires committee chairs to step aside after six years in the top spot**, even though they remain in the Senate. This would mean some key GOP leaders in the USSenate will lose their high-profile, powerful positions — and this could shift political priorities.

To give you an idea of the significance of this rule, consider just these possibilities. Conservative **Orrin Hatch** of Utah will give up the Judiciary Committee chair, through which all the president's judicial nominees must pass. A more moderate **Arlen Specter** of Pennsylvania is his likely successor. **Ted Stevens** of Alaska, a highway funding and defense R&D advocate, will lose his Appropriations chair, probably to more agriculture oriented **Thad Cochran** of Mississippi.

Each Senator has his/her own priorities (even in the same party) and it's not wise to underestimate the power of a committee chair in seeing those personal priorities to success.

**Happy birthday, NAFTA! This month marks the tenth anniversary of the North American Free Trade Agreement and Texas has been a major beneficiary.**

Since NAFTA was signed in 1994, Mexico has become the nation's second-largest trading partner (Canada remains at the top), and about **46% of all US exports to Mexico pass through Texas**, according to Texas economist **Ray Perryman**. And, nearly one-third of US products shipped to Mexico are produced in Texas. So, the Lone Star State economy has been a significant player in the decade-old border agreement.

Some 1,200 of the 2,000 miles of border shared by the US and Mexico are along the Texas boundary. But the big border crossing, especially where the Austin area is concerned, is at the southernmost tip of IH35 – Laredo. **Approximately 52.2% of truck traffic between the two nations passes through Laredo** — and much of that slices through the Austin area on IH35 that runs from Mexico to Canada.

**The future may look like the 1950s, as far as pop music is concerned. We're not talking about the birth of rock 'n roll, we're talking about how you buy and enjoy your music of choice.**

For the last forty years, pop music has been largely bought and sold in album form. Now, there are those who look at trends and are suggesting **albums may go the way of the eight-track, with singles making a comeback.** Shades of the fifties, when rock music emerged on 45-rpm singles and the youth of this nation rocked to **Bill Haley** and The Comets' defining hit, "Rock Around The Clock" (trivia: Haley grew up in San Benito, in the Rio Grande Valley of Texas).

Singer **David Bowie** was quoted in *The Dallas Morning News* as saying "I see the demise as inevitable. In the future, it'll all be in the hands of the fans, who'll **cut and paste whatever songs they want.**" It's happening to a great degree now, with music fans downloading their favorite single, instead of springing for big bucks to buy the CD that contains their choice. Even the great blues musician **B. B. King** was quoted as saying "I've never found an album – even a Beatles album – where every song on it was great." King listens to his favorite tunes on an MP3 player.

Look at the numbers. Nielsen SoundScan reports that **album sales have dropped 20%** since 2000, while Apple's iTunes has sold more than 25 million songs since it started in April. **On Internet stores, single downloads are outselling albums roughly 15-to-1.** This could have huge implications for record stores and those who make and cut records. Just try finding very many singles in your favorite storefront record store. It's albums, albums, albums – everywhere you look.

To be sure, **there are those who are fighting these trends – including major artists,** who concentrate heavily on the mix of music on albums. Citing artistic concerns, they say you shouldn't take a cut off an album any more than you take a chapter out of a book. But the power of the marketplace is speaking and this may be a trend whose time is almost here.

An overweight patient told **Dr. Louis Overholster** how he got that way: "Every time I hear the dirty word 'exercise', I wash my mouth out with chocolate!"

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