

THE

*Neal Spelce*

# AUSTIN LETTER

[www.AustinLetter.com](http://www.AustinLetter.com)

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail [News@AustinLetter.com](mailto:News@AustinLetter.com)

Volume 25, Number 50

March 26, 2004

Dear Client:

**Even with its reputation for diversity and liberal leaning city voting, Austin is the only major metro area in Texas that does *not* have a majority non-Anglo population. This will change.**

Austin will soon join the rest of the big metros in Texas in this major demographic shift. One statistic tells you all you need to know about how the population of the Lone Star State is changing: **between 1990 and 2000, Texas grew by almost 4 million people – 80% of whom were non-Anglo.**

This shift of seismic proportions began in other areas of Texas and is now rolling into the Austin area. Over the next forty years, Austin and the rest of Texas will continue to become more diverse. This has **enormous social, economic and political ramifications** for those who live and work here.

As you think and plan for Austin's future, let's look quickly at those three intertwined categories. Education and economic attainment among the non-Anglo population lags behind Anglo populations. So, for instance, if education and workforce areas are not adequately strengthened, current projections indicate that **Texas will have a declining median income** of as much as \$6,000 per year less than current (average income in 2000 was \$54,441) by 2040.

You and your elected leaders are going to be making major decisions within weeks and months that will have a significant impact on the health and education of our rapidly-changing population. Locally, voters in Travis County will decide 5/15/04 whether to **create a hospital district**. Statewide, the Texas Legislature will meet in Austin (the date depends upon when the governor convenes a special session) to re-work **how school districts are funded**.

The political repercussions of this demographic shift are obvious as well. Based on past election results statewide, Texas is generally regarded as a conservative, Republican state. But with **continued heavy in-migration and the changing demographics, the political makeup could change down the road** — much as the state shifted from solidly Democratic in the past.

There is another major population change occurring that must also be factored into this situation, one not so obvious in youth-oriented Austin: **by 2030, one in five Texans will be 65 or older**. This, too, has important social, economic and political implications.

**A slump in California and a jump in Texas over the past couple of years have secured Texas the designation as the nation's top exporting state.**

California's economy is 50% larger than Texas's and its population is about 30% larger. But, according to Texas Secretary of State **Geoff Conner**, Texas moved slightly ahead of California into the nation's top spot two years ago and will probably stay there for the time being.

This all happened because California's export traffic of almost \$107 billion in 2001 fell to \$94 billion in 2003. While California was slipping backward, **Texas export traffic slowly moved up from about \$95 billion in 2001 to \$99 billion in 2003** (during a very tough national economy) to gain the top spot. This means Texas businesses are doing something right.

California was hurt by the high-tech slump as well as a labor dispute and lockout in its ports in 2003. Meanwhile, Texas persistently took advantage of its role as the gateway of trade between Latin America and the United States. And, because of Texas sea, air and land ports, Conner told the Dallas Chamber of Commerce Texas should maintain a narrow hold on the top spot.

**You know gasoline prices are going up at the pump (and they haven't peaked yet), but what about the cost-of-energy's impact in other areas?**

Our friends at *The Kiplinger Letter* in Washington are forecasting **gasoline will average \$2 a gallon** (much more in L.A, Chicago and NY, where they could hit \$3) by mid-June. Pump prices will start slipping by August. If you factor out inflation, you were paying about a buck a gallon more back in the early 1980s.

Part of the reason for the hike is crude oil is about \$37 a barrel now and could edge up in coming weeks, dropping down to about \$32 by the end of the summer. However, Kiplinger also predicts **natural gas prices will not go down** – continuing to rise into next winter.

**Interestingly, energy prices don't pack the wallop they did a few decades ago**, according to Kiplinger. The reasons: big strides in conservation and the migration overseas of big energy-use industries. The move of fertilizer, plastics and chemical makers, smelters and others overseas has rendered the US economy less vulnerable to energy price hits. Therefore the prices of their products stay steady.

While on the subject of energy, what about **another huge summertime power blackout** such as the one that hammered the Northeast? **Not likely**, notes Kiplinger. Even though the power grid remains fragile and transmission and generating capacity outside of Texas is spotty, network operators say they now know how to react quickly. **Don't worry about Texas**. It has its own, self-contained system and is not subject to the problems elsewhere in the US.

**One reason discount airlines, such as JetBlue, are considering expanding to more cities is they've identified busy routes with high prices. Austin fits the target model.**

As we were the first to tell you, in our 3/12/04 edition, the nation's most talked about new discounter will likely announce service to Austin next year when JetBlue takes delivery on new Embraer 100-seat regional passenger jets. We also told you then that a "low-cost *non-stop* flight from Austin to New York City could be attractive."

How attractive? Well, consider that Austin-NYC route. **The average roundtrip fare paid for the Austin-NYC route in the 2<sup>nd</sup> quarter of 2003, according to the US Department of Transportation, was \$638.** Not cheap. In fact, that's the same *coast-to-coast* average fare paid on flights from Santa Ana, California to Washington, DC – and it's also considered high.

This **high-volume, high-priced route** is precisely what the new discount airlines look for when they decide to jump into a market. They feel they can put low-maintenance regional jets, with low-operating costs, on that route and start making quick profits — with lower fares.

You may have noticed news reports this week that passenger traffic at Austin-Bergstrom International Airport (ABIA) jumped nearly 8% in February. It was the biggest year-over-year increase in four years. As the report said: "it could signal good news for the economy as well."

Hopefully, this will prove to be true. But a reality dose is needed so we don't jump to a conclusion. A closer look at the numbers indicates we should **wait for a few more months** of results before we can assume a trend has been established.

Why? When you examine the increase more closely, you find the February 2003 passenger totals **dropped precipitously** compared to January 2003. The big 8% comparison came only when you put the February 2004 totals (which increased only slightly over January) up against an **unusually low 2003** total. If February 2003 had behaved normally, the comparison would not be so dramatic.

The month of March should be a much better indicator. In 2003 and 2002, March – always a big travel month – jumped impressively over the previous month. There was no one-month aberration as we see in the February results. **The March numbers will provide a much more valid comparison.** So, let's hold the enthusiasm for 30 days.

To keep this in perspective, you also need to know that a comparison to the two previous years is a comparison to two *down* years. **While it is always economically important to climb back above what you did the year before, we still have a way to go to get back to where we were.** The year 2000 and 2001 (before 9/11) were way ahead of where we are now in passenger usage of ABIA. But, let's take 'em a step at a time. Let's see if March numbers jump ahead of solid 2003 and 2002 totals, then we can focus on trying to break the 2000/2001 records.

**Memo to Central Texas car dealers: point your marketing northward, where there may be thousands of potential buyers with new-found cash, looking for cars.**

If the troops returning from the Persian Gulf to Central Texas's Fort Hood, the world's largest US Army base, are anything like the returning soldiers at Fort Carson, Colorado, **car dealer show rooms can be flooded with buyers.**

A report we got from Colorado Springs indicates the average soldier is returning to Fort Carson with about **\$7,000 in tax-free extra pay for wartime and postwar duty.** Of course the amount paid to each soldier varies depending on the pay grade and military rank.

The soldiers have saved their pay – some have been promoted while in Iraq, picking up more pay – and they are now **rewarding themselves with a vehicle.** The dealers in Colorado are pushing car sales by offering \$500 rebates on all vehicles sold to military personnel and are matching manufacturer rebates.

The result: the biggest car dealers in the area are reporting **customer traffic up as much as 25%** from a year ago. New and used car sales are growing almost daily as more troops return.

It's not just the car dealers who are feeling the economic uptick as a result of returning troops, happy to be home, with money stuffed into their khakis. Again, the Fort Carson experience has shown that the troops **scarf up stereos, clothing and jewelry** as well, making retailers in the area malls quite happy indeed. One retailer said it was like a second Christmas shopping season. Even apartments that stood as empty as schools in summer are starting to fill up in the Colorado Springs area. **The apartment vacancy rate has already dropped** several percentage points. The economy there is getting a much needed boost. Take notes.

**Dr. Louis Overholster** thought a gavel given to him when he stepped down as president of his civic club was appropriate, until he realized the gavel was made of – dead wood!

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. Periodical 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