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Dear Client:

As Governor Rick Perry opened his special legislative session on school finance this week, the biggest salvo thundering across the bow of his ship was fired by another high-ranking Republican. This raises a heretofore not publicly discussed political scenario.

Texas Comptroller **Carole Keeton Strayhorn** continues to live up to her campaign slogan “One Tough Grandma” with some of the most colorful criticism heard recently. She said Perry’s school finance proposal “**replaces Robin Hood with Robbin’ Everybody**” and referred to his proposed tax on topless clubs as “**partnering with sexually oriented nightclubs.**” She went on to say “you’ve heard of financing schemes that have a balloon payment at the end? This one has the Hindenburg.”

This highly-charged rhetoric between two of the highest GOP officeholders in the state led those reporting the stories to ratchet up their speculation that **Strayhorn would run against Perry in the Republican primary next spring.** Hold on. This speculation may be only partially correct.

First a bit of background. Strayhorn’s incessant sniping at Perry has generated big headlines, but it’s caused more than a little discomfort among Republicans who still follow Former President **Ronald Reagan’s** 11th Commandment – Thou Shalt Not Speak Ill Of A Fellow Republican. **Strayhorn is not only speaking ill, she is casting a plague on Perry’s house.** This led her influential chief fundraiser, **George Strake**, to resign from Strayhorn’s inner circle.

With erosion in her GOP base starting to appear, there are some who feel Strayhorn may skip a fractious, expensive Republican primary and, instead, **run against Perry for governor in the fall general election – as an independent.** Think about this. It fits her “tough grandma” image and would allow her to speak ill of Democrats as well, with “a pox on both your houses” approach.

This assumes Perry gets through the GOP primary next spring. A little more weight is being placed on that possibility because USSenator **Kay Bailey Hutchison**, who has long wanted to run for governor, is being wooed to keep her safe seat in Washington because there are those who see her as part of a GOP presidential ticket in 2008. Oh by the way, one other bit of speculation: if Strayhorn does give up the Comptroller’s job, look for Texas Agriculture Commissioner, **Susan Combs**, to be the first to file for that high-profile position.

No state has more major airlines headquartered within its borders than Texas. So how does the prediction that, within two or three years, *low-cost* airlines will become the *major* carriers affect the Lone Star State?

Our friends at *The Kiplinger Letter* in Washington are suggesting that within two or three years **Southwest Airlines, and possibly JetBlue and AirTran, will “assume spots in the upper echelon.”** Which airlines are they likely to replace? USAirways, United and Delta, where labor and other woes “make them the shakiest of the current majors,” according to *Kiplinger*.

If this forecast holds true, it means **Dallas-based Southwest, Ft. Worth-based American Airlines and Houston-based Continental will continue to reinforce Texas’s dominance in the US airline industry.** As the Texas-based airlines gain strength, the gap widens between them and the once-dominant United, faltering Delta and always-struggling USAirways.

In our 3/12/04, 3/19/04 and 3/26/04 issues, you’ve learned about JetBlue’s successes and eventual service to Austin. AirTran is also expanding service in Texas. In fact, this week the discounter announced it would start service between DFW and LAX (Los Angeles) 7/1/04 to go with its DFW nonstop flights to Atlanta, Orlando (where it is headquartered), Baltimore and Las Vegas. **AirTran is promoting its LAX/DFW connection with introductory \$89 one-way fares.**

Speaking of airports, quick, what is the **only airport in the US to return to pre 9/11 activity?** Give up? It’s **Las Vegas**, one of the Top Ten destinations for Austin travelers. (Hmmm! Do you think Las Vegas’s widely-advertised slogan “**What Happens Here, Stays Here**” is working that well? Just curious.)

Austin’s airport is a long way from returning to pre 9/11 activity, but the March 2004 passenger activity continued to show an increase over the previous two years.

Remember, we told you 3/26/04 to “wait for a few more months of results” after there was a nearly 8% spike in February 2004 totals over the year before. The reason we suggested caution is the 8% was an increase over a “down” month – a comparison that could color the results. We now have the new numbers and they confirm last month’s **8% uptick was a bit of an aberration**, but it looks like there is still the beginning of a healthy trend.

The busy March 2004 passenger totals were up 6.63% over March 2003. This is a solid comparison because the March 2003 travel was up as well, and the current numbers showed well against them. Bottom line: this economic indicator, so far, is showing nice increases over both 2003 and 2002. We still have a way to go to beat the record years of 2001 (before 9/11/01) and 2000, but as we said last month “let’s take ’em a step at a time.”

The rebound in the computer industry over the past few months is evident. Technology industry sales are beginning to see moderate gains.

According to Texas economist **Ray Perryman**, the recovery is spearheaded by increasing business spending and a new wave of products. He says many companies are now replacing hardware that was bought during the run-up to the Y2K conversion scare. He notes companies want to **acquire the latest technologies to remain competitive**. And he says the expanding global economy is creating opportunities that allow companies to invest in new equipment.

What else is selling these days? Perryman says interest in consumer and communications products is rising. As a result the forecast for chipmakers and software and gadget developers is promising. He notes January 2004 worldwide semiconductor sales are up 26.6% over January 2003, and they are **on track to realize a 19.4% overall gain in 2004** for all major end markets. The sales are spurred by demand for flat-panel monitors, DVD players/recorders and cell phones. And he predicts mobile usage is likely to diversify and expand as users go to broadband and wireless.

Perryman also has good news for spring tech graduates, where the worst appears to be over. He says there is a “particular need for high-end specialists to design, develop and operate systems,” and he notes that the **job market is “strong for technology, engineering and computer science grads.”** Where are the big bucks for grads? “Those with computer science degrees are experiencing the best compensation offers,” he adds.

Perryman also revealed a little-known statistic that is quite impressive. He says **Dell, Inc.** “**pays salaries for 52% of all Texas computer workers.**” This is simply amazing. Given that, you can see why a healthy and growing Dell is important not only to the Austin area economy but to the state as a whole – and is one of the reasons why we try to track closely what goes on with the Austin area’s largest private employer.

If mortgage interest rates continue ratcheting upward over the rest of this year and next, is there anything on the horizon to help the residential real estate market in Austin?

Well, yes – if you are looking at the lower-end market. Next year, Congress is expected to okay a **no-down-payment mortgage program**. The way it is going now, lawmakers will limit the program to low-to-moderate income homebuyers. The Federal Housing Administration will be given the authority to help secure mortgages for first-time buyers who have good credit.

As for higher-priced homes, the Austin area should not feel the higher-interest rate pinch all that much because, as interest rates rise (slowly, is the prediction), **new jobs are expected to be created to help with the demand**. And in-migration will continue.

Forget *The Alamo* – the made-in-Austin movie, that is. The hoped-for blockbuster has turned into a bombshell. So what does this mean for the Austin area’s moviemaking future?

It obviously would have been better if the epic re-telling of the April siege that forever changed the course of Texas history was boffo at the box office. But two weeks after it opened in movie houses all over the country, **moviegoers are staying away in droves**. Various estimates of the movie’s cost come in somewhere just south of \$100 million. Yet it brought in less than \$10 million on opening weekend and less than \$5 million the 2nd weekend. The trend is not good. In fact, one estimate predicts it will gross less than \$30 million in US theaters.

***The Alamo* is the biggest movie to be made in the Austin area – by far.** The set, billed as the largest ever built in North America, is slowly deteriorating just off Hamilton Pool Rd. in southwest Travis County. The lavish re-telling of the battle could still garner some awards – especially for set design and costumes, maybe even an acting nod or two for **Billy Bob Thornton’s** portrayal of **Davy Crockett**.

But, as far as Austin’s moviemaking future is concerned, *The Alamo’s* failure at the box office should have little effect. None of the movie’s problems had to do with *where* the movie was shot or that local crews were used in the main. In fact, it could be argued the costs would have been much higher – leading to bigger losses for the Walt Disney Company – if the movie had been shot elsewhere.

Disney is getting the blame in the national press for the movie’s lack of success – especially after it split the sheets with two Academy Award winners (director **Ron Howard** and his proposed star, **Russell Crowe**), shaved the budget and hired **John Lee Hancock**, whose biggest movie to date was *The Rookie* (which enjoyed modest success on a modest budget). **No one is blaming the Austin moviemaking community.** One final thought: if you haven’t yet seen the flick, you better hurry before Disney cuts its losses and pulls it from general release.

Our favorite armchair philosopher, **Dr. Louis Overholster**, points out the only time the world beats a path to your door – is when you’re in the bathroom!

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