

THE

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AUSTIN LETTER

www.AustinLetter.com

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Volume 26, Number 9

May 28, 2004

Dear Client:

Now that the disruptive construction in one part of downtown is nearing an end, it's time to ask why two intersecting projects took place at the same time — even though the City had a seven year window in which to work.

What led the City of Austin to do major road work on two heavily traveled thoroughfares in the same area – Lamar Boulevard and Enfield Road – at the same time? This is an important question especially when you realize **both projects were funded by bonds voters approved way back in 1998**. And now, six years later, these major construction projects are underway, creating bottlenecks in the same vicinity – while road work exacerbates the traffic snafus.

What took so long to get these massive projects started after voters gave the go-ahead? And **why weren't they staggered**, to soften the impact on traffic? The City pledged to complete all the work by the end of 2005, so it had a large window for the work. For answers, we turned to the Downtown Austin Alliance (DAA).

First of all, DAA explains the work on Lamar was not undertaken right away because, “in 1999 and 2000, a major effort by telecommunications companies to install fiber optic cable in downtown streets, and several development projects, were **already causing considerable congestion**.”

Well, if that was the case, what about work on the east-west artery, Enfield? “The original timeline for Enfield called for a **completion date of October 2004**. Delaying the Lamar project until after that date would have gone well outside the six-year period.” Another reason given was that starting the Lamar work “late in 2004 would have caused the 16-month project to **stretch over two Christmas seasons**. This would have had **serious effects on retail business** on Lamar.”

So why not delay the Lamar work past this Christmas season, until 2005, so the two projects would not overlap? “By then, several new developments – the Whole Foods corporate headquarters and the new City Hall, for instance – will be up and running in the south end of downtown. **The extra traffic generated by these completed developments would have made road construction work more inconvenient**,” reported DAA. Now you know what they are saying. If you have questions about these projects, or other road work in downtown, contact the DAA's **Thomas Butler** at tbutler@downtownaustin.com.

Do you like watching gloves-off corporate competition? Well, we've got a doozy for you – a battle of computer manufacturing heavyweights, with both hammering hard, toe-to-toe, in the middle of the marketplace ring.

This boxing match has been going on for a number of rounds already, but neither Dell Inc. nor Hewlett-Packard shows signs of fatigue. In fact, they **both seem to get stronger** as the struggle gains momentum on both sides. Round Rock-based Dell rolled out four new printers this week to sell in direct competition with H-P.

This goes right to the heart of H-P's core business. And it follows a pattern in this fight. Remember Dell took on much-older H-P in the scramble for supremacy in the sale of personal computers – and won. H-P swallowed up Houston's Compaq Computer that also lost huge PC market share to Dell.

Now the match is being joined in the printer arena. Some industry estimates say H-P has almost 50% of the highly-profitable printer market. Dell started peddling printers by putting the Dell mark on Lexmark's printers a year ago and has been so pleased with its success that it **rolled out the four new printer models this week**. This is really hitting H-P where its profits live.

But Hewlett-Packard is not just sitting there absorbing the blows from Dell. While Dell is concentrating on selling more printers, **H-P is countering by going after Dell's core business of personal computers**. (Dell is the world's largest seller of PCs.) Stung by Dell's printer jabs, H-P has now unleashed a flurry of price-cutting round-house power punches in the PC field.

This H-P maneuver is swinging from the floor. **H-P has made a corporate decision to sell PCs without worrying about profits**. What? That's right. H-P has sliced prices to the bone in its \$22 billion computer division – content to rely upon profits from sales of printers and consumer electronics to, it hopes, inflict pain on Dell in Dell's PC business.

Punch, counterpunch. Feint, jab. Duck, dodge. The battle is joined. Some observers worry that **both companies' profits are going to be battered and bruised in this slugfest**. They probably will, because Dell is also cutting prices.

Neither company thinks this battle will end in a draw. While there may be no knockouts (these heavyweights have handled worse pummeling in the past and remained standing), there probably will be a clear winner – somewhere down the line. **Put your money for now on the hometown favorite, because Dell still is the PC industry's most profitable company; its operating profit margins are the widest in the industry — by a good margin**. It has the stamina to stay in the bout to the very end. Meanwhile, it's fun to watch (if you like bloody battles) but, more importantly, *you* are the beneficiary as prices are driven lower and lower by this titanic tangle that's taking place just down the road from you.

Austin's unemployment rate is the best of the major Texas metros, but some businesses continue to lay off employees. Do you know which sector is responsible for 61% of all Austin layoffs this year (no, it's not manufacturing)?

Layoffs are not much in the news these days because the unemployment rate has been in a wondrous free fall. **It's really good news that the Austin area's unemployment has fallen from 6.5% to 4.3% in less than a year.** Our April 2004 (4.3%) is much better than that of Dallas (5.8%), El Paso (7.3%), Fort Worth-Arlington (5.3%), Houston (6.0%) and San Antonio (4.7%). And it handily bests the state's average of 5.6%.

But there are still layoffs – 1,265 for the year through March, according to WorkSource. (This of course makes the unemployment totals even more impressive.) **One sector of our economy was responsible for 768 or (61%) of those layoffs** and the betting is you probably cannot quickly identify the sector.

Austin call centers. Call centers are the businesses that house telemarketers, reservationists, phone service folks, etc. We had a rash of those businesses locate in the Austin area several years ago. Our Central Time Zone location and educated workforce helped lure the call centers to the area. Now, many of them are closing or consolidating – or going offshore.

One news report this past week pointed out that many of the new jobs being created here are of the lower-paying (compared to manufacturing) variety, such as retail, restaurants and bars. But, frankly hiring in these areas indicates a positive development in our economy. **More people are being hired because Austin area residents are heading to the retail shops, bars and restaurants in greater numbers.** The residents have money in their jeans and they're not holding back as they do when they perceive tough times ahead.

April may have been a breakaway month in the slow turnaround of Austin air travel.

Passenger traffic in April normally takes a big dip from the previous month – in good years and bad. Even in the heady, record years of 2000 and 2001 (prior to 9/11) **April air travel slowed markedly from the spring break travel marks set in March. Not this year.** April passenger travel at Austin Bergstrom International Airport dipped – but only slightly, not dramatically as they have done year after year.

While this trend is important, it's also significant that **the April totals inched ever closer to where they were during the record-setting years.** May is traditionally a month that generates as much travel as March. We'll track those totals for you. In the meantime, remember air travel (business and leisure) is another economic indicator. It's a positive sign when air travel increases, just as it is when retailers, bars and restaurants start hiring – as they are now doing.

While you're moaning and groaning about what it costs to fill up your jalopy, think about what's happening to the struggling airline industry as jet-fuel guzzling aircraft are running operating costs higher and higher for all airlines. Check that. Not *all* airlines.

Every time oil prices rise by \$1 a barrel, analysts estimate it costs the airline business about \$500 million. A full tank is vital to the airlines because when they're not flying, they're not making any money. In recent weeks, some airlines have **hiked prices to passengers** to cover increased fuel costs, but when their competition didn't follow suit, the prices were rolled back.

Some airlines are smarter (luckier?) than others. The nation's most profitable airline, **Dallas-based Southwest, is the smartest/luckiest of them all.** Southwest gambled that oil prices were going to rise substantially and locked in a lot of jet fuel at a predetermined price. The price of a barrel of oil is currently around \$40.

The latest report we saw indicated Southwest's hedging is paying off big-time. **Southwest has hedged 80% of the fuel it estimates it will need this year at only \$24 per barrel.** Some airlines didn't hedge at all and they're paying more as oil prices continue to soar well above what Southwest is paying almost daily.

Of course, Southwest isn't the only airline that hedged its prices. **JetBlue**, for instance, has locked in about 40% of its needs at \$27.63 a barrel and **Delta** hedged 32% of its 2004 needs at \$26.10 a barrel. But Southwest pushed almost all of its chips out to the middle of the table early and not only got the **lowest price** (\$24), but the **highest percentage** (80%) of fuel it anticipated it needed. **Gutsy.** Others didn't gamble as much – or at all. Now they're paying higher prices while Southwest – carrying more Austin passengers, by far, than any other — just keeps on keeping on. And Southwest locked in a similar amount of fuel at \$25 a barrel for 2005!

Dr. Louis Overholster loved the irony last week when he realized that while the US Cabinet officer responsible for the nation's jobs and business, Commerce Secretary **Don Evans**, was exhorting UT Austin graduates at commencement exercises 5/22/04, the sign at the El Arroyo restaurant on West Fifth Street read: "Happy Graduation Day! Now Grab An Apron!"

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



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