

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

“You can almost say Austin is the microprocessor capital of the world.” This comment, from a chief architect of IBM’s systems group, was published this week.

To keep your perspective, it’s always good to know what others are saying about you. **Robert Burns**, the Scottish poet who died in 1796, put it this way: “O wad some Pow’r the giftie gie us ... To see oursels as others see us!” (FYI, Burns also penned *Auld Lang Syne*). This week, *The Dallas Morning News* took an **in-depth look at Austin’s high tech economy**, with one of the articles titled “Austin Reboots.” It contained some observations you may find interesting.

After citing the “steady loss of semiconductor manufacturing jobs since the early ’90’s,” reporter **Crayton Harrison** wrote “the future of the city nicknamed ‘Silicon Hills’ remains firmly tied to the chip business. Even as manufacturing migrates overseas, **Austin has held onto the research and development labs that push the industry forward.**”

Harrison wrote: “The key factors in Austin’s continued evolution as a semiconductor powerhouse include its giant university, the presence of a major industry research center and the availability of venture capital funding” (more about this powerhouse threesome in the next story). **Austin also benefits from important strategic decisions made elsewhere.** The city’s biggest chipmaking employers, such as California-based Advanced Micro Devices, Inc., have leaned toward hiring employees to scribble away in cubicles rather than bringing on workers to test silicon wafers in clean rooms.”

“The result: **Austin’s semiconductor developers hold powerful roles in the industry**, especially in developing the processing chips that speed computers, servers and supercomputers,” noted Harrison. The person who uttered the quote at the top of the page, **Ravi Arimilli**, has been one of the key engineers helping IBM win back market share.

Here’s a list of the chip companies that have major operations in Austin (with total number of Austin employees in parentheses): **IBM (6,500) ... Freescale Semiconductor**, Motorola’s former chip unit (6,500) ... **Advanced Micro Devices (3,000) ... Applied Materials (2,600) and Samsung Austin Semiconductor (1,000).**

Although manufacturing jobs in our area have ebbed since the early '90's, Austin has held on to its turf as a research powerhouse.

As noted in the previous story analyzing Austin's semiconductor industry, there are three factors present that have kept this changing industry thriving in the Austin area – despite a worldwide slowdown. The three legs of this powerhouse triangle: **UTAustin, SEMATECH International and venture capital funding.** Here's how *The Dallas Morning News* sized up the three as it relates to the success in this sector:

“Many semiconductor executives credit the engineering program at The University of Texas at Austin, which blossomed into a major center of semiconductor research under the direction of Dr. Ben Streetman, its dean and a chip expert himself.”

“Austin is also home of SEMATECH International, a research consortium owned by several semiconductor titans that studies advanced materials.”

“And Austin hosts plenty of venture capital firms that fund small companies developing futuristic chip technology. These firms, along with big research houses of AMD and other giants, form the backbone of the area's chip industry.”

Reporter Crayton Harrison quoted **Terry Leeder**, SrVP of sales and marketing at chip designer Cirrus Logic as saying about Austin: “It's moving to being more like the Silicon Valley.” Harrison went on to report that “Cirrus Logic, whose chips process the sound in digital audio systems, is **one of several Austin companies that design chips but pay others to make them.** These companies are known as ‘fabless’ chipmakers because they don't have fabrication facilities or ‘fabs.’ Such companies are easy to start up without much infrastructure, making them popular with venture funds.”

“Other major US centers of chip manufacturing, such as Phoenix, haven't had Austin's combination of academic horsepower and investment fuel. That rare formula may help Austin's semiconductor industry survive in its new form,” is the conclusion drawn after the lengthy analysis in *The News*, 8/22/04.

There are other factors that need to be considered as Austin's business, civic and political leaders strive to help the chip industry thrive. These folks stepped up to the plate and **kept SEMATECH International from being wooed away** from Austin by New York, and they ponyed up \$4.3 million for utility construction and fee waivers to help **persuade Samsung to undergo a \$500 million expansion** of its plant that makes memory chips.

But there is more to do to keep this important segment of our economy healthy. For instance, they now need to **persuade Freestyle Semiconductor to keep its headquarters in Austin** after spinning-off from Motorola. This is vital to our area's economic leadership.

While Austin's chip-related businesses are causing others to label the Silicon Hills a "semiconductor powerhouse," concern is being raised about rising inventories of semiconductors nationally.

This national concern is bolstered by other negative high tech news, such as cautious comments by Cisco Systems about its performance, and the fact Hewlett-Packard is stumbling badly (firing three top execs). As a result, many tech-related stocks have been battered on the NASDAQ. This prompted **Dell's new CEO to chastise investors** (who are selling off tech shares) for failing to distinguish among tech businesses.

"The markets should not value every company, every technology, the whole sector the same way all the time," complained Dell CEO **Kevin Rollins** to *The Wall Street Journal*. "**To paint the entire industry with one brush would be ill-advised for investors.**"

While H-P, Dell's major competitor is struggling right now, the Round Rock-based Dell is doing well – holding onto its status as the world's largest PC maker. Rollins said "We've seen very good growth" and pointed out that, **in contrast to H-P, Dell said sales to US corporate customers rose 20%, while Europe and Asia each delivered revenue gains of 28% or better.** And Dell is forecasting continued increases in sales and profits.

Why is Dell doing better? Rollins says it is due to "**better execution**" and that Dell is more selective in which contracts it pursues. He also says sales of **server-computers and notebook PCs (where Dell has a higher profit margin)** were stronger than desktop and consumer PC items which carry a lower profit margin.

It's not just Dell that's doing well. In fact, IBM's current successes have also impacted Hewlett-Packard. IBM is hammering H-P with its increasingly innovative high-performance computers at the same time Dell is hitting H-P with low prices for basic corporate computers. **Both Dell and IBM have been gaining market share against H-P** since the California-based company acquired Houston-based Compaq (a former struggling Dell competitor) in 2002.

The Austin area's June jobless rate was significantly lower than last year's 6.2% and is the best of all major Texas metros.

The Austin metro area's June unemployment rate was not only the best of the big metros in the state, the tally continued to show us as the only big-city metro below 5%. **Our 5-county total was 4.7%. The statewide total was 5.7%.** Break it down by the biggest population centers and you see the San Antonio area is the closest to Austin with 5.3%. Fort Worth/Arlington follows with a 5.8% June unemployment. The Dallas area notched 6.2% and Houston came in at 6.6%, with El Paso struggling at 7.8%. The Austin area economy continues to lead the way in Texas.

As the GOP gears up for its convention in NYC, the campaign sound and fury is centered, naturally, around the presidential contest. As a result, the very important contests for control of the USSenate are not getting the attention they deserve.

The margin of control in the Senate is so thin it creates legislative logjams of gigantic proportions. So political insiders are closely watching a number of USSenate campaigns. **There are contests for 34 Senate seats (neither Texas Senate seat is on the ballot).** Of those seats, eight are open, with no incumbent seeking re-election.

The well-respected Cook Report says 11 seats are “solid Republican” and 13 seats are “solid Democrat.” Take those out of the equation to make it easier to track and this leaves **ten key Senate races that will decide the control of the USSenate.** The 10 races that are up for grabs are in Alaska, Colorado, Florida, Georgia, Illinois, Louisiana, North Carolina, Oklahoma, South Carolina and South Dakota.

One of the ten, **Illinois** (currently in the GOP column), is so lopsided in the polls it could be dropped in the Democrat column. The shining star of the Democratic National Convention, **Barack Obama** leads latecomer GOP nominee **Alan Keyes**, 67% to 28%. In two states currently in the Democratic column, **Georgia** and **South Carolina**, the GOP nominees have almost insurmountable polling leads, 51% to 31% and 52% to 39%, respectively.

The really-tight races right now are in **Alaska, Colorado** and, surprisingly, **South Dakota** where Minority Leader **Tom Daschle** holds a razor-thin margin of 48% to 45% lead over GOP Congressman **John Thune**. **Florida** (where a Democrat currently sits) will select its party nominees 8/31/04 and **Louisiana** (also with a Democrat in place now) will hold an open race 11/2/04 where the top two candidates meet 12/4/04 in a runoff.

Dr. Louis Overholster says he was really impressed by how far New York City was going to make sure the streets are safe for Republican convention goers – when parking police recently roughed up, handcuffed and whisked away CBS’s *60 Minutes*’ Mike Wallace!

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