

THE

*Paul Spelce*

# AUSTIN LETTER

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Dear Client:

**So, how're we doin'? As we kick-off the last quarter of the year, what does the Texas economy look like?**

One of the character traits of a former mayor of New York City, **Ed Koch**, was that he would walk the streets of NYC asking everybody he saw, "How am I doin'?" New Yorkers, most of them fairly blunt, would tell him in no uncertain terms what they thought of him and the job he was doing as mayor. On balance, they gave him good marks.

**On balance, the Texas economy gets good marks as we careen into the final months of the year.** Even though she doesn't wander the streets of Austin asking "How am I doin'?" in her role as the state's top exec who tracks the economy, State Comptroller **Carole Keeton Strayhorn** calls 2004 "an economic bumper crop of a year."

**"Nine of my ten economic indicators are positive and we have enjoyed an increase in sales tax collections for 12 months running,"** she says. Sales tax revenues are important on several fronts – more money flows into the state and to cities, Texans are spending more to generate those revenues and Texas businesses – especially retailers – are doing better, as a result.

"Texas' economy has fought back and is poised to make considerable strides in the near future," Strayhorn said. "I predict our great state will continue to **outpace the national economy.**"

This is good news, though there are still some soft spots. Job growth in Texas during the economic recovery has been modest. Strayhorn noted the number and pay scale of jobs being created in Texas is **still below where they would be in a period of full prosperity.** But, in general, the trend lines are heading in the right direction.

Remembering what happened to the Texas economy in the last quarter of 2001, after the devastating events of 9/11, Strayhorn cautioned against premature conclusions for the remainder of the year. **"This is like looking at the halftime score in a football game,"** she said. "We want to come out ahead in the end, but that two-point victory over Arkansas was too close for comfort."

**Which Texas city has the most expensive rental housing, and which Texas city has the highest percentage of renters versus homeowners? Hint: Austin is the answer to one of these questions, but not both.**

The Real Estate Center at TexasA&M University crunches the USCensus Bureau's numbers as they relate to the housing market in Texas. The Center makes its findings available to the state's real estate community and, in many cases, the results offer insights for all.

Dallas has the largest proportion of renter population among major Texas cities, followed by Houston and Austin. **Austin has the most expensive rental housing**, followed by Arlington and Dallas.

If you expand it countywide, Dallas County has the largest proportion of renter population (as it did within the city limits), but Travis County moves ahead of Harris County (Houston) in this tally. By the way, **if you rank the cities by costs-to-rent, Austin's \$802 leads the others**, as follows: Arlington, \$708 ... Dallas, \$655 ... Houston, \$638 ... Fort Worth, \$620 ... Corpus Christi, \$618 ... San Antonio, \$600 and El Paso, \$497.

**Have you noticed a lot of kids running around lately – especially compared to other places you may visit, particularly out of state? If so, you're watching a phenomenon unique to Texas.**

USCensus Bureau estimates for 2003 confirm Texas' population growth from 4/1/00 to 7/1/03 was substantial – nearly 1.3 million persons. **This growth is the second largest number and fourth largest percentage among all states.** While impressive, this is only part of the story.

During this time frame, 353,000 children – those less than 18 years of age – have been added to the Texas population. **The increase in children in Texas is the largest in the nation**, far exceeding that of California (the most populous state), which added 170,000 and Florida (the fourth largest), which added 278,000. New York, the third most populous state (behind Texas) actually recorded a child population *decline* of more than 157,000.

**For Texas children less than five years old, the growth was particularly large**, nearly 183,000. Compare this to 57,000 for California, 109,000 for Florida and a *decrease* of 24,000 for New York.

This is important not just for demographers. It has strong implications for the future growth of the Lone Star State and its institutions, such as schools. For businesses, it is equally important. For example, take residential real estate: **markets for households with children likely will be hot for years to come.** And, of course, Austin has one of the youngest populations in Texas.

**Someone once said that, for businesses, the purpose is to learn from great companies and shamelessly steal. So, here are some key points you can pilfer from two of the nation's best that have reached the pinnacle after starting, and succeeding, in Texas.**

How do you measure the success of a company? Well, how about this as one yardstick? Had you **purchased \$10,000 worth of this Texas company's stock** when it started in San Antonio back in 1972, it would now be **worth more than \$10 million**. That's a pretty good measure, so what can you "shamelessly steal" from the success of Southwest Airlines?

What sets Southwest apart? Other airlines have similar planes, pricing, no-frills approaches. Most analysts agree **Southwest's secret weapon is people**. How does Southwest get its people? The hiring process is key and other companies can emulate the interviewing process.

When hiring, Southwest emphasizes attitude over skill, according to *FSB* magazine. The thinking here is **skills can always be taught on the job, but attitude is pretty well hard-wired**. As a result, Southwest's interviews are full of questions designed to assess an applicant's personality, congeniality, style and coping skills. It's crucial the applicant demonstrate a sense of humor.

Most companies need team players, not people with negative attitudes. Employees don't have to wear silly hats or burst into song parodies, the way some flight attendants do on Southwest Airlines flights. **But an idea to steal from Southwest is that it's okay to have fun at work.**

The other Texas company, that ranks among the nation's best, started in Austin. Well, actually, in a dorm room at UT Austin in 1983. Dell Inc. Dell, officially has never been a \$1 billion company. It skipped that landmark, jumping directly from \$890 million in revenue in fiscal 1992 to \$2 billion in revenue in fiscal 1993. **Dell now counts \$41 billion in revenue, generating profits of \$2.6 billion**, according to *FSB*. If you learned about people from Southwest Airlines, what can you learn from Dell?

**How about a relentless pursuit of improvement in productivity?** For its manufacturing operations in Austin, Dell keeps just three days of inventory on hand, compared to 45 for many of its competitors. **When Dell needs an item, suppliers have 90 minutes to deliver**. Nothing is built until an order comes in over the Internet, or the phone, and the company takes a mere six hours, on average, for the specified item to be built and shipped.

This amazing productivity is not just a system. People are also a key. **Dell rewards employees for coming up with productivity-enhancing ideas, sometimes with bonuses as high as \$1,000**. As *FSB* pointed out when it singled out Southwest and Dell, "these behemoths were once small too" and confronted many of the challenges during their formative years that most businesses face. Their business wisdom, such as these examples, can be helpful to most.

It's that time of year when publications such as this one (which has print as well as Web subscribers) are required to publish certain information about *print* circulation and ownership. This relates to our Periodical Mailing Permit. This US Postal Service permit is important because it gives a "preferred" status to newspapers/newsletters to help ensure timely delivery.

Traditionally, we've taken this opportunity to tell you a bit about how we operate. First, we're pleased most of our subscribers – by far — are now getting the newsletter fast, for the same price, on our Website, [www.AustinLetter.com](http://www.AustinLetter.com). We notify Web subscribers by e-mail when each Friday's issue is posted on the Web, about the time our print edition goes to the printer. If they prefer, they can print a hard copy off the Web (it looks exactly like the print version).

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During the preceding 12 months, now that most subscribers get their newsletter on-line, we only printed an average of 85 copies of each issue. We had an average of 69 paid mail subscribers, with 6 distributed free, for a total distribution of 75, of which 92% was paid circulation. We held 10 copies for office use. Our report to the US Postal Service this year includes actual figures for the 09/24/04 issue, when we printed 82 copies, of which 66 were paid mail subscribers, 6 were distributed free, for a total distribution of 72. A total of 10 copies were held for office use. Of the 09/24/04 issue's circulation, 92% was to paid subscribers.

During our 25+ years of publishing this Letter, we've never missed a Friday deadline. The Post Office occasionally may not get your mail processed on a timely basis, but they try to make sure it is delivered on schedule. If you're not receiving your copy by Tuesday, we'd like to know. If at any time, from anywhere you travel, a print subscriber would like access to the current issue early each Friday morning, we encourage you to switch to an Internet subscription (this notice goes to both print and Internet subscribers). There's no additional charge. Finally, let me say how pleased we are to have you as a subscriber.

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Sincerely



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