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Dear Client:

**Quick. Where does Texas rank among the US states in international trade? We're talking exports – goods and products shipped to other countries.**

Let's cut to the chase. No sense trying to build suspense. Texas leads *all* states in exports. **In fact, 2004 was the third consecutive year Texas' export value surpassed all other states,** according to Texas economist **Ray Perryman**. California was close behind in 2<sup>nd</sup> place. But Texas absolutely eclipsed New York.

**The Lone Star State's \$117 billion in exports represented more than 14% of US total exports last year.** California was in 2<sup>nd</sup> place with 13% of the total, New York trailed – way back – with only 5% of the US total.

By the way, when Texas led the nation in 2003, it nailed down more than 13% of the total and in 2002 it also had more than 13% of the nation's exports.

As you might expect, Mexico is a huge trading partner. **Texas' trade with Mexico amounted to more than 41% of the US total,** way ahead of 2<sup>nd</sup> place California's 15% share of the Mexico market.

Among five other US trading partners, **Texas was the top exporter to Africa;** second to Eastern Europe, Western Europe, Asia and Latin America, and the Caribbean.

Before your eyes glaze over, let's move to what Texas is exporting to the world. What do you think is the top Texas export category by monetary value? Petroleum and coal products? Nope. What about chemicals? Nope. Give up? **The top Texas export category is computers and electronic products.** Of course, the Austin's area's largest private employer, Dell, helps swell that #1 category but there are many, many more Texas operations – especially in the Dallas area – that export electronics products.

The Texas Top Ten commodities by monetary value are: computers and electronic products, chemicals, nonelectrical machinery, petroleum and coal products, transportation equipment, electrical equipment, fabricated metals and primary metals, along with food goods and plastic and rubber products. Texas is a big-time player on the world economic stage.

**It seems everybody is complaining about fuel prices. But more than an everyday hit to the wallet of the average consumer, the sky-high prices can be devastating to businesses that rely heavily on transportation – unless you happen to be smart, like Southwest Airlines.**

Oil prices are hovering around \$50 a barrel, as of this writing. This is down almost 14% from the record high of \$58 a barrel. The situation is so volatile it could change quite a bit by the time you read this. But no one – no one! – is predicting a big drop in oil prices as we move into the heavy summer travel season. **The \$50 a barrel range could be with us a while.**

However, if you walk inside the inner offices at Southwest Airlines corporate headquarters in Dallas, you will not hear any complaints about what the price per barrel is doing to the cost of jet fuel. Just the opposite. It's possible the **highly competitive execs at Southwest are privately rubbing their hands in glee, hoping jet fuel prices stay in the stratosphere a while longer.**

Why? Because as we reported to you last year, Southwest took a gamble and bought jet fuel contracts in advance to lock in fuel at a pre-arranged price. As a result, **Southwest's fuel prices today are capped at \$26 per barrel – roughly half of the current market levels.**

What did this do to the airline's bottom line? In the first quarter, it **cut Southwest's energy expenses by \$155 million.** Eighty-six percent of its fuel purchases in the 1<sup>st</sup> quarter were at the capped price. What about the 2<sup>nd</sup> quarter? Southwest estimates it will be able to buy 83% of the jet fuel it needs at the \$26 per barrel cost. Talk about a competitive edge!

Remember what Dell did during the PC downturn a year or so ago? Because it had a kazillion dollars in the bank and made PC's more cost effectively than its competitors, **Dell got very aggressive during a downturn and stole market share from its competitors.** Southwest is doing the same thing during this airline industry downturn, where analysts are predicting the industry as a whole will lose nearly \$2 billion in the 1<sup>st</sup> quarter. But not Southwest.

Southwest, in the 1<sup>st</sup> quarter, posted its 56<sup>th</sup> consecutive quarterly profit. Amazing! It posted a profit of \$76 million and, as of 3/31/05, had **\$1.91 billion cash on hand, plus an available \$575 million unsecured revolving credit line.** Impressive!

What does this mean for you? First of all more Austin air travelers fly Southwest than any other airline. And just this past week, Southwest announced additional service in cities such as Baltimore, Fort Lauderdale, Orlando, Las Vegas, Oakland and Philadelphia – giving you more options to use their famously discounted fares. CEO **Gary Kelly** indicated it will not stop there. "We are well positioned for growth and **will continue to explore long-term profitable market opportunities,**" he said. Look for more aggressive expansion as other airlines cut back. Oh yeah, Southwest is the largest US airline by market value. That's not peanuts!

**A sure-fire indicator the Texas Legislature has its end-of-May adjournment in sight is that legislators are now meeting on Fridays. This means it is getting close to make-or-break time for legislative issues.**

If you are concerned about keeping the Austin area economically strong for the near and far future, **you need to be pulling for UTAustin to be treated well before legislators go home** – even if you're an Aggie. UTAustin is a powerful economic engine for Austin. (And TexasA&M, despite the sports rivalries, has its legislative future linked to UTAustin.)

Legislators would be well-advised to review a recent report by its own Legislative Budget Board (LBB) that conducted a management and performance review of UTAustin. As President **Larry Faulkner** said of the review: it “reinforces both the **extraordinary productivity of the university and the great value**” it brings.

The board's report included 34 recommendations for improvement. It also included 26 “significant accomplishments,” calling UTAustin “**one of the nation's premier public research universities.**” Faulkner said “the recommendations for improved performance match priorities we have already set and toward which we have already acted.”

Obviously, the report is chock full of information. UTAustin is not perfect and there are a myriad of issues on which to work, as outlined in the LBB review. **The significance of this document is that it is the work of the legislature's own board.** The LBB answers to the legislature. It is not a UTAustin cheer-leading squad.

As a result, when tempers become frayed in the closing days as legislators tackle tough problems, **the LBB report should become required reading** – to remind lawmakers of the value UTAustin brings to the state.

**Update – and a correction.** Don't place the megastar mantle of **Sean Connery** and **Harrison Ford** upon **Matthew McConaughey's** shoulders just yet. The movie, *Sahara*, that created a movie character named **Dirk Pitt** (played by McConaughey) tapered off a bit at the box office in its second week – unlike the blockbusters that made **James Bond** and **Indiana Jones** unforgettable franchises for Connery and Ford. This isn't to say another movie or two will not be made with McConaughey playing the action-adventure hero, Pitt. It could still happen. We'll just have to wait and see.

Now a correction: Last week we reported McConaughey did not graduate from UTAustin. Wrong. **He earned a BS (Radio/TV/Film) degree from the College of Communication at UTAustin in 1993.** Since then, he is often seen roaming the sidelines at Longhorn home football games. And as a further indication of his strong ties to UTAustin, if you look closely at the opening credits of *Sahara* you'll see a well-worn Texas Longhorns gimme cap amidst the clutter of Dirk Pitt's office.

**Have you noticed after a few glasses of your favorite California wine, you're "feeling it" more than you used to? If so, it doesn't have anything to do with you. You're ingesting more alcohol than you thought.**

Subtly over the years, without fanfare, many California wineries have been increasing the alcohol content in their wines. In years past, 12% alcohol – maybe 13% — was the standard. This was slightly more than the great European wines. Today, you need to check the labels closely because you could be buying **wine with 14%, 15%, 16% — even 17% alcohol**. Doesn't sound like much of an increase? Well, think again. A "15% bottle of wine" has 25% more alcohol in it than a "12% wine".

This controversial increase is not all that popular. *The New York Times* quoted one California winemaker as saying "**The old concept, my wife and I can split a bottle of wine with dinner, is no longer true.**" He continued: "You raise the alcohol just a couple percent in wine, and you change people's experience."

This change could be noticed on the drive home. After consuming only *three* glasses of 15.5% alcohol wine in about an hour, **a 160-lb woman's blood alcohol level would be above 0.08% (the legal "drunk" level)**, based on average metabolism. Talk about changing your wine-with-dinner experience!

What's behind these wines on steroids? The winemakers claim new **growing techniques** and abundant California **sunshine** that increase the sugar content of grapes, along with more **voracious yeast** used in the fermenting process, contribute to the increased alcohol content. The winemakers who are following this trend say the wine is better for the process, while those who oppose it claim the higher alcohol content overwhelms food. Next time you look at a bottle of California wine, go beyond checking the vintage year. **Look at the fine print on the bottom of the label to examine the alcohol content.** It could make a difference for you.

When a patient confides in **Dr. Louis Overholster** that he hates his job, the good doctor tells him there is a support group for him: "The group is called 'Everybody' and they meet at the bar!"

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