

THE

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AUSTIN LETTER

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Dear Client:

Even as the Austin area basks in the bright light of a robust economy, the economic storm clouds are gathering in other parts of the nation. Because Austin, more than ever, is dependent upon national business fortunes, what does this mean for us?

The “R” word is being uttered more and more as economists look at the troubles in the automobile and housing industries nationally. **“Today I would put recession odds at 1 in 4,” says Mark Zandi**, chief economist for Moody’s Economy.com. “A month ago, it was 1 in 5. A year ago, 1 in 10.” Not a good trend line.

Up to now, most economists have been talking about a “soft landing” as the economy slows nationally. But now some are forecasting a “bumpy landing,” with the **risk of an outright recession growing** – as Zandi is predicting.

Should you be concerned? Well, yes. But not to the point of googling Noah for construction plans on how to build an ark. And, if your livelihood revolves around the robustness of the Austin area, you can still maintain a positive outlook, because as we have noted for years, **most US recessions have been regional in nature.**

For example, when our economy was in the dumper a few years ago, other US regions were doing quite well. The difference now is the **economic storms are battering the big city markets that are home to economic forecasters and media gurus.** Investors, speculating on housing futures at the Chicago Mercantile Exchange, are “betting” that home prices a year from now will be lower in Chicago (-5.9%), New York City (-6.0%), Boston (-7.6%), Los Angeles (-6.7%), San Francisco (-7.2%), San Diego (-7.9%), Miami (-6.8%), Washington DC (6.9%), Las Vegas (8.2%), etc. Problems are always more serious when they happen to you, right?

What happens nationally, such as rising/falling interest rates, obviously *does* have an impact here. But if the housing market craters elsewhere and interest rates are steady or even moving a bit lower, the impact on the Austin economy is minimal.

The other big regional problem is better here than in other US regions. General Motors, Ford and Daimler-Chrysler have been shopping for foreign partners to pull them out of a serious nosedive. But just down IH35, **financially-solid Toyota has created new jobs** and is ready to start shipping San Antonio-made pickup trucks. Our region, so far, is economically solid.

One of the most important engines pushing the Austin area economy forward is job creation. And this segment of our economy is showing no signs of slowing.

New jobs are being created right and left, and many of them are of the high-paying variety, as we noted in our 9/29/06 story about Dell Inc. and The Southwest Academy of Nanoelectronics. But it is **not just the scientists and engineers being sought for elite jobs** that are pushing our numbers forward, much to the envy of other cities.

Jobs all up and down the spectrum are available in the Austin area for those who have **less education and less experience**, but are nonetheless important to a viable economy. It takes all kinds of jobs and workers to keep an economy humming.

Let me give you an example. The Texas Workforce Commission (TWC) reports that in **August 2005, 776,200 workers were employed** in our five-county Austin-Round Rock metro area (Travis, Williamson, Hays, Bastrop and Caldwell).

A year later, in August 2006, the TWC reported there were 801,500 people employed in our metro area – **an increase of 25,300 gainfully-employed people**. It's as if every single worker in the nearby Hill Country counties of Burnet or Kerr were just lifted up and deposited, with jobs, in the Austin area.

At the same time this is happening, the percentage of people looking for work is among the lowest in the State. Only the oil-and-gas-booming metros of Midland and Amarillo have numbers better than #3 Austin. The Austin metro area unemployment in August 2006 was an impressive 4.2%. **We're hovering in the range of what economists call "full employment."**

The Austin metro area is feeling the effects of in-migration. As a relatively young area, the **ratio of births over deaths is strong, contributing to natural growth**. And those who are growing up here are, by and large, staying here.

This was not true in the not-so-distant past (the 1950s, for example) when many of our **youngest and brightest left Austin for jobs in other cities** that were more attractive to them than flipping burgers or working for a government paycheck.

The diverse job base now is holding most of our home-grown talent here, and it is proving to be a **magnet for those in other parts of the US** who want to have a rewarding career, while at the same time live in one of the most attractive (in the broadest sense) places in America.

The Austin area still has the strong economic underpinning of government/education jobs, that don't fluctuate as much as those in business/industry. But the addition of tax-paying job-creating companies has led to a **job diversification that has enabled the Austin area to thrive, while others struggle**. Everything is cyclical. But for now, it's upbeat.

The surprise resignation this week by the president of The University of Texas Medical Branch (UTMB) in Galveston could have long-term, positive implications for the Austin area.

When the story broke Wednesday about **Dr. John Stobo's** resignation, the focus was primarily on the **various troubles at UTMB** – pointing out the resignation of other top administrators at the Galveston operation, financial pressure scandals, etc. Stobo said he would stay on through August, allowing the UTSystem Board of Regents time to find a qualified successor.

The successor to Stobo is the key. The internal problems at the medical school, while headline grabbing, are solvable – some of them possibly even before the **new president takes over September 2007**. Stobo has held the post for ten years. So it is likely his successor will be tapped with the understanding he/she will be in the post for quite some time.

And this is where the future of the Austin area is concerned. As we have reported previously, UTAustin (one of the largest campuses in the nation without a medical component) has been mentioned – mostly privately – as being covetous of a med school. It would now appear the Regents have an opportunity to **select a new president who would share a vision of a medical school of some nature with direct ties to UTAustin**.

Of necessity, a UTAustin medical component – however limited or expansive – would have implications for UTMB, if for no other reason than duplication of resources, dollars, etc. **Many Galveston leaders are concerned about losing, or more likely, downsizing UTMB.**

After all, as you recall from our 9/22/06 edition, **Galveston (the largest city in Texas at the time) was selected by Texas voters as the site for UTMB in 1881**, at the same time citizens tapped Austin as the home for UTAustin. Many residents of Galveston feel UTMB is almost their birthright.

Where would you locate a UTAustin medical facility? How about the under-redevelopment, old Robert Mueller Airport site where the Dell Children's Hospital is nearing completion? It's a hop, skip and a jump from the main campus. Or how about the JJPickle Research campus in north Austin? Options abound. In other words, don't worry about how you would cram something like this into the crowded Forty Acres.

A medical school in Austin is a long way off. But some powerful, forward thinking leaders here are determined to make it a reality – in some form. And there are minefields galore. Everyone knows politics is dicey in Washington, but political maneuverings and sensitivities reach a level all their own in the academic world. Couple that with the Texas Legislature's involvement and it gets downright Machiavellian. But, back to where we started: a new hand-picked UTMB president, now a reality with Stobo's resignation, is a major appointment that could pay dividends for those working for a med school in Austin.

This isn't the first time Marriott Hotels stepped into a big brouhaha in Austin. The first time involved its initial hotel property here and the Texas Longhorn football team.

The initial incident turned out okay, but it could indicate how Marriott may proceed. Here's the background. Just as Marriott was opening its first hotel here, **Darrell Royal's** Texas Longhorn football team was making a run for the Southwest Conference championship and a berth in the Cotton Bowl in Dallas. **Royal's teams had always stayed in the Marriott** in Dallas when playing OU each October and in the Cotton Bowl January 1st.

But the Horns had to beat TexasA&M on Thanksgiving Day to cinch the Cotton Bowl that year, and when Notre Dame was announced (before the A&M game) as the other team to play in the bowl game, the manager of the Dallas Marriott (a Notre Dame alum) called and **booked the Fighting Irish in his facility, effectively booting the Horns out of the hotel.** When UT beat A&M and found out they didn't have a place to stay in Dallas, an epic uproar erupted.

Not only did the football team scream "foul," local trade associations and others that had booked meetings in the Austin Marriott in advance called and cancelled reservations. So, Mr. **Marriott**, himself, flew to Austin to meet with Royal to make amends. He apologized and **offered the UT team** (who always spent the night in a *local* hotel on Fridays before *home* games) **free use of his hotel for several years** (the Horns still had to find a different hotel for the bowl game).

Now, **J. Willard Marriott** comes to Austin to oversee the opening of the chain's multi-brand downtown operation and says about tiny Las Manitas restaurant, "Why should you hold up a several-hundred-million dollar investment because of a small little restaurant. The restaurant can relocate and should relocate." He has since apologized, but it isn't over yet.

Dr. Louis Overholster thought *Austin American-Statesman* columnist **John Kelso** understood Austin's local politics when Kelso said about **J. Willard Marriott's** comments: "you just don't say things like that about Austin treasures unless you enjoy the locals talking about your mama!"

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Sincerely



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