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Dear Client:

Sometimes it is instructive to step away from the standard five-county metro examination of the Austin area and look at a bit larger region that includes a few more surrounding counties.

A standard reference point is very necessary to track and forecast trends. Hence, the metro area boundaries, while modified from time to time, are used in most all measurements of economic movement. The Austin-Round Rock metro is made up of five counties – **Travis, Williamson, Hays, Bastrop and Caldwell**. This is the basic trade area, with much of the population moving among these counties for living, working, shopping, recreation, etc.

But when you look more closely, you see residents of other nearby counties who also move across our 5-county boundaries, and contribute to our economic wellbeing. Residents of **Blanco** (Johnson City, Blanco), **Burnet** (Marble Falls) and **Llano** (Llano) counties to the west, and residents of **Fayette** (La Grange) and **Lee** (Giddings) counties to the east fit this mold. They are normally not part of the Austin area's statistical tallies. But they still have an impact.

Texas economist **Ray Perryman** has taken this into account and divided the state in regions, rather than metros. The Capital Region includes all ten of these counties. So how does the Austin area look economically after lumping in these smaller counties? Pretty doggone good, actually. For instance, **Perryman points out these ten counties have about 6.77% of the total Texas population. But the Capital Region provides around 7.38% of the state's overall wage and salary jobs.** This is not all. It also generates 7.64% of Texas economic output (economists call this the Real Gross Product).

What does he *forecast* for the Capital Region? "Continued expansion in its high-tech industries, particularly biotech, alternative energy research and digital film" will occur he says. Also he predicts **population growth will strengthen retail and real estate.** And he says "over the next few years, the higher education facilities in the Capital Region are predicted to achieve moderate enrollment increase and continue to produce highly skilled and trained workers to meet the job force requirements in the future."

All you have to do is **check the traffic count on the roadways connecting these ten counties** to see the Capital Region is a legitimate tracking tool for the Austin area's economic health.

One of the whipping boys in this session of the Texas Legislature appears to be the Texas Department of Transportation, specifically TxDOT leadership's role in toll roads and the development of the governor's pet roadway project, the Trans-Texas Corridor (TTC).

Longtime legislative watchers will tell you one of the actions (or inactions) **sure to raise the ire of legislators is to cut them out of the equation.** The 150 State Representatives and 31 State Senators feel a sense of entitlement and, in varying degrees, self importance when it comes to issues affecting their districts.

If you've spent any time at all around any legislative session, you know there are **supplicants (spelled l-o-b-b-y-i-s-t-s) telling legislators how great they are** and bending over backwards to curry their favor. Pretty soon, many of the lawmakers begin thinking "well, maybe these guys are right, maybe I am really important and powerful." And they start acting accordingly. Others are genuine statesmen with state interests at heart.

But either way, when lawmakers gather in close quarters in Austin every two years, they start feeding off each other. **A small fire, fanned by legislative rhetoric (notice we did not say "hot air"), can turn into a raging inferno very quickly.** This is part of what is happening on TxDOT's toll roads and TTC's plans and actions. It's been two years since legislators last convened and during that time, multi-billion dollar deals have been proposed and many inked. This is the first chance most lawmakers have had to get involved.

A catch phrase has emerged referencing the lack of legislative involvement and a perception that **TxDOT has acted heavy-handedly** with the public while bulldozing ahead. The phrase: "**Don't Ask, Just Tell.**" This is not a Republican vs Democrat battle. For instance, a Republican Senator from Dallas, **John Carona**, has been the harshest critic of TxDOT's Chair, Republican governor **Rick Perry's** appointee **Ric Williamson**, a former Republican State Representative.

Austin Democratic State Senator **Kirk Watson** has joined the fray in a different way. Saying "a handful of folks ... **keep telling people what to do without asking them what they want or need,**" he introduced a bill containing what he calls a "set of principles." Among other things, Watson's bill would require local officials to vote before toll projects can be sold to, or built by, private or foreign corporations. It would also create a mechanism to **reduce or eliminate tolls after a road is paid off**, and require public disclosure if toll revenues from one road are diverted to another transportation project.

With crowds descending on the State Capitol this week and legislators love of public hearings (or "grillings," in some cases), this firestorm will continue to rage throughout this session. It's still a bit early to predict the final outcome.

A recent incident that occurred at Austin-Bergstrom International Airport was one of the triggers leading to a major change in airline operating policies.

You may recall the major winter storms that played havoc with airline schedules in the west and Midwest. Not the Valentine's Day troubles in the northeast – more about those in a minute. During those earlier bad weather problems, an **American Airlines flight – not bound to or from Austin – was diverted here to wait until it was safe to land at its original destination.**

But, ABIA was also impacted by the weather and airline gates were full when the American Airlines plane landed here. **The plane was not allowed to disembark its passengers** to wait inside ABIA's Barbara Jordan Terminal.

Depending upon whose story you believe (ABIA did not grant permission, the pilot failed to take action, American Airlines' policy prevented the passengers from disembarking, etc.), **the poor passengers were kept sitting on the plane on Austin's tarmac for about eight hours.**

Toilets quit working, what little food there was ran out, ill and infirm passengers had serious problems and a **general irritability factor swept through the passengers who could see the terminal out the window**, but they were not allowed to go to the terminal. It was a real horror story.

Austin's incident didn't get much national notoriety until **Valentine's Day when JetBlue planes suffered the same fate in the major media market of New York City.** And to compound its problem, **JetBlue cancelled all its flights in and out of Austin** and a few other cities for a day or two thereafter, even though the weather had cleared. JetBlue, frankly, didn't have its act together to get back up and running after they kept passengers sitting on the tarmac at JFK Airport for more than eight hours. **In short, it was a mess.**

American and JetBlue have now changed their policies after the Austin and New York City incidents. American says it won't keep passengers waiting inside a plane on the tarmac for more than four hours. JetBlue has gone further and set up a sliding scale of compensation for those held on the plane on the ground for lengthy periods. **Other airlines are expected to set similar policies.** As a result of this "voluntary" response, Congress will probably *not* enact a passenger Bill of Rights, when it conducts upcoming hearings to read the riot act to the airlines.

Most frequent fliers have experienced a similar problem – though of less magnitude. It has long been airline practice to move planes away from the gate to queue up for takeoff, when the weather may be marginal – anticipating the planes will soon be cleared to leave. In the busier bigger airports, the pilots don't like to give up their place in the queue. So they sit and **wait and wait and wait – with minutes stretching to hours.** But the Austin and New York City incidents within weeks of each other have led to a new policy that may make it easier for fliers.

So, with the stock market's gyrations this week, where is the economy heading? We know the Austin area is among the tops in the nation – but the “top” of what?

Strategic Forecasting Inc. (Stratfor) is the world's leading private intelligence company. An added plus is **Stratfor is headquartered in Austin**. Recently, Stratfor provided its local bank, Guaranty, with an up-to-date assessment of the 2007 US economic outlook. It preceded this week's stock market rumbling. Here's some of what Stratfor is forecasting:

“The US economy is on the brink of a slowdown – if in fact one has not already arrived. Despite all of the negativity, however, the economy has a lot going for it – meaning the worst will soon be over. There is one factor that will mute the slowdown's effects and ensure that it is both brief – **likely over by the third quarter – and shallow**: Credit is cheap.

“More important, US baby boomers have largely paid off their mortgages and seen their children graduate college. That means that whatever portion of their income was once earmarked to pay off debt is now being invested for retirement. The end result is a massive pool of capital that is keeping US interest rates well below their historical average. Taking the long view, **5.25% rates are really not that high.**”

Stratfor's conclusion: **“The next few months could be a bit rocky, but those waiting for disaster will have to wait quite a bit longer.** There is no need to fret. We have chosen not to use the “R” word, but rather to opt for ‘slowdown.’”

Stratfor delivers breaking intelligence, in-depth analysis, assessments and forecasts on global geopolitical, economic, security and public policy issues. Its clients include individuals and corporations. You can learn more at www.stratfor.com.

Speaking of the economy, **Dr. Louis Overholster** says the three worst things that can happen to a company are: 1) an empty cash drawer, 2) an overdrawn bank account and 3) your bookkeeper appearing on “Lifestyles of the Rich and Famous!”

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