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Dear Client:

Illegal aliens or undocumented workers. No matter what you call them, the discussion of this immigration situation is heated and will probably ratchet up considerably as the November presidential election approaches. Austin and Texas will be in the midst of this conflagration.

Before the debate turns white hot, let's take a cool-headed look at the impact of this facet of immigration. There are **pros and cons** on each side of this issue and **social consequences** are a big part of the equation – such as **health care** for the immigrants and **education** of the children in those families. Also there are **national security** issues. But for purposes of this business-oriented newsletter, let's keep the focus on the local and state economy.

To understand the scope of the problem, the latest estimate indicates there were **1.4 - 1.6 million total undocumented immigrants in Texas** in 2005 (ranking Texas #2 behind California) and there has been accelerated growth in that number since then. Arizona is #1 in *percentage* of the workforce that is undocumented.

Texas-based The Perryman Group (TPG) recently completed a national economic study of immigration and presented some interesting conclusions. TPG concludes: “Without undocumented workers, **notable labor shortages would emerge and significant economic dislocations would occur.**”

“An enforcement-only policy which eliminated the undocumented workforce *without providing a mechanism to accommodate the critical employment needs of the economy is simply not viable,*” TPG continued. “If all undocumented workers were removed from the US economy, the immediate effect would be the loss of some 8.1 million jobs. Even after the economy adjusted, job losses would still exceed 2.8 million.”

TPG said employers would be forced to **induce (or pay incentives to) American workers to convince them to take jobs far below their current education and skill levels.** And for this to occur, “substantial wage escalation” would likely be necessary, eroding employers' competitive advantage locally and globally.

In some ways, this situation is the result of American successes in educating and training workforces (though much still needs to be done) and aging. Check out the next item.

A positive education development in recent decades, as well as the aging of our population, has exacerbated the immigration debate that should soon be loud and long.

Interestingly, in 1960 about 50% of men in the US joined the low-skilled labor force without completing high school. Now, according to The Perryman Group (TPG) (a Texas-based economic study and research organization), this number is less than 10%. Hey, on the surface, this is a good thing. **A more educated workforce has contributed over the past half-century to economic growth, productivity and improved standards of living.** Such a deal.

But. There are still low-skilled jobs that need to be filled. And, according to TPG's analysis and projections, most new jobs in the future will be in the service industries and **about 70% of those will be at relatively low skill levels.** Even if the current immigration policy remains in effect, this will leave "a potential gap of tens of millions of laborers."

TPG goes on to report that "even if some marginal workers are induced into the workforce from other sources, **the need for an immigrant pool to perform these functions is likely to increase.**" Add to this the *aging* of the workforce. "As the domestic workforce becomes older, more stable in number and better educated," the economy increasingly requires foreign, low-skilled workers, reports TPG.

If you move around the Austin area, you can see signs of these foreign workers all around you. They are not just standing on designated street corners seeking day labor jobs. "**Undocumented immigrants serve as a particularly important source of labor,**" TPG notes, in areas such as private households, farming, construction, food services, accommodations, etc.

Realizing the emotional nature of the immigration debate, we hasten to add that the various solutions posed for the problem are just as complicated as they are controversial. **The inflamed rhetoric, however, should not obscure the economic consequences** (intended and unintended) of the ultimate solution or solutions.

TPG says "**millions of jobs are at stake, and the spillover effects would ripple through every sector of the economy and every region of the country.** While a national reform initiative is imperative, it must be cognizant of the potential economic fallout in order to avoid unnecessary disruptions, dislocations, and unintended consequences."

The sheer increased number of immigrants, both legal and undocumented, throughout this decade has moved immigration policy to the forefront of concerns for many people. There are **no simple answers to the question of immigration.** This makes it difficult to craft a policy that addresses its many complex elements – including national security, health care, education, etc. The discussion going forward needs to take into account the economic impact as well. Austin's economy has a big stake in this debate.

The two big developments in air travel today – high fuel costs and the consequences of major merger activity – can prove to be a boon for the airline that carries more Austin passengers than any other.

Dallas-based Southwest Airlines said this week that its overall traffic *rose* 5.7% in April, and for the first four months of the year, traffic *grew* 8.3%. Fort Worth-based American Airlines, hammered by cancellations of hundreds of flights while it inspected its fleet of MD-80 aircraft, said its traffic dropped 6.6% last month. **For the industry as a whole, domestic capacity is down about 3%. Southwest is the healthiest company in an increasingly sickly industry.** One measure of its health – it has about \$3 billion in cash on hand. Impressive.

So, why is Southwest doing so much better than its competitors? First of all, as we've been reporting for several years, Southwest each year is benefiting by the way it hedged fuel prices. In fact, it long-ago locked-in low prices for future delivery. For instance, **it estimates it will meet 70% of its fuel needs for 2008 at only \$51 a barrel.** Smart? Yes. Lucky? Probably.

Okay, now what about these major mergers that may happen? You know just a few weeks ago, **Delta Air Lines and Northwest** announced it had reached an agreement to merge, with the Delta brand surviving. The company line was that this would result in great efficiencies and cost-savings for the merged entity. You'll recall we've told you about another merger that may be in the works – involving **United Airlines and USAirways.** (Houston-based Continental was flirting with United, but pulled out – saying it was no longer going to consider a merger.)

How could mergers impact Southwest's future? Very favorably. Southwest has shown it is very opportunistic in expanding its service. And if these two mergers are approved, this should open many travel markets as the merged entities consolidate, cancelling duplicate service, giving up valuable gate space, etc.

Southwest has shown it can turn on a dime and would likely seize even more market share by adding new routes. **Not only does Southwest have billions in cash on hand, it has 29 new 737s arriving this year** and if it gets more routes, it can hang onto 22 older 737s that it is planning to retire. It's got the money; it's got the planes. And it has the appetite for such maneuvers. Southwest has successfully followed this expansion track in the past.

If this comes to pass, it will greatly benefit the Austin air traveler. Delta, Northwest, United and USAirways have a minimal presence at Austin-Bergstrom International Airport (ABIA). Southwest is, by far, the favorite air carrier for those using ABIA. And more destinations offered by Southwest make it easier for Austin travelers. Finally, **the results of all this shuffling around should be determined fairly quickly.** All the airlines involved in merger talks agree they want this put to bed before year-end – to take advantage of a relaxed regulatory Washington environment, before a new presidential administration takes over.

Central Texas weather is one long drought interrupted by occasional floods. Well, not exactly. But with the floods last year at this time, are we diving into a drought now?

Last spring and early summer, rains pounded the area so heavily that Lake Travis rose to within nine feet of its historic high. The rain was so widespread that, for the first time in 10 years, all of Texas was declared drought-free. That was then. This is now. **Drought has already returned to a large part of Texas, including the Hill Country and most of Central Texas** and the forecast for this summer – well, it’s going to be much drier than last year.

The meteorologist for the Lower Colorado River Authority, **Bob Rose**, says the return of drier than normal weather can be attributed in part to the development of a weather phenomenon known as La Nina. Okay, Bob, explain what happens during La Nina. “The Jet Stream is pushed north of its normal position and it is replaced by a large area of stable high pressure,” he explained. So? **“This high pressure area limits the number of storms crossing our region, resulting in lower than normal rain.”** Uh, okay.

And Rose says this weak La Nina will continue into the summer, which should result in **drier than normal weather from late spring into summer**. “But keep in mind,” he says, “the weather won’t be totally dry. **The month of May is typically the stormiest and wettest of the entire year** and we’re likely to see a few storms from time to time.”

Rose says “temperatures this spring and summer are shaping up to be very warm, much warmer than they were last summer. **Look for readings to hit the upper 90s to 100 degrees beginning in June.**” You may recall last summer, it was a long time before the mercury hit 100 and it occurred infrequently. If Rose’s crystal ball is accurate, you may want to plan an extended trip to the mountains as August approaches.

Knowing that Sunday is Mother’s Day, **Dr. Louis Overholster** was reminded that no matter the situation, he could always count on his Mom to utter those three little words: “Sit up straight!”

Sincerely



Editor/Publisher