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# AUSTIN LETTER

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Dear Client:

**Did you notice as you zipped along Austin-area roadways this week that some service stations were selling gasoline for as little as \$2.89 a gallon? Haven't seen that in a while, have you?**

Of course, not all service stations have dropped gasoline to that level. But can they be far behind as they compete for the business of Central Texas motorists? As we reported weeks ago, the "pain threshold" for Texas motorists was reached when gasoline prices topped \$4 a gallon. This is when Texans cut back on driving and gasoline consumption. **Now the price is inching gradually down. The question is: Will this slow slide continue?**

Even though they don't necessarily march in lock-step, there is a direct correlation between what you pay at the pump and the price of a barrel of oil. And, in case you missed it (because it may have been obscured by all the dire financial and economic news of the past couple of weeks), **the price of oil has been tumbling – from a triple-digit level to around \$90 a barrel.**

So what does this movement hold for you? An energy analyst was recently quoted in the national media as saying "**The fall in oil prices is equivalent to a new stimulus package for consumers.**" Lawrence Goldstein went on to say he calculated that each drop of \$10 a barrel in the price of oil lowered the nation's annual bill by about \$70 billion. This is \$230 for every American.

Oil prices are still high by historical standards. But more than one analyst is suggesting **prices could fall as low as \$50 a barrel in a global recession**, and other economic gurus think a global decline is a distinct possibility given today's economic crisis.

High gasoline prices have been blamed for high prices of other commodities, especially those that rely heavily on transportation. So have prices started dropping in the grocery store? **Many shoppers will tell you food prices have not yet come down in proportion to the dip in the price of oil.**

It will be interesting to track the prices of ancillary products where transportation plays a big role. After all, if the national/global economy is in as deep a dumper as many claim, **the Austin area consumer will need all the help he/she can get on prices of these products.**

**While on the topic of the economic crisis, let's pass along some wisdom from folks who have been watching Washington for 85 years. What is likely to *not* come under strong regulation and supervision as the Feds move aggressively in that direction?**

More oversight of financial institutions is definitely coming. You can take that to the bank, so to speak. It's happening now and, as more details unfold, you can **look for even more monitoring of complex financial instruments, as well as better disclosure of risks** — in addition to shoring up banks that have problem loans.

Our friends at the Kiplinger Washington Editors have just celebrated 85 years as a three-generation, family-run institution. **They pride themselves on “no wishful thinking” as they view the economy and business through the prism of Washington.**

We have found them to be spot-on more often than not. A point Kiplinger makes in assessing what is about to happen is that **the US will not see “regulation of the broader economy, as we saw before 1980.”** Some examples:

**No price controls on gasoline.** Kiplinger maintains this was a 70s mistake that created scarcity and long lines to buy gas. For now, as they put it, “We’ll grumble about high prices but let them float.”

**No setting of airfares and routes.** There was a time when every carrier charged the same on a given route ... and fares were *much* higher than today.

**No reregulation of trucking and rail freight rates.** Firms once needed to get permission to carry a specific load to a particular place at a set price.

**No return to federal approval of prices for telephone services.**

Even financial services won't see a reprise of government price-fixing. Kiplinger puts it this way: “Remember when **every stockbroker charged the same high commissions** ... sometimes \$60 for a small trade ... compared with today's sub-\$10 commissions?”

Further, “remember when **all banks paid the same interest on deposits** and were barred from paying interest on checking accounts? **Those days are not coming back.**”

**This financial rescue is *not* the deepest intervention in the economy since the New Deal.** “It's not even close to the level of routine market control that was dismantled by bipartisan consensus in the late 70s and early 80s,” notes Kiplinger.

Even though deregulation is being decried these days, Kiplinger says “**deregulation stimulated competition, innovation and economic growth in energy, transportation, financial services and telecom.**” Kiplinger calls deregulation “a positive legacy.”

**One more thought on what to anticipate in relation to your business, and you personally, in relation to a highly-discussed national topic – health insurance.**

Following concerns about the economy, the hottest issue on the domestic front – if you believe the polls – is health insurance. **Competing proposals have been cussed and discussed.** None will be enacted until Congress returns to Washington next year. Also, you may see the Texas Legislature weigh-in on the issue – especially if Austin State Senator **Kirk Watson** has anything to do about it. (More about Watson’s thoughts in just a minute).

One very important factor has been left out of the national discourse on this topic. And, because of the emotion surrounding the anticipated push, it is likely to be a front-and-center factor. **US Senator Ted Kennedy, who is suffering from brain cancer, is working on his own health care plan that despite his debilitating disease he is planning to introduce in January 2009.**

Talks have been underway quietly for weeks, reports The Kiplinger Editors, with the senior Republican on the Health Care Committee that Kennedy chairs. **Kiplinger said the talks also have involved employers, insurers, doctors, unions, consumers.** The goal is to build on an employer-based system that is now in place.

The details of the plan probably won’t become clear until near the end of the year. Any healthcare plan will face tough opposition – especially when it comes to cost and how to finance a plan during this economic crisis. **Imagine the emotion of a visibly cancer-ridden Kennedy making a plea and an appeal – possibly as his final act in the US Senate – for passage of a health care plan.** It could be pretty powerful stuff.

At the same time here in Austin, local State Senator Watson will be working trying to have **Texas, as he put it, “do a better job keeping Texans healthy.”** Watson knows a thing or two about battling disease as he is a cancer survivor.

Watson acknowledges it will be an uphill battle to get health care measures passed in the Texas Legislature. **“The most discouraging part may be how overwhelming it feels whenever you bring up the issue of health care,”** he notes.

“Folks who want more funding for health care too often describe it as a massive cataclysm with one prescription: **A huge amount of new money,**” he observed. “This causes the other side to treat the problem as too big and insolvable, which provides too much cover for doing nothing at all.”

As a result, Watson is toying with the idea of **couching much of what he wants in the health care field in economic terms.** He may pose the argument that for every \$1 invested by Texas in healthy kids, for instance, “we get more than \$7 in benefits to the economy.”

**Austin-Bergstrom International Airport (ABIA) is the envy of many other airports – and not just for offering local cuisine rather than routine fast-food in its terminals.**

As we pointed out 10/10/08, many airport terminals around the nation have suffered dramatic losses of travelers, flights and revenue. In fact, many airlines have stopped servicing some airports as they cut costs. Not so at ABIA. **Adding additional service has become the norm at ABIA.** Let's put some meat on that bone:

New service this year has included **USAirways** three daily flights to its Charlotte hub. **JetBlue** began new non-stop service to Los Angeles, San Francisco, Orlando and Fort Lauderdale.

Also **vivaAerobus** added new flights to Monterrey and Cancun Mexico, **Northwest Airlines** connected Central Texas to Indianapolis, **Southwest** added new flights to Fort Lauderdale and Orlando (to go head-to-head with JetBlue's new flights). **Air Canada** also added a new Austin-Toronto route that gave Austin air travelers another option for connections to London and other European destinations.

**But there was a noticeable slowing of air traffic at ABIA during August.** Total passenger traffic was up only 0.2% over August 2007. To get an idea of the nature of this decline, you only have to look at the fact that from January through August 2008 the passenger traffic was up 5% compared to the same timeframe last year. So the fall off in August is quite obvious.

This bears watching as **air travel is an economic barometer for business travel and also for consumer confidence.** We'll check the September numbers when they are released to see if August was a blip or a trend that might be exacerbated by the economic meltdown.

Speaking of the economy, **Dr. Louis Overholster** was wondering why advice is so cheap. Then he figured it out: because supply always exceeds demand!

Sincerely



Editor/Publisher