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AUSTIN LETTER

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Dear Client:

Austin's job growth is low compared to the last couple of years. But a current analysis shows the Austin metro has not lost ground among major metropolitan areas across the country.

In fact, Austin's rate of job growth – despite the up and down swings – consistently places in the Top Ten among the 50 biggest major metros. The most recent job growth numbers — from December 2007 through December 2008 — show **Austin's job growth ranks higher than any other US major metro outside Texas.**

The rankings relative to other cities are illuminating. **Austin is #5 in the nation**, with +1.2% job growth in the year-to-year just ended. The four metros that rank above Austin are all in Texas. **Houston is #1** with +2.2% job growth, followed by **#2 San Antonio** (+1.8%), **#3 Fort Worth** (+1.8%) and **#4 Dallas** (+1.3%). This illustrates the relative strength of the Texas economy.

Furthermore, when you examine the remaining metros **in the Top Ten you find that for the first time in the current downturn, two metros actually lost jobs**: #6 Virginia Beach (+1.0%), #7 Washington (+0.5%), #8 Seattle (+0.4%), #9 Columbus (-0.5%) and #10 Indianapolis (-0.6%). The large metros experiencing the greatest rates of job loss are Detroit, Phoenix, Warren MI, Fort Lauderdale and Atlanta. This is based on a report from **Beverly Kerr**, Austin Chamber of Commerce VP of Research.

This is what you see when you look in a rear-view mirror. What about looking ahead – to the rest of this year? Texas economist **Ray Perryman** and Austin economist **Angelos Angelou** both predict that **Austin will continue to experience job growth in 2009**, though at lower than 2008 rates.

However, it should be noted that a report prepared for the US Conference of Mayors said **Austin could lose 2,800 jobs between the 4th quarters of 2008 and 2009**. This report says *all* major metros in the nation will lose jobs and if their prognosis is correct, Austin would still be the envy of others, ranking as the **2nd best city in the nation by this measure**. On the flip side of the job picture, this report predicts Austin's *unemployment* could reach 6.1% by year end. If so, it would exceed the record number of unemployed from June 2003. We'll track this for you. By the way, Austin was the nation's 43rd largest metro based on job totals in December 2008.

Once-great California has the nation's 4th highest unemployment rate, the 2nd highest home foreclosure rate and the worst credit rating in the nation. Even though California was once a formidable competitor to Texas, it is sad to watch its demise.

California's financial debacle is even more depressing as it played out in spectacular fashion for all the world to see. A \$42.1 billion budget *deficit* triggered bleary-eyed battles in the Sacramento statehouse. The California legislature late this week marked more than 100 days in special session before it finally resolved the state's budget gap with massive tax increases and budget cuts – all the while the politicians were battered by more dire financial news.

The State Controller reported he had only **\$6 for every \$10 worth of bills**, so he started delaying payments for 30 days. And, in a development that spoke to the condition of individuals in California as well as to the state's fiscal problems, the Controller said the **state's personal income tax revenue was down 20%**.

As far as businesses are concerned, a group of more than 500 CEOs and top execs in nine Bay Area counties, including San Francisco and the Silicon Valley, said the confidence of business leaders in the economy had reached a new record low and that significant new layoffs are expected in the region. Said the Bay Area group's CEO: **"We clearly have not hit bottom. Unfortunately, significantly more layoffs and business failures seem inevitable in every industry and every corner of our region."** Not good.

Closer to home, just down the road in San Antonio, automaker Toyota is trying to avoid layoffs by announcing cost-cutting measures.

In January, Toyota said sales of the truck it makes in San Antonio, the Tundra, were down 44%. This is the automaker's worst downturn in 60 years. **Toyota employs 2,000 at its Alamo City plant and another 2,000 work at companies that supply the manufacturer.** So what are the cost-cutting moves Toyota is taking in San Antonio to avoid layoffs?

Likely to be implemented in April, **Toyota will cut executive salaries by up to 30% and will do away with overtime pay.** Work weeks for 90% of its employees, the production workers, will be **cut back to 36 hours from 40.** Salary increases and most bonuses have been canceled for now. A hefty buyout package is available if employees desire to leave but no one is being asked to leave.

In announcing the cost-cutting in San Antonio, Toyota said it knows the market will come back and it wanted its team members to be ready. The company is running a **single shift** at the plant, **after a 3-month shutdown** that ended in November. During those 90 days, workers remained on the payroll for training and improvement projects. While no quick recovery is predicted for the auto industry, Toyota said it anticipates a seasonal demand increase for the Tundra in April.

So, how is the Austin Chamber's big push for money to create jobs and increase payrolls in the Austin area coming along?

Opportunity Austin 2.0 was launched a year ago with the goal to raise \$21 million to be spent over a five year period. The objective: creating 117,000 new jobs and adding \$10.8 billion to area payrolls. Despite the shaky economy, **the Austin Chamber reports its development initiative has so far raised close to \$16 million.**

You may recall the *first* phase of Opportunity Austin was launched in 2003. The goal announced at that time was to create 72,000 new jobs and add \$2.9 billion to the payrolls in the Austin area. During its five-year run, **the Chamber said that 117,000 new jobs were created and \$4.5 billion added to area payrolls.**

An ever-growing City of Austin has decided to skip the opportunity to expand its use of nuclear power to generate electricity for the foreseeable future.

Despite an international resurgence toward using more nuclear energy to generate electricity – and despite UTAustin scientists' recent invention to eliminate most nuclear waste (see our Volume 30, Number 43, 2/6/09 edition in our archives section) – **the Austin City Council decided to *decline* participation in the expansion of the South Texas Nuclear Project (STP),** even though the STP currently provides some of the cheapest and cleanest electrical power used by Austin Energy. (Austin's partner in STP since the beginning, San Antonio, has already committed to participate in the expansion.)

In defense of the decision, the City of Austin said that, as a minority partner in the STP, it would have **no control over construction costs, schedule delays and future fuel and energy prices.** It also cited a **potential cash outlay of \$2 billion** or more over the seven year construction life of the STP expansion. And it said the resultant issuance of debt could result in a downgrade of the city's credit rating.

However, at this very moment the **City of Austin is considering spending huge amounts of money for additional electricity generation.** Part of the plan being studied would expand its natural gas-fueled facility, add a biomass plant, double the utility's wind-generation portfolio as well as building the largest solar energy facility in the nation. **The final decision on this expansion – as well as the price tag – is expected to emerge by mid-to-late summer.**

Austin needs to keep an eye on Seattle-Tacoma International Airport where it has installed the nation's first bird radar. This is important for Austin air travelers because trash dumps south of Austin-Bergstrom International Airport pose a potential danger as they attract birds by the hundreds.

The *second* richest billionaire in Austin is coming out with a new high-end product despite a downturn in the economy. Talk about counter-cyclical.

The richest billionaire in Austin is **Michael Dell**, 43. The *Forbes* ranking of the 400 Richest Americans in 2008 ranks **Dell #11 on the list, with a personal net worth estimated at \$17.3 billion**. Not bad. No one in Austin comes close to his wealth. But another Austinite has also broken that rarefied atmosphere of a billion dollars of net worth. **John Paul DeJoria ranks #105 on the *Forbes* list with an estimated personal net worth of \$3.5 billion.**

DeJoria, 64, is probably best known for **co-founding the highly-successful hair products concern, John Paul Mitchell Systems**. But he also co-founded another firm that is launching a new high-end product right in the middle of a recession.

His privately-held firm, Patron Spirits International AG, almost **single-handedly elevated the image of tequila in the US with the launch of its costly flagship beverage, Patron Silver**, according to *The Wall Street Journal*. It sold 1.725 million 9-liter cases of tequila products in 2008, up 8% from 1.6 million a year earlier — a great track record in a highly-competitive environment.

Now DeJoria's firm is moving into high-end vodka. **Ultimat Vodka is produced in Poland and purportedly the only vodka distilled from a mixture of potatoes, wheat and rye**. *It has a price point of \$40 a bottle*, compared to Grey Goose (about \$30) and Ketel One (\$23). Will this high-end product succeed during a recession? **"We have found that, in tough times, people like to treat themselves,"** DeJoria told the *Journal*. It'll be interesting to watch.

Side note: Austin's two billionaires have come to their wealth in two distinctively different areas – **high tech manufacturing for Dell and cosmetics/premium liquor for DeJoria.**

Speaking of recession spending, **Dr. Louis Overholster** says you know you're in Las Vegas when your prime rib dinner costs just 99-cents – yet, somehow, your weekend costs you \$11,000!

Sincerely



Editor/Publisher