

THE

*Real Spelce*

# AUSTIN LETTER

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Volume 33, Number 29

October 14, 2011

Dear Client:

**Have you noticed the Halloween, Thanksgiving and Christmas displays and merchandise in many Austin area retail outlets? What is anticipated during this make-or-break holiday sales season for local retailers?**

For many retailers, a solid holiday sales season can mean the difference between profit and loss for the year. **And the pace of retail sales between now and year-end can also be an economic barometer for the Austin area.** So what can you expect?

**Cautious optimism is the watchword.** As we have previously reported, sales tax collection revenue has been rising each month this year in Texas and in the Austin area – indicating that **prior to the big holiday season, an uptick is occurring in retail sales.** So, consumers appear willing to spend some of their earnings.

If there is no dramatic economic downturn, forecasters are predicting **at least a 5% increase in sales nationally over the previous year.** As the Austin area economy is performing better, with better employment numbers than the national average, **it is possible retail sales in the Austin area could perform better.** So what can the local consumer expect?

First of all, having learned hard lessons in previous downturns, look for retailers to keep a tight rein on inventory. For you, **this means if you wait too long to make your holiday purchases, you may find empty shelves.** This also means there may not be as many deep discounts offered on overstocked merchandise as occurred in 2008.

Also, **it may be difficult to find a sales person to help you with your purchases.** Retailers have indicated they will be slow to add additional hires for the holiday season, and fewer of those they do hire are likely to get a full-time gig in 2012.

Coincidentally, **lowering gasoline prices may fuel more buying of retail goods.** In other words, with gas prices dropping close to the \$3/gallon level, consumers may have a few more bucks in their jeans and feel like splurging a bit during the holiday season.

Finally, it is also predicted that **online sales will continue to grow this holiday season** – maybe reaching as much as 15% of total retail sales. Be warned: the catalogs are coming!

**The announcement this week that a coalition of Texas school districts has filed a lawsuit challenging the state's school funding system triggered one insider to lay out an interesting background scenario.**

You'll recall the Texas Legislative session earlier this year struggled with adopting a budget at the same time a majority of its members campaigned for election on a "no new taxes" pledge. **The revenues anticipated for the next two-year budget cycle were not enough to close a massive budget gap.**

Holding to the lawmakers' promises not to raise taxes, the final budget slashed spending in many areas of state spending. As a result, State Senators and Representatives were able to go home until January 2013 and claim to their constituents they **passed a balanced budget that did not raise their taxes.**

**The pared-down two-year budget slashed public school spending by more than \$4 billion.** School districts, their associations and supporters, fought against the dramatic cuts in spending. But to no avail.

Finally, this week, **a coalition of school districts filed a lawsuit against the state, claiming among other things, that the legislature's action was unconstitutional because it caused inequities among districts.**

If the lawsuit is successful, the funding methodology for the state's public schools could be **taken out of the hands of legislators and be dictated by the court system.** And according to this insider, is exactly what some "no-new-taxes-legislators" want to happen and had in mind all along when they slashed public school spending to keep their "no new taxes" promise intact.

You see, they can come back to Austin when the next session begins January 2013, tinker with the tax picture to come up with a court-mandated funding system, and throw up their hands saying **"We didn't want to raise your taxes. In fact we didn't do that two years ago. But now our hands are tied. We had to do it. We had no choice. The court has ordered us to increase funding so that the inequities are removed."**

Checking past Texas history, you'll recall at one time the state public school funding was dictated by a court-ordered system. It was dubbed "Robin Hood" – where property-tax-rich school districts were required to give up a portion of the districts' tax revenue so it could be redistributed to school districts that had lesser property tax revenues.

This new lawsuit will work its way through the judicial process. As it does, you might see some legislators, seeking re-election, amend their "no new taxes" promise. For instance, they could claim **"I will always follow the law and never vote to raise your taxes as long as I can legally do so."** This gives them an "out" and may have been part of the plan all along.

**The terrorist next door: an Iranian-born US citizen who stayed in a home in Round Rock is at the center of an international assassination investigation involving Mexico's Zeta drug cartel that has dealings in Austin. Can the dicey Iran-US relationship get any closer to home?**

The incident that unfolded this week caused shock waves around the world – so much so that some US leaders were invoking the words “act of war.” It was alleged **the Round Rock man and one other, with financial backing from the Iranian government, tried to hire a Mexican drug cartel hit squad to kill the Saudi Arabian ambassador to the US while the ambassador was on US soil.**

Much of the national and international news coverage of the incident focused on how **Iran has boldly escalated its antagonistic relationships with the US, Saudi Arabia and Israel** (whose embassies were also targeted as part of the plot).

The dangerous aspect of this escalation was underscored by the fact that **Iran continues to pursue the development of nuclear weapons it has vowed to use against Israel and the US** should the weapons become a reality.

It was appropriate for news coverage this week to drill deeply into this incident, pursuing all its international ramifications. But the reporting lightly touched on what is becoming a **bold escalation of violence by the Mexican cartels**, and that cartel activity has almost daily implications in Austin and other parts of Texas. The Zetas, for instance, control Mexico's border towns with South Texas.

You've noted our many reports in the past about Mexico's cartel violence. In fact, it is very easy to become numb to the levels of brutality. **The violence has included firefights across from Roma, Texas with incursions into the US.** And, much of the drugs the cartels are fighting over come to Austin, with some routed out of here to other US destinations.

**Now the Mexico drug cartels are boldly ratcheting up their violence.** The global intelligence firm located in Austin, Stratfor, notes that two recent brutal incidents have occurred in Mexico City, which have been spared the levels of violence seen elsewhere in Mexico.

Stratfor also notes this is not only a geographical tactical shift, but that **the cartels are now specifically targeting journalists and the military.** Two female journalists were found naked, bound and gagged and their bodies dumped in a park in Mexico City, and two severed heads were dumped near a Mexico City military office.

As the drug cartels tactically escalate *inside* Mexico, the cartel members in Austin, Houston and other Texas cities are likely to become even more emboldened. **Iran took note when it offered, through a terrorist living here in Central Texas, \$1.5 million to the Zeta cartel to strike murderously in the US.** Ramped-up law enforcement is needed in the Austin area.

**California's economy is facing an "ominous sign," with the Silicon Valley the rare bright spot in its economic landscape.**

The "ominous sign," according to Comerica Bank's chief economist, **Robert Dye**, is that **California's economic activity index has dropped for five consecutive months**. As Dye put it, "the California economy is on the bubble." He blamed a weak housing market that has strangled consumer spending.

Dye pointed out the economy in **Silicon Valley was a "bright spot" for California**. But in so doing, he cautioned that market forces and cutbacks in government spending could damage some technology businesses.

Another high-profile Californian weighed in. When asked what California could do to keep businesses from leaving the Golden State to set up shop in Texas, **Steve Forbes** repeated his mantra that, among other steps, a **flat tax needs to be implemented**.

**He also gave a positive nod to some of California's greatest successes such as Oracle and Apple that were founded during periods of economic distress**. In fact, he was quoted in the *San Francisco Business Times* as saying "no one had heard of **Steve Jobs** 35 years ago. Now he's an icon of Edisonsque proportions."

Speaking of the recently-deceased Jobs, **Sony Pictures paid a seven-figure sum for the movie rights to an upcoming book on Jobs**. The book will be published 10/24/11. And in the days following Jobs' death, pre-orders for the book pushed it to #1 on Amazon.com's bestseller list.

**Sony Pictures was the studio behind the successful film about Facebook, "The Social Network."** The producer for the film will be **Mark Gordon**, whose previous films included "*Speed*" and "*Saving Private Ryan*."

A regular moviegoer, **Dr. Louis Overholster** is convinced police departments give their officers personality tests to make sure they are assigned a partner who is their total opposite!

Sincerely



Editor/Publisher