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# AUSTIN LETTER

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Dear Client:

**“Texas is the most successful state in America. Texas economic output exceeds Mexico’s and Australia’s and rivals India’s,” according to a staff writer in *The Wall Street Journal*.**

The writer, **Daniel Henninger**, came to Austin to check out claims made by Gov. **Rick Perry** in Perry’s run for the presidency. Setting politics aside, the piece he wrote contained some **interesting insights about Austin and the Lone Star State** after talking to several high-level CEOs who have invested heavily in Texas.

**Ed Trevis**, a California-educated Brazilian immigrant and tech entrepreneur in Silicon Valley for 25 years, moved Corvalent Corp to Austin and told Henninger: **“what I found in Texas is that from the standpoint of running a business, cost of living, education, the labor pool, quality of life, it just blew other states out of the water.”**

Henninger added: “I heard this constantly – people *enjoy* being in business in Texas.” **David Booth**, who moved Dimensional Fund Advisors’s headquarters to Austin from Santa Monica in 2008, told Henninger: **“it’s just that they believe in the whole Horatio Alger myth down here. It’s hard to understand if you haven’t lived here.”**

“In 1990, one of the world’s biggest companies, Exxon Mobil, left New York City for Dallas. Exxon’s former CEO, **Lee Raymond**, says the move was indeed about costs and New York State’s notoriously overbearing tax authority. But it was also about **working amid a culture of competence. ‘It’s just the attitude in Texas of getting things done and doing them well’.**”

Others were quoted as well and their observations led Henninger to comment: **“in Austin you discover a primary reason beneath Texas’ success: it’s about competition *plus* collaboration.** It seems everyone in Texas high-tech knows everyone, and if they can help each other, they will.”

Henninger says the story of Texas is “a story the rest of the US should hear – the parts of the country that want a better economy than they’ve got now.” Then came his clincher: **“This much is obvious: Texas, not California, better be the American future.”**

**So, your business needs to borrow money from a bank. Has the lending situation changed recently? What about in the near future? It's improving.**

It looks like 2012 may be a "pretty good time to borrow," predict our friends at *Kiplinger*, who for 88 years have been providing **forecasts for management decision-making**. Of course they point out it helps if your firm is enjoying healthy growth, has strong prospects and may be in a position to expand. Here are the reasons cited by *Kiplinger*:

**Interest rates can't get much sweeter.** On a \$200,000, 10-year loan to purchase equipment, a typical small retail business in Austin with a top credit rating can find a fixed rate of about 6.5%, for example.

**Banks will be eager to lend.** Following the financial crisis of 2008-2009, the banks bolstered reserves they held to offset risky loans partly by cutting back on lending. **Now they're able to loosen the purse strings, making up for the dearth of lending during the recession and for revenues they continue to lose elsewhere** in a mortgage market stunted by a housing slump, and in credit card rates and fees that are curbed by new federal regulations.

**Lenders want to diversify, spreading risks. Both small and big banks see small business clients as the answer.** In fact, so far in 2011, JPMorgan Chase has hiked its lending to small businesses by 71%.

**Declines in late payments and bad loans make it easier for banks to say yes.** The share of non-performing business loans has fallen nationally from 2.8% in 2009 to 1.6%. And remember, this is a *national* average and Austin has a much better economy than the nation as a whole.

*Kiplinger* said competition will extend beyond interest rates to **more relaxed terms, such as longer re-payment periods, lower monthly payments, less collateral** and so on. And *Kiplinger* predicts lending to subprime businesses will pick up because competition for small business loans will result in easing standards further. As an example, *Kiplinger* notes that new credit cards issued to subprime borrowers increased 64% over last year's level.

**What about mortgages? What is Kiplinger's take during this low interest period?**

If you're paying 5% or more on your mortgage, chances are you could save by refinancing, assuming you stay in your home long enough to recoup the closing costs. **Locking in a lower rate can cut your monthly payment, but you could also choose a shorter term and pay off the loan sooner.** *Kiplinger* suggests you can see how much you could save with a lower rate and test various scenarios with one of the calculators at <http://mtgprofessor.com>.

**Two different national publications, normally in competition with each other, agree on one thing: Texas is the best place to be in business today.**

The site and facility planning publication, *Area Development*, in its online edition surveyed a select group of highly-respected site location consultants with a nationwide client base. These are the **pros who are hired by companies to do all the digging to recommend locations where the companies should expand or re-locate.**

States were ranked in each of 12 site selection categories based on the number of times they were named as a Top Five choice by the responding consultants. The conclusion: **“Texas is far and away the consultant’s #1 choice for doing business.”** Rounding out the Top Five, in order, behind Texas: Georgia, Alabama, South Carolina, Indiana and Louisiana.

The other publication, *Site Selection*, using different criteria, came to the same conclusion.

The magazine’s selection was based on factors including a survey of corporate real estate executives, a tax climate analysis and the state’s performance on a database that tracks new business activity. **“Executives who participated in the survey ranked Texas the best state for business based on its lack of red tape, financial assistance and government cooperation with businesses,”** the magazine concluded. North Carolina has held the top spot for the last decade.

**Whenever Texas is top-ranked in economic surveys it augurs well for Austin.** After all, inside Texas Austin is considered by many to have the strongest economy in the state.

**Where does the average private sector salary in Austin rank nationwide? Out of 938 metro areas, Austin was certainly not at the top, but in its own way, its average private sector salary rank is quite impressive.**

The Austin area has a large number of government jobs. Payroll checks from state, county and city government, universities and public schools, federal employers, etc. are a big part of Austin’s economy. **But what about the *private* sector? How do its wages compare?**

**Austin’s average private sector salary ranks 28<sup>th</sup> in the nation.** Not bad, especially considering the Austin area regularly ranks favorably for its moderate cost of living. **The average Austin private sector annual salary: \$45,500.**

**Dallas-Fort Worth ranks 25<sup>th</sup> nationally** (\$46,200 average salary), **Houston is #12** (\$51,300), but **San Antonio is 189<sup>th</sup>** (\$36,000) in the recent analysis of USCensus Bureau data by On Numbers, a division of American City Business Journals.

**Another Mexican drug cartel leader is in custody in Texas this week, after surrendering to US authorities near Santa Maria, Texas.**

You'll recall in last week's newsletter we told you of the arrest near Port Isabel of Mexican drug lord **Rafael "El Junior" Cardenas Vela**. Soon thereafter his deputy in the Gulf Cartel, **Jose Luis "Comandante Wicho" Zuniga Hernandez** who was an operations leader in Matamoros, surrendered to US authorities in South Texas, without a struggle.

More details are emerging about these killers. **Turns out "El Junior" reportedly owns a residence on nearby South Padre Island.** When he was confronted by US authorities (acting on a tip from a rival drug cartel in Mexico), he was accompanied by three bodyguards. But there was no resistance. "El Junior" had an authentic Mexican passport and a US entry visa in a fraudulent identity.

The US believes that "Comandante Wicho" feared for his life in Mexico, so he crossed the border to surrender. The internal struggle for control of the Gulf Cartel south of Brownsville is intensifying. And, according to Statfor, the Global Intelligence Company headquartered in Austin, "as long as the factions of the Gulf cartel are **caught up fighting among themselves, the group is in a weakened state and other cartels can be expected to take advantage of the situation.**"

Two takeaways: 1) Texas continues to feel the effects of the deadly border violence in Mexico and 2) the violence may ratchet up as the drug cartels battle each other along the Texas border.

Interesting synergistic tidbit: here on 11/11/11, this edition of the newsletter is Volume 33, Number 33 (meaning it is the 33<sup>rd</sup> issue in our 33<sup>rd</sup> year of publishing this letter). Hmmm.

**Dr. Louis Overholster** was wondering why drugstores make the sick walk all the way to the back of the store to get their prescriptions while healthy people can buy cigarettes at the front!

Sincerely



Editor/Publisher