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Dear Client:

The price of oil is surging toward an extremely high price of \$100 a barrel. In fact, this week the price moved up to bounce around \$80/barrel. Good for the Texas “awl bidness.” Good for state government, as tax revenue is pouring into state coffers in advance of the Texas legislative session starting in January. Good for the Texas economy. Yes, but. What about the price of gasoline you pay at the pump for personal and business driving? Good question.

There are predictions that the **price of gasoline will be increasing**, even though the summer heavy driving season is behind us and the demand theoretically is lessened. It’s a logical forecast. After all, it is costing more to buy and then process crude oil. So it isn’t surprising to expect the price at the pump may go up. If it does, though, how high could it go?

As of mid-week, the price for a gallon of regular gas at Costco on Austin’s Research Blvd. was \$2.48/gal. (Admittedly, Costco generally has some of the lowest prices around.) This is the same price range, slightly up and down, seen at Costco through the busy summer travel months.

Know what the gas price is in California? **“Gasoline prices are climbing toward \$4.00 a gallon in Southern California, boosted in large part by a rise in worldwide crude oil prices,”** reported the *Los Angeles Times*. “The average pump price for regular gas in the Los Angeles-Long Beach area stood at \$3.77.”

Wait a minute. If crude prices were the biggest culprit, **wouldn’t you think similar prices could be found in Austin and all over the US where the price of crude is the same?** Hasn’t happened. Something else is happening in LaLa Land.

“The truth is that California policies, including its high state taxes on gasoline and diesel, drive up prices,” observed the conservative think tank Texas Public Policy Foundation. **“Regulations and corporate taxes also play a big role in determining refinery operating costs as well as expenses throughout the entire supply chain. That’s why prices are rising, especially in California.”**

You’ll probably always pay more at the pump in high-tax states than here in Austin or around Texas. Competition and volume also play a part. Still, the price you pay will likely rise. See the next story.

Texas is producing so much oil we don't know what to do with it. The shale revolution has dramatically altered the Texas, US and world energy landscape. Texas is at the epicenter. One example: the Permian Basin in the Midland-Odessa area of West Texas is the largest US oilfield. In the past three years, production from the Permian has risen from a whopping 1.5 million barrels per day (bpd) to 3.43 million bpd. As with an abundance of most anything, this excess is creating challenges that are dictating adjustments (to put it charitably).

The international news agency *Reuters* reports: “The U.S. government continues to forecast the country’s oil output rising to fresh record. **But competition for limited resources in Texas is making it harder for shale producers to turn a profit and encouraging some to invest elsewhere.**”

Following up on pace-of-growth and depressed prices discussed on the previous page, *Reuters* reports “The West Texas drillers that drove the shale revolution have overwhelmed the region’s infrastructure with oil production – **driving up costs, depressing regional oil prices and slowing the pace of growth.**”

The unbridled explosion of the oil boom in the Permian Basin has surely created problems. On a different scale, all you have to do is experience Austin area traffic problems to see what spiraling growth can do to an area.

So, what is likely to happen now? “**Determined, brilliant and creative engineers and geologists brought about the shale revolution, and that same brilliance and creativity will no doubt be brought to bear on the infrastructure challenges they now face,**” Kathleen Hartnett White optimistically predicted. She is with the Texas Public Policy Foundation.

Calendar devotees know this is the week Austin businesses would have been required to provide paid sick leave to their employees. Well, update your calendar. Following a lawsuit filed to stop the city ordinance, the goal posts have been moved. Oral arguments will be heard 10.17.18 on the challenge to Austin’s paid sick leave mandate.

Under the mandate, private employers with *more* than 15 employees doing business in Austin would be required to provide **eight days of paid sick leave each year**. Businesses with *fewer* than 15 employees would be forced to provide **six days of paid sick leave**.

What is likely to happen, given these developments? First of all, immediately following the 10.17.18 oral arguments, **the Third Court of Civil Appeals is *not* believed to take immediate action**. Even if the Court ultimately upholds Austin’s new law, the Texas Legislature will jump into the debate when it convenes in Austin in January. **Several legislators have publicly stated they will work to countermand the Austin ordinance, claiming it usurps state law.** Given past legislative actions affecting Austin, the city’s odds to prevail do not look very good.

While on the topic of workers and calendars, as we approach the all-important holiday spending season in the Austin area, get ready for a major business and economic impact that will undoubtedly be different from years past. The reason: on November 1st, Amazon will increase its minimum wage to \$15 for all full-time, part-time, temporary and seasonal employees. The ripple effect in the Austin area will be something to behold.

In fact, the effect of Amazon's move will have more impact in Austin than in most US cities. **The Austin area already has a very tight labor market.** No need to recite the eye-popping employment/unemployment stats. To understand how many businesses are struggling to hire employees, all you have to do is **drive around the metro and count the number of "Now Hiring. Inquire Within." signs and banners outside various businesses.**

For Austin retailers the end-of-year holiday spending season is make-or-break time, as the normal **surge in sales determines a full-year's profitability.** **Many retailers hire seasonal employees to handle the increase in volume.** They probably have not paid \$15/hour in the past. After all, the federal minimum wage is currently \$7.25/hour.

It's not just retailers. Because there are so many shoppers out-and-about during the holiday spending season, **other businesses – restaurants, fast-food locations, etc. -- also see an increase in customers.** Many of them also hire seasonal workers. How will they be impacted?

You may say Amazon is just one company, so how much influence can it have? Of course, it's just one company. But the \$15/hour wage also goes into effect at its wholly-owned subsidiary, **Whole Foods.** What impact will this have on its grocery competitors? **Amazon has more than 900 employees in Austin.** Obviously many of them are paid well above the minimum.

But there is Amazon's **huge fulfillment warehouse in San Marcos.** It is so big it is already employing about 3,000 workers to fulfill/ship orders, even before the anticipated tsunami of holiday orders. Remember Amazon says the \$15/hour wage applies to both *seasonal* and *temporary* workers.

Consider the ripple effect when many Austin area businesses are already having problems hiring needed workers. **To be competitive, do they take a hit to their bottom line by matching a \$15/hour minimum wage? Or raise prices? It becomes especially problematic if they start losing workers they already have.** And if one or two companies in a given sector follow suit with Amazon, does this result in a falling-domino situation, involving others?

Take a deep breath. Not to over-react. But you can't stick your head in the sand when you realize the **Austin area's tight labor market is a sticky wicket that could make it much more vulnerable to such a market force** in an upcoming important economic season.

The headline this week read “3M closing plant in Austin, shifting work to Minnesota.” Whoa. At first glance this was a stunner. After all, 3M was one of the first US major manufacturers to select Austin for a large facility back in the 1980s. But, as with most brief headlines, there is more to the story. Let’s dive deeper for more than a first impression.

Earlier this year, 3M sold its fiber/copper cable division to Corning and this Austin plant is part of what was sold. **So the maker of Scotch Tape will ultimately sell its 220,000 sf. local property** next year after it phases out this part of its business. But, this week’s announcement does *not* include the mega plant in northwest Austin most publicly identified with 3M Austin. **Located on about 156 tree-studded acres, this bigger plant employs about 500 people.** It was not part of this deal.

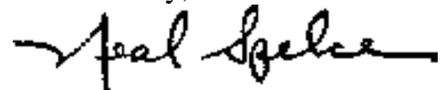
Adding to the confusion, this bigger **1.3 million sf. plant was also recently sold to World Class Capital Group. 3M is leasing it back** until it moves from the northwest site to a northeast location near Parmer Lane and IH35, next spring. Got it: smaller 3M Austin plant closing, and larger 3M Austin plant is staying here but moving to a new location.

Modern, thriving Austin is chock-full of millionaires. How many? Who knows? But *Forbes* is an outfit that each year famously compiles a list of American billionaires. And, once again, Michael Dell topped the 2018 list of Austinites, at \$27.6 billion, ranking #17 in the US. The other five Austinites worth more than \$2 billion (with their net worth and US rank):

Robert Smith, founder of Vista Equity Partners, \$4.4 billion (#163) ... **Tito Beveridge**, founder of Tito’s Vodka, \$4 billion (#179) ... **Joe Liemandt**, software company founder, \$3 billion (#271) ... **John Paul DeJoria**, tequila and hair care products, \$2.6 billion (#316) ... and **Thai Lee**, SHI International, \$2.3 billion (#354). **David Booth** didn’t make the \$2 billion cut. *Forbes* listed his net worth at only \$1.6 billion.

Dr. Louis Overholster: “If God wanted me to touch my toes, He would’ve put them on my knees.”

Sincerely,



Editor/Publisher