

2023 Economic & Sales Tax Forecast for the City of Austin



City of Austin **2023-24 BUDGET**

May 2, 2023

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Economic Overview

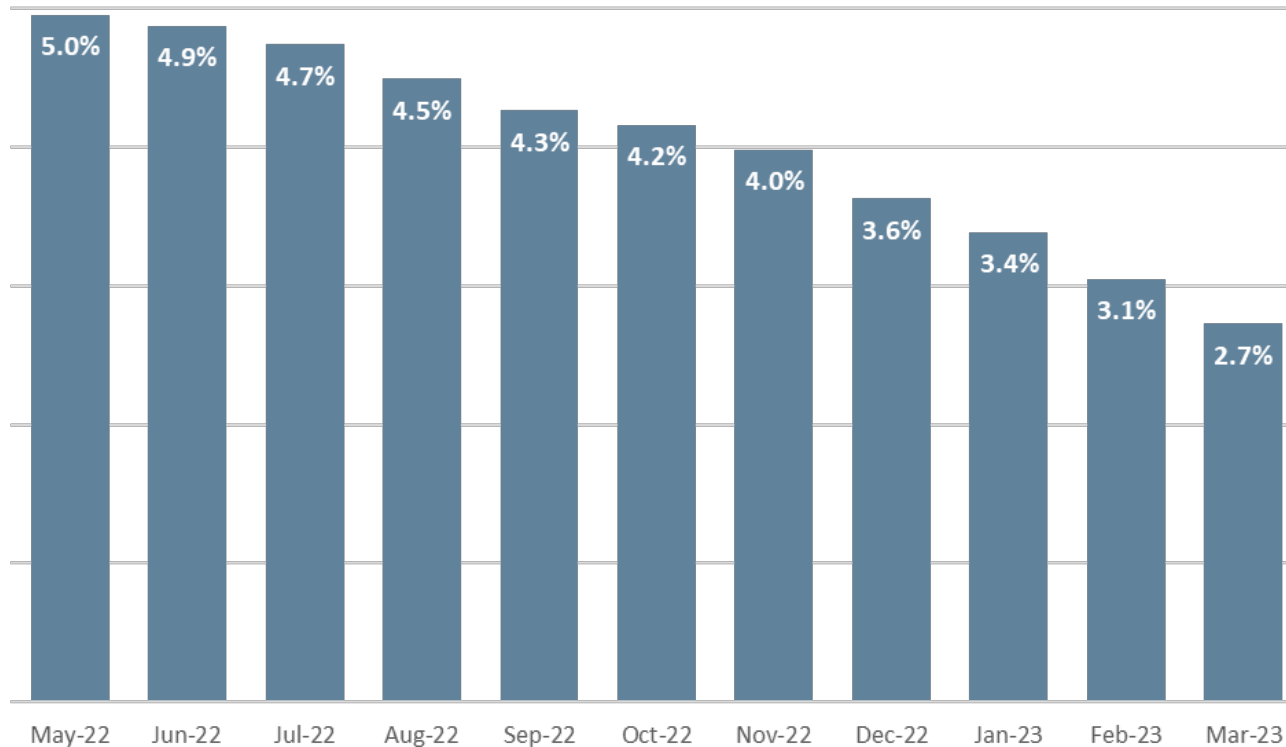
Defying Gravity is Almost Over

- Significant near-term factors
 - Inflation, while cooling, remains elevated
 - Energy and food fall (at least temporarily) but Services rise
 - Labor shortages continue to put upward pressure on wages, especially consumer/hourly
 - Global supply issues still a factor
 - OPEC output reduction
 - Ukraine grain impacts
 - Monetary policy has tightened considerably
 - Fed raises interest rates 425 basis points – more likely to come
 - Banking crisis further constrains capital availability
 - Equity requirement increase, underwriting tightens
 - Commercial real estate, specifically office, in serious trouble
 - Demand for industrial, lodging, entertainment still good – for now
 - Tech sector feels the impact, along with reduction in discretionary ad/marketing
- Longer-term factors
 - Global supply issues still a factor
 - OPEC output reductions
 - Accelerate non-fossil future
 - Ukraine grain impacts
 - Labor Force may be most significant variable
 - Permanent reduction post-COVID?
 - Immigration?



National Employment

12-Month Percentage Change

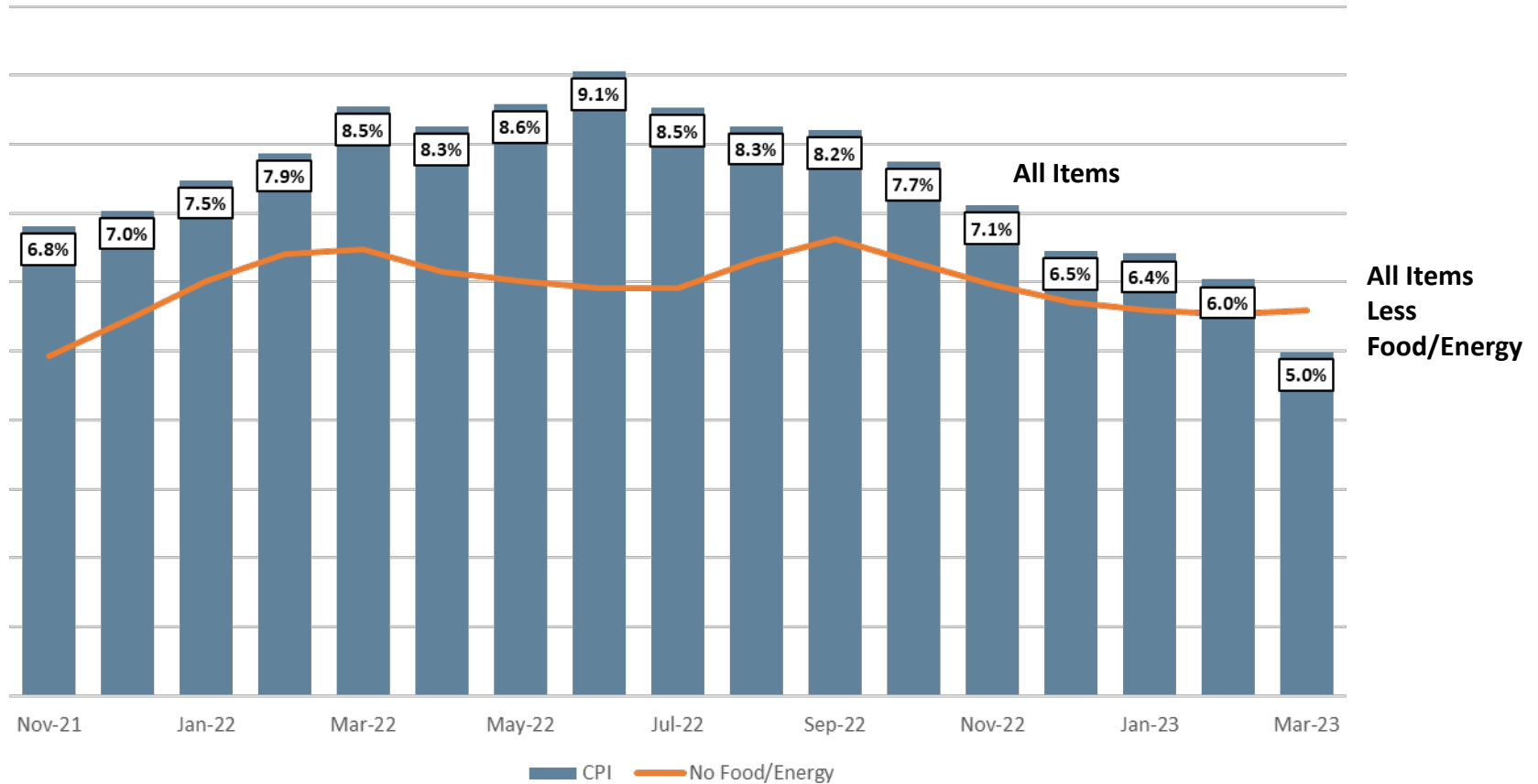


Sources: BLS, TXP



Inflation

12-Month Percentage Change

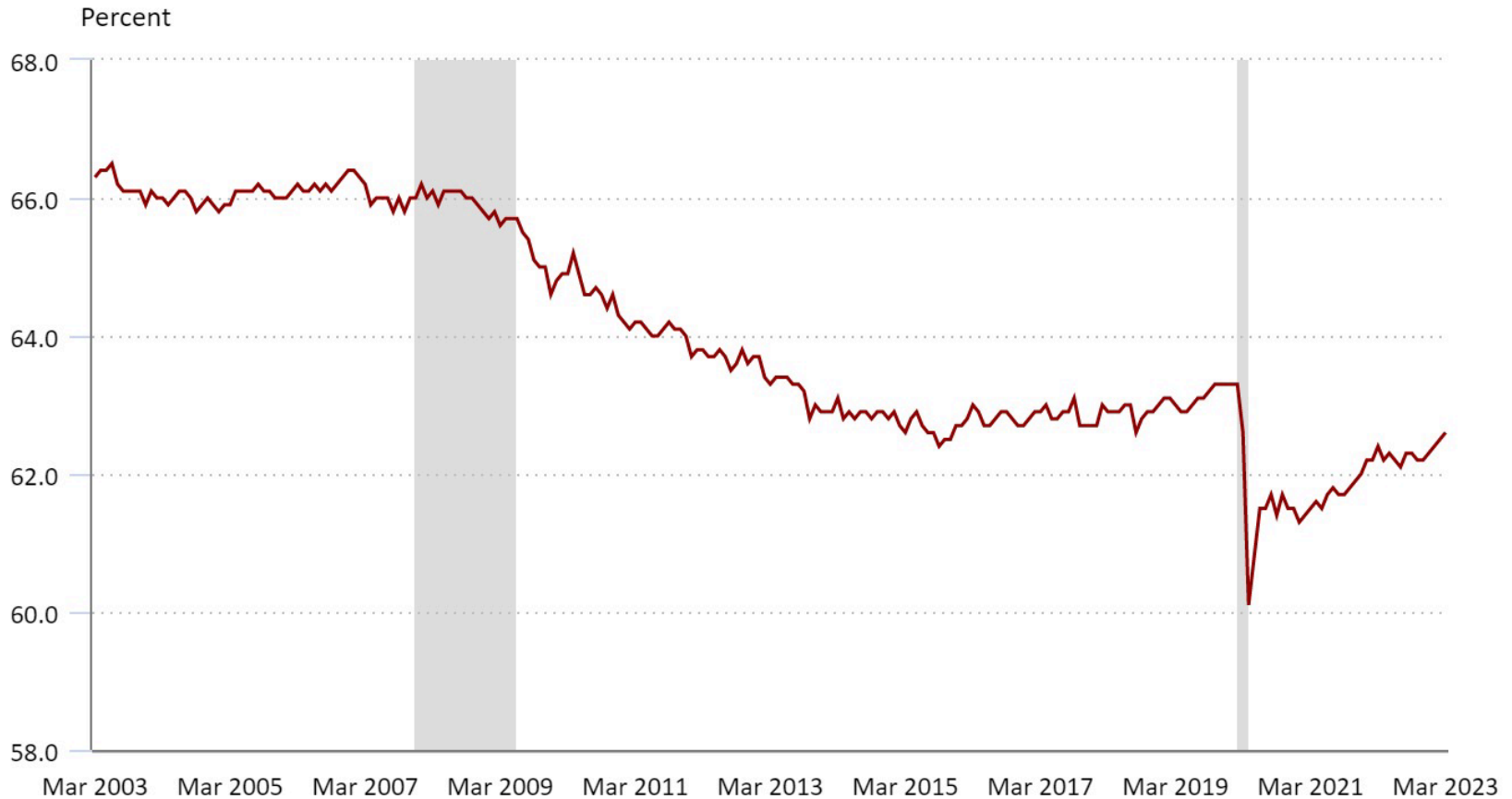


Sources: BLS, TXP



Labor Force Participation

As Share of Civilian Population

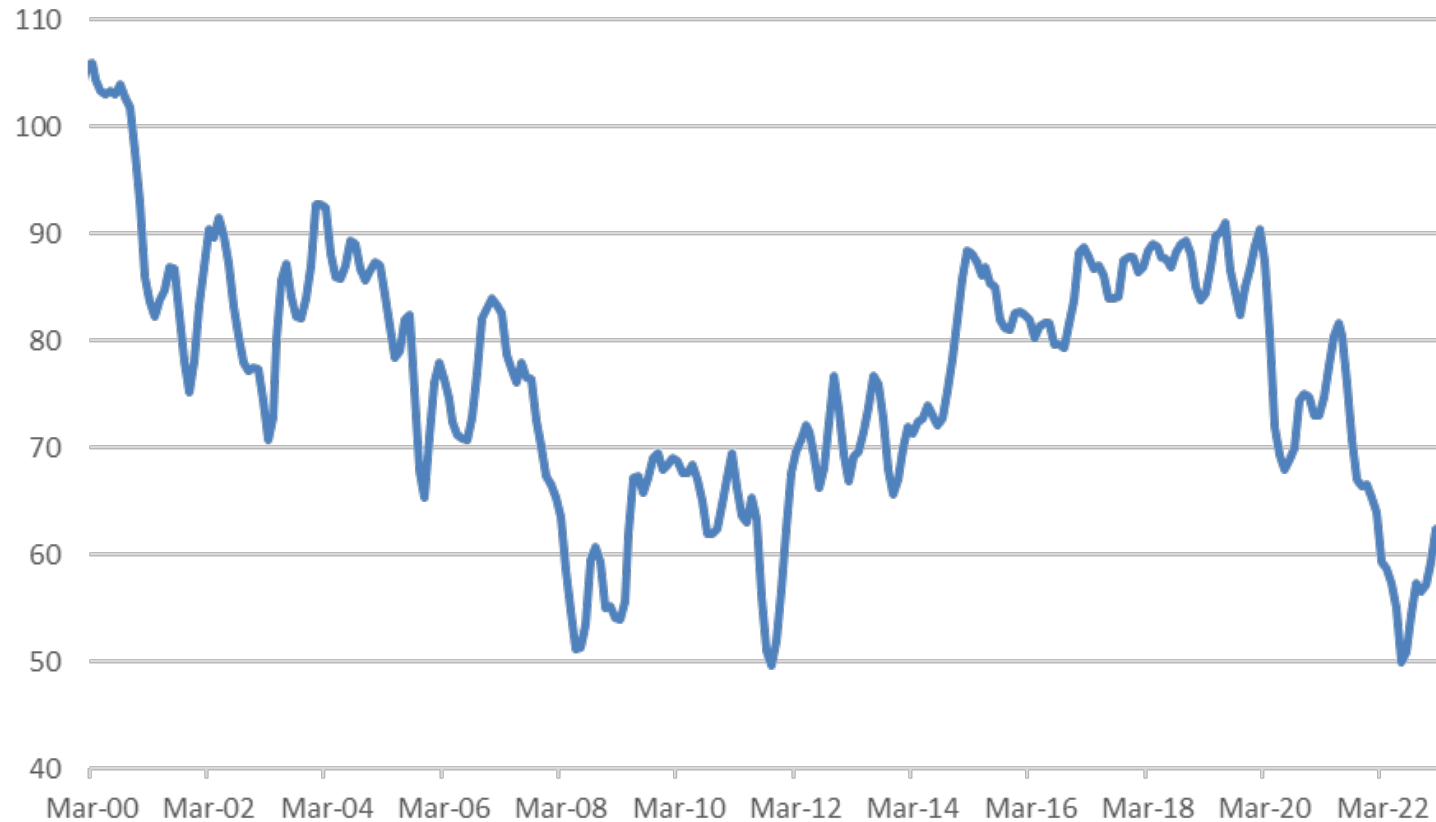


Sources: BLS, TXP



Consumer Sentiment

Index of Consumer Expectations



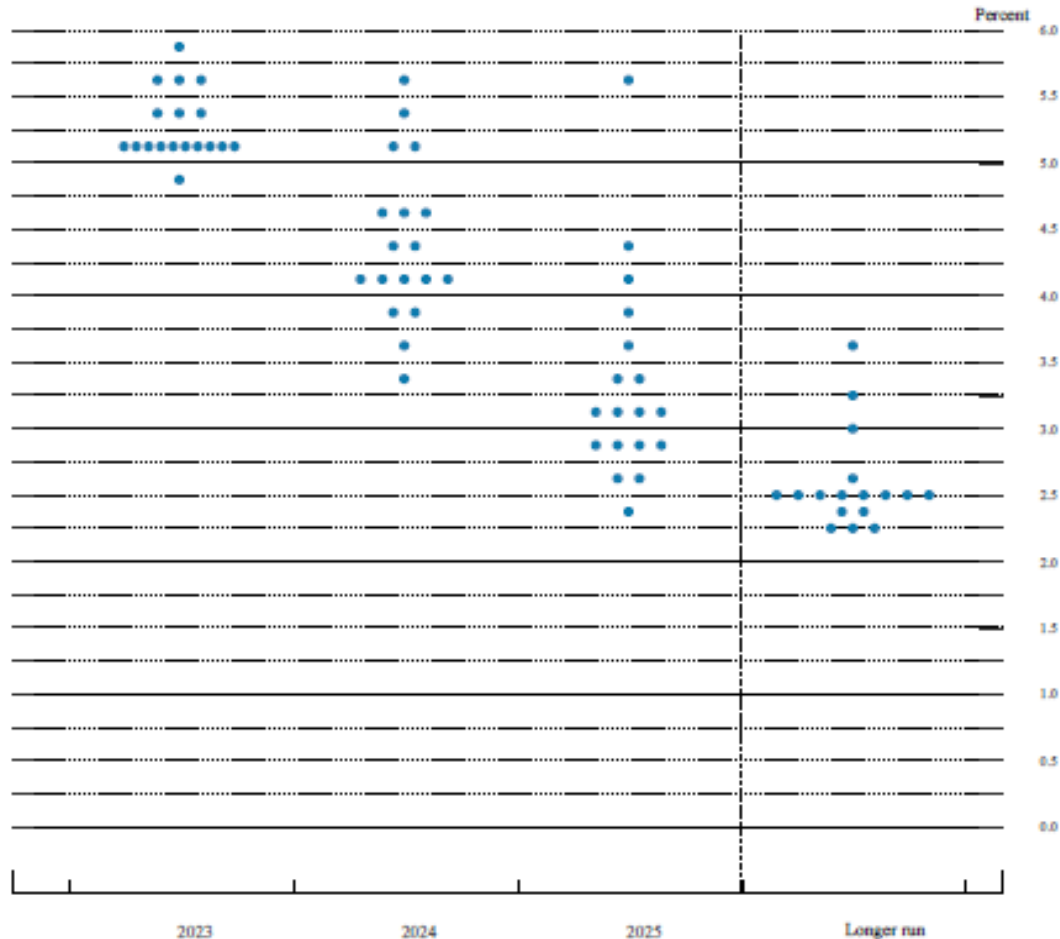
Sources: University of Michigan, TXP





Monetary Policy

Interest Rate Expectations by Fed Governor

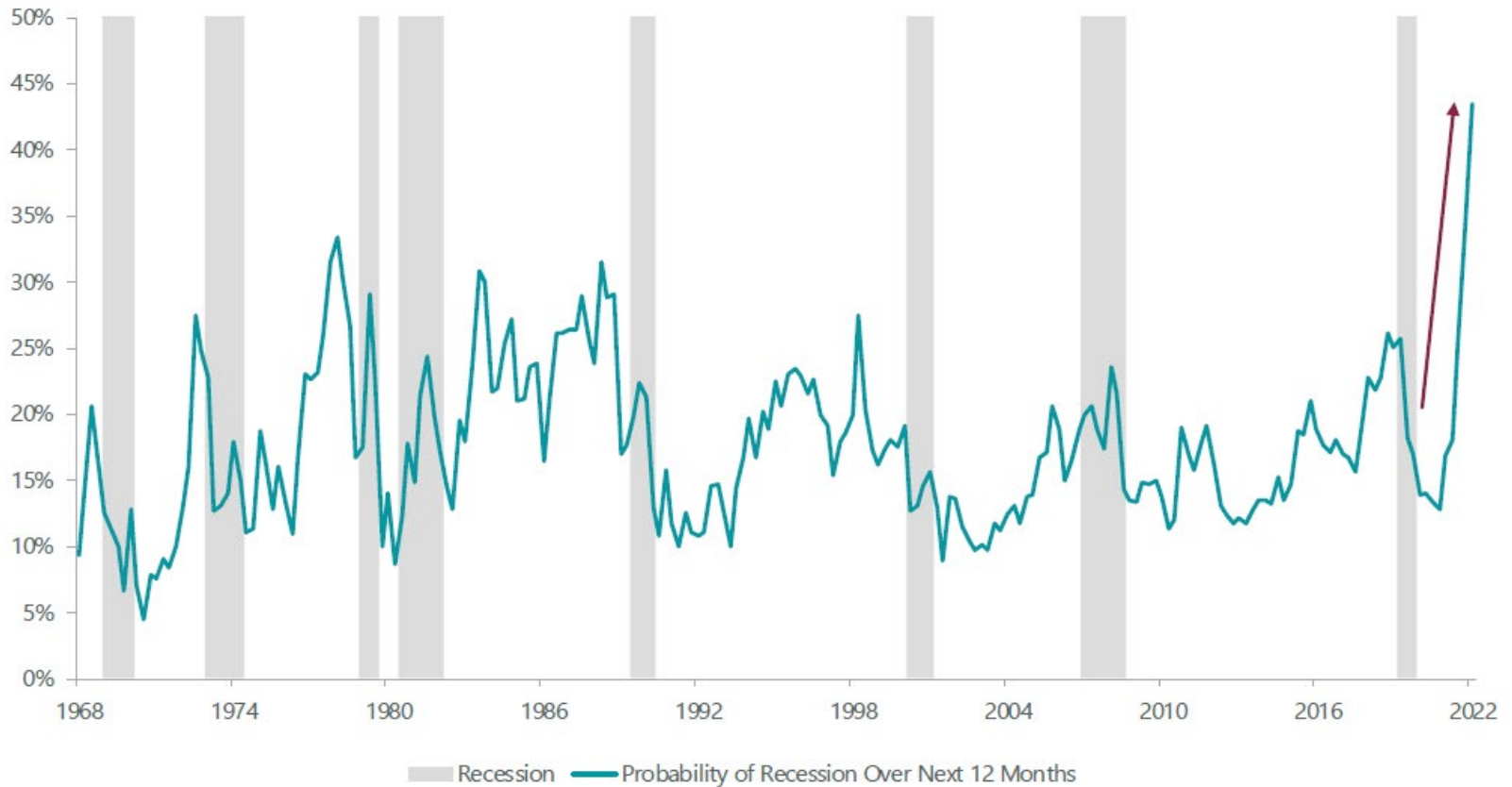


Sources:
Federal Reserve Bank, TXP



Recession

Probability Over Next 12 Months



Sources: Philadelphia Fed, TXP



Recession

Risk Indicators Suggest Its Likely

| | | Current | Rapid Summer Deterioration | | |
|-------------------|-----------------|-------------|----------------------------|---------|---------|
| | | February 28 | August 31 | July 31 | June 30 |
| Consumer | Housing Permits | × | ↑ | ↑ | ↑ |
| | Job Sentiment | ● | ↑ | ↑ | ↑ |
| | Jobless Claims | ↑ | ↑ | ↑ | ↑ |
| | Retail Sales | × | × | × | ● |
| | Wage Growth | × | × | × | × |
| Business Activity | Commodities | × | × | × | ● |
| | ISM New Orders | × | ● | ● | ● |
| | Profit Margins | × | ↑ | ↑ | ↑ |
| | Truck Shipments | ↑ | ↑ | ↑ | ↑ |
| Financial | Credit Spreads | × | × | × | × |
| | Money Supply | × | × | ● | ● |
| | Yield Curve | × | ● | ● | ↑ |
| Overall Signal | | × | × | ● | ↑ |

↑ Expansion ● Caution × Recession

Sources: Clearbridge Investments, TXP



Conf Board Projections

April 2023

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|--------------------------------|--------|--------|--------|--------|--------|
| Real GDP | -2.8% | 5.9% | 2.1% | 0.7% | 0.8% |
| Real Consumer Spending | -3.0% | 8.3% | 2.7% | 0.9% | 0.6% |
| CPI Inflation | 1.1% | 4.0% | 6.3% | 3.8% | 2.2% |
| Residential Investment | 7.2% | 10.7% | -10.6% | -15.7% | -1.7% |
| Non-Residential Investment | -4.9% | 6.4% | 3.9% | 1.4% | 1.6% |
| Exports | -13.2% | 6.1% | 7.1% | 3.4% | 1.4% |
| Imports | -9.0% | 14.1% | 8.1% | -1.7% | 1.8% |
| Unemployment Rate | 8.1% | 5.4% | 3.6% | 3.8% | 4.4% |
| Labor Force Participation Rate | 61.7% | 61.7% | 62.2% | 62.5% | 62.3% |
| Fed Funds Rate | 0.125% | 0.125% | 4.375% | 5.375% | 3.875% |

- Recession, but not annual.
- Inflation begins to moderate
- Lack of workers keeps unemployment relatively low
- Interest rates peak in 2023 then fall

Sources: Conference Board, TXP





Austin Overview

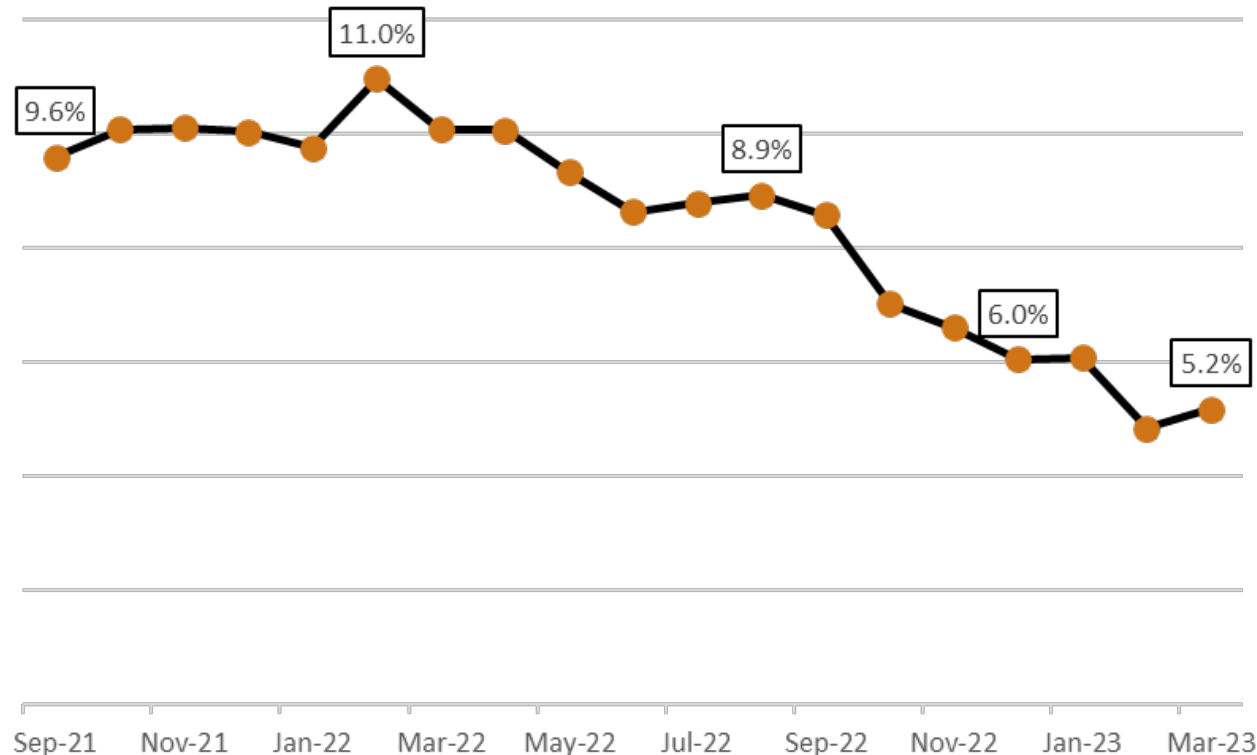
Slowdown Comes to Central Texas

- Significant near-term factors
 - Tech downturn hits Austin harder
 - Energy and food fall (at least temporarily) but Services rise
 - Labor shortages continue to put upward pressure on wages, especially consumer/hourly
 - Indeed, Amazon, Alphabet
 - Major manufacturing expansions still under way
 - Tesla
 - Samsung
 - Venture funding has begun to dry up
 - Fed raises interest rates 425 basis points – more likely to come
 - Banking crisis further constrains capital availability
 - Project finance increasingly difficult to come by
 - Underwriting & cost
- Longer-term factors
 - Affordability
 - Housing
 - Labor Force
 - Backbone workers in particular
 - Infrastructure
 - Transportation



Austin MSA Job Growth

12-Month Percentage Change



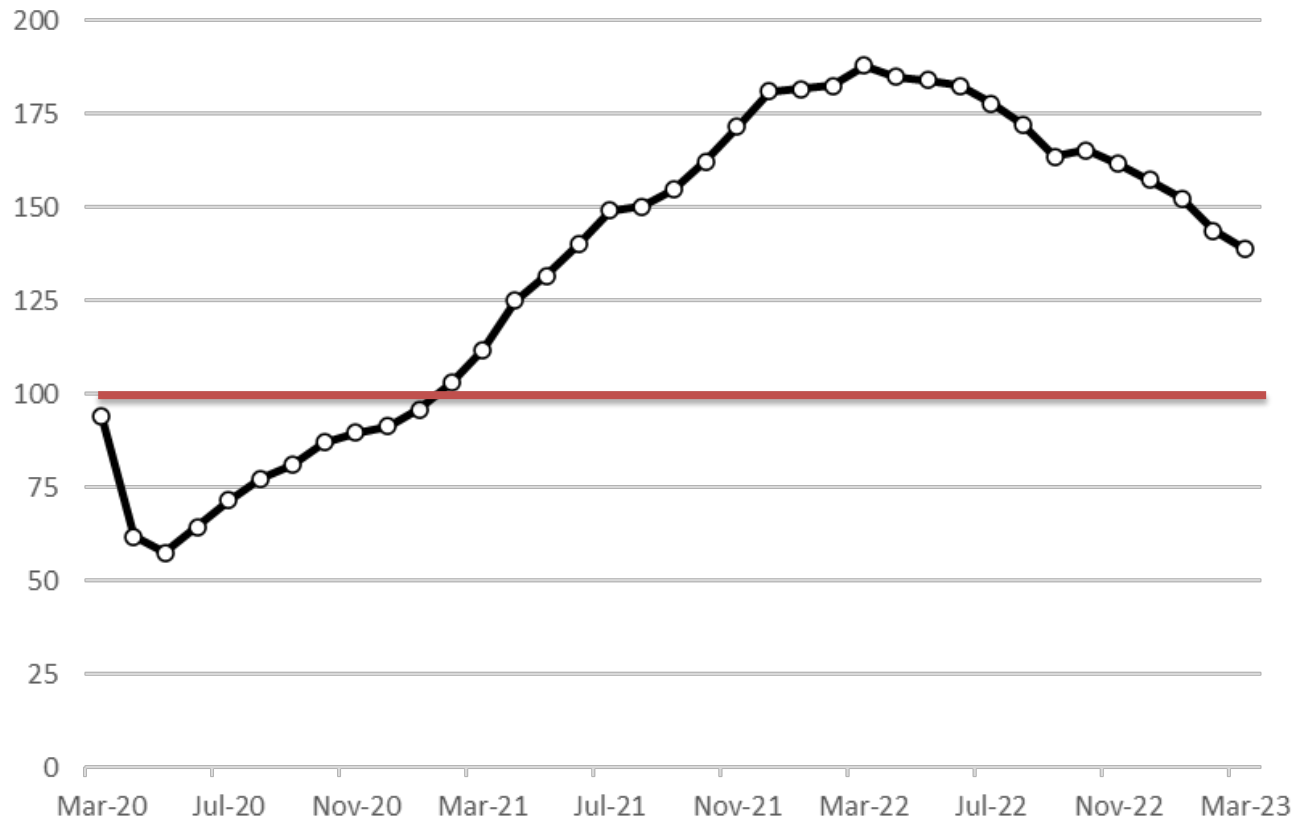
Sources: Texas Workforce Commission, TXP





Indeed Help-Wanted Index

February 2020 = 100



Sources: Indeed Hiring Lab, Federal Reserve Bank of Dallas, TXP



Austin MSA Job Growth

12-Month Percentage Change

| Annual Averages | Employment (000s) | | | Change (Actual) | | Change (%) | |
|------------------------------------|-------------------|---------|---------|-----------------|---------|------------|---------|
| | 2017 | 2021 | 2022 | '17-'22 | '21-'22 | '17-'22 | '21-'22 |
| Natural Resources/Construction | 62.1 | 74.0 | 78.9 | 16.8 | 4.9 | 27.1% | 6.6% |
| Manufacturing | 57.4 | 65.0 | 70.4 | 13.0 | 5.4 | 22.6% | 8.3% |
| Trade, Transportation, & Utilities | 168.7 | 189.8 | 205.2 | 36.5 | 15.4 | 21.6% | 8.1% |
| Information | 30.8 | 45.6 | 51.9 | 21.1 | 6.3 | 68.5% | 13.8% |
| Financial Activities | 60.2 | 72.9 | 78.2 | 18.0 | 5.3 | 29.9% | 7.3% |
| Professional & Business Services | 185.8 | 239.8 | 272.9 | 87.1 | 33.1 | 46.9% | 13.8% |
| Educational & Health Services | 120.6 | 134.4 | 143.0 | 22.4 | 8.6 | 18.6% | 6.4% |
| Leisure & Hospitality | 125.7 | 119.9 | 138.5 | 12.8 | 18.6 | 10.2% | 15.5% |
| Other Services | 45.0 | 44.9 | 48.4 | 3.4 | 3.5 | 7.6% | 7.8% |
| Total Private | 856.3 | 986.3 | 1,087.4 | 231.1 | 101.1 | 27.0% | 10.3% |
| Government | 180.7 | 185.8 | 186.3 | 5.6 | 0.5 | 3.1% | 0.3% |
| Total MSA Employment | 1,037.0 | 1,172.1 | 1,273.7 | 236.7 | 101.6 | 22.8% | 8.7% |

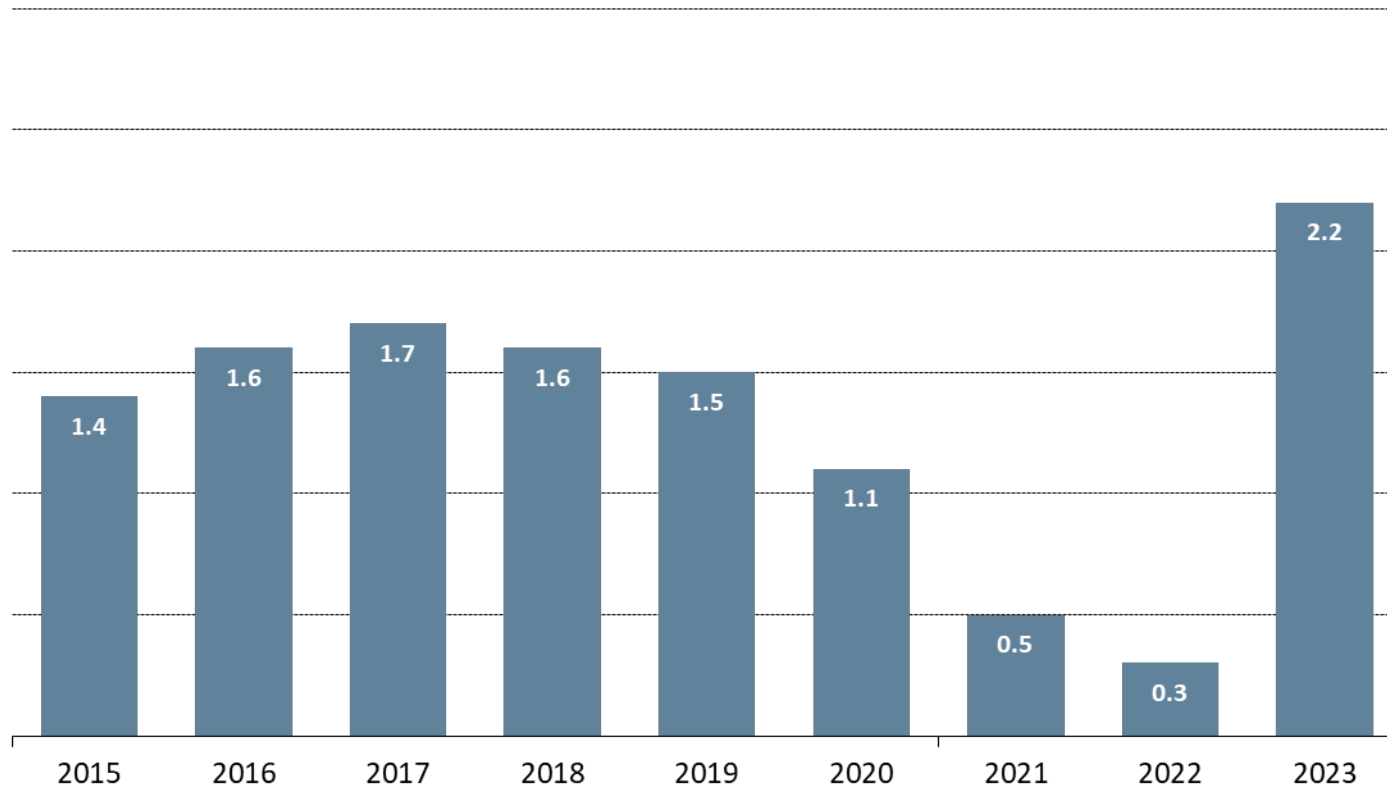
Sources: Texas Workforce Commission, TXP





Austin BOR Months Available

February Data



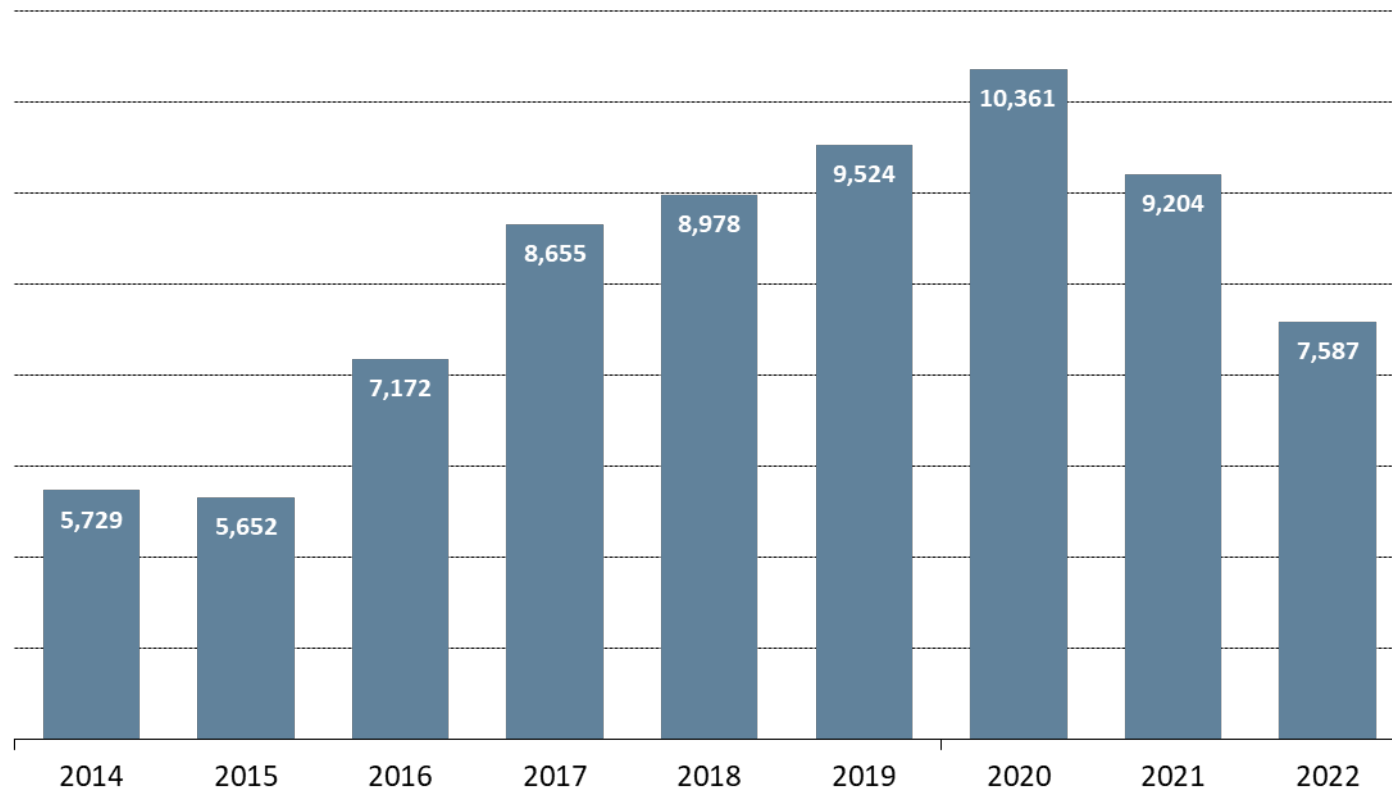
Sources: Texas A&M Real Estate, TXP





Austin BOR Housing

Units Permitted



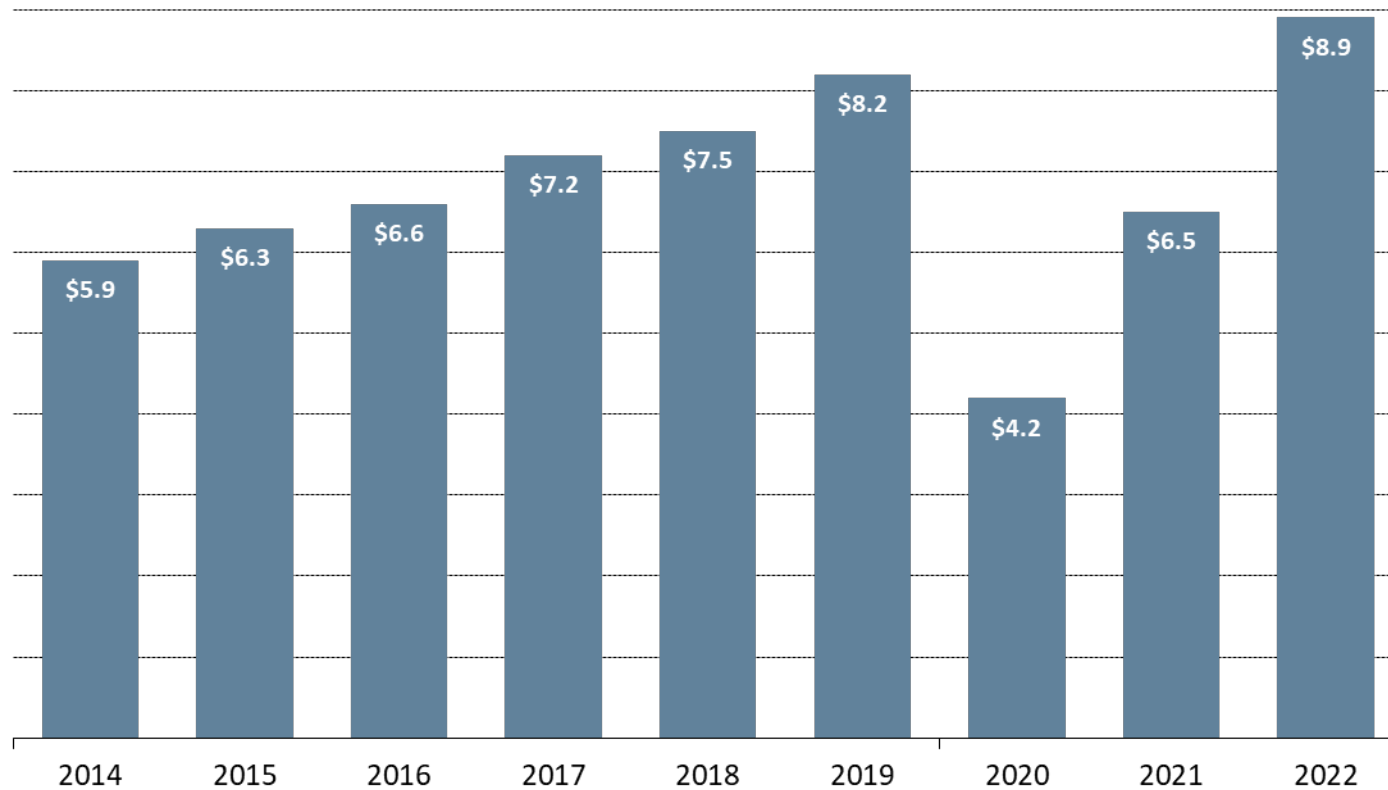
Sources: Texas A&M Real Estate Center, TXP





Austin Tourism Spending

\$Billions



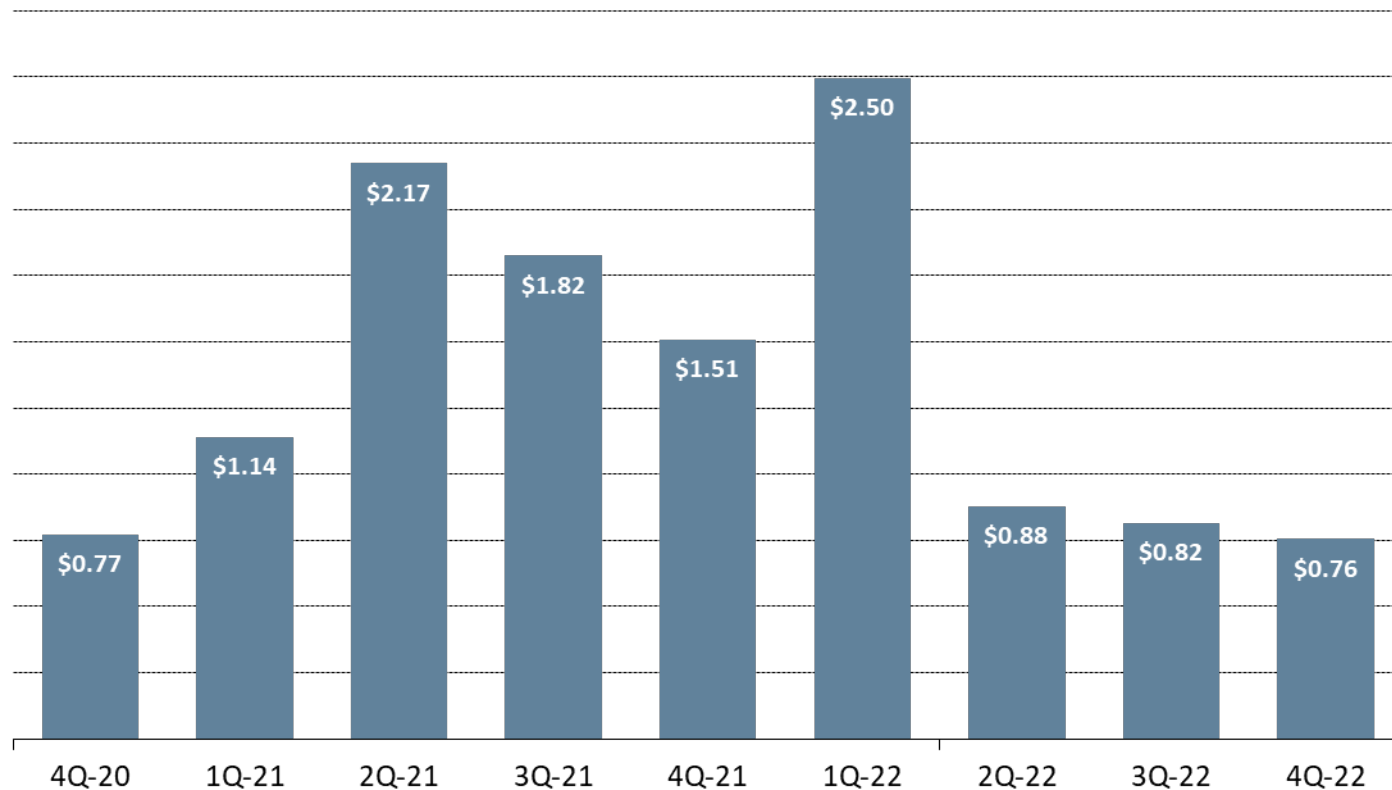
Sources: Dean Runyon, TXP





Austin VC Investment

\$Billions



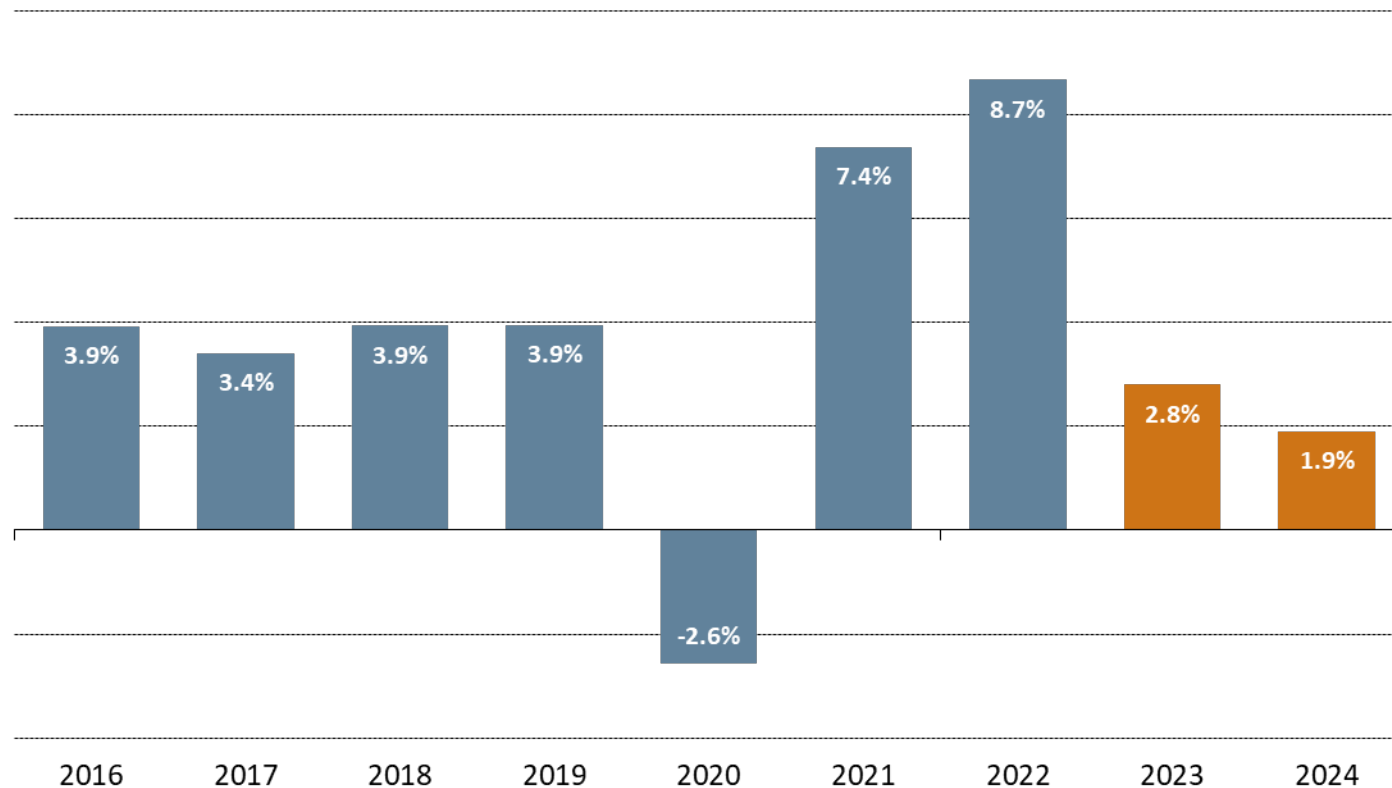
Sources: Pitchbook, TXP





Austin MSA Job Forecast

12-Month Percentage Change



Sources: Texas Workforce Commission, TXP





Austin MSA Employment

History & Forecast

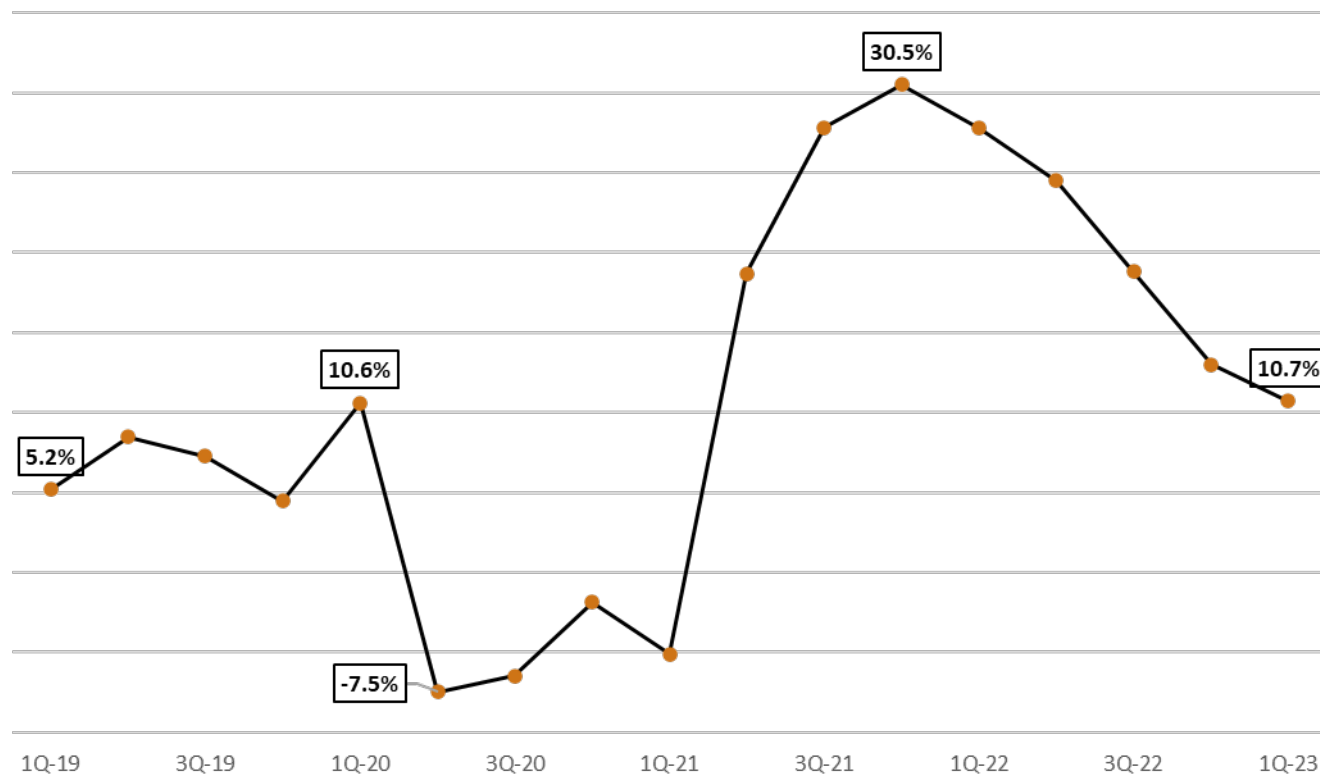
| Annual Averages (000s) | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Natural Resources/Construction | 74.0 | 78.9 | 78.9 | 77.7 | 80.1 | 81.9 | 84.1 |
| Manufacturing | 62.7 | 73.2 | 75.8 | 78.1 | 80.0 | 81.9 | 83.8 |
| Trade/Transportation/Utilities | 177.9 | 210.3 | 214.0 | 219.4 | 225.5 | 232.3 | 239.2 |
| Information | 39.0 | 54.0 | 55.6 | 57.3 | 59.1 | 61.2 | 63.3 |
| Financial Activities | 66.0 | 79.8 | 81.0 | 82.6 | 84.9 | 87.4 | 90.2 |
| Professional/Business Services | 207.6 | 285.2 | 292.3 | 301.1 | 311.6 | 323.3 | 336.2 |
| Educational/Health Services | 129.8 | 148.0 | 152.4 | 157.0 | 162.1 | 167.8 | 174.1 |
| Leisure & Hospitality | 134.9 | 142.7 | 146.2 | 149.1 | 152.5 | 156.3 | 160.2 |
| Other Services | 47.2 | 49.9 | 51.1 | 52.4 | 53.7 | 55.1 | 56.5 |
| Government | 186.7 | 187.2 | 188.2 | 190.0 | 191.0 | 192.0 | 193.9 |
| Total Private | 939.1 | 1,121.9 | 1,147.3 | 1,174.6 | 1,209.5 | 1,247.1 | 1,287.7 |
| TOTAL | 1,125.8 | 1,309.1 | 1,335.5 | 1,364.7 | 1,400.5 | 1,439.1 | 1,481.6 |

Sources: Texas Workforce Commission, TXP



COA Sales Tax Revenue

12-Month Percentage Growth

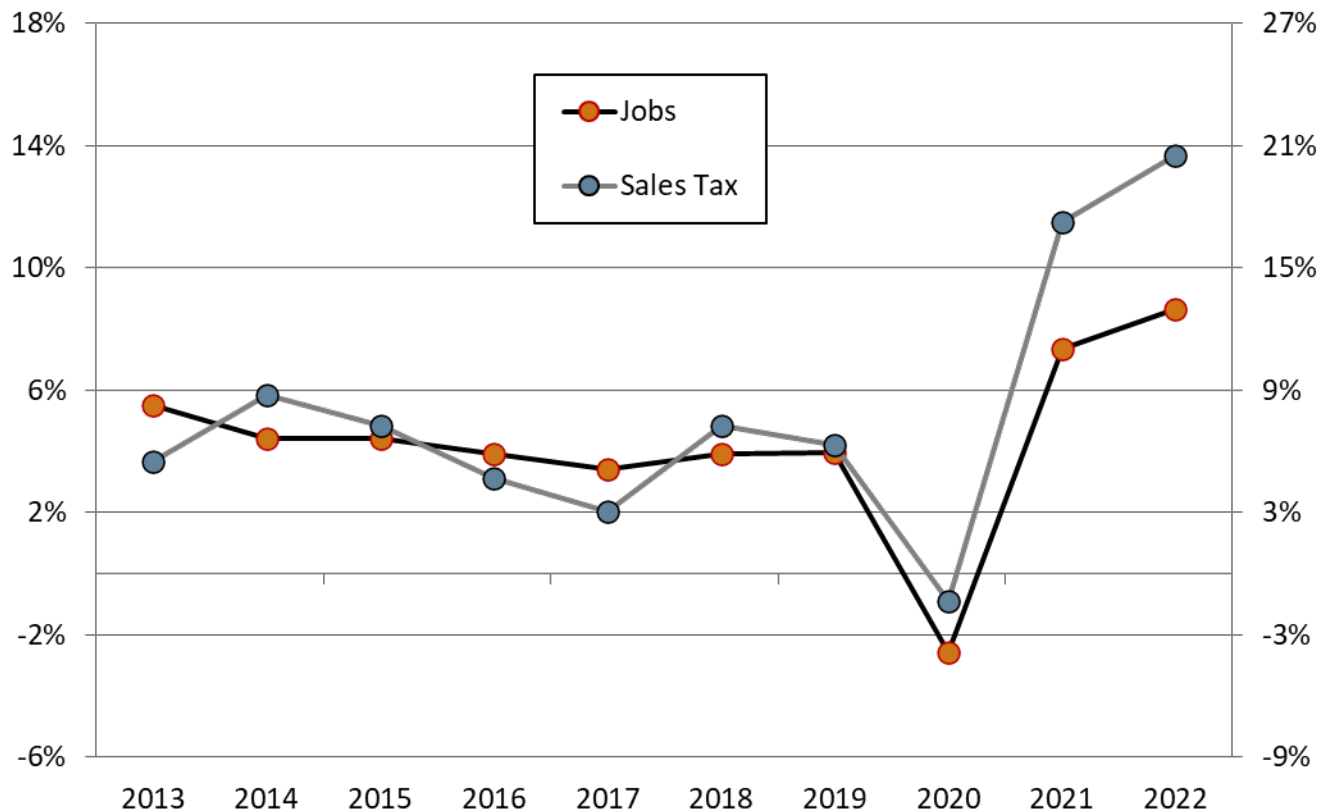


Sources: Comptroller, TXP



Sales Tax Revenue v. Jobs

Annual CY Change



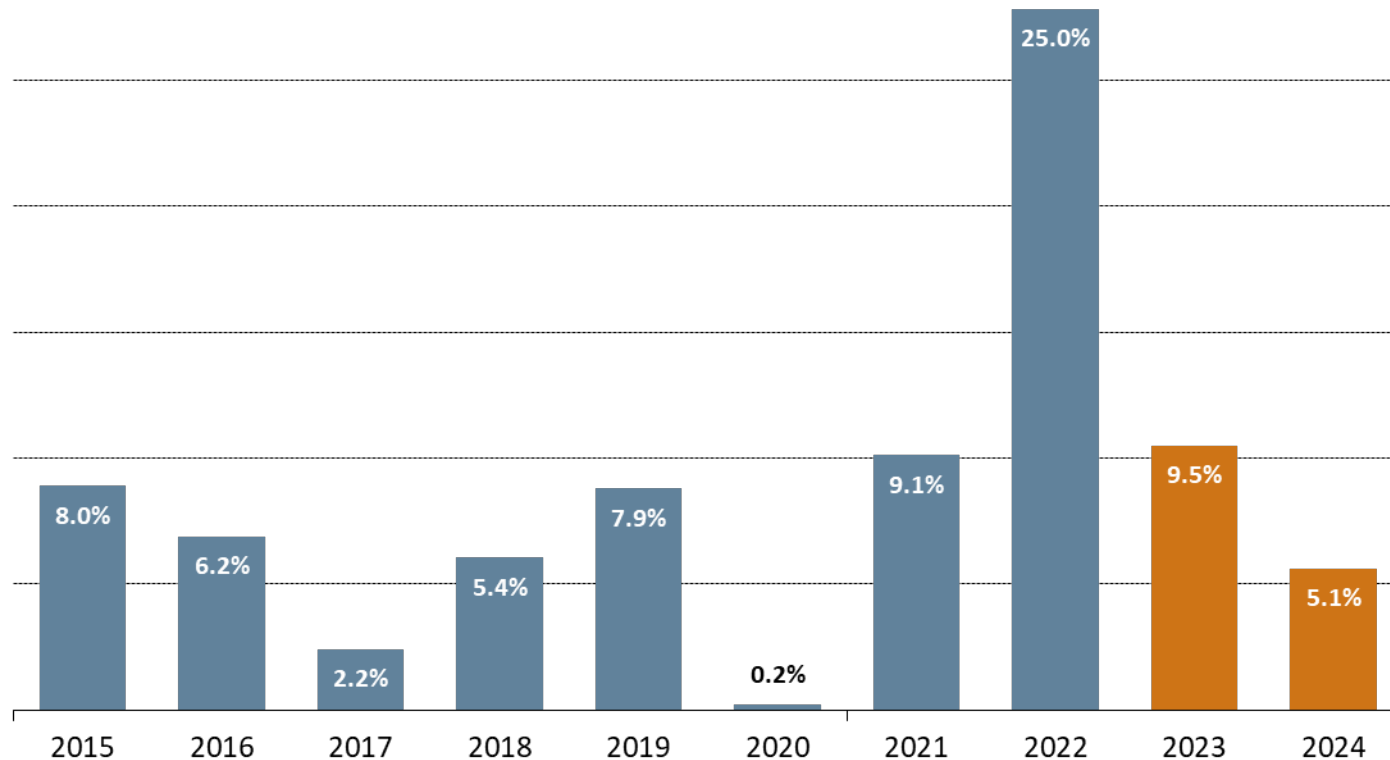
Sources: Comptroller, Texas Workforce Commission, TXP





COA FY Sales Tax Forecast

12-Month Percentage Growth





Conclusions

Stagflation/Recession means Inflation/Price Changes major driver of sales tax in near-term. Local factors assume greater importance over medium/longer term.

- Significant near-term factors
 - Inflation elevates sales tax revenue
 - Sluggish office demand and project finance challenges
 - Recession hitting tech sector
 - Continued manufacturing job growth from major projects
 - Tourism remains solid
 - Labor force
- Longer-term factors
 - Population growth/Infrastructure
 - Workforce availability and cost
 - Housing capacity
 - Continued primary job growth