2024 Economic & Sales Tax Forecast for the City of Austin



April 2024

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Economic Overview



Slowdown Hits

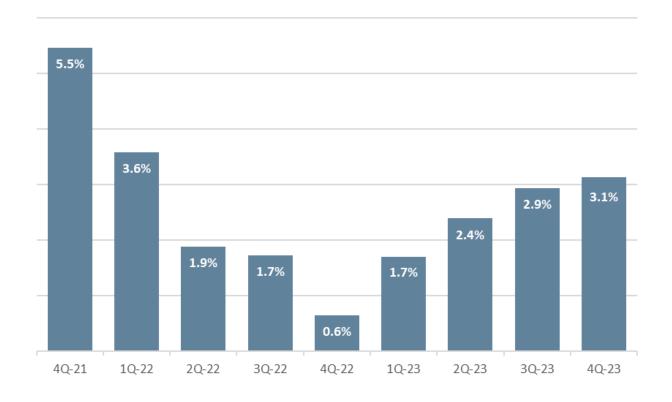
- Significant near-term factors
 - National economy continues grow
 - Inflation, while cooling, remains elevated
 - Energy and food fall (at least temporarily) but Services rise
 - Labor shortages continue to put upward pressure on wages, especially consumer/hourly
 - Global supply issues still a factor
 - Monetary policy has tightened considerably
 - Fed raises interest rates 525 basis points cuts impending, but when?
 - "Nothing pencils at 8 percent"
 - 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
 - Tech sector feels the impact, along with reduction in discretionary ad/marketing
- Longer-term factors
 - Global supply issues still a factor
 - Labor Force may be most significant variable
 - Permanent reduction post-COVID?
 - Immigration?





GDP (Gross Domestic Product_

12-Month Percentage Change



Sources: BEA, TXP





National Compensation

12-Month Percentage Change



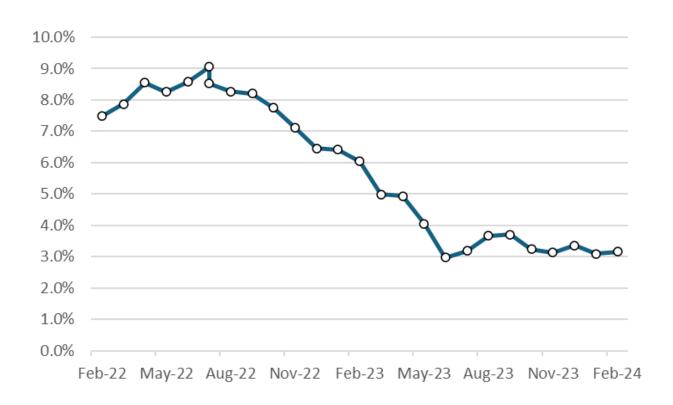
Sources: BLS, TXP





Inflation (Consumer Price Index)

12-Month Percentage Change



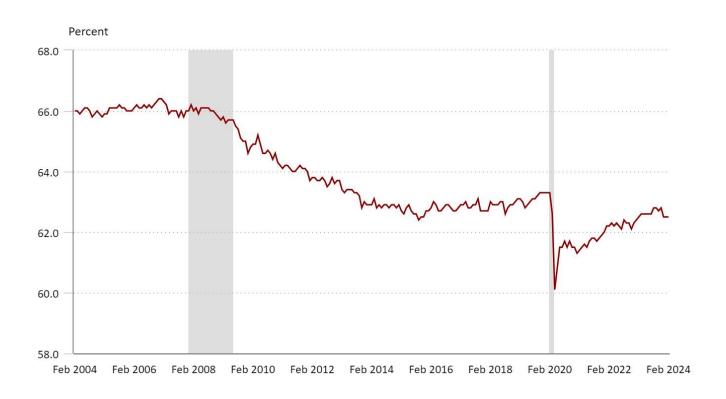
Sources: BLS, TXP





Labor Force Participation

As Share of Civilian Population



Sources: BLS, TXP





Consumer Sentiment

Index of Consumer Expectations (Feb-20 = 100)



Sources: University of Michigan, TXP





Conference Board Projections

March 2024

	2021	2022	2023	2024	2025
Real GDP	5.8%	1.9%	2.5%	2.1%	1.5%
Real Consumer Spending	8.4%	2.5%	2.2%	1.7%	1.3%
CPI Inflation	4.2%	6.5%	3.7%	2.1%	2.0%
Residential Investment	10.7%	-9.0%	-11.6%	2.7%	2.0%
Non-Residential Investment	5.9%	5.2%	4.4%	2.1%	2.5%
Exports	6.3%	7.0%	2.7%	2.2%	2.3%
Imports	14.5%	8.6%	-1.6%	1.1%	2.8%
Unemployment Rate	5.4%	3.6%	3.6%	4.0%	4.0%
Labor Force Participation Rate	61.7%	62.2%	62.6%	62.5%	62.3%
Fed Funds Rate	0.125%	4.375%	5.325%	4.375%	3.325%

- "soft landing."
- Inflation continues to moderate
- Lack of workers keeps unemployment relatively low
- Interest rates peak in 2023 then fall

Sources: Conference Board, TXP



Austin Overview

City of Austin 2024-25 BUDGET

Central Texas Decelerates

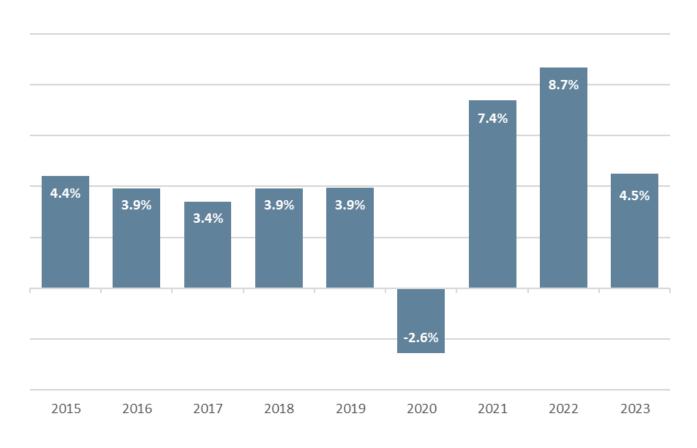
- Significant near-term factors
 - Inflation, while cooling, remains elevated
 - Energy and food fall (at least temporarily) but Services rise
 - Labor shortages continue to put upward pressure on wages, especially consumer/hourly
 - Global supply issues still a factor
 - Monetary policy has tightened considerably
 - Market rates now in the 8% range project finance extremely difficult; many are "trapped" by very low-rate mortgages
 - Banking crisis further constrains capital availability
 - Equity requirement increase, underwriting tightens
 - Commercial real estate, specifically office, in serious trouble
 - Hybrid appears to be emerging paradigm
 - Demand for industrial, lodging, entertainment still good for now
 - Austin area continues to experience in-migration and primary job growth
 - Tech sector feels the impact, along with reduction in discretionary ad/marketing
 - Significant over-hiring during pandemic now being corrected Global supply issues still a factor
 - Over-supply of certain housing categories
 - Rents down from extraordinary highs occupancy also falling
 - Consumer spending beginning to slow





Austin MSA Job Growth

12-Month Percentage Change

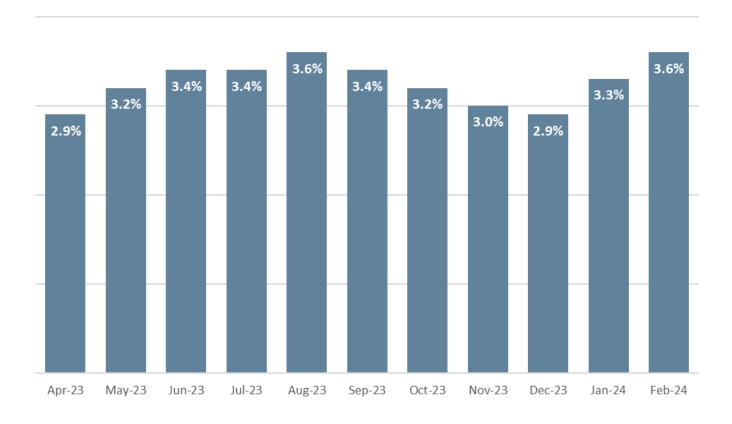






City of Austin Unemployment

Rate







Austin MSA Job Growth

12-Month Percentage Change

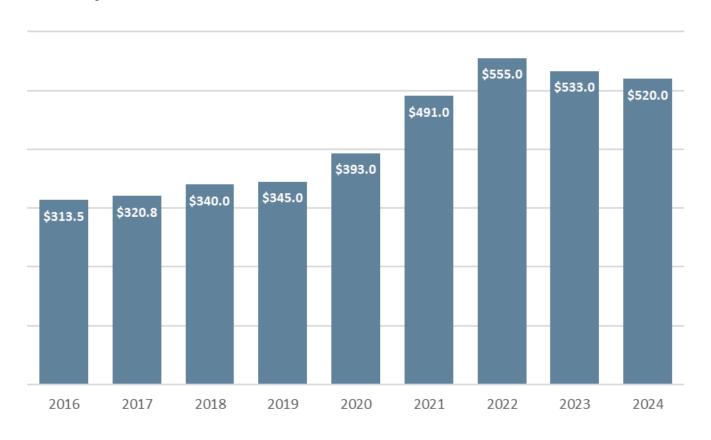
Annual Averages	Employment (000s)			Change	e (Actual)	Change (%)	
	2018	2022	2023	'18-'23	'22-'23	'18-'23	'22-'23
Natural Resources/Construction	64.5	79.5	83.4	18.9	3.9	29.3%	4.9%
Manufacturing	60.7	70.5	73.3	12.6	2.8	20.8%	4.0%
Trade, Transportation, & Utilities	173.0	203.7	208.2	35.2	4.5	20.3%	2.2%
Information	34.7	52.3	53.1	18.4	0.8	53.0%	1.5%
Financial Activities	63.0	79.4	82.7	19.7	3.3	31.3%	4.2%
Professional & Business Services	196.6	273.8	285.8	89.2	12.0	45.4%	4.4%
Educational & Health Services	125.3	144.2	155.1	29.8	10.9	23.8%	7.6%
Leisure & Hospitality	130.7	137.3	146.7	16.0	9.4	12.2%	6.8%
Other Services	46.3	48.5	51.5	5.2	3.0	11.2%	6.2%
Total Private	894.8	1089.2	1,139.8	245.0	50.6	27.4%	4.6%
Government	180.0	186.7	193.4	13.4	6.7	7.4%	3.6%
Total MSA Employment	1,074.8	1,275.9	1,333.2	258.4	57.3	24.0%	4.5%





Austin BOR Median Price (\$000s)

February Data



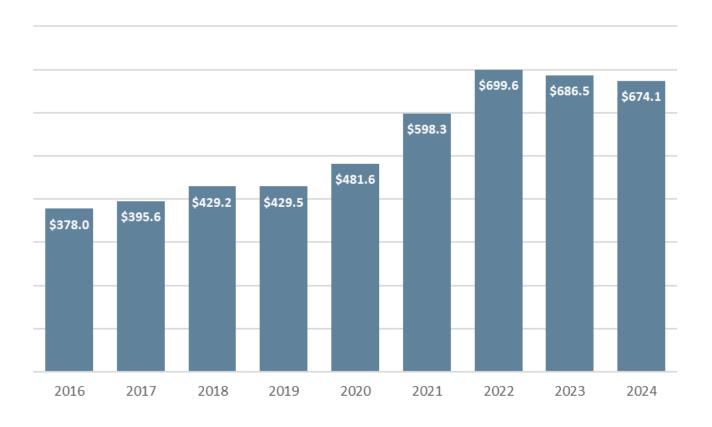
Sources: Texas A&M Real Estate, TXP





Austin BOR Average Price (\$000s)

February Data



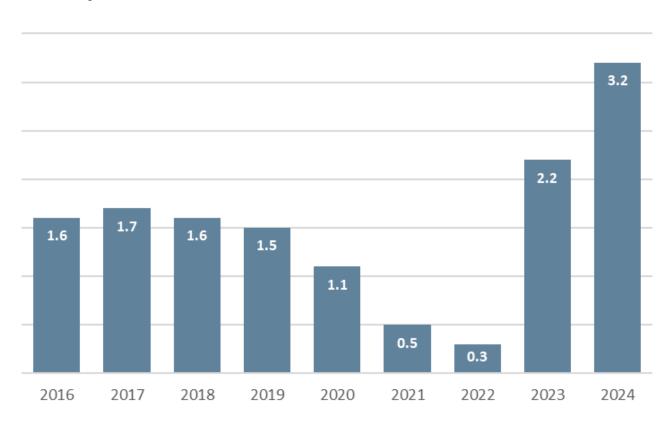
Sources: Texas A&M Real Estate, TXP





Austin BOR Months Available

February Data



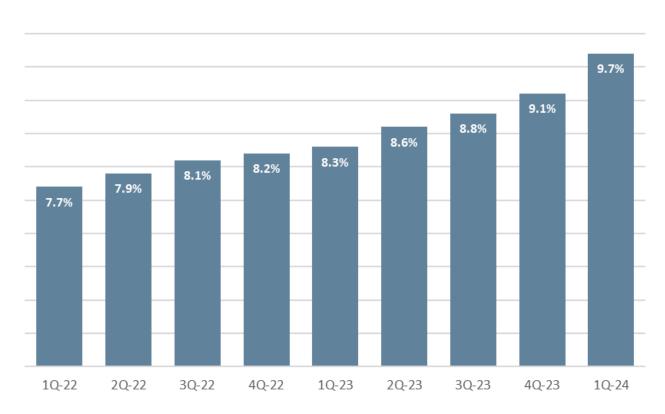
Sources: Texas A&M Real Estate, TXP





City of Austin Apartment Vacancy Rate

Percentage



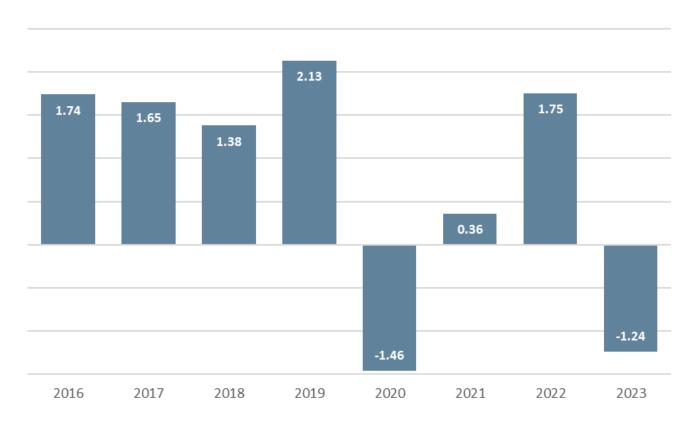
Sources: MRI Apartment Data, TXP





Austin Net Office Space Absorption

Millions of Square Fee



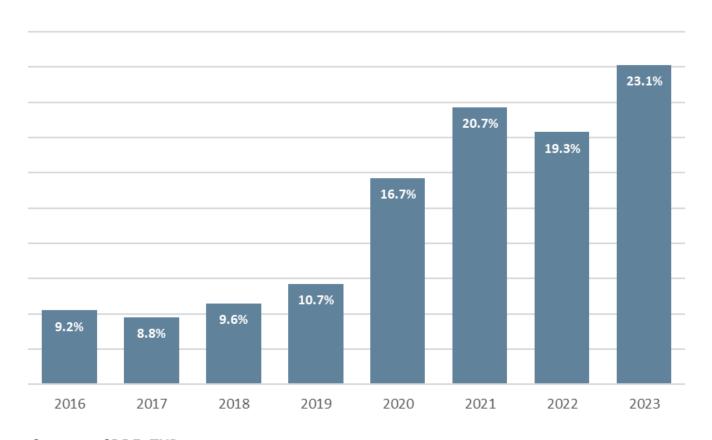
Sources: CBRE, TXP





Austin Office Vacancy Rate

Percentage



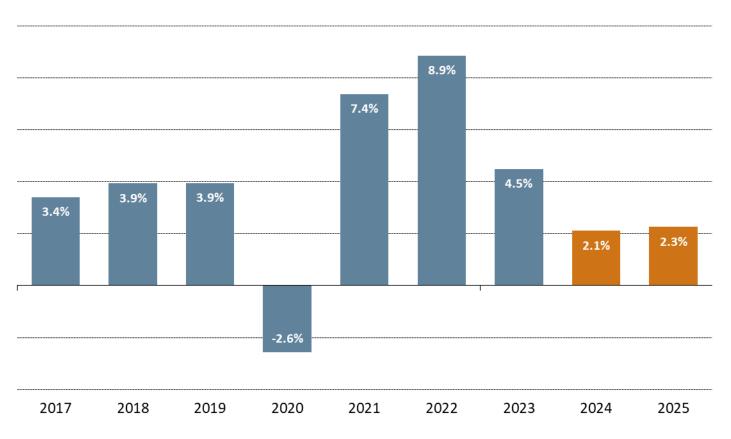
Sources: CBRE, TXP





Austin MSA Job Forecast

12-Month Percentage Change







Austin MSA Employment

History & Forecast

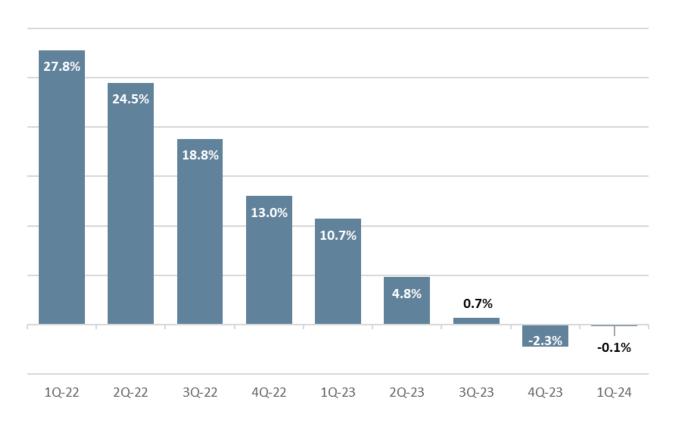
Annual Averages (000s)	2022	2023	2024	2025	2026	2027	2028
Mining/Construction	79.5	83.4	82.1	82.6	84.6	86.5	88.9
Manufacturing	70.5	73.3	75.9	78.1	80.1	82.0	83.9
Trade, Transportation, Utilities	203.7	208.2	211.8	217.1	223.2	229.9	236.8
Information	52.3	53.1	53.9	55.0	56.1	57.2	58.3
Financial Activities	79.4	82.7	83.9	85.6	87.7	90.0	92.5
Professional & Business Services	273.8	285.8	292.9	301.7	312.3	324.0	337.0
Educational & Health Services	144.2	155.1	160.2	165.0	170.4	176.4	183.0
Leisure & Hospitality	137.3	146.7	150.4	153.4	156.8	160.7	164.8
Other Services	48.5	51.5	52.8	54.2	55.5	56.9	58.3
Government	186.7	193.4	197.3	199.2	200.2	201.2	203.3
Total	1,275.9	1,333.2	1,361.3	1,392.0	1,426.9	1,464.9	1,506.7





COA Sales Tax Revenue

12-Month Percentage Growth



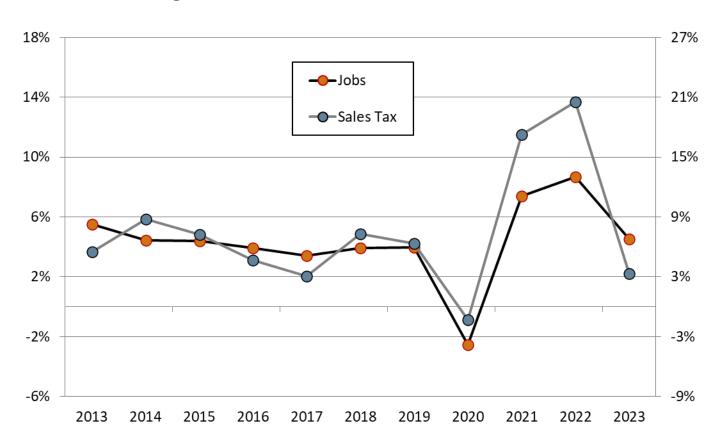






Sales Tax Revenue v. Jobs

Annual CY Change







COA FY Sales Tax Forecast

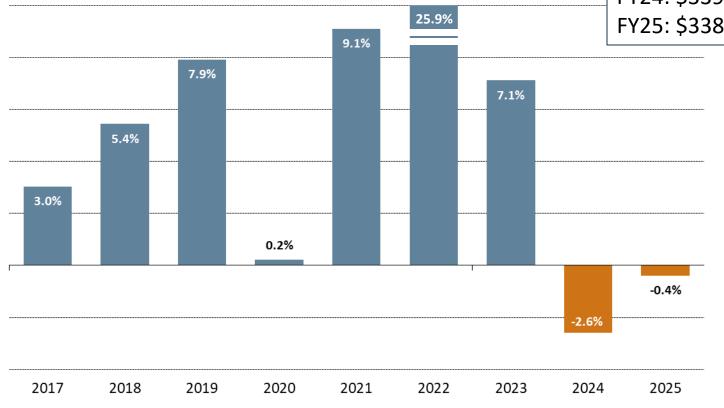


(Millions)

FY23: \$348.49

FY24: \$339.43

FY25: \$338.07



Sources: Comptroller, TXP





Conclusions

Slowing inflation mirrors slowing consumer spending, although continued job growth helps. Local factors assume greater importance over medium/longer term.

- Significant near-term factors
 - Inflation bolstered 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

