

2024 Economic & Sales Tax Forecast for the City of Austin



April 2024

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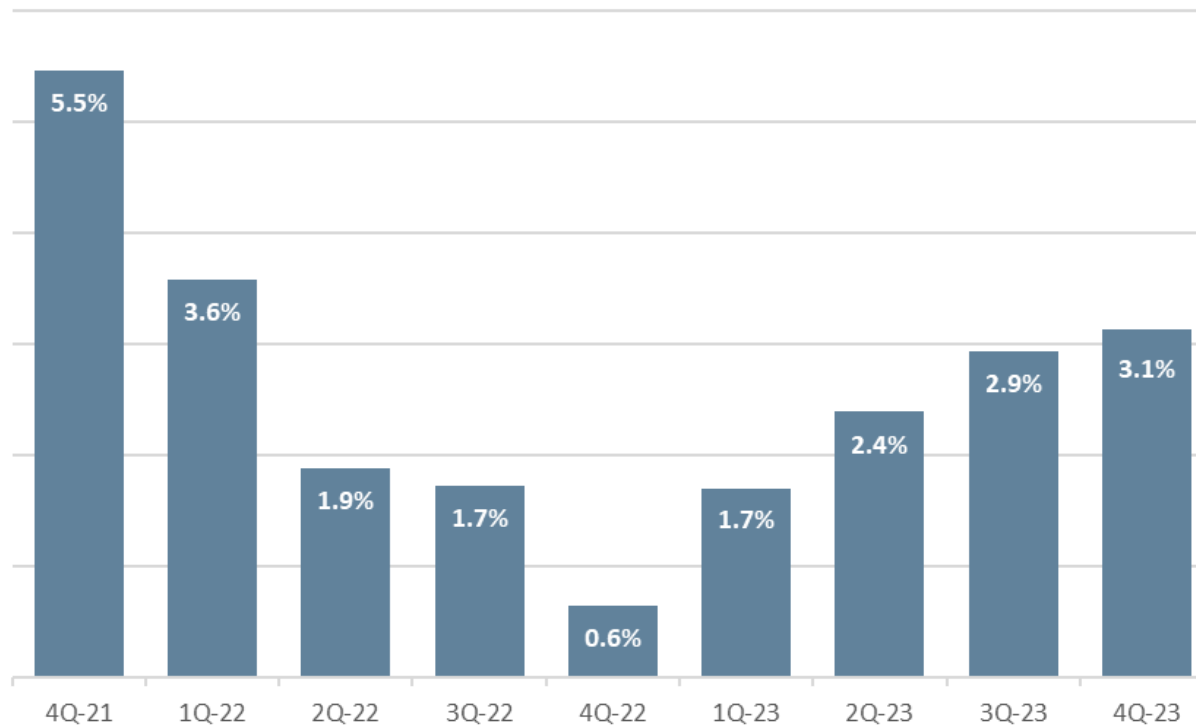
Economic Overview

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

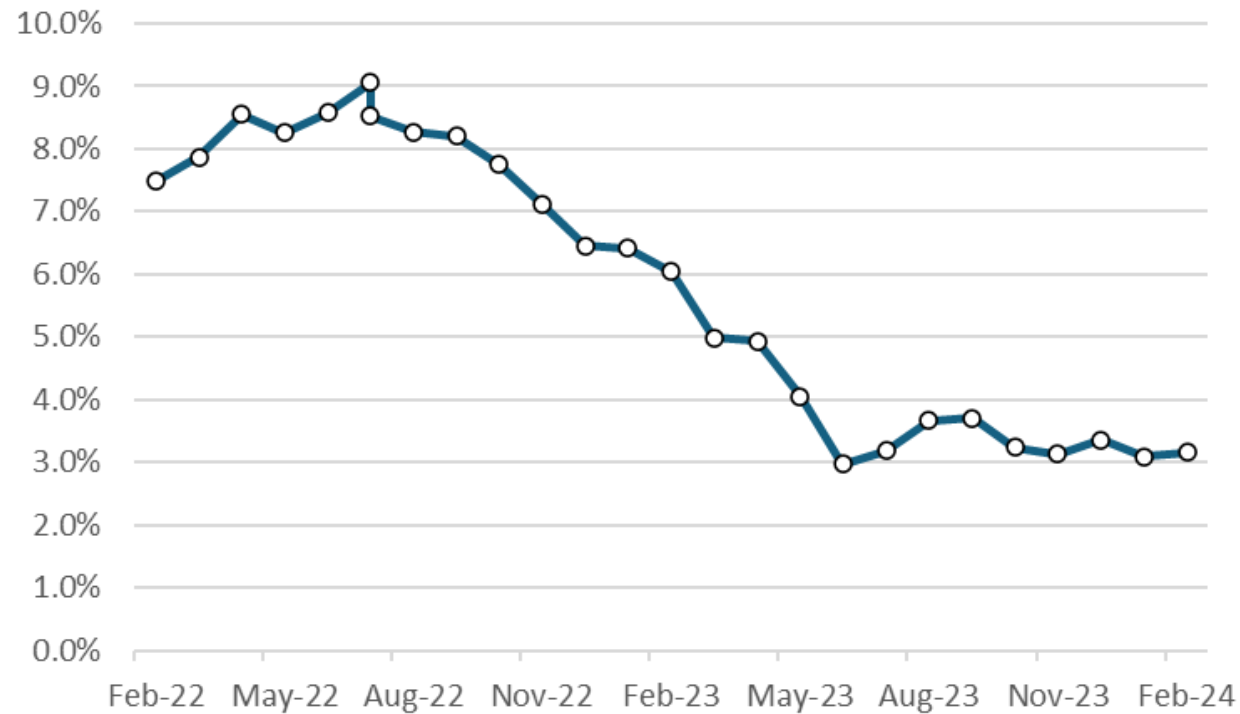
12-Month Percentage Change



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

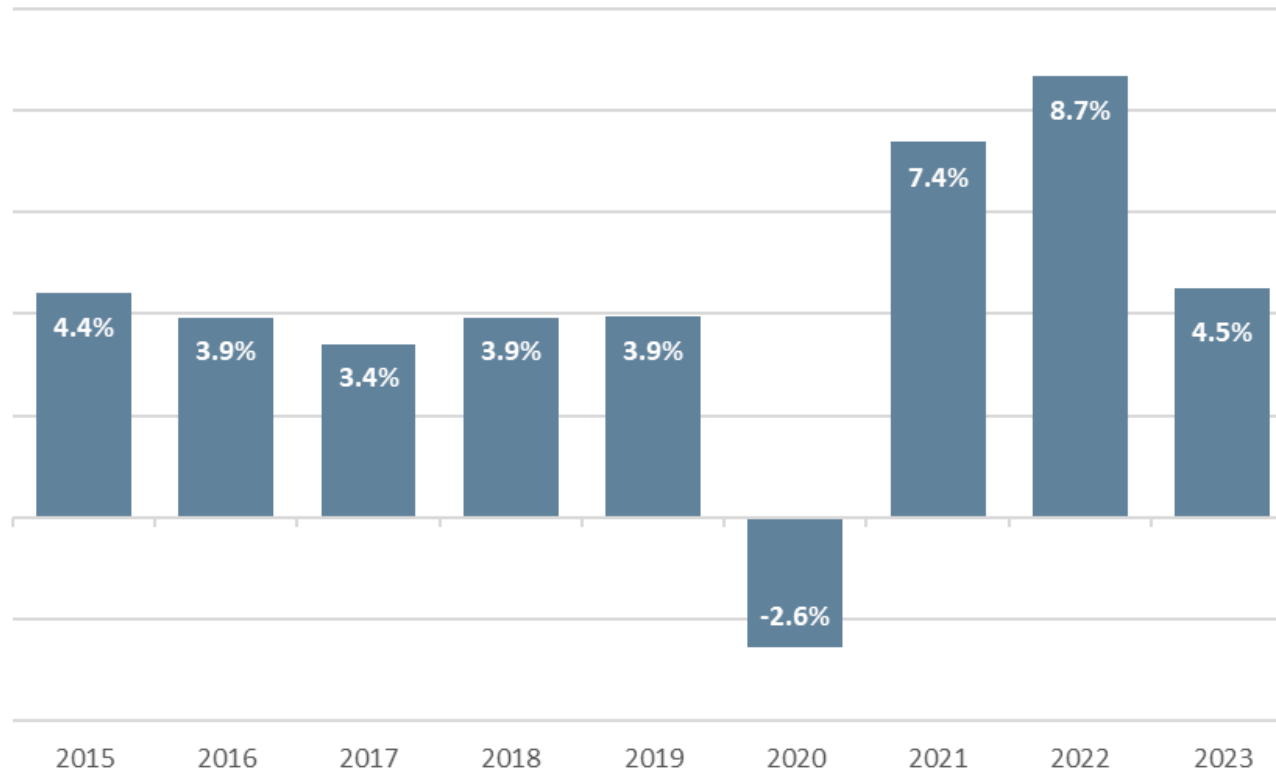
Austin Overview

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

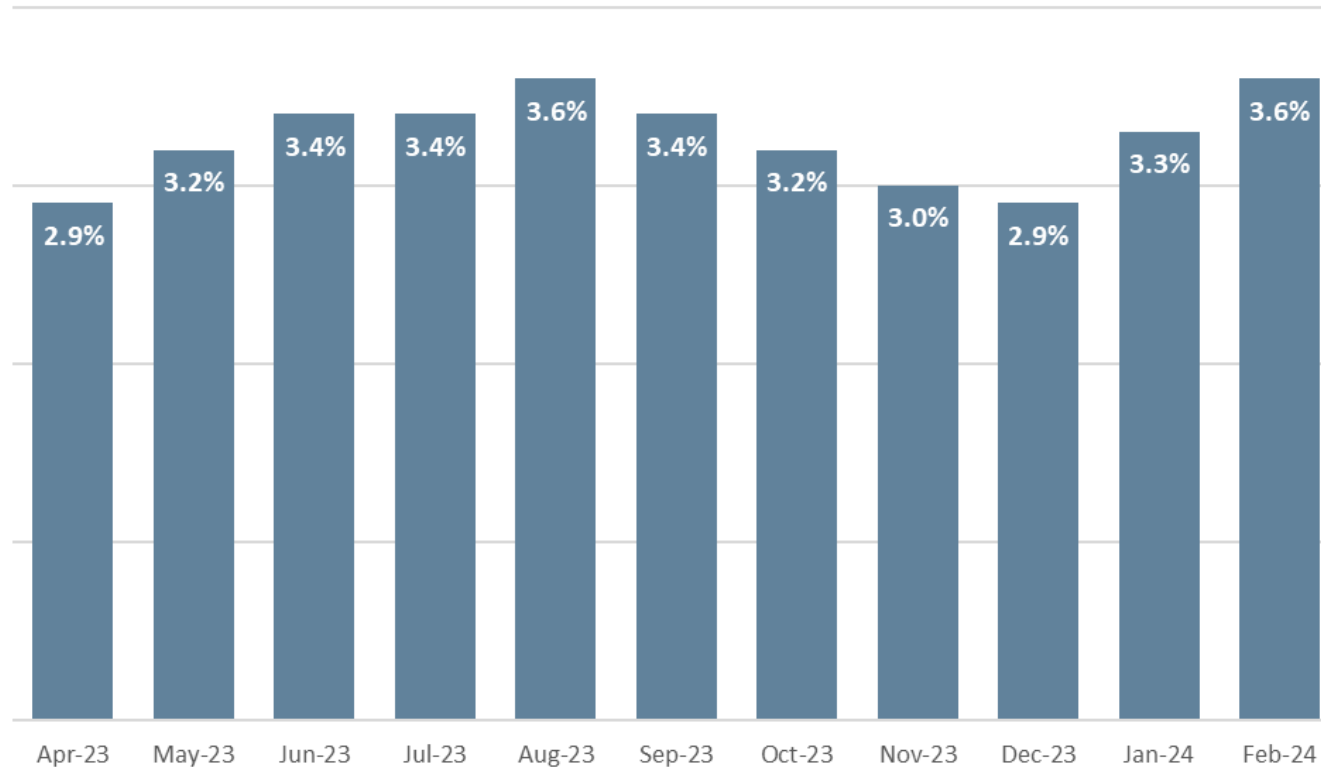
12-Month Percentage Change



Sources: Texas Workforce Commission, TXP

City of Austin Unemployment

Rate



Sources: Texas Workforce Commission, TXP

Austin MSA Job Growth

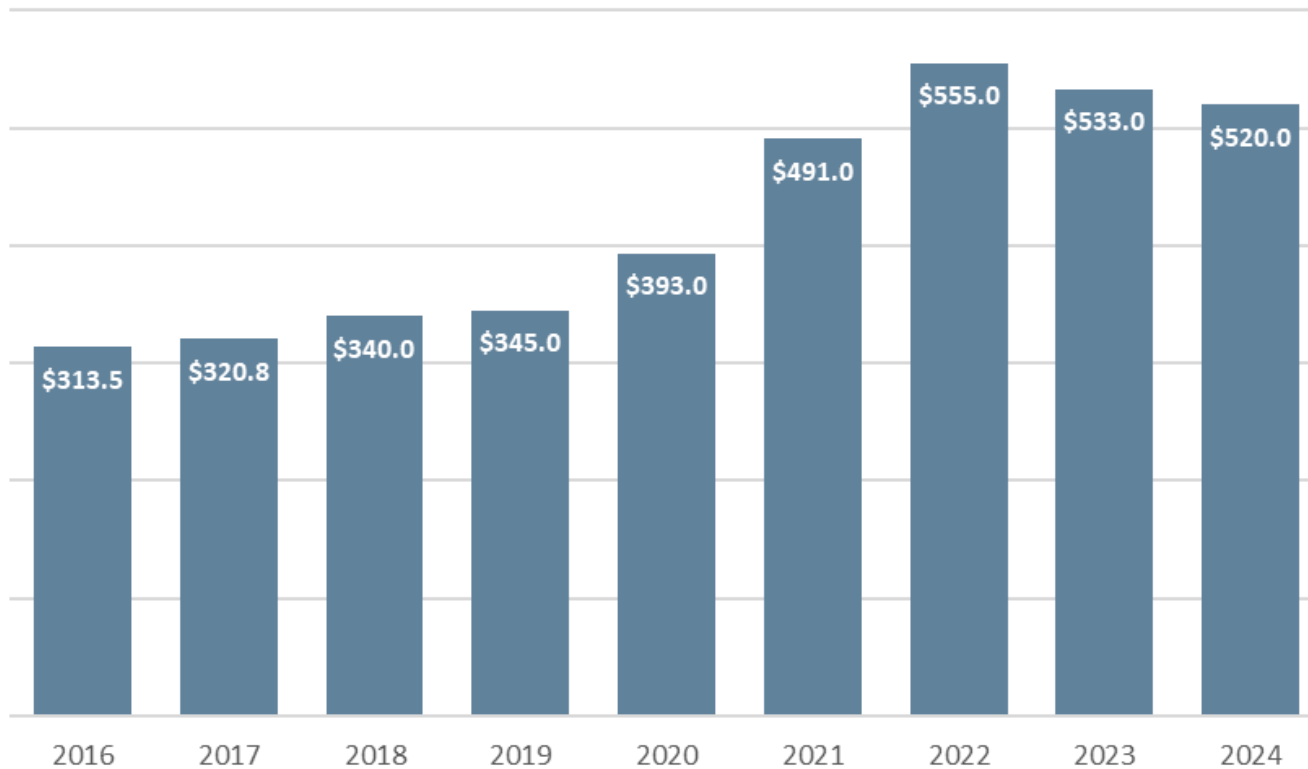
12-Month Percentage Change

<i>Annual Averages</i>	Employment (000s)			Change (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%
<i>Total MSA Employment</i>	<i>1,074.8</i>	<i>1,275.9</i>	<i>1,333.2</i>	<i>258.4</i>	<i>57.3</i>	<i>24.0%</i>	<i>4.5%</i>

Sources: Texas Workforce Commission, TXP

Austin BOR Median Price (\$000s)

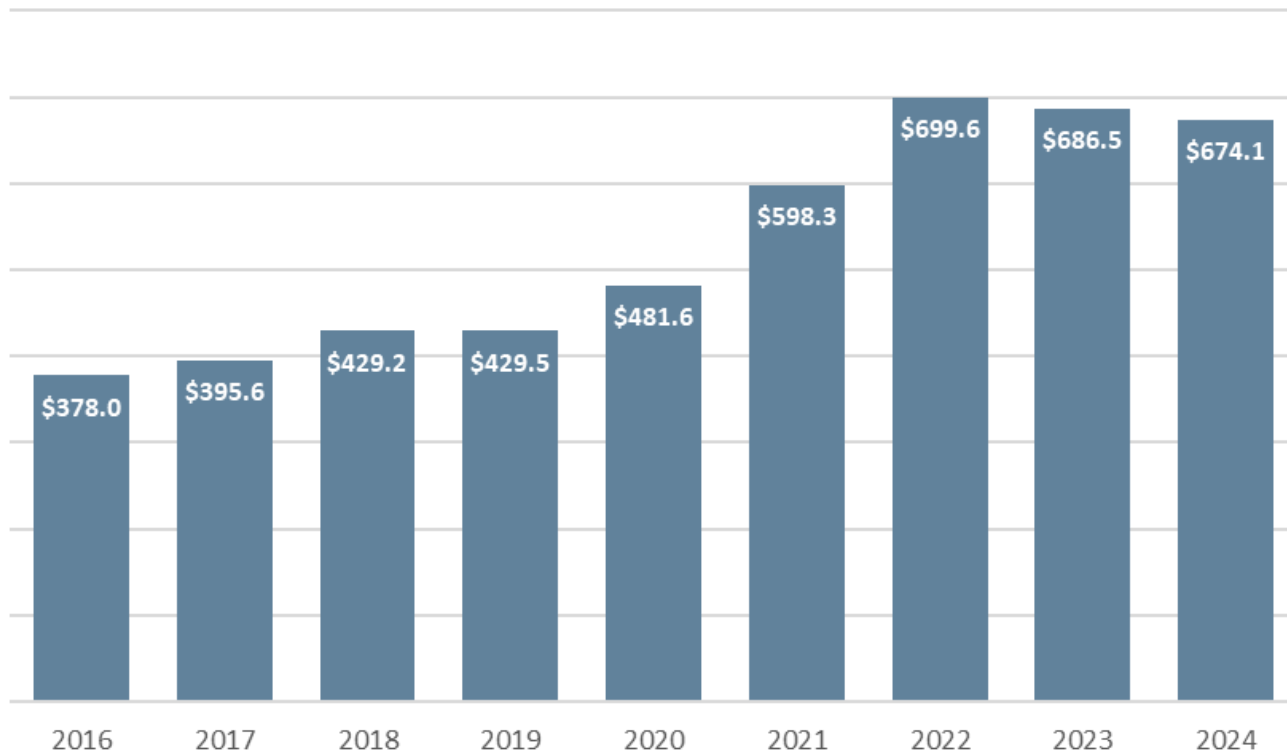
February Data



Sources: Texas A&M Real Estate, TXP

Austin BOR Average Price (\$000s)

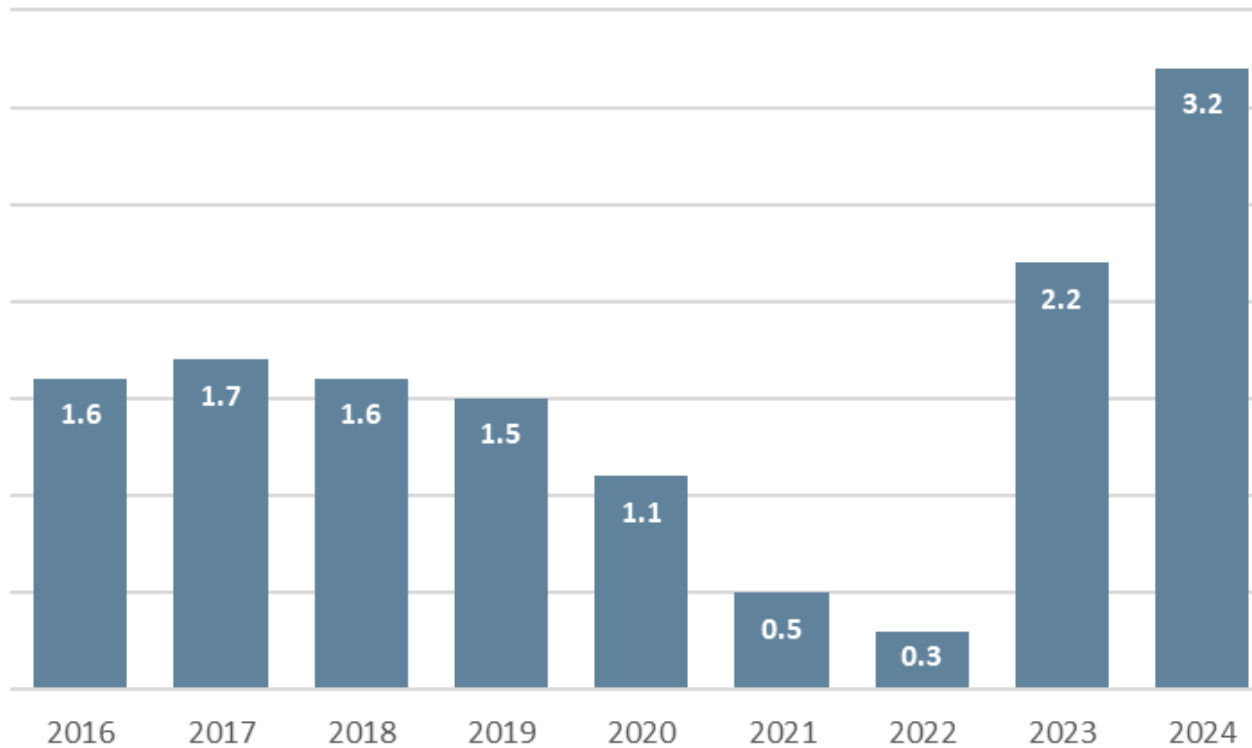
February Data



Sources: Texas A&M Real Estate, TXP

Austin BOR Months Available

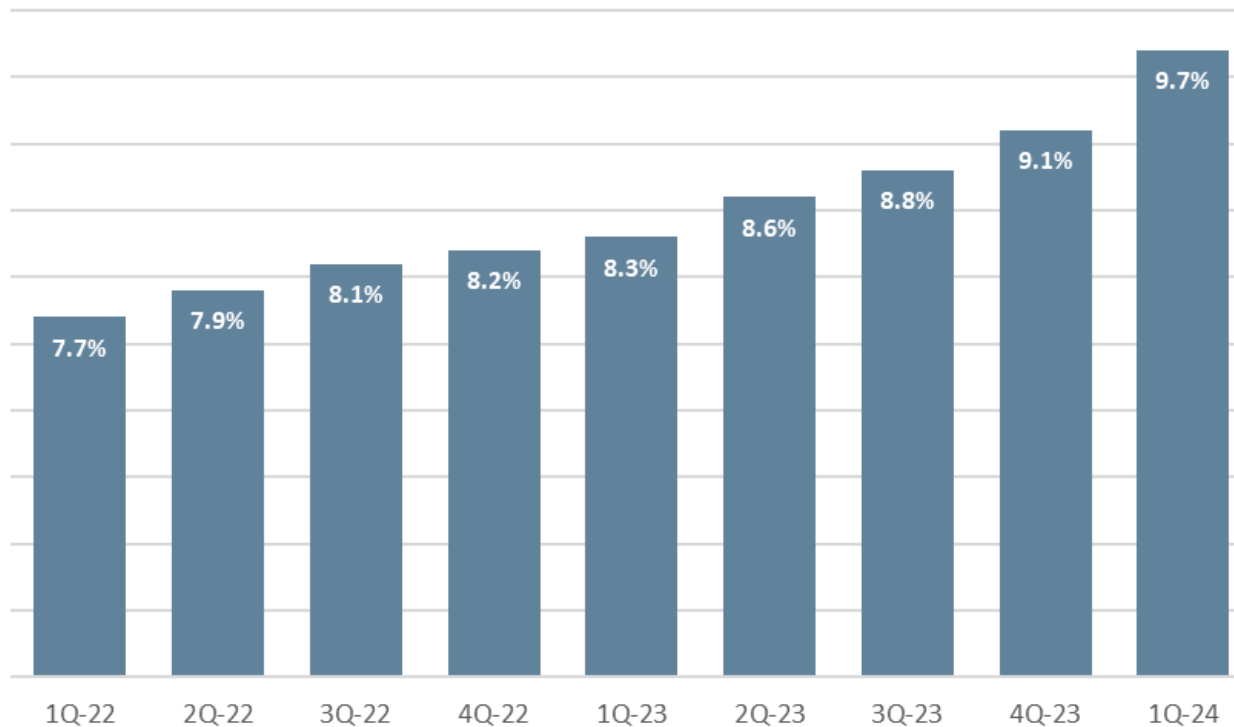
February Data



Sources: Texas A&M Real Estate, TXP

City of Austin Apartment Vacancy Rate

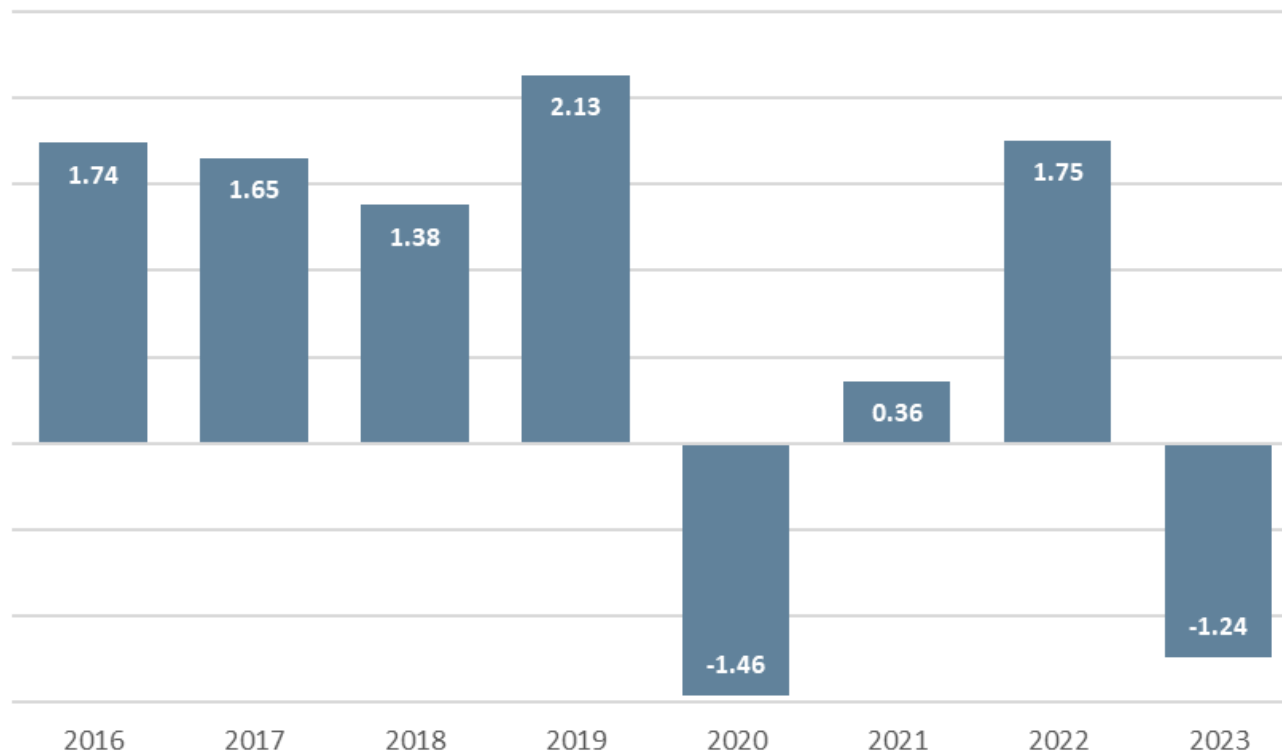
Percentage



Sources: MRI Apartment Data, TXP

Austin Net Office Space Absorption

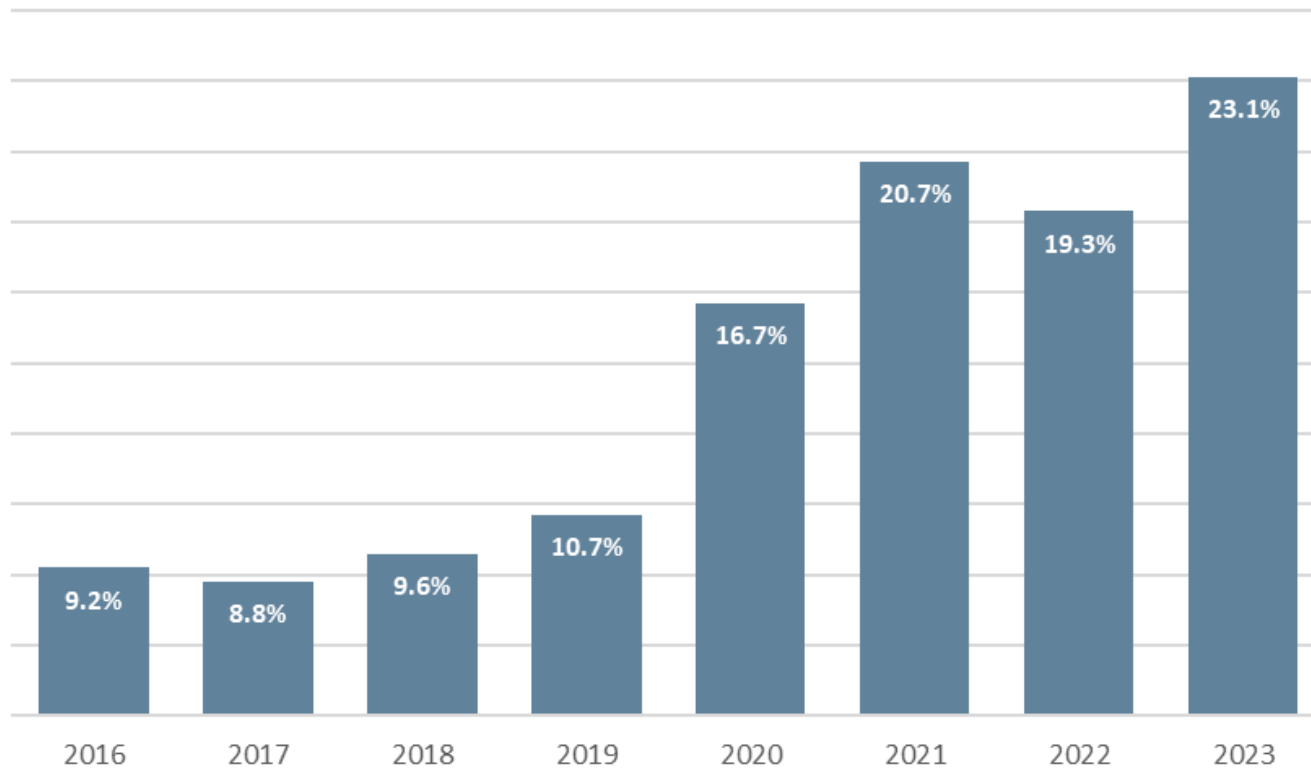
Millions of Square Fee



Sources: CBRE, TXP

Austin Office Vacancy Rate

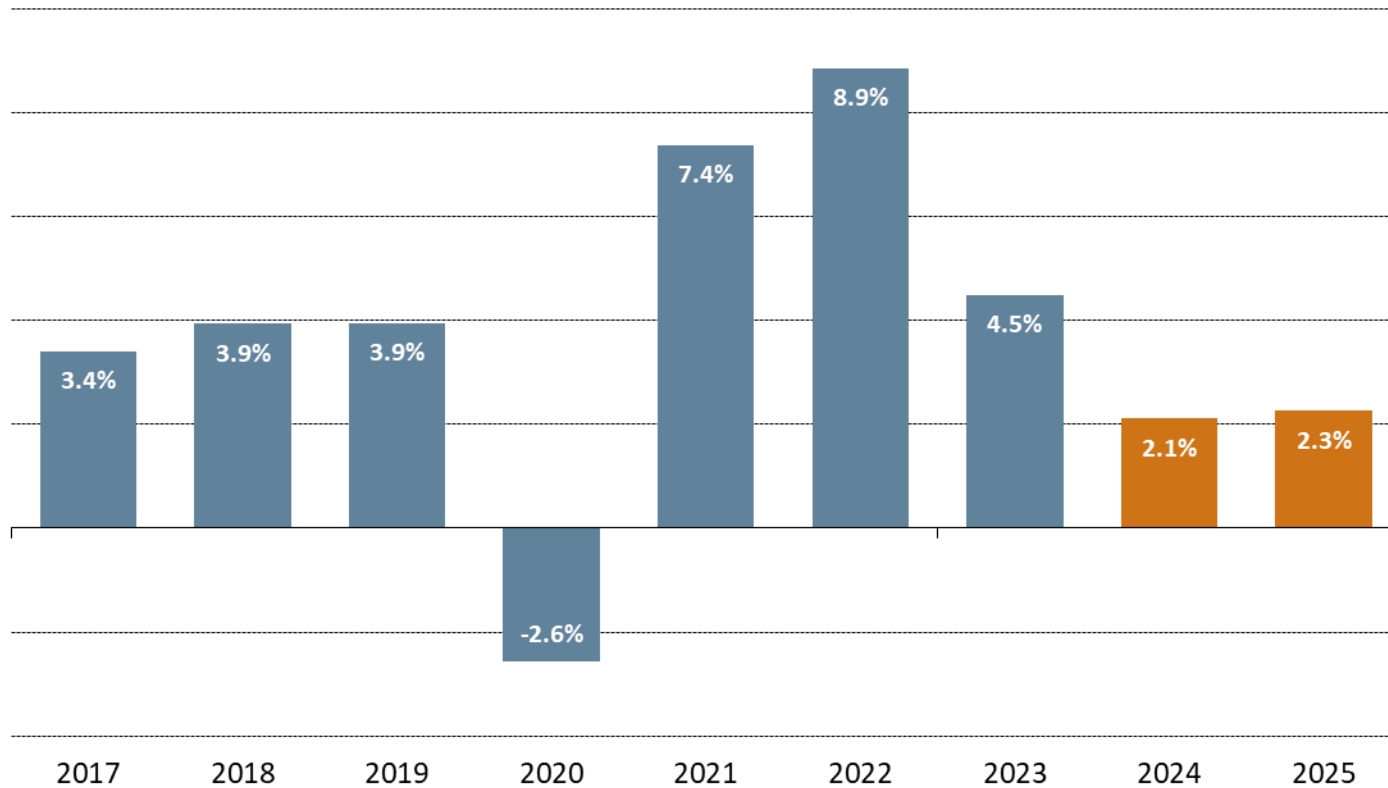
Percentage



Sources: CBRE, TXP

Austin MSA Job Forecast

12-Month Percentage Change



Sources: Texas Workforce Commission, TXP

Austin MSA Employment

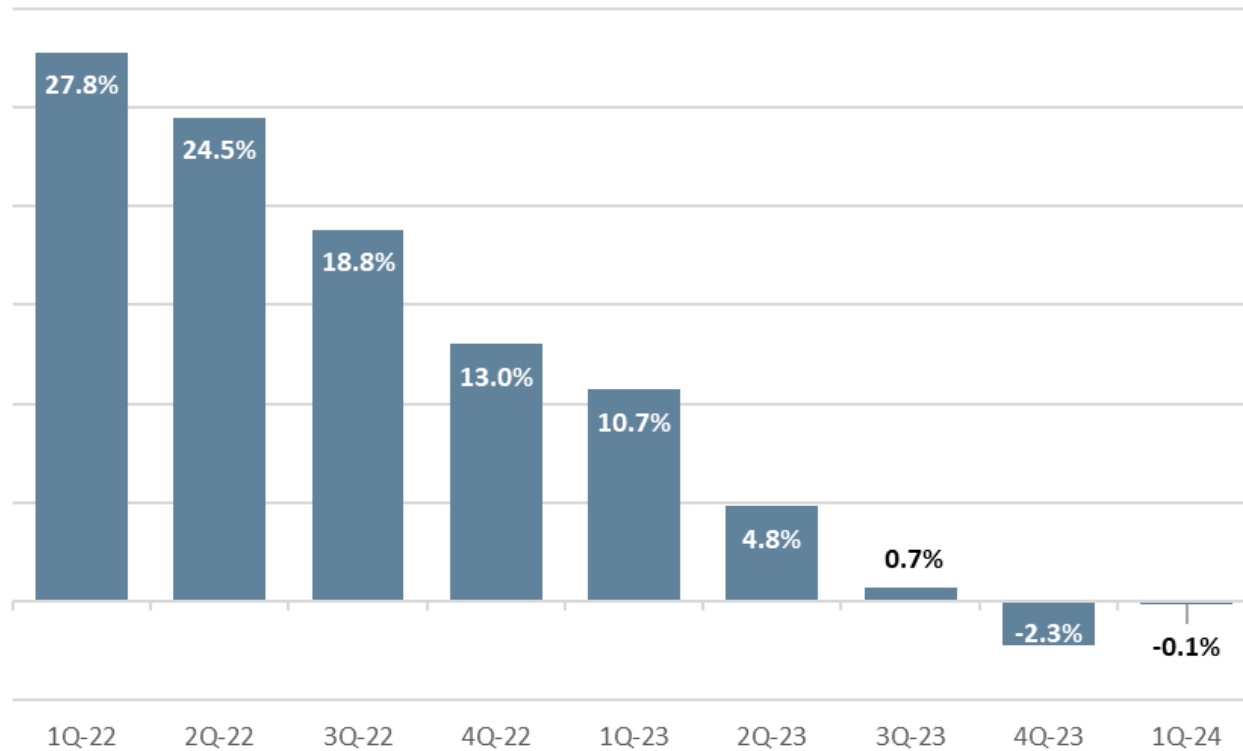
History & Forecast

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

Sources: Texas Workforce Commission, TXP

COA Sales Tax Revenue

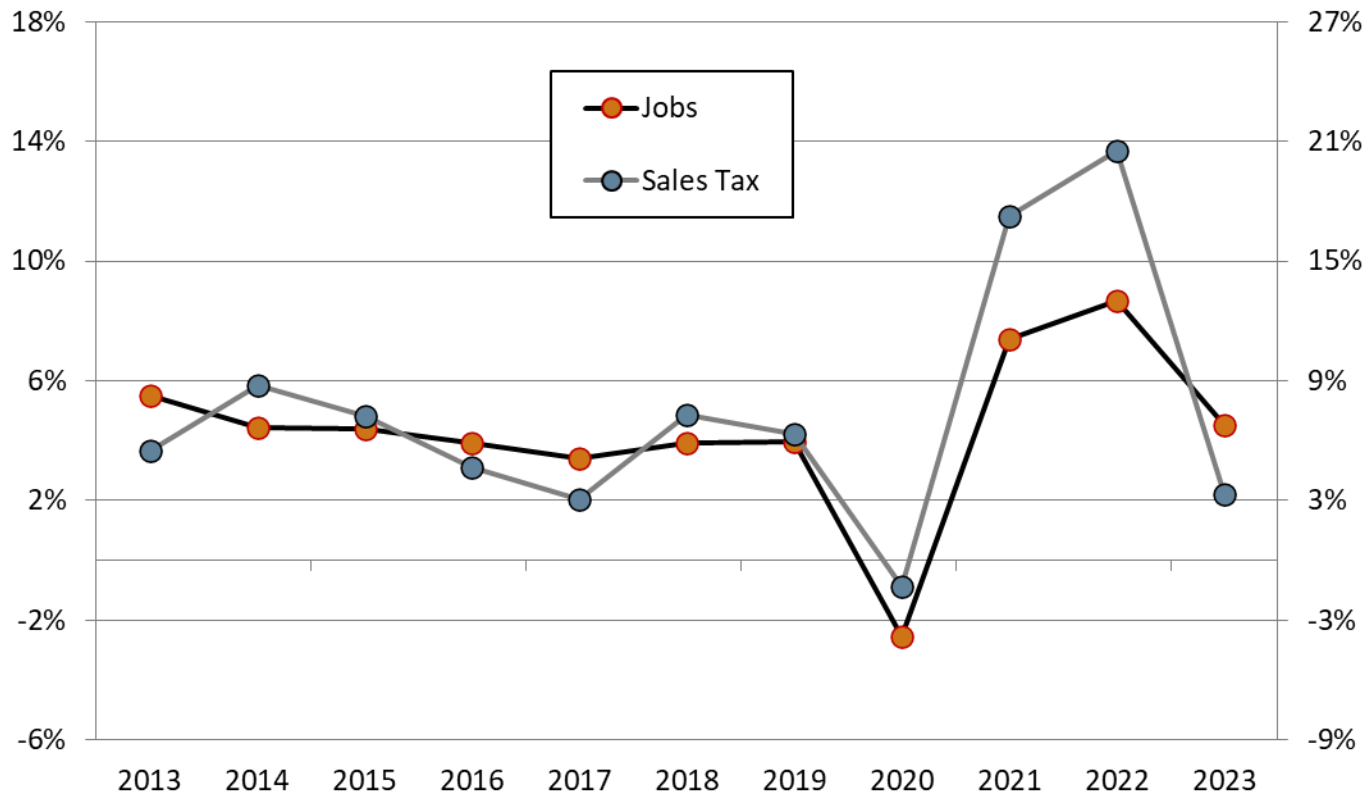
12-Month Percentage Growth



Sources: Comptroller, TXP

Sales Tax Revenue v. Jobs

Annual CY Change



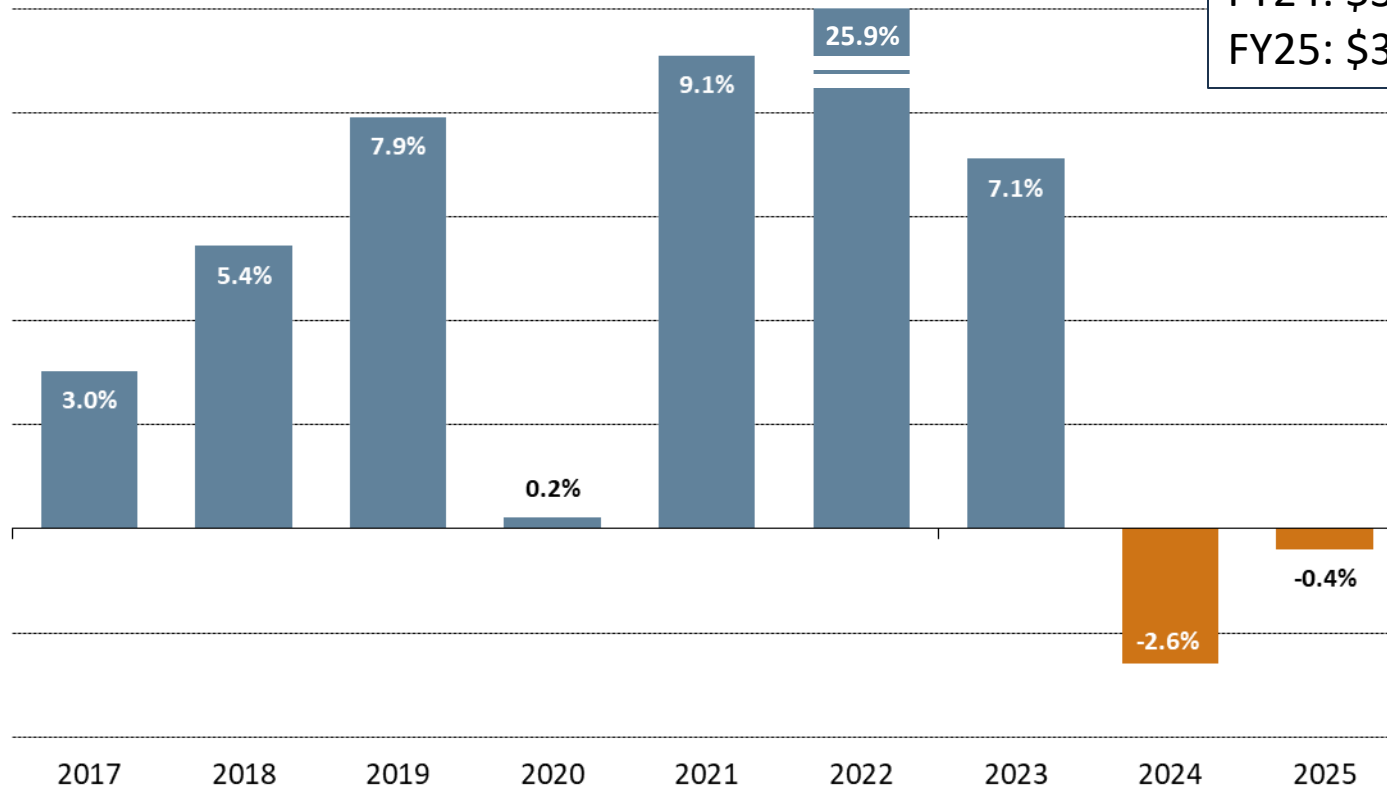
Sources: Comptroller, Texas Workforce Commission, TXP

COA FY Sales Tax Forecast

12-Month Percentage Growth

(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