



AUSTIN

Growth in the Austin economy has slowed marginally but remains strong. The unemployment rate remains low reflecting a tight labor market. The Dallas Fed noted that “improvement in construction activity and real estate, along with robust growth in high-tech services, suggests continued strength in the Austin economy...” However, this assessment has been tempered by weakness in the manufacturing sector and growing concern over the State’s economy.

TEXAS

The Texas economy continues to grow in the face of a strong dollar and lower oil prices. Unemployment is up slightly. There are signs of weakness in oil and gas areas such as Houston, and heavy manufacturing areas such as Fort Worth. The total tax collections for Texas and the Texas Leading Index are both down to prior year. Despite this, as recently as December 17, 2015, the Dallas Fed believed “the Texas economy is expected to grow at a modest pace in coming months.”



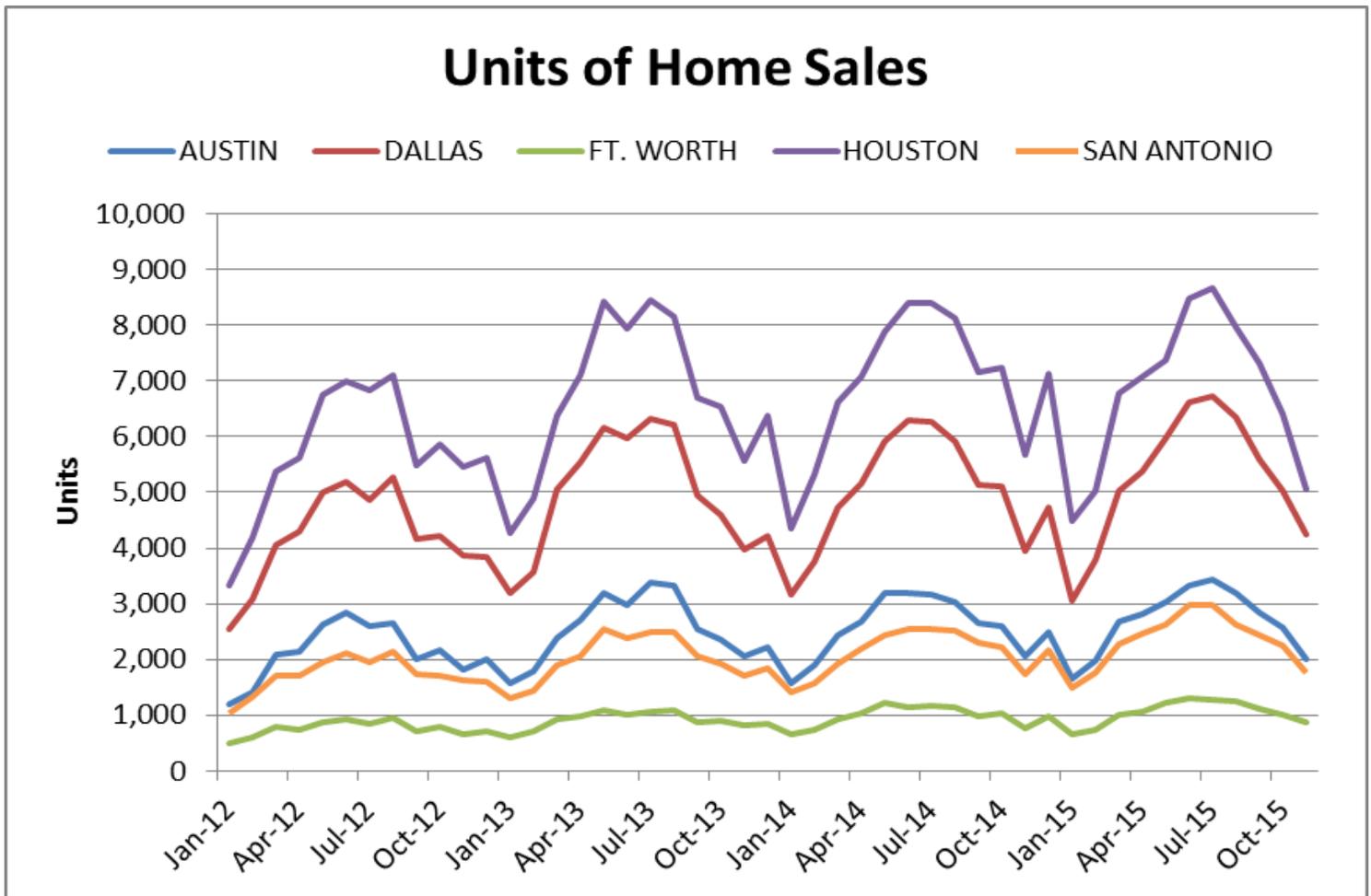
UNITED STATES

The Dallas Fed believes there is some evidence that “point(s) to moderate U.S. economic growth in the fourth quarter. An upward revision to third-quarter real gross domestic product (GDP), coupled with several generally positive reports on October and November economic activity, implied that growth has picked up in the fourth quarter.” This view is apparently supported by the Federal Open Market Committee (FOMC) as they decided to raise the federal funds rate for the first time in nearly a decade.

**REVENUE ESTIMATION &
FINANCIAL ANALYSIS**

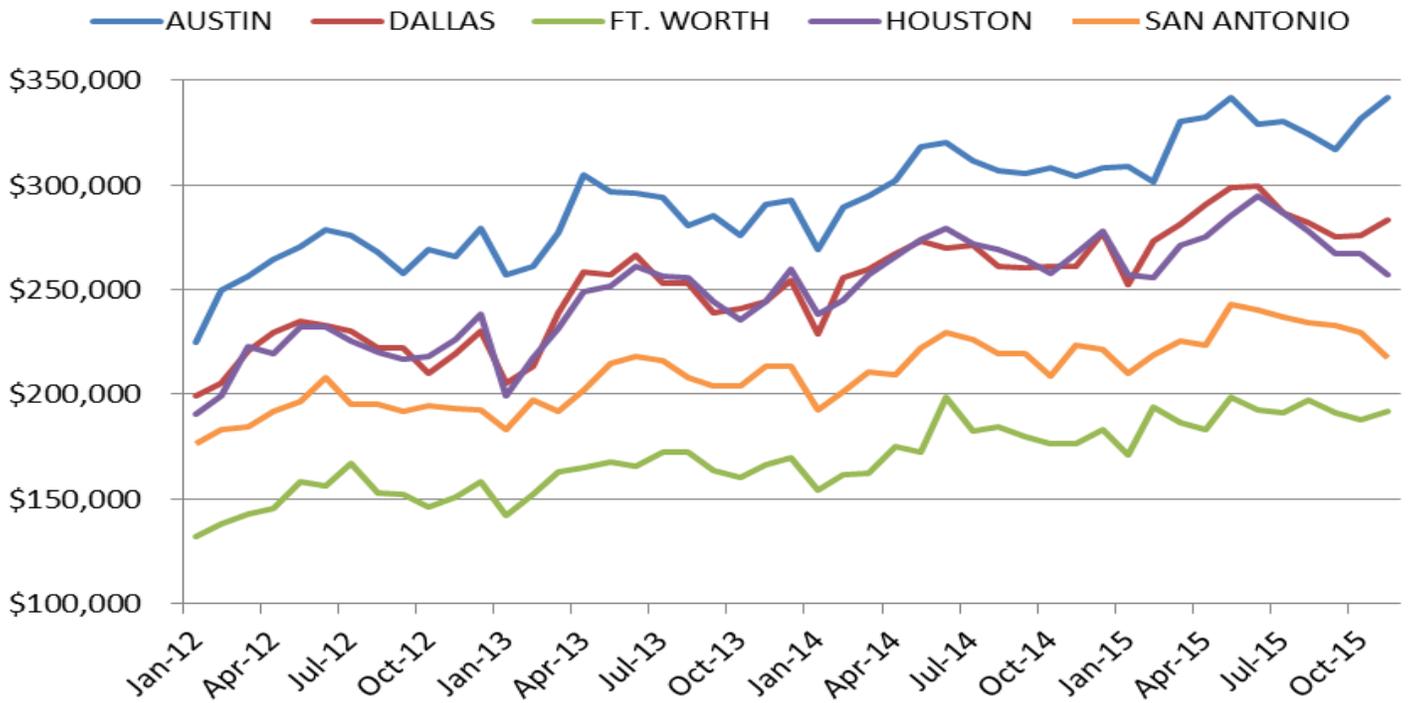
HOUSING

According to the Real Estate Center (REC), “Housing demand has remained strong although Houston exhibited some weakening.” Texas housing inventory has dropped in each of the last three months. In November, the months of inventory in Texas dropped to 3.4 months. The REC has estimated that **“seasonally adjusted; around 6.5 months of inventory is considered a balanced housing market in which neither sellers nor buyers dictate prices.”** The Austin Area had a lean 2.4 months of housing inventory in November. This suggests continued strong demand.



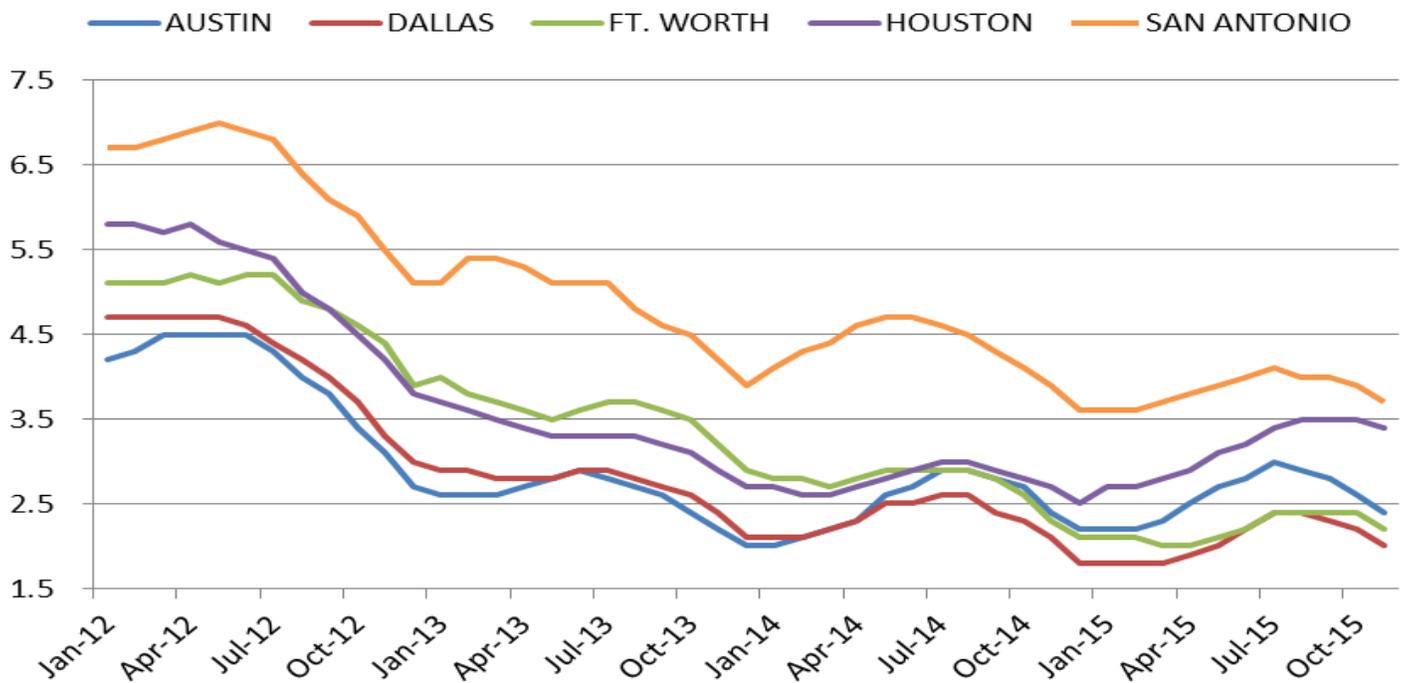
Source: Real Estate Center at Texas A&M University

Average Price of Home Sales



Source: Real Estate Center at Texas A&M University

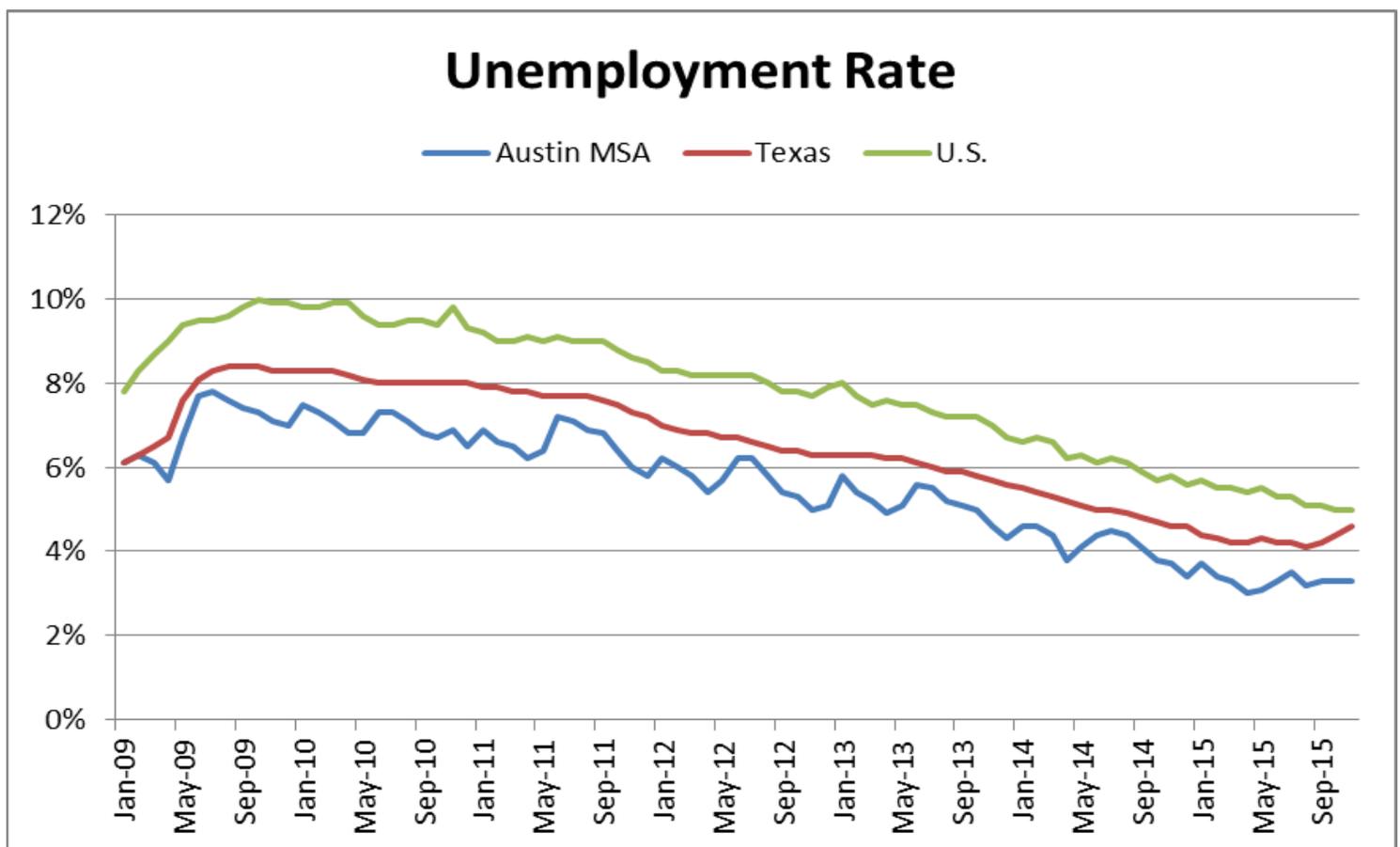
Months of Housing Inventory



Source: Real Estate Center at Texas A&M University

JOBS

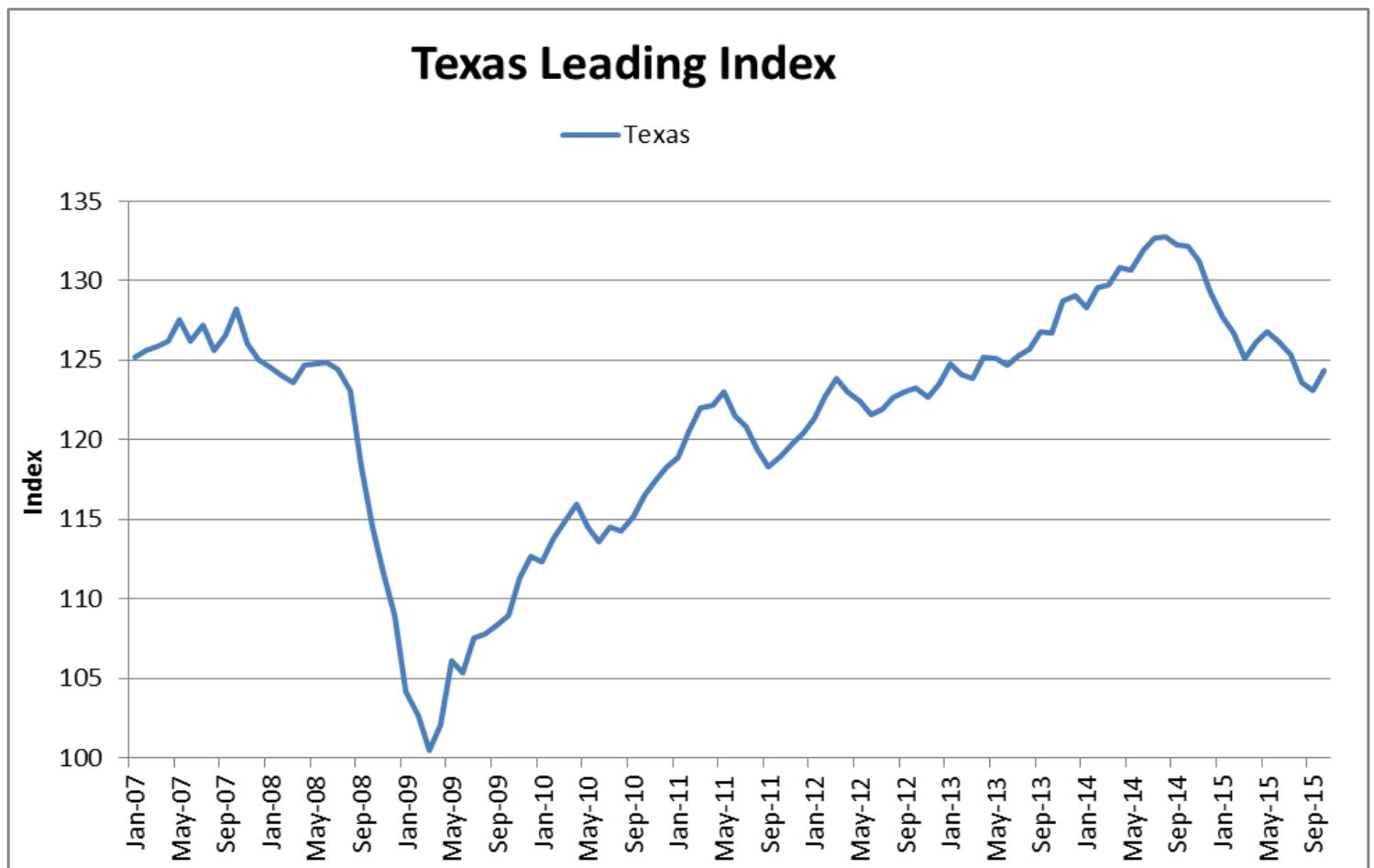
The preliminary November 2015 Austin MSA unemployment rate was 3.3%. This number ticked up in September but has remained constant since then. According to the Dallas Fed, Austin’s “on-line help-wanted advertising reached an all-time high in October” making the slowing third quarter job growth number more likely attributable to difficulty in finding qualified workers than to an underlying weakness in the economy. The Austin MSA unemployment rate compares favorably to both the preliminary Texas unemployment rate of 4.6% and the U.S. rate of 5.0%. Though the Texas unemployment rate has been at or below the national rate for over eight years for the last three months it has begun trending towards the U.S. rate. One reason for the overall low unemployment rate has been a declining labor participation rate. For an expanded discussion of the Labor Participation Rate, please see the IN-DEPTH segment at the end of this newsletter.



*Note: U.S. and Texas seasonally adjusted, Austin MSA not seasonally adjusted.
Source: Bureau of Labor Statistics*

LEADING INDEX - TEXAS

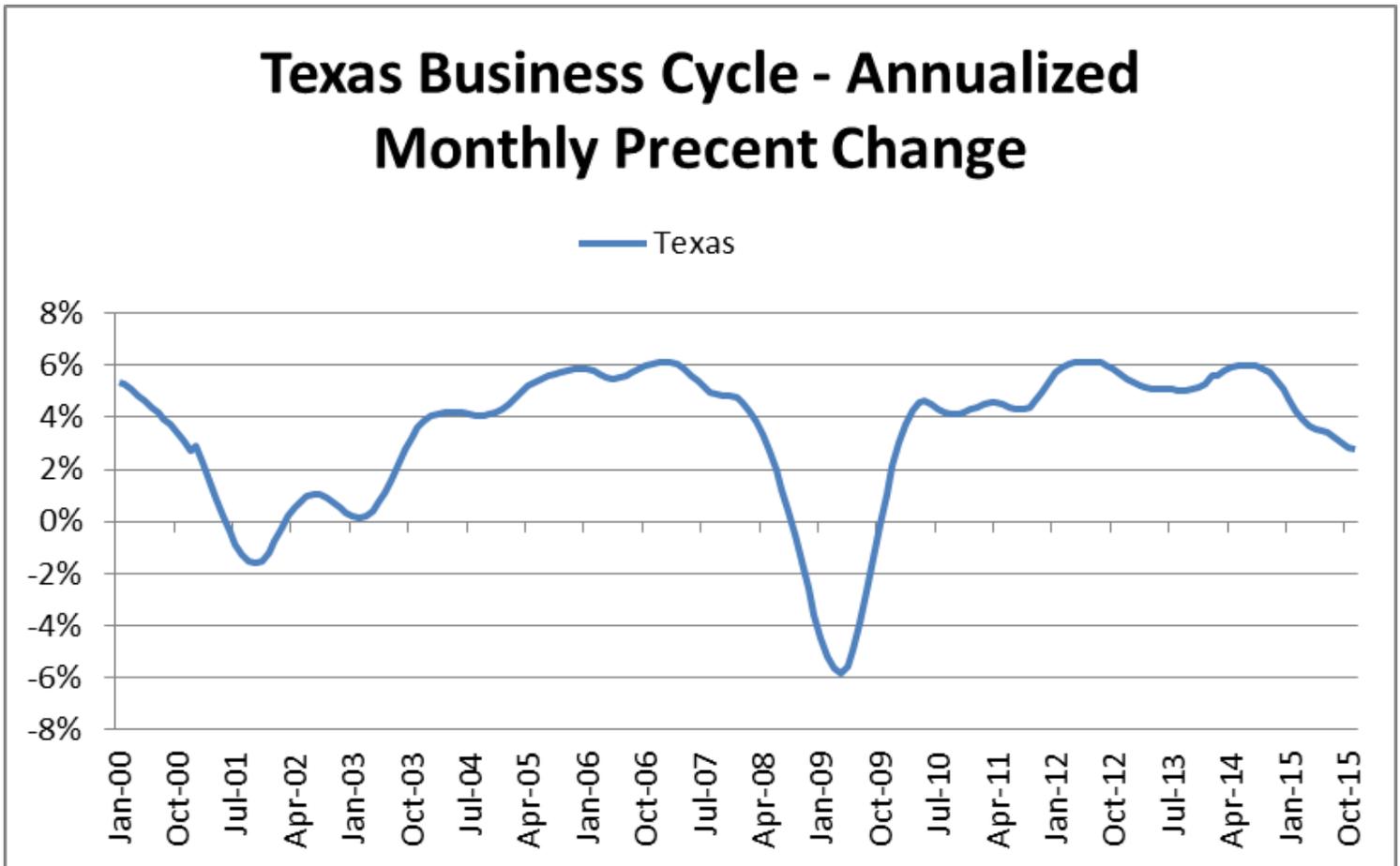
Dallas Fed has defined the **Texas Leading Index** as the “single summary statistic that sheds light on the future of the state's economy.” The Texas Leading Index is made up of eight leading indicators that have been shown to change direction – up or down – before the overall economy. The eight indicators used by the Dallas Fed are the Texas value of the dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing. After four months of decline, the **Texas Leading Index** grew in October. Regardless, caution is warranted as the **Texas Leading Index** has dropped in 11 of the past 14 months.



Source: Federal Reserve of Dallas - Index, 1987 = 100

BUSINESS CYCLE INDEX - TEXAS

The **Texas Business Cycle Index** measures the current state of the Texas economy. The Dallas Fed constructed the index using payroll employment, gross state product, and the unemployment rate. The trend continues to be positive although it has been slowing.

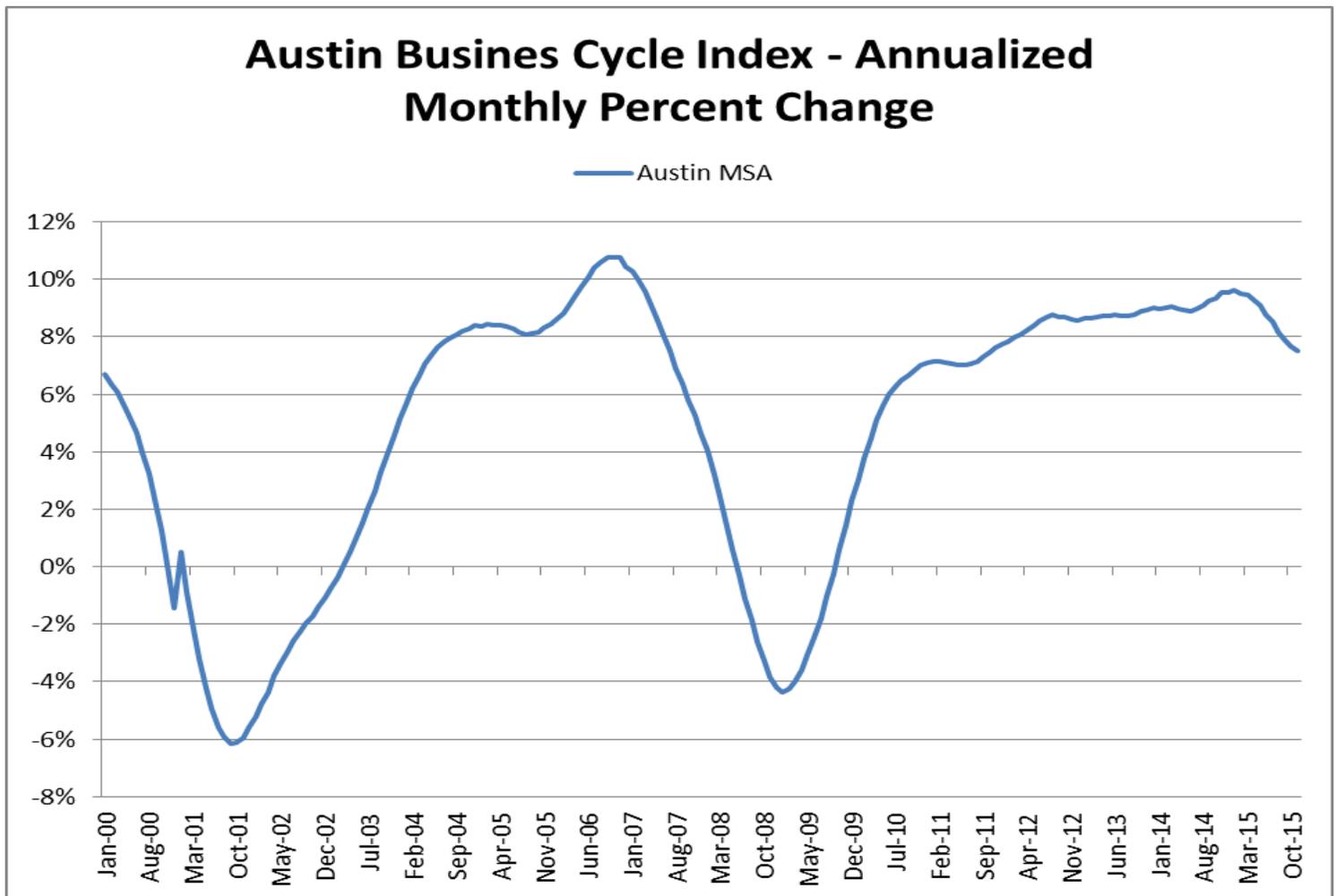


Source: Federal Reserve of Dallas - Index, 1987 = 100

BUSINESS CYCLE INDEX - AUSTIN

Business Cycle Indexes are meant to reflect broad movements in local economic conditions. The Dallas Fed states that “the [local area] indexes are constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The weights of the components are statistically optimized for each metropolitan area in order to best capture the underlying cyclical movements in the local area economy.”

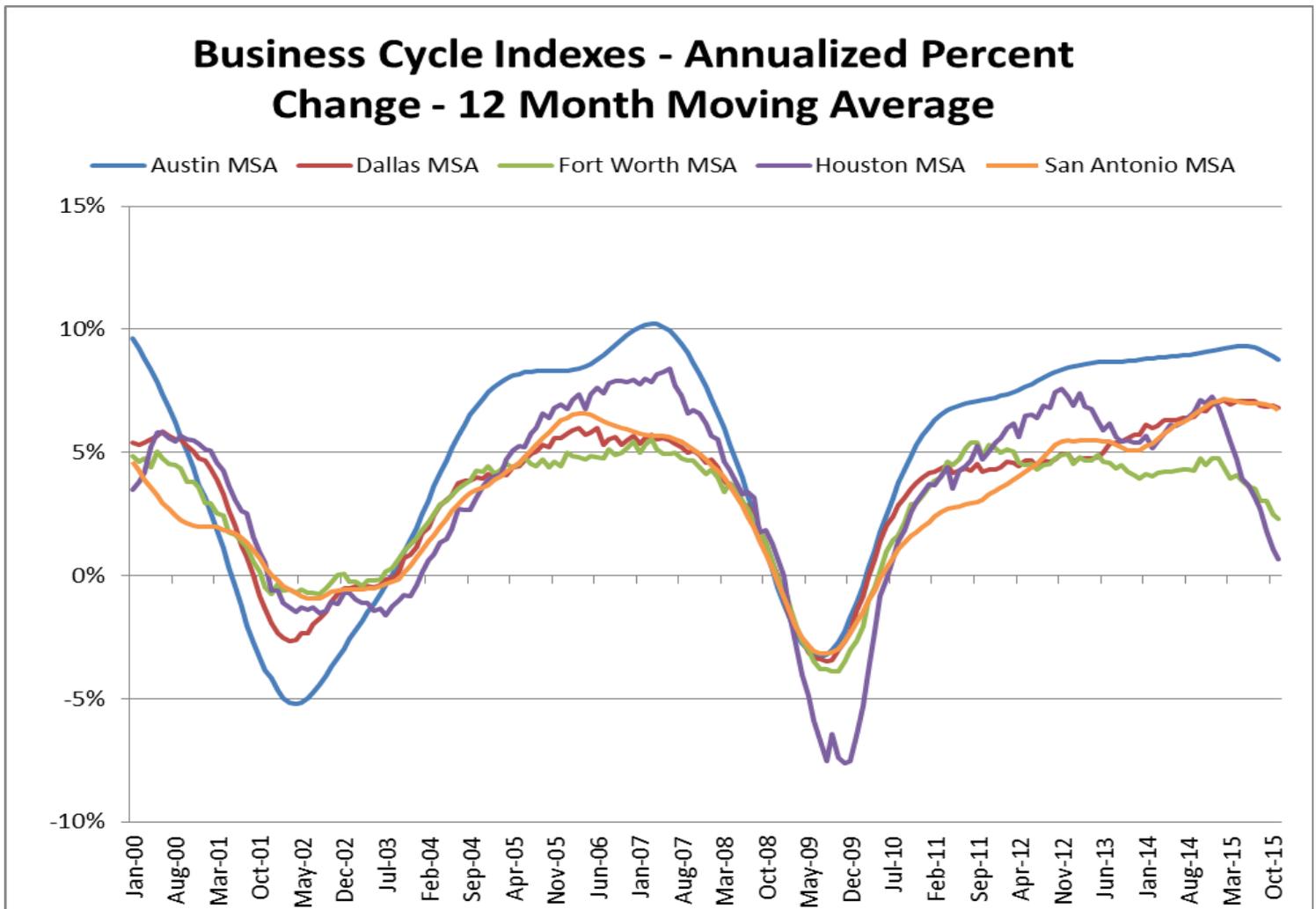
The Austin Business Cycle Index grew at a 7.5% annualized rate in November. This is the lowest rate of acceleration since October 2011. However, it is still solidly above the 30 year average of 5.0%.



Source: Federal Reserve of Dallas
 Source: Federal Reserve of Dallas - Index, 1980 = 100

BUSINESS CYCLE INDEX – MAJOR METROS

In the chart below, a twelve month moving average was incorporated to smooth out short-term fluctuations and highlight longer-term cycles. The impact of lower oil prices has severely reduced the growth of Houston’s local economy. Likewise, a decline in manufacturing has reduced Fort Worth’s growth rate.

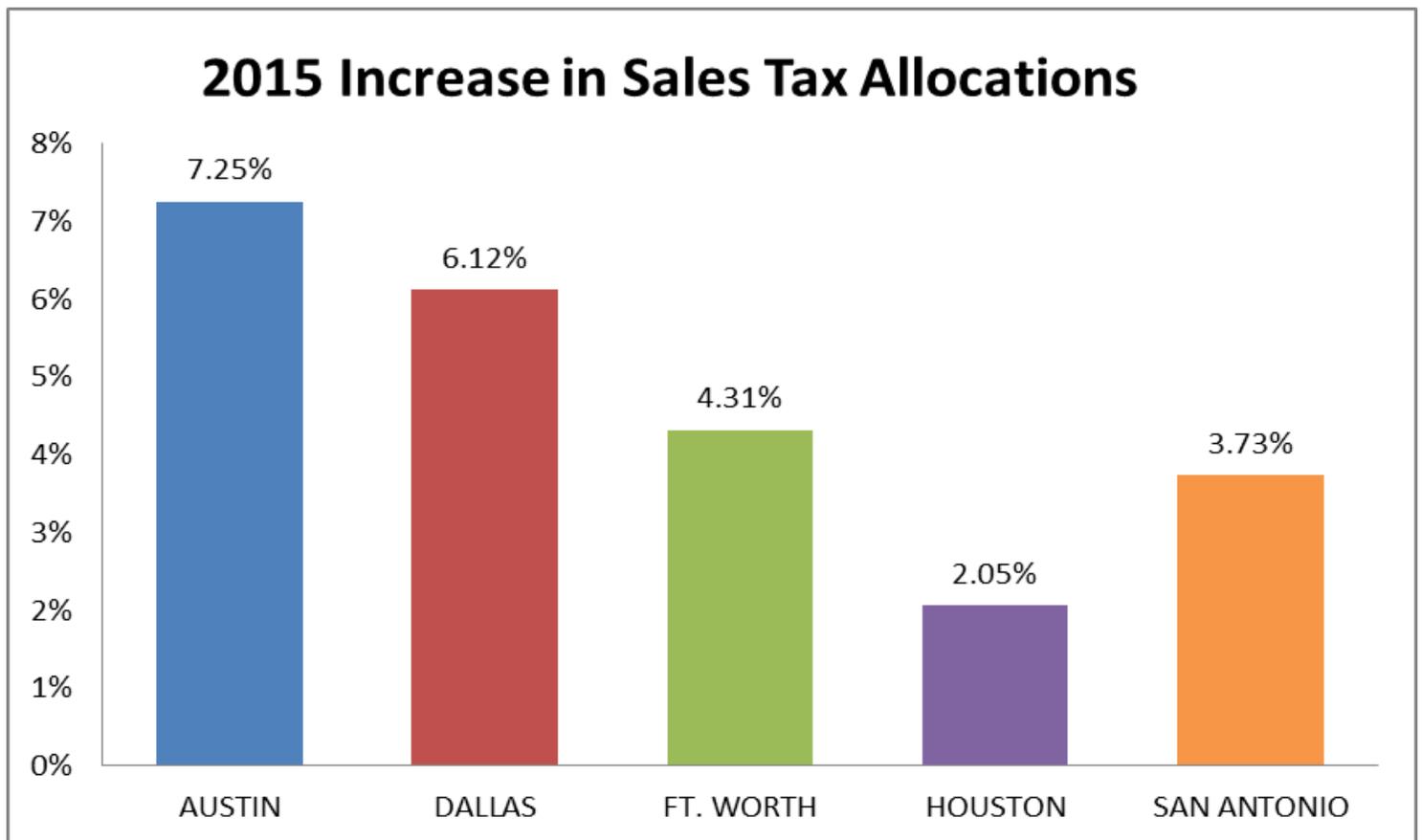


Source: Federal Reserve of Dallas

Source: Federal Reserve of Dallas - Index, 1980 = 100

SALES TAX - METRO

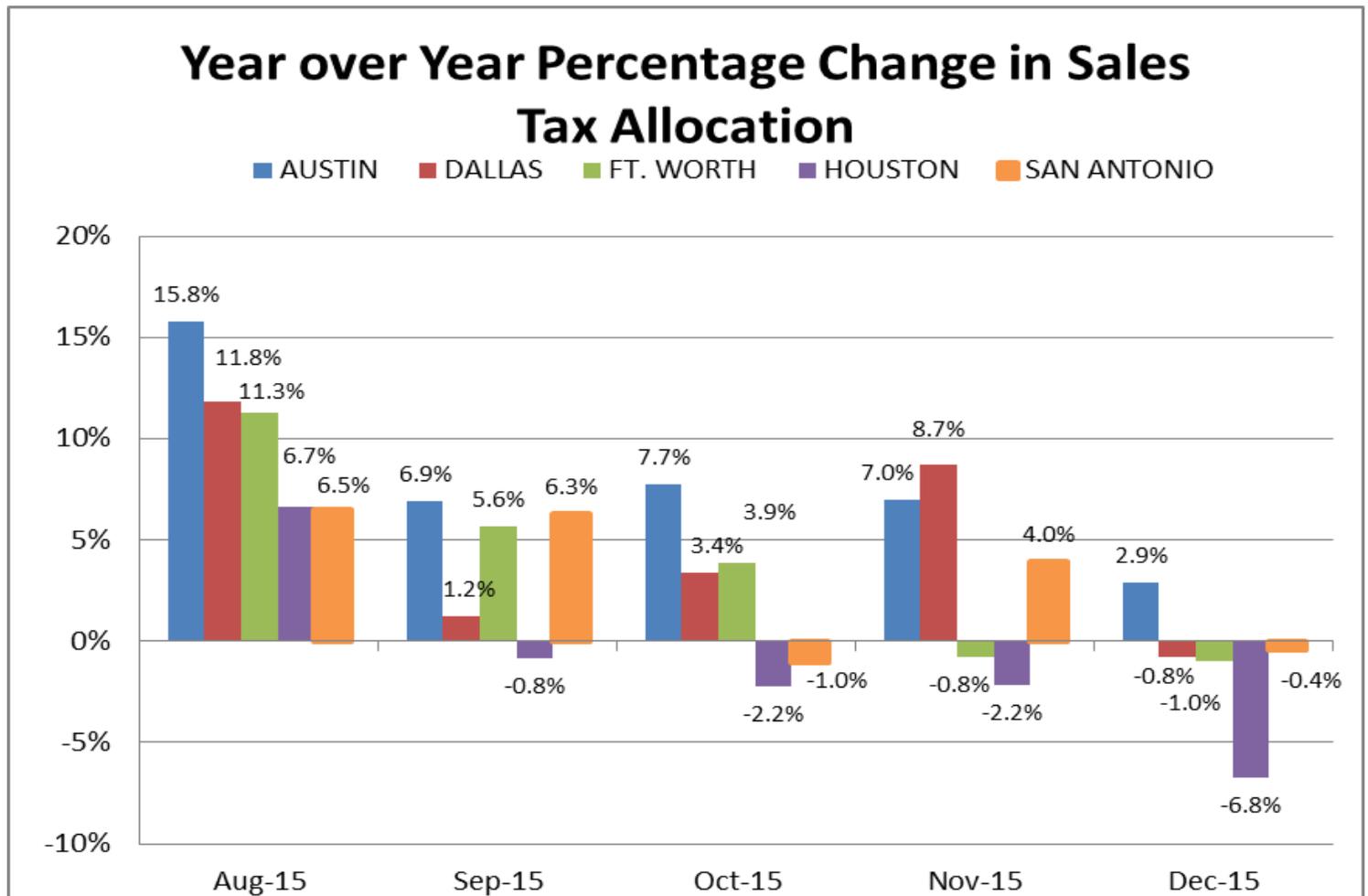
The 2015 increase in Sales Tax Allocations from the State of Texas for the five major cities are presented below. The City of Austin experienced the largest growth and Houston the least. Though Houston sales tax payments increased in 2015 the payments received for the last four months have been below prior year. This unwelcome trend can be seen in the graph presented on the next page.



Source: Texas Comptroller of Public Accounts

SALES TAX - METRO

Below is a chart that reflects the major cities year over year monthly percentage change in Sales Tax Payments received from the State. For clarification, the payments received are generally two months in arrears. For example, the majority of the payment received in December was for monies collected in October and reported to the State in November. As reflected in the chart below, Austin was the only city to experience positive year over year monthly growth in sales tax revenue each of the last five months. By contrast, Houston has had to struggle with the effects of the downturn in the oil industry.



Source: Texas Comptroller of Public Accounts

TAXES - TEXAS

Below are the Total Tax Collections for the General revenue-related funds through the first four months of the State's fiscal year. In FY 2015, Total Tax Collections represented close to 88% of the Total Net Revenue for the General revenue-related funds.

Texas Comptroller Glenn Hegar blamed the year over year drop in sales tax on declining purchases by oil and gas drilling companies. The falling oil and gas severance taxes are a major concern. In preparing the biennial revenue estimate, Hegar predicted that oil would average \$64.52 a barrel in fiscal year 2016 and \$69.27 a barrel in fiscal year 2017. Motor Vehicle Sales Tax and the Alcoholic Beverages Taxes are a couple of bright spots among an overall dismal picture.

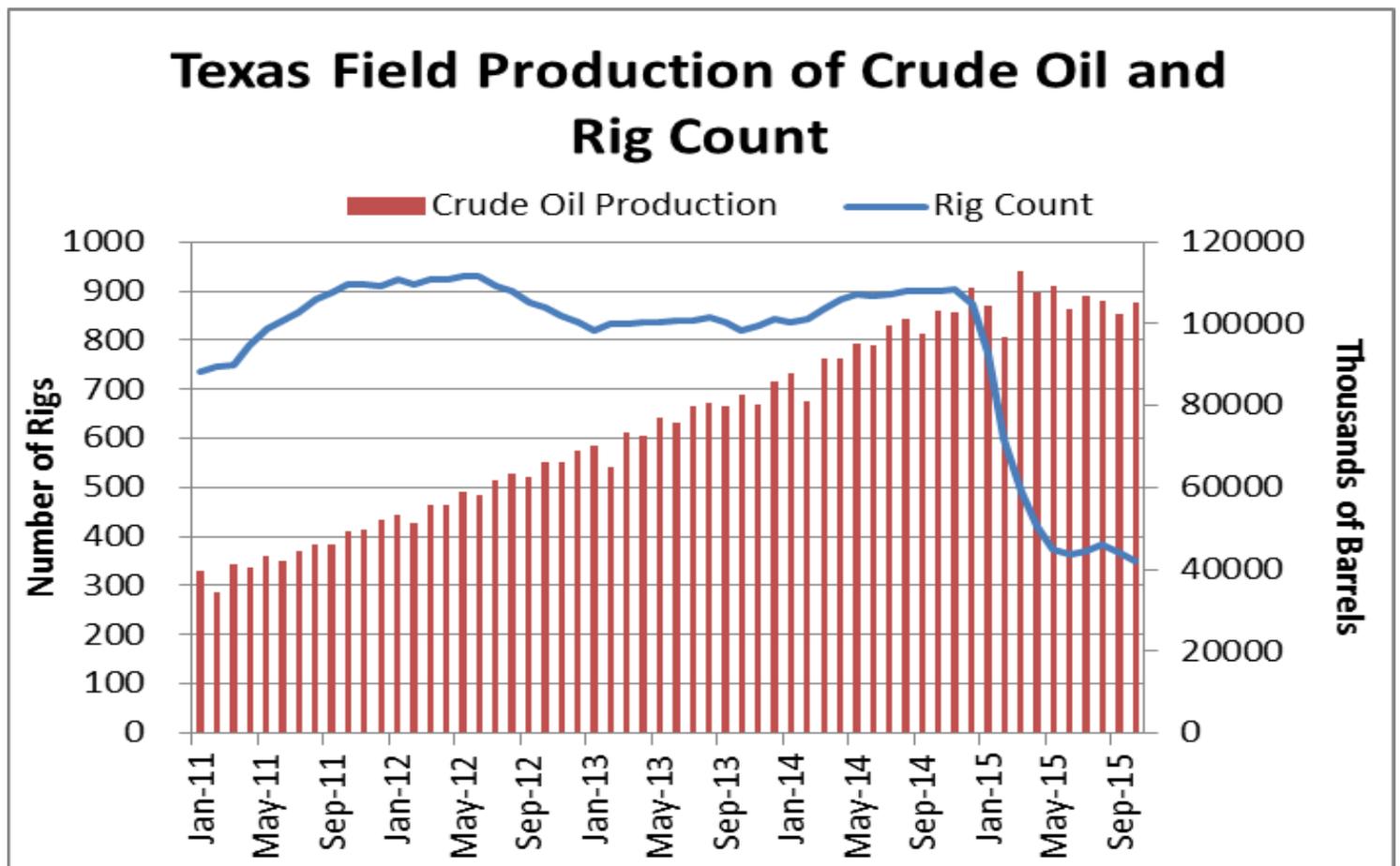
Tax Collections by Major Tax (amounts in millions)	Dec YTD FY 2016	Dec YTD FY 2015	Variance	Percentage Variance
Sales Tax	9,395	9,596	(201)	-2.10%
Motor Vehicle Sales and Rental Taxes	1,535	1,504	31	2.07%
Motor Fuel Taxes	290	305	(15)	-5.04%
Franchise Tax	(186)	(444)	259	-58.23%
Insurance Taxes	70	73	(3)	-4.10%
Natural Gas Production Tax	309	596	(287)	-48.14%
Cigarette and Tobacco Taxes	255	288	(33)	-11.53%
Alcoholic Beverages Taxes	378	365	13	3.62%
Oil Production and Regulation Taxes	649	1,270	(621)	-48.91%
Utility Taxes ¹	118	124	(6)	-4.57%
Hotel Occupancy Tax	171	168	3	1.61%
Other Taxes ²	33	69	(36)	-51.56%
Total Tax Collections	13,017	13,913	(896)	-6.44%
Totals may not add due to rounding.				

Source: Texas Comptroller of Public Accounts

OIL AND NATURAL GAS

CNBC has reported that lower oil prices and the loss of thousands of jobs in energy hubs such as Houston and Lubbock are pinching consumer discretionary spending in Texas, with weakness being noted in the third-quarter earnings of companies in such areas as hotels, restaurants and auto sales. The Texas Comptroller reported the following:

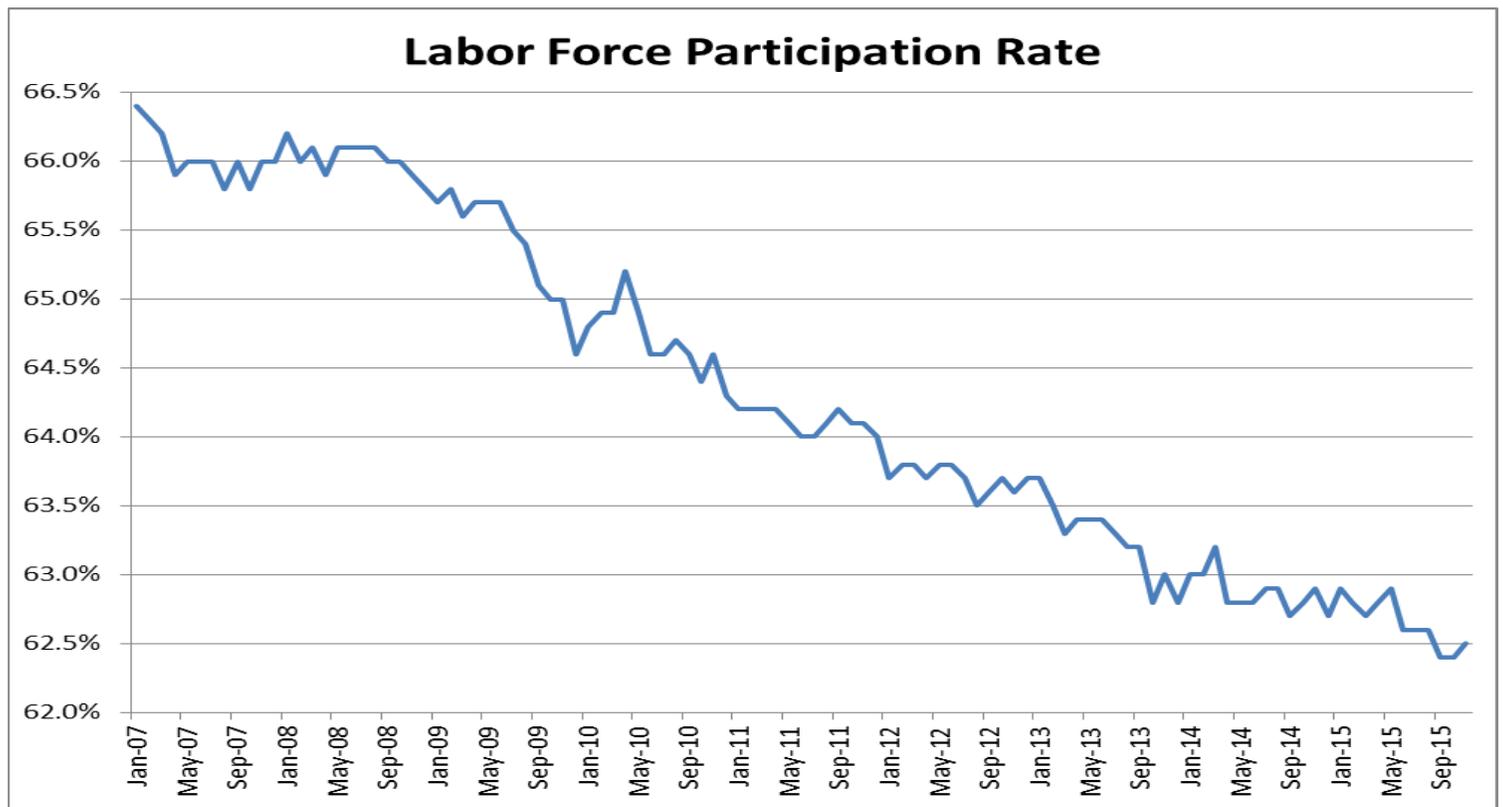
- Oil and natural gas production tax collections for the first four months of fiscal 2016 were 49 percent lower than collections during the same period in 2015.
- NYMEX Crude oil futures reached a settle price of \$37.04 on December 31, 2015. The average crude oil futures settle price was \$37.33 for December 2015.
- NYMEX Natural gas futures reached a settle price of \$2.34 on December 31, 2015. The average natural gas settle price was \$2.04 for December 2015.



Source: of Data: Baker Hughes and U.S. Energy Information Administration.

IN-DEPTH – LABOR PARTICIPATION RATE

The **labor force participation rate**, as defined by the Bureau of Labor Statistics (BLS), as “the percentage of the population [16 years and older] that is either employed or unemployed [that is, either working or actively seeking work].” As seen in the chart below, the rate has been dropping significantly. In fact, labor participation is at a 38 year low and the BLS expects it to continue to drop.



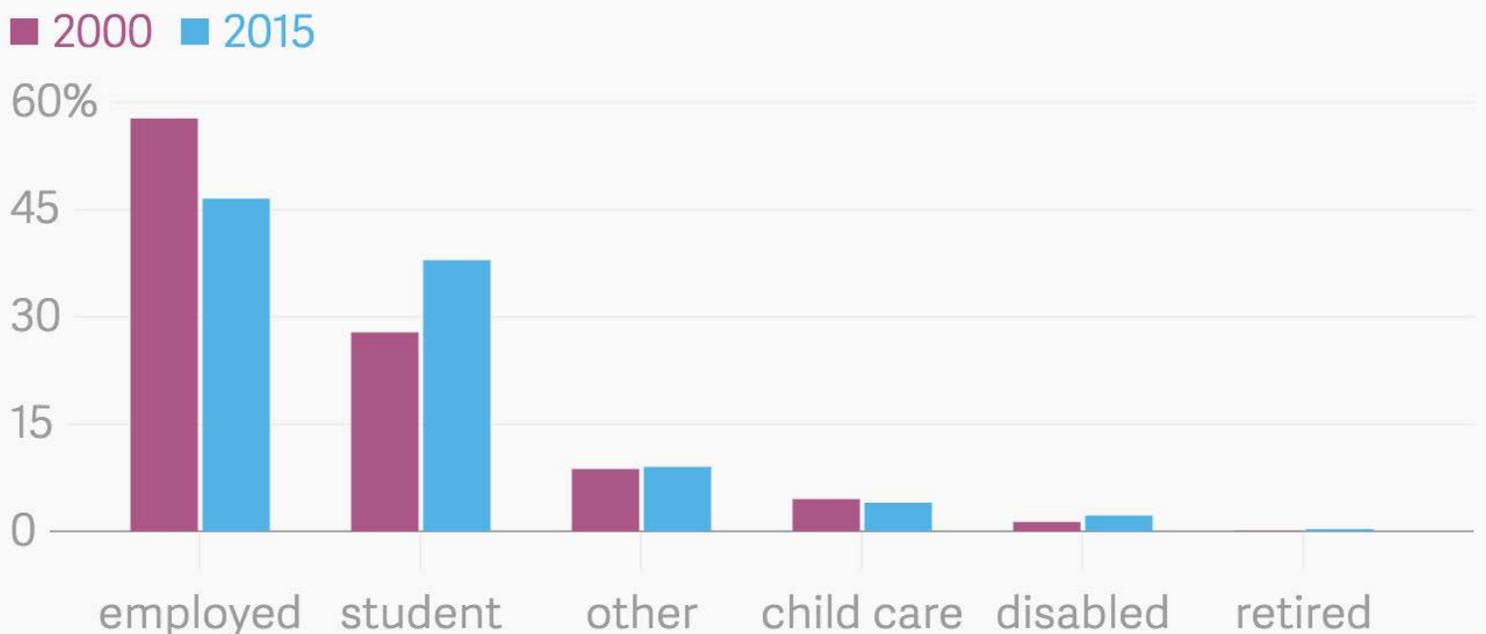
Source of Data: Bureau of Labor Statistics

The question is why are so many Americans not working? Some point to economic policies that have discouraged many from seeking employment. However, the BLS notes that the labor force participation rate dropped only 0.6 percentage points during the 2007–2009 economic downturn whereas, between 2009 and 2012, after the end of the recession, the rate declined by another 1.7 percentage points. A major factor responsible for this downward pressure on the overall labor force participation rate has been the aging of the baby-boom generation. The first baby boomers turned 62 in 2008. Economists believe that in addition to retirement, education and disability are the major factors behind the continuing decline in the labor participation rate.

IN-DEPTH – LABOR PARTICIPATION RATE

The charts on the following pages were presented in an October article for Quartz by economist Allison Schrager. The first chart confirms a Bureau of Labor Statistics’ observation that a significant cause of the decrease in labor participation has been an increase in school attendance. In a recent article, U.S. News quoted Andrew Chamberlain, chief economist at Glassdoor, as saying one of the factors contributing to the low participation rate is “education – people getting more education and staying in school longer. If you get an MBA, you’re out of the labor force for three years. If you get a Ph.D., you’re out of the labor force for 5 years, maybe 7 years.” According to the National Center for Education Statistics, the number of individuals enrolled in “both undergraduate and post-baccalaureate programs ballooned more than 52 percent between 1990 and 2014.” Hopefully, this will result in a more competitive workforce in the future.

Labor force status of 16- to 24-year-olds



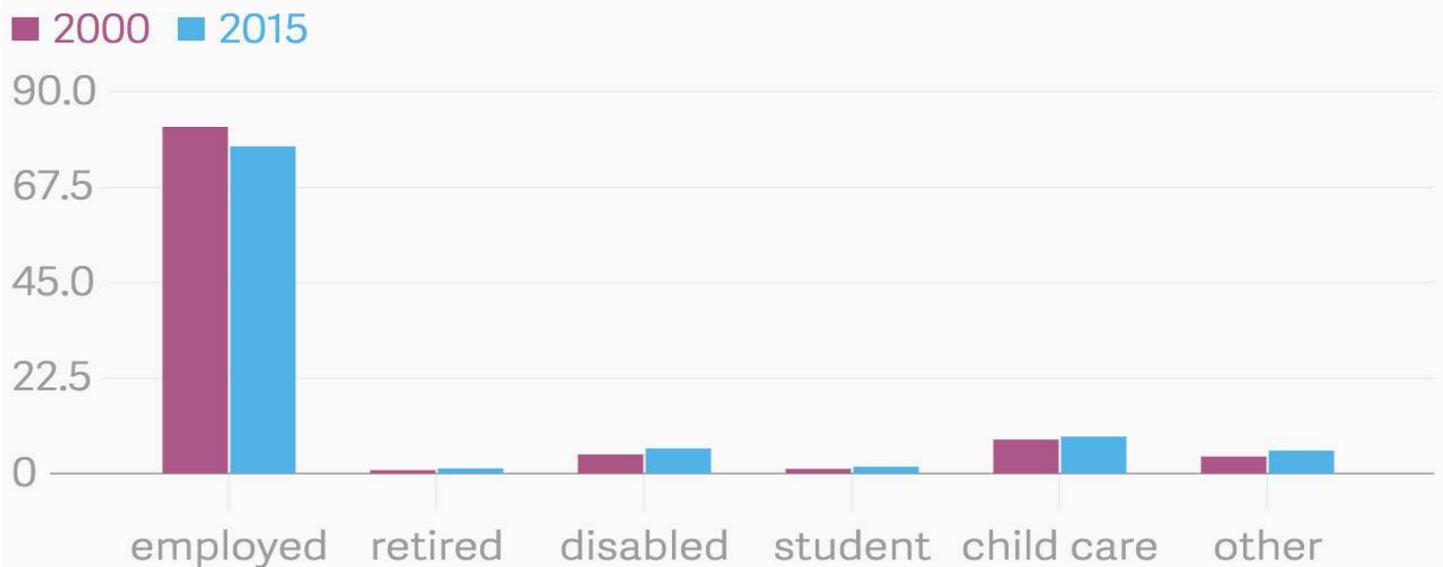
ATLAS | Data: March Current Population Survey

Source: Quartz Oct 2015

IN-DEPTH – LABOR PARTICIPATION RATE

The drop in the participation rate of those 25 to 54 years olds is difficult to explain. They generally have completed school and are not retiring in massive numbers. Many are going on disability or are providing child care, but that still does not explain a large number of non participants. In a July 2015 U.S. News article, Dan North, chief economist at Euler Hermes looked into this issue. He believes that a “drop off in women's labor force participation rate – a demographic that was previously responsible for rapid participation gains in the 1960s and 1970s” may be a factor. “Only 56.7 percent of American women were active participants in the labor market in June [2015], down from a 60.3-percent peak in April 2000.”

Labor force status of 25- to 54-year-olds



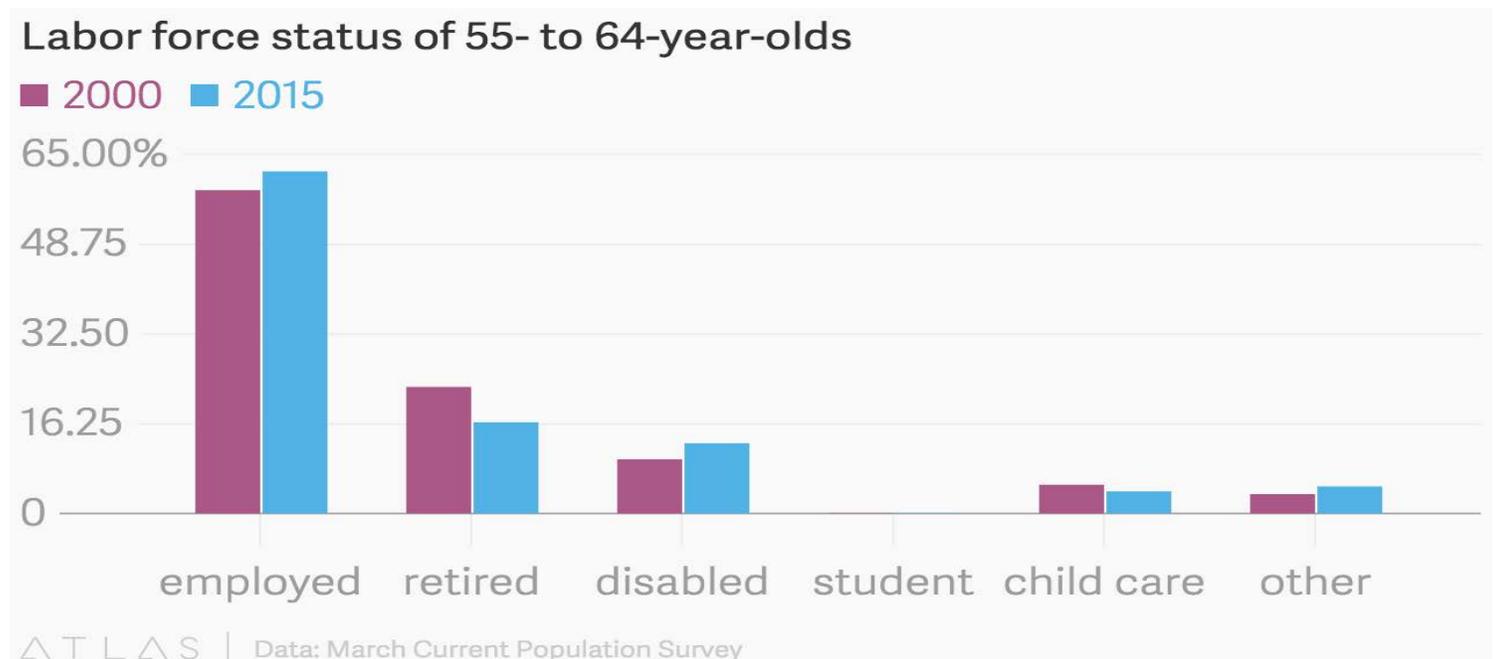
ATLAS | Data: March Current Population Survey

Source: Quartz Oct 2015

IN-DEPTH – LABOR PARTICIPATION RATE

Older Americans are more likely to be working or on disability than their counterparts 15 years ago. However, the participation rate of this group is less than the 24 to 54 year olds. So, as the population ages, it lowers the overall participation rate by sheer numbers. The Great Recession has forced millions to continue working later into life. U.S. News believes this number is supported “considering the labor force participation rate among individuals at least 55 years old continued climbing through the Great Recession until October 2012, when it leveled off at 40.7 percent.”

U.S. News also noted that “disability insurance awards have moved hand-in-hand with the unemployment rate in the last few decades, as those who are out of work are more predisposed to seek some sort of governmental assistance.” Chamberlain says of Social Security disability insurance applications that more than doubled between 2000 and their 2010 peak of more than 2.9 million applicants. “There was a big upsurge in workers shifting over to disability insurance during the last recession. It's slowed recently. But once you get on disability insurance, you could be out of the labor force for years, because it replaces a pretty significant chunk of your old pay.”



Source: Quartz Oct 2015

DISCLAIMER

THIS PUBLICATION WAS DEVELOPED FOR INTERNAL, GOVERNMENTAL PURPOSES ONLY. IT WAS PREPARED IN GOOD FAITH AND FOR GENERAL INFORMATIONAL PURPOSES ONLY. WE DO NOT MAKE ANY WARRANTIES ABOUT THE COMPLETENESS, RELIABILITY AND ACCURACY OF THE INFORMATION. USE AT YOUR OWN RISK. YOU SHOULD NOT USE ANY OF THESE SAMPLE DOCUMENTS WITHOUT FIRST SEEKING LEGAL AND OTHER PROFESSIONAL ADVICE.