

# AUSTIN BUSINESS JOURNAL

## What's the forecast for Austin's economy? Like the weather, by the time you ask it may have already changed

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Arnold Wells / ABJ

*It's just a few weeks into 2023, and the recent ups and downs of Austin's economy have been emblematic of the city's reputation for unpredictable weather.*

There have been bright days, such as the ones when it was made known that giants such as Apple Inc. and Tesla Inc. intend to expand their sprawling Austin-area campuses in the months and years to come. There have also been plenty of clouds — layoffs at Facebook and several local tech firms come to mind — and a sharp drop in company relocations and expansions. Plus, there have been some cold fronts that give people mixed feelings, such as the area's white-hot housing market finally returning to a semblance of normal, or a noticeable decline in startup fundings.

So what's the forecast for the coming year? By the time you ask, the season may have already changed.

That's according to Dirk Mateer, professor of instruction in the Economics Department at the University of Texas, who said that the trends heading into 2023 are all "over the place."

"My forecast for Texas is cloudy with a chance of showers," Mateer said.

"I think Austin is always an anomaly," he added. "When everything else goes bust, when oil prices collapse and the rest of Texas is hurting, Austin seems to be immune from that."

### **Relocations, expansions quickly slowing**

Austin's economy relies heavily on relocations and expansions to spur growth. Companies are drawn to the capital — and the state as a whole — due to a generally business-friendly climate that includes no income tax, less regulations and the availability of incentives to move here.

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Among the big names that have expanded or relocated to Austin in the last two years are Tesla, Samsung Electronics Co. Ltd. and CelLink Corp. But after two straight record-setting years of companies moving to or expanding their presence here, things have come back to earth — in a big way.

Through the end of 2022, there were 64 announcements of relocations and 101 of expansions, with companies pledging to create 14,292 jobs, according to data tracked by Opportunity Austin, the economic development wing of the Greater Austin Chamber of Commerce. That job total was down from 26,877 in 2021 and 22,124 in 2020, and marked the lowest year-end total since 2019. But it still placed well in-line with the pace of other years during the last decade.

Interim Austin Chamber President and CEO Kerry Hall said in an email to the ABJ that while the pace is off, they are still in the midst of the "most successful 4-year sprint in the history of Opportunity Austin, with one year to go," referring to the chamber's current initiative, dubbed Opportunity Austin 4.0. She added that they hit their goals for business expansions and relocations and job creation in 2022.

There are positive signs that there is activity on the way. Opportunity Austin reported 332 projects in the pipeline, up from 304 the year prior, referring to companies that have made various levels of contact with economic development leaders.

"It's hard to predict what the rest of 2023 holds, but we have already seen a key expansion from Tesla in the first few days of this year, and as we shared, our number of prospects remains strong," she said. "We are already seeing slowdowns in certain sectors like office projects, but we still have sectors moving full steam ahead, including advanced manufacturing and the automotive sector."

Hall said that gives chamber reps a reason to be optimistic about the future, including the fact that their other economic markers, like a low employment rate, continue to be good, and the fact that the companies that are looking at Austin span different industries.

"First, if there is a substantial downturn, the Austin region has weathered these storms better than most regions in the past. During the downturn caused by Covid-19, we were the first region to regain the jobs we had before the onset," she said. "We are the second-best-performing job market in the country since March 2020. Another reason to be optimistic is our diverse economy. We have worked intentionally to build other sectors of our economy to be more resilient."

While other Texas cities have seen big economic wins — see Caterpillar and Hewlett Packard Enterprise in Houston — Mateer agreed that Austin is a little more recession-proof. That's partly due to Austin's reliance on stalwarts such as state government and universities. Other parts of the state, like Houston or the West Texas area, rely more heavily on one industry like the energy sector.

But despite the signs of a pause in economic development, Mateer expects people to continue flocking to Central Texas.

"That's one of the issues that Austin has to figure out," he said. "If we don't really go into a recession, or if it's really mild, or it's just a slowdown, then I think that the general trend for Austin has been and will continue to be the place that many businesses want to relocate to and that people want to relocate to if they're retiring. ... All of that is good in the long run. This is just the hiccup in the long-run growth trend."

### **Tech, manufacturing drive growth**

While Austin's economy is diversified, a lot of the most recent growth has been primarily driven by spikes in two industries: tech and manufacturing. Tech companies continue to eat up space in the region's high-rises, while manufacturers have located in the suburbs due to available land, more competitive housing prices and the availability of incentives.

But it also happens that those are two industries with big question marks, according to Mateer. Whether or not the manufacturing industry bounces back depends on things like consumer trends — and specifically whether or not they purchase durable items such as cars, refrigerators and home goods. The tech industry has hit a bit of a lull with wide reports of layoffs. Other industries are a little more recession proof, like the leisure sector, which is expected to spring back because people have money to spend on exploring, especially within Texas.

Austin has never been more exposed to the ups and downs of Big Tech. In addition to Facebook parent Meta Platforms Inc., tech giants like Amazon.com Inc., Microsoft Inc. and Salesforce Inc. have employees in Austin.

"Austin has a diverse and robust tech ecosystem, but if the economy turns and it continues to impact the tech industry, obviously Austin will be impacted," said Thom Singer, CEO of the Austin Technology Council. "Austin does not stand alone."

What has changed over the last few years is competition, according to Singer. He pinned the dip in the flow of companies into Austin on the fact there are a lot of other metros in the game.

"There are a lot of other cities trying to attract tech workers or tech companies. It's no longer Austin as an alternative to Silicon Valley. It's 15 cities that are a competition to Silicon Valley," he said. "The last five years Austin has seen amazing growth both in companies and individuals relocating here. ... That pace can't be continued forever. That's the norm of economics. We're going to have years that are better or stronger."

Despite that, Singer said there are many reasons for encouragement. Austin has the infrastructure to support the tech industry in place. What he is working on fortifying is what he called the secret weapon: having that community, collaboration and conversation within the industry.

"I'm bullish on the future of Austin, and the Austin Technology Council is working hard to bring the voices together to navigate whatever is ahead — good years and bad years," he said.

Ed Latson, CEO of the Austin Regional Manufacturers Association, said the local manufacturing sector continues to be strong, based on anecdotal evidence from the group's members and the diversification of manufacturing across industries. But he's preparing for an economic slowdown.

"We're in a great position," Latson said. "We're a very diversified community with a lot of different sectors pushing us forward. Those are electric vehicles and semiconductor and biopharmaceutical and medical supplies. All of those are strong or at least healthy. I don't see that backing off too much in 2023."

However, Latson is concerned about lingering impacts from supply chain shortages on construction of new factories and the actual manufacturing, as well as having enough employees to fill big developments like Tesla. But the Tesla gigafactory, which is said to have already hired 10,000 employees and is busing in employees from as far as Killeen, is operating without a strain on the local workforce. He called that an encouraging sign.

"I see a pathway for us to continue that workforce over this next year without too much strain. I think that's a wonderful sign that companies will be able to succeed here now and in the future," Latson said.

## What's up — or down — with housing?

With all the companies coming to Austin, so too have the people. Employees to staff all the new offices and headquarters have been joined by retirees, who have flocked from areas like California for cheaper home prices and a different lifestyle.

The housing market has struggled with supply in recent years, driving more people out to the suburbs where homebuilders can build in bulk. That's driven up prices and led to a push for more density in the region's most populated nodes.

But now it's starting to cool down. In 2022, the median price for a home in the areas set a new annual record of \$503,000, according to the year-end Central Texas Housing Market Report released by the Austin Board of Realtors on Jan. 18. Despite this record, the housing market has begun favoring buyers as sales declined 18% to 33,547 homes sold last year and inventory increased, with homes on the market for 31 days — 11 days more than in 2021.

Ashley Jackson, president of the 2023 Austin Board of Realtors board of directors, said these are signs the market is stabilizing. She said the Austin housing market will always be driven by interest rates, and data released recently by the federal government is encouraging for the long-term health of the housing market.

"Here's what I know about Central Texas, which is that we have housing scarcity — we have it and we've always had it," Jackson said. "What we've had in the shifting market has been a demand shift, and that demand shift tracks with the interest rates. So as interest rates start to stabilize and fall a little bit to where buyers are more comfortable, you're ready to see a return to demand, where our housing conditions are the same as they were a few years ago."

Mateer said that Austin's biggest issue continues to be the fact that it wasn't prepared for the growth it's experiencing. He said that's made it hard to attract the so-called low-skill jobs, such as waiters, where employees might not be able to live on \$18 an hour.

"The big problem Austin has had is it's really expensive, and that's just a function of 40 years of fantastic growth," he said. "That's one of the big issues, the infrastructure in Austin is being built out and is still not what it needs to be. There's no light rail, there's lots of things that could be done to really make Austin a much more attractive place."

Homebuilders are rallying to meet the need, Jackson said, but not even that has been enough to meet market demands. What concerns Mark Sprague, state director of information capital at Independence Title, is that he expects home starts to be down drastically in Q1 because of national recession woes. If such a trend continues, Central Texas could find itself again way short on housing, sparking bidding wars and price hikes.

## **More is on the way**

A drive across Williamson County, just north of Austin, is emblematic of the Austin economy over the last few years. Large green fields are being transformed into housing, large factories or data centers.

"The industrial manufacturing construction is probably the most significant I've seen since I've been in Williamson County my entire life," said Williamson County Judge Bill Gravell, who as the county's top elected official is involved in economic development discussions and negotiations.

Where there is concern, he said, is that they are not seeing as many projects in the pipeline. He said it's the lowest he's seen in four years, and it is affecting companies across the board. What he's heard is that earning reports are causing them to be cautious and that high interest rates make it hard to borrow money to fund large projects.

"I think the recession has had a more significant impact in other parts of the country, but it's creating caution here," Gravell said. "They're saying, 'Let's tap on the brakes and slow things down, and see where it goes.'"

Back in November, John Boyd Jr. of site selection firm The Boyd Company, said he is seeing smaller numbers in the world of site selectors. He said the slowdown shouldn't be a surprise given the economy and rising interest rates, adding that a lot of companies have decided to put projects on hold. He said he's surprised that companies were going back and reconsidering cities they skipped on the past, such as cities in Northern Nevada or eastern Washington state. Operating costs can be kept relatively low in places such as those.

"The past 18 months have been incredibly busy. The past few months we've seen a dramatic slowdown, with respect to our data requests," he said.

Despite that, he said that Texas — and the Austin area — would continue to attract companies due to its premier business-friendly climate. He expects Texas to withstand impacts to the economy, due to its in-migration, sheer size and diversity of housing options.

He also said companies in high-growth industries, such as semiconductors and electric vehicles, will continue to do well, due to exogenous factors like governmental support. Much of that industry is housed in Central Texas, with Tesla and Samsung leading the way.

"We've been around for a long time — over five decades. We know that this industry is really cyclical. We are really rooting for the economy to come roaring back hopefully sooner rather than later," Boyd said. "I'm optimistic that the economy will come back. In the meantime, Austin is going to get through this better than most markets."

Basically, if you don't like the Austin economy, just wait another 10 minutes and it will change.