

# The Economic Outlook in 2025: Continued Strong Growth of Haunted by Uncertainty?

Presented to:

Government Finance Officers Association of Texas

October 31, 2024

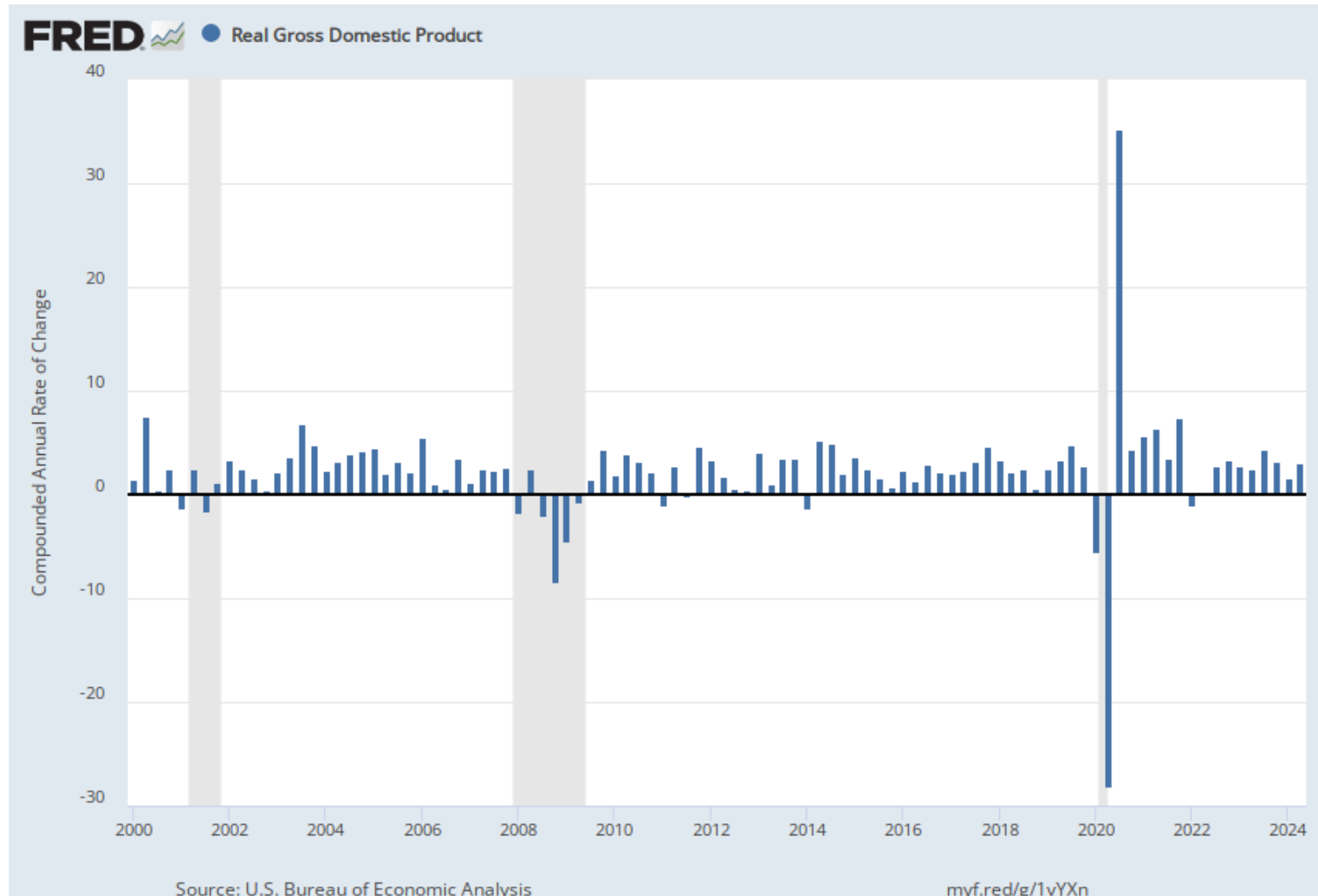
Presented by;

Steve Nivin, Ph.D.

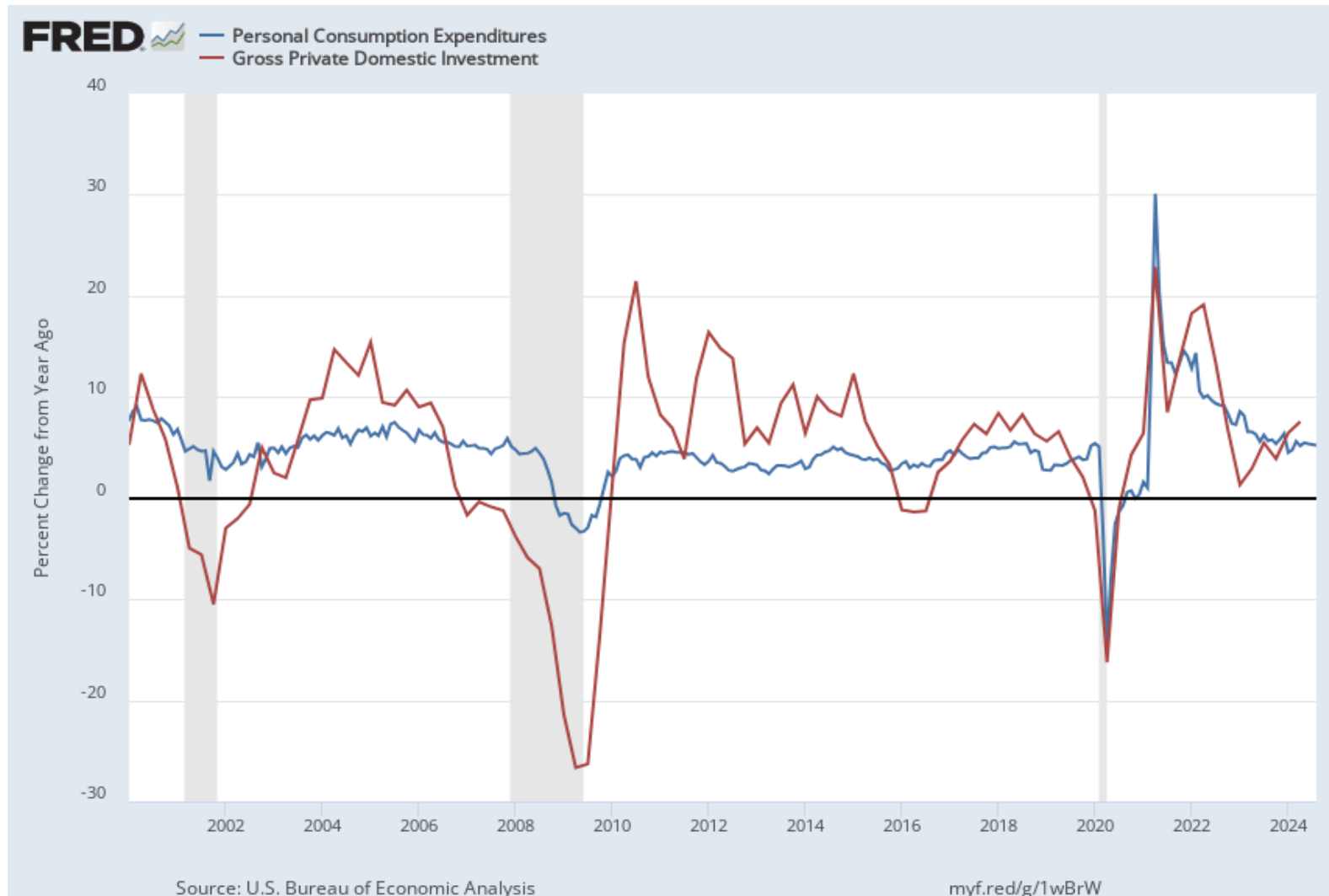
Associate Professor of Economics

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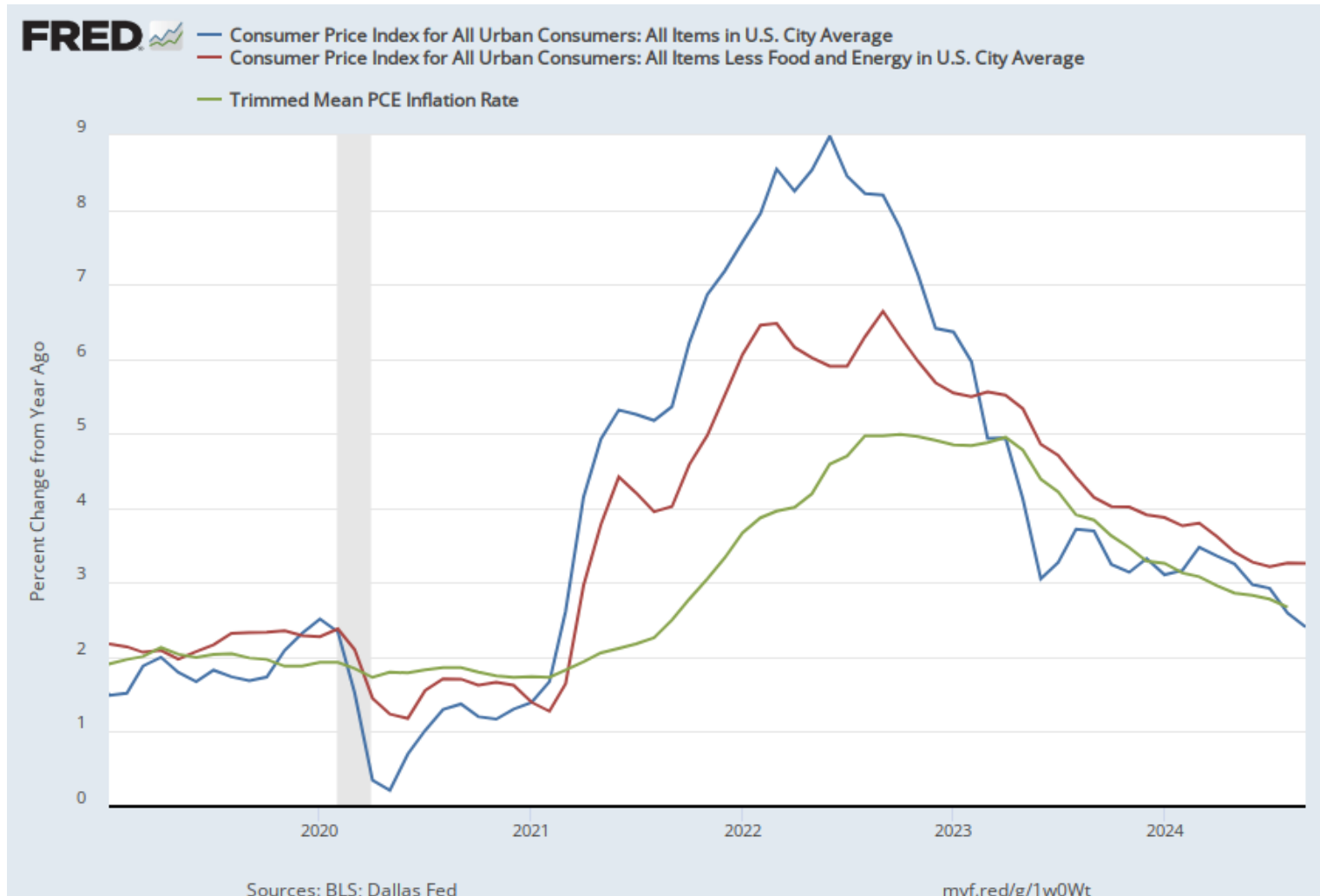
U.S. economy continues to grow strongly with GDP growth of 3.0% in Q2 2024 and average growth since 2022 of 2.3%.



Even with higher prices and reduction in fiscal stimulus, consumer spending and private investment continue to grow.



# Inflation is close to its target rate of 2.0%



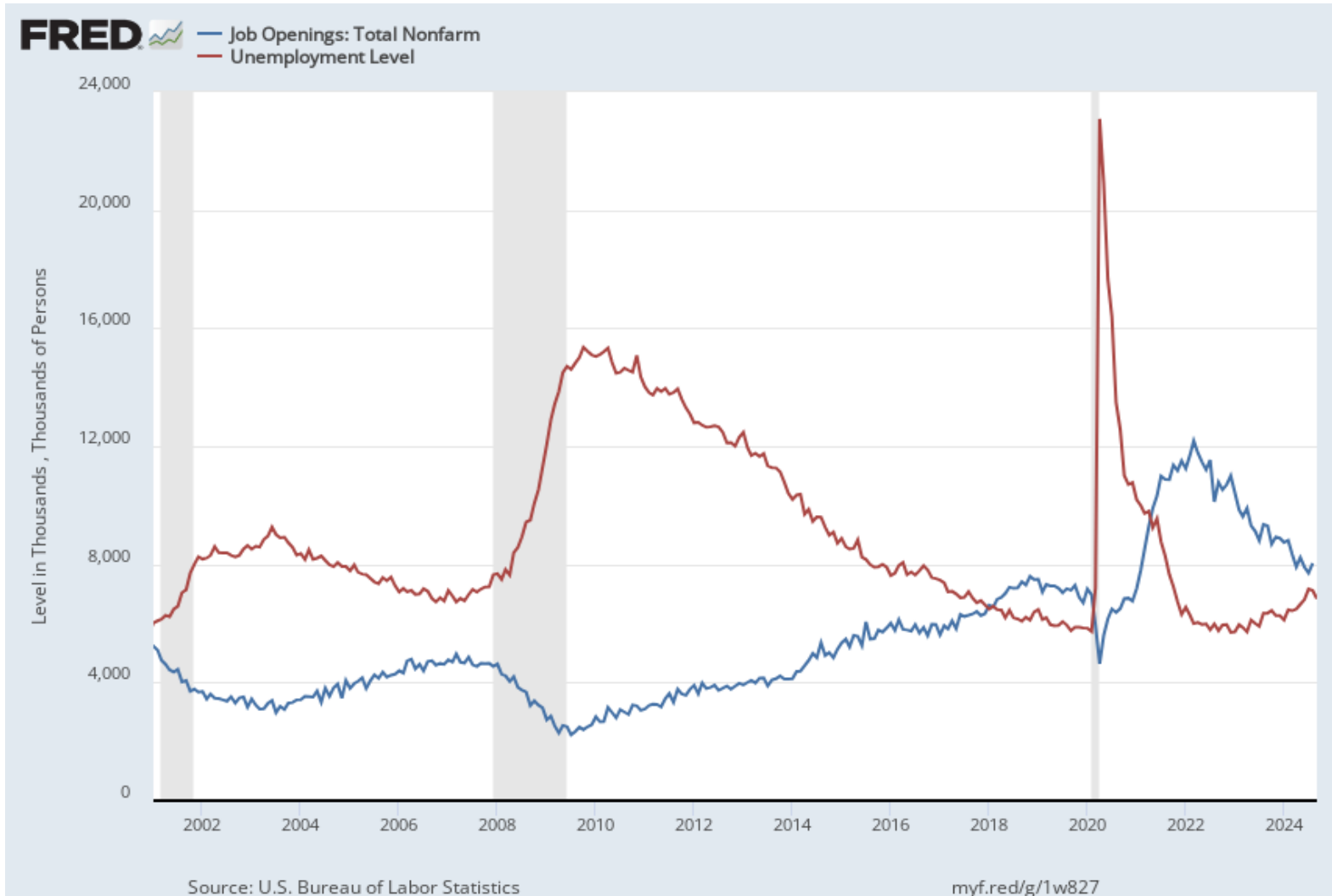
## Inflation Rates

Core CPI (Sept.) = 3.3%

CPI (Sept.) = 2.4%

PCE (Aug.) = 2.7%

Labor market in the U.S. is still pretty tight as the gap between job openings and the unemployment level has shrunk but remains.



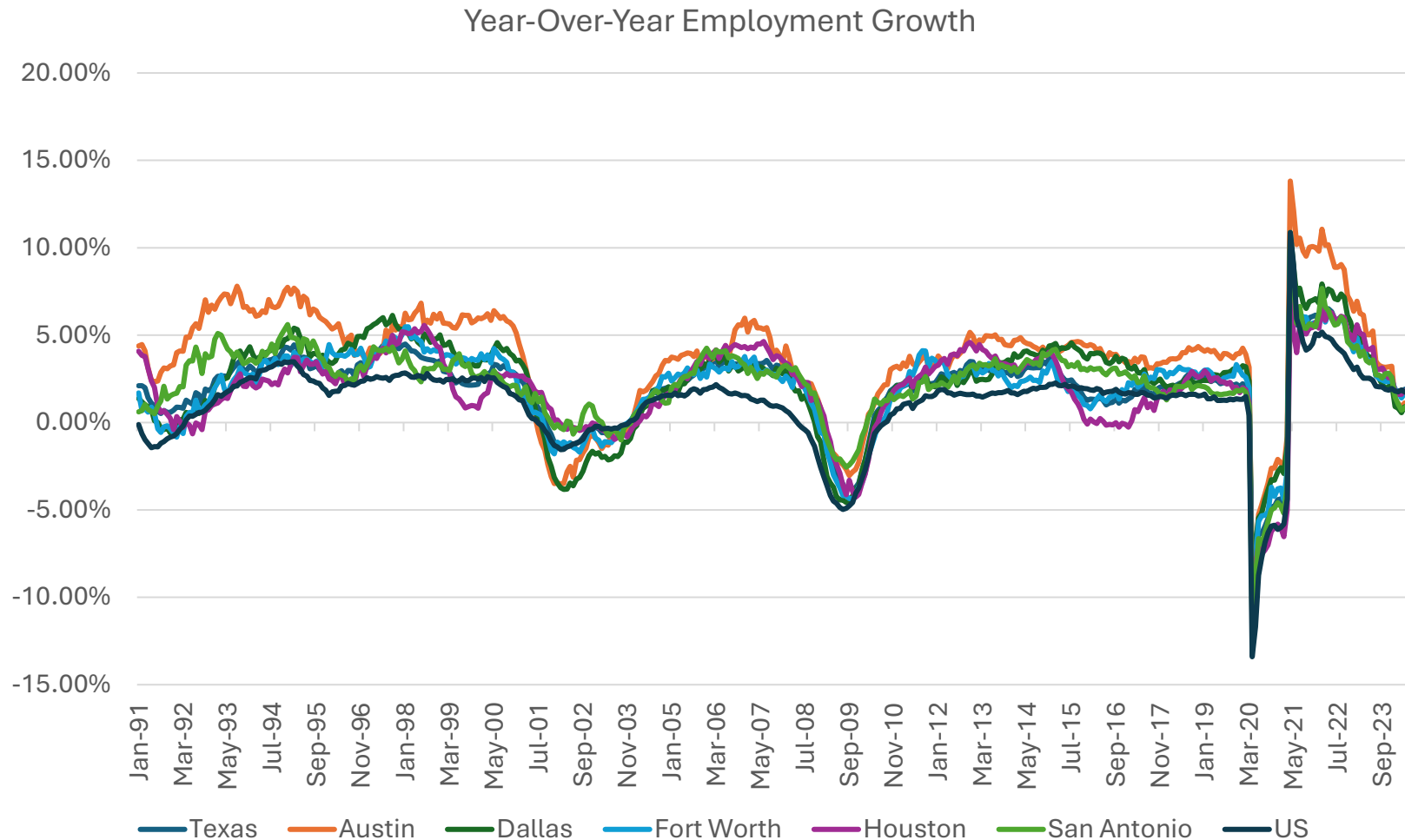
# Immigrants help close some of this gap.

<b>Employment by Occupation as Percent of Total Employed (2023)</b>		
<i>Occupations</i>	<i>Foreign-born</i>	<i>Native-born</i>
Architecture and engineering	2.3	2.2
Life, physical, and social science	1.4	1.1
Healthcare support	4.1	3.0
Food preparation and serving related	6.6	4.7
Building and grounds cleaning and maintenance	7.4	2.5
Personal care and service	3.0	2.5
Farming, fishing, and forestry	1.3	0.5
Construction and extraction	9.7	4.2
Production	6.6	4.8
Transportation and material moving	8.6	7.0

Foreign born. The foreign born are people residing in the United States who were not U.S. citizens at birth. Specifically, they were born outside the United States (or one of its outlying areas such as Guam or Puerto Rico), and neither parent was a U.S. citizen. The foreign-born population includes legally-admitted immigrants, refugees, temporary residents such as students and temporary workers, and undocumented immigrants. The survey data, however, do not separately identify the number of people in these categories.

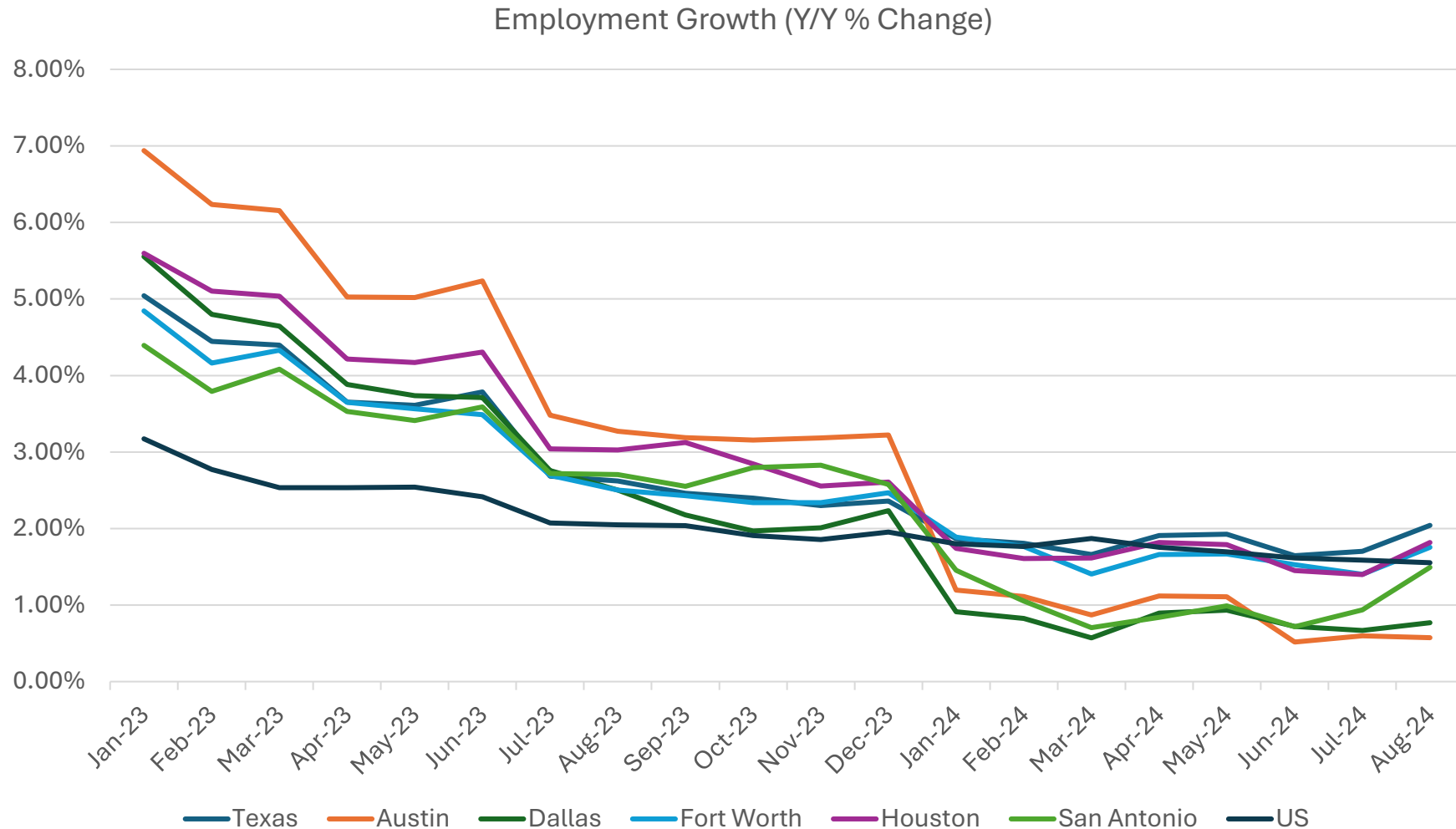
Source: <https://www.bls.gov/news.release/pdf/forbrn.pdf>

# Employment growth in Texas and major metros has declined since 2021.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

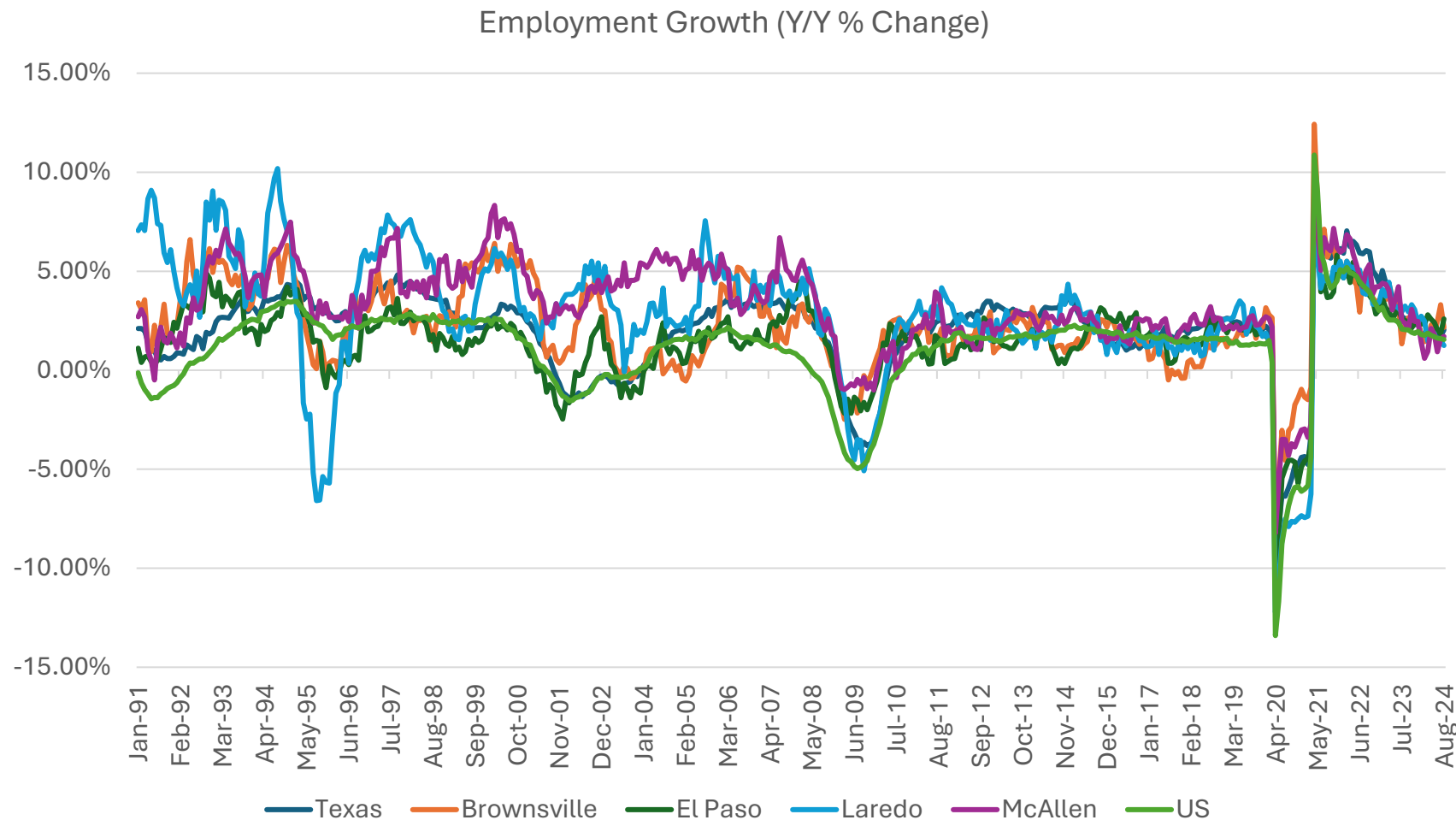
# Growth in Texas, Houston, and Fort Worth exceeds U.S. growth.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

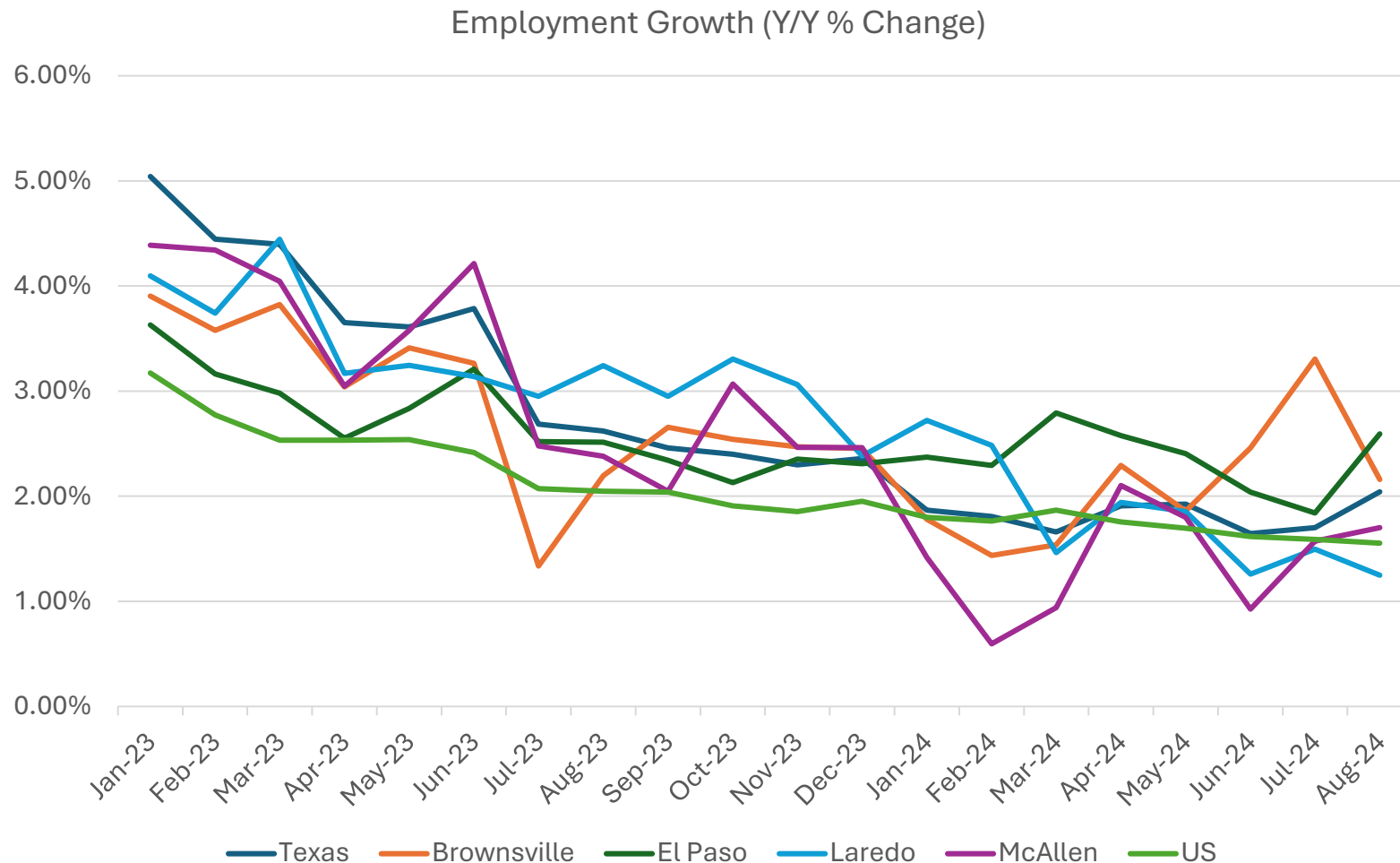


# Employment growth in border metros has followed similar pattern to largest metros in state.



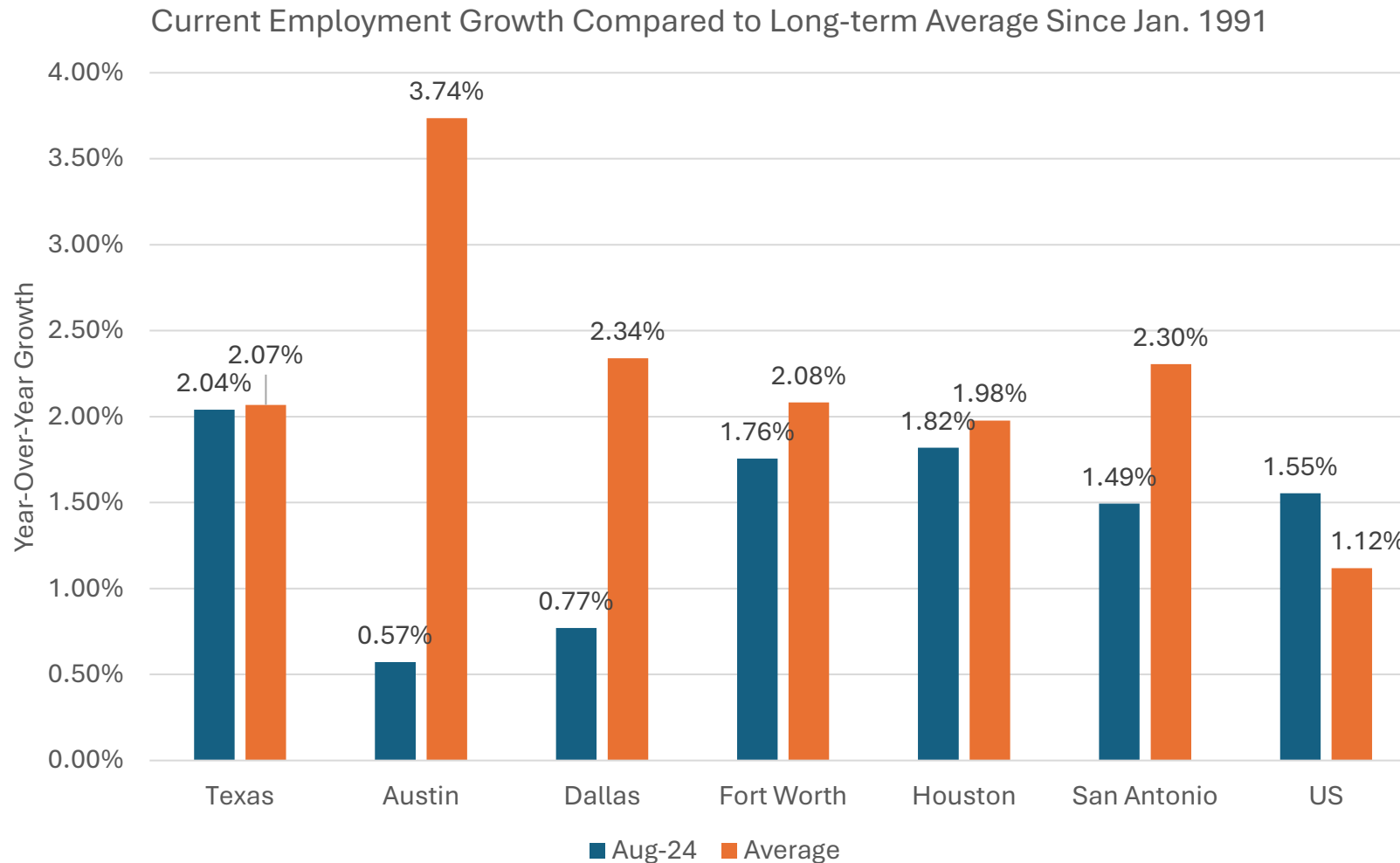
Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

# The decline in growth has not been quite as sharp in the border metro economies.



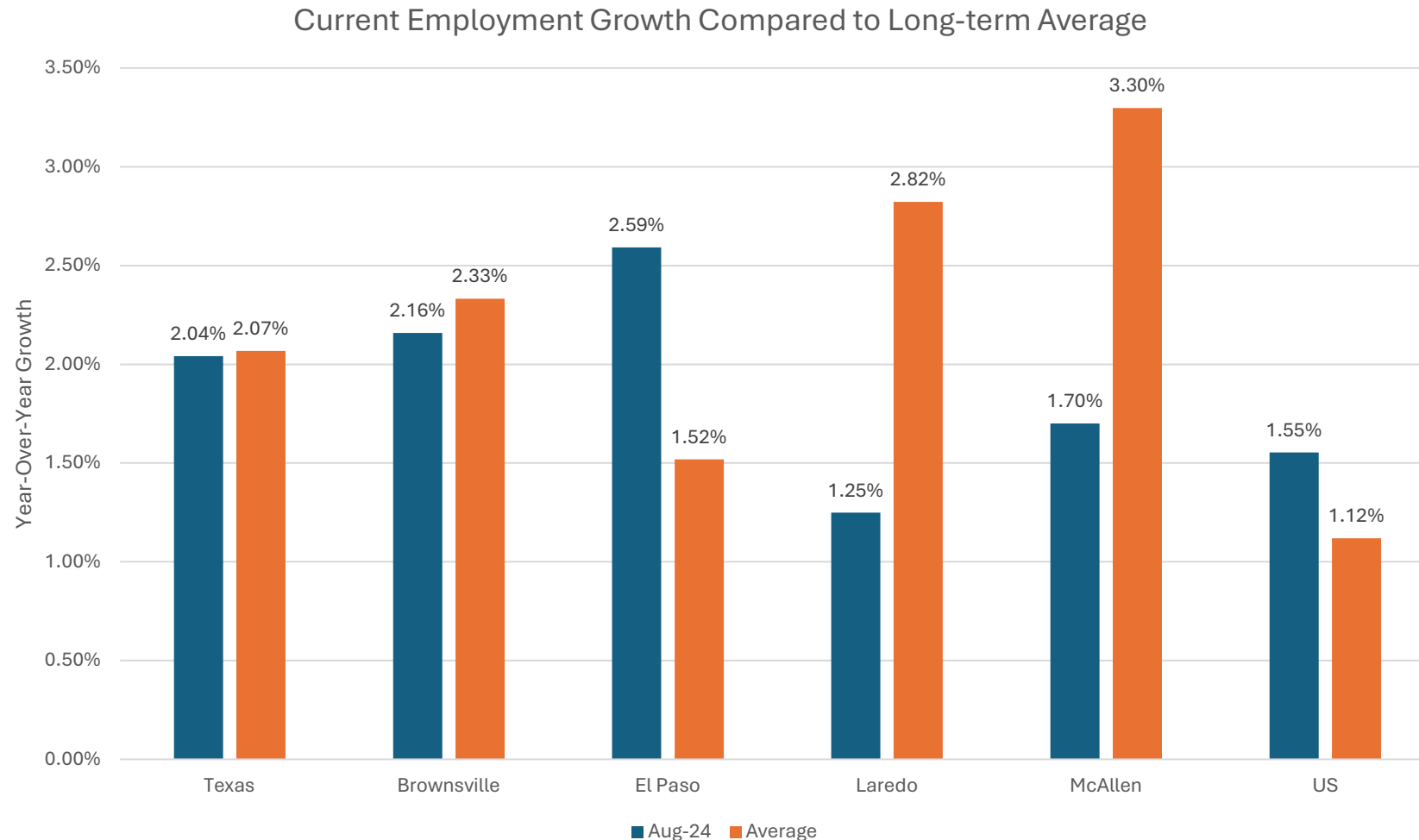
Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

# Current employment growth across largest metro economies is below long-term average growth rates.



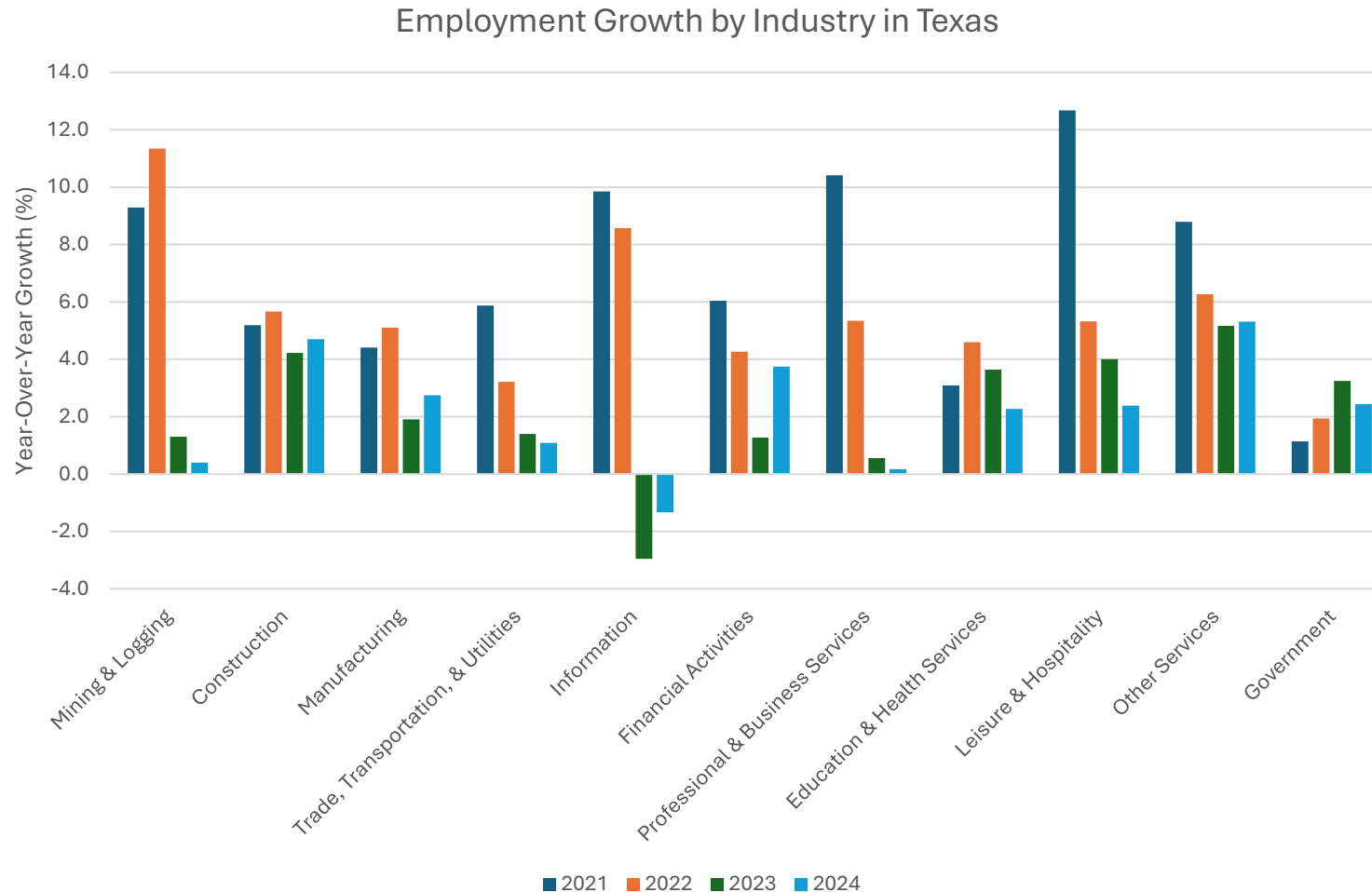
Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

# Employment growth in border economies is also below long-term average except El Paso.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

Since 2021, growth has slowed across all industries in Texas, some industries seeing increased growth rates in 2024.

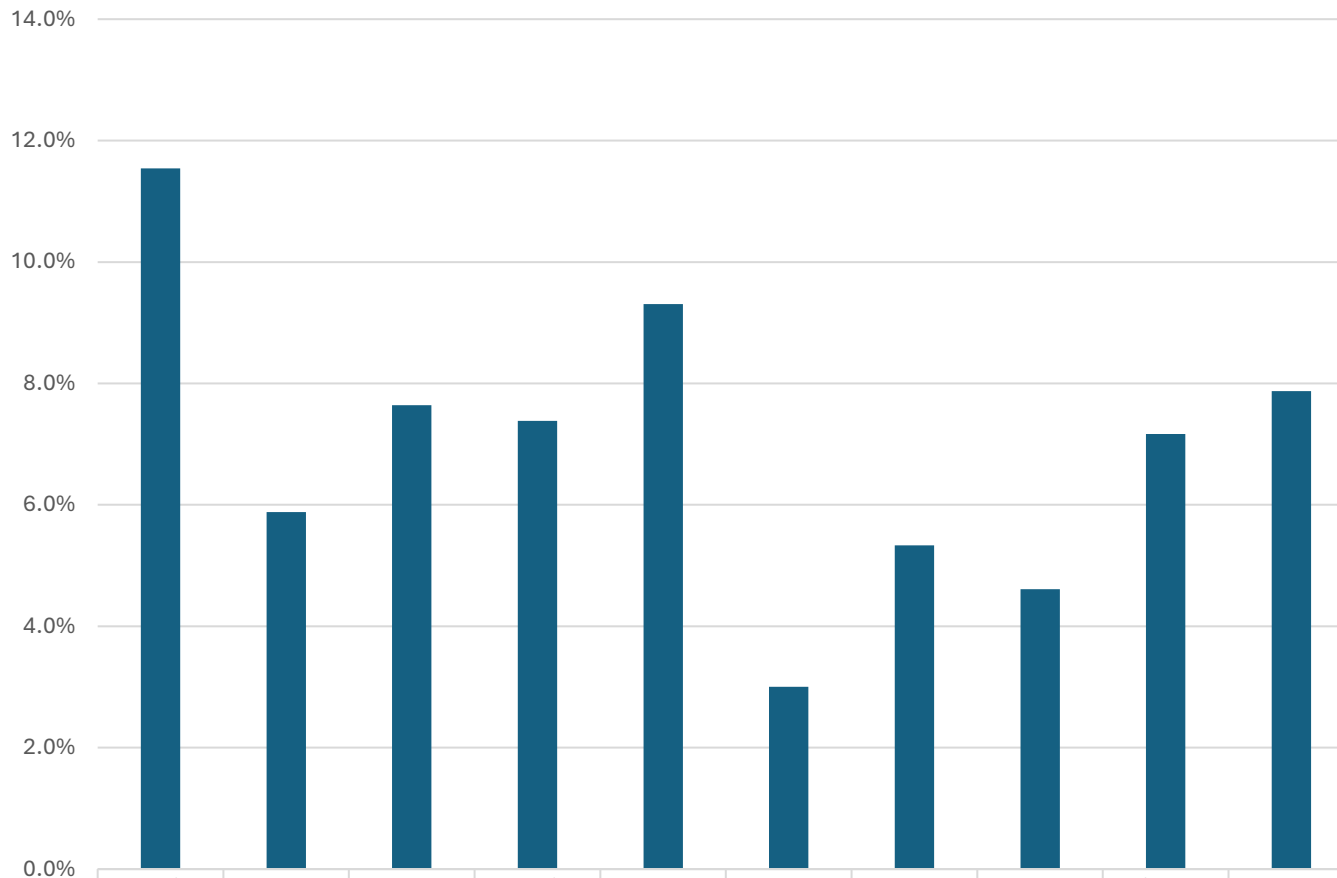


Growth is calculated from December to December for 2021-2023 and from August to August for 2024.

Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

# Population growth will support future economic growth.

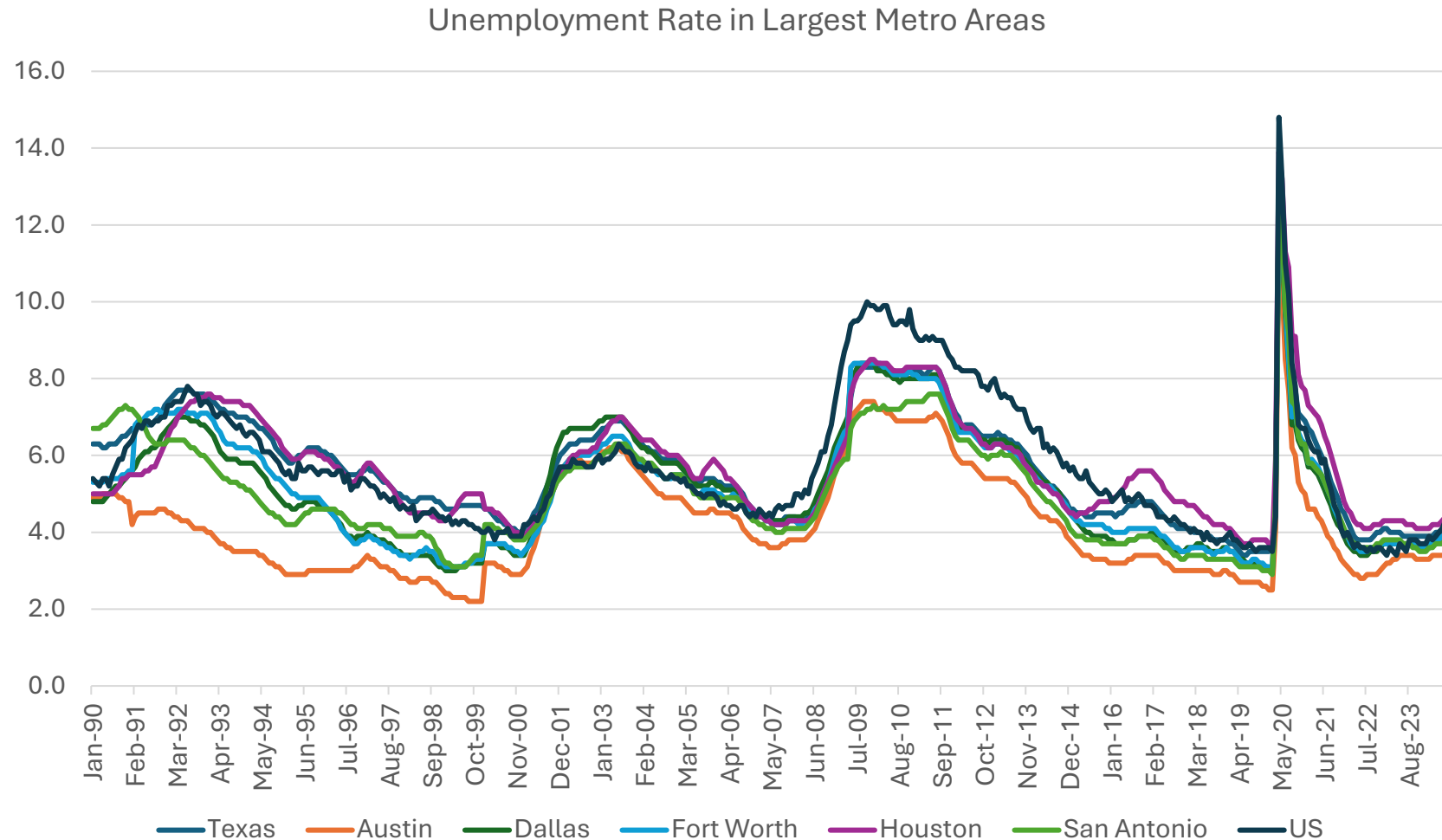
Population Growth 2024-2034



Source: Texas Demographic Center, author's calculations

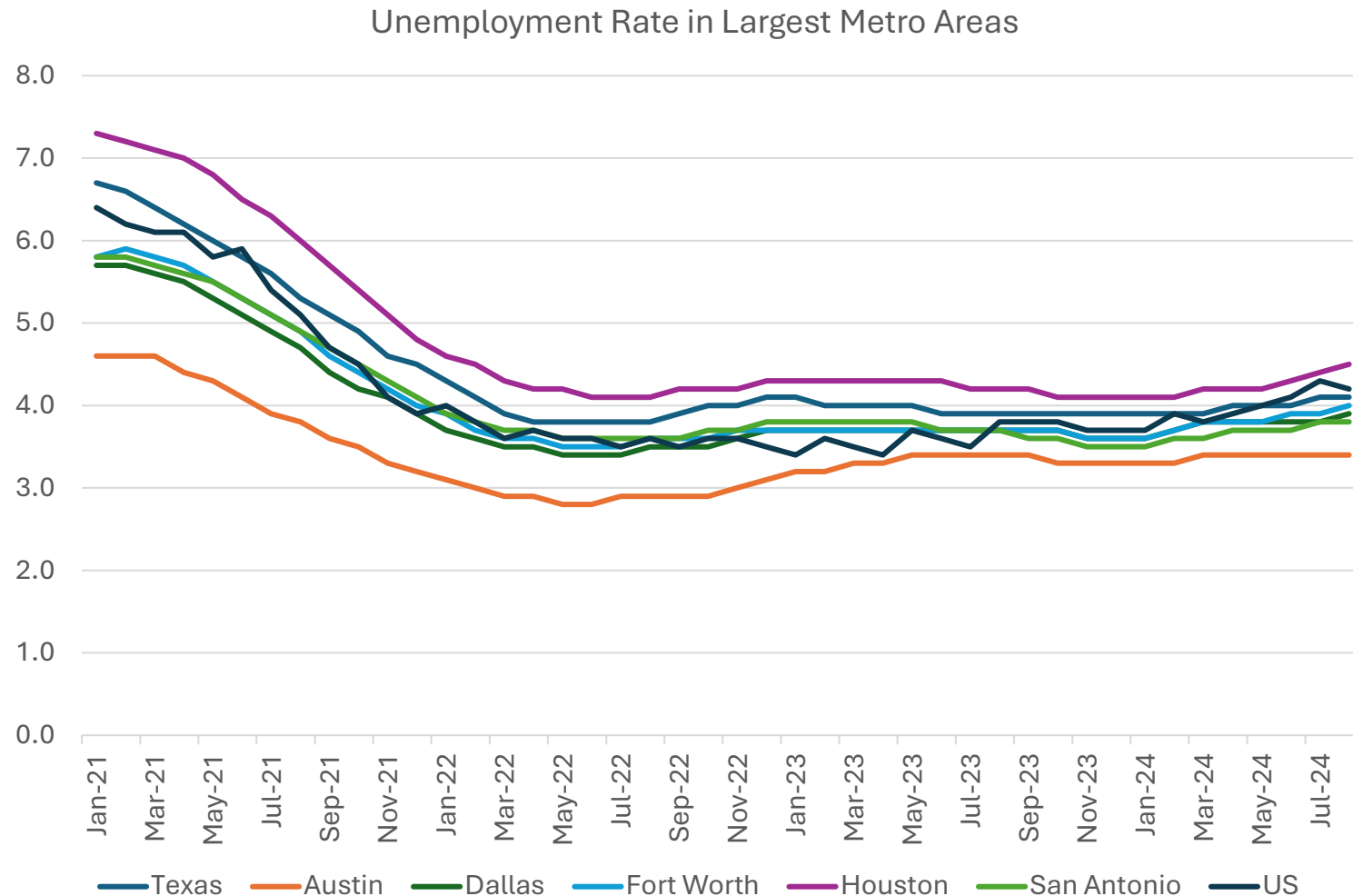
Population Growth 2024-2034	11.5%	5.9%	7.6%	7.4%	9.3%	3.0%	5.3%	4.6%	7.2%	7.9%
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# Unemployment rate in Texas and the largest metro economies fell back to close to 2019 levels.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

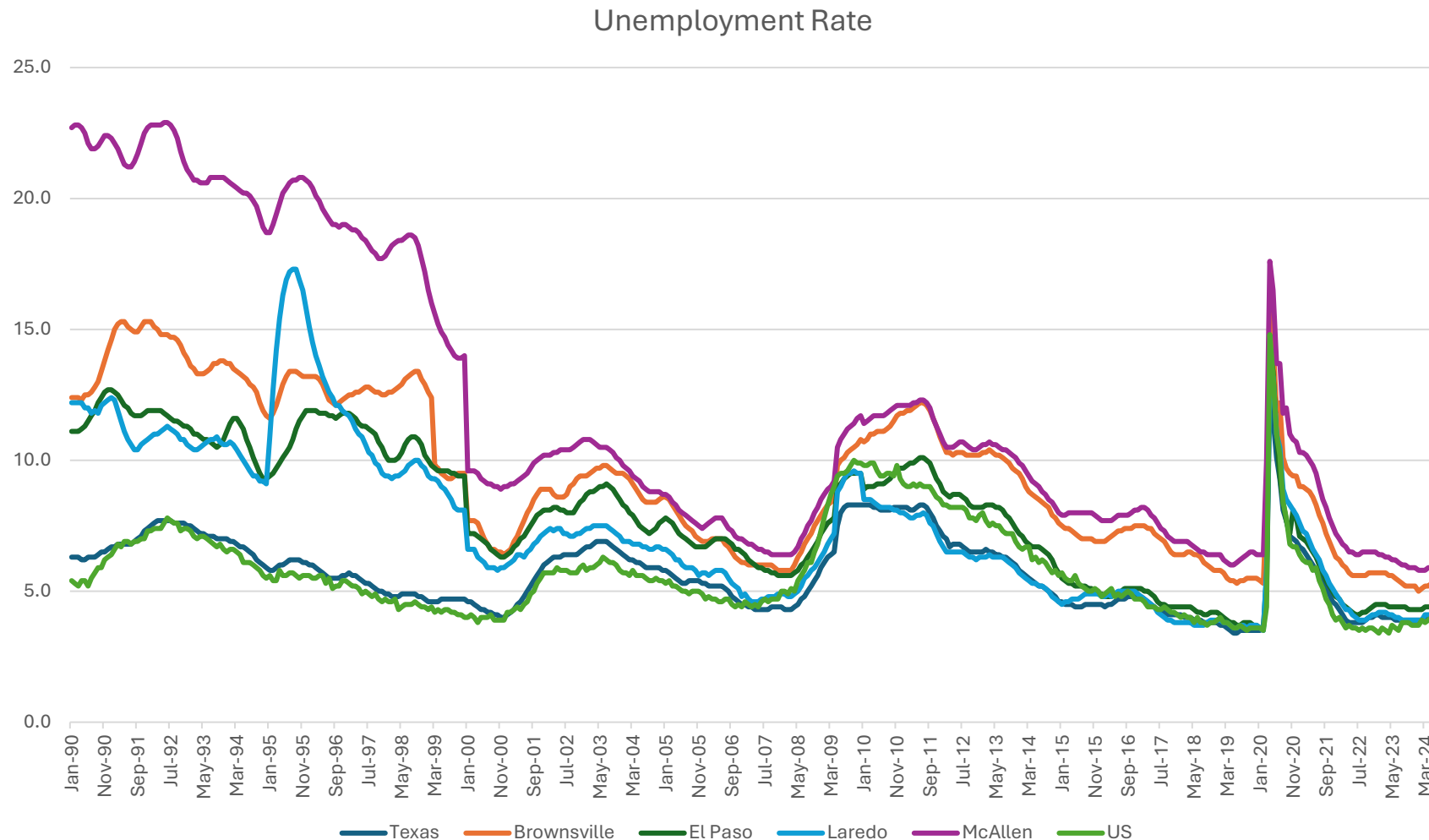
# But they have been increasing in 2024 as growth has slowed and the labor market has softened a bit.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

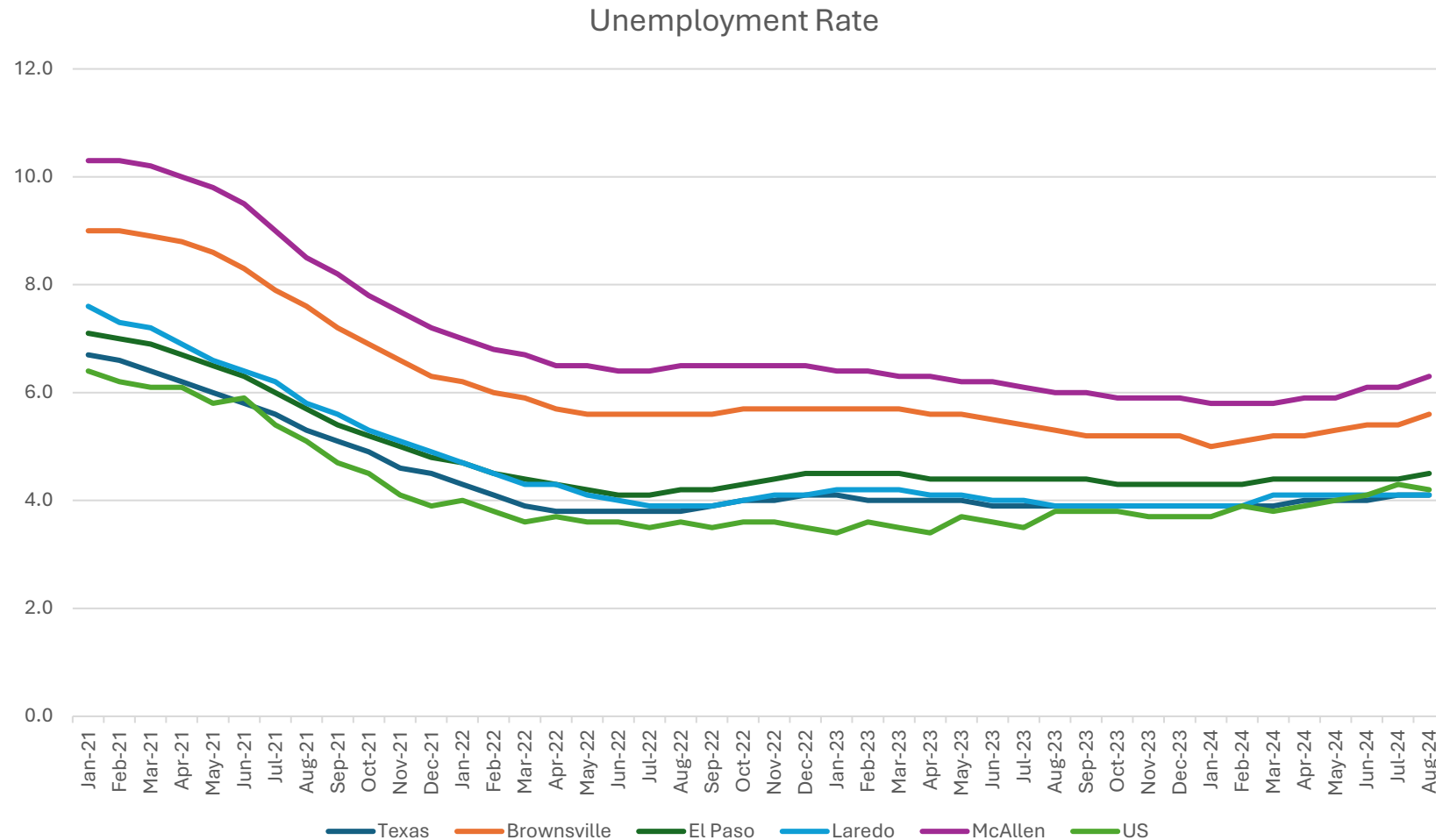


# Unemployment rates in border economies has also receded back to about 2019 levels.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

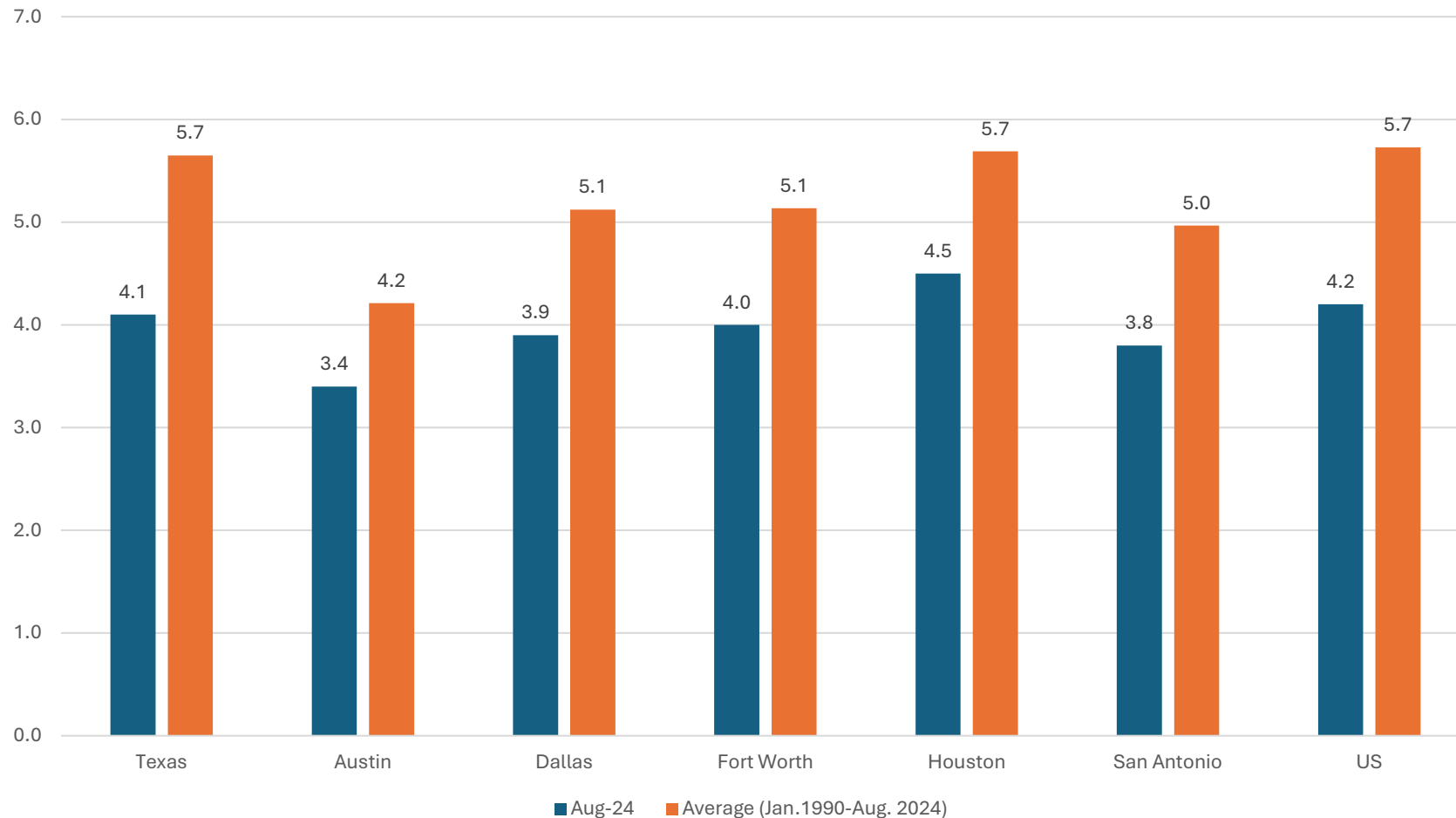
# But unemployment rate has also been increasing in the border economies this year.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

# Unemployment rates are substantially below long-term average rates in Texas and all of the largest metro economies.

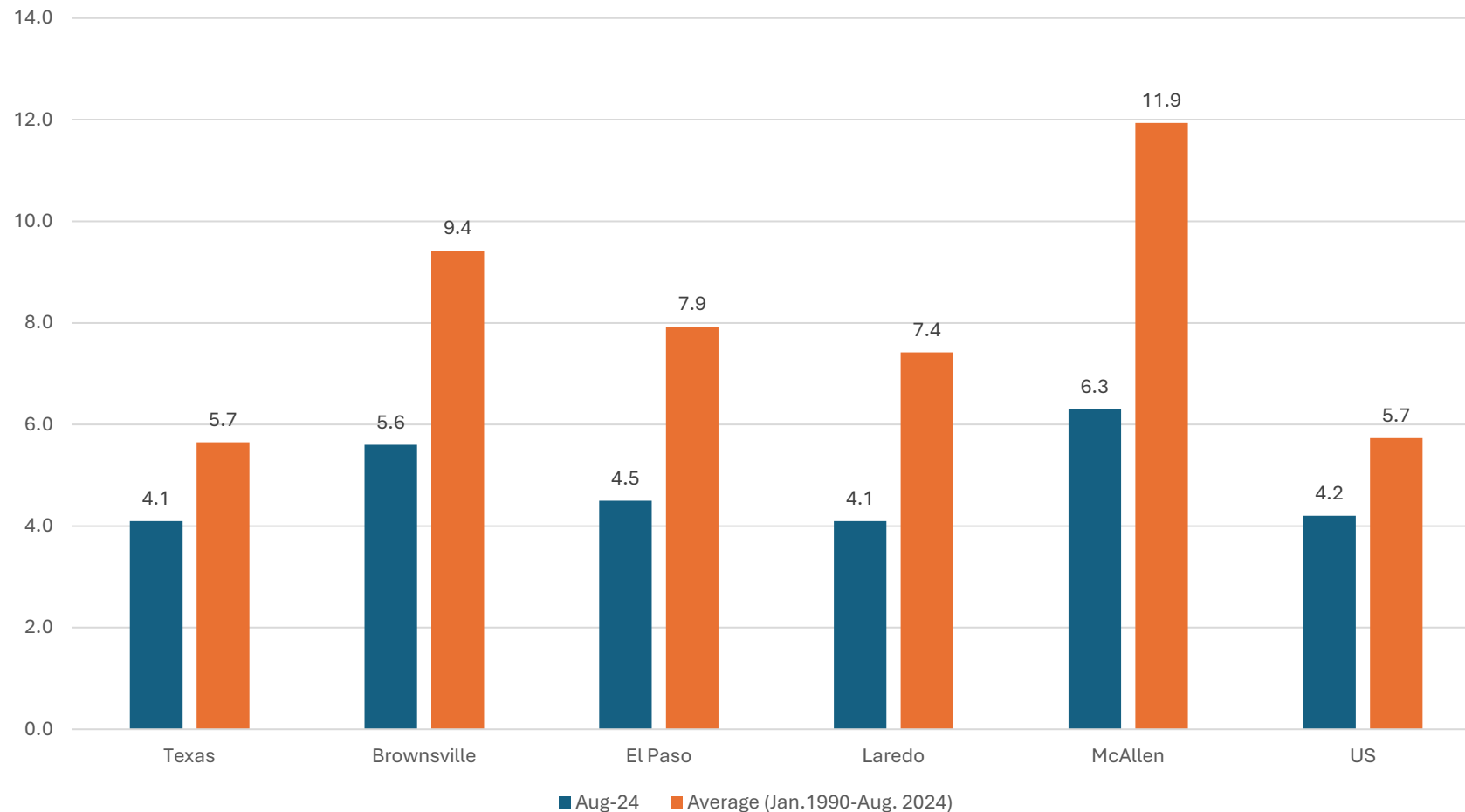
Current Unemployment Rate Compared to Long-term Average



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

# Unemployment rates in border economies almost half their long-term average rates in some areas.

Current Unemployment Rate Compared to Long-term Average



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations.

Climate  
change may  
continue to be  
a drag on  
future  
economic  
growth.

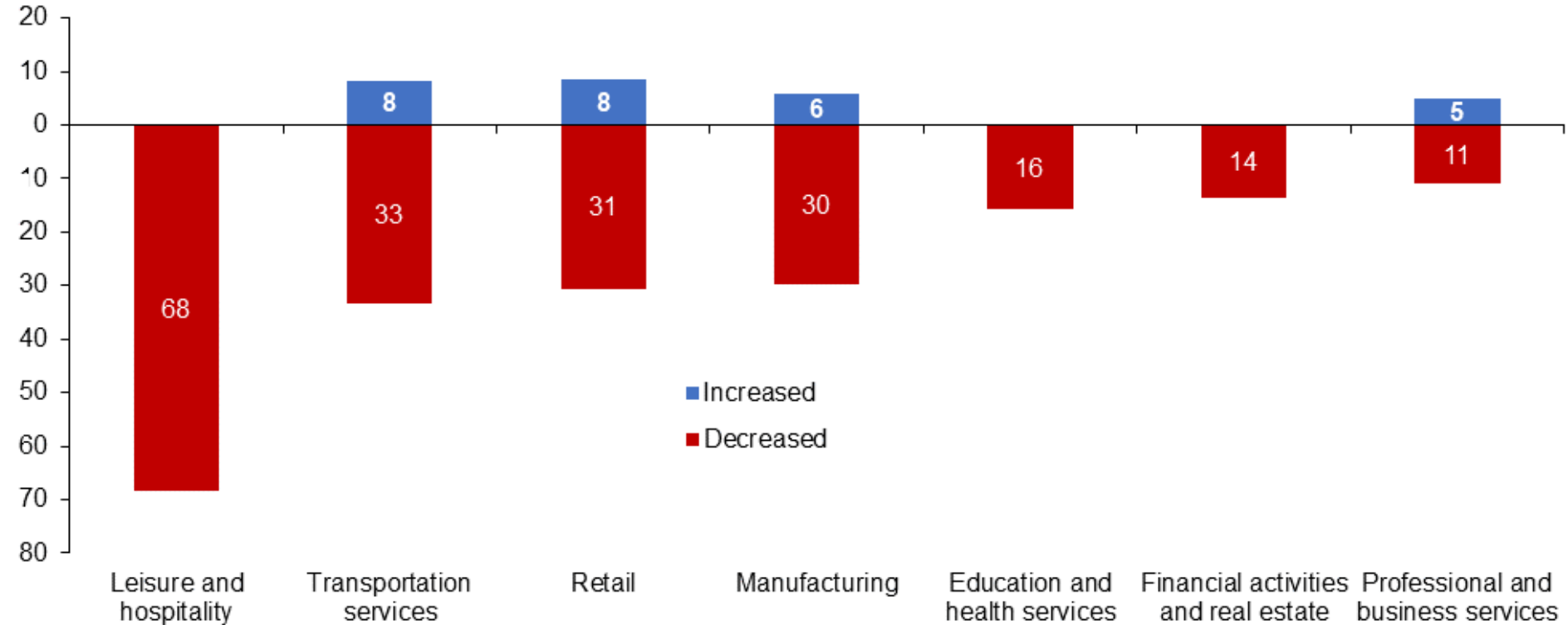
“As climate change intensifies over the next decade, summer heat waves will likely become more common and severe. The effect on Texas GDP growth is likely to be twice as pronounced as in the rest of the U.S. Meanwhile, the effect on job growth will likely be relatively subdued but vary widely across sectors.”

“With this year’s [2023] summer temperatures 2.5 degrees above the post-2000 average, estimates for Texas suggest, all else equal, the **summer heat could have reduced annual nominal GDP growth by 1 percentage point for 2023, or about \$24 billion.** Other calculations suggest a somewhat lesser impact of nearly \$10 billion in real (inflation-adjusted) GDP, about 0.5 percent of annual output.”

Source: Jayashankar, A., Kalkunte, P., Kumar, A., & Orrenius, P. (2023, October 18). Hotter summer days heat up Texans but chill the state economy. *Southwest Economy*. <https://www.dallasfed.org/research/swe/2023/swe2309>

**Chart 1**  
**Leisure and hospitality hit hardest by recent heat wave in Texas**

Number of respondents



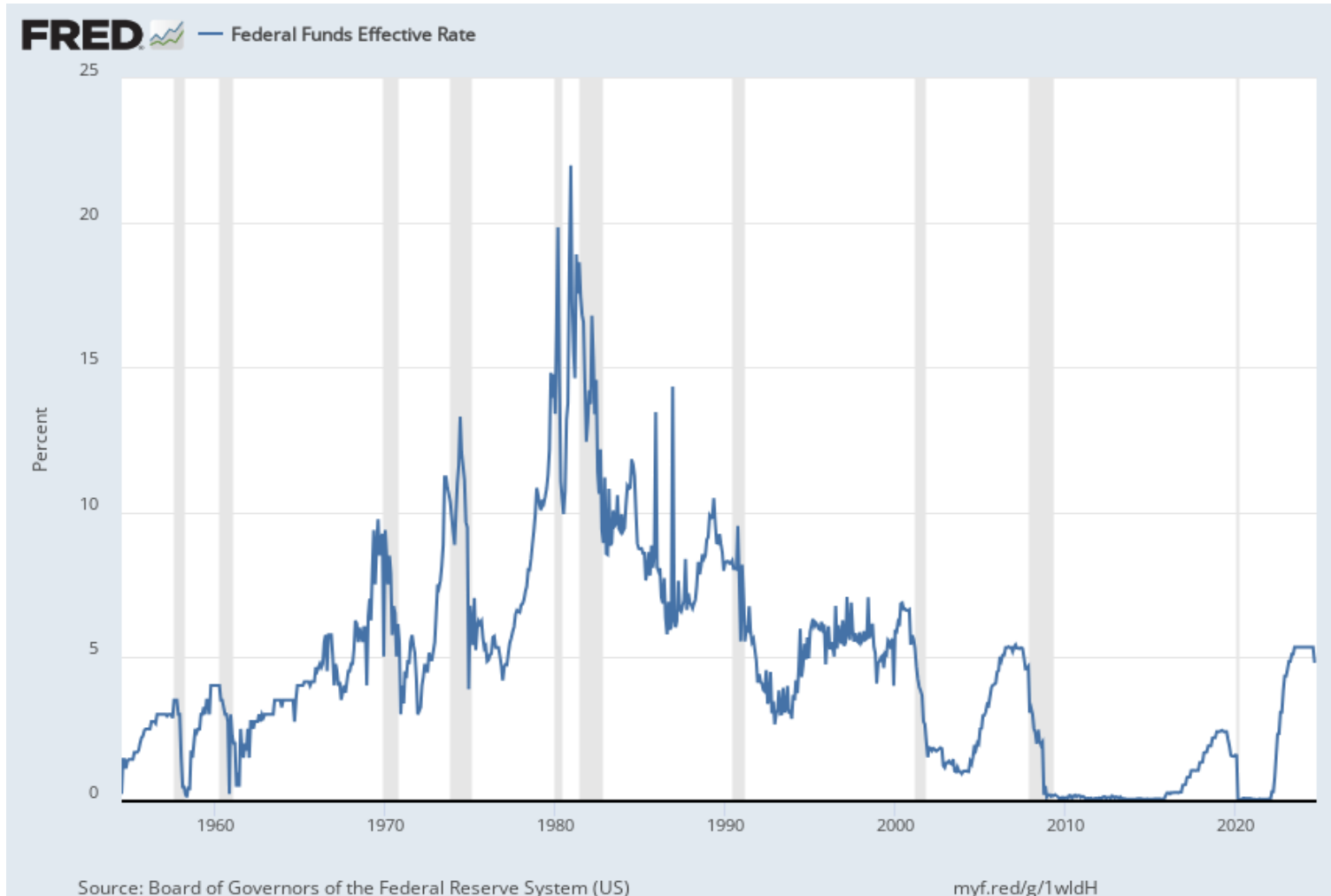
NOTES: Participants were asked, "How has your firm's revenue/production been impacted by the recent heat wave?" N = 346 responses in August 2023.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

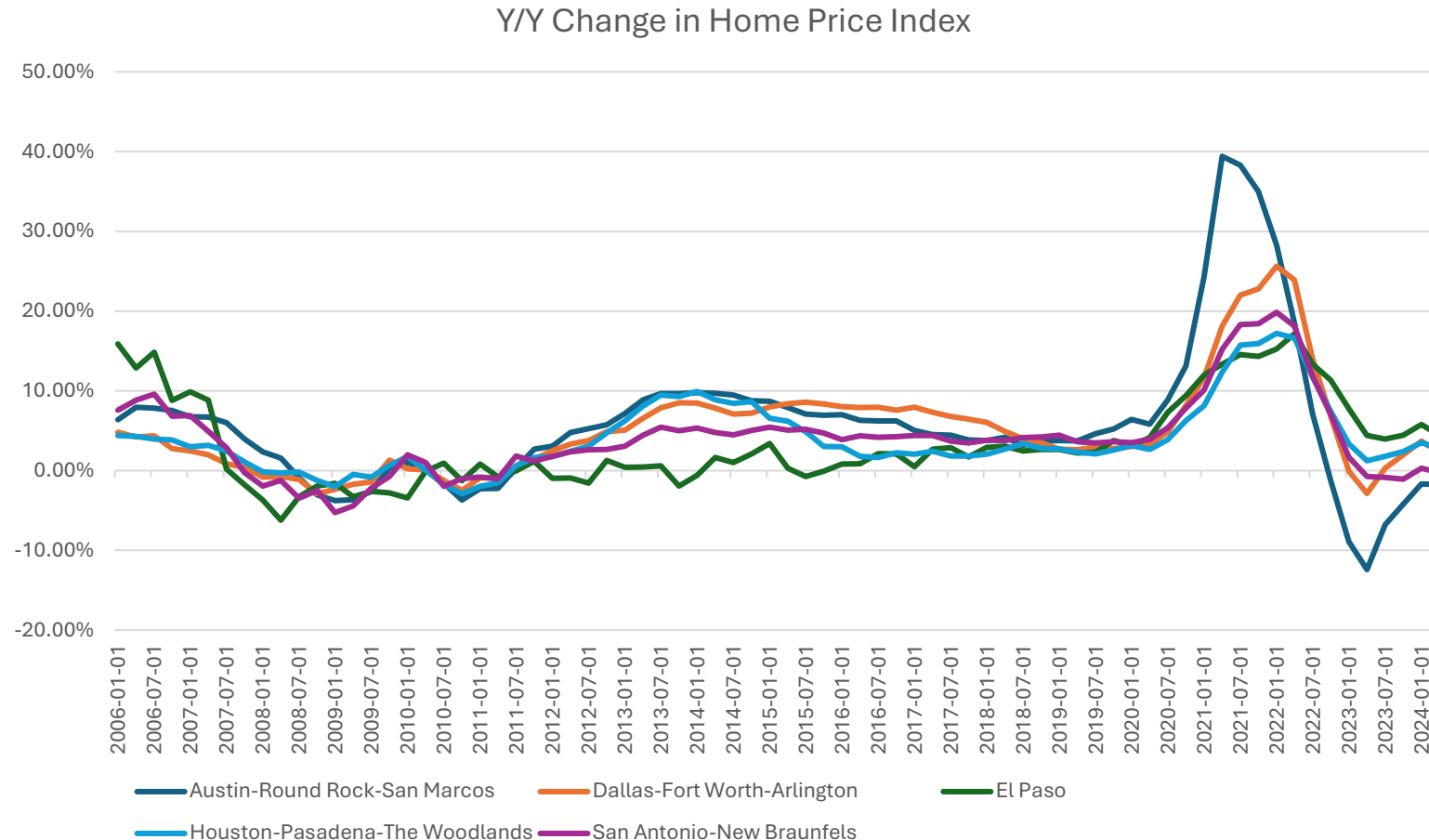
Federal Reserve Bank of Dallas

Source: Jayashankar, A., Kalkunte, P., Kumar, A., & Orrenius, P. (2023, October 18). Hotter summer days heat up Texans but chill the state economy. *Southwest Economy*. <https://www.dallasfed.org/research/swe/2023/swe2309> 22

The scale and speed with which Fed Funds rate was increased in 2022 and 2023 may cause serious issues in the banking sector.



# With increase in interest rates, housing market has softened but still showing some strength.

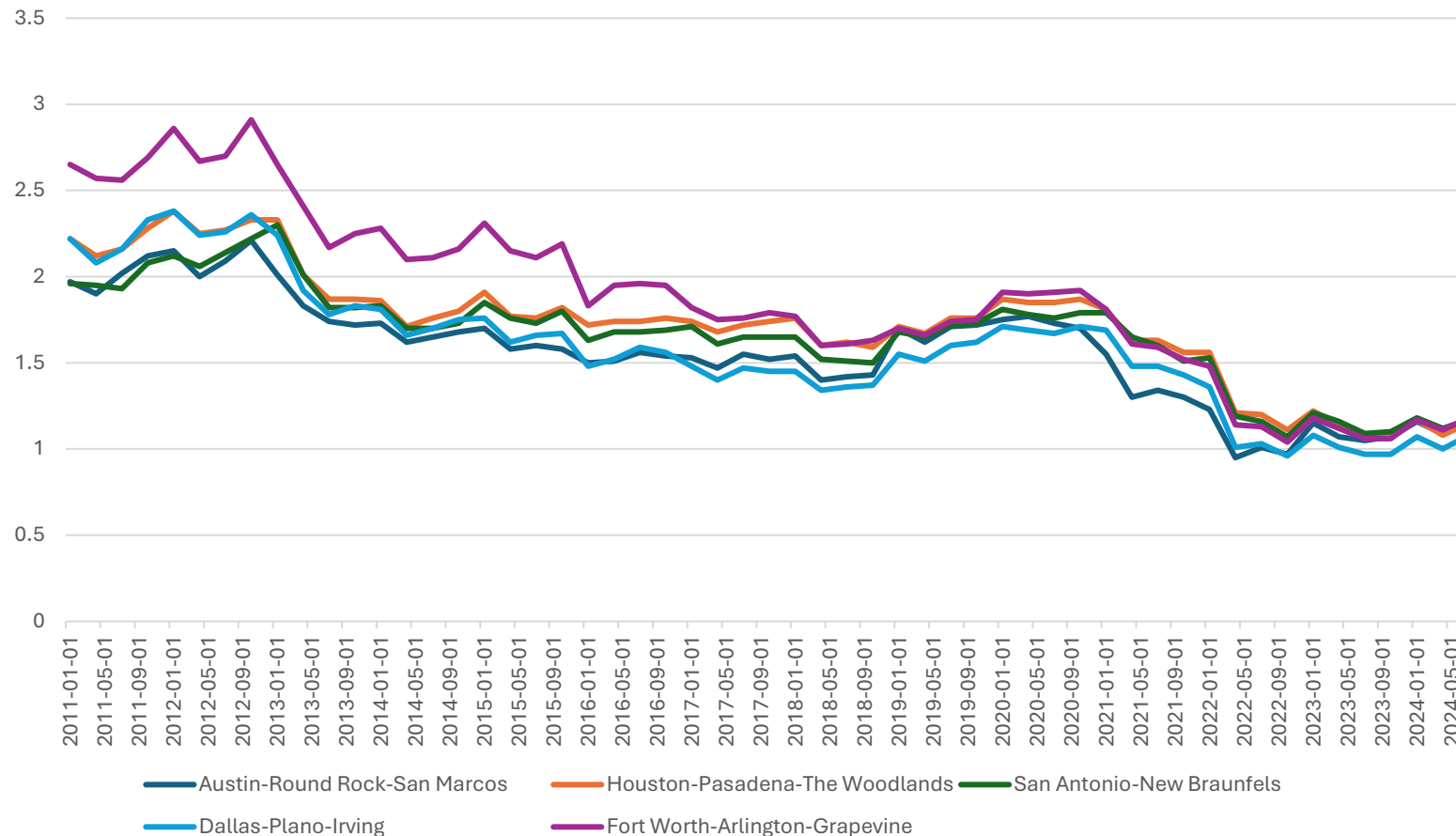


Source: Texas A&M Real Estate Center  
<https://trerc.tamu.edu/data/home-price-index/>



While the HAI is above 1.00 in largest metro economies, affordability has steadily declined and may continue to be a restraint on growth in the housing market.

Housing Affordability Index



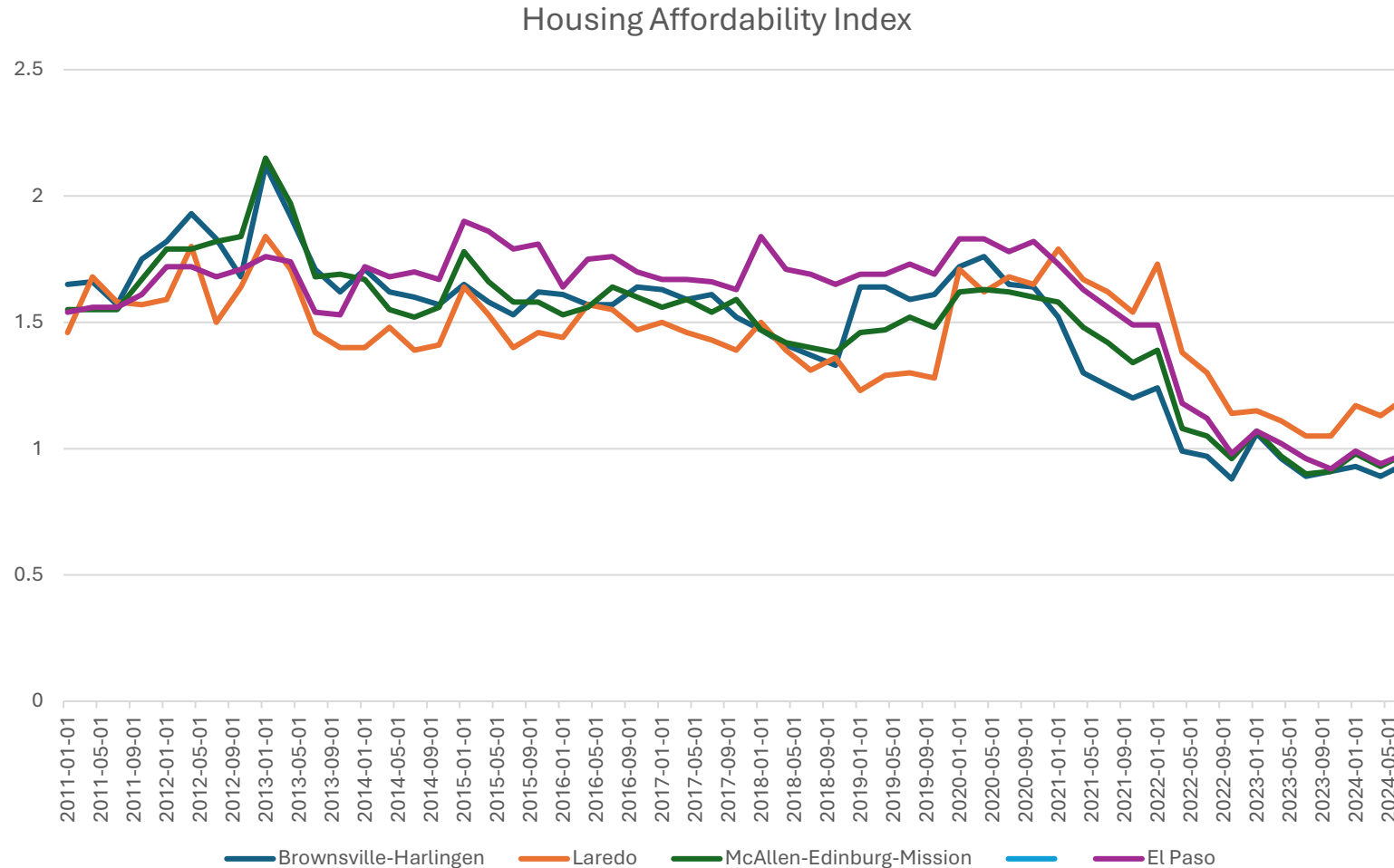
“A ratio of 1.00 means that the median family income (MFI) is exactly sufficient to purchase the median-priced home. A THAI above 1.00 means the MFI exceeds the required income to purchase a median-priced home. Conversely, a THAI below 1.00 indicates the MFI is not sufficient to purchase the median-priced home.”

Assumes 20% down payment and 25% qualifying ratio.

Source: <https://trerc.tamu.edu/wp-content/uploads/files/PDFs/THAIUserGuide.pdf>

Source: Texas A&M Real Estate Center <https://trerc.tamu.edu/data/housing-affordability/>

# Housing has reached levels of unaffordability in all of the border economies except Laredo.



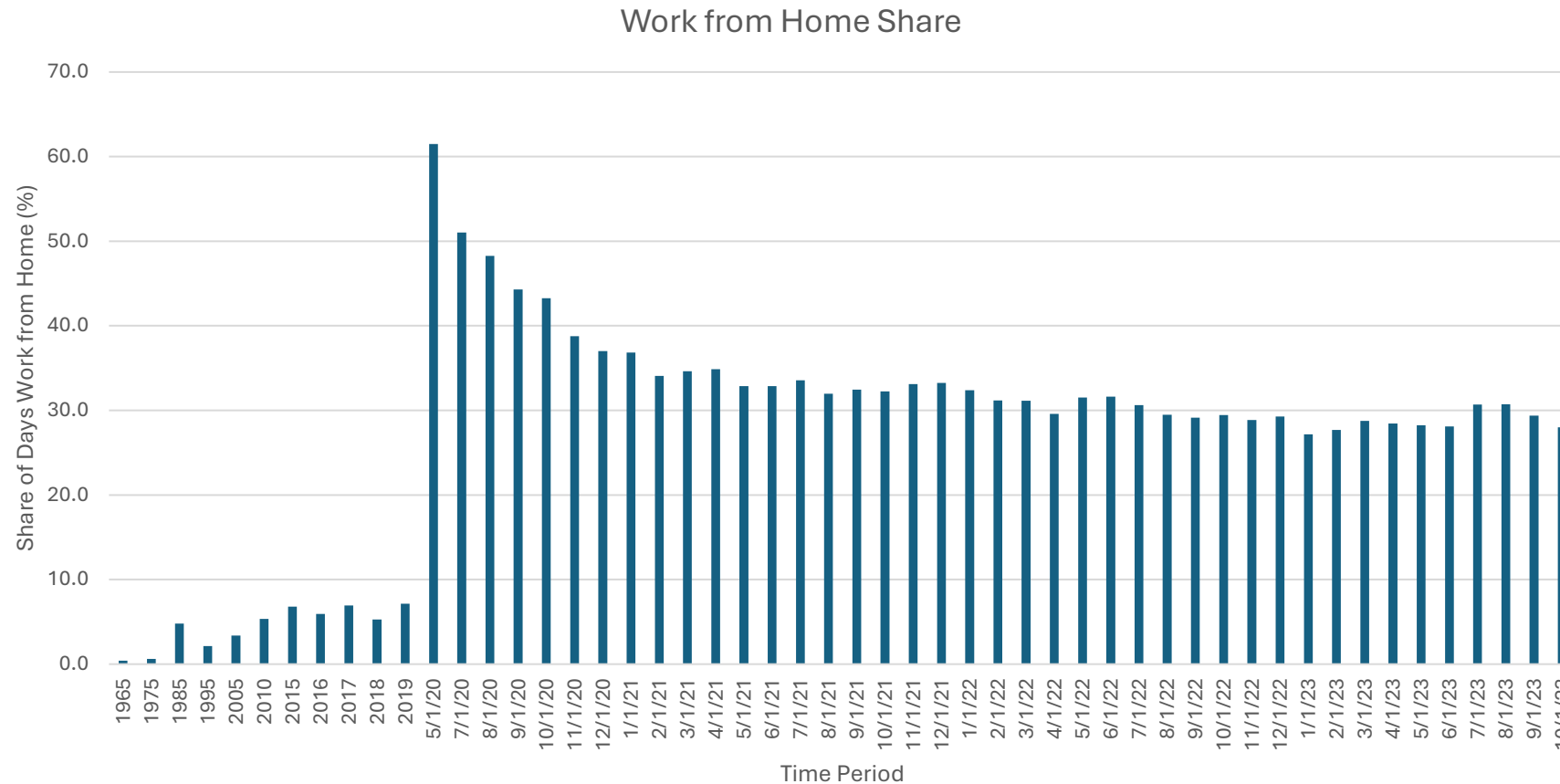
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Assumes 20% down payment and 25% qualifying ratio.

Source:  
<https://trerc.tamu.edu/wp-content/uploads/files/PDFs/THAIUserGuide.pdf>

Source: Texas A&M Real Estate Center  
<https://trerc.tamu.edu/data/housing-affordability/>

# Work from home trends are likely to continue.



Why work from home may persist?

- 1) Long-term trend accelerated by technology
- 2) Business cohort effects
  - “75 percent of startups allow...flexible working locations.”
  - “Today’s new companies have nearly twice as many days worked from home as those founded 20 years ago.”\*\*

Source:

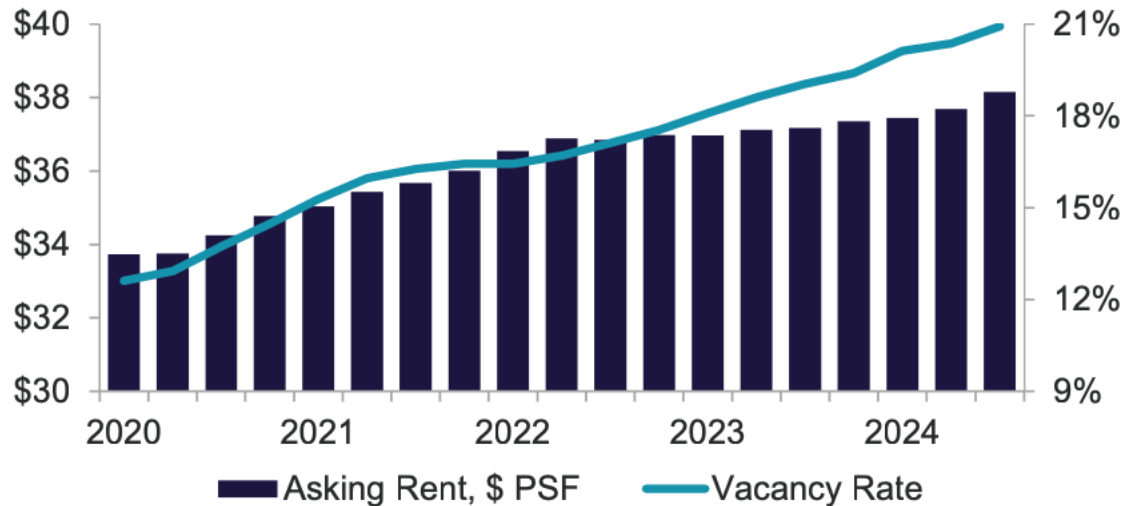
Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Source:

<https://www.nytimes.com/2023/10/16/opinion/office-work-home-remote.html>

# Is there a bubble in the commercial real estate market?

## OVERALL VACANCY & ASKING RENT



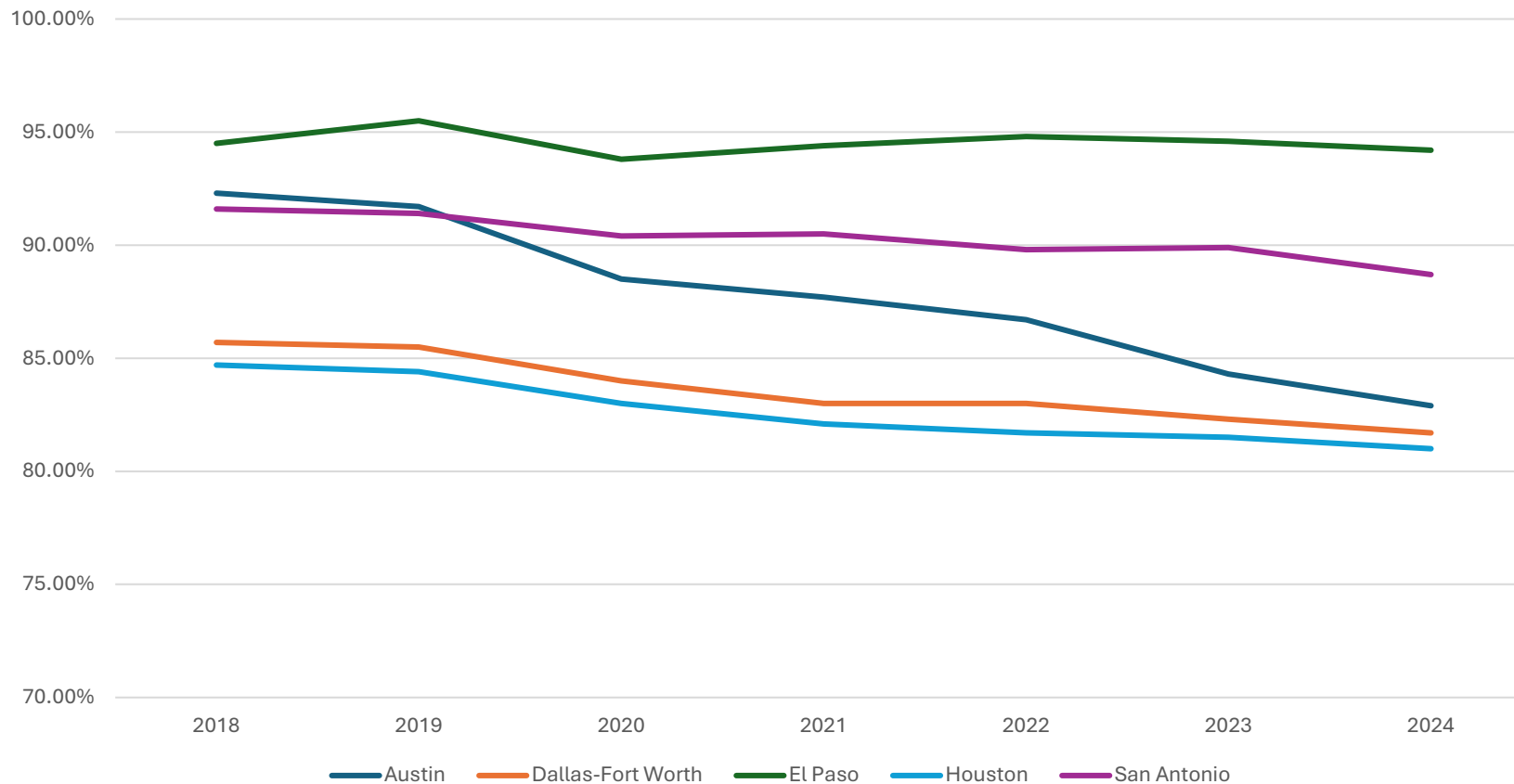
Source: Cushman & Wakefield  
<https://cw-gbl-gws-prod.azureedge.net/-/media/cw/marketbeat-pdfs/2024/q3/us-reports/national/q3-2024-office-marketbeat.pdf?rev=8db95a99910f4f87aeb2ca74ec335626>

Vacancy Rates					
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024p
Austin	26.0%	27.4%	28.0%	28.9%	29.8%
Dallas	22.2%	22.9%	23.9%	24.9%	25.6%
El Paso	10.4%	10.7%	10.9%	11.8%	11.6%
Fort Worth	11.7%	12.1%	12.3%	13.2%	13.5%
Houston	24.0%	25.2%	25.3%	25.6%	25.8%
San Antonio	16.7%	16.4%	16.1%	16.4%	16.7%

Asking Rents					
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024p
Austin	\$46.82	\$47.08	\$47.41	\$47.20	\$47.19
Dallas	\$31.00	\$31.28	\$31.98	\$32.45	\$32.72
El Paso	\$19.50	\$19.50	\$19.50	\$19.50	\$19.50
Fort Worth	\$27.57	\$27.27	\$27.12	\$26.60	\$26.43
Houston	\$31.37	\$31.39	\$31.30	\$31.29	\$31.07
San Antonio	\$24.40	\$23.33	\$23.54	\$23.71	\$23.91

# Occupancy rates have been declining since 2018, especially in Austin.

Occupancy Rates  
(Source: CoStar)



Occupancy Rates (Source: CoStar)		
	2018	2024
Austin	92.3%	82.9%
Dallas-Fort Worth	85.7%	81.7%
El Paso	94.5%	94.2%
Houston	84.7%	81.0%
San Antonio	91.6%	88.7%

2024 is an estimate.

# Austin and Dallas seem to be most likely markets where a bubble may be developing.

In Austin, 6 million sq ft office space will come on the market in the next few years.

87% of new office space is expected to open vacant.

Proposed additional 3.9 million sq ft of office space.

Source: *The Washington Post*

<https://www.washingtonpost.com/business/2023/10/15/downtown-austin-real-estate-doom-loop/>

Net Absorption (sq. ft.)					
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024p
Austin	-370,398	44,434	150,400	56,801	-114,108
Dallas	-119,810	-1,490,401	-2,469,091	-1,118,590	-1,114,409
El Paso	106,350	216,741	260,964	-198,256	76,525
Fort Worth	67,424	-83,381	-37,406	-159,836	-47,189
Houston	-124,263	-387,780	-614,565	-613,764	-218,797
San Antonio	-50,752	340,988	-151,477	-97,819	-171,477

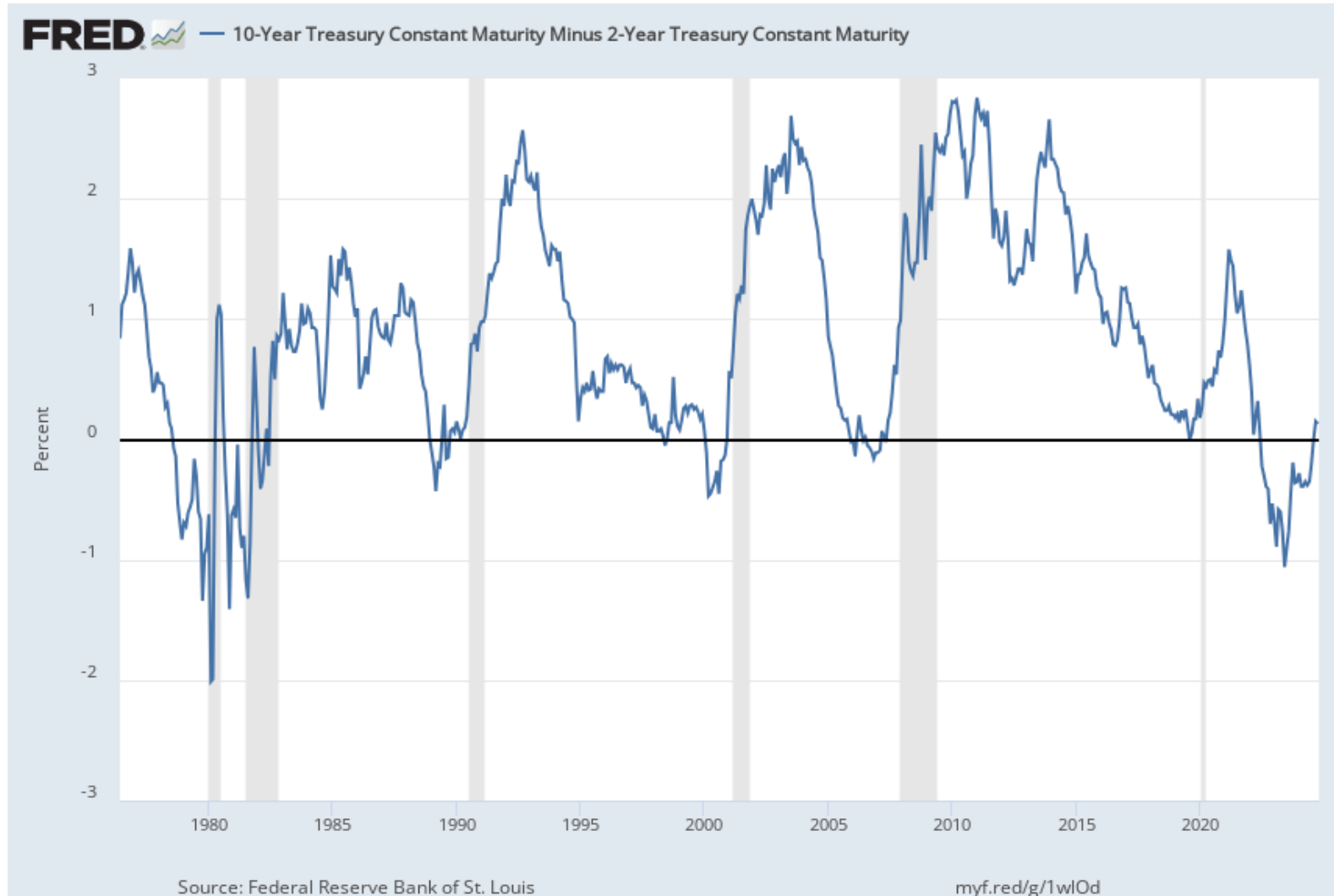
Under Construction		
	Deliveries 2024 YTD (sq. ft.)	Under Construction (sq. ft.)
Austin	2,830,651	2,183,464
Dallas	1,734,238	2,854,507
El Paso	54,662	140,020
Fort Worth	0	132,222
Houston	386,323	492,345
San Antonio	265,700	182,000

Note. Rank is compared to 93 markets

Source: Cushman & Wakefield

<https://cw-gbl-gws-prod.azureedge.net/-/media/cw/marketbeat-pdfs/2024/q3/us-reports/national/q3-2024-office-marketbeat.pdf?rev=8db95a99910f4f87aeb2ca74ec335626>

Recent inversion in the yield curve July 2022 to September 2024 did not result in a recession as is typically the case.



**Table 1.1. Overview of the World Economic Outlook Projections**  
(Percent change, unless noted otherwise)

	2023	Projections		Difference from July 2024 WEO Update <sup>1</sup>		Difference from April 2024 WEO <sup>1</sup>	
		2024	2025	2024	2025	2024	2025
<b>World Output</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Advanced Economies</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>
United States	2.9	2.8	2.2	0.2	0.3	0.1	0.3
Euro Area	0.4	0.8	1.2	-0.1	-0.3	0.0	-0.3
Germany	-0.3	0.0	0.8	-0.2	-0.5	-0.2	-0.5
France	1.1	1.1	1.1	0.2	-0.2	0.4	-0.3
Italy	0.7	0.7	0.8	0.0	-0.1	0.0	0.1
Spain	2.7	2.9	2.1	0.5	0.0	1.0	0.0
Japan	1.7	0.3	1.1	-0.4	0.1	-0.6	0.1
United Kingdom	0.3	1.1	1.5	0.4	0.0	0.6	0.0
Canada	1.2	1.3	2.4	0.0	0.0	0.1	0.1
Other Advanced Economies <sup>2</sup>	1.8	2.1	2.2	0.1	0.0	0.1	-0.2
<b>Emerging Market and Developing Economies</b>	<b>4.4</b>	<b>4.2</b>	<b>4.2</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.0</b>
Emerging and Developing Asia	5.7	5.3	5.0	-0.1	-0.1	0.1	0.1
China	5.2	4.8	4.5	-0.2	0.0	0.2	0.4
India <sup>3</sup>	8.2	7.0	6.5	0.0	0.0	0.2	0.0
Emerging and Developing Europe	3.3	3.2	2.2	0.0	-0.3	0.1	-0.6
Russia	3.6	3.6	1.3	0.4	-0.2	0.4	-0.5
Latin America and the Caribbean	2.2	2.1	2.5	0.3	-0.2	0.2	0.0
Brazil	2.9	3.0	2.2	0.9	-0.2	0.8	0.1
Mexico	3.2	1.5	1.3	-0.7	-0.3	-0.9	-0.1
Middle East and Central Asia	2.1	2.4	3.9	0.0	0.0	-0.4	-0.3
Saudi Arabia	-0.8	1.5	4.6	-0.2	-0.1	-1.1	-1.4
Sub-Saharan Africa	3.6	3.6	4.2	-0.1	0.1	-0.2	0.1
Nigeria	2.9	2.9	3.2	-0.2	0.2	-0.4	0.2
South Africa	0.7	1.1	1.5	0.2	0.3	0.2	0.3
<i>Memorandum</i>							
World Growth Based on Market Exchange Rates	2.8	2.7	2.8	0.0	0.0	0.0	0.1
European Union	0.6	1.1	1.6	-0.1	-0.2	0.0	-0.2
ASEAN-5 <sup>4</sup>	4.0	4.5	4.5	0.1	-0.1	0.1	0.0
Middle East and North Africa	1.9	2.1	4.0	-0.1	0.1	-0.6	-0.2
Emerging Market and Middle-Income Economies	4.4	4.2	4.2	-0.1	0.0	0.1	0.1
Low-Income Developing Countries	4.1	4.0	4.7	-0.2	-0.4	-0.5	-0.4
<b>World Trade Volume (goods and services)</b>	<b>0.8</b>	<b>3.1</b>	<b>3.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
Imports							
Advanced Economies	-0.7	2.1	2.4	-0.3	-0.3	0.1	-0.4
Emerging Market and Developing Economies	3.0	4.6	4.9	0.4	0.1	-0.3	0.8
Exports							
Advanced Economies	1.0	2.5	2.7	-0.1	-0.2	0.0	-0.2
Emerging Market and Developing Economies	0.6	4.6	4.6	0.4	0.5	0.9	0.7
<b>Commodity Prices (US dollars)</b>							
Oil <sup>5</sup>	-16.4	0.9	-10.4	0.1	-4.4	3.4	-4.1
Nonfuel (average based on world commodity import weights)	-5.7	2.9	-0.2	-2.1	-1.8	2.8	0.2
<b>World Consumer Prices<sup>6</sup></b>	<b>6.7</b>	<b>5.8</b>	<b>4.3</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.2</b>
Advanced Economies <sup>7</sup>	4.6	2.6	2.0	-0.1	-0.1	0.0	-0.1
Emerging Market and Developing Economies <sup>6</sup>	8.1	7.9	5.9	-0.1	0.0	-0.3	-0.2

Source: IMF staff estimates.

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 30, 2024–August 27, 2024. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = *World Economic Outlook*.

<sup>1</sup> Difference based on rounded figures for the current, July 2024 WEO Update, and April 2024 WEO forecasts. Global and regional growth figures are based on new purchasing-power-parity weights derived from the recently released 2021 International Comparison Program survey (see Box A2) and are not comparable to the figures reported in the July 2024 WEO Update or the April 2024 WEO.

<sup>2</sup> Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

<sup>3</sup> For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.

<sup>4</sup> Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

<sup>5</sup> Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was \$80.59 in 2023; the assumed price, based on futures markets, is \$81.29 in 2024 and \$72.84 in 2025.

<sup>6</sup> Excludes Venezuela. See the country-specific note for Venezuela in the "Country Notes" section of the Statistical Appendix.

U.S. growth outpaced all advanced economies in 2024 and is projected to do so in 2024 with the exception of Spain.

GDP growth in the U.S. is projected to slow from 2.8% in 2024 to 2.2% in 2025.

In U.S. tariffs will decrease GDP growth from the baseline by 0.4% in 2025 and 0.6% in 2026. Decrease in global GDP growth of 0.8% in 2025 and 1.3% in 2026 (IMF, October 2024, *World Economic Outlook*, pp. 26-27).



# 2025 Economic Forecast

<b>Employment Forecast: 2025</b>						
	<i>Texas</i>	<i>Austin</i>	<i>Dallas</i>	<i>Fort Worth</i>	<i>Houston</i>	<i>San Antonio</i>
August 2024	2.04%	0.57%	0.77%	1.76%	1.82%	1.49%
Long-Term Average	2.07%	3.74%	2.34%	2.08%	1.98%	2.30%
2025 Forecast	1.75-2.25%	3.25-3.75%	2.25-2.50%	1.75-2.25%	1.75-2.25%	2.00-2.50%
	<i>Brownsville</i>	<i>El Paso</i>	<i>Laredo</i>	<i>McAllen</i>		
August 2024	2.16%	2.59%	1.25%	1.70%		
Long-Term Average	2.33%	1.52%	2.82%	3.30%		
2025 Forecast	2.25-2.75%	2.50-3.00%	1.50-2.00%	2.00-2.50%		

<b>Unemployment Rate Forecast: 2025</b>						
	<i>Texas</i>	<i>Austin</i>	<i>Dallas</i>	<i>Fort Worth</i>	<i>Houston</i>	<i>San Antonio</i>
August 2024	4.10%	3.40%	3.90%	4.00%	4.50%	3.80%
Long-Term Average	5.65%	4.21%	5.12%	5.14%	5.69%	4.97%
2025 Forecast	4.20-4.70%	3.50-4.00%	4.00-5.00%	4.00-4.50%	4.50-5.00%	4.00-4.50%
	<i>Brownsville</i>	<i>El Paso</i>	<i>Laredo</i>	<i>McAllen</i>		
August 2024	5.60%	4.50%	4.10%	6.30%		
Long-Term Average	9.42%	7.92%	7.42%	11.94%		
2025 Forecast	5.70-6.20%	4.50-5.00%	4.20-4.70%	6.50-7.00%		

# Underlying Factors and Risks to the forecast

## Underlying Factors

- As fiscal policy constricts and labor market tightens, consumer spending and business investment growth slow.
  - U.S. GDP growth will slow but will still be relatively strong.
- Employment growth and unemployment rates in Texas and metropolitan economies move closer to long-term trends.
- Federal Reserve fully executes soft landing leading to inflation hitting its target with continued economic growth.
- Fiscal policy continues to be accommodative to monetary policy facilitating the soft landing.
- Continued political stability.

## Risks to the Forecast

- Trump is elected:
  - Tariffs implemented as proposed.
    - Increased inflation leading to increase in interest rates
    - Trade war leading to lower U.S. exports and slower global growth.
    - Strengthening of dollar leading to lower U.S. exports and slower global growth.
  - Loss of Fed independence.
  - Decrease in top tax rate leads to large increase in deficit and debt with little to no positive impact on growth.
  - Less regulation may lead to economic and financial market instability.
  - Instability in government institutions.
  - Stagflation or recession risk is higher under Trump.
- Harris is elected:
  - Over-regulation may slow growth.
  - Increase in deficit and debt.
  - Looser fiscal policy inhibits ability to attain soft landing.
- Wars in Ukraine and Israel-Palestine do not spread leading to economic instability in Europe and the Middle East.
  - Potentially exacerbated if U.S. does not fulfill their NATO obligations.

Thank you!