SAN ANGELO
*Chamber of Commerce
Economic Development*

1861.56
1622.88
138

2.33

952

Template Source

San Angelo
Quarterly Economic Review

The latest data, analysis, outlook

"Without data you're just another person with an opinion" -W. Edwards Deming

OCTOBER 2022

Issue #1-04

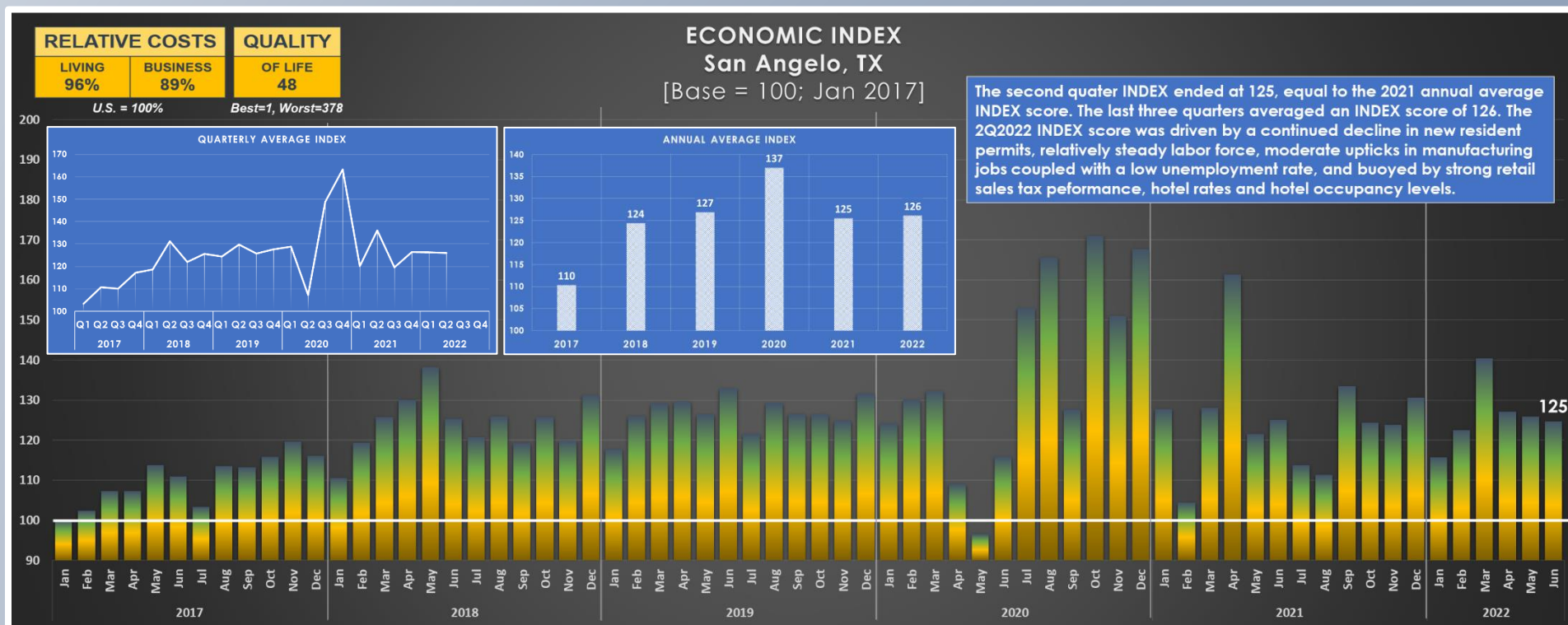| Metric	Change			
Economic Index	- %	Q2 2022	125	Q2 2021 125
Business Cycle Index	4.7% ↑	Q2 2022	132	Q2 2021 126
Housing Affordability Index	-41.6% ↓	Q2 2022	140	Q2 2021 240
Housing Permits	-62.1% ↓	Q2 2022	53	Q2 2021 140
Labor Force	0.15% ↑	Q2 2022	55,061	Q2 2021 54,974
Unemployment	30.9% ↓	Q2 2022	3.8%	Q2 2021 5.5%
Hotel Occupancy	-2.2% ↓	Q2 2022	57.3%	Q2 2021 58.6%
Retail Sales Tax	0.33% ↑	Q2 2022	$4.15M	Q2 2021 $4.14M

Assessment: Data for the third quarter is expected to show the economy decelerating at a faster than expected pace. Forecasts anticipate no real growth. The available information is still highly conflicting, with metrics pointing to dismal economic conditions and others that are seemingly signs of a healthy economy. The question remains whether there will be a recession, how deep, and for how long. However, there are ample signs of a slowdown well into 2023 (~1.5%). With the shortfall of workers, businesses are in a tight race for talent despite jobs growth. We will likely continue to see employment rise, but it won't be quick enough to meet employer's needs. Rising mortgage rates, high inflation, low existing housing inventory and elevated home prices caused housing affordability to fall to its lowest point in 20 years. There is opportunity in multifamily development and anyone in multi-family housing construction will likely continue to experience backlogs of opportunity.

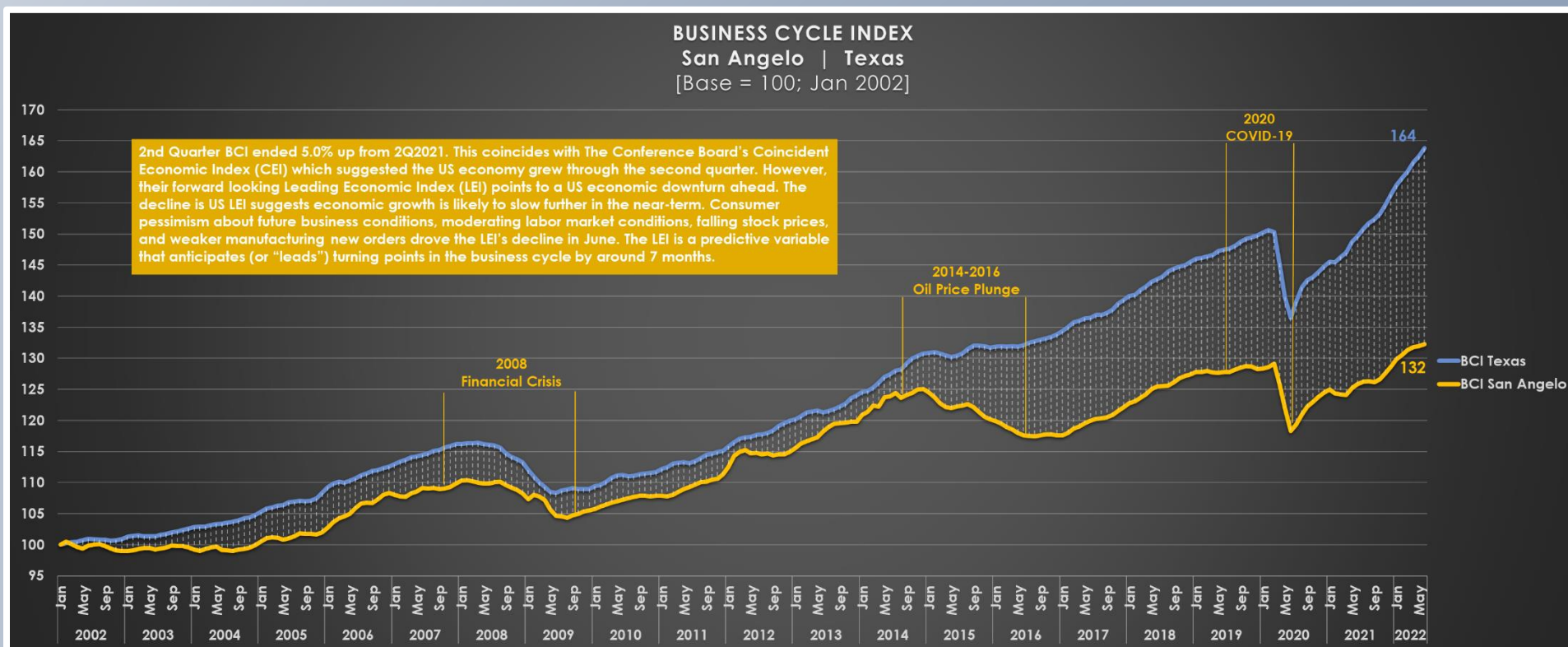|	Q2 2019	Q2 2020	Q2 2021
(Economic Index)	133	116	125
(Business Cycle)	128	118	126
(Housing Afford.)	237	253	240
(Housing Permits)	75	82	140
(Labor Force)	54,703	53,776	54,974
(Unemployment)	3.3%	8.9%	5.5%
(Retail Sales Tax)	$3.29M	$3.68M	$4.14M
(Hotel Occupancy)	65.5%	49.1%	58.6%

ECONOMIC INDEX

The San Angelo Economic Index considers seven key economic indicators to provide insight about the state of the San Angelo economy. Three data sets are leading indicators and point to future changes in the economy - useful for short-term predictions of economic developments. The remaining data are lagging or coincident indicators; coming after the economy changes, helping to confirm specific patterns, yet still providing valuable information about the current state of the economy. The index is intended to help decision makers, and our community, evaluate the economic vitality of San Angelo.

ECONOMIC INDEX San Angelo, TX [Base = 100; Jan 2017]

RELATIVE COSTS		QUALITY
LIVING 96%	BUSINESS 89%	OF LIFE 48
U.S. = 100%		Best=1, Worst=378

The second quater INDEX ended at 125, equal to the 2021 annual average INDEX score. The last three quarters averaged an INDEX score of 126. The 2Q2022 INDEX score was driven by a continued decline in new resident permits, relatively steady labor force, moderate upticks in manufacturing jobs coupled with a low unemployment rate, and buoyed by strong retail sales tax peformance, hotel rates and hotel occupancy levels.

ANNUAL AVERAGE INDEX: 2017 = 110, 2018 = 124, 2019 = 127, 2020 = 137, 2021 = 125, 2022 = 126

1. **New Residence Permits** *(LEADING Indicator)***:** Building permits tell you what will happen with new home construction twelve months from now.
2. **Retail Sales Tax Revenue** *(LEADING Indicator)***:** Decreases can raise fear of recession and increases often precede higher Consumer Price Index (CPI) numbers (a measure of cost-of-living changes, indicator of inflation).
3. **Labor Force:** Measure of the number of residents that make up workforce.
4. **Manufacturing Jobs** *(LEADING Indicator)***:** Indicates manufacturer's confidence level. When factory orders rise, companies need more workers.
5. **Unemployment Rate:** Measure of the underutilization of the labor supply. It reflects the inability of an economy to generate desired employment.
6. **Average Daily Hotel Room Rate:** The average daily rate (ADR) indicates average revenue earned for an occupied room on a given day. A rising ADR suggests that a hotel is increasing the money it's making from renting out rooms.
7. **% Hotel Room Occupancy:** Occupancy rates predict cash flow, and a way to compare financial attractiveness and performance of real estate.

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BUSINESS CYCLE INDEX

The San Angelo business cycle index (BCI) is a measure meant to gauge the trend of underlying economic activity. Ultimately it seeks to forecast the strength of economic expansion or recession in the coming months, along with forecasts for other prominent economic measures. BCI must be used in conjunction with other statistics of an economy to understand the true nature of economic activity. Thus, it is important that users of this information realize it is unreasonable to believe that any single indicator, or even set of indicators, always gives true signals, and never fails to foresee a turning point in an economy.
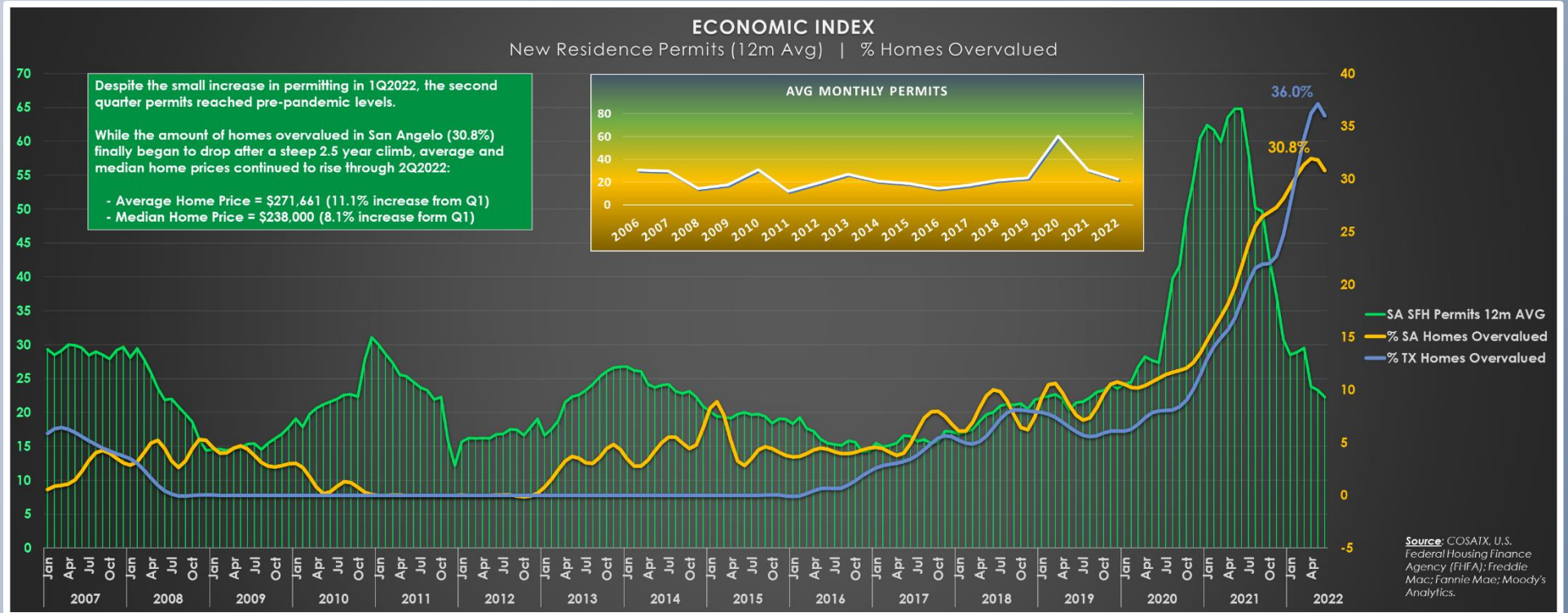
BUSINESS CYCLE INDEX
San Angelo | Texas
[Base = 100; Jan 2002]

2nd Quarter BCI ended 5.0% up from 2Q2021. This coincides with The Conference Board's Coincident Economic Index (CEI) which suggested the US economy grew through the second quarter. However, their forward looking Leading Economic Index (LEI) points to a US economic downturn ahead. The decline is US LEI suggests economic growth is likely to slow further in the near-term. Consumer pessimism about future business conditions, moderating labor market conditions, falling stock prices, and weaker manufacturing new orders drove the LEI's decline in June. The LEI is a predictive variable that anticipates (or "leads") turning points in the business cycle by around 7 months.

2020
COVID-19

164

2014-2016
Oil Price Plunge

2008
Financial Crisis

132

BCI Texas
BCI San Angelo

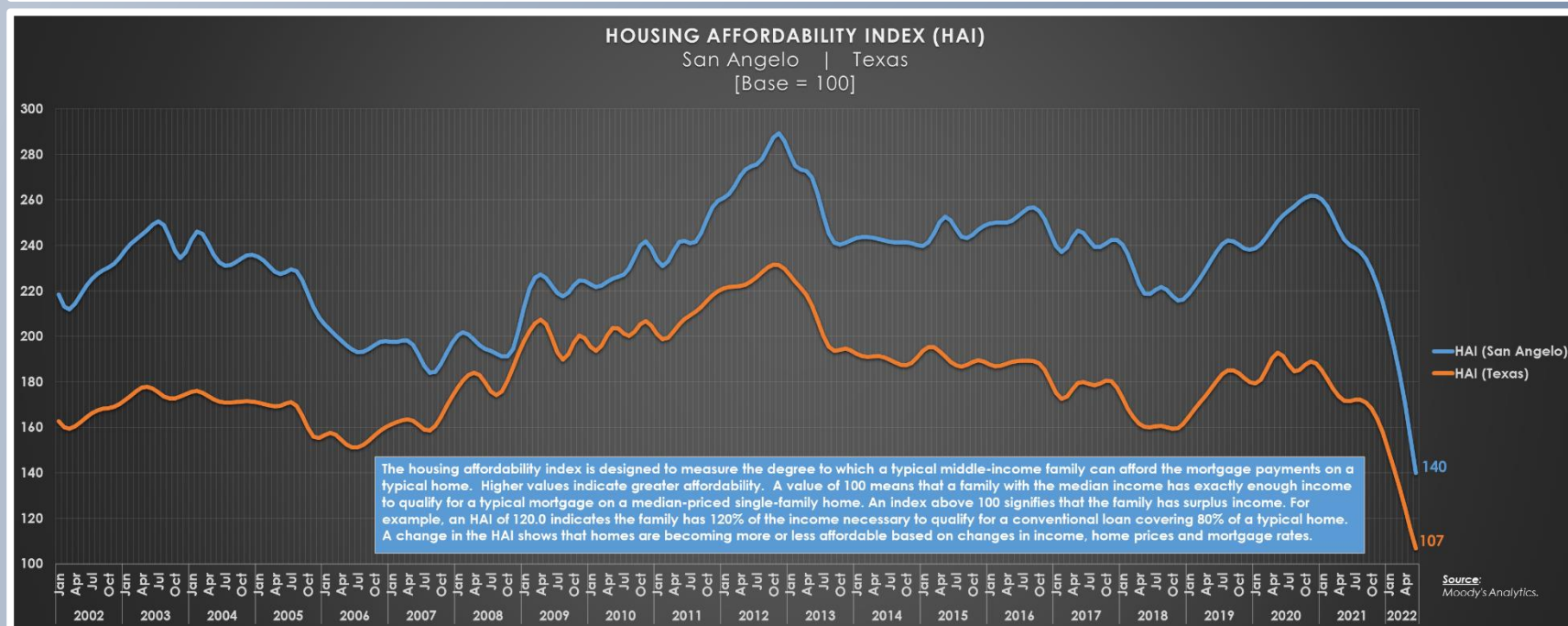This indicator is constructed using four components chosen for their timeliness, frequency, and availability.

1. Employment: The employment series used is from the Current Employment Statistics issued monthly by the Bureau of Labor Statistics.

2. Housing starts: The basis for housing starts estimates comes from monthly residential permit data from the Census Bureau (involving adjustment for the lag time between a permit becoming a start, adjustment for the share of permits that never become starts, and the share of starts that is not issued permits).

3. House prices: Provided by the Federal Housing Finance Agency. Included due to the importance of housing in the most recent recession. The house price data are led by six months. The argument for doing this is that it is generally believed that households react to changes to house prices with a lag.

4. Industrial production: Industrial production is estimated monthly at the sub-national level by combining in-house employment estimates and the monthly industrial production release from the Federal Reserve Board.

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NEW RESIDENCE PERMITS

The chart below shows a 12-month rolling average of San Angelo new residence permits (single-family homes). The 12-month rolling average helps to smooth out short-term fluctuations and highlight longer-term trends or cycles. Overlaid are the monthly percentage of homes overvalued for San Angelo and the State of Texas.
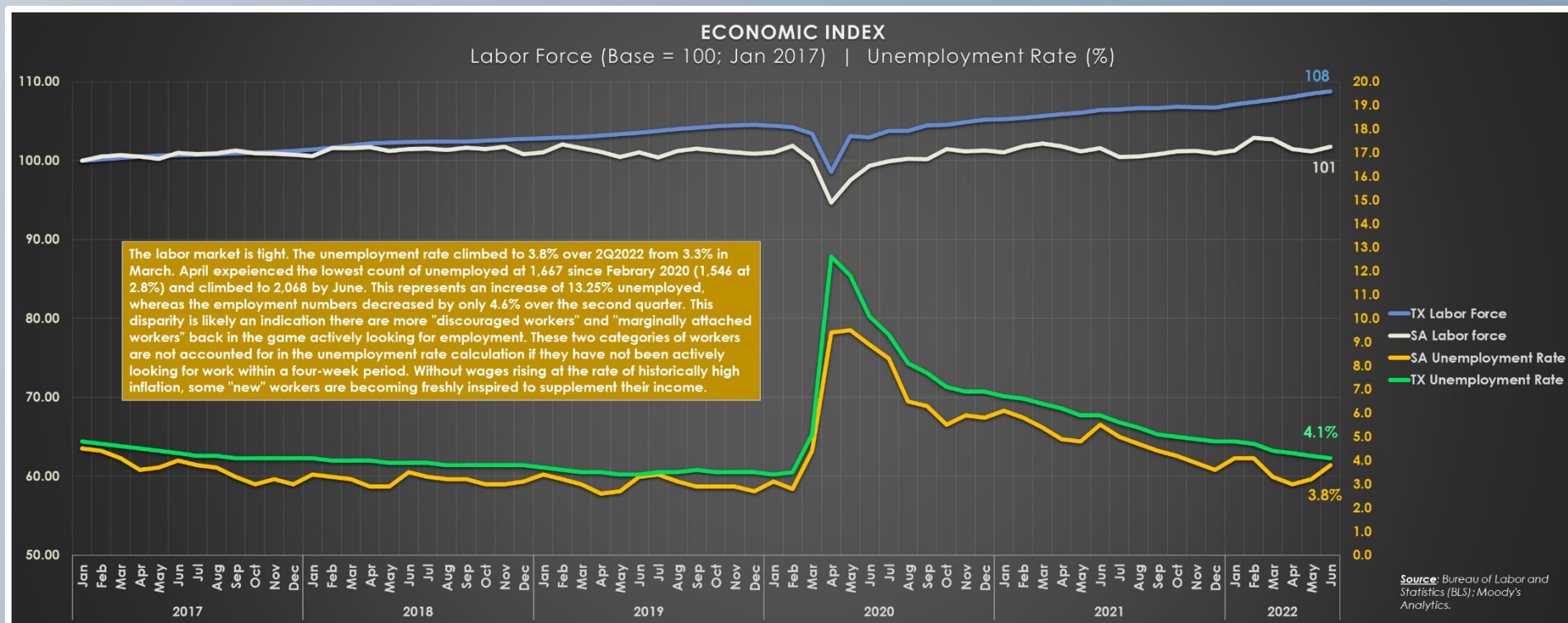

See following page for additional HOUSING data and analysis.

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ECONOMIC INDEX
SA Average Weekly Earnings (All Employees - Private) | SA Average Home Price (3m AVG)

With a rise in average home price, quarterly San Angelo housing sales showed signs of steadying through the second quarter 2022, totalling 392 (2Q2021 = 438, 2Q2020 = 375, 2Q2019 = 389).

While sales haven't necessarily slowed yet in San Angelo, wages have not kept up with prices, and prices aren't crashing and burning. There is likely opportunity in multifamily development. With frustrated or priced-out prospective homebuyers seeking rental housing, demand for single-family rental properties is rising.

Leading forecasts expect national home prices to decline between 0% to 5% amid the housing slowdown. If a "recession" hits, it is expected that there will be a 15% to 20% decline in the nation's 187 significantly "overvalued" markets - within which San Angelo is included.

Of note, rising mortgage rates, high inflation, low existing inventory and elevated home prices caused housing affordability to fall to its lowest point in 20 years during 2Q2022. See the San Angelo Housing Affordability Index below.

Legend:
- AVG Wkly Earnings
- Average Home Price

Source: Federal Reserve Bank of St. Louis - Economic Research Division; Texas A&M Real Estate Center; MarketWatch; NAHB; Moody's Analytics

HOUSING AFFORDABILITY INDEX (HAI)
San Angelo | Texas
[Base = 100]

Legend:
- HAI (San Angelo) — 140
- HAI (Texas) — 107

The housing affordability index is designed to measure the degree to which a typical middle-income family can afford the mortgage payments on a typical home. Higher values indicate greater affordability. A value of 100 means that a family with the median income has exactly enough income to qualify for a typical mortgage on a median-priced single-family home. An index above 100 signifies that the family has surplus income. For example, an HAI of 120.0 indicates the family has 120% of the income necessary to qualify for a conventional loan covering 80% of a typical home. A change in the HAI shows that homes are becoming more or less affordable based on changes in income, home prices and mortgage rates.

Source: Moody's Analytics.

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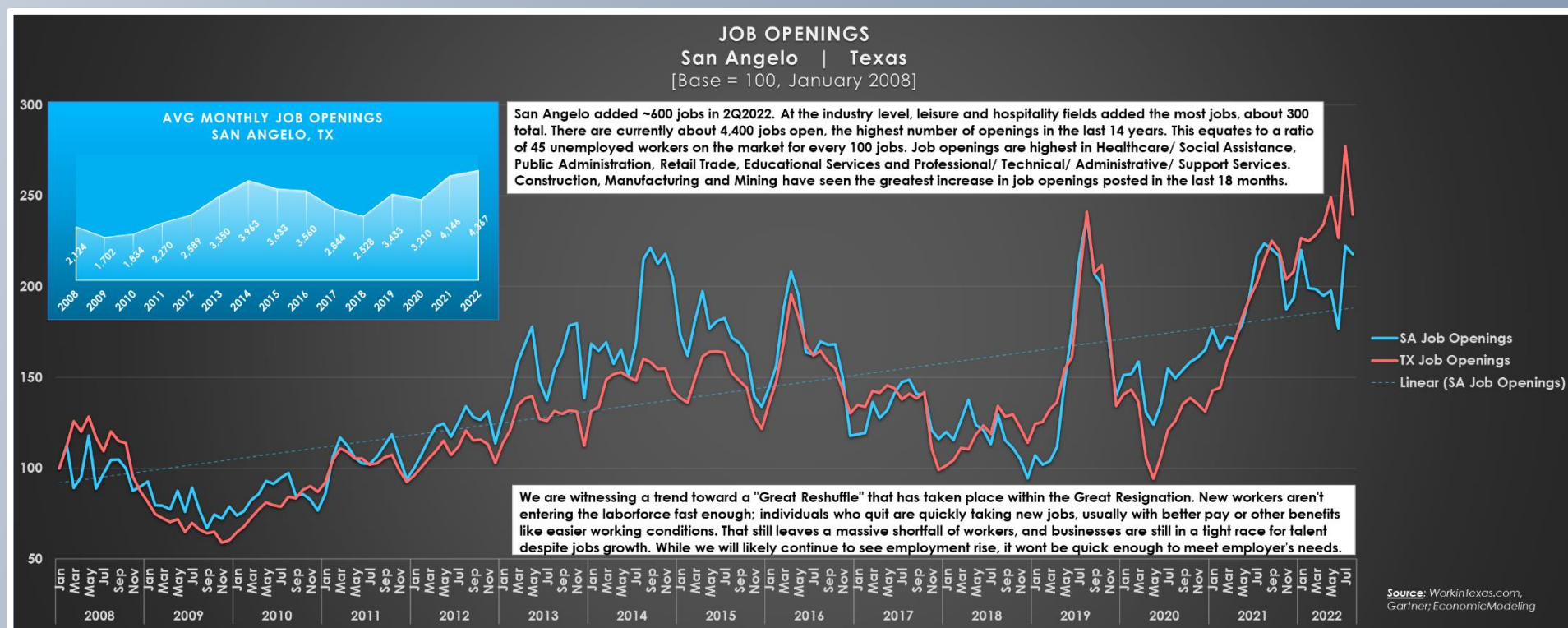*Chamber of Commerce*
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LABOR FORCE

The following chart compares the indexed labor force between San Angelo and the State of Texas, and similarly the relative unemployment rate for both, month over month. Unemployment rate is a lagging indicator. Employers will tend to avoid laying off workers unless they absolutely have to, and they don't rehire until they are confident the economy is getting better. When more businesses are hiring, this is an indication that businesses are performing well.

ECONOMIC INDEX
Labor Force (Base = 100; Jan 2017) | Unemployment Rate (%)

The labor market is tight. The unemployment rate climbed to 3.8% over 2Q2022 from 3.3% in March. April expeienced the lowest count of unemployed at 1,667 since Febrary 2020 (1,546 at 2.8%) and climbed to 2,068 by June. This represents an increase of 13.25% unemployed, whereas the employment numbers decreased by only 4.6% over the second quarter. This disparity is likely an indication there are more "discouraged workers" and "marginally attached workers" back in the game actively looking for employment. These two categories of workers are not accounted for in the unemployment rate calculation if they have not been actively looking for work within a four-week period. Without wages rising at the rate of historically high inflation, some "new" workers are becoming freshly inspired to supplement their income.

Legend:
— TX Labor Force
— SA Labor force
— SA Unemployment Rate
— TX Unemployment Rate

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JOB OPENINGS

Fluctuations in the number of new job openings across specific industries and job levels provide signals to recruiters and job seekers about current economic performance. Generally, new job openings decline as the outlook weakens. Some industry sectors, such as manufacturing or retail, face a relatively early downturn in job postings due to a slowdown in consumer spending. Most often, these industry sectors are also the first to recover post-recession as the economy rebounds. The earliest signs of job posting declines are likely to emerge in semiskilled or unskilled jobs, then skilled occupations. For example, job postings might decline for entry-level software developers and programmers first in high-tech industries. Entry-level job postings tend to drop prior to a downturn as organizations halt graduate hiring. Instead, the internship or apprentice program is likely to grow as organizations seek low-cost students who do not increase corporate head count.

JOB OPENINGS
San Angelo | Texas
[Base = 100, January 2008]

AVG MONTHLY JOB OPENINGS SAN ANGELO, TX

San Angelo added ~600 jobs in 2Q2022. At the industry level, leisure and hospitality fields added the most jobs, about 300 total. There are currently about 4,400 jobs open, the highest number of openings in the last 14 years. This equates to a ratio of 45 unemployed workers on the market for every 100 jobs. Job openings are highest in Healthcare/ Social Assistance, Public Administration, Retail Trade, Educational Services and Professional/ Technical/ Administrative/ Support Services. Construction, Manufacturing and Mining have seen the greatest increase in job openings posted in the last 18 months.

We are witnessing a trend toward a "Great Reshuffle" that has taken place within the Great Resignation. New workers aren't entering the laborforce fast enough; individuals who quit are quickly taking new jobs, usually with better pay or other benefits like easier working conditions. That still leaves a massive shortfall of workers, and businesses are still in a tight race for talent despite jobs growth. While we will likely continue to see employment rise, it wont be quick enough to meet employer's needs.

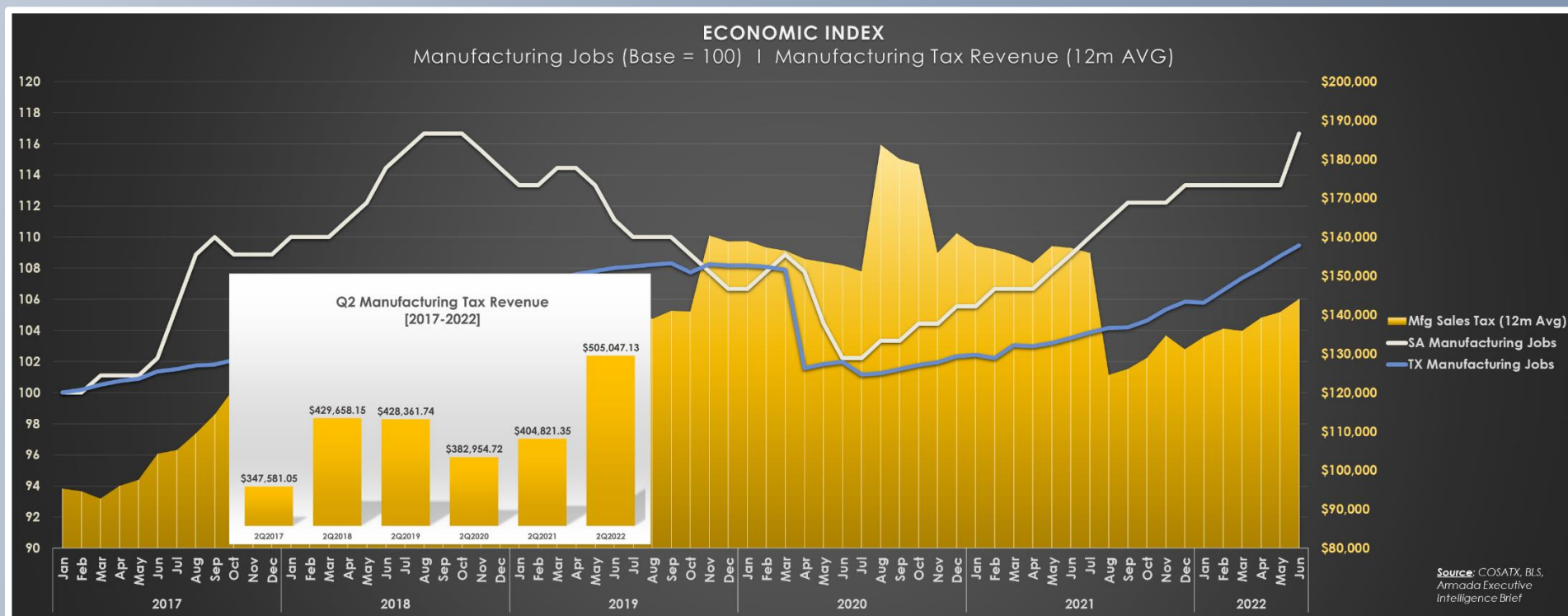*Source: WorkinTexas.com, Gartner; EconomicModeling*

Advertised jobs are spidered daily in real-time. Real-time advertised jobs are collected from employer corporate sites, hospitals, non-profits, local and federal government agencies, schools and universities, recruiter sites, newspapers, volunteer sites, and other public, private, and state job boards. Each site is individually reviewed and evaluated, and each sites data extraction is custom tailored to that site. Every job listing is spidered every day so that it can be removed from the database when the job is de-posted. Each job is processed for O*NET code assignment, NAICS code assignment, employer name normalization, and city/town name standardization.

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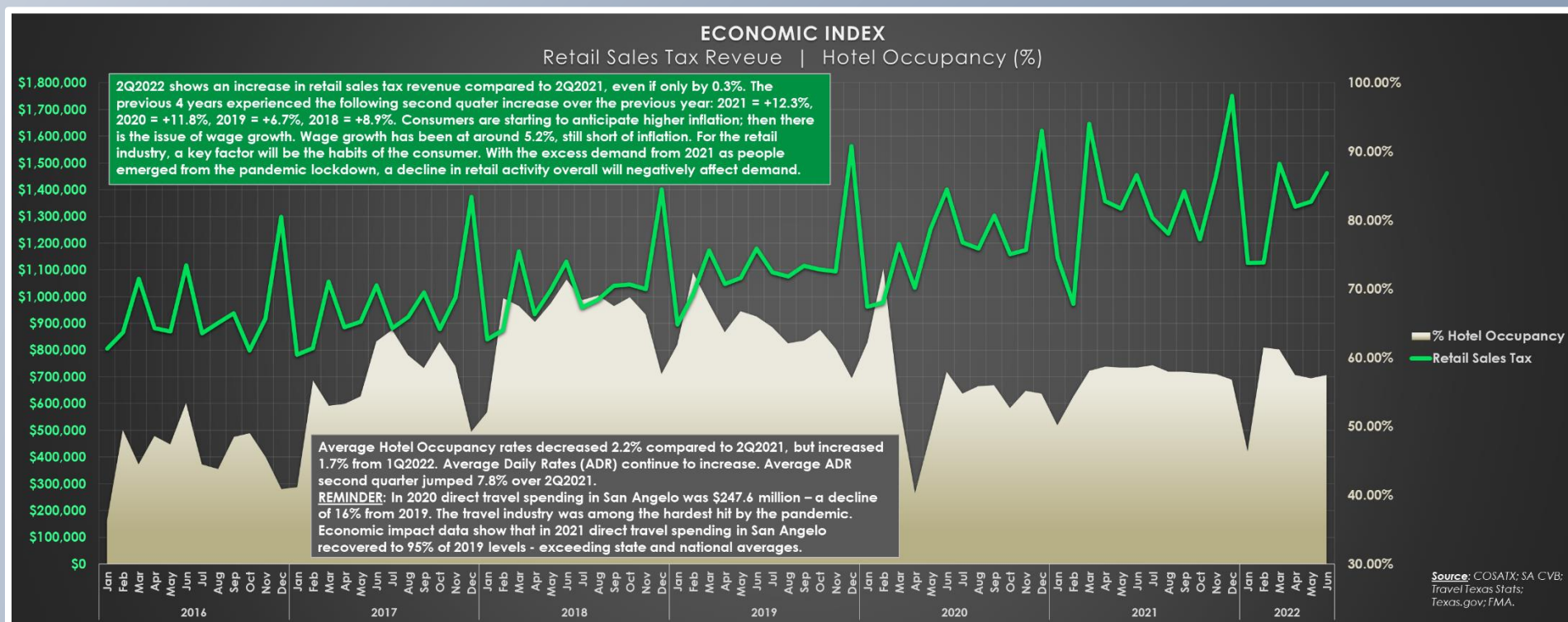
MANUFACTURING JOBS

Our manufacturing sector labor force growth continues to outperform the state, adding approximately 100 jobs nearing 2018 peak levels. Manufacturing tax revenue has sustained an 11-month ascent reaching 2018/2019 levels. 2Q2022 actuals totaled $505,047.13, the highest second quarter revenue in the last 5 years, and the third highest quarter out of all quarters over the last 5 years. The only two outlying quarters are 4Q2019 and 3Q2020. **Outlook:** Manufacturers will see even higher prices for what they bringing to their operations in the way of raw materials, commodities, and parts before they see prices fall; and they will see higher prices for the material they ship out. Input costs should begin to fall into 4Q2022, but demand for the finished product may decline as well given the impact that higher prices will have on consumption. Overall, output will experience a slump through 3Q2022, which will remain until 2Q2023. **What about the labor conundrum?** The issue of labor shortage will be the dominant driver in the coming year. The National Association of Manufacturers predicts that by the year 2030 the U.S. will have over 2.3 million unfilled manufacturing positions – just seven years away. The bottom line is that manufacturers are going to have to grow their own next generation of workers. Smaller communities, like San Angelo, that position themselves strategically in terms of talent pipeline and training programs will remain viable in the eyes of existing manufacturing companies and competitive to those looking to relocate where there are highly educated, highly skilled and flexible workforce.

ECONOMIC INDEX
Manufacturing Jobs (Base = 100) I Manufacturing Tax Revenue (12m AVG)

Q2 Manufacturing Tax Revenue
[2017-2022]

	2Q2017	2Q2018	2Q2019	2Q2020	2Q2021	2Q2022
	$347,581.05	$429,658.15	$428,361.74	$382,954.72	$404,821.35	$505,047.13

Mfg Sales Tax (12m Avg)
SA Manufacturing Jobs
TX Manufacturing Jobs

Source: COSATX, BLS, Armada Executive Intelligence Brief

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RETAIL SALES TAX REVENUE and TOURISM

This chart illustrates San Angelo monthly retails sales tax in relation to hotel occupancy rates. Tourism is economic development. Tourism (leisure or business) functions as a generator of employment and income, both directly and diffused through the economy. Proper destination promotion can serve as an economic engine, raising our community's profile and fostering enhanced opportunities for traditional business relocation or expansion. Furthermore, targeted destination promotion possesses the potential to highlight the quality-of-life issues critical to relocation decisions and our resident's attitude about where they live.

ECONOMIC INDEX
Retail Sales Tax Reveue | Hotel Occupancy (%)

2Q2022 shows an increase in retail sales tax revenue compared to 2Q2021, even if only by 0.3%. The previous 4 years experienced the following second quater increase over the previous year: 2021 = +12.3%, 2020 = +11.8%, 2019 = +6.7%, 2018 = +8.9%. Consumers are starting to anticipate higher inflation; then there is the issue of wage growth. Wage growth has been at around 5.2%, still short of inflation. For the retail industry, a key factor will be the habits of the consumer. With the excess demand from 2021 as people emerged from the pandemic lockdown, a decline in retail activity overall will negatively affect demand.

Average Hotel Occupancy rates decreased 2.2% compared to 2Q2021, but increased 1.7% from 1Q2022. Average Daily Rates (ADR) continue to increase. Average ADR second quarter jumped 7.8% over 2Q2021.
REMINDER: In 2020 direct travel spending in San Angelo was $247.6 million – a decline of 16% from 2019. The travel industry was among the hardest hit by the pandemic. Economic impact data show that in 2021 direct travel spending in San Angelo recovered to 95% of 2019 levels - exceeding state and national averages.

% Hotel Occupancy
Retail Sales Tax

Source: COSATX; SA CVB; Travel Texas Stats; Texas.gov; FMA.

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Providing the certainty, simplicity, and speed necessary to build a strong business climate.

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The San Angelo Chamber of Commerce Economic Development Department (EDD) works closely with our main economic development partner, the City of San Angelo Development Corporation (COSADC). This team approach is a "force-multiplier" for the recruitment of new industry and the expansion of existing industrial enterprises.
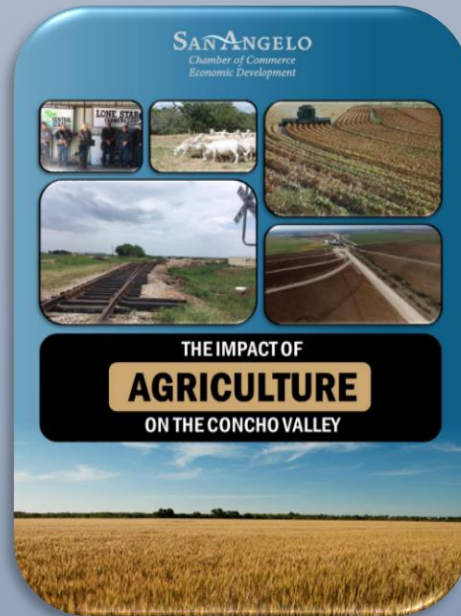
The San Angelo Chamber EDD also works with the Tom Green County Judge and Commissioners, Downtown San Angelo, Inc., Angelo State University Small Business Development Center, Howard College, San Angelo Independent School District, and the Angelo State University David L. Hirschfeld Department of Engineering.

It is through private community investments that allow the Chamber EDD team to leverage our marketing efforts, recruit new industrial corporations, facilitate business/industrial training and lobby at all levels of government, especially for Goodfellow Air Force Base.

The Economic Development Department is guided by two committees: the Economic Development Advisory Committee (EDAC), which counsels staff on initiatives, methods, policies, and goals; and the San Angelo Regional Manufacturers Alliance (SARMA), which advises staff on initiatives and goals to support the San Angelo manufacturing, fabrication, energy services, technology, and agricultural sectors in the Concho Valley.

CITY OF
SAN ANGELO
TEXAS
Development Corporation

CORNERSTONE

SARMA
San Angelo Regional Manufacturers Alliance
— Est. 2017 —
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Please take a look at our other reports and information.

Cornerstone Investors

For these resources, and more, you can also visit:

sanangelo.org/economic-development/

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