

# TEXAS FORECAST

## SALES TAX TRENDS AND ECONOMIC DRIVERS

JULY 2020

*Hamilton Pool Preserve, Dripping Springs, TX*

HdL provides relevant information and analyses on the economic forces affecting Texas' local government agencies. In addition, HdL's Revenue Enhancement and Economic Development Services help clients to maximize revenues.

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*Delivering Revenue, Insight and Efficiency  
to Local Government Since 1983*



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## 2020 FORECAST

### Summary

In late April, HdL released its *Texas Forecast: Sales Tax Trends and Economic Drivers* in response to the COVID-19 pandemic and the sudden and substantial projected decrease in spending on taxable goods and services. Incorporating insights from respected publications, industry-specific analysts, and HdL sales and use tax specialists, the Texas Forecast and HdL's companion Business Group Forecast Tool provided a means to combine sales and use tax data, economic insights, and community knowledge to project future sales and use tax revenues through December 2020. Amid on-going economic uncertainties, HdL recognizes it is critically important to once again provide up-to-date information as taxing jurisdictions across the State work in real time to project future sales and use tax revenues as a key component of budget development and management processes. To this end, HdL is pleased to provide this update to support the forecast of sales and use tax revenues through December 2021.

### HdL Consensus Forecast

The COVID-19 pandemic remains a dynamic event, far from being in the rearview mirror. The Texas economy is re-opening in varying phases across the State, occurring quickly in some communities without much fanfare, while sputtering in others in the face of record-setting infection rates and the threat of additional lockdowns. Some communities are further challenged by demand destruction in the oil & gas industry concurrent with COVID 19. Early federal, state, and local economic stimulus actions appear to have deterred, or at least delayed, a deep recession in Texas. On July 20th, Comptroller Hegar projected the state's fiscal 2020 sales tax revenues, buoyed by strong collections in the first half of the year, will finish about 1 percent below fiscal 2019 totals and will drop by more than 4 percent in fiscal year 2021. And while economic activity is expected to strengthen through the end of calendar year 2020 and into 2021, whether the recovery is "U-Shaped", "V-Shaped", "W-Shaped", or some other hybrid model remains to be seen. All this to say, forecasting sales and use tax is inherently challenging and even more so during continued uncertain, turbulent times.

HdL's updated Texas forecast assumes the Texas economy remains open with further lockdowns avoided; supply chain disruptions remain manageable; recovery in the oil and gas industry continues but at a slow pace; businesses remain cautious about capital investment and hiring; business travel is curtailed in deference to teleconferencing; schools resume more or less on schedule in mid- to late-August with a mix of distance- and on-campus learning; federal, state, and local political leaders infuse the economy with stimulus at a macro-level but with diminished direct-to-consumer support; and vaccine development continues at a rapid pace but unlikely to be readily available until mid-2021.

HdL's Texas forecast continues to segment sales and use tax information into the eight unique business groups developed by HdL after careful review of historical sales and use tax data to identify common economic response patterns among business types. Trends and related context are provided for each business category and incorporated into the logic of the companion Business Category Forecast Tool. For all forecasted periods, the trend outlook reflects the forecasted percent change over the same period in the prior year. With actual sales and use tax net payments known for seven monthly allocation periods spanning January through July 2020, the updated forecast provides separate trend projections for August and September 2020 (June and July 2020 consumer activity months) and for each calendar quarter thereafter through December 2021 (October 2021 consumer activity month).


We encourage you to consider this forecast in combination with other valued information to which you and your team have access. HdL anticipates the next update to the Texas Forecast and the Business Category Forecast Tool will be issued in late September 2020, and quarterly thereafter, unless circumstances warrant interim or delayed updates.

Stay safe and stay well!



# HDL CONSENSUS FORECAST – JULY 2020

## STATEWIDE SALES TAX TRENDS

 **TOTAL** AUGUST '20 0.4% | SEPTEMBER '20 -1.4% | 4Q20 -5.0% | 1Q21 -3.6% | 2-4Q21 3.9%  
(Based on Sales Tax Allocation Month)



### Construction & Manufacturing

**AUGUST '20 -5% | SEPTEMBER '20 -5%**  
**4Q20 -7% | 1Q21 -3% | 2-4Q21 2%**

Buoyed by increases in home improvement retail activity, this business category, while still down as compared to the same period last year, outperformed initial more negative projections during the early months of the pandemic. Declines in non-residential building activity are expected to continue but will be somewhat offset by the continued brisk pace of residential construction and consumer “do it yourself” improvement projects. Texas factory activity is expected to perform below pre-COVID levels and perceptions of broader business conditions point to continued uncertainty in the manufacturing sector. Plummeting crude oil prices due to oversupply and decreased demand have shown signs of rebound but lag compared to pre-COVID levels. Unemployment in this sector is a continued concern and is expected to impact consumerism in other sectors.



### Internet Retail

**AUGUST '20 150% | SEPTEMBER '20 125%**  
**4Q20 83% | 1Q21 15% | 2-4Q21 -3%**

Continued substantial growth is projected in this category, fueled by the implementation of the Wayfair Supreme Court ruling (first reflected in sales tax allocations in December 2019), combined with an increase in online retail transactions prompted by the pandemic. The shift from brick and mortar shopping to online retail is expected to continue but at a slower pace as consumers return to traditional modes of shopping. The future trend outlook begins to decrease in December 2020, the anniversary of the initial allocations reflecting the implementation of sales tax reports from Marketplace Providers and Remote Sellers.



### General Retail

**AUGUST '20 -1% | SEPTEMBER '20 -3%**  
**4Q20 -9% | 1Q21 -7% | 2-4Q21 6%**

Brick and mortar retail stores were heavily impacted by restrictions implemented to curtail the spread of COVID-19. As doors closed and immediate demand fell, many national retailers restructured, some permanently shuttered their footprint. The re-opening that began in late May/early June 2020 is expected to result in a slight boost in allocations tied to pent-up demand and shift to revised business models offering online ordering with curbside delivery. Demand is expected to settle below pre-pandemic levels for some time especially if additional stimulus injections do not result in direct-to-consumer payments and consumerism contracts further if unemployment remains high. While the trend towards online sales was shifting prior to the pandemic, the timeline sped up as customers were forced to explore alternatives to in-store shopping. With help from discount retailers that market both general consumer goods and grocery/pharmacy products, and brick and mortar retailers that do not distinguish in-store from online sales in sales and use tax reports, this business category outperformed initial deeply negative projections during the early months of the pandemic. Future trends are reflective of this experience.



### Grocery Stores & Pharmacy

**AUGUST '20 5% | SEPTEMBER '20 5%**  
**4Q20 3% | 1Q21 3% | 2-4Q21 -10%**

Consumer spending in this category is expected to continue to be brisk to support eating at home as dining out options remain limited both by capacity and by consumer reluctance to return to restaurant dining. In addition to traditional major grocery store chains, this category continues to benefit from the presence of large drug store chains, convenience stores, smaller food marts, and warehouse clubs such as Sam's Club and Costco that have continued to perform well. With the prospect of a vaccine in early 2021, consumer demand in this category is expected to decrease in 2021 when compared to the same period in 2020.



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(Based on Sales Tax Allocation Month)



## Restaurants & Entertainment

**AUGUST '20 -17% | SEPTEMBER '20 -20%**  
**4Q20 -23% | 1Q21 -15% | 2-4Q21 15%**

Consistent with the outlook for the General Retail business category, the Restaurant and Entertainment sectors are expected to be slow to recover due to travel restrictions, cancellation of festivals, sporting events and concerts, capacity limits imposed on theme parks, cinemas, museums and historical sites, and the continued closure of bars. Restaurants and other facilities that prepare and serve food will be restricted by capacity limits for the foreseeable future, making pick-up and delivery modes a must for survival. This business group continues to be most vulnerable to closure due to higher supply prices coupled with capacity limitations. A protracted recovery for this sector is projected.



## Telecom, Utilities & Other Service Providers

**AUGUST '20 3% | SEPTEMBER '20 3%**  
**4Q20 3% | 1Q21 3% | 2-4Q21 0%**

Continued modest growth comparable to pre-COVID-19 levels is expected in this category encompassing telephone, cellular, cable, internet, data and software services, commercial and residential utilities, and waste removal services. The outlook considers an increase in demand for internet, data, software, and streaming services prompted by continued deployment of staff and students working and learning, at least in part, from home. Population growth and increases in residential construction also contributes to the positive outlook for this business category.



## Professional & Financial Services

**AUGUST '20 -20% | SEPTEMBER '20 -20%**  
**4Q20 -15% | 1Q21 -3% | 2-4Q21 8%**

Encompassing a wide array of services provided by professionals and other specially-trained personnel across a variety of sectors, this business category is not a significant driver of sales and use tax. This business category is expected to respond consistently with the general economy, with contraction spurred by reductions in non-essential expenditures by public and private sector enterprises and individual consumers through 2020 and a slow return to pre-COVID activity levels mid- to late-2021.



## Other

**AUGUST '20 -10% | SEPTEMBER '20 -10%**  
**4Q20 -3% | 1Q21 0% | 2-4Q21 3%**

Activity across this “catch all” category for business enterprises not better classified elsewhere is expected to respond consistently with the general economy. Contraction is projected through the remainder of 2020 followed by slow recovery to pre-COVID levels through 2021. HdL continues to make a concerted effort to review and re-classify businesses to other categories to reduce the forecast significance of this category.

## AUSTIN

8700 Manchaca Road  
Austin, TX 78748  
Telephone: 512.906.0429

## HOUSTON

9821 Katy Freeway #440  
Houston, TX 77024  
Telephone: 713.481.6975