Update on City's Economy & Finances

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U.S. Macroeconomic Context – “Soft Landing” Likely in 2024

Recent Trends and Blue Chip Forecasts for National Unemployment, Inflation, GDP Growth, and 10-Year Treasury Rates, 2022-2024

Source: Blue Chip Economic Indicators
Locally – Some Rebalancing in 2023 as Tech Shed Jobs

1-Year and 4-Year Change in Employment by Industry in the San Francisco Metro Division (through November 2023)

- Professional, Scientific, and Technical Services
- Health Care and Social Assistance
- Information
- Financial Activities
- Restaurants and Other Eating Places
- Retail Trade
- Administrative and Support Services
- Transportation, Warehousing, and Utilities
- Manufacturing
- Construction
- Private Educational Services
- Wholesale Trade
- Arts, Entertainment, and Recreation
- Accommodation
- Personal and Laundry Services

Source: EDD
Work-from-Home, Office Vacancy Are Lingering Problems

San Francisco: 5.9% (+24.5%) 30.4%
Los Angeles: 13.4% (+12.7%) 26.1%
Oakland-CBD: 11.8% (+13.6%) 25.4%
Houston: 23.3% (+1.9%) 25.2%
Dallas: 20.4% (+4.6%) 25.0%
Chicago: 17.4% +6.8% 24.2%
Atlanta: 18.0% +5.0% 23.0%
Silicon Valley: 7.7% (+13.0%) 20.7%
Philadelphia: 13.5% +6.5% 20.0%
Boston: 12.6% +7.2% 19.8%
Seattle/Puget Sound: 10.9% +8.9% 19.8%
Washington, DC - Metro: 16.5% +2.6% 19.1%
Mid-Peninsula: 9.0% (+8.1%) 17.1%
New York City: 7.6% +8.9% 16.5%

Source: JLL, 2023
COVID Led to a Decentralization of the SF Job Market

Change in the Number of Census Tract Residents Who Work in San Francisco, 2019-2021

- 1 Green Dot = 5 More People With Jobs in SF
- 1 Red Dot = 5 Less People With Jobs in SF

Source: Census LODES data
Despite Work-from-Home, Labor Force Loss Not Mainly in Tech

Source: Census ACS

SF Metro Area Residents by Industry of Employment, 2019 & 2022

- Educational services
- Information
- Professional, scientific, and technical services
- Health care and social assistance
- Public administration
- Finance and insurance
- Transportation and warehousing, and utilities:
  - Construction
  - Manufacturing
  - Retail trade
- Other services, except public administration
- Wholesale trade
- Real estate and rental and leasing
- Arts, entertainment, and recreation
- Administrative and support and waste management services
- Accommodation and food services

Source: Census ACS
Like WFH, Housing Market Adjustment May Be Long-Lasting

Source: Zillow

Percent Change in Average Housing Value, Nov-19 to Nov-23:
Counties in the Bay Area (Blue), Sacramento & Stockton MSAs (Yellow), and U.S. (Red)

Source: Zillow
Key Local Economic Questions for the Upcoming Year

- End of the Tech Layoffs? Reboot for Venture Capital?
- Does the Office Market finally adjust?
- New Projects and Activities Downtown?
- Who Moves (Back) to SF?
General Fund Budget Forecast

Expenditure growth outpaces revenue growth

- $245M deficit
- $554M deficit

Projected Revenue Change
Projected Expenditure Change
Revenue Trends
Office vacancy rates still climbing, with negative impact on property, business, transfer taxes.

Seasonally Adjusted Office Vacancy Rates
2005 - 2023

30.4% in Q3 of 2023
Hospitality Recovery Plateau

Convention attendance 60% of FY 2018-19; weak business travel; tourists from Asia/China not back
Local & State Sales Tax Growth Slows

![Graph showing the percent change from same quarter prior year for San Francisco and California from 2020 Q1 to 2023 Q2. The graph indicates a slowdown in sales tax growth.]

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Depletion of One-Time Sources

- Federal Disaster Relief
- General Fund Reserves
- Fund Balance

$ in Millions


Projected
Salary & Benefits: 30% Growth in 5 Years

Salary & Benefit Growth Since FY 18-19 (GFS Only)
Risks & Uncertainties

• **Elevated interest rate environment** increases borrowing costs, dampening business and real estate investments.

• **Revenue refunds:**
  - Property tax: volume of property **assessment appeals** has tripled from prior year.
  - **Business tax** litigation

• **State and federal revenue risks:**
  - **State** budget shortfall → proposal to reduce Excess ERAF (> $40M), grants, and funding for other programs.
  - New guidelines would reduce **federal** FEMA reimbursement of COVID shelter costs by > $190M.

• **Retirement contribution rates** subject to high levels of volatility. Returns < 7.2% trigger higher employer contributions.
Big Picture Take-Aways

• Major shocks to large City economies (particularly those concentrated in office work) will **play out over many years**. The recovery is underway, but slow.

• City budgets have been held together during the pandemic and since with massive **support from the federal government** and with **record reserves** set aside in the prior decade.

• The pace of economic and financial recovery will **not catch up with those losses** in the short and mid-term. These trends are aggravated by continued **cost pressures**, driven in part by high (but moderating) inflation and high interest rates.

• Steps taken to **manage operating budgets today** will pay off, permitting use of remaining reserves and other one-time measures to position more thoughtfully for future structural gaps and uncertainties, **avoiding more stark cuts later**.
Questions or Comments?

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