

Domestic Migration and the Texas Economic Outlook

Texas Real Estate Research Center

Texas A&M University

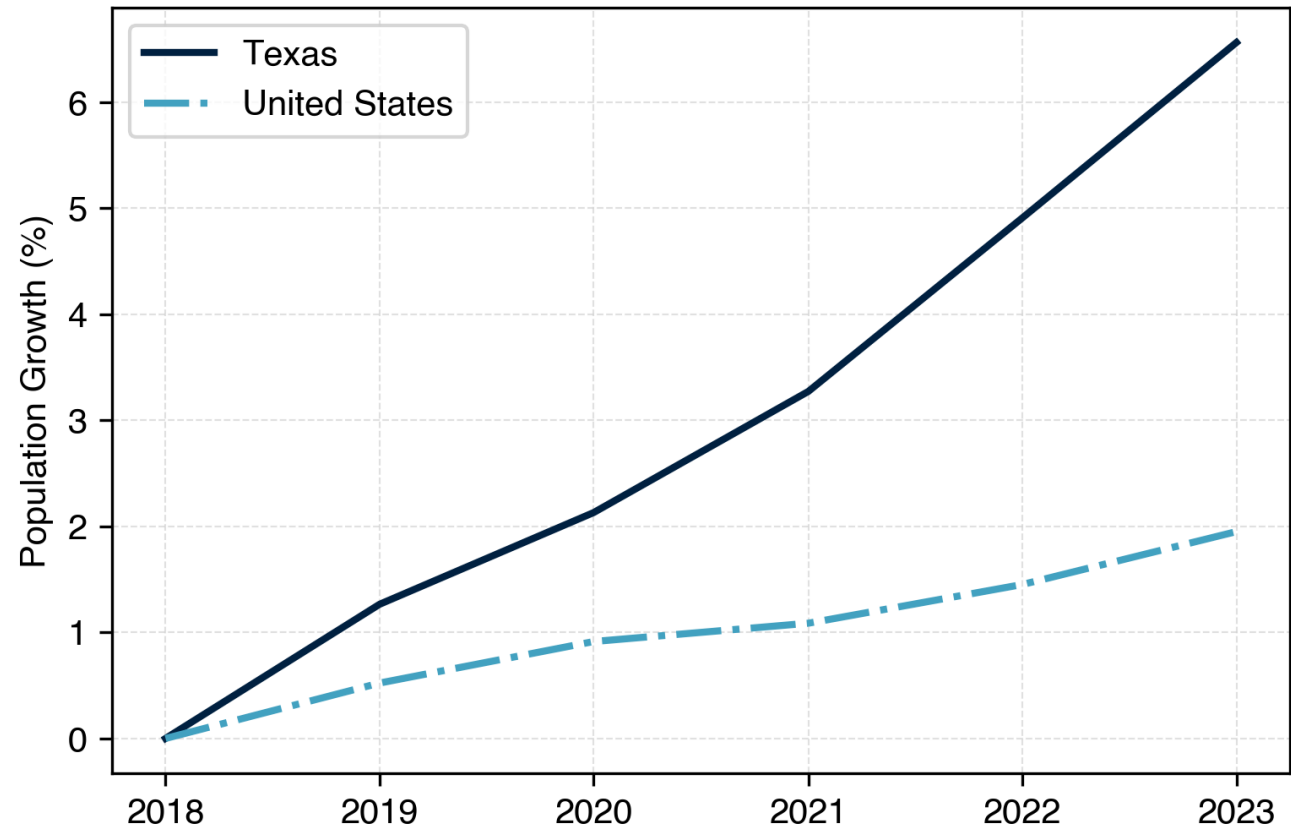
December 10, 2024

Jorge Barro, Ph.D.

Research Questions

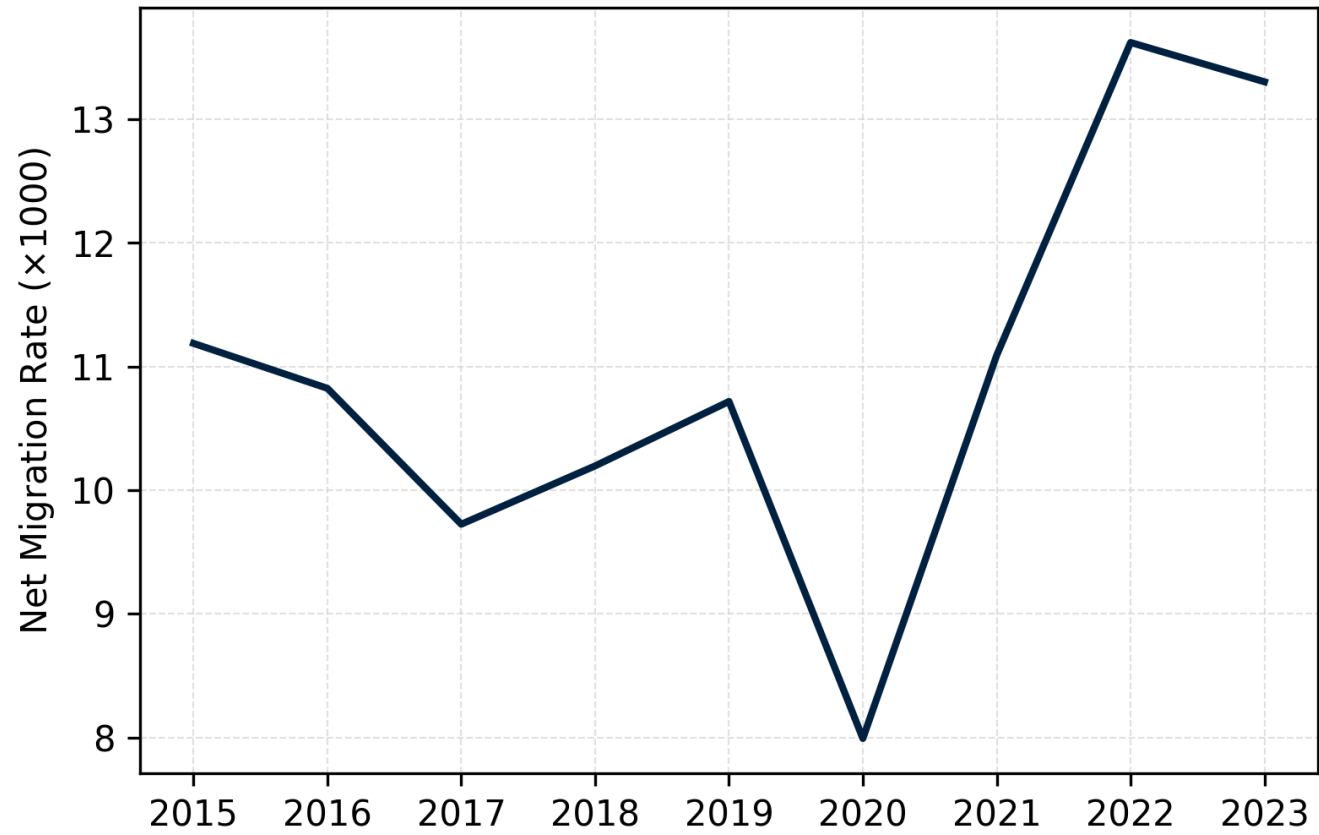
- Why is Texas growing so much?
- Can Texas sustain high growth?

Population Growth since 2018



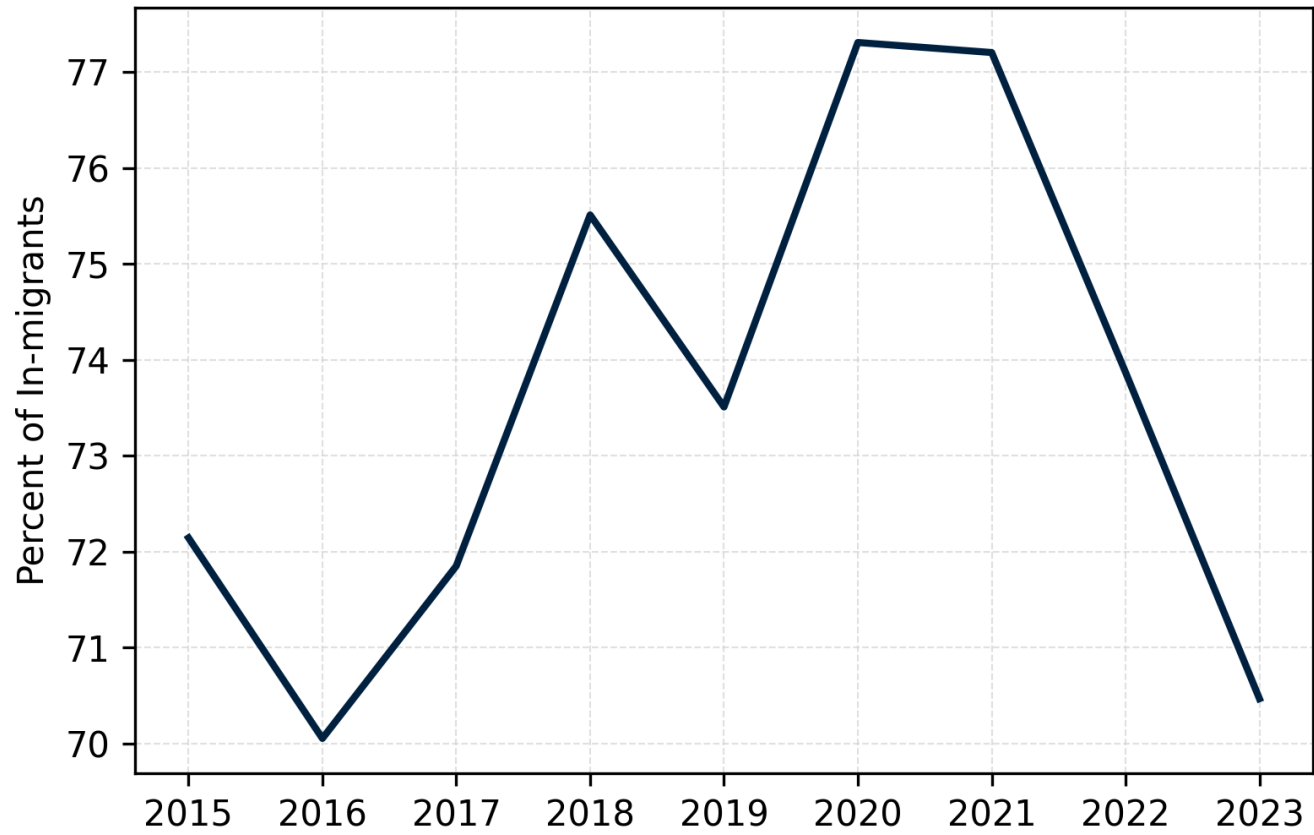
Source: FRED, BEA, and author's calculations

Texas Net Migration Rate



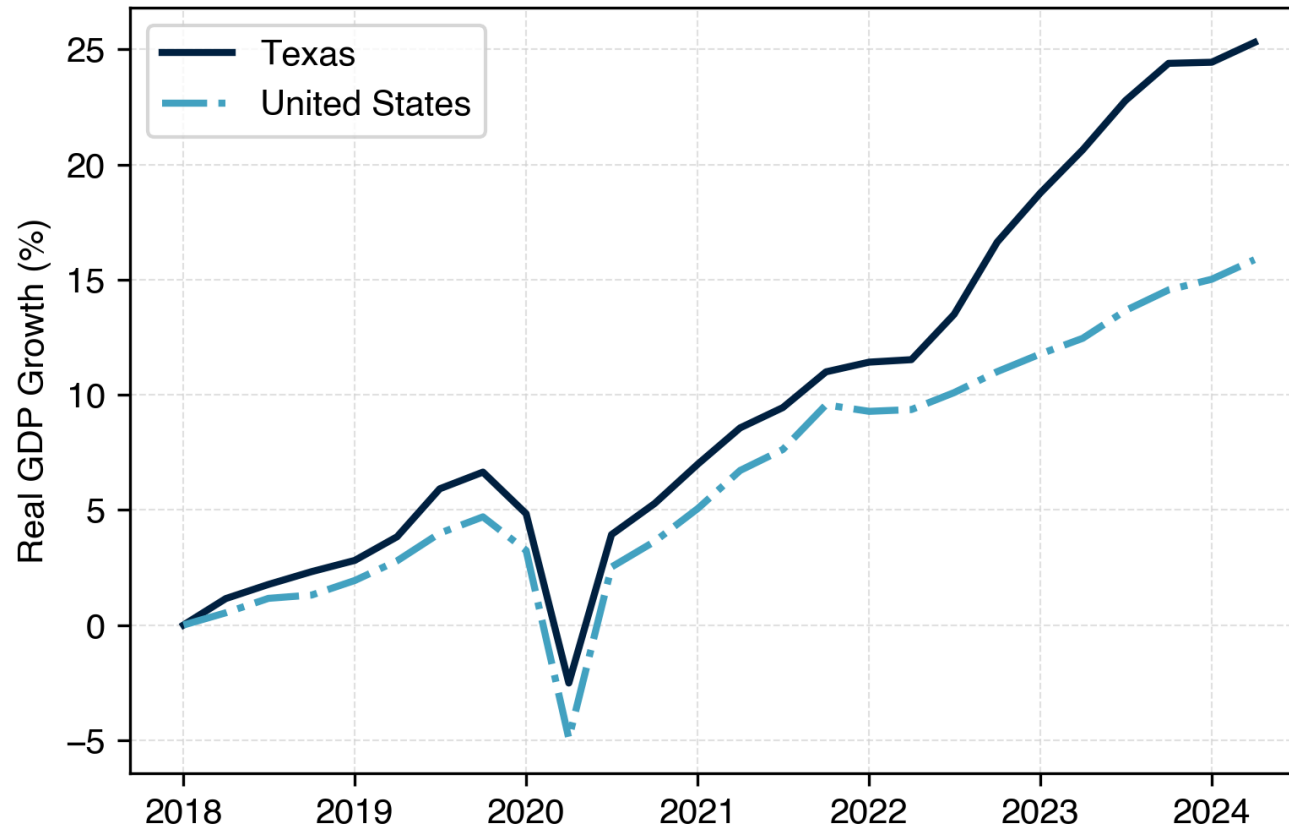
Source: ACS and author's calculations

Domestic Share of In-migrants



Source: ACS and author's calculations

Economic Growth since 2018



Source: FRED, BEA, and author's calculations

Factors Driving Domestic Migration

- Federal fiscal policy
- Work from home (WFH)
- Housing demand

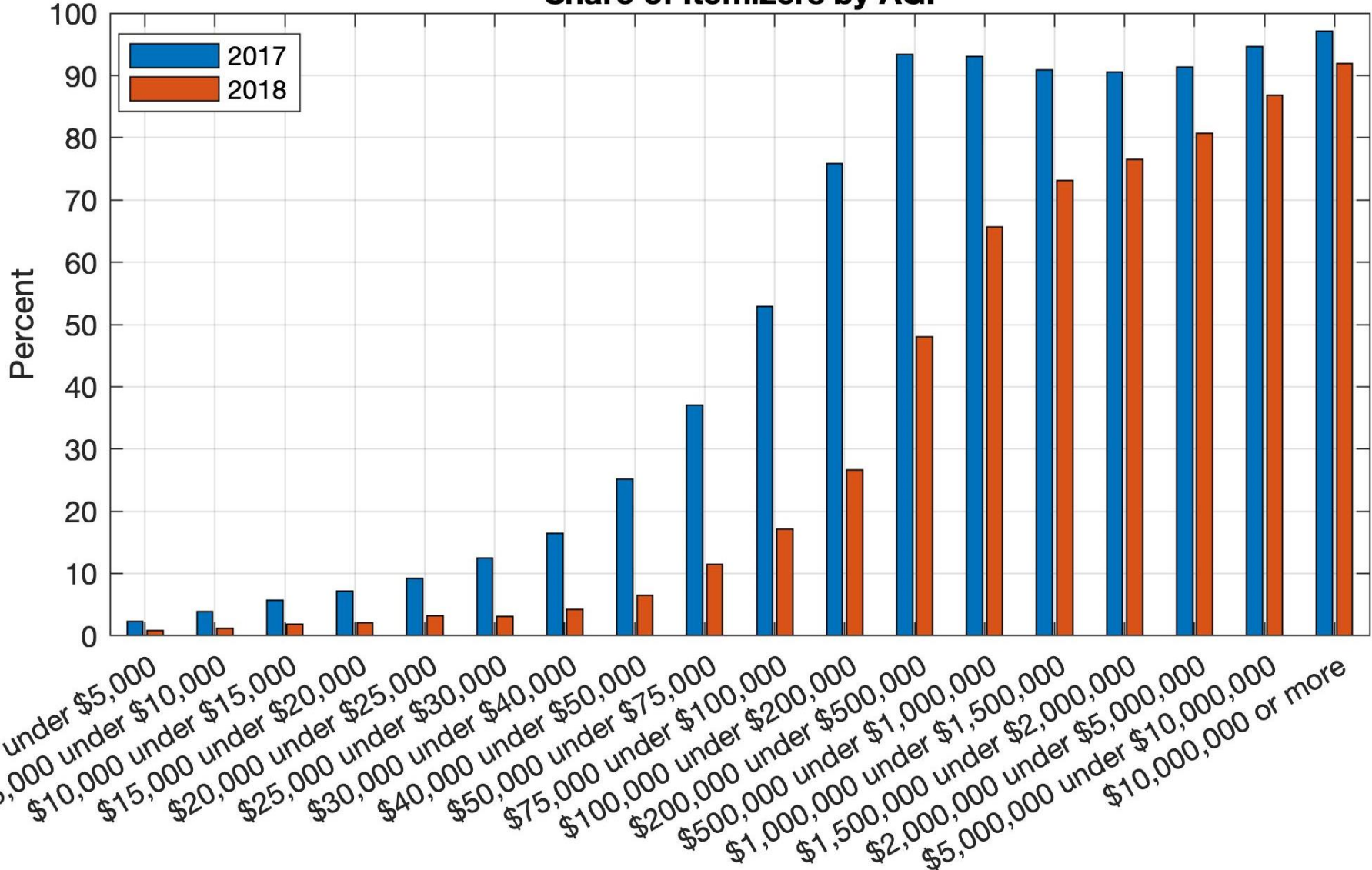
Federal Tax Policy

- 2017 Tax Cuts and Jobs Act (TCJA)
 - Corporate tax cut (permanent)
 - Income tax reform (Sunsets on December 31, 2025)
- Income tax reforms
 - Restructured deductions
 - Reduced rates

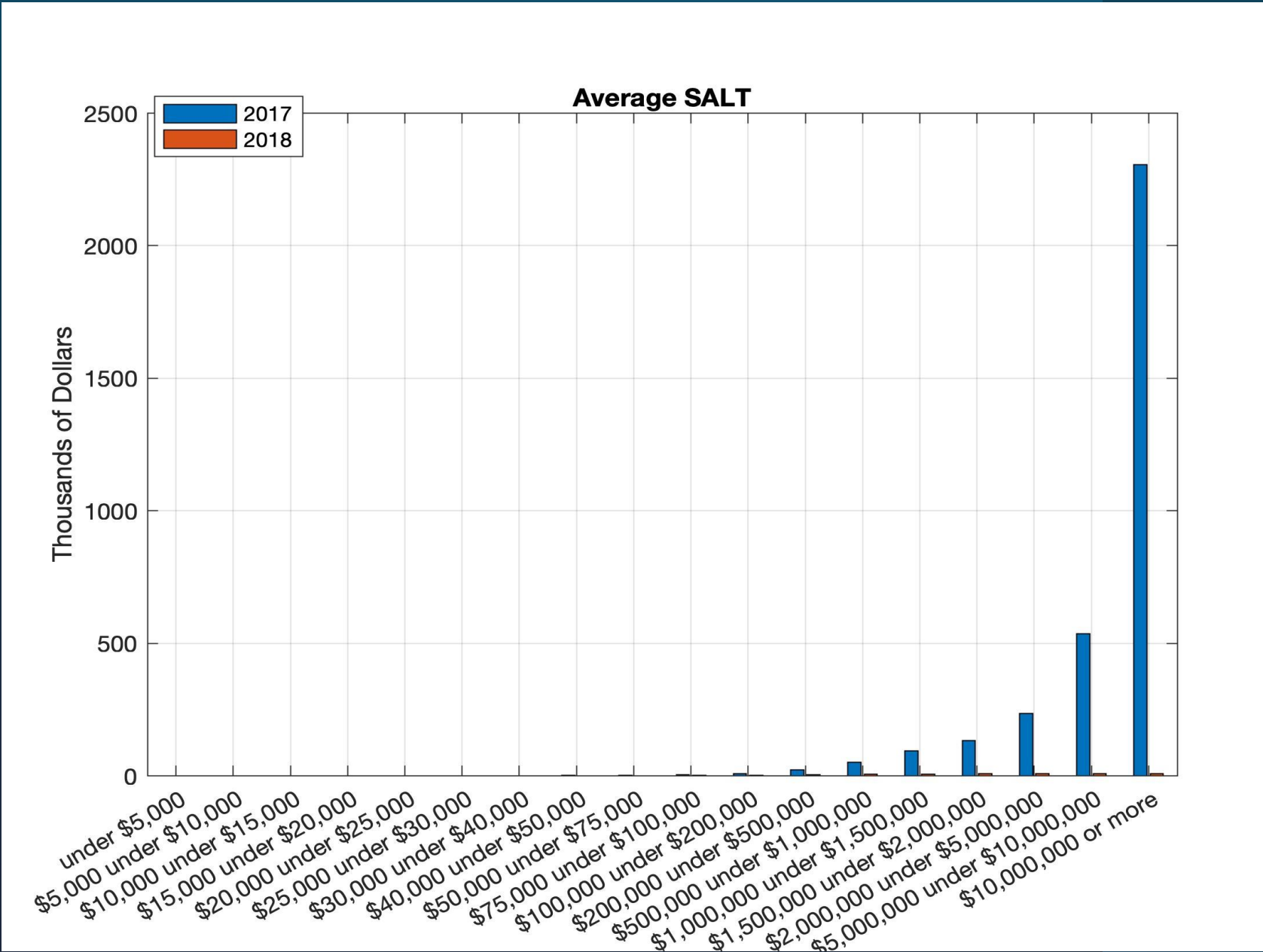
TCJA Overview

- Itemized deductions
 - Capped the SALT deduction at \$10,000
 - Reduced the mortgage interest deduction cap from \$1m to \$750k
 - Eliminated miscellaneous deductions
- Standard deduction
 - Raised from \$11k to \$24k

Share of Itemizers by AGI



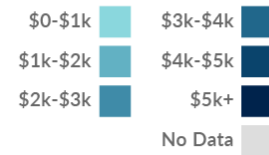
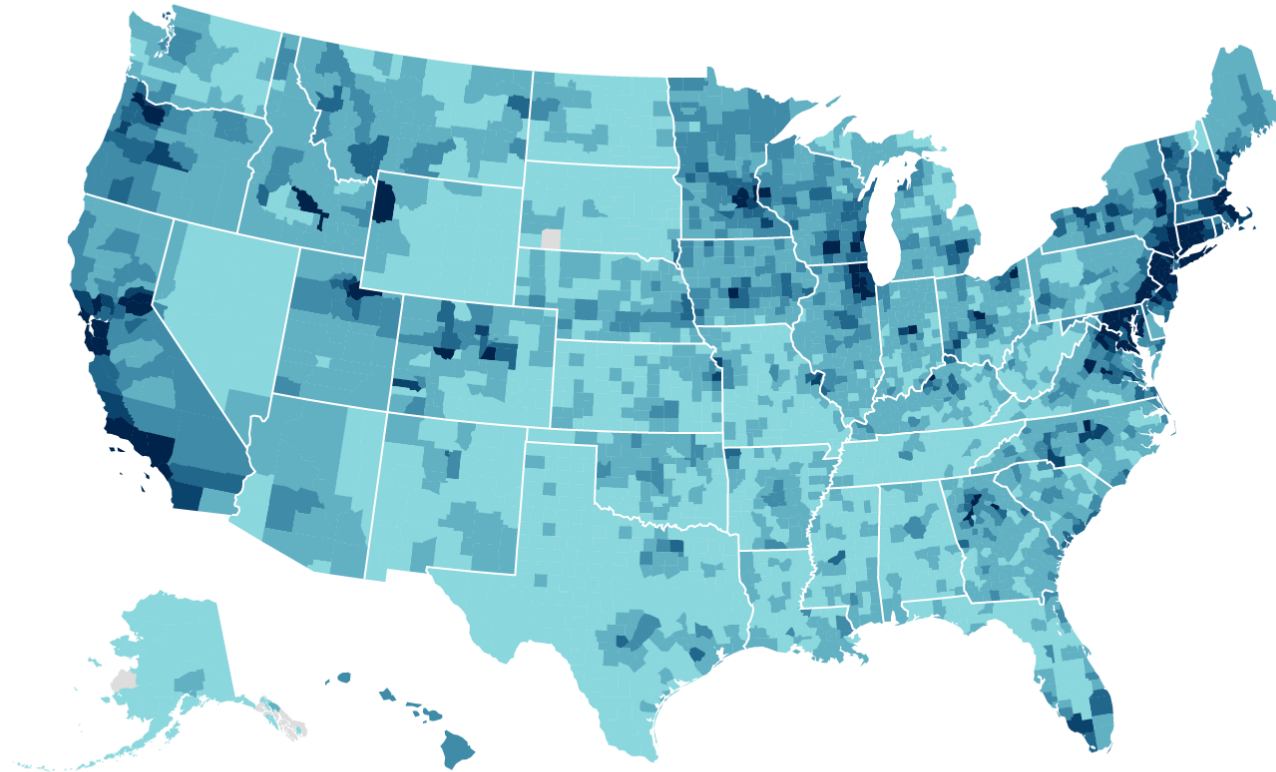
Source: IRS SOI and author's calculations



Source: IRS SOI and author's calculations

Which Places Benefit Most from State and Local Tax Deductions?

Itemized Deductions for State and Local Taxes per Return, 2014

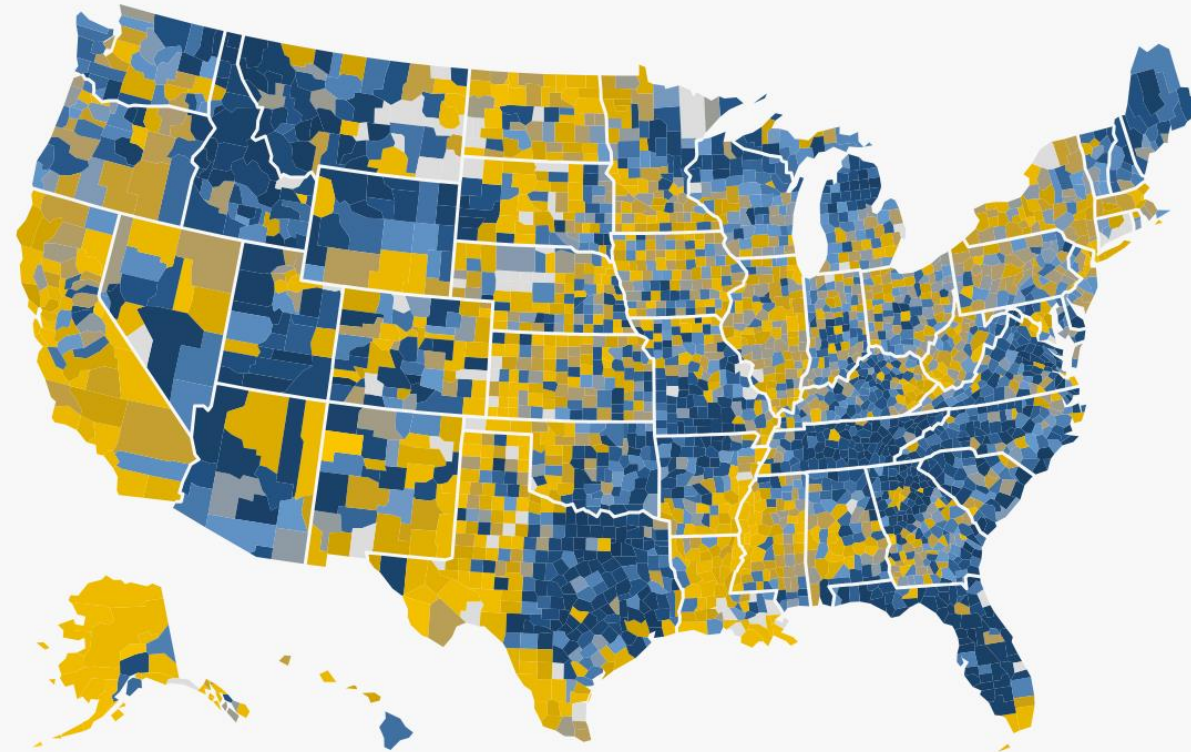


Notes: Calculated as the per-return average of the sum of the deductions for state and local income, sales, and real estate taxes.

Source: IRS Statistics of Income; Tax Foundation calculations.

County-Level Migration in 2021-2022

Net Gain/Loss of Residents as a Share of 2021 County Population



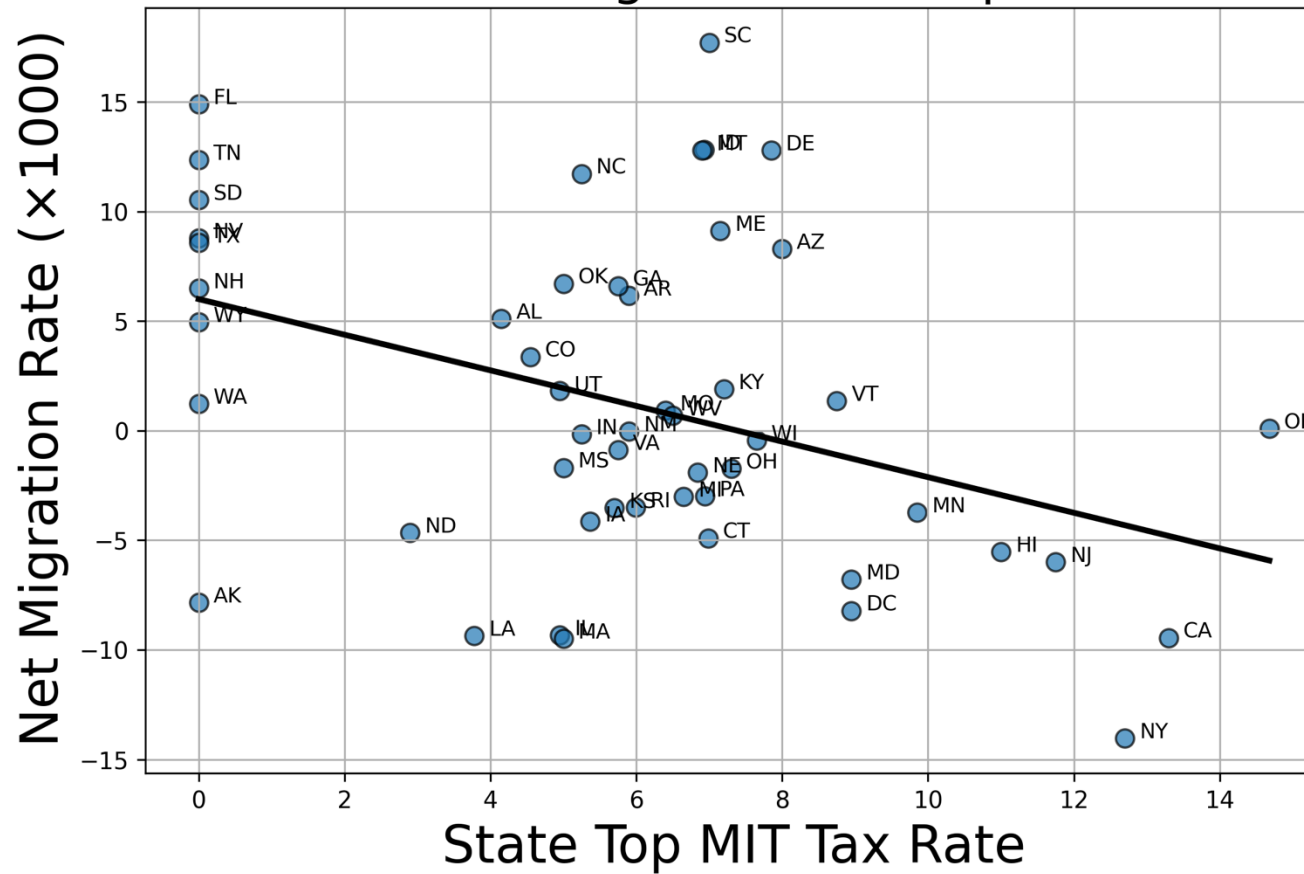
Note: Tax Foundation calculations using IRS and Census data.
Source: IRS, SOI Tax Stats.

Map: Andrey Yushkov

Cross-state Migration

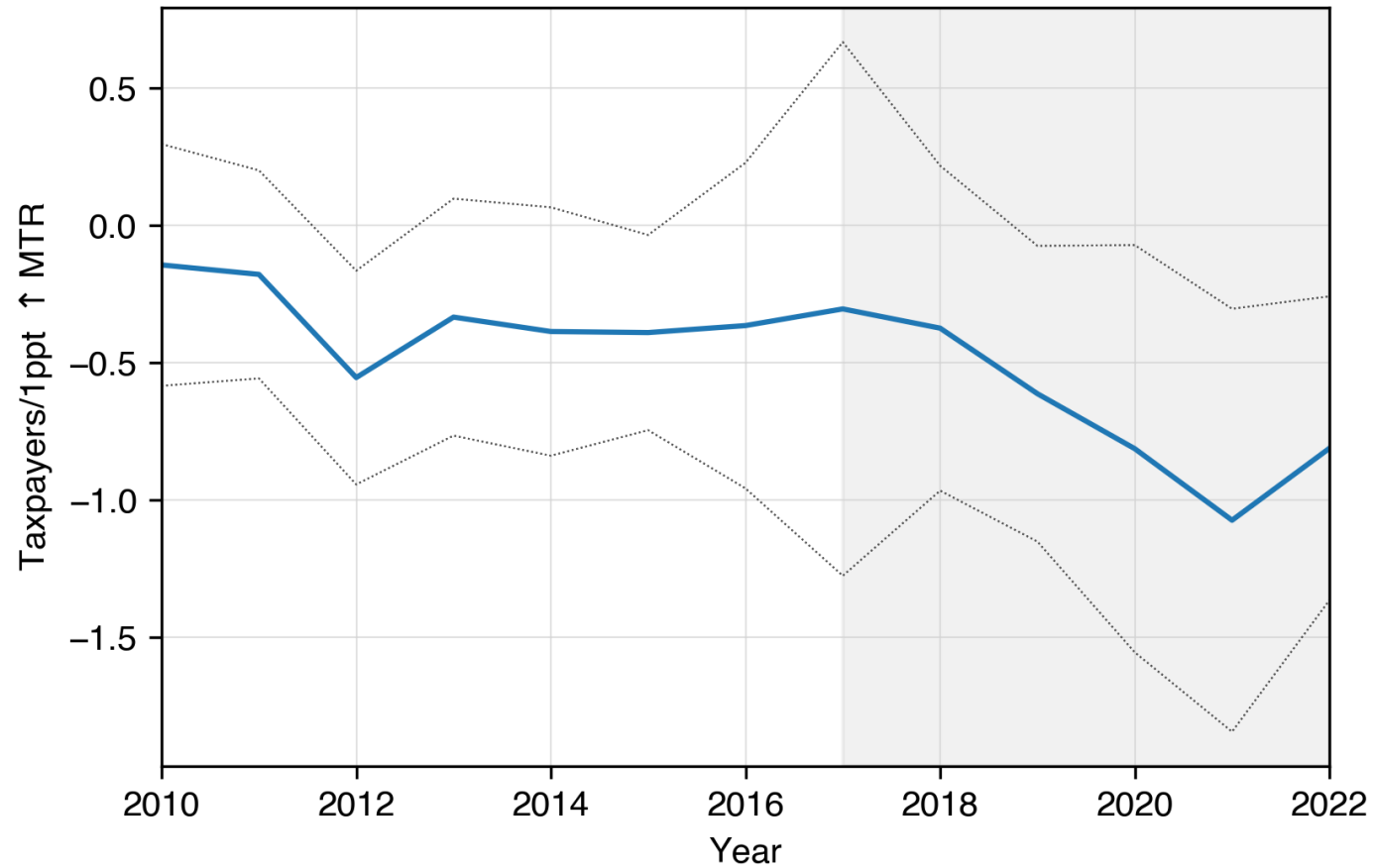
- State-level Migration Data (IRS)
 - Universe of U.S. federal taxpayers
- State Income Tax Data (Tax Foundation)
 - Top Marginal Tax Rate

2022 Net Migration and Top MTRs



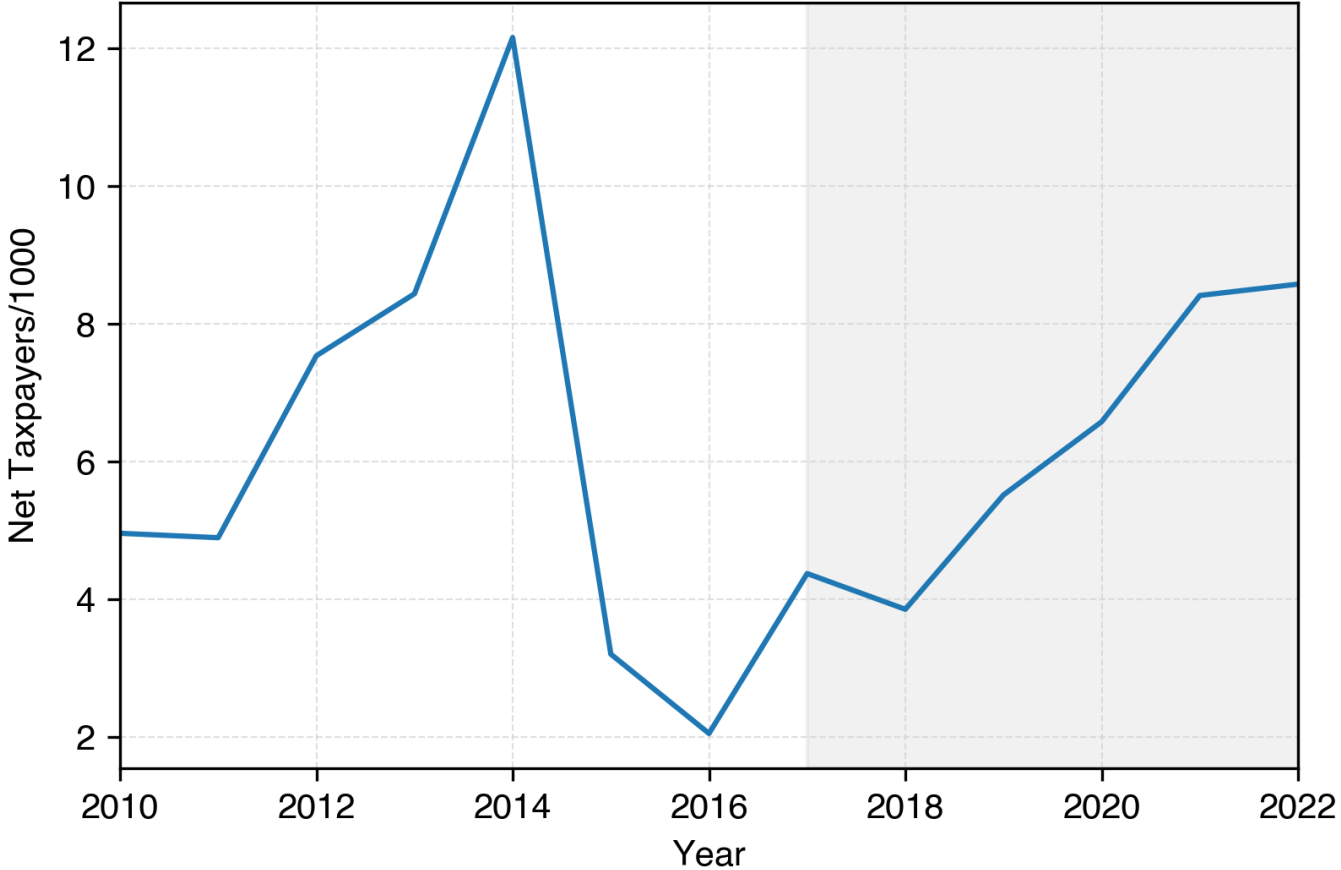
Source: IRS SOI, Tax Foundation, and author's calculations

Net Migration Rates vs State Top MTR



Source: IRS SOI, Tax Foundation, and author's calculations

Texas Net Migration Rate



Source: IRS SOI, Tax Foundation, and author's calculations

Federal Expenditure Packages

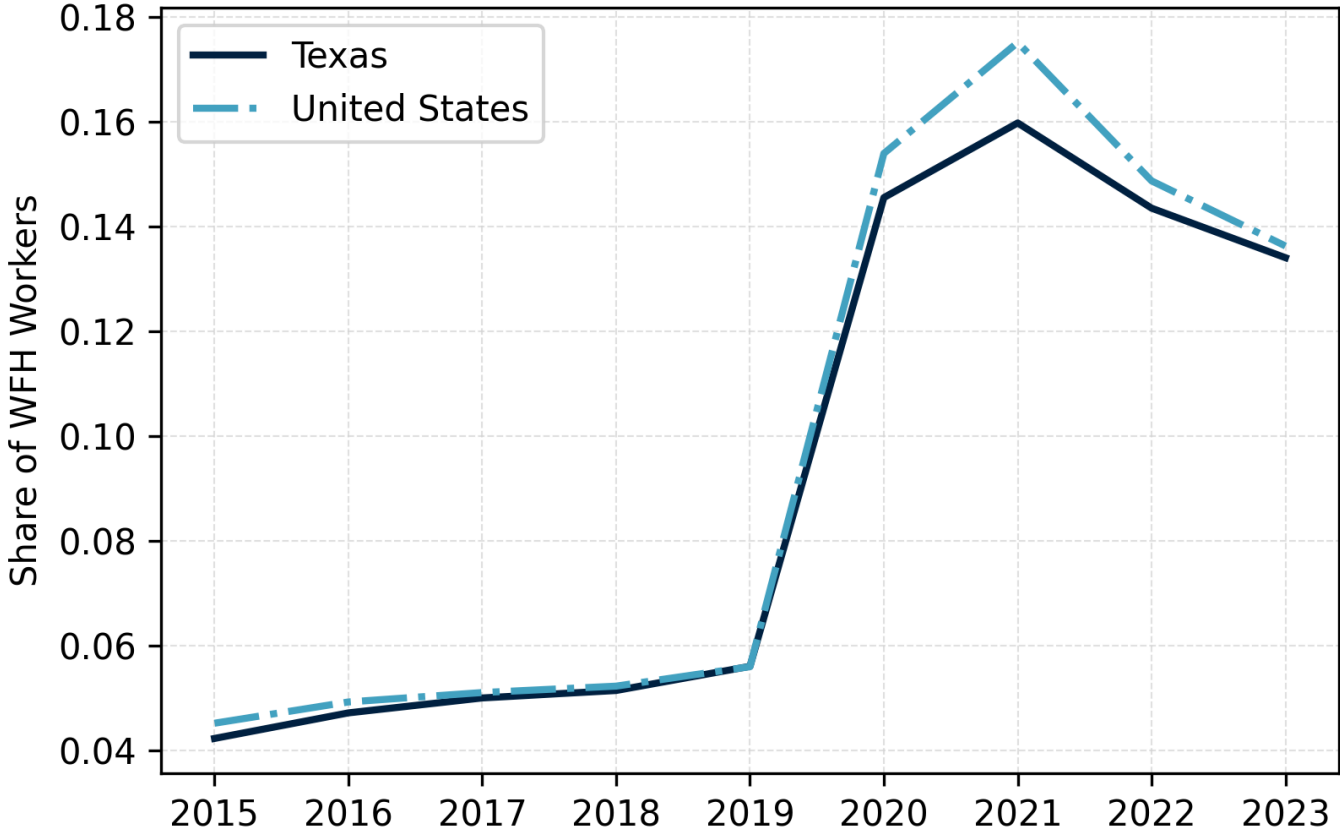
- Inflation Reduction Act (August 2022)
 - \$370B investment in clean energy
 - Solar Power Boom*
- CHIPS Act (August 2022)
 - Significant growth in hardware manufacturing (Samsung facility in Taylor)
- Infrastructure package (November 2021)

*Tian Su (2024), "Solar Boom: How Texas' Rural Land is Powering the Future"

WFH and Domestic Migration

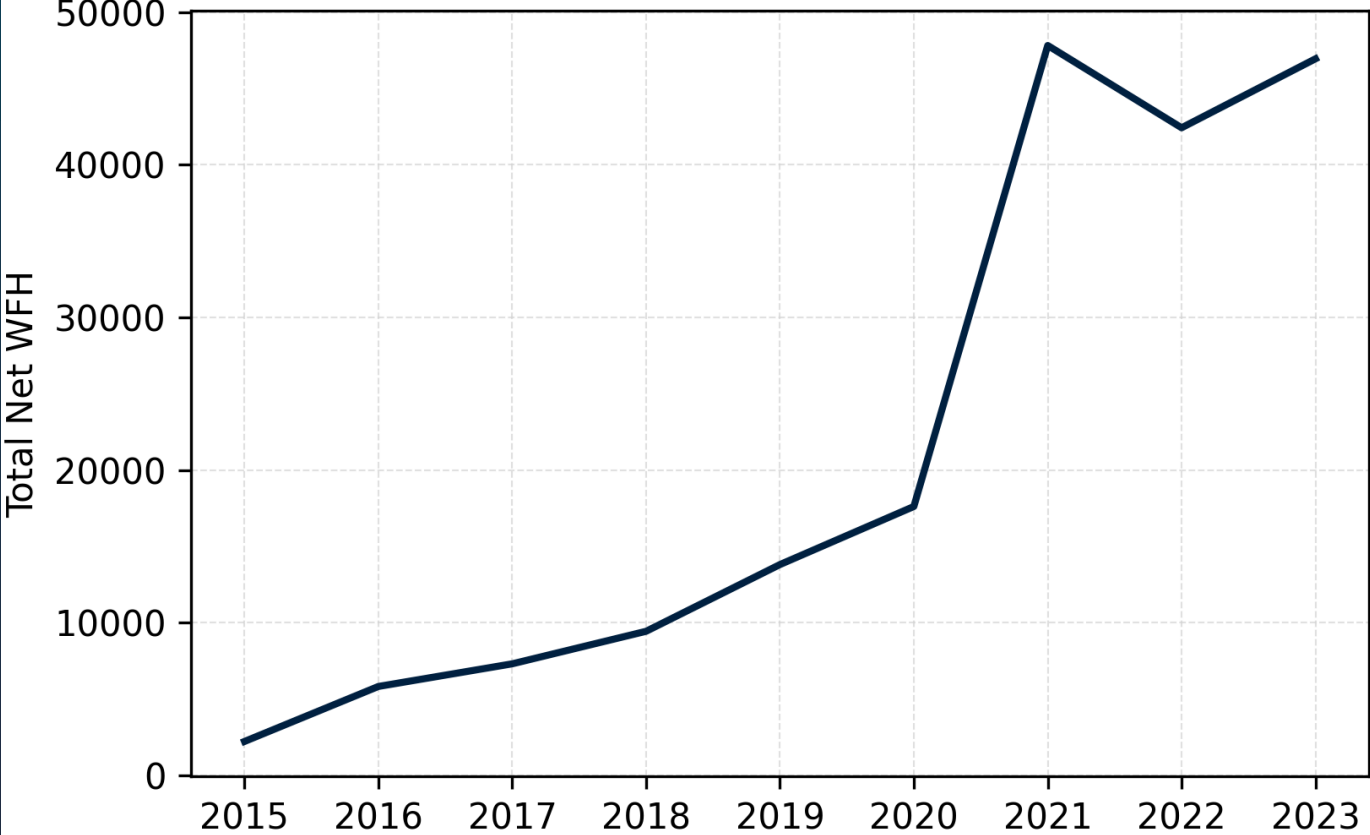
- Bick, Blandin, Mertens, and Rubinton (2024): Post-pandemic ↑ in WFH can account for 57% of ↑ in interstate migration*
- State WFH share/capacity positively correlated with out migration; negatively correlated with net migration
- Texas WFH share and capacity close to national average

WFH Share of Workers



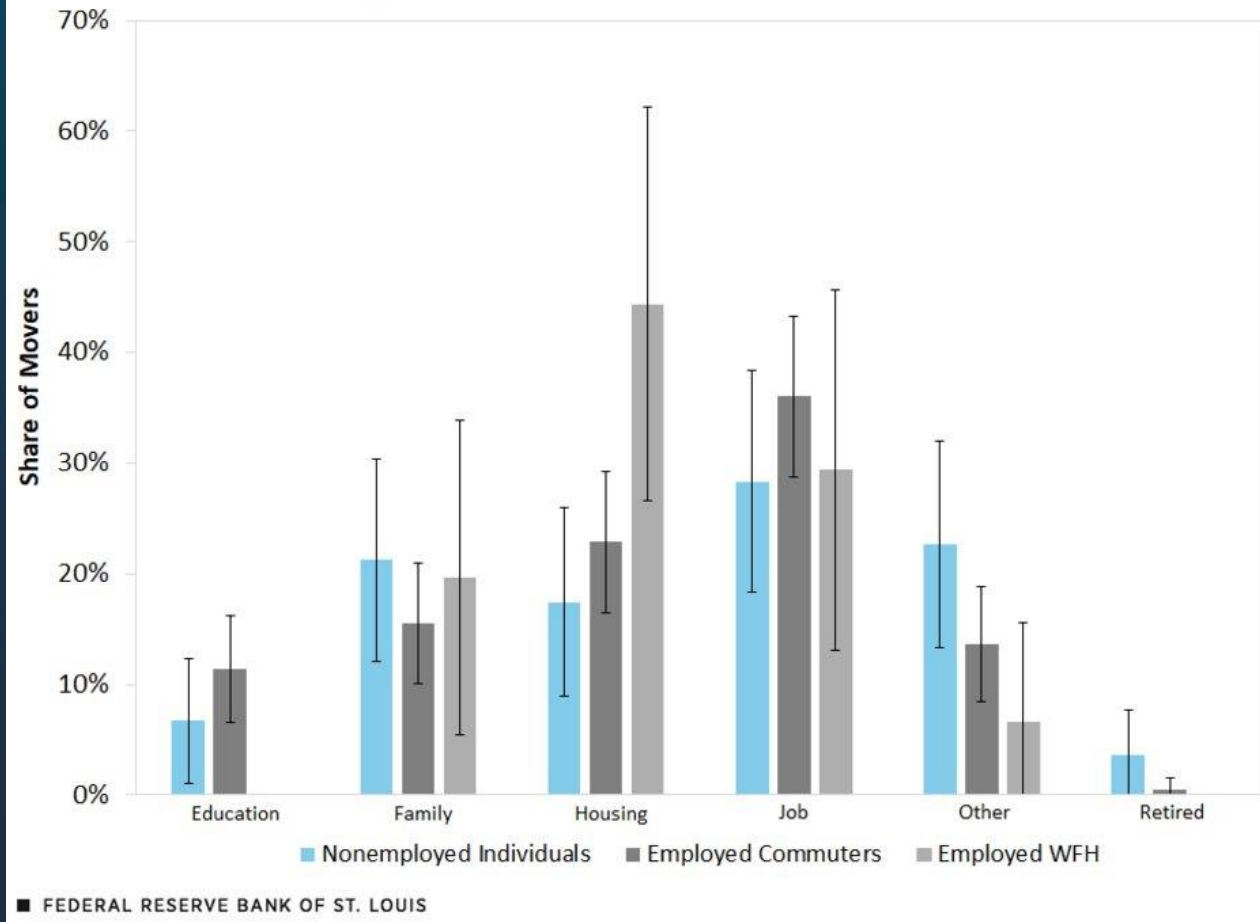
Source: American Community Survey and author's calculations

Texas WFH Total Net In-migrants



Source: American Community Survey and author's calculations

Primary Reason for Relocating to a Different State

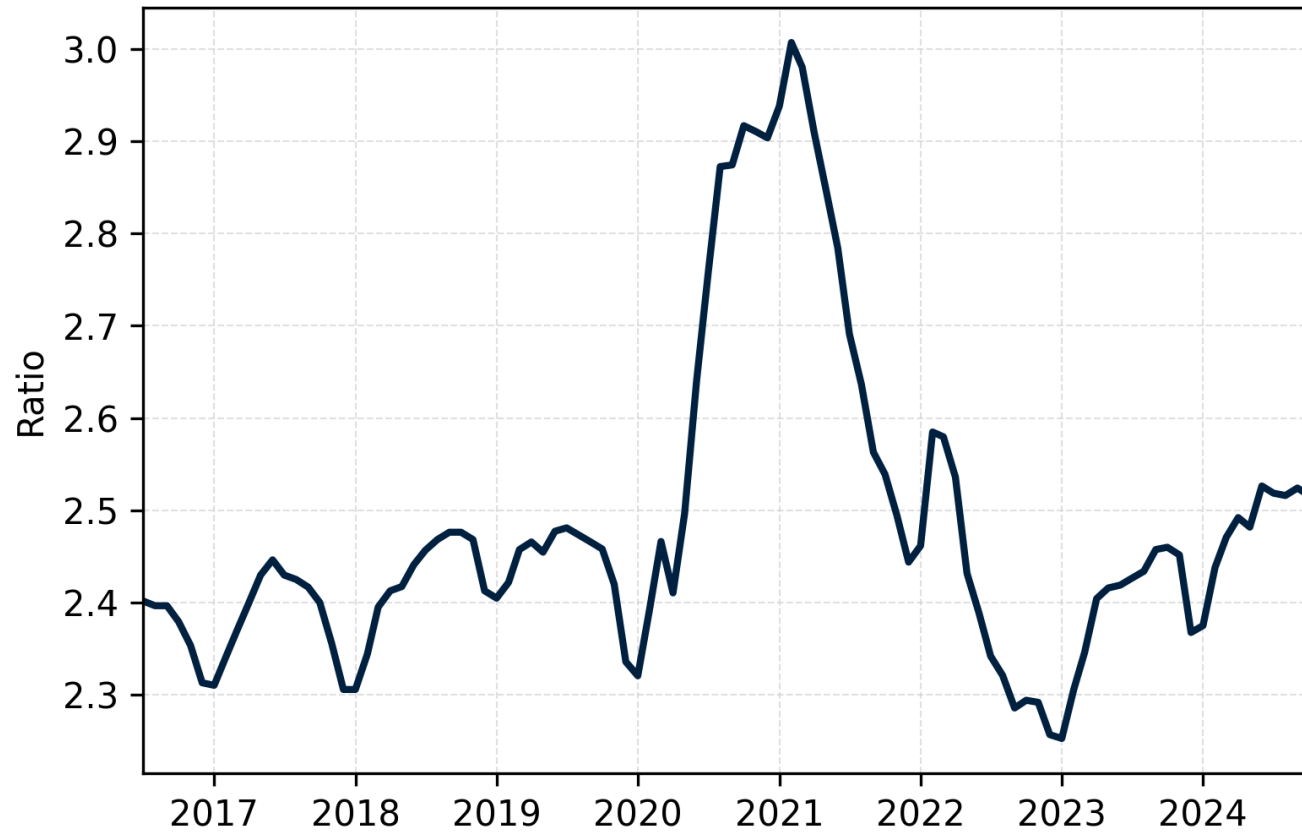


Source: Bick, Blandin, Mertens, and Rubinton (2024)

Housing Costs: Inventory

- Housing leading reason for WFH cross-state migration
- 34% of California residents considering moving out of state due to housing costs (PPIC, 2023)

CA/TX Median List Price per Square Feet Ratio



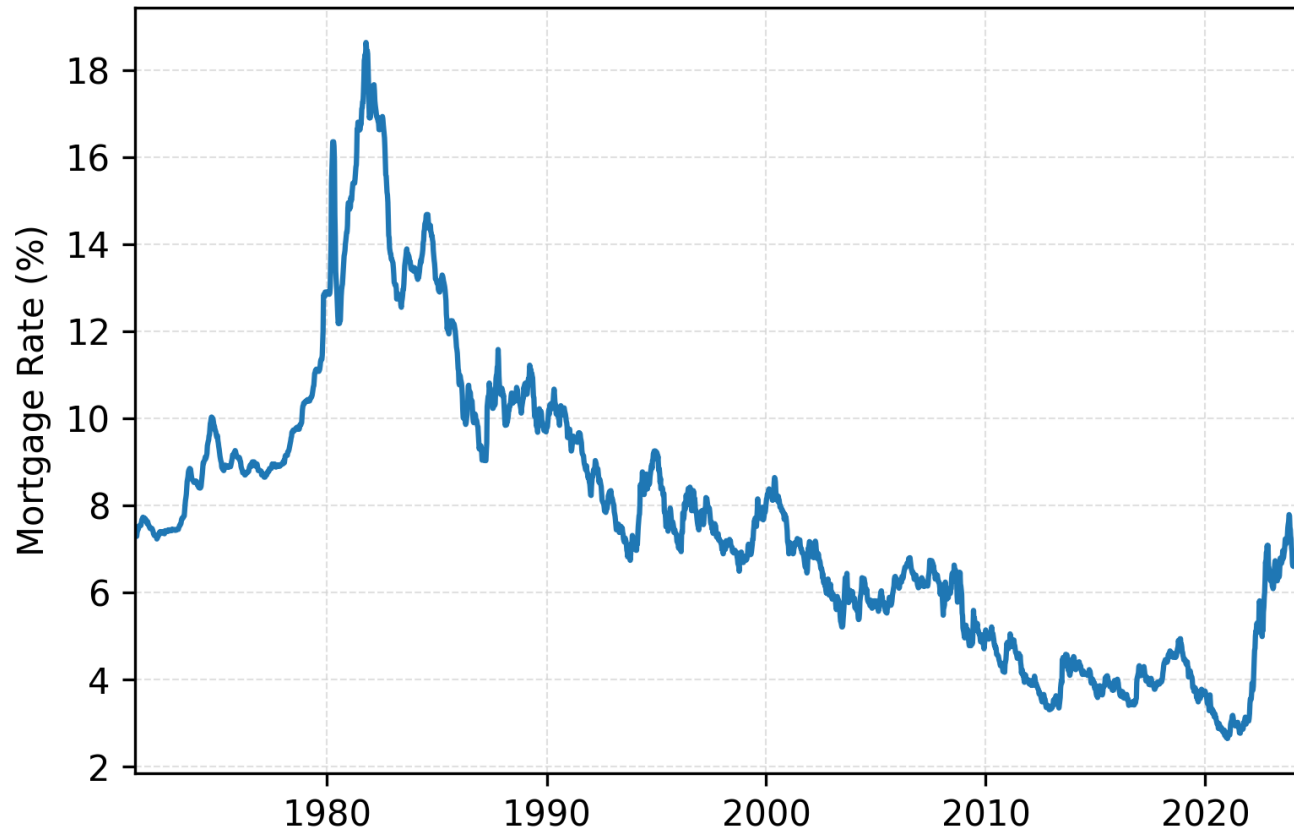
Source: FRED, Realtor.com

Housing Costs: Mortgage Rates

- Low mortgage rates contributed to post-pandemic increase in mobility
- 44% of ↓ in moves among mortgage holders in 2022 attributable mortgage rate lock-in effect

*Aladangady, Aditya, Jacob Krimmel, and Tess Scharlemann (2024). “Locked In: Rate Hikes, Housing Markets, and Mobility,” Finance and Economics Discussion Series 2024-088. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2024.088>.

Avg. 30-year Mortgage Rate, U.S.



Source: FRED, Freddie Mac

Texas Growth Outlook

- Discussed 3 factors contributing to Texas growth
- How might these factors evolve in the future?

Federal Fiscal Policy Outlook

- Federal Tax Policy
 - TCJA income tax reforms sunset on Dec. 31, 2025
 - Best guess: \$20-40k SALT cap, insignificant effect

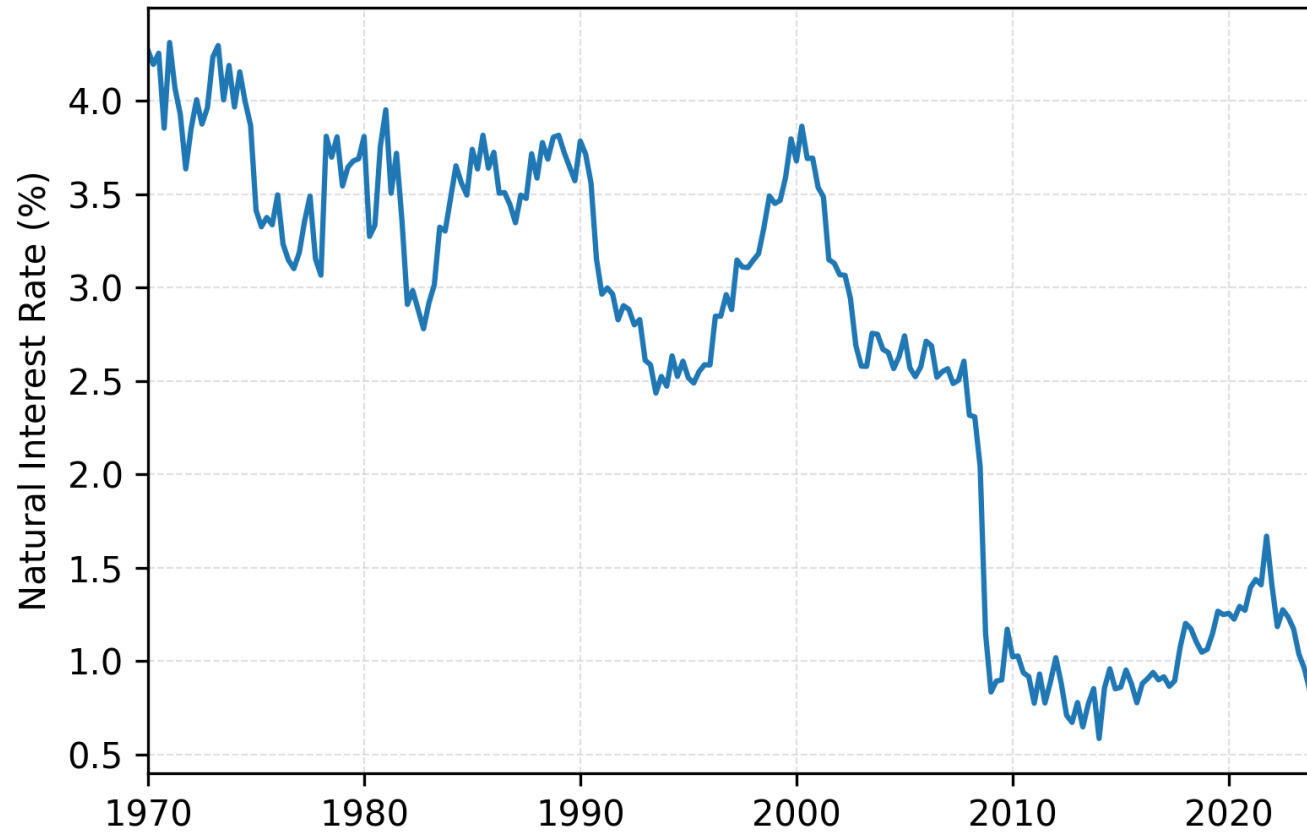
WFH Outlook

- Future of WFH
 - Recent reduction in WFH rate (“Return to Office (RTO)”)
 - Secular trends in WFH could favor persistent migration to Texas

Interest Rate Outlook

- Mortgage Rates
 - Steady interest rate decline since 1980's
 - Demographics-driven surge in capital → interest rate ↓
 - Interest rates likely to continue trending downward

Estimated Natural Rate of Interest (r^*)



Source: Federal Reserve Bank of New York

Conclusion

- 2017 TCJA created favorable economic environment
- Pandemic and federal spending caused ↑ net migration to Texas
- Recent slowdown attributable to RTO and higher interest rates
- Best guess: Texas will continue to perform favorably in terms of population and economic growth

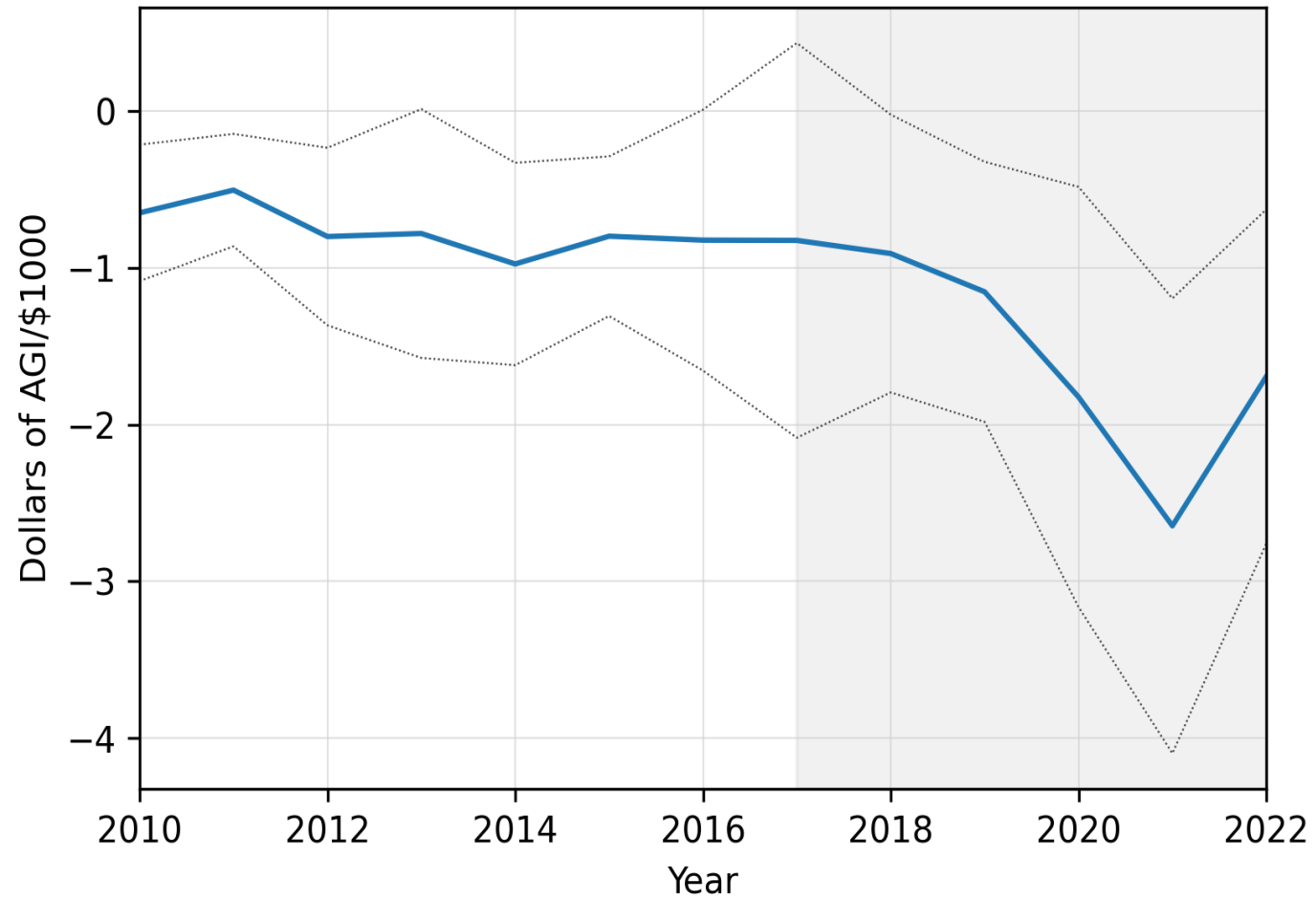
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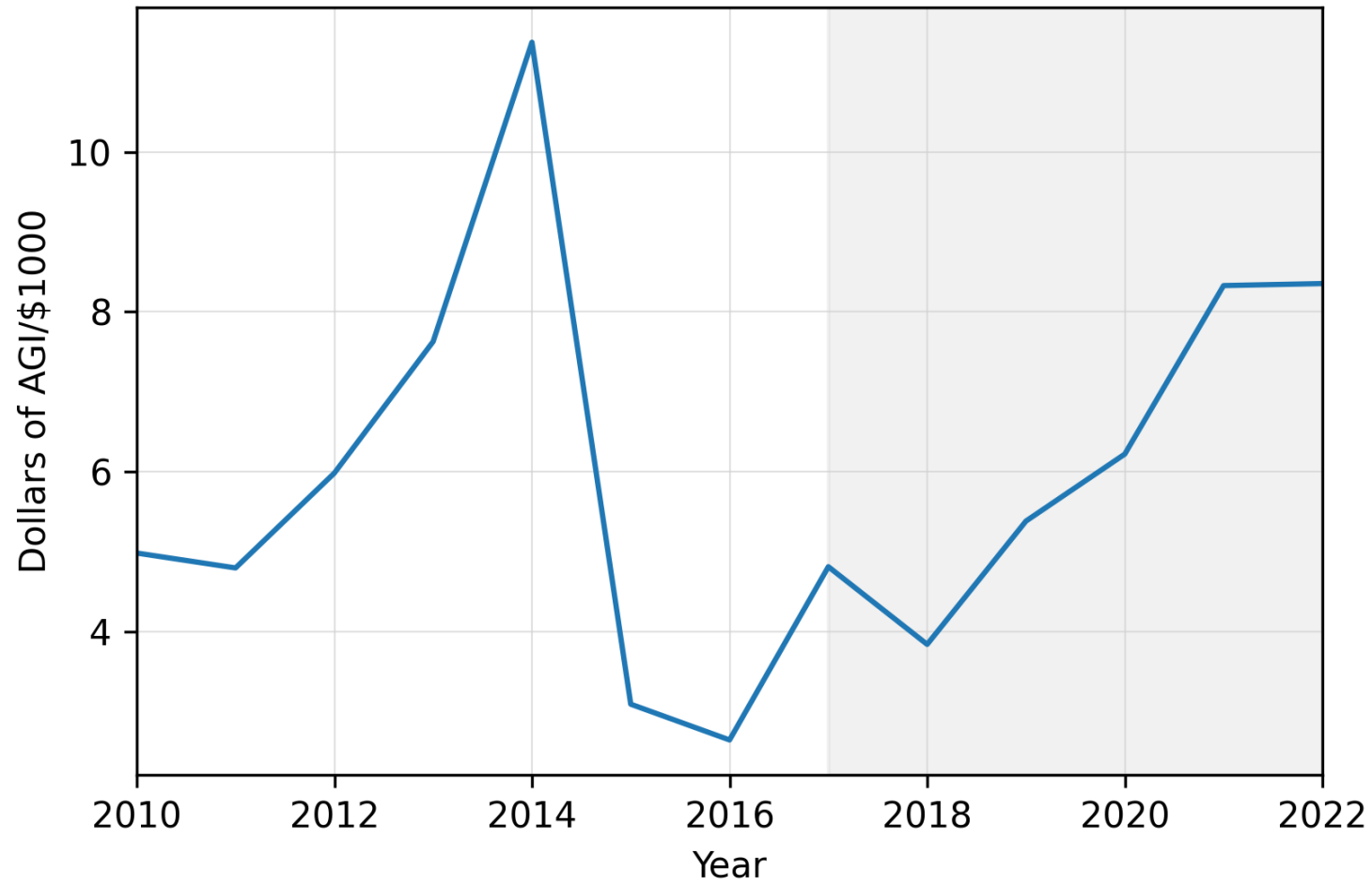
- <https://www.federalreserve.gov/econres/feds/files/2024088pap.pdf>
- <https://www.ppic.org/publication/whats-behind-californias-recent-population-decline-and-why-it-matters/>

Net AGI Flow Rates vs State Top MTR



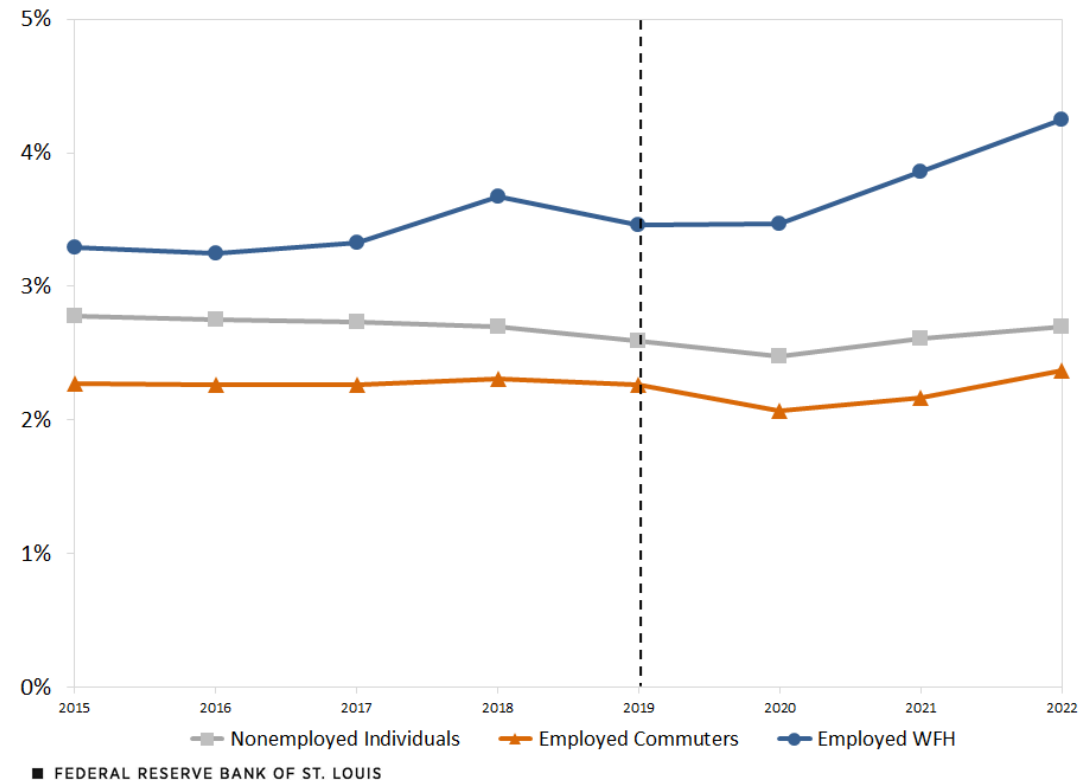
Source: IRS SOI, Tax Foundation, and author's calculations

Texas Net AGI Flow Rates



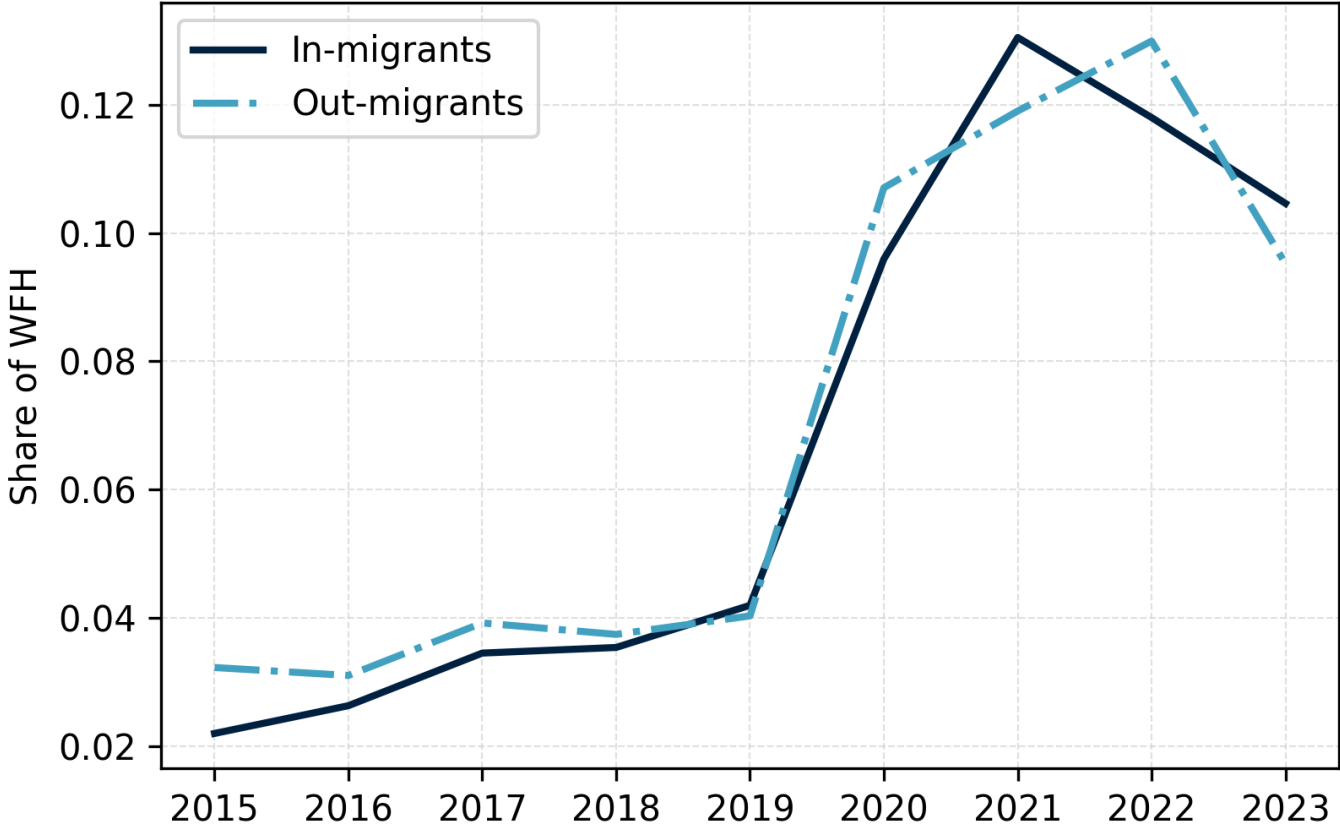
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WFH and Migration



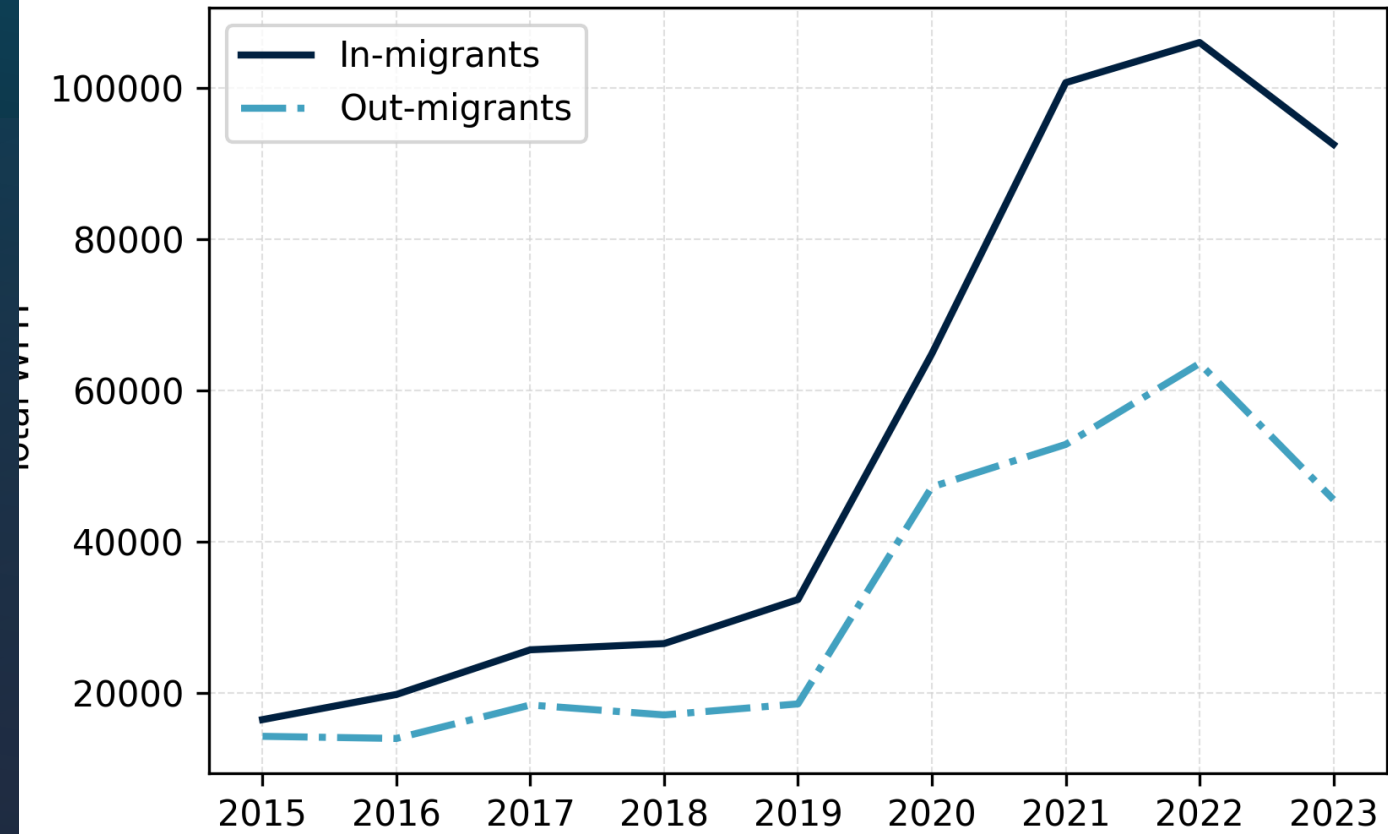
Source: Bick, Blandin, Mertens, and Rubinton (2024)

Texas WFH Rates for In- and Out-migrants

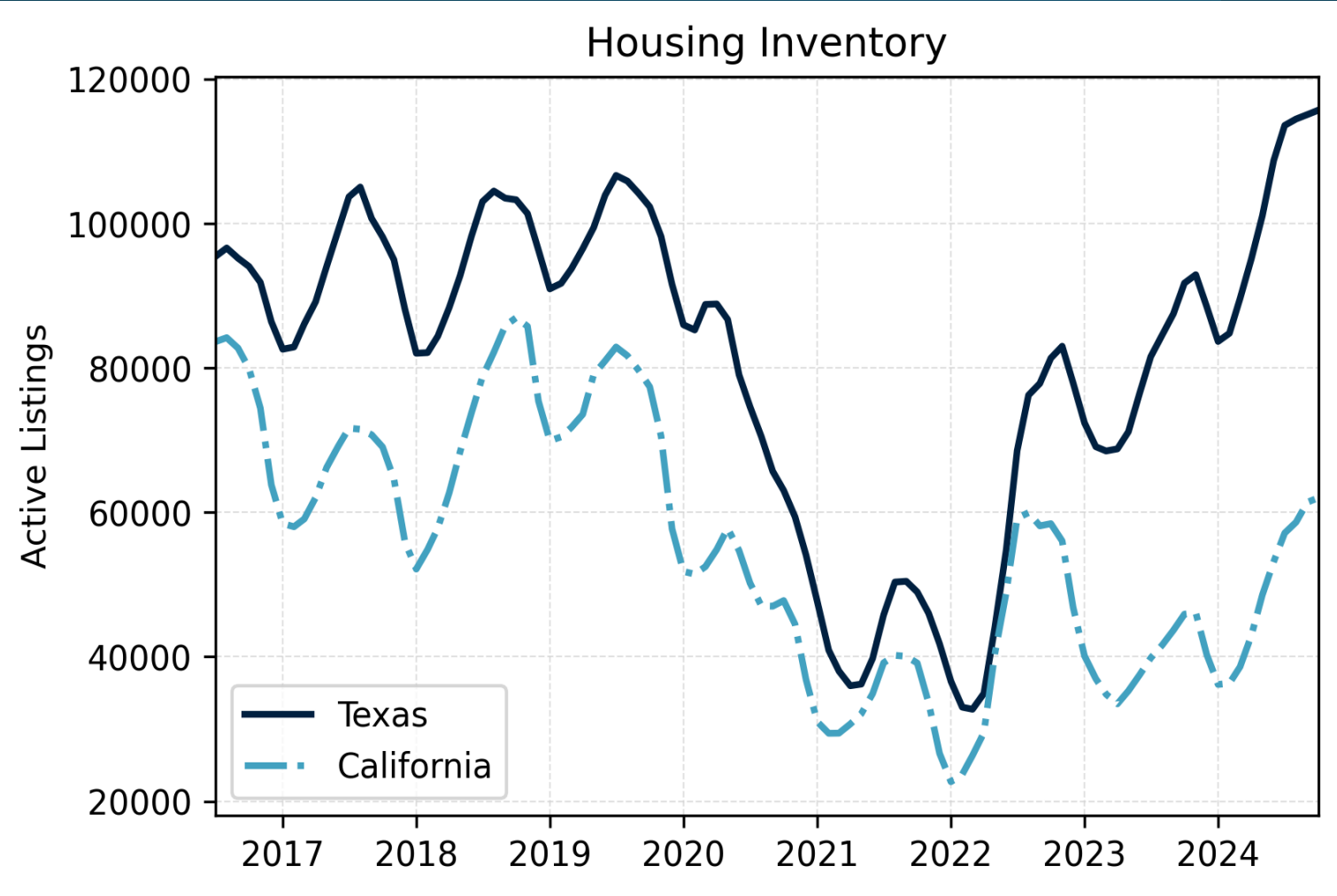


Source: American Community Survey and author's calculations

Texas WFH Total In- and Out-migrants

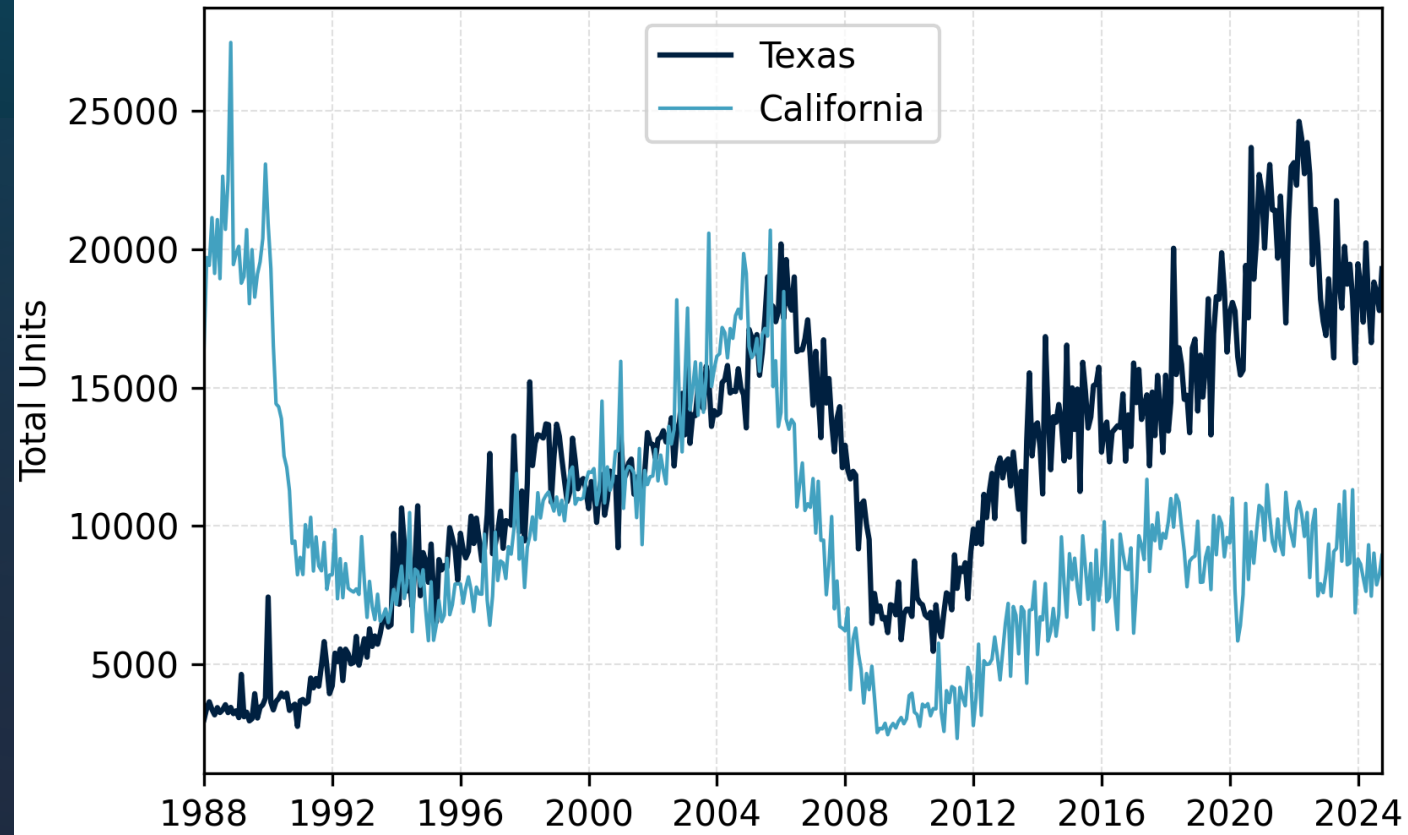


Source: American Community Survey and author's calculations



Source: FRED, Realtor.com

New Housing Units Authorized



Source: FRED, Census Bureau