REGIONAL ECONOMIC SNAPSHOT

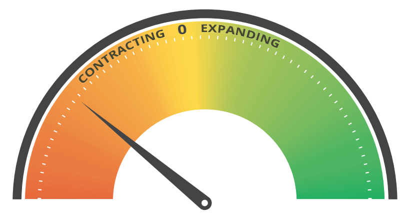
EMPOWERING AMERICAN CITIES

FIFTH THIRD / UNC KENAN INSTITUTE

In our base-case scenario, we expect solid but slowing growth in 2024 with a mild recession starting late in the year, as Federal Reserve rate hikes continue to ripple through financial conditions and pricing pressures cool the national economy.

2024 U.S. GDP Growth Forecast

U.S. Supply Side (Employment)



U.S. Demand Side (Consumption)

The color spectrum indicates a distribution that ranges from negative (red) to positive (green), with zero set to yellow. The barometers reflect each indicator's historical distribution.

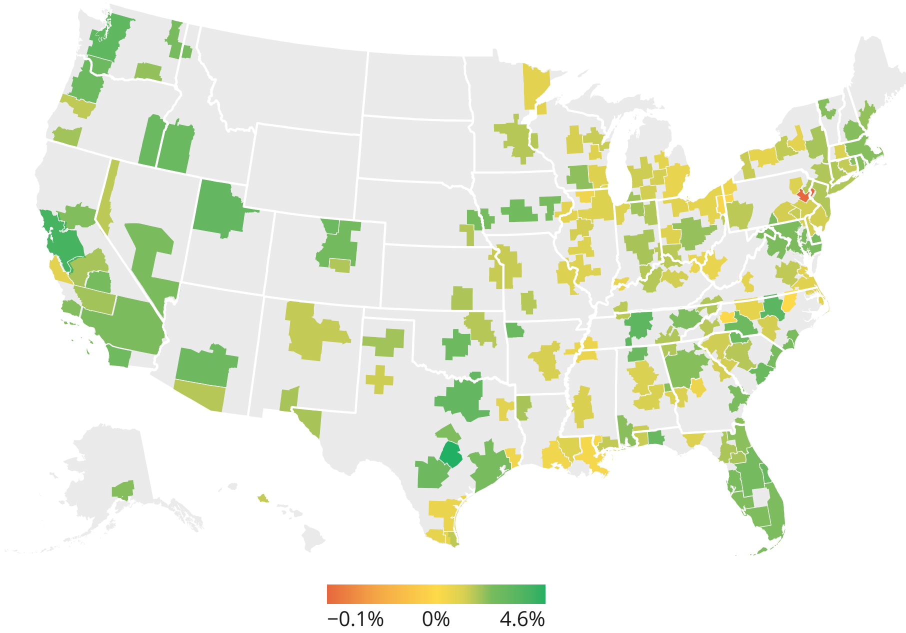
Most of the microeconomies in the United States are expected to see somewhat slower rates of growth than in the previous year, which is reflected in our projections for Extended Metropolitan Areas. Despite weaker growth, the data indicate that nearly every one of the 150 largest EMAs in the U.S. will expand in 2024. While we expect recessionary conditions by the end of the year, varied economic fortunes indicate the slowdown will be experienced unevenly. Cities with a large manufacturing base as well as those that have benefited from the recent housing boom are expected to be among the hardest hit as high interest rates take their toll on interest-sensitive spending sectors.

On the supply side of the U.S. economy, job creation is expected to slow. Some sectors, most notably Manufacturing, will experience job loss, while Education and Health will continue their upward trajectory, albeit at a somewhat slower pace. The employment slowdown will continue to weigh on overall wage growth, ultimately lessening price pressures, although inflation is likely to remain somewhat above target during the next 12 months.

On the demand side, high interest rates, elevated inflation, and slowing job and wage growth will dampen consumer spending. Housing shortages have kept home prices aloft, and the combination of high interest rates and home prices are undercutting home affordability and housing activity. Mitigating factors, however, should limit the damage. Modest overall job gains – with significant variation across sectors and EMAs – imply that most households will retain spending power. While unprecedented levels of savings have been drawn down, household and business balance sheets remain healthy in aggregate, but a significant and growing minority of consumers are exhibiting signs of financial stress.

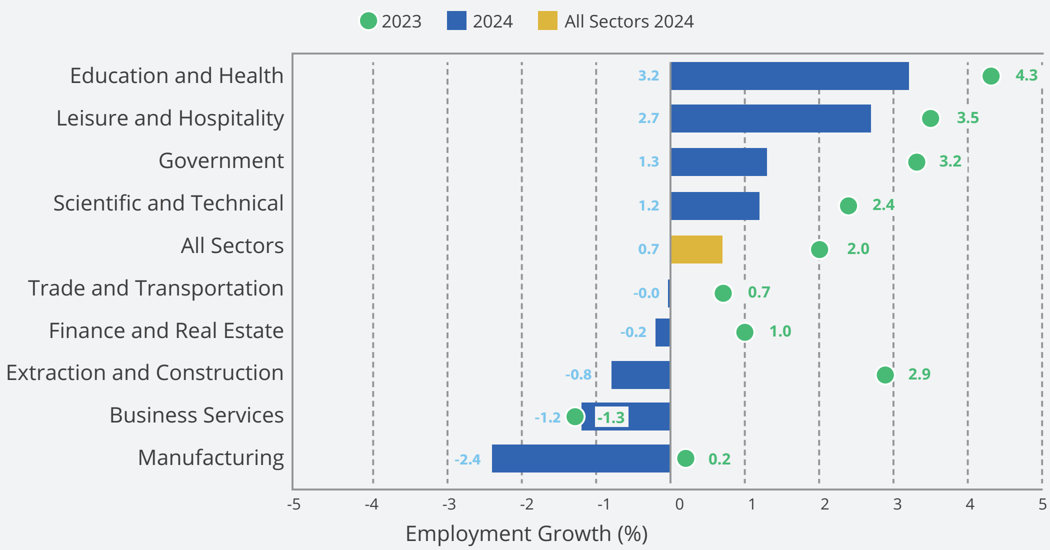
All of these and other factors are expected to yield a mild and short-lived downturn for the U.S. beginning in Q4, which will likely increase disparities in growth dynamics across EMAs. In addition to our base case of a slowdown turning into recessionary conditions, there is a significant, yet less likely, "soft landing" scenario in which the economy continues to power through headwinds with U.S. consumers fueling a solid expansion.

EMA Economic Performance
2024 Growth Forecast



The map illustrates the divergence in economic growth among EMAs. All but one of our EMAs are anticipated to grow in 2024, many will experience solid growth, and the one microeconomy projected to contract will do so by only the slightest margin. The areas experiencing the fastest recent growth – often beneficiaries of innovation and migration – are likely to continue to outpace the rest of the country. These EMAs have built up reserves of capital in the form of skilled labor, technological infrastructure and other investments, which will limit the downturn in demand. Meanwhile, cities that rely on sectors expected to be most affected by the slowdown and eventual recession, such as Manufacturing, will underperform. Areas where labor constraints and housing trends are centrally important to the economy will likely be hampered by stubbornly elevated home prices and interest rates.

U.S. Employment Growth by Sector
2024 vs. 2023

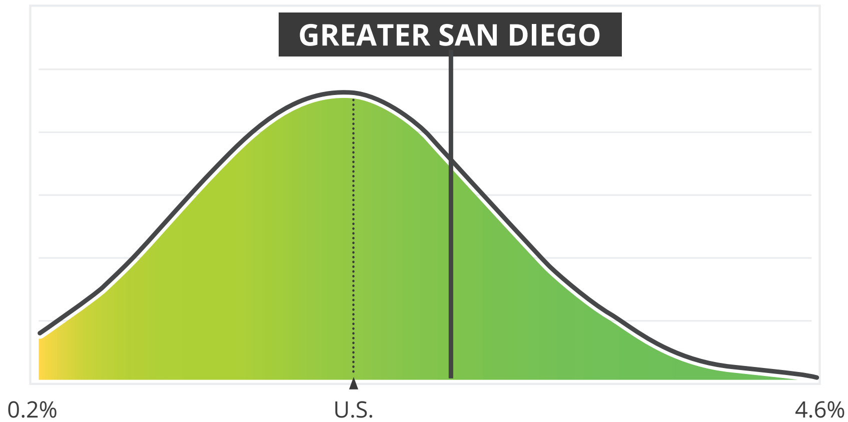


- The pace of hiring in 2024 is expected to slow across the U.S. in all major sectors, with employment contracting in several sectors and net job growth of only 0.7% for the year.
- The Extraction and Construction sector is expected to experience the biggest slowdown, swinging from healthy growth to contraction as high interest rates create drag on construction in particular.
- We expect a modest slowdown in Leisure and Hospitality, though there is higher-than-usual uncertainty in this prediction because of pent-up demand from the pandemic years.

GREATER SAN DIEGO

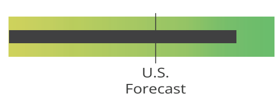
Extended Metropolitan Area*

2024 GDP Growth
Distribution of 50 Largest EMAs

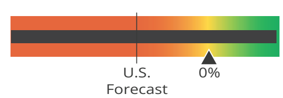


- Greater San Diego is projected to experience solid growth in overall economic activity in 2024.
- Compared with other large EMAs, San Diego is among the top 15, with projected GDP growth above the U.S. average.

Supply Side (Employment)

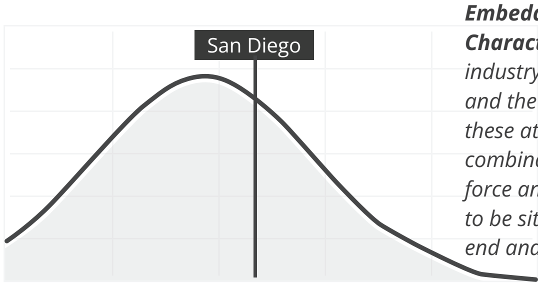


Demand Side (Consumption)



- Greater San Diego has strong supply-side characteristics, with **healthy expected job creation,** and robust overall demand, as reflected in **solid housing activity.**

Embedded Local Growth Characteristics



Embedded Local Growth Characteristics *refers to the EMA's industry and demographic makeup and the potential economic growth that these attributes generate. EMAs with a combination of a highly skilled workforce and productive industry mix tend to be situated at the distribution's high end and generate faster growth.*

- San Diego's sectoral mix (illustrated on Page 4), demographic balance and migration patterns indicate a moderately strong potential growth engine.

Key Takeaways

1. The U.S. economy's projected slowdown in 2024 poses challenges for some San Diego industries, particularly in the Business Services and Trade and Transportation sectors, and yet the area's advantageous demographic composition is foundational for long-term economic health.

2. San Diego has a tight labor market and limited housing supply, which contribute to inflationary pressures and raise the cost of living, yet the EMA is well positioned to expand its housing supply to accommodate its growing talent pool.

3. Home to the world's busiest international border crossing, San Diego County benefits from the diverse economic complexion provided by the region's more than 10 million residents as well as formal business relations that connect both sides of the national boundary.

Outlook

The San Diego Region is known for its innovation economy, commitment to the military and the companies that fuel those economies. Civic leaders need to solve the problem of lack of affordable housing supply for 3M+ residents of the region. San Diego has been ranked near the top for innovation and sustainability for many years, and providing access to a solution to the housing question will be a key component for remaining at the top of the ranking.

Joe Yurosek, Regional President, Western Markets

**Counties included in analysis: San Diego County.*

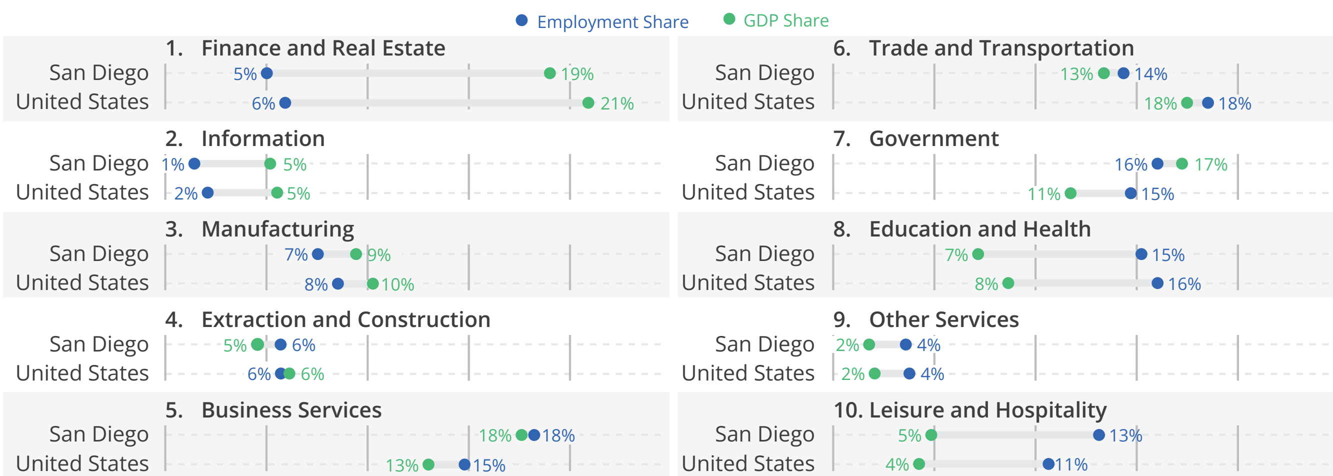
For more information, visit kenaninstitute.unc.edu/american-growth-project

Challenges and Opportunities

- **Challenge:** San Diego's housing shortage has led to high rent and home prices. This forces many area residents to make long commutes for work, absorbing consumer spending from other goods and services.
- **Opportunity:** There are opportunities to expand the housing supply by converting unused commercial properties to multifamily housing.
- **Challenge:** San Diego's Information sector is relatively undersized, signaling a need for investment in what is a productive and synergistic industrial arena.
- **Opportunity:** With recent announcements from advanced technology companies and a growing, highly valuable Government sector, San Diego has prime opportunities for expanding and diversifying its economic engine.

How Productive Are San Diego's Industries?

Sector Employment and GDP Shares Ranked by U.S. Labor Productivity



San Diego Sector GDP Share