

# State of the Economy and 2023 Forecast

Presented to:

Alamo Area GFOAT

December 9, 2022

Presented by:

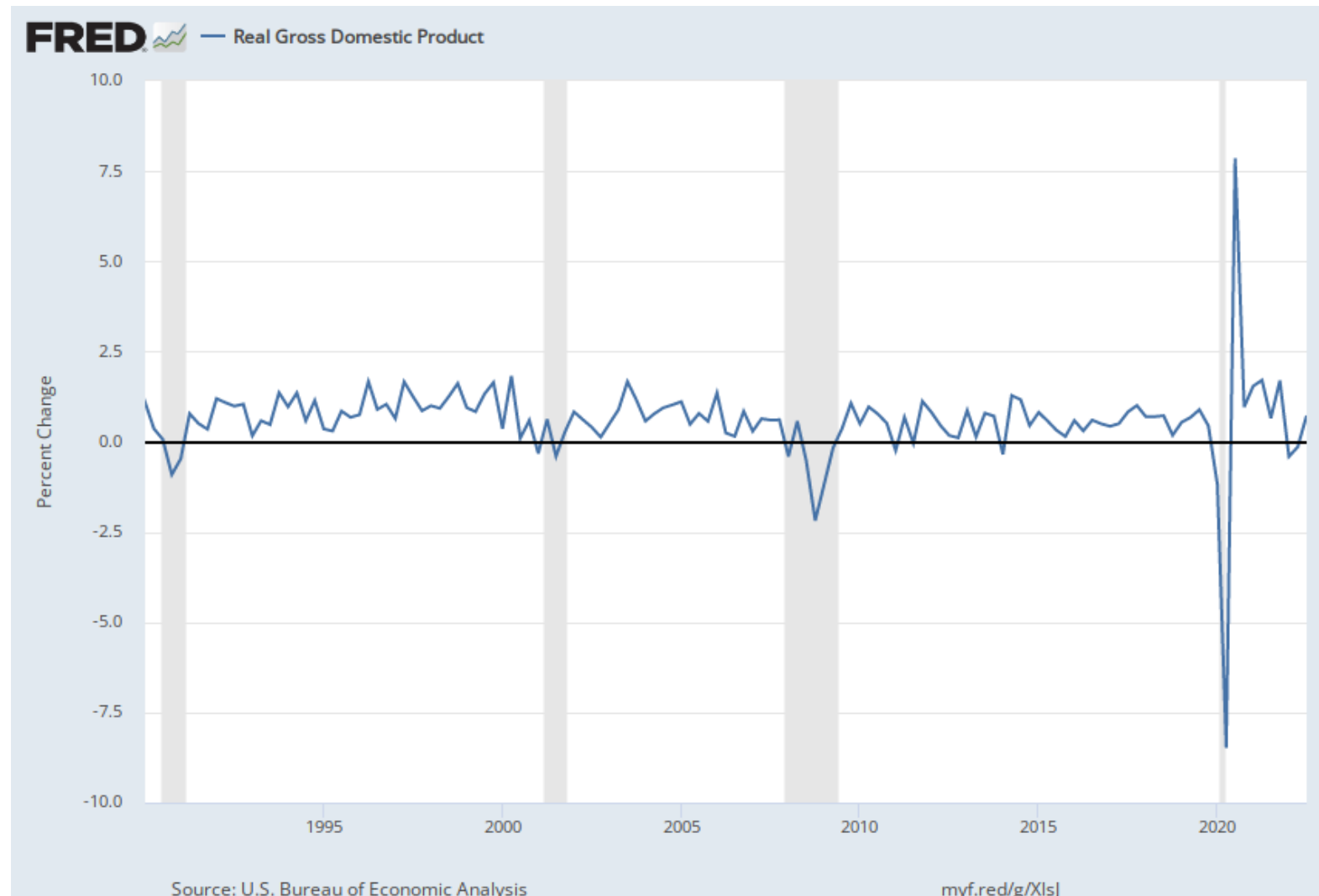
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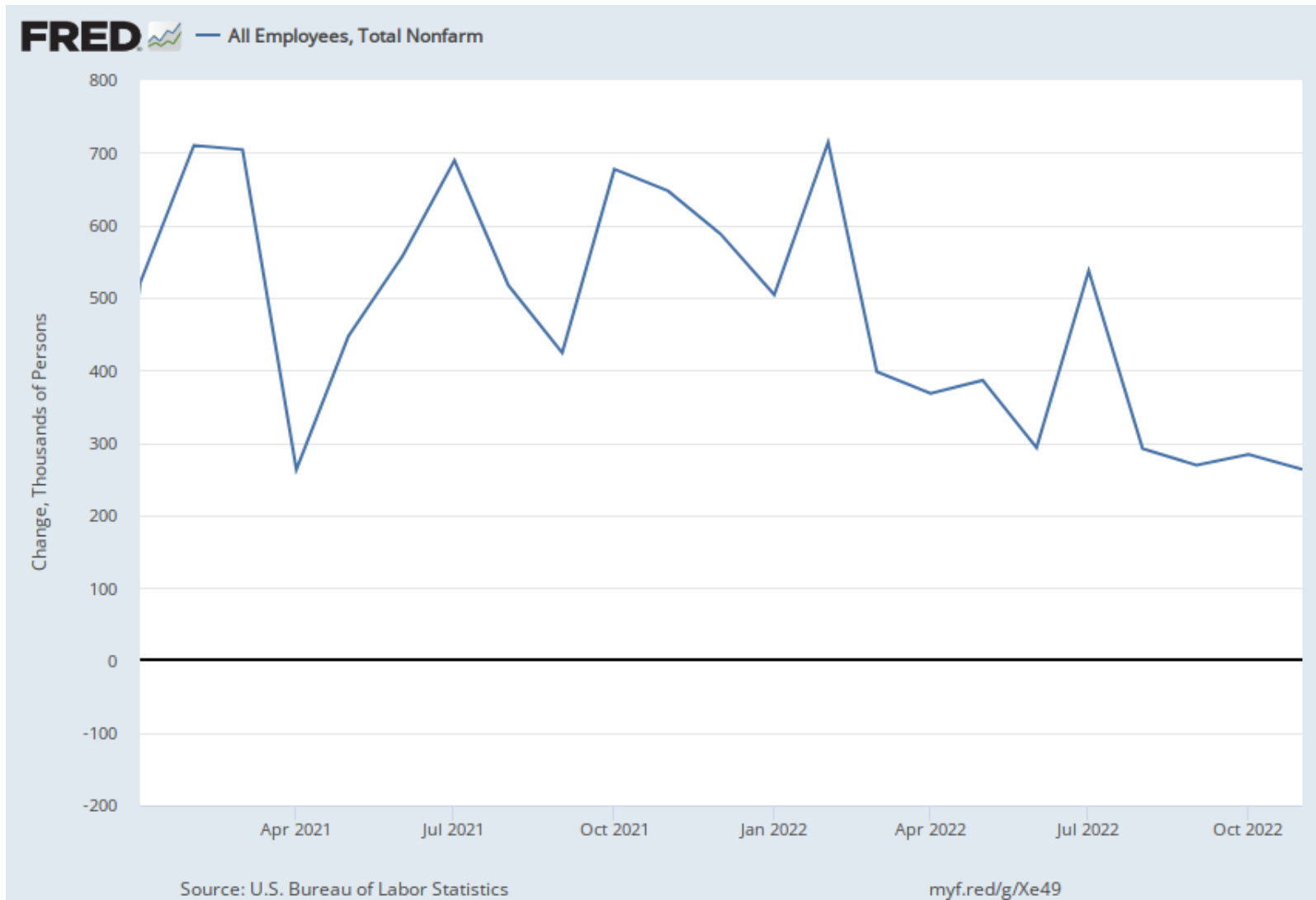
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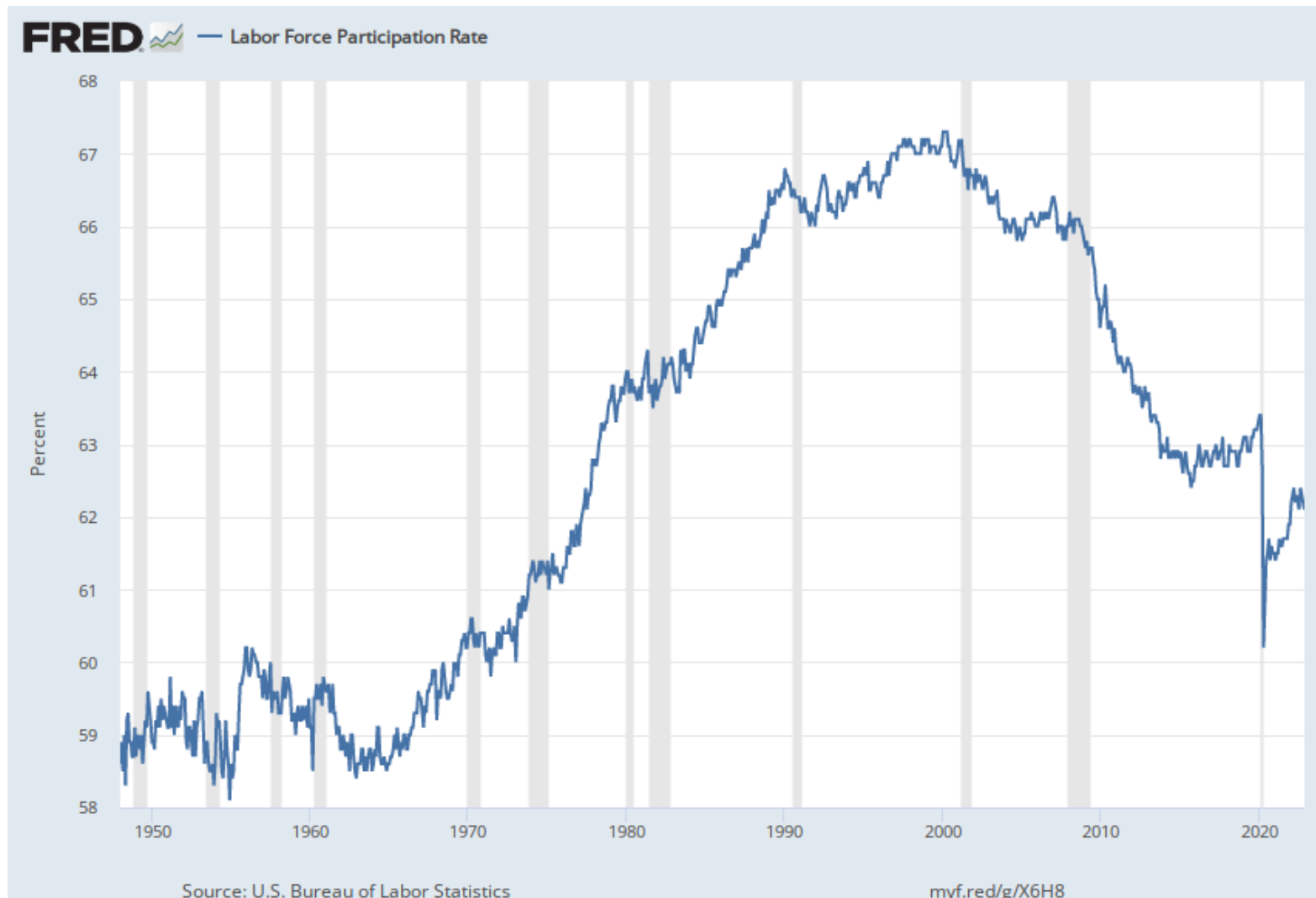
# U.S. economy still growing. GDP increased 2.9% in Q3 2022.



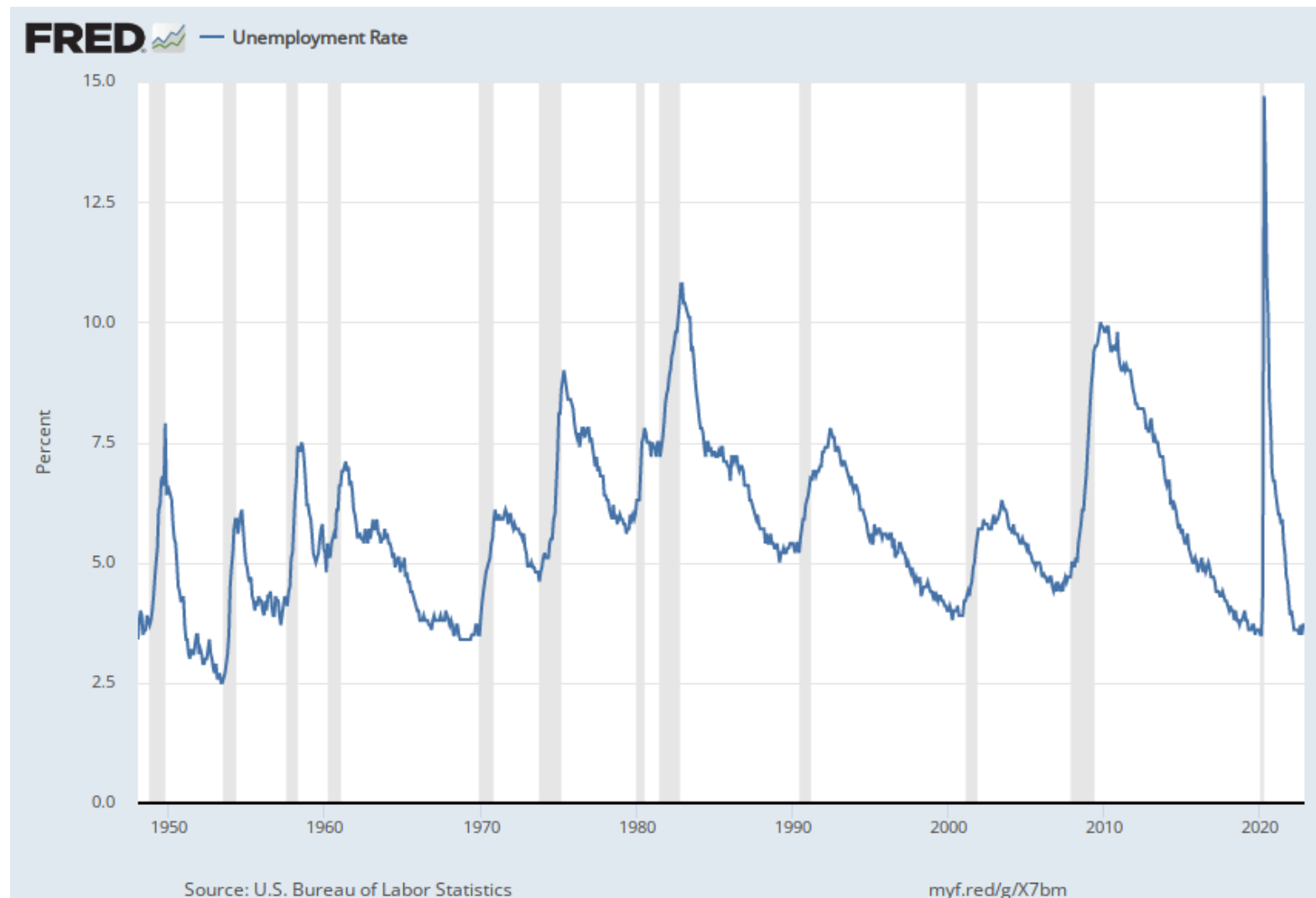
While employment growth in the U.S. is getting smaller, it is still strong increasing by 263,000 in November.



Labor force participation rate still a bit low, indicating still some structural adjustments following the pandemic.

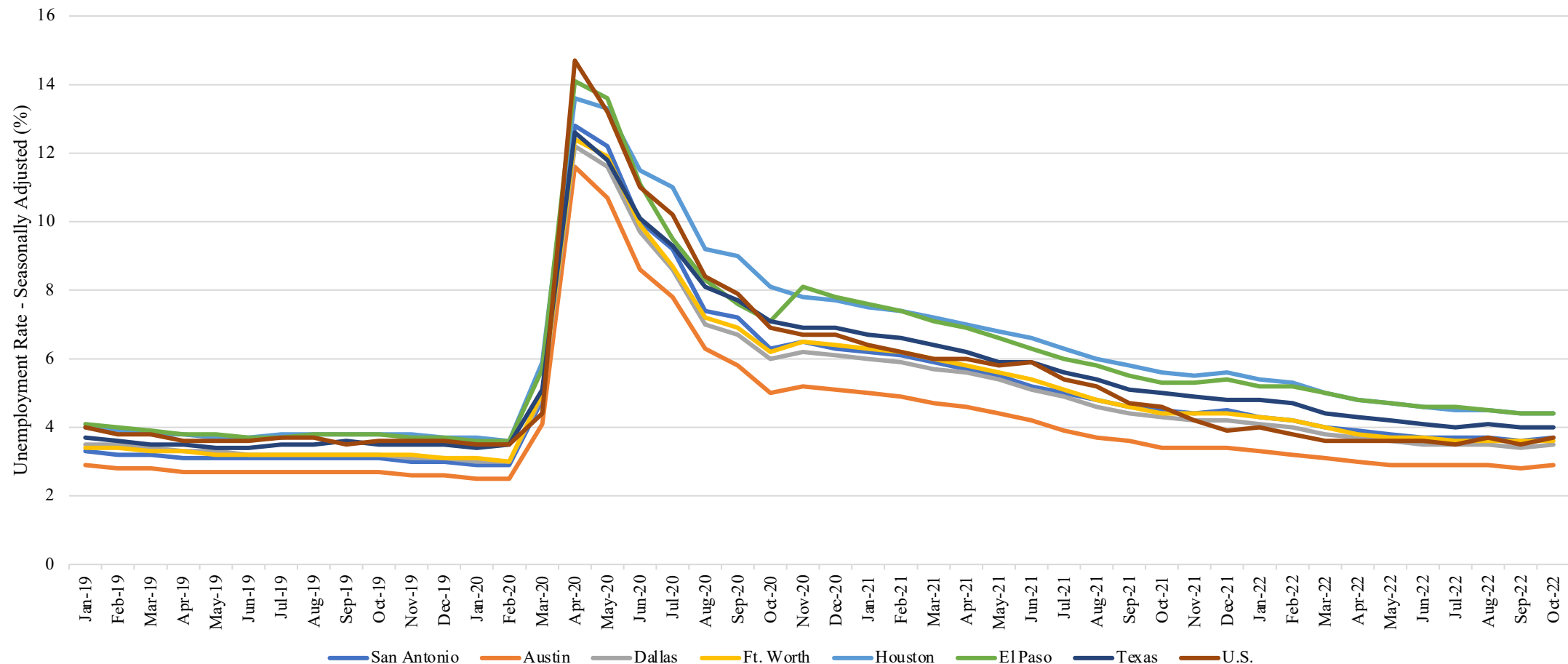


# Unemployment in the U.S. is at pre-pandemic rate.

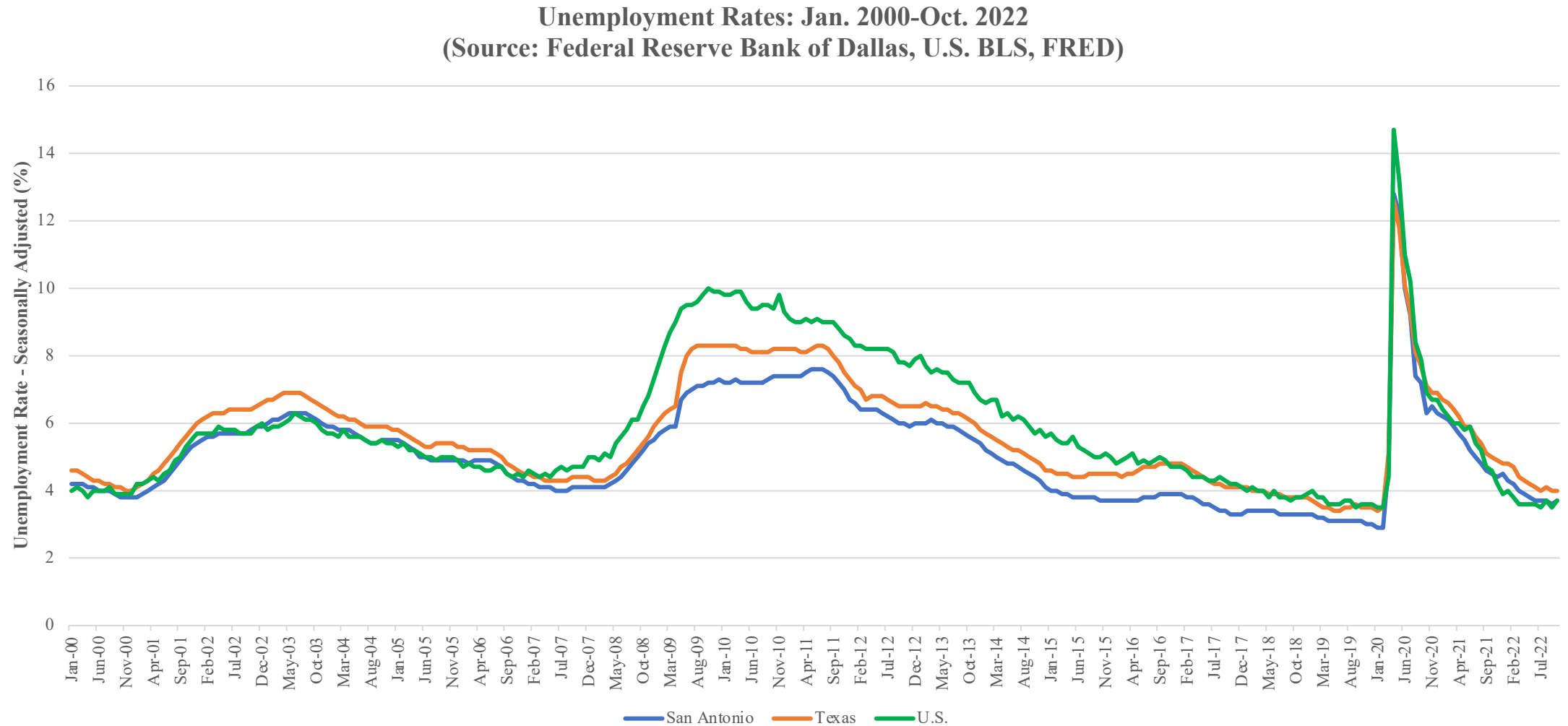


# Unemployment rate in major Texas MSAs not yet to pre-pandemic level but...

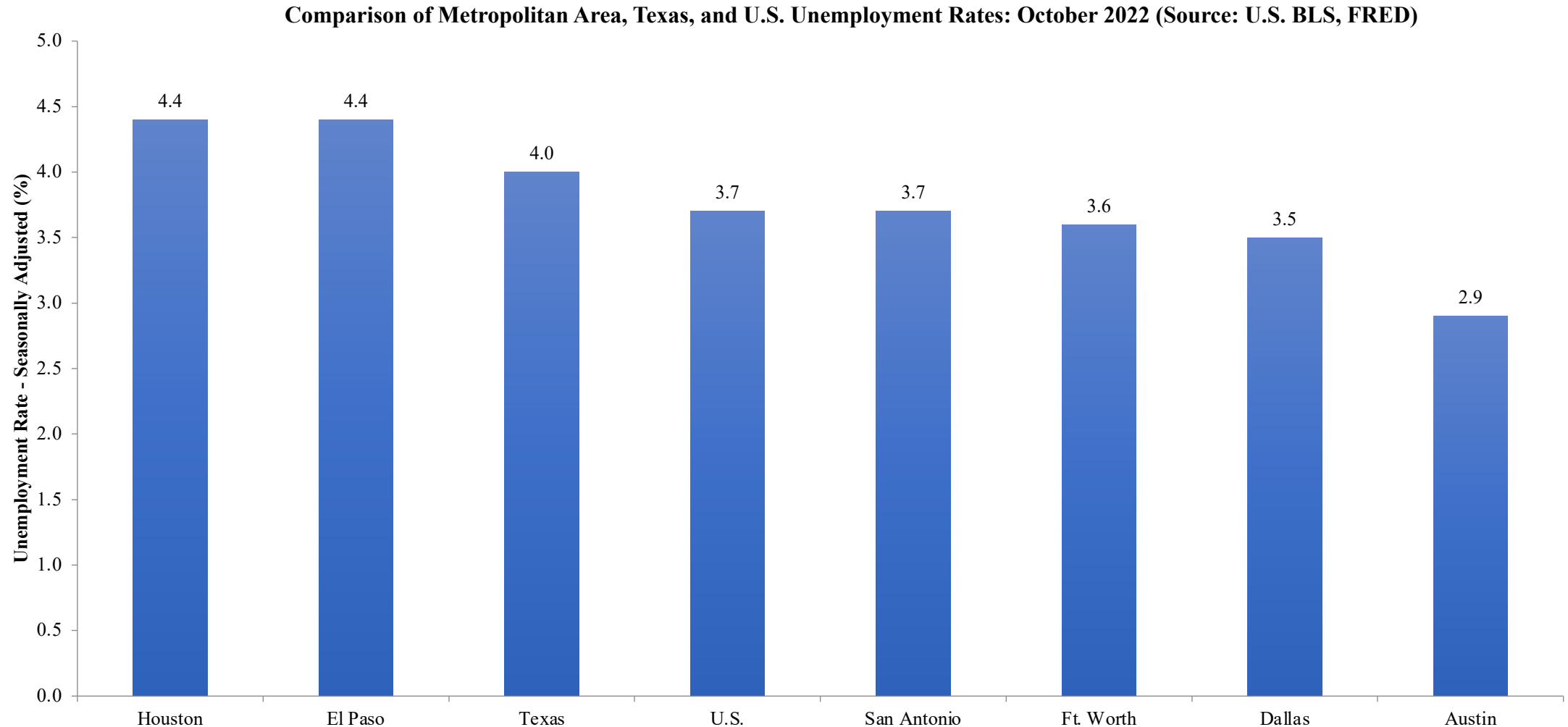
Unemployment Rate by Month: Jan. 2019-Oct. 2022  
(Source: Federal Reserve Bank of Dallas, U.S. BLS, FRED)



# Appears to have hit bottom.

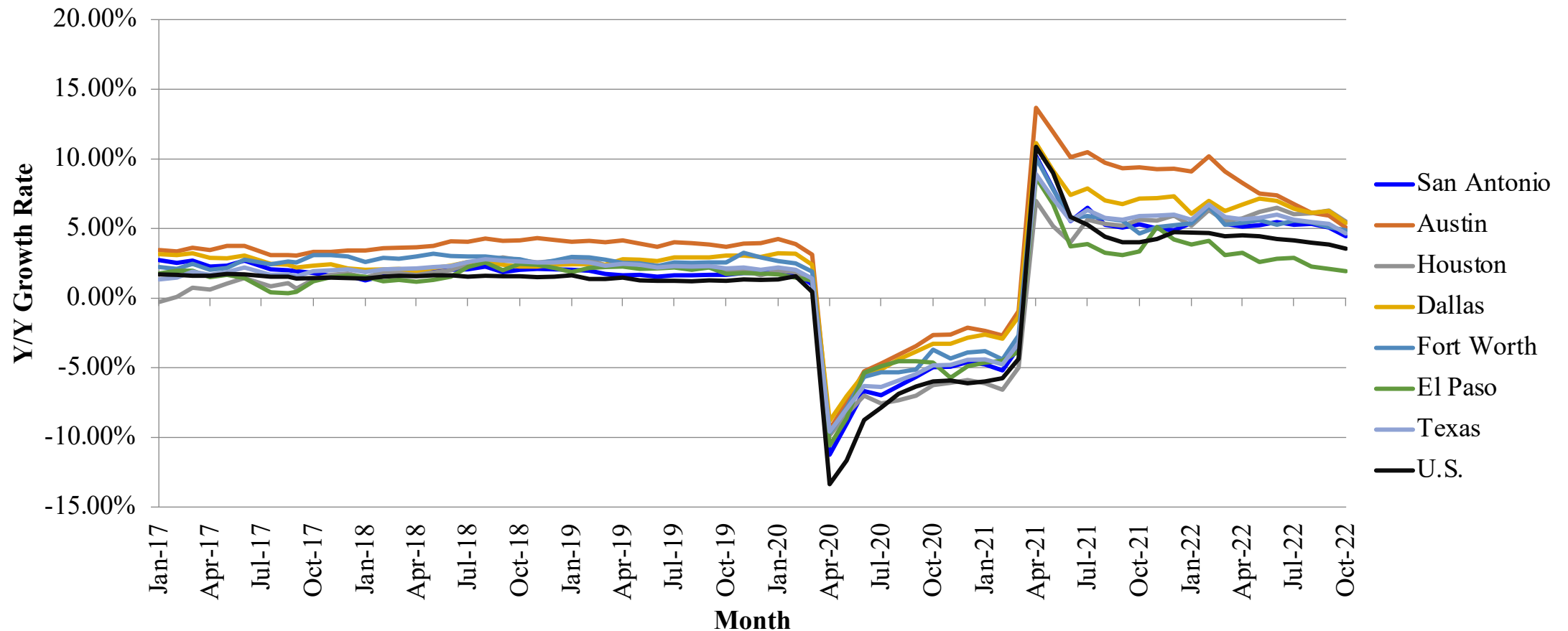


As is typical, Austin has lowest unemployment rate at 2.9%. San Antonio at 3.7% as of Oct. 2022.



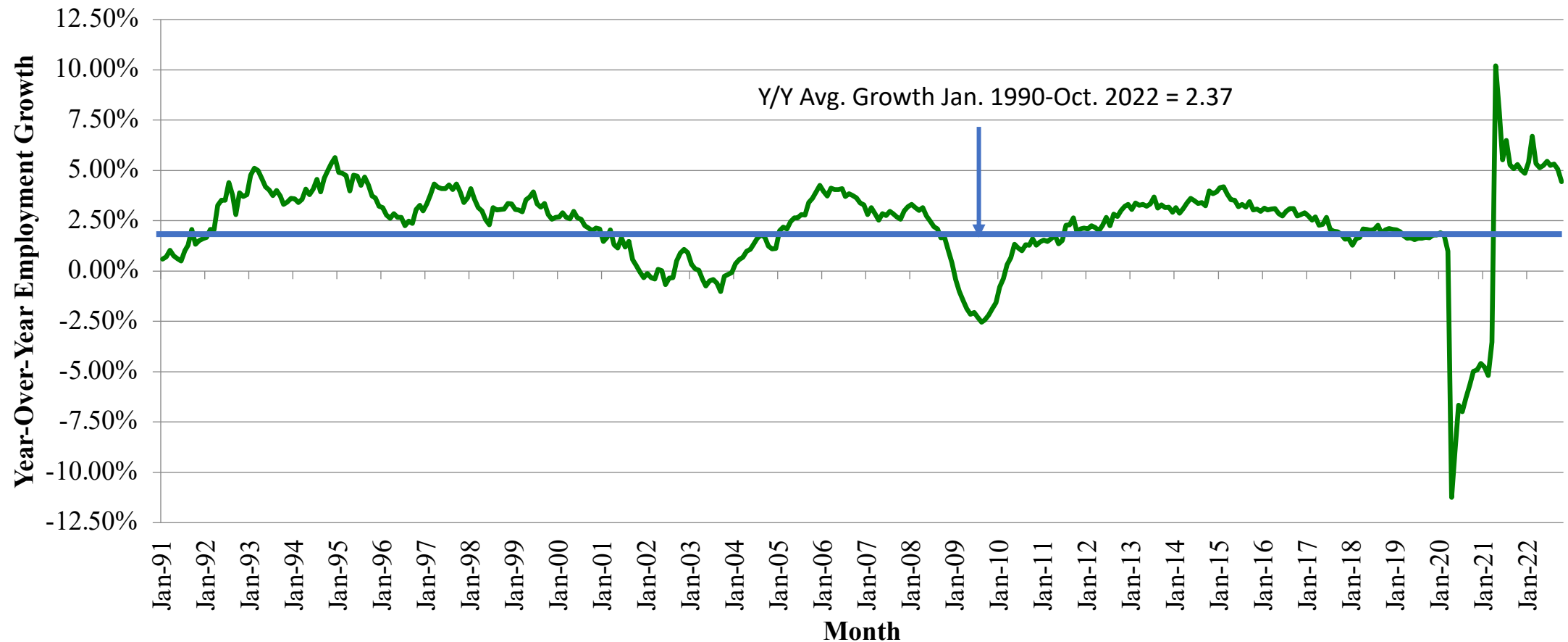
# Employment growth has been slowing in major Texas MSAs but still strong.

**Year-Over-Year Employment Growth Thru Oct. 2022**  
(Source: U.S. BLS, FRB Dallas, author's calculations)

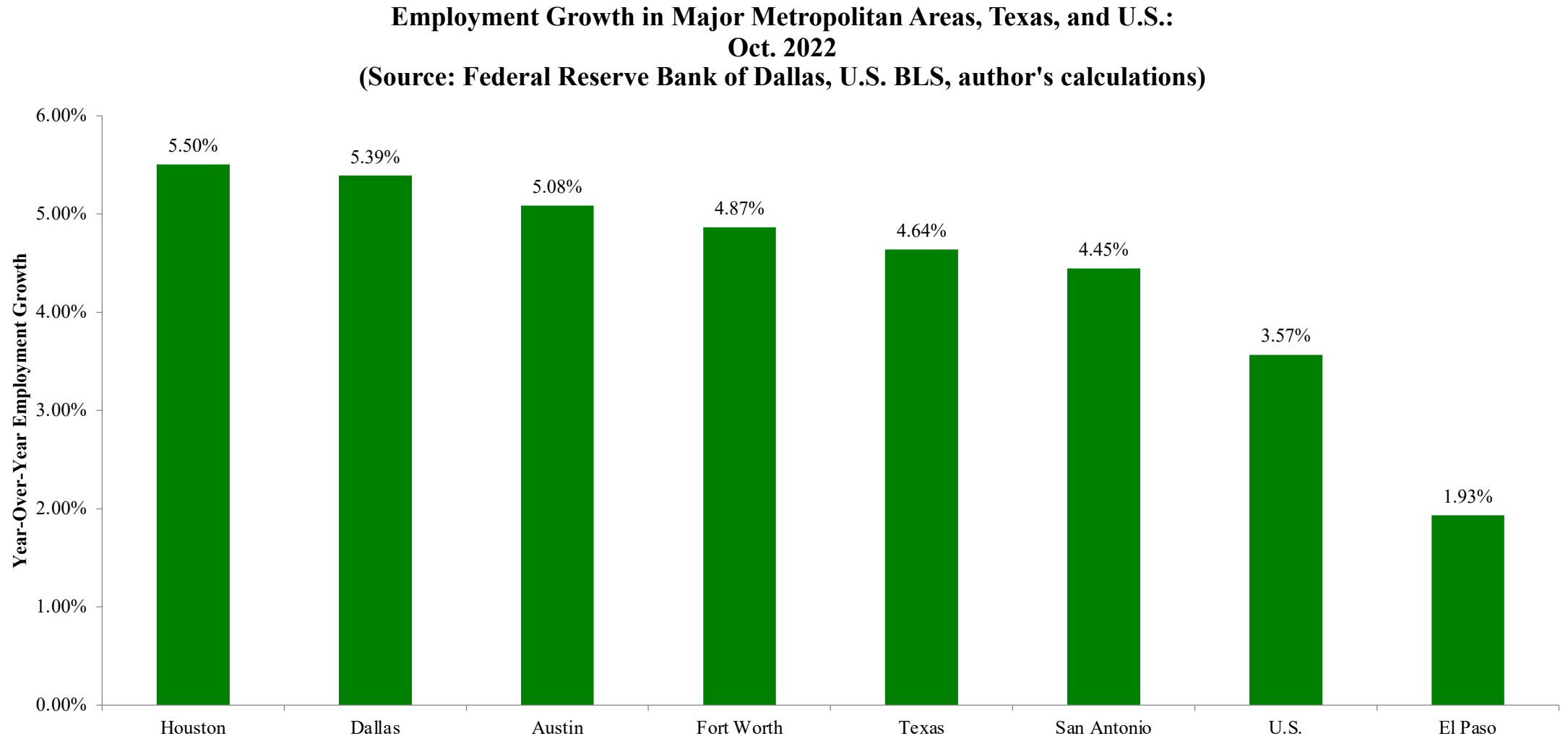


# Employment growth in San Antonio is well above its historical average growth rate.

**Year-Over-Year Employment Growth in San Antonio Thru October 2022**  
(Source: Federal Reserve Bank of Dallas, U.S. BLS, author's calculations)



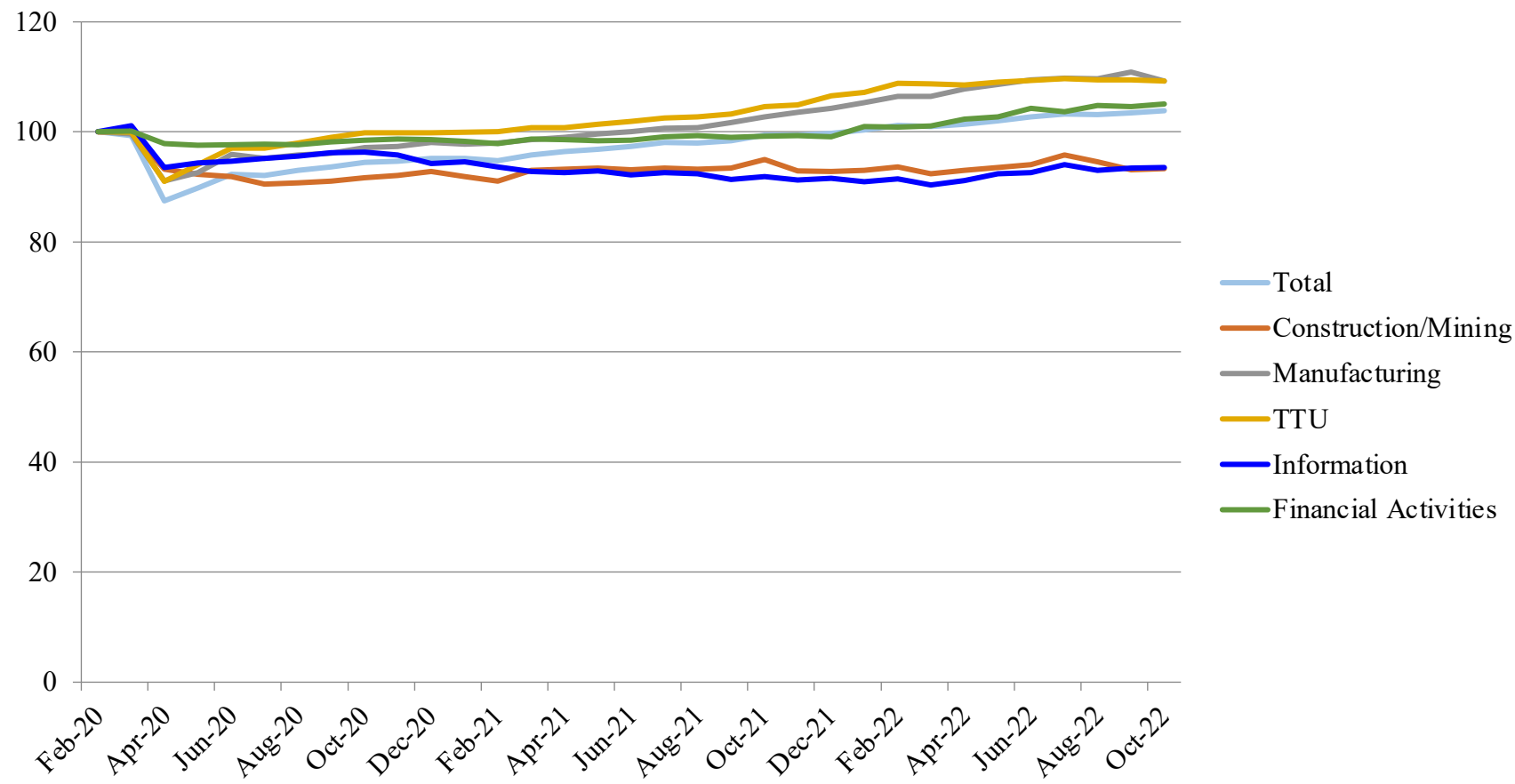
As of Oct. 2022, Houston had strongest employment growth followed by Dallas and Austin.



Employment in construction and mining and information sectors still below pre-pandemic levels. Information sector has shown some recent growth.

**Chart 4. Employment Change in San Antonio by Sector Thru Oct. 2022:**  
**Feb. 2020 = 100**

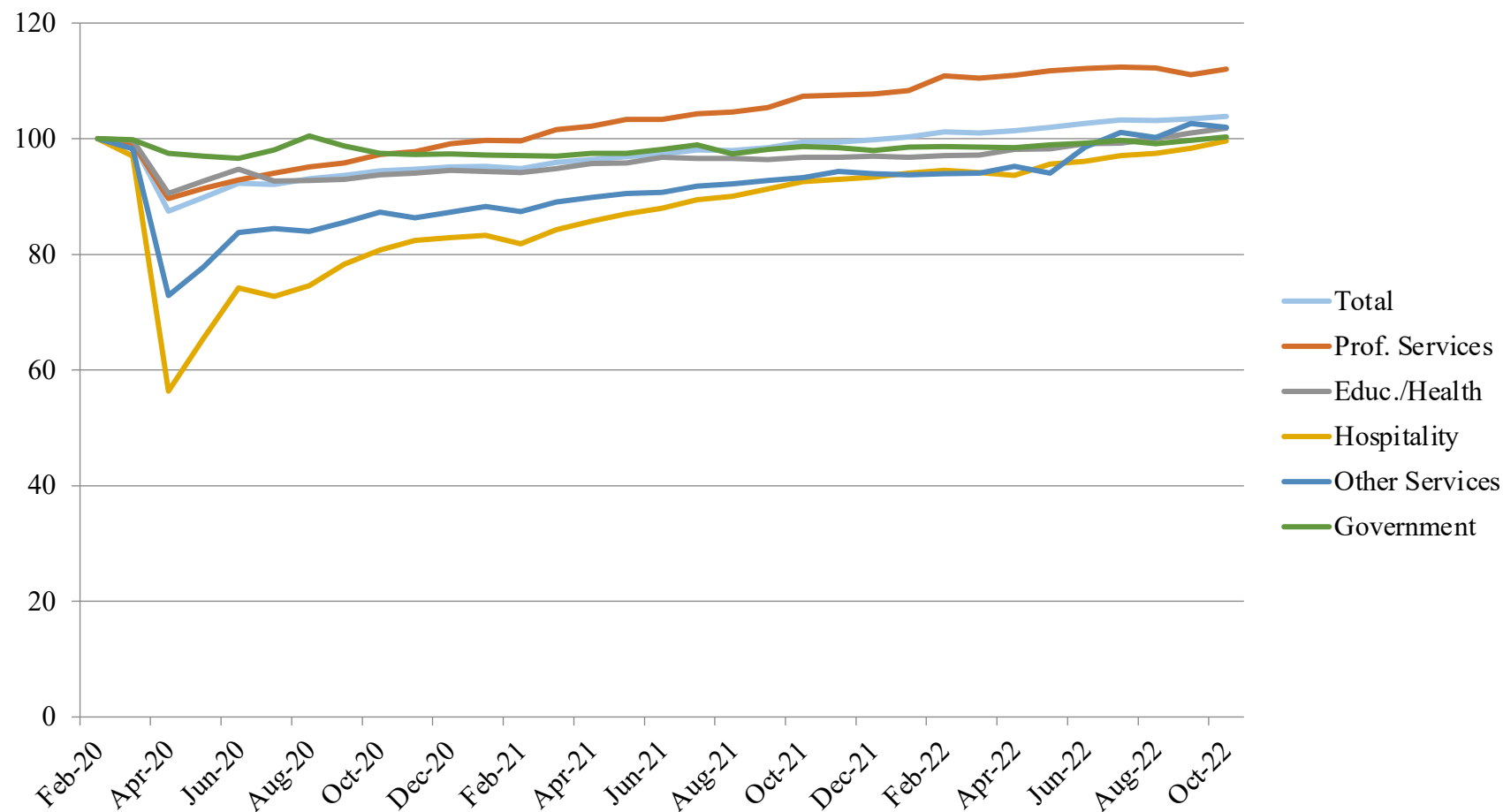
(Source: Federal Reserve Bank of Dallas, U.S. BLS, author's calculations)



Industry	Index: Oct. 2022
Total	103.86
Construction/Mining	93.32
Manufacturing	109.26
TTU	109.28
Information	93.54
Financial Activities	105.08

Hospitality very close to being at pre-pandemic employment level. Largest expansion has been in professional services.

**Employment Change in San Antonio MSA by Sector Thru December 2018**  
(Dec. 2007 = 100)



Industry	Index: Oct. 2022
Total	103.86
Prof. Services	112.00
Educ./Health	101.81
Hospitality	99.58
Other Services	101.96
Government	100.27

# With increase in interest rates, housing market appears to be starting to soften.

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## Housing Activity in San Antonio MSA: 2022

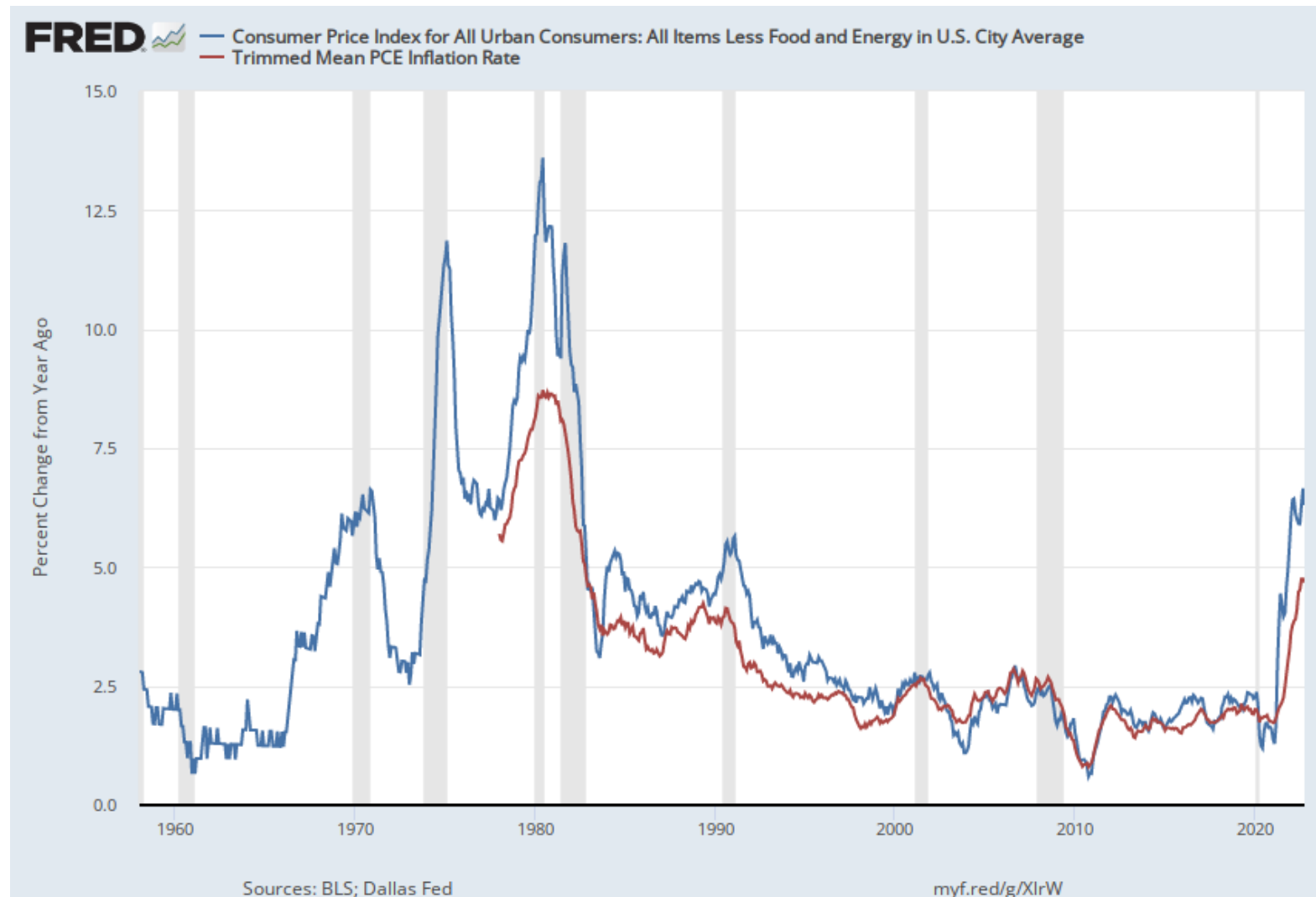
(Source: Texas A&M Real Estate Center)

<u>Date</u>	<u>Sales</u>	<u>Dollar Volume</u>	<u>Avg. price</u>	<u>Median Price</u>	<u>Total Listings</u>	<u>Months Inventory</u>
Jan-22	2,520	\$871,687,445	\$345,908	\$300,000	4,306	1.2
Feb-22	2,761	\$969,775,791	\$351,241	\$301,000	4,011	1.2
Mar-22	3,562	\$1,298,157,261	\$364,446	\$314,990	3,838	1.1
Apr-22	3,367	\$1,286,831,028	\$382,189	\$320,000	4,453	1.3
May-22	3,664	\$1,414,727,026	\$386,115	\$335,000	5,296	1.5
Jun-22	3,718	\$1,474,740,139	\$396,649	\$337,500	6,923	2
Jul-22	3,375	\$1,292,866,836	\$383,072	\$326,000	8,582	2.5
Aug-22	3,350	\$1,288,834,564	\$384,727	\$324,900	9,064	2.7
Sep-22	3,247	\$1,224,679,669	\$377,173	\$324,000	9,629	2.9
Oct-22	2,677	\$1,018,086,860	\$380,309	\$321,000	10,193	3.1

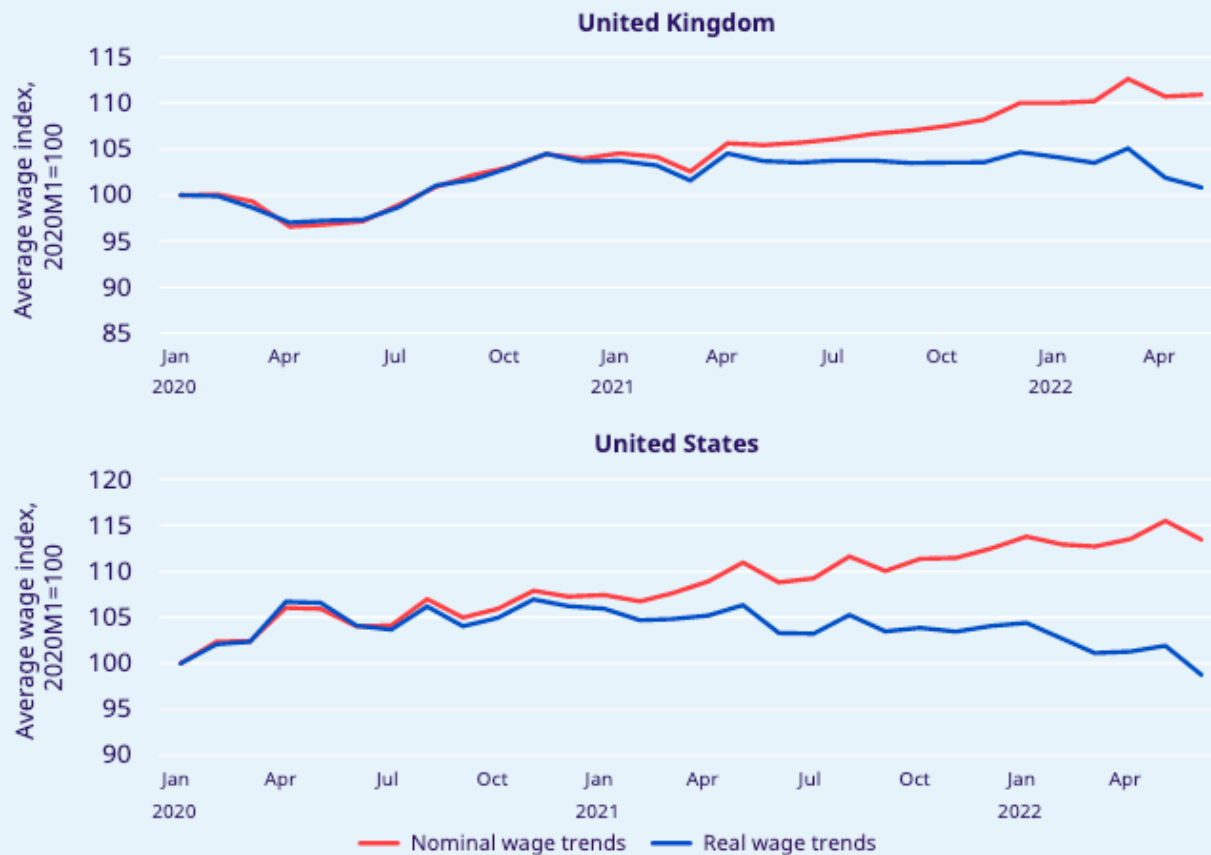
Note: Data are based on MLS listings.

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# Inflation is still the big challenge.



► Figure 3.4. (concl.)



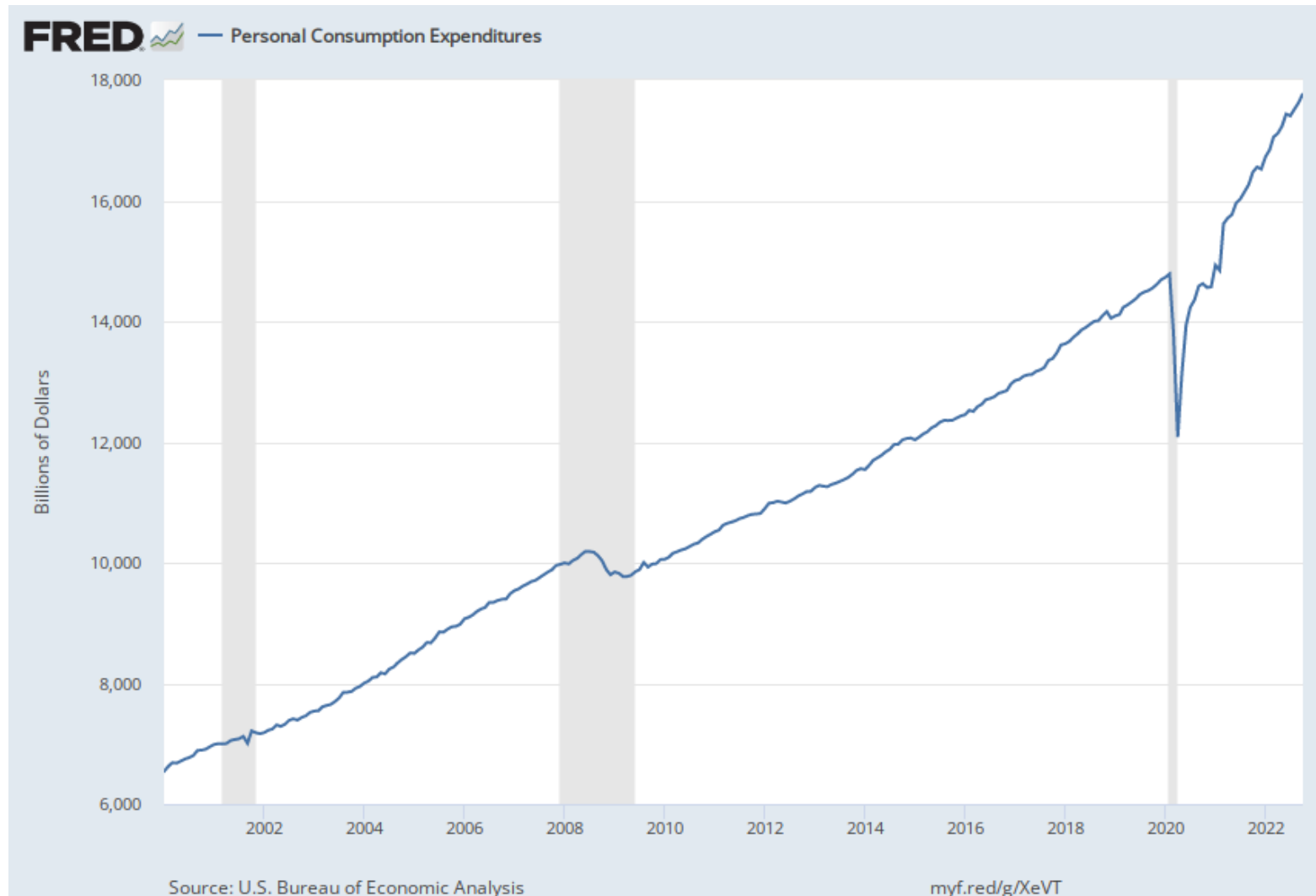
**Note:** Brazil, South Africa and Spain use a quarterly index, and for these countries Q1 2019 = 100; (a) Brazil: average real and nominal income from all jobs, usually received per month, of people aged 14 years or over with income from work who were employed in the reference week; (b) Bulgaria: average gross monthly wages and salaries of employees under labour contracts; (c) Canada: average weekly earnings, including overtime, for all employees (industrial aggregate excluding unclassified businesses); (d) Chile: real and nominal remuneration indices for people aged 15 years and over; (e) Malaysia: average salaries and wages per employee in manufacturing sector; (f) South Africa: total remuneration per worker in non-agricultural sectors; (g) Spain: total wage cost per worker, seasonally and calendar-adjusted; (h) Sweden: average monthly salary of non-manual workers in the private sector, excluding variable supplements; (i) United Kingdom: average weekly earnings, seasonally adjusted, whole economy; (j) United States: average weekly earnings of all employees in the private sector, seasonally adjusted.

**Sources:** (a) Brazilian Institute of Geography and Statistics; (b) National Statistical Institute of Bulgaria; (c) Statistics Canada; (d) National Institute of Statistics of Chile; (e) Department of Statistics Malaysia; (f) Statistics South Africa; (g) National Institute of Statistics of Spain; (h) Statistics Sweden; (i) UK Office for National Statistics; (j) US Bureau of Labor Statistics.

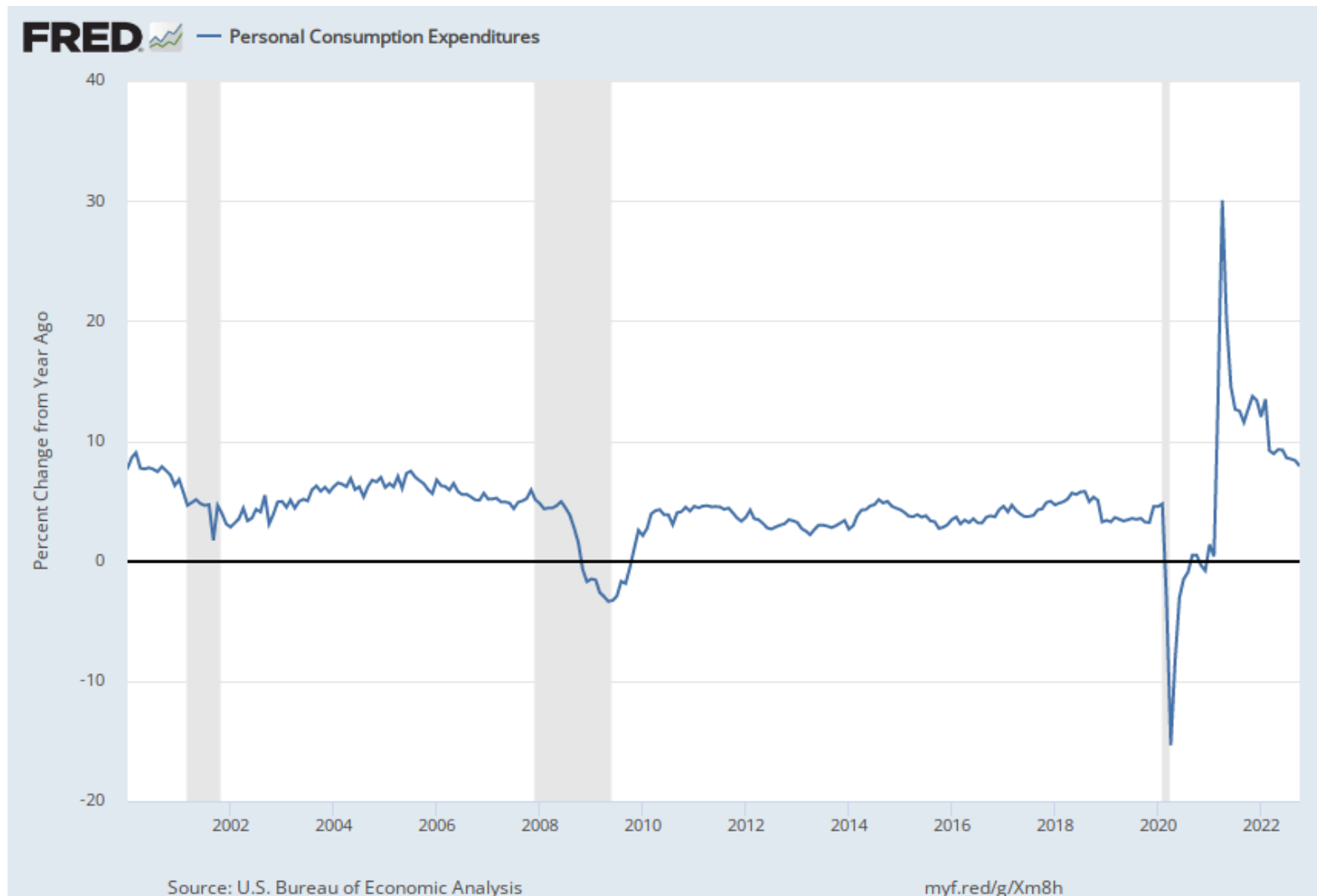
Inflation does not appear to be driven by rising wages.

Source: International Labor Organization. 2022. *Global Wage Report 2022-2023: The Impact of COVID-19 on Wages and Purchasing Power*.  
[https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_862569.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_862569.pdf)

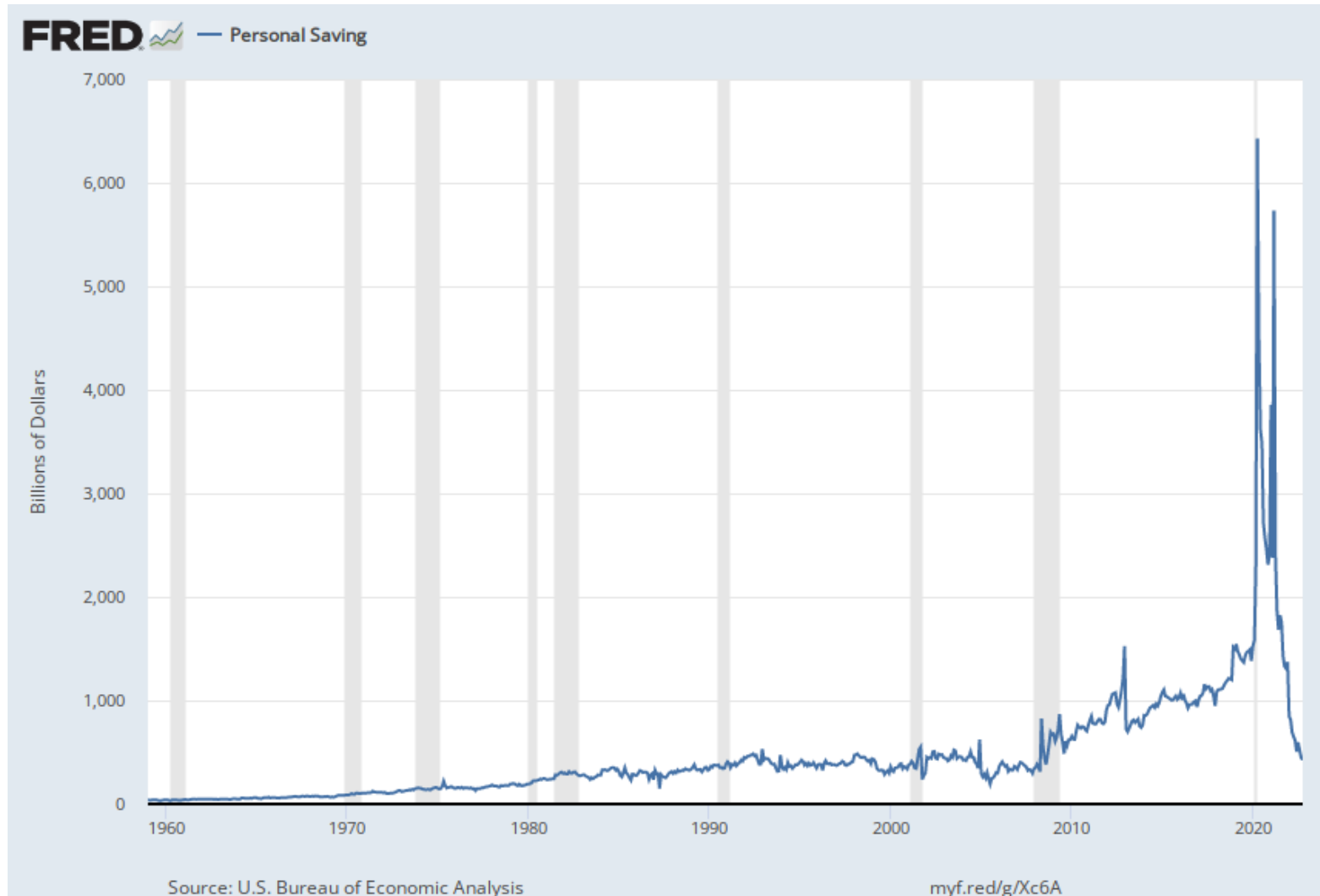
It is a demand-pull inflation exacerbated by inability of supply-chain to respond.



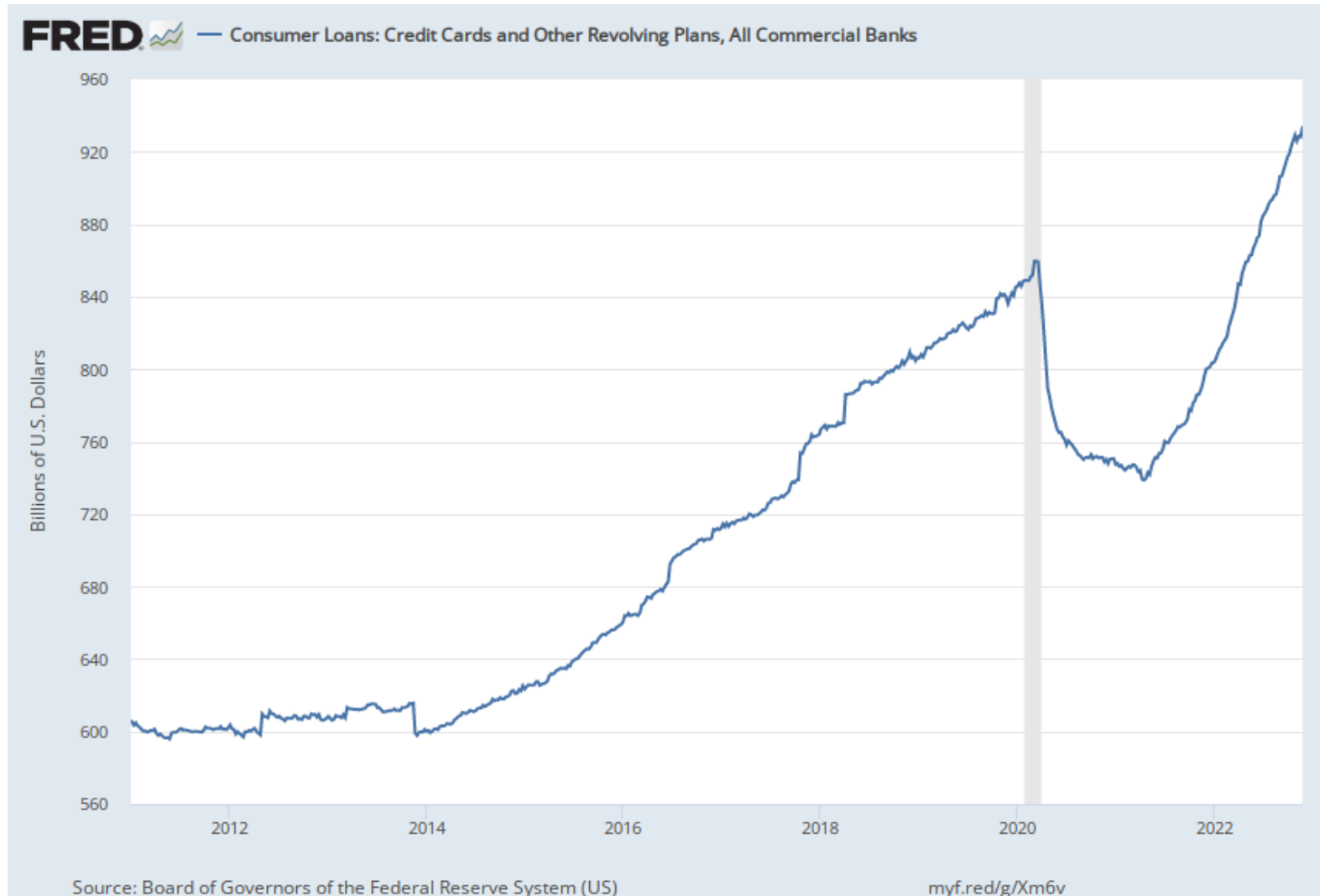
Growth in personal consumption continues to be relatively strong although growth is slowing.



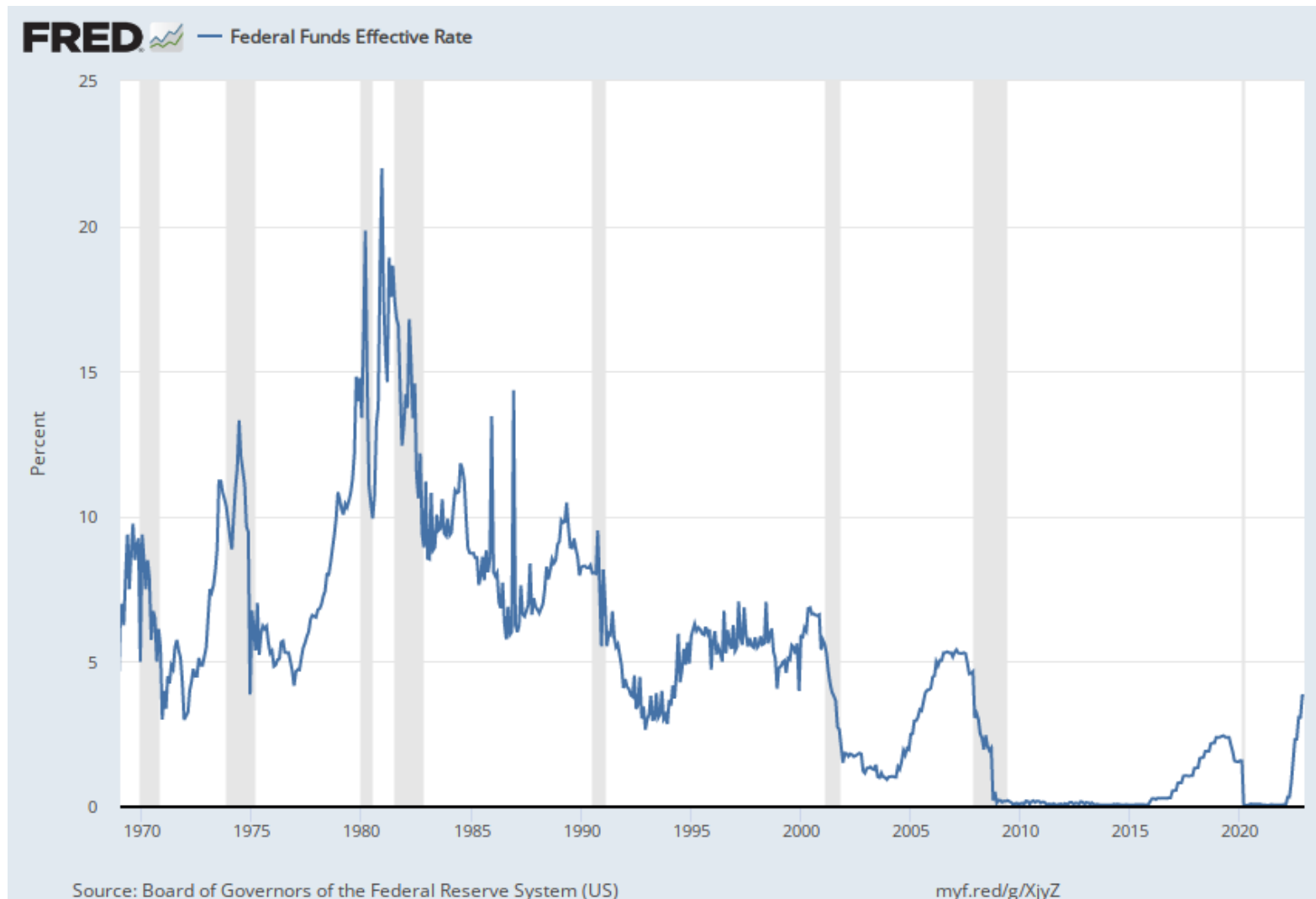
Surge in consumer spending driven by massive increase in savings due to Federal government stimulus, but it has shrunk back to normal levels.



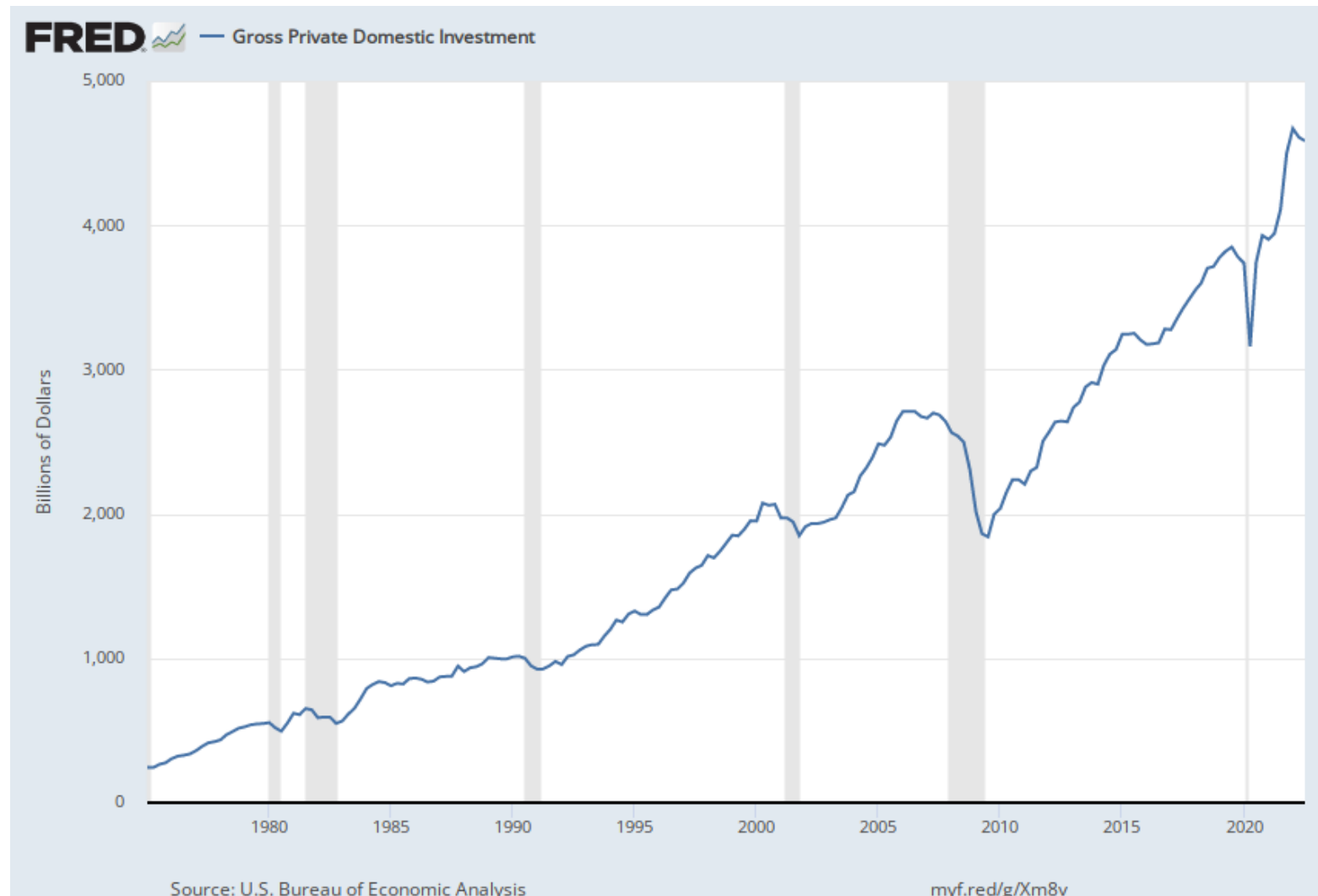
Consumer spending now being supported by credit cards. Another indication that stimulus funds have run dry.



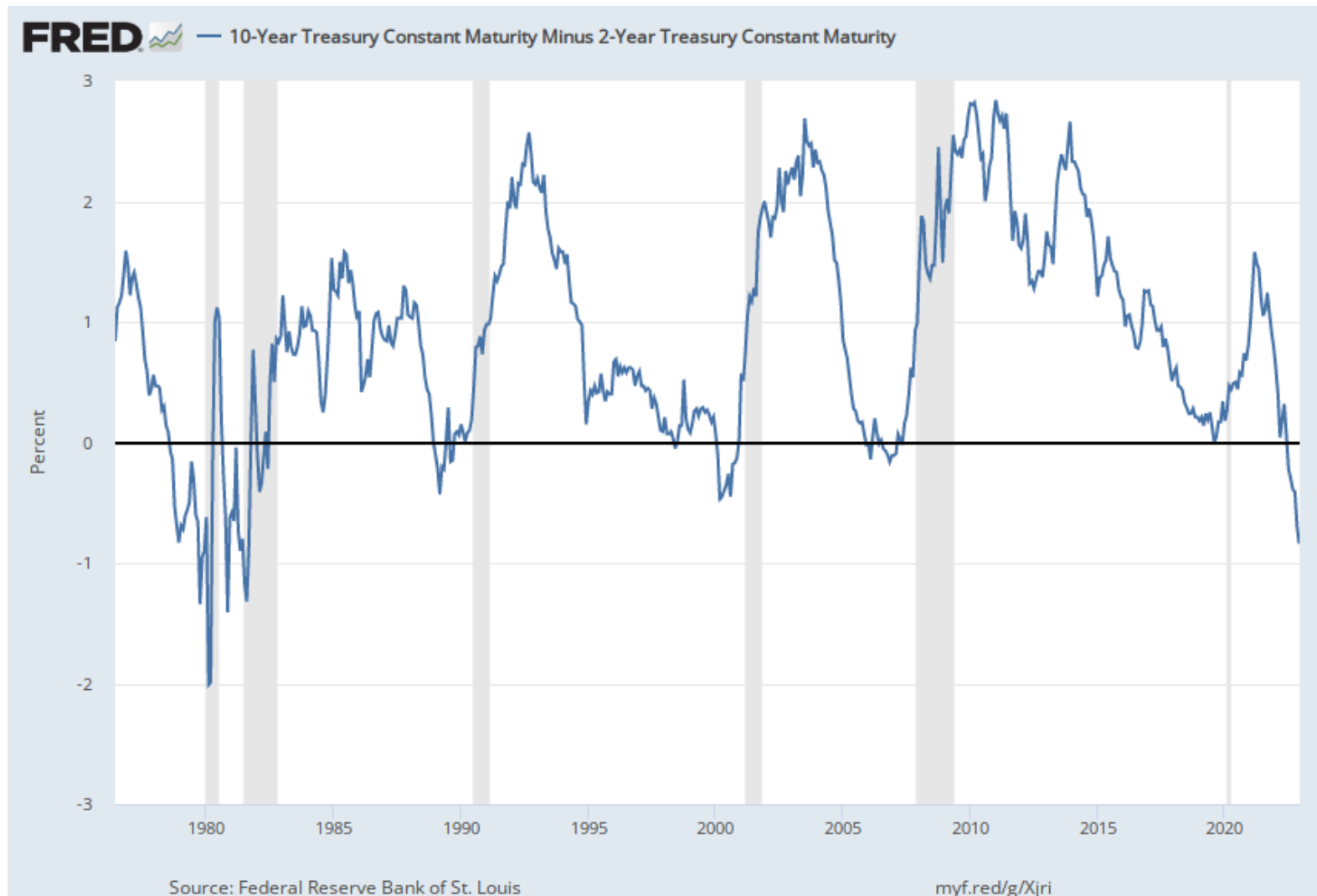
Federal Reserve has increased interest rates rapidly...and will likely continue to do so. A "soft landing" is unlikely.



Private investment began declining this year.  
Historically, it has declined before each recession.



Yield curve has not been this inverted in 40 years. Strong indicator of recession.



# 2023 Economic Forecast

- Very high probability of recession in 2023.
  - Some economists forecasting recession will not begin until 2024.
- Probably not too severe or long-lasting.
  - U.S. GDP may continue to grow slightly or be flat during recession
- San Antonio
  - Unemployment rate rise to about 4.5-5.0%.
  - Employment growth between 0-1.0%.
- One longer-term issue to watch is the effects of work from home on commercial real estate values and downtowns.
  - One study estimates "an aggregate \$414.3 billion loss in office values nationwide over the 2019-2021 period." \$2.22 billion loss in Austin, \$3.14 billion decline in Dallas, and \$3.20 billion reduction in Houston. (Gupta, A., Mittal, V., & Nieuwerburgh, S.V. (2022). Work from home and the office real estate apocalypse. P. 49. Available at SSRN: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4124698](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4124698))

Thank you!