

**Alan Nevin's  
2023 Economic Forecast  
For the Nation and San Diego**

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**Alan Nevin's 2023 Economic Forecast**

Last year's forecast headlined: "Did your house earn more than you did this past year?"

Unfortunately, I need to create a new headline for 2023. The 2023 headline is more likely:

**"2023: A ho-hum year –but definitely not 2008."**

- **2008** was close to the Great Depression as it involved the total destruction of the savings and loan industry; obnoxious interest rates; endless home foreclosures; a 10% unemployment rate and a near collapse of the European and Asian economies.

- In comparison, **2023 will be an OK year** to the extent that it will be recessionary, but not brutally so. The Federal Reserve Board is near the

top of the rate increase. They may push one or two more increases in the hope that those increases will gradually reduce the rate of inflation.

- Further, there will be tremendous pressure from the **White House and the Senate** to reduce mortgage rates and inflation as the Democratic Party vigorously prepares for the 2024 election.

- Ordinarily, after mid-term elections, there is at least a year before campaigning for the next election begins. It is my contention that the 2024 election will be one of the most contested battles in U.S. history. As a result, **spending on the 2024** election will start in 2023 and continue unabated until the next election.

- **Russia** will soon be on the verge of bankruptcy as oil prices decline and the Russian populace experiences an untenable shortage of goods and services. Further, many of the countries that are customers for Russian grain and oil (mostly in Africa) are near bankruptcy and can't pay their bills. And the Ukraine invasion will continue and that's a very expensive venture.

Here's the straight story on the U.S. and California economy for 2023:

- **Inflation is really 2-3%. For most folks**, 70-80% of their monthly expenditures are fixed (mortgage, rent, taxes, car loan payments, insurance, et al.) and therefore inflation applies only to food, beverages and general merchandise.

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- Much of the stated inflation related to supply problems. The Federal Reserve Bank of New York states: about **40% of U.S. inflation** from 2019-2021 related to supply problem – chips and slow ships. They have now solved that problem.
  
  - **California gas prices** will continue to go downward, thanks to political pressure from Sacramento (and Costco).
  
  - Because of pressure from the White House, **mortgage rates** will gradually ebb. Perhaps 4.5-5.0% by year end 2023.
  
  - Lower rates mean **stable home prices** and **more sales activity**.
  
  - **Home construction (detached and attached)** will be soft, probably 15-20% below 2020 and 2021
  
  - **Apartment construction** will also be soft, off 10-15% nationally.
  
  - **Non-residential** construction will do particularly well with a boost from Federal funds.
  
  - We may sell 17 million **new cars and trucks again** as we did each year from 2015-2019 (2022: 14.0 million). (New car dealers continue to advertise 1.0% car loans) and Americans love cars, SUVs and pick-up trucks, 95% non-electric.
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- **Homeowner equity** has almost doubled in the past decade and is now more than **\$41 trillion** (and 1/3<sup>rd</sup> of homeowners have no mortgage).
- And, the **national apartment market** will be rock solid.

Economic Indicators United States 2022-2023 (P)				
Indicator	2022	YE 2023	Change	% Change
<b>National Indicators</b>				
Gross Domestic Product (Trillion)	25.7	26.7	1.00	3.9%
Dow Jones Average	\$ 34,000	\$ 37,000	\$ 3,000	8.8%
Rate of Inflation	7.0%	5.0%	-2.0%	-28.6%
30 Year Fixed Rate Mortgage	6.8%	5.5%	-1.3%	-19.1%
<b>Employment</b>				
Initial Employment Claims	250,000	220,000	(30,000)	0.0%
Job Openings	10,717,000	10,000,000	(717,000)	-6.7%
Non-farm Employment	153,308,000	155,000,000	1,692,000	1.1%
Unemployment Rate	3.7%	4.2%	0.5%	13.5%

### The San Diego Story

This exhibit summarizes my 2023 forecast for San Diego County and compares it to the actual 2022:

## Forecast Summary San Diego County 2023

Indicator	Projection 2023	2022
Gross Domestic Product	3.0%	3.0%
Employment - New Jobs	30,000	45,000
Unemployment Rate	3.5%	3.10%
Population Change	8,000	10,000

Homes		
Residential Construction (Units)	8,000	10,000
Resale Home Prices (Detached)	\$ 783,000	\$ 869,900
Resale Home Price Change	-10.0%	

Apartments		
Apartment Vacancy Rates	4.5%	4.5%
Apartment Rent increases	5%-6%	11.0%

Non-Residential		
Industrial Vacancy Rates	4.5%	4.5%
Industrial Rents	\$ 1.40	\$ 1.32
Office Vacancy Rates	15-18%	10.3%
Office Space Rents	\$2.75-3.00	\$ 3.20

Construction Costs		
Type 5 (wood-framed)	5.0%	5.0%
Type 1 (steel and concrete)	10.0%	10.0%

The County will add 30,000 jobs in 2023 with Leisure and Hospitality and Professional and Business Services leading the way: The unemployment rate will remain in the 3.0-4.0% range.

**Employment Projection  
San Diego County  
CY 2023**

Category	Projected 2023	CY 2022	Change	% Change
<b>Leisure &amp; Hospitality</b>	<b>210,000</b>	<b>202,700</b>	<b>7,300</b>	<b>3.5%</b>
<b>Professional &amp; Business Services</b>	<b>300,000</b>	<b>287,500</b>	<b>12,500</b>	<b>4.2%</b>
Government	260,000	252,900	7,100	2.7%
Trade, Transportation & Utilities	230,000	224,700	5,300	2.3%
Education & Health Services	230,000	226,100	3,900	1.7%
Manufacturing	116,000	113,800	2,200	1.9%
Construction	80,000	86,900	(6,900)	-8.6%

Source: BLS

### The Local Construction Business

Construction of “for sale” residential units will decline substantially from 2022 as a result of buyer rejection of higher interest rates. Both single family and attached for sale housing permits (and sales) will decline by 10+% in 2023.

Non-residential construction will be particularly strong with major dollars going into life sciences; educational and military facilities. There is going to be a lot of steel in the air in 2023, both downtown and in the burbs. And six major medical facilities underway:

**New Medical Facilities  
San Diego County  
2023**

Medical Provider	Under Construction
Kaiser	200-bed hospital under construction in San Marcos
Rady Childrens'	\$400 million expansion plan underway
Scripps	185,000 SF tower under construction
Scripps Mercy	Replacement of present tower underway & new garage
Sharp	\$2.0 Billion expansion underway on SR-163
UCSD - Hillcrest	250,000 SF Outpatient Pavilion; 1,850-space garage

**The Apartment Business**

Apartment construction (low and high-rise) will continue unabated.

- There will continue to be **excellent opportunities** for repositioning older projects Most San Diego apartment projects are old (average: 50 years).
  
- Most of our renters can afford to live in a “B” quality apartment, but, economically, we cannot build B’s; only A’s. Therefore, there is a massive untapped market for entrepreneurs to turn old “C”s into “B” all over the County.
  
- The “B” renters would really like to buy a home, but “for sale” housing remains out of the reach of most San Diego renters.
  
- It is proving very difficult to build new apartments that rent for less than \$3.50 – 4.00 per square foot (unless they are well subsidized).

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- Market rate rents will move up 5-6% in 2023.

San Diego Summary: Despite higher interest rate and slow home sales, the San Diego economy will have a strong economic year and can look forward to a vibrant 2024

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