



Dazed & Confused

Appraisal Institute Fall Forum

November 8, 2023

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Conflicting Economic Data



A Recession has been delayed by:

- Money sent to consumers & businesses from the government following the pandemic.
- Rapid growth in jobs and slower than normal growth in the labor force has kept unemployment low and wage demands high.

Where did the Money Come From?

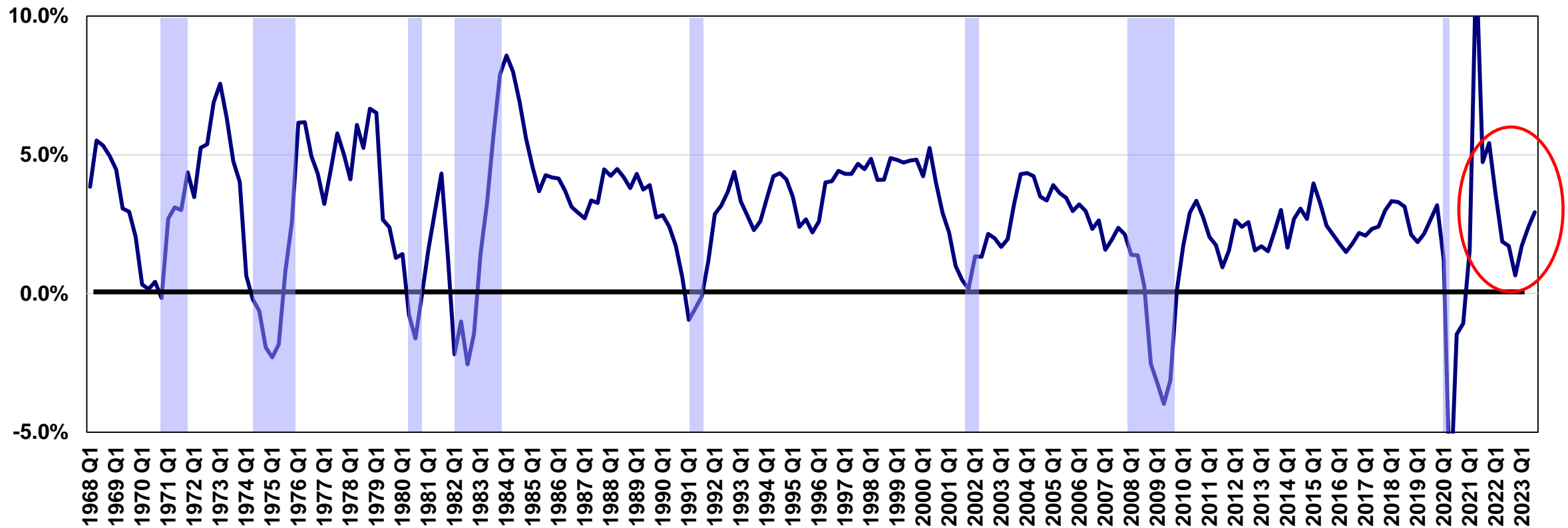
The Federal government's fiscal policy has poured money into the system.

- Cares Act 2020 \$2.2 trillion
- American Rescue Plan Act 2021 \$1.9 trillion
- Infrastructure Investment and Jobs Act \$1.0 trillion
- Inflation Reduction Act authorized \$891 billion in total spending
- CHIPS Act \$280 billion

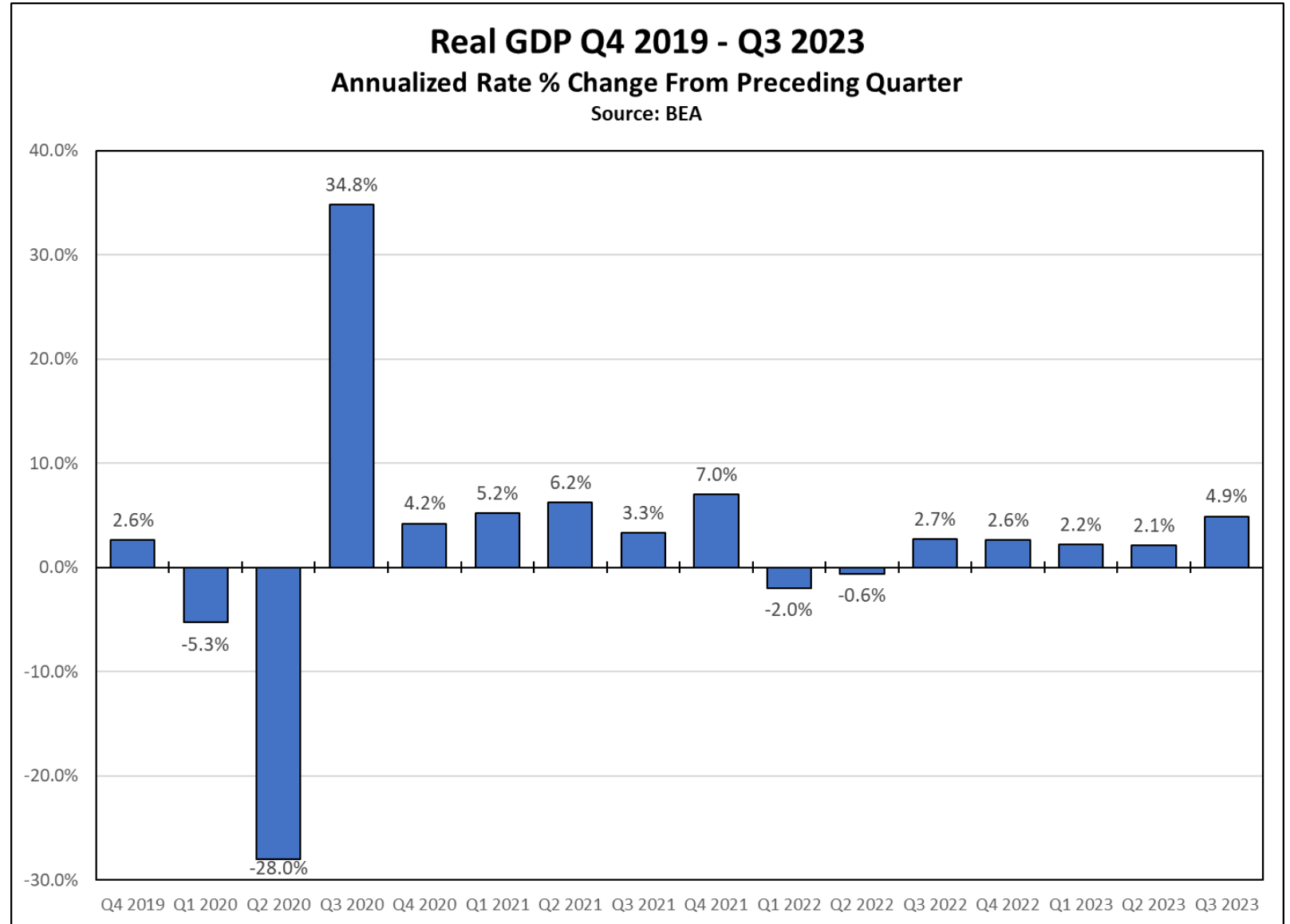
Real GDP

% Change Y/Y
Q1 1968 – Q3 2023
Source: BEA

Recession Periods



Real GDP Rates Since The Start of the Pandemic



Real GDP Forecast

Blue Chip Economic Indicators

(September 2023)

Year	2023	2024
Average	2.1%	1.0%
Top 10	2.3%	1.7%
Bottom 10	1.9%	0.3%

The average annual growth rate between 2010-2019 was 2.3%.

48% of Blue Chip contributors suggest a recession will occur in the next 12 months.

Uncharted Waters

The Fed has never tried to induce a recession:



When there are 8.8 million unfilled jobs and only 6.3 million unemployed



When the federal government created a situation where consumers still had so much excess cash.



When consumers have an estimated \$200 billion in excess cash down from the peak of \$2.1 trillion in the fall of 2021.





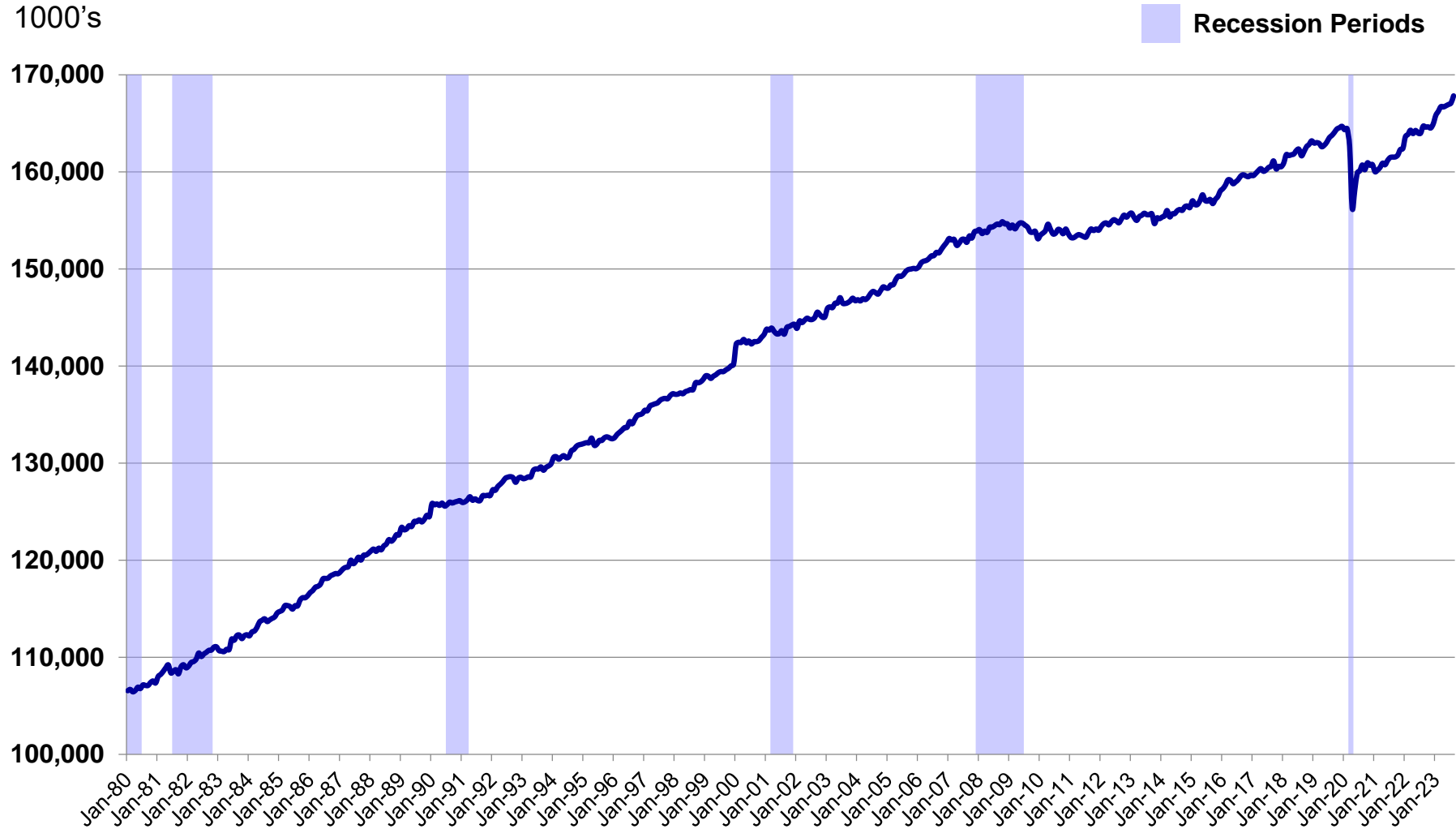
Uncharted Waters

- **These things made the economy more difficult to slow than under normal circumstances.**
- **The excess cash in the hands of consumers that fueled inflation has also kept the economy stronger than normal (this will be ending by late 2023 or early 2024).**
- **Now add a credit crunch to the mix and things could get dicey at some point.**

Labor Force (S/A)

1980 – 2023*

Source: U.S. Bureau of Labor Statistics

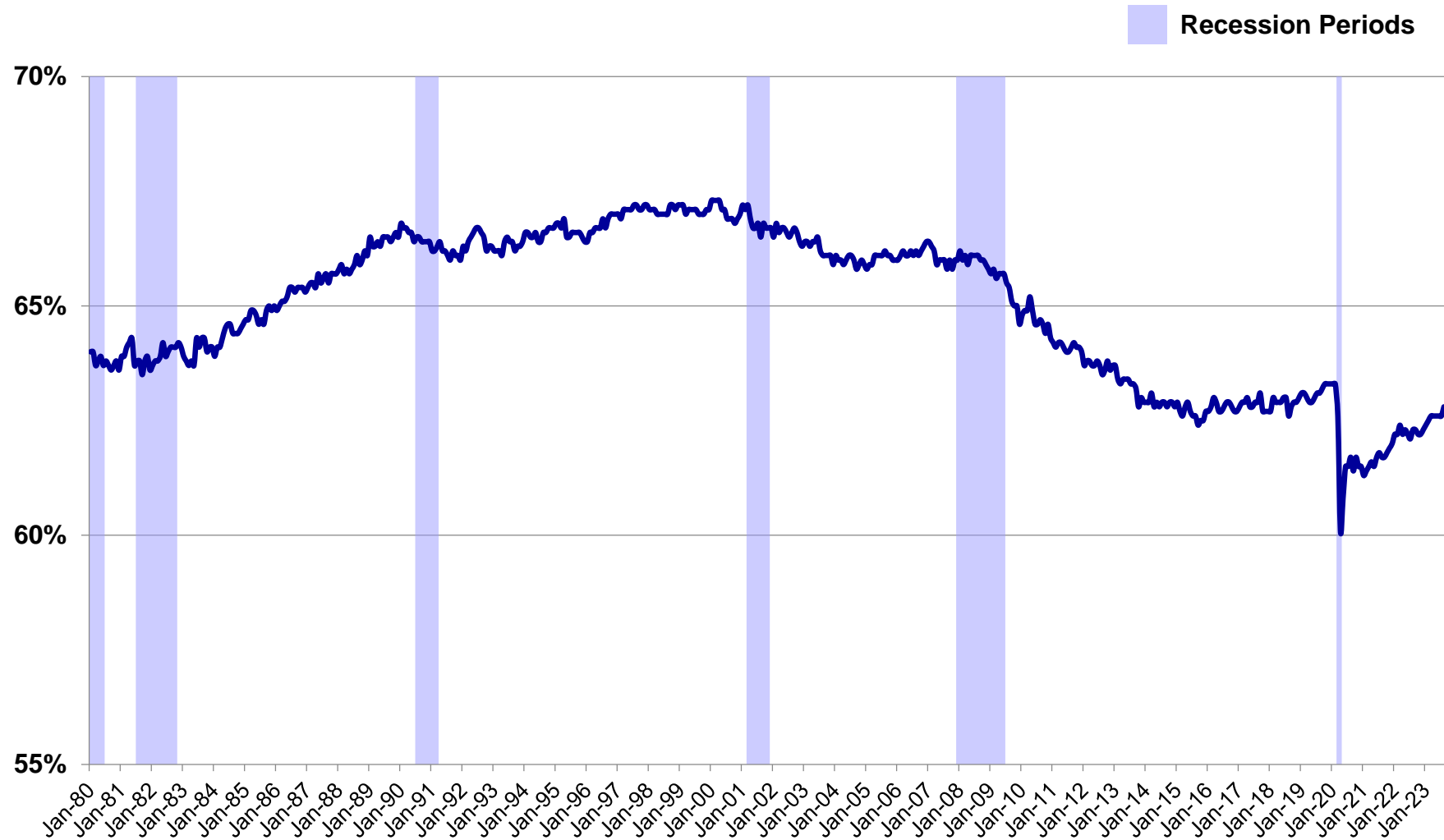


*Data through August 2023

Labor Force Participation Rate (S/A)

1980 – 2023*

Source: U.S. Bureau of Labor Statistics



*Data through August 2023



Low Labor Force Growth

We are in a period where labor force growth has been slow, unemployment levels are low, and demand for labor is higher than normal.

- Baby Boomers retired early or did not return to work after COVID.
- People stayed home because of childcare costs and availability.
- People were paid not to work.

JOBS



Labor Force Growth

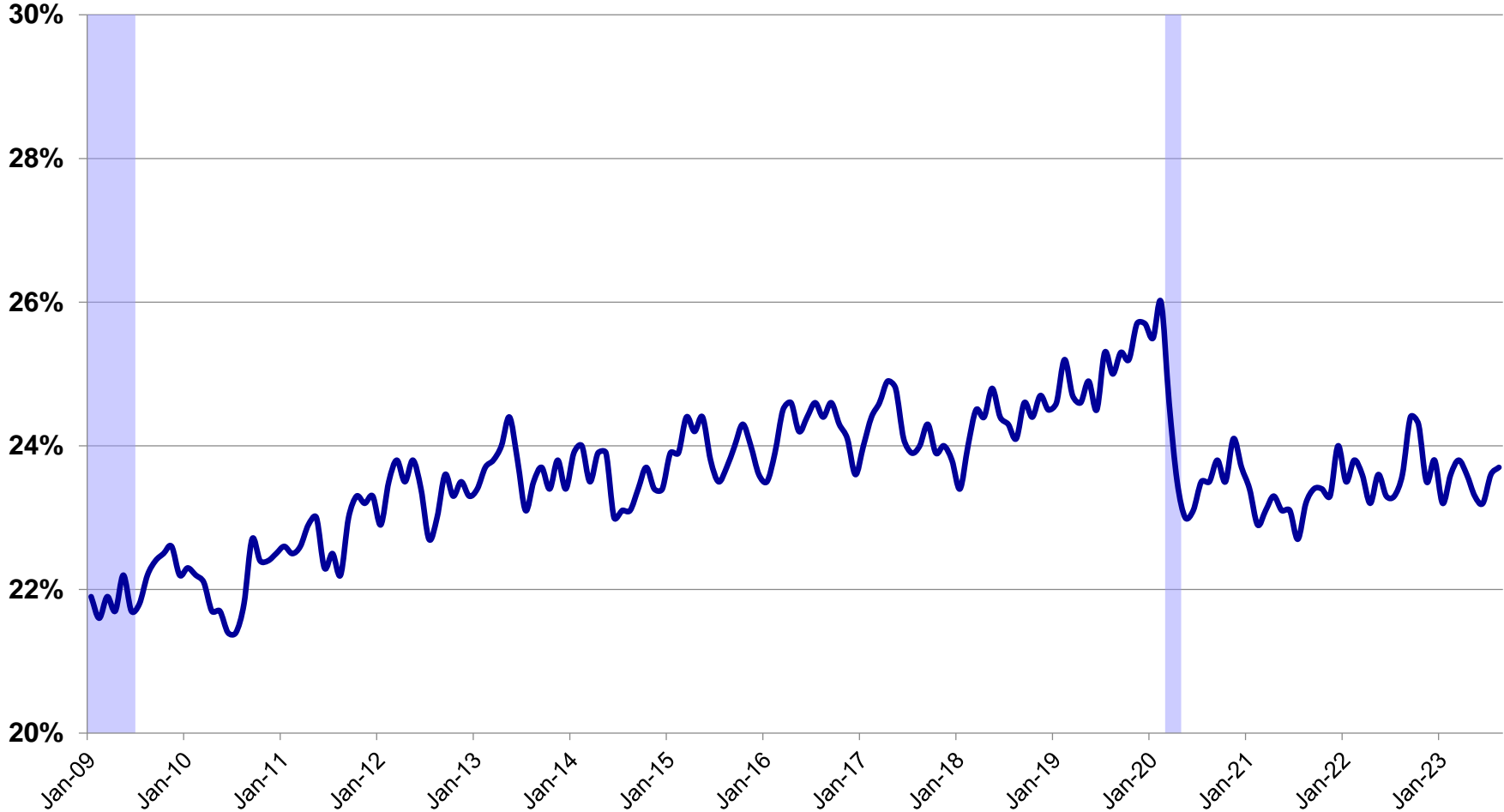
- Job growth appears to be moderating and the labor force appears to be accelerating.
- Labor force participation is at its highest level since Feb. 2020. The increase is among young adults and women 55 and older.

Labor Force Participation Rate (NSA) People 65+ with no disabilities

2009 – 2023*

Source: U.S. Bureau of Labor Statistics

Recession Periods



*Data through August 2023

Risks to the Economy

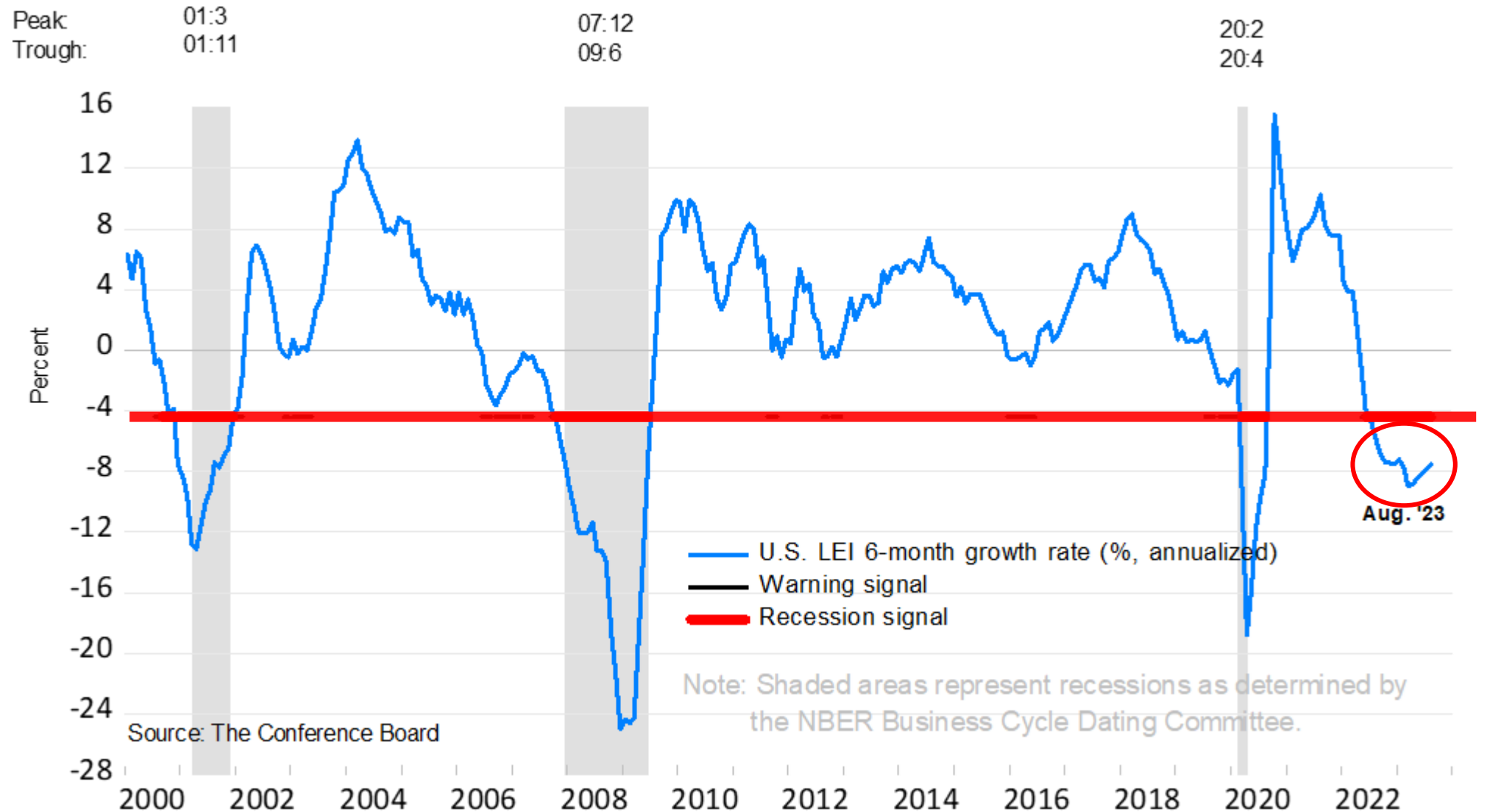
- Wars, particularly in Israel
- Oil prices
- Tight credit market for businesses & banking system
- Restarting student loan payments
- Credit card use and cost of credit have been increasing

Recession?

Economic growth will either slow or go into a recession sometime in 2024. It is hard to tell which at this point.

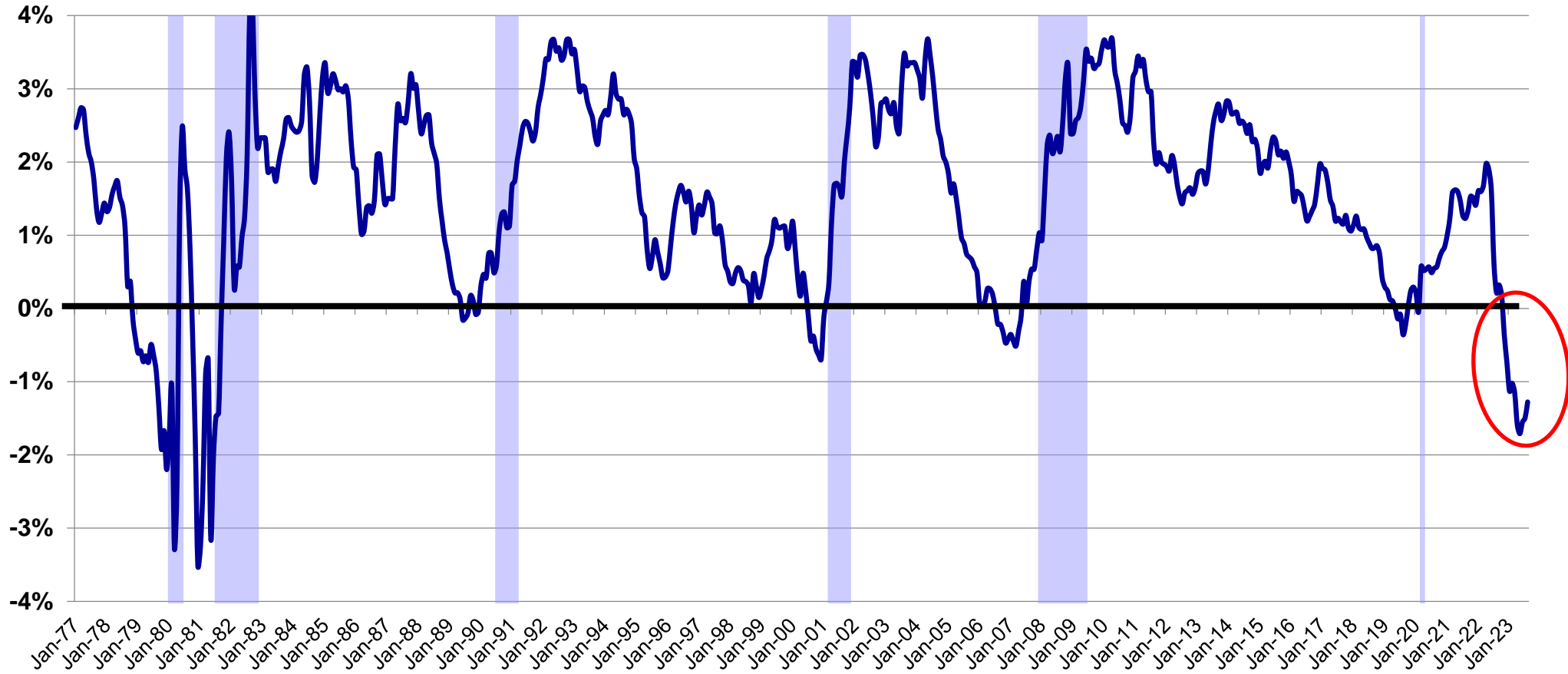


Leading Indicators



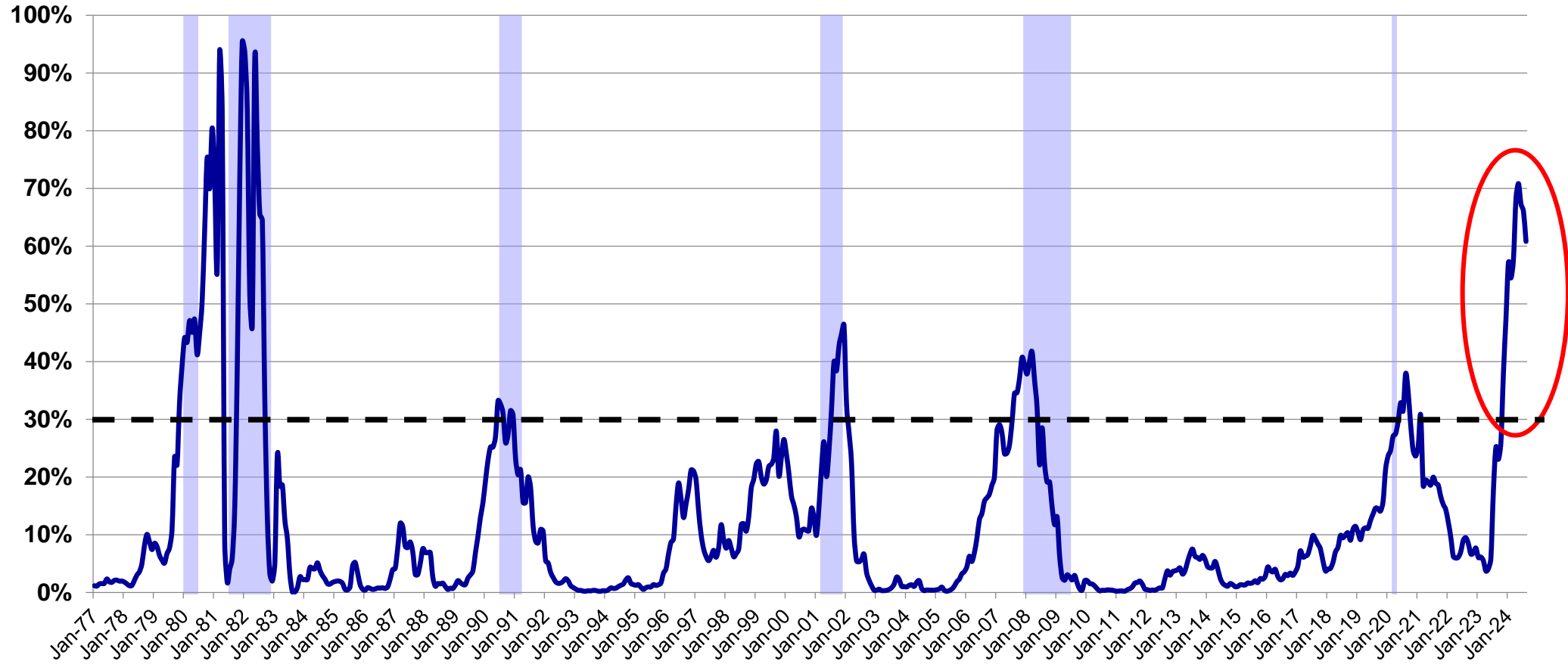
Treasury Spread 10-Year minus 3-month

Source: Federal Reserve



Treasury Spread Probability of Recession

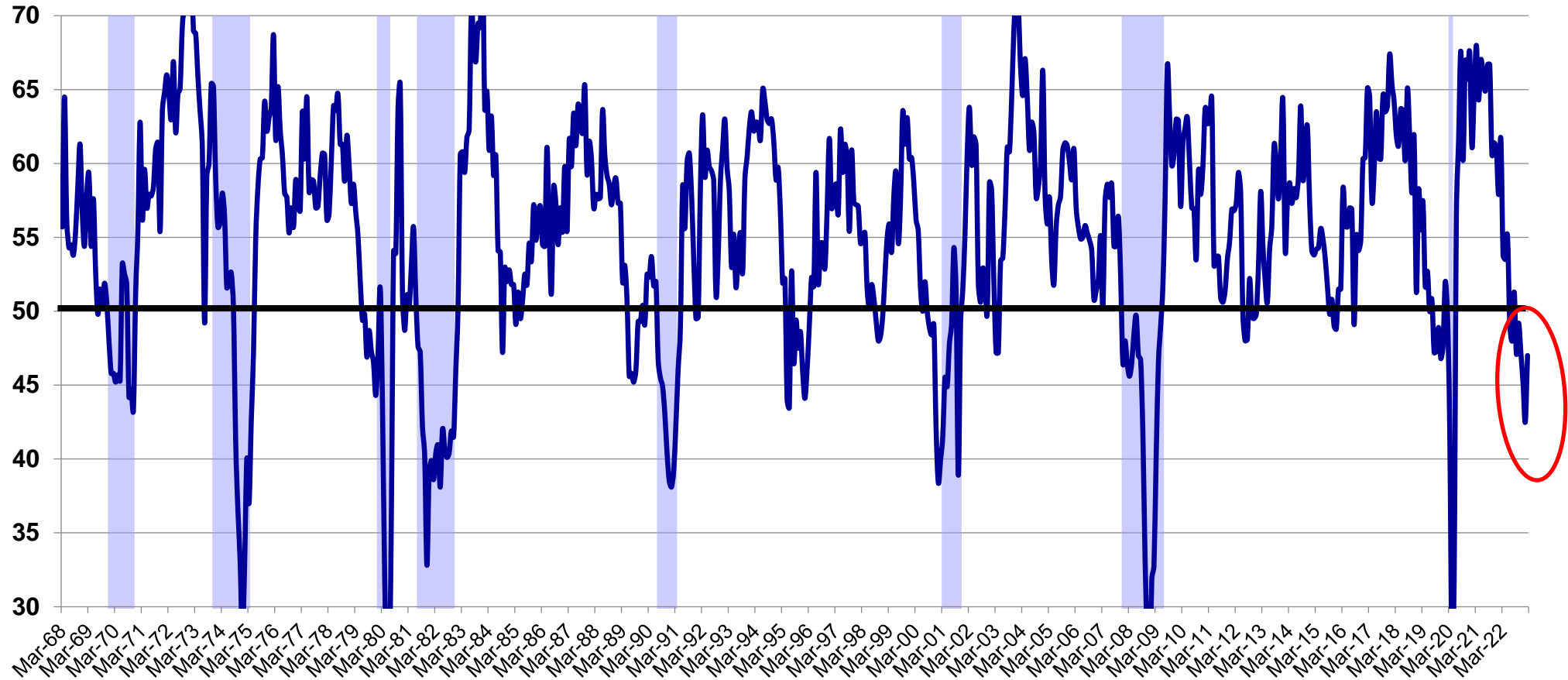
Source: Federal Reserve



ISM's Manufacturing PMI: New Orders

1968 – 2023*

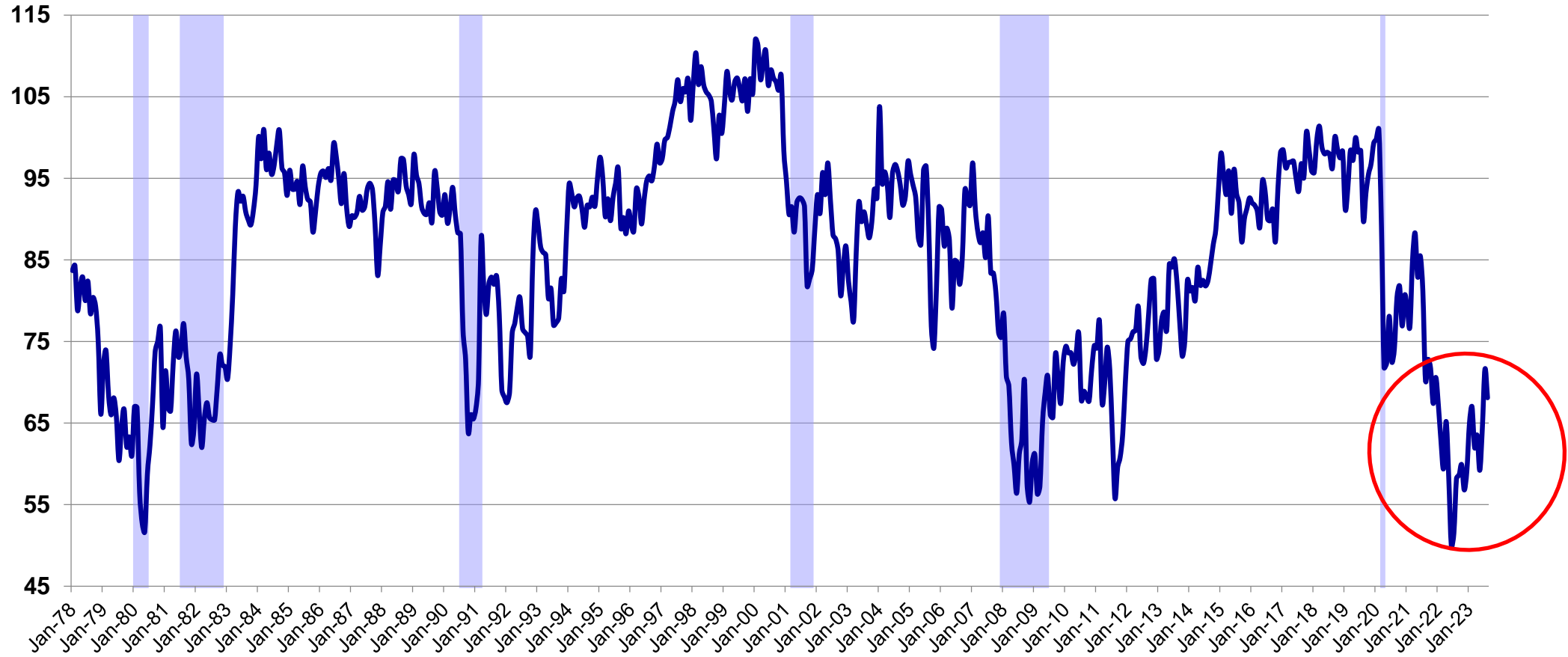
Source: ISM



University of Michigan: Consumer Sentiment

1978 – 2023*

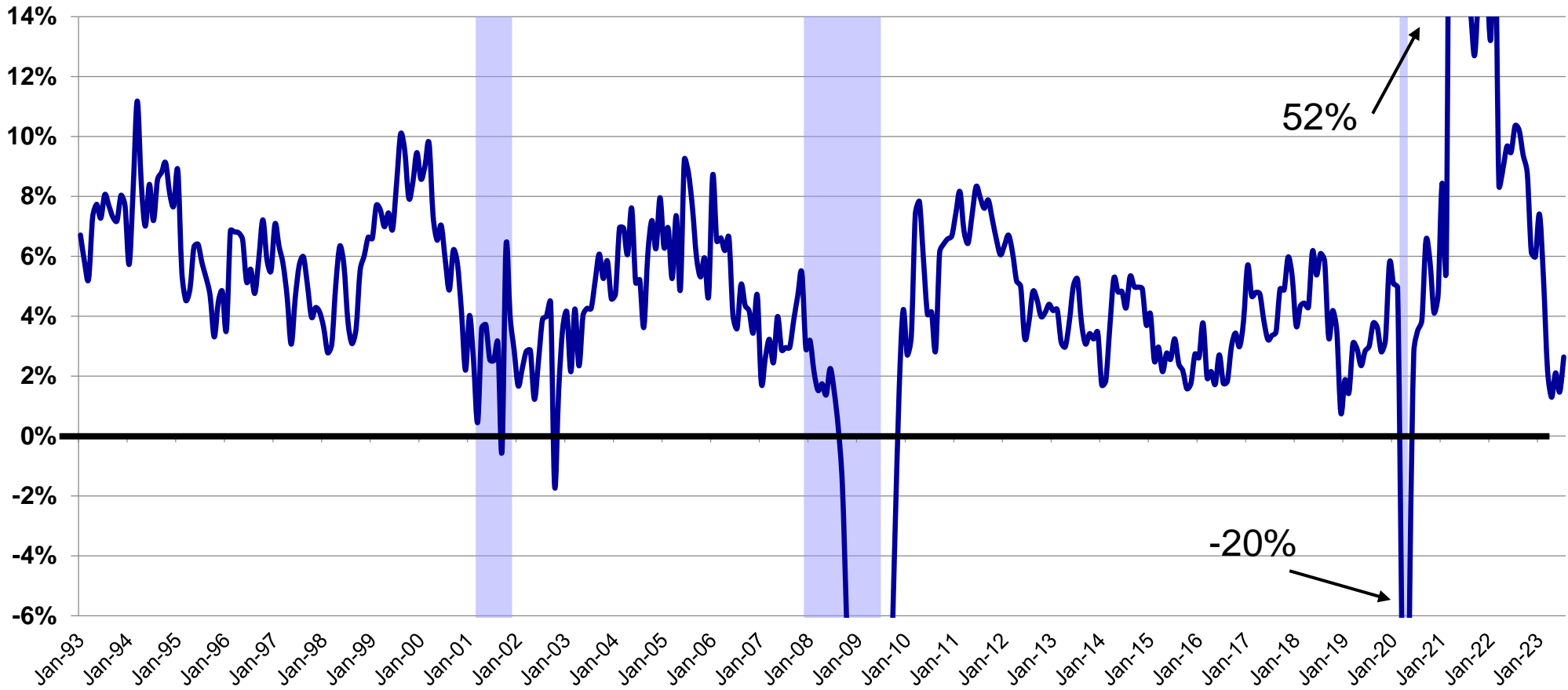
Source: University of Michigan



Retail Sales

% Change Y/Y

Source: U.S. Census





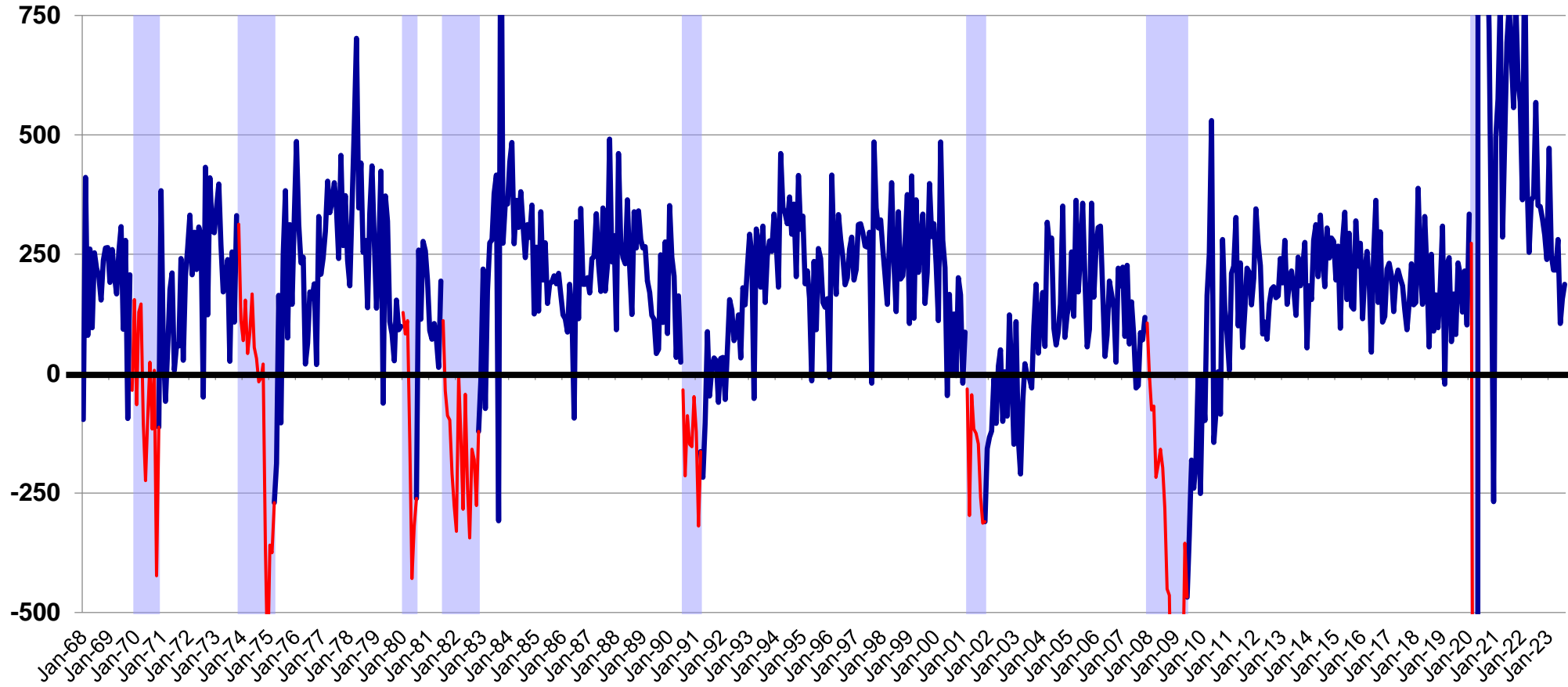
U.S. Non-farm Employment

Net Monthly Change

(1,000's)

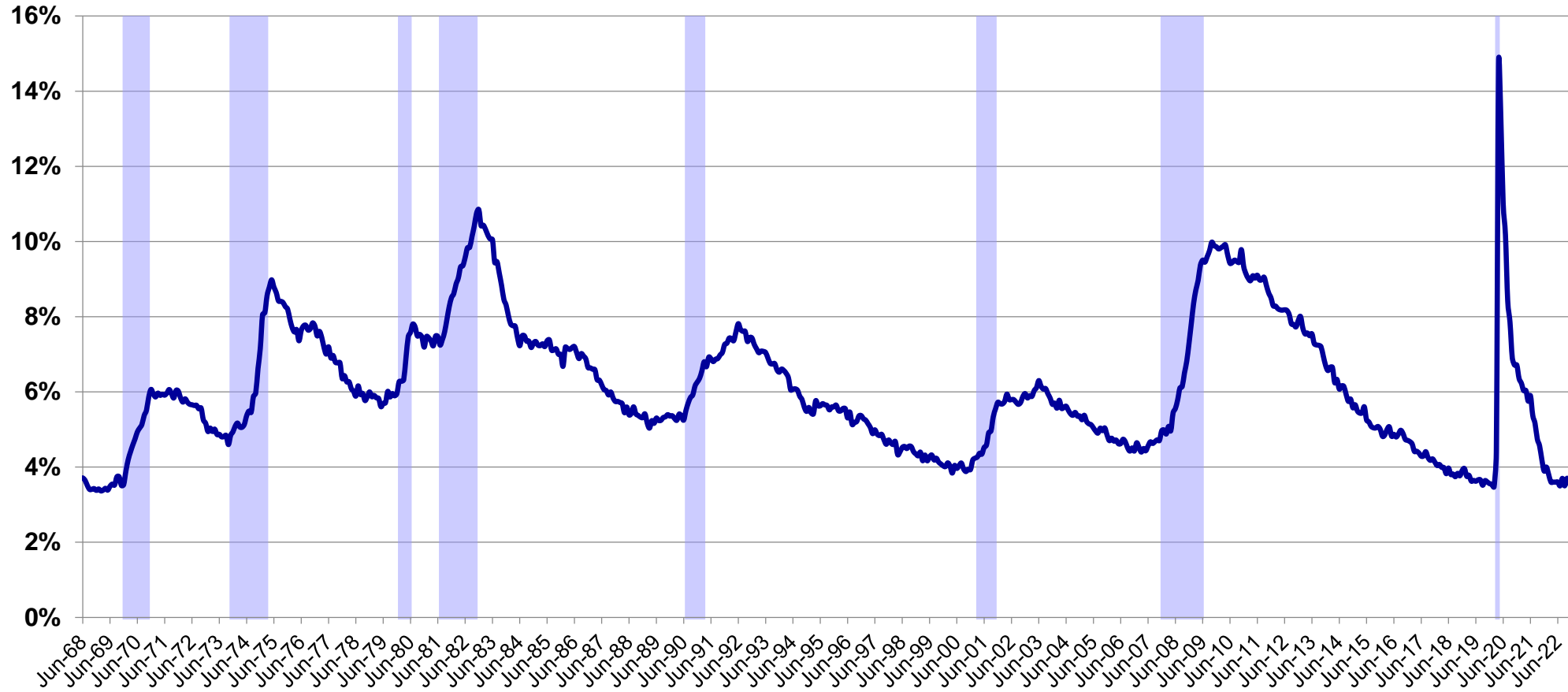
Source: BLS

Recession Periods



Unemployment Rate (U-3) 1968-2023

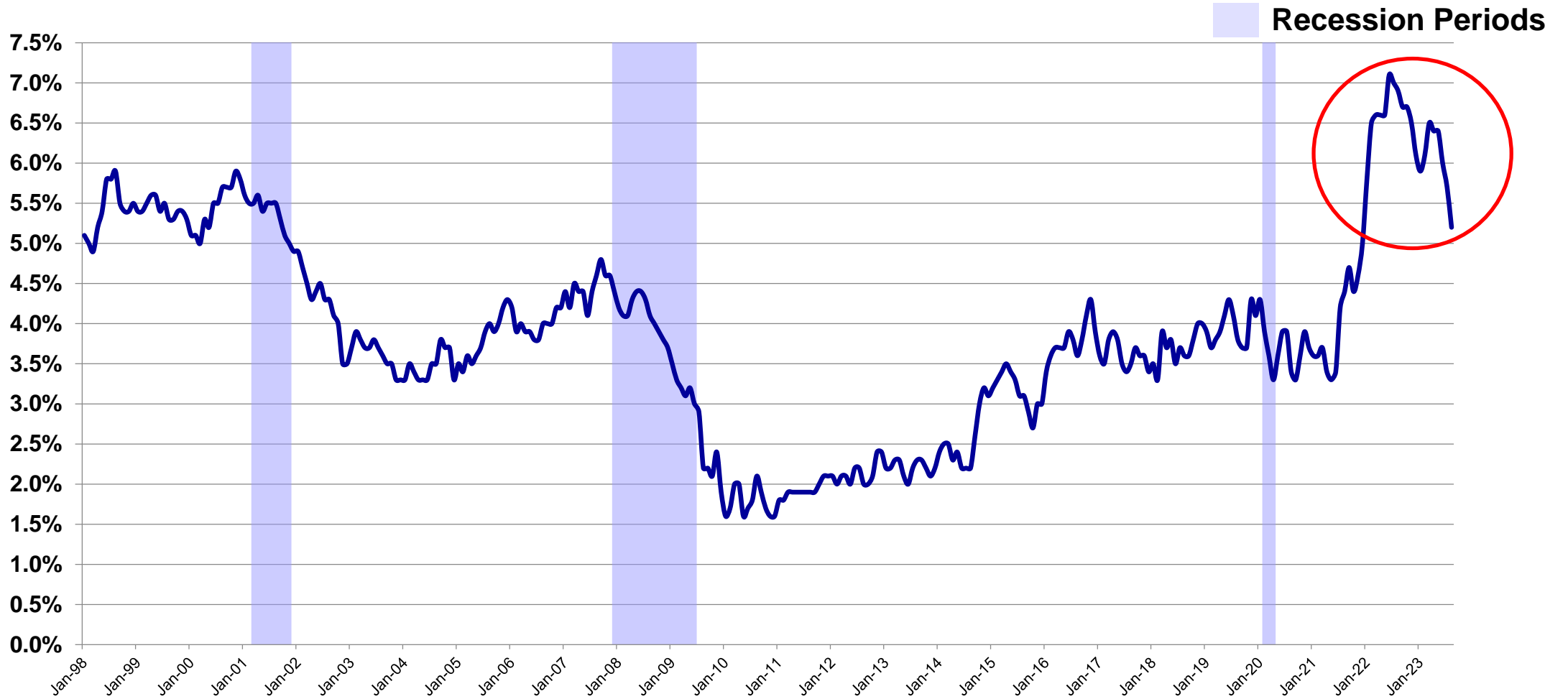
Source: BLS



Weighted Overall Wage Growth Tracker, 3-Month Moving Average

1998 - 2023

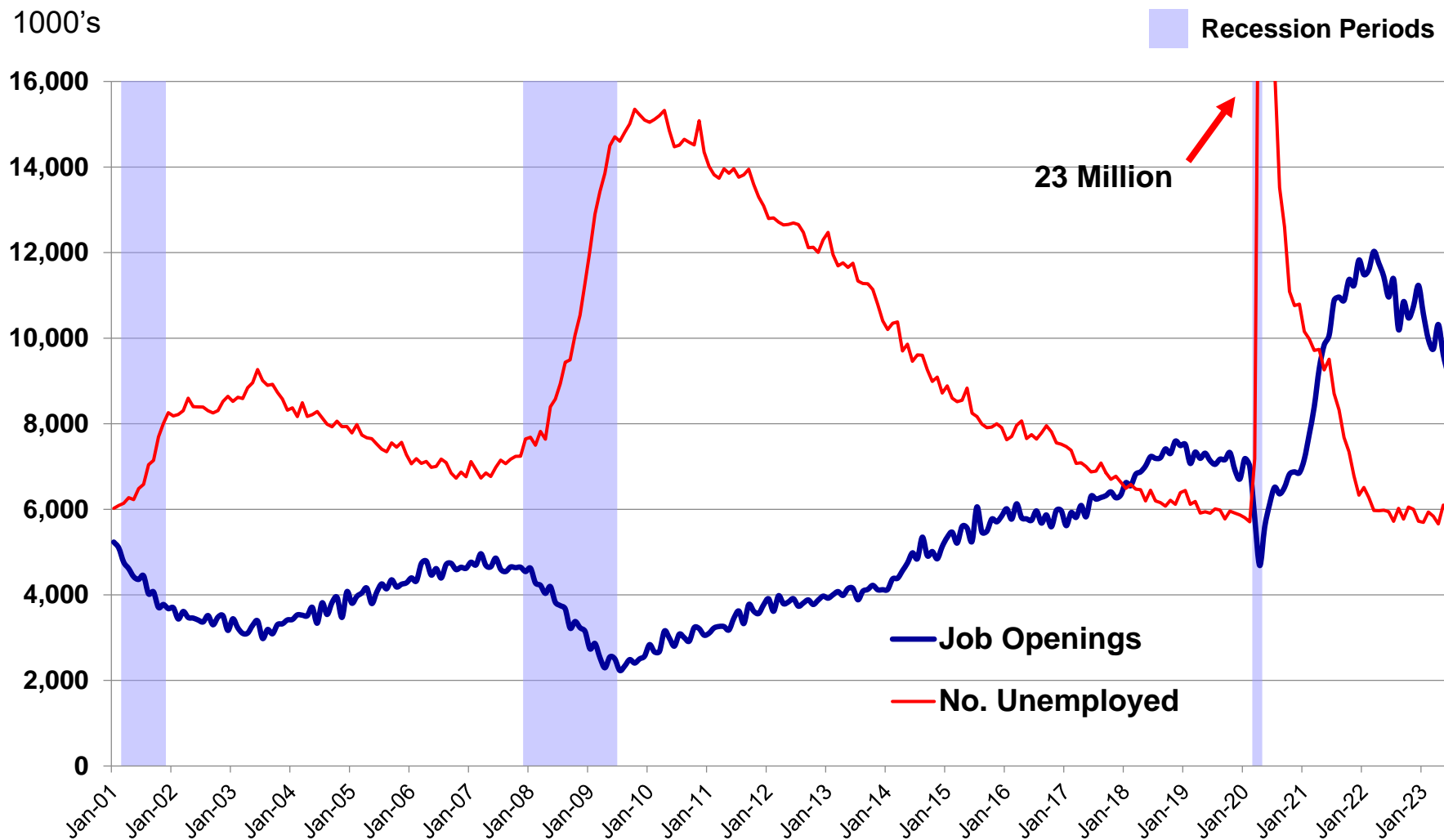
Source: Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations.



U.S. Job Openings and No. Unemployed

2001 – 2023*

Source: U.S. Bureau of Labor Statistics



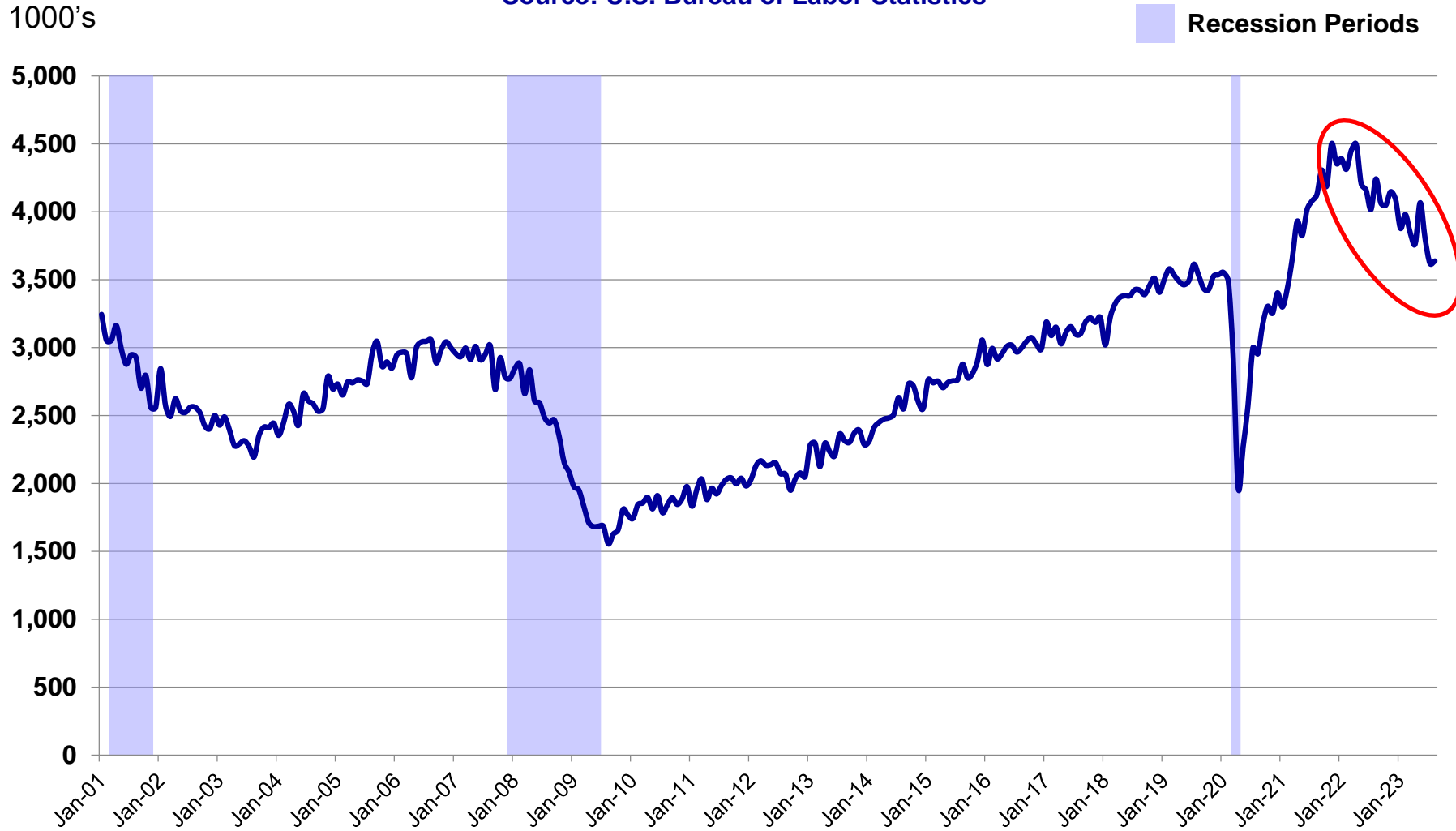
More jobs are available than people unemployed.



Quits

2001 – 2023*

Source: U.S. Bureau of Labor Statistics



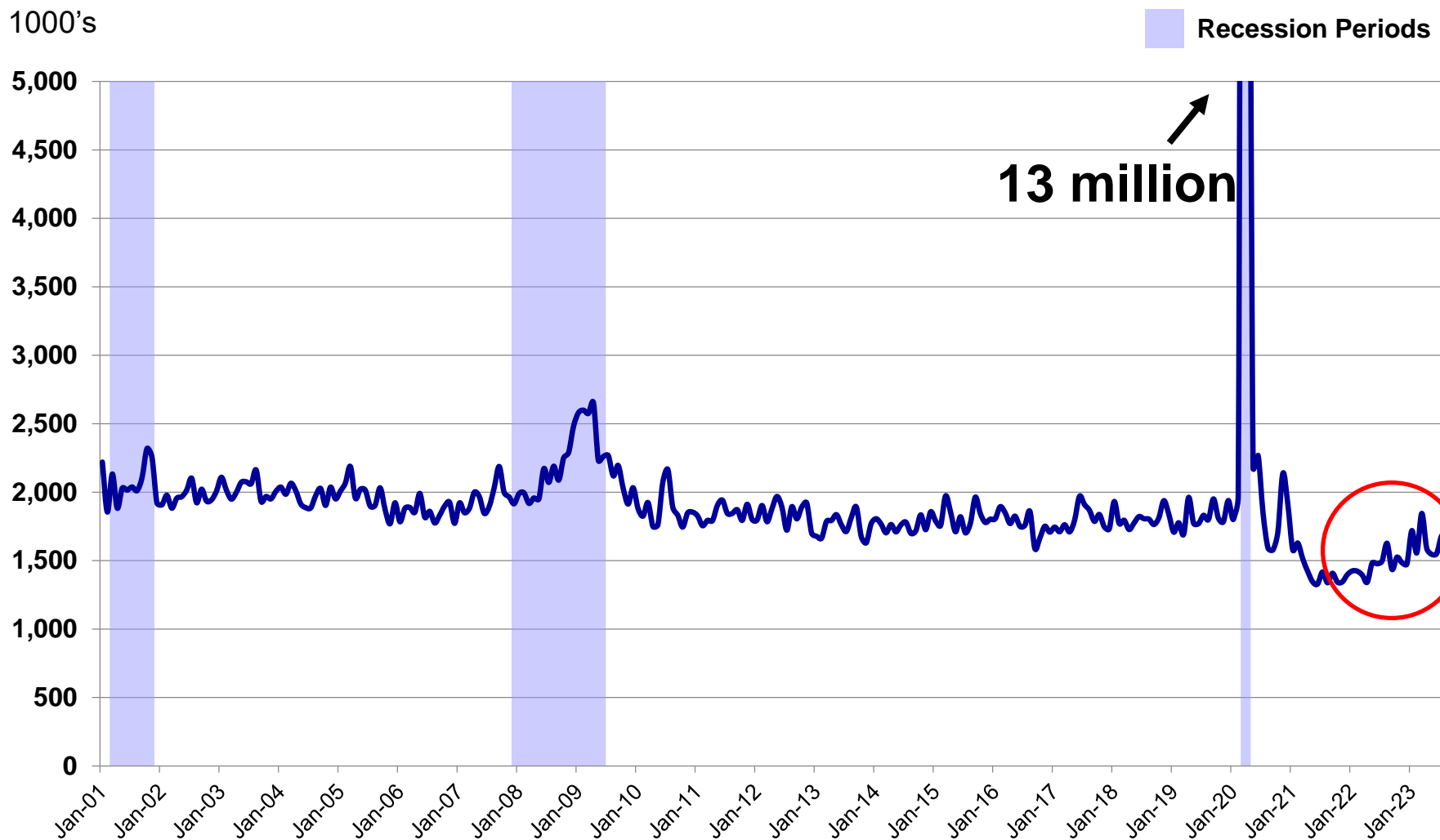
6,355,000 unemployed people in August 2023

*Data through August 2023

Layoffs

2001 – 2023*

Source: U.S. Bureau of Labor Statistics

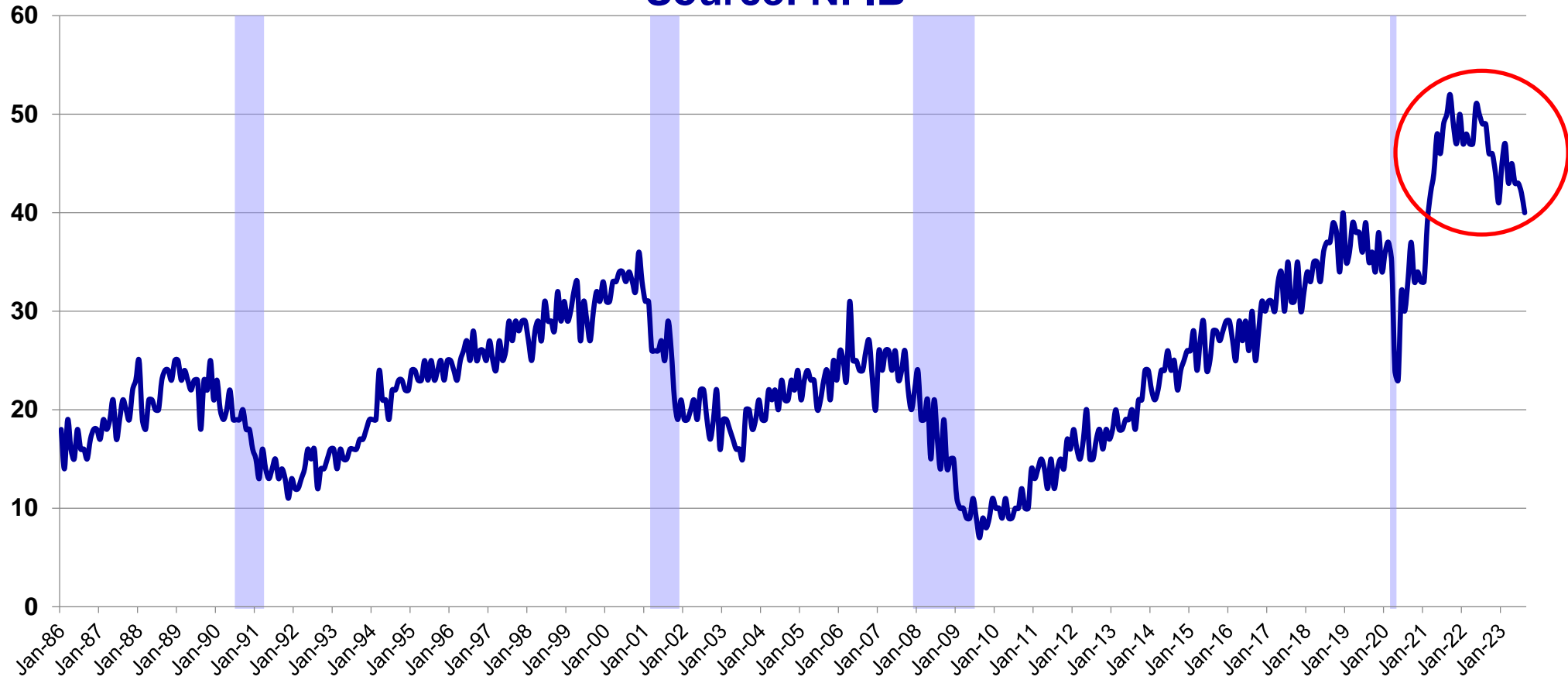


NFIB

Percentage of small businesses with unfilled job openings

1986-2023

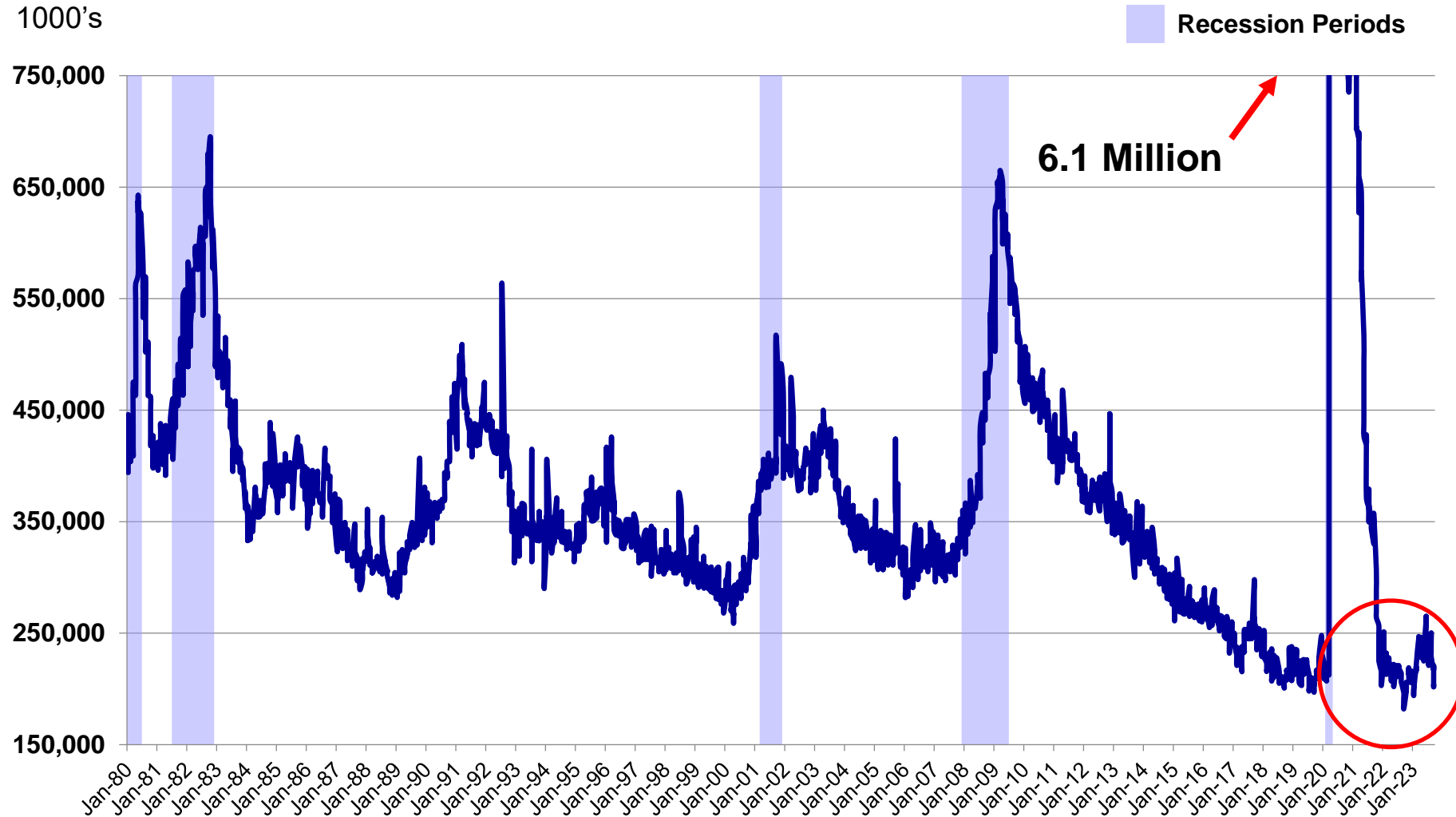
Source: NFIB



Initial claims

2000 – 2023*

Source: U.S. Department of Labor



*Data through September 2023.

Monetary Policy



Arthur Burns
Did Not Finish The Job
1970-1978



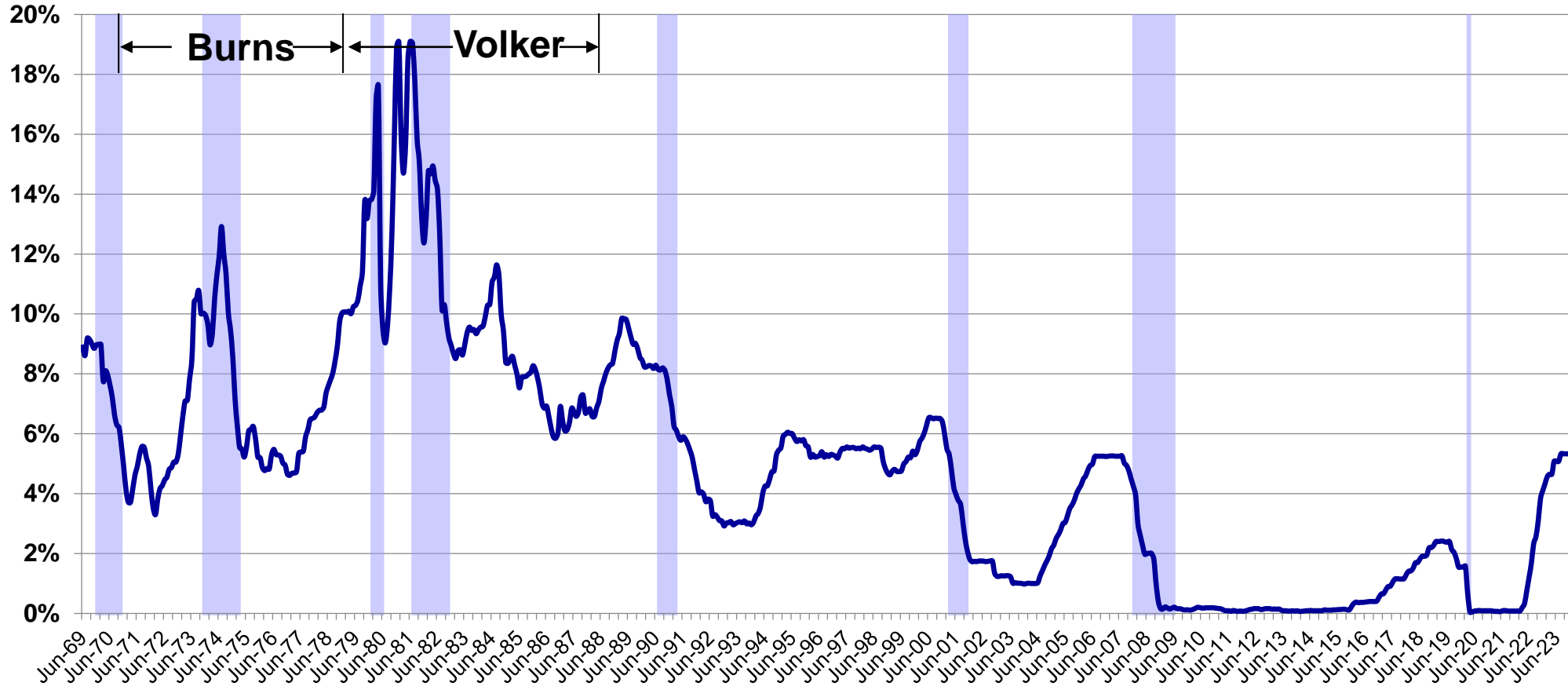
Paul Volcker
Finished the Job
1979-1987



Jerome Powell
To-be-determined
2018-?

Federal Funds Effective Rate 1968-2023

Source: BLS



High Interest Rates

- The most interest-sensitive sectors include:
 - Housing – especially for-sale housing
 - Commercial construction
 - Consumer durables spending such as autos, appliances and furniture
 - Business spending on plant and equipment
- High interest rates slow job creation, wage growth, commodity prices, etc.

It's like déjà vu all over again.

- We have been here before but have not had a period of high inflation for 40+ years since the 1970's and 1980's. Inflation stayed high throughout the 80's.
- Inflation this time around has been high for only the last eight quarters and is much less ingrained in the economy.
- High inflation is unfamiliar to most people because:
 - You have to be 60 years old or more to have experienced it in the past
 - You totally forgot about it
 - Or you weren't born

Historically, high inflation and recessions were caused by energy spikes.

More recent recessions have been caused by financial crises.

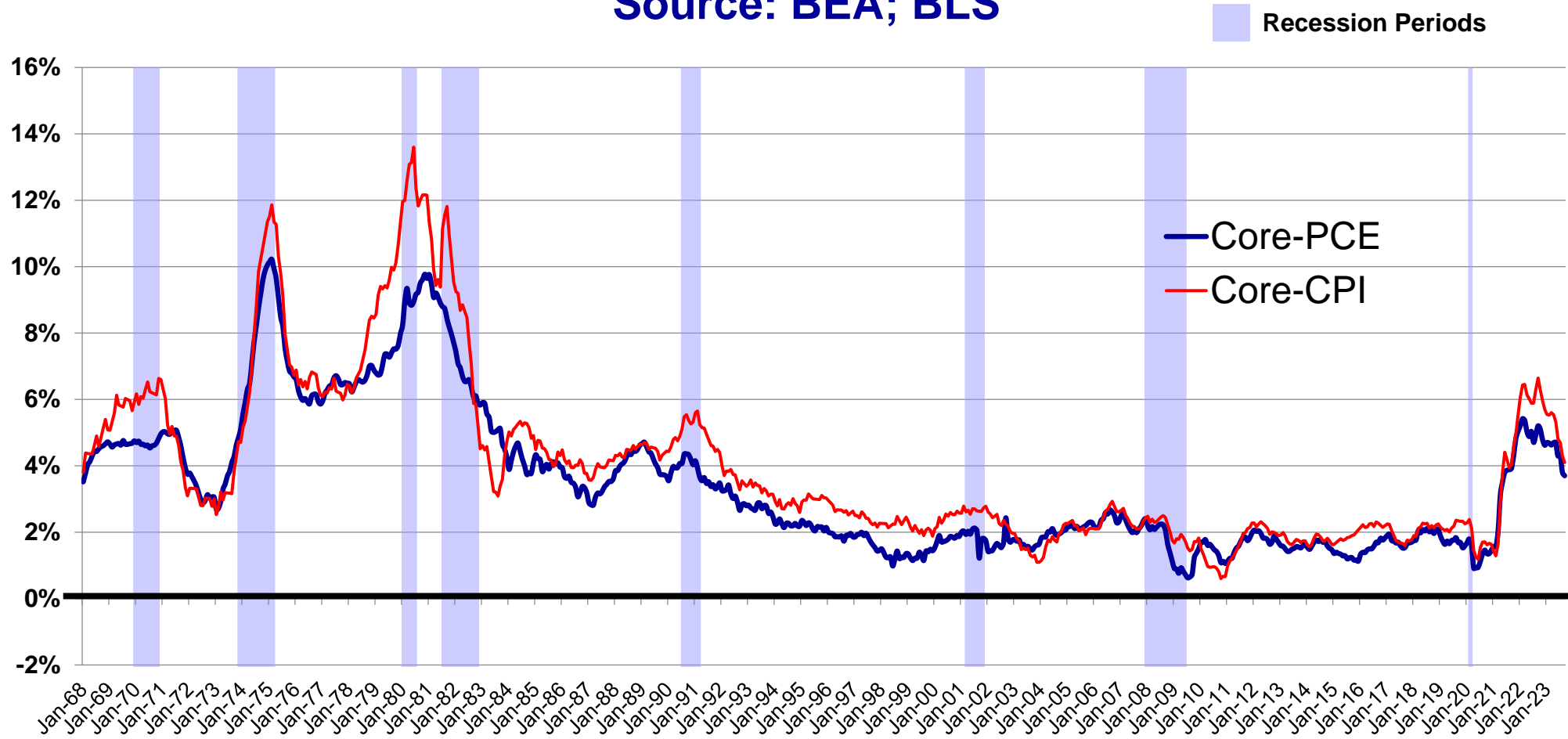
- 1990 Savings & Loan Crisis
- Dot.com bust
- Great Recession



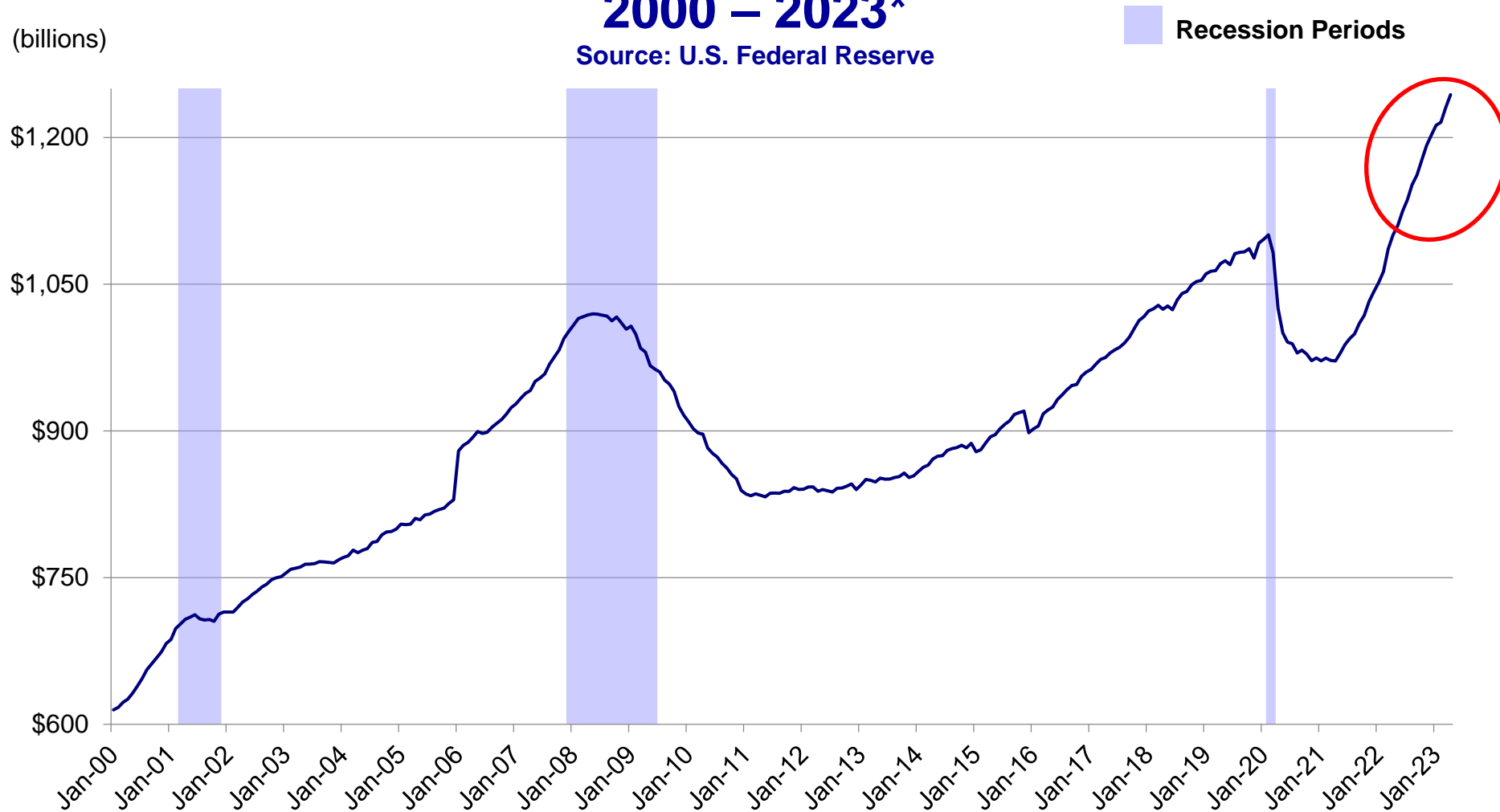
Core-PCE and Core-CPI

% Change Y/Y

Source: BEA; BLS



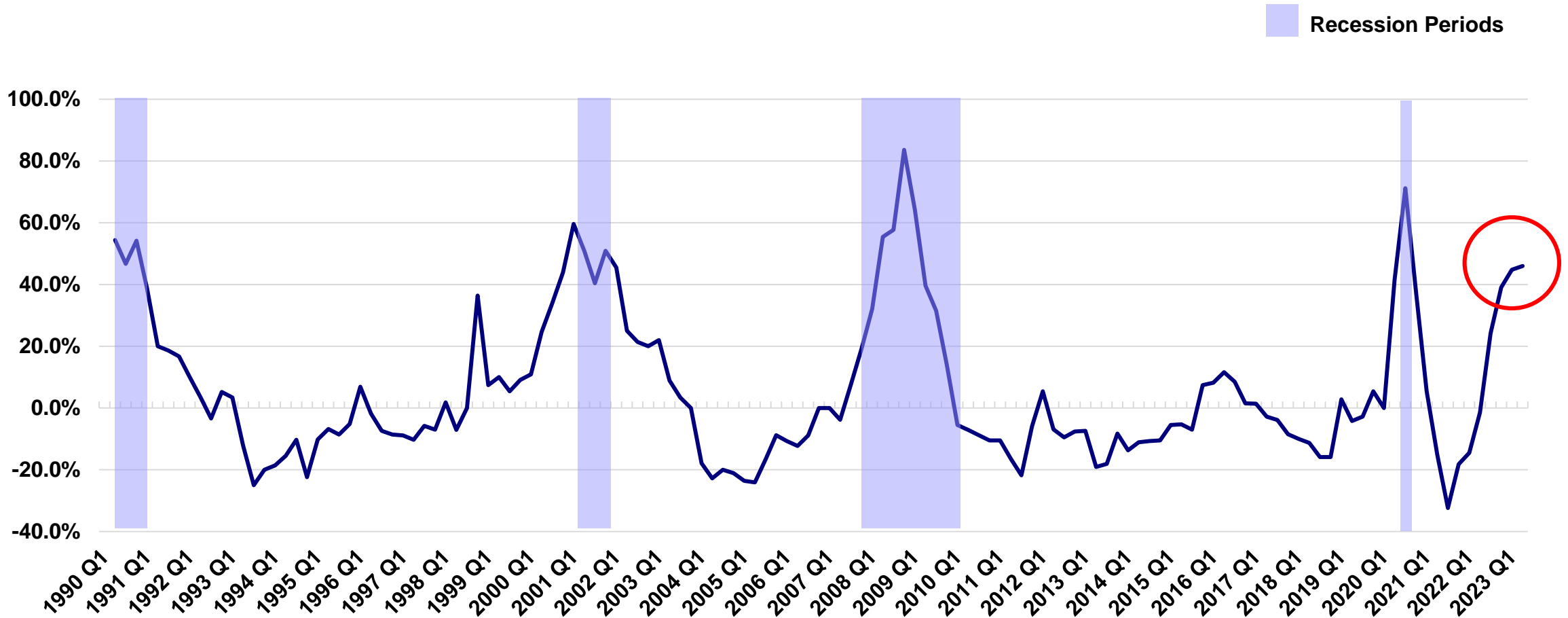
U.S. Consumer Credit Total Revolving Credit Outstanding 2000 – 2023*



Revolving Credit Plans – may be unsecured or secured by collateral and allow a consumer to borrow up to a prearranged limit and repay the debt in one or more installments.

Net Percentage of Domestic Banks Tightening Standards

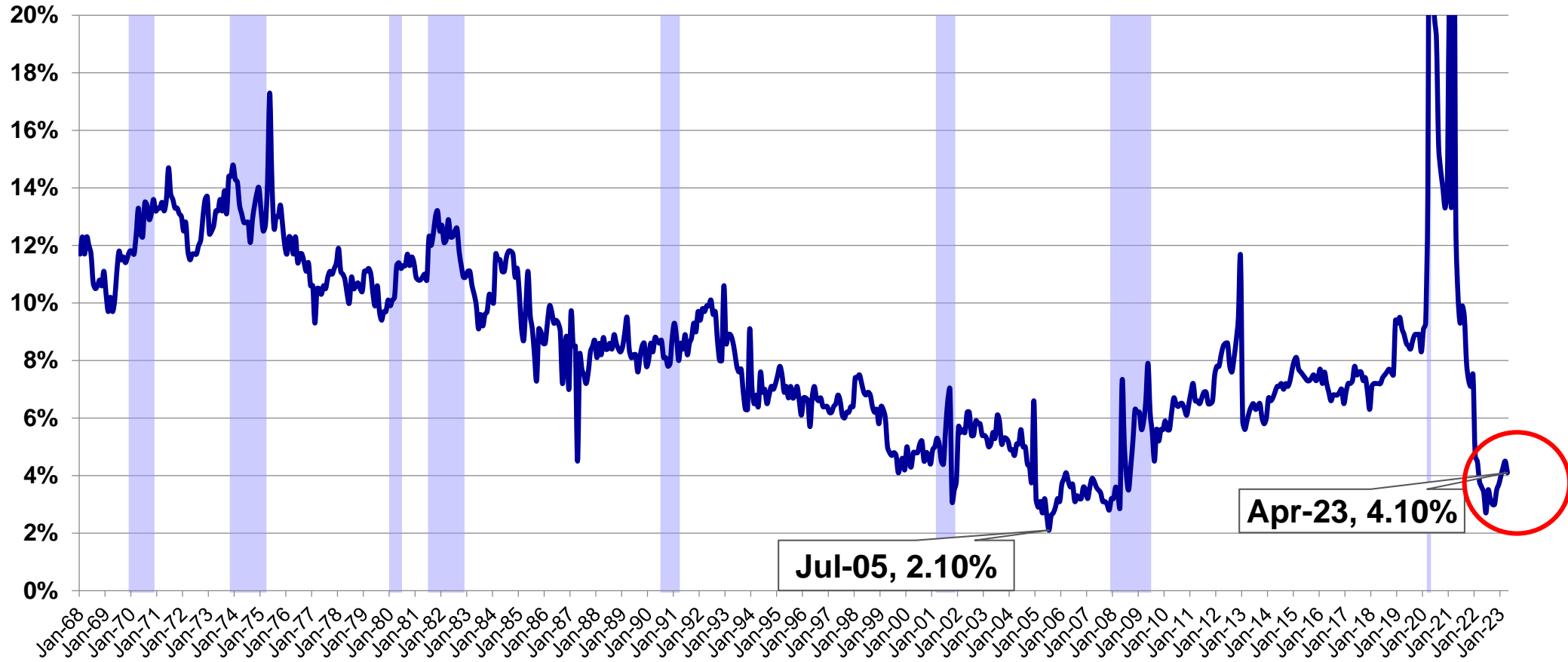
Source: Board of Governors of the Federal Reserve System



Savings Rate

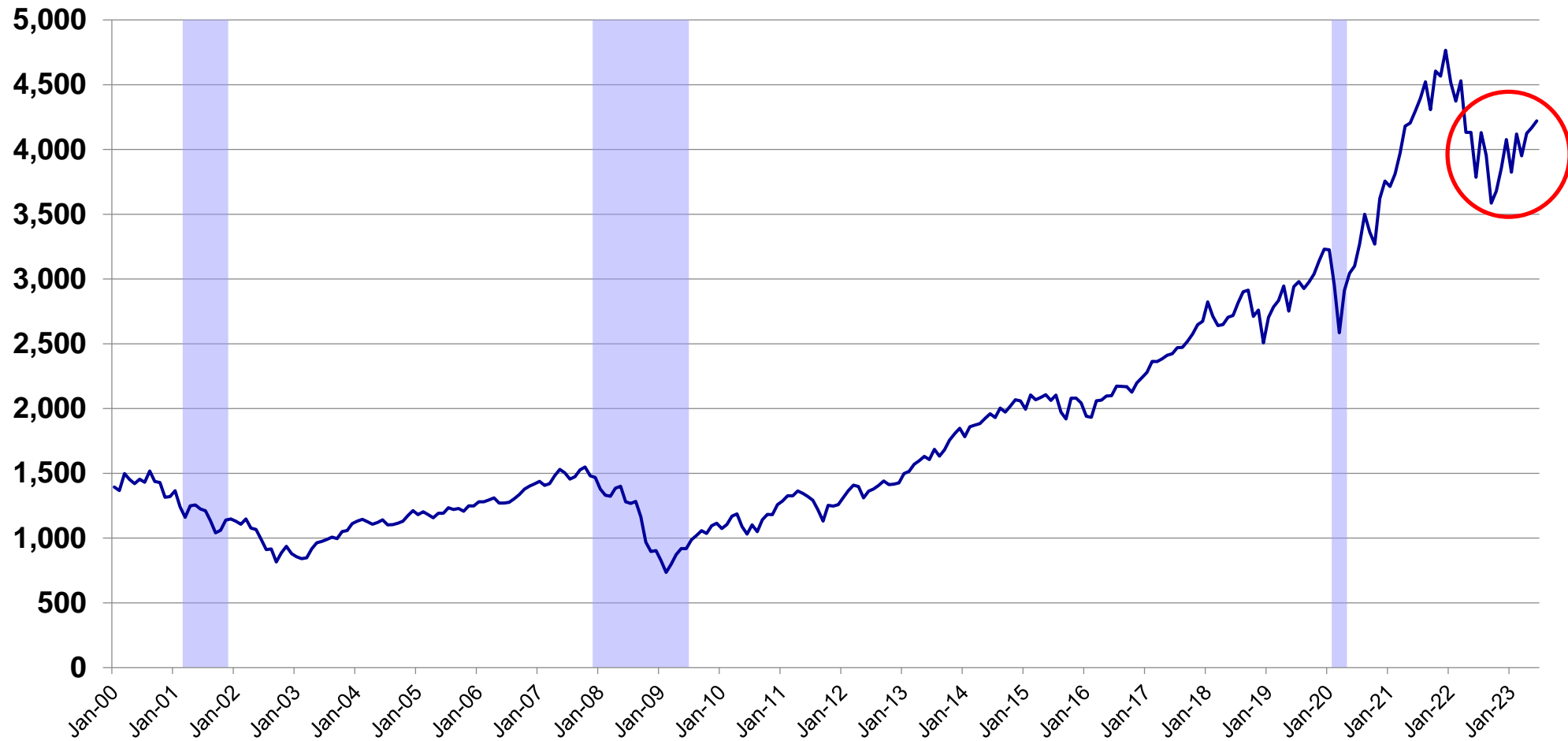
1968 - 2023

Source: BEA

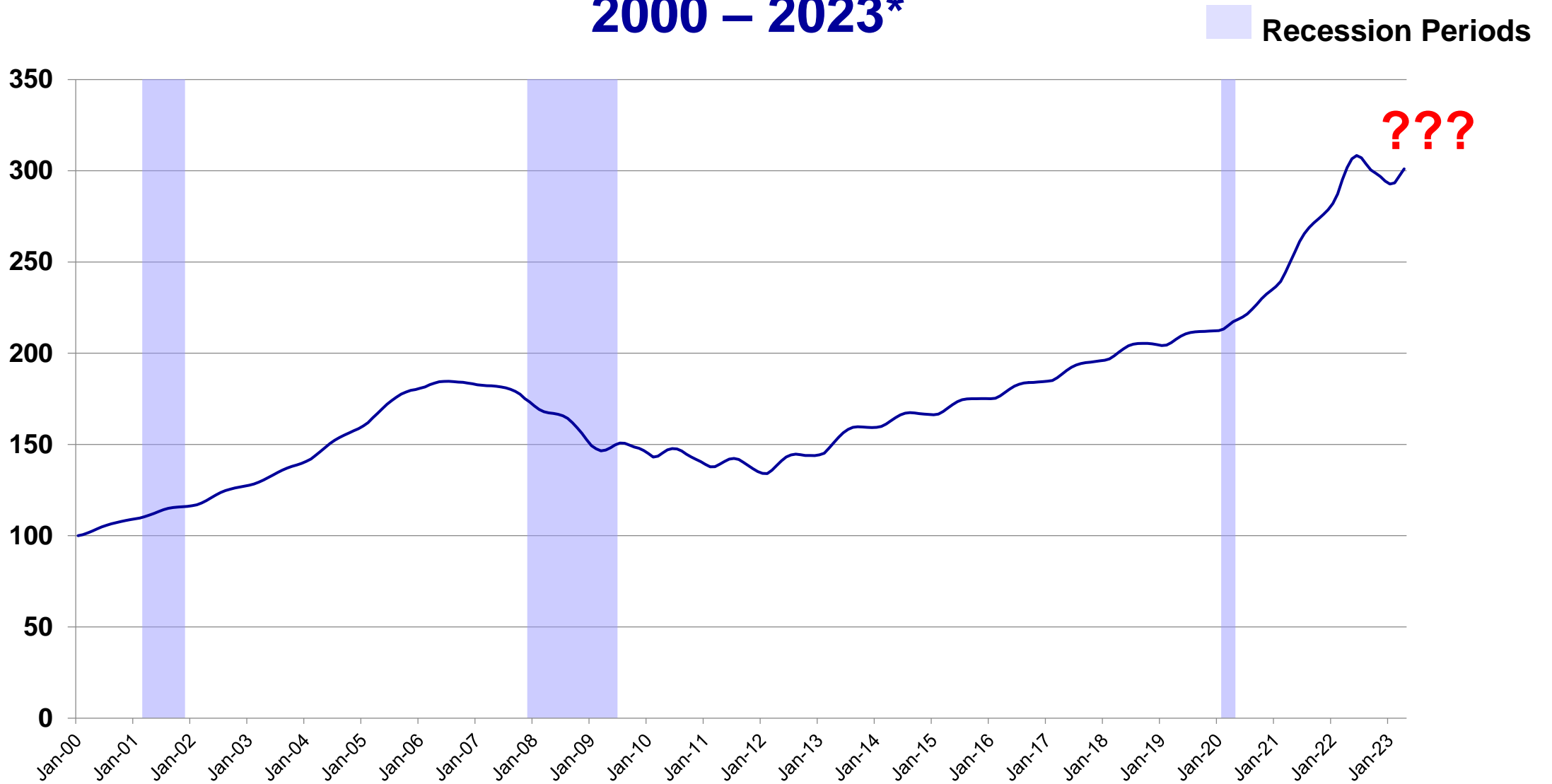


S&P 500 2000 – 2023*

Recession Periods



U.S. S&P/Case-Shiller Home Price Indices 2000 – 2023*

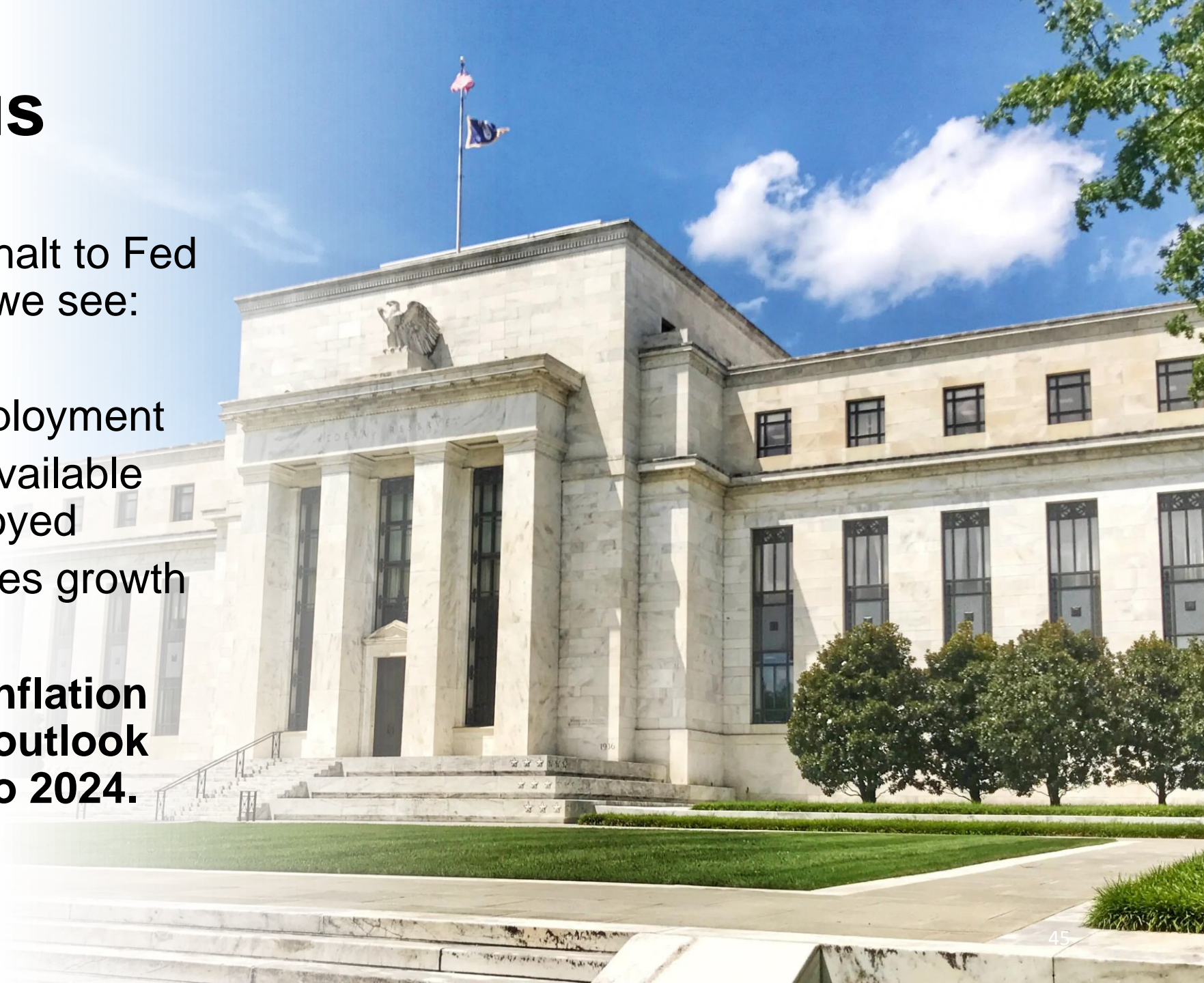


Current Status

We likely will not see a halt to Fed interest rate hikes until we see:

- A slowdown in hiring
- An increase in unemployment
- A balance between available jobs and the unemployed
- A slowing of retail sales growth

The effort to reduce inflation requires a long-term outlook extending at least into 2024.



The Fed's Task

A SOFT LANDING

- Unemployment increases, inflation declines to the Fed's goal, and we avoid a recession, or a recession is mild.

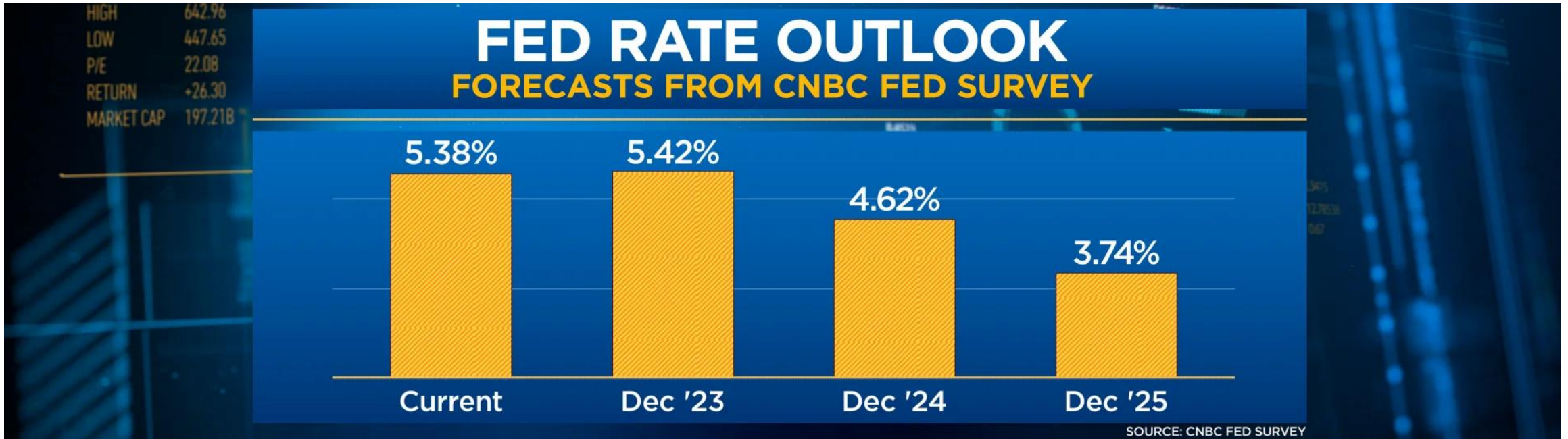
A HARD LANDING

- The Fed affects unemployment more measurably resulting in a more difficult recession.

In either case, the Fed must stay the course and rein in inflation or we could have a repeat of the 1970's early 1980's.



Fed's Mantra: Higher for Longer

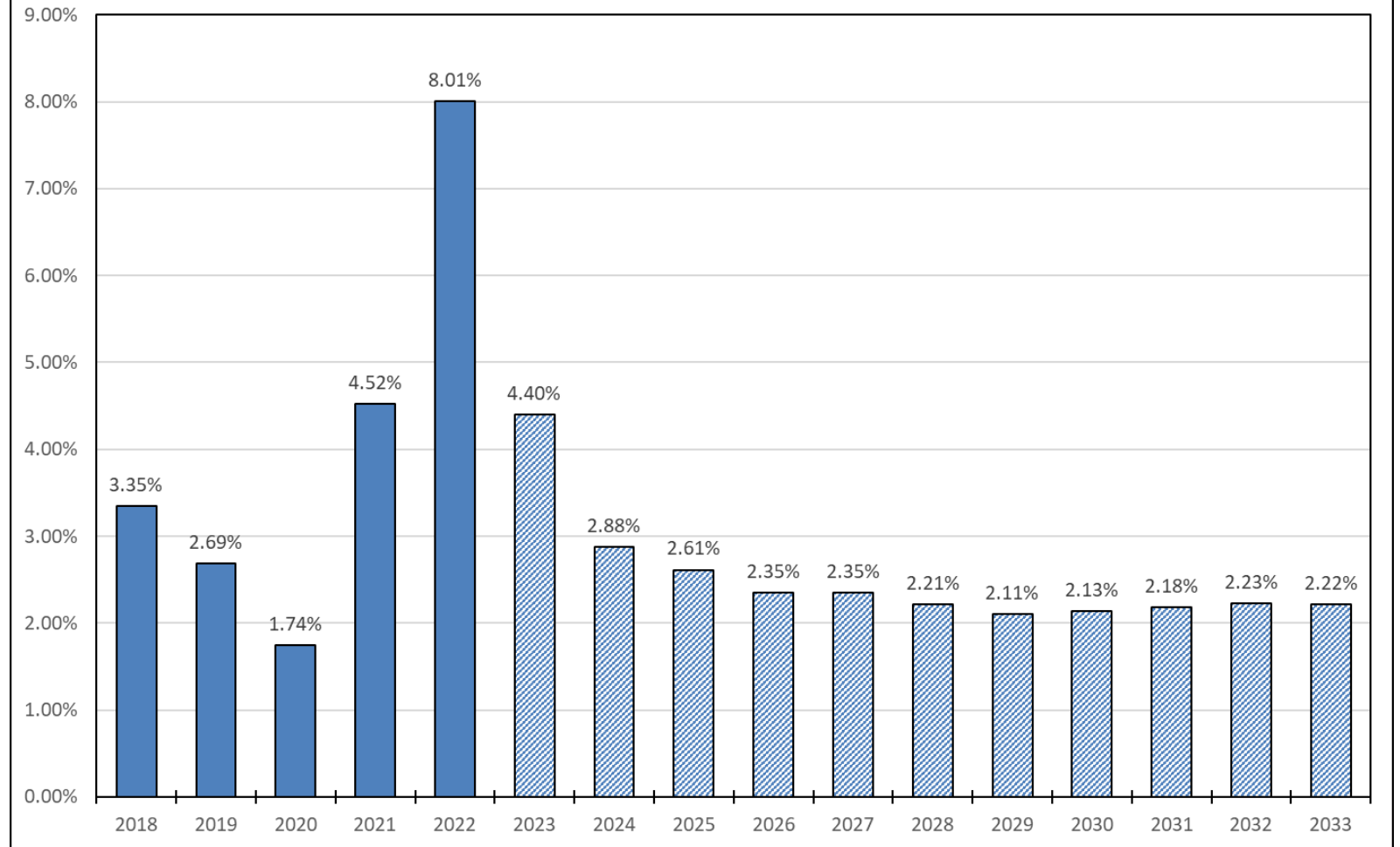


Expectations: No rate cuts until September 2024

Inflation Expectations

Inflation Forecast Western U.S. CPI All Urban Consumers

Source: U of A Forecasting Project



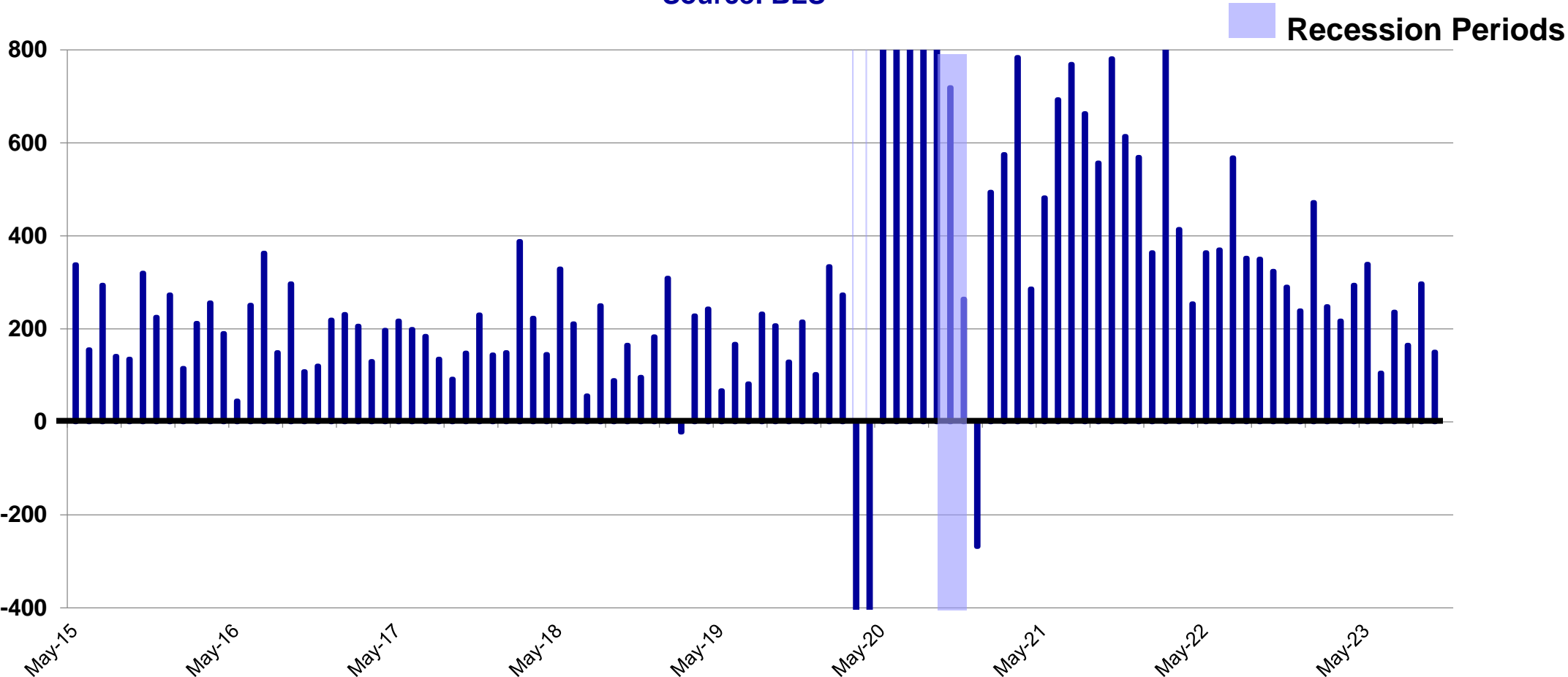


**Are we at the
beginning of
job
disruptions?**

Total Non-farm Employment

Net Monthly Change

Source: BLS

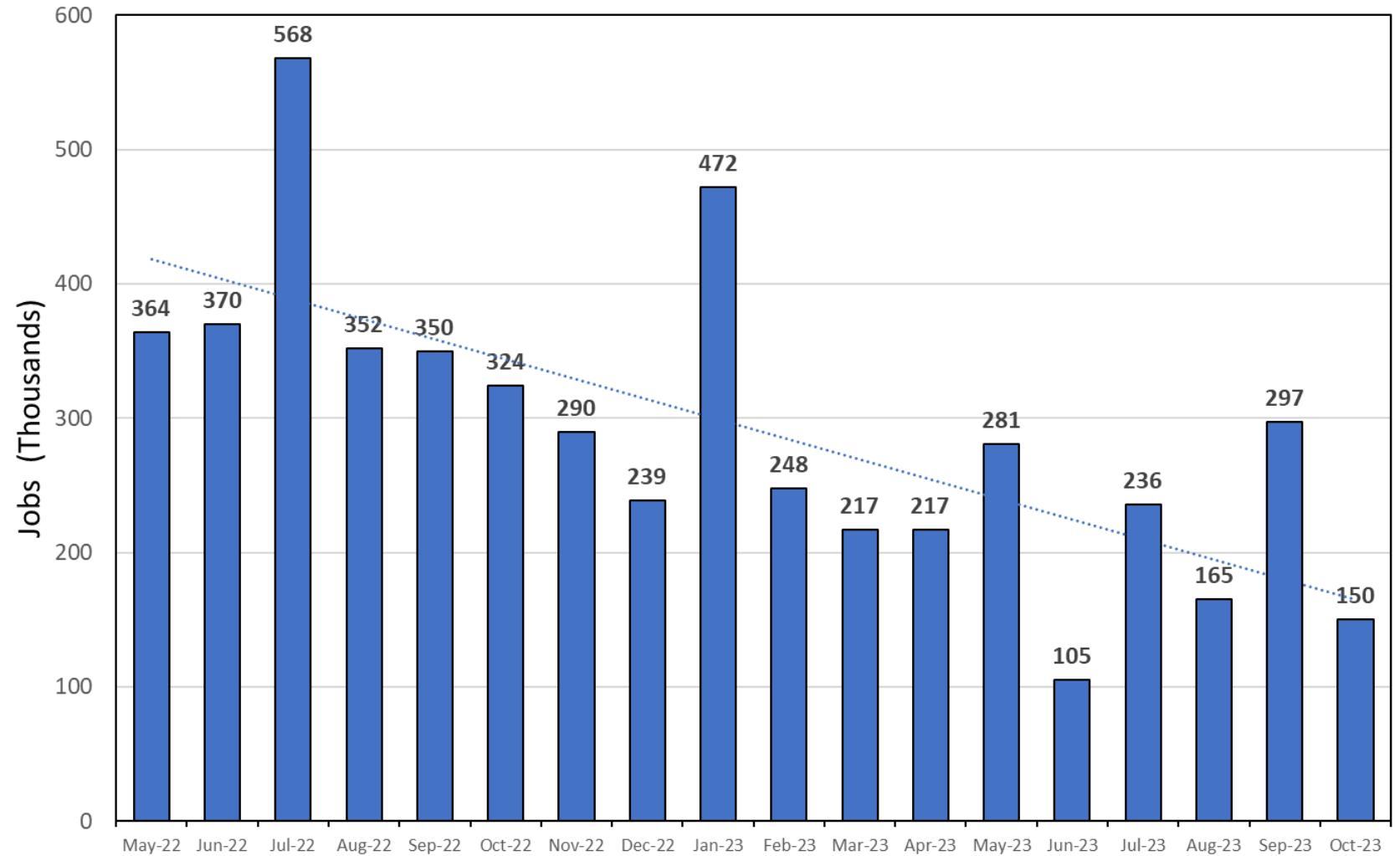


While still healthy growth in jobs, the trendline shows job creation slowing

Total Non-farm Employment Since May 2022

Net Monthly Change

Source: BLS





This bright employment picture could deteriorate as consumers and business are forced to cut back. We have not seen that occur so far.

CAPITAL MARKETS



We are in the Early Stages of a Credit Crunch

- Signature Bank and Silicon Valley Bank brought to light the impact of rising interest rates on banking.
- Banks are freezing credit, tightening lending standards, and recapitalizing.
- The government has stepped in to protect smaller banks from a classic bank run and to avoid contagion.



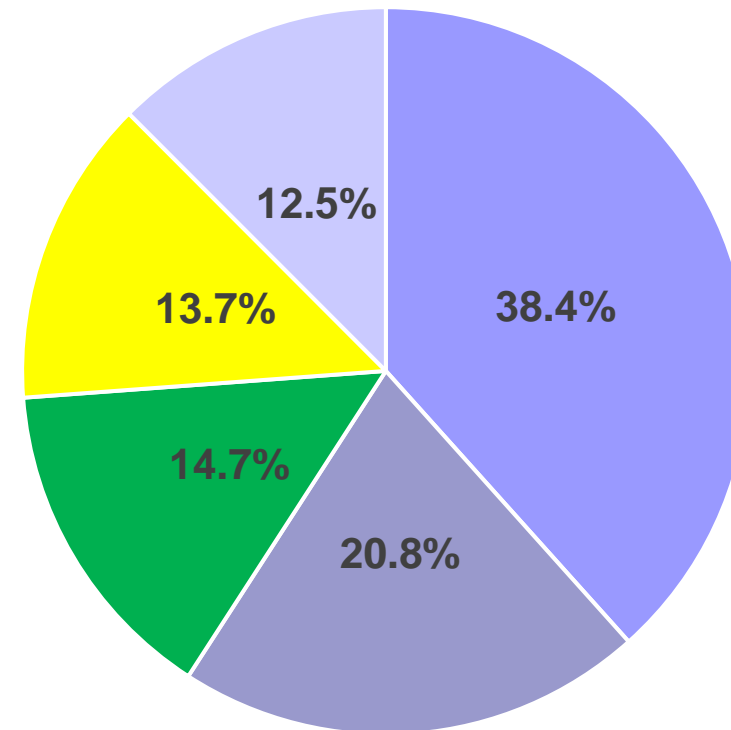
“When you have free money, people do stupid things. When you have free money for 11 years, people do really stupid things.”

Stan Druckenmiller

Commercial Real Estate (CRE) Lenders

Lender Percentages of CRE Mortgage Market

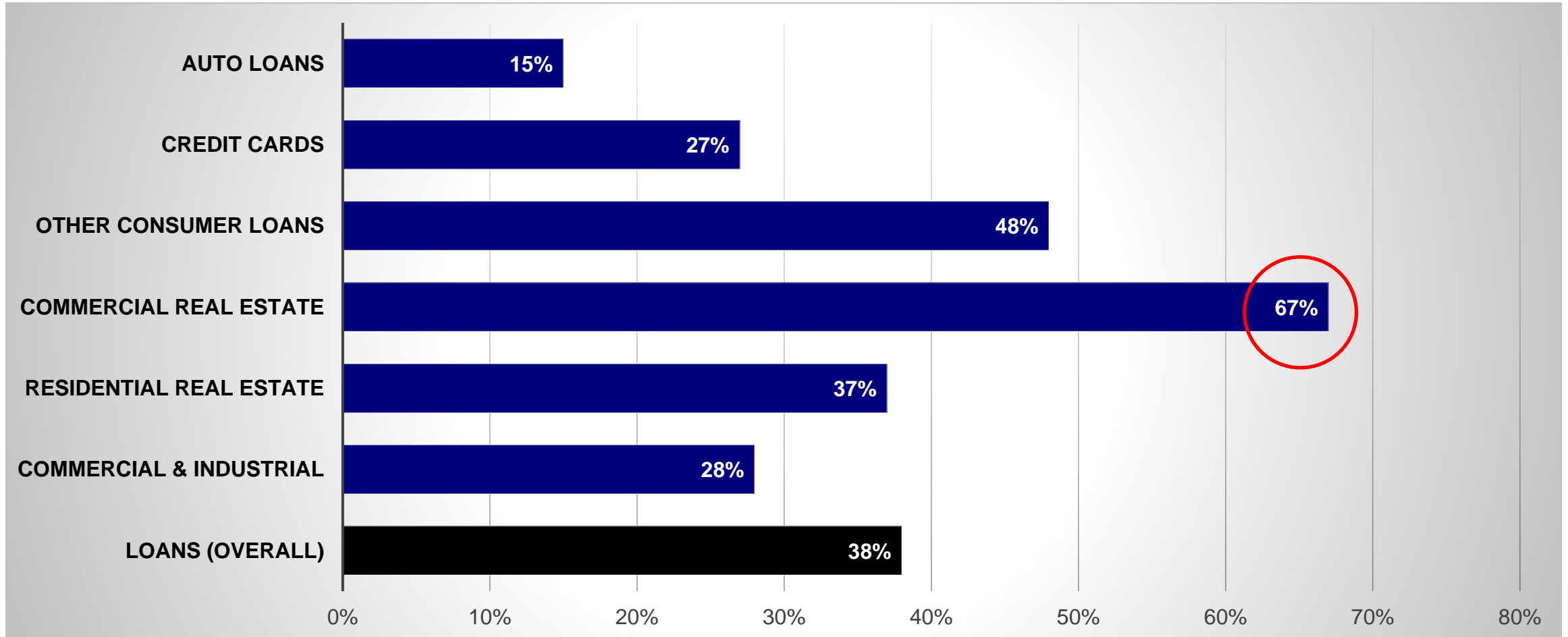
- Banks
- GSE Portfolios
- Life Insurance Co.
- CMBS, CDOs, ABS
- Other



Banking Definitions By Size

- Large Bank – The 25 largest financial institutions include U.S. firms with assets of \$100 billion or more and foreign banking organizations with combined U.S. assets of \$100 billion or more.
- Regional Bank – Total assets between \$10 billion and \$100 billion.
- Community Bank – Total assets between Less than \$10 billion
- Small Bank – Total assets with assets of less than \$1.384 billion

Regional and Community Banks Share Of All Outstanding Bank Loans By Type



Commercial Mortgage Debt Maturities

- **\$5.67 trillion** of commercial debt.
- **\$2.75 trillion of loans** are set to mature between this year and 2027.
- **\$1.2 trillion** of debt on U.S. commercial real estate is “potentially troubled” because it is highly leverage and values are falling .
- Offices are the biggest near-term problem, accounting for more than half of the **\$626 billion of at-risk debt** that’s set to mature by the end of 2025.
- **Office values have tumbled 31%.**
- After offices, apartment buildings are the next-biggest category of potentially troubled properties with **\$192 billion in debt** needing to be refinanced through 2025.

Source: Trepp; Newmark



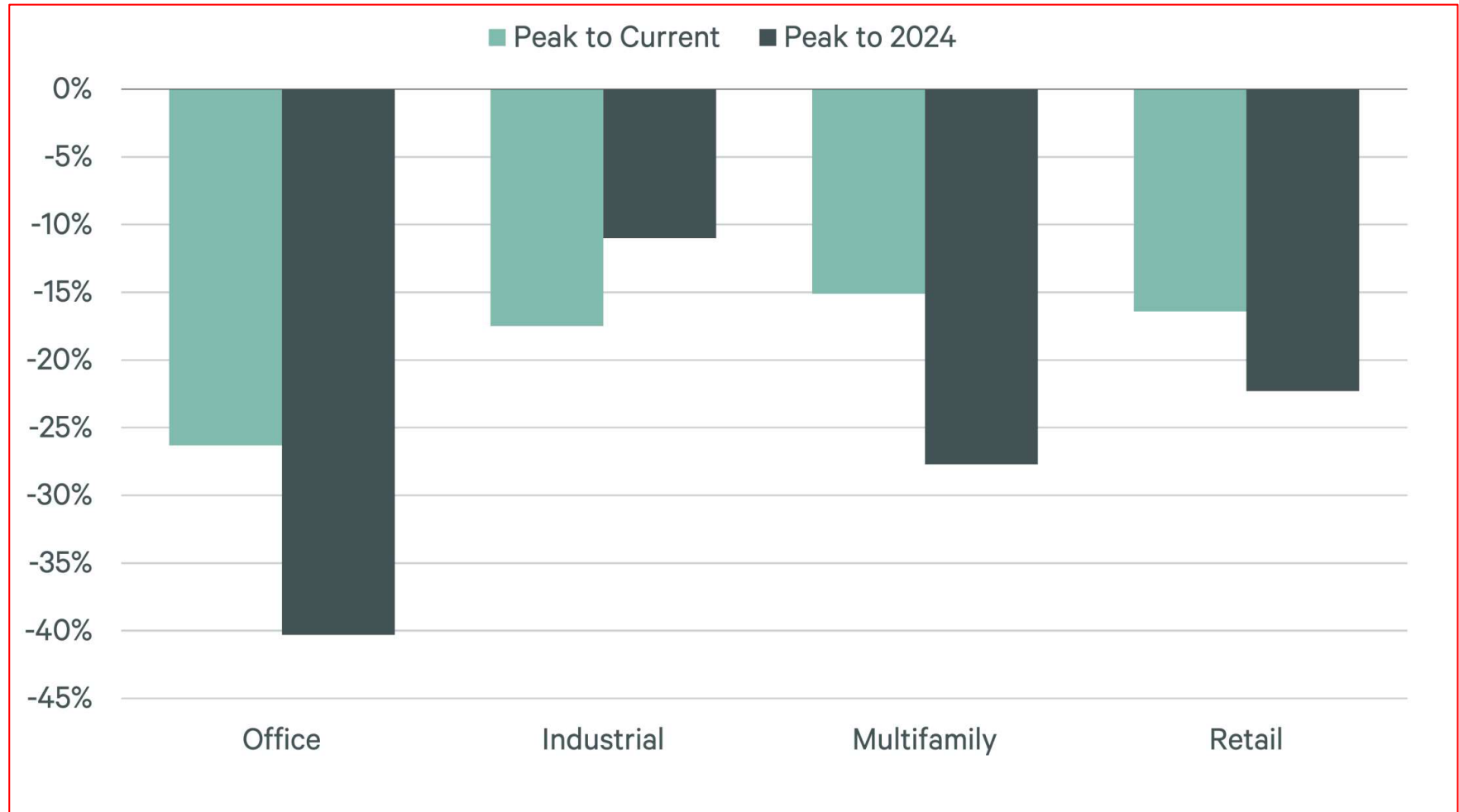


What Are Office Owners Facing?

- Remote work has changed the office market
- High vacancies across the country
- Office properties have potentially lost 30% of value
- Impact varies from region to region
- Impact also varies by building type – Class B & C properties impacted the worst
- Owners cannot cover operating and debt costs
- Refinancing, if possible, will only increase debt service

Current & Forecasted Decline in Capital Values by Property Type

Source: CBRE



What Will the Banks Do?

- Recent “Guidance” from Fed and FDIC suggests lenders work with creditworthy borrowers.
- Extend or renegotiate the loans, partial payments, deferred payments.
- Require additional equity in projects.
- Take back the properties and sell them at market.





**Welcome to
Arizona**

Arizona Rankings Among States

Source: U.S. Bureau of Census; Bureau of Labor Statistics; Bureau of Economic Analysis

DECADE	POPULATION	EMPLOYMENT	PERSONAL INCOME
1950 - 1960	4 TH	1 st	2 nd
1960 - 1970	3 RD	3 RD	4 TH
1970 - 1980	2 ND	3 RD	3 RD
1980 - 1990	3 RD	3 RD	5 TH
1980 - 1990	2 ND	2 ND	3 rd
2000 – 2010	2 nd	12 th	12 th
2010 – 2020	9 th	3 rd	6 th



Job Growth 2023 versus 2019

August 2023 vs. August 2019

Source: U.S. BLS

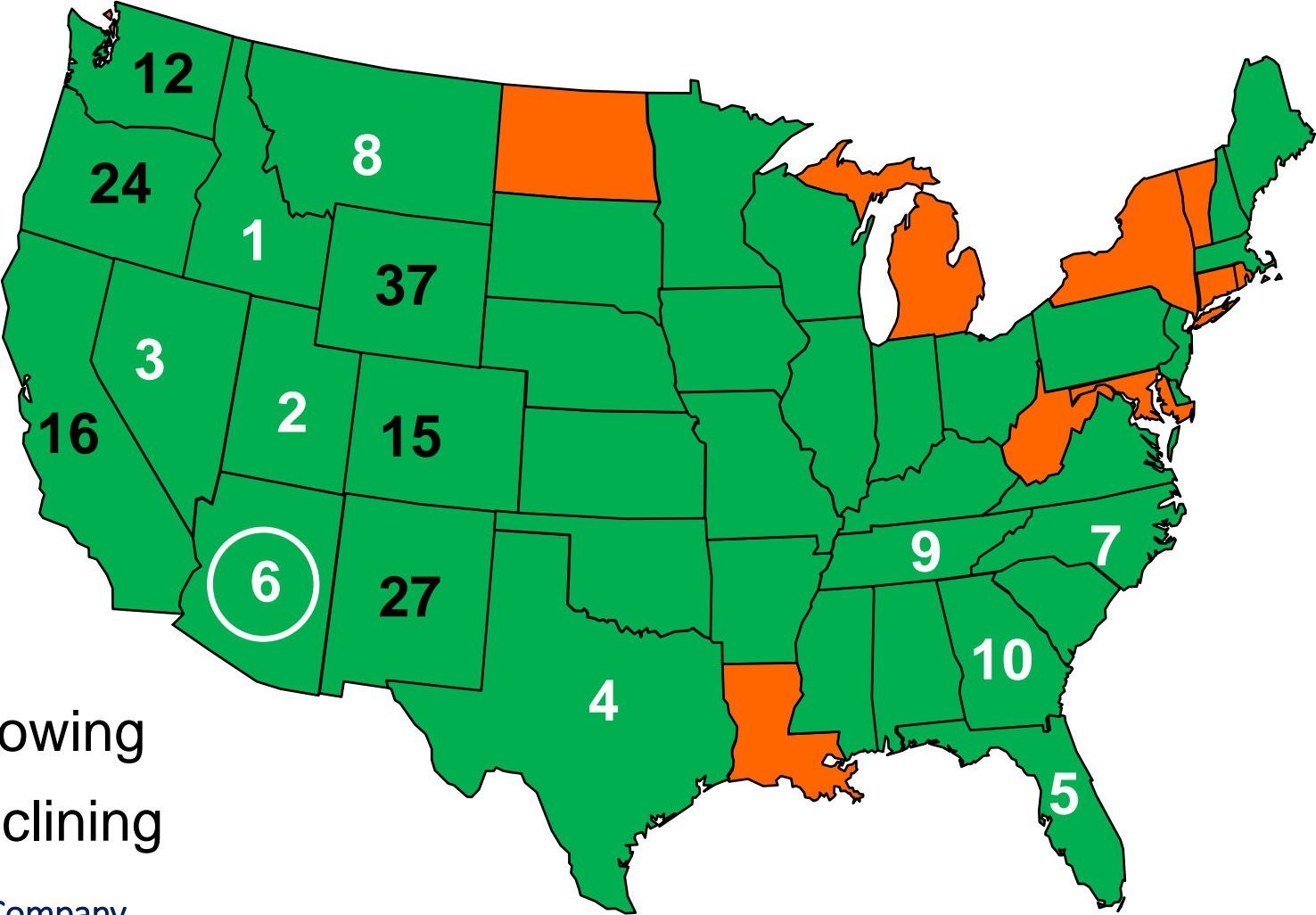
Alaska
46

50

Hawaii

● Jobs growing

● Jobs declining



Greater Phoenix is now the 10th largest Metro in the Country (population 1970-2022)

Source: U.S. Department of Commerce, Bureau of the Census)

City of Phoenix is the 5th largest city in the country

<u>Rank</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2022</u>
1	New York	New York	New York	New York	New York	New York
2	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles
3	Chicago	Chicago	Chicago	Chicago	Chicago	Chicago
4	Philadelphia	Philadelphia	Washington, DC	Dallas	Dallas	Dallas
5	Detroit	Detroit	San Francisco	Philadelphia	Philadelphia	Houston
6	San Francisco	San Francisco	Philadelphia	Houston	Houston	Washington DC
7	Washington, DC	Washington, DC	Boston	Washington DC	Washington DC	Philadelphia
8	Boston	Dallas	Detroit	Miami	Miami	Atlanta
9	Pittsburgh	Houston	Dallas	Atlanta	Atlanta	Miami
10	St. Louis	Boston	Houston	Boston	Boston	Greater Phoenix
11	Baltimore	Nassau-Suffolk	Miami	San Francisco	San Francisco	Boston
12	Cleveland	St. Louis	Seattle	Detroit	Detroit	Riverside
13	Houston	Pittsburgh	Atlanta	Riverside	Riverside	San Francisco
14	Newark	Baltimore	Cleveland	Greater Phoenix	Greater Phoenix	Detroit
15	Minneapolis	Minneapolis	Minneapolis	Seattle	Seattle	Seattle
16	Dallas	Atlanta	San Diego	Minneapolis	Minneapolis	Minneapolis
17	Seattle	Newark	St. Louis	San Diego	San Diego	Tampa
18	Orange County, CA	Orange County, CA	Pittsburgh	St. Louis	St. Louis	San Diego
19	Milwaukee	Cleveland	Greater Phoenix	Tampa	Tampa	Denver
20	Atlanta	San Diego	Tampa	Baltimore	Baltimore	Baltimore
21	Cincinnati	Miami	Denver	Denver	Denver	St. Louis
22	Paterson	Denver	Cincinnati	Pittsburgh	Pittsburgh	Orlando
23	San Diego	Seattle	Portland	Portland	Portland	Charlotte
24	Buffalo	Tampa	Milwaukee	Sacramento	Sacramento	San Antonio
25	Miami	Riverside	Kansas City	San Antonio	San Antonio	Portland
26	Kansas City	Greater Phoenix	Sacramento	Orlando	Orlando	Austin
27	Denver	Cincinnati	Norfolk	Cincinnati	Cincinnati	Sacramento
28	Riverside	Milwaukee	Indianapolis	Cleveland	Cleveland	Pittsburgh
29	Indianapolis	Kansas	Columbus	Kansas City	Kansas City	Las Vegas
30	San Jose	San Jose	San Antonio	San Jose	San Jose	Cincinnati
31	New Orleans	Buffalo	New Orleans	Columbus	Columbus	Kansas City
32	Tampa	Portland	Orlando	Charlotte	Charlotte	Columbus
33	Portland	New Orleans	Buffalo	Indianapolis	Indianapolis	Indianapolis
34	Greater Phoenix	Indianapolis	Charlotte	Virginia Beach	Virginia Beach	Cleveland
35	Columbus	Columbus	Hartford	Providence	Providence	Nashville

Greater Phoenix Employment Ranking

- When comparing 2023 versus 2019 Greater Phoenix ranks fifth.

Metro	2023	2019	Growth	Rank
Austin-Round Rock	1,311.7	1,111.2	18.0%	1
Dallas-Fort Worth-Arlington	4,232.6	3,756.9	12.7%	2
Nashville-Davidson--Murfreesboro--Franklin	1,156.4	1,038.3	11.4%	3
Tampa-St. Petersburg-Clearwater	1,525.4	1,374.3	11.0%	4
Phoenix-Mesa-Chandler	2,352.7	2,156.2	9.1%	5
Las Vegas-Henderson-Paradise	1,120.8	1,028.4	9.0%	6
Charlotte-Concord-Gastonia	1,347.7	1,237.3	8.9%	7
Riverside-San Bernardino-Ontario	1,667.0	1,536.7	8.5%	8
Orlando-Kissimmee-Sanford	1,432.6	1,321.2	8.4%	9
San Antonio-New Braunfels	1,157.1	1,071.9	7.9%	10

Source: Bureau of Labor Statistics

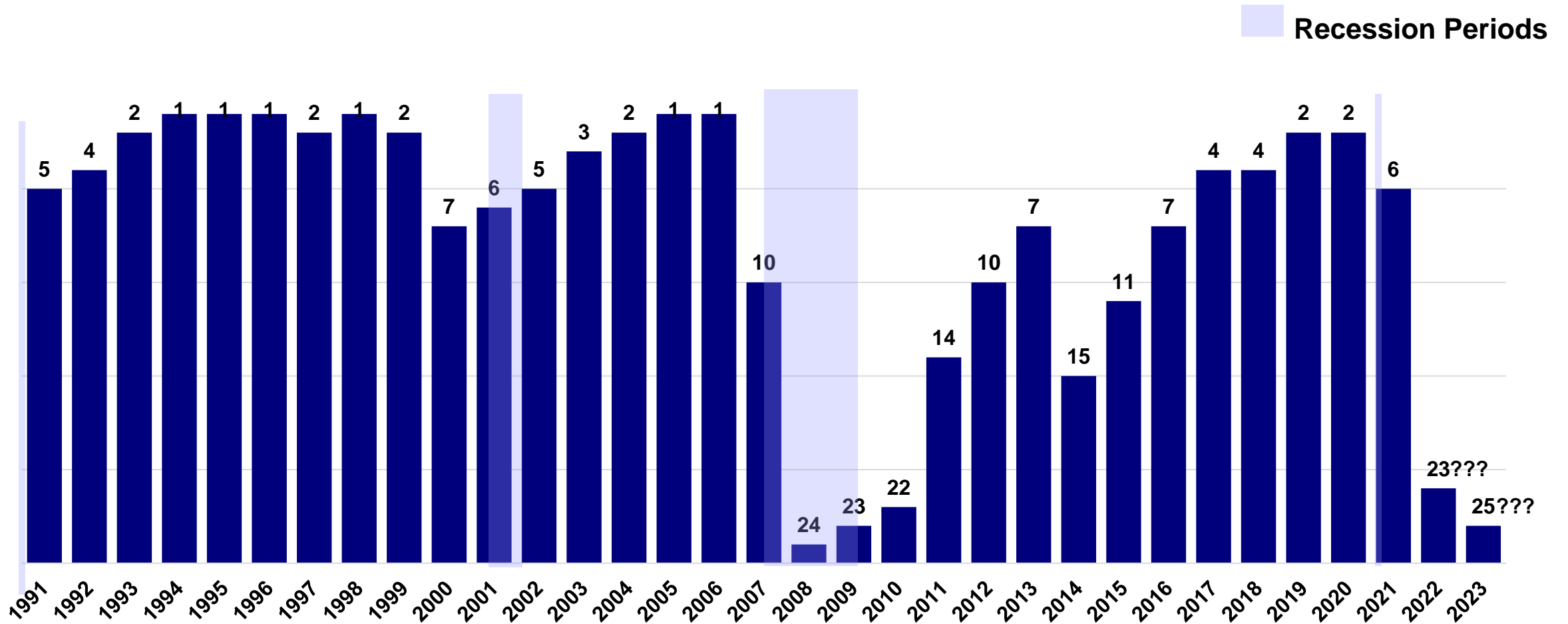
Note: Metro areas with over 1,000,000 jobs

*August 2023 data

Phoenix-Mesa Employment Growth Rank

(Ranking among all metro areas greater than 1,000,000)

Source: U.S. Bureau of Labor Statistics



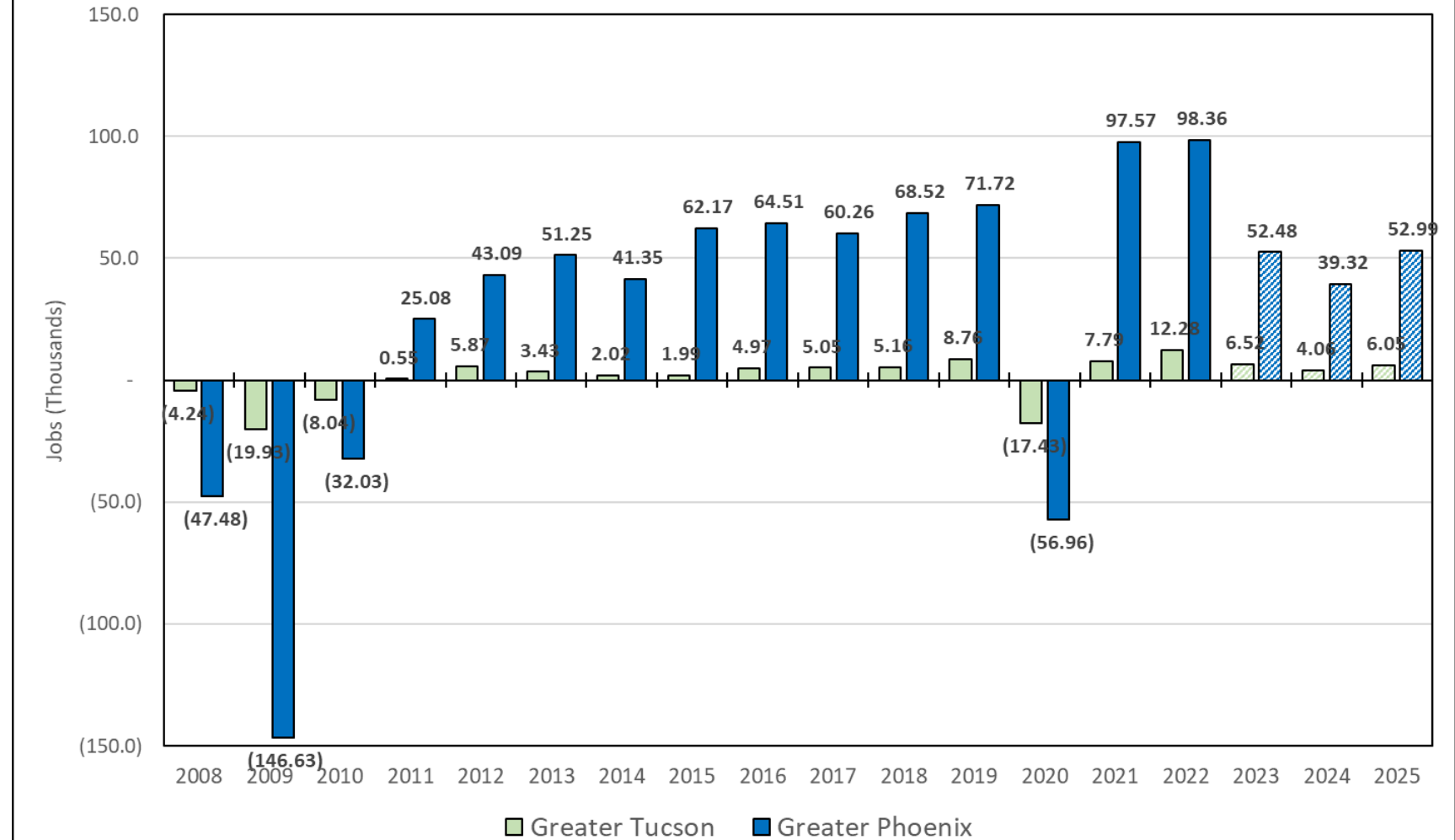
Arizona & Greater Phoenix

- Most of the growth is in Greater Phoenix.
- The recovery since the pandemic shutdown has been strong. Job growth slowed in 2023 and will continue to slow in 2024 mainly because the Phoenix area did not lose as many jobs during COVID and has recovered more jobs since COVID.
- Economic development successes (semiconductors, electrical car manufacturers, battery manufacturers, and suppliers).
- Greater Phoenix will likely do better than most places.
- The water issue is a straw man. It should be easily resolvable.

In the past 1.5 years, 80% of the State's job growth has occurred in Greater Phoenix

Historic & Future Job Growth Greater Tucson & Greater Phoenix

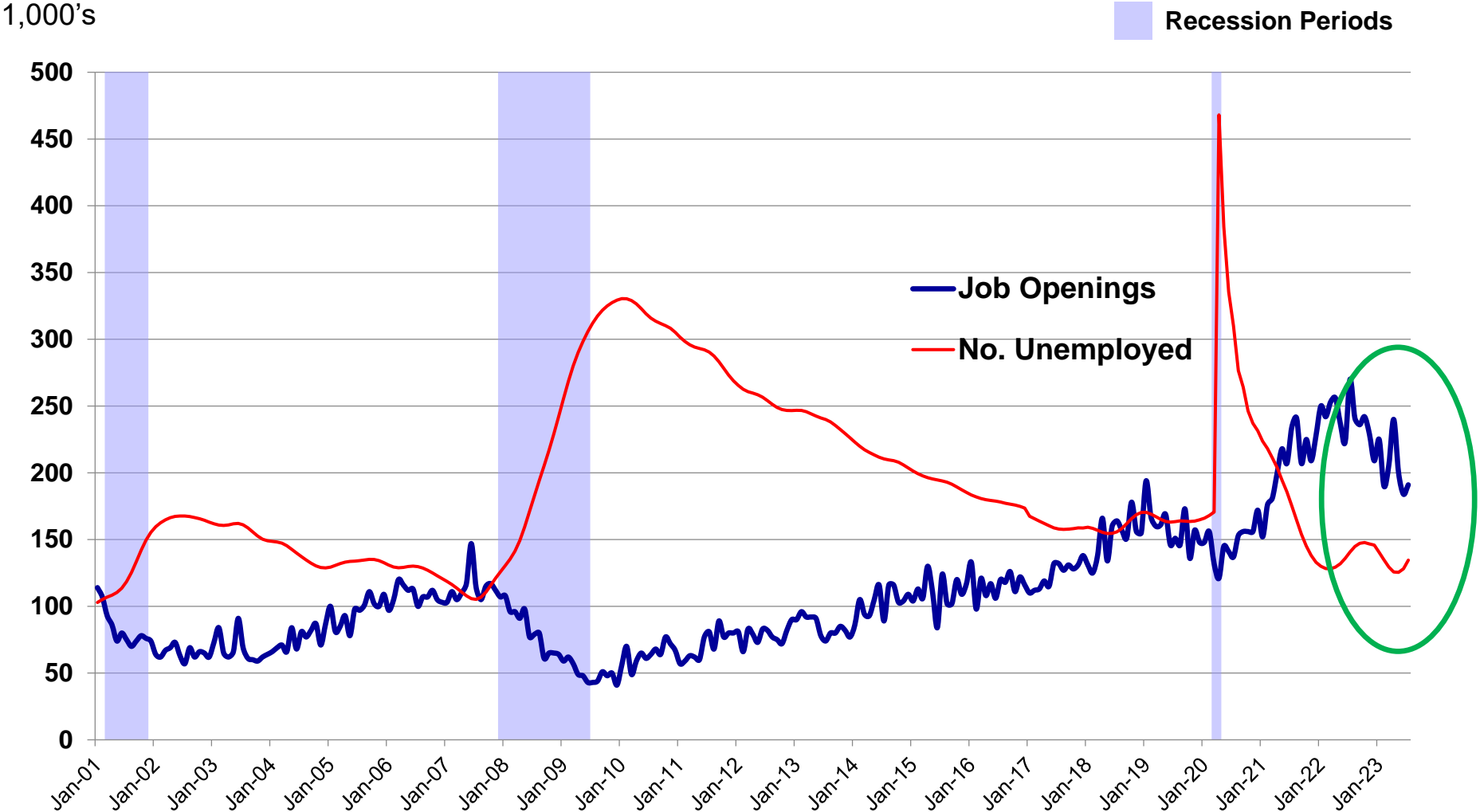
Source: AZ OEO, U of A



Arizona Job Openings and No. Unemployed

2001 – 2023*

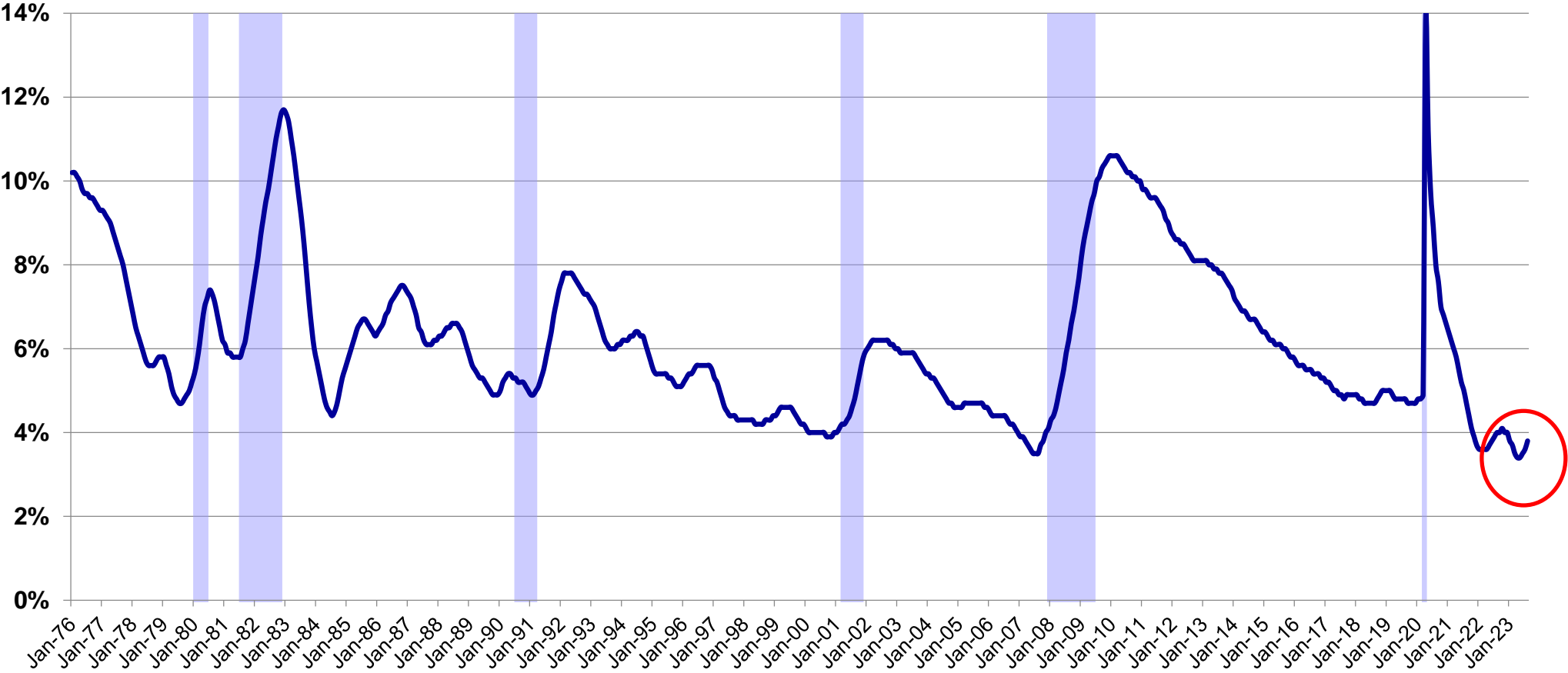
Source: U.S. Bureau of Labor Statistics



Arizona Unemployment Rate

1976-2023

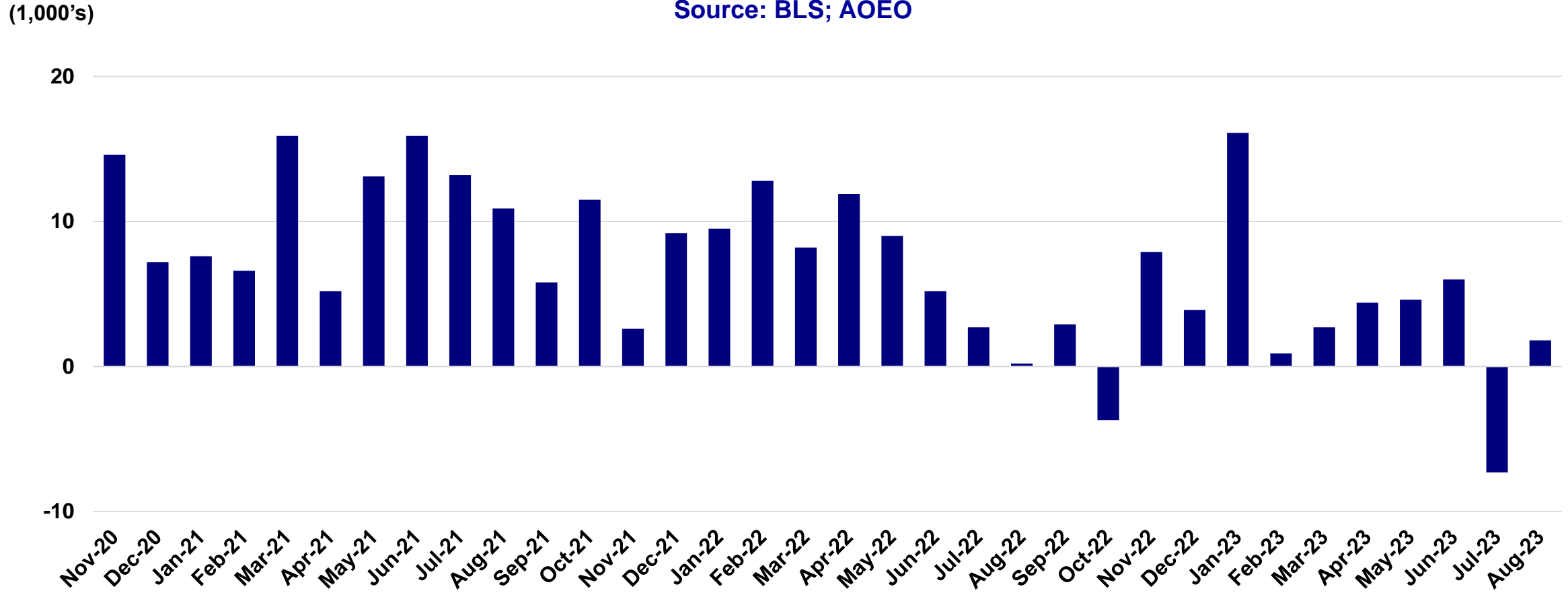
Source: BLS; AOEO



Greater Phoenix Employment Monthly Gains (S/A)

2020-2023

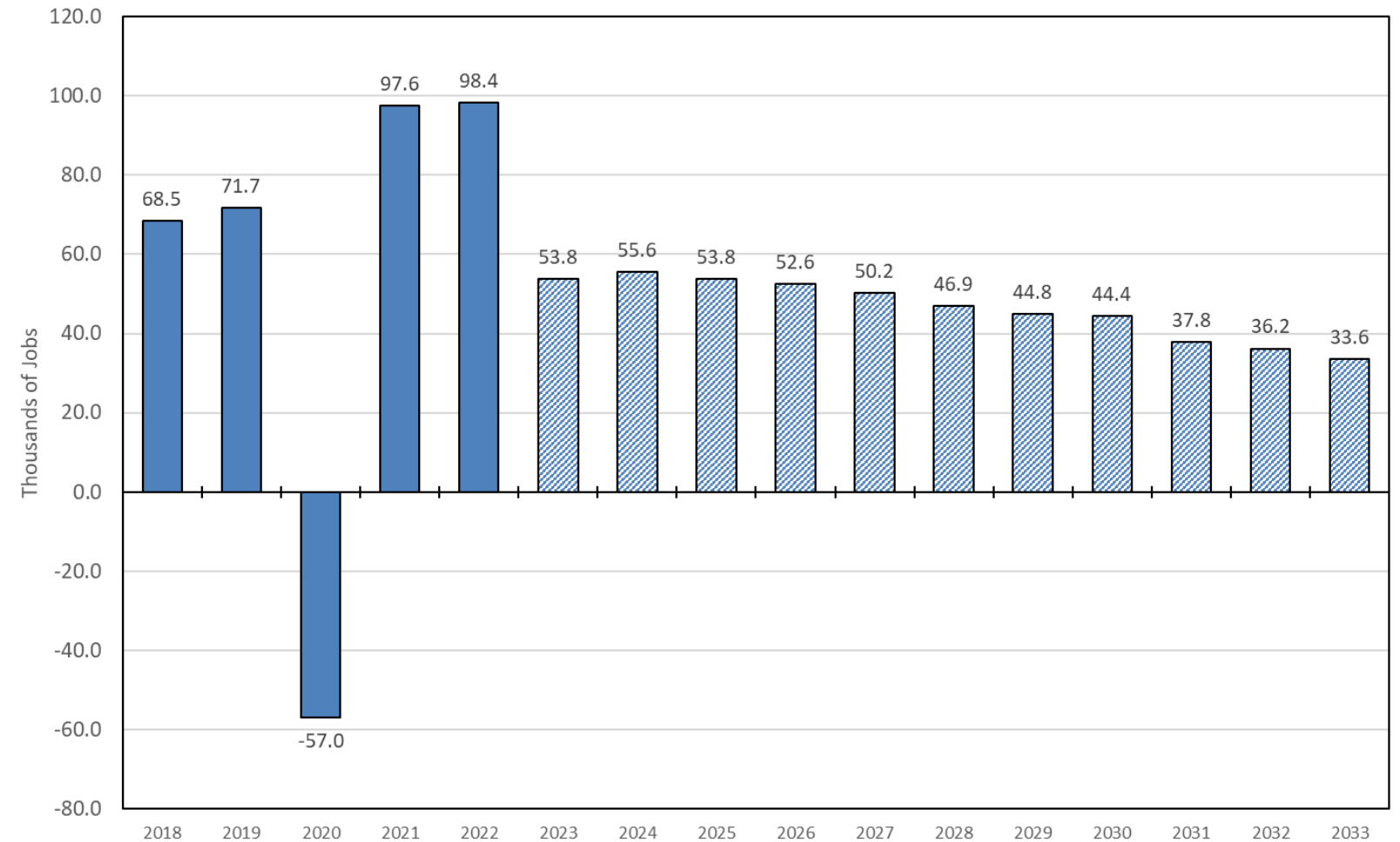
Source: BLS; AOEO



Employment Growth

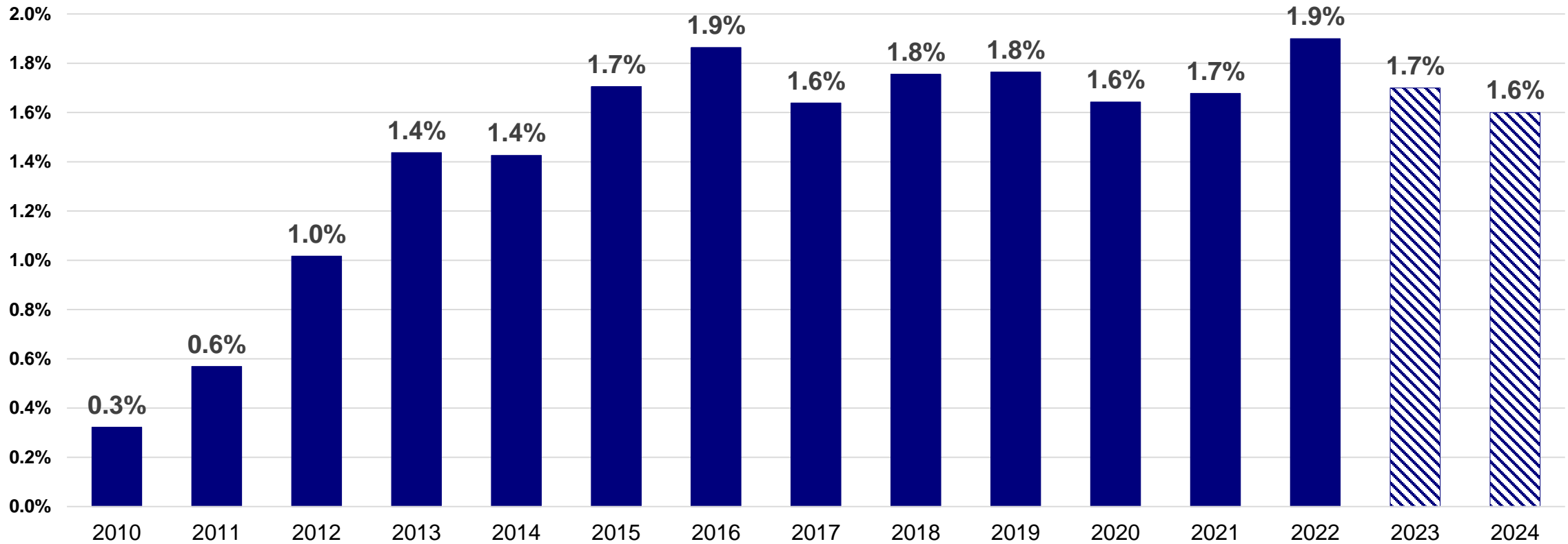
Greater Phoenix Employment Growth & Forecast 2018 - 2033

Source: U of A Forecasting Project



Greater Phoenix Population Growth

Source: AOEO; EDPCo

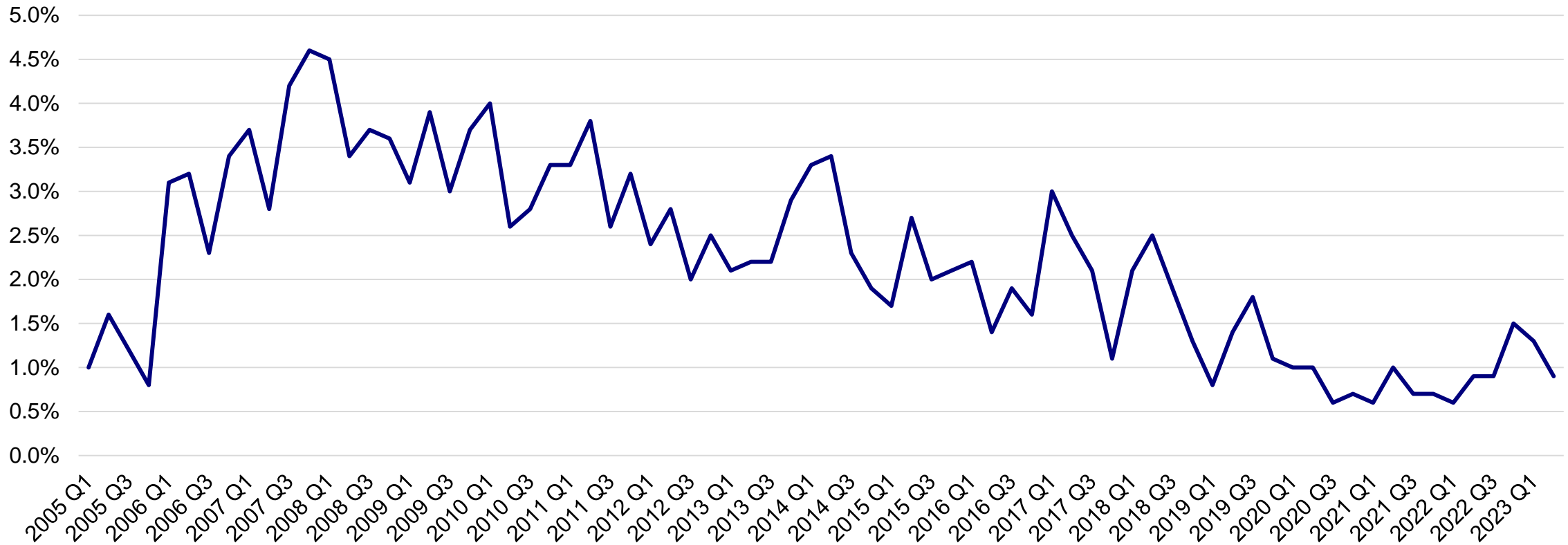


Housing Market



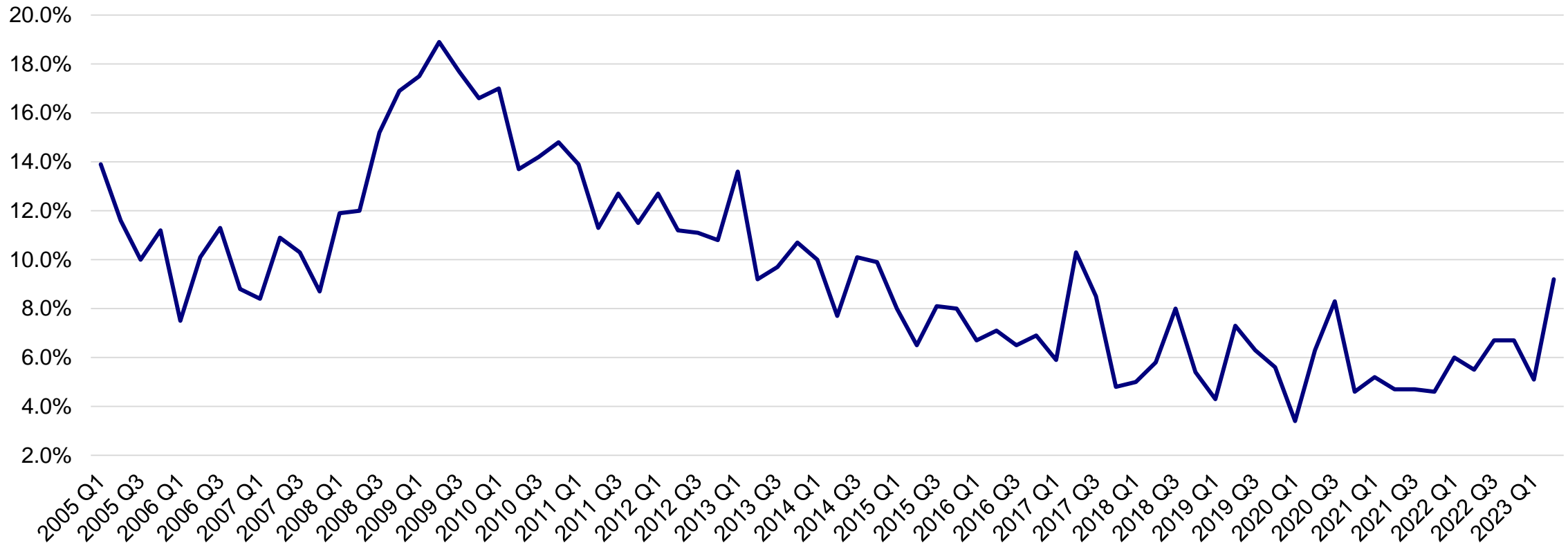
AZ Homeowner Vacancy Rate

Source: U.S. Census Bureau



AZ Rental Vacancy Rate

Source: U.S. Census Bureau

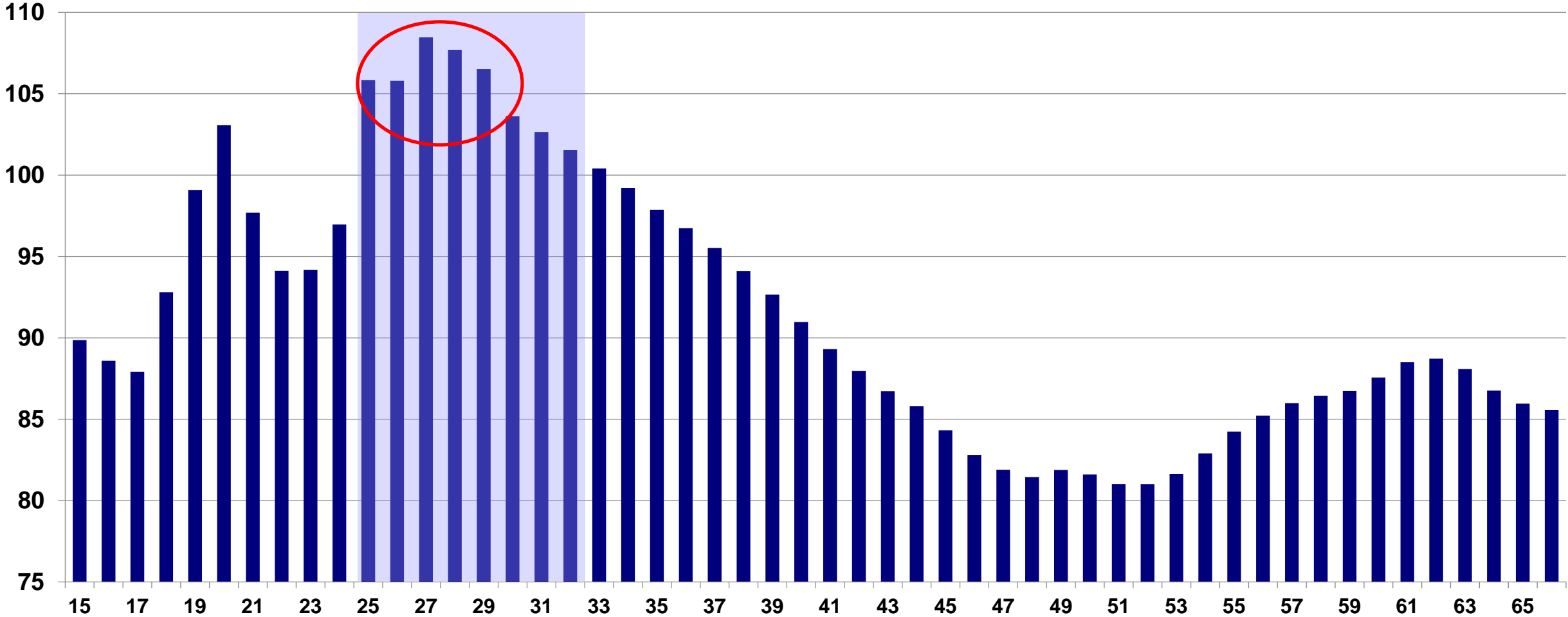


Arizona Population by Age (15-65)

2023

Source: ESRI

(1,000's)



Greater Phoenix

Homeownership Rates by Age Group

Source: 2021 American Community Survey 1-Year Estimates

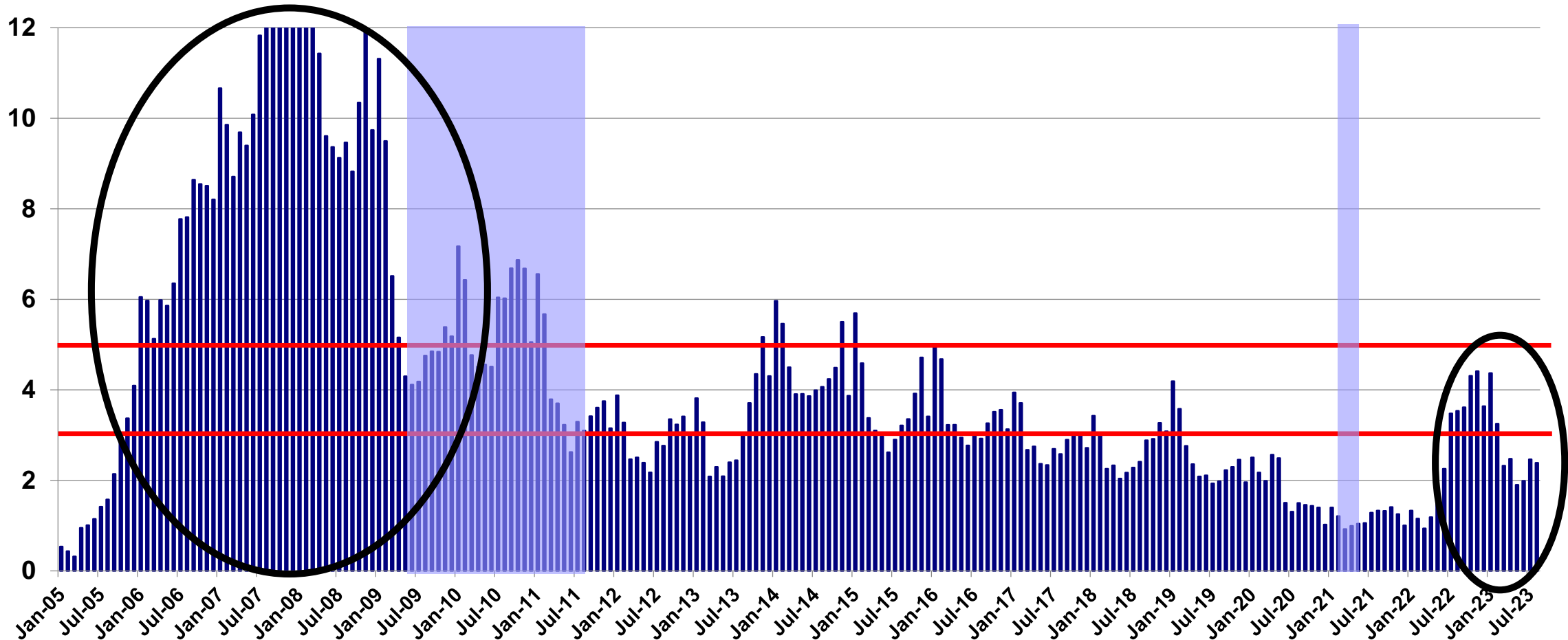
Householder Age	% of Total Occupied
15 to 24 years	18.9%
25 to 34 years	<u>43.9%</u>
35 to 44 years	<u>62.0%</u>
45 to 54 years	72.5%
55 to 64 years	78.1%
65 to 74 years	84.0%
75 to 84 years	83.5%
85 years and over	69.4%
Total	67.1%

Greater Phoenix Resale Months Supply

2005-2023*

Source: ARMLS; Cromford Report

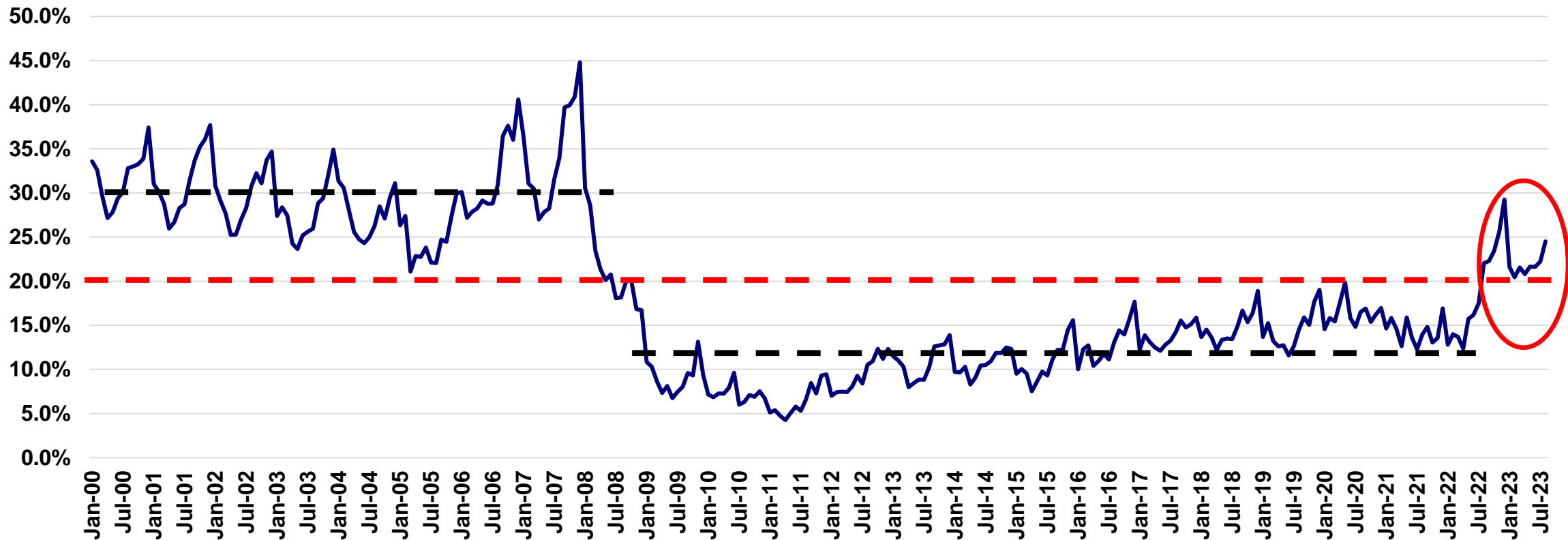
Recession Periods



Maricopa County

% of New Home Sales of Total Sales

Source: Information Market



Greater Phoenix Undersupplied Market

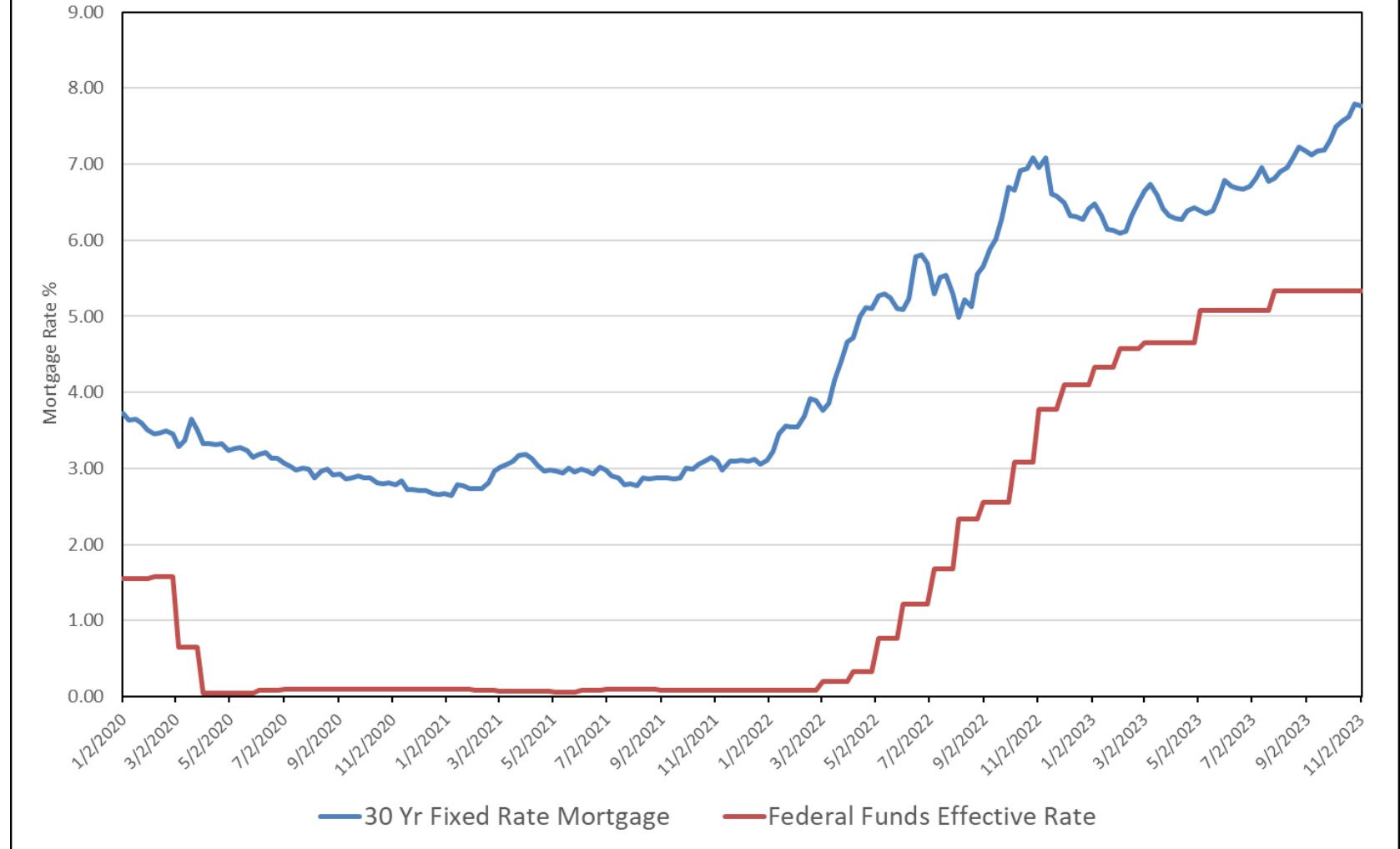
- Ranked 4th most undersupplied market based on vacancy rates by John Burns Real Estate Consulting.
- Arizona Department of Housing analysis estimates that 270,000 housing units are needed statewide just to meet current demand.
- Home Arizona believes that the Greater Phoenix market is undersupplied by at least 45,000 units

If this is not addressed now, the problem will worsen. The only way to fix this properly is to build more and build now.

Mortgage Rate Trends

Average 30-Year Fix Rate Mortgage Rate & Federal Funds Effective Rate 2020 - Nov 2023

Source: Freddie Mac Primary Mortgage Market Survey, St. Louis FED



Mortgage Payment Change

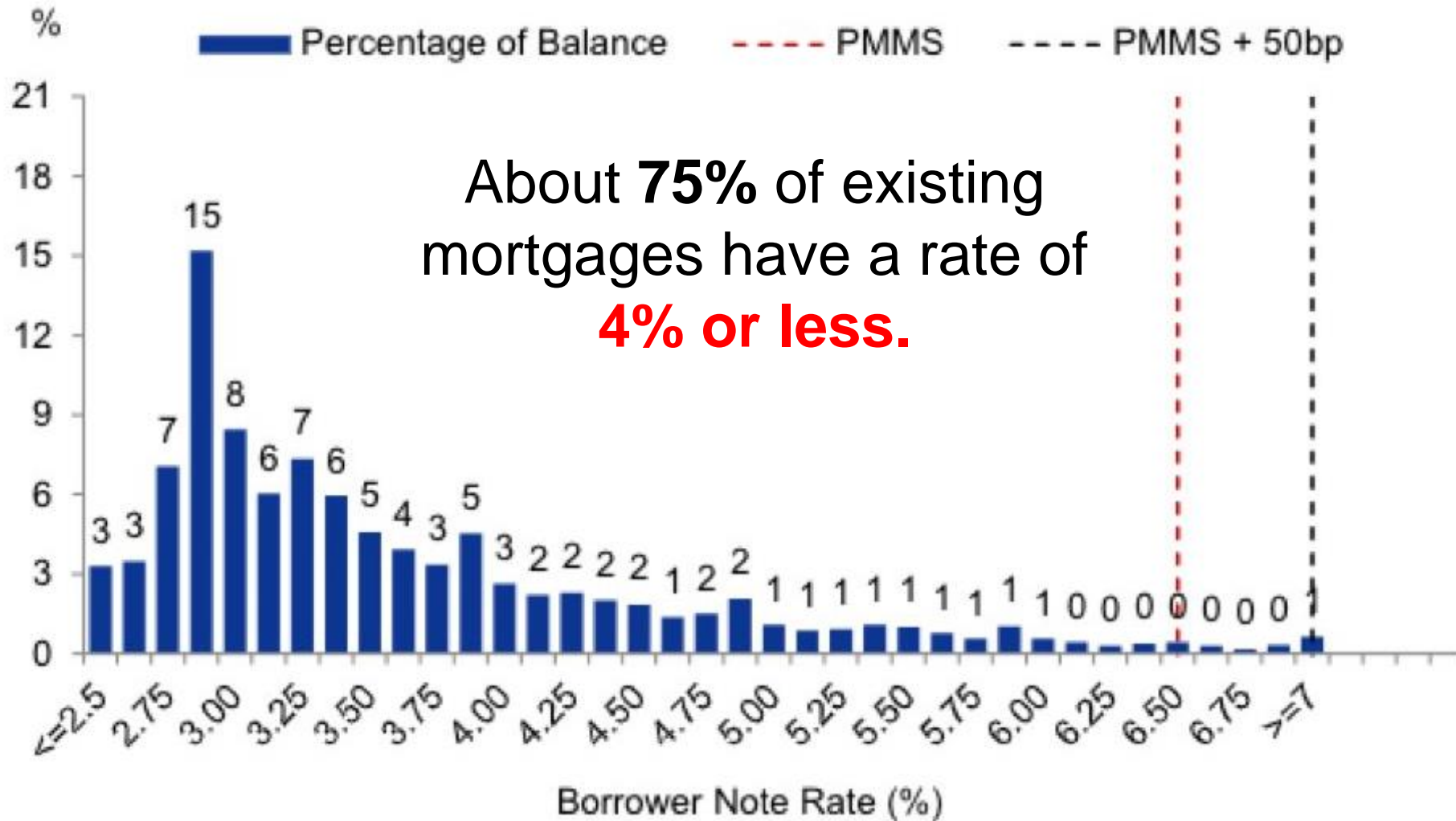
	October 2021	October 2022	October 2023
Median Sales Price - New	\$447,400	\$529,150	\$538,400
Median Sales Price - Existing	\$420,000	\$447,500	\$445,000
Mortgage Rate Only	3.05%	6.66%	7.63%
Interest & Principal - New	\$1,709	\$3,060	\$3,431
Interest & Principal - Existing	\$1,604	\$2,588	\$2,836

Mortgage payments for a new home have increased 101% and 77% for an existing home since 2021 based on 10% down payment

Source: Freddie; Information Market

Distribution of Outstanding 30-year Conventional Mortgage Borrower Rates

Source: eMBS; Goldman Sachs

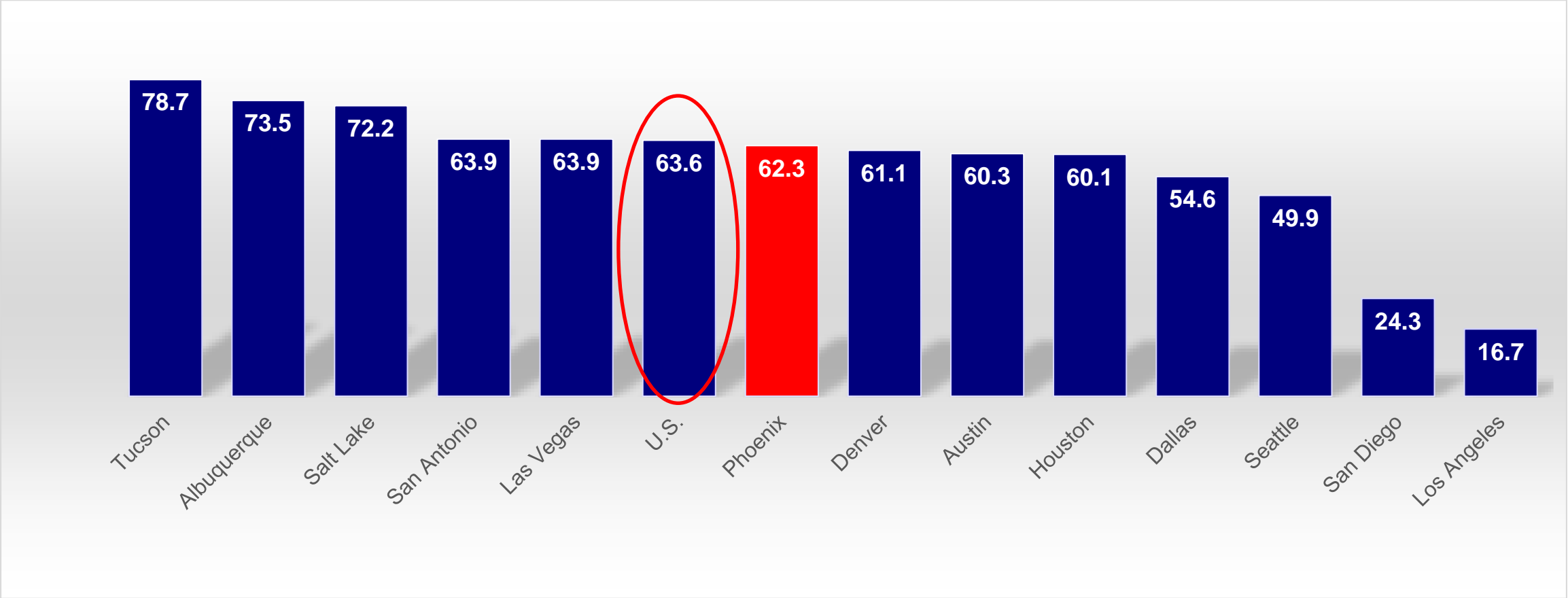




Housing Opportunity Index

2015 Q2

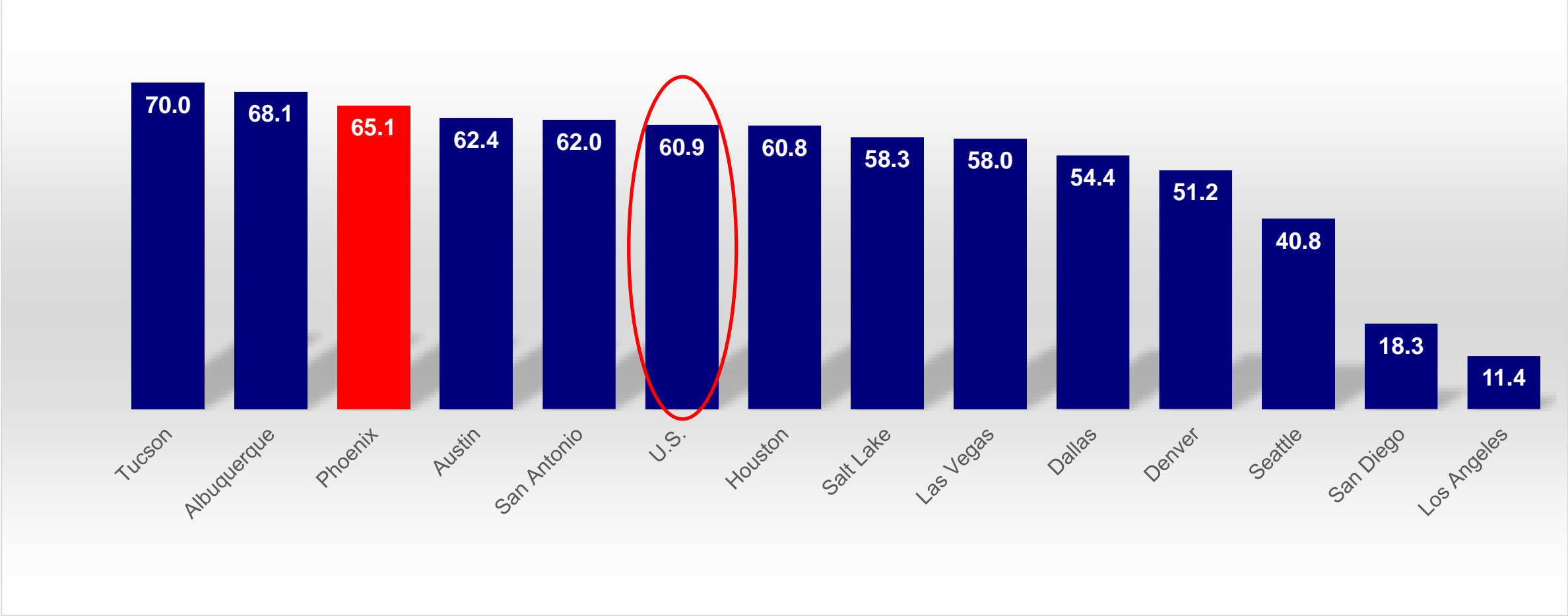
Source: NAHB/Wells Fargo



Housing Opportunity Index

2019 Q2

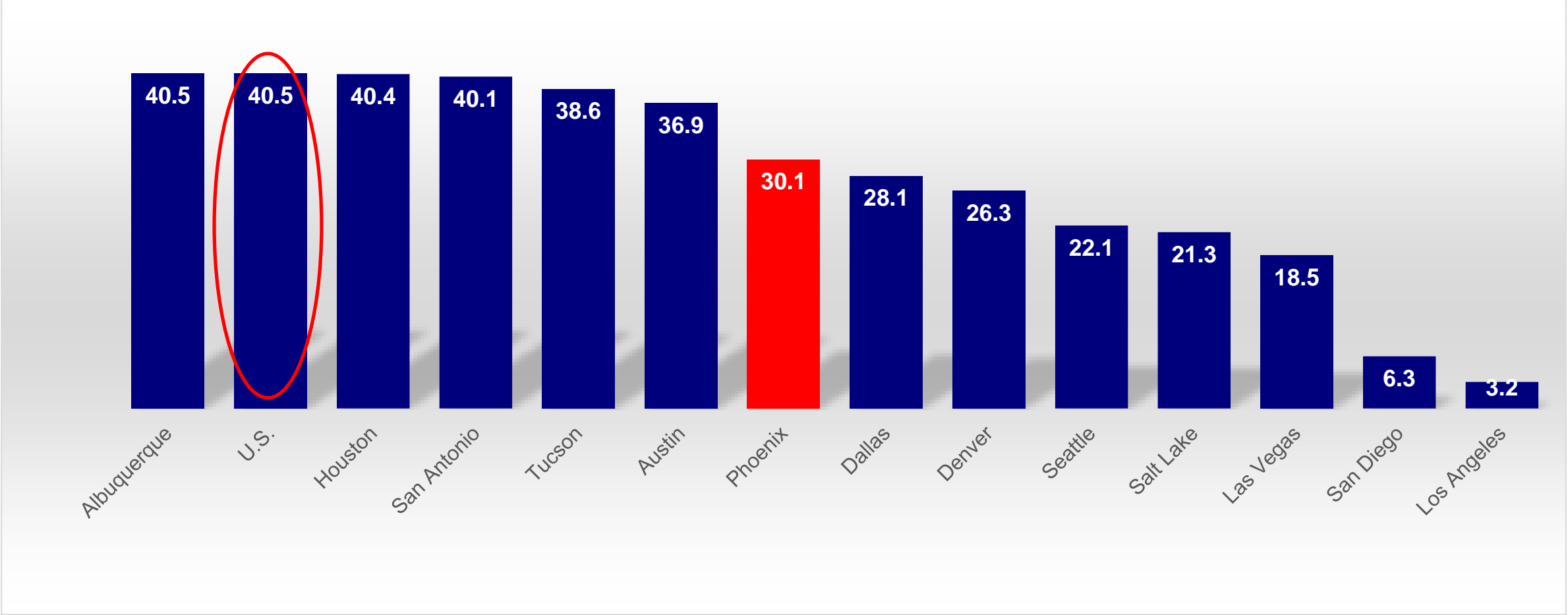
Source: NAHB/Wells Fargo



Housing Opportunity Index

2023 Q2

Source: NAHB/Wells Fargo



Existing Single-Family Home Price

Source: NAR

	2019 Q2	2020 Q2	2022 Q2	2023 Q2
Greater Phoenix	\$285,500	\$314,700	\$496,000	\$464,200
Seattle	\$542,700	\$574,100	\$818,900	\$793,300
Los Angeles	\$567,000	\$581,700	\$834,700	\$789,400
San Diego	\$655,000	\$670,000	\$965,900	\$942,400
Denver	\$471,400	\$478,400	\$695,800	\$674,500
Austin	\$343,700	\$355,000	\$613,200	\$496,300
Salt Lake	\$358,000	\$381,900	\$605,000	\$549,900
Dallas	\$275,400	\$280,900	\$408,200	\$389,800

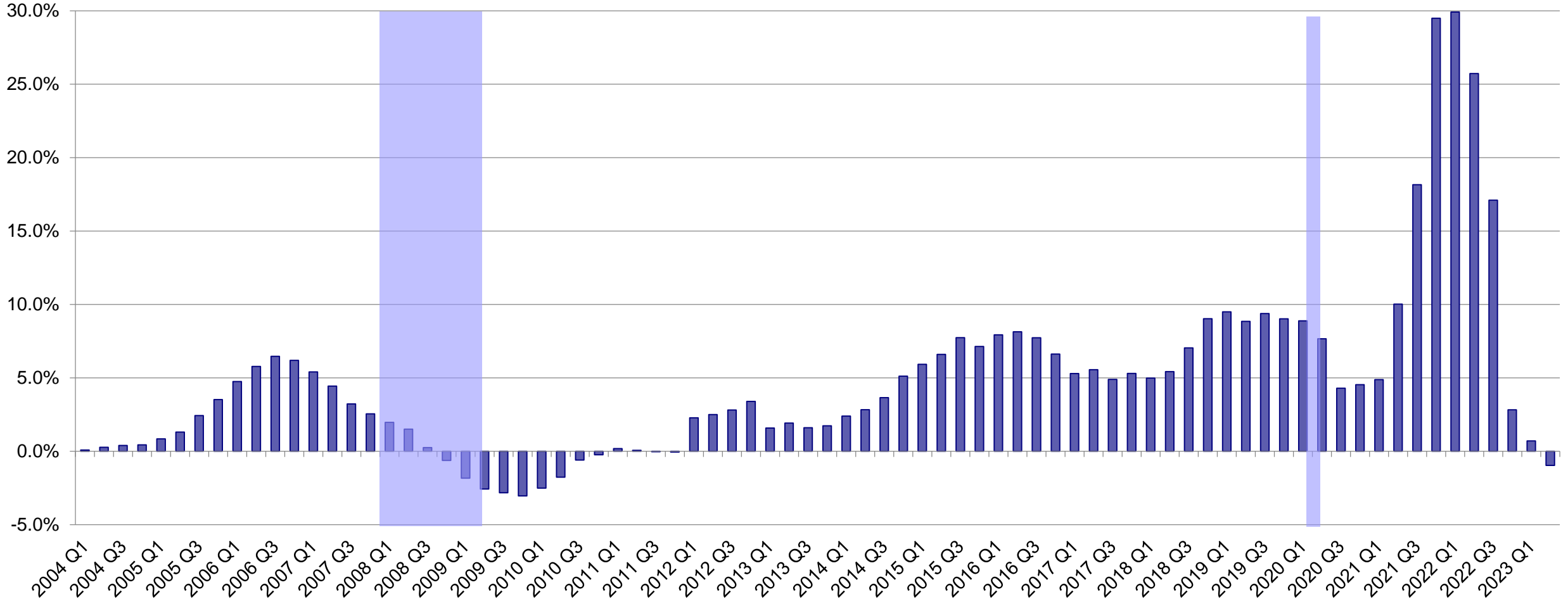


Greater Phoenix Multi-Family Average Rent Percent Change a Year Ago

2004 – 2023*

Source: RealData

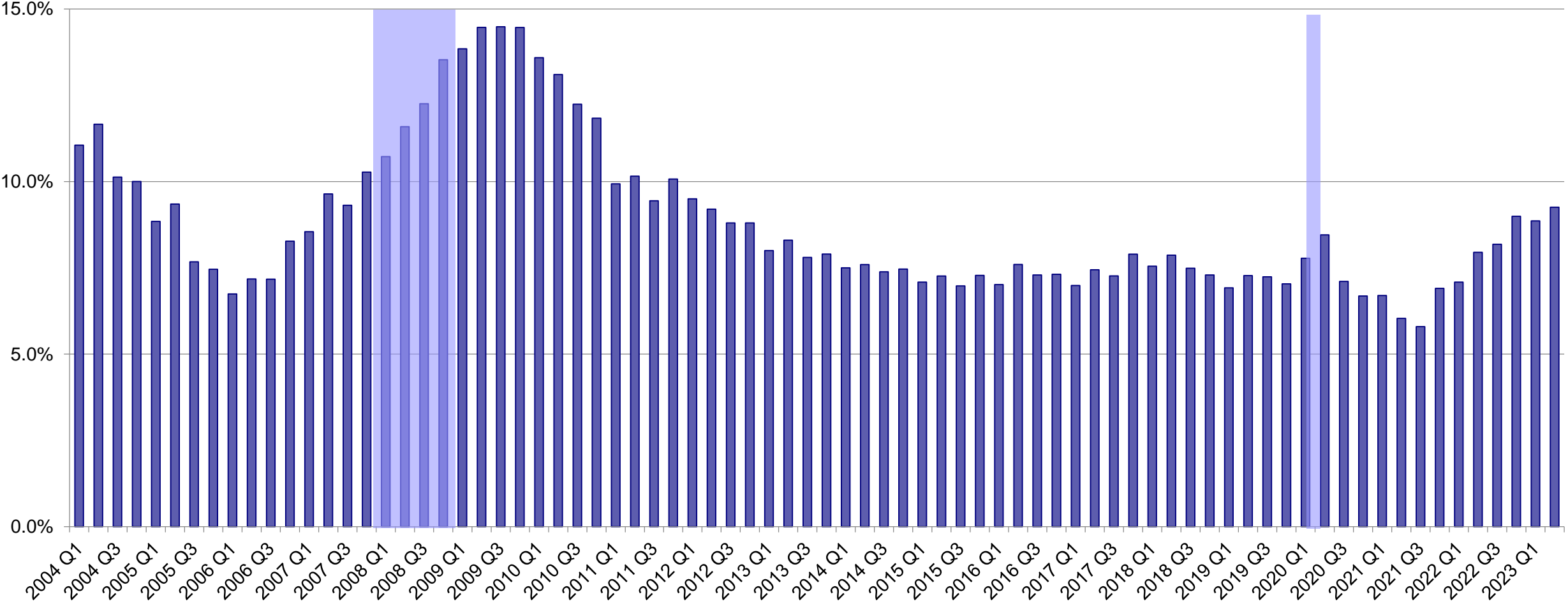
 Recession Periods



Greater Phoenix Multi-Family Vacancy Rate 2004 – 2023*

Source: RealData

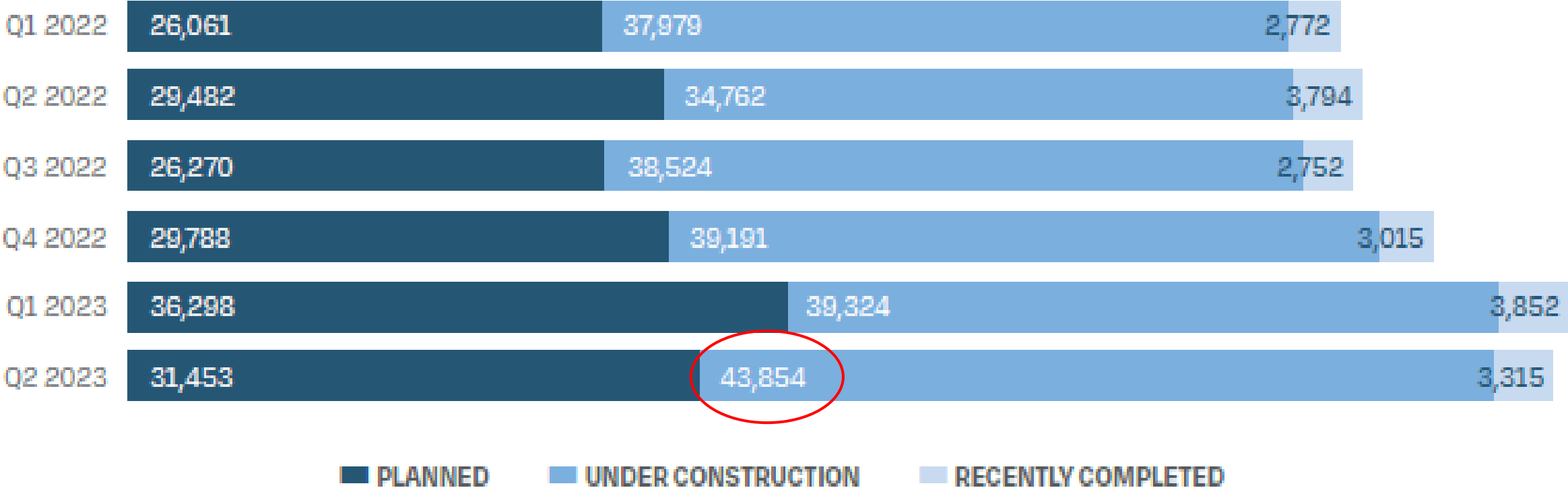
 Recession Periods



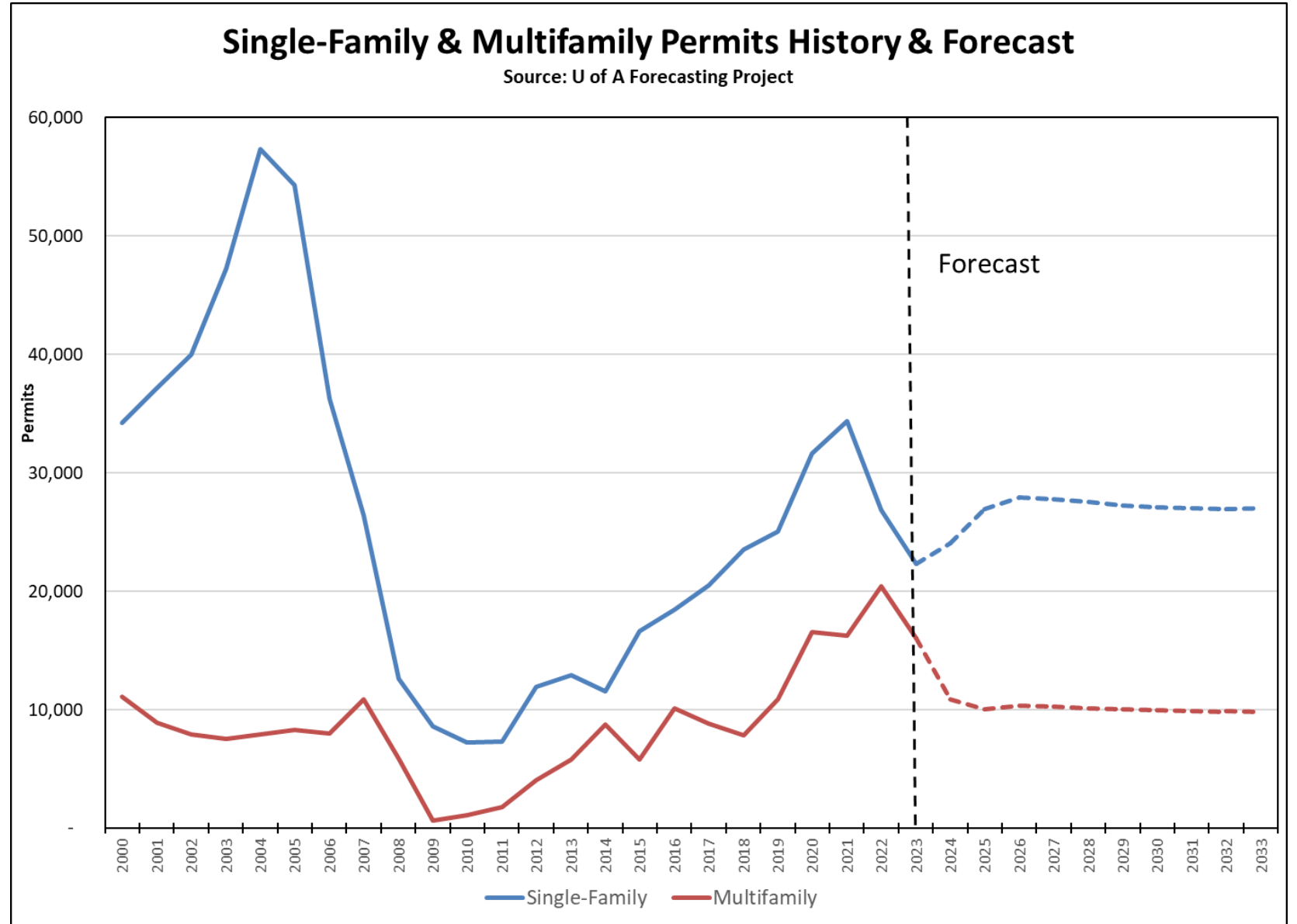
Multifamily Construction Trend

Source: ABI Multifamily

PHOENIX MSA | MULTIFAMILY CONSTRUCTION (50+)



Housing Permit Forecast



Summary of Housing Market

- Single family housing is under pressure due to affordability issues.
- New home building is doing better than expected. That is likely to continue.
- Existing home inventory remains low.
- Apartment vacancy rates are up as units permitted during the period of low interest rates come to market.

What to Expect in the Near Term?

- Continued high interest rates, falling in late 2024.
- Modestly slower population growth.
- More attached housing on smaller lots with smaller setbacks.
- Continued rate buydowns.
- Rent growth slowing due to higher supply coming into the market.
- More doubling and tripling up by roommates. Living with parents.
- The need for more housing units has not diminished.

Commercial Real Estate



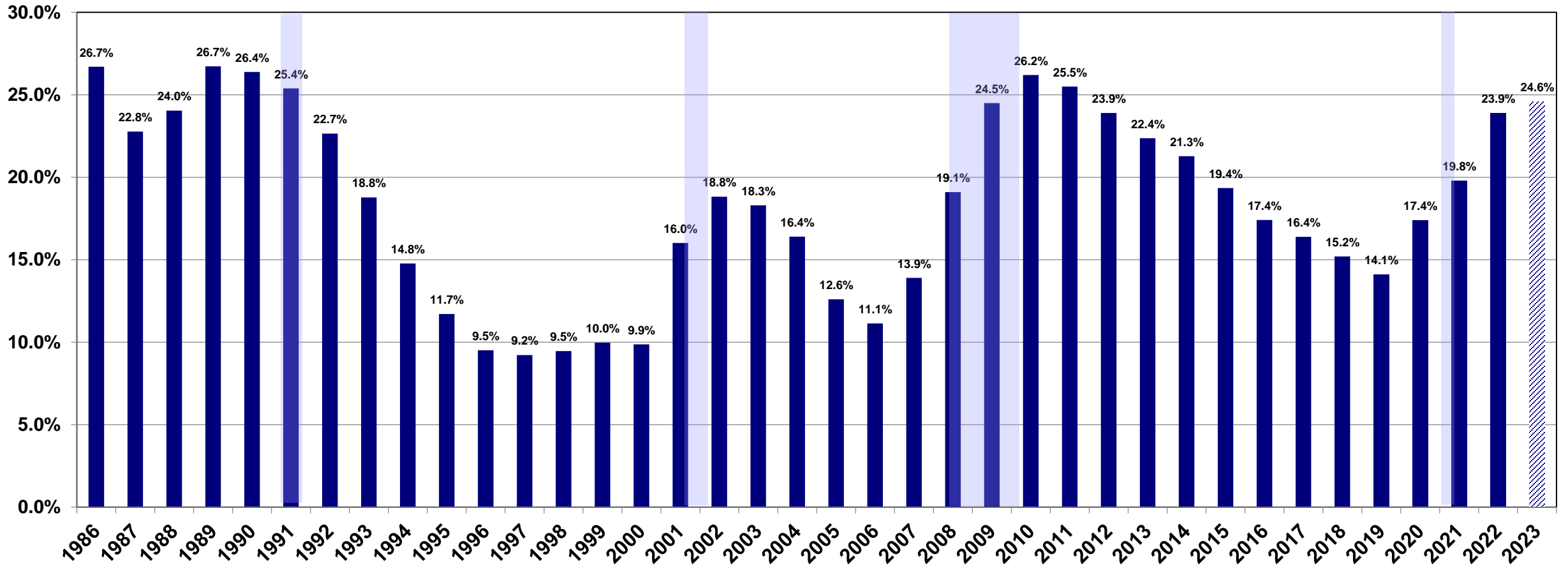
OFFICE



Office Space Year-End Vacancy Rates Greater Phoenix 1986–2023*

Source: CBRE

Recession Periods



Sublease Availability

Source: Colliers

- 2021 Q2 - 5,503,751
- 2022 Q2 - 6,244,319
- 2023 Q2 - 7,476,257

Sublease space brings total vacant space to over 26 million implying a 26% vacancy rate.



Office Conversion

- Much of the empty office space will either take years to absorb or may never be used as office space.
- Conversions to residential are very expensive:
 - 34 buildings in Phoenix may be suitable for conversion.
 - Conversion buildings are typically older vintage 1980s.
 - Buildings must be sold at current, depressed rates.
 - Must have a narrow floorplate.

INDUSTRIAL

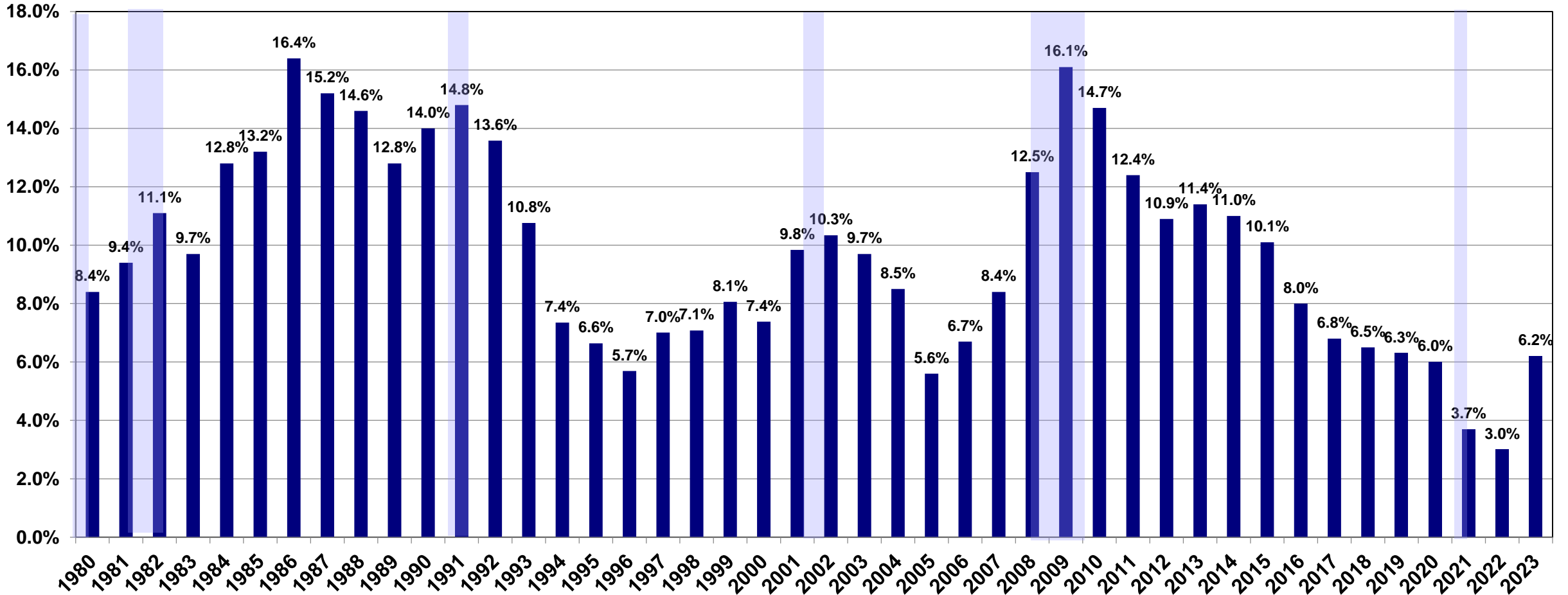


Industrial Space Vacancy Rates

Greater Phoenix 1980 – 2023*

Source: CBRE

Recession Periods



Greater Phoenix Industrial Market

Source: CBRE

2023 Third Quarter

- Net Rentable Area 401.9 million sq. ft.
- Vacancy Rate 6.2%
- 3Q 2023 Asking Rate: \$1.16 per sq. ft.
- Under Construction **40.3 million** sq. ft.
- YTD Deliveries **23.2 million** sq. ft.
- YTD Net Absorption **10.5 million** sq. ft.
- Smaller spaces will be absorbed but large spaces may be in for a difficult time
- Vacancy rates will rise significantly in 2024 and 2025.

Phoenix Industrial Construction



Greater Phoenix Industrial Market

Market	Under Construction	Under Construction % of Stock	UC Plus Planned % of Stock
National	535,594,839	2.90%	6.90%
Phoenix	46,621,995	12.70%	34.70%
Dallas	49,325,498	5.40%	10.70%
Charlotte	14,573,810	4.80%	10.90%
Inland Empire	29,587,901	4.70%	16.20%
Denver	10,666,778	4.20%	6.60%
Philadelphia	16,119,250	3.80%	8.70%
Memphis	10,845,290	3.80%	4.60%
Houston	18,211,577	3.10%	5.40%
Kansas City	7,892,972	2.90%	17.90%
Columbus	8,706,133	2.90%	8.10%
Indianapolis	8,414,173	2.40%	7.00%
Bay Area	5,772,267	2.00%	4.00%
Central Valley	6,930,626	2.00%	2.80%
Tampa	5,075,966	1.90%	6.30%
Chicago	19,806,983	1.90%	4.30%

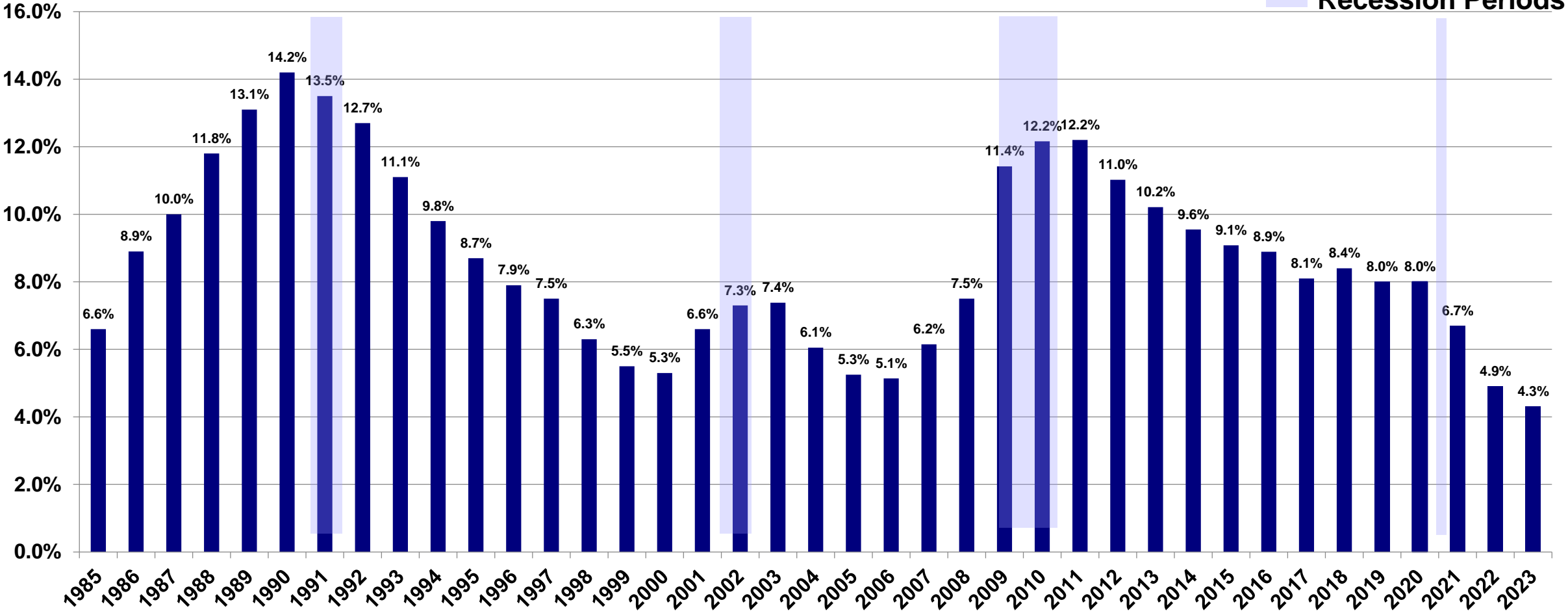
Source: Yardi Matrix

RETAIL

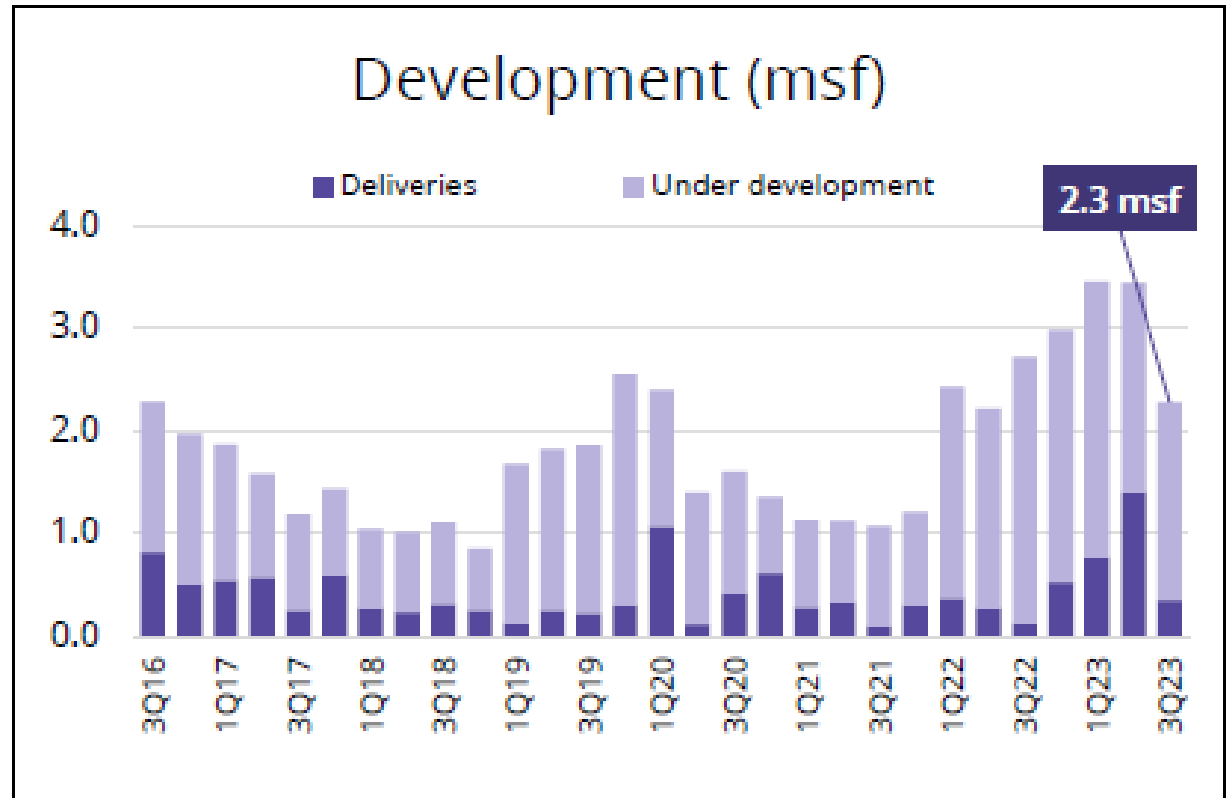
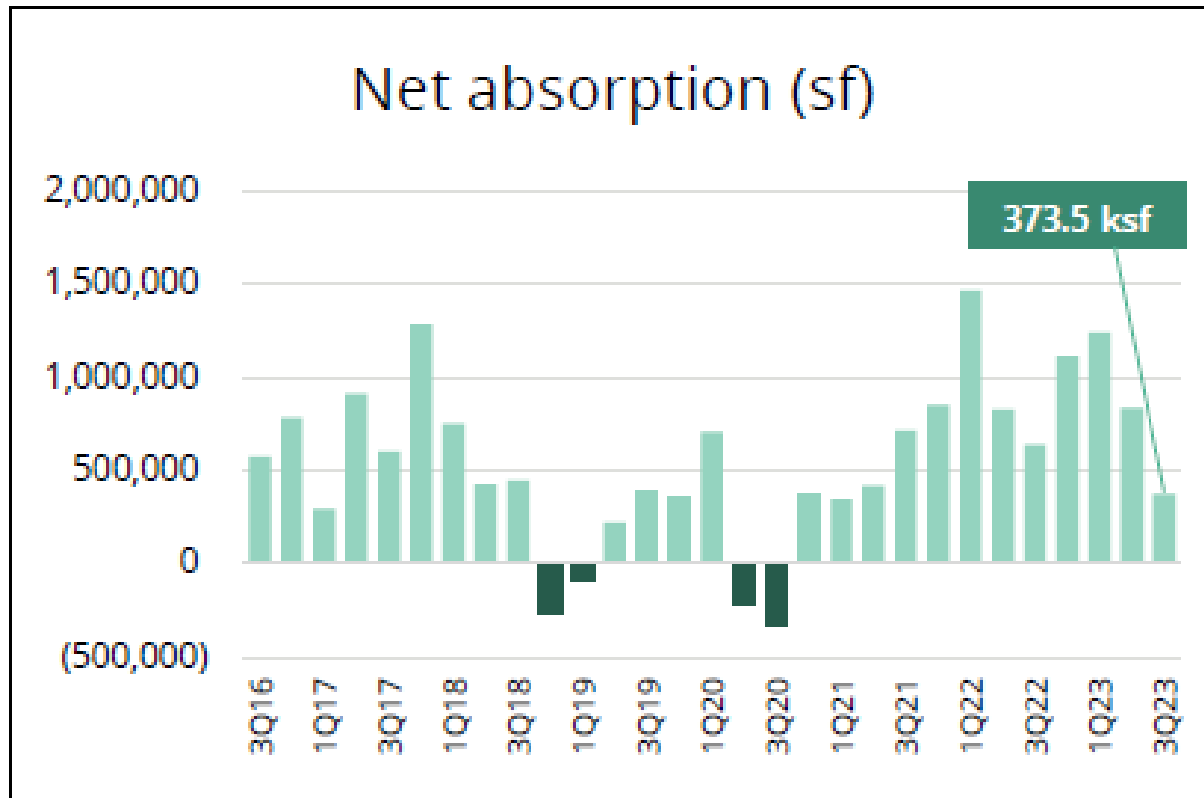


Retail Space Vacancy Rates Greater Phoenix 1985–2023*

Source: CBRE**



Retail Market Q3 2023



What to Expect This Year & Next?



Economic Uncertainty

- Mixed economic signals
- Inflation will take time to tame
- Fiscal policy is still stimulative
- Geopolitical events could impact the economy



Global Influences

Enormous RISKS to the economy, some of which are out of our control

- Geopolitical events: International Pariahs – add Russia to the list
- War in Israel – could expand into wider conflict
- Energy - Purchasing oil from less than friendly countries





Data to Watch

Forecasts are speculative,
monitor monthly data

- Employment growth
- Unemployment levels
- Progress on subduing inflation

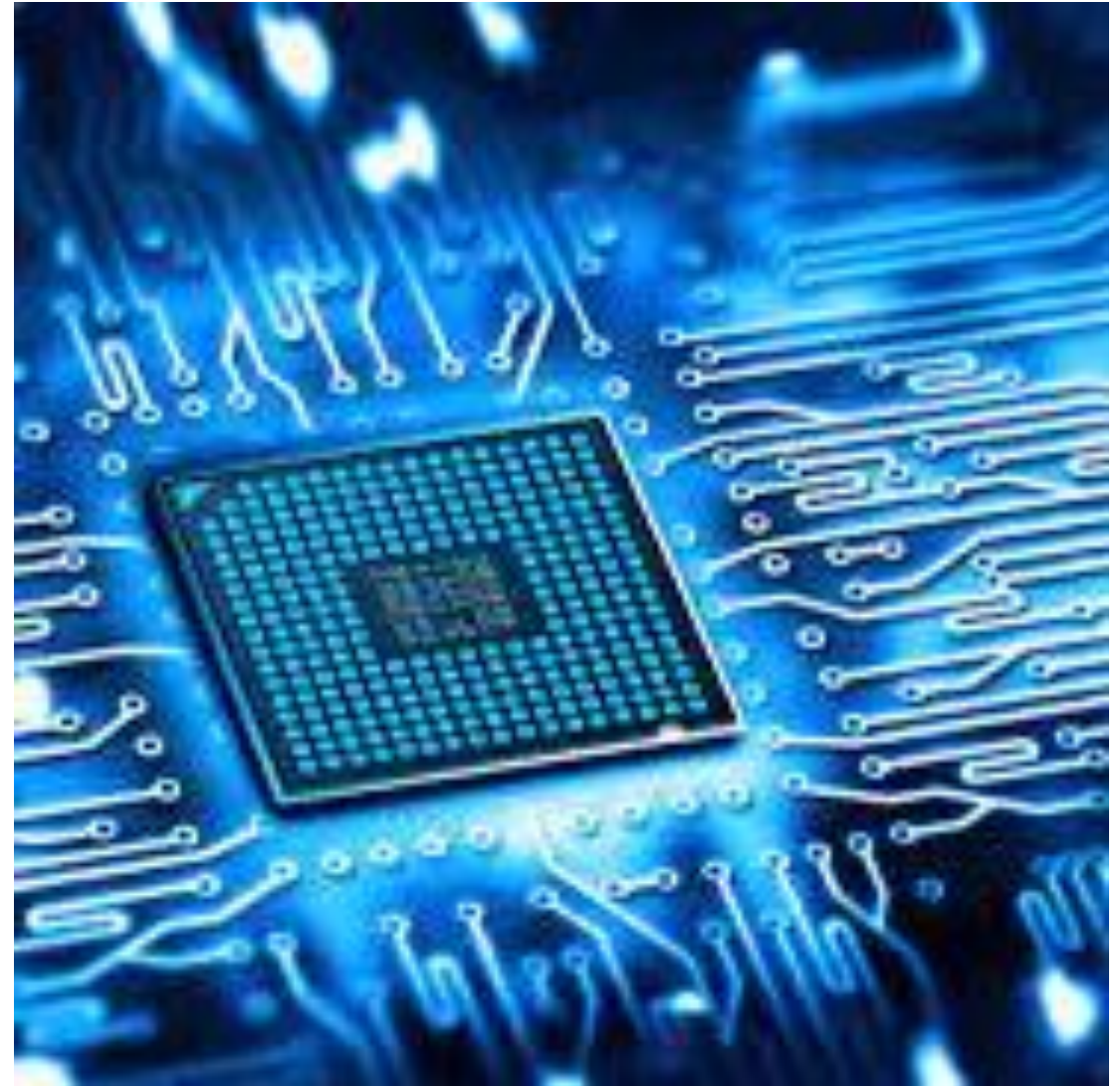
Economic Summary



- The near term will be difficult, but absolutely necessary. The Fed needs to stay the course.
- Look for interest rates to remain elevated through 2024.
- Tightening labor markets.
- Slower retail sales (temporarily).
- Inflation higher in Phoenix than U.S.
- Housing Affordability remains an issue.

Arizona & Greater Phoenix

- Strong job growth likely to slow in 2023.
- Build upon economic development successes (semiconductors, electrical car & battery manufacturers and suppliers).
- Single family housing is under lots of pressure.
- Rental housing still positive, but transaction volume will slow.

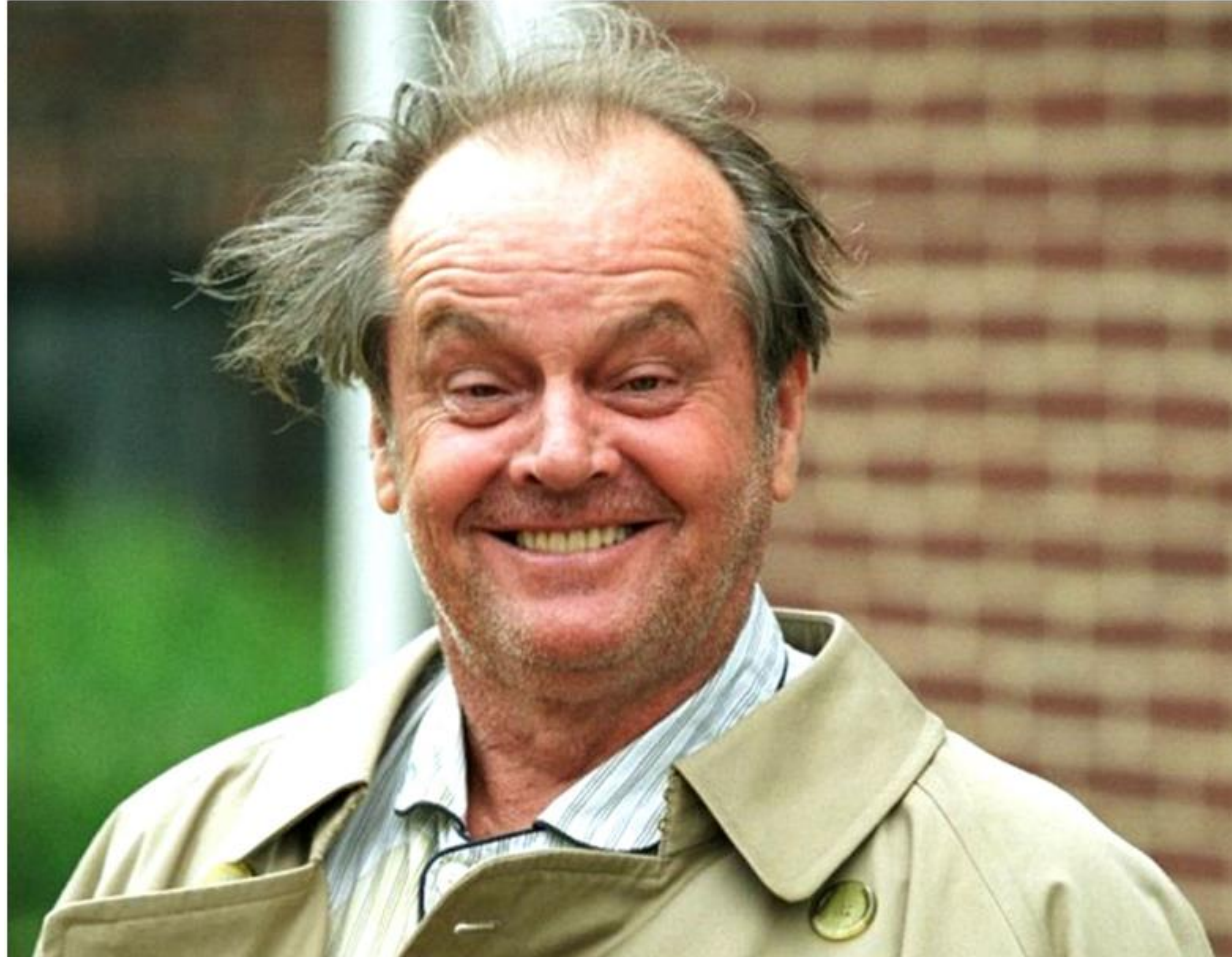


Arizona & Greater Phoenix Conclusion Longer Term

- Arizona & Greater Phoenix will continue to grow more rapidly than the U.S.
- Housing will cycle up dramatically but the nature of housing might be changing to higher density to improve affordability.
- The “**water issue**” will be resolved as water usage becomes more efficient. The price of water will increase.



Have a nice day!





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