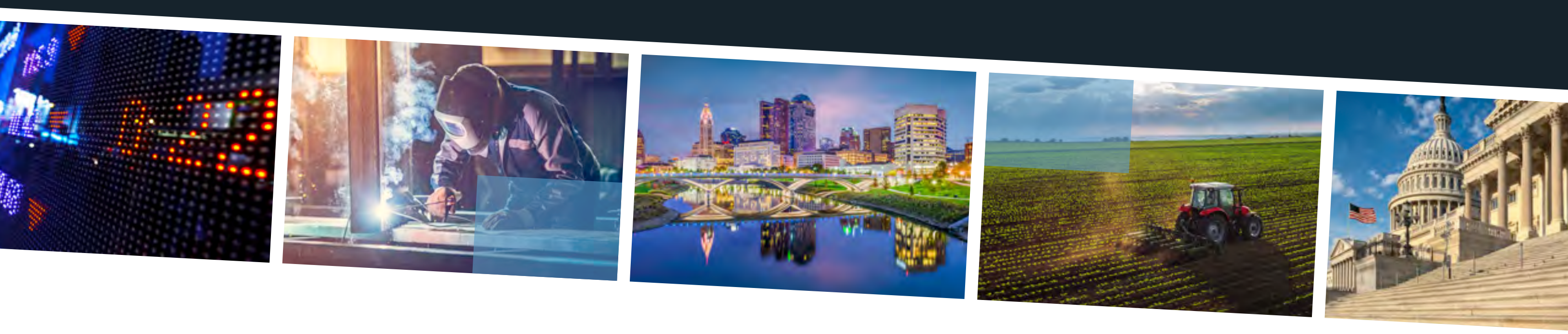
January Report

Big-City GDP in 2023: Who'll Grow, Who'll Falter and Why

KENAN INSTITUTE of Private Enterprise
UNC KENAN-FLAGLER BUSINESS SCHOOL

American Growth Project



As we move into 2023, the state of the economy remains highly uncertain following a volatile year that included both strong job growth and persistent inflation. Unfortunately, our economic models don't bear particularly glad tidings for the new year, as we expect the U.S. economy will enter a **recession** in the second half of 2023 or early 2024. What is more, the economic pain caused by this downturn will be felt unevenly across the country: Our work in the American Growth Project has revealed significant divergence across regional economies in the United States that is too often left out of analysis focusing on national statistics alone.

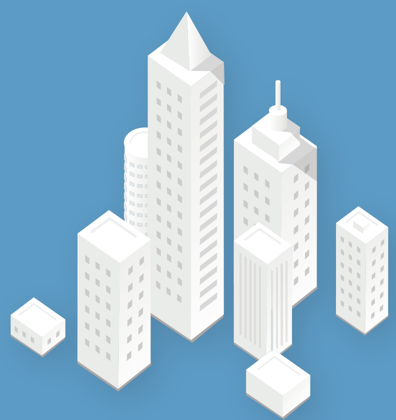
The good news is that we expect the anticipated recession to be relatively mild. When projecting 2023 economic activity for the 50 largest Extended Metropolitan Areas in the U.S., more than half of these cities are expected to have positive GDP growth. As a result, U.S. growth may still remain positive for the year, depending on when the recession actually hits. This phenomenon is not new; in the 2001 recession, we observed 1% national economic growth. Conversely, during 2020, when the national economy shrank 2.8% – the largest decline in 70 years – seven of our 50 largest Extended Metropolitan Areas (EMAs) expanded, led by Austin and its 2.3% growth. Thus, cities with strong economic fundamentals, such as emerging industries and positive migration inflow, can perform well even during a national economic slowdown.

Industry-Level Trends

Given this backdrop, several industry-driven trends emerge for 2023. First, despite the woes of the tech sector, San Francisco remains our fastest-growing city, with expected growth of 3.0% in 2023 – largely due to the **power of productivity**. Yet it is also experiencing one of the biggest slowdowns in the country, alongside other tech-heavy microeconomies such as Austin, Denver and our very own Research Triangle. Second, tourism-intensive areas such as Orlando, Las Vegas and Miami are also expected to be hit hard as consumers cut back on unnecessary spending during the downturn. After two years of lockdowns, however, pent-up demand – which is hard to model – may keep the tourism industry afloat. Third, the construction sector appears in danger of experiencing heavy layoffs, which would affect cities that rely heavily on these jobs, such as Tampa and Jacksonville. Finally, Philadelphia, which is not normally thought of as a construction hotbed but has recently seen a jump in activity, is being buffeted by the double whammy of local policy changes and interest rate-driven weakness. (To read about other aspects of our national forecast in greater detail, please see our commentary "What to Watch: Five Economic Trends to Expect in 2023.")

What We'll Be Watching For

That being said, if the Federal Reserve ends up tightening more than expected, or if factors such as a loss of confidence among businesses, consumers or both cause a deeper recession, the economy could deviate from our 2023 projections. Despite widespread fears of a recession looming on the horizon, there are few recessionary signs to date. In fact, even sectors such as tech, with its spate of layoff announcements, and real estate, with a doubling of mortgage rates, are continuing to see national job growth for the moment, albeit at a slower pace. Finally, few could have predicted the confluence of technological advances (such as the development of mRNA vaccines or the occurrence of a revolutionary new fusion reaction) and unexpected public policies that have occurred over the past few years. New developments on either of these fronts could also significantly change the economic trajectory in 2023. As a result, we will update these estimates as the data evolves. In the meantime, keep an eye out for our next report on small and midsize city growth, in which we will begin to examine the economic fortunes of localities beyond the country's largest urban centers.



2023 Fastest Growers

1	**San Francisco Bay Area** California
2	**Austin** Texas
3	**Seattle** Washington
4	**Raleigh and Durham** North Carolina
5	**San Antonio** Texas
6	**Salt Lake City** Utah
7	**Dallas** Texas
8	**Denver** Colorado
9	**Oklahoma City** Oklahoma
10	**Nashville** Tennessee

EMA Name	2023 GDP Growth	2022 GDP Growth (Updated)*	Change in Growth	GDP (2023, billions USD)	GDP Share of U.S. Total (2023)	GDP Rank (2023)	Population (2020, millions)
San Francisco Bay Area, California	3.0%	5.1%	-2.1%	1,494	5.7%	3	9.7
Austin, Texas	2.8%	4.9%	-2.1%	231	0.9%	22	2.3
Seattle, Washington	2.0%	4.0%	-2.0%	619	2.3%	9	5.0
Raleigh and Durham, North Carolina	1.6%	3.8%	-2.2%	199	0.8%	28	2.1
San Antonio, Texas	1.4%	2.6%	-1.2%	168	0.6%	34	2.6
Salt Lake City, Utah	1.4%	3.2%	-1.8%	227	0.9%	23	2.7
Dallas, Texas	1.3%	3.3%	-2.0%	715	2.7%	7	8.1
Denver, Colorado	1.0%	3.3%	-2.3%	356	1.4%	16	3.6
Oklahoma City, Oklahoma	0.9%	2.1%	-1.2%	102	0.4%	43	1.5
Nashville, Tennessee	0.9%	2.9%	-2.0%	193	0.7%	32	2.1
Pittsburgh, Pennsylvania	0.9%	1.0%	-0.2%	206	0.8%	26	2.7
Charlotte, North Carolina	0.8%	2.9%	-2.0%	247	0.9%	21	2.8
Portland, Oregon	0.8%	2.7%	-1.9%	258	1.0%	19	3.3
New Orleans, Louisiana	0.7%	2.3%	-1.7%	102	0.4%	44	1.5
Atlanta, Georgia	0.5%	1.9%	-1.4%	587	2.2%	11	6.9
San Diego, California	0.4%	2.4%	-2.0%	305	1.2%	17	3.3
Boston, Massachusetts	0.4%	1.5%	-1.1%	842	3.2%	6	8.5
Houston, Texas	0.4%	1.9%	-1.5%	619	2.4%	8	7.3
Phoenix, Arizona	0.4%	1.9%	-1.5%	360	1.4%	14	4.9
Orlando, Florida	0.3%	2.8%	-2.5%	265	1.0%	18	4.2
Washington, D.C., and Baltimore, Maryland	0.3%	1.1%	-0.8%	977	3.7%	4	10.0
Columbus, Ohio	0.2%	1.0%	-0.8%	196	0.7%	31	2.5
Los Angeles, California	0.2%	2.1%	-1.9%	1,582	6.0%	2	18.6
Richmond, Virginia	0.2%	1.1%	-0.9%	103	0.4%	41	1.3
Harrisburg, Pennsylvania	0.2%	1.1%	-0.9%	88	0.3%	49	1.3
Sacramento, California	0.1%	1.9%	-1.8%	196	0.7%	29	2.7
Kansas City, Missouri, and Kansas City, Kansas	0.1%	0.9%	-0.8%	191	0.7%	33	2.5
Grand Rapids, Michigan	0.1%	1.0%	-0.9%	92	0.3%	46	1.4
Tampa, Florida	0.1%	2.3%	-2.2%	216	0.8%	24	3.2
New York, New York	0.1%	1.4%	-1.3%	2,538	9.6%	1	23.6
Jacksonville, Florida	-0.1%	2.2%	-2.3%	120	0.5%	39	1.7
Minneapolis and St. Paul, Minnesota	-0.1%	1.4%	-1.5%	360	1.4%	15	4.1
Fresno, California	-0.1%	2.0%	-2.0%	72	0.3%	50	1.3
Indianapolis, Indiana	-0.1%	1.2%	-1.3%	205	0.8%	27	2.5
Cincinnati, Ohio	-0.1%	0.9%	-1.0%	196	0.7%	30	2.3
Miami and Fort Lauderdale, Florida	-0.2%	2.0%	-2.2%	510	1.9%	12	6.9
Greenville, South Carolina	-0.3%	1.1%	-1.4%	90	0.3%	47	1.5
Cleveland, Ohio	-0.3%	0.2%	-0.5%	256	1.0%	20	3.6
Louisville, Kentucky	-0.4%	0.9%	-1.3%	103	0.4%	42	1.5
Birmingham, Alabama	-0.6%	0.6%	-1.1%	88	0.3%	48	1.4
Chicago, Illinois	-0.6%	1.2%	-1.8%	875	3.3%	5	10.0
Las Vegas, Nevada	-0.6%	1.8%	-2.3%	155	0.6%	35	2.3
St. Louis, Missouri	-0.7%	0.3%	-1.0%	211	0.8%	25	2.9
Hartford, Connecticut	-0.8%	0.8%	-1.5%	141	0.5%	37	1.5
Milwaukee, Wisconsin	-0.8%	-0.4%	-0.4%	147	0.6%	36	2.1
Greensboro, North Carolina	-0.9%	0.4%	-1.3%	104	0.4%	40	1.7
Philadelphia, Pennsylvania	-0.9%	1.7%	-2.6%	601	2.3%	10	7.4
Virginia Beach, Virginia	-1.0%	0.0%	-1.0%	123	0.5%	38	1.9
Detroit, Michigan	-1.1%	0.2%	-1.3%	373	1.4%	13	5.4
Memphis, Tennessee	-1.2%	-0.1%	-1.1%	96	0.4%	45	1.4

** Based on latest economic data as of December 2022*