S&P Global Market Intelligence

City of Philadelphia Investors Conference

Macroeconomic Outlook for US and Philadelphia Region

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Tightening financial conditions to tip US economy into recession

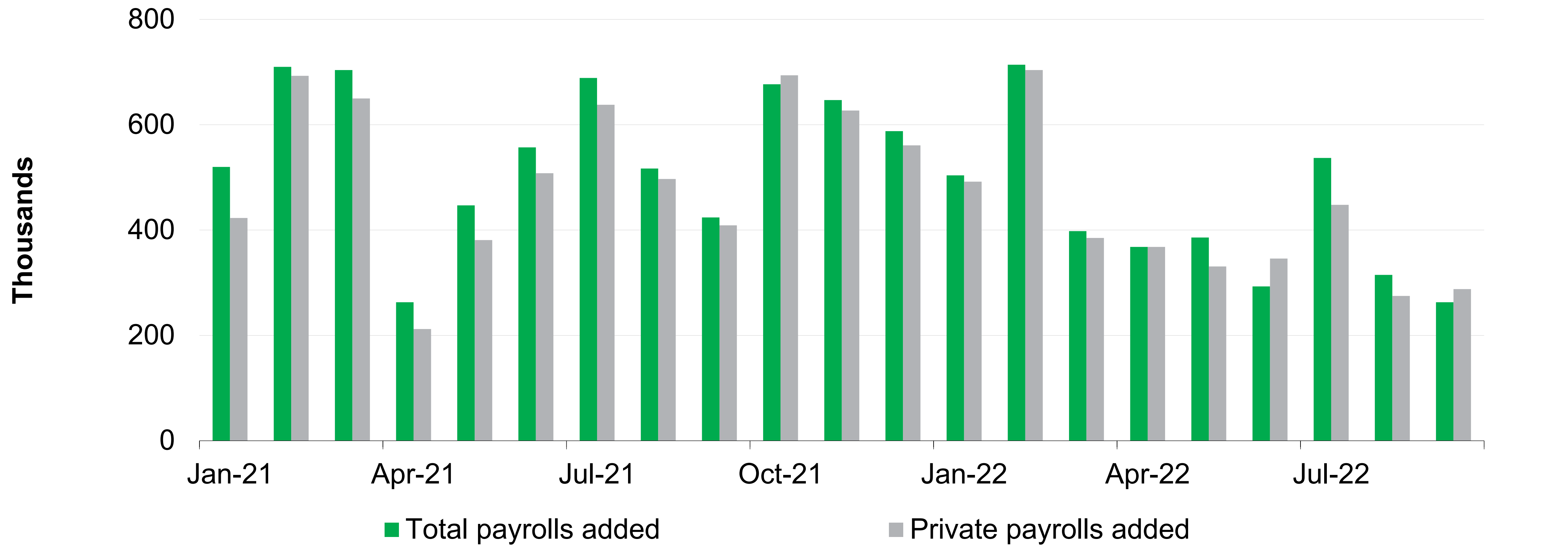
- Our November forecast will be released next Monday, the 7th, so this discussion will focus on narrative rather than specific forecast estimates.
- Our base forecast now includes a **mild recession** from the fourth quarter of this year through the second quarter of next year.
- An initially anemic recovery takes hold in the second half of 2023. We project GDP to grow below-trend in 2024.
- With GDP declining in 2023, and growing below trend in 2024, **the unemployment rate rises by around 2 percentage points** by the end of 2023, before beginning a very gradual decline.
- We anticipate partial reversals of recent increases in the relative prices of energy, food, and certain durable goods as supplies increase, followed by the moderation of inflation arising from tight labor markets as the unemployment rate increases.
  - Strong dollar reduces price of imports while making US exports less competitive on world markets.
  - Those factors reduce GDP growth but lessen inflation pressures.

Lingering supply-side issues make inflation extra tough to tame

- COVID-19 is “endemic” at this point – we don’t assume another round of major disruption to the economy; lingering COVID containment policies contribute to remaining supply chain disruptions.
- Interest rate hikes have been slow to impact overall inflation, but the housing market is seeing a significant drop in housing starts and home sales.
  - Home prices are starting to correct downward – extent of decline could vary greatly by location.
- Russia/Ukraine conflict remains a major source of disruption to the global economy, especially energy and food markets.
  - European energy situation impacts its manufacturing, another supply-side disruption.
- Labor supply remains a challenge across the spectrum of jobs due to impact of limited labor participation rates and several years of reduced immigration.
- Automakers’ semiconductor shortfall gradually easing – need to rebuild inventory will provide some counter-cyclical support to ease recession.

US payroll gains continued apace in September

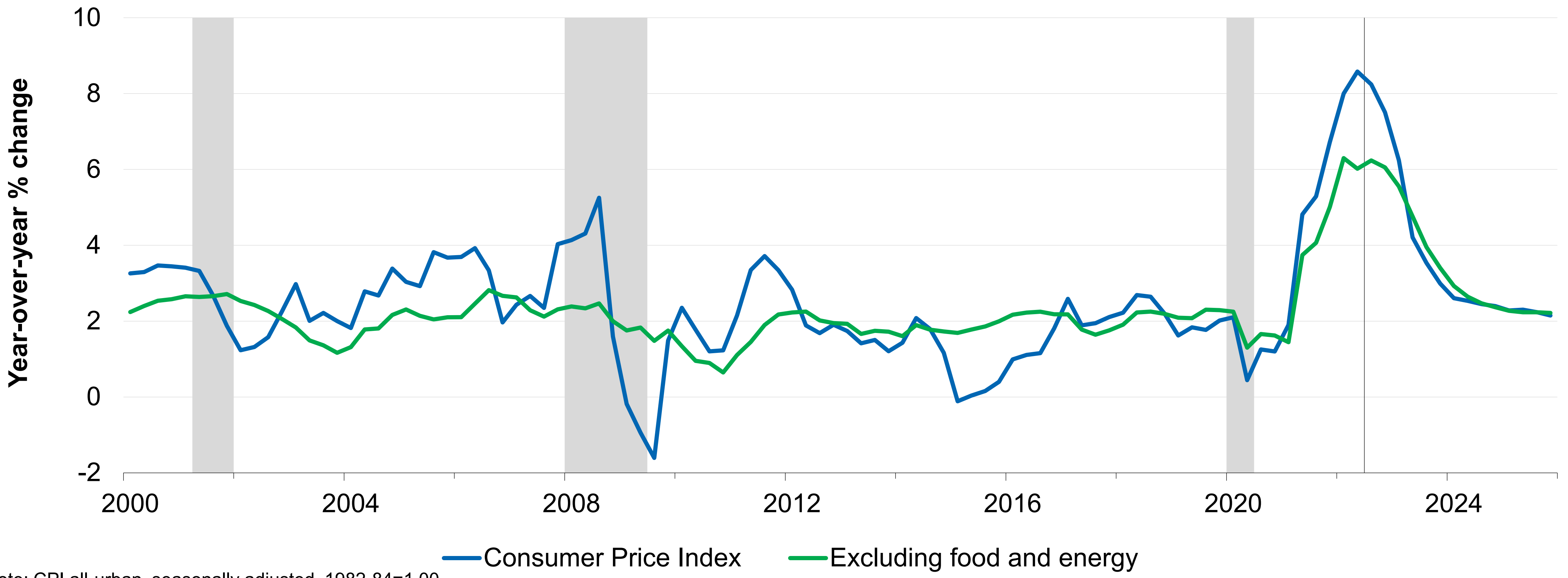
Change in nonfarm payrolls



Source: BLS

Inflation elevated, but will ease sequentially

Consumer Price Indexes



Note: CPI all-urban, seasonally adjusted. 1982-84=1.00
Source: IHS Markit

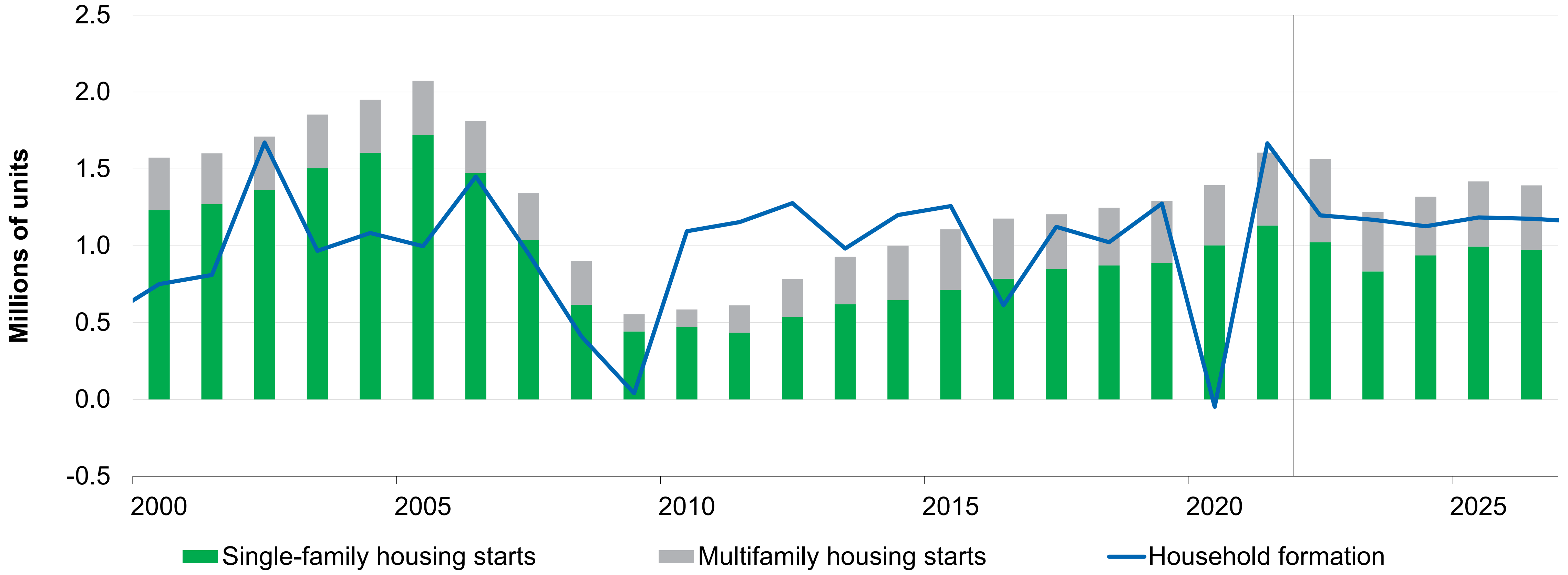
Rent inflation rose to highest level since 1982

Consumer Price Index, rent of primary residence

Note: CPI all-urban, seasonally adjusted, 1982-84=1.00
Source: BLS

Composition of housing starts updated to reflect more multifamily and fewer single-family homes

Housing starts and formation



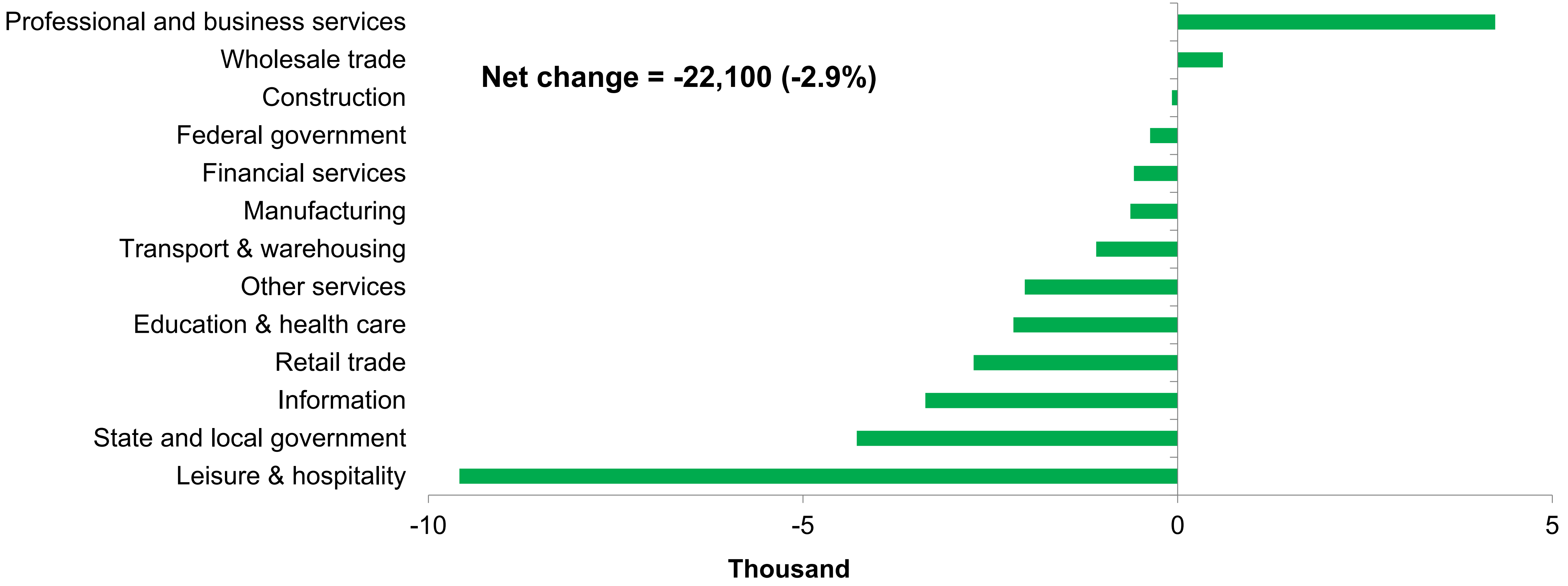
Source: IHS Markit

City of Philadelphia and region still working to recover pandemic-era losses

- The City of Philadelphia region has recovered around 83% of jobs lost at onset of pandemic.
  - Payrolls remain 2.9% below pre-pandemic level. (Philadelphia MSA is 0.8% below.)
  - Leisure and hospitality lags the most, followed by local government.
  - Wage tax collections indicate that wage gains have more than offset payroll declines.
- Return-to-office remains an uncertainty, with many workers in certain sectors still working remotely either entirely or most of the time.
  - Some big employers are ramping up policies to bring back workers.
  - Many major industries don’t lend themselves to remote work, including health care and construction.
- Center City District estimates of pedestrian volumes have been trending upward
  - Visitors and shoppers at 85% of three-year-ago level, office workers at 57%; overall average 75%.

Leisure and hospitality, local government have the largest post-pandemic job losses in the city

Change in Philadelphia payroll employment, Feb 2020 - Sep 2022



Source: IHS Markit

City of Philadelphia near-term outlook features risks, opportunities

- We expect the city's economic growth to largely mirror than nation's over the next few years.
- Recession could be relatively mild for the city, given its industry structure.
  - Housing market shouldn't be overly exposed.
  - Office market still rather uncertain.
- Recovery may also be more "mild" than the nation overall.
  - Growth in population and labor force relatively low, limiting labor supply.
  - Broader economic shift toward higher-skilled roles makes educational attainment and job training essential.
- Education and health care remains a major source of growth for city economy.
  - Universities should be mostly back to "normal" operations this year; remain a magnet for top talent, while generating new economic opportunities via research.
  - Specialized treatments such as cell and gene therapy have emerged as a regional strength.

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