



Investors for a new now

Regional Economic Maps

Research Report – June 2023

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Global growth is expected to fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3% in 2024



Inflation and interest rates are the greatest threats

U.S. economy is slowing

- The U.S. labor market remains resilient amid recession concerns, ongoing layoffs, instability in the banking sector, and high inflation.
- Despite many hikes since March 2022, the Fed Funds rate is only where it was in 2006-2007 before the financial crisis.
- Tighter credit is tempering CPI, though inflation pressures remain historically high. We expect Inflation to stay on a gradual downward trajectory over the rest of the year. Though upside risks remain, we expect inflation to be just under 4% by the close of 2023.
- With both inflation and interest rates persisting at higher levels than previously expected, most economists put a higher probability of a recession at some point in the next 12 months. We expect a mild recession to start in the second half of 2023.
- U.S. consumers have been resilient and are expected to use excess savings to help cushion the projected economic downturn.
- Home sales have fallen nationwide over the past year because higher mortgage rates have weighed on home-buying demand and supply has been limited. Many people who want to move are effectively trapped in their houses because they do not want to trade a sub-3% mortgage for a 7% mortgage.

Europe beats the odds

- The European economy saw growth during the first quarter of 2023. Many had feared that the region would fall into recession as the gas crisis threatened industrial production, but with hard work and good luck, the winter months passed without major disruption.
- Uncertainty in global banking arrived in Europe during March resulting in the rapid merger of Credit Suisse and UBS.
- EU inflation has moved lower since the start of the year. Peaking at around 11% in November 2022, inflation across the union came in at 8% in April and is projected to move lower over the coming months.
- European central banks have continued to tighten monetary policy during the first half of 2023. While there are risks that inflation proves stickier than expected, the consensus view is that tightening is nearing its end.
- Compared to last year, debt markets have been relatively stable during 2023. Having risen 300 basis points in 2022, for most of this year 5-year Eurozone swap rates have been trading in a relatively tight range, at around the 3% mark.

Domestic demand driving Asia's growth

- Asia Pacific's banking system has so far remained resilient to U.S. banking stress with limited exposures to their western counterparties.
- China's lifting of zero-Covid restrictions since late 2022 has led to increased consumption and tourism. However, recent manufacturing PMIs across developed Asia remain in contraction, signaling that the recovery in external conditions may take longer to materialize.
- Inflationary pressures have eased from their recent peak, with March figures for North Asia and most of Southeast Asia falling below 4%.
- Regional GDP growth is expected at 3.8% this year, led by China, though the outlook for most of developed Asia remains weak due to global trade headwinds.
- Outside Japan and China, the likelihood that central banks in Asia Pacific are nearing the end of monetary tightening has increased, though lingering inflation concerns suggest that any policy reversal may not be imminent.

Source: DWS CIO View, IMF (World Economic Outlook), Conference Board, U.S. Commerce Dept., U.S. Bureau of Economic Advisors, U.S. Bureau of Labor Statistics, U.S. U.S. Federal Reserve, Wall Street Journal, Moody's Analytics, National Association of Realtors, CoStar, World Bank, Eurostat, Oxford Economics, Financial Times, Markit, Bank of Japan, Bank of Korea, People's Bank of China, Reserve Bank of Australia, EIU. As of June 2023. No assurance can be given that any forecast or target will be achieved. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

United States Regional Economic Map



June 2023

Regional economic HIGHLIGHTS AND PERSPECTIVES

- The ongoing resilience of the U.S. job market continues as employers added 339,000 jobs in May, bringing the total to 1.6 million year-to-date. The unemployment rate rose to 3.7% in May, up from the previous month (3.4%) but still near its lowest level since 1969. Average hourly wages rose 4.3% from a year ago.
- U.S. economy increased at 1.1% annual rate in the first quarter of 2023, a significant slowdown from 2.6% growth in the fourth quarter of 2022.
- Inflation slowed to 4.9% in April, down slightly from March's 5% increase, marking the 10th month in a row that CPI has decelerated since the Fed began its tightening policy.
- Existing homes sales totaled 3.9 million (annualized) in April, up slightly from 3.6 million in January, although well off their 5.8 million cyclical high in January 2021.

EMPLOYMENT GROWTH: 2023 – 2024F

- Below national average
- Near national average
- Above national average

San Francisco: Because it is subleasing so much space, SF's tech industry has almost become the largest office landlord in the city (sublease availability now at 8.2 million sq.ft.).

Silicon Valley: Silicon Valley remains a hotbed for Artificial Intelligence companies nationally, most of whom have been founded in the Bay Area since 2020.

Ports of Los Angeles & Long Beach: As the nation's most significant strategic gateway for Asian trade, the ongoing uncertainty around extended labor negotiations at the twin ports continues to weigh on the regional economy.

Los Angeles: Since last summer, Hollywood has seen a significant slowdown across all of the most economically important categories of on-location production, particularly in television.

San Diego: Billed as one of the largest redevelopment projects in the city's history, the Navy looks to replace a former WWII bomber factory with a massive mixed-use development.

Phoenix: A core driver, high-tech manufacturing will help ensure that Phoenix's near- and long-term future remains bright.

Austin: Despite the uptick in tech layoffs, Austin hasn't yet seen job carnage as headcounts remain stable.

Seattle: Although Seattle-area tech firms have announced plans to cut around 31,000 jobs, so far, many appear to be outside the state of Washington.

Denver: Denver has failed to achieve consecutive months of job growth since May 2022, with payrolls essentially flatlining since last summer).

Chicago: Though Chicago recently surpassed its pre-pandemic employment levels, the metro will likely continue underperform due to population loss and weak public finances.

Boston: Tech jobs in Boston have soared since early 2020 as the pandemic kicked off a wave of investment in biotech and IT, though many tech firms are beginning to trim staff.

New York: While apartment rents in the NYC have risen to record highs as the city recovers its residents, office has failed to follow suit with the NY's office usage remaining below 50%.

Washington DC: Mayor Bowser is pressing to get more DC federal workers back into their office buildings – an important revenue-generator for surrounding businesses struggling in their absence.

NOVA: The first phase of the \$2.5 Billion Metropolitan Park mixed-use project located in Arlington is open for business with roughly 14,000 tech workers slated to move in over the summer.

Charlotte: Though limited to regional banks in Calif. and NY, banking stress could become a headwind to Charlotte's large financial industry - losing its position as the primary engine of growth.

Nashville: Thanks to a business-friendly environment and a deep pool of available workers, Nashville has been a magnet for investment and corporate relocations.

Atlanta: The recent announcement of a \$4.3B EV battery plant coming to Georgia is the latest milestone in the state's path to becoming the EV capital of the U.S.

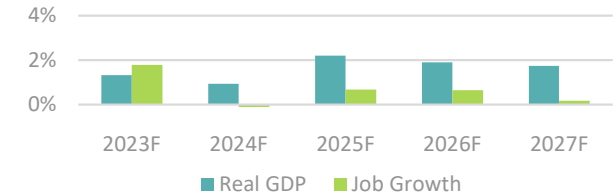
Central Florida: The I-4 corridor's economy is firing on all cylinders with job growth from Tampa to Orlando remaining significantly ahead of the U.S.

Houston: Over the past decade, Houston was the top city for real estate development, leading the U.S in single-family homebuilding permits and industrial sq.ft. constructed.

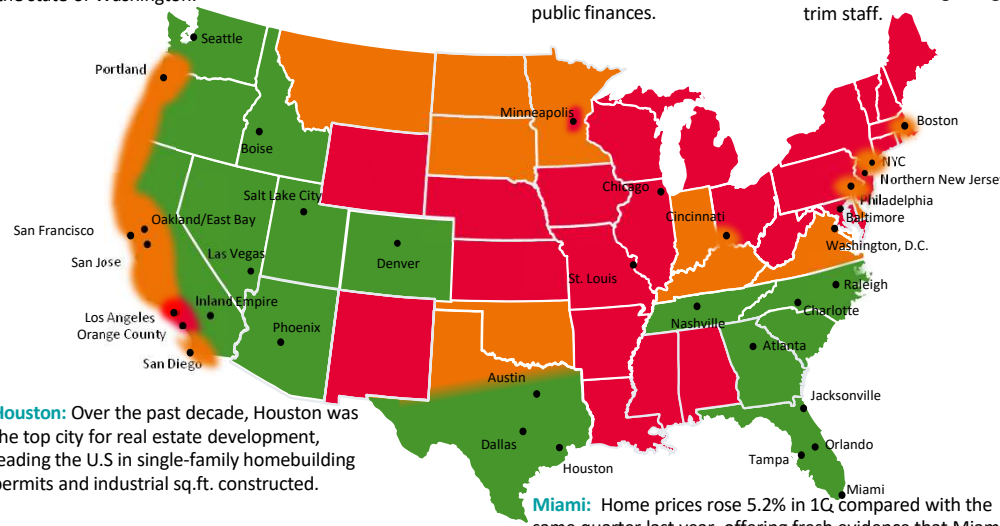
Dallas: At 4.6% (year-over-year) in April, job growth in Dallas was nearly twice the national average.

Miami: Home prices rose 5.2% in 1Q compared with the same quarter last year, offering fresh evidence that Miami's housing market is poised to remain one of the strongest of any U.S. city.

REAL GDP & JOB GROWTH



Source: Moody's Analytics (Consensus View), DWS, May 2023.



Sources: DWS, U.S. Dept. of Commerce, U.S. Census Bureau, U.S. Dept. of Labor, U.S. Bureau of Economic Advisors, U.S. Conference Board, Moody's Analytics, Wall Street Journal, National Assoc of Realtors, Bloomberg, CNBC, VRAL Tech Wire, Reuters, CBRE, Jones Lang LaSalle, CoStar, layoffs.fyi, FilmLA, CNN, Bisnow, Storage Café, S&P CoreLogic Case-Shiller Index, NYPost, Seattle Times, Kastle Systems (Back to Work Barometer), Real Page, Commercial Property Executive.

As of June 2023. F- forecast.

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European Regional Economic Map

June 2023

Regional economic HIGHLIGHTS AND PERSPECTIVES

- The European economy managed to sustained growth during the first three months of 2023. Despite concerns over inflation, interest rates and gas, EU countries narrowly avoided recession.
- Led by a sharp reduction in energy prices, headline inflation moderated throughout the early part of 2023 and is due to fall towards target over the remainder of the year.
- Recent PMI figures suggest that growth should be sustained throughout the second quarter of 2023. Annual growth this year is expected to be modest, gaining momentum in the years that follow.

EMPLOYMENT GROWTH: 2023 – 2024F:

- Lagging European Average
- Near European Average
- Leading European Average

London: Despite the UK government’s promise to ‘level up’ the country, London’s economic growth continues to well outpace all other UK regions.

Regional UK: May’s extra bank holiday was undoubtedly a welcome treat but the drag on activity increases the chance of weaker GDP growth in Q2.

Regional France: Severe drought on the Mediterranean coast likely to become a regular feature as climate conditions change in Southern Europe.

Dublin: Despite major job cuts from tech giants, including Google, Meta and Twitter, unemployment remains well below the historic norm and other sectors continue to hire.

Paris: Even after the wave of strikes early in 2023 relating to the latest pension reforms, the Parisian economy continues to outperform the Eurozone average.

Madrid and Barcelona: Despite a not very welcoming reception from the government in Barcelona, tourists continue to flock to Spain, aiding the economic recovery.

German Top 7: After the nuclear phaseout, Germany is now trying to phase out oil and gas heating, which seems even more difficult.

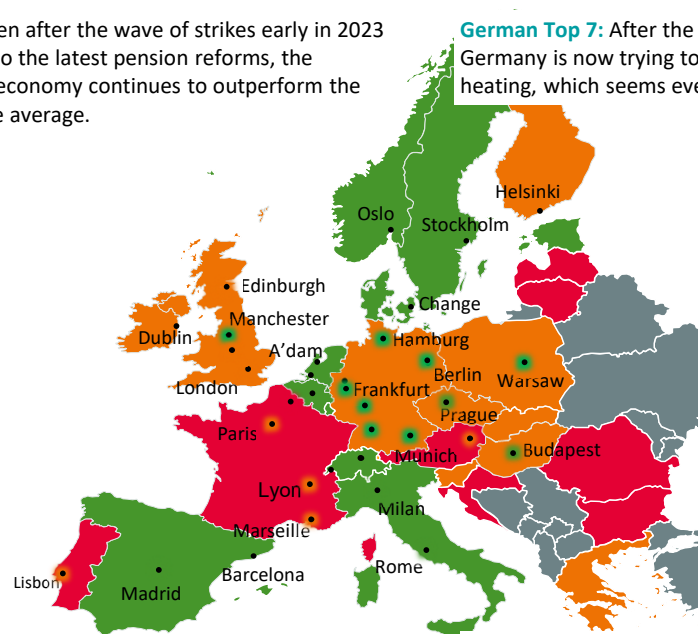
Milan and Rome: Meloni government pledges to do everything it can to reverse a drop in Italy’s birth rate, a trend that does not bode well for future economic performance.

Benelux: Dutch unemployment expected to increase as substantial number of workers are freelancers or on short-term contracts, in contrast to higher job security in Belgium.

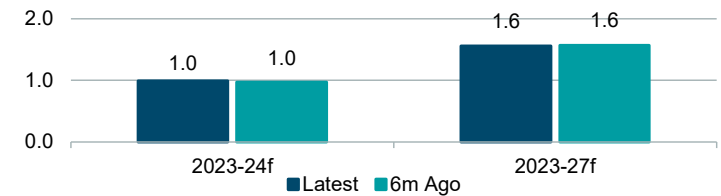
Stockholm: While Sweden may have taken the Eurovision crown, the country’s reliance on variable debt rates is not proving a winning formula for the housing market.

Other Nordics: Despite support for her dance moves, the Finnish public proved less supportive of her policies, with a new government voted in.

CEE: After housing refugees, Poland is now sheltering Ukrainian artwork. However, net migration is fading, which is a drag on consumption and GDP growth.



EUROPEAN REAL GDP GROWTH (% P.A)



Source: Oxford Economics, DWS, May 2023

Source: DWS, Oxford Economics, Eurostat, ONS, FT, Markit, Trading Economics, May 2023. f = forecast. No assurance can be given that any forecast or target will be achieved. This information is intended for informational purposes only and does not constitute investment advice, a recommendation, an offer or solicitation.

Asia Pacific Regional Economic Map

June 2023



Regional economic HIGHLIGHTS AND PERSPECTIVES

- Regional economic and export growth continued to slow in recent months amid the weakening external environment, while exports to China have yet to show clear recovery signs despite lifting of COVID restrictions.
- Easing unemployment figures, a rising proportion of workers returning to the workplace, and a recovery in inbound tourism should support city-centric and hospitality-related business activities.
- Most developed Asian economies are projected to avoid recession this year though growth expectations remain subdued given policy normalization and headwinds in global trade.

EMPLOYMENT GROWTH: 2023 – 2024F

- Below APAC Average
- Near APAC Average
- Above APAC Average

Beijing: China's reopening efforts have been boosted by a rebound in consumption and tourism, though youth employment surged to a near record high in March 2023.

Hong Kong: The unemployment rate fell to 3.1% in March 2023, back to its pre-pandemic level, underpinned by the healthy employment in the retail and hospitality sector. Still, weakening external demand will likely weigh on business confidence.

Kuala Lumpur: Employment strengthened amid a broad-based economic recovery, while the unemployment rate in February 2023 fell to a three-year low of 3.5%.

Singapore: Labour market remained strong as employment surpassed pre-pandemic levels, while unemployment rate remained low at 2%, though pace of hiring could moderate from high levels.

Shanghai: Recent job fairs held in the city for college applicants have seen strong responses as part of the government's push to boost employment.



Seoul: South Korea's unemployment rate tightened to a multi-decade low of 2.8% in April 2023, driven by revitalization of hiring activities in service, retail and tourism industries. However, manufacturing employment remained slow with the weakening export environment.

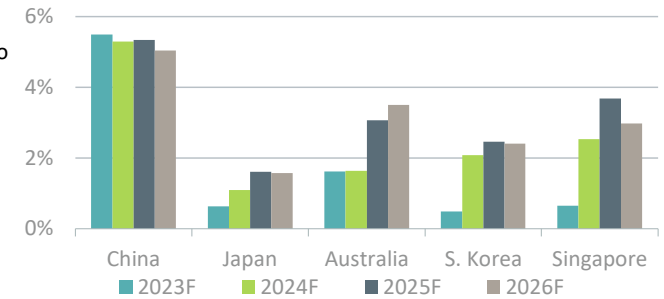
Tokyo: Core CPI rose from 0.1% (year-over-year) in September 2021 to 4.2% in January 2023, a record level in the last 40 years, reflecting increased energy prices and weakening of JPY.

Osaka: The unemployment rate remained low at 2.8% in March 2023, underpinned by a structural labor shortage and fast hiring in hospitality, dining and tourism industry.

Sydney: Unemployment rate remained at a record low of 3.5% in March 2023, indicating continued economic resilience. The Reserve Bank of Australia anticipates the unemployment rate to remain near current levels over the months ahead.

Melbourne: The rebound in population growth driven by the return of immigration will underpin healthy employment growth. While forward looking indicators eased slightly from its peak in September 2022, the ANZ-Indeed Australian Job Ads continued to signal significant unfilled labour demand.

APAC REAL GDP GROWTH



Source: Oxford Economics, DWS, May 2023

Source: DWS, Oxford Economics, Bank of Japan, Bank of Korea, People's Bank of China, Reserve Bank of Australia, EIU. As of June 2023. F= forecast.

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