

# NEVIN OPINES ON THE ECONOMY

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## FORECAST 2025:

## AN UNCERTAIN NATION WAITS A VERY CERTAIN PRESIDENT

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We are a Nation of 330,000,000 people and growing. We are also a Nation that moves slowly and deliberately. We are guided by majority rule and an orderly change of laws. Ordinarily, we do not like sudden change and typically vote against it.

Obviously, 2025 is one of those years where we asked for change but may not like what we asked for. We now have a President who has promised change.

We must also remember that our new President barely won the popular vote. Although he certainly did carry the electoral college vote. There will be, no doubt, a move afoot to do away with the Electoral College because it is no longer needed. It was a good idea two centuries ago when the population was sparse, but with a greater population and modern communications it is no longer necessary. A recent PEW Research survey determined that 2/3rds of voters would favor eliminating the Electoral College.

I suspect there will also be a move afoot to put a limit on the number of years that a Supreme Court member may serve.

With those two major items out of the way, let me talk about the economy.

2025 should be a pretty good year, despite the threats of tariffs and repatriation of undocumented workers.

There is no doubt that the President will levy some tariffs, but most likely nowhere near those in his rantings prior to election. Sooner rather than later, someone will let him know that rising tariffs translate into rising prices and a rising rate of inflation. I also am quite certain that he will work out a rational deal with our three biggest trading partners: Canada, Mexico and China.

One item that the President does not have control over is the FED (Federal Reserve) interest rate. Importantly, mortgage rates are typically two points over the 10-year T-Bill.

And those of us in the real estate industry pray daily for a reduction in the FEDs rate so that the 30-year mortgage rates can decline. If not interfered with, it is reasonable to assume that rates will go down very modestly in 2025. Having said that, if tariffs are aggressively applied, the rate of inflation and price of goods will balloon and the Fed will raise rates rather than reduce them. Not a good idea! As a P.S., the 50- year mortgage rate averages 7.5%.

On the assumption that inflation will be kept under control (even though the President may not be), the gross domestic product (GDP) will rise again by 2-3%. The GDP is the sum of all the goods and services that we produce in the U.S. An increase of 2-3% annually is acceptable and is an indication of a stable economy.

Tied closely to the GDP is the number of persons employed and the unemployment rate. 2024 was not quite as strong as 2023. The Nation added almost two million jobs and finished the year with an unemployment rate of 4.1%. The lack of employment acceleration this past year was tempered by the horrific weather conditions on the East Coast. Hurricanes, tornadoes and floods were the culprits. As a P.S., persons with a bachelor's degree or higher had an unemployment rate of 2.4%.

Closer to home, San Diego had a modestly decent economic year and continued to boast its famed continual year-round temperate climate. The climate and employment were positive in 2024 as we gained almost 10,000 new jobs and maintained a 4.3% unemployment rate.

The construction industry output continued to be strong with an output of almost 12,000 new units. With interest rates anticipated to remain at their current rate (or slightly lower), I anticipate that construction will remain at the present level in 2025.

The missing link continues to be "for sale" attached housing. The 10-year statute of limitations on construction defects is the killer. There appears to be some interest in reducing the number of years substantially (coinciding with most of the other states that offer right to correct) with the construction unions leading the way. It actually could happen in 2025.

On the resale side of the SDAR San Diego ledger, I anticipate a repeat of 2024 with a total of 23,000 resales with prices fairly flat. The desire to acquire remains strong, but the interest rates continue to depress the market.

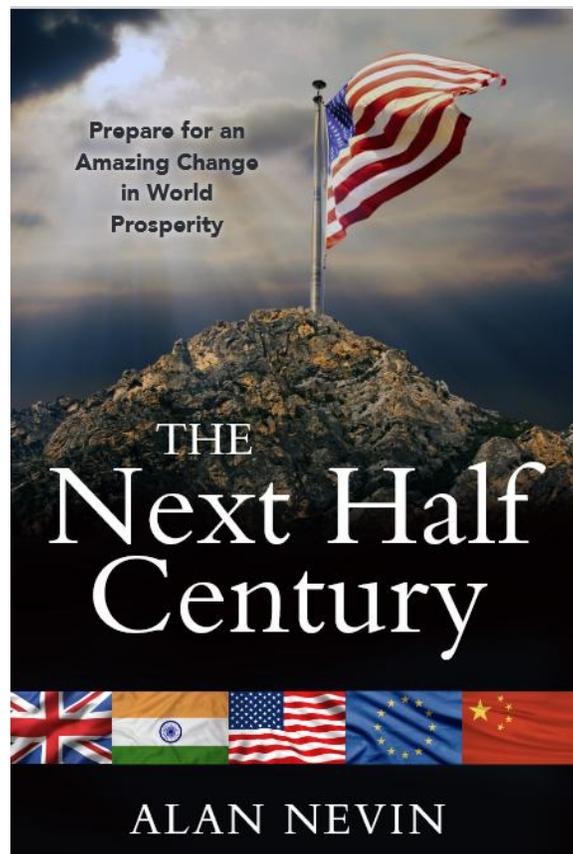
Overall, I see the National economy remaining strong despite (1) threats of rising tariffs, (2) massive reductions in Federal employment and (3) unprecedented deportation of undocumented persons. Personally, I don't see 1,2 or 3 occurring with any vigor.

Deporting undocumented persons would have a devastating effect on the agriculture, meat-packing and construction industries causing prices to rise. It can also be noted that more than 50% of undocumented workers pay income tax. Thus, despite the Presidential bluster, there will be minimal deportation of undocumented persons.

The reality is that the U.S. needs to bring in more than two million persons annually to allow our economy to grow at a reasonable level because our native citizenry is not having enough children to allow our economy to grow at a reasonable pace in the future. The magic number is two children per household to propel the economy and we are nowhere near the magic 2.0 number.

In summary, locally speaking, the San Diego economy will just keep moseying along with no surprises on the horizon. We continue to be a National superstar in the leisure and hospitality and science and technology industries. And despite obnoxious interest rates and the equally obnoxious price of our housing, we will do just fine in 2025. Surfs up!

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