

U.S. & CA Economic Report

October 4, 2019

California Community Colleges
Real Estate Education Center

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Executive Director
National Economic Education Delegation



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and are intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 44 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 365 members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

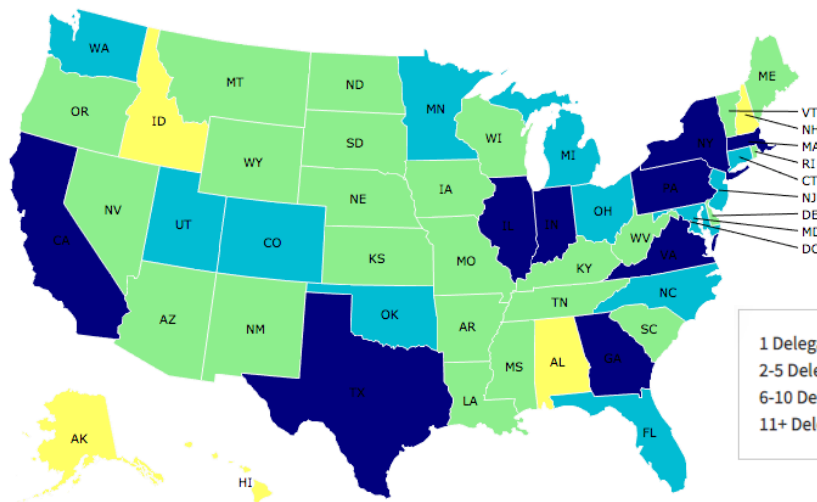
- **Global Partners: 42 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



1 Delegate - Yellow
2-5 Delegates - Green
6-10 Delegates - Light Blue
11+ Delegates - Blue



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Credits and Disclaimer

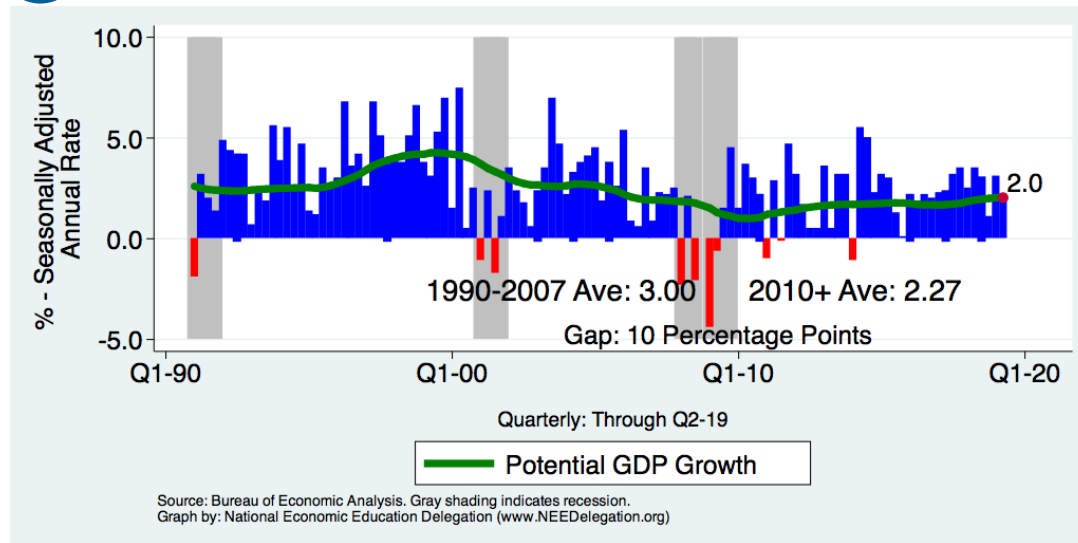
- **This slide deck was authored by:**
 - Jon Haveman, Executive Director of NEED
 - Allison Roehling, DePauw University
- **This slide deck was reviewed by:**
 - Jeffrey Frankel, Harvard University
 - Scott Baier, Clemson University
 - Rob Eyler, Sonoma State University
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

Outline – Economic Outlook

- **U.S. Economy**
 - Overall performance
 - Real estate
 - Forecast (UCLA Anderson)
- **CA Economy**
 - Overall performance
 - Real estate
 - Forecast (UCLA Anderson)
- **Summary**

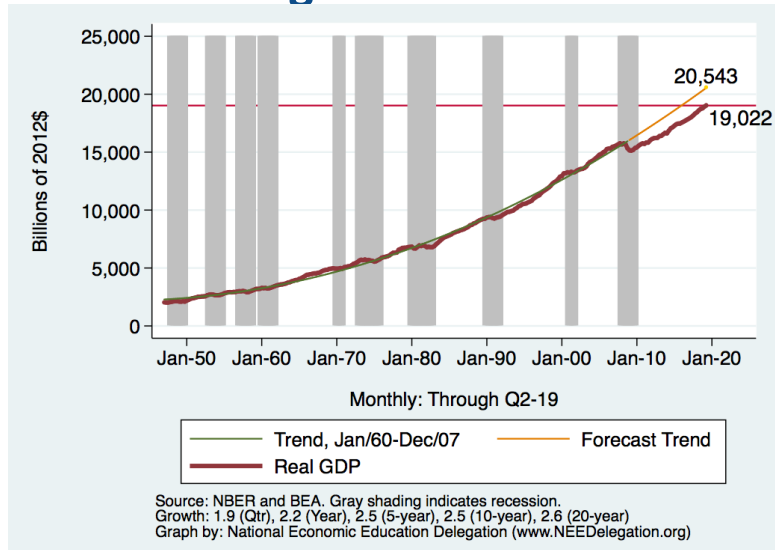
U.S. Economy

GDP Growth During Economic Recovery

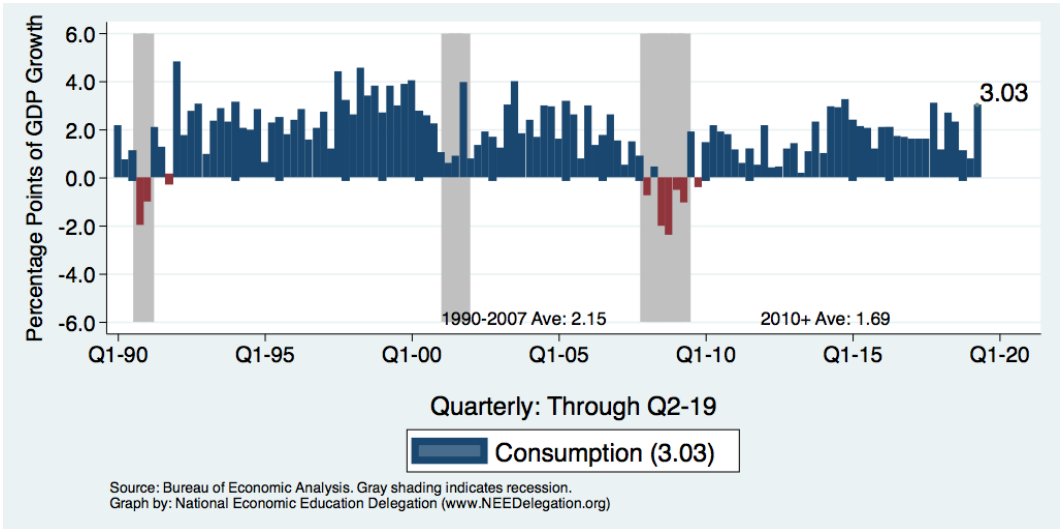


Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

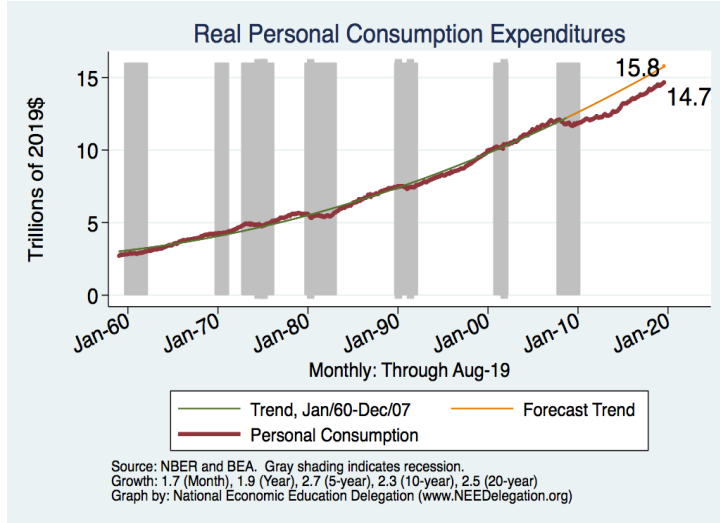
GDP Relative to Long-Term Trends



Contribution to GDP Growth: Consumption



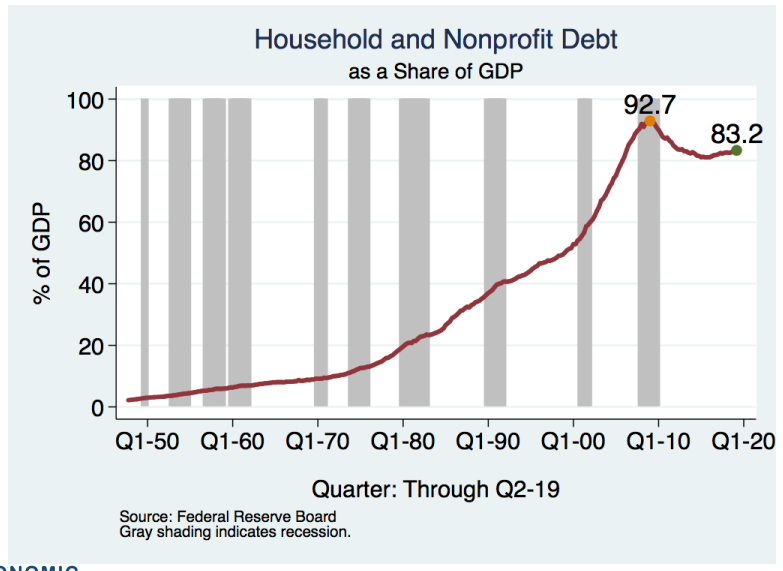
Personal Consumption Expenditures



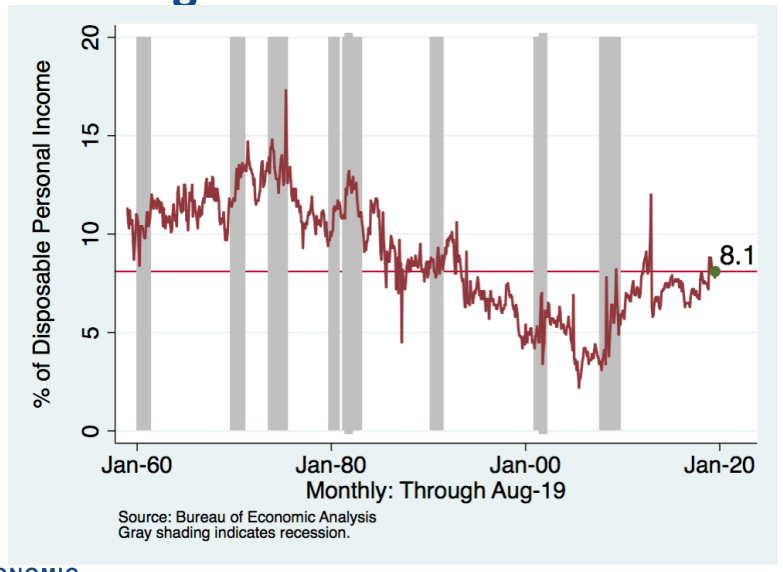
Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.69 percentage points.
- **In other words, its contribution to GDP growth is down 24%.**

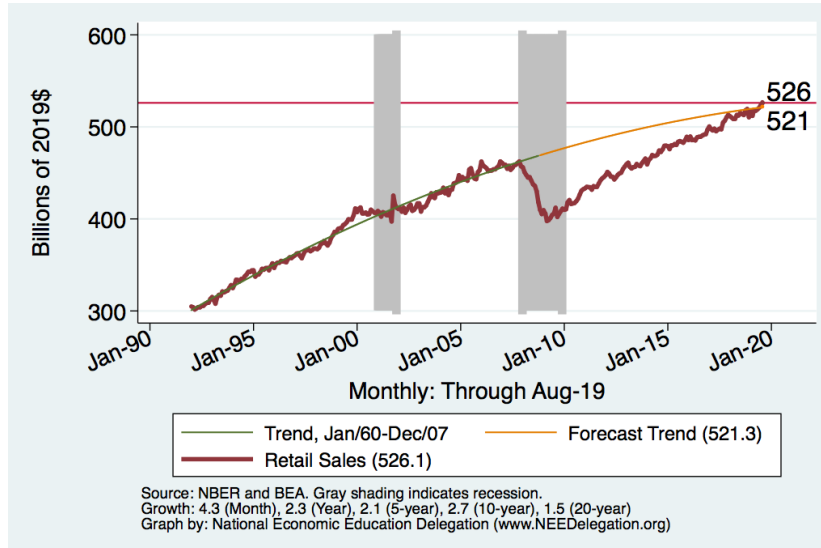
Household Debt as a Share of GDP



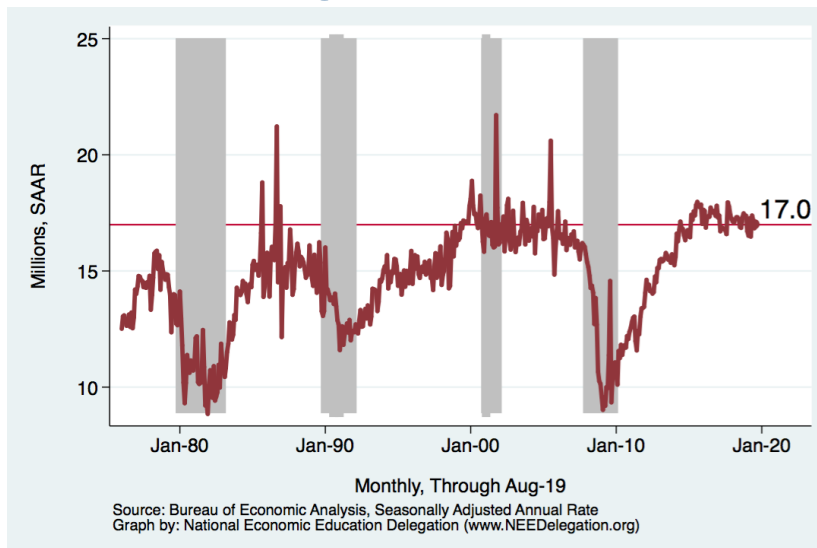
Personal Savings



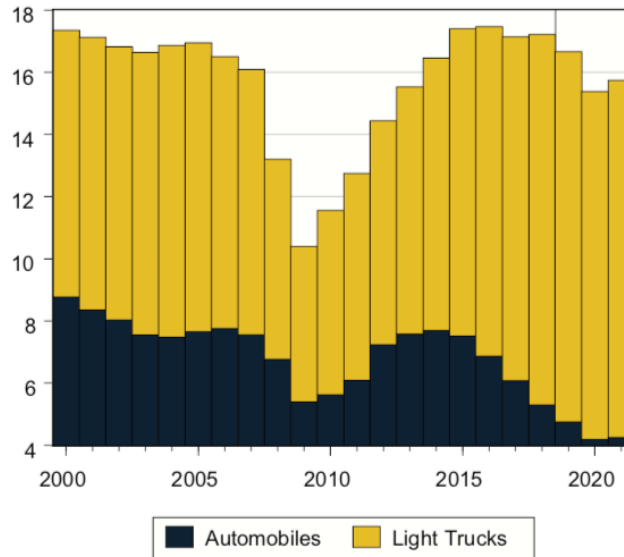
Retail Sales



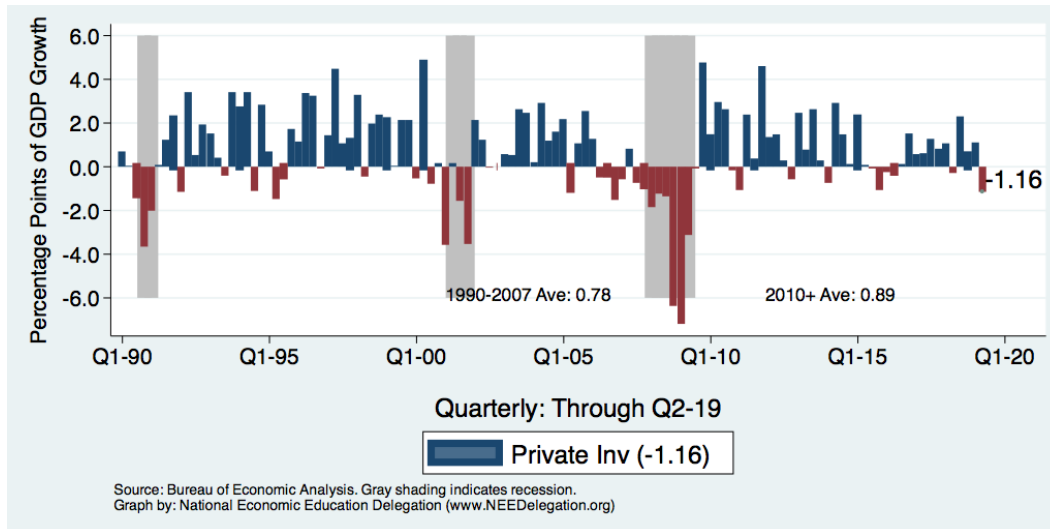
Automobile and Light Truck Sales



Automobile and Light Truck Sales - Forecast

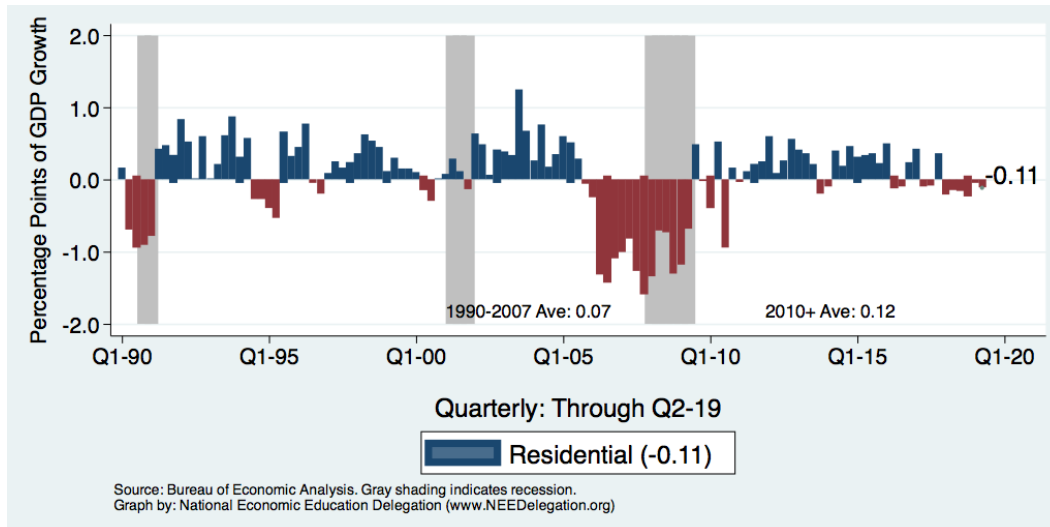


Contributions to GDP: Private Investment

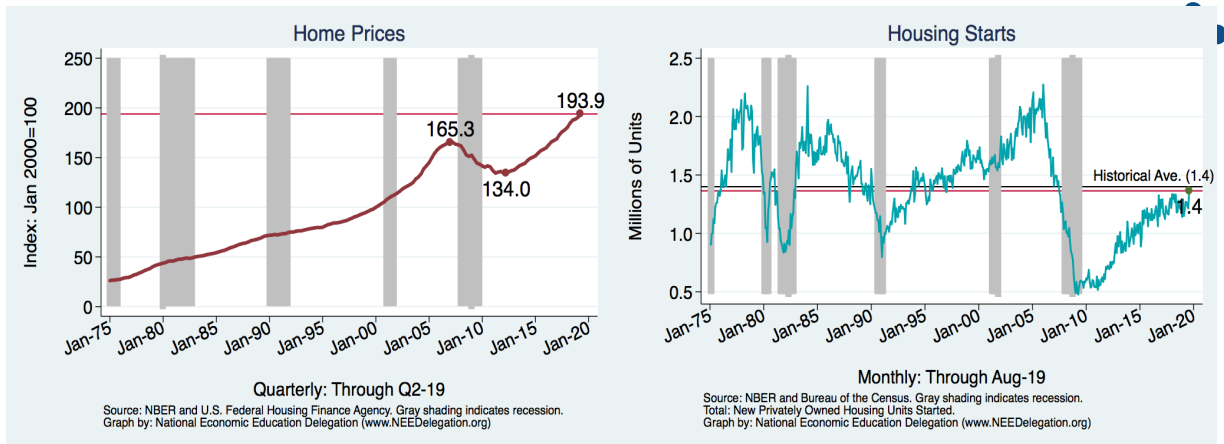


Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

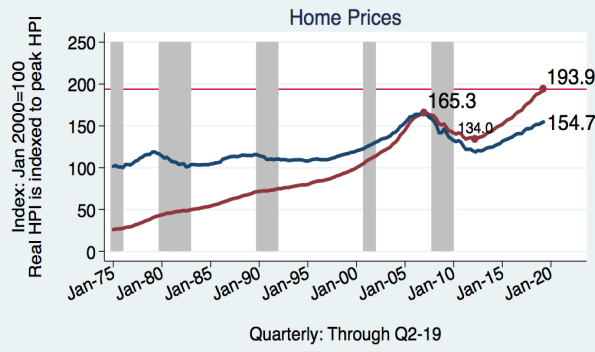
Contributions to GDP: Residential Investment



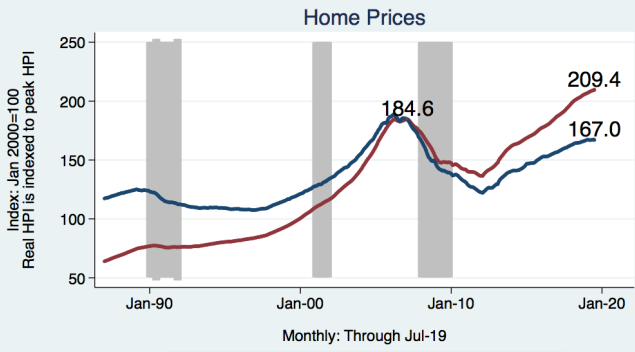
Home Prices and Housing Starts



Home Prices: Inflation Adjusted

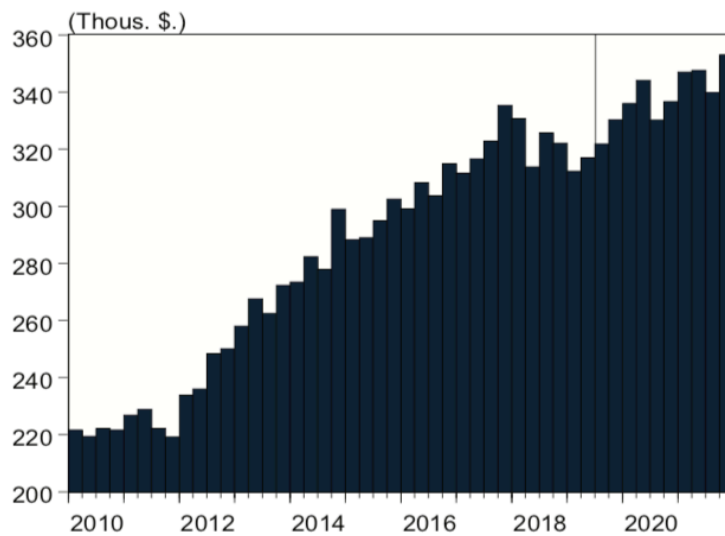


Source: NBER and U.S. Federal Housing Finance Agency. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

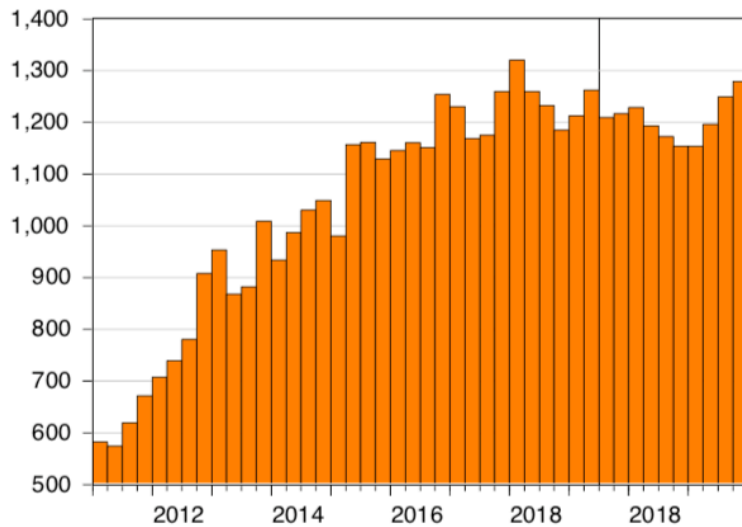


Source: NBER and S&P. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

U.S. Median Single Family Home Prices



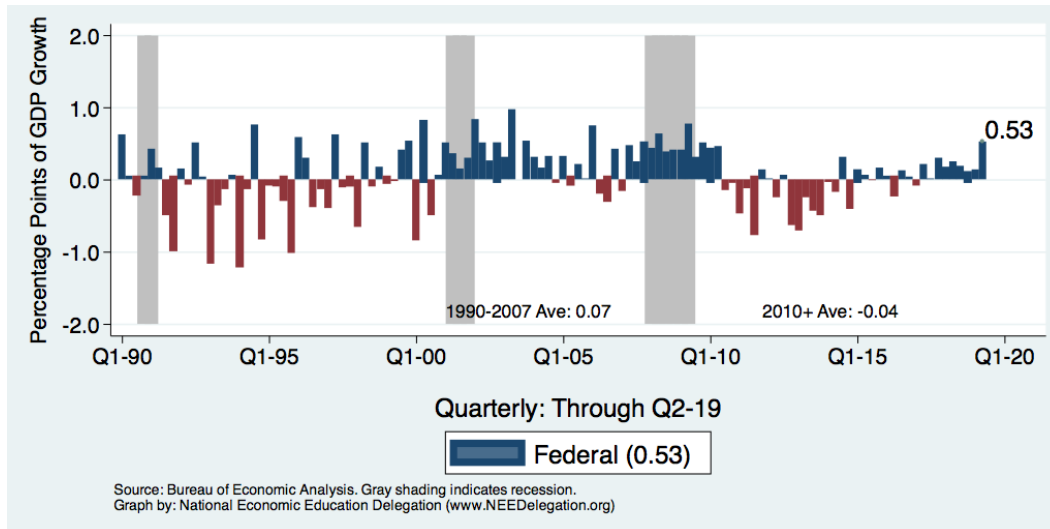
Housing Starts: Forecast



UCLA Anderson Forecast: September 2019 Economic Forecast

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Contributions to GDP: Government

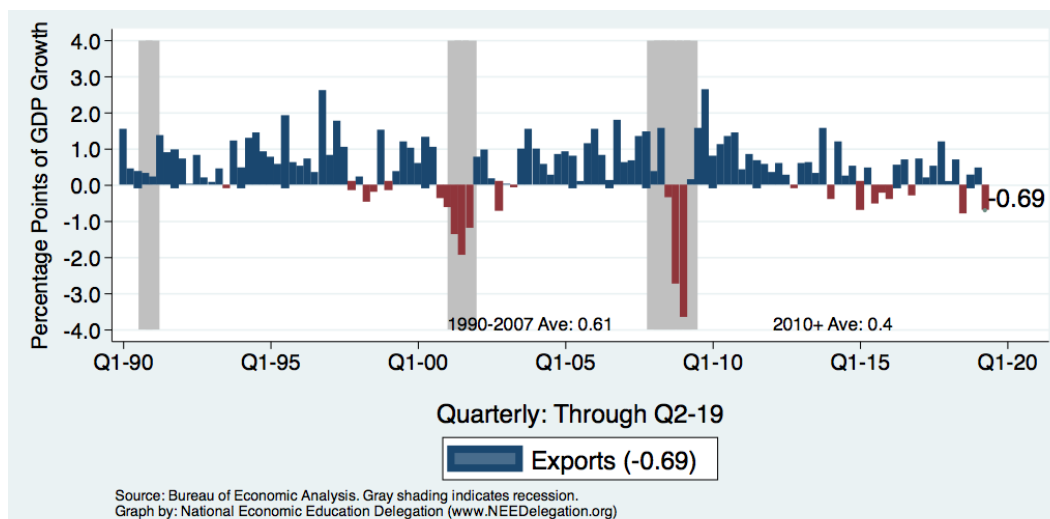


Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)



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Trade's Contribution to GDP: Exports



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Expenditure Summary

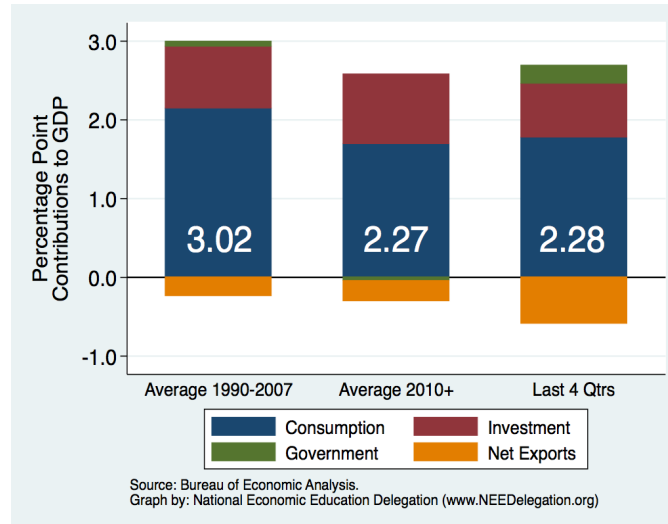
- **Post-recession consumption is down:**
 - Retail sales are returning to trend;
 - Household debt down, but climbing;
 - Personal savings is up.
- **Investment expenditures are contributing more to GDP growth.**
 - Last quarter notwithstanding.
- **Post-recession government spending has been down:**
 - But starting to pick up.
- **Net exports are becoming a drag on growth.**



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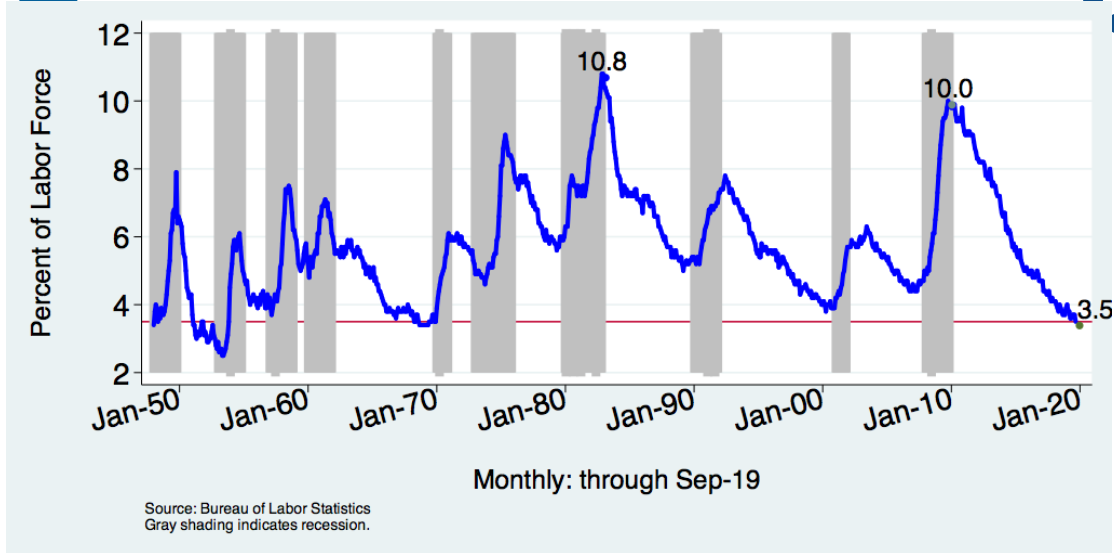
Expenditure Summary



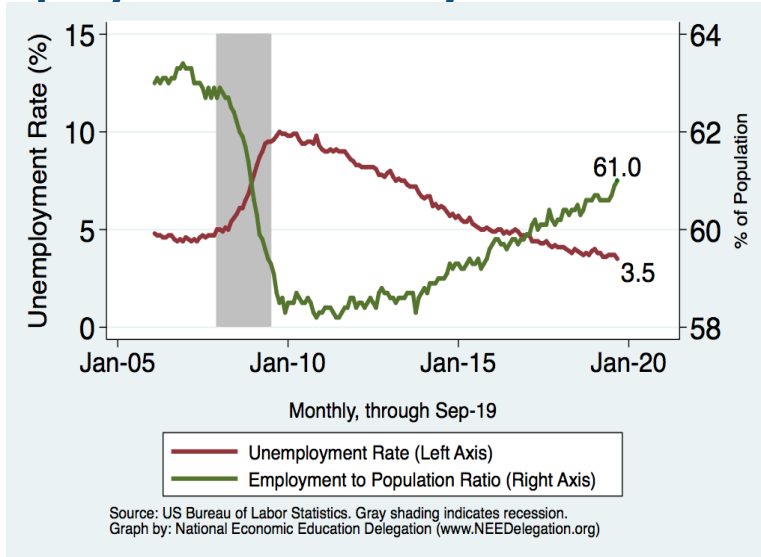
Labor Market Conditions

- Unemployment rate is low, 3.5%.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 154,000 jobs over the last six months. (Peaked at 230,000.)
- **Recent Labor Market Concerns:**
 - Low employment-to-population ratio
 - Falling labor force growth
 - Slow compensation growth

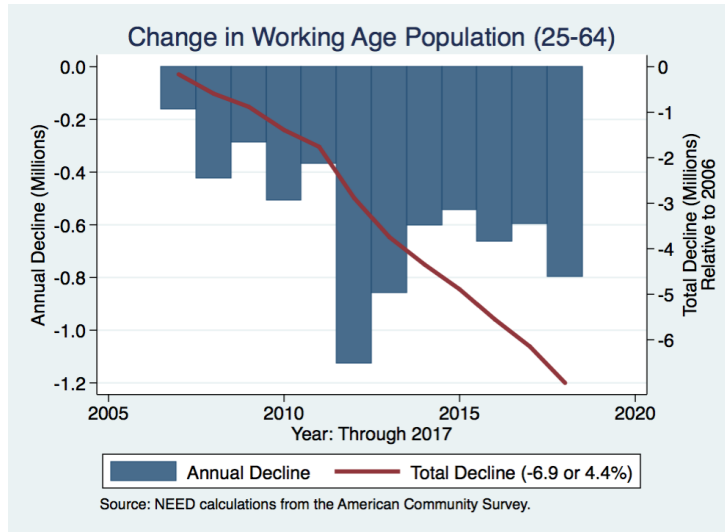
Unemployment Rate



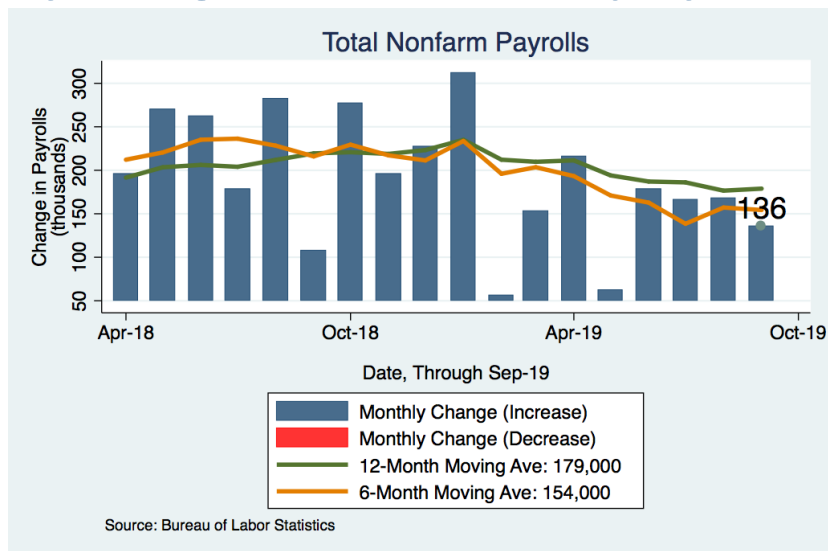
Slow Employment Recovery



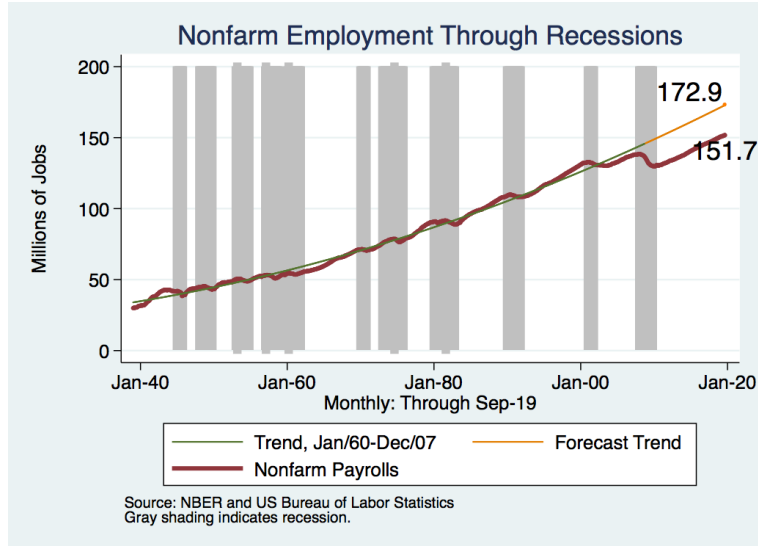
Baby Boomers Are Retiring!



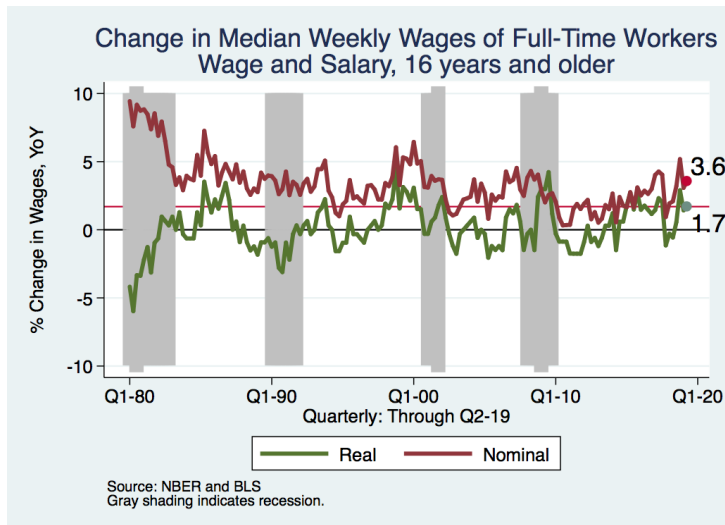
Monthly Changes in Nonfarm Employment



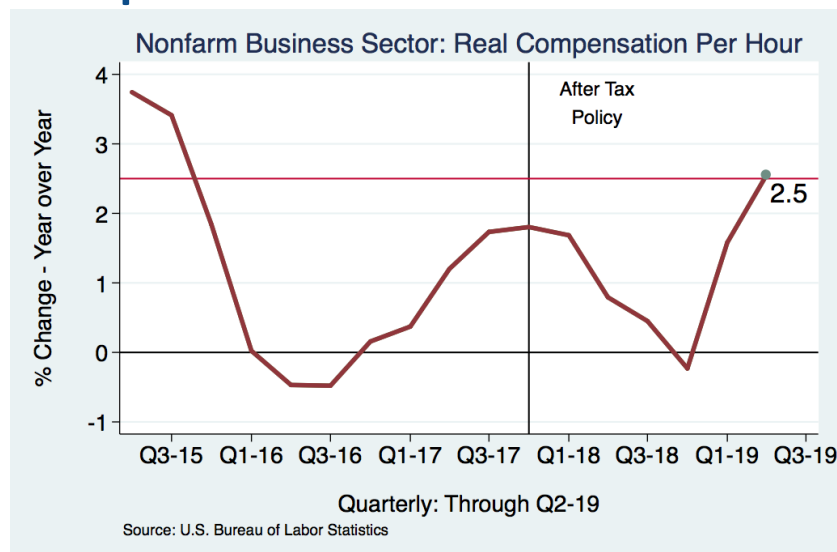
Employment Growth



Wage Growth



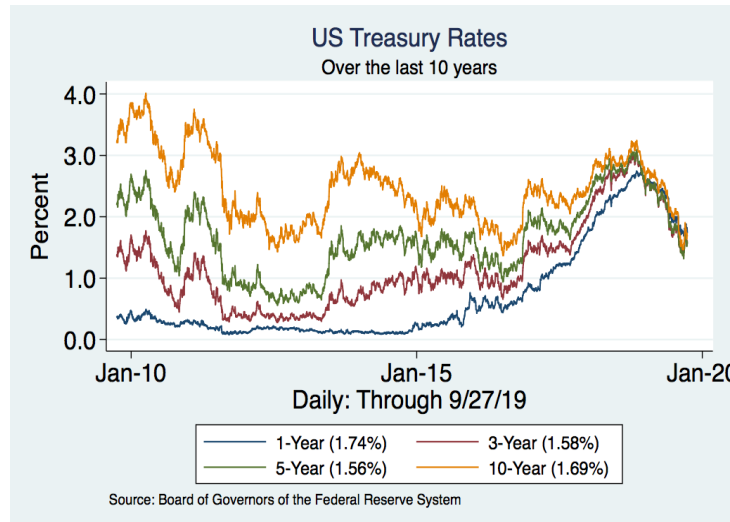
Labor Compensation Growth



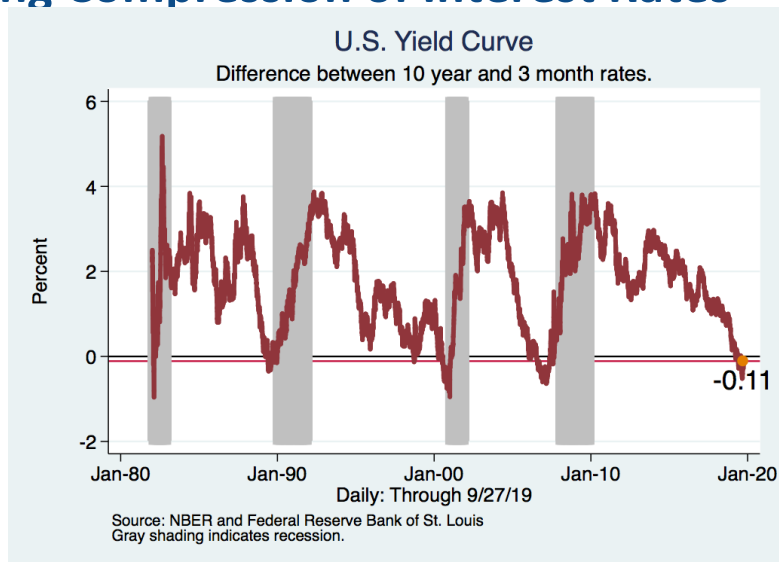
Summary

- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
 - In particular, consumption and government spending have been slow relative to other periods.
- **This tepid growth has led to slow increases in employment.**
 - Although labor markets have tightened, wages have not experienced rapid growth.
- **Productivity growth has played little role in growing GDP.**
 - Why this is so is not immediately clear.

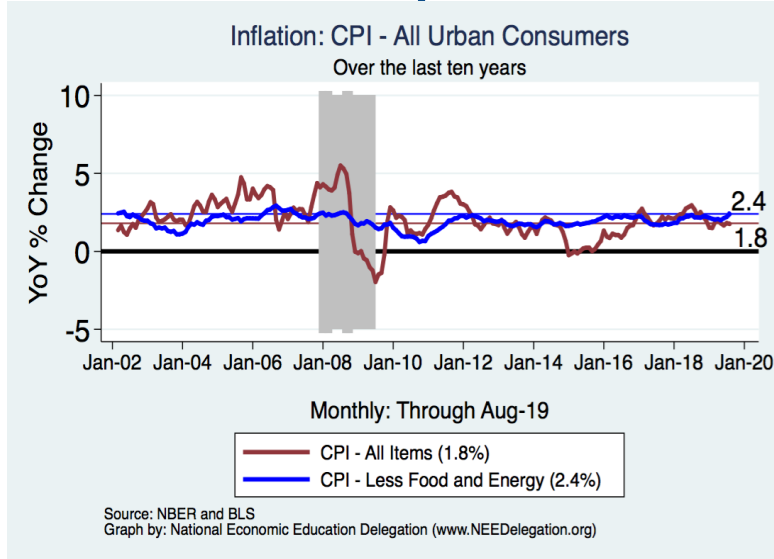
Treasuries



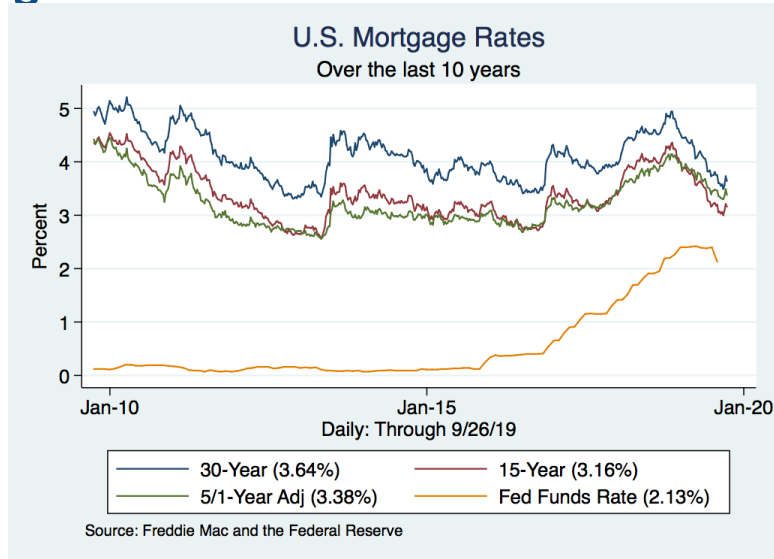
Alarming Compression of Interest Rates



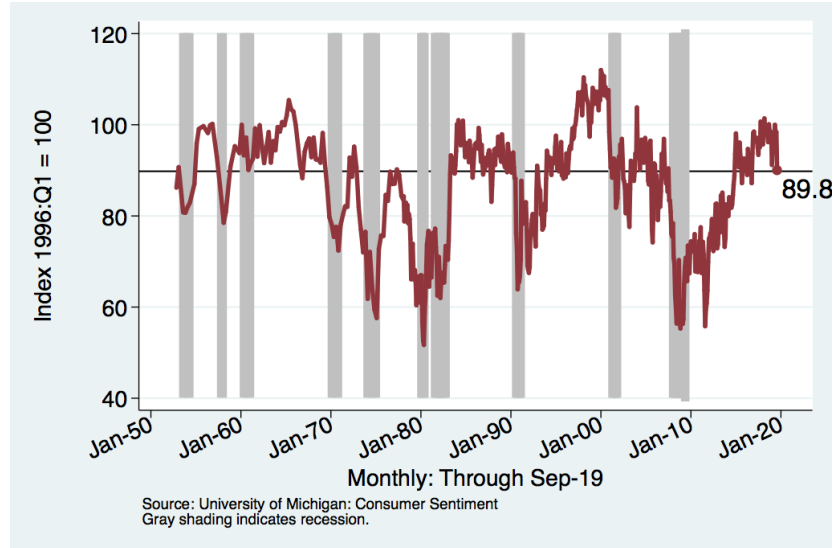
Inflation – Recent Stability



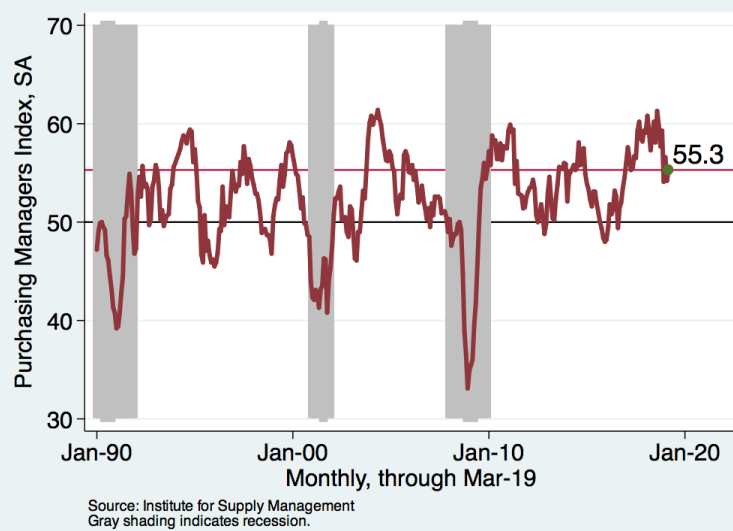
Mortgage Rates



Consumer Confidence: Waning?



Producer Confidence: Not What it Used to be!



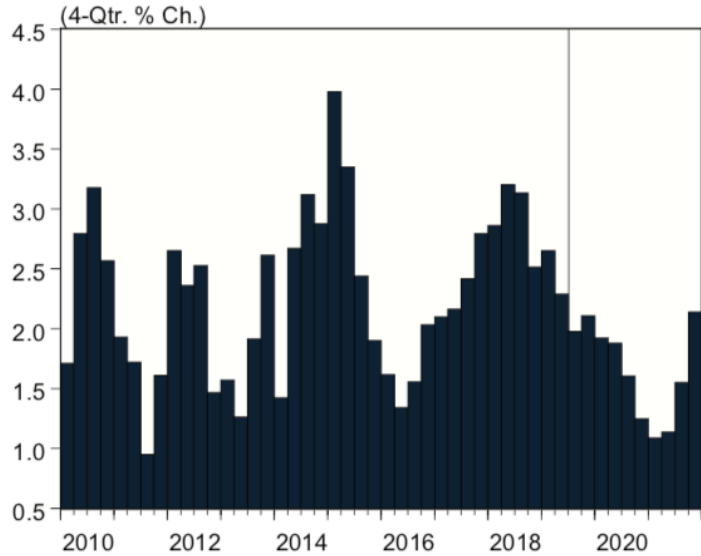
Cautious Outlook

- Job growth remains robust
- Wage growth, but not too much
- Business investment is robust, but will uncertainty bite?
- Inflation and interest rates remain favorable
- Potential source of concern:
 - Auto and light truck sales are slowing
 - Home building is slowing

Things to Be Worried About

- Yield Curve
- Government Debt
- Growth Abroad
- Income and Wealth Inequality
- Infrastructure
- Corporate Debt
- Policy Uncertainty
 - Trade and immigration policy, especially

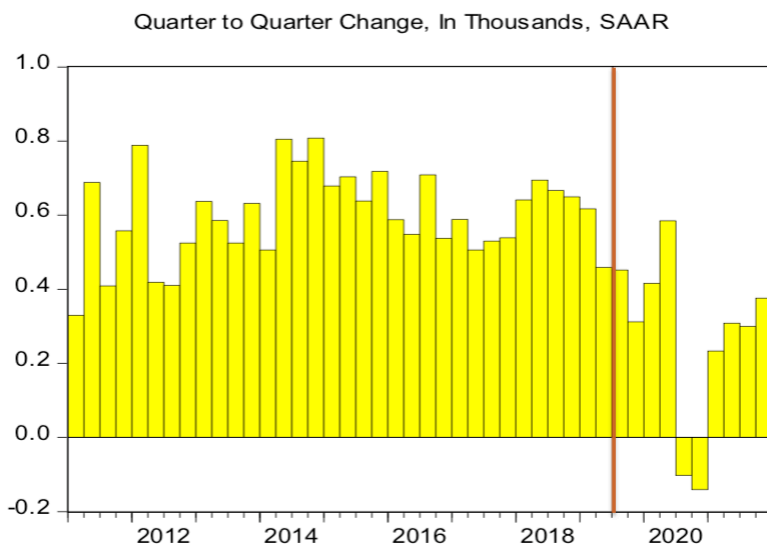
U.S. GDP Forecast



UCLA Anderson Forecast: September 2019 Economic Forecast

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U.S. Employment Forecast



UCLA Anderson Forecast: September 2019 Economic Forecast

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Overall Summary

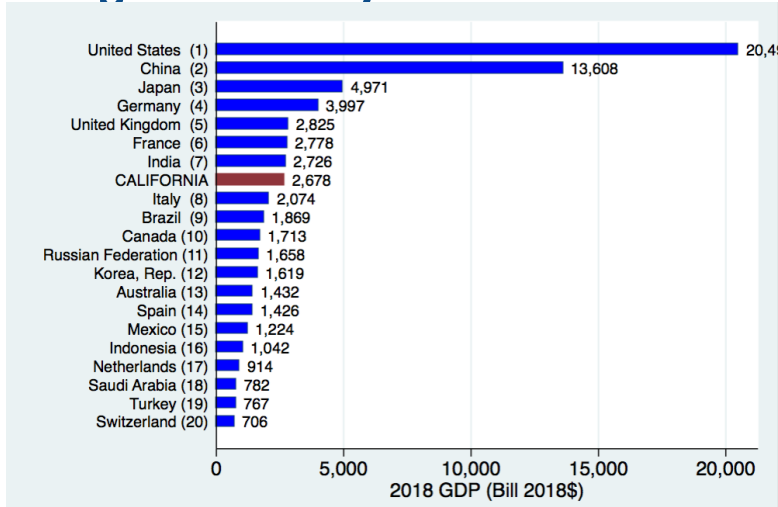
- **Tailwinds and headwinds both exist**
 - Economic forecasts for near term are moderate, but gaining pessimism.
 - 2020 and 2021 forecasts are less sanguine.
- **There remains room for the economy to grow**
 - Labor force growth is available
 - Consumption has room to grow
 - Business investment is slowing
 - Slack in housing markets
- **Long term concerns unaddressed...**
- **Yield curve**



California Economy

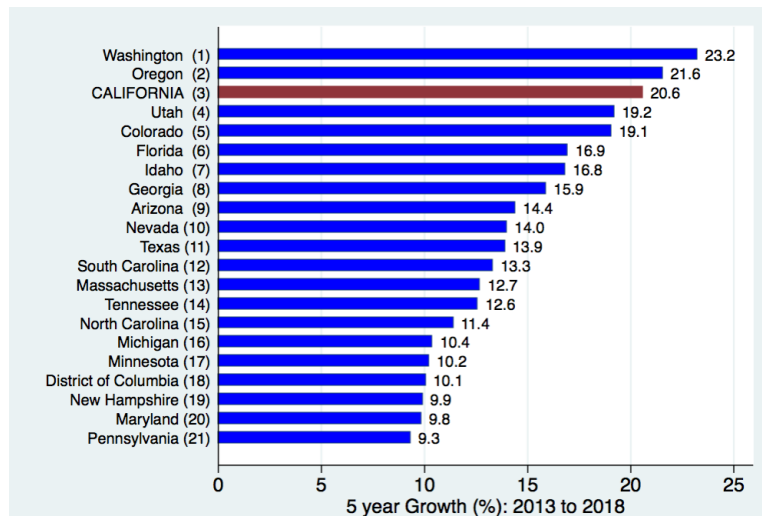


CA – 8th Largest Country



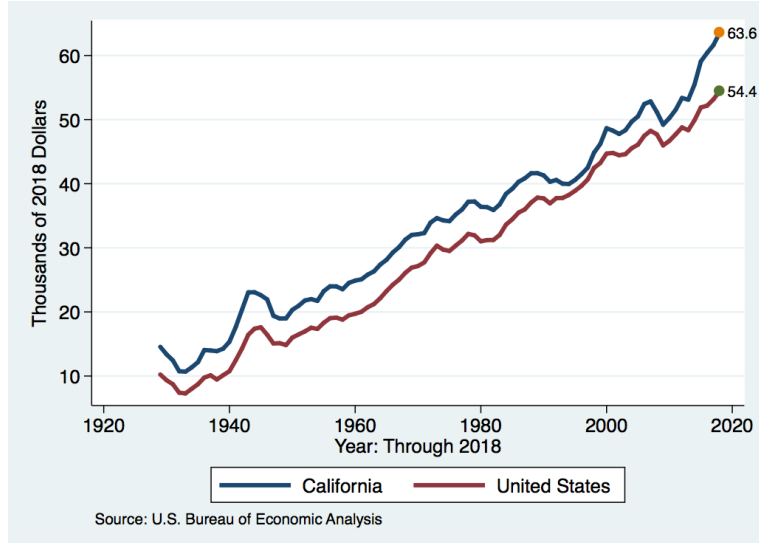
Source: U.S. BEA and World Bank; Calculations by Marin Economic Consulting
The # in parentheses is the ranking out of 188 geographies.

CA – Fast Grower over Last 5 Years

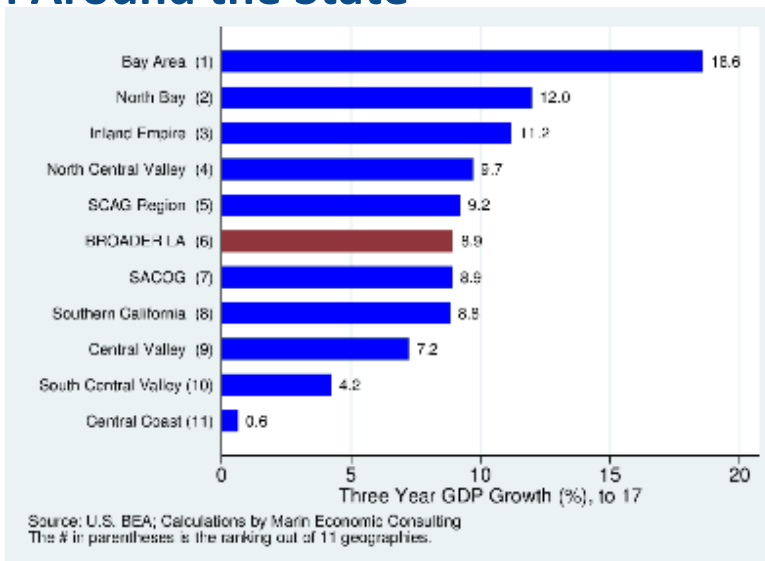


Source: U.S. BEA; Calculations by Marin Economic Consulting

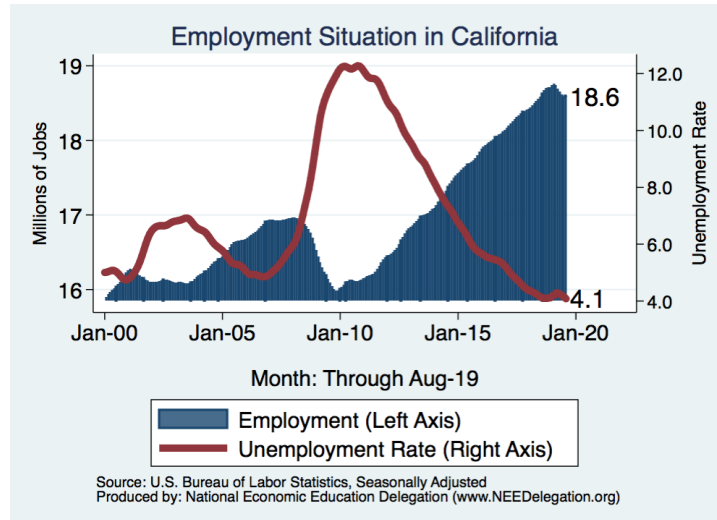
CA — Per Capita Income Growth is Exceptional



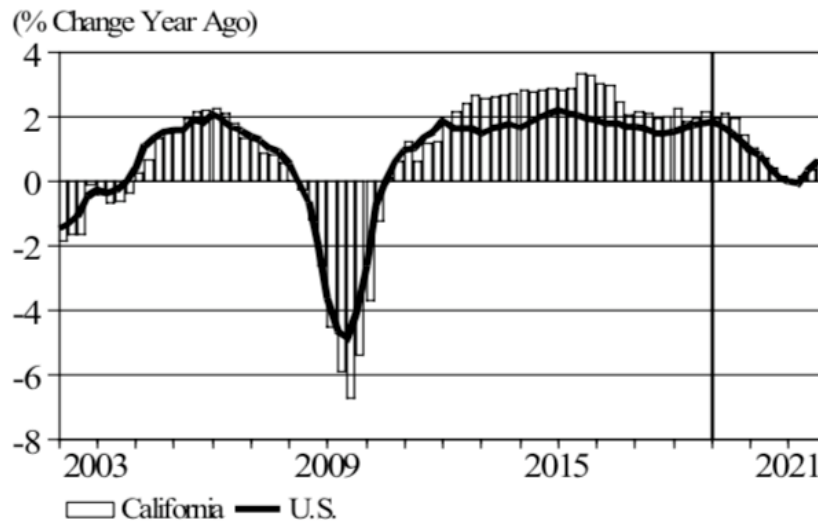
Growth Around the State



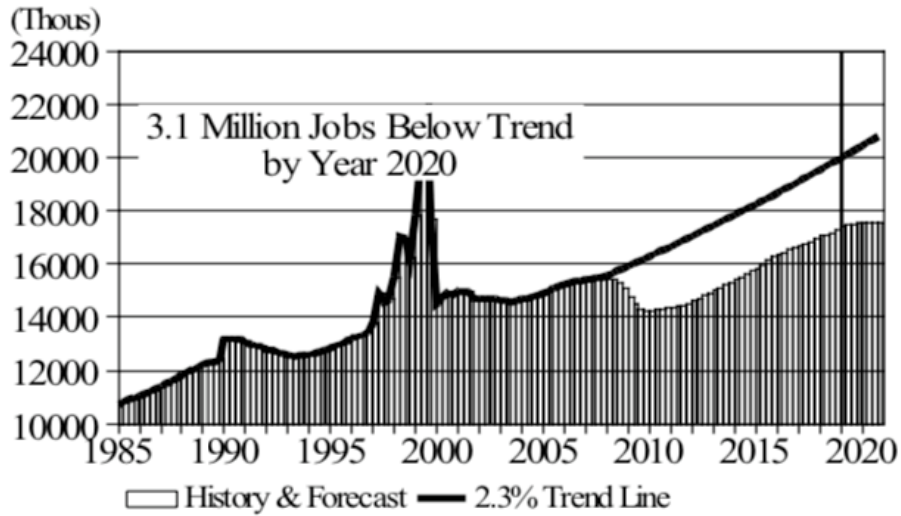
California Employment



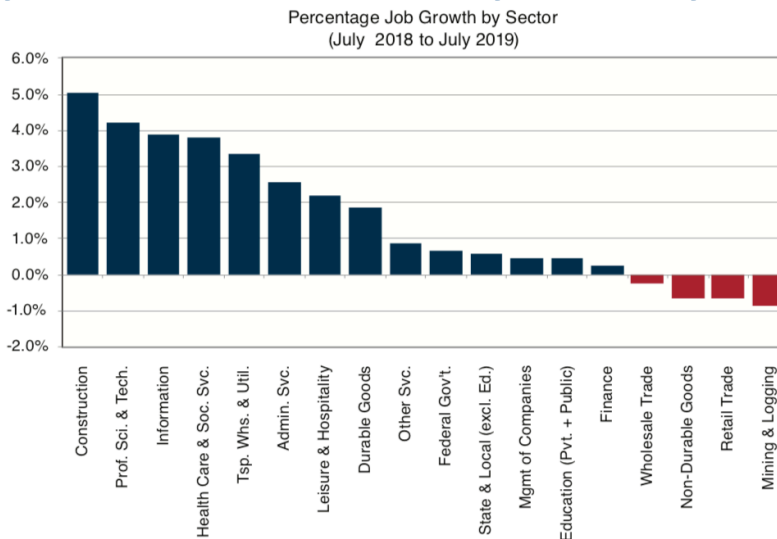
Nonfarm Employment: CA vs U.S.



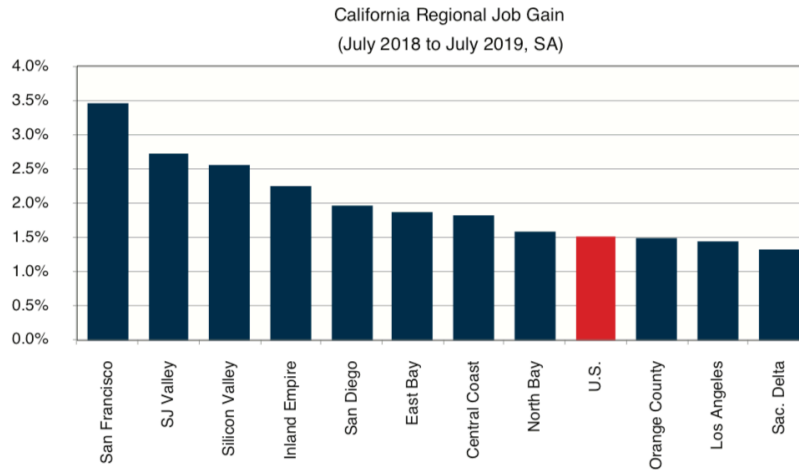
CA Employment: Deviation from Trend



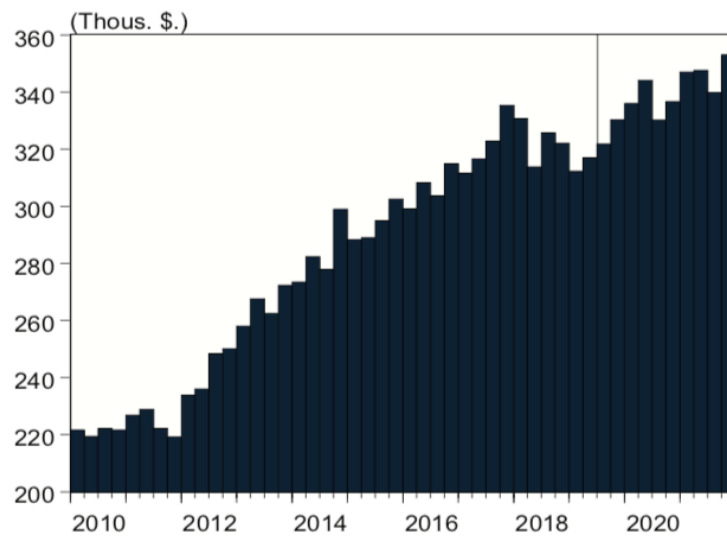
Employment Growth in CA by Industry



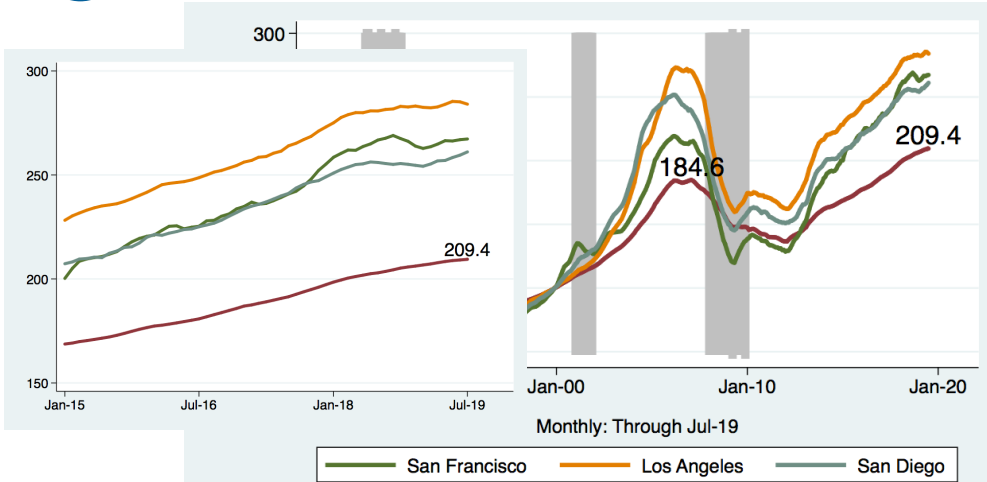
Regional Employment Growth in CA



U.S. Median Single Family Home Prices

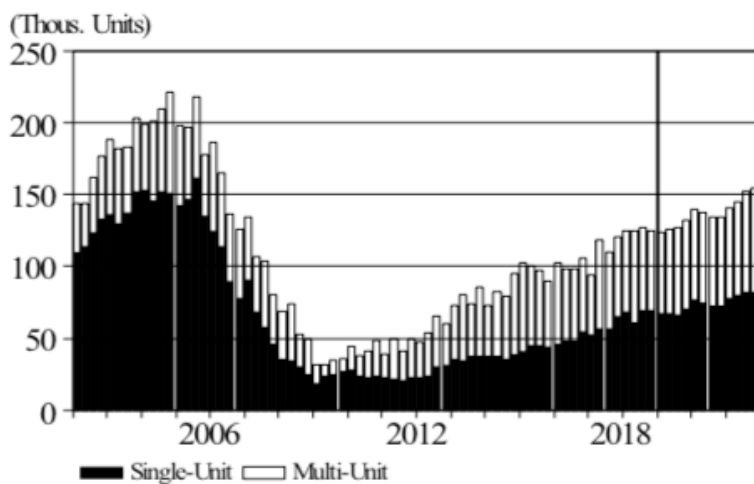


S&P Case Shiller Home Price Indexes

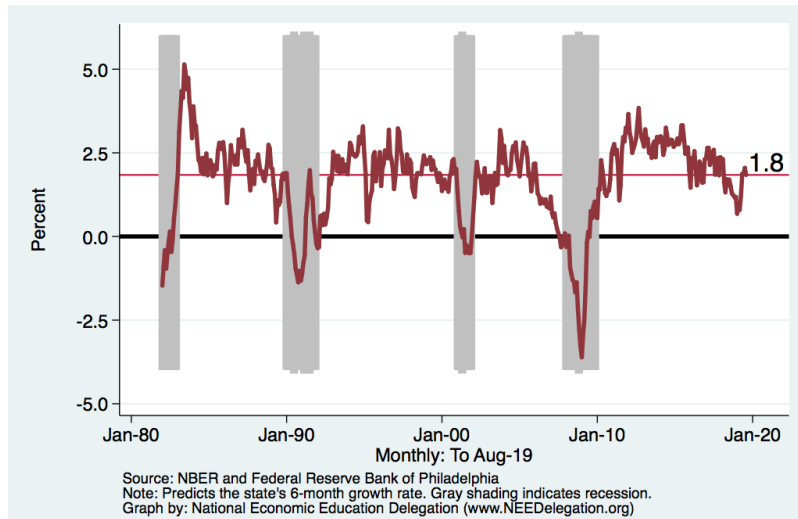


Source: NBER and S&P. Gray shading indicates recession.
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

CA New Residential Units Through Permits



CA Economy: Leading Indicator



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Summary

- **California has generally outpaced the rest of the country during the recovery.**
 - Despite this fast paced growth, CA is well below employment trend.
- **That appears to be changing.**
 - CA employment is expected to grow on par with the US: SLOWLY!
 - The rest of the country is expected to slow considerably, and so is California.
- **Real estate looks robust, but not poised to boom.**
 - Employment growth drives income, drives home prices....
- **Overall: Expect slowing growth in California, as elsewhere.**



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Thank you!

Any Questions?

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