

U.S. Economic Report

March 13, 2020

California Community Colleges
Real Estate Education Center

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Executive Director
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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 intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 47 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: 500+ 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: 45 Ph.D. Economists**

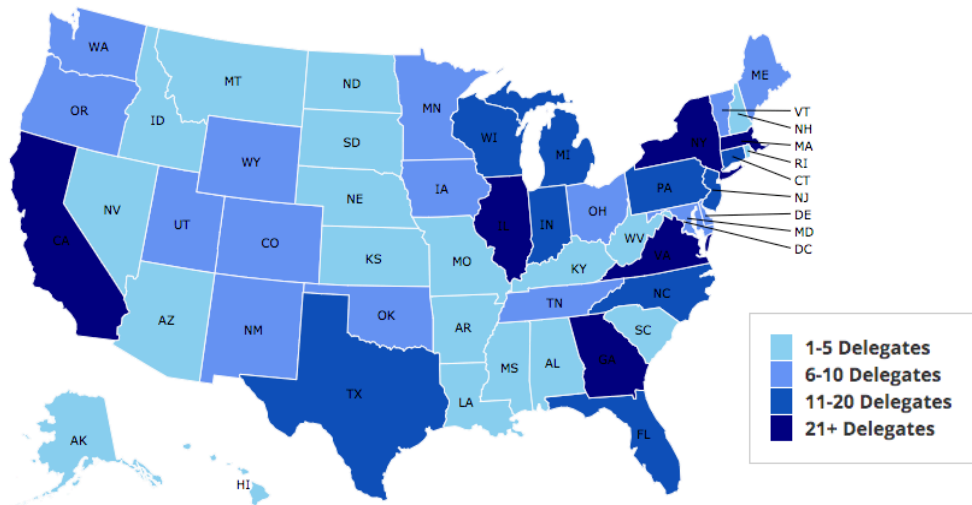
- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



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Additional NEED Resources

• Blog

- Posted:
 - How Economists Think About the Trade Deficit
- Pending
 - The Importance (or not) of Bilateral Trade Deficits
 - About the Federal Budget Deficit

• Webinars

- Tuesday, March 17
 - Coronavirus Economics
- Coming
 - Climate Change Economics
 - Economic Inequality
 - Autonomous Vehicles

Sign up for announcements here: www.NEEDelegation.org/friends.php



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Credits and Disclaimer

- **This slide deck was authored by:**
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- **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).



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Outline – Economic Outlook

- **U.S. Economy**
 - Overall performance
 - Real estate
- **Coronavirus**
- **CA Economy**
 - Overall performance
 - Real estate
- **Summary**

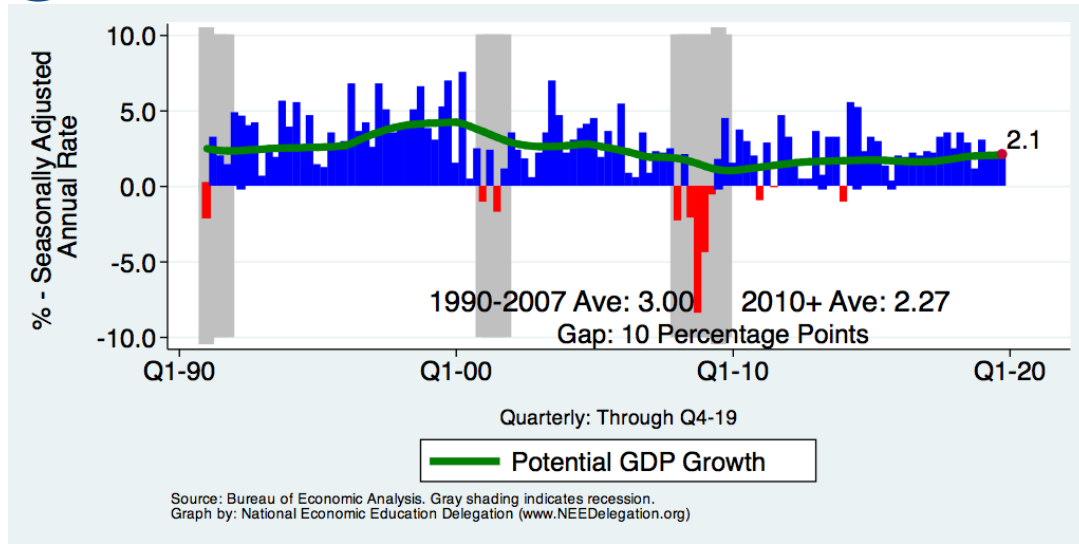


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U.S. Economy

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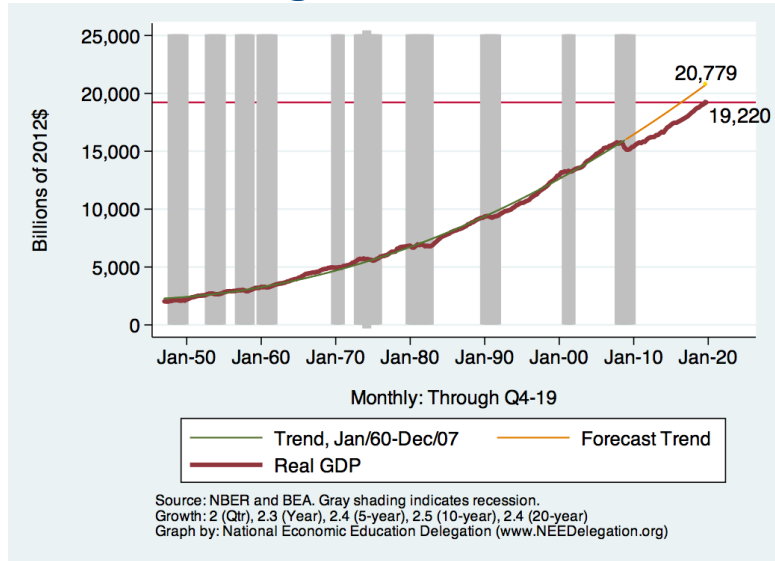
GDP Growth During Economic Recovery



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

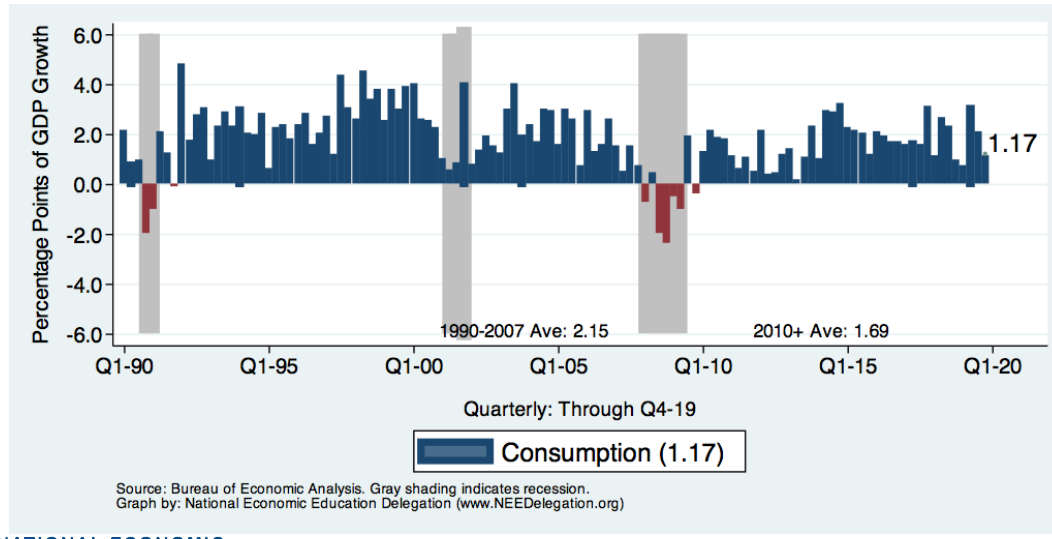
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GDP Relative to Long-Term Trends



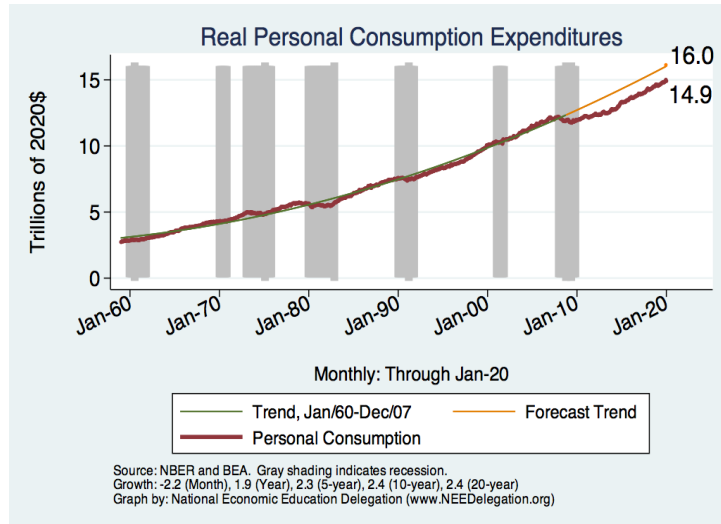
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Contribution to GDP Growth: Consumption



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Personal Consumption Expenditures



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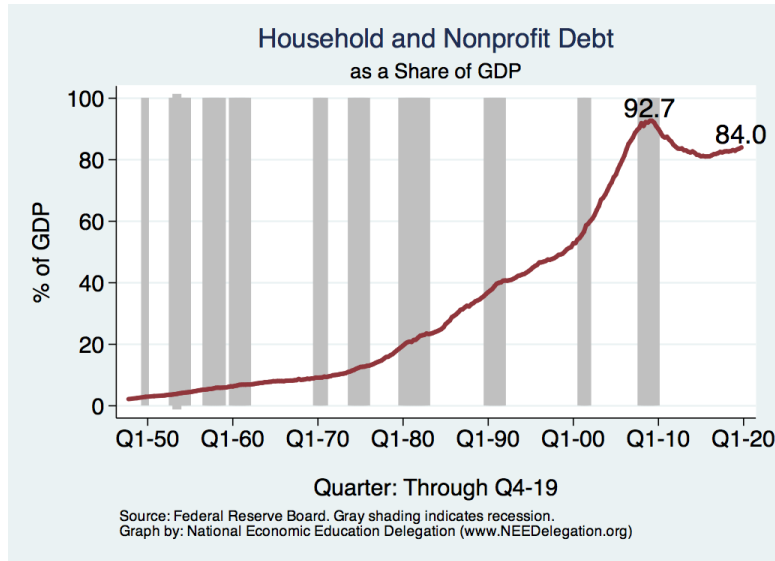
Personal Consumption Expenditures

- **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%.**



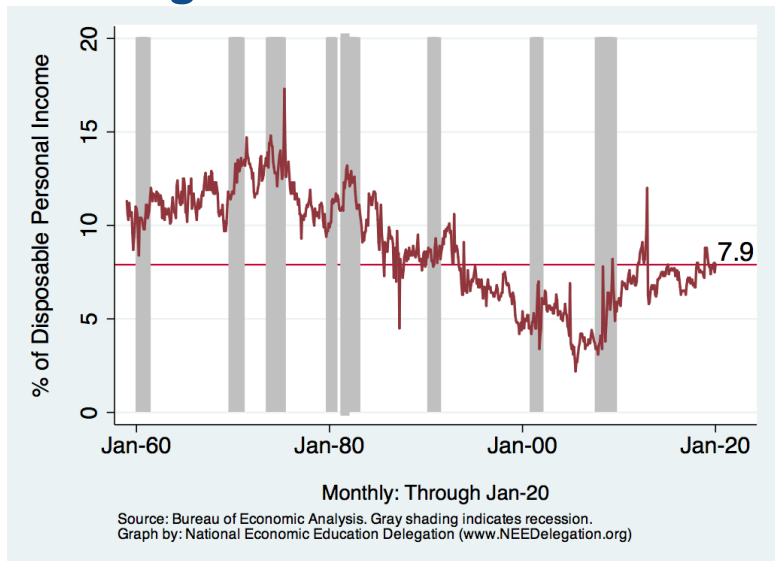
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Household Debt as a Share of GDP



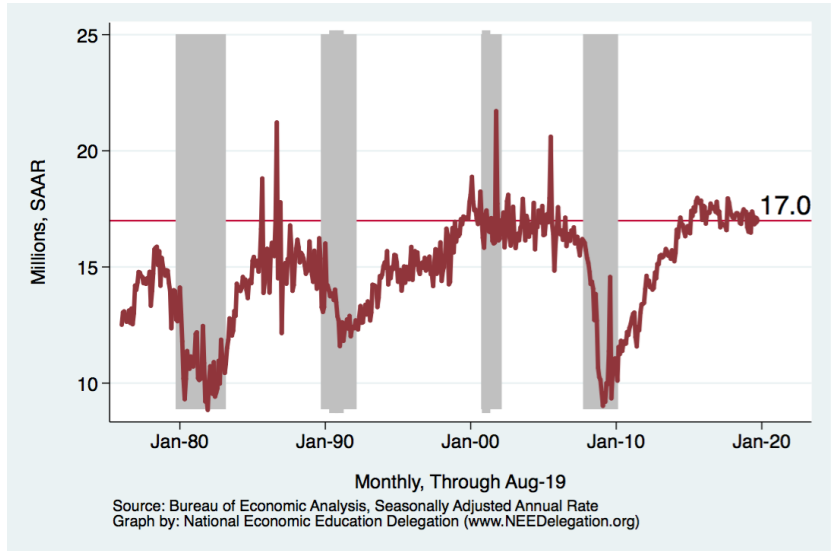
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Personal Savings



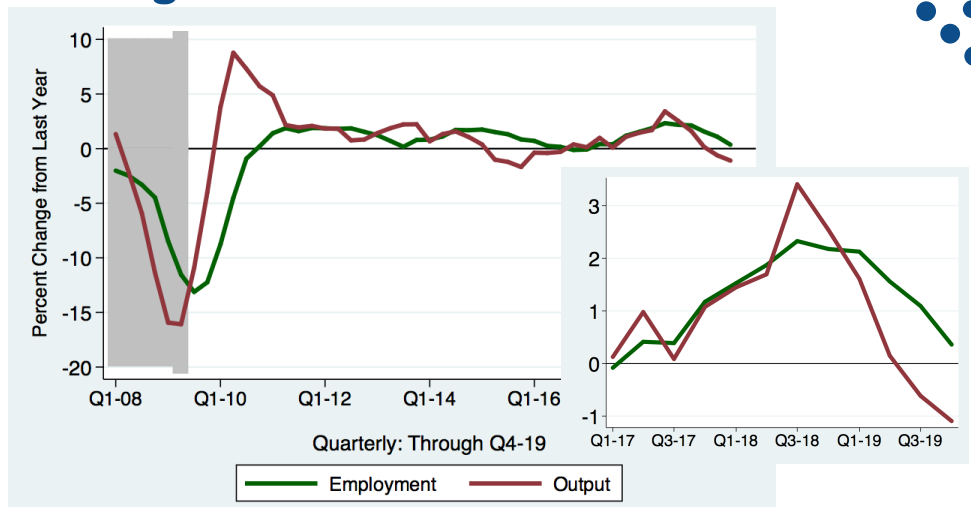
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Automobile and Light Truck Sales



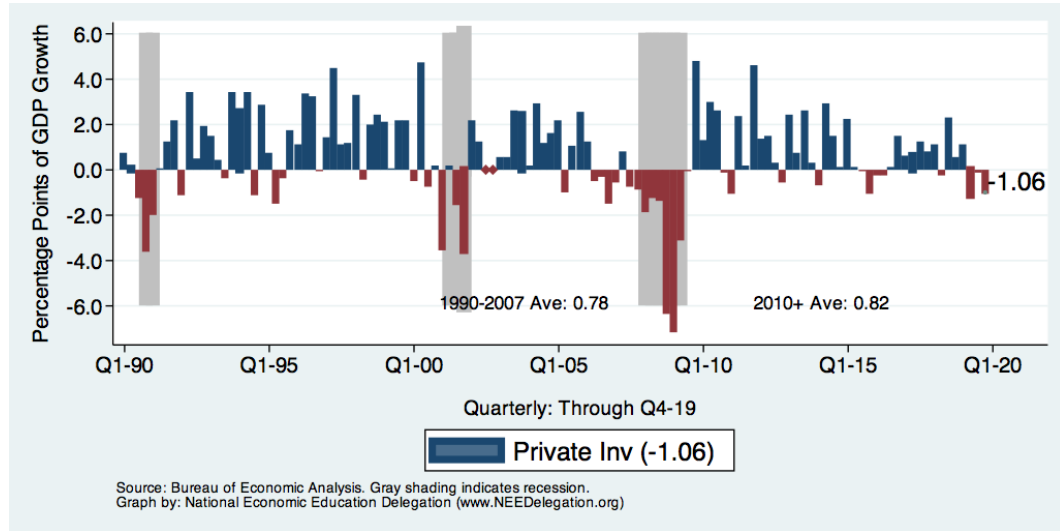
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Manufacturing



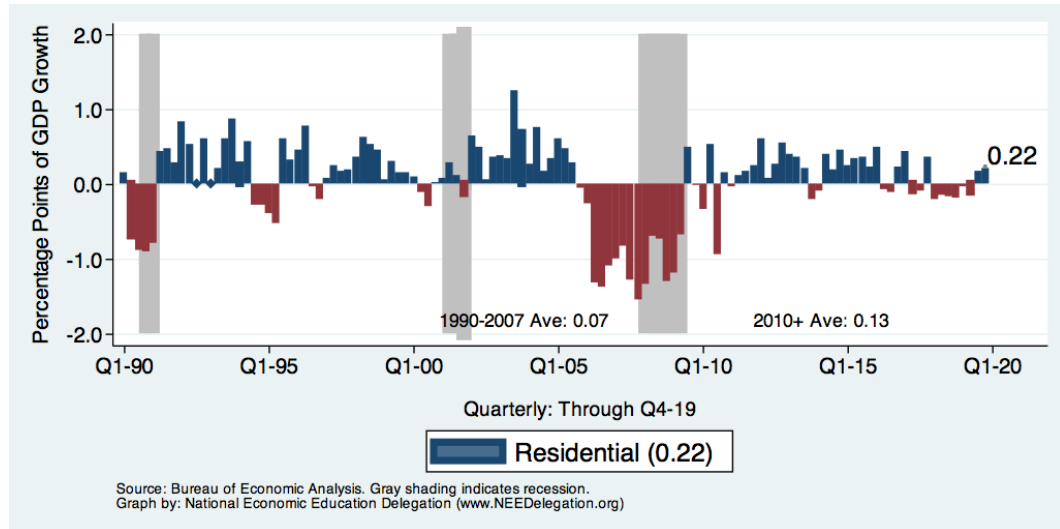
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Contributions to GDP: Private Investment



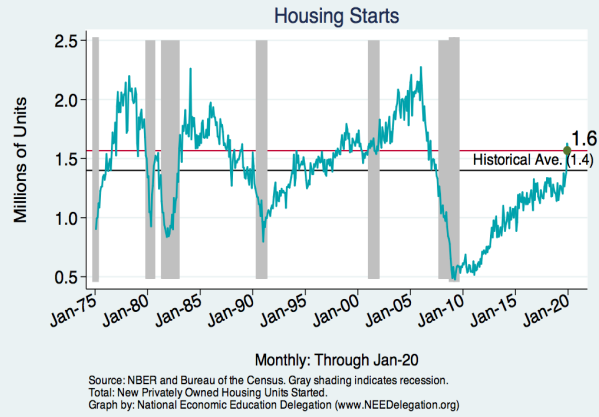
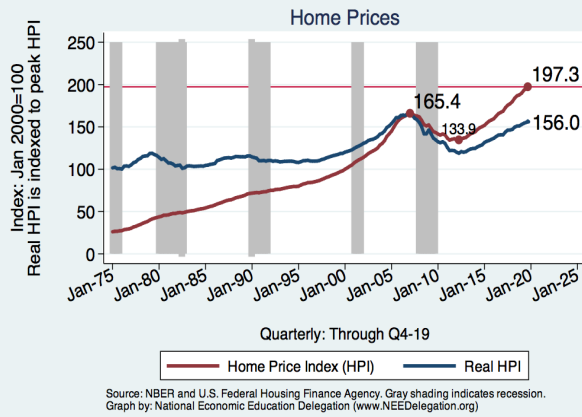
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Contributions to GDP: Residential Investment



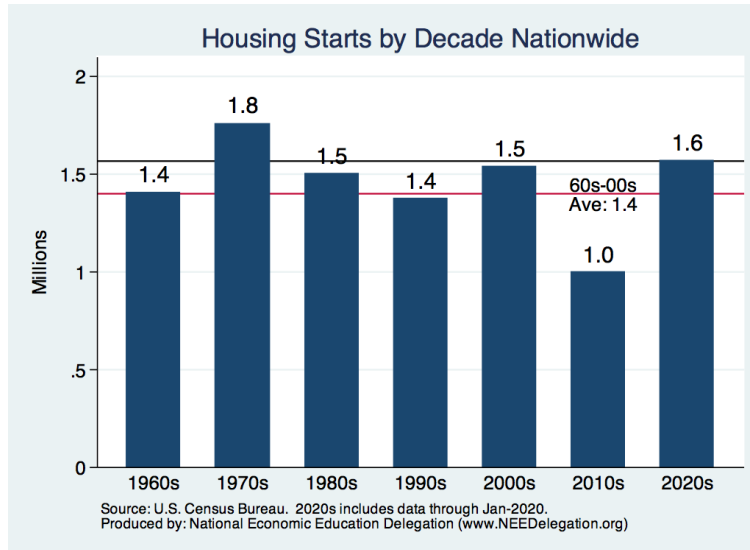
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Home Prices and Housing Starts



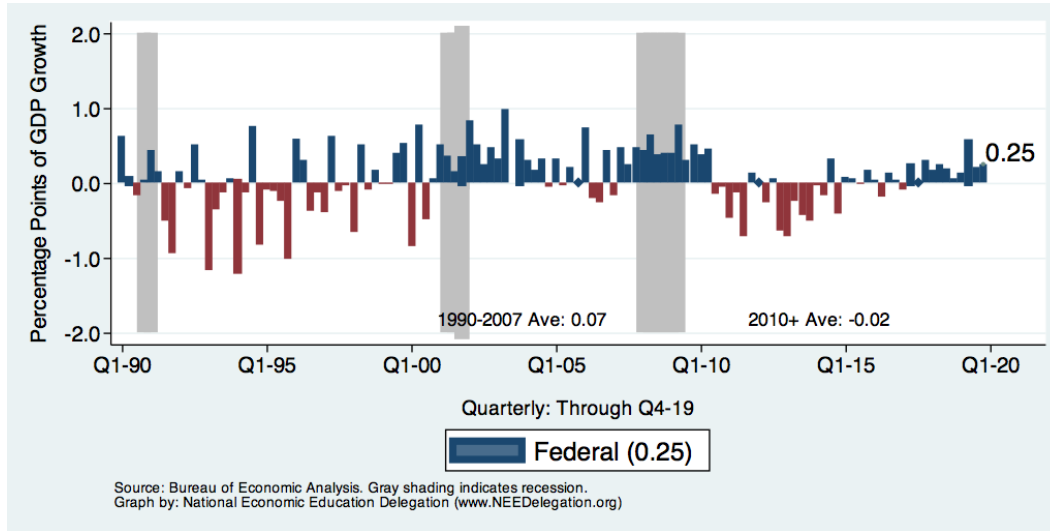
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Recent Housing Growth Has Been Slow



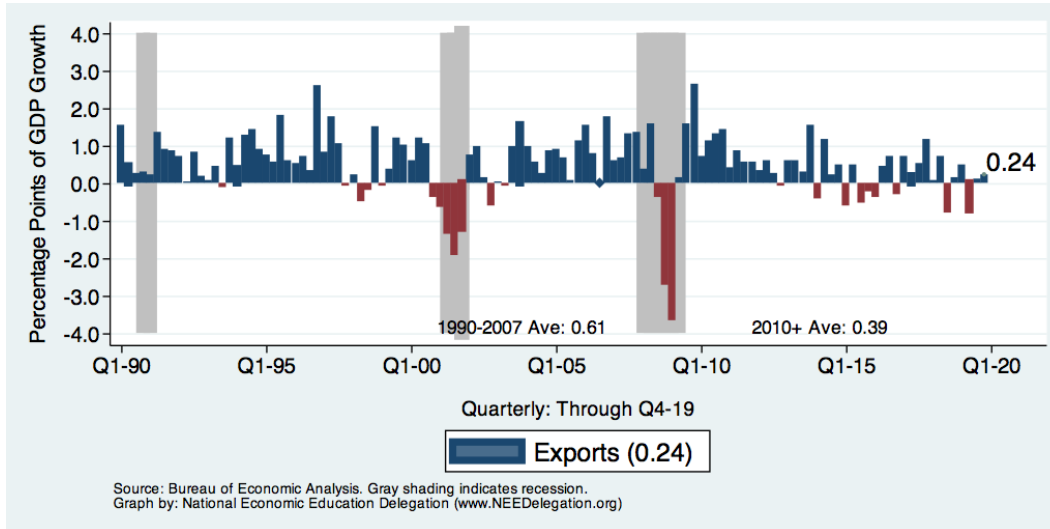
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Contributions to GDP: Government



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Trade's Contribution to GDP: Exports



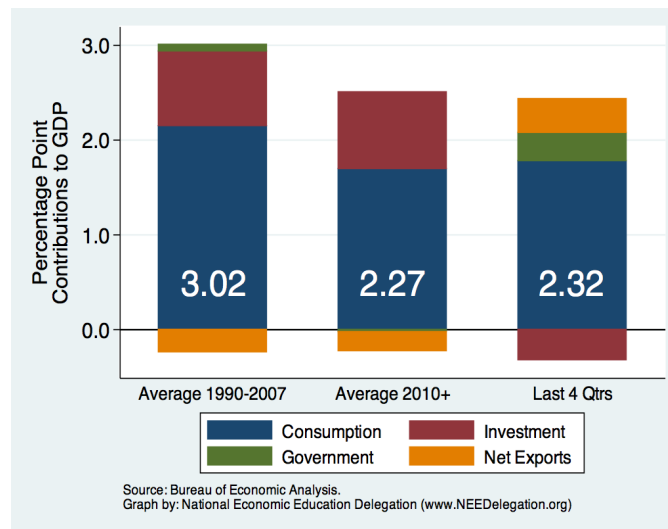
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Expenditure Summary

- **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.
- **Exports are contributing less to growth.**

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Expenditure Summary



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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

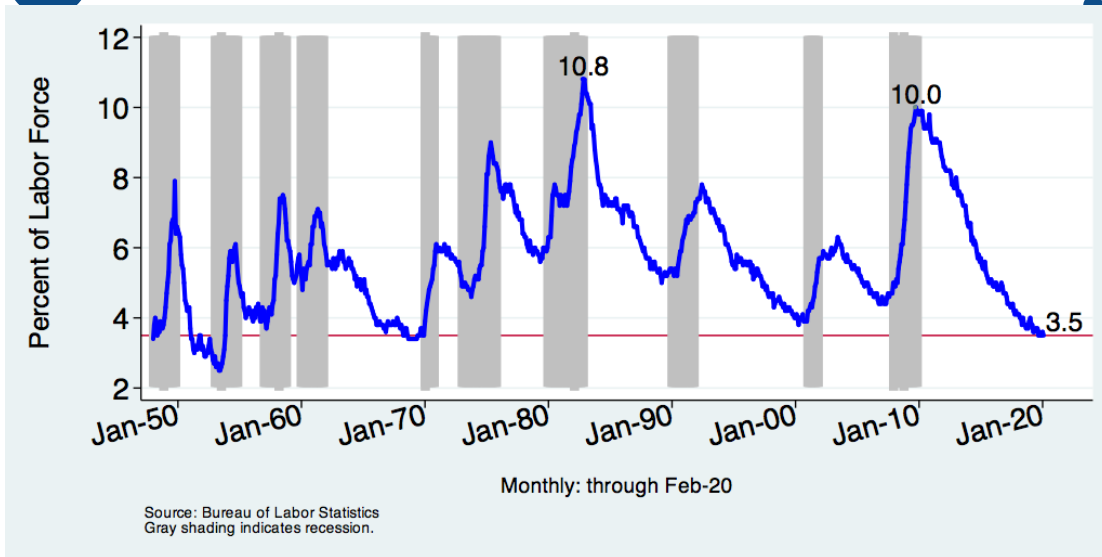


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Unemployment Rate

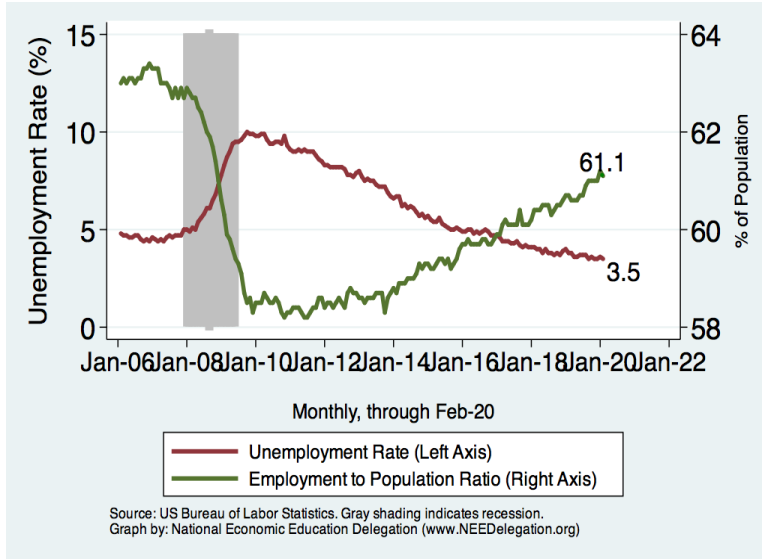


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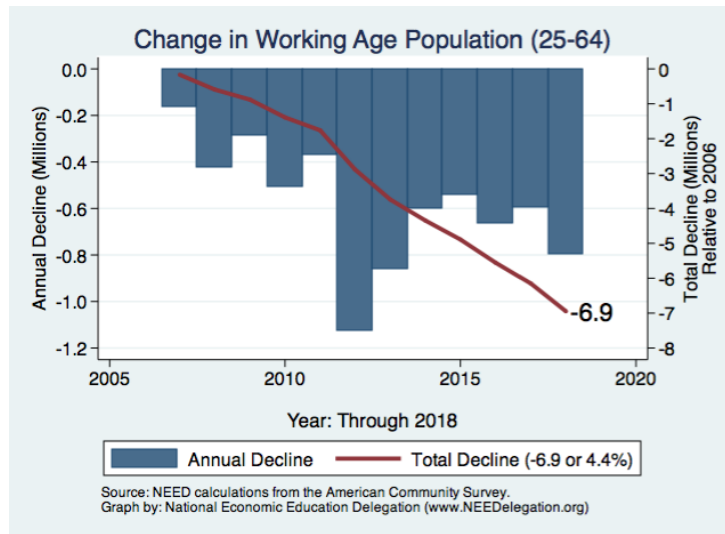
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Slow Employment Recovery



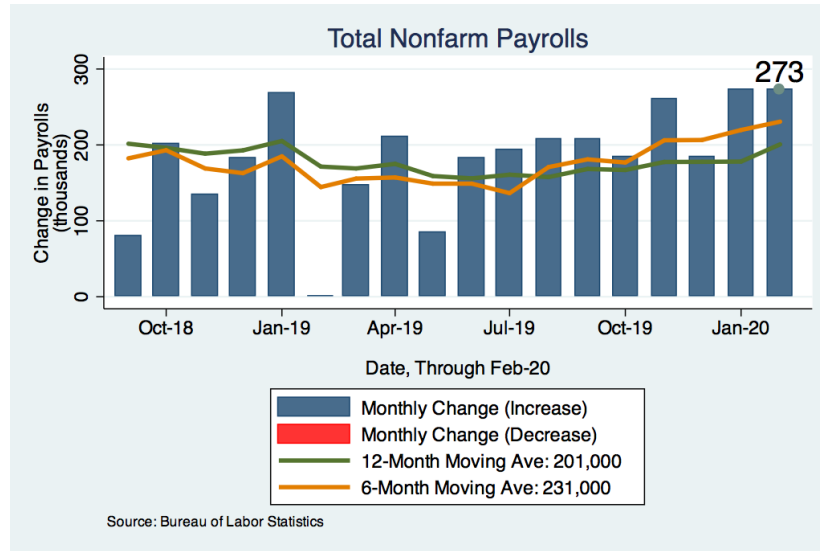
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Baby Boomers Are Retiring!



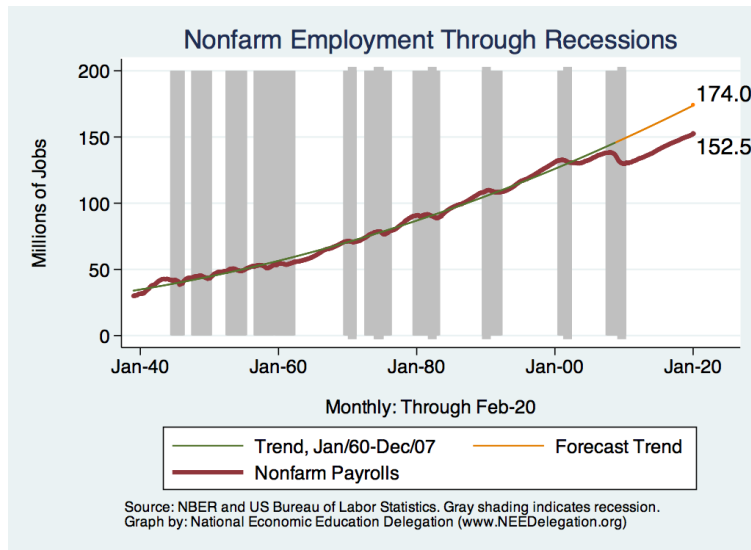
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Monthly Changes in Nonfarm Employment



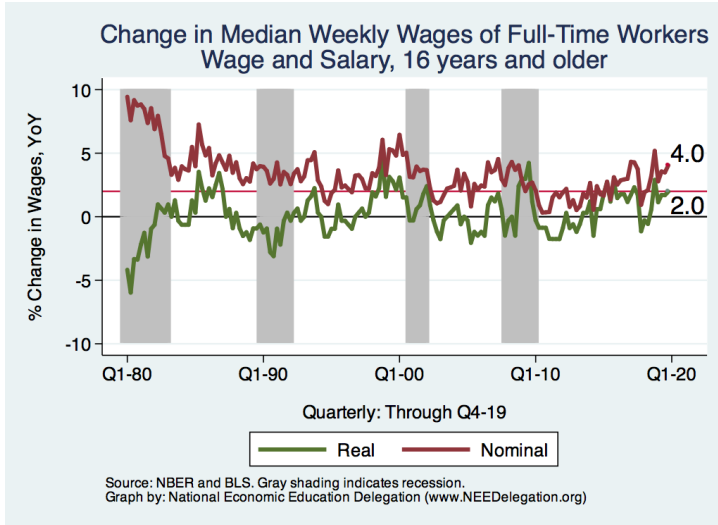
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Employment Growth



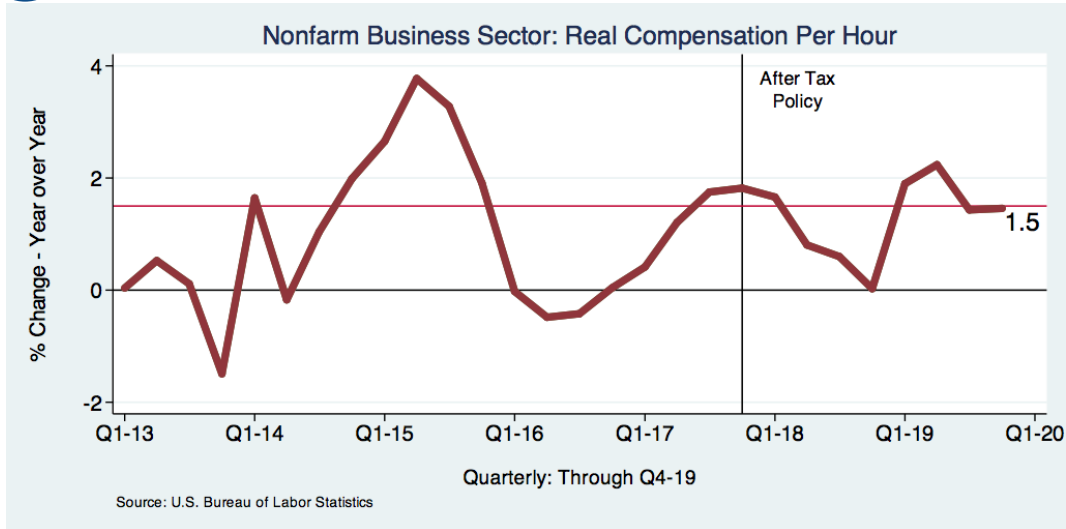
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Wage Growth



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Labor Compensation Growth



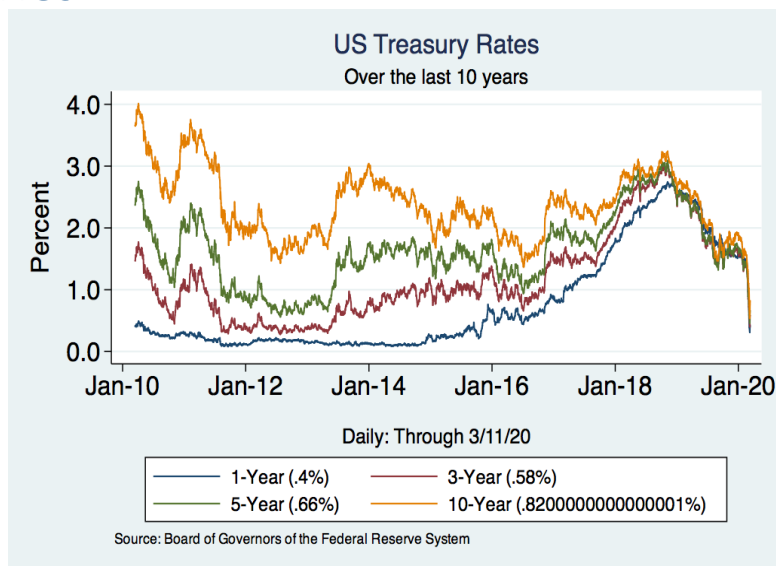
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Summary

- **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 lead 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.

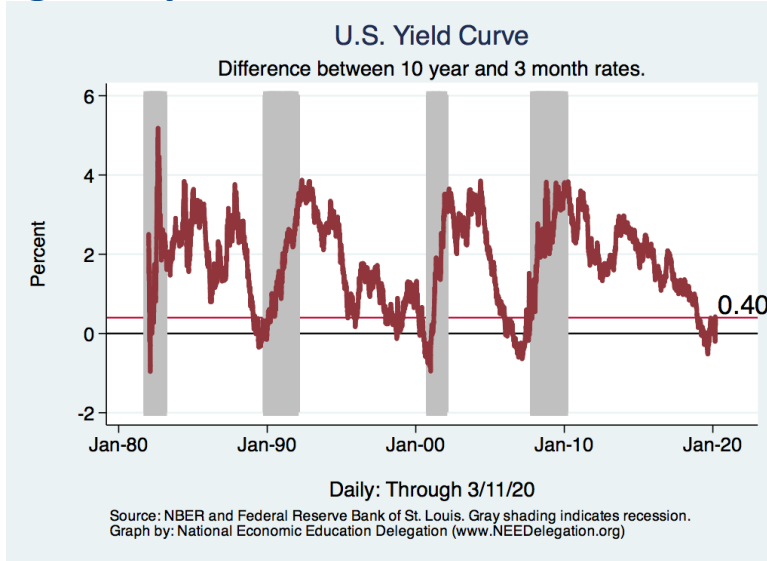
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Treasuries



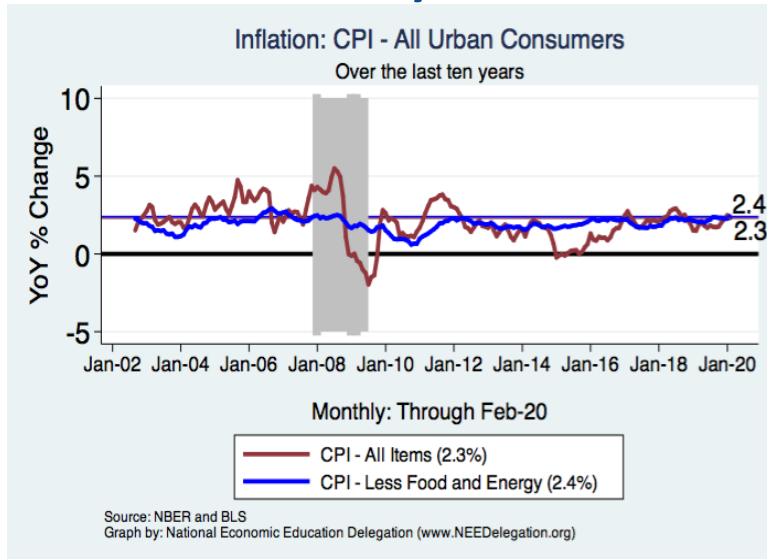
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Alarming Compression of Interest Rates



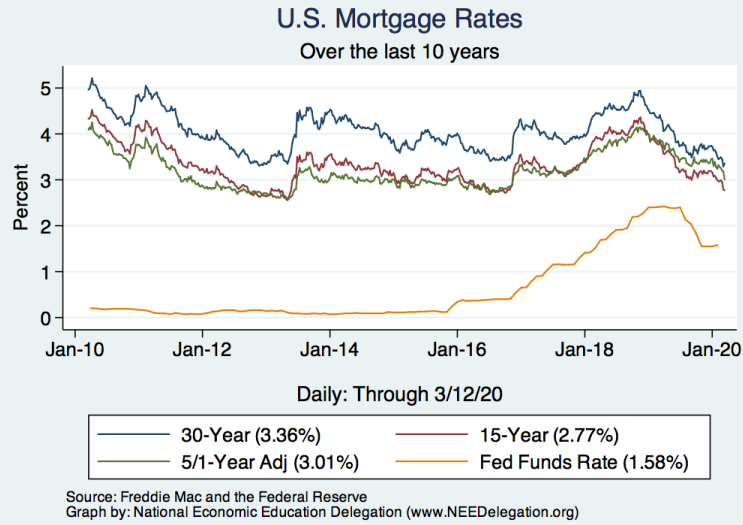
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Inflation – Recent Stability

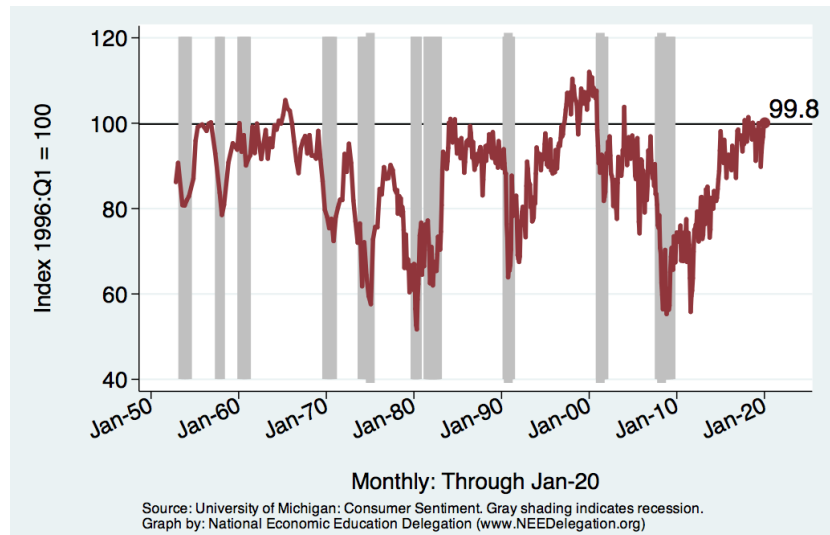


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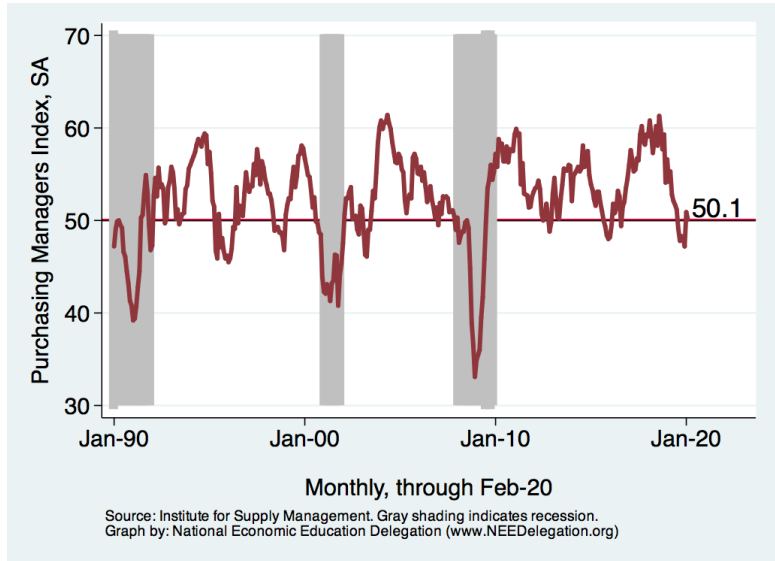
Mortgage Rates



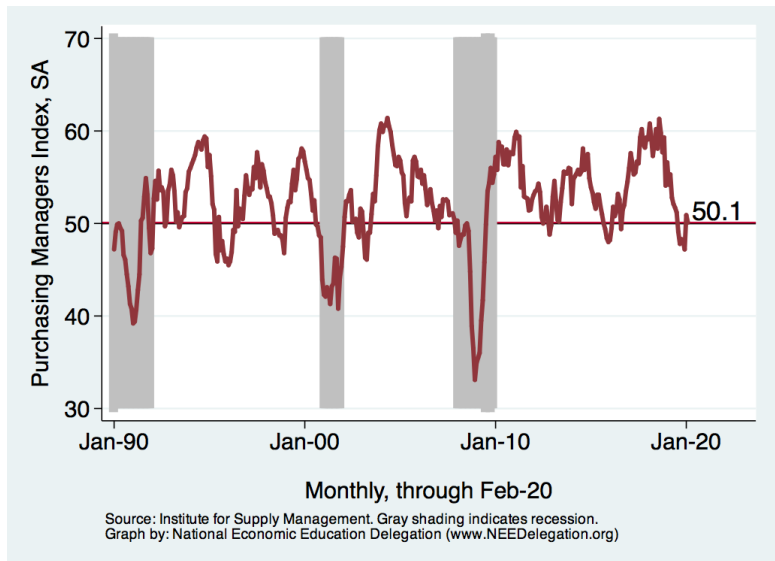
Consumer Confidence: Waning?



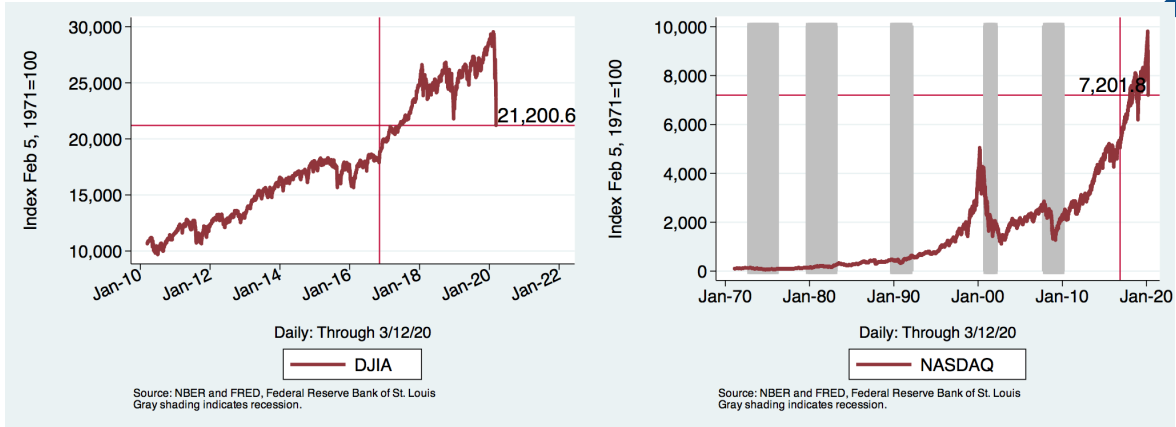
Producer Confidence: Not What it Used to be!



Producer Confidence: Not What it Used to be!

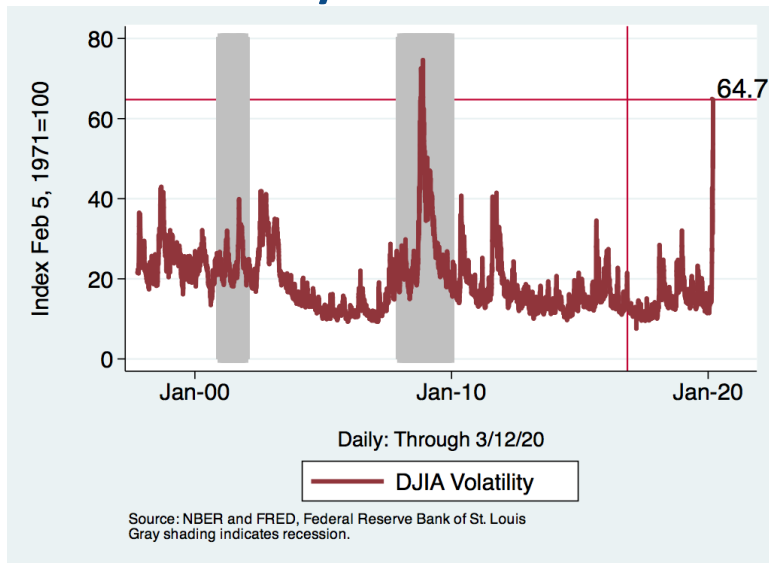


Market Activity: Dow Jones & NASDAQ



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Dow Jones - Volatility



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Outlook: Highly Uncertain

- Job growth has been robust
- Wage growth, but not too much
- Business investment is slowing, is uncertainty biting?
- New home construction fast out of the 2020 gate!
- Inflation remains steady
- Potential data driven sources of concern:
 - Auto and light truck sales are slowing
 - Manufacturing recession
- Coronavirus hasn't shown up in the data yet.



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U.S. GDP Forecast



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Things to Be Worried About

- **Policy Uncertainty**
 - Trade and immigration policy, especially
- **Yield Curve**
- **Government Debt**
- **Growth Abroad**
- **Income and Wealth Inequality**
- **U.S. is short of recession fighting ammunition.**
- **Coronavirus**



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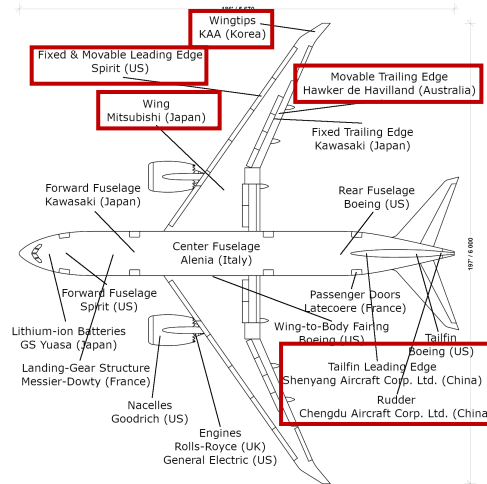
The Thing About the Coronavirus

- **Supply side**
- **Demand side**
- **Financial**



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Coronavirus: Supply Side



- Boeing 787 Dreamliner
- Parts and components from suppliers all over the world:

- Japan
- Italy
- China
- Australia
- ...



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Coronavirus: Demand Side

- **Stock market**
 - Postpone major purchases
- **Event cancellations**
 - More broadly tourism
- **Universal pseudo-quarantine**
 - Work from home
 - Eat at home
 - Watch movies at home



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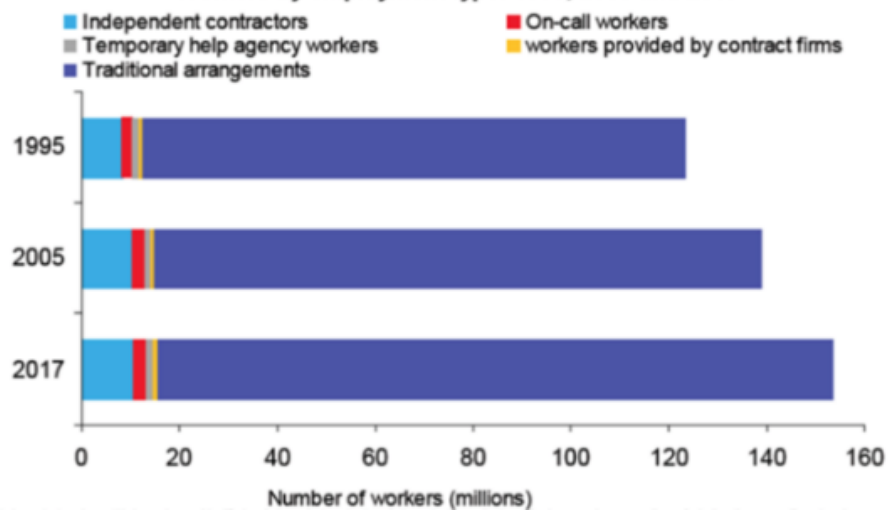
Particularly Vulnerable Industries

- Transportation
- Tourism
- Entertainment
- Hospitality
- Manufacturing

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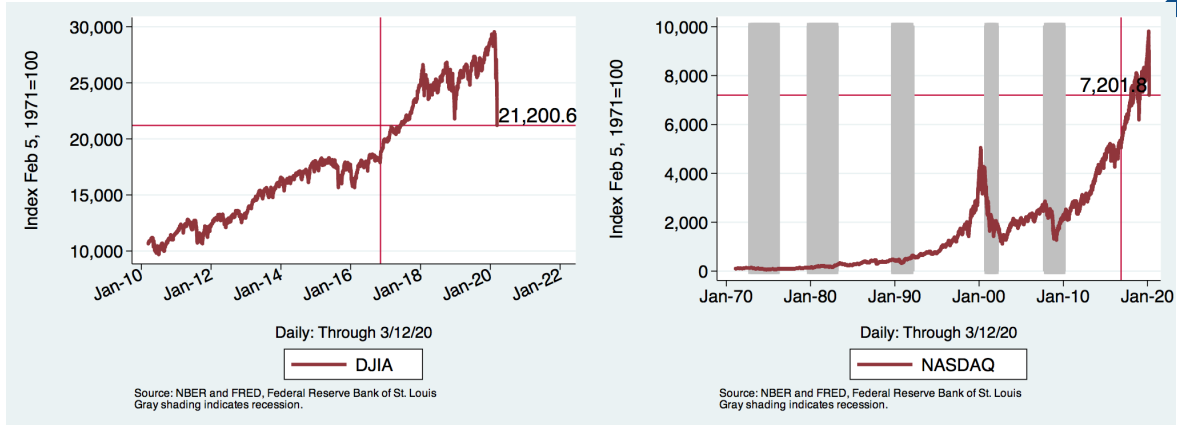
Particularly Vulnerable Workers

Workers by employment type: 1995, 2005 and 2017



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Financial Markets



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What About Oil Prices?

- **Why is it happening?**
- **Will significantly damage:**
 - Oil extraction companies
 - Renewable energy companies
- **Will benefit:**
 - Transportation
 - Much of the rest of the economy



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Federal Policy Response

- **Monetary policy**
 - March 3, 0.5% cut in Federal Funds Rate
 - March 12, \$1.5 trillion in asset purchases
- **Fiscal policy**
 - Payroll tax cuts
 - Unemployment compensation extension
 - Send out checks
 - Spending for prevention
 - Small business loans



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Overall Summary

- **Future is highly uncertain**
 - Likelihood of recession is very high.
 - How bad and how long...there is no way to tell at this point.
 - Market disruptions are already happening.
 - Job losses and likely to be significant.
 - o Originating in at risk industries and then spreading to the rest of the economy.
- **Perfect storm?**
 - Supply side, demand side, and financial
- **Major wildcard: Coronavirus**
 - Economic impact will be significant.
 - Duration is the big unknown.
- **Additional wildcard: effectiveness of any government response.**



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California Economy

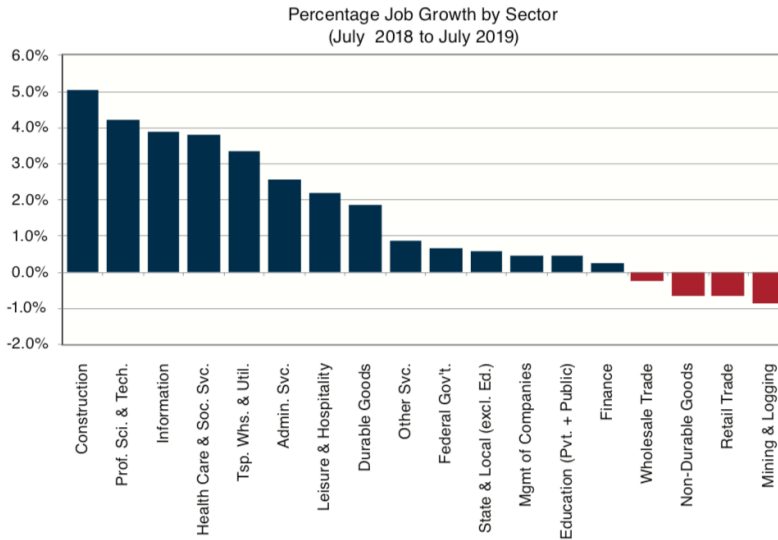
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California Employment



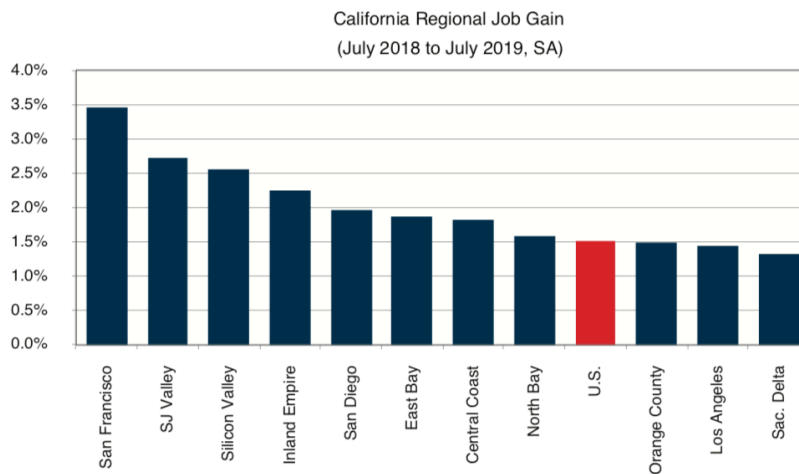
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Employment Growth in CA by Industry



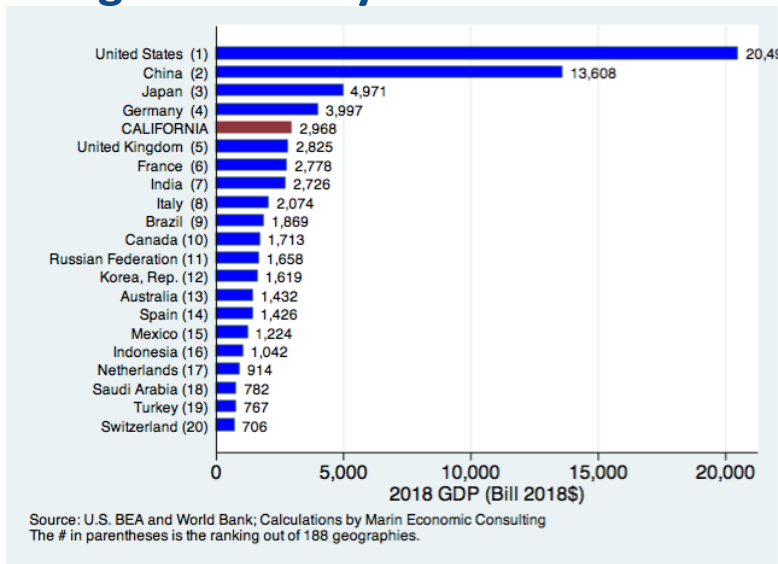
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Regional Employment Growth in CA



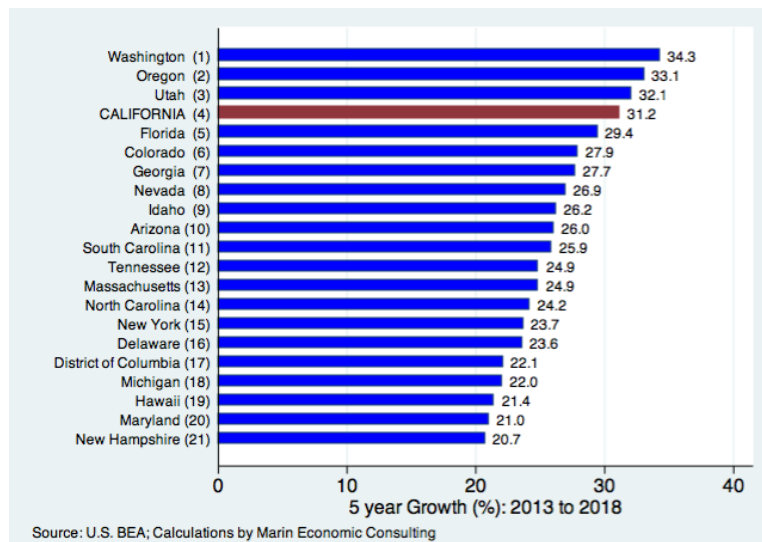
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CA – 5th Largest Country



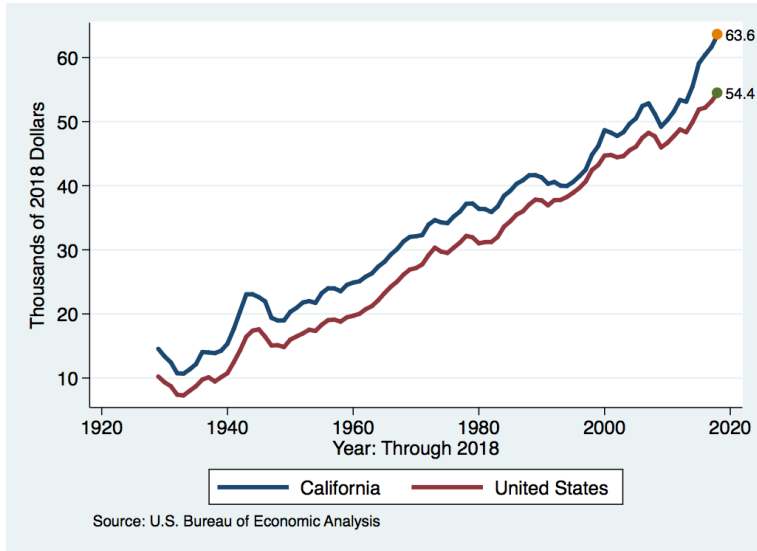
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CA – Fast Grower over Last 5 Years



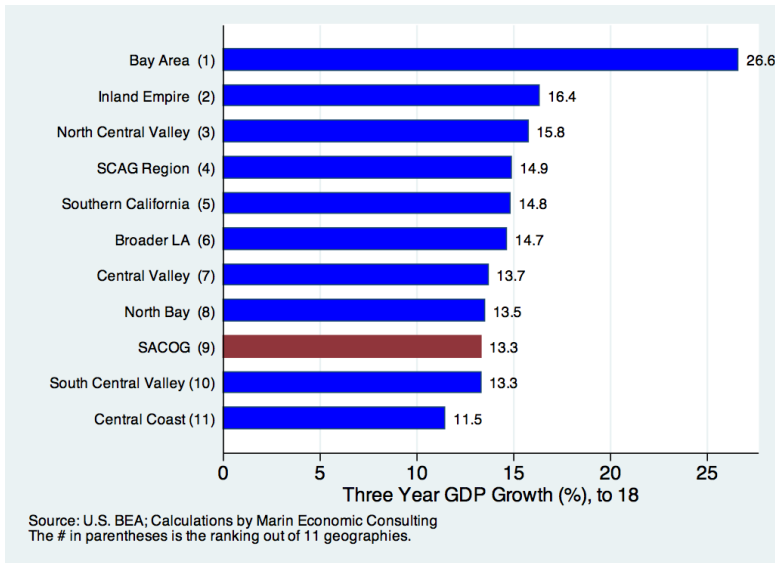
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CA — Per Capita Income Growth is Exceptional



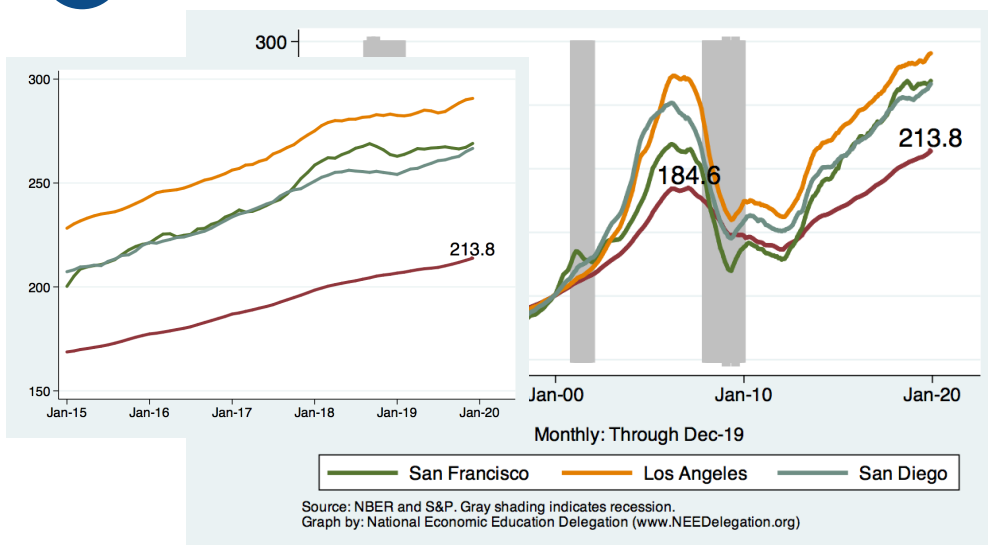
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Growth Around the State



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S&P Case Shiller Home Price Indexes



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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 great uncertainty.**

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Thank you!

Any Questions?

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