

U.S. & CA Economic Report

April 26, 2019

“The Future of Real Estate Education”

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: 363 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**

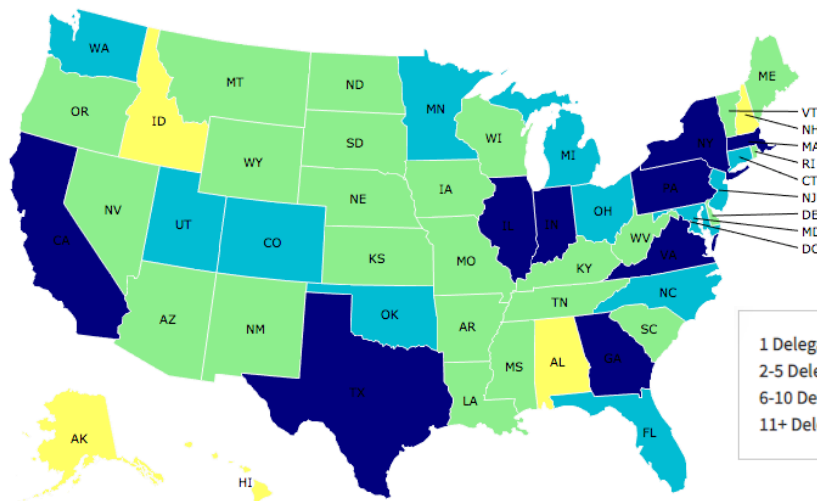
- Aid in slide deck development



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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Scott Baier, Clemson University
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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).



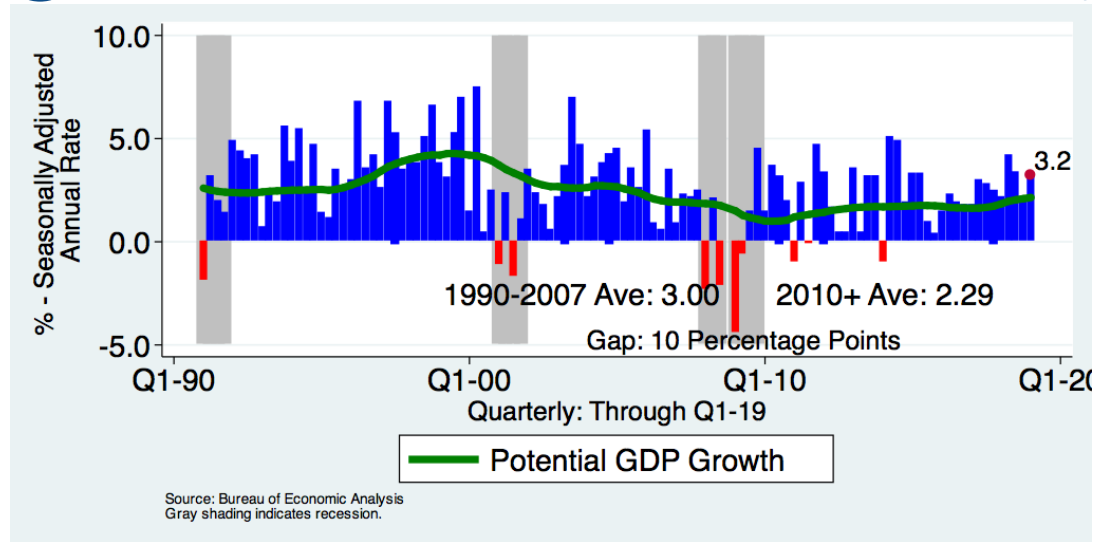
Outline – Economic Outlook

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

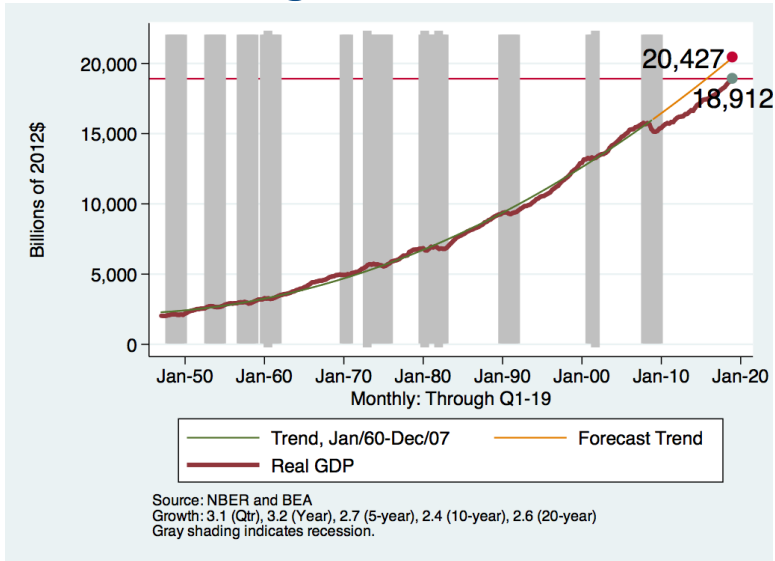


U.S. Economy

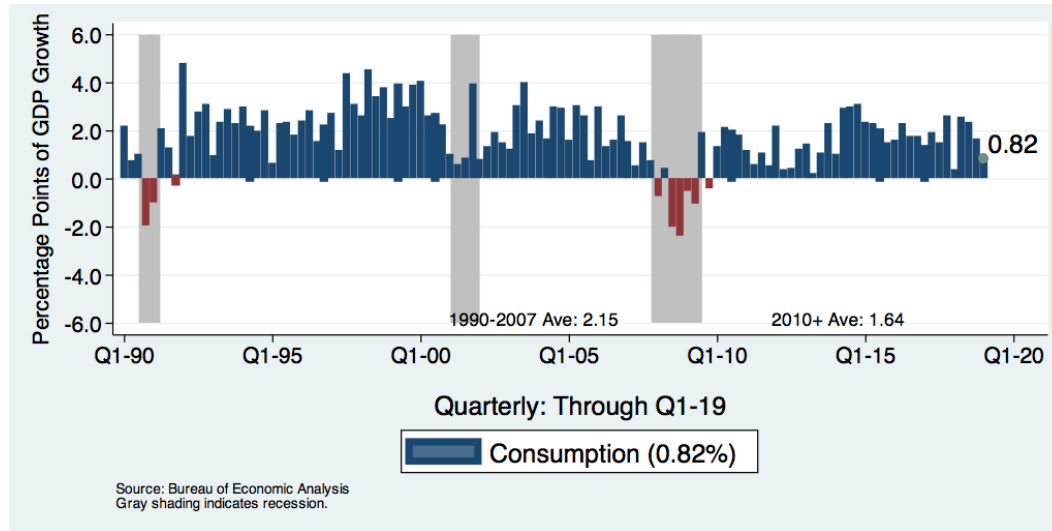
GDP Growth During Economic Recovery



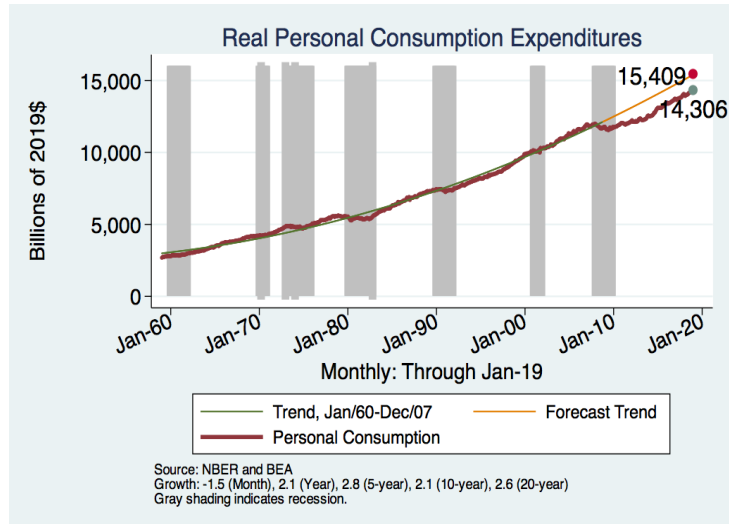
GDP Relative to Long-Term Trends



Contribution to GDP Growth: Consumption



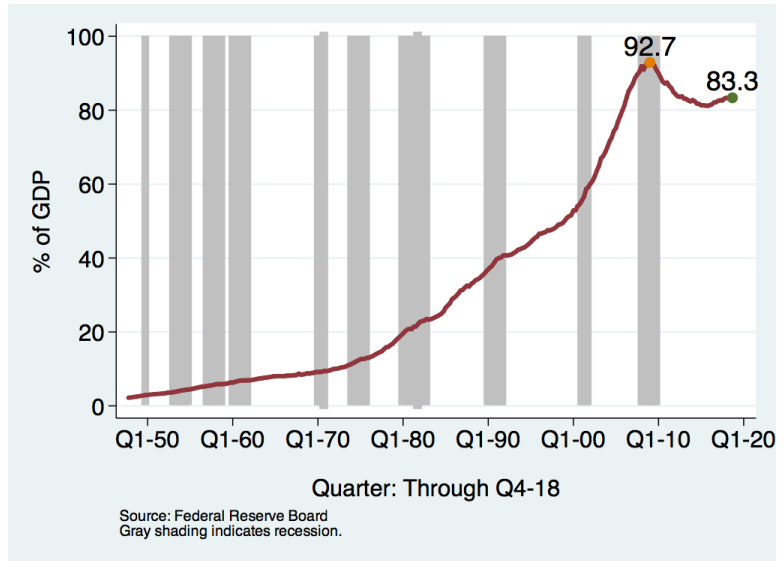
Personal Consumption Expenditures



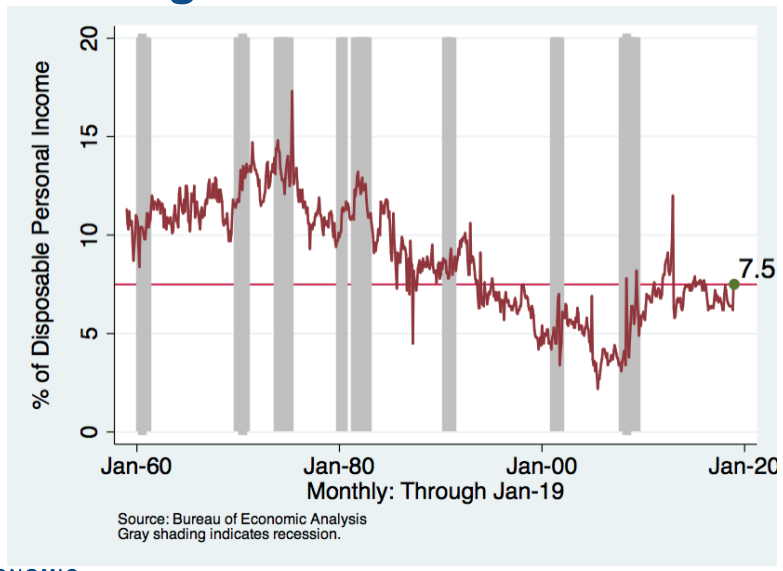
Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.64 percentage points.
- **In other words, its contribution to GDP growth is down 24%.**

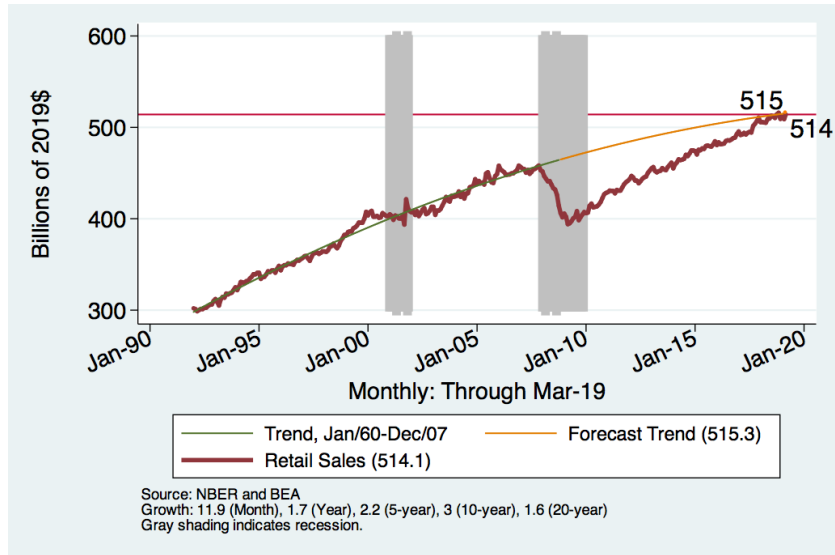
Household Debt as a Share of GDP



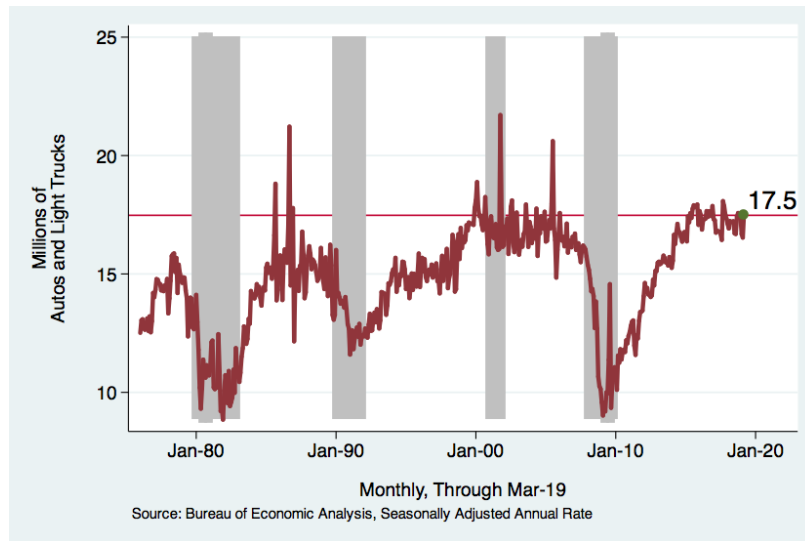
Personal Savings



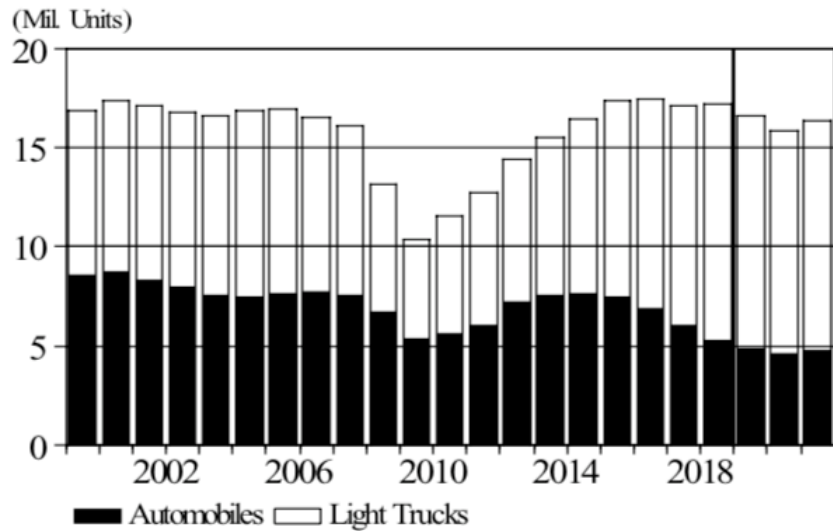
Retail Sales



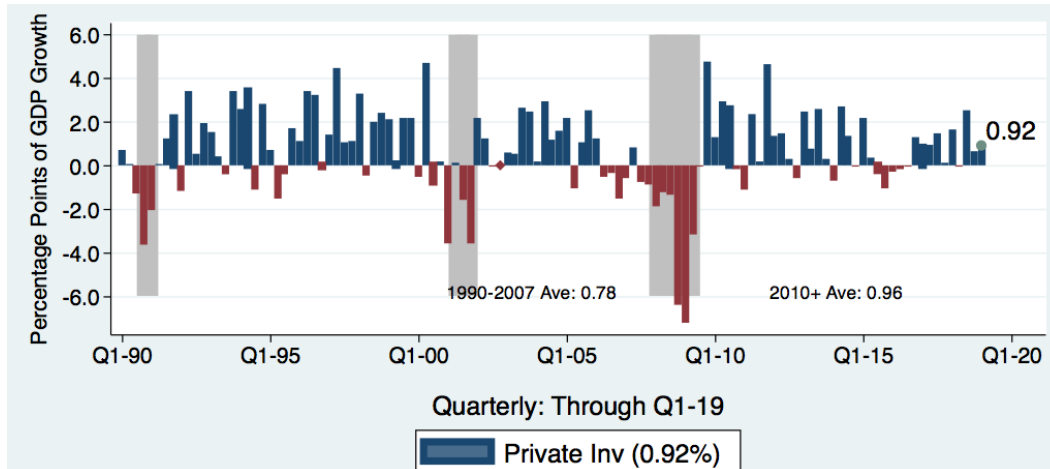
Automobile and Light Truck Sales



Automobile and Light Truck Sales - Forecast

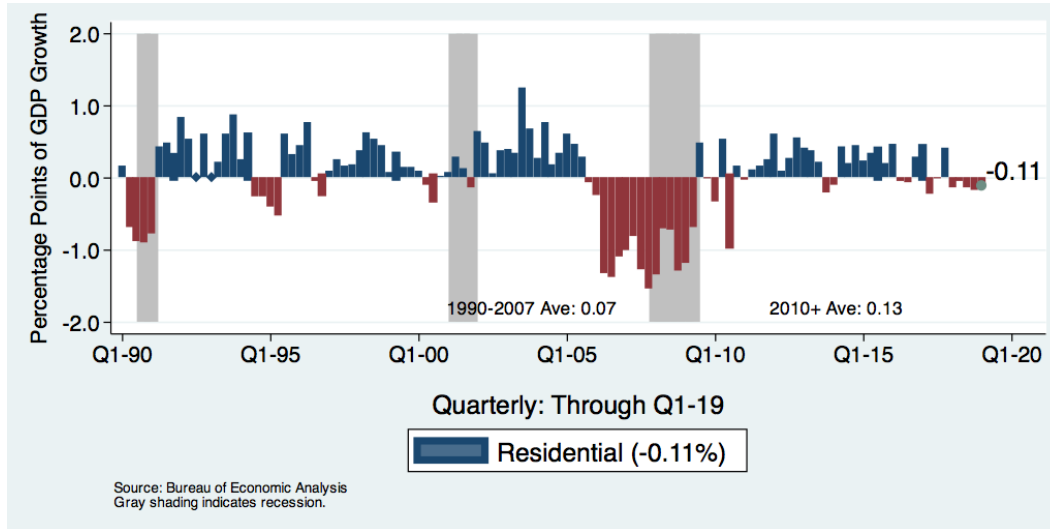


Contributions to GDP: Private Investment

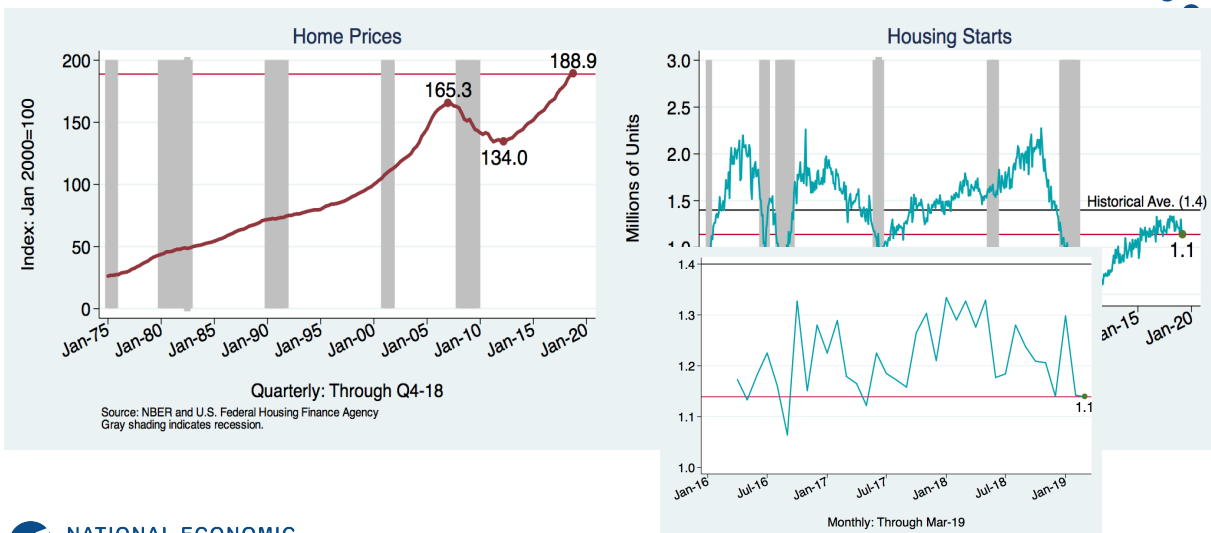


Source: Bureau of Economic Analysis
Gray shading indicates recession.

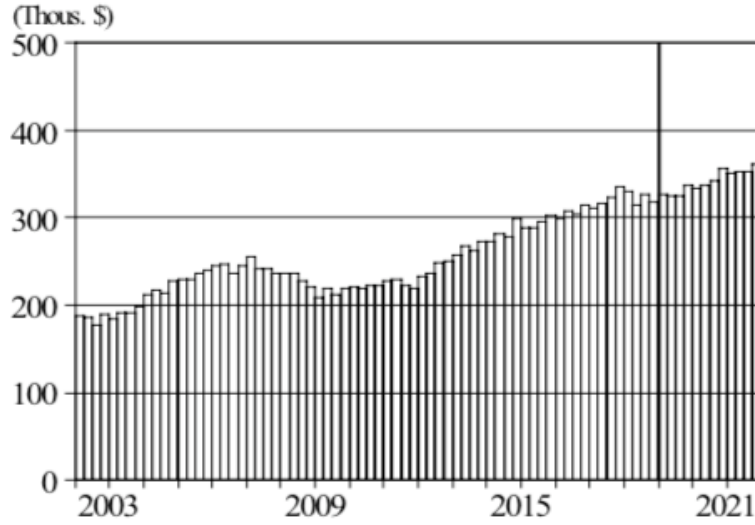
Contributions to GDP: Residential Investment



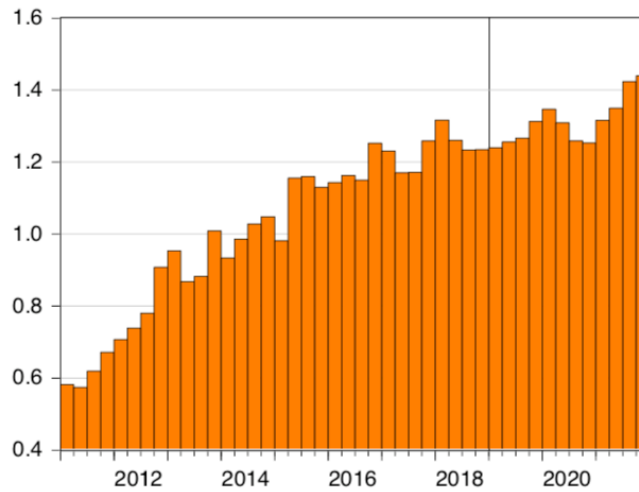
Home Prices and Housing Starts



U.S. Median Single Family Home Prices

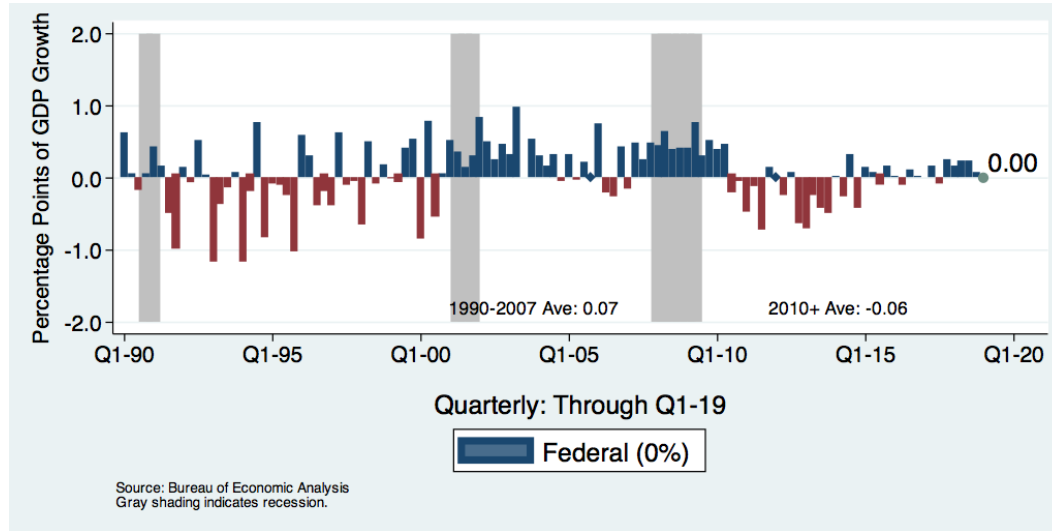


Housing Starts: Forecast

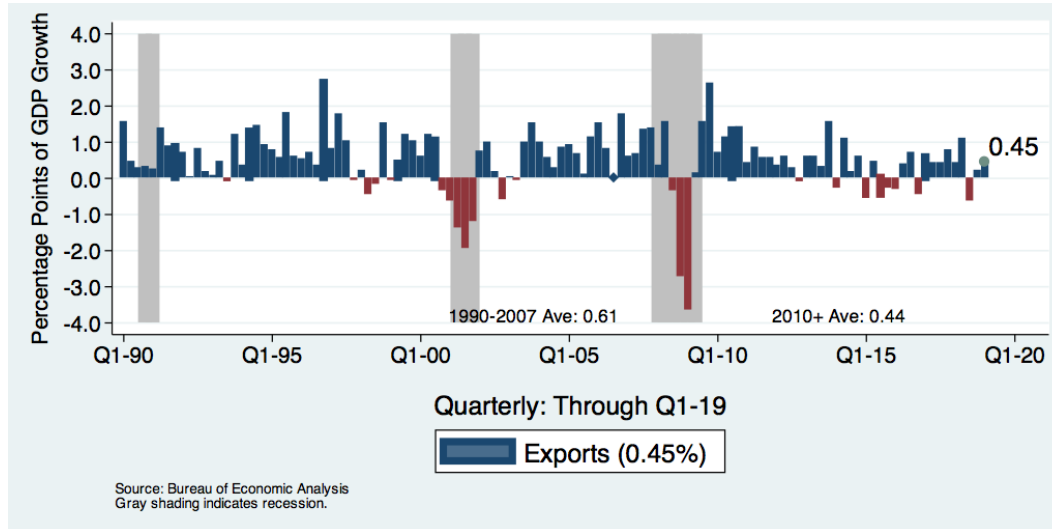


Source: U.S. Bureau of the Census and UCLA Anderson Forecast

Contributions to GDP: Government



Trade's Contribution to GDP: Exports

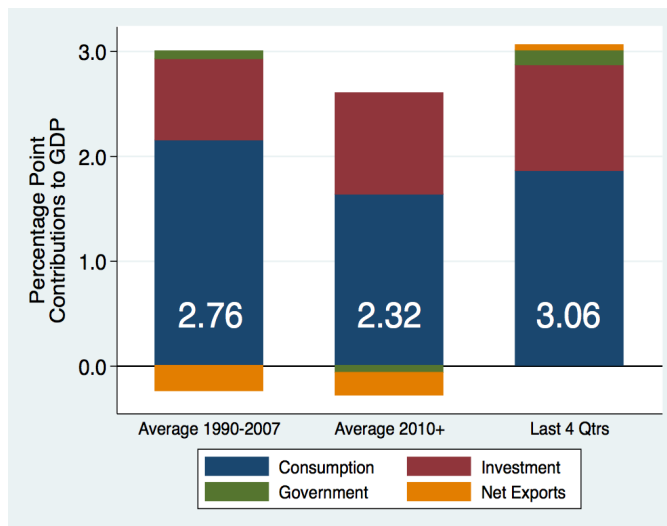


Expenditure Summary

- **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.**
- **Post-recession government spending is down:**
 - But starting to pick up.
- **Net exports are relatively unchanged.**



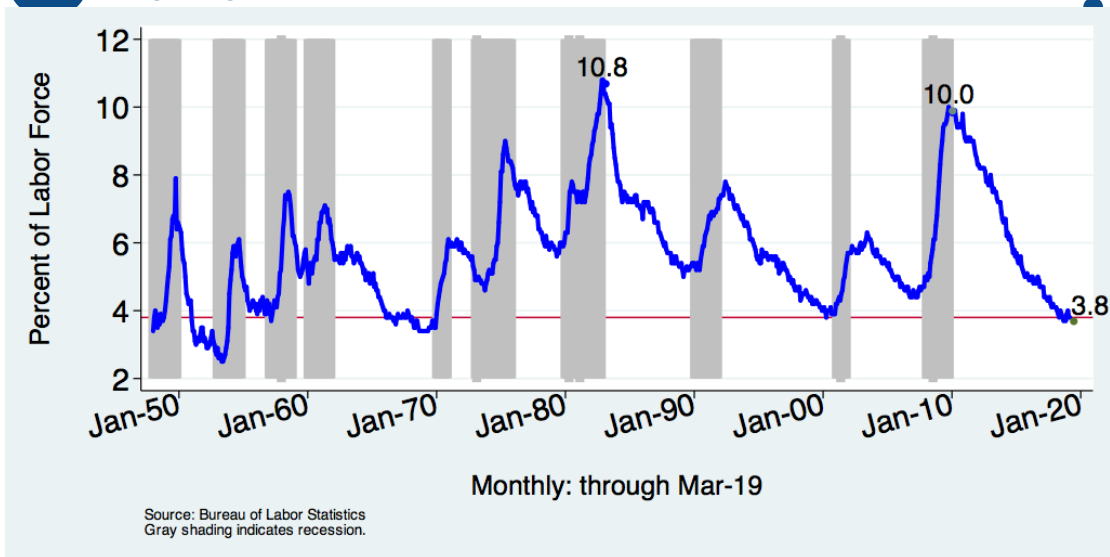
Expenditure Summary



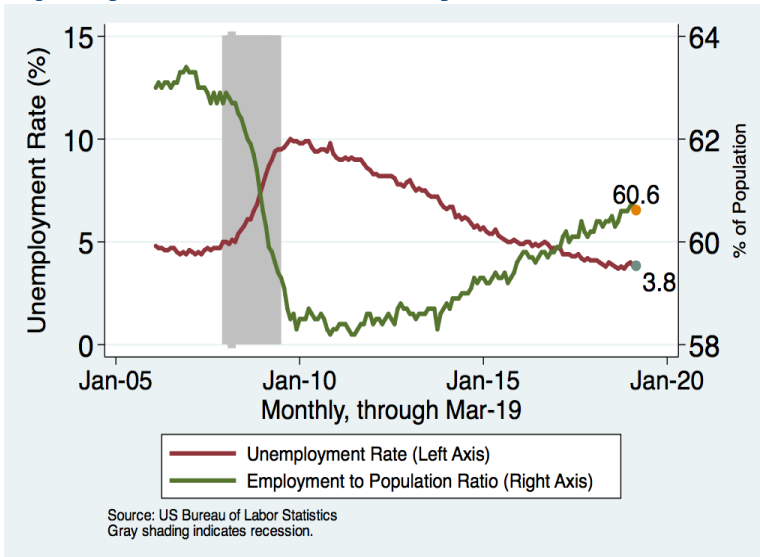
Labor Market Conditions

- Unemployment rate is low, 3.8%, but up from low of 3.7%.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 207,000 jobs over the last six months.
- **Recent Labor Market Concerns:**
 - Low employment-to-population ratio
 - Falling labor force growth
 - Slow compensation growth

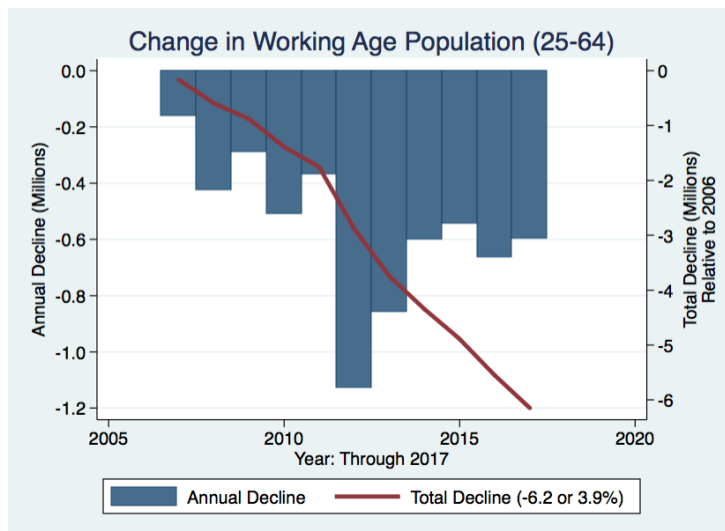
Unemployment Rate



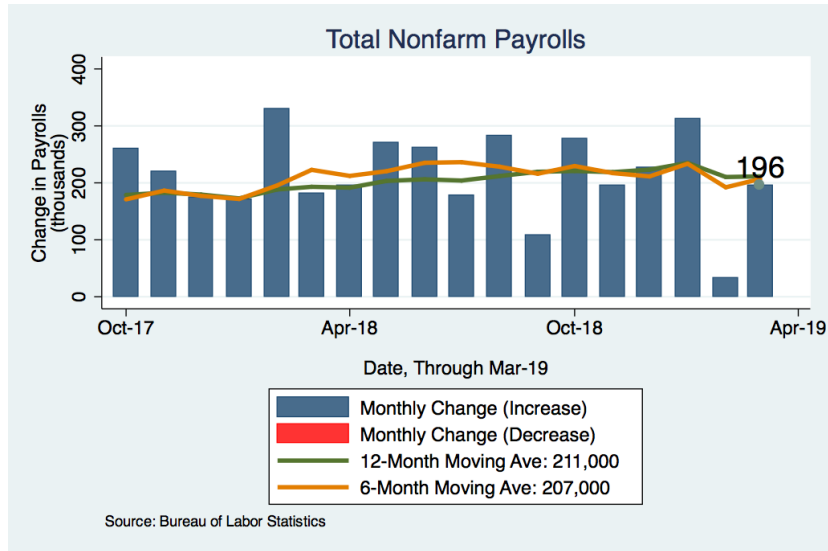
Slow Employment Recovery



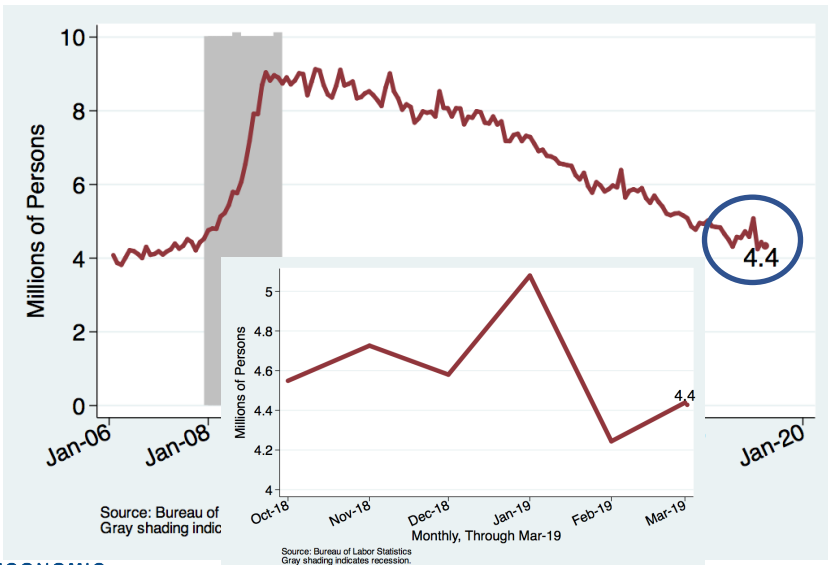
Baby Boomers Are Retiring!



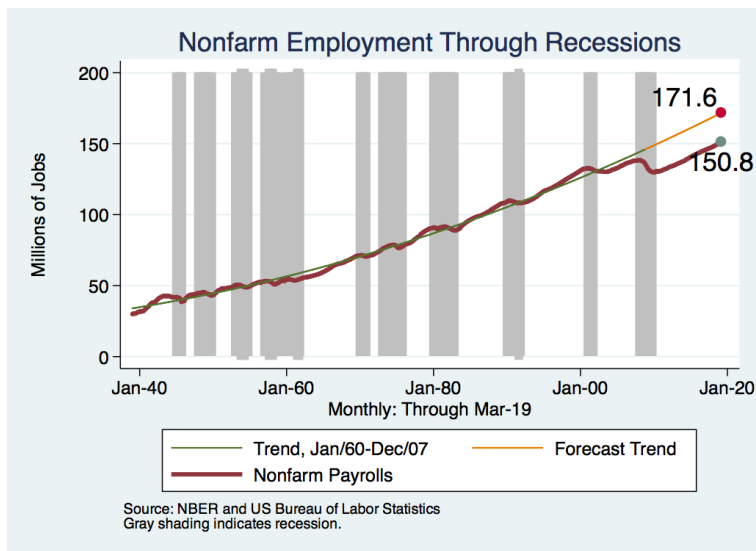
Monthly Changes in Nonfarm Employment



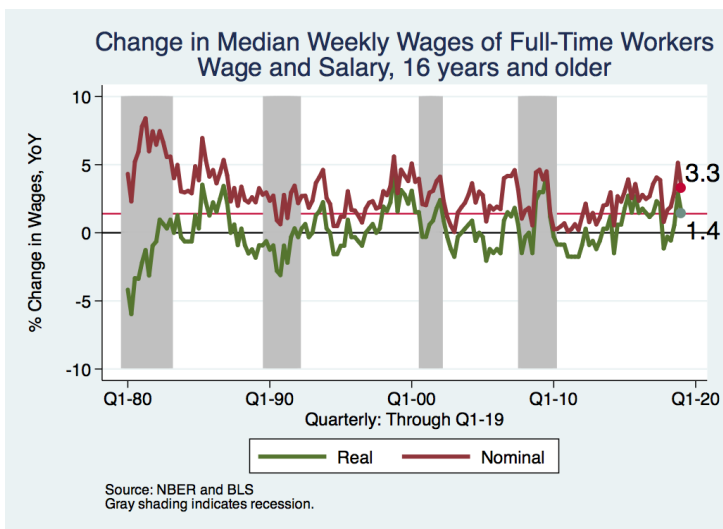
Part-Time Nonfarm Employment



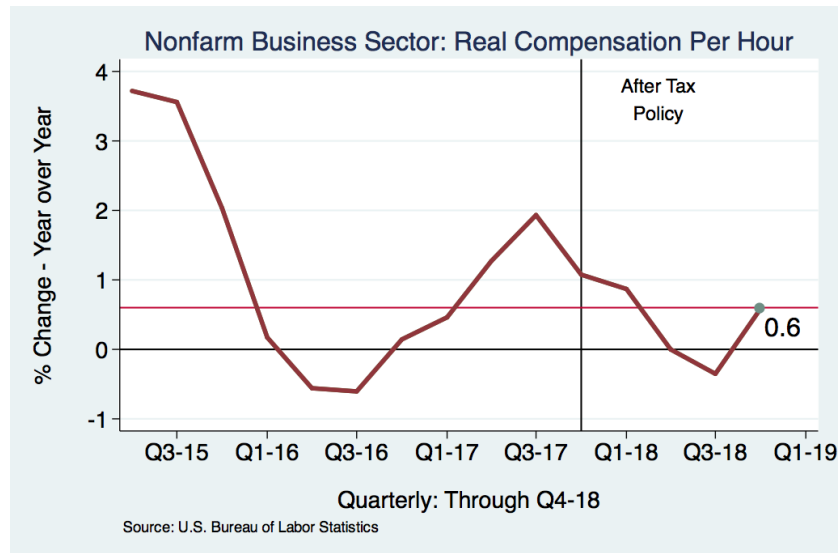
Employment Growth



Wage Growth



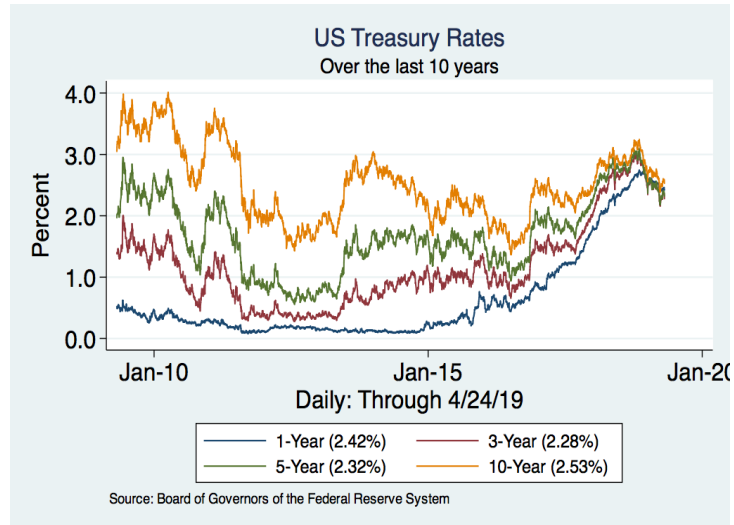
Labor Compensation Growth



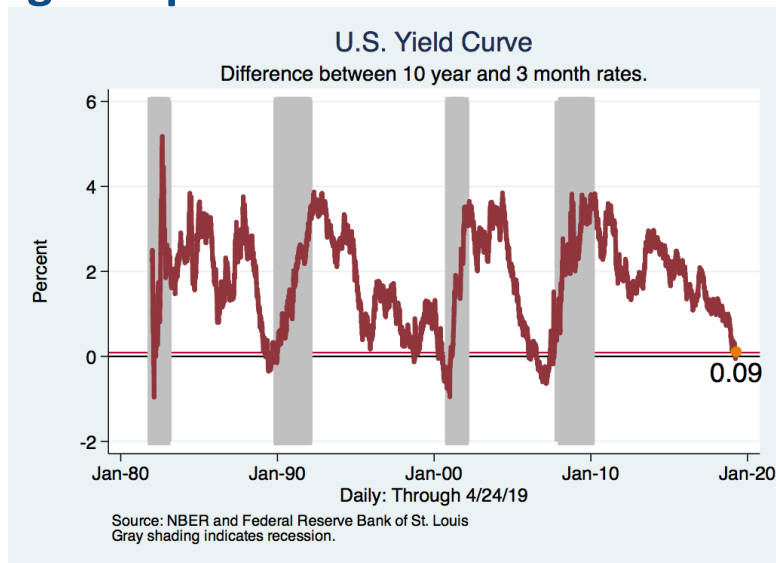
Summary

- **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.

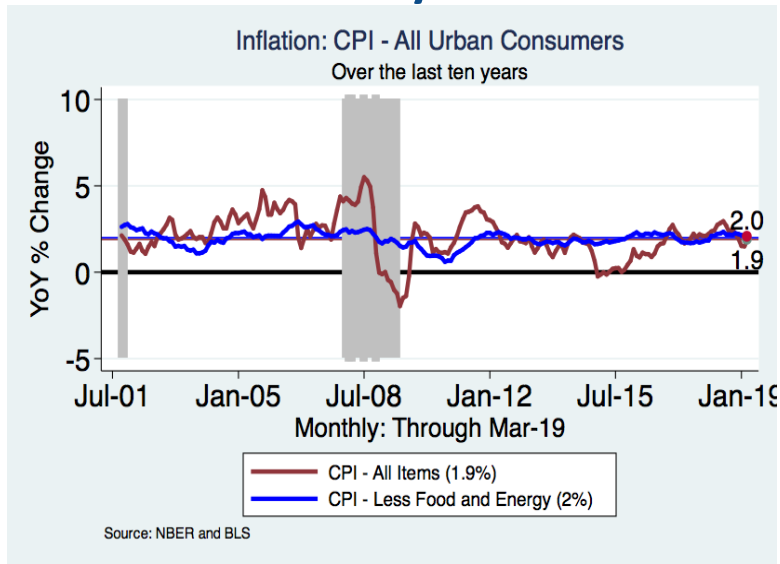
Treasuries



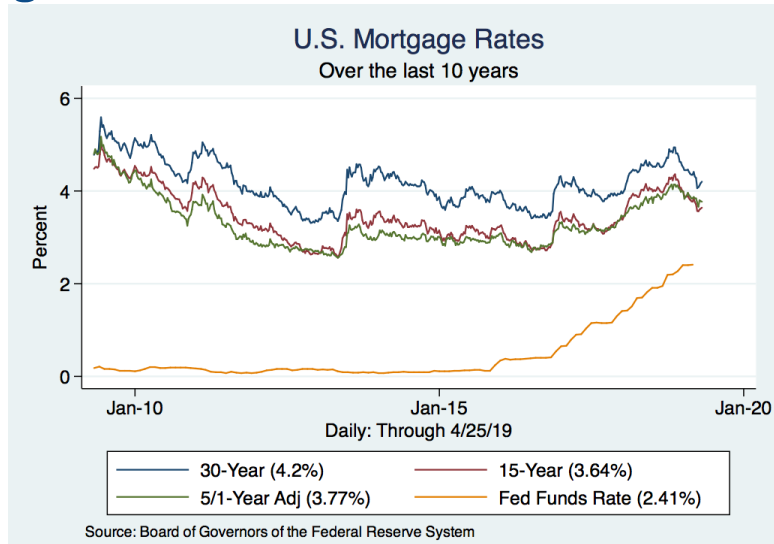
Alarming Compression of Interest Rates



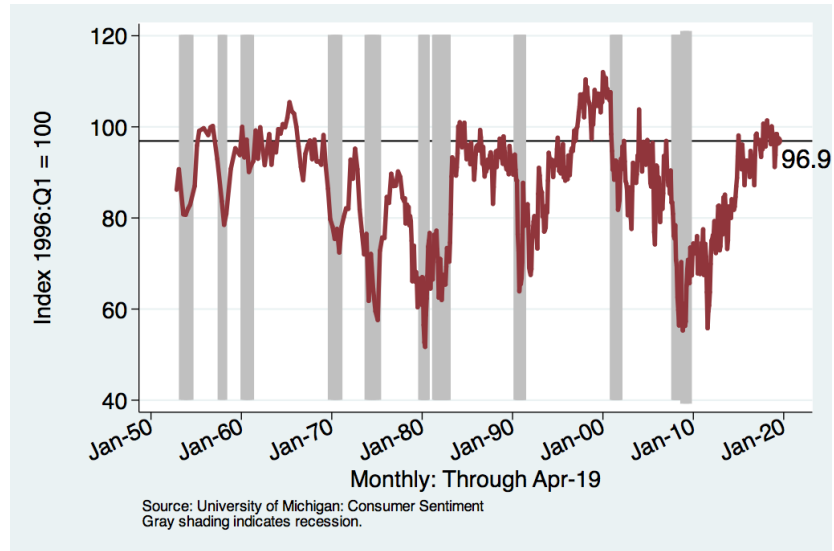
Inflation – Recent Stability



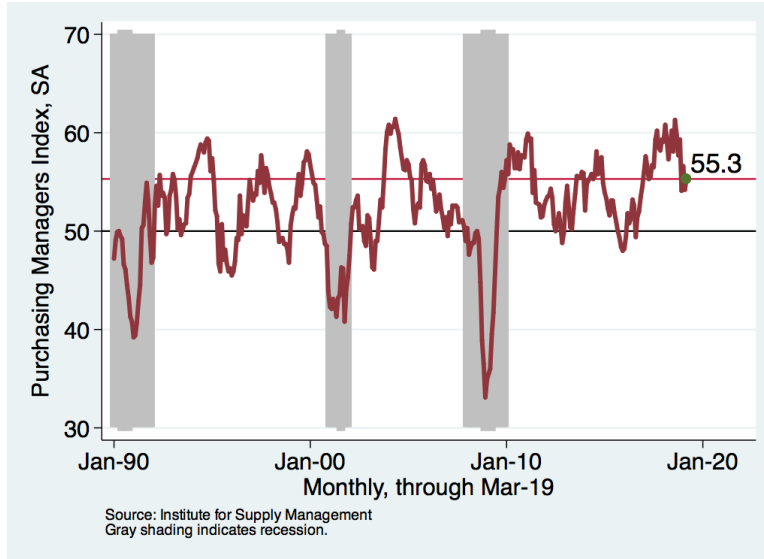
Mortgage Rates



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

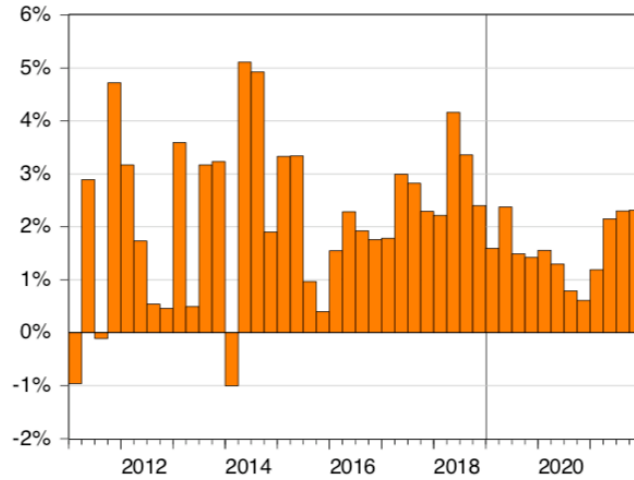


Things to Be Worried About

- **Job Growth**
- **Growth Abroad**
- **Yield Curve**
- **Government Debt**
- **Income and Wealth Inequality**
- **Policy Uncertainty**
 - Trade and immigration policy, in particular.

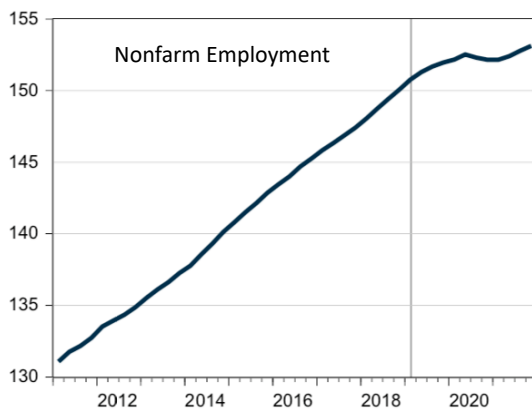


U.S. GDP Forecast

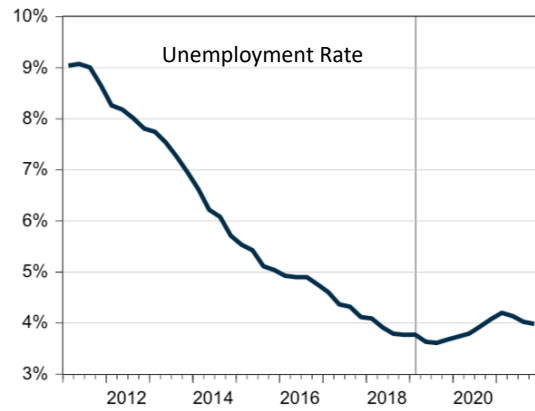


Source: U.S. Department of Commerce; UCLA Anderson Forecast

U.S. Employment Forecast



Sources: U.S. Bureau of Labor Statistics; UCLA Anderson Forecast



Sources: U.S. Bureau of Labor Statistics; UCLA Anderson Forecast

Overall Summary

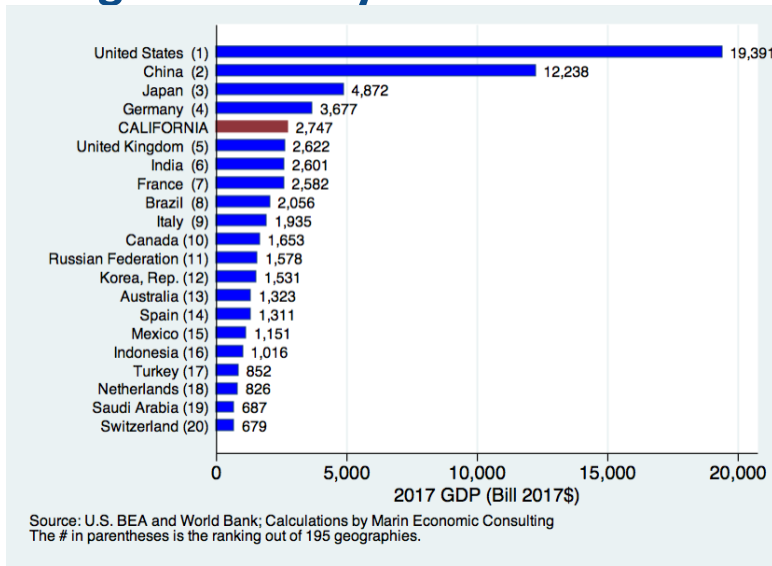
- **Tailwinds and headwinds both exist**
 - Economic forecasts for near term are favorable
 - Later 2019 and 2020 forecasts are less sanguine
- **There remains room for the economy to grow**
 - Labor force growth is available
 - Consumption has room to grow, but there is evidence of slowing
 - Business investment may be slowing
 - Return to productivity growth? But how? What's the next big idea?
- **Long term concerns unaddressed**
 - Demographics, climate change
 - Federal government debt
 - International trade policy



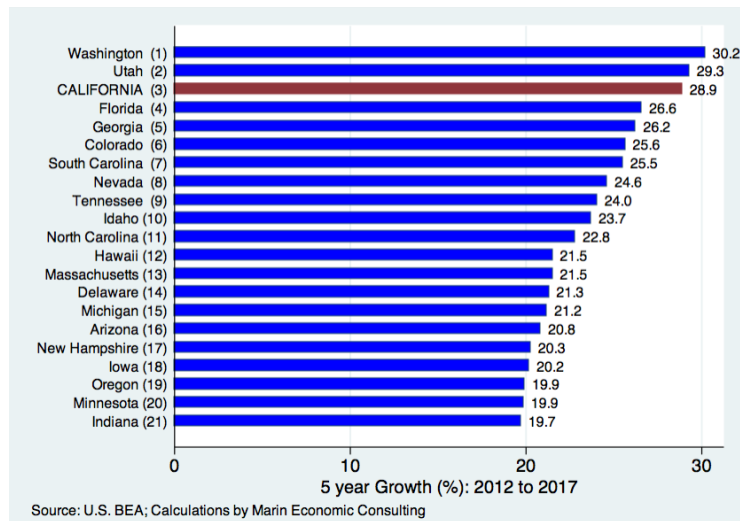
California Economy



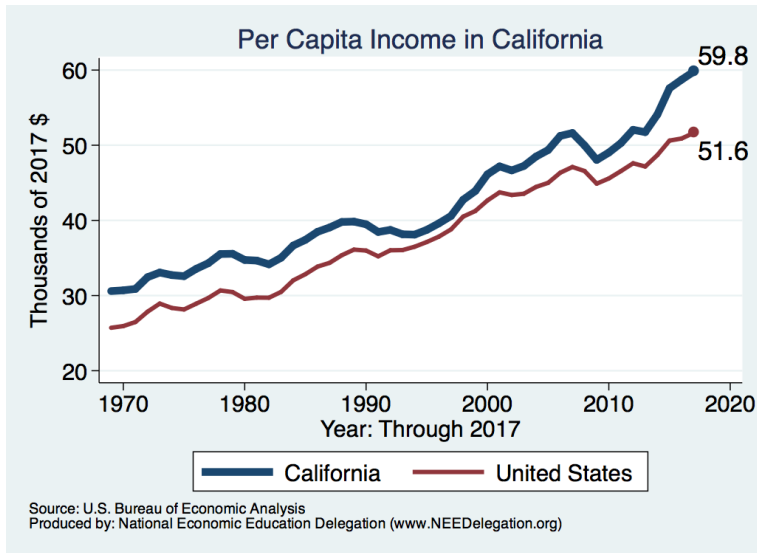
CA – 5th Largest Country



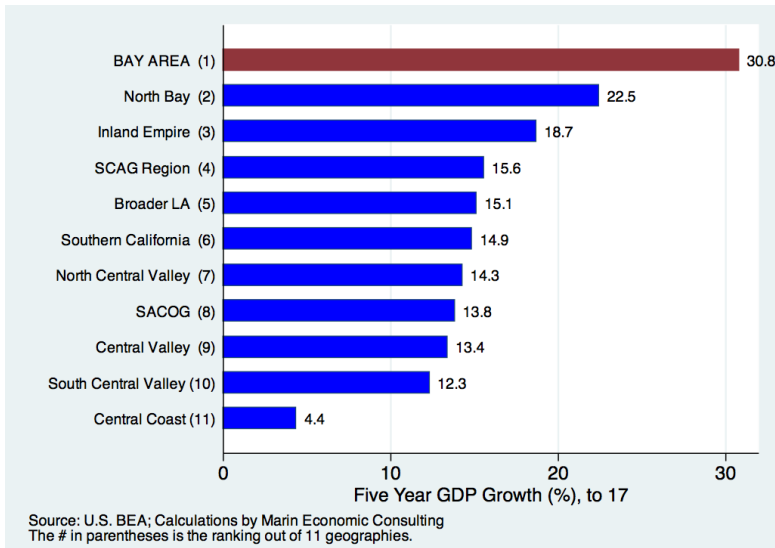
CA – Fast Grower over Last 5 Years



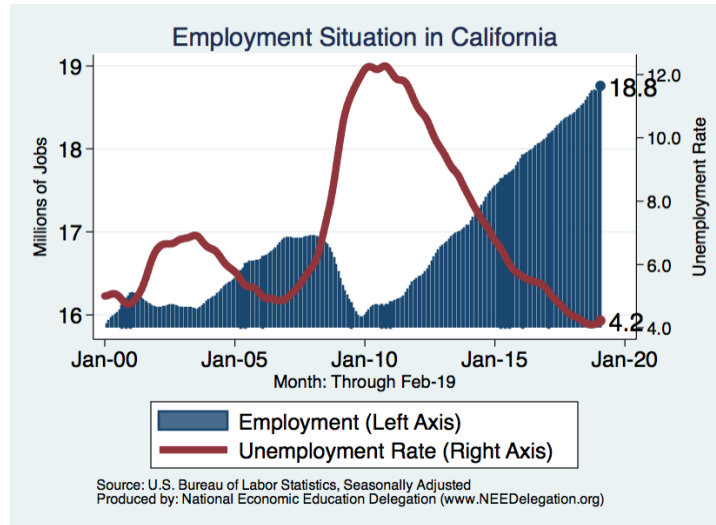
CA — Per Capita Income Growth is Exceptional



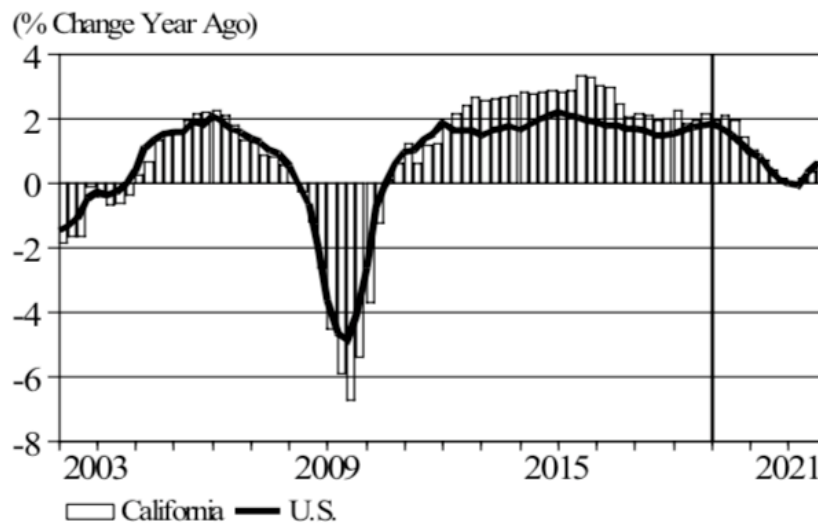
Growth Around the State



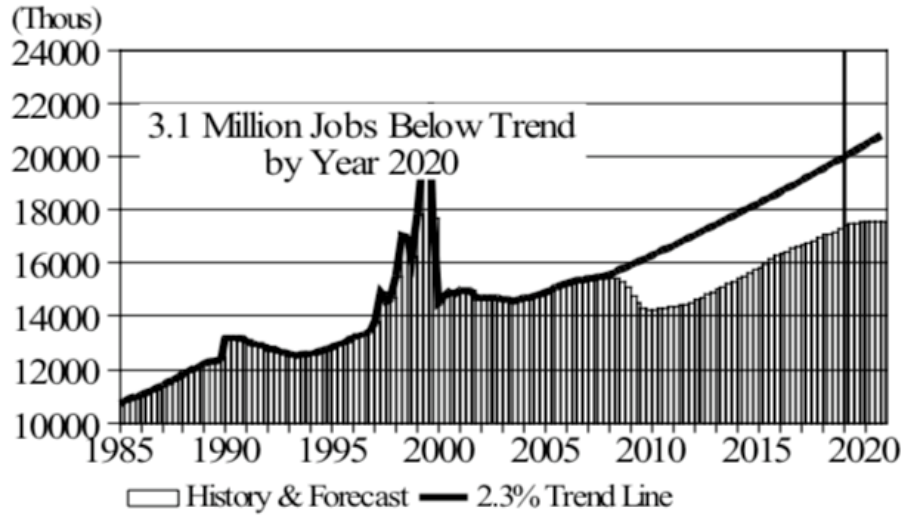
California Employment



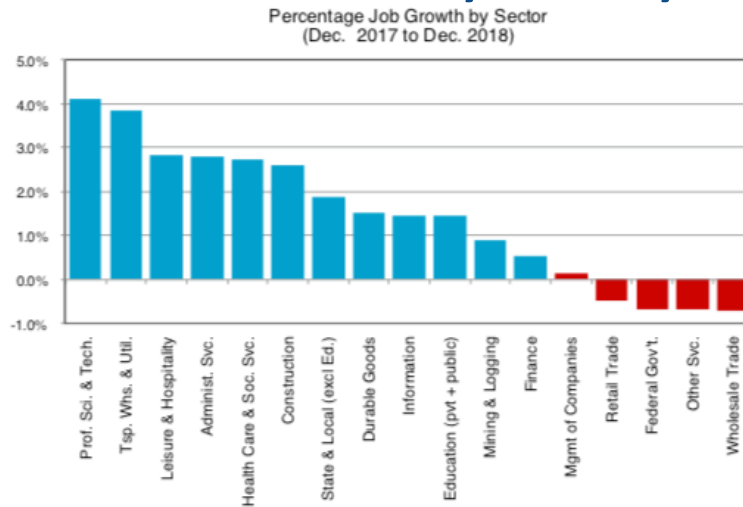
Nonfarm Employment: CA vs U.S.



CA Employment: Deviation from Trend



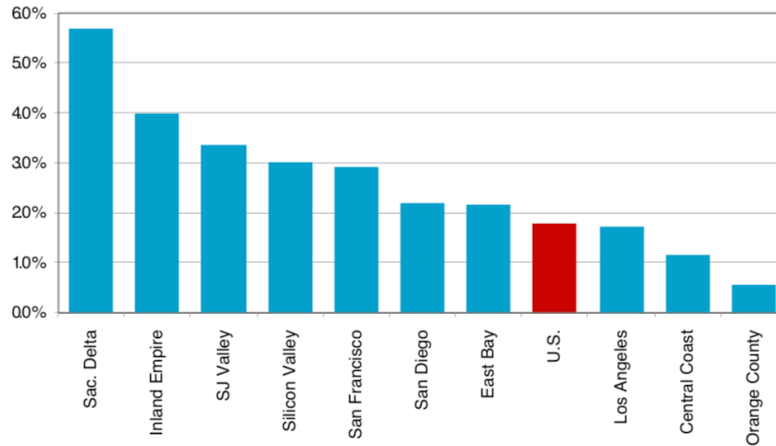
Employment Growth in CA by Industry



Source: EDD.ca.gov, UCLA Anderson Forecast

Regional Employment Growth in CA

California Regional Job Gain
(June 2018 to Dec. 2018, SA)



Source: EDD.ca.gov, UCLA Anderson Forecast

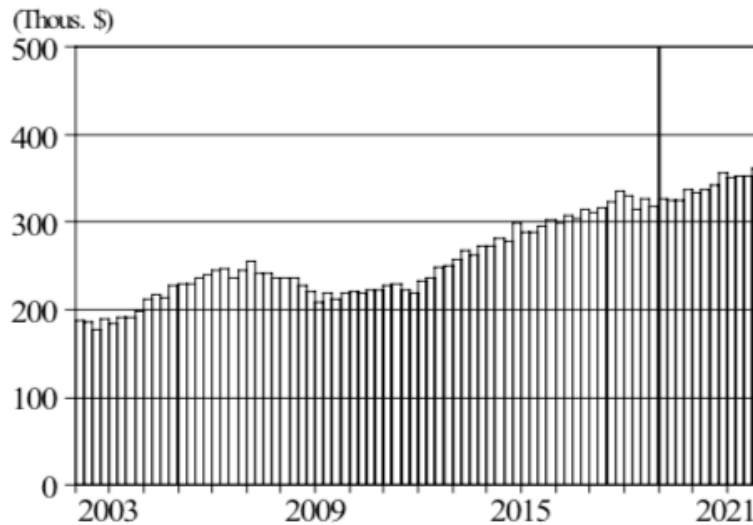


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UCLA Anderson Forecast: March 2019 Economic Forecast

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U.S. Median Single Family Home Prices

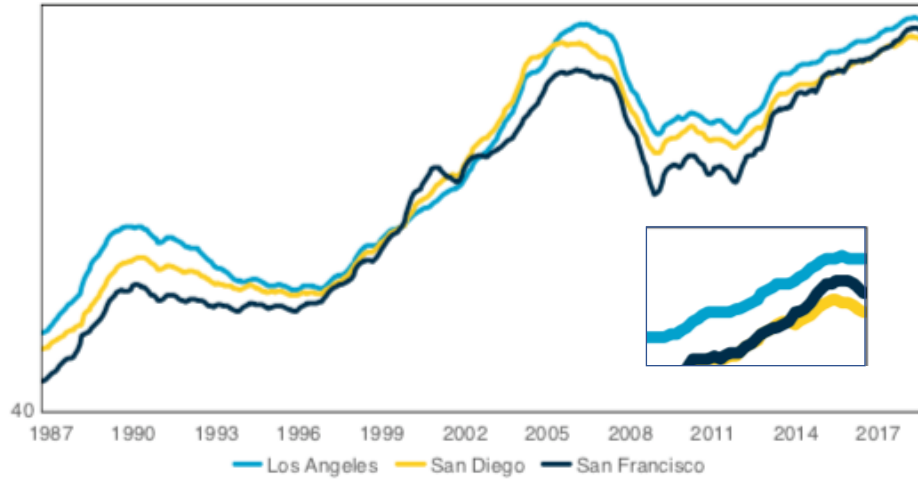


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S&P Case Shiller Home Price Indexes



Source: S&P Case SHiller Index

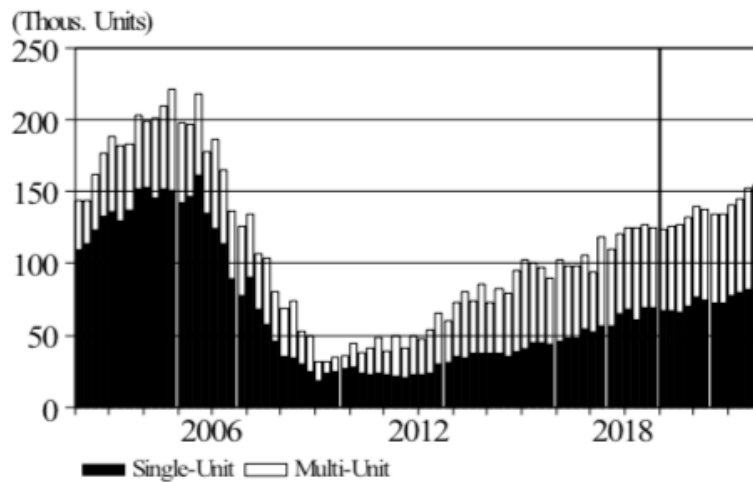


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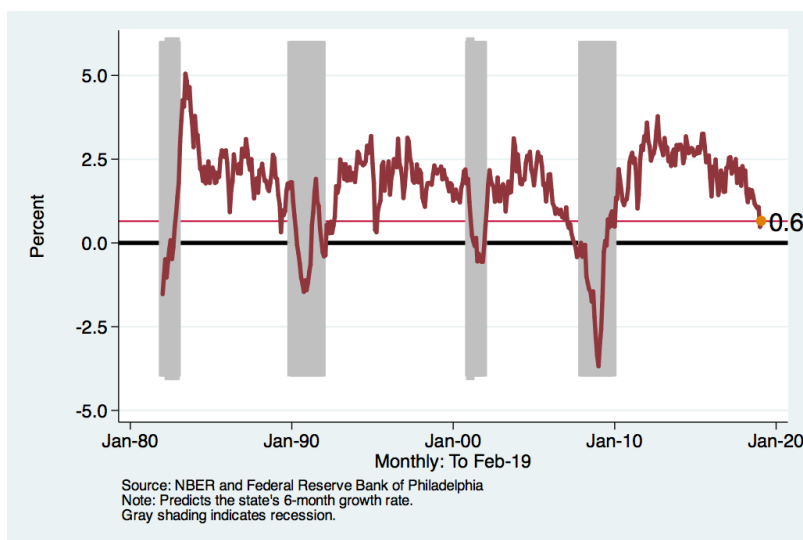
CA New Residential Units Through Permits



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CA Economy: Leading Indicator



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.**

Thank you!

Any Questions?

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