



US Economic Update

California Community Colleges
Real Estate Education Center

October 15, 2021
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Executive Director, NEED



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.



Who Are We?

- **Honorary Board: 54 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: 600+ 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: 44 Ph.D. Economists**

- Aid in slide deck development



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Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Minimum Wages**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**



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Credits and Disclaimer

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

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- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **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).



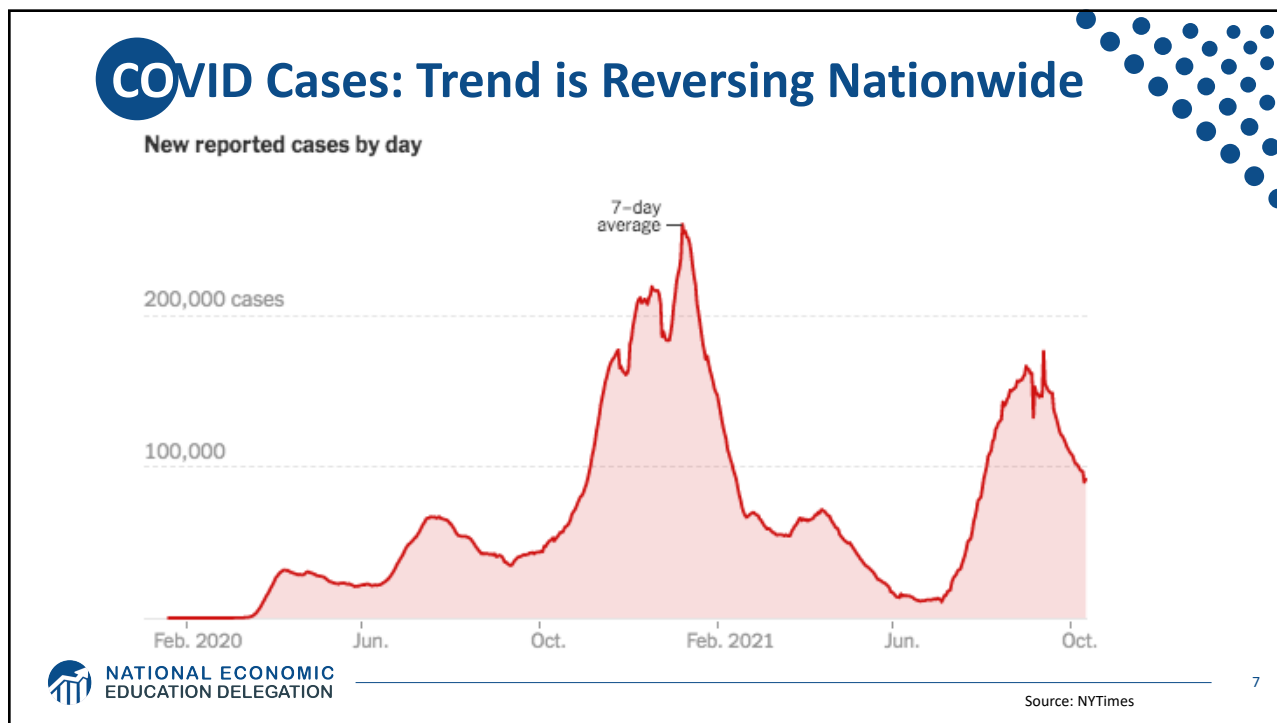
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Outline

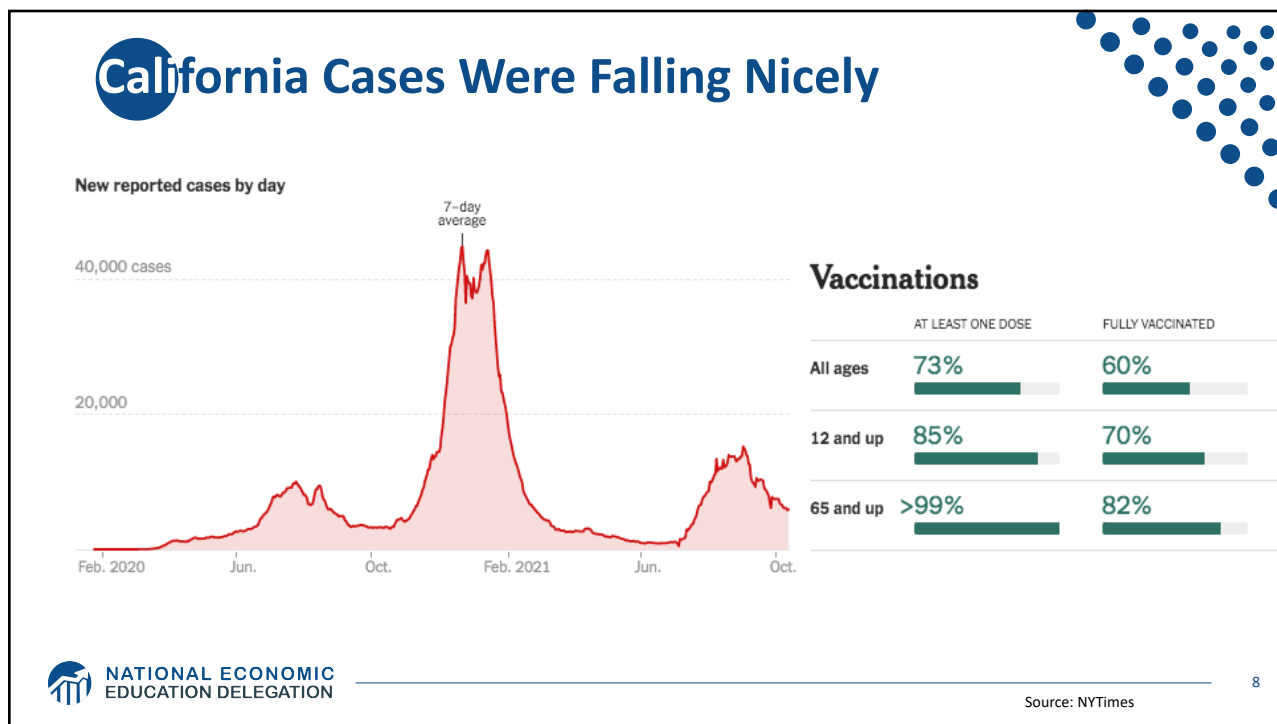
- **State of the Pandemic**
- **Evidence of Impact**
- **Employment Growth**
- **Inflation**
- **The Debt**



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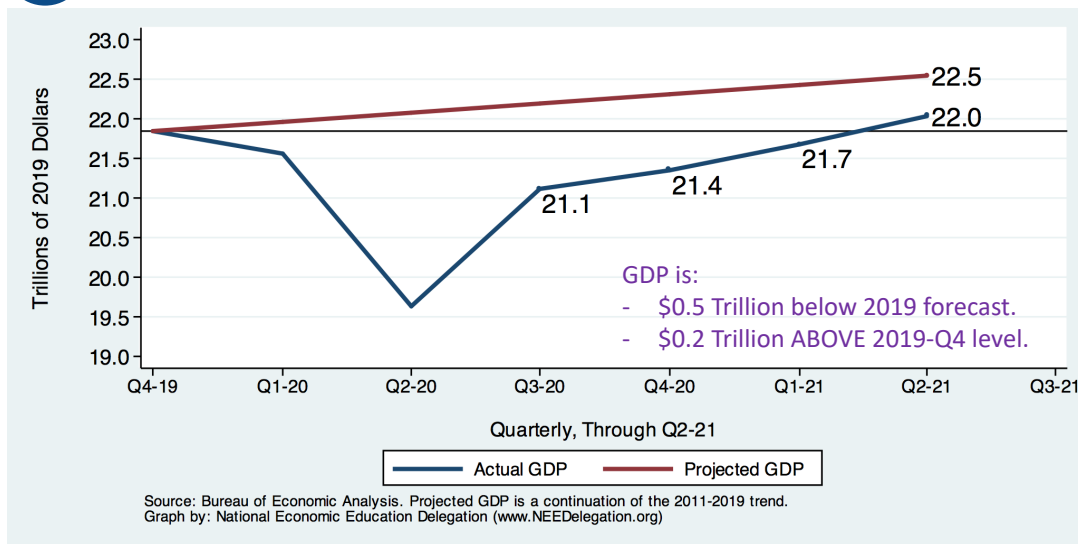


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Evidence of Impact

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GDP Trajectory: Pandemic Plunge!



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GDP Growth – Past & Forecast

Quarter	Growth (%), SAAR
2020-Q3	33.8
2020-Q4	4.5
2021-Q1	6.3
2021-Q2	6.7

Atlanta Fed, GDPNow: 2021-Q3 = 1.3%

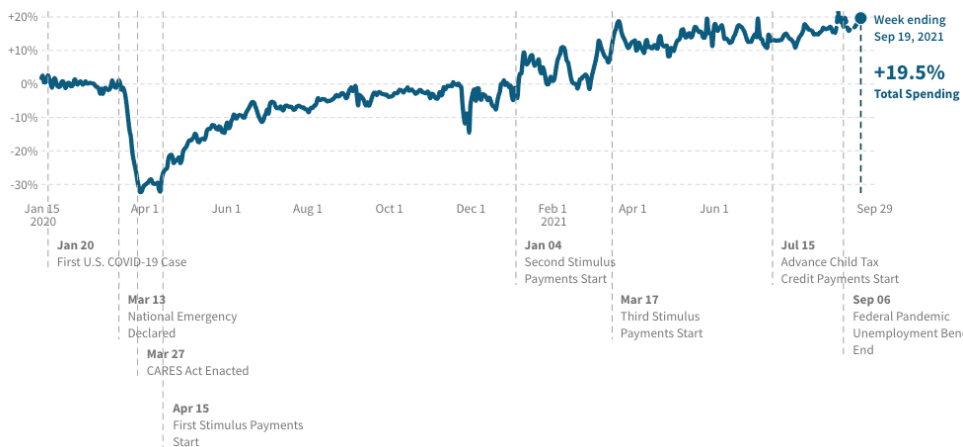
Growth has slowed significantly.

Coincidentally, so has government COVID spending.

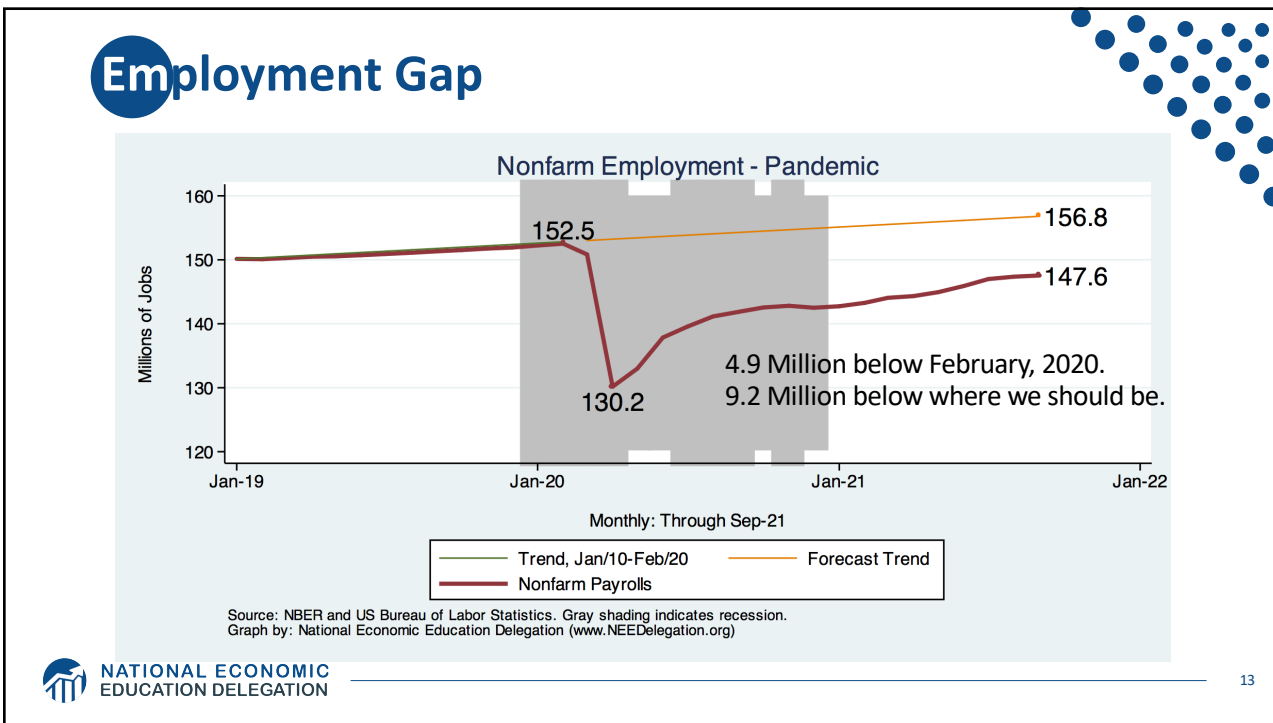
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Spending Patterns Since First US Case

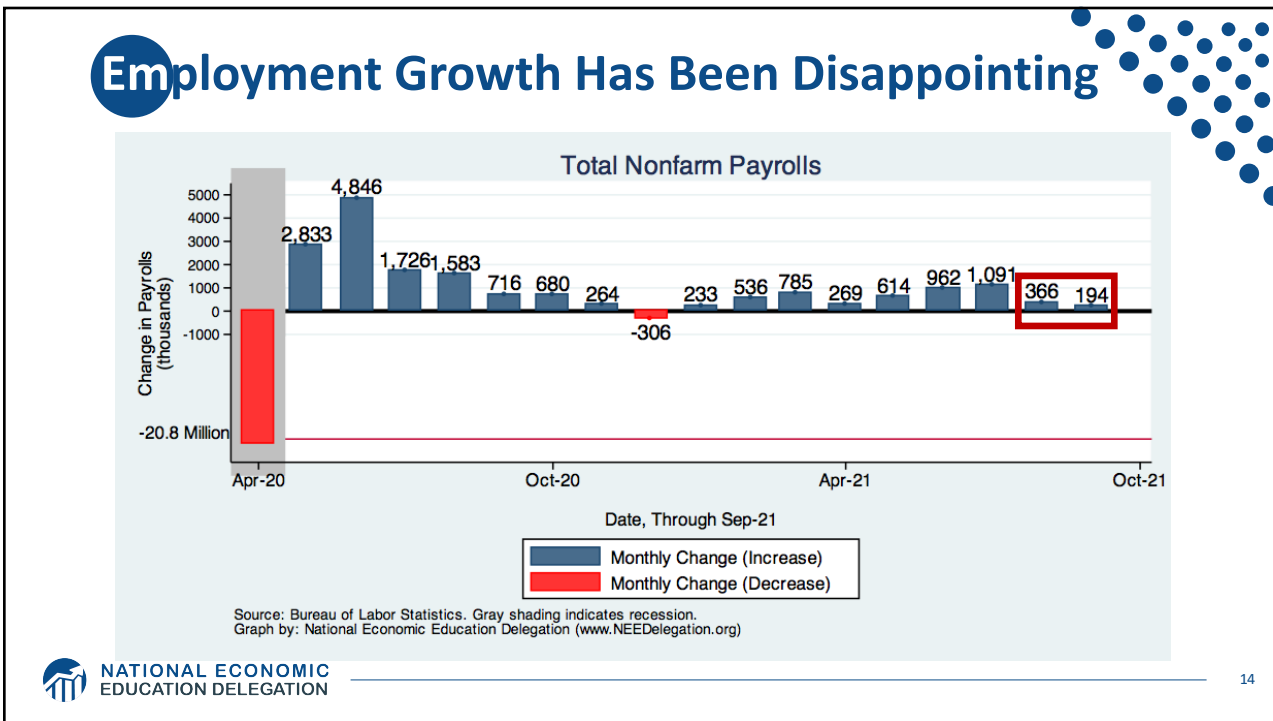
In the United States, as of September 19, 2021, total spending by all consumers increased by **19.5%** compared to January 2020.



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Why Slow Employment Growth?

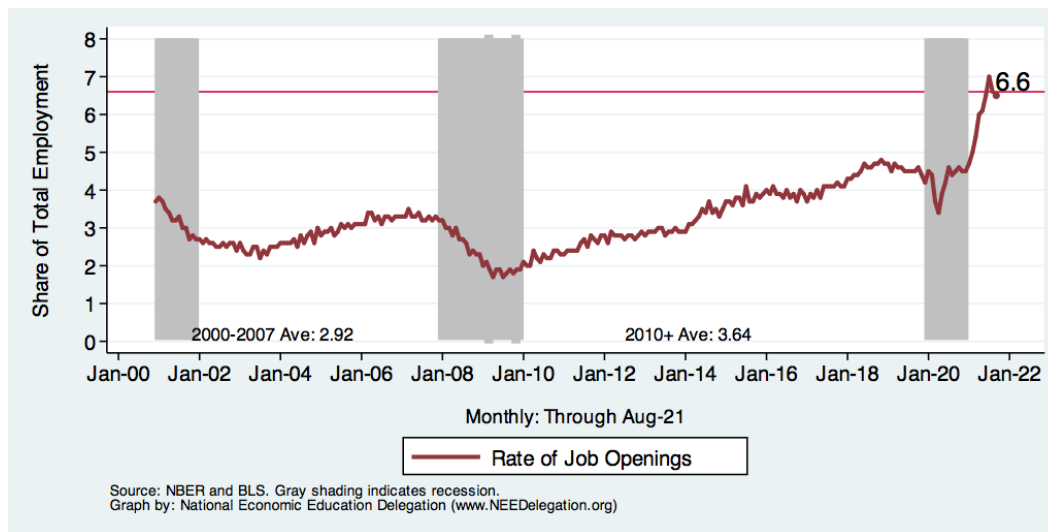
- **It might be:**

- Continued fear of the virus.
- Microchip shortages.
- Geographic mismatch and an unwillingness to relocate...yet.
- Childcare – lack of availability.
- People wanting to do better.
 - Facilitated by additional UI payments.
- People dropping out of the labor force.



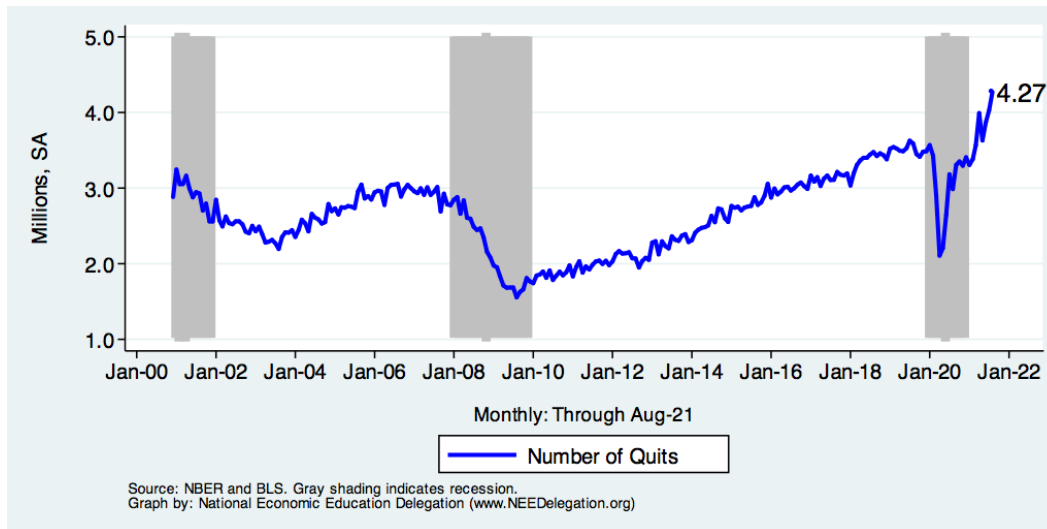
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Job Openings Are Up, but Falling



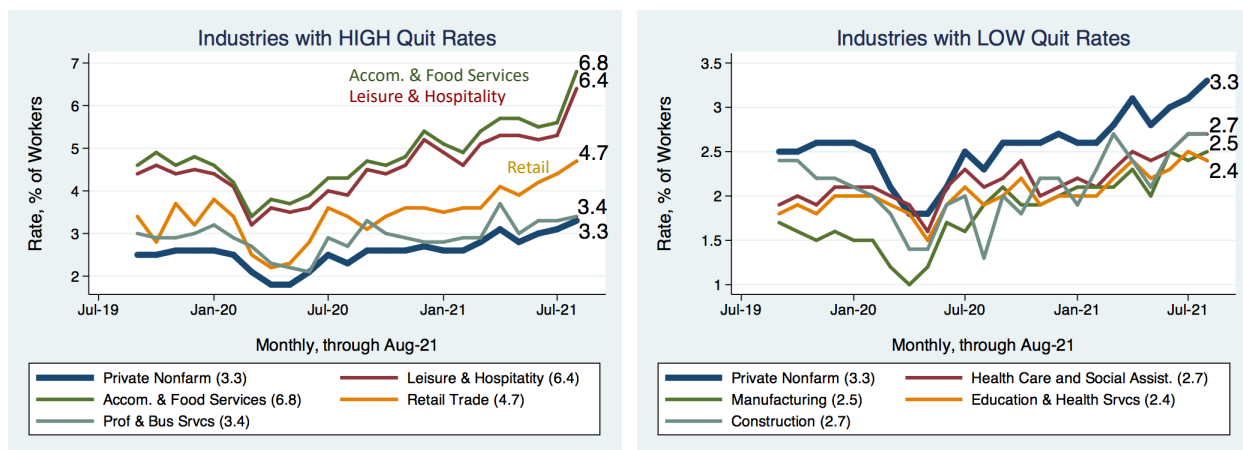
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Quits Are Rising! The Great Resignation



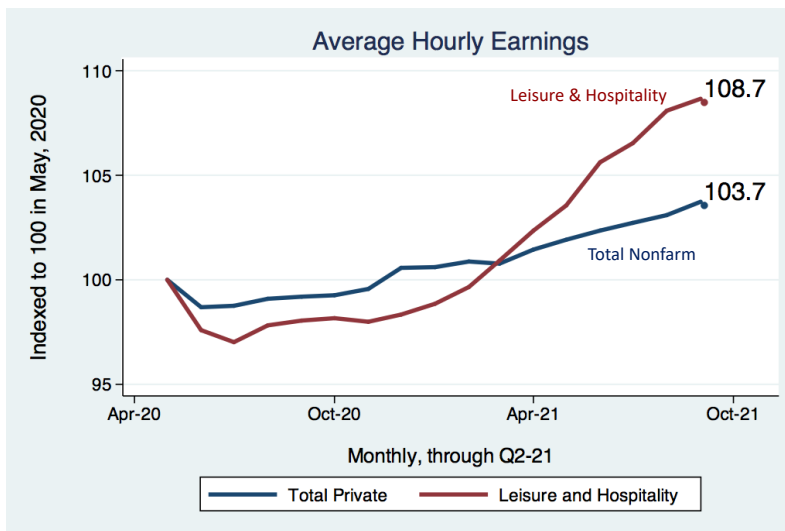
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Quits – Rising, but More in Some Industries



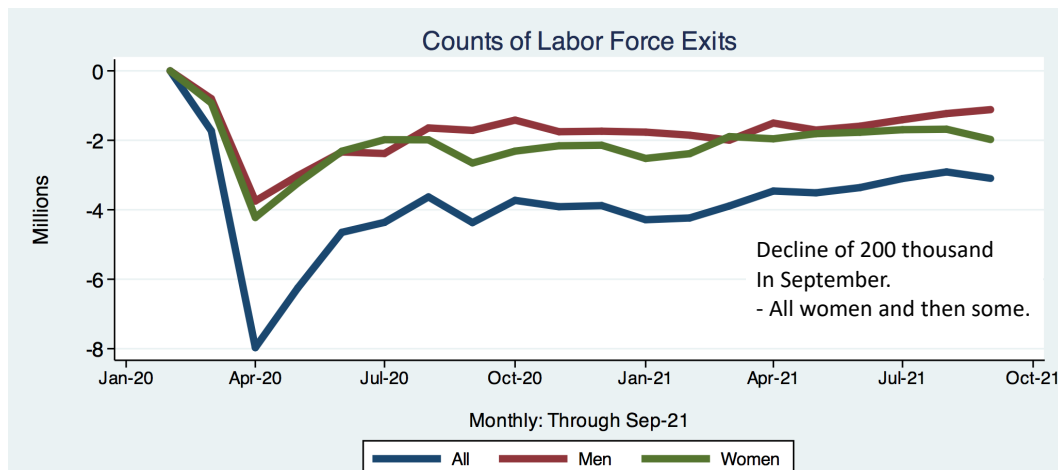
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This is Happening Despite Rising Wages



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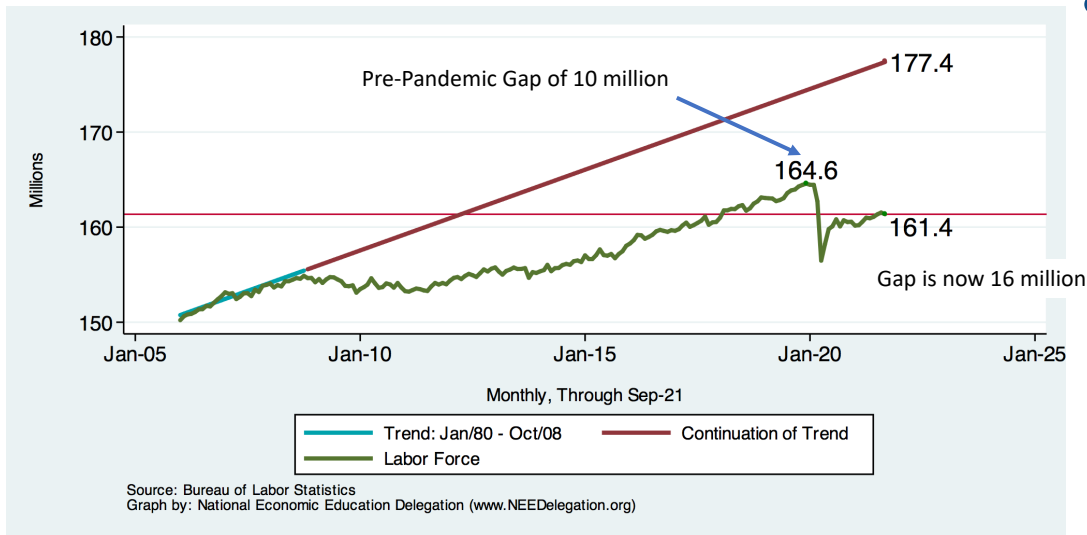
Labor Force is Shrinking: More for Women



Source: Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

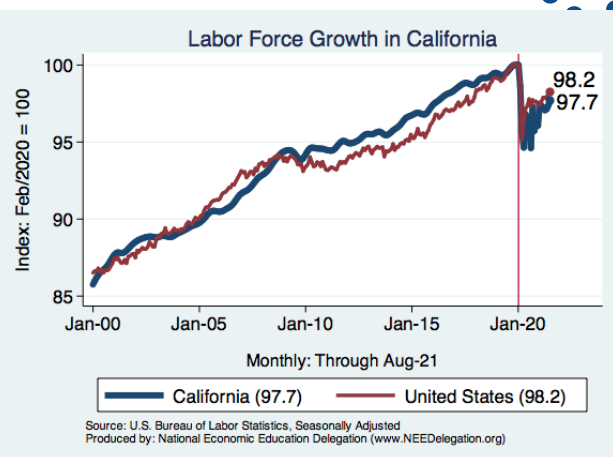
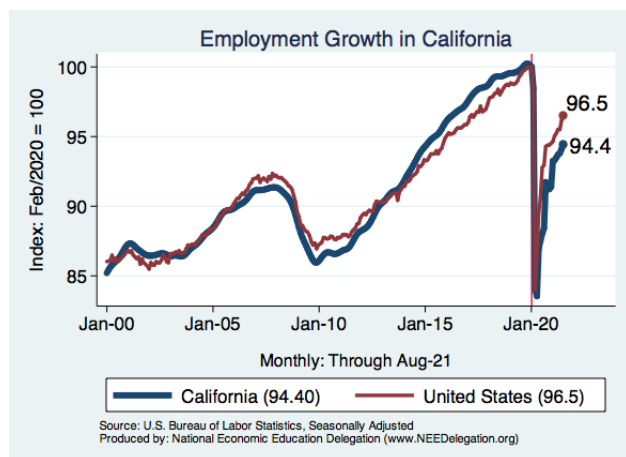
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Labor Force is Gap is Widening



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Employment in California



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Government Policy



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What Have Been Policy Effects

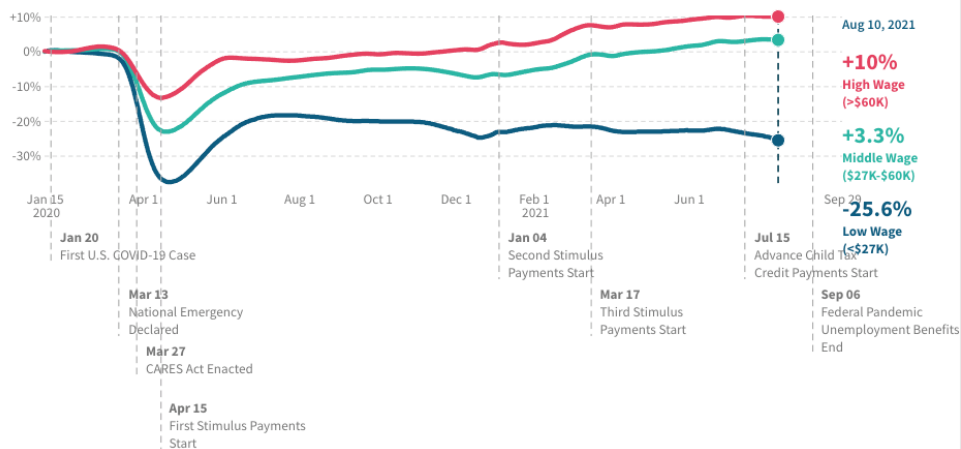
- **Monetary Policy (Fed) acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy (Congress) acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)
- **Last two packages: \$2.8 Trillion, \$5 Trillion in total.**



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Not All Jobs Are Recovering

In **the United States**, as of August 10 2021, employment rates among workers in the bottom wage quartile decreased by **25.6%** compared to January 2020 (not seasonally adjusted).

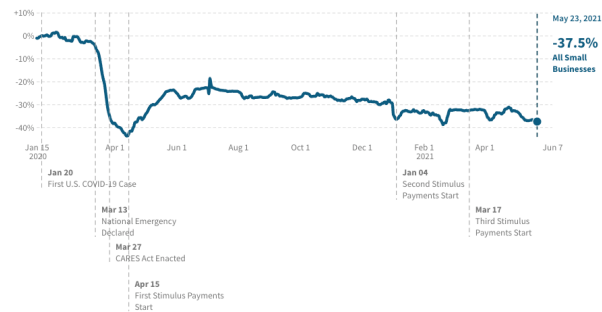


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Another Hard-Hit Sector: Small Business

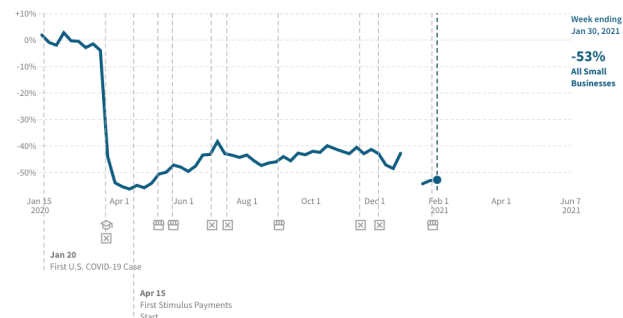
Small Biz Closures in the United States

In **the United States**, as of May 23 2021, the number of small businesses open decreased by **37.5%** compared to January 2020.



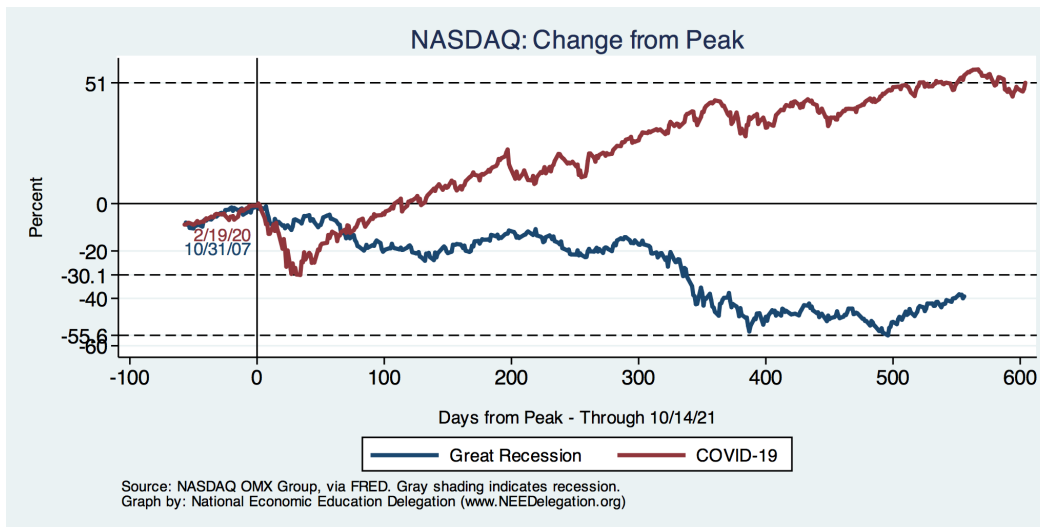
Small Biz Closures in San Francisco

In **San Francisco**, as of January 30 2021, the number of small businesses open decreased by **53%** compared to January 2020.



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Stockholders doing Very Well

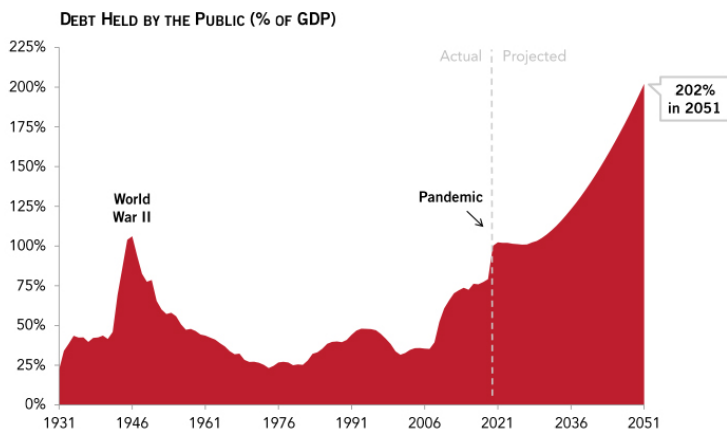


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Debt: A Problem Exacerbated...Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Current Deficits in Perspective:

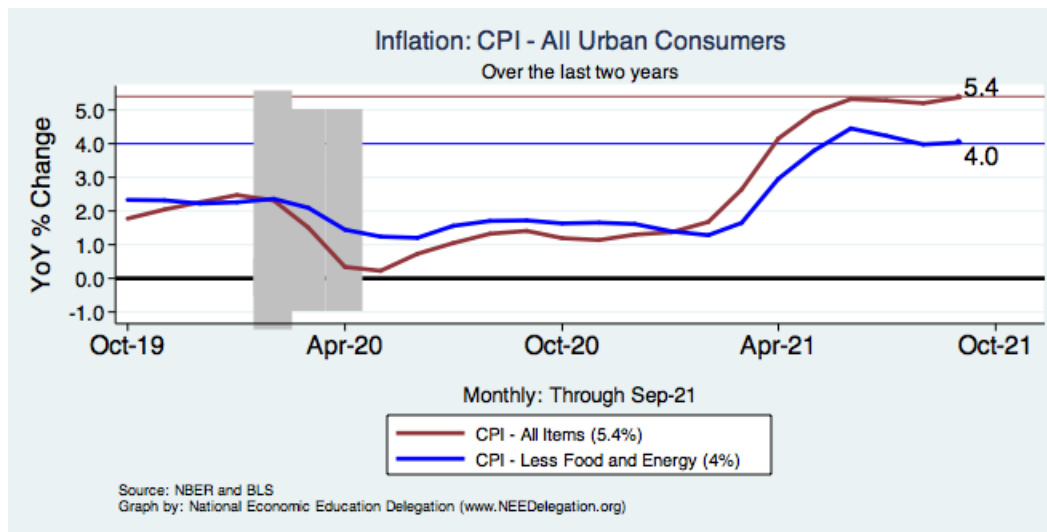
- The budgetary cost of the 3 major fiscal packages during the pandemic was over \$5 trillion. As a share of the economy this is almost the size of war production in 1943.

(Romer, *Brookings Papers on Economic Activity*, 3/25/2021.)

- Since March of 2021, Fed net holdings of US Treasury bonds have increased by \$2.7 trillion.



Inflation – Climbing! Should we worry?



What Index to Follow: CPI or PCE?

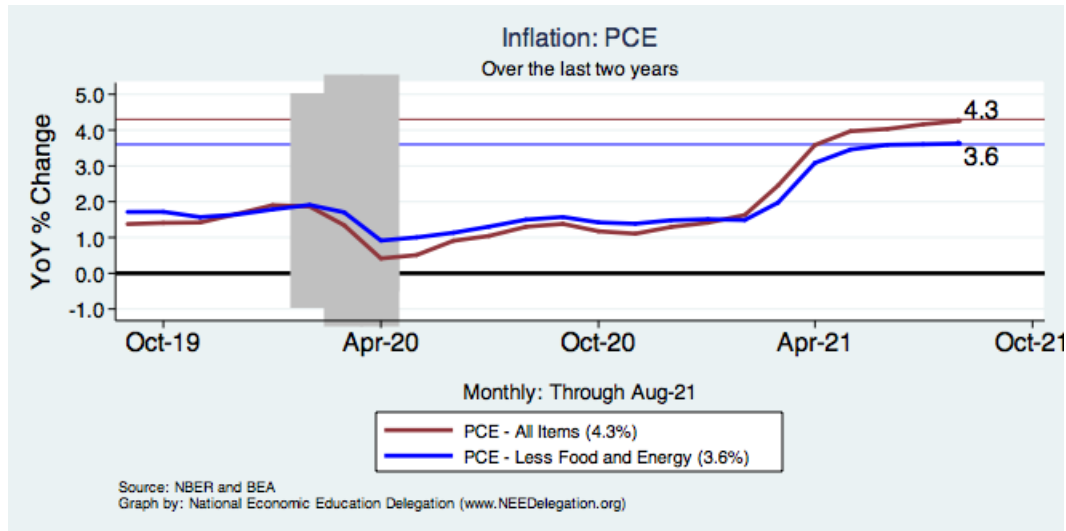
- **CPI is the headline statistic, followed by most newspapers.**
 - Allows more granularity – ability to look at specific products.

- **PCE is the one followed by the Fed.**
 - Why?
 - Accounts for short term fluctuations in consumer purchases.
 - Based on more reliable data.

- **Fed generally pays attention to the core inflation #s.**
 - Excluding food and energy.

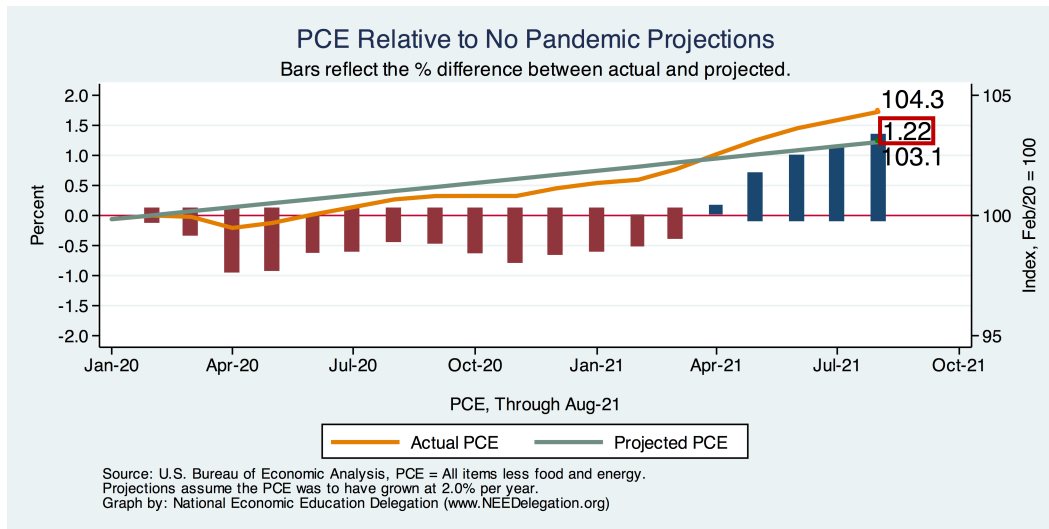
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Inflation – The Fed’s Metric! Should we worry?



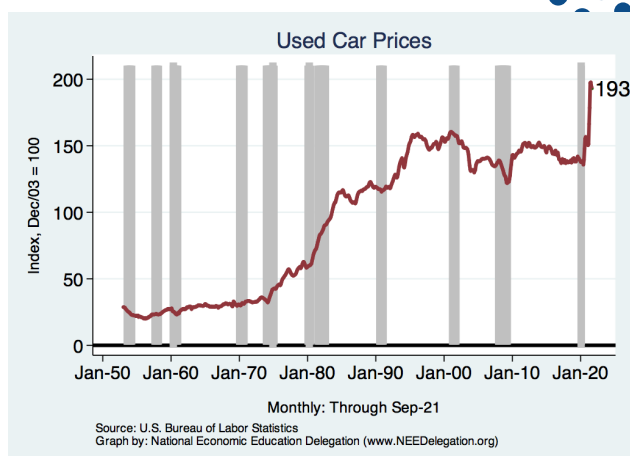
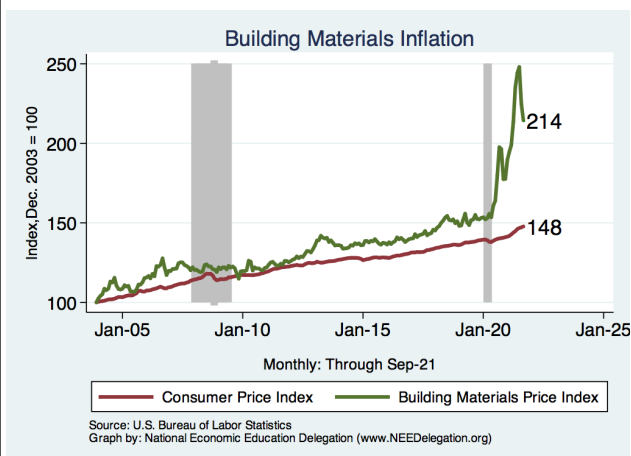
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Inflation – PCE and Fed Suggest: No!



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Inflation: Concentrated



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Puzzle: Is Inflation Permanently Higher?

- **Fed: No. Price increases are**
 - 1) rebound from low prices last year;
 - 2) temporary due to supply chain disruptions; e.g., used cars, bldg supplies.
- **On the other hand: We are close to full employment and monetary and fiscal policies are very easy.**
- **Nobody knows.**
- **Paul Krugman: Don't just do something, stand there!**



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Structural Changes?

- **Pandemic has been an accelerant.**
 - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**
- **Wealth concentration**
- **Industry concentration**
- **Automation**



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Residential Real Estate

• Rental markets

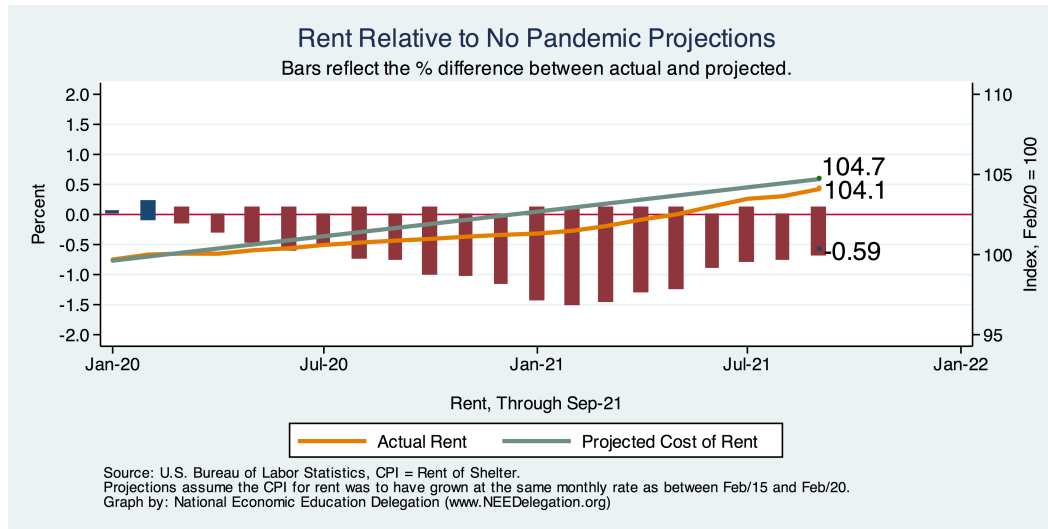
- Eviction moratoria are over.
 - o CA: Making payments can stay + 25%.
 - o Self-evictions?
- Not enough in the American Rescue Plan.
- Reports of rents rising significantly.

• Owned homes

- Depends on location.
 - o San Francisco – recovering.
 - o Los Angeles County – continued strength.
- Size matters: large homes are selling particularly well.

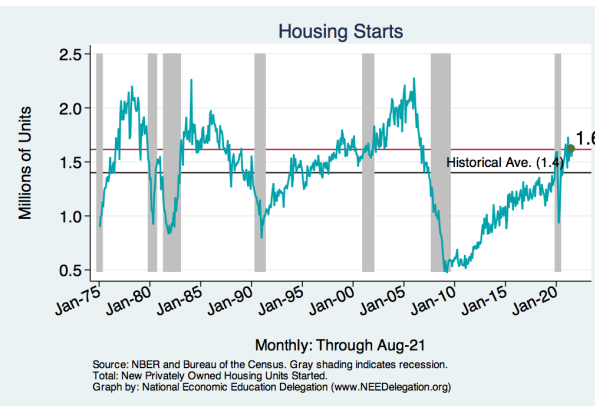
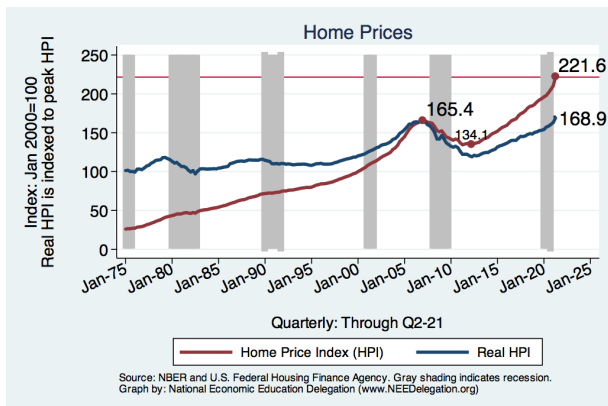
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Inflation – Cost of Rent



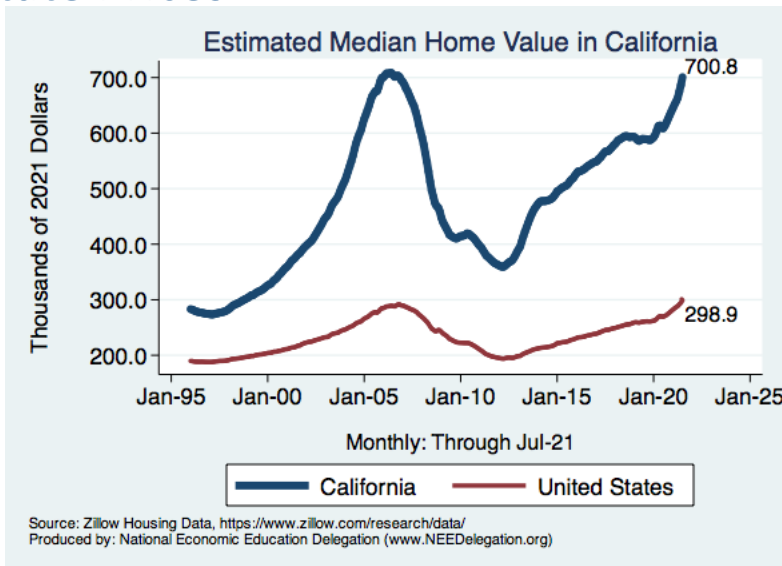
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Home Prices and Housing Starts



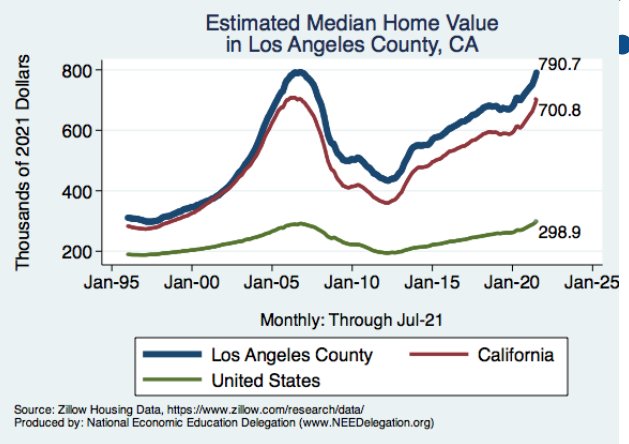
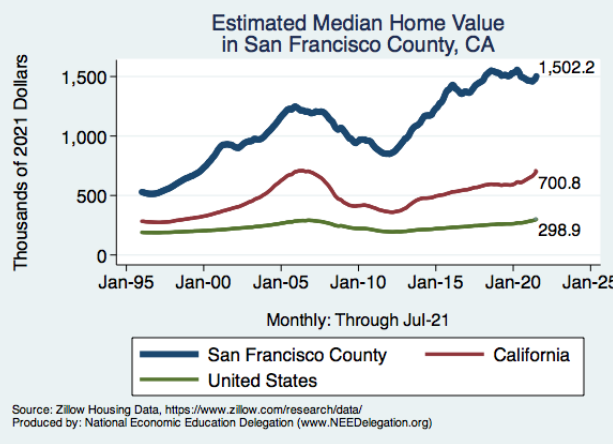
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Real Estate Prices



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RE Experiences Differ!



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Commercial Markets

- **Short term – disaster**
- **Long term - unknown**
 - Really depends on how work location preferences shake out.
 - Telecommuting?
 - Reduced demand for space in inner core areas.
 - Increased demand for smaller spaces in suburban areas.

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Commercial RE

- **Implications of COVID**
 - Telecommuting and closures are the main story.
- **Long term implications**
 - Jack Dorsey – Twitter – never coming back to the office!
 - I believe we are in a telecommuting honeymoon.
 - 80% of pre-COVID occupancy.
 - Depends on productivity/cost implications.
 - Uber/Lyft model writ large.
 - Individual level vs firm level productivity.
- **When is the long term?**



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Primary Topics Covered

- **GDP**
 - Recovered the decline, but not where it should be.
 - Won't recover previous forecast until late 2022.
- **Employment**
 - Still down 9.2 million jobs relative to forecast. (4.9 million relative to Feb/20).
 - Labor force is 6.0 million smaller than at the beginning of the pandemic.
 - Rising wages are not enticing low-wage workers back to work.
- **Inflation**
 - Going to be high for a while, but transitory – we hope.
- **Federal Debt**
 - Has grown significantly, but economists are not worried...yet.
- **Real Estate**
 - Residential, strong. Commercial, less so...for some time.



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Conclusion

- Recovery is well underway, but may be slowing.
- Significant structural changes – accelerant.
- GDP will likely expand 5% percent this year, 3-4% next.
- Physical health determines economic health for the economy.
 - Well on our way to recovery, both health and economic.
 - Variants may well slow our progress.
 - Gov't missteps may also hinder progress.
- Biggest problems:
 - Supply chain bottlenecks.
 - Labor force participation.



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Thank you!

Any Questions?

www.NEEDelegation.org

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Submit a testimonial: www.NEEDelegation.org/testimonials.php

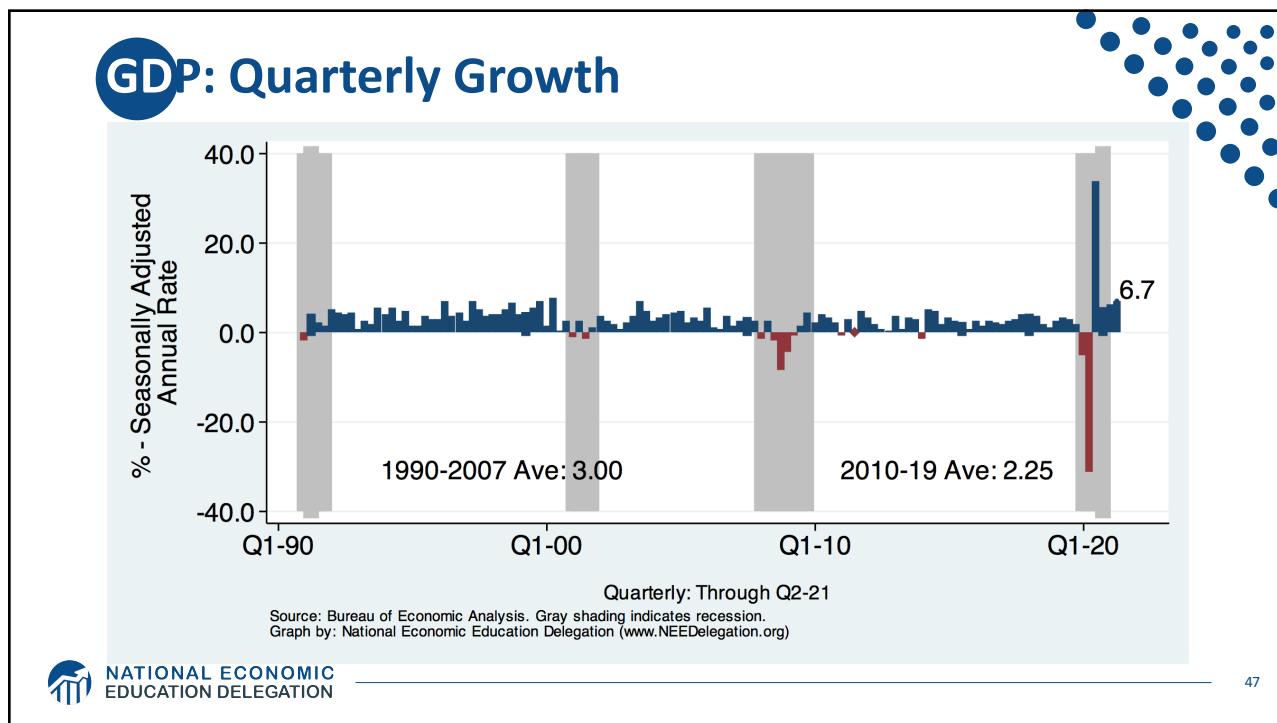
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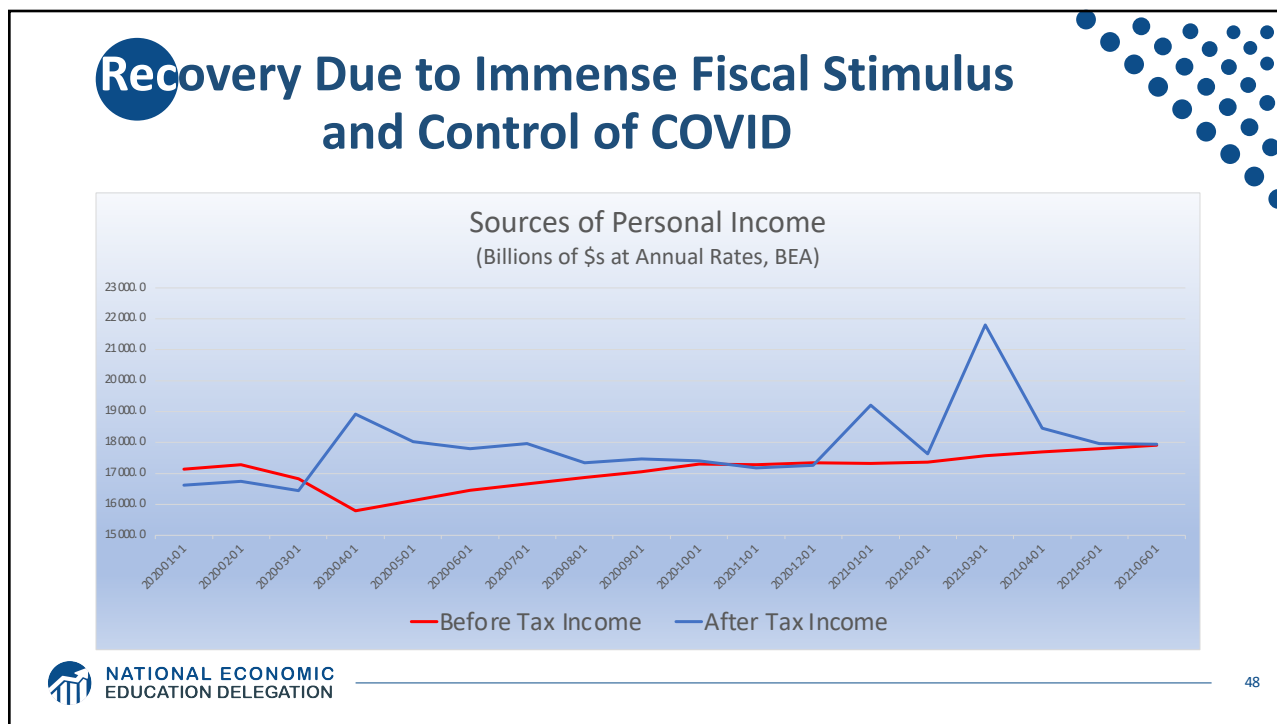
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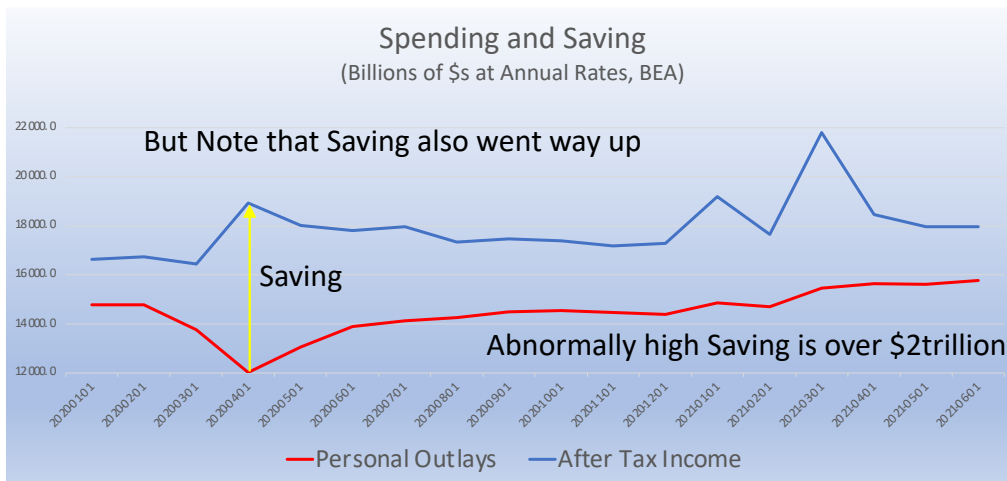


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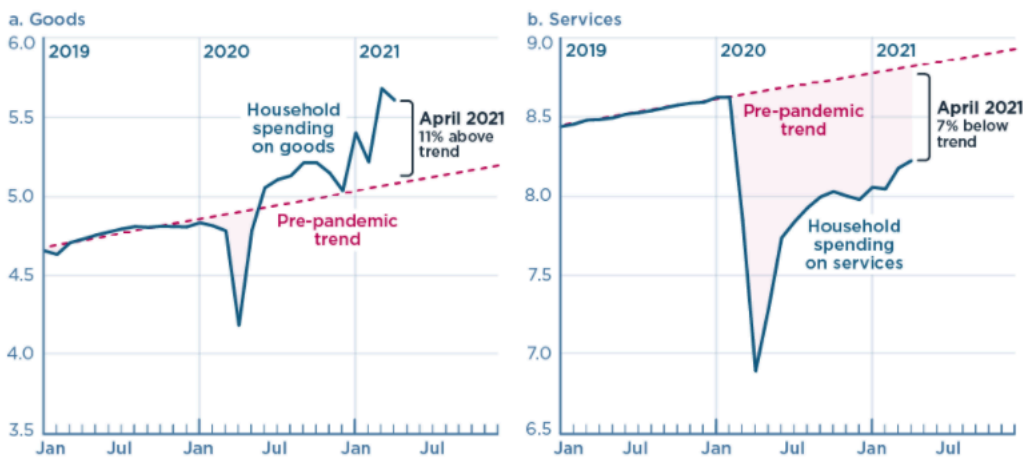
Stimulus allowed Spending to Recover



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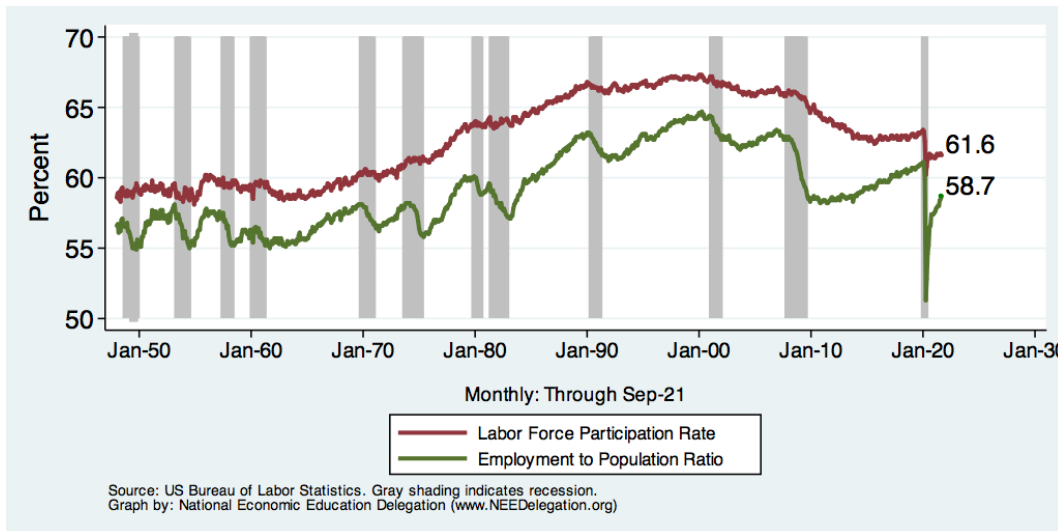
And We're Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars



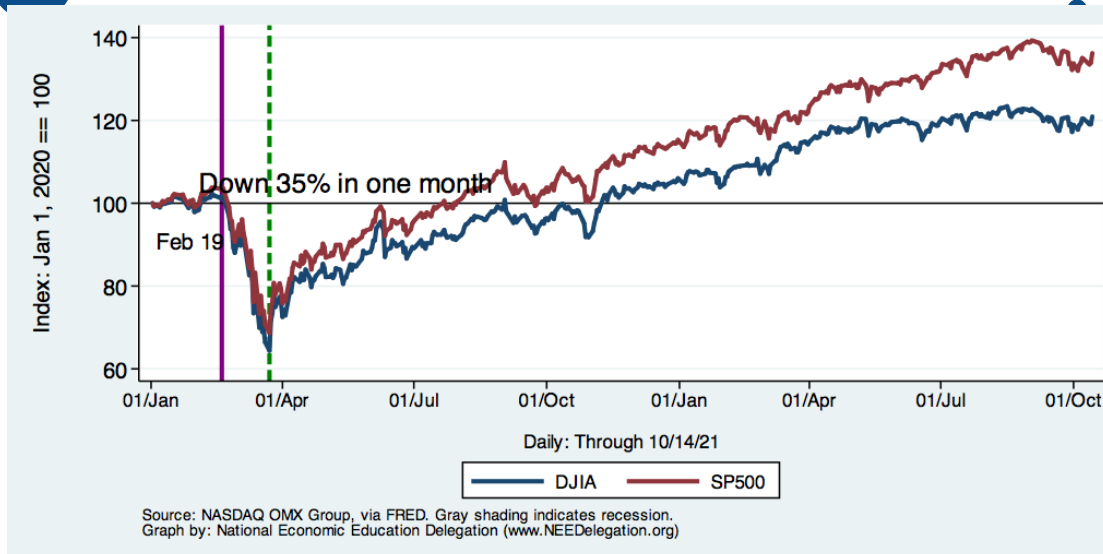
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Labor Force is Shrinking



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DJIA and S&P 500

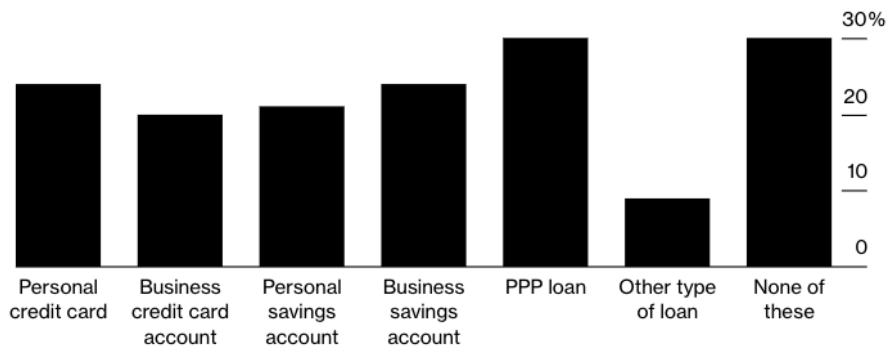


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Small Businesses: They Didn't Get Enough PPP

Small Business Owners Turn to Their Own Funds

In total, 70% of respondents were using at least one form of financial support to get their business through the pandemic.



CreditCards.com
Respondents could choose more than one option.

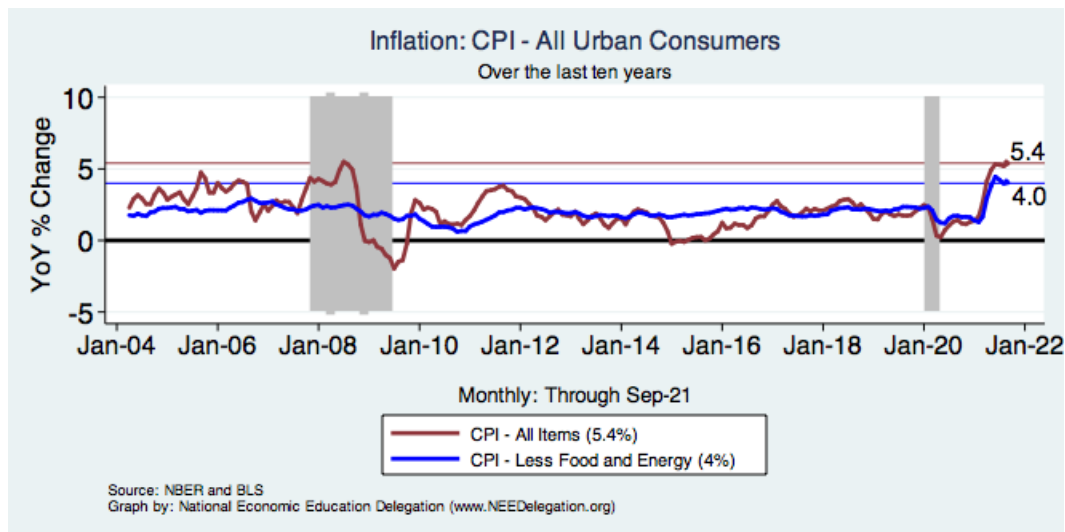


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Inflation – Prepandemic Stability

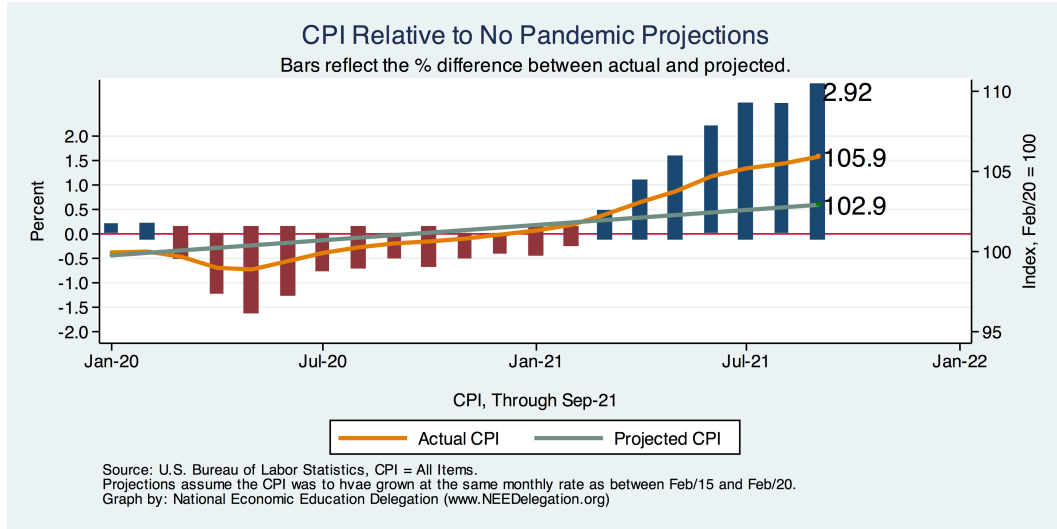


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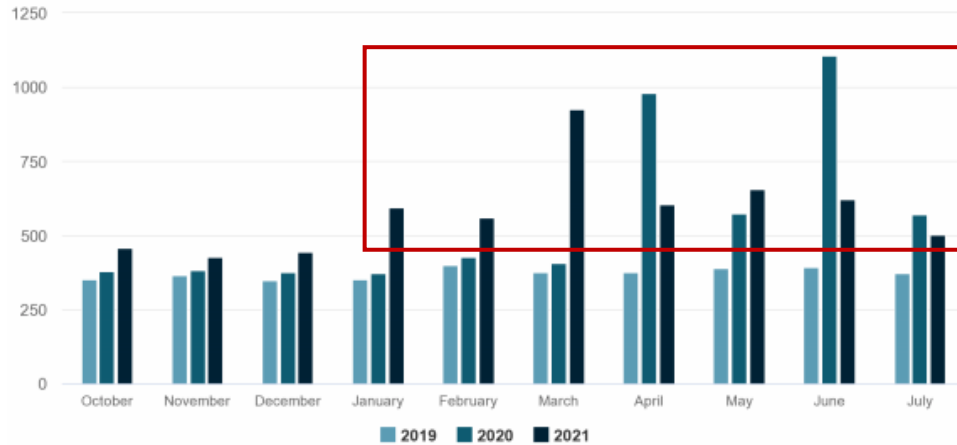
Inflation – CPI Suggests: Yes!



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Trillions in Pandemic Spending

Monthly Outlays
Fiscal Years 2019, 2020, 2021
Billions of Dollars



Data sources: Congressional Budget Office; Department of the Treasury.

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Why so Excited About Telecommuting?

- **Productivity at home appears to be really high during pandemic.**
 - Nothing else to do.
 - Short term – corporate culture and new hires – visibility to the boss – camaraderie.
- **CEOs are salivating over reduced Comm RE costs.**



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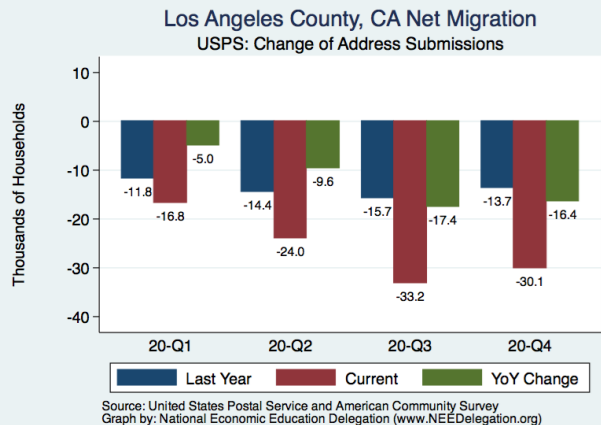
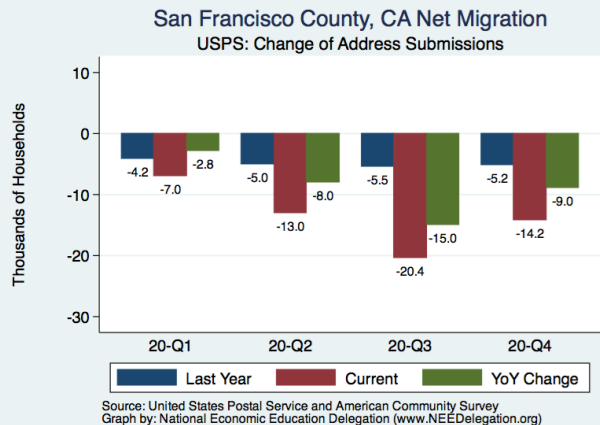
Telecommuting – Will it Stick?

- **Working from home is ALWAYS less productive than working in the office.**
 - But the gap has shrunk because of technology.
- **In the interest of workplace productivity, employers are likely to allow more working from home.**
 - Increased in-office moral and hence productivity.
 - But not 100% or even 50%. How much?
- **Has important implications for real estate.**



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Population Change: San Francisco & LA Counties



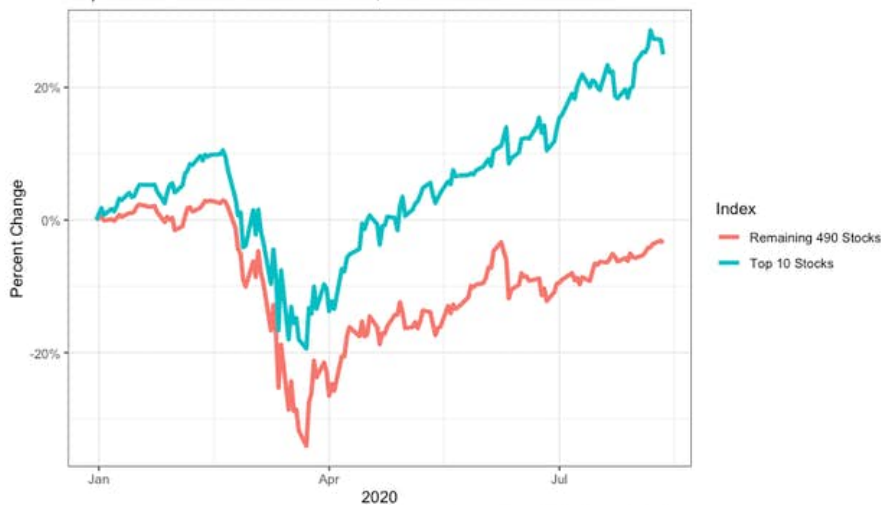
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Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance



Source: TrendPlaybook.com, Bloomberg

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Inflation – Summary

- **Headline inflation story is troublesome.**
- **The Fed suggests that it is not.**
- **Powell: current high inflation is “transitory”.**
 - That does not mean that price levels will come down.
 - It means that inflation is likely to return to its prior trajectory once the economy has worked out the pandemic kinks.
- **Fed targets 2.0%. We are currently just 1.2% above that.**



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www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.

Detailed graphs on employment, housing, moves, and other statistics.



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