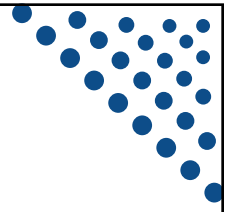


INFLATION



# US Economic Update

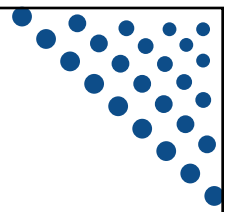
California Community Colleges Real Estate Education Center

Jon Haveman, Ph.D.

NEED  
April 21, 2023



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# Outline

- Economic Indicators
- Inflation/Federal Reserve/Banks
- The Debt Ceiling
- Real Estate

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# Headline:

## G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

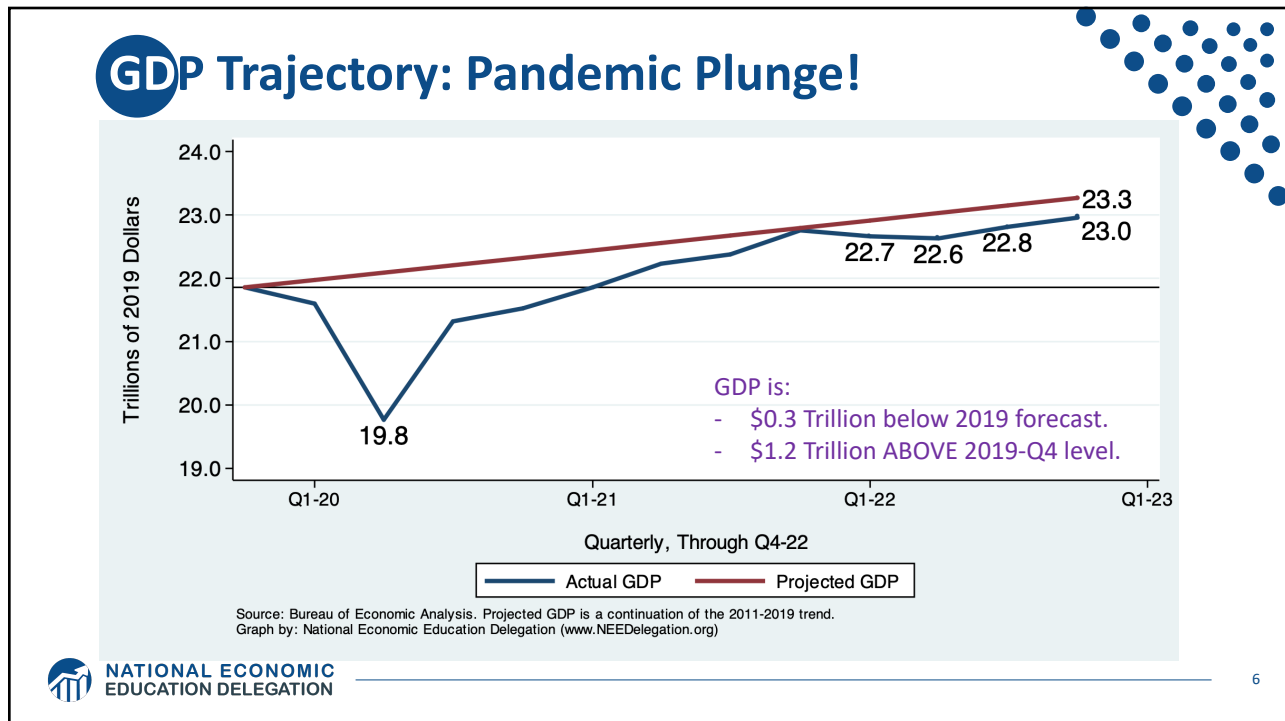
- A key measure of economic output fell for the second straight quarter, fueling fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

Last July

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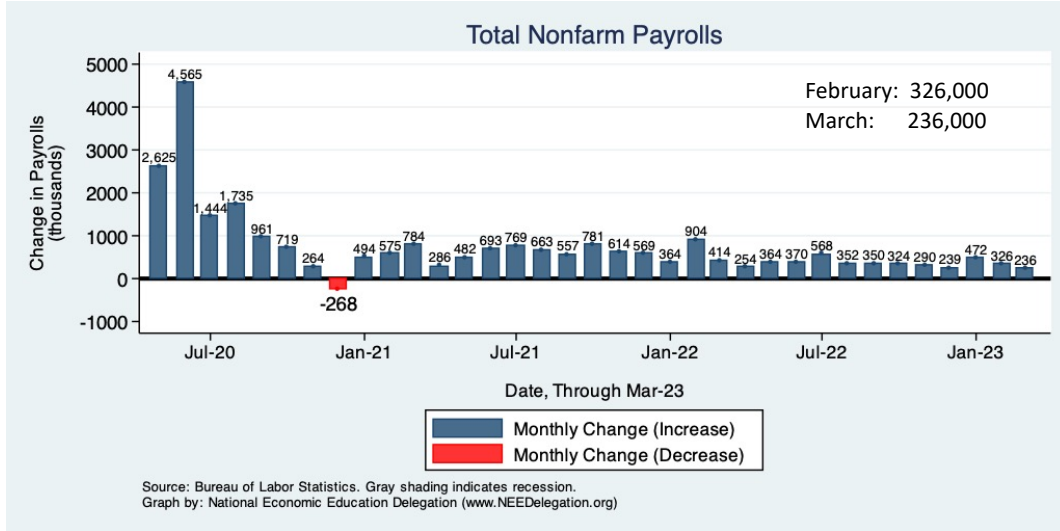


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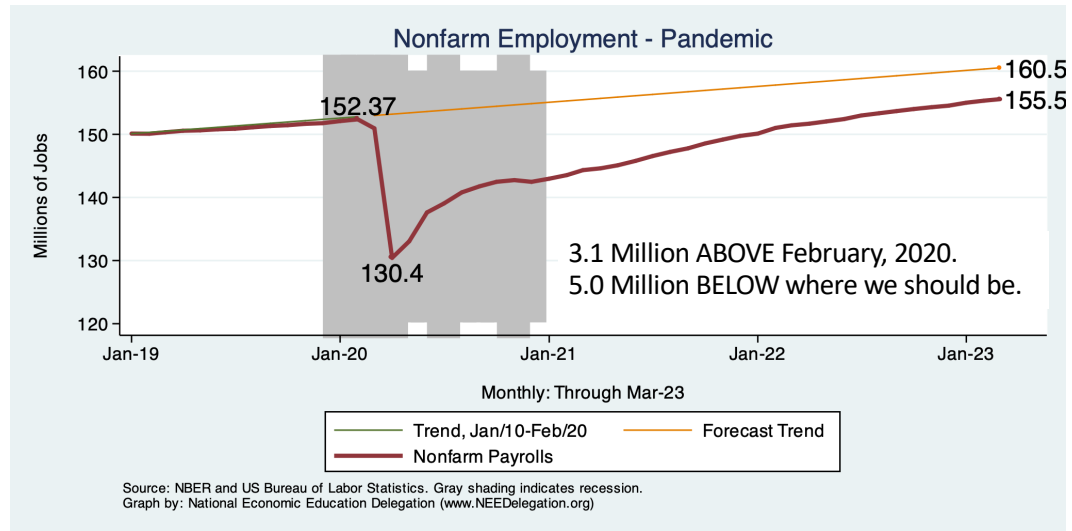
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# Monthly Changes in Nonfarm Employment



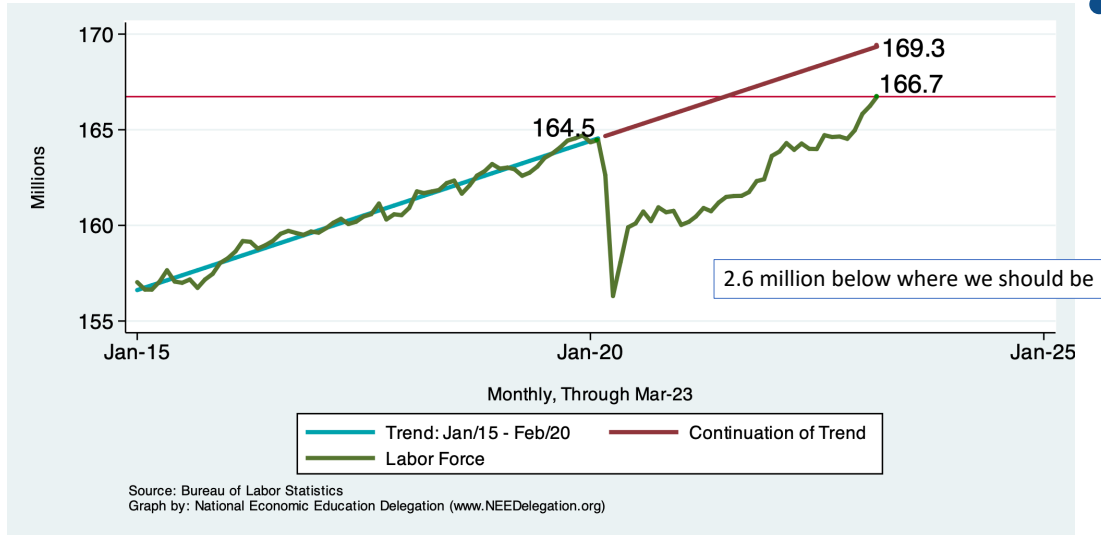
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# Employment Gap

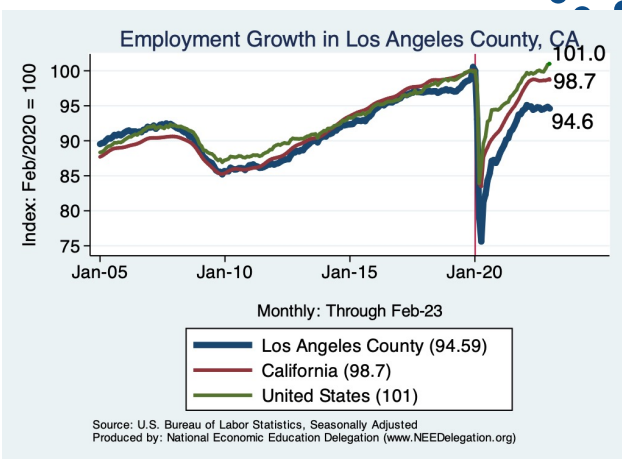
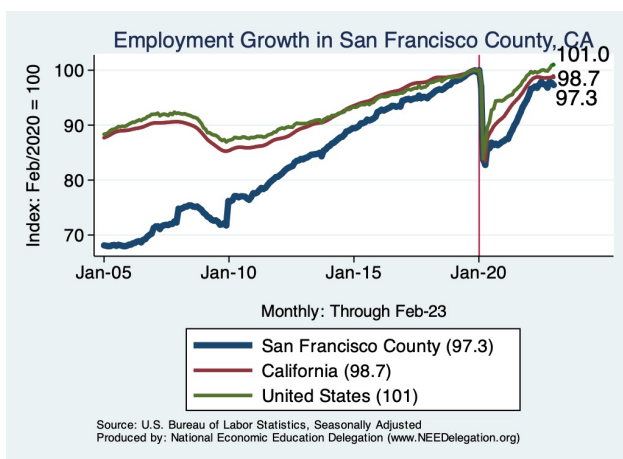


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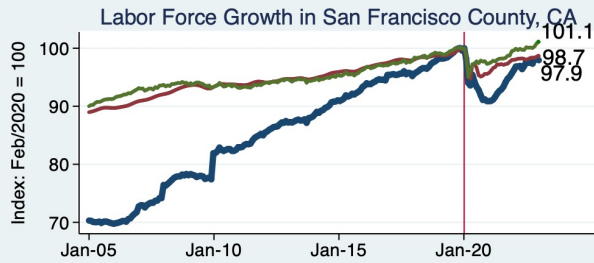
# Where Have All the Workers Gone?



# Labor Market Experiences: Employment



# Labor Market Experiences: Labor Force



Monthly: Through Feb-23

- San Francisco County (97.90)
- California (98.7)
- United States (101.1)

Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted  
Produced by: National Economic Education Delegation (www.NEEDelegation.org)



Monthly: Through Feb-23

- Los Angeles County (95)
- California (98.7)
- United States (101.1)

Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted  
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

[www.NEEDecon.org/LocalGraphs](http://www.NEEDecon.org/LocalGraphs)

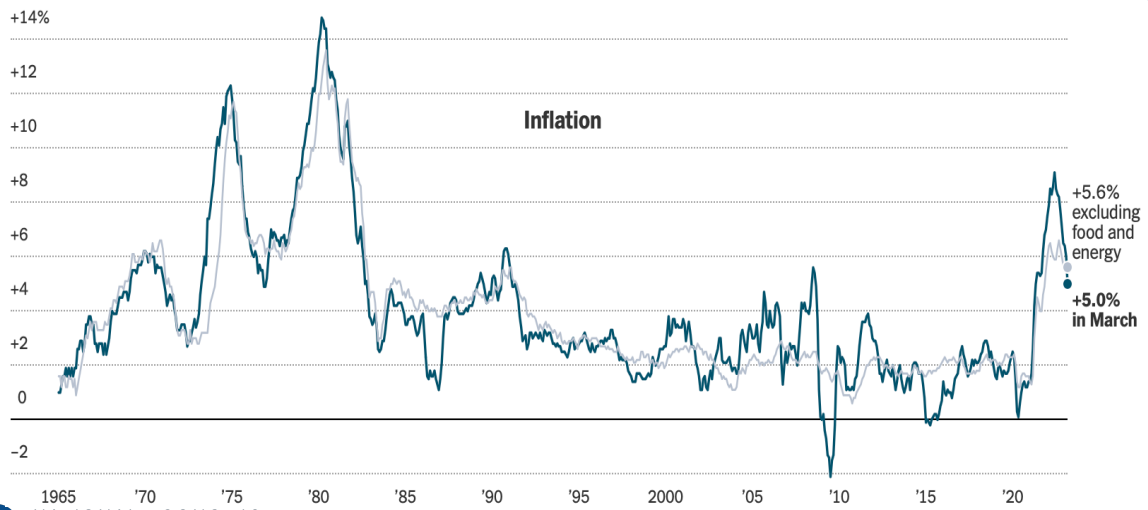
For every state and county in the United States.

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

# Inflation

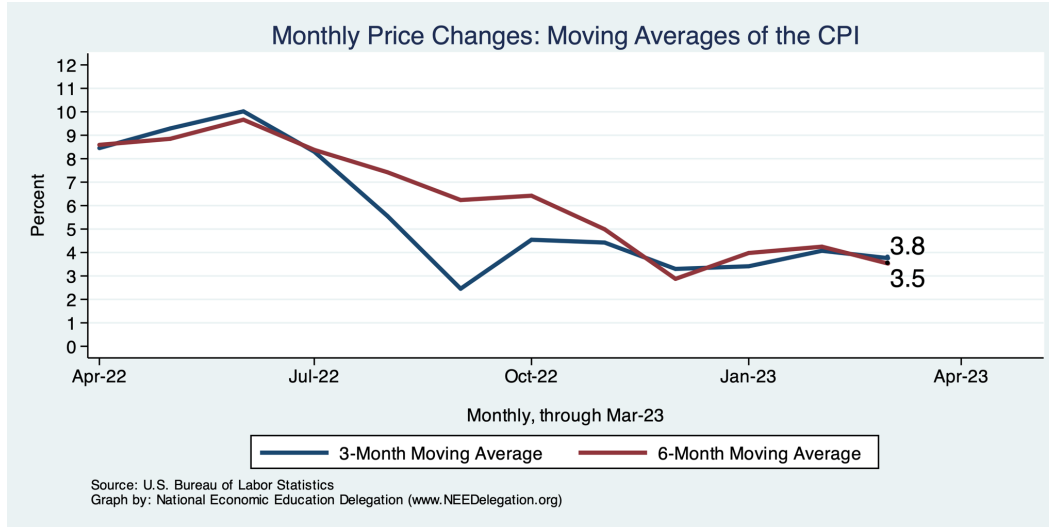
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## Inflation: Latest Figures



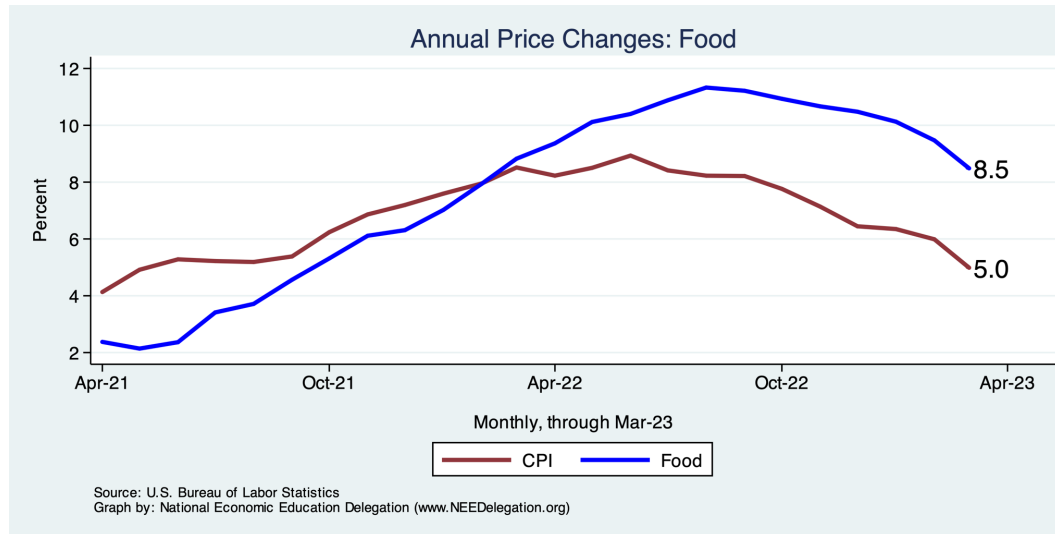
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## Inflation in the Last 6 Months – Closer to 4%!



15

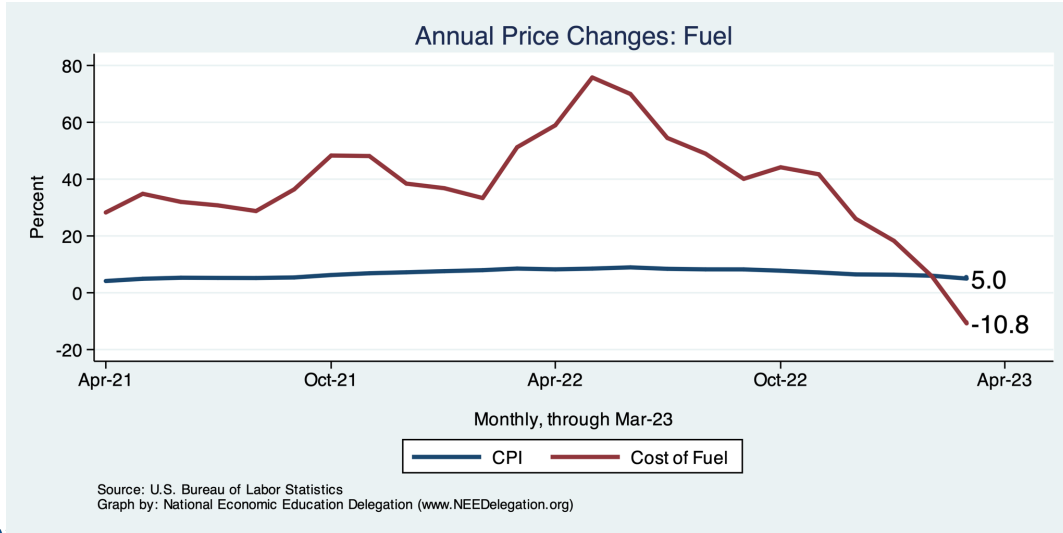
## Food Prices Are Coming Down



16

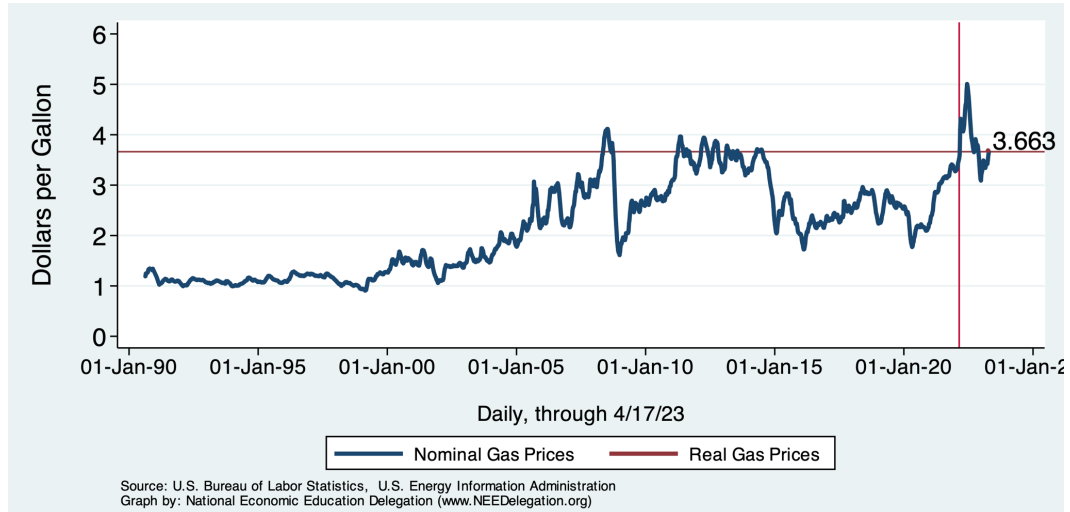


## As Are Fuel Prices



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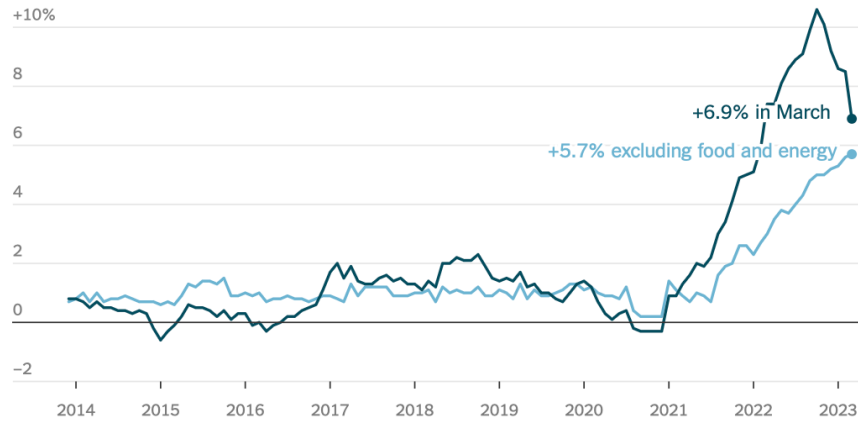
## Gas Prices...not so much



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# Inflation is Not just a U.S. Problem

Year-over-year change in consumer prices in the eurozone

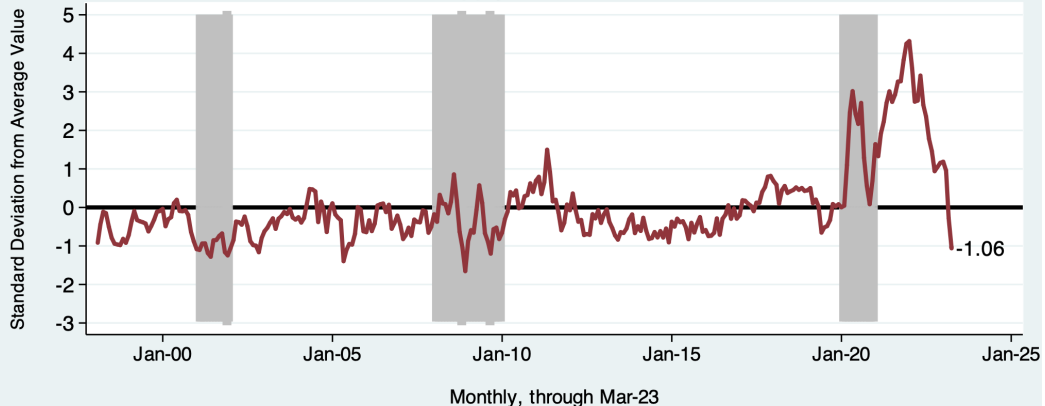


Source: Eurostat • By The New York Times

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# Supply Chains

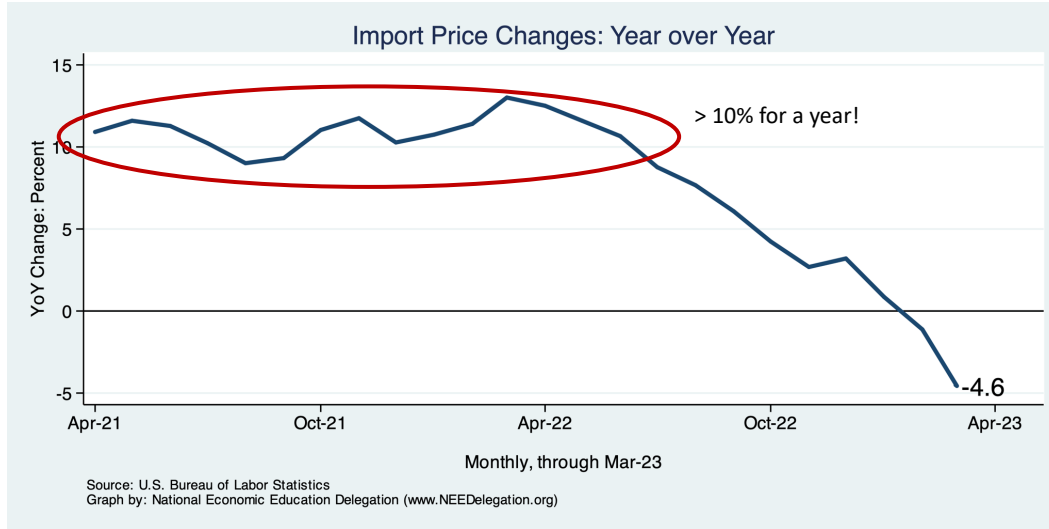
Global Supply Chain Pressure Index



Source: Federal Reserve Bank of NY. Gray shading indicates recession. Higher values correspond to more pressure on the supply chain. Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

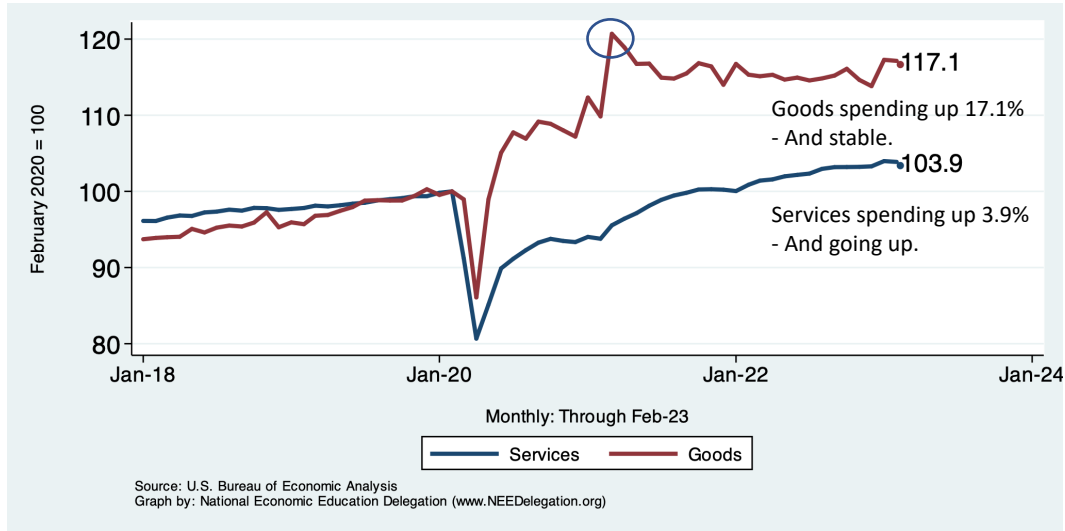
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# Import Price Inflation WAS Very High



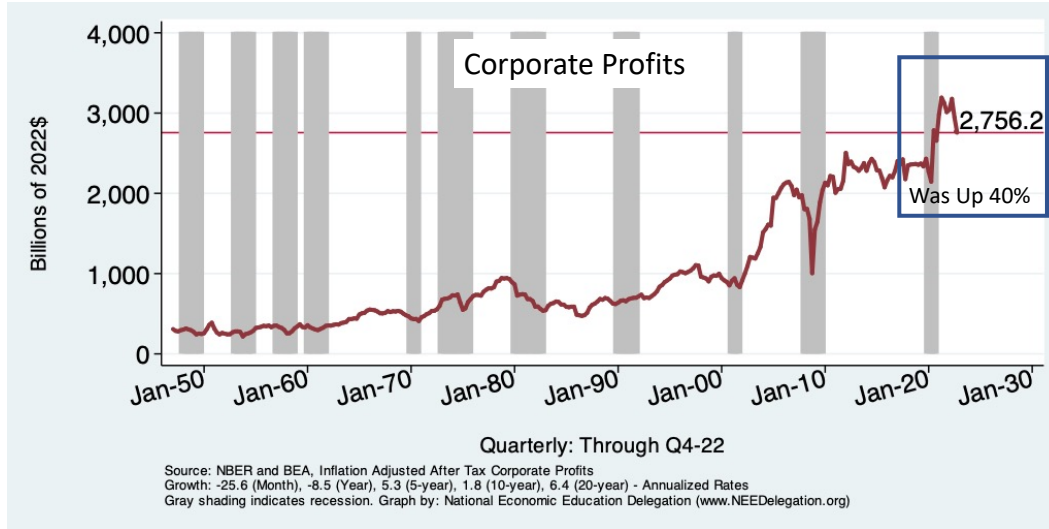
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# Spending Patterns Changed - More Goods!



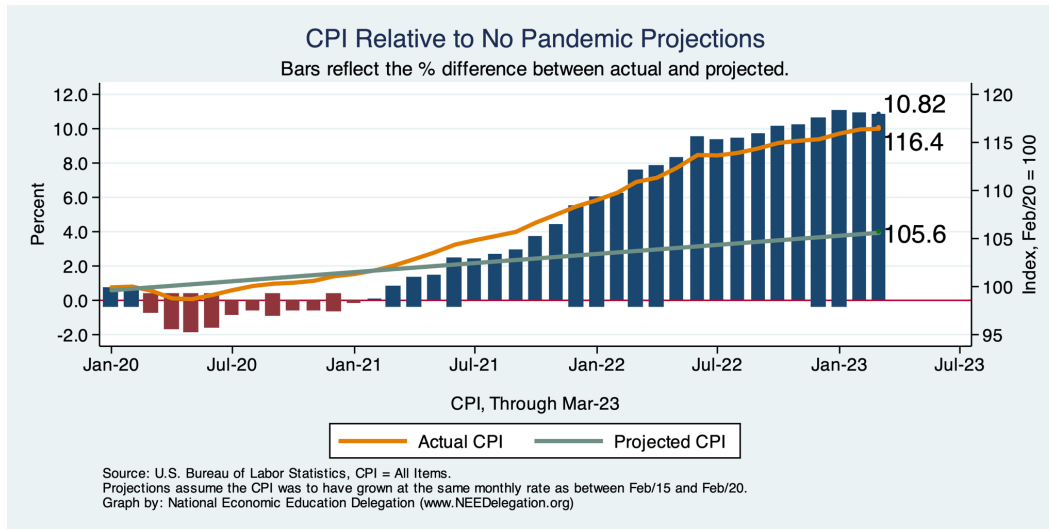
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## Corporations Have Pricing Power!



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## How Elevated Are Prices?



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## My Thoughts on the Sources of Inflation

- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
  - Is now bouncing back, as are prices.
- **Corporations have used the cover of inflation to raise prices more.**
- **But there was too much total spending.**
  - Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- **Who is to Blame: ARP probably too big, but the Fed could have acted sooner.**
- **Bottom line: Recovery from a dramatic economic disruption is seldom painless.**



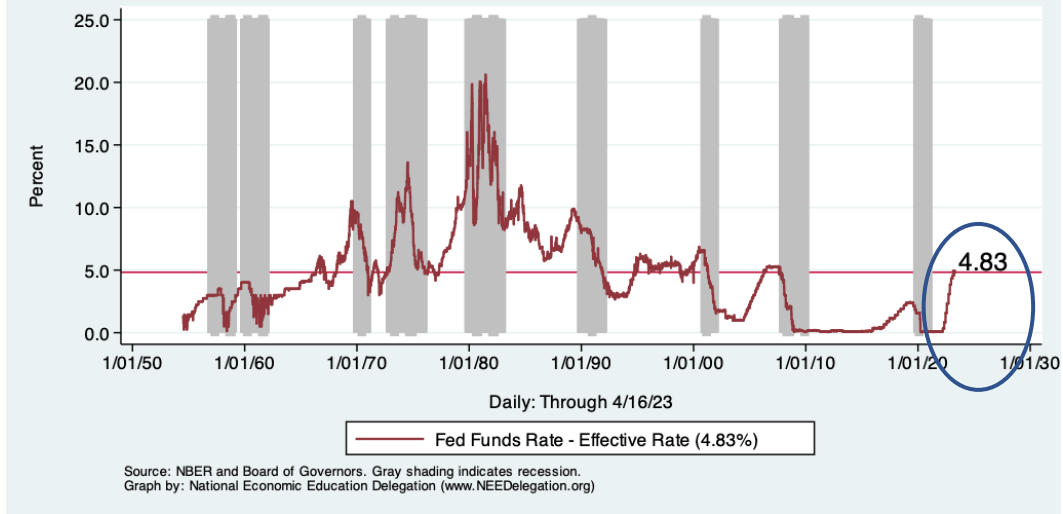
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## What's the Fed Doing About It?



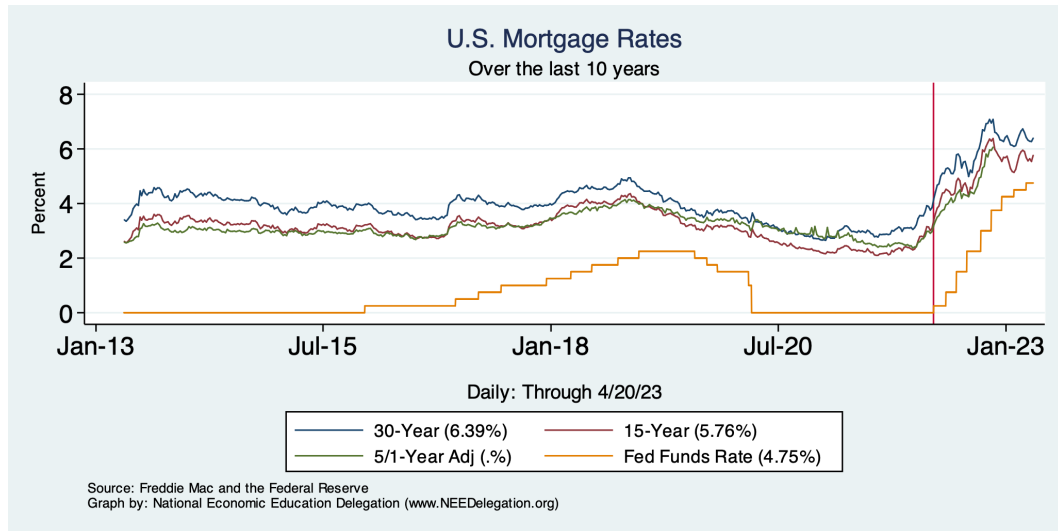
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## Raising the Federal Funds Rate

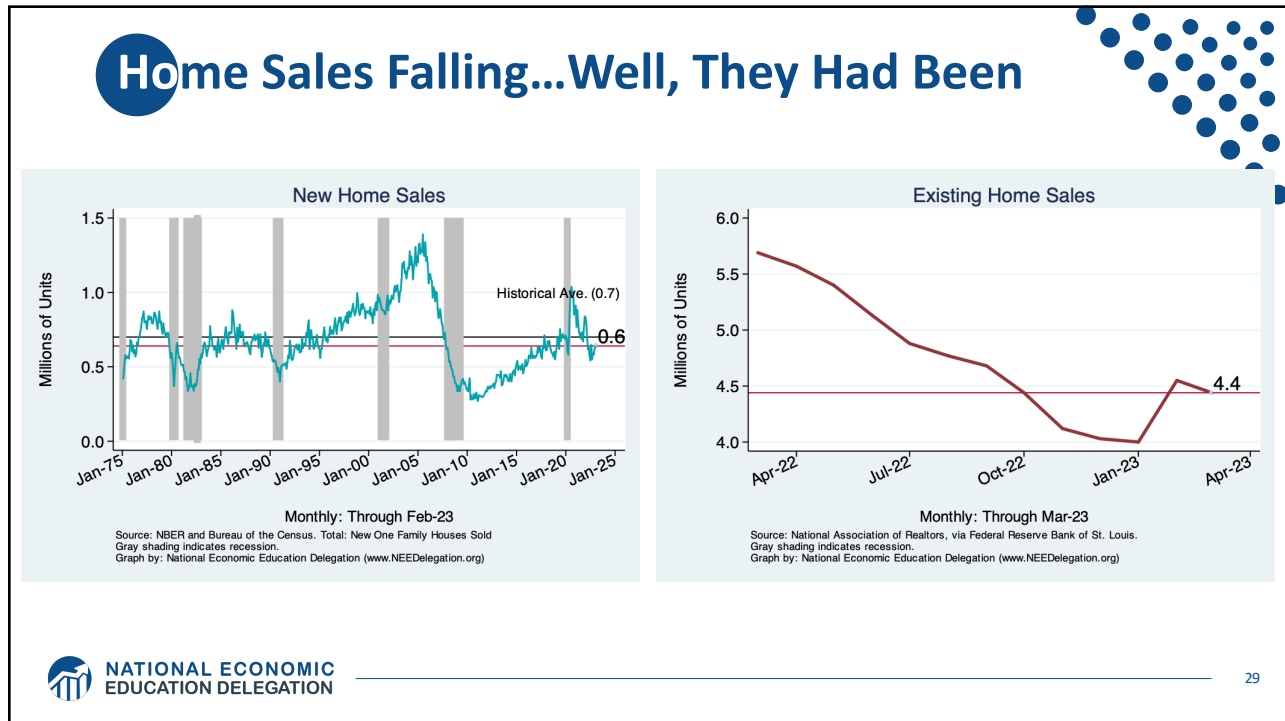


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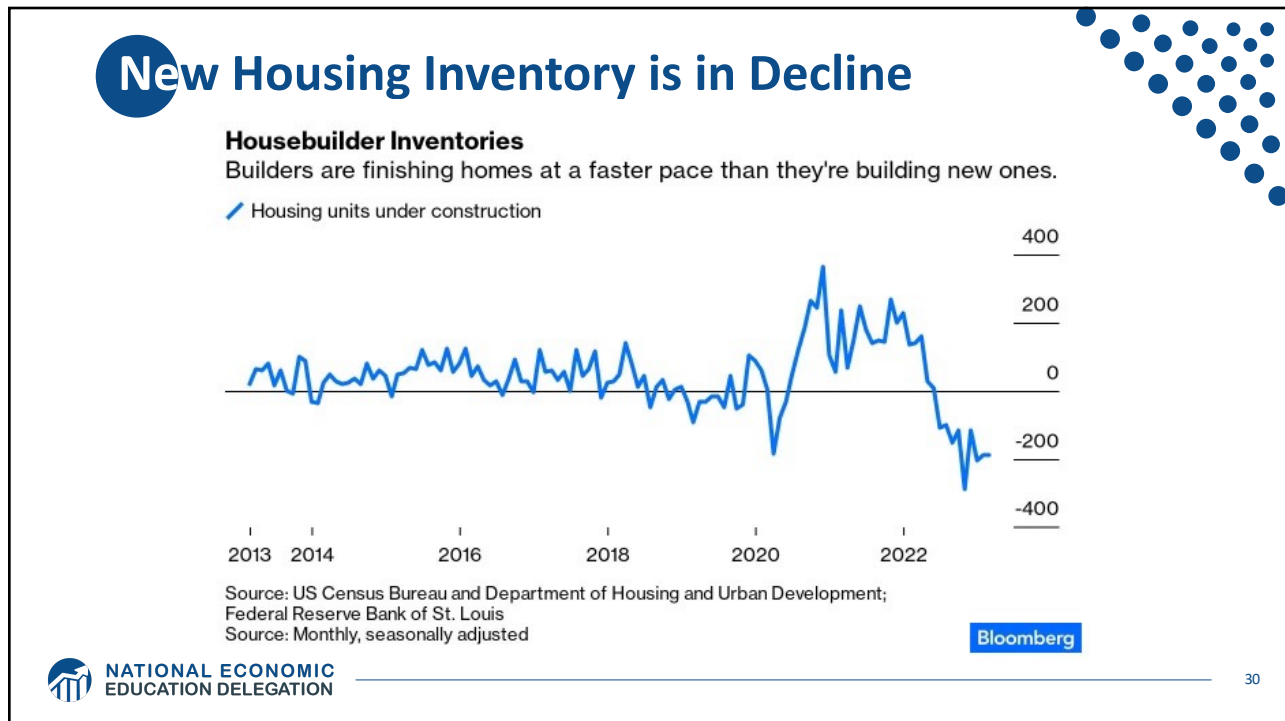
## Mortgage Rates



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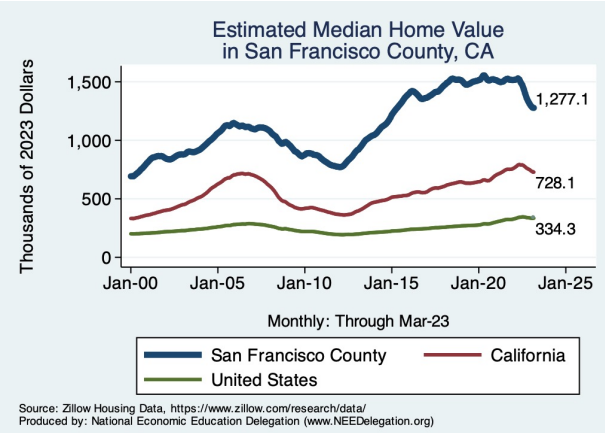
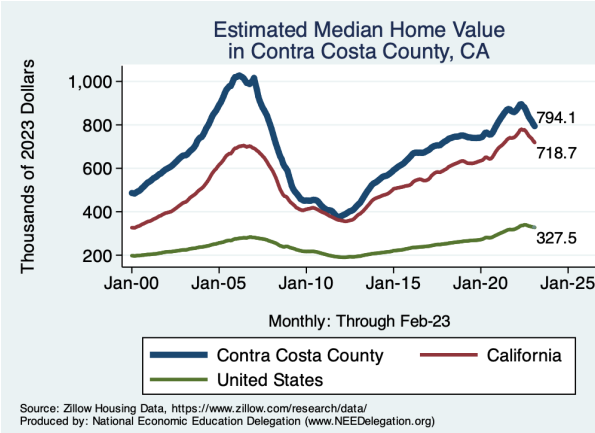


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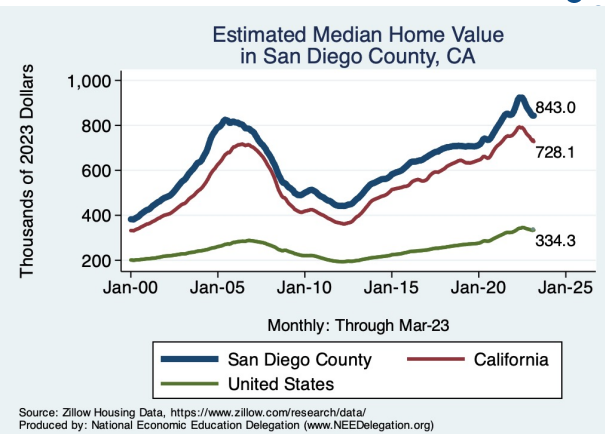
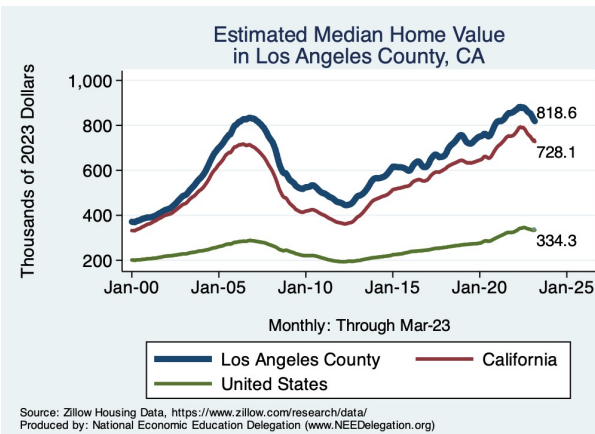


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## Home Prices ... in Northern CA

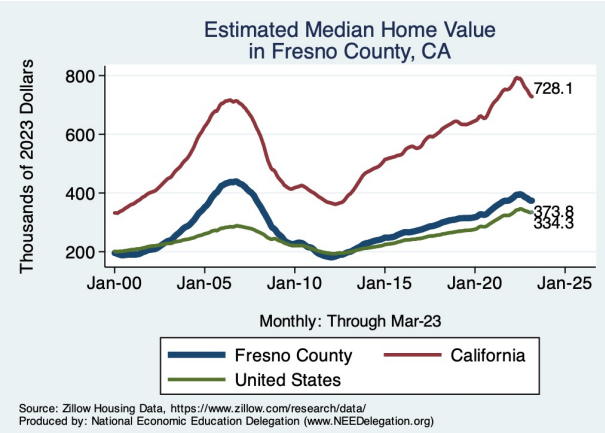
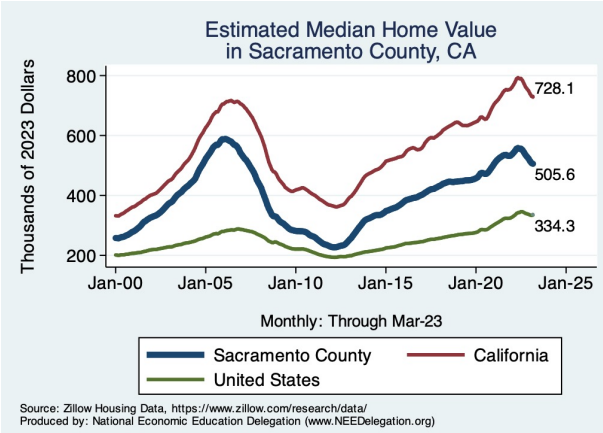


## Home Prices ... in Southern CA





# Home Prices ... in the Central Valley



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# And Then Banks Started Falling...

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## Silicon Valley Bank

- Regional mid-sized bank with \$212b in assets; \$6billion in capitalization (15<sup>th</sup> largest).
- Focused on loans to venture capital and managing the deposit accounts of startups.
- Very rapid growth in deposits and assets between 2021 and 2022, which led to big investments in “safe” long-term Treasury bond.
- The market value of these bonds fell drastically due to the Fed’s rise in interest rates.
- No problem! The bank does not incur “losses” unless it sells the bonds before maturity.

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## Whoops!

- Concentrated and sophisticated depositors see the problem and want to get their money out (FDIC insurance guarantees deposits up to \$250 thousand, and 90% above this amount!).
- Deposit withdrawals force SVB to sell those bonds.
- Precipitating a classic bank run and leading to the FDIC seizing the bank on Friday, a month ago.

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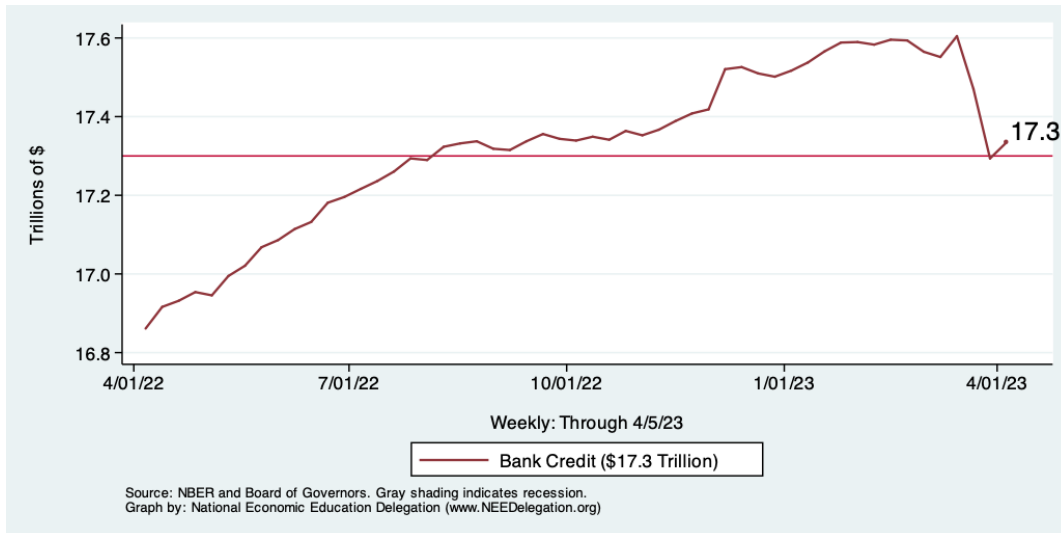
## Response was Unique in This Case:

- Janet Yellen announced that all depositors would be paid in full, and there would be complete insurance of all bank deposits for a year.
- Senior Executives all fired.
- Fed created a new lending program, so that banks can borrow against Treasury bonds without realizing losses.
- The rationale was to prevent bank run spreading to other midsize banks.
  - One other bank recently closed, others were struggling.
  - Stock prices of a number of similar sized banks have plummeted, but are recovering.



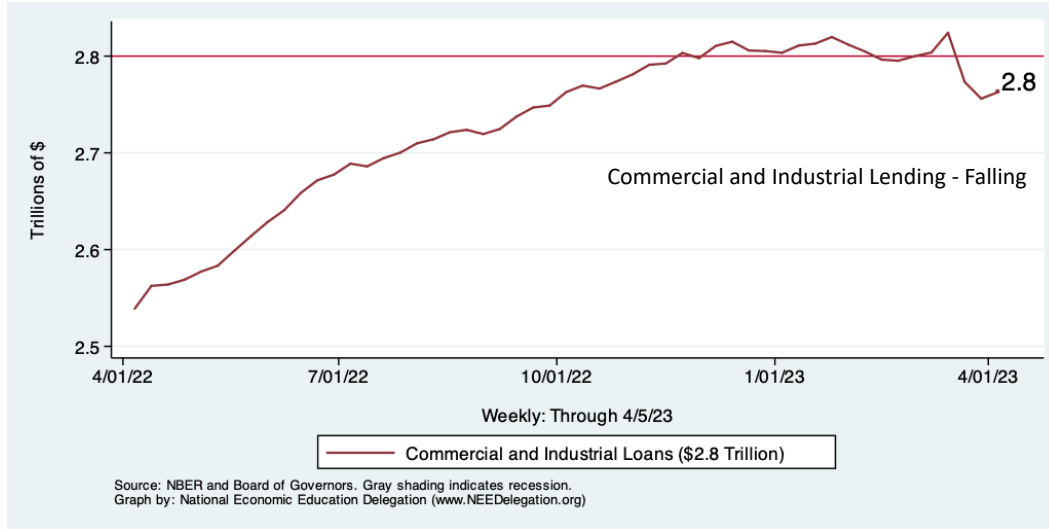
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## Banking Crisis and Bank Credit



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## Is This a Problem?



## DC: Shall We Create Our Own Financial Crisis?

## Existential Threat: Coming This June!



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## 5 Things to Know about the Debt Ceiling

1. The debt limit has been raised continually for more than a century.
2. Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.
3. The uselessness of a debt limit is exhibited by the fact that only one other advanced country—Denmark—has a separate debt limit rule like ours.
4. If debt hits the ceiling, the Treasury Department uses several accounting gimmicks to postpone the day of reckoning, but these typically last only a few months.
5. The economic consequences of a large-scale, intentional default are unknown, but predictions range from bad to catastrophic.

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## Lessons from 2011

- **Government shutdown was very costly:**
  - Stock markets plunged (17%).
  - Employment growth stuttered.
  - Treasuries – downgraded credit ratings.
  - Borrowing costs rose.
  
- **The Debt Ceiling may be a very effective bargaining tool, but...**
  - It is costly.
  - It is unnecessary.
  
- **Accidental partial default in 1979:**
  - increased borrowing costs by \$40 Billion!



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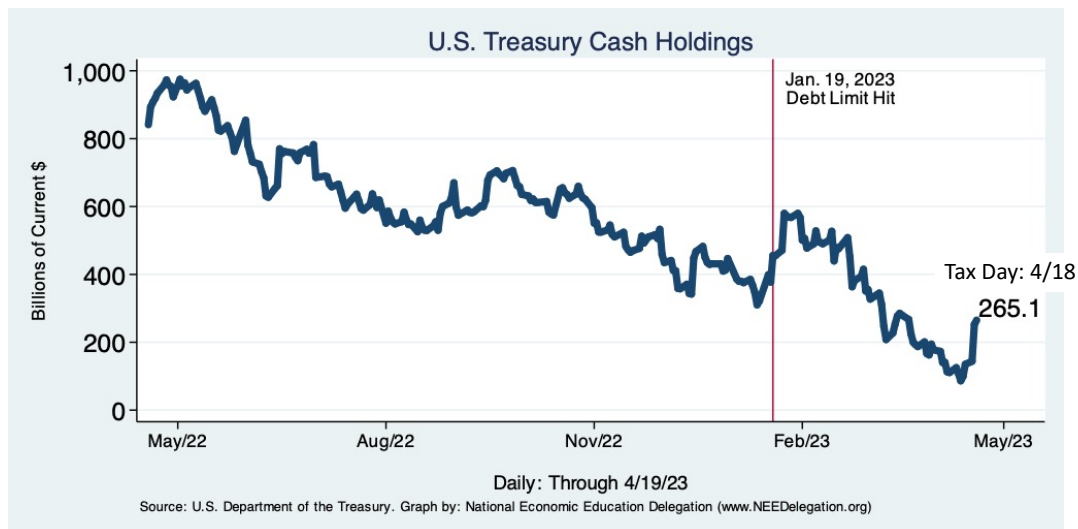
## A Recent Estimate of the Potential Damage:

- **Moody's:**
  - Could cost up to 6 million jobs,
  - Drive unemployment up to 9%, and,
  - Wipe out \$15 trillion in household wealth.



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## Countdown to Default



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## Takeaways

### • Is a recession on the horizon?

- Perhaps, but shallow?
- Many indicators are still in the black.
  - 2022-Q4 GDP growth was pretty good!

### • Threats to continued growth:

- If inflation stays high, which seems unlikely.
- Layoff contagion.
- Broader banking crisis.
- Borrowing and lending seem to be low and shrinking.
- Debt ceiling negotiations
  - Significant cuts to government budgets may well result.



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## Real Estate Summary

- **Home prices are in decline.**
  - May well continue for the foreseeable future.
- **This will likely be followed by a significant rebound.**
  - Mortgage rates will come down when the Fed Funds rate does.
  - Supply will be significantly limited, because of the current shortfall in new housing starts.
- **Hard to say when this turnaround might happen.**
  - As early as this fall. As late as next spring.
- **All bets are off if we default on the debt!**



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## Thank you!

## Any Questions?

[www.NEEDecon.org](http://www.NEEDecon.org)

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Contact NEED: [info@NEEDelegation.org](mailto:info@NEEDelegation.org)

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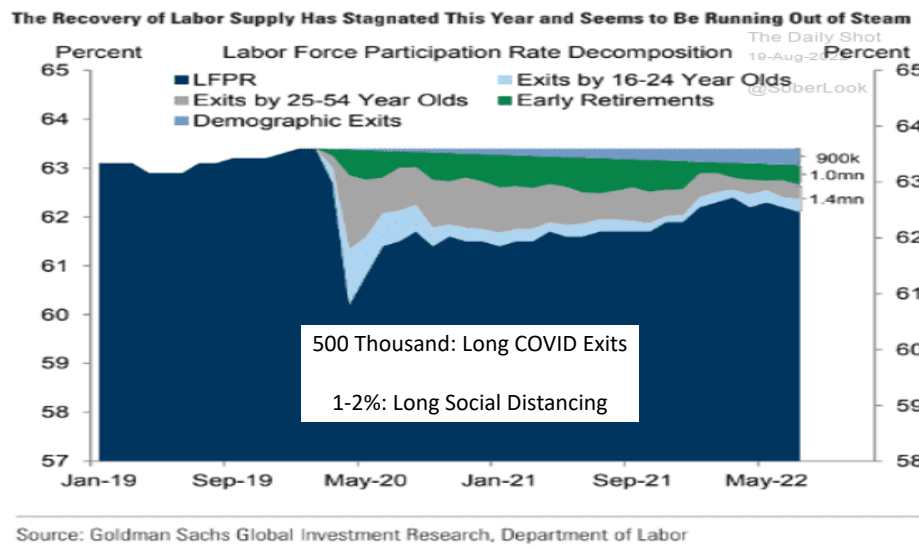
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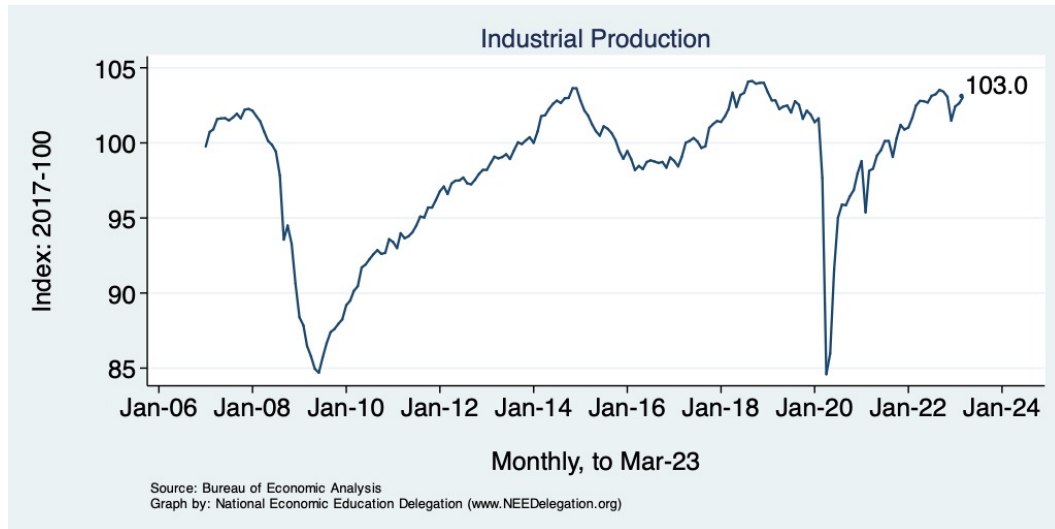
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## Some Explanations



## Industrial Production (Manuf, Util, Mining)



# Problems with the Bailout

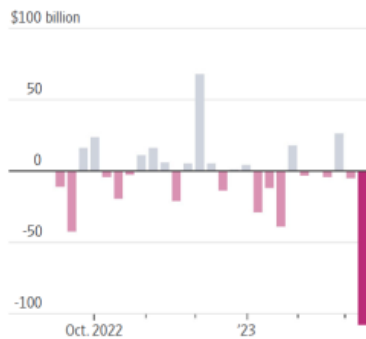
- **Political:**
  - Did political favoritism play a role in bailing out well connected, sophisticated silicon valley depositors.
  - Why didn't bank regulators see this coming?
- **Economic:** has the moral hazard of "too big to fail" been increased.
- **For the Fed:** Will the Fed have to scale back its interest rate increases to prevent wide scale financial crisis?

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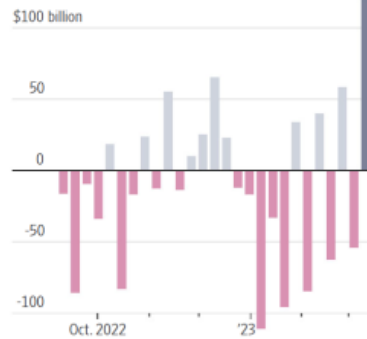
# What About This?

Deposits, change from a week earlier

SMALL BANKS



LARGE BANKS



Note: Includes domestically chartered commercial banks. Large banks are defined as the top 25 ranked by domestic assets. Small banks are those not in the top 25.  
 Source: Federal Reserve  
 Nate Rattner/THE WALL STREET JOURNAL

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# Existing Home Sales: Inventory & Supply

