




US Economic Update

California Community Colleges Real Estate Education Center

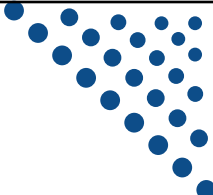
Jon Haveman, Ph.D.
NEED
October 21, 2022




NATIONAL ECONOMIC EDUCATION DELEGATION

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

- **The State of the US Economy**
 - Recession?
- **Global Comparisons**
- **Inflation**
- **Real Estate**



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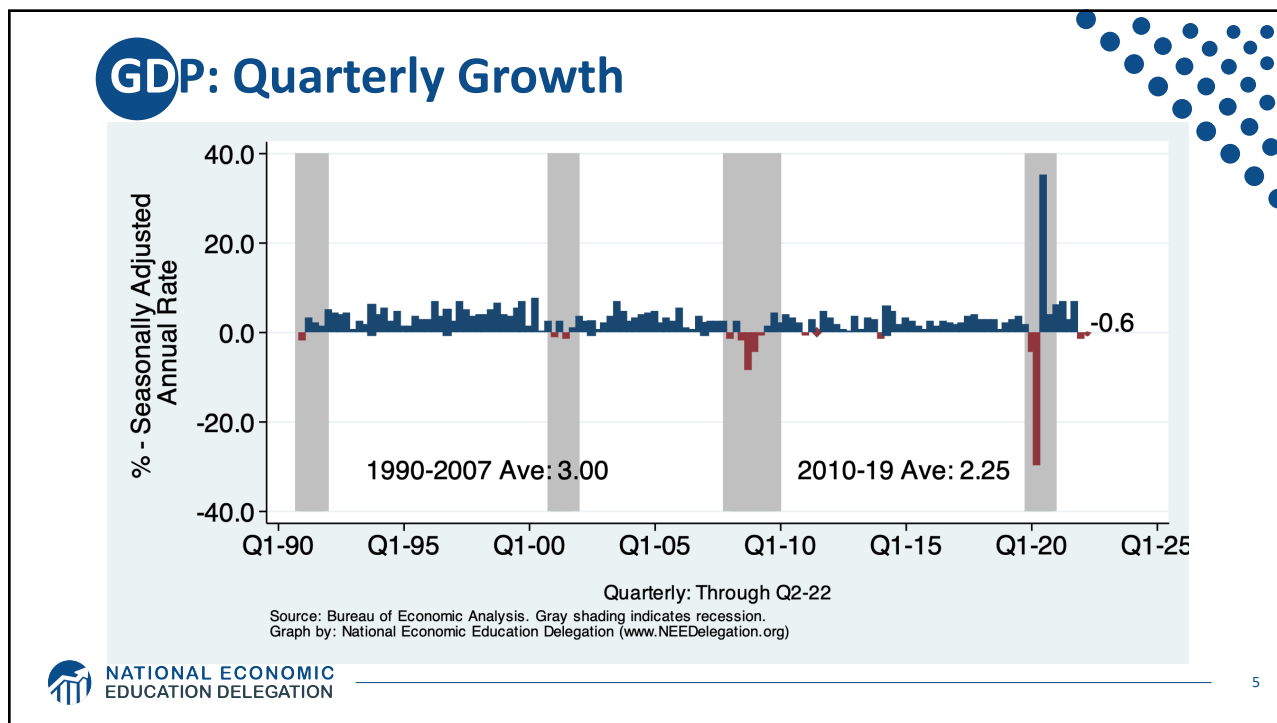
Headline:

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

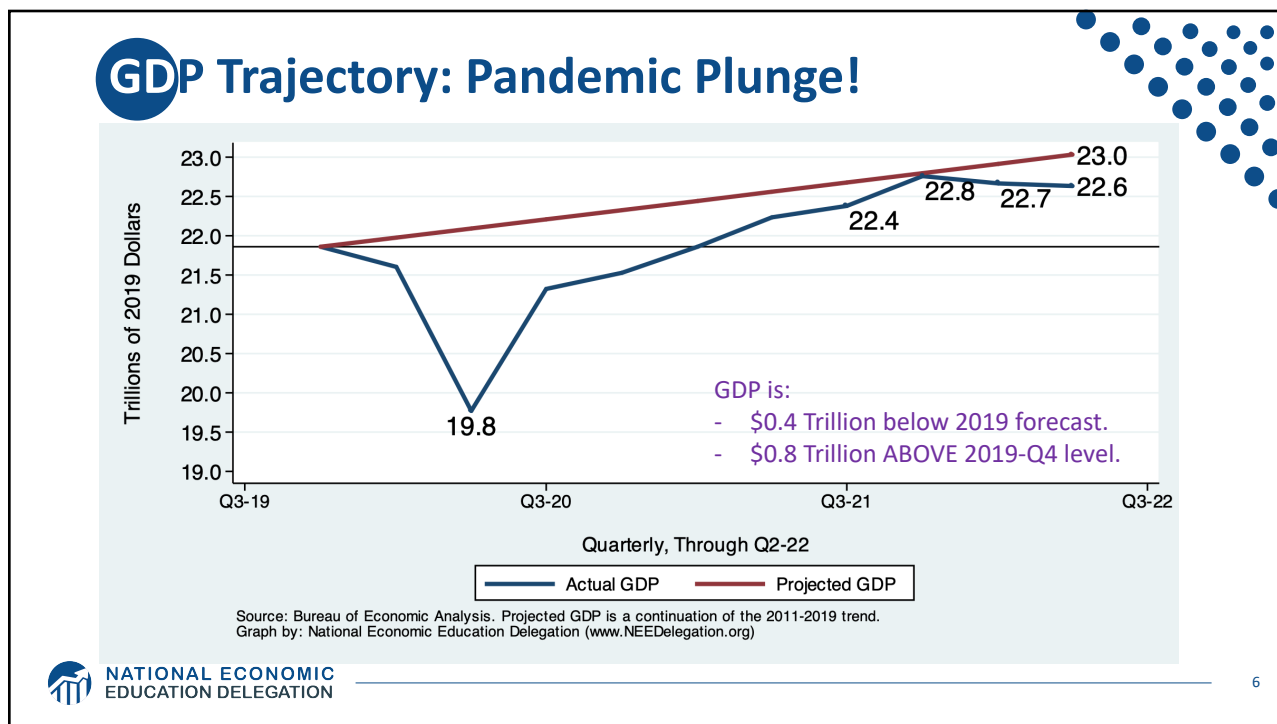
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.



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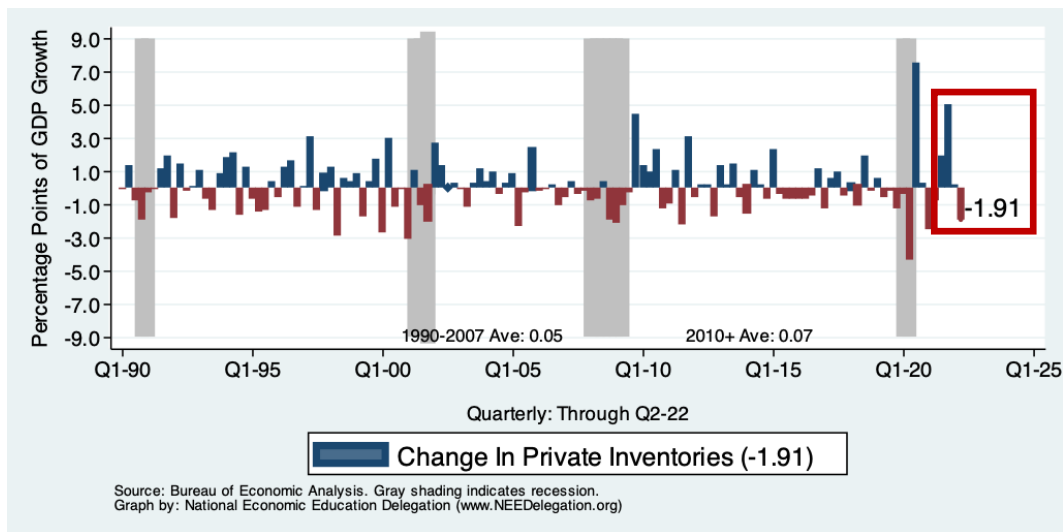
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Recession? Two Quarters....

- **Depends on what is driving the drop. Drivers are:**
 - Inventories
 - Housing
 - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**

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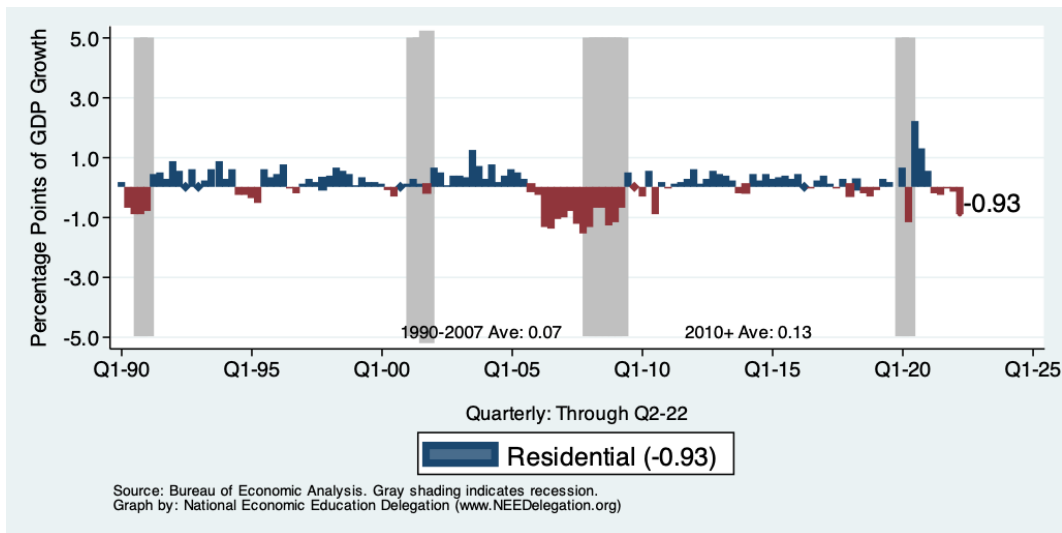
Contribution to GDP Growth: Inventories



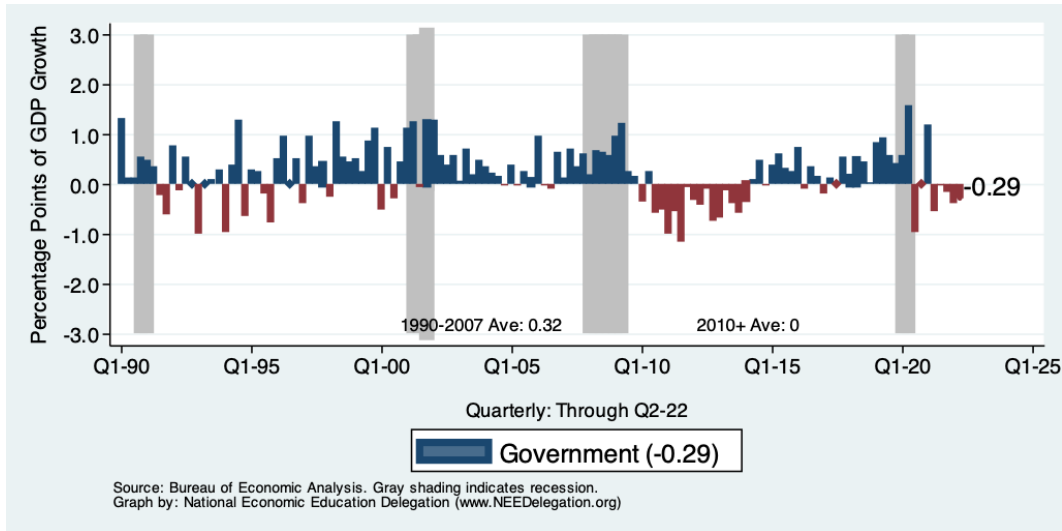
Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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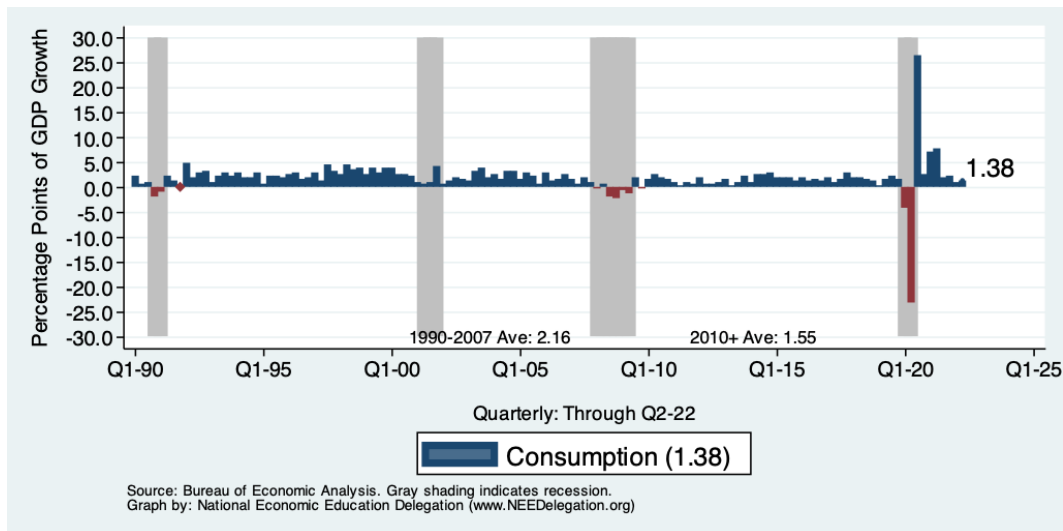
Contributions to GDP: Residential Investment



Contributions to GDP: Government

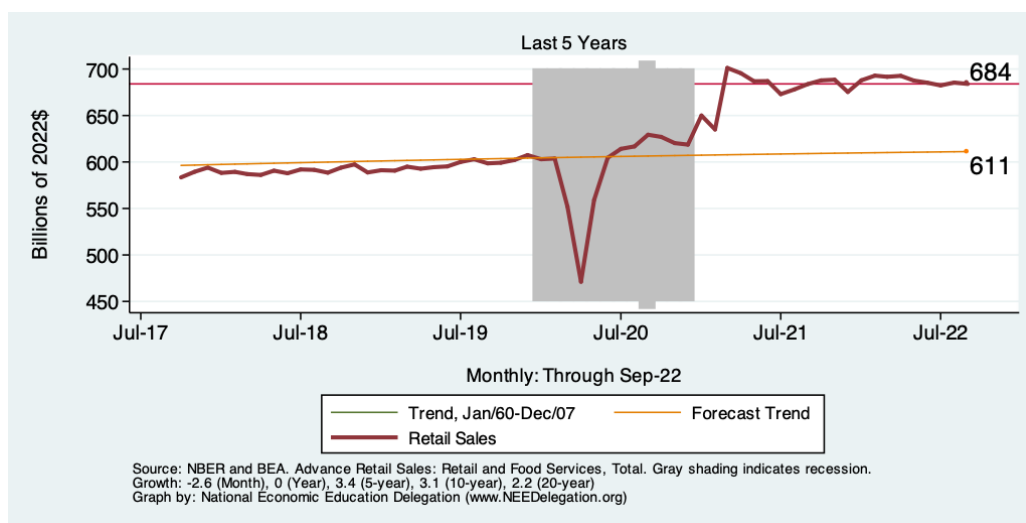


Contribution to GDP Growth: Consumption



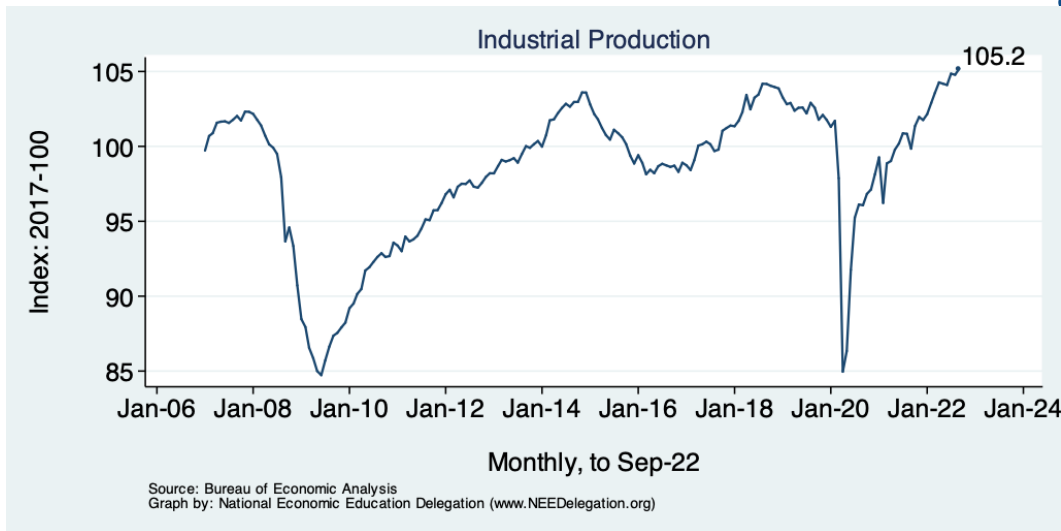
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Retail Sales Are Elevated



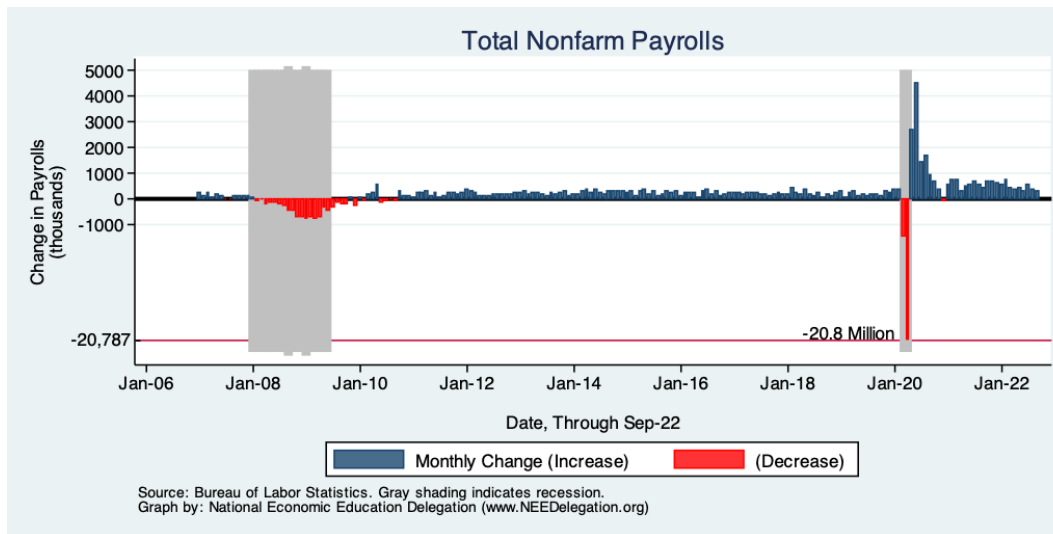
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Industrial Production (Manuf, Util, Mining)



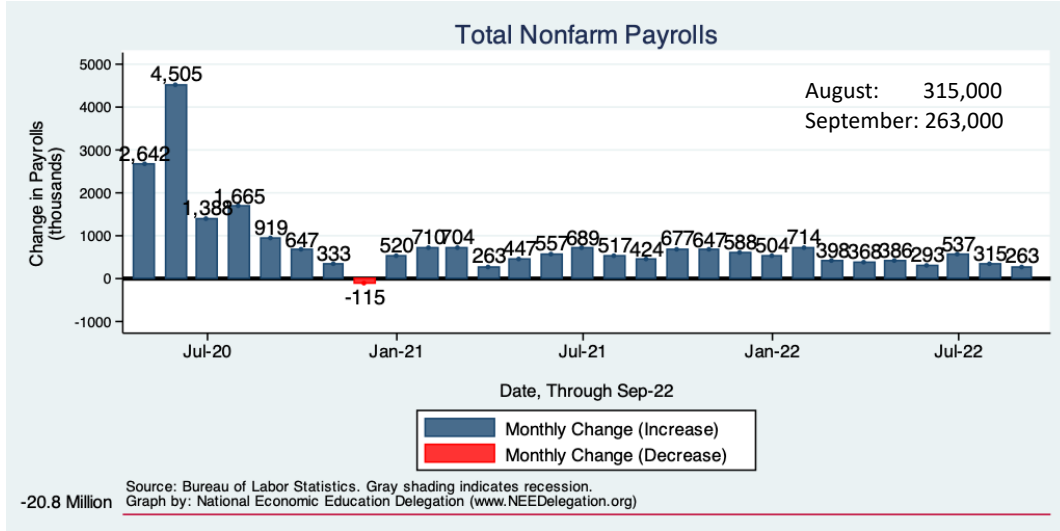
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Monthly Changes in Nonfarm Employment



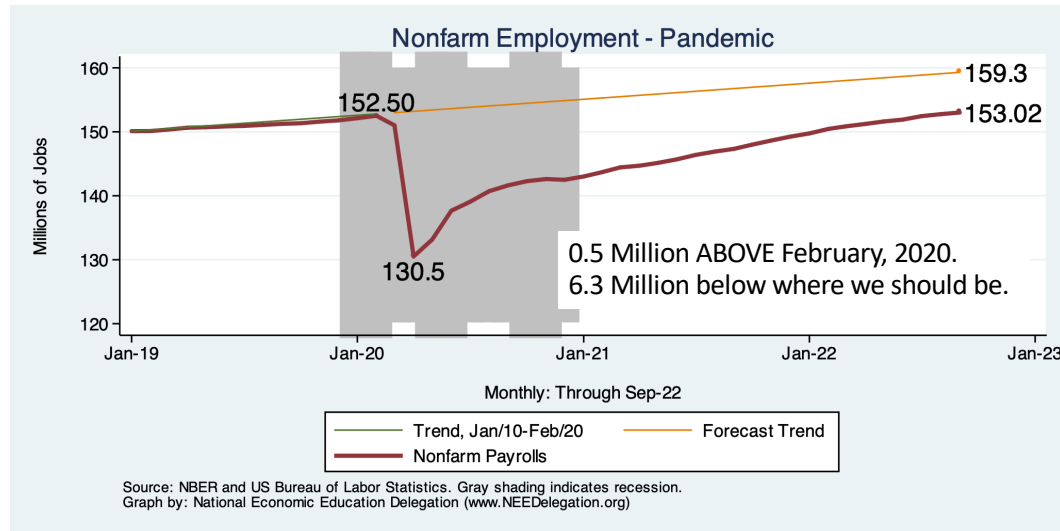
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Monthly Changes in Nonfarm Employment



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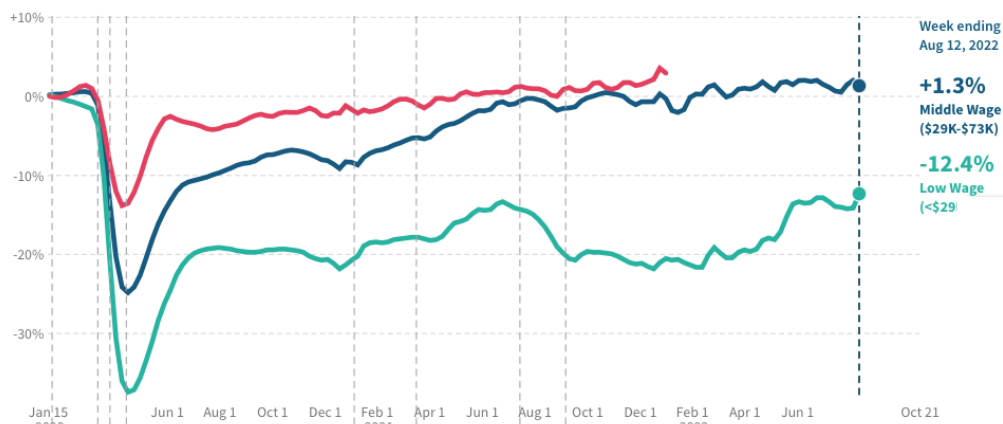
Employment Gap



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Low Wage Employment is Lagging

In the United States, as of August 12 2022, employment rates among workers in the middle wage quartiles increased by **1.3%** compared to January 2020 (not seasonally adjusted).



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Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

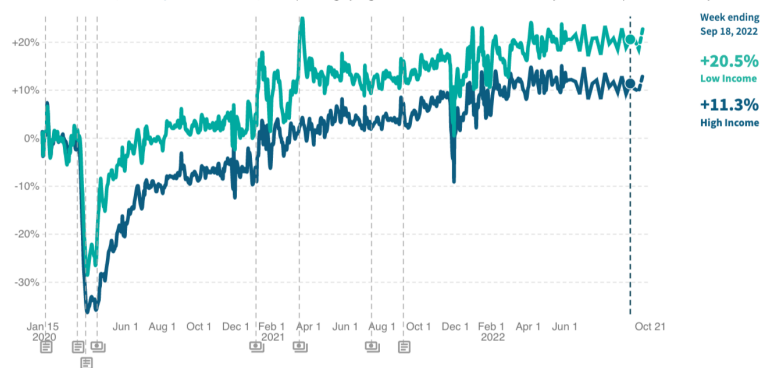
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Percent Change in All Consumer Spending*

In the United States, as of September 18 2022, total spending by high-income consumers increased by **11.3%** compared to January 2020.



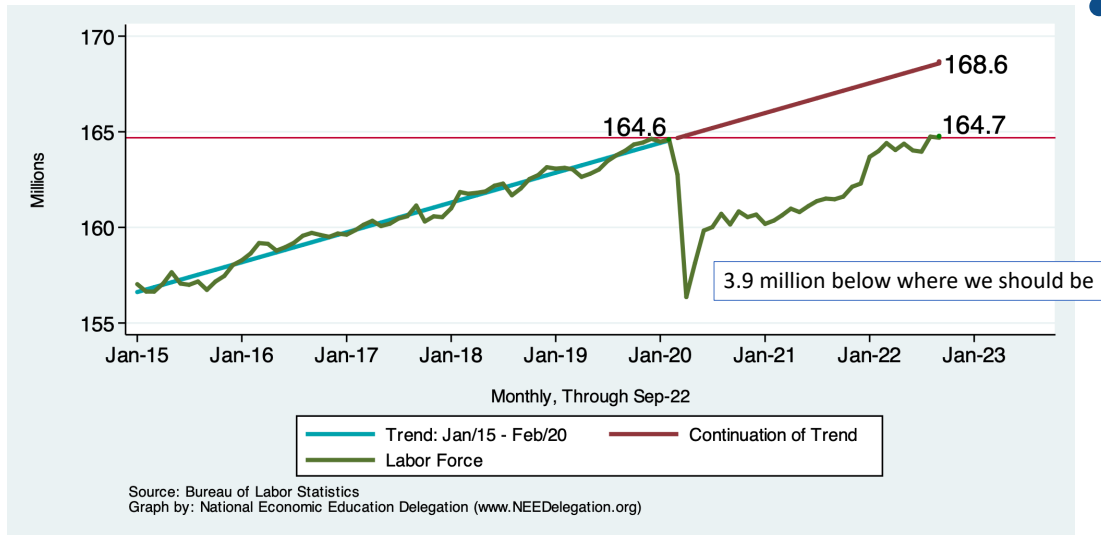
*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.
last updated: October 21, 2022 next update expected: October 26, 2022

data source: Affinity

visit tracktherecovery.org to

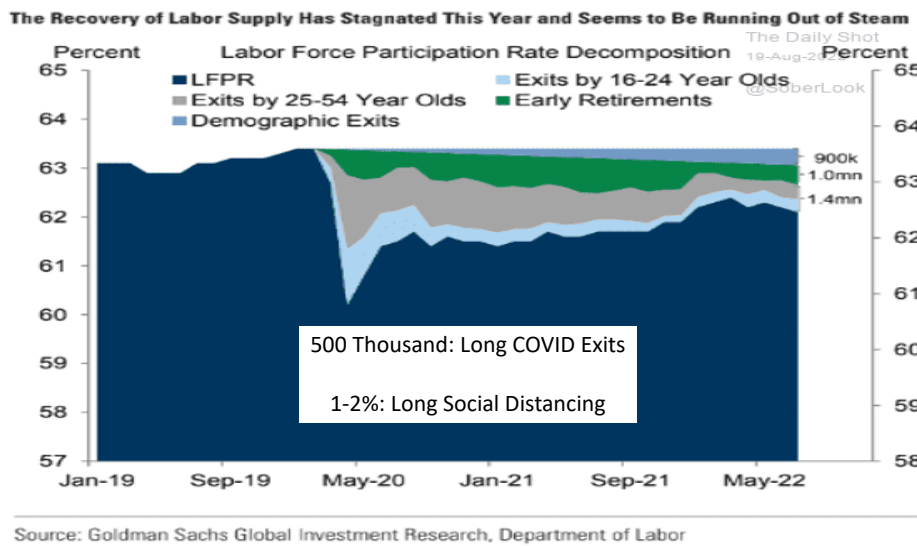
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Where Have All the Workers Gone?



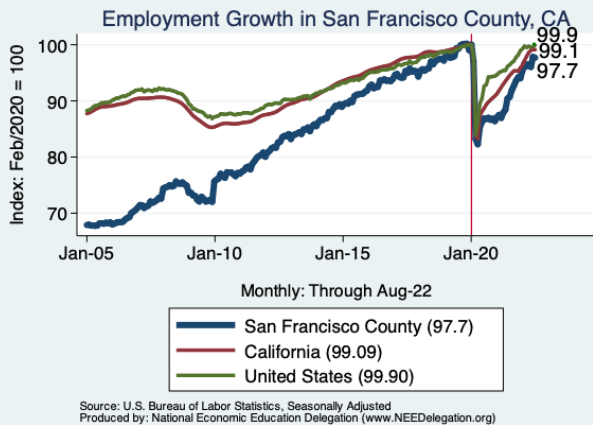
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Some Explanations



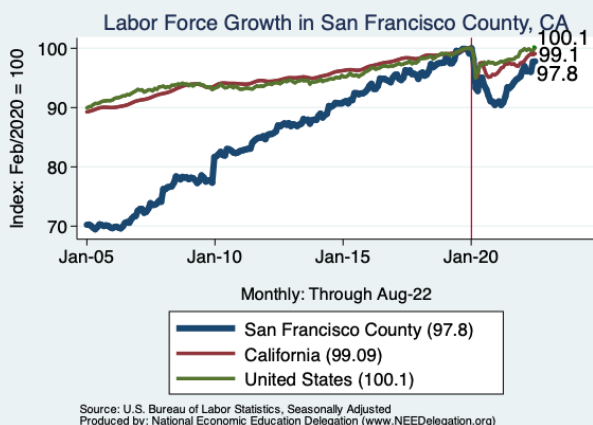
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Labor Market Experiences: Employment



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Labor Market Experiences: Labor Force

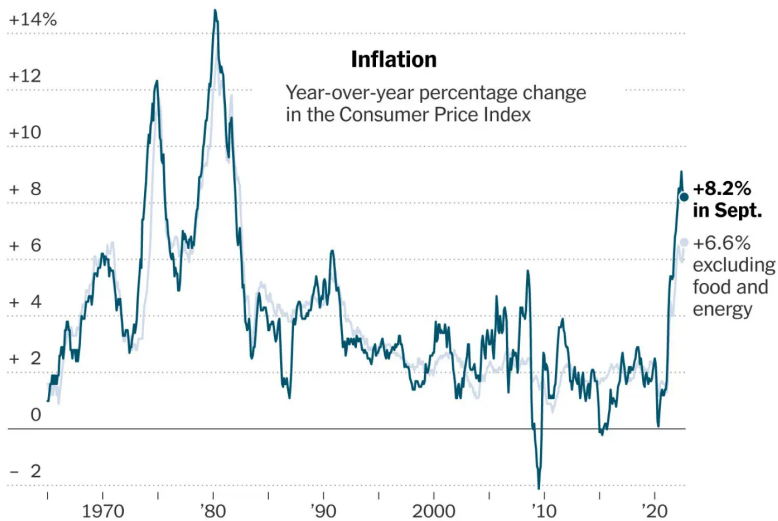


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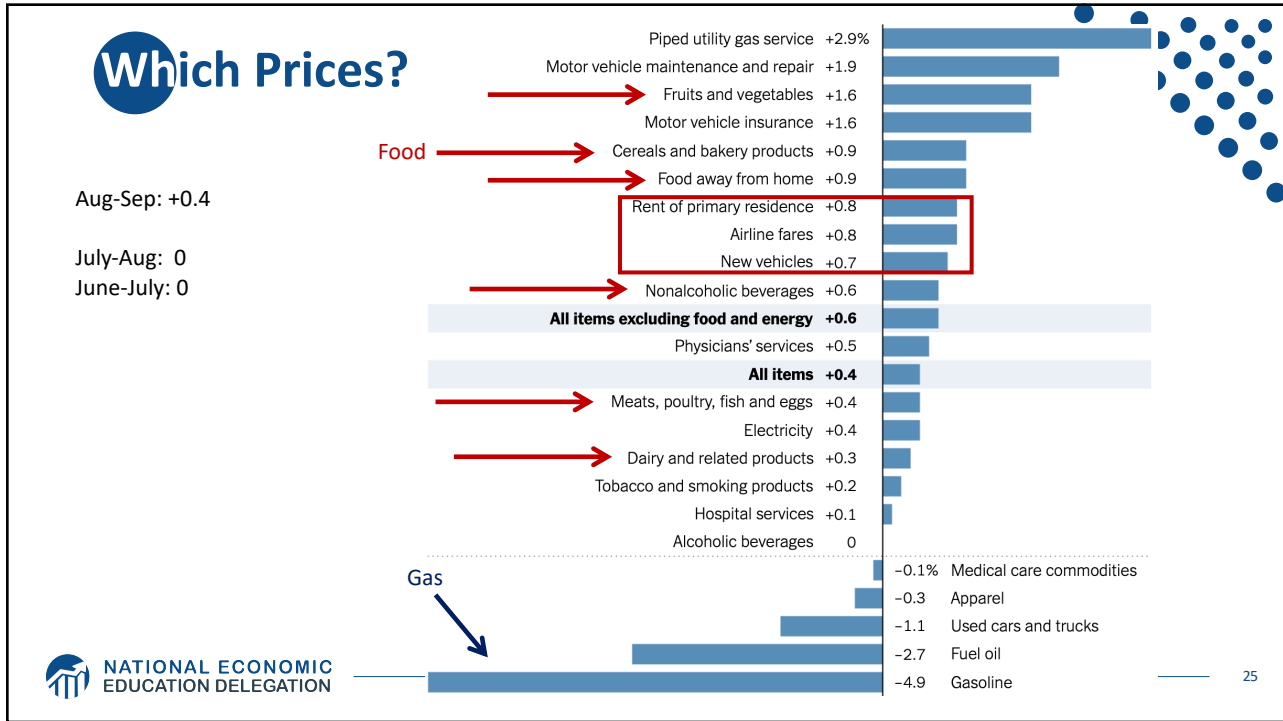
Inflation

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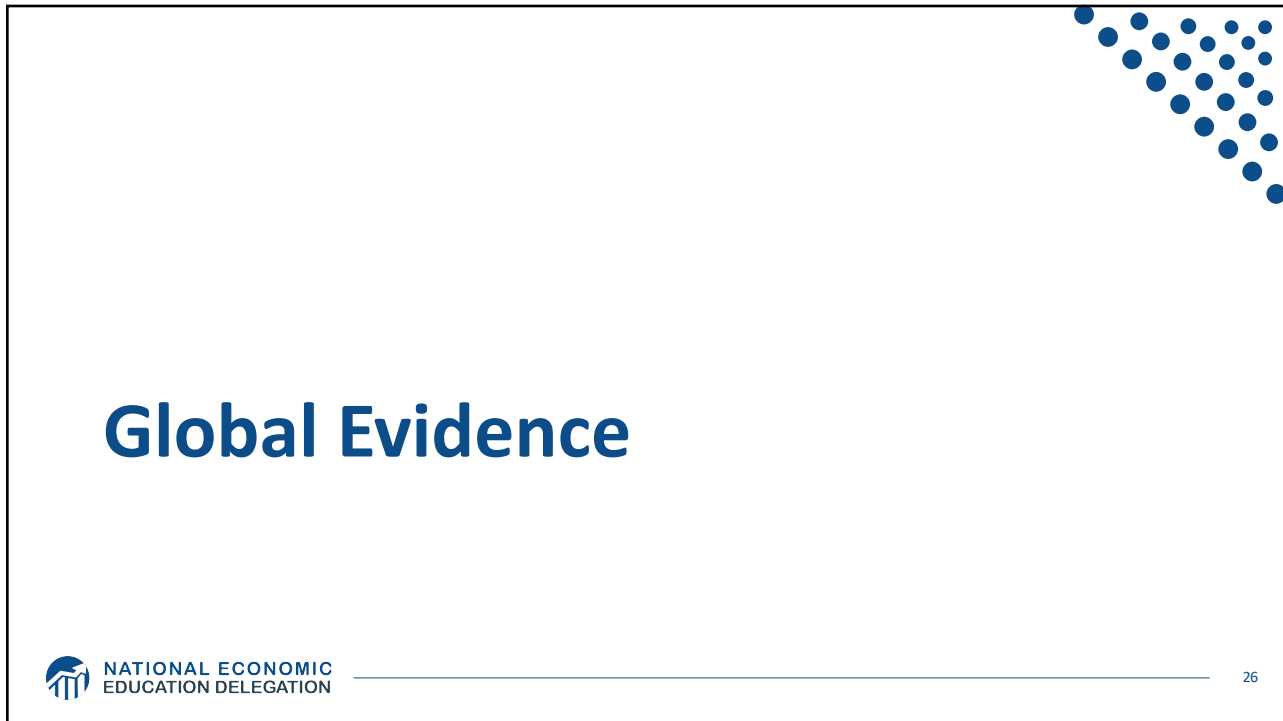
Inflation: Latest Figures



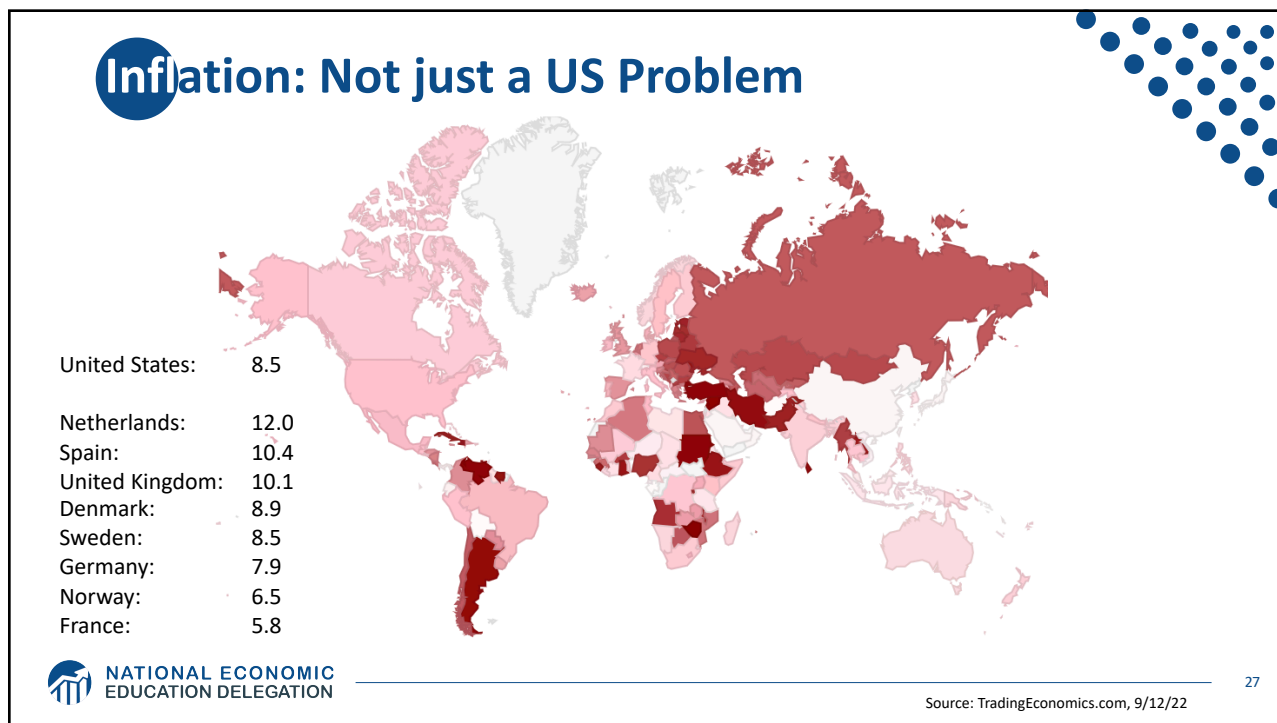
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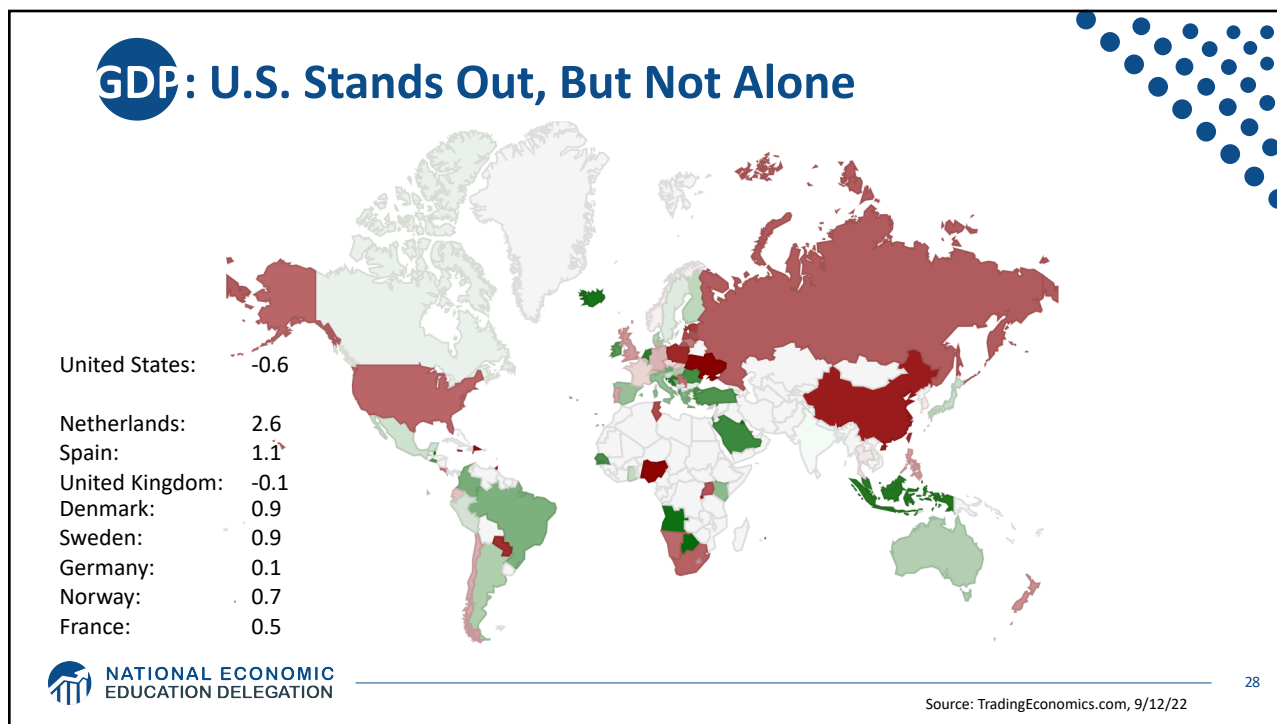
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Global Summary

- **Developed economies are uniformly down.**
 - Not entirely a surprise. Went through the same pandemic gyrations:
 - Supply chain issues.
 - Import prices are way up.
- **Somewhat surprising because the economic responses varied across countries.**
 - All used stimulus, but US used MUCH more.
- **Inflation – tale of two sources:**
 - United States – much more one of elevated demand.
 - Europe – much more one of food and energy prices (war).



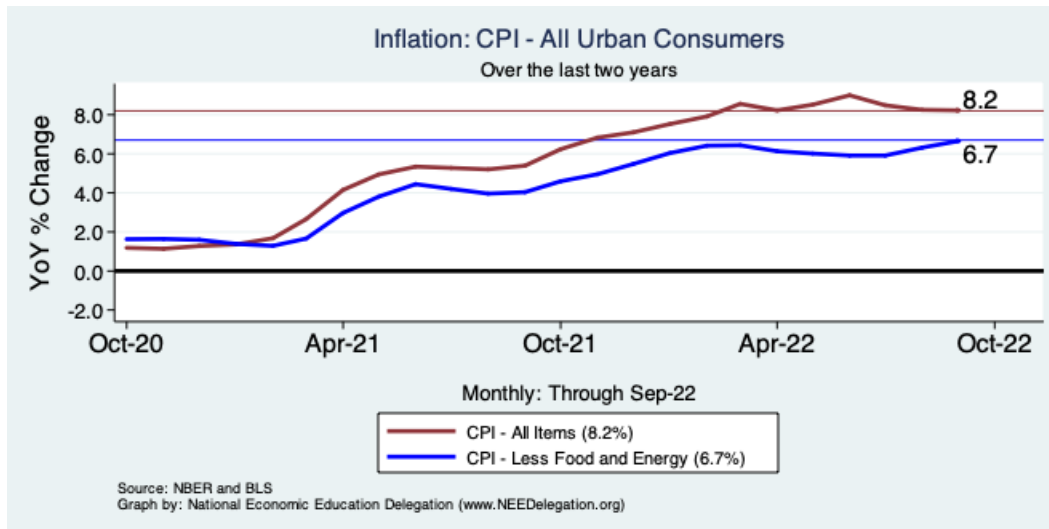
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Inflation: A Closer Look



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Inflation – Climbing! Or Turning Around?



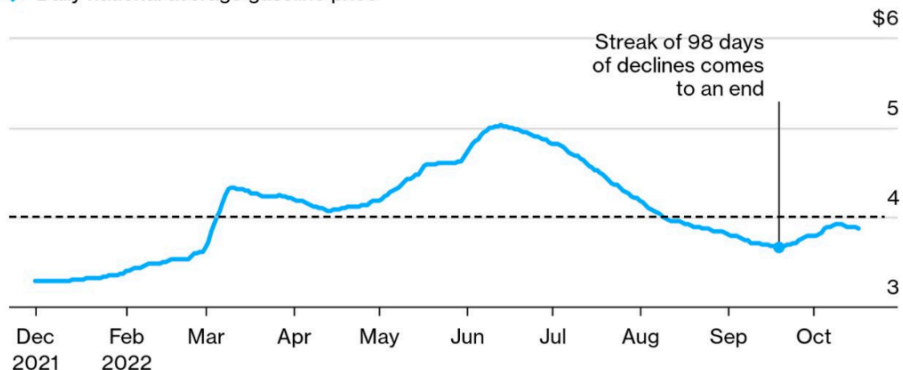
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Gas Prices: National Average at the Pump

Pump Prices Head Higher

Average cost of a gallon of gas in the US is nearing \$4 again

✓ Daily national average gasoline price

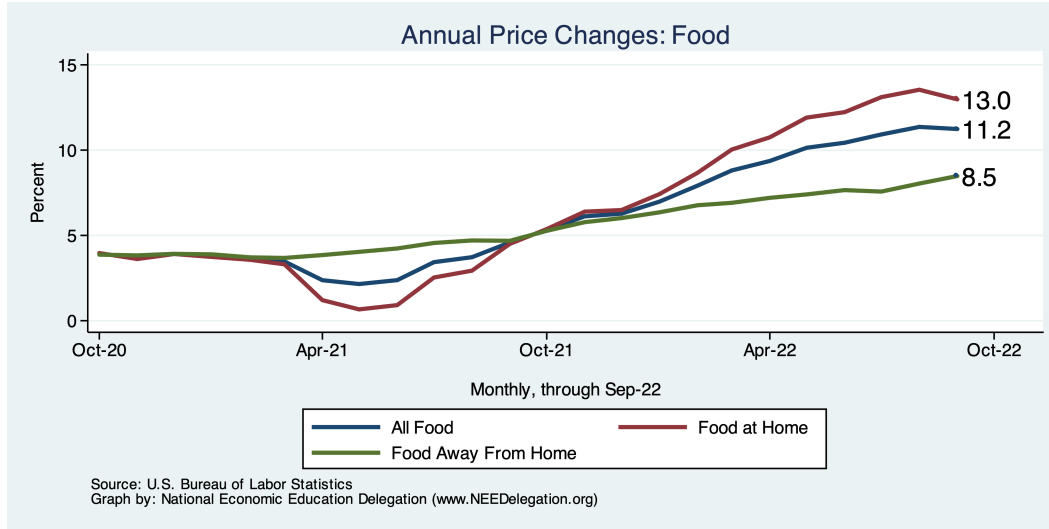


Source: Bloomberg, AAA

Bloomberg

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Food Costs Continue to Rise



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How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

Demand-Pull



When demand for goods/service exceeds production capacity.

Cost-Push



When production costs increase prices.

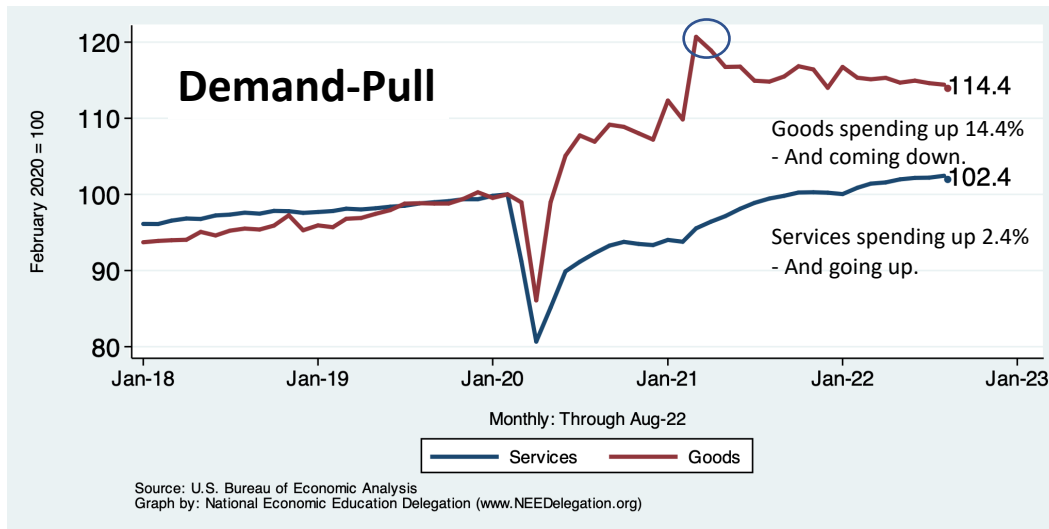
Built-In



When prices rise, wages rise too, in order to maintain living costs.

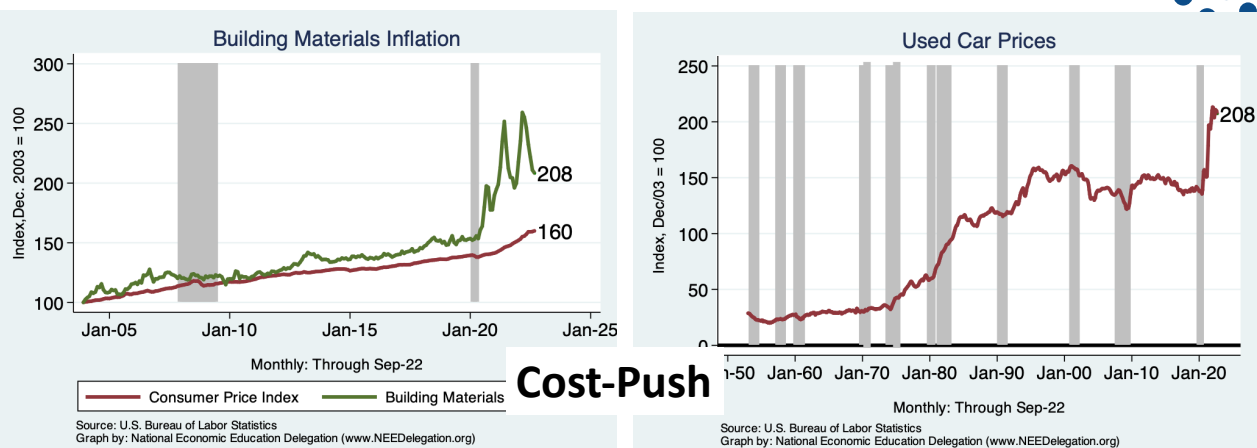
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Spending Patterns Changed - More Goods!



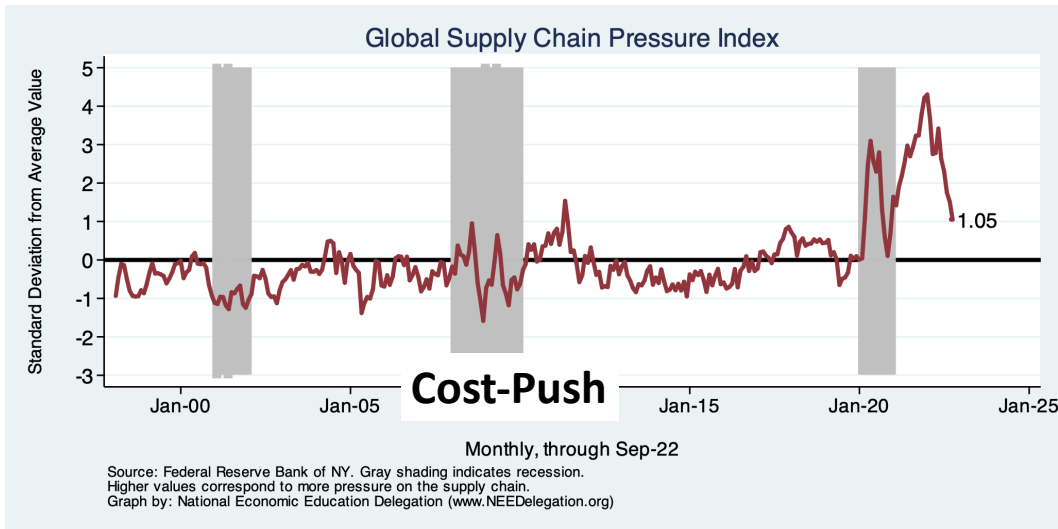
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Inflation: Concentrated



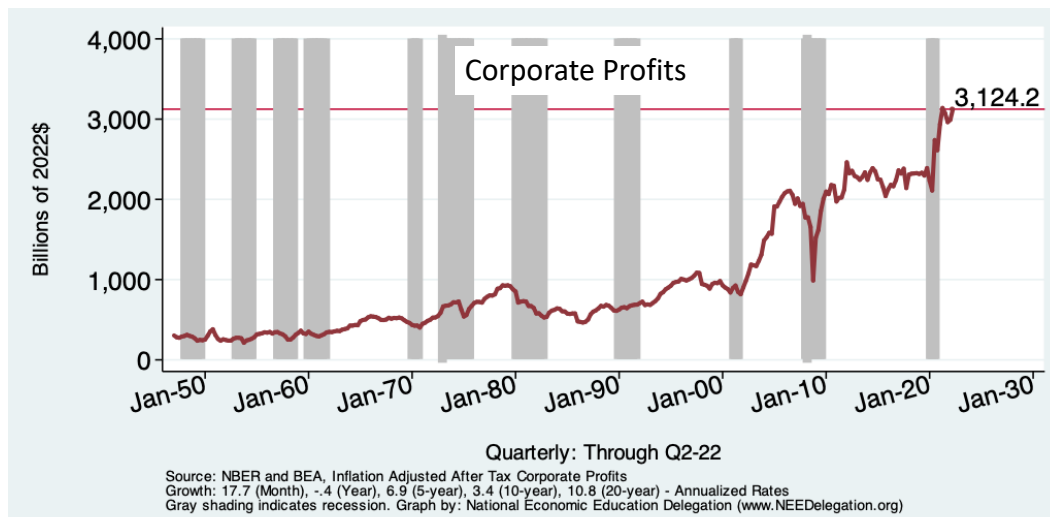
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Supply Chains



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Corporations Have Pricing Power!



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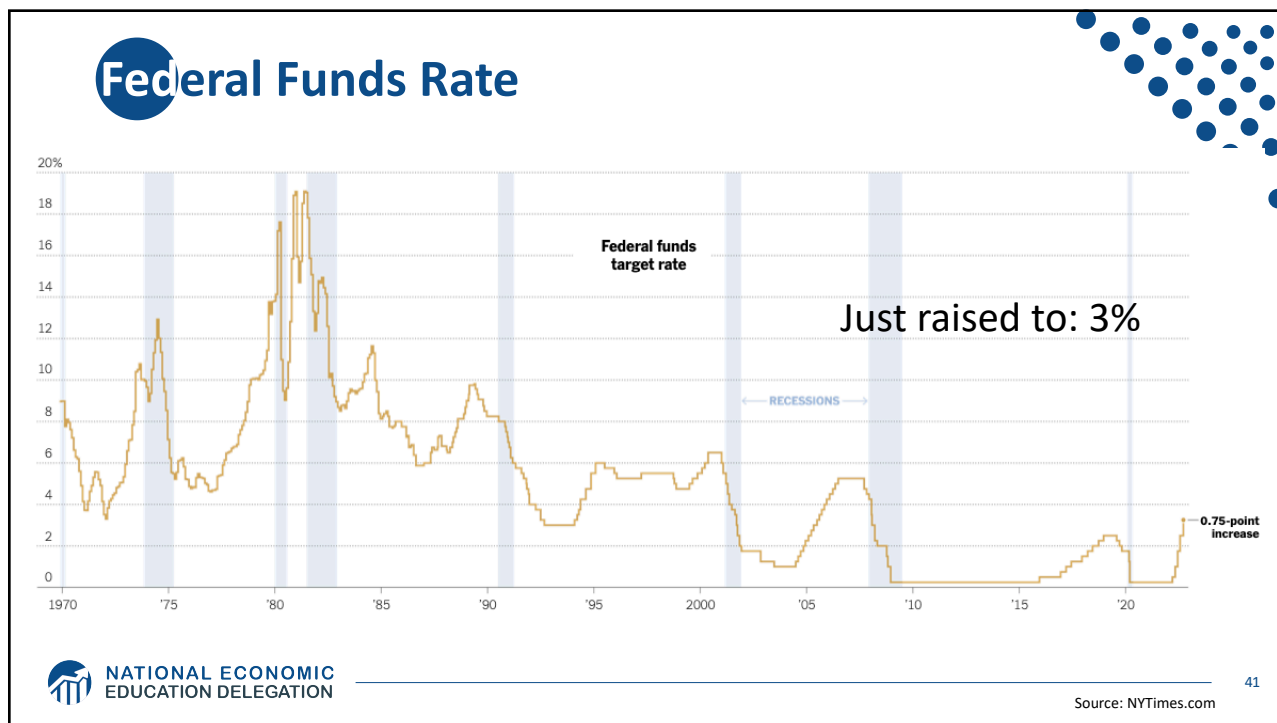
My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was also 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.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.

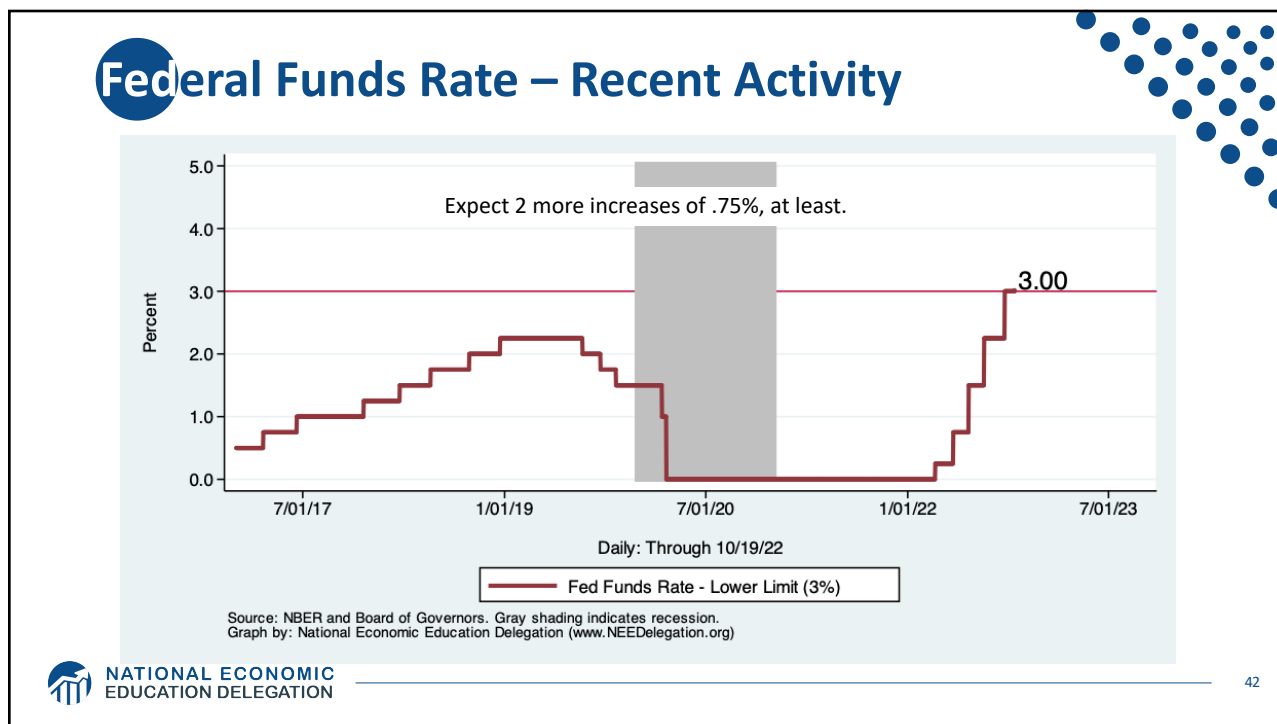


What's the Fed Doing About It?





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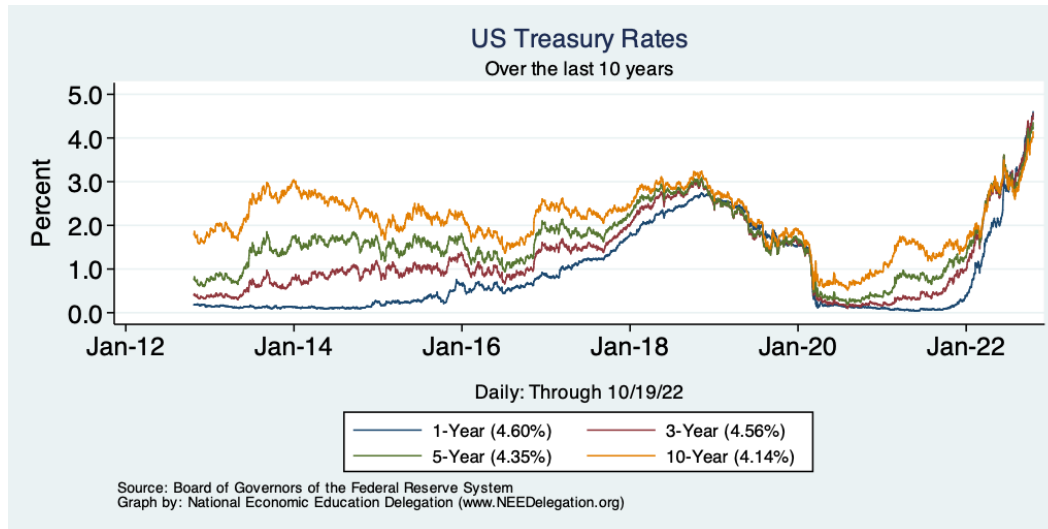
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Implications for Demand

- Home loans – tied to 10-year Treasury
- Investment borrowing
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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Treasuries



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Takeaways

- **Is a recession on the horizon?**

- Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
 - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
 - o Job creation remains robust – 263k in September.

- **What about GDP?**

- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- Much of this lower growth was driven by lower inventory.
 - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.
- Stay tuned – next week Q3 release



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Real Estate

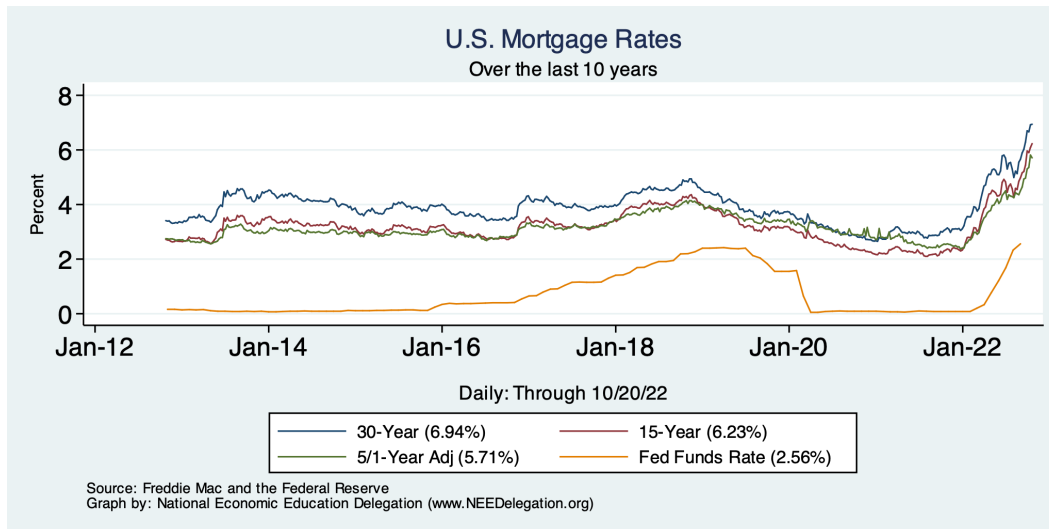


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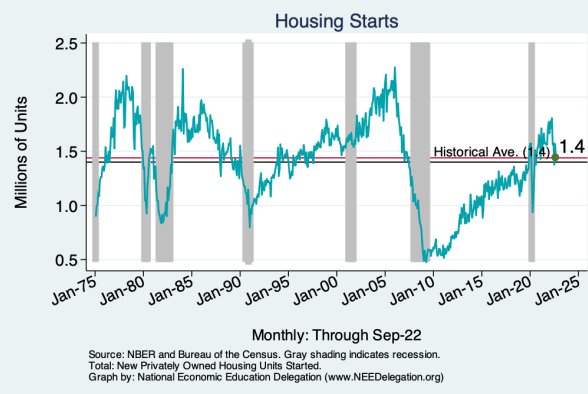
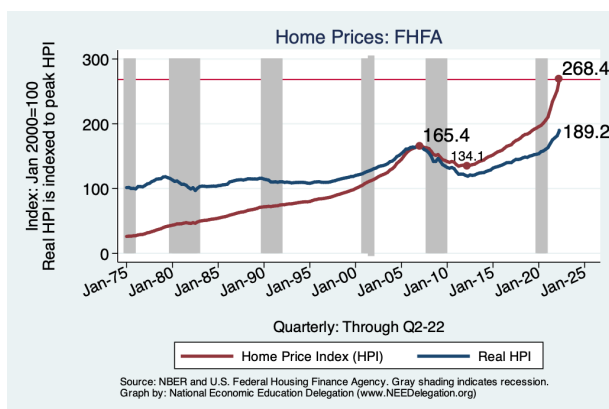
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Mortgage Rates



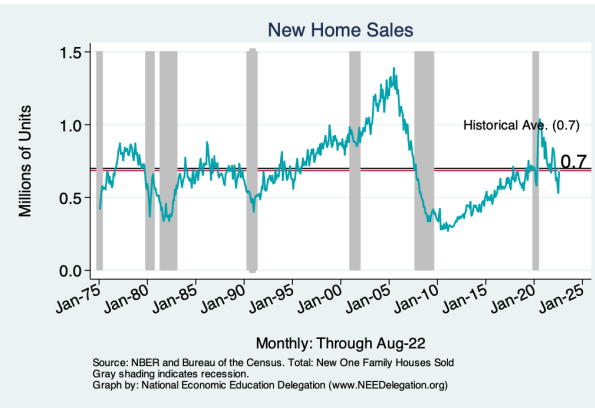
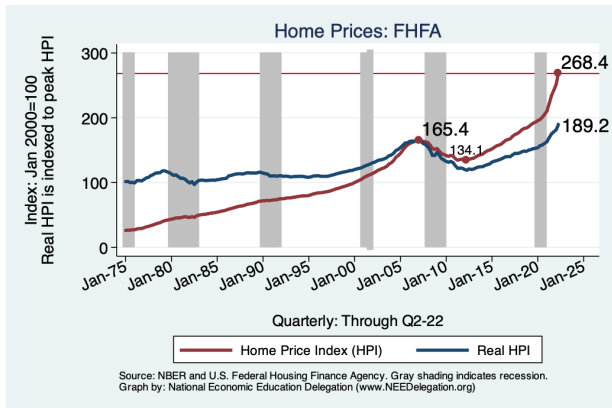
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Home Prices and Housing Starts

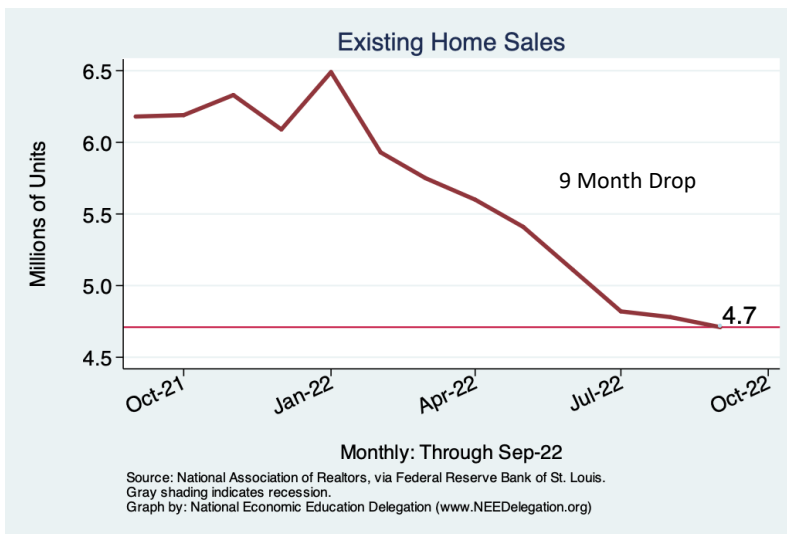


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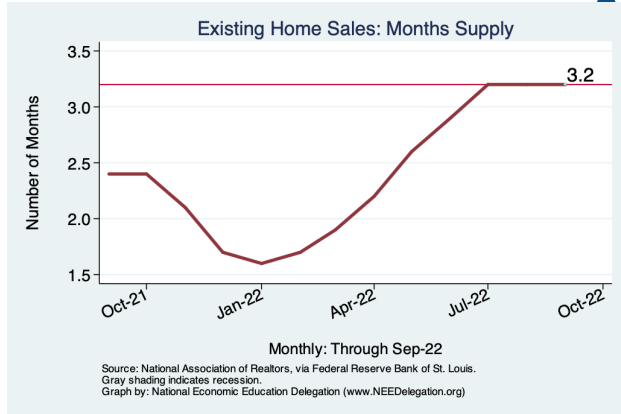
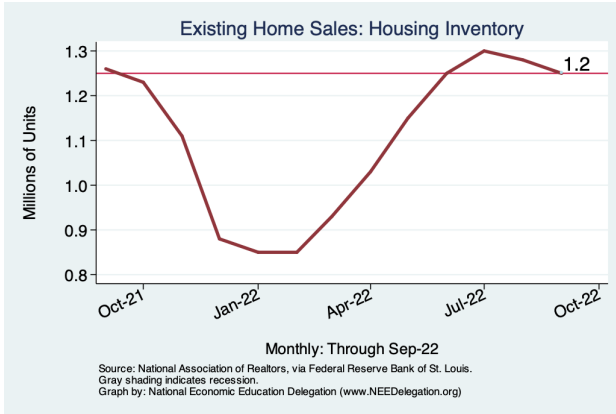
Home Prices and Home Sales



Existing Home Sales

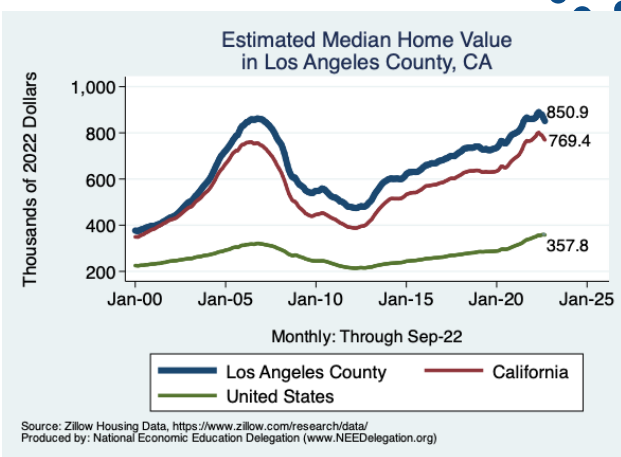
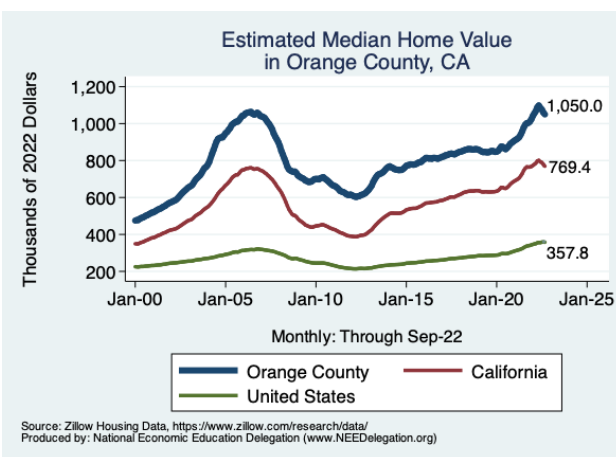


Existing Home Sales: Inventory & Supply



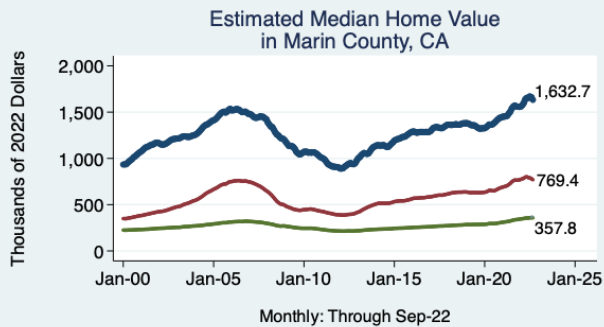
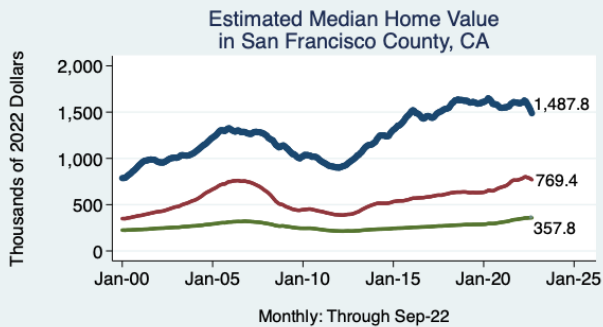
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RE Experiences Differ!



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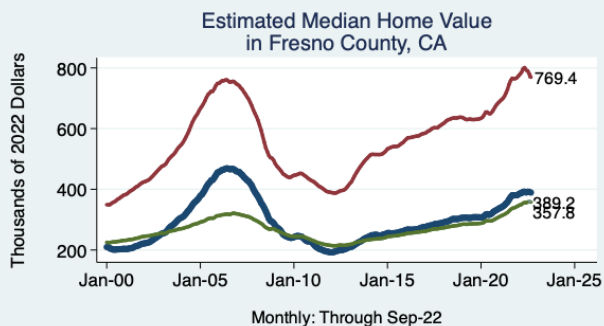
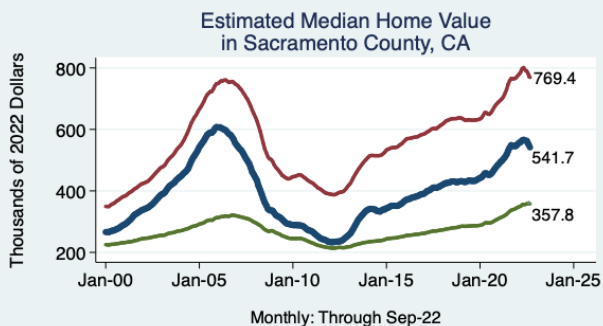
RE Experiences Differ!



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
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RE Summary

- **Interest rates are driving a slowdown.**

- 30-year fixed interest rates: 12/20: 2.66 1/22: 3.3 Now: 6.94
- But a slowdown was probably inevitable.
- All over California.

- **Starts and sales are down significantly.**

- **What about prices?**

- Relatively small correction, perhaps just 10%.
- Because inventories are relatively low as well.

- **What's going to happen to interest rates?**

- They're going to keep rising with the Fed Funds Rate.



www.NEEDelegation.org/LocalGraphs

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



Thank you!

Any Questions?

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Contact NEED: info@NEEDelegation.org

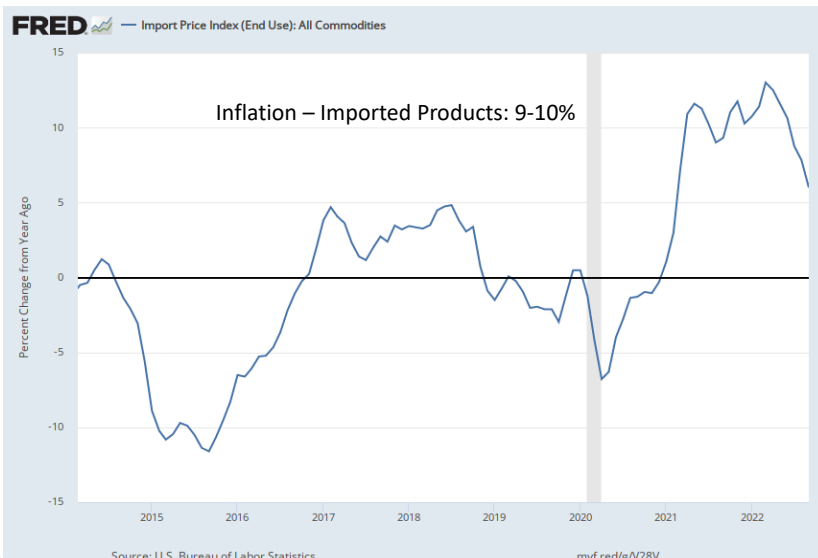
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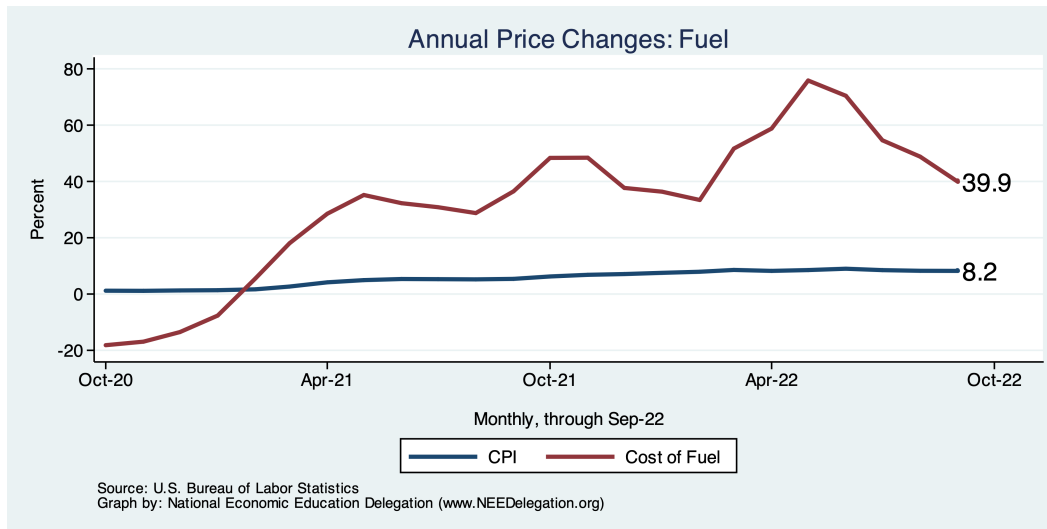
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Import Prices Are Elevated



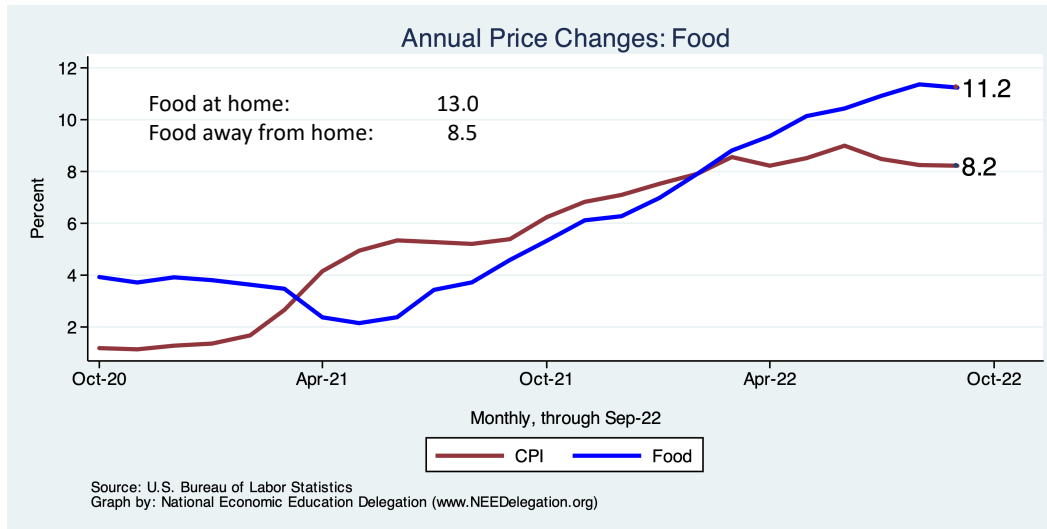
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Fuel Costs Are Still Elevated



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Food Costs Continue to Rise



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Measure of Inflation Expectations



Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.4% inflation annually over the next 10 years and 2.6% over the next 5 years.

Inflation expectations are calming down.

Source: NBER and Federal Reserve Bank of St. Louis. Grey indicates recession. Difference between standard treasury security interest rate and the inflation-indexed rate. Graph by: National Economic Education Delegation (www.NEEDelegation.org)