

# The U.S. and San Francisco Bay Area Economies

CSMFO Annual Holiday Lunch  
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National Economic Education Delegation

## 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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## Outline – U.S. Economic Outlook

- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Other Indicators**
- **Bay Area Economy**

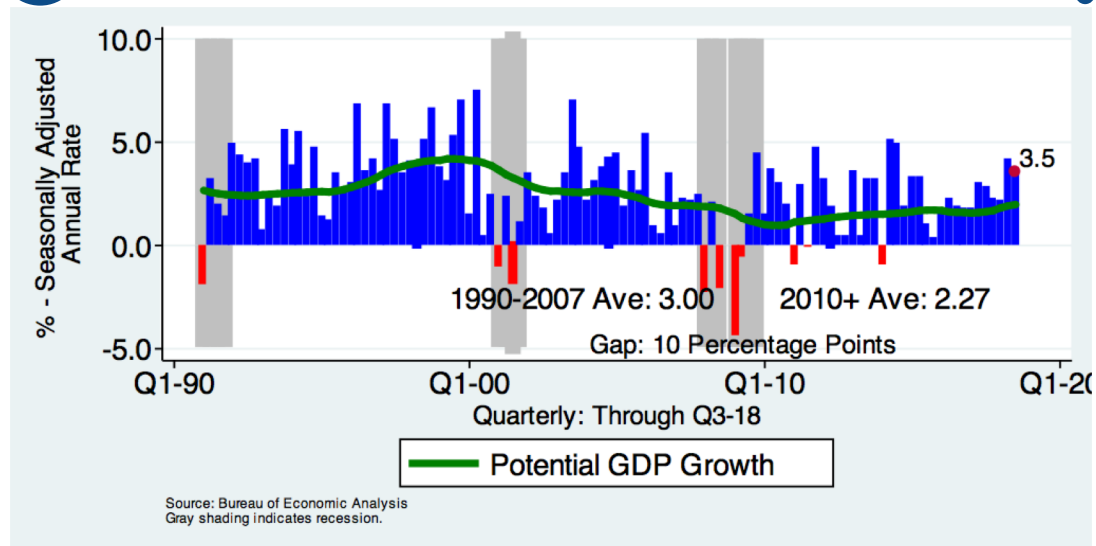


# GDP Growth



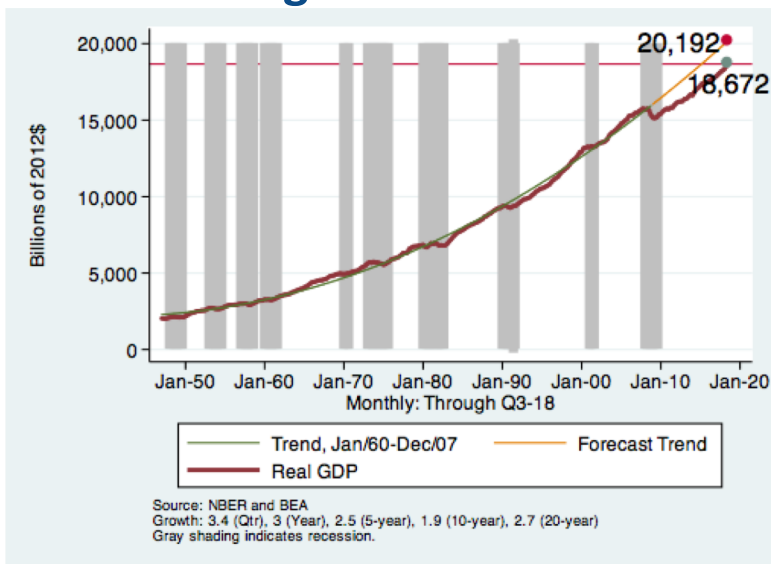
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## GDP Growth During Economic Recovery

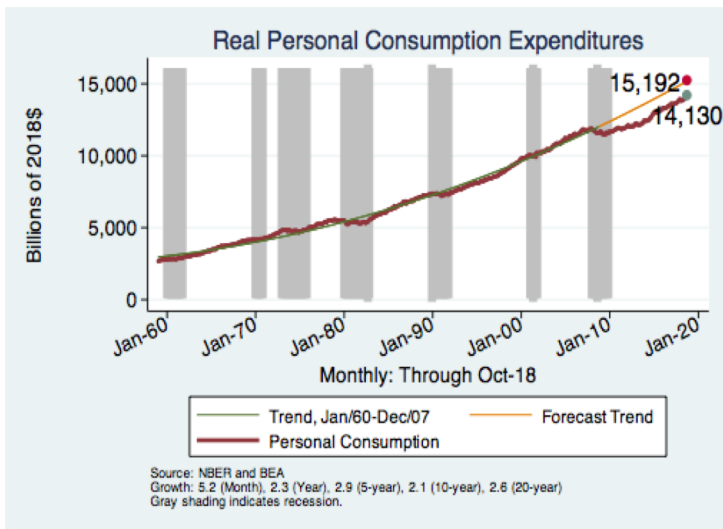


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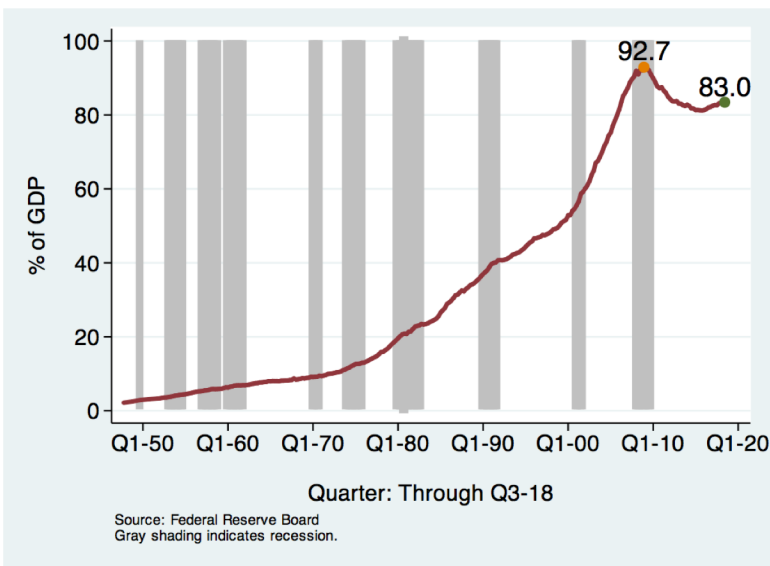
## GDP Relative to Long-Term Trends



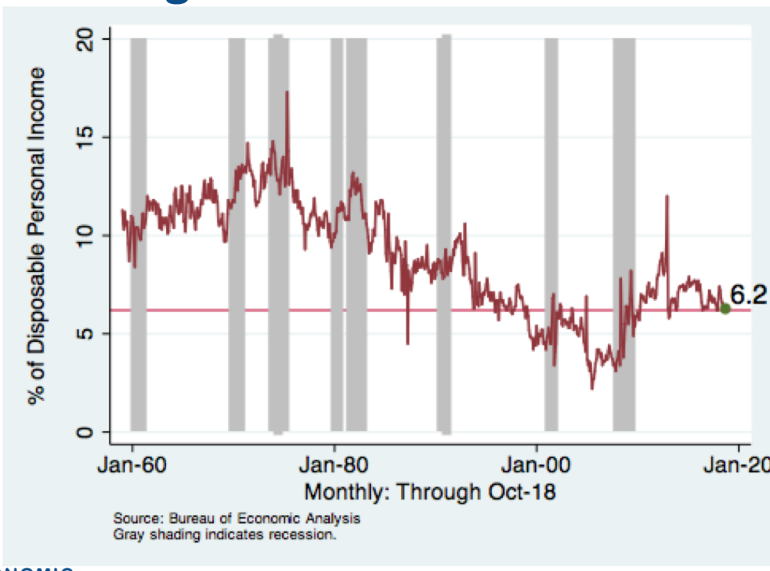
## Personal Consumption Expenditures



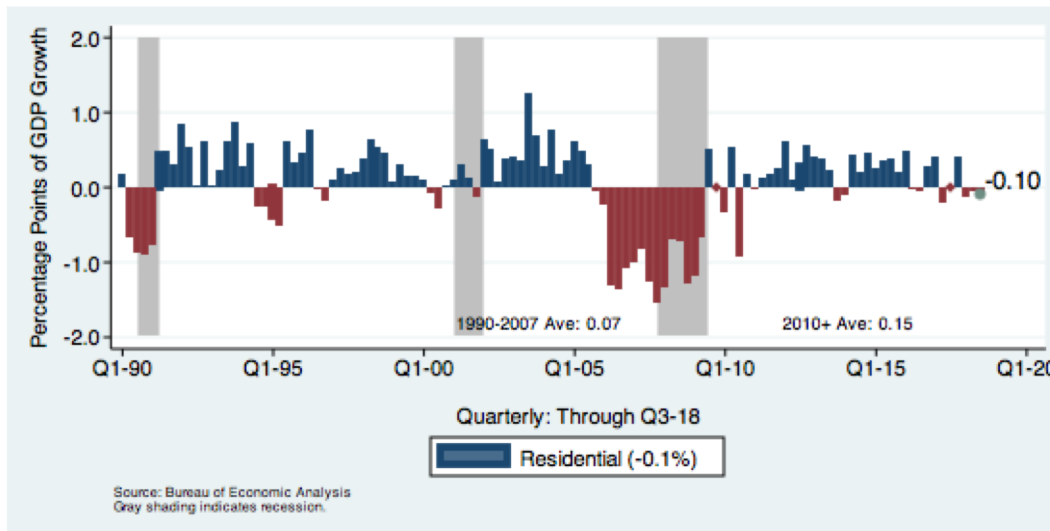
## Household Debt as a Share of GDP



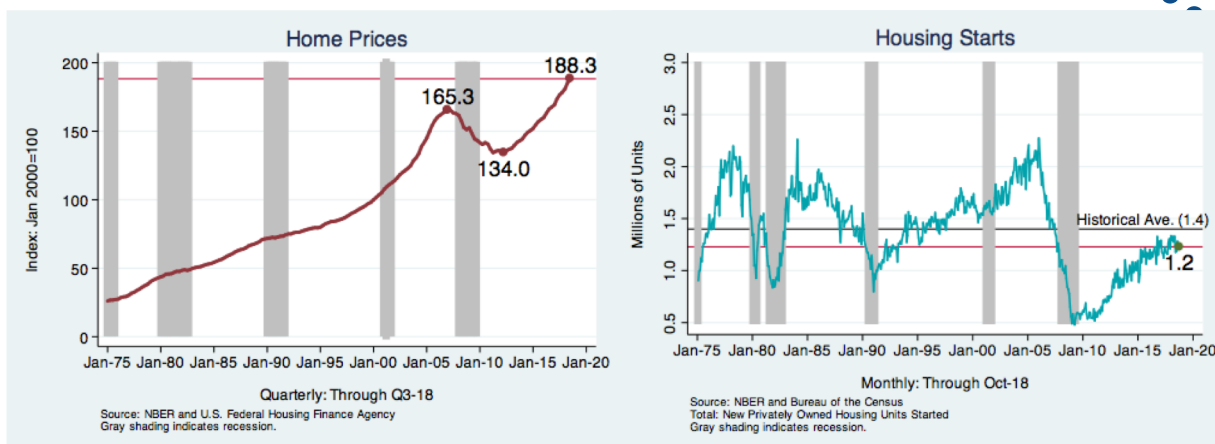
## Personal Savings



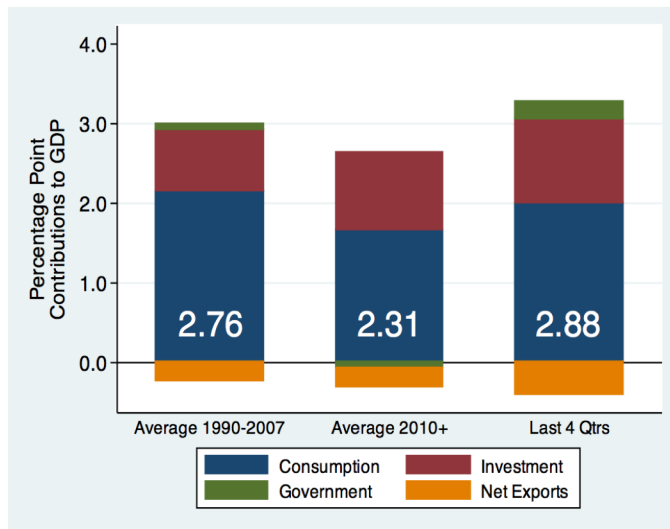
## Contributions to GDP: Residential Investment



## Home Prices and Housing Starts

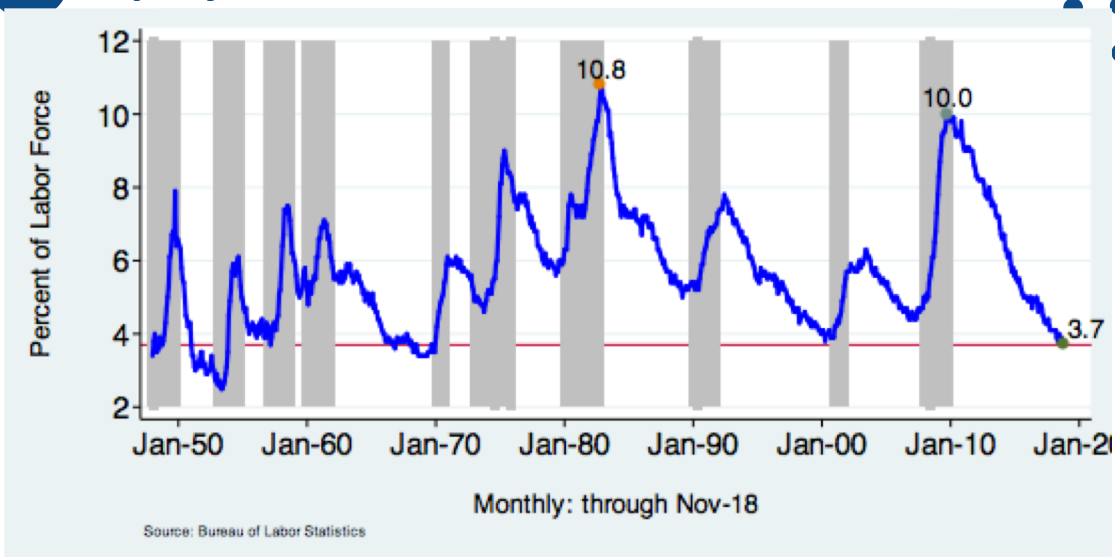


# Expenditure Summary

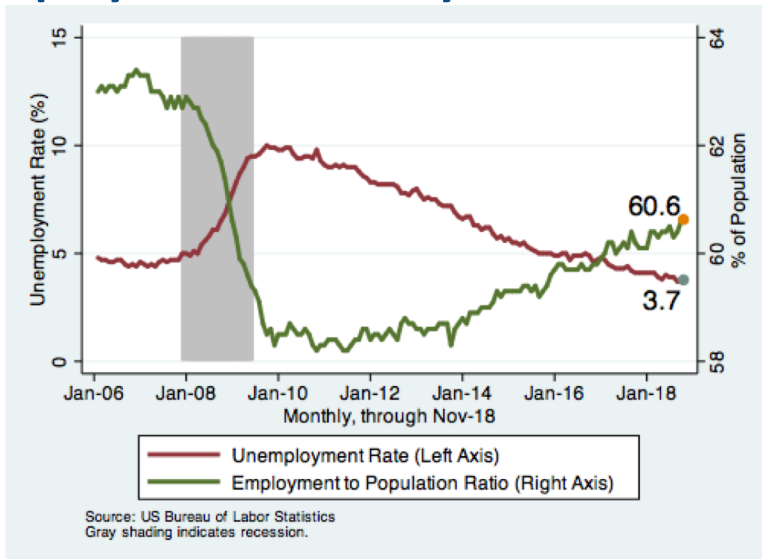


# Labor Market

## Unemployment Rate

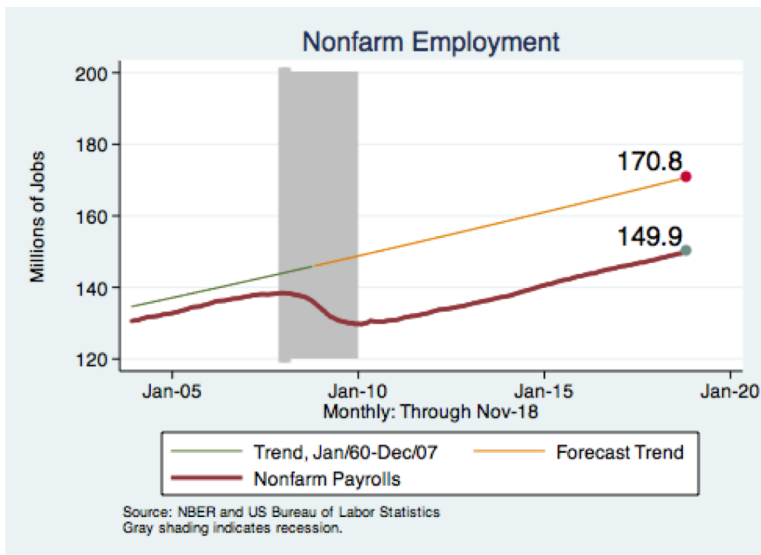


## Slow Employment Recovery

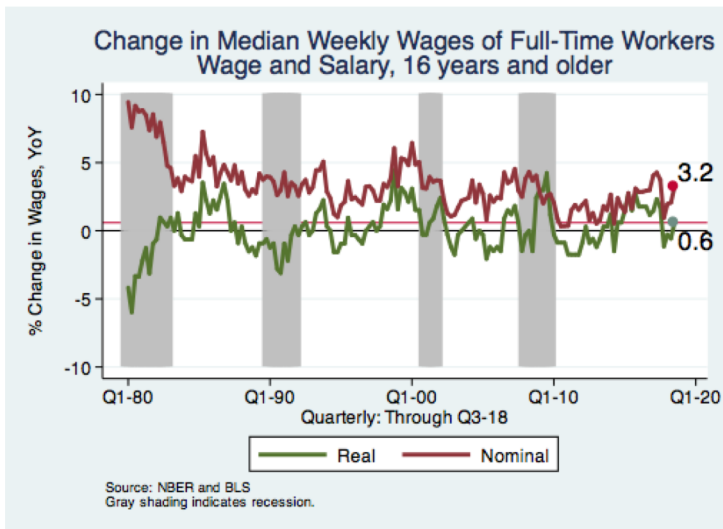




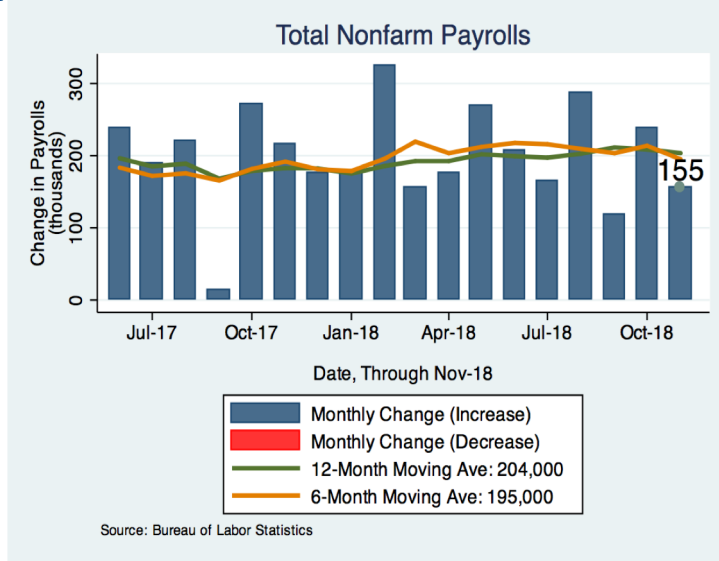
## Employment Gap: Up Close



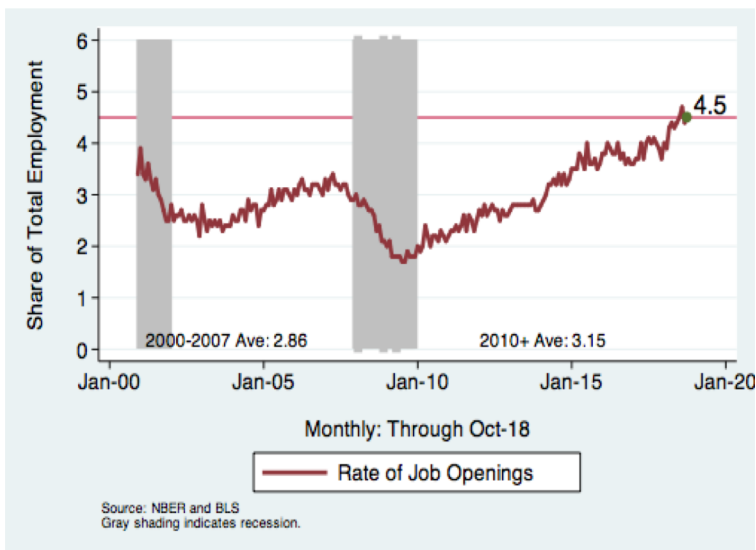
## Wage Growth



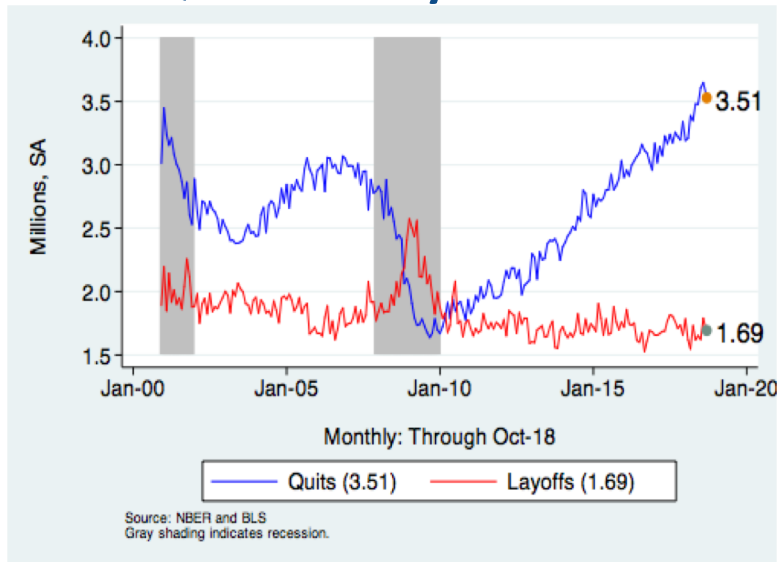
## Monthly Changes in Nonfarm Employment



## Job Openings: Share of Total Employment



## Separations: Quits and Layoffs



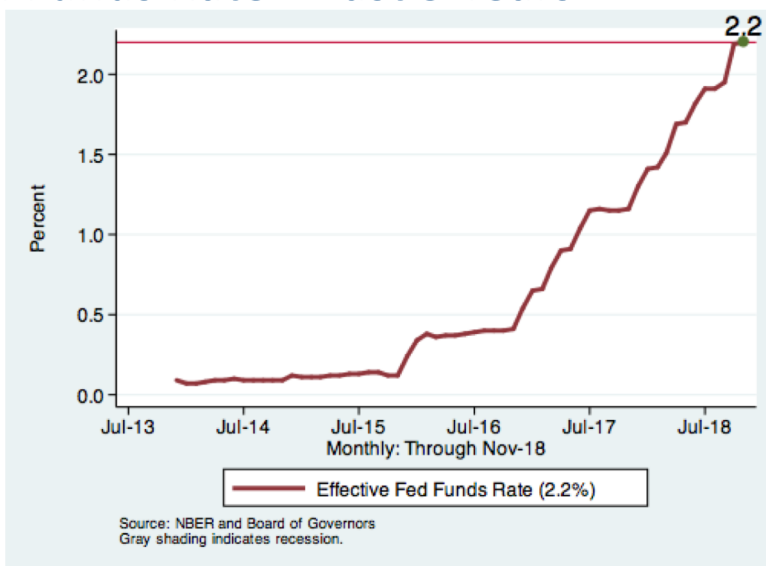
## Summary

- **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.

# Monetary Policy



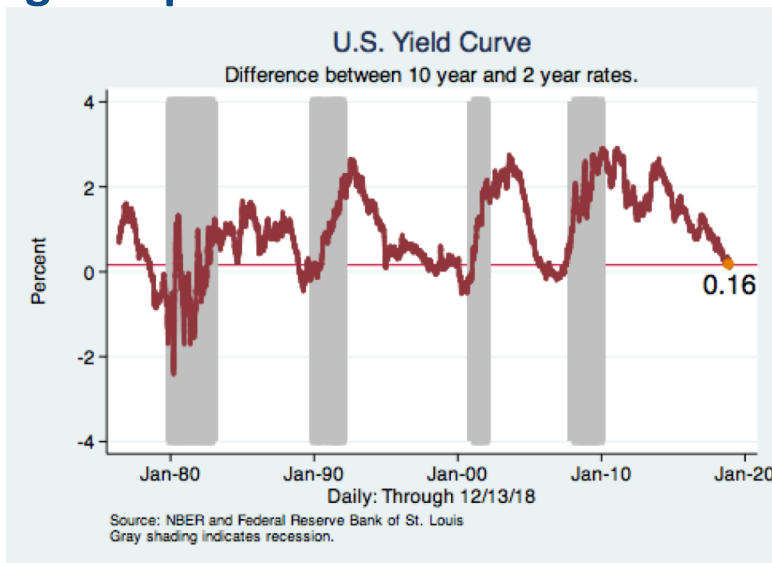
## Federal Funds Rate – Last 5 Years



## Federal Reserve Asset Holdings



## Alarming Compression of Interest Rates

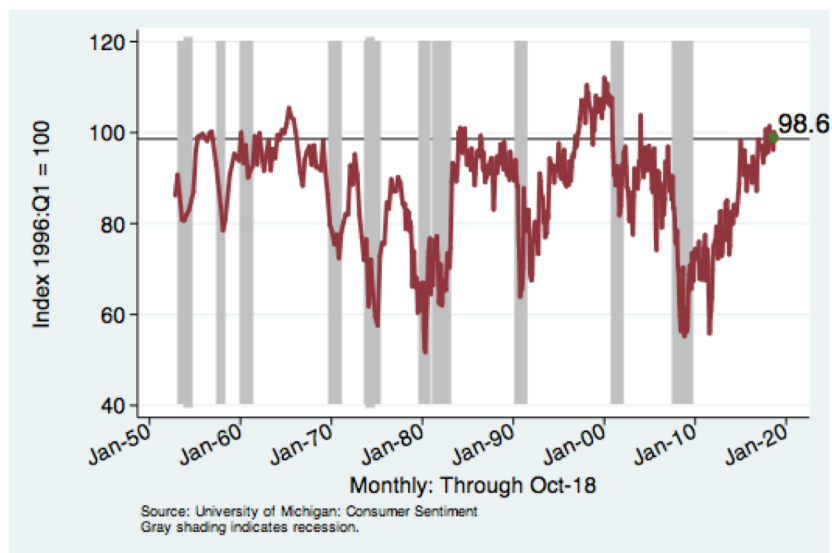


# Other Indicators



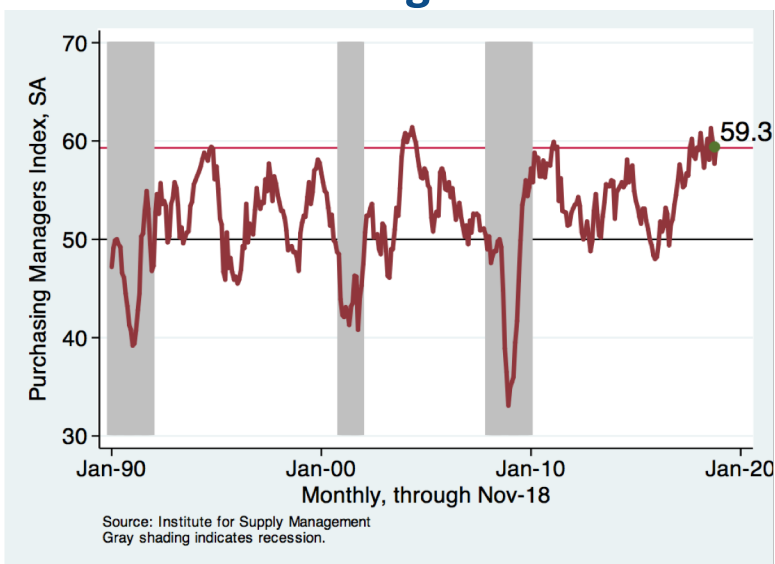
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## Consumer Confidence: High!

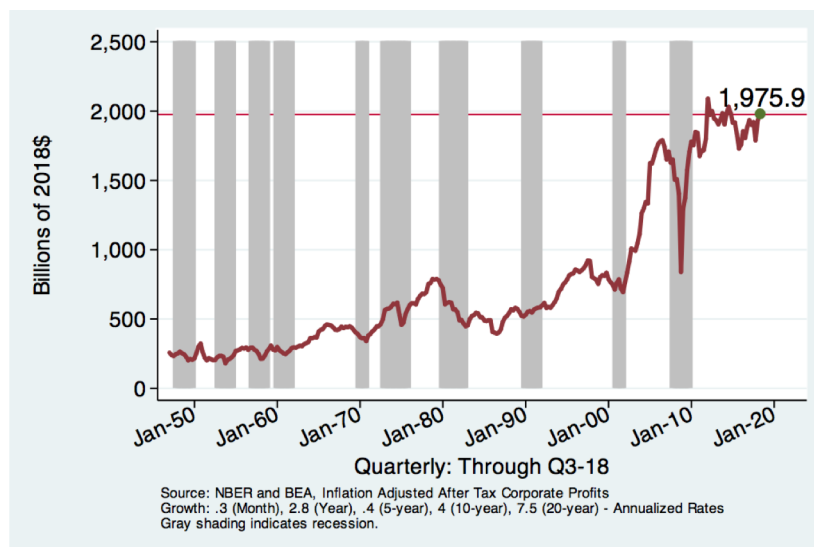


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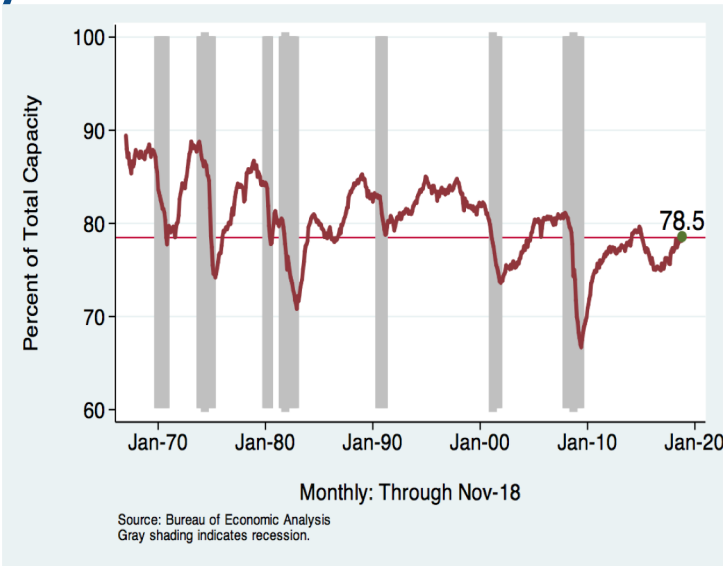
## Producer Confidence: High!



## Corporate Profits – Inflation Adjusted



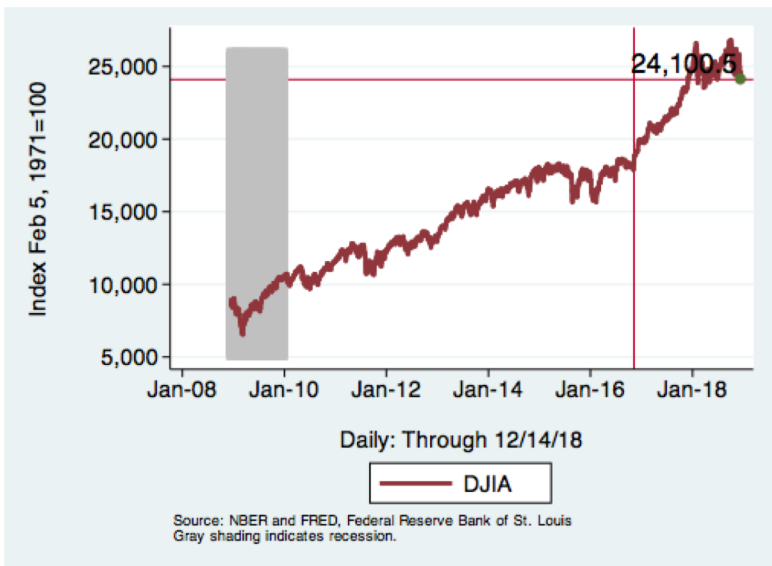
# Capacity Utilization



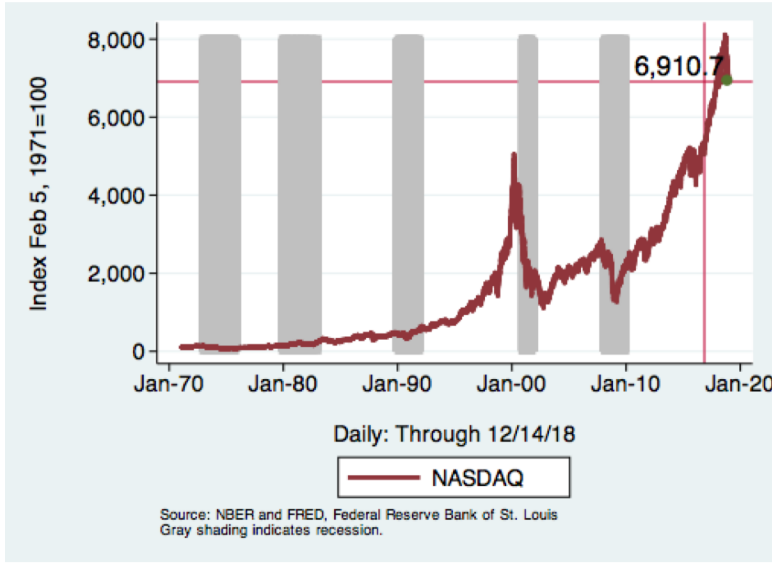
# Stock Markets



# Dow Jones



# NASDAQ



## Summary of GDP, Labor Markets and Monetary Policy

- **Behavior of GDP**

- Behavior of expenditure components matter.
- On average, post-recession consumption, government, and export expenditures are contributing less to GDP therefore slowing the recovery.
- In contrast, investment expenditures are contributing more.

- **Labor Market**

- Unemployment is low, labor force participation is stagnant
- Real wages may be starting to grow.

- **Monetary Policy and Stock Markets**

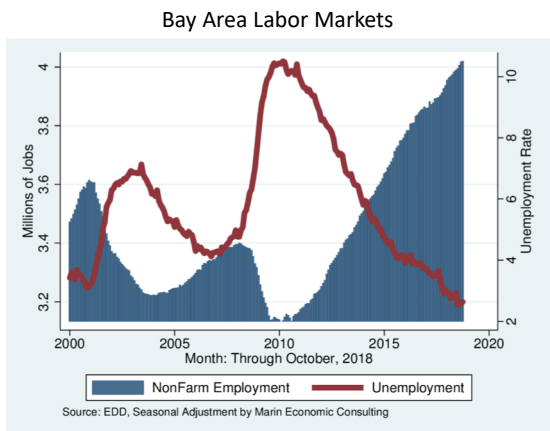
- Interest rates are rising.
- Stock markets are jittery.



## The Local Economy

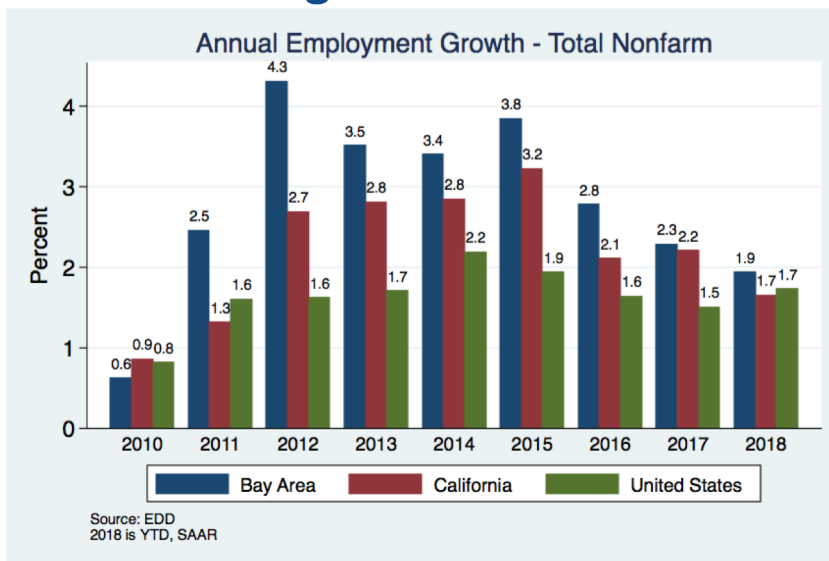


# Bay Area Economy Continues to do Well

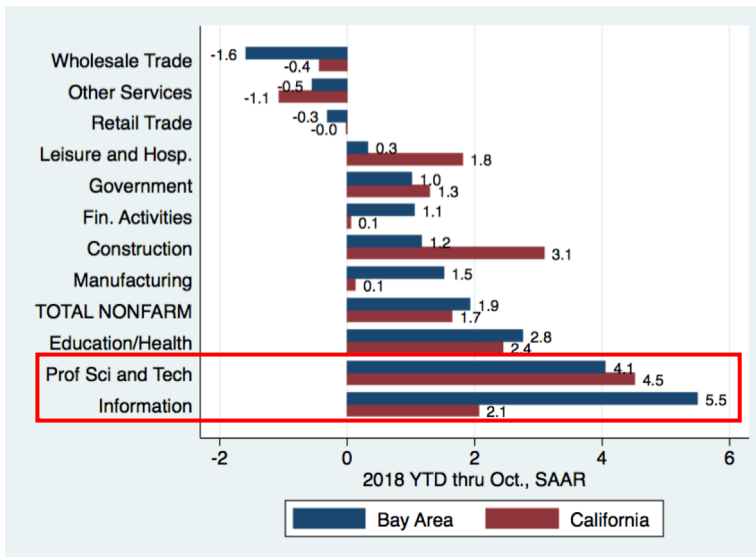


Region	Empl (000s)	YTD Growth (% AR)	Unemp Rate
Orange County (MD)	1,639	0.6	2.9
<b>San Francisco (MD)</b>	<b>1,141</b>	<b>1.3</b>	<b>2.2</b>
Los Angeles (MD)	4,515	1.4	4.7
<b>Oakland (MD)</b>	<b>1,189</b>	<b>1.6</b>	<b>2.9</b>
CALIFORNIA	17,237	1.7	4.1
<b>BAY AREA</b>	<b>4,017</b>	<b>1.9</b>	<b>2.6</b>
<b>North Bay</b>	<b>403</b>	<b>2.1</b>	<b>2.6</b>
Inland Empire	1,505	2.4	4.0
<b>San Jose</b>	<b>1,142</b>	<b>2.9</b>	<b>2.5</b>

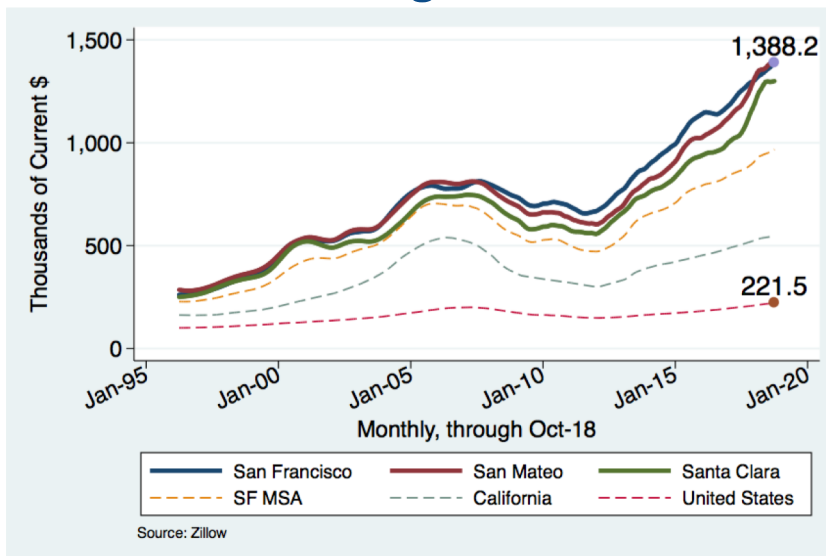
# Slowdown in the Region and State



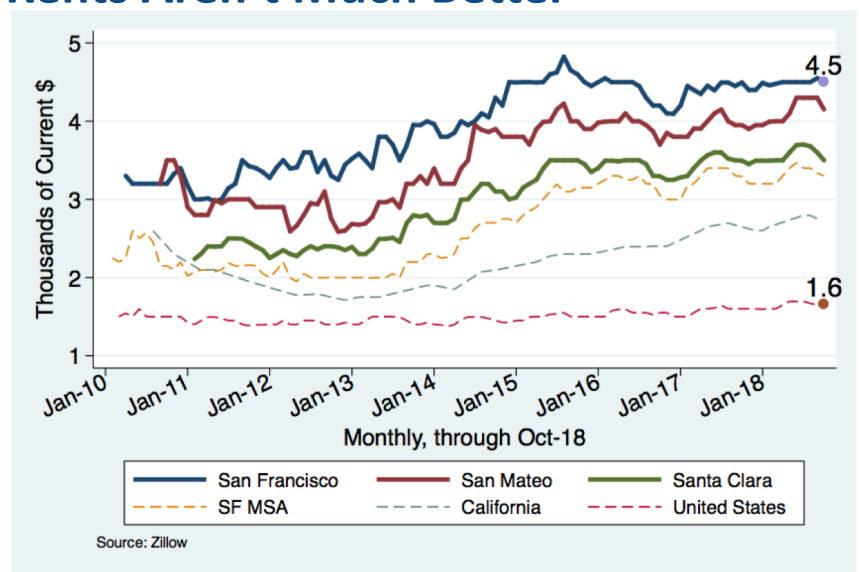
## Relative to California: Manuf & Info



## Median Home Prices - High



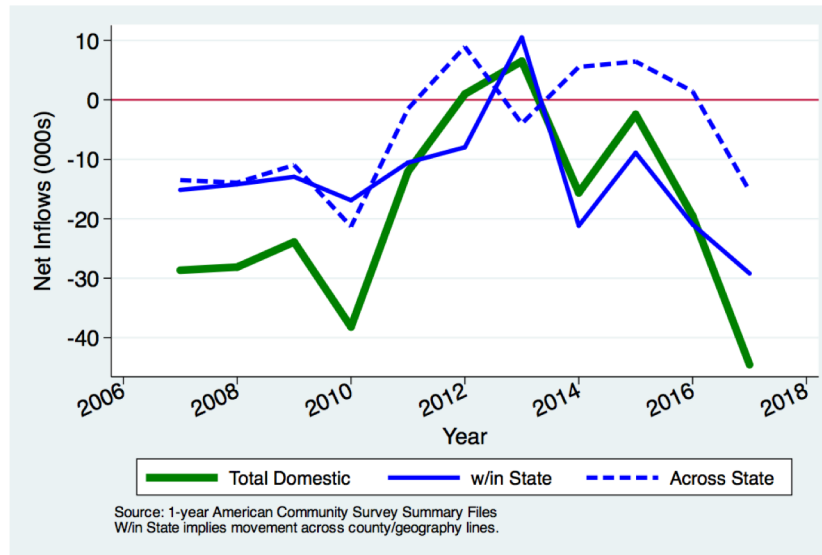
## And Rents Aren't Much Better



## Burdensome Commutes: MegaCommuters



## Implications for Population Growth



## Summary

- **The Bay Area is an extremely prosperous region.**
  - Growth is happening in high income sectors.
  - Population has high incomes and low poverty rates.
- **That growth is challenged by housing costs.**
  - Witness the long commutes and net outmigration.
- **It is an extremely expensive place to do business.**
  - Commercial rents are high and rising.
- **Growth has been slowing in recent years.**
  - Is the Bay Area full?
- **Rates of residential construction has been increasing.**
  - But there is an enormous need for, in particular, affordable housing.

## Important Questions

- **Why is employment slowing?**
  - Because the Bay Area is full?
  - Optimism less irrationally exuberant?
- **If full, how to increase capacity?**
  - Building housing – of what sort?
  - Transportation infrastructure
- **What is happening to economic diversity in the Bay Area?**
  - Why is the gini coefficient falling?
  - Is this a problem from the perspective of economic stability?



## Things to Be Worried About

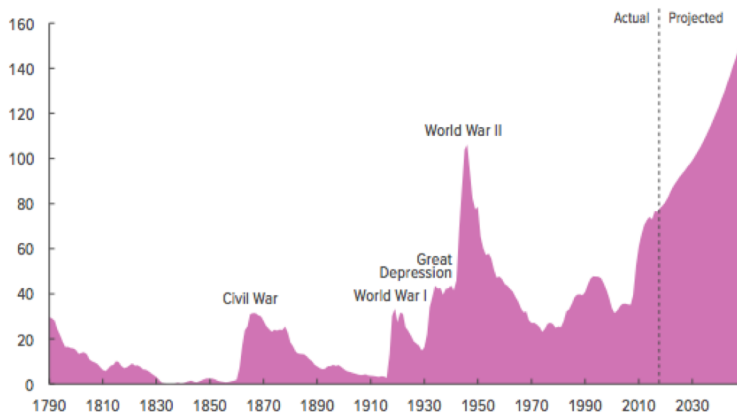
- **Yield Curve**
- **Government Debt**
- **Income and Wealth Inequality**
- **Policy Uncertainty**
  - Trade and immigration policy, specifically
- **Corporate Debt**
- **Bottom of the List**
  - Bilateral trade deficit with China



# Federal Government Debt Projections

## Federal Debt Held by the Public

Percentage of Gross Domestic Product

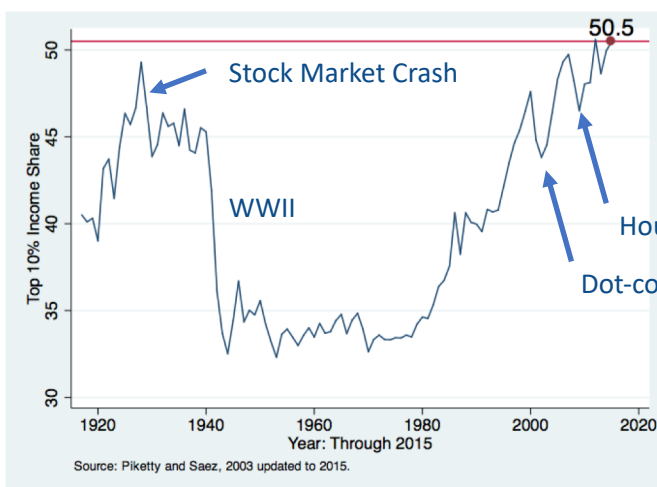


High and rising federal debt would reduce national saving and income, boost the government's interest payments, limit lawmakers' ability to respond to unforeseen events, and increase the likelihood of a fiscal crisis.

Source: Congressional Budget Office.



# National Income Inequality: Share of Top 10%



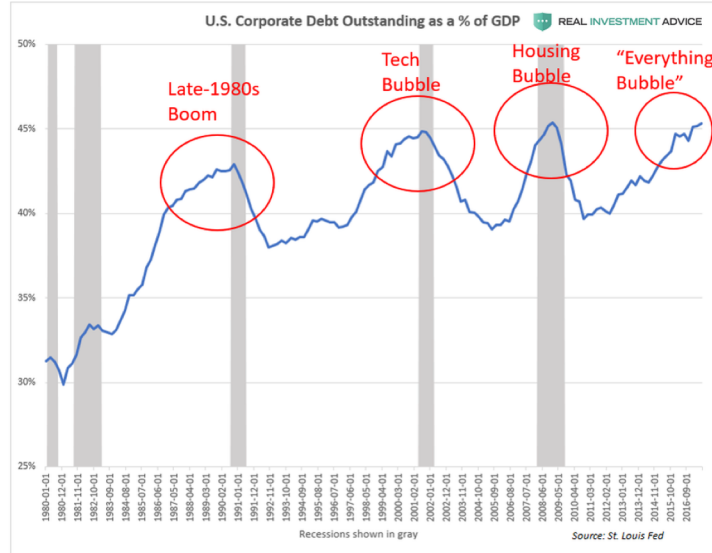
Source: Piketty and Saez, 2003 updated to 2015.



Source: Piketty and Saez, 2003 updated to 2015. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.



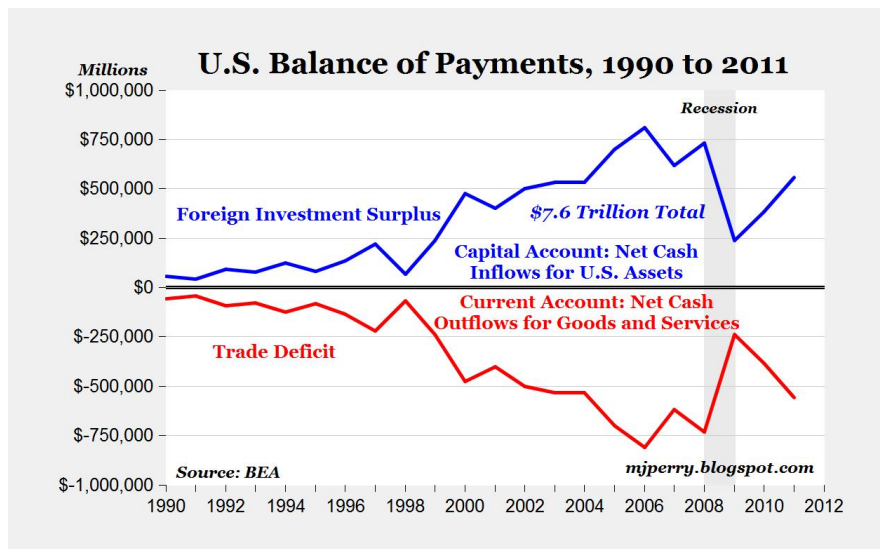
# Corporate Debt



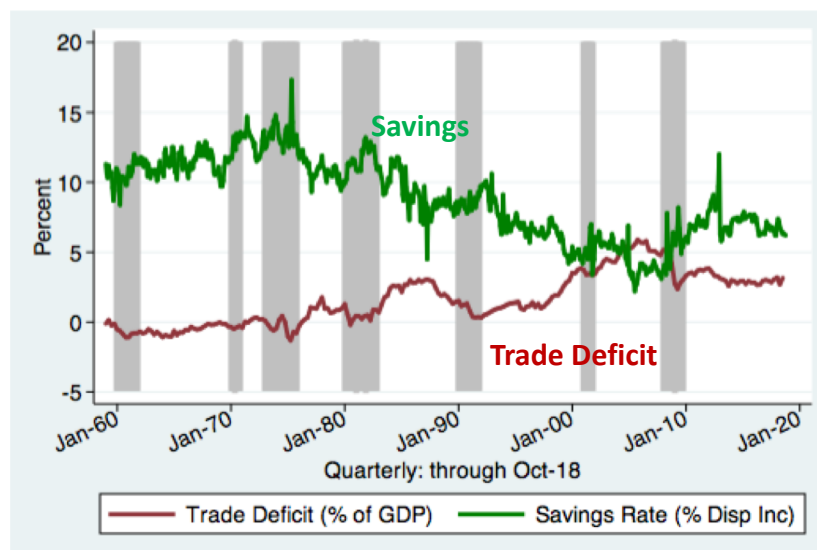
# Bilateral Deficit with China

- **Who cares?**
- **Legitimate trade issues with China**
  - Intellectual property theft/extortion
  - Nontariff barriers
  - Currency manipulation
- **Why are we doing this alone?**
  - EU and Japan also care about these issues.

## Trade and Investment Flows Balance Out



## US Savings and the Trade Deficit



## Cautious Outlook

- **Job growth remains robust**
- **Wage growth, but not too much**
- **Inflation and interest rates remain favorable**
- **Potential source of concern:**
  - Auto and light truck sales are slowing.
  - Home building is slowing.
  - Business investment is slowing.
  - Stock markets

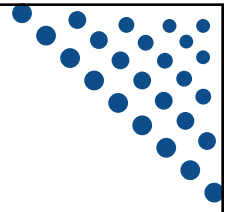


## Overall Summary

- **Tailwinds and headwinds both exist**
  - Economic forecasts for near term are favorable
  - However: 2019 slower than 2018 and 2020 slower still.
- **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?
- **Long term concerns**
  - Declining labor force
  - Federal government debt
  - Policy uncertainty



**Thank you!**



# Any Questions?

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