

U.S. & CA Economic Report

May 8, 2019

International Right of Way Association

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Executive Director
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.

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**

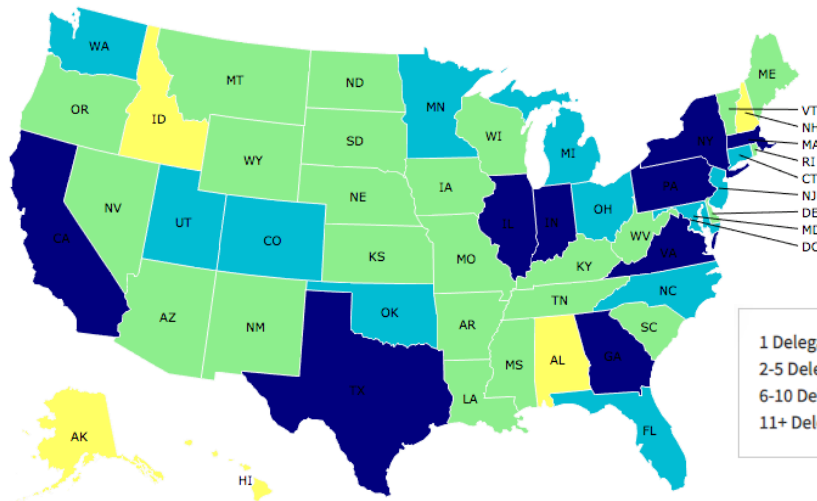
- Aid in slide deck development



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Where Are We?



1 Delegate - Yellow
2-5 Delegates - Green
6-10 Delegates - Light Blue
11+ Delegates - Blue



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Credits and Disclaimer

- **This slide deck was authored by:**
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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.
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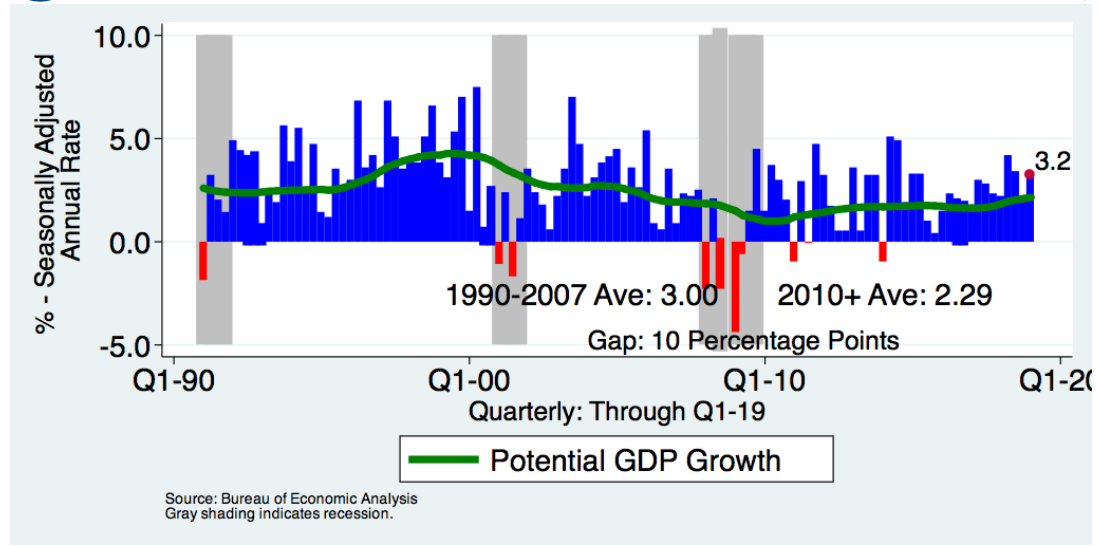
Outline – Economic Outlook

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

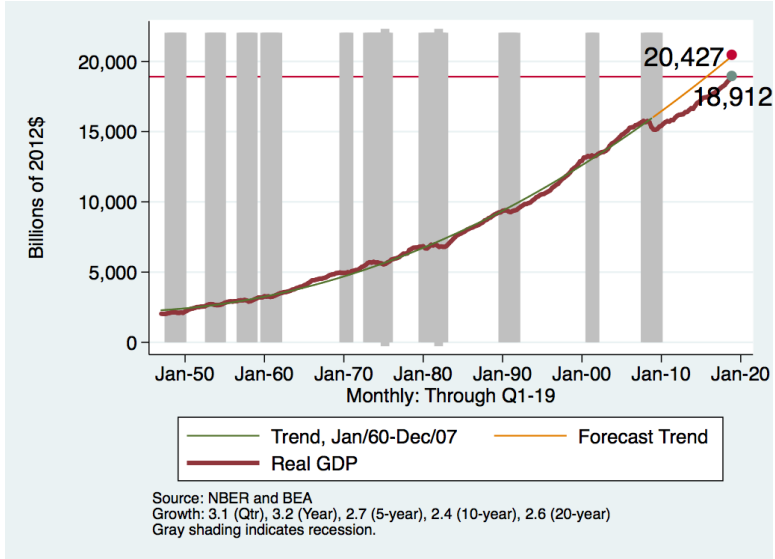


U.S. Economy

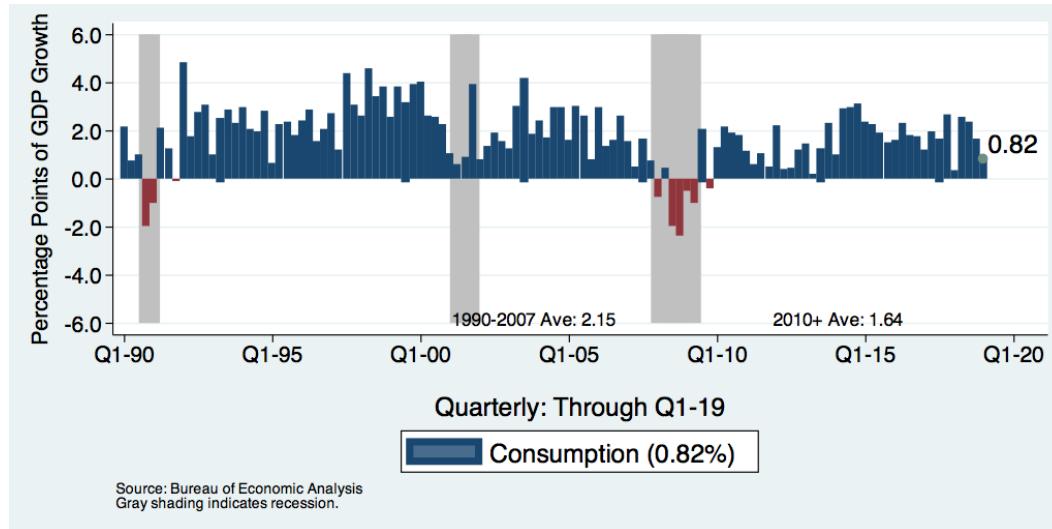
GDP Growth During Economic Recovery



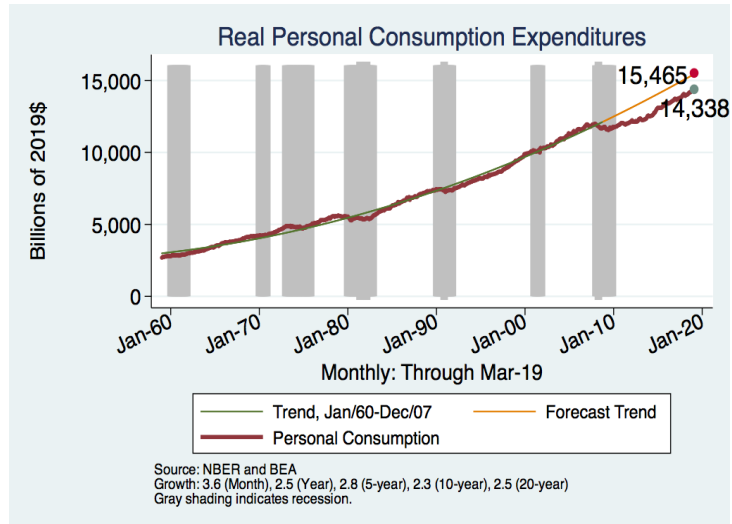
GDP Relative to Long-Term Trends



Contribution to GDP Growth: Consumption



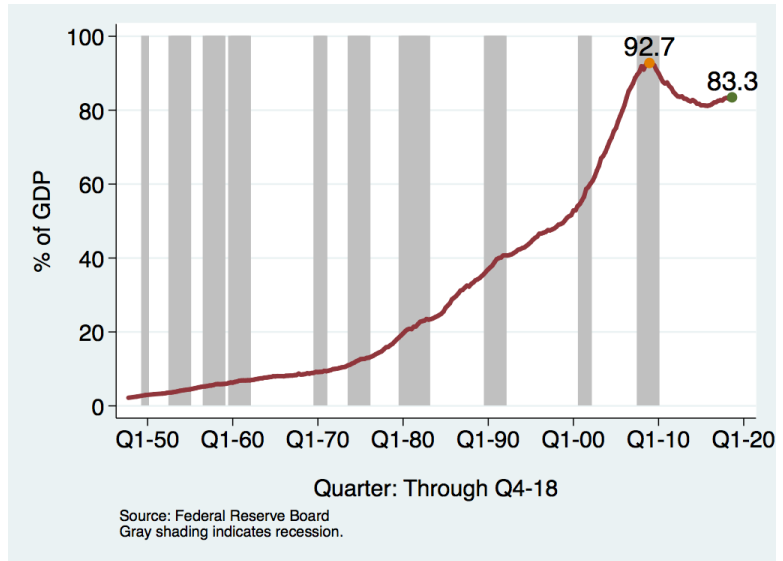
Personal Consumption Expenditures



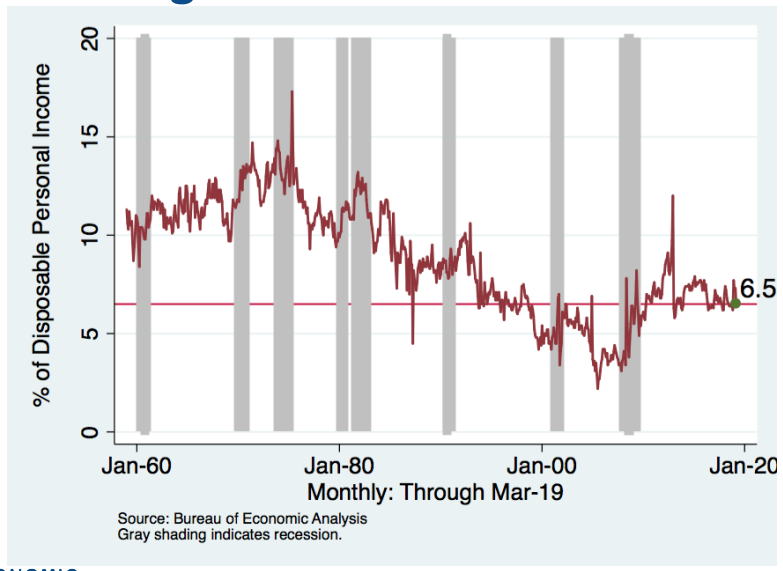
Personal Consumption Expenditures

- **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%.**

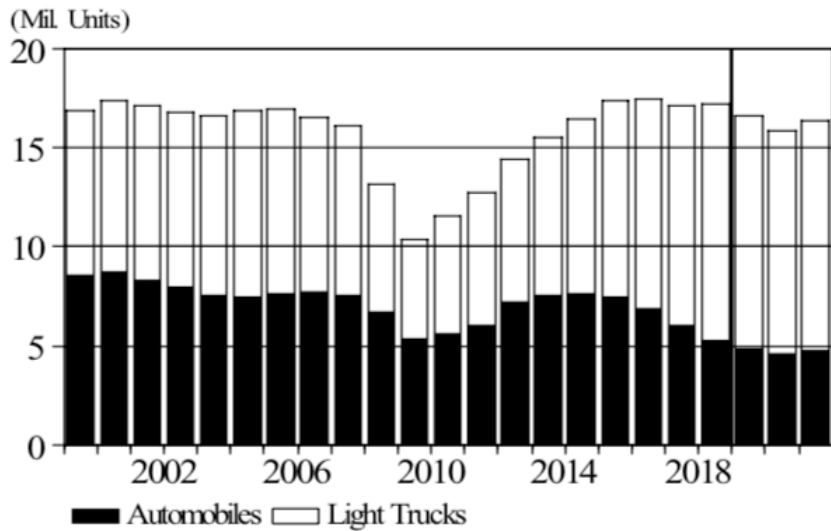
Household Debt as a Share of GDP



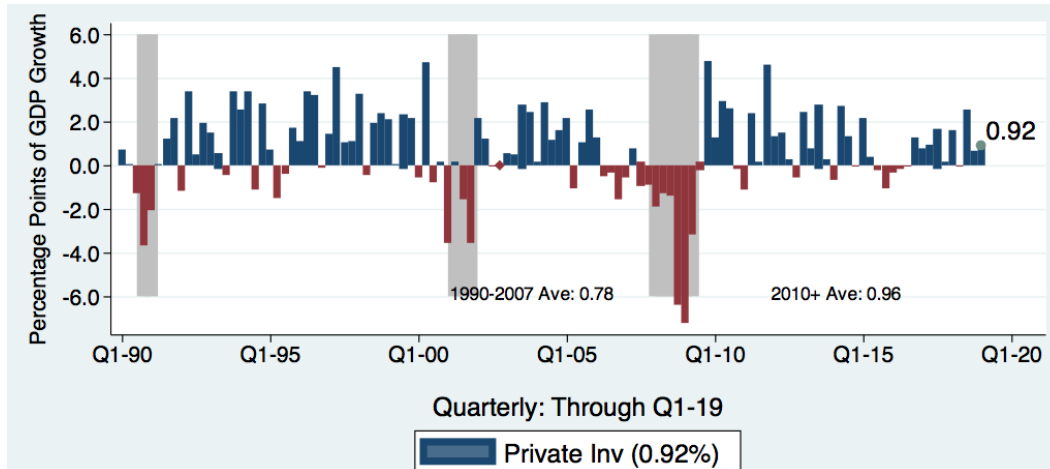
Personal Savings



Automobile and Light Truck Sales - Forecast

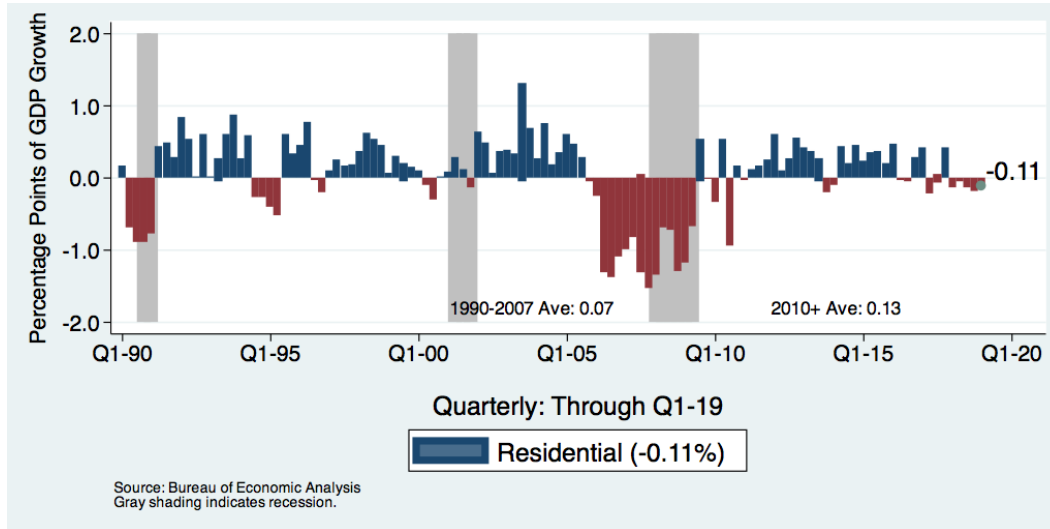


Contributions to GDP: Private Investment

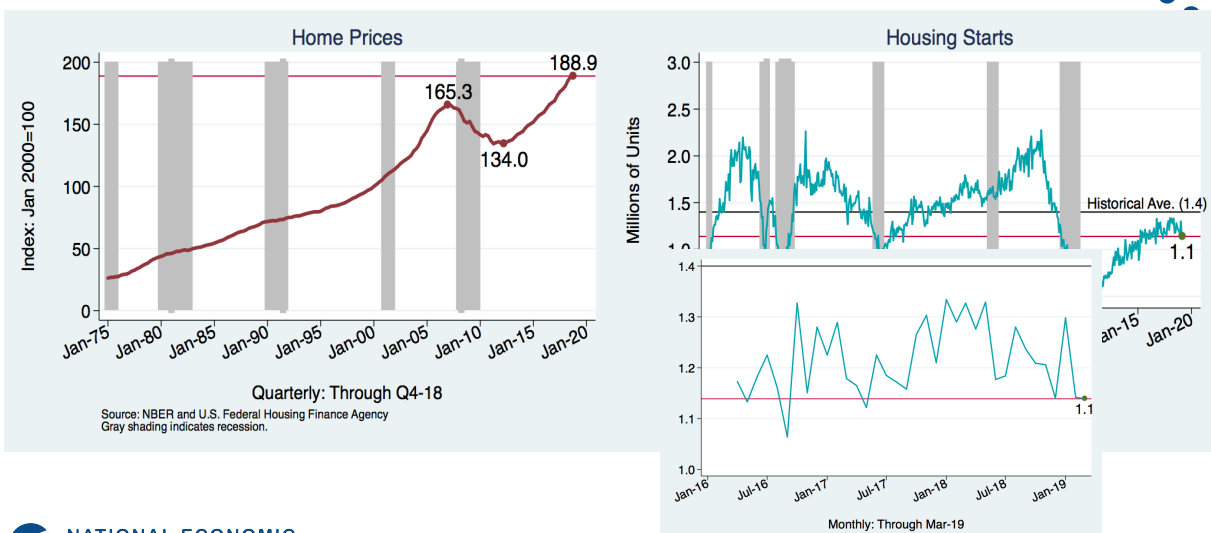


Source: Bureau of Economic Analysis
Gray shading indicates recession.

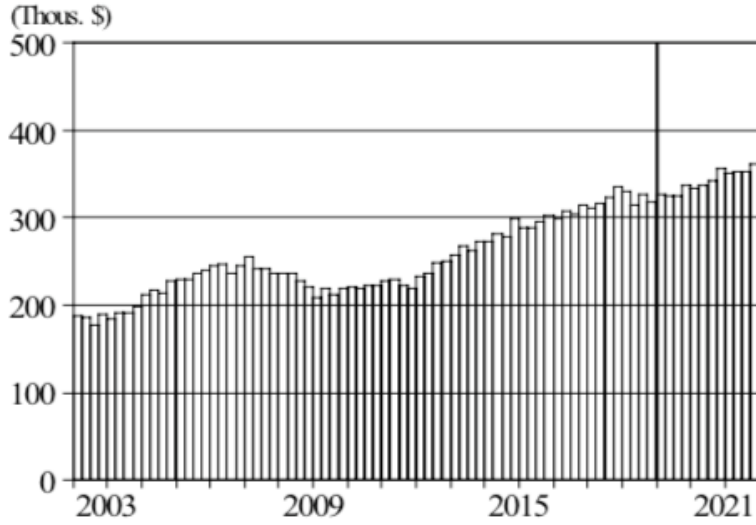
Contributions to GDP: Residential Investment



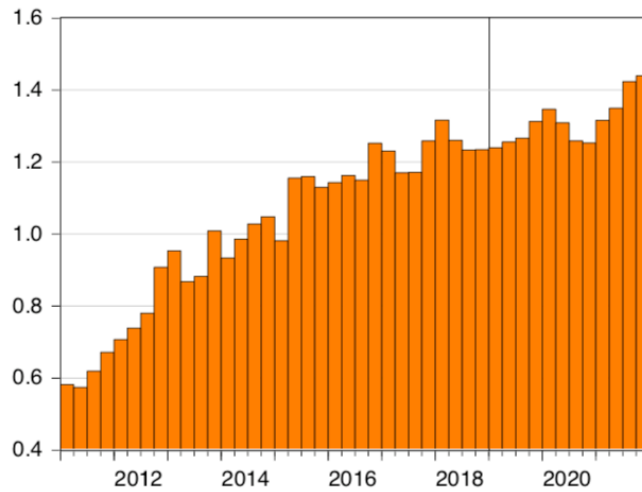
Home Prices and Housing Starts



U.S. Median Single Family Home Prices



Housing Starts: Forecast



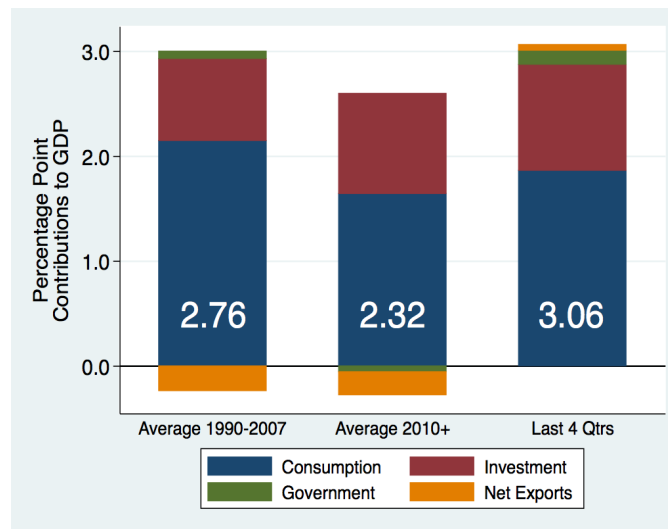
Source: U.S. Bureau of the Census and UCLA Anderson Forecast

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.**



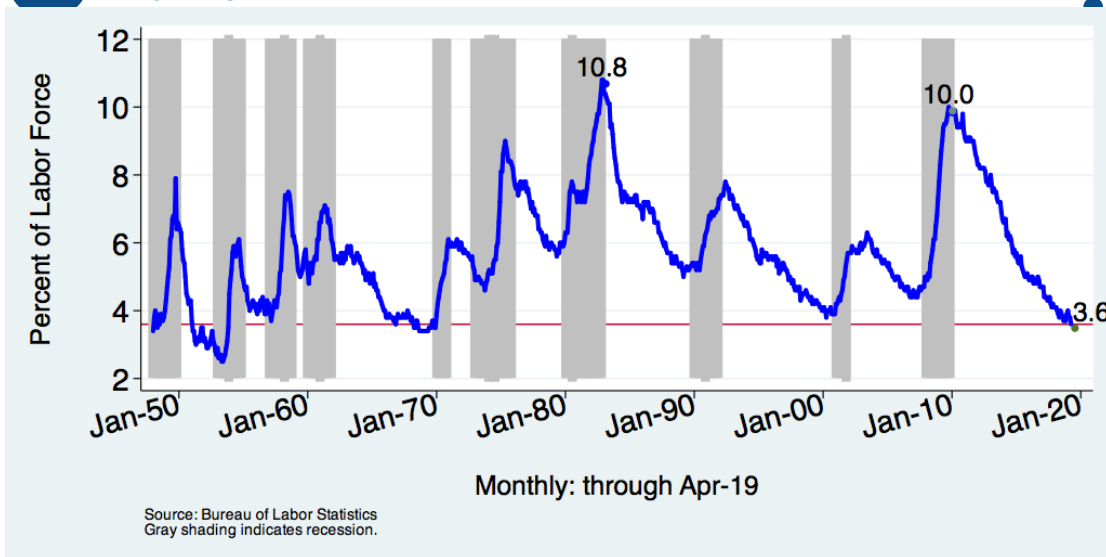
Expenditure Summary



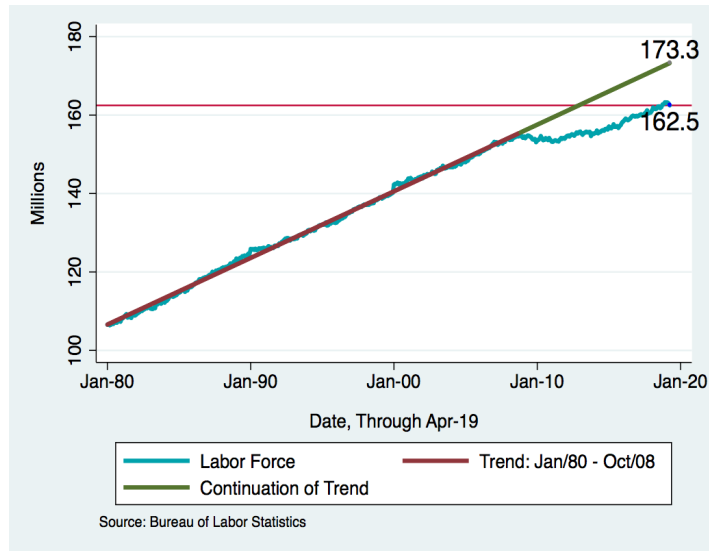
Labor Market Conditions

- 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

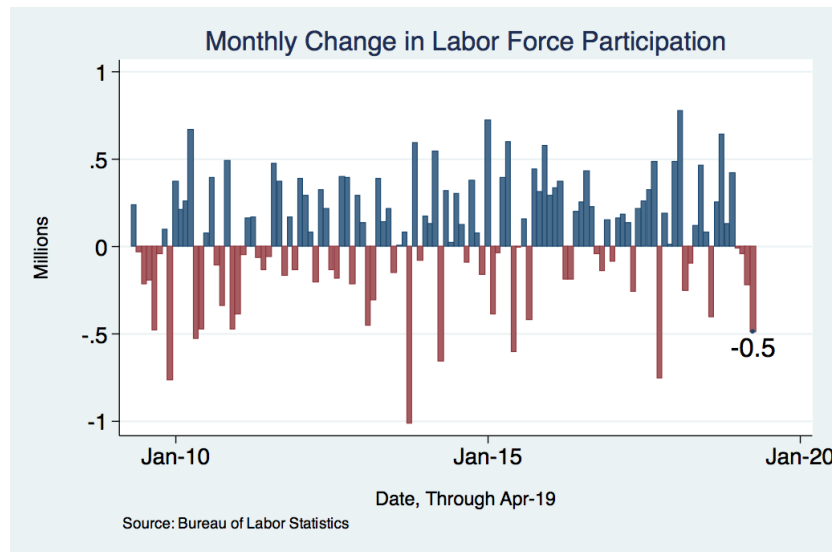
Unemployment Rate



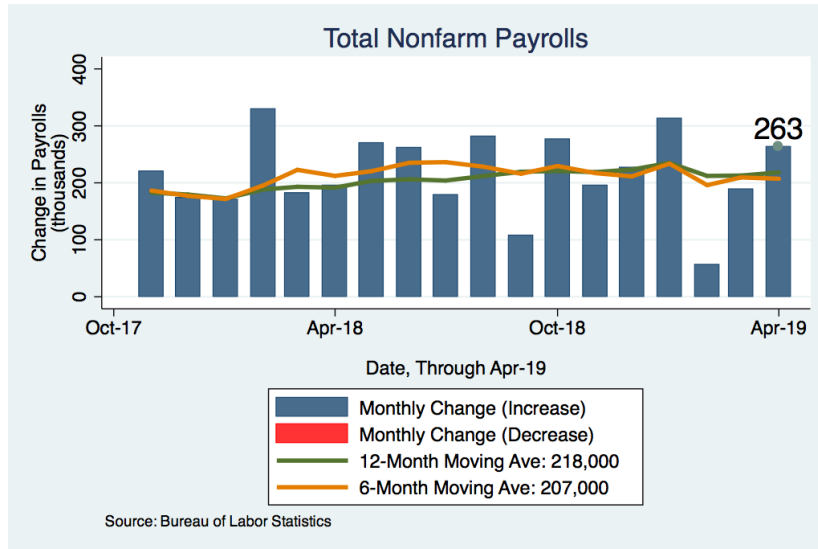
Labor Force Participation - Below Trend



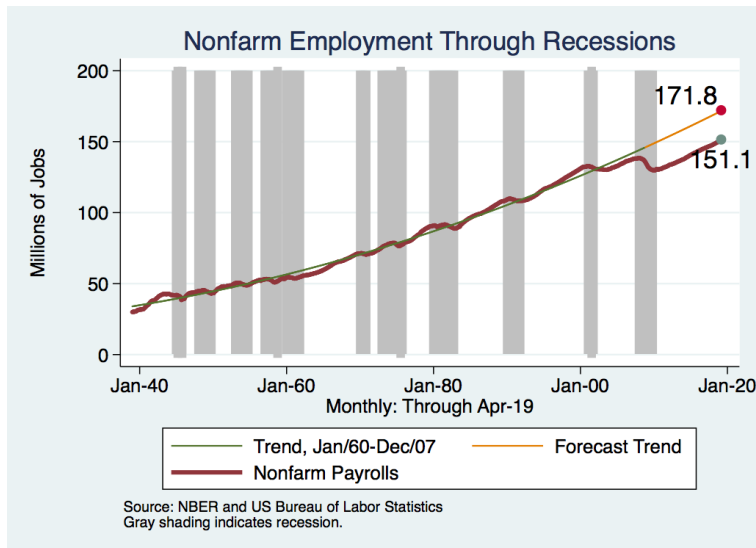
Labor Force in Decline



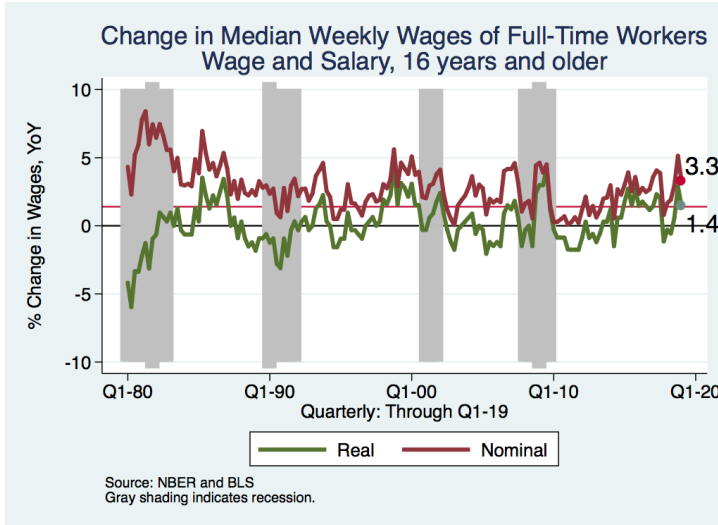
Monthly Changes in Nonfarm Employment



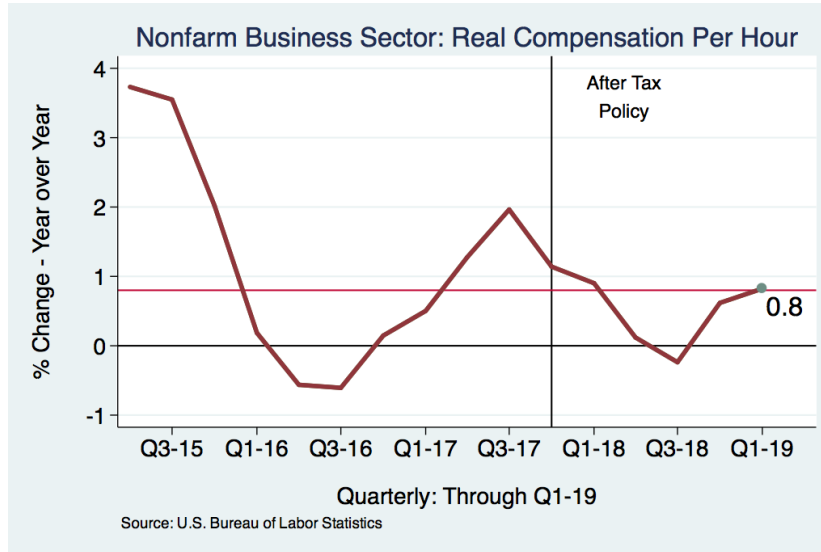
Employment Growth



Wage Growth



Labor Compensation Growth

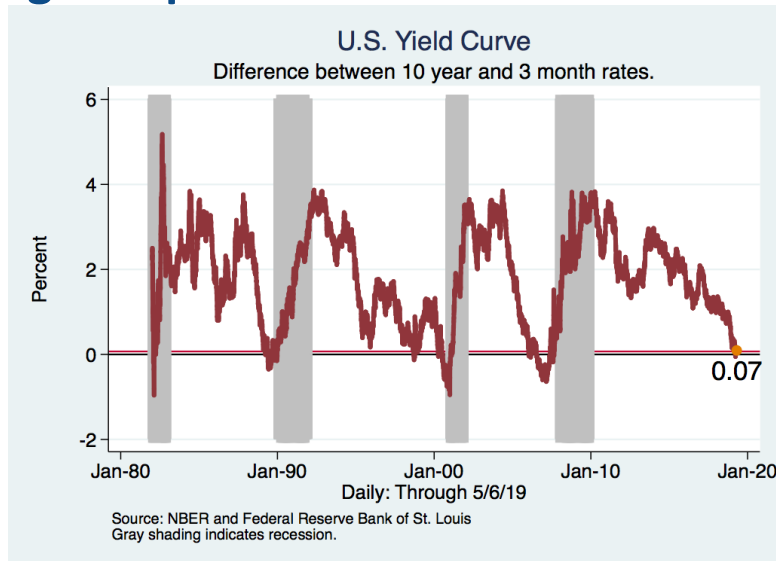


Summary

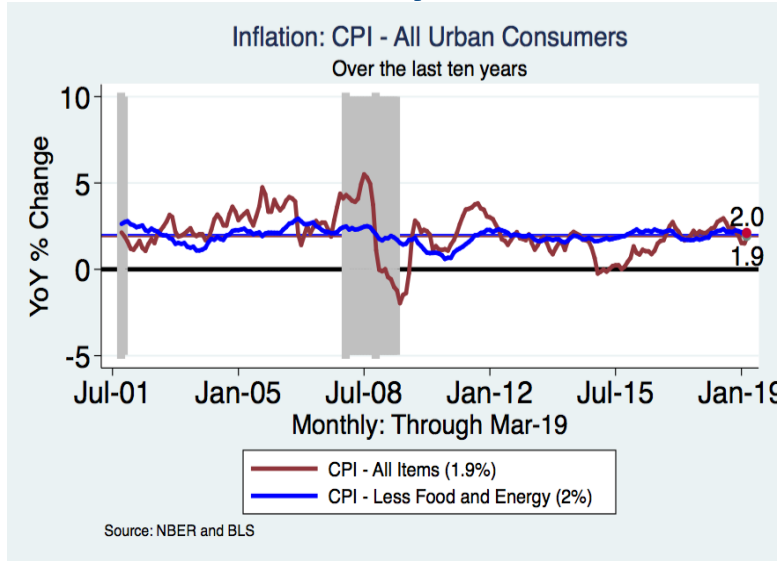
- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
 - In particular, consumption and government spending have been slow relative to other periods.
- **This tepid growth has lead 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.



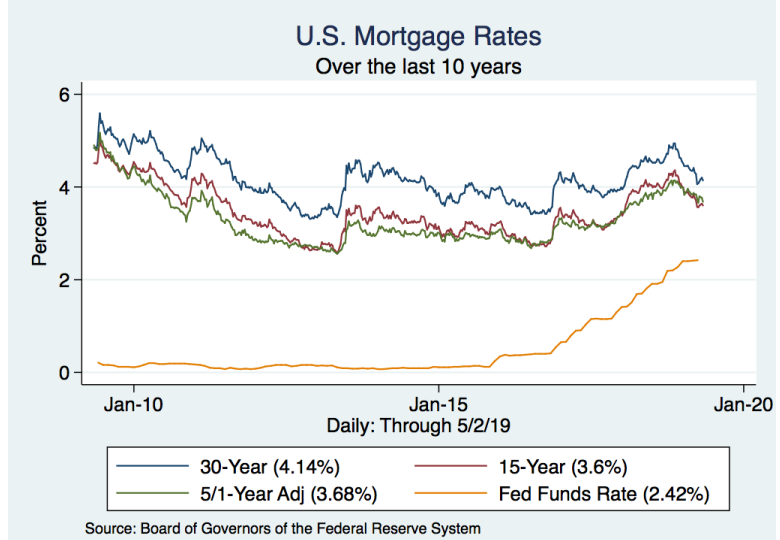
Alarming Compression of Interest Rates



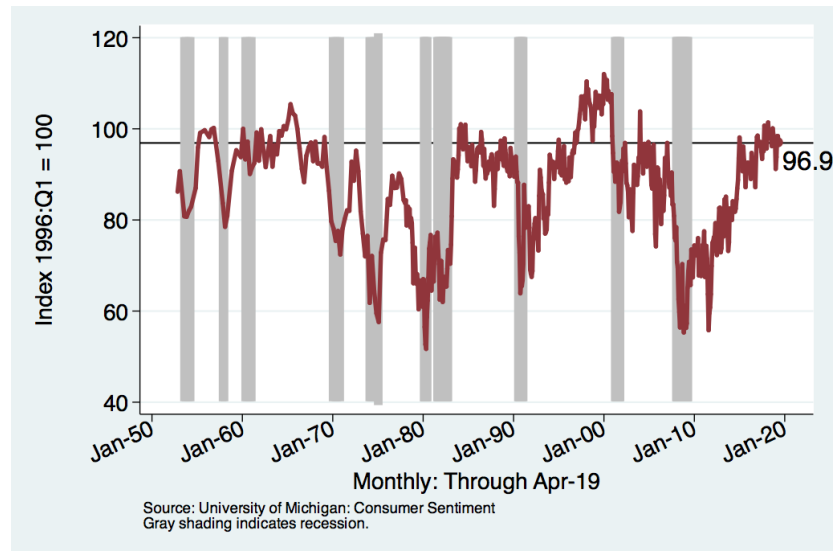
Inflation – Recent Stability



Mortgage Rates



Consumer Confidence: Waning?



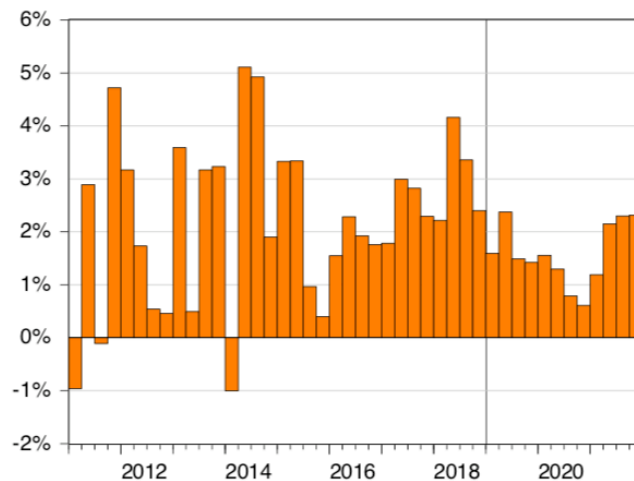
Cautious Outlook

- **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

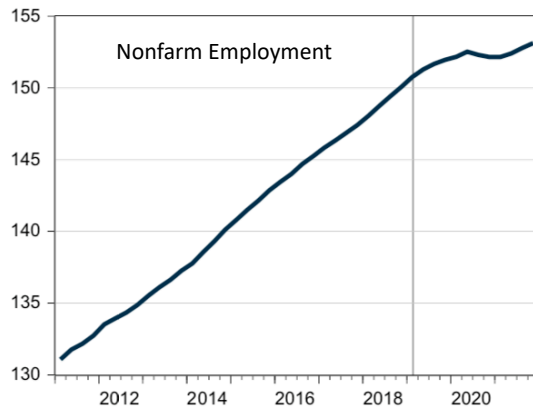
- Job Growth
- Growth Abroad
- Yield Curve
- Government Debt
- Income and Wealth Inequality
- Policy Uncertainty
 - Trade and immigration policy, in particular.

U.S. GDP Forecast

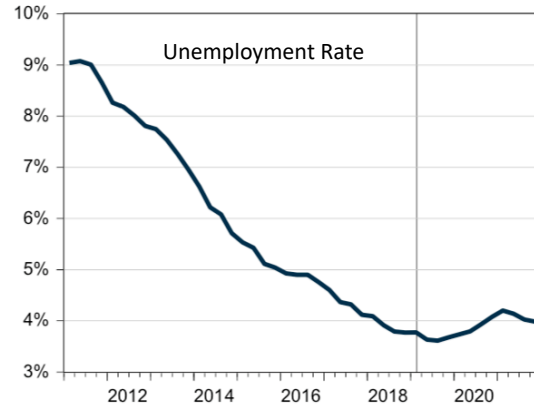


Source: U.S. Department of Commerce; UCLA Anderson Forecast

U.S. Employment Forecast



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



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



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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

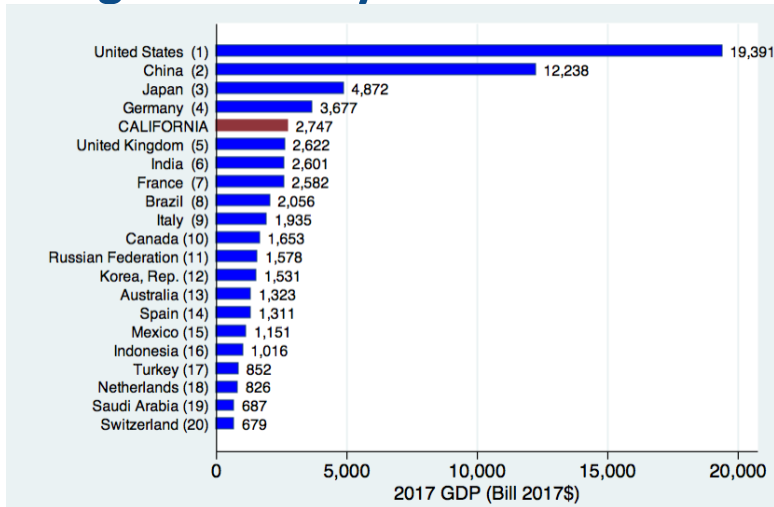


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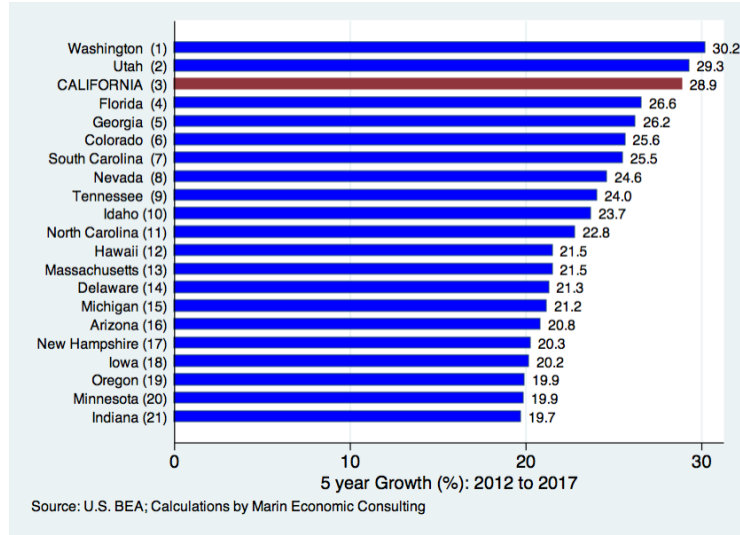
California Economy

CA — 5th Largest Country

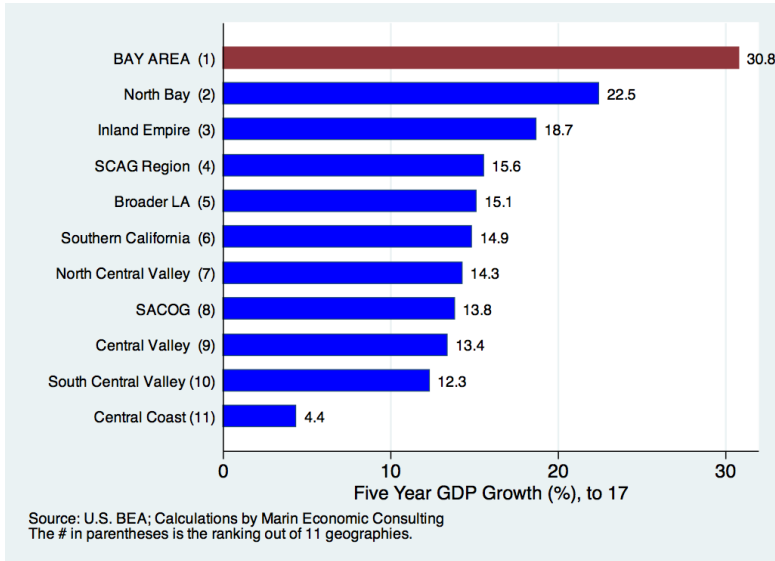


Source: U.S. BEA and World Bank; Calculations by Marin Economic Consulting
The # in parentheses is the ranking out of 195 geographies.

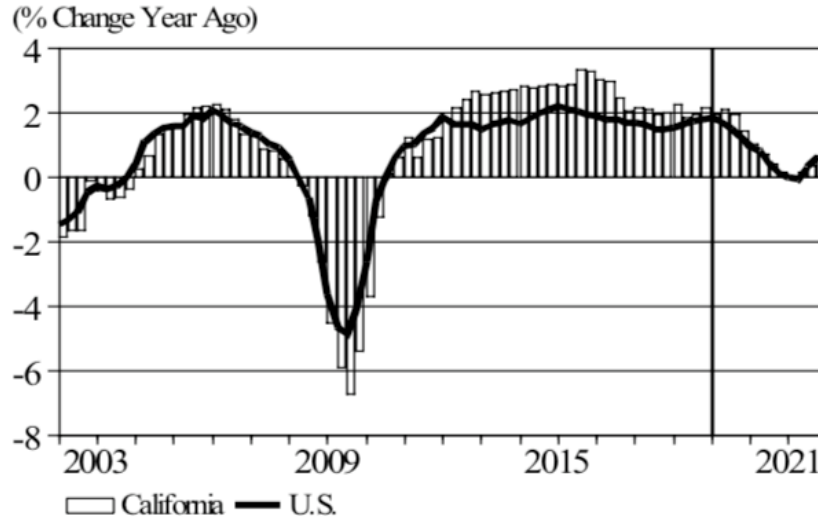
CA – Fast Grower over Last 5 Years



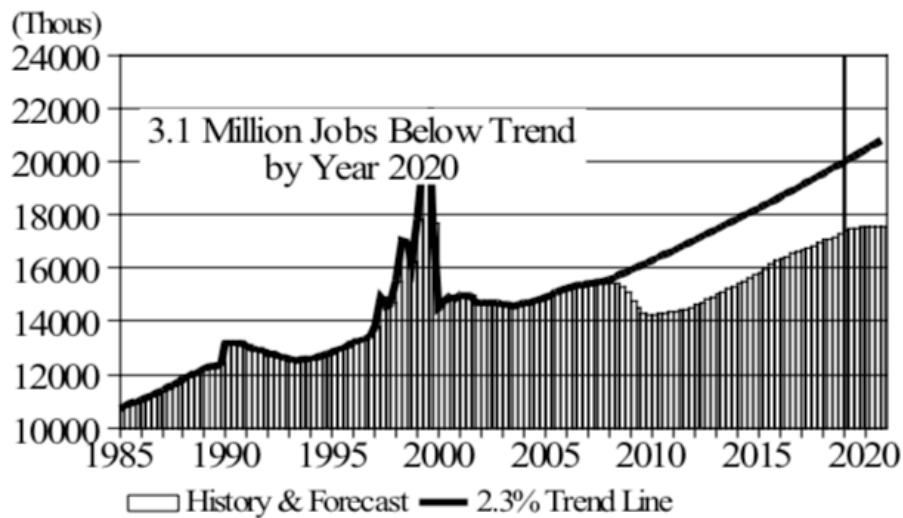
Growth Around the State



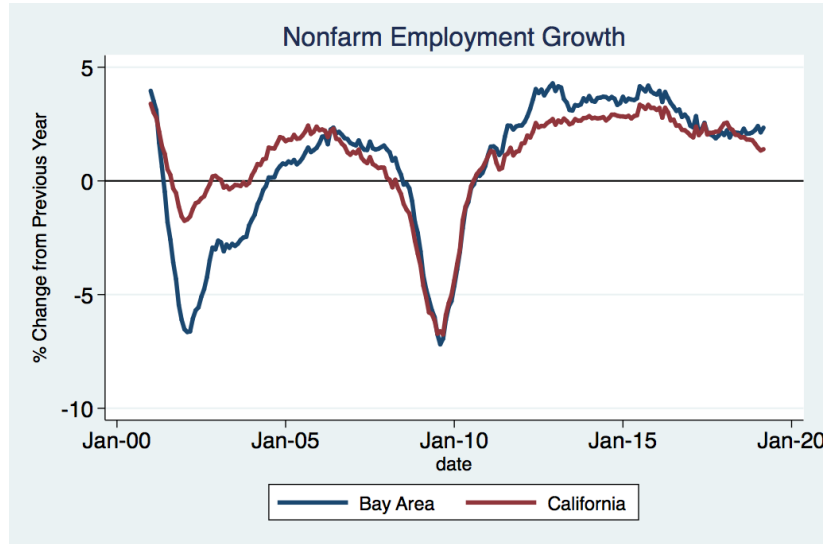
Nonfarm Employment: CA vs U.S.



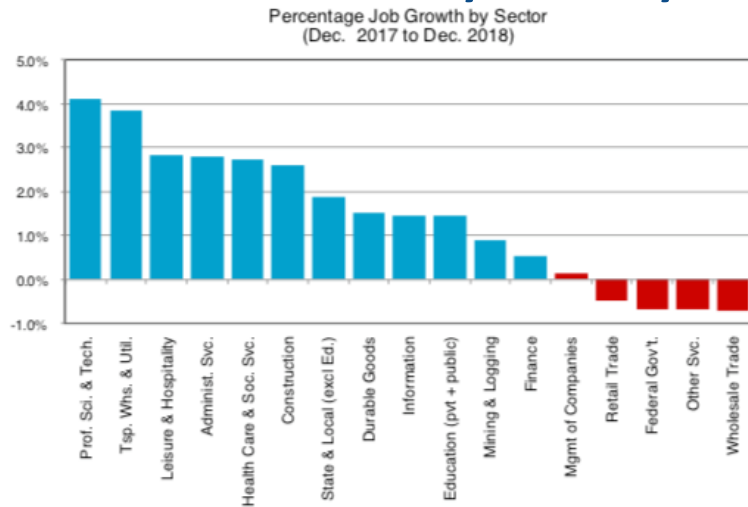
CA Employment: Deviation from Trend



Bay Area Stability



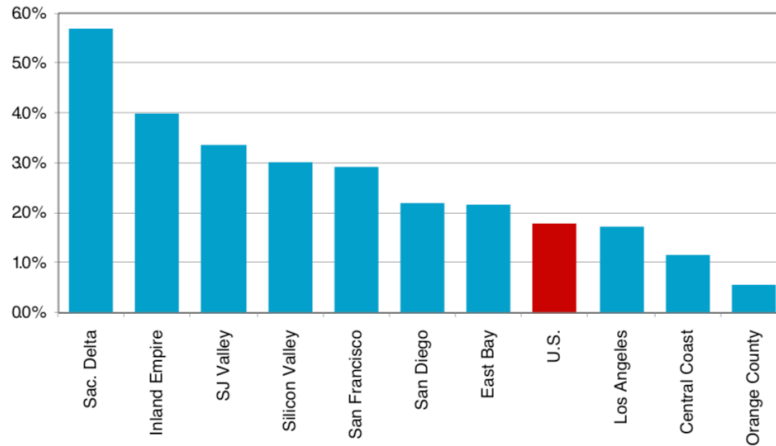
Employment Growth in CA by Industry



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

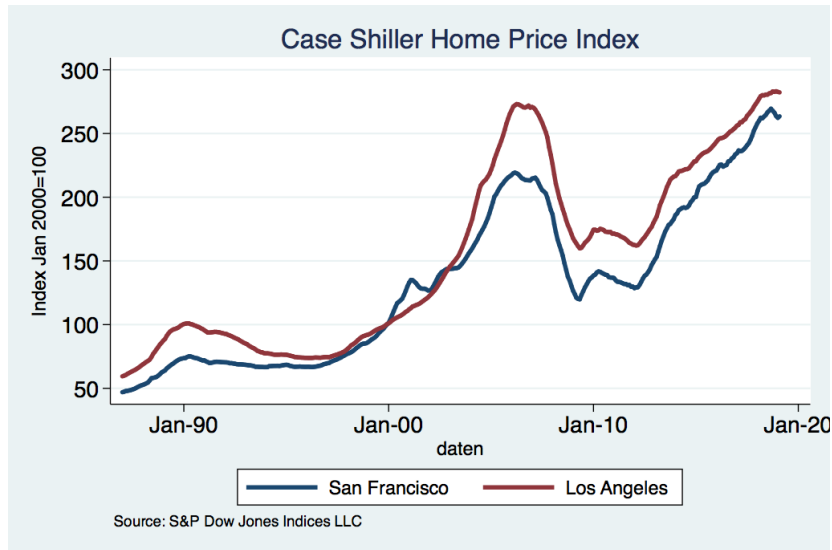


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UCLA Anderson Forecast: March 2019 Economic Forecast

Home Prices

Case Shiller Home Price Index



Source: S&P Dow Jones Indices LLC



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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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