



US Economic Update

California Community Colleges Real Estate Education Center

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NEED
October 27, 2023



1

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2

2

Outline

- About the U.S. Economy
- Economic Indicators
- Inflation/Federal Reserve
- Home Prices



3

Economic Indicators



4

Headline: July 28, 2022

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

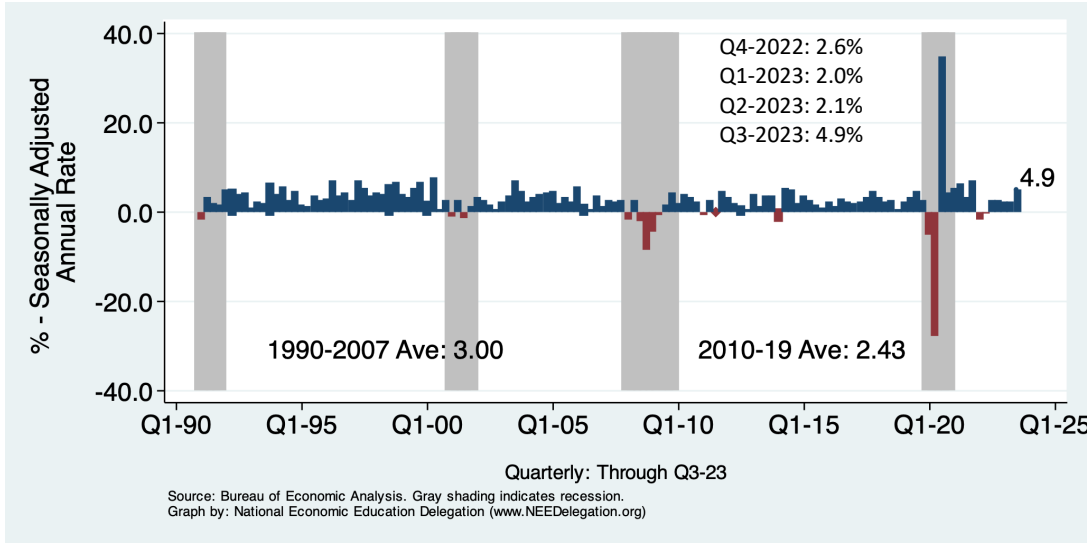
- A key measure of economic output fell for the second straight quarter, fanning fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

Old news...

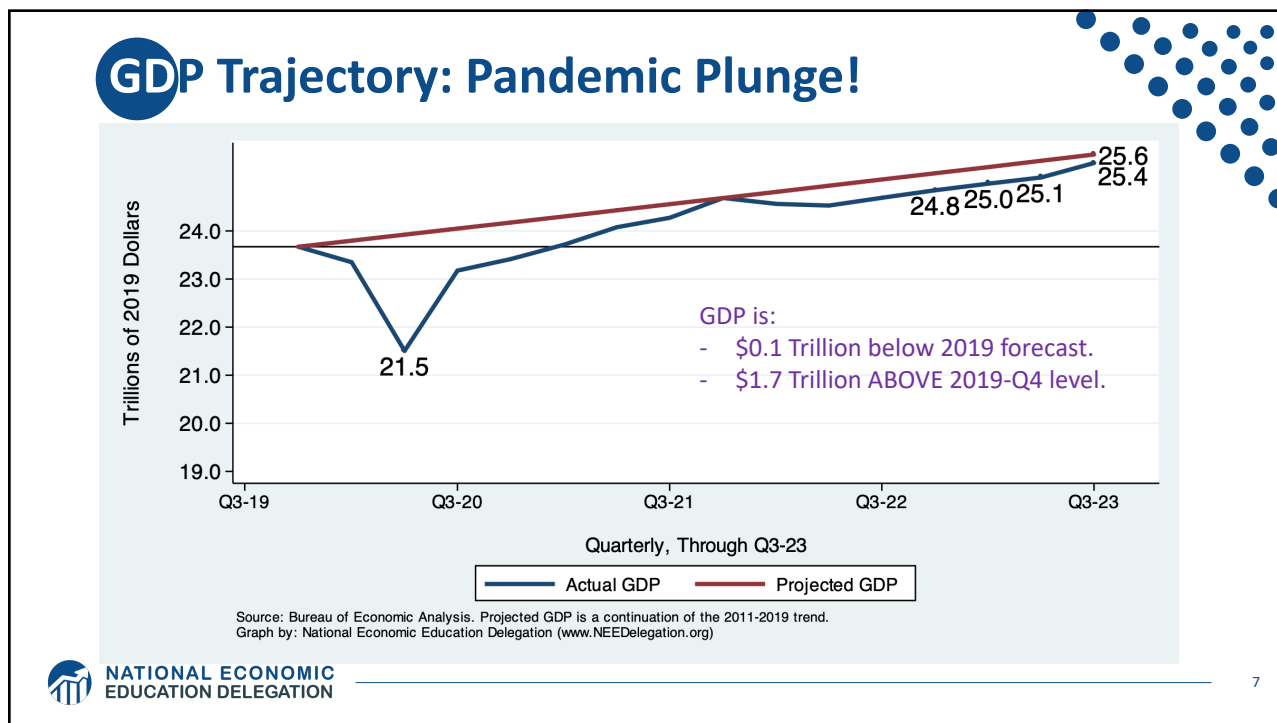


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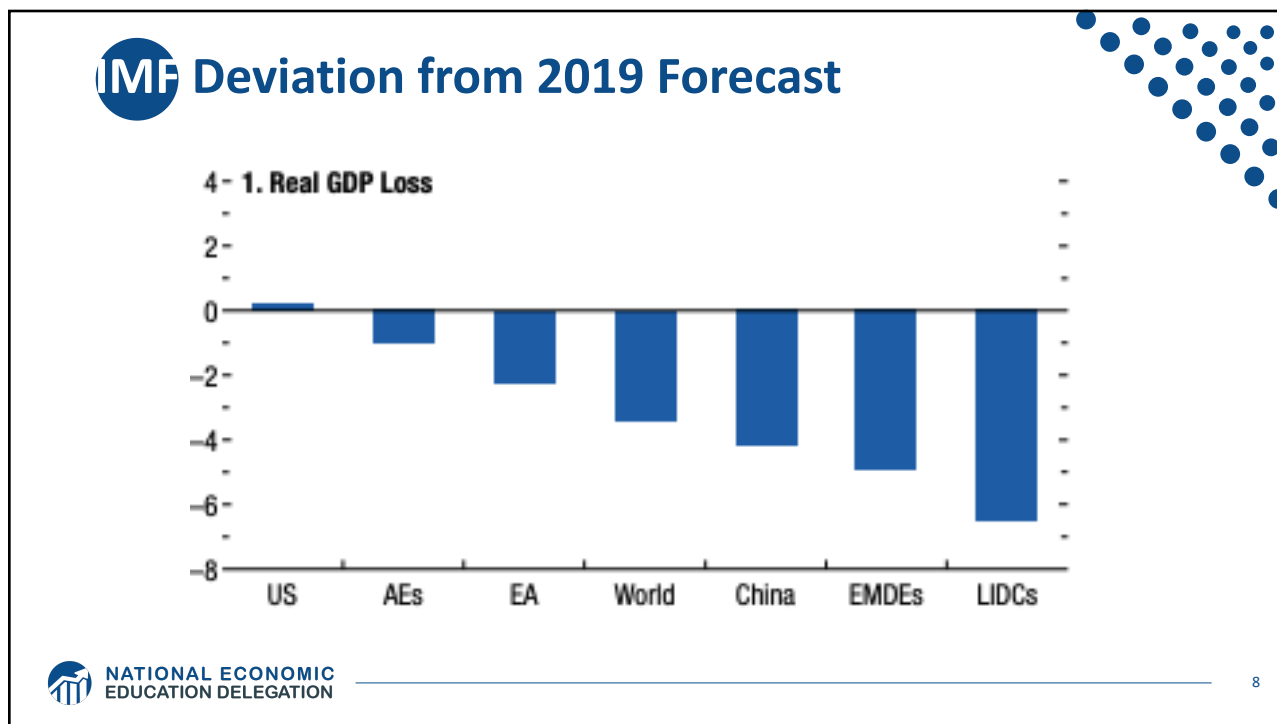
GDP: Quarterly Growth



6

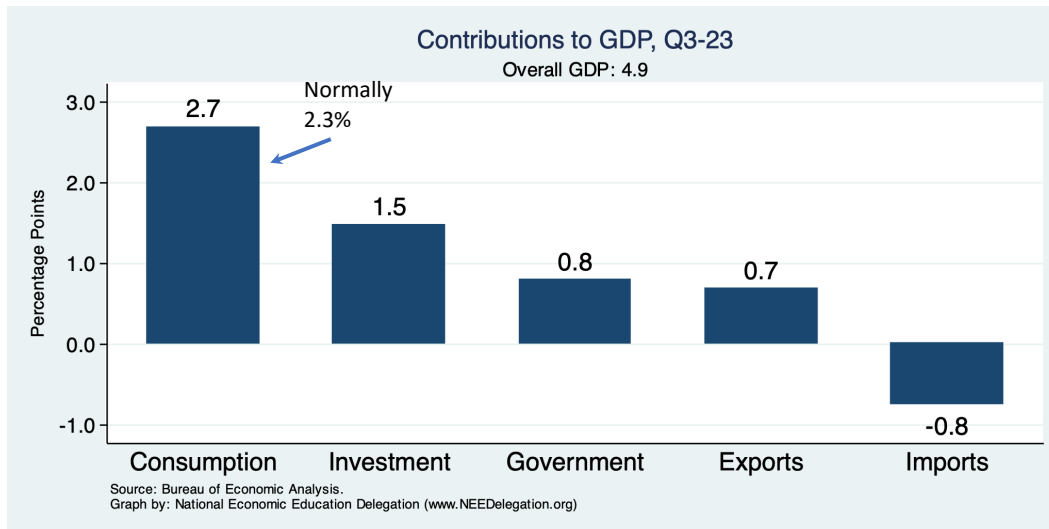


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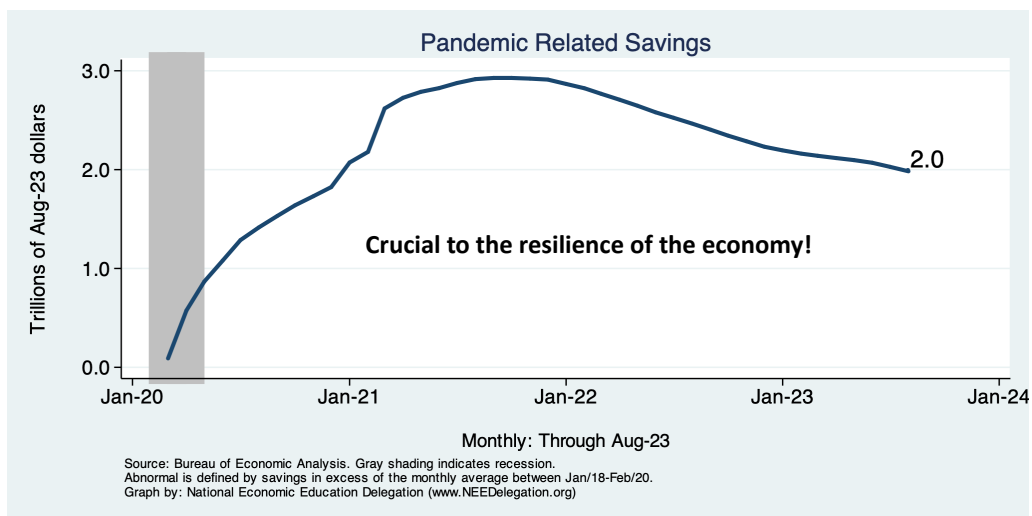
8

What Drove GDP to Such Growth?



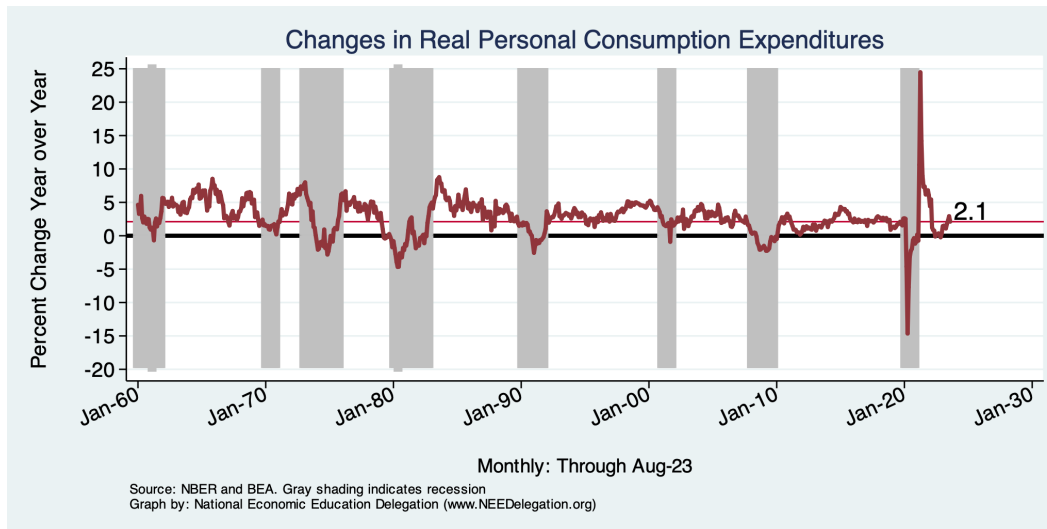
9

Excess Savings – Still Positive!



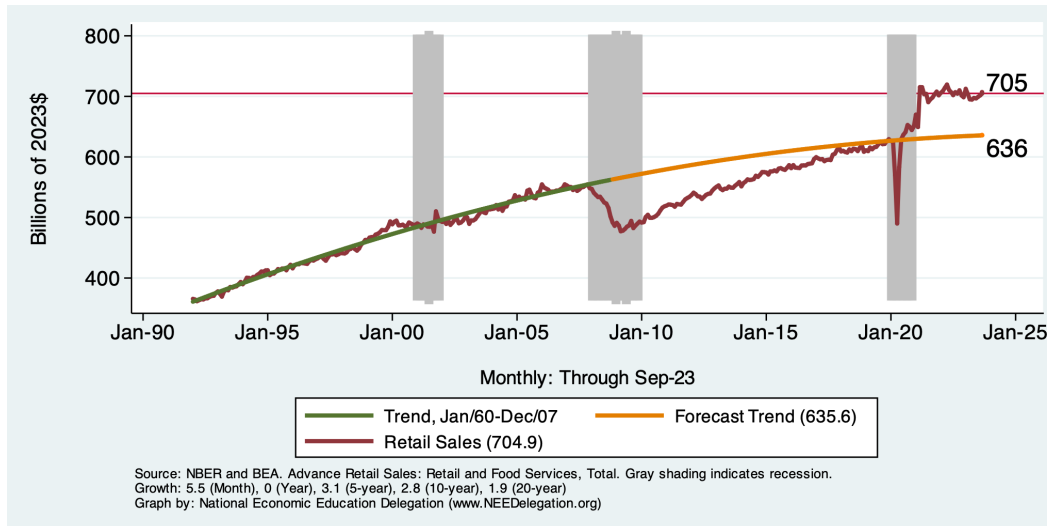
10

Personal Consumption Expenditures



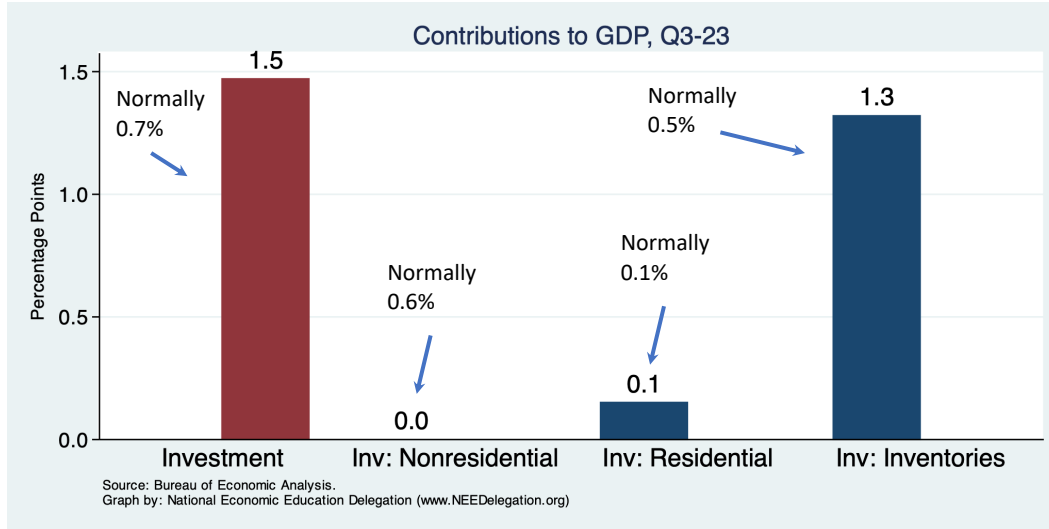
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Retail Sales Remain Elevated!



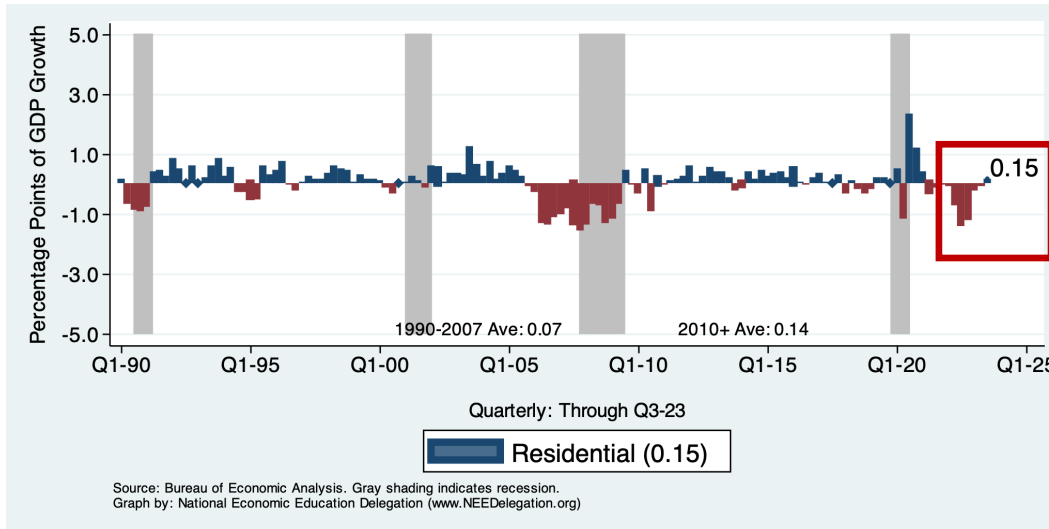
12

Sources of Investment's Contribution



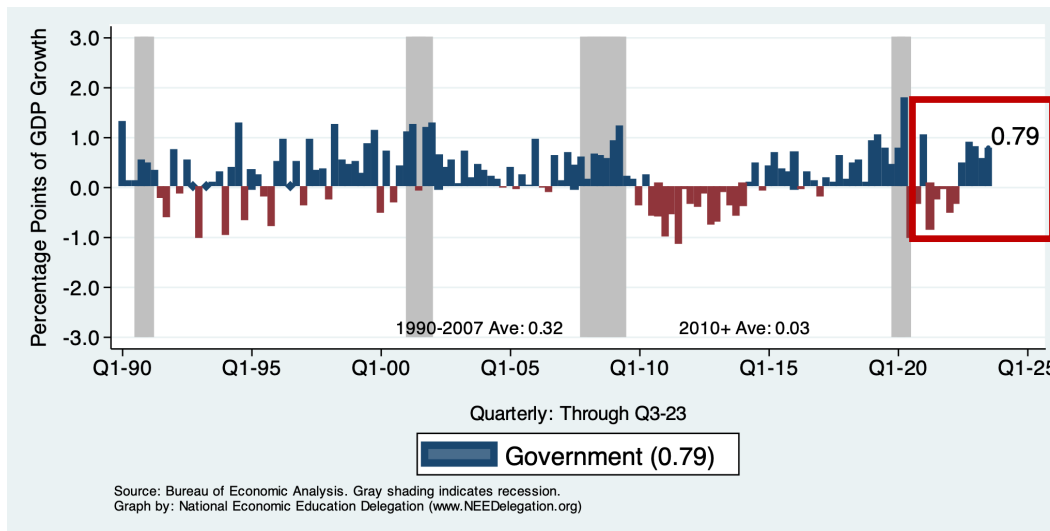
13

Contributions to GDP: Residential Investment



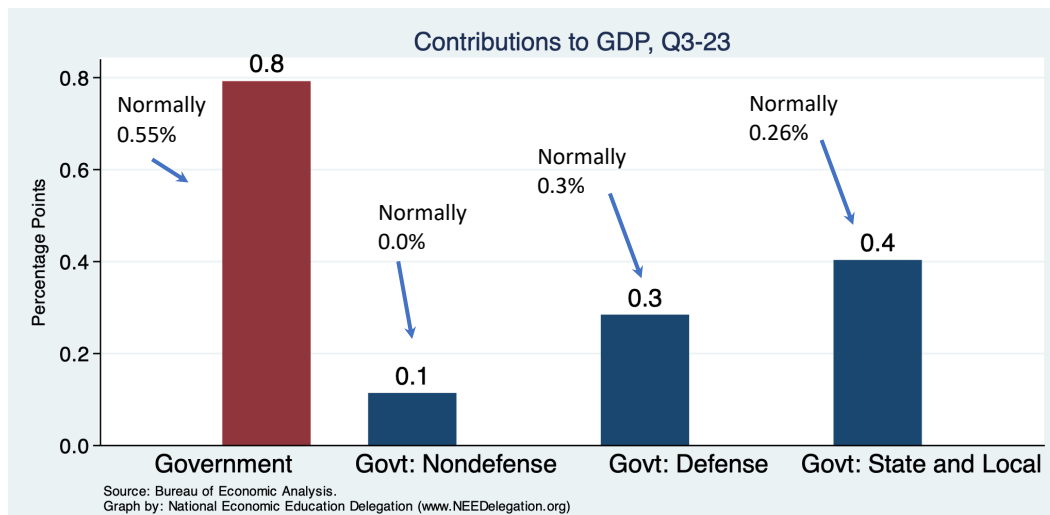
14

Contributions to GDP: Government



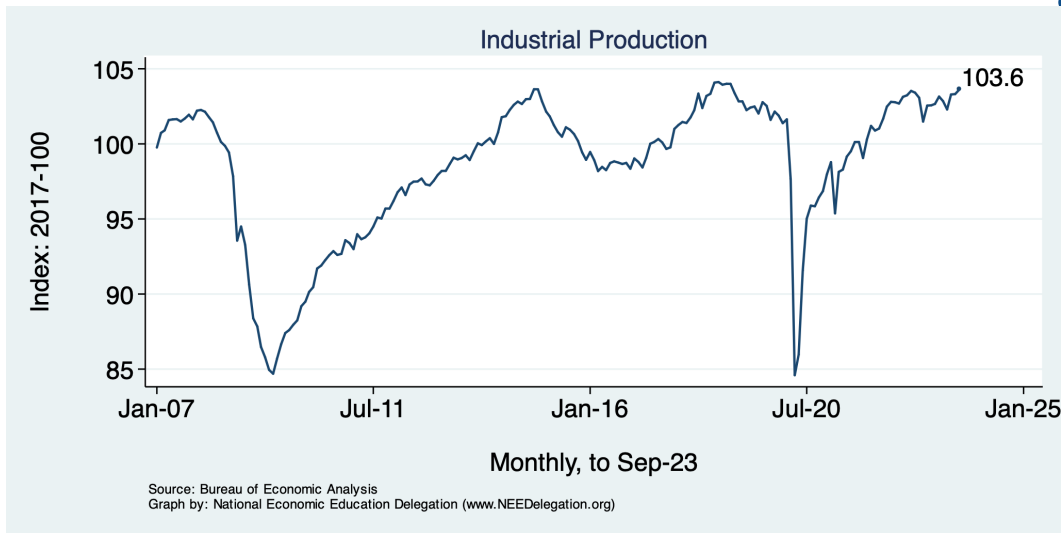
15

Sources of Government's Contribution



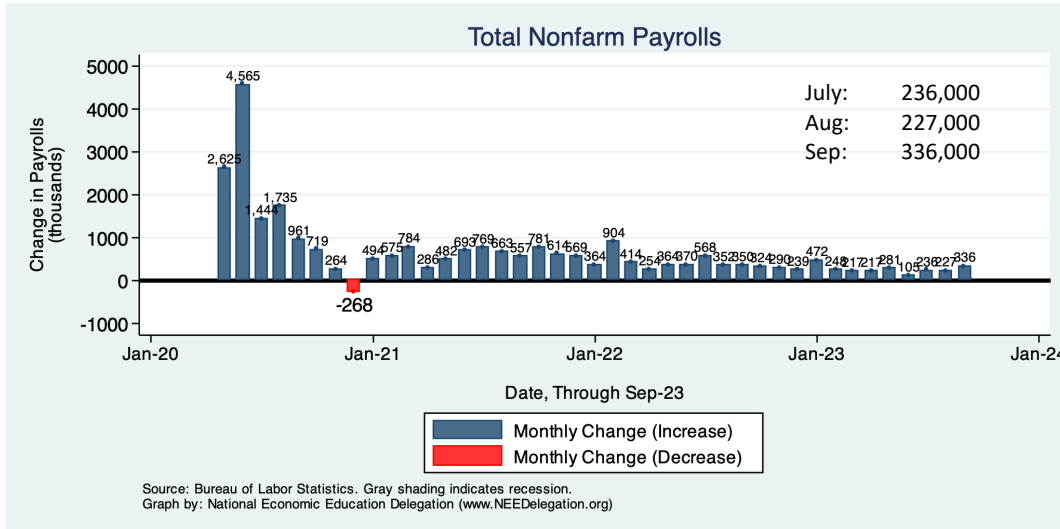
16

Industrial Production (Manuf, Util, Mining)



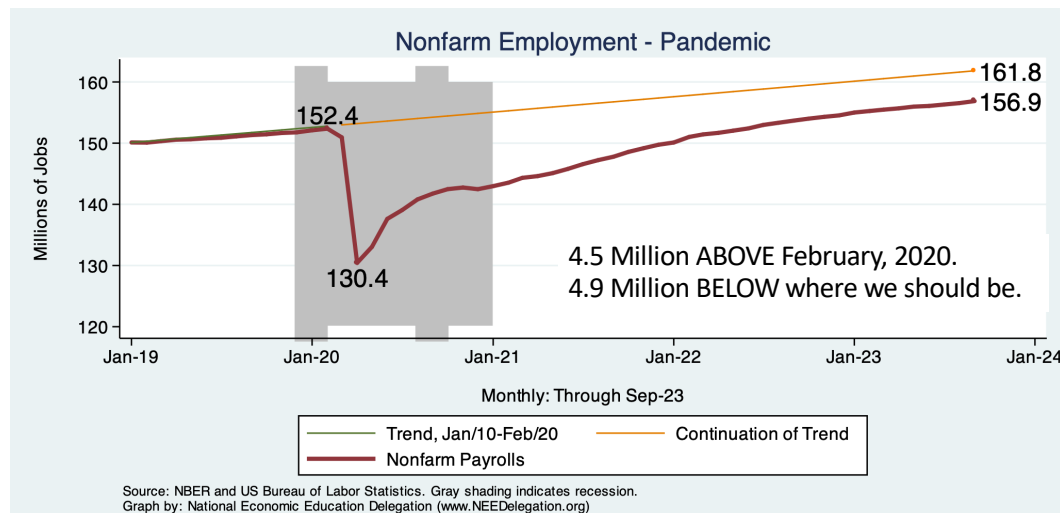
Employment

Monthly Changes in Nonfarm Employment



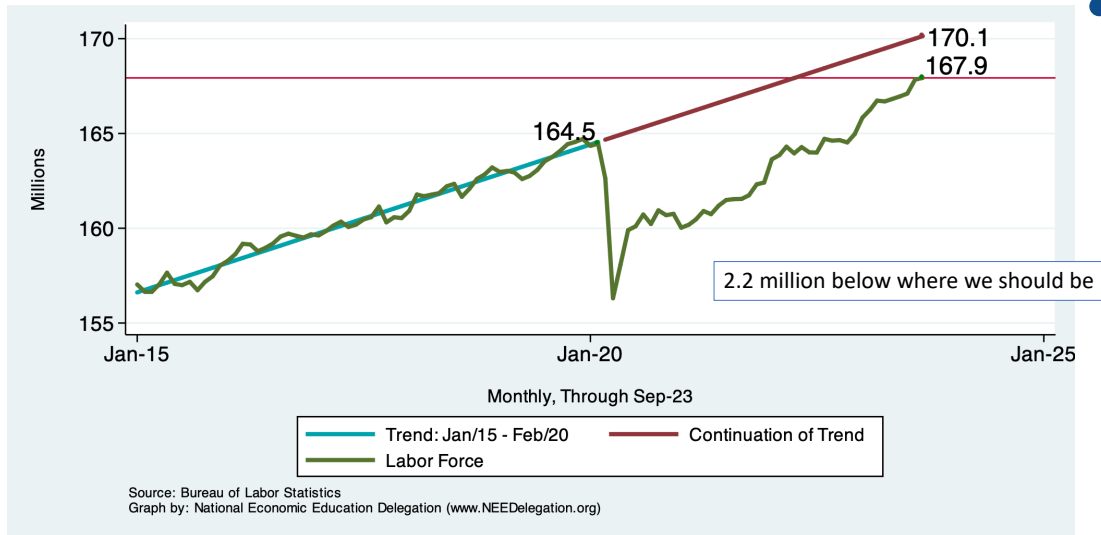
19

Employment Gap



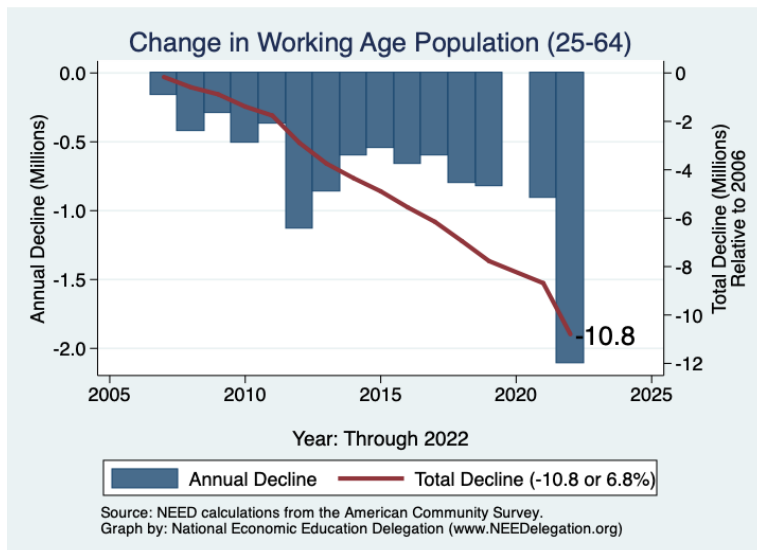
20

Where Have All the Workers Gone?



21

Baby Boomers Are Retiring!



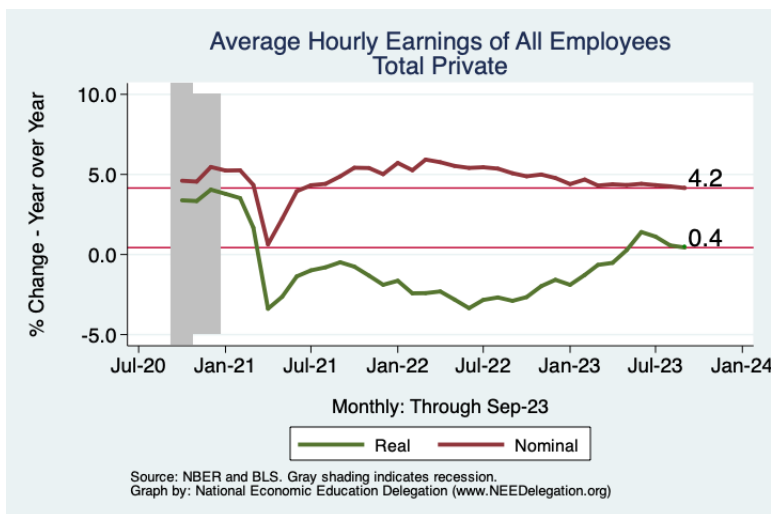
22

White Labor Force Dropouts are Significant

Race/Ethnicity	Pre-Pandemic (2/20)	Current (9/23)	Change	Rank by Race
All	63.3	62.8	-0.5	
White	63.2	62.4	-0.8	4
Black	63.1	62.9	-0.2	3
Asian	64.5	65.8	+1.3	2
Latinx	67.9	67.3	-0.6	1

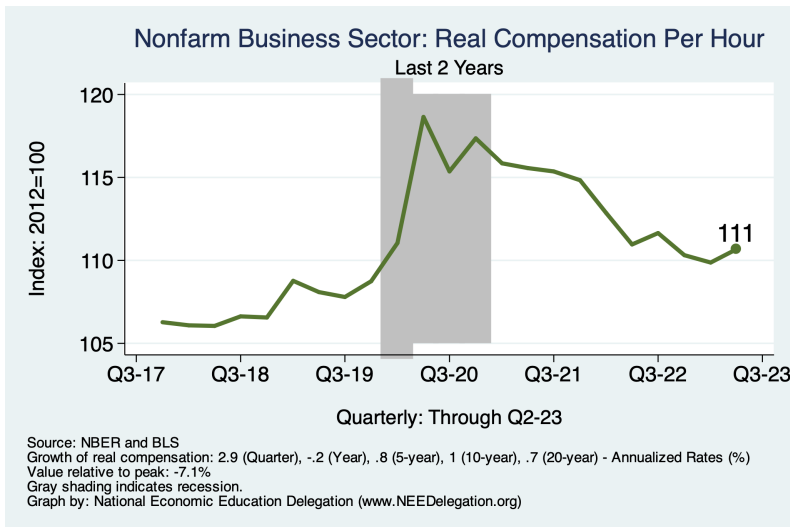
23

Wage Growth – Not Keeping Pace, Until Now



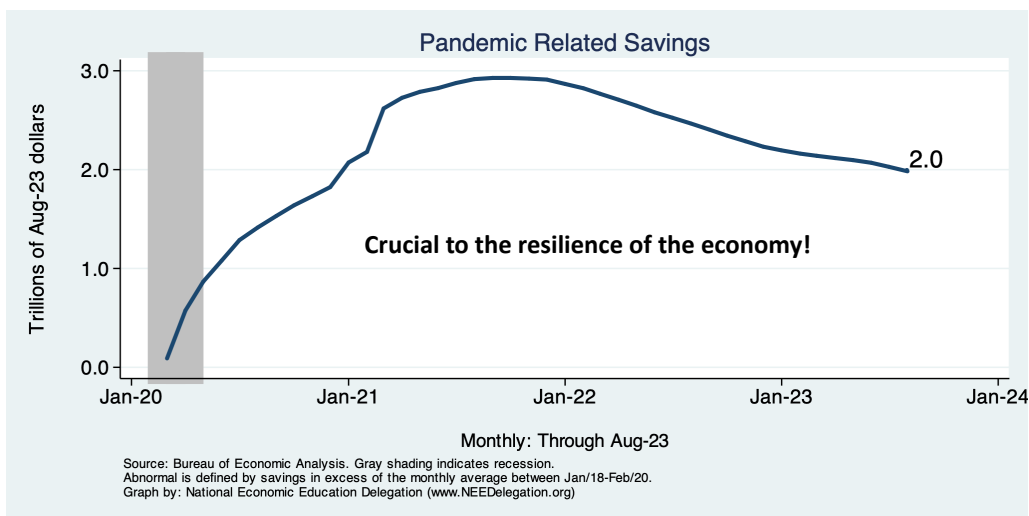
24

Compensation Growth: Not Great, but OK



25

Excess Savings – Still Positive!



26

Economy Overall

- **On fire in Q3!**

- Otherwise, GDP growth has been consistent with the last decade.
 - o Pretty much caught up to where we should be.
- Employment continues to grow
 - o Hampered by lots of baby boomer retirements!
 - o Labor force is still too small.
- Wages are down in inflation adjusted terms, but that is changing
- Inflation.....

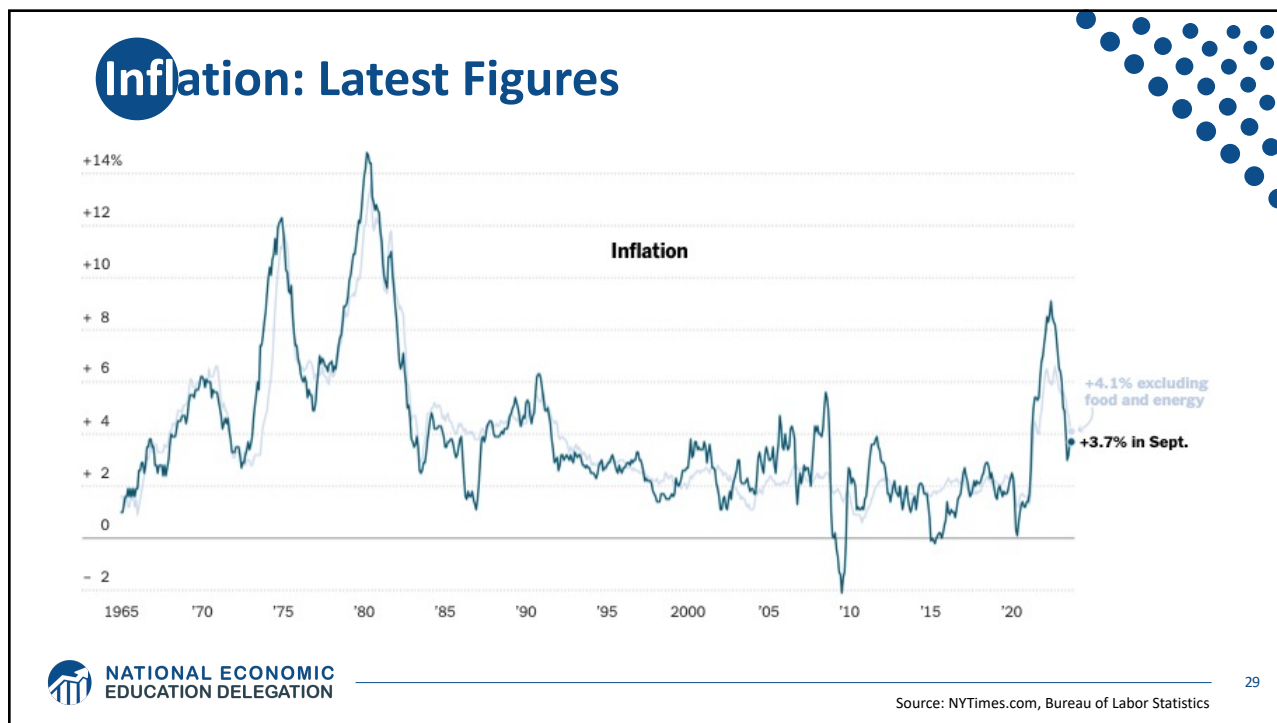


27

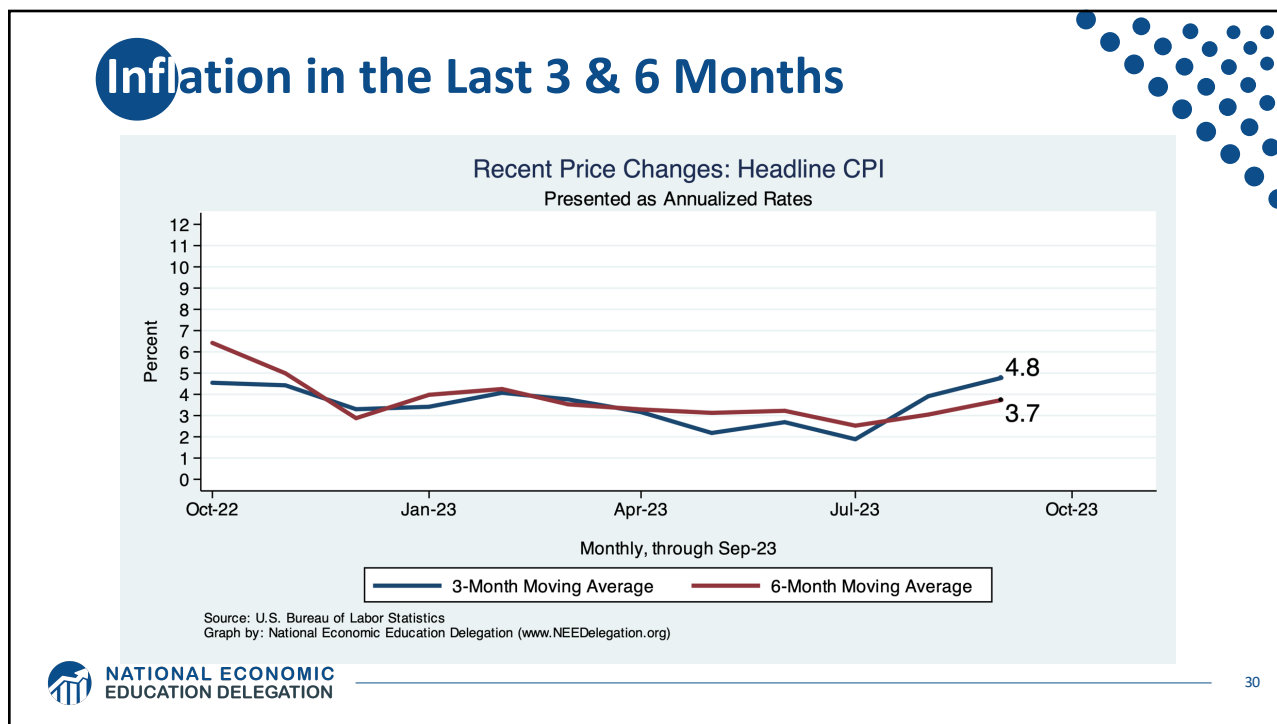
Inflation



28

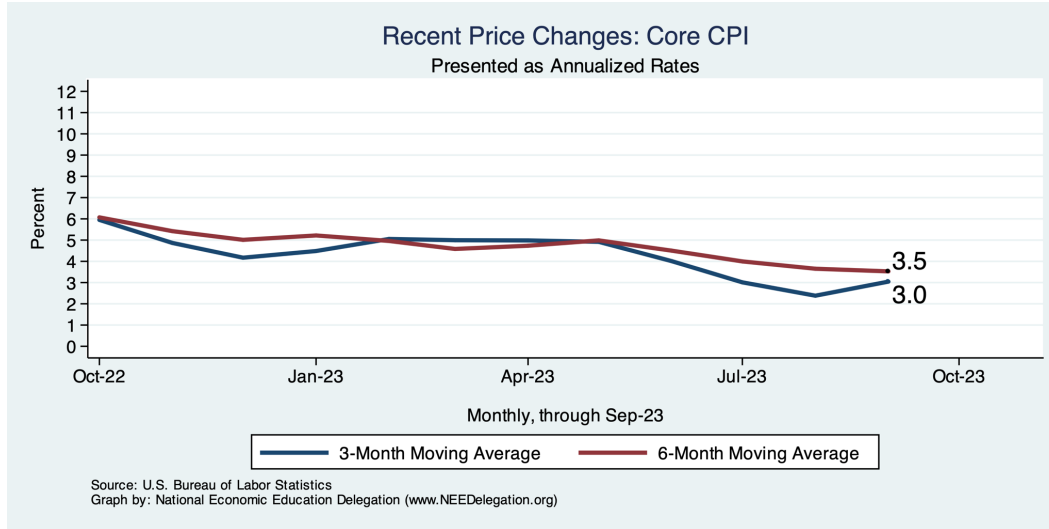


29



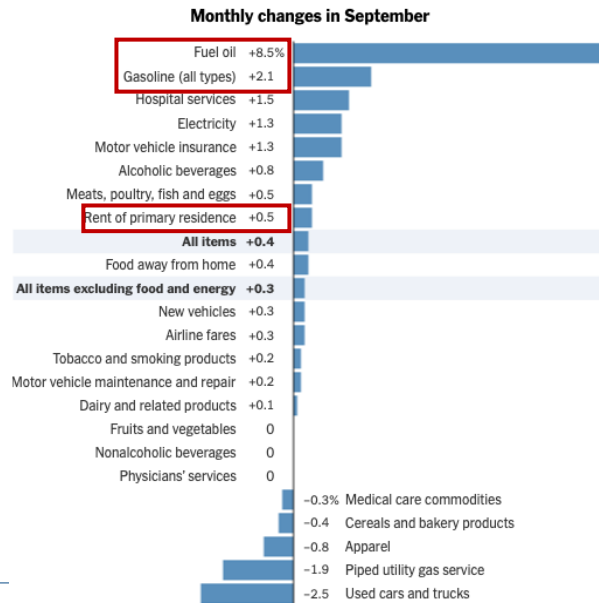
30

Inflation: Core Inflation is Stubbornly High



31

Sources of Recent Inflation



32

What is Happening With Oil Prices?

- **First, global economy is stronger than anticipated.**
 - Except for China.
 - Recession in EU will be shallower than expected.
- **Second, inflation in the US is slowing.**
 - Reduced expectation of a recession.
- **OPEC+ has restricted supply.**
 - In support of Russia?
- **Add Israel/Gaza to Ukraine, and markets are jittery.**



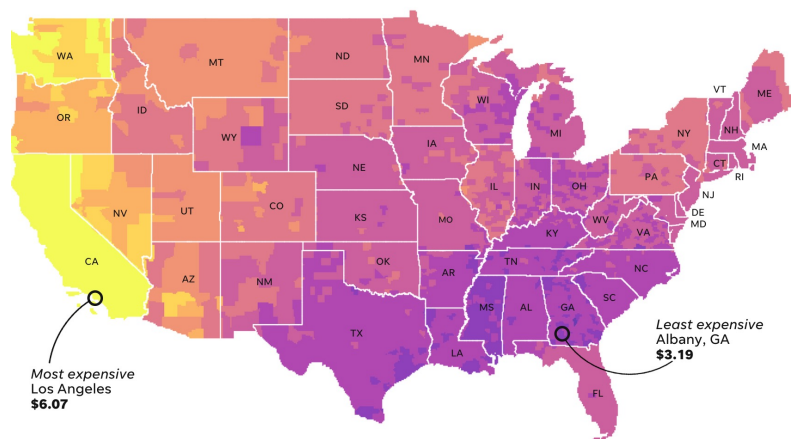
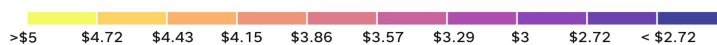
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33

33

We Have Particularly High Gas Prices!

The average price of regular unleaded gasoline per gallon in each area is indicated by a color code.



SOURCE: GasBuddy.com, as of Sept. 20

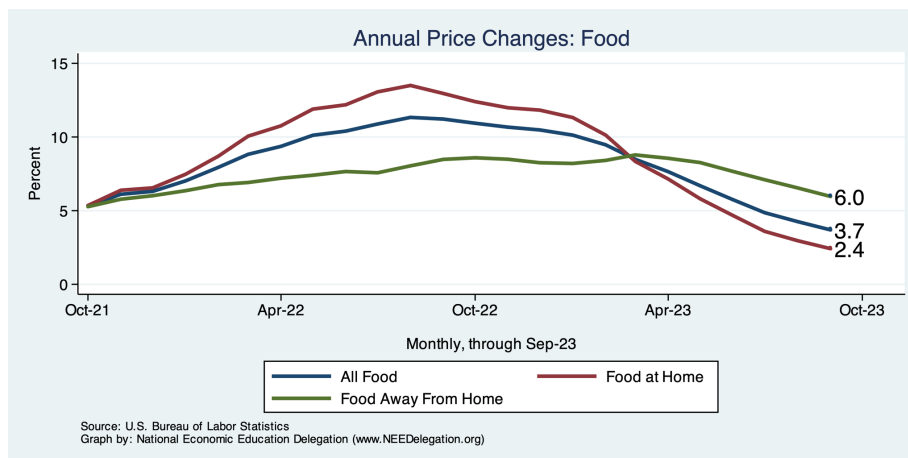


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34

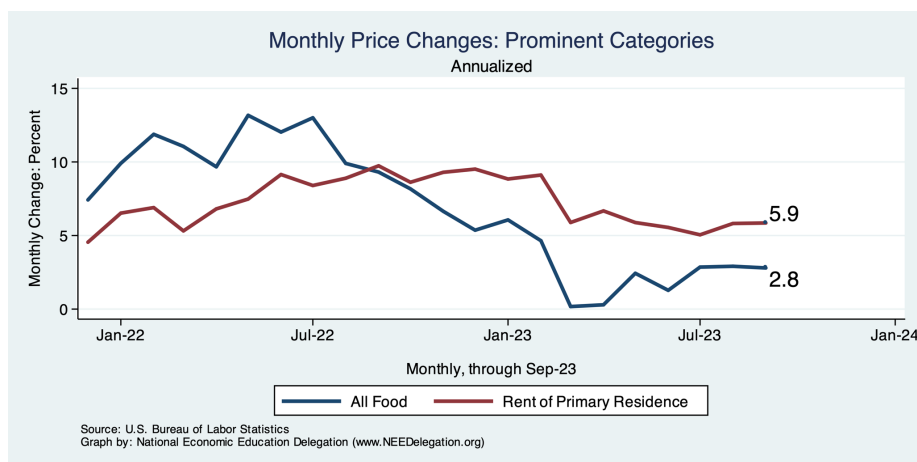
34

Food Prices are Stabilizing

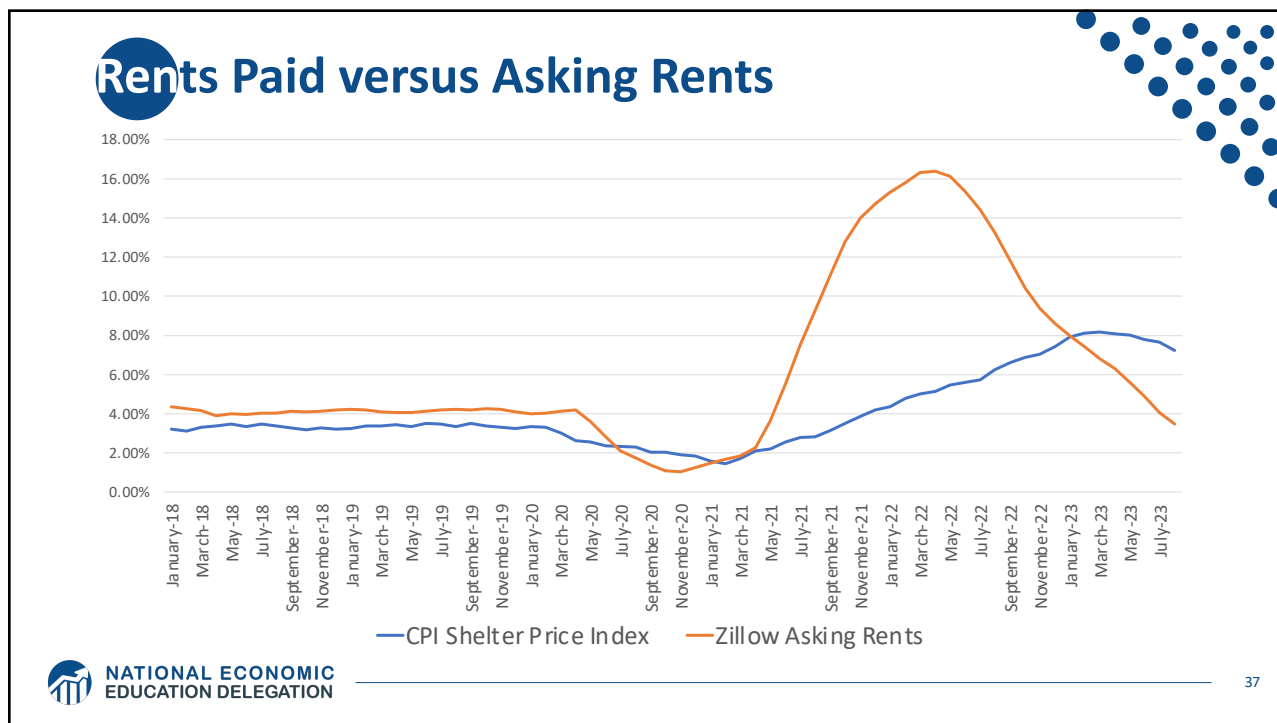


35

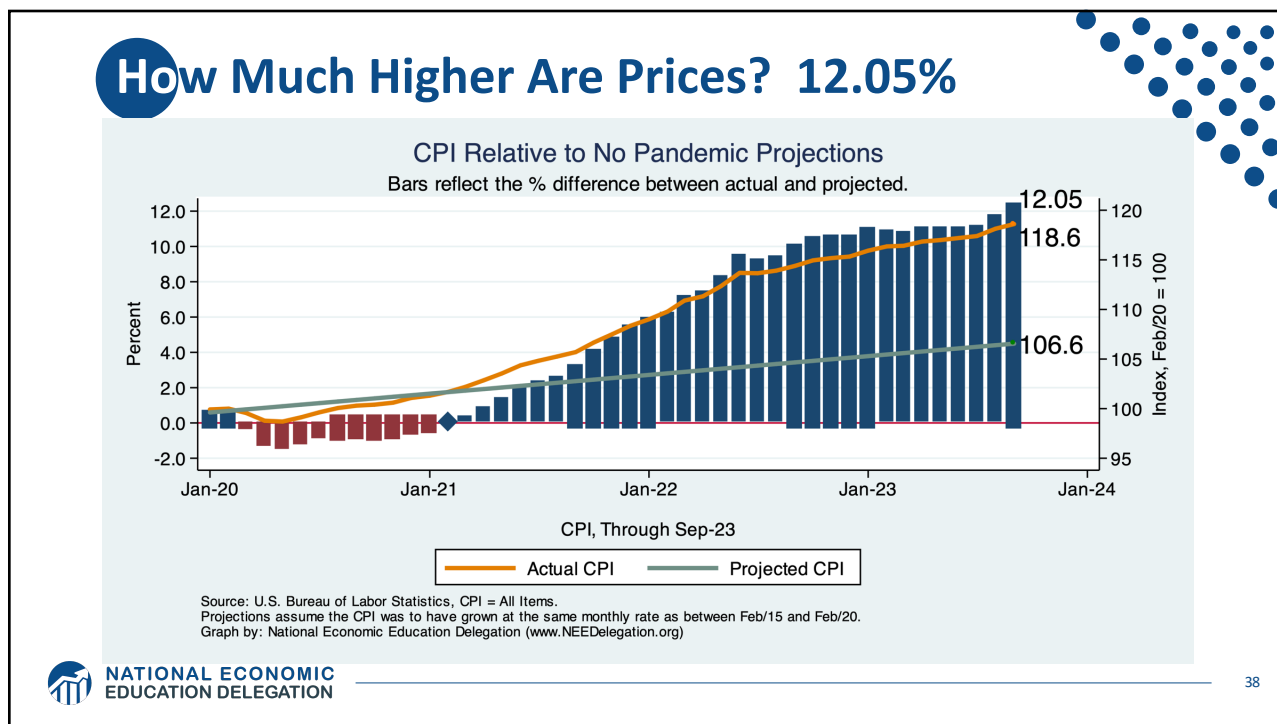
Housing Inflation is Still Pulling up the CPI



36



37



38

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

39

Supply Chains

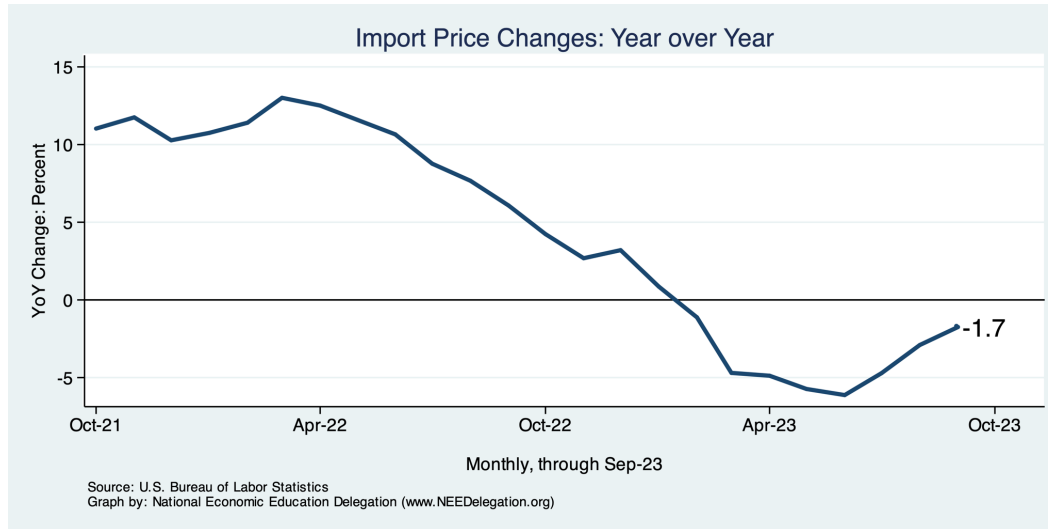
Global Supply Chain Pressure Index



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)

40

Import Price Inflation WAS High



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41

Two New Types of Inflation

- **Excuseflation**

- “The cost of my inputs is going up, so I have to raise my prices.”
- You rarely hear: “I’m lowering my prices because costs are going down.”

- **Premiumization**

- Taking your product and spicing it up so that you can raise your margins.

- **Together, have led to a Profit-Price Spiral**

- Raising prices to cover costs plus a little extra.
- Raising margins with extra frills.

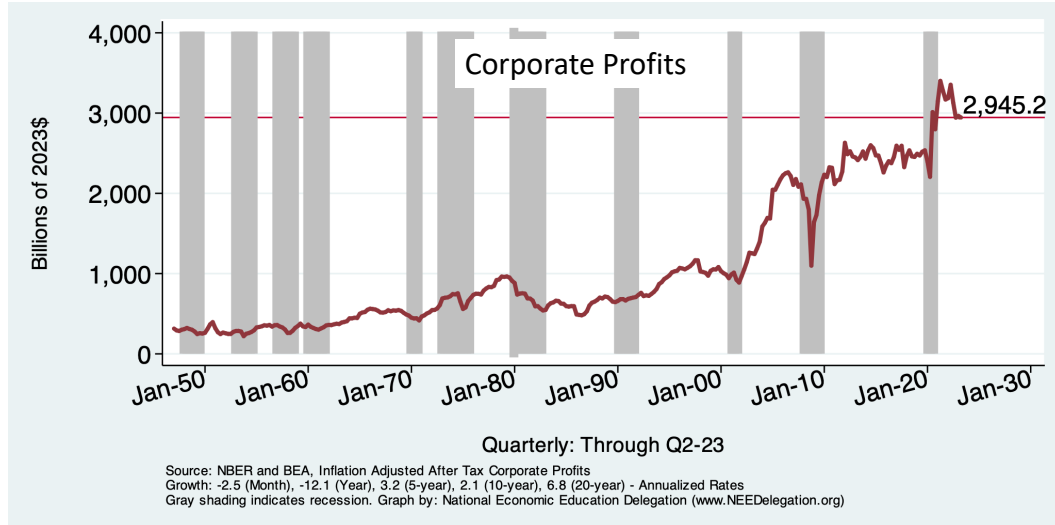


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42

42

Corporations Have Pricing Power!



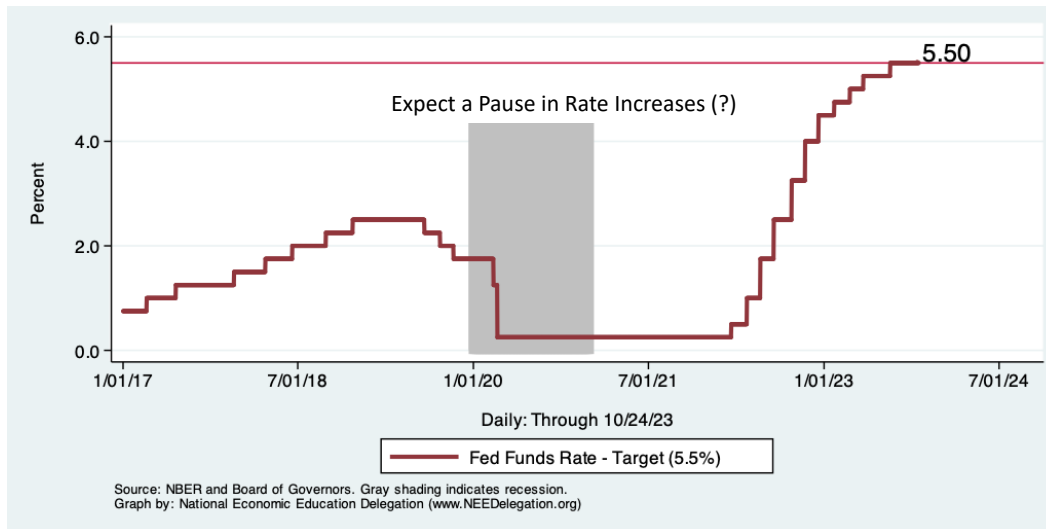
43

My Thoughts on Inflation

- **Primarily a result of external forces.**
 - Supply chains, higher import prices.
- **But also domestic.**
 - Enormous stimulus, firms exercising their pricing power.
- **The path to inflation was bumpy, the path out will be too.**
- **Federal reserve may tick interest rates up 0.25% one more time.**
 - And then will hold for the foreseeable future.
 - Unless GDP continues to grow at 4+%! Then more rate hikes.

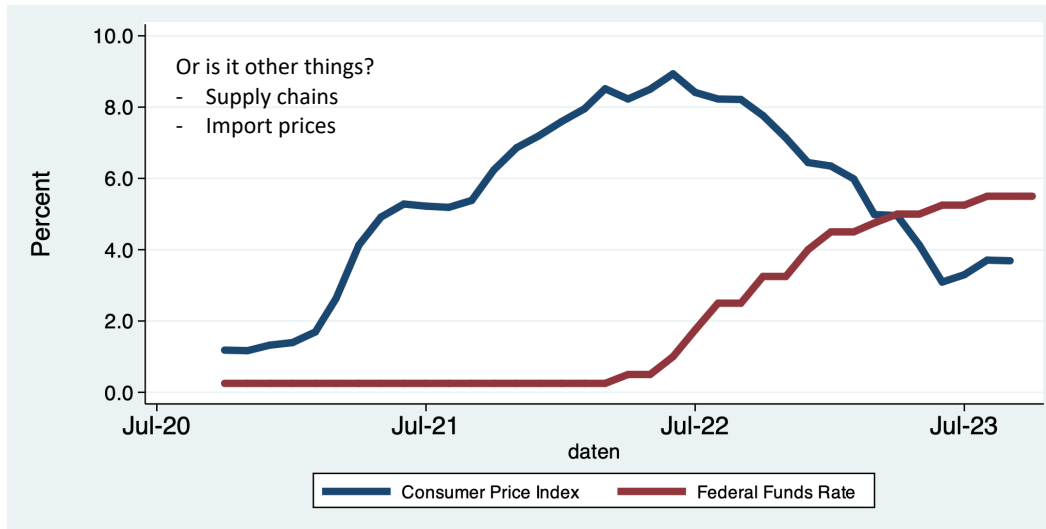
44

Federal Funds Rate – Recent Activity



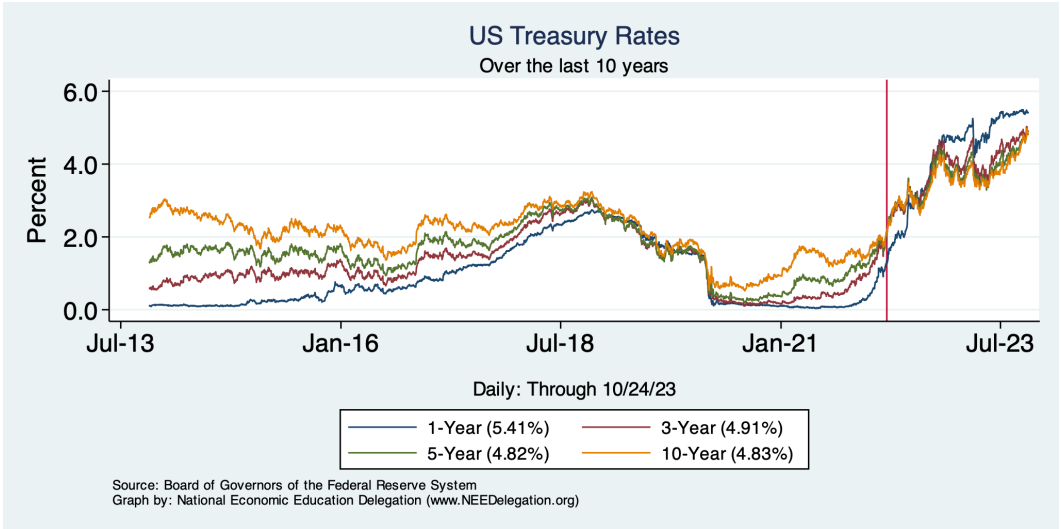
45

Is The Fed Responsible for Falling Inflation?



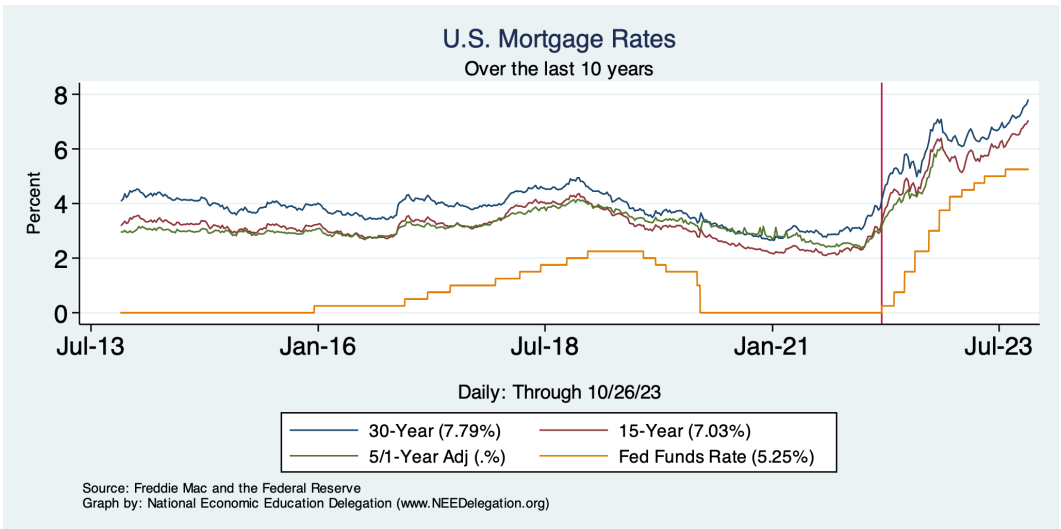
46

Treasuries



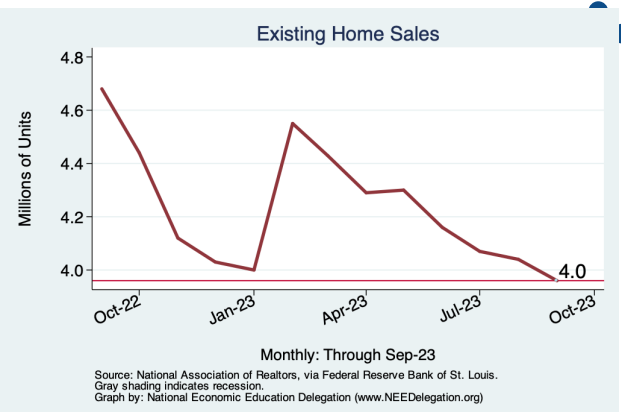
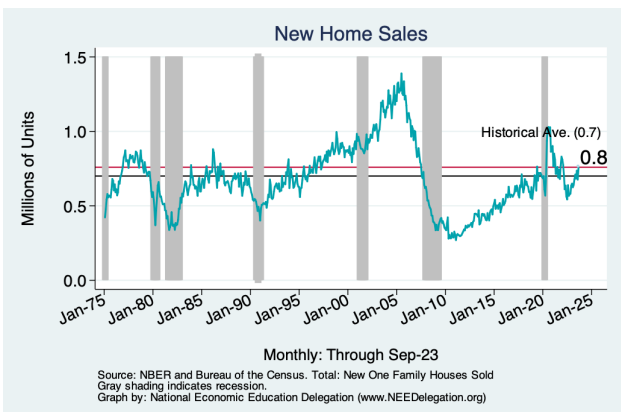
47

Mortgage Rates



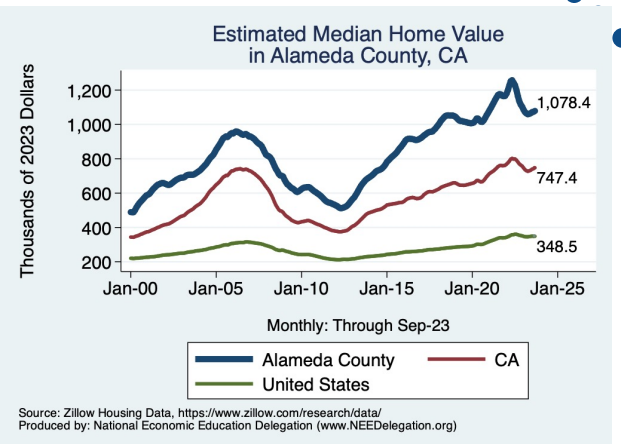
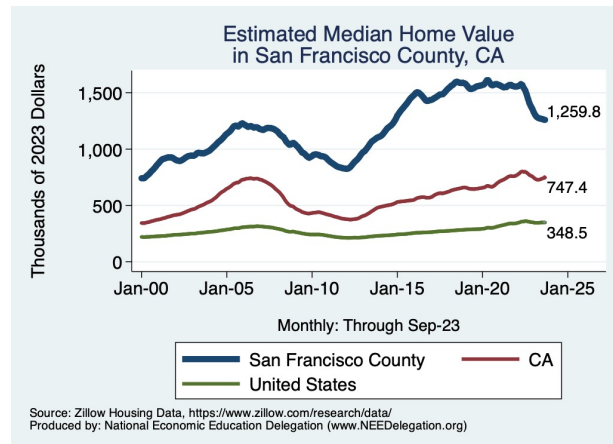
48

Home Sales are Still Low



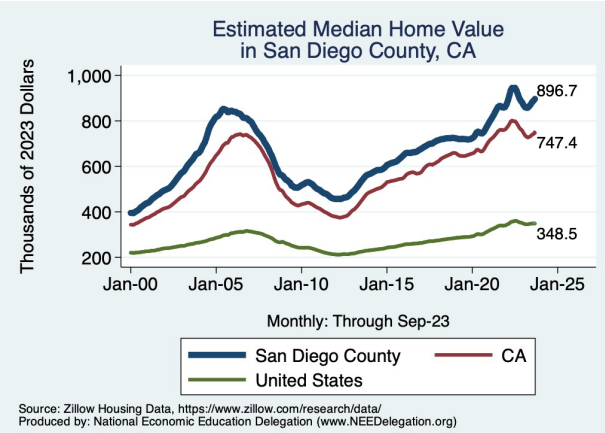
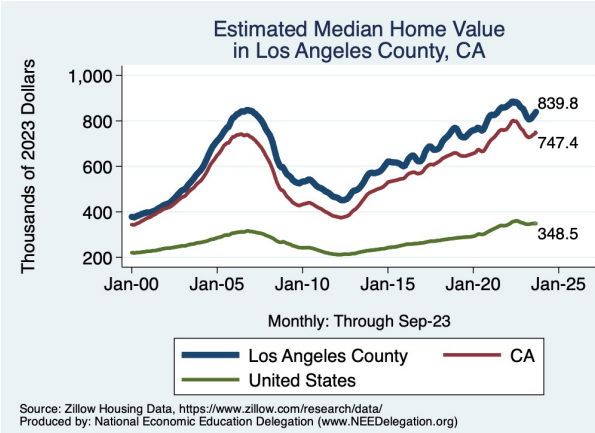
49

Home Prices ... in Northern CA



50

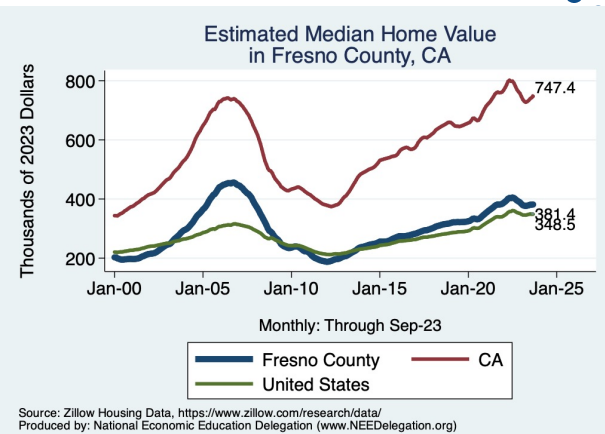
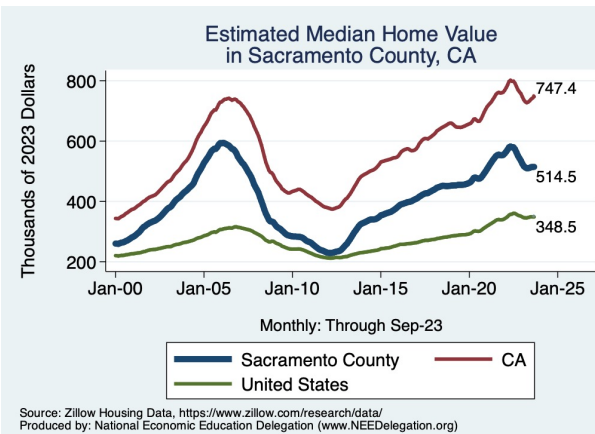
Home Prices ... in Southern CA



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Home Prices ... in the Central Valley



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Takeaways

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

- Unlikely, but shallow if it happens.
- Many indicators are still in the black.
 - o 2023-Q3 GDP growth was too good!

- **Inflation ... wavering, but should turn lower.**

- **Threats to continued growth:**

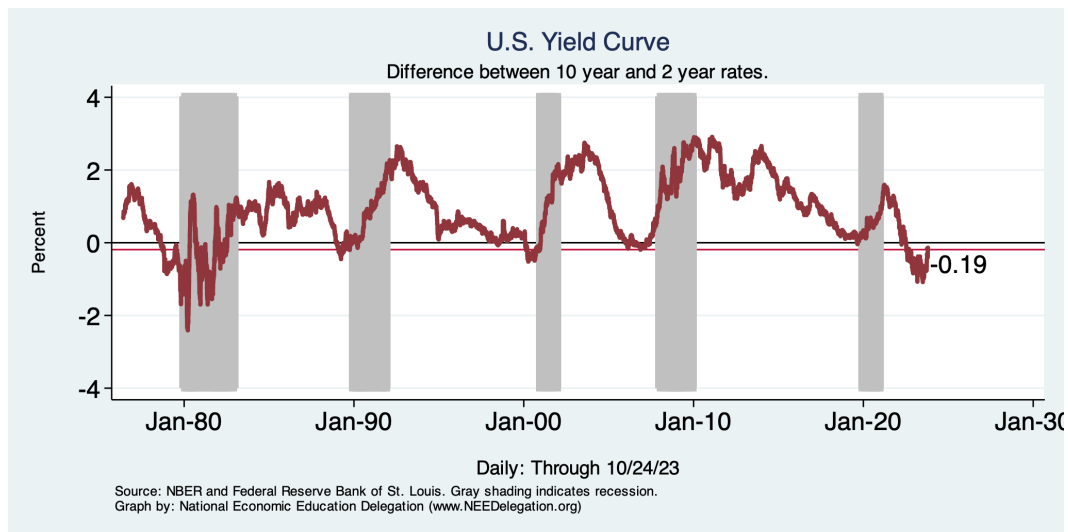
- If inflation REALLY starts to rise again, which seems ... possible, but unlikely.
- Will the Fed go to far?
- UAW Strikes – if prolonged (over?).
- Government budget negotiations.
 - o Shutdown?
- Yield curve bugaboo



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Yield Curve Bugaboo

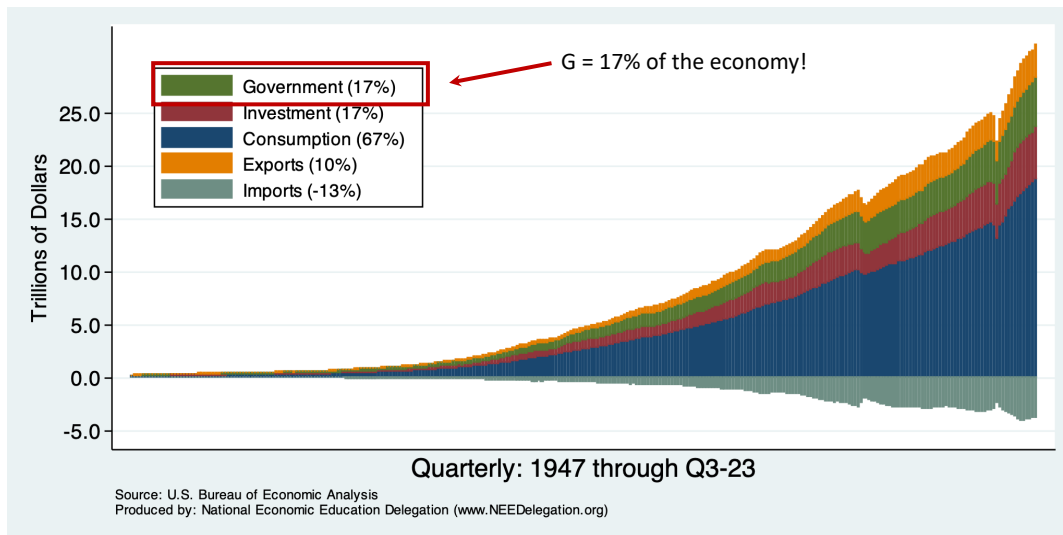


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54

54

Government Shutdown Would Hurt!



55

Thank you!

Any Questions?

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56