

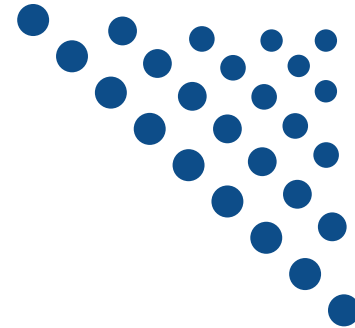
Economic Update US & San Mateo County

SAMCEDA Public Policy Committee

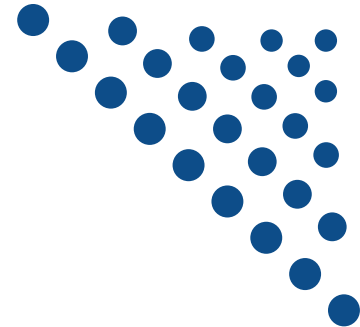
Jon Haveman, Ph.D.
NEED
April 11, 2023



Outline



- **Economic Indicators**
- **Inflation/Federal Reserve/Banks**
- **The Debt Ceiling**
- **The Local Economy**



Economic Indicators

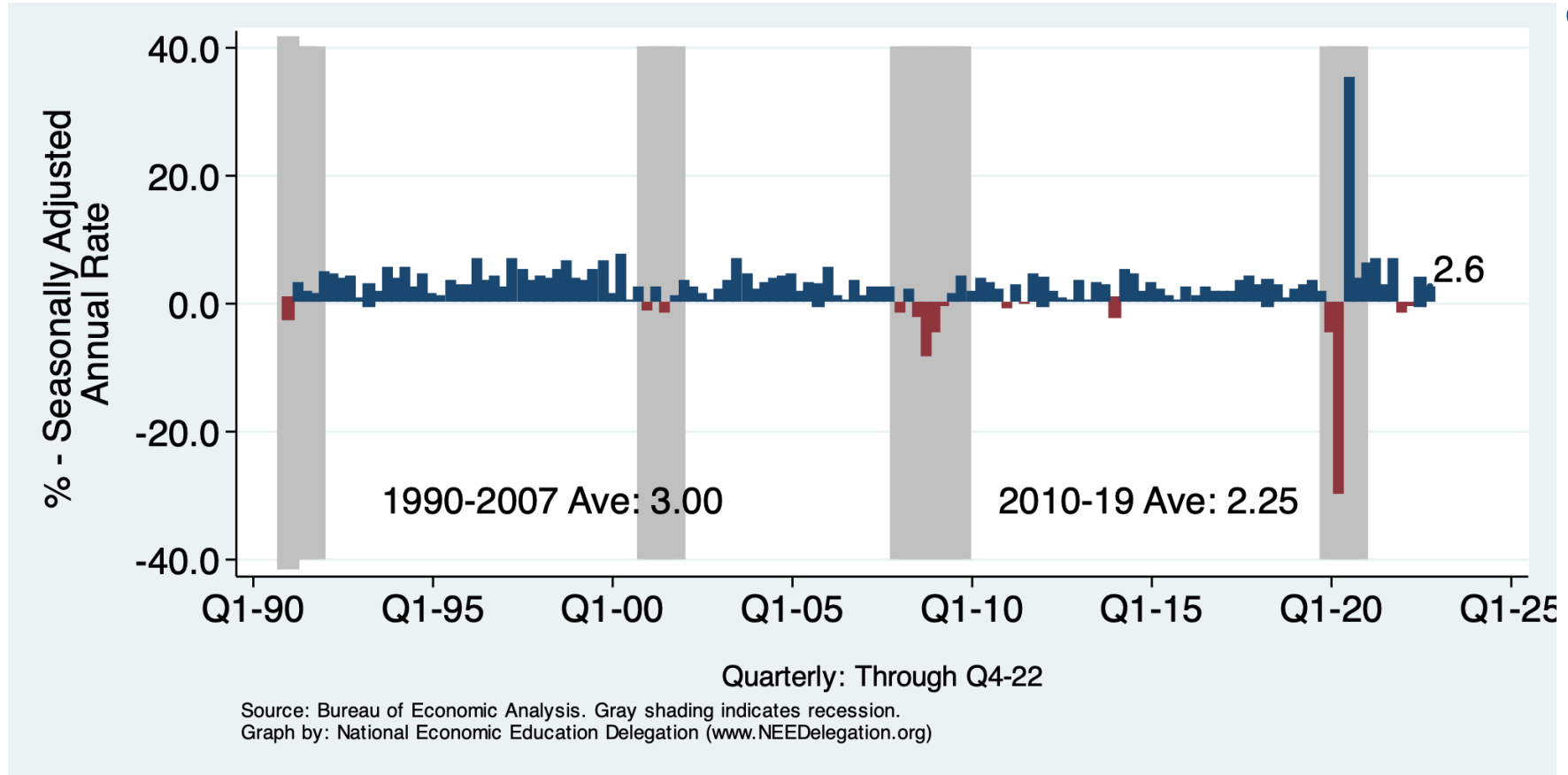


Headline (9 months ago...):

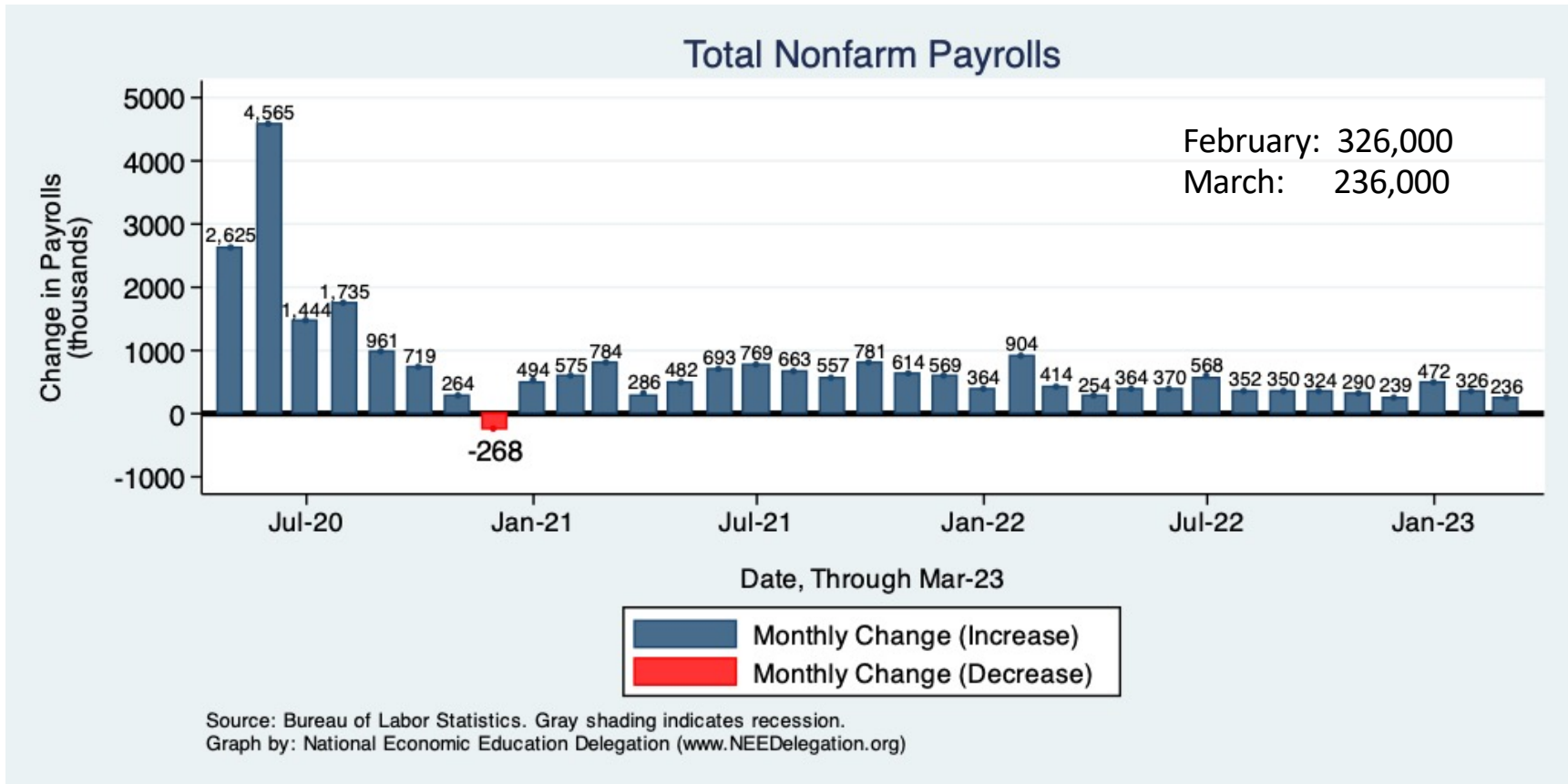
G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- 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.

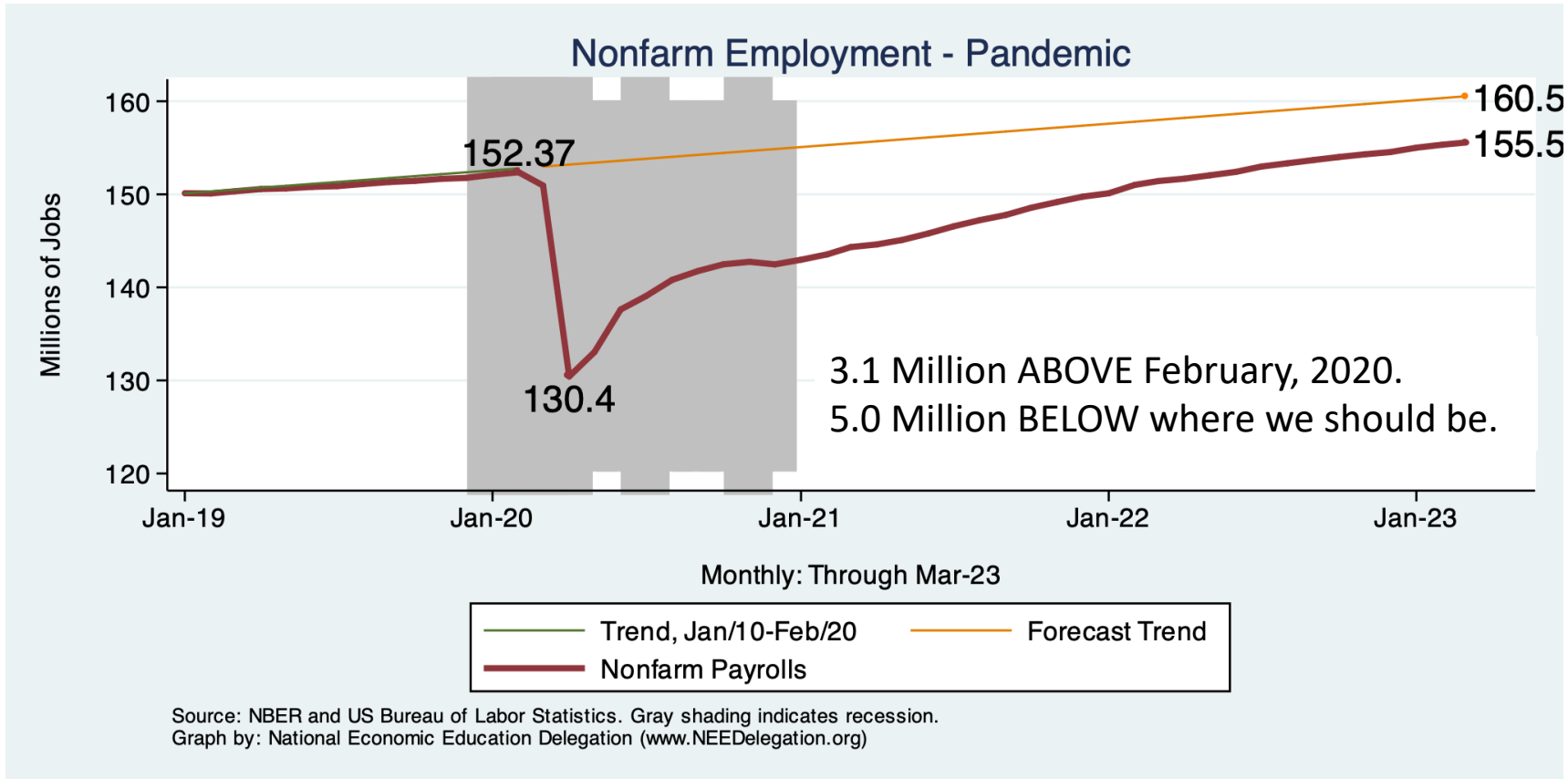
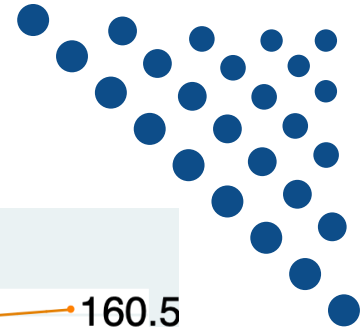
GDP: Quarterly Growth



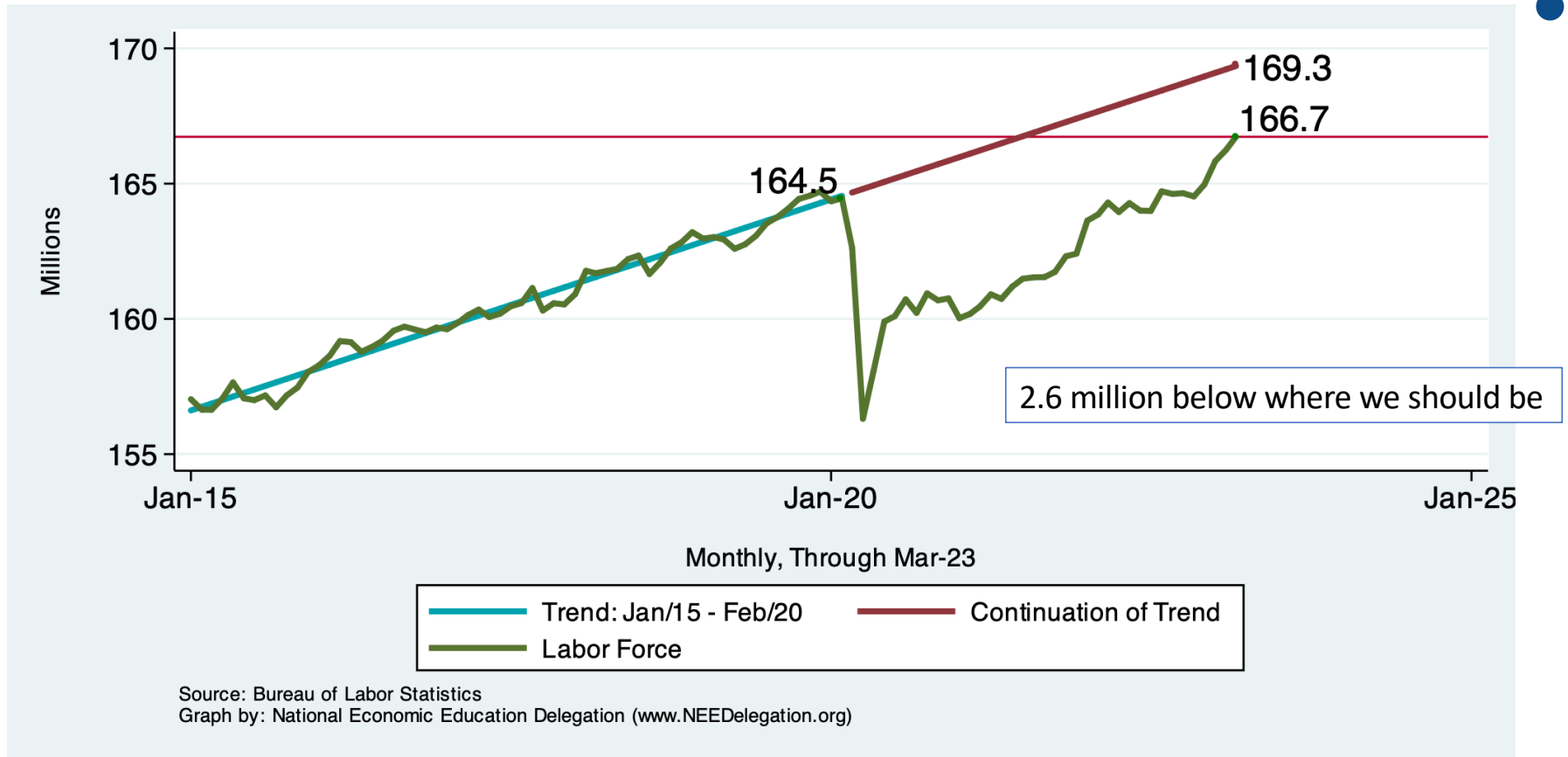
Monthly Changes in Nonfarm Employment



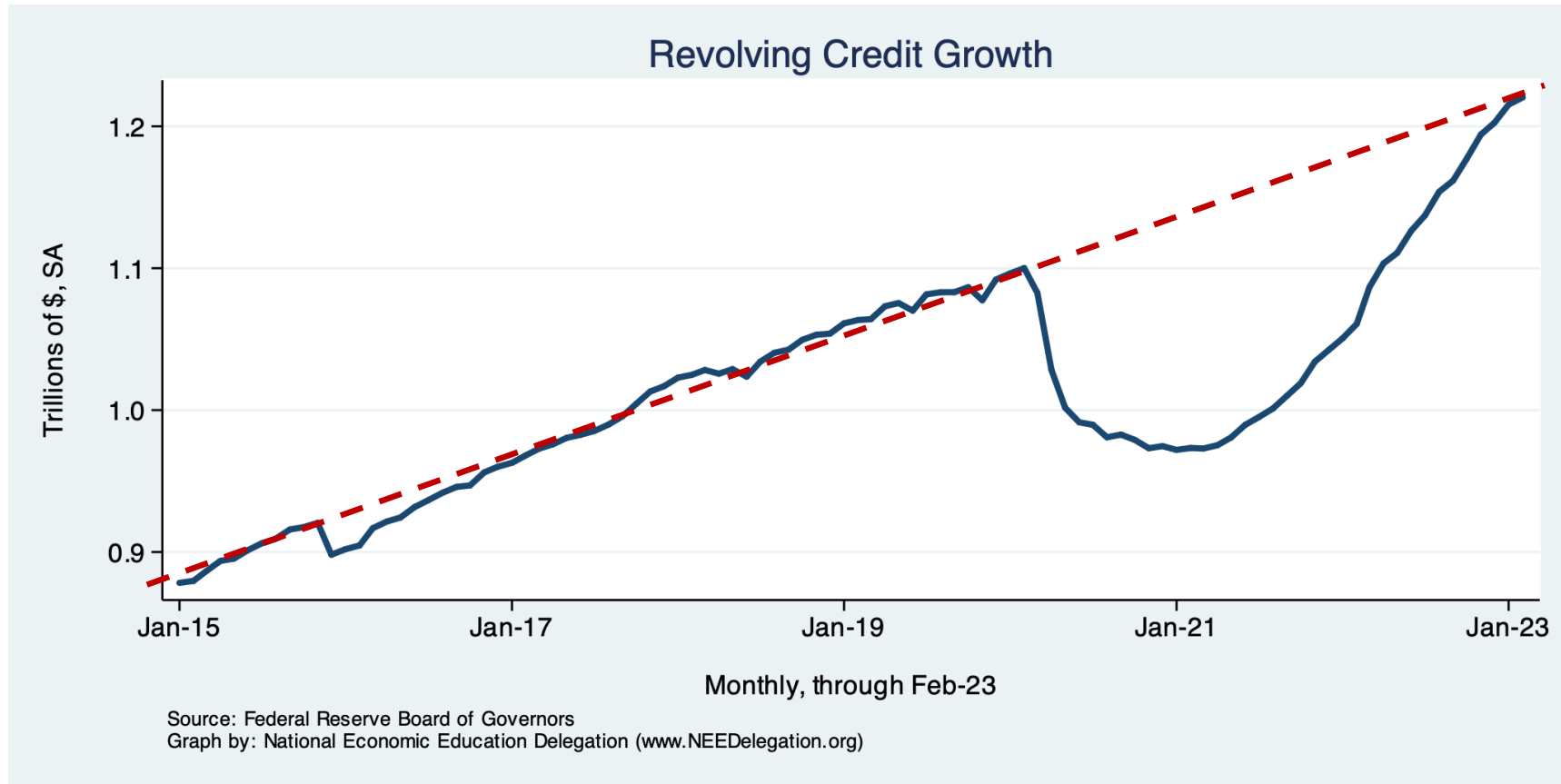
Employment Gap

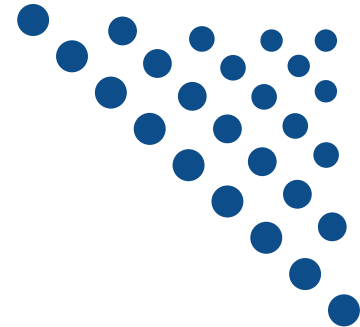


Where Have All the Workers Gone?



Borrowing on Credit Has Recovered





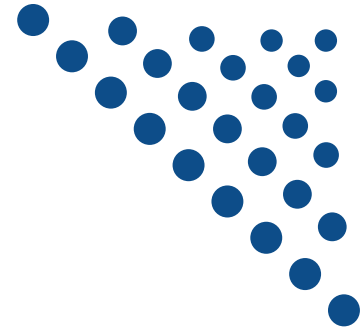
Inflation



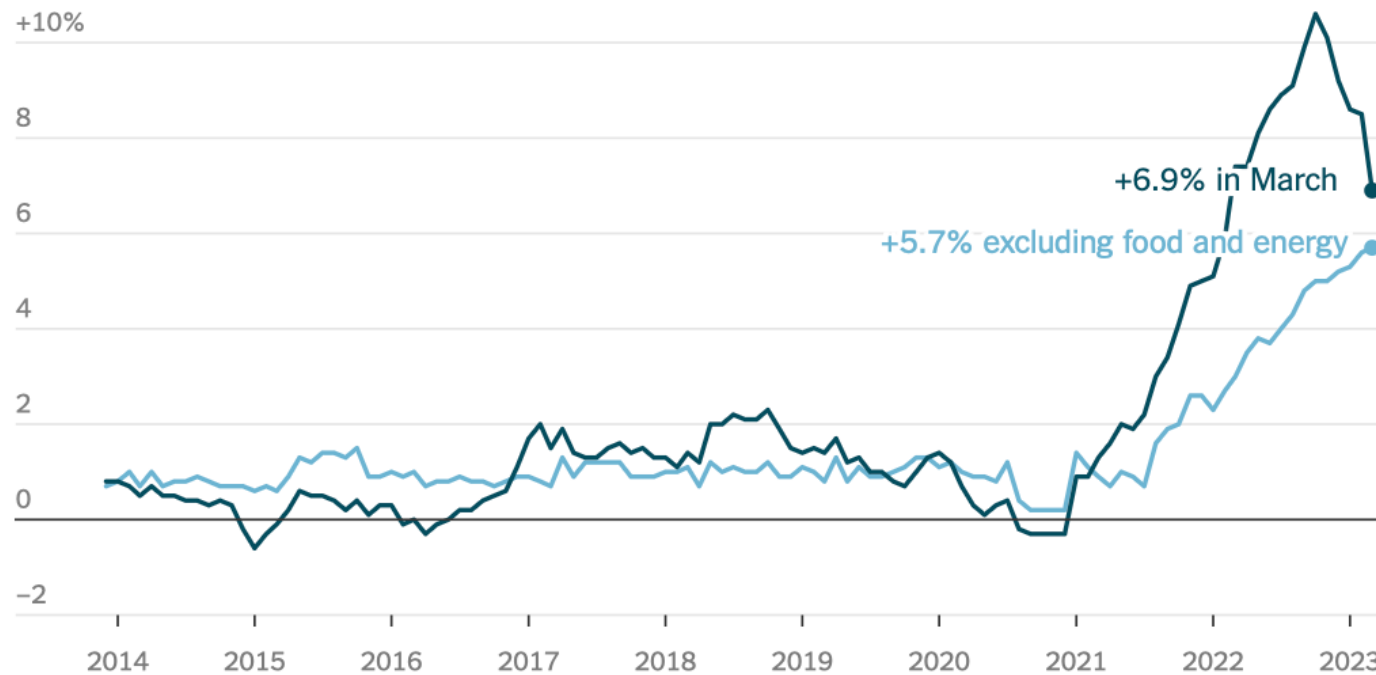
Inflation: Latest Figures



Inflation is Not just a U.S. Problem

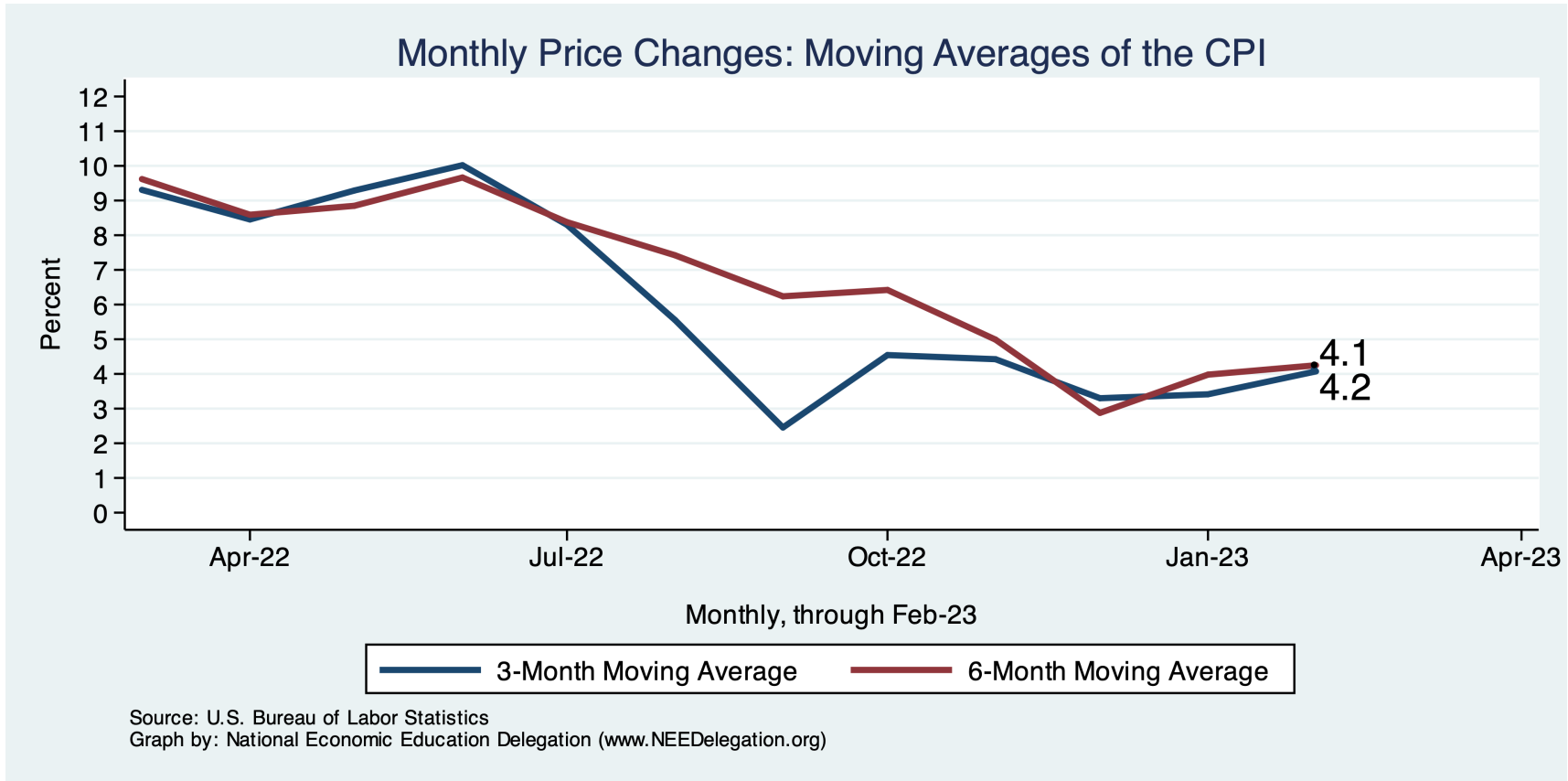


Year-over-year change in consumer prices in the eurozone

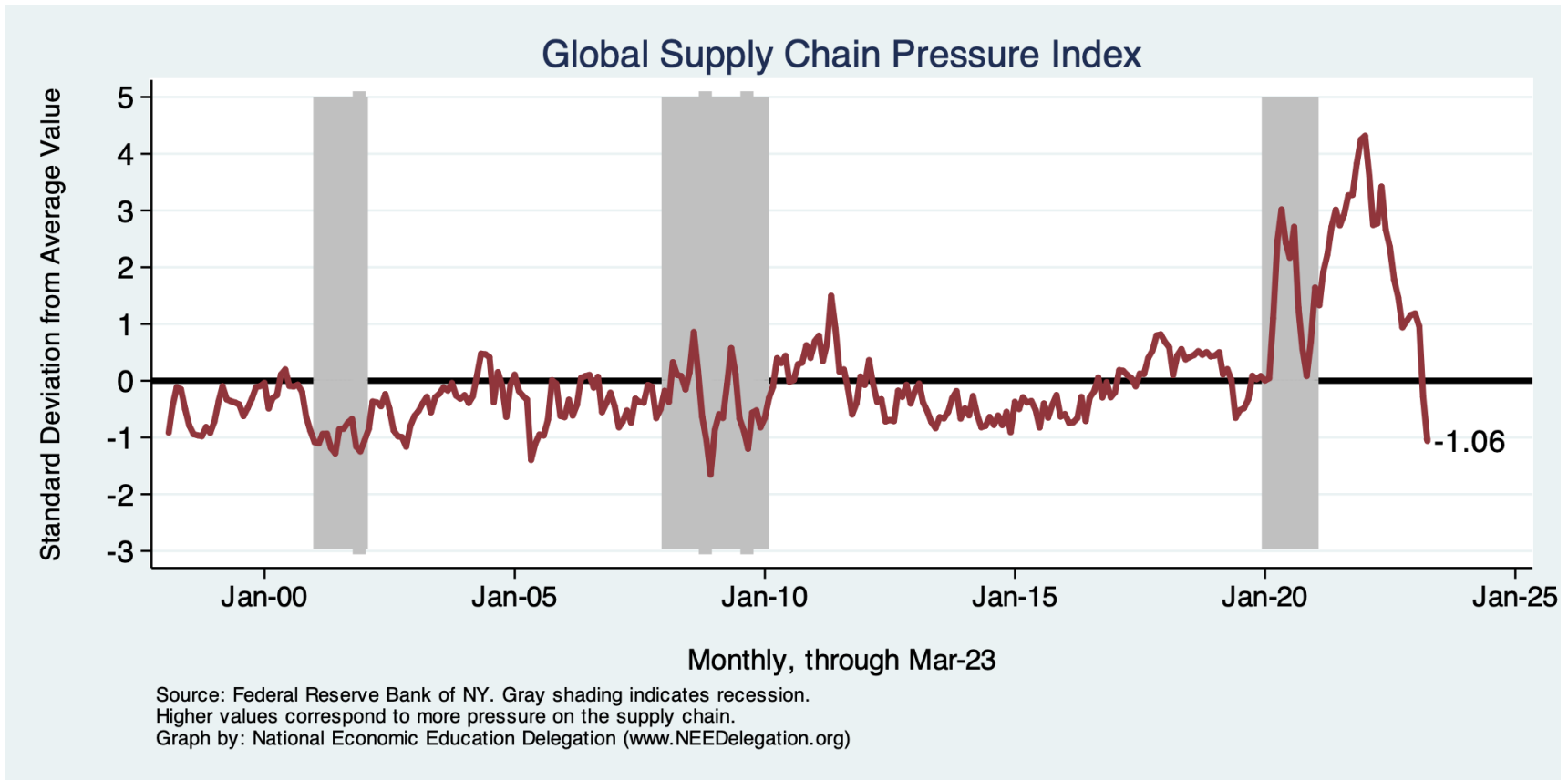


Source: Eurostat • By The New York Times

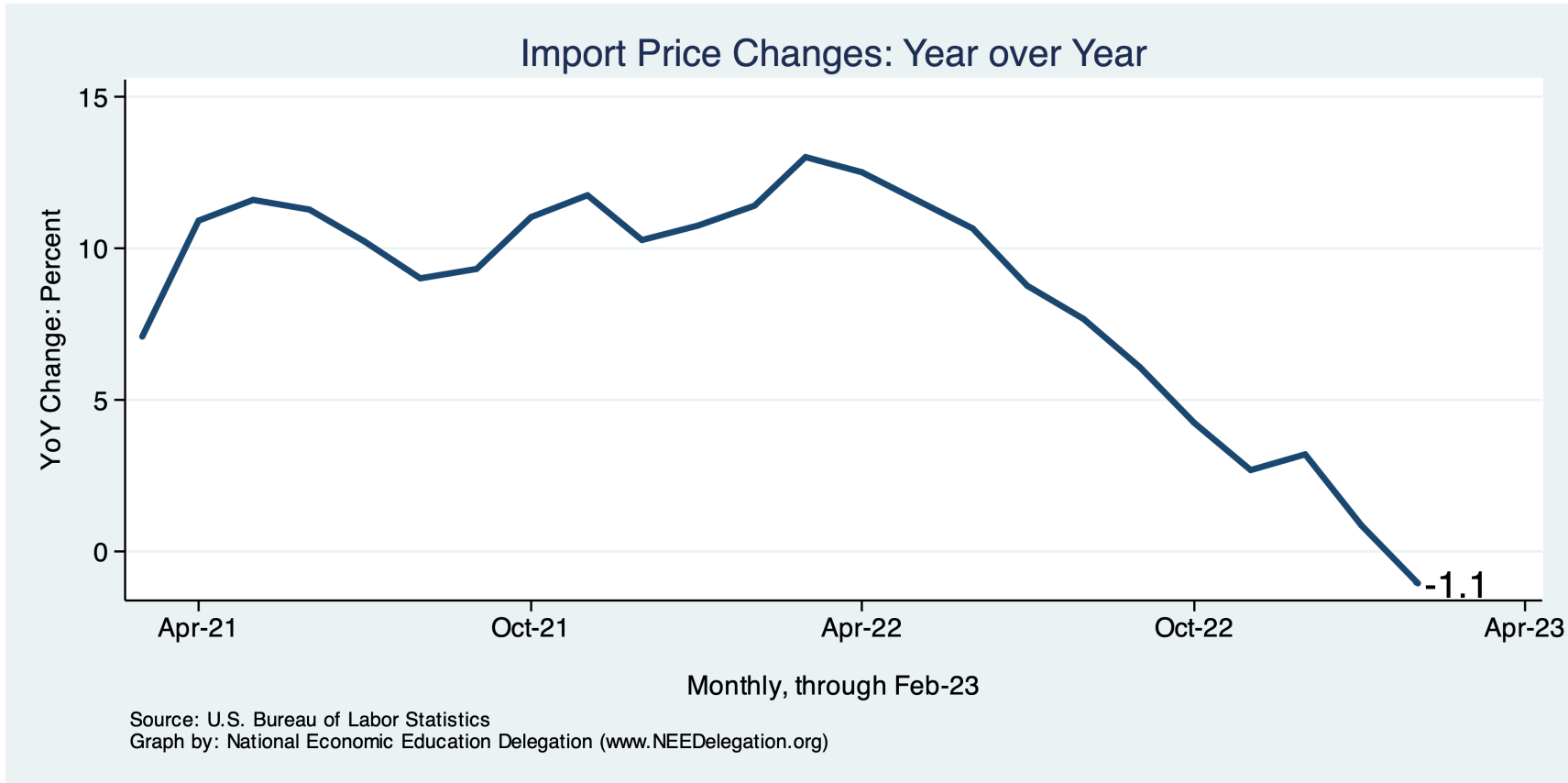
Inflation in the Last 6 Months – Closer to 4%!



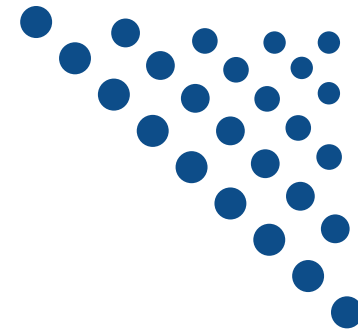
Supply Chains



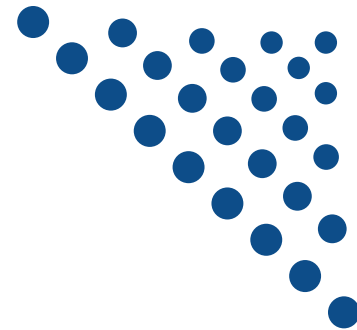
Import Price Inflation WAS Very High



My Thoughts on the Sources of Inflation

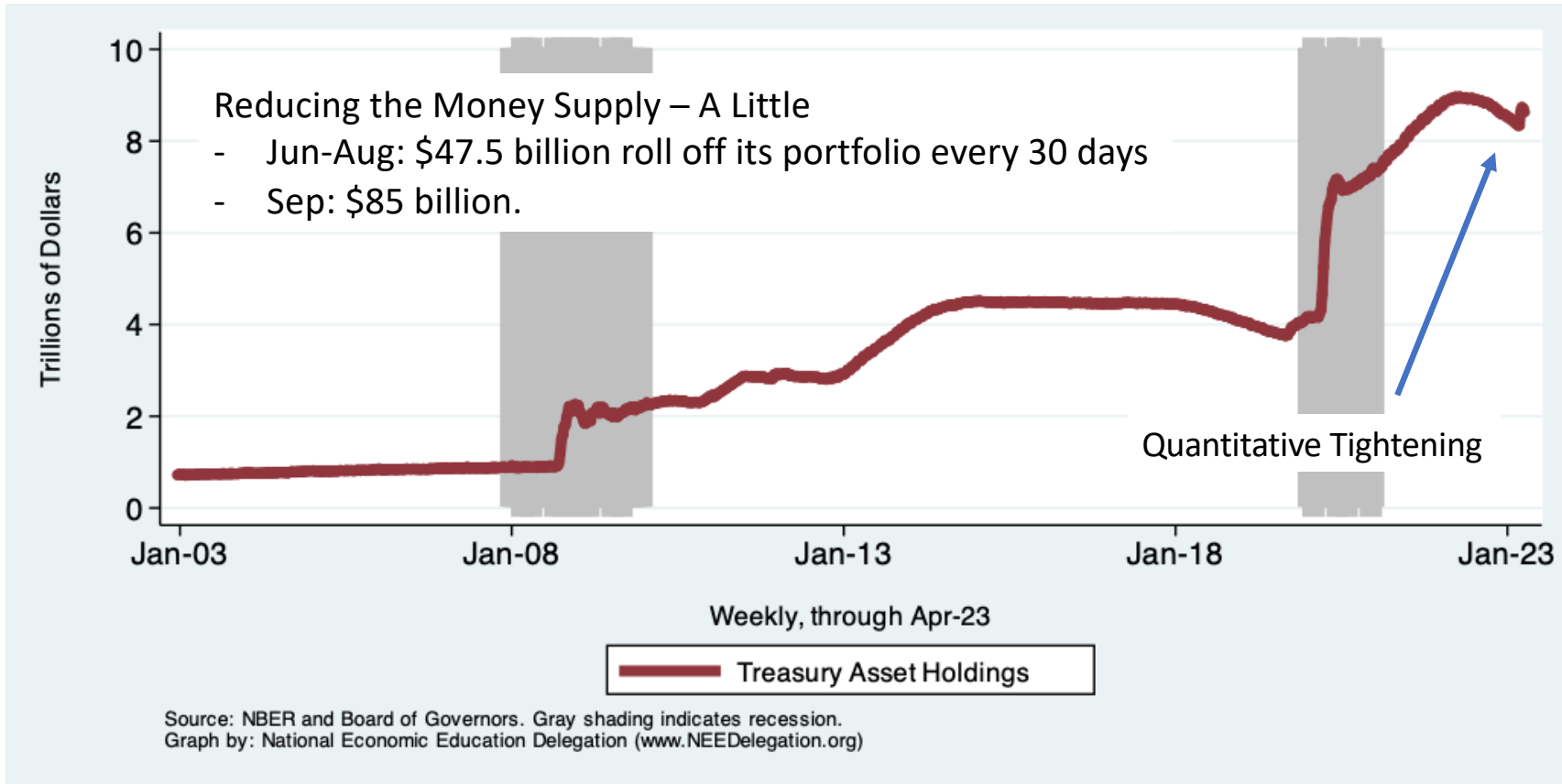


- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
 - Is now bouncing back, as are prices.
- **Corporations have used the cover of inflation to raise prices more.**
- **But there was too much total spending.**
 - Fiscal stimulus led households 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.**

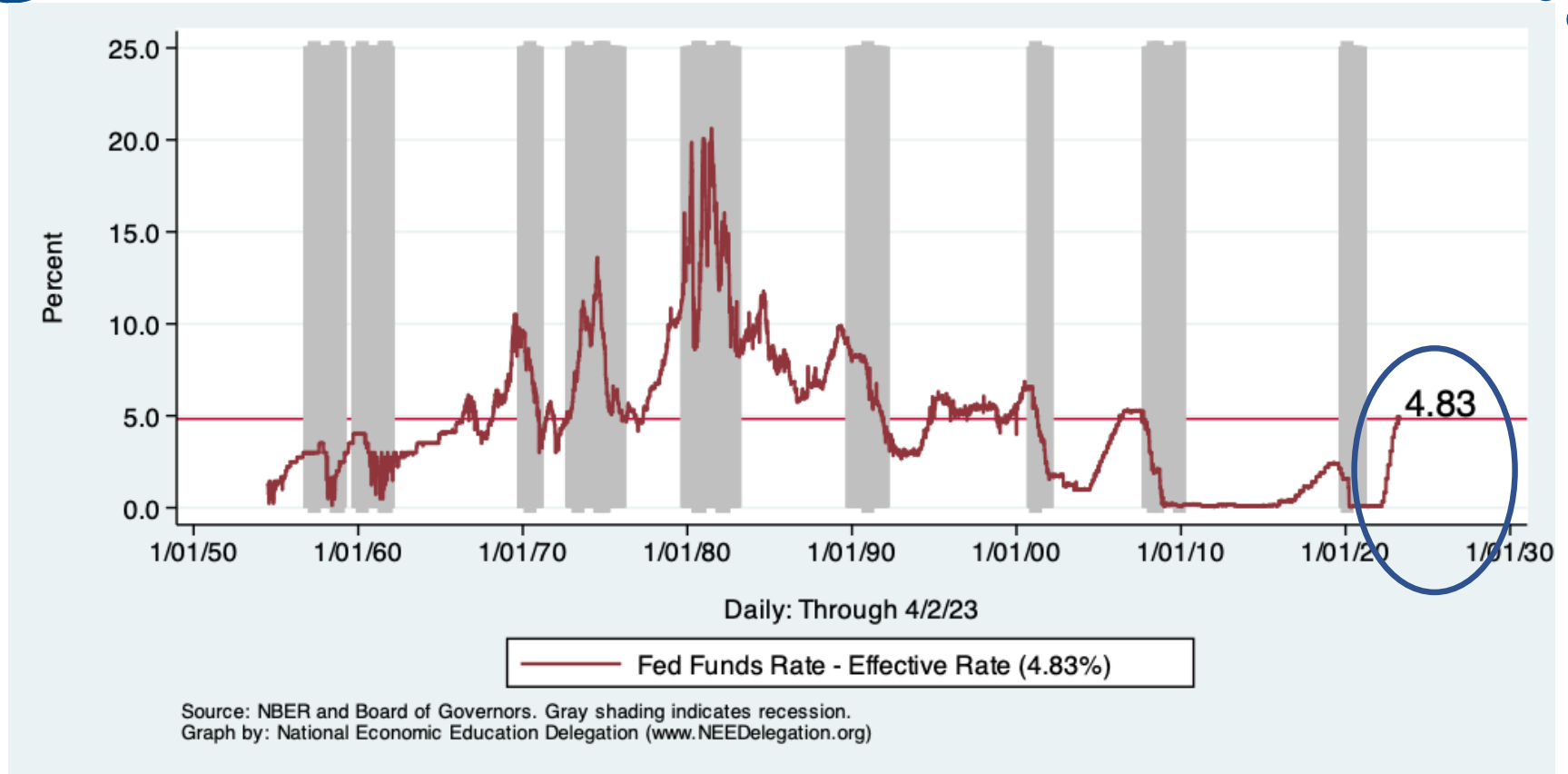


What's the Fed Doing About It?

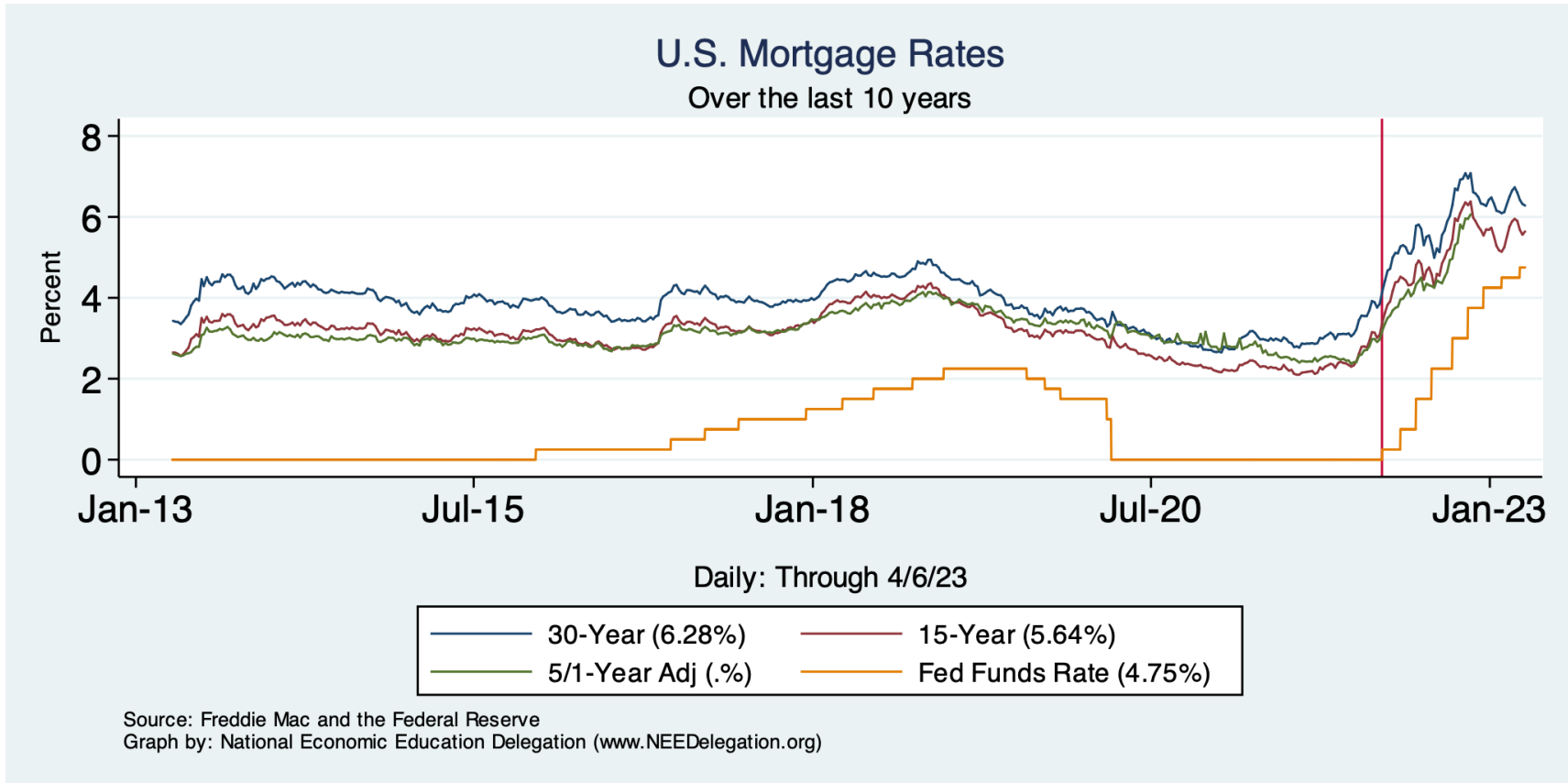
Fed: Reducing its Asset Holdings

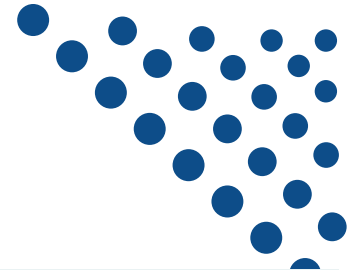


Raising the Federal Funds Rate

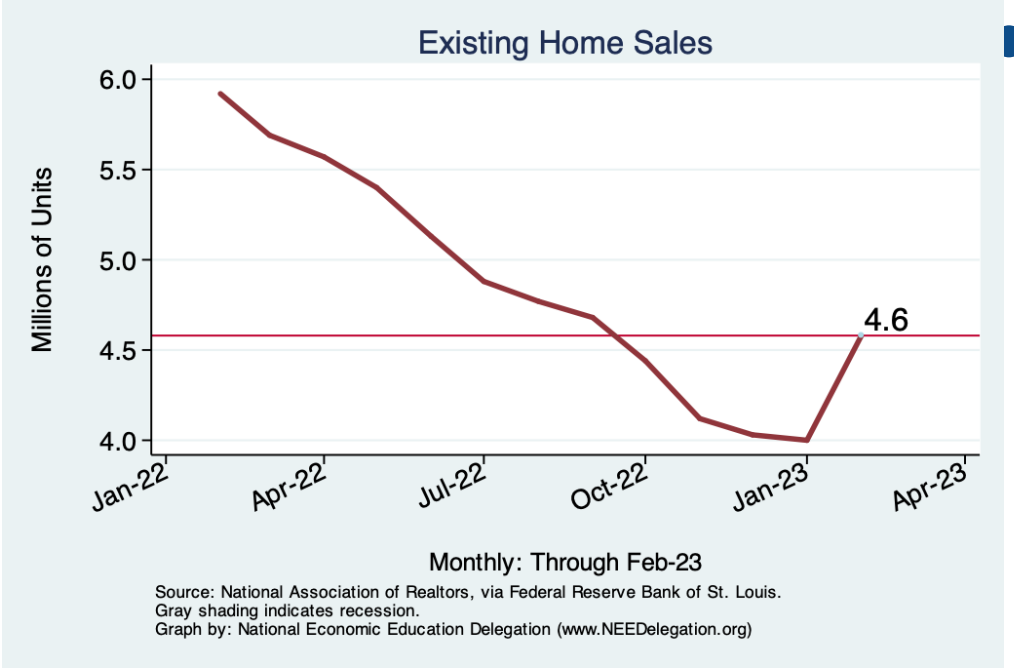
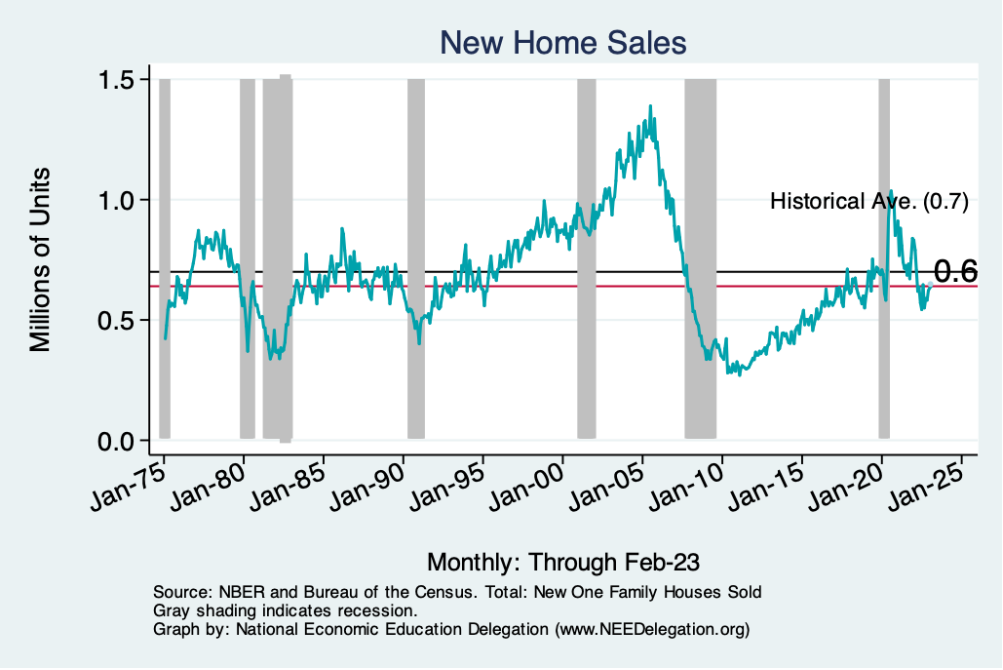


Mortgage Rates

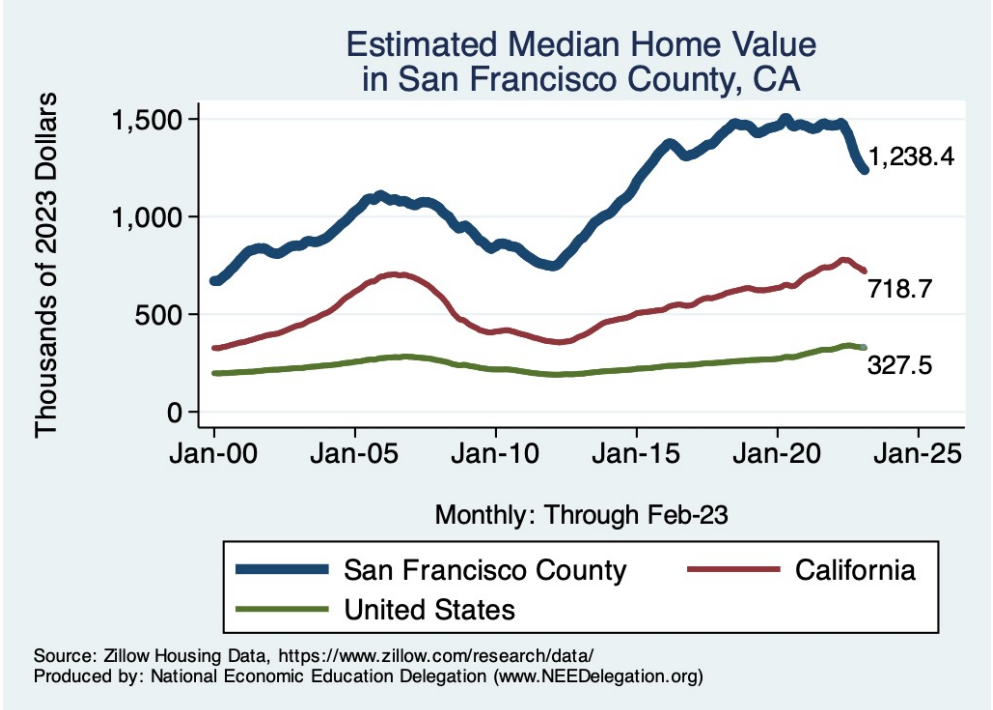
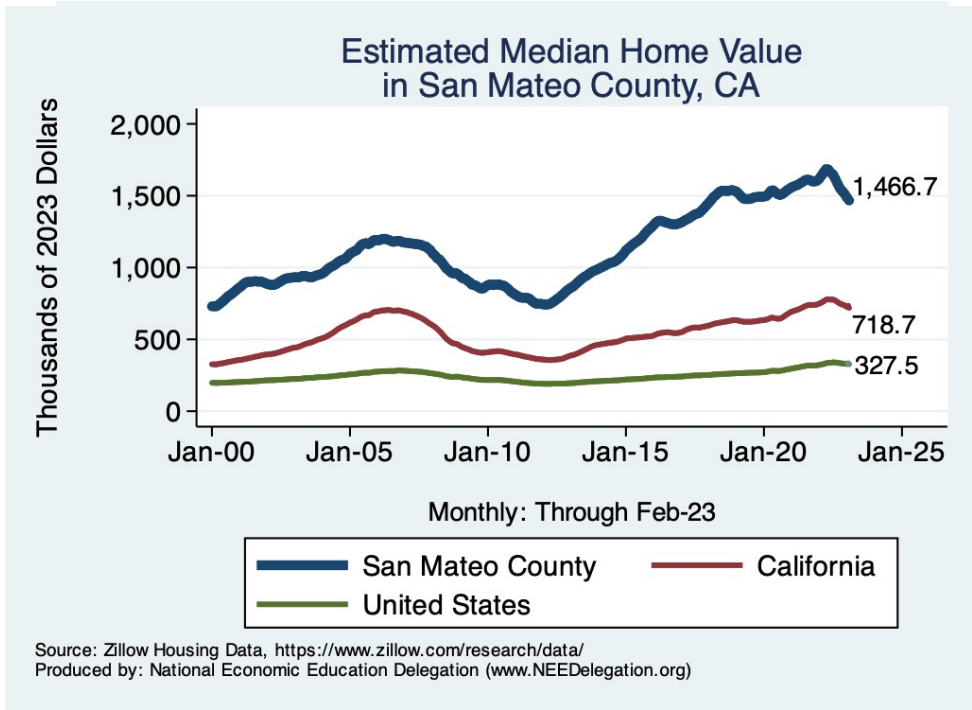


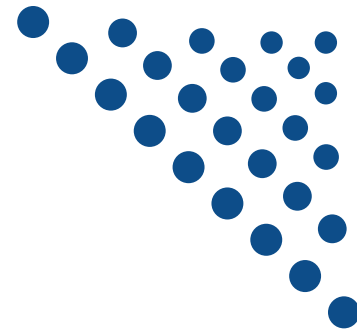


Home Sales Falling...Well, They Had Been



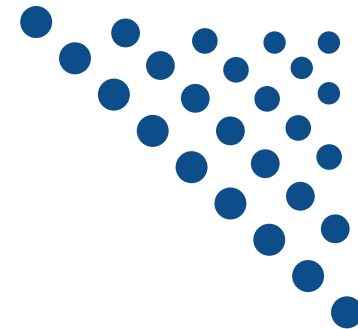
Home Prices ... Falling Throughout CA





And Then Banks Started Falling...

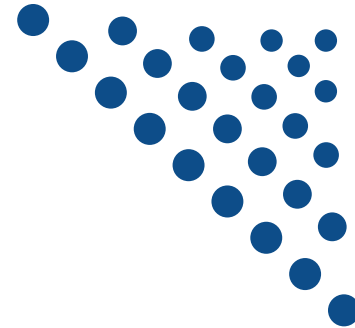
Silicon Valley Bank



- Regional mid-sized bank with \$212b in assets; \$6billion in capitalization (15th 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.

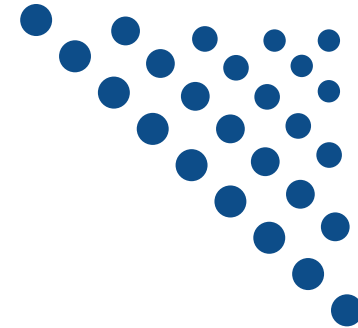


Whoops!



- 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.

FDIC Bank Closures, in General



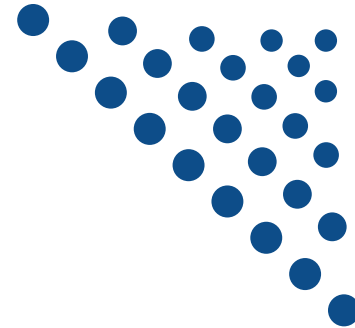
1. “Auction” off the failed bank; all depositors paid in full.
2. Payoff insured deposits and liquidate bank assets
 - Under Dodd-Frank, the FDIC is supposed to use the cheaper procedure.
 - In either case, funding comes from banks payments of deposit insurance premium.



But, in This Case:

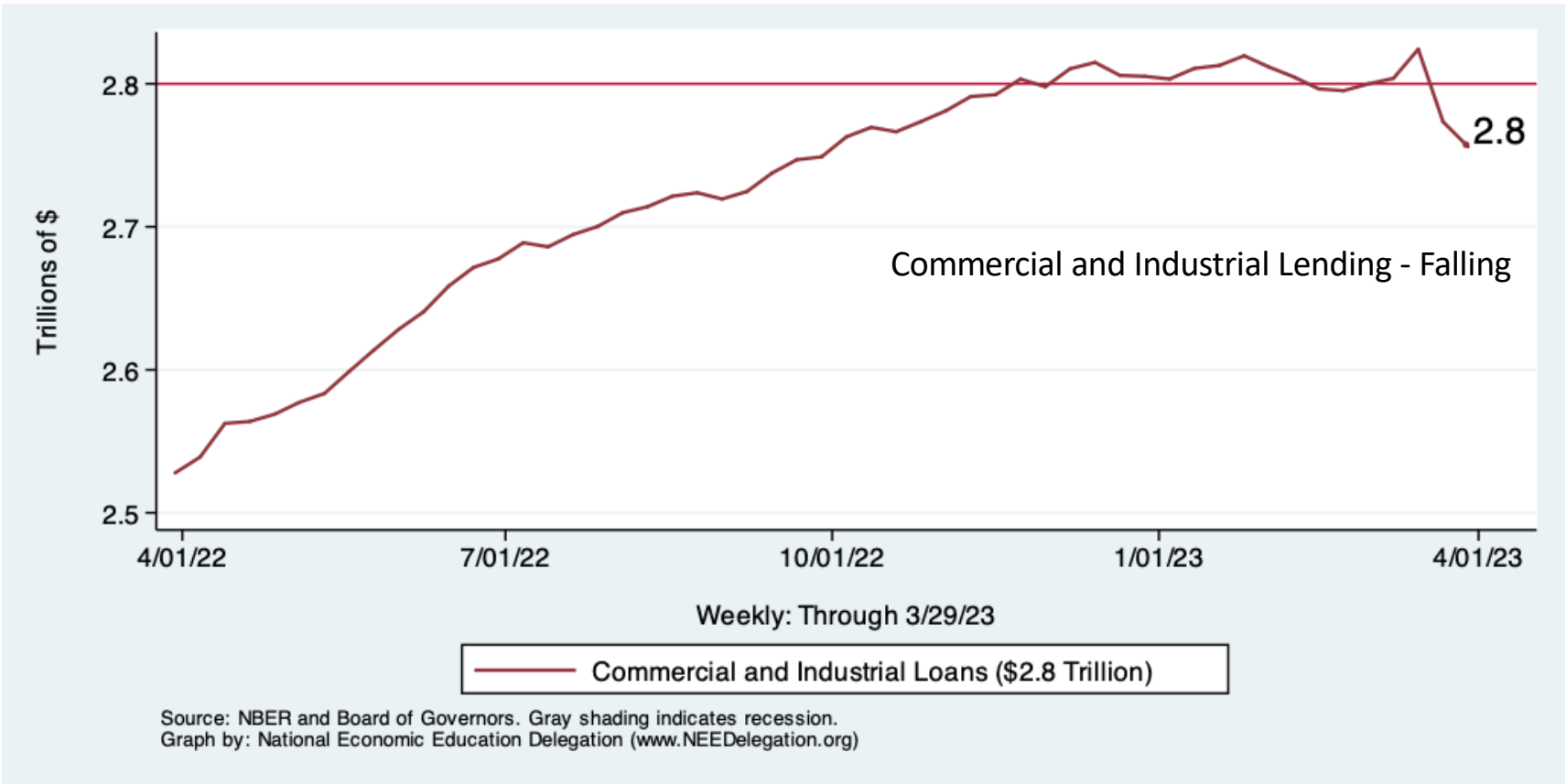
- Janet Yellen announced that all depositors would be paid in full, and there would be complete insurance of all bank deposits for a year.
- Senior Executives all fired.
- Fed created a new lending program, so that banks can borrow against Treasury bonds without realizing losses.
- The rationale was 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.

Problems with the Bailout

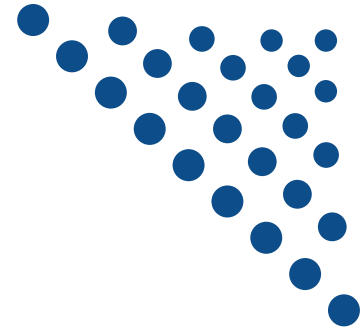


- **Political:**
 - Did political favoritism play a role in bailing out well connected, sophisticated silicon valley depositors.
 - Why didn't bank regulators see this coming?
- **Economic:** has the moral hazard of “too big to fail” been increased.
- **For the Fed:** Will the Fed have to scale back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

Is This a Problem?



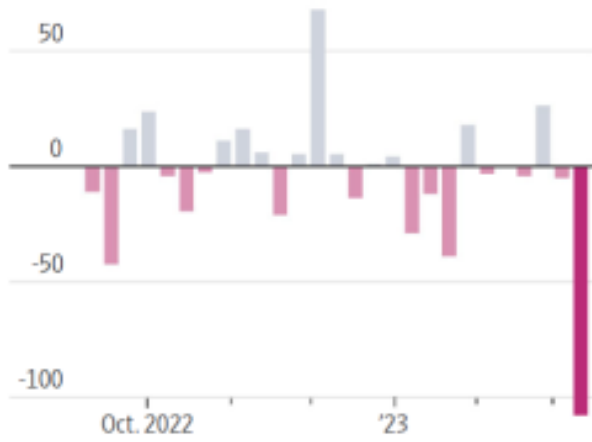
What About This?



Deposits, change from a week earlier

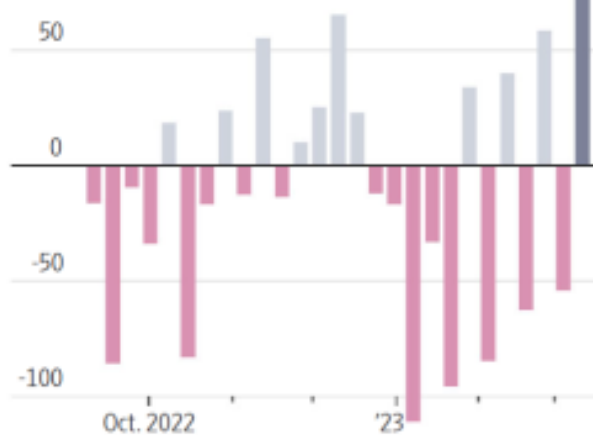
SMALL BANKS

\$100 billion

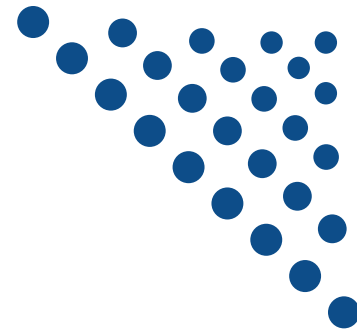


LARGE BANKS

\$100 billion



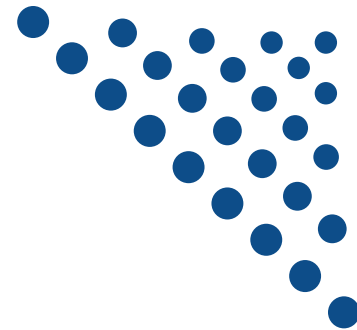
Note: Includes domestically chartered commercial banks. Large banks are defined as the top 25 ranked by domestic assets. Small banks are those not in the top 25.
Source: Federal Reserve
Nate Rattner/THE WALL STREET JOURNAL



DC: Shall We Create Our Own Financial Crisis?



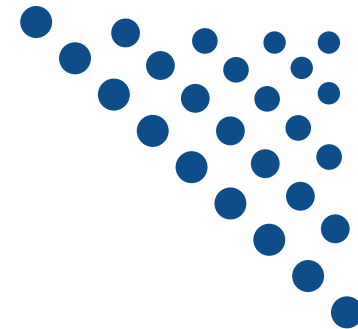
Existential Threat: Coming This June!



5 Things to Know about the Debt Ceiling

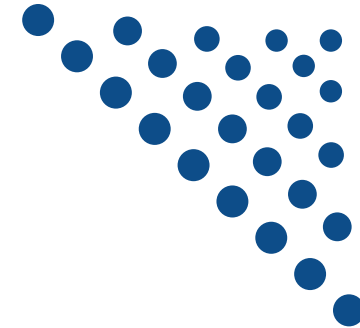
1. The debt limit has been raised continually for more than a century.
2. Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.
3. The uselessness of a debt limit is exhibited by the fact that only one other advanced country—Denmark—has a separate 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.

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!

Takeaways



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

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

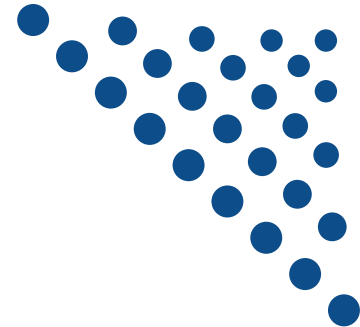
- **Threats to continued growth:**

- If inflation stays high, which seems unlikely.
- Layoff contagion.
- Debt ceiling negotiations
 - Significant cuts to government budgets may well result.
- Broader banking crisis.

- **Inflation**

- Is both a supply and demand side issue. Fed can only work on demand side.
- But there are many supply side issues: war, weather, avian flu....
- Certainly trending in the right direction.

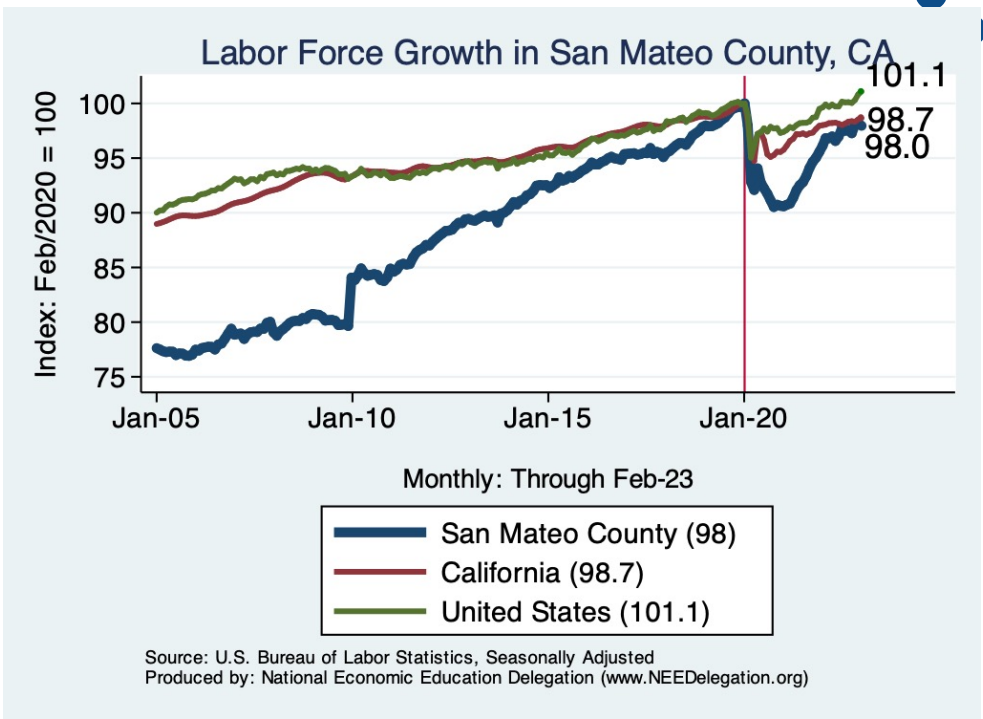
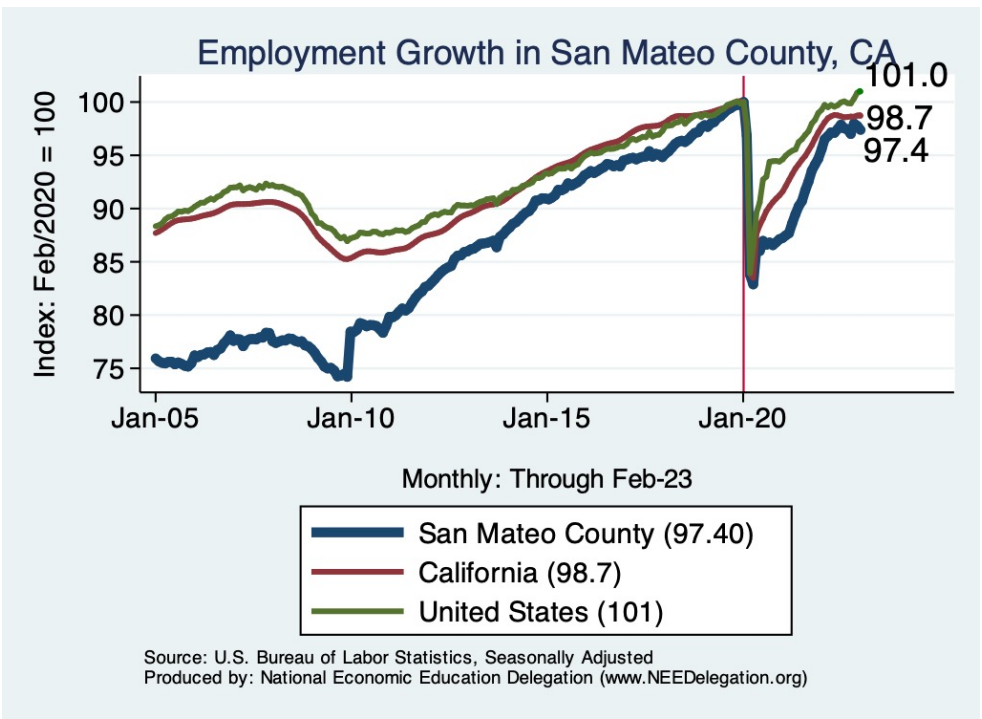




San Mateo Economy



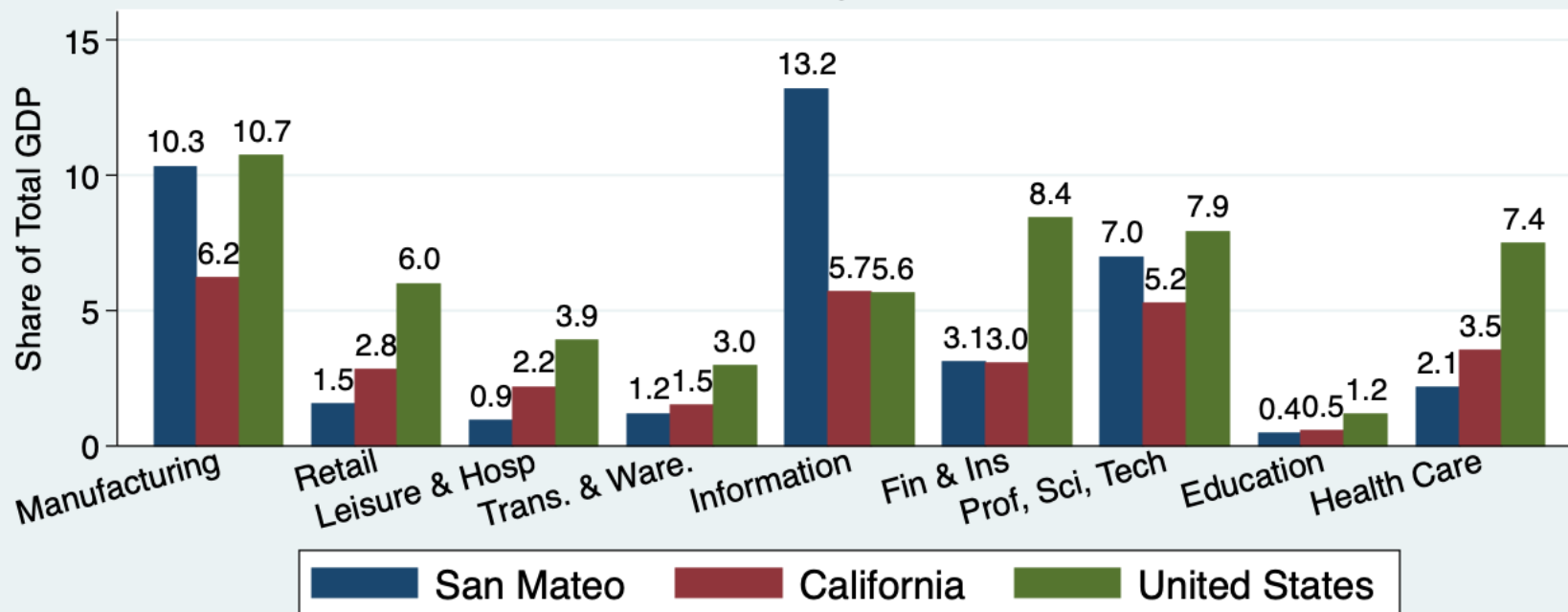
Employment in San Mateo County?



San Mateo Economy: GDP

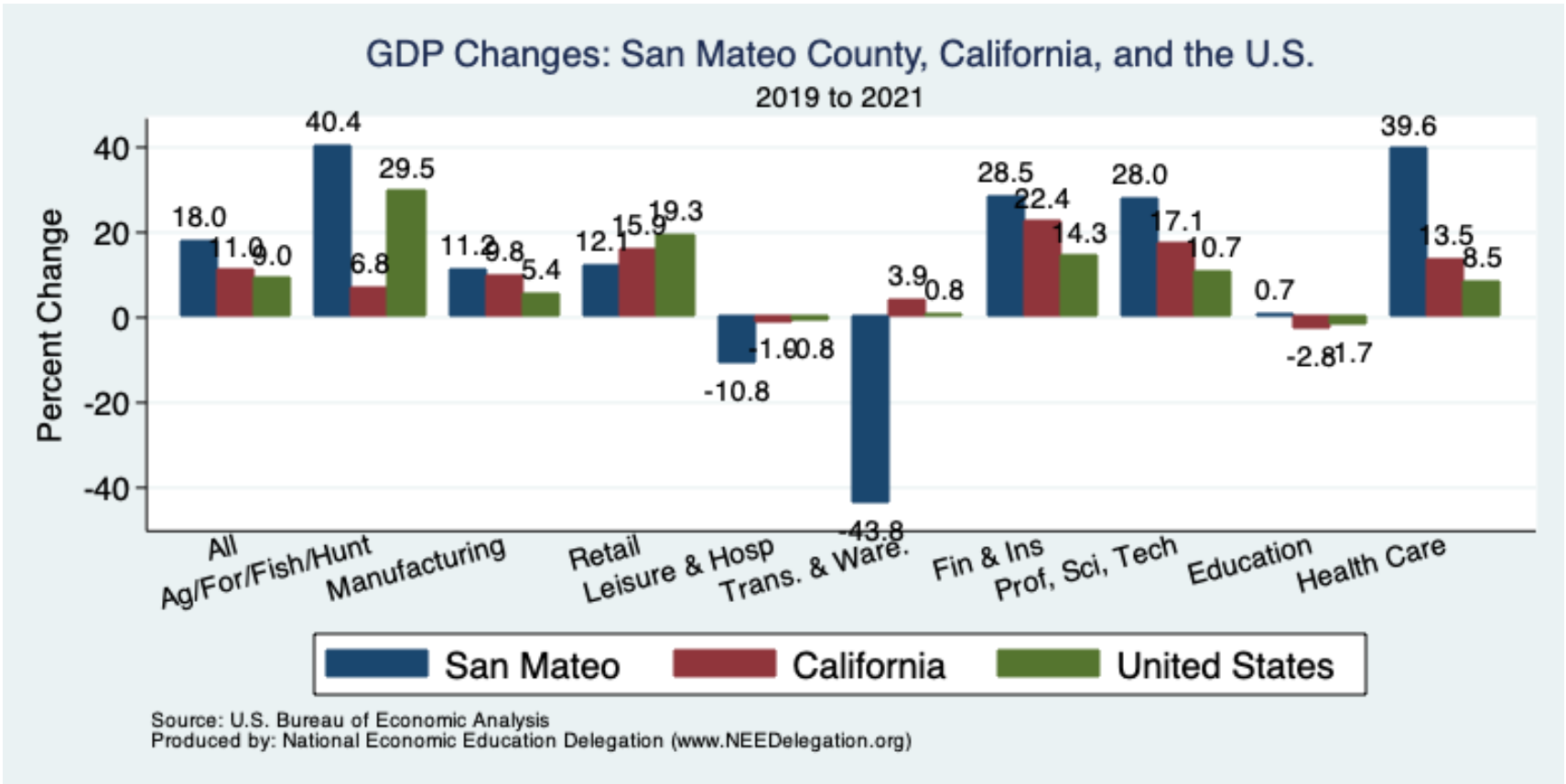


GDP Shares: San Mateo County, California, and the U.S.
2021

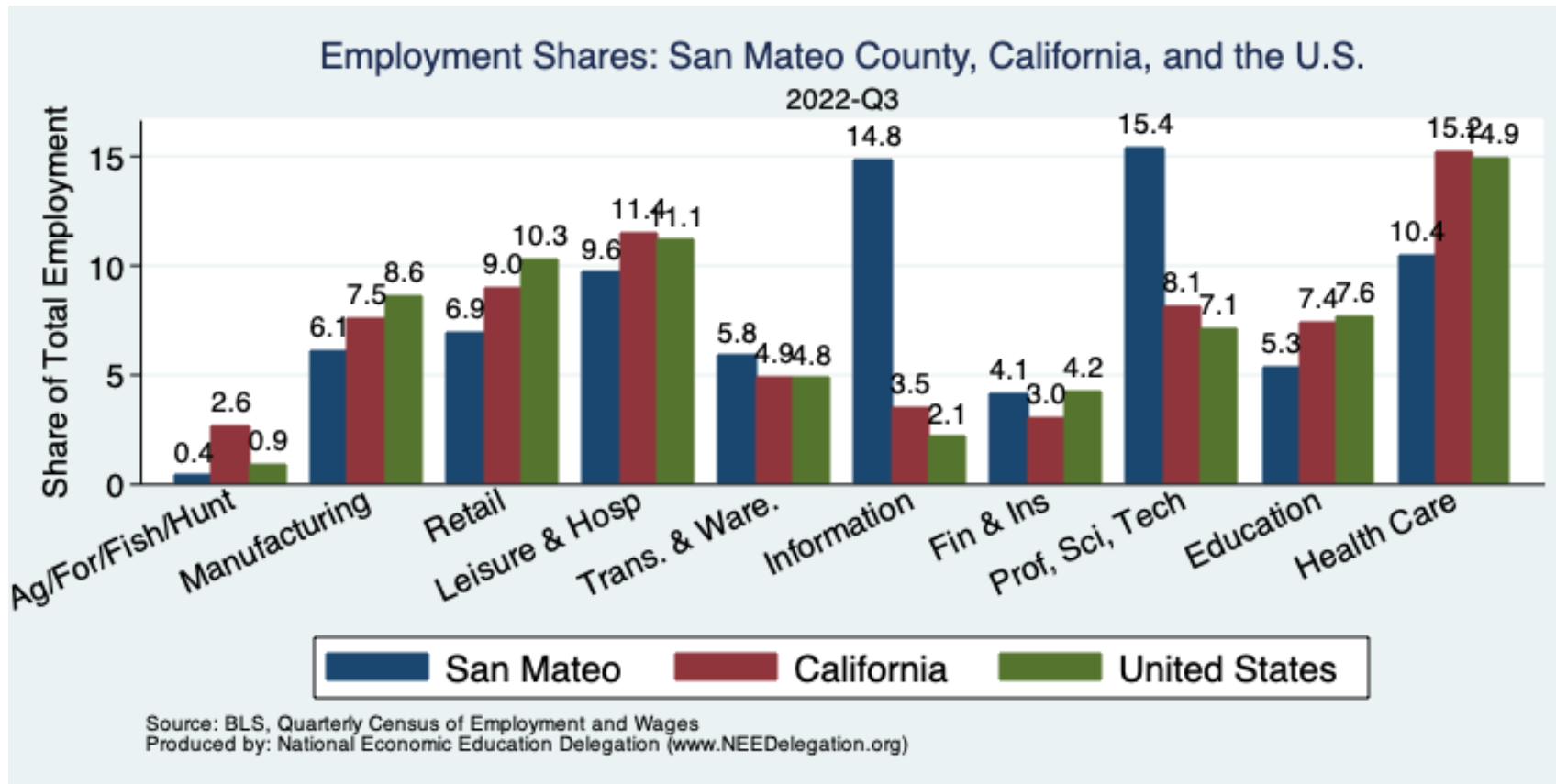


Source: U.S. Bureau of Economic Analysis
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

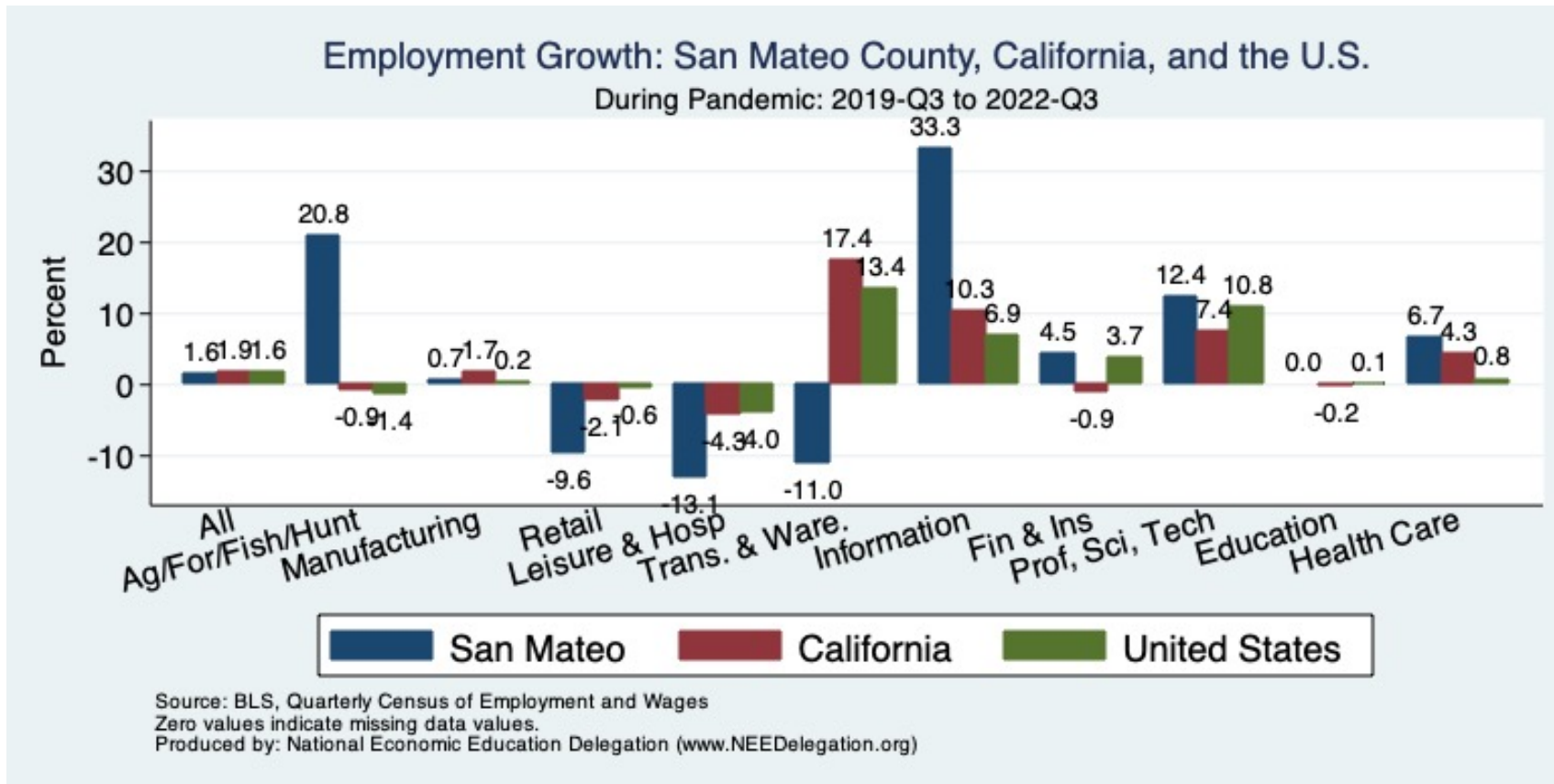
The Pandemic Effect: GDP



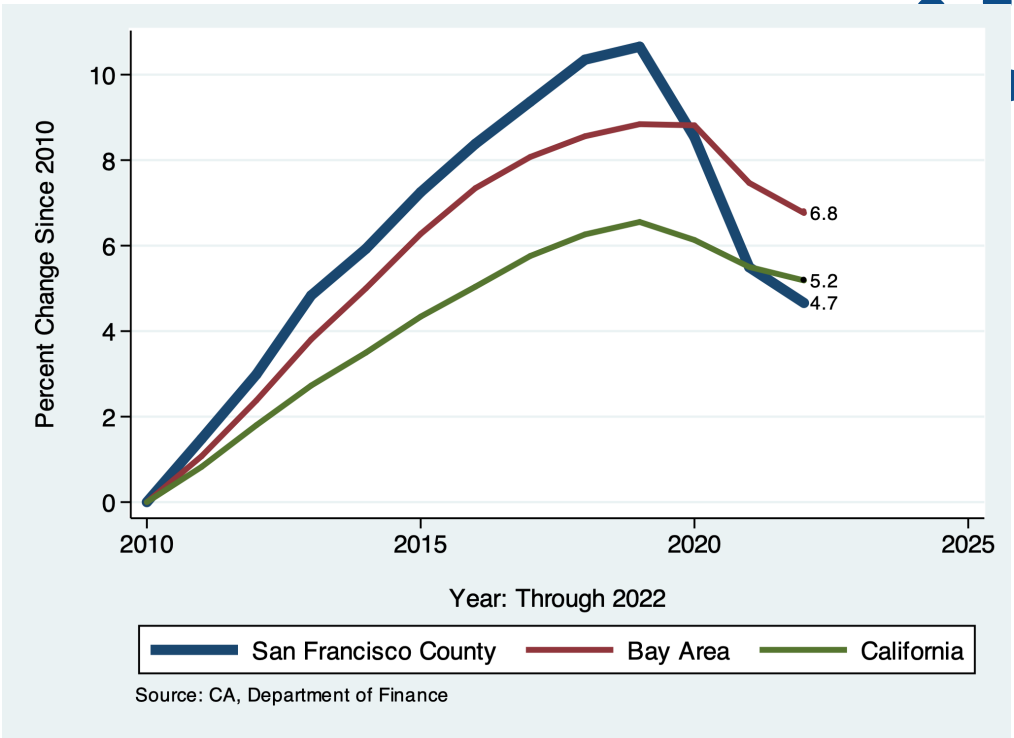
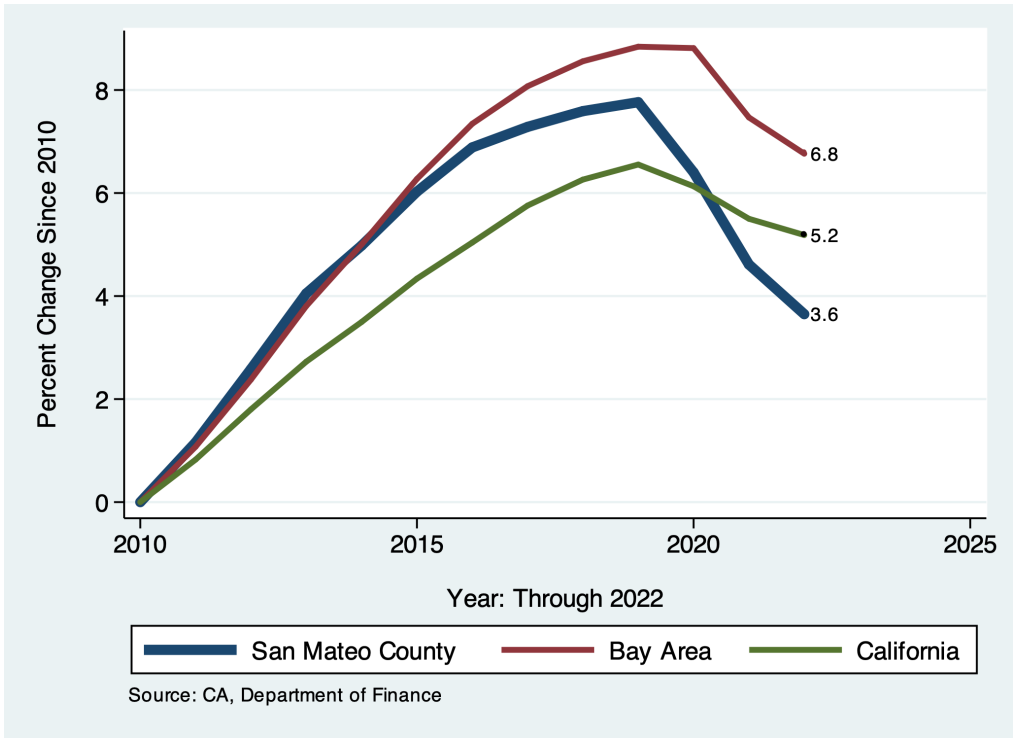
San Mateo Economy: Employment



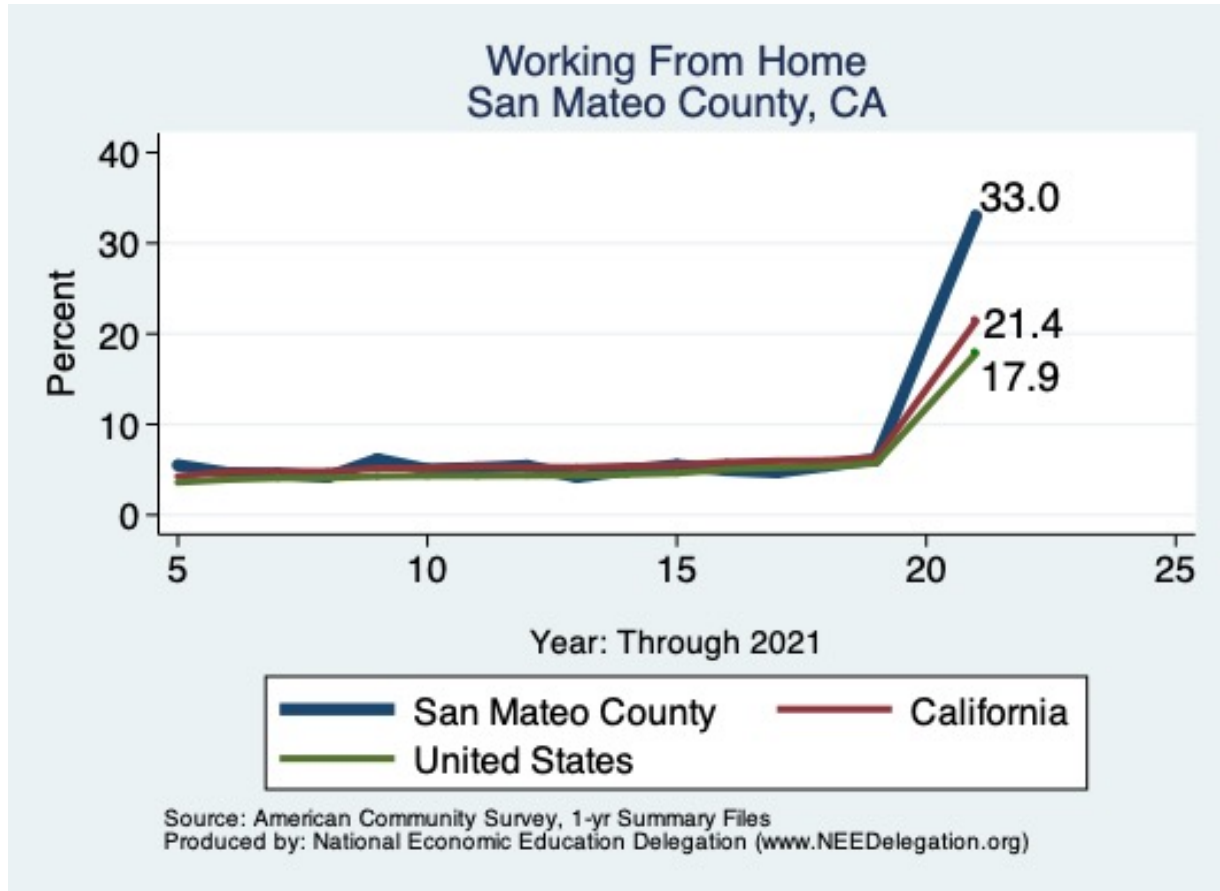
The Pandemic Effect: Employment



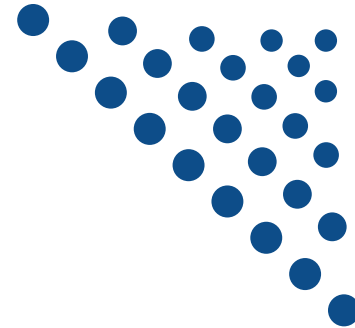
Local Population Change



Working From Home



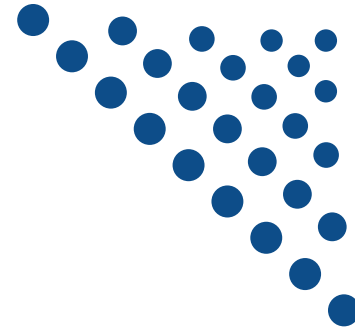
San Mateo County: Summary



- **Home prices are falling as they are elsewhere in CA.**
- **San Mateo County has been altered by the pandemic.**
 - Lots of working from home.
 - An economy more focused on manufacturing relative to ag.
 - GDP has grown faster than in CA or the US.
 - Employment has not.
- **If this shift is permanent, that could be good for San Mateo County.**
- **However, countywide population declines are concerning.**

Thank you!

Any Questions?



www.NEEDelegation.org

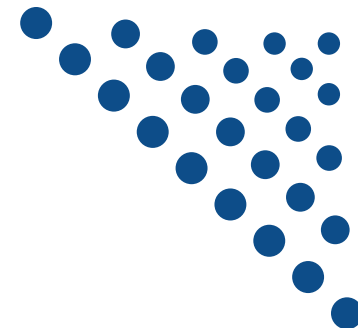
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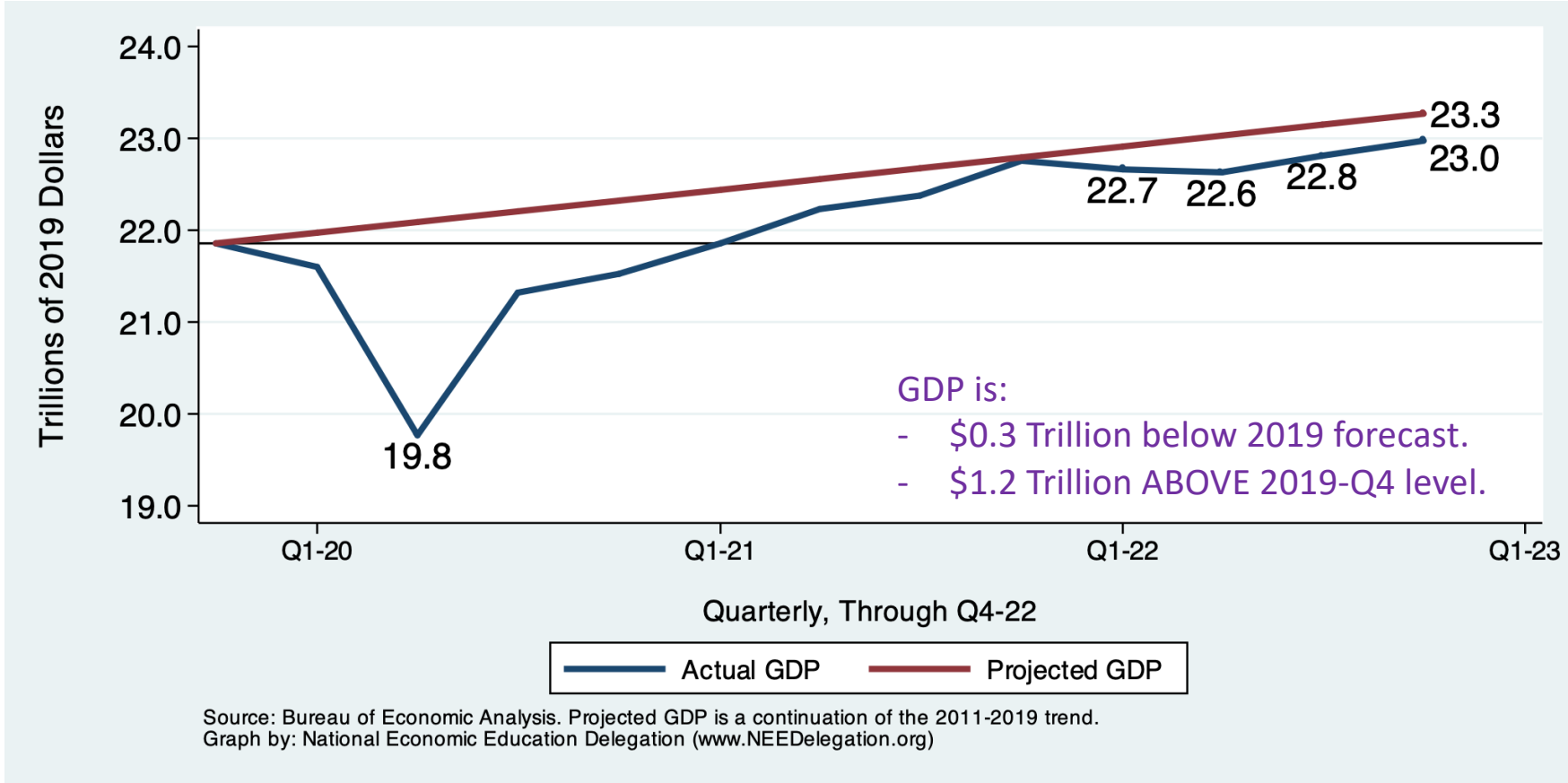
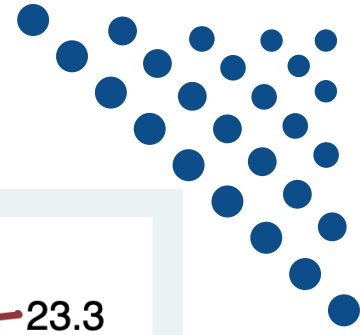


www.NEEDelegation.org/LocalGraphs

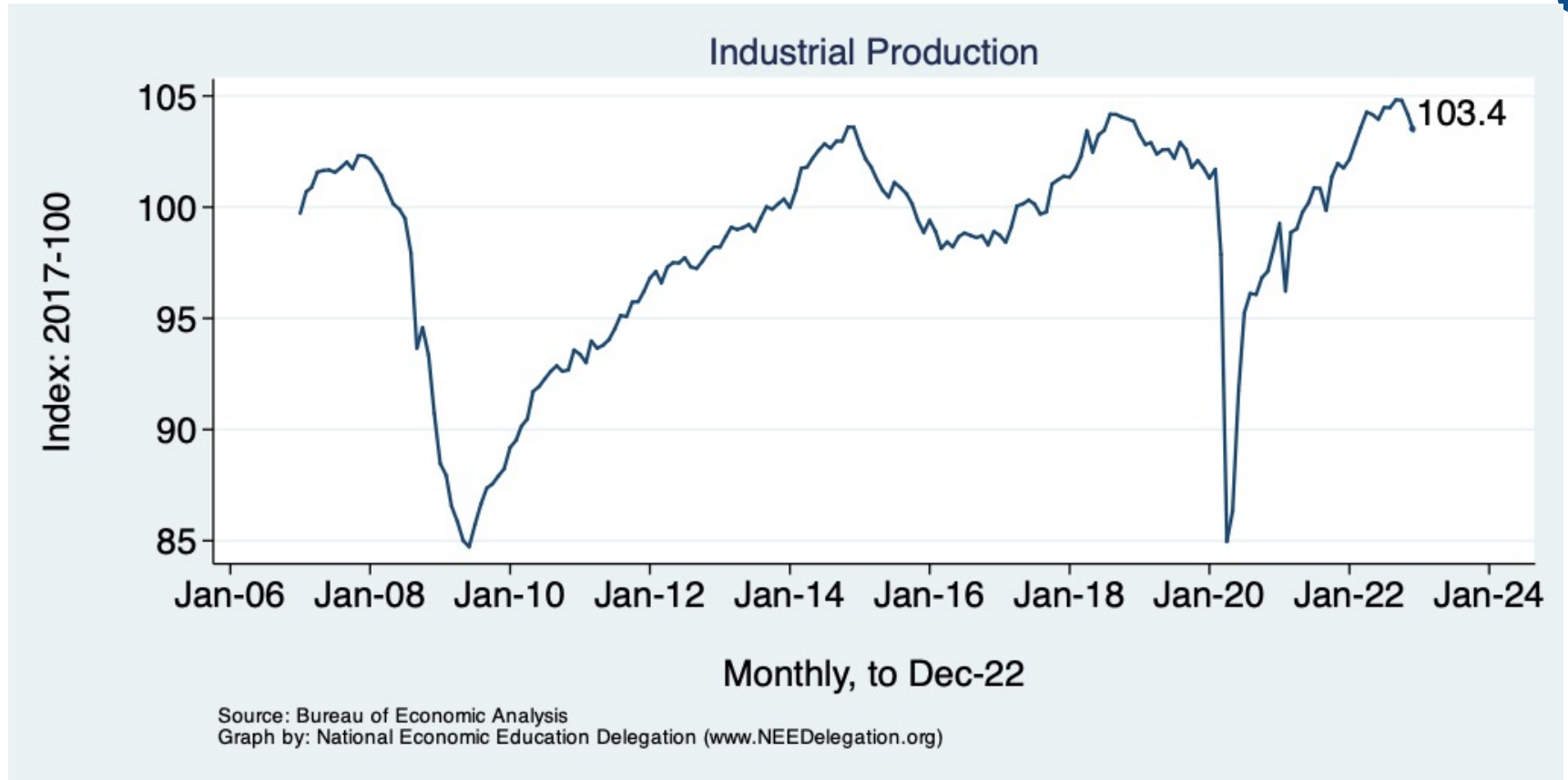
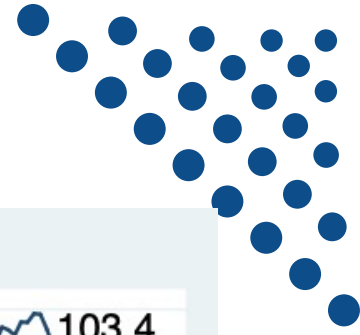
For every state and county in the United States.

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

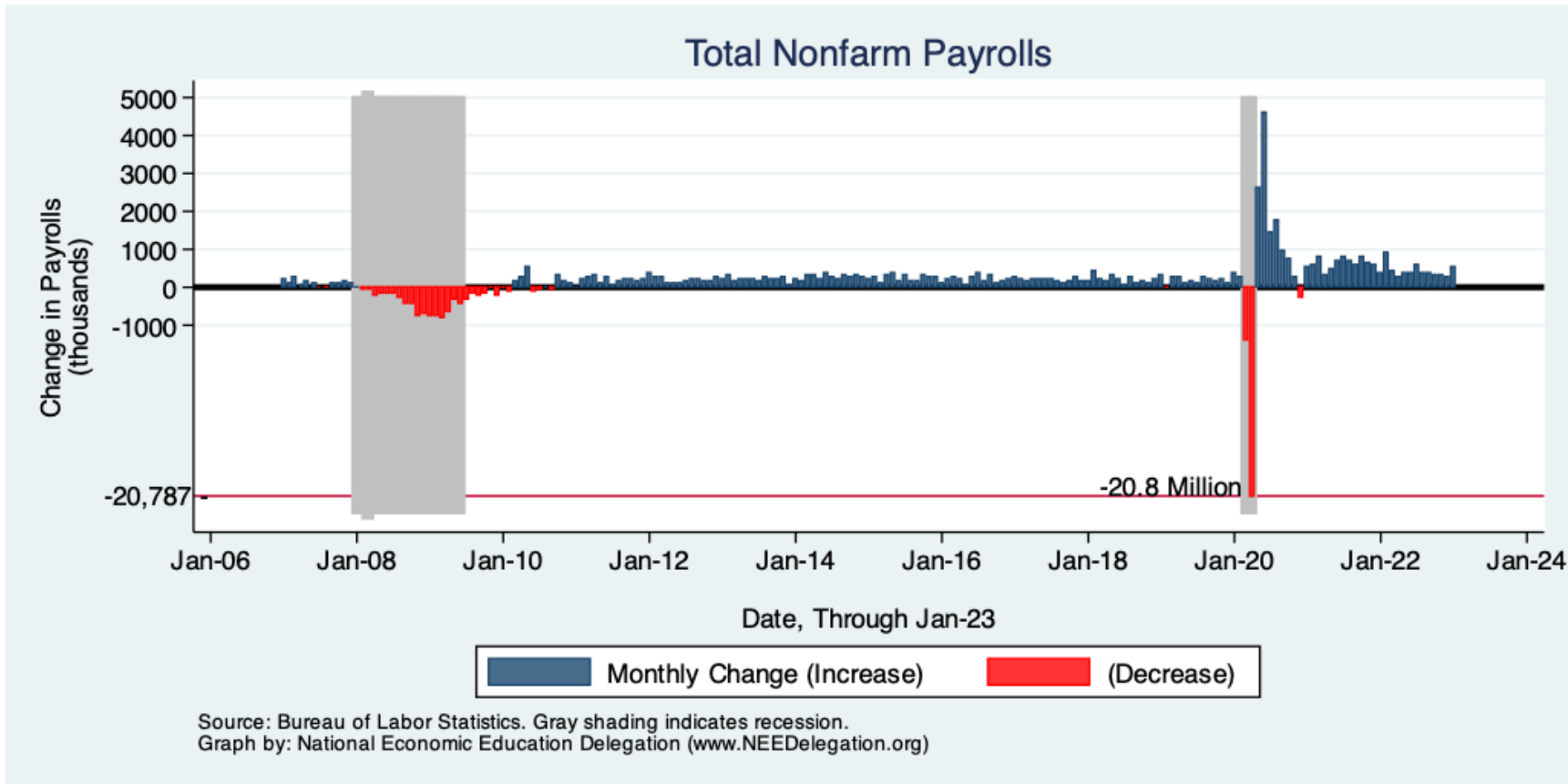
GDP Trajectory: Pandemic Plunge!



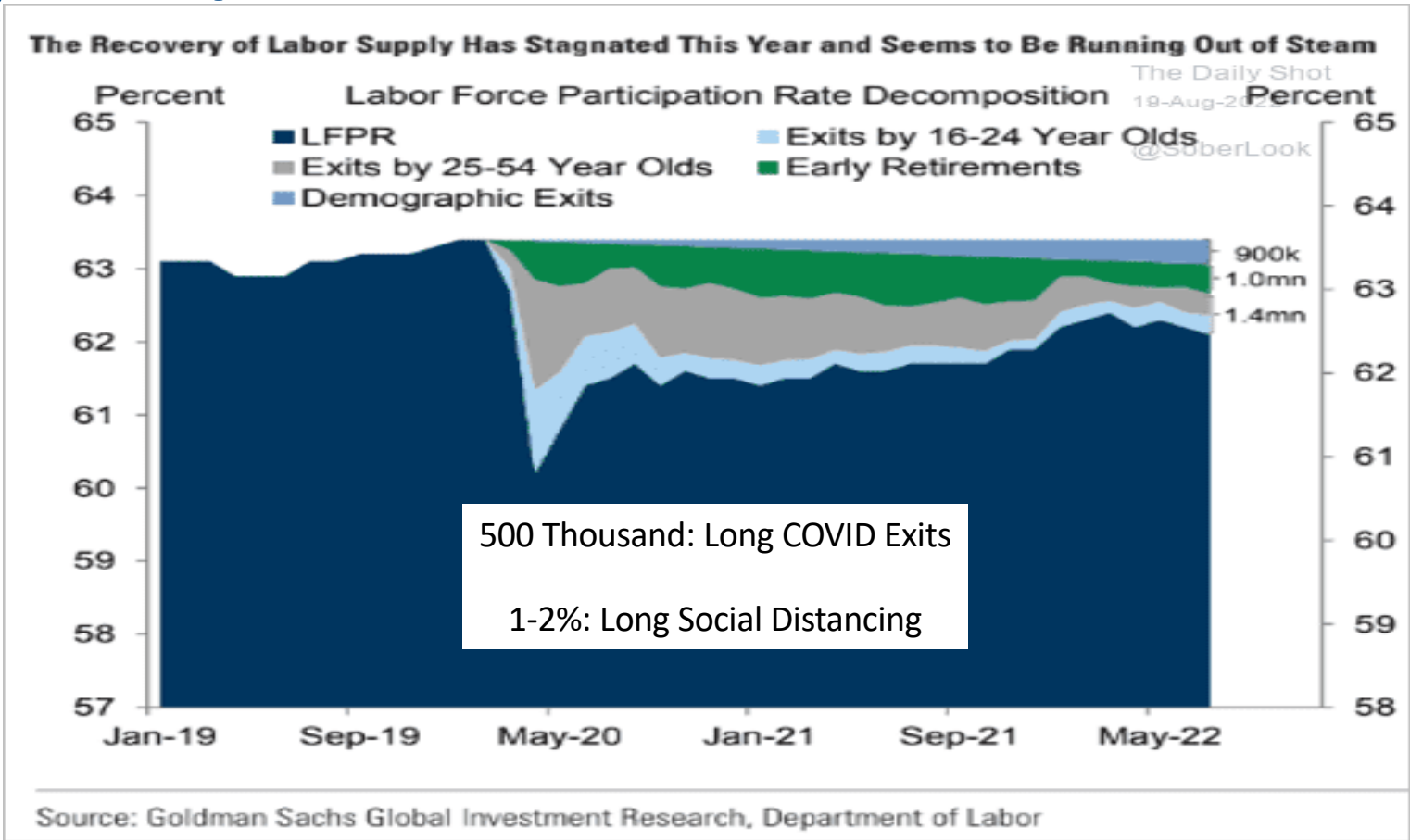
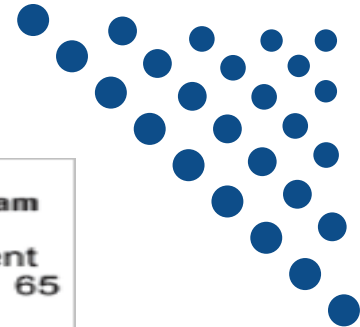
Industrial Production (Manuf, Util, Mining)



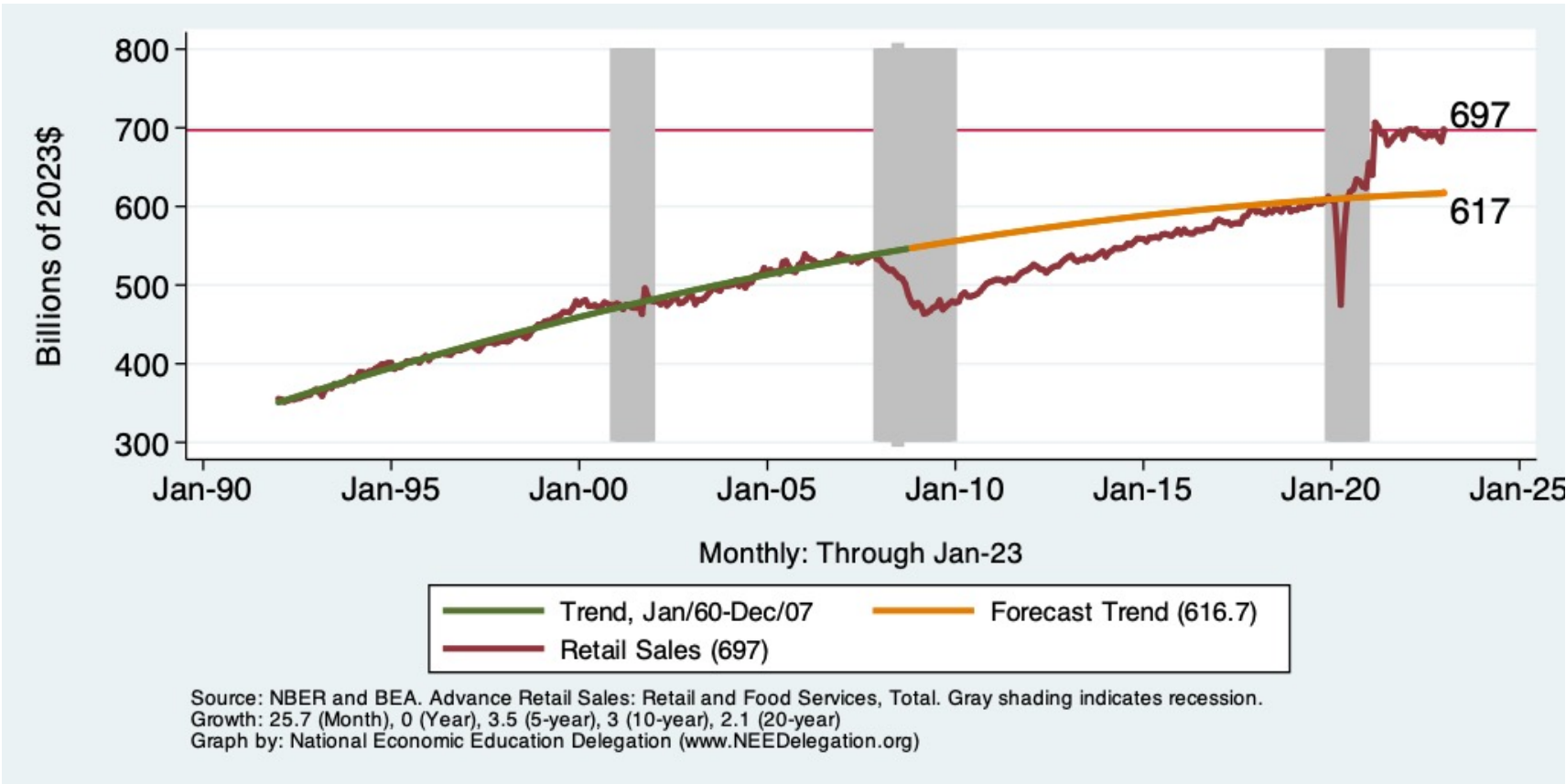
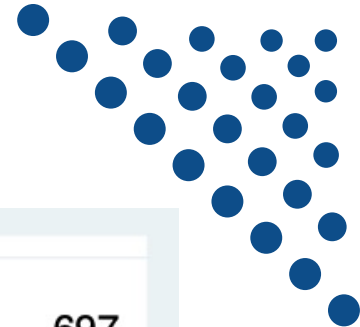
Monthly Changes in Nonfarm Employment



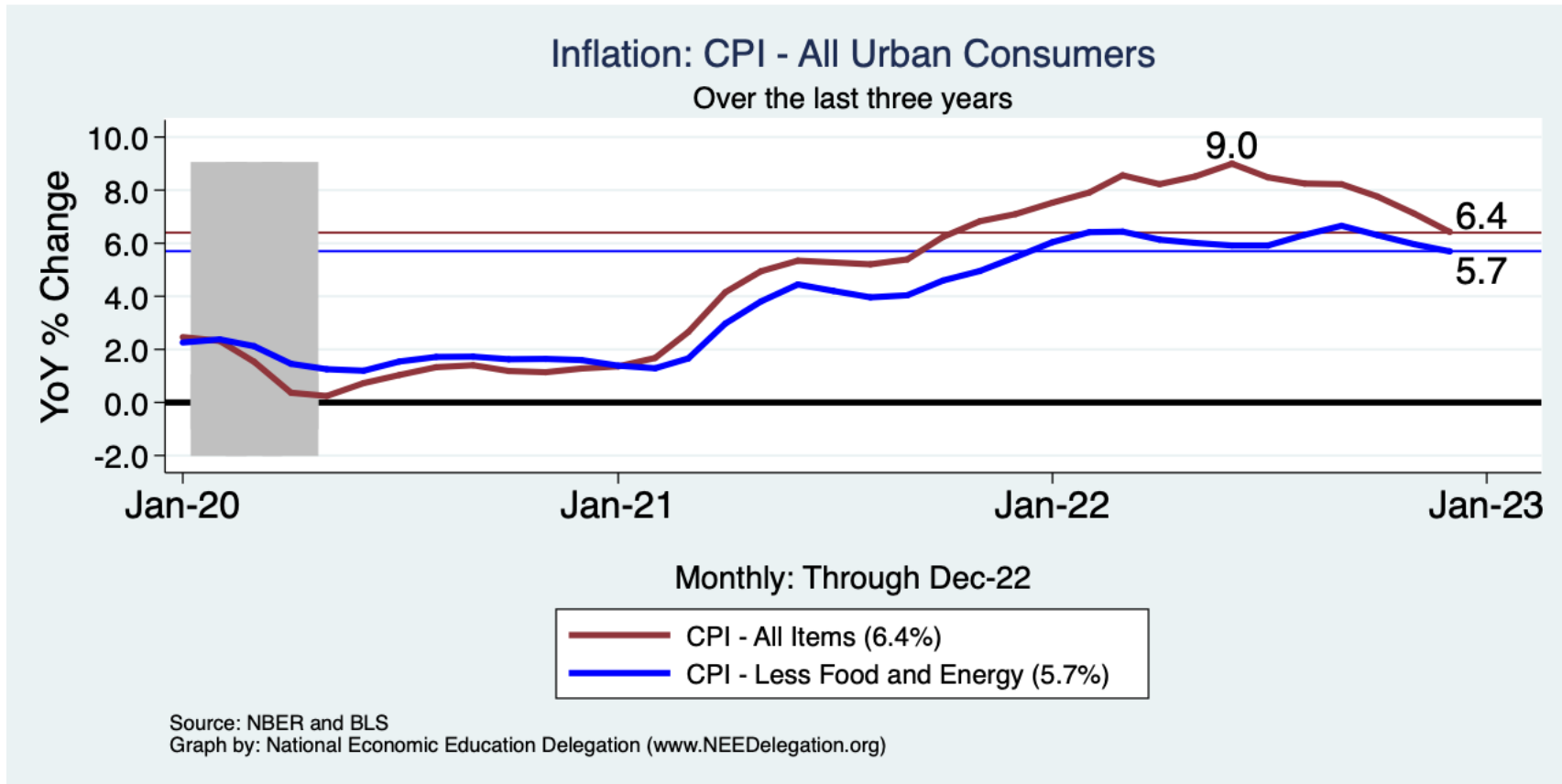
Some Explanations



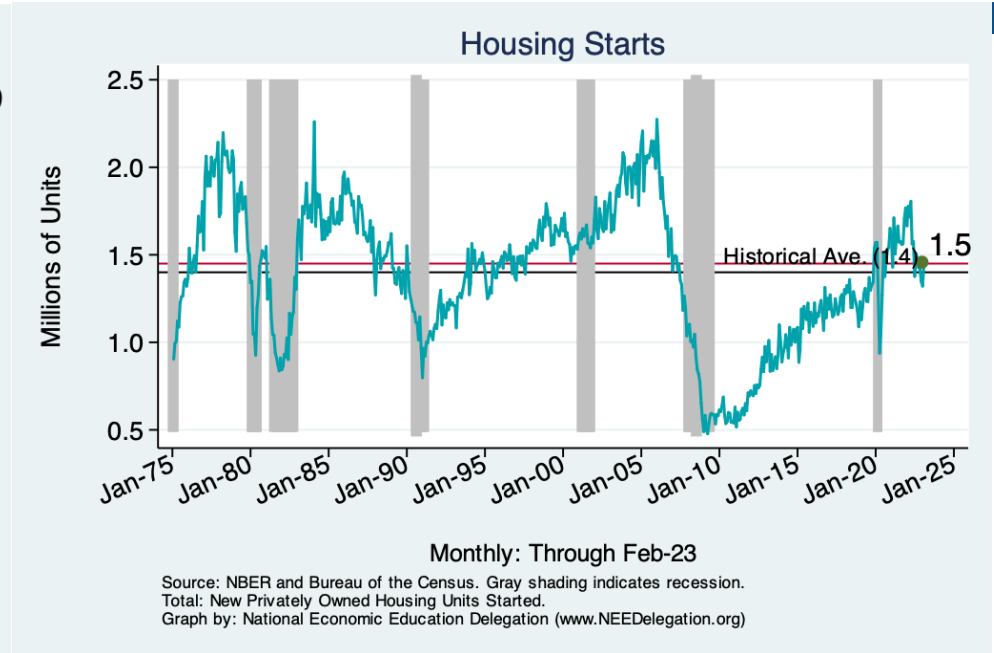
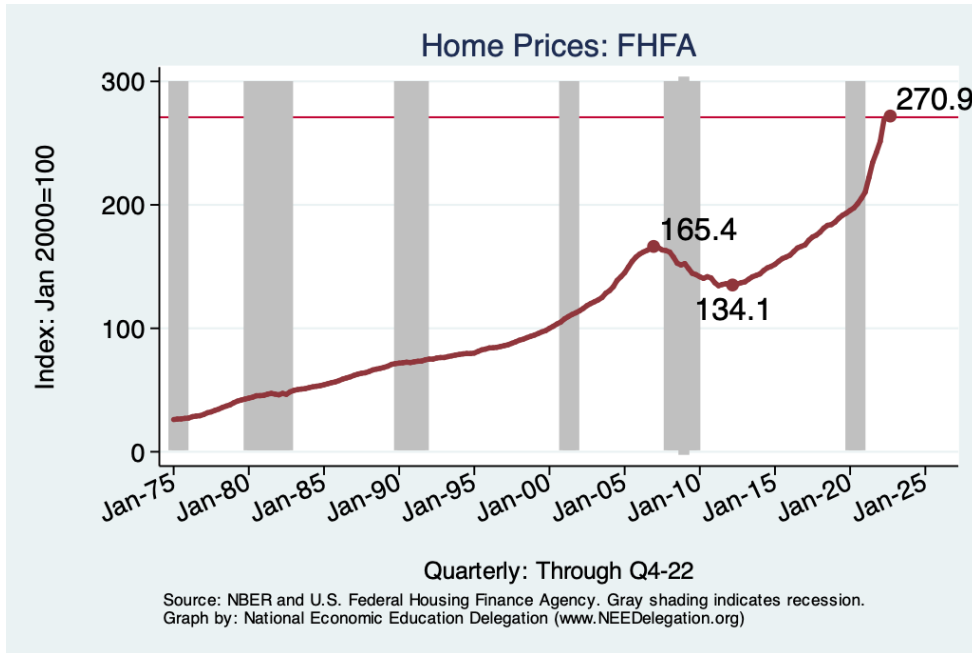
But SUPER High to Begin With!



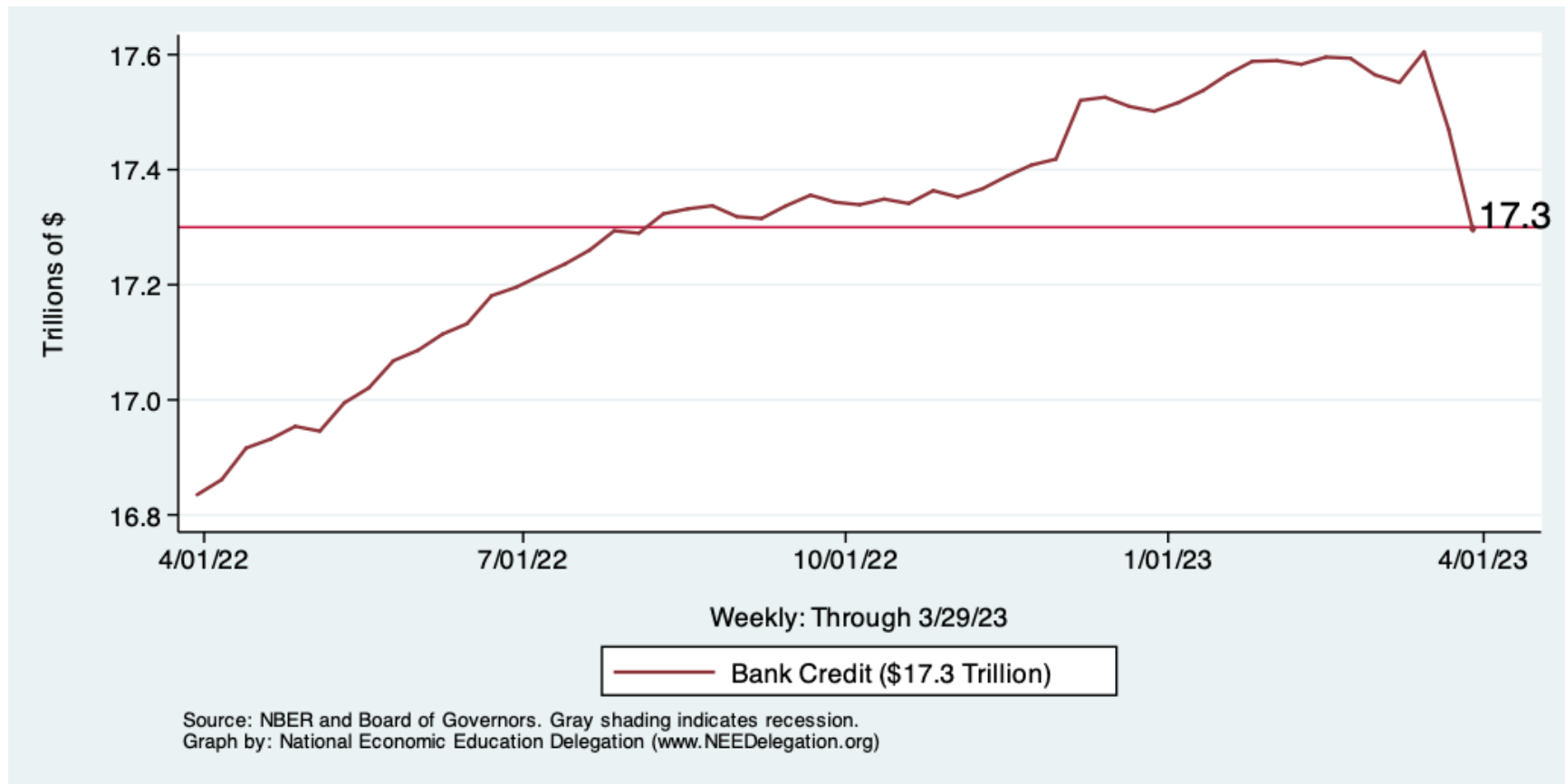
Inflation – Falling! Job is not done.



Home Prices and Housing Starts



Banking Crisis and Bank Credit



Banking Crisis has Hit Commercial Loans

