



Economic Update US & Santa Cruz County

Economic Forum
Santa Cruz Chamber of Commerce
& UC Santa Cruz

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NEED
February 15, 2023



**NATIONAL ECONOMIC
EDUCATION DELEGATION**

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Outline

- Economic Indicators
- Inflation/Federal Reserve
- The Local Economy

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Economic Indicators

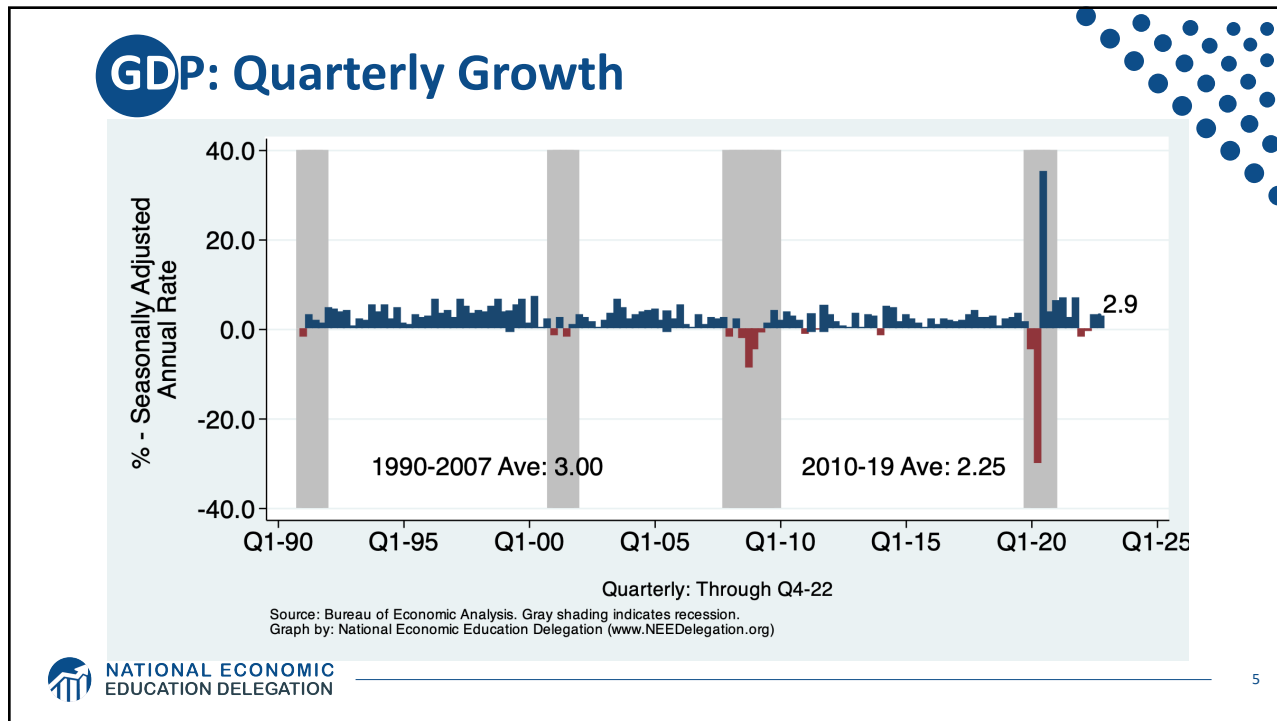
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Headline:

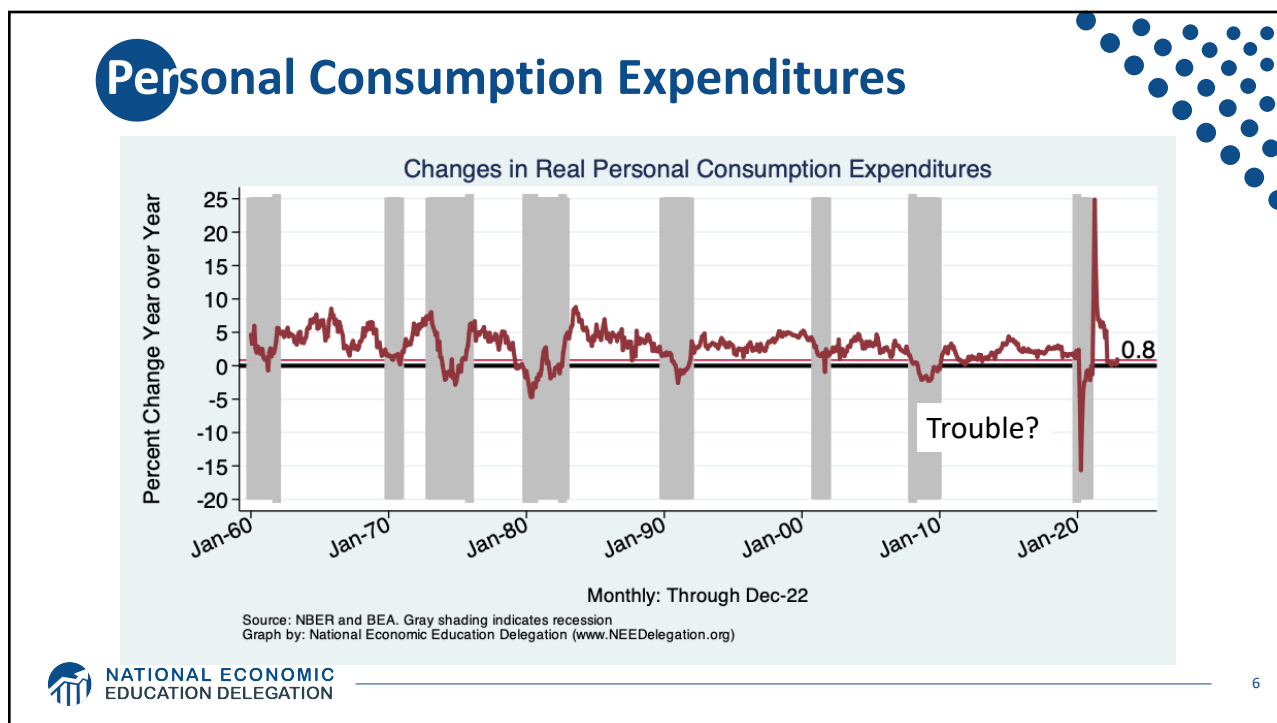
G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- 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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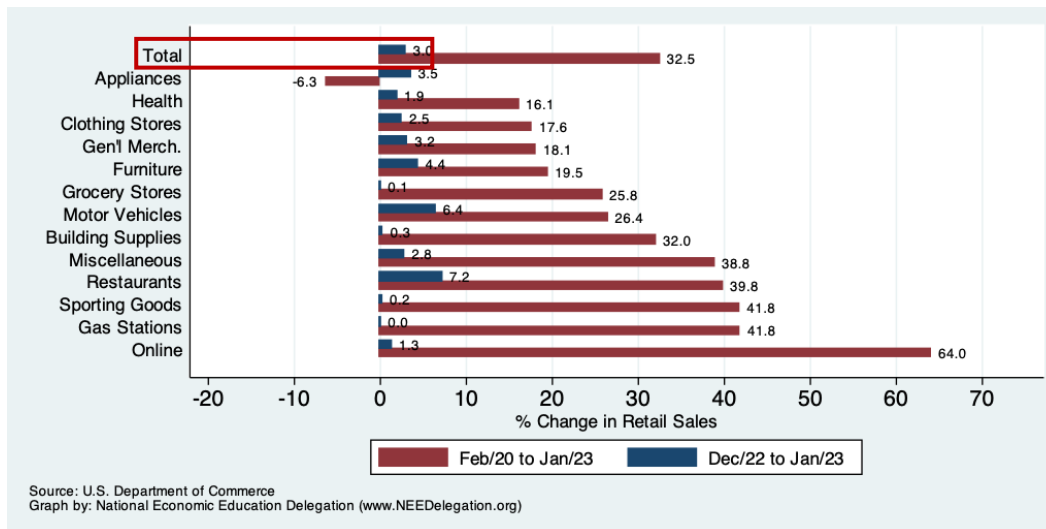


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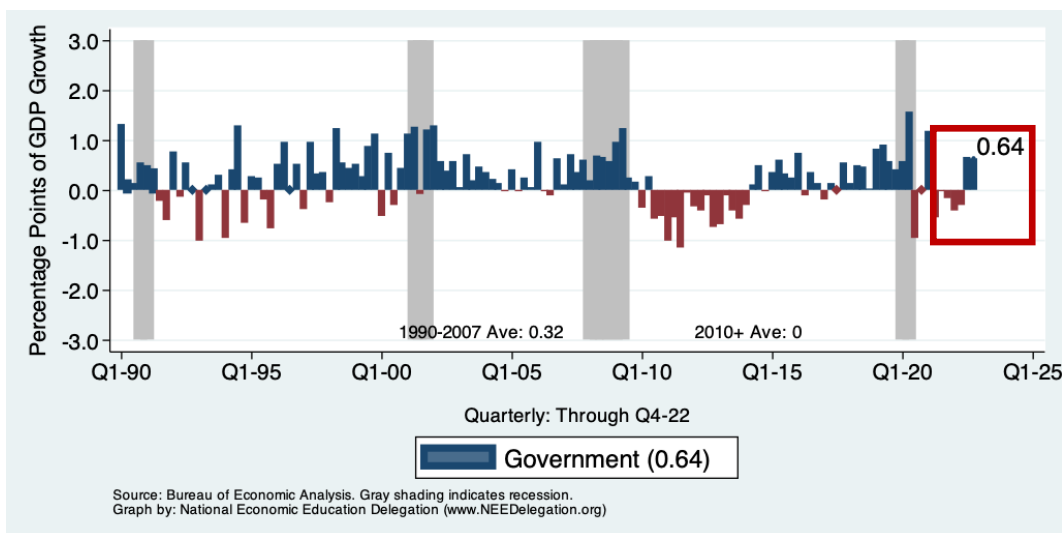
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Retail Sales Rose 3% in January



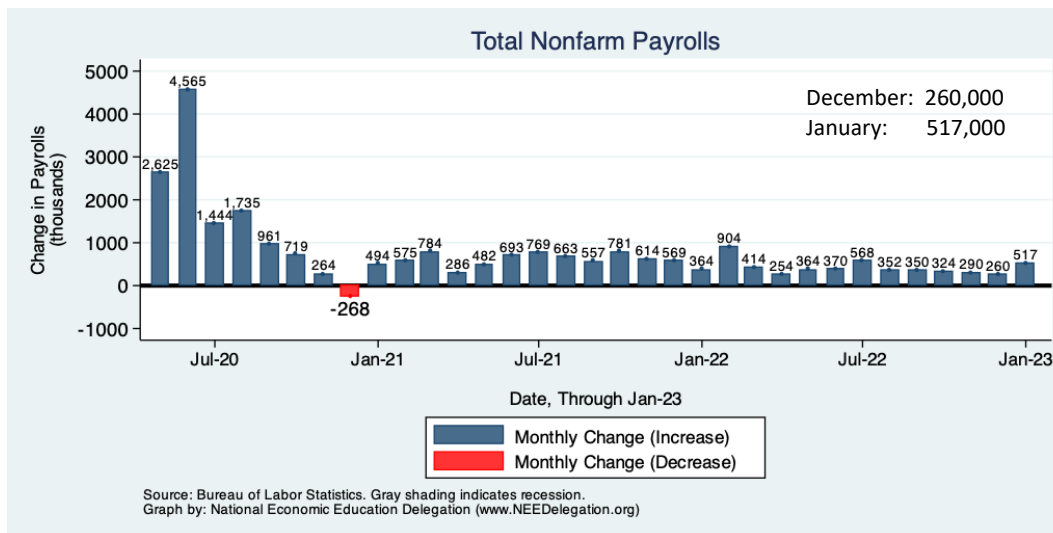
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Contributions to GDP: Government

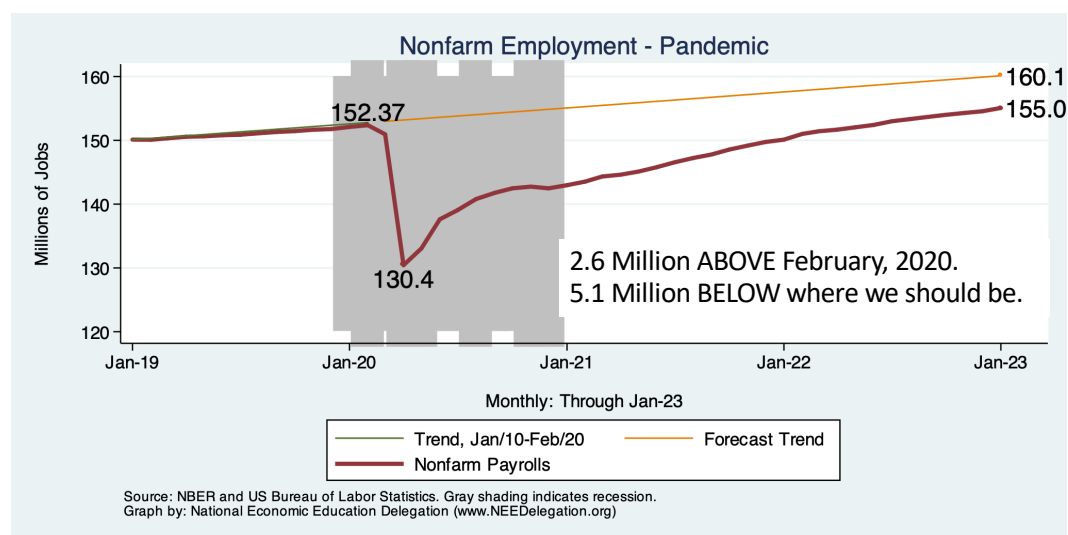


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Monthly Changes in Nonfarm Employment

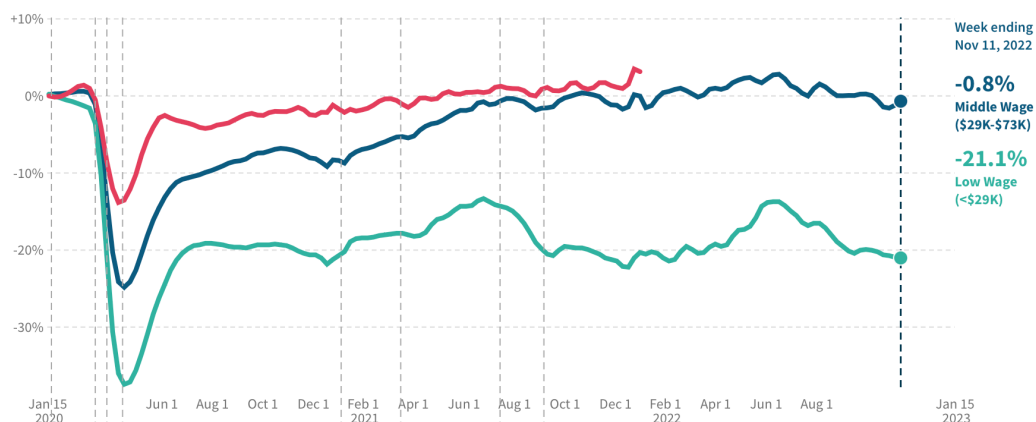


Employment Gap



Low Wage Employment is Lagging

In **the United States**, as of November 11, 2022, employment rates among workers in the middle wage quartiles decreased by **0.8%** compared to January 2020 (not seasonally adjusted).



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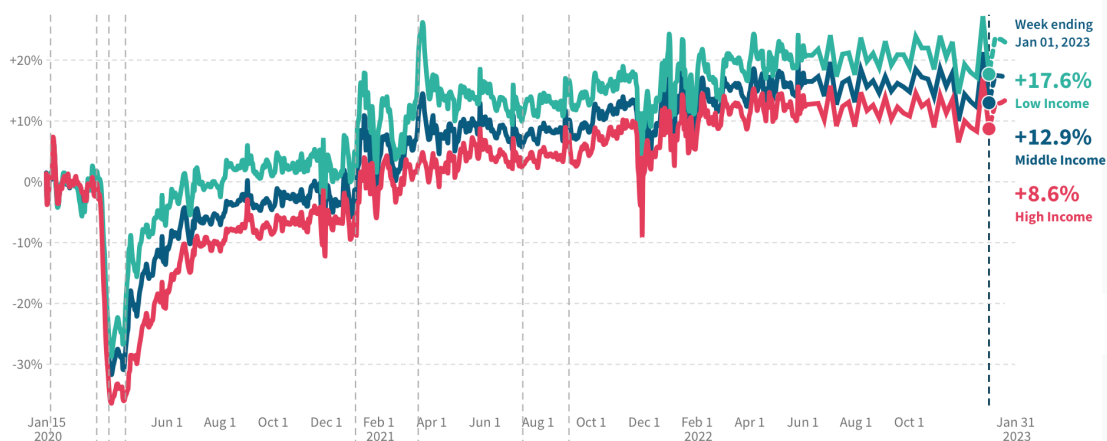
Source: <https://tracktherecovery.org>

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Low Wage Spending is NOT!

In **the United States**, as of January 01, 2023, total spending by middle-income consumers increased by **12.9%** compared to January 2020.



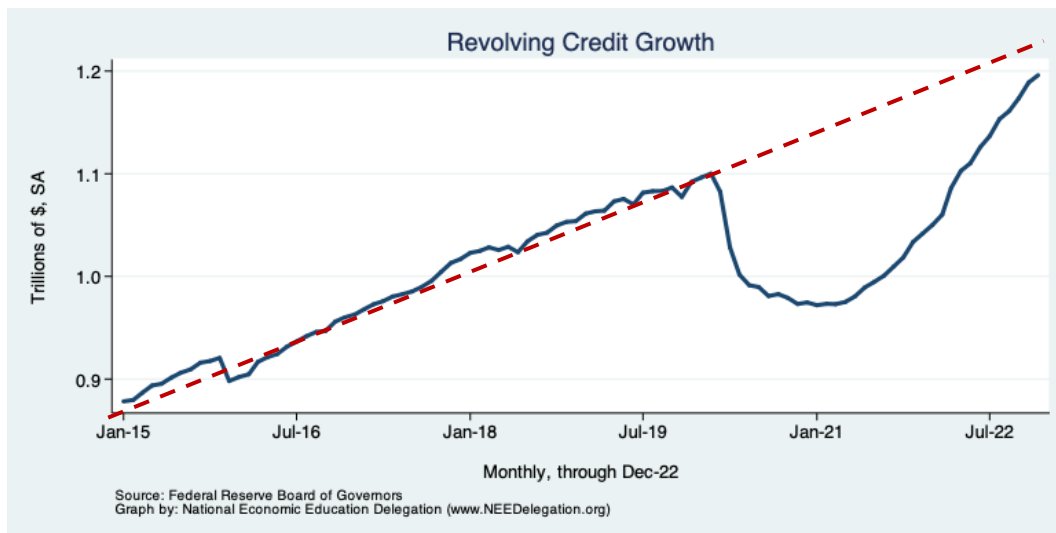
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Source: <https://tracktherecovery.org>

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Now is Borrowing on Credit

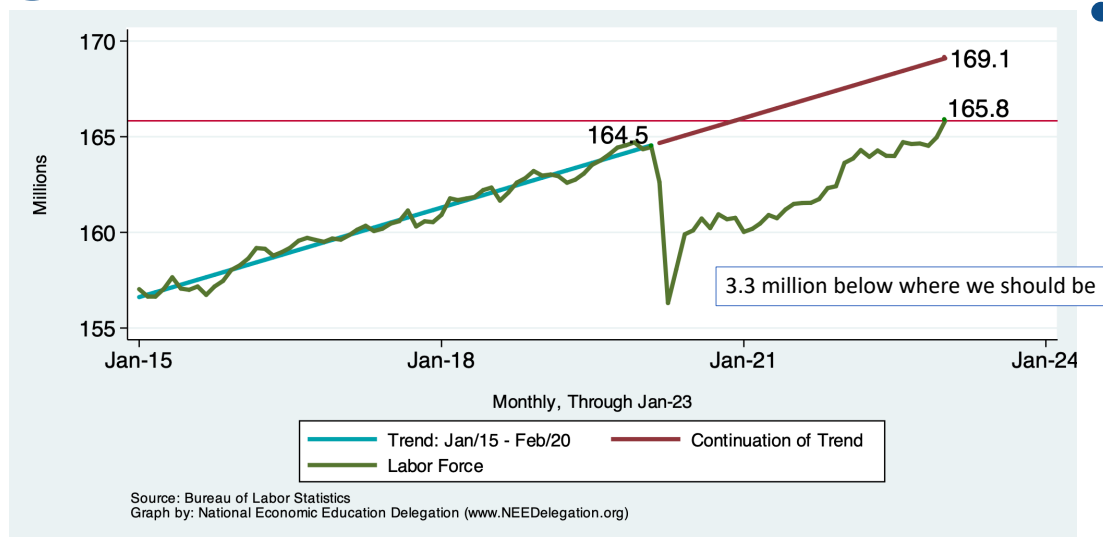


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Where Have All the Workers Gone?

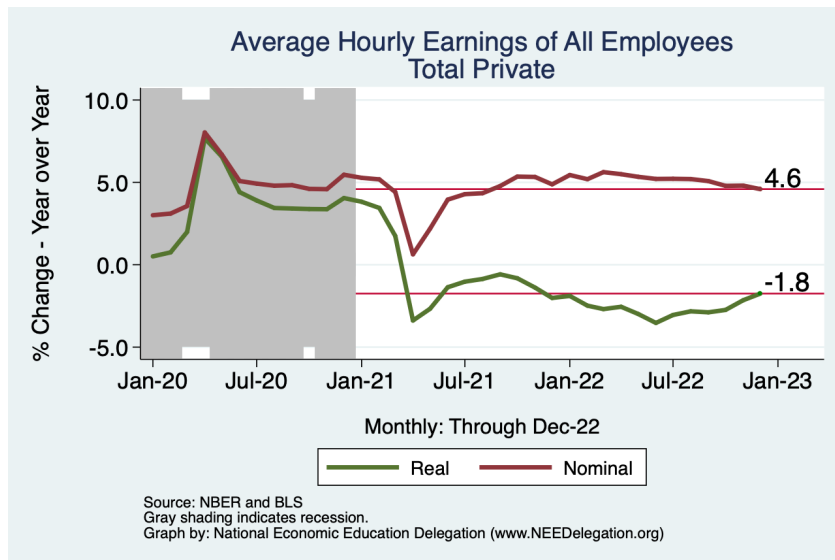


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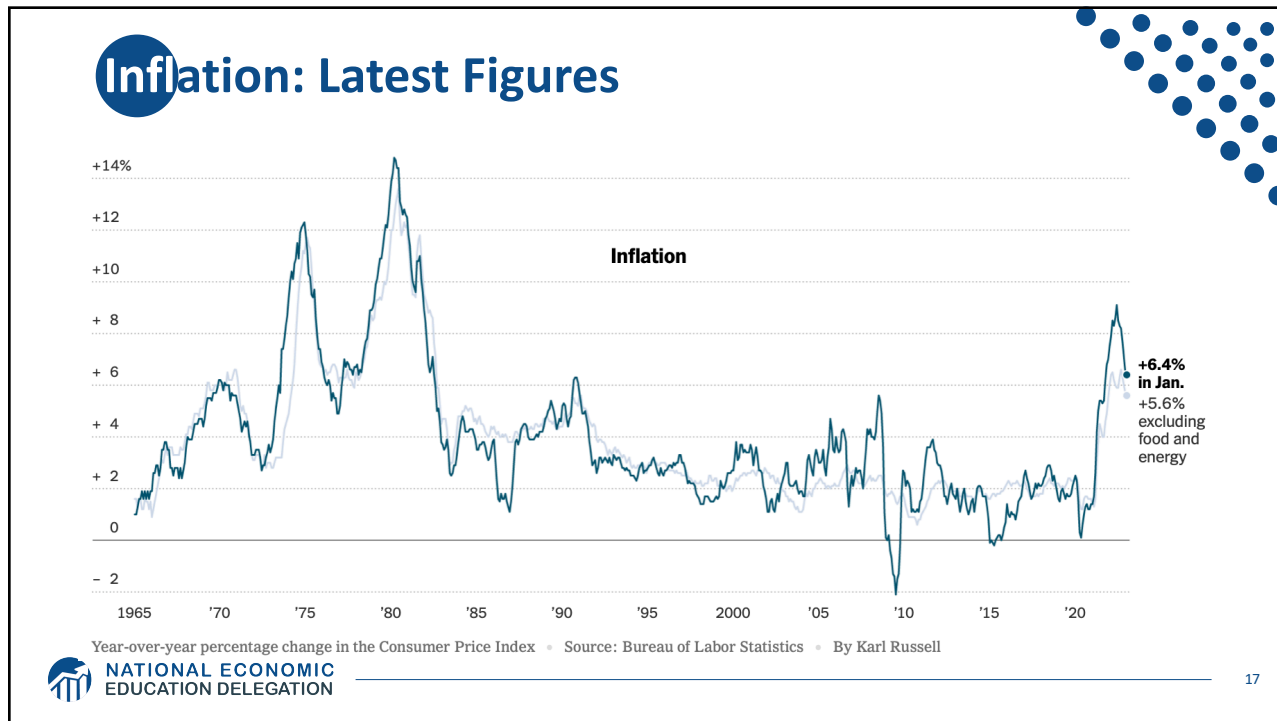
Wage Growth



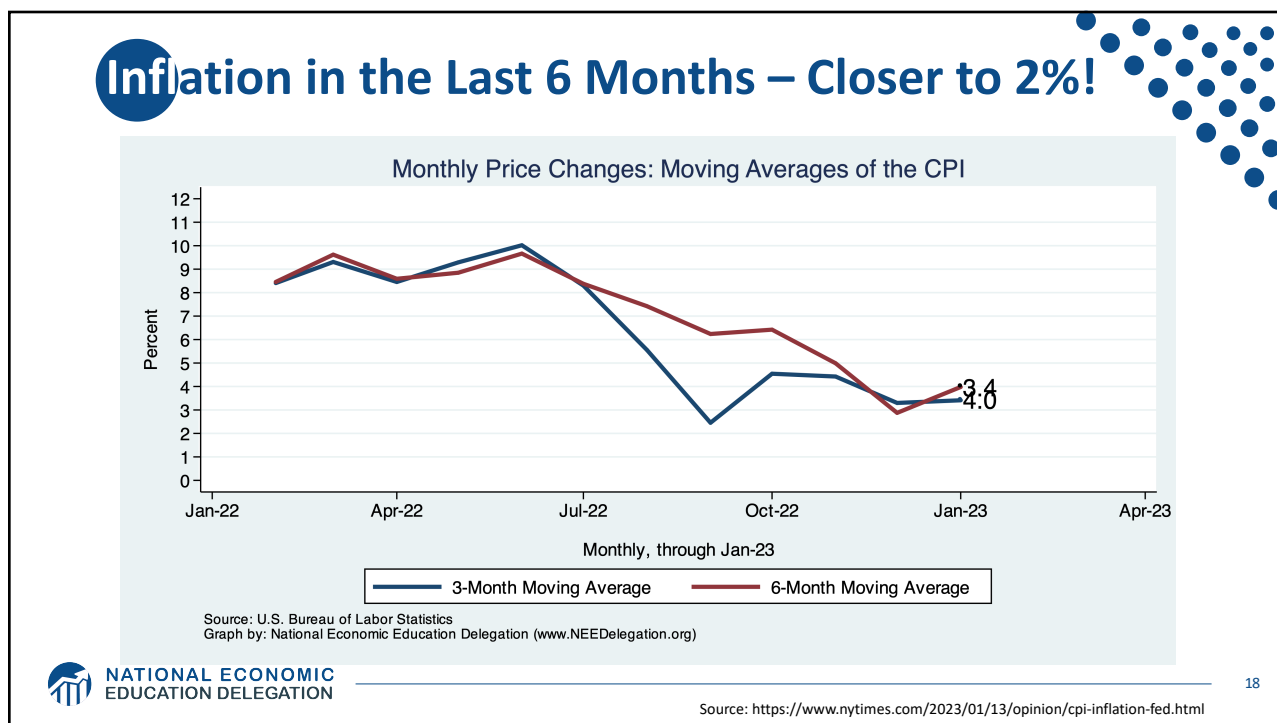
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Inflation

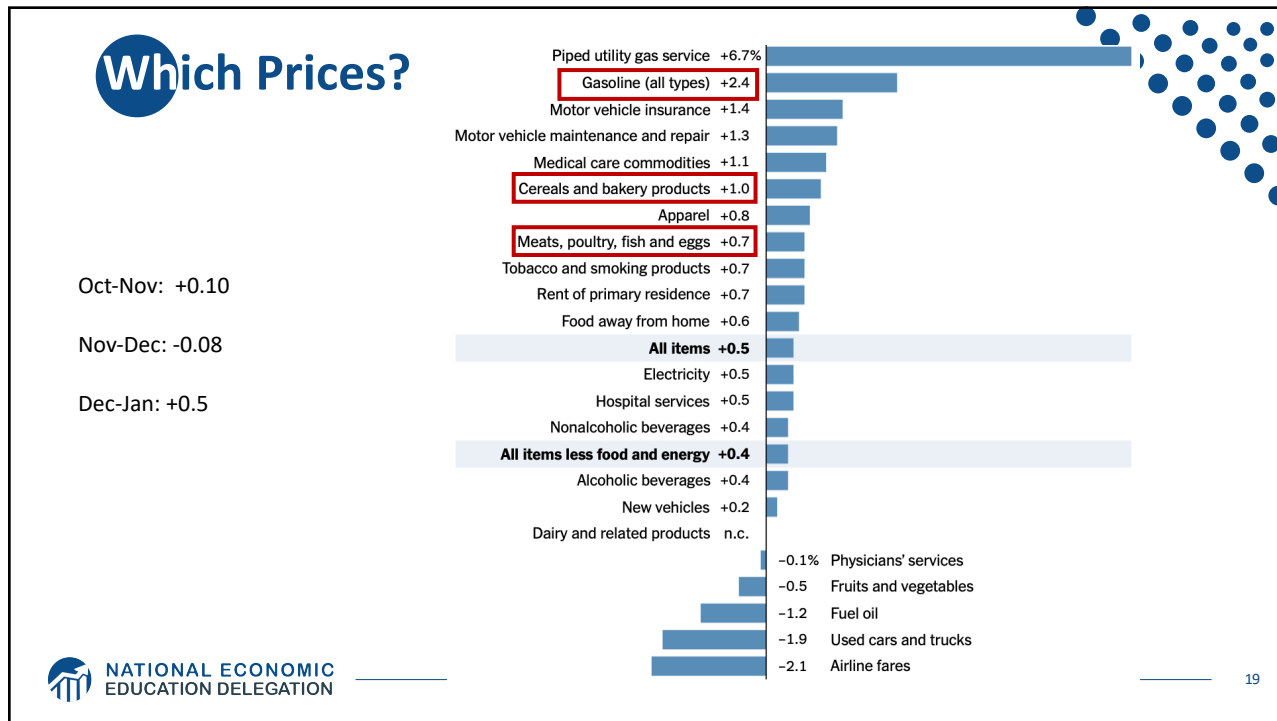
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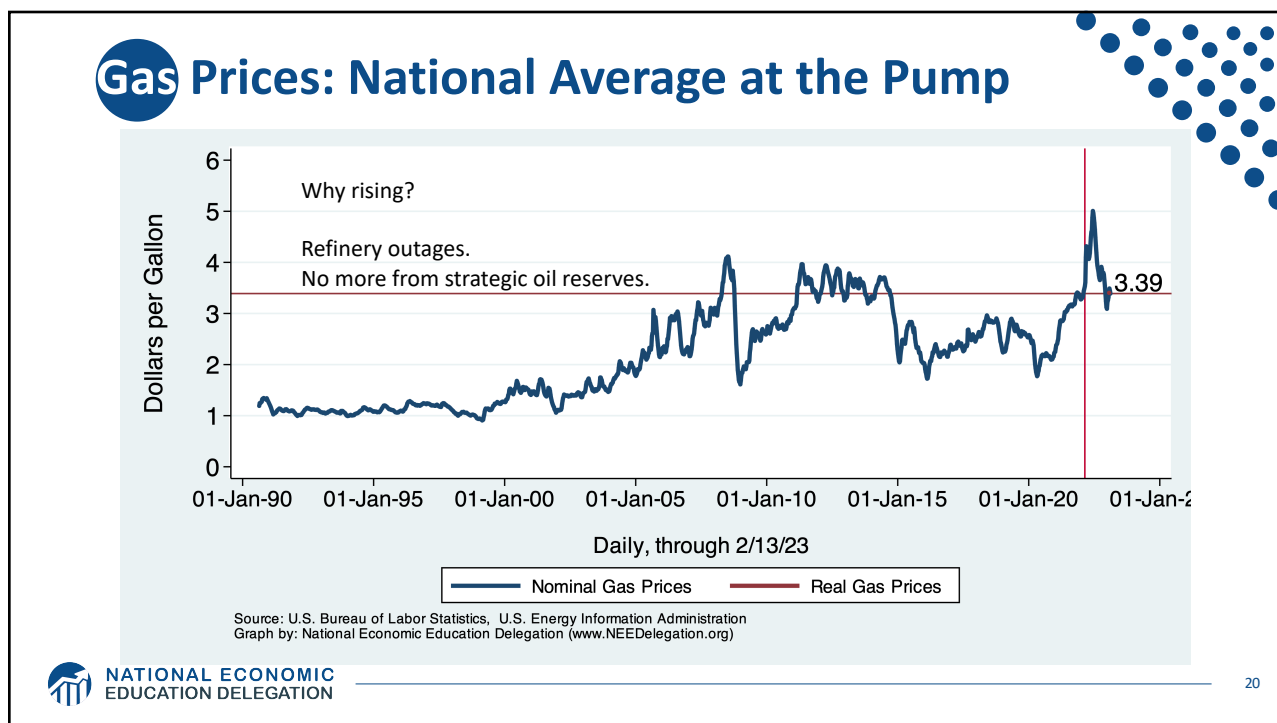
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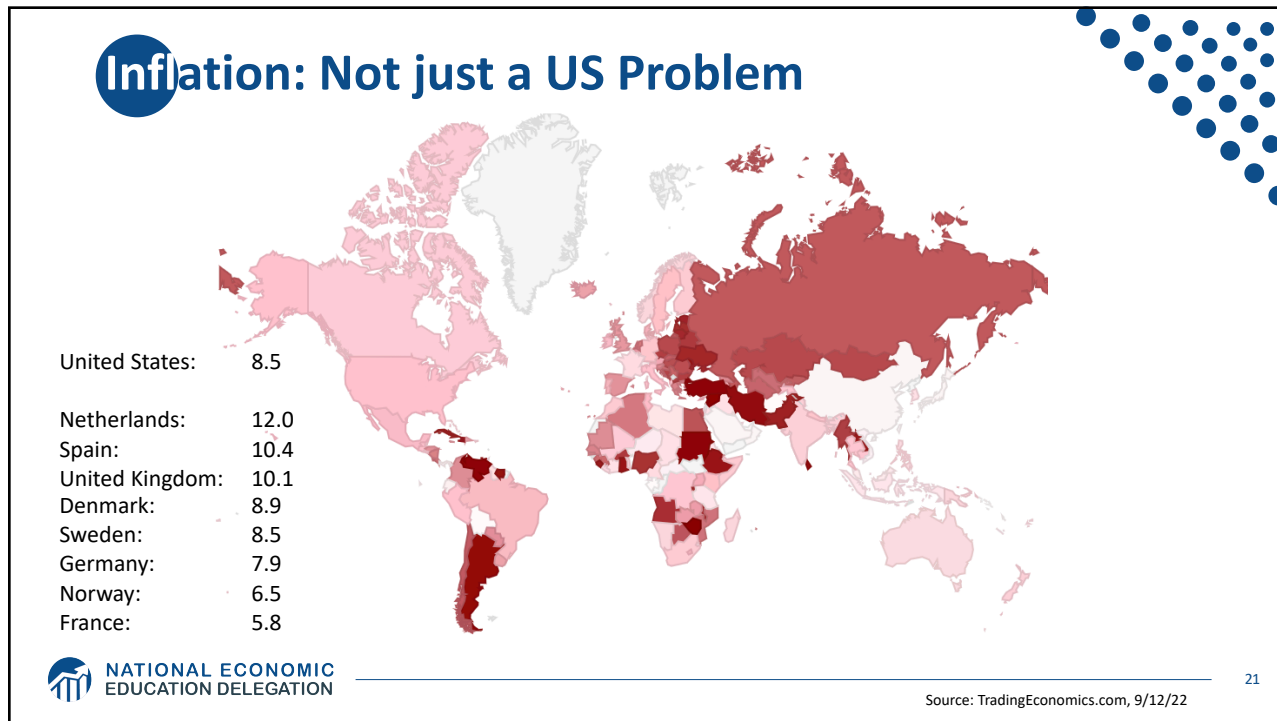
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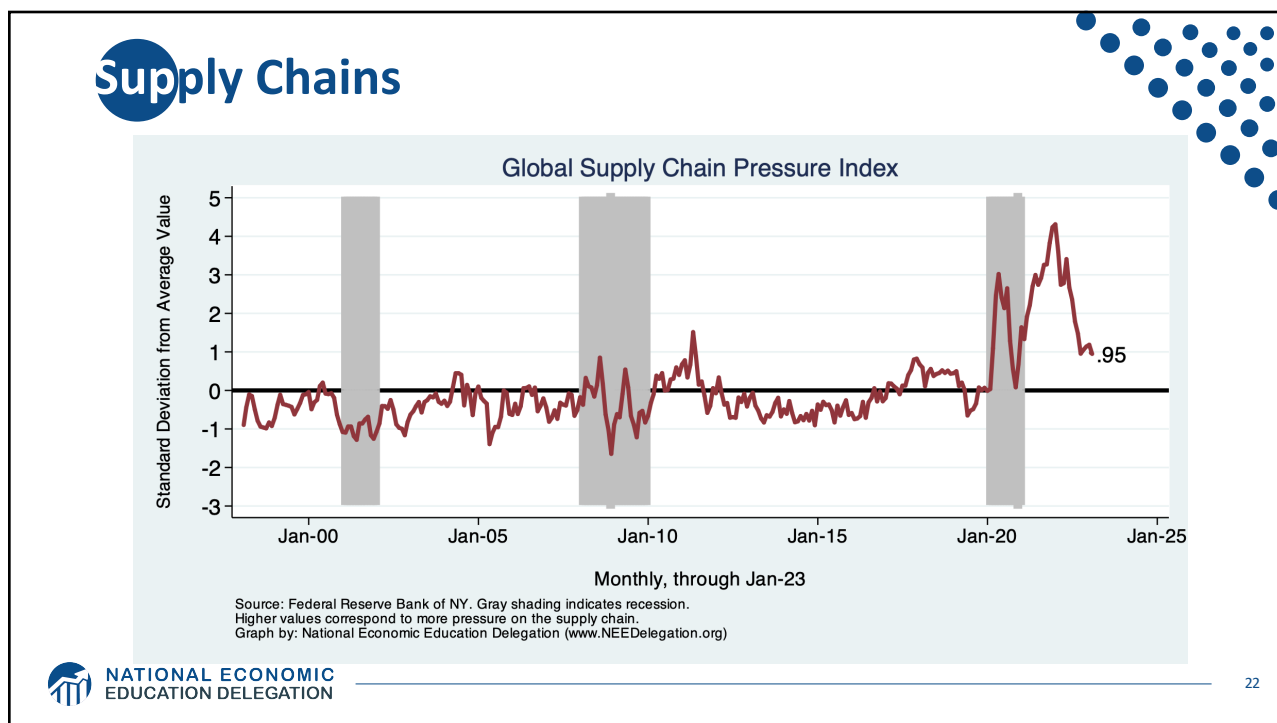
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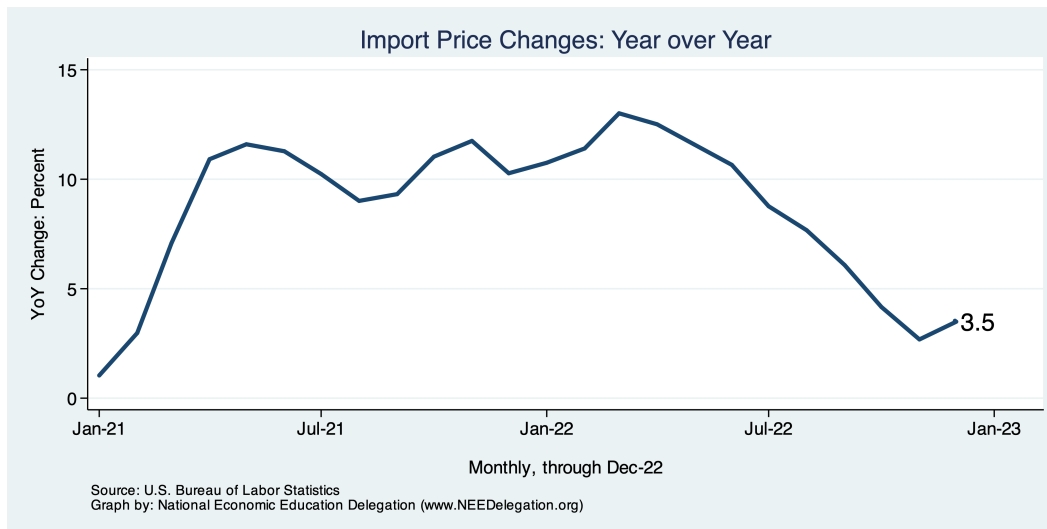


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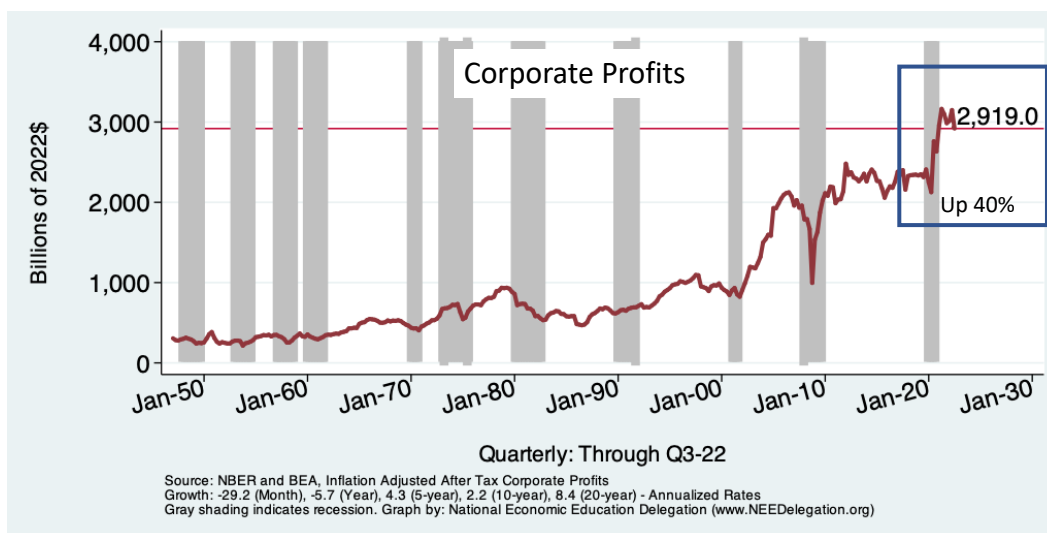
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Import Price Inflation was Very High



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Corporations Have Pricing Power!



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My Thoughts on the Sources of Inflation

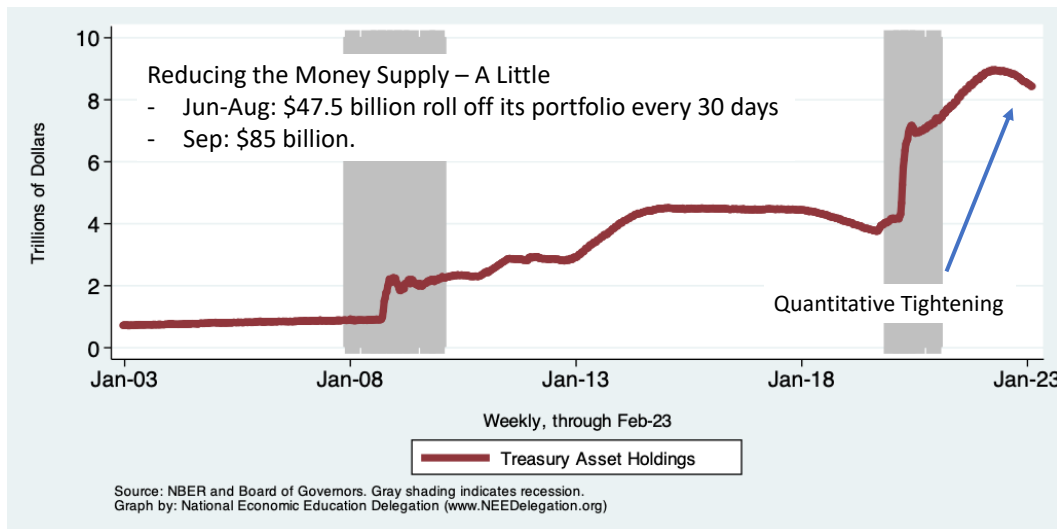
- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
 - Is now bouncing back, as are prices.
- **Corporations have used the cover of inflation to raise prices more.**
- **But there was too much total spending.**
 - Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- **Whose 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

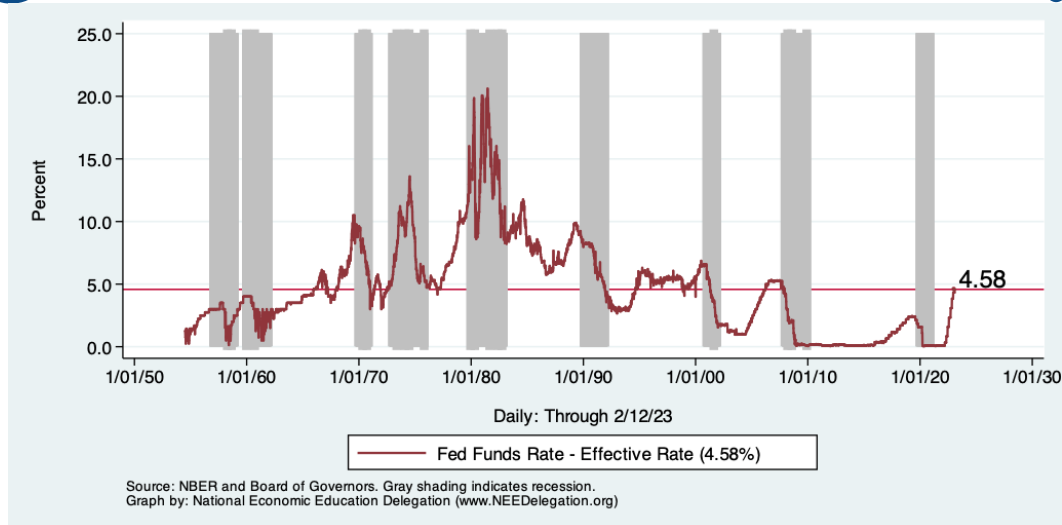


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Raising the Federal Funds Rate



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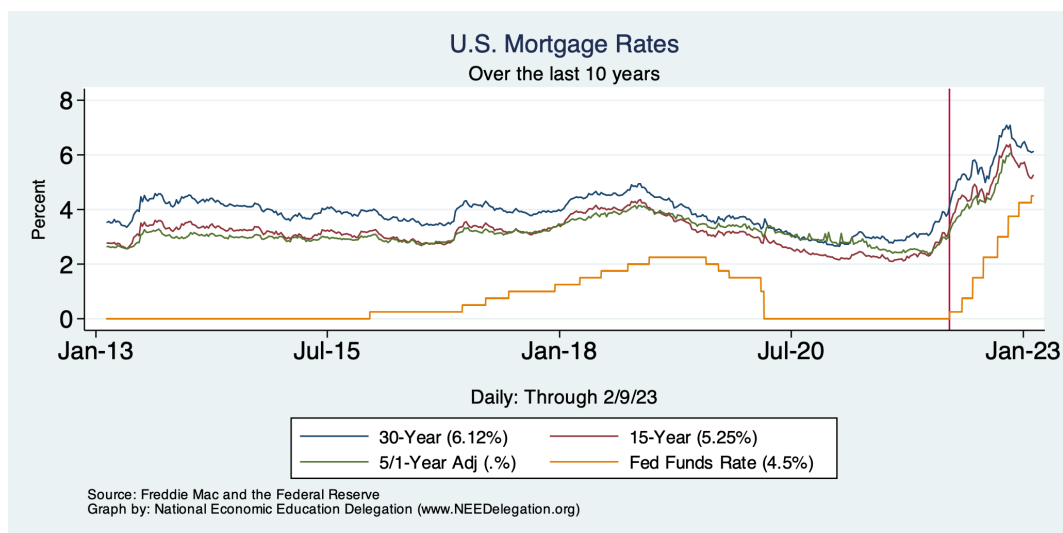
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Implications for Demand

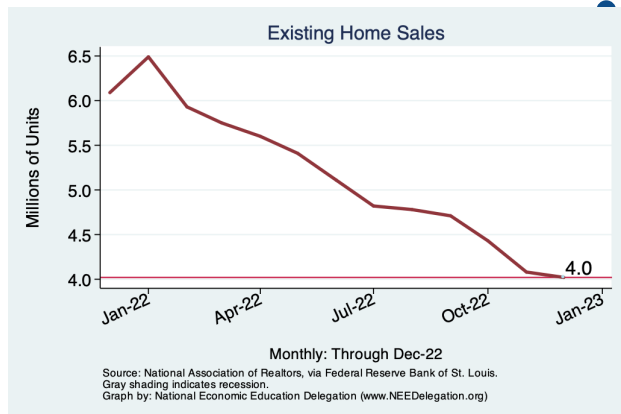
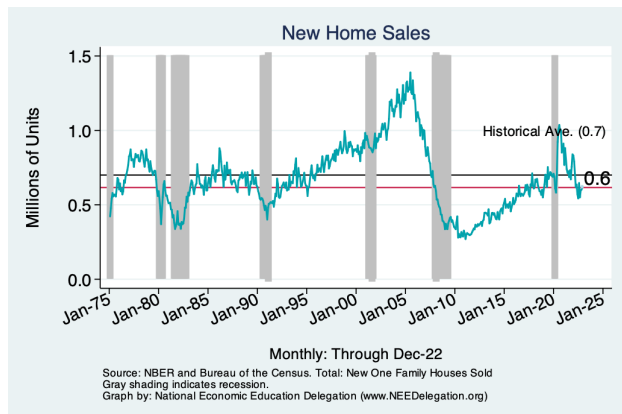
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

- All of which slows the economy.

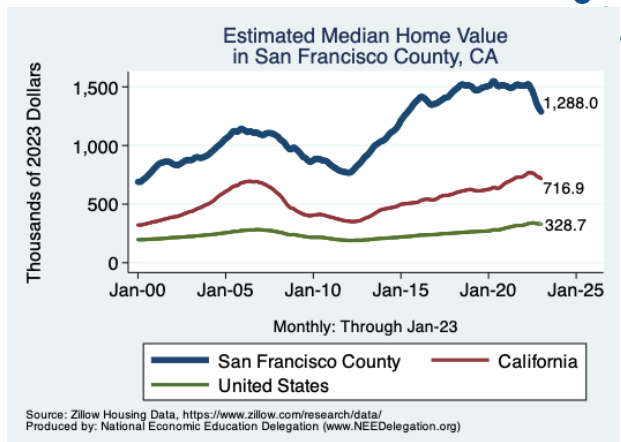
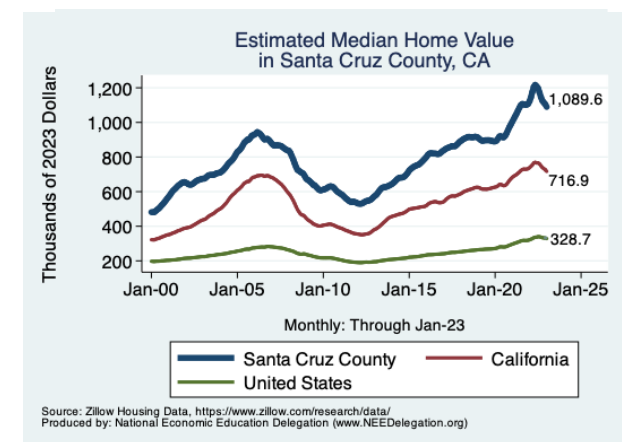
Mortgage Rates



Home Sales Falling



Home Prices ... Falling Throughout CA



Takeaways

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

- Perhaps, but no reason to think that it will be anything more than shallow.
- Many indicators are still in the black.
 - o 2022-Q4 GDP growth was pretty good!

- **Threats to continued growth:**

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

- **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.



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Santa Cruz Economy

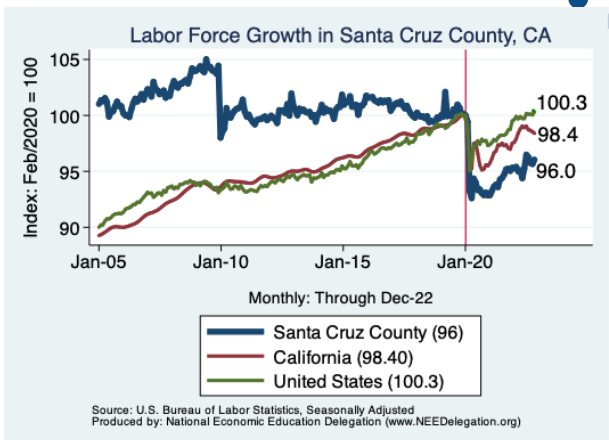
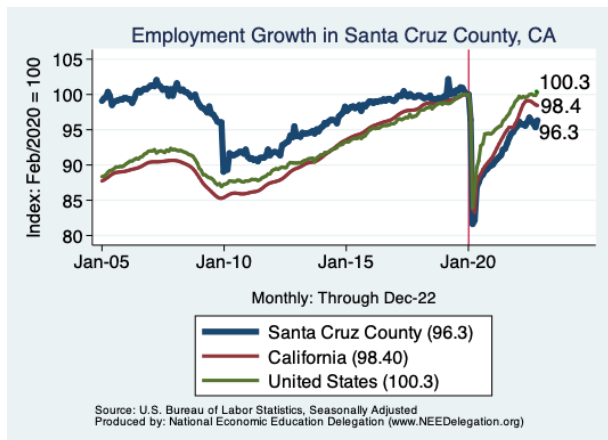


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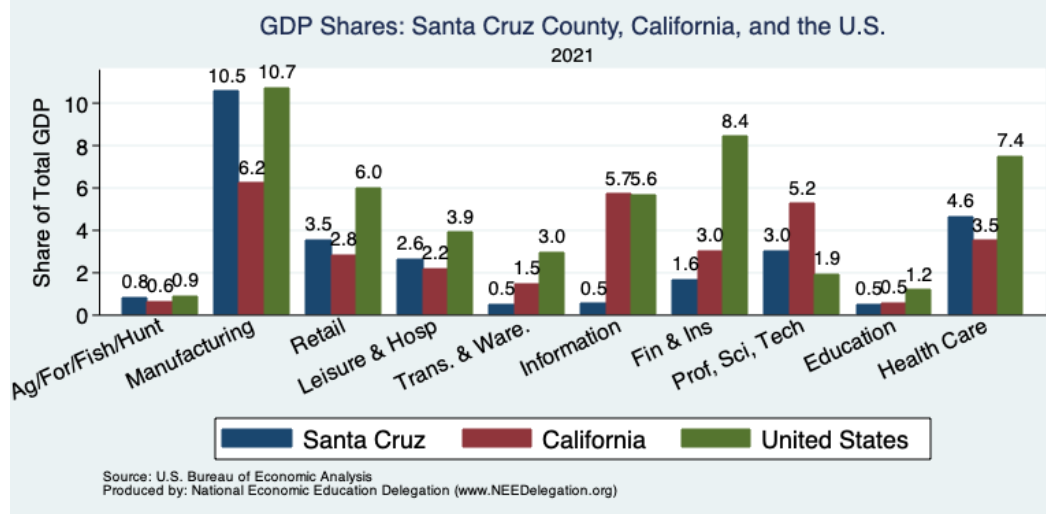
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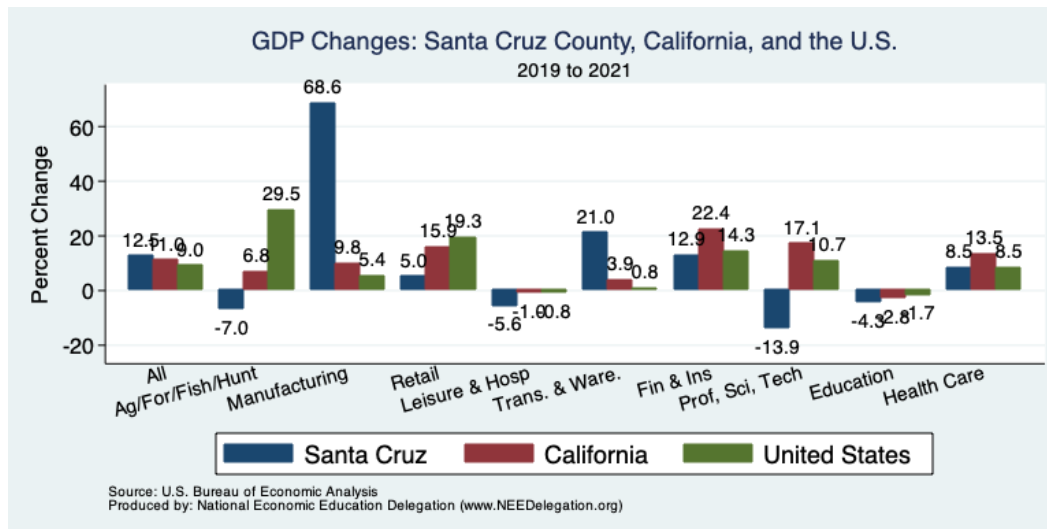
Employment in Santa Cruz County?



Santa Cruz Economy: GDP



The Pandemic Effect: GDP

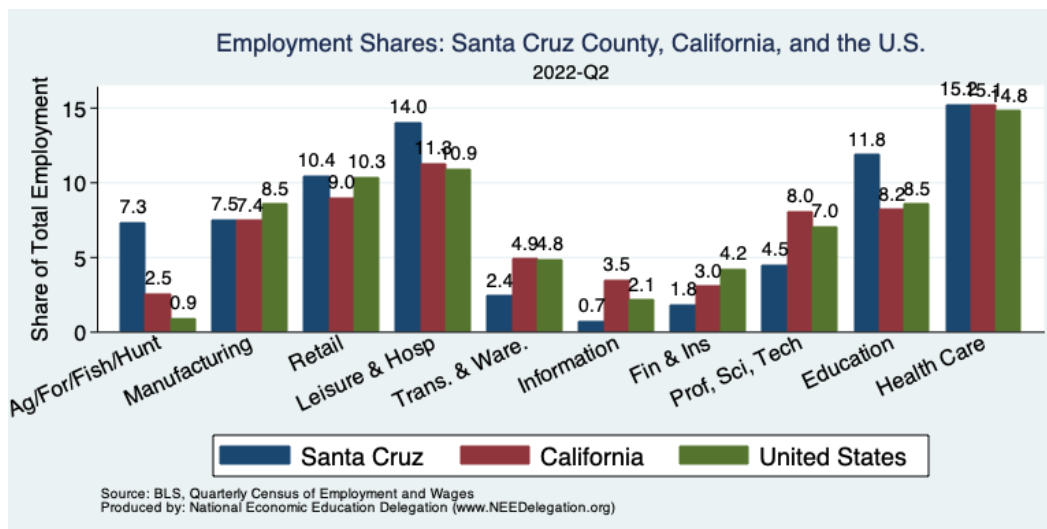


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Santa Cruz Economy: Employment

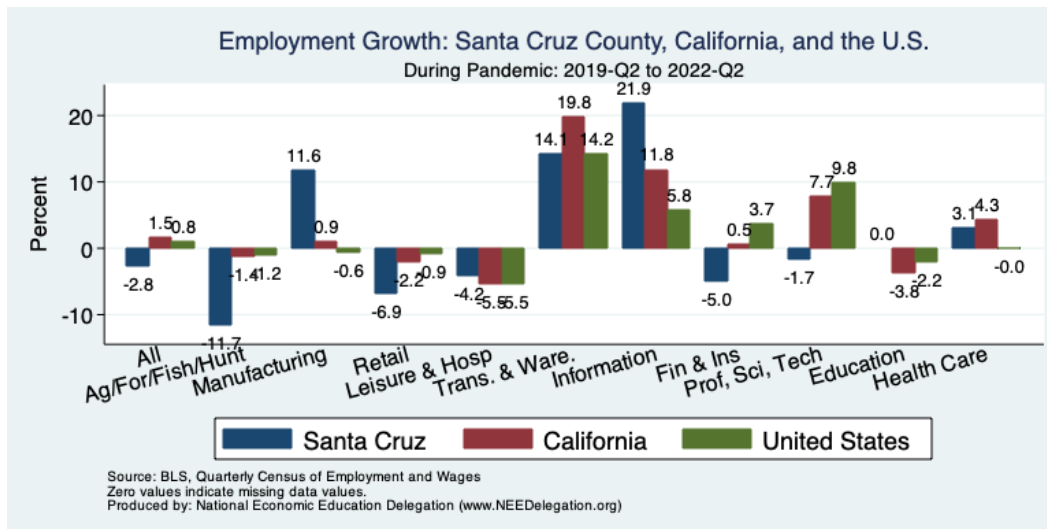


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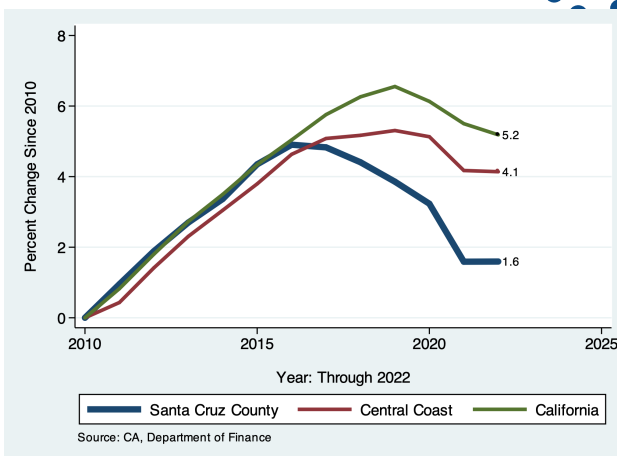
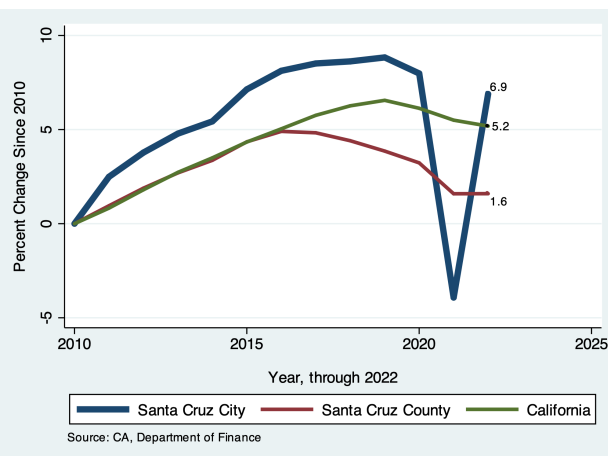
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The Pandemic Effect: Employment



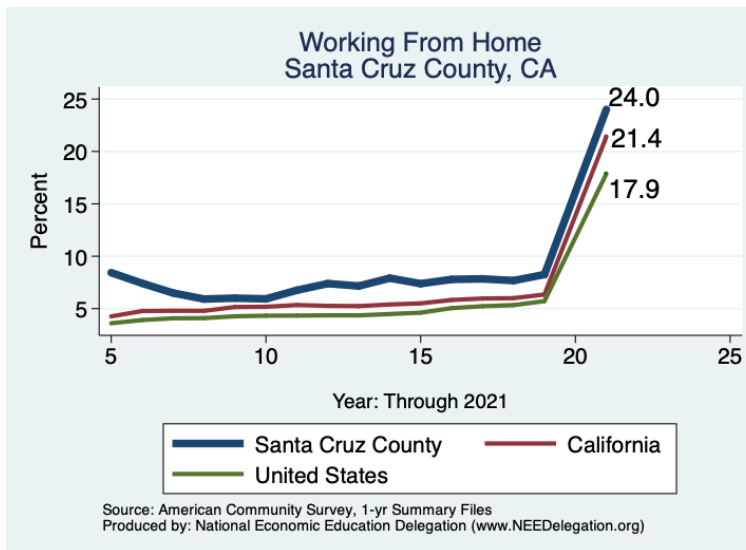
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Local Population Change



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Working From Home



Santa Cruz County: Summary

- Home prices are falling as they are elsewhere in CA.
- Santa Cruz 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 Santa Cruz County.
- However, countywide population declines are concerning.

Thank you!

Any Questions?

www.NEEDelegation.org

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Jon@NEEDelegation.org

Contact NEED: info@NEEDelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php



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Existential Threat: Coming This June!



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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.



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Source: <https://www.brookings.edu/2023/01/19/7-things-to-know-about-the-debt-limit/>

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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!



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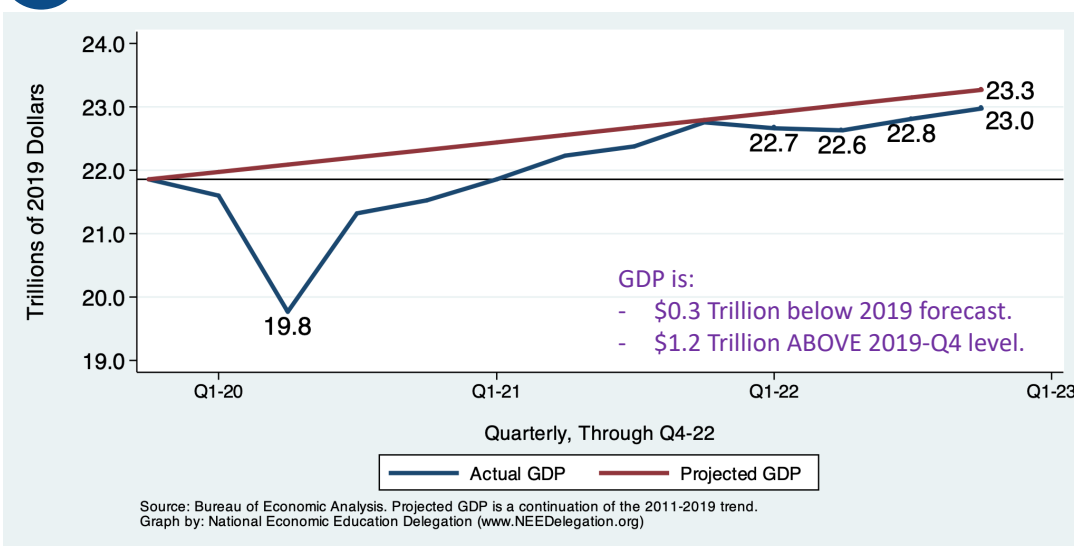
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www.NEEDelegation.org/LocalGraphs

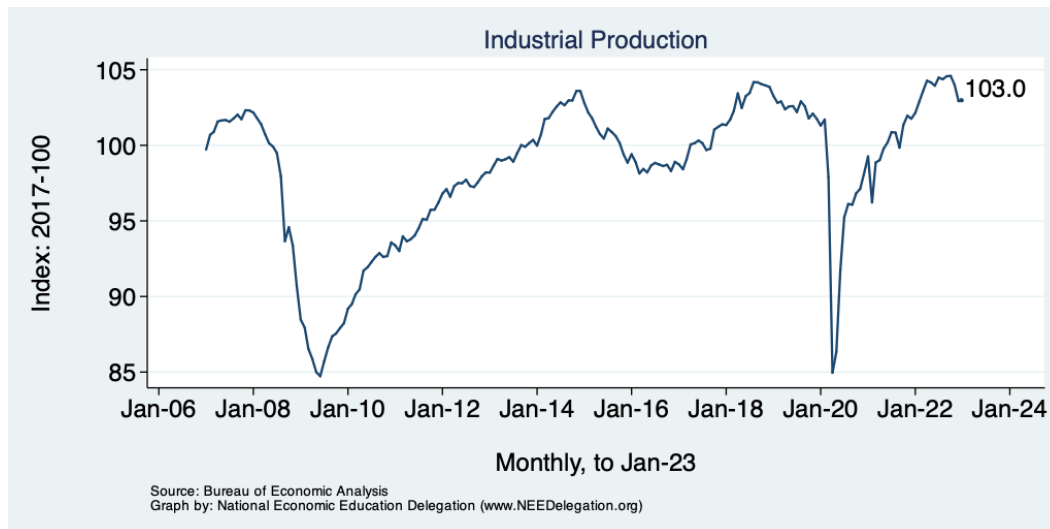
For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.



GDP Trajectory: Pandemic Plunge!



Industrial Production (Manuf, Util, Mining)

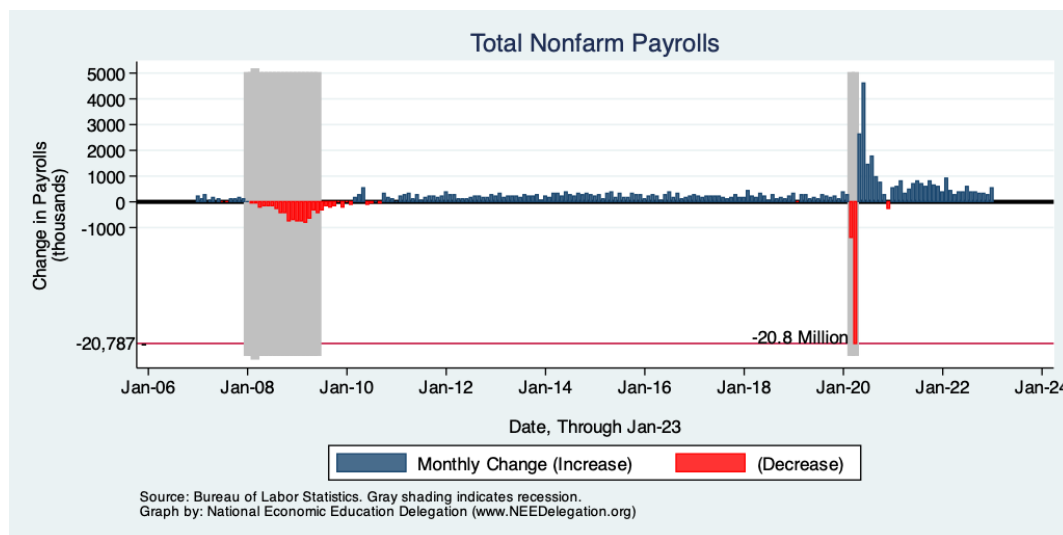


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Monthly Changes in Nonfarm Employment

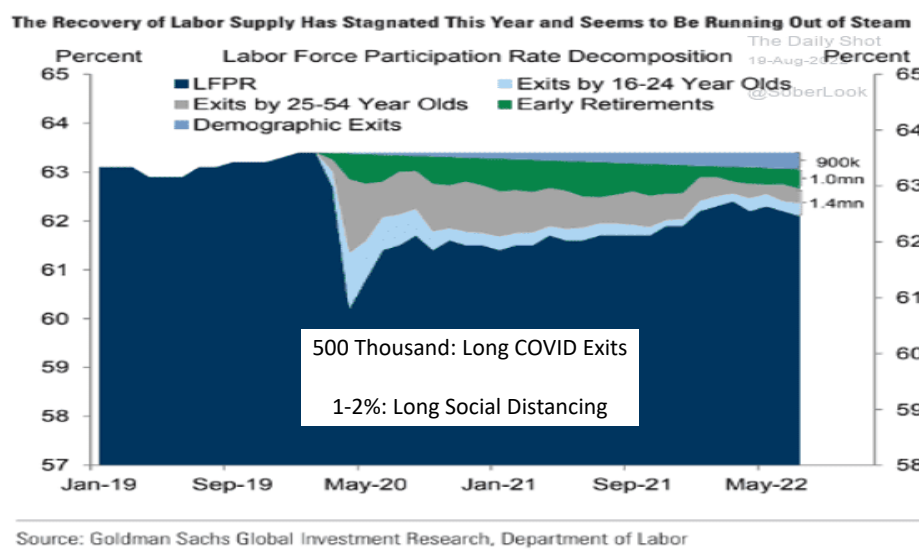


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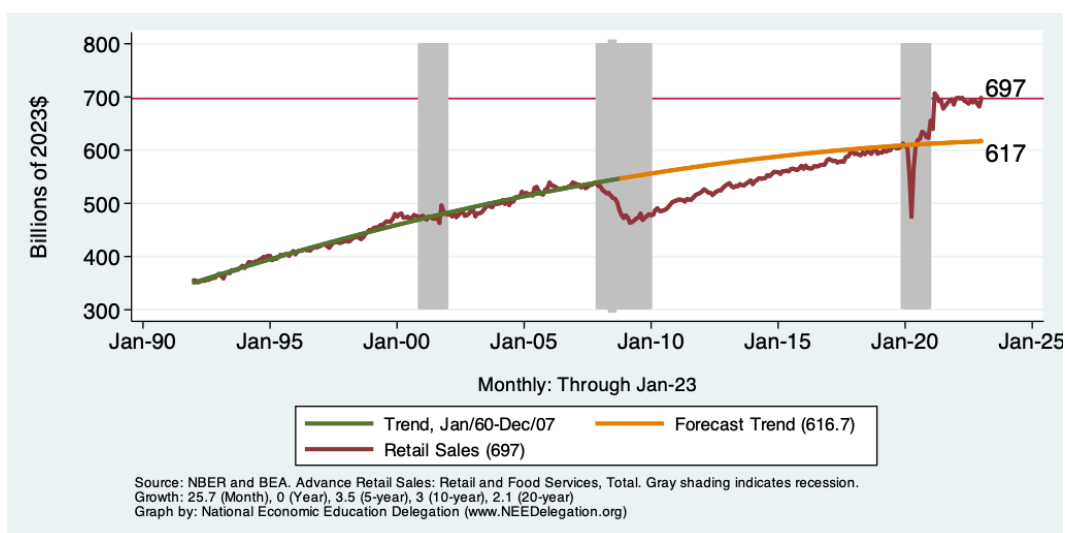
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Some Explanations



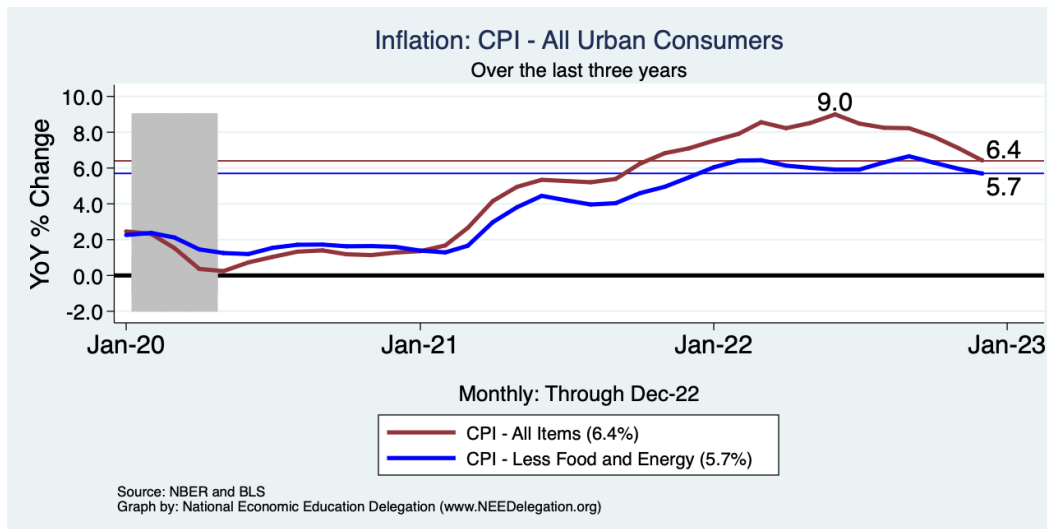
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But SUPER High to Begin With!



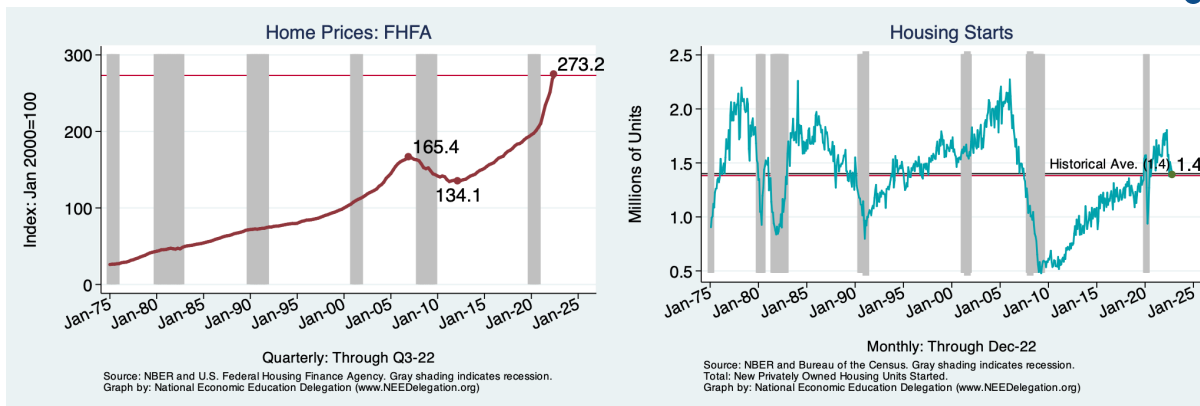
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Inflation – Falling! Job is not done.



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Home Prices and Housing Starts



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