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It's Different This Time: Economic Outlook 2020-2021

San Gabriel Valley Economic Partnership

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Outline

- US Economy
 - Contraction followed by start of recovery
 - What letter? How long?
 - California
 - Local and Regional
 - Housing
 - Conclusion: Going forward
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U.S. Economy

What's Happening Now?

IT'S DIFFERENT THIS TIME!

Jerome Powell, Chairman, Federal Reserve Bank:

"...an economic downturn without modern precedent."



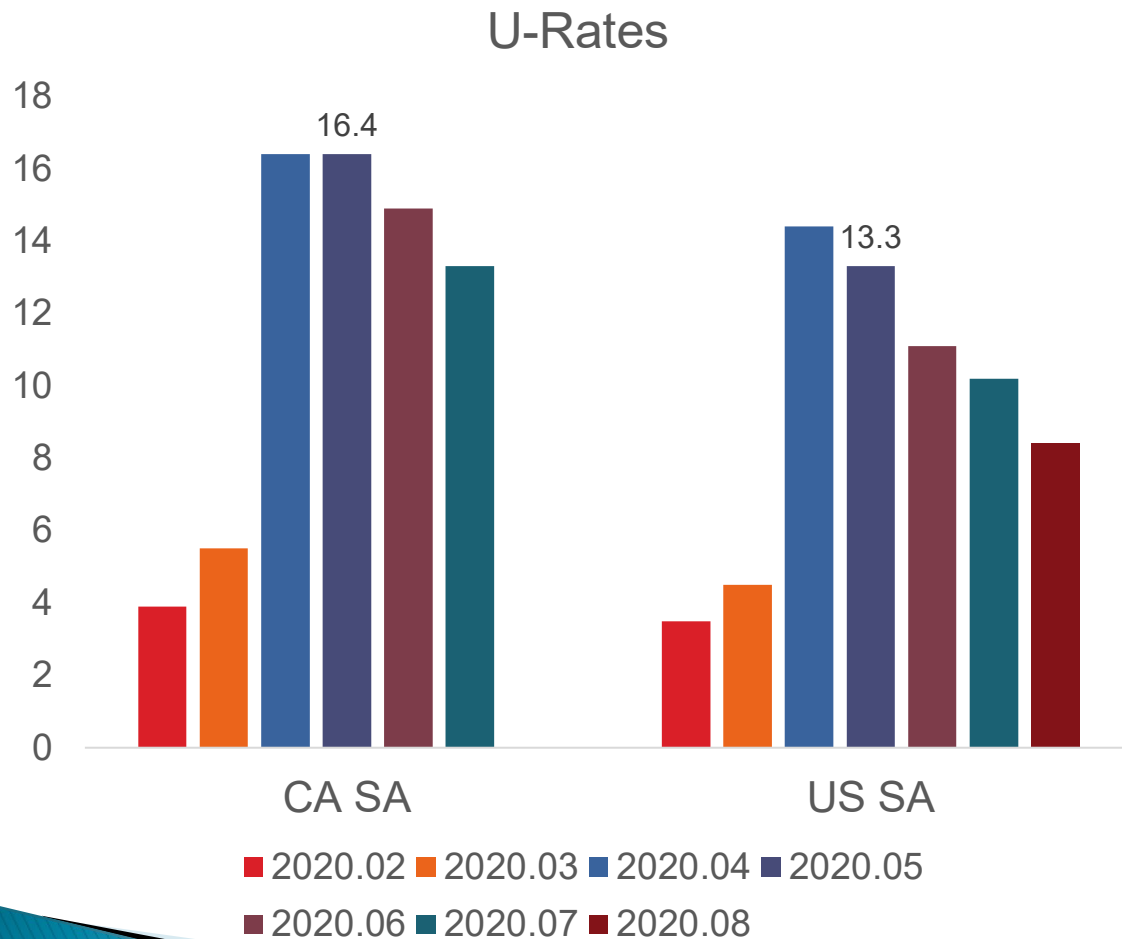
What's Happening Now?

- ▶ Pulse = Labor Market
- ▶ Heartbeat = GDP
- ▶ Blood Pressure = Inflation
- ▶ Treatment = Fiscal and Monetary Policy

Looking for bright spots? ...

> > Objective look at economy reveals good as well as bad.

Pulse: Unemployment Rates High But Falling



- ▶ Hardest hit: face-to-face
 - Leisure & Hospitality (restaurants, hotels, entertainment)
 - Retail (clothing stores)
 - Health Care and Social Assistance (MD/DDS offices, child day care, etc.)
 - Other Services (personal care salons, nonprofits)
- ▶ Workers and small businesses/self-employed
- ▶ Most layoffs temporary, but permanent share edging up

US Industry Impacts Vary

Industry (jobs in 000s)	Feb-20	COV Feb- Trough	COV % Feb- Trough	Now - Trough	% of Loss Recovered	Now % of Feb
Total nonfarm	152,463	-22,160	-15%	10,611	48%	92%
Leisure and hospitality	16,867	-8,318	-49%	4,179	50%	75%
Mining and logging	714	-61	-9%	-36	-59%	86%
Information	2,894	-285	-10%	-27	-9%	89%
Administrative and waste services	9,395	-1,643	-17%	649	40%	89%
Other services	5,941	-1,370	-23%	839	61%	91%
Educational services	3,829	-511	-13%	212	42%	92%
Real estate and rental and leasing	2,359	-235	-10%	66	28%	93%
Transportation and warehousing	5,678	-570	-10%	189	33%	93%
Manufacturing	12,852	-1,363	-11%	643	47%	94%
Health care and social assistance	20,758	-2,270	-11%	1,111	49%	94%
Construction	7,639	-1,083	-14%	658	61%	94%
Wholesale trade	5,934	-397	-7%	69	17%	94%
Management of companies and enterprises	2,447	-92	-4%	-18	-19%	96%
Retail trade	15,672	-2,384	-15%	1,729	73%	96%
Professional and technical services	9,708	-561	-6%	189	34%	96%
Government	22,745	-969	-4%	138	14%	96%
Utilities	546	-4	-1%	-3	-87%	99%
Finance and insurance	6,486	-44	-1%	22	50%	100%
Source: BLS, Analysis by KE						

Individual Industries in ICU*: Aug 20 jobs as share of Feb 20

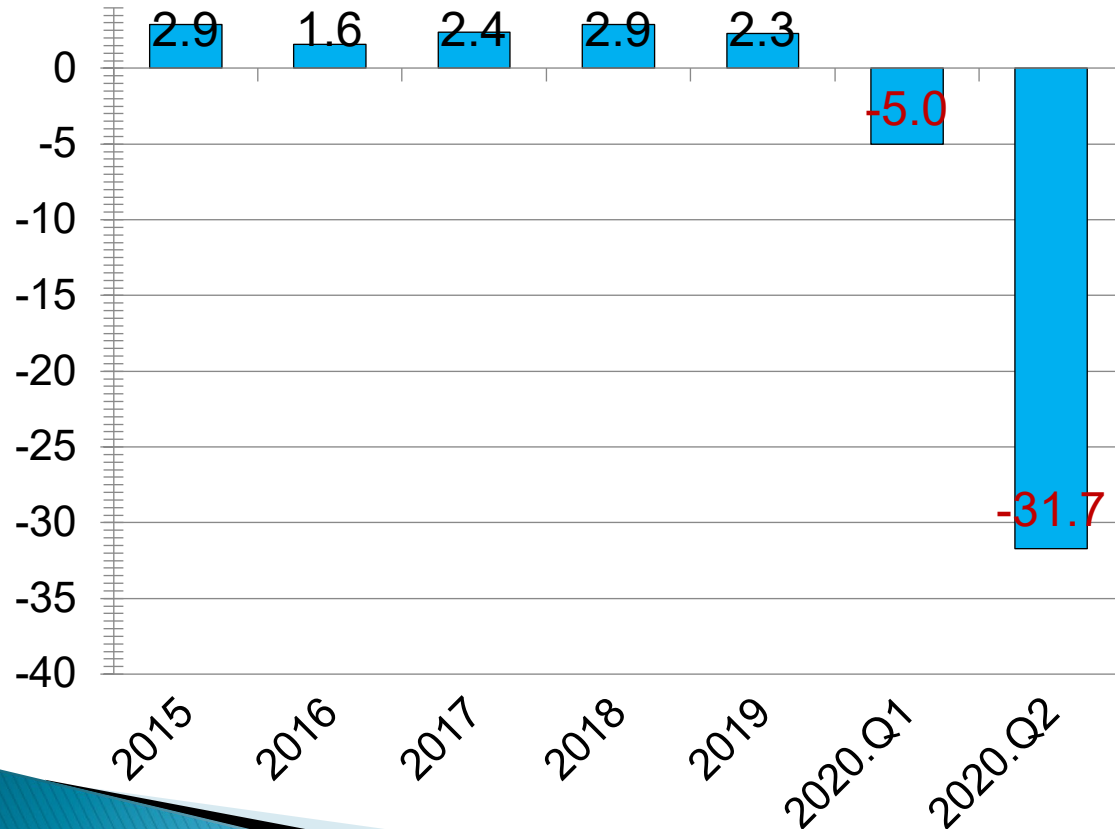
Industry	Now % of Feb
Motion picture and sound recording	50%
Scenic and sightseeing transportation	54%
Accommodation	63%
Arts, entertainment, and recreation	65%
Clothing and clothing accessories stores	71%
Air transportation	79%
Child day care services	79%
Food services and drinking places	80%
Personal and laundry services	81%

What do these industries have in common?

*Intensive Care Unit

Heartbeat: GDP H1-20 H2020 (Q3 est: +26%)

**Annual Gross Domestic Product
YTY % Change**



Contributions to Change in GDP by Quarter

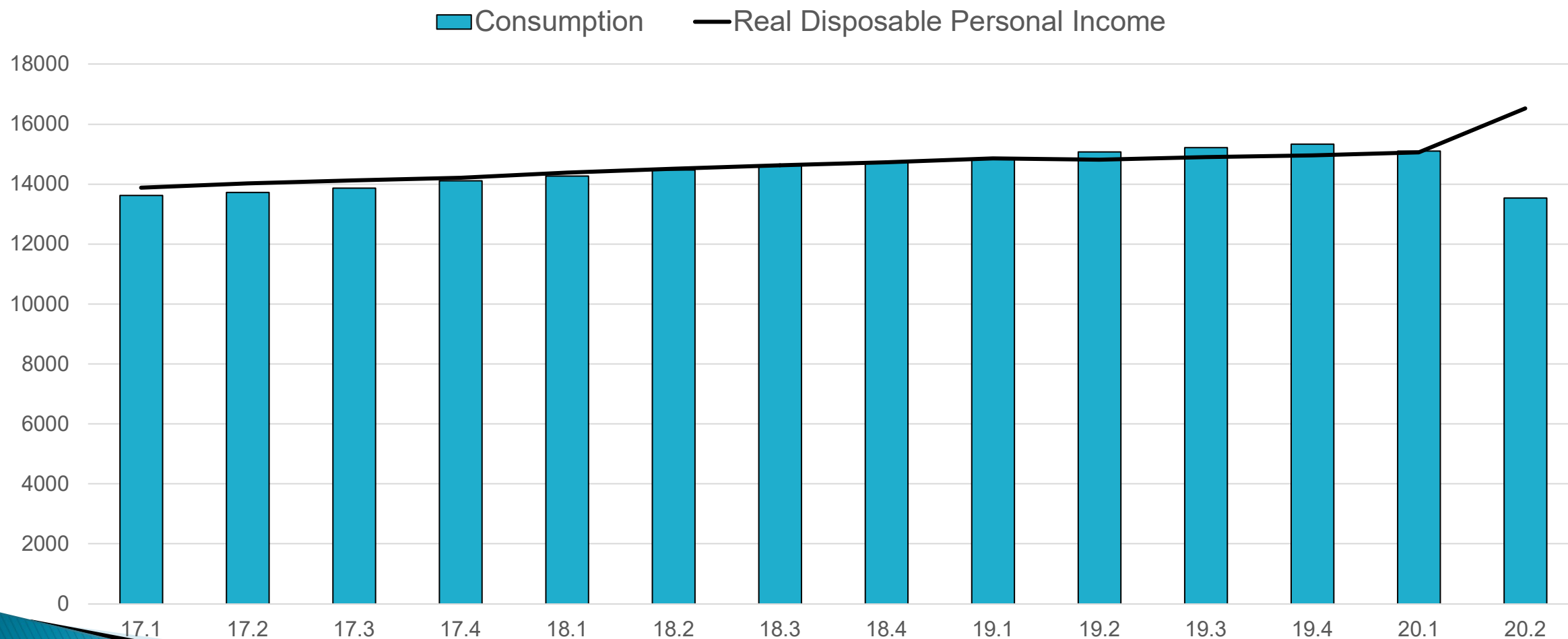
Sector	2019.Q4	2020.Q1	2020.Q2
Consumer	1.1	-4.8	-24.8
Investment	-0.6	-1.6	-8.7
Net exports	1.5	1.1	+0.9
Government	0.4	0.2	+0.8
Total GDP % Chg.	2.4	-5.0	-31.7

** Totals may not add up due to rounding

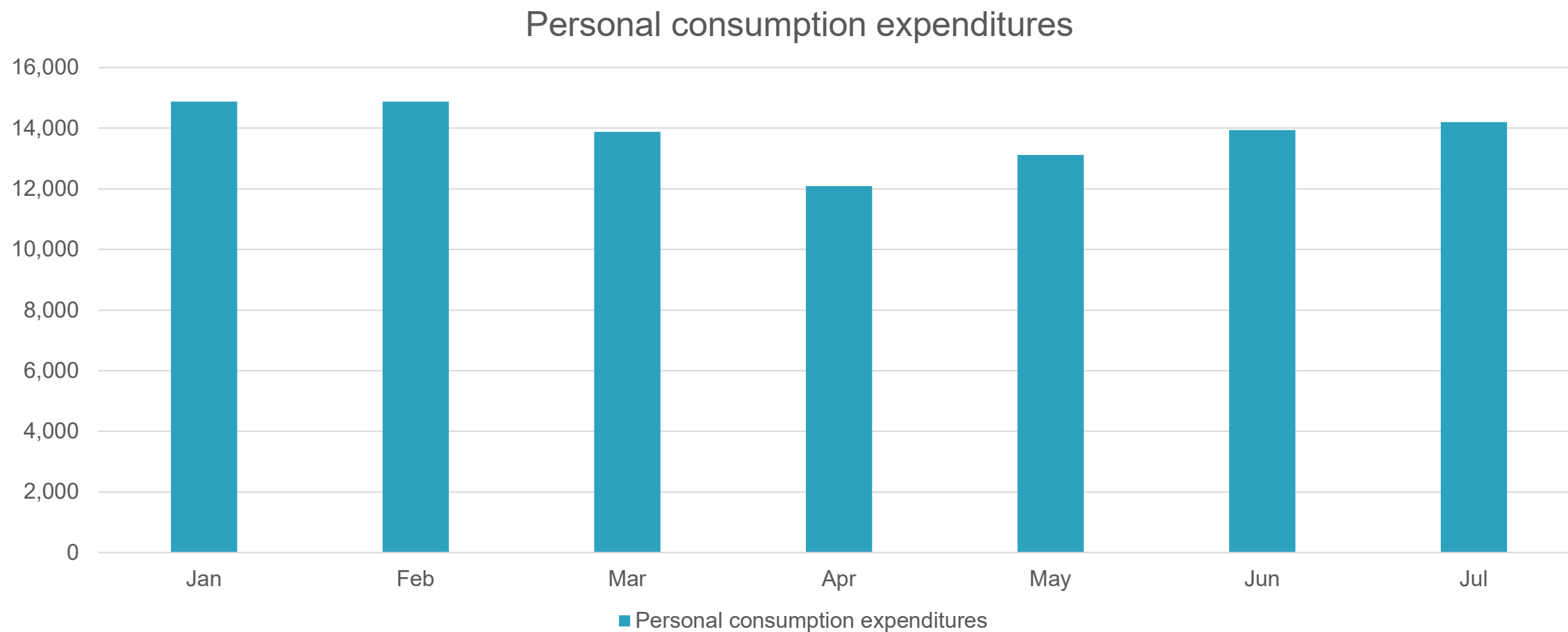
GDP By-the-Numbers

- Real GDP fell from \$19.2T in Q4-19 to \$17.2T in Q2-20
 - In Simple Terms: 10% decrease in GDP
- Qtr-to-Qtr Change in GDP:
 - Q1-20: -\$240B (-5.0% annualized quarterly change)
 - Q2-20: -\$1.7T (-31.7%)
 - Q3-20: +\$1.3T (+26.0% recent estimate)

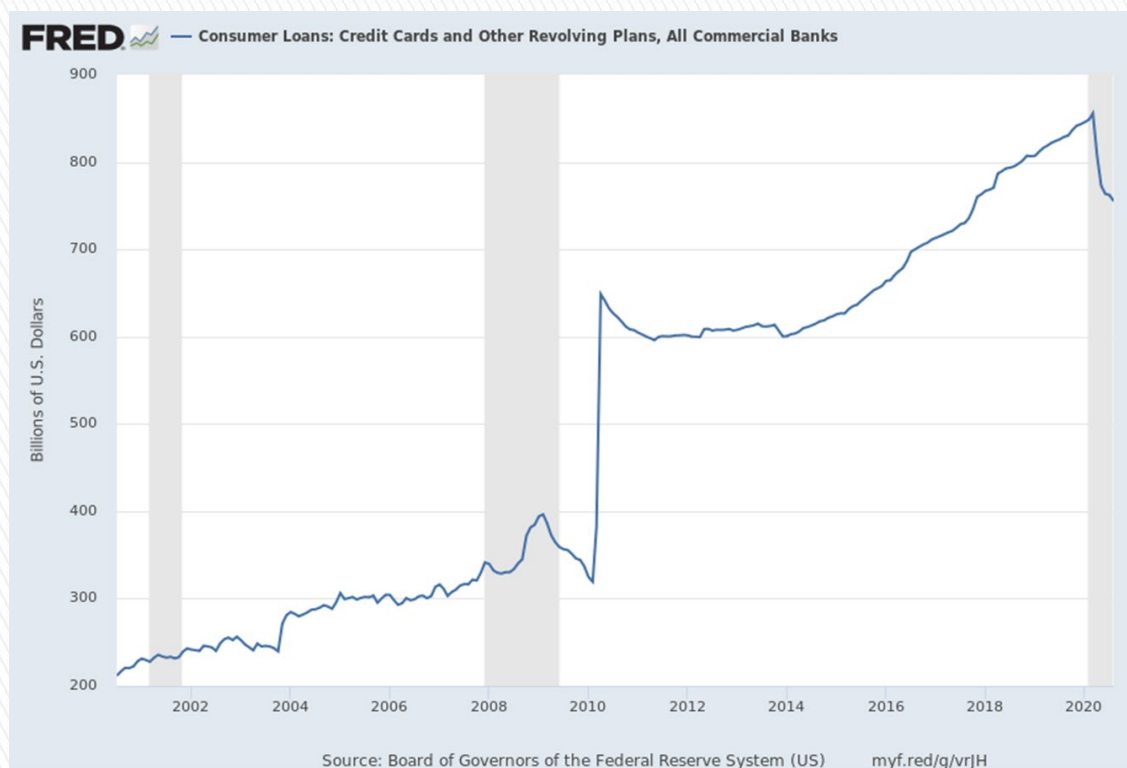
Real Disposable Personal Income & Consumer Outlays (by Quarter)



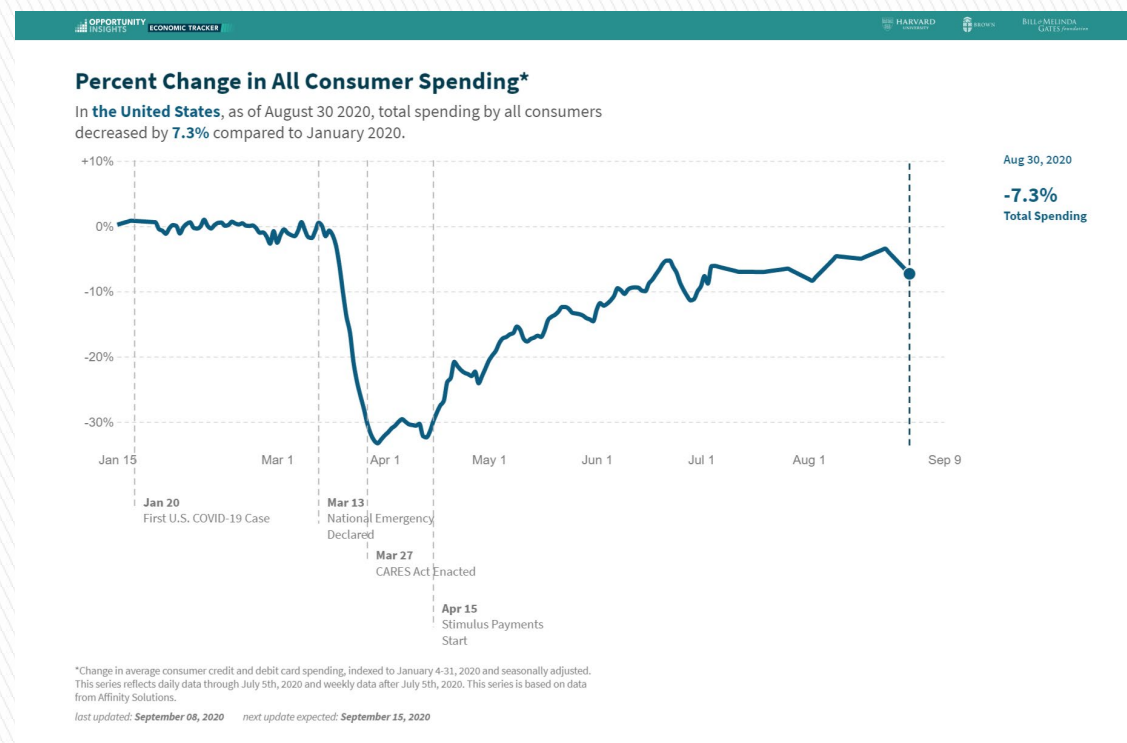
Monthly Consumer Expenditures Recovering



Consumers are Cautious




Consumer loan balances down



Consumer exp 7% below Jan-20

What Drives Consumer Spending?

- ▶ Jobs - Rising
 - ▶ Wealth – Net worth slid in Q1, recovered Q2. Q3?
 - ▶ Homeowner equity - Rising
 - ▶ Credit card use – Cautious
 - ▶ Federal backstops: UI/Pandemic payments, PPP, etc.
 - ▶ RESULT: Consumer spending poised to increase
- 

Other Macro Sectors

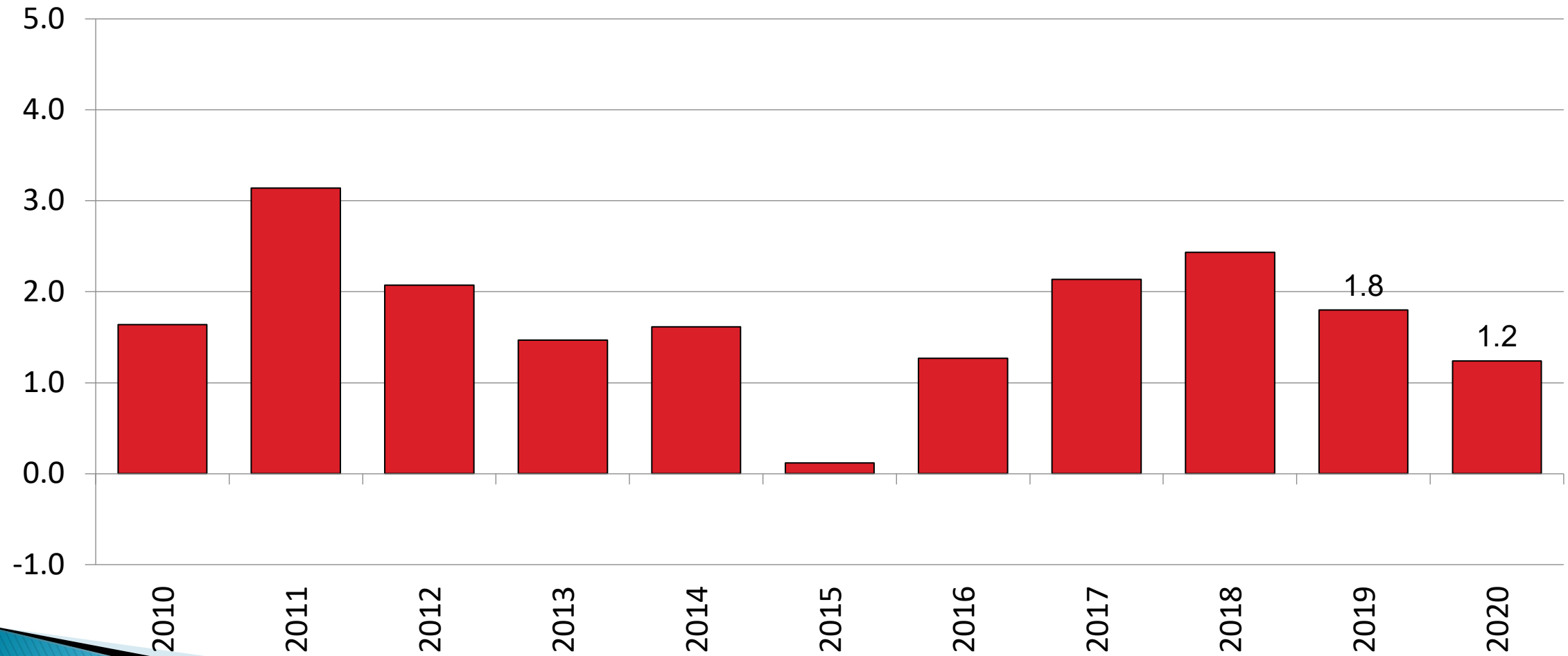
▶ Business Investment Spending

- Q1: -6%
- Q2: -26%
- Q3: slight positive

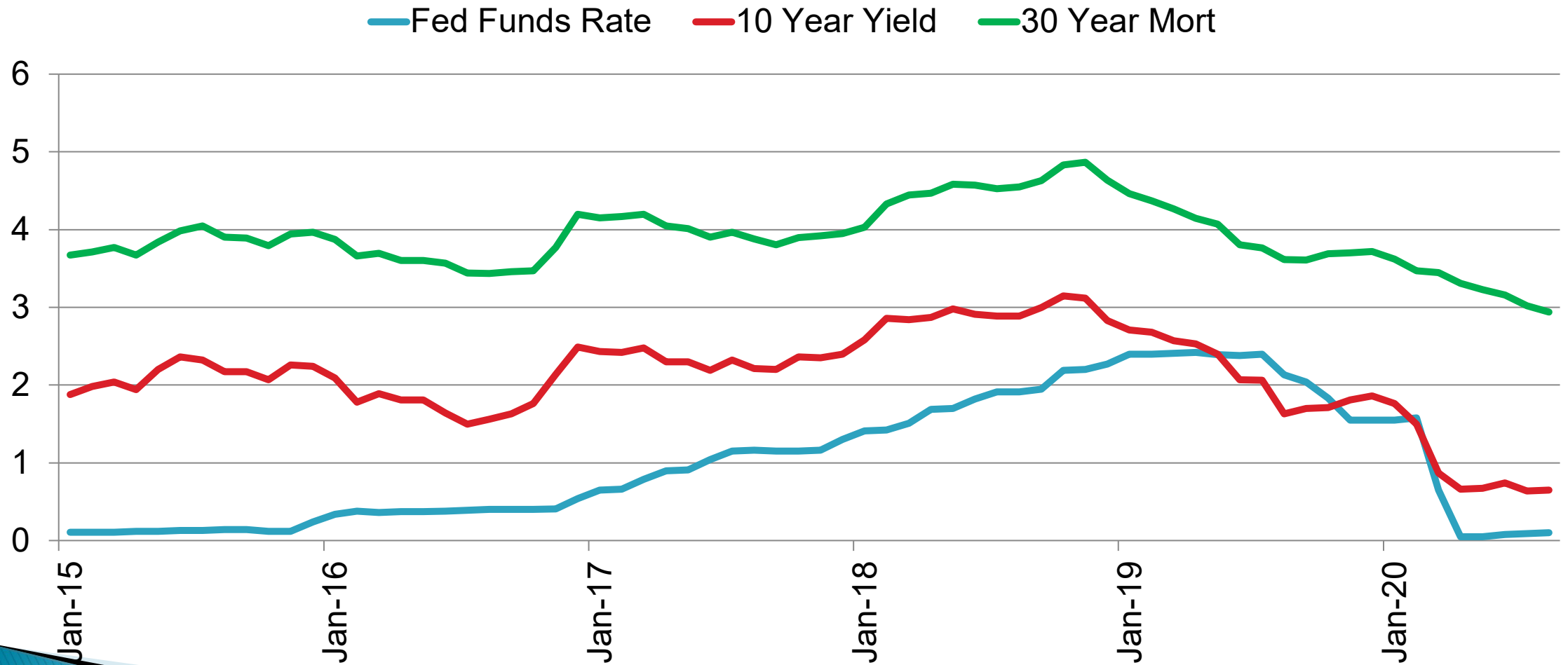
▶ International Trade

- Imports – down due to loss of US income
- Exports – down due to weakness among trade partners
- Recovery expected.
 - POLB record high for August

Blood Pressure: Inflation Dropping



Financial Markets: Rates at Record Lows



Financial Markets

- S&P 500

- High: 3390 late February
- Low: 2200 late March
- Now: 3580 Sept 1 **NEW RECORD**

- Q: Why? A: Pandemic relief, Fed actions, Poor returns elsewhere, Success of industries and firms during pandemic, US as safe haven

- **NOTES:**

- The stock market is NOT the economy
 - This contraction is different!
- 

Pandemic Relief from Congress

▶ Small Business	\$800 Billion
▶ Households	\$784
▶ Big Corporations	\$532
▶ All Businesses	\$513
▶ Public Health	\$312
▶ State/Local	\$217
▶ Miscellaneous	\$126
▶ <u>Testing</u>	<u>\$ 26</u>
▶ TOTAL AS OF 5/15	\$3.3 Trillion

Pandemic relief a backstop to slide in purchasing power of households and small businesses:

- Spending in general
- Housing costs in particular

Additional relief:

- Mortgage forbearance
- Rent programs

Q: Why needed? A: 2018 survey of US households reported that 40% of households are unable to handle a \$400 emergency expense.

Policy Actions: Massive Pandemic Relief

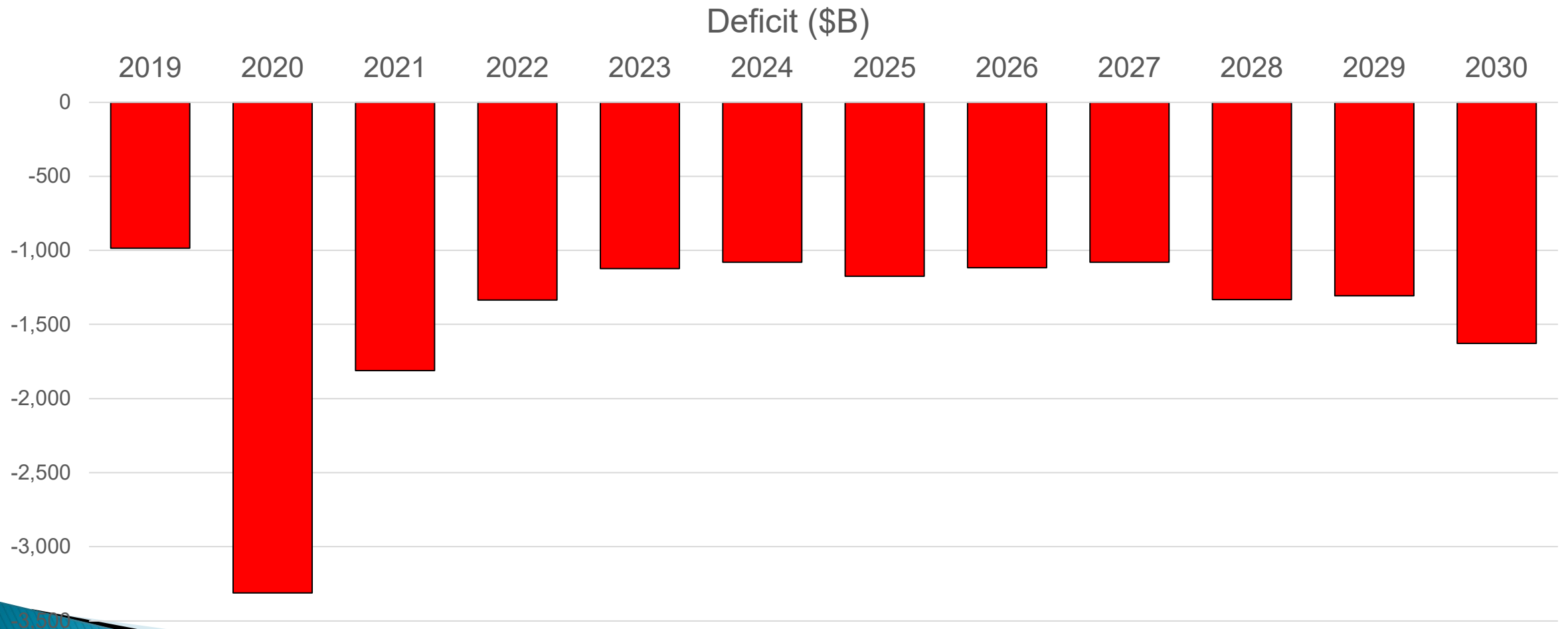
Monetary Policy:

- Fed slashed key rates, fed funds rate effectively zero
- Authorized \$Ts in lending to HHs, businesses, financial institutions, and other industries

■ Big Picture:

- Policy response makes \$800 billion Great Recession response look like chump change
- 2nd Fiscal Policy Action: pandemic *stimulus* (not relief) bill??

Trillion Dollar Deficits (CBO Sept 2, 2020)



Alphabet Soup-Recovery will look like a...

- "V"? Wishful thinking. Won't recover as fast as we fell
- "W"? Possible if flareups occur
- ✓? NO...more like a Nike "swoosh" if flareups are limited
- AND SOME ARE CALLING IT A "K" because some are doing fine (/) while others are not (\)

Recovery Will Take Time...

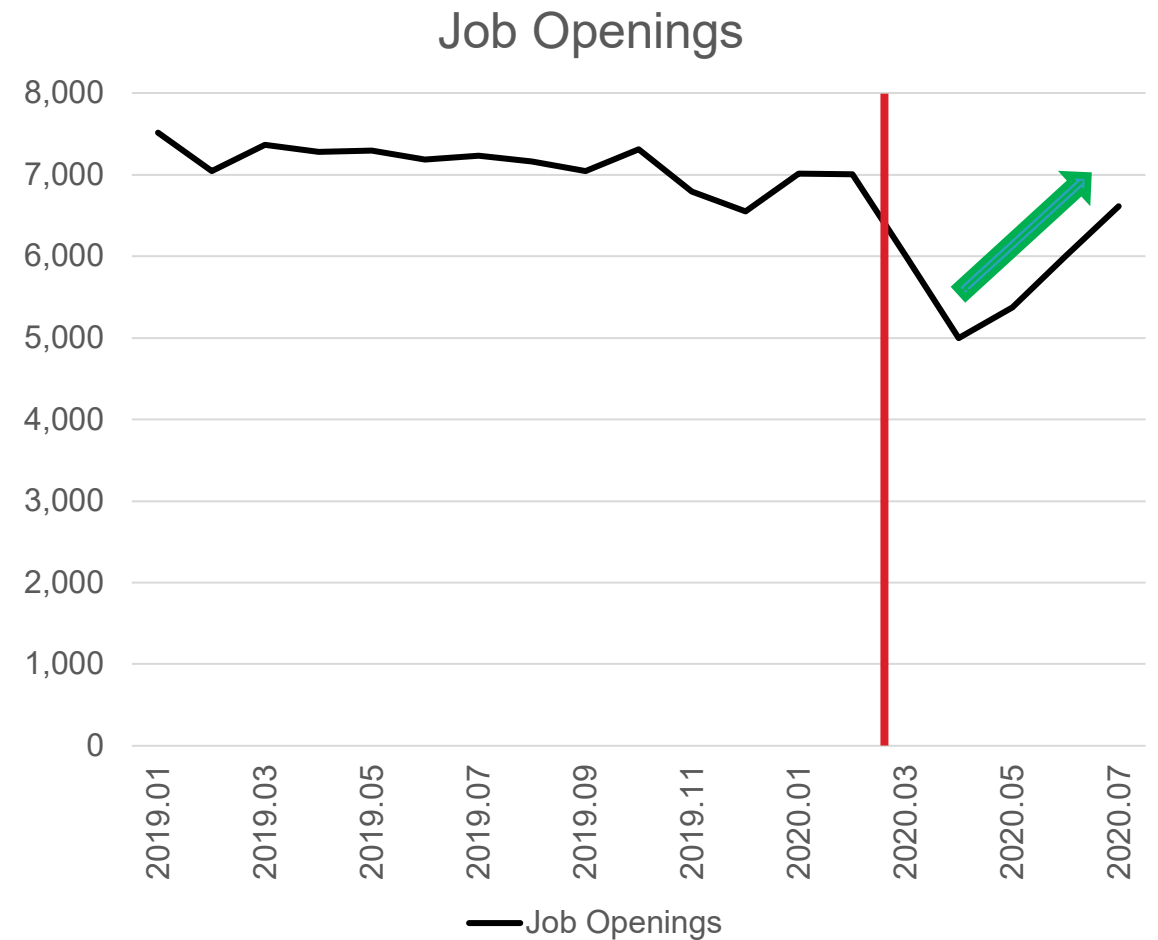
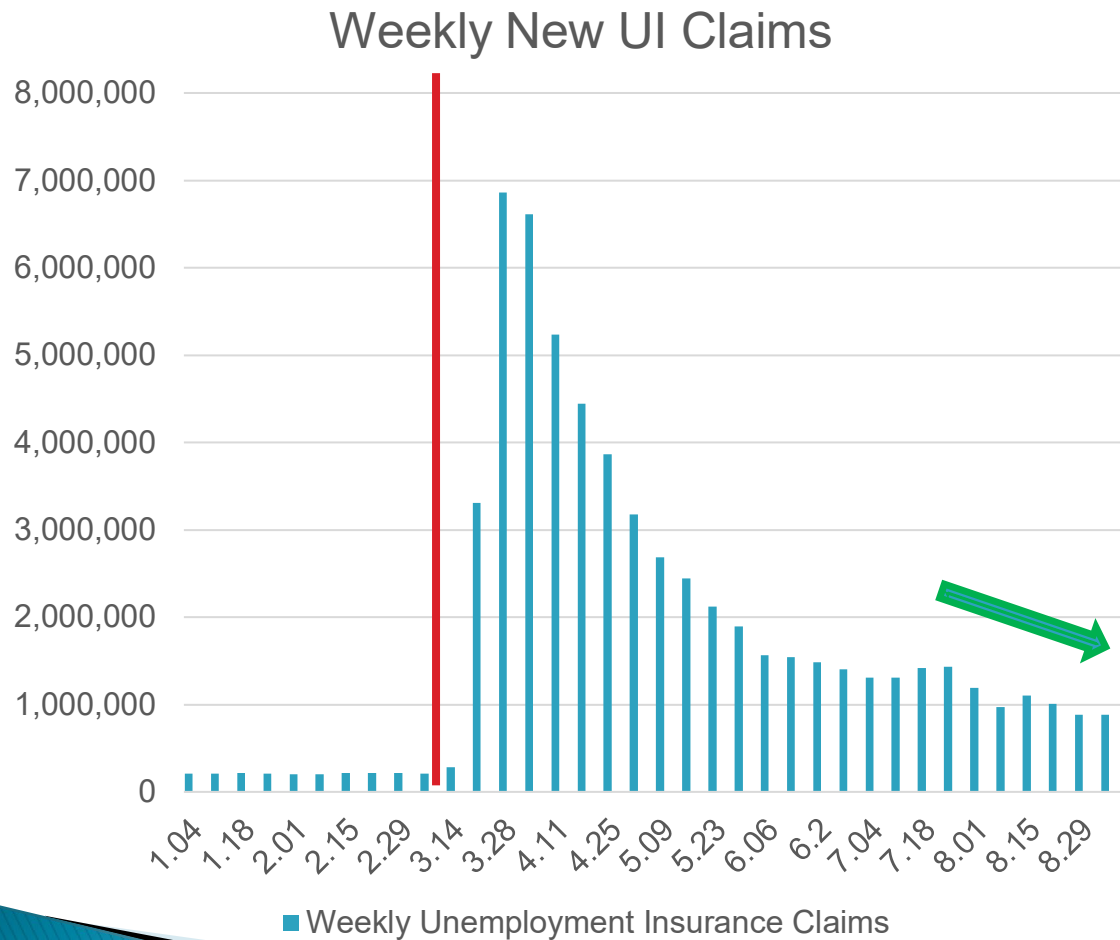
DO THE MATH...

- Q1 & Q2: -\$2.0T
- Q3: +\$1.3T
- Strongest qtr during recovery from Great Recession: +\$250B
- Surge-related shutdowns across country and 2nd wave will delay recovery

■ THEREFORE

- Virus containment will dictate recovery trajectory
- Without additional fiscal stimulus, lost output (GDP) likely will not be recovered until late 2021.
- Job gains and decline in u-rate will lag: “permanent” job cuts in some industries, but new opportunities in others; face-to-face industries slow to recover.

...But There is Good News



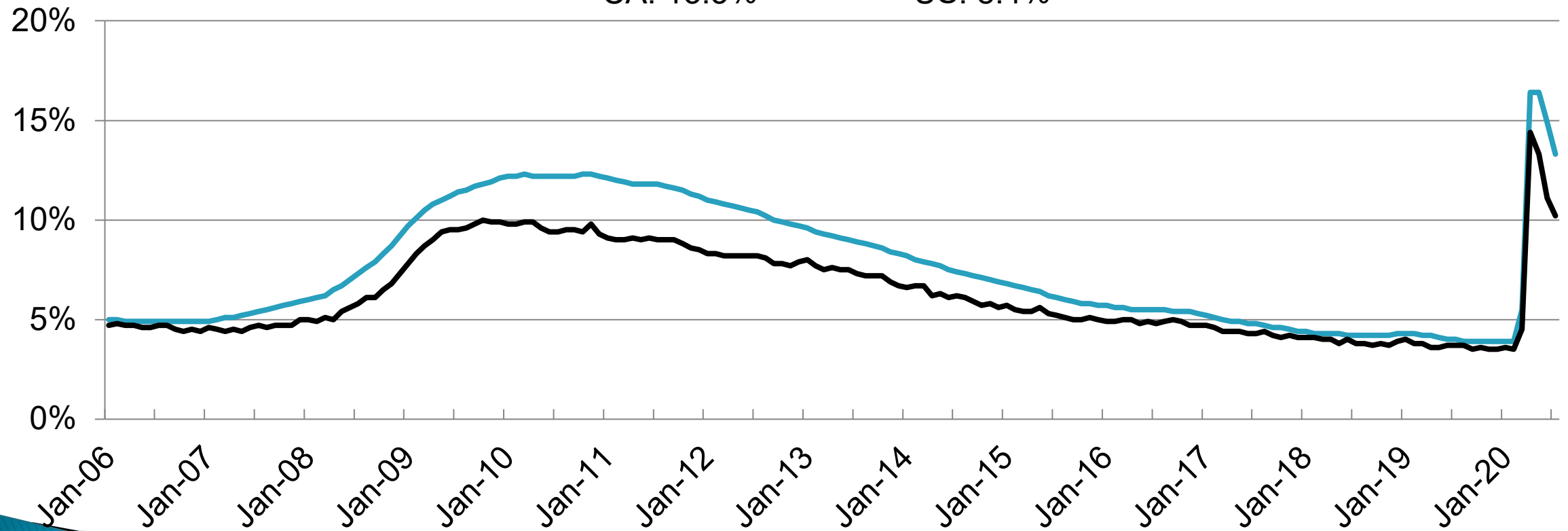
California

Record High CA & US Unemployment Rates Falling

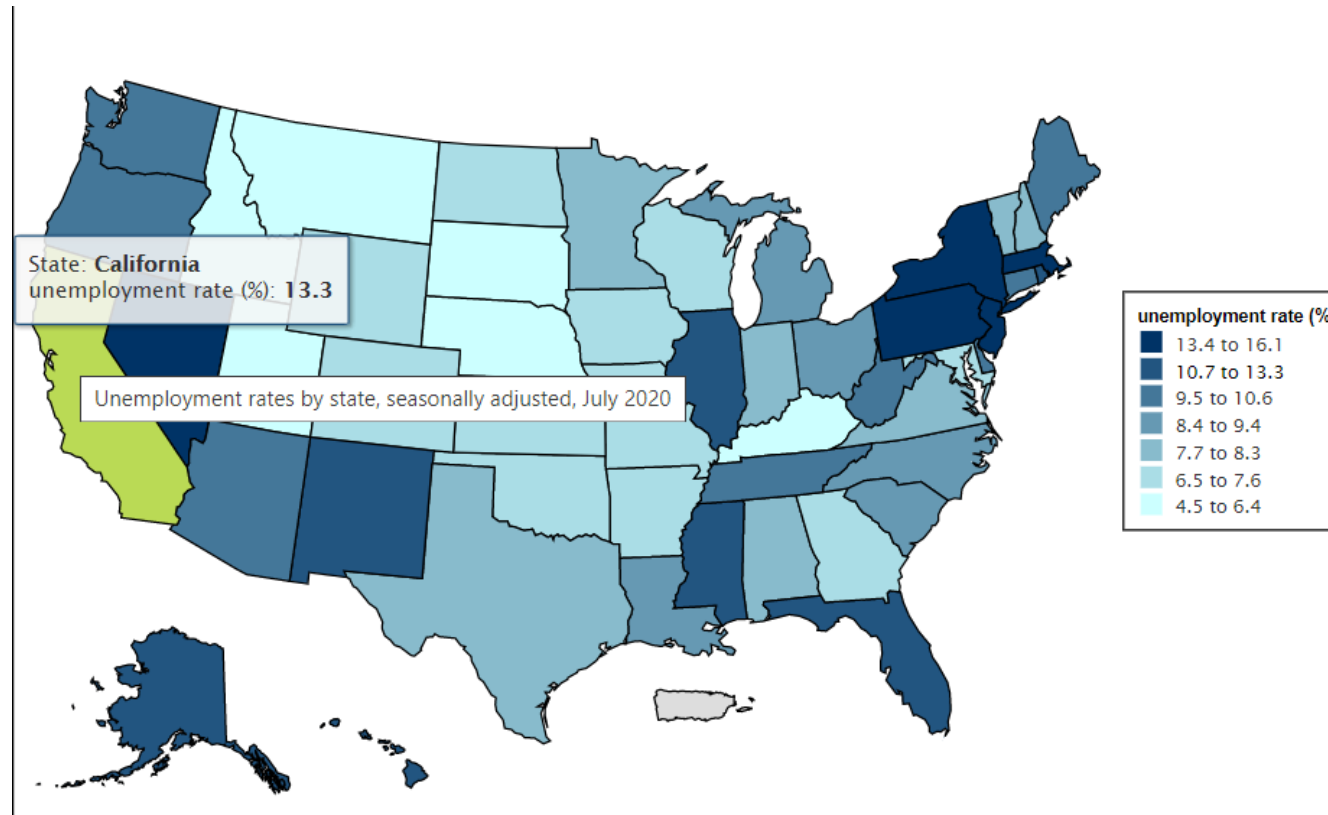
Unemployment Rate in %, Seasonally Adjusted

— CA: 13.3%

— US: 8.4%



Unemployment Rates by State (Jul. 20)

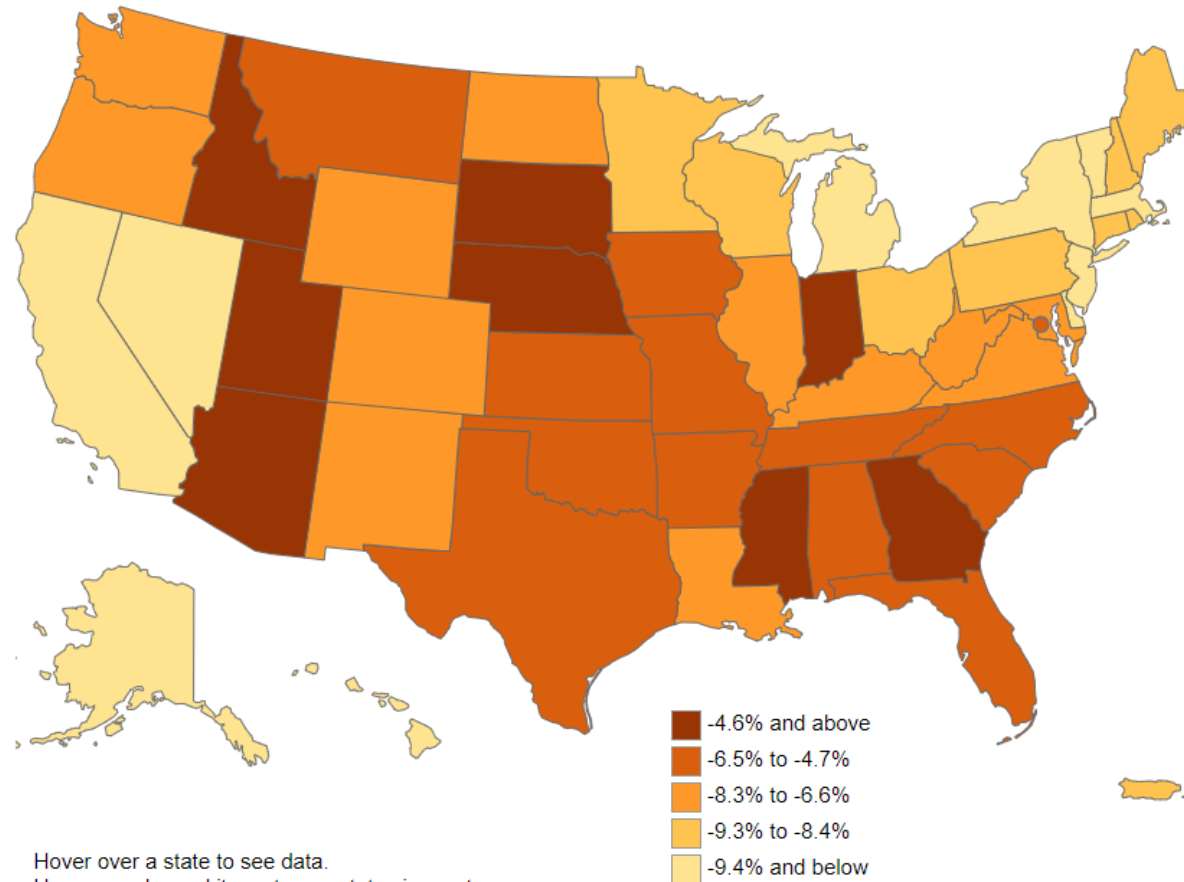


Nationwide impact!

Bigger impact on
states with more
workers in face-to-
face industries

Job Losses Across the U.S.

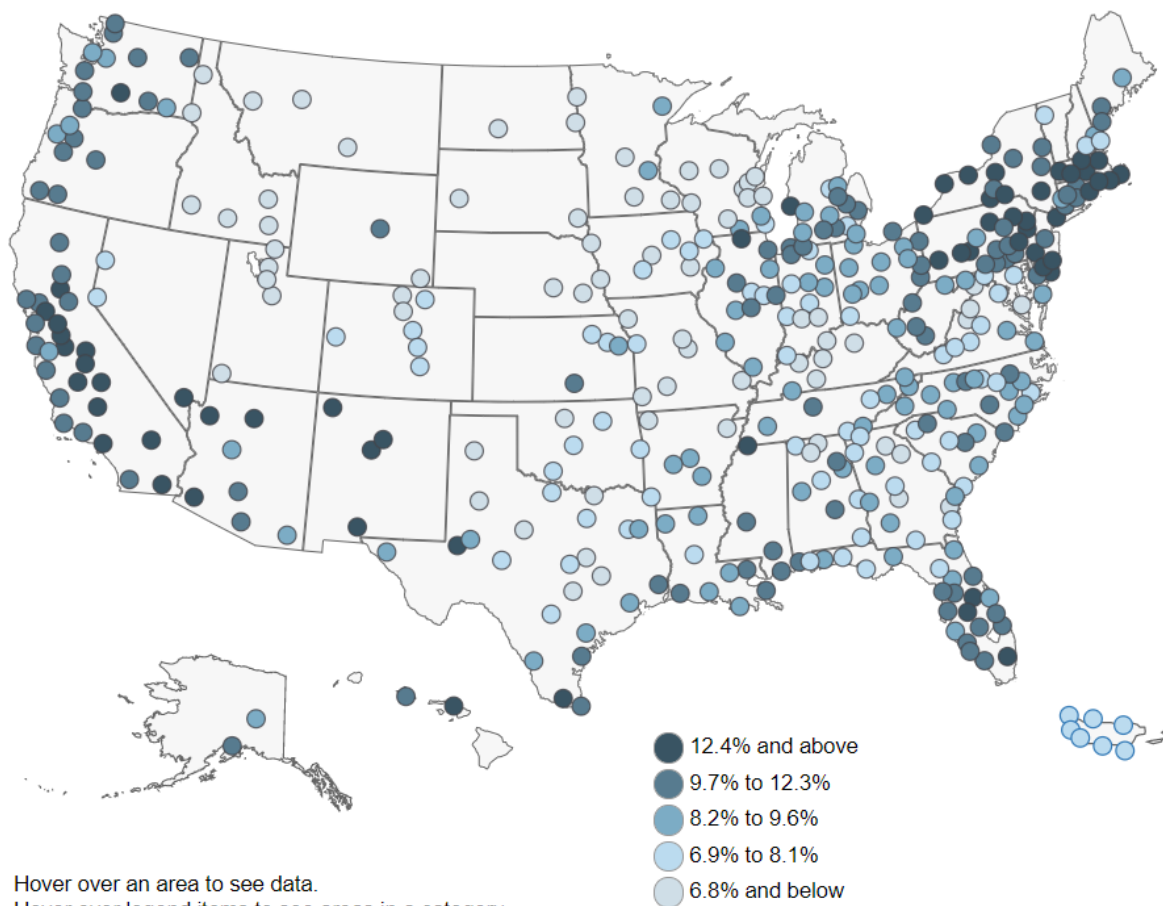
Change in nonfarm employment by state, July 2019 to July 2020, seasonally adjusted



Hover over a state to see data.
Hover over legend items to see states in a category.
Source: U.S. Bureau of Labor Statistics.

Hardest Hit Metro Areas on Coasts

Metropolitan area unemployment rates, July 2020, not seasonally adjusted



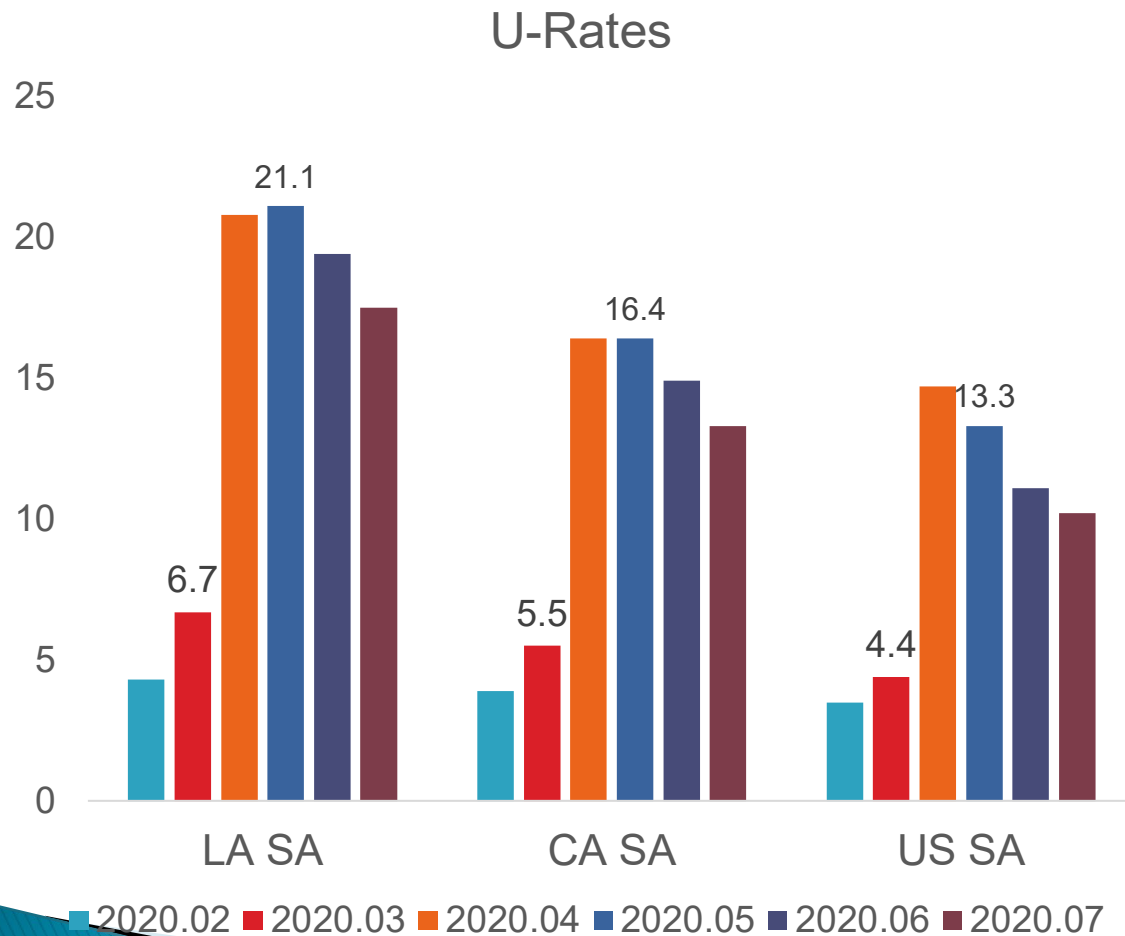
Hover over an area to see data.
Hover over legend items to see areas in a category.
Source: U.S. Bureau of Labor Statistics.

Recovery will vary..

- By industry
- Geographically

Local and Regional Economy

LA County Hit Harder than CA and US



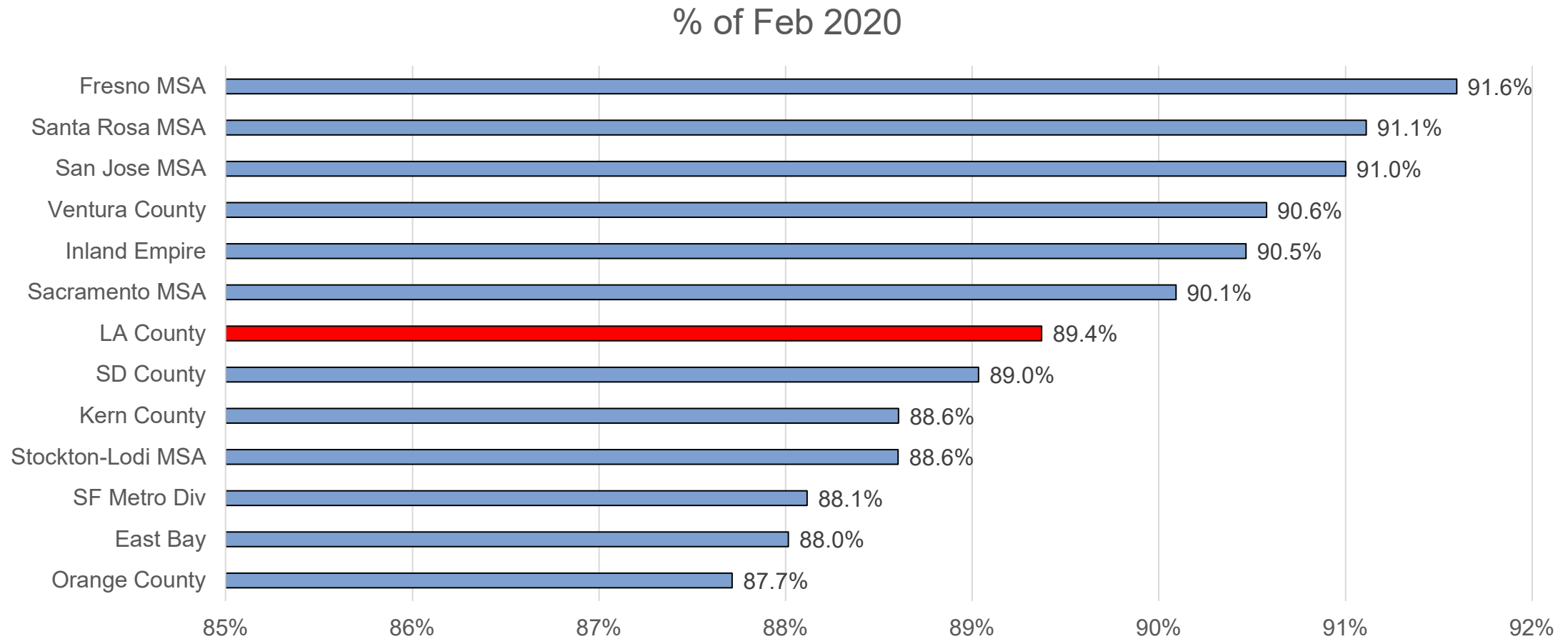
► Higher Concentrations of...

- Full-service restaurants
- Arts and entertainment venues
- Retail trade establishments

LA County Industry Picture Mixed

Industry	Feb-20	Feb to Apr	% Lost	Apr to Jul	Jul as Share of Feb
Total Nonfarm	4,632,400	-716,300	-15.5%	177,400	88%
Leisure & Hospitality	543,700	-248,300	-45.7%	88,800	71%
Information	241,000	-57,600	-23.9%	-3,400	75%
Other Services	160,100	-41,200	-25.7%	7,700	79%
Educational Services	147,600	-11,900	-8.1%	-13,400	83%
Government	606,200	-9,000	-1.5%	-62,500	88%
Administrative & Support & Waste Services	276,000	-42,800	-15.5%	16,200	90%
Retail Trade	415,800	-76,200	-18.3%	37,900	91%
Professional, Scientific & Technical Services	308,800	-33,700	-10.9%	9,100	92%
Real Estate & Rental & Leasing	87,500	-11,000	-12.6%	4,800	93%
Transportation, Warehousing & Utilities	205,800	-20,300	-9.9%	6,200	93%
Manufacturing	336,600	-45,200	-13.4%	24,100	94%
Health Care & Social Assistance	717,500	-74,300	-10.4%	34,600	94%
Management of Companies & Enterprises	62,900	-4,100	-6.5%	700	95%
Wholesale Trade	218,700	-22,500	-10.3%	10,800	95%
Construction	152,600	-21,700	-14.2%	15,100	96%
Mining and Logging	1,900	0	0.0%	0	100%
Finance & Insurance	137,500	3,400	2.5%	500	103%

Large CA Metros: Job Counts Now vs Feb 2020

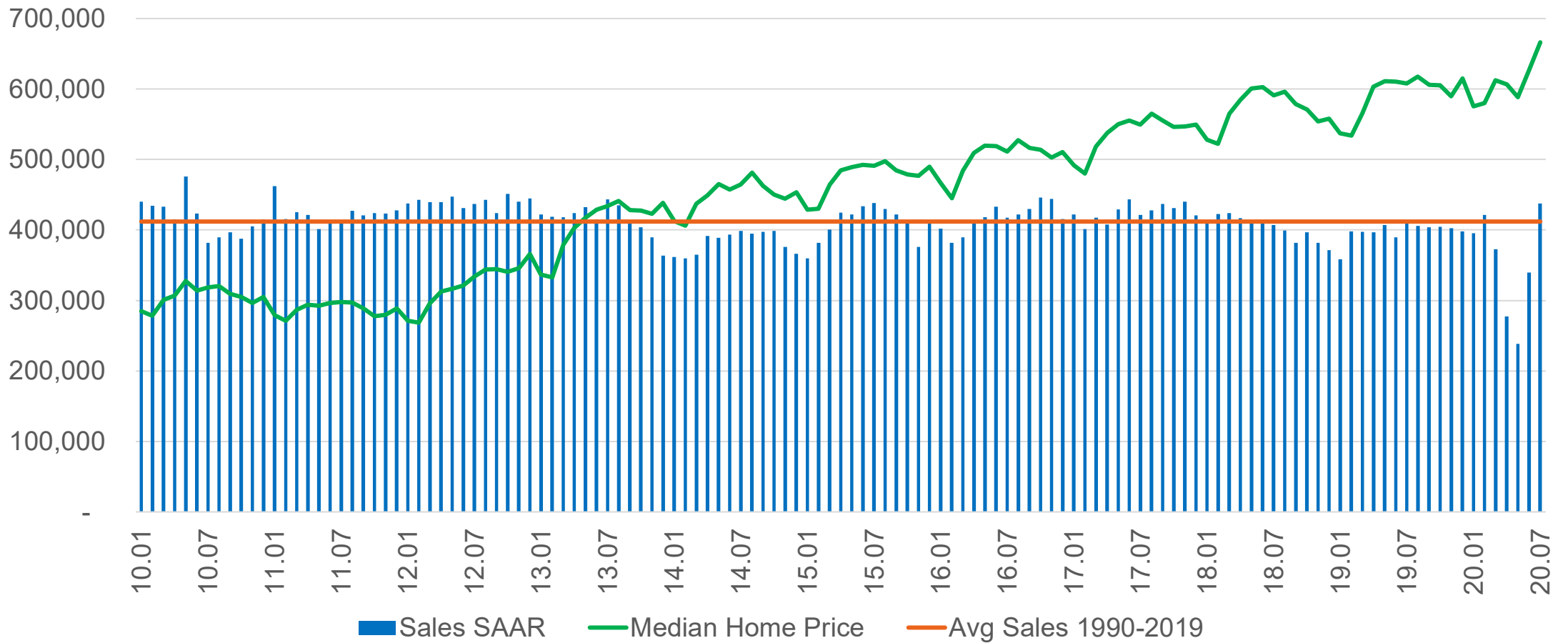


Good News on Local Front...

- ▶ Port Activity Promising
 - Total activity up from shutdown lows
 - Inbound containers rising – responding to improvement in US
 - Outbound containers rising – responding to improvement with partners
- ▶ Unemployment Rate/Jobs Improving Slowly
 - High but edging down
 - Local industries recovering but pace varies

Real Estate

California: Record Price, Comeback in Sales

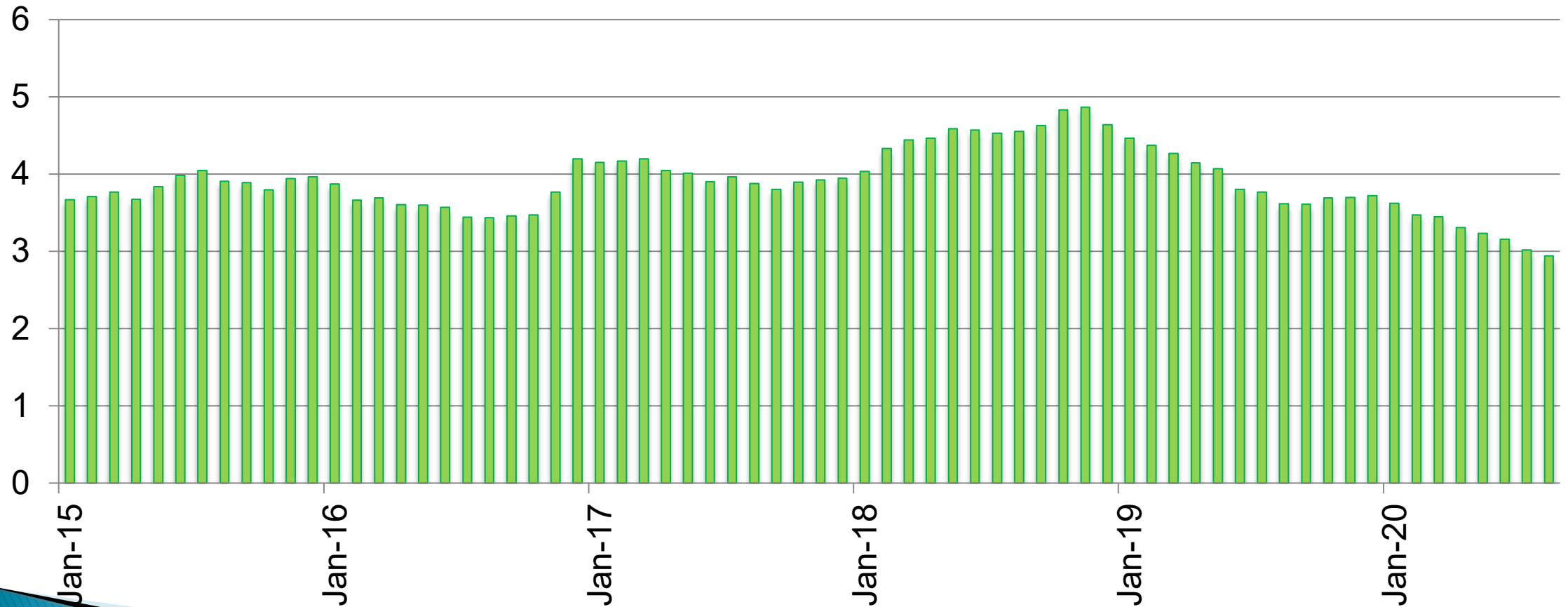


Sales and Prices Respond to Low Rates

Southern California	2019.07	2020.06	2020.07	Price MTM% Chg	Price YTY% Chg	Sales YTY% Chg
Los Angeles	\$611,230	\$610,270	\$653,570	7.1%	6.9%	-2.1%
Orange	\$839,450	\$870,000	\$880,000	1.1%	4.8%	2.2%
Riverside	\$420,000	\$450,000	\$462,000	2.7%	10.0%	11.1%
San Bernardino	\$312,000	\$325,000	\$350,000	7.7%	12.2%	13.0%
San Diego	\$650,000	\$678,000	\$719,000	6.0%	10.6%	10.2%
Ventura	\$685,000	\$700,000	\$720,000	2.9%	5.1%	1.3%

Mort Rates Drop to Record Lows → Fuel Demand

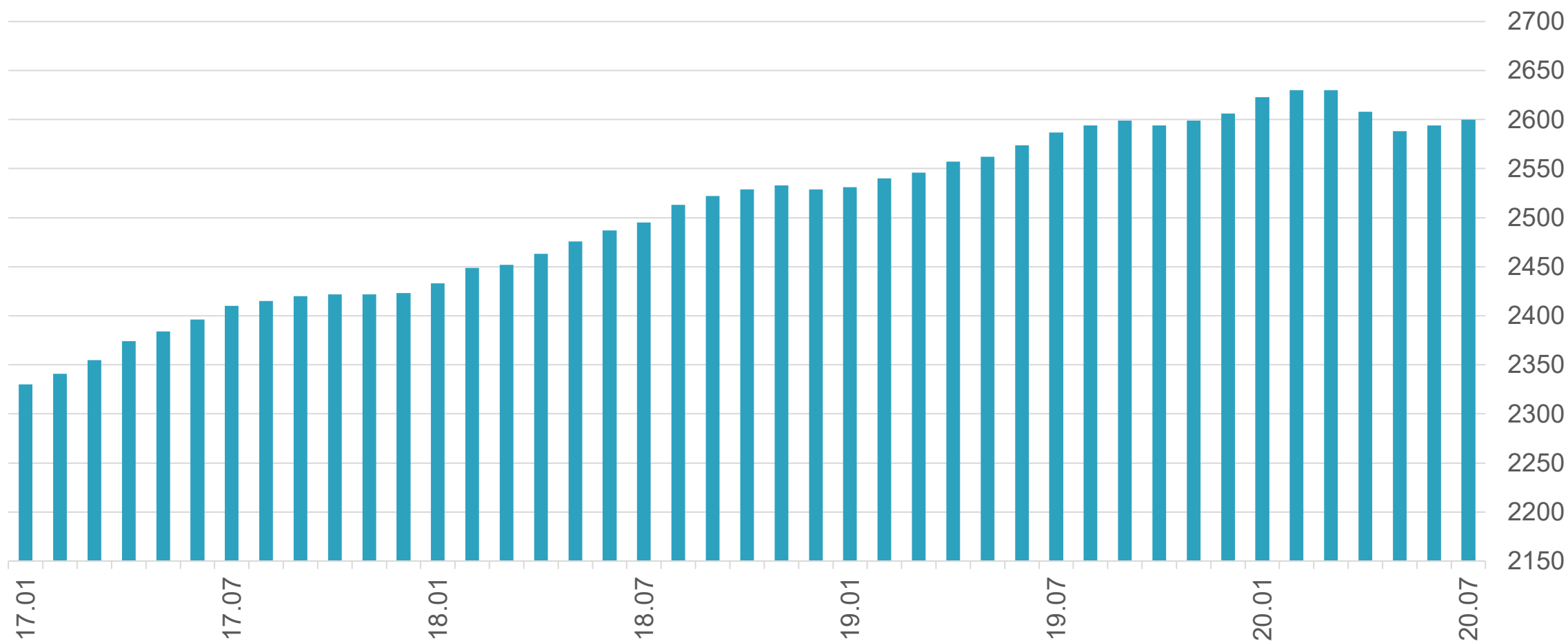
30 Year Mort



...and Lean Supply Drives Up Price

Unsold Inventory Index (Months)			
Region	2019.07	2020.06	2020.07
Los Angeles	3.2	3.0	2.3
Orange	3.5	3.5	2.5
Riverside	3.5	2.7	2.2
San Bernardino	3.8	2.8	2.0
San Diego	3.0	2.2	1.9
Ventura	4.6	4.6	3.5

Average Rent – LA-OC MSA




Overall: Mixed Signals in Housing

- ▶ Record high delinquency rate, FHA: 15.7% nationally
 - Forbearance programs in place for federally backed mortgages
- ▶ Late rent, National Multifamily Housing Council
 - August 2020: 86.9% on time
 - July 2020: 87.6%
 - August 2019: 88.9%
 - Statewide eviction moratorium through end of January 2021

ECONOMY-HOUSING DISCONNECTION

Great opportunity for buyers who have financial resources to capitalize on current low rates, but challenging times for others, including owners/renters who have lost jobs or reduced hours



Conclusion

Conclusion: Pace of Recovery Varies...

▶ Face-to-Face Advancing Slowly


- Leisure and Hospitality
- Other Services
- Information (Motion Picture Sound)
- Government

▶ Recovered or Recovering

- Finance
- Professional Scientific & Technical
- Management
- Wholesale Trade
- Mining
- Retail!
- Health Care!

CONCLUSION: Economic recovery varies by industry. Full health in economy depends on recovery in hardest hit areas.

Conclusion: Virus Dictates Pace of Recovery

- Recovery occurring even as we experience shutdowns
 - Uneven progress across industries
 - Face-to-face /health-and-well-being sectors slowest to recover
 - Other industries growing in current situation as they adapt to remote work
 - GDP to recover before labor market!
 - Possibility of surges and 2nd wave?
 - YES...we are not back to biz as usual!!
 - Longer recovery means more long-term damage to economy
 - Holiday “effects” can cause setbacks
 - Fiscal and economic challenges
- 

Conclusion: Moving Forward

- Navigating the next 12 to 18 months:
 - Know current virus numbers in your market areas
 - Know how specific industries are faring
 - Stay informed
 - Be nimble
 - IN SHORT...BE SMART!



Thank You!

Kleinhenz Economics

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