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

San Gabriel Valley Economic Partnership
September 15, 2020

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Executive Fellow, CPP CBA
Founder, Kleinhenz Economics
Outline

- US Economy
  - Contraction followed by start of recovery
  - What letter? How long?

- California

- Local and Regional

- Housing

- Conclusion: Going forward
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

Source: EDD, OER, Compiled by KE
# US Industry Impacts Vary

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

Source: BLS, Analysis by KE
Individual Industries in ICU*: Aug 20 jobs as share of Feb 20

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

What do these industries have in common?

*Intensive Care Unit
Heartbeat: GDP H1-20 ↓ H2020 ↑ (Q3 est: +26%)

### Annual Gross Domestic Product YTY % Change

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.9</td>
<td>1.6</td>
<td>2.4</td>
<td>2.9</td>
<td>2.3</td>
<td>-5.0</td>
<td>-31.7</td>
</tr>
</tbody>
</table>

### Contributions to Change in GDP by Quarter

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>1.1</td>
<td>-4.8</td>
<td>-24.8</td>
</tr>
<tr>
<td>Investment</td>
<td>-0.6</td>
<td>-1.6</td>
<td>-8.7</td>
</tr>
<tr>
<td>Net exports</td>
<td>1.5</td>
<td>1.1</td>
<td>+0.9</td>
</tr>
<tr>
<td>Government</td>
<td>0.4</td>
<td>0.2</td>
<td>+0.8</td>
</tr>
<tr>
<td><strong>Total GDP % Chg.</strong></td>
<td><strong>2.4</strong></td>
<td><strong>-5.0</strong></td>
<td><strong>-31.7</strong></td>
</tr>
</tbody>
</table>

* * Totals may not add up due to rounding

Source: BEA, Analysis by Kleinhenz Economics
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)

Source: BEA, KE
Monthly Consumer Expenditures Recovering

Personal consumption expenditures

Source: BLS, KE
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

Source: BLS, KE
Financial Markets: Rates at Record Lows

Source: FRED, US Treasury, Freddie Mac
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Business</td>
<td>$800 Billion</td>
</tr>
<tr>
<td>Households</td>
<td>$784</td>
</tr>
<tr>
<td>Big Corporations</td>
<td>$532</td>
</tr>
<tr>
<td>All Businesses</td>
<td>$513</td>
</tr>
<tr>
<td>Public Health</td>
<td>$312</td>
</tr>
<tr>
<td>State/Local</td>
<td>$217</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$126</td>
</tr>
<tr>
<td>Testing</td>
<td>$26</td>
</tr>
<tr>
<td>TOTAL AS OF 5/15</td>
<td>$3.3 Trillion</td>
</tr>
</tbody>
</table>

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.

Source: NPR
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

Weekly New UI Claims

Job Openings
California
Record High CA & US Unemployment Rates Falling

Unemployment Rate in %, Seasonally Adjusted

CA: 13.3%  US: 8.4%

Source: BLS, EDD, Kleinhenz Economics
Unemployment Rates by State (Jul. 20)

Nationwide impact!

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

Source: Bureau of Labor Statistics
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

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

Source: EDD, OER, Compiled by KE
## LA County Industry Picture Mixed

<table>
<thead>
<tr>
<th>Industry</th>
<th>Feb-20</th>
<th>Feb to Apr</th>
<th>% Lost</th>
<th>Apr to Jul</th>
<th>Jul as Share of Feb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nonfarm</td>
<td>4,632,400</td>
<td>-716,300</td>
<td>-15.5%</td>
<td>177,400</td>
<td>88%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>543,700</td>
<td>-248,300</td>
<td>-45.7%</td>
<td>88,800</td>
<td>71%</td>
</tr>
<tr>
<td>Information</td>
<td>241,000</td>
<td>-57,600</td>
<td>-23.9%</td>
<td>-3,400</td>
<td>75%</td>
</tr>
<tr>
<td>Other Services</td>
<td>160,100</td>
<td>-41,200</td>
<td>-25.7%</td>
<td>7,700</td>
<td>79%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>147,600</td>
<td>-11,900</td>
<td>-8.1%</td>
<td>-13,400</td>
<td>83%</td>
</tr>
<tr>
<td>Government</td>
<td>606,200</td>
<td>-9,000</td>
<td>-1.5%</td>
<td>-62,500</td>
<td>88%</td>
</tr>
<tr>
<td>Administrative &amp; Support &amp; Waste Services</td>
<td>276,000</td>
<td>-42,800</td>
<td>-15.5%</td>
<td>16,200</td>
<td>90%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>415,800</td>
<td>-76,200</td>
<td>-18.3%</td>
<td>37,900</td>
<td>91%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical Services</td>
<td>308,800</td>
<td>-33,700</td>
<td>-10.9%</td>
<td>9,100</td>
<td>92%</td>
</tr>
<tr>
<td>Real Estate &amp; Rental &amp; Leasing</td>
<td>87,500</td>
<td>-11,000</td>
<td>-12.6%</td>
<td>4,800</td>
<td>93%</td>
</tr>
<tr>
<td>Transportation, Warehousing &amp; Utilities</td>
<td>205,800</td>
<td>-20,300</td>
<td>-9.9%</td>
<td>6,200</td>
<td>93%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>336,600</td>
<td>-45,200</td>
<td>-13.4%</td>
<td>24,100</td>
<td>94%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>717,500</td>
<td>-74,300</td>
<td>-10.4%</td>
<td>34,600</td>
<td>94%</td>
</tr>
<tr>
<td>Management of Companies &amp; Enterprises</td>
<td>62,900</td>
<td>-4,100</td>
<td>-6.5%</td>
<td>700</td>
<td>95%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>218,700</td>
<td>-22,500</td>
<td>-10.3%</td>
<td>10,800</td>
<td>95%</td>
</tr>
<tr>
<td>Construction</td>
<td>152,600</td>
<td>-21,700</td>
<td>-14.2%</td>
<td>15,100</td>
<td>96%</td>
</tr>
<tr>
<td>Mining and Logging</td>
<td>1,900</td>
<td>0</td>
<td>0.0%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>137,500</td>
<td>3,400</td>
<td>2.5%</td>
<td>500</td>
<td>103%</td>
</tr>
</tbody>
</table>
Large CA Metros: Job Counts Now vs Feb 2020

% of Feb 2020

- Fresno MSA: 91.6%
- Santa Rosa MSA: 91.1%
- San Jose MSA: 91.0%
- Ventura County: 90.6%
- Inland Empire: 90.5%
- Sacramento MSA: 90.1%
- LA County: 89.4%
- SD County: 89.0%
- Kern County: 88.6%
- Stockton-Lodi MSA: 88.6%
- SF Metro Div: 88.1%
- East Bay: 88.0%
- Orange County: 87.7%

- Miscellaneous locations: 85% to 92%
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

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

Source: C.A.R.
Mort Rates Drop to Record Lows ➔ Fuel Demand

Source: FRED, US Treasury, Freddie Mac
...and Lean Supply Drives Up Price

<table>
<thead>
<tr>
<th>Region</th>
<th>2019.07</th>
<th>2020.06</th>
<th>2020.07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>3.2</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Orange</td>
<td>3.5</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Riverside</td>
<td>3.5</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>3.8</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>San Diego</td>
<td>3.0</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Ventura</td>
<td>4.6</td>
<td>4.6</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: C.A.R.
Average Rent – LA-OC MSA

Source: Zillow
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: 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 2\textsuperscript{nd} 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!

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Real Estate | Public Speaking

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