

Economic and Industry Outlook

2022-23

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Robert A. Kleinhenz, Ph.D.

Founder, Kleinhenz Economics
Adjunct Professor, CSULB
Associate Director, Office of Economic Research, CSULB
Sr. Research Fellow, Inland Empire Economic Partnership
Executive in Residence, Cal Poly Pomona

Outline

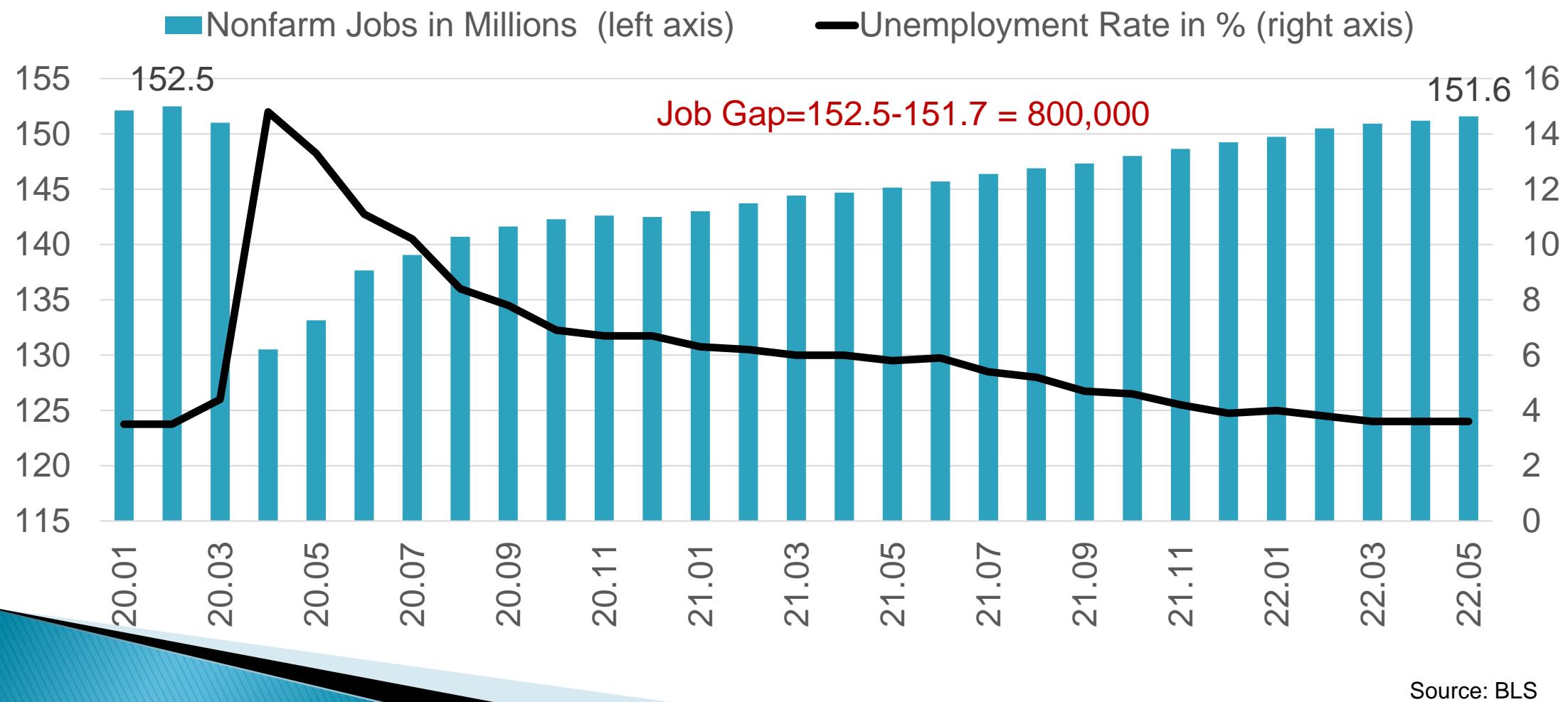
- ▶ U.S. economy
- ▶ California economy
- ▶ Southern California economies
- ▶ Housing
- ▶ Conclusion

Main Takeaways

- ▶ Recession in 12 months unlikely, but possible. Economy will decelerate.
- ▶ California economy has challenges but national leader among states.
- ▶ What must So Cal do NOW to address twin challenges:
 - High cost of living/housing
 - Labor force scarcity

U.S. Economy: From Recovery to Expansion to ???

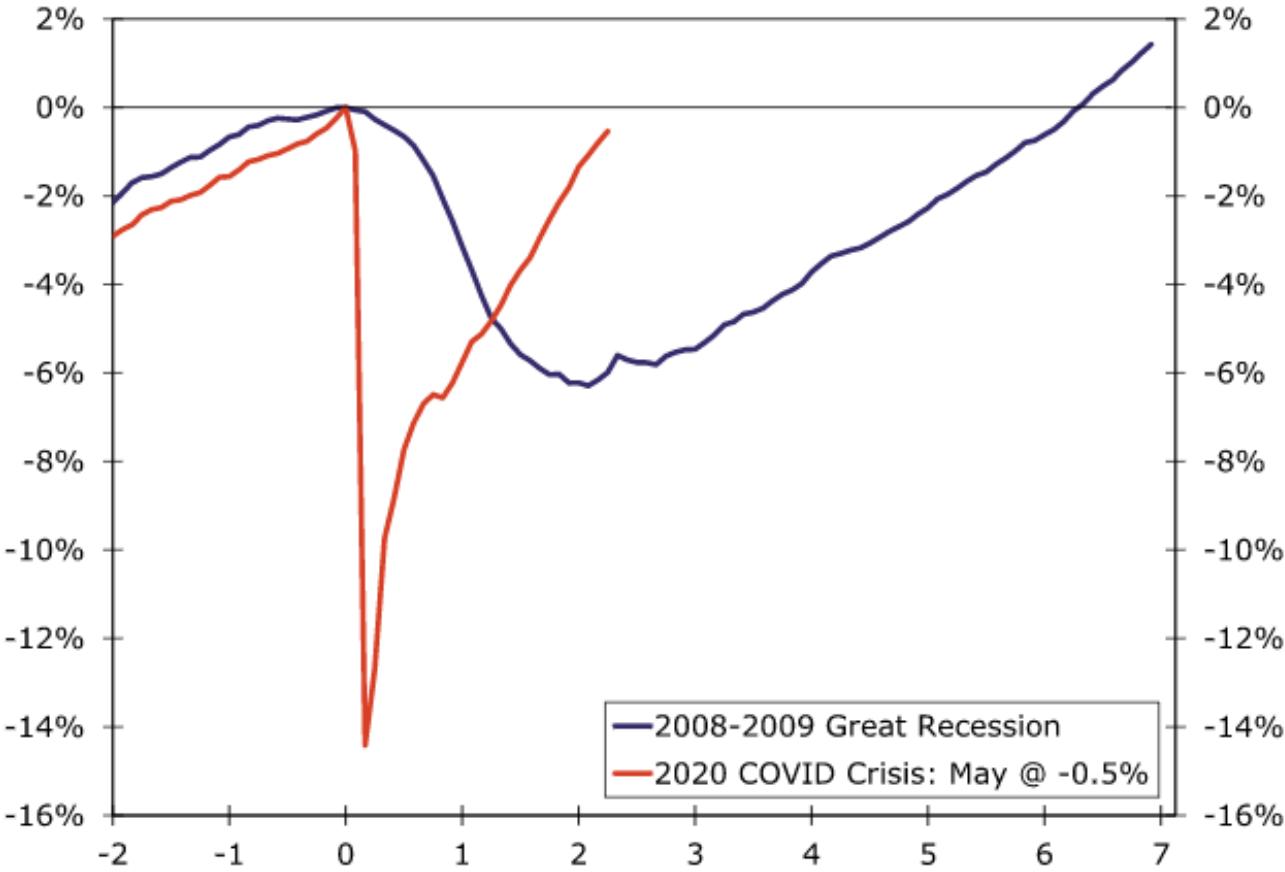
Unemployment at Pre-Pandemic Rate (3.6%), Jobs Gap to Close in Q3



I'll Take the COVID Recovery over Great Recession Recovery!

U.S. Job Losses: COVID vs. Great Recession

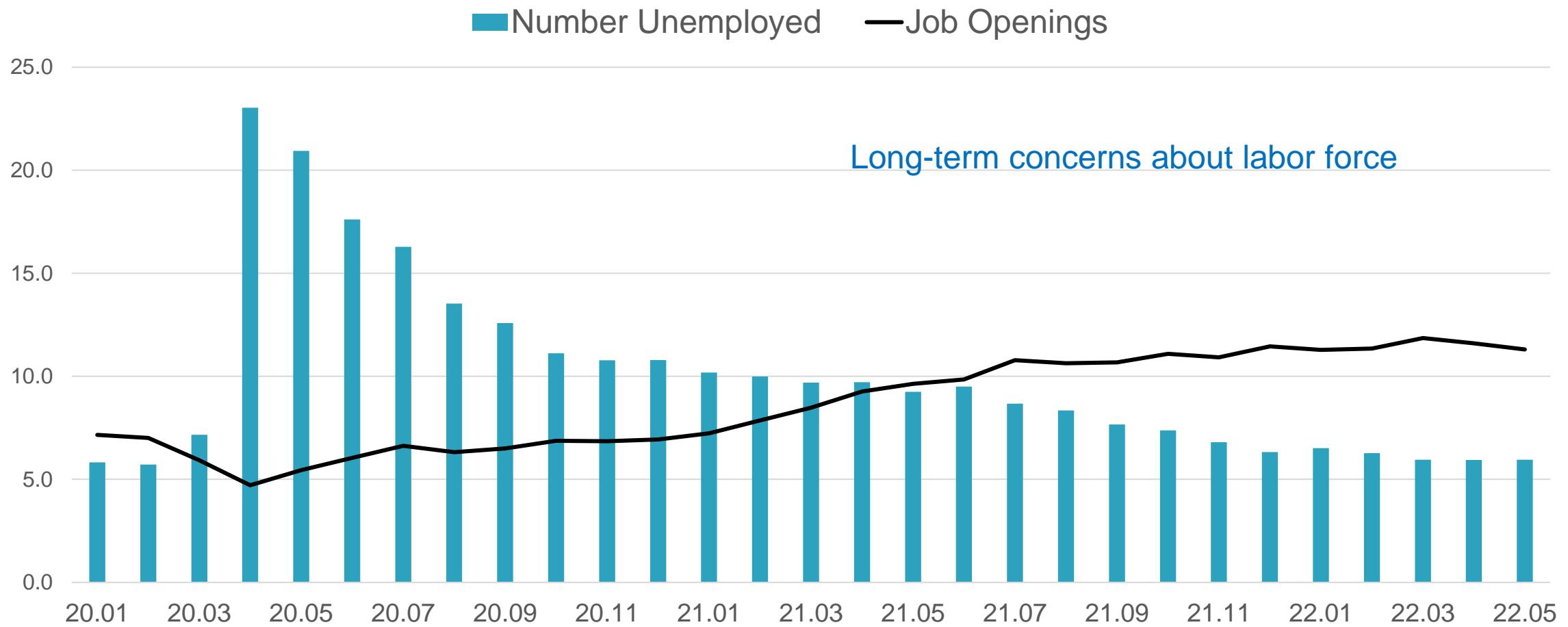
Y-axis: Percent Change Since Peak, X-axis: Years Since Peak



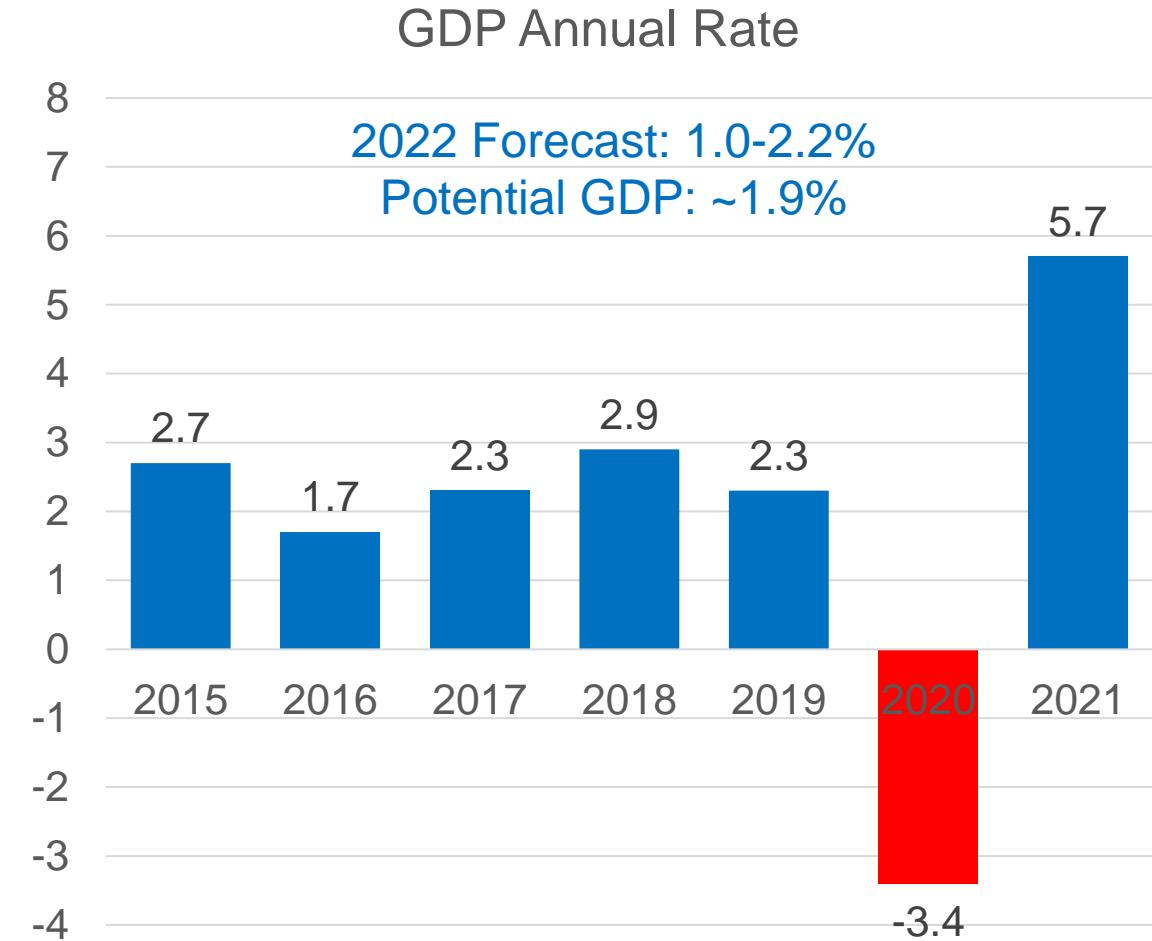
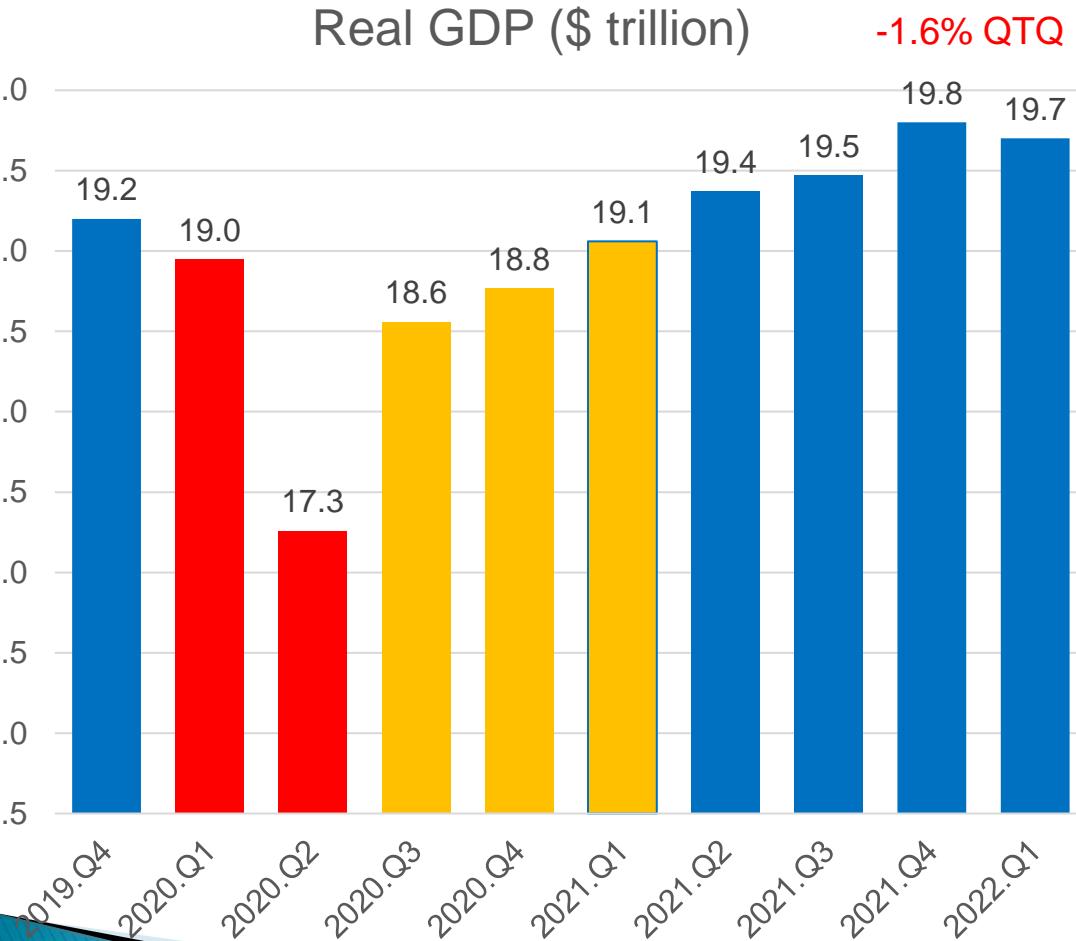
Source: U.S. Department of Labor and Wells Fargo Economics

Big difference
when the
“patient” is
administered a
lot of medicine.

Job Openings vs Number Unemployed, Millions



GDP: 2021 Fastest Since 1984, Slower in 2022-23



Source: BEA, KE

Components of GDP

- ▶ Consumer Spending
 - 2/3 of economy
 - Spending on goods strong
 - Expect increases in services
 - HH finances look good

- ▶ Business Investment Spending
 - Increases in Equipment and Intellectual Property
 - Nonresidential Structures flat

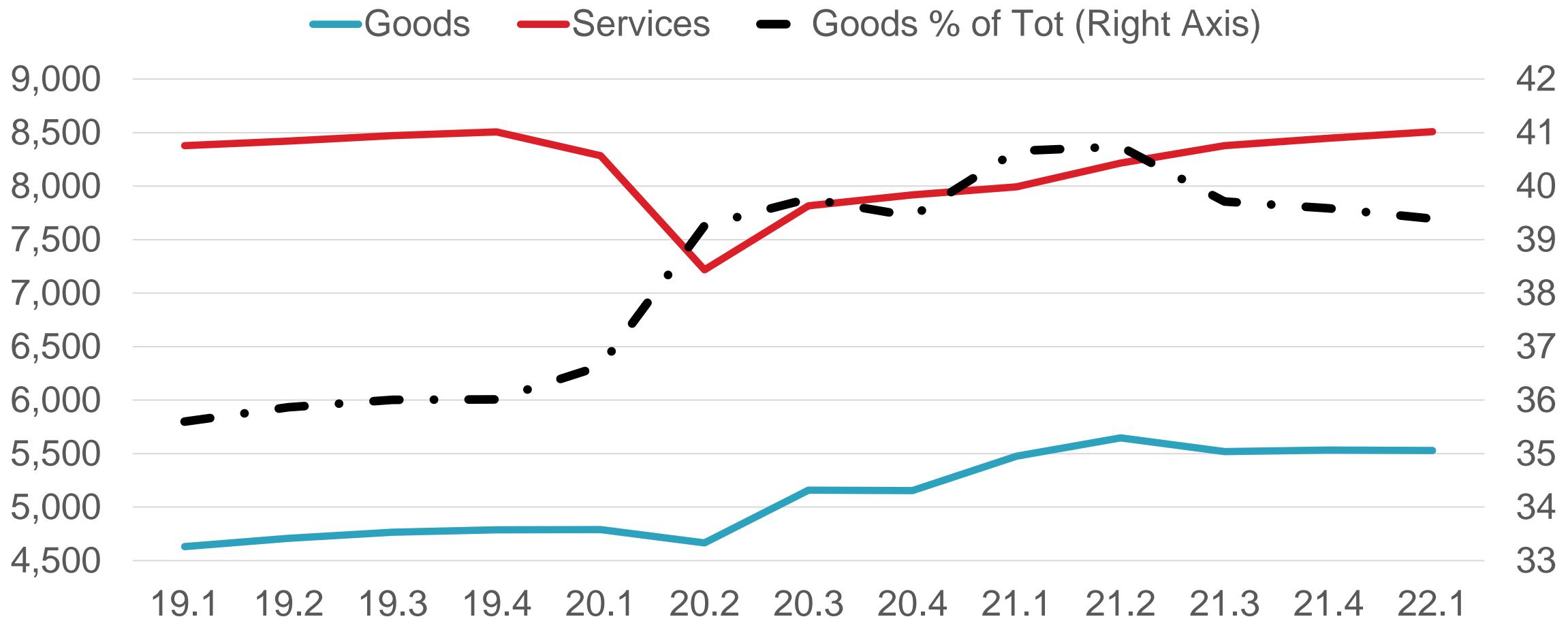
- ▶ Government Spending
 - Federal budget deficit improving
 - 2020-21: ~\$3T
 - 2022: ~\$1T (4% of GDP)
 - State and local surpluses

- ▶ International Trade
 - Typical pattern: imports recover before exports
 - Exports slowed by strong dollar
 - 3-to-2 ratio of imports to exports

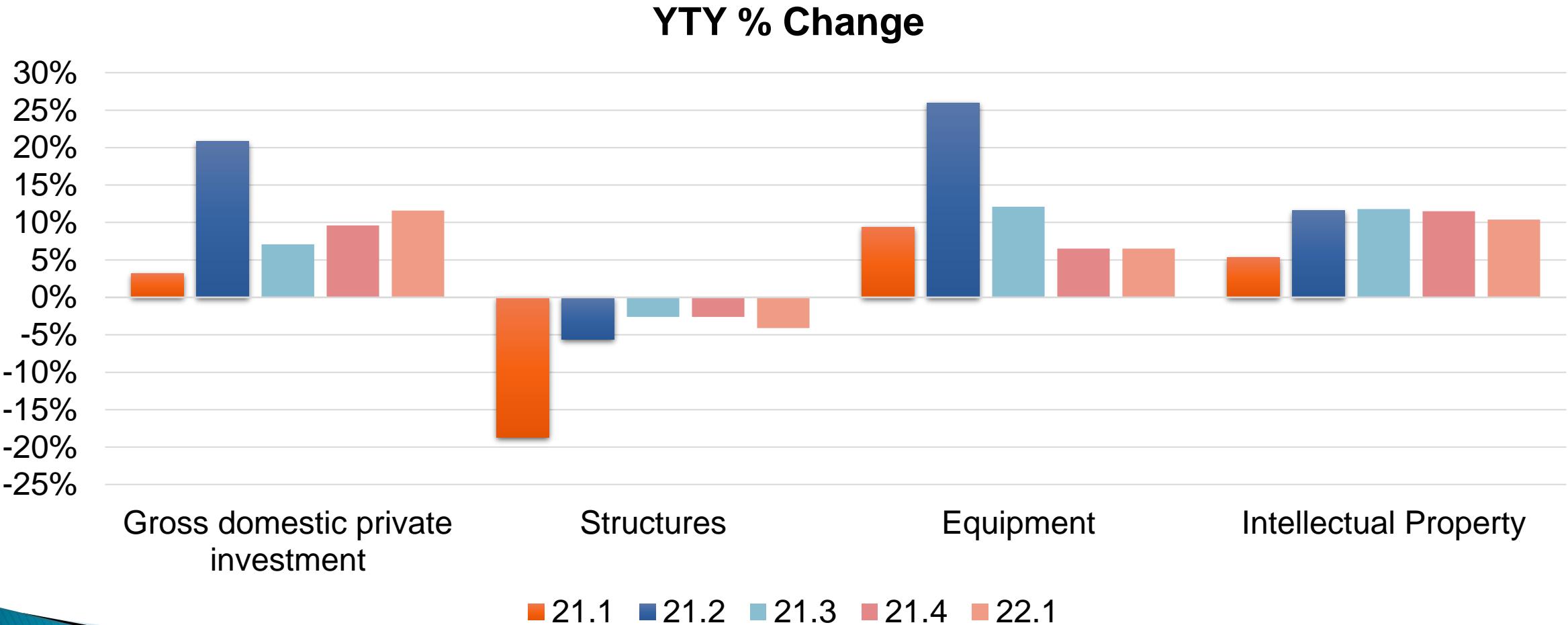
What About the Private Sector Economy?

- ▶ Private sector; 85% of GDP
- ▶ Gross Domestic Income
 - Defined: Consumer spending + Business spending
 - Rate of Change: +1.8% from Q4-21 to Q1-22
- ▶ International Trade
 - Exports add to GDP
 - Imports subtract from GDP
- ▶ Govt Spending
 - Revenue source = taxes, dependent on private sector

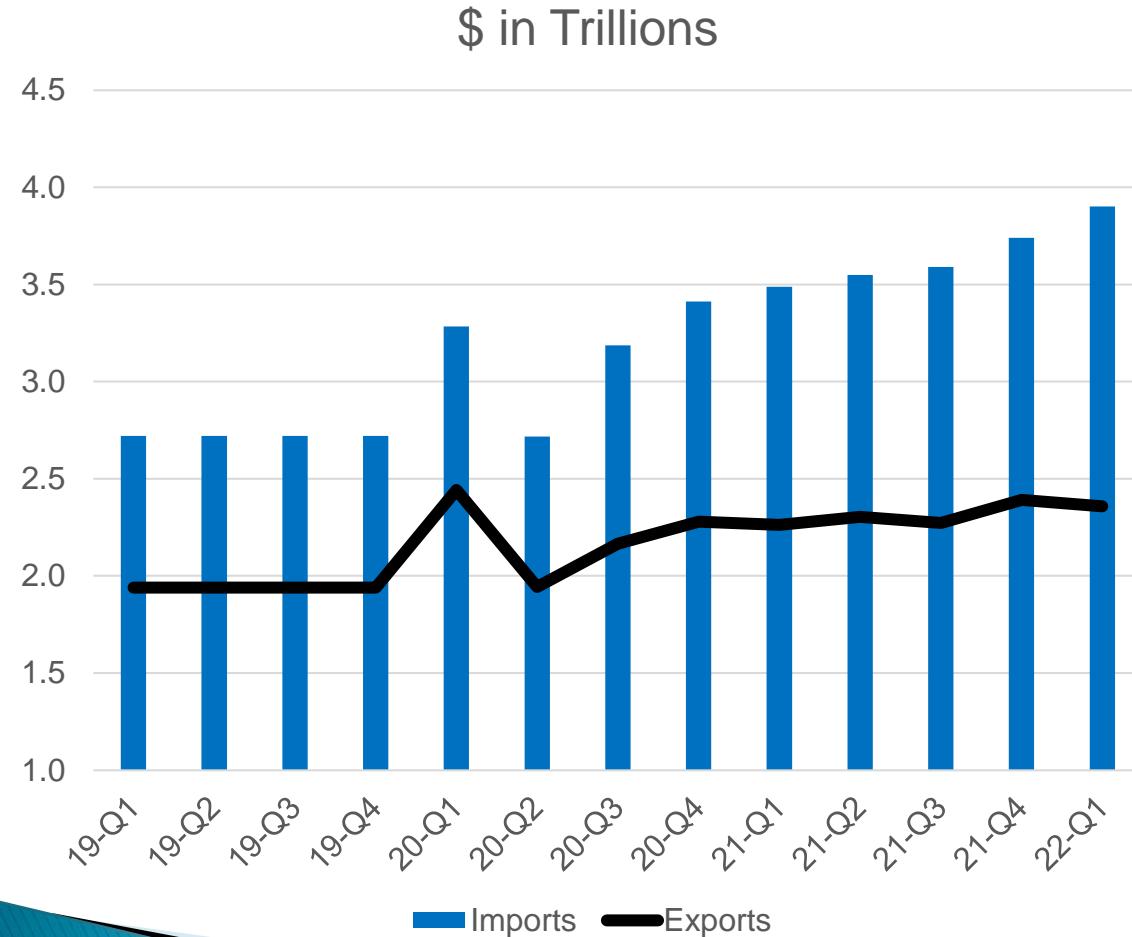
Real Consumer Spending – Changes in mix of goods and services (\$ in Billions)



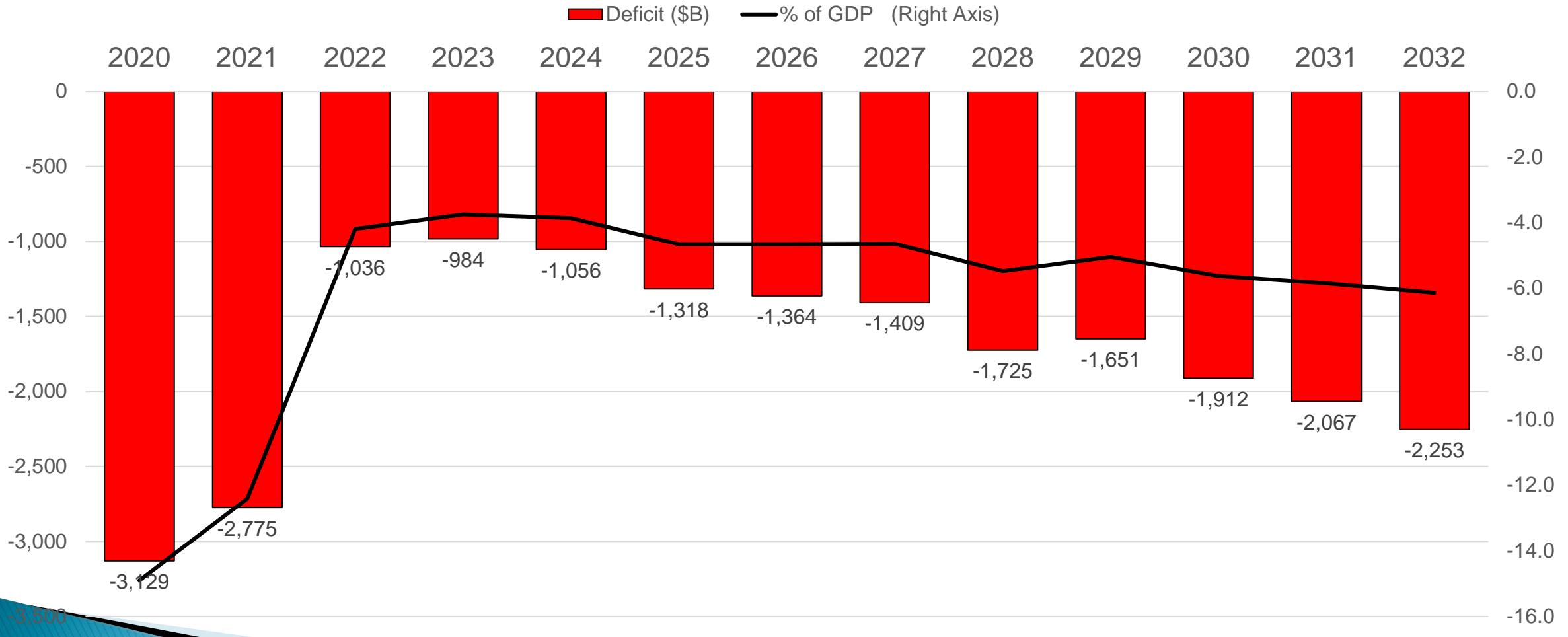
Business Spending: IP Strong, Equipment Modest



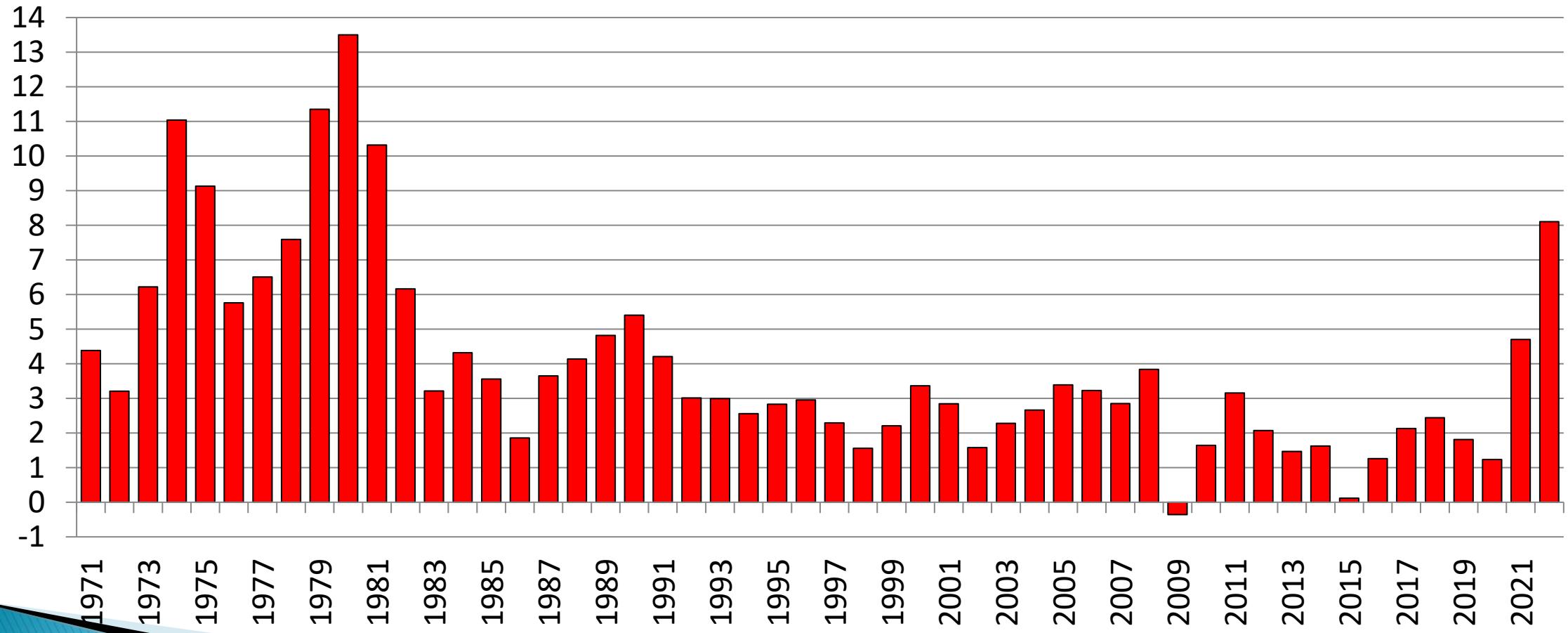
International Trade – Imports Strong, Exports Rising



Trillion Dollar Deficits (CBO May 2022)



Inflation: 2022 Rate Highest in 40 Years, Low Single Digits in Late 2023

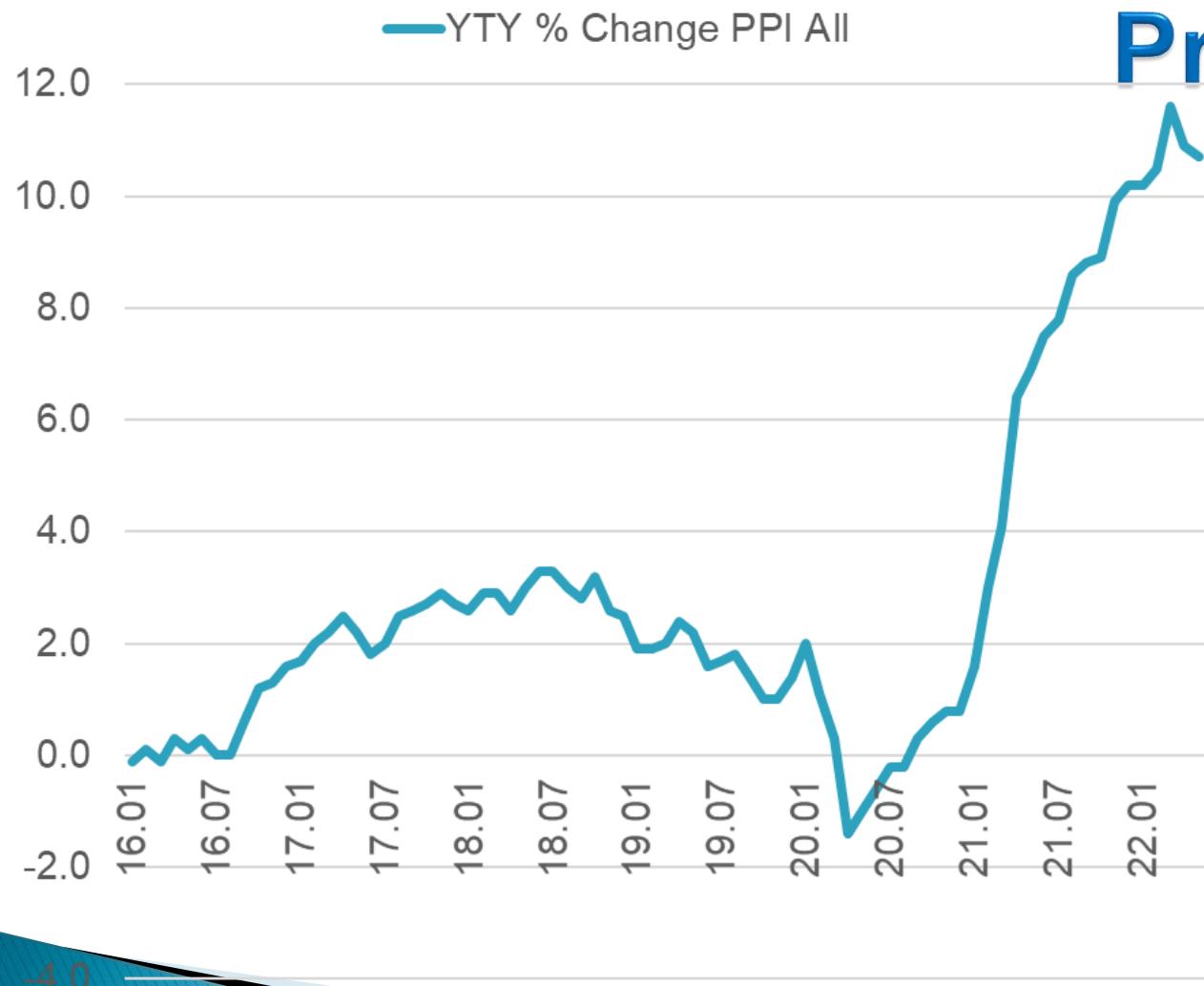


Elevated Producer Prices Now, but Easing in Coming Months

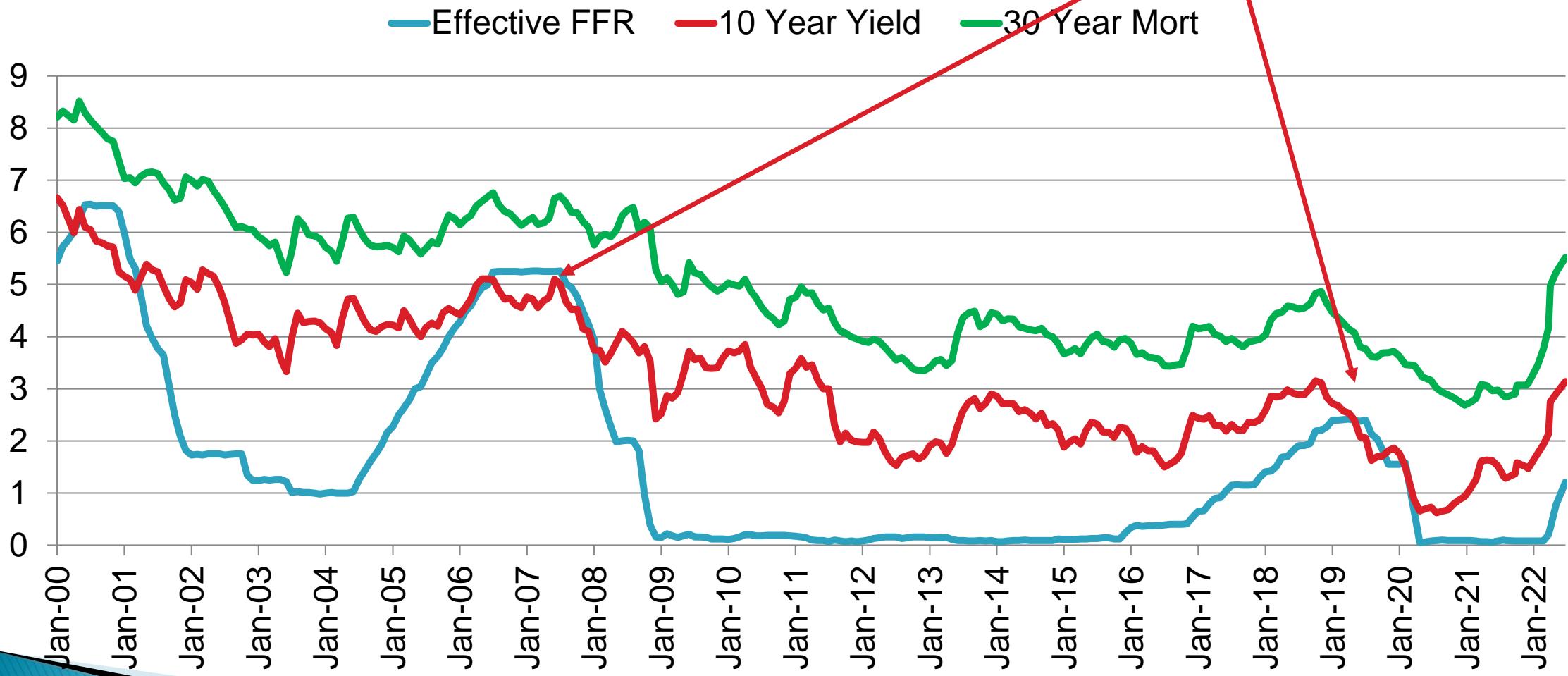
Higher Prices Caused by:

- Commodity constraints
- High energy prices
- Supply-chain problems
- Tight labor market

ALL IMPORTANT:
Expectations of Inflation are Falling!



Financial Markets: Fed Overshoots at Times



Financial Markets Roller Coaster



Shaded areas indicate U.S. recessions.

Source: S&P Dow Jones Indices LLC

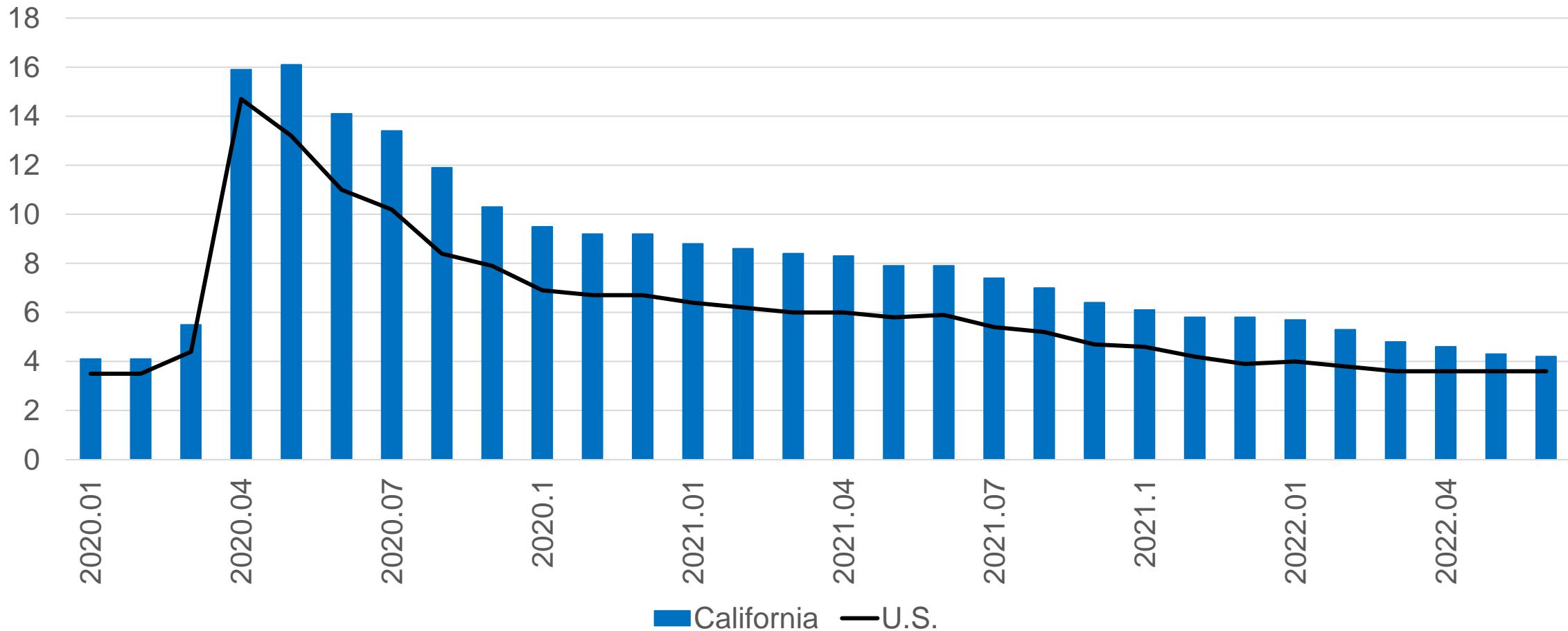
fred.stlouisfed.org

Some Observations

- ▶ Full Recession unlikely...
 - 2-quarter decline in GDP ≠ Recession!
 - Labor market, capacity utilization, and other indicators suggest otherwise
- ▶ Inflation in low single digits by next year
- ▶ Fed CAN overreact
 - Fed generally reacts to events, does not act preemptively
- ▶ Take your trip to Europe now! (high US rates=strong dollar!)
- ▶ Long run challenge: tight labor market
- ▶ Recession as self-fulfilling prophecy?

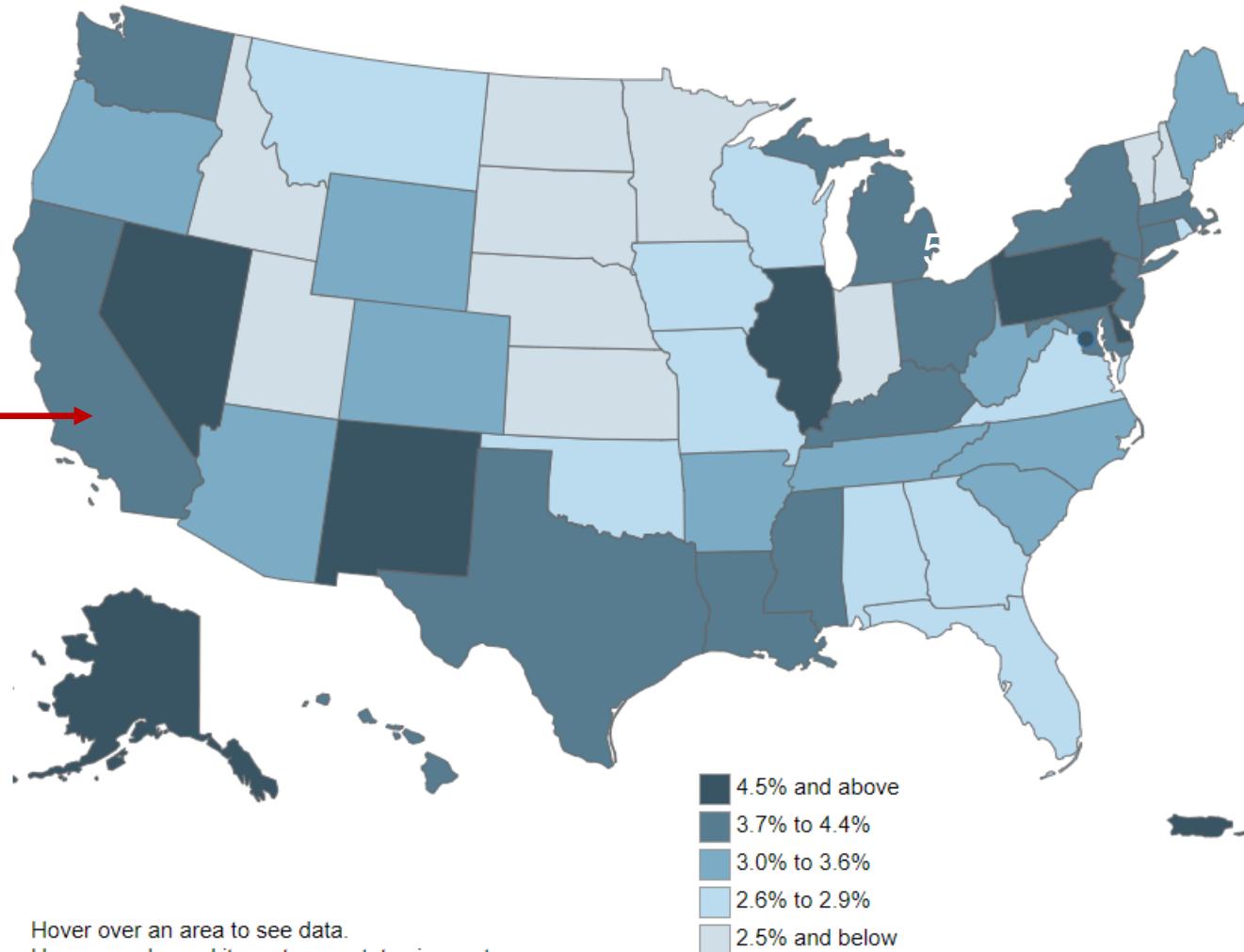
California and Regions: On the Rise

California Unemployment Rate Much Improved (4.2%)...

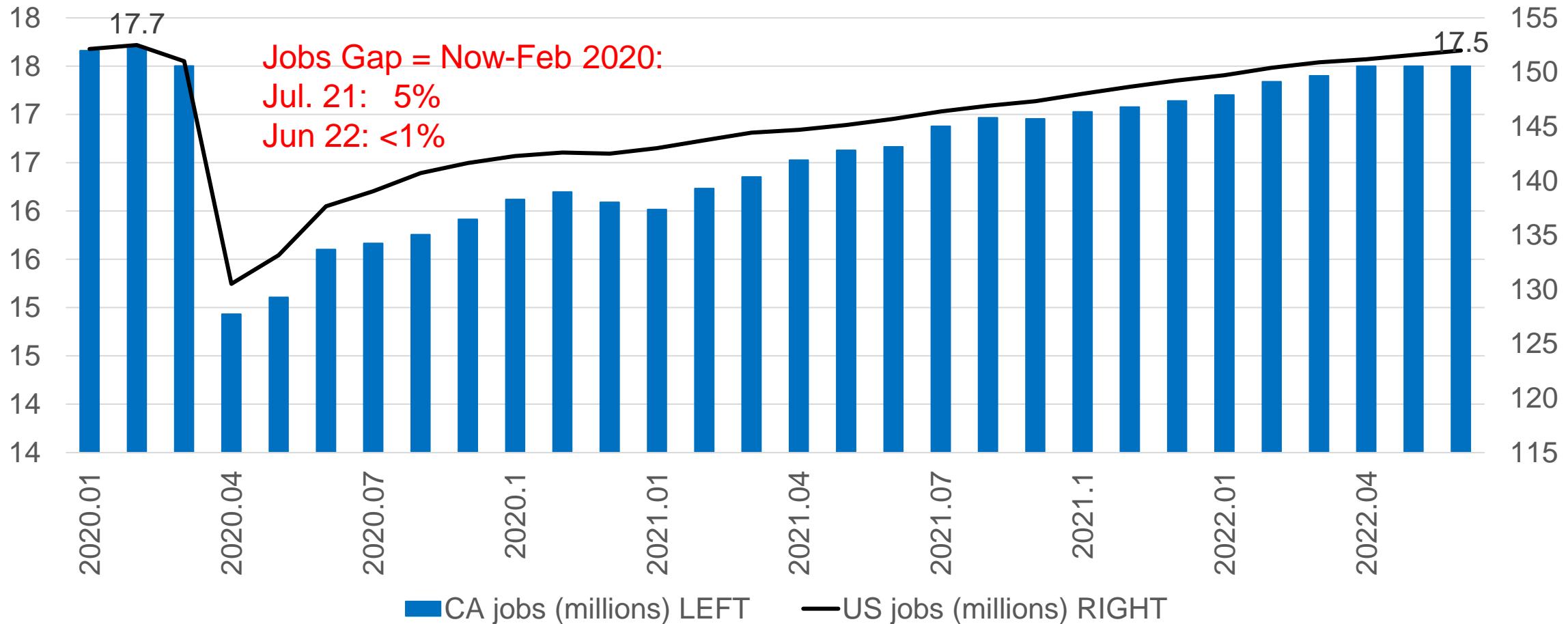


...But Still on the High Side, Nationally (Jun. 22)

You are here
4.2%



CA Jobs: Full Recovery in Late 2022/Early 2023



CA State GDP Outpacing Most States

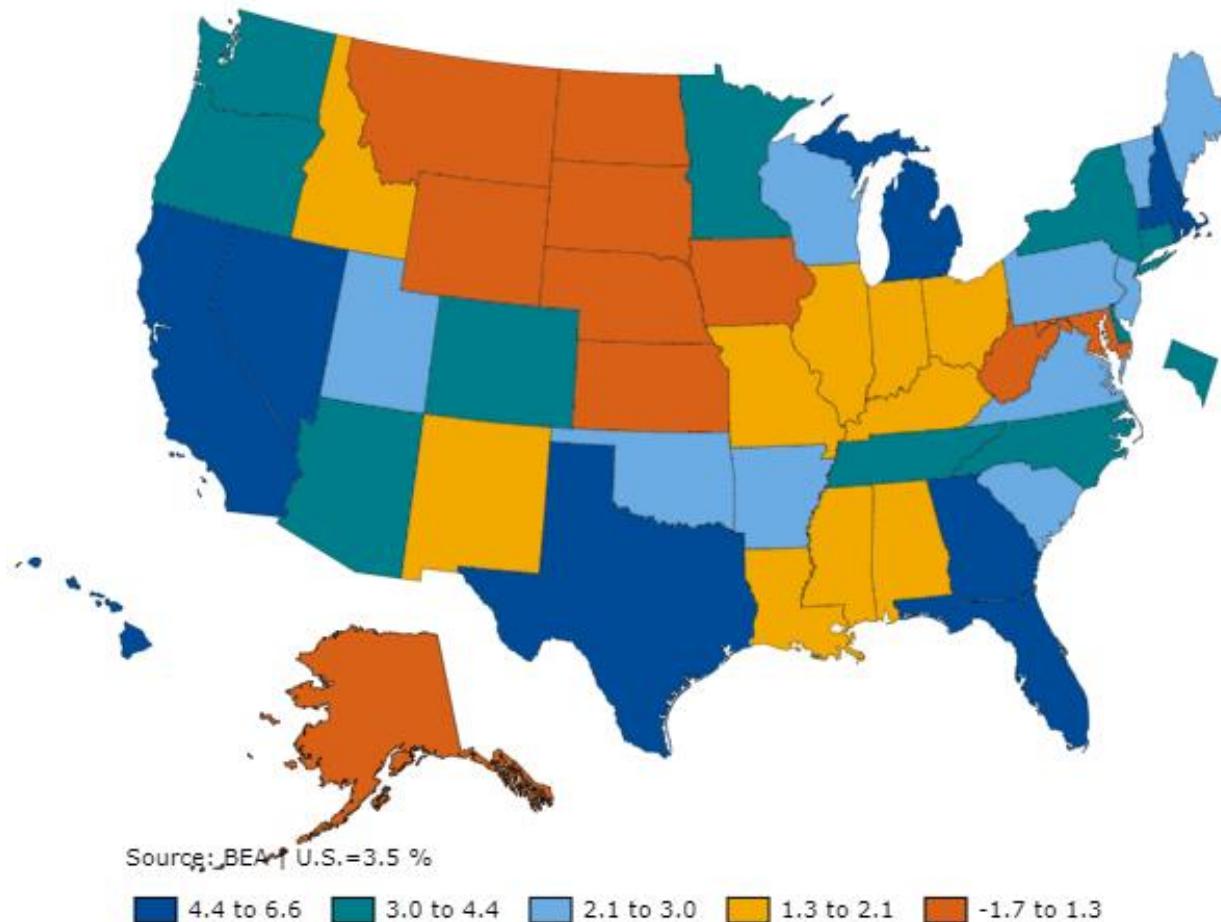
Year-to-year %
change from Q1-21
to Q1-22

CA: 5.0%

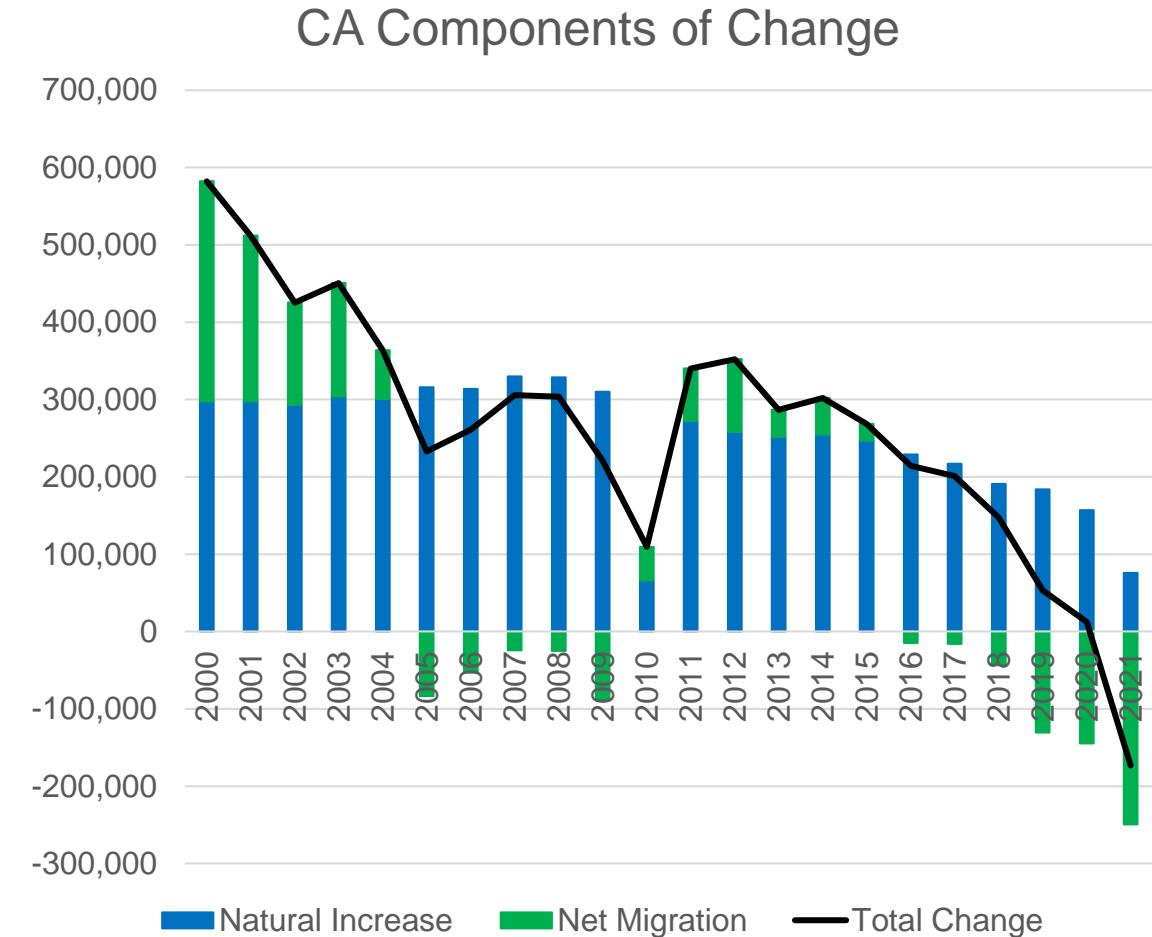
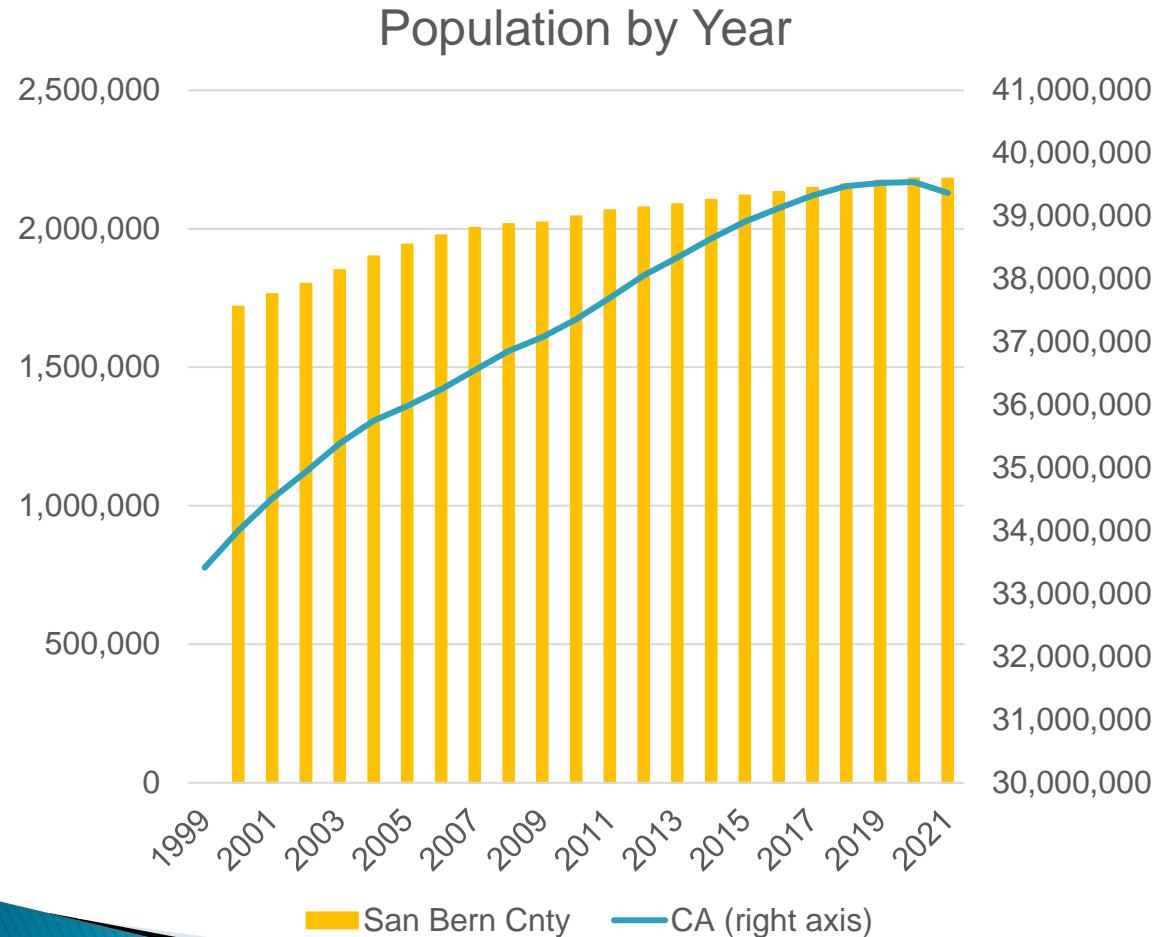
FL: 5.4%

TX: 4.7%

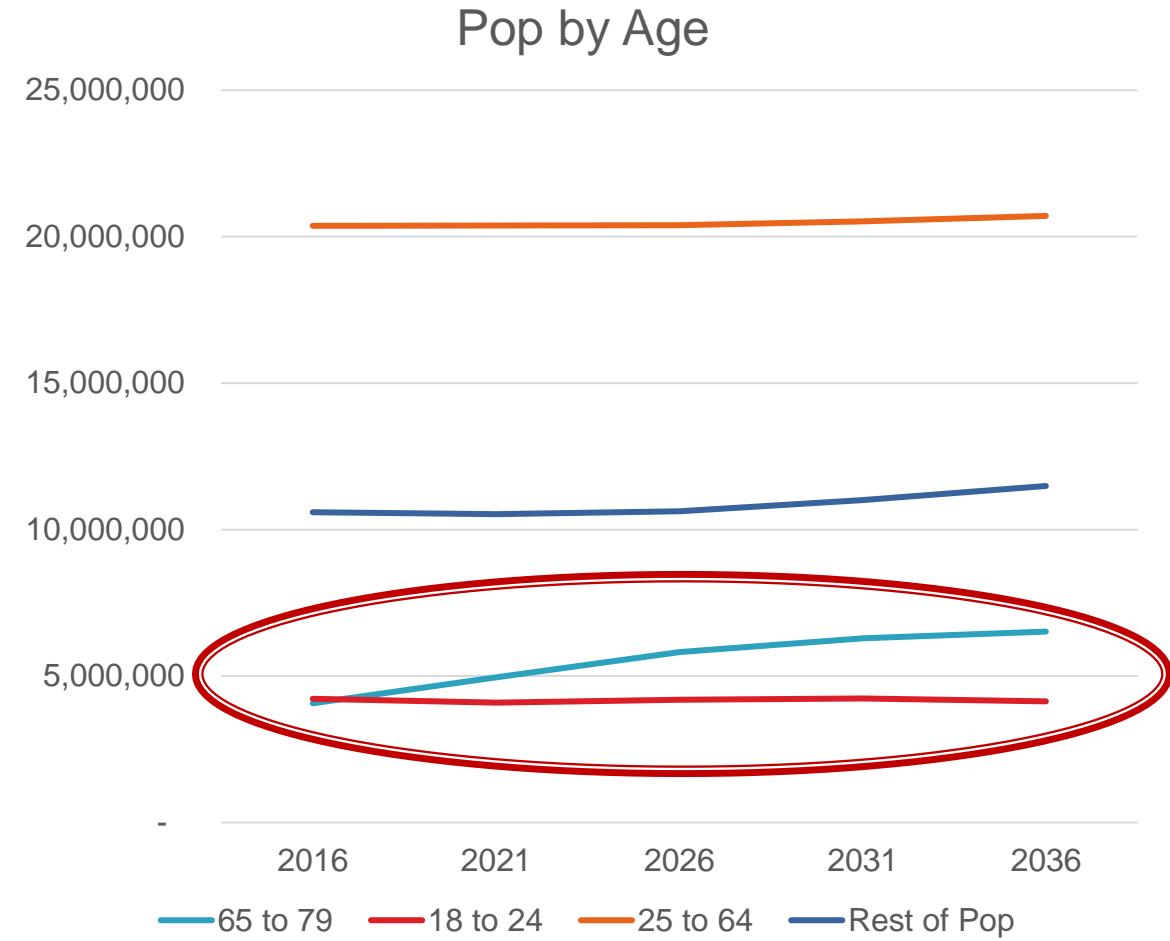
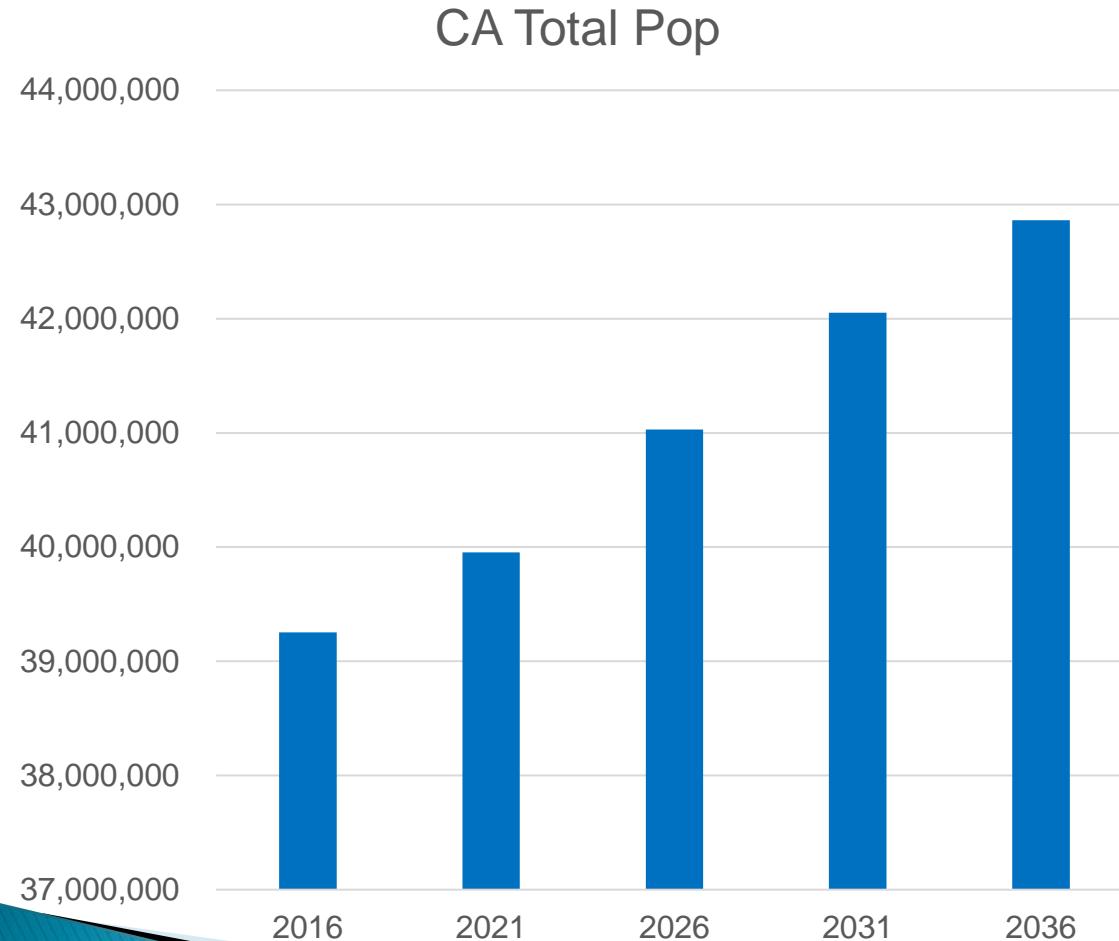
US: 3.5%



Long Run: Population in California and S.B. County



Population Grows but What about Labor Force?



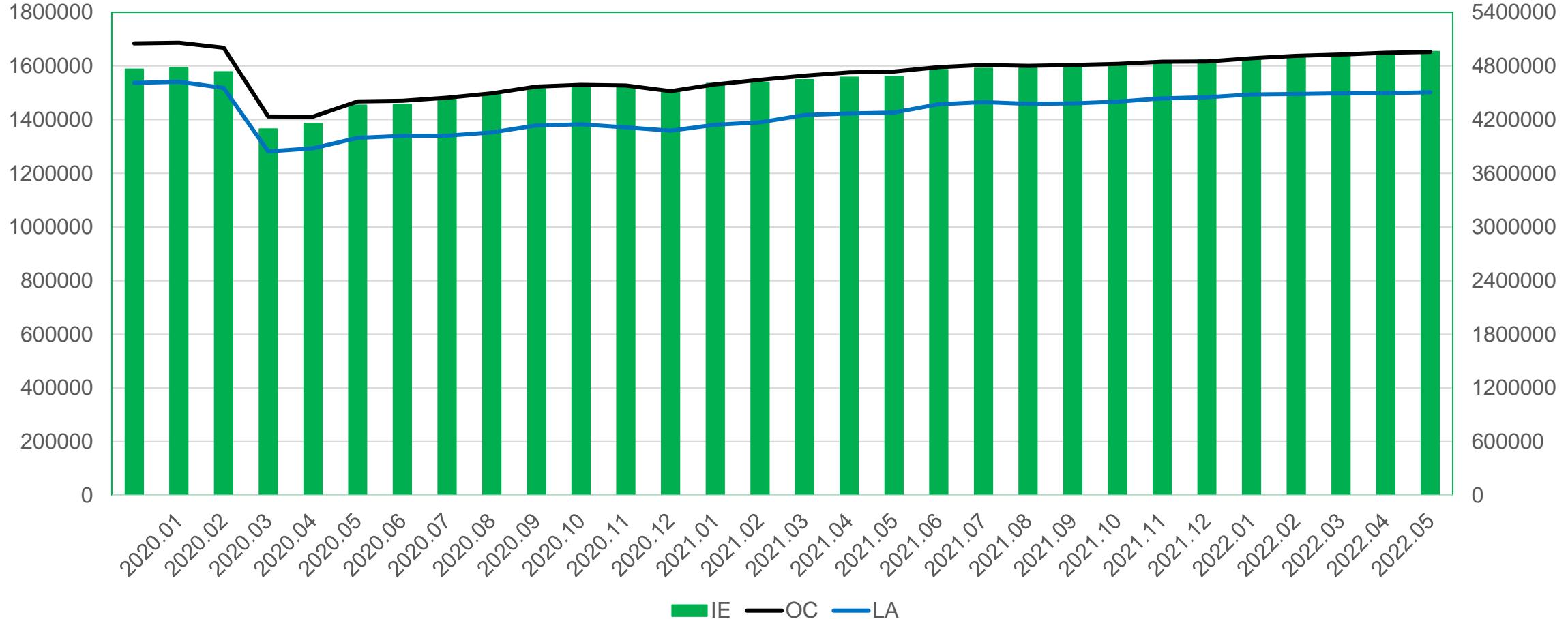
Southern California

Unemployment Rates by County

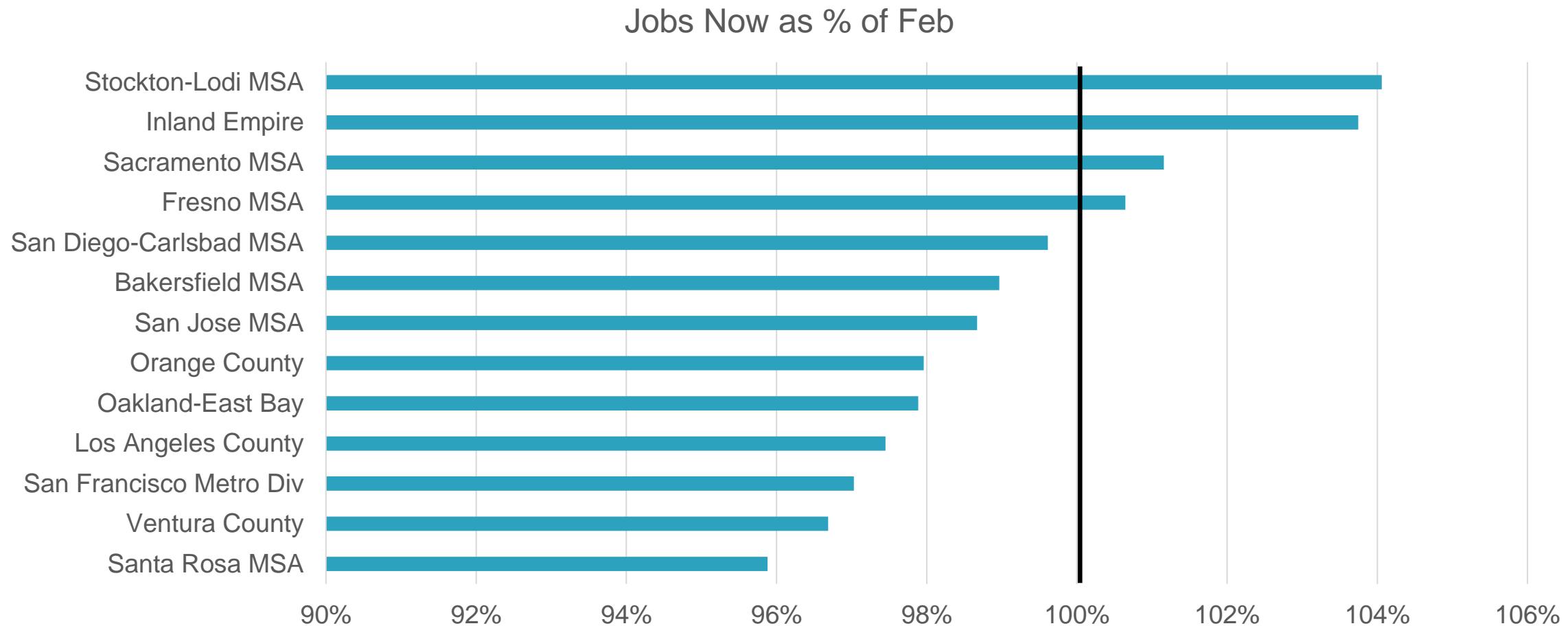


Source: EDD

IE Alone Has Exceeded Pre-Pandemic Job Count



Jobs Gaps Closing Across California Regions



IE Jobs by Industry

Major Industry	22.06	MTM	YTY	MTM % Change	YTY % change	% of Feb 2020
Total Nonfarm	1,628,000	18,000	67,500	1.1%	4.3%	103
Leisure & Hospitality	174,300	6,900	31,400	4.1%	22.0%	97
Transportation, Warehousing & Utilities	213,800	1,300	22,800	0.6%	11.9%	140
Government	252,600	-200	14,200	-0.1%	6.0%	95
Retail Trade	180,800	-2,300	7,000	-1.3%	4.0%	102
Health Care & Social Assistance	238,800	2,300	5,100	1.0%	2.2%	100
Administrative & Support & Waste Services	115,500	1,800	4,000	1.6%	3.6%	105
Other Services	44,000	300	3,500	0.7%	8.6%	91
Manufacturing	96,400	1,400	2,400	1.5%	2.6%	96
Professional, Scientific & Technical Services	46,100	700	2,200	1.5%	5.0%	101
Educational Services	19,400	700	1,800	3.7%	10.2%	89
Real Estate & Rental & Leasing	21,400	400	1,500	1.9%	7.5%	103
Wholesale Trade	67,600	-600	1,200	-0.9%	1.8%	98
Information	9,800	100	1,100	1.0%	12.6%	87
Construction	108,300	4,700	900	4.5%	0.8%	99
Mining and Logging	1,300	0	0	0.0%	0.0%	100
Finance & Insurance	24,400	300	-300	1.2%	-1.2%	97
Management of Companies & Enterprises	8,500	200	-500	2.4%	-5.6%	96

Source: EDD, KE

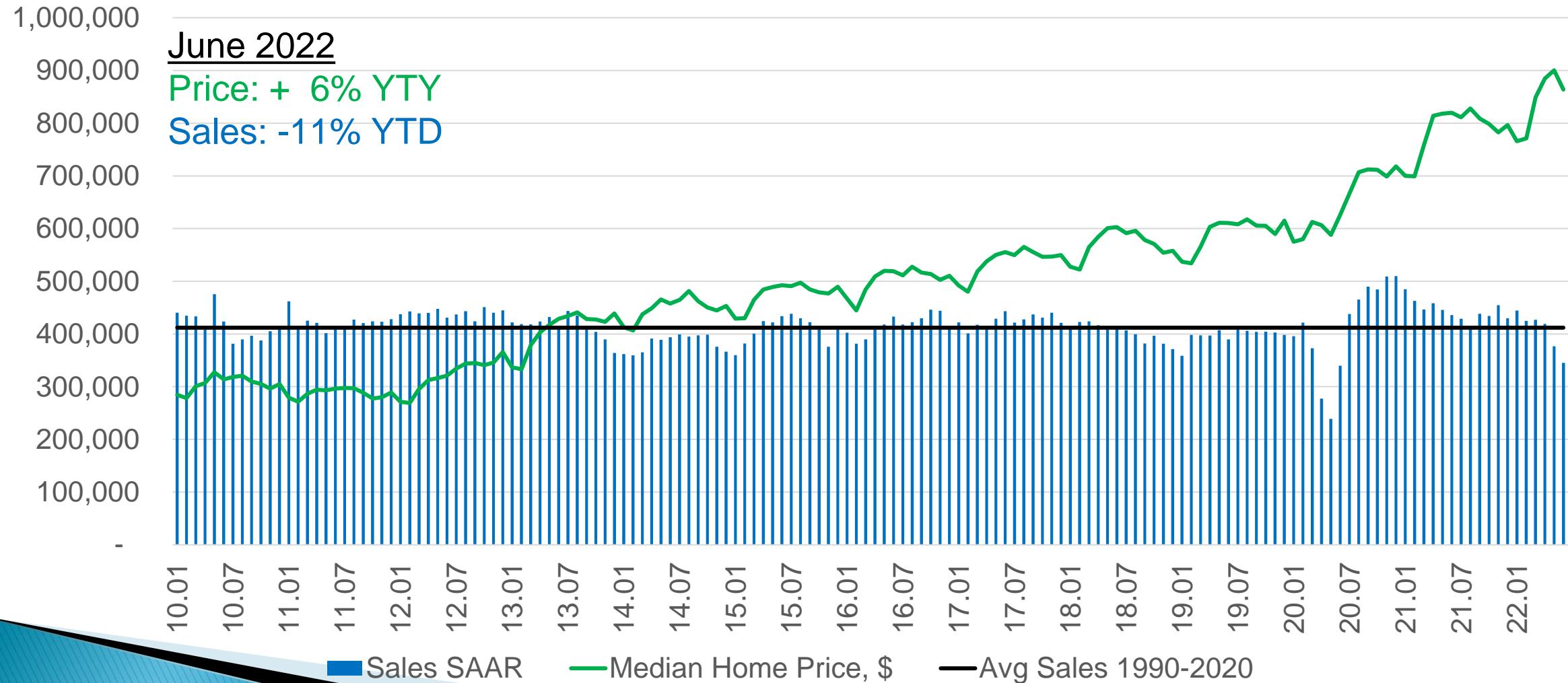
LA County Jobs by Industry

Major Industry	22.06	MTM	YTY	MTM % Change	YTY % change	% of Feb 2020
Total Nonfarm	4,514,500	9,500	237,300	0.2%	5.5%	98
Leisure & Hospitality	501,200	5,200	59,100	1.0%	13.4%	92
Information	229,300	200	27,700	0.1%	13.7%	97
Health Care & Social Assistance	734,300	-300	19,100	0.0%	2.7%	101
Professional, Scientific & Technical Services	314,900	500	18,400	0.2%	6.2%	101
Retail Trade	413,900	4,700	17,700	1.1%	4.5%	100
Administrative & Support & Waste Services	277,800	200	17,500	0.1%	6.7%	101
Educational Services	130,800	-6,900	16,000	-5.0%	13.9%	93
Transportation and Warehousing	213,700	-200	15,600	-0.1%	7.9%	107
Other Services	150,300	400	14,800	0.3%	10.9%	92
Manufacturing	320,800	100	8,200	0.0%	2.6%	95
Government	573,100	1,300	7,000	0.2%	1.2%	96
Construction	156,200	1,700	6,500	1.1%	4.3%	102
Wholesale Trade	207,600	500	6,200	0.2%	3.1%	95
Real Estate & Rental & Leasing	85,300	0	2,200	0.0%	2.6%	96
Management of Companies & Enterprises	63,300	600	700	1.0%	1.1%	96
Finance & Insurance	128,600	1,400	400	1.1%	0.3%	95
Utilities	11,800	100	200	0.9%	1.7%	100
Mining and Logging	1,600	0	0	0.0%	0.0%	84

Source: EDD, KE

Housing

California Housing: Price at \$863K, Sales Down as Affordability Falls



Prices Rising, Sales Faltering

Southern California	21.06	22.05	22.06	Price MTM% Chg	Price YTY% Chg	Sales YTY% Chg
Los Angeles	\$796,120	\$798,720	\$860,230	8%	8%	-21%
Orange	\$1,138,000	\$1,295,000	\$1,265,000	-2%	11%	-36%
Riverside	\$575,000	\$650,000	\$645,000	-1%	12%	-27%
San Bernardino	\$435,000	\$490,000	\$490,000	0%	13%	-28%
San Diego	\$865,000	\$970,000	\$950,000	-2%	10%	-31%
Ventura	\$840,000	\$915,000	\$930,000	2%	11%	-23%

Source: California Association of Realtors, KE

Supply of Existing Homes: Demographics and Chronically Low Inventory Drive Price Increases

Unsold Inventory Index (Months)			
Region	21.06	22.05	22.06
Los Angeles	1.8	2.3	2.5
Orange	1.5	2.0	2.4
Riverside	1.7	2.0	2.6
San Bernardino	1.9	2.8	2.9
San Diego	1.5	1.9	2.4
Ventura	1.8	2.0	2.2

Source: California Association of Realtors, KE

Affordability Falling

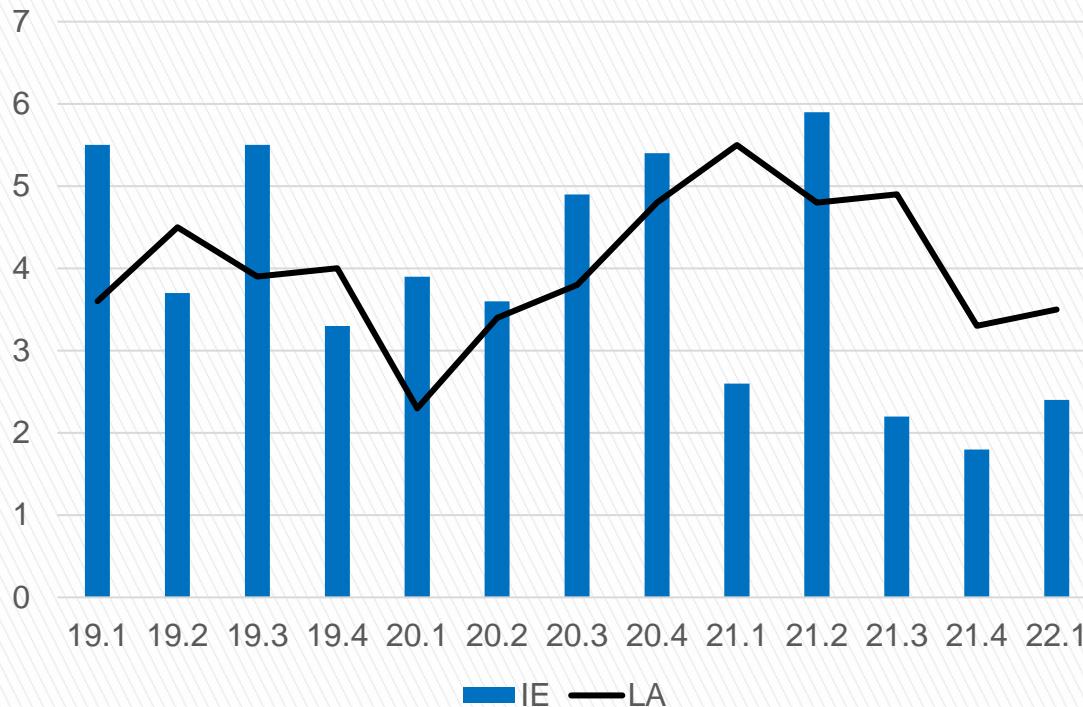
Region	2021.1	2021.4	2022.1	Median Home Price	Monthly Payment Including Taxes & Insurance	Minimum Qualifying Income
Los Angeles	24	21	20	\$792,470	\$3,930	\$157,200
Orange	20	17	13	\$1,260,000	\$6,250	\$250,000
Riverside	36	32	28	\$607,000	\$3,010	\$120,400
San Bernardino	45	42	39	\$460,000	\$2,280	\$91,200
San Diego	25	23	19	\$905,000	\$4,490	\$179,600
Ventura	27	24	21	\$882,070	\$4,370	\$174,800
CA SFH (SAAR)	27	25	24	\$797,000	\$3,950	\$158,000
US	54	51	47	\$368,200	\$1,830	\$73,200

Source: C.A.R., KE

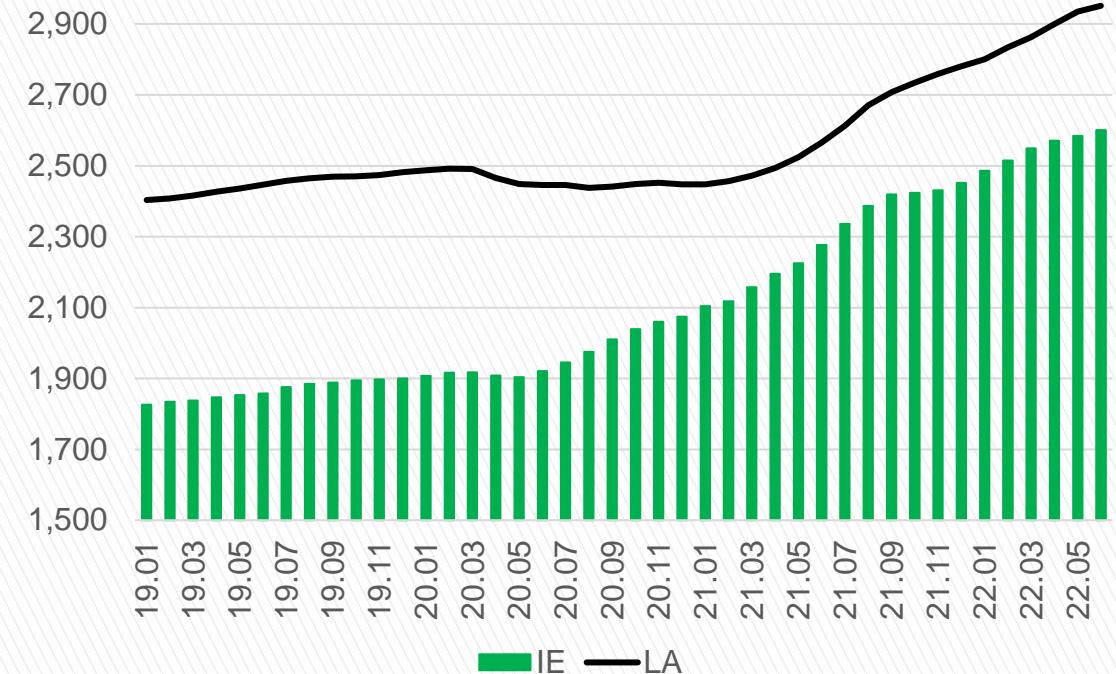
NOTE: Estimated median household income 2021 in CA: \$85,400

Rental Market

Vacancy Rate by Quarter



Rent by Month



Vacancy Rates: IE vs LA MSA

Monthly Rent: IE vs LA MSA

More Construction in Dallas than LA, IE, Sac, and SD Combined (May 2022 YTD)

Rank	Name	Total	Rank	Name	
1	Dallas-Fort Worth-Arlington, TX	34,053	21	Riverside-San Bernardino-Ontario, CA	7,588
2	Houston-The Woodlands-Sugar Land, TX	32,719	22	Indianapolis-Carmel-Anderson, IN	7,267
3	New York-Newark-Jersey City, NY-NJ-PA	25,950	23	Las Vegas-Henderson-Paradise, NV	7,189
4	Phoenix-Mesa-Chandler, AZ	22,039	24	Chicago-Naperville-Elgin, IL-IN-WI	7,086
5	Austin-Round Rock-Georgetown, TX	21,325	25	Boston-Cambridge-Newton, MA-NH	6,507
6	Atlanta-Sandy Springs-Alpharetta, GA	19,262	26	Cape Coral-Fort Myers, FL	5,928
7	Charlotte-Concord-Gastonia, NC-SC	14,364	27	Lakeland-Winter Haven, FL	5,776
8	Orlando-Kissimmee-Sanford, FL	14,321	28	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	5,776
9	Los Angeles-Long Beach-Anaheim, CA	12,945	29	Boise City, ID	5,593
10	Washington-Arlington-Alexandria, DC-VA-MD-WV	12,345	30	Myrtle Beach-Conway-North Myrtle Beach, SC-NC	5,278
11	Minneapolis-St. Paul-Bloomington, MN-WI	12,064	31	Salt Lake City, UT	5,004
12	Seattle-Tacoma-Bellevue, WA	11,759	32	Kansas City, MO-KS	4,991
13	Denver-Aurora-Lakewood, CO	11,181	33	Colorado Springs, CO	4,915
14	Jacksonville, FL	10,994	34	Sacramento-Roseville-Folsom, CA	4,905
15	San Antonio-New Braunfels, TX	10,180	35	Portland-Vancouver-Hillsboro, OR-WA	4,885
16	Nashville-Davidson--Murfreesboro--Franklin, TN	10,029	36	Provo-Orem, UT	4,757
17	Raleigh-Cary, NC	9,883	37	Richmond, VA	4,604
18	Miami-Fort Lauderdale-Pompano Beach, FL	9,412	38	St. Louis, MO-IL	4,351
19	Tampa-St. Petersburg-Clearwater, FL	9,002	39	Columbus, OH	4,262
20	North Port-Sarasota-Bradenton, FL	8,069	40	San Diego-Chula Vista-Carlsbad, CA	4,220

Source: Census Building Permits Survey, Compiled by KE

What to Tell Clients

▶ BUYERS

- Pool of qualified buyers reduced by
 - higher prices and higher rates
 - SALT limitation
- Trifecta: right house, right price, right rate
- Think long run: house, neighborhood, family/lifestyle, AND investment potential

▶ SELLERS

- Missed the peak in the market?
- What's your timeline?

▶ HISTORY

- Foreclosures?

Conclusion

Economic Outlook: We live in interesting times!"

Outlook

- ▶ Recession unlikely, mild if at all.
- ▶ Inflation coming down in 2023
- ▶ Interest rate hikes: Fed can over-tighten, housing hit hard
- ▶ Labor market will remain tight

Wild Cards

- ▶ Pandemic
- ▶ Fed action
- ▶ Russia-Ukraine war
- ▶ US-Saudi relationship
- ▶ Labor force dynamics

Economic Outlook

- ▶ California remains the nation's largest state economy
- ▶ State may avoid recession, but state budget will be hit by poor stock market performance in 2022
- ▶ Long run challenges: California in 2032?...2042?
 - Tight labor market
 - Inadequate supply of housing
- ▶ Challenge and Opportunity for IE:
 - Meet the labor market and housing supply needs of So Cal
- ▶ “The future does not happen, it is created!”
 - Now is the time to plan for next 10...20 years.

Thank You!

Kleinhenz Economics
Cities and Regions | Economic Development
Real Estate | Public Speaking

Robert@KleinhenzEconomics.com
213.925.0221