



Social Narratives, Economic Realities and the Outlook for 2024

Focus on California

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Founding Partner, Beacon Economics
May 2024



Overview

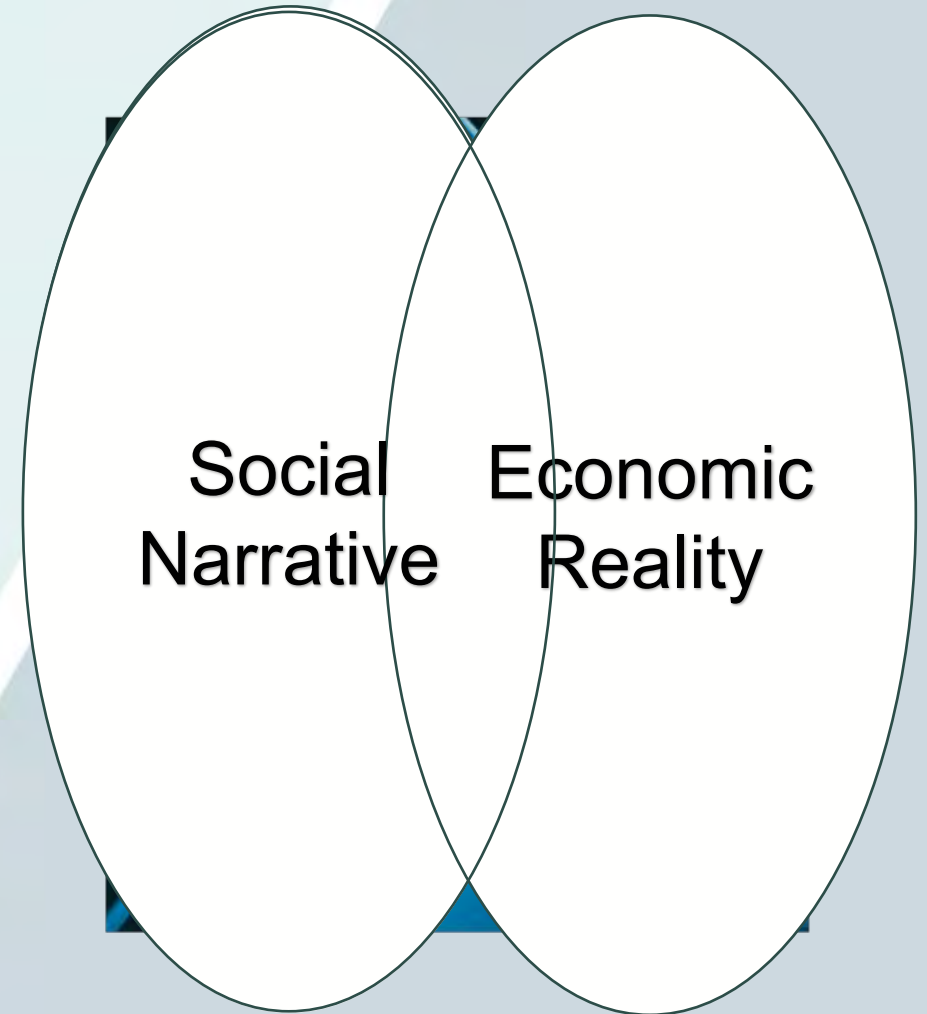
Beacon Economics

- Founded in 2006 on the basic principle of letting the data drive the narrative
- Custom economic reports, analyses & forecasts

Today's Presentation

- What we *think* is happening in our economy
- What is *actually* happening in our economy
- How the combination of the two drive the outlook

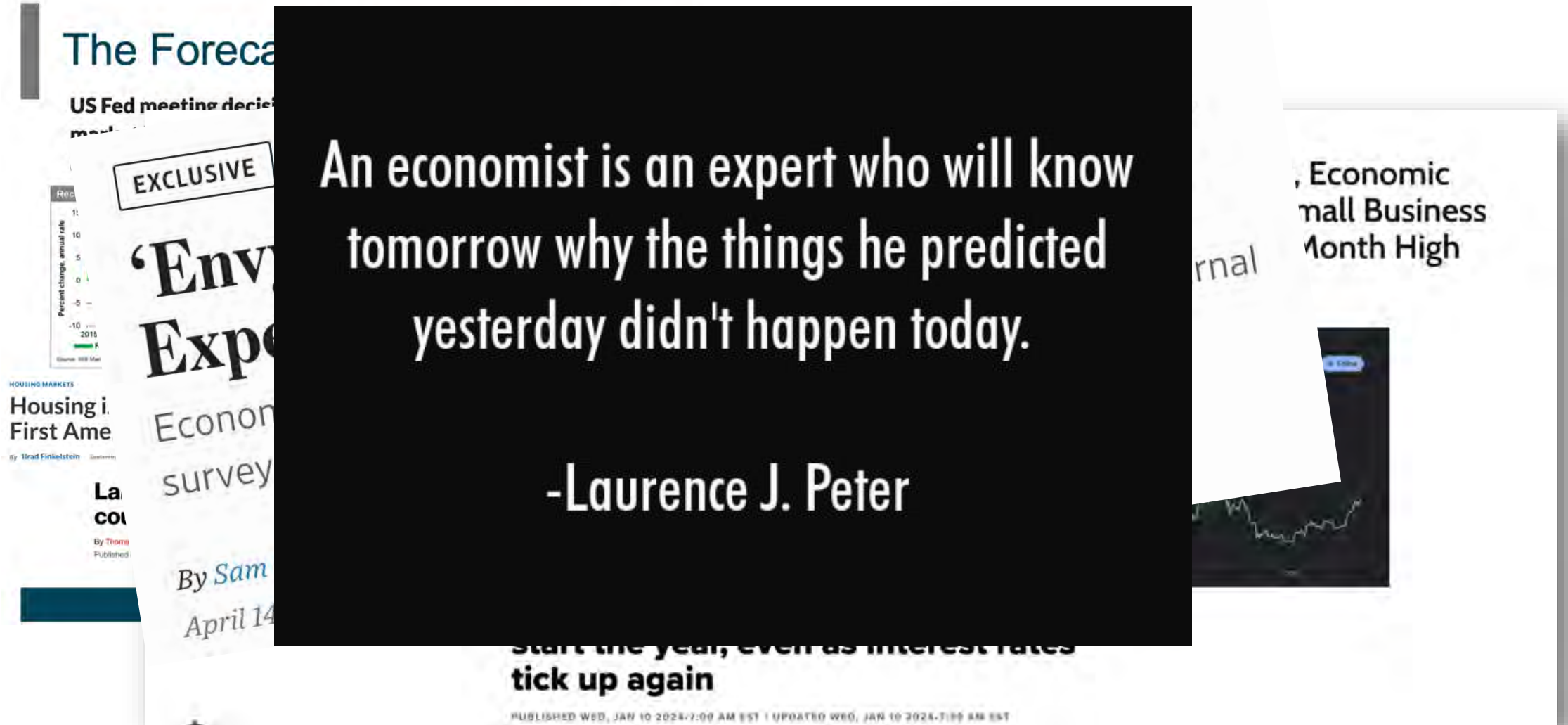
Access to slides available through QR code at end of presentation



The 2023 / 2024 Macro Narrative

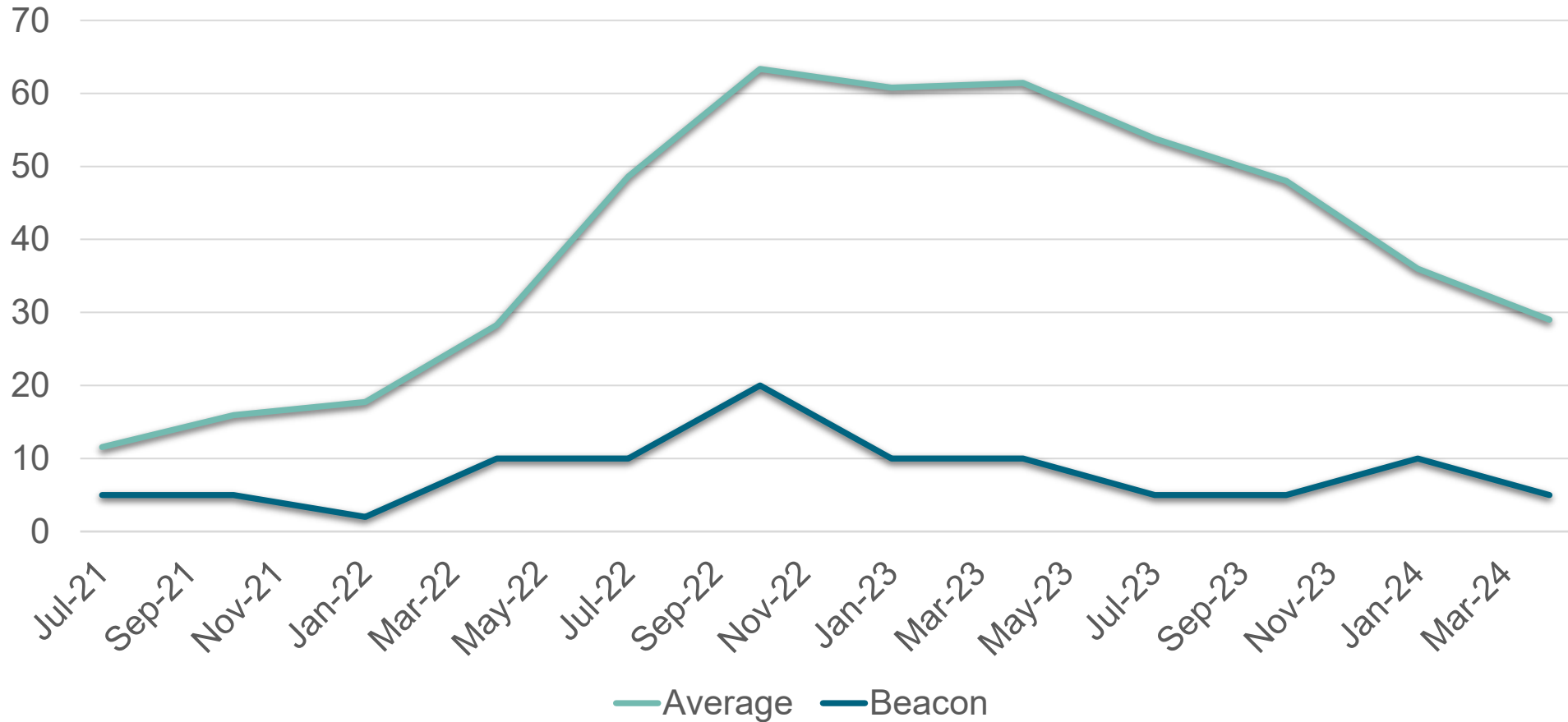
An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.

-Laurence J. Peter



Beacon's Outlook

WSJ Recession Probability Forecast
Estimated Probability of US entering a recession in the next 12 months



Beacon's Outlook for '24

There was little risk of a “hard landing”

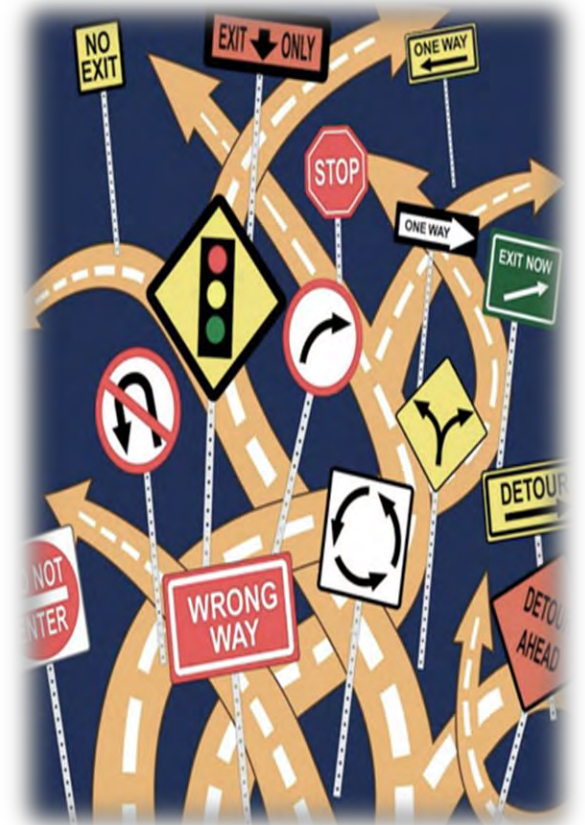
- Presumed distress were signs of an overheated economy
- The Good: economy will continue to expand at a decent pace
- The Bad: interest rates will not be falling soon
- The Ugly: Asset markets, federal deficits, and labor supply

California Economy: Not Dead Yet

- Economy is stronger than the headlines would have you think
- Housing shortages remain dominant issue
- Budget deficit a function of poor fiscal planning

The Big Issue: false narratives / bad policies

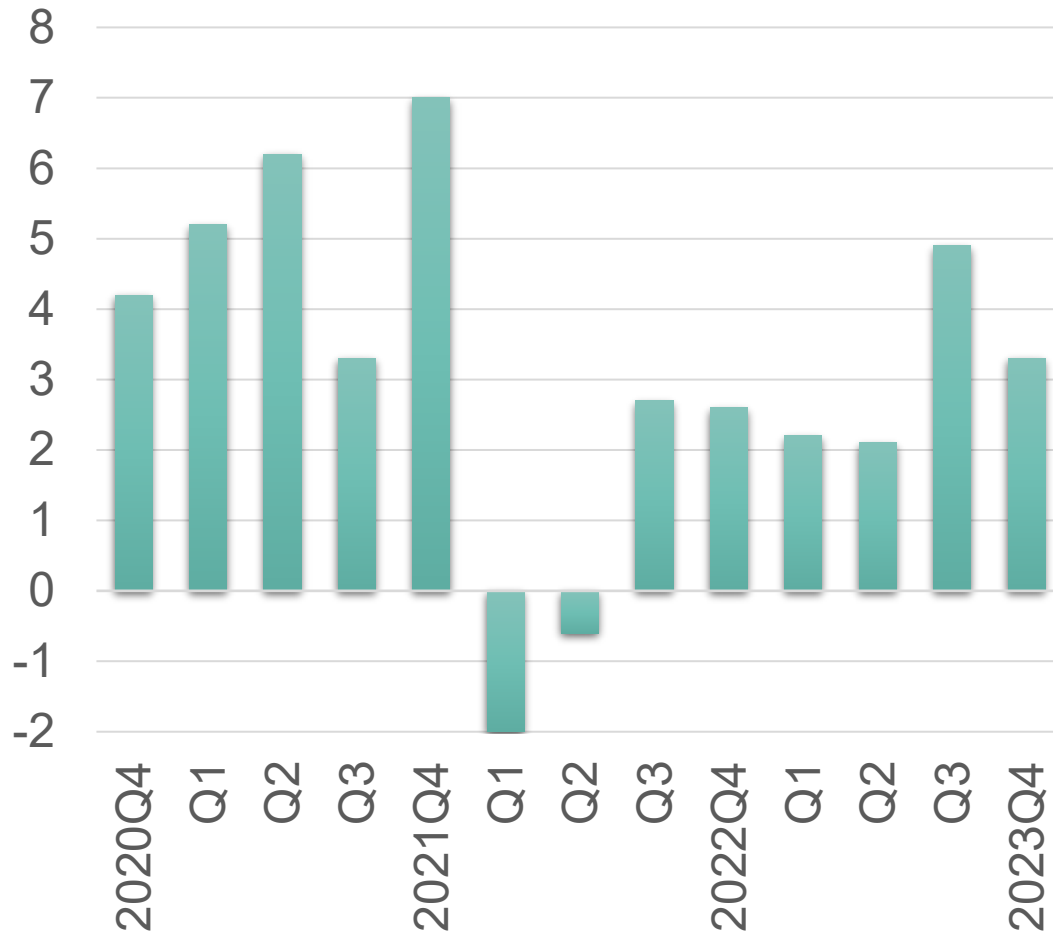
- Political partisanship / inability to compromise
- “Crisis management” mode preventing pursuit of good policies
- Big story of 2024: one very ugly election



2023: A solid year for growth



Real GDP Growth SAAR



Contributions to Real GDP Growth

	2019	2022	2023
Gross domestic product	2.50	1.90	2.50
Final Demand	2.54	1.76	2.23
Personal consumption	1.35	1.72	1.49
Durable goods	0.23	-0.02	0.34
Nondurable goods	0.40	0.09	0.13
Services	0.71	1.65	1.02
Fixed investment	0.48	0.24	0.09
Structures	0.08	-0.06	0.36
Equipment	0.06	0.26	-0.01
IPP	0.37	0.48	0.23
Residential	-0.04	-0.44	-0.49
Net exports	-0.12	-0.48	0.58
Exports	0.06	0.76	0.32
Imports	-0.18	-1.24	0.26
Government	0.68	-0.16	0.68



Q1: Slower output, not demand



Contributions to Real Growth	2024	2023	
	Q1	Avg	
GDP	1.60	3.15	-1.55
Final Demand	2.81	3.29	-0.48
Consumer Services	1.78	1.10	0.68
Residential	0.52	0.02	0.51
Inv Equipment	0.10	-0.03	0.13
Inv IPP	0.29	0.17	0.12
Change inventories	-0.35	-0.36	0.01
Exports	0.10	0.20	-0.10
Consumer Nondurables	0.00	0.30	-0.30
Consumer Durables	-0.09	0.46	-0.55
Government	0.21	0.79	-0.58
Imports	-0.96	0.02	-0.98

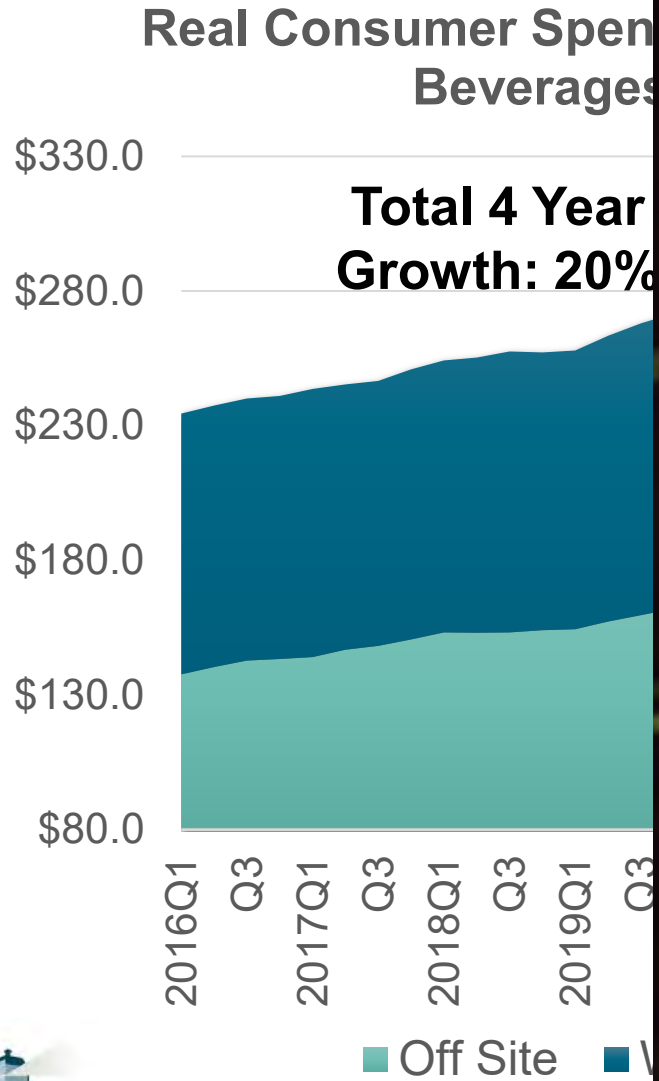
US Industrial Production



Americans having fun!!

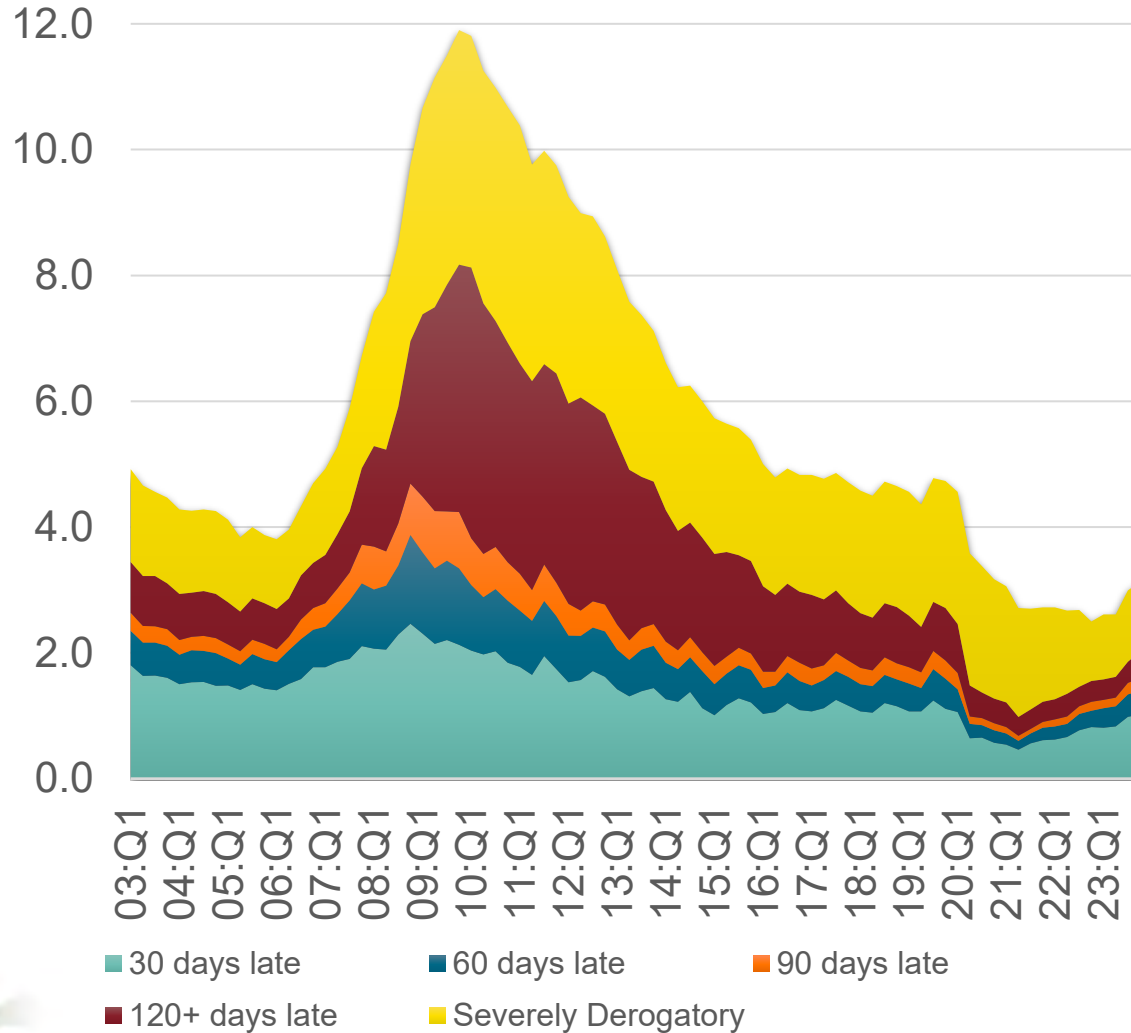


The New Roaring 20's?

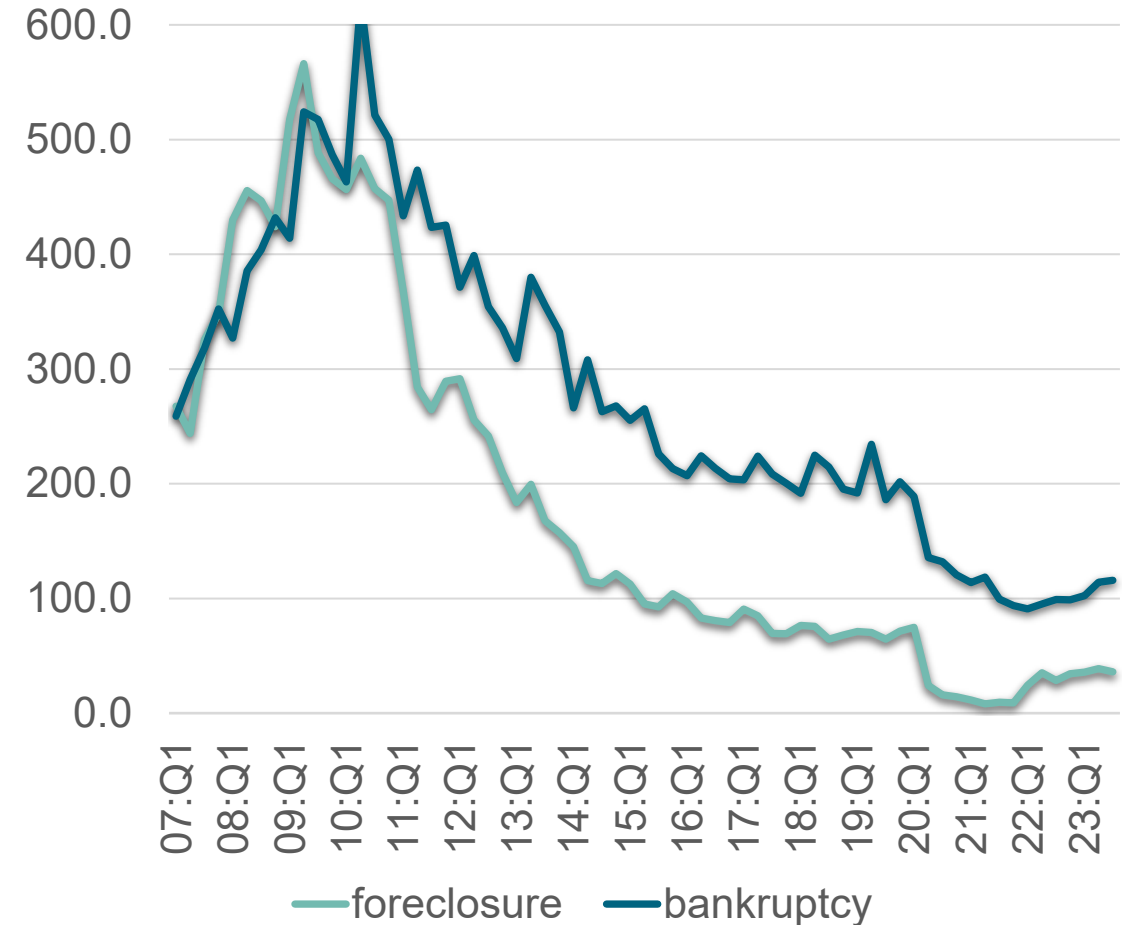


Little visible financial distress

DQ Share of Total Debt



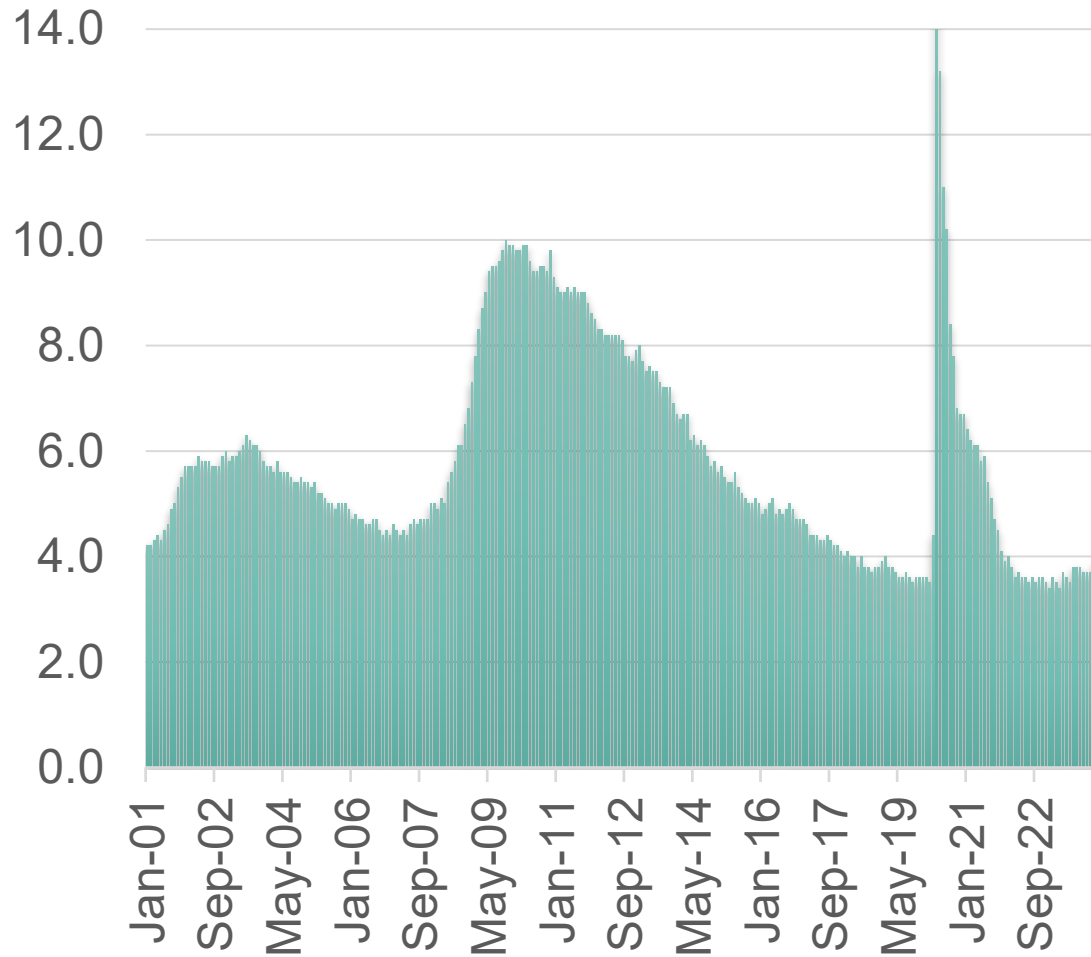
Household Distress (thousands / Quarter)



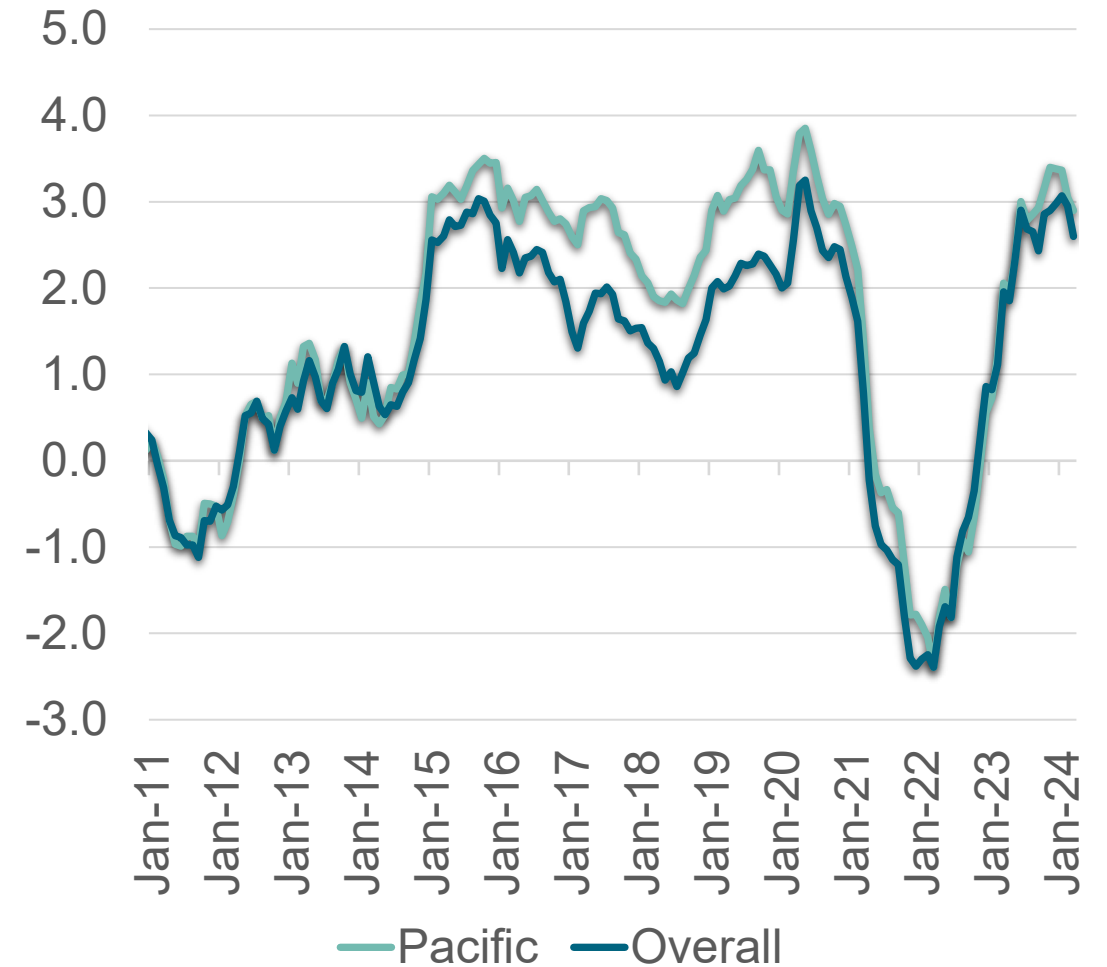
US Labor Markets still tight



US Unemployment Rate



US Real Earnings YoY Growth



Rates up, but investment steady



Interest Rates

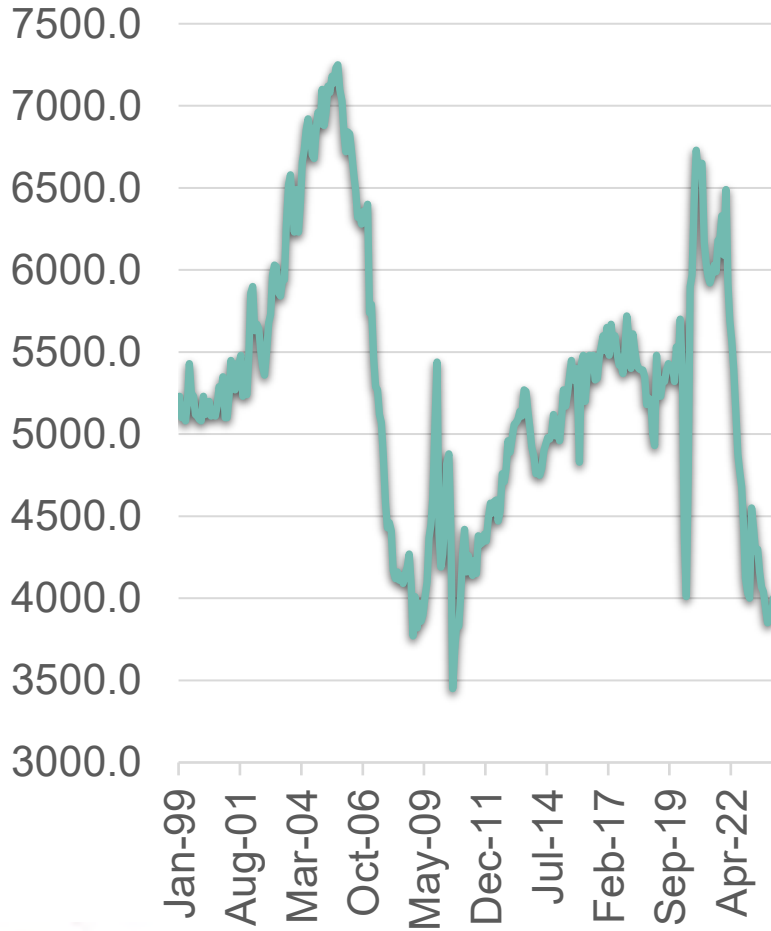


Real Fixed Investment	Ch From Q4 19	Ch From Q4 23
Private fixed investment	7.4%	3.6%
Manufacturing Str.	99.2%	73.9%
Software	52.8%	7.8%
Research Development	15.7%	-0.1%
Information equip	14.3%	-0.9%
IPP	1.9%	-0.5%
Industrial equipment	0.9%	-1.7%
Residential Str.	-3.5%	0.4%
Commercial health care Str.	-9.4%	5.2%
Transportation equipment	-11.6%	2.8%
Mining, shafts, wells	-12.8%	-11.6%

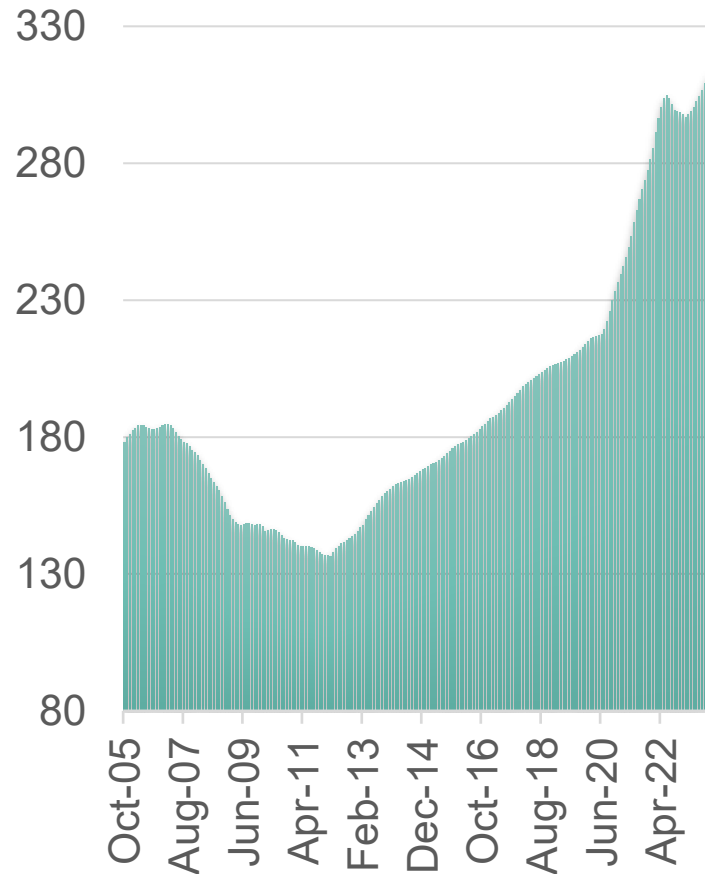


Frozen Housing Market, and yet...

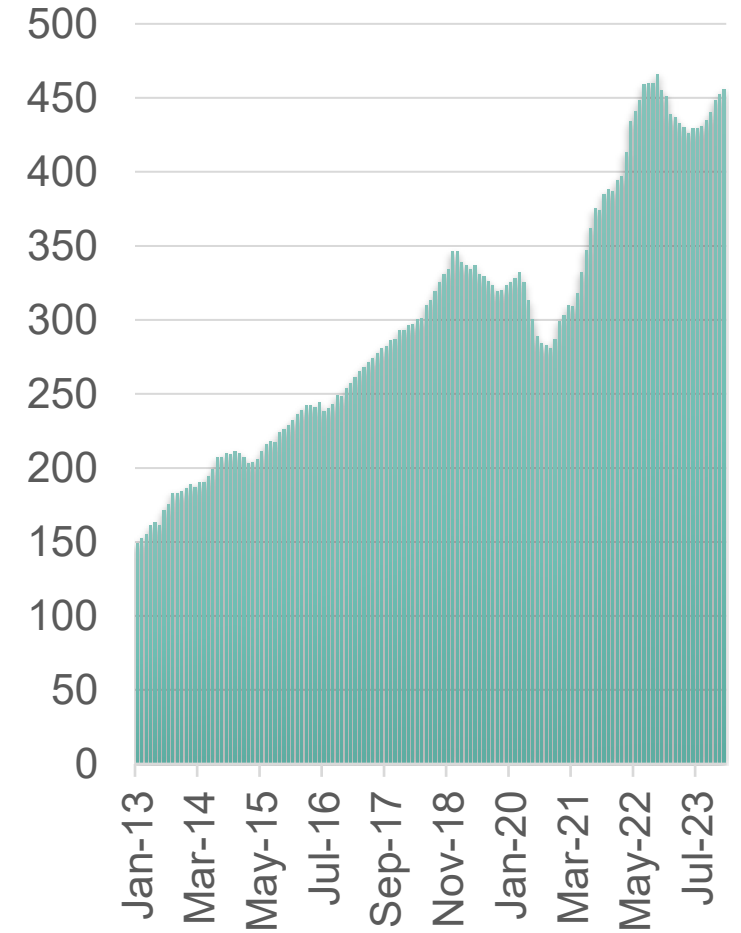
Existing Home Sales (Th, SAAR)



Case Shiller US Home Prices Index (SA)

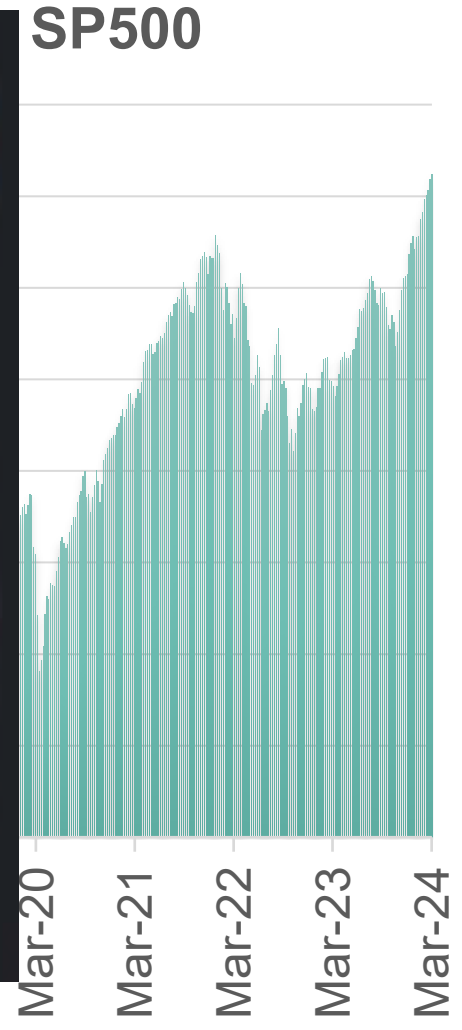
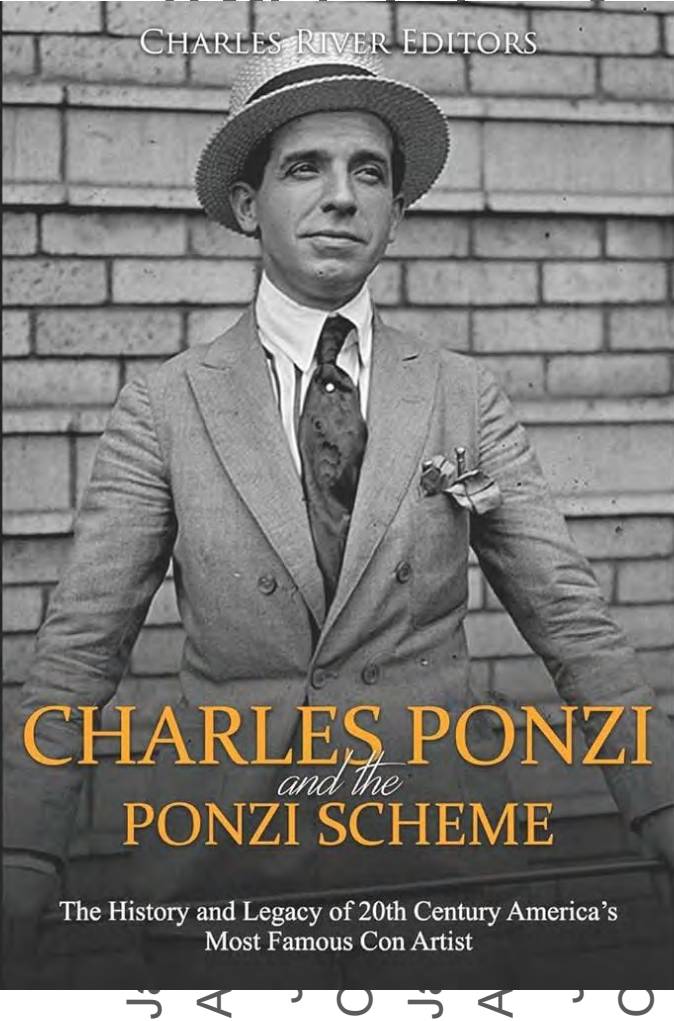
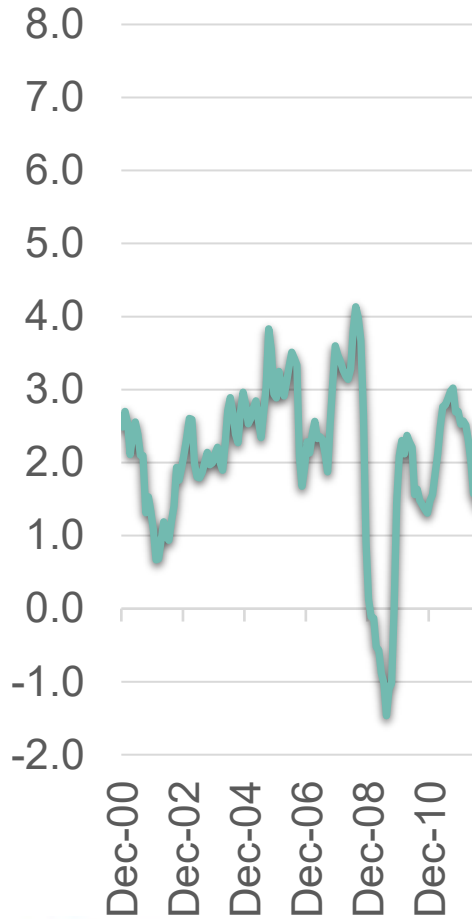


New Home Sales



Slowing Inflation / Rising Confidence

US PCE Deflator YoY %
Growth



Beware the Narrative

Social Narratives

Economic Reality

“It isn't what we don't know that gives us trouble, it's what we know that ain't so.”

– Will Rogers



April 15, 2024 5:30 pm ET

ic
or



Miserabilism and the Pandemic

CBO: Coronavirus pandemic will scar U.S. labor market for the next decade

30-40 Million People in America Could Be Evicted from Their Homes by the End of 2020

FINANCE • ECONOMY

What shape will the recovery take? U-shape, check mark, square root symbol, and swoosh are all on the table, say economists

Coronavirus: Leading economist warns of 10 years of depression and debt

As many as 30% of Americans with home loans — about **15 million** households — could stop paying if the U.S. economy remains closed through the summer or beyond, according to an estimate by Mark **Zandi**, chief economist for Moody's Analytics.

Home prices rose in June, but they'll likely fall in 2021: CoreLogic

Coronavirus to cause worst economic downturn since Great Depression, IMF forecasts

'Make no mistake...the pandemic morphed into a Depression-like crisis,' says UCLA economist, who predicts U.S. economy won't recover from coronavirus until 2023



The Pandemic Over-reaction

Actual Lost GDP: \$1.2 Trillion

Fiscal Stimulus: \$6 Trillion

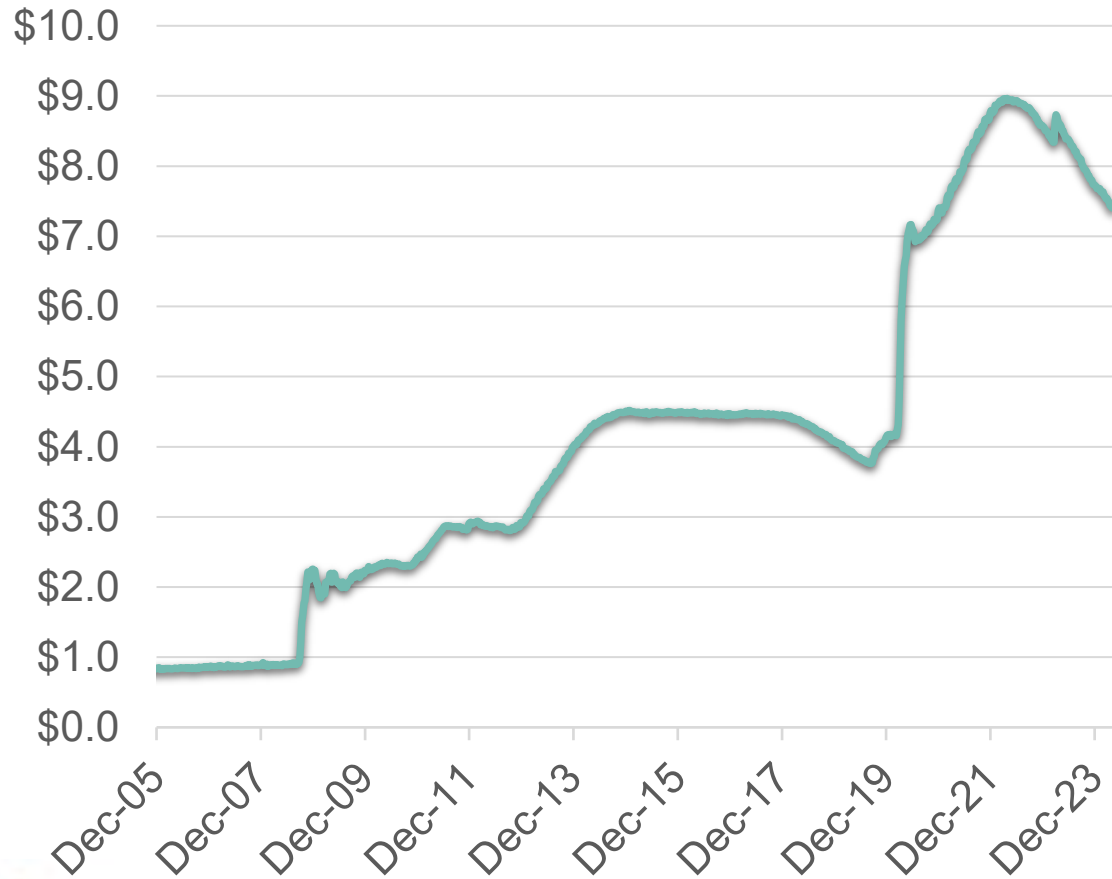
\$50,000 in stimulus / household

— Great Recession — Pandemic

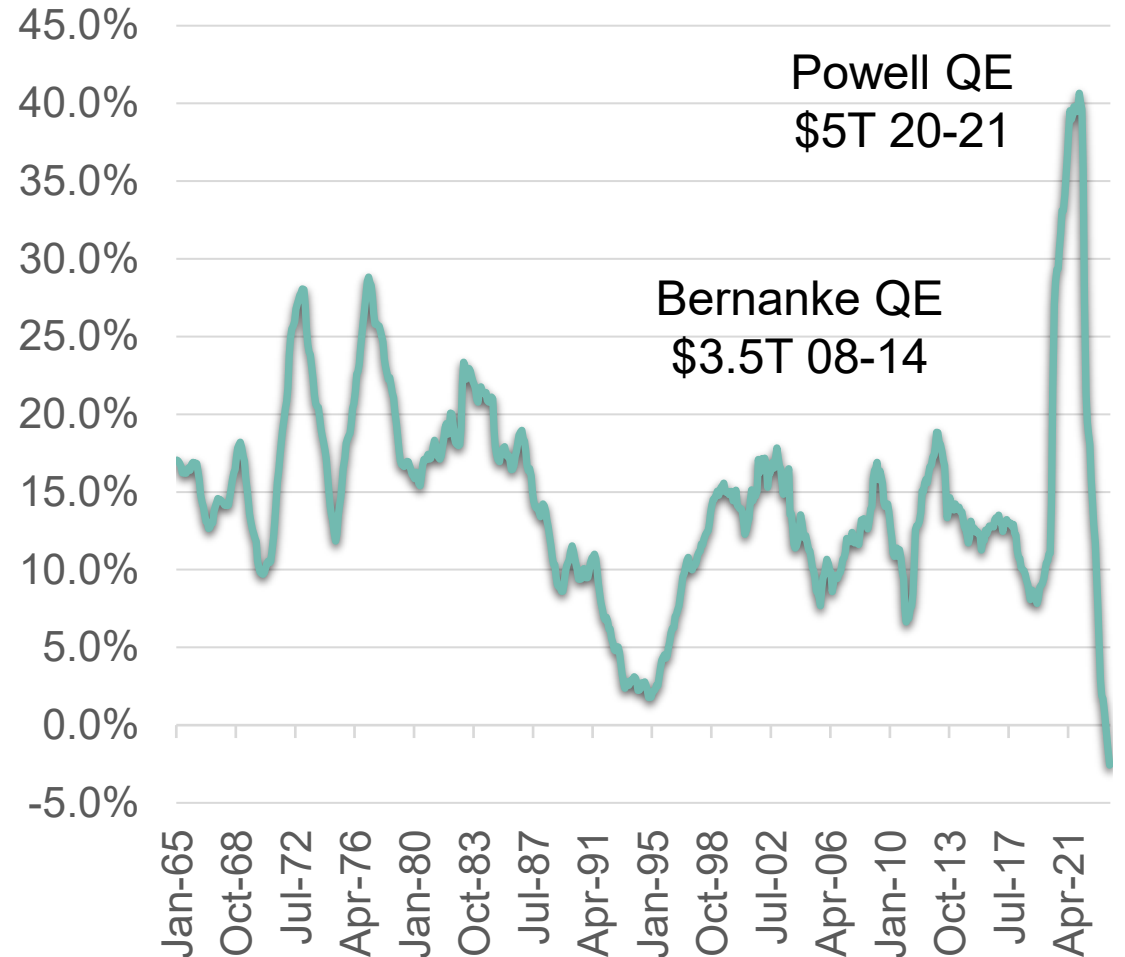


Fed Reserve: The “Enabler”

Federal Reserve “Assets”
Trillions \$US



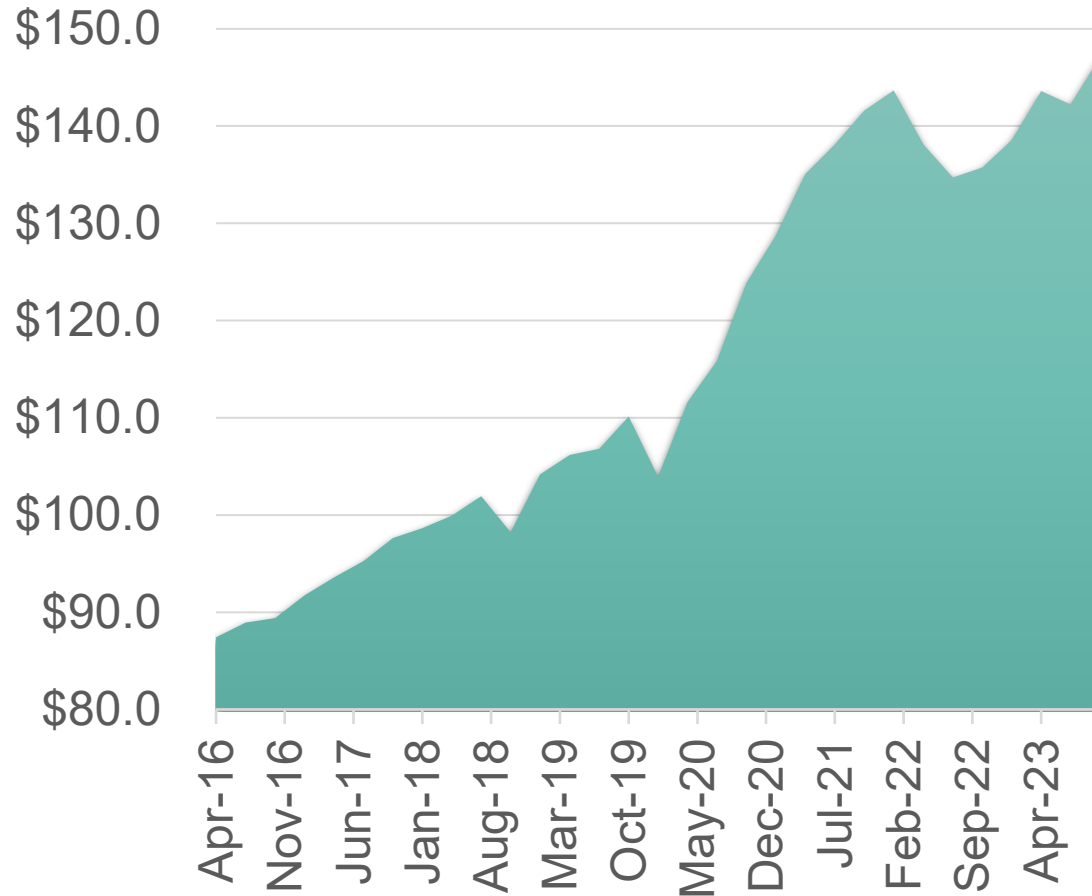
M2 Growth (2 Year)



Wealth & Money = Demand & Inflation



Household Net Worth (\$Trillions)



Real Median Net Worth for US Households in 2022 (\$thousands) and Growth Rate 2013-2022

<u>Percentile of net worth</u>			<u>Percentile of income</u>		
All families	\$193	87%	Less 20	17	119%
Less 25	\$4	n.a.	20–39.9	55	94%
25–49.9	\$93	134%	40–59.9	171	118%
50–74.9	\$356	67%	60–79.9	299	48%
75–89.9	\$1036	61%	80–89.9	793	107%
90–100	\$3795	59%	90–100	2651	84%



Consumer Spending Boom

Los Angeles Coastal Waterway August 2021



Real Goods Imports (x Petroleum)

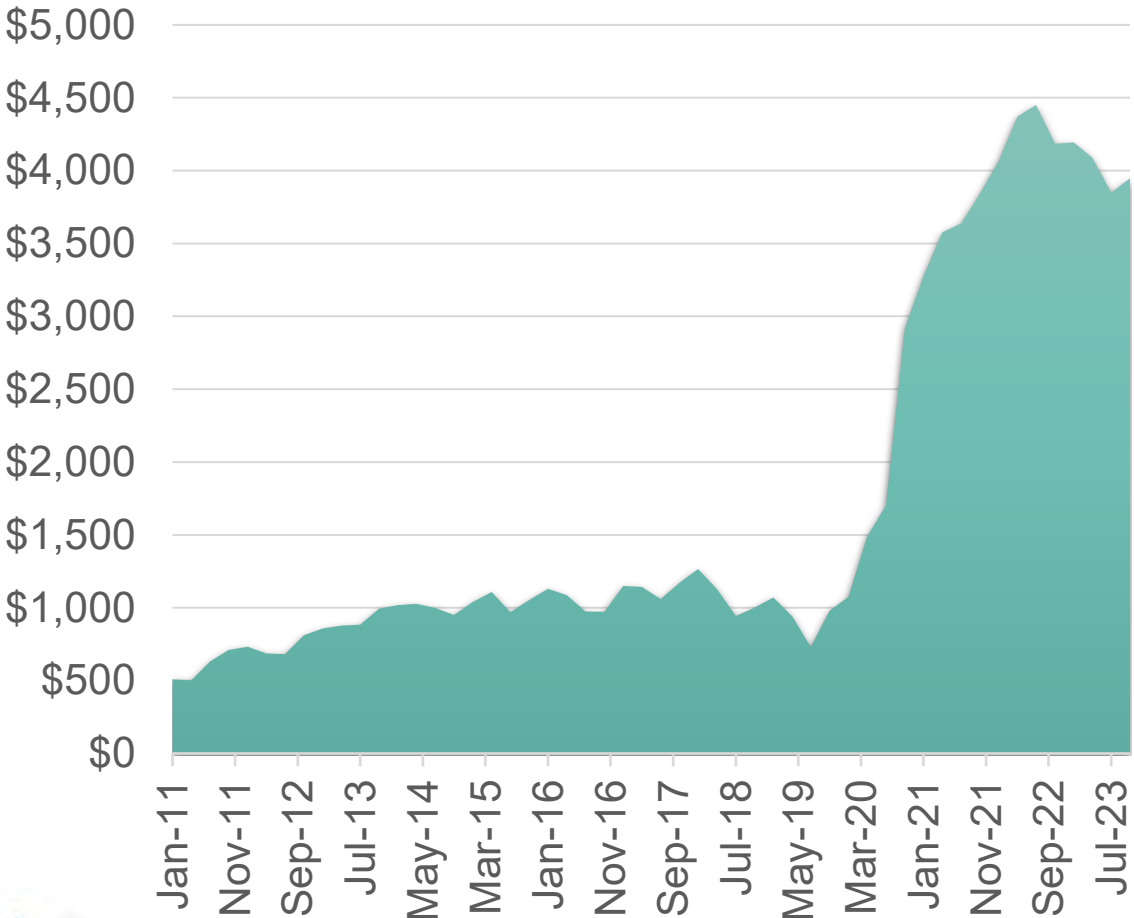


Total
Recreational goods veh
Furnishings / HH equip
Clothing and footwear
Health care
Food services / Hotels
Food Retail
Motor vehicles and part
Housing and utilities
Transportation services
Recreation services
Financial services
Gasoline energy goods



Outlook for Consumers: Still Good

US Household Checkable Deposits (\$Billions)



Household Debt Service Ratio as % DPI (Fed Est.)



The Longer Run Context

5 Year Change in Consumer Prices (PCE Basis)



10 Year Treasury Real Interest Rate Cleveland Fed Estimate



The narrative on inflation

Finance and economics | Price pain

What can inflation-strugglers learn from inflation-killers?

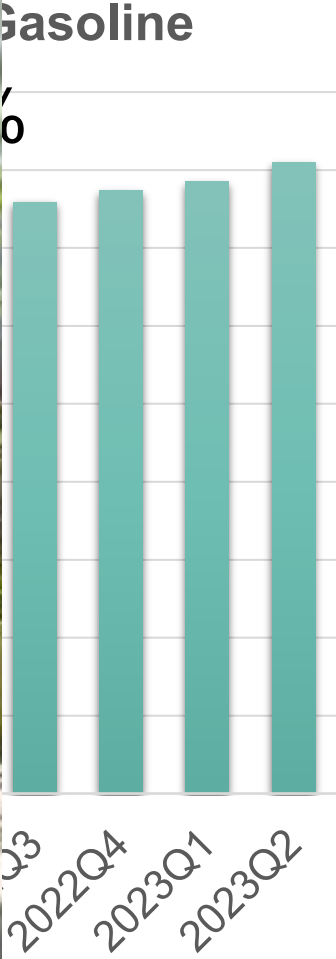
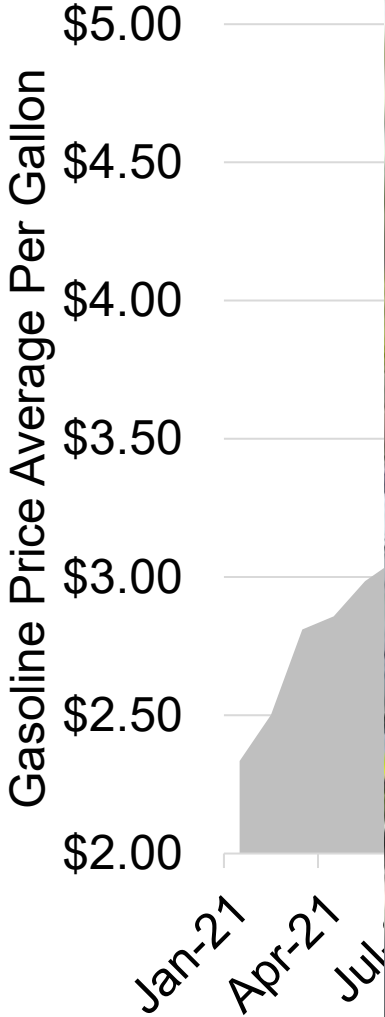
Why America, Australia, Britain and Canada are lagging behind

COULD THE inflation nightmare soon be over? Across the OECD club of mostly rich countries, consumer-price inflation has fallen from a peak of 10.7% in October 2022 to 6.2%. Wage growth is slowing, too. Investors are hopeful that before long more progress will be made, allowing central banks to raise rates. Restaurants.

percent said inflation has impacted their spending on travel over the past year (45% said significantly).

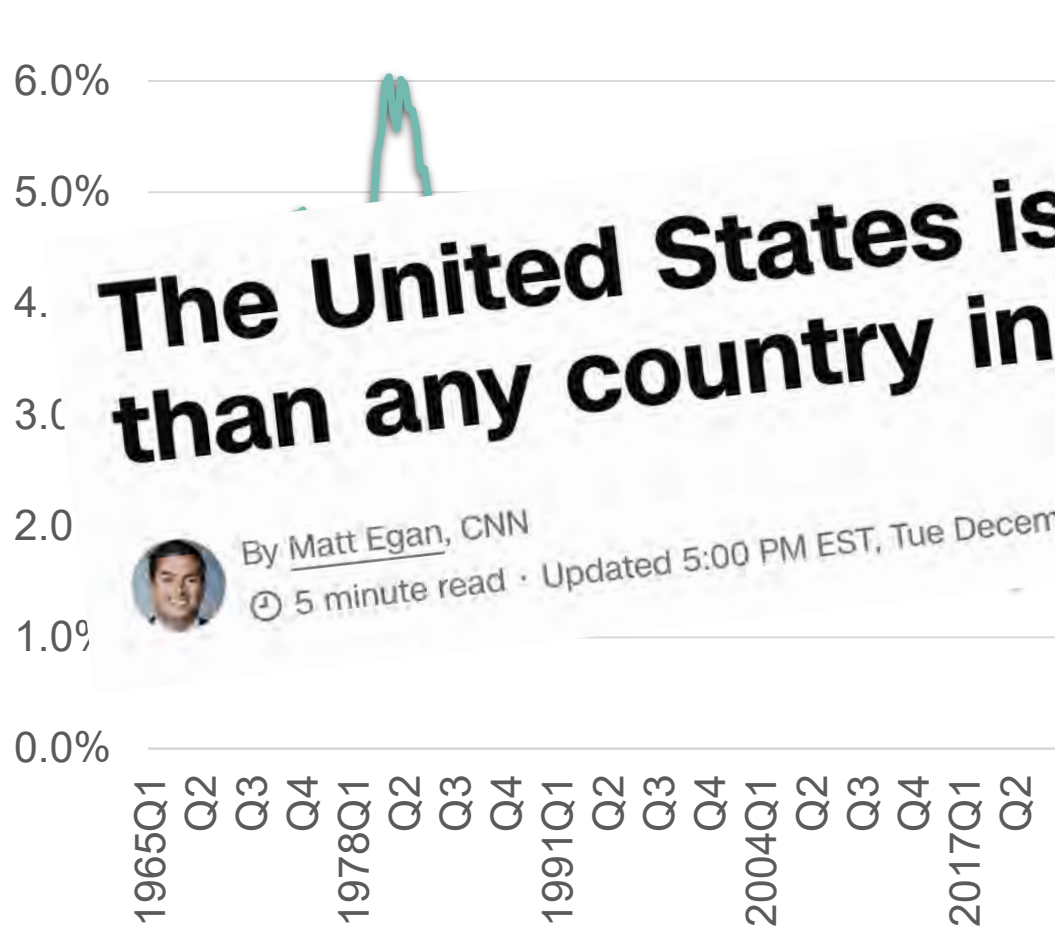


Reality: Inflation is caused by demand

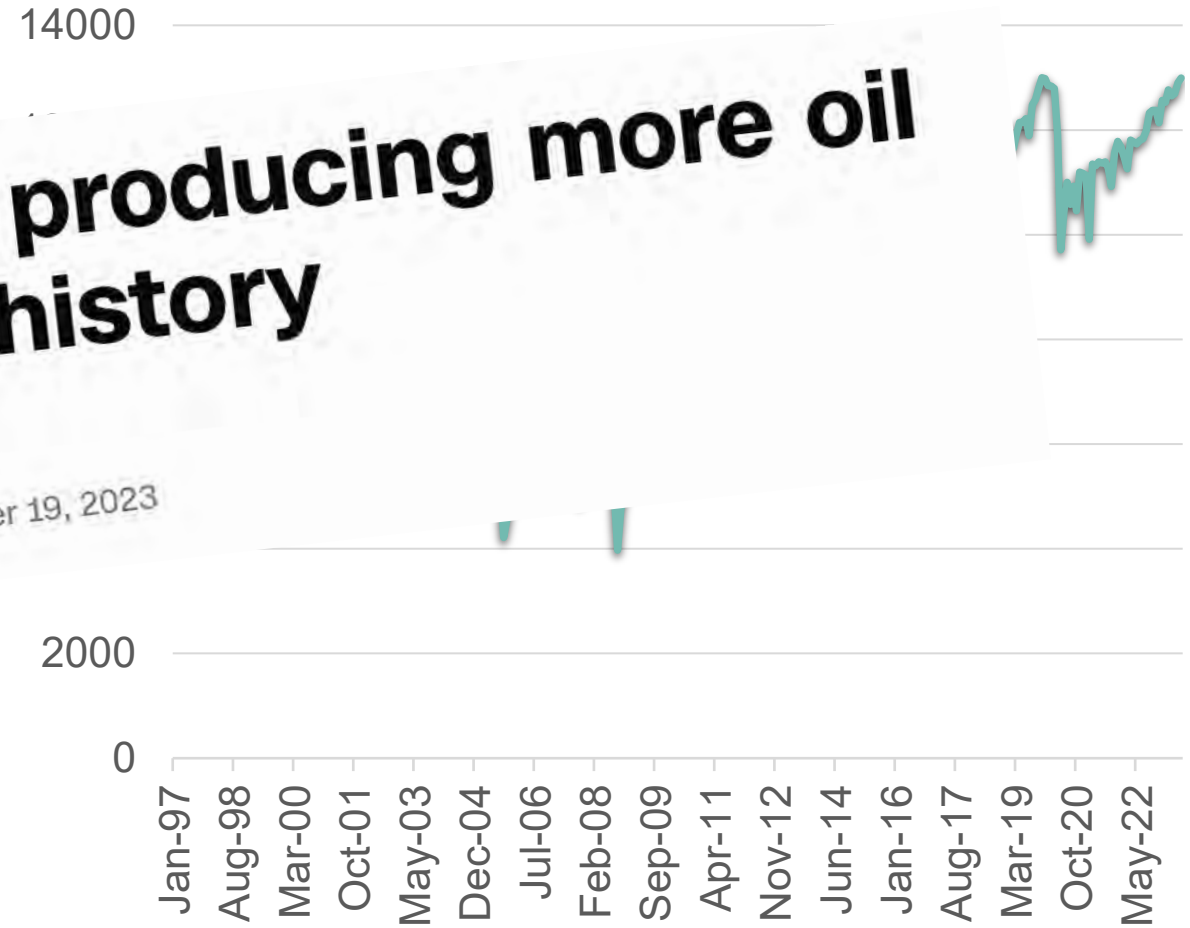


Why oil prices don't matter anymore

Energy Share Consumer Spending



US Crude Oil Production



The United States is producing more oil than any country in history

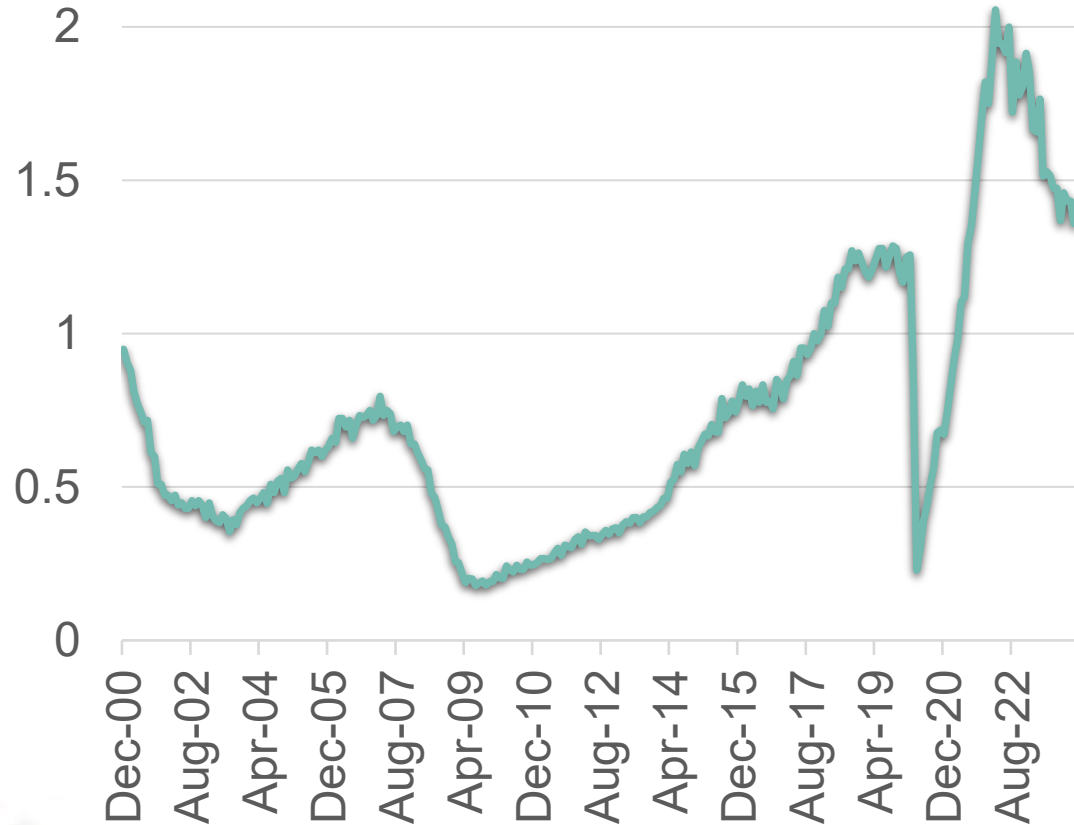


By [Matt Egan, CNN](#)
⌚ 5 minute read · Updated 5:00 PM EST, Tue December 19, 2023

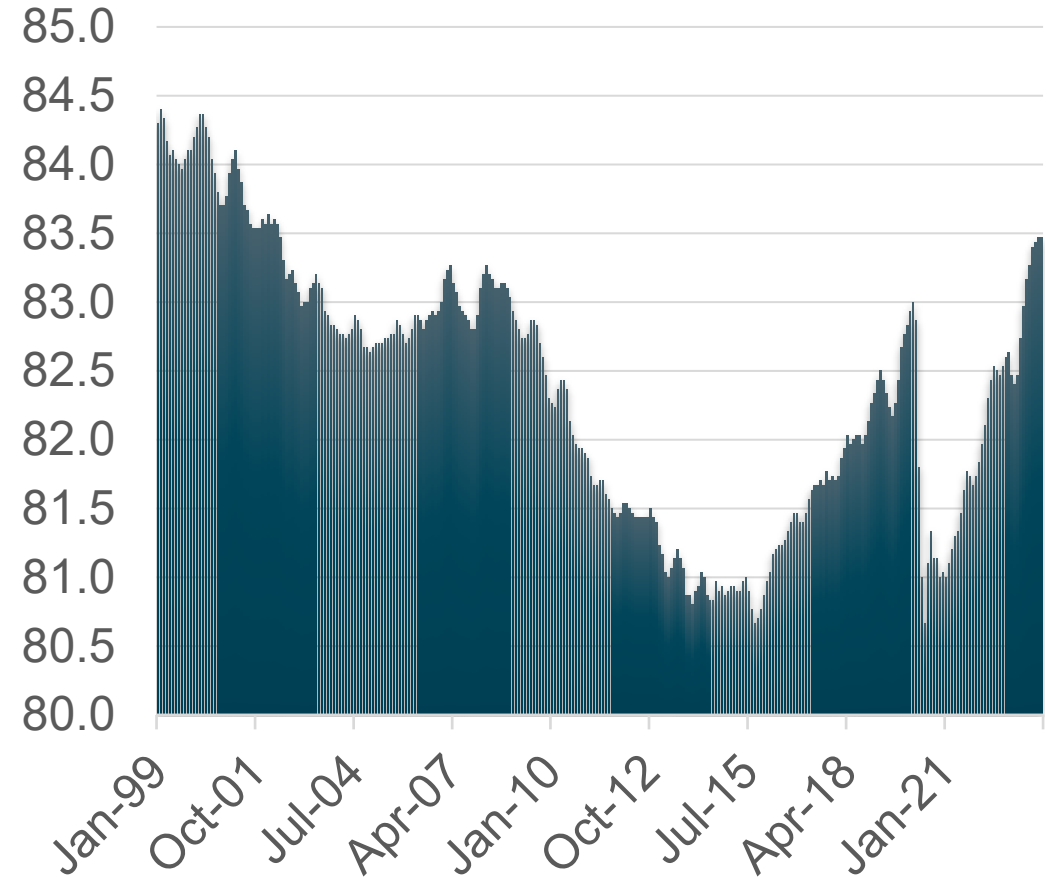


Long Run Issue: Labor Supply, not Consumer Demand

Job Opening / Unemployed Worker

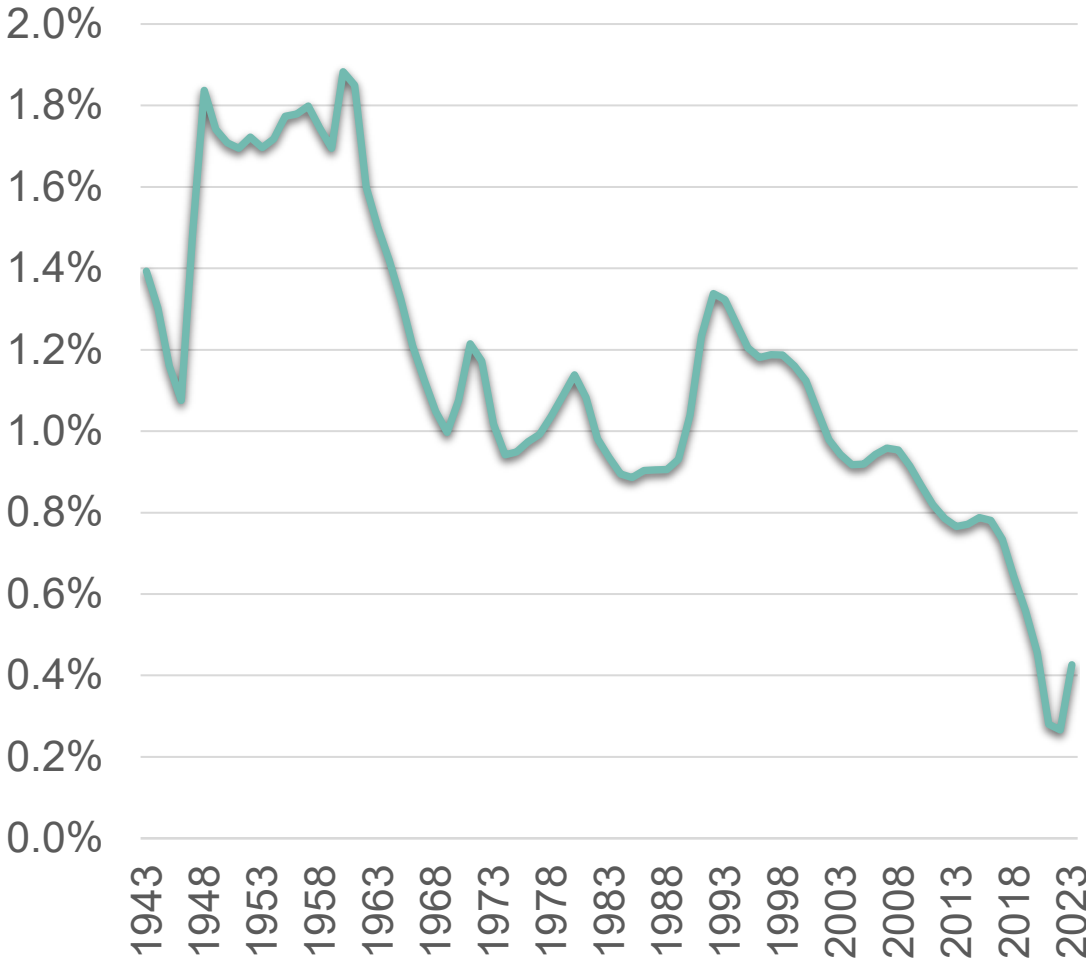


Participation Rate Ages 25-54

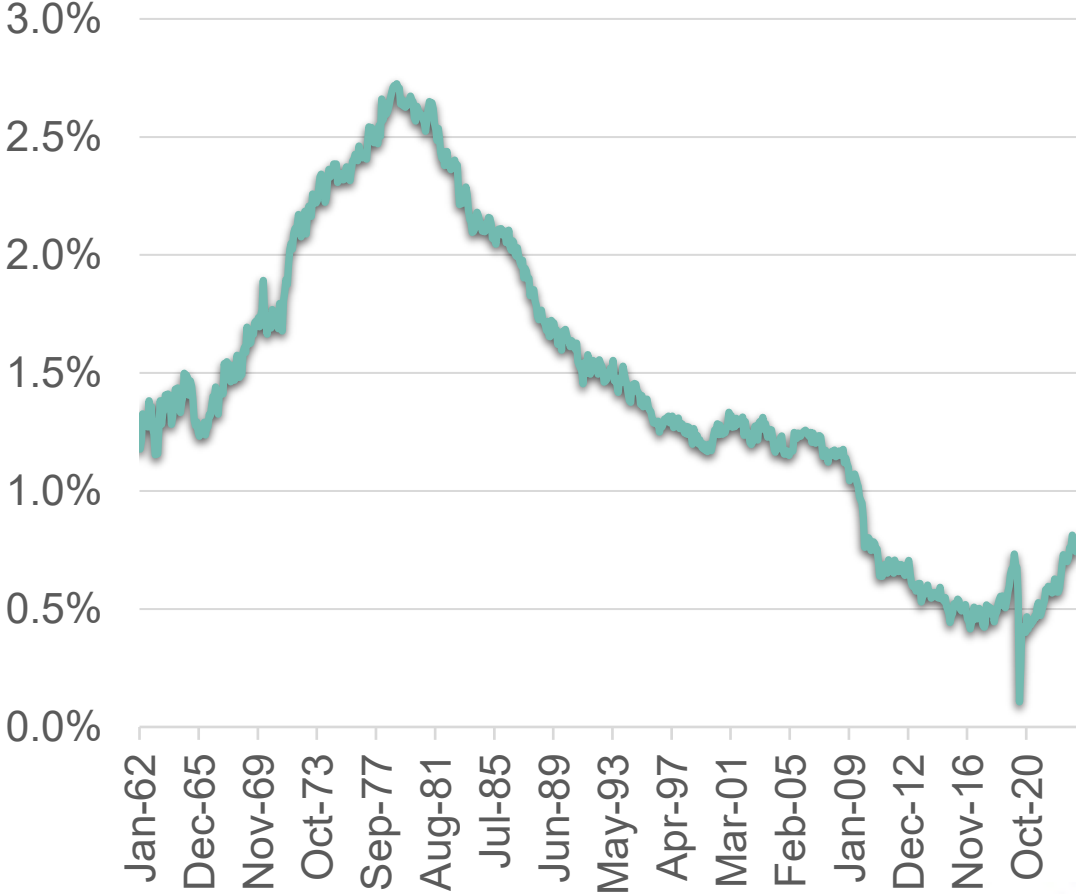


The Era of Labor Shortages is Here

US Population Growth

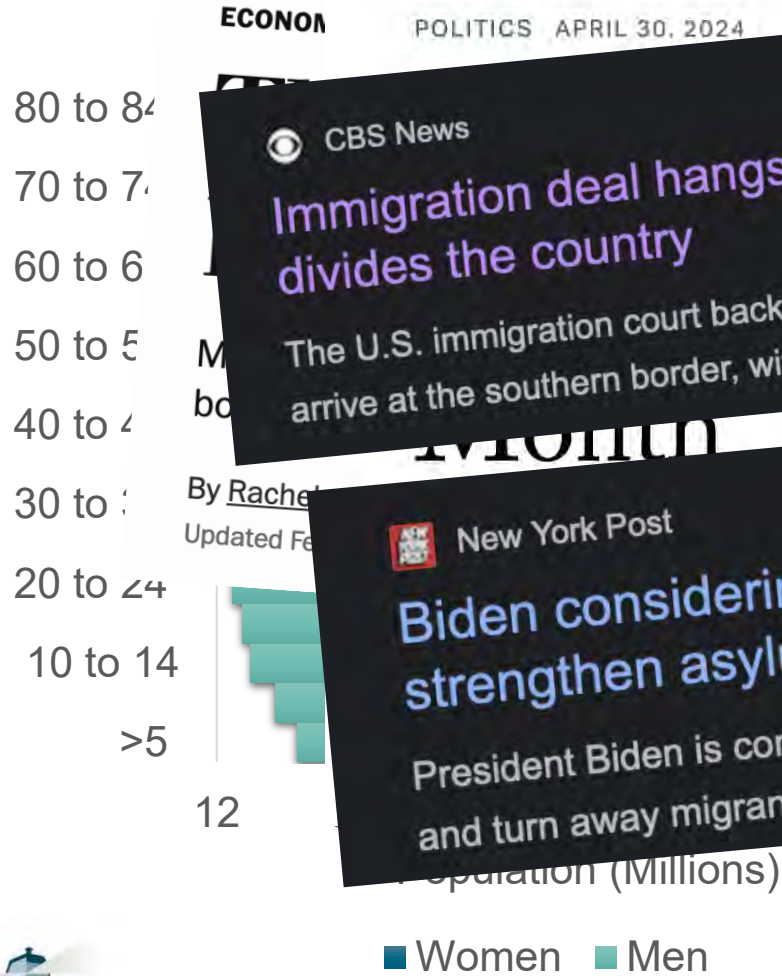


10 Year Average Labor Force Growth rate



Labor Supply Issues

2022 US Population by Sex and



Net Immigration

ECONOM POLITICS APRIL 30, 2024

CBS News

Immigration deal hangs in the balance as U.S. border crisis divides the country

The U.S. immigration court backlog has soared to 3.3 million as an influx of migrants arrive at the southern border, with about one-third of...



is a

New York Post

Biden considering executive action to turn away migrants, strengthen asylum standards: report

President Biden is considering using his executive powers to beef up asylum standards and turn away migrants seeking to enter the US between...



0 2004 2014 2024

Women Men



Wage Impacts

YoY Growth Nominal Earnings



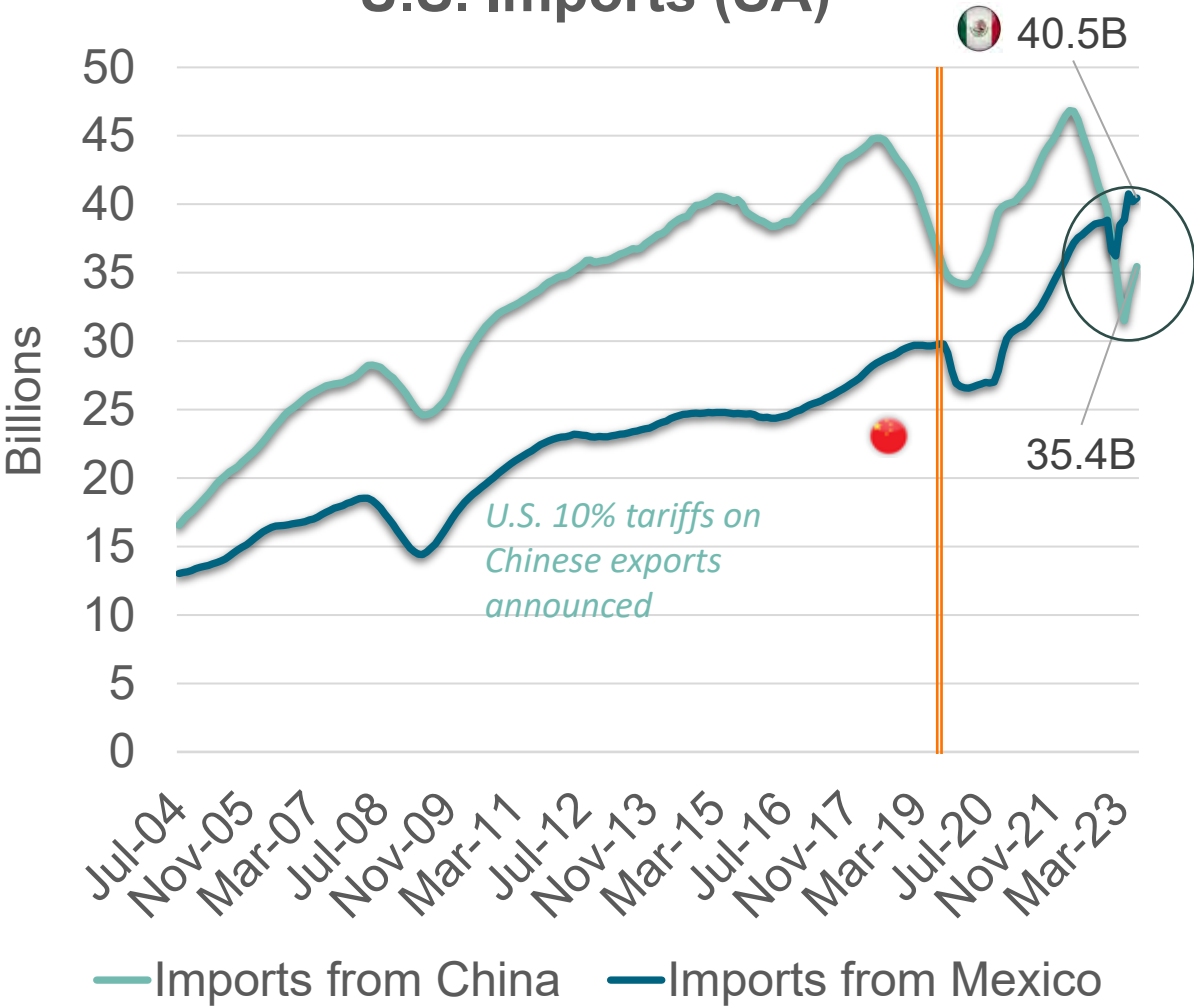
Weekly Earnings for Non-Supervisory Employees

	Feb 2024	2016-2020	2020-2024
Childcare services	\$574	15%	31%
Accommodation	\$605	13%	29%
Pet care	\$508	6%	28%
Personal care serv	\$576	12%	28%
Nursing residential care fac	\$730	18%	27%
Food services	\$430	20%	25%
Repair and maintenance	\$991	16%	24%
Warehousing and storage	\$884	9%	21%
Retail trade	\$616	16%	21%
Truck transportation	\$1,158	13%	18%

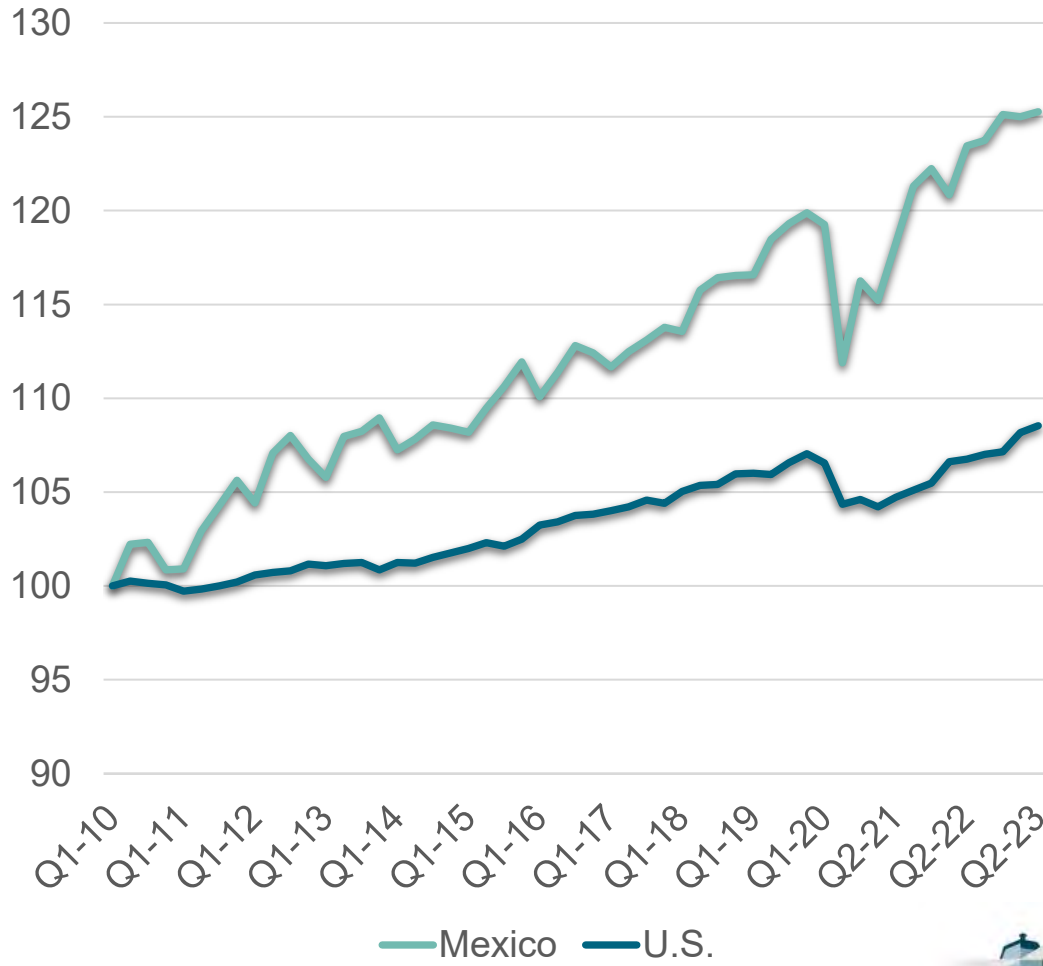


United States and Mexico

U.S. Imports (SA)

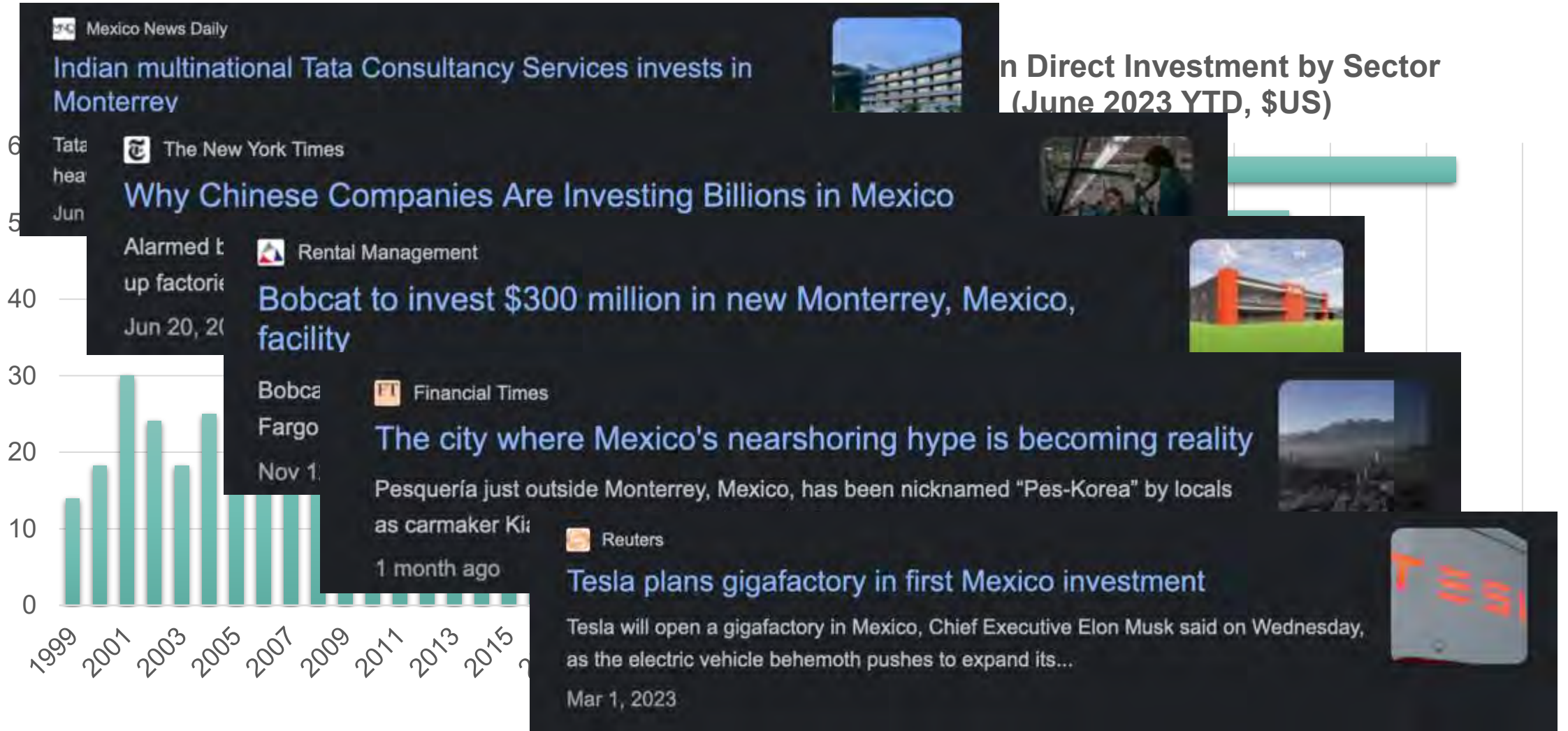


Indexed Labor Force



Mexico Foreign Direct Investment

Foreign Direct Investment by Sector (June 2023 YTD, \$US)



Whither the Golden State?

From the Right: *California is a failing economy!*

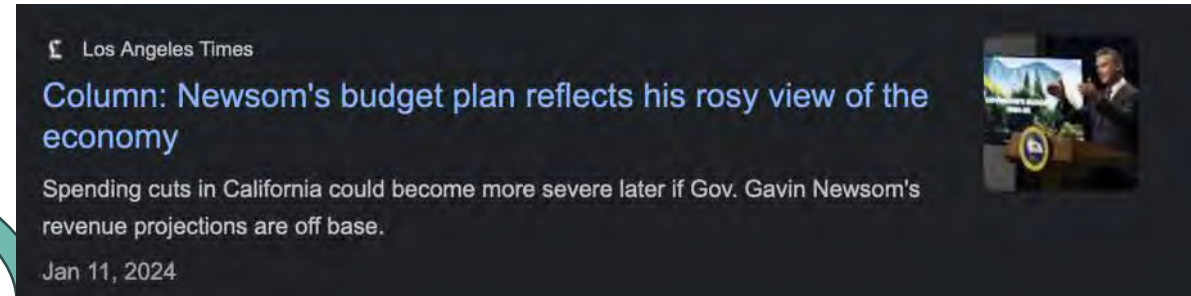
From the Left: *California is failing its people!*

From the Governor: *We are the envy of the world!!*

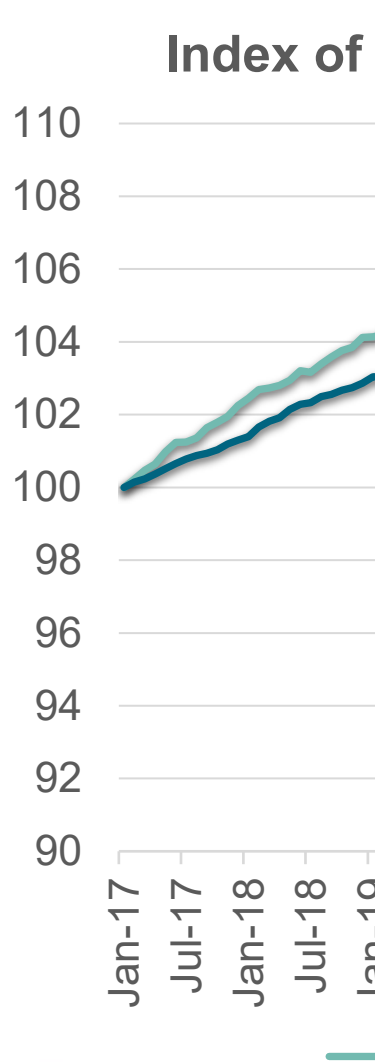


California Jobs First: State Launches First-of-its-Kind Council to Create Thousands of More Jobs Across All Regions

Published: Mar 08, 2024

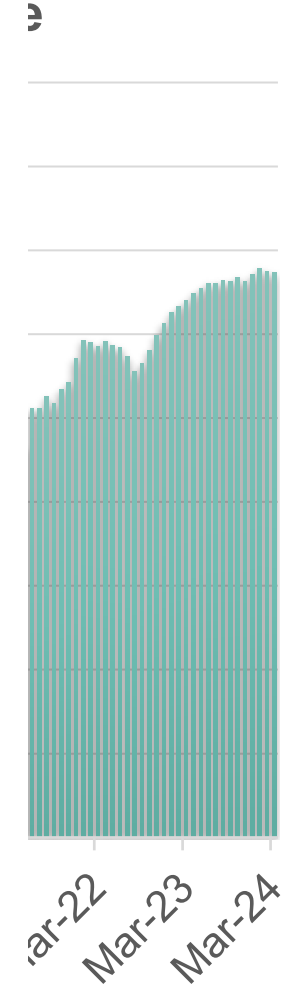
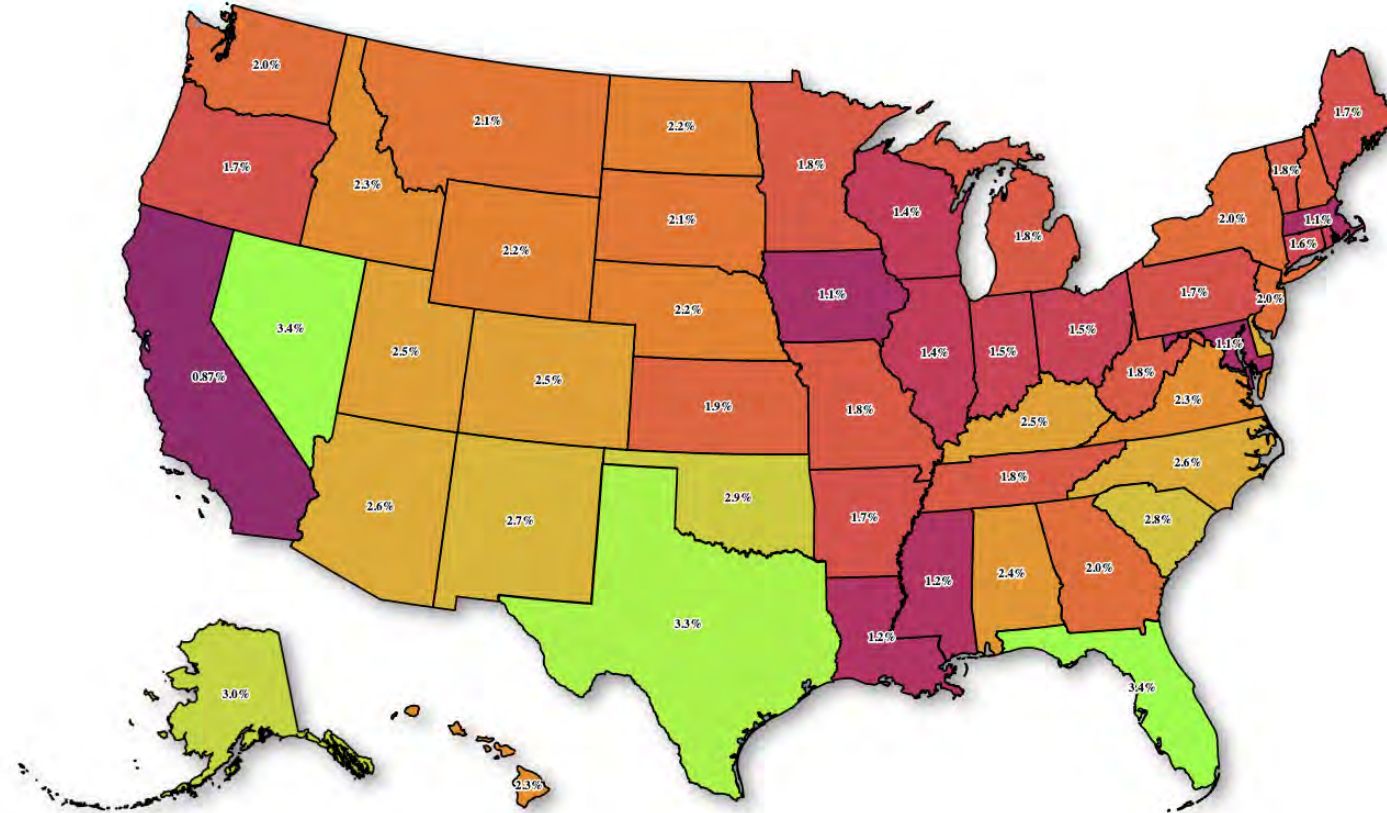


State Labor Markets



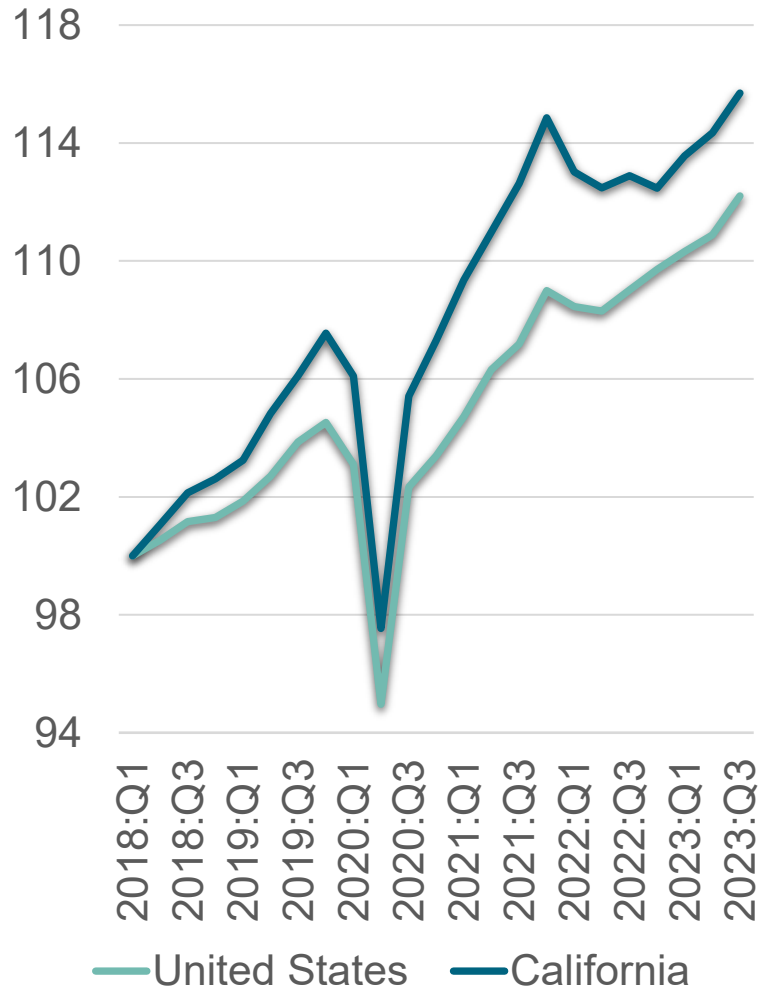
Who's hiring?

2023 JOB GROWTH: 0.9% 3.4%

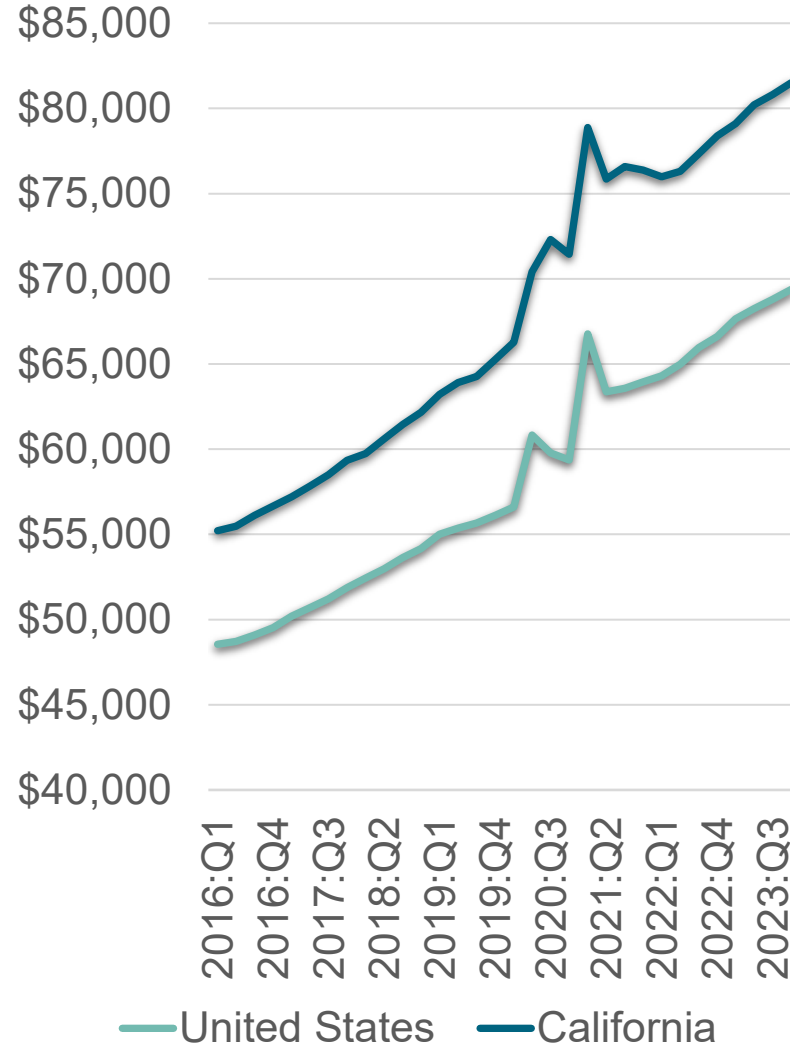


California in Context

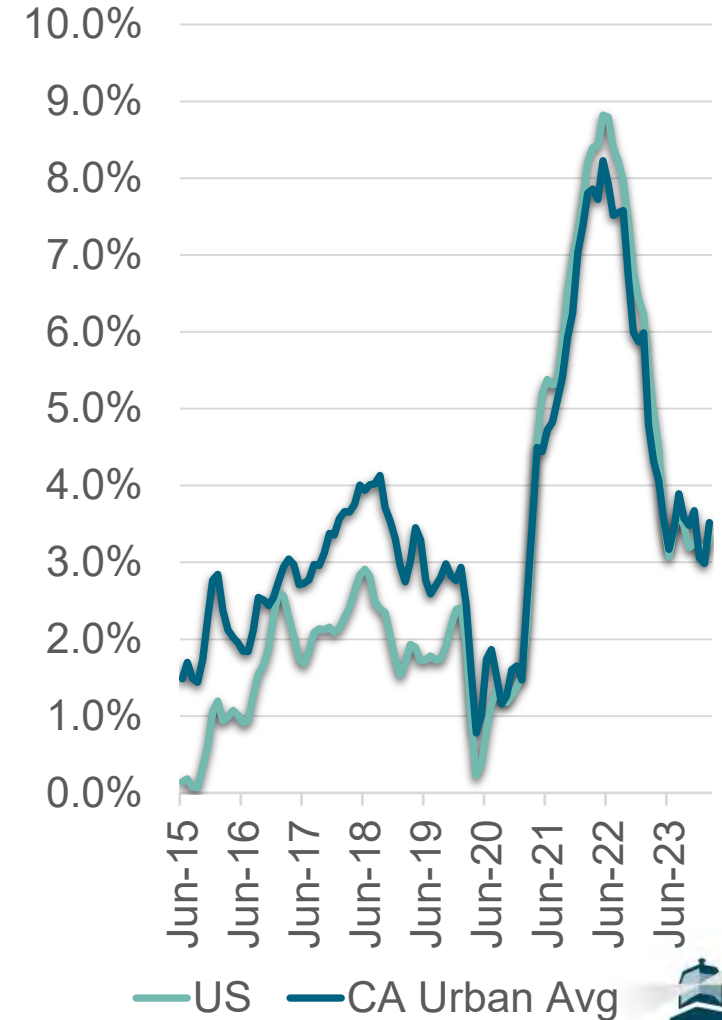
Index of Real GDP



Per Capita Income



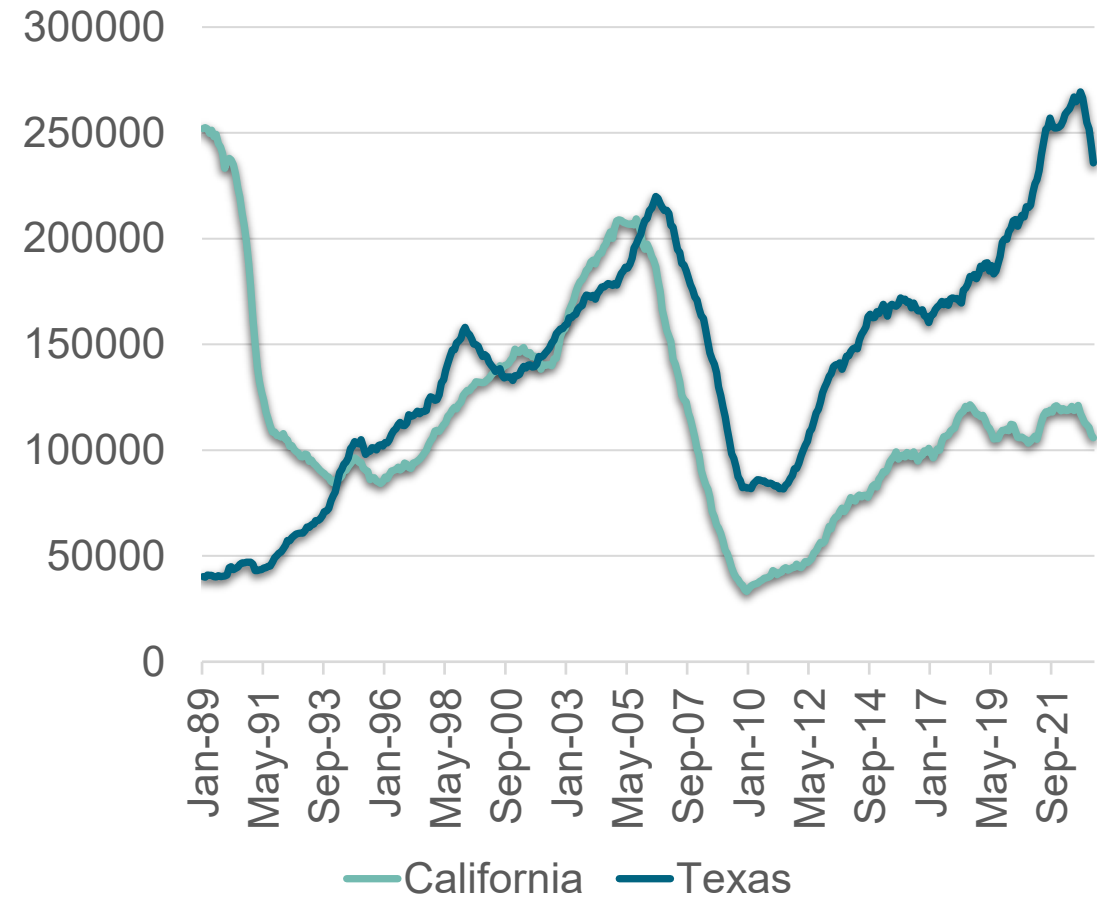
Price Growth US vs CA (Urban Average)



State Labor Supply & Housing

	02-12	12-22	Rank
Utah	14.3%	29.3%	1
Idaho	12.6%	23.1%	2
Arizona	13.8%	18.4%	3
Colorado	12.3%	16.4%	4
Texas	17.7%	16.0%	5
Florida	16.0%	15.3%	6
Washington	11.9%	15.0%	7
Nevada	20.5%	13.4%	8
Nebraska	6.3%	4.6%	24
Minnesota	2.7%	4.3%	25
California	7.2%	4.1%	26
Hawaii	8.1%	4.0%	27
New Jersey	5.3%	3.6%	28
Vermont	3.1%	-3.3%	48
Maine	3.3%	-3.7%	49
Wyoming	12.7%	-3.9%	50
Mississippi	3.1%	-6.0%	51

CA vs TX? Put 'em up!
(Houses that is)

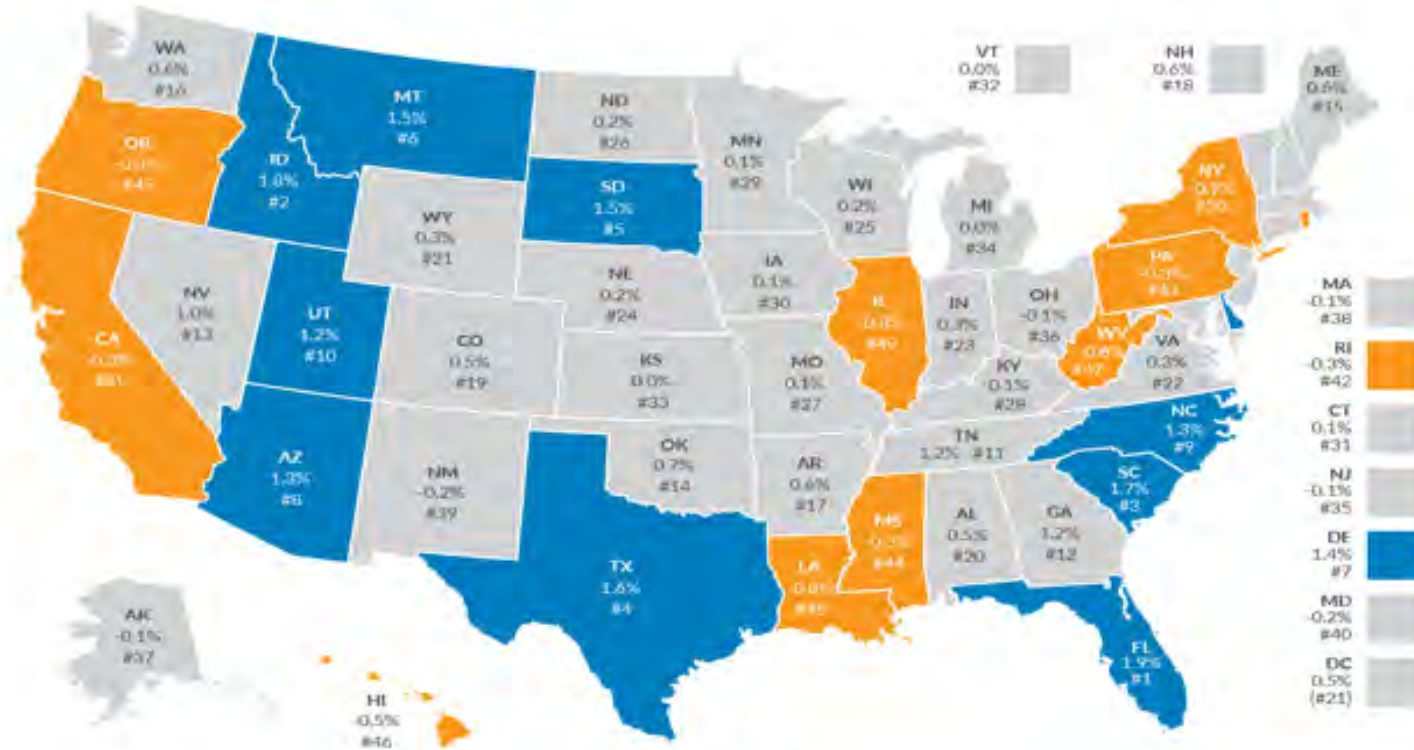
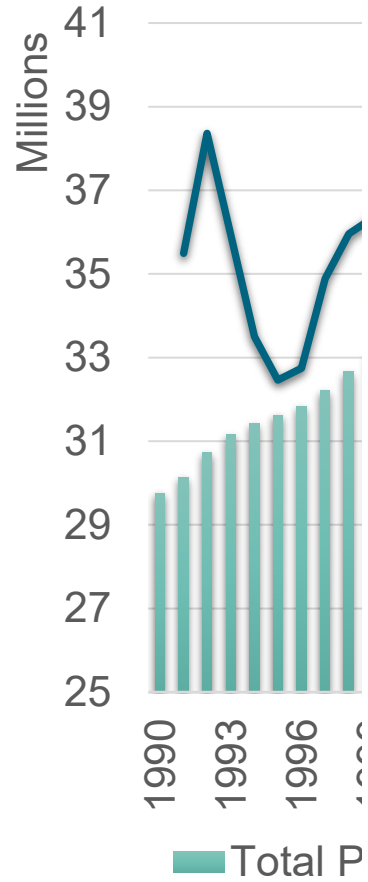


California's Population Decline

Cali

State Population Change in 2022

State Migration Patterns, from Most Inbound to Most Outbound, 2022



Note: D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would have ranked if included.
Source: U.S. Census Bureau.

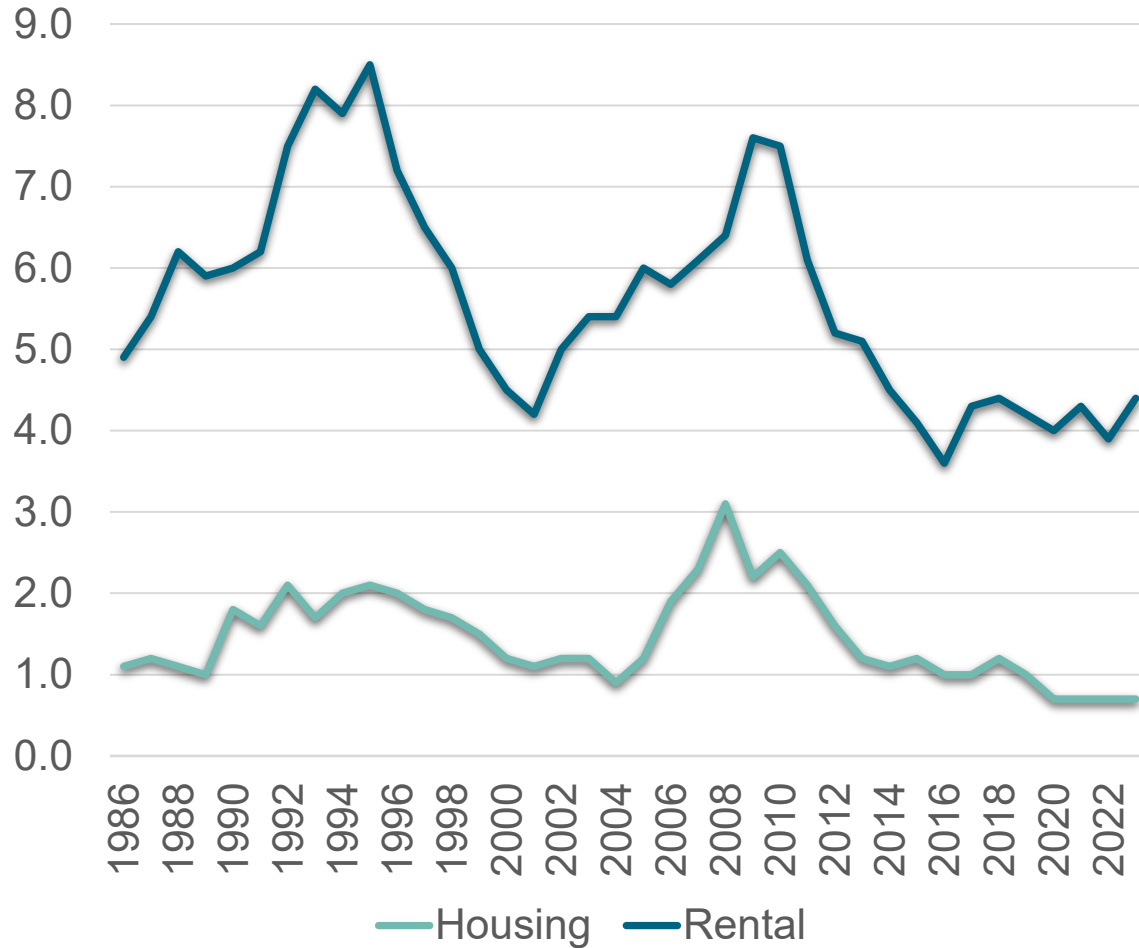
■ Top 10 States for Inbound Migration
■ Top 10 States for Outbound Migration

10-Year Change (%)
1.8
-2.6
2.2
1.1
7.5
4.7
1.2
4.2
8.1
5.7
5.7
5.0
-1.5
-1.8
11.6
-1.3

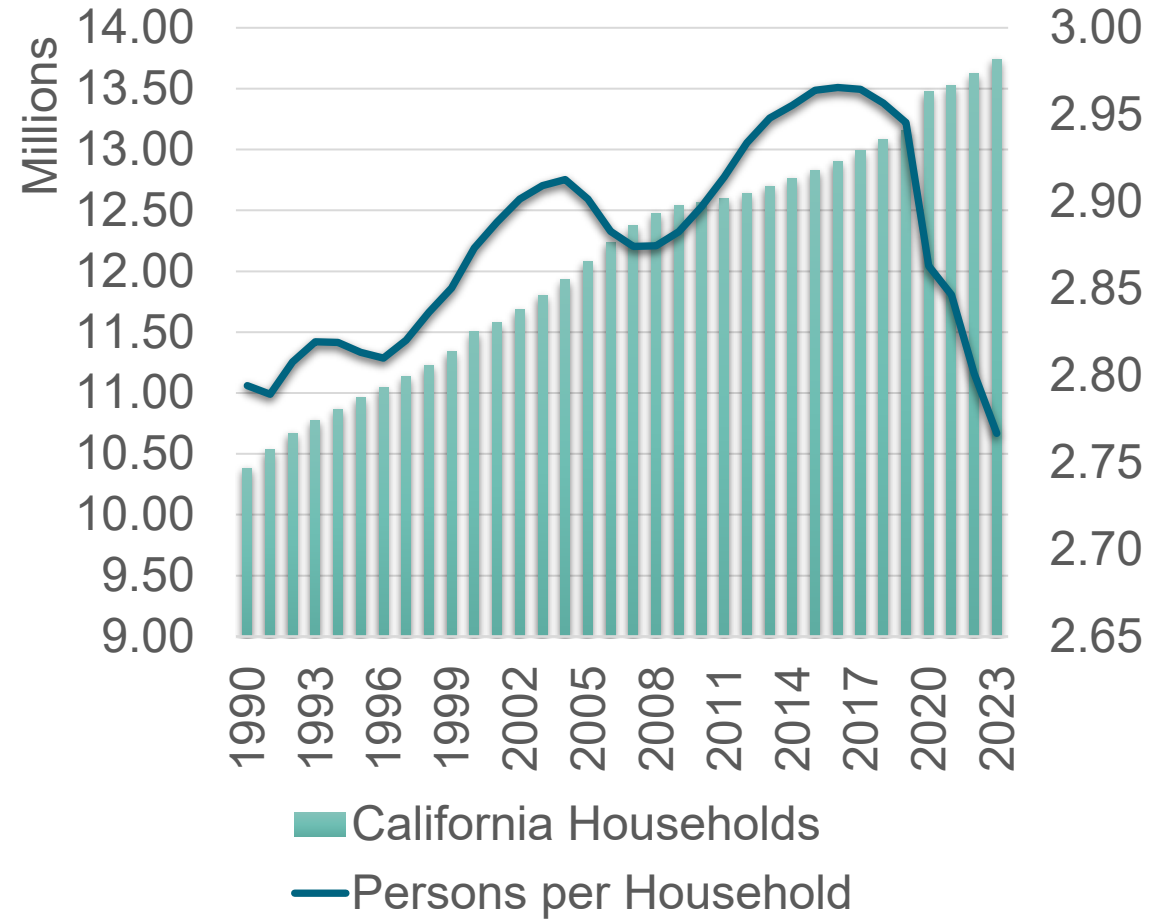


“Fleeing”?

Housing Vacancy Rate



California Households



Spreading Out

	Population		Households	
	2023		2023	
Los Angeles	9,542,781	-4.0%	3,664,182	5.1%
Orange	3,085,670	-0.3%	1,149,943	7.5%
Riverside	2,399,217	5.1%	872,930	6.1%
San Bern.	2,144,993	3.5%	747,011	5.3%
	Vacancy Rate		People / HH	
	2023		2023	
Los Angeles	5.2%	-0.9%	2.75	-9.5%
Orange	5.1%	-0.3%	2.83	-7.5%
Riverside	10.1%	-3.5%	3.06	-4.7%
San Bern.	8.8%	-3.1%	3.15	-5.0%



A Gentrifying Population

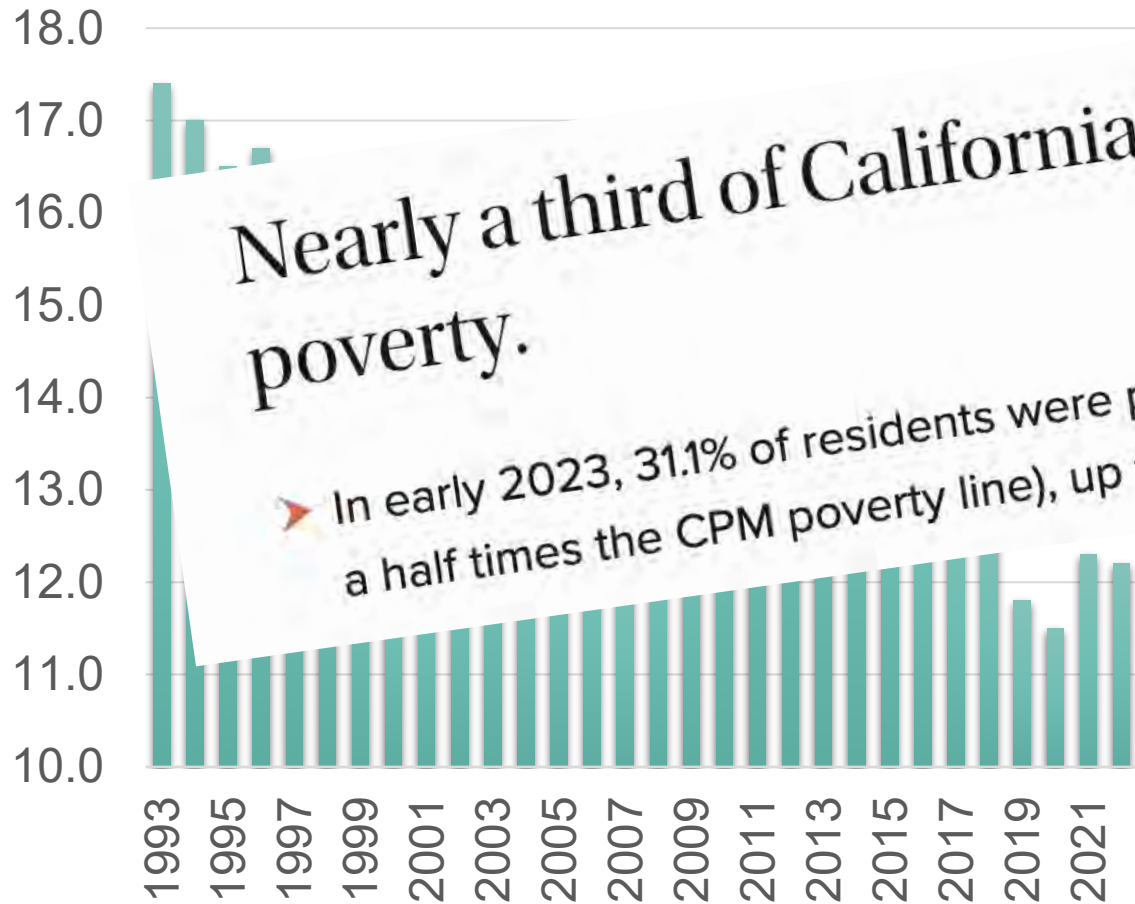
California Educational Attainment	2022 Labor Force	10-Year Chg. (%)
Less than HS	1,959,233	-17.2
HS Graduate	3,155,868	6.1
Some College	4,417,887	-7.9
Bachelor's +	6,849,482	26.2

California Population by Age	Population	10-Year Change (%)
Under 25	12,162,569	-8.3
25 to 44	11,139,847	4.6
45 to 64	9,568,024	0.4
65 and over	6,158,902	33.9



Income and Earnings

California Poverty Rate



Education Level	Count	Chg. Since 2019 (%)
High School	38,507	6.0
Some College	47,535	10.0
Bachelor's Degree	75,688	6.0
Grad/Prof Degree	103,600	4.0

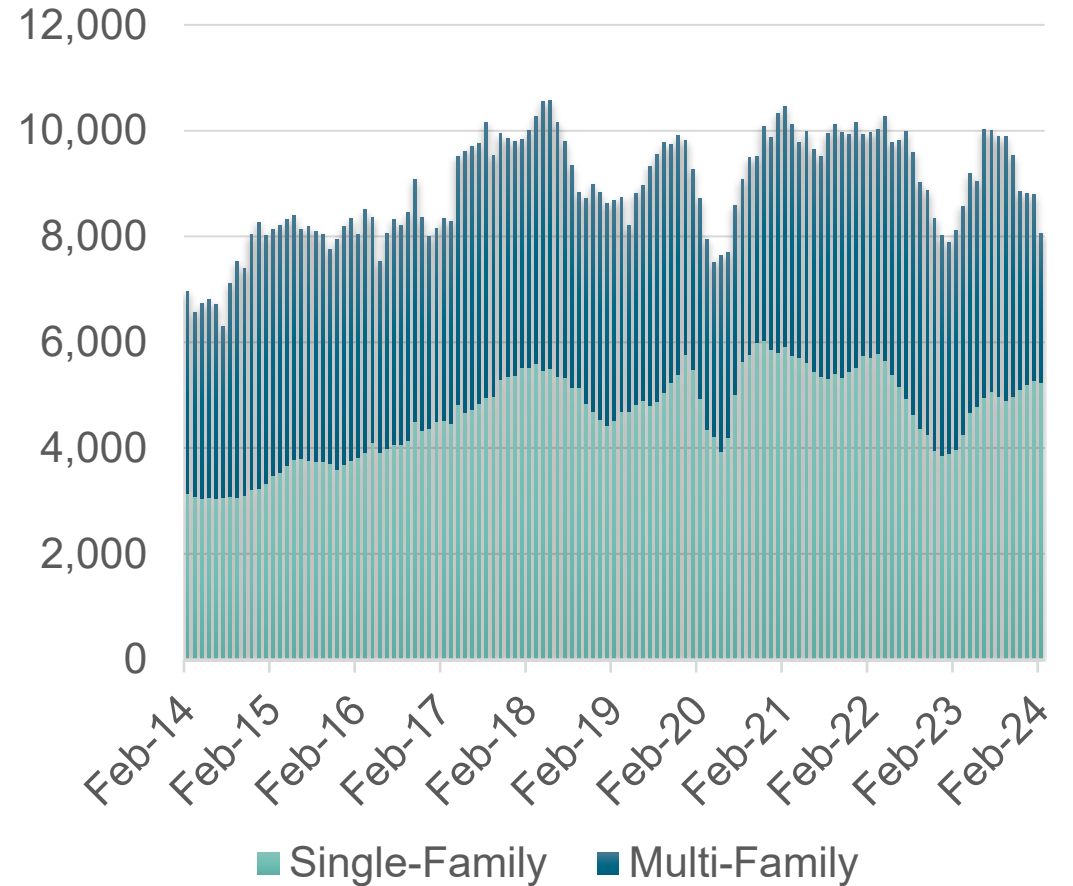


Not Affordability

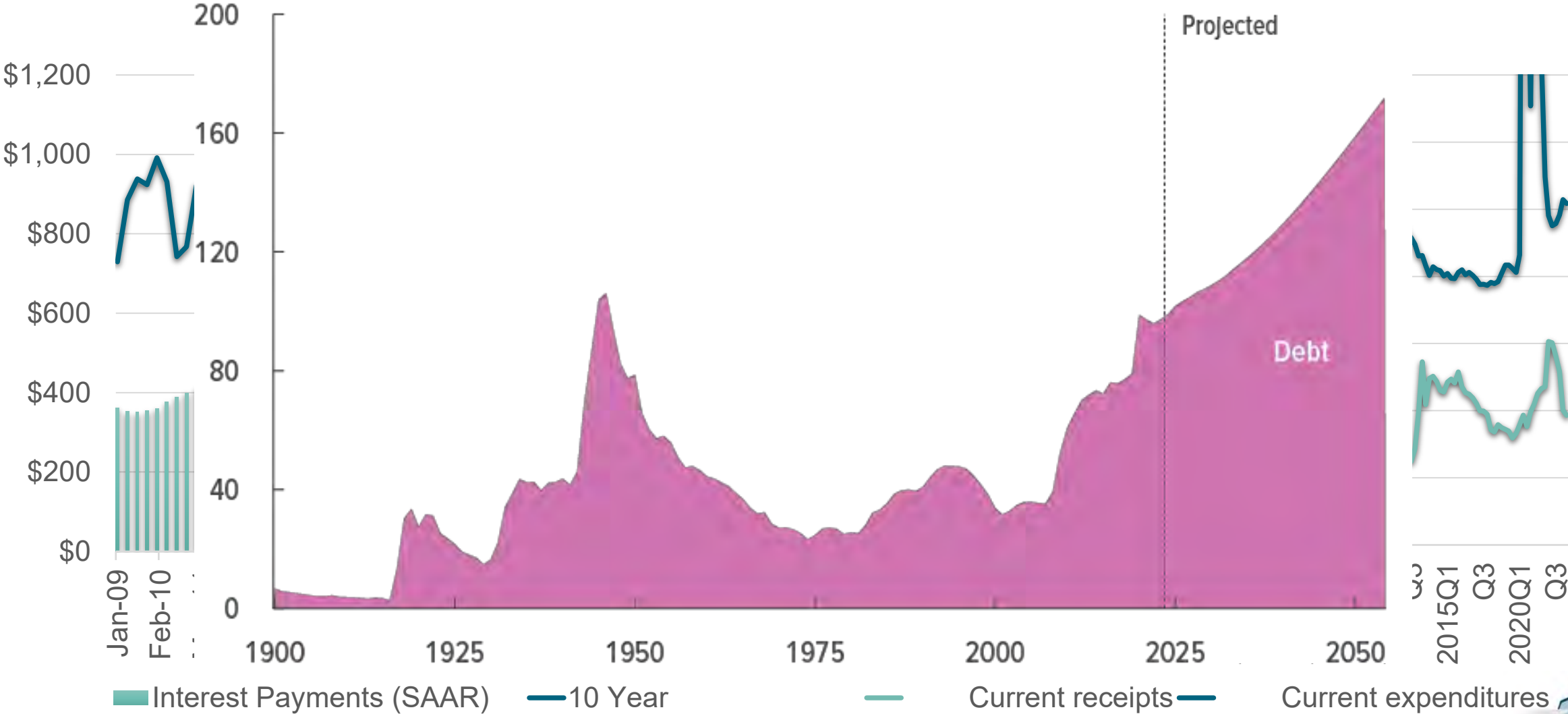
Median Rent as a % of Income



California Residential Permits



Powell's Legacy: The Federal Deficit

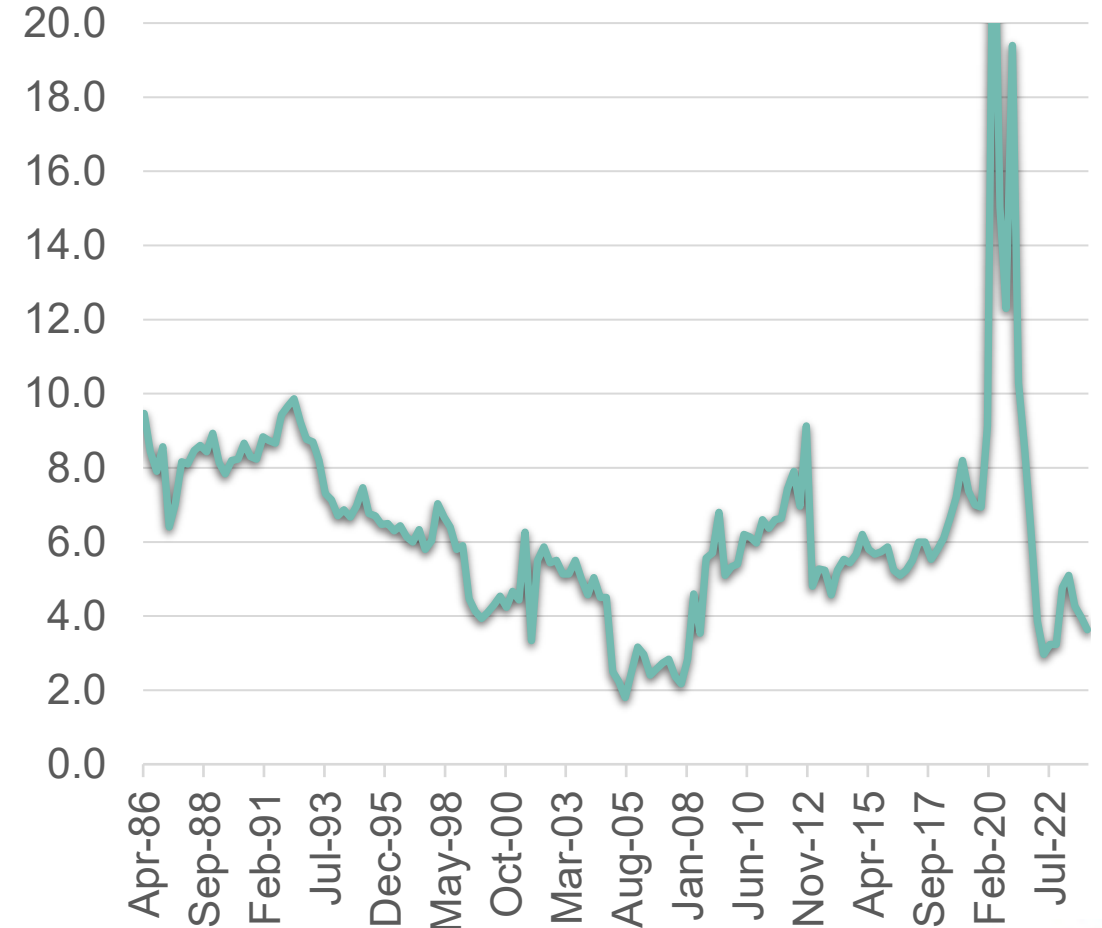


Powell's Legacy: Frothy Asset Prices

Shiller Cyclically Adjusted P/E Ratio



US Household Savings Rate



Out of the Woods?



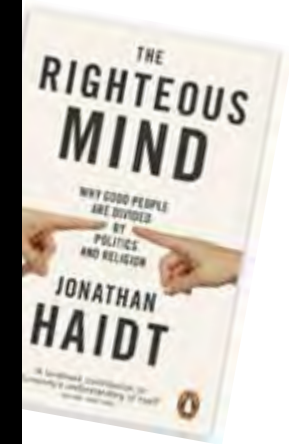
**Column: Biden says America is 'coming back.'
Trump says we're 'in hell.' Are they talking
about the same nation?**

Los Angeles Times

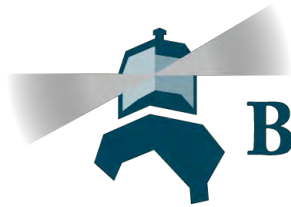


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Thank You!



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