

Principal economic issues and expectations for 2022 in the Post–Pandemic Economy

May 23, 2022



**Mark Schniepp
Director**

Daily New COVID-19 Cases / California

December 16, 2020 -- May 14, 2022

new cases
per day

150,000

120,000

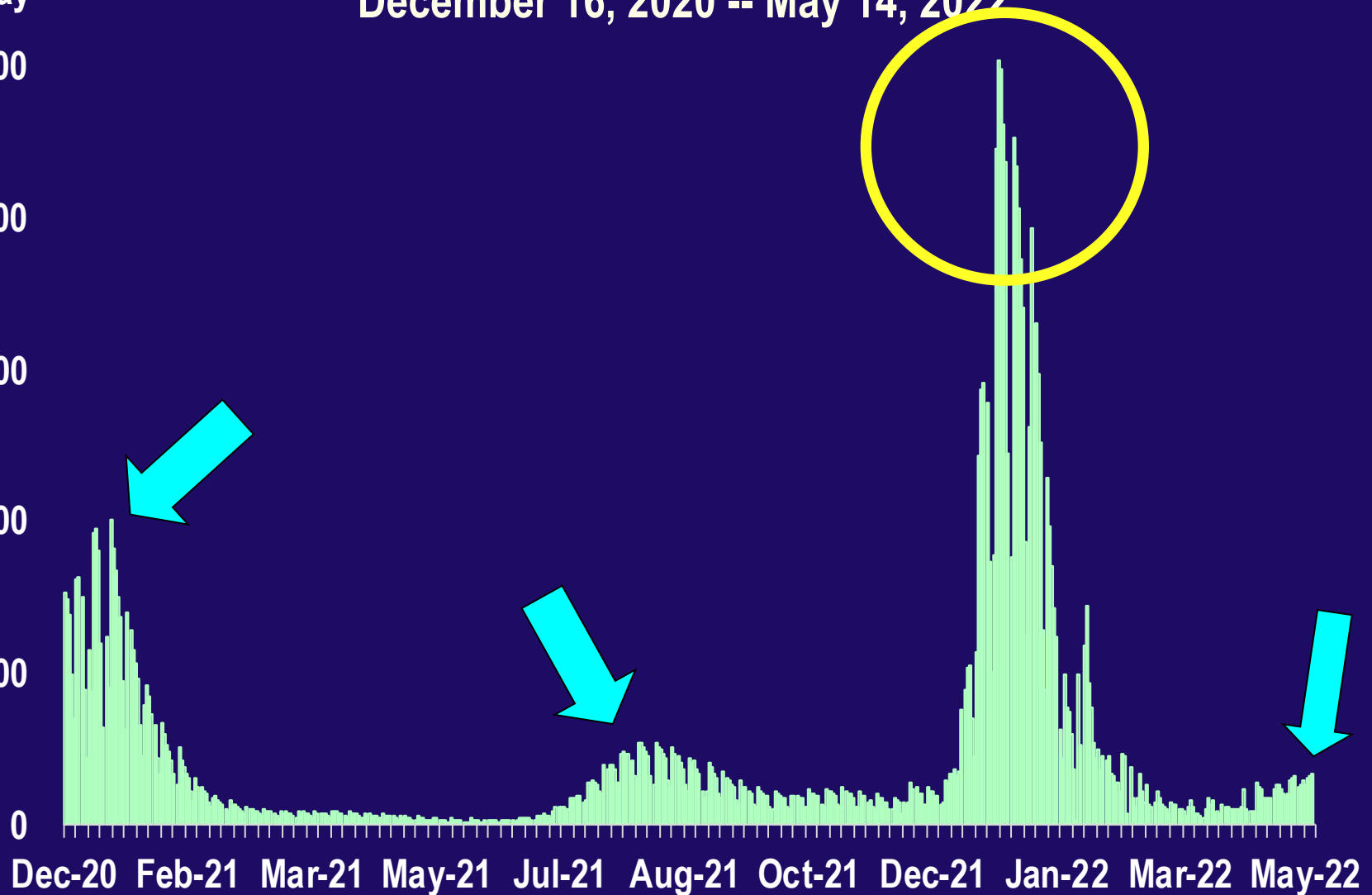
90,000

60,000


30,000

0

Dec-20 Feb-21 Mar-21 May-21 Jul-21 Aug-21 Oct-21 Dec-21 Jan-22 Mar-22 May-22



Quiz 1: When do you think we'll be back to normal ?

- (1) We are back to normal now
- (2) By mid-summer
- (3) Are you crazy, a new variant is coming
- (4) More draconian measures are coming
-  (5) I live in Florida. It's quite normal there now

Agenda

(1) The U.S. Economy

- The pressing issues today

(2) A note on the California Economy

- recent evidence on recovery of the markets
- labor force issues

(3) The 2022 Forecast

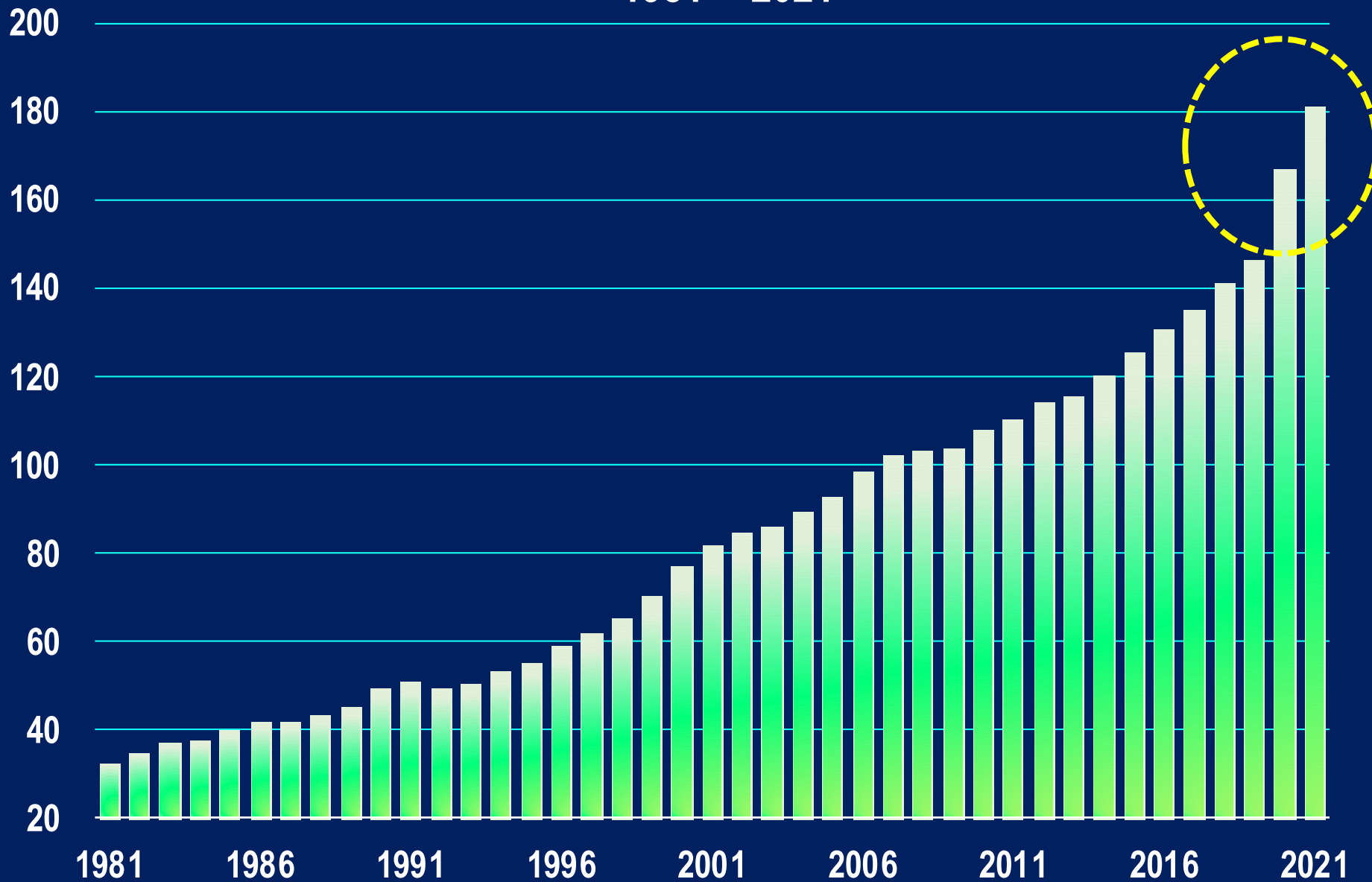
Quiz 2: **How is your 2022 so far ?**

- ☐ Stellar. We are having a career year
- ☐ Life couldn't be better: I'm working from home
- ☐ I'm faced with product shortages
- ☐ I'm faced with higher prices for equipment, materials and/or supplies
- ☐ I can't find workers to fill all my job openings
- ☐ I'm especially worried about inflation
- ☒ I'm drinking profusely

billions
of dollars

Alcohol Sales / U.S.

1981 -- 2021



Recent Economic Evidence / Summary

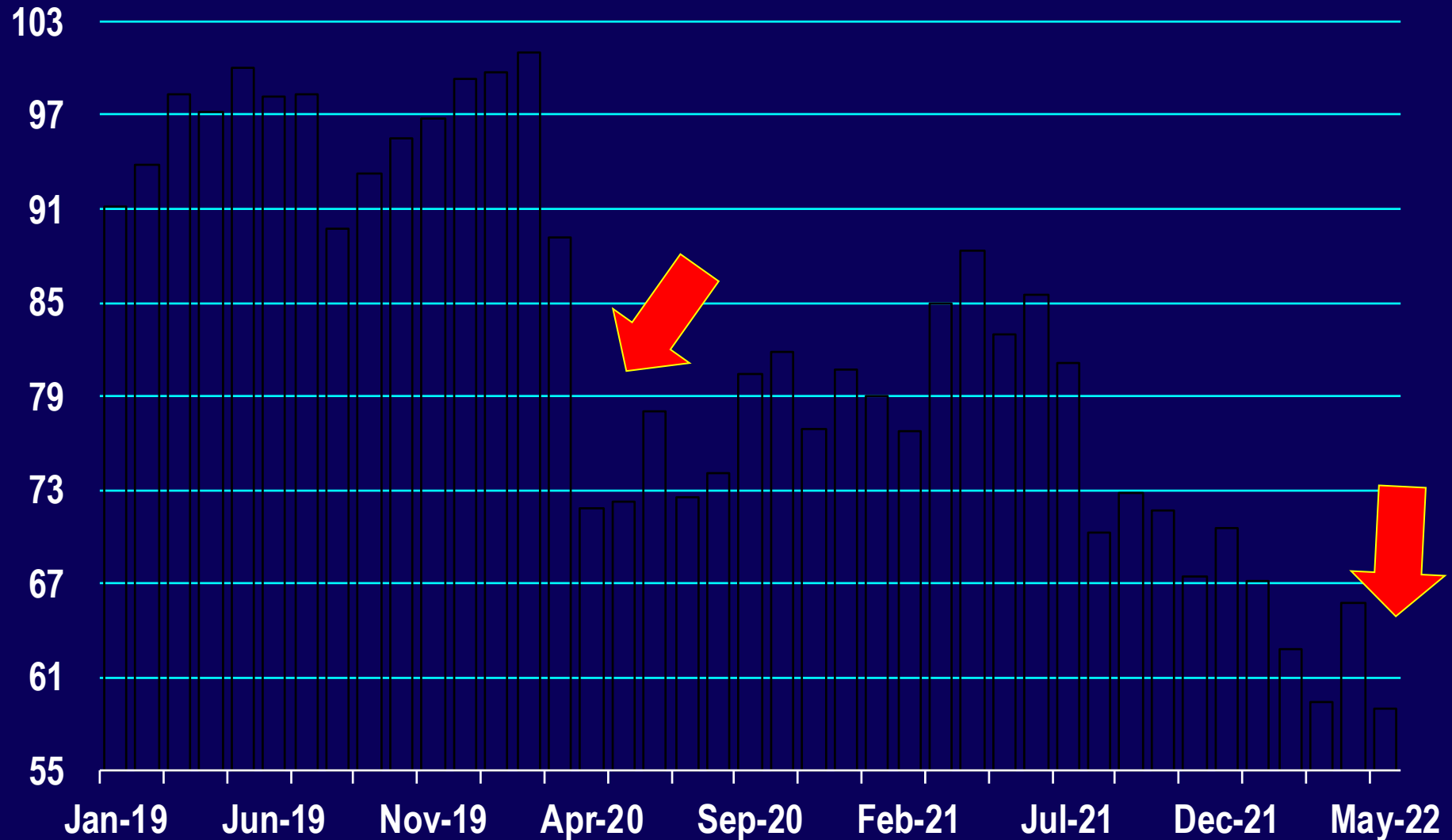
May 2022

- ☐ Stock Market at year-to-date lows right now
- ☐ Consumers are very pessimistic
- ☐ Yet Consumer spending was up sharply in March and April.
- ☐ But major retailers (Wal Mart, Costco, Target) are reporting disappointing earnings
- ☐ U.S. Industrial production up sharply in April
- ☐ More Supply Chain issues are coming . . .
- ☒ Is a recession now inevitable ?

Consumer Sentiment / University of Michigan

index
1985=100

January 2018 -- May 2022



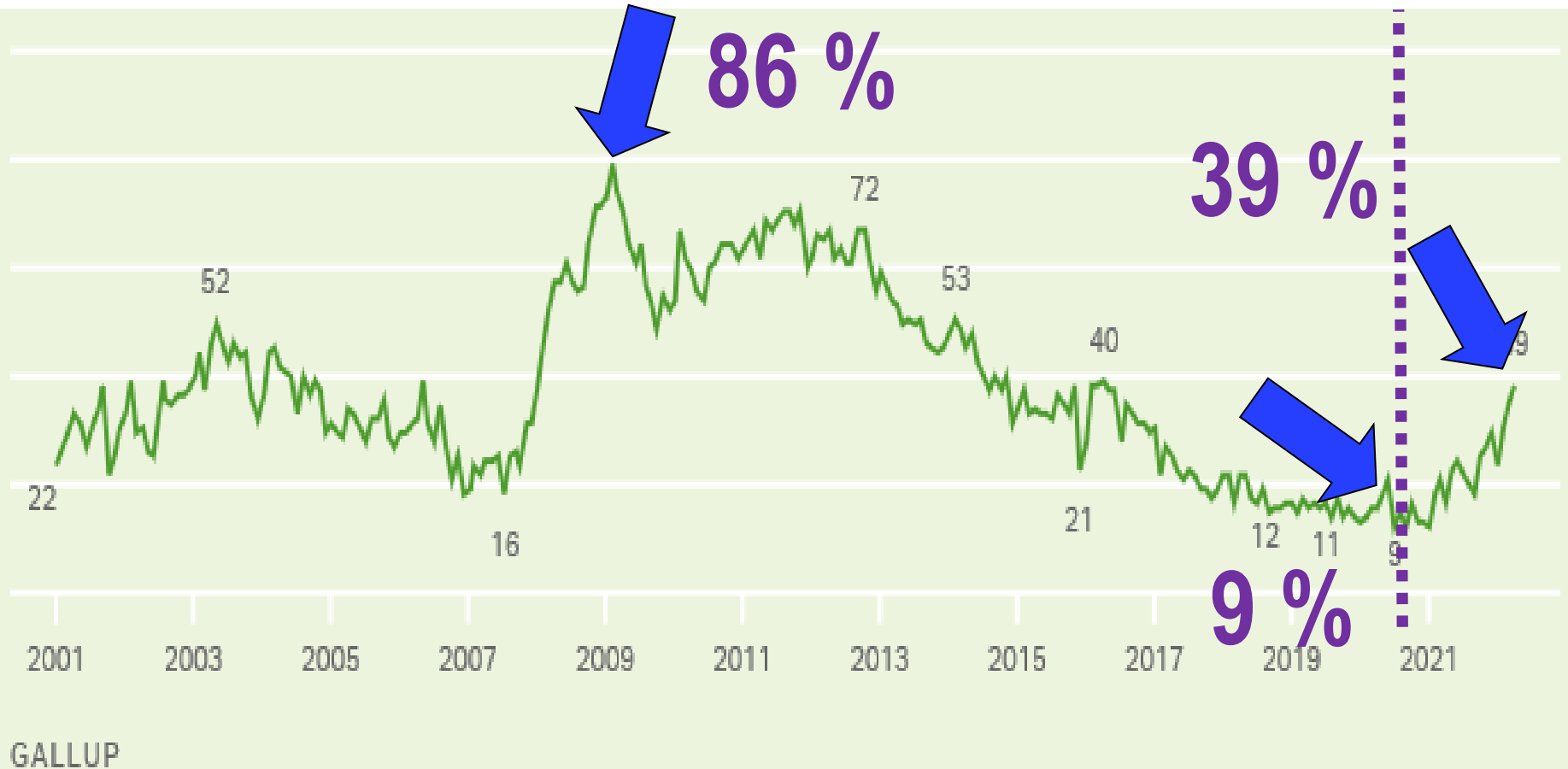
What is the most important problem facing the country today ?

Economic Issues	39 %
Inflation (incl fuel prices)	23 %
Economy in general	12 %
Government leadership	20 %
Immigration	7 %
Russia-Ukraine	5 %
Coronavirus	4 %

Gallup Poll, April 2022



Percent of Americans indicating Economic Issues As the Nation's most Pressing Problem



Gallup Poll, April 2022

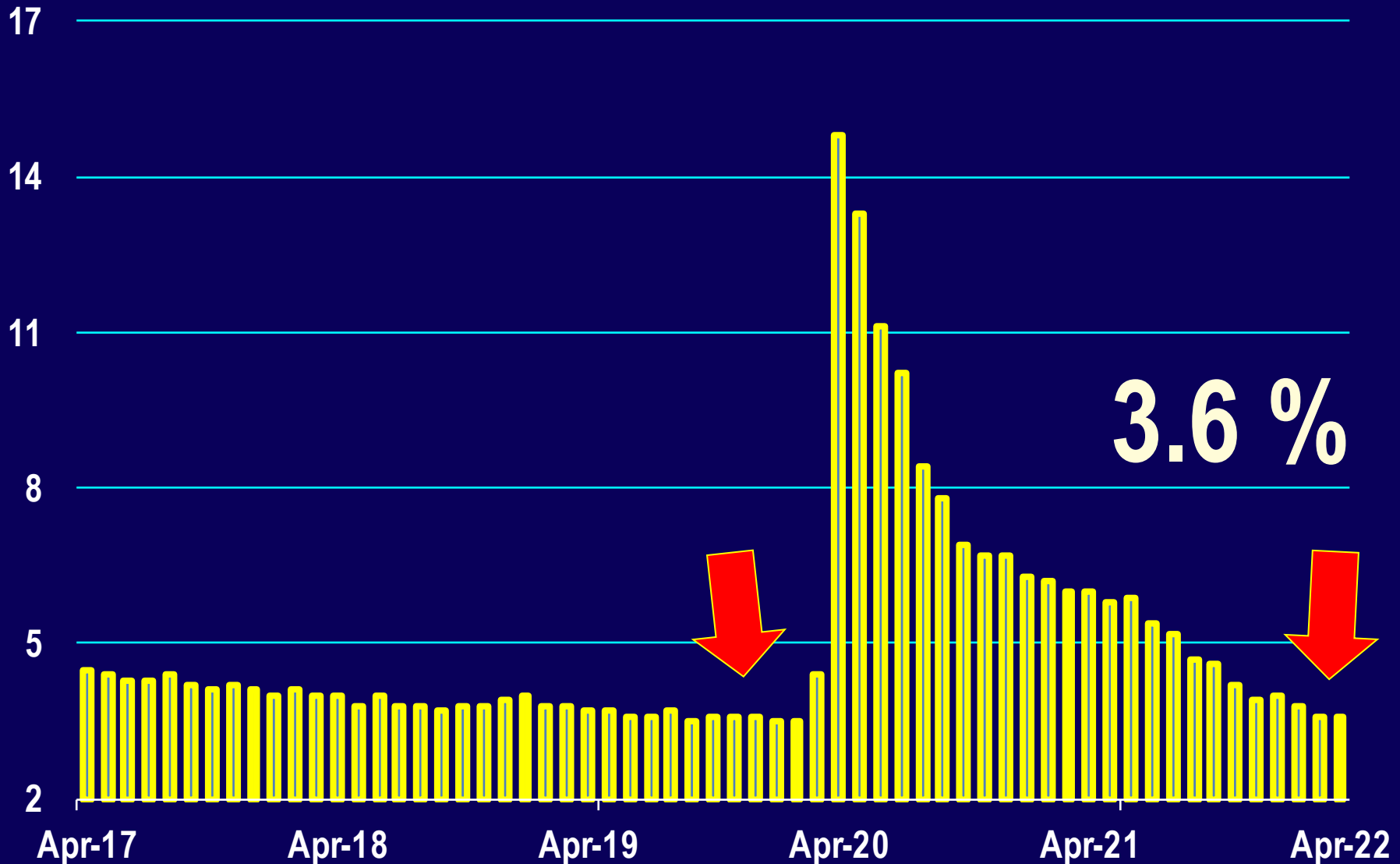
The Joyless Economy

- Even though
 - the pandemic appears to be fading,
 - consumers are still buying lots of stuff and traveling
 - and the economy is at more than full employment
- the sentiment surveys clearly show that consumers and / or Americans have growing disdain for economic conditions

Unemployment Rate / US

percent

April 2017 -- April 2022



Total Employment / U.S.

May 2019 -- April 2022

millions
of jobs

154

151

148

145

142

139

136

133

130

127

157 M

May-19

Oct-19

Mar-20

Aug-20

Jan-21

Jun-21

Nov-21

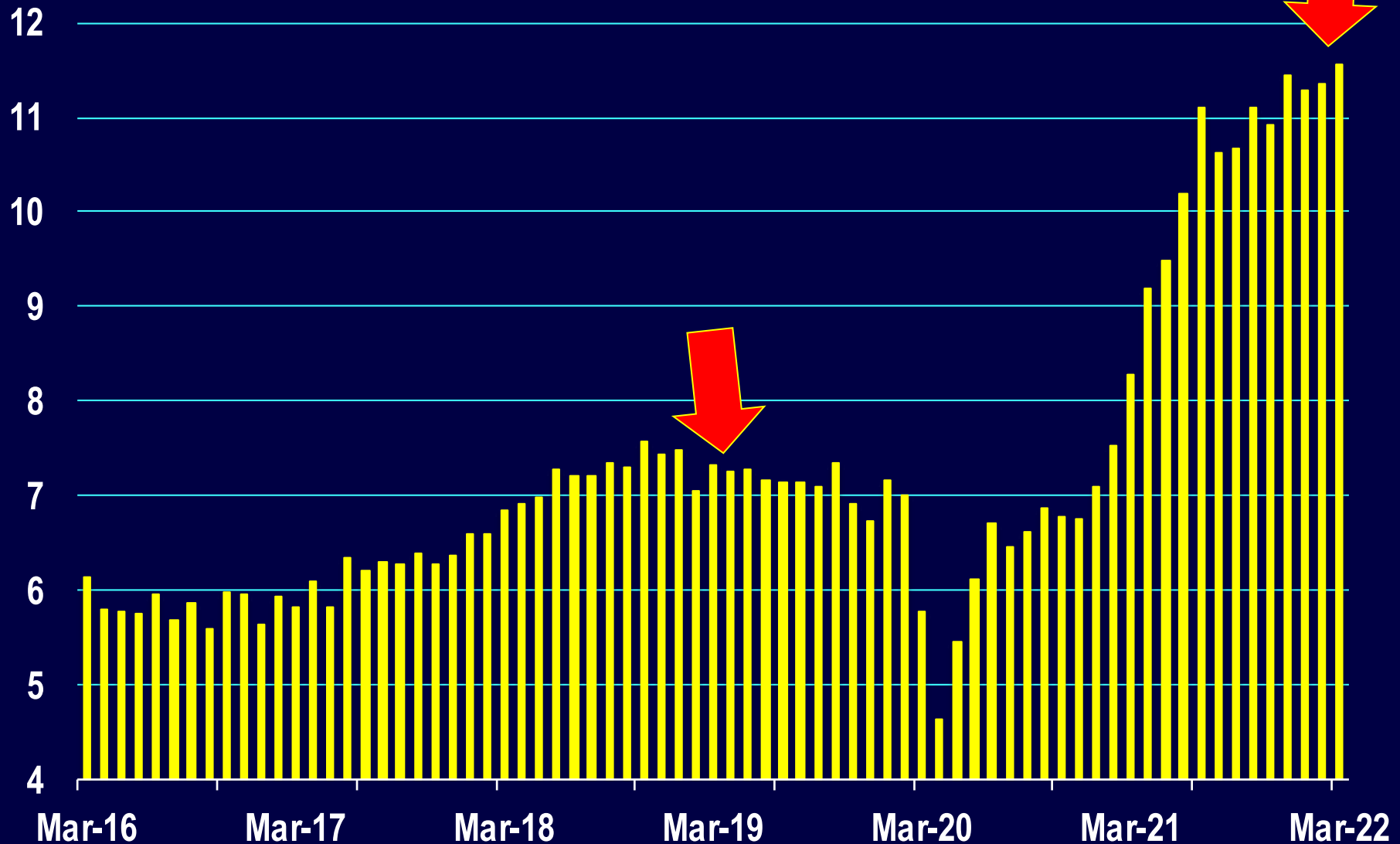
Apr-22



Job Openings / U.S.

March 2016 -- March 2022

millions
of jobs



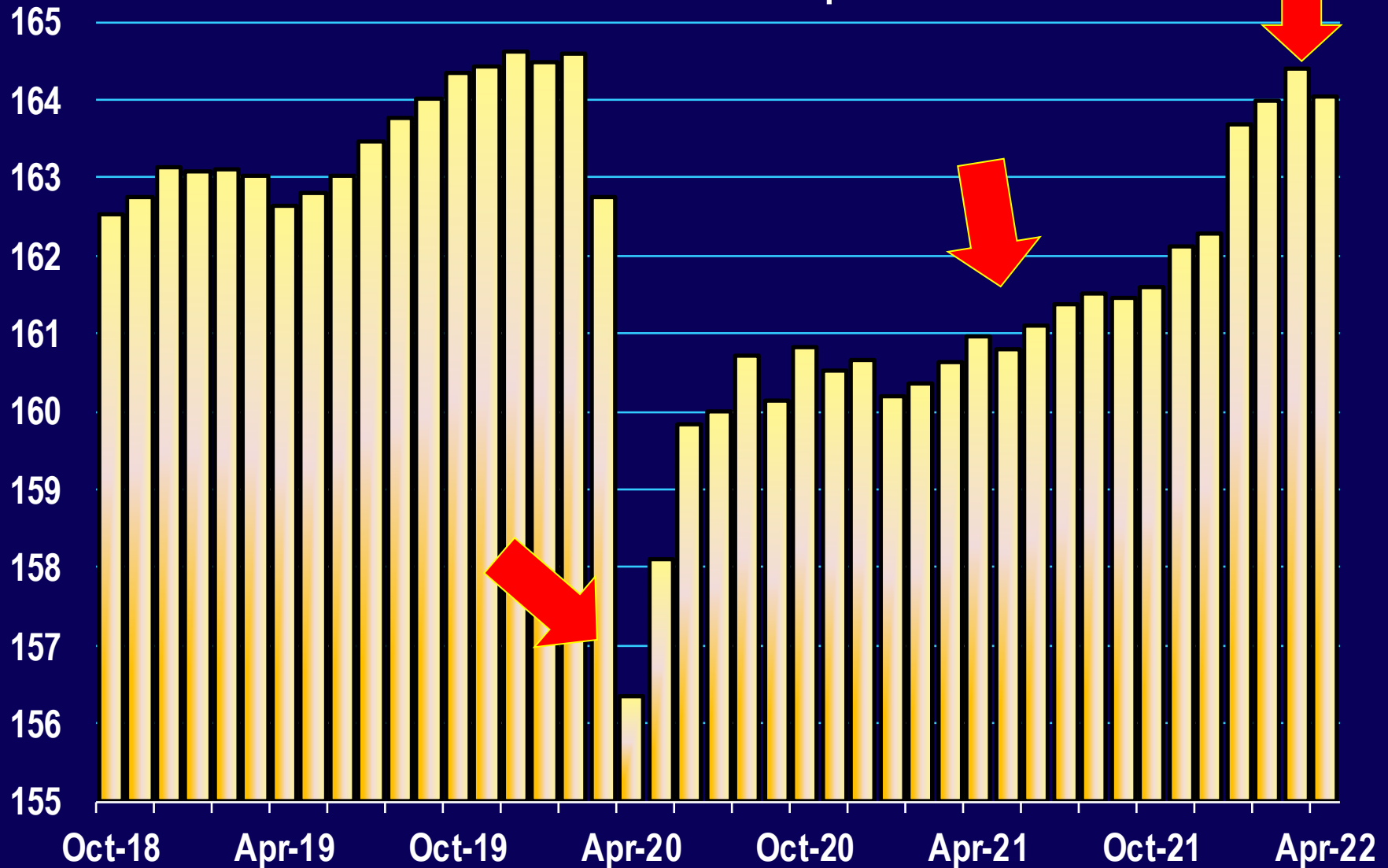
You're Hired !



Labor Force / U.S.

October 2018 -- April 2022

millions
of people



Inflation Is Now America's Top Economic Concern

Author: Mallika Mitra

Published: Mar 30, 2022 | 4 min read

SHARE



percent
change in the
price level

General Consumer Price Inflation / U.S.

April 2016 -- April 2022



percent
change in the
price level

Inflation in Energy Prices / U.S.

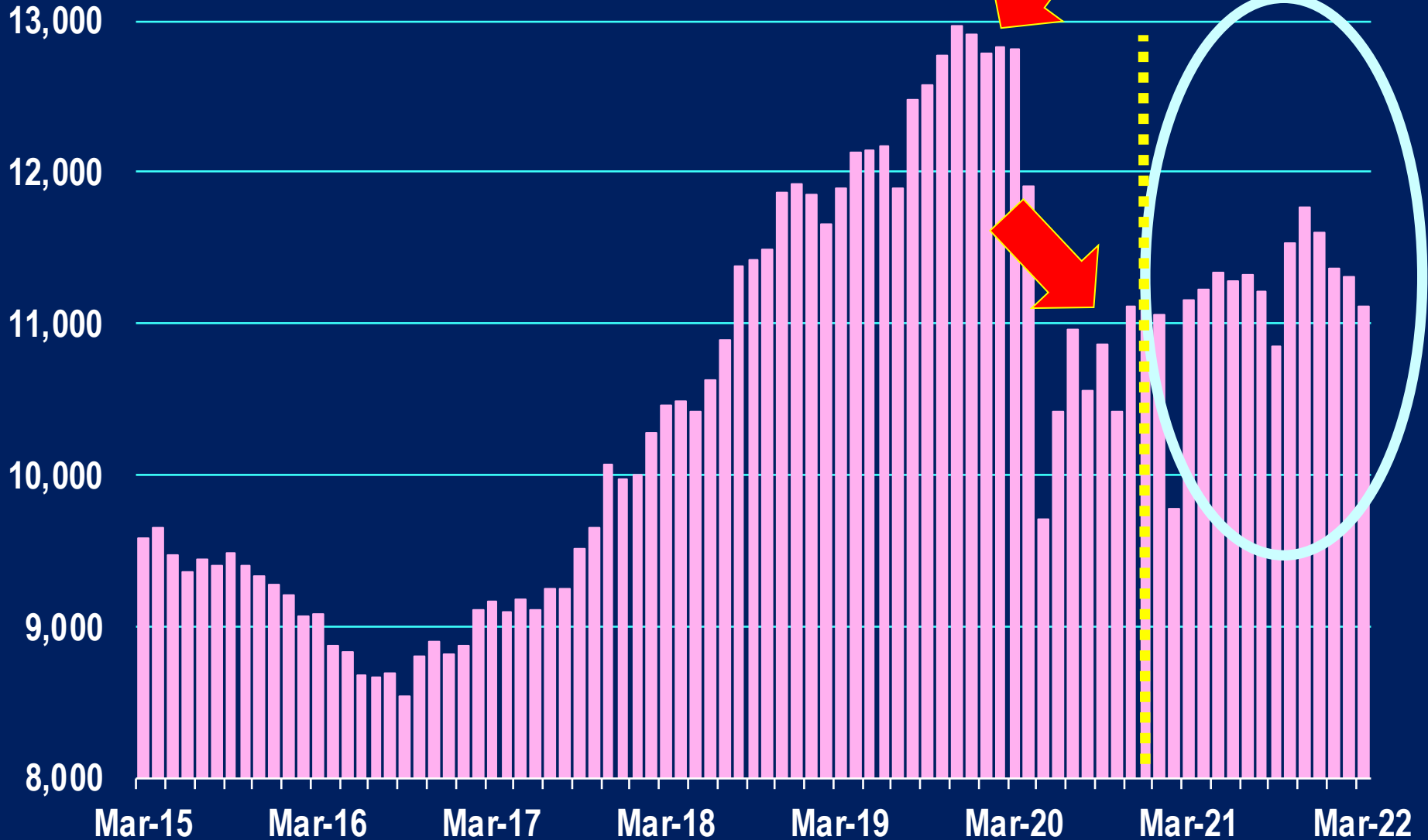
April 2016 -- April 2022



U.S. Crude Oil Production

March 2015 -- March 2022

thousands
of bbls / day



Price of Regular Gasoline

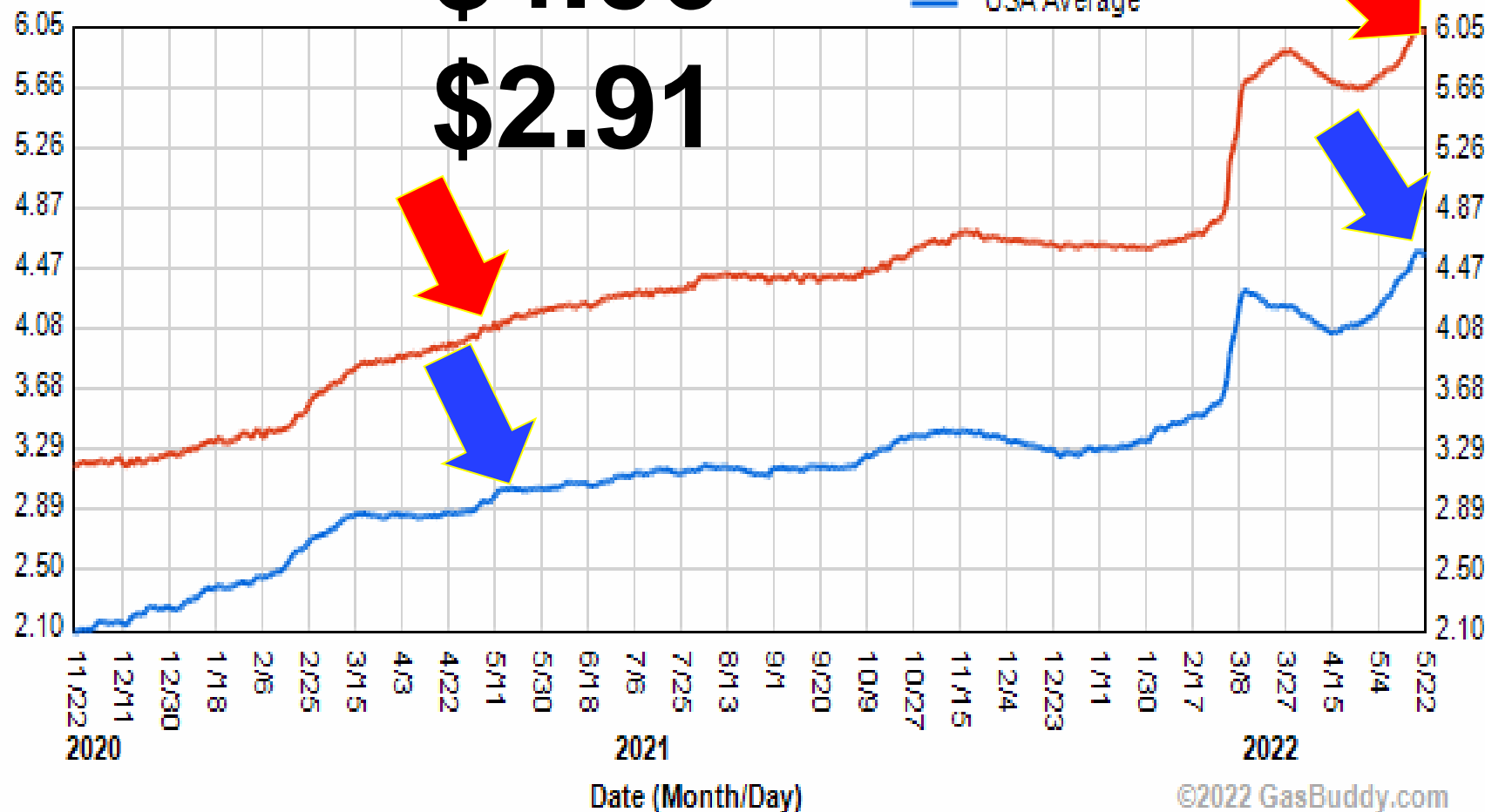
\$6.05
\$4.51

Regular Gas
Price (US \$/G)

\$4.06
\$2.91

Regular Gas
Price (US \$/G)

California
USA Average



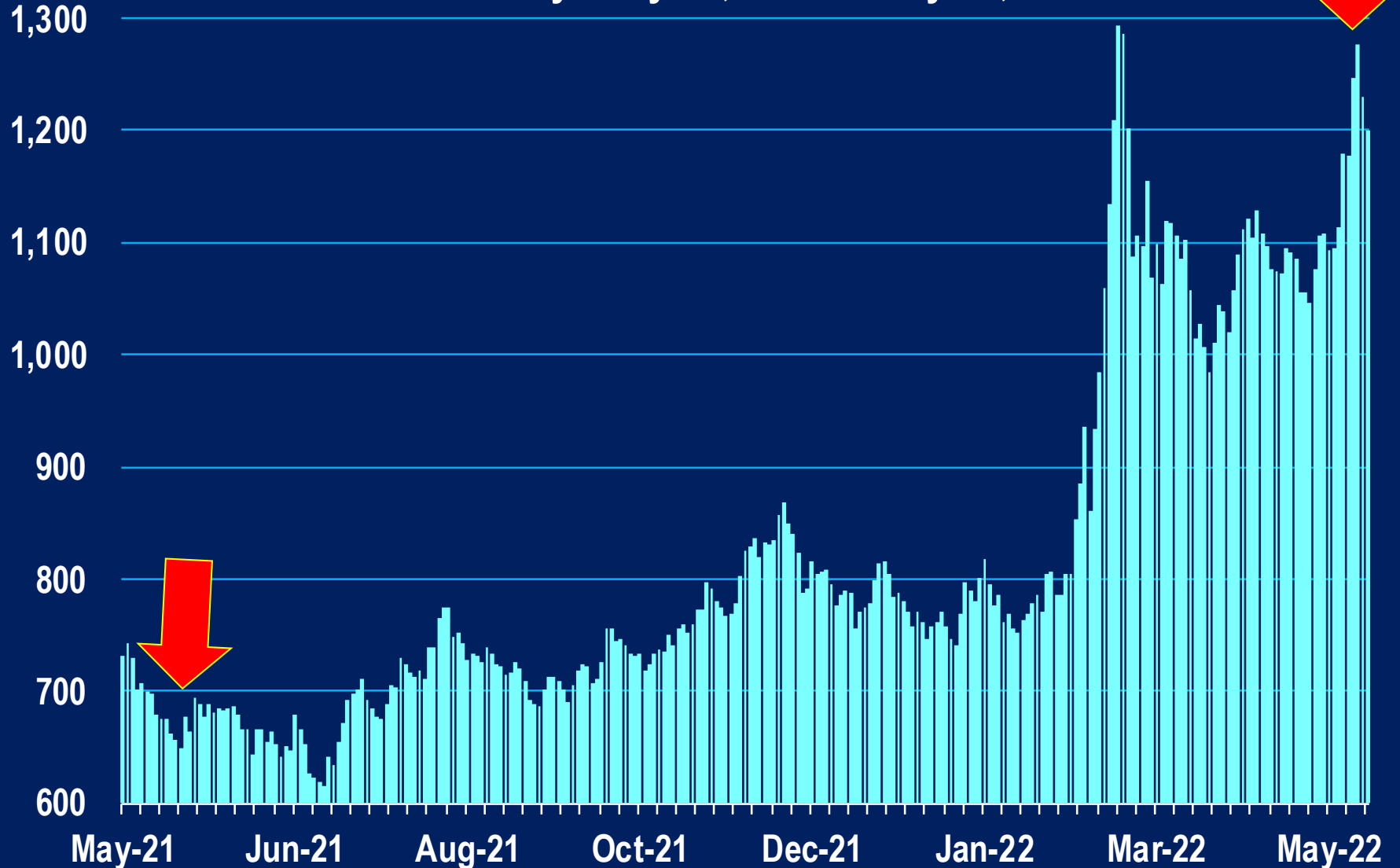
When will Oil Prices Normalize ?

- When current energy policy changes
- When OPEC production increases
- When Global demand declines
 - i.e., global growth slows down
 - especially in China, the largest importer
- When the war ends

price per
100 bushels

Wheat Futures Price / Chicago Board of Trade

Daily: May 10, 2021 -- May 20, 2022



Fertilizer Producer Price Index

April 2013 -- April 2022

Index

340

300

260

220

180

140

100

Apr-13

Oct-14

Apr-16

Oct-17

Apr-19

Oct-20

Apr-22



The Joyless Economy

- A war has now replaced the pandemic as the new global concern
- Supply bottlenecks still linger from the pandemic, in addition to those caused by the war
- Store shelves have improved but in some places they still look like this:



where is the Baby Formula ?



Out of stock rate up
to 50 percent in many states

Limit: 3 cans per person at Target

Quiz 3: Do you believe Inflation will remain problematic throughout 2022 ?

- A. Yes
- B. Of course
- C. without a doubt
- D. all of the above

Year-over-year percentage change in CPI

Percentage change in the Consumer Price Index, including UBS estimates.

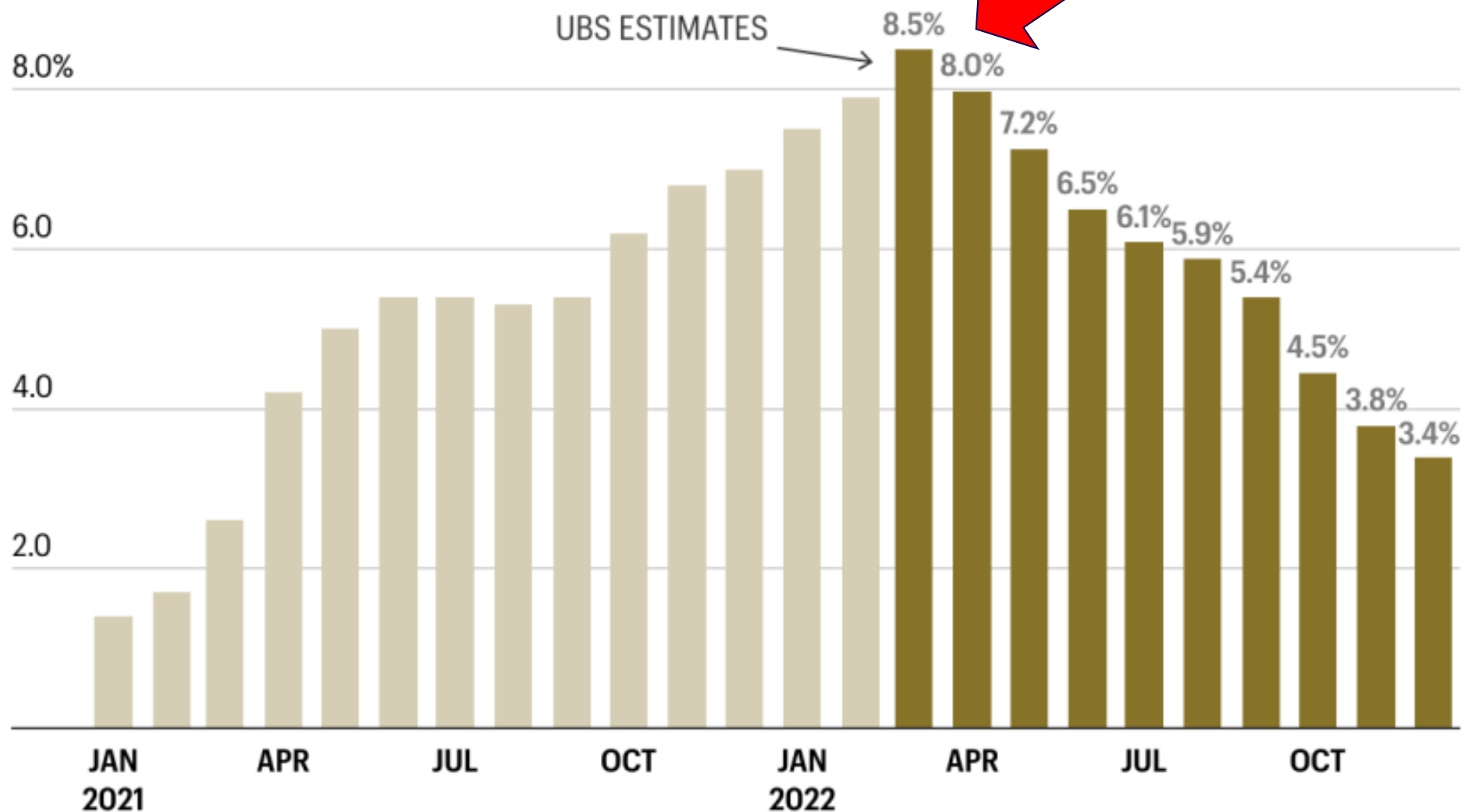


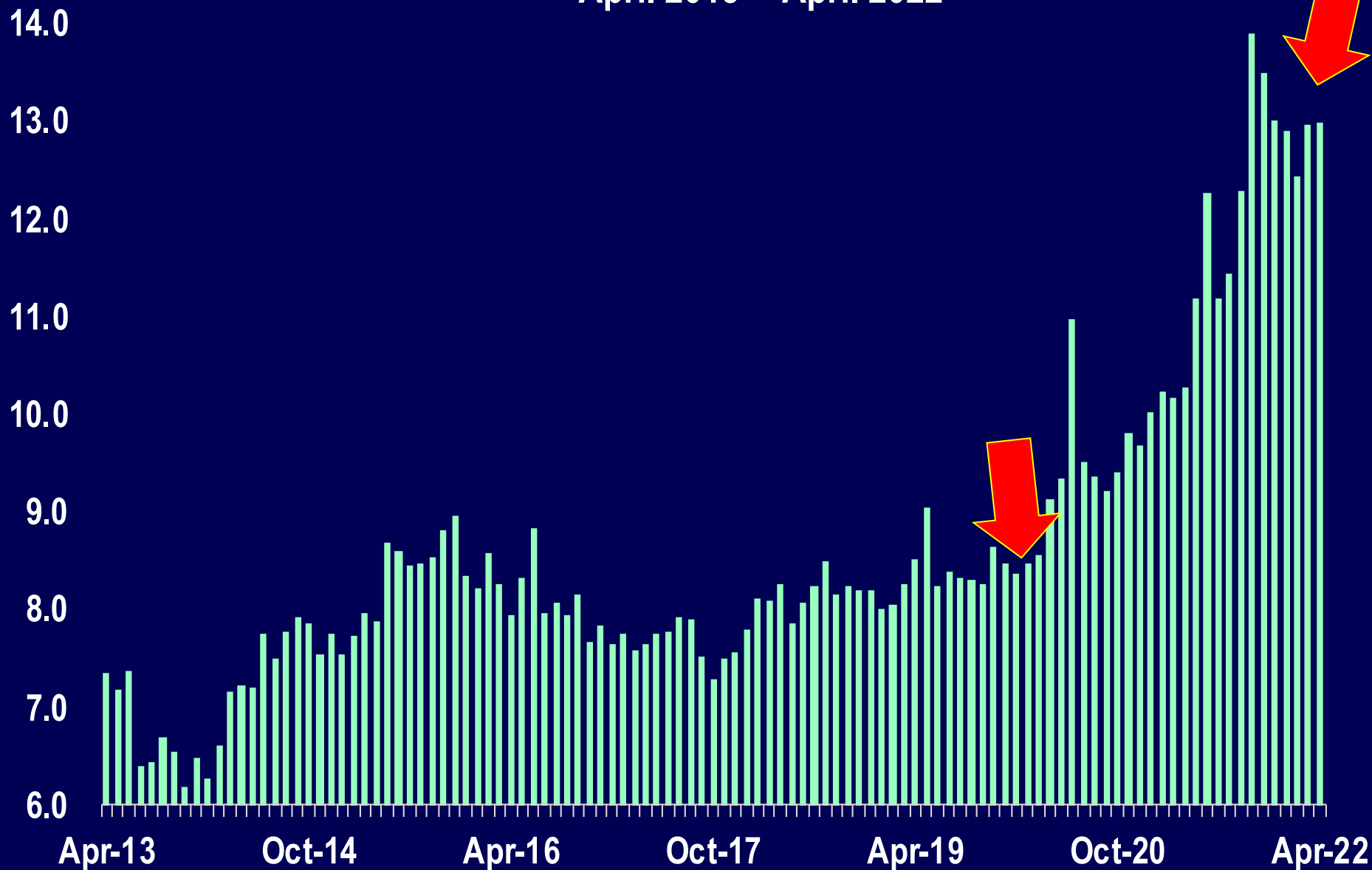
CHART: WILL DANIEL • SOURCE: UBS & THE BUREAU OF LABOR STATISTICS

FORTUNE

dollars
per pound

Price of Sirloin Steak / U.S. City Average

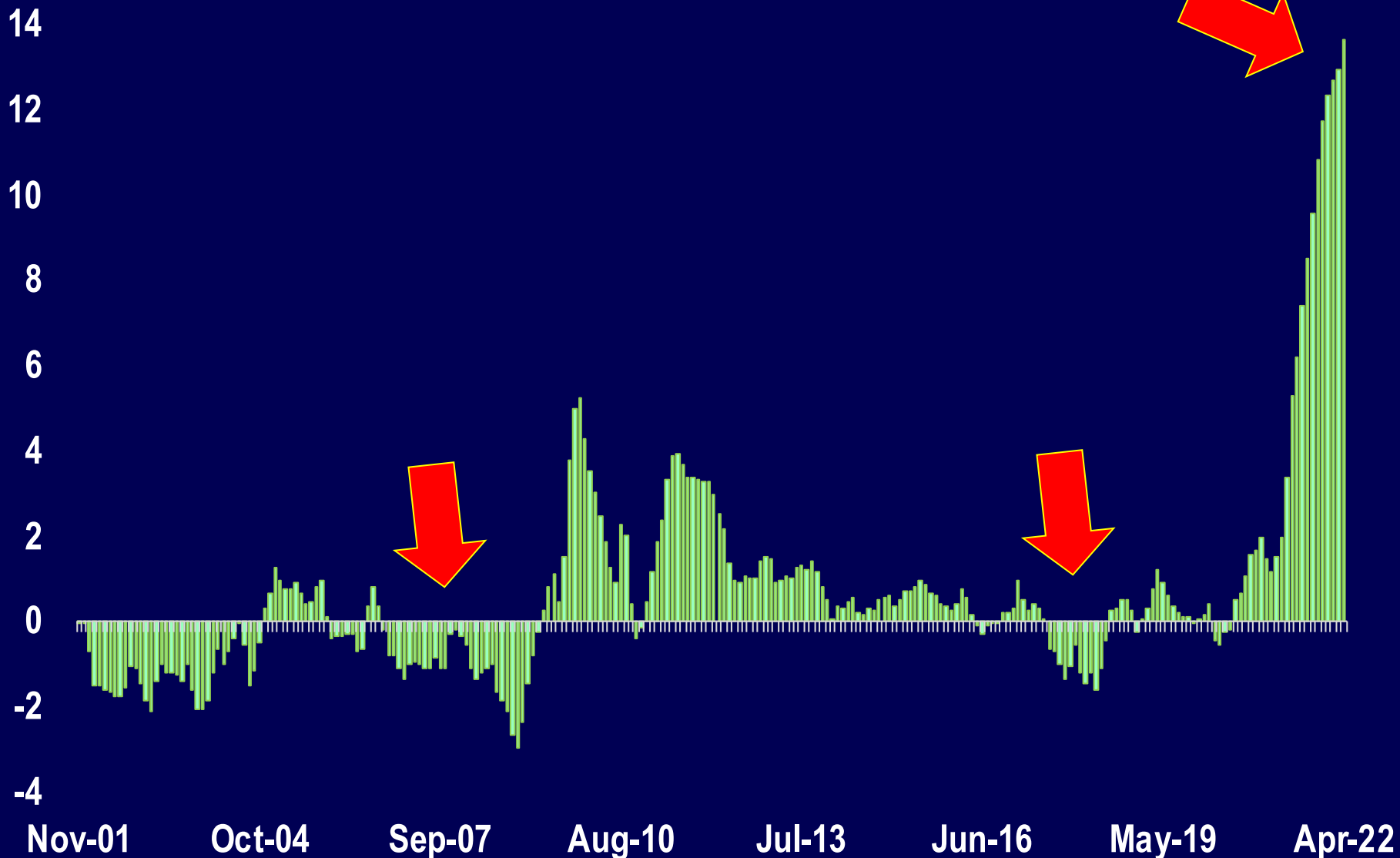
April 2013 -- April 2022



CPI Inflation in New Cars / U.S

percent change
from year ago

November 2001 -- April 2022



Biggest Risks Right Now

- Aggravated supply chain issues
 - China's zero-COVID policy is having a deep economic impact (on their exports)
 - Controls remain draconian in Shanghai and Beijing today
- The War
 - impacting food, fertilizer, and energy costs
- The Fed raising rates
 - they've had to step up their response, because to date . . .

Inflation

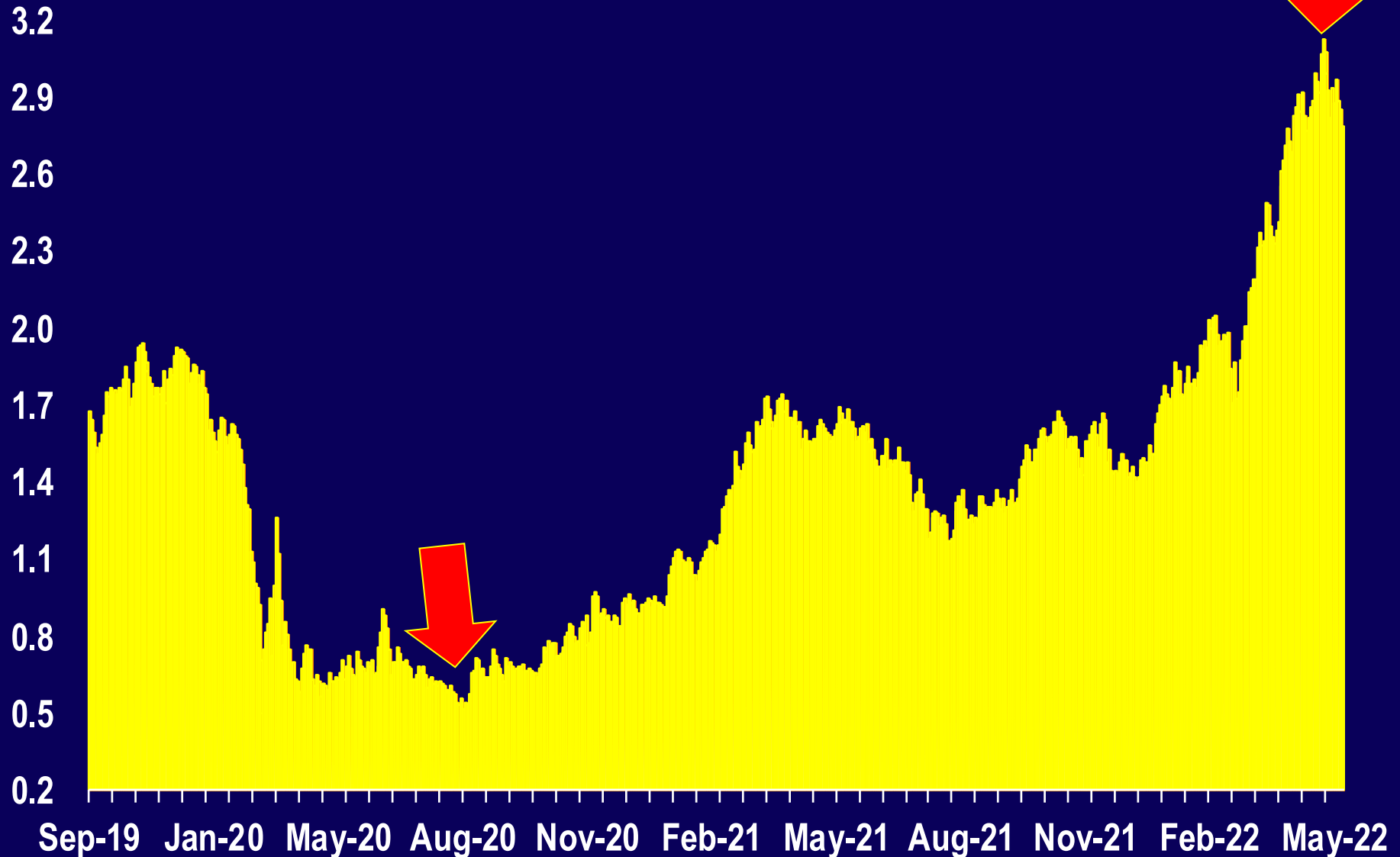
The Fed . . .
has fiddled



10 year U.S. Treasury Bond Yield

September 30, 2019 -- May 20, 2022

percent
yield



Weekly 30 Year Fixed Rate Mortgage

November 2019 -- May 19, 2022

rate

5.5

5.2

4.9

4.6

4.3

4.0

3.7

3.4

3.1

2.8

2.5

Nov-19

Apr-20

Sep-20

Feb-21

Jul-21

Dec-21

May-22



Impact of Higher Rates

- Higher interest rates make the economy more vulnerable
 - rate sensitive industries
- Housing will be (is being) affected
- General spending by consumers
- The cost of capital for business investment goes higher
- The U.S. dollar strengthens
- Our exports decline and growth slows

S&P 500 Index

October 20, 2021 -- May 20, 2022

-19%

index

4,900
4,800
4,700
4,600
4,500
4,400
4,300
4,200
4,100
4,000
3,900

Oct-21

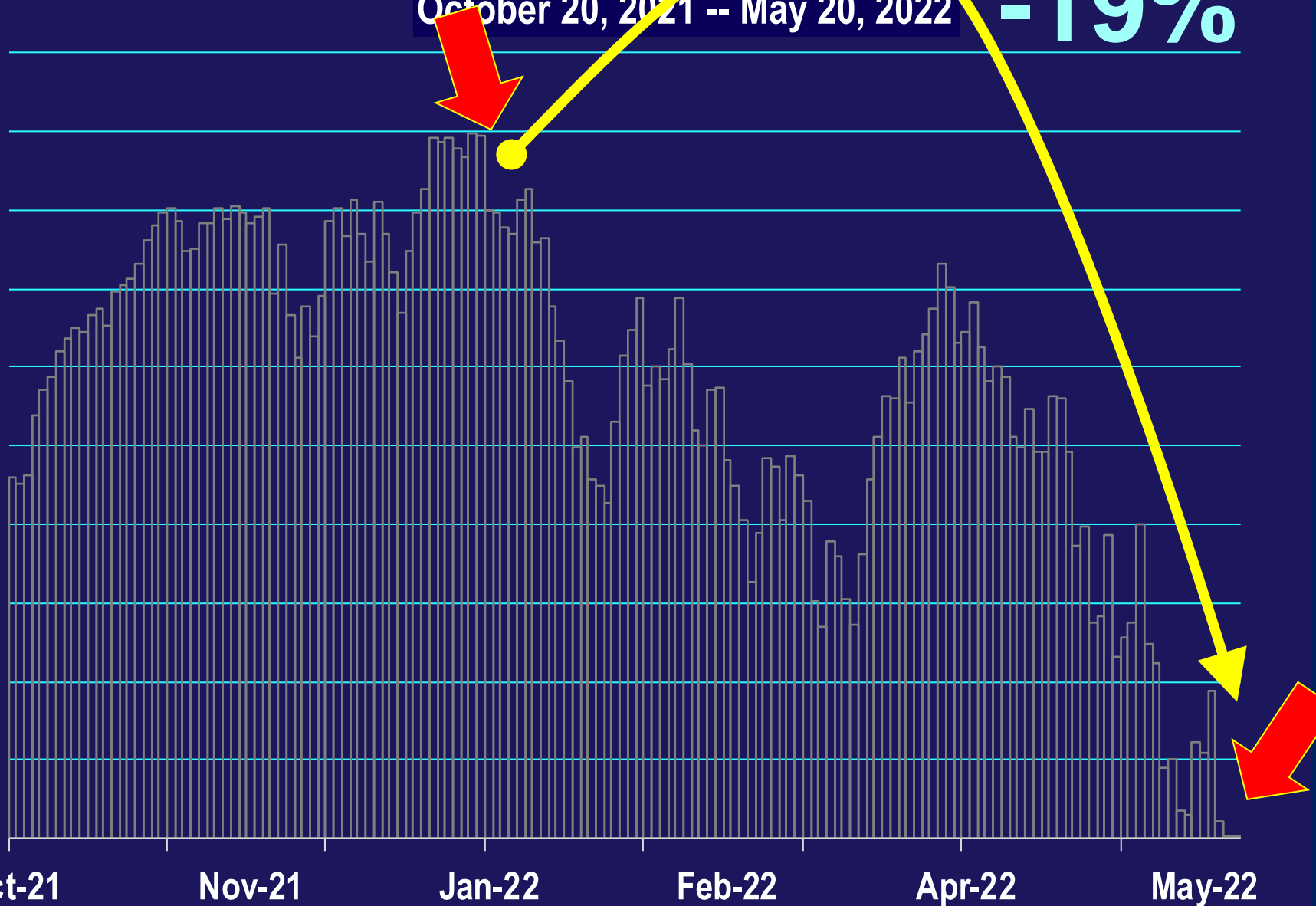
Nov-21

Jan-22

Feb-22

Apr-22

May-22



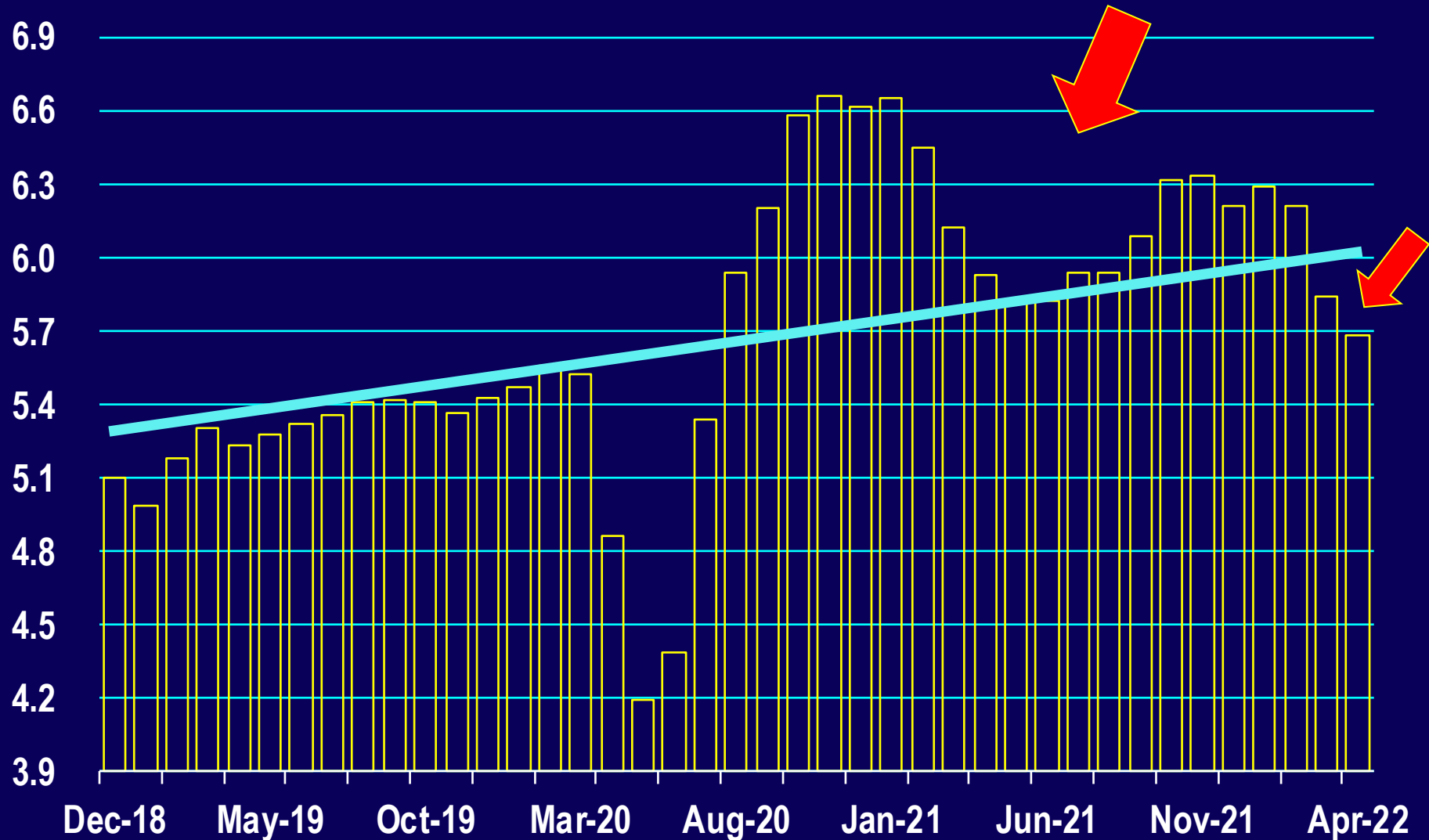
Investors are worried

- Sharply rising oil prices
- Higher than expected inflation
- Rising interest rates
- Geo-political instability
- Slower U.S. and world economic growth
- Consumers pull too far back on spending
- General uncertainty about the economy

Existing Home Sales / U.S.

millions of
sales, SAAR

December 2018 -- April 2022



Volume Index of Loans for Home Purchases / MBA Survey

March 3, 2018 - May 13, 2022

index of
volume

550

500

450

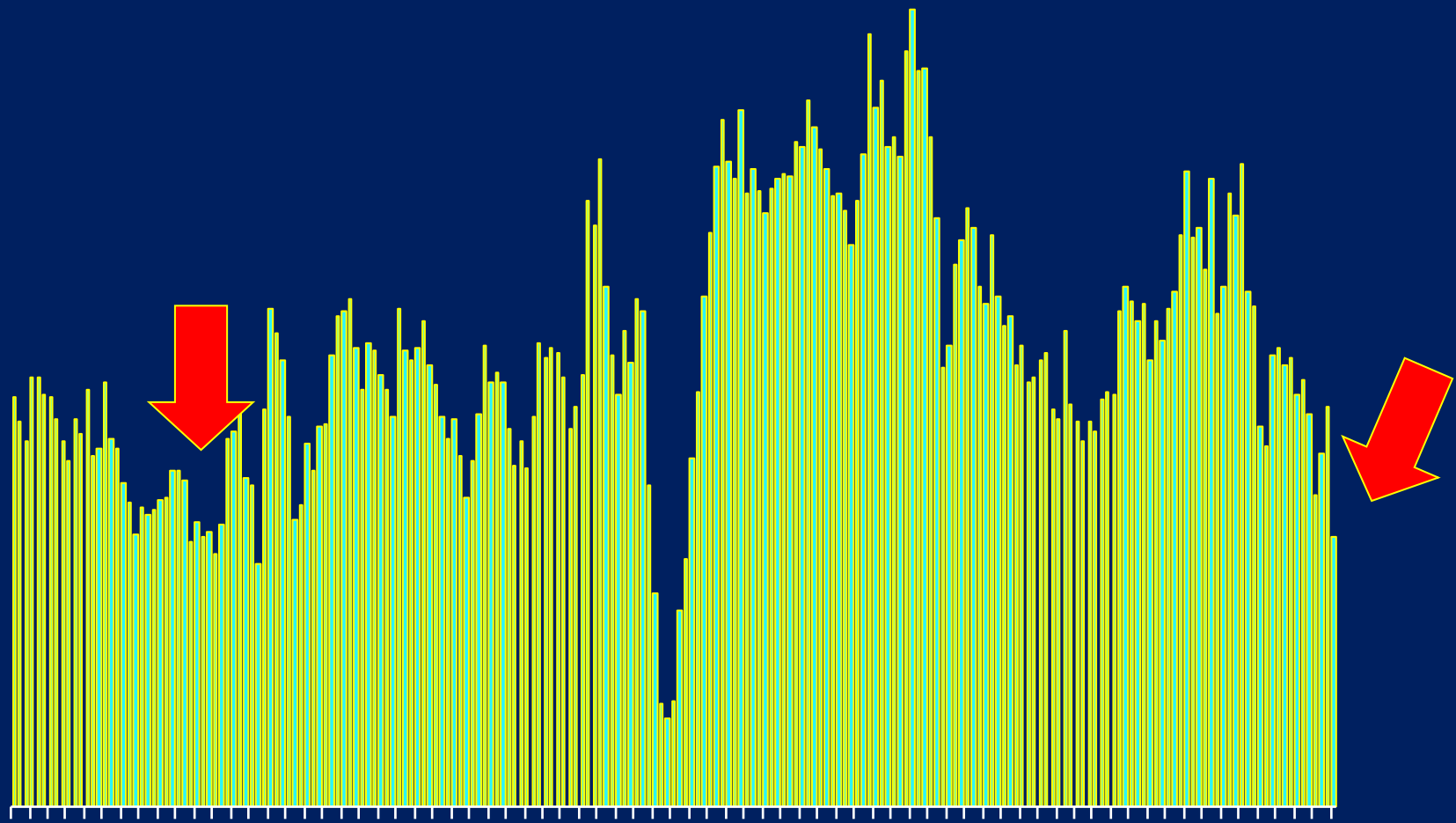
400

350

300

250

Mar-18 Sep-18 Feb-19 Aug-19 Jan-20 Jul-20 Dec-20 Jun-21 Nov-21 May-22



Refinance Index / MBA Survey

March 3, 2018 -- May 13, 2022

index of
volume

6,000

5,000

4,000

3,000

2,000

1,000

0

Mar-18

Sep-18

Feb-19

Aug-19

Jan-20

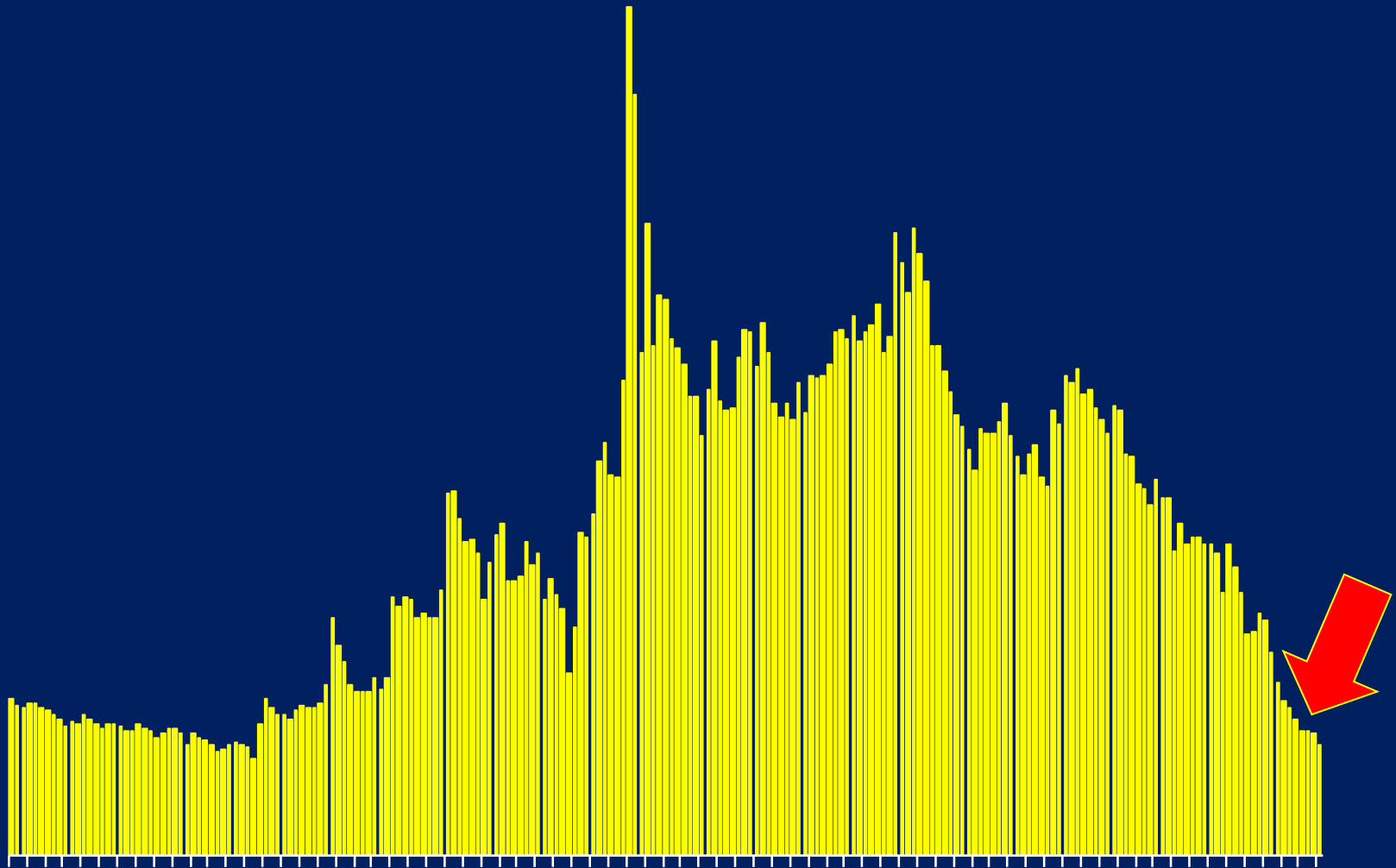
Jul-20

Dec-20

Jun-21

Nov-21

May-22



Is the economy really in bad shape now ?

- No, not really
- Consumer spending has moderated but it's still healthy
- Business investment has surged
- And government spending has been runaway
- Manufacturing continues to expand
- The labor market at full employment
- Normally the most pressing issue is the job market

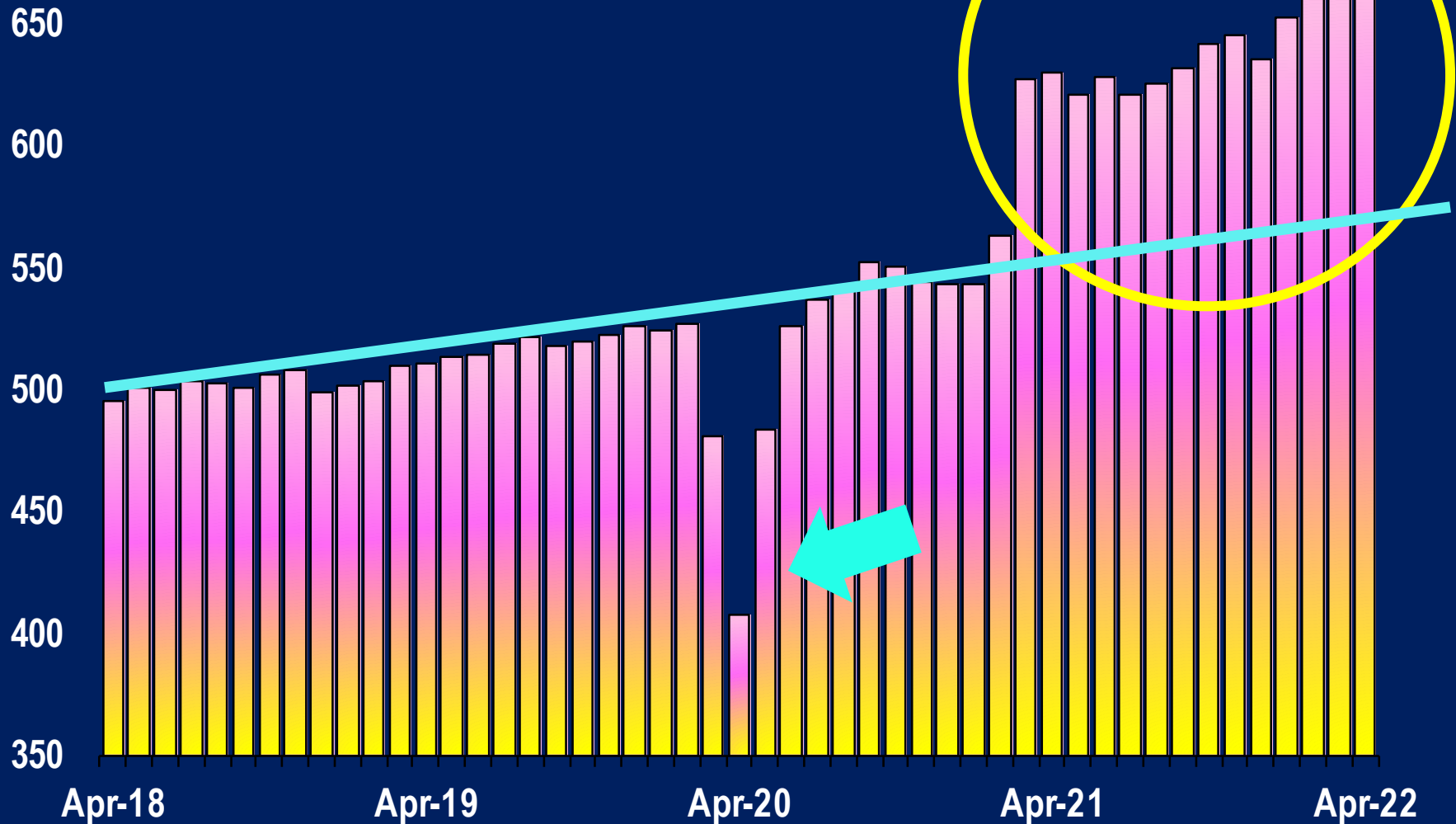
Bigger Issues for Consumers

- ☐ prices of goods and services
(especially gasoline prices)
- ☐ product availability
- ☐ direction of the financial markets
- ☐ poor government leadership
- ☐ immigration issue

Retail Sales and Food Service Sales / U.S.

billions of
dollars (SA)

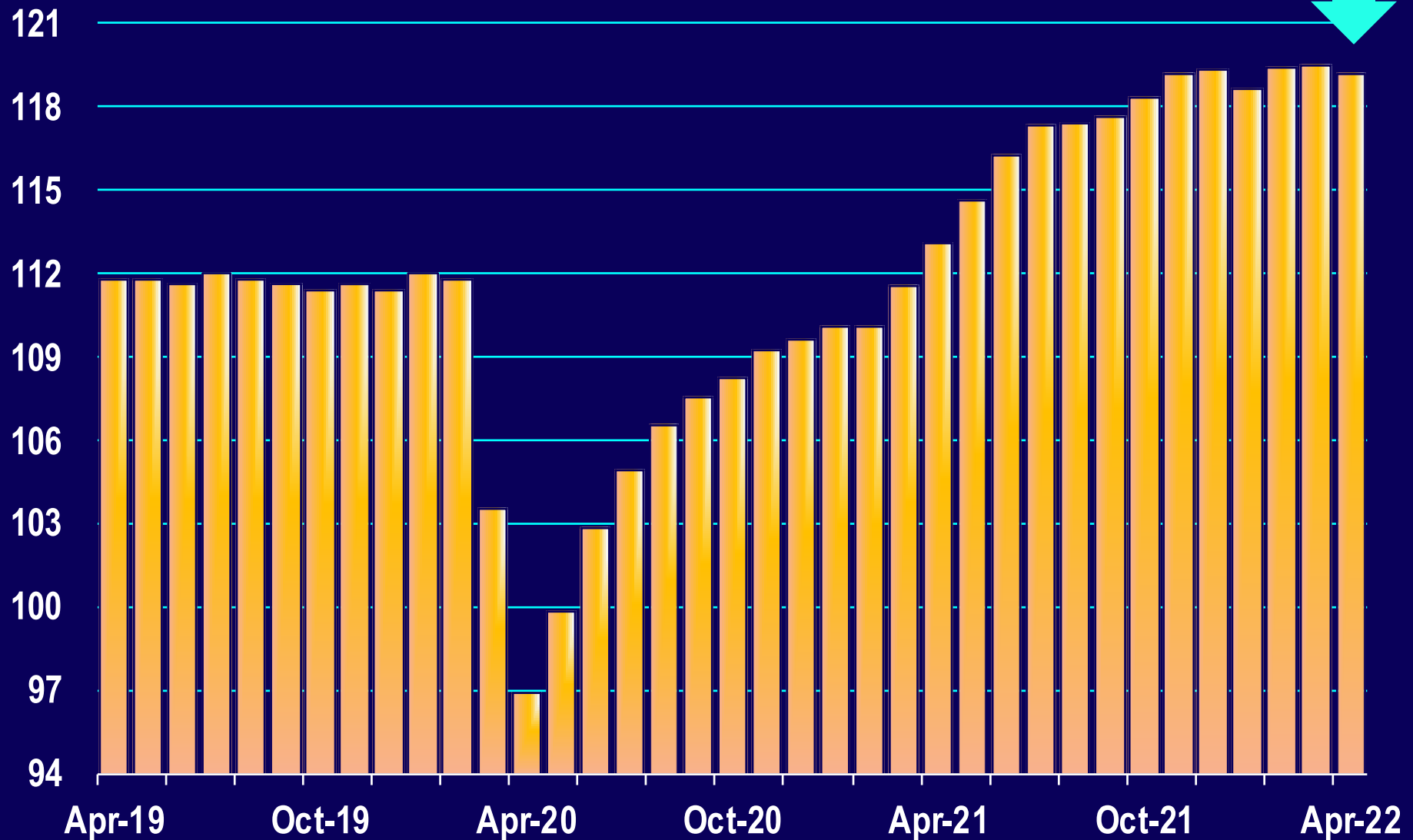
April 2018 -- April 2022



Index of Leading Indicators / U.S.

index
2010 = 100

April 2019 -- April 2022



Quiz 4: How can you personally minimize the impacts of Inflation ?

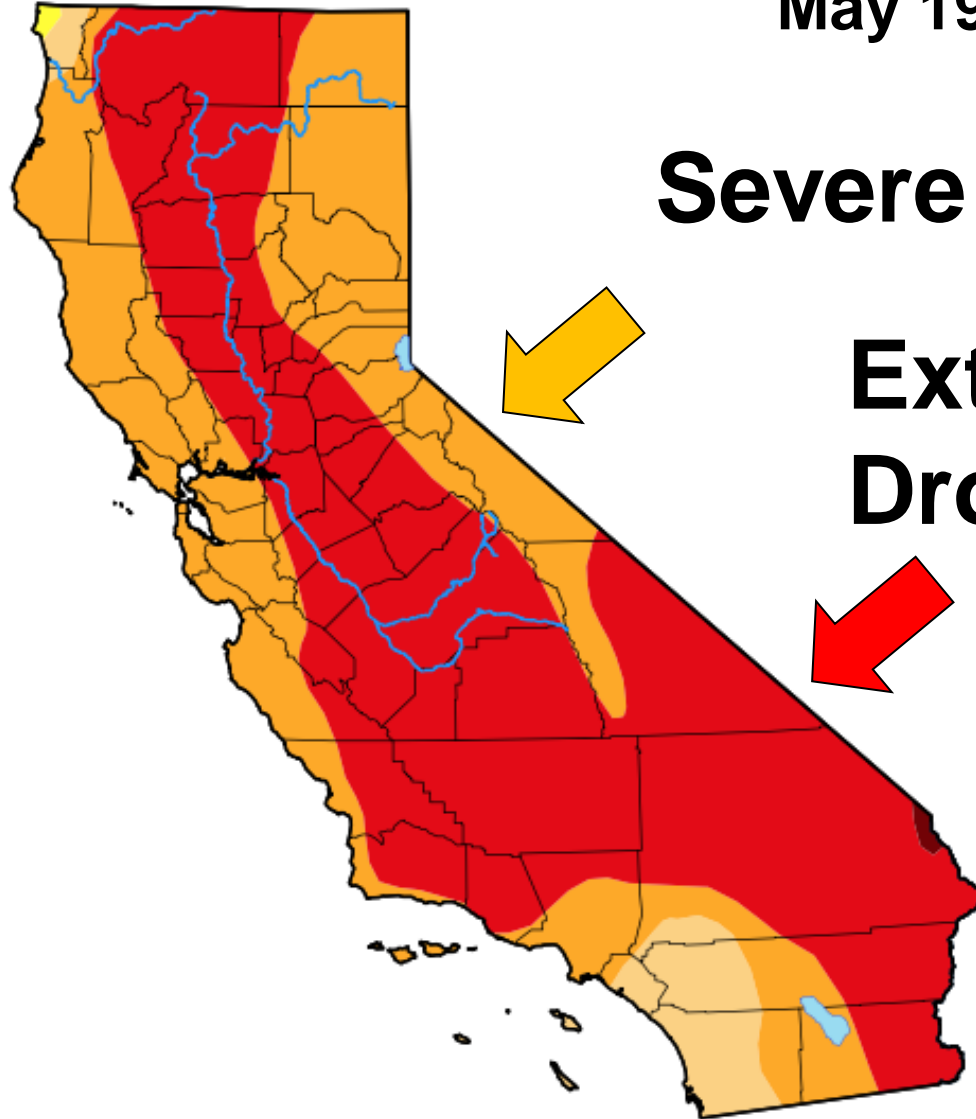
- ☐ I can work from home, to save on gas
- ☐ Buy Bitcoins and other cryptos,
and hope they don't implode
- ☐ I can demand a bigger raise
- ☐ I can retire and collect inflated
social security payments next year
- ☐ I can avoid meat, seafood, chicken, bread, coffee,
pet food, wine, and Japanese whiskey
 - ☐ and I'd die from either starvation or stress
 - ☐ or I can become a vegetarian and a social outcast

California

May 19

Severe Drought

**Extreme
Drought**



Status of the California Economy

Status

- ☐ Labor Markets
- ☐ New development
- ☐ Tourism
- ☐ Industrial market
- ☐ Residential real estate
- ☐ Office market

98 % restored

momentum restored

95 - 100 % restored

never impacted

sales  **values** 

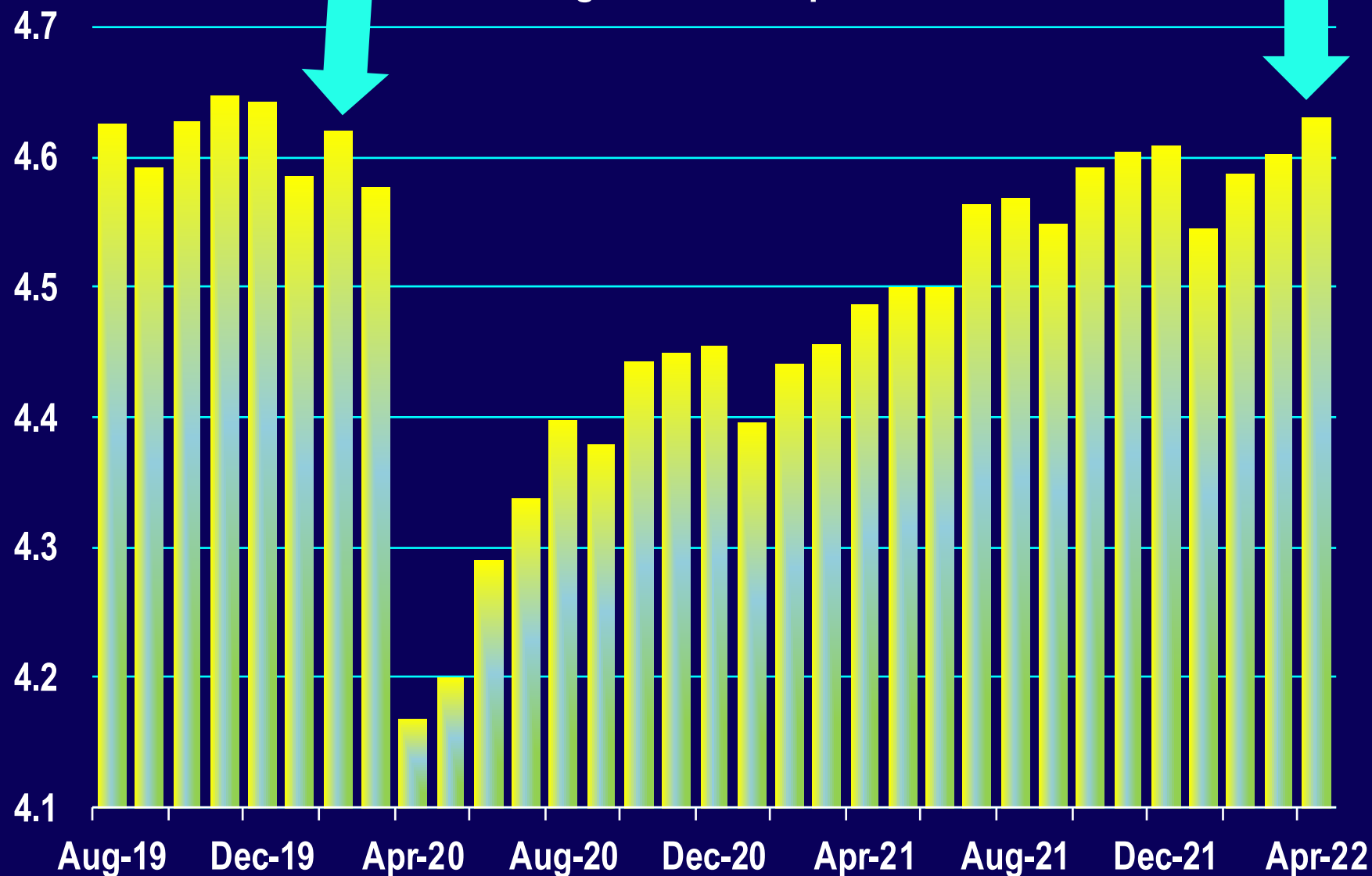
vacancy rates

**gradually Improving
in most markets**

millions
of jobs

Office-Using Employment / California

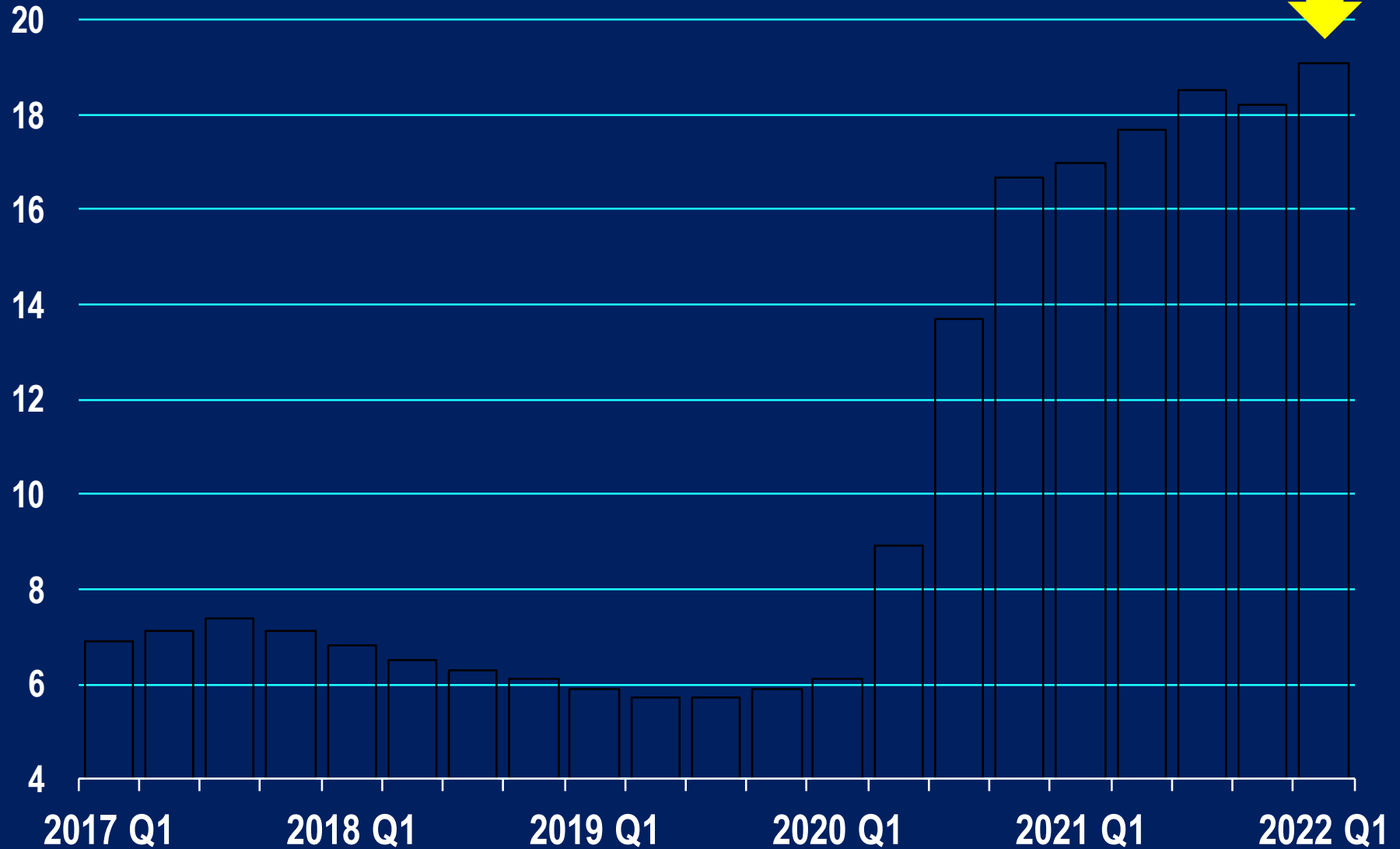
August 2019 -- April 2022



Office Vacancy Rate / San Francisco

percent

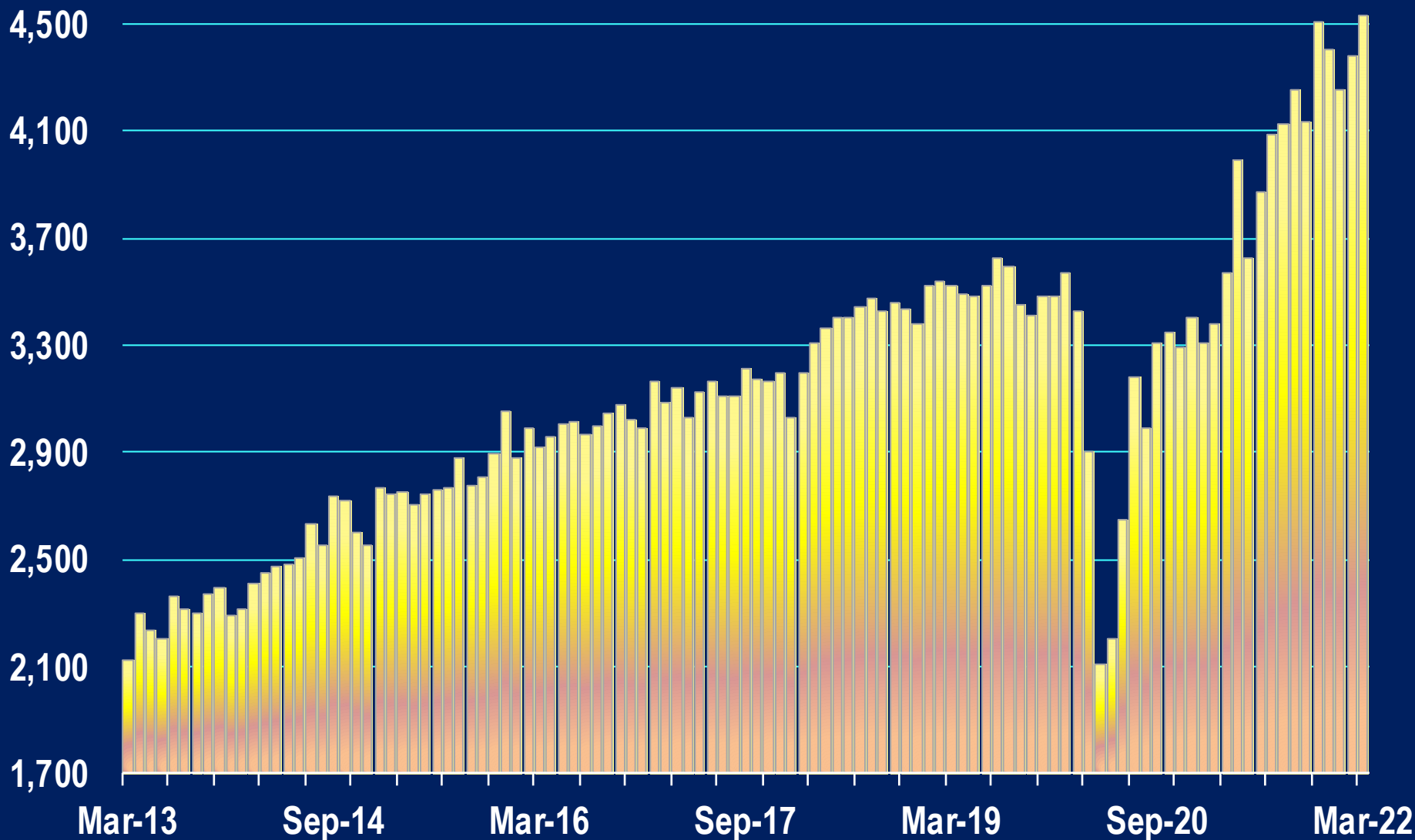
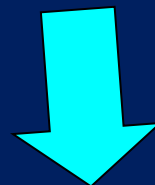
2017 Q1 - 2021 Q1



thousands
of job holders

Quits / U.S.

March 2013 -- March 2022



Has the office market changed forever ?

- **No. Despite the Great Resignation**
- **It's principally due to the tightness of the labor market and the ability of workers to demand extra perks**
- **Most companies are rounding up their workers and expecting them to work principally from the office**
- **The work-from-home model will gradually fade, restoring office demand entirely**

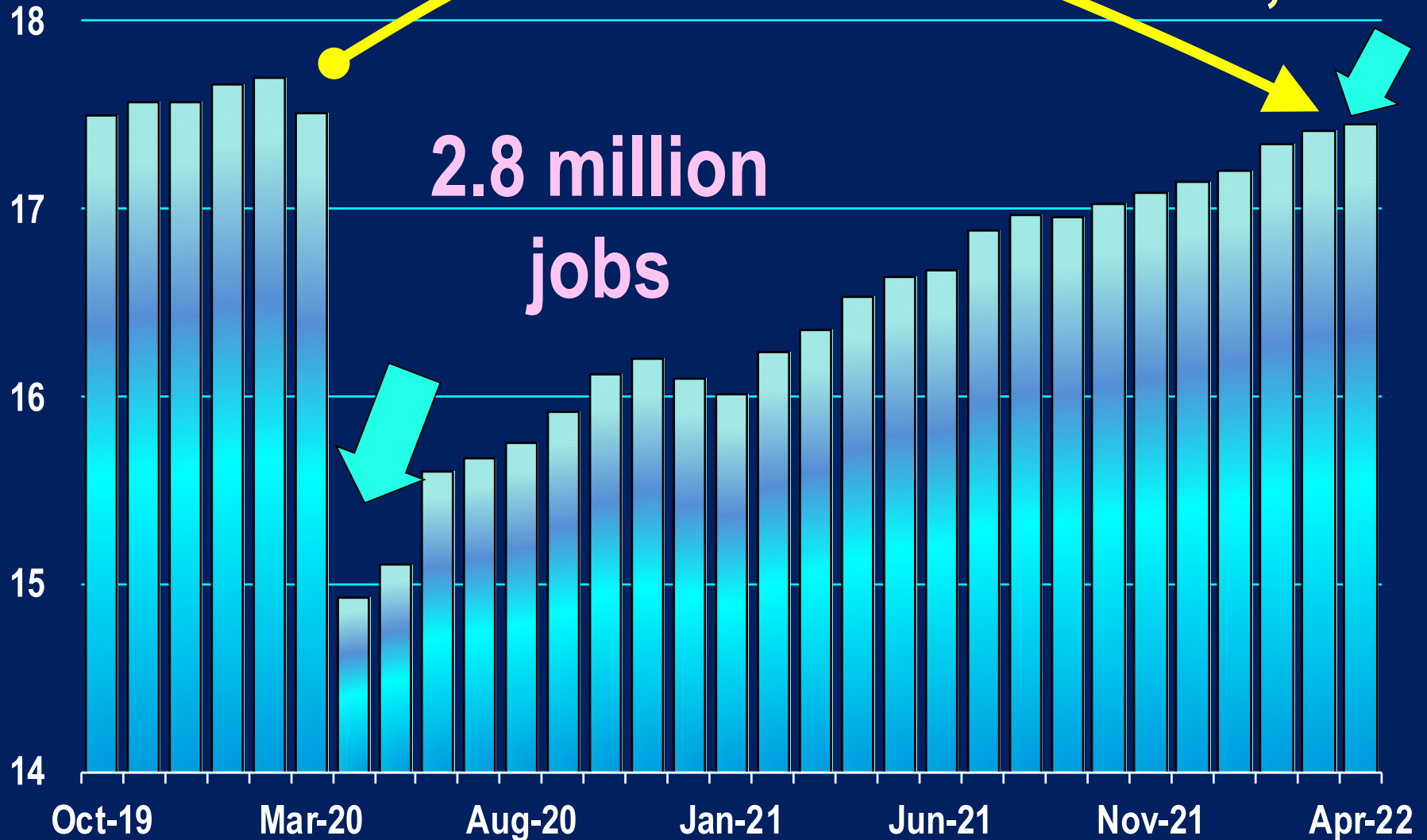
Total Employment / California

millions
of jobs

October 2019 -- April 2022

-239,000

**2.8 million
jobs**



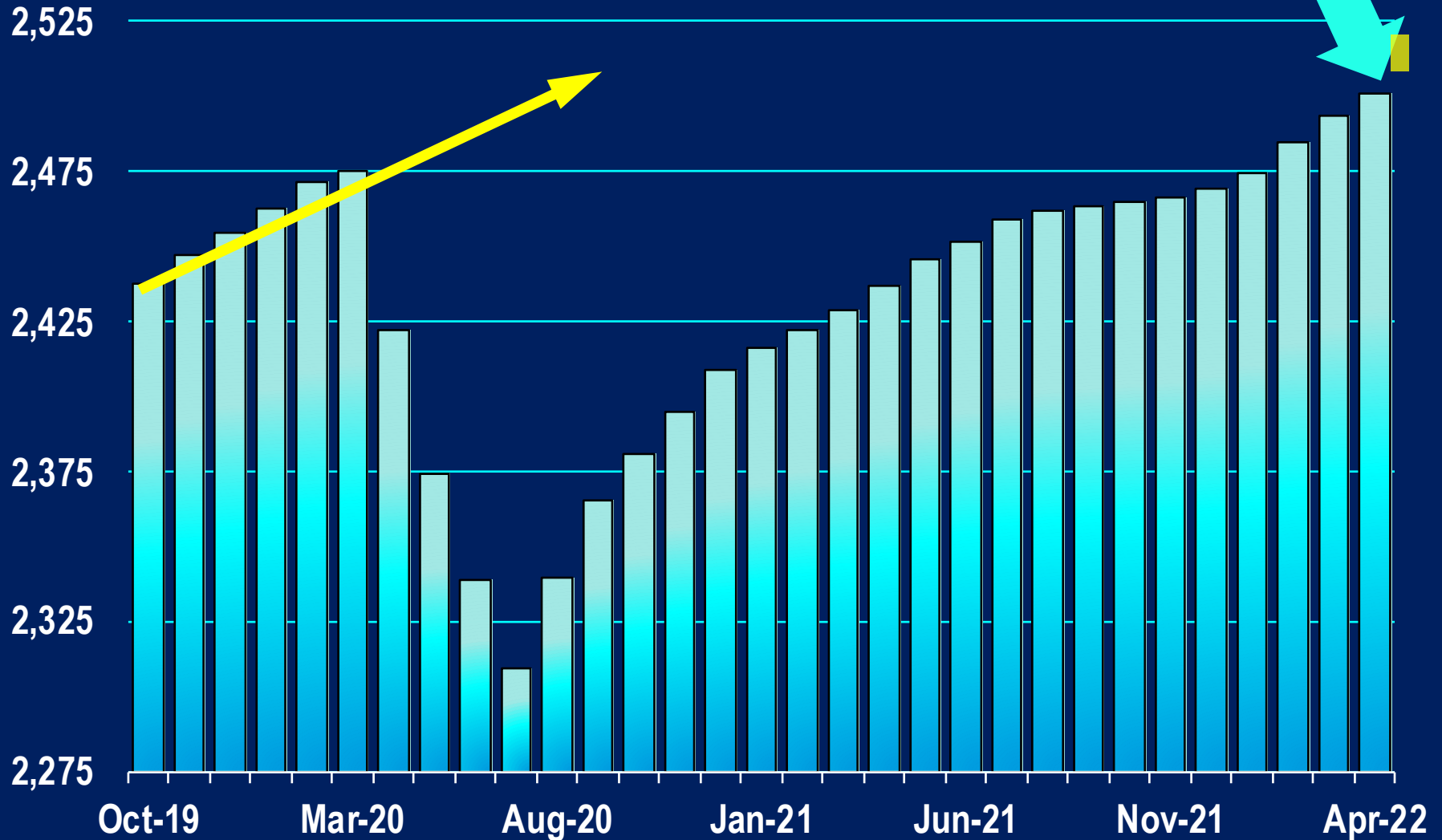
Recruiting on Indeed

- Search engine: Any job
- California location
- Total ads: = 765,400 in October 2021
- Total ads: = 1,057,875 on May 20, 2022
- Job allows work from home: 57,475
- 5.2 percent
- Healthcare = 202,311
- 19.8 percent

Employment in Healthcare / California

thousands
of jobs

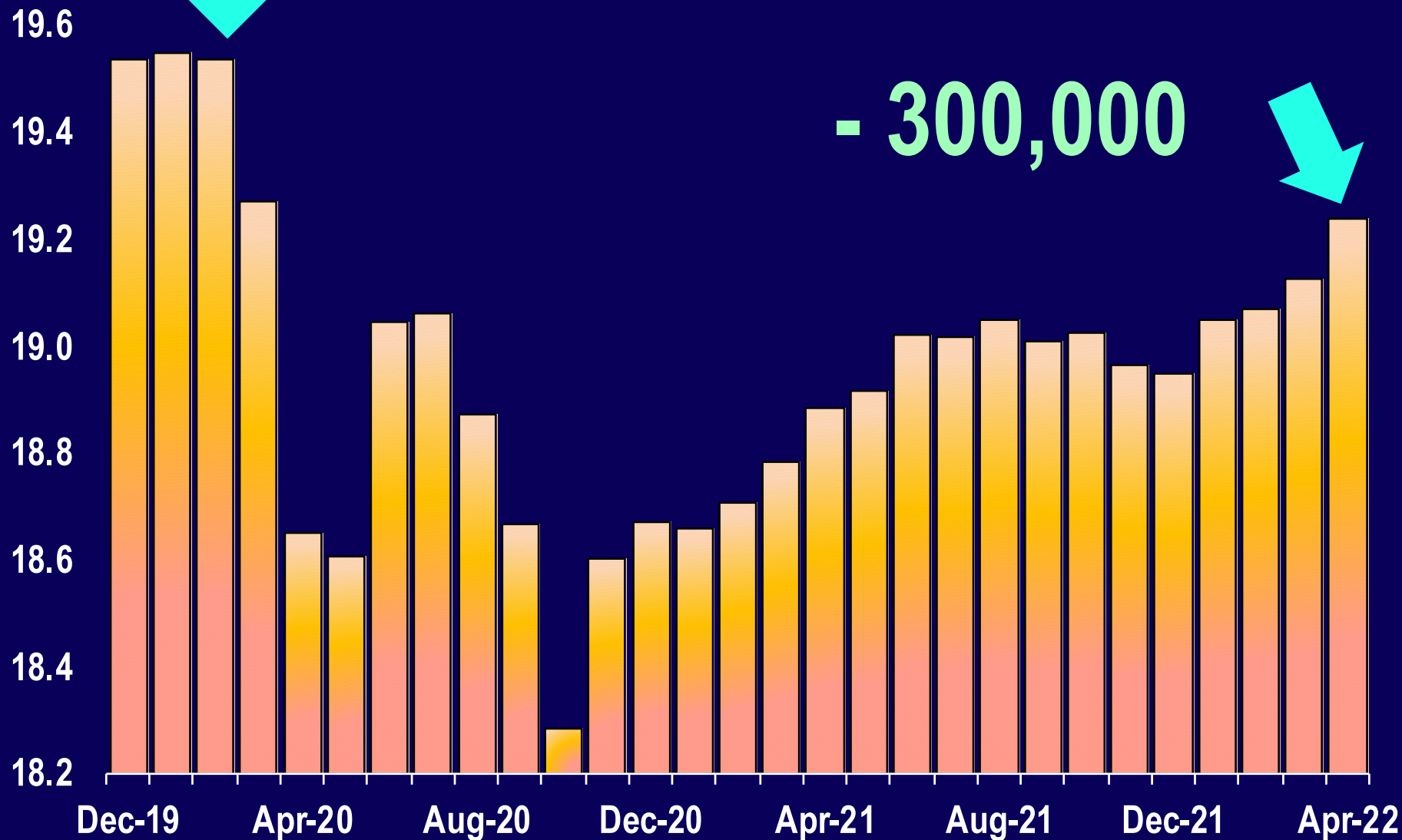
October 2019 -- April 2022



millions of
workers or
potential workers

Labor Force / California

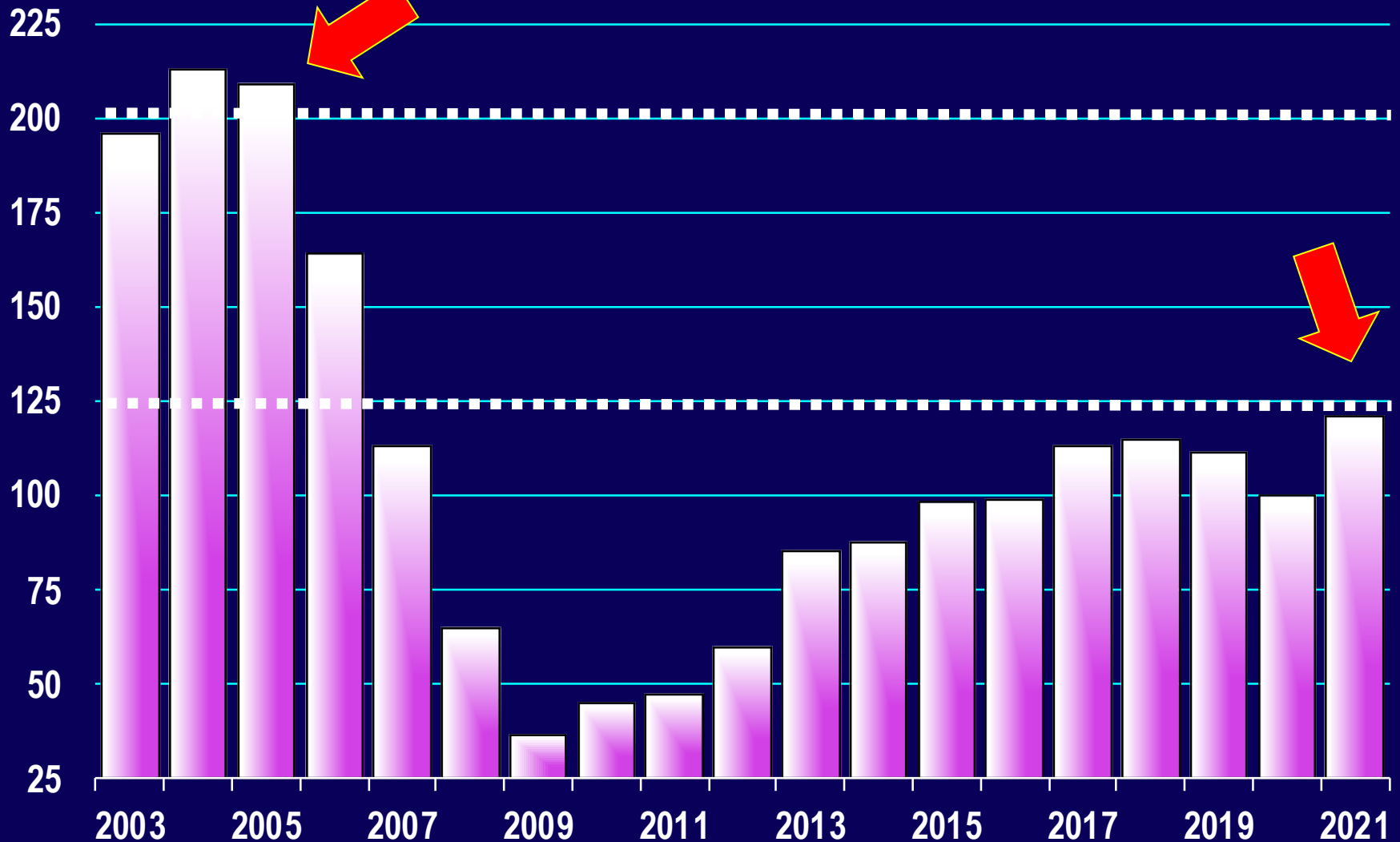
December 2019 -- April 2022



thousands
of units permitted

New Housing Production / California

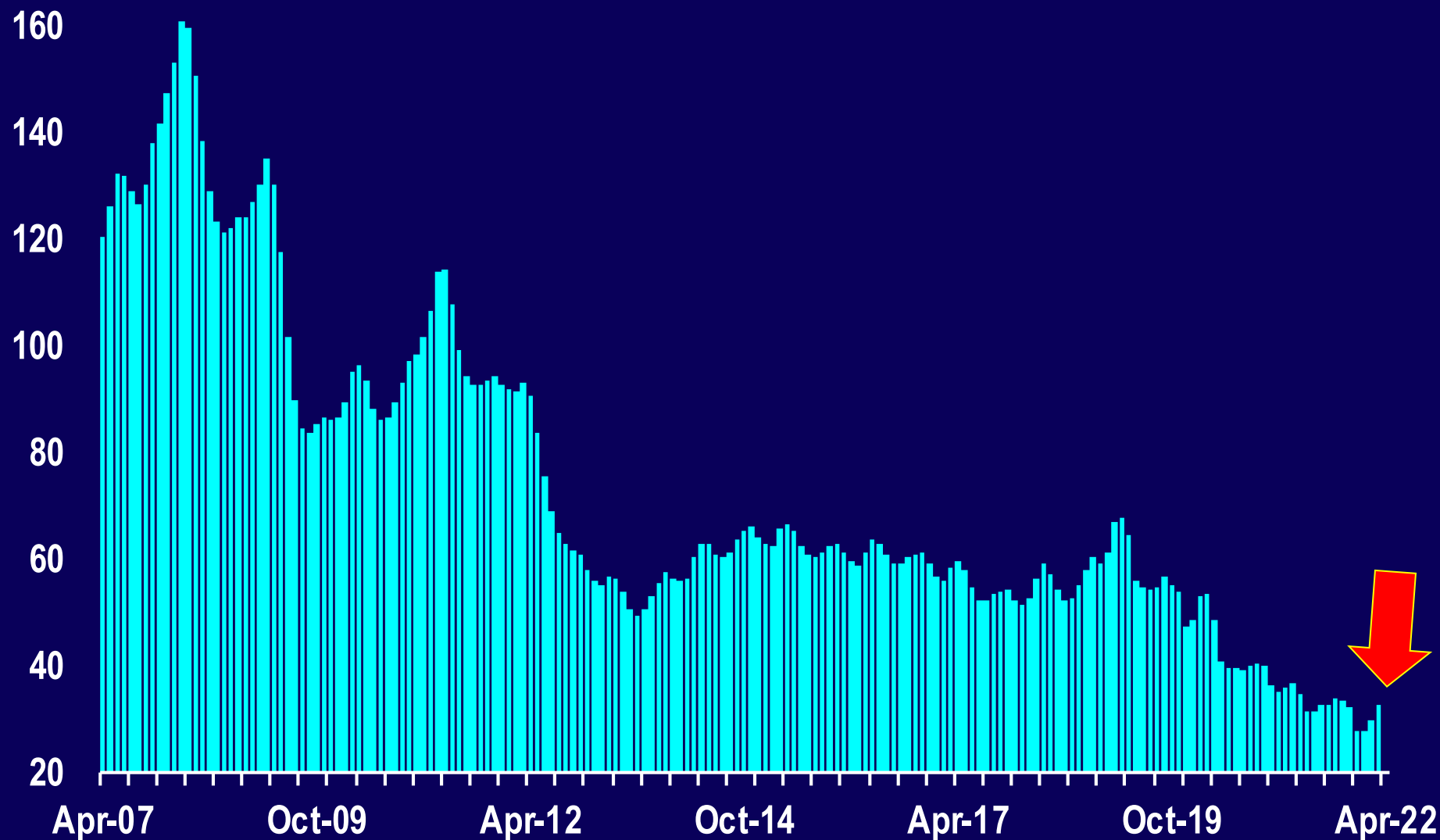
2003 -- 2021



thousands
of homes

Unsold Housing Inventory / California

April 2007 -- April 2022

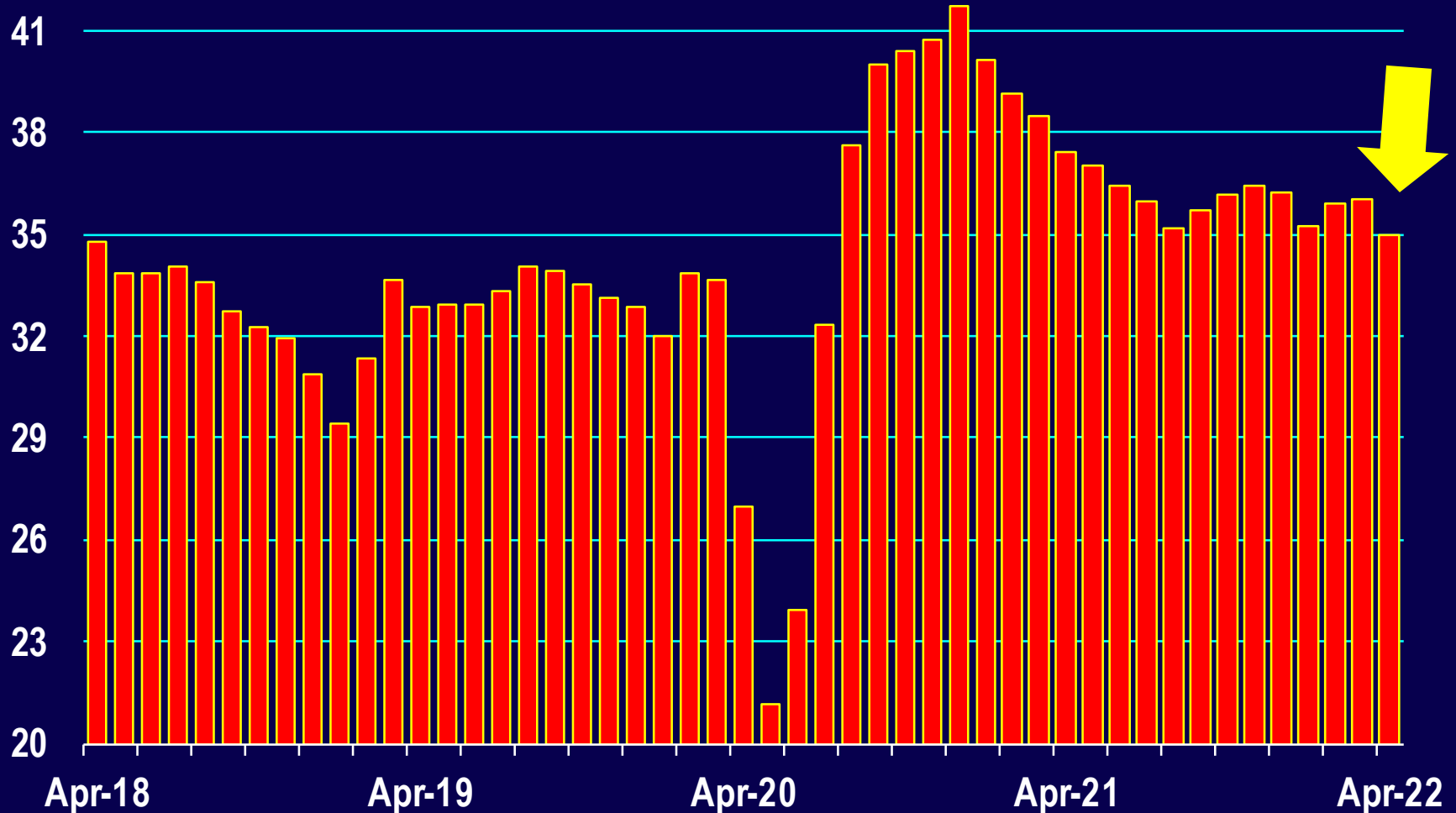


Existing Home Sales / California

seasonally adjusted

thousands
of sales

April 2018 -- April 2022



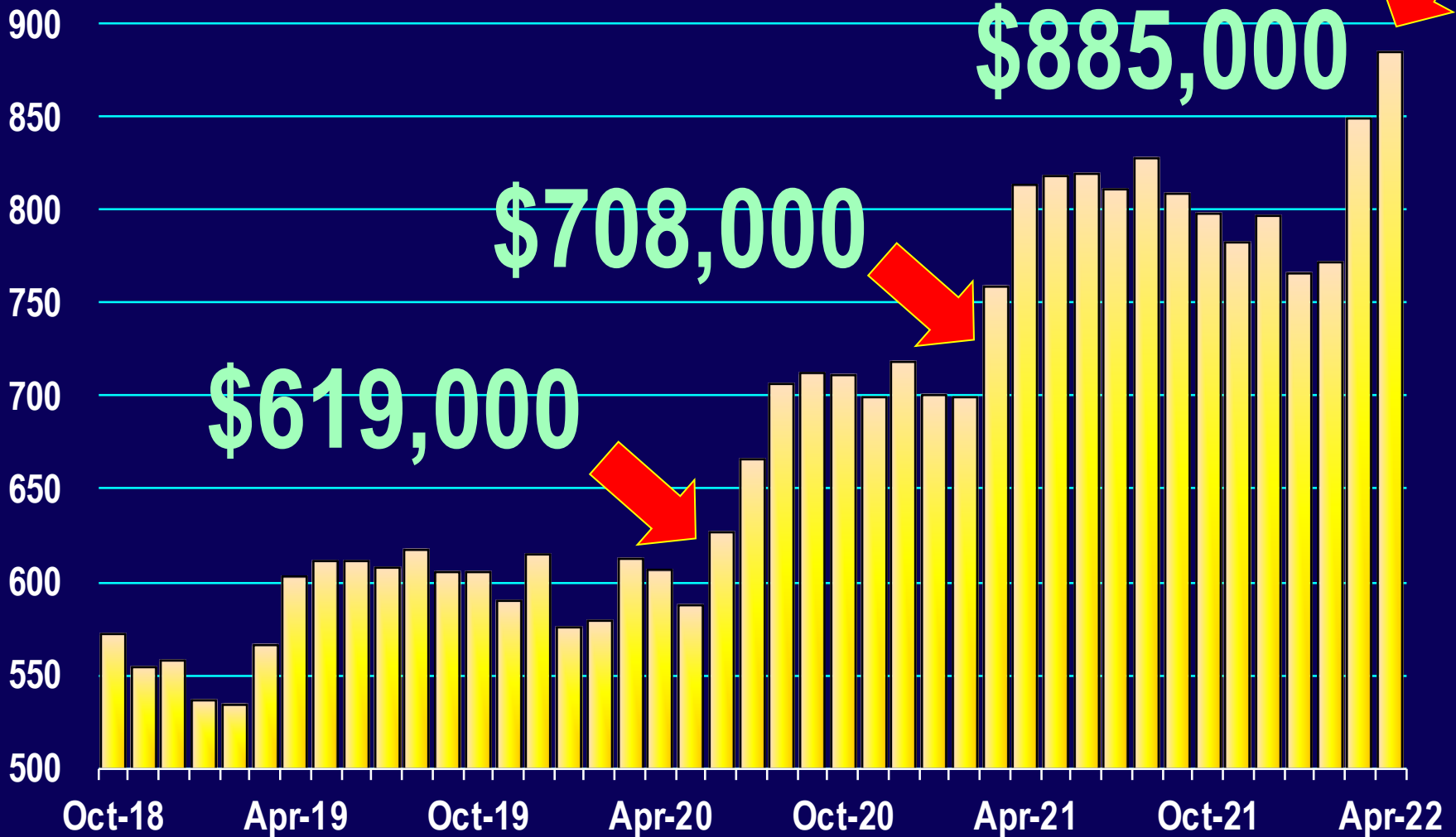
Median Sell Prices • April 2022

<u>California County</u>	<u>Home Sell Value</u>	<u>YOY change</u>
Los Angeles	\$ 801,680	11.6 %
Orange	\$ 1,325,000	20.5 %
San Diego	\$ 975,000	18.2 %
Riverside	\$ 630,000	15.5 %
San Francisco	\$ 2,057,500	14.3 %
Santa Clara	\$ 1,970,000	19.4 %
San Mateo	\$ 2,401,000	14.4 %
Sacramento	\$ 570,000	16.3 %
Fresno	\$ 425,000	21.4 %
Bakersfield	\$ 385,000	22.2 %

Median Home Selling Price / California

thousands
of dollars

October 2018 -- April 2022



The 2022 Forecast



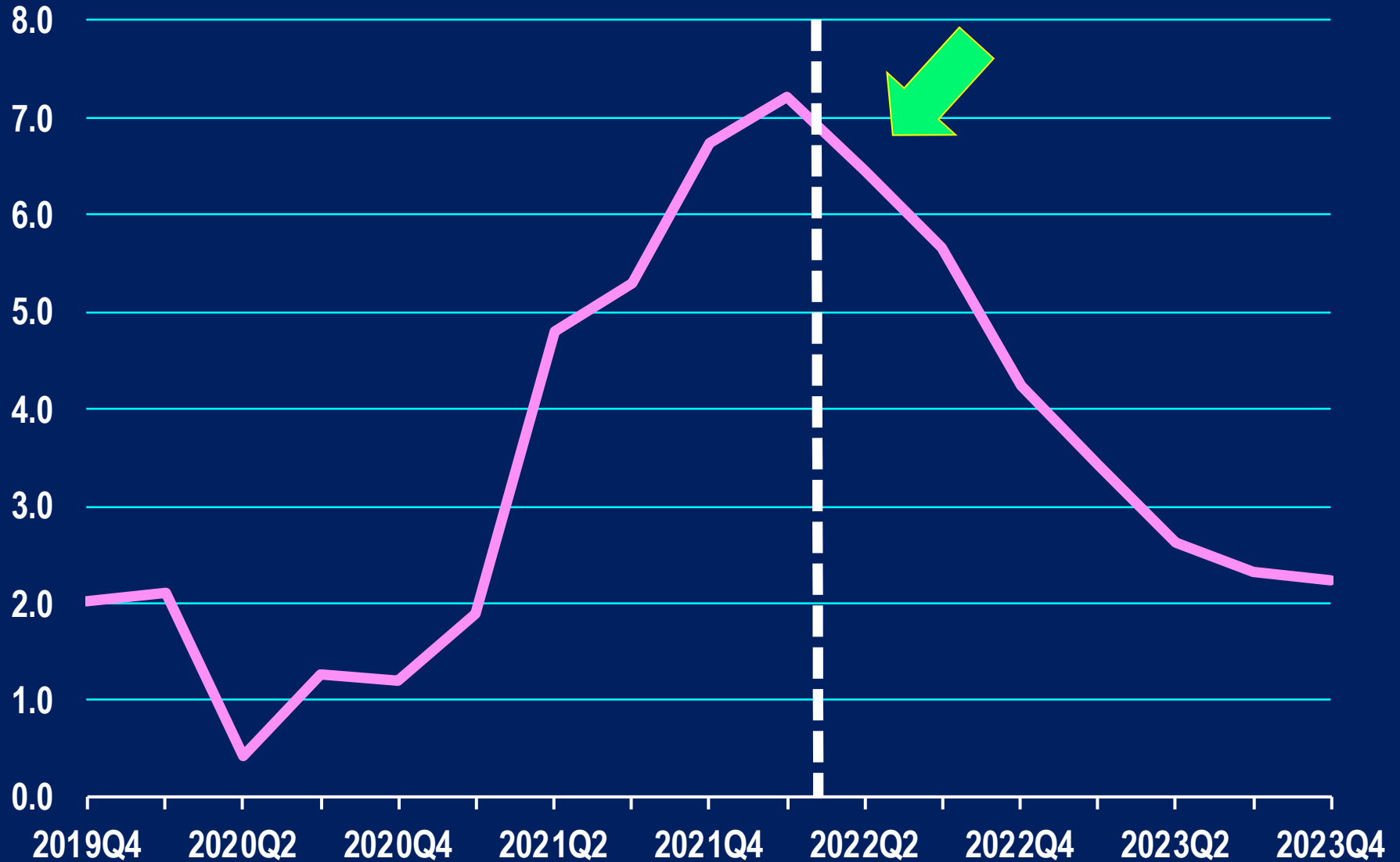
The 2022 Forecast

- **GDP growth:**
 - 2.2 percent this quarter . . .
 - and 2.8 % for the year; 2.7 percent in 2023
 - The consensus of GDP forecasts: 2.7 to 3.3 % this year
- **Full employment economy**
- **Pre-pandemic conditions are restored**
 - effective immunity is adopted by public health community
- **Interest rate hikes are largely front loaded this year**
- **Inflation peaks in Q2 and then moderates**

Inflation / U.S.

2019 Q4 - 2023 Q4

percent



Best Case Scenario

- Omicron (or any other major variant) dies off
- The U.S. fully adopts “pandemic is over” policy, following Sweden, U.K, Denmark, Norway, France, and many U.S. states
- The labor force returns
- Russia-Ukraine war settles, one way or another
- The global economic recovery strengthens
- Inflation has peaked and a downward trend remains in place for the rest of the year
- Supply chains are restored by year’s end

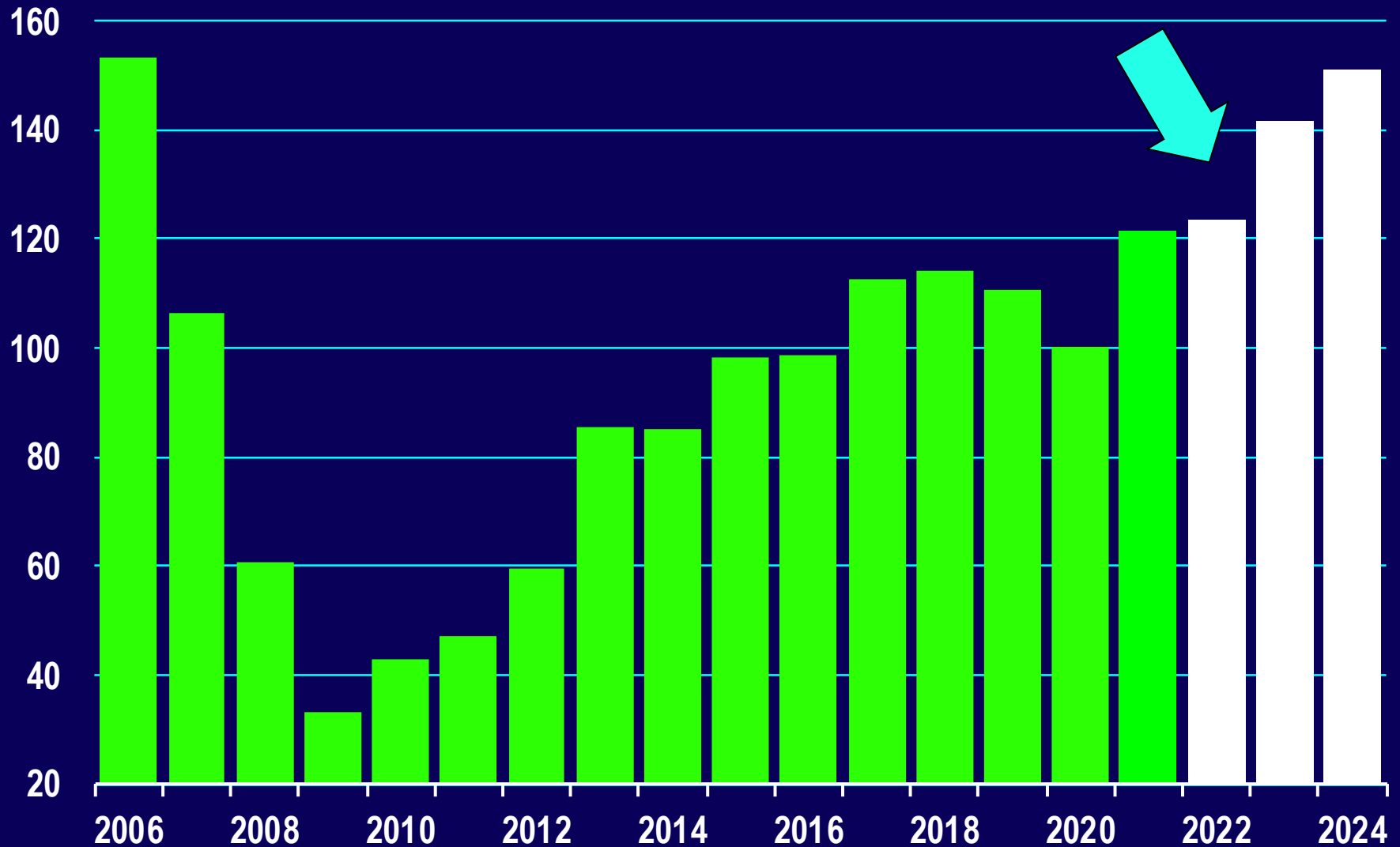
Recession or Stagflation Scenario

- Fed tightens too much, no soft landing
 - Stock market continues to contract;
 - consumers cut back on spending
 - demand for housing suffers steep decline
 - Inflation remains elevated;
 - consumers cut back on spending
 - Unemployment ensues
- Less demand for homes, cars, stuff in general
 - Growth slows or even contracts
- foreclosure sales may rise, deflating home prices

thousands
of units

New Residential Units / California

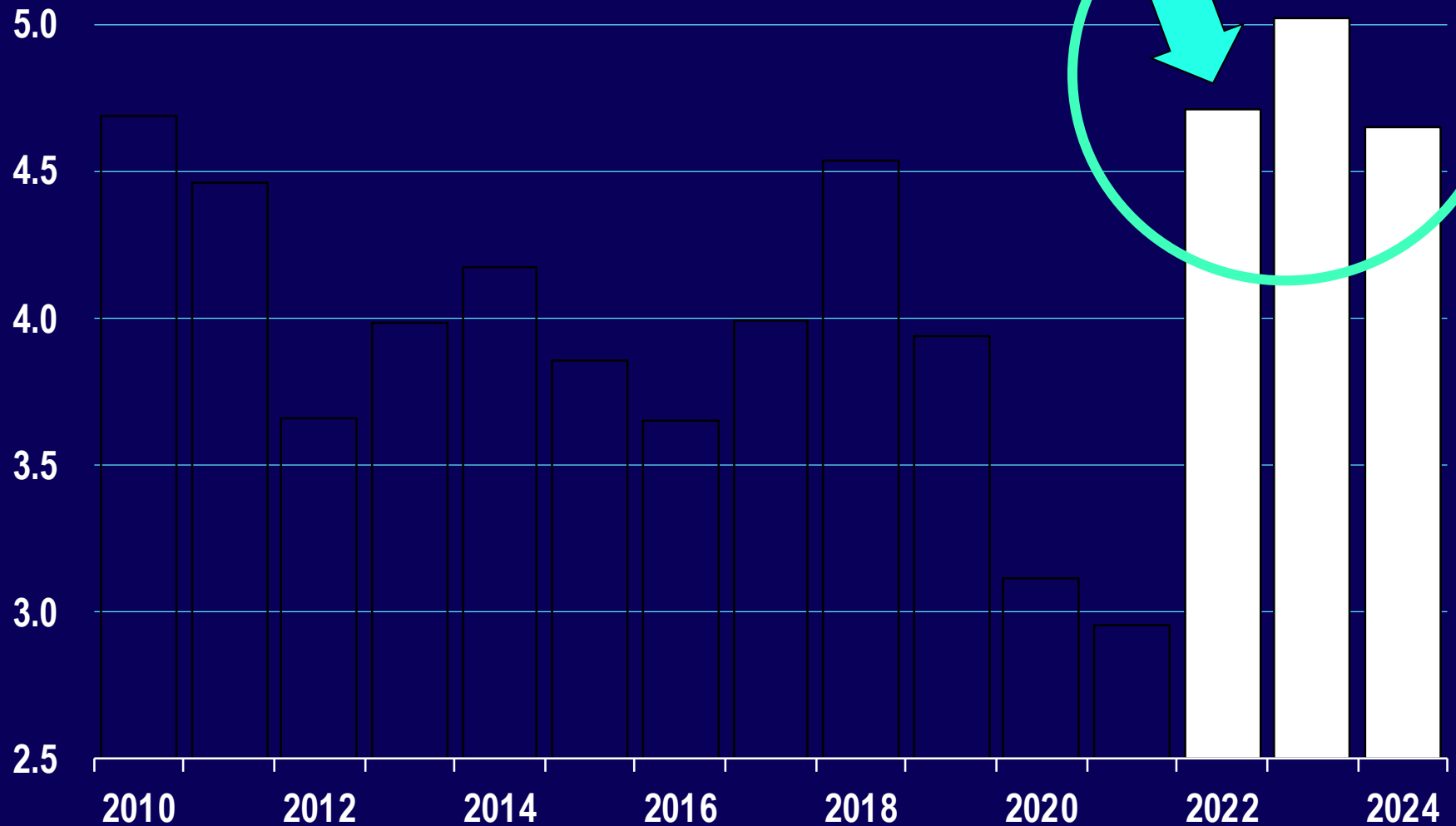
2006 - 2024



Conventional 30 Year Fixed Mortgage Rate U.S.

2010 - 2024

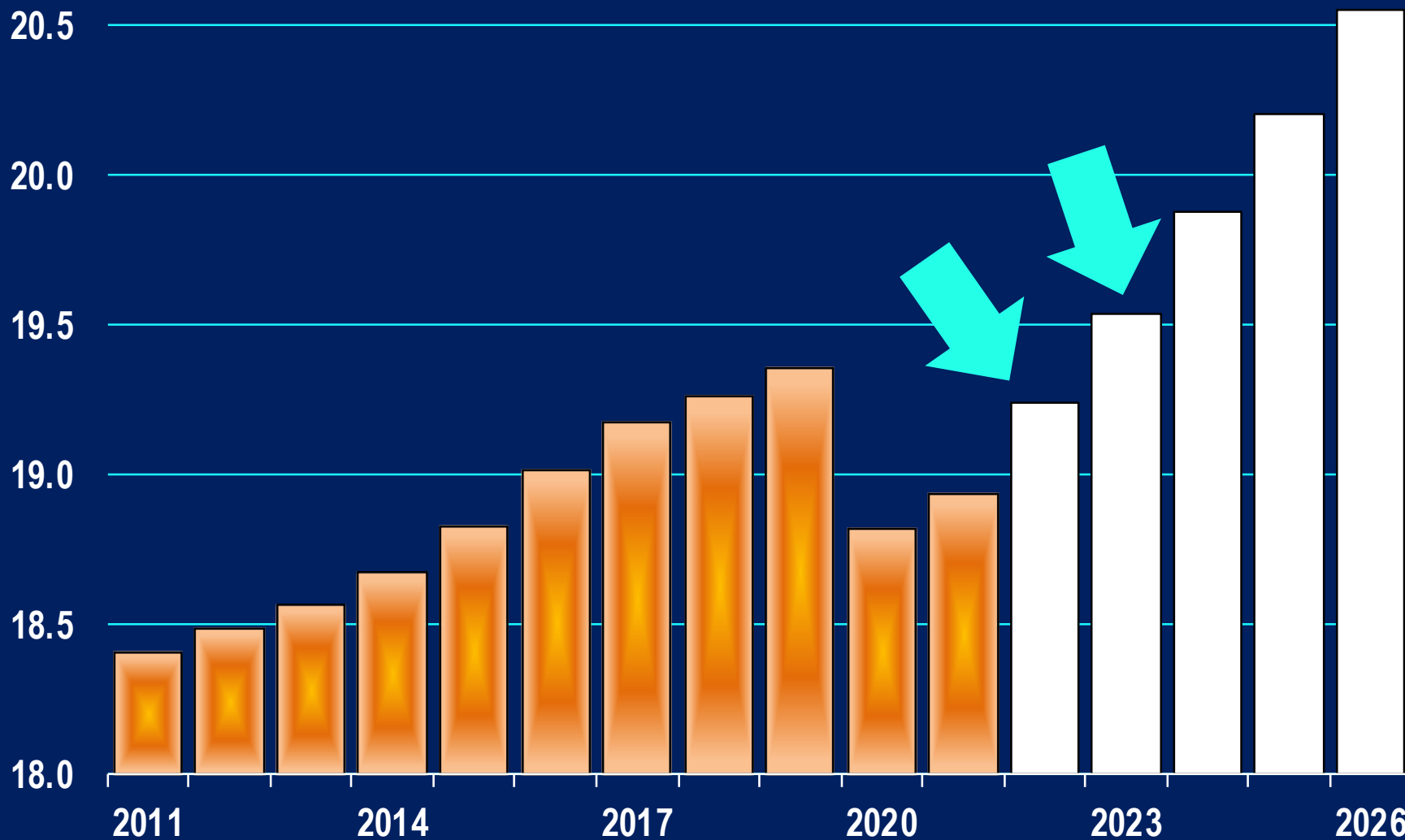
percent



Labor Force / California

millions
of workers

2011 - 2026



Total Employment / California

2006 -- 2026

thousands
of jobs

18

17

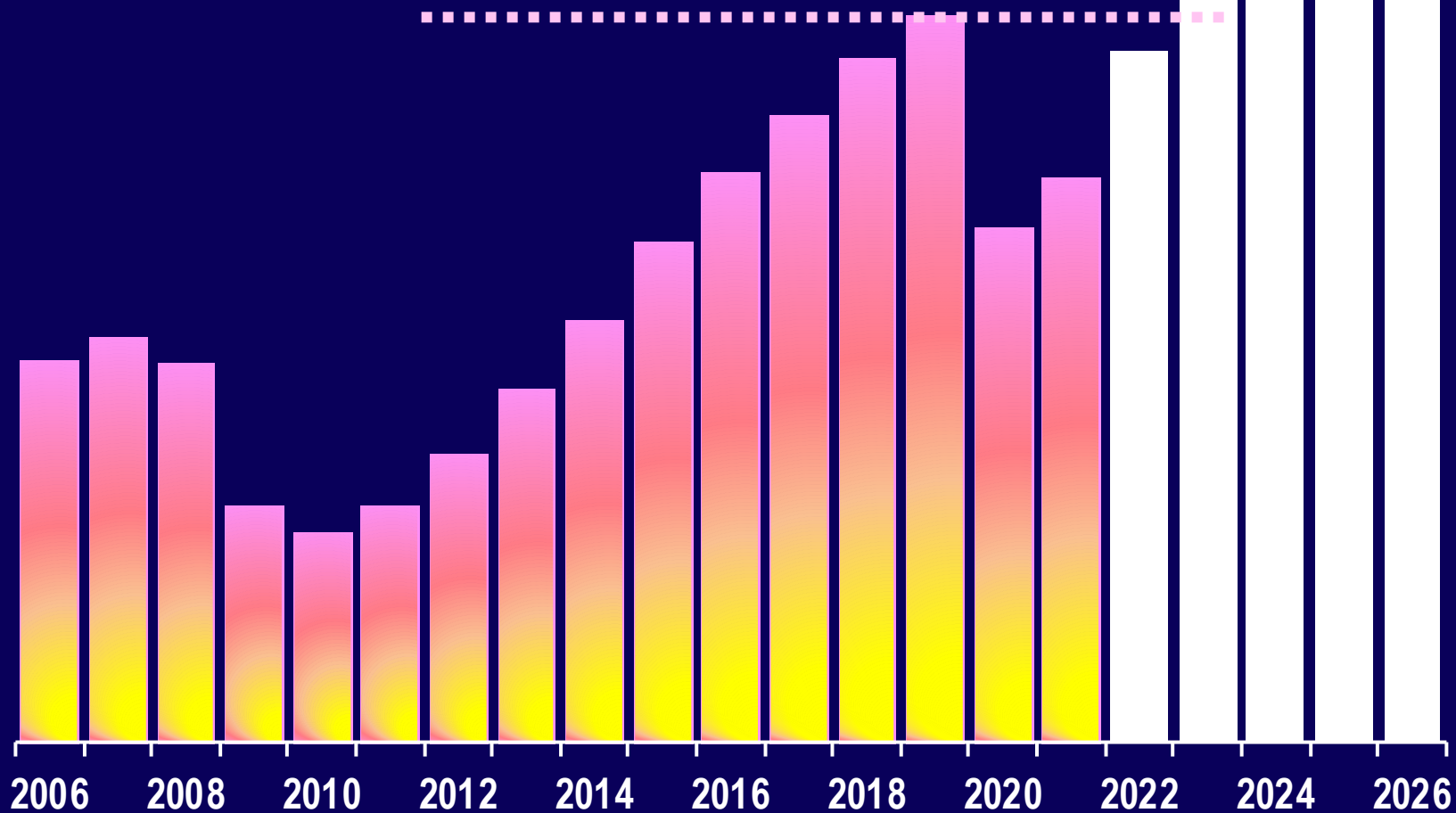
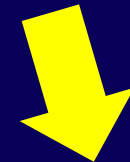
16

15

14

13

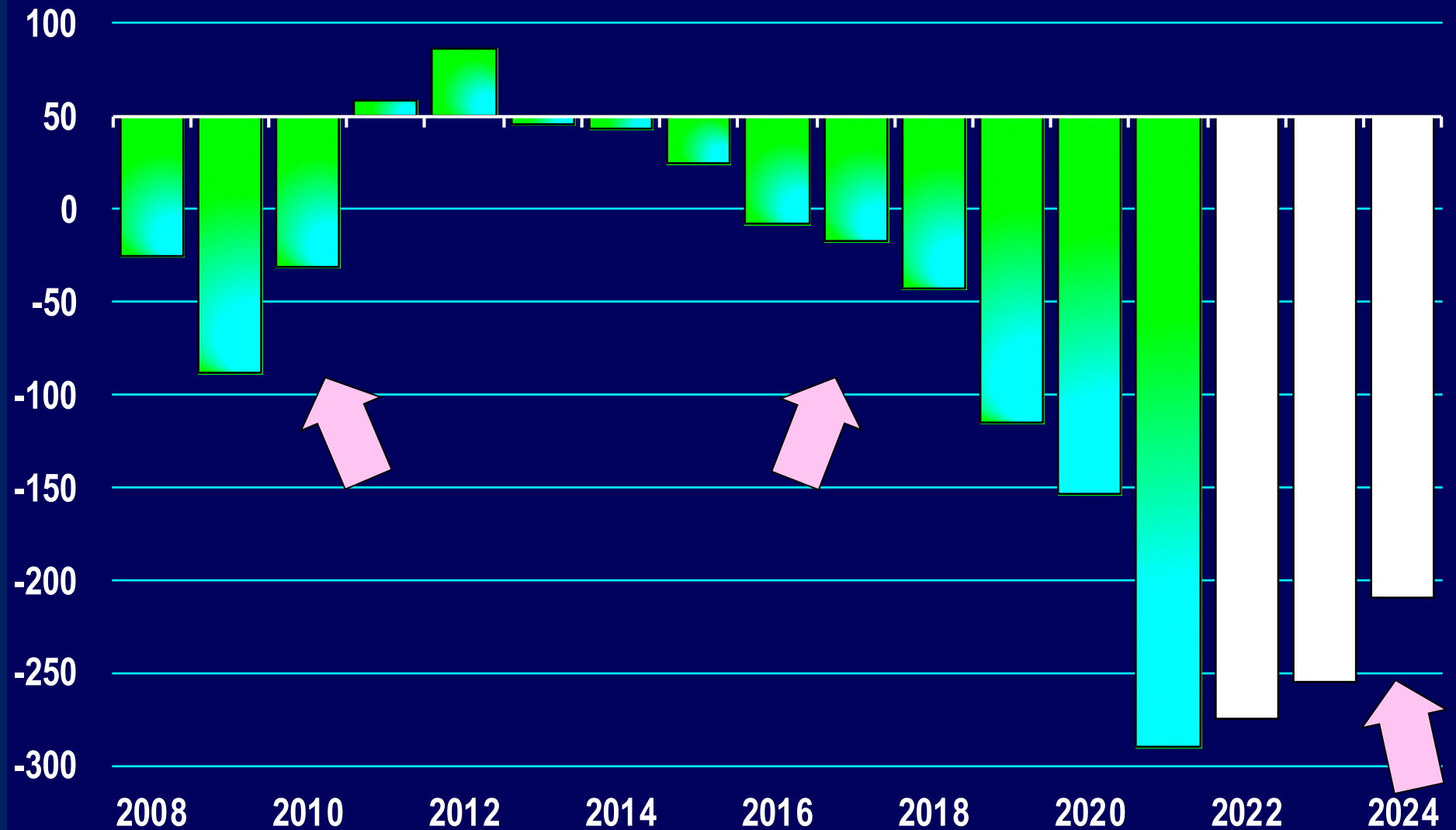
2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026



thousands
of people

Net In-migrating Popualtion / California

2008 -- 2024

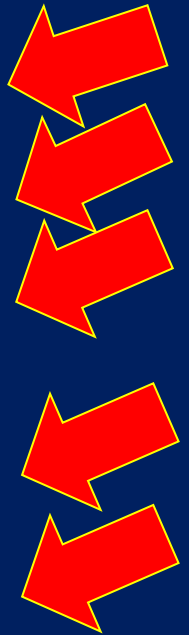


Home Prices • March 2022

Location

Home Sell Value

St Louis, Missouri	\$ 173,500
Oklahoma City	\$ 183,125
Little Rock, Arkansas	\$ 183,824
Albuquerque, New Mexico	\$ 296,465
Myrtle Beach, South Carolina	\$ 271,732
Panama City, Florida	\$ 238,548
Billings, Montana	\$ 327,367
Raleigh, North Carolina	\$ 412,600
Cleveland, Ohio	\$ 99,107



Rising Risks

- Inflation
 - More spending by Congress: Biden proposed \$5.8 trillion for police, military and climate change
 - Demand growth outpacing supply growth
- Interest Rates
 - Aggressive tightening policies that result in hard landing
- Geo-Political events
 - An escalating war or an expansion of military hostility
- Subsequent waves of Coronavirus, and the response
- Lingered bear stock market

Thank You

**Economic Update
and 2022
Outlook**

May 17, 2022