

# **Scary issues and expectations for 2023**

## **the U.S. and California**

**June 6, 2023**



**Mark Schniepp**  
**Director**

# The 2022 Forecast

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- GDP growth:
  - 0.5 percent this quarter . . .
  - and 2.2 % for the year; 2.3 percent in 2023
- 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
- Supply chains are restored by year's end

# Rising Risks

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- 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

# Quiz 1: What do you expect in 2023 ?

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- (1) the worst is over; business will only pick up from here . . . . .
- (2) modest growth, but no recession
- (3) a mild recession this quarter or next
- (4) calamity, chaos and carnage
- (5) I'm off to Montana to hunker down

## Quiz 2: What are you doing different to survive this year?

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- ☐ Business is still good ; we are thriving
- ☐ We laid everyone off , now we're in great shape
- ☐ I'm allowing ChatGPT to make all my business decisions
- ☐ I'm changing my pronouns
- ☐ I've adopted ESG and DEI policies
- ☐ I've boycotted ESG and DEI policies
- ☐ I'm now eating bugs to save the planet

# Eat Bugs! It's What's For Dinner

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## Quiz 3: How much of your business content is generated by ChatGPT ?

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- ☐ all of our correspondence with customers
- ☐ all of our marketing materials
- ☐ all of our employee contracts & policies
- ☐ all of our hiring and firing
- ☐ everything I do, including all  
correspondence with my parents, spouse  
and kids so that I don't have to think  
for myself anymore

# Scary issues impacting the Macro economic environment

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- **Inflation and Consumer sentiment**
  - highest inflation in 40 years
  - pessimism highest ever
- **the surge in Layoffs . . . !**
- **Federal Debt, and**
- **Banking sector**
  - is the system as strong as regulators believe ?



< Analysis & Guides

DATA

# Safe & Sound: America's Banks Remain Healthy and Strong

Published May 12, 2023

Banking Snapshot - The latest data show the banking industry remains well-capitalized, highly liquid and resilient despite economic challenges.

**The FDIC says the Banking Sector  
“remains strong”**

American Banker's Association / May 12, 2023

# Scary issues impacting the Macro economic environment

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- **Credit Card debt**
  - highest ever
- **Housing market**
  - is it going to implode ?
- **Recession and Stagflation**
  - are these conditions inevitable ?

*So just what can you expect this year?*

# The Economist

How to shore up America's banks

Can Turkey sack a strongman?

Battling superbugs with viruses

Coronation nation

MAY 6TH - 12TH 2023

## FISCAL FANTASYLAND

When will politicians wake up?



May 12, 2023

# Government Spending out of Control

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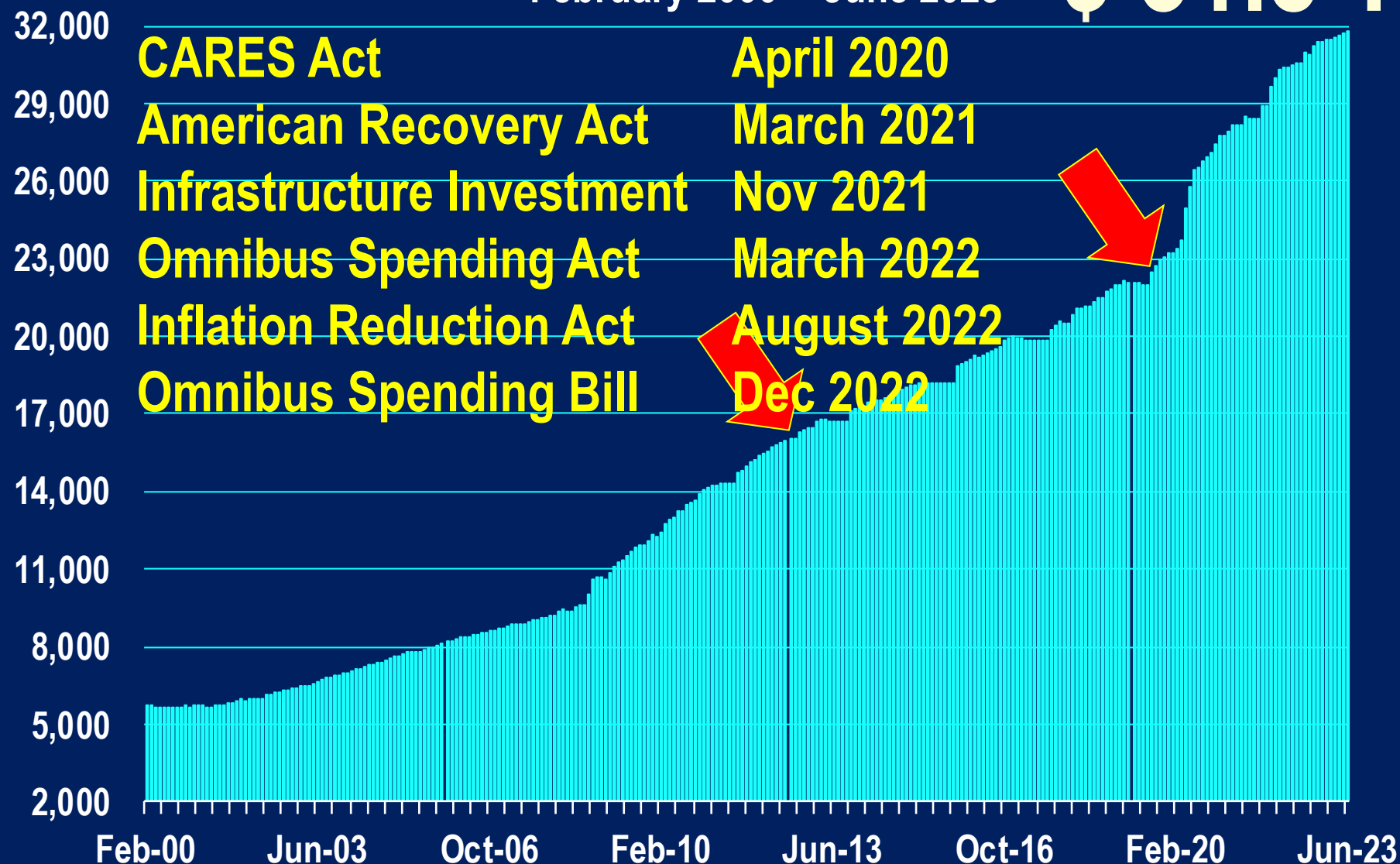
- ❑ Spent 29 % more than revenues in FY22
- ❑ On climate issues
- ❑ On pensions
- ❑ On homeless
- ❑ On improper payments
  - ❑ \$40 billion by California, due to COVID fraud, and
  - ❑ \$247 billion in 2022, and \$2.4T over last 20 years by U.S. gov't, due to fraud or negligence
  - ❑ estimated \$100 billion stolen due to COVID-19
- ❑ On reparations

# U.S. National Debt

February 2000 -- June 2023

**\$ 31.8 T**

billions  
of dollars





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# Biden signs bipartisan debt ceiling bill to avert government default

The Treasury Department had warned the government could go into default as early as Monday.

NBC news, June 3, 2023

# The Federal Debt Limit

## Was Calamity and Chaos just averted?

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- ❑ The Federal debt is money the Federal Gov't has borrowed to cover expenses over time
- ❑ Debt limit is the money ceiling for federal spending
  - Limit must be raised to fund all obligations
- ❑ The ceiling was reached on January 19, 2023
- ❑ “Extraordinary measures” had been adopted to bide time, realistically for about 6 months
- ❑ What happens if these were exhausted
  - predicted to be around the first week in June



# Janet Yellen: Chaos & Calamity

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- *"Default could trigger a spike in interest rates, a steep drop in stock prices and other financial turmoil. Our current economic recovery would reverse into recession, with billions of dollars of growth and millions of jobs lost."*
- **Actually no one really knows since this has NEVER happened, but it's unlikely to happen**
- **Treasury can prolong payments**
- **Treasury can prioritize payments**



# The House can further delay

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- In the past, National Parks closed, Postal service delivery days cut, federal workers furloughed, minor K-12 funding deferments
- **Claw backs** can save another \$500 billion in spending and delay default into the fall
- As long as the gov't pays interest on treasury bonds and the principal when bonds mature, there will be no default
- So “chaos and calamity” is a boy that cried wolf



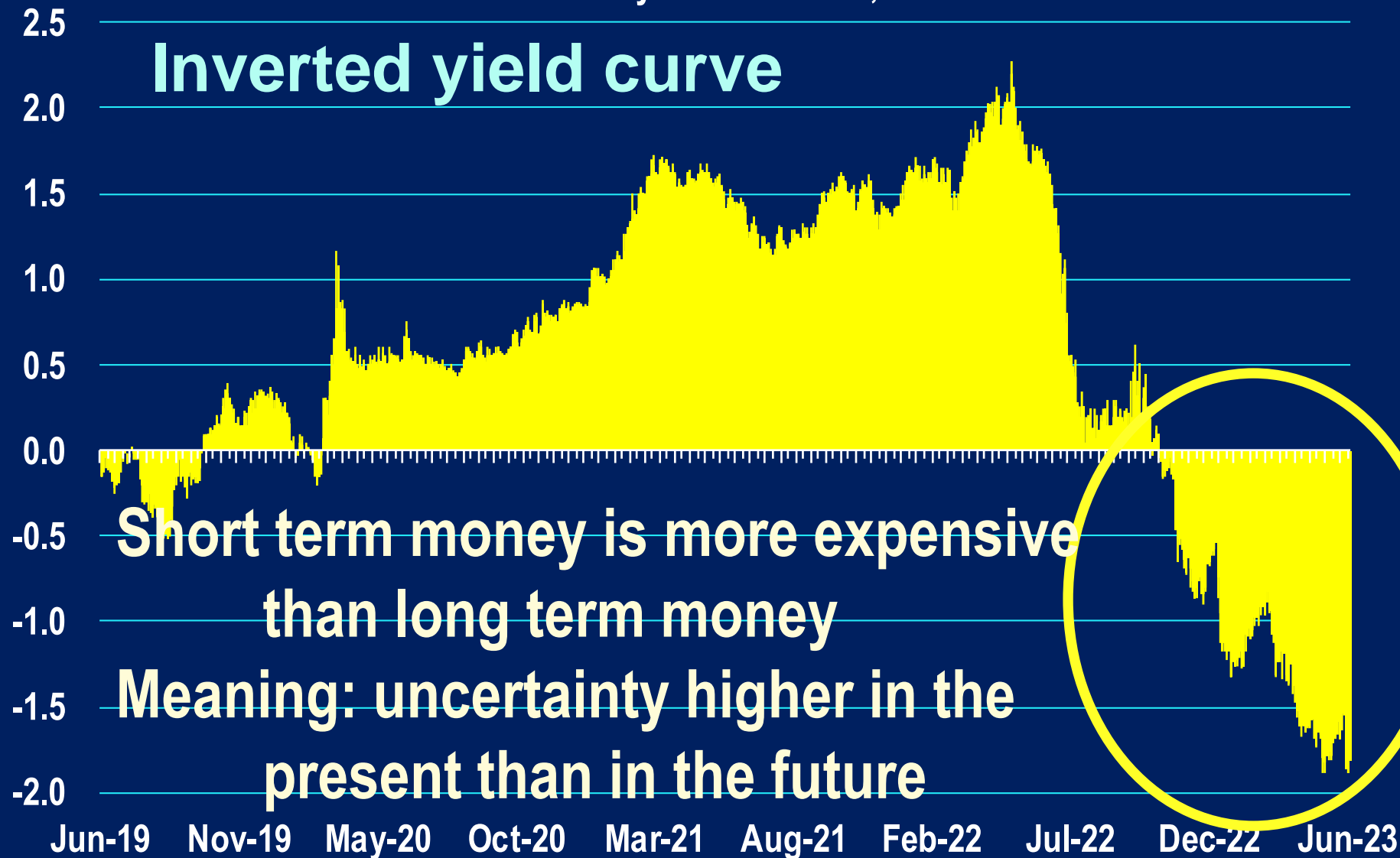
Are we in a recession ?



basis point  
spread

# Treasury Yield Spread: 10 year less the 3 Month

July 2019 -- June 2, 2023



# ☆ 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity (T10Y3M)

DOWNLOAD 

## Observation:

2023-06-02: **-1.81**

(+ more)

Updated: Jun 2, 2023

## Units:

Percent,  
Not Seasonally Adjusted

## Frequency:

Daily

1Y | 5Y | 10Y | Max

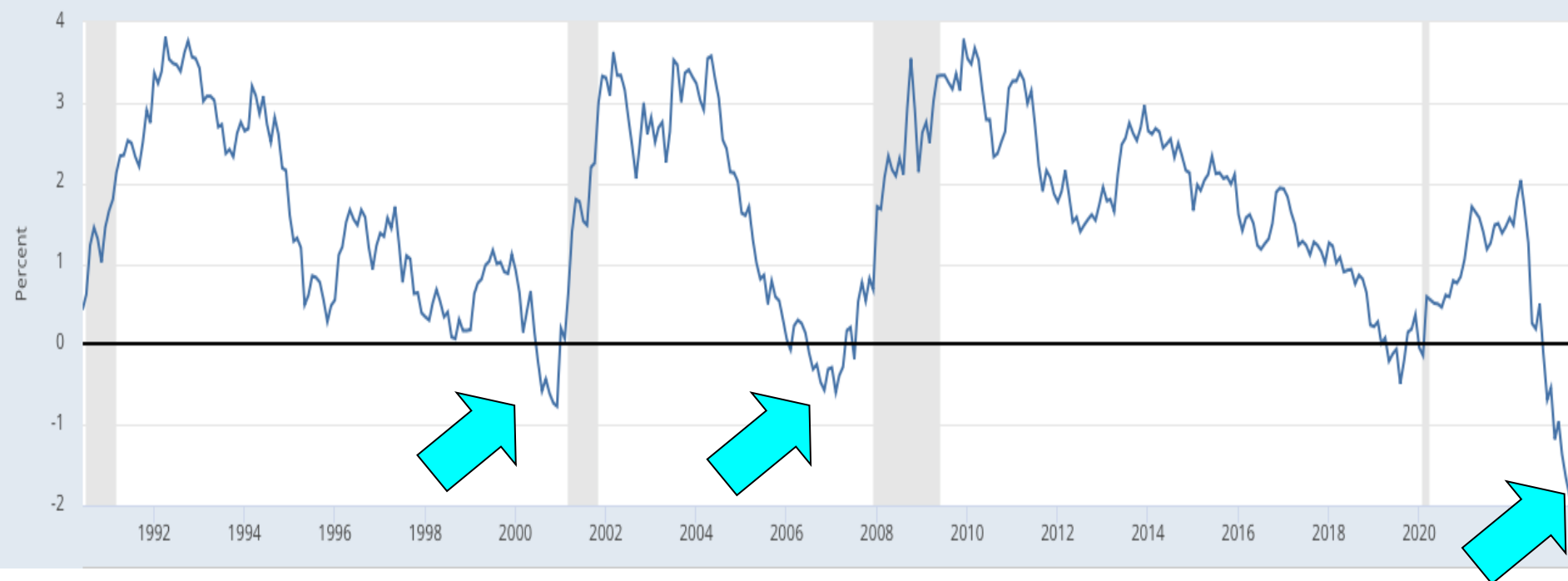
1990-06-02

to

2023-06-02

EDIT GRAPH 

**FRED**  — 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity

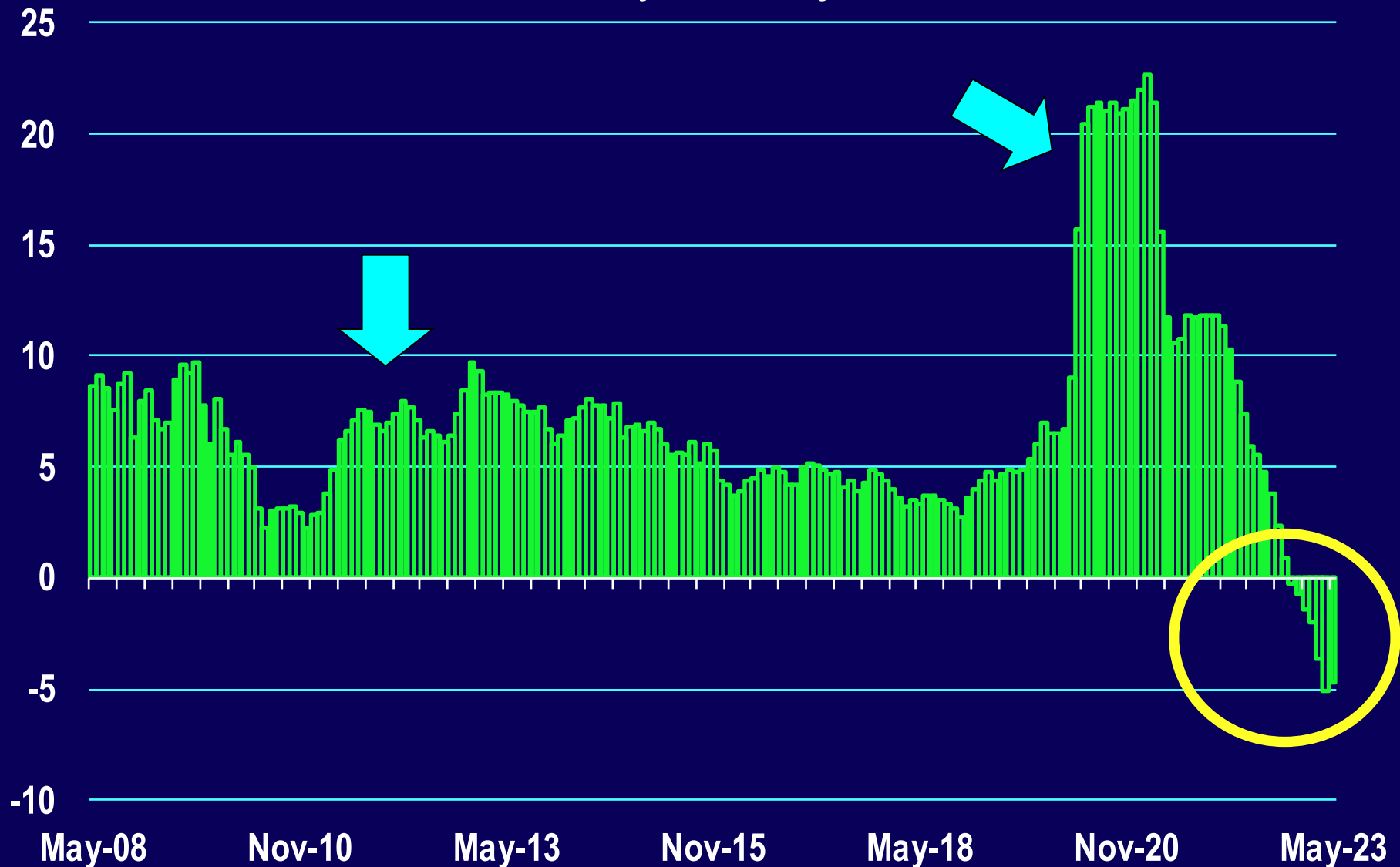


FRED, June 3, 2023

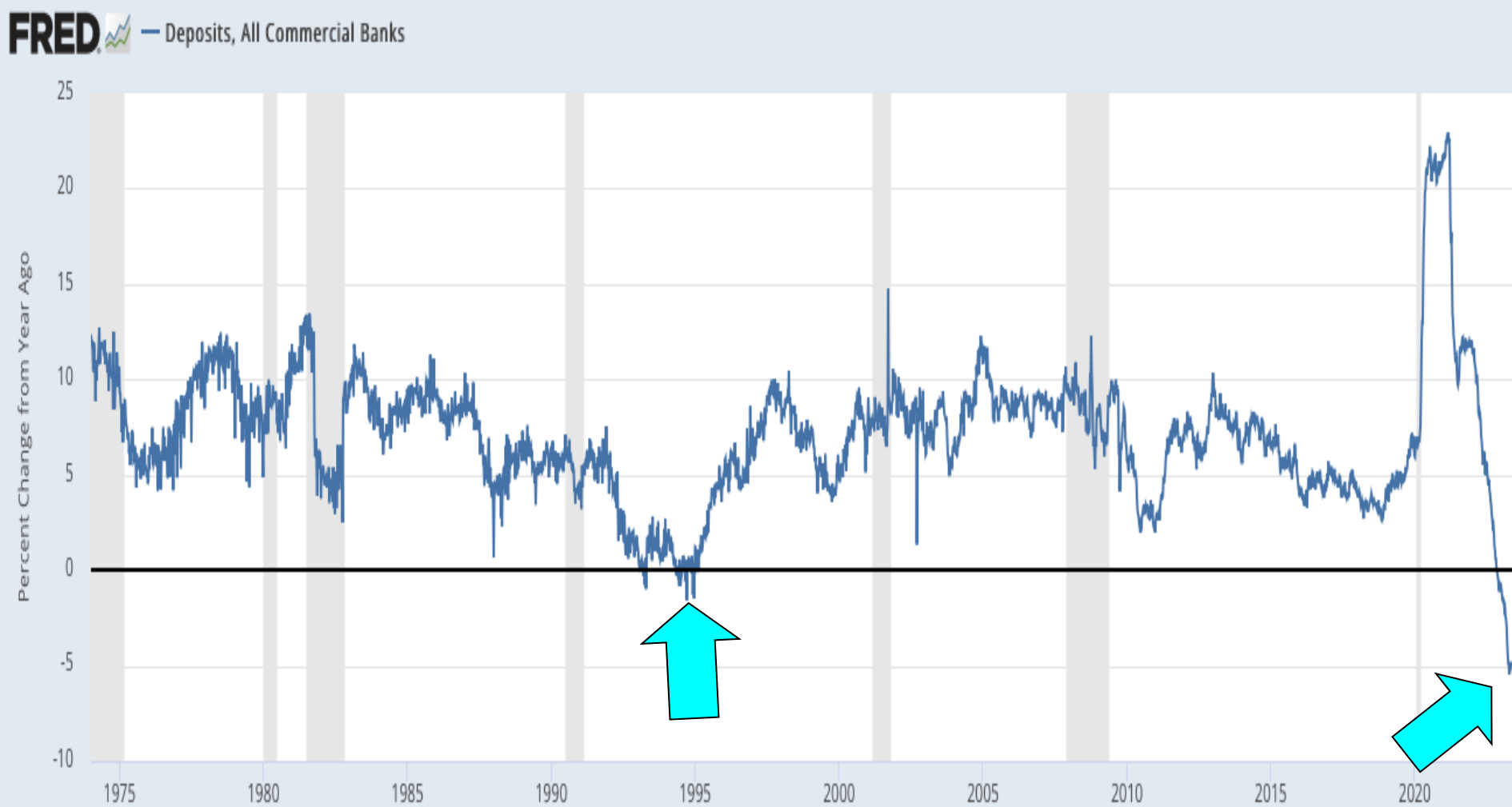
year over year  
percent change

# Commercial Bank Deposits / U.S.

May 2008 -- May 2023



# Commercial Bank Deposits, longer view



# Banking System / Credit Squeeze

June 2023

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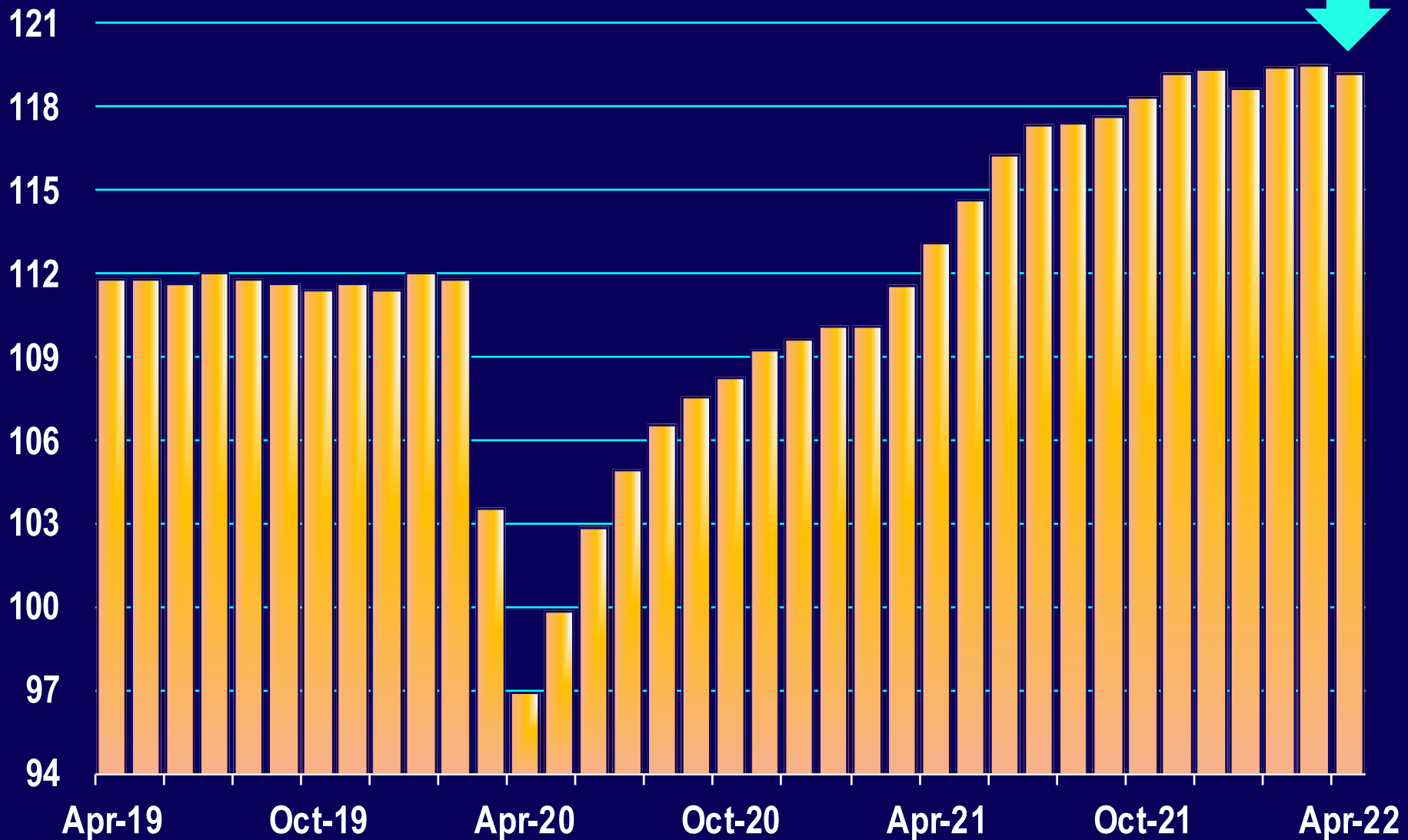
- ❑ The regional bank failures shocked banking
  - ❑ SVB, Signature, Silvergate, First Republic
- ❑ However, system now on solid footing . . . . ?
- ❑ The impact of the shock has resulted in credit tightening as a protective maneuver against possible failure
- ❑ Commercial and industrial loan standards for SB strengthened by nearly half of all banks
- ❑ Small business loan activity will be restricted, limiting economic growth in June and Q3



# Index of Leading Indicators / U.S.

index  
2010 = 100

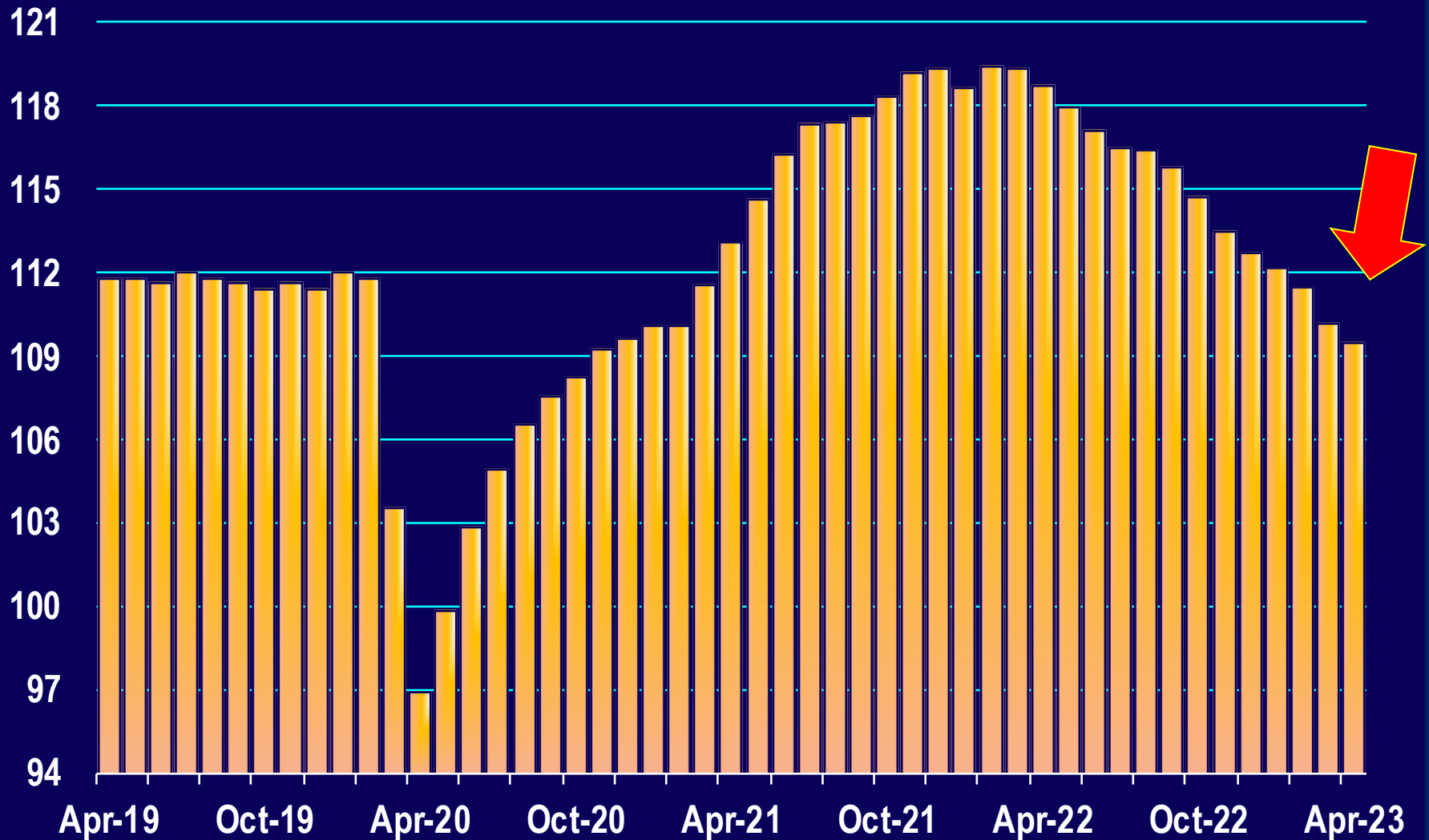
April 2019 -- April 2022



# Index of Leading Indicators / U.S.

April 2019 -- April 2023

index  
2010 = 100

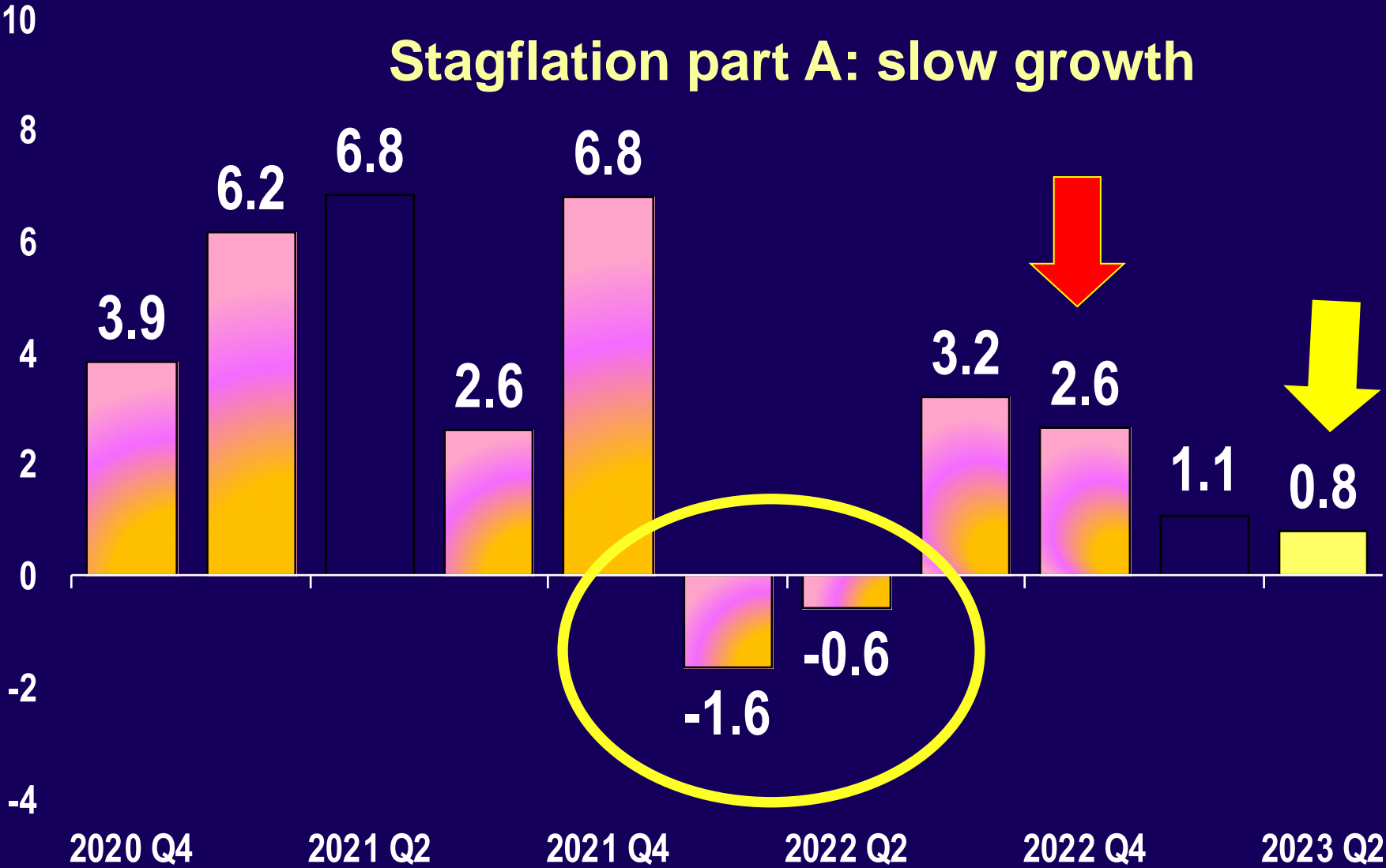


percent  
change

# Real Gross Domestic Product Growth / U.S.

2018 Q3 - 2023 Q2

Stagflation part A: slow growth



# Indicators signaling a clear recessionary direction

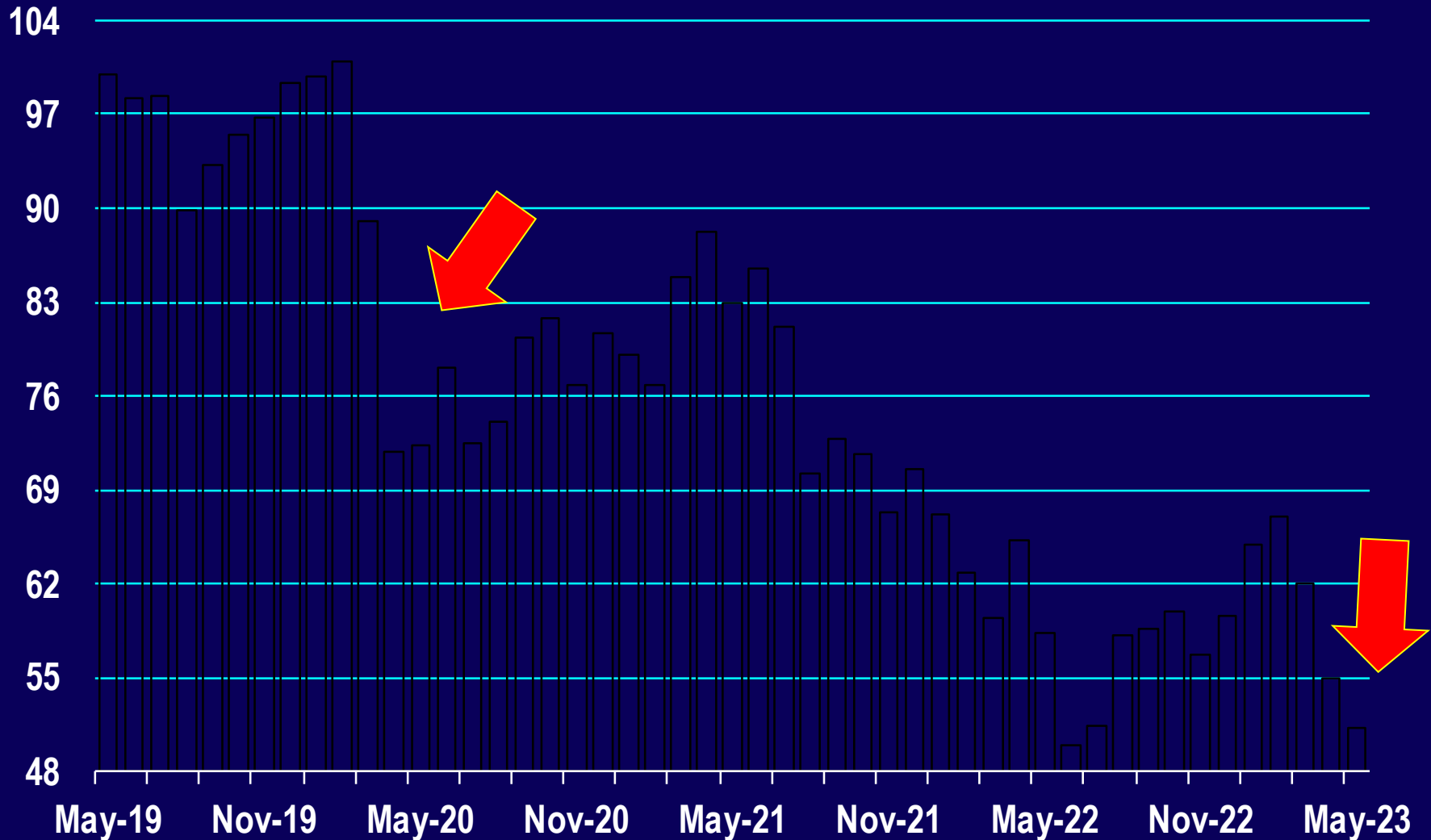
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- Magnitude of the Inverted yield curve
- Banking sector fragility
- Plunge in the Index of Leading indicators
- slow overall growth
- Deepening household credit card debt
- Pessimistic consumers and disgruntled Americans regarding the country's direction

index  
1985=100

# Consumer Sentiment / University of Michigan

May 2019 -- May 2023



# ~~Inflation Is No~~ America's Top Economic Concern

Author: Mallika Mitra

Published: Mar 30, 2022 | 4 min read

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percent  
change in the  
price level

# General Consumer Price Inflation / U.S.

March 2019 -- April 2023



# What is the most important problem facing the country today ?

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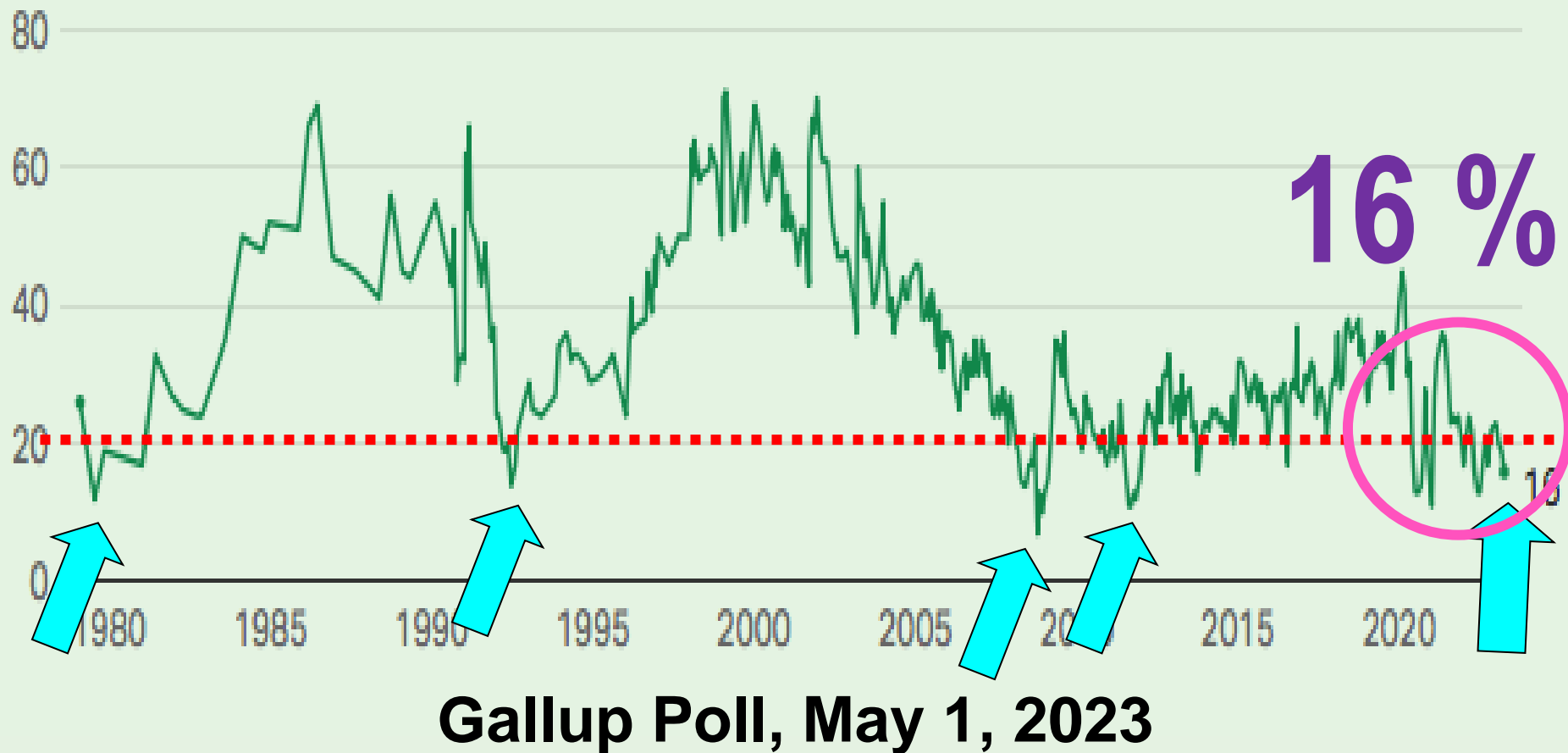
|                         |      |
|-------------------------|------|
| Poor Gov't Leadership   | 18 % |
| Economy in general      | 14 % |
| Inflation               | 10 % |
| Immigration             | 9 %  |
| Crime, Violence, Guns   | 9 %  |
| Race Relations          | 4 %  |
| Ethics / Family decline | 4 %  |



**Gallup Poll, April 2023**



# American satisfaction with the way Things are going in the United States



<https://news.gallup.com/poll/1669/general-mood-country.aspx>

billions of  
dollars (SA)

# Retail Sales and Food Service Sales / U.S.

April 2019 -- April 2023

700

650

600

550

500

450

400

350

pandemic

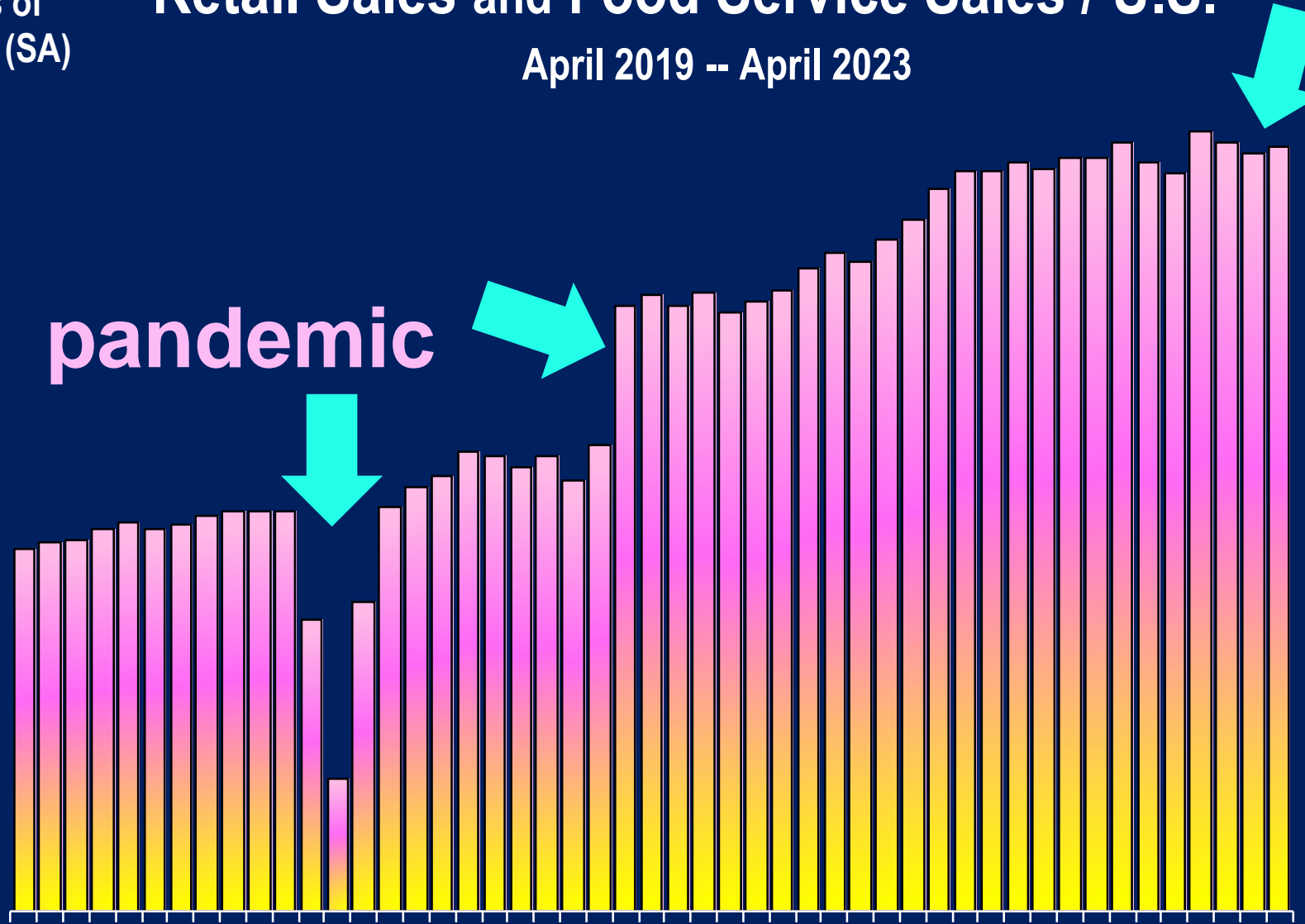
Apr-19

Apr-20

Apr-21

Apr-22

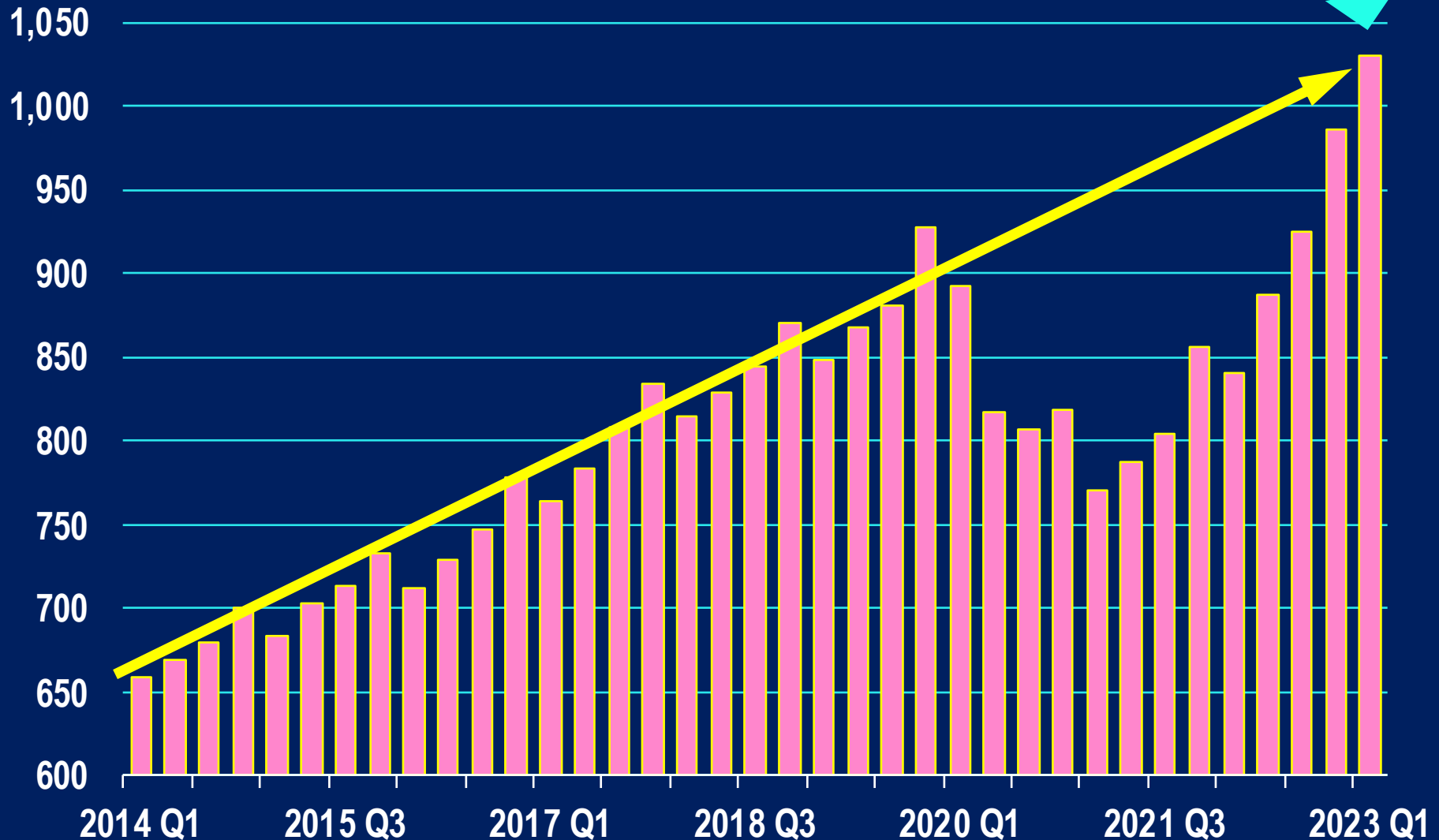
Apr-23



# Consumer Credit Card Balances / U.S.

billions  
of dollars

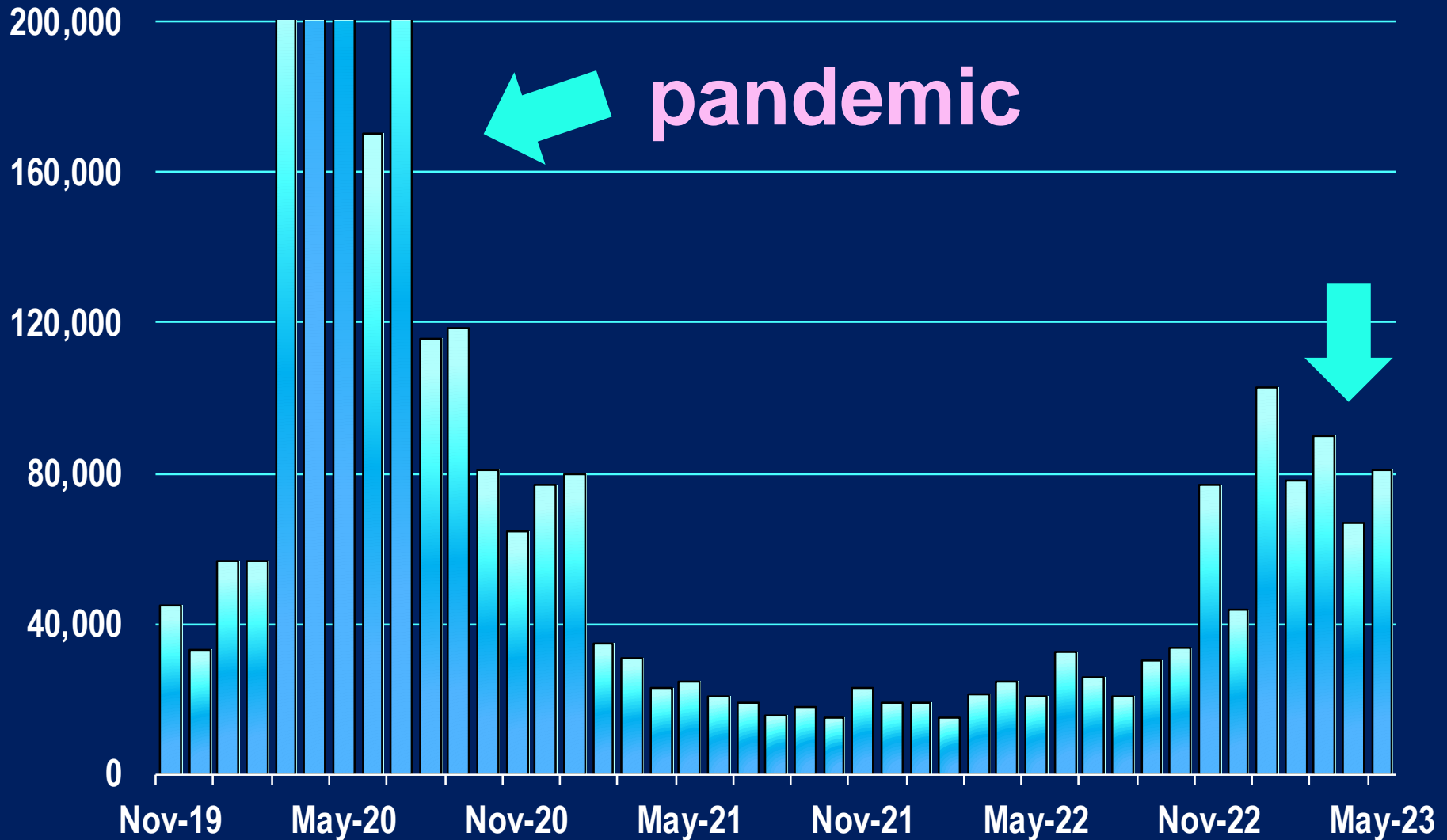
2014 Q1 - 2023 Q1



number  
announced

# Layoffs / U.S.

November 2019 -- May 2023



# About Recent Layoffs

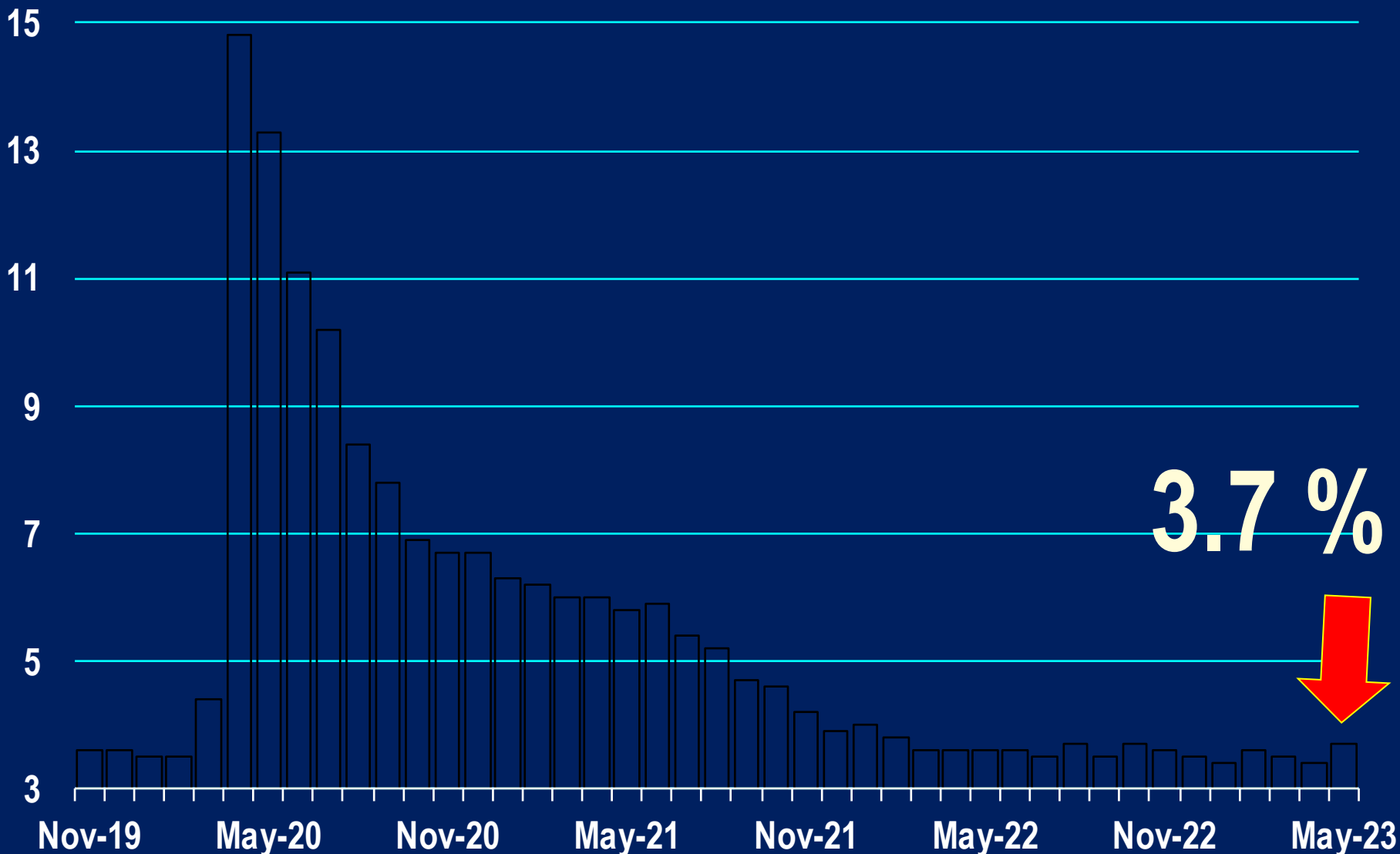
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- ☐ The reports have been prolific but the potential misery has been absent
- ☐ Virtually no increase in the unemployment rate
- ☐ Virtually no increase in new unemployment claims
  - claims flat since March
- ☐ Where are the laid off workers going ?
- ☐ Labor markets are still tight

percent  
unemployed

# Unemployment Rate / U.S.

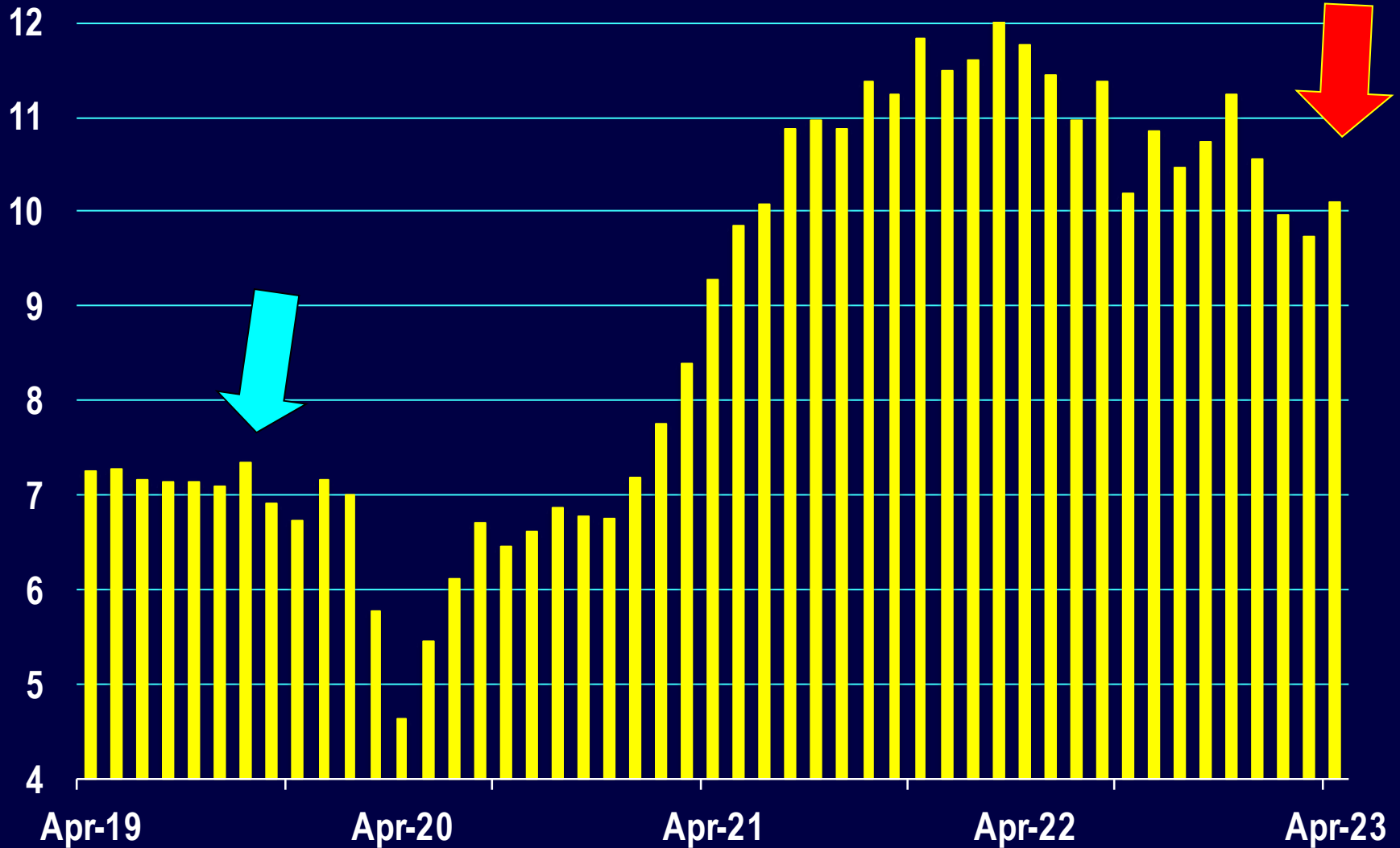
November 2019 -- May 2023



# Job Openings / U.S.

April 2019 -- April 2023

millions  
of jobs

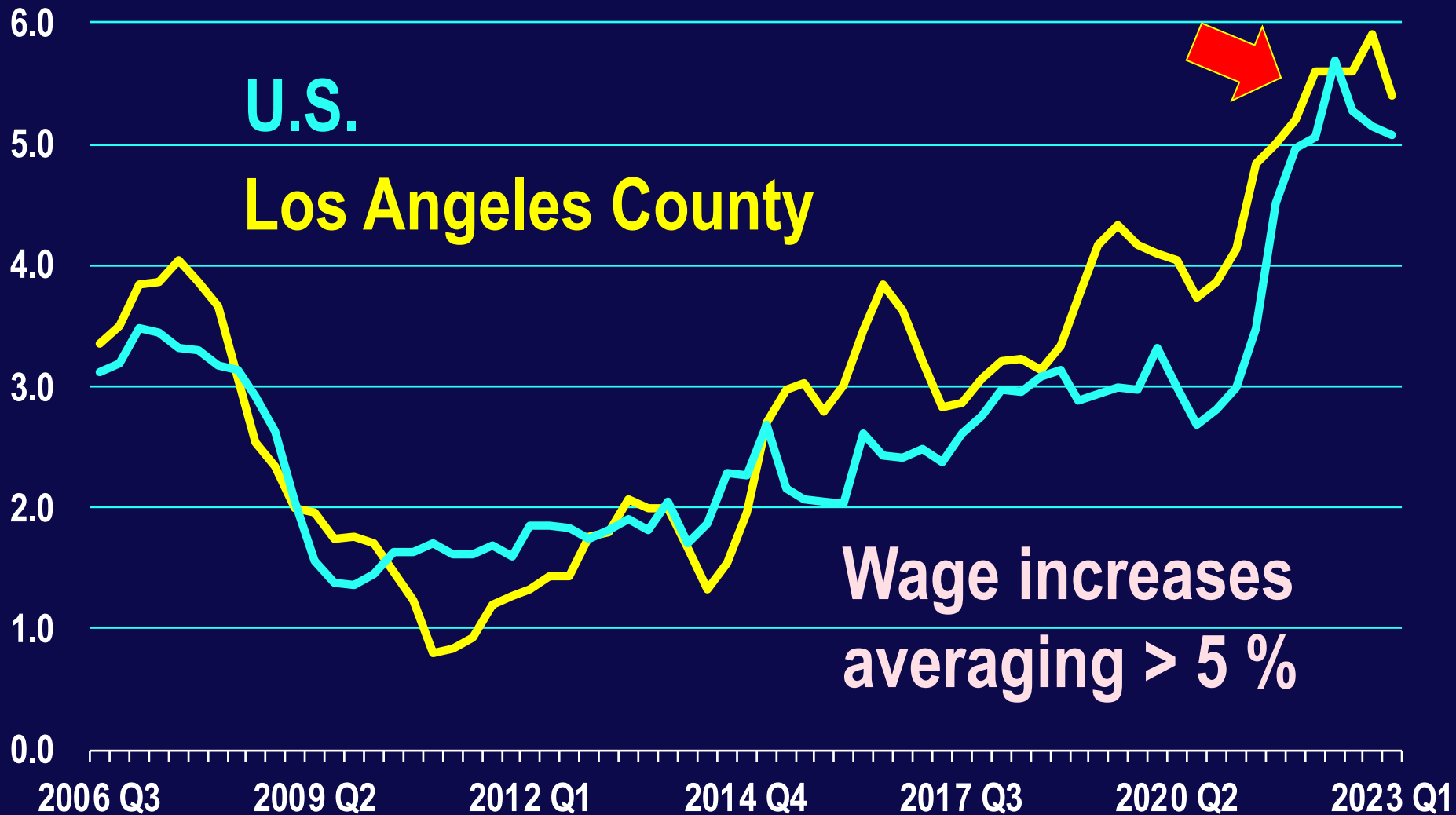


# Inflation in Wages and Salaries per Worker

## Los Angeles-Orange Metro, and U.S.

percent  
change

2006 Q3 -- 2023 Q1

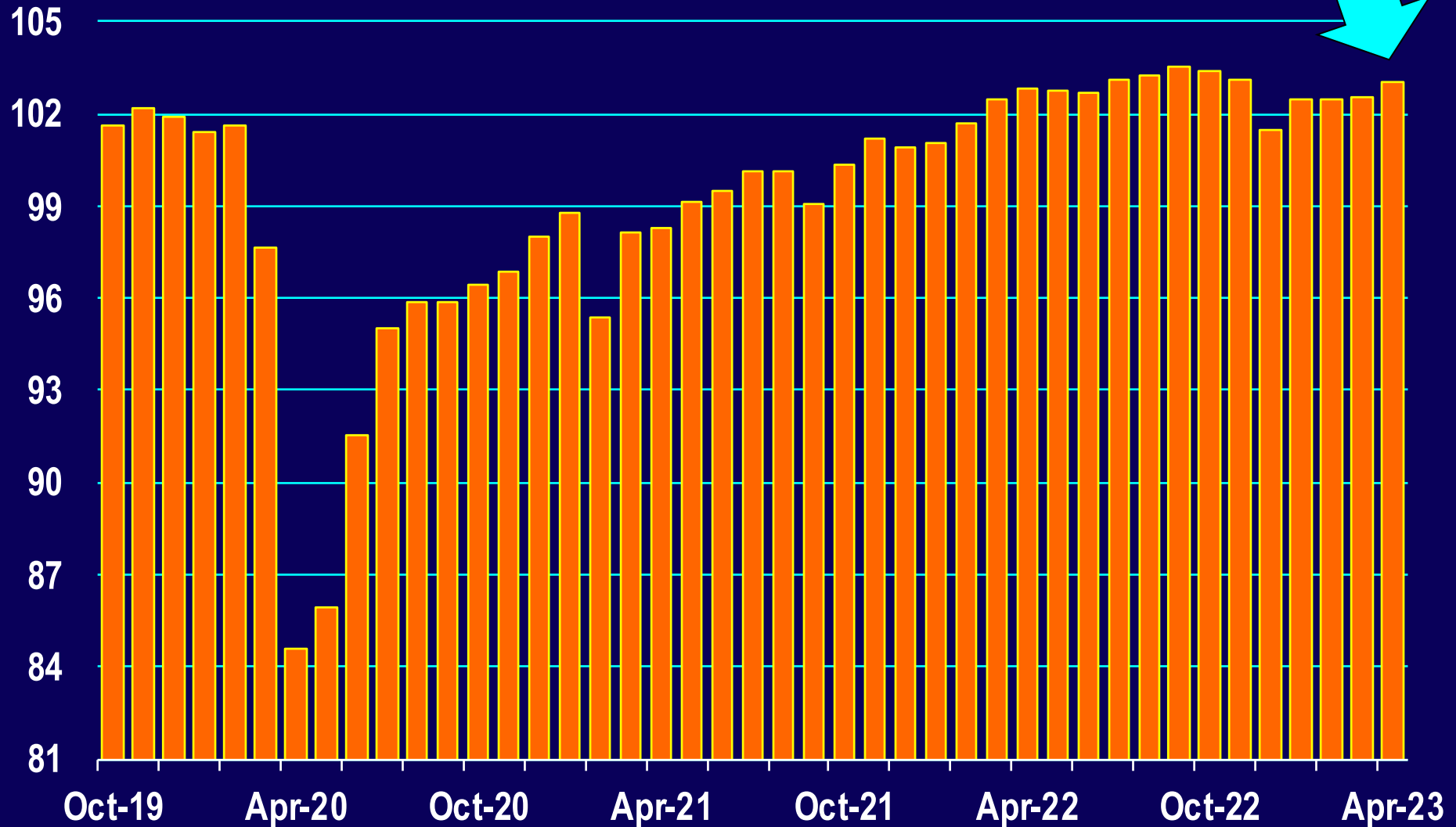




# Index of Industrial Production / U.S.

index

October 2019 -- April 2023

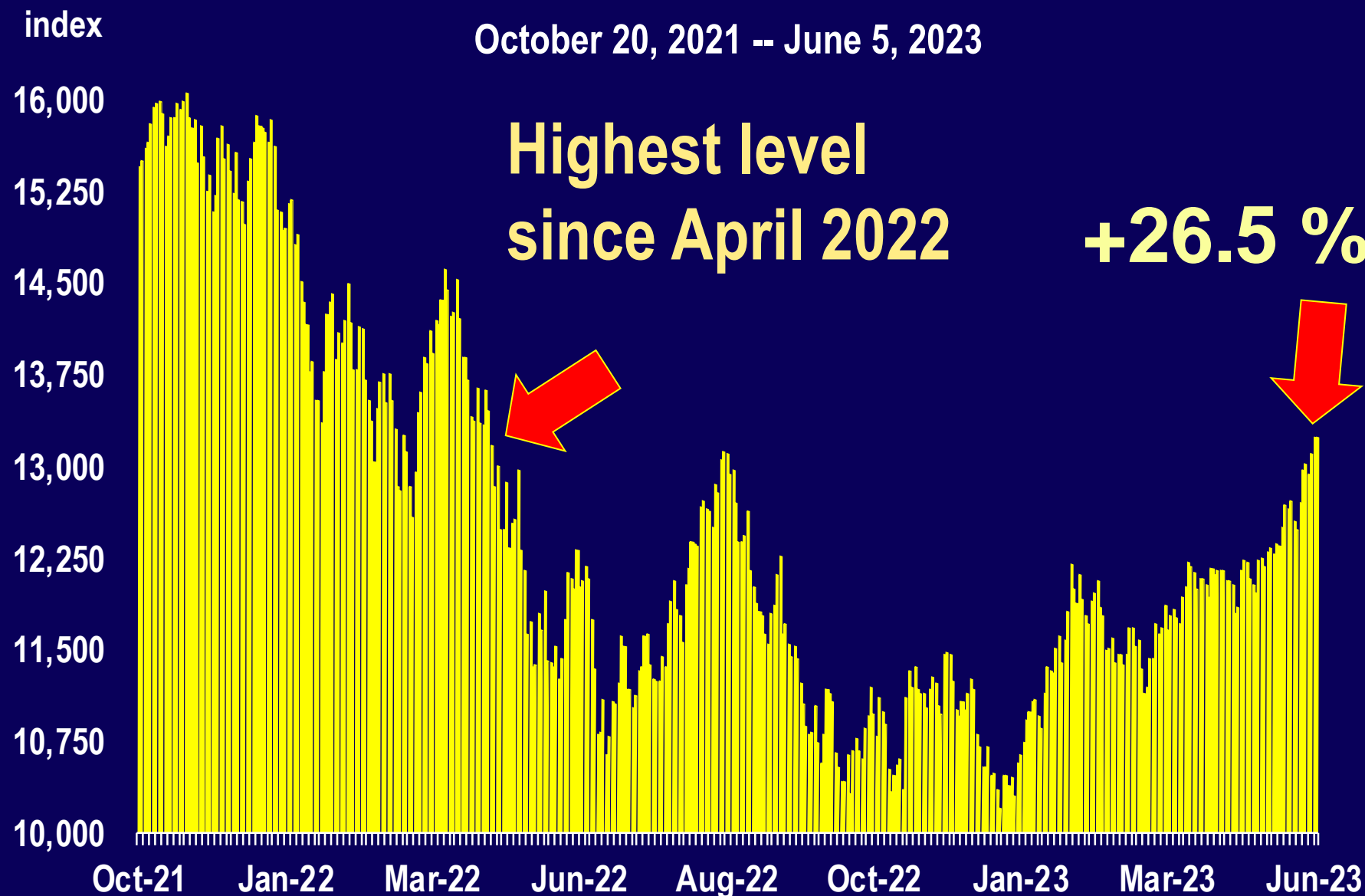


# Nasdaq Composite Index

October 20, 2021 -- June 5, 2023

**Highest level  
since April 2022**

**+26.5 %**



# S&P 500 Index

December 29, 2021 -- June 5, 2023

index

4,900

4,700

4,500

4,300

4,100

3,900

3,700

3,500

**Highest level  
since August 2022**

**+11.4 %**

Dec-21

Mar-22

May-22

Jul-22

Sep-22

Nov-22

Jan-23

Mar-23

Jun-23



# Weekly 30 Year Fixed Rate Mortgage

April 4, 2020 -- June 1, 2023

rate

7.5

7.0

6.5

6.0

5.5

5.0

4.5

4.0

3.5

3.0

2.5

Apr-20

Aug-20

Dec-20

May-21

Sep-21

Jan-22

May-22

Sep-22

Jan-23

Jun-23



# Case-Shiller Home Price Index

index  
2013 = 100

December 2019 -- April 2020

430

415

400

385

370

355

340

325

310

295

280

Los Angeles metro

U.S.

Nation: - 2.3 %

LA: - 5.3 %

SF/SC: -12.9 %

Oct-20 Jan-21 Apr-21 Jul-21 Oct-21 Jan-22 Apr-22 Jul-22 Oct-22 Jan-23 Apr-23



# U.S. Summary

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- ☐ The indicators are largely mixed
- ☐ Labor markets are fully employed and indicate very little weakening to date
- ☐ Pessimism about the U.S. is very high
- ☐ But because everyone is employed, consumers are still spending
- ☐ Inflation is deflating, though not fast enough
- ☐ Interest rate hikes are probably over
- ☐ Capital markets hanging in there preserving a lot of retirement wealth for boomers

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

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- ☐ I can work from home, to save on gas
- ☐ Buy 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 buy spam or eat breakfast cereal for dinner
- ☐ I can buy cheaper shirts at Ross

# California



**Soda Springs, Lake Tahoe, March 13, 2023**



# Recent Tech Layoffs

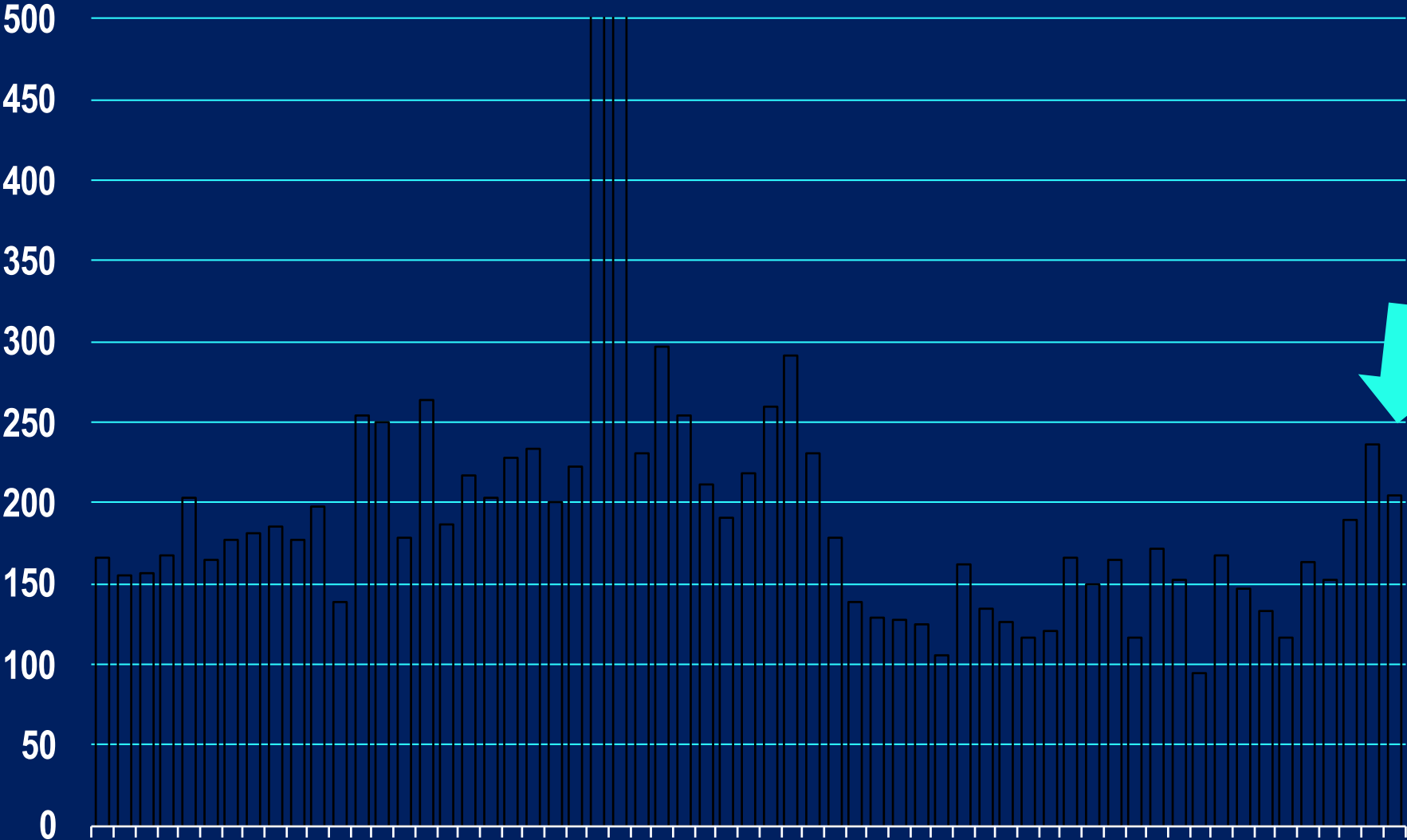
Last 6 months

|            |          |        |
|------------|----------|--------|
| Google     | Jan 2023 | 12,000 |
| Meta       | Nov 2022 | 11,000 |
| Meta       | Mar 2023 | 10,000 |
| Microsoft  | Jan 2023 | 10,000 |
| Amazon     | Nov 2022 | 10,000 |
| Amazon     | Mar 2023 | 9,000  |
| Amazon     | Jan 2023 | 8,000  |
| Salesforce | Jan 2023 | 8,000  |
| Cisco      | Nov 2022 | 4,100  |
| Twitter    | Nov 2022 | 3,700  |

thousands  
of workers

# Layoffs / California

April 2018 -- April 2023

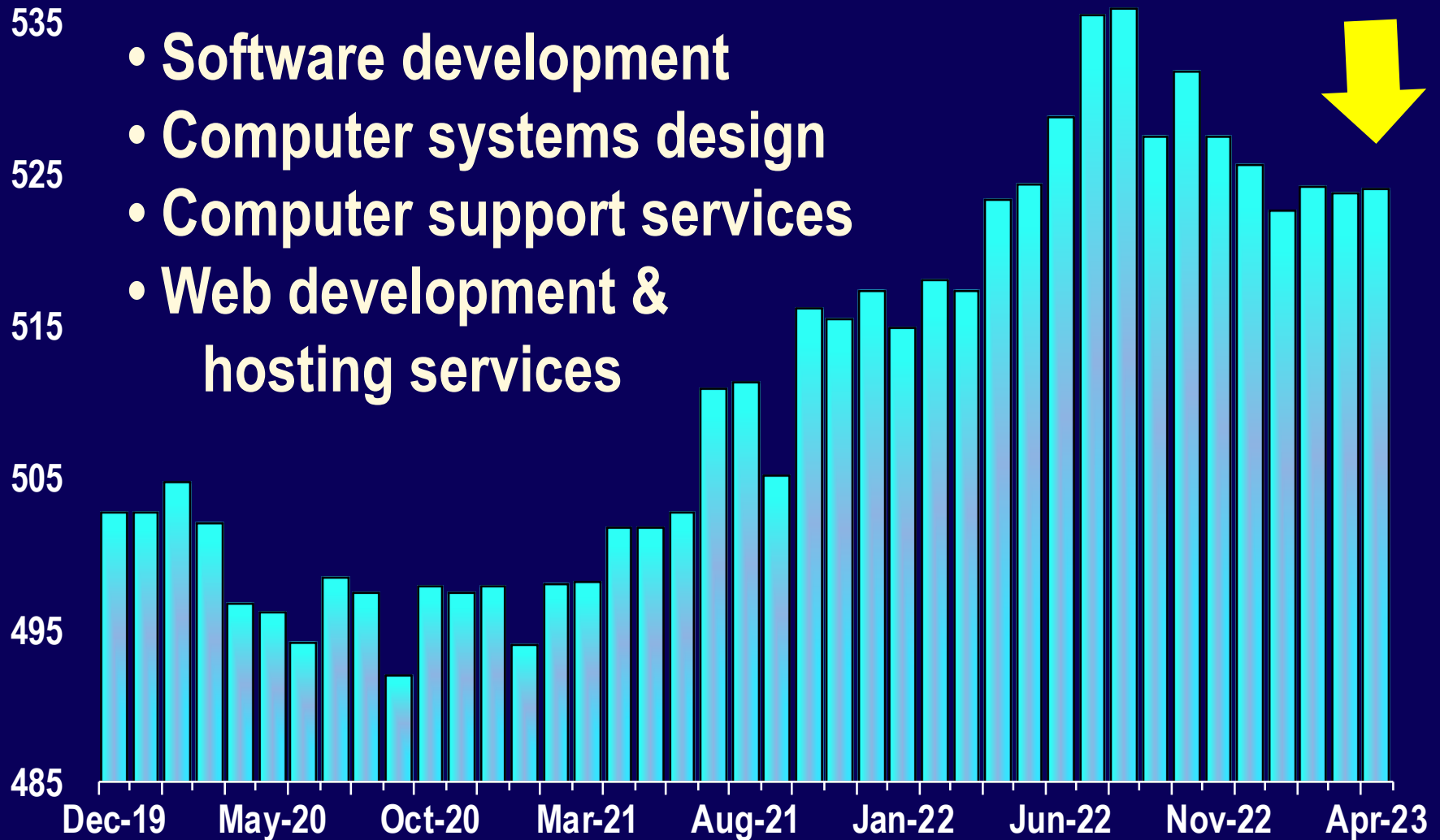


# Technology Services Employment / California

thousands  
of jobs

December 2019 -- April 2023

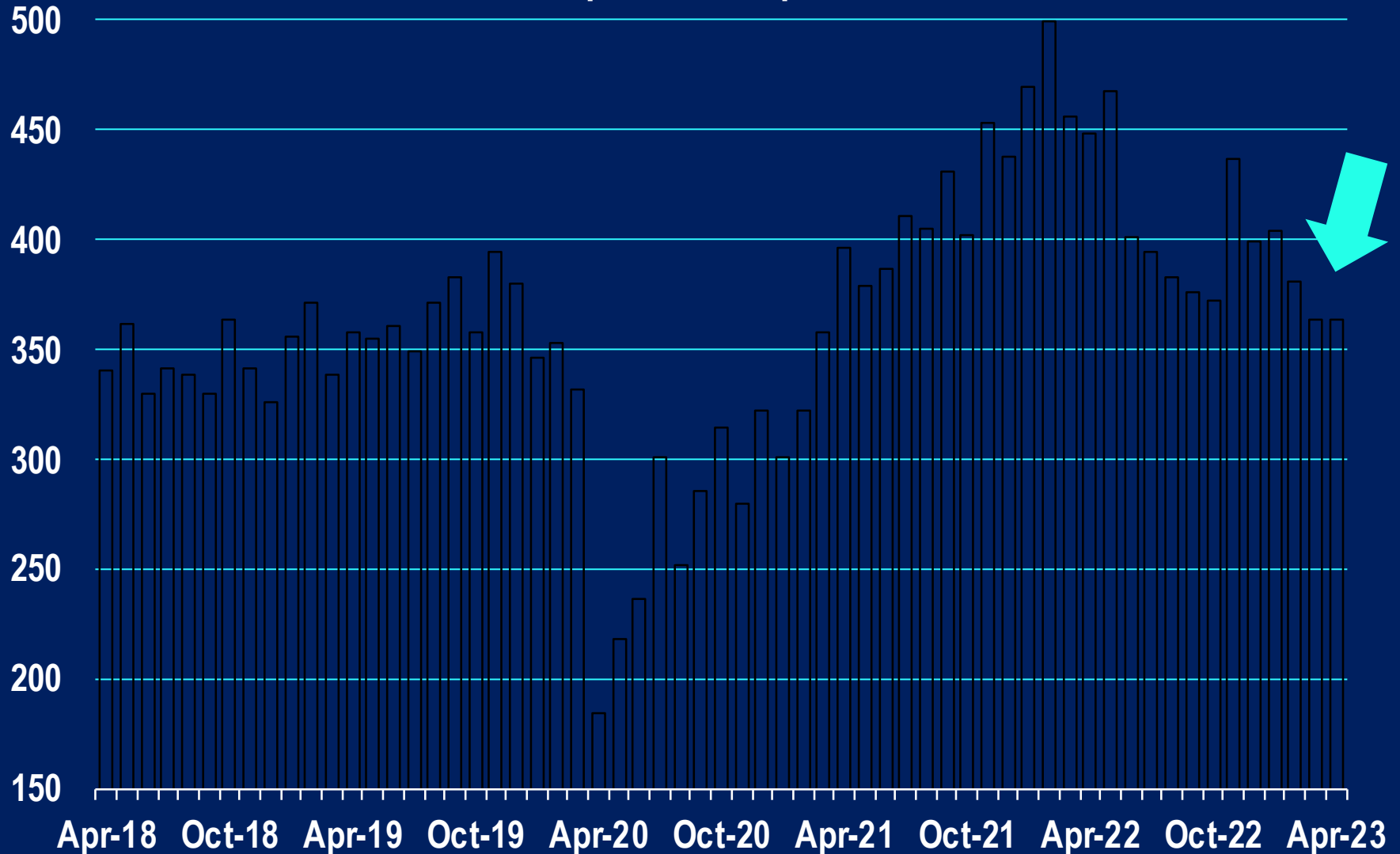
- Software development
- Computer systems design
- Computer support services
- Web development & hosting services



# Quits / California

thousands

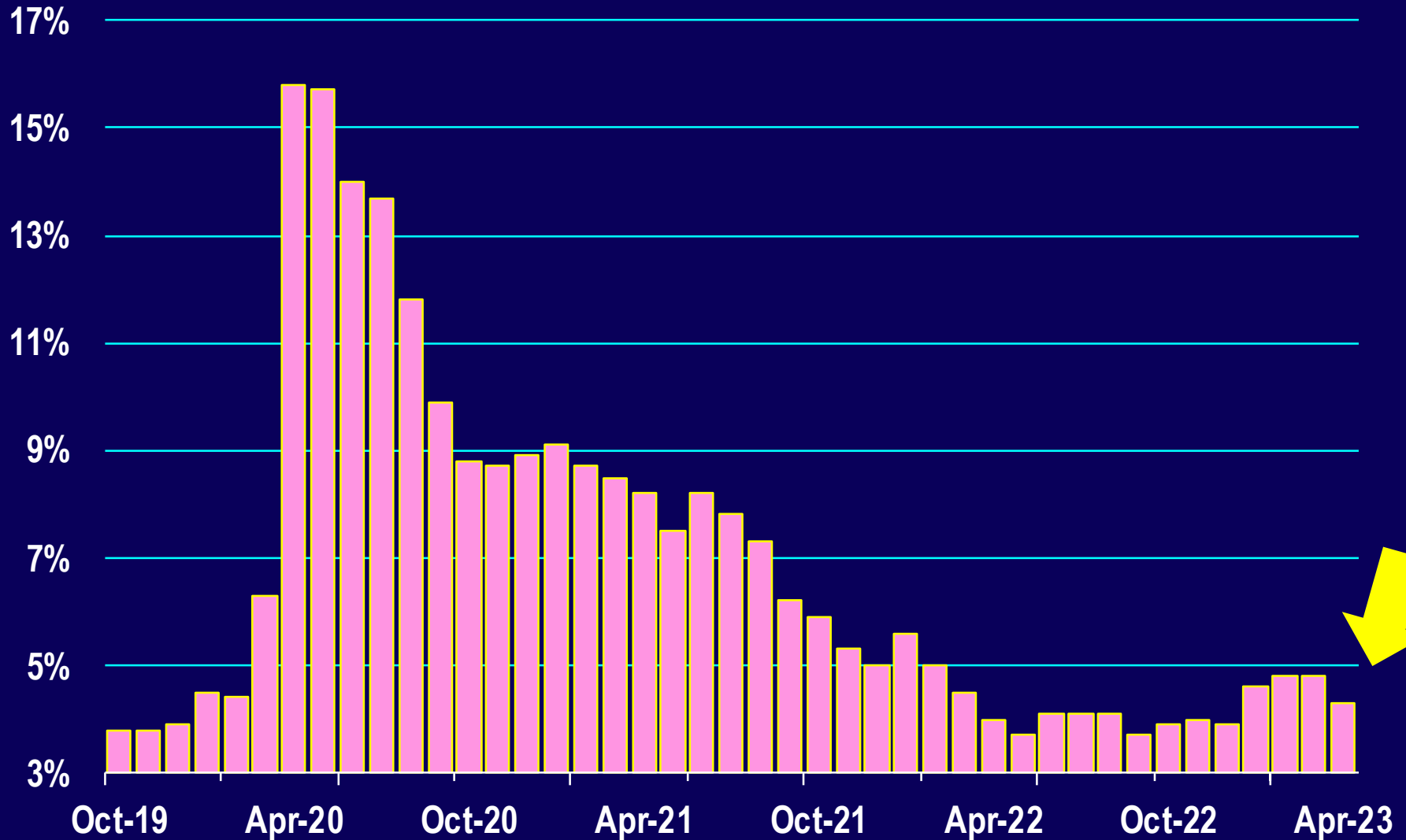
April 2018 -- April 2023



# Unemployment Rate / California

percent

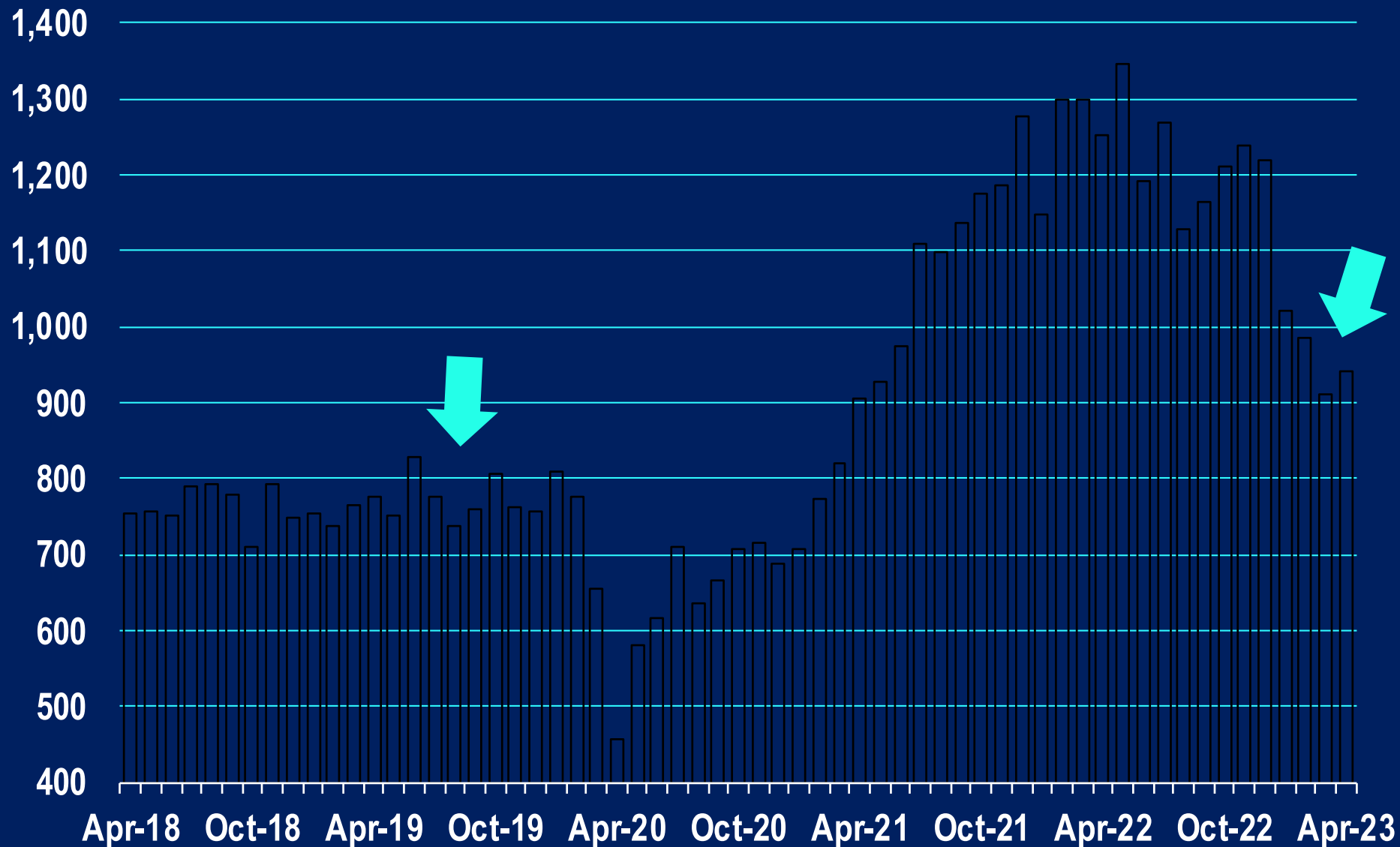
October 2019 -- April 2023



# Job Openings / California

thousands

April 2018 -- April 2023



# New Business Formations / California

October 2018 -- April 2023

number  
per month

55,000

50,000

45,000

40,000

35,000

30,000

25,000

20,000

Oct-18

Jul-19

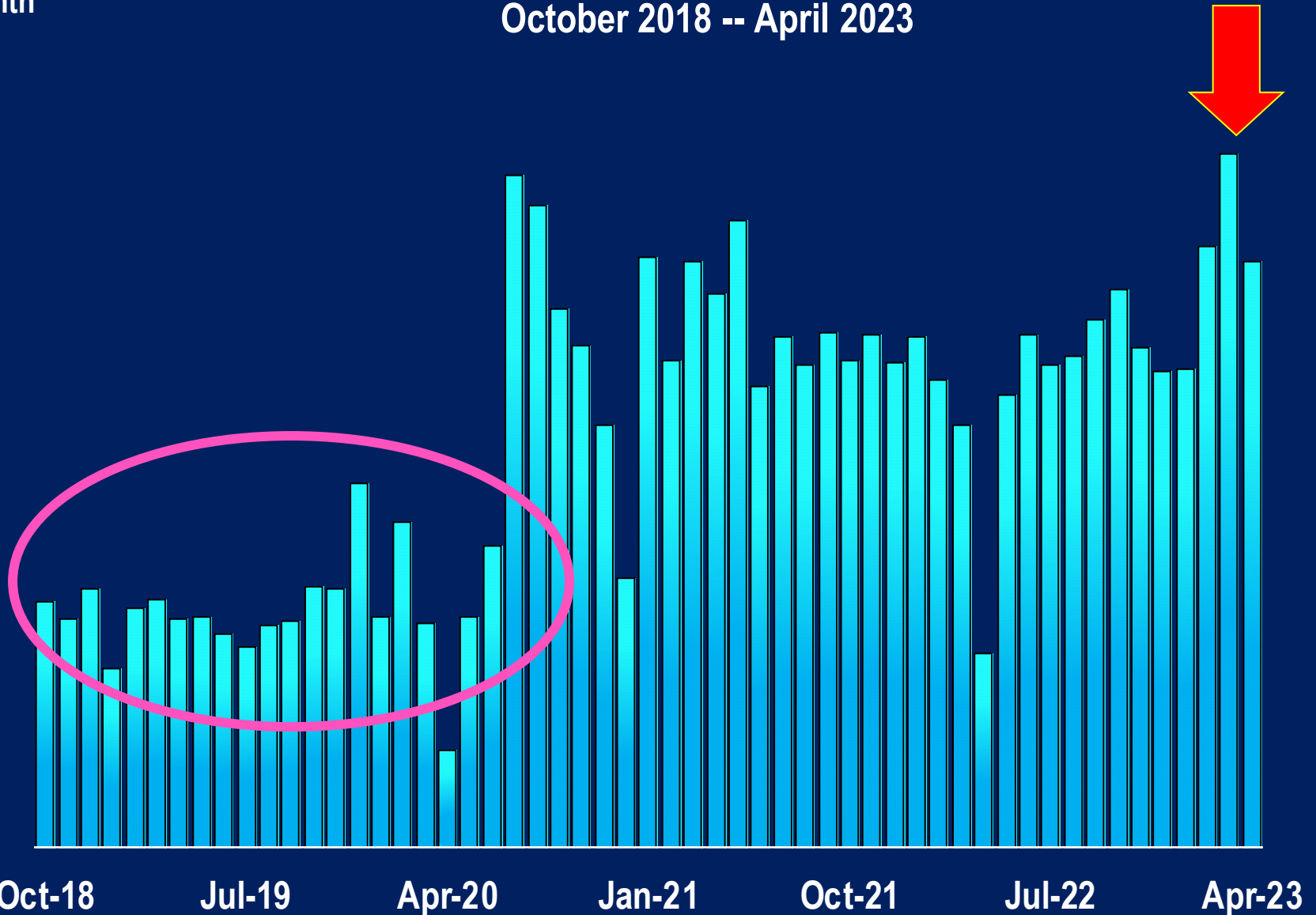
Apr-20

Jan-21

Oct-21

Jul-22

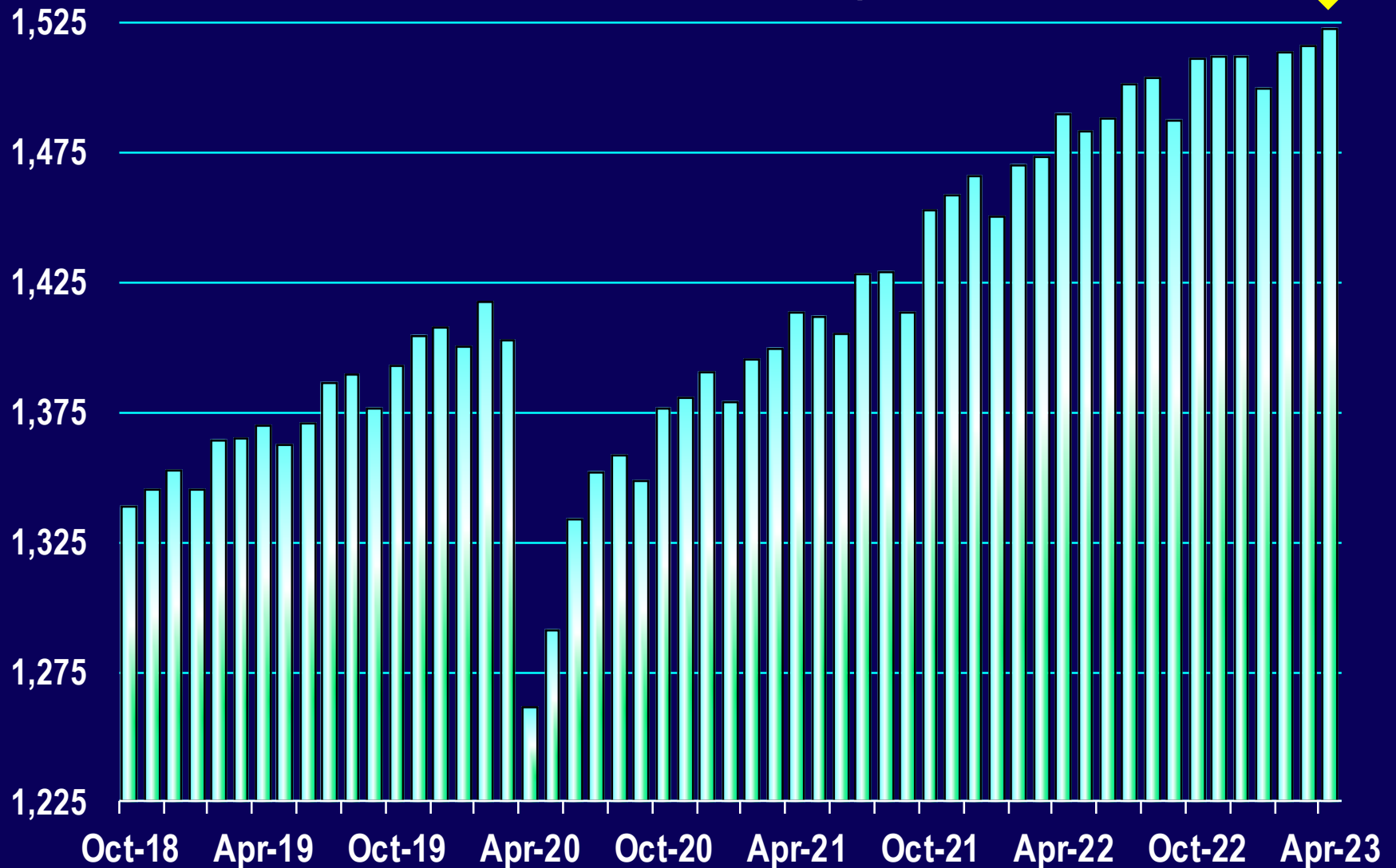
Apr-23



thousands  
of jobs

# STEM Jobs / California

October 2018 -- April 2023

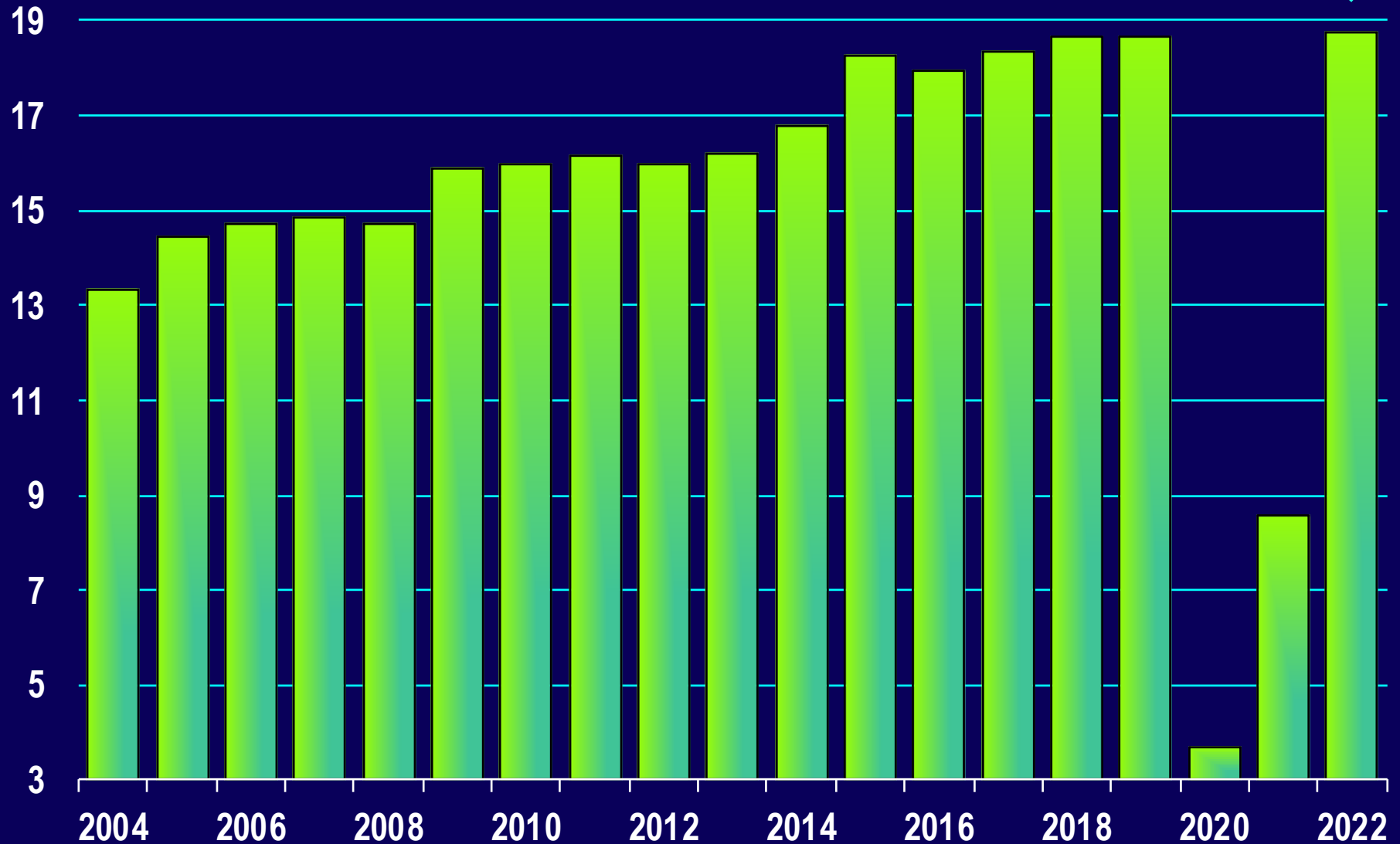




# Attendance at Disneyland / Anaheim

millions  
of visitors

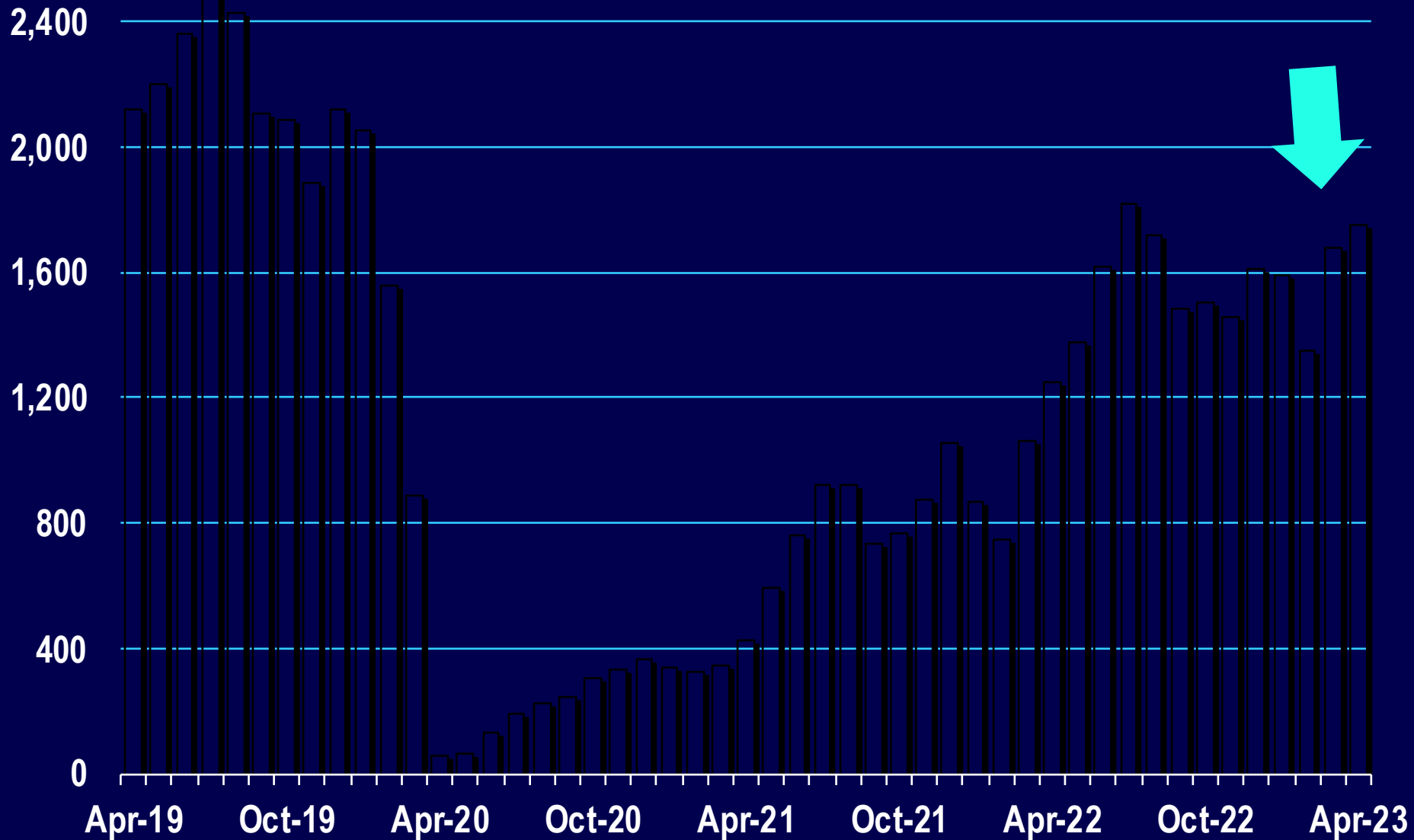
2004 -- 2022



# Total International Passengers / LAX

April 2019 -- April 2023

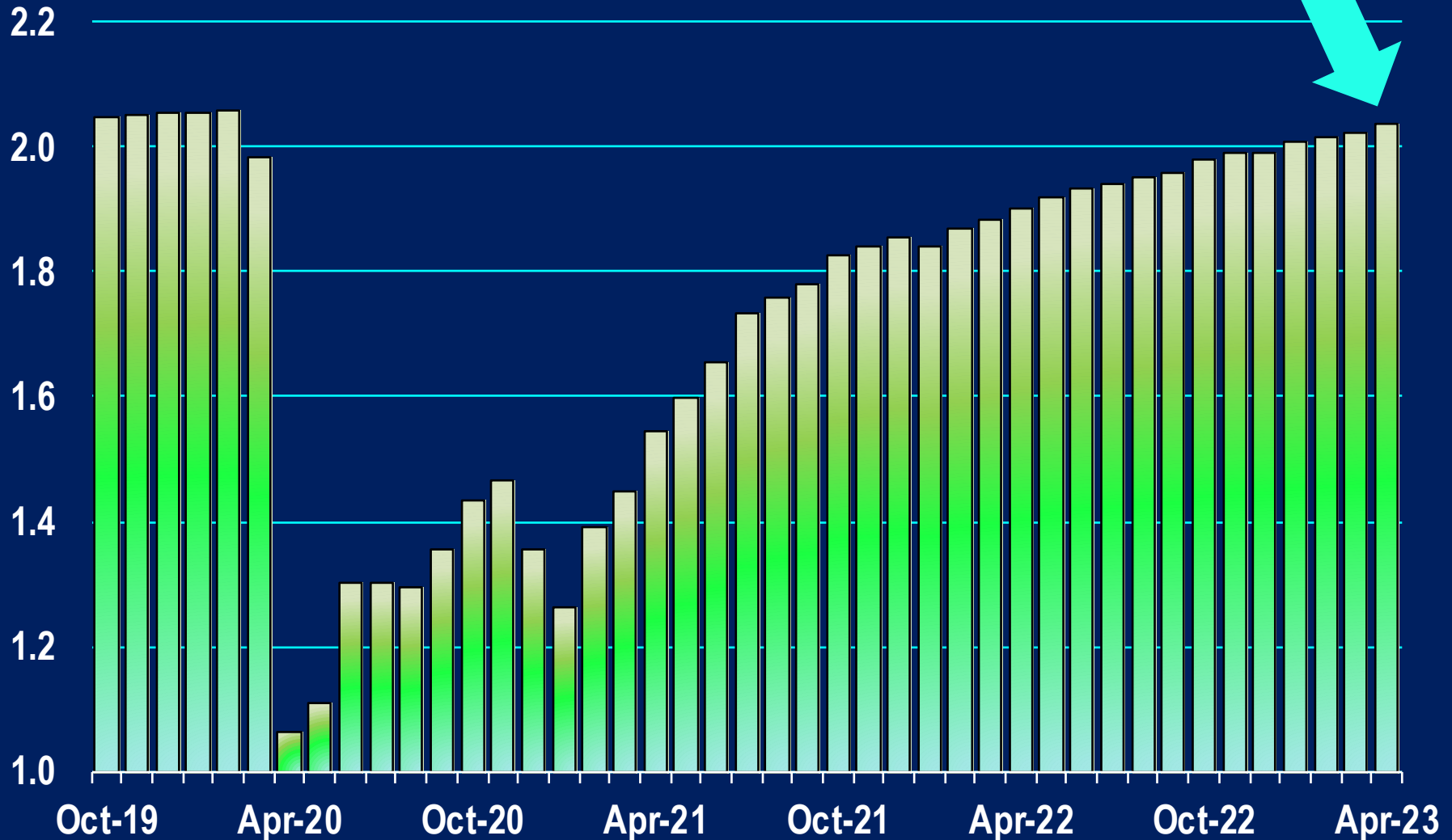
thousands of  
passengers



# Leisure & Hospitality Employment / California

millions  
of jobs

October 2019 -- April 2023



# Status of the California Economy

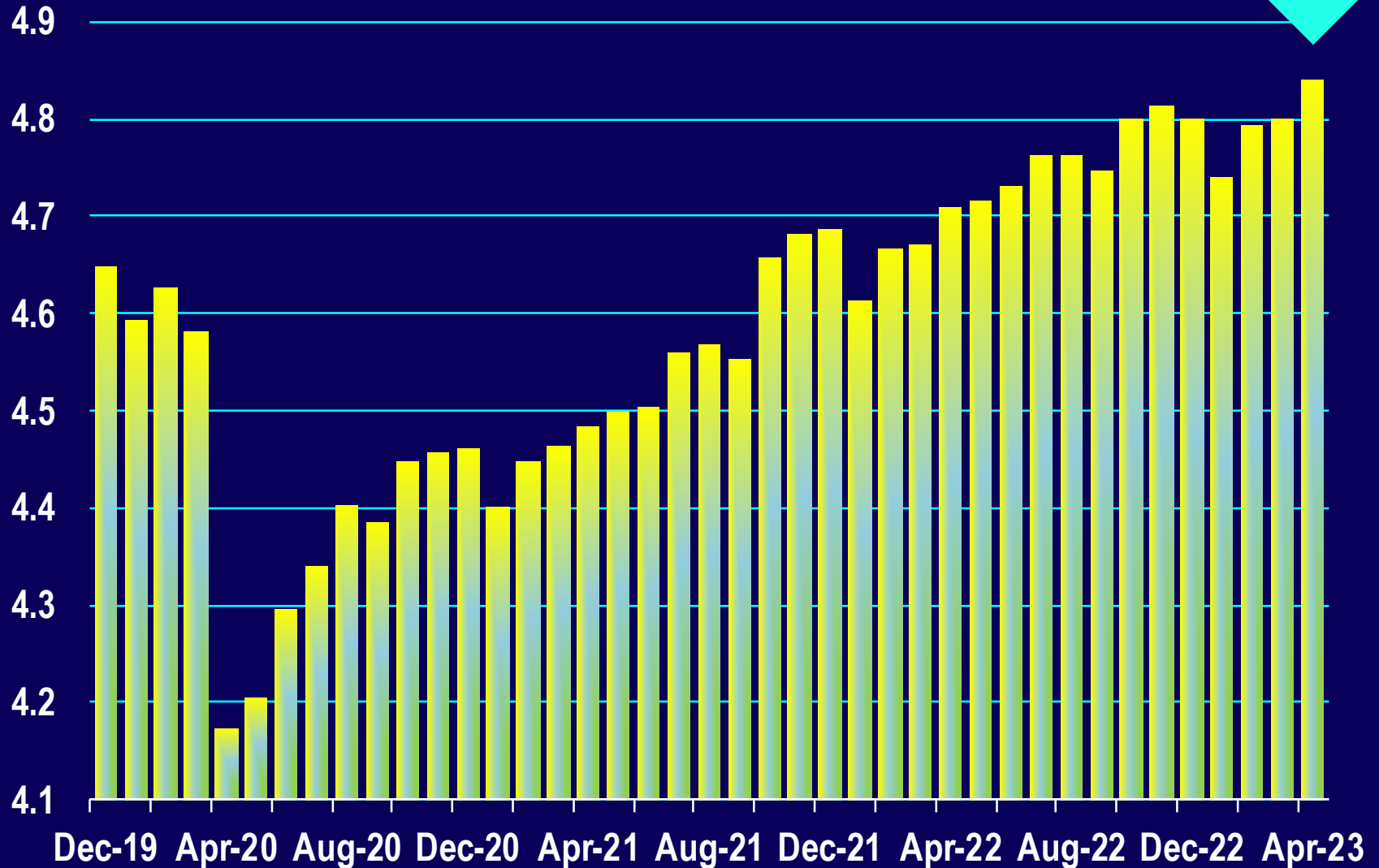
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|  | <u>Status</u>          |
|--|------------------------|
| <input type="checkbox"/> Labor Markets           | fully employed         |
| <input type="checkbox"/> New development         | resilient              |
| <input type="checkbox"/> Tourism                 | never better           |
| <input type="checkbox"/> Technology              | Job numbers still high |
| <input type="checkbox"/> Residential real estate | sales are weak         |
| <input type="checkbox"/> Office market           | weakening              |

# Office-Using Employment / California

December 2019 -- April 2023

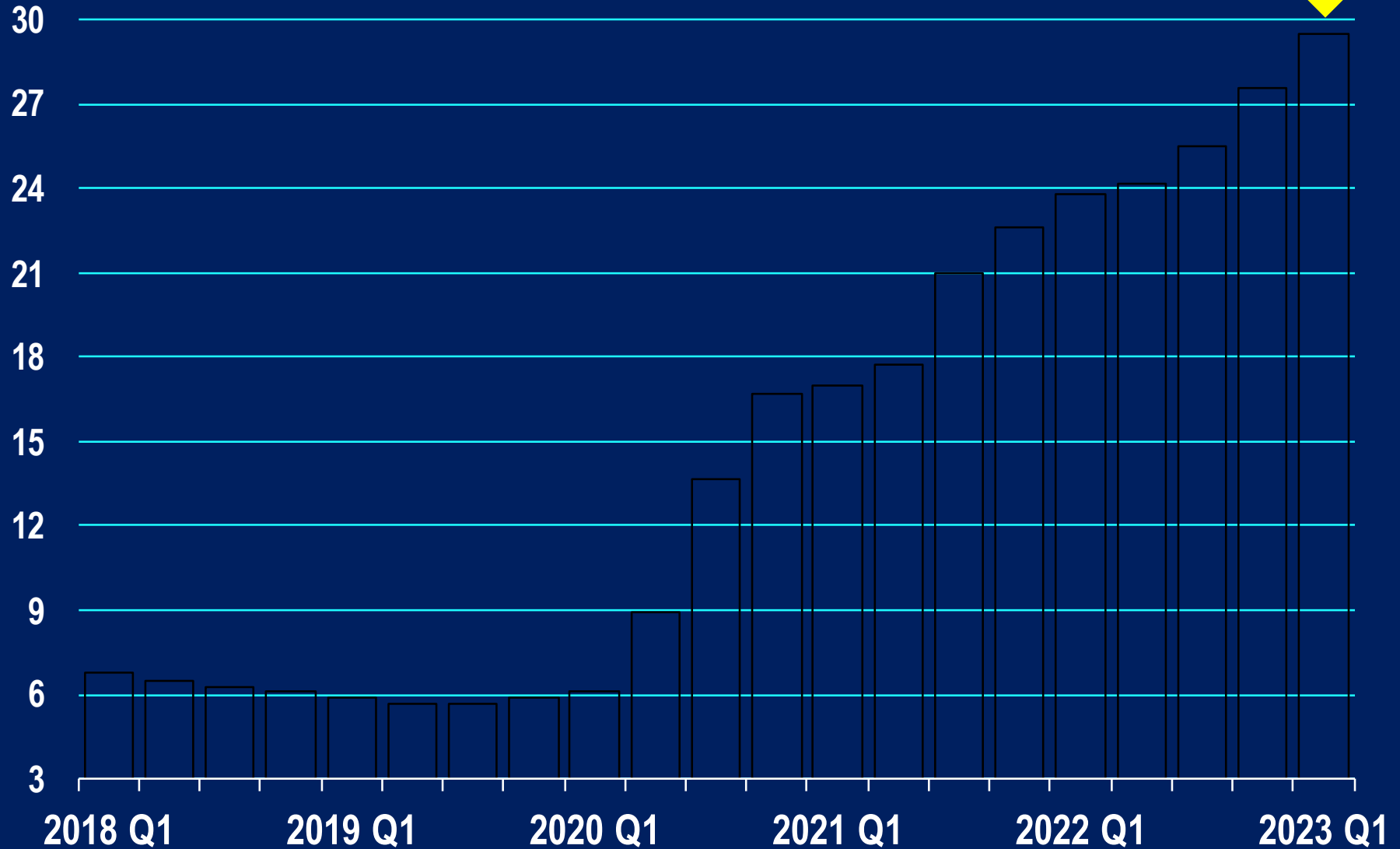
millions  
of jobs



# Office Vacancy Rate / San Francisco

2018 Q1 - 2023 Q1

percent

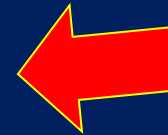


# Office Vacancy in California

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## First Quarter 2023

|                         |             |
|-------------------------|-------------|
| <b>San Francisco</b>    | <b>29.4</b> |
| <b>Silicon Valley</b>   | <b>23.1</b> |
| <b>San Mateo County</b> | <b>17.7</b> |
| <b>Los Angeles</b>      | <b>15.1</b> |
| <b>Orange County</b>    | <b>14.3</b> |
| <b>Ventura County</b>   | <b>13.4</b> |
| <b>San Diego County</b> | <b>11.9</b> |
| <b>Sacramento</b>       | <b>11.0</b> |
| <b>Inland Empire</b>    | <b>8.8</b>  |



# Office Market 2023

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- We had predicted a broad Office market recovery -- and there was clear improvement in 2021
- But remote work has become too ingrained now
- Many firms have relaxed worker requirements to commute to an office
- Net absorption has generally been negative for the last 3 years
- Firms are giving up their office space now --- or are trying to . . . . .



# Vacant Office Space for Sublease Orange County

2005 -- 2023

thousands of  
square feet

2,500

2,100

1,700

1,300

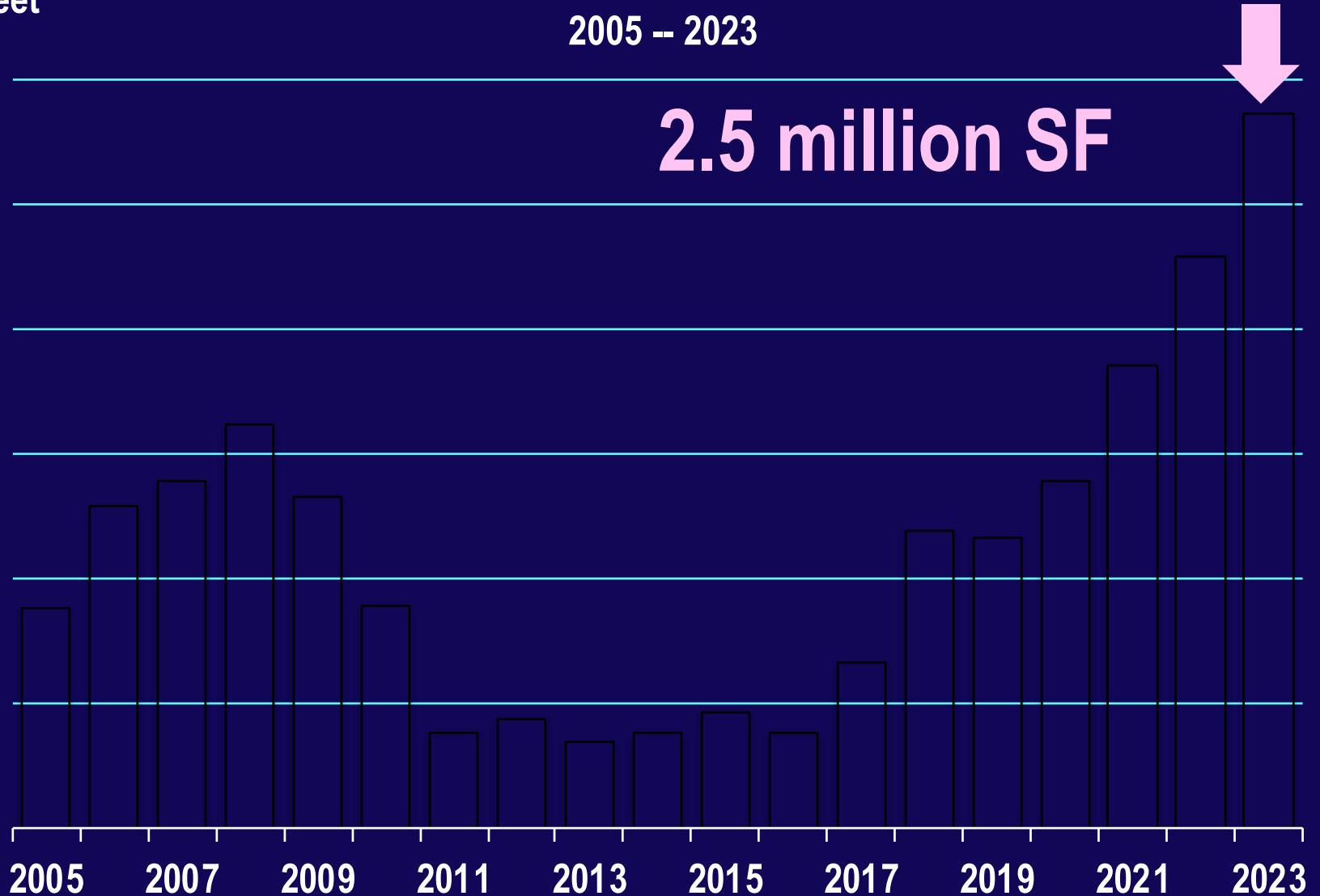
900

500

100

2.5 million SF

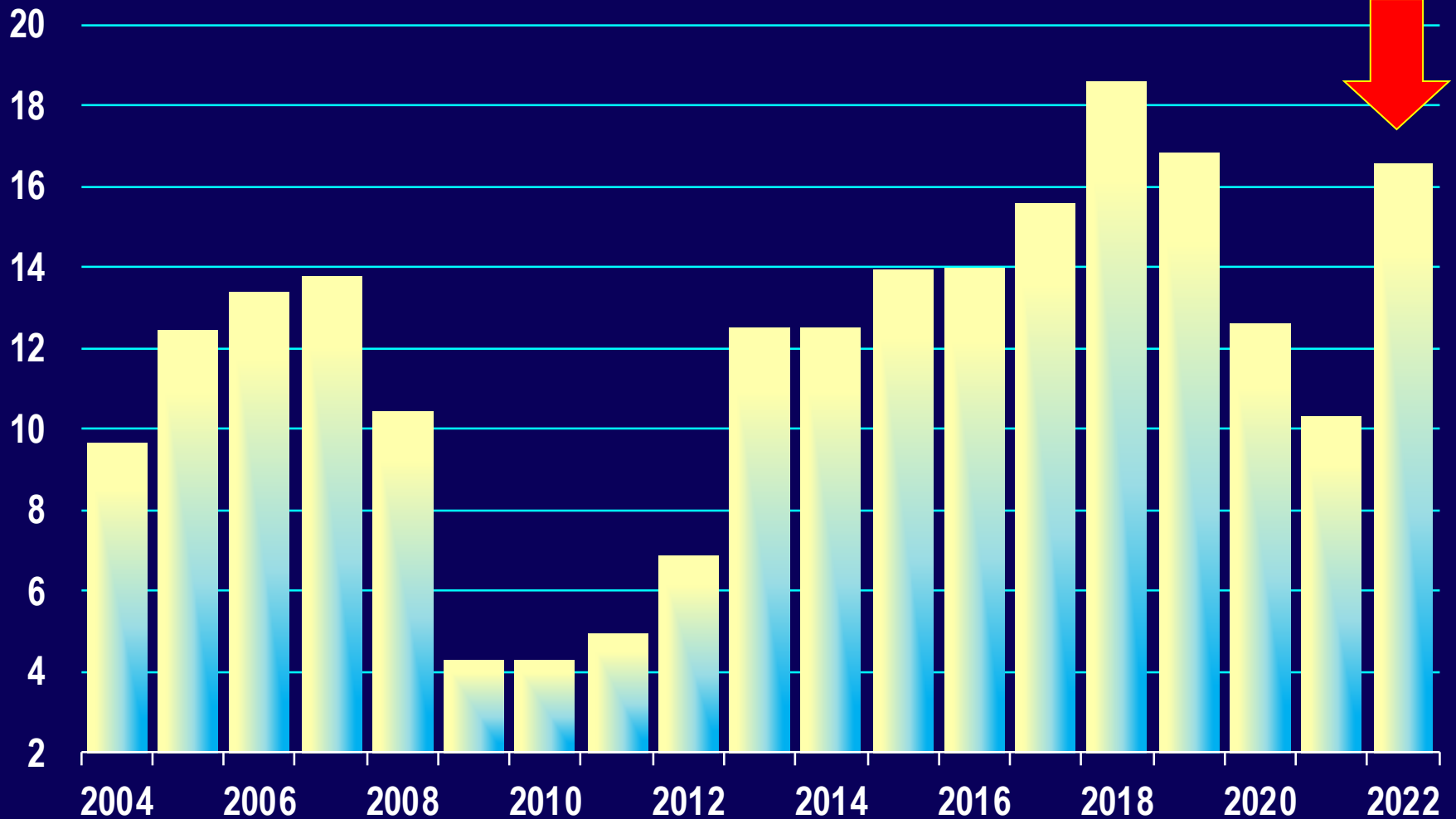
2005 2007 2009 2011 2013 2015 2017 2019 2021 2023



# Investment in New Commercial & Industrial Structures / California

billions of  
dollars

2003 - 2022



# Largest New Developments

---

- Industrial Centers thru-out Central Valley
  - 15 million SF underway
- 12,000 hotel rooms, LA, Orange, SD, Sac
- Major Infrastructure Projects
  - \$10 B Highway improvements, \$20 B HSR project
  - \$9.3 B BART Silicon Valley tunneling project
- ocV!BE
  - \$4 billion mega-development in Anaheim
  - Approved by the City last September
  - To break ground this year, and be completed by 2028 Olympics



# ocV!BE



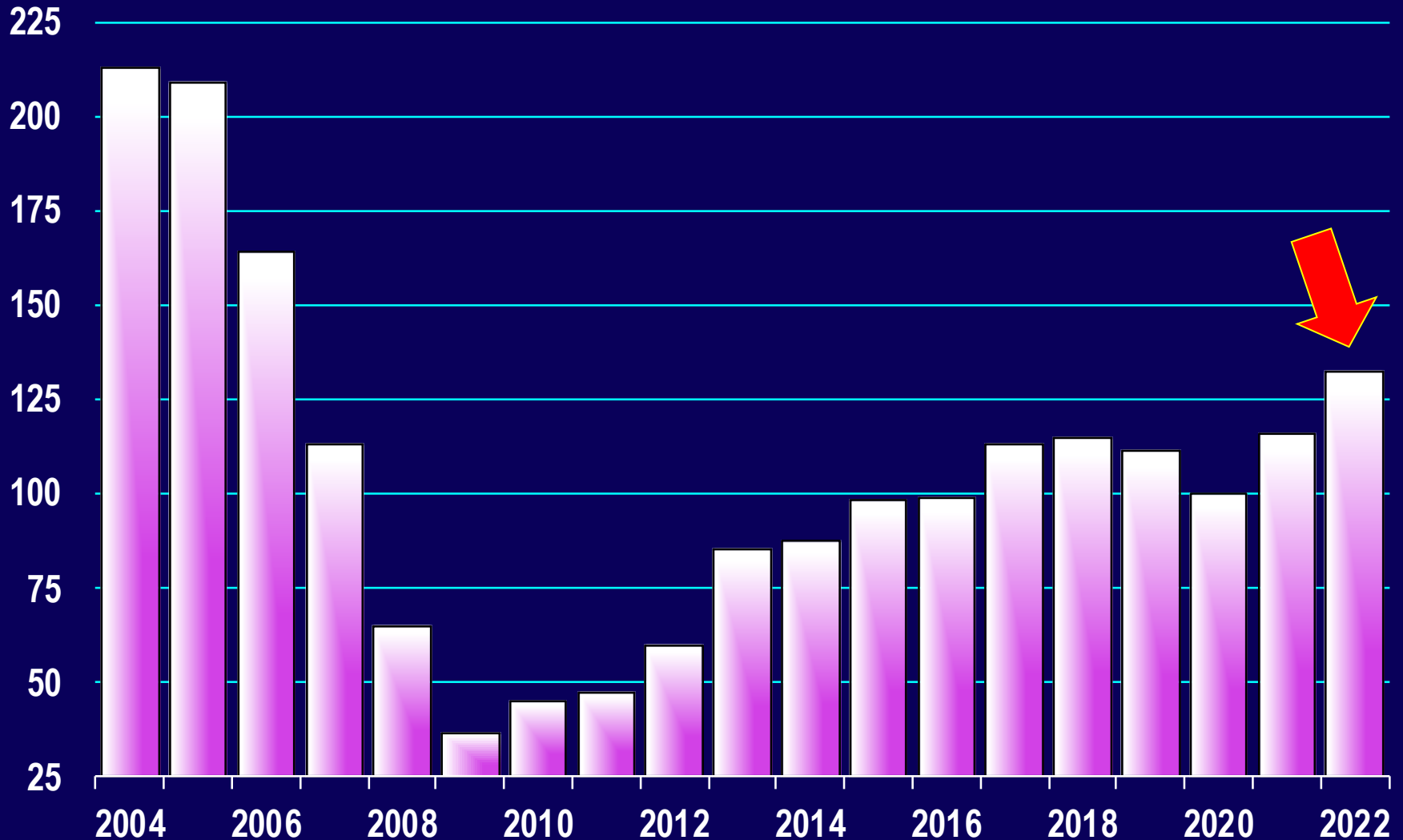
**1,500 homes**  
**550 hotel rooms**  
**1 MSF office**  
**Concert hall**  
**2 parks, parking**



thousands  
of units permitted

# New Housing Production / California

2004 -- 2022

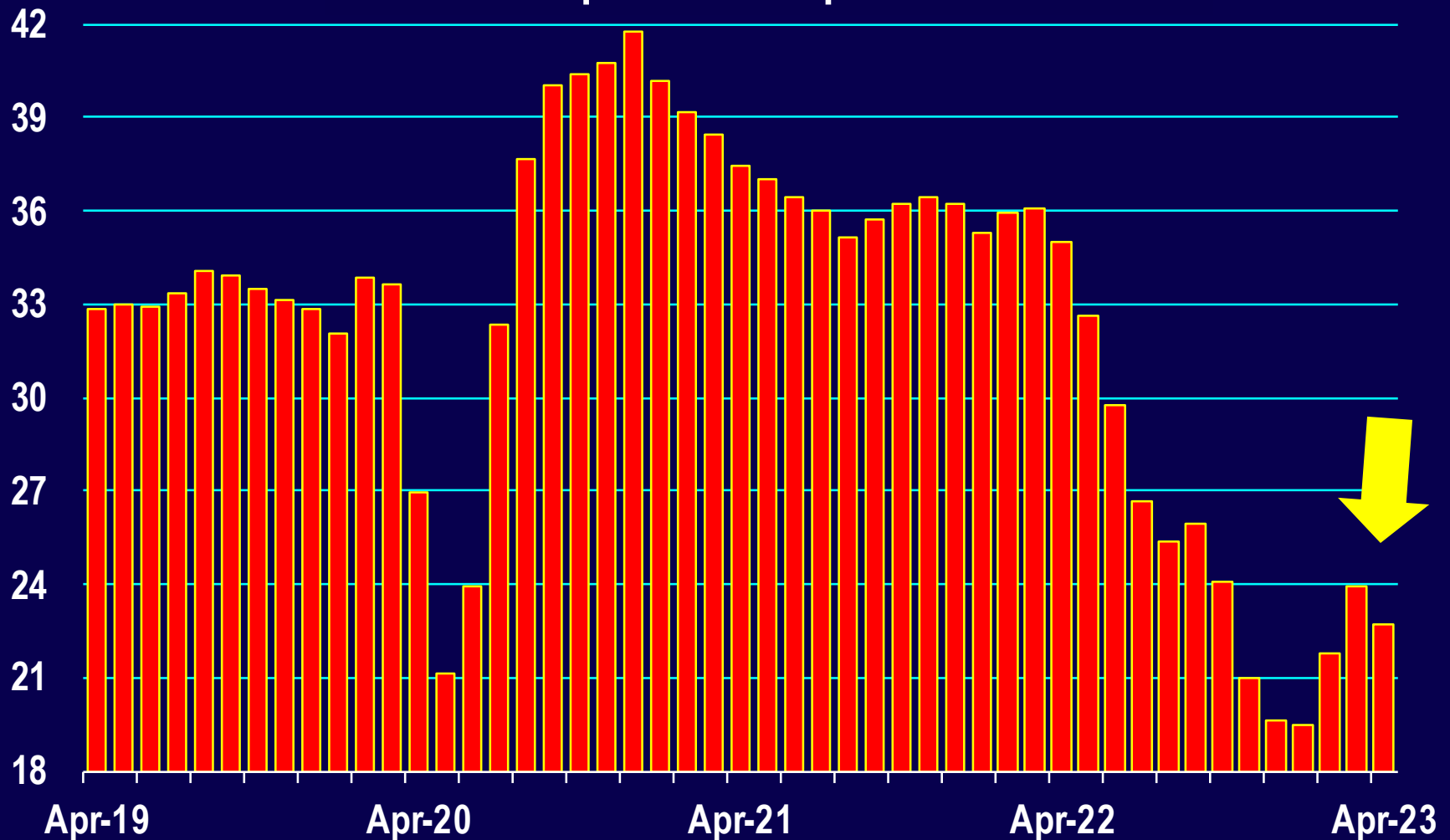


# Existing Home Sales / California

thousands  
of sales

*seasonally adjusted*

April 2019 -- April 2023

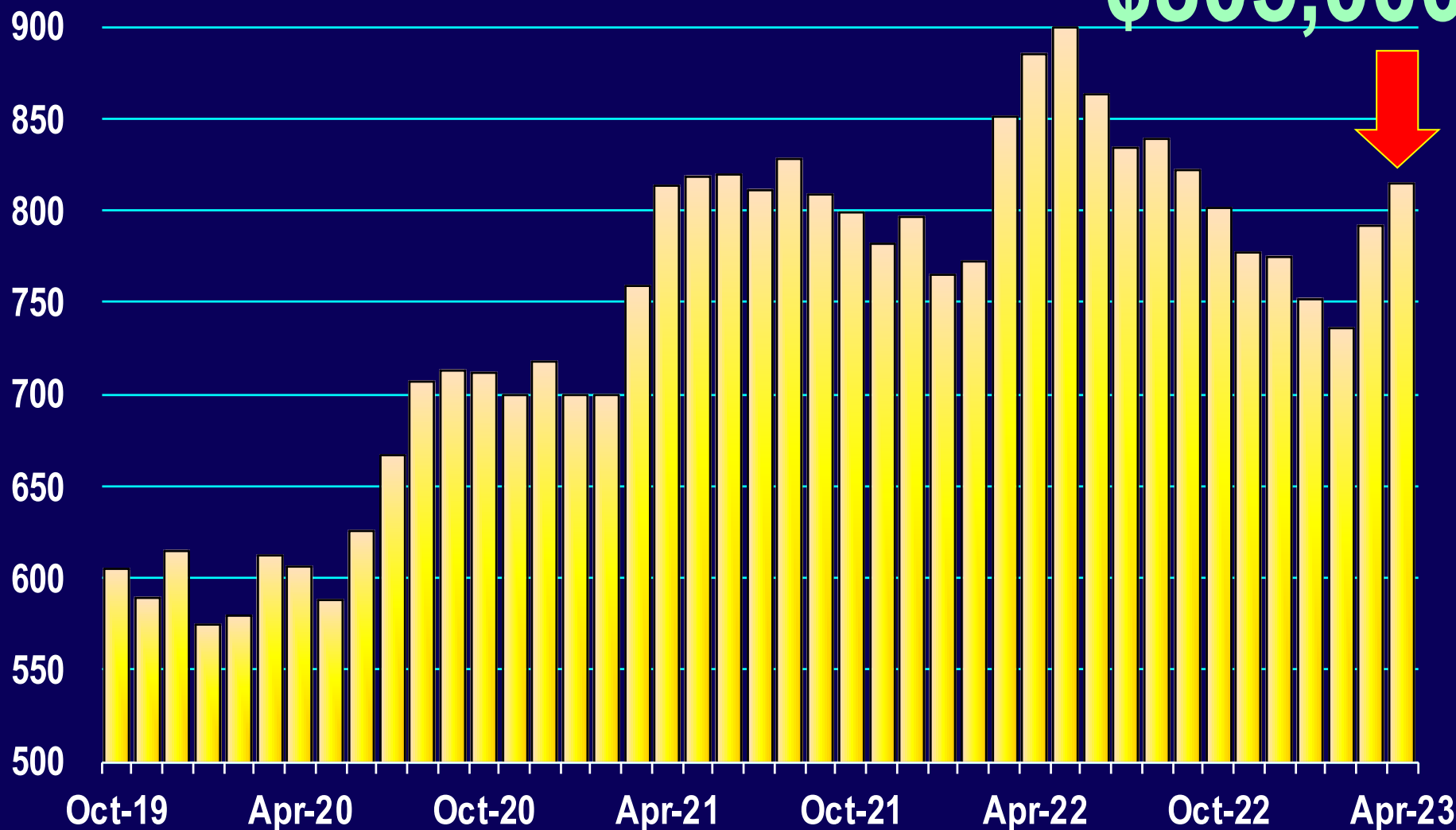


# Median Home Selling Price / California

thousands  
of dollars

October 2019 -- April 2023

**\$805,000**



# Median Sell Prices • April 2023

| <u>California County</u> | <u>Home Sell Value</u> | <u>YOY change</u> |
|--------------------------|------------------------|-------------------|
| Los Angeles              | \$ 738,520             | - 7.9 %           |
| Orange                   | \$ 1,225,000           | - 7.5 %           |
| San Diego                | \$ 930,000             | - 4.6 %           |
| Riverside                | \$ 615,000             | - 2.4 %           |
| San Francisco            | \$ 1,588,000           | - 22.8 %          |
| Santa Clara              | \$ 1,800,000           | - 8.6 %           |
| San Mateo                | \$ 1,970,000           | - 18.0 %          |
| Sacramento               | \$ 515,000             | - 9.7 %           |
| Fresno                   | \$ 413,000             | - 2.8%            |
| Bakersfield              | \$ 375,000             | - 2.6 %           |



# The 2023 Forecast



# ChatGPT: Recession in 2023 ?

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- As an AI language model, I don't have real-time data or the ability to predict future events such as recessions. The likelihood of a recession in 2023 depends on a wide range of factors . . . .  
*blah blah blah . . .*
- To gauge the likelihood of a recession, it's important to monitor key economic indicators such as GDP growth, employment rates, inflation, consumer spending, and business investment.

# ChatGPT: Recession in 2023 ?

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- These indicators, along with expert analysis and forecasts from economists, can provide insights into the state of the economy and the potential risks of a recession.
- I would recommend consulting up-to-date economic reports and analysis from reputable sources such as international financial organizations, central banks, and economic research institutions to get a better understanding of the current economic climate and any potential recession risks in 2023.

# The 2023 Forecast

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- There is little reason to believe a severe or protracted downturn is in the cards
- GDP growth: 0 to 2.0 percent in 2023 Q2
- Baseline scenario is for a “Slowcession”
- Actually there are two scenarios: **Recession** and **No recession**
  - **Recession** hits in Q3, continues through 2024 Q1
  - **No Recession** still has growth less at than 1.0 percent
- Inflation continues decelerating; no relapse expected
- No bubble-like bursting scenario for home values

# The 2023 Forecast

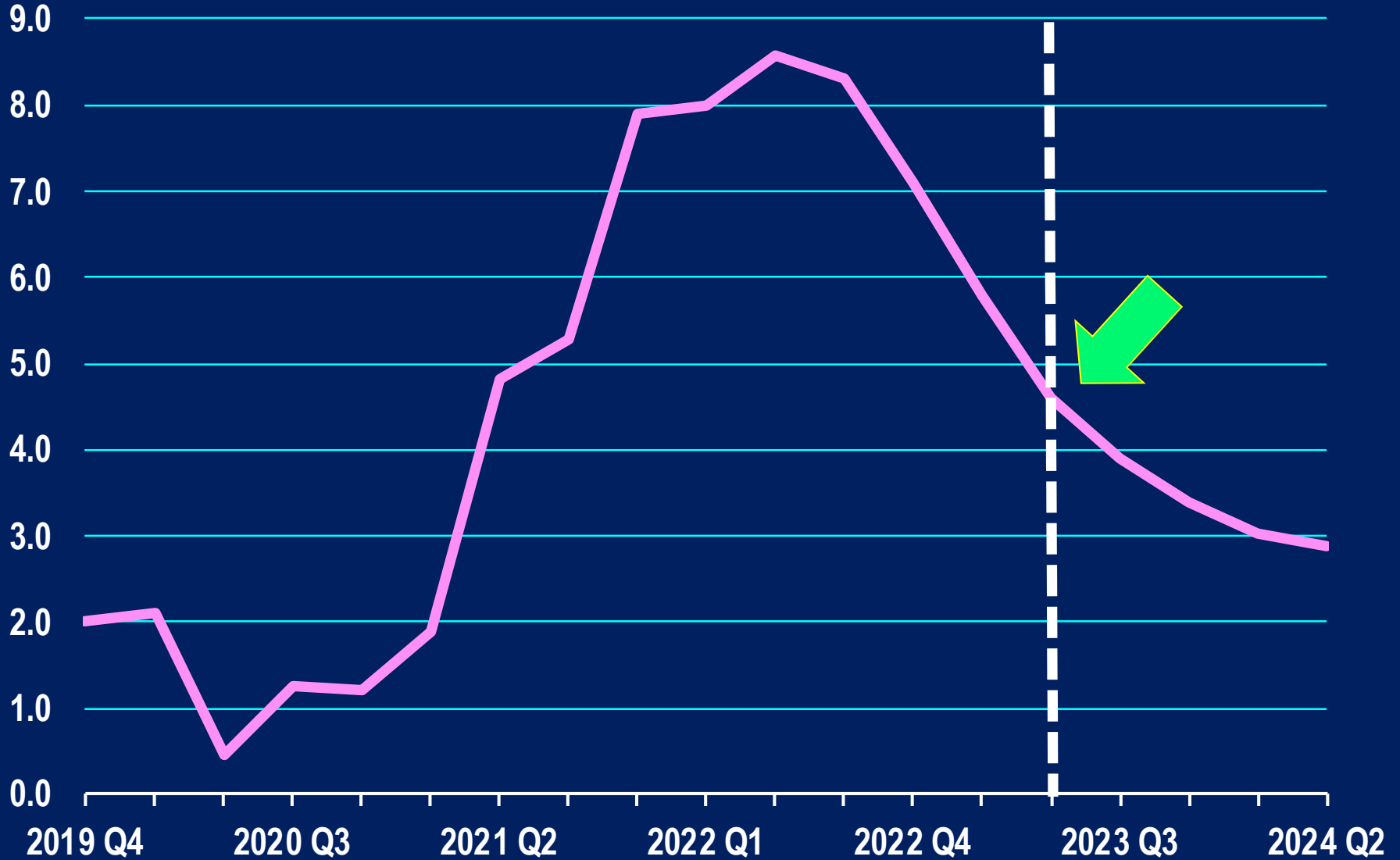
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- Banking failures have been largely contained
  - *But the environment of credit tightening that has resulted, is reducing loan demand which will clearly stunt business growth*
- Job market will continue to soften with a rising rate of unemployment
- But because population is declining in California, the labor force represents a limiting factor to both job creation and job loss

# Inflation / U.S.

2019 Q4 - 2024 Q2

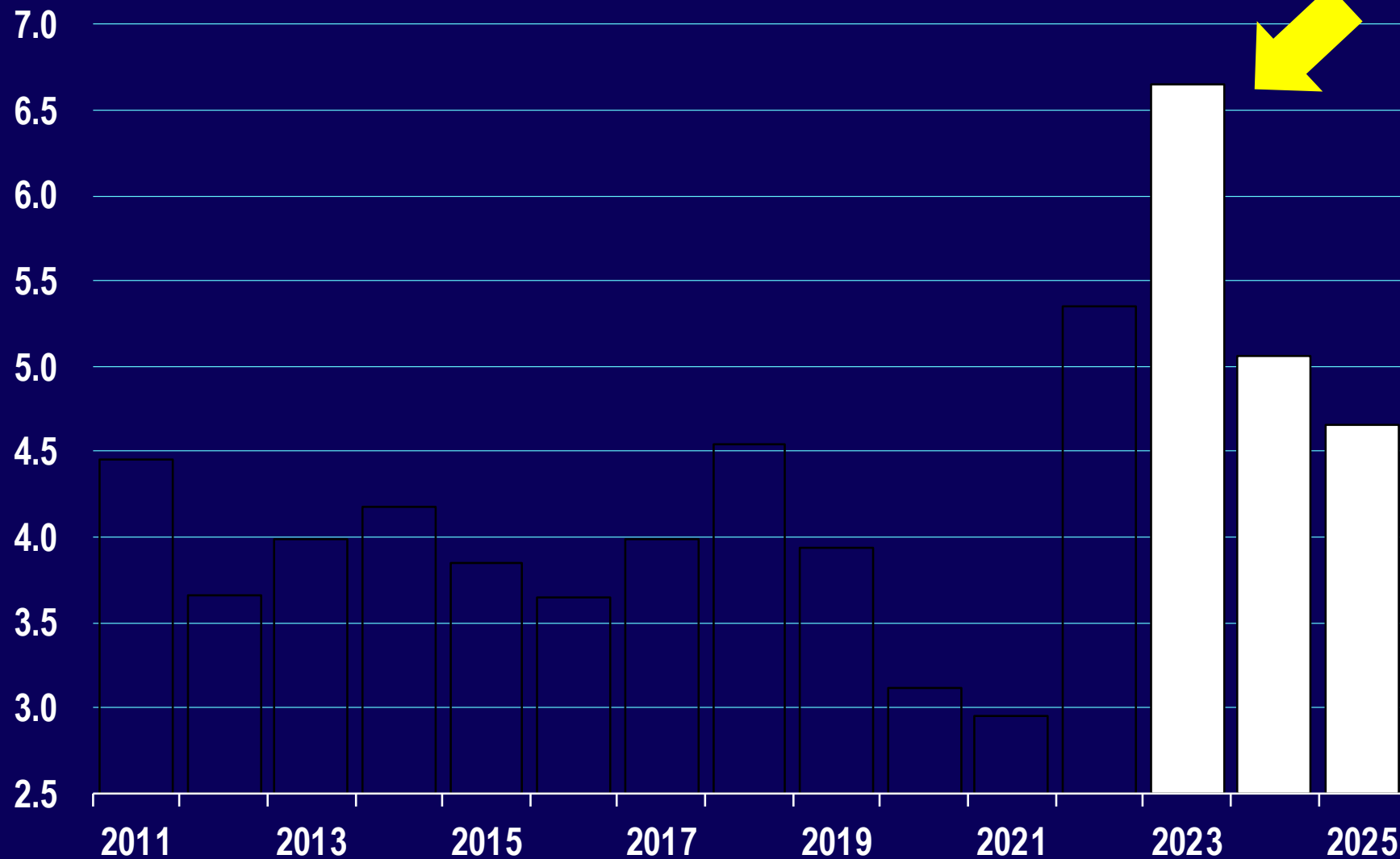
percent



# Conventional 30 Year Fixed Mortgage Rate

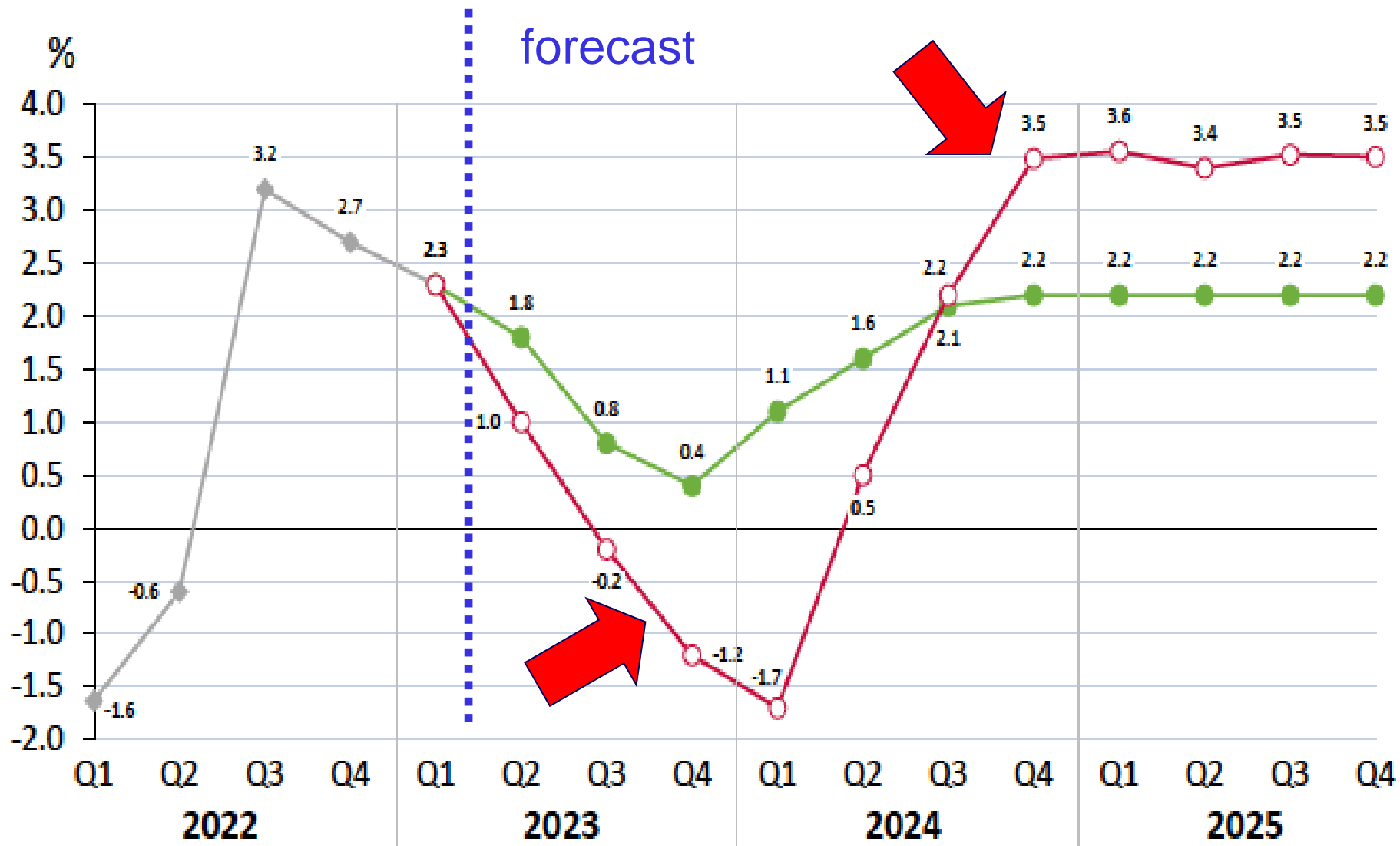
percent

2011 - 2025



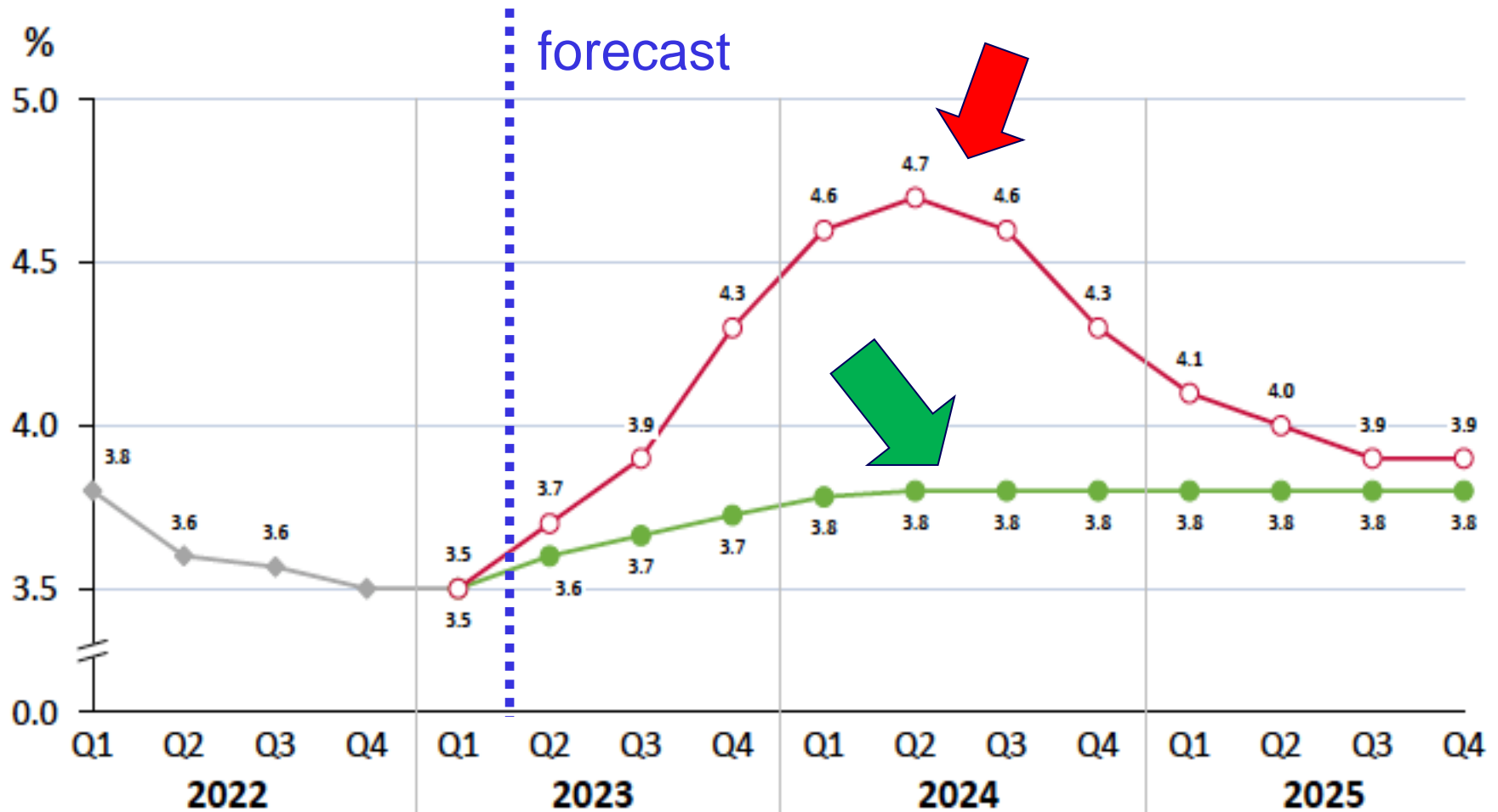
# Quarterly Real GDP Growth

## Annual rates





# Unemployment Rate



# California Forecast Summary

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- Labor markets remain largely utilized
- No bubble in residential resale market
- Continued net out-migration is probable
- Layoff risk rises over next 6 months
  - But layoff numbers will not seriously increase
- New development surge continues with infrastructure, industrial & mixed use projects
- Housing production off in 2023, but rebounds in 2024 and 2025

# Why California escapes the worst

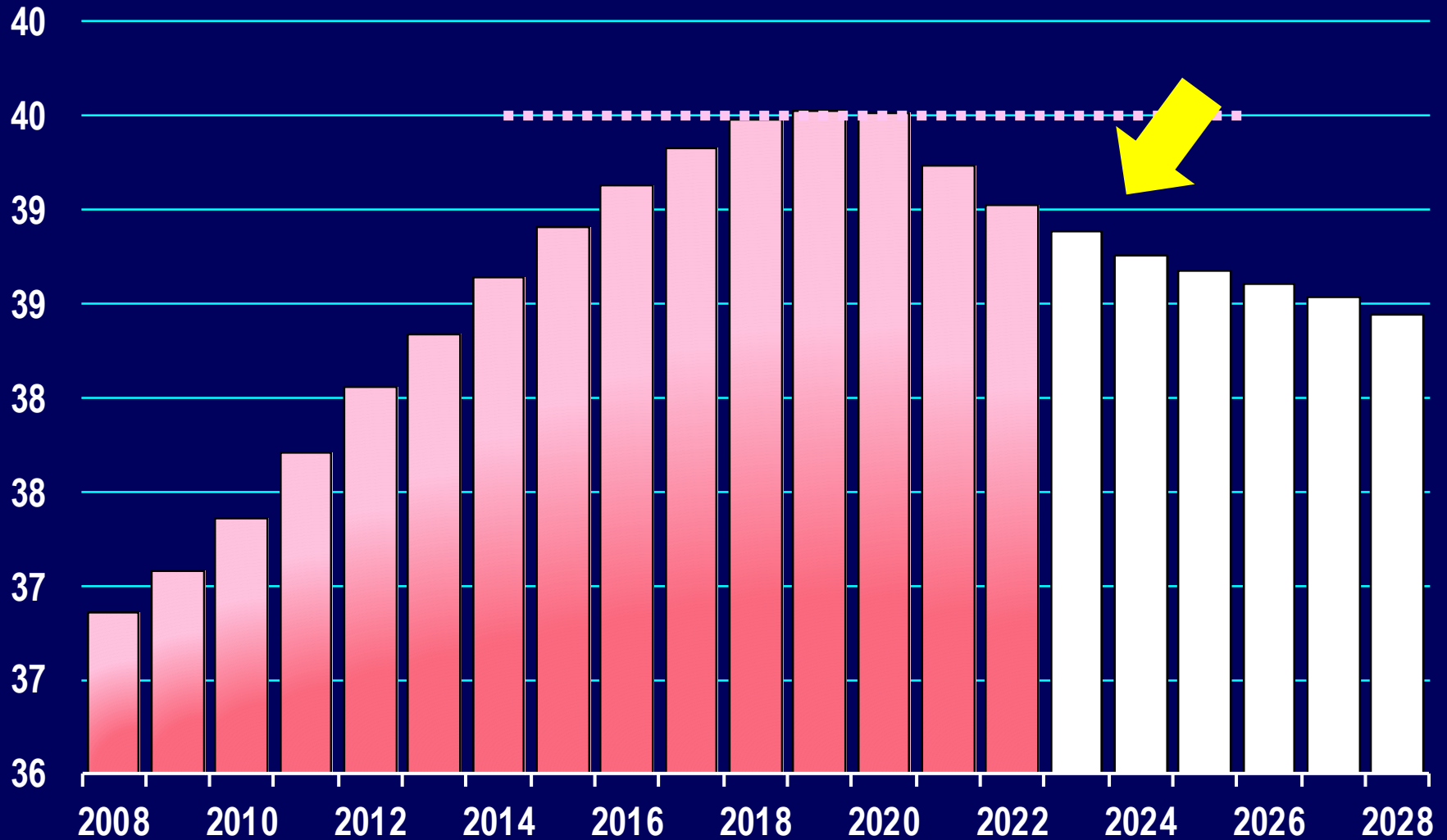
---

- China reopens, tourists expected to flood California
- Superior growth in Advanced Mfg, due to high concentrations of computer boards, aerospace
- The tech sector appears to be turning around
- New development has not collapsed
  - Industrial demand and housing still demonstrating surprising growth amid slowdown and high rates
- Logistics will return after Port strike is resolved
- State of California --- big rainy day fund

millions  
of people

# Popualtion / California

2008 -- 2028



# Downside Risks

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- Inflation that stubbornly remains sticky
  - Leading the Fed to raise rates another time
- Credit tightening restricts lending and growth
- Which more dramatically impacts job market
- Geo-Political events impede European growth
  - Or worse yet, cause a spike in energy prices
  - Other international flare-ups like China & Taiwan
- Any combination of these risks then impact labor
- A relapse of financial markets

**Thank You**

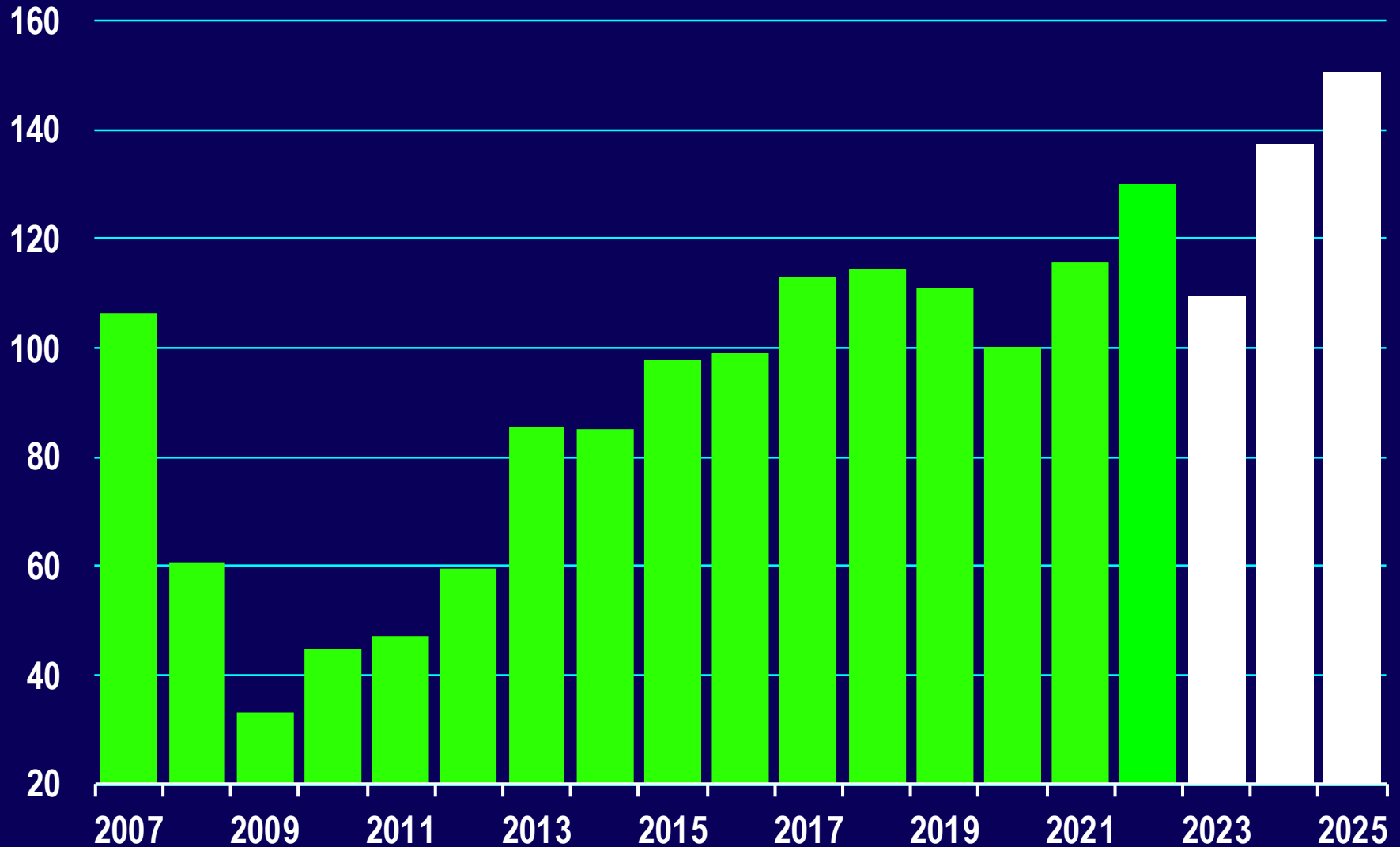
**The Scary Issues  
of 2023**

**June 6, 2023**

thousands  
of units

# New Residential Units / California

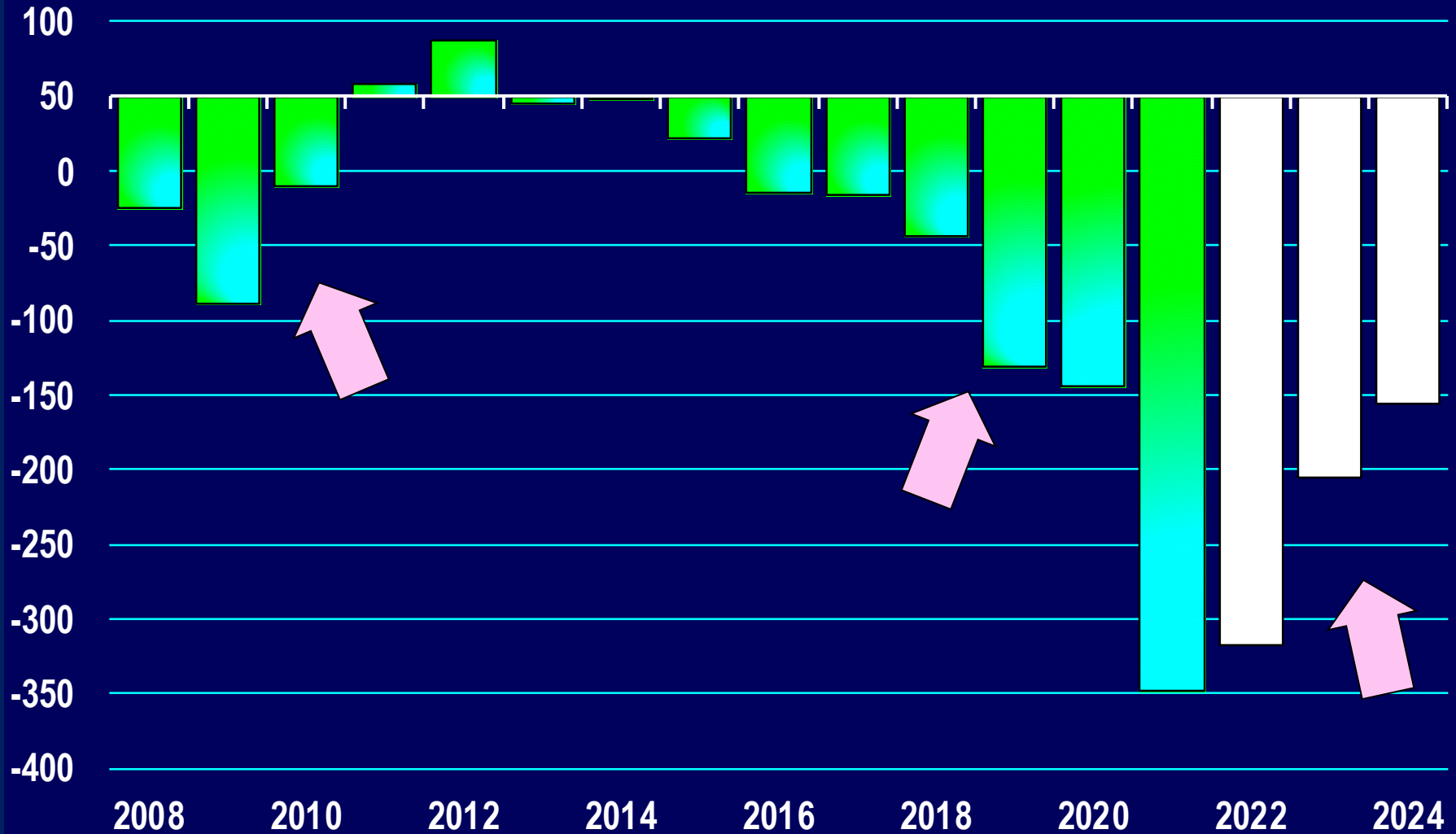
2007 - 2025



thousands  
of people

# Net In-migrating Population / California

2008 -- 2025





# What are the risks?



# Median Home Selling Price / Orange County

thousands  
of dollars

April 2019 -- April 2023

1,300

1,200

1,100

1,000

900

800

700

- 15 percent  
+ 12 percent

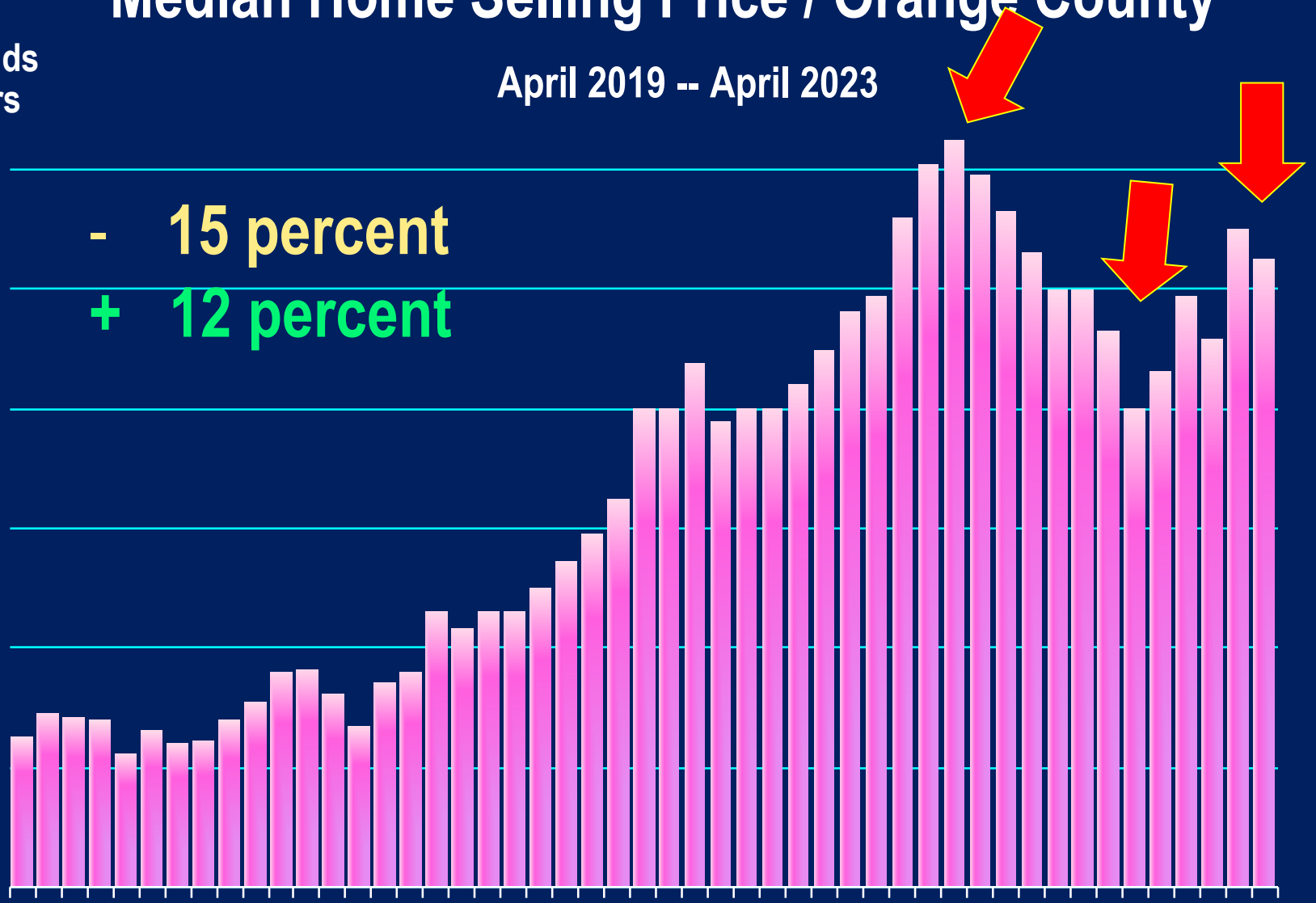
Apr-19

Apr-20

Apr-21

Apr-22

Apr-23



# Weekly 30 Year Fixed Rate Mortgage

June 4, 2020 -- May 18, 2023

rate

7.0

6.5

6.0

5.5

5.0

4.5

4.0

3.5

3.0

2.5

Jun-20

Oct-20

Feb-21

Jun-21

Sep-21

Jan-22

May-22

Sep-22

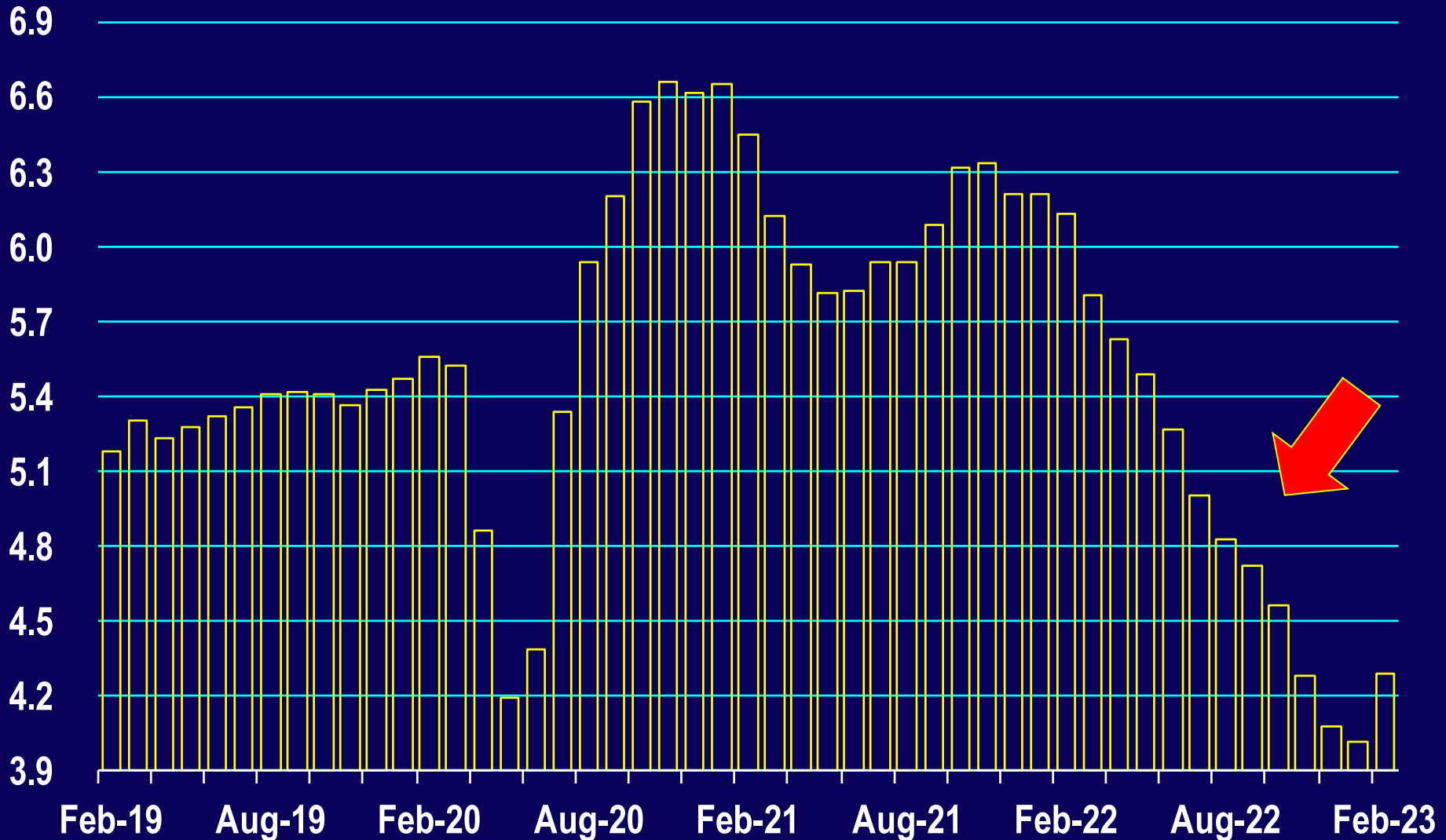
Jan-23

May-23

# Existing Home Sales / U.S.

millions of  
sales, SAAR

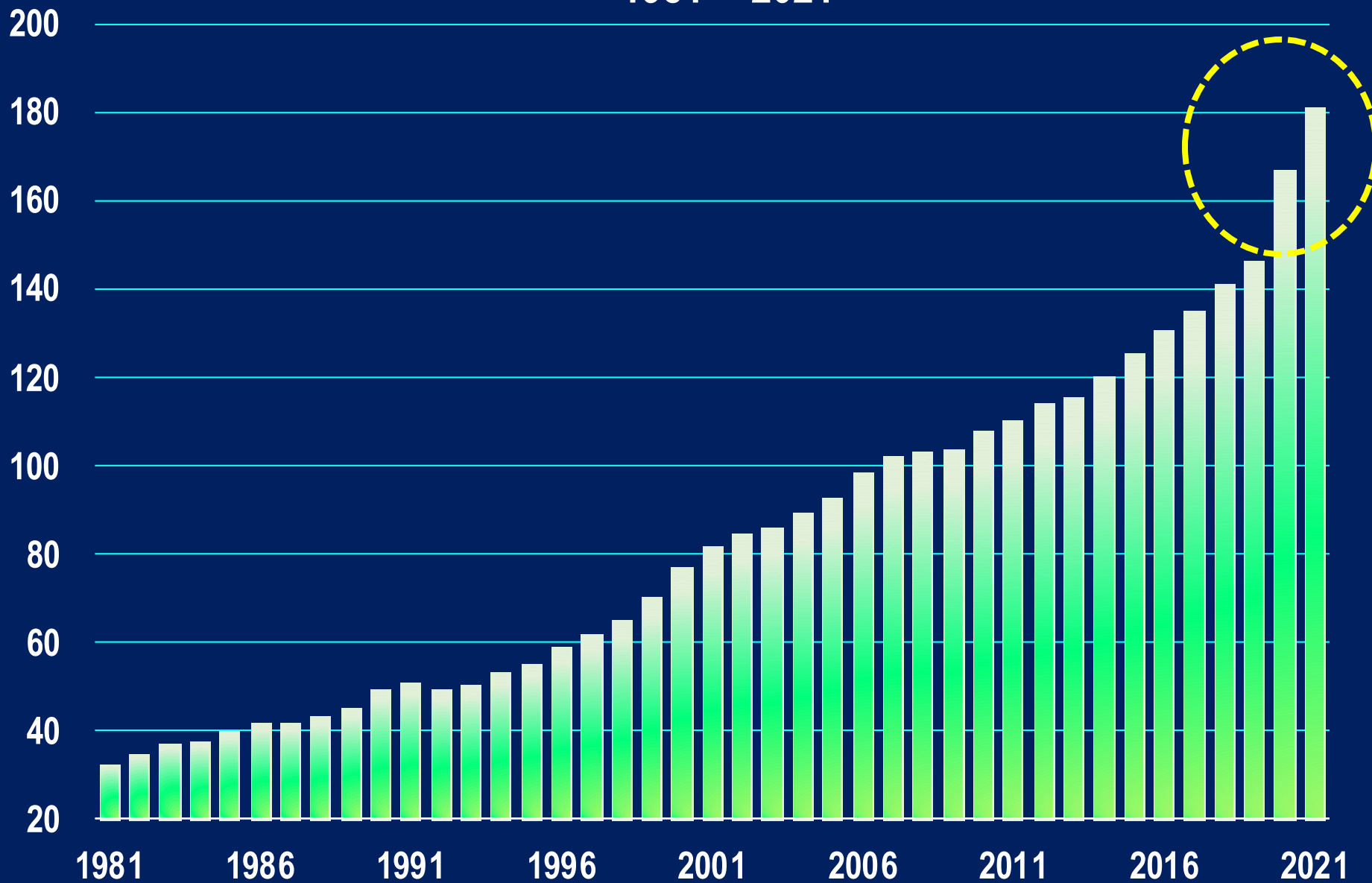
February 2019 -- February 2023

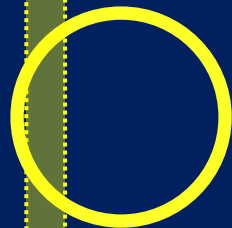
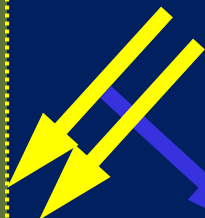
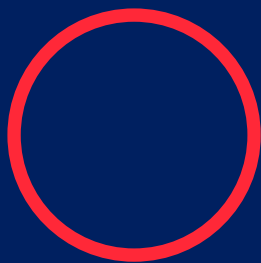


billions  
of dollars

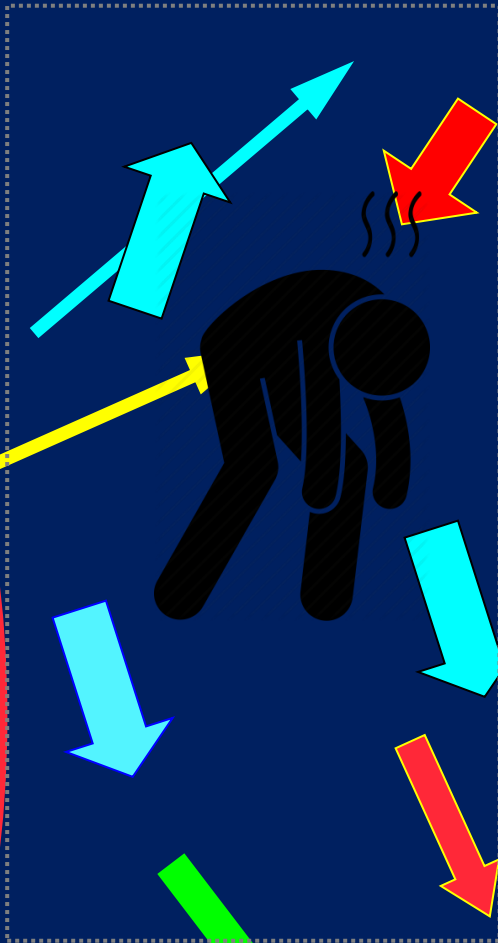
# Alcohol Sales / U.S.

1981 -- 2021

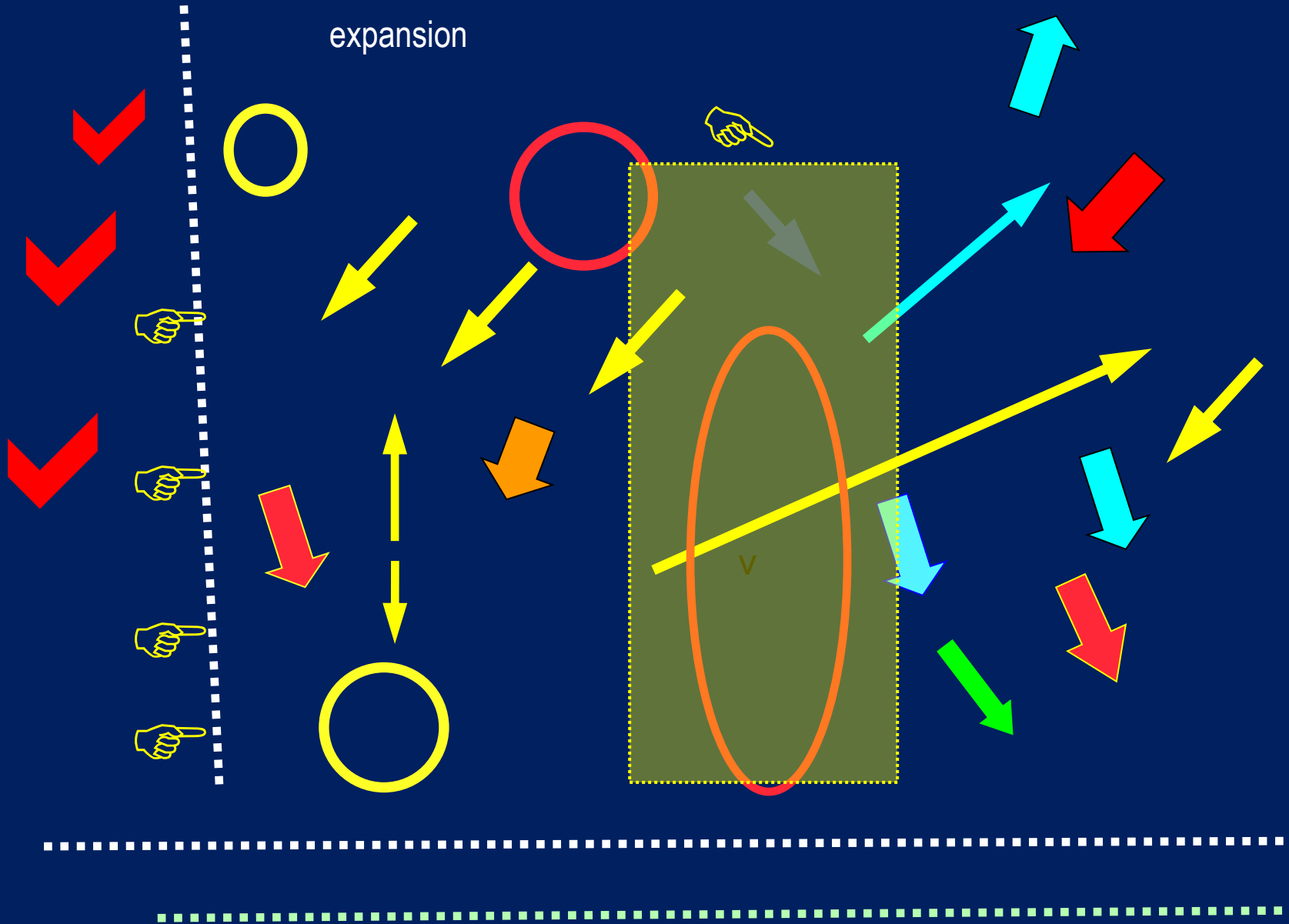




expansion  
expansion



expansion



## Quiz 4: How can you personally avert a possible banking crisis ?

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- ☐ I can withdraw my life's savings from my bank
- ☐ I can convert to Bitcoin and other cryptos . . . .  
 . . . . and hope for the best
- ☐ I can open an account in a
- ☐ 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



# The End of the Dollar ?

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- The dollar's been the main currency of exchange for global trade and commerce since 1944
  - ~ 50% global transactions; all oil transactions
- Foreign Banks buy U.S. T-Bonds to keep in reserves
- U.S. Gov't can therefore easily borrow more money than any other country
- Now China is paying Russia, Saudi in Yuan
  - ~ and is pushing the BRICS countries to replace the dollar in all trade between them

# The End of the Dollar ?

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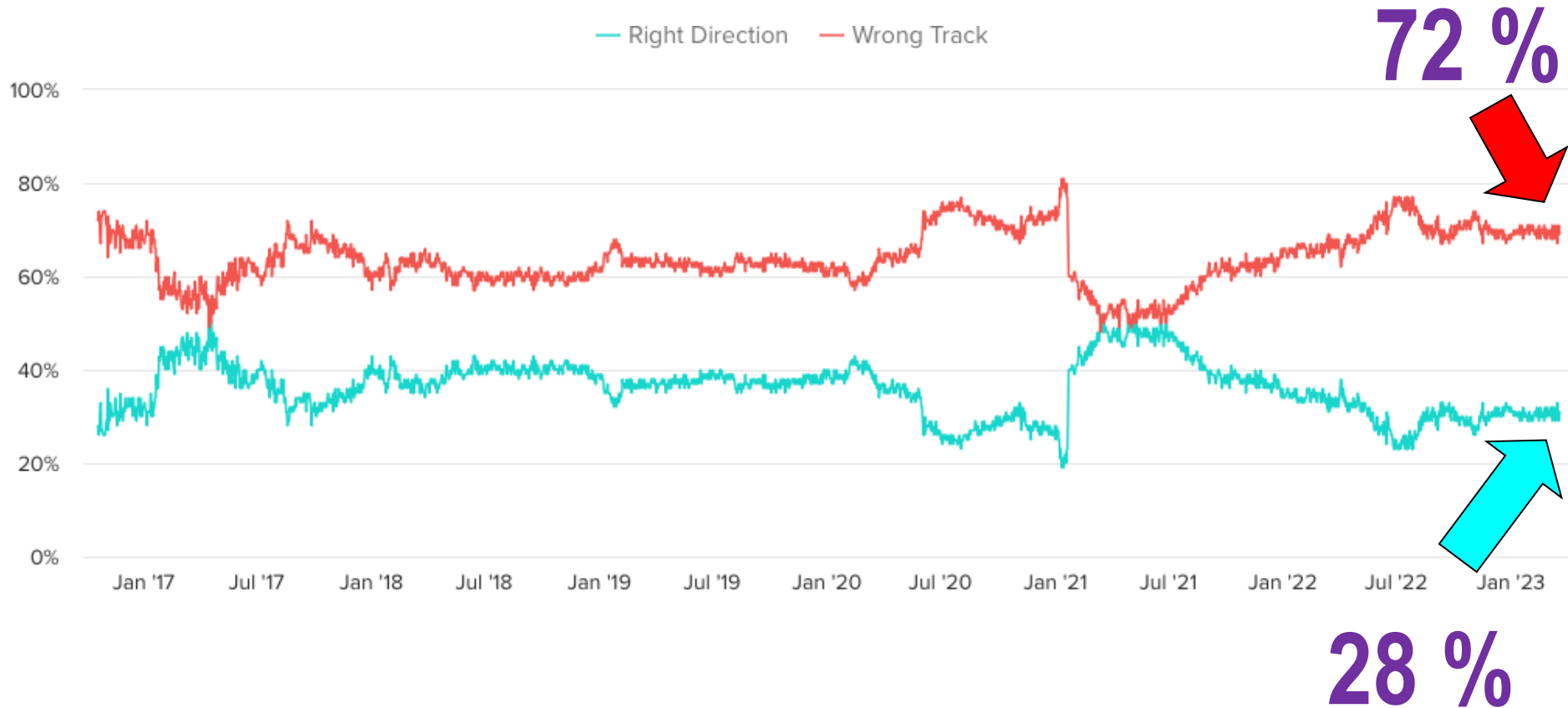
- Will the dollar be replaced entirely by a new reserve currency ?
- Unlikely . . . and probably for years
- Certainly not the Yuan – it is controlled, manipulated
- Not the ruble, Not the rupee, Not even the EURO
  - ~ the dollar is still the best option in a bad neighborhood of currencies
  - ~ it accounts for 60% of global reserves; the Euro, 19%, the Yen, 5.3%

# The End of the Dollar ?

- The dollar is too popular
- Over time, the U.S. maintains a strong economy
- Inflation is typically held in check
- The political system enforces contracts and law
- The military is strong engendering widespread global confidence
- But many of these attributes have weakened over the last two years . . . .
  - ~ hence the fears of the demise of the Dollar as the world's reserve currency

# Right Direction / Wrong Track

## Morning Consult



**Morning Consult, May 29, 2023**

<https://morningconsult.com/right-direction-wrong-track/>