US Economic Update

Marin County Dept of Education Property Tax Forum

May 2, 2023
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Executive Director, NEED

Outline

• The U.S. Economy
• Inflation/The Fed/Banks
• The Debt Ceiling
• The Budget
The U.S. Economy

Headline:

G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- A key measure of economic output fell for the second straight quarter, fanning fears that the United States could be sliding into a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

Last July
GDP: Quarterly Growth

GDP Trajectory: Pandemic Plunge!

GDP is:
- $0.4 Trillion below 2019 forecast.
- $0.6 Trillion ABOVE 2019-Q4 level.

Source: Bureau of Economic Analysis. Projected GDP is a continuation of the 2011-2019 trend. Graph by: National Economic Education Delegation (www.NEDElegation.org)
**Monthly Changes in Nonfarm Employment**

**Total Nonfarm Payrolls**

- **February:** 326,000
- **March:** 236,000

**Employment Gap**

- 5.0 Million BELOW where we should be.

**Graphs and Source Notes:**
- Graph by: National Economic Education Delegation (www.NEDElegation.org)
Where Have All the Workers Gone?

2.6 million below where we should be

Labor Market Experience: Marin County

Employment Growth in Marin County, CA

Labor Force Growth in Marin County, CA

Produced by: National Economic Education Delegation (www.NEDElegation.org)
www.NEEDEcon.org/LocalGraphs

For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.

Inflation
Inflation: Latest Figures

Source: NYTimes.com, Bureau of Labor Statistics

Inflation in the Last 6 Months – Less Than 4%

Monthly Price Changes: Moving Averages of the CPI

Source: U.S. Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEEDelegation.org)
Food Prices Are Coming Down

Annual Price Changes: Food

- CPI
- Food

Monthly, through Mar-23

Source: U.S. Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEDElegation.org)

As Are Fuel Prices

Annual Price Changes: Fuel

- CPI
- Cost of Fuel

Monthly, through Mar-23

Source: U.S. Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEDElegation.org)
Inflation is Not just a U.S. Problem

Year-over-year change in consumer prices in the eurozone

-6
ten
8
-4
ten
6
-2
ten
4
2


Source: Eurostat By The New York Times

Supply Chains

Global Supply Chain Pressure Index

Standard Deviation from Average Value

-3
-2
-1
0
1
2
3
4
5

Jan-00 Jan-05 Jan-10 Jan-15 Jan-20 Jan-25

Monthly, through Mar-23

Source: Federal Reserve Bank of NY. Gray shading indicates recession. Higher values correspond to more pressure on the supply chain. Graph by: National Economic Education Delegation (www.NEDElegation.org)
Import Price Inflation WAS Very High

Import Price Changes: Year over Year

Source: U.S. Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

What’s the Fed Doing About It?
Raising the Federal Funds Rate

Interest Rates are Rising!

Source: Freddie Mac and the Federal Reserve
Graph by: National Economic Education Delegation (www.NEDElegation.org)
Real Estate Prices

Estimated Median Home Value in California

Monthly: Through Mar-23
- California
- United States

Source: Zillow Housing Data. [https://www.zillow.com/research/data/](https://www.zillow.com/research/data/)
Produced by: National Economic Education Delegation (www.NEEDlegation.org)

RE Experiences ... Similar And Not Good

Estimated Median Home Value in San Francisco County, CA

Monthly: Through Mar-23
- San Francisco County
- California
- United States

Source: Zillow Housing Data. [https://www.zillow.com/research/data/](https://www.zillow.com/research/data/)
Produced by: National Economic Education Delegation (www.NEEDlegation.org)

Estimated Median Home Value in Marin County, CA

Monthly: Through Mar-23
- Marin County
- California
- United States

Source: Zillow Housing Data. [https://www.zillow.com/research/data/](https://www.zillow.com/research/data/)
Produced by: National Economic Education Delegation (www.NEEDlegation.org)
Marin’s Home Price Position

<table>
<thead>
<tr>
<th>City</th>
<th>Median Home Value - Mar-23</th>
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<tbody>
<tr>
<td>San Mateo</td>
<td>1,497,976</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>1,462,347</td>
</tr>
<tr>
<td>Marin ***</td>
<td>1,416,752</td>
</tr>
<tr>
<td>San Francisco</td>
<td>1,277,114</td>
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<td>Alameda</td>
<td>1,061,578</td>
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<td>Napa</td>
<td>877,030</td>
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<td>Contra Costa</td>
<td>805,267</td>
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<tr>
<td>Sonoma</td>
<td>772,793</td>
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<tr>
<td>Solano</td>
<td>570,922</td>
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</table>

Home Price Appreciation w/in Marin

- **San Rafael**: 105.4, 92.3
- **Mill Valley**: 102.3, 137.2
- **Marin County *****: 100.0, 100.0
- **Larkspur**: 98.7, 148.0
- **Novato**: 84.1, 74.4
- **Belvedere**: 64.2

Marin Average Home Value in 3/2023: $1,416,752
Marin Average Annual Growth: 6%
Sorted by Ave Annual Growth
Banks...

- Silicon Valley Bank
- Signature Bank
- First Republic Bank

- Rising interest rates are like the tide going out....
  - They expose who is swimming with no clothes on.
  - The tide isn’t completely out.

Existential Threat: Coming This June!
5 Things to Know about the Debt Ceiling

1. The debt limit has been raised continually for more than a century.
2. Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.
3. The uselessness of a debt limit is exhibited by the fact that only one other advanced country—Denmark—has a separate debt limit rule like ours.
4. Now that the debt hit the ceiling, the Treasury Department is using several extraordinary measures to postpone the day of reckoning, but these typically last only a few months.
5. The economic consequences of a large-scale, intentional default are unknown, but predictions range from bad to catastrophic.

Source: https://www.brookings.edu/2023/01/19/7-things-to-know-about-the-debt-limit/

Lessons from 2011

- Government shutdown was very costly:
  - Stock markets plunged (17%).
  - Employment growth stuttered.
  - Treasuries – downgraded credit ratings.
  - Borrowing costs rose.

- The Debt Ceiling may be a very effective bargaining tool, but...
  - It is costly.
  - It is unnecessary.

- Accidental partial default in 1979:
  - increased borrowing costs by $40 Billion!
A Recent Estimate of the Potential Damage:

- Moody’s:
  - Could cost up to 6 million jobs,
  - Drive unemployment up to 9%, and,
  - Wipe out $15 trillion in household wealth.

Countdown to Default

U.S. Treasury Cash Holdings

<table>
<thead>
<tr>
<th>Billions of Current $</th>
<th>Apr/22</th>
<th>Jul/22</th>
<th>Oct/22</th>
<th>Jan/23</th>
<th>Apr/23</th>
<th>Jul/23</th>
</tr>
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<tbody>
<tr>
<td>Jan. 19, 2023 Debt Limit Hit</td>
<td></td>
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<tr>
<td>April 18 Tax Day</td>
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<td></td>
<td>316.4</td>
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Daily: Through 4/28/23

Source: U.S. Department of the Treasury. Graph by: National Economic Education Delegation (www.NEDElegation.org)
California Budget

- Really too soon to tell - tax deferment to October.
- $9B in School fund (PSSSA).
- Prop 98 Funding:

Takeaways

- Is a recession on the horizon?
  - Perhaps, but shallow?
  - Many indicators are still in the black.
    - 2022-Q4 GDP growth was pretty good!

- Threats to continued growth:
  - If inflation starts to rise again, which seems unlikely.
  - Layoff contagion.
  - Broader banking crisis.
  - Borrowing and lending seem to be low and shrinking.
  - Debt ceiling negotiations
    - Significant cuts to government budgets may well result.

- Everything changes with a default on the U.S. debt.
Thank you!

Any Questions?

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