



Economic Outlook 2021

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Overview

- ▶ US – What’s Happening Now
- ▶ California – Acceleration in 2nd Half of 2021
- ▶ Housing – “K-shaped” Trajectory



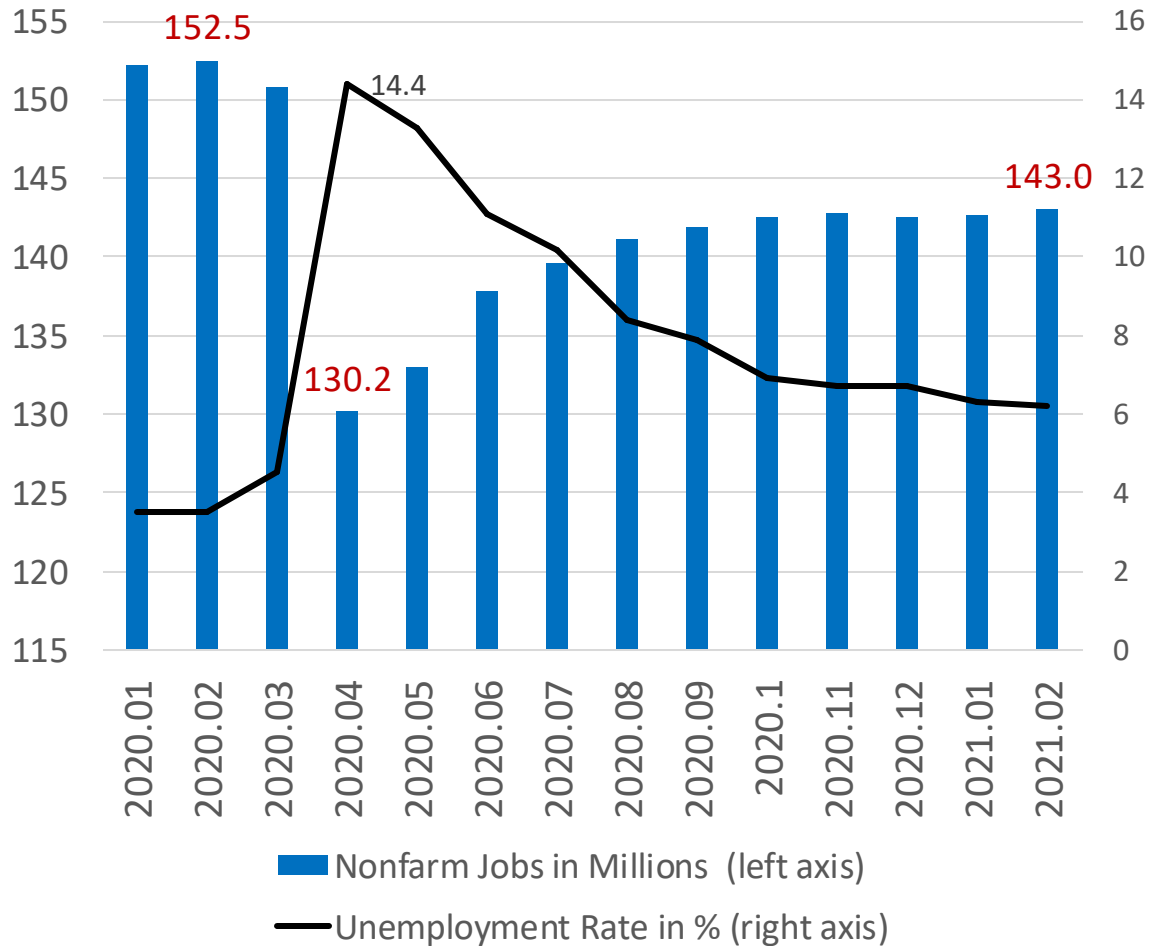
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What's Happening Now...U.S.



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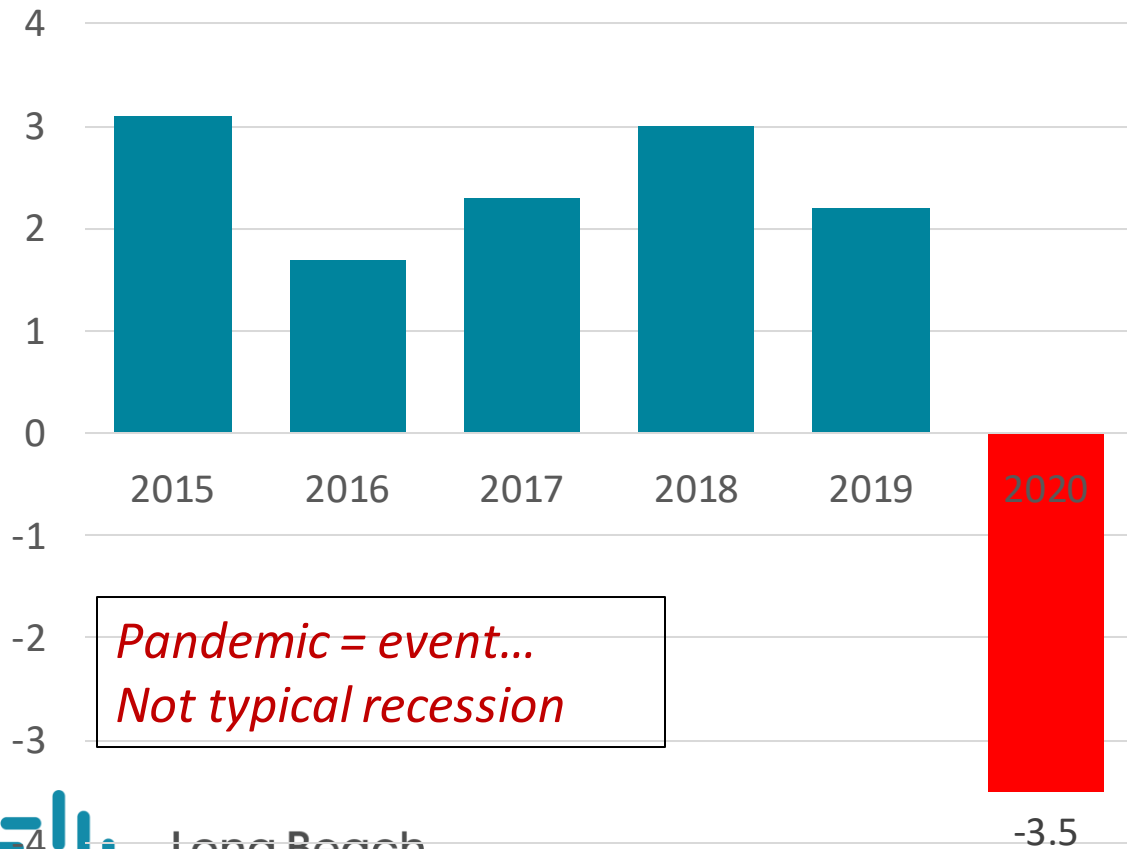
Unemployment Rate Falling Slowly, Job Gains to Accelerate by 2nd Half of 2021



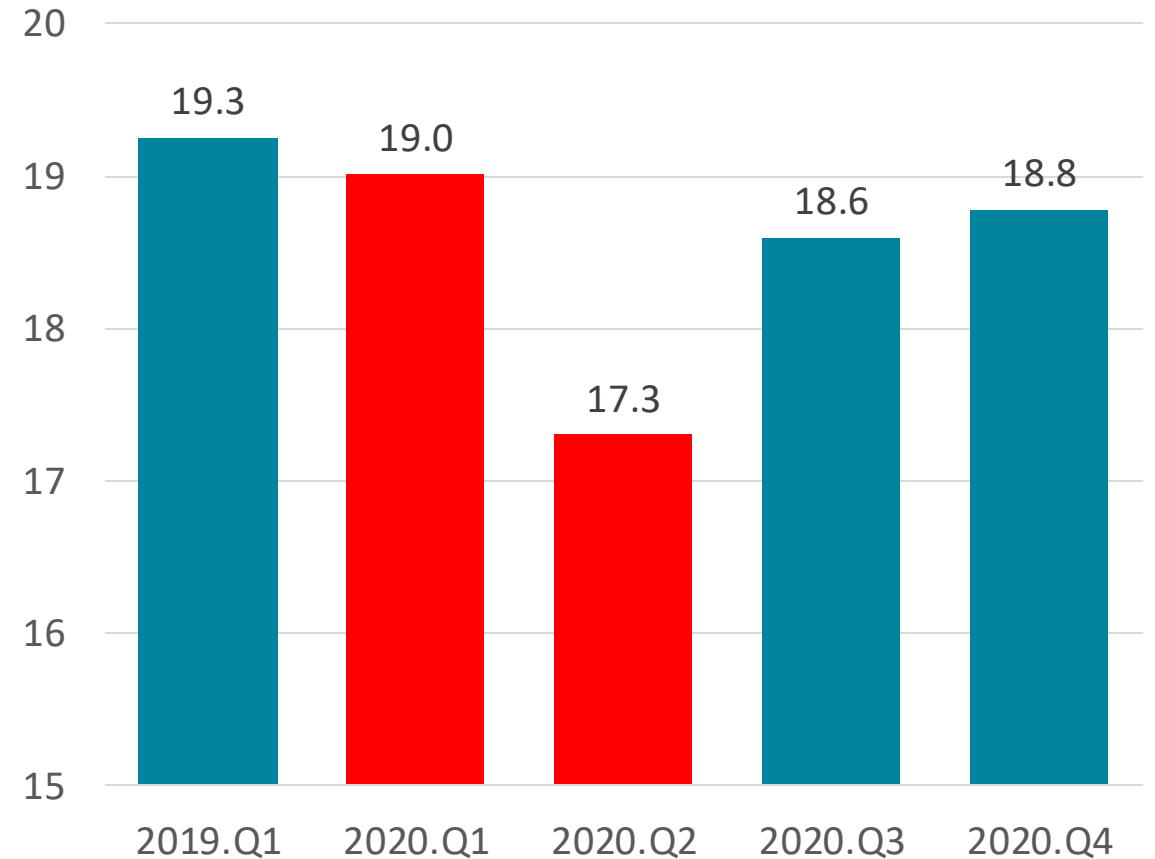
- Contending forces:
 - Pos: Desire to resume activity
 - Neg: Virus containment
- Face-to-face recovering more slowly:
 - Leisure & Hospitality (restaurants, hotels, entertainment)
 - Retail (clothing stores)
 - Other Services (personal care salons, child care, nonprofits)
 - Building services

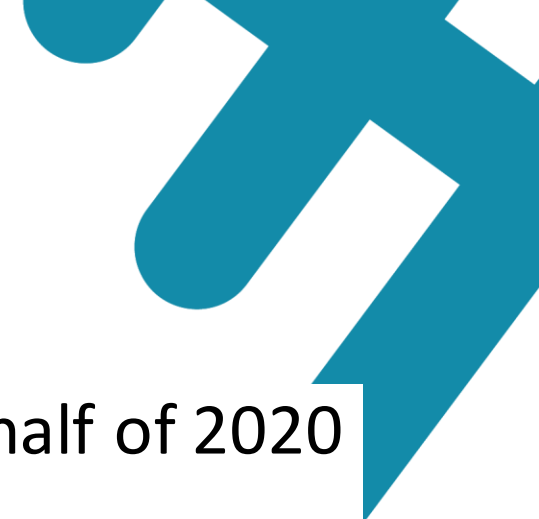
GDP-From Record Expansion to Contraction

GDP Annual Rate



GDP By Quarter (\$T, Annualized)



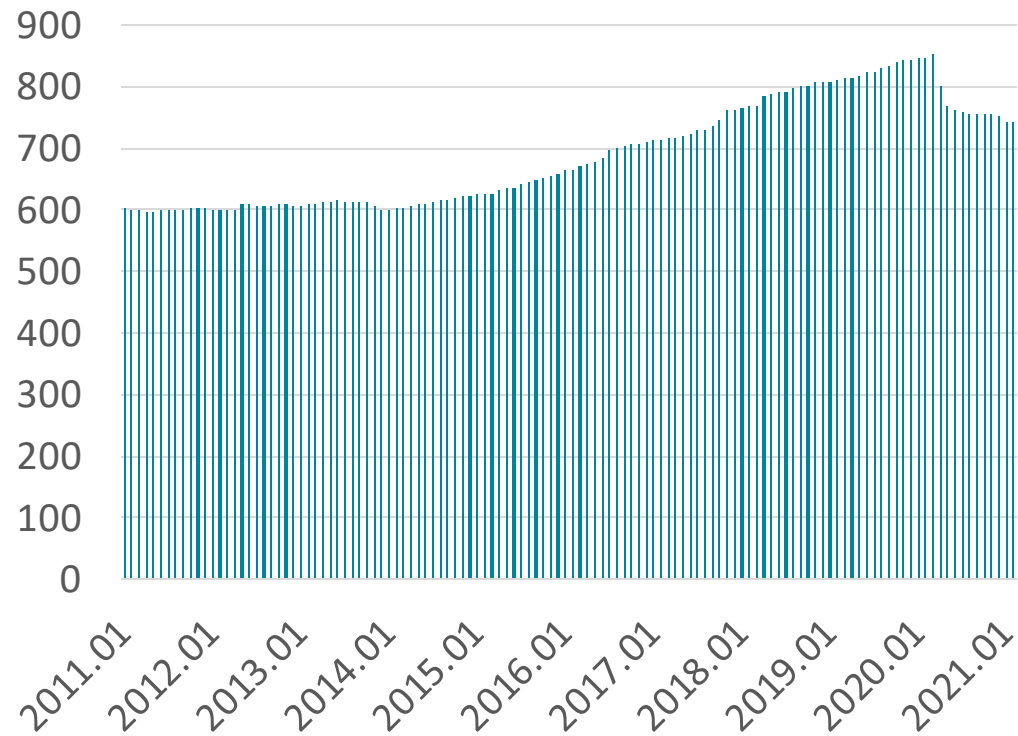


Pandemic Effects and Recovery

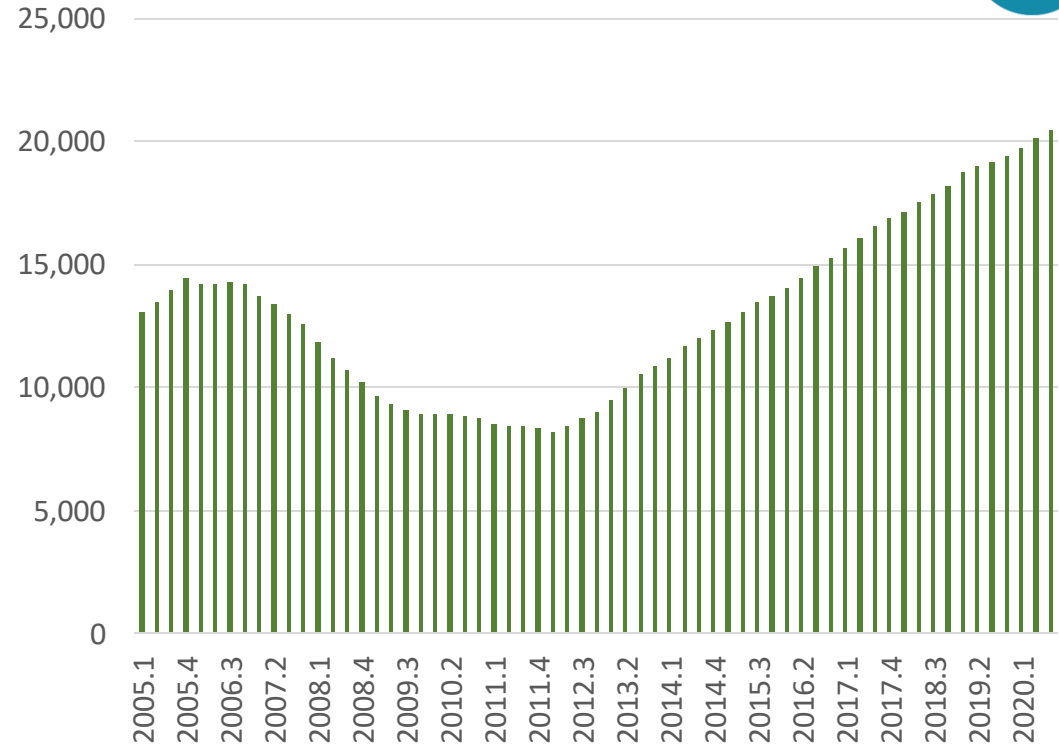
- Largest GDP decrease since 1946, but front-loaded in first half of 2020
- Loss of more than 22 million jobs, 12.5 million recovered to date
- Fastest surge in unemployment rate, but cut by half in months since.
- Three pandemic relief/stimulus packages equate to 30% of US GDP

Consumers are Cautious but Risk is to Upside

Consumer loan balances down (\$B)



Homeowner equity rising (\$B)



This is what pent-up demand looks like...

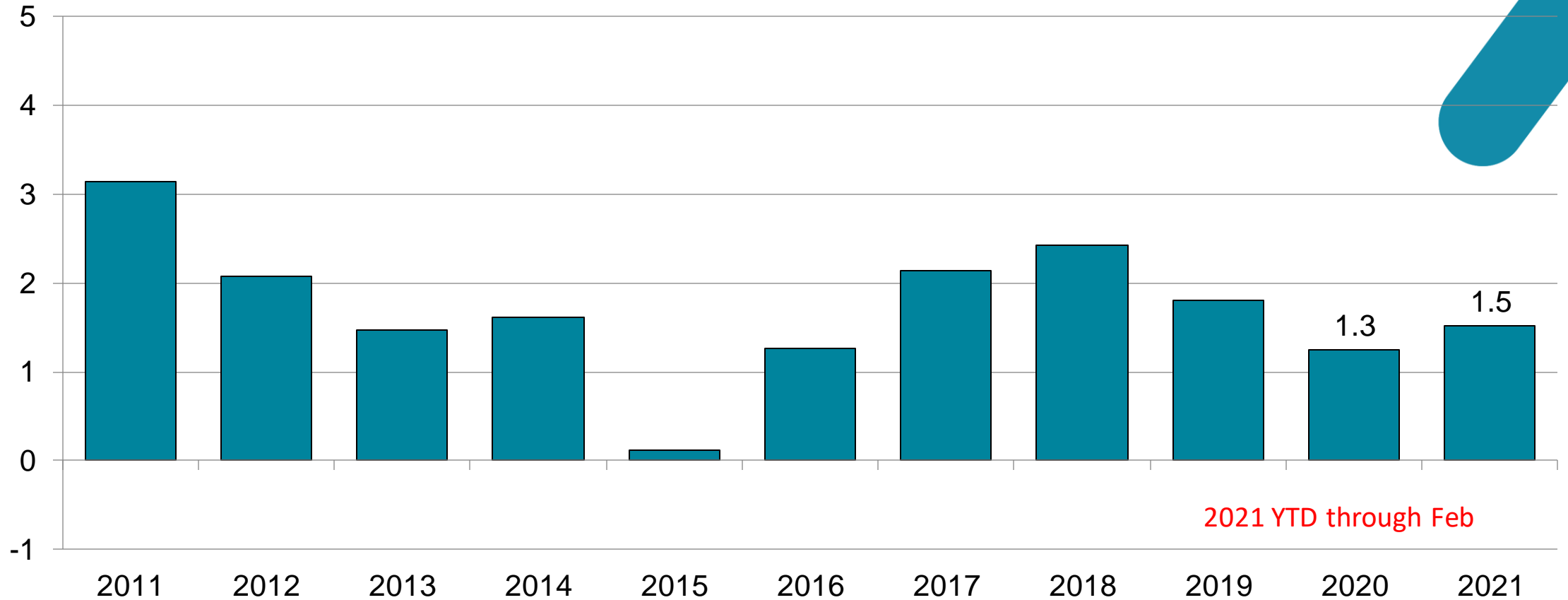


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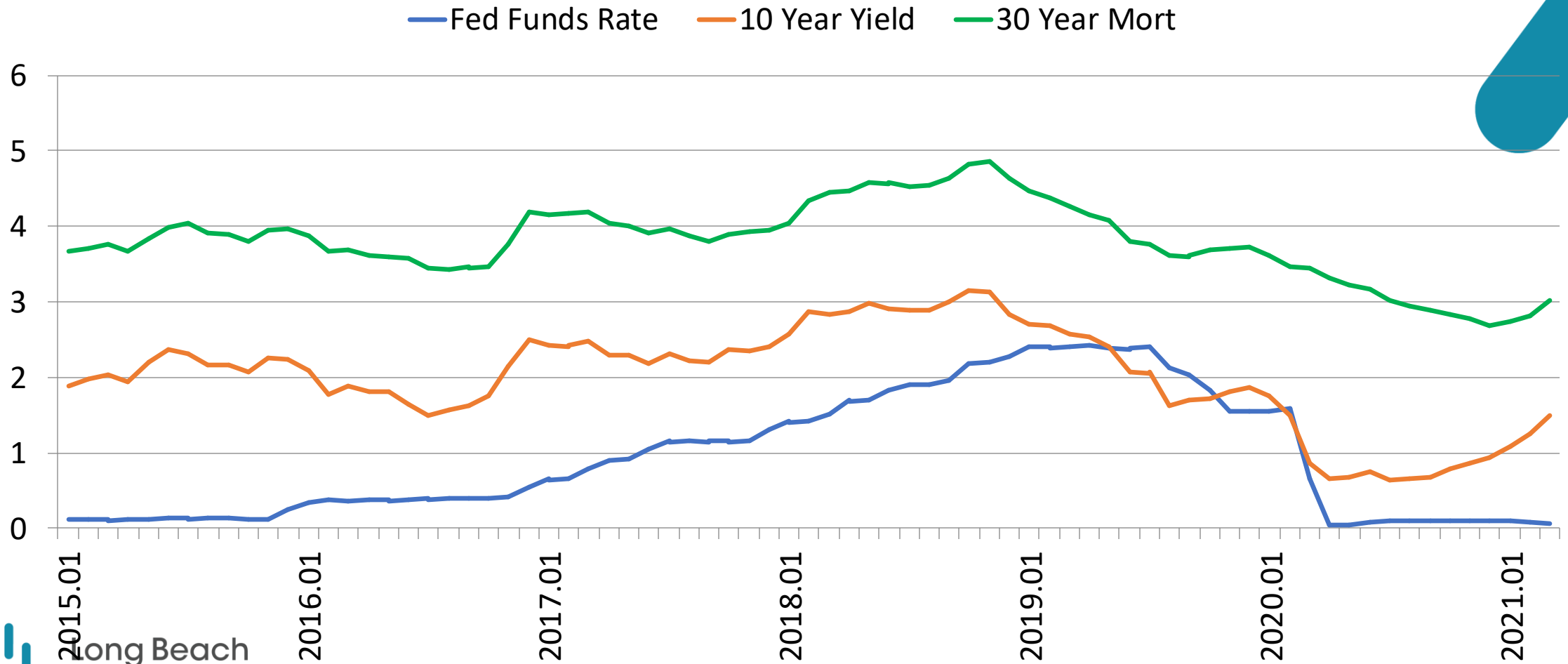
Other Macro Sectors

- Business Investment Spending
 - Q1: - 9.0% QTQ
 - Q2: --46.6%
 - Q3: +86.6%
 - Q4: +25.3%
- International Trade
 - Exports: +22% in Q4, slower recovery among trade partners
 - Imports: +29% in Q4, up due to gains in US income
 - POLB and POLA reported record highs for 2020
- Government – trillion-dollar federal deficits through end of decade

Inflation Low, 2.0-2.5% Expected in 2021

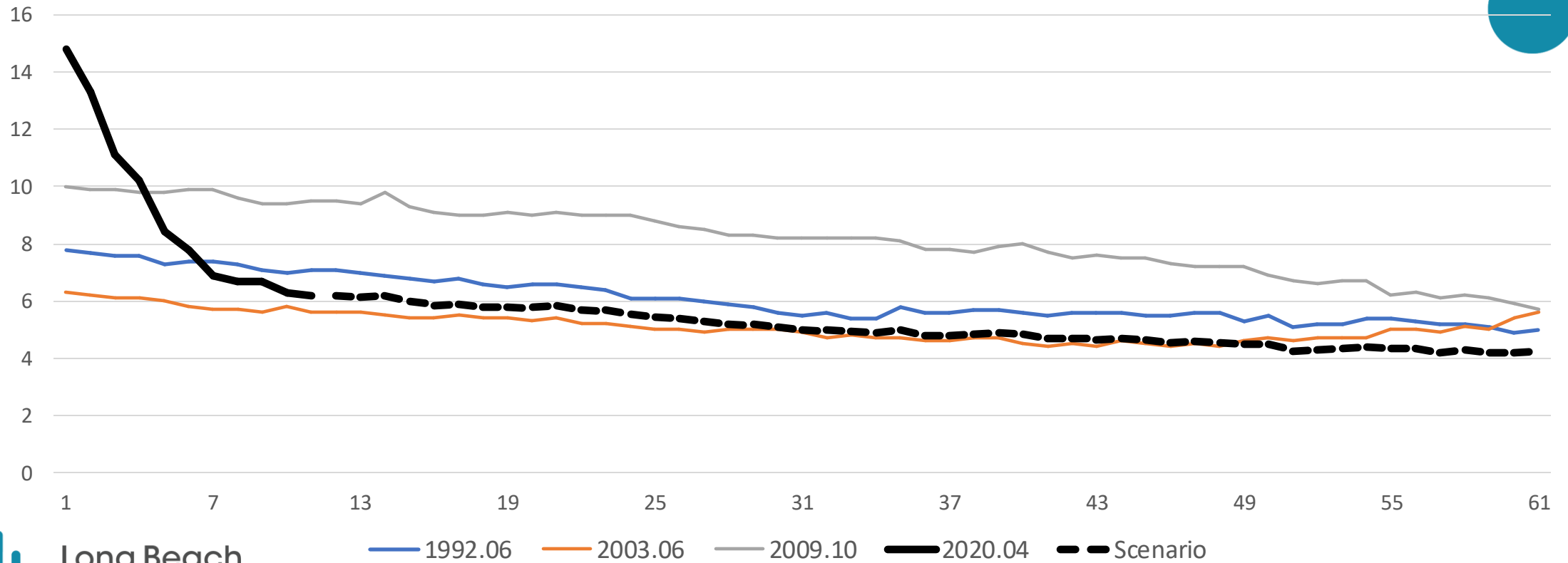


Financial Markets: Rates Up from Record Lows



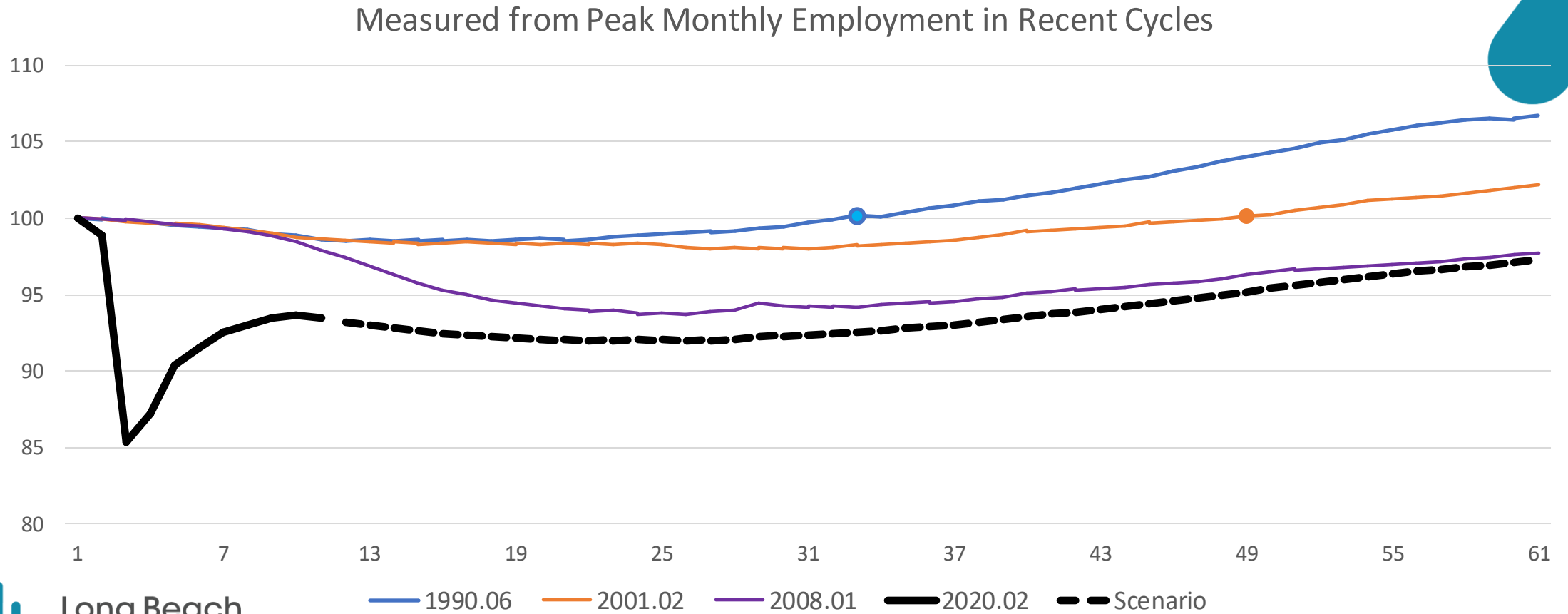
Labor Market to Recover in Years not Months

Measured from Peak U-Rate in Recent Cycles



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Employment Recovers Slowly



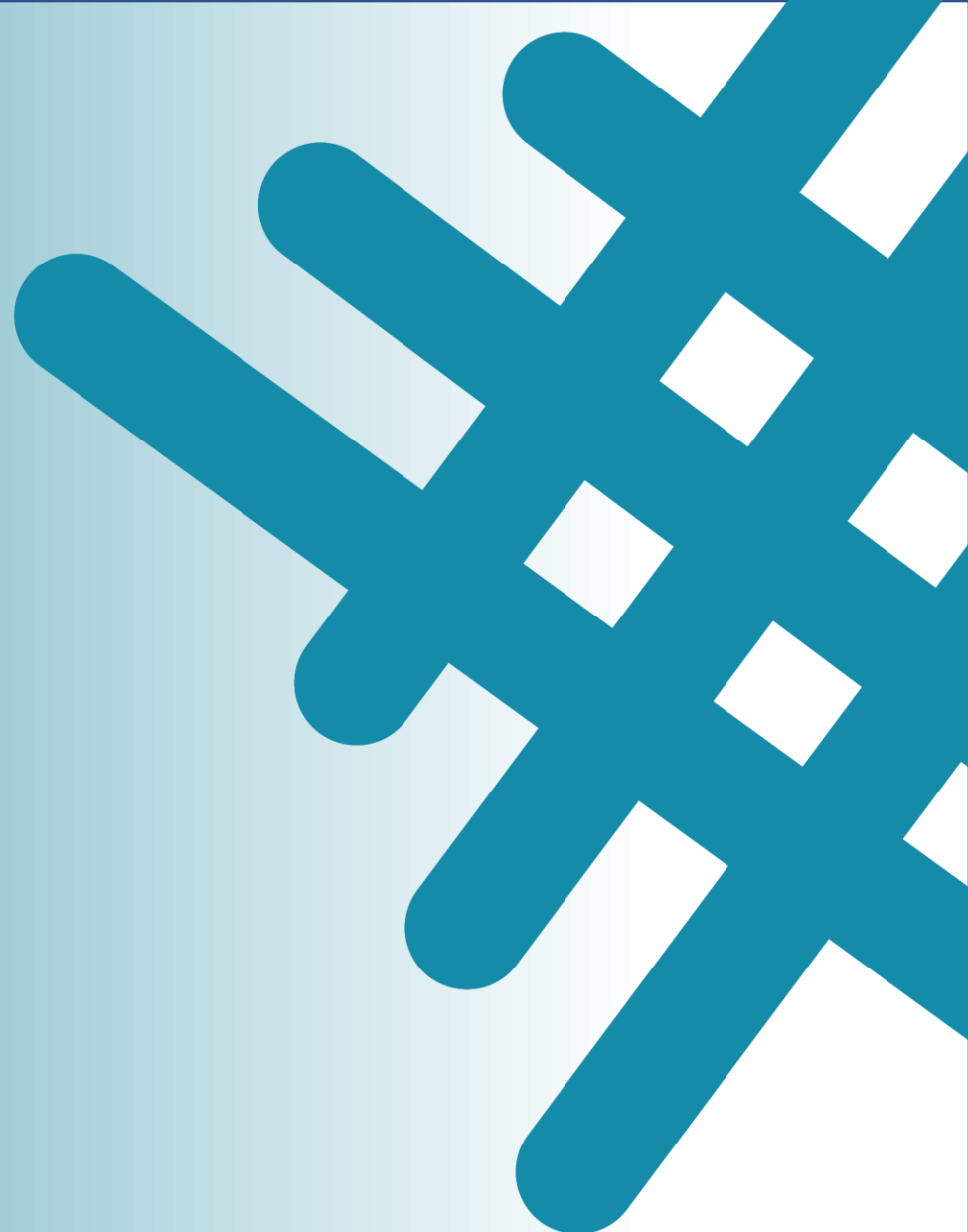
U.S. Outlook – Acceleration in 2021

- GDP to recover sometime in second half of 2021 (up 5 to 6% annually)
- Unemployment rate and employment recoup losses more slowly, 2022 and beyond
- Uneven progress across industries and segments of population
- Rising interest rates signal
 - Higher expected inflation
 - Faster economic growth

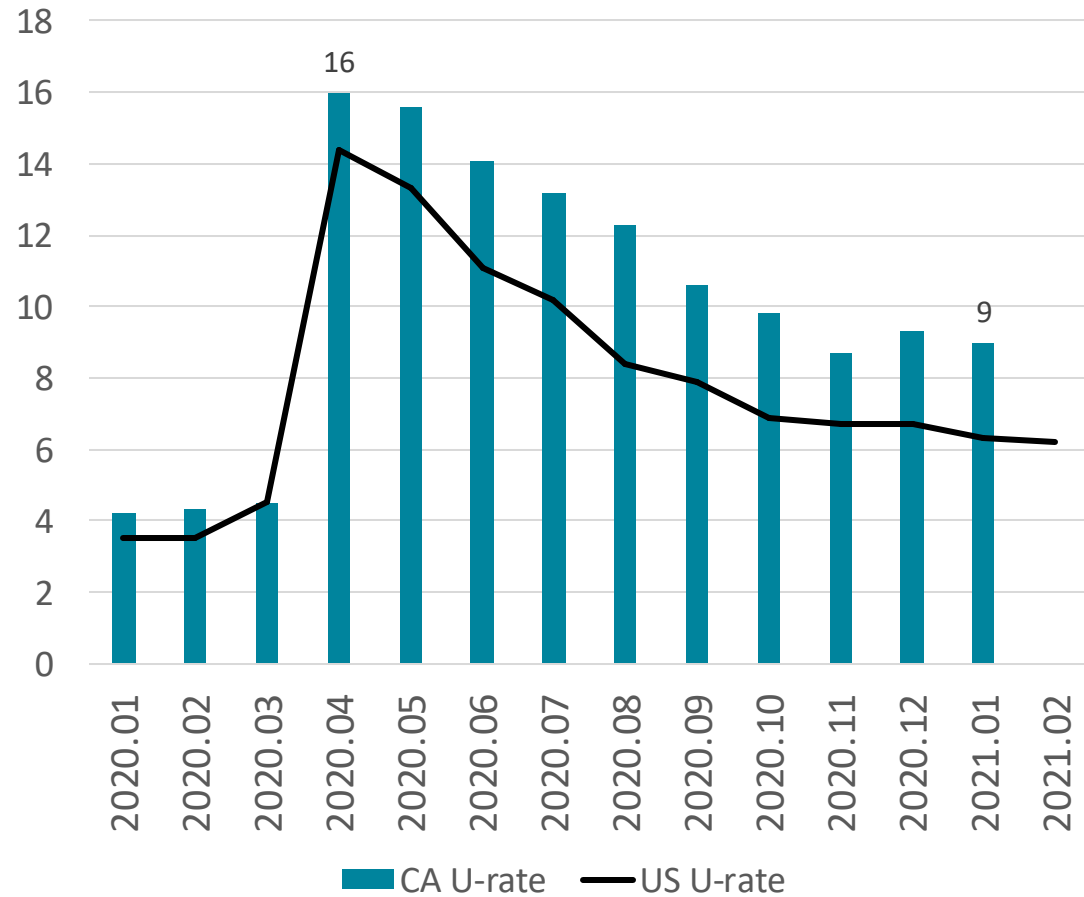
California



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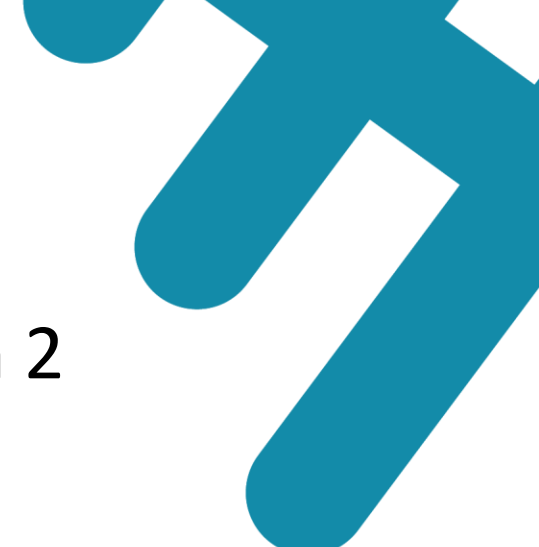


Unemployment Rate Hit Record High following Record Low



CA harder hit than US as whole because of

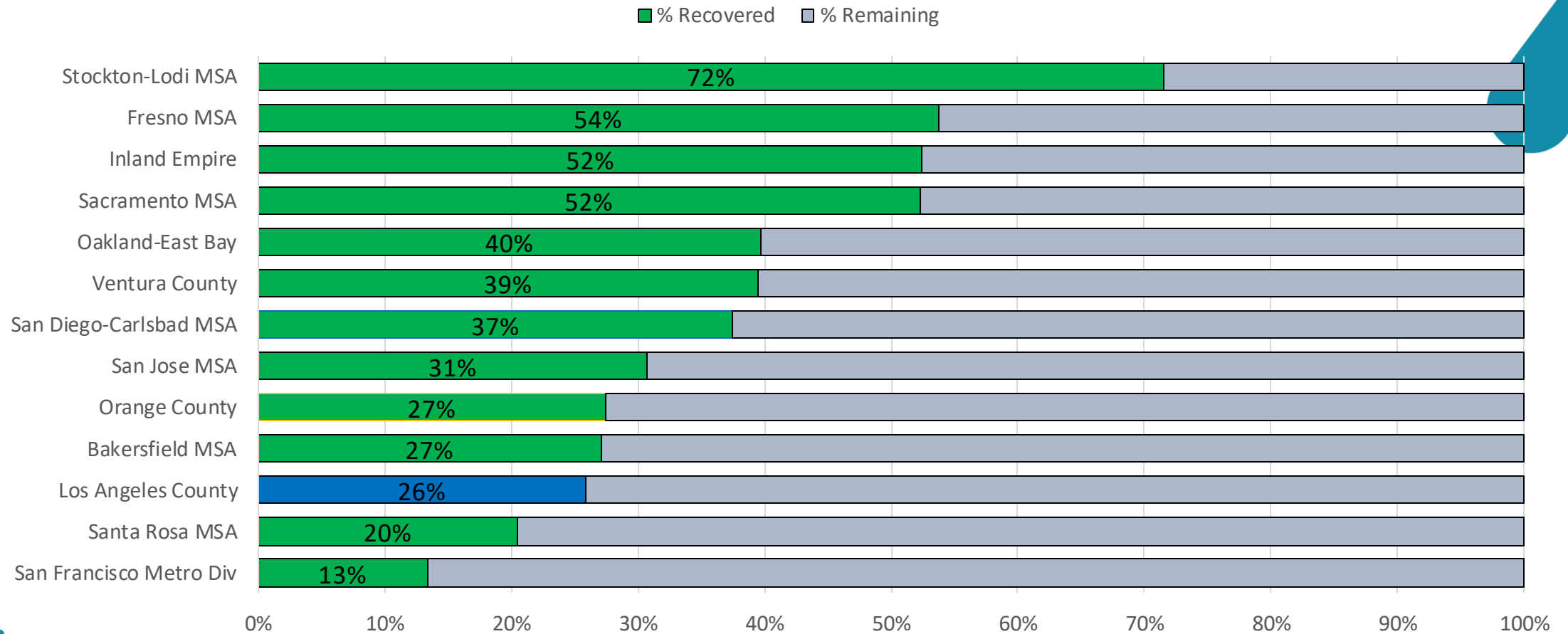
- mix of industries
- slower re-opening



Pandemic by the Numbers, California

- Lost 2.7 million jobs, wiping out 15 years of job gains in 2 months!
- Recovered 922,000 or 34% as of January
- Unemployment rate: record low to record high in 2 months
 - 2019 and early 2020: 4.1%
 - April 2020: 16.0%
 - January 2021: 9.0%
- Leisure and hospitality: 12% of employment, 36% of job losses
- Transportation and warehousing: Jobs 3% higher than before pandemic...only major industry with net gain in jobs

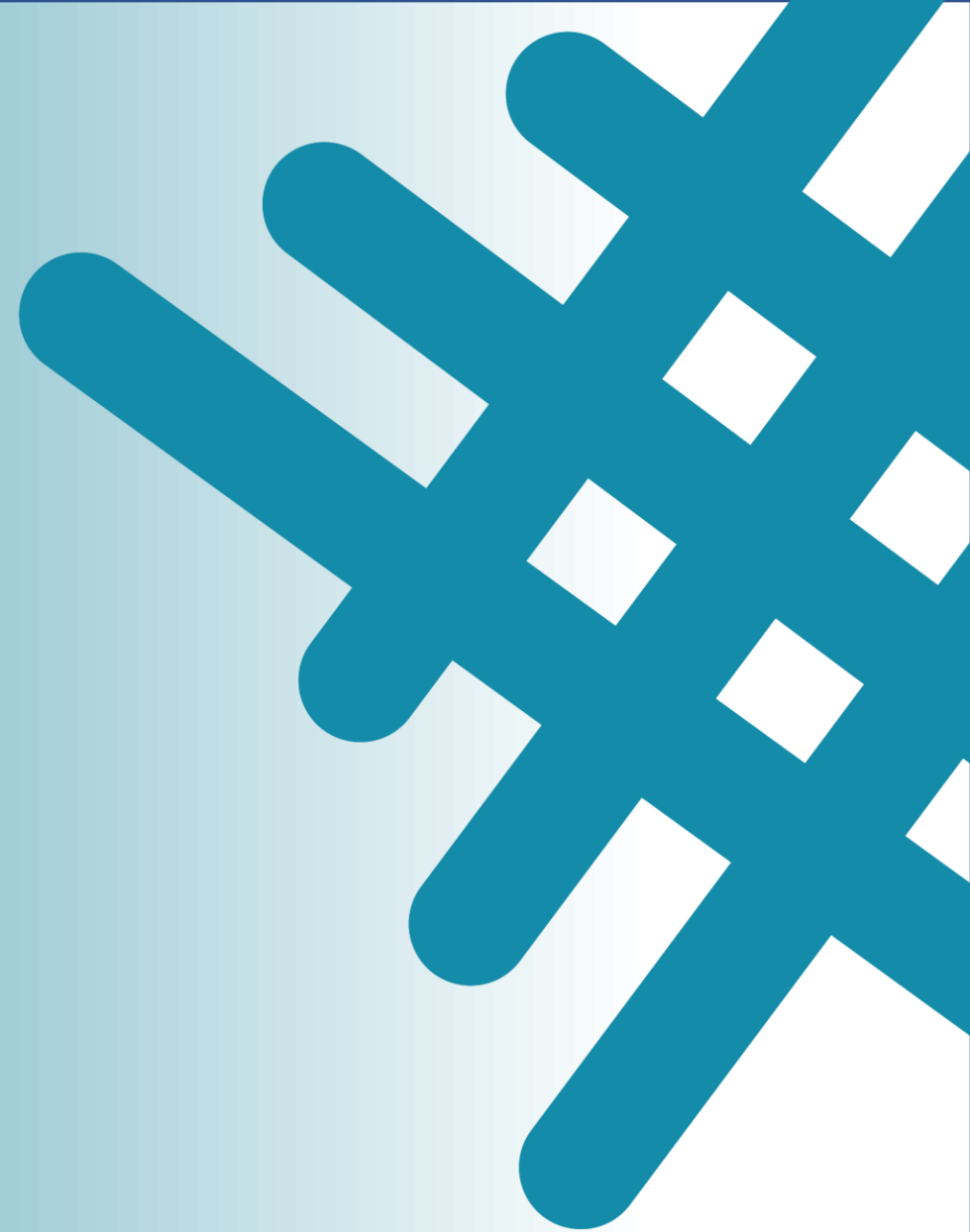
LA County Lags in Jobs Recovery: Spring 2020 Shutdown Losses Recovered through Jan. '21



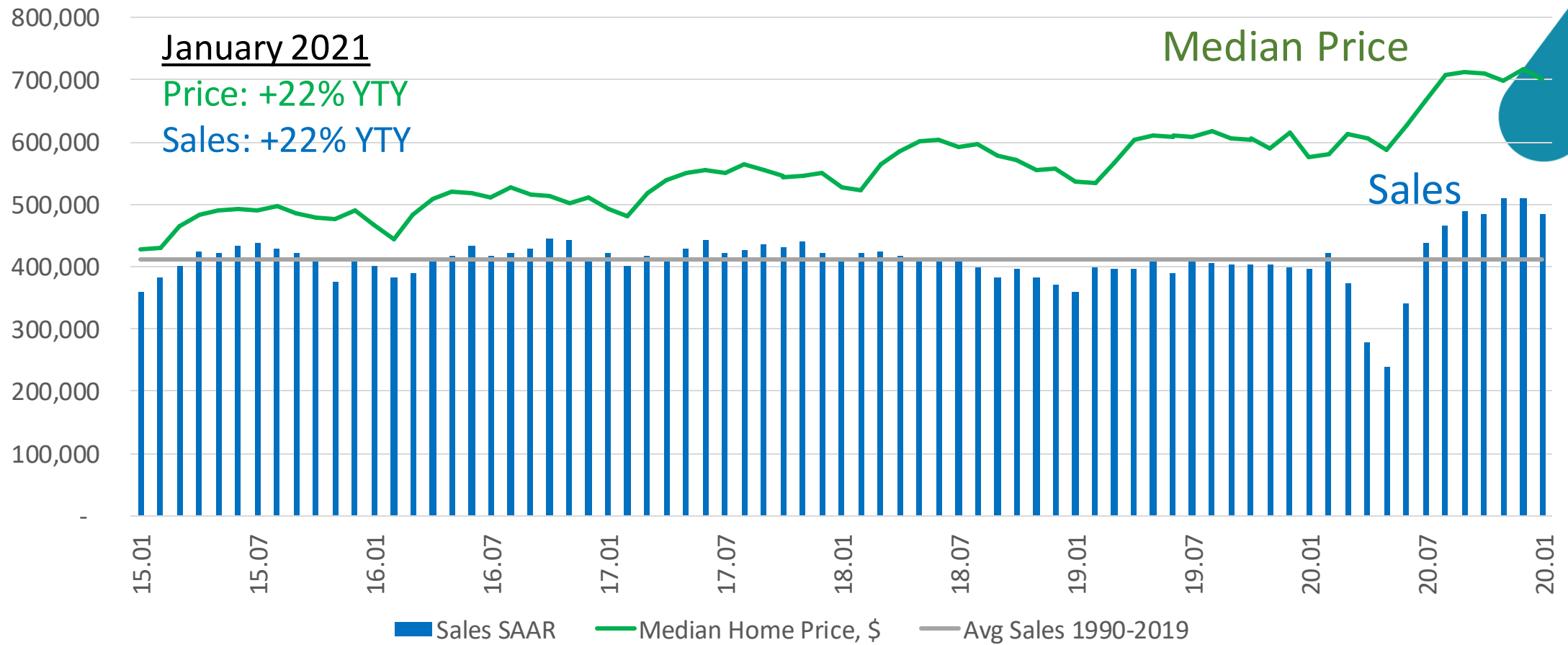
Housing



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California Housing: Record Price, Comeback in Sales Driven by Low Rates and Lean Supply



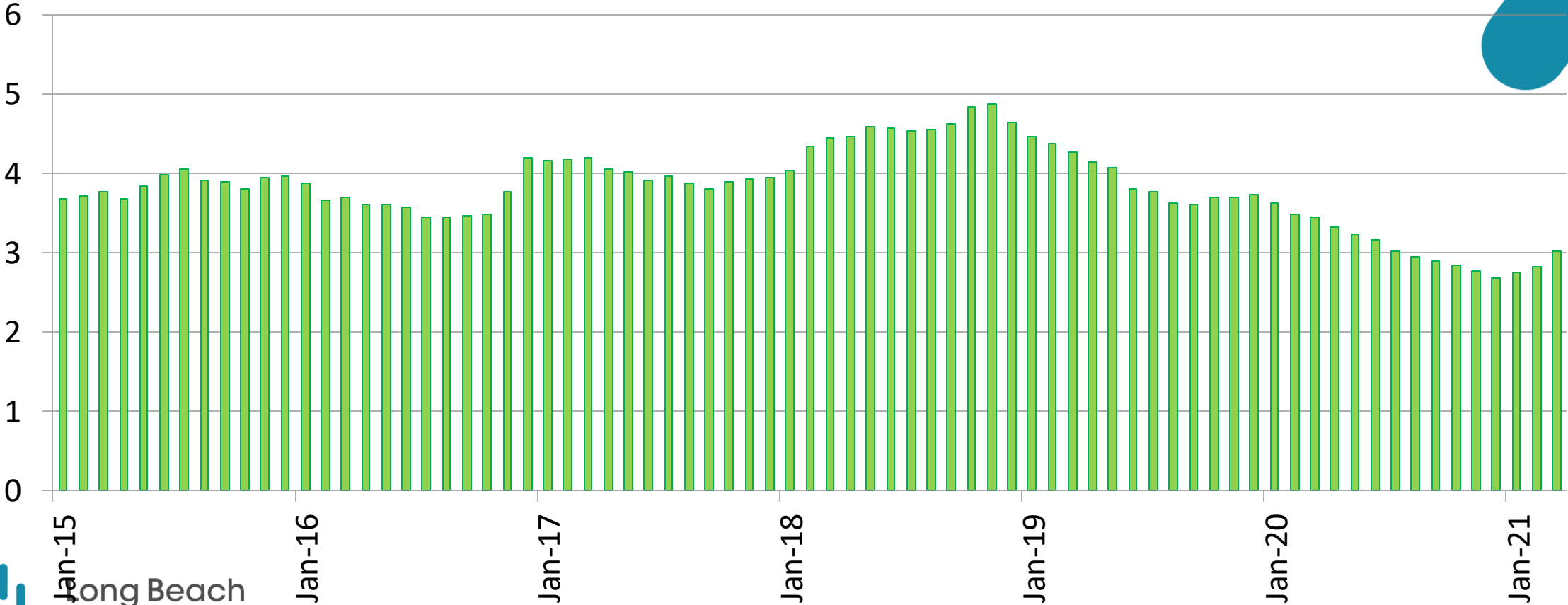
Sales and Prices Respond to Market Conditions...

Southern California	2020.01	2020.12	2021.01	Price MTM% Chg	Price YTY% Chg	Sales YTY% Chg
Los Angeles	\$617,520	\$709,500	\$697,660	-2%	13%	15%
Orange	\$855,000	\$950,000	\$971,000	2%	14%	14%
Riverside	\$415,460	\$488,250	\$495,500	1%	19%	13%
San Bernardino	\$325,000	\$378,500	\$390,000	3%	20%	17%
San Diego	\$660,000	\$730,000	\$730,000	0%	11%	10%
Ventura	\$660,000	\$740,000	\$776,000	5%	18%	7%

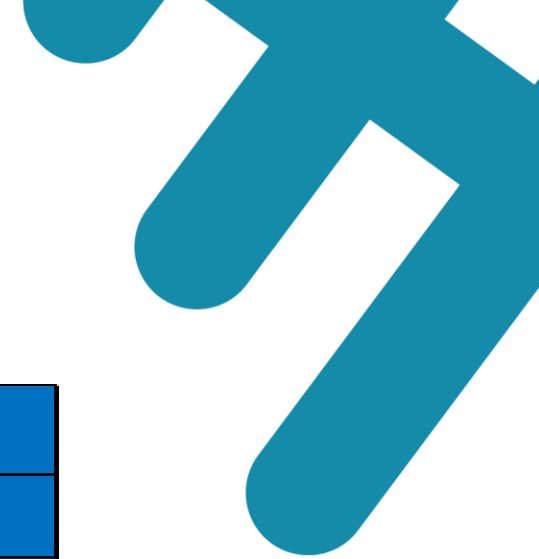
Long Beach in Jan'21: \$678,000 +11% YTY

Record Low Mortgage Rates → Fuel Demand

30 Year Mort



Limited Supply → Drives Up Price



Unsold Inventory Index (Months)			
Region	2020.01	2020.12	2021.01
Los Angeles	3.1	1.7	2.2
Orange	3.3	1.4	1.9
Riverside	4.9	1.8	2.4
San Bernardino	3.9	1.3	2.2
San Diego	3.1	1.4	2.1
Ventura	5.2	0.9	1.4

Affordability Falling Despite Record Low Rates

Region	Q4-2019	Q3-2020	Q4-2020	Median Home Price	Monthly Payment Including Taxes & Insurance	Minimum Qualifying Income
Los Angeles	27	23	24	\$688,660	\$3,100	\$124,000
Orange	26	23	22	\$935,000	\$4,210	\$168,400
Riverside	41	40	39	\$487,500	\$2,200	\$88,000
San Bernardino	51	51	48	\$375,000	\$1,690	\$67,600
San Diego	29	27	26	\$740,000	\$3,330	\$133,200
CA SFH (SAAR)	31	28	27	\$713,660	\$3,220	\$128,800
US	57	55	55	\$315,900	\$1,420	\$56,800

Overall Outlook is Mixed

- Housing Permits:
 - CA: -10%
 - LA County:
 - 2019: 21,362
 - 2020: 20,251
 - YTY: Down 5%

Economy-Housing (dis)Connection...K-shaped trajectory

- Great opportunity for buyers who have financial resources to capitalize on current low rates
- Challenging times for owners/renters who have lost jobs or reduced hours



Commercial R.E.

- Office Vacancy Rates (CBRE Q4-2020) – limited growth
 - SD: 12.4%
 - LA: 14.6
 - SF: 16.9 (4x increase)
 - SJ: 8.9
 - SAC: 11.2
- Industrial Vacancy Rates (CBRE Q4-2020) – hot property!
 - LA: 2.0%
 - Oak: 2.8
 - IE: 1.9

Conclusion/Outlook



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Outlook 2021... "Acceleration"

- Recovery Mixed
 - GDP grows 5 to 6% in 2021, fully recovers no later than end of year
 - 2022...continued growth in mid single-digits
 - Labor market and jobs recovery will take years
 - Uneven progress: some already recovered, others will lag
 - Progress with pandemic dictates pace of recovery
- California
 - Slower recovery path than US...for now, accelerating as leading industries ramp up...tech, logistics, etc.

THANK YOU

