



# Economic Outlook 2021

## LBEP Quarterly Economic Forum

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# US and California Economy

- US – Cautious recovery ahead
- California – Slower progress due to industry mix and state reopening
- Housing – Challenges and opportunities



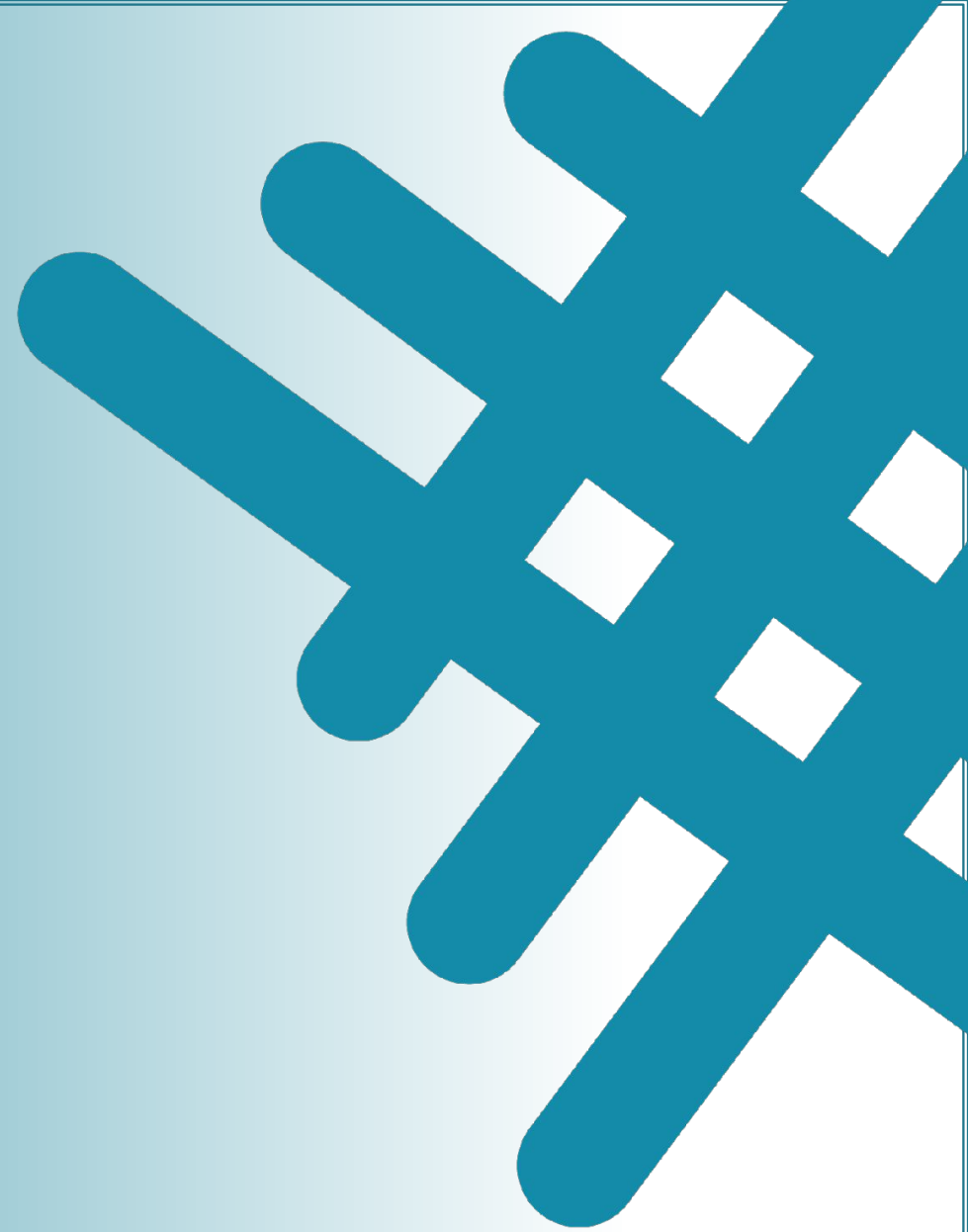
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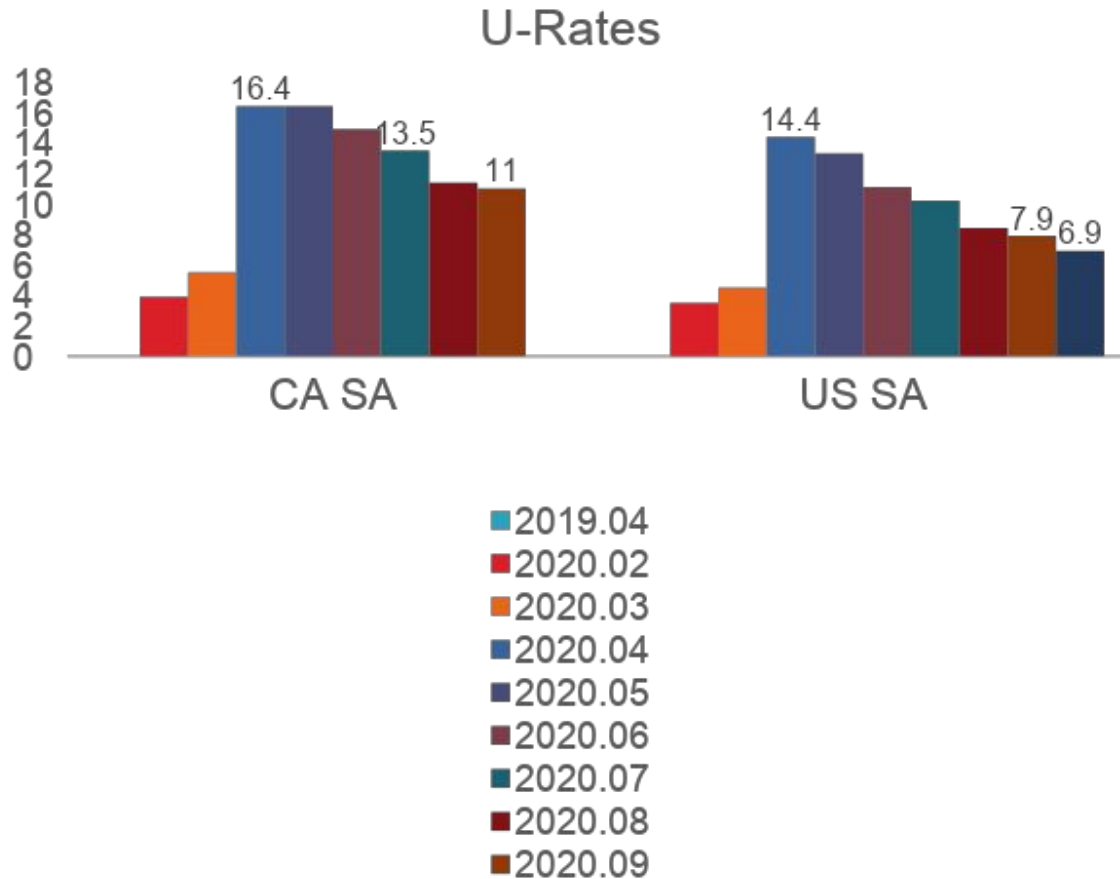
# U.S. Economy



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# Unemployment Rates High, Falling Slowly



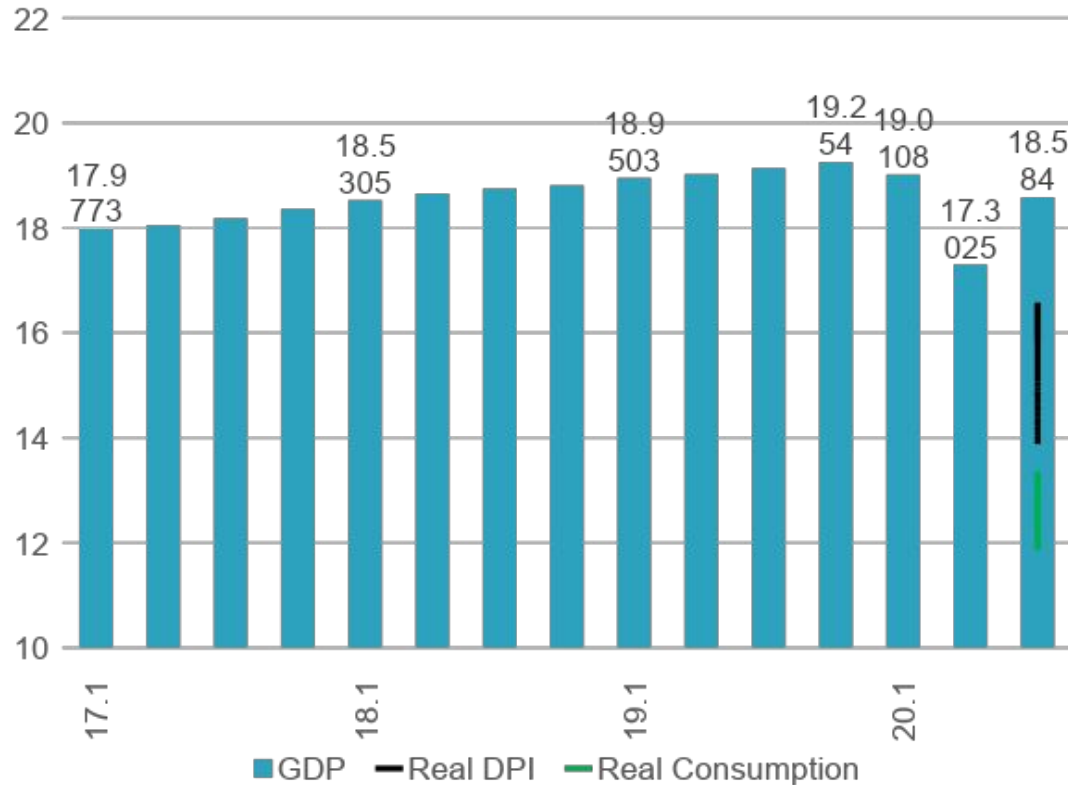
- Driven by virus AND desire to resume activity
- Face-to-face hit hardest:
  - Leisure & Hospitality (restaurants, hotels, entertainment)
  - Retail (clothing stores)
  - Health Care and Social Assistance Other Services (personal care salons, nonprofits)
- CA harder hit than US as whole because of slower re-opening



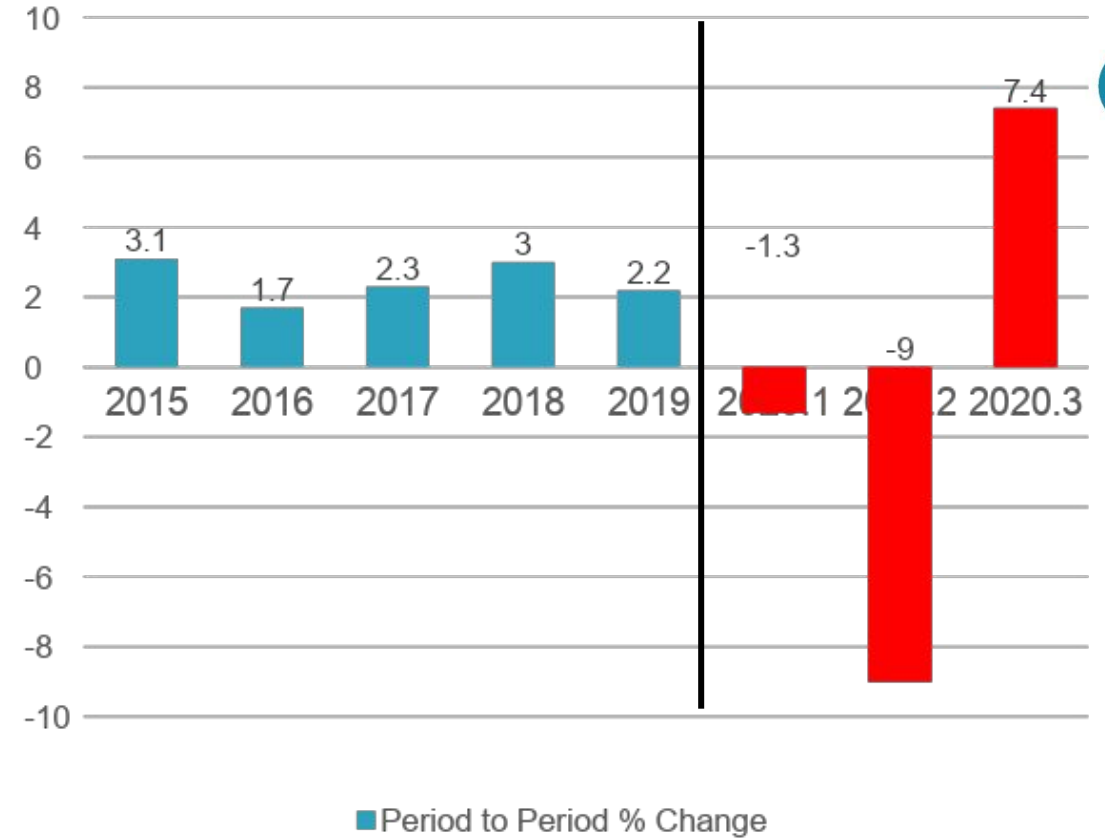
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# GDP Begins Recovery. Consumer Spending Up in Q3

Quarterly Real GDP (\$Trillions)



GDP Period to Period % Change



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# Historical Comparisons: Annual Percentage Change GDP

## Great Depression (1930-33):

- -8.5
- -6.4
- -12.9
- -1.2

## Great Recession (2008-2009):

- -0.1
- -2.5

## Post-WWII (1945-1947):

- -1.0
- -11.6
- -1.1

## Pandemic Disruption (2020):

- -3.0 to -4.0







## What Drives Consumer Spending?

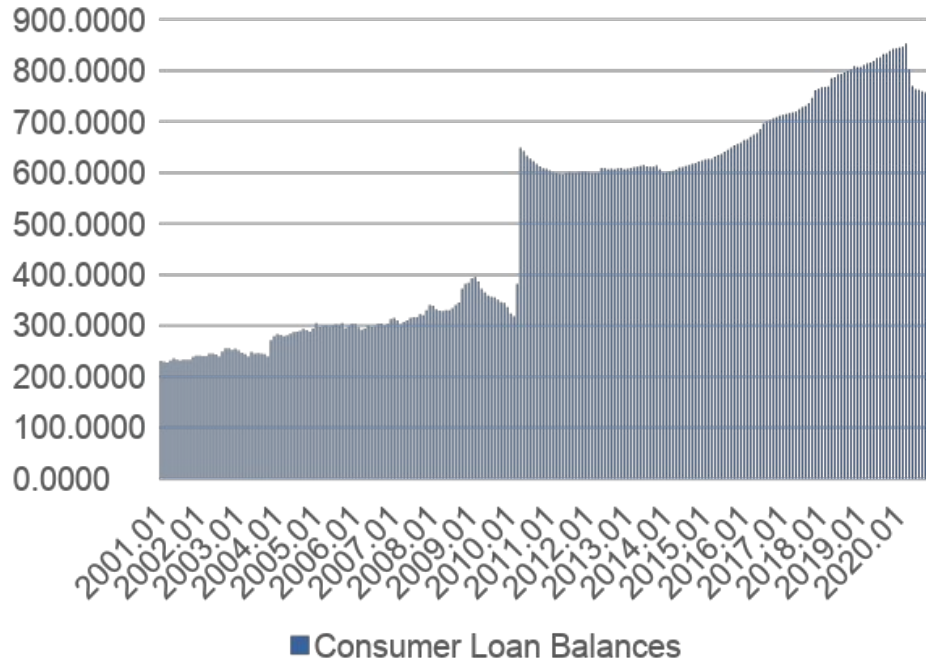
- Jobs and Wage Income - Rising
- Wealth – Slid in Q1, recovered Q2. Q3?
- Homeowner Equity - Rising
- Credit Cards – Cautious
- Federal Backstops: UI/Pandemic payments, PPP, etc.

### LOOKING AHEAD: Consumer spending poised to increase

- Stronger response in goods than in services
- Some households will be left behind



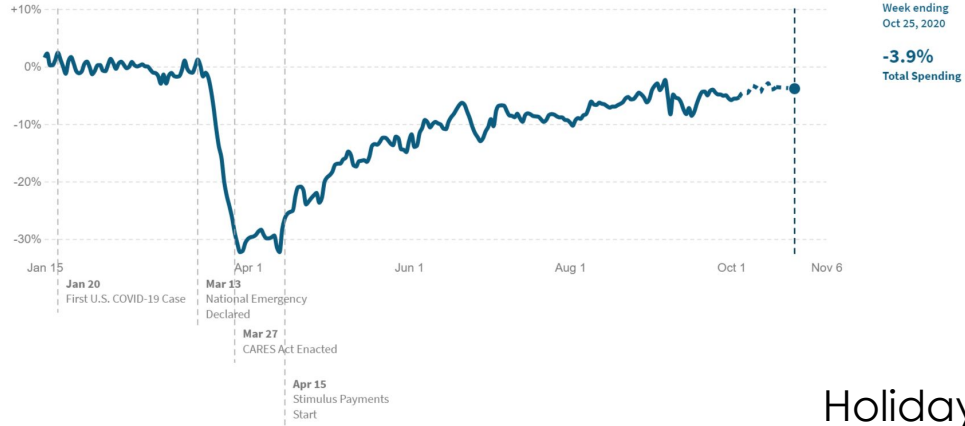
# Consumers are Cautious



Consumer loan balances down

## Percent Change in All Consumer Spending\*

In the United States, as of October 25 2020, total spending by all consumers decreased by 3.9% compared to January 2020.



\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.  
last updated: November 04, 2020 next update expected: November 11, 2020

Holiday 2020: sales ↑

Consumer exp 4% below Jan-20



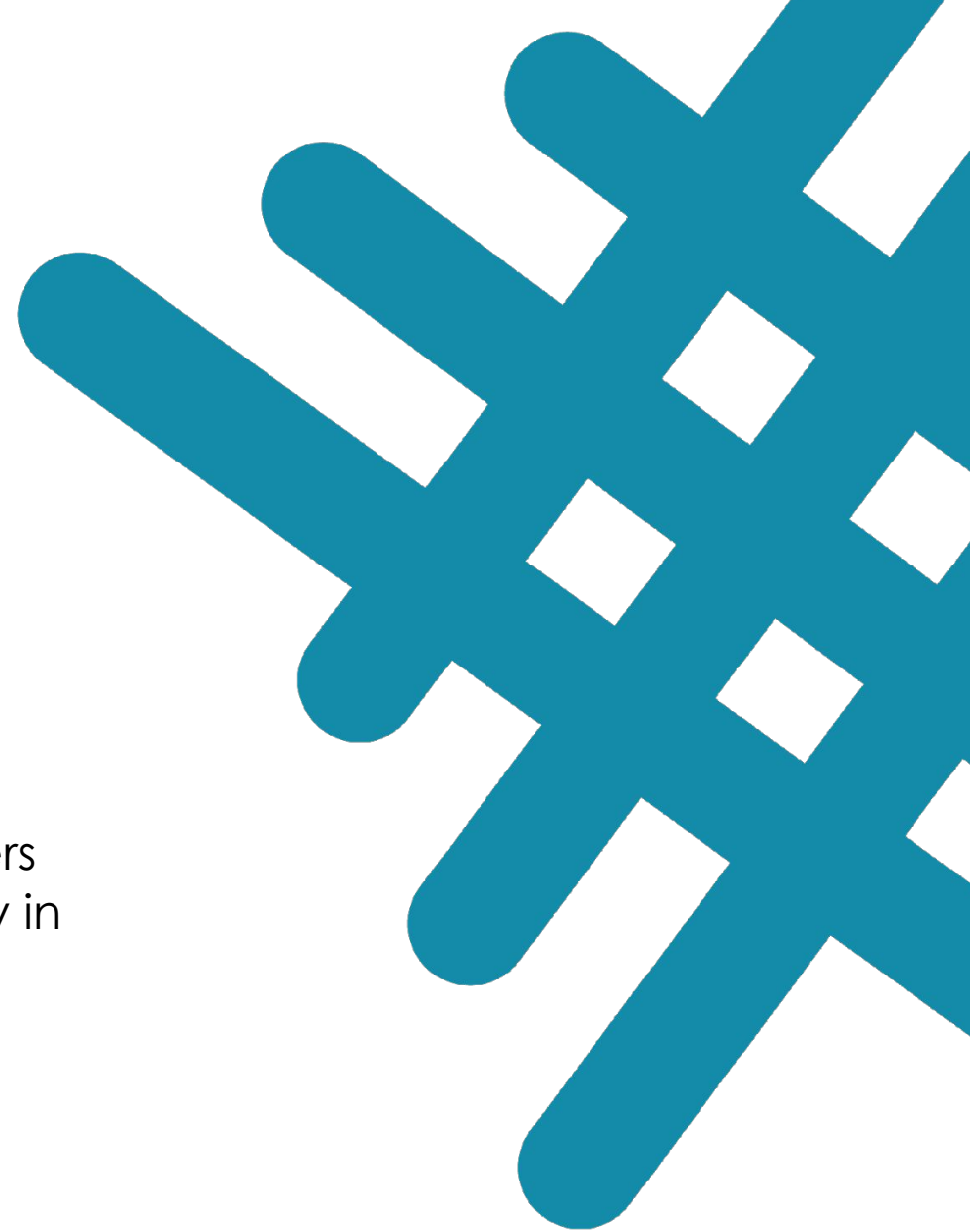
# Other Macro Sectors

## ▣ Business Investment Spending

- Q1: -2% QTQ
- Q2: -14%
- Q3: +16%

## ▣ International Trade

- Imports – down due to loss of US income
- Exports – down due to weakness among trade partners
- Recovery happening now: POLB and POLA up sharply in recent months



# Making Choices: Consumers and Businesses Resilient!

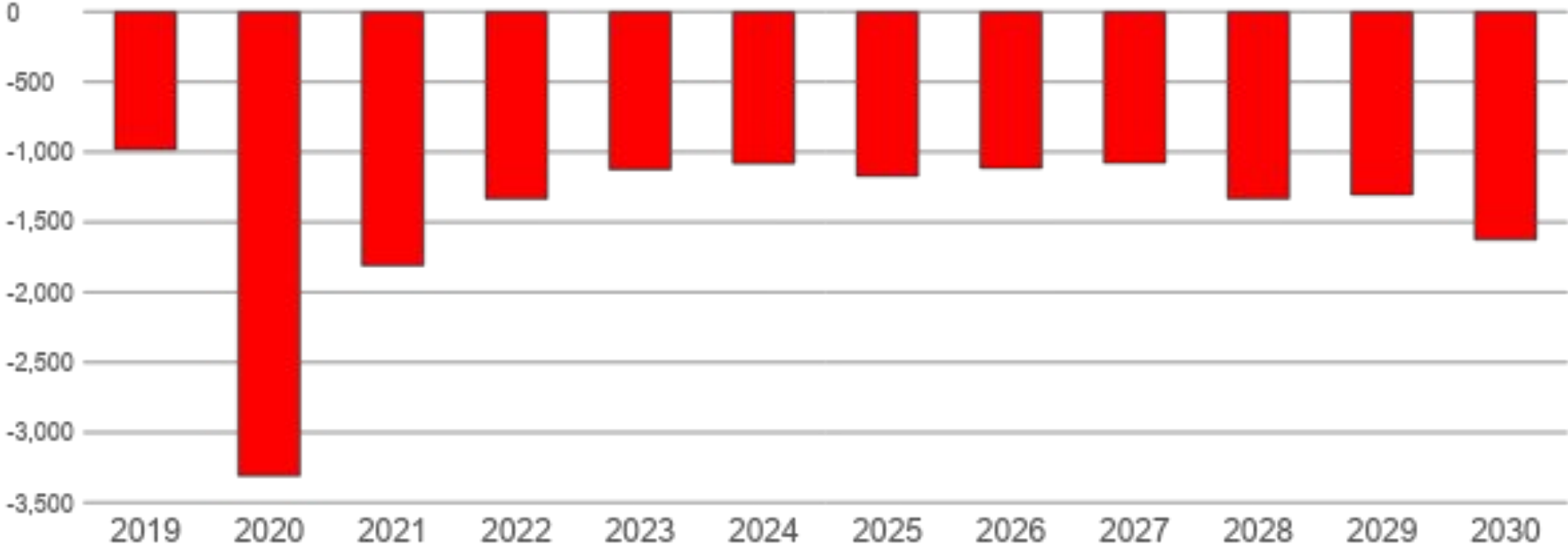
Before Shutdown	Now
In person meetings	Zoom
Air travel for vacations and business	Zoom, Ground travel
Commuting to work	Zoom, Commuting on the rise
Conventions and conferences	Virtual conferences
Movie theaters	Netflix
Dining out	Outdoor dining, carry out, Grub Hub
Grocery store shopping	Amazon
Medical visits	Telemedicine
Paper, paper, paper	Electronic documents, digital signatures

Many of these alternatives already existed but were not as widely used as they are now



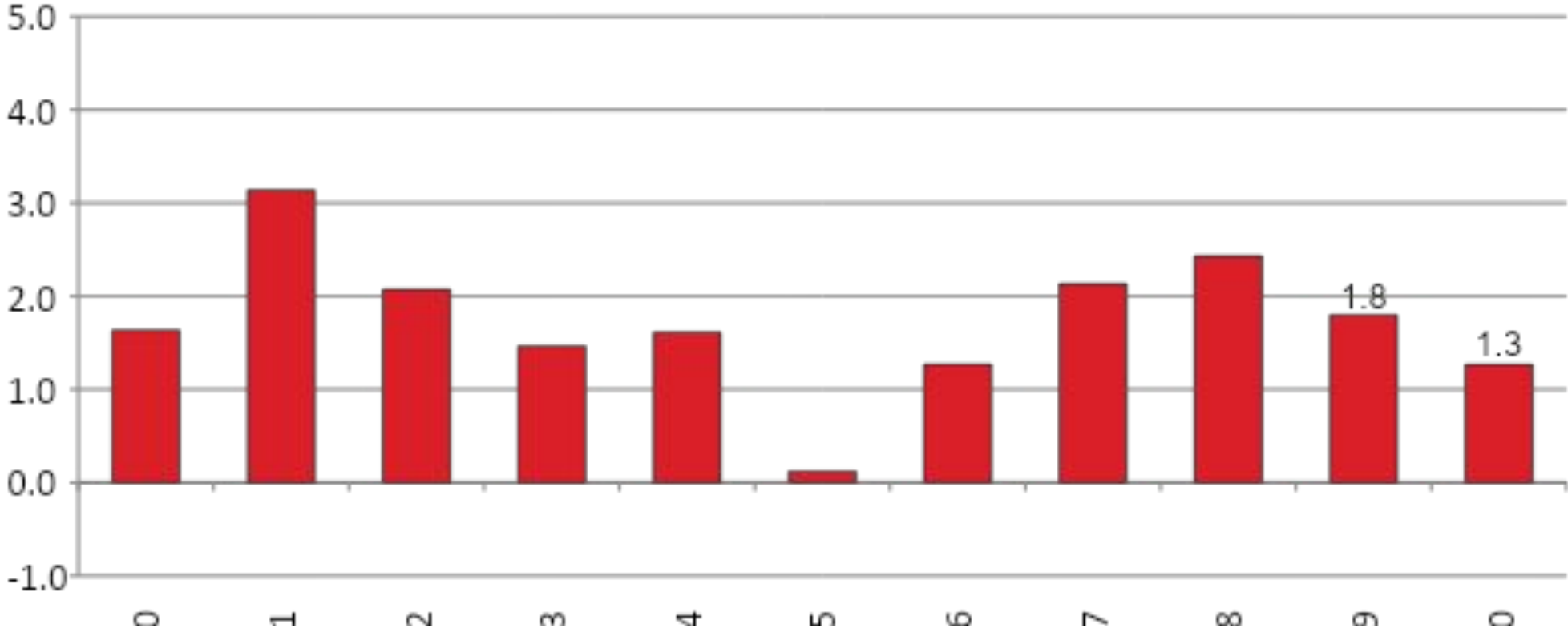
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# Trillion Dollar Deficits (CBO Sept 2020)



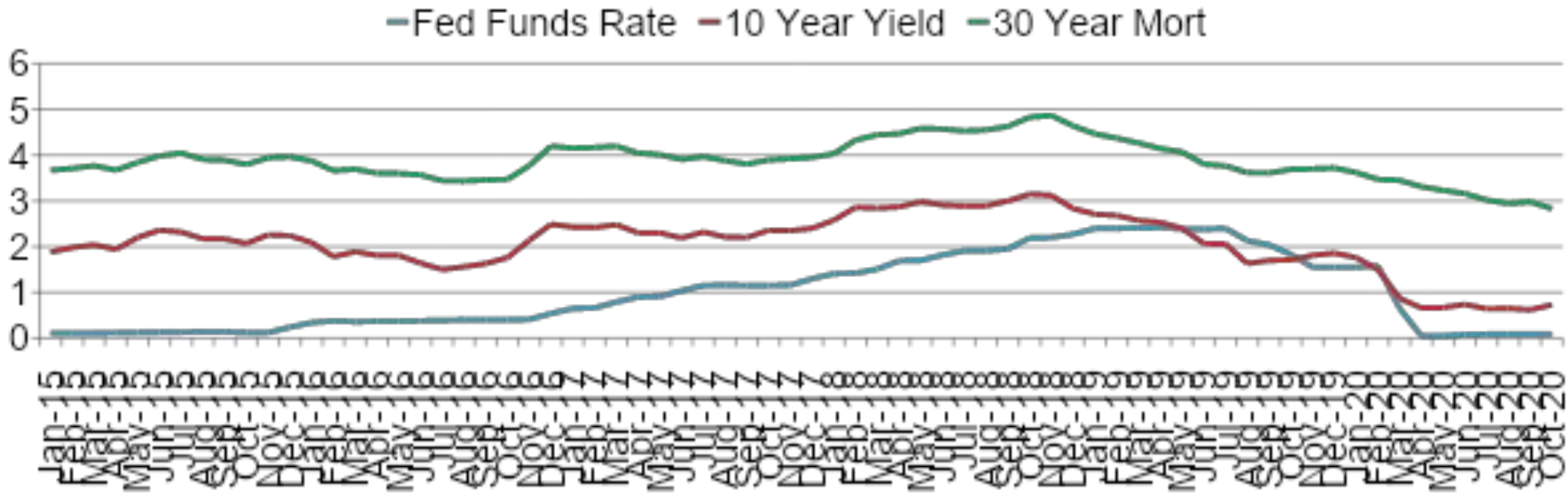
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# Inflation Low



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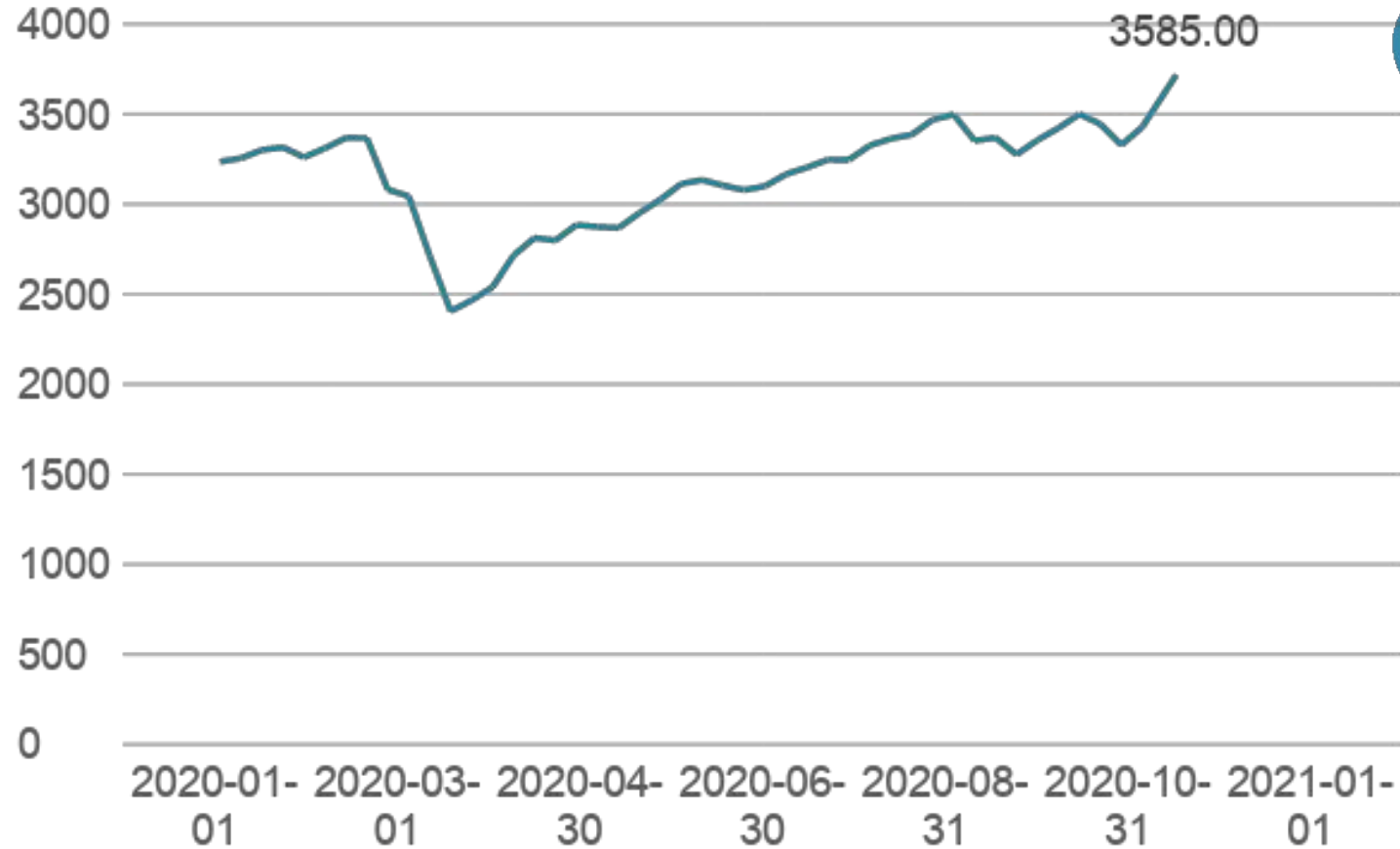
# Financial Markets: Rates at Record Lows



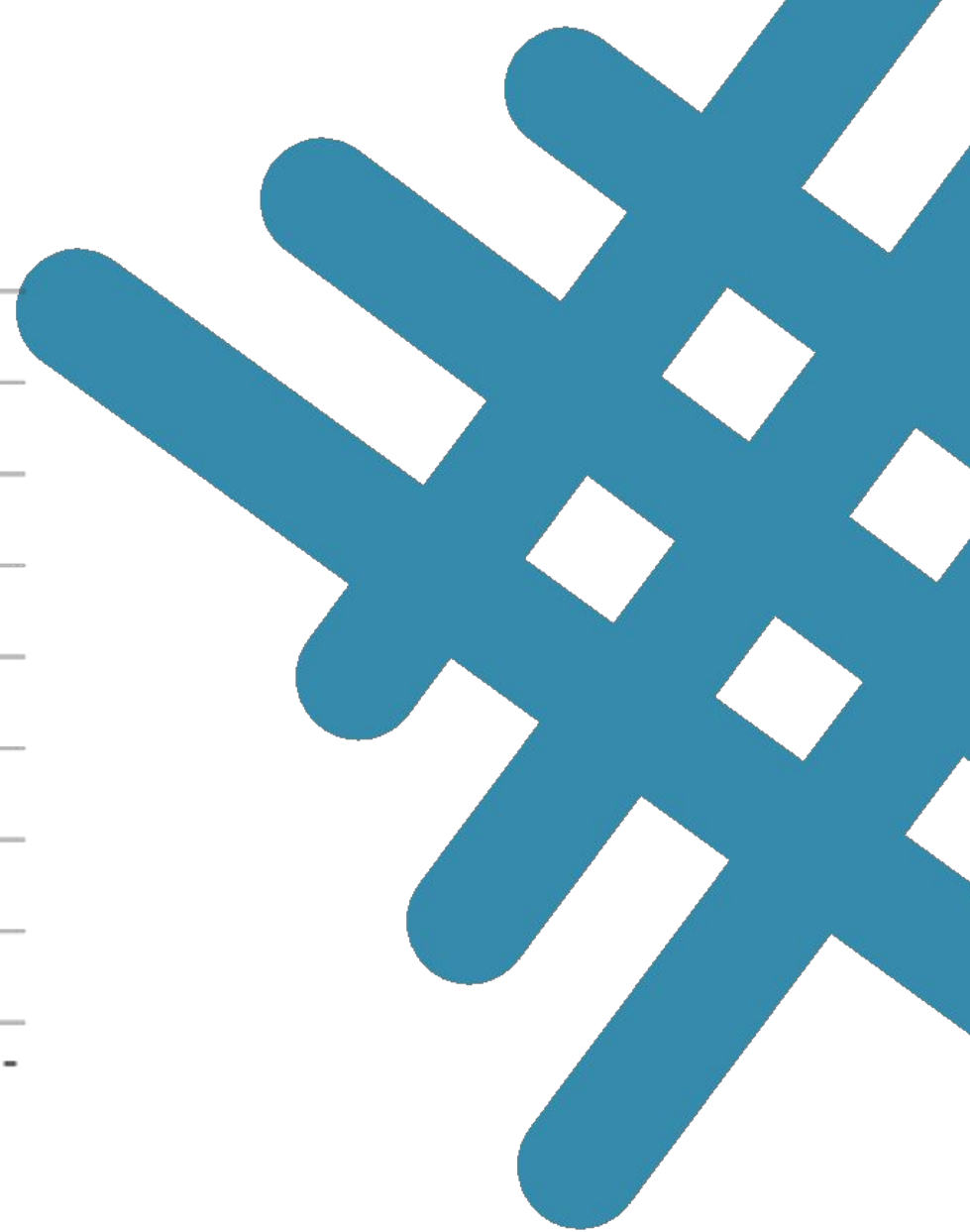
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# Stock Market is NOT the Economy



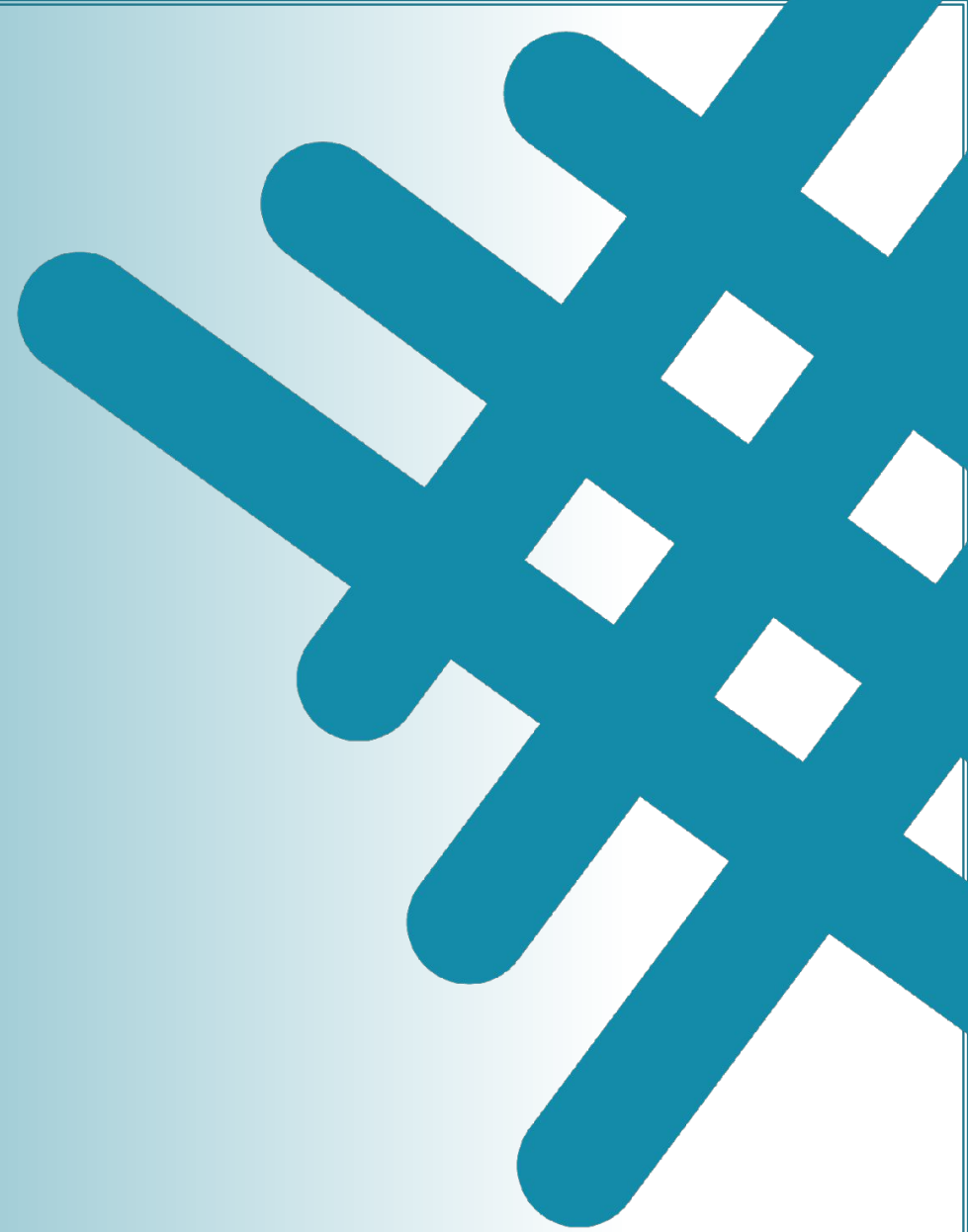
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# California Economy



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# CA Recovered Just 38% of Jobs Lost, Mostly in June

Industry	Feb-20	Feb-Apr	% Change	Apr-Sep	% of Losses Recovered	Now % of Feb
Total Nonfarm	17,604,500	-2,615,800	-14.9%	993,600	38%	91%
Leisure & Hospitality	2,055,300	-982,400	-47.8%	381,400	39%	71%
Health Care & Social Assistance	2,460,900	-285,700	-11.6%	164,300	58%	95%
Retail Trade	1,654,900	-279,400	-16.9%	160,400	57%	93%
Construction	896,900	-150,000	-16.7%	95,100	63%	94%
Administrative & Support & Waste Services	1,138,400	-161,800	-14.2%	63,400	39%	91%
Other Services	581,300	-172,700	-29.7%	54,800	32%	80%
Professional, Scientific & Technical Services	1,351,700	-84,400	-6.2%	40,100	48%	97%
Manufacturing	1,315,700	-133,800	-10.2%	39,100	29%	93%
Wholesale Trade	690,800	-66,200	-9.6%	28,900	44%	95%
Transportation, Warehousing & Utilities	718,200	-58,900	-8.2%	26,900	46%	96%
Finance & Insurance	545,300	-1,500	-0.3%	6,400	427%	101%
Information	588,200	-78,700	-13.4%	6,200	8%	88%
Real Estate & Rental & Leasing	306,400	-23,400	-7.6%	5,100	22%	94%
Management of Companies & Enterprises	253,100	-13,400	-5.3%	2,000	15%	95%
Mining and Logging	22,700	-1,000	-4.4%	-400	-40%	94%
Educational Services	392,900	-42,200	-10.7%	-4,900	-12%	88%
Government	2,631,800	-80,300	-3.1%	-75,200	-94%	94%

% of losses recovered:

- US: 54%
- CA: 38%

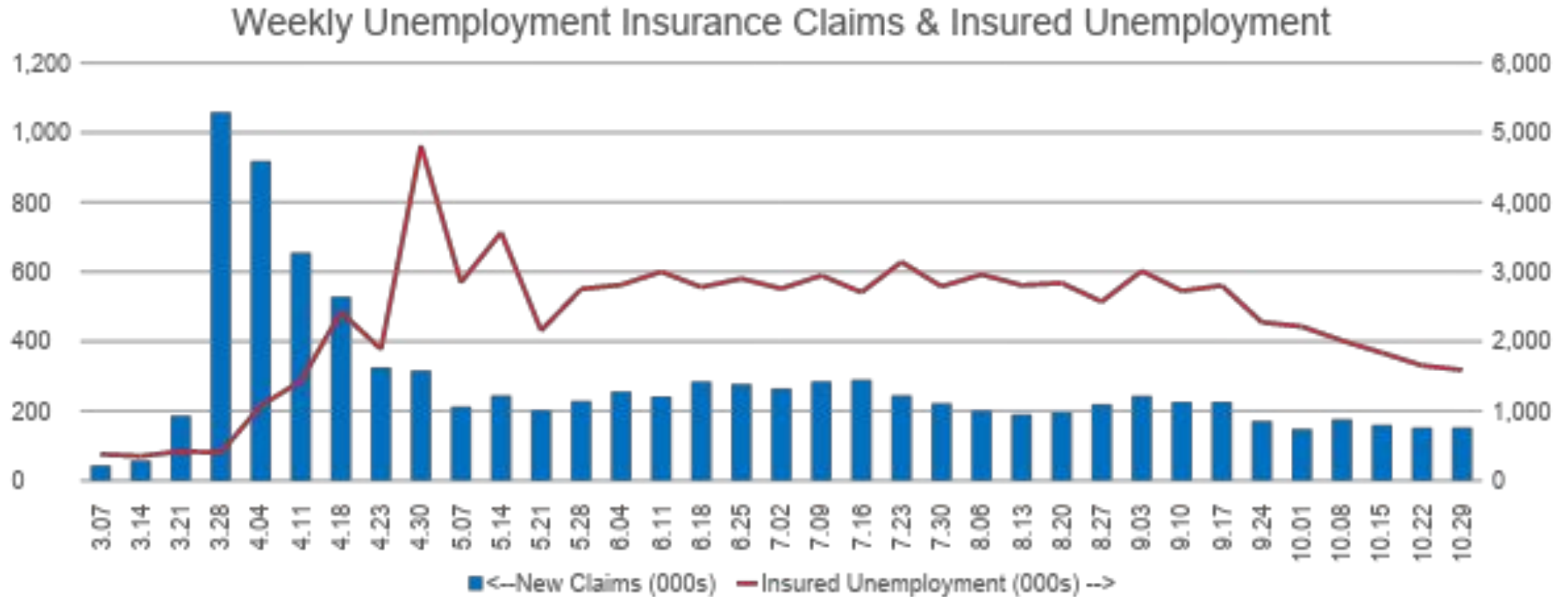
CA reopening more gradually

Hospitality and tourism more prominent

Motion picture and sound recording industry (Info) struggling

Local government job losses stacking up

# CA UI Claims Edging Down

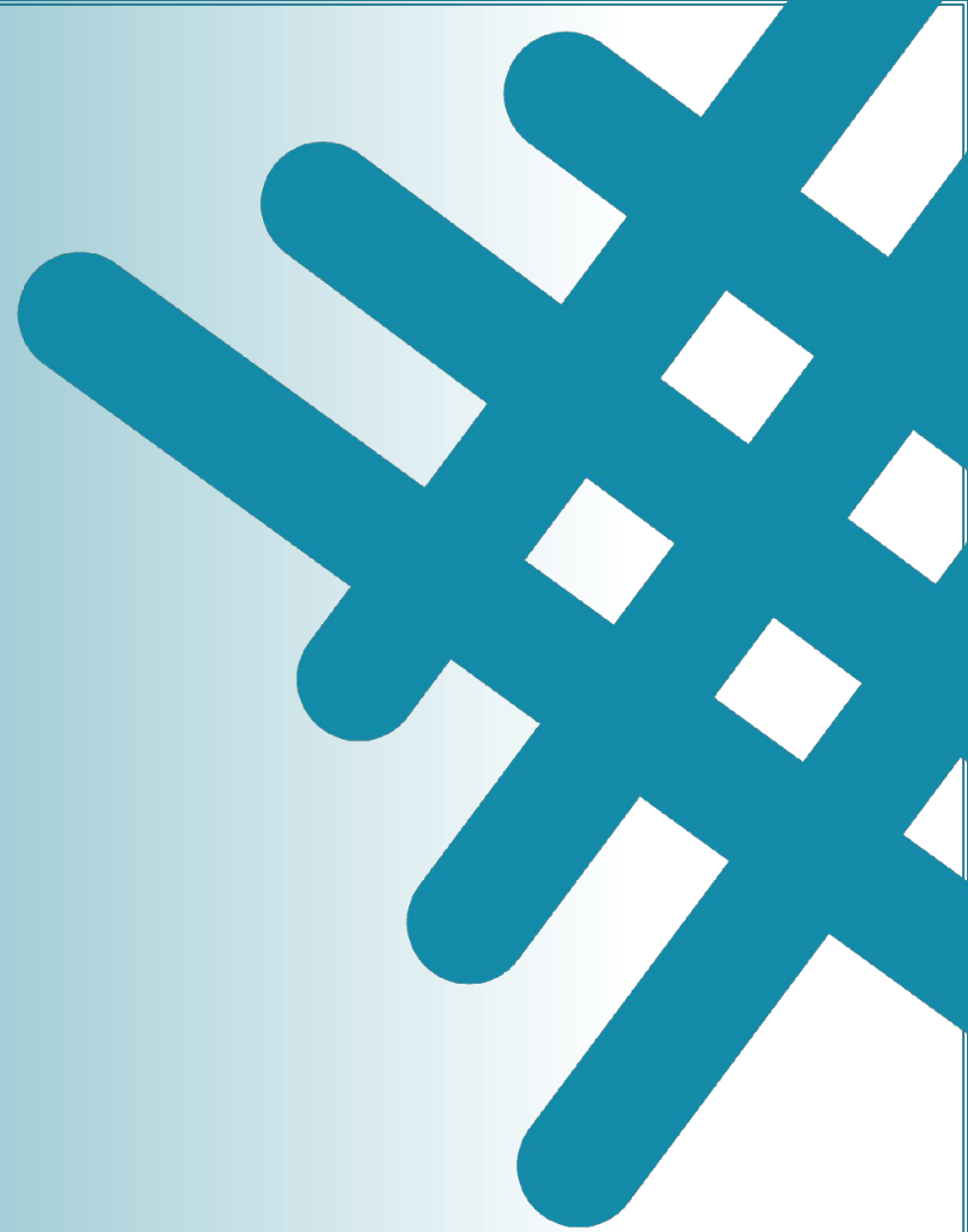


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# California Housing

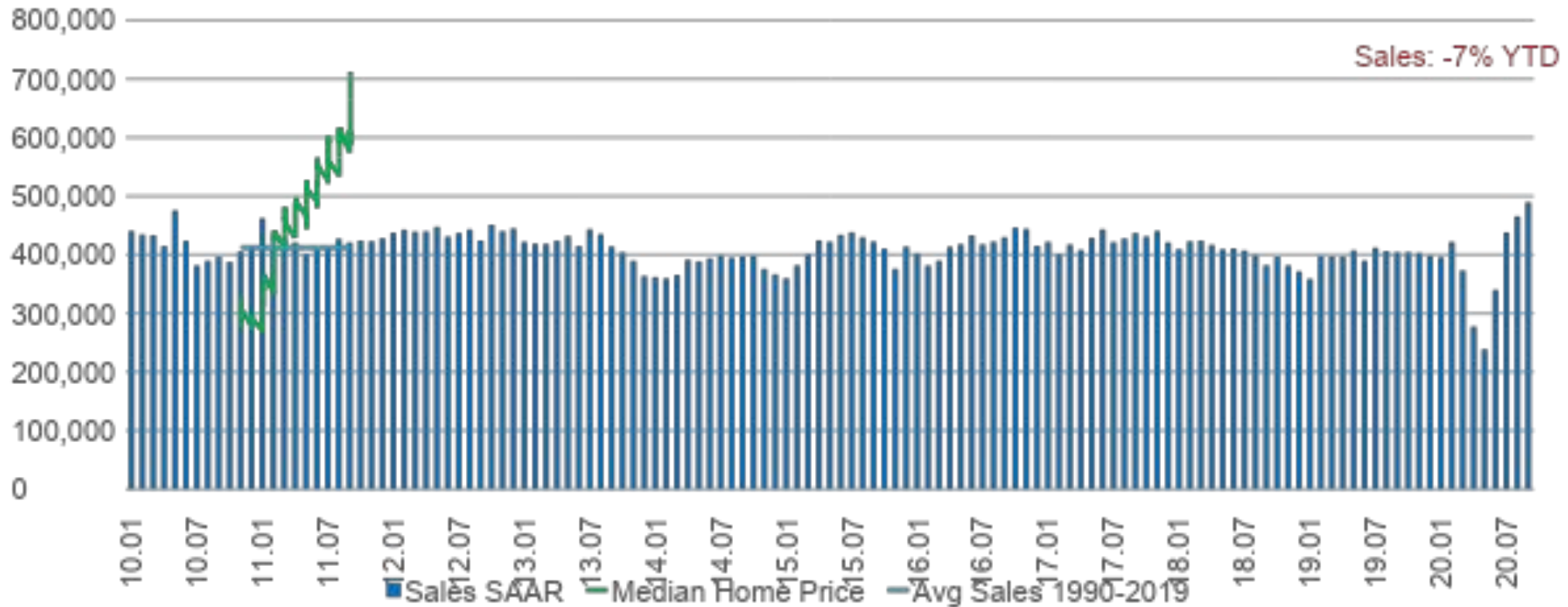


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# California Housing: Record Price, Comeback in Sales Driven by Low Rates and Lean Supply



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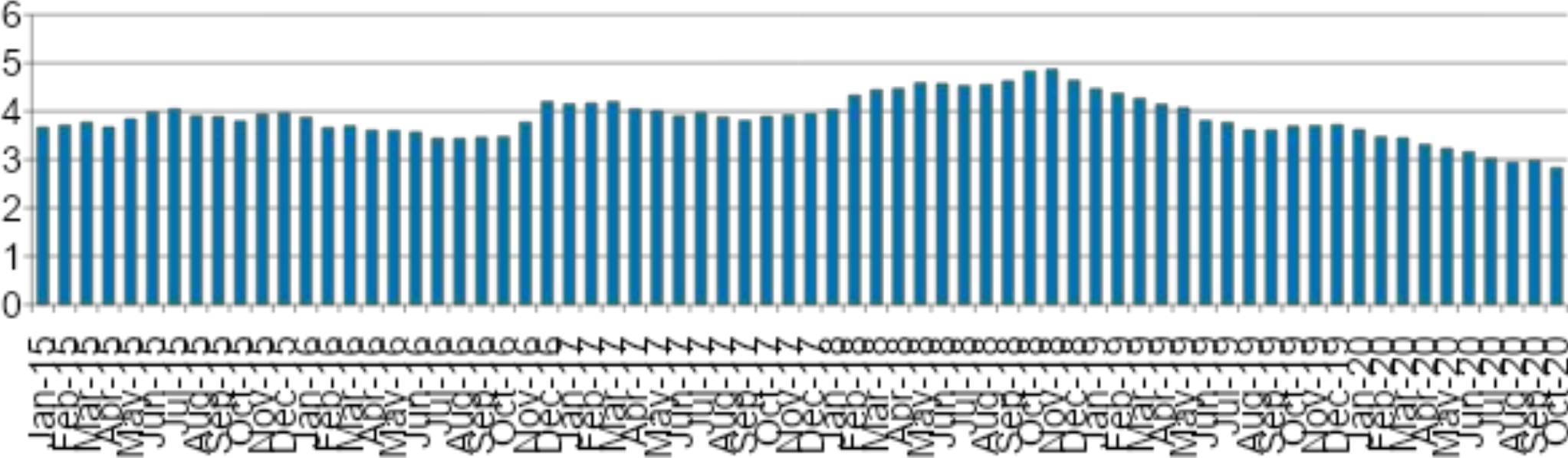
# Sales and Prices Respond to Low Rates

<b>Southern California</b>	<b>2019.09</b>	<b>2020.08</b>	<b>2020.09</b>	<b>Price MTM% Chg</b>	<b>Price YTY% Chg</b>	<b>Sales YTY% Chg</b>
Los Angeles	\$663,110	\$677,260	\$747,380	10%	13%	16%
Orange	\$830,000	\$930,000	\$915,000	-2%	10%	31%
Riverside	\$429,450	\$486,500	\$480,000	-1%	12%	28%
San Bernardino	\$315,000	\$350,000	\$359,900	3%	14%	20%
San Diego	\$636,750	\$732,560	\$735,000	0%	15%	33%
Ventura	\$659,250	\$741,500	\$787,500	6%	19%	32%



# Mortgage Rates at Record Lows, Fueling Demand

30 Year Mortgage



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## ...and Lean Supply Drives Up Price

Unsold Inventory Index (Months)			
Region	2019.09	2020.08	2020.09
Los Angeles	3.5	2.3	2.3
Orange	3.6	2.4	2.2
Riverside	3.8	2.2	2.1
San Bernardino	4.1	2.0	2.0
San Diego	3.1	1.9	1.7
Ventura	4.7	2.2	2.0



# Mixed Signals in Housing

## Homeowners:

- Forbearance in CA at 9% lower than elsewhere in US
- 30-day delinquency rate in CA at 5.8% (LA 6% vs peak of 10% during Great Recession)
- Forbearance programs in place for federally backed mortgages keep foreclosures in check

## Late rent, National Multifamily Housing Council

- October 2020: 94.8%
- October 2019: 96.6%
- Statewide eviction moratorium through end of January 2021





# Mixed Signals in Housing

## Housing Permits

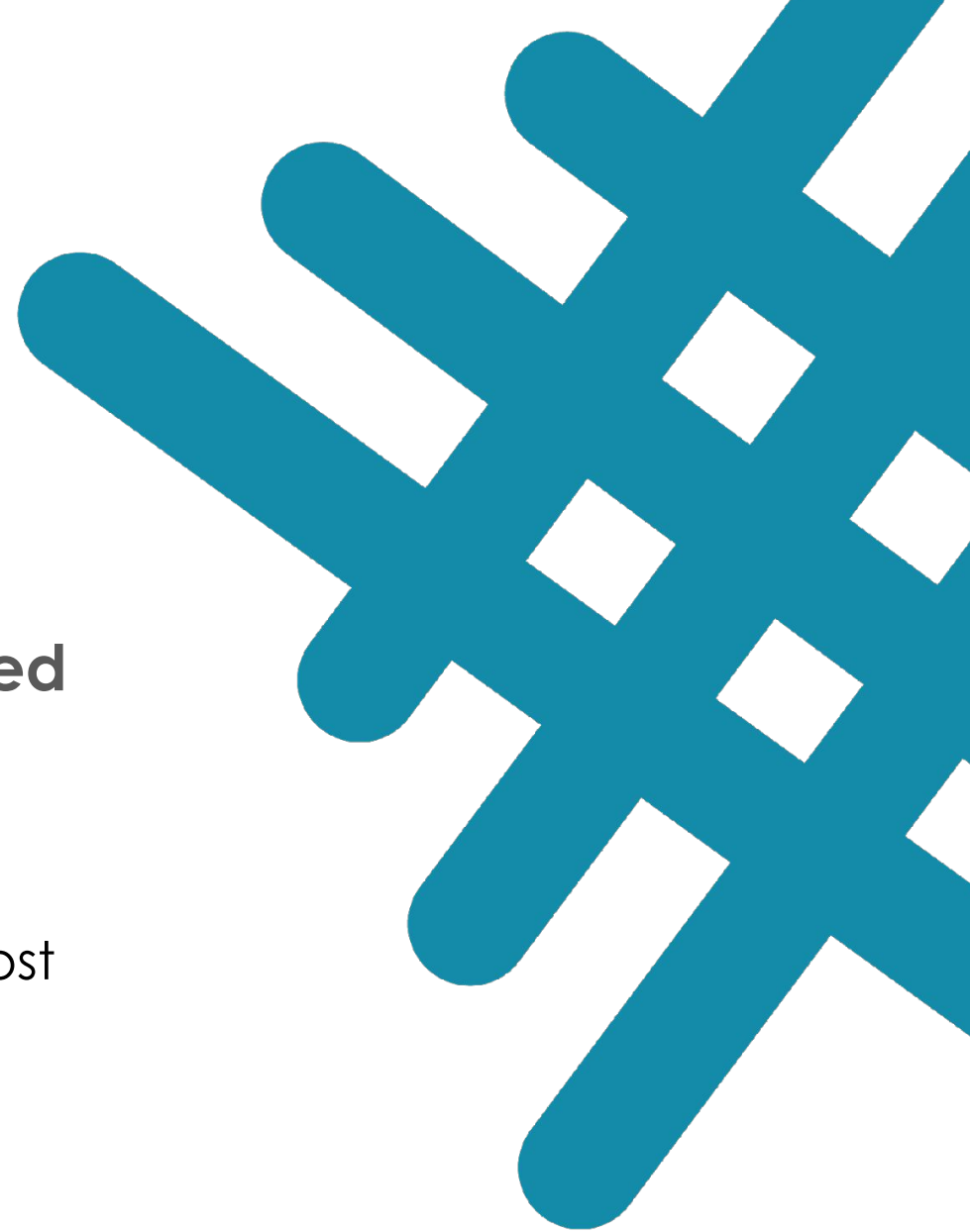
- LA-OC: -12% YTD
- RV-SB: -8% YTD

## 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



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# Conclusion/Outlook



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## Outlook 2021

- Less uncertainty in 2021:  
pandemic, election, economy
- Pandemic
  - Dictates overall economic recovery and fate of key sectors
  - 2<sup>nd</sup> wave underway globally
- Election/New Administration
  - Course change in policies
    - Pandemic
    - Economic
    - International



# Outlook 2021

- Economy: Recovery...YES, “V”-shape...NO
  - GDP plunged \$2T in first half of 2020, Surged \$1.3T in Q3-2020
  - Closing the remaining \$700B will take longer...
  - Note: GDP averaged +\$90B per quarter during recovery from great recession
  - FULL RECOVERY: GDP in late 2021, Labor market 2022-23 (4%)
- Progress will be uneven
  - Goods sectors recover more quickly than services
  - Face-to-face to recover more slowly than other services
- California
  - Slower recovery path than US...for now
  - Track progress at the county level
  - Housing opportunities and challenges





THANK YOU

