

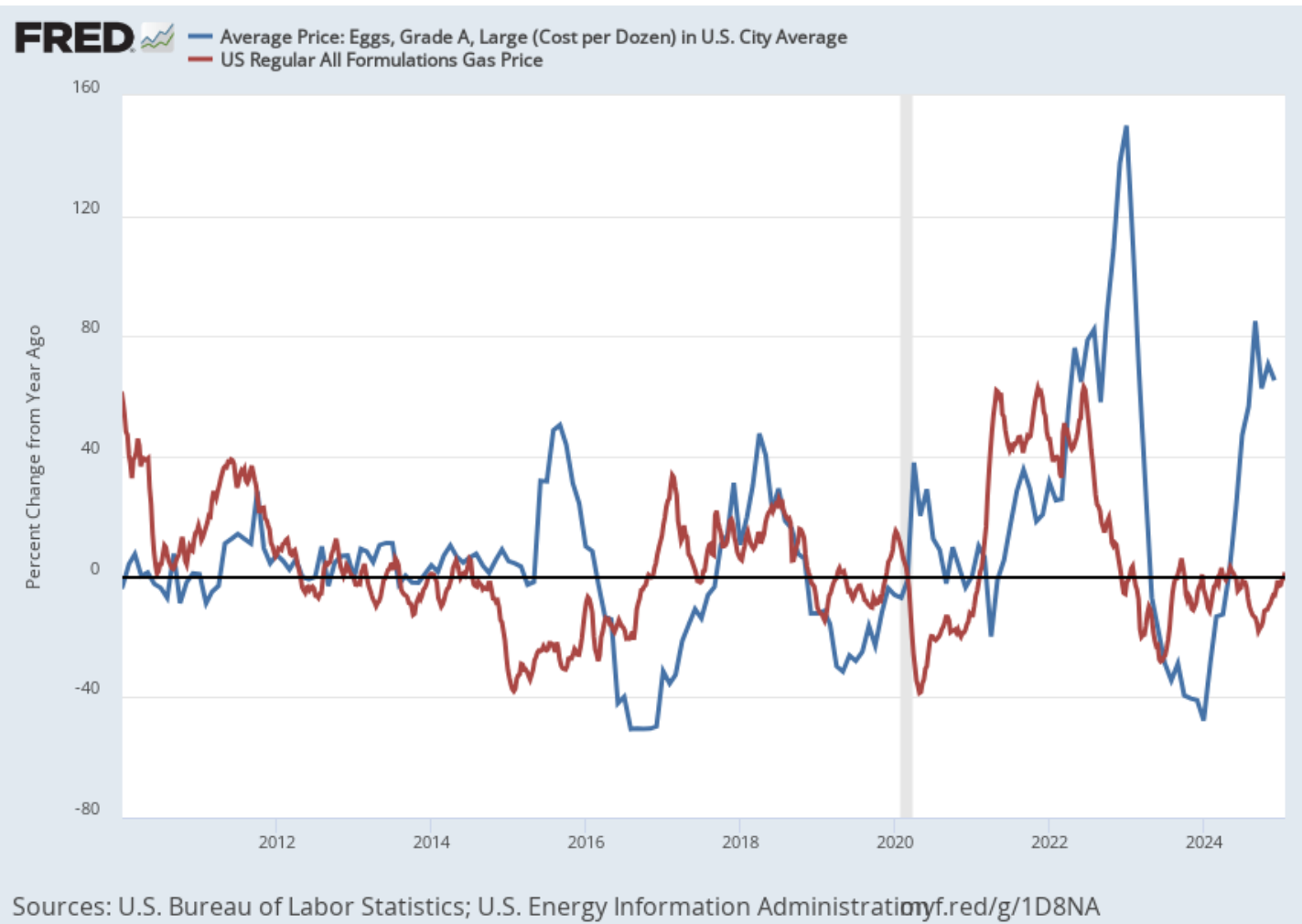
Economic Outlook
Ed Coulson,
Professor and Area Head, Economics
Director, Center for Real Estate



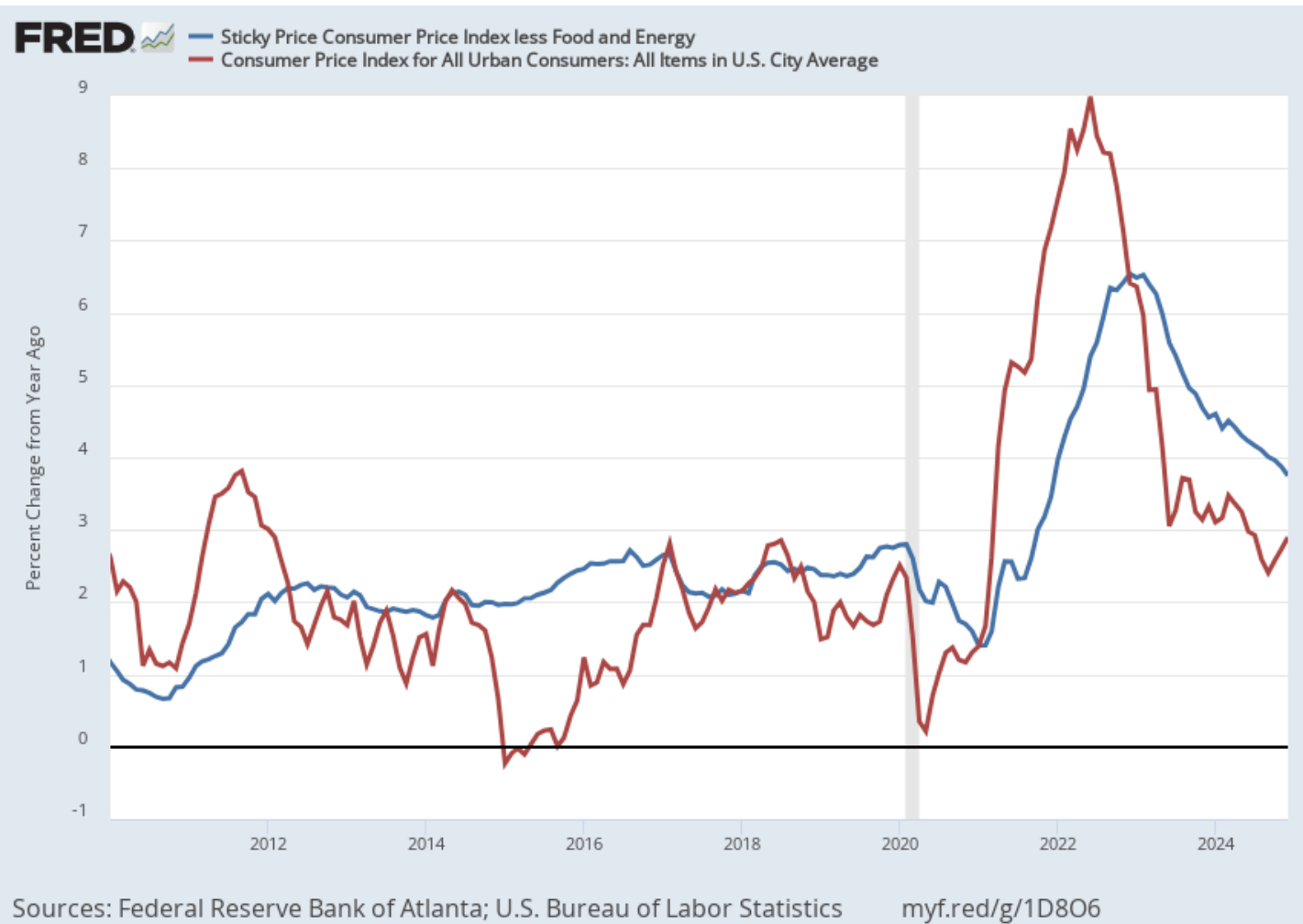
Let's start at the very beginning



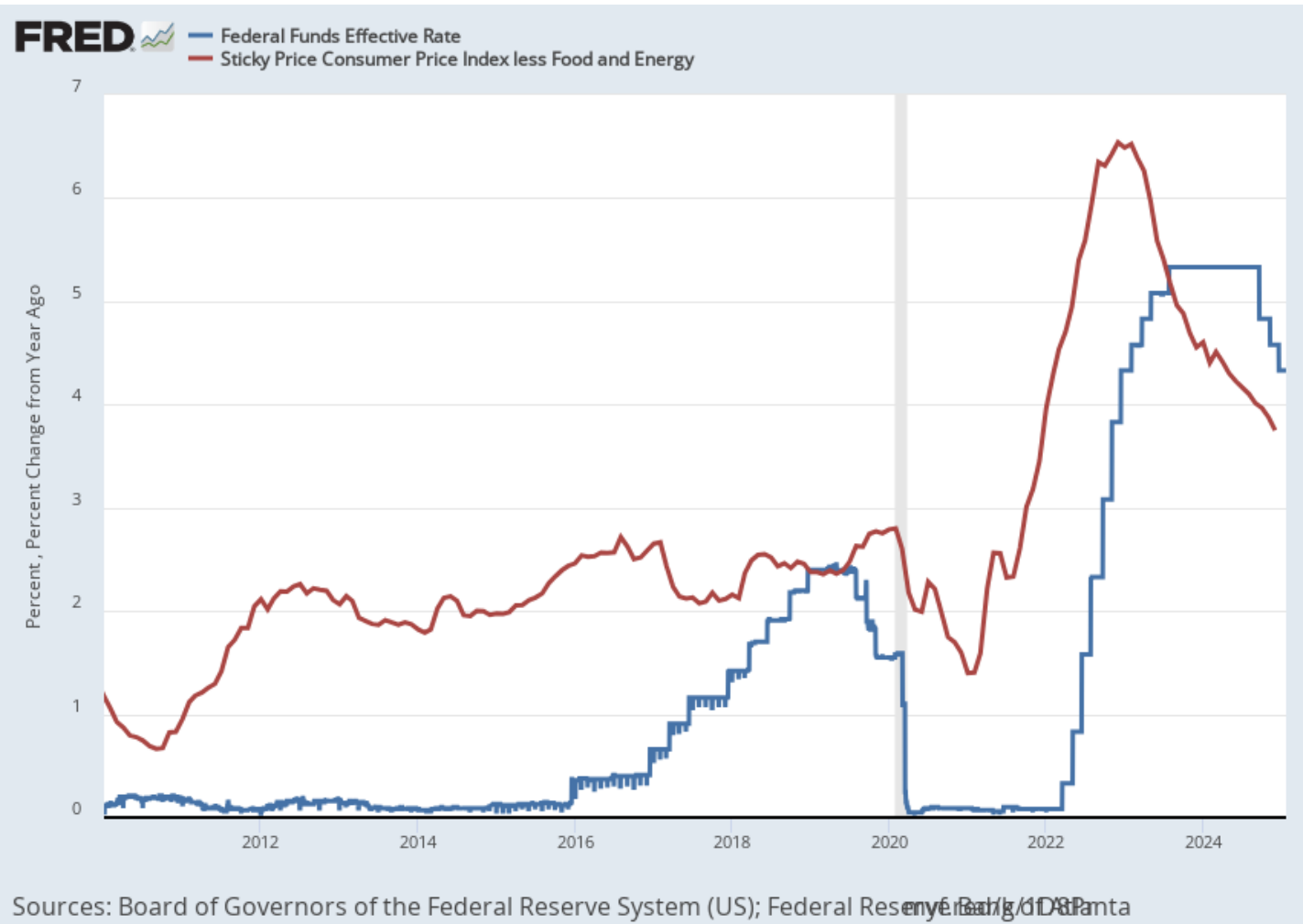
Let's get upset!



A tale of two indices: core vs all-items



Interest rates and inflation



Why the third rate cut in December?

Why the third rate cut in December?

1. Softening of economy

Why the third rate cut in December?

1. Softening of economy
2. Inflation is below FFR

Why the third rate cut in December?

1. Softening of economy
2. Inflation is below FFR
3. He proomised

Why the third rate cut in December?

1. Softening of economy
2. Inflation is below FFR
3. He proomised
4. He is a fan of Ed Coulson

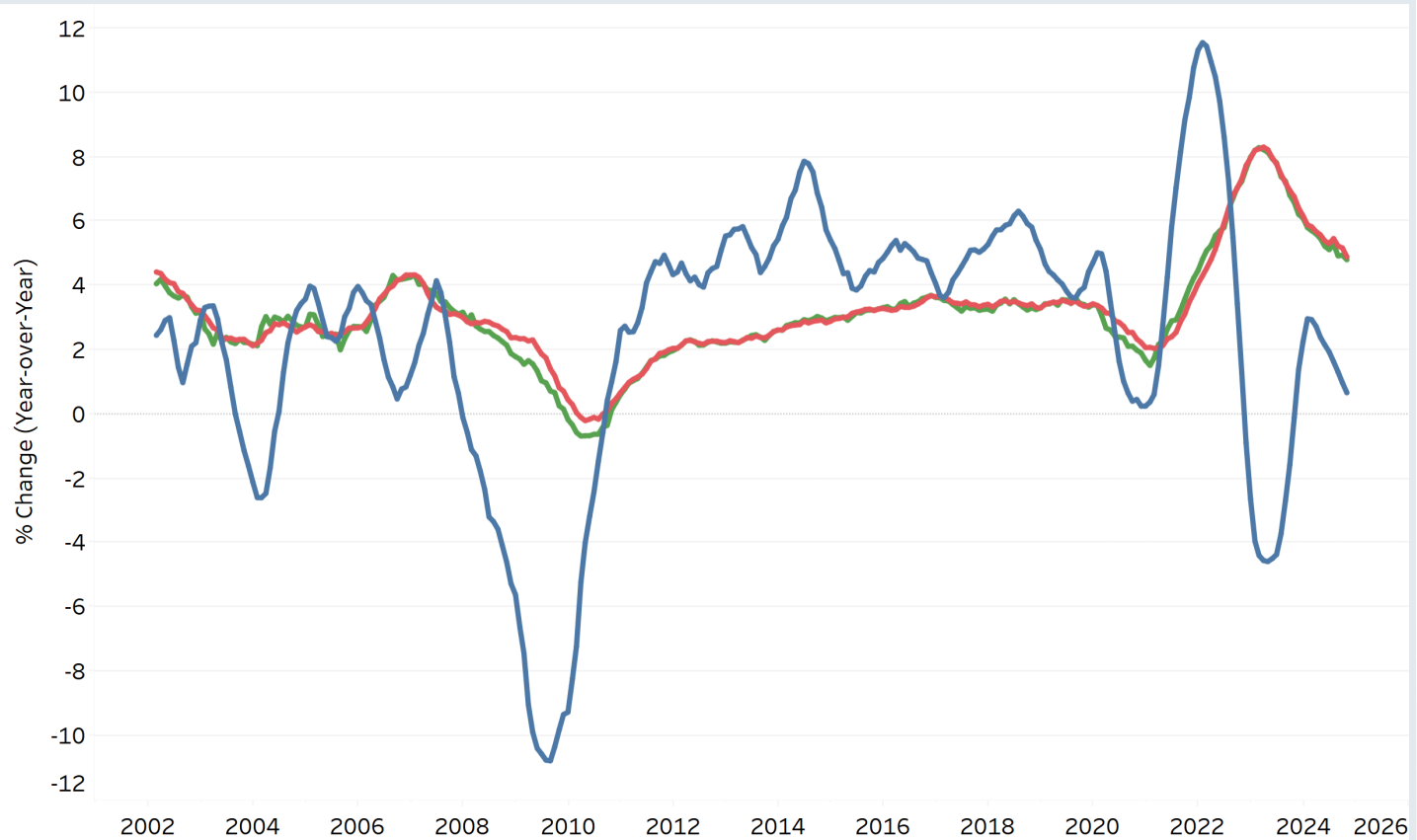
Our old friend, mismeasured rental inflation



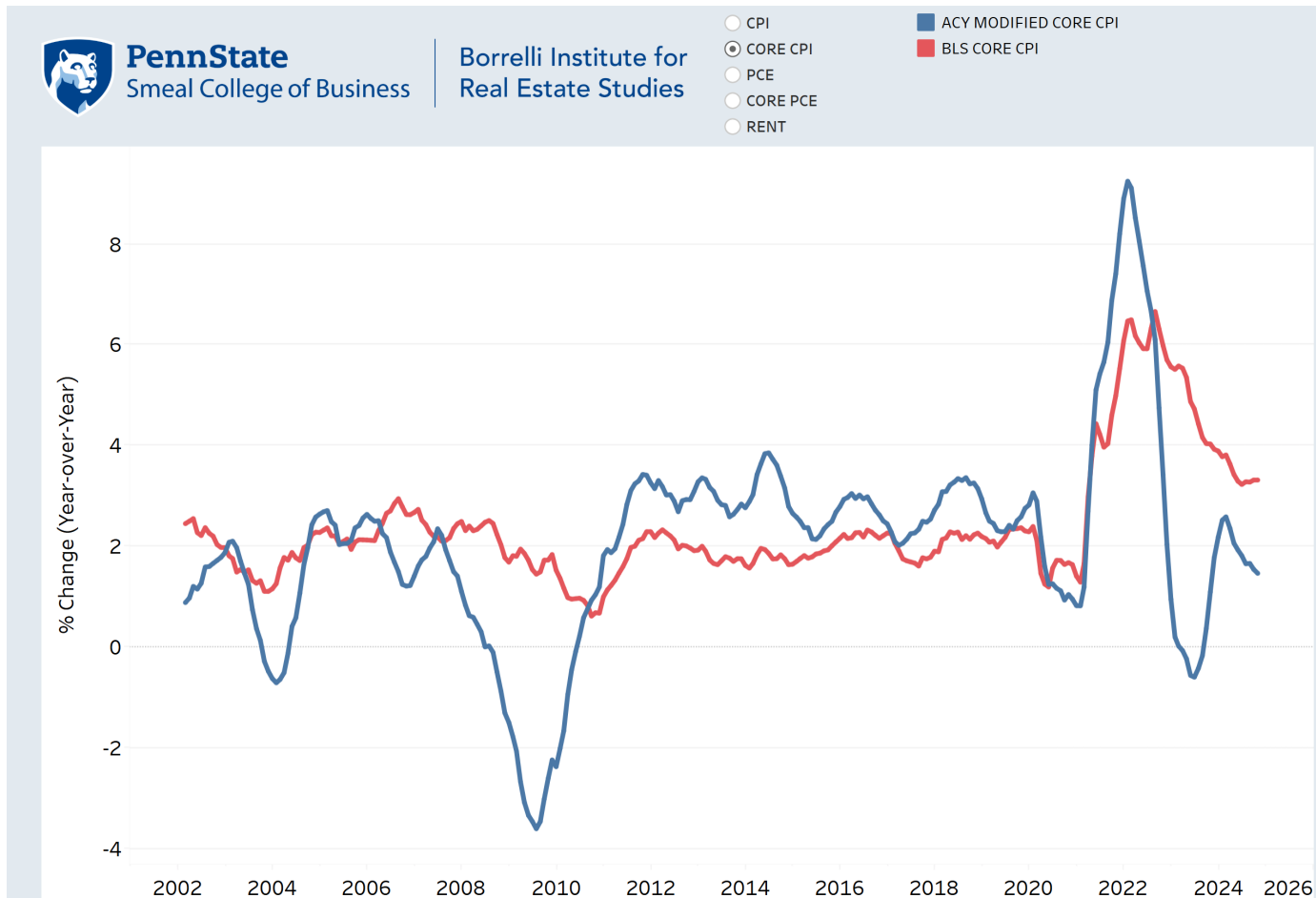
PennState
Smeal College of Business

Borrelli Institute for
Real Estate Studies

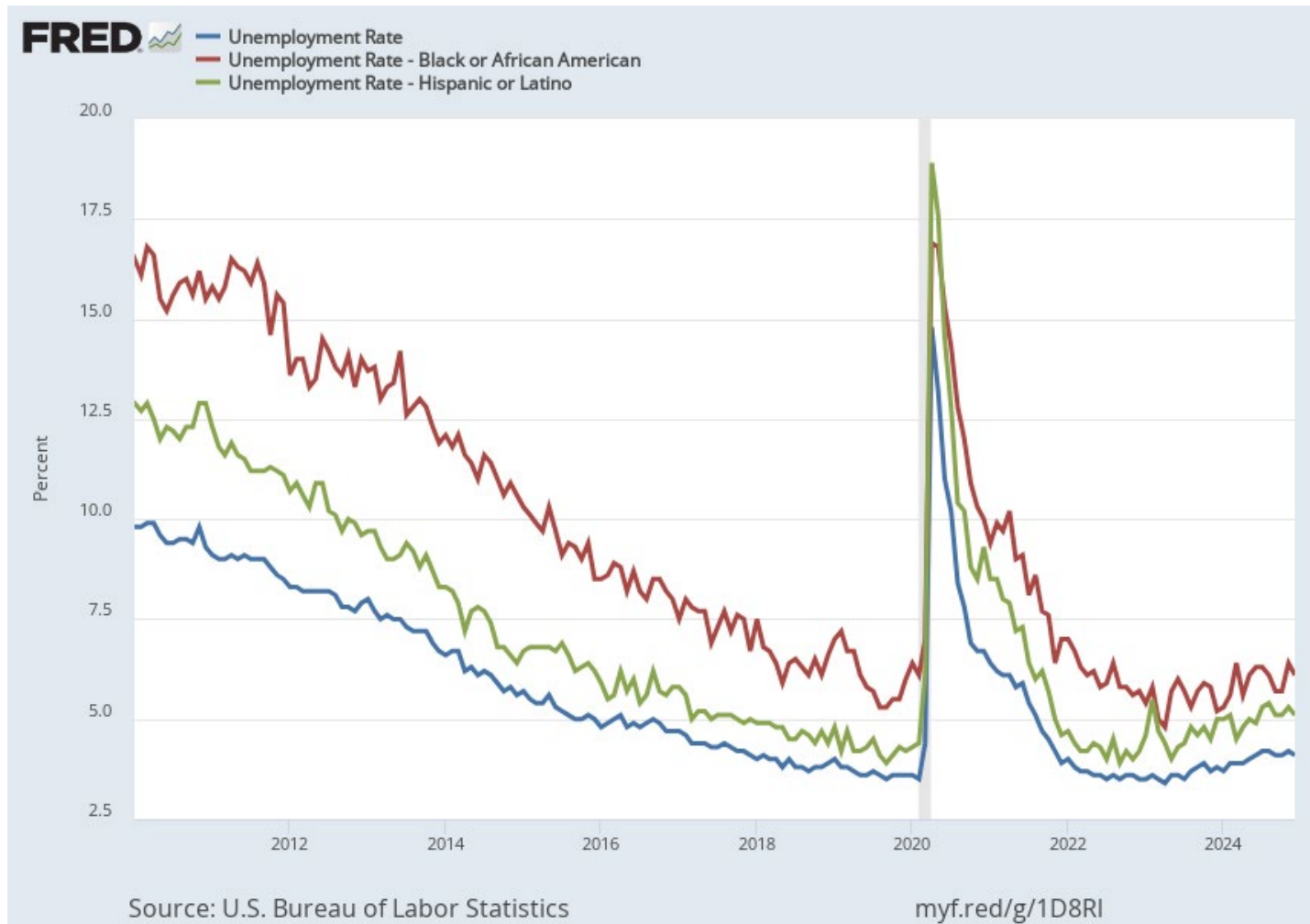
- CPI
- CORE CPI
- PCE
- CORE PCE
- RENT
- ACY MARGINAL RENT INDEX
- BEA PCE RENT
- BLS CPI RENT



The Ambrose, Coulson, Yoshida alternative inflation computation (<https://sites.psu.edu/inflation/>)

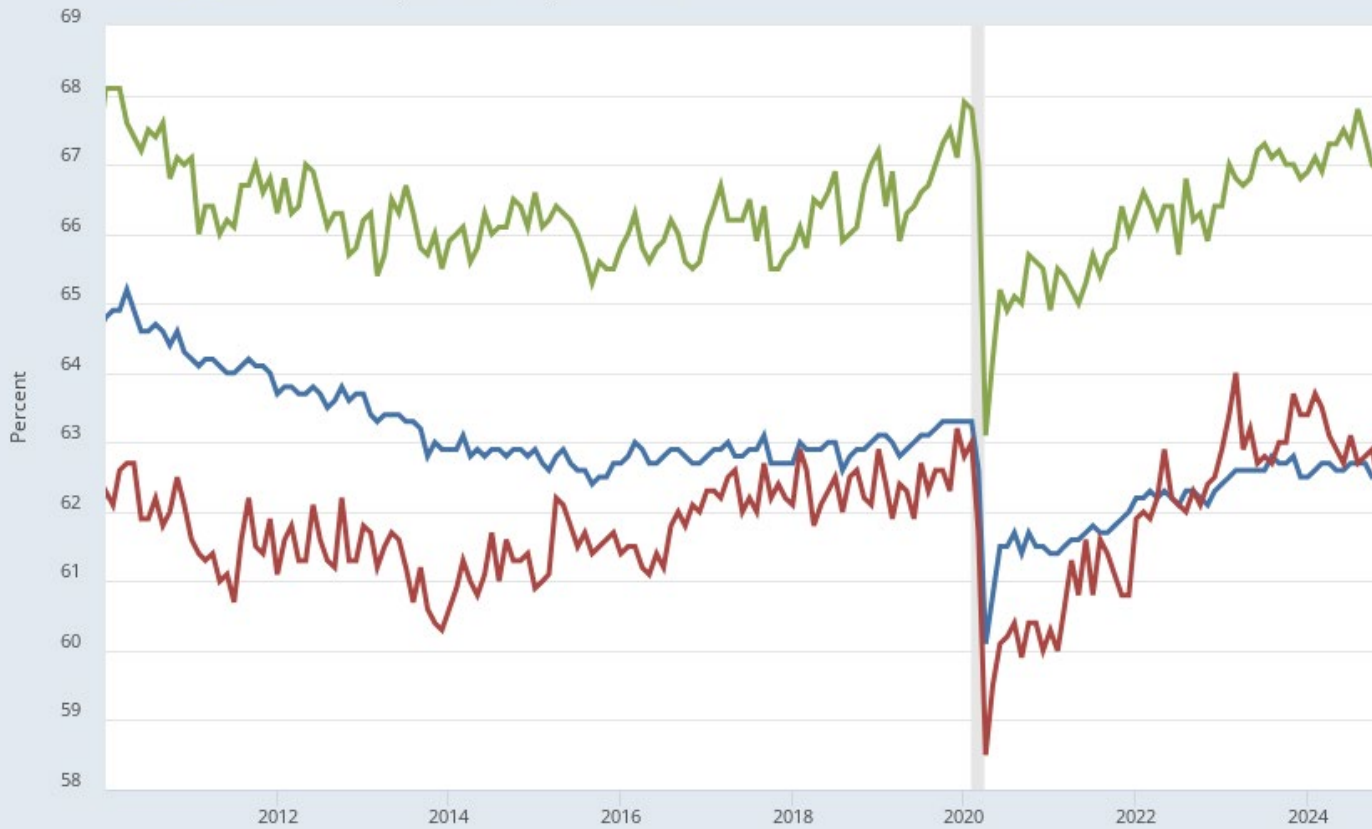


Well, was/is the economy softening?



FRED

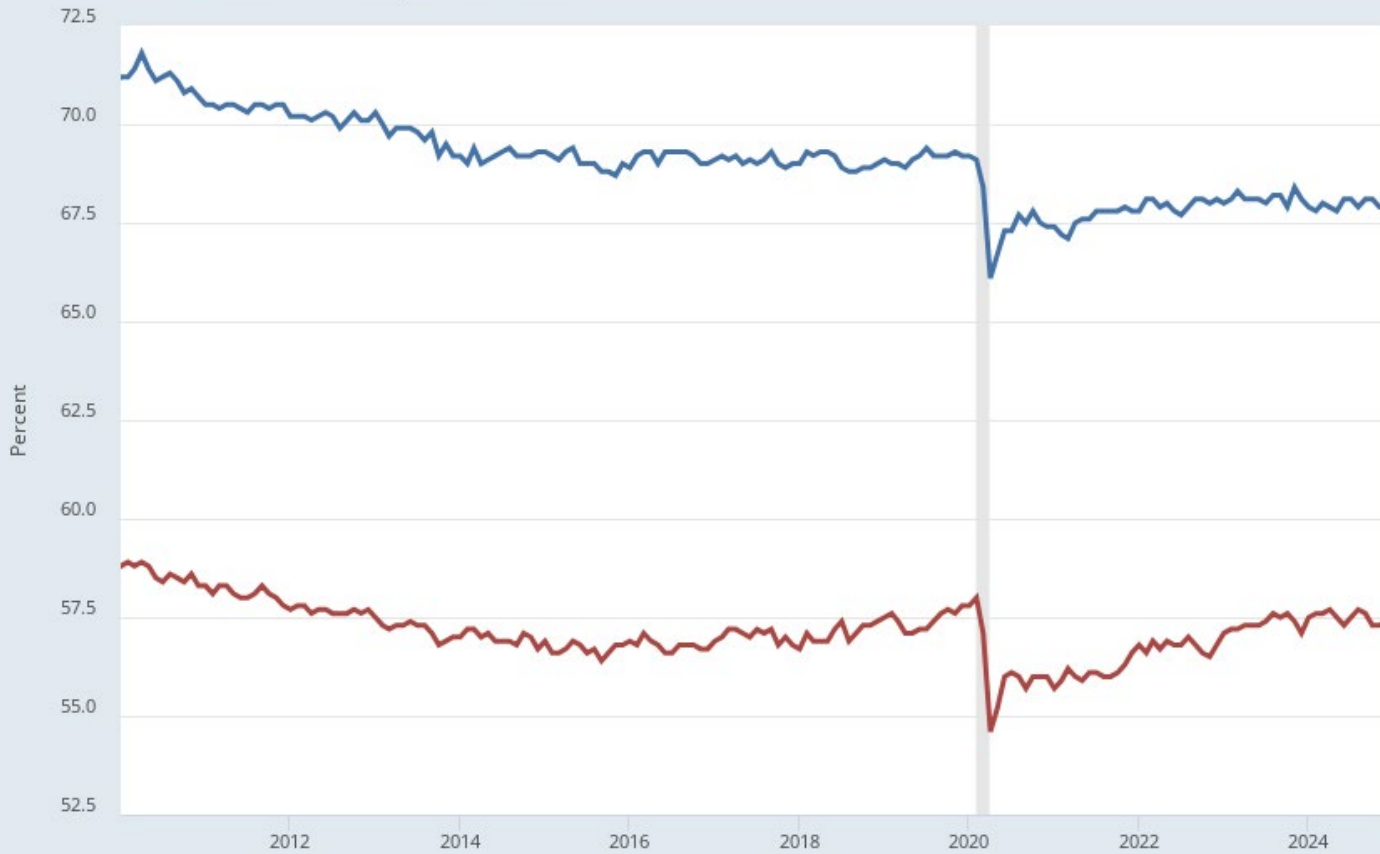
- Labor Force Participation Rate
- Labor Force Participation Rate - Black or African American
- Labor Force Participation Rate - Hispanic or Latino



Source: U.S. Bureau of Labor Statistics

myf.red/g/1D8Rs

FRED  Labor Force Participation Rate - Men
Labor Force Participation Rate - Women

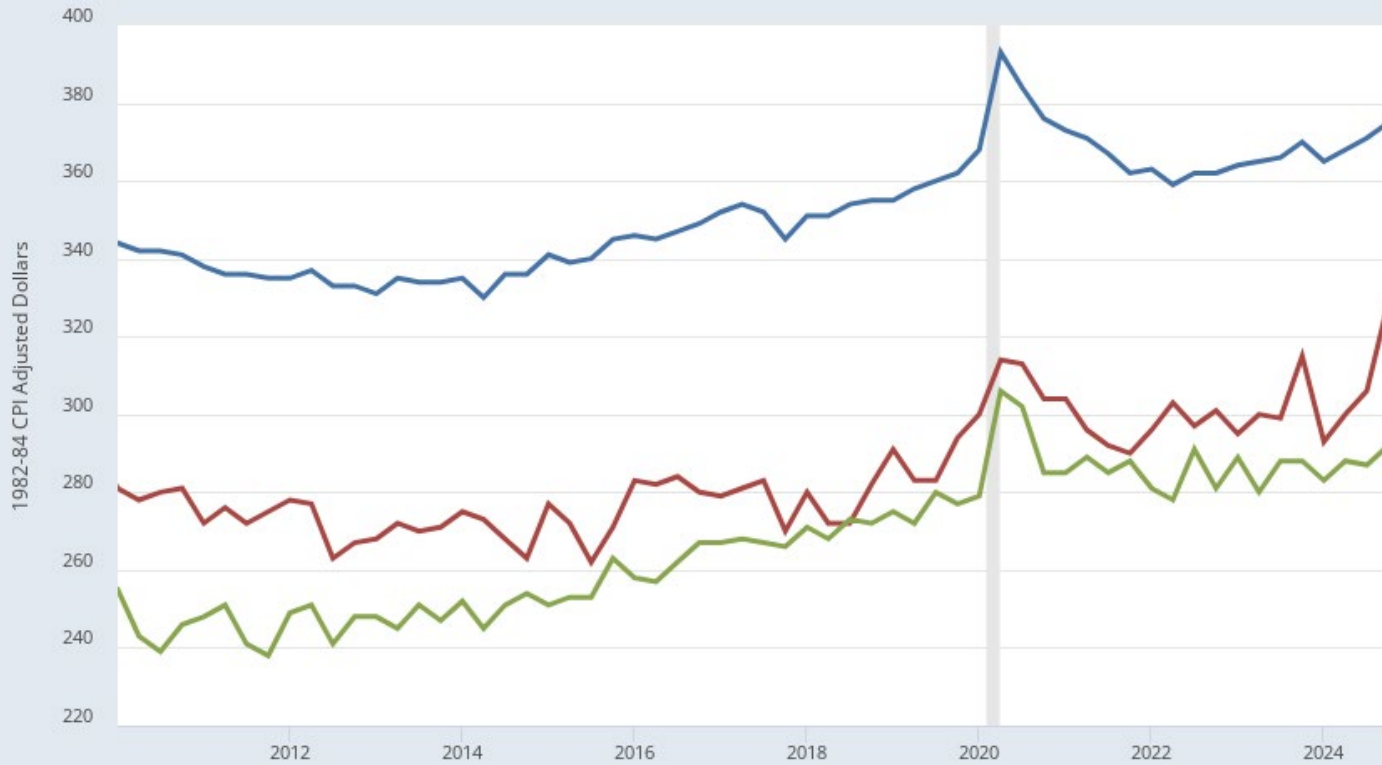


Source: U.S. Bureau of Labor Statistics

myf.red/g/1D8RA

FRED

- Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over
- Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over: Black or African American
- Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over: Hispanic or Latino



Source: U.S. Bureau of Labor Statistics

myf.red/g/1D8RN

So where is the softening?

So where is the softening?


- REAL ESTATE!
- Sensitive to interest rates on both supply and demand side.

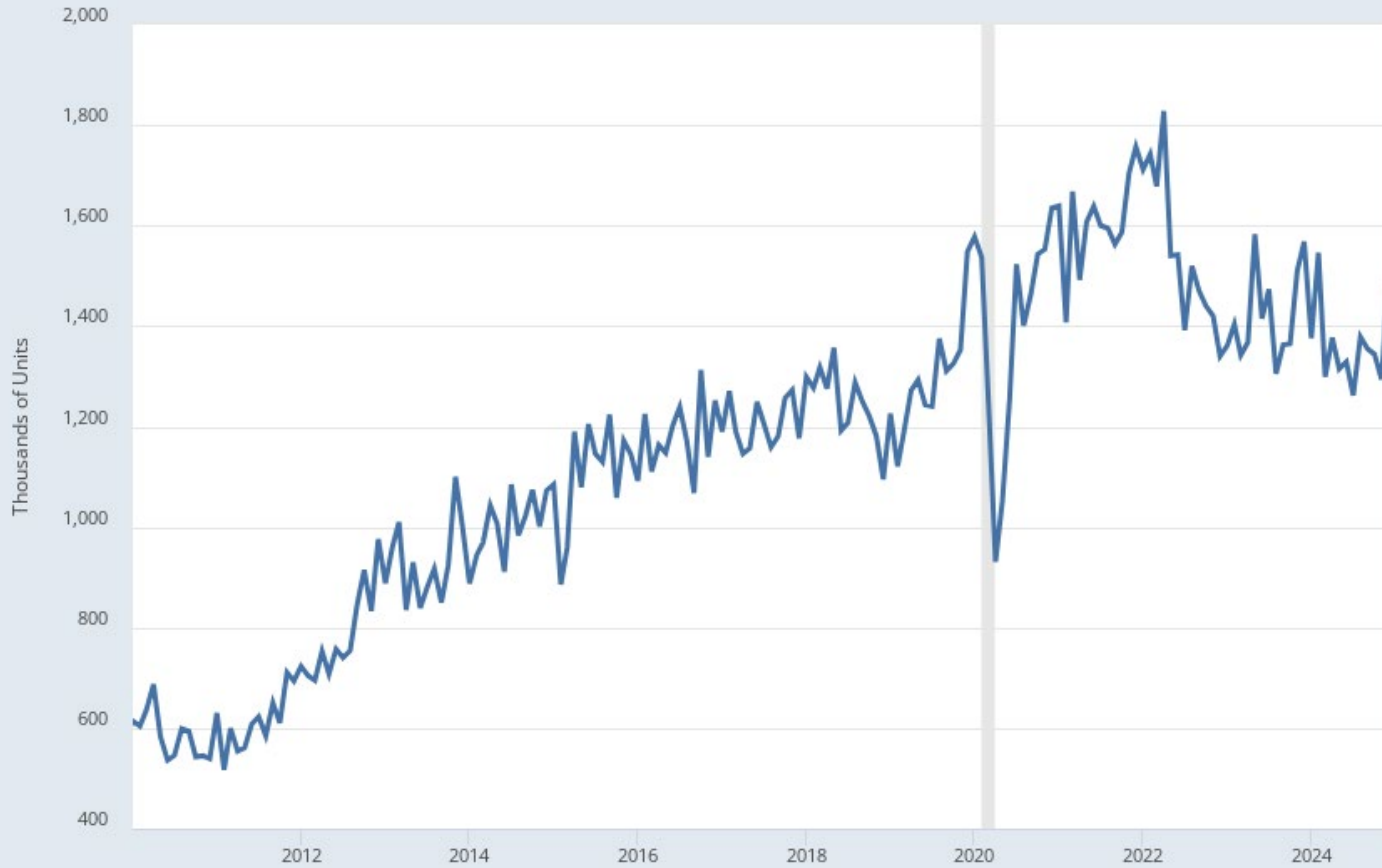
FRED  — Large Bank Consumer Mortgage Originations: New Originations



Source: Federal Reserve Bank of Philadelphia

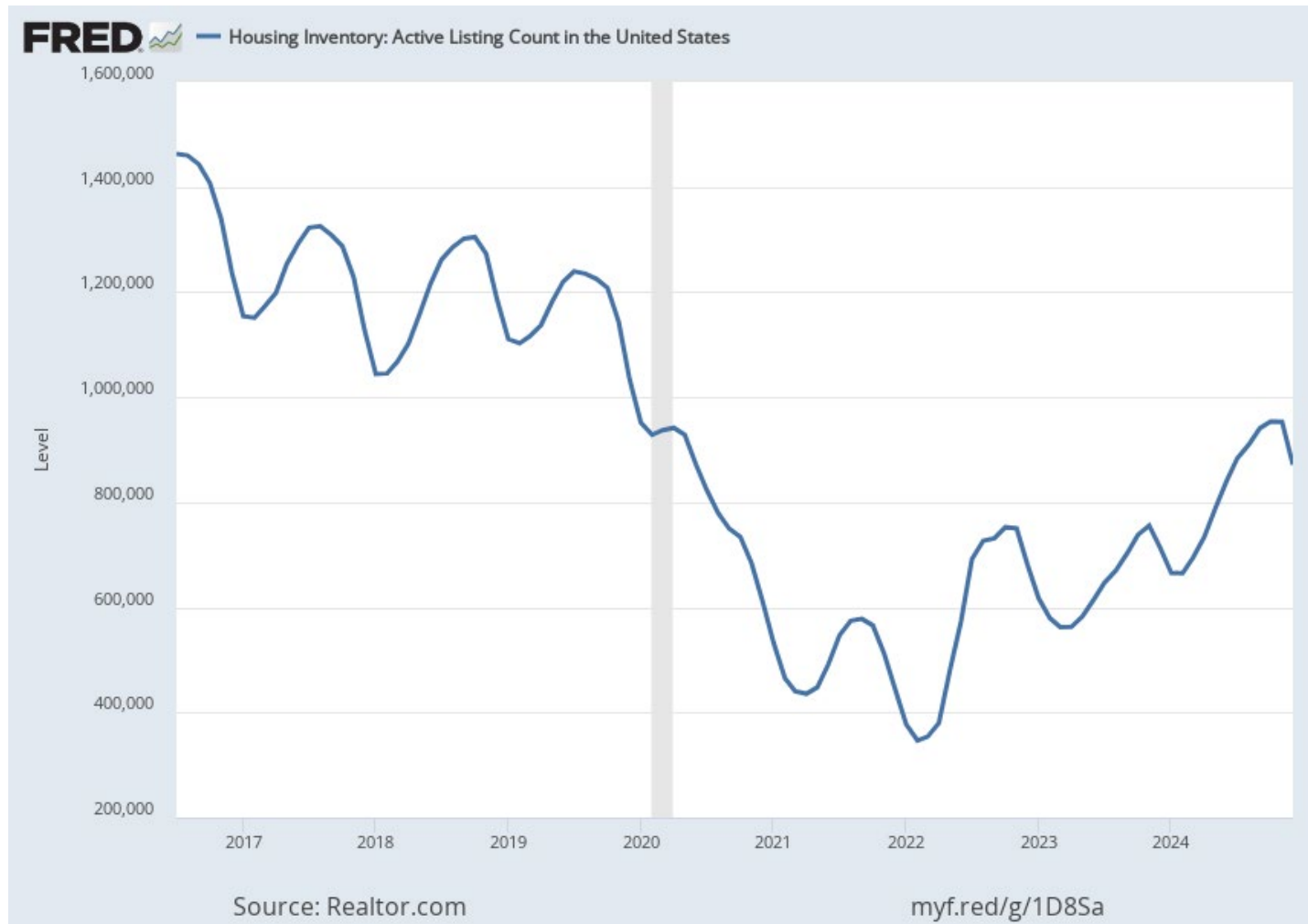
myf.red/g/1vzRw

FRED  — New Privately-Owned Housing Units Started: Total Units



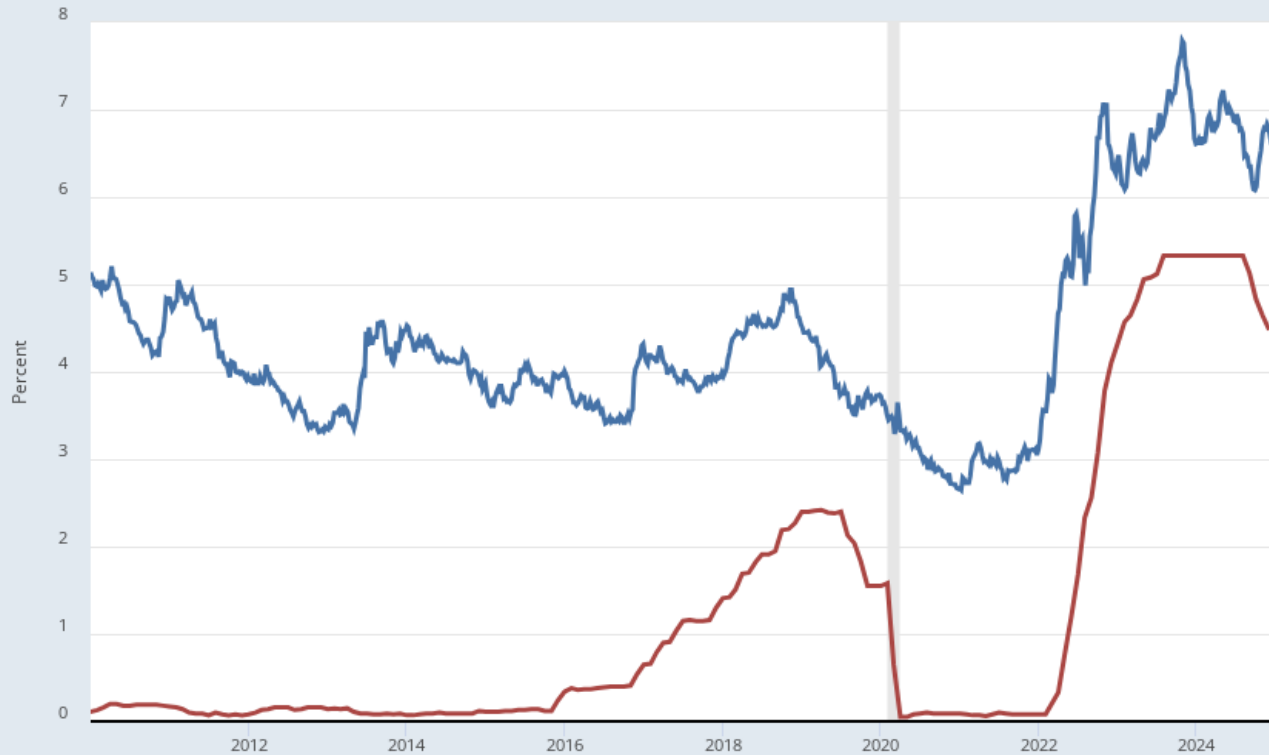
Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development [fred/g/1D8S2](https://fred.stlouisfed.org/g/1D8S2)

Mortgage lock might be a thing



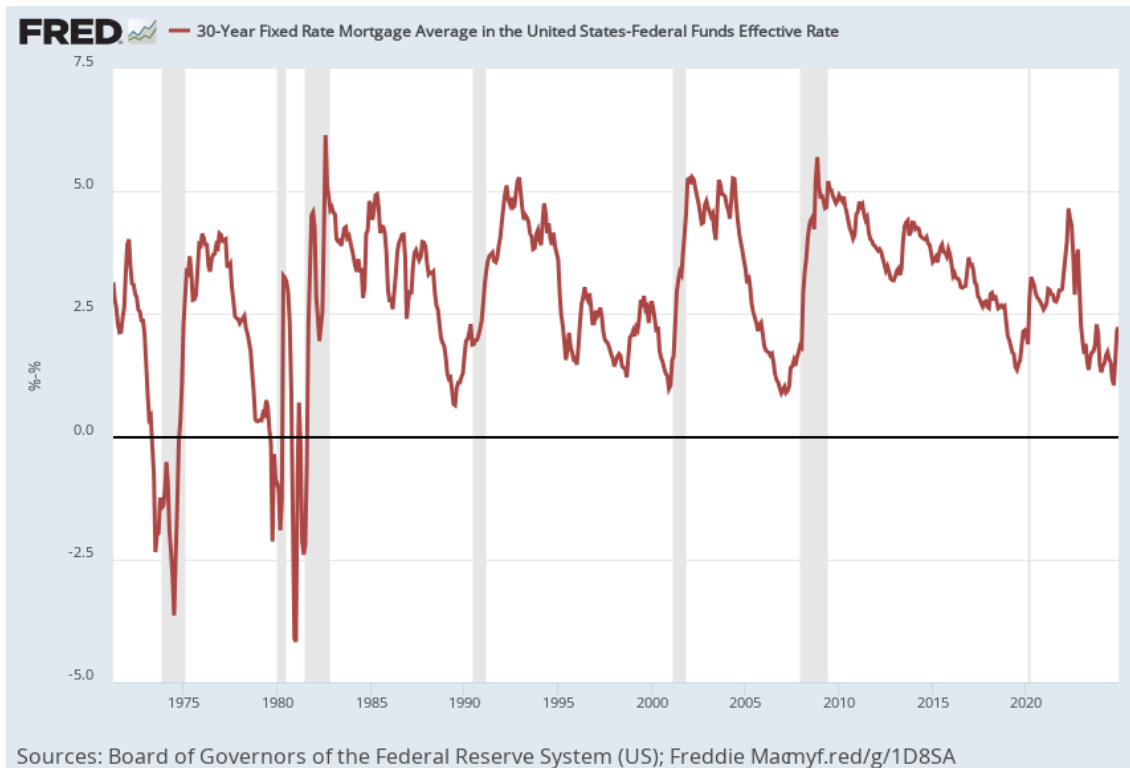
FRED

— Federal Funds Effective Rate
— 30-Year Fixed Rate Mortgage Average in the United States



Sources: Board of Governors of the Federal Reserve System (US); Freddie Macmyf.red/g/1D8Sp

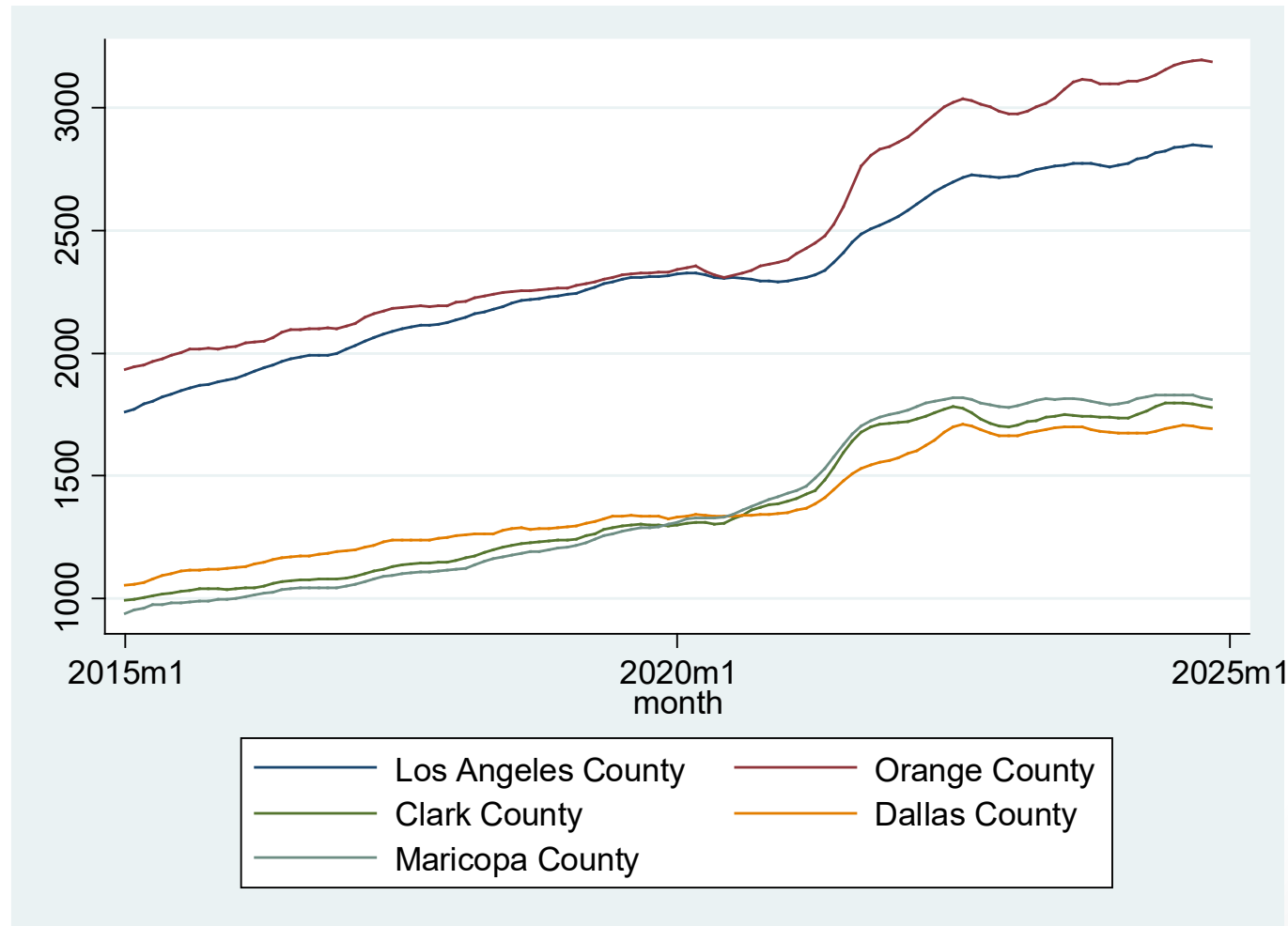
- Is that recent divergence the work of the “bond vigilantes”?
- Not that large by historical standards:



Speaking of spreads, here's the yield curve, finally not predicting recessions.

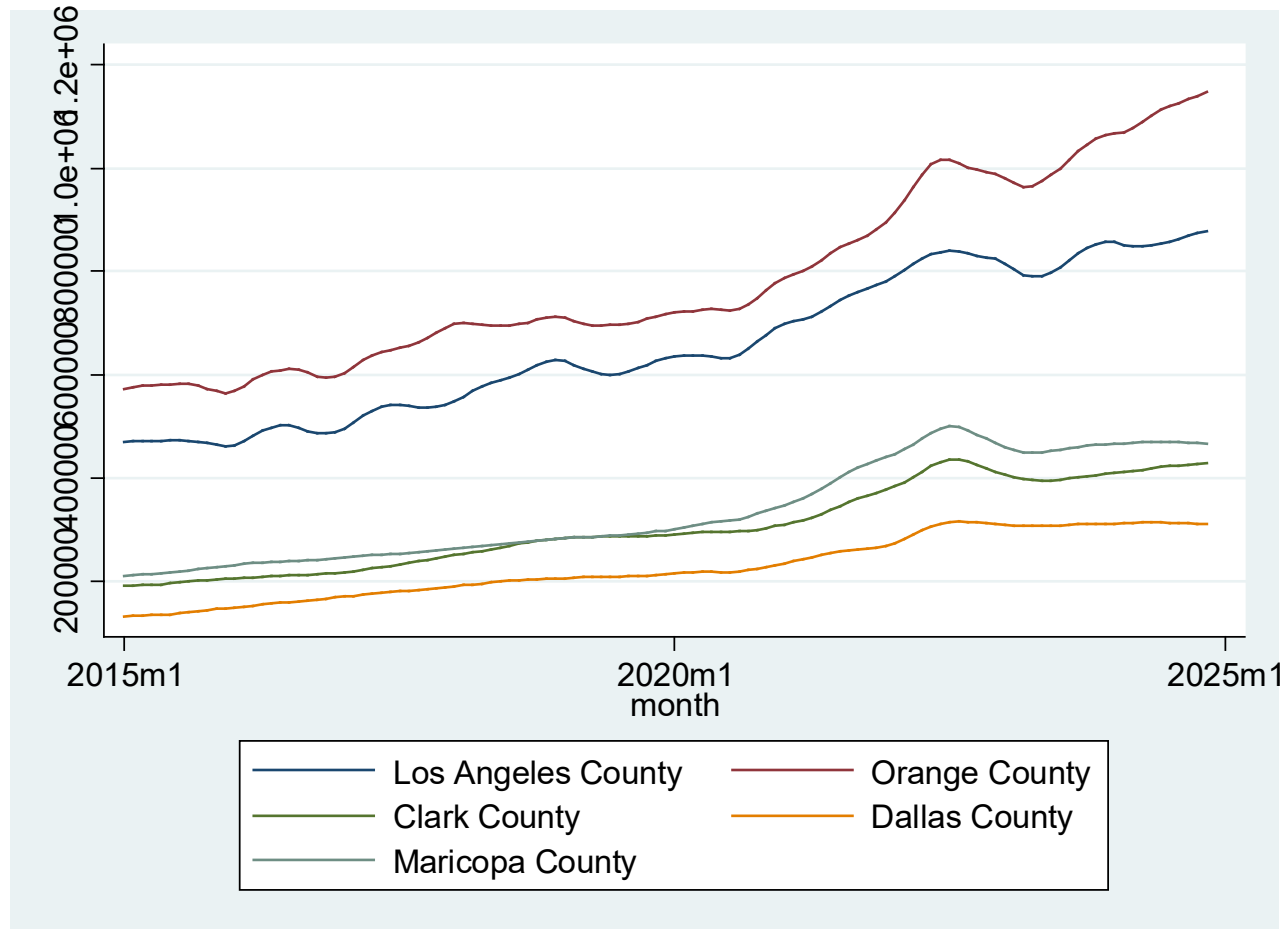


Housing markets are not homogenous, though.
Here is a sample:



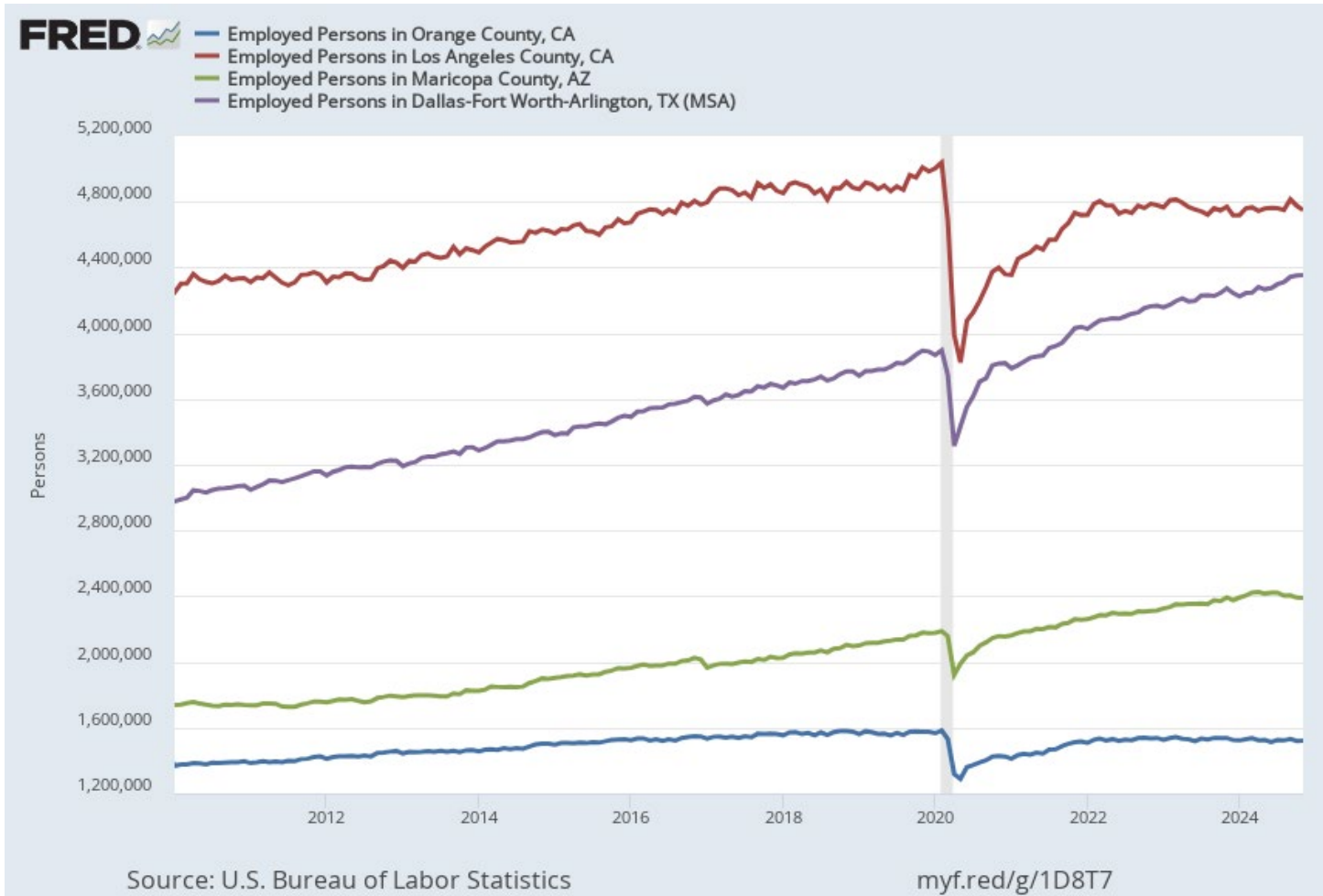
- SoCal rents continue to rise
- But people are leaving, right?
- Didn't I forecast more flattening?

Home prices: Sure looked that way a year ago

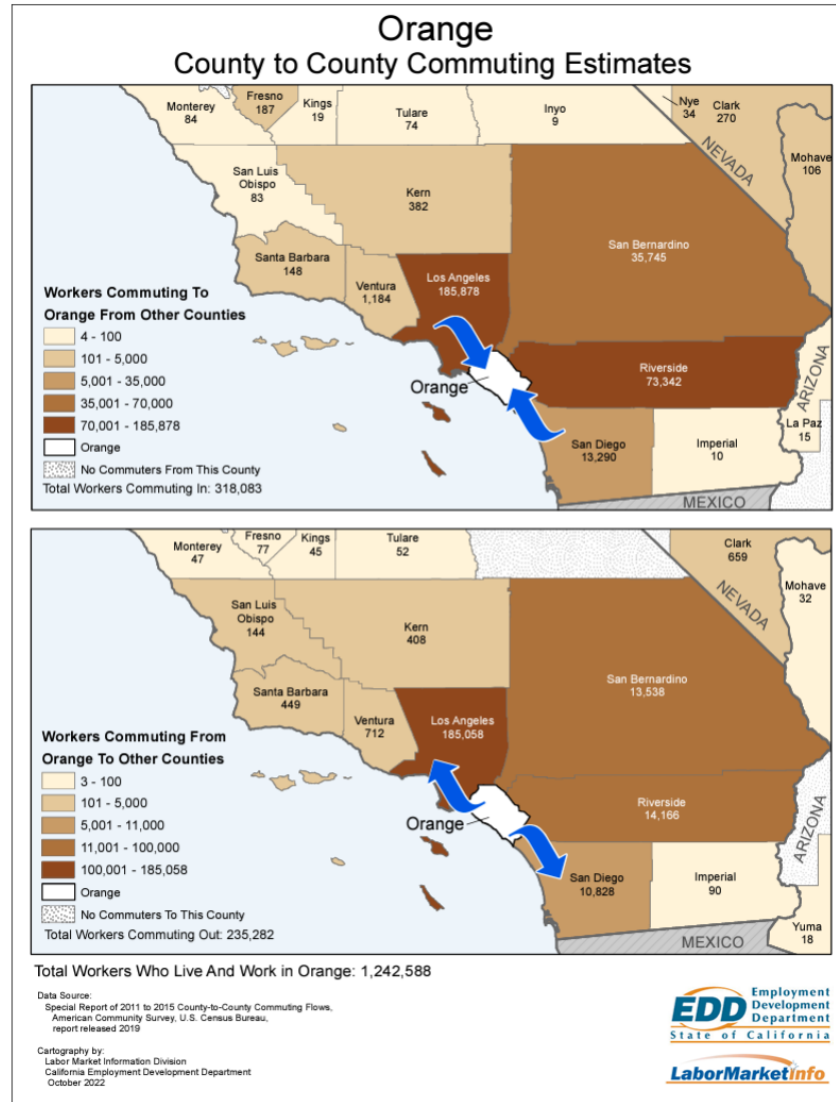


- DO A FORECAST! They said. What's the harm?
- One year ago, it looked like home prices had steadied.
- A new post-COVID equilibrium
- Instead, a fundamentals-driven rise in prices.

Where is it coming from? Not from the economy



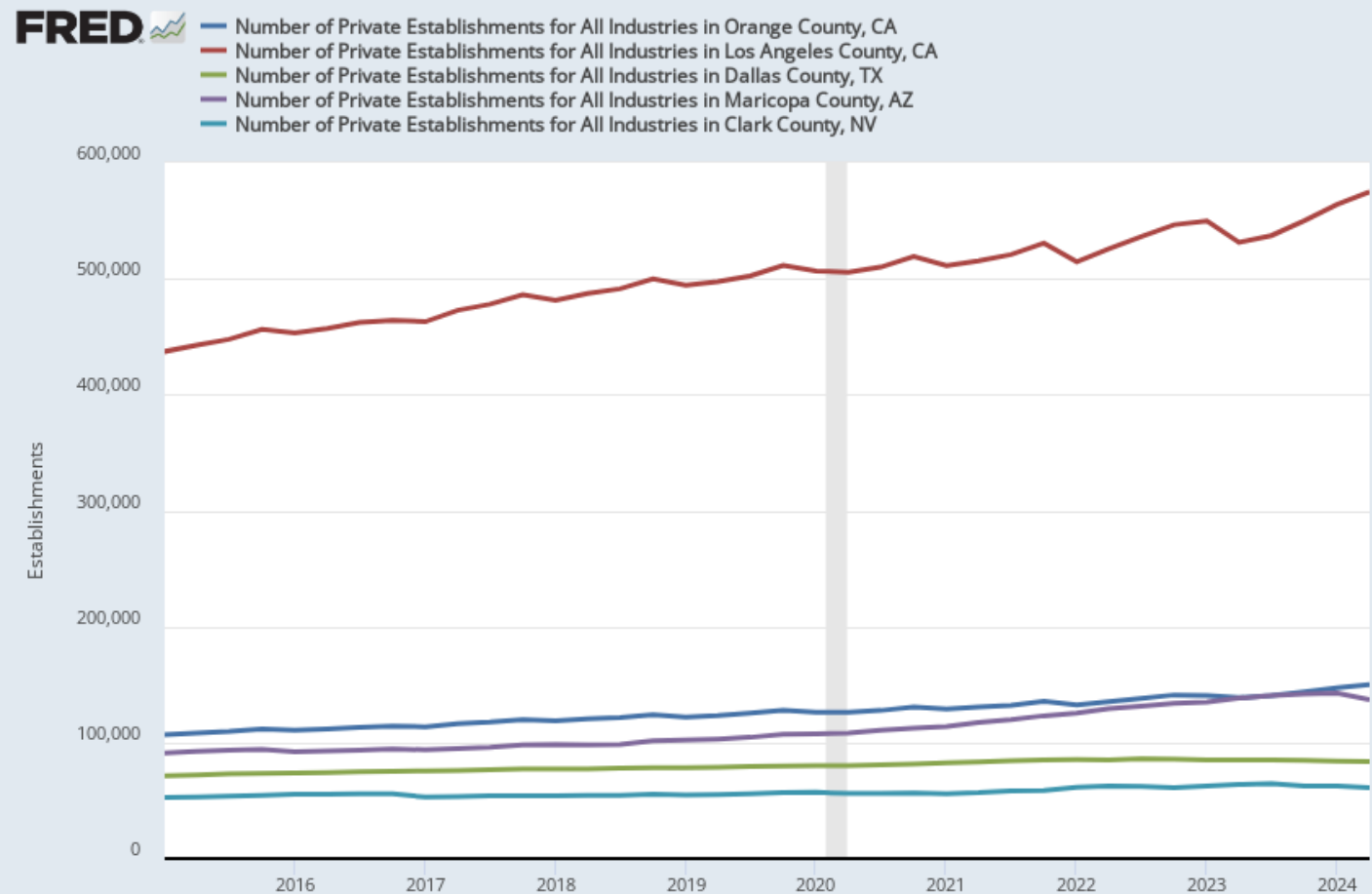
Commuting flows indicate demand for housing in OC arises from elsewhere...



New pressures on housing market



- Brought on by what a nice place this is:
 - Increasing conversion of SF to rental market
 - Increasing conversion to STR market
 - Increasing use as vacation property (shadow vacancy)
- All of these contribute to increased demand for property without expansion of the economy (although data on this remains elusive)

Although dynamism is still present

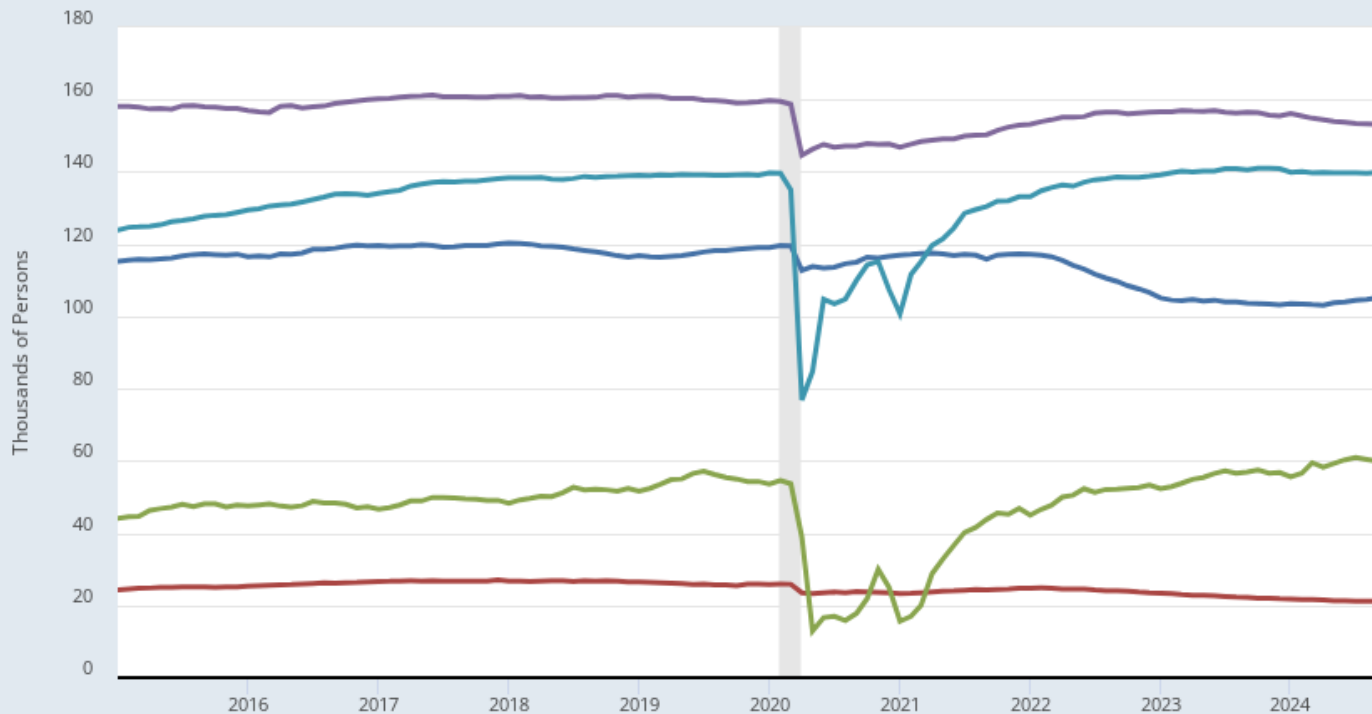


Sources: Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics myf.red/g/1Cg4s

What is growing, what is not?

FRED  

- All Employees: Financial Activities in Anaheim-Santa Ana-Irvine, CA (MD)
- All Employees: Information in Anaheim-Santa Ana-Irvine, CA (MD)
- All Employees: Leisure and Hospitality: Arts, Entertainment, and Recreation in Anaheim-Santa Ana-Irvine, CA (MD)
- All Employees: Manufacturing in Anaheim-Santa Ana-Irvine, CA (MD)
- All Employees: Leisure and Hospitality: Restaurants and Other Eating Places in Anaheim-Santa Ana-Irvine, CA (MD)



Sources: Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics myf.red/g/1Cg6o

The OC economy is in danger of becoming one that relies too much on tourism

- The lessons of COVID is that this is not desirable and too fragile
- Need to retain the cutting edge.