



Construction and the Stimulus Hangover

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Consumer confidence
dips on worries over
inflation and slowing U.S. economy

A survey of U.S. consumer



There's a 98% chance of a global recession, research firm warns



By [Matt Egan](#), CNN Business

Updated 11:27 AM EDT, Wed September 28, 2022

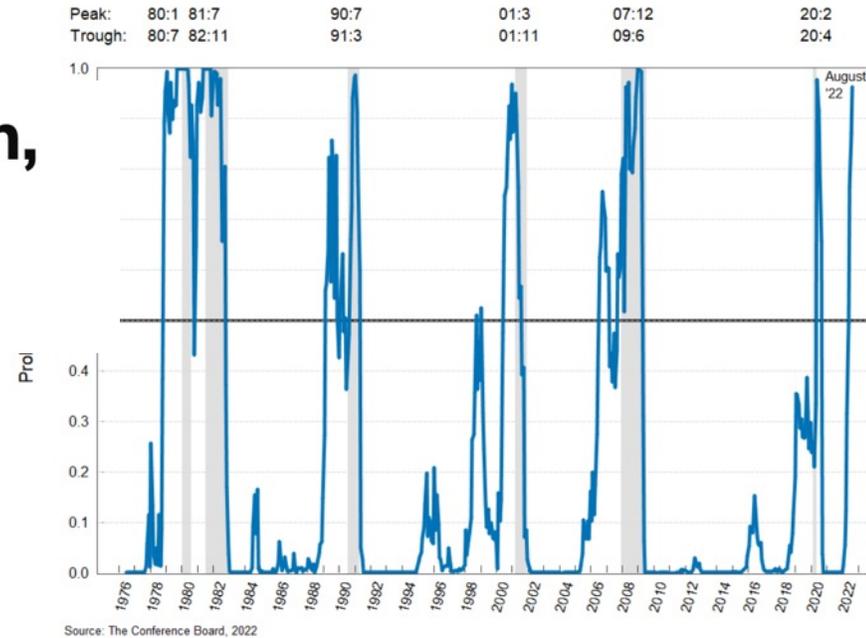
FINANCE • HOUSING

The housing market just slid into a full-blown correction, says top economist Mark Zandi

BY [LANCE LAMBERT](#)
May 27, 2022 9:36 AM PDT

Stocks entered a bear market. Here's what that means

May 20, 2022 · 3:40 PM ET



Gas tops \$6 a gallon in California: "How much pain at the pump can consumers take?"

California gas prices hit an average of \$6.00 a gallon. ... for the U.S. economy, given that consumer spending contribu
2 weeks ago

The U or V Debate



Coronavirus to cause worst economic downturn since Great Depression, IMF forecasts

CBO: Coronavirus pandemic will scar U.S. labor market for the next decade

30-40 Million People in America Could Be Evicted from Their Homes by the End of 2020

As many as 30% of Americans with home loans — about **15 million** households — could stop paying if the U.S. economy remains closed through the summer or beyond, according to an estimate by Mark **Zandi**, chief economist for Moody's Analytics.

JPMorgan now sees economy contracting by 40% in second quarter, and unemployment reaching 20%

Home prices rose in June, but they'll likely fall in 2021: CoreLogic

'Make no mistake...the pandemic morphed into a Depression-like crisis,' says UCLA economist, who predicts U.S. economy won't recover from coronavirus until 2023

2019: The Year of the Bear



**For the U.S. Economy,
Storm Clouds on the
Horizon**

Here's a list of recession signals that are flashing red
SEP 2 2019 - 8:30 AM EDT | UPDATED TUE, SEP 3 2019 - 11:31 AM EDT

Real Estate Markets Cool Across The Country, And It's

The Winter Effect

Goldman Sachs economists say fears rise that U.S.-China trade war leading to recession

Trump could trigger a global recession if he imposes more China tariffs, economists predict

Morgan Stanley says recession will be here in 2020

DoubleLine CEO Jeffrey Gundlach warns of recession driven by 'cocktail of economic factors'
MON, AUG 5 2019 - 12:49 PM EDT
PUBLISHED TUE, MAY 14 2019 - 6:44 PM EDT

"The economy is on the precipice and this would just push us over into the abyss. I don't think we're very far from recession as it is,"
Moody's Analytics chief economist Mark Zandi tells me.

Economy at 'very real risk' of falling into recession in late 2020, UCLA forecast says
Real Estate | Market Outlook
in World Economy News © 15/03/2019
...ing Market Crisis 2.0: The Jury is Out - 2018-2019

Trump is heading into reelection with a deep manufacturing recession
Economy
September marked the worst month for manufacturing in 10 years

Housing Is Already in a Slump. So It (Probably) Can't Cause a Recession

Southern California home sales crash, a warning sign for recession
How to solidify your financial plan in case the trade war sparks a recession

Navigating a World of Public Hysteria



Not all negative shocks are an existential crises Labor supply problem here to stay

- Congress and the Fed vastly over-reacted to the pandemic
- They are now over-reacting to inflation, but dangerously in opposing directions
- Demographic realities have given workers market power
- Earnings growth will fuel demand, squeeze profits

The US is not in a recession; it is cooling from white hot to lukewarm

- Problems in economy driven by rapid shifts in structure of demand
- Plenty of pent-up consumer demand to keep the economy moving forward for now
- Inflation will just have to burn out on its own accord

Real Estate: Not a collapsing bubble, more a frozen pipe

- Rising rates creating sticker shock
- RE fundamentals are solid, demand strong

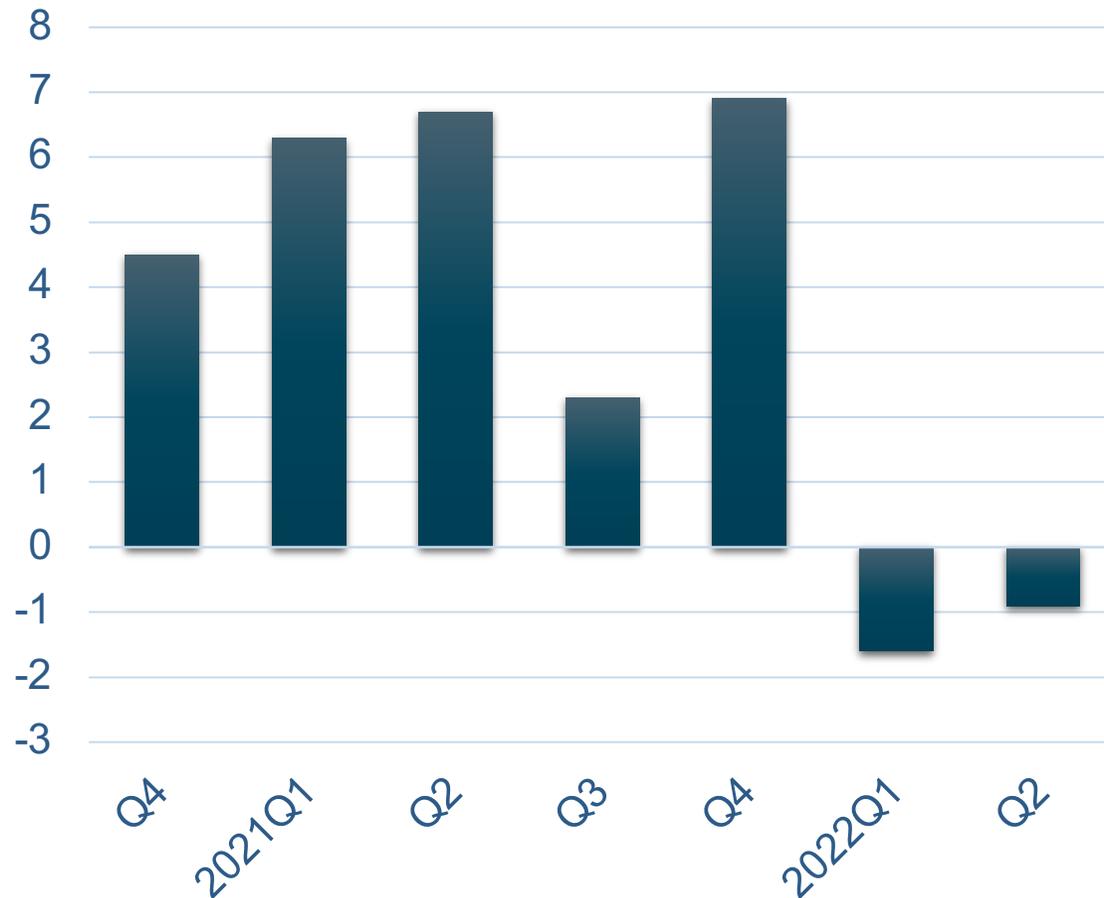
Things are not fine

- The best policy is no policy, yet politics continues to panic over everything
- Economy dangerously brittle
- Long run issues are Federal debt and growing trade deficit

Warning signs?



GDP Growth



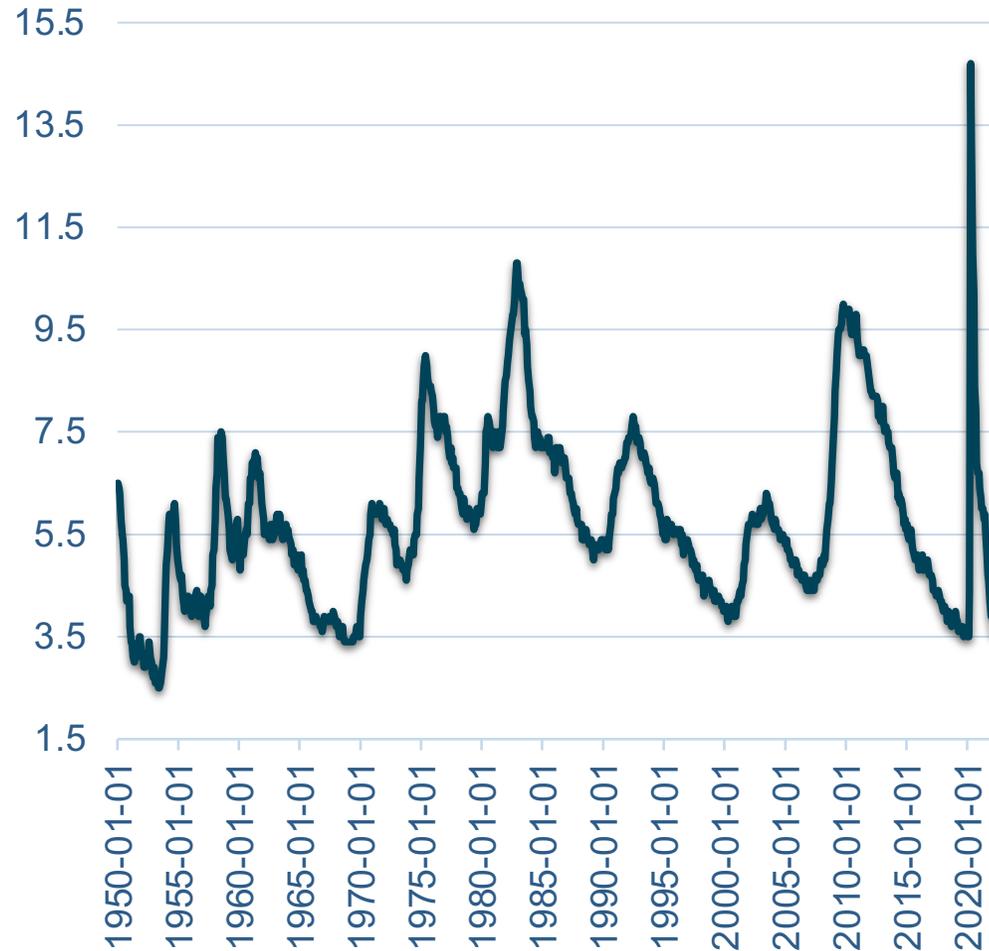
UM Consumer Sentiment



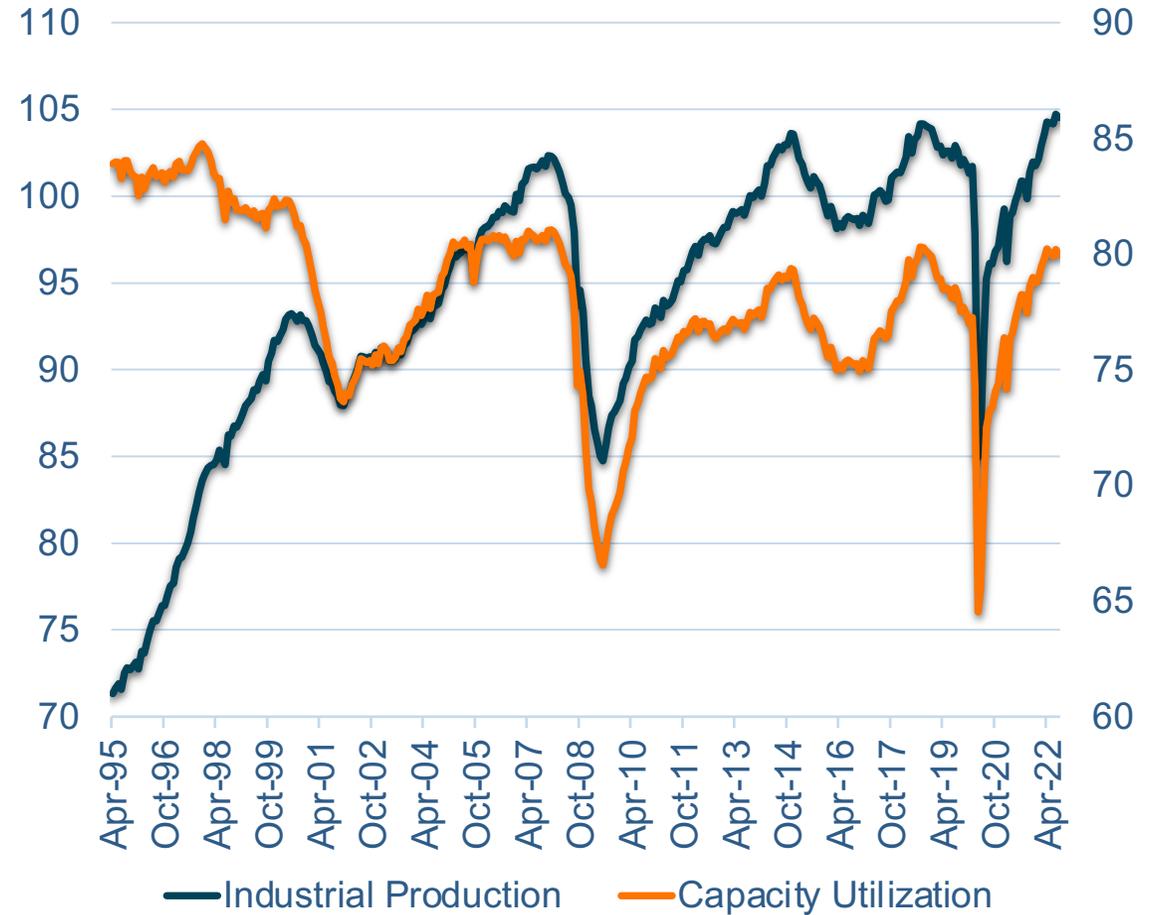
This is not a recession.



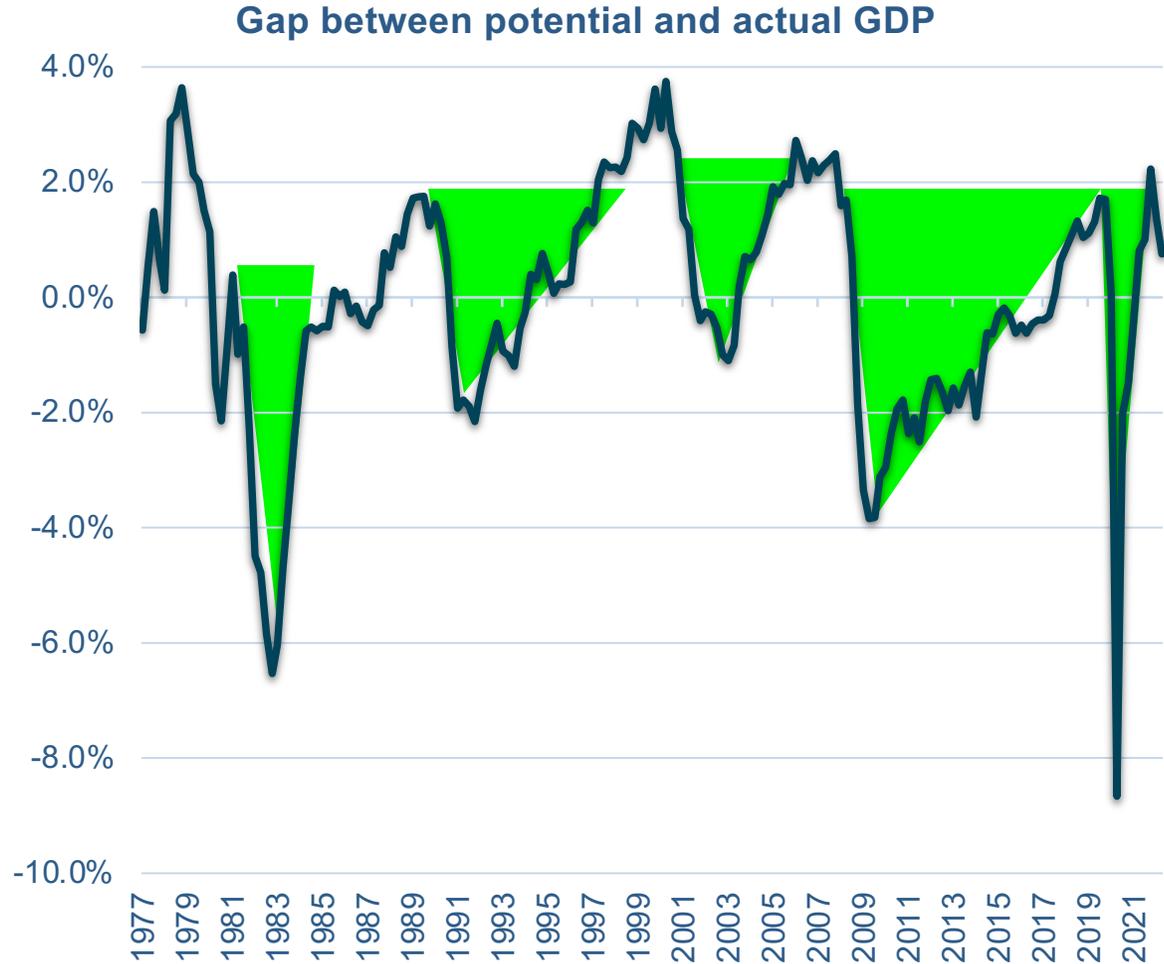
US Unemployment Rate



Industrial Output



The Pandemic V...



What is a recession?

- It is *not* two quarter of negative growth
- A period of time when the economy performs at a level significantly below capacity

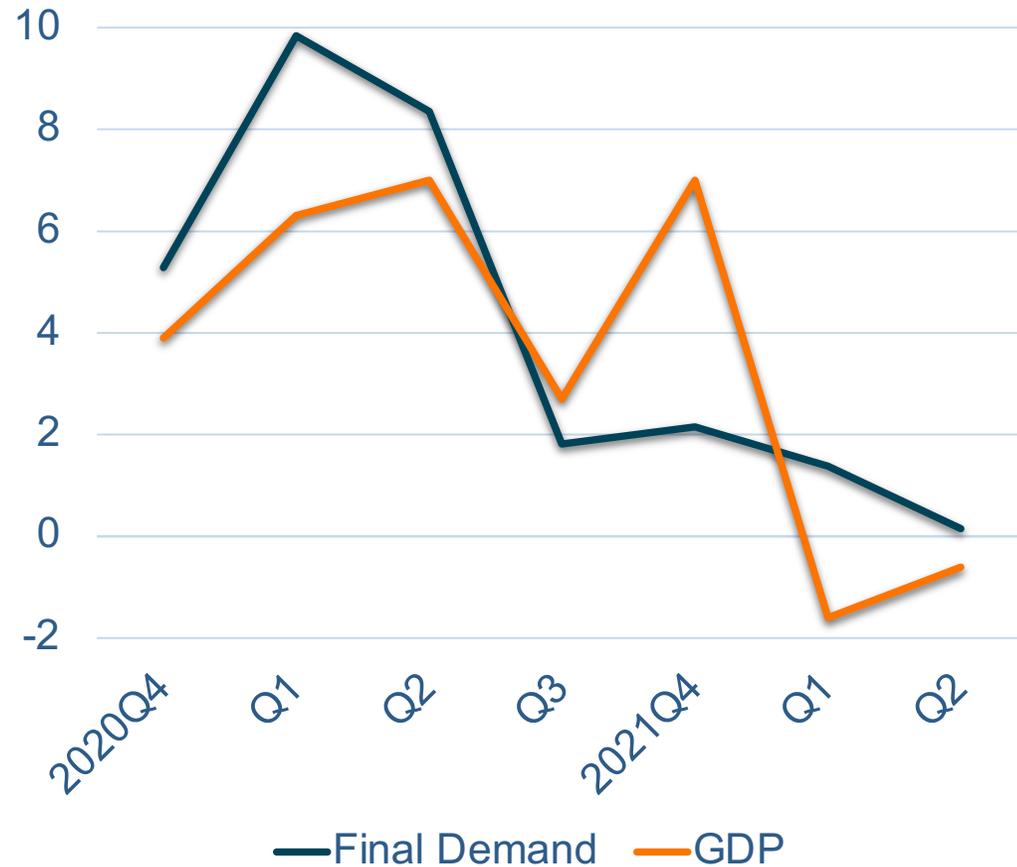
Why the “V”?

- Pre-pandemic economy was healthy and well-balanced
- Supply shock recession, rather than a demand shock
- Pandemic shifted spending over time and across sectors, not canceled

Real GDP Growth

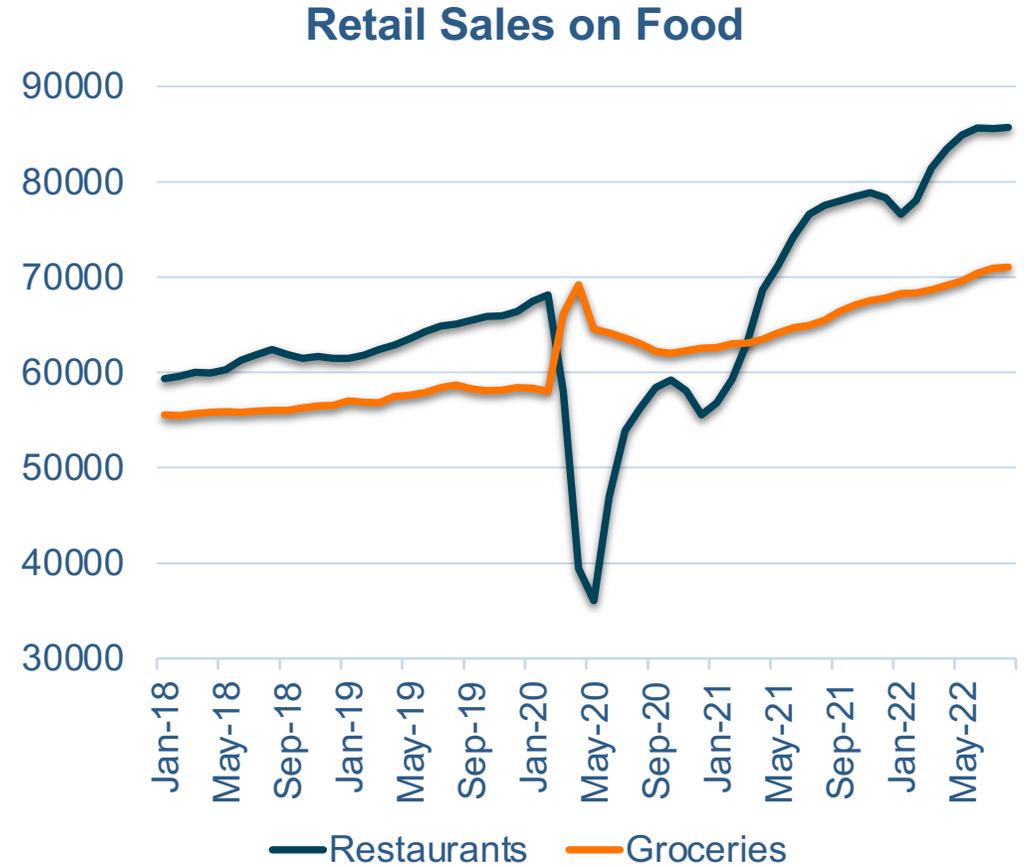


Components of Growth



	2019	2020	2021	2022
Consumers	1.45	0.39	4.74	1.15
Durables	0.40	1.40	0.59	0.20
Non-Durables	0.32	0.81	1.04	-0.52
Services	0.74	-1.82	3.11	1.46
Investment	0.42	0.51	0.67	-0.05
Structures	0.20	-0.50	-0.14	-0.23
Equipment	-0.18	0.06	0.28	0.22
IPP	0.33	0.22	0.56	0.50
Residential	0.08	0.74	-0.02	-0.54
Inventories	-0.38	0.79	0.93	-0.88
Net Trade	0.40	-0.79	-0.72	-0.99
Exports	0.11	-0.83	0.70	0.49
Imports	0.29	0.03	-1.41	-1.48
Government	0.69	0.29	0.12	-0.35
Federal	0.26	0.42	0.04	-0.29
S&L	0.43	-0.13	0.08	-0.05

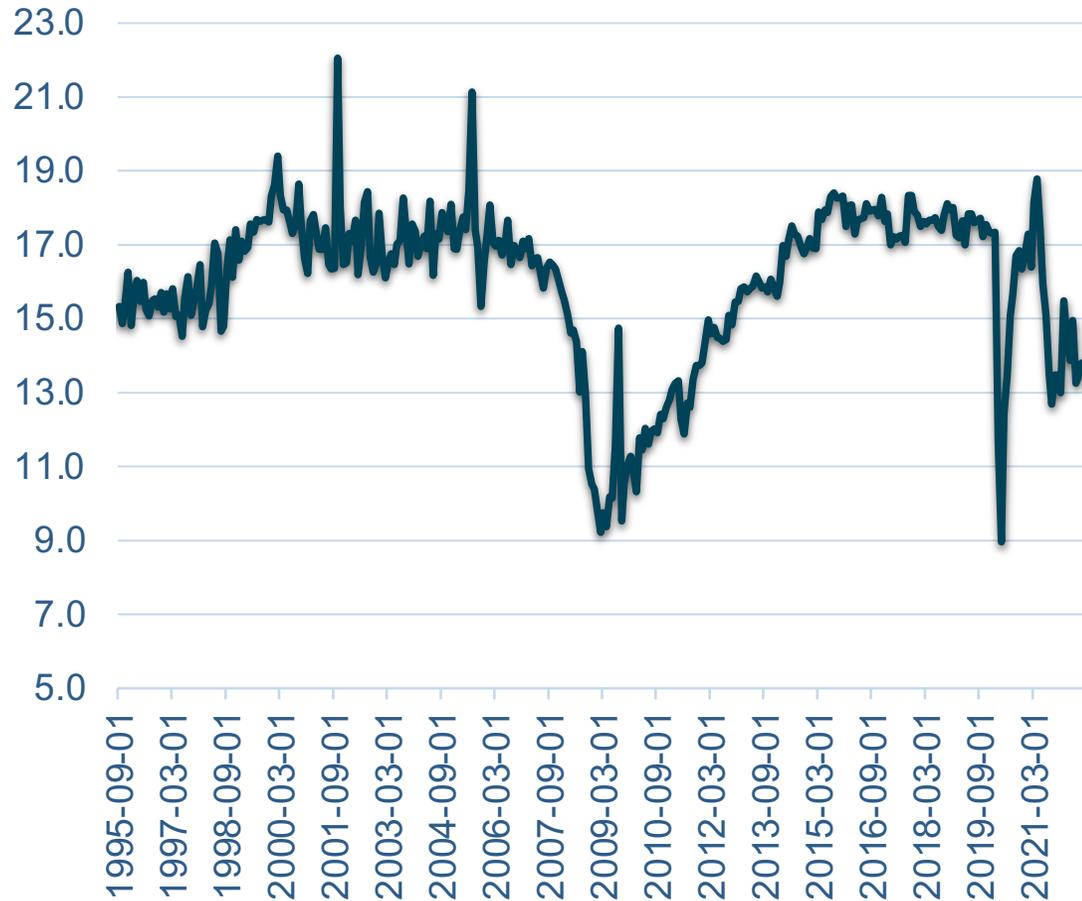
The shift back to services...



Still Pent-Up Goods Demand



New Auto Sales SAAR (Mil Units)



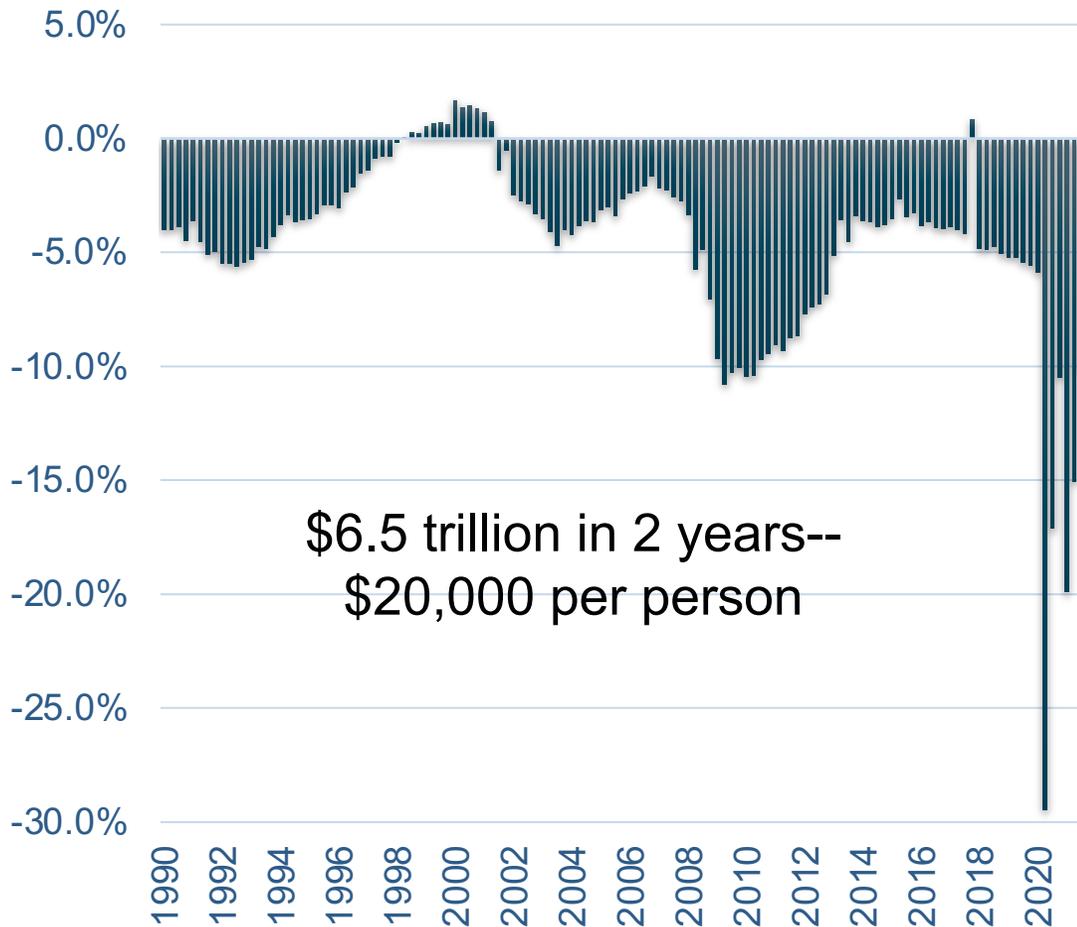
Domestic Auto Inventories



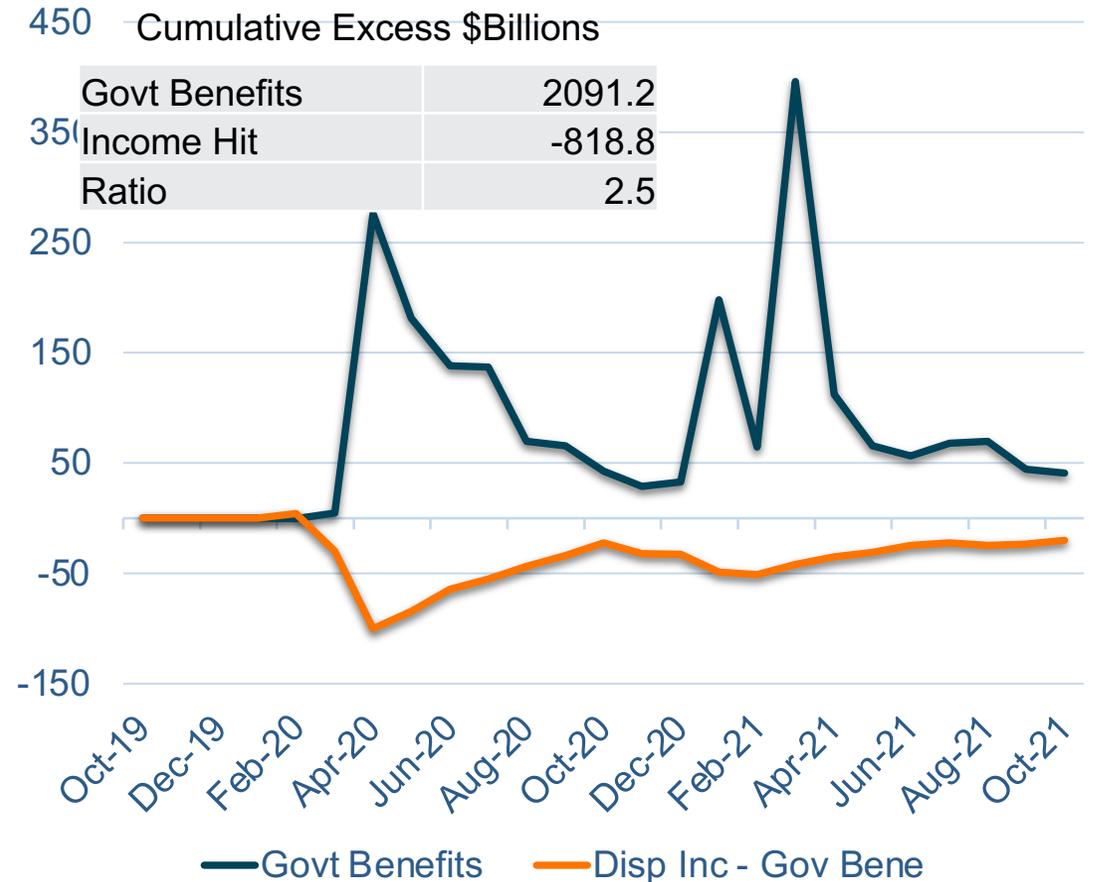


Federal Fiscal (Over)reaction

Net Federal Borrowing as % GDP



Levels of Personal Income Relative to Pre-Pandemic Trends



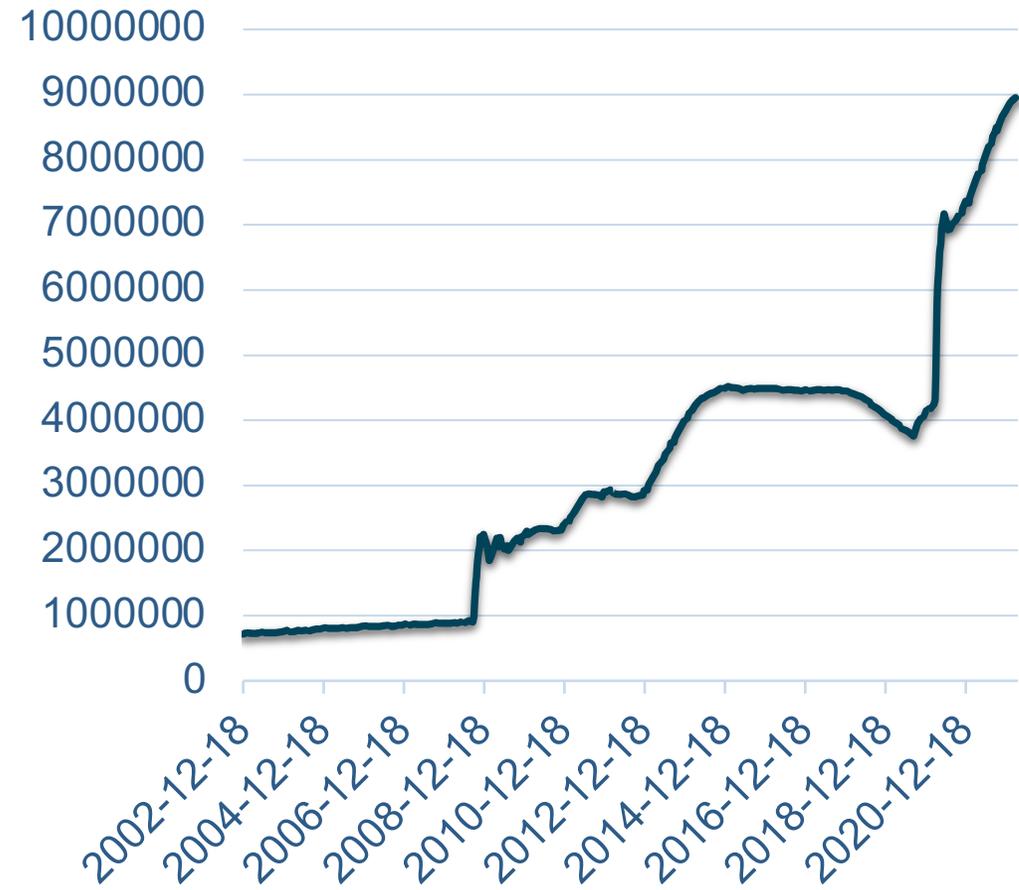
Mr. Powell's War



Federal Funds Rate



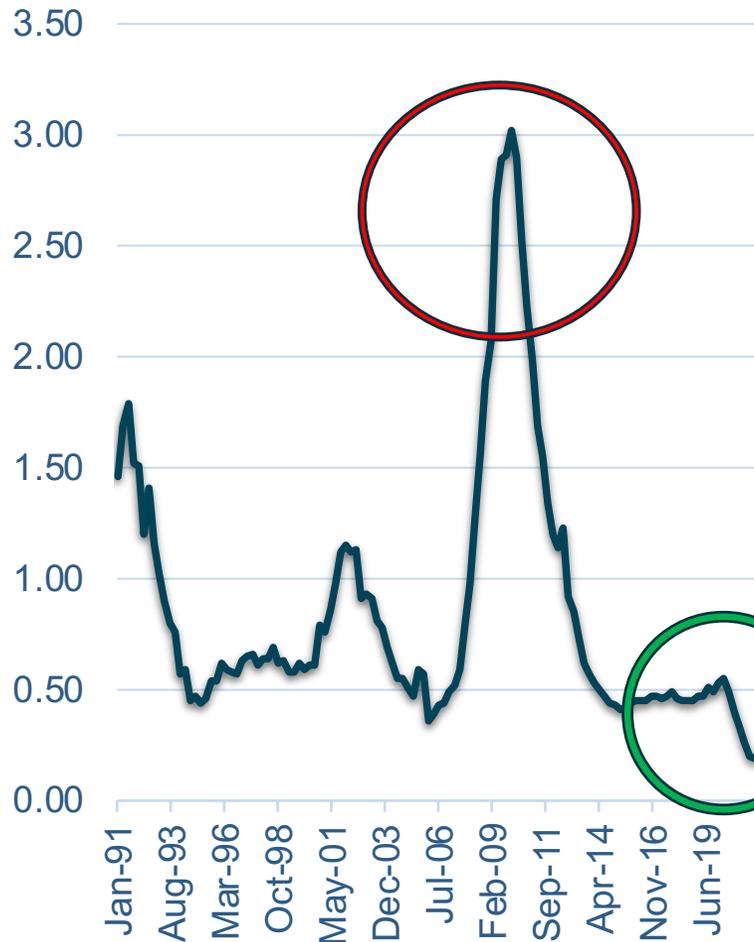
Federal Reserve Balance Sheet



Mr. Powell's War



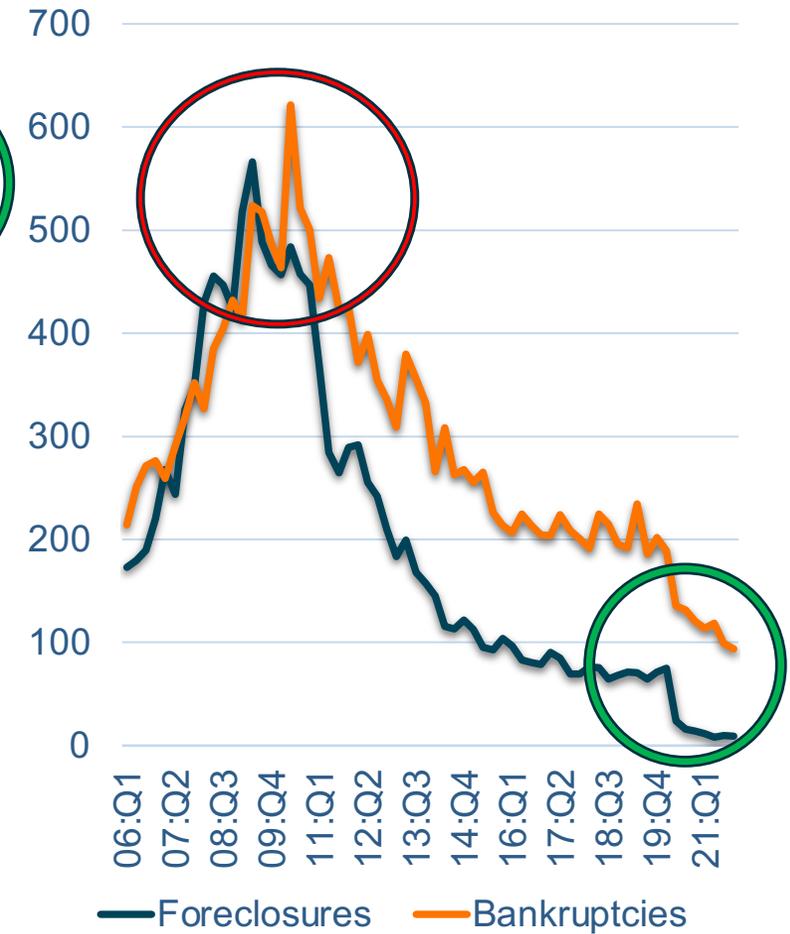
Bank Loan Charge-Off Rate



Case Shiller HPA YoY



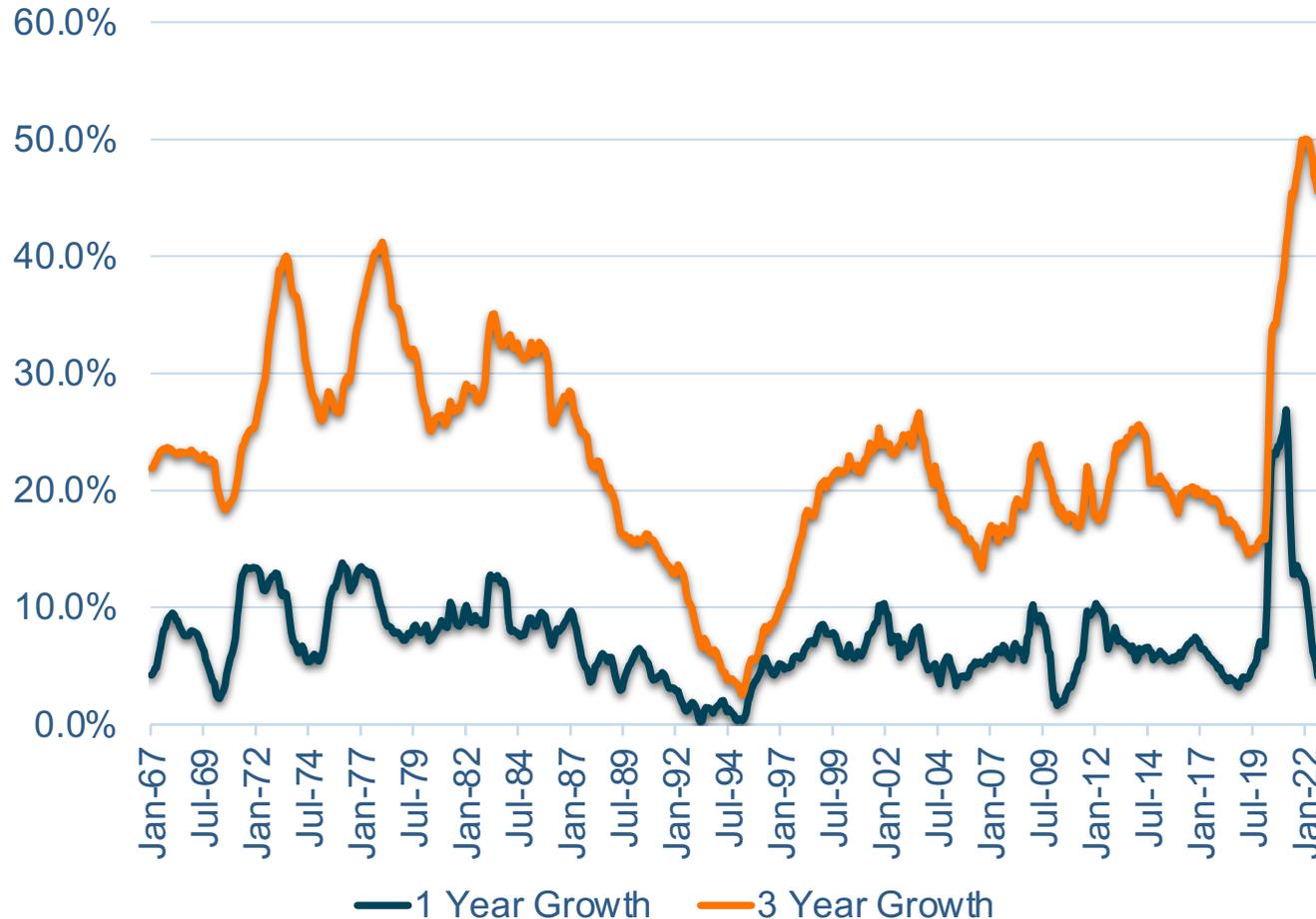
Consumer Finances



QE: Then and Now



Money Supply (M2) Growth Rates



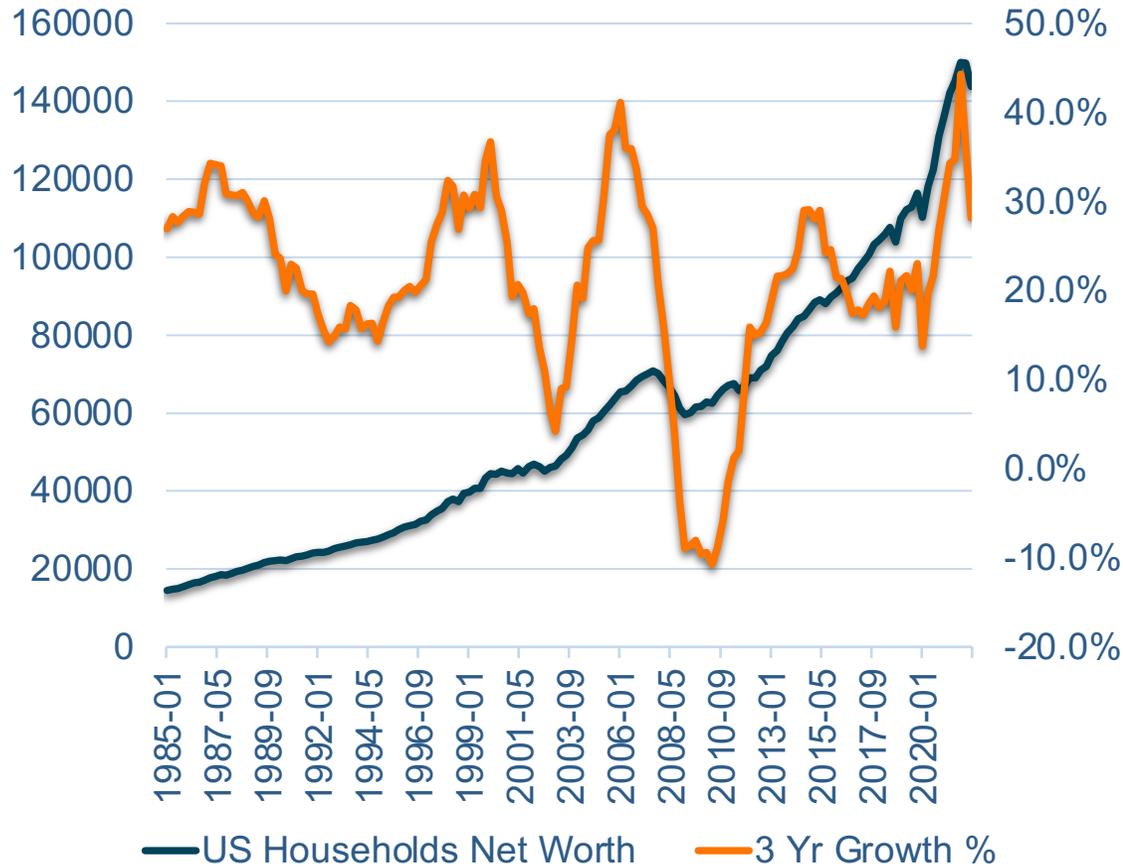
Problems of Excess Money

- Short run: Money illusion causes lower interest rates, asset bubbles, national spending binge
- Long run: inflation and inequality, transfers from savers to borrowers, investments become difficult to cost out, uncertainty hurts markets

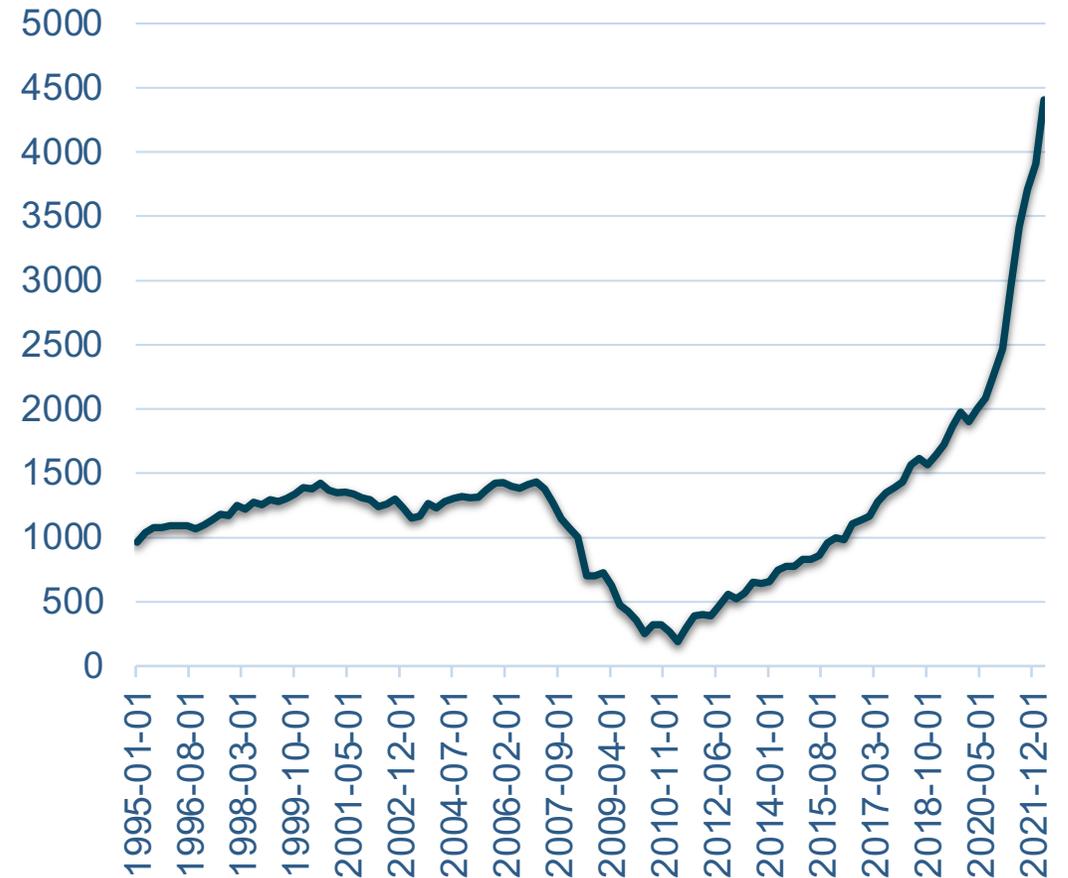
The “wealthiest” generation ever?



US Household Net Worth



Wealth in bottom 50%, \$Billion



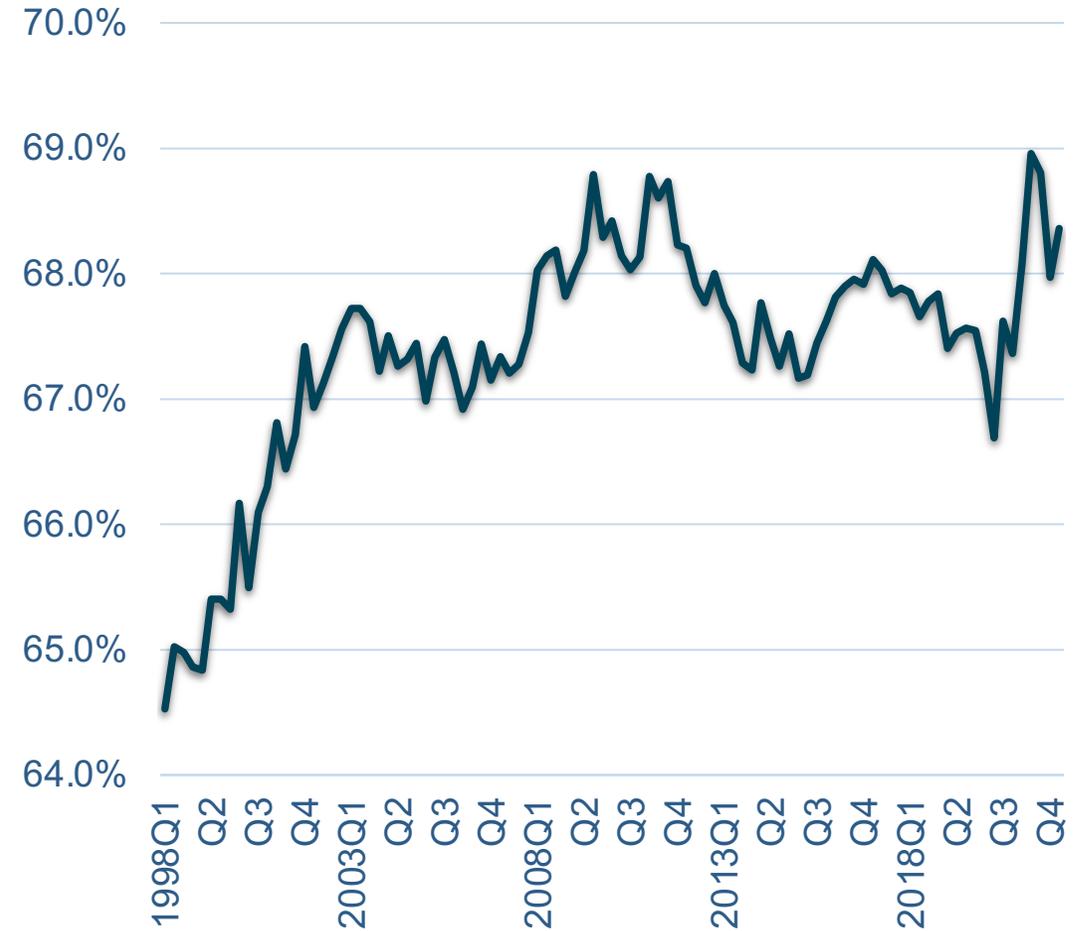
A Binging Economy...



Trade Balance as a % of GDP



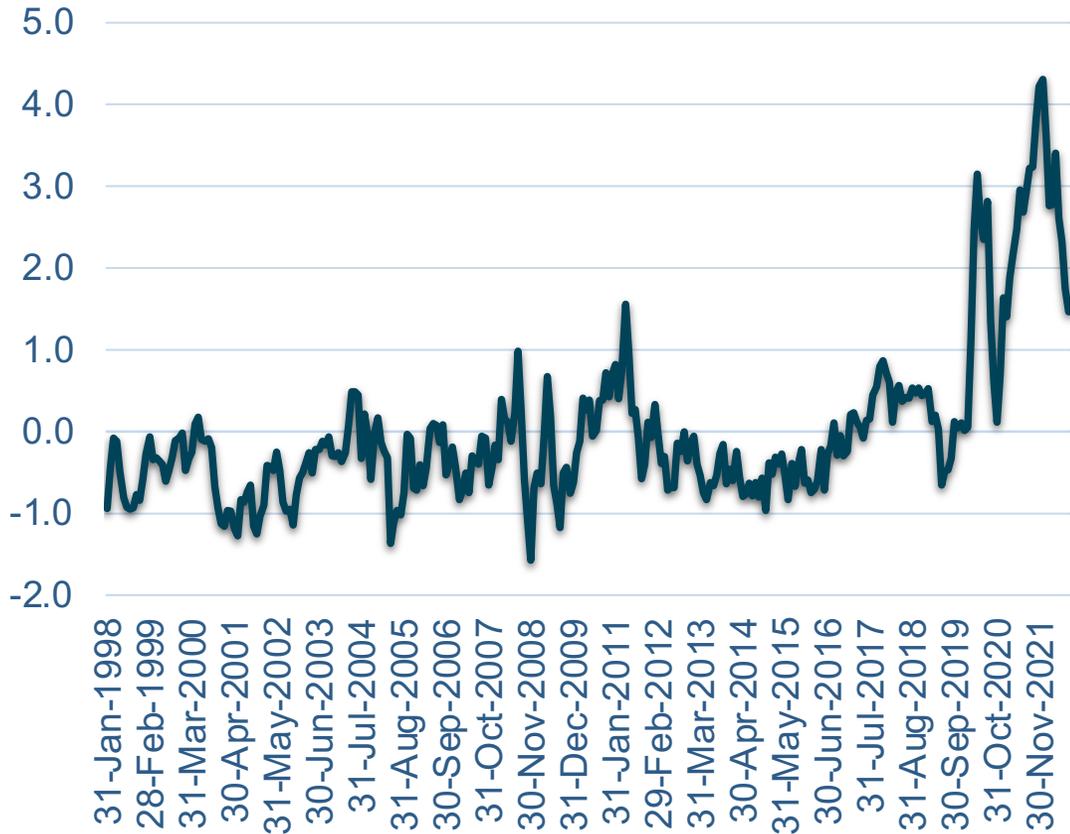
Consumer Spending as % of GDP



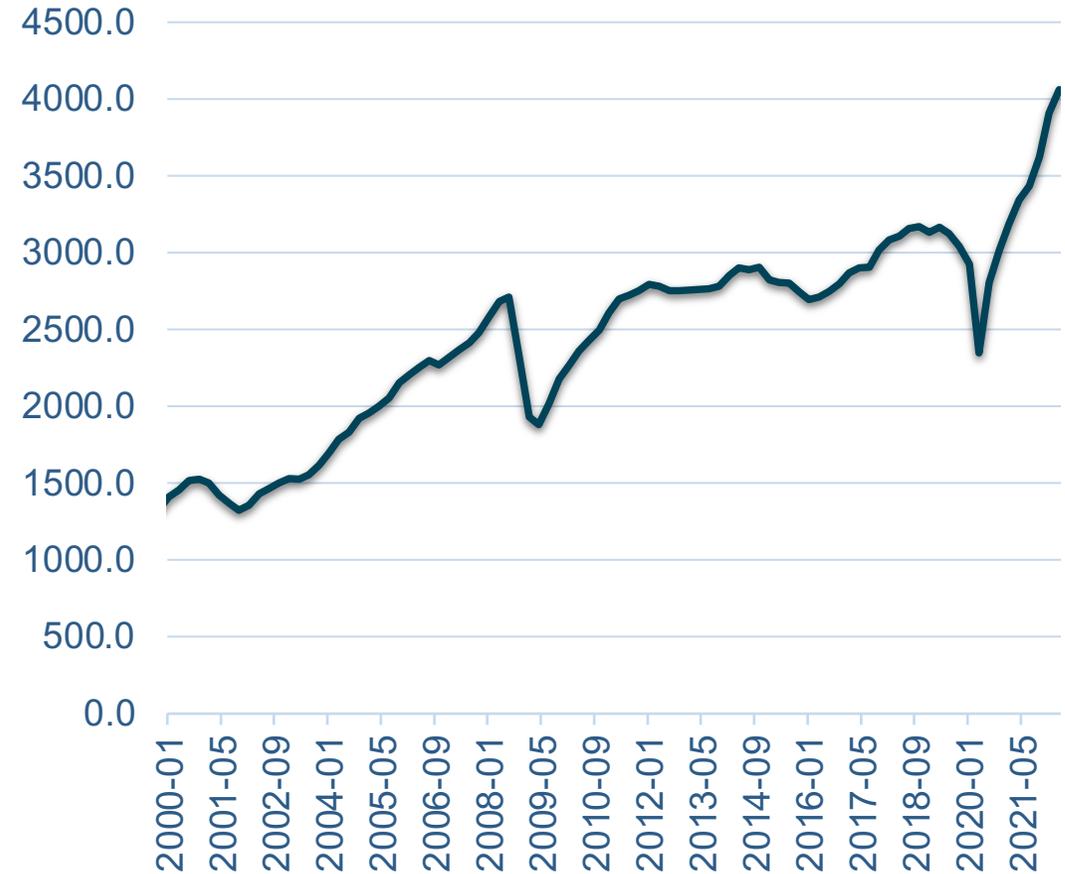
When trade constraints are a good thing...



NY Fed Global Supply Chain Pressure Index



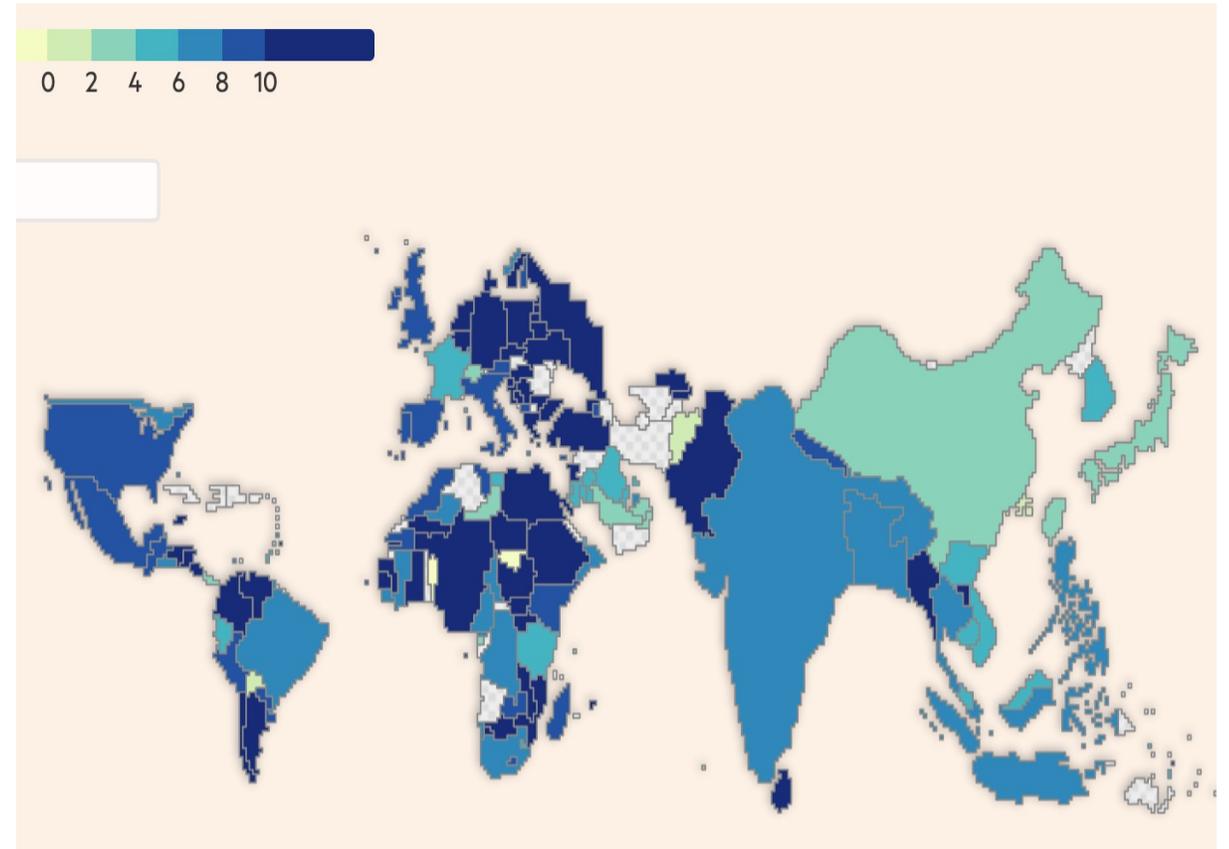
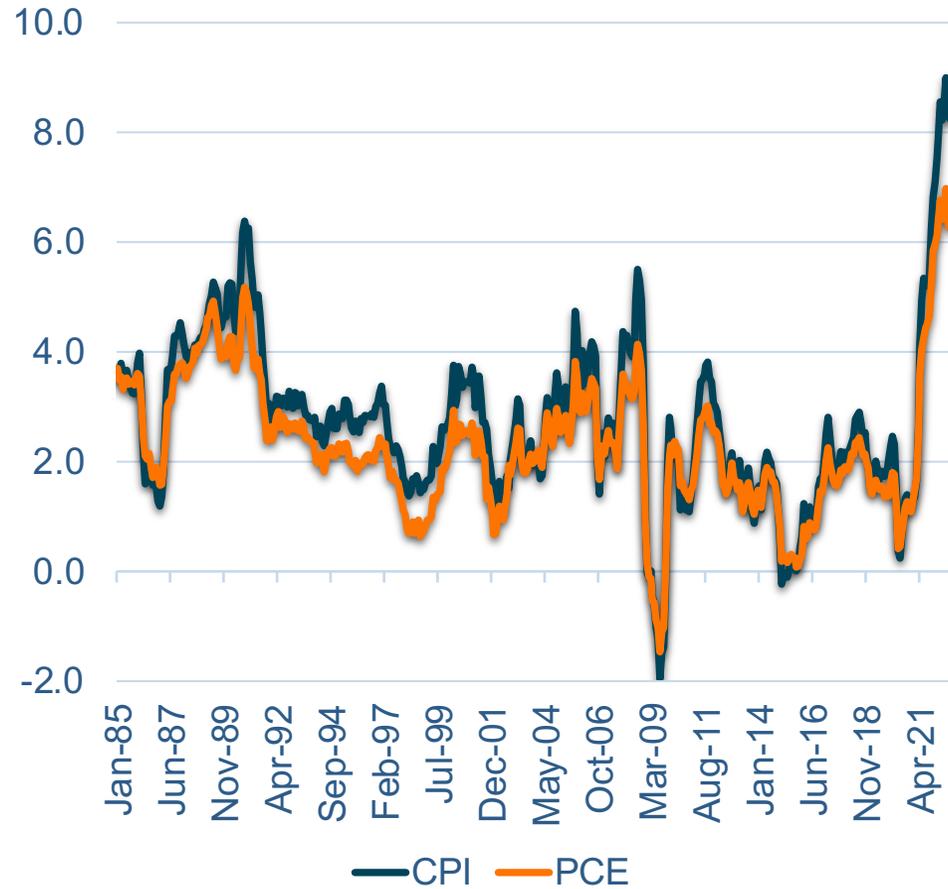
US Real Imports



Inflation nation...



US Inflation Rates



The Inflation Conversation



- Supply chain issues
- The federal deficit
- Greedy corporations and profiteering
- Not enough manufacturing jobs in the US
- Biden’s bad green energy policies
- It’s Mr. Putin’s fault!
- Saturn isn’t aligned with Jupiter
- Disco is making a comeback
- Its that new host on *Jeopardy!*

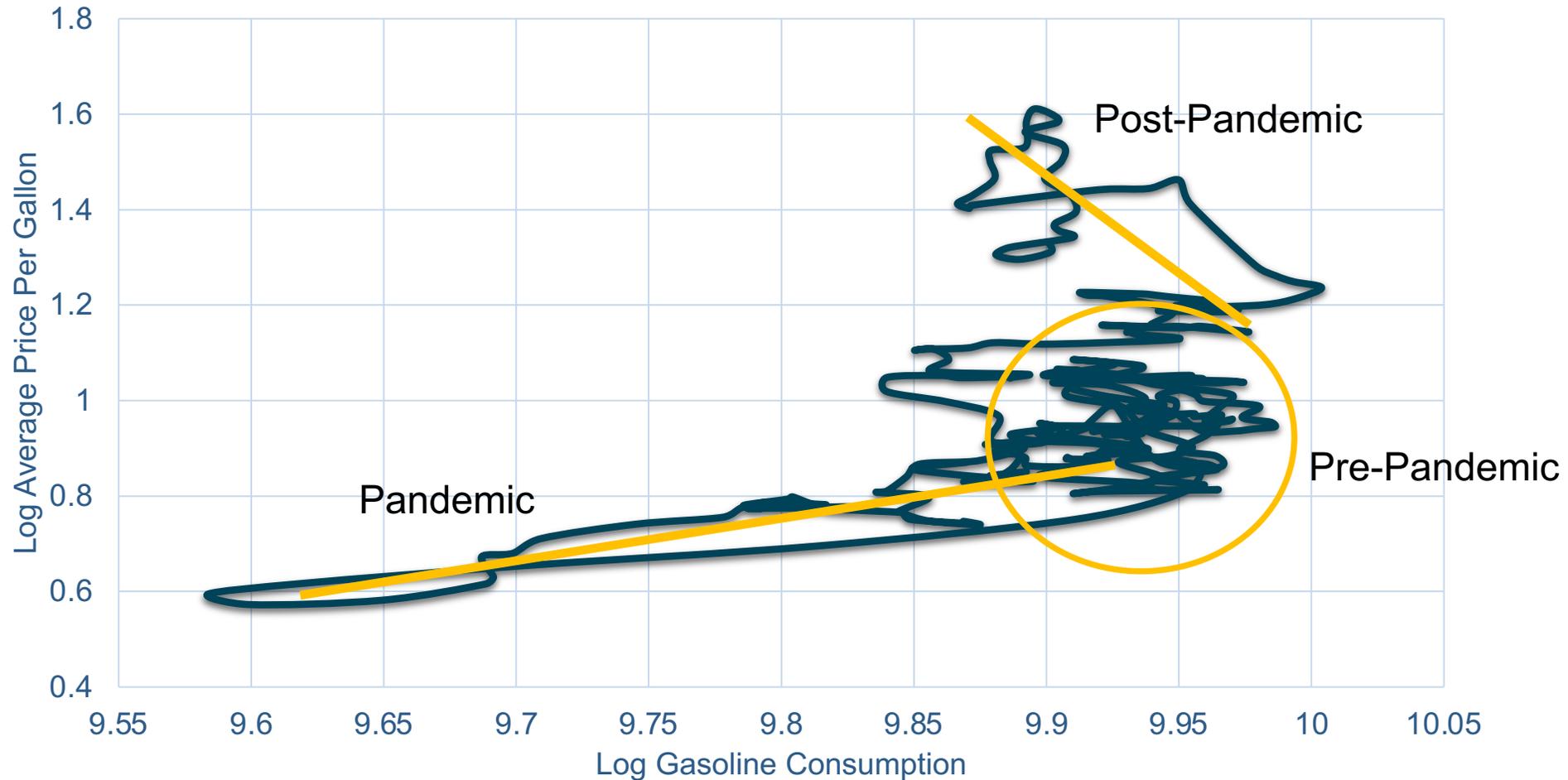
“Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”

Milton Friedman

Its Demand, not Supply



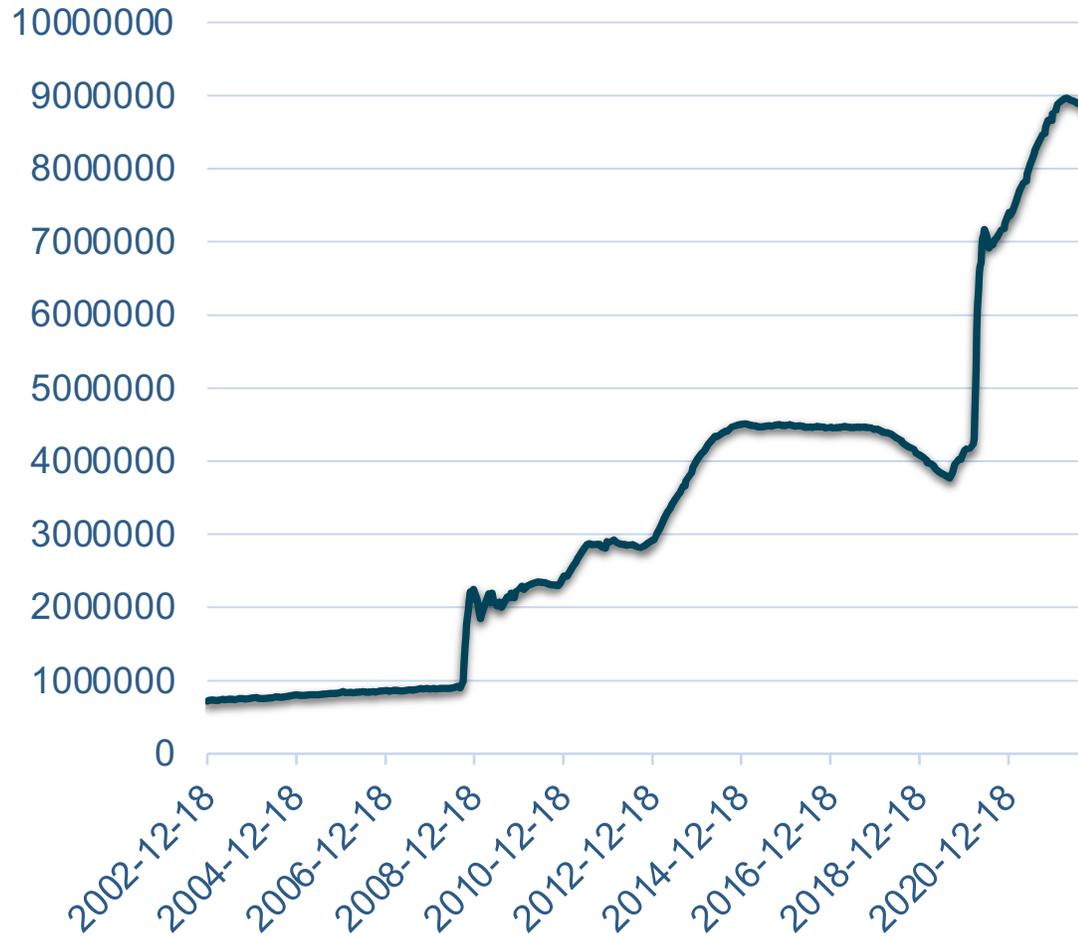
Gasoline Prices and Consumption



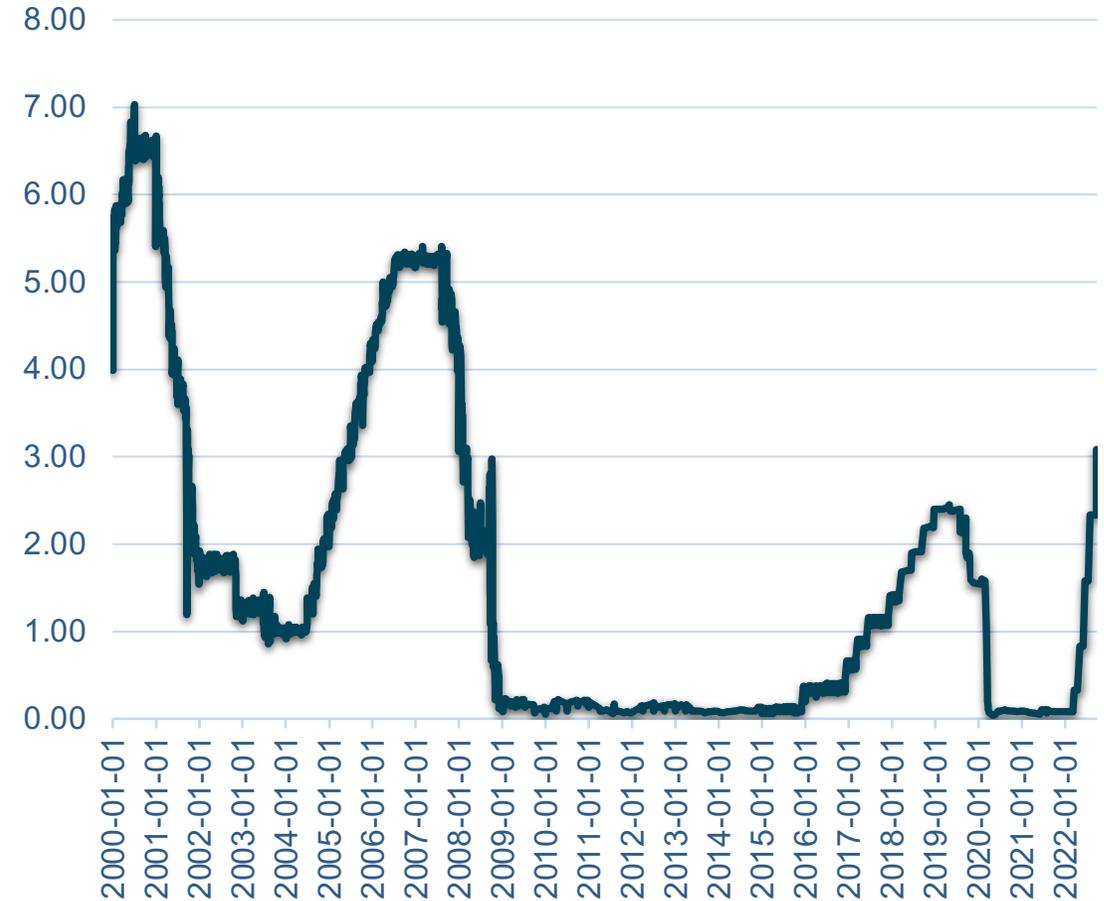
QT or FF? The Fed's Inflation Fighting Decision...



Fed Balance Sheet



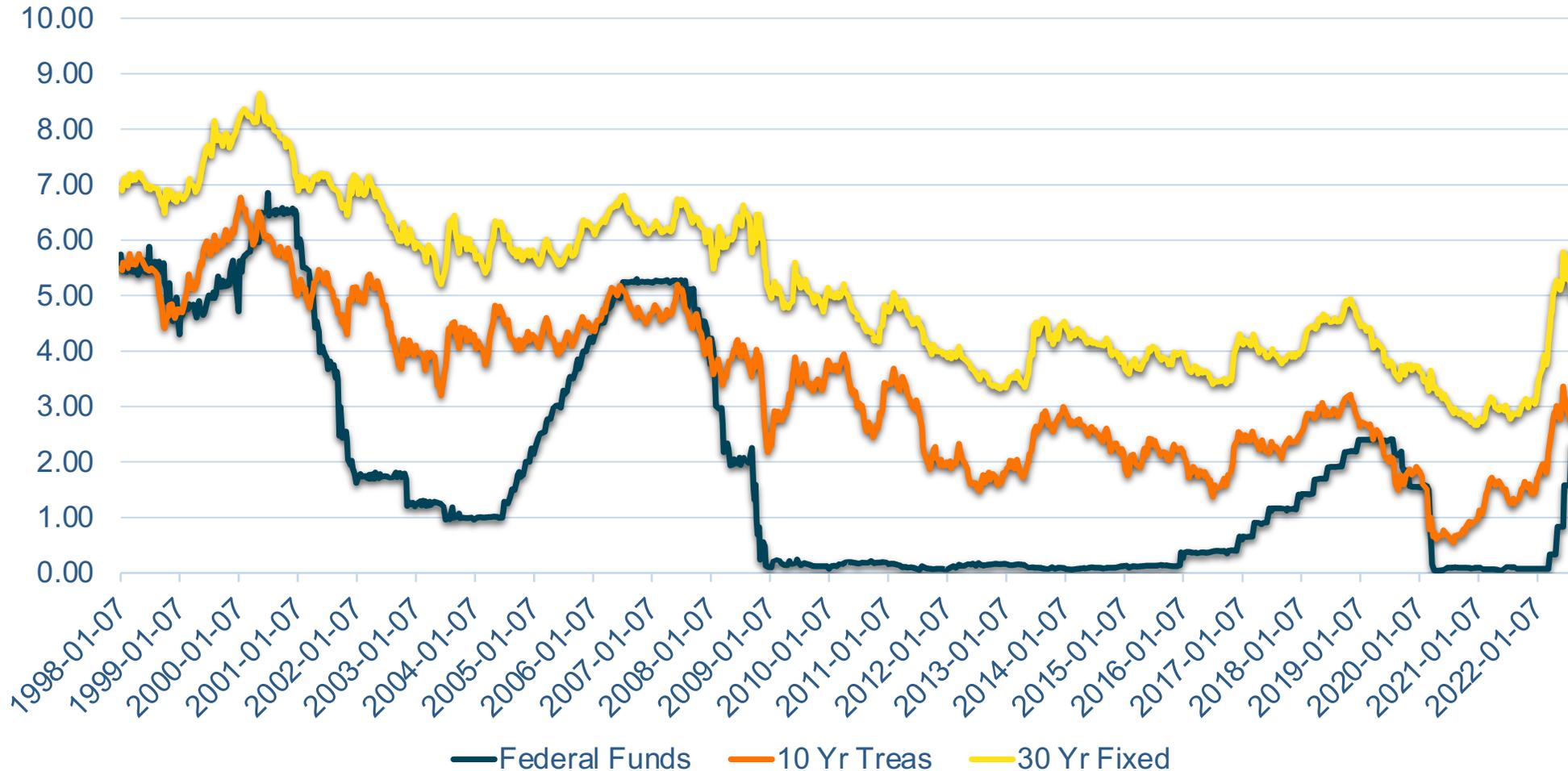
Federal Funds Rate



The era of cheap money is ending...



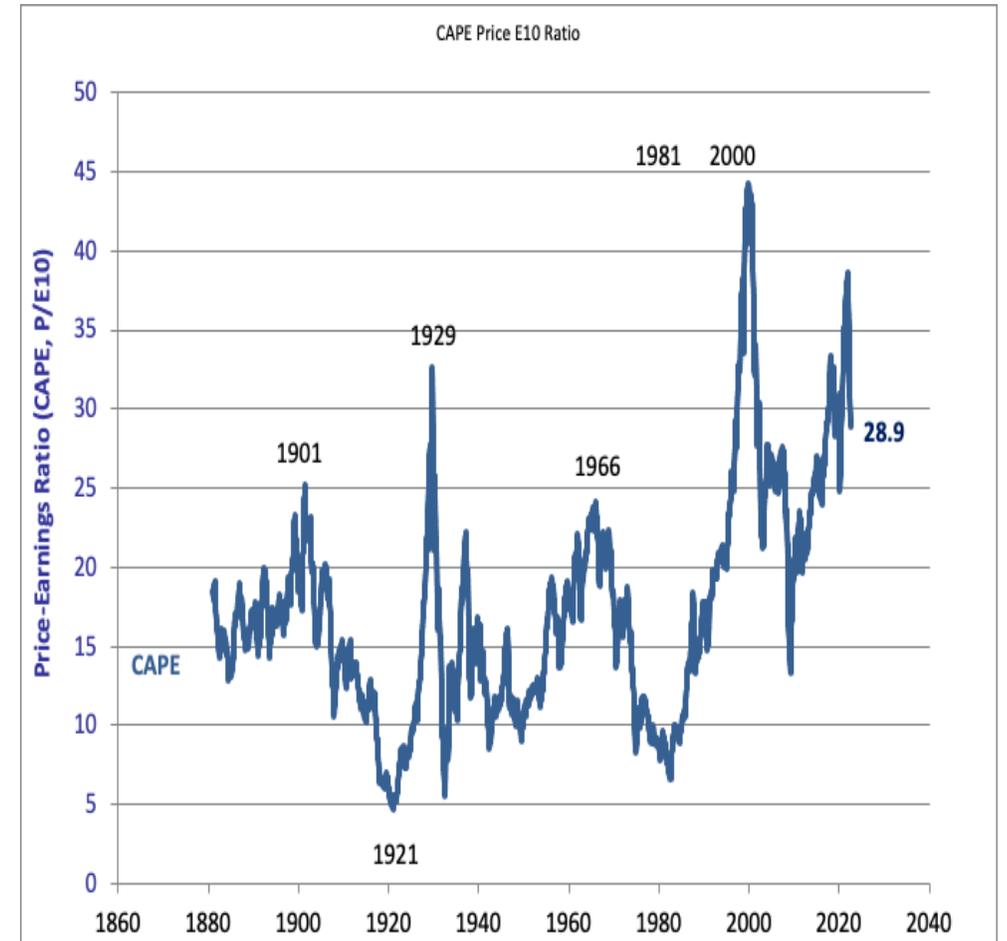
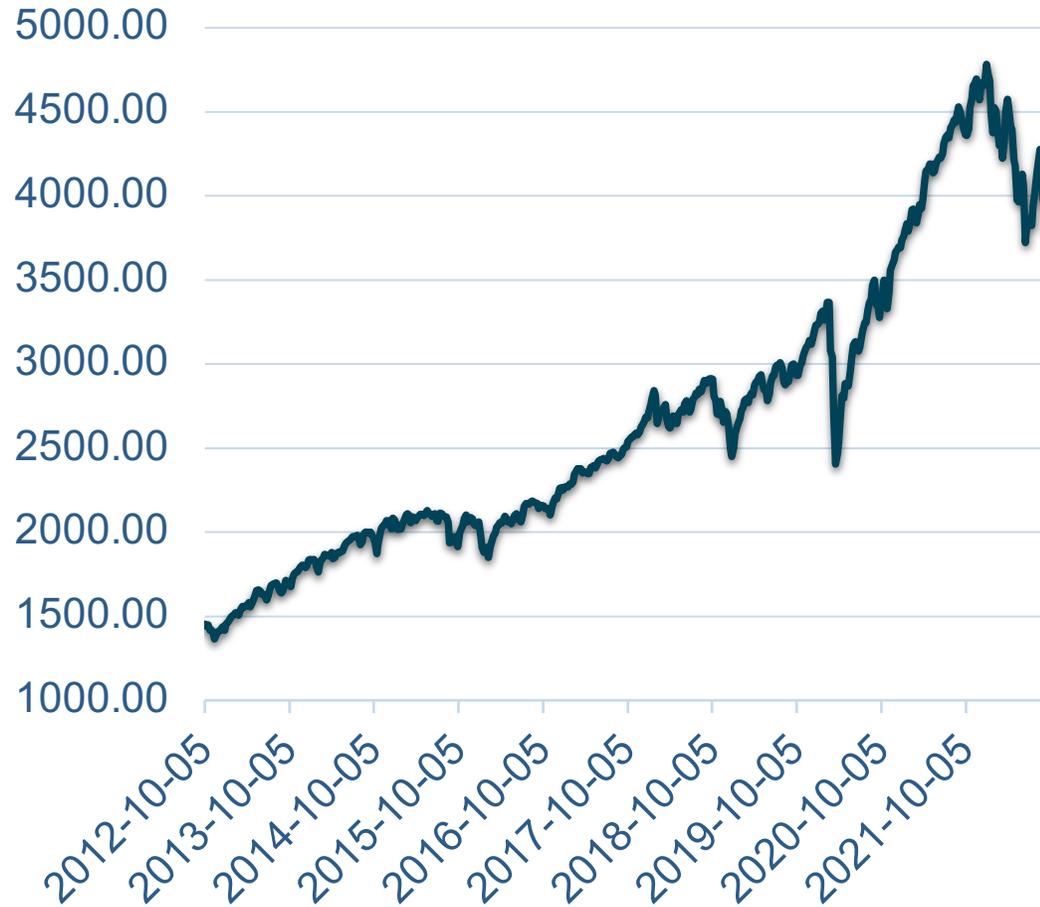
Interest Rates



Gravity still works...



S&P 500



Contradictory Efforts



Federal Deficit 12 month rolling sum

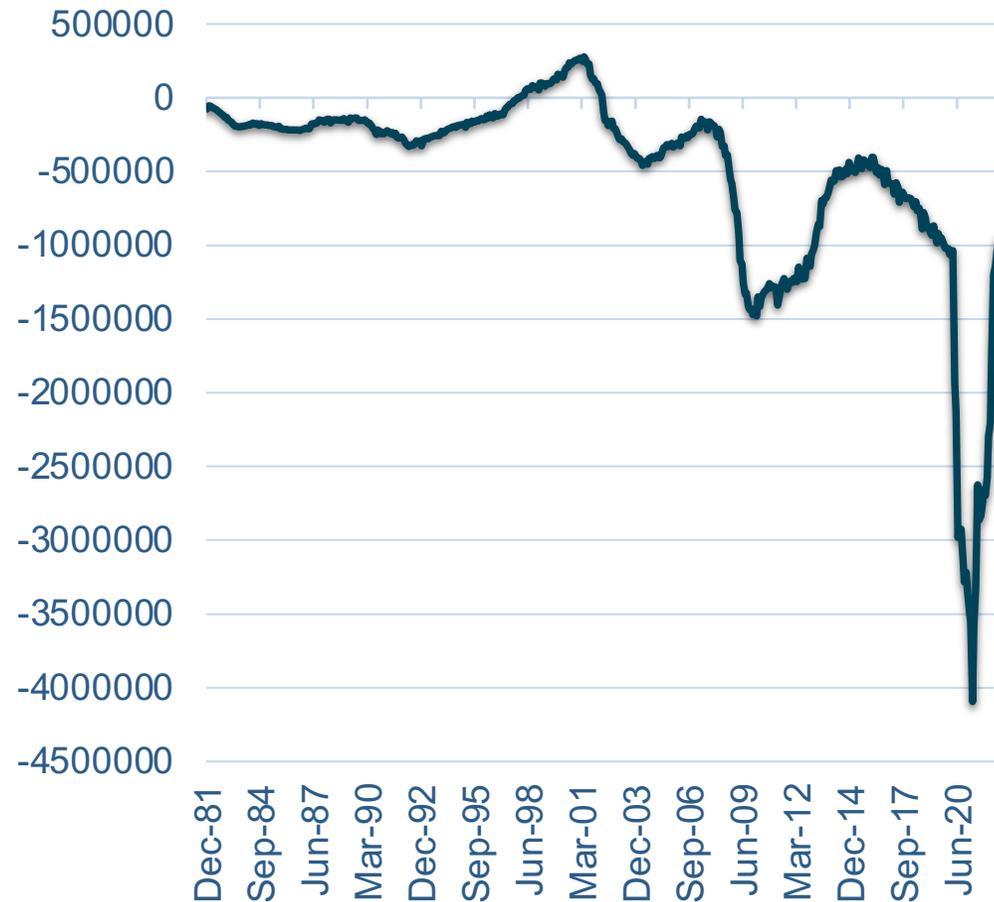
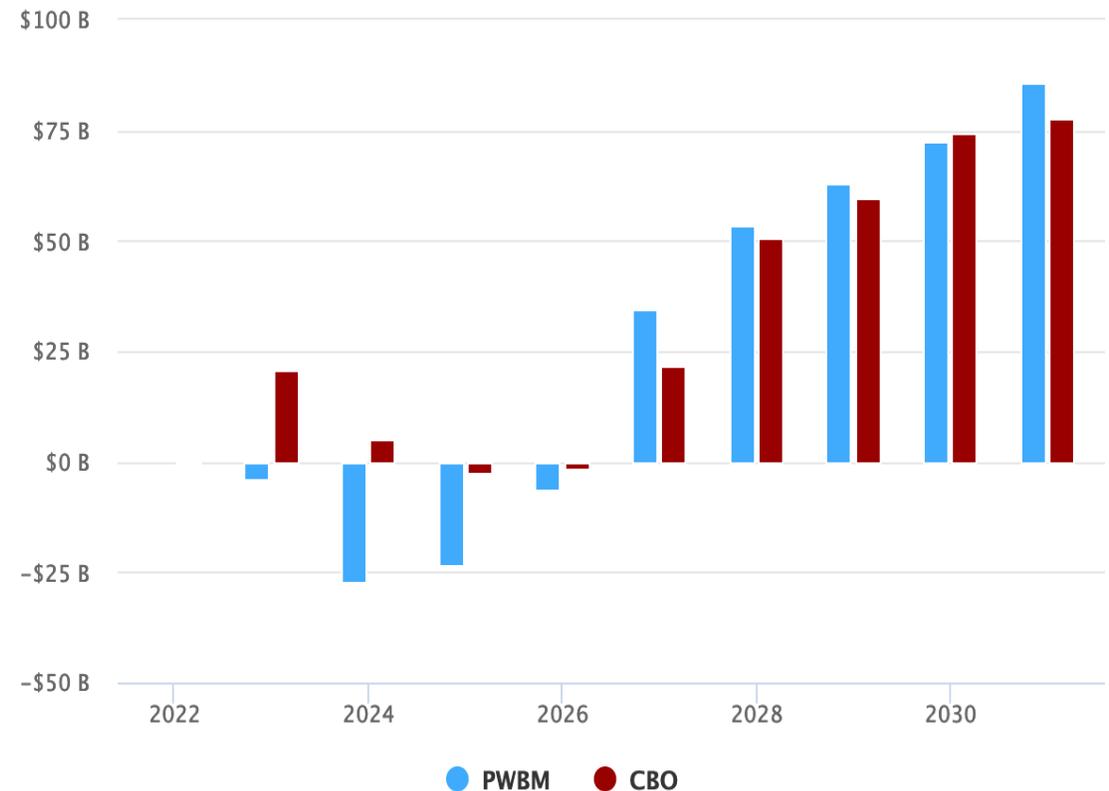


Figure 1. Budgetary Effects of the Inflation Reduction Act of 2022

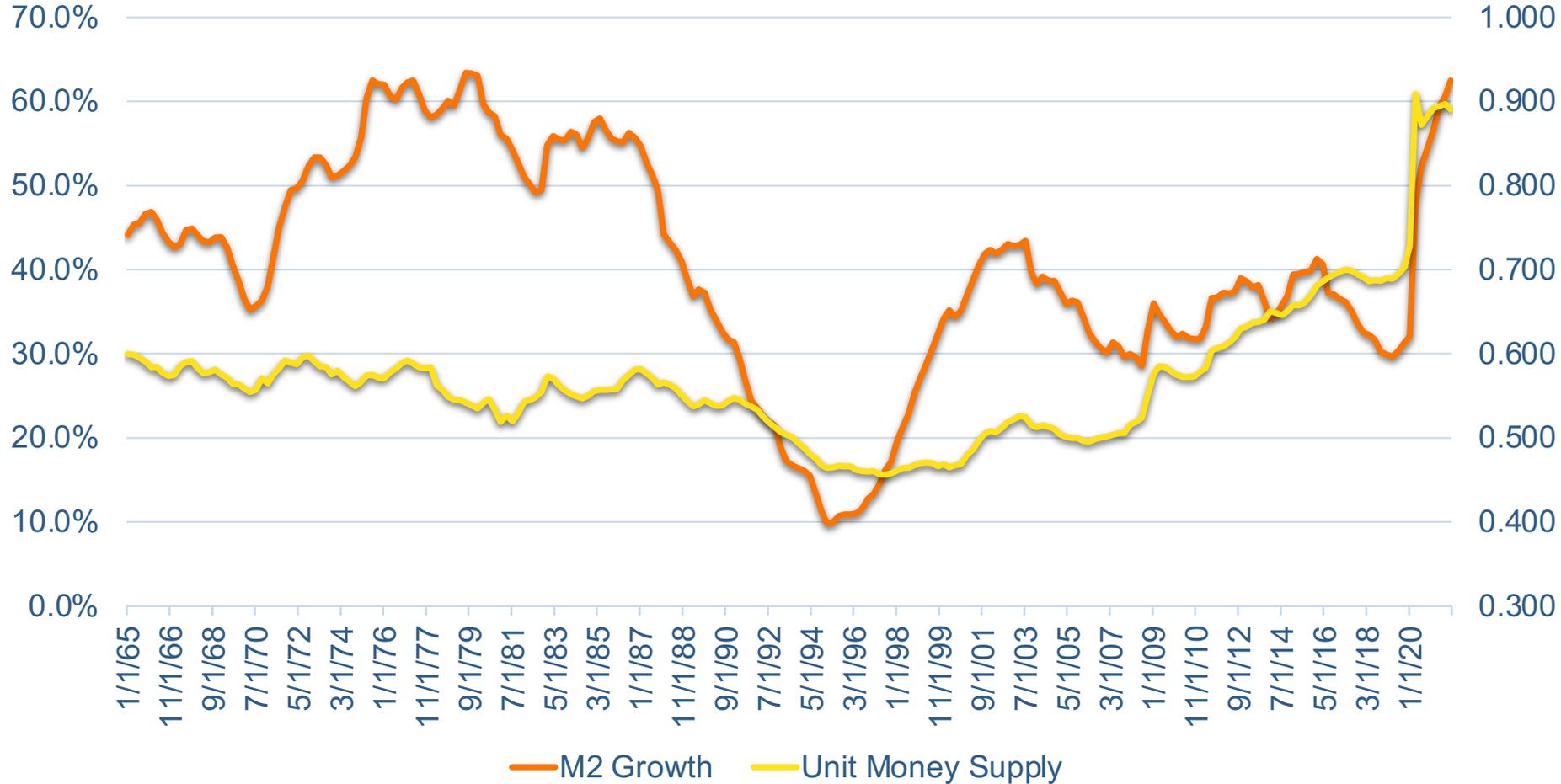
Net deficit reduction (+) or increase (-) from spending and revenues



How much farther can inflation go??



5 Year Cumulative Growth Rates

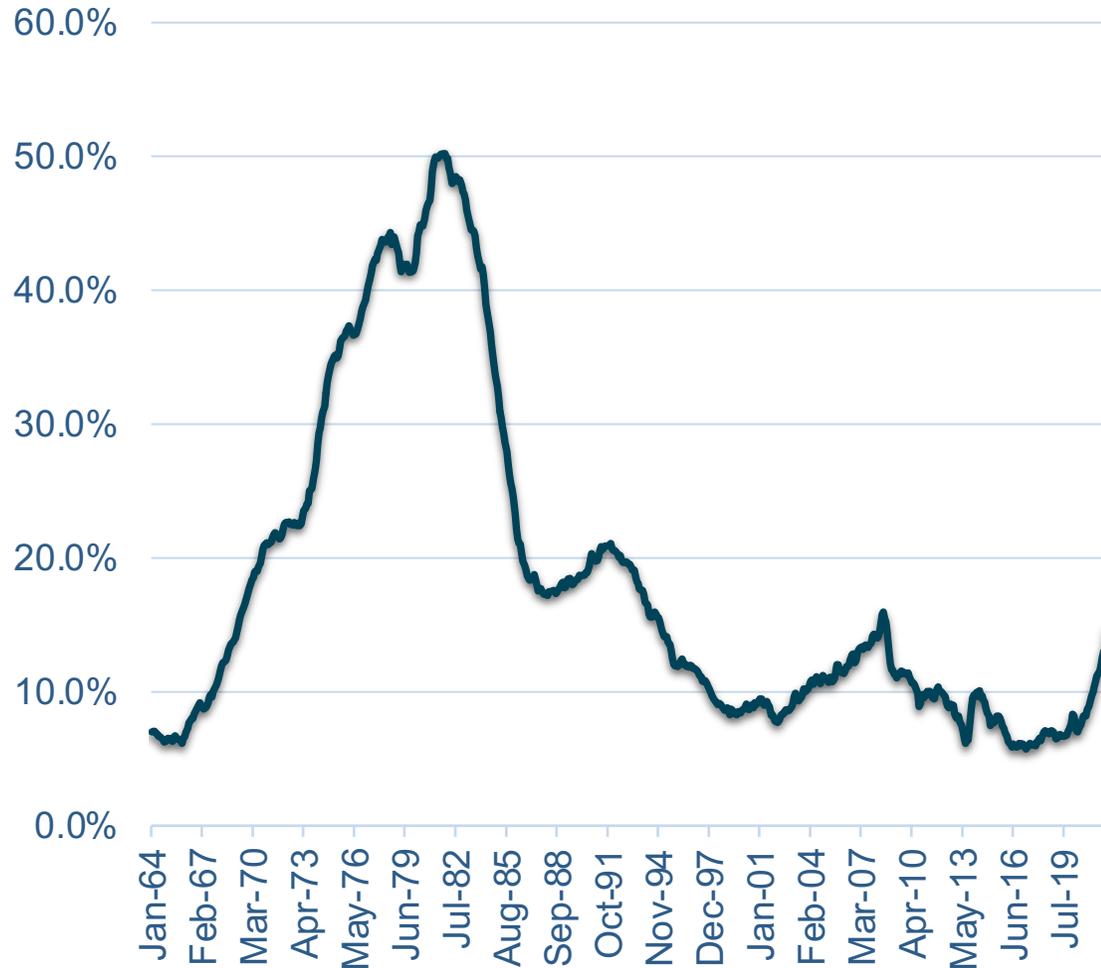


15% to 25% increase in P to offset M2 with no real growth

Context please



5 Year Increase in Consumer Prices



US Real Interest Rate (2 Yr T-Bill – PCE Inflation)



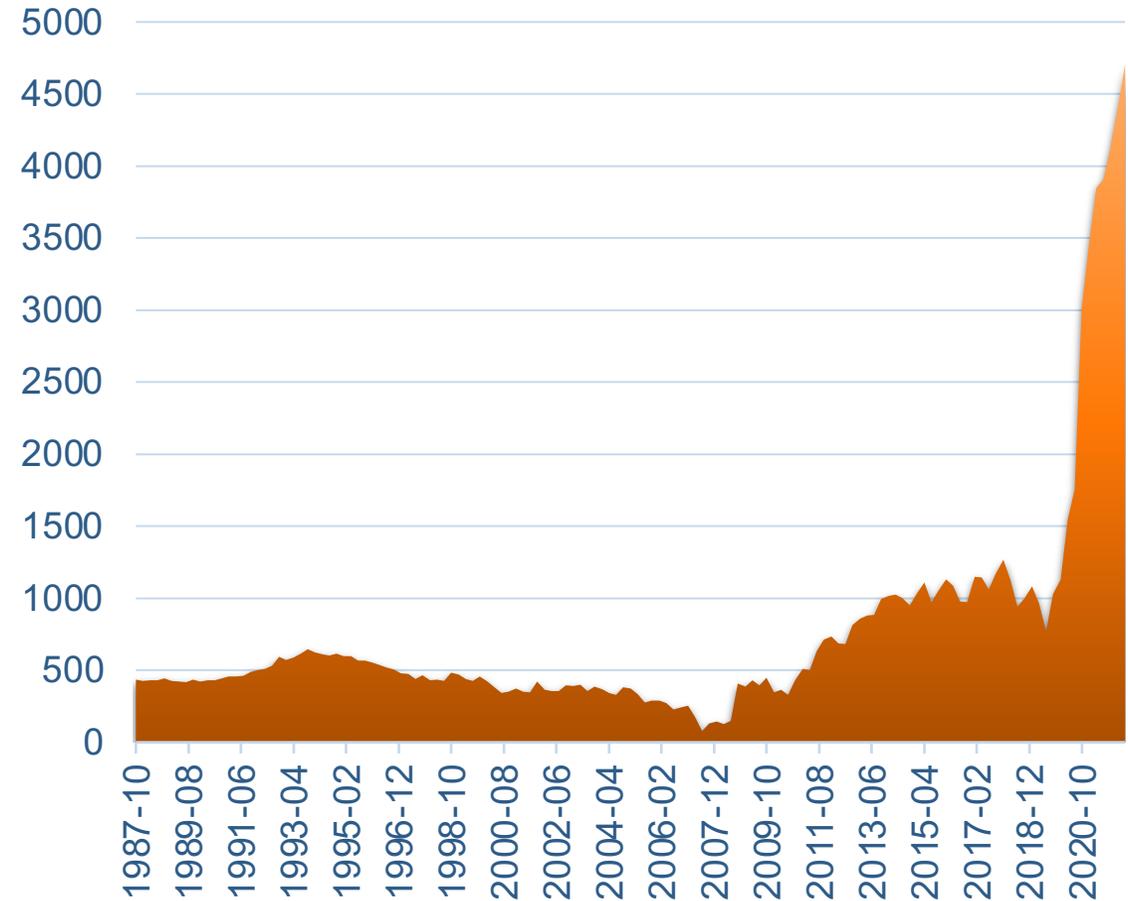
Can Consumers keep going?



US Financial Obligations Ratio



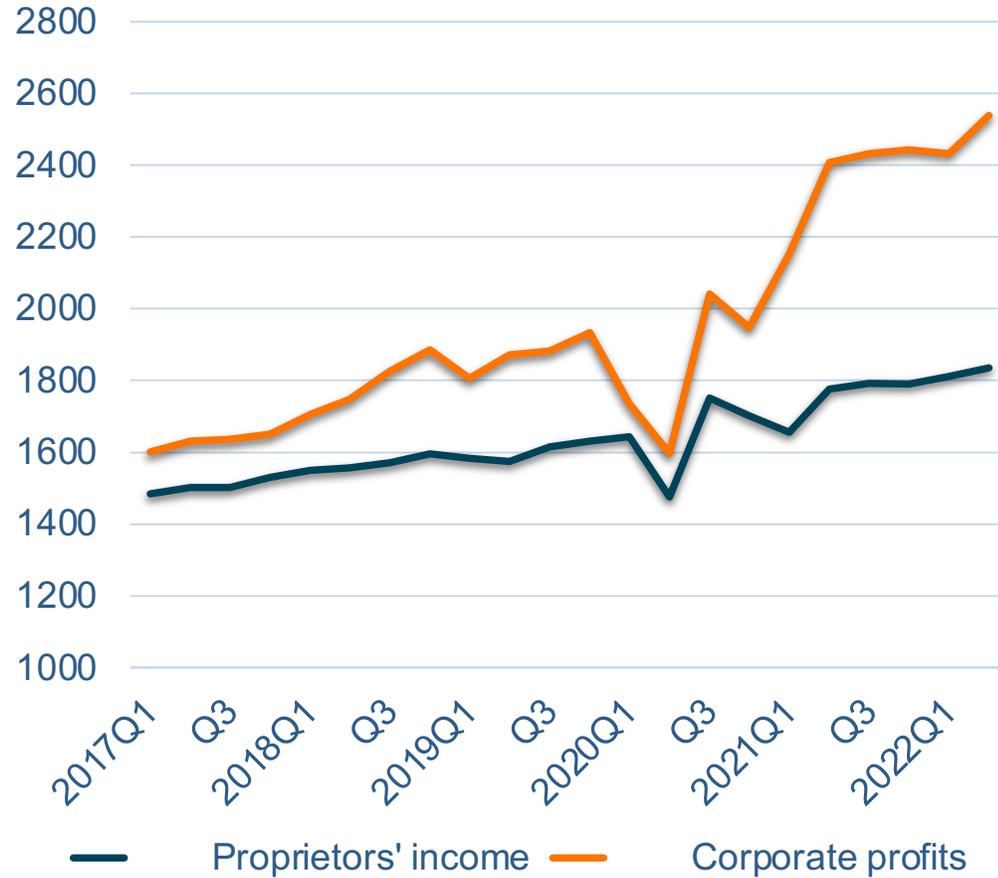
US Household Cash Balances (\$Bil)



Business is fine as well...



Business Earnings



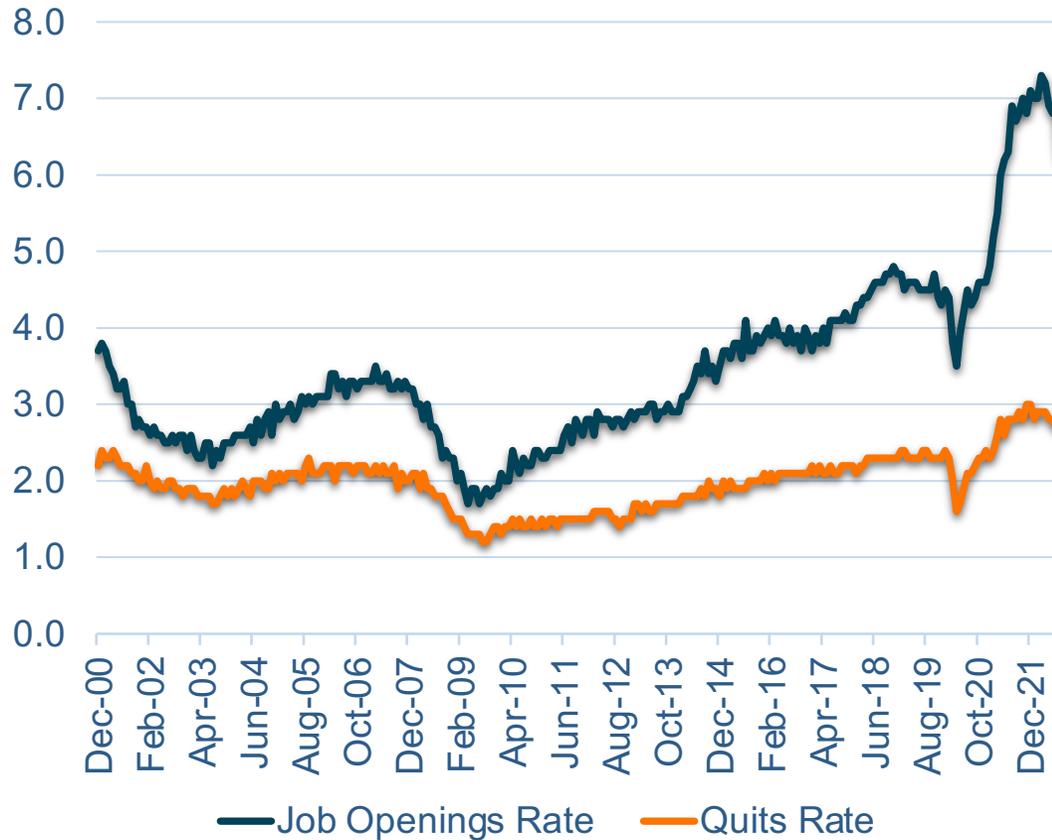
Non-Financial Corporate Debt to Equity



Business's real issue.



US Employment Demand and Turnover

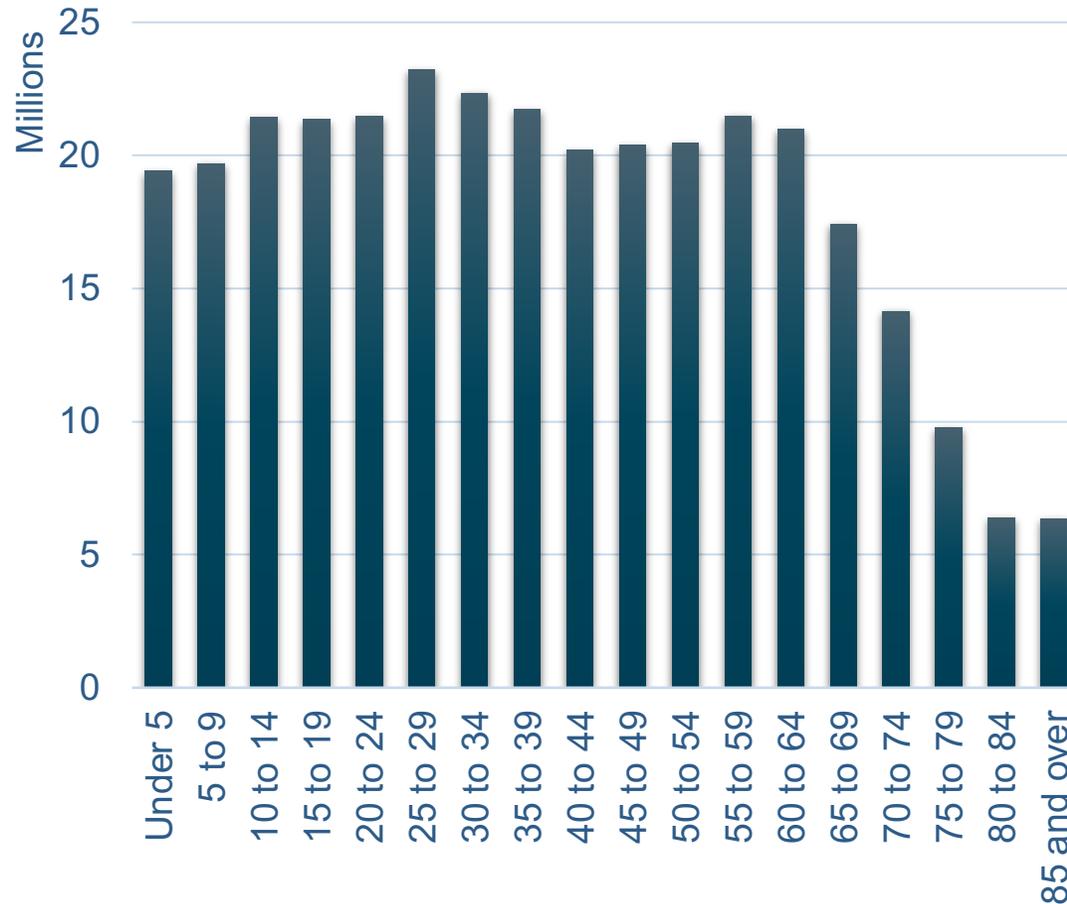


<u>Job Openings Rate by Sector</u>	<u>Jul-19</u>	<u>Jul-22</u>
Total private	4.2	7.7
Health care	2.8	9.3
Leisure hospitality	6.7	9.3
Professional	5.4	9.0
Logistics	3.9	8.0
Other services	3.7	7.5
Financial activities	2.6	7.0
Information	3.9	7.0
Retail trade	4.9	6.5
Manufacturing	2.5	6.2
Education	2.6	6.0
Mining and logging	3.7	5.7
Government	1.5	5.2
Wholesale trade	2.8	4.9
Local education	1.6	4.7
Construction	5.1	4.7

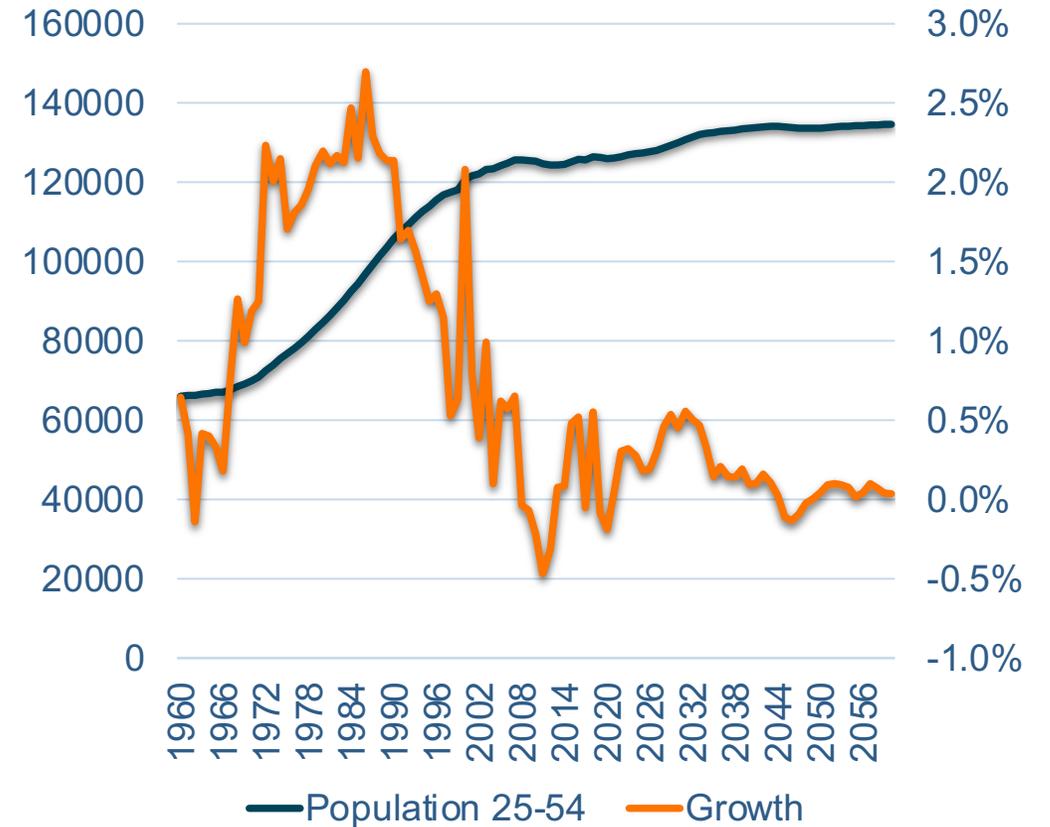
Where are the workers?



US Population by Age



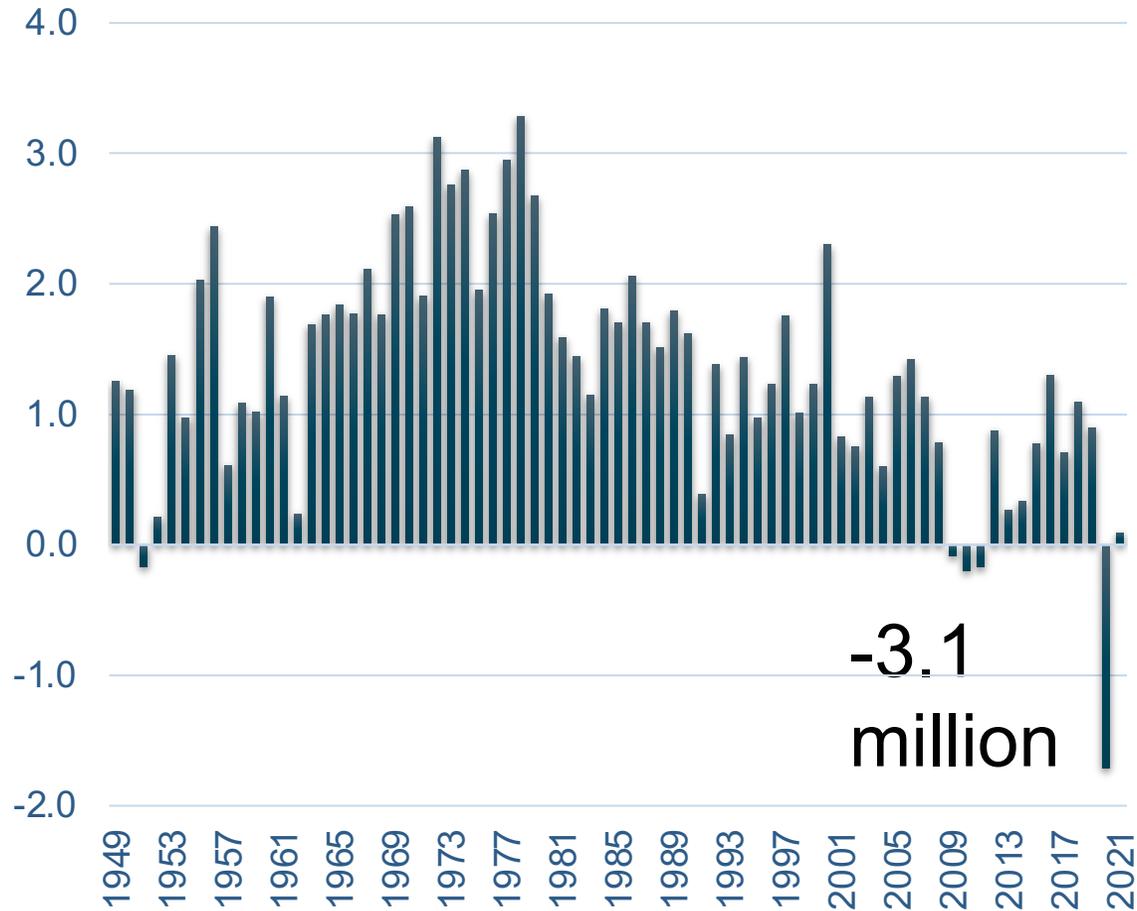
Prime Working Years Population Growth (Census)



Wages and Supply



YoY Growth US Labor Force



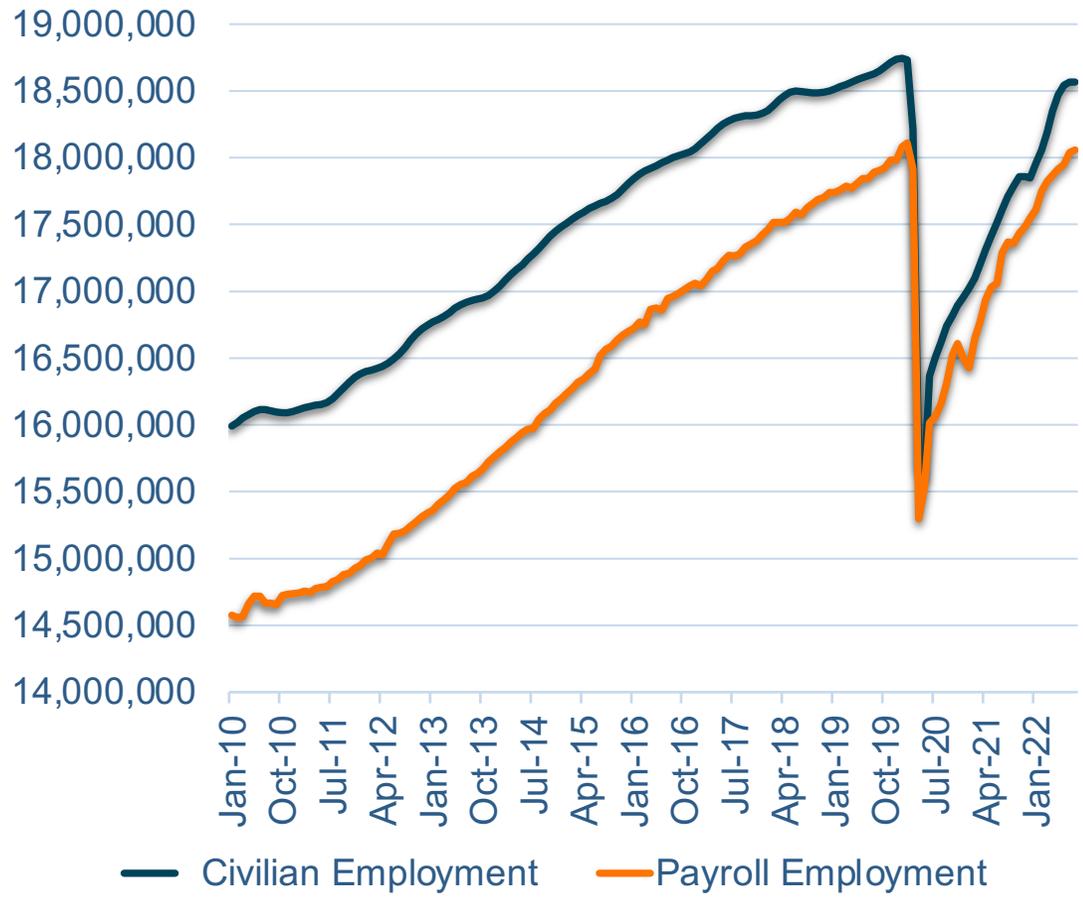
Earnings Growth by Quartile (Atlanta Fed Wage Tracker)



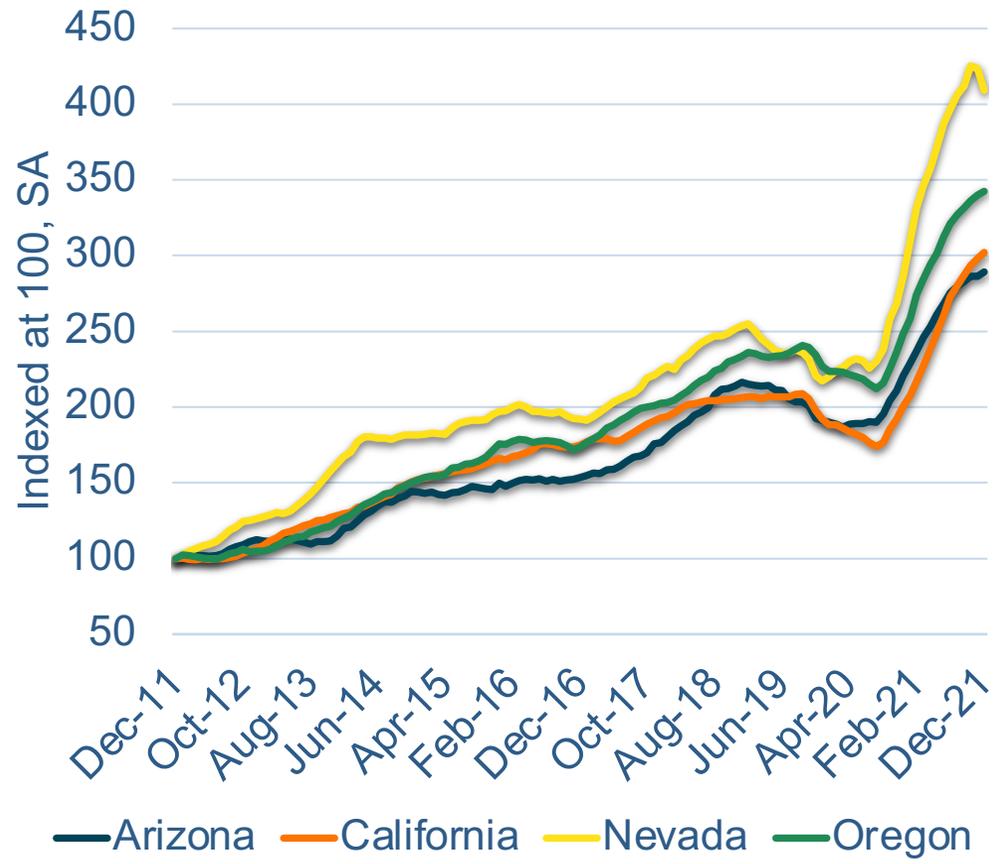
Regional Labor Markets



State Employment



Indexed Job Openings



Labor Shortage Solutions

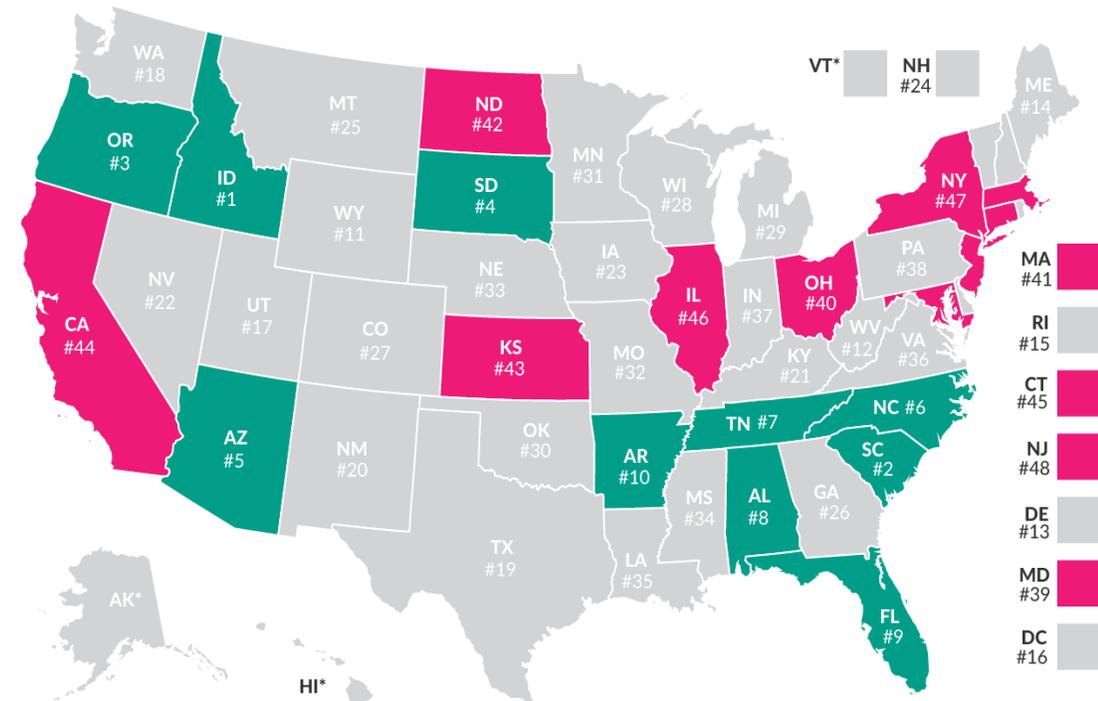


■ Solutions

- Extensive: Increasing labor force through immigration (SR) or birthrates (LR)
- Intensive: Raising participation rates among the existing population
- Productivity enhancements: capital investments / skill training

Where Did Americans Move in 2020?

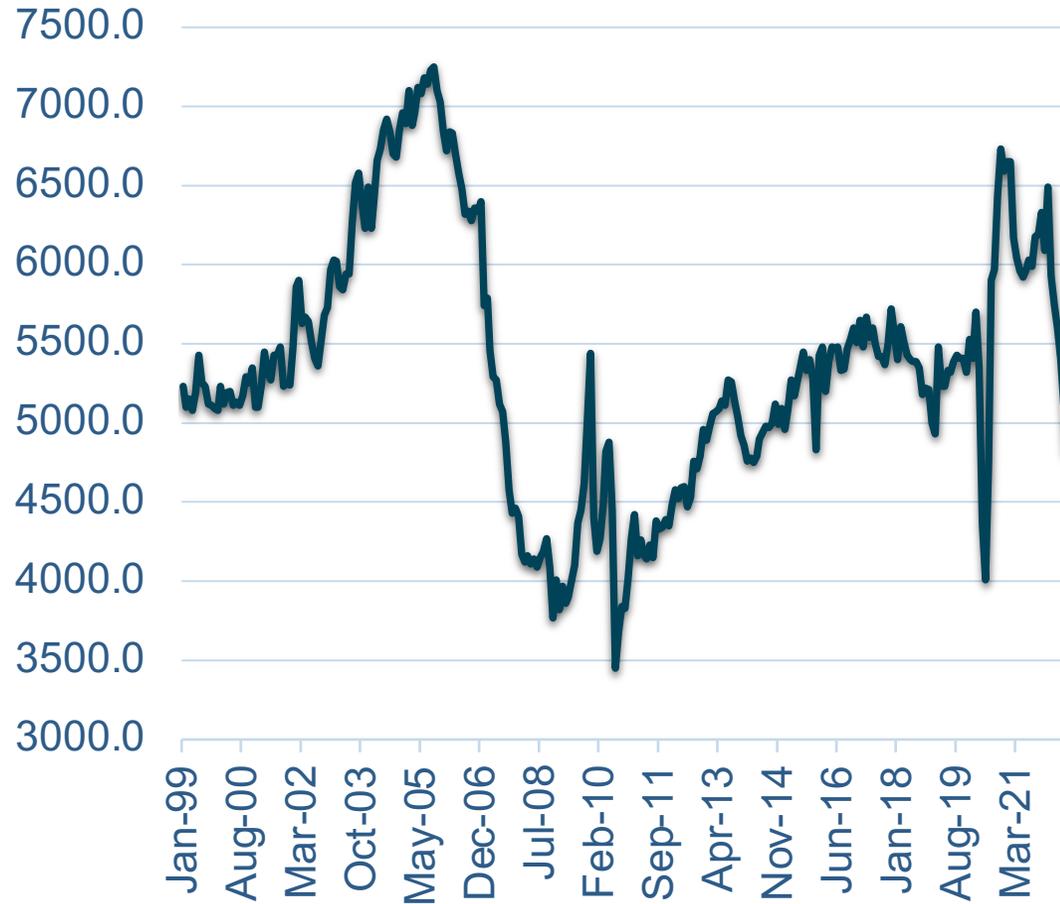
State Migration Patterns, from Most Inbound to Most Outbound, 2020



Residential Markets



Existing Home Sales



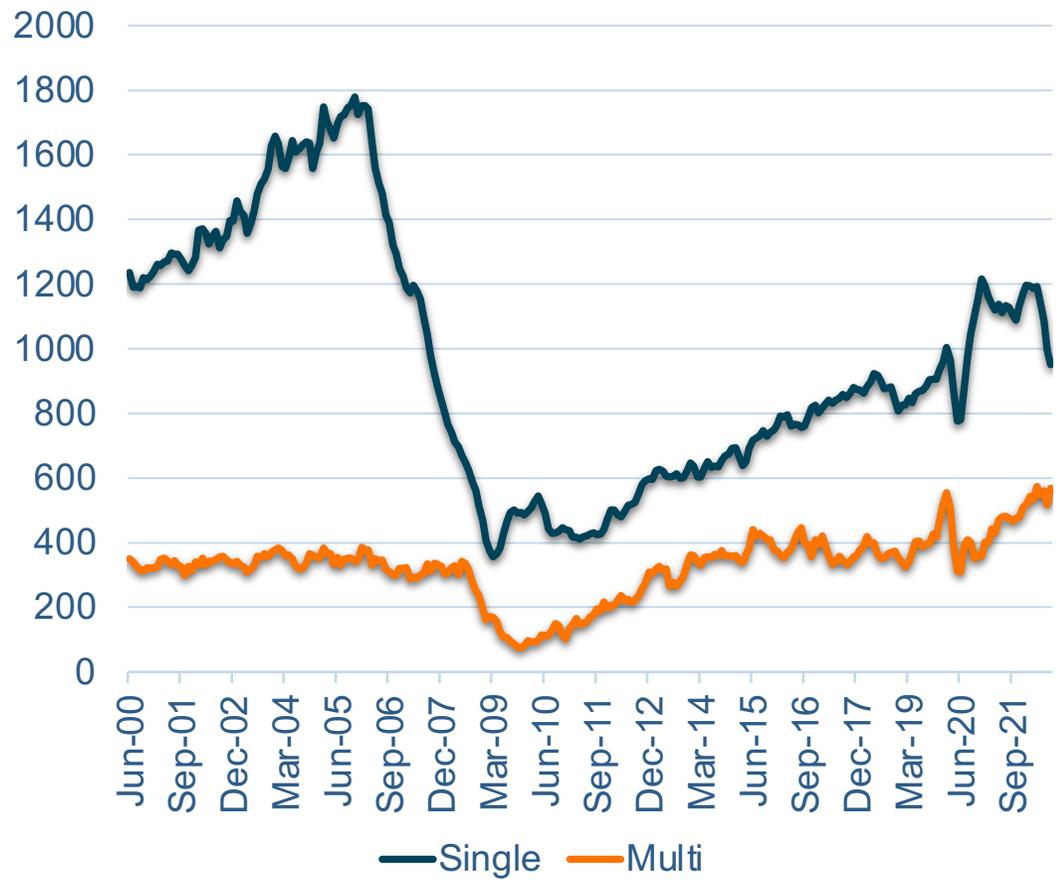
Case Shiller Home Price Change Monthly



New Construction (Smoothed)



Housing Starts



Months Supply New Homes for Sale (Smoothed)



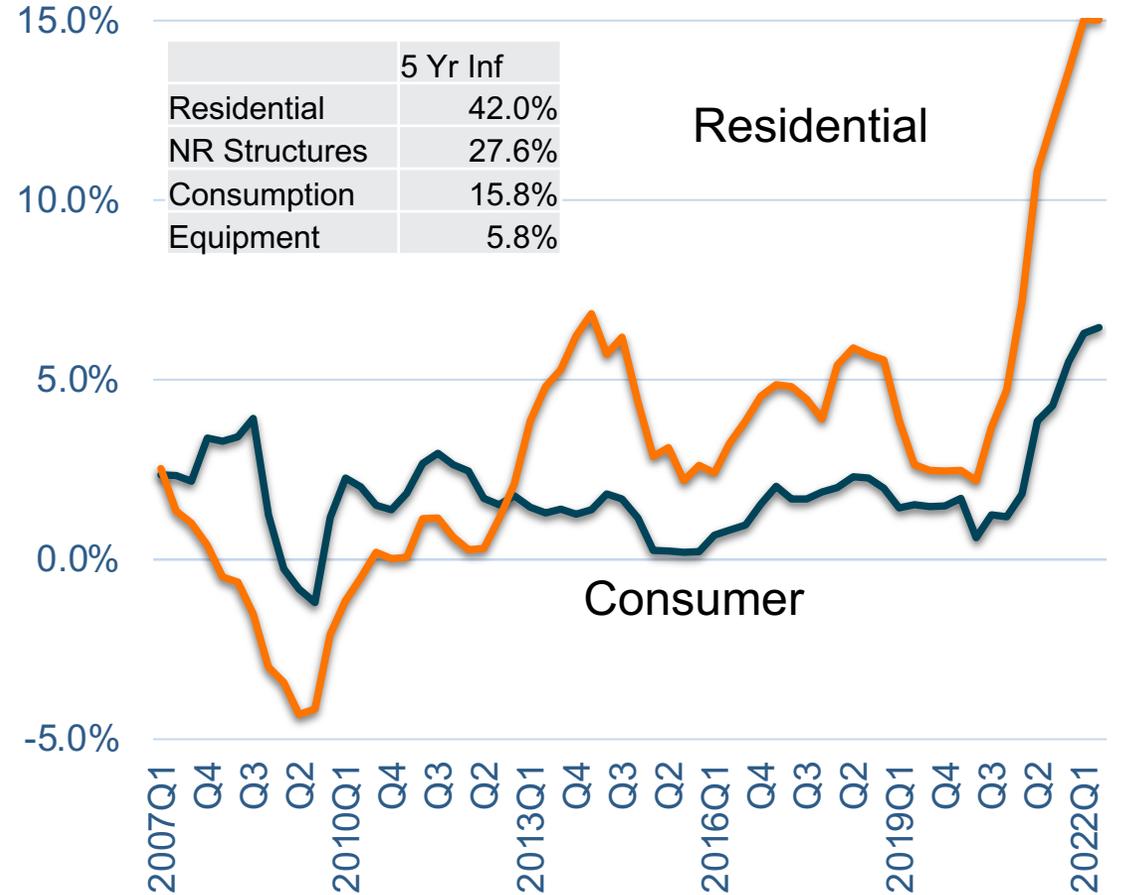
Sticker Shock



New Home Cost (Annual payment 100% LTV)



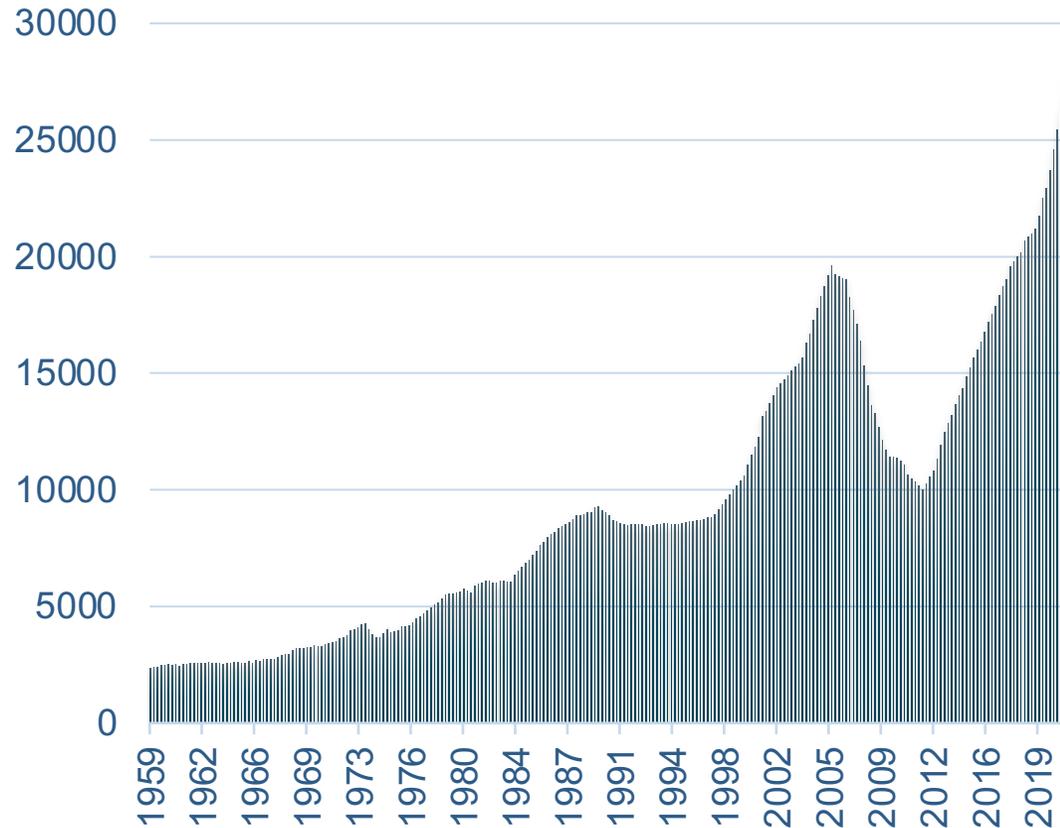
Inflation rates



Market Collapse? Not a chance...



**Real Equity in US Real Estate
(Households, \$Bil 1-4 family)**



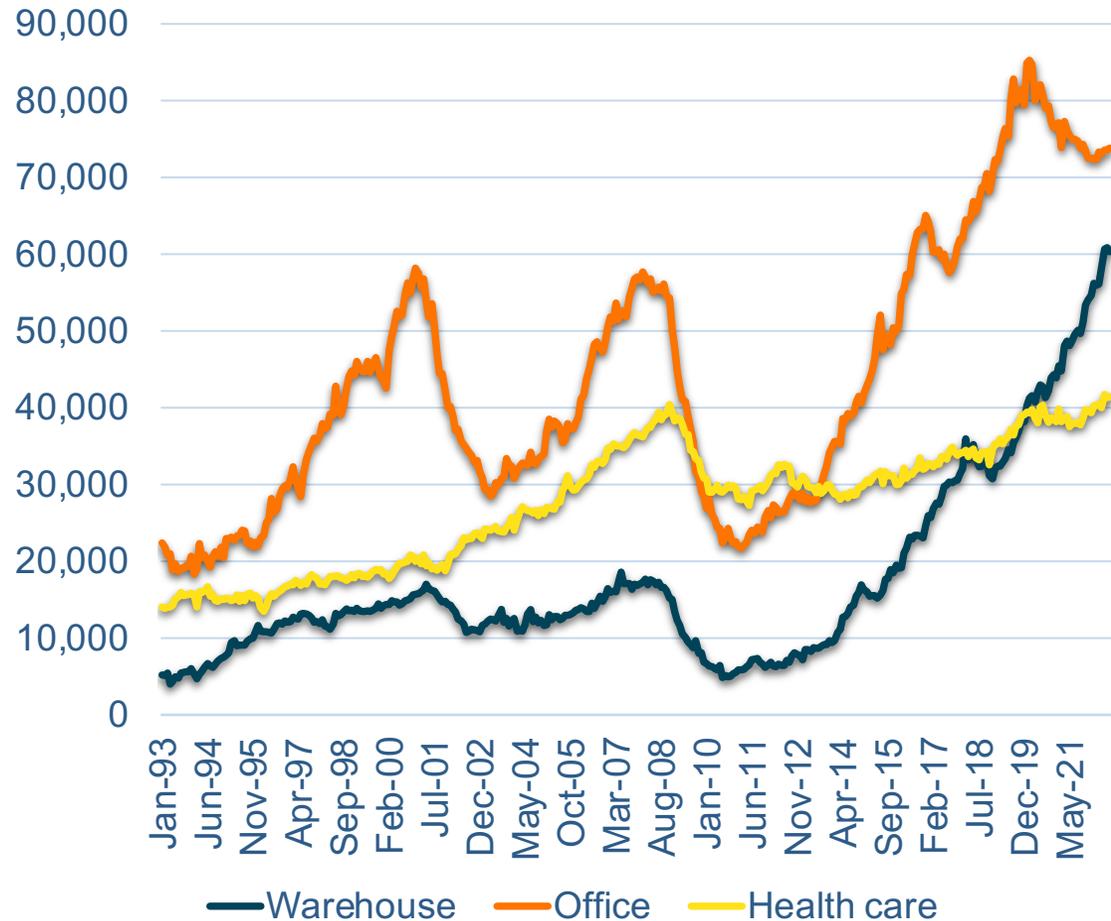
Overall Housing Vacancy

	Northeast	Midwest	South	West
Vacant Year Round 2022				
For Sale / Rent	7.6%	7.4%	9.6%	6.6%
	2.0%	2.4%	2.7%	2.0%
Vacant Year Round 2012				
For Sale / Rent	8.9%	9.9%	12.6%	9.0%
	3.3%	4.0%	4.7%	3.5%
Vacant Year Round 2008				
For Sale / Rent	8.6%	9.8%	12.3%	8.4%
	3.6%	4.9%	5.3%	3.6%

Non-Residential Markets



Construction Spending

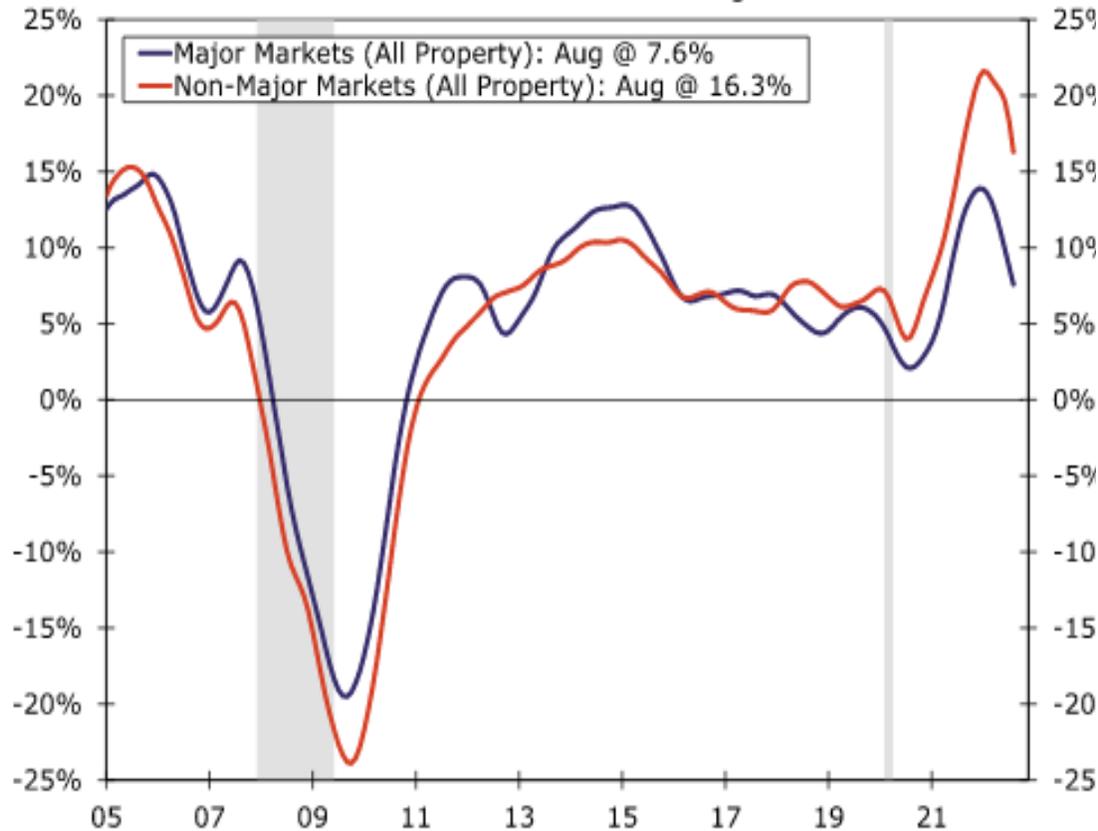


Date	Change from 2019	Aug-22p
Total Private Construction	40.5%	1425963
Residential	70.6%	912913
Nonresidential	6.4%	513051
Commercial	32.0%	108870
Power	6.3%	98013
Manufacturing	21.2%	96649
Office	0.8%	73784
Health care	16.2%	41386
Communication	4.5%	24332
Total Public Construction	7.0%	355314
Highway and street	4.2%	101969
Education	-4.5%	77633
Transportation	7.1%	40610
Sewage and waste disposal	25.0%	31931
Public Water supply	37.4%	23723

Non-Res Markets?

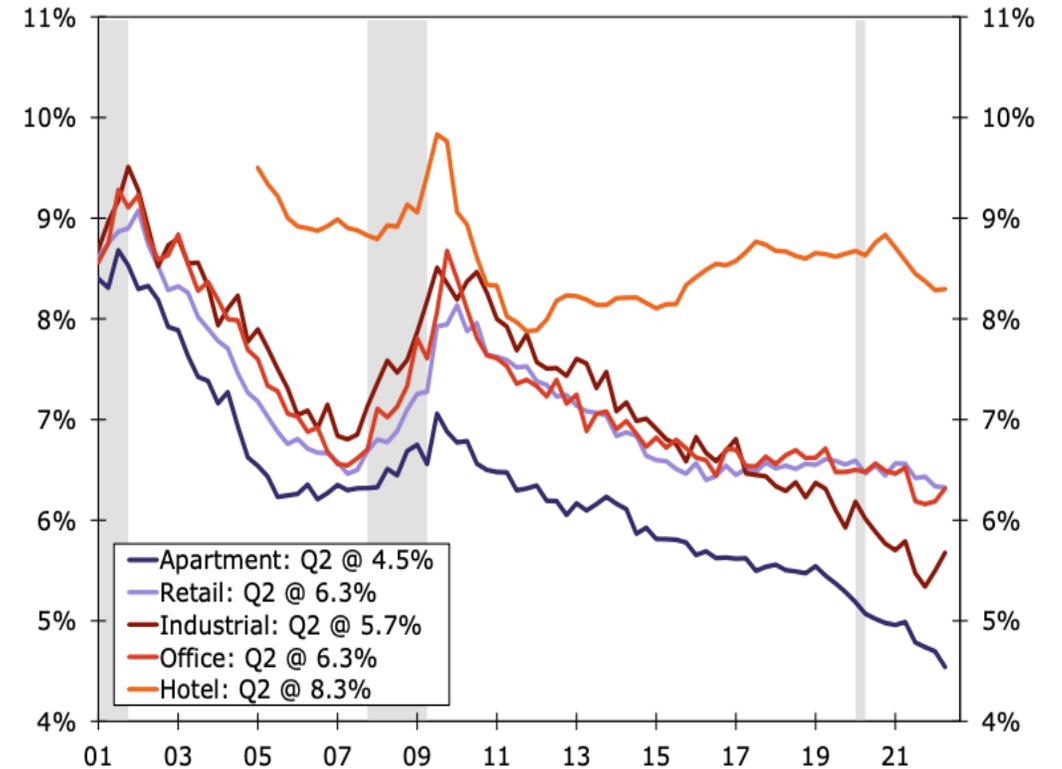


Commercial Property Price Index
Year-over-Year Percent Change



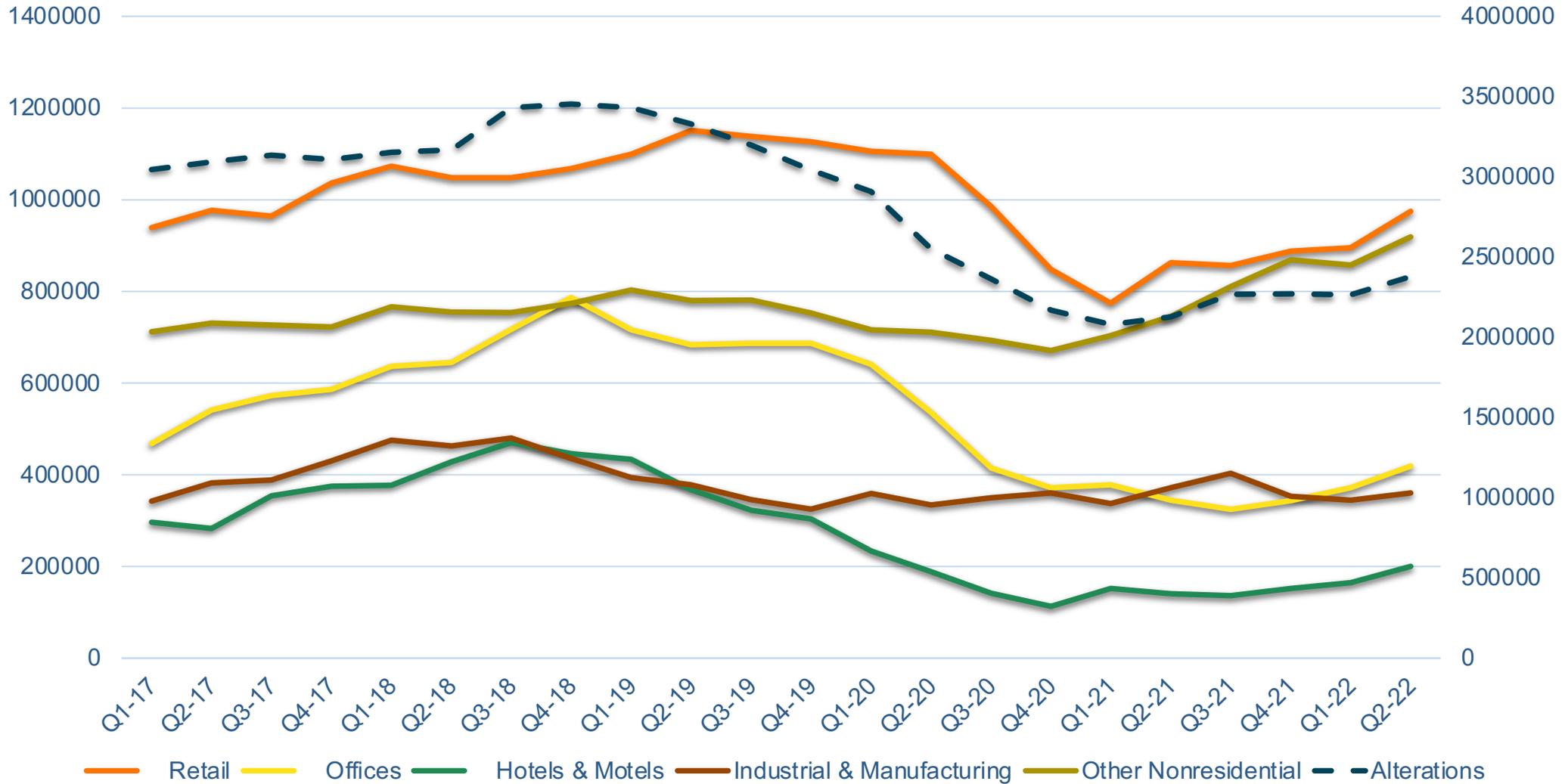
Source: Real Capital Analytics and Wells Fargo Economics

CRE Cap Rates by Property Type



Source: Real Capital Analytics and Wells Fargo Economics

California Non-Res Permits (Values)



Nonresidential Rents and Vacancies



Office	Cost of Rent		Vacancy Rate	
	Q3-21* (\$)	1-Yr % Chg	Q3-21* (%)	1-Yr Abs Chg
Phoenix	27.5	1.7	21.6	-0.5
Inland Empire	23.6	0.8	17.6	0.2
Los Angeles (MD)	40.9	0.5	15.8	1.2
Las Vegas	25.5	0.0	22.8	-0.6
Orange County (MD)	33.9	-2.1	18.3	1.1

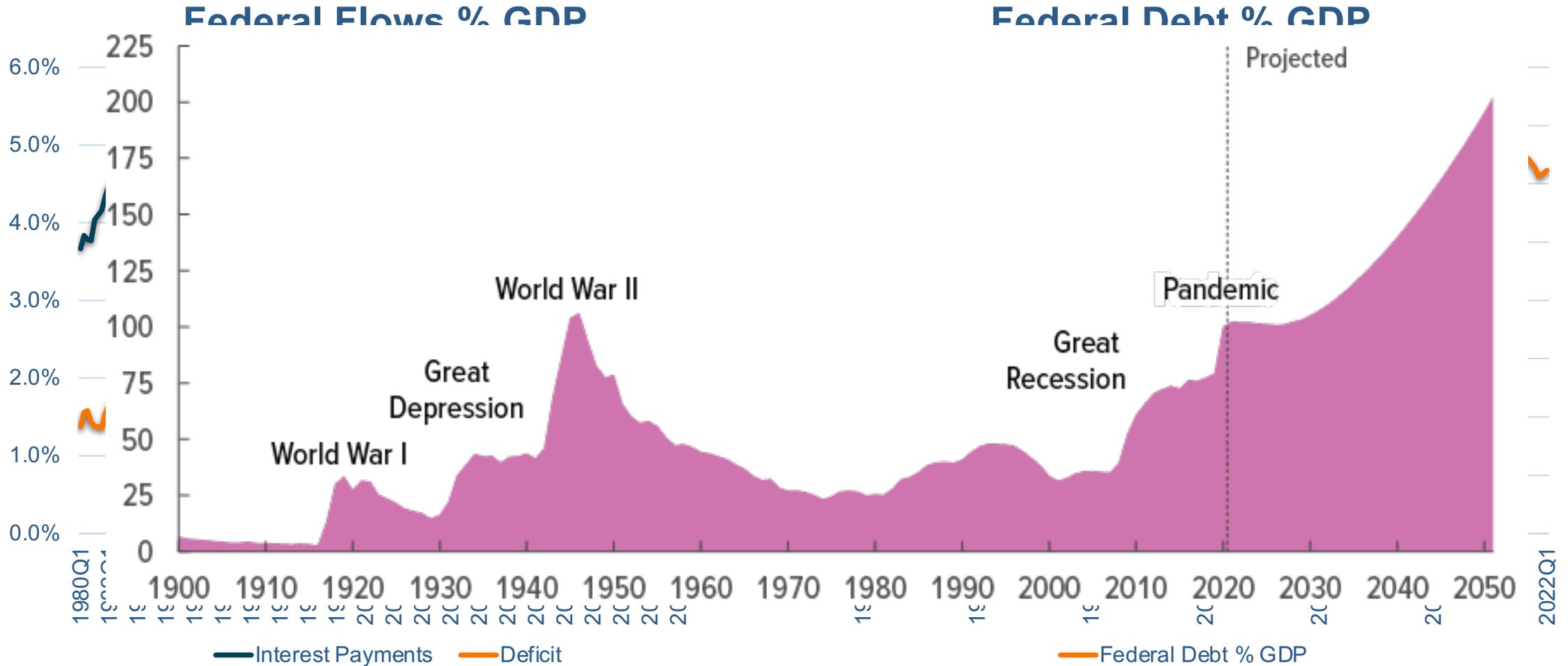
Retail				
Orange County (MD)	34.3	0.0	5.8	0.1
Las Vegas	22.7	-0.1	12.8	-0.2
Los Angeles (MD)	33.5	-0.2	7.6	0.2
Phoenix	20.7	-1.1	9.6	0.0
Inland Empire	22.5	-2.7	9.9	0.0

Warehousing				
Las Vegas	7.3	4.4	5.3	-1.8
Phoenix	6.5	3.7	9.6	-5.8
Inland Empire	6.0	3.6	5.0	-5.8
Los Angeles (MD)	8.2	3.4	3.8	-2.3
Orange County (MD)	7.8	2.9	3.9	-3.8

*YTD Q3

The Fiscal Problem

	New Fed Debt per person
5 Years	\$ 30,000
20 years	\$ 60,000



The Long Run Still Matters



- **The Economy is all right**

- The “V” was the only logical outcome
- Recovery hampered by lack of supply
- Problem is overuse of stimulus
- Consumers are pushing inflation, not being hurt by it
- Global geopolitics are mainly a dangerous distraction

- **The Outlook: Expansion to Continue**

- Wealth and income will drive consumer spending
- Construction to go into deep freeze
- On net US economy will grow, albeit slowly
- Inflation will continue to be hot, unclear when / if rates will reflect reality
- Economy is brittle—small shocks can have big consequences

- **Potential Scenarios**

- 1: Dramatic Fed action, stops inflation and excess consumption but causes mild recession but quicker return to low rates
- 2: Let inflation burn itself out—a couple years of higher inflation until things settle out occurs. Rates and inflation remain higher
- Wild cards: Fiscal situation, \$US, crazy politics

- **Construction: Chilly yet hot**

- Transaction volumes, prices to subside
- Demand to remain solid, little sign of financial distress
- How long until things thaw? Depends on buyers and sellers



Thank You



Speaking Interest



Contact Form



Publications

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