



*presents*

## **2024 Real Property Law Retreat**

Social Narratives, Economic Reality and the Outlook for Real Estate in California

Friday, March 8, 2024  
4:00pm - 5:00pm

Speakers: Dr. Christopher Thornberg, Ph.D.

### **Conference Reference Materials**

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# *Social Narratives, Economic Realities, and the Outlook for California Focus on Commercial Real Estate*

**Christopher Thornberg, PhD**

Founding Partner, Beacon Economics

February 2024

[beaconecon.com](http://beaconecon.com)



# Narratives vs Reality

## *There was little to no risk of a “hard landing”*

- Excess demand causes inflation, not recessions
- Higher interest rates offset by high liquidity, low private sector debt
- Consumer demand still strong, fiscal stimulus still a net positive
- Fed likely to moderate stance, albeit not as much as the market thinks

## *California: Doing Just Fine*

- State deficit a function of bad spending choices, not the economy
- Population declines driven by housing shortages
- Commercial real estate: office not that bad, industrial not that good
- Inland CA, including Sacramento, some of the best growth trends in state

## *Economic Reality Checks*

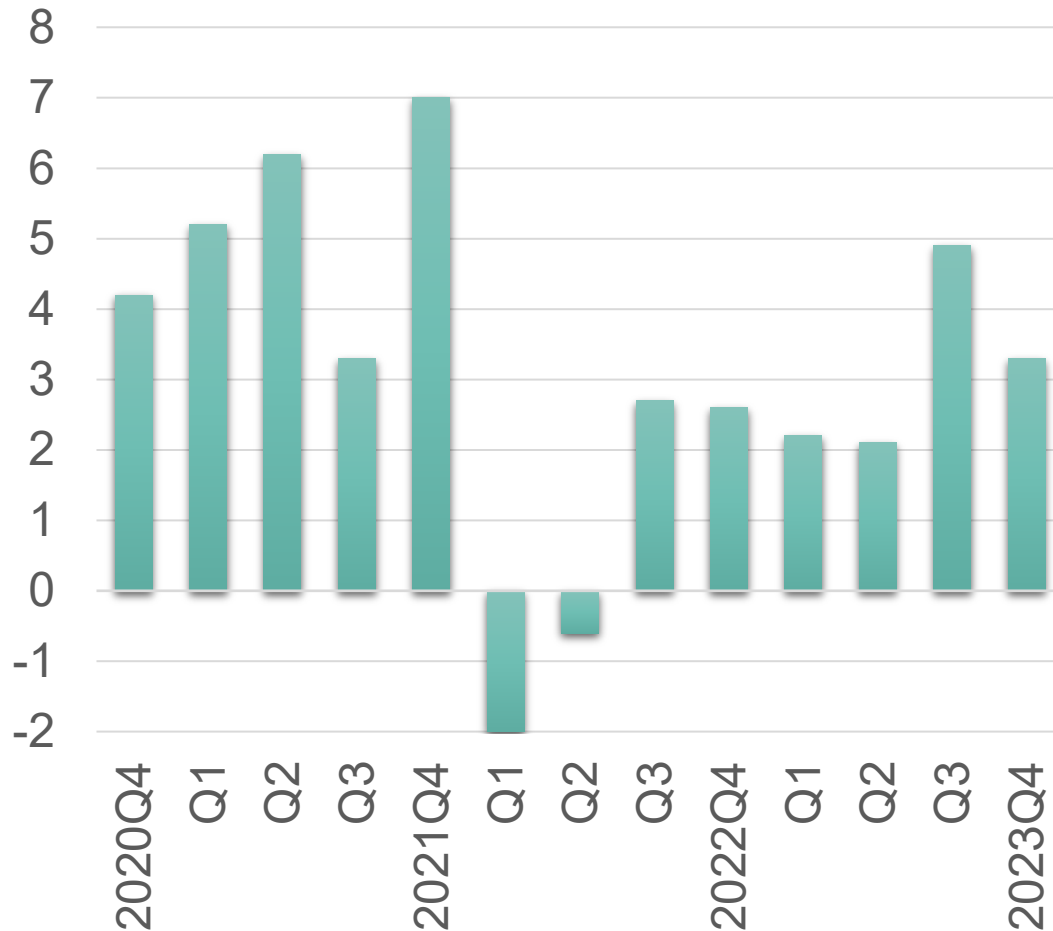
- Record federal deficits to keep long run rates higher / longer
- Asset prices remain frothily high
- Labor supply issues constrain overall local and US growth
- Broken narratives and an angry electorate



# 2023: A great year for growth



## Real GDP Growth SAAR



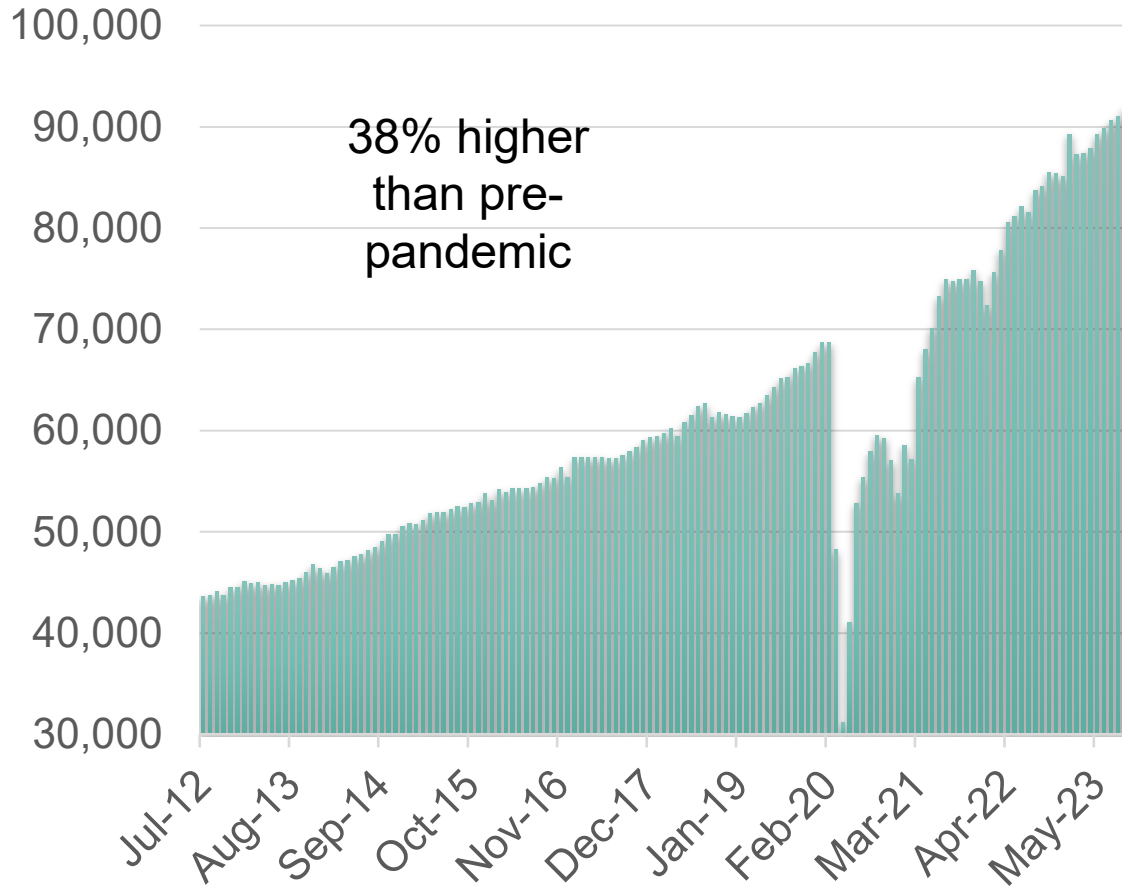
## Contributions to Real GDP Growth

	2019	2022	2023
Gross domestic product	2.50	1.90	2.50
Final Demand	2.54	1.76	2.23
Personal consumption	1.35	1.72	1.49
Durable goods	0.23	-0.02	0.34
Nondurable goods	0.40	0.09	0.13
Services	0.71	1.65	1.02
Fixed investment	0.48	0.24	0.09
Structures	0.08	-0.06	0.36
Equipment	0.06	0.26	-0.01
IPP	0.37	0.48	0.23
Residential	-0.04	-0.44	-0.49
Net exports	-0.12	-0.48	0.58
Exports	0.06	0.76	0.32
Imports	-0.18	-1.24	0.26
Government	0.68	-0.16	0.68

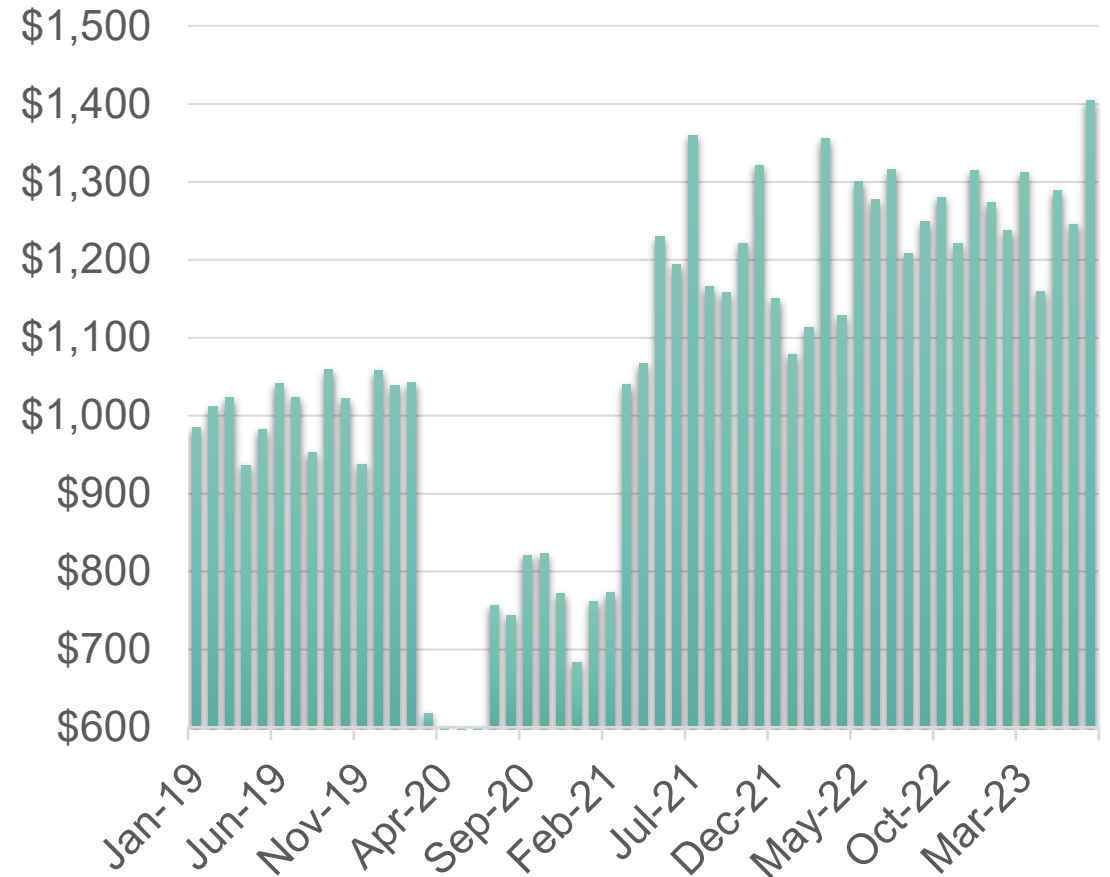


# Americans: Having Fun...

## Retail: Restaurant and Bars

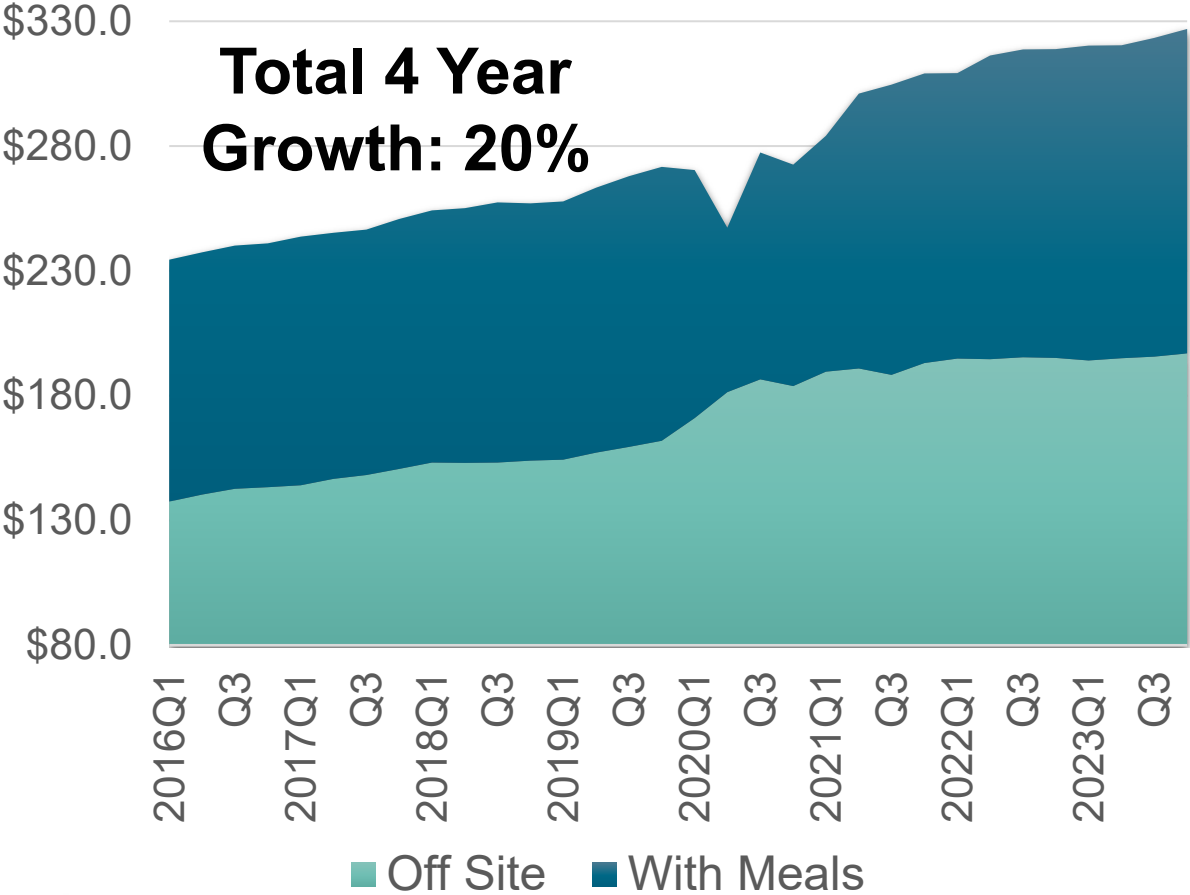


## Nevada Gaming Revenues

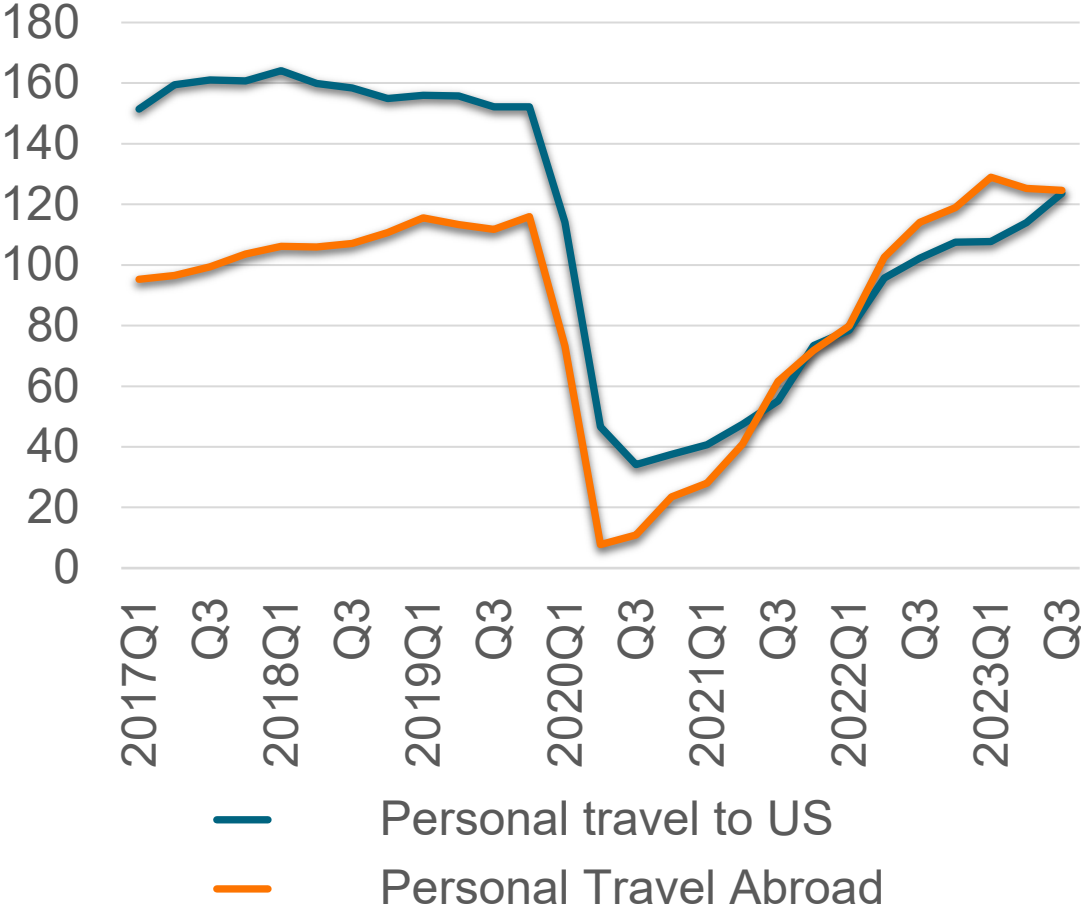


# Booze and Travel!

Real Consumer Spending on Alcoholic Beverages (\$Bil)

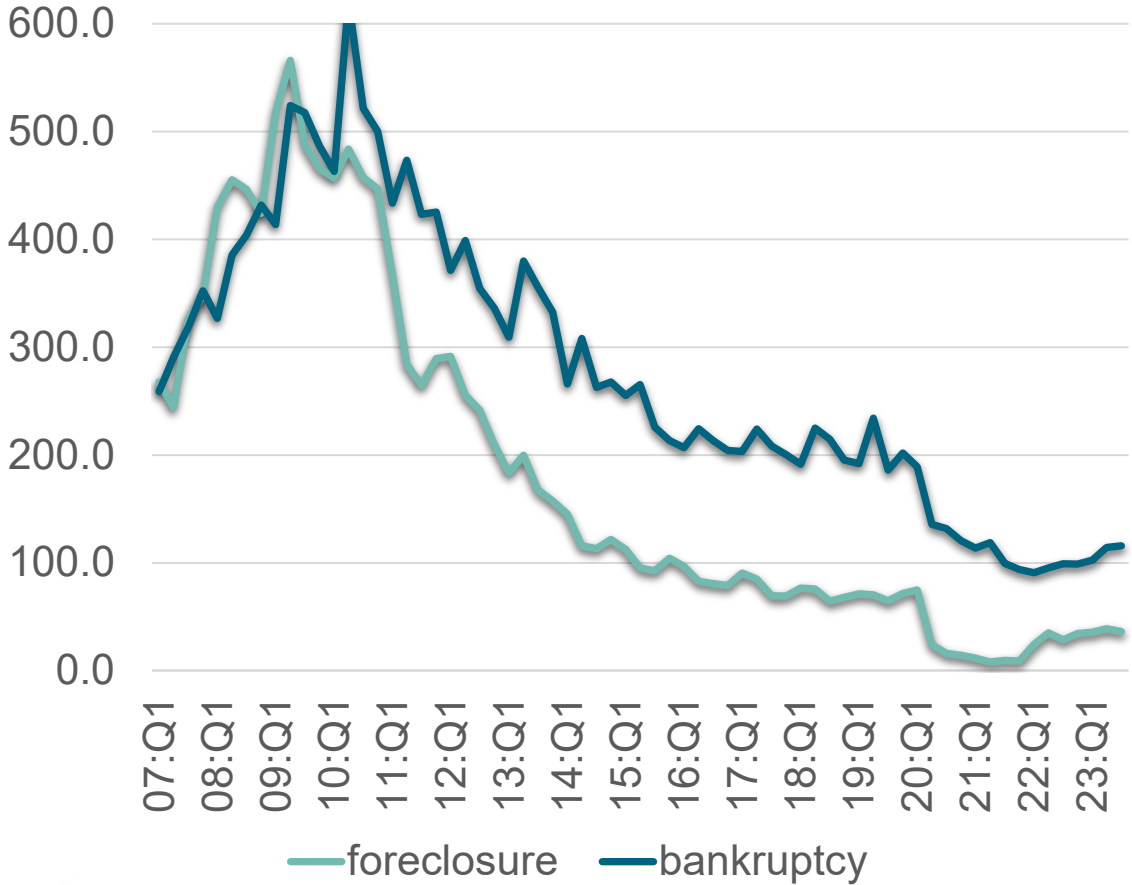


Real Personal Travel Expenditures

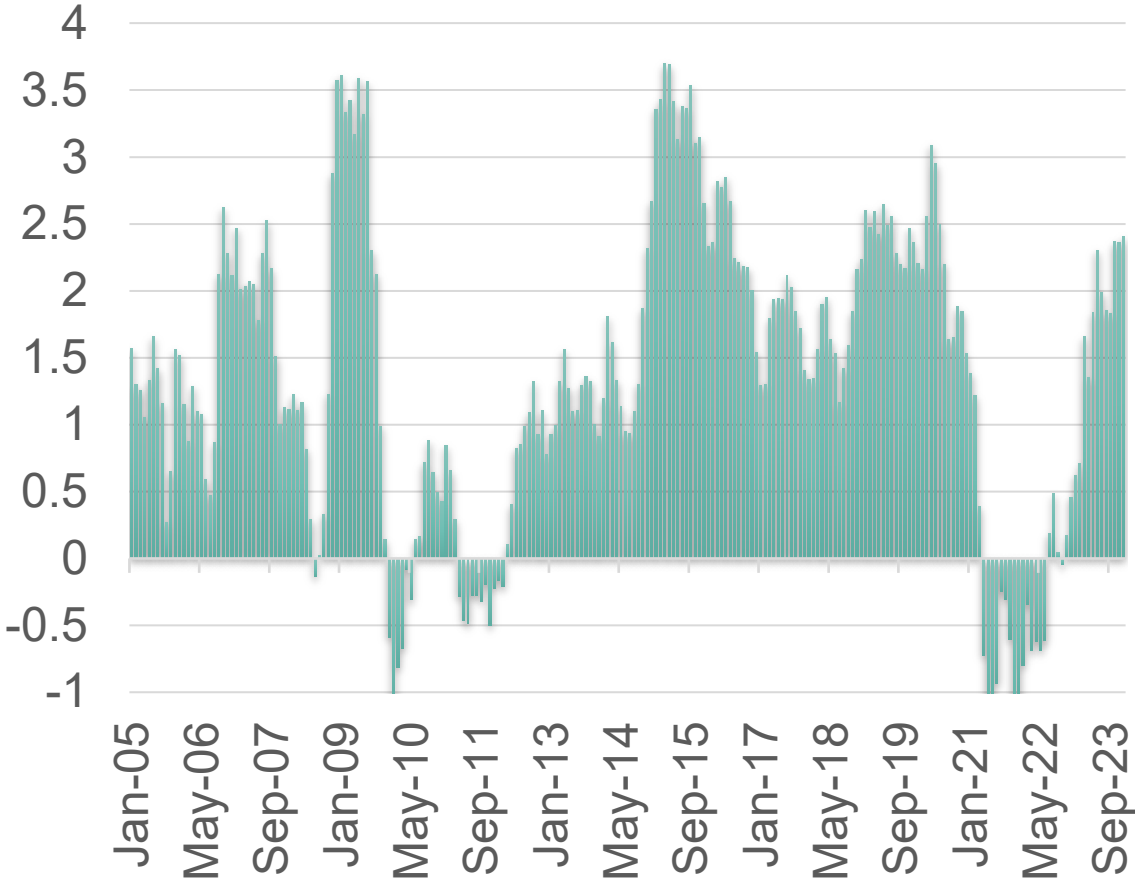


# Consumer Finances: Still Strong

### Household Distress (thousands / Quarter)



### Real Weekly Earnings Growth

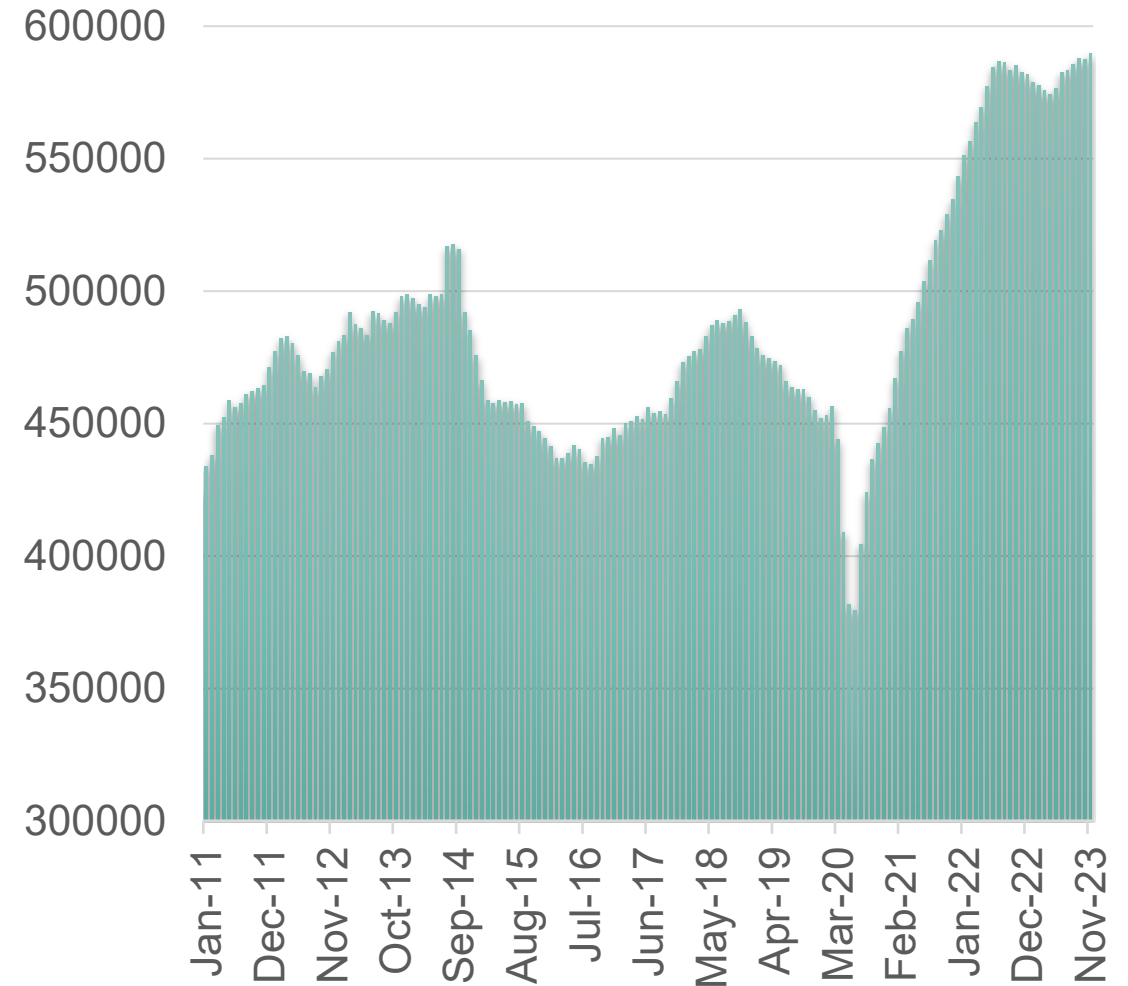


# US Industrial Production

## U.S. Industrial Production



## Factory Orders (Nominal)



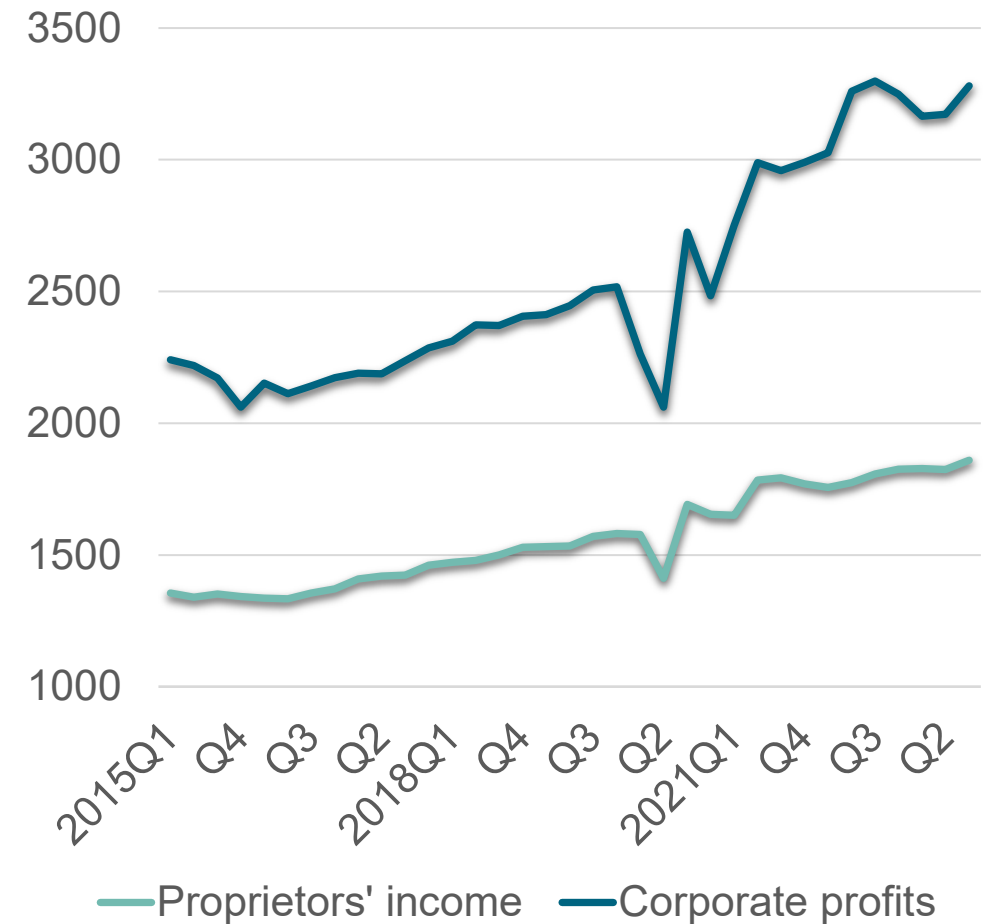


# Investment Up, Profits Steady



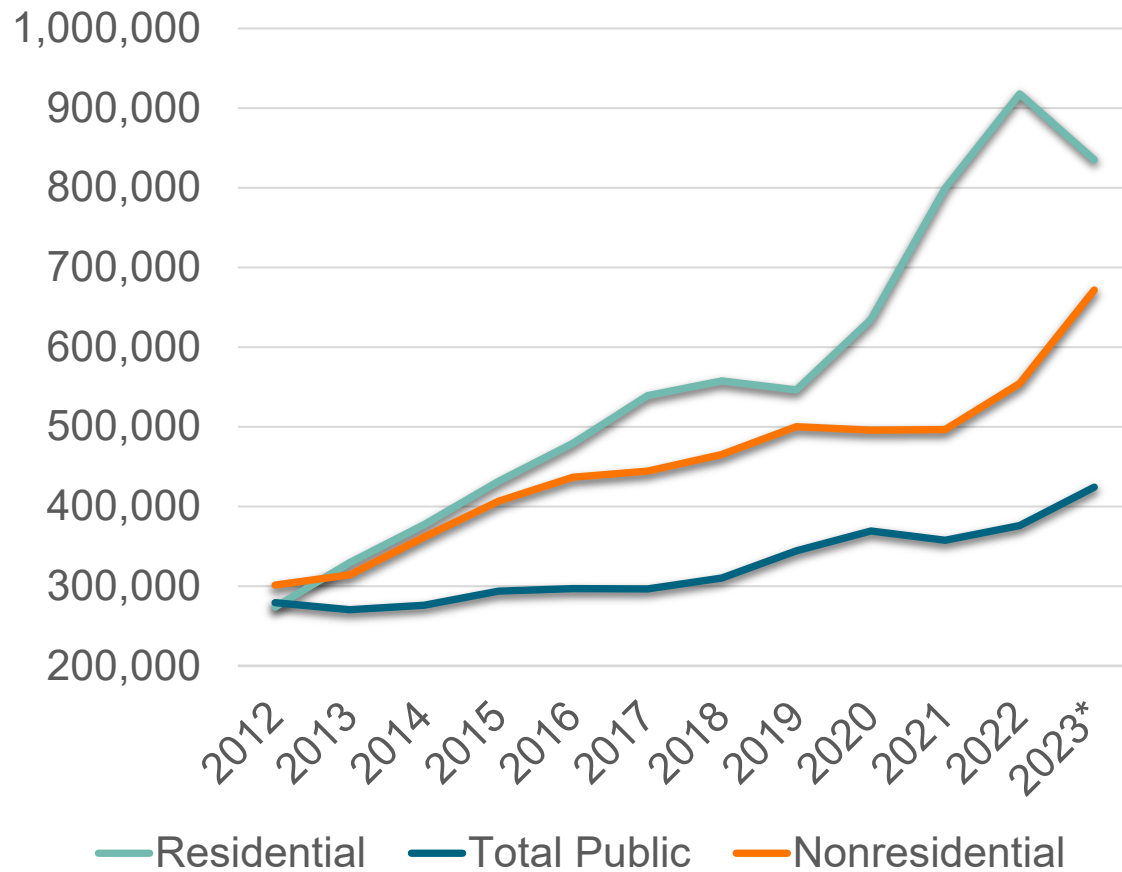
	2023	2019-23	YoY Gr
Total Private fixed investment	3960	6.8%	0.5%
<b>Manufacturing Plants</b>	<b>126.1</b>	<b>73.5%</b>	<b>62.7%</b>
Transportation equipment	263.5	-13.5%	15.5%
Software	718.9	54.1%	8.9%
Power and communication	105.8	-18.0%	2.4%
Entertainment, literary, art	94.1	4.8%	2.3%
Mining exploration, shafts	108.3	-12.4%	1.7%
Research and development	602.9	18.8%	0.9%
<b>Commercial and health care</b>	<b>169.9</b>	<b>-9.1%</b>	<b>0.1%</b>
Industrial equipment	252.4	-0.3%	-0.9%
Information processing eq	484.4	12.9%	-5.0%
<b>Residential</b>	<b>734.5</b>	<b>-3.5%</b>	<b>-10.7%</b>

National Incomes (BEA)



# The Construction Industry

Total Nominal Spending by Sector  
(\$Millions)

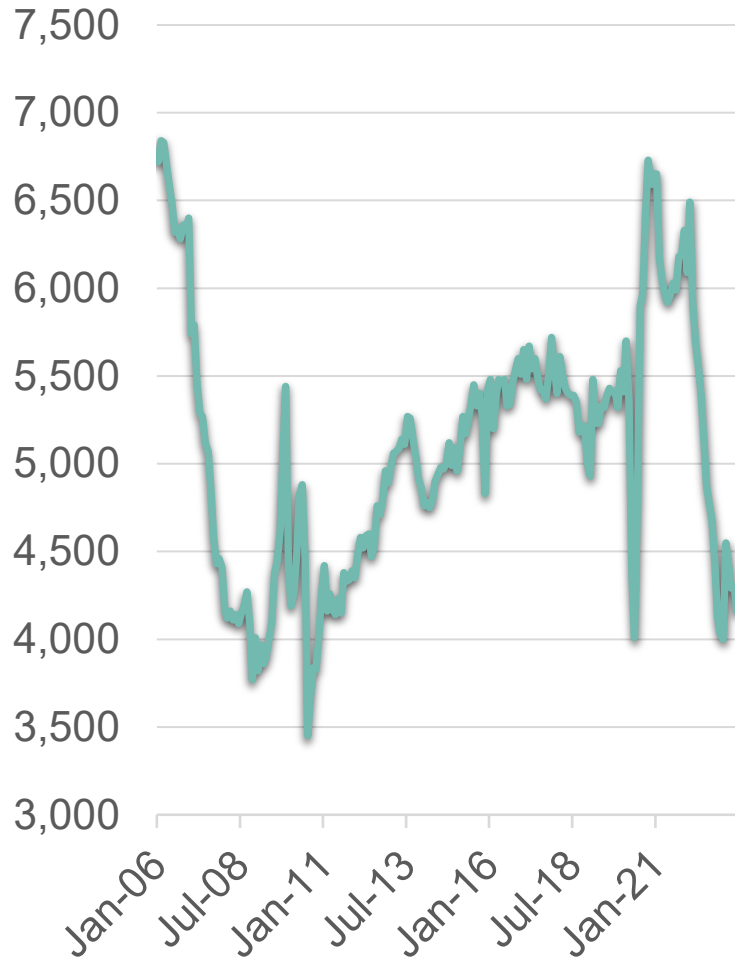


	2023*	1 Year	5 Yr Avg Gr
<b>Private</b>			
Manufacturing	198,237	73.7%	22.5%
Commercial	127,073	8.4%	8.9%
Power	103,488	3.5%	1.9%
Office	84,241	7.3%	4.7%
Health care	49,136	13.3%	7.7%
Communication	24,515	1.5%	0.2%
Lodging	24,228	25.5%	-4.5%
Educational	22,152	16.6%	-0.2%
Transportation	20,136	15.8%	2.4%
<b>Public</b>			
Highway and street	130,769	15.4%	7.4%
Educational	88,867	7.0%	2.4%
Transportation	43,622	5.5%	4.3%
Sewage waste	39,201	22.7%	10.8%
Water supply	25,841	13.9%	11.2%

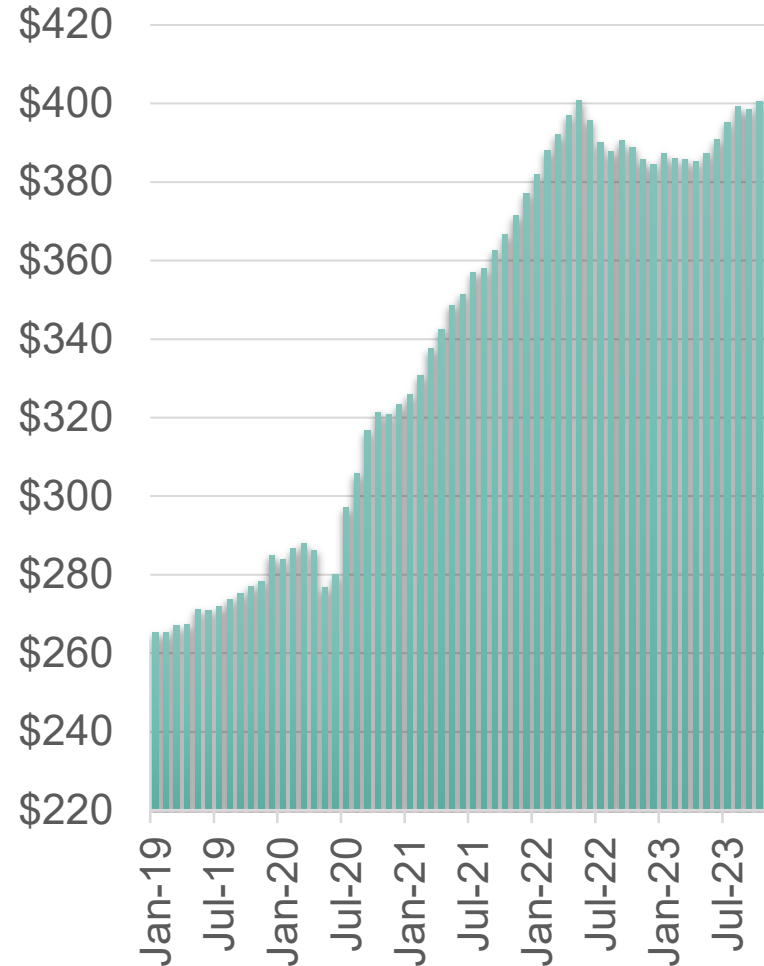


# Housing: Sales down, yet prices, starts rising...

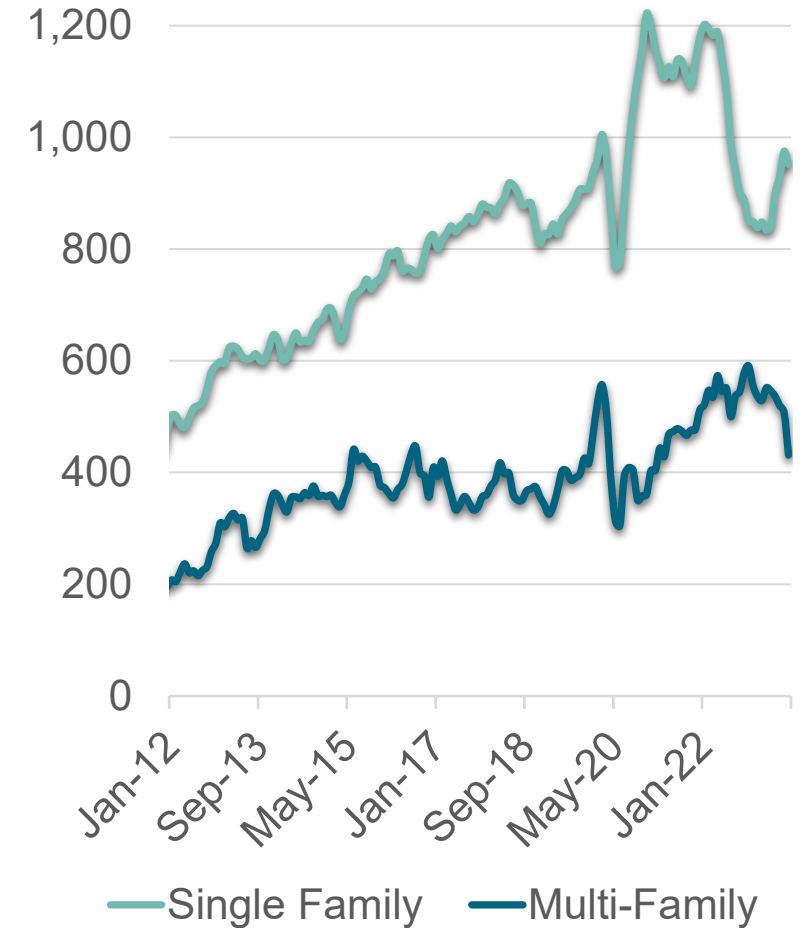
## US Existing Home Sales



## US Median Home Prices



## Housing Starts SAAR



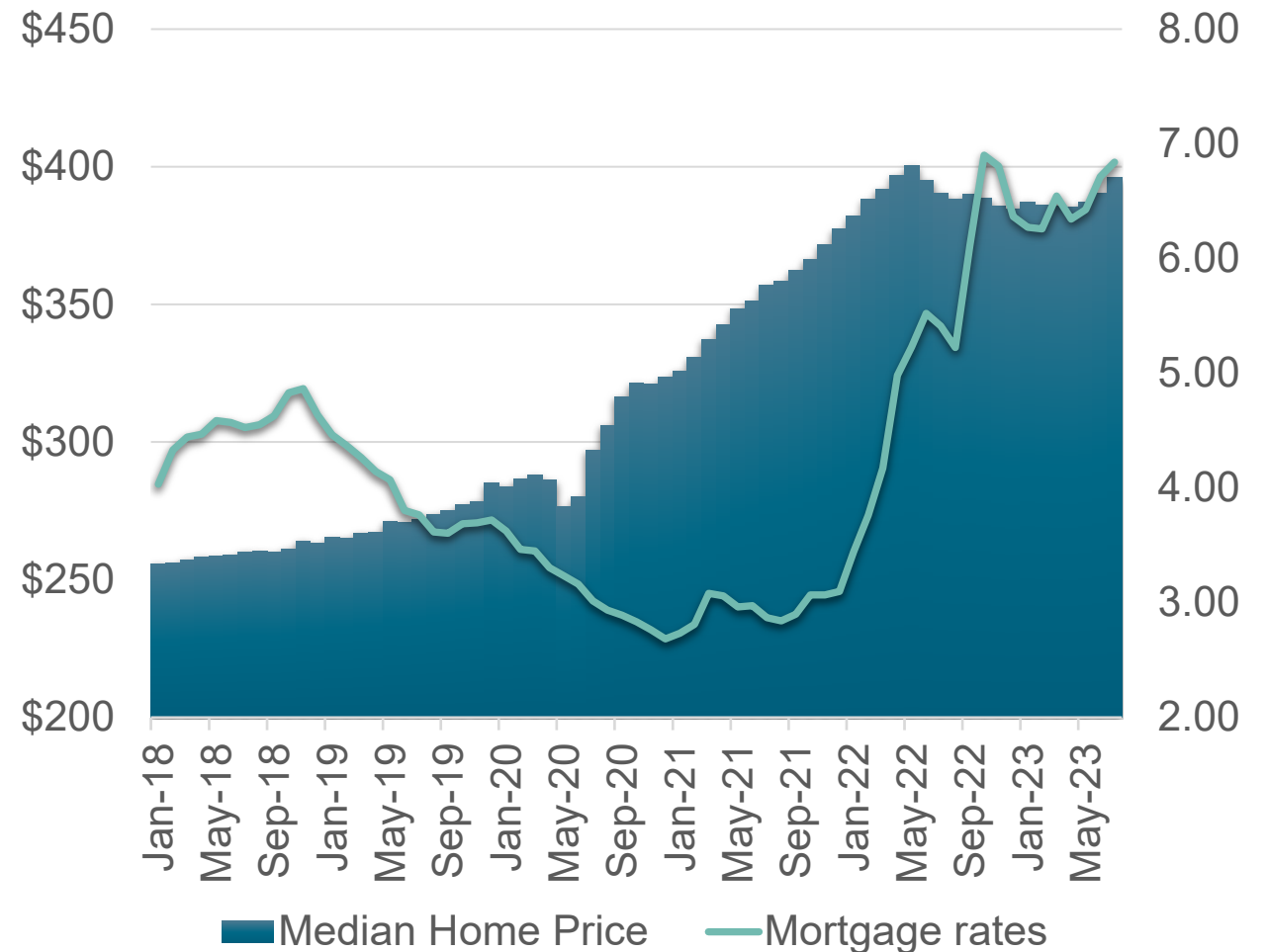
# Housing: A Rate Whiplash



Case Shiller Home Price Appreciation  
July 20 – July 22

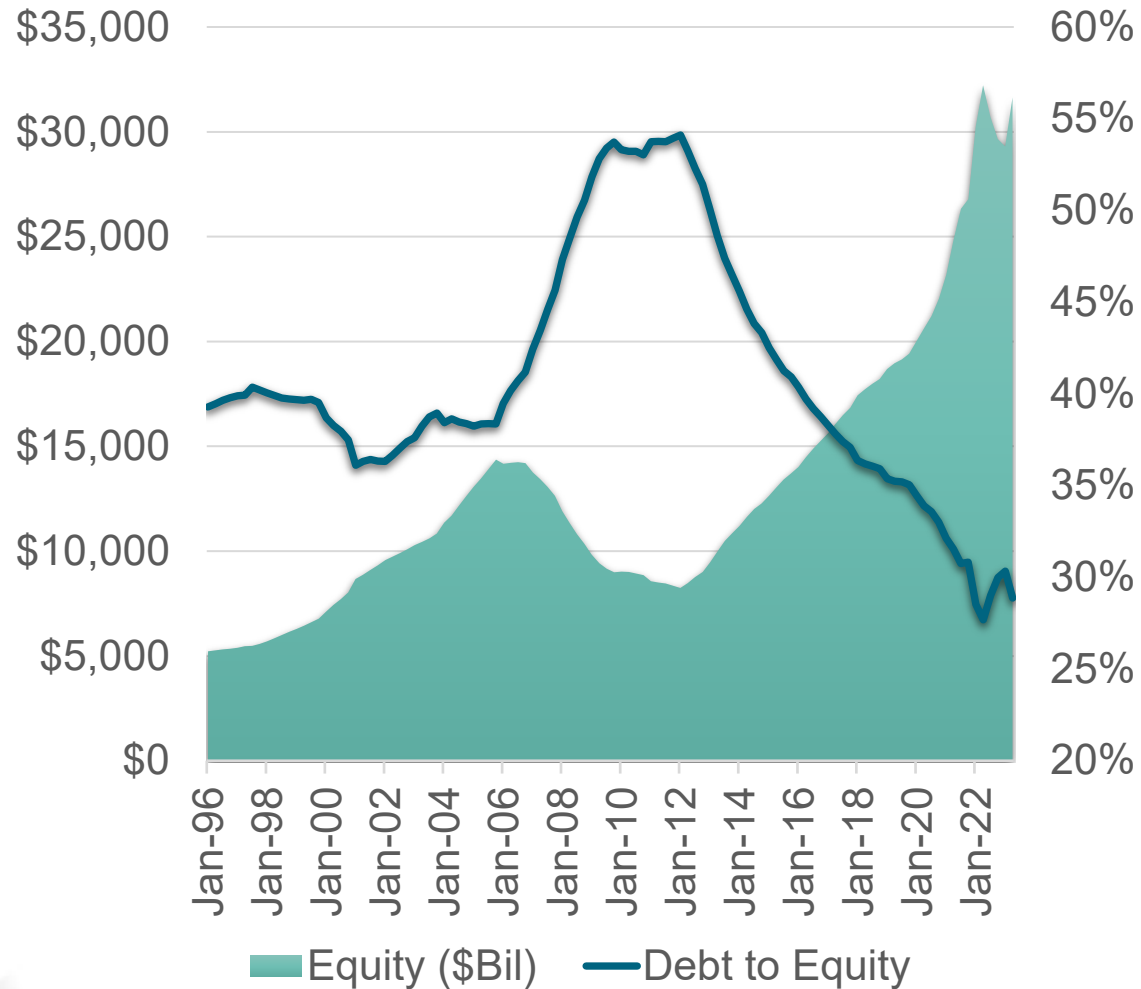
Tampa	64.0%	Los Angeles	37.9%
Phoenix	62.0%	SF	35.1%
Miami	61.4%	New York	34.9%
Dallas	54.2%	Boston	34.6%
Charlotte	49.5%	Portland	33.6%
LV	49.2%	Cleveland	30.9%
SD	49.1%	Detroit	29.4%
Atlanta	45.8%	Chicago	27.4%
Seattle	43.9%	DC	26.0%
Denver	40.3%	Minneapolis	24.6%

Existing Home Market

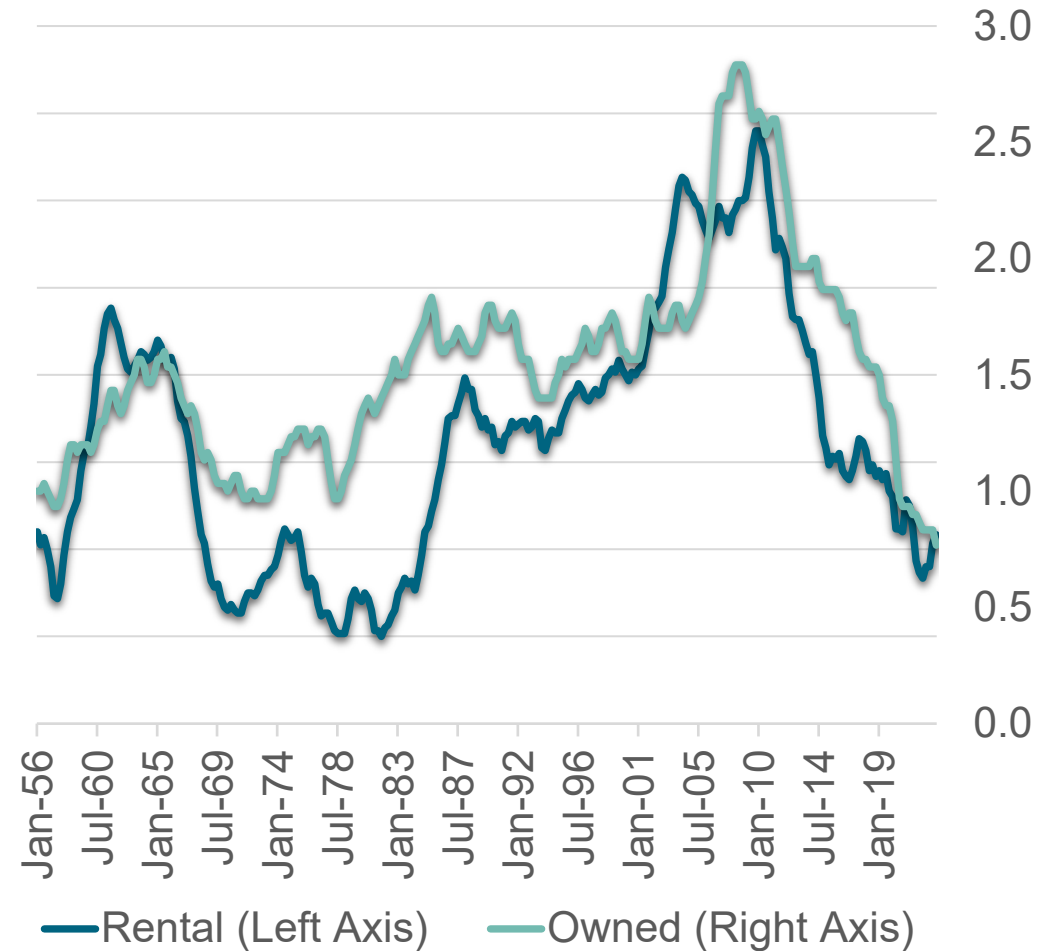


# Strong Housing Fundamentals

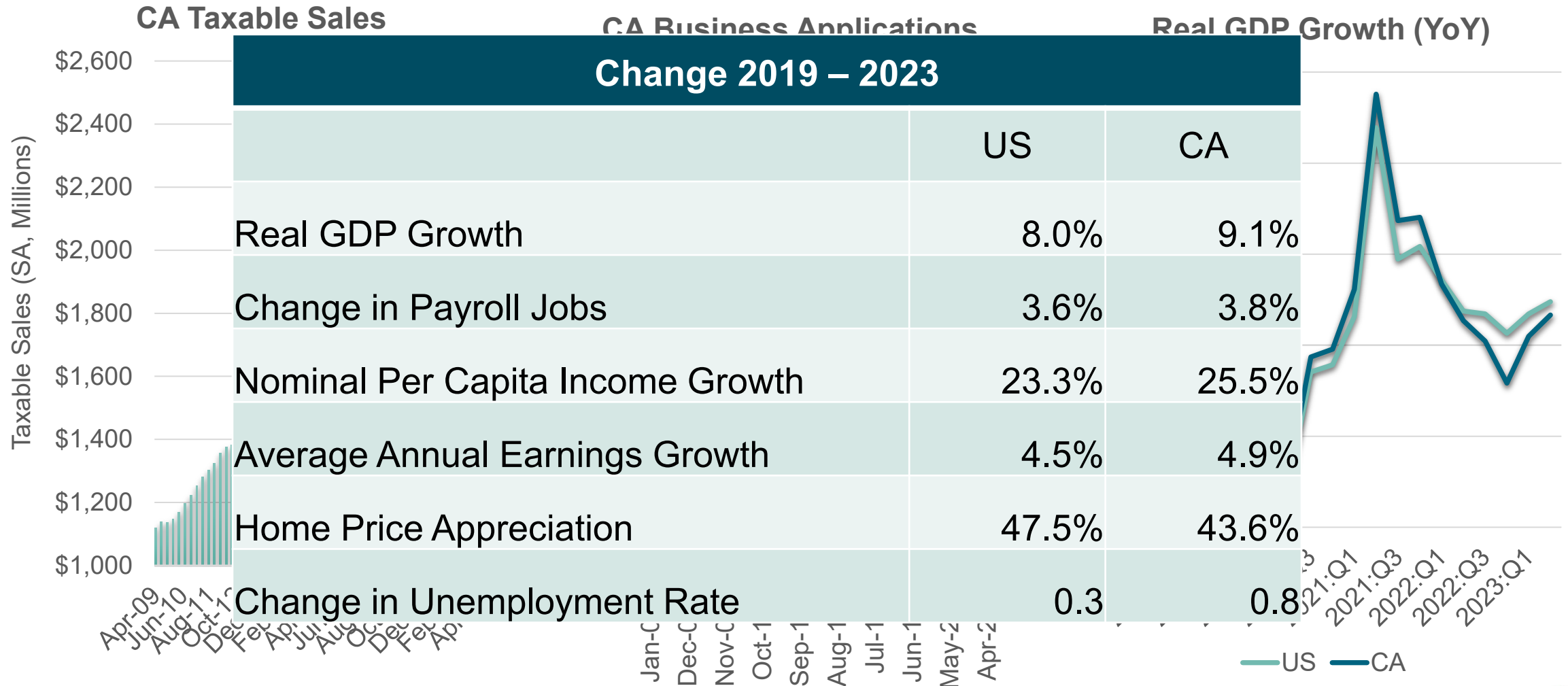
## Household Housing Equity and Debt



## US Housing Vacancy Rates

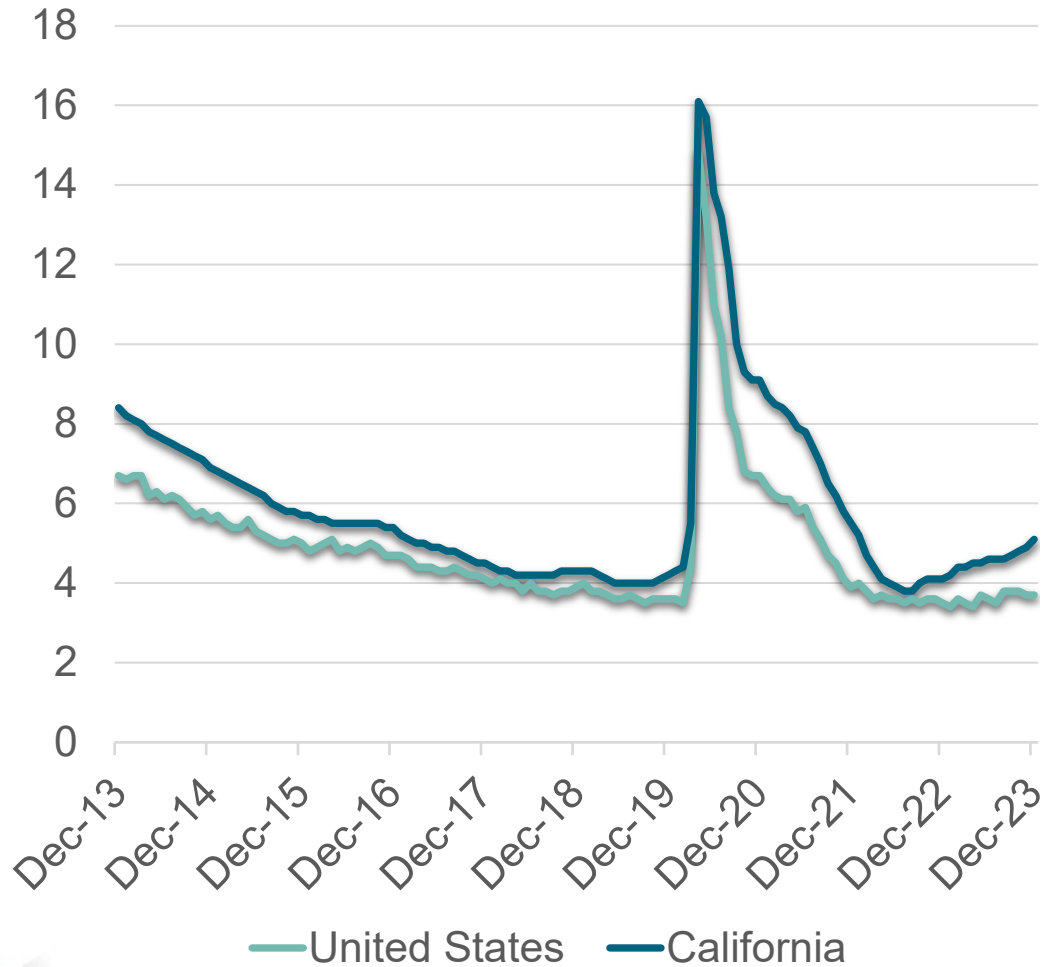


# CA Business Activity

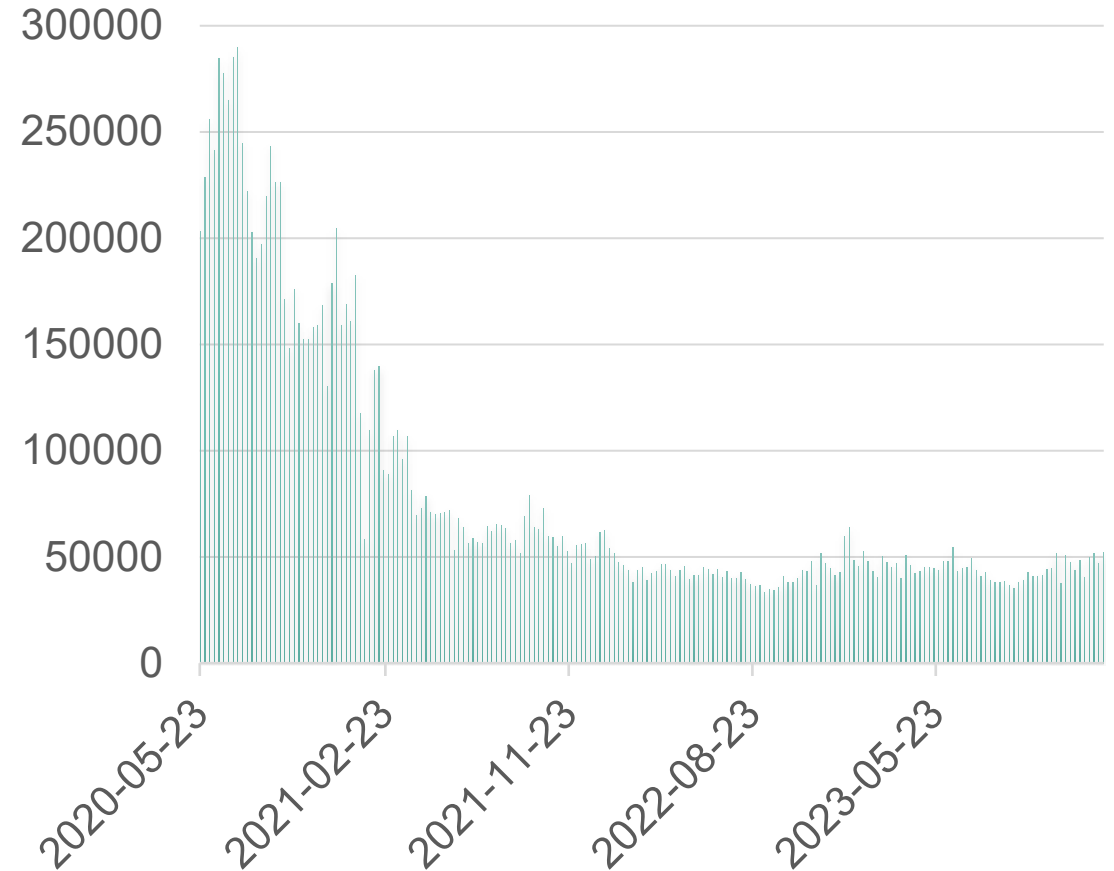


# California Employment

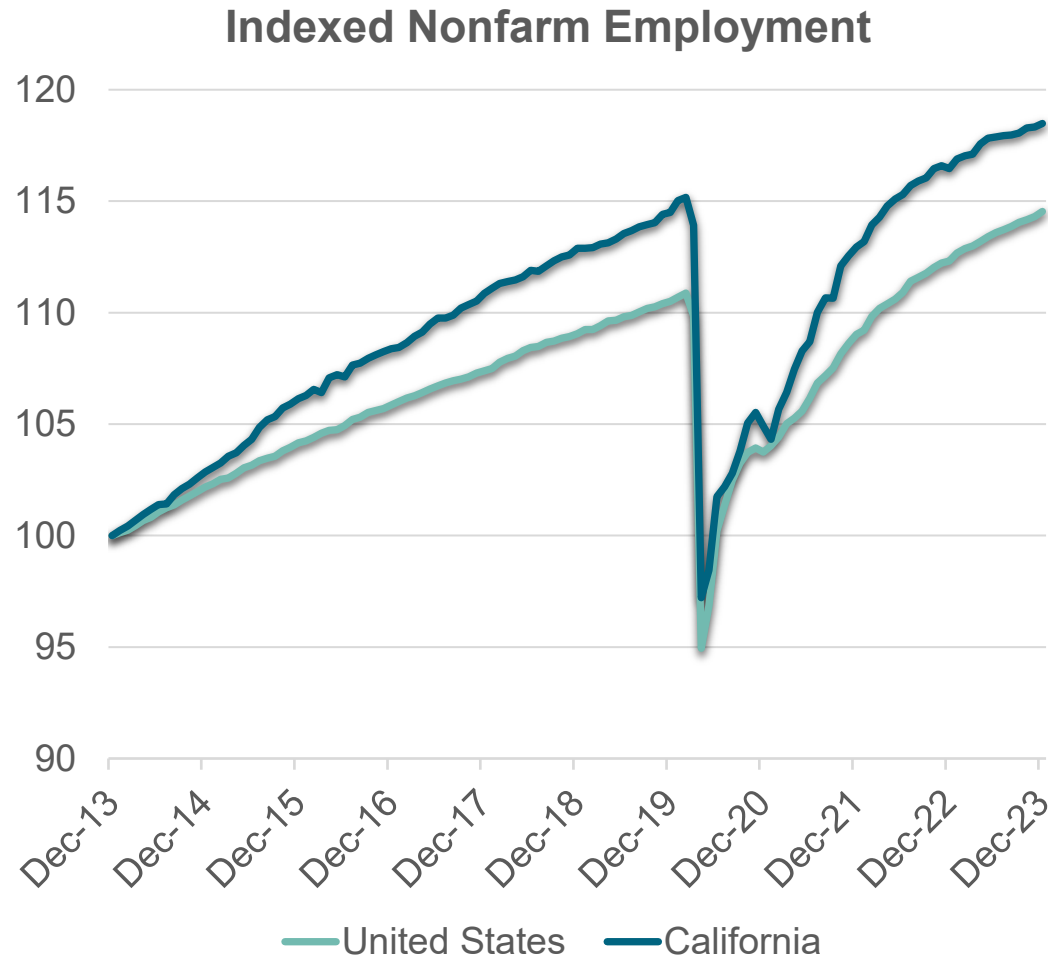
## Unemployment Rate



## Initial Claims for Unemployment Insurance: California



# State Labor Markets

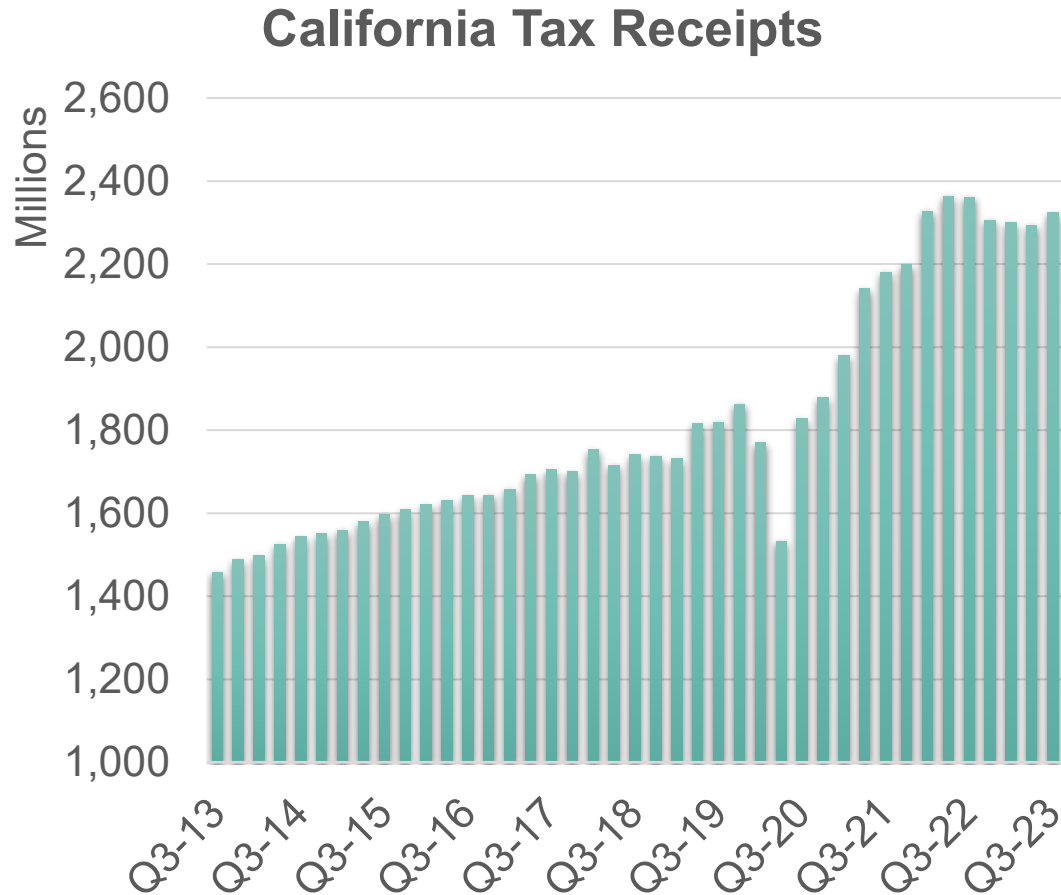


California Industry Employment	Dec-23 Emplt (000s)	1-Year Chg. (000s)	1-Year Chg. (%)	LQ
Total Nonfarm	18,180.7	311.0	1.7	1.0
Education/Health	3,162.9	150.6	5.0	1.1
Hospitality	2,089.1	99.1	5.0	1.1
Government	2,593.4	78.2	3.1	1.0
Retail Trade	1,631.7	31.0	1.9	0.9
NR/Construction	966.2	25.7	2.7	1.0
Other Services	595.2	19.6	3.4	0.9
Logistics	862.0	6.8	0.8	1.0
Manufacturing	1,339.5	-6.6	-0.5	0.9
Financial Activities	841.8	-7.4	-0.9	0.8
Wholesale Trade	654.2	-13.8	-2.1	0.9
Information	571.2	-36.0	-5.9	1.6
Professional/Bus	2,873.5	-36.2	-1.2	1.1





# State Sales Tax Receipts



California Tax Receipts	Q3-23 (\$, 000s)	1-Year Chg. (%)	Chg. Since Q4-19 (%)
Total	2,323,780	-1.6	24.7
Business and Industry	394,956	3.7	47.4
Restaurants Hotels	289,024	2.4	19.8
Autos Transportation	356,468	-2.4	25.2
Building Construction	188,671	-2.5	23.9
Food and Drugs	102,902	-2.6	10.5
General Consumer	379,745	-2.7	9.3
County & State Pool	401,558	-3.1	28.8
Fuel Stations	201,880	-8.1	22.9

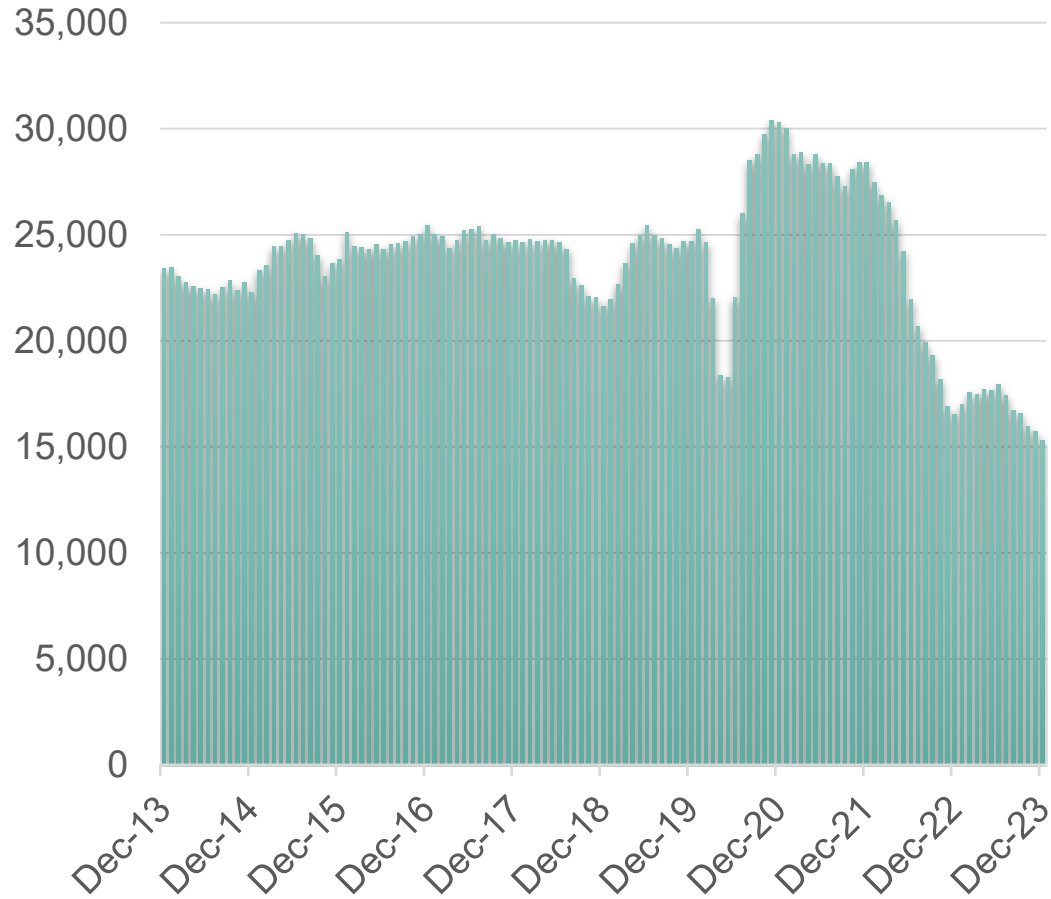
**Source: HDL Companies**



# Home Sales and Prices



California Home Sales



Location	Dec-23 Median Home Price (\$000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
California	825.8	8.2	39.6
Fresno MSA	409.5	3.6	40.6
Inland Empire	572.4	5.4	44.2
Los Angeles MSA	939.5	7.4	35.5
Sacramento MSA	588.7	5.4	34.7
San Diego MSA	994.3	11.0	45.4
San Francisco MSA	1,687.4	1.9	4.7
San Jose MSA	1,722.8	11.2	34.2

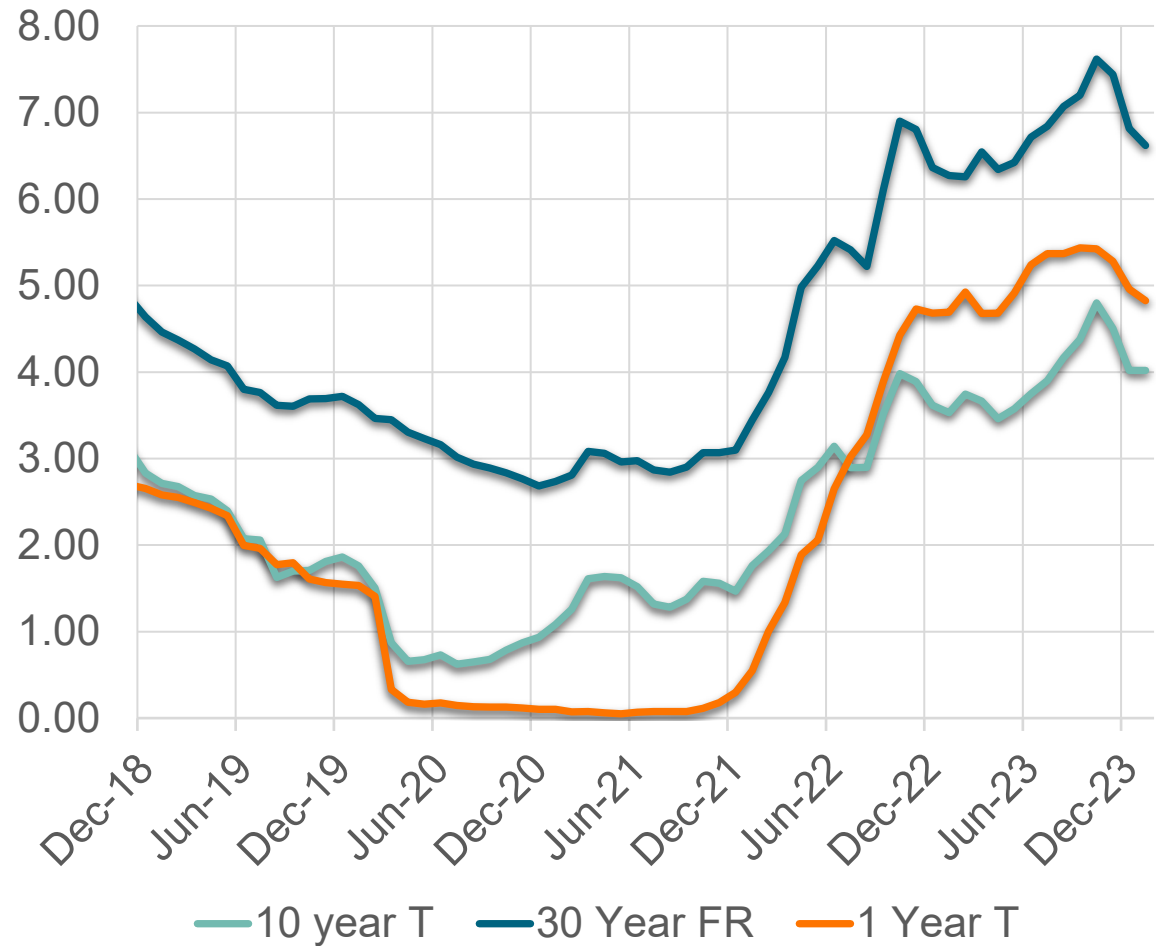


# Inflation and Rates—Down

## PCE Inflation Rate (YoY)

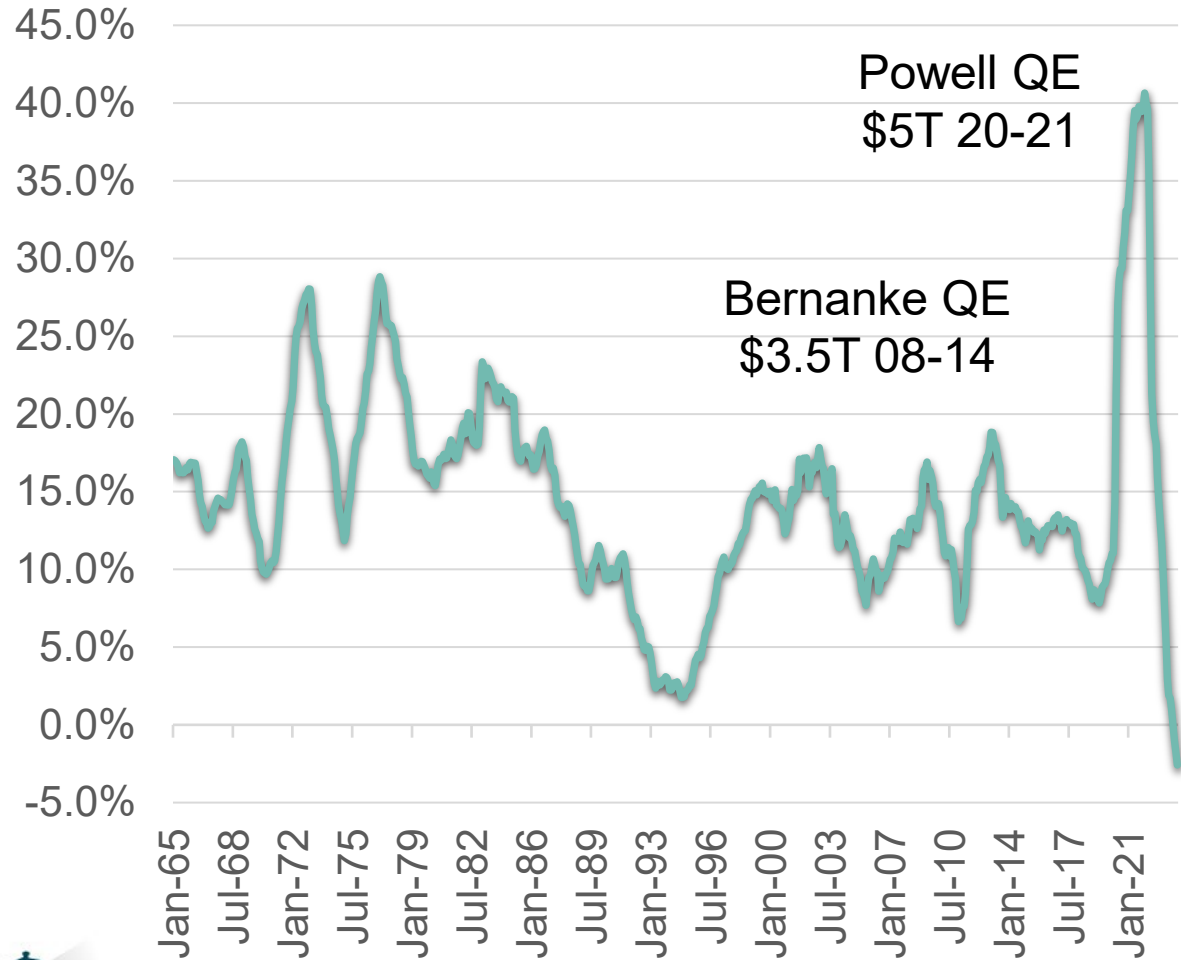


## Interest Rates

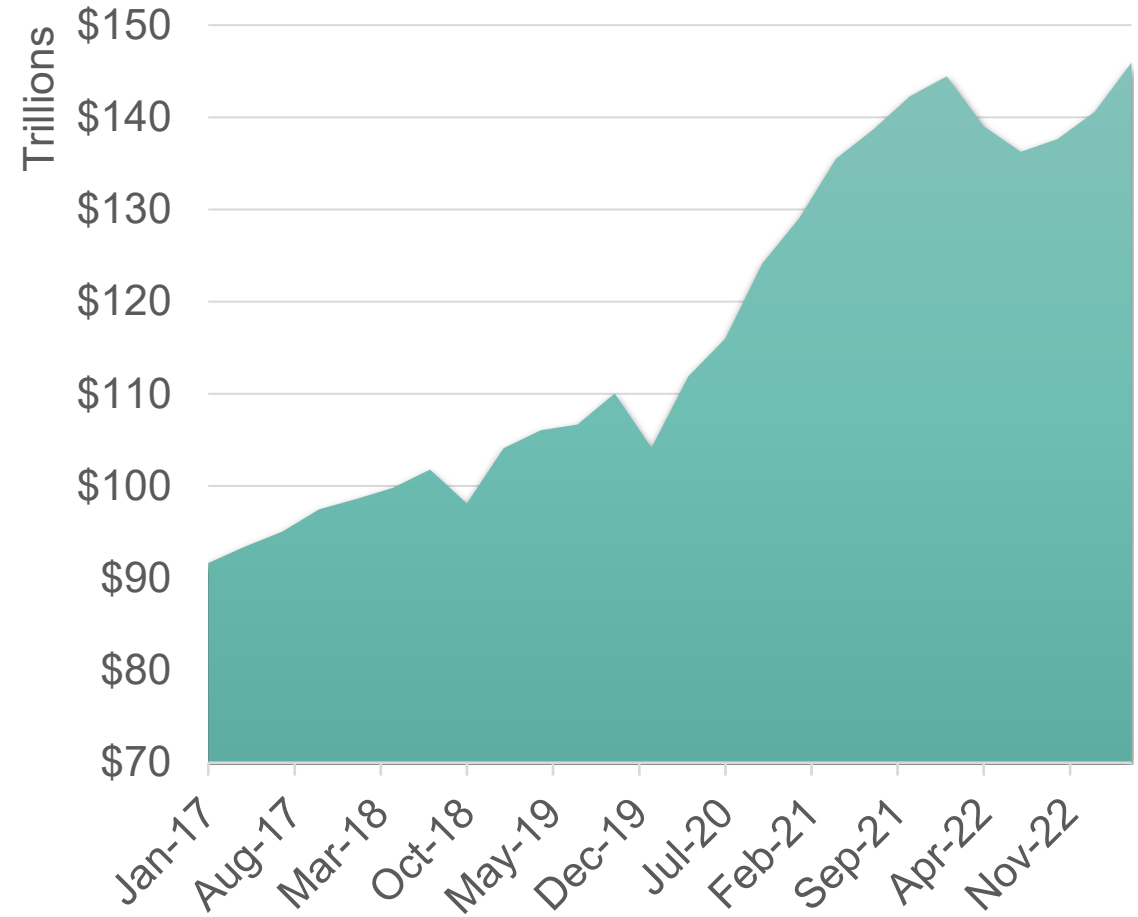


# Federal Fiscal (Over)reaction

## M2 Growth (2 Year)

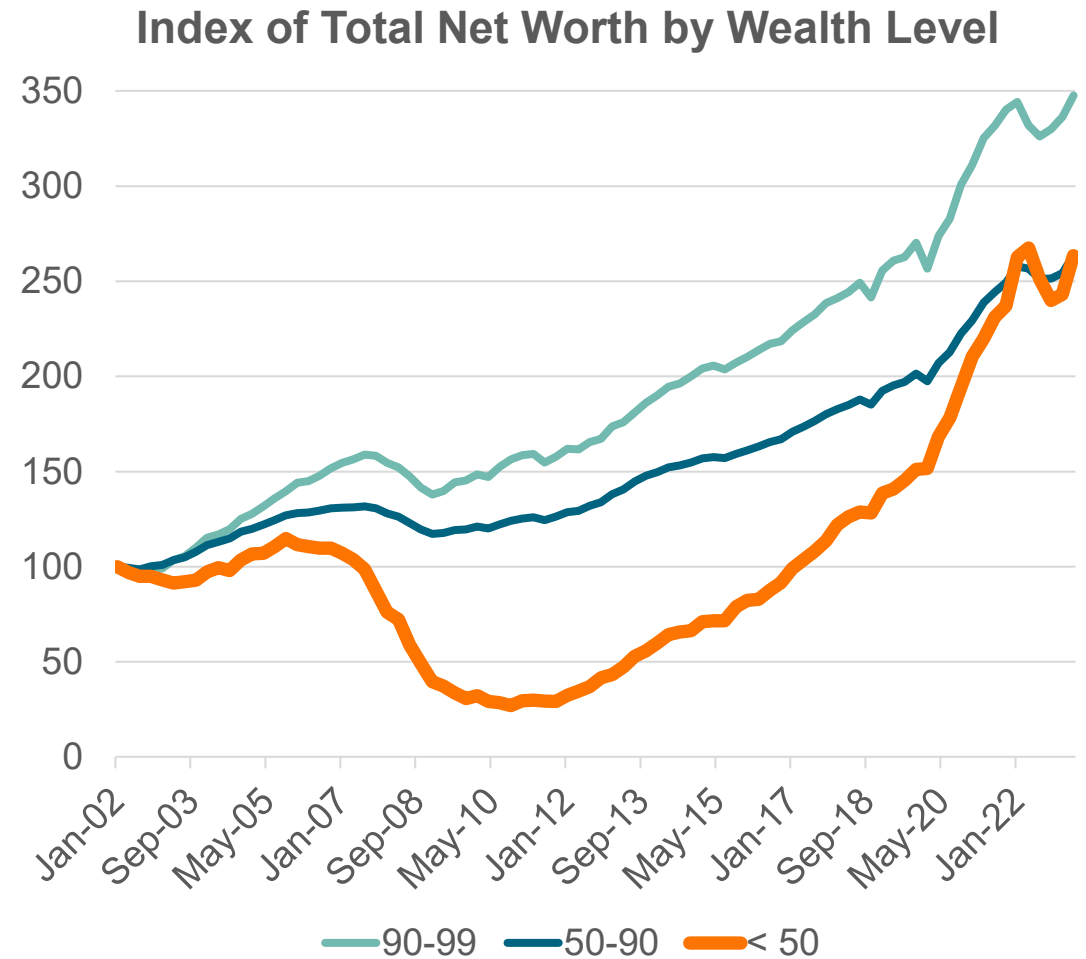


## US Household Net Worth



# Changes in Distribution of Wealth

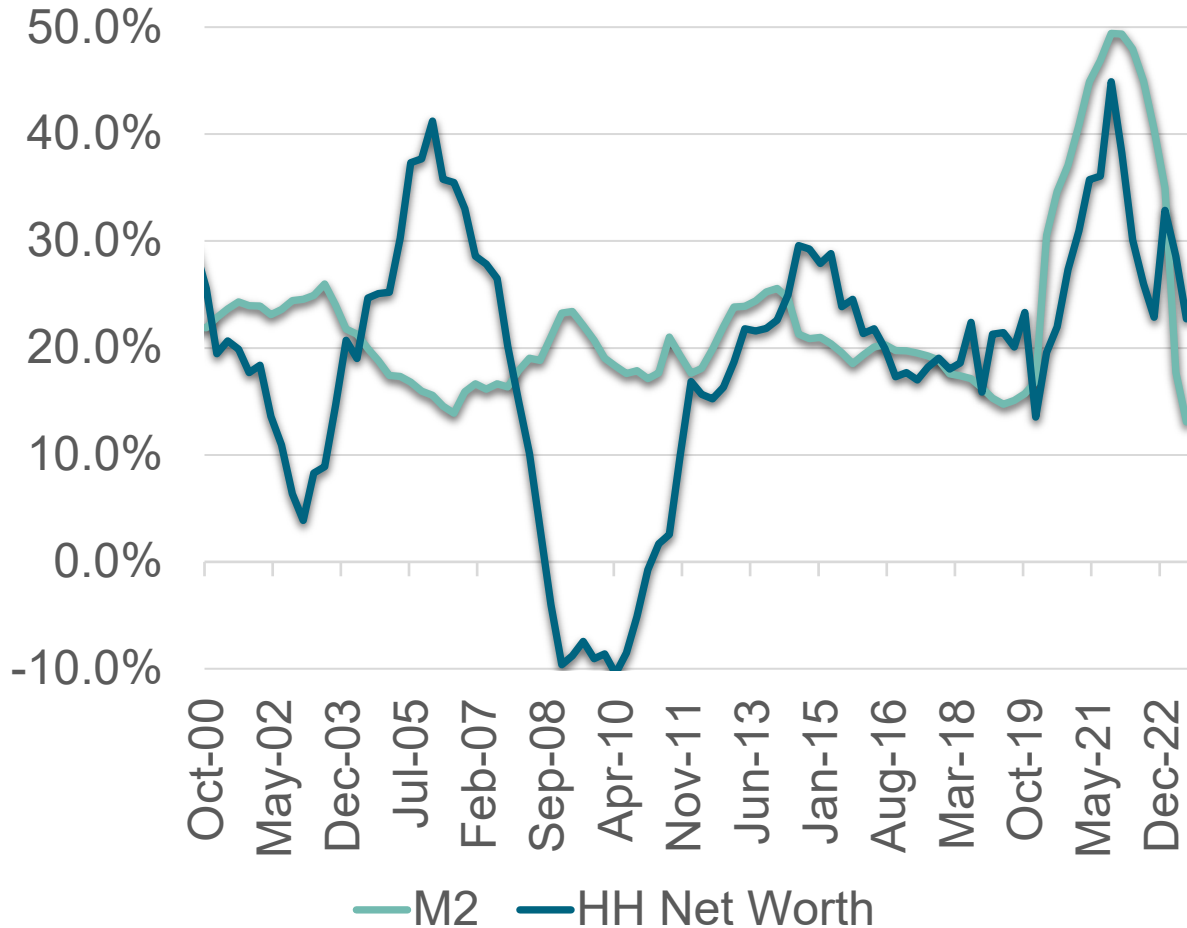
	2022		Real growth 13-22	
	Median	Mean	Median	Mean
Owner	396.2	1,530.9	59%	54%
Renter	10.4	154.9	53%	73%
% of net worth				
Less than 25	3.5	-5.3	<b>n.a.</b>	<b>n.a.</b>
25–49.9	93.3	98.8	134%	117%
50–74.9	356.3	373.7	67%	65%
75–89.9	1,036.2	1,102.4	61%	59%
90–100	3,794.6	7,810.5	59%	52%



# The consumer boom



### 3 Year Growth



### Growth in Real Spending Q3 19- Q3 23

Recreational goods / vehicles	67.5%
Furnishings and Appliances	19.6%
Clothing and footwear	19.2%
Motor vehicles and parts	10.8%
<i>Food services / accommodations</i>	9.7%
Health care	9.5%
Grocery etc	7.0%
Housing and utilities	6.8%
Recreation services	2.6%
Financial services and insurance	2.1%
Transportation services	1.0%
Gasoline other energy goods	-2.6%



# Inflationary Pressures Cooling

Unit Money Supply  
M2 / Nominal GDP



GDP Prices Q4 to Q4	20-21	21-22	22-23
GDP Prices	6.1%	6.4%	2.6%
Personal consumption	5.9%	5.9%	2.7%
Goods	8.1%	6.1%	0.0%
Services	4.7%	5.8%	4.1%
Inv: Structures	9.5%	13.2%	2.0%
Inv: Equipment	2.5%	7.0%	2.6%
Inv: Intellectual products	0.2%	1.2%	2.3%
Inv: Residential	13.6%	11.6%	1.7%
Exports	13.7%	5.0%	-0.7%
Imports	9.3%	3.5%	-1.3%
Government	6.3%	6.3%	1.8%



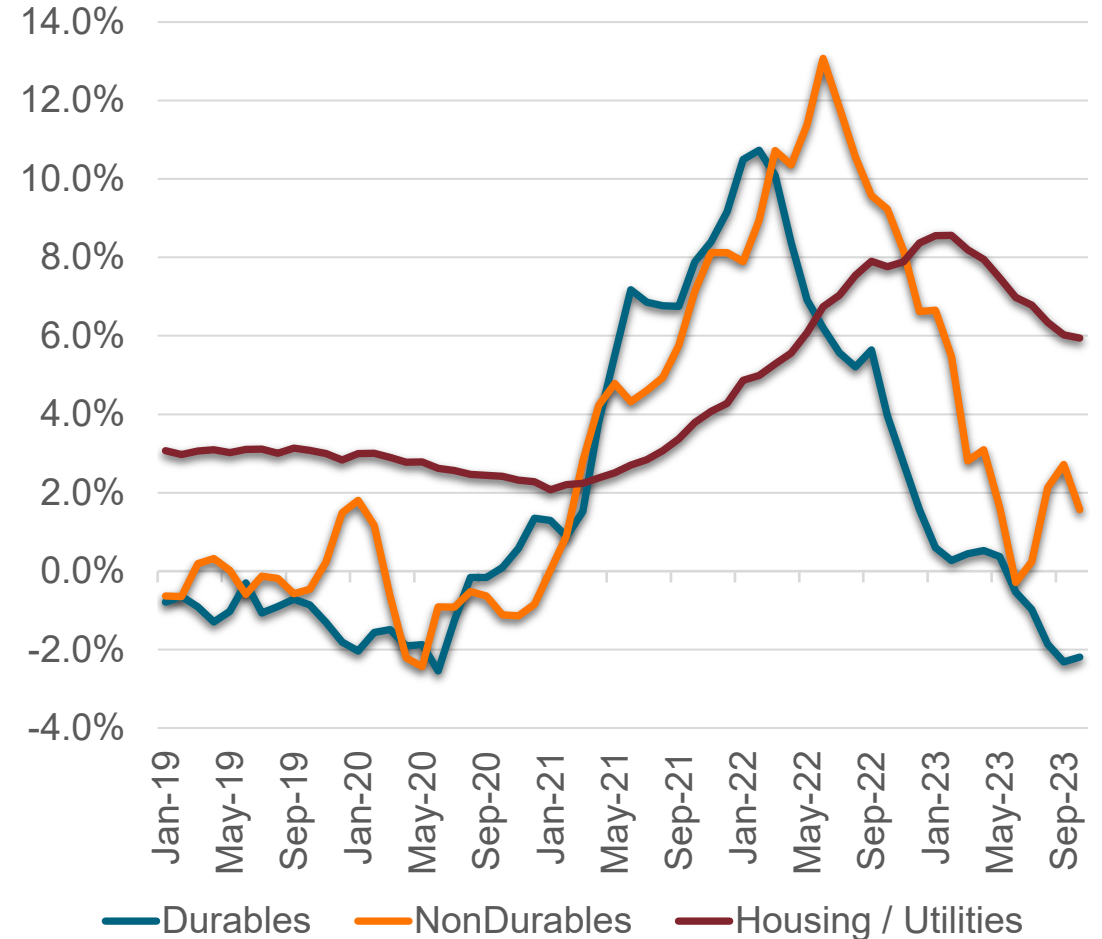
# Cooling prices, shifting demand



## Nominal Retail Sales

	Dec Sales	YoY Gr
Retail & food services Total	709,890	4.8%
Food services & drinking places	94,559	11.1%
Electronics & appliance stores	7,679	10.4%
Nonstore retailers	120,496	9.7%
Motor vehicle & parts dealers	136,507	8.3%
Clothing & clothing accessories	26,611	2.9%
General merchandise stores	74,032	2.2%
Food & beverage stores	83,124	1.0%
Building material & garden eq	41,665	-2.3%
Furniture & home furn stores	10,783	-5.0%
Gasoline stations	53,169	-8.4%

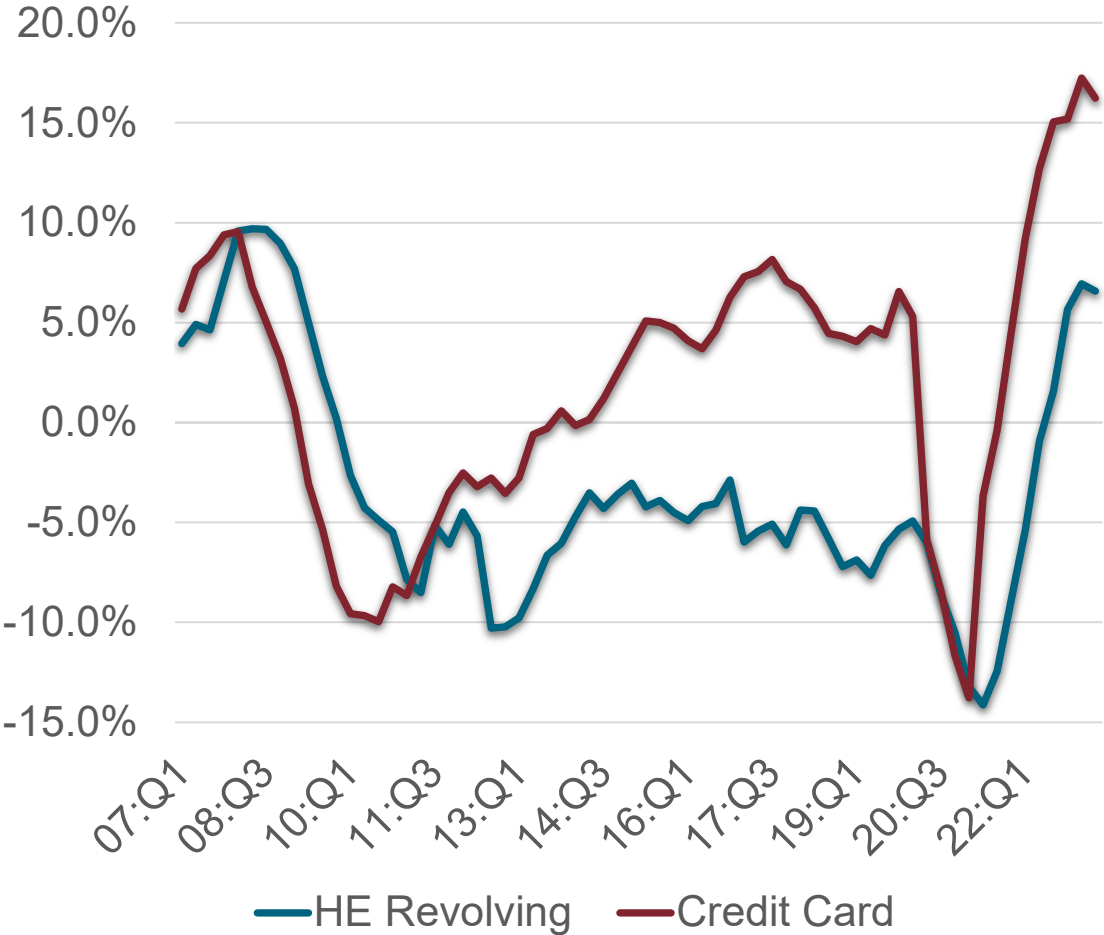
## Consumer Price Growth



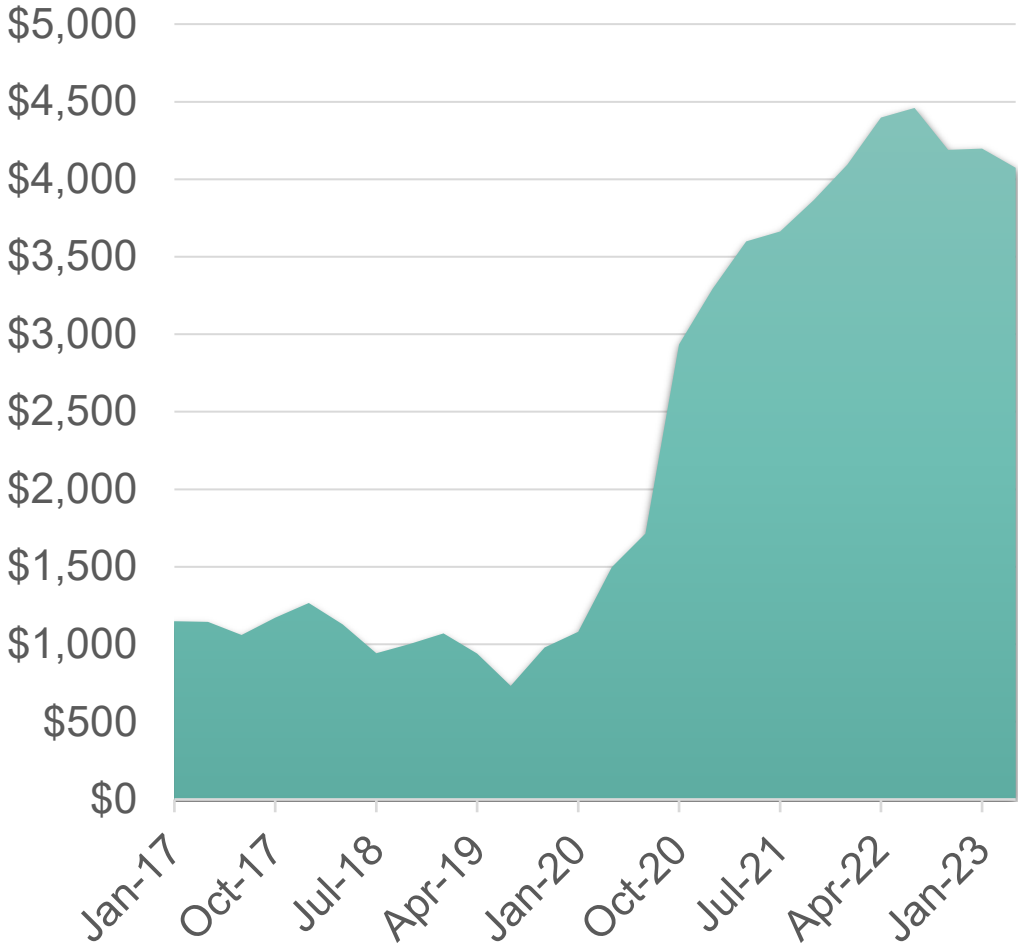


# Cash and Credit

YoY Growth Consumer Credit

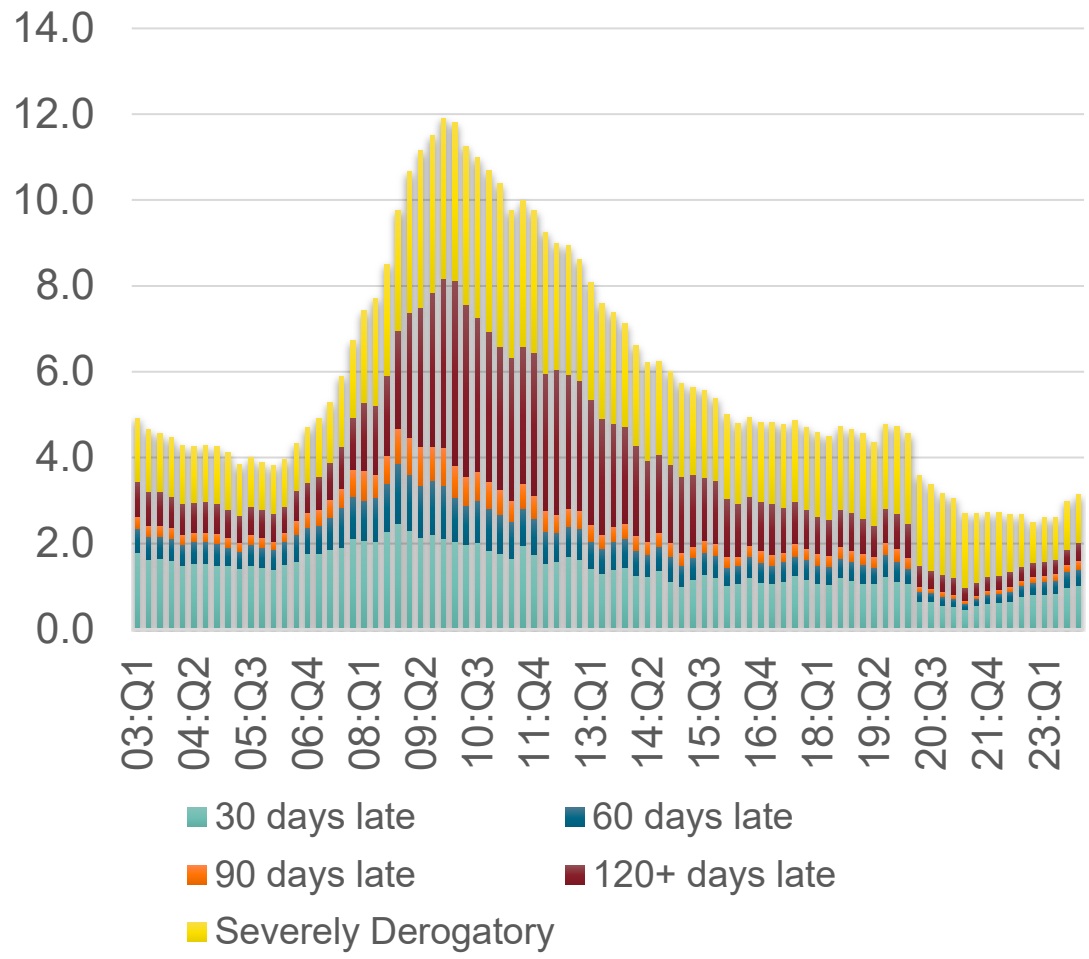


Checkable Deposits \$Billions

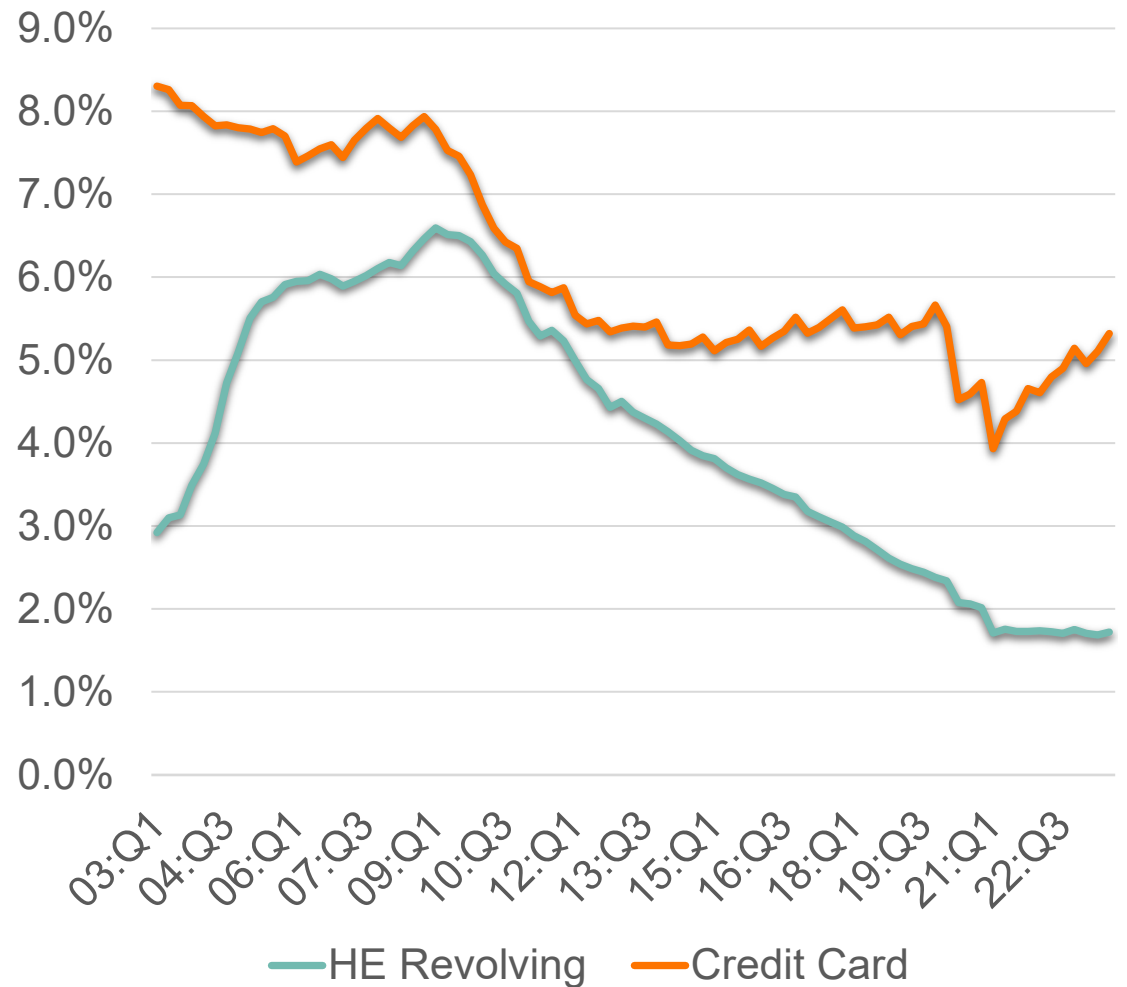


# Consumer Debt: Not a problem... yet

DQ Share of Total Debt

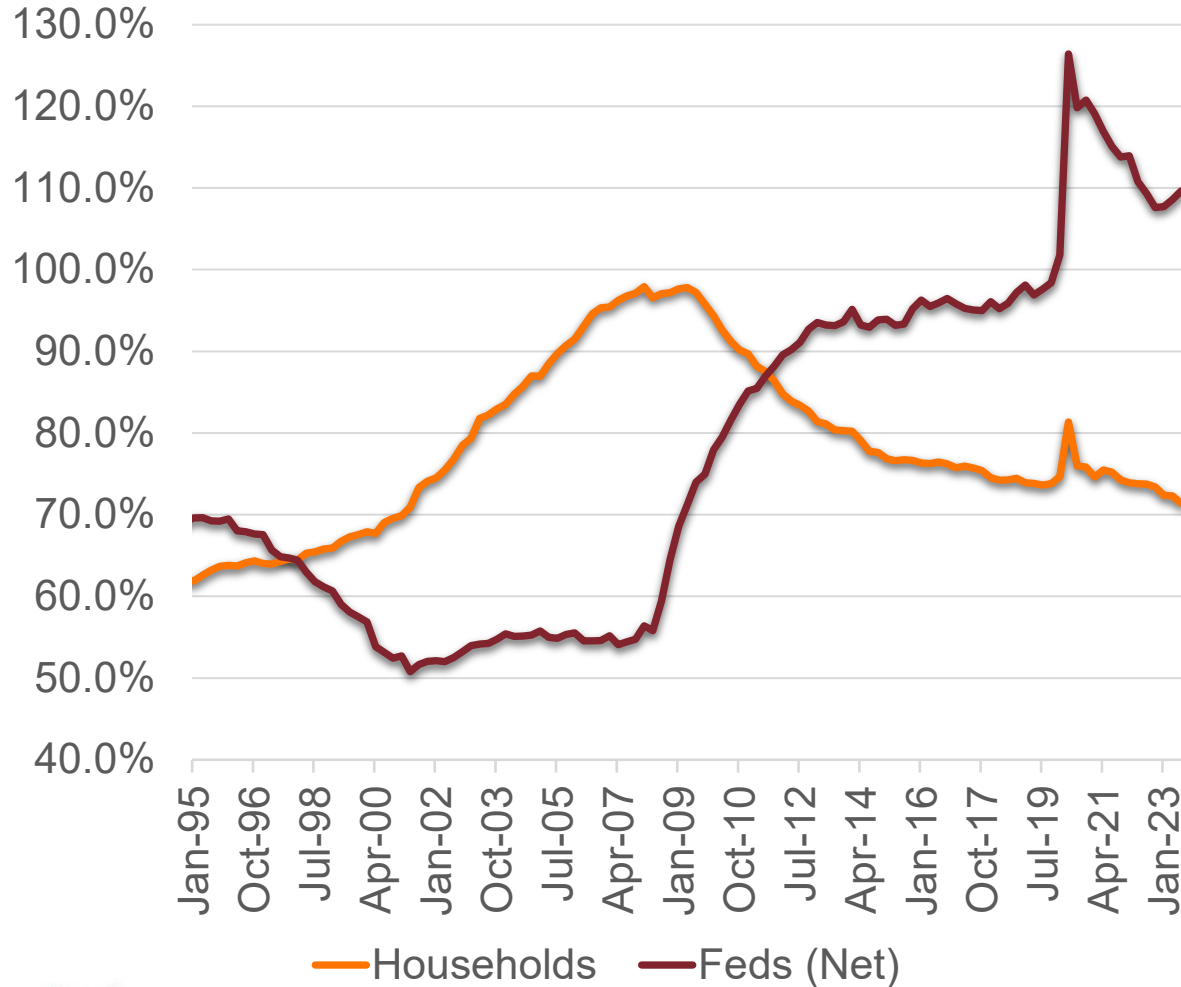


Consumer Debt as % of DPI



# Why didn't interest rate hikes hurt?

## Debt to GDP ratios

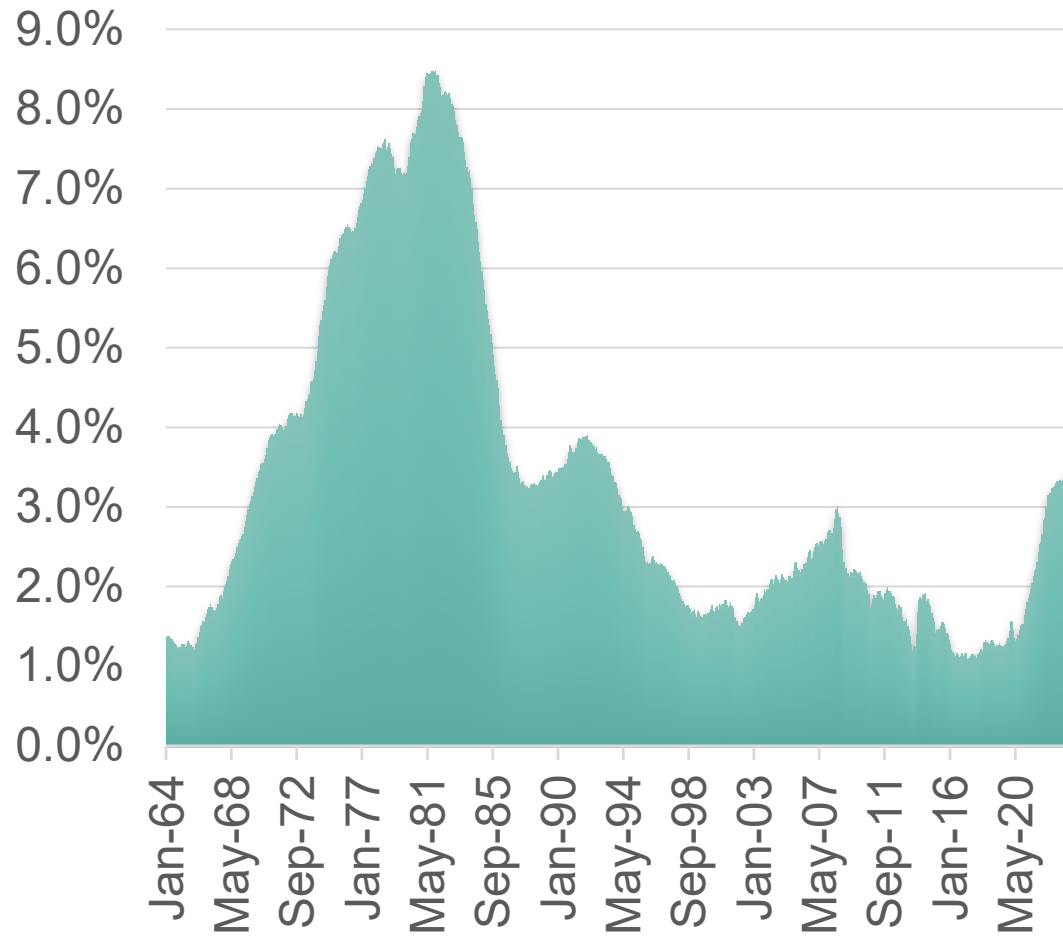


## Household Debt Service Ratio as % DPI (Fed Est.)



# The Longer Run Context

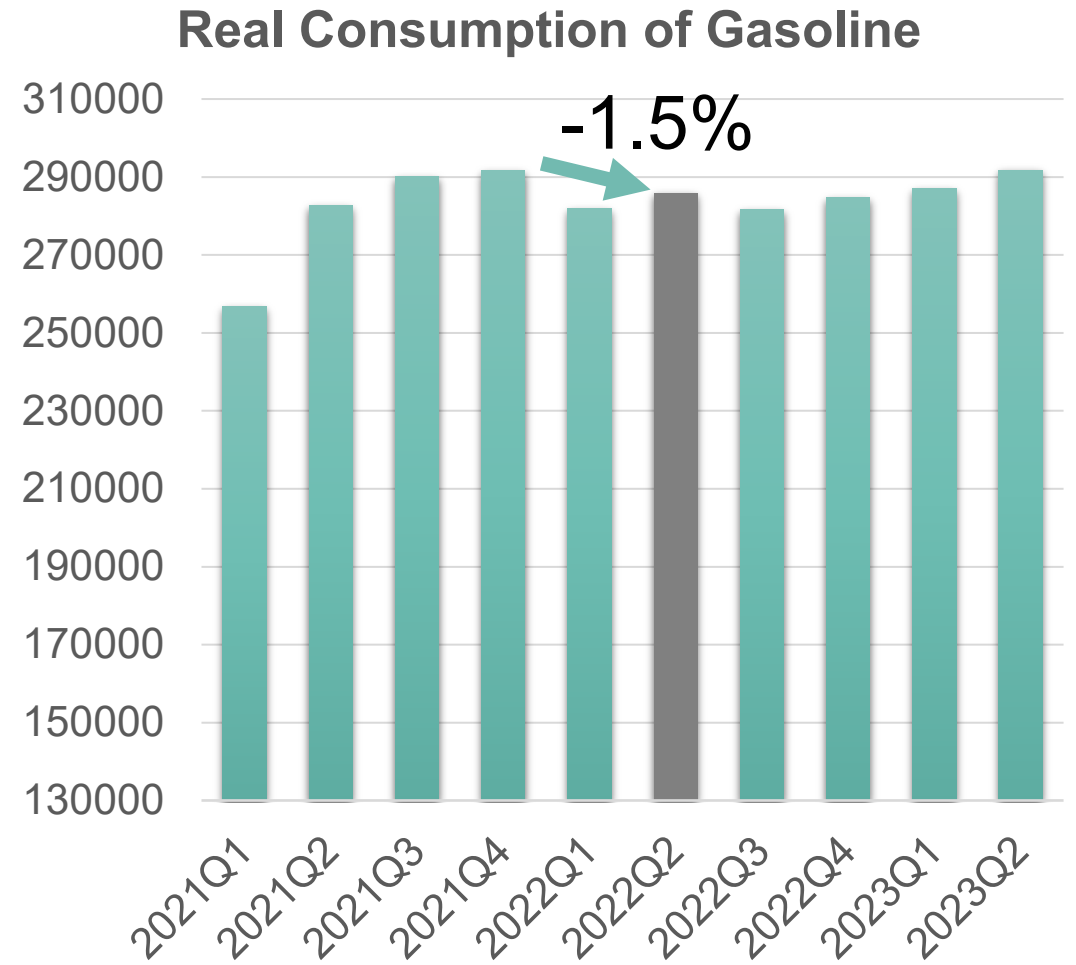
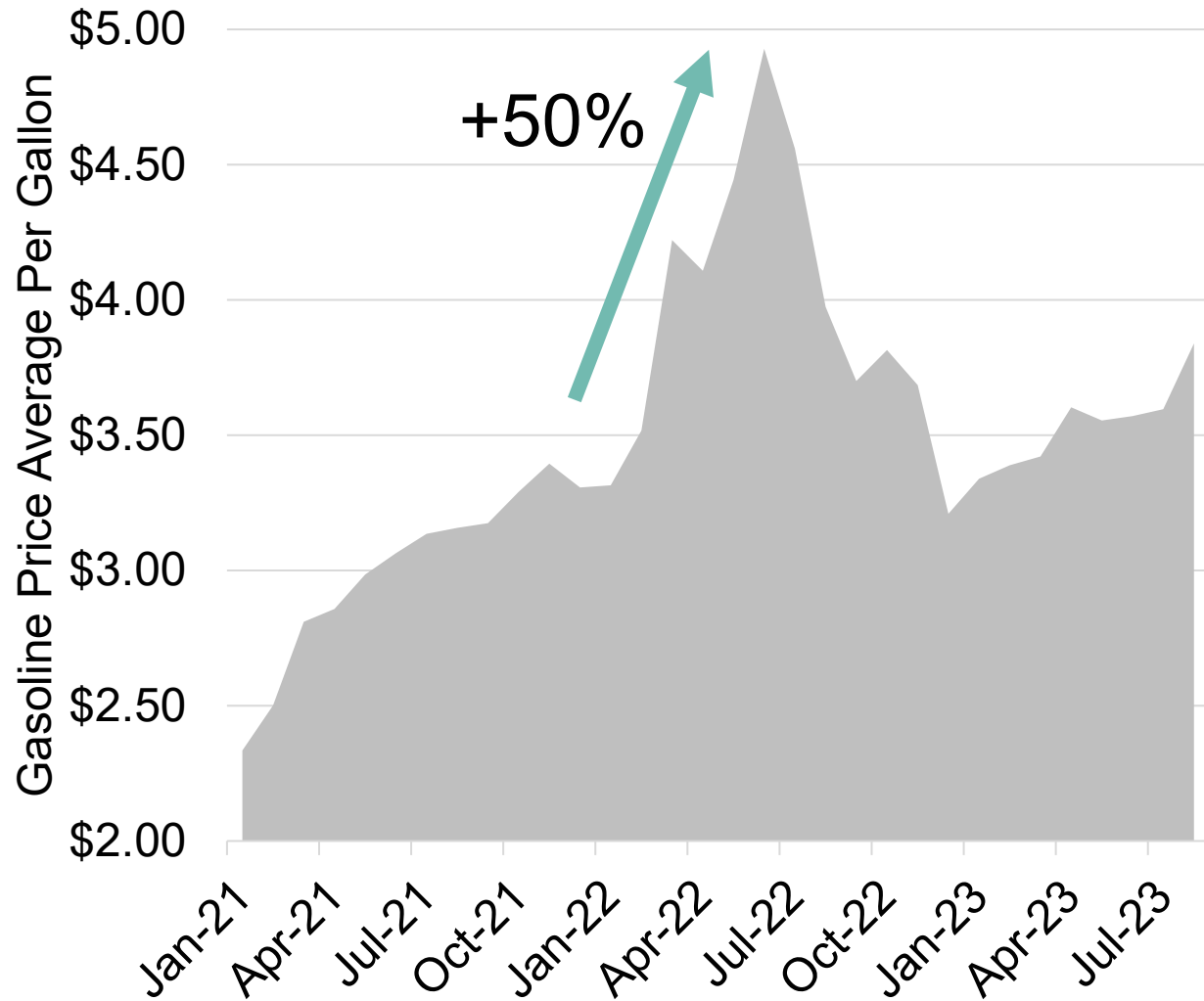
## 5 Year Average Inflation Rate



## 10 Year Treasury Real Interest Rate Cleveland Fed Estimate



# Reality: Inflation is caused by demand

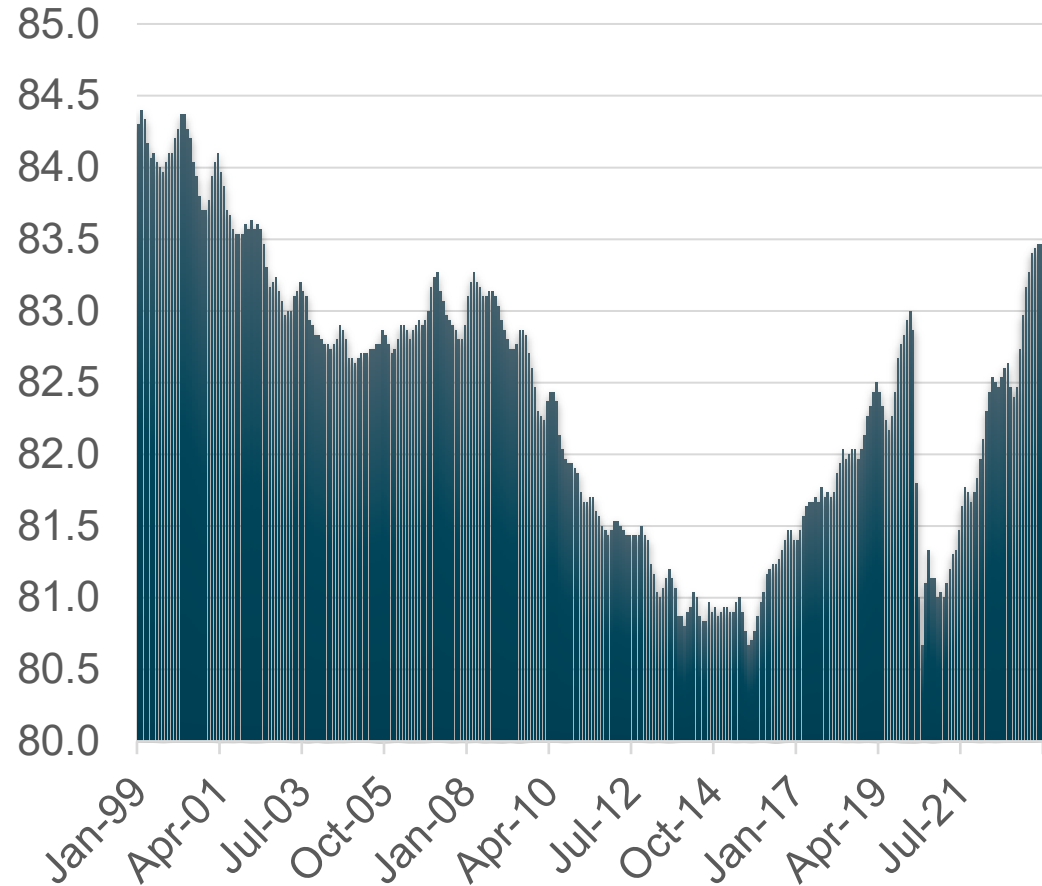


# The deeper issue? Labor supply, not consumer demand

## Job Openings / Unemployed Person

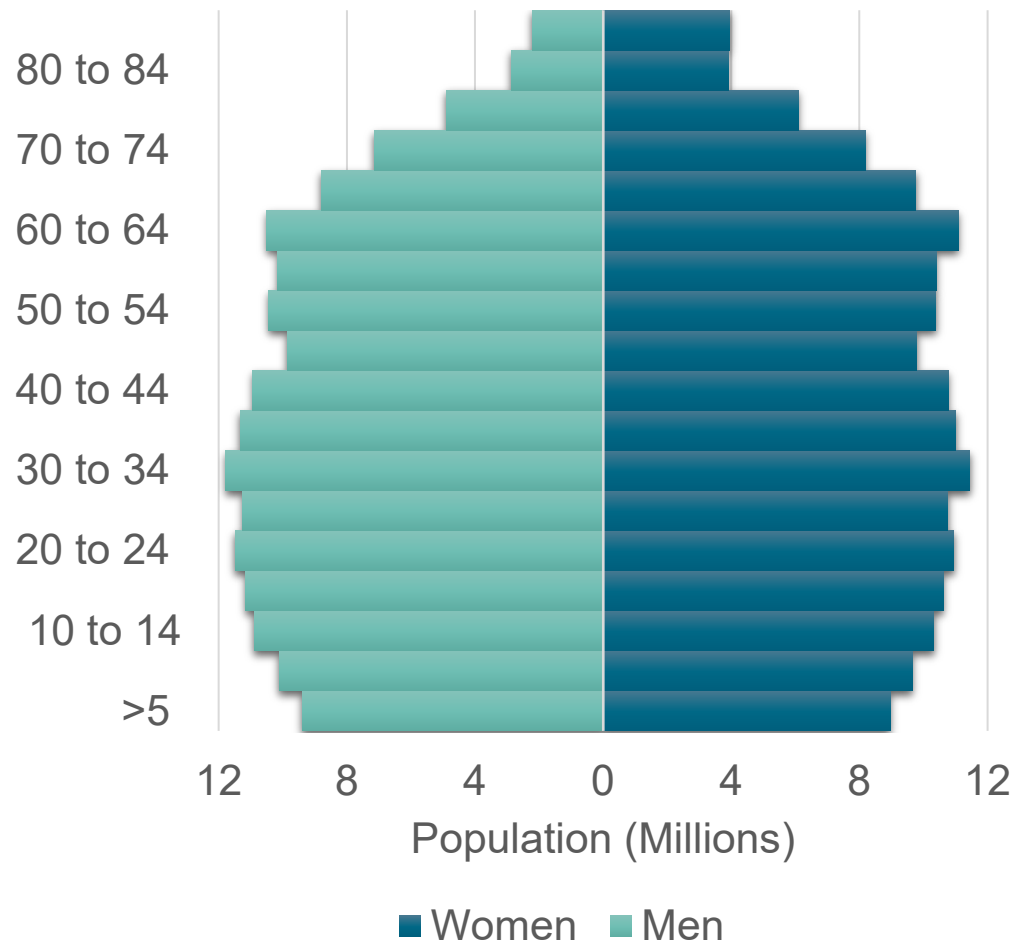


## Participation Rate Ages 25-54

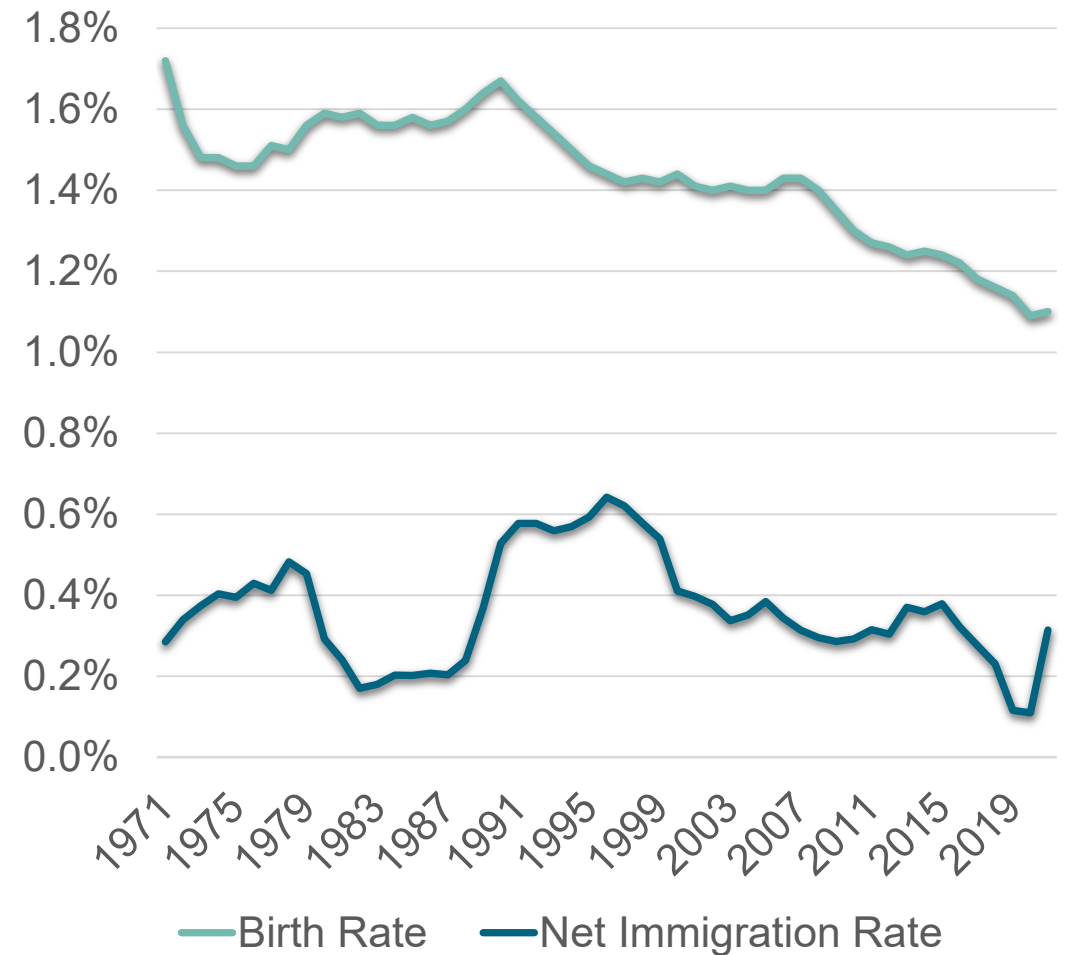


# The Era of Labor Shortages is Here

## 2022 US Population by Sex

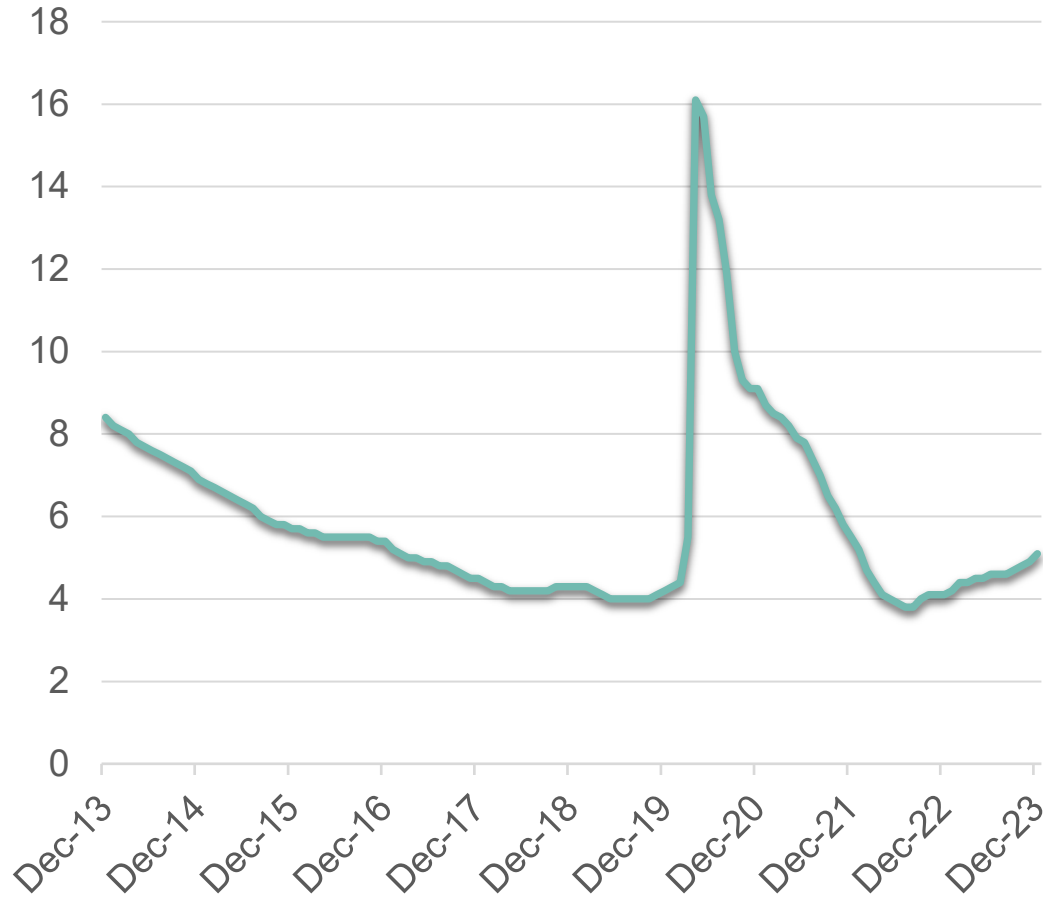


## Sources of New Population

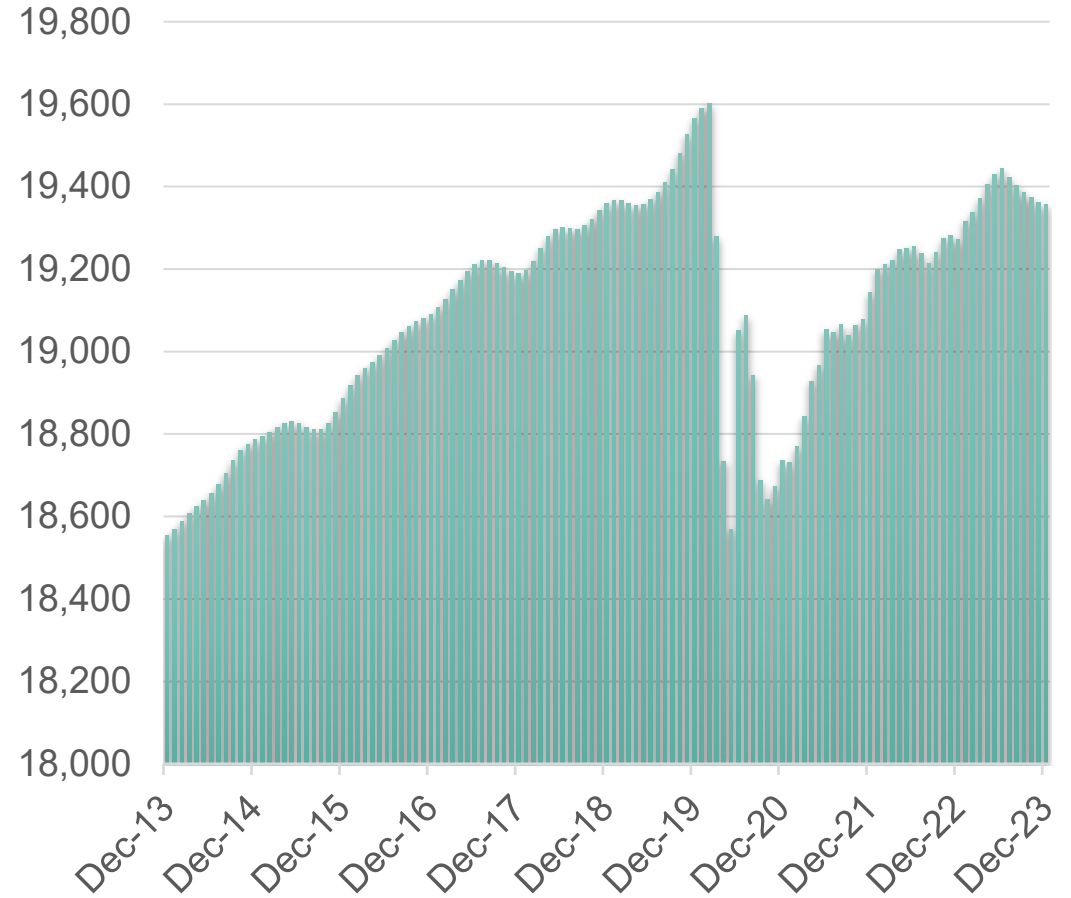


# California Labor Markets

## California Unemployment Rate



## California Labor Force

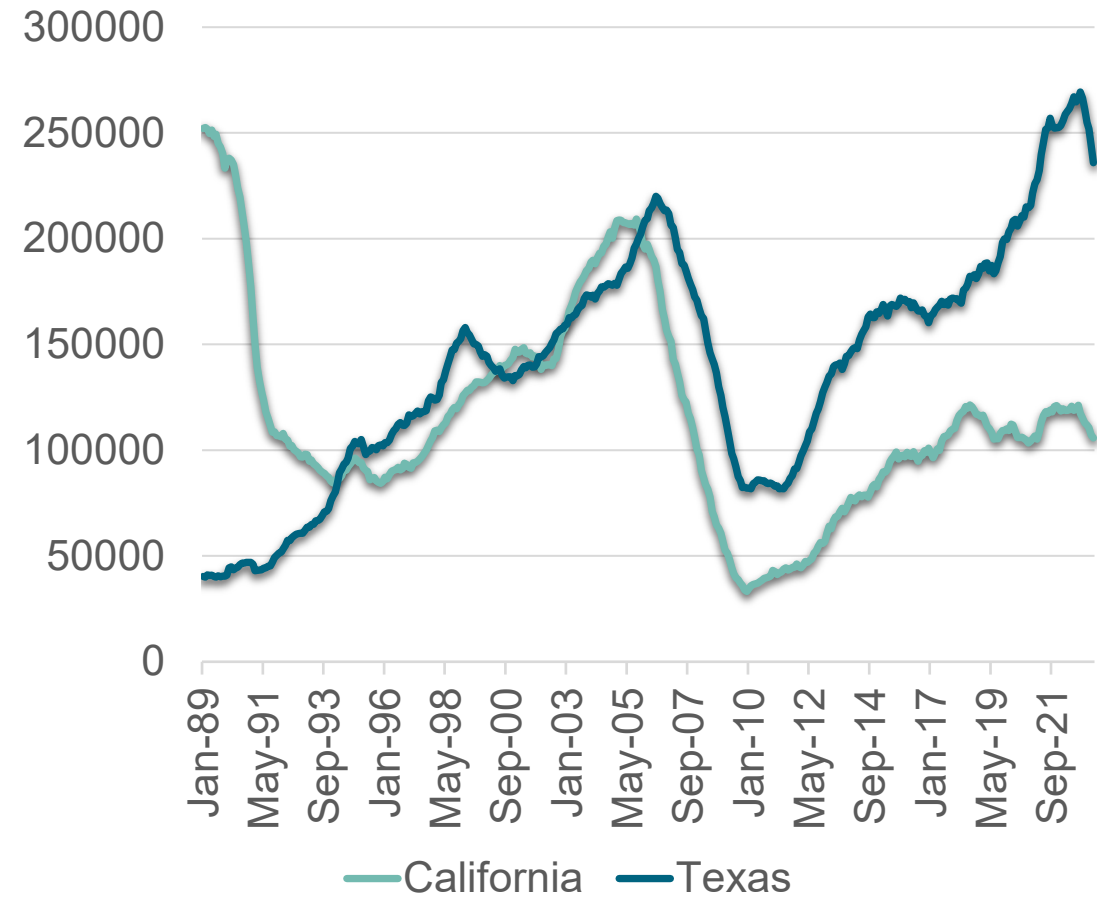




# State Labor Supply & Housing

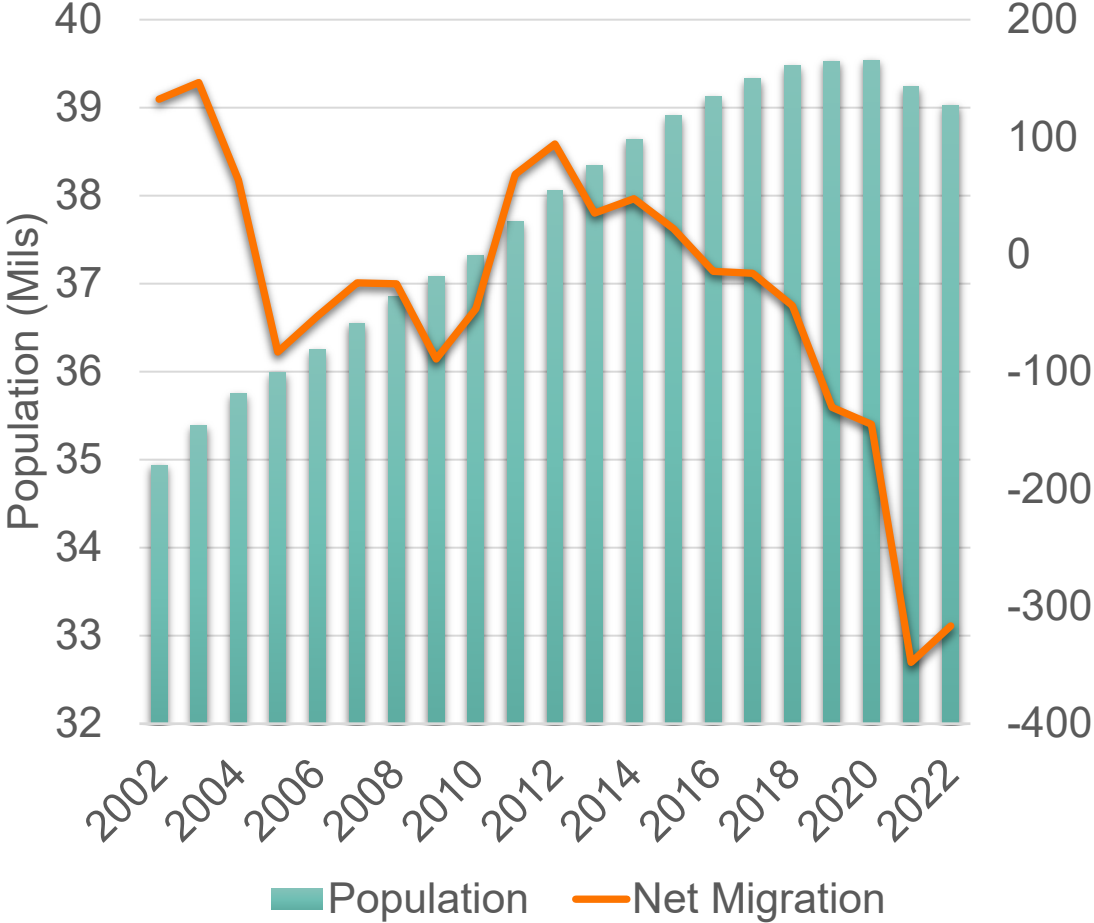
	02-12	12-22	Rank
Utah	14.3%	29.3%	1
Idaho	12.6%	23.1%	2
Arizona	13.8%	18.4%	3
Colorado	12.3%	16.4%	4
Texas	17.7%	16.0%	5
Florida	16.0%	15.3%	6
Washington	11.9%	15.0%	7
Nevada	20.5%	13.4%	8
Nebraska	6.3%	4.6%	24
Minnesota	2.7%	4.3%	25
California	7.2%	4.1%	26
Hawaii	8.1%	4.0%	27
New Jersey	5.3%	3.6%	28
Vermont	3.1%	-3.3%	48
Maine	3.3%	-3.7%	49
Wyoming	12.7%	-3.9%	50
Mississippi	3.1%	-6.0%	51

CA vs TX? Put 'em up!  
(Houses that is)

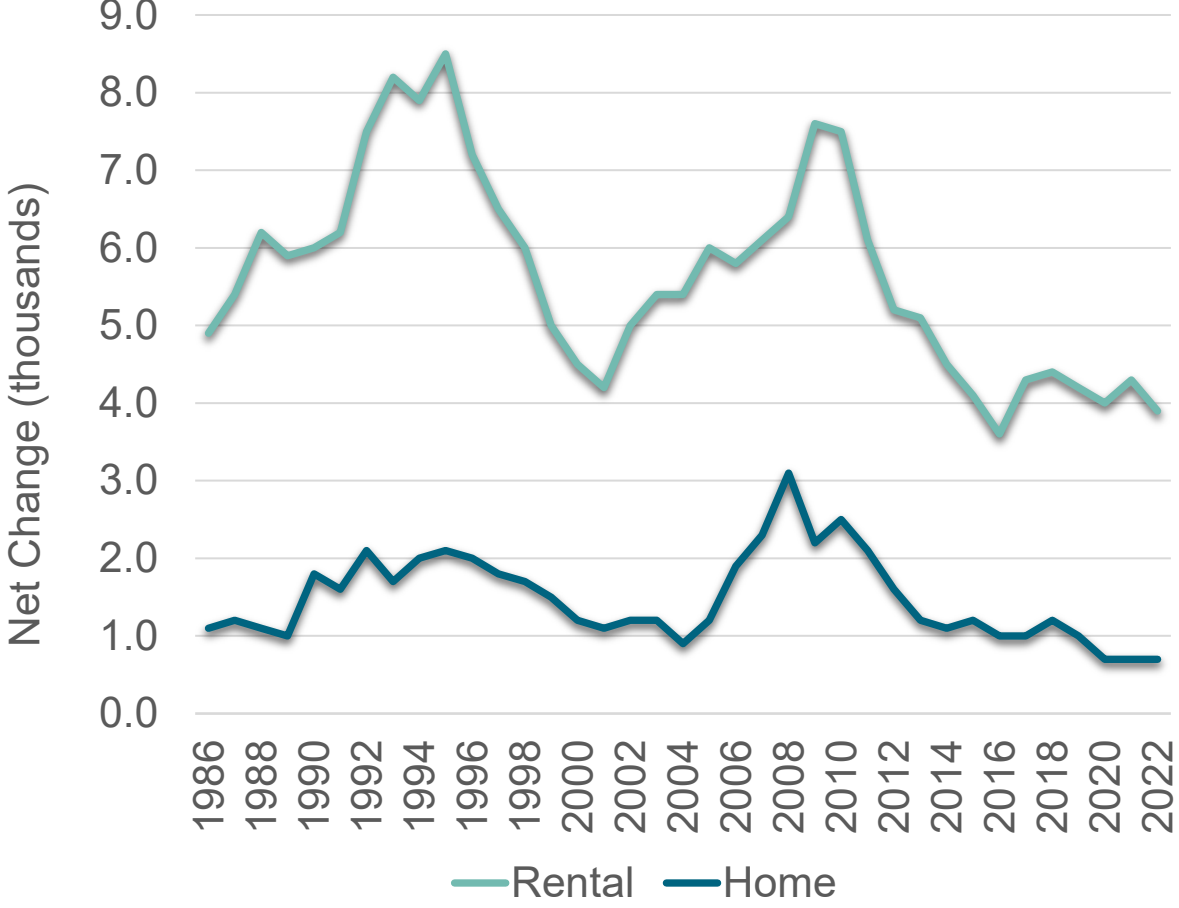


# Fleeing? Or being Pushed?

### California- Population Change

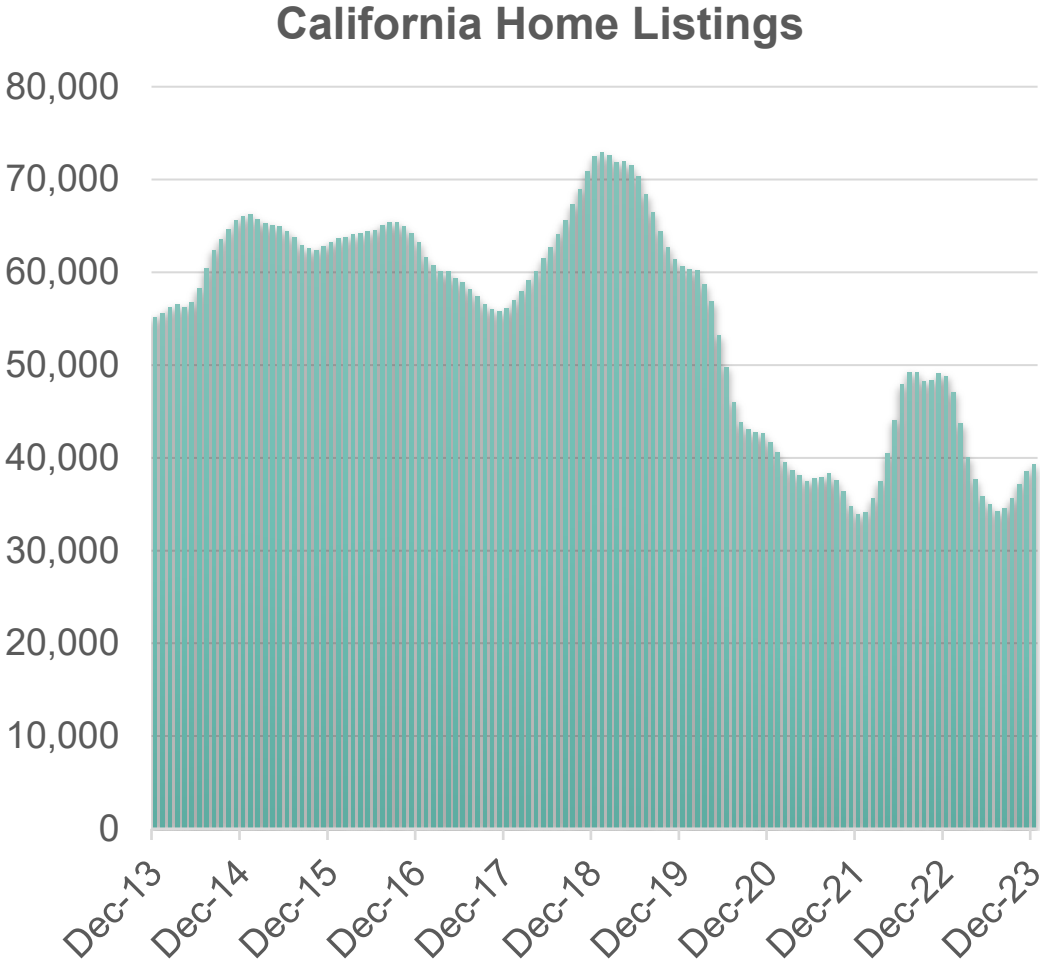


### CA Housing Vacancy Rates (HVS)



# Home Inventory

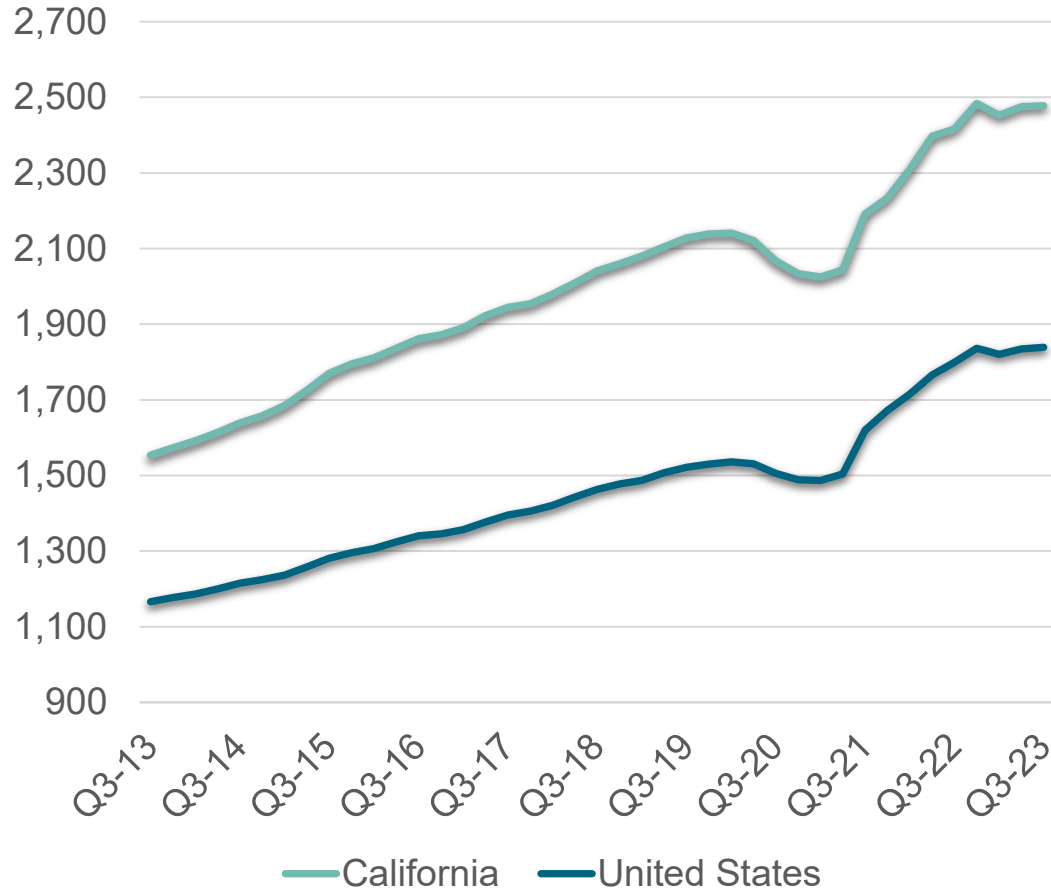
Location	Dec-23 Home Listings	1-Year Chg. (%)	Chg. since Feb-20 (%)
California	39,219	-19.6	-34.8
Fresno MSA	997	-16.7	-29.9
Inland Empire	8,494	-21.9	-37.5
Los Angeles MSA	7,030	-22.4	-31.3
Sacramento MSA	2,903	-20.5	-33.4
San Diego MSA	1,928	-27.3	-47.6
San Francisco MSA	692	-20.6	-3.4
San Jose MSA	792	-29.7	-33.8



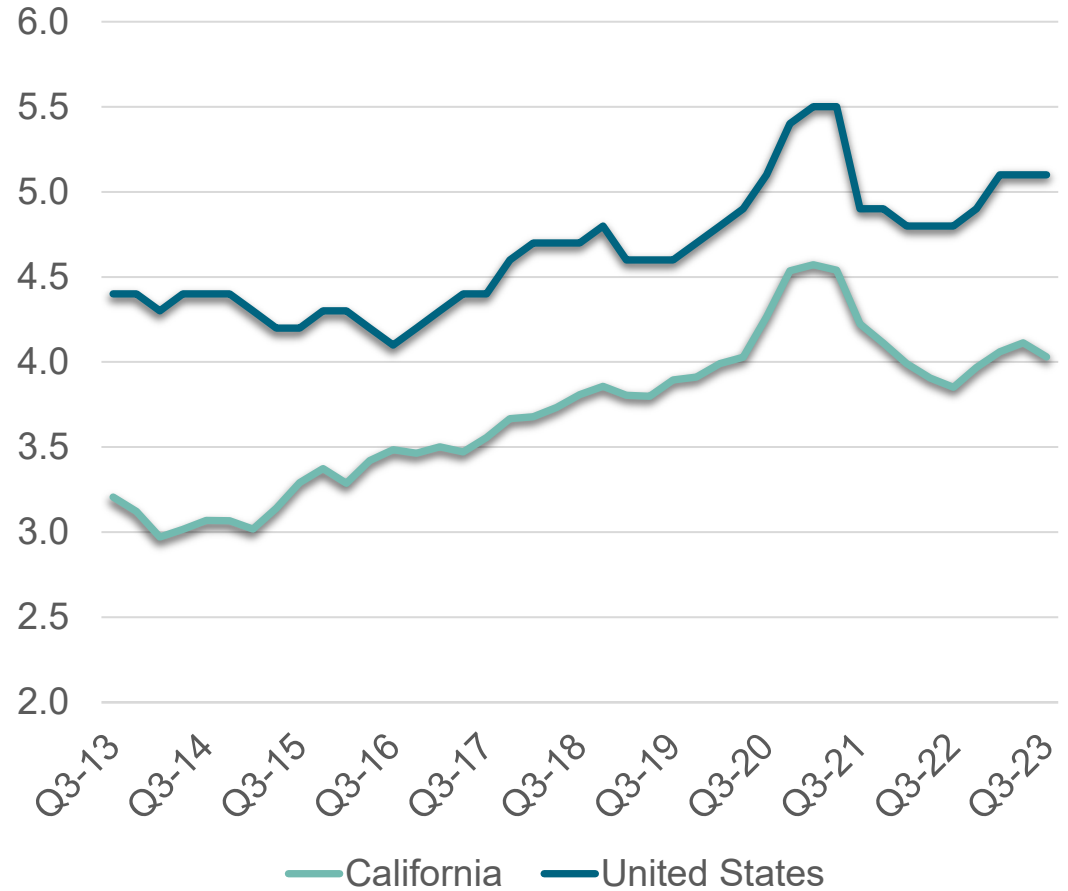
# Apartments



### Apartment Cost of Rent

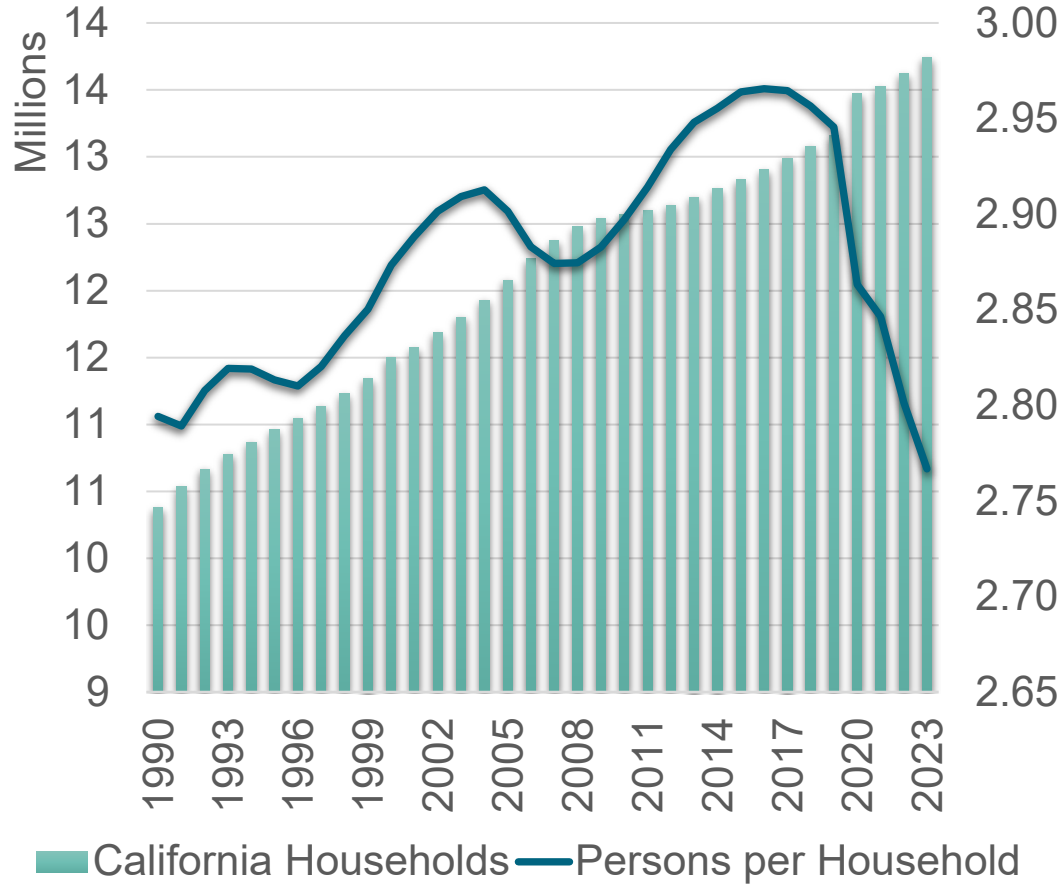


### Apartment Vacancy Rates

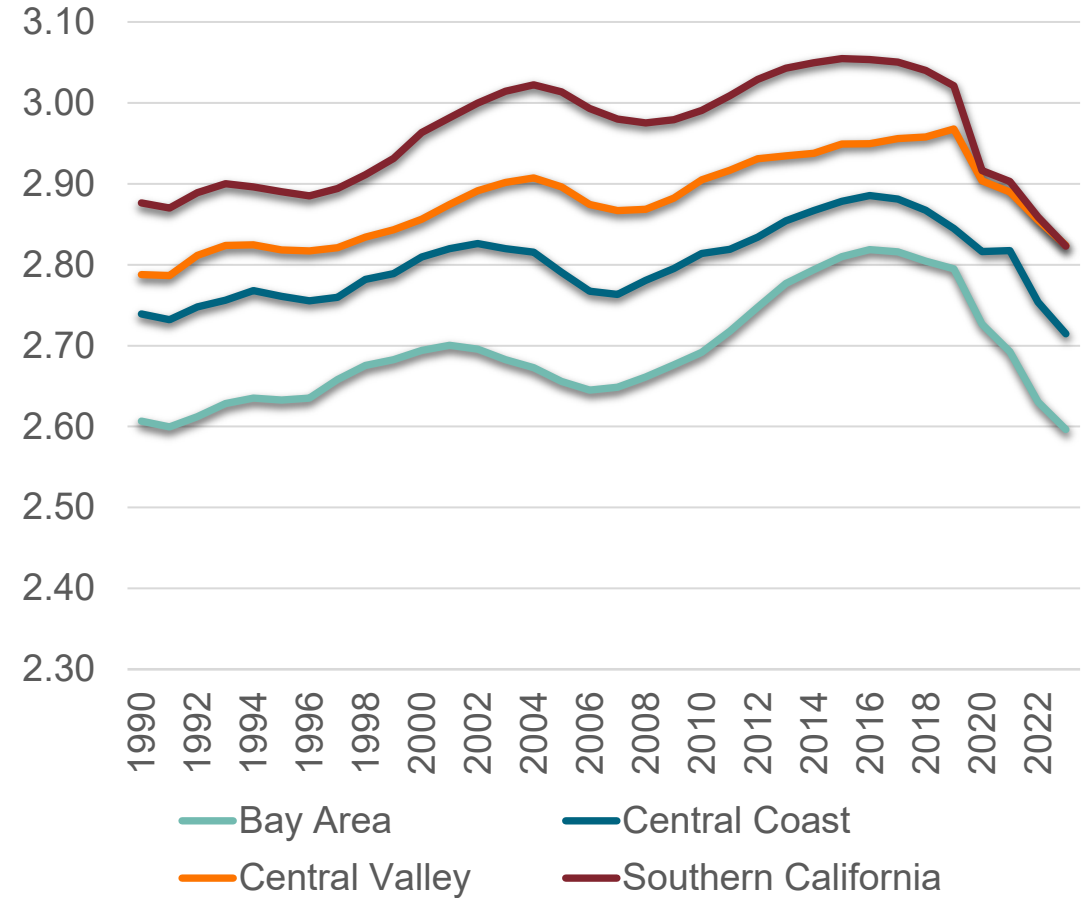


# Spreading Out

## California Households



## Household Size

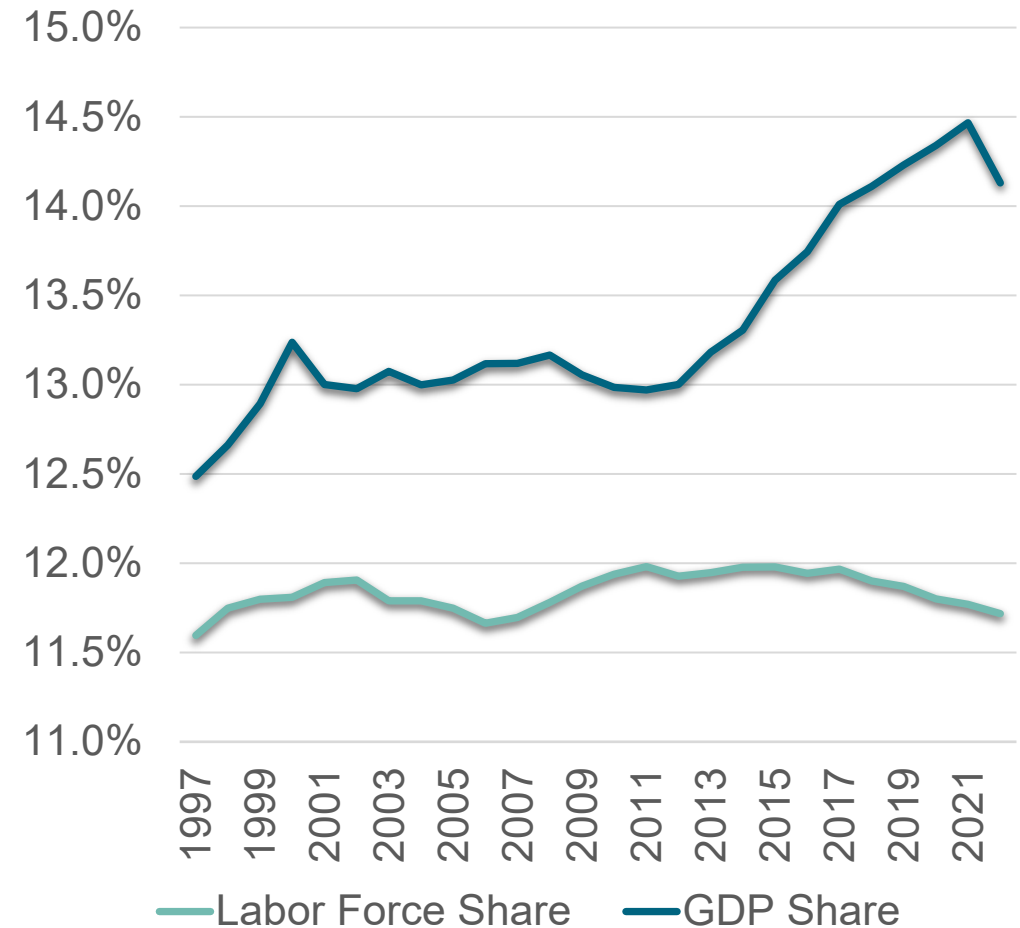


# California Skill Shifts

**Net Migration by Educational Attainment  
(Total from 2019-2022)**

Education	AZ	CA	CO
<b>Net Migration</b>	<b>109,116</b>	<b>-71,099</b>	<b>109,061</b>
Less Than HS	-64,750	-185,830	-17,652
HS Grad	32,261	-39,856	-13,481
Some College	-32,376	-352,870	-39,336
BA	101,014	166,445	120,066
Grad	72,967	341,012	59,464

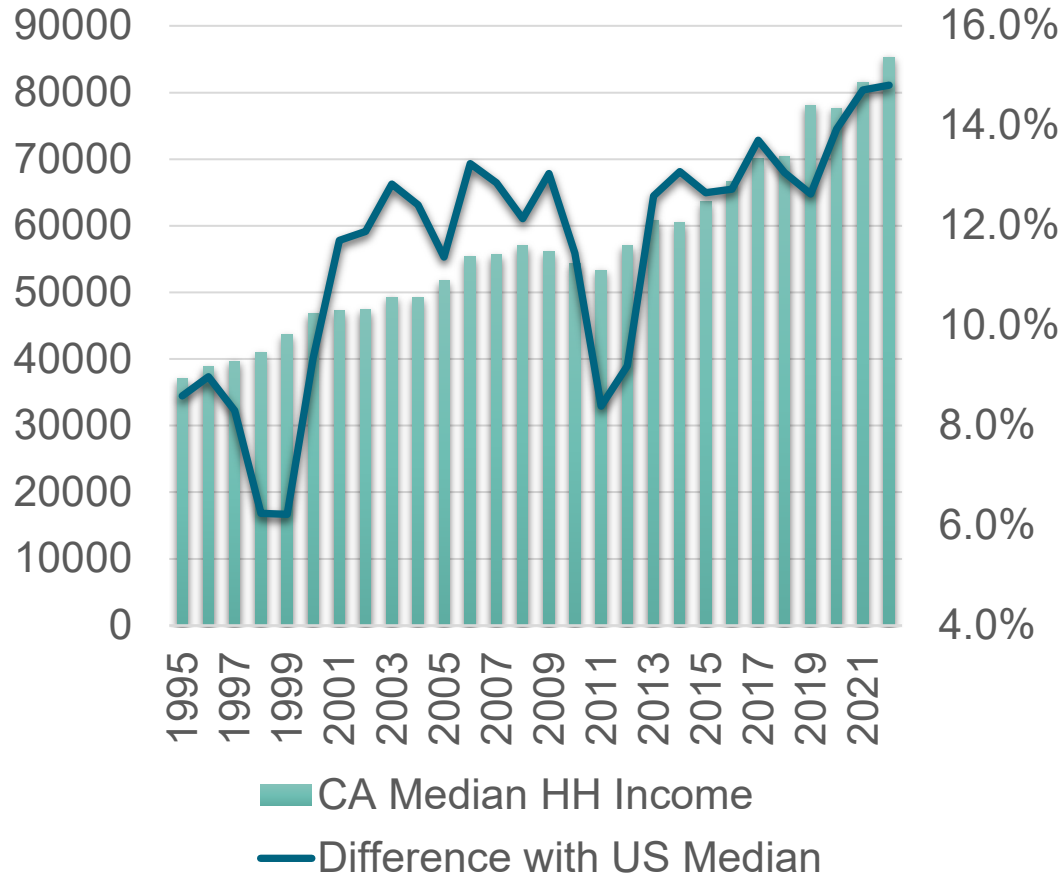
**CA's share of US**



# Household Incomes



California Household Incomes



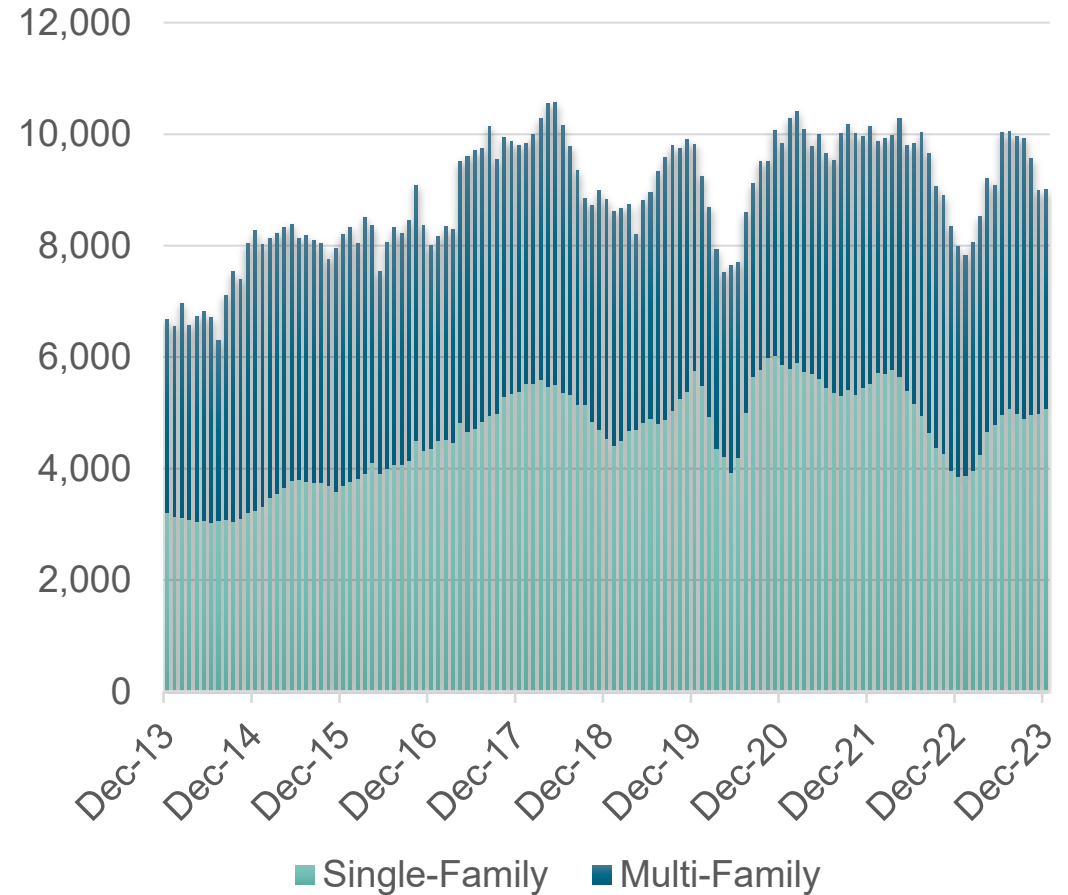
Income	2022 HH (#)	2022 Share of HH (%)	1-Year Chg. (pp.)	Chg. Since 2019 (pp.)
Less than \$25k	1,839,625	13.6	-1.3	-1.3
\$25k to \$49k	1,947,078	14.4	-0.8	-2.4
\$50k to \$99k	3,492,507	25.8	-1.1	-2.1
\$100k to \$149k	2,386,074	17.6	0.0	0.2
More than \$150k	3,885,302	28.7	3.2	5.5



# Supply, Not Affordability

Share Cost Burdened: Renters	2017	2022
United States	49.5%	51.9%
California	55.2%	56.0%
Los Angeles	57.8%	58.3%
Orange County	57.7%	57.9%
Riverside	60.6%	59.3%
San Bernardino	56.6%	60.9%
San Diego	57.2%	58.3%

California Residential Permits



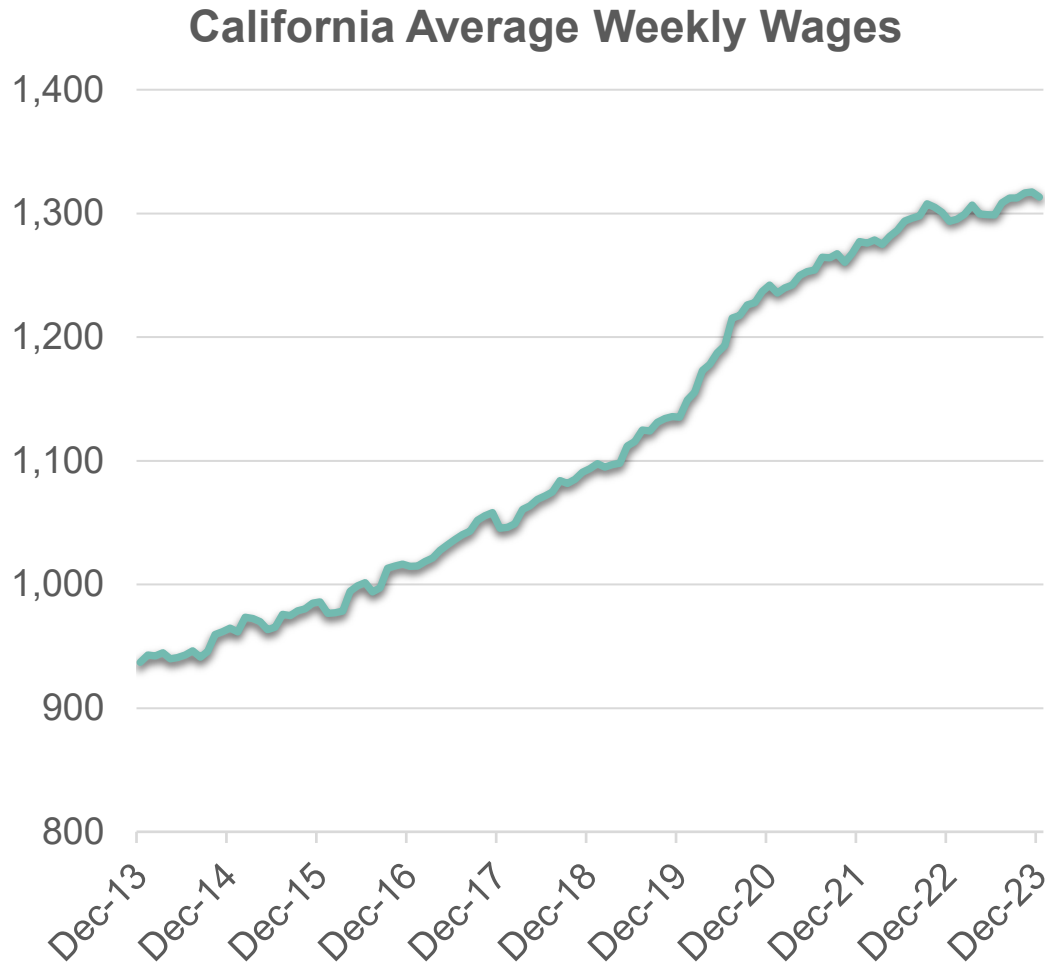


# Regional Employment

Location	Dec-23 Employment (000s)	1-Year Chg. (%)	Chg. Feb-20 (%)		Dec-23 Labor Force (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	157,347	2	3.3		167,451	1.5	1.8
Stockton	278	0.6	9.1		346	-0.7	3.8
Inland Empire	1,704	1.9	6.8		2,159	-0.1	2.4
Fresno	395	2.2	6.2		464	0.2	1.7
Sacramento	1,103	2.8	6.1		1,136	0.3	2.3
San Diego	1,581	1.5	3.8		1,593	-0.6	0.1
California	18,181	1.7	2.8		19,357	0.4	-1.3
Orange County (MD)	1,730	2.1	2.7		1,593	-0.4	-1.8
San Jose	1,190	1.1	2.3		1,078	-0.9	-1.2
Los Angeles (MD)	4,682	2.1	1.1		4,981	0.6	-5.5
San Francisco (MD)	1,214	1.3	0.9		1,025	-0.9	-2.6
Oakland (MD)	1,207	1.9	0.5		1,379	-0.2	-2.2



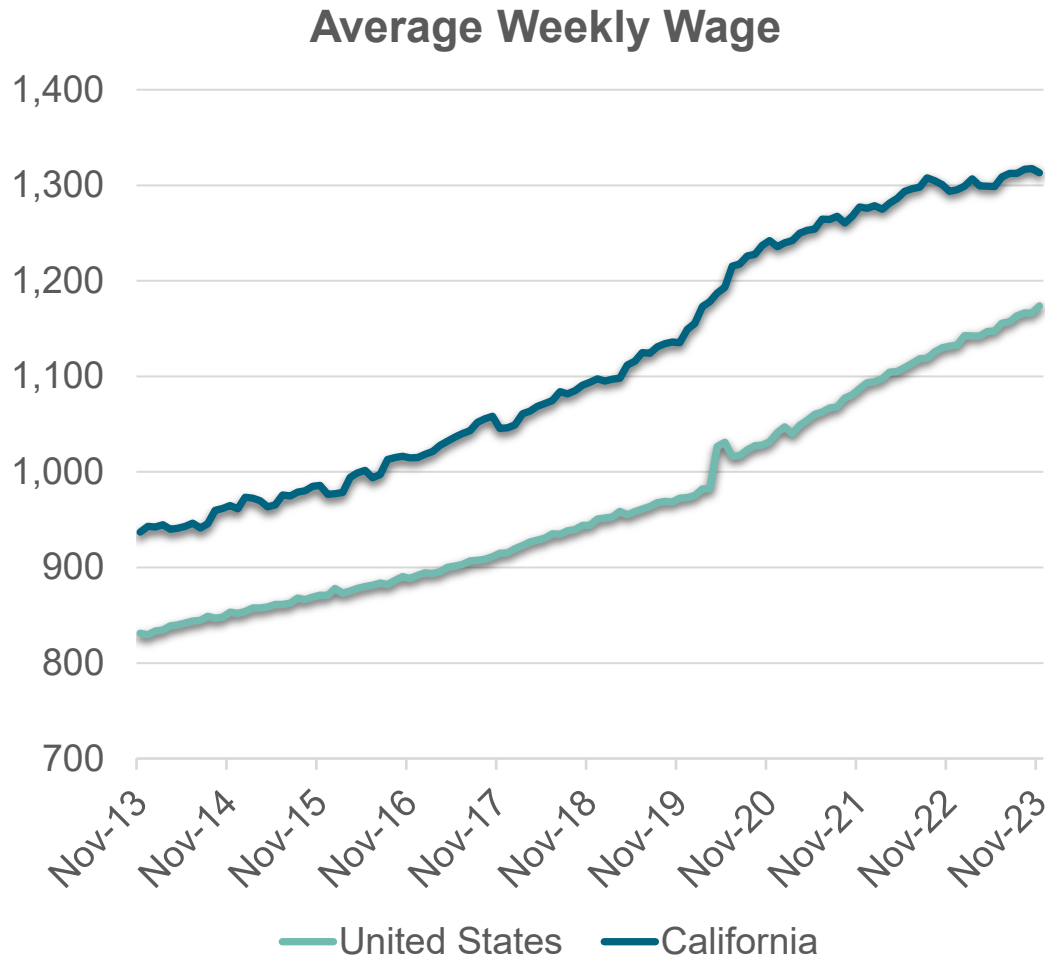
# State Worker Earnings



California	2022 Earnings (\$)	1-Year Chg. (%)	Chg. Since 2019 (%)
Population 25 and older	52,520	5.0	16.5
Less than High School	30,843	8.2	18.9
High School Diploma	38,507	6.0	15.0
Some College	47,535	10.4	15.7
Bachelor's Degree	75,688	6.4	16.3
Grad/Prof Degree	103,600	4.3	12.2



# Average Weekly Wages



Location	Nov-23 Avg. Weekly Wage (\$)	1-Year Chg. (%)	Chg. since Feb-20 (%)
California	1,313	1.5	12.0
Bakersfield	1,138	5.6	10.8
East Bay	1,364	5.2	6.5
Fresno	1,054	7.9	22.0
Inland Empire	1,096	9.6	19.4
Los Angeles (MD)	1,319	3.7	13.5
Orange County (MD)	1,282	-0.3	8.5
Sacramento	1,149	-1.2	12.5
San Diego	1,238	-1.3	11.1
San Francisco (MD)	1,811	2.0	8.9
San Jose	1,818	4.1	4.3
Stockton	981	-1.3	10.3



# Taxable Sales by Region

Total	Q3-23 (\$, 000s)	1-Year Chg. (%)	Chg. Since Q4-19 (%)
Stockton	61,726	3.6	65.2
Bakersfield	57,928	-0.6	45
Inland Empire	302,292	-3	40.1
Fresno	59,721	-2.1	39.3
Ventura	49,940	4.9	29.4
San Diego	205,127	0.9	29.1
Sacramento	147,866	-1.5	27.3
Orange County	235,933	-1.1	24.8
San Francisco	73,480	1.6	19.5
Los Angeles	527,699	-2.4	18.3
San Jose	148,140	-1	16
Oakland	159,142	-6.2	15.3
Santa Rosa	29,876	-3.6	14.1

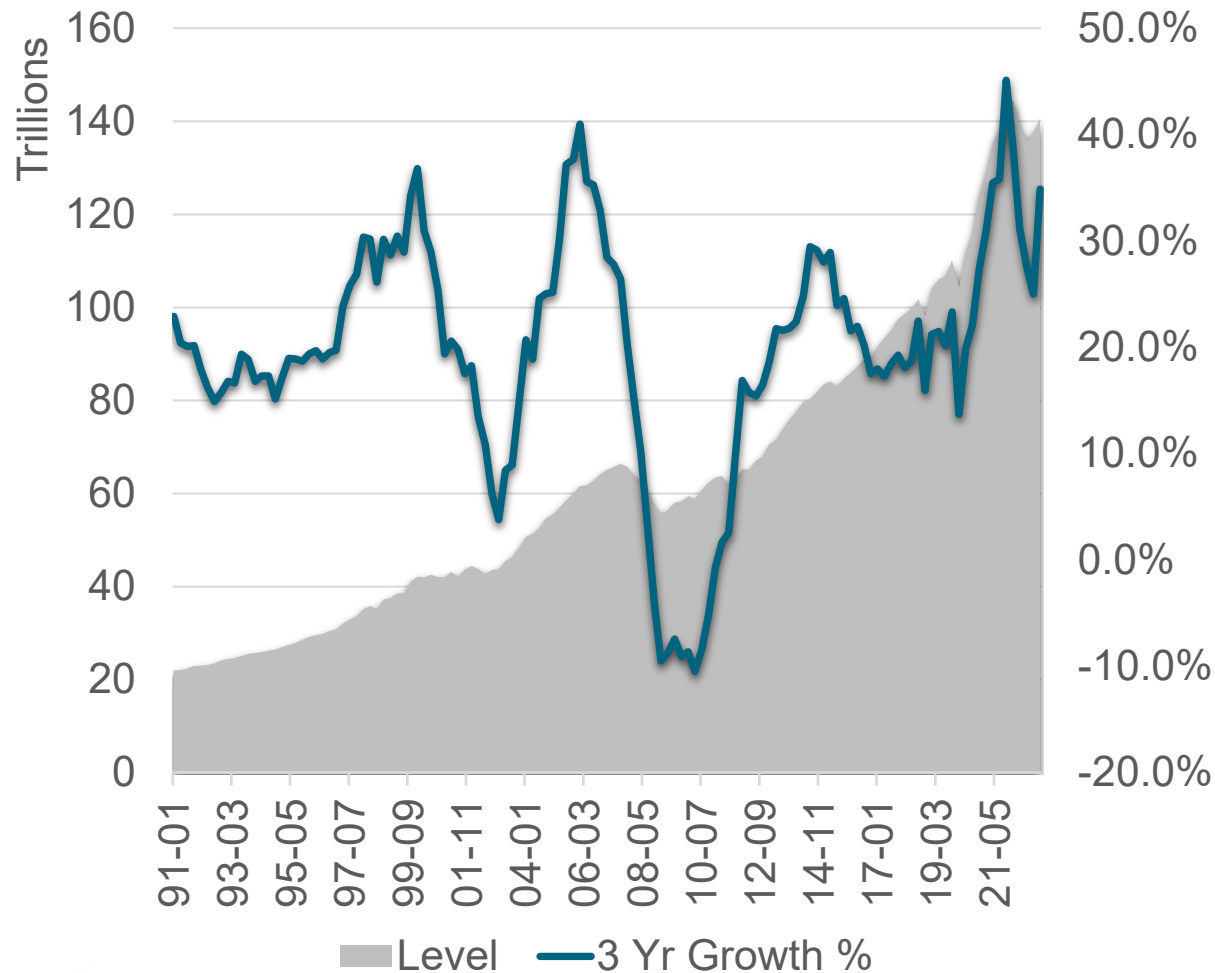
Hotels and Restaurants	Q3-23 (\$, 000s)	1-Year Chg. (%)	Chg. Since Q4-19 (%)
California	289,024	2.4	19.8
Fresno	5,328	3.8	32.5
Riverside	15,820	1.6	31.6
San Bernardino	13,449	2.6	28.9
San Diego	30,021	0.8	27.6
Orange	38,403	2.3	26.1
Sacramento	9,437	3.4	22.9
Contra Costa	6,478	3.9	21
Santa Clara	16,477	4	18.9
Los Angeles	80,442	2.5	16
Alameda	10,704	1.5	9

Source: HDL Companies

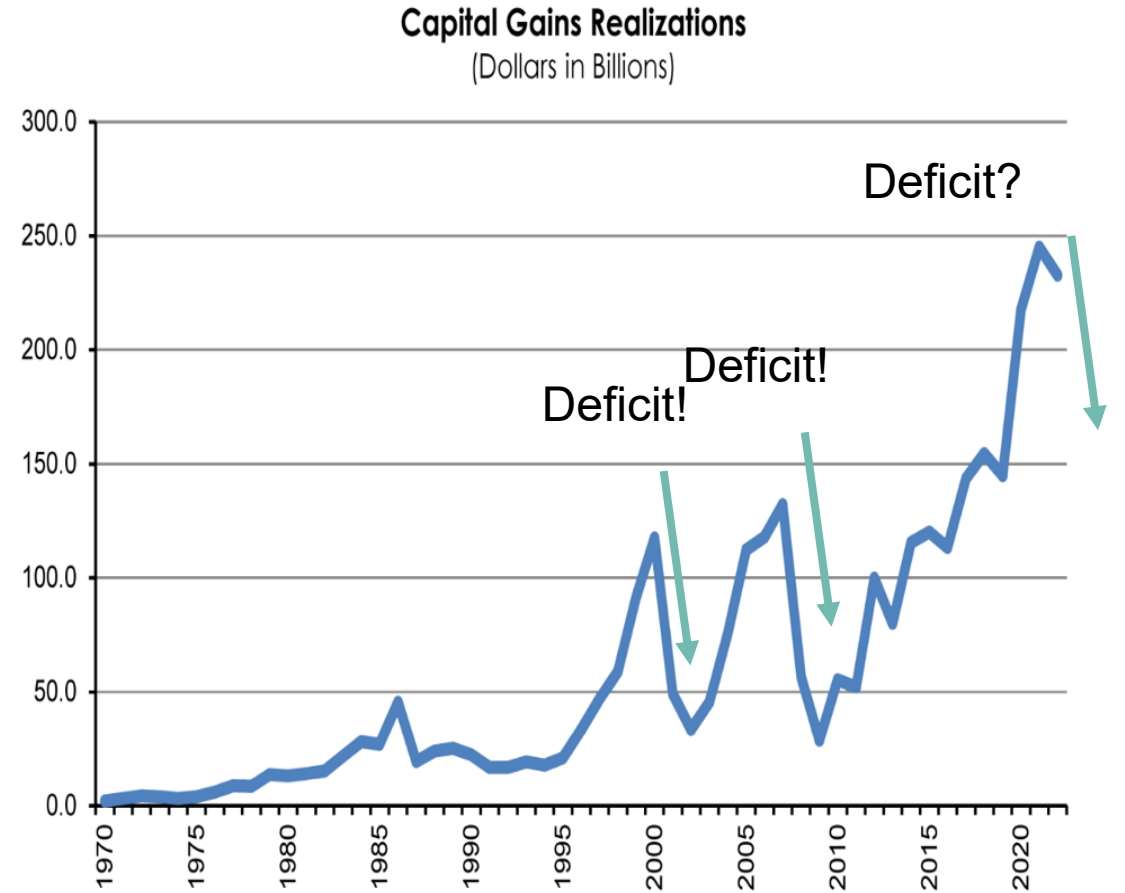


# On Bubbles and Budgets!

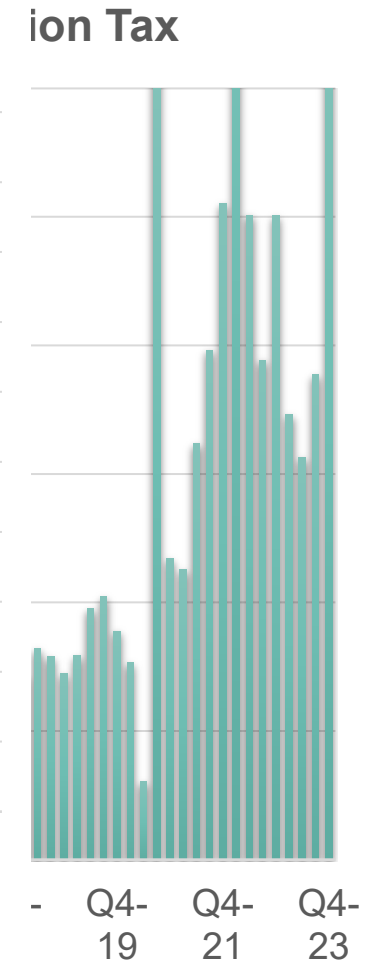
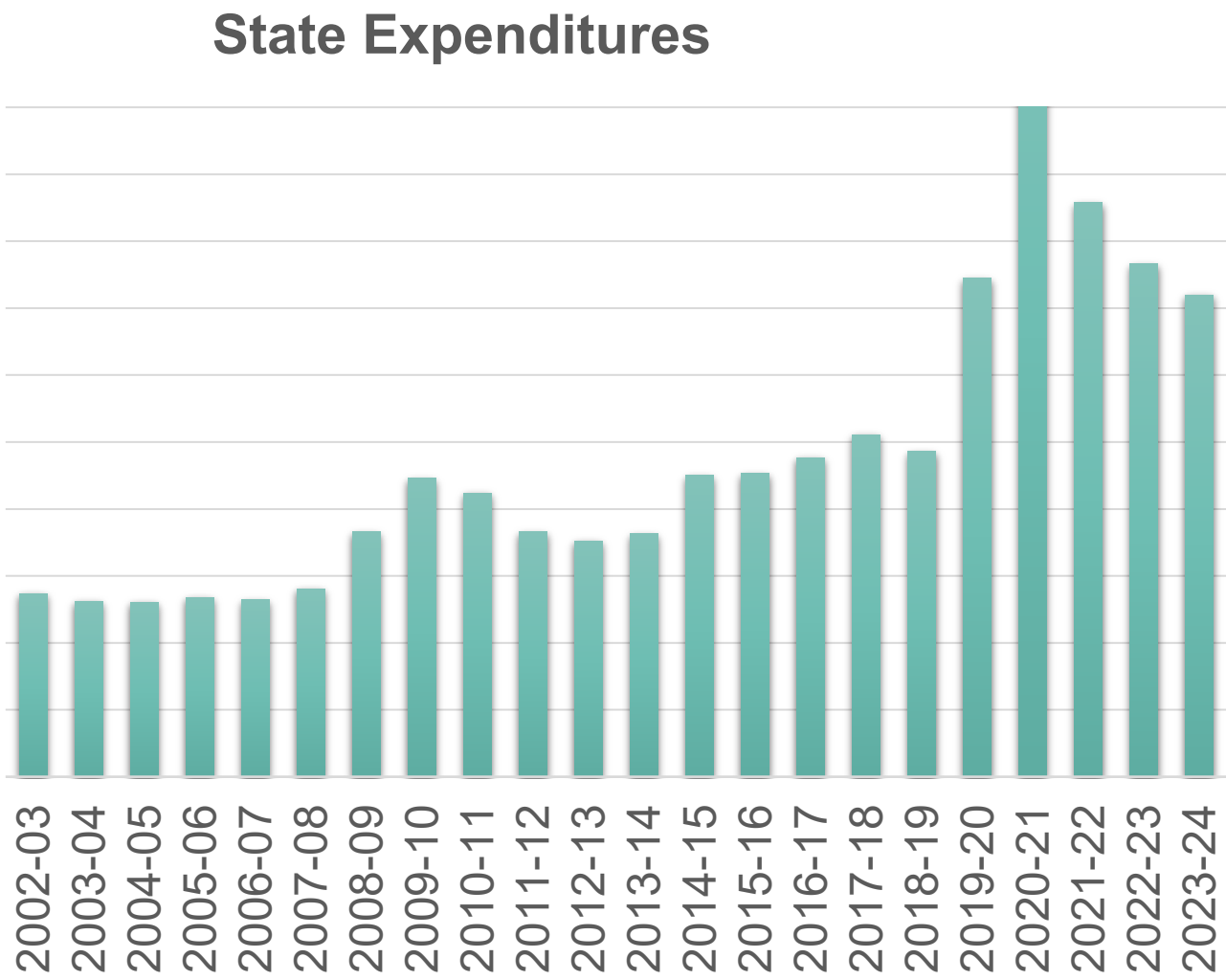
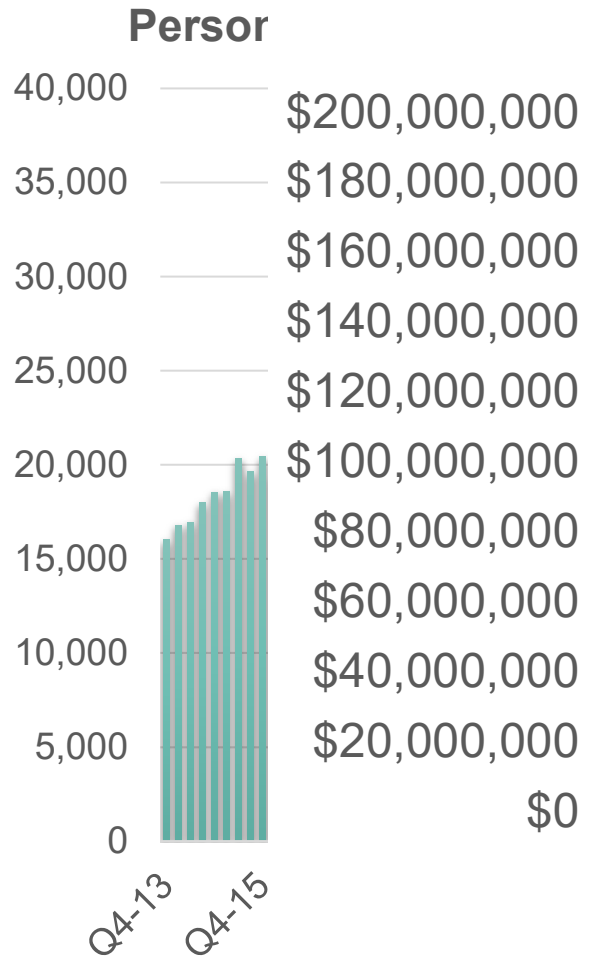
## HH Net Worth and Growth



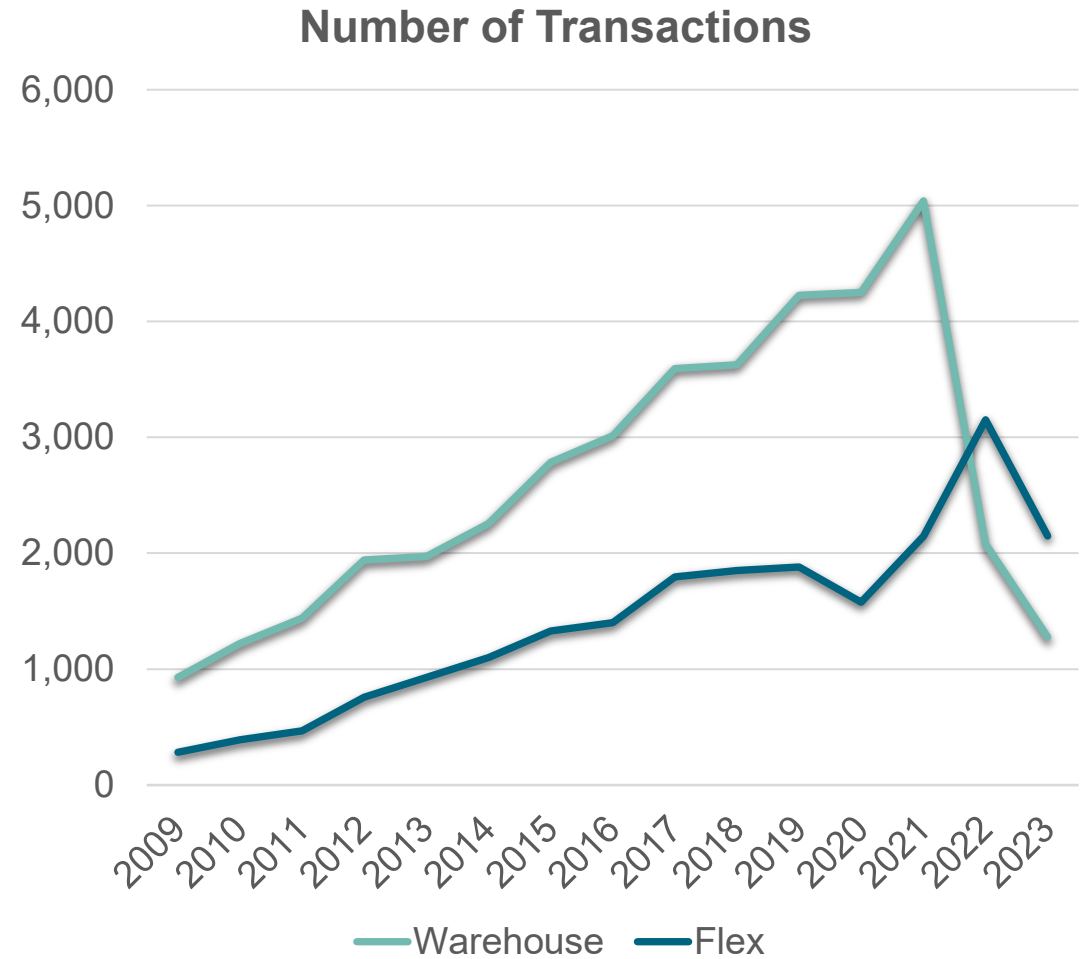
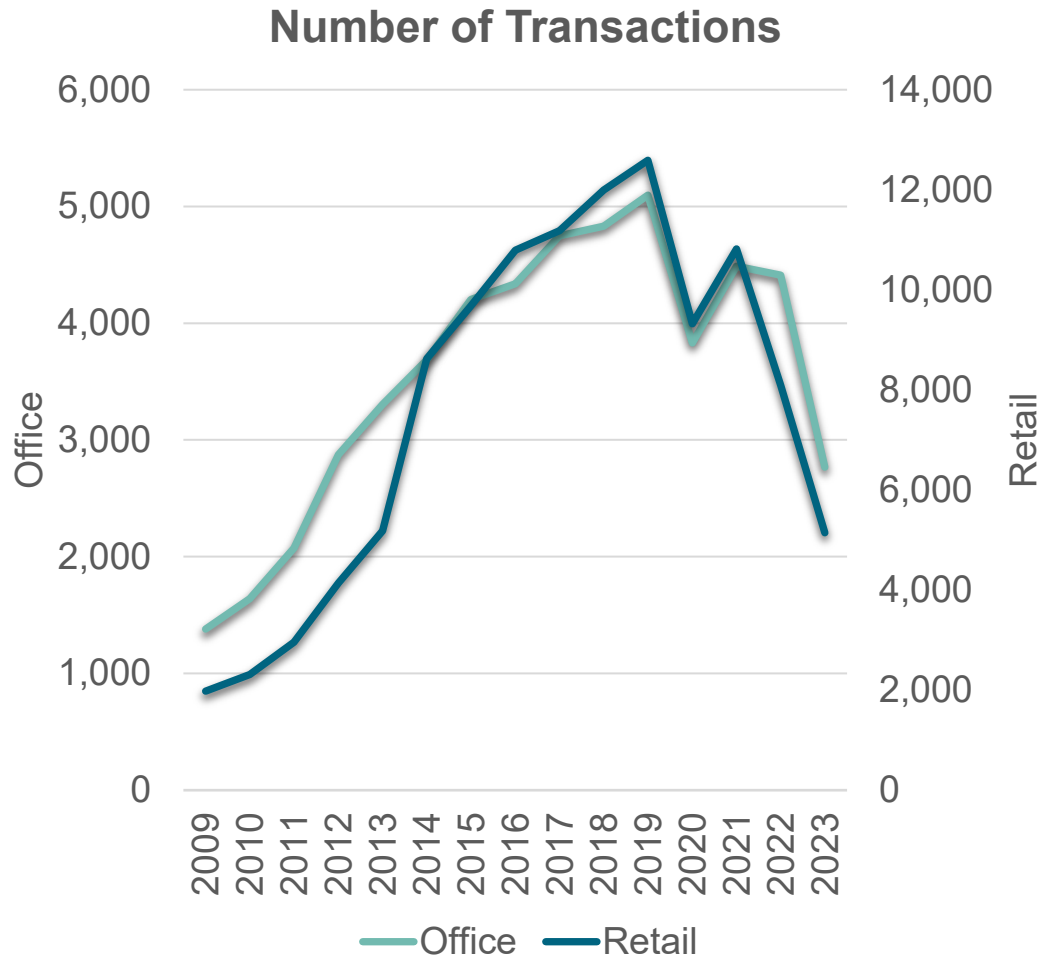
## CA CG Income Tax Revenues (LAO Estimate)



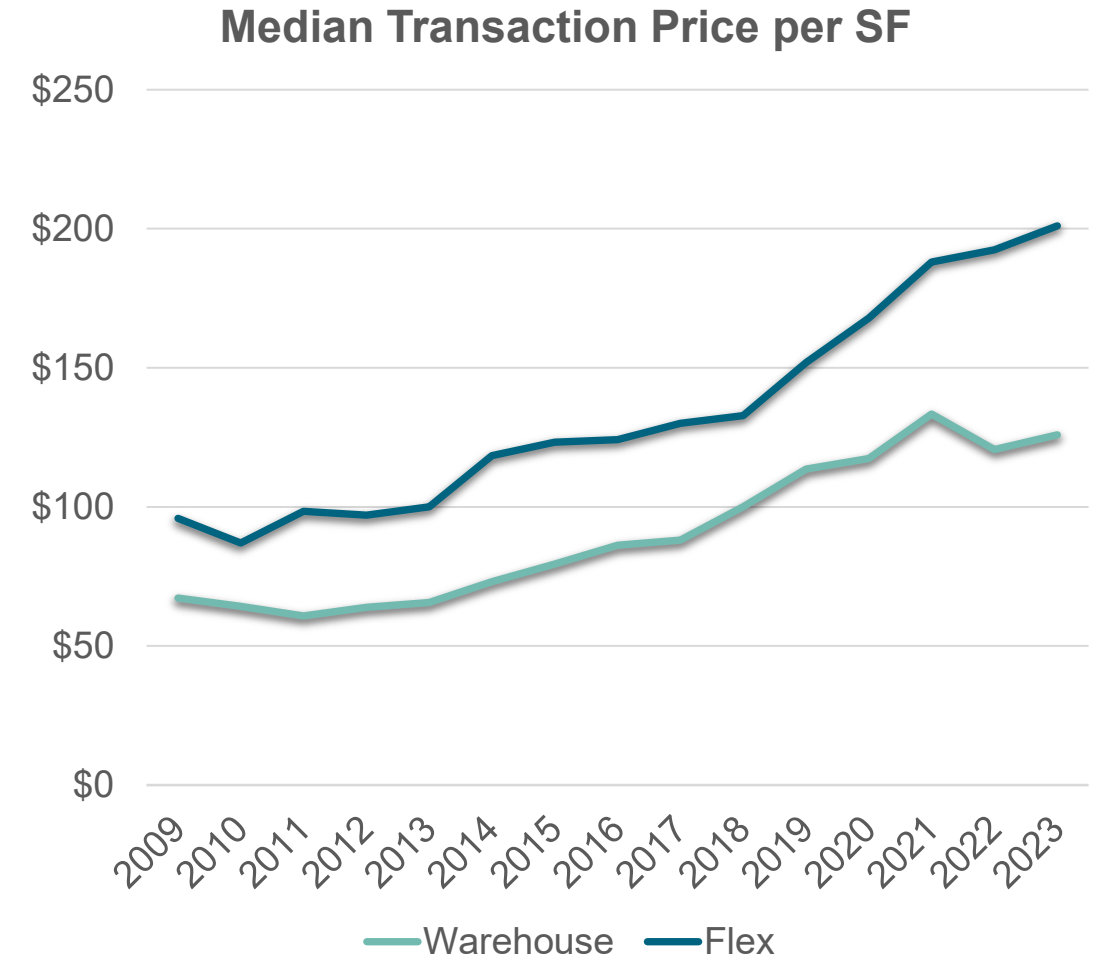
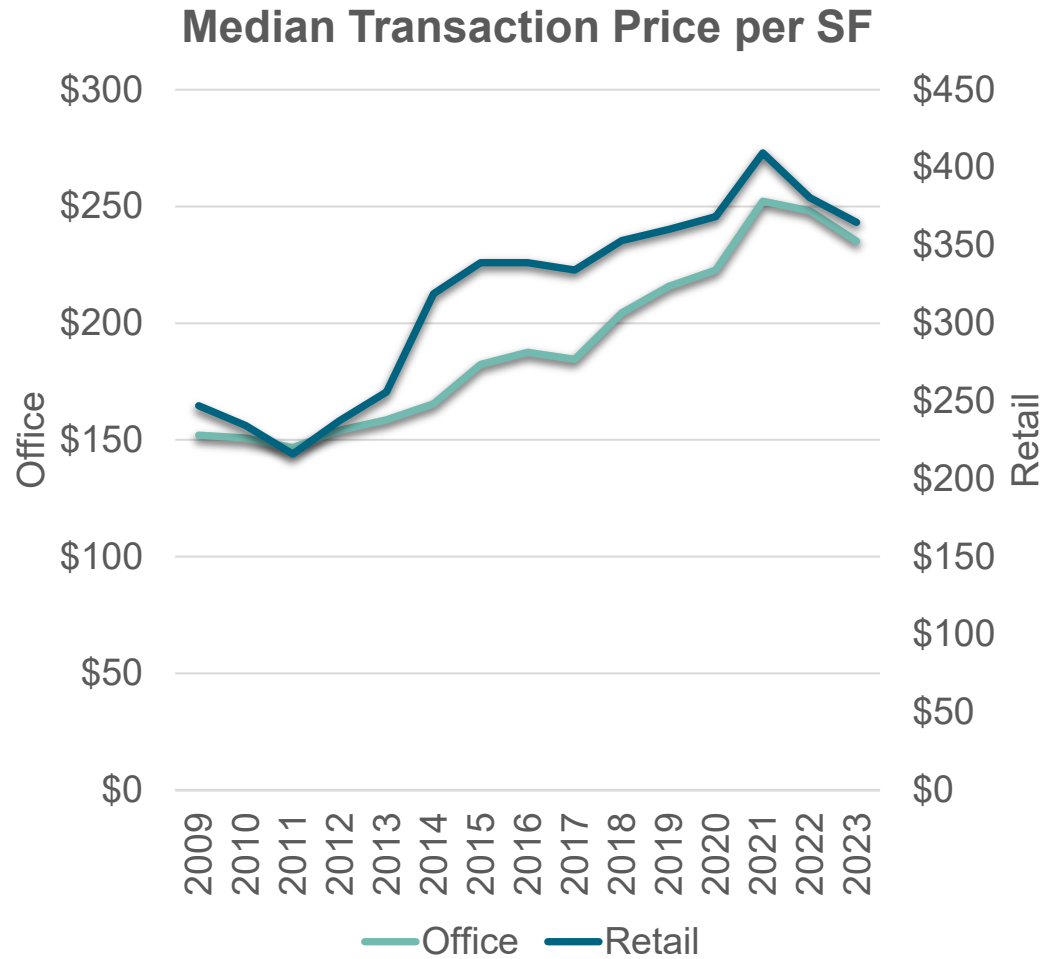
# California Tax Revenue by Major Source



# Transactions by Property Type



# Transaction Prices by Property Type





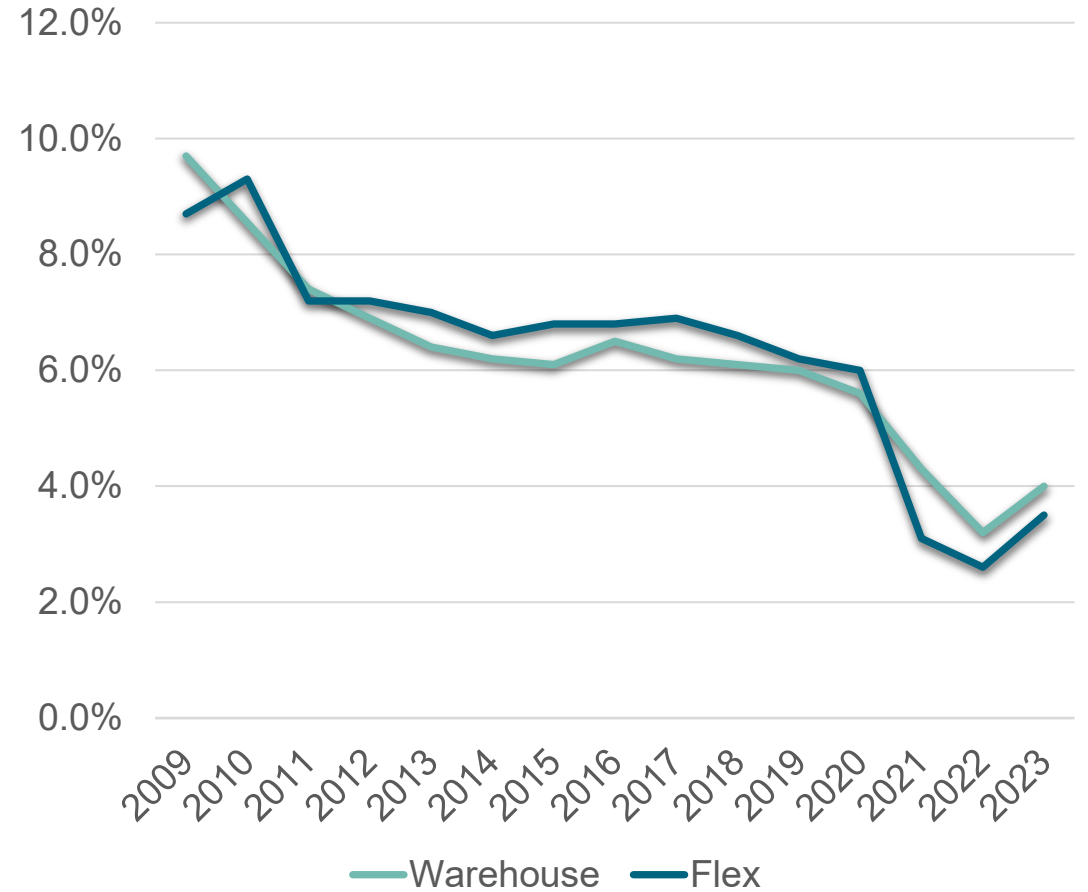
# Cap Rates by Property Type



### Median Transaction Cap Rate



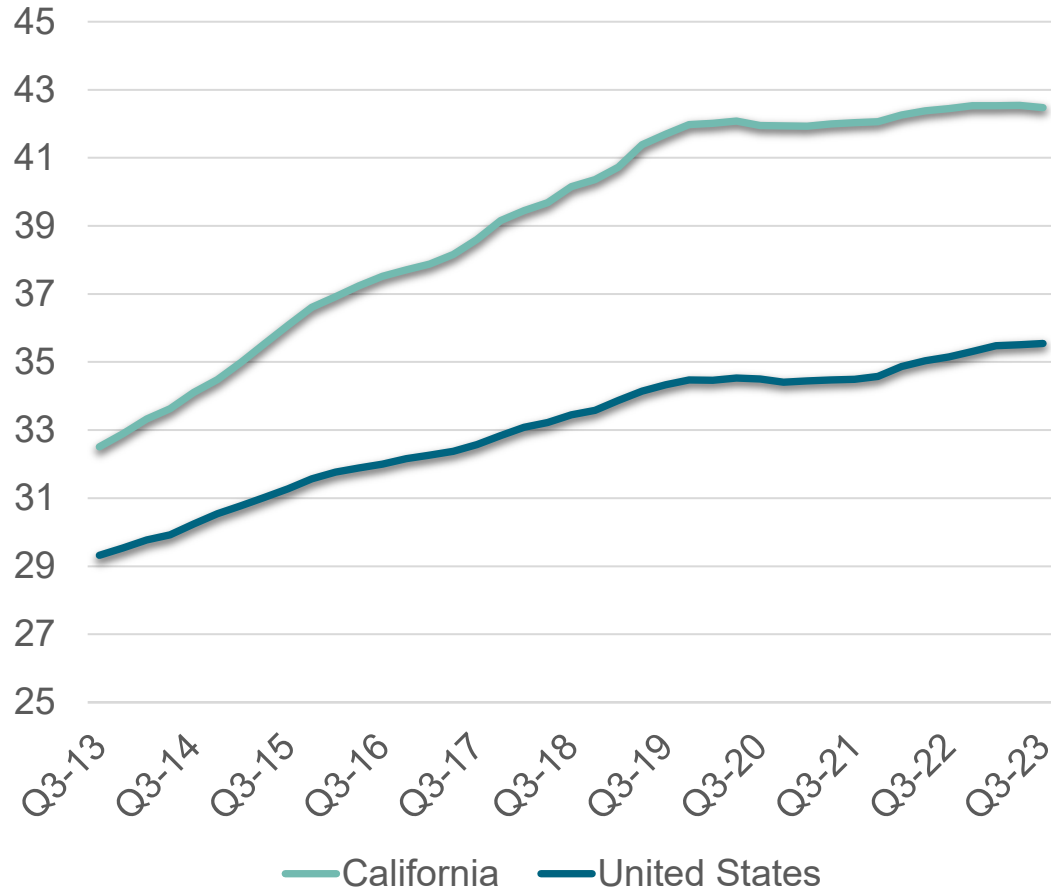
### Median Transaction Cap Rate



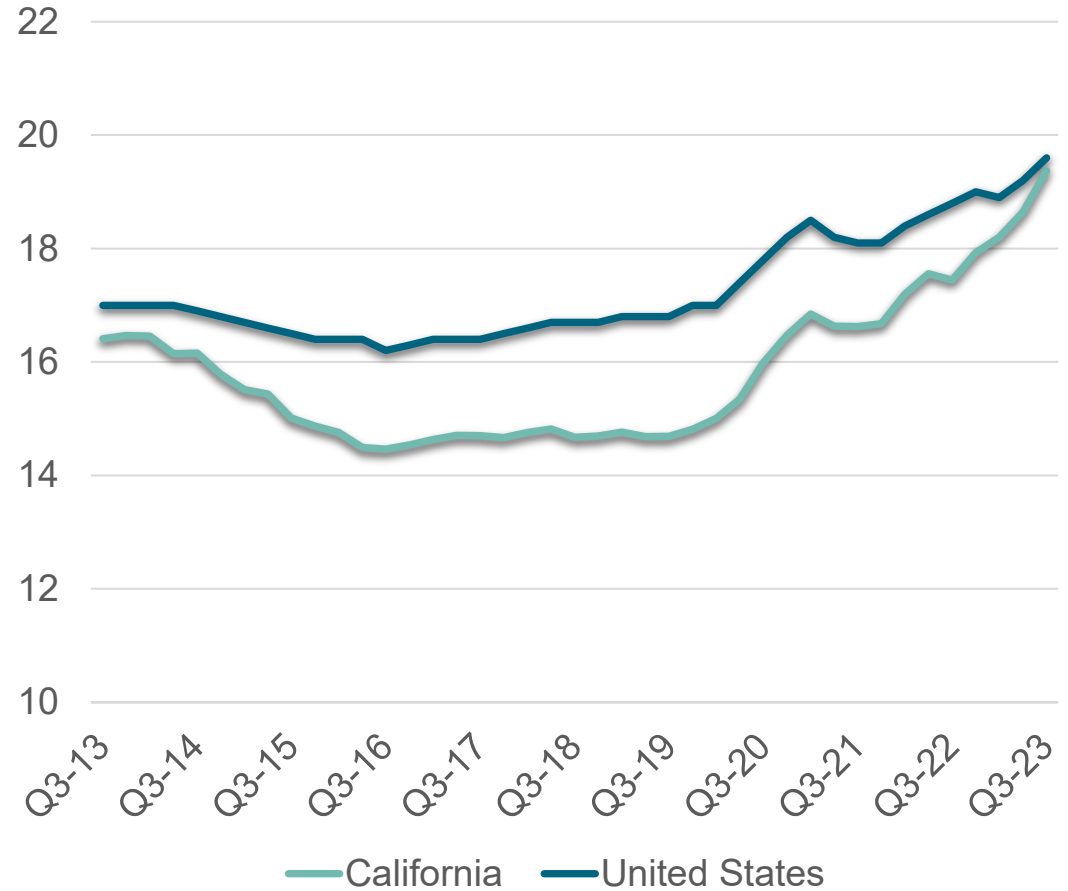
# Office Market



## Office Cost of Rent



## Office Vacancy Rates



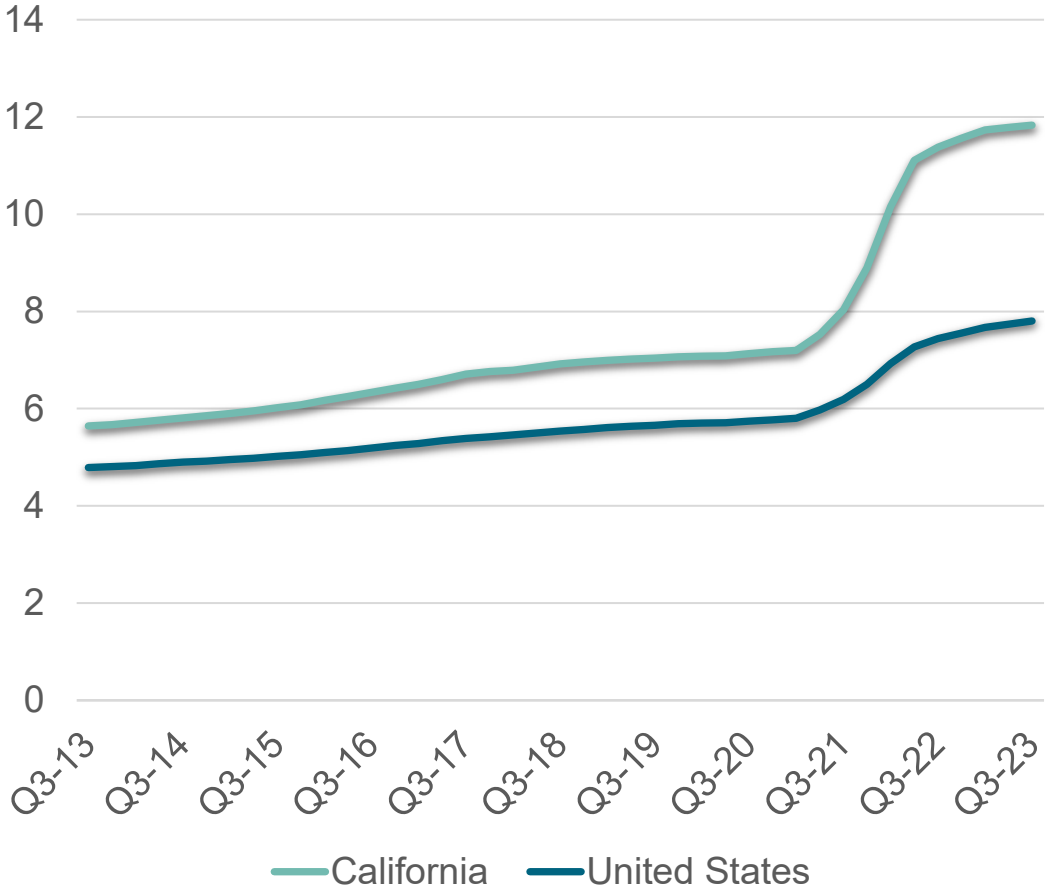
# Office Market

Metro	Cost of Rent			Vacancy Rate			Occupied Stock		
	Q4-23 (\$)	1-Yr Growth (%)	Change since Q4-19 (%)	Q4-23 (%)	1-Yr Change (pp)	Change since Q4-19 (pp)	Q4-23 (sq. ft., Mil.)	1-Yr Growth (%)	Change since Q4-19 (%)
United States	35.54	1.1	3.5	19.6	0.8	2.8	3,593.4	-0.5	0.0
California	42.47	0.1	1.9	19.4	1.9	4.7	534.3	-1.8	-3.0
Fresno	20.65	2.0	2.5	14.6	-2.4	-1.9	7.2	2.9	2.8
Inland Empire	25.02	2.5	7.7	15.8	-0.8	-0.8	16.6	0.9	2.4
Los Angeles (MD)	42.12	0.7	3.9	18.3	1.5	4.1	171.8	-1.4	-1.8
Oakland (MD)	34.84	-0.6	-0.2	18.2	0.9	3.0	45.3	-1.0	-2.7
Orange County (MD)	34.21	0.2	-2.4	20.0	1.5	3.5	69.1	-1.7	-3.7
Sacramento	28.02	0.5	3.7	21.6	1.6	3.0	35.7	-1.9	-2.4
San Diego	35.46	0.2	4.9	19.0	1.1	3.3	53.6	-0.1	-1.4
San Francisco (MD)	64.04	-1.1	-1.1	19.5	5.0	10.7	84.5	-5.0	-8.7

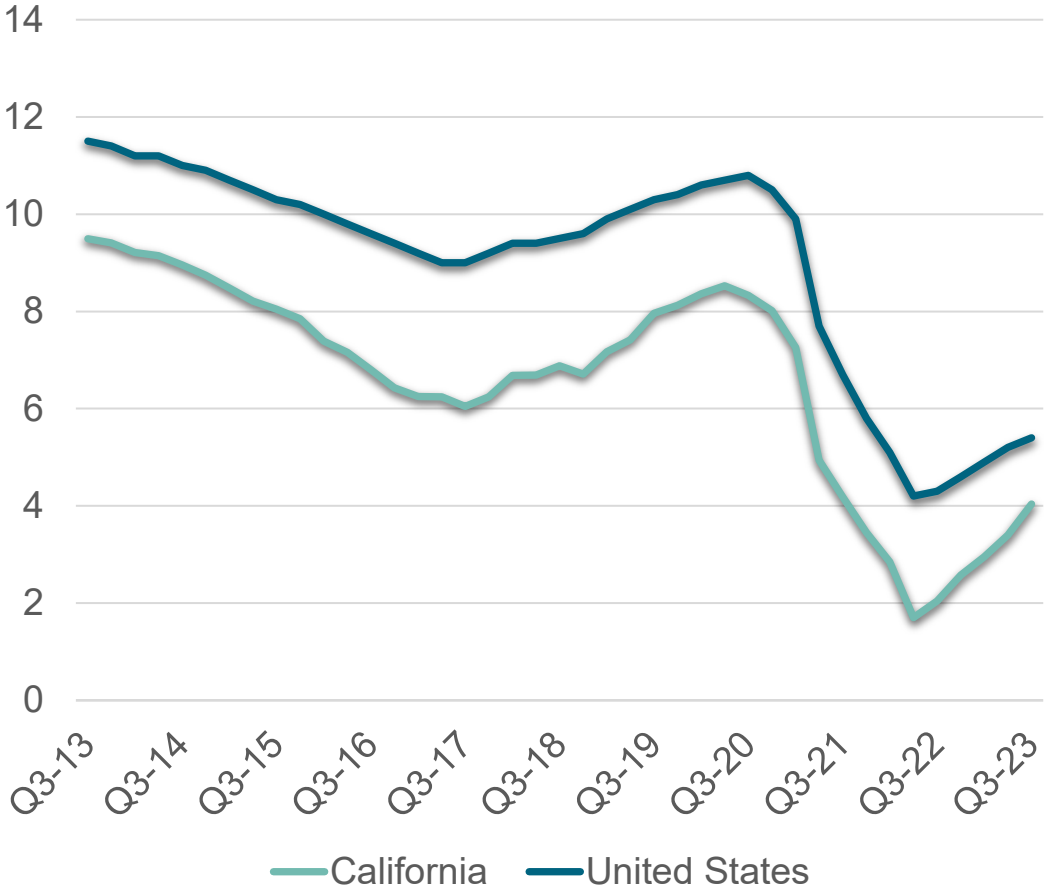


# Warehouse Market

### Warehouse Cost of Rent



### Warehouse Vacancy Rate



# Warehouse Market

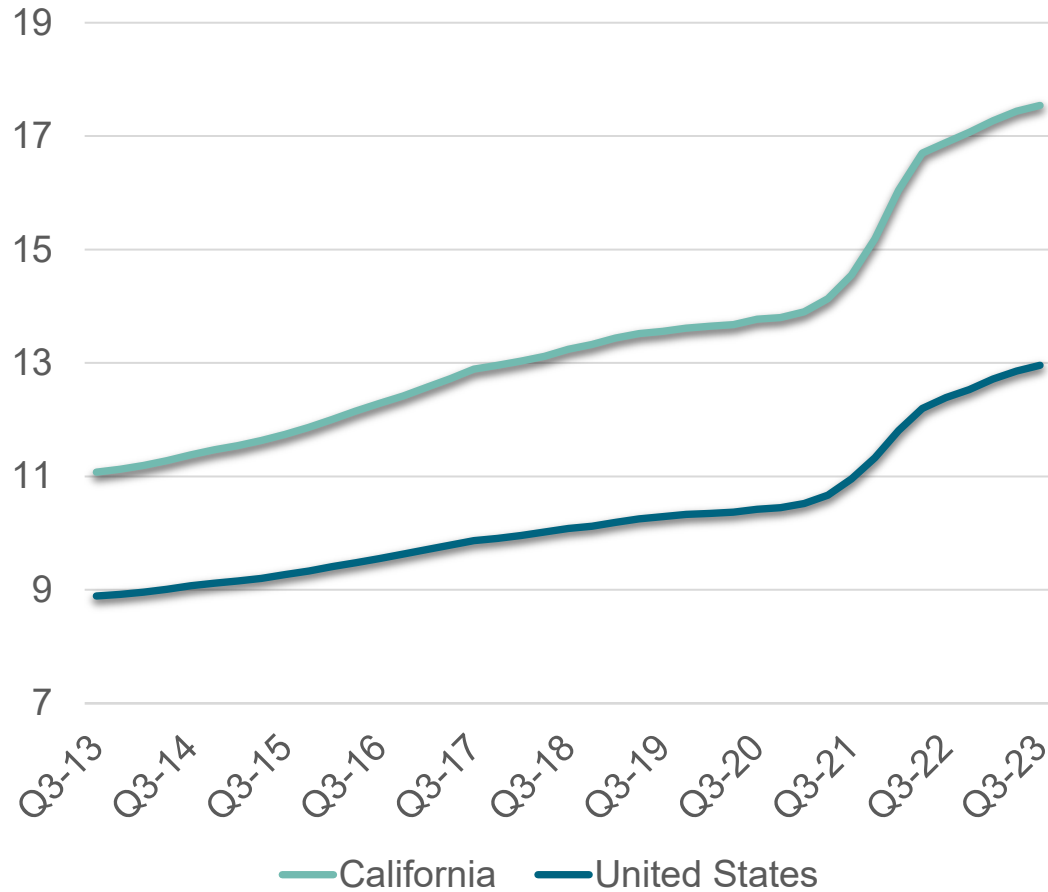
Metro	Cost of Rent			Vacancy Rate			Occupied Stock		
	Q4-23 (\$)	1-Yr Growth (%)	Change since Q4-19 (%)	Q4-23 (%)	1-Yr Change (pp)	Change since Q4-19 (pp)	Q4-23 (sq. ft., Mil.)	1-Yr Growth (%)	Change since Q4-19 (%)
United States	7.80	4.8	37.8	5.4	1.1	-4.9	7,350.2	1.7	18.6
California	11.83	4.0	68.1	4.0	2.0	-3.9	1,410.2	0.6	13.5
Fresno	6.41	4.2	21.9	3.7	-0.3	-8.1	15.2	0.3	13.6
Inland Empire	12.93	4.7	124.5	5.9	4.0	-3.9	463.8	1.9	23.2
Los Angeles (MD)	12.93	1.9	63.9	3.3	2.1	-2.2	460.4	-1.4	5.3
Oakland (MD)	8.96	5.9	32.0	3.0	-0.1	-6.9	131.8	1.0	10.9
Orange County (MD)	10.75	6.2	42.0	2.5	1.0	-4.9	106.8	0.7	10.2
Sacramento	6.49	5.0	28.0	4.0	-0.7	-5.8	101.6	2.0	19.0
San Diego	11.89	4.6	30.5	2.3	0.0	-6.8	79.0	2.2	19.4
San Francisco (MD)	13.67	5.2	32.7	3.0	-0.9	-2.6	31.0	1.0	3.1



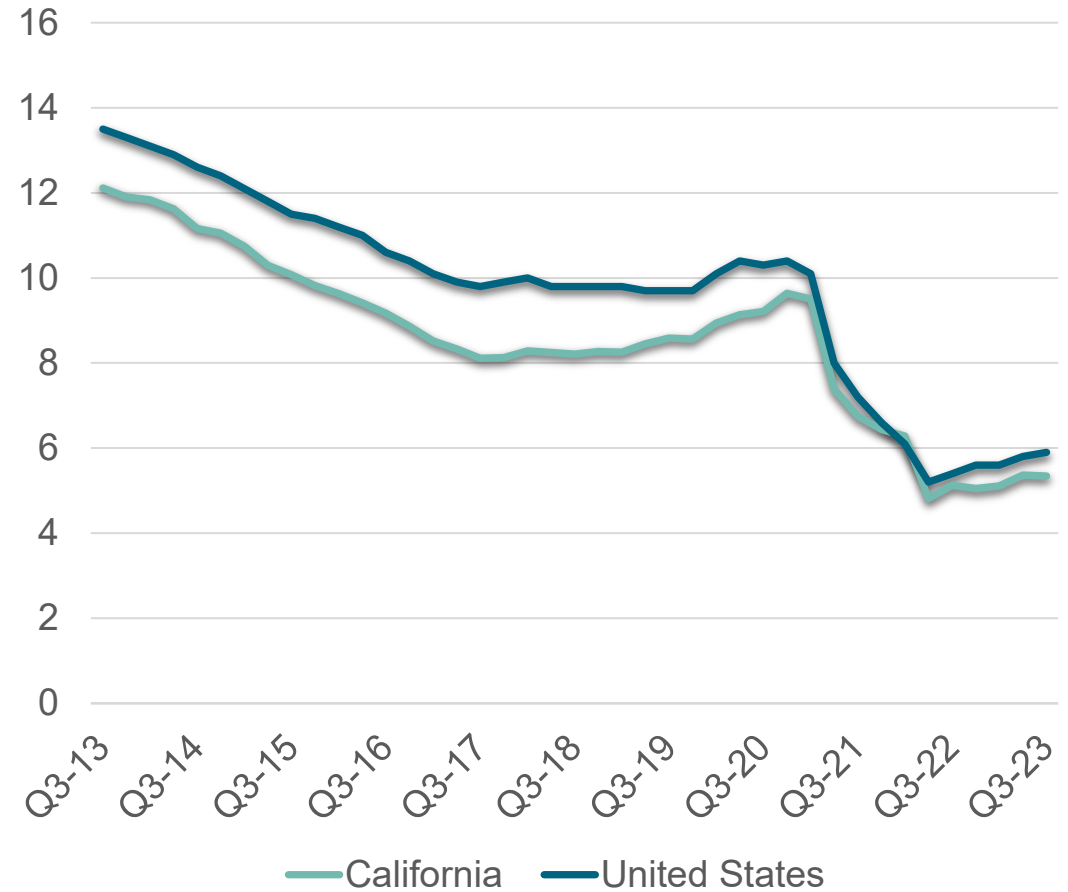
# Flex/R&D Market



### Flex/R&D Cost of Rent



### Flex/R&D Vacancy Rate



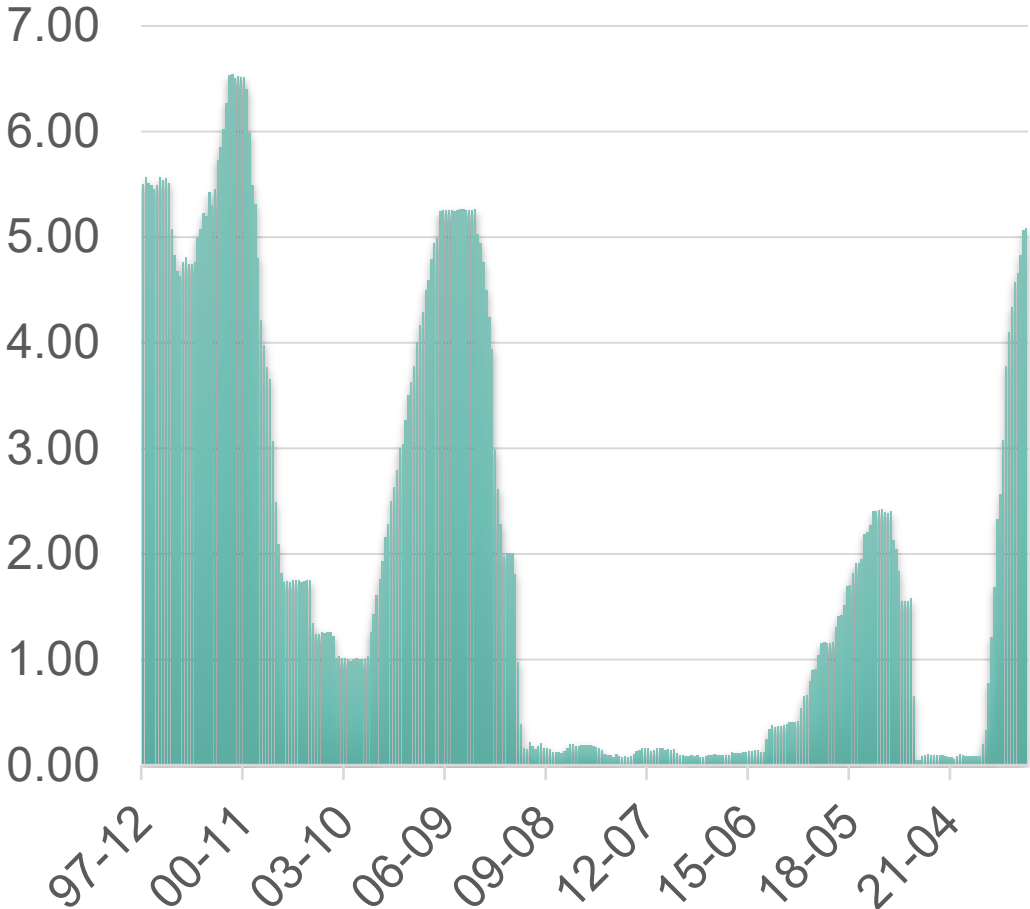
# Flex/R&D Market

Metro	Cost of Rent			Vacancy Rate			Occupied Stock		
	Q4-23 (\$)	1-Yr Growth (%)	Change since Q4-19 (%)	Q4-23 (%)	1-Yr Change (pp)	Change since Q4-19 (pp)	Q4-23 (sq. ft., Mil.)	1-Yr Growth (%)	Change since Q4-19 (%)
United States	12.96	4.6	25.9	5.9	0.5	-3.8	1,159.3	-0.2	6.1
California	17.54	3.9	29.4	5.3	0.2	-3.2	275.1	0.0	5.2
Inland Empire	15.15	3.7	71.4	3.4	0.5	-1.7	26.5	-0.5	2.4
Los Angeles (MD)	18.71	2.0	41.8	4.0	0.6	0.5	38.6	-0.6	2.4
Oakland (MD)	14.45	3.2	22.1	8.6	-0.3	-4.4	24.0	0.3	5.8
Orange County (MD)	15.83	2.4	31.0	2.6	0.3	-2.2	58.3	-0.3	2.3
Sacramento	10.47	3.1	15.4	4.8	-0.5	-9.6	14.0	0.8	14.3
San Diego	18.62	6.5	30.4	4.6	0.5	-7.0	39.2	0.4	9.8
San Francisco (MD)	22.19	5.8	31.9	5.5	0.1	-1.0	14.2	0.9	14.9

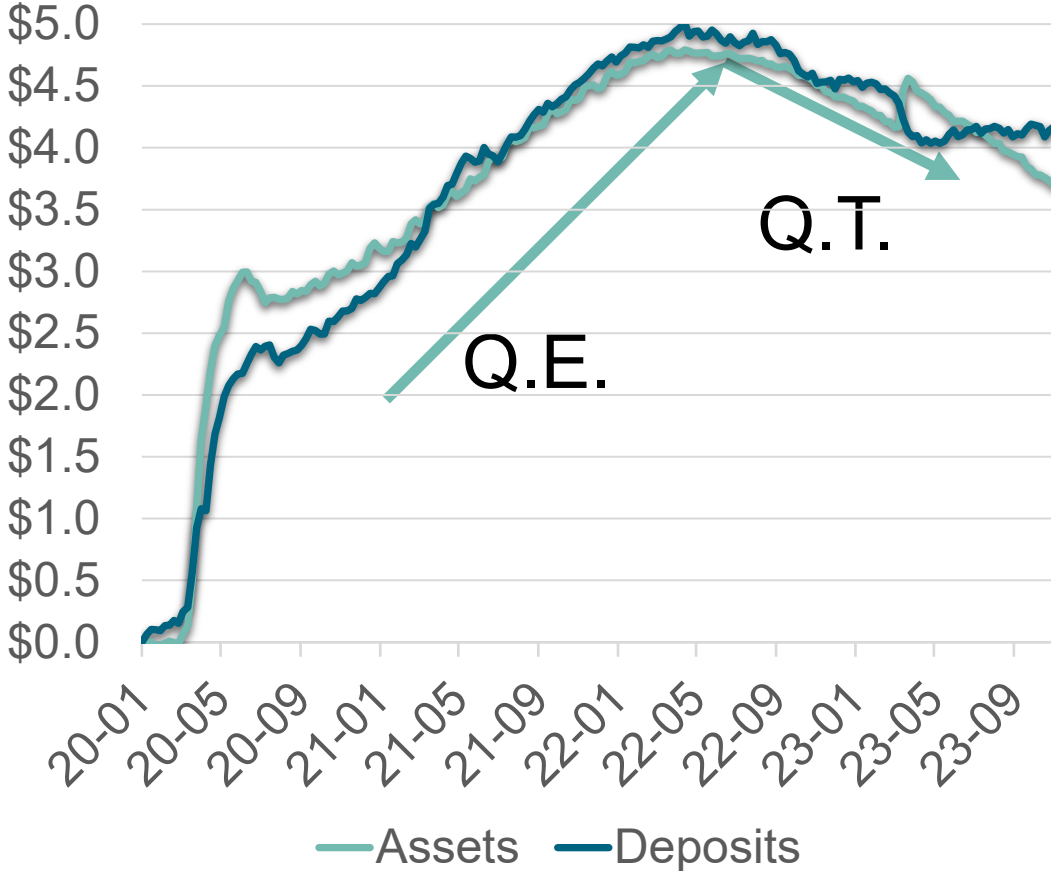


# The Fed Response

### Stage 1: Federal Funds Rate



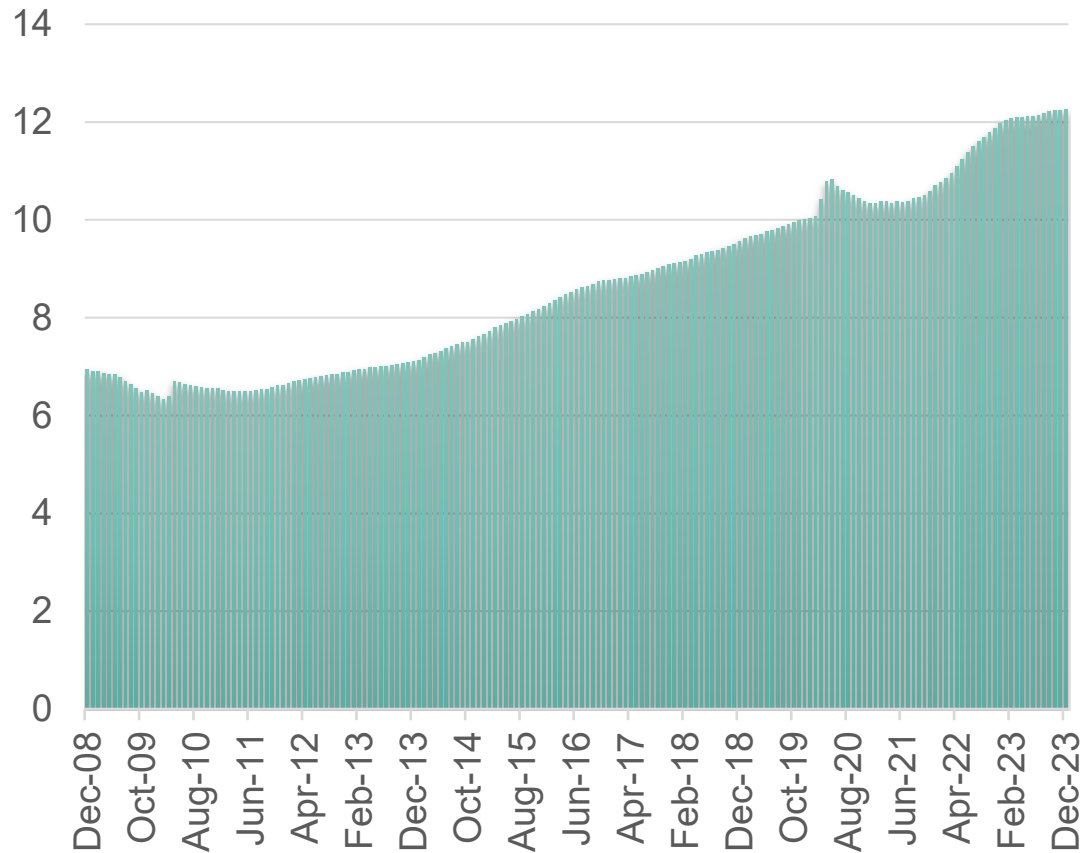
### Stage 2: Quantitative Tightening (Cumulative Trillions)



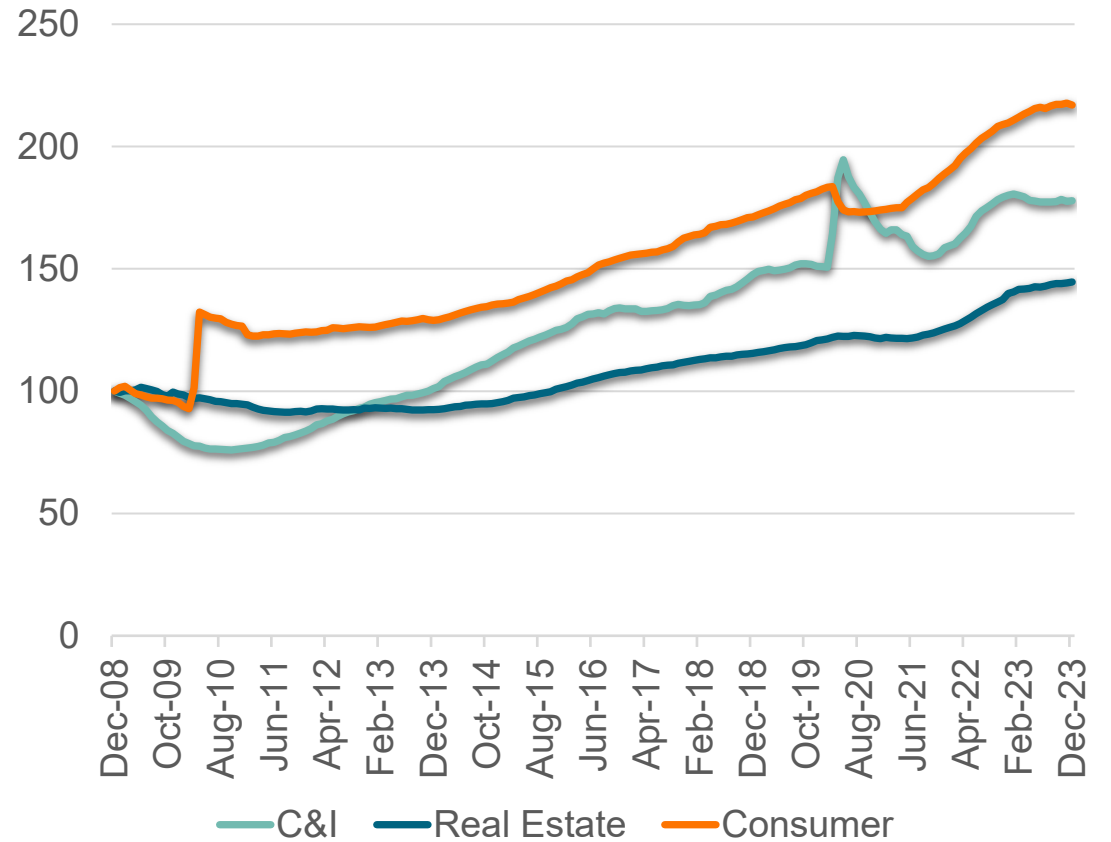


# Commercial Lending

## Loans and Leases: All Commercial Banks

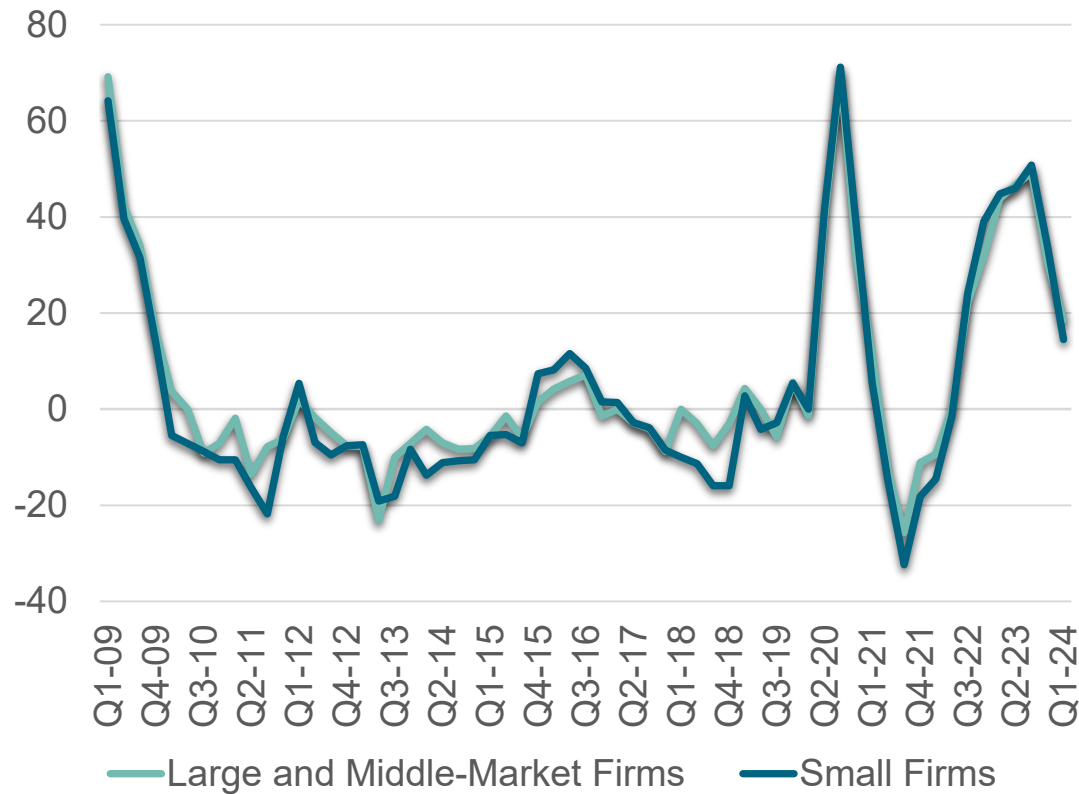


## Indexed Commercial Bank Loans by Type

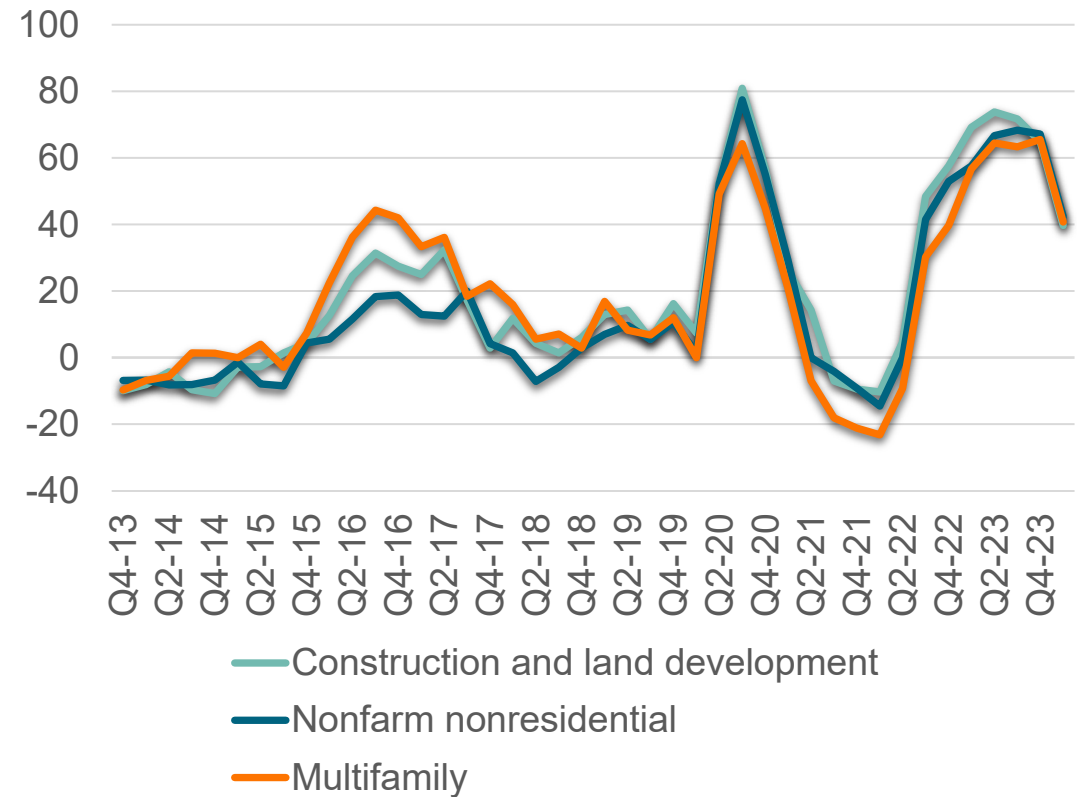


# Lending Standards

Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans

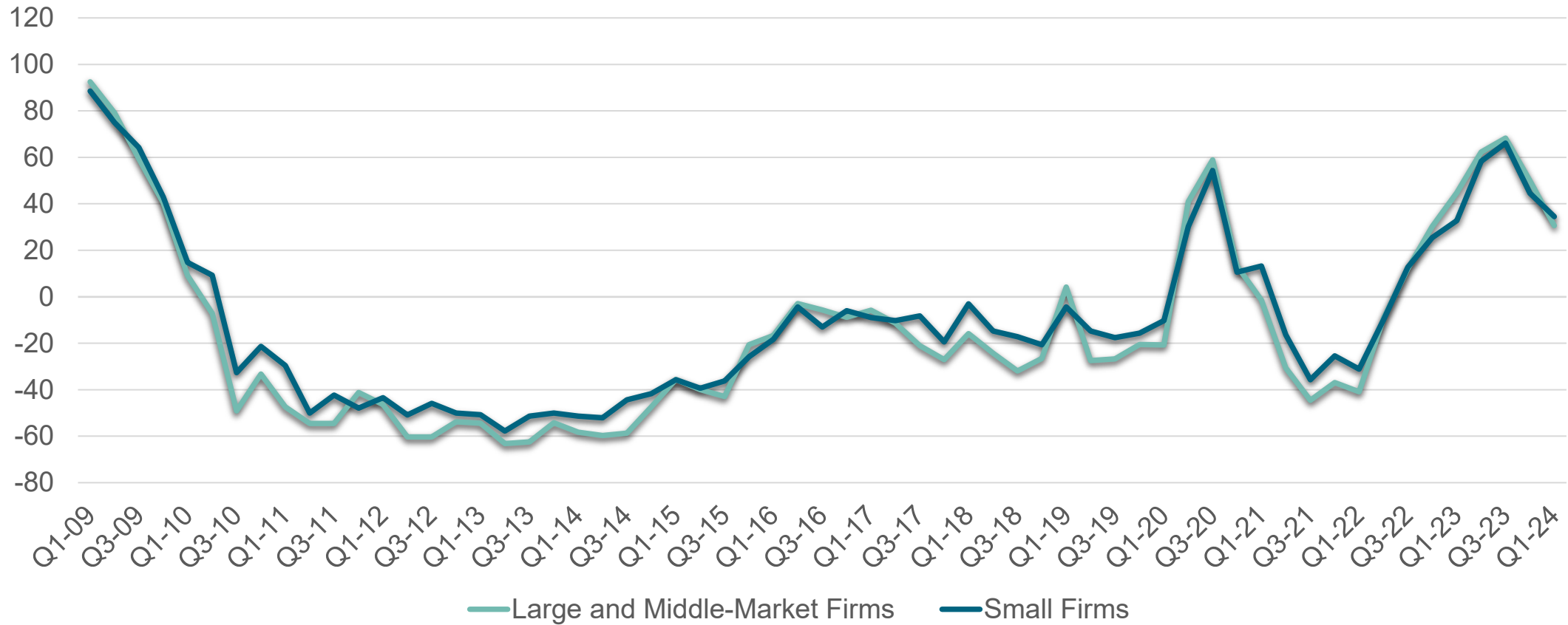


Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans



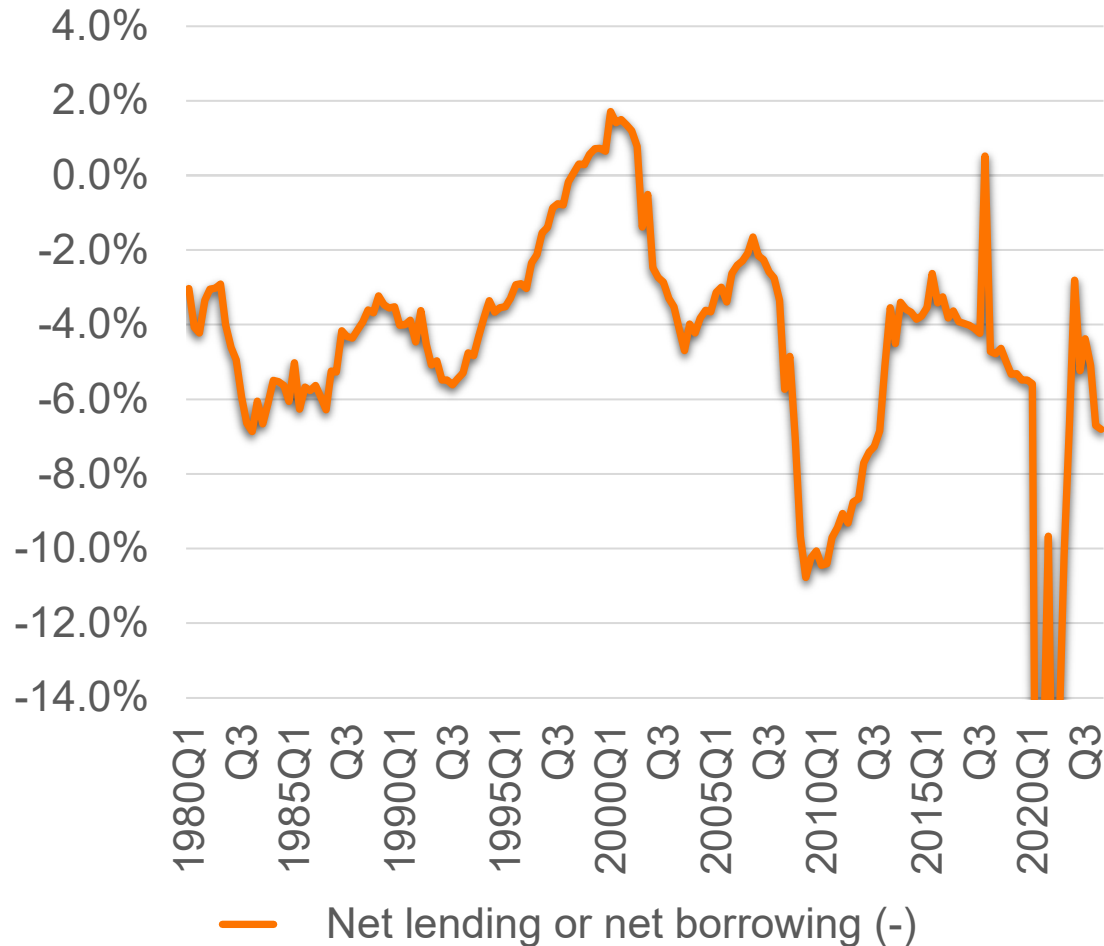
# Spreads

Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Cost of Funds

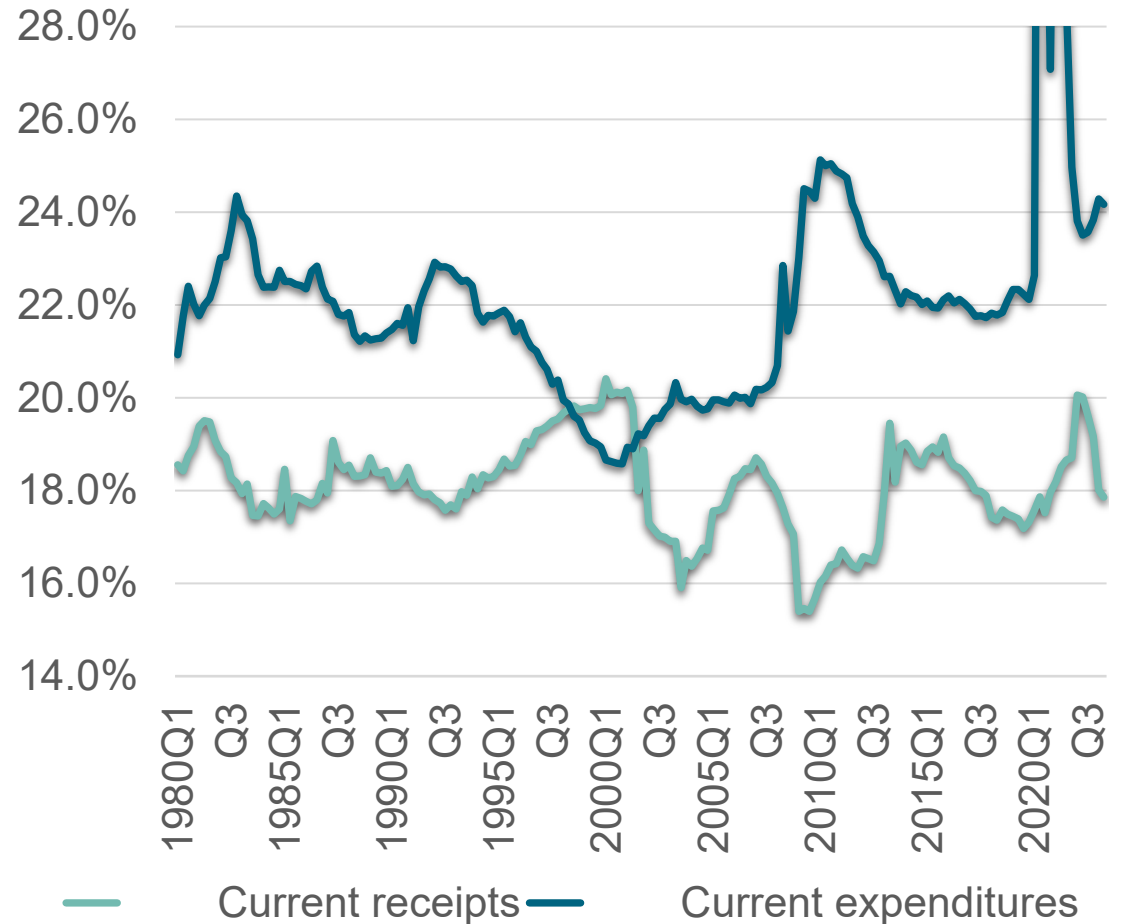


# The Fed is on the Brake, Congress is the Gas

Net lending or net borrowing (-)

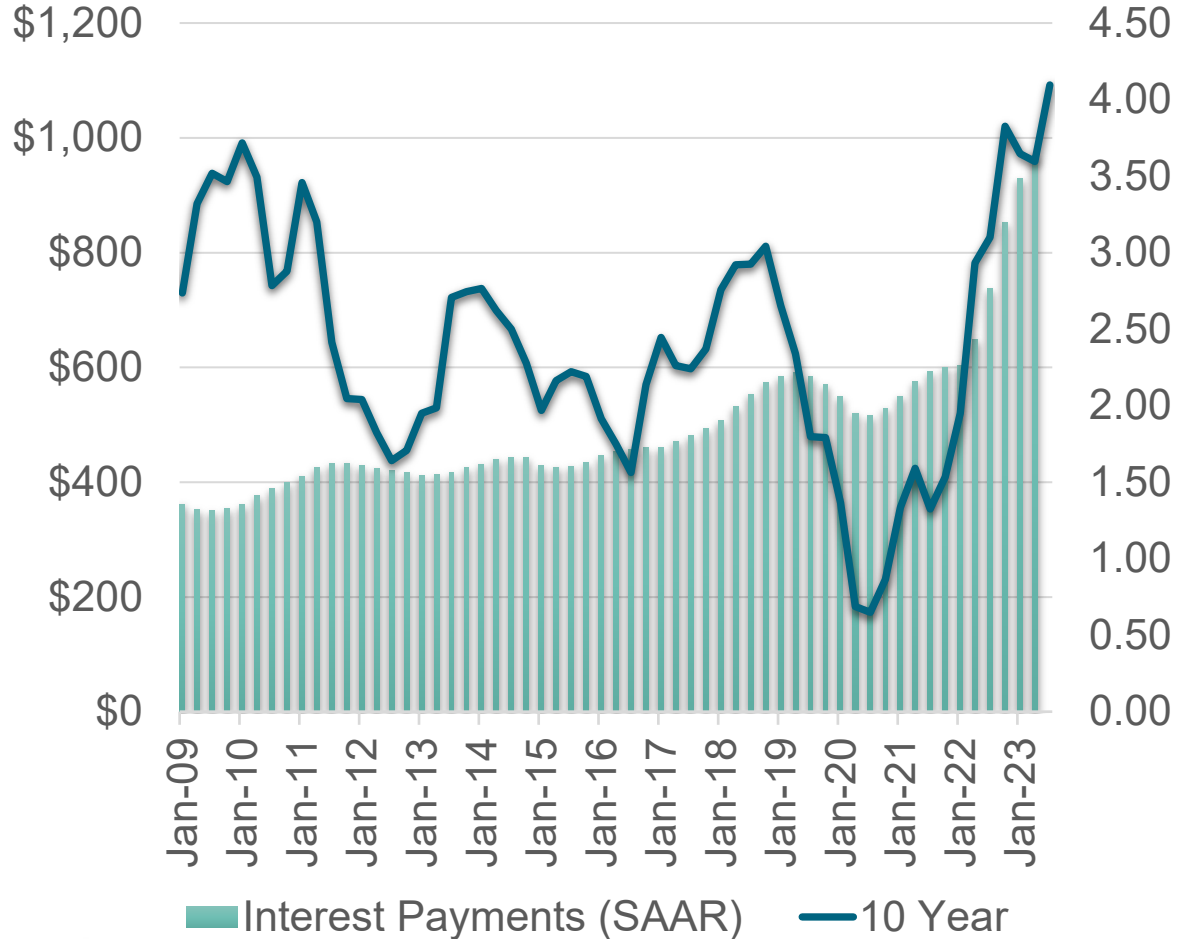


A Spending Issue

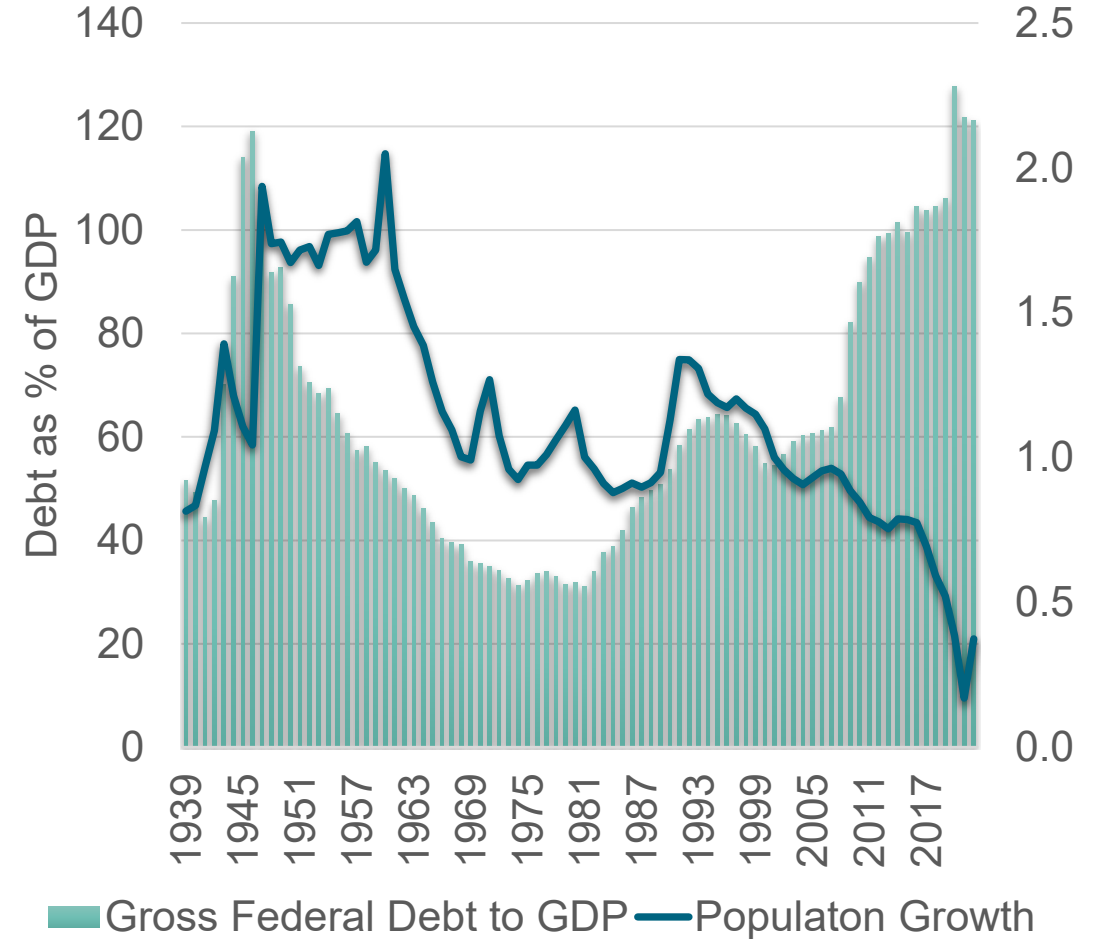


# Feedback Effects

## Cost of Debt



## Which is the Real Problem?



# Un-inverting the Yield Curve

## 10 Year – 2 Year Spread



## 30 Year FR Mortgage - 10 year Treasury



# Out of the Woods?

## We were never actually in the woods

- Household finances, consumer demand all fine
- Economic indicators remain solid, growth to continue

## Headwinds will intensify

- Interest rates: higher longer
- Public deficits are unsustainable
- Asset prices look frothy
- Economic growth to slow—but no recession yet

## California: Missing the point

- Supply not affordability
- Revenue reform is desperately needed
- Labor shortages are the problem
- Upskill, not up-pay

## The bigger issue: Social Narratives

- Broken narratives are pushing toxic politics and bad policy choices
- Ugly election will dominate the headlines

## 2024 Beacon

## Forecast Highlights

- **GDP Growth: 1.8%**
- **Unemployment Rate: 3.9%**
  
- **10 Year Treasury: 5.2%**
- **30 Year FR Mortgage: 7.9%**
  
- **HPI Forecast: -1.7%**
- **Housing Starts: 1.42m**



# Thank You!

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## Sources

### HdL Companies

PitchBook

Redfin

REIS

U.S. Bureau of  
Labor Statistics

U.S. Census Bureau

VisitCalifornia



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