

CERF Outlook and Forecast

13th Annual Ventura County Economic Forecast Event

February 21, 2023

California Lutheran University

CENTER FOR ECONOMIC RESEARCH
& FORECASTING

THE WALL STREET JOURNAL.

Economic Forecasting Survey

☐ Economist Q&A

Forecast Edition: November 2019

Recession Expectations

When do you expect the next recession to start?

Fed's Recent Easing

How would you characterize the Fed's steps to cut interest rates three times since July?

Path of Interest Rates

When will the Fed lower the fed-funds rate to a range between 1.25% and 1.50%?

☐ Economic Indicators

GDP (quarterly)

GDP (quarterly)

Actual Estimates 7 yr. 5 yr. 3 yr.



GDP (quarterly)

Actual (Q4 2018)

2.4%



Projected: Q1 2019

3.0% ▲

Projected: Q2 2019

2.0%

Projected: Q3 2019

1.9%



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United States Economy

Today's Macroeconomic Forecast



The headline that everyone is talking about

THE WALL STREET JOURNAL.

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ECONOMY | U.S. ECONOMY

U.S. Inflation Rate Accelerates to a 40-Year High of 9.0%

SHARE



The headline that no one is talking about

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↓ DJIA 33937.88 -1.43% ↓ S&P 500 3994.60 -1.89% ↓ Nasdaq 11214.89 -2.15%

LIVE MARKETS UPDATES

Dow Falls 500 Points on Solid Economic Data

Stocks dropped after readings on service sector activity and factory output suggested the economy remains resilient even as the Fed raises rates. Oil prices wavered as the price cap on Russia's oil exports took effect. Follow for the latest.

- **Wall Street Is Really, Really Bearish**

U.S. Economy Added 517,000 Jobs in January
Payroll gains were the largest since July 2022 and snapped a string of five straight months of slowing employment growth. The unemployment rate fell to 3.4%, the lowest in more than 53 years.

Stocks Fall, Bond Yields Rise After Jobs Report

- 28m Traders Wanted a Goldilocks Report. That Wasn't What They Got.
- 29m Chart: Job Growth Accelerates in January
- 29m Traders See Higher Rates After Booming Jobs Report
- 29m Job Growth Was Widespread in January

www.CLUCERF.org (2023) M. Fienup February 21, 2023

What's ahead

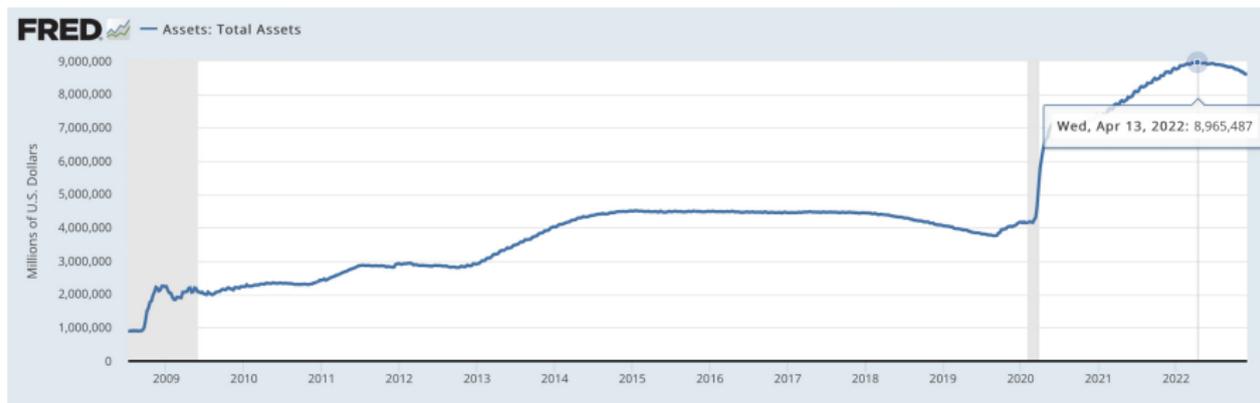
- How did we get here?
- Just how extraordinary is the situation?
- How do you forecast the economy under the circumstances?
Hard Landing, Soft Landing, or Stagflation?
NO LANDING?!

How did we get here? Infinite cash

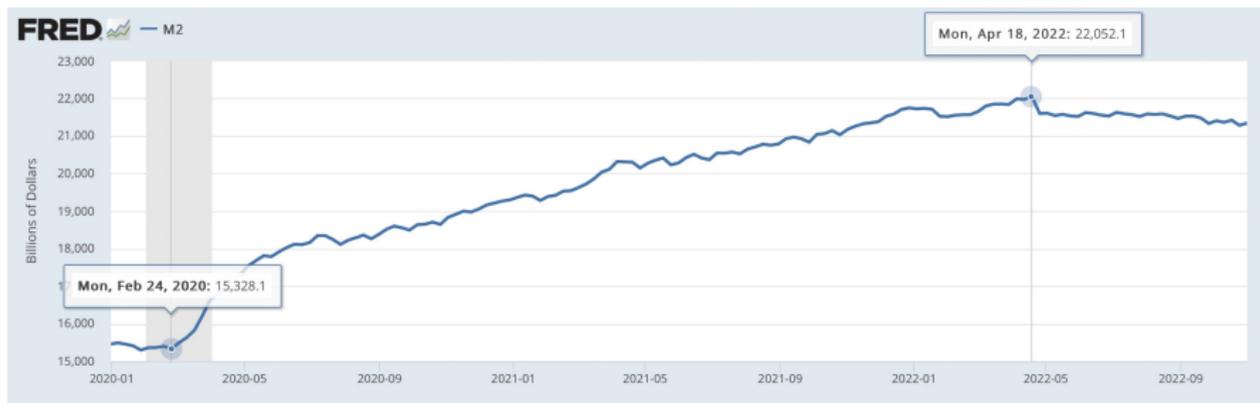


”There is an infinite amount of cash in the Federal Reserve”
- Neel Kashkari, President, Minneapolis Fed

How did we get here? QE Infinity



How did we get here? Money creation



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ECONOMY



Powell Says Washington Will Need to Spend More to Battle Downturn

How did we get here? Powerful fiscal channel



How extraordinary is the situation?

Breaking economic norms, 2008 edition

⇒ Zero Interest Rate Policy, Quantitative Easing & Interest on Reserves

"You don't watch the house burn down if you are a fire fighter...
even if you are the arsonist who set the house on fire."
- Jim Grant

"A dizzying policy experiment...unprecedented, poorly understood, and not
recommended by theory...impossible to unwind."
- CERF

How extraordinary is the situation?

Breaking economic norms, 2008 edition

The Fed's own research was discouraging - \$600B of QE reduces UR by only 0.03%

Four Regional Fed President's opposed: Dallas, Kansas City, Philadelphia, and Richmond

Hoening (Kansas City): QE will be the monetary equivalent of a "military quagmire"

Plosser (Philadelphia): "I think it would be a mistake to convey to the public that we know how to fine tune QE to achieve objectives when, in fact, we don't."

Fisher (Dallas): "I see considerable risk in conducting policy with the consequence of transferring income from the poor and the saver to *the rich*."

Jerome Powell (2012): "QE is *habit forming*...QE will inflate a duration bubble."

This is what a bubble looks like



This is what a bubble looks like

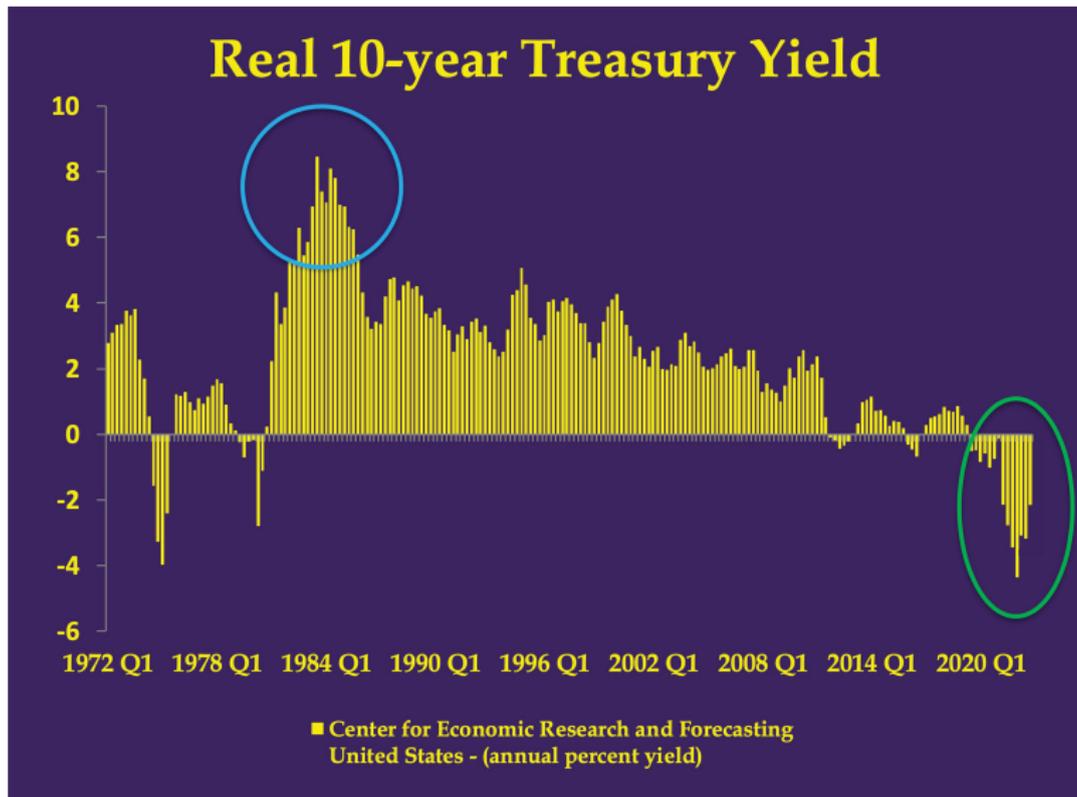


So...Hard Landing? Soft Landing? Or Stagflation?

How do you forecast the economy during a time of asset bubbles?

Is the Fed actually fighting inflation?

Is the Fed fighting inflation?



Is the Fed fighting inflation?

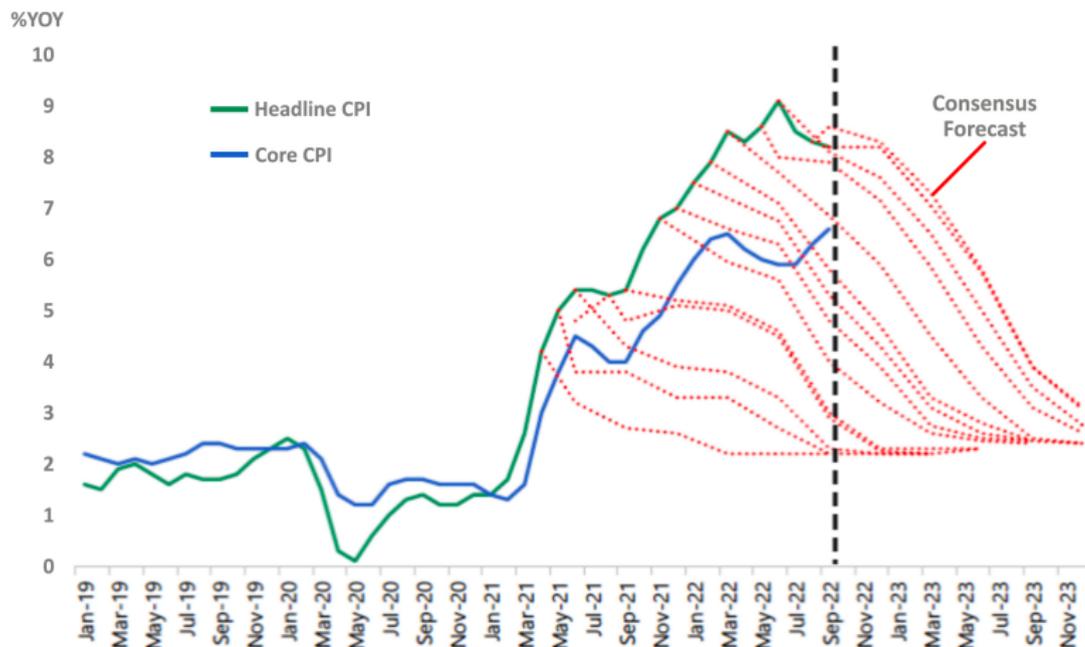
They are still behind the curve

How far behind the curve?

Taylor Rule

$$r = p + 2 + 0.5(p - 2)$$
$$r = 7.5 \text{ to } 10.8$$

How can they be so far behind the curve?



”Financial markets completely dominate U.S. monetary policy.”

- CERF Economists

Don't take our word for it

OVERVIEW

DEMOGRAPHICS

Main 1-year detail 3-year detail 5-year detail

— Median one-year ahead expectation — Median three-year ahead expectation — Median five-year ahead expectation

Percent

10

8

6

4

2

0

-2

2014

2015

2016

2017

2018

2019

2020

2021

2022

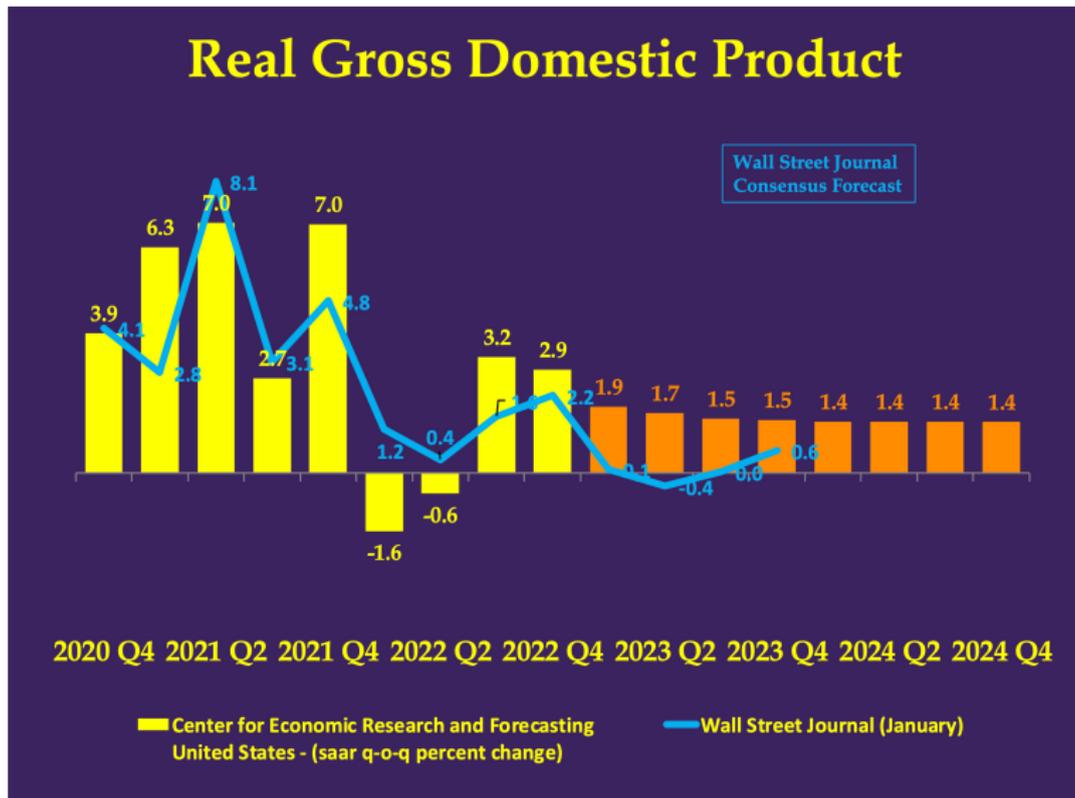
2023

Dec 2022

■ Median one-year ahead expectation: 5.0%
■ Median three-year ahead expectation: 3.0%
■ Median five-year ahead expectation: 2.4%

Source: New York Fed Survey of Consumer Expectations

U.S. Economic Forecast - no Recession, Stagflation



Competing Forecasts – 2023

	<u>CERF</u>	<u>WSJ Recess</u>	<u>WSJ Expand</u>
2023-Q1:	1.9	-1.1 (30)	1.1 (38)
2023-Q2:	1.7	-1.3 (39)	1.0 (26)
2023-Q3:	1.5	-1.3 (28)	1.1 (36)
2023-Q4:	1.5	-1.2 (20)	1.4 (47)

There were 77 forecasters included in the January 2023 WSJ Survey that was released on Jan 15. Not all of the forecasters responded to all of the questions.

U.S. Economic Forecast - Stagflation

	GDP
• 1947 - 2007	3.5%
• 2009 - 2017	1.9%
• 2018	2.9%
• 2019	2.3%

COVID-19 PANDEMIC

- Long-run Forecast **1.4%**

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Ventura County Economy

A Complex Picture of the County's Economy

- Pre-pandemic: prolonged period of economic weakness
- Pandemic: exceptional policy making
- Post-pandemic: anemic recovery due to underlying weakness

A Complex Picture of the County's Economy

Economic Growth Estimates

	<u>VC</u>	<u>LA</u>	<u>OR</u>	<u>RI</u>	<u>SD</u>
2021	3.0	7.9	7.0	6.8	7.8
2020	-1.3	-5.7	-3.5	-2.3	-2.5
Average (2016-2019)	0.7	2.2	2.4	2.7	2.4

Pre-Pandemic Economic Weakness

Peak Ventura County

	Peak Year	Chg. from Peak	Peak Value	Current Value
Population	2015	-2.4%	850,038	829,764
Civilian Labor Force	2012	-5.1%	433,700	411,583
Real GDP (2012 dollars)	2007	-12.3%	55,457	48,642
Jobs (all sectors)	2019	-1.4%	336,800	332,042

Sources: CA Department of Finance, CA Employment Development Department, US Bureau of Economic Analysis

Pre-Pandemic Weakness - GDP

The Ventura County Economy

Gross Domestic Product (2012 dollars)

<u>Sectors</u>	<i>Most Recent</i>	<i>Pre-Pandemic Peak to Now</i>		<i>Pre-Great Recession Peak to Now</i>	
	<i>2021</i>	<i>2019 - 2021</i>		<i>2007 - 2021</i>	
	<i>millions</i>	<i>Change-millions</i>	<i>Percent change</i>	<i>Change-millions</i>	<i>Percent change</i>
Agricultural/Ag Production Services	1,581	-525	-24.9	278	21.3
Natural Resources and Mining	682	-128	-15.8	34	5.2
Construction	1,533	-6	-0.4	-209	-12.0
Durable Goods Manufacturing	5,018	421	9.1	2,316	85.7
Non-Durables Manuf. + Professional Services	10,514	559	5.6	-13,033	-55.3
Wholesale Trade	3,835	160	4.3	999	35.2
Retail Trade	3,012	-330	-9.9	165	5.8
Transportation, Warehousing, & Utilities	715	39	5.8	-60	-7.7
Information & Technology	1,708	14	0.8	574	50.6
Financial Activities	8,771	257	3.0	-96	-1.1
Education and Health Services	3,501	110	3.2	1,187	51.3
Leisure and Hospitality	1,784	55	3.2	377	26.8
Personal, Repair, & Maintenance Services	804	-79	-9.0	-278	-25.7
Government	5,664	116	2.1	262	4.8
Total All Industries	48,642	795	1.7	-6,815	-12.3

Source: U.S. Bureau of Economic Analysis

Pre-Pandemic Weakness - Jobs

Ventura County's Job Market

not seasonally adjusted data

<u>Sectors</u>	<i>Most Recent</i>	<i>Pre-Pandemic Peak to Now</i>		<i>Pre-Great Recession Peak to Now</i>	
	<i>Dec-22</i>	<i>Dec 2022</i>	<i>Dec 2022</i>	<i>Dec 2022</i>	<i>Dec 2022</i>
	<i>Thousands</i>	<i>Change-thousands</i>	<i>Percent change</i>	<i>Change-thousands</i>	<i>Percent change</i>
Agriculture/Ag Production Services	21.8	0.1	0.5	0.5	2.3
Natural Resources and Mining	0.9	-0.1	-10.0	-0.2	-18.2
Construction	17.7	0.4	2.3	-0.2	-1.1
Durable Goods Manufacturing	18.6	-0.9	-4.6	-5.0	-21.2
Non-Durable Goods Manufacturing	8.5	1.1	14.9	1.9	28.8
Wholesale Trade	11.9	-0.5	-4.0	-1.1	-8.5
Retail Trade	37.9	-2.5	-6.2	-2.2	-5.5
Transportation, Warehousing, & Utilities	6.9	0.3	4.5	0.3	4.5
Information & Technology	4.2	-1.0	-19.2	-1.6	-27.6
Financial Activities	15.4	-0.6	-3.8	-6.7	-30.3
Professional and Business Services	45.2	-0.3	-0.7	0.4	0.9
Educational and Health Services	51.5	0.3	0.6	18.1	54.2
Leisure and Hospitality	38.9	0.1	0.3	6.4	19.7
Personal, Repair, & Maintenance Services	9.6	-0.1	-1.0	-0.5	-5.0
Government	48.0	0.2	0.4	4.2	9.6
Total All Industries	337.0	-3.5	-1.0	14.3	4.4

Source: CA Employment Development Department

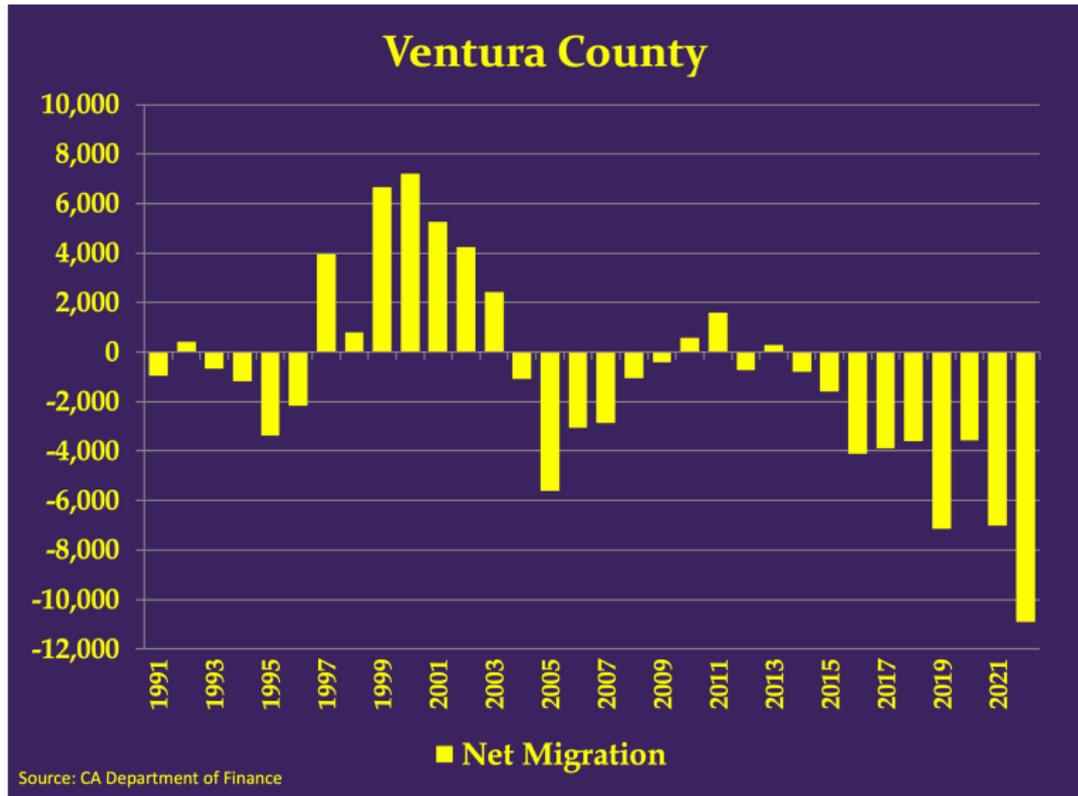
Pre-Pandemic Weakness - Jobs

Ventura County's Job Market

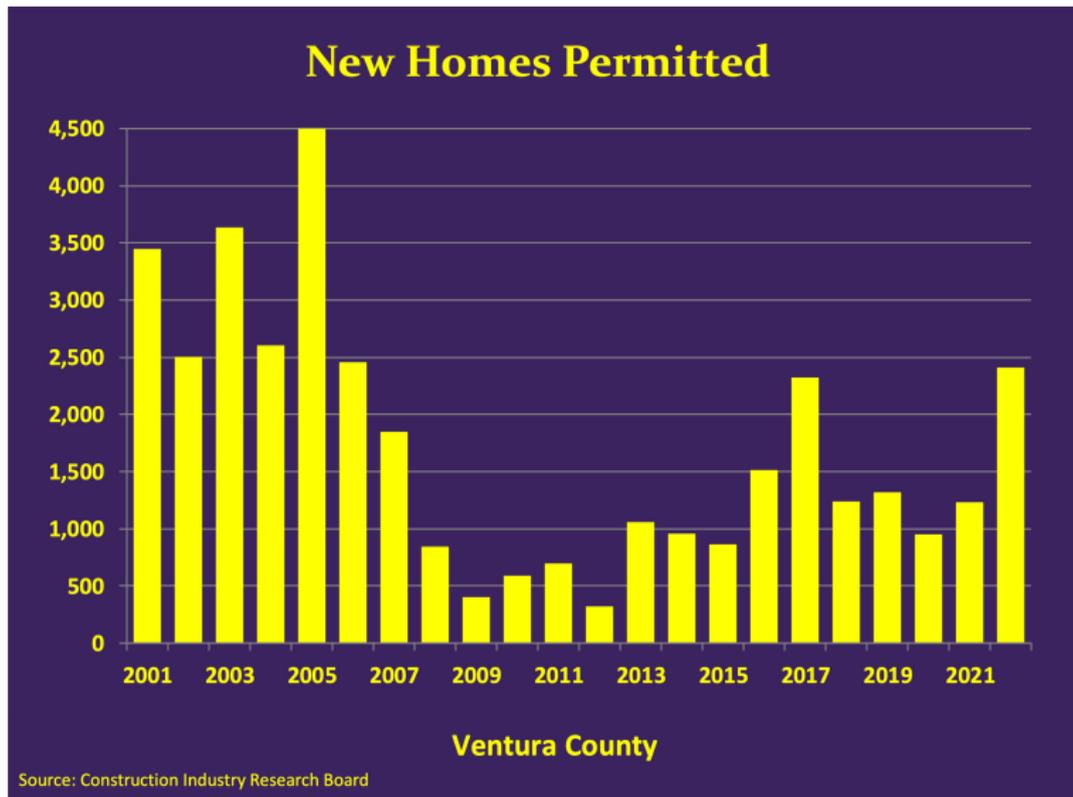
<i>not seasonally adjusted data</i>	<i>Most Recent</i>	<i>Pre-Pandemic Peak to Now</i>		<i>Pre-Great Recession Peak to Now</i>	
	<i>Dec-22</i>	<i>Dec 2022</i>	<i>Dec 2022</i>	<i>Dec 2022</i>	<i>Dec 2022</i>
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Transportation, Warehousing, & Utilities	6.9	0.3	4.5	0.3	4.5
Information & Technology	4.2	-1.0	-19.2	-1.6	-27.6
Financial Activities	15.4	-0.6	-3.8	-6.7	-30.3
Professional and Business Services	45.2	-0.3	-0.7	0.4	0.9
Educational and Health Services	51.5	0.3	0.6	18.1	54.2
Leisure and Hospitality	38.9	0.1	0.3	6.4	19.7
Personal, Repair, & Maintenance Services	9.6	-0.1	-1.0	-0.5	-5.0
Government	48.0	0.2	0.4	4.2	9.6
Total All Industries	337.0	-3.5	-1.0	14.3	4.4

Source: CA Employment Development Department

Pre-Pandemic Weakness- Net Migration



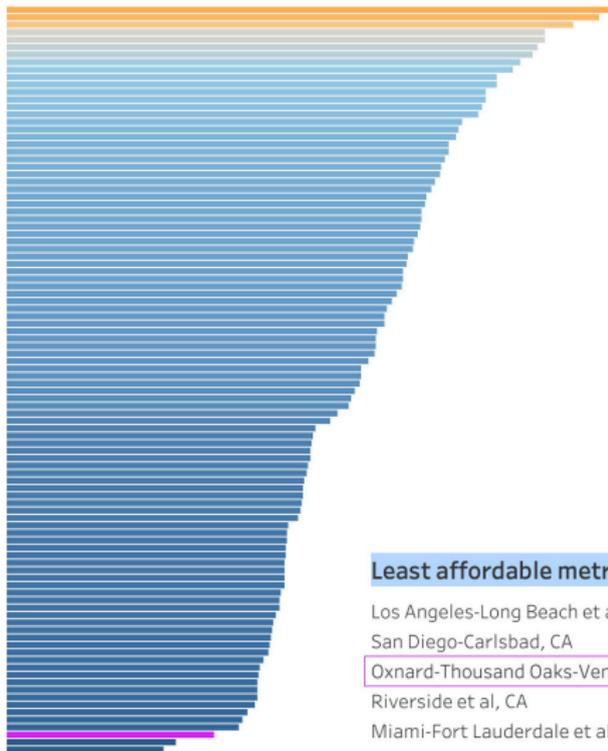
Causes of Weakness - Housing



Causes of Weakness - Affordability

Most affordable metro areas

Toledo, OH
Youngstown-Warren et al, OH-PA
Akron, OH
Dayton, OH
Pittsburgh, PA

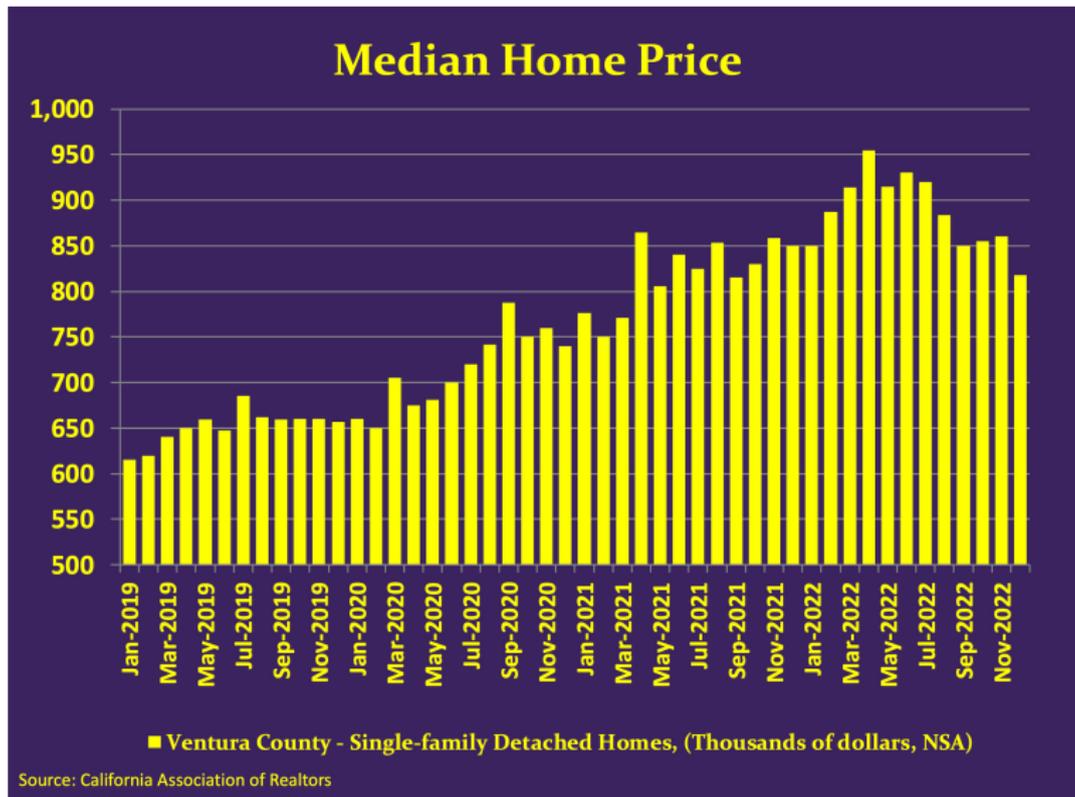


Least affordable metro areas

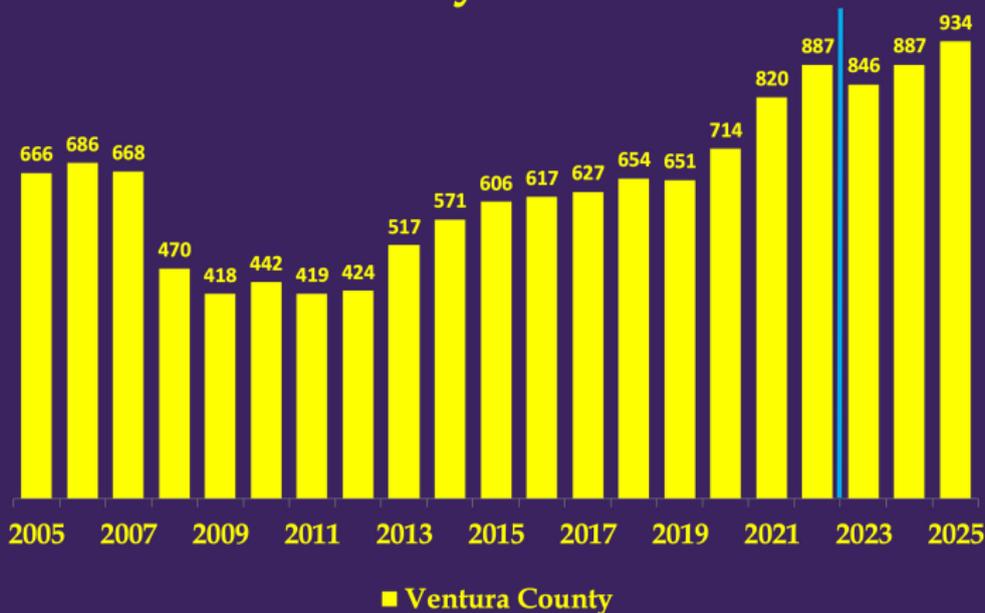
Los Angeles-Long Beach et al, CA
San Diego-Carlsbad, CA
Oxnard-Thousand Oaks-Ventura, CA
Riverside et al, CA
Miami-Fort Lauderdale et al, FL



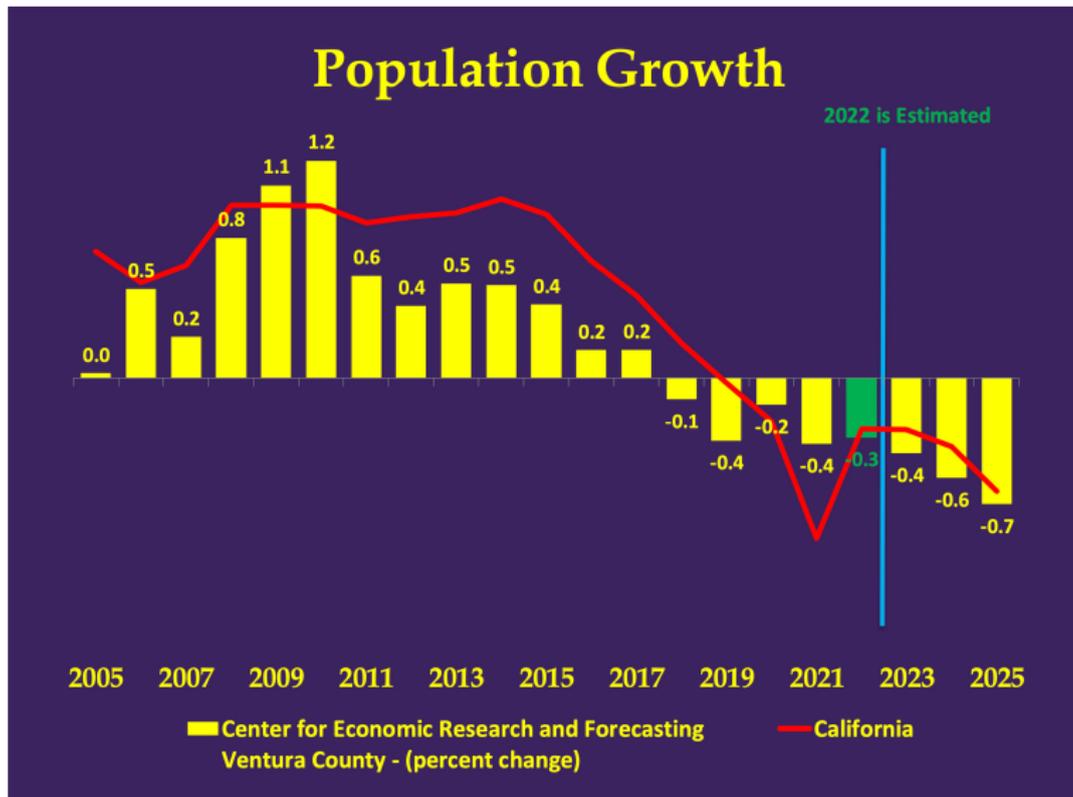
Post-Pandemic Outlook



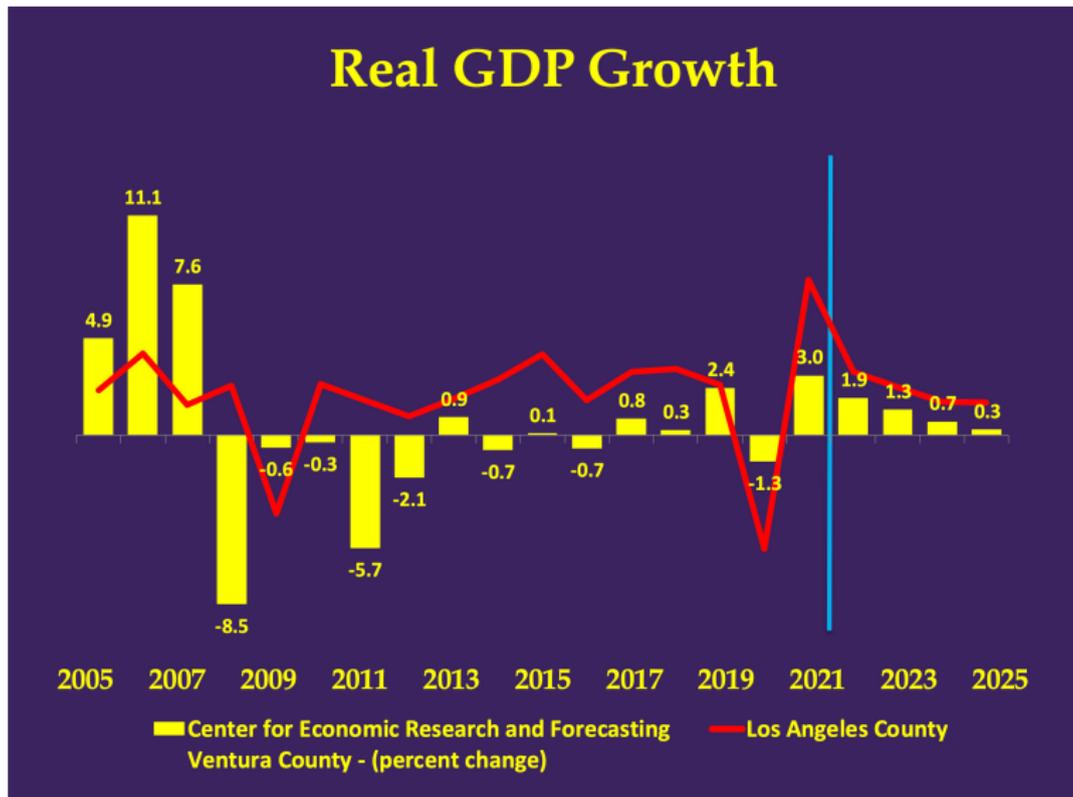
Median Price: Existing Single Family Homes



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