

About Beacon Economics

Our accurate, insightful, and empirically-based analysis drives informed decisions about growth, investment, revenue, and policy. We deliver energetic and engaging forecasts that have drawn audiences for over a decade. Let us guide you into the future! We first built our reputation by being one of the few organizations to stand against the tide and correctly forecast the 'Great Recession'. We continue that commitment to accuracy and empirical excellence every day.

Leveraging unique proprietary models, vast databases, proven methodologies, and sophisticated data processing, we equip our clients with the intel needed to understand today's on-the-ground realities and to make the best business and policy decisions possible.

As part of our commitment to spread accurate, balanced information, Beacon publishes a series of free monthly and quarterly analyses that deliver the latest data and commentary on the direction of the economy, employment, income, real estate markets, consumer and business spending, and more.

Our Clients:



"The professional and technically skilled staff at Beacon Economics delivered an excellent product that has been key in our District's long term planning and fiscal health."
~ East Bay Regional Parks District



Sustainable Growth & Development

Beacon has deep in-house expertise conducting industry and policy analysis on vital sustainability topics including green innovation, technology and workforce development, long-term economic development, and industry sector strategies.

Housing, Land Use, & Real Estate Advisory

Beacon leverages long- and short-range economic models to identify growth and investment opportunities and advance solutions to housing and real estate challenges across urban, suburban, and rural landscapes.

Economic & Revenue Forecasting

Beacon is a recognized leader in delivering highly accurate economic, fiscal, and revenue outlooks that inform public and private sector decision making. Banks, governments, public utilities, and major industries rely on Beacon forecasts.

Litigation Support & Expert Testimony

Working for both plaintiffs and defendants, we bring our reputation for analytical excellence and objectivity to bear on every client's case.

Economic, Fiscal, & Social Impact Analysis

Beacon evaluates the economic impact and value of universities, events, public policies, and infrastructure/real estate development. Our analyses have provided support and justification for proposed legislation, construction projects, sustainable power projects, and large-scale events.

Regional & Sub-regional Analysis

Beacon conducts analysis at an international, national, state, county, and city level – even down to the zip code. We identify highly specific trends occurring within communities in Employment, Industry, Real Estate, and Consumption, and deliver actionable steps that capitalize on local strengths and address local challenges.



San Jose State University Economic Summit

The Godot recession, the existential crisis of the Fed, and what it all means for the South Bay.

Thursday, June 15, 2023

Christopher Thornberg, PhD
Founding Partner, Beacon Economics



SJSU and Beacon Economics



South Bay Labor Markets

Eager to return to work or begin a first job, South Bay's labor force has been greeted with numerous employment opportunities by various local businesses. As a result, unemployment has declined since reaching a high of 11.8% in October 2009. Overall, the unemployment rate has steadily declined from 9.5% in January 2012 to 8.0% in January 2013. Based on employment data, it is still well above the 4.5% target rate attained in mid 2008. As of January's labor force count of 848,300, there are still 68,000 jobs to reach that 4.5% target rate.

Monthly, total nonfarm job counts have returned to pre-recession levels. Total nonfarm job counts have returned to pre-recession levels by 2.8% in January 2013 and are up by 4.0% from Employment Development Department records versus job count benchmark. The total nonfarm job estimate was heavily charged by 200 jobs (other areas had massive increases). However, services growth has largely continued, being other sectors on the rise.

The three sectors with significant employment increases in the first quarter of 2017 were: Natural Resources, Professional and Business Services, and Leisure and Hospitality. Total nonfarm job counts have returned to pre-recession levels by 2.8% in January 2013 and are up by 4.0% from Employment Development Department records versus job count benchmark. The total nonfarm job estimate was heavily charged by 200 jobs (other areas had massive increases). However, services growth has largely continued, being other sectors on the rise.

REGIONAL INTELLIGENCE REPORT

SJSU

BEACON ECONOMICS Produced by Beacon Economics, LLC

8th Edition

United States

The Unknown Unknowns

As the first quarter of 2017 comes to a close, two distinctly opposing trends have formed in terms of the U.S. economy's outlook for the year. On one hand, the nation's economy is clearly picking up momentum after a year of slow growth in 2016. On the other hand, the policy uncertainties created by the surprise election of Donald Trump to the presidency have only become worse as his administration moves into its third month.

President Trump's first major agenda items—travel bans and health insurance reform—have become mired in political and legal battles. The net result is that while Beacon Economics' point estimate for growth in 2017 has increased marginally, to slightly less than 2.5% growth for the year, the range of variance around this estimate is also widening. In other words, uncertainty is the biggest issue the nation is dealing with.

As for the weak first quarter pattern that had been seen with first quarters average three quarters of each year, seasonal adjustment persistent pattern is difficult to discern.

Beyond overall GDP growth indicators show that the momentum. Industrial production and the Federal Reserve have been the ISM indexes for both continue to rise.

SJSU SAN JOSÉ STATE UNIVERSITY

South Bay Regional Intelligence Report

PRESENTED BY **Bridge Bank**

IN ASSOCIATION WITH **Hopkins & Carley**

REGISTER TODAY!

San Jose State University Economic Summit

THURSDAY, JUNE 15, 2023
8:15am – 10:00am
Morris Dailey Auditorium, SJSU Campus

Confirmed panelists
Matt Mahan, *Mayor of San Jose*
Christopher Thornberg, *Founding Partner, Beacon Economics*

A panel of notable experts will forecast Silicon Valley's economic landscape and discuss how this may impact your business.

- This presentation done in tandem with the Bridge Bank / Western Alliance Bank and San Jose State University RIR
- 13 years of Collaboration, 11 years of local outlook reports

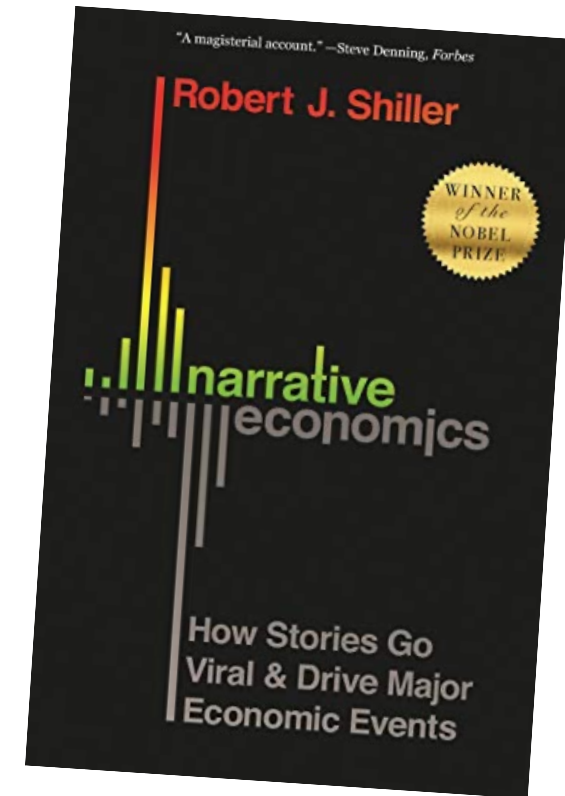
Beware the Narrative!

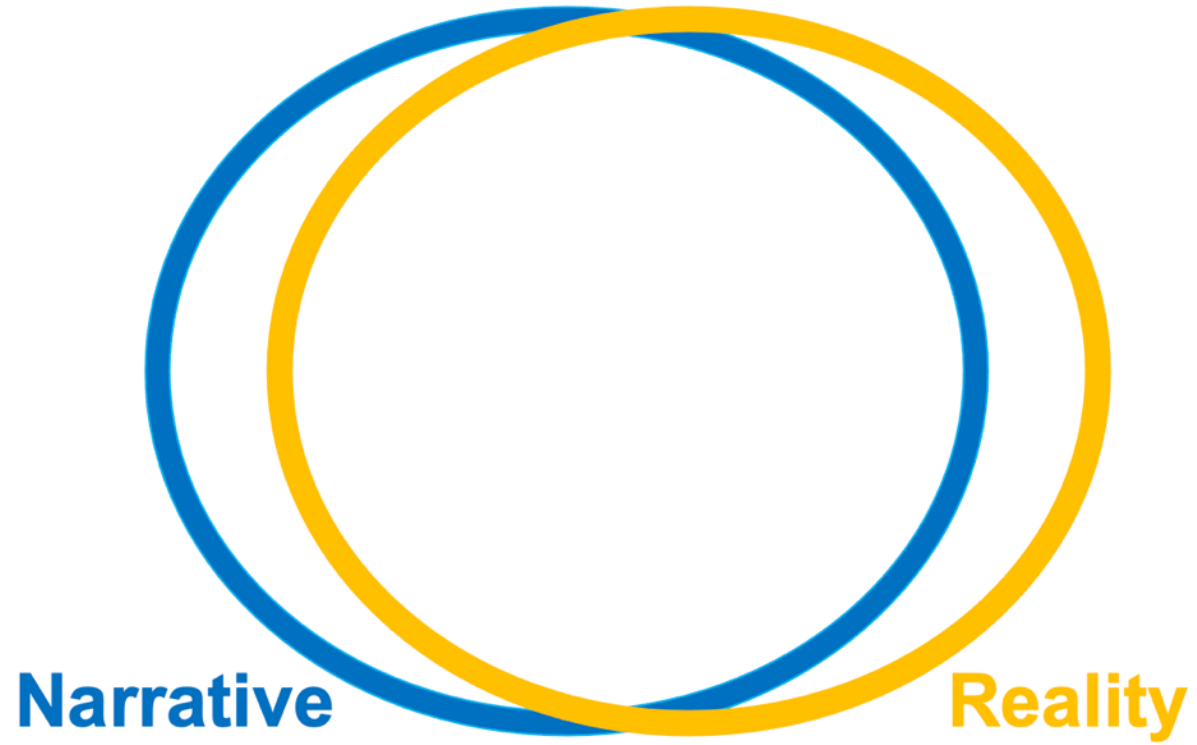


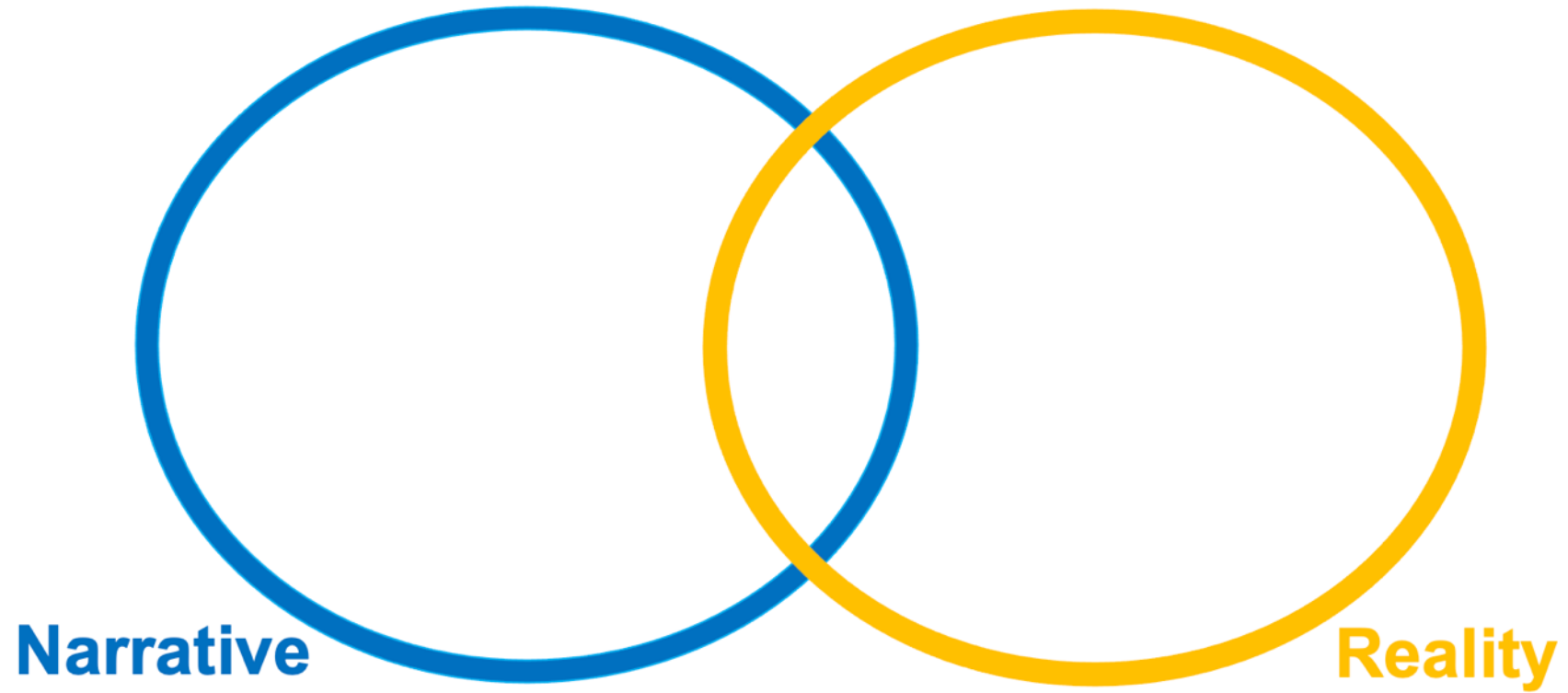
Social narratives do not necessarily follow economic reality—but they can have an impact on the economy

“Trying to understand major economic events by looking only at data ... runs the risk of missing the underlying motivations for change. Doing so is like trying to understand a religious awakening by looking at the cost of printing religious tracts.”

— Robert J. Shiller, [Narrative Economics: How Stories Go Viral and Drive Major Economic Events](#)









- Narratives at the roots of financial bubbles and business cycles
- Narratives at the roots of shifts in long run economic trends
- Narratives at the root of bad public policy

The Narrative Today



Renters Hit Breaking Point in a Sudden Reversal for Landlords

Affordability pressures and inflation are holding back tenants, forcing landlords to ease off big increases.

Jamie Dimon Says JPMorgan Is Bracing Itself for Economic 'Hurricane'

- Says Fed actions, war in Europe create unprecedented challenge
- Still too soon to say how intense the storm will be, CEO says

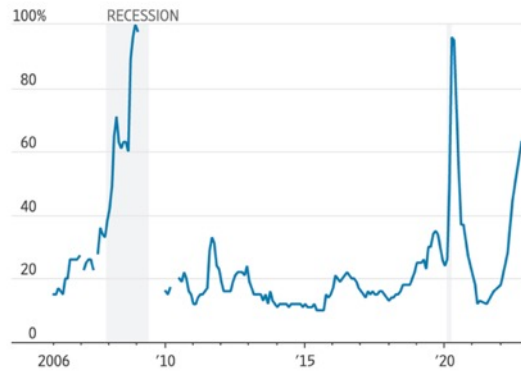
There's a 98% chance of a global recession, research firm warns



By [Matt Egan](#), CNN Business

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

Probability the U.S. is in a recession in next 12 months including today



Note: Gaps indicate question not asked or data unavailable.
Source: Wall Street Journal surveys of economists

FINANCE • HOUSING

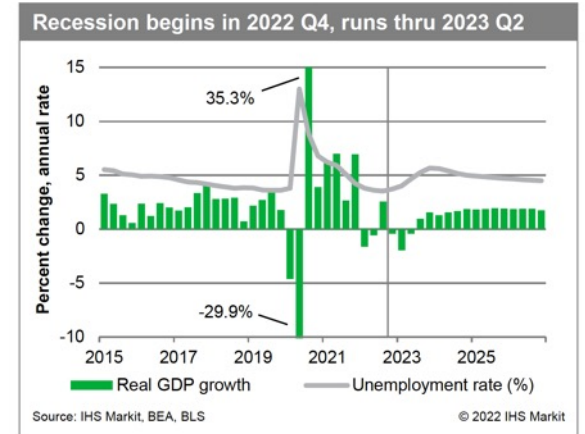
The housing market just slid into a full-blown correction, says top economist Mark Zandi

BY LANCE LAMBERT
May 27, 2022 9:36 AM PDT

BUSINESS

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

May 20, 2022 • 3:40 PM ET



More Americans Are Going Hungry, and It Costs More to Feed Them

The director of the nation's largest network of food banks is seeing support dwindle as need rises: "You're in the middle of a battle, and people are leaving the field."



B The Sacramento Bee

Sacramento is at a tipping point. What's the future of housing, sprawl and racial inequality?

The capital region of apartments & climate

B Brookings Institution

Rising inequality: A major issue of our time

Income and wealth inequality has risen in many countries in recent decades. Rising inequality and related disparities and anxieties have...

1 month ago

S San Jose Spotlight

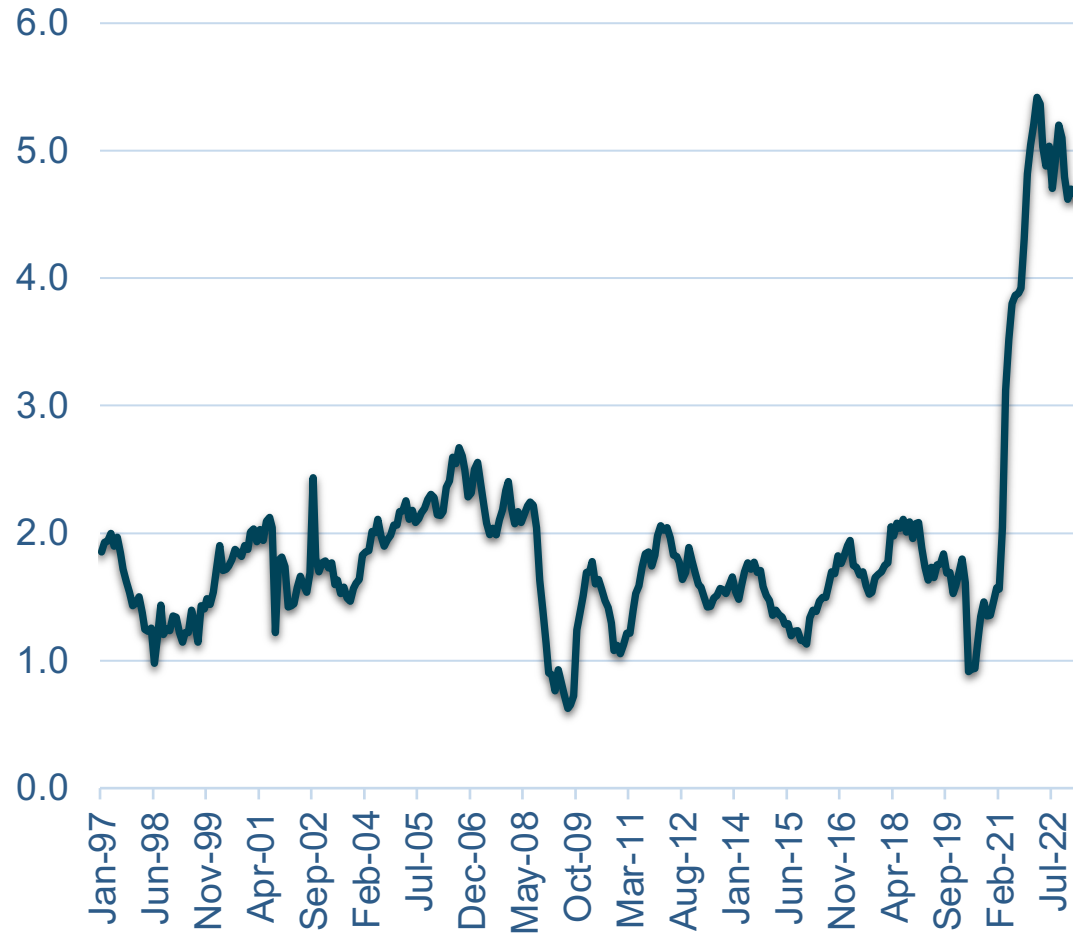
Silicon Valley inequality persists four years in a row - San José Spotlight

A vast amount of wealth in Silicon Valley is concentrated in just a few households, while residents throughout the region struggle to afford...

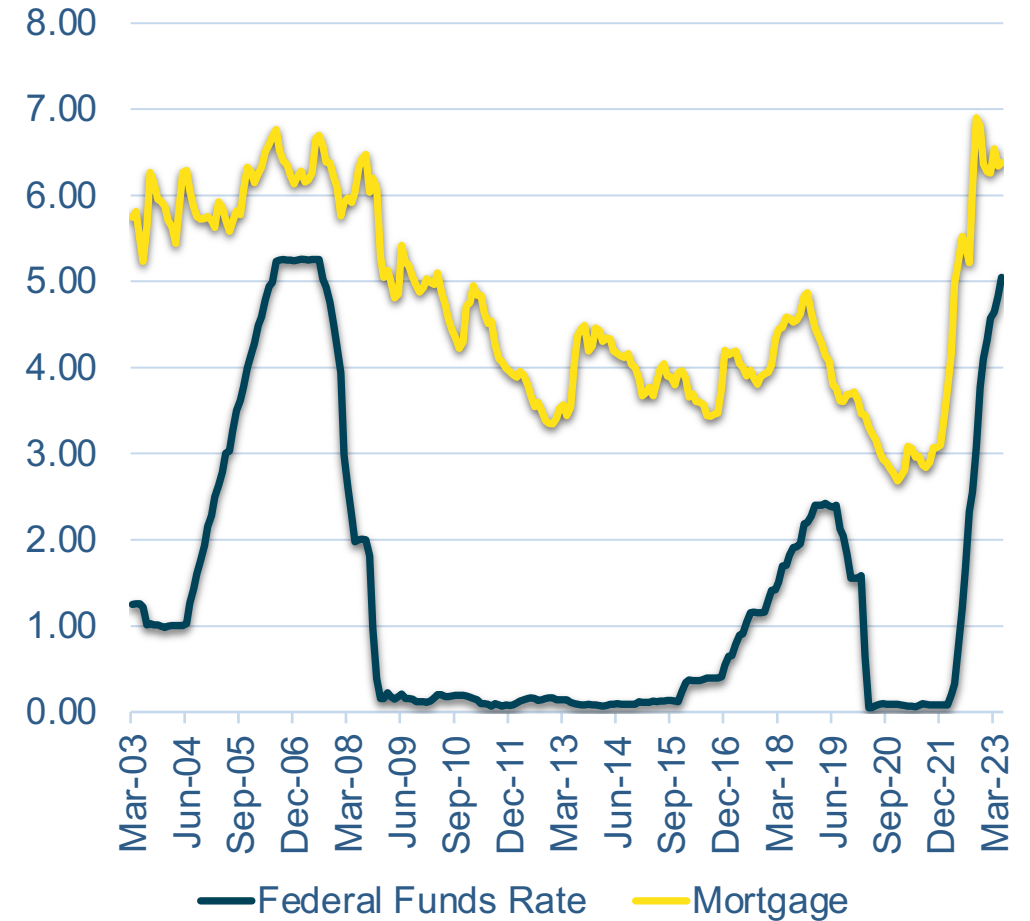
The Big News Stories



Core PCE Inflation (YoY Growth)



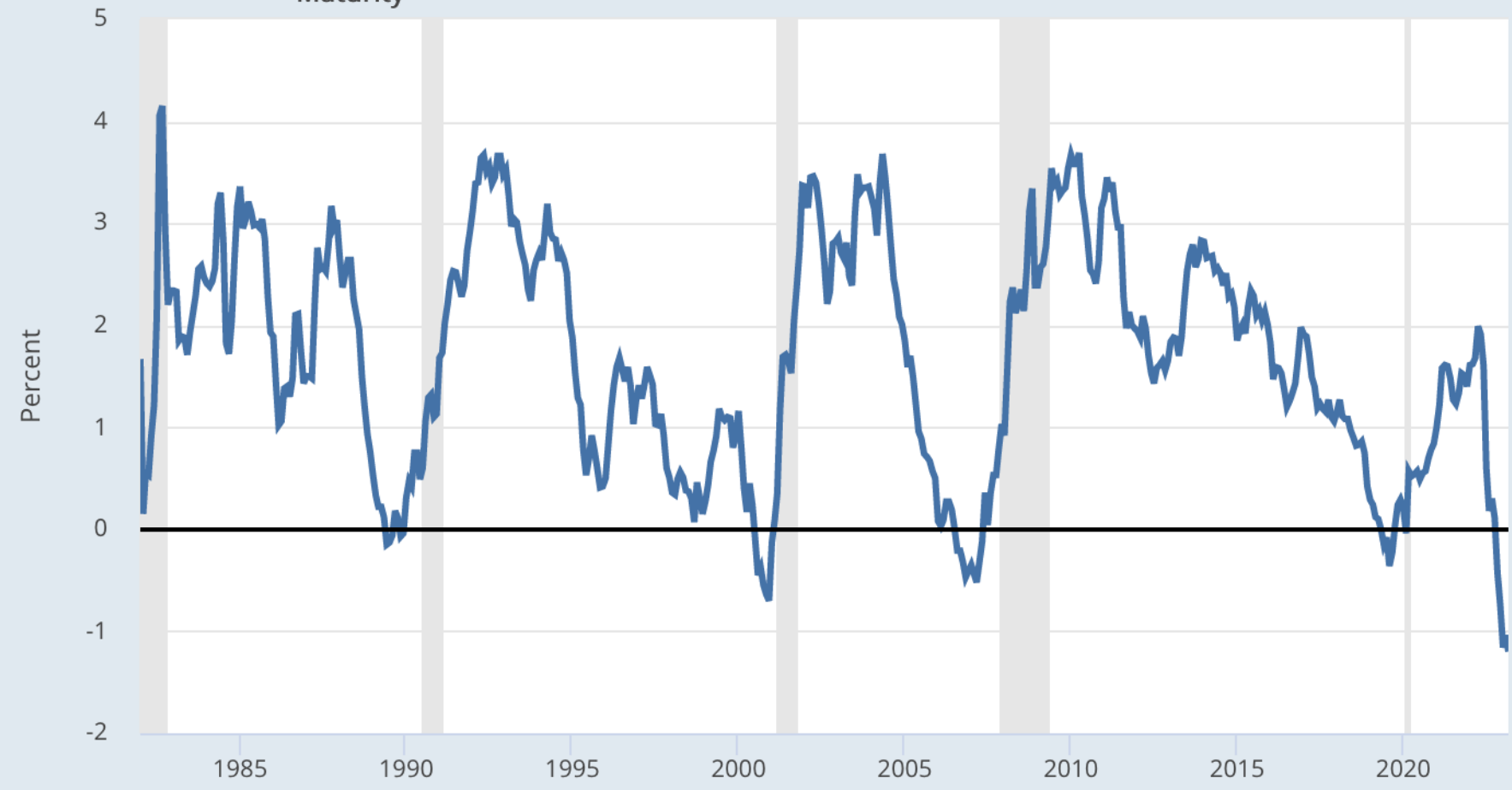
Interest Rates





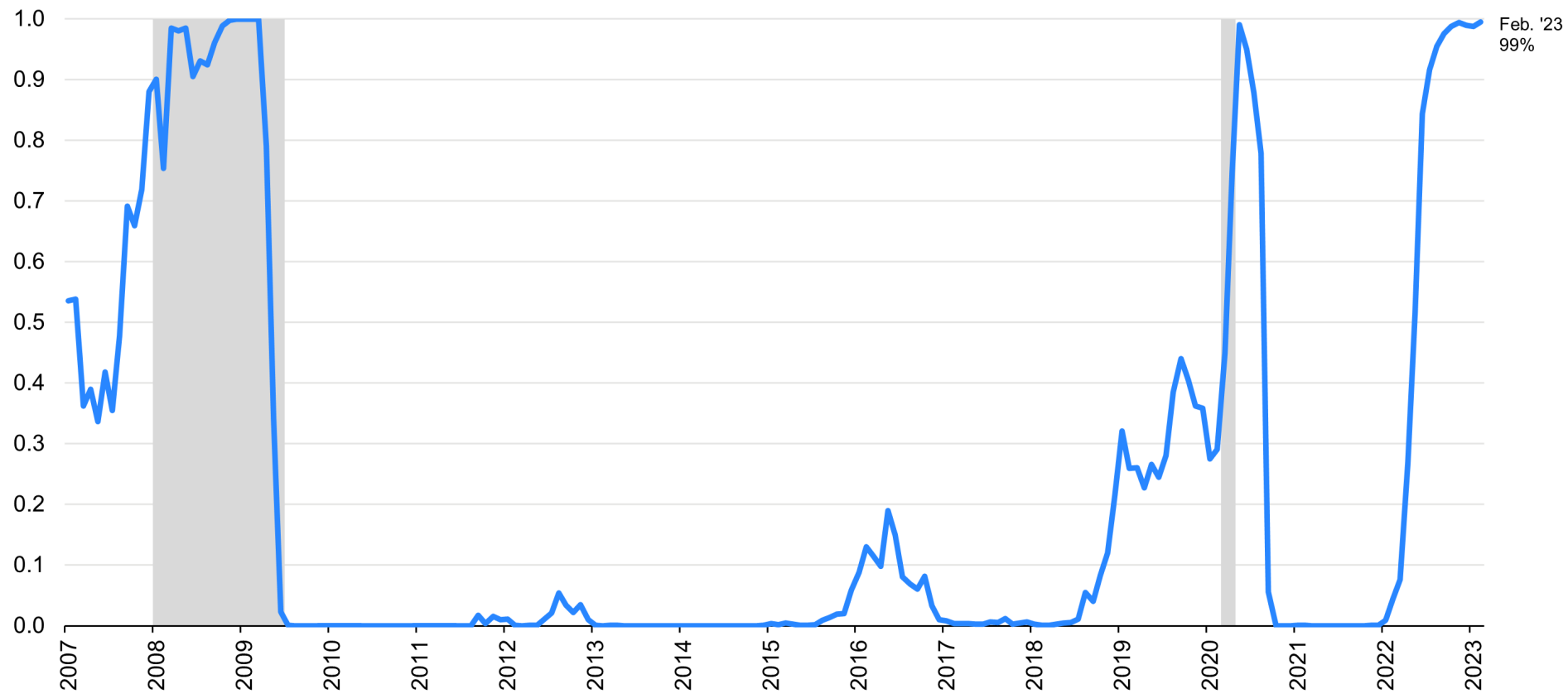
FRED 

— 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity





US Recession Probability (0-1)

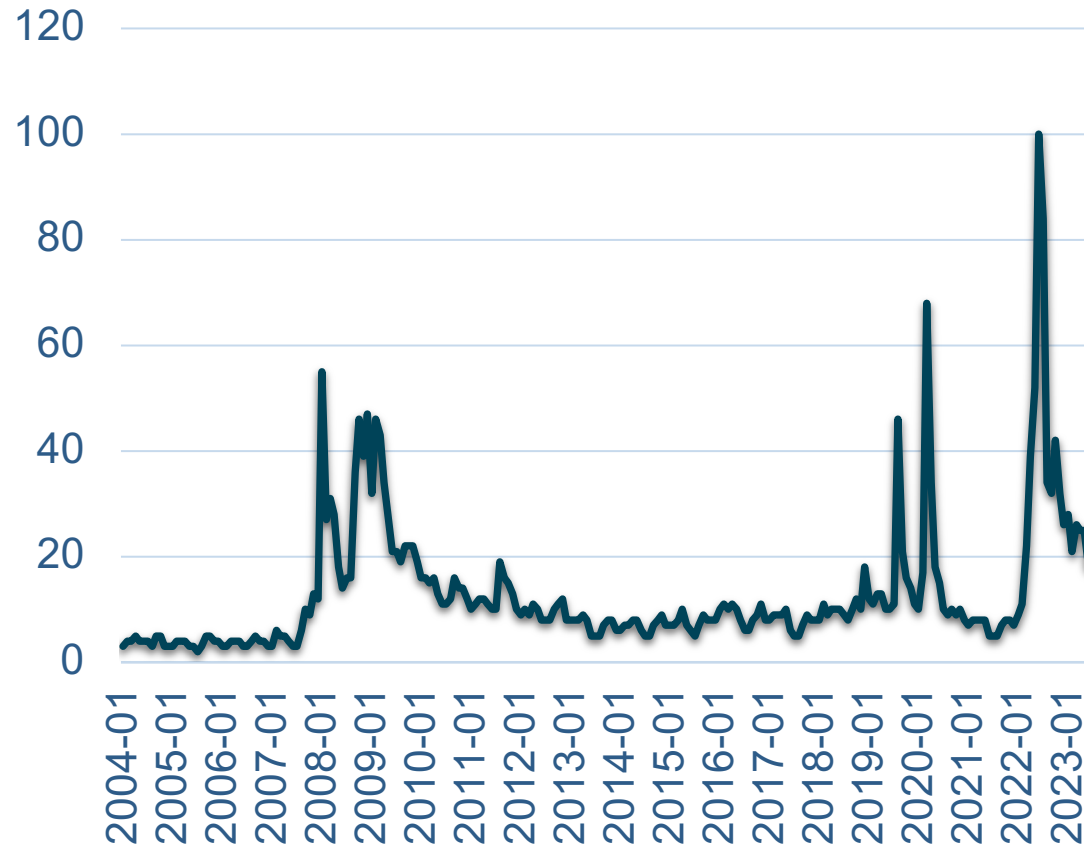


Source: The Conference Board, 2023

Mixed Economic Signals to start 2023



Google Searches "recession"



U of Mich: Consumer Sentiment





ECONOMY

Federal Deposit Insurance Corporation

Add Topic +

Silicon Valley Bank, Signature Bank collapses explained, live updates on new developments

[Elisabeth Buchwald](#), [Francesca Chambers](#), [Bailey Schulz](#) and [Medora Lee](#)

USA TODAY

Updated 8:38 p.m. ET March 13, 2023





BAY AREA

Exclusive: Westfield giving up S.F. mall in wake of Nordstrom closure, plunging sales and foot traffic



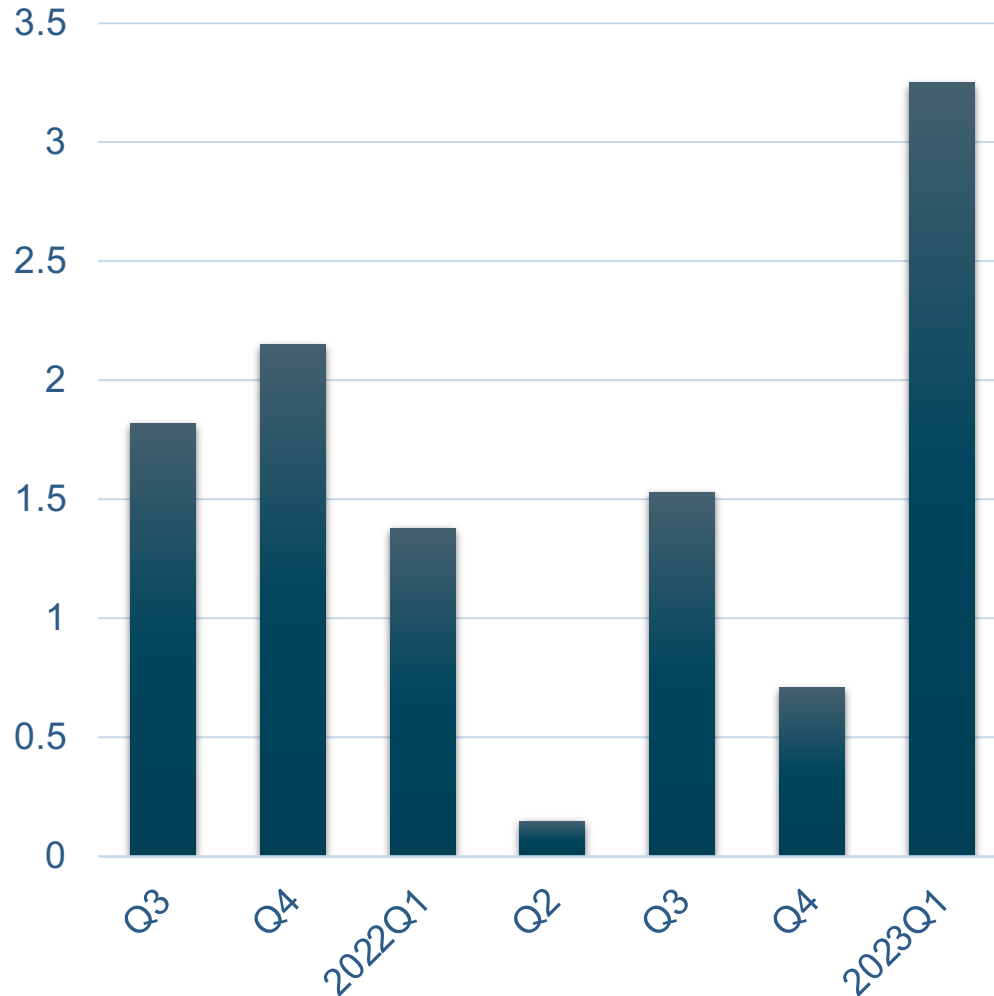
Roland Li

June 12, 2023 | Updated: June 12, 2023 6:35 p.m.

The Reality: It's the Godot Recession



Growth in Final Demand (SAAR)



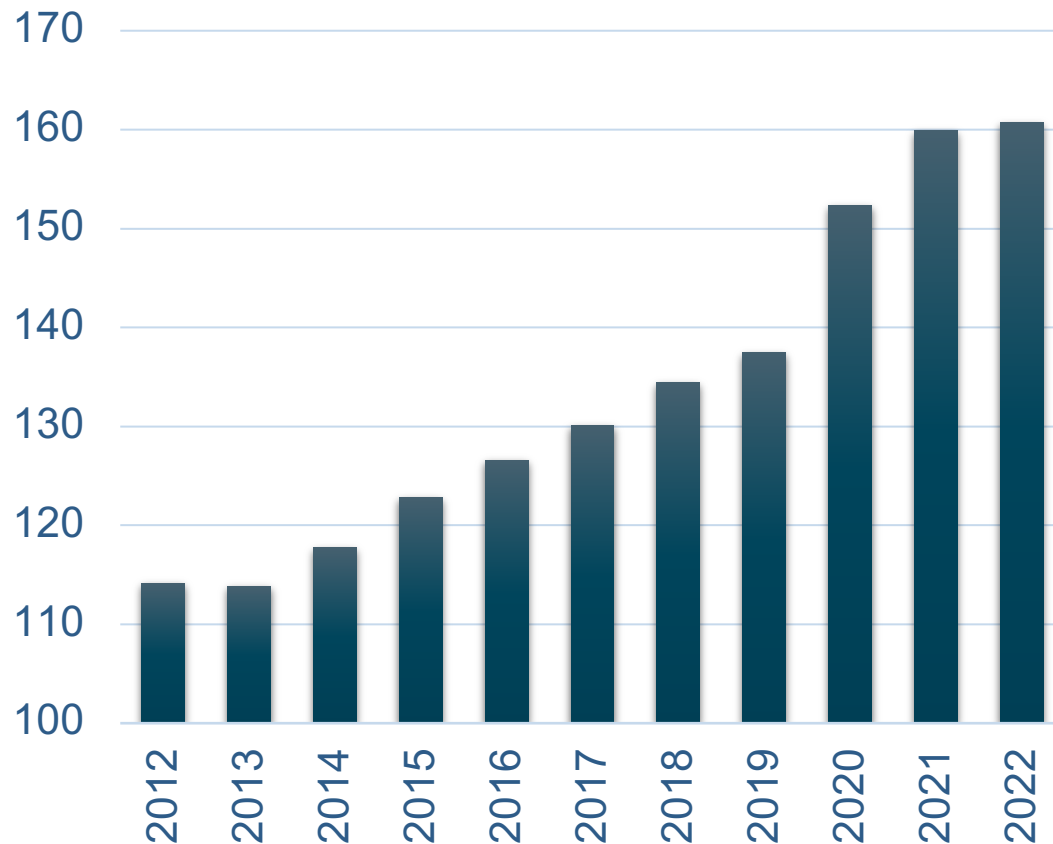
Contributions to GDP Growth

	2019	2022	2023
			Q1
GDP	2.3	2.1	1.1
Final Demand	2.36	1.76	3.25
Personal consumption	1.34	1.85	2.48
Goods	0.66	-0.11	1.45
Services	0.69	1.96	1.03
Fixed investment	0.44	-0.03	-0.07
Structures	0.07	-0.17	0.29
Equipment	0.07	0.22	-0.39
IPP	0.34	0.46	0.2
Residential	-0.04	-0.53	-0.17
Inventories	0.05	0.74	-2.26
Net exports	-0.11	-0.4	0.11
Exports	0.06	0.79	0.54
Imports	-0.17	-1.19	-0.43
Government	0.58	-0.1	0.81
Federal	0.25	-0.17	0.49
State and local	0.32	0.07	0.31

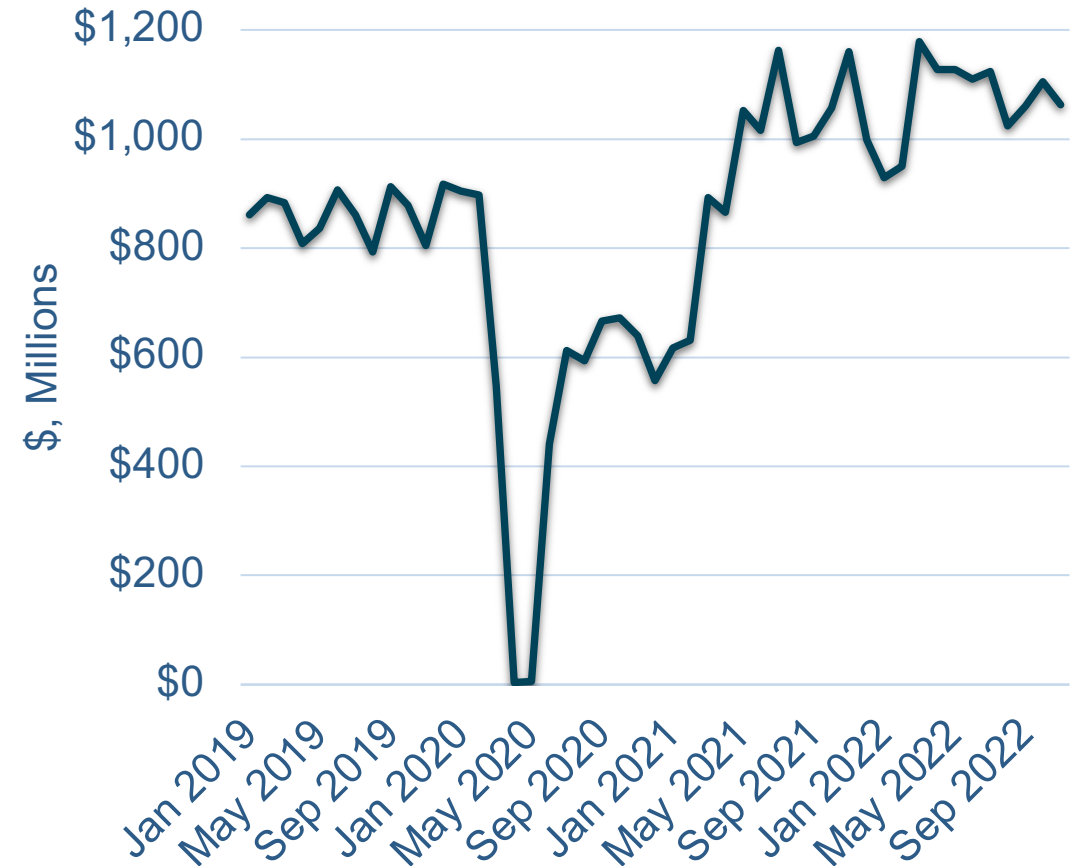
Americans: Driven to drink and gamble!



Consumer Spending: Off-Site Alcohol (Real, \$Billions)



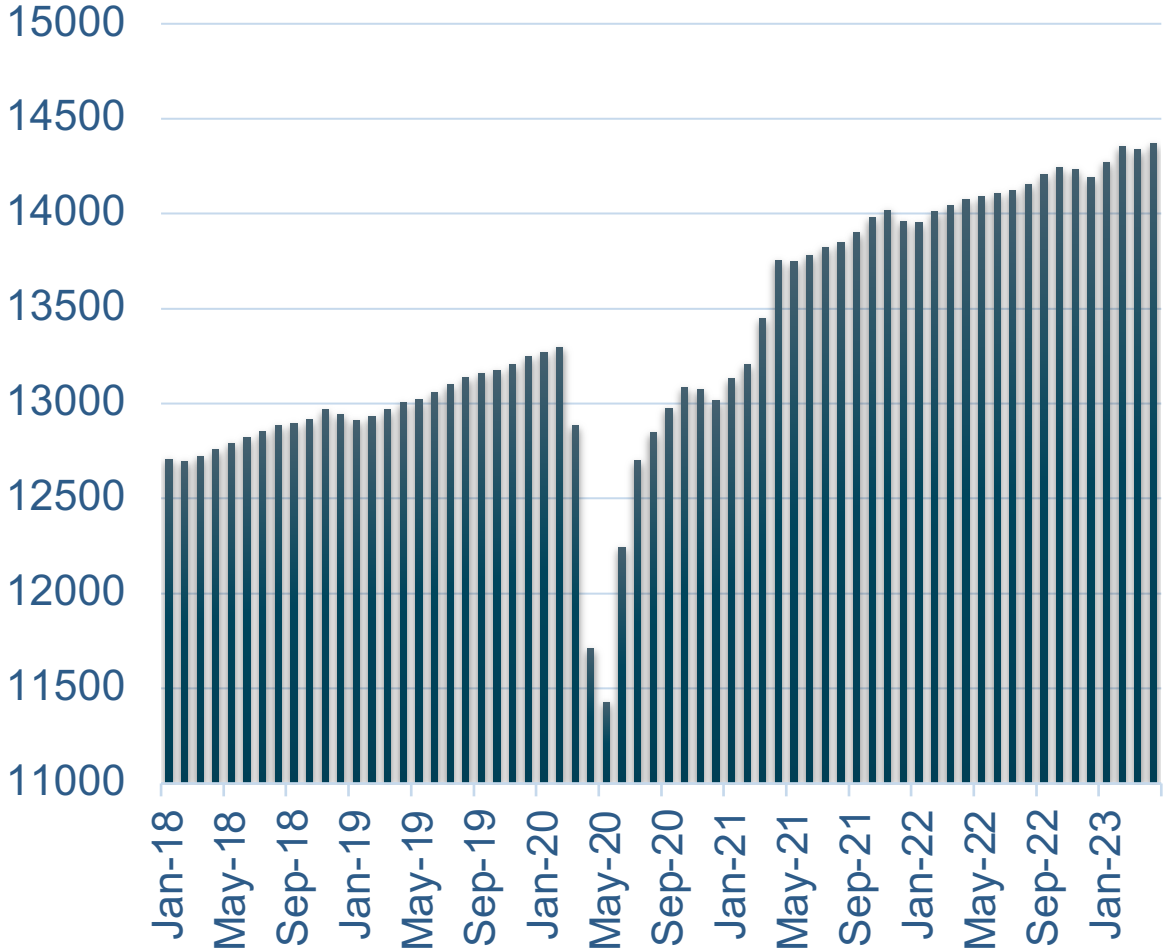
Las Vegas Gaming Revenue



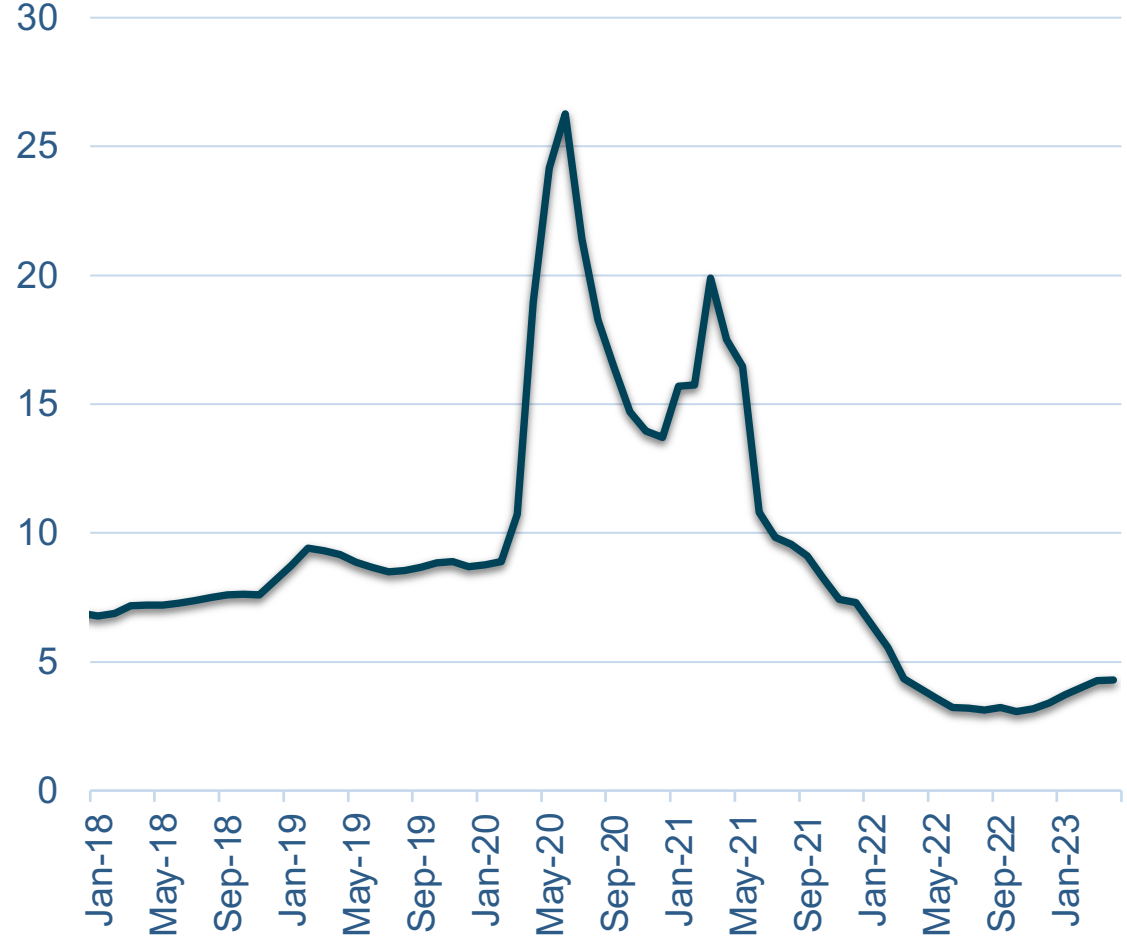
Recent Data: Consumers alive and well



Real Consumer Spending



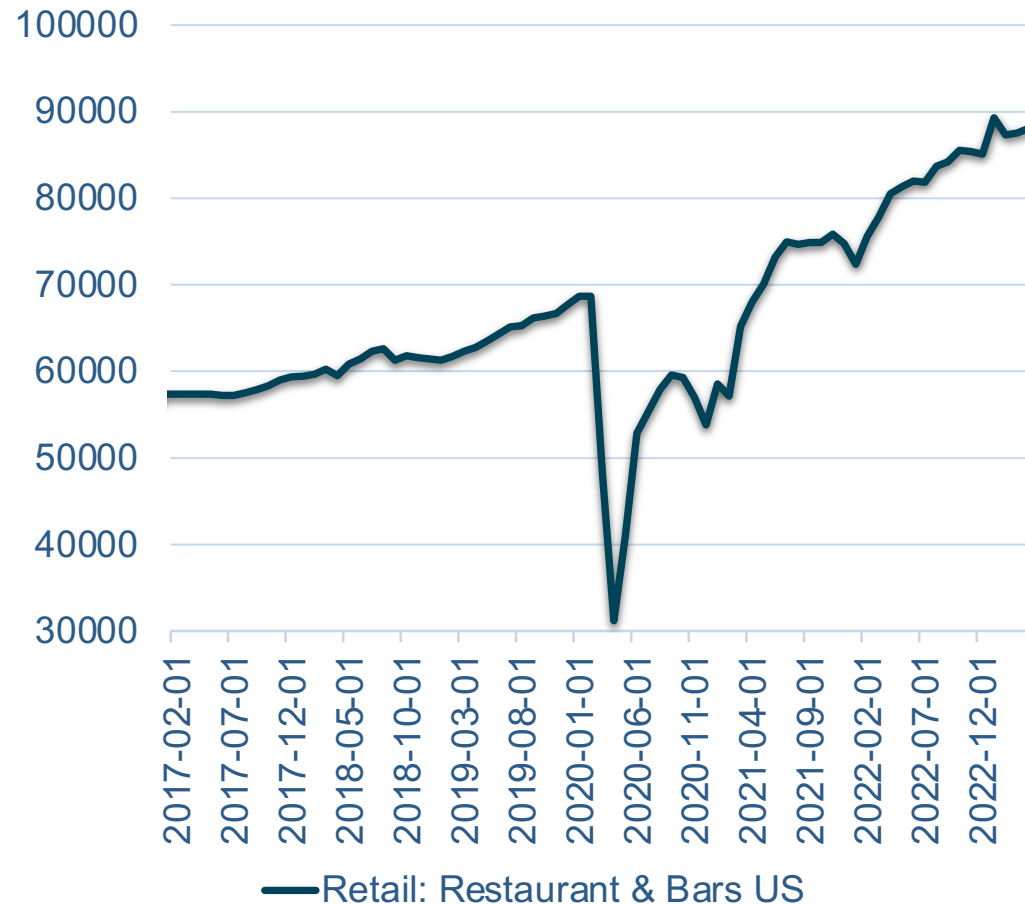
US Personal Savings Rate



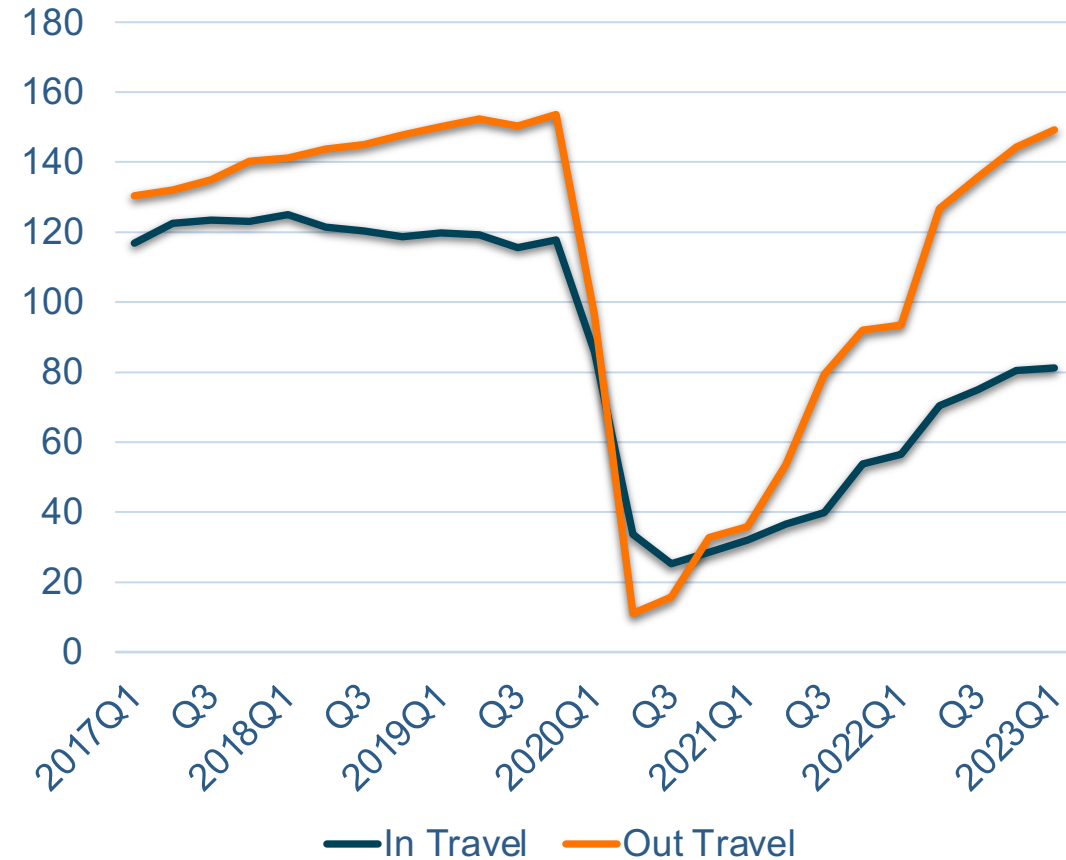
A shift back to consumer services...



Nominal Retail Sales : Restaurants and Bars



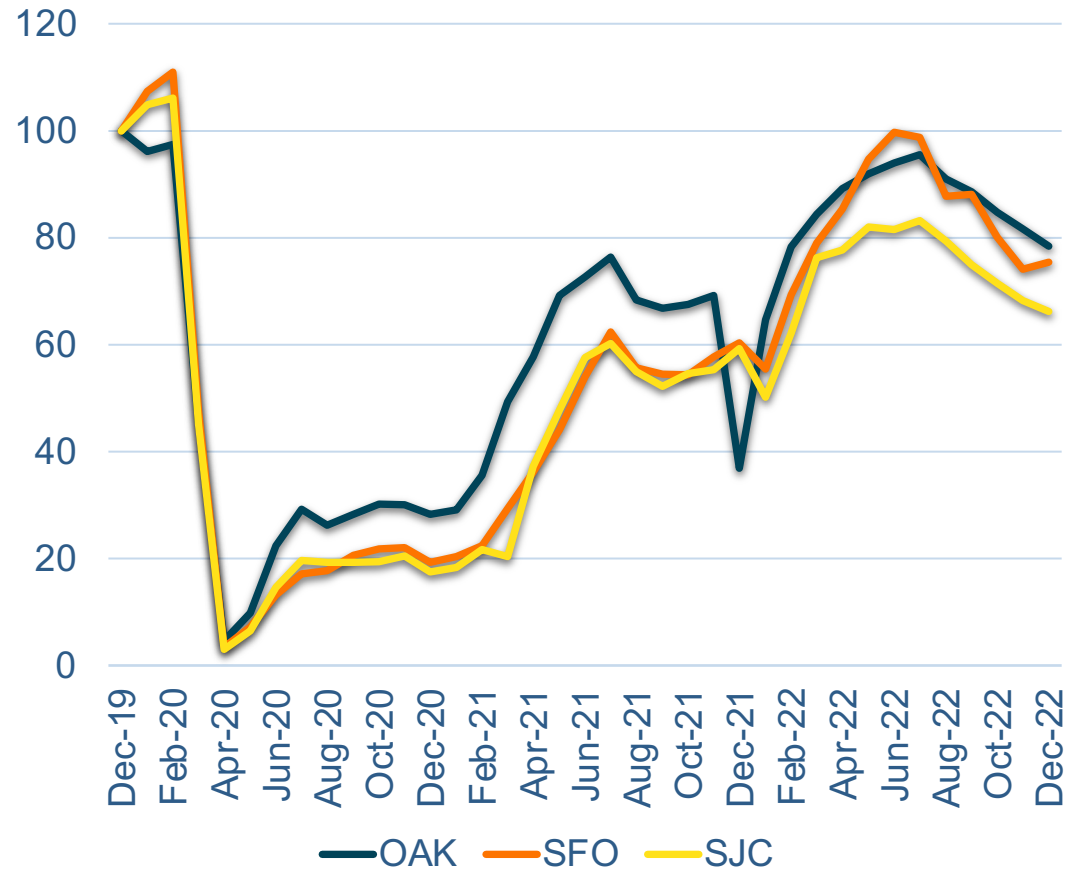
Real International Travel Spending (Indexed)



Travel



Indexed Air Passengers

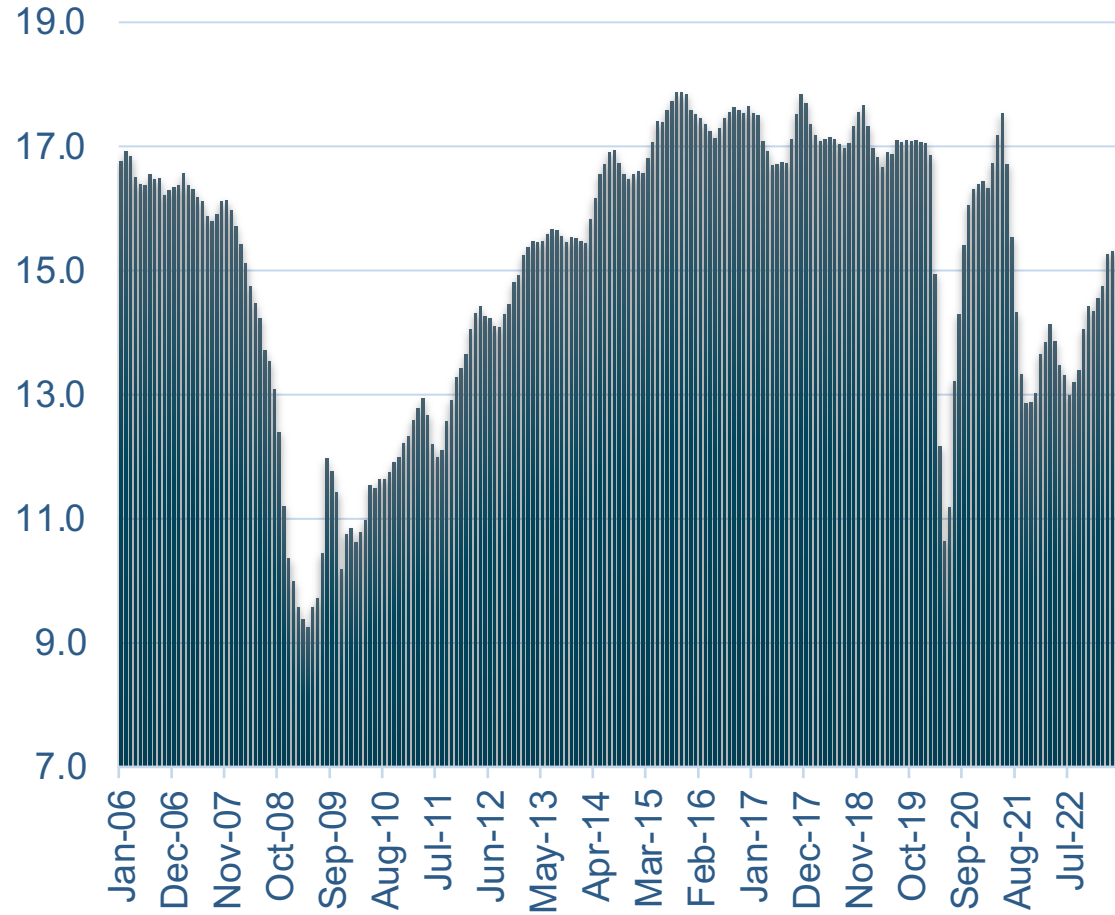


Region	RevPAR		Occupancy Rate	
	Q4-22	3-Yr % Gr.	Q4-22	3-Yr Dif
United States	\$91.9	8.6	64.6%	-1.4
Las Vegas	\$99	49.3	62.4%	16.7
Inland Empire	\$89.4	13.0	71.3%	-2.3
San Fran. (MD)	\$189.4	1.6	77.2%	-7.5
Los Ang. (MD)	\$130.2	-0.5	73.9%	-7.7
Oakland (MD)	\$104.8	-12.4	68.5%	-7.3
San Jose	\$107.1	-24.6	63.8%	-11.5

Still pent-up consumer demand



Auto and Light Truck Sales (SAAR)



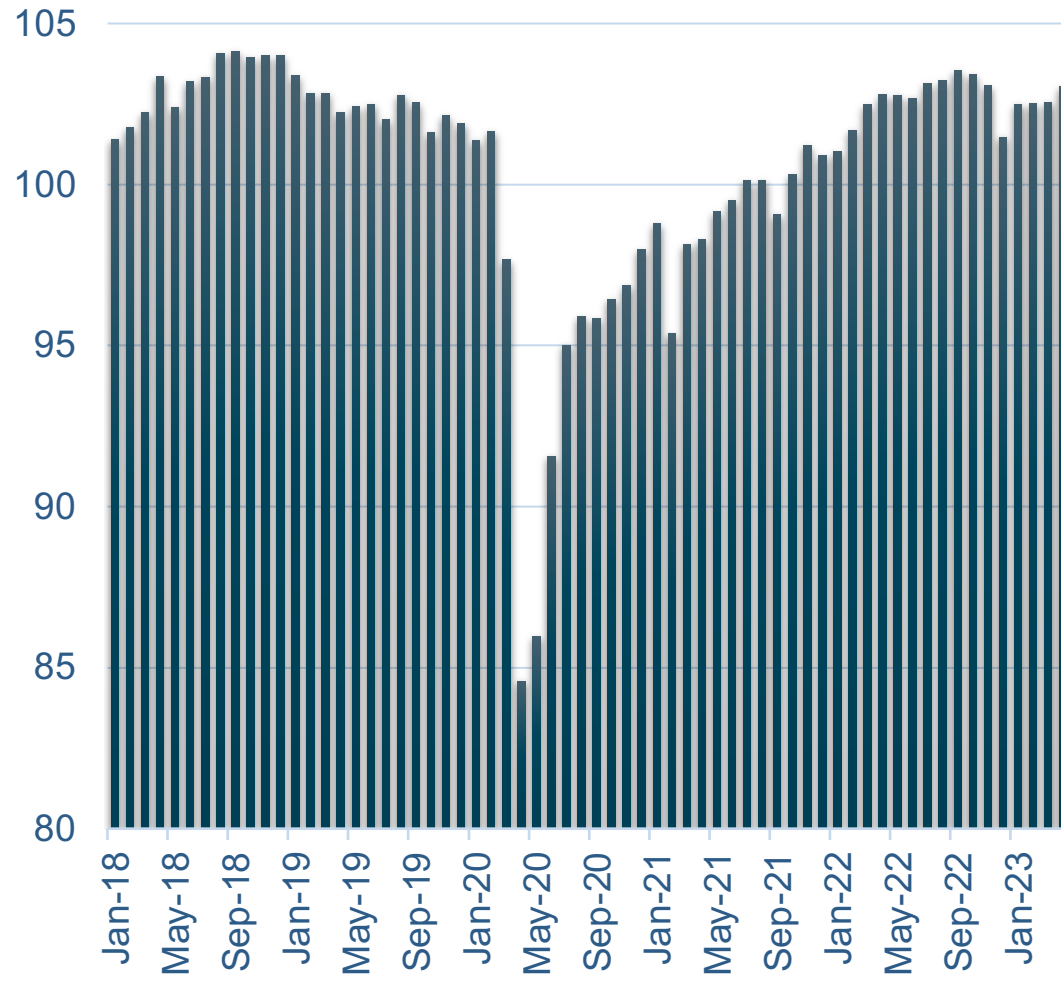
Autos Inventory / Sales Ratios



Businesses are Investing / Producing



Industrial Production

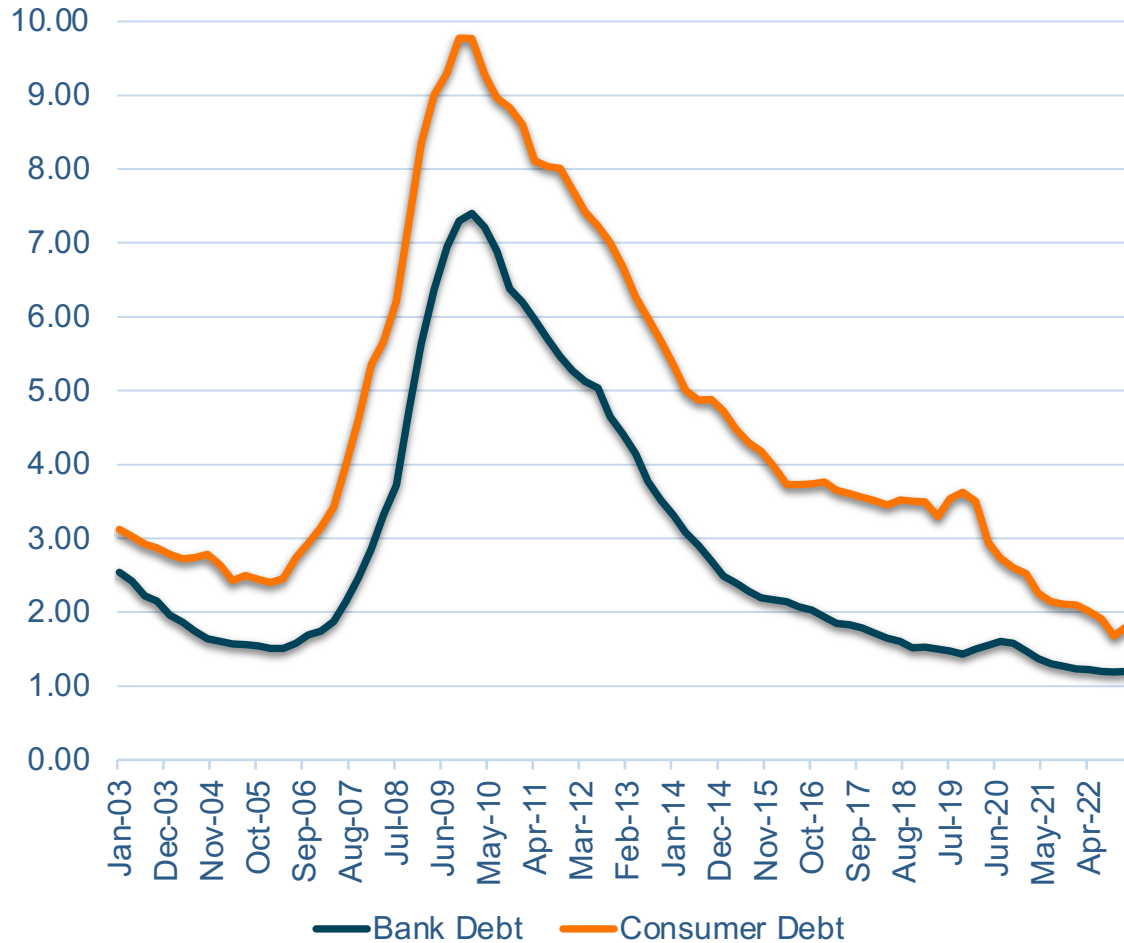


Real Business Investment	2023		
	Q4	Q1	
Private fixed investment	3425	3512	2.5%
Software	485.2	679.2	40.0%
Research and development	468.2	547.2	16.9%
Entertainment, literary, and artistic	85.8	96.9	12.9%
Information processing equipment	479.5	541.5	12.9%
Manufacturing	62.4	70	12.2%
Industrial equipment	238.2	262	10.0%
Other equipment ⁵	235.1	226.5	-3.7%
Transportation equipment	268.1	253.2	-5.6%
Mining exploration, shafts	115.6	107.3	-7.2%
Commercial and health care	174.4	141.6	-18.8%
Other structures	101.7	74.4	-26.8%
Power and communication	128.9	81.5	-36.8%

Debt Markets (So far) Not Fussed by Rates



Debt Delinquencies



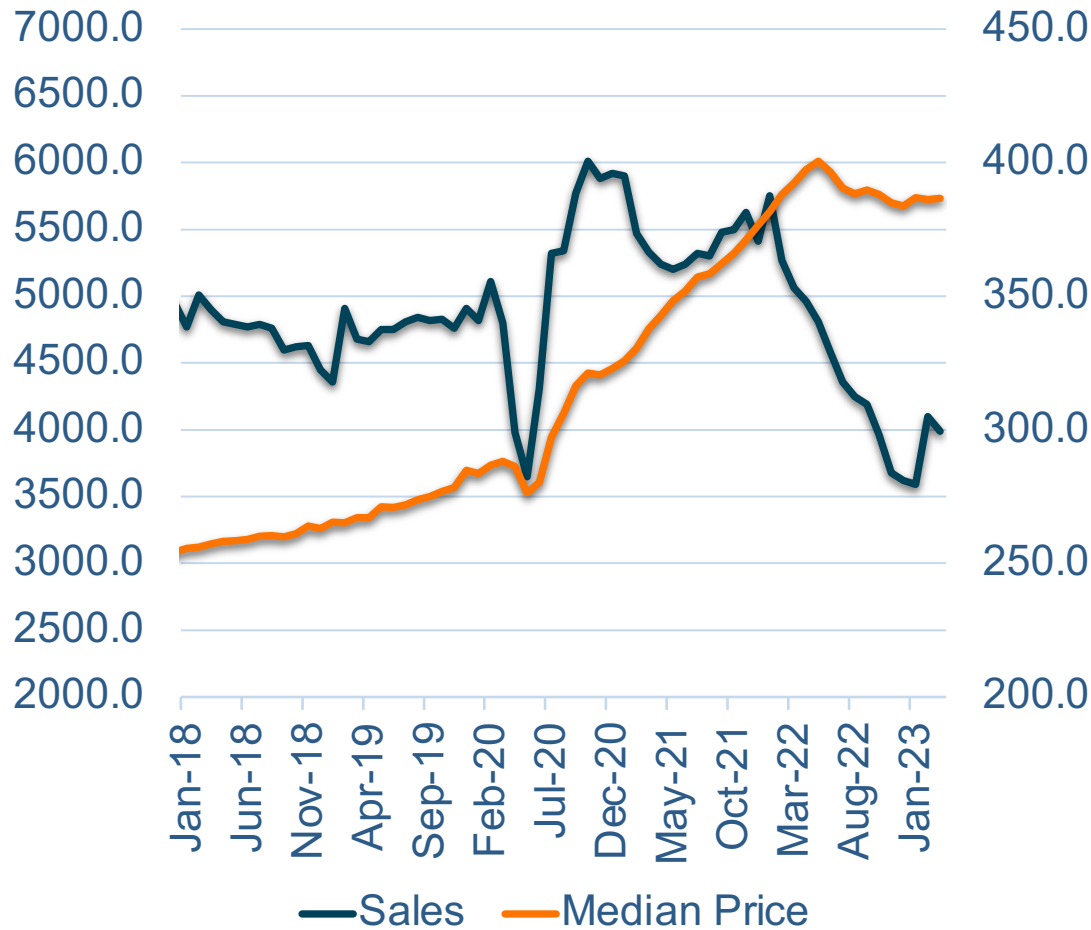
NYFR Bond Market Distress Index



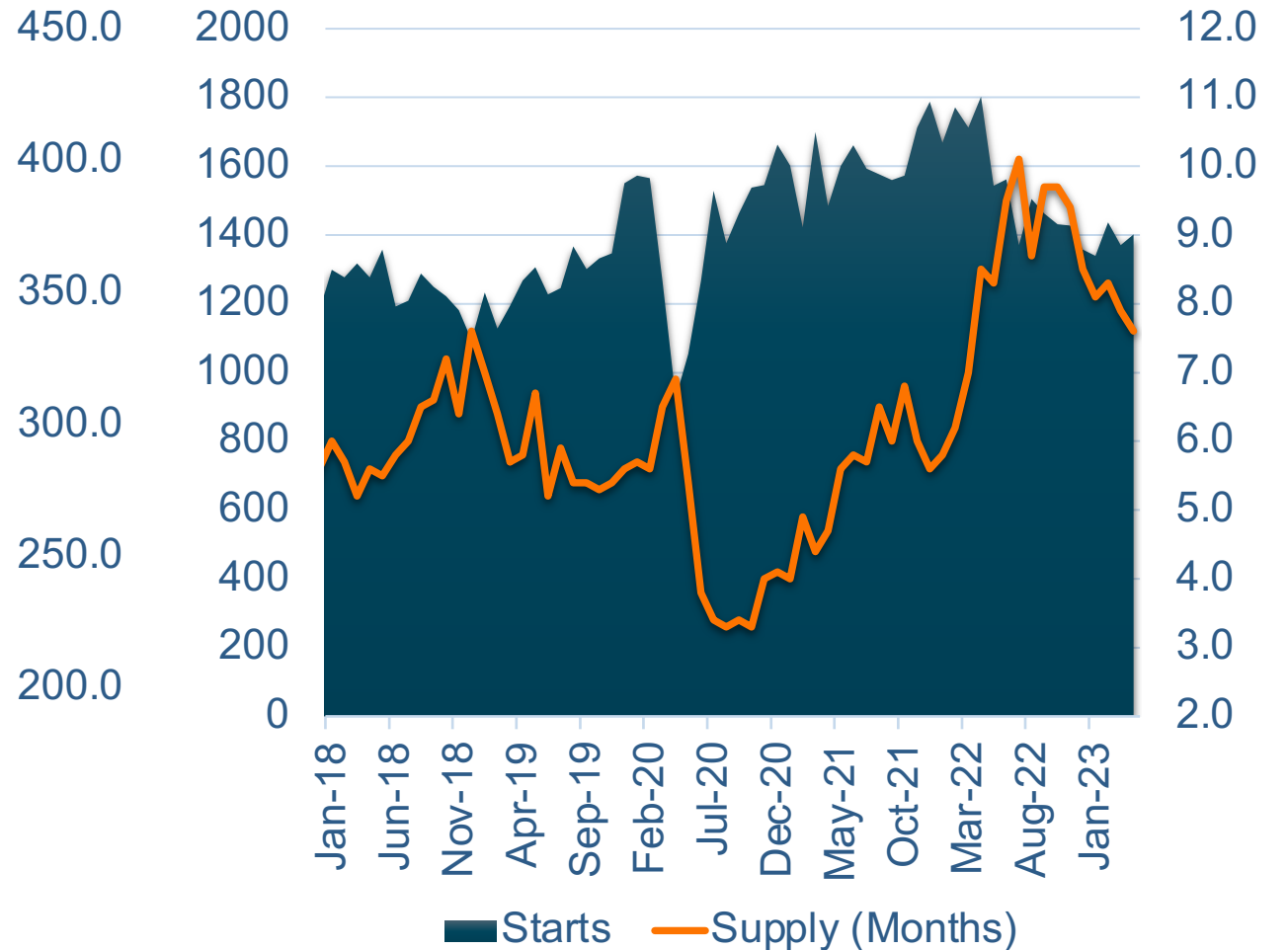
The Housing Market



Resale Housing (NAR)



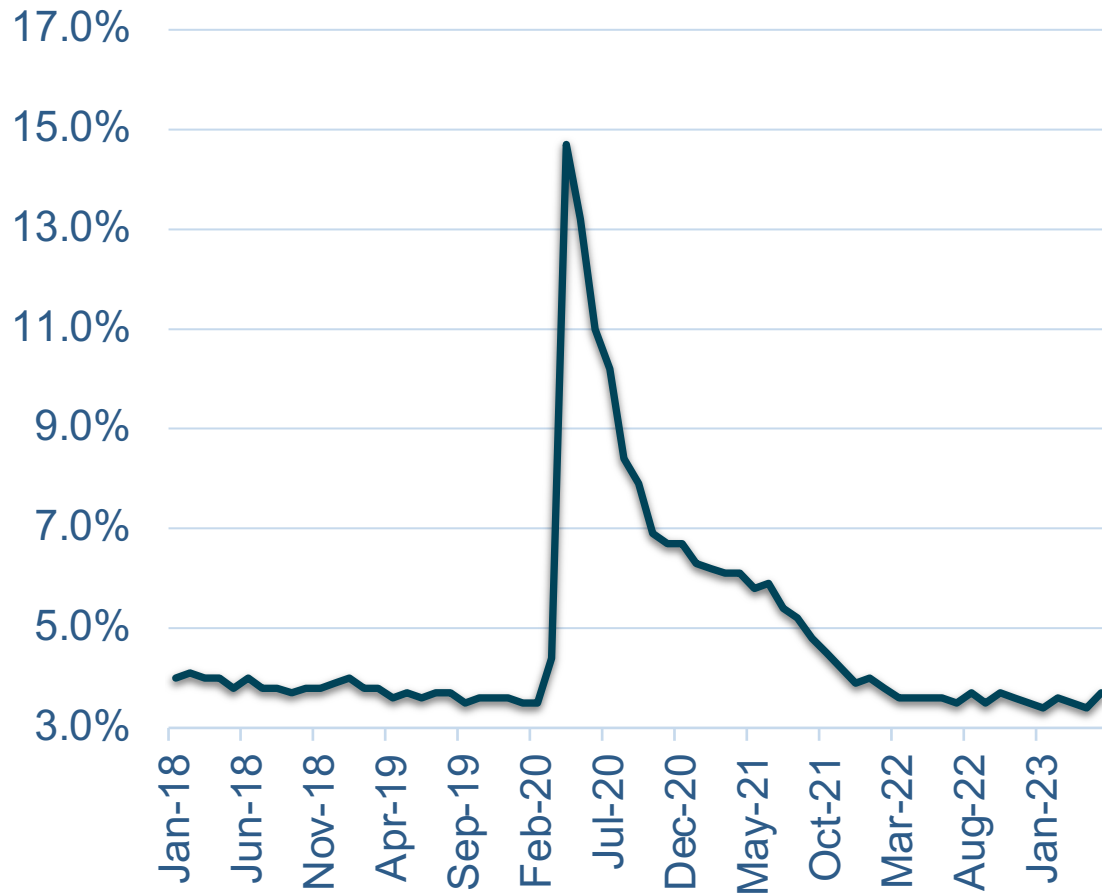
New Housing



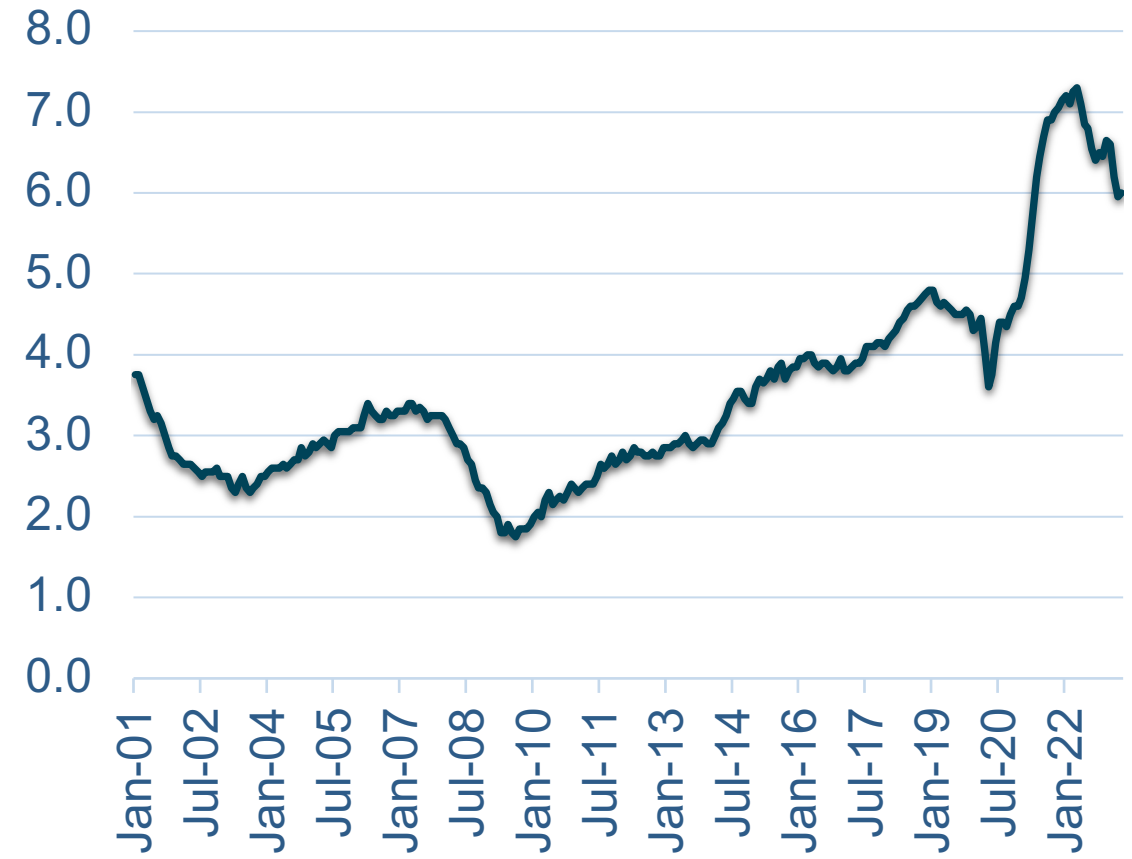
Recent Labor Market Evidence



Unemployment Rate



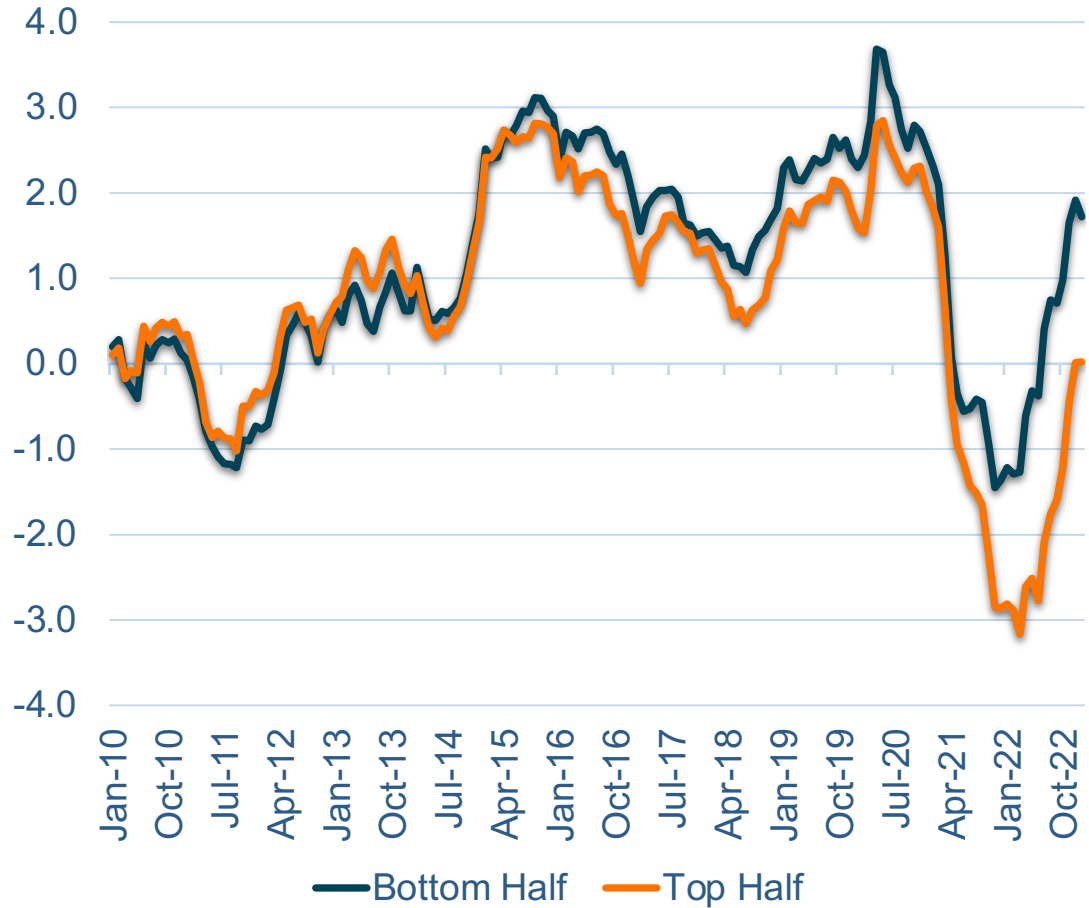
Job Openings Rate



The Upside to Labor Shortages



Worker Real Earnings Growth



Weekly Earnings for Non-Supervisory Employees

	Q1 23	Gr 17-20	Gr 20-23
Accommodation	\$603.5	6.5%	33.8%
Childcare	\$561.8	11.6%	28.7%
Food and Drink	\$418.6	10.6%	26.2%
Nursing Homes	\$704.4	12.6%	23.5%
Truck Transport	\$1,200.4	13.3%	20.1%
Total Private	\$964.8	10.0%	19.6%
Retail	\$620.0	14.6%	19.0%
Warehouses	\$857.2	10.0%	14.2%



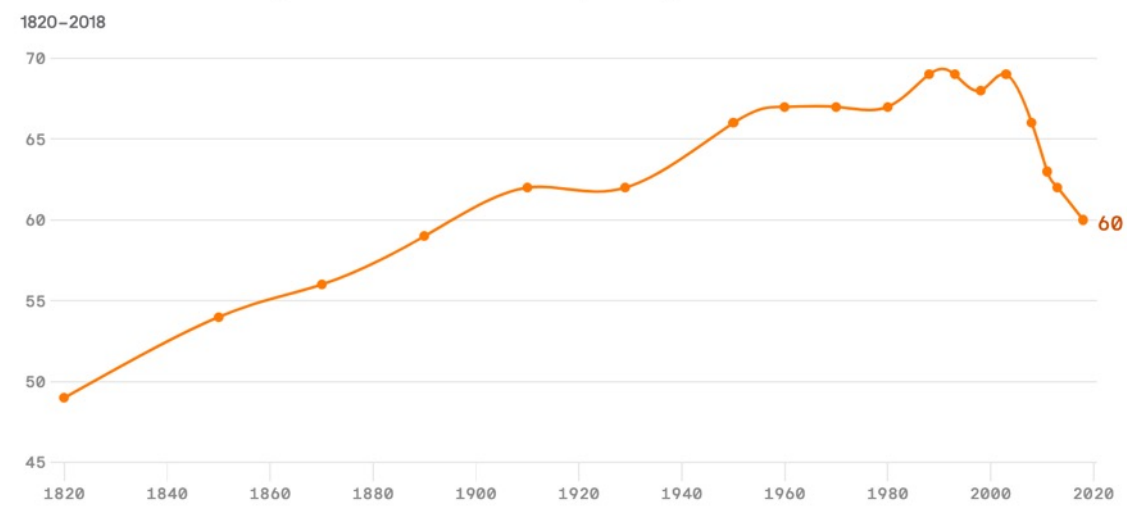
Global inequality at lowest level in nearly 150 years



Felix Salmon, author of [Axios Markets](#)



Estimated Gini global income inequality index



Data: Branko Milanovic; Chart: Axios Visuals

How did we get here? Miserabilism...



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

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

Coronavirus: Leading economist warns of 10 years of depression and debt

© 22 May 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.

FINANCE · ECONOMY

What shape will the recovery take? U-shape, check mark, square root symbol, and swoosh are all on the table, say economists

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

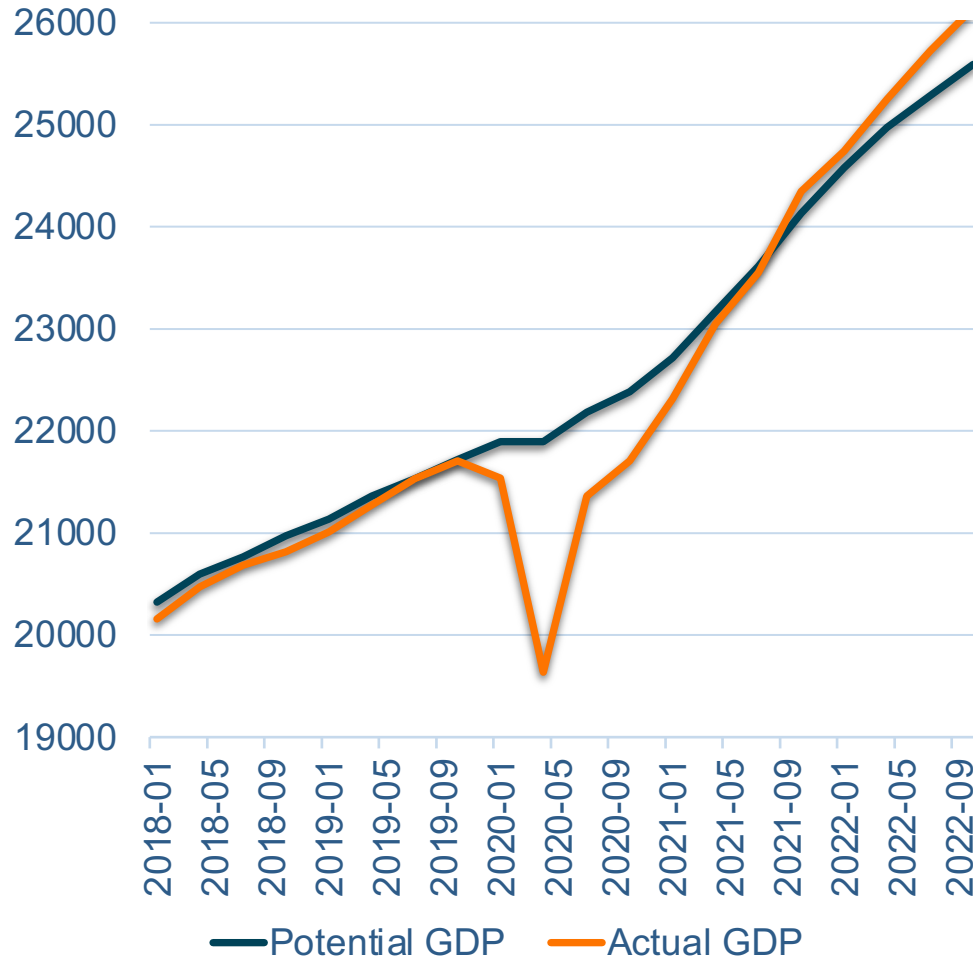
Coronavirus to cause worst economic downturn since Great Depression, IMF forecasts

'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

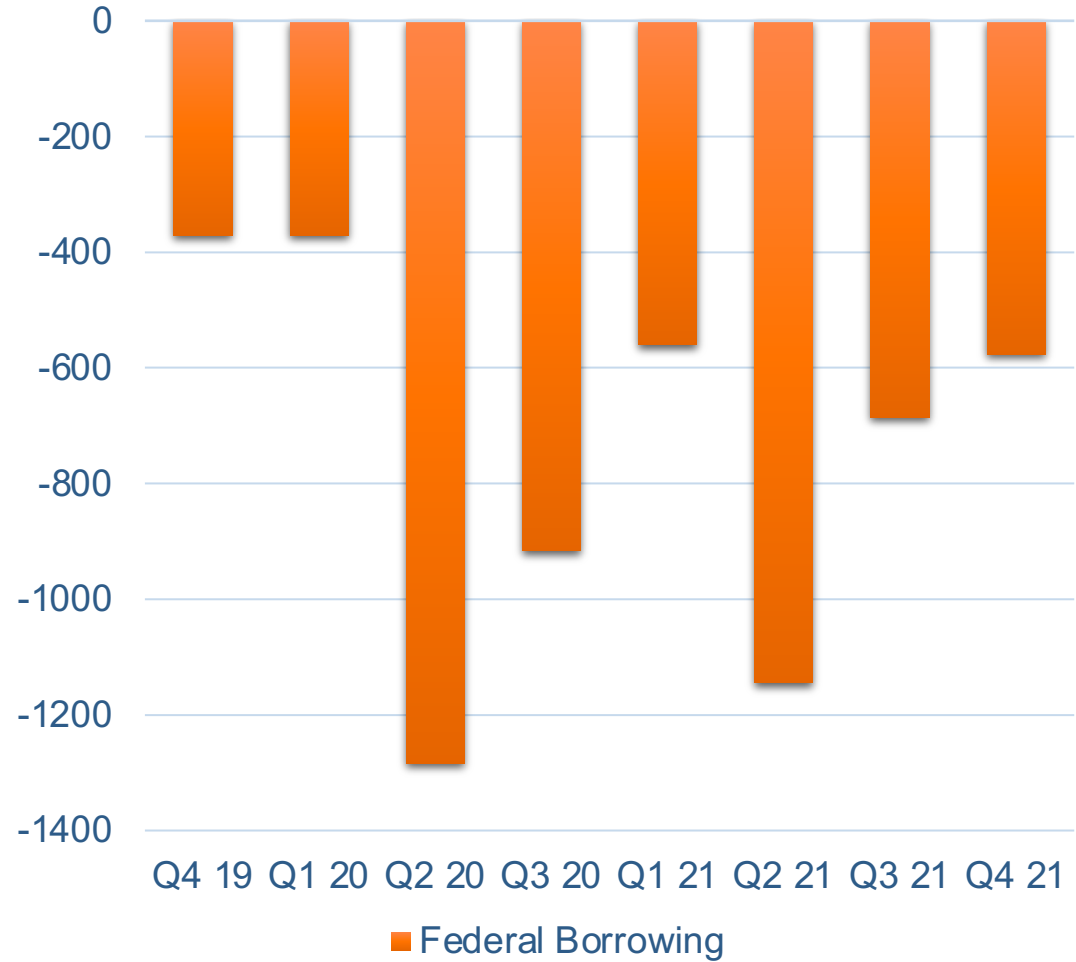
The Pandemic Over-reaction



GDP Trends (\$Billions)



Fiscal Stimulus \$Bil





Actual Lost GDP: \$1.2 Trillion

Fiscal Stimulus: \$6 Trillion

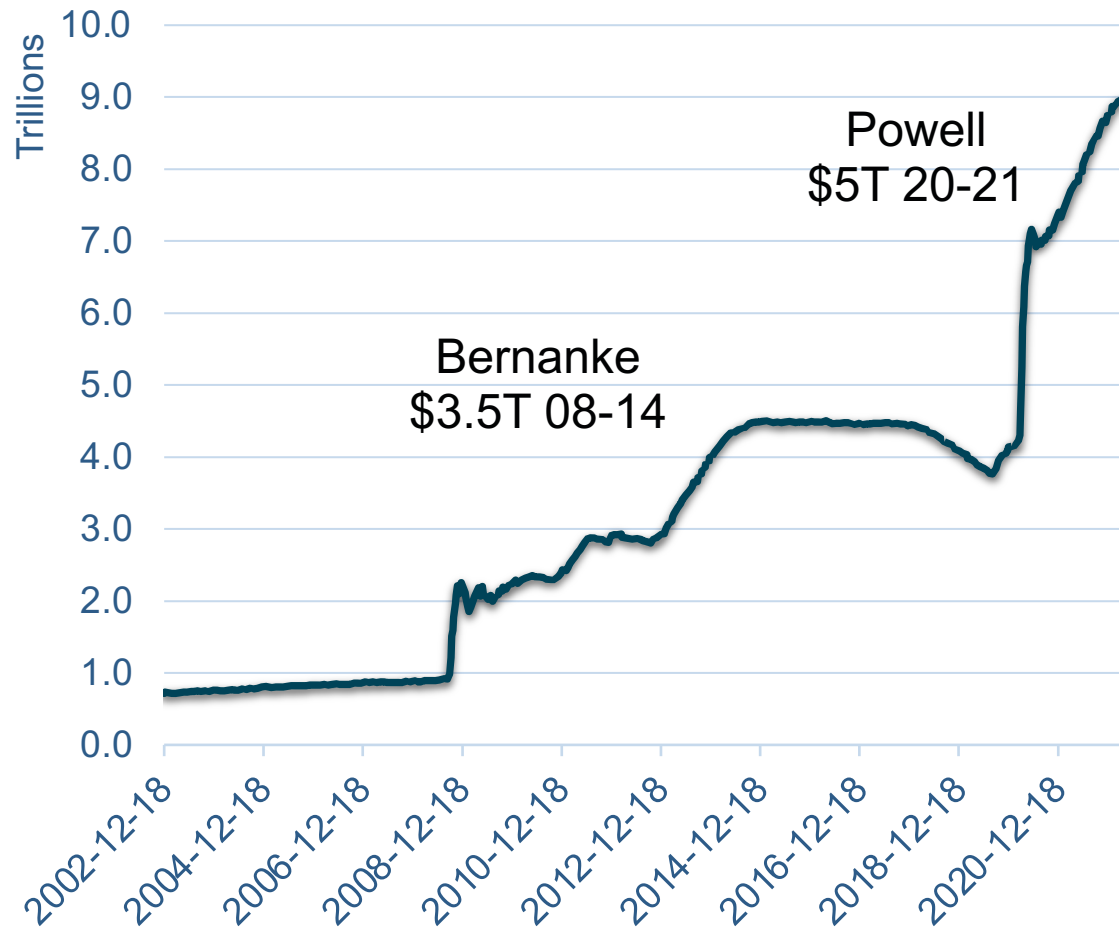
5 to 1 stimulus to loss ratio

\$16,000 net per capita in the US

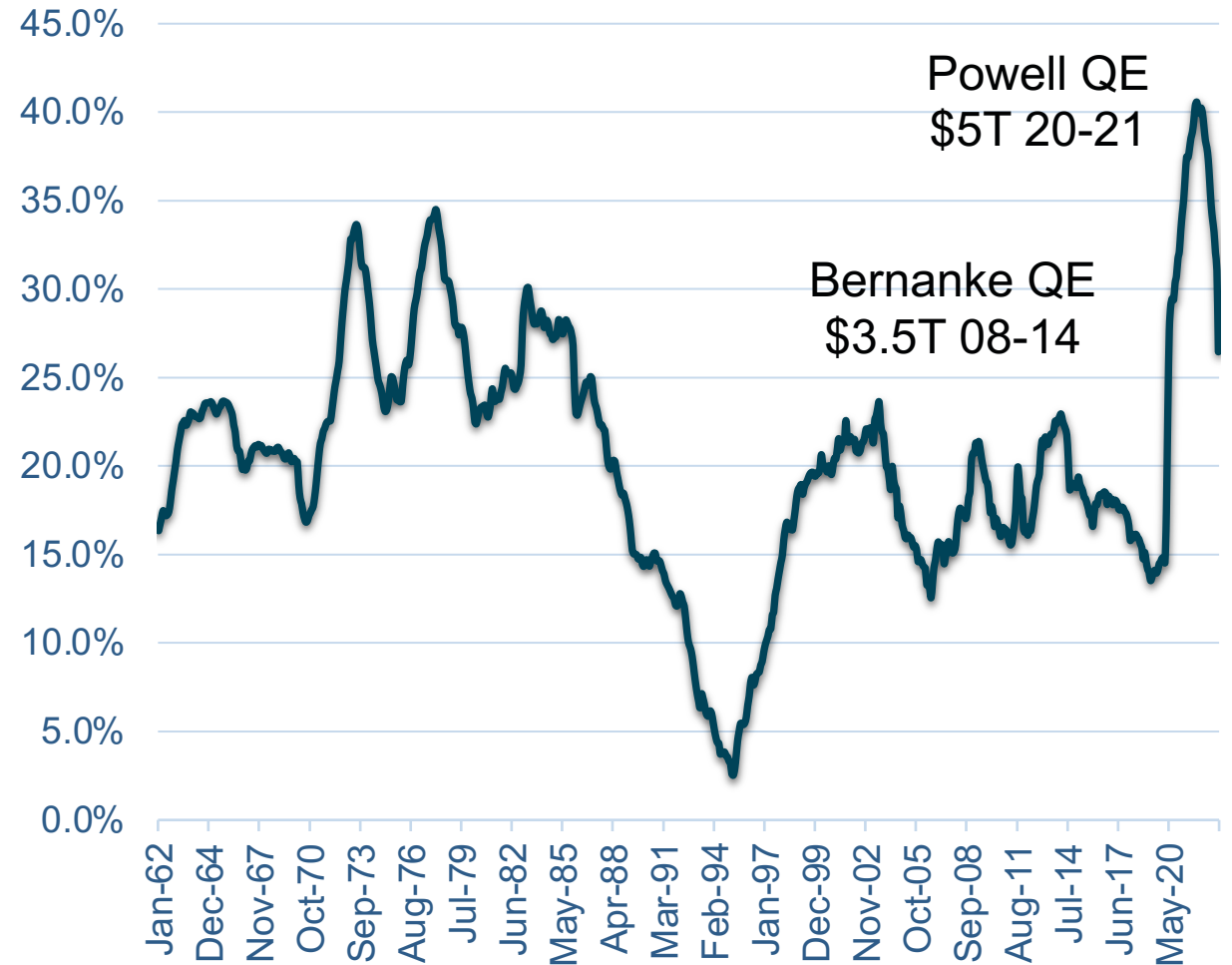
Federal Fiscal (Over)reaction



Federal Reserve Balance Sheet Assets



M2 Growth Rate (3 Year)



QE and Money: Then vs Now



The Problem of Excess Money

Short term: Money illusion

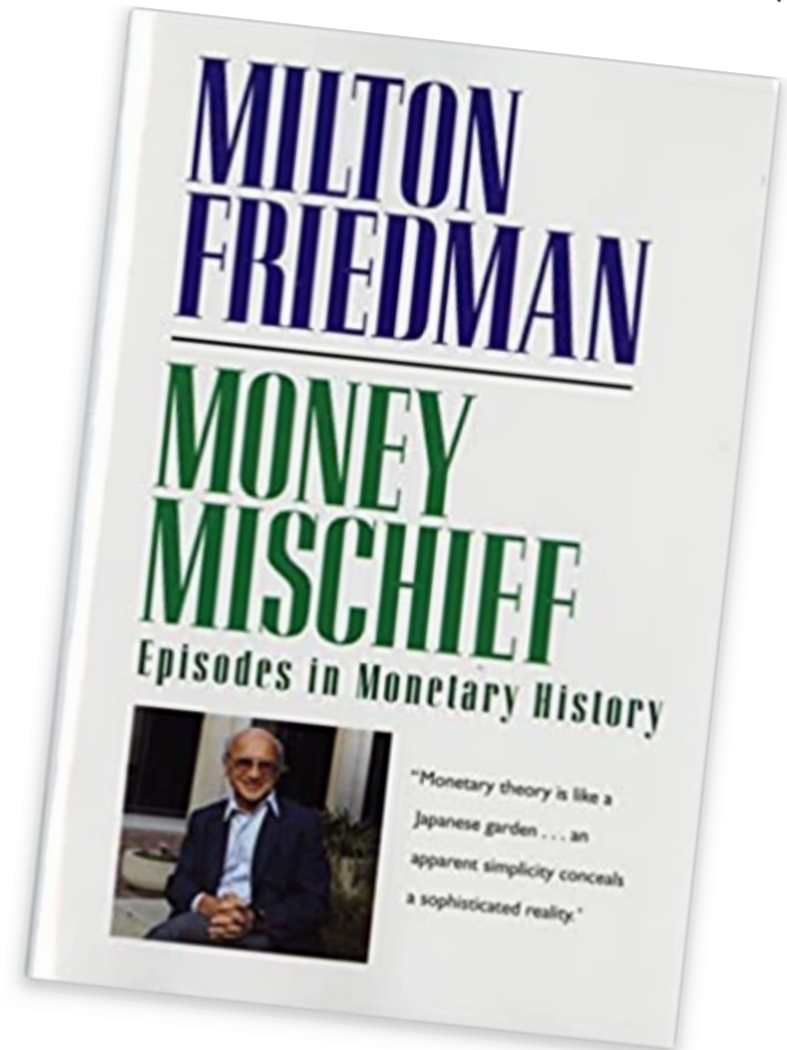
- Falling interest rates
- Asset price bubbles form
- Spending and investment binge ensues

Medium term: The Hangover

- Inflation hits, rates rise
- Asset markets sag
- Spending goes back to normal

Long Run

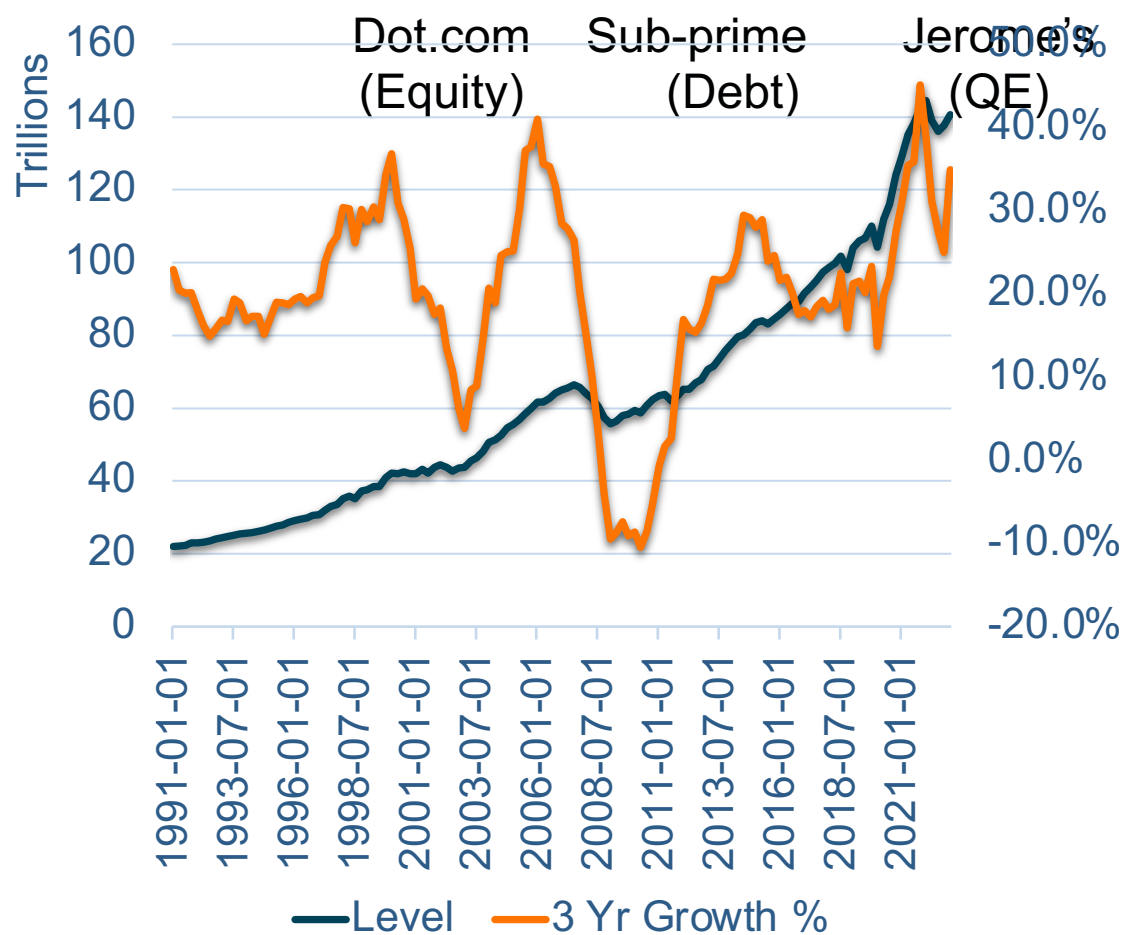
- Transfers of wealth from savers to debtors
- Financial risk increase, diminished real investment



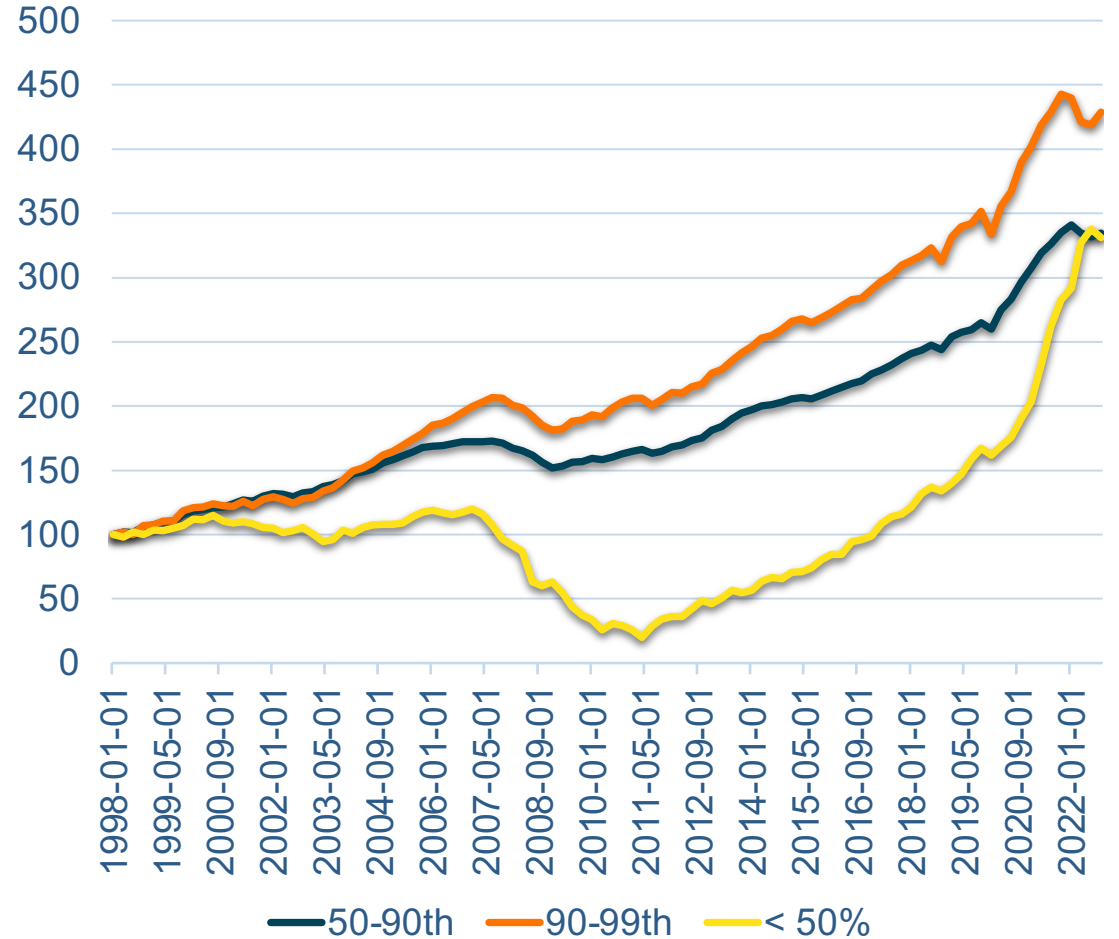
Recent US Wealth Bubbles



HH Net Worth and Growth



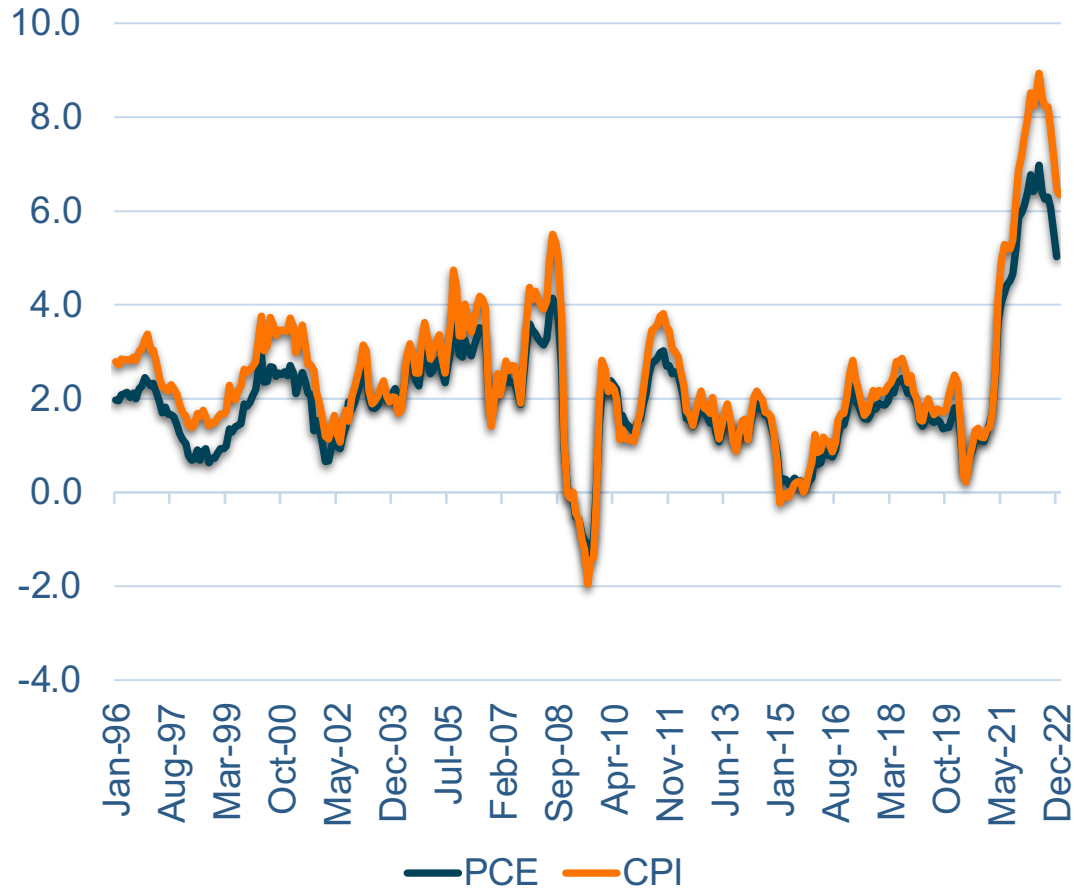
Net Worth by Wealth Group



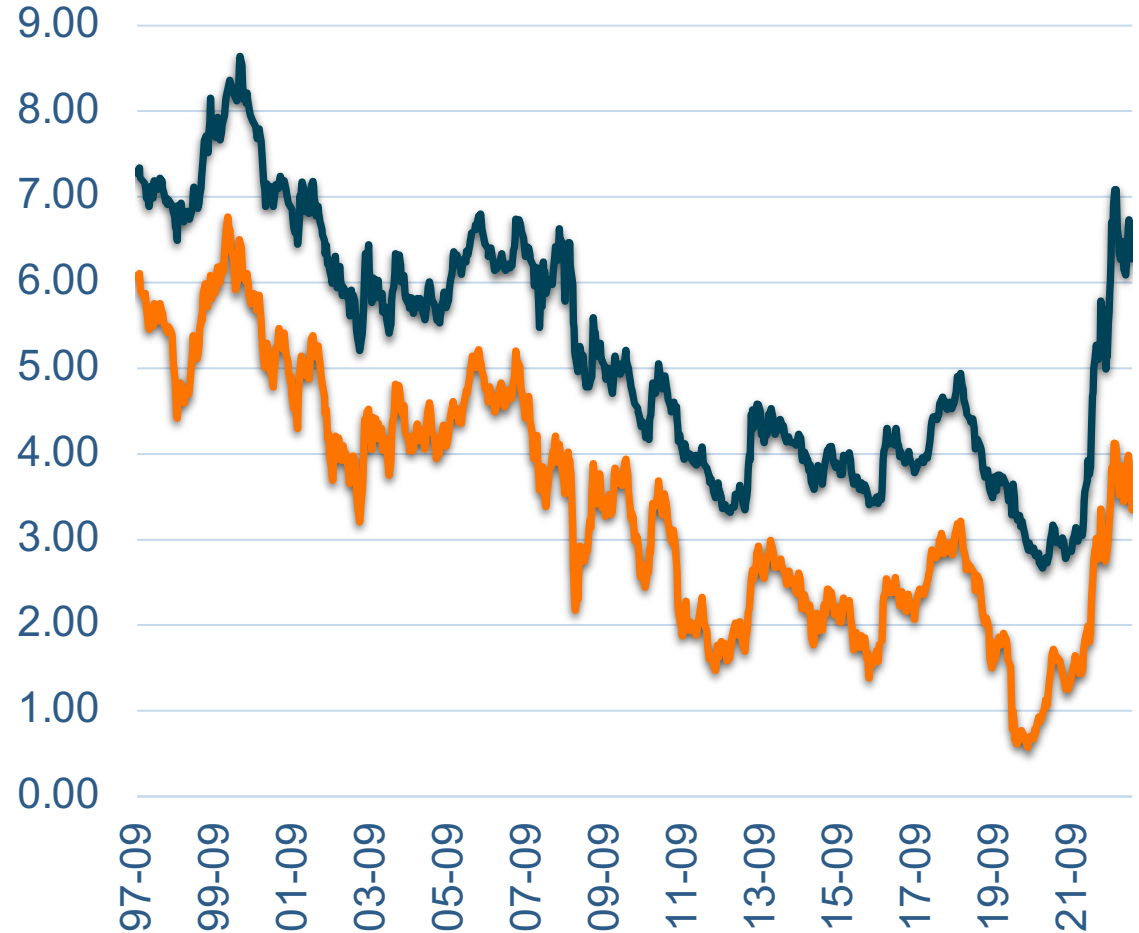
Inflation and the Interest Rate Ricochet



US Price Indexes



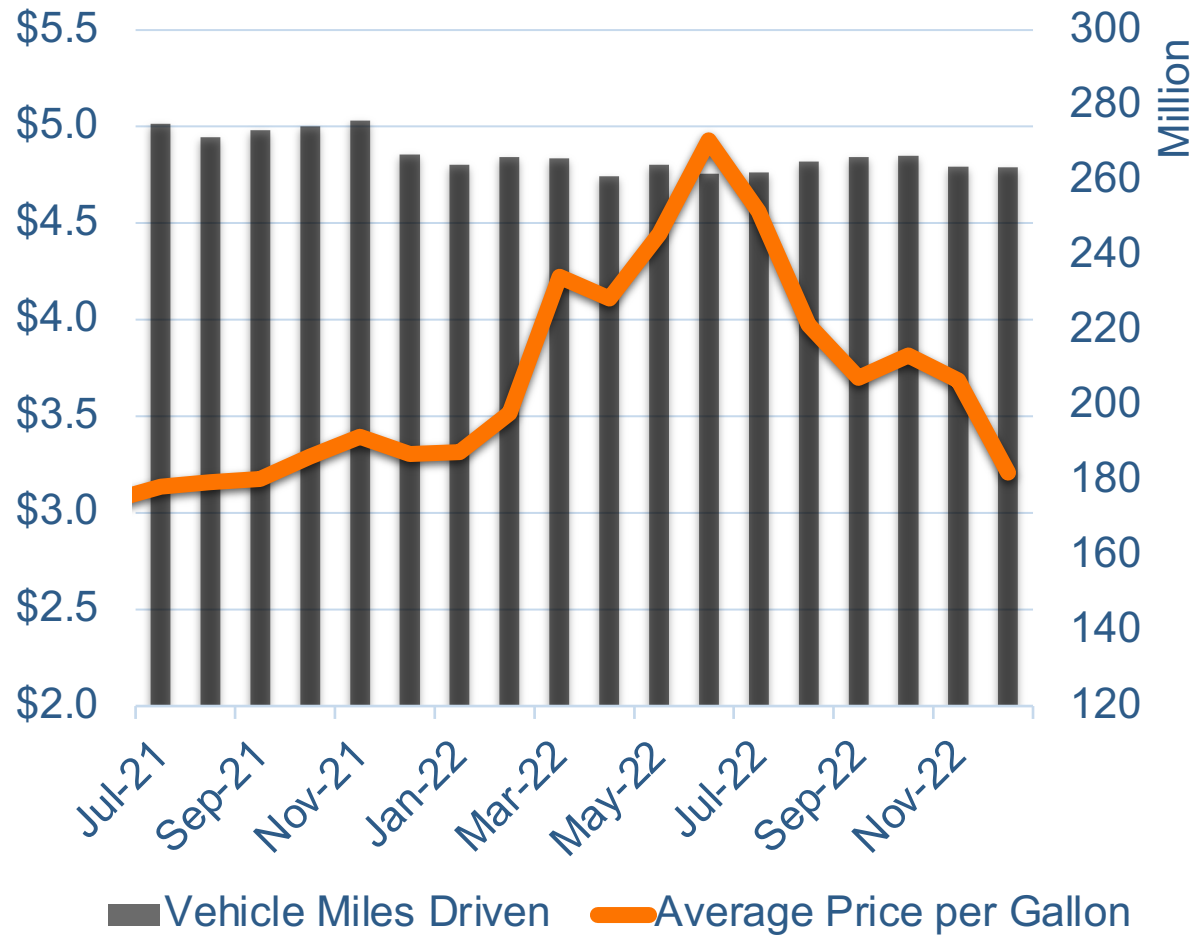
— 30 Yr FR Mortgage — 10 year Treasury



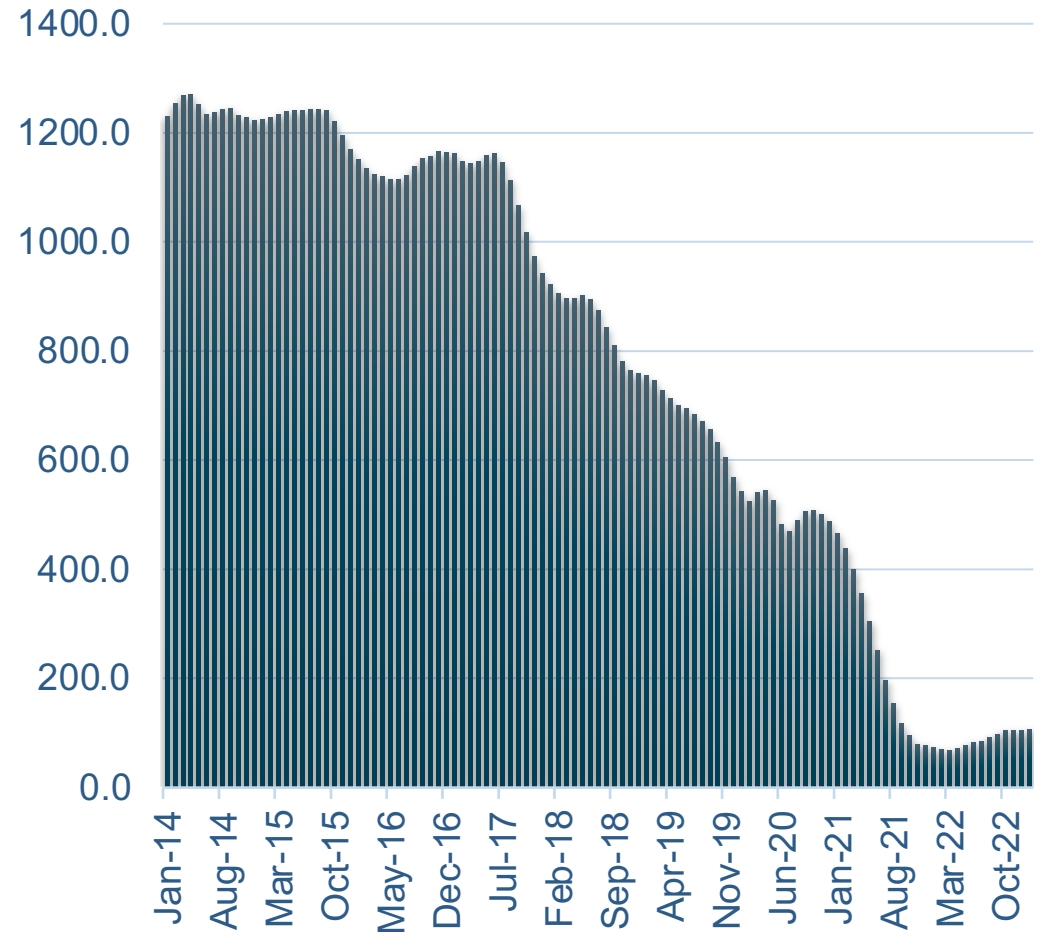
Autos: Supply or Demand?



Gasoline Prices



New Autos Inventories (SA, 000s)







ECONOMY

This is how much money you'll get from the California gas rebate



BY GRACE GEDYE
OCTOBER 14, 2022



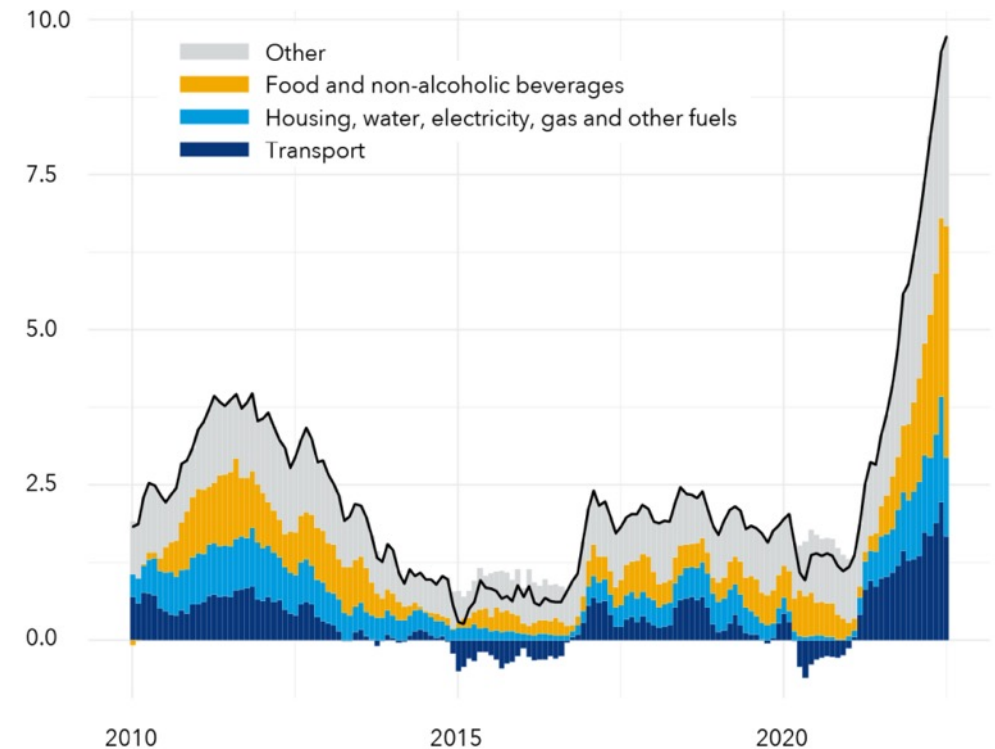
The Inflation Conversation



- Supply chain issues
- The federal deficit
- Greedy corporations and profiteering
- Not enough manufacturing jobs
- Green energy policies
- Rising wages
- Putin's fault!
- The 49'ers horrible front line
- Elon Musk can't get [his rocket] up

Inflation drivers

Food and energy prices continue to drive the global inflation surge.
(percent, median inflation rate)



Source: IMF CPI database and IMF staff calculations.
Note: Chart shows median total inflation and in select categories across 88 countries, including 28 advanced economies and 60 emerging and developing economies.

IMF



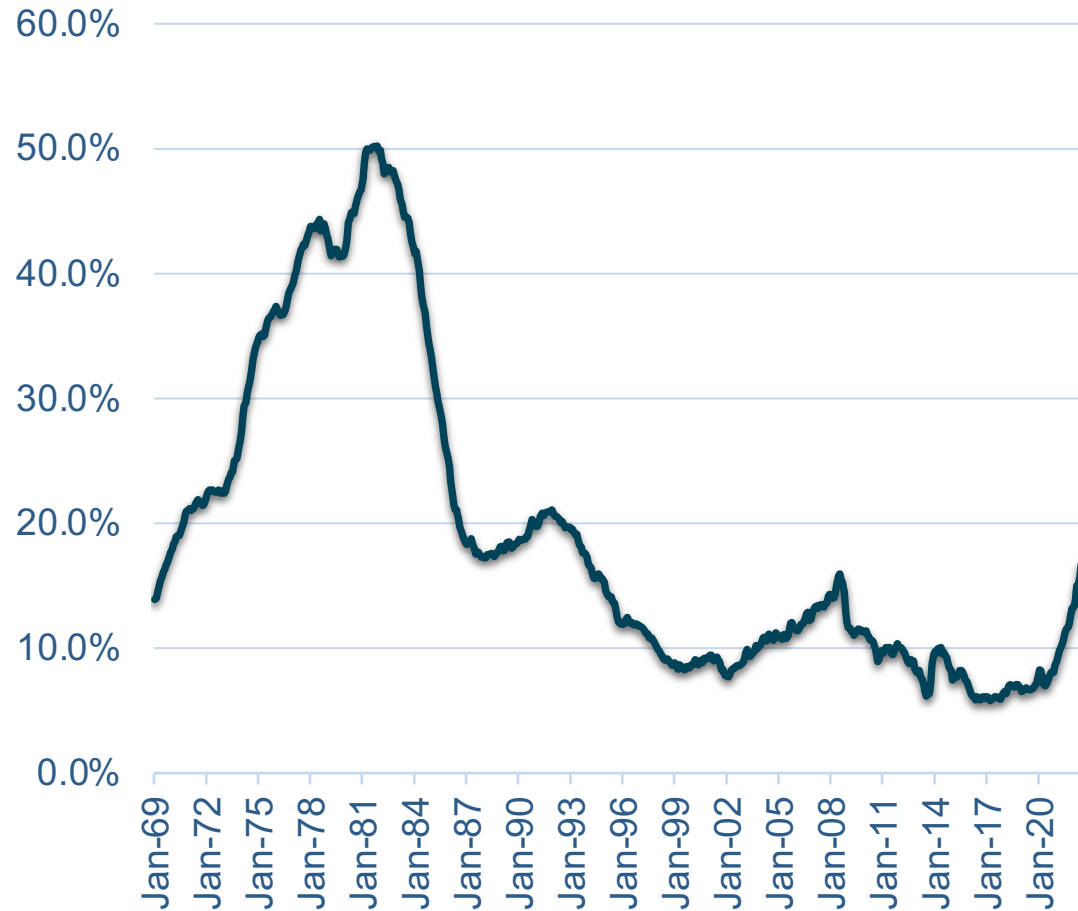
“Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”

Milton Friedman

Can the consumer survive? Context...



5 Year Cumulative Inflation (PCE Basis)



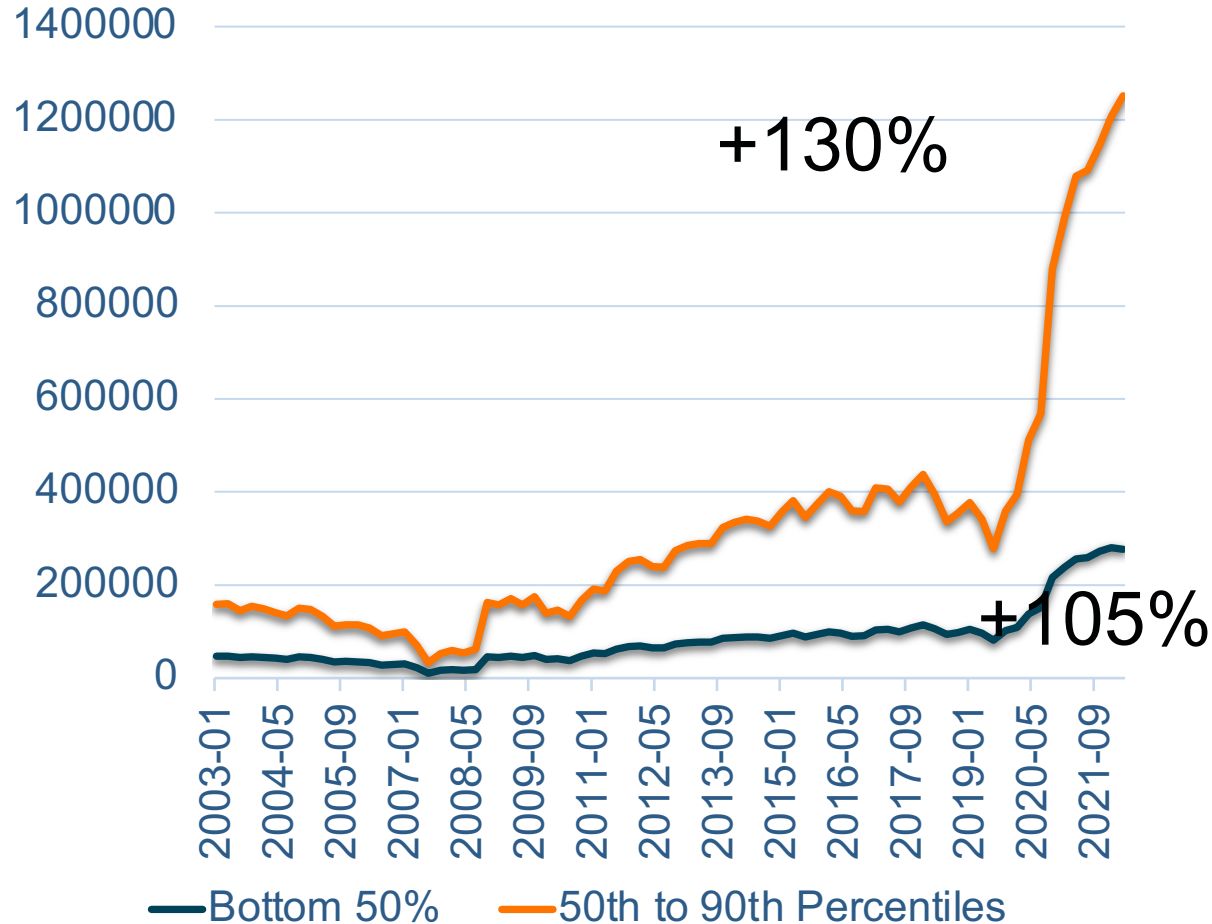
US Financial Obligations Ratio (% of DPI)



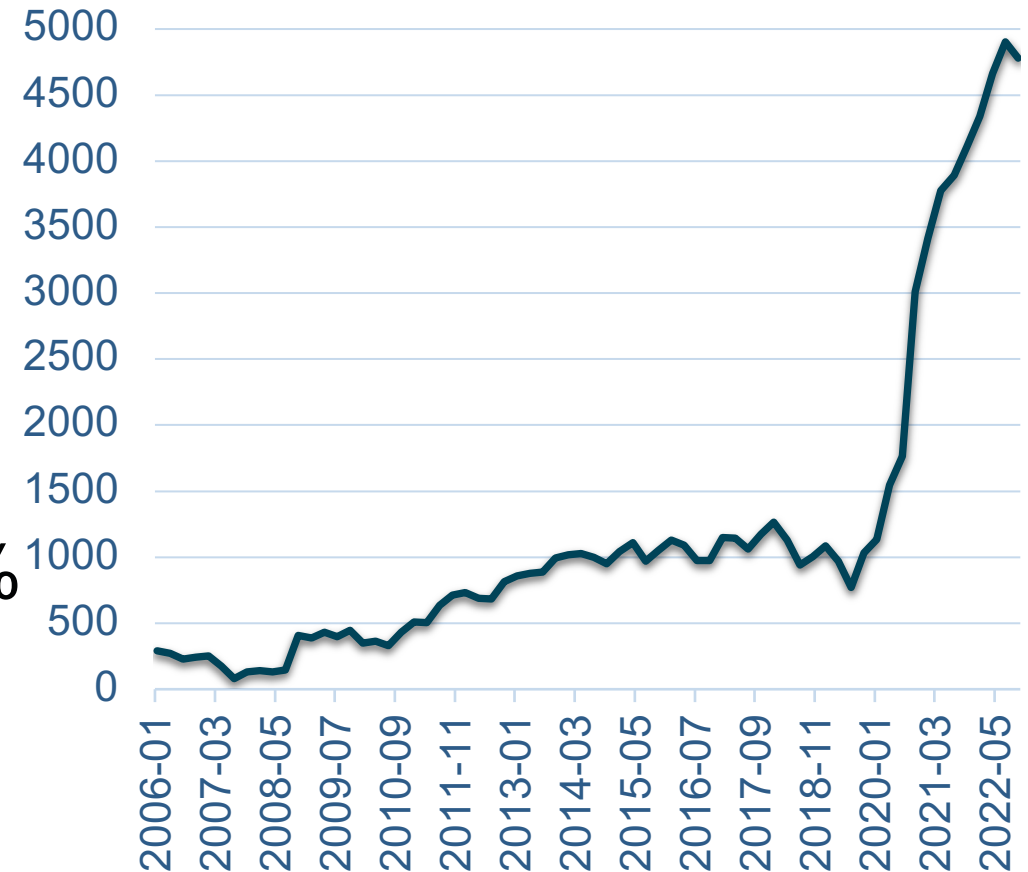


Income vs Wealth

Checkable Deposits and Currency by Wealth Level



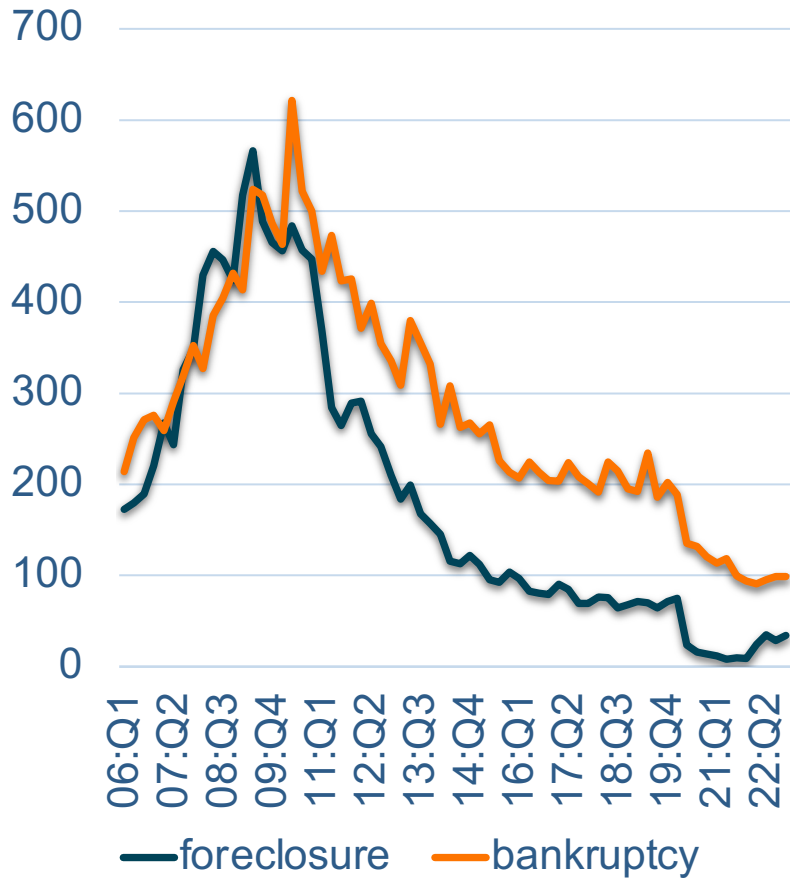
Household Checkable Deposits to Q4 2022 \$Bil



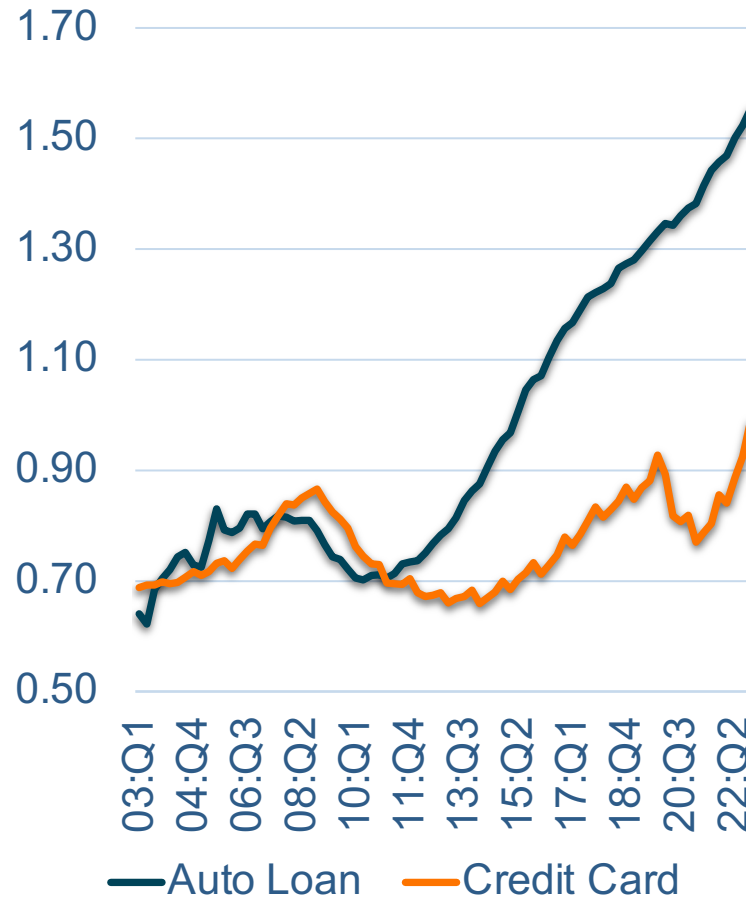
Consumer Credit (NY Fed Panel)



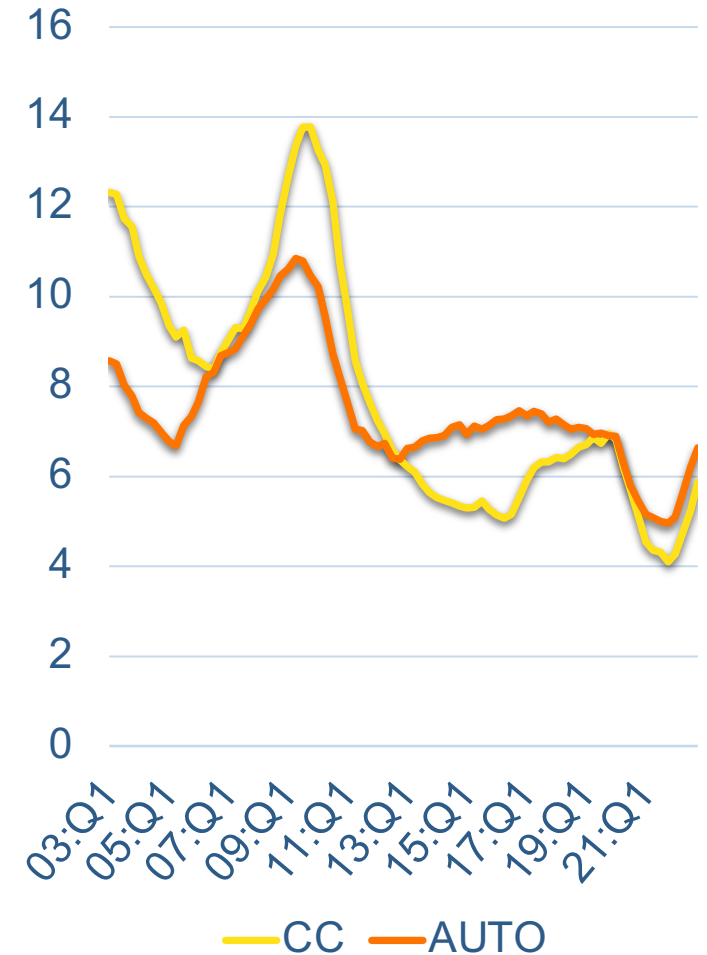
Consumers with Credit Issues (000's)



Consumer Credit (Trillions)



Transition to 30+ Dq



California facts and fictions



2016 Best & Worst States For Business

- 50 [California](#)
- 49 [New York](#)
- 48 [Illinois](#)
- 47 [New Jersey](#)
- 46 [Massachusetts](#)
- 45 [Connecticut](#)
- 44 [Hawaii](#)
- 43 [Michigan](#)
- 42 [Oregon](#)
- 41 [Vermont](#)
- 40 [Maryland](#)
- 39 [Mississippi](#)
- 38 [West Virginia](#)
- 37 [Rhode Island](#)





[OPINION](#)

California's Corporate Exodus

A new report documents the accelerating business flight from the state.

By [The Editorial Board](#)

Follow

Oct. 26, 2022 12:26 pm ET



“

So many stores shuttered in downtown SF. Feels post-apocalyptic... The philosophy that led to this bleak outcome will be the end of civilization if extended to the world.”

Elon Musk, Twitter CEO.

Regionally? Who is Ahead? Behind?



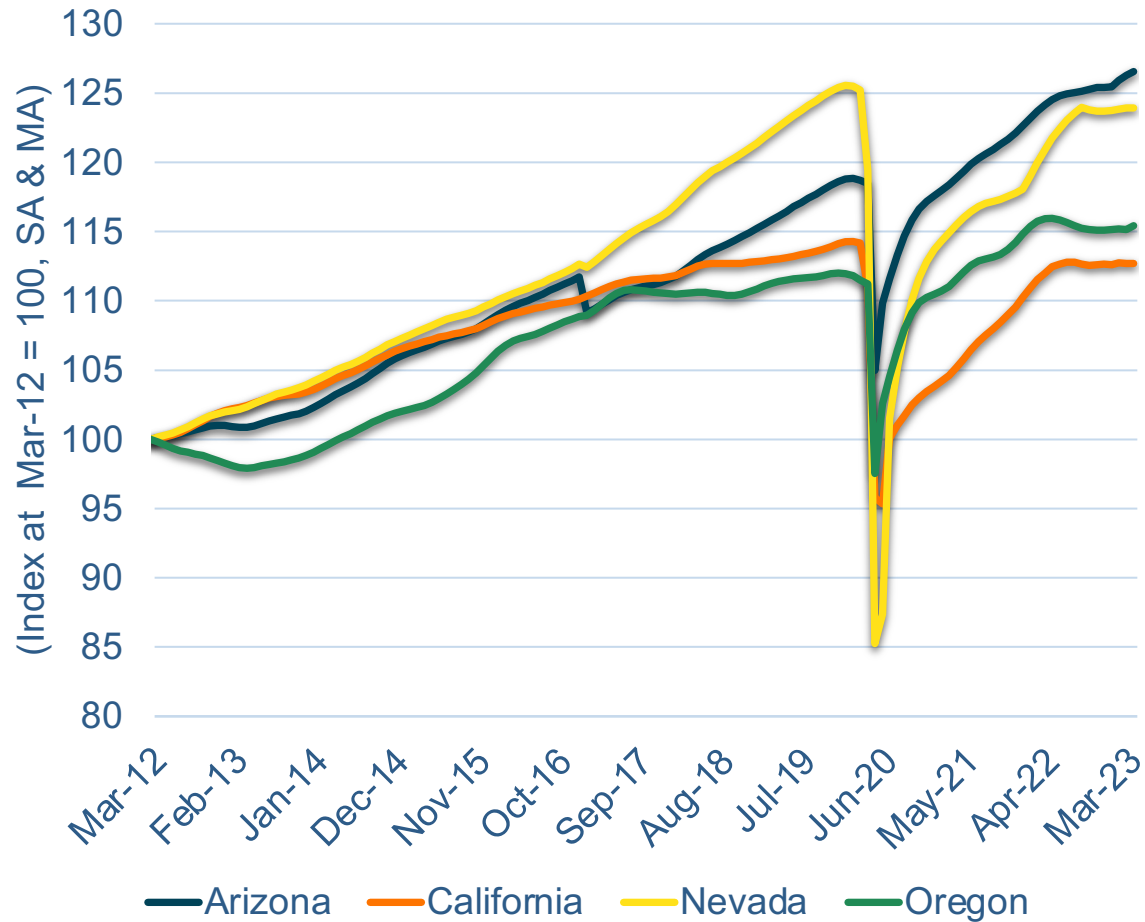
Current State Job Opening Rate, with change 19-22

Alaska	10.1	4.1	South Carolina	7.4	2.5	Nebraska	6.6	1.9
Kentucky	7.9	3.4	Iowa	6.9	2.4	Arizona	7.1	1.7
Georgia	7.9	3.1	Oklahoma	7.2	2.4	Wisconsin	6.7	1.7
Tennessee	7.6	2.9	Maine	7.0	2.4	Pennsylvania	5.9	1.6
Illinois	6.9	2.9	Hawaii	7.1	2.4	Florida	6.2	1.6
Massachusetts	7.2	2.8	Alabama	6.8	2.3	Utah	6.4	1.5
Delaware	7.3	2.8	Vermont	7.4	2.3	Indiana	6.5	1.5
Mississippi	7.3	2.7	Michigan	6.9	2.3	Arkansas	6.7	1.5
Montana	8.3	2.7	California	6.5	2.2	North Dakota	7.0	1.5
Louisiana	7.5	2.7	New Hampshire	6.7	2.2	New Jersey	5.7	1.4
Wyoming	8.4	2.7	Rhode Island	6.9	2.2	Kansas	6.4	1.4
Connecticut	6.5	2.7	South Dakota	7.1	2.1	New Mexico	7.4	1.3
Virginia	7.9	2.7	Maryland	7.0	2.1	Missouri	6.4	1.3
Minnesota	7.1	2.6	Colorado	7.4	2.1	Oregon	6.5	1.3
Texas	7.2	2.6	Ohio	6.8	2.1	New York	5.4	1.2
Nevada	6.8	2.6	Idaho	7.2	2.0	Washington	6.1	1.2
West Virginia	8.3	2.6	District of Columbia	5.9	1.9	North Carolina	7.0	1.1

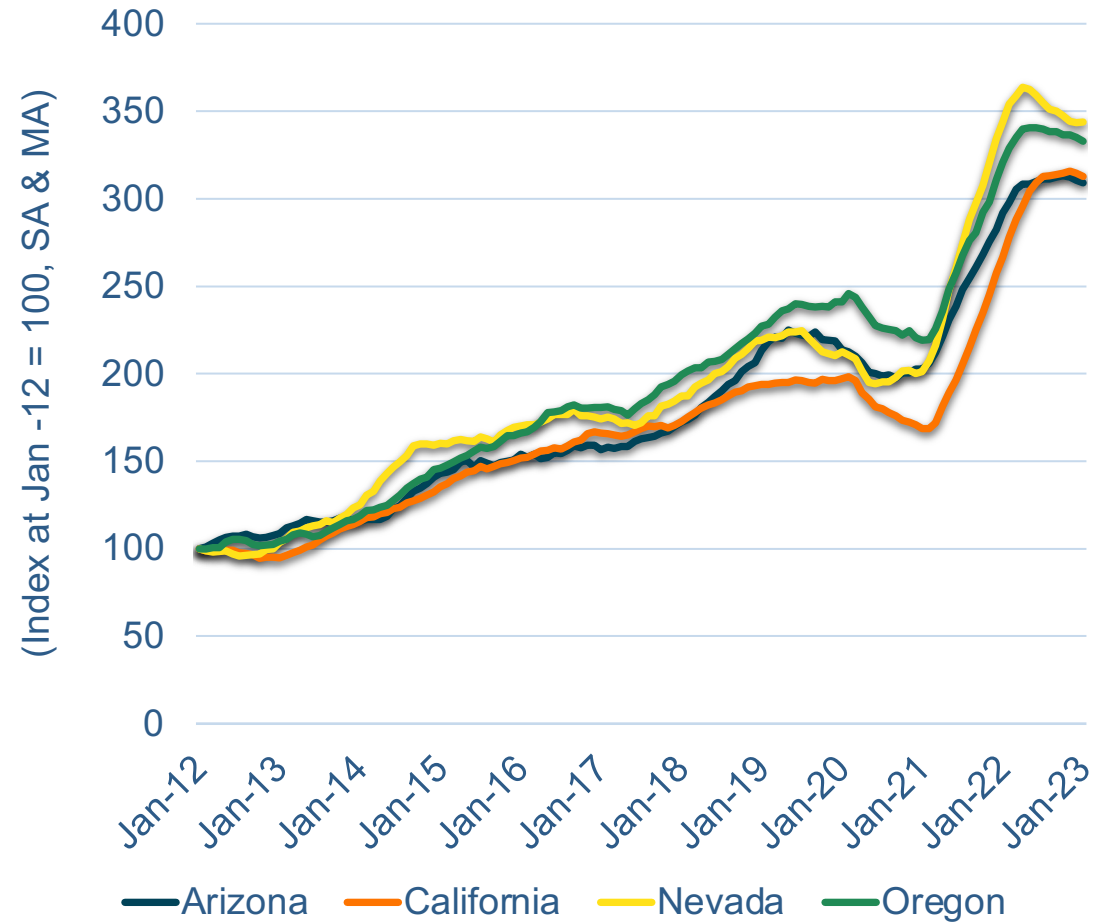
Regional Labor Markets



Indexed Payroll Jobs



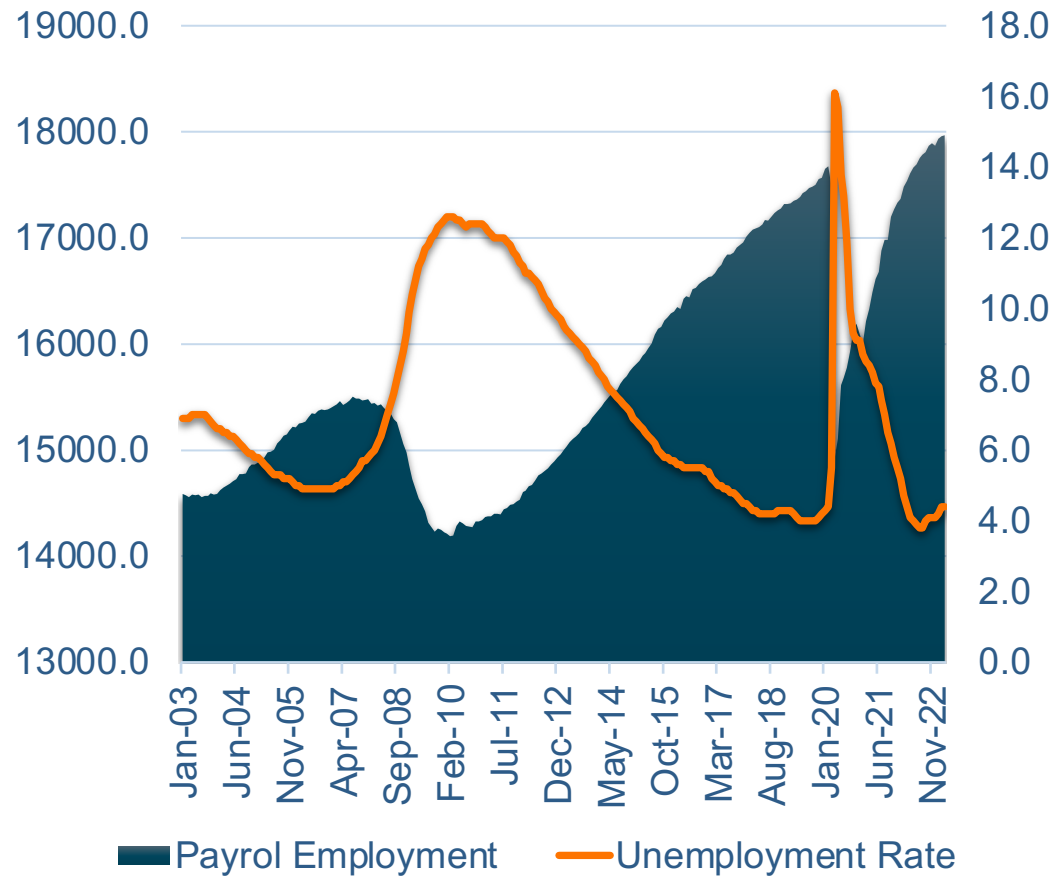
Job Openings



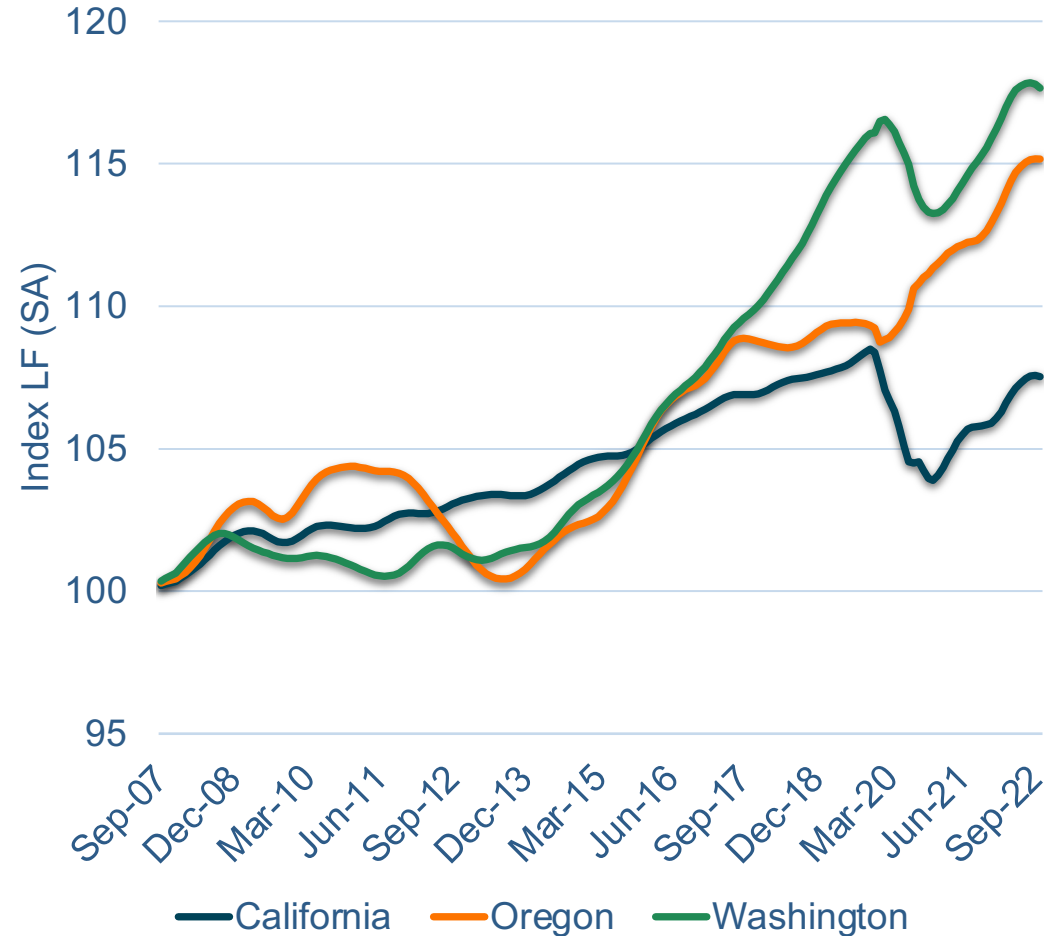
California Employment



Payrolls and Unemployment



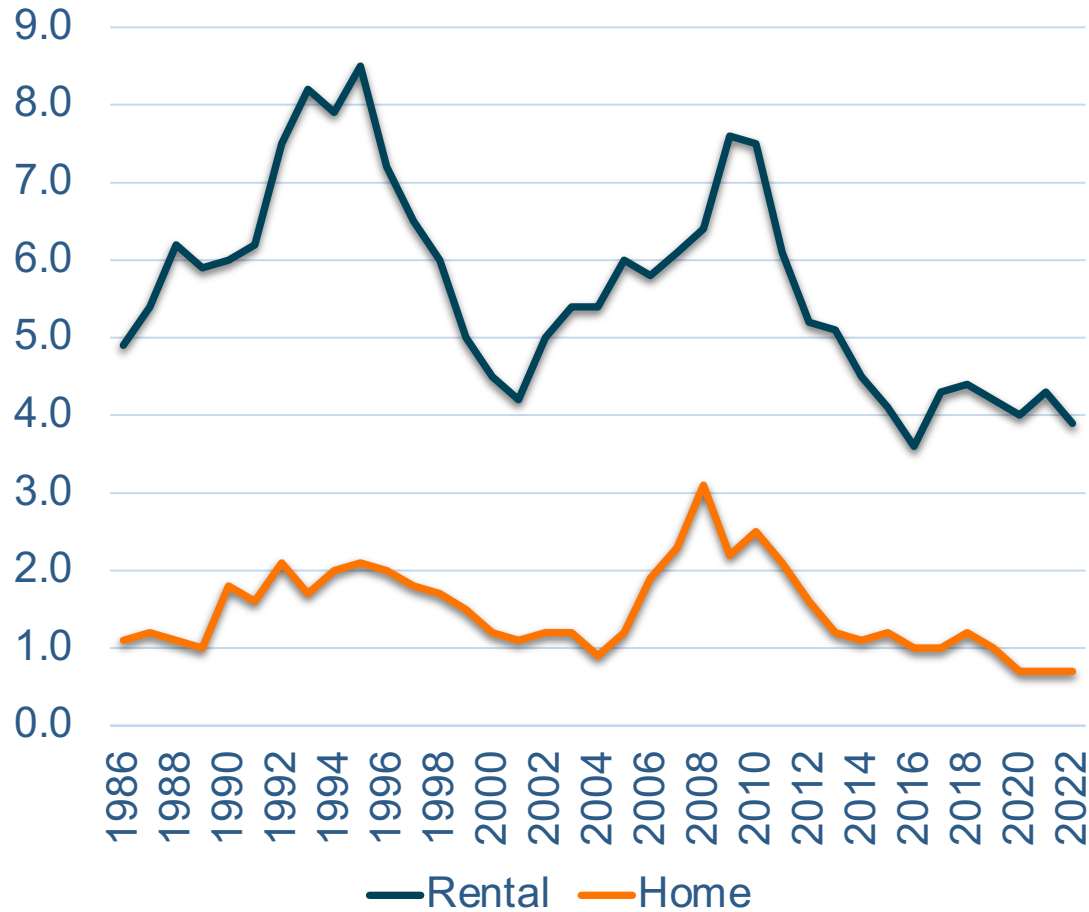
Indexed Labor Force



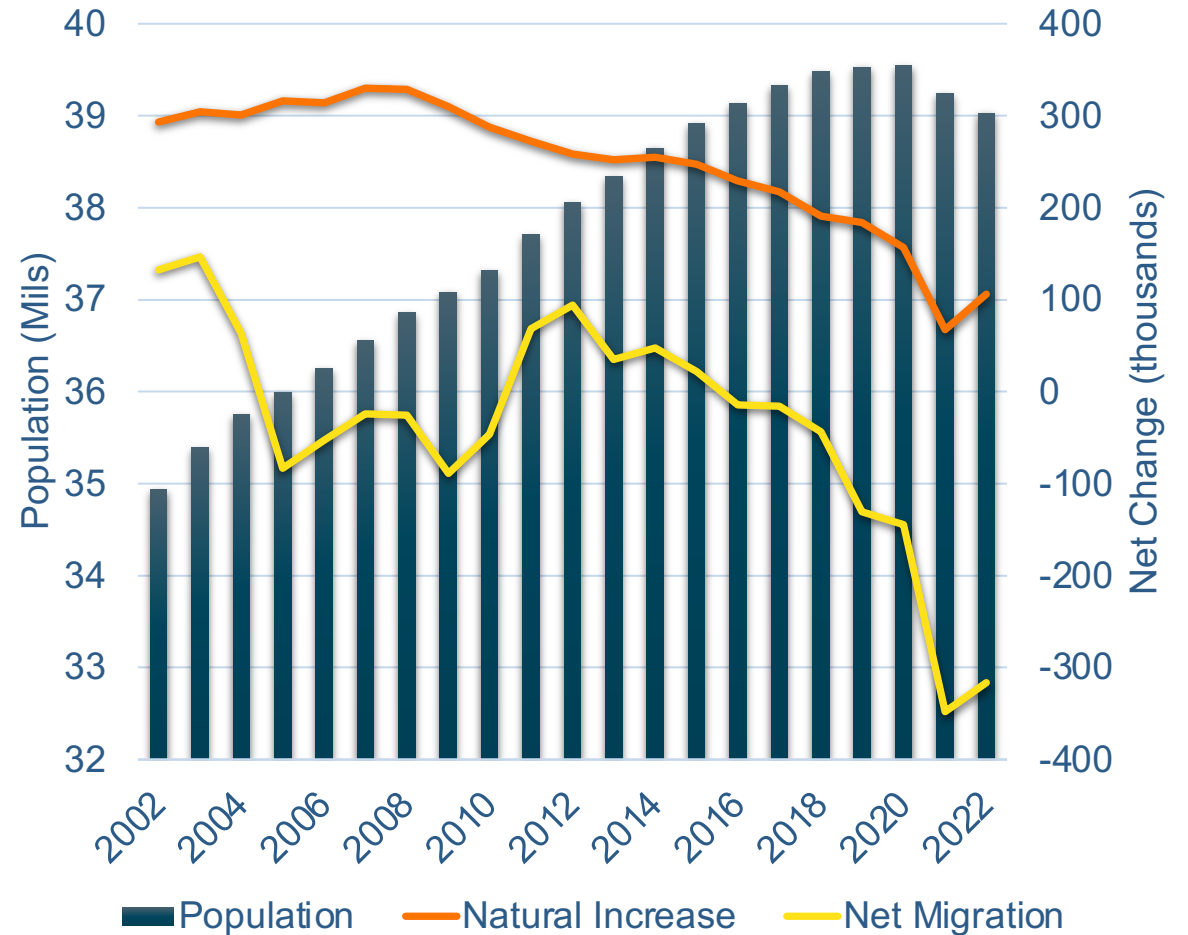
The Real California Story



CA Housing Vacancy Rates (HVS)



California- Population Change



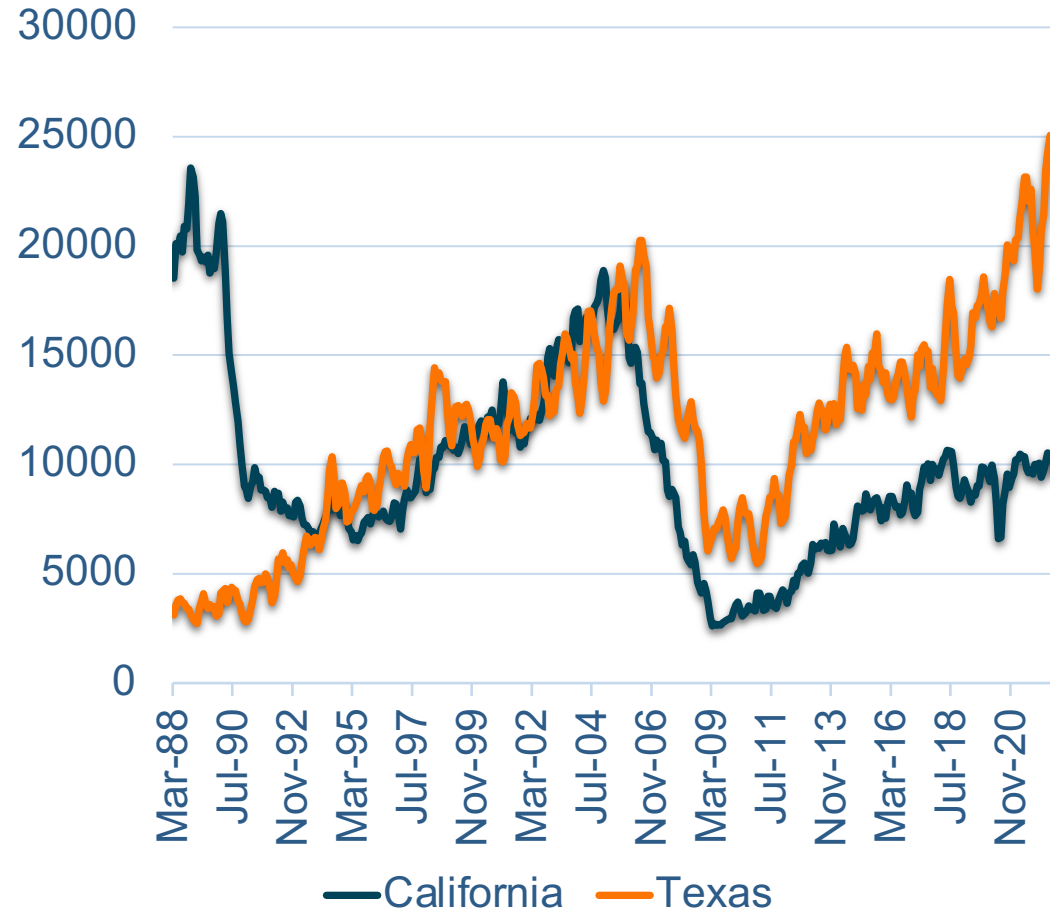
Policy and Labor Supply Constraints



■ Solutions

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

Private Housing Permits



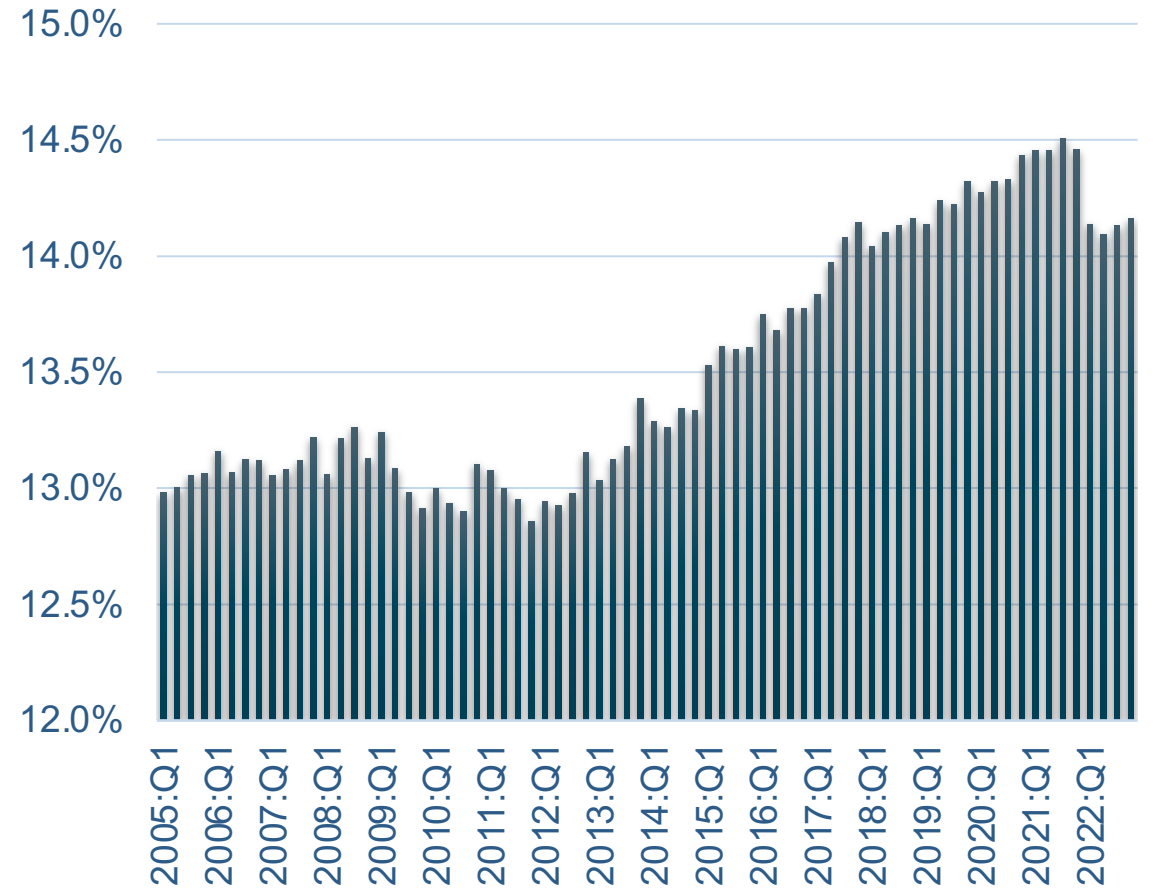
California Skill Shifts



**Net Migration by Educational Attainment,
Population over 25 (Total from 2012-2017)**

Education	CA	NV	AZ
Net Migration	-285,240	117,472	262,788
Less Than HS	-58,169	15,202	6,605
HS Grad	-134,048	33,371	64,261
Some College	-181,809	40,466	94,125
BA	19,318	21,011	70,607
Grad	69,468	7,422	27,190

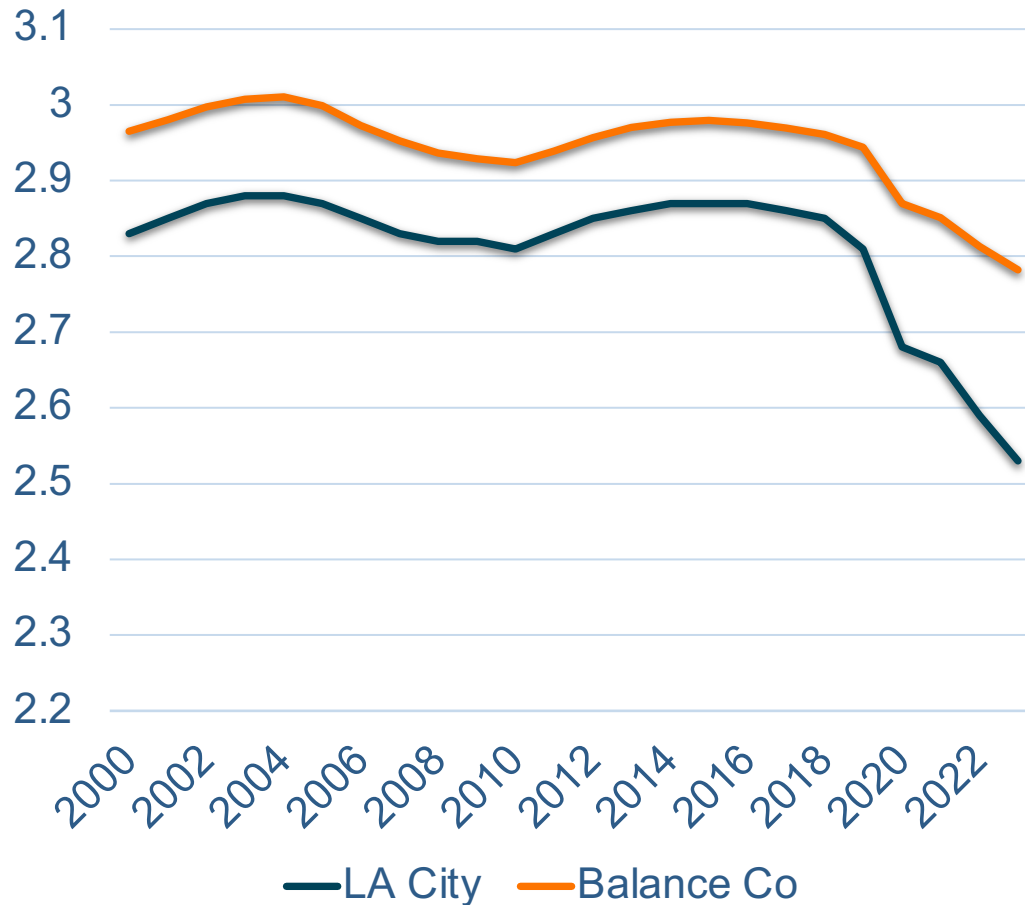
California Share National GDP



Its supply, not affordability...



People Per Household



Share > 30% Cost / Income

	Own		Rent	
	2016	2021	2016	2021
Alameda	34.0%	34.4%	49.6%	51.0%
Fresno	32.9%	32.8%	60.5%	53.0%
Kern	34.4%	32.2%	54.4%	56.8%
Los Angeles	43.8%	43.6%	58.3%	58.8%
Orange	40.7%	37.1%	56.6%	56.1%
Riverside	40.7%	38.7%	58.0%	59.8%
Sacramento	32.9%	32.1%	54.6%	54.7%
San Diego	40.0%	39.4%	57.1%	57.6%
Santa Clara	34.7%	32.4%	48.1%	44.9%

Regional Outcomes

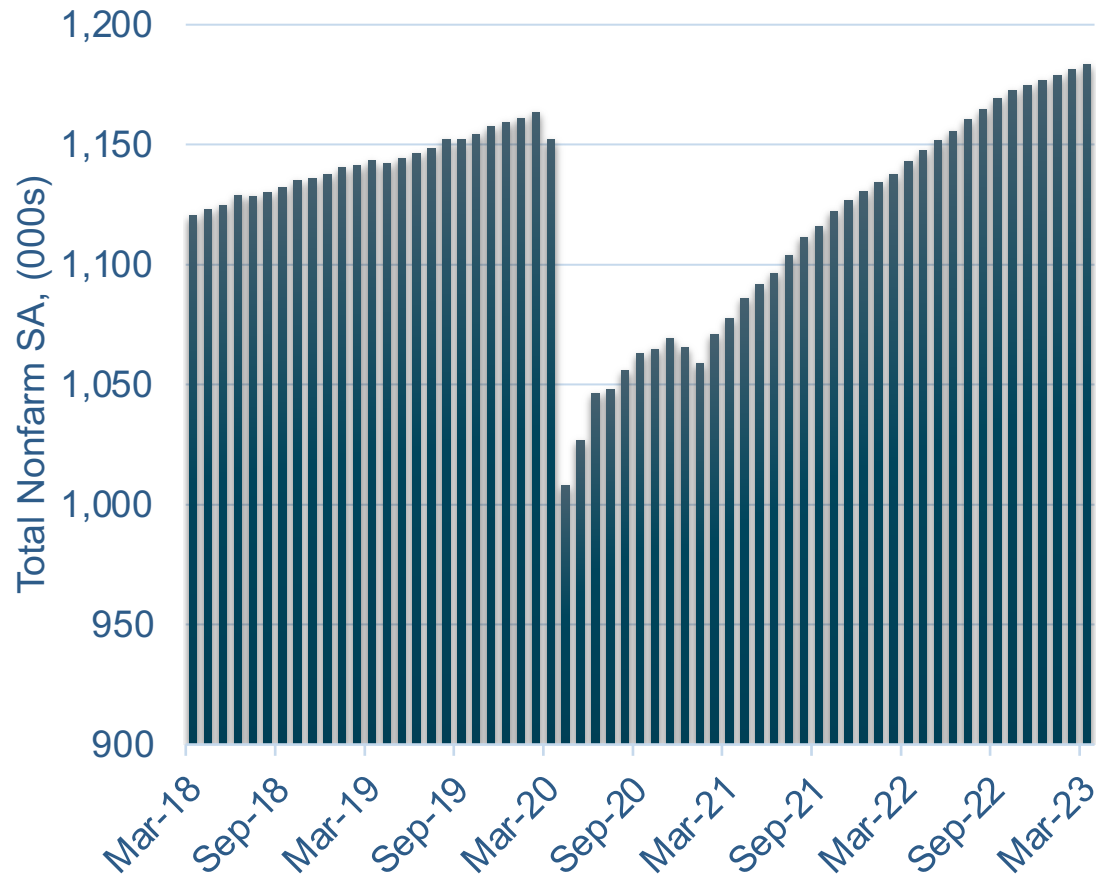


	Payrolls		Unemployment		Labor Force	
	Feb-23	3 Yr Ch	Feb-20	Feb-23	Feb-23	3 Yr Ch
Total Nonfarm	278.3	10.1%	6.0	6.1	348.2	4.6%
Stockton	1678.7	5.5%	4.0	4.6	2145.1	2.0%
Inland Empire	388.9	4.9%	7.4	7.2	464.2	1.8%
Fresno	1078.4	3.9%	3.6	4.3	1130.2	1.9%
Bakersfield	289.5	3.5%	8.2	8.2	397.7	1.6%
San Diego	1566.5	2.9%	3.2	3.7	1601.3	0.6%
San Jose	1181.1	1.5%	2.6	3.2	1077.6	-1.2%
Orange County (MD)	1702.9	1.1%	2.9	3.5	1596	-1.6%
San Francisco (MD)	1206.2	0.2%	2.2	2.9	1032.4	-1.8%
Oakland (MD)	1195.8	-0.4%	3.0	3.9	1378.9	-2.1%
Ventura	314.5	-0.5%	3.6	4	414.9	-2.1%
Los Angeles (MD)	4607.3	-0.5%	5.1	4.9	4970.6	-5.4%
Santa Rosa	208.7	-1.0%	2.7	3.4	250.7	-2.9%

South Bay Employment



South Bay Total Nonfarm Employment

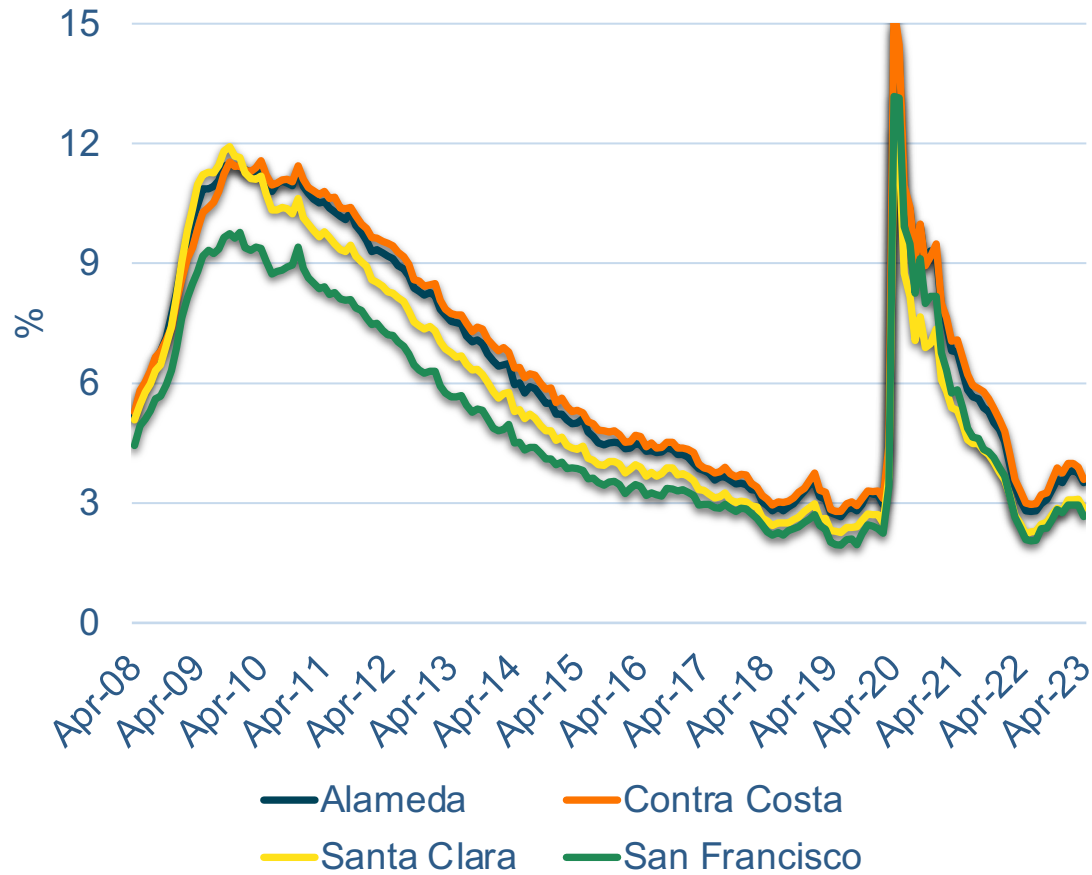


Industry	San Jose MSA Employment			CA 1-Yr % Chg
	Apr-23 (000s)	1-Yr Abs. Chg	1-Yr % Chg	
Total Nonfarm	1182.9	35.5	3.1	2.4
logistics	21.2	2.1	11.2	2.3
Leisure/Hosp.	104.7	10.0	10.6	7.0
Educ./Health	195.5	10.0	5.4	5.5
Prof/Sci/Tech	176.9	7.8	4.6	2.7
Management	15.9	0.7	4.3	1.6
Manufacturing	180.8	5.0	2.9	0.9
Government	96.9	1.9	2.0	2.2
Retail Trade	74.3	0.2	0.2	-0.3
Construction	54.3	0.1	0.2	-0.6
Admin Support	65.6	-0.2	-0.2	-0.1
Financial Act.	37.6	-0.3	-0.8	0.3
Wholesale Trd.	28.4	-0.3	-1.1	-1.0
Information	105.5	-1.5	-1.4	-0.4

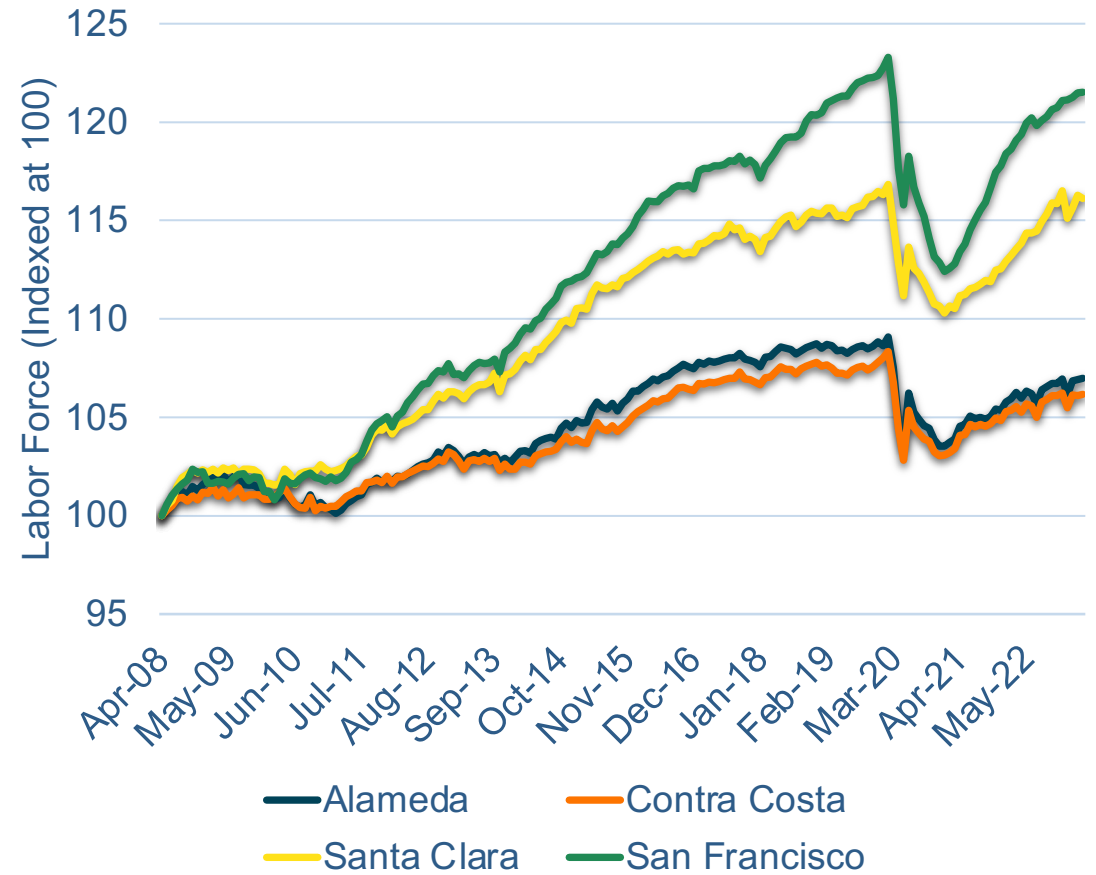
Bay Area Labor Market - Counties



Unemployment Rate



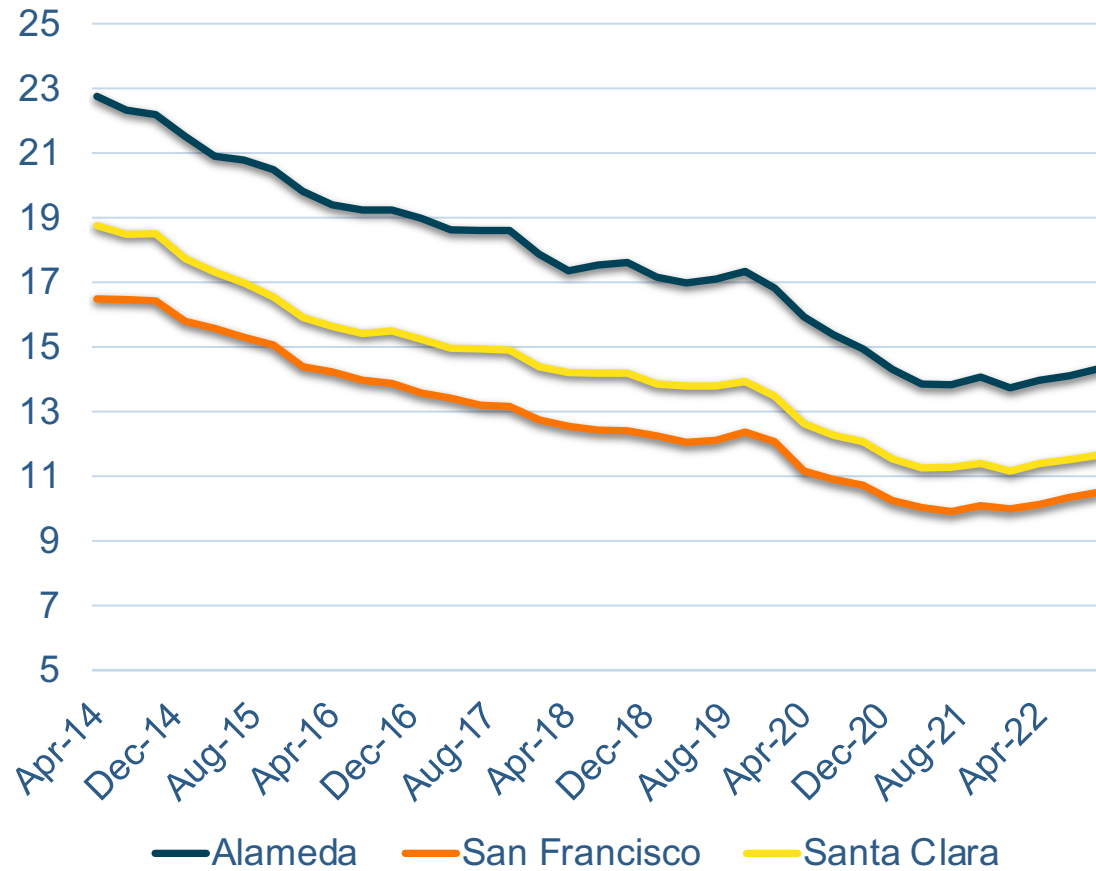
Labor Force



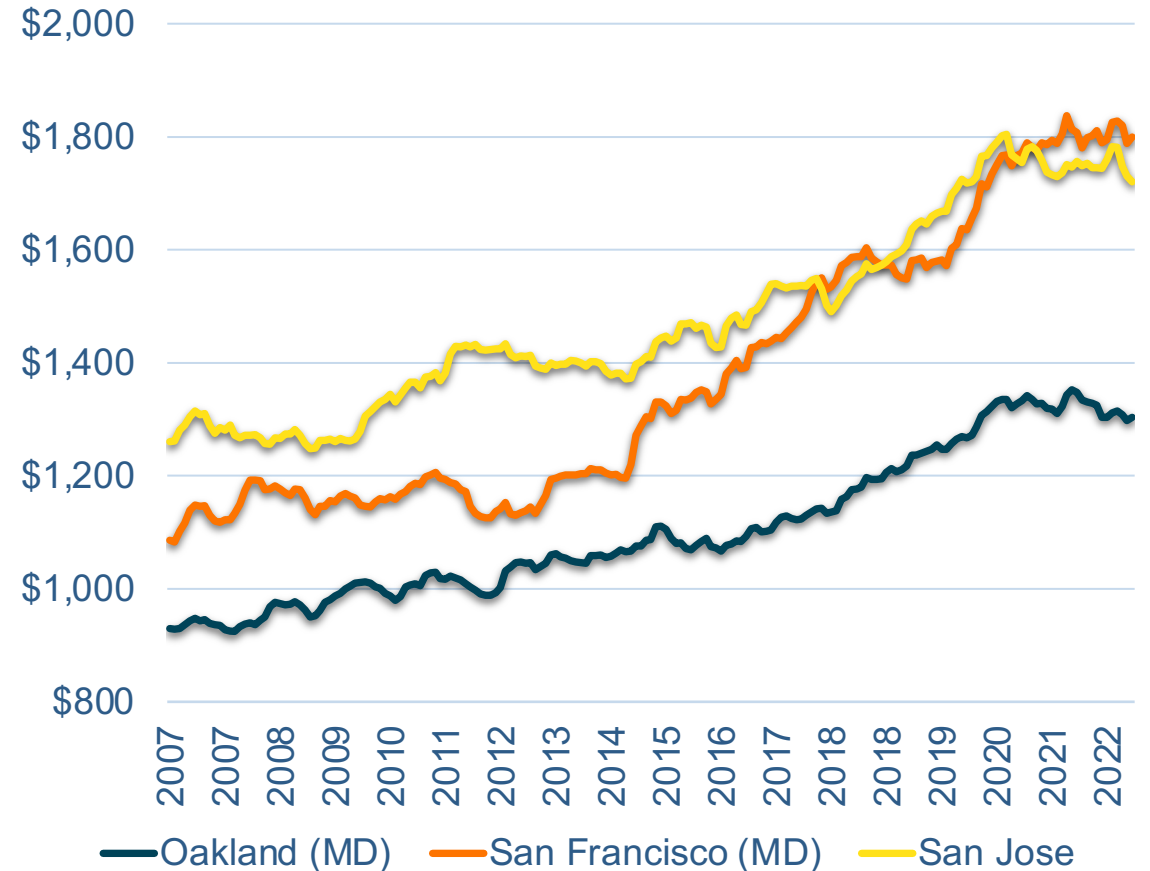
Personal Finances



Subprime Population % Share, Counties



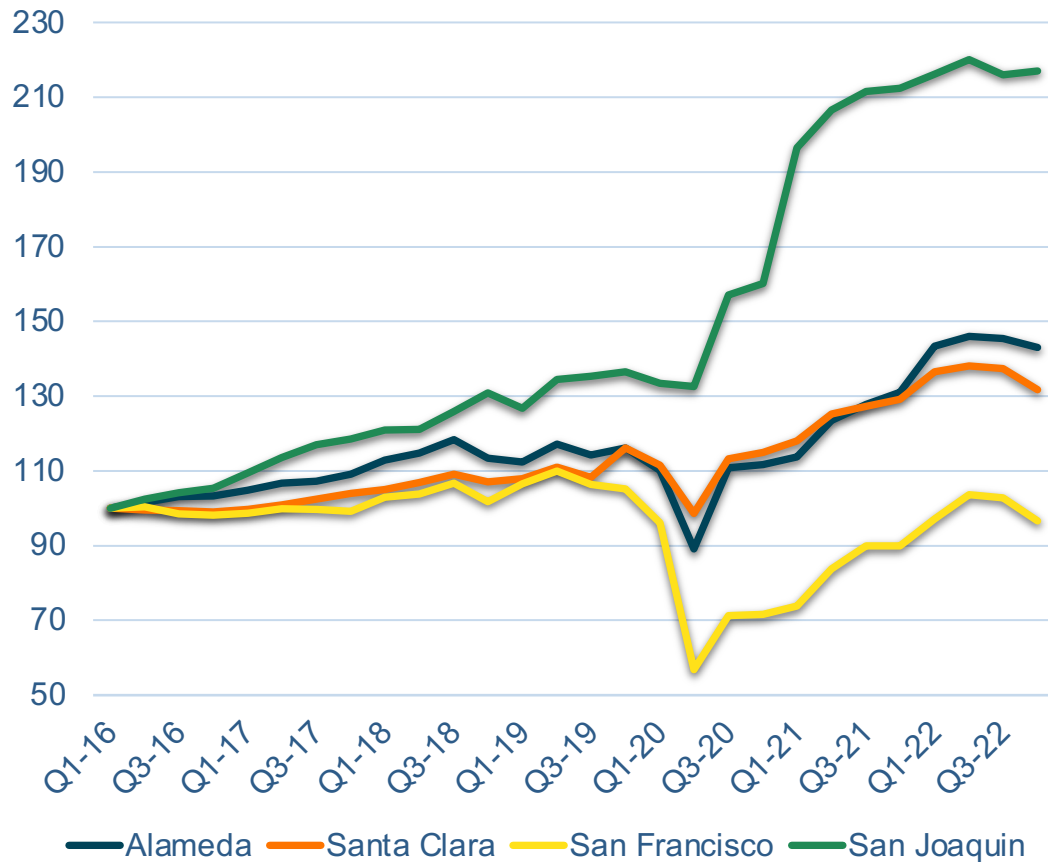
Weekly Wages, Statistical Areas



Bay Area Spending in Context



Index of Local Taxable Sales



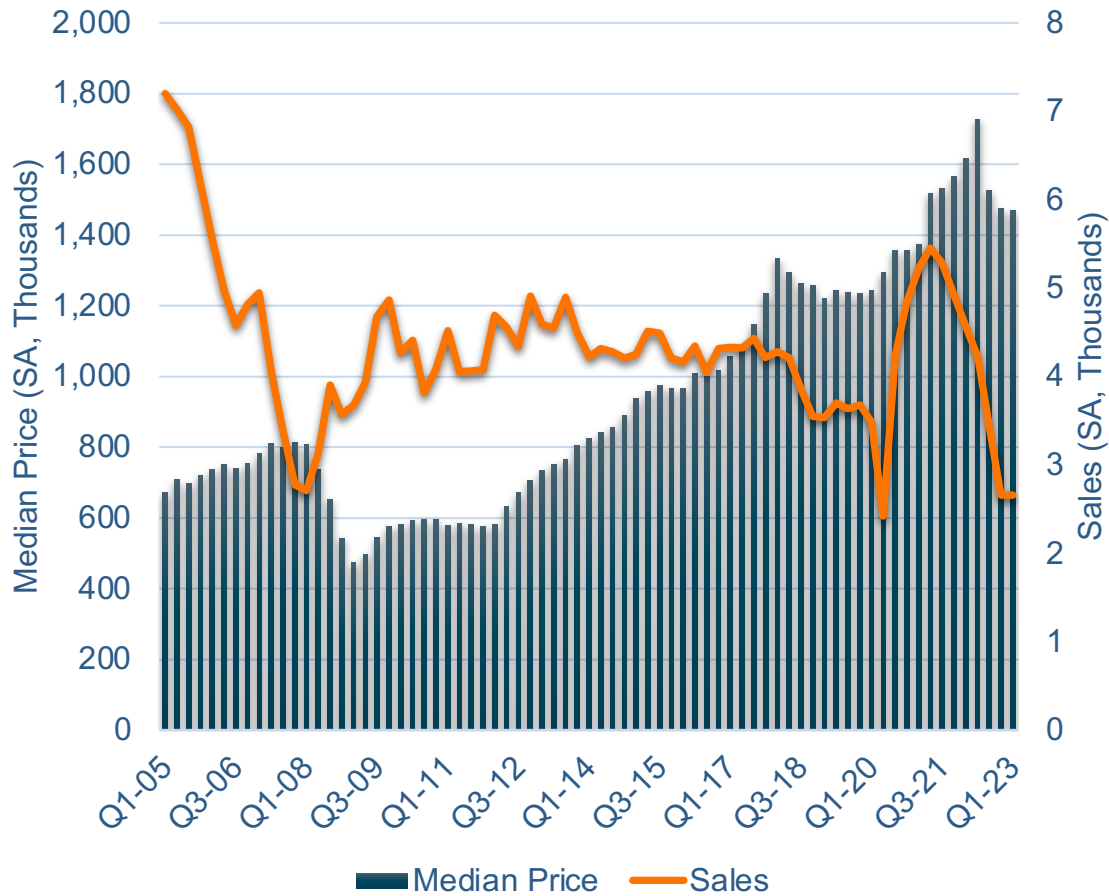
Restaurant and Hotel TS

Location	Q4-22	3 Yr Change (%)
Riverside	16,091,772	30.4
Fresno	5,192,130	27.1
Kern	4,472,990	26.8
San Bernardino	13,352,876	26.6
San Diego	28,909,806	22.3
Orange	22,349,013	18.3
Ventura	5,547,215	17.3
Sacramento	9,201,125	16.8
Los Angeles	79,679,047	11.5
San Francisco	12,444,449	-16.7

South Bay Housing Market



South Bay Single-Family Homes



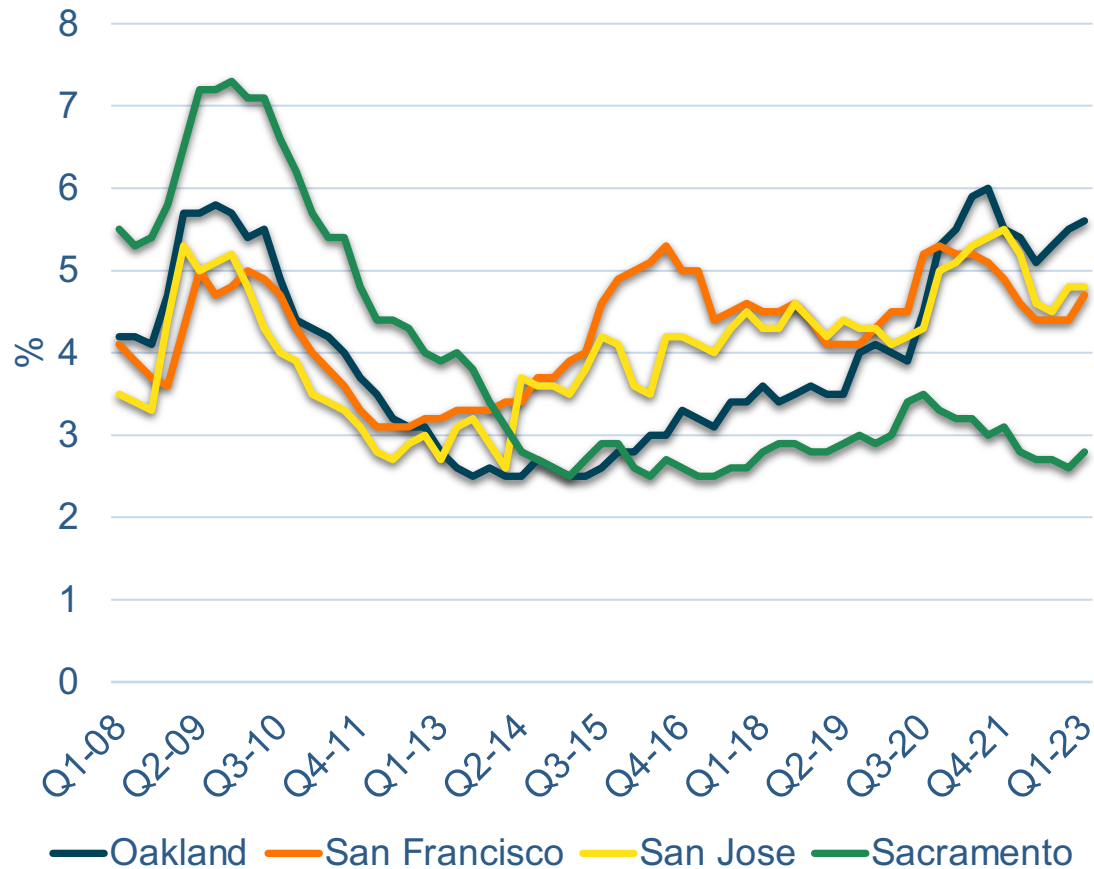
Bay Area Listings



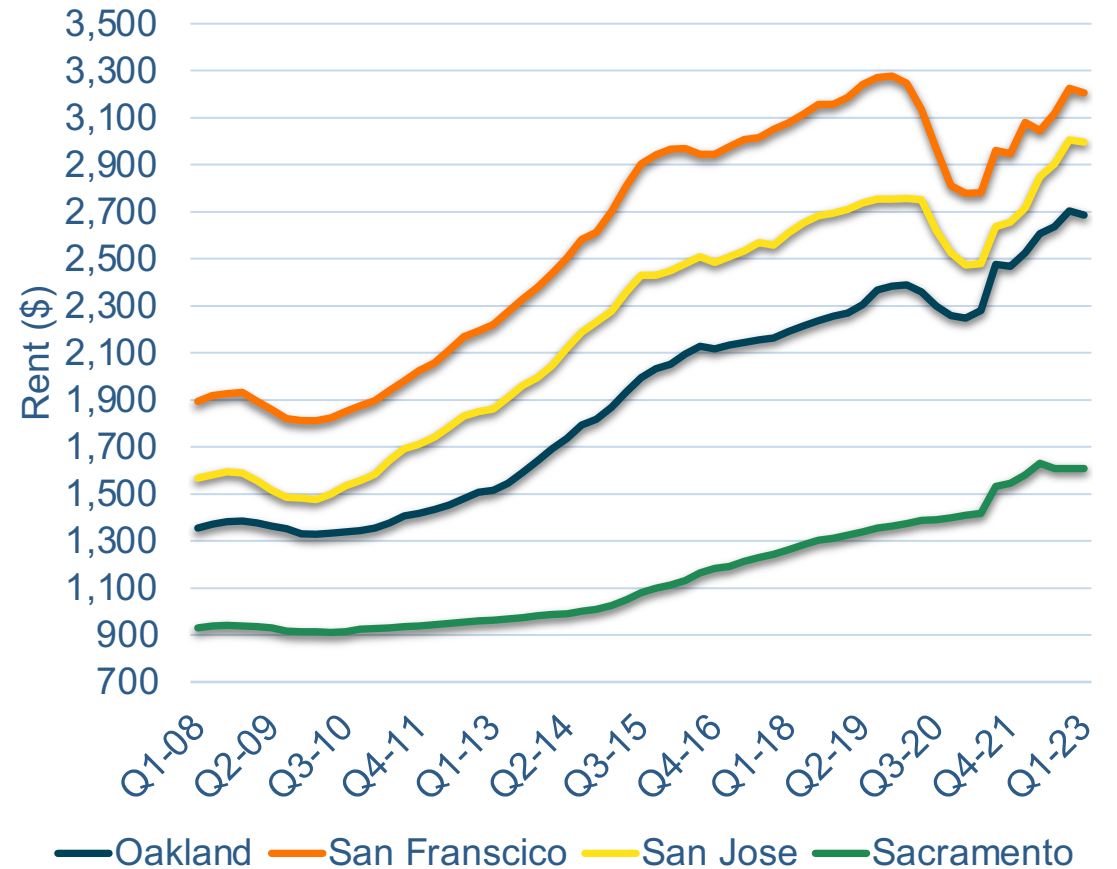
Bay Area Residential Rents & Vacancies



Vacancy Rates



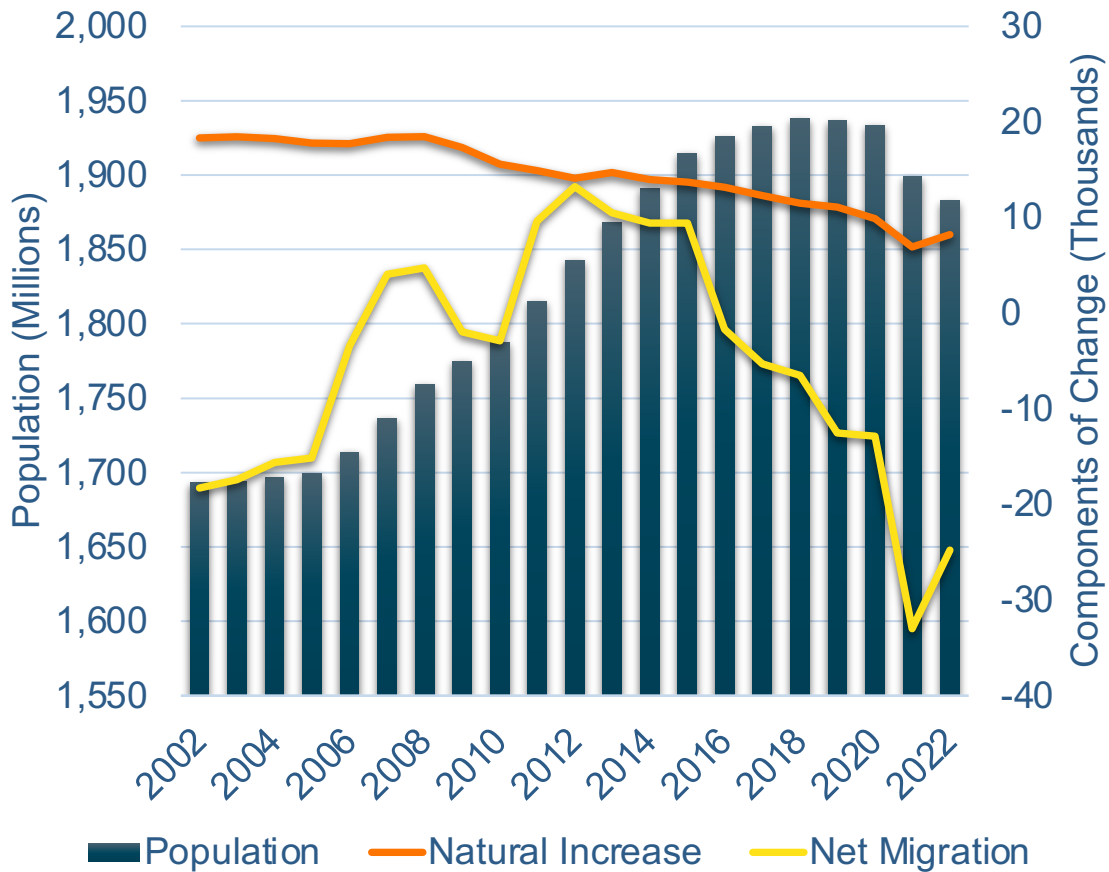
Residential Rents



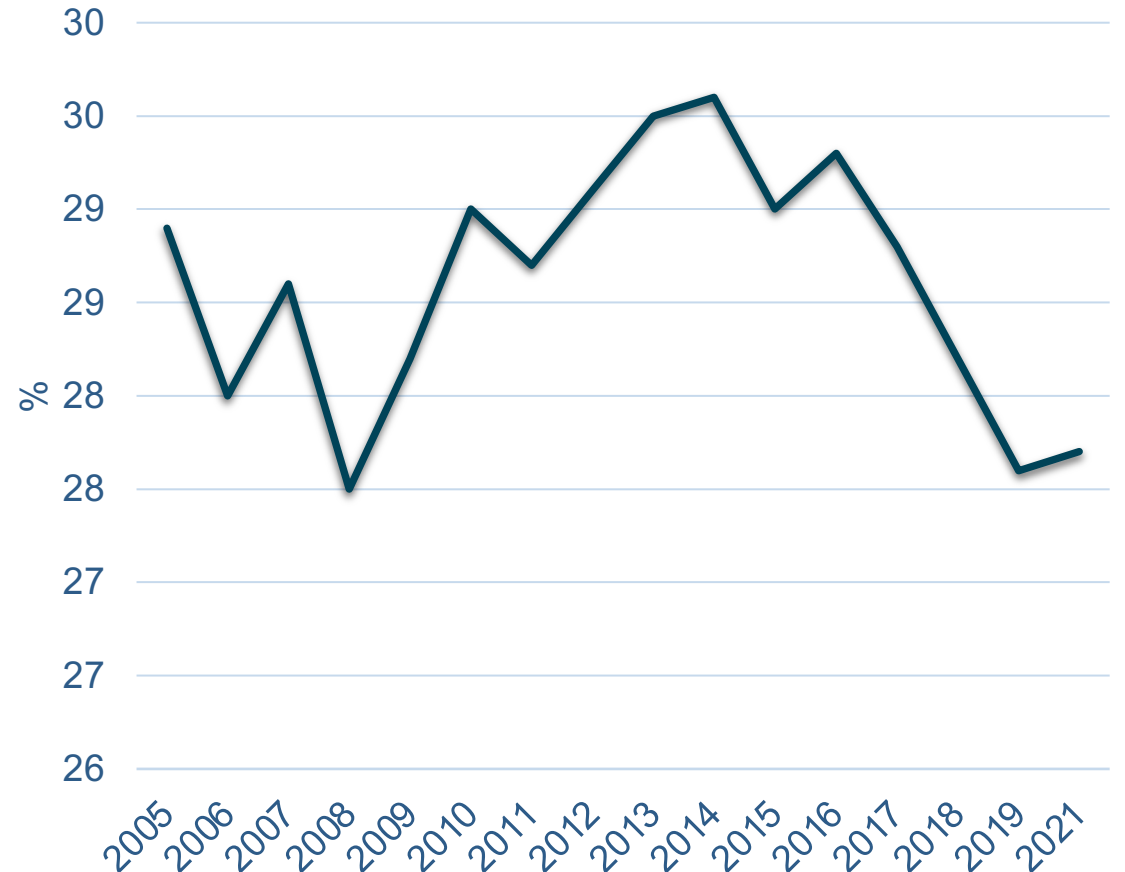
Santa Clara County Population Trends



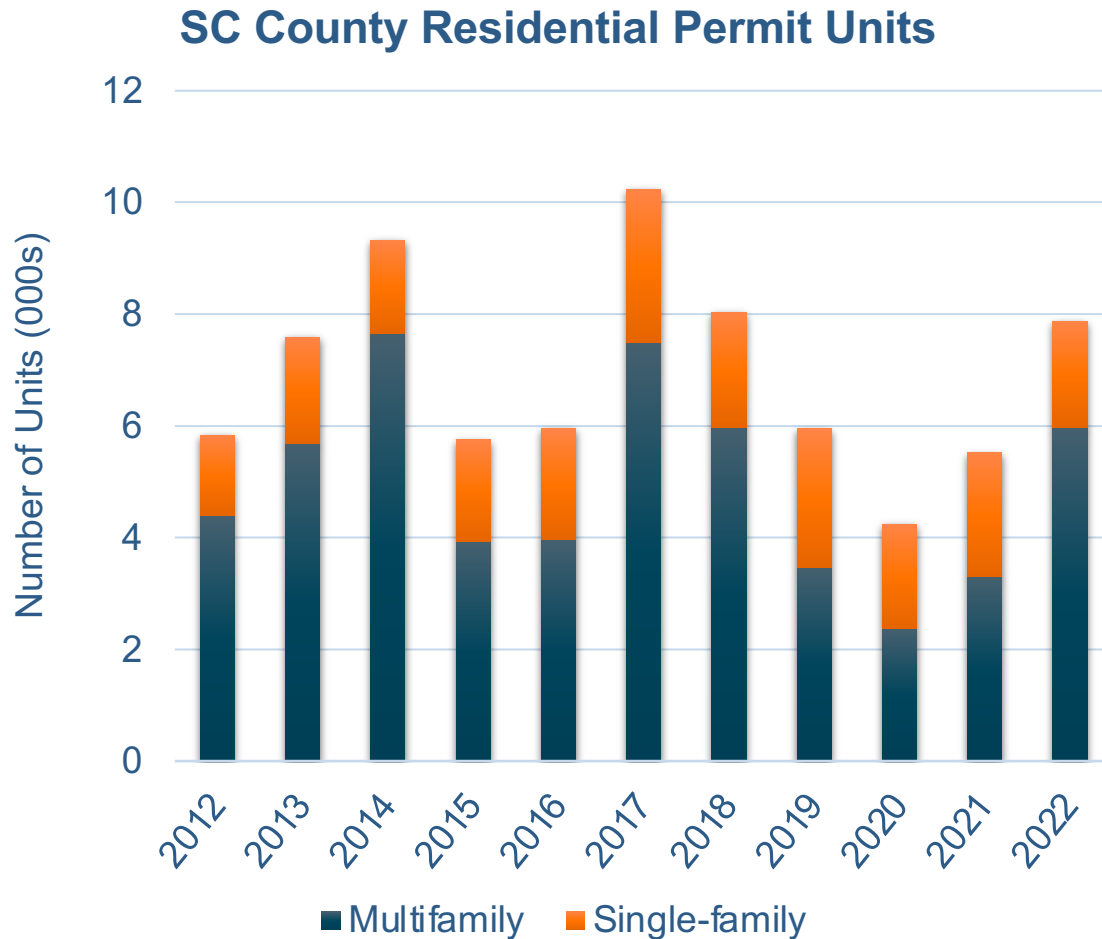
Santa Clara County Population



Median Rent as % of HH Income



Santa Clara County Residential Permits



Counties	Single-family Permits		Multifamily Permits	
	2022	1-Yr Chg	2022	1-Yr Chg
Santa Clara	1,585	-189	6,041	2,900
San Francisco	299	164	5,966	3,150
Sacramento	3,834	-345	4,756	2,490
Alameda	1,147	-381	3,285	-794
Contra Costa	1,612	-595	918	-783

What goes up, will come down... eventually



Nasdaq Composite

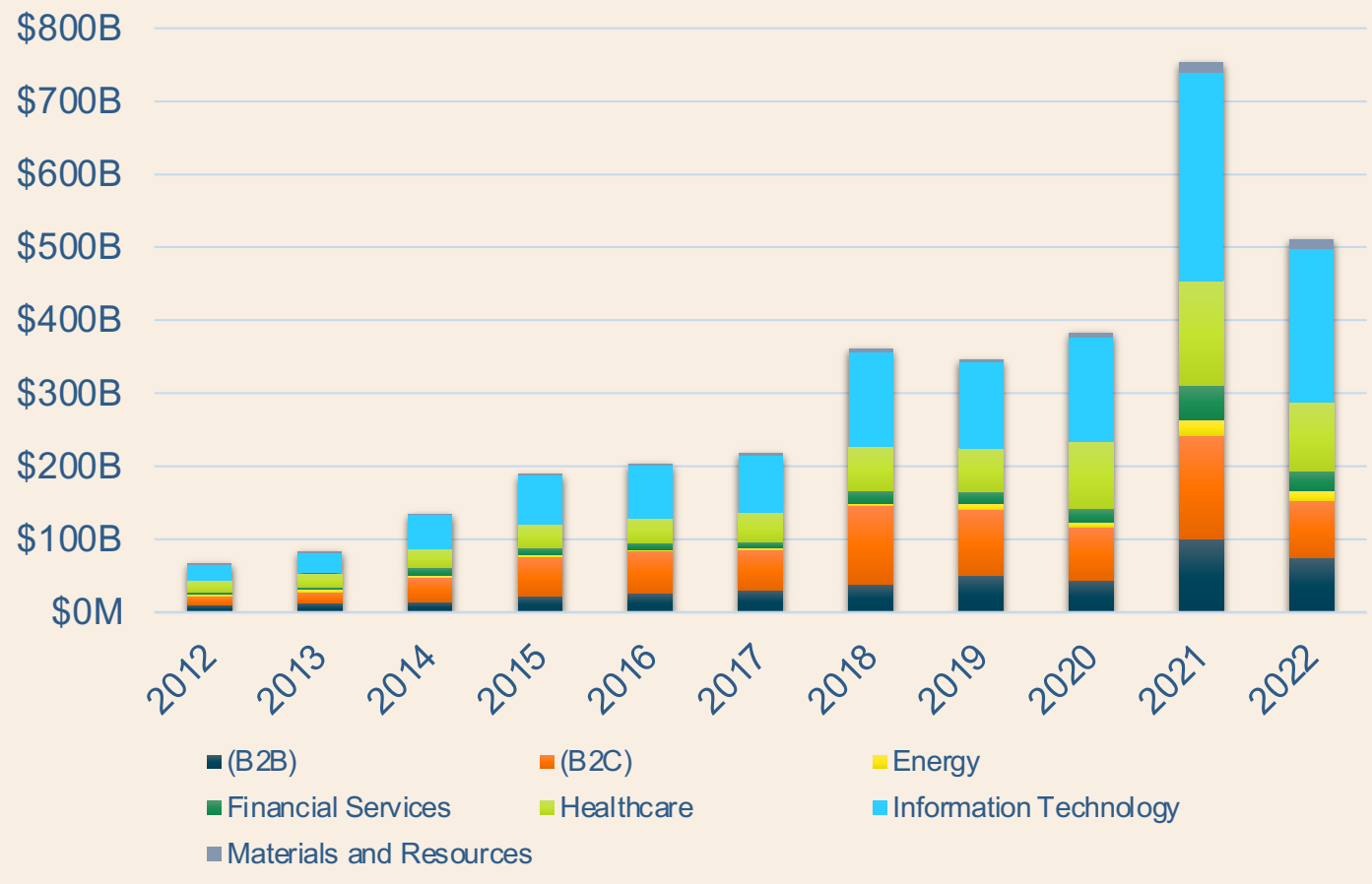


Shiller CAPE P/E Ratio





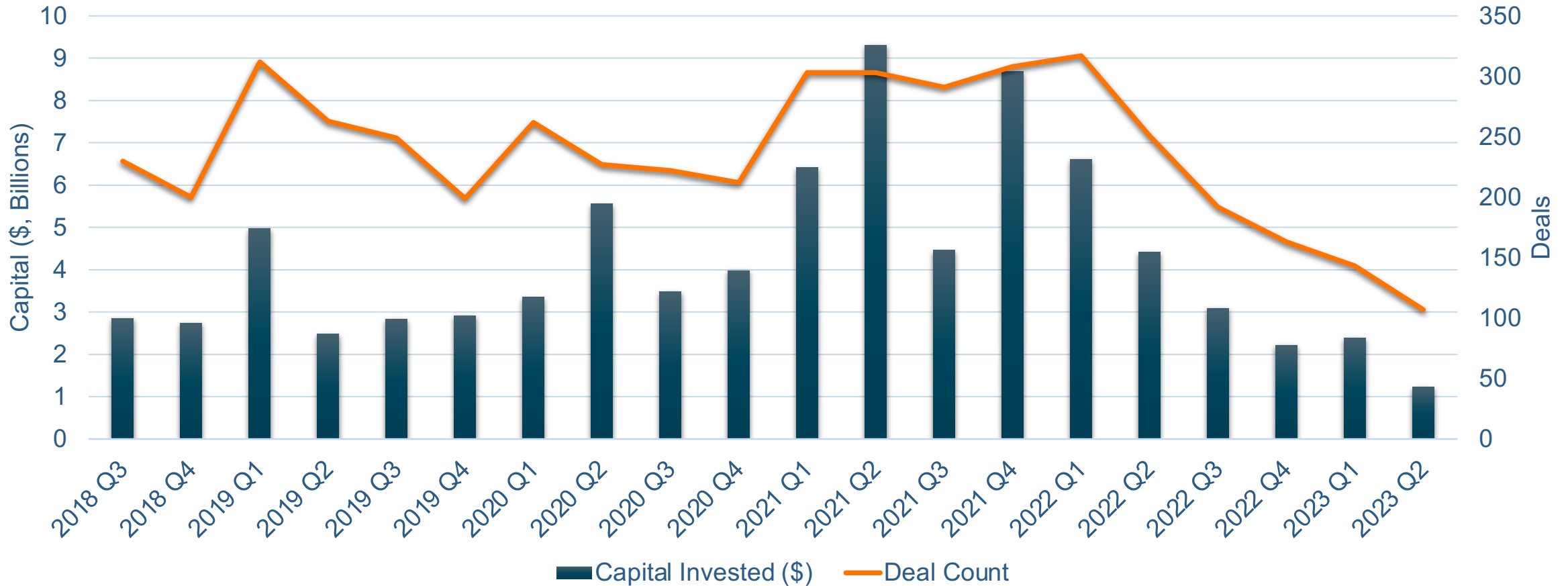
Venture Capital Invested by Industry Sector



VC Keeps Falling – SC County VC Quarterly



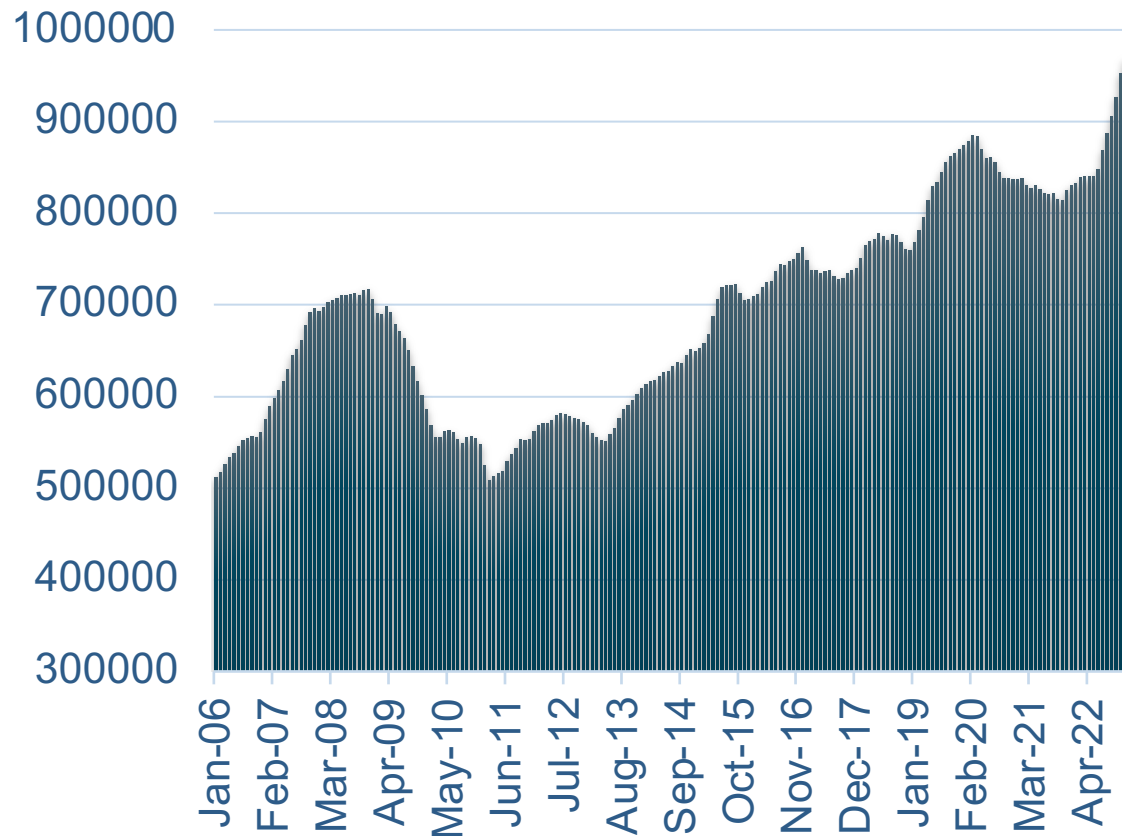
Capital Invested and Number of Deals



Non-Res Main Street / Wall Street

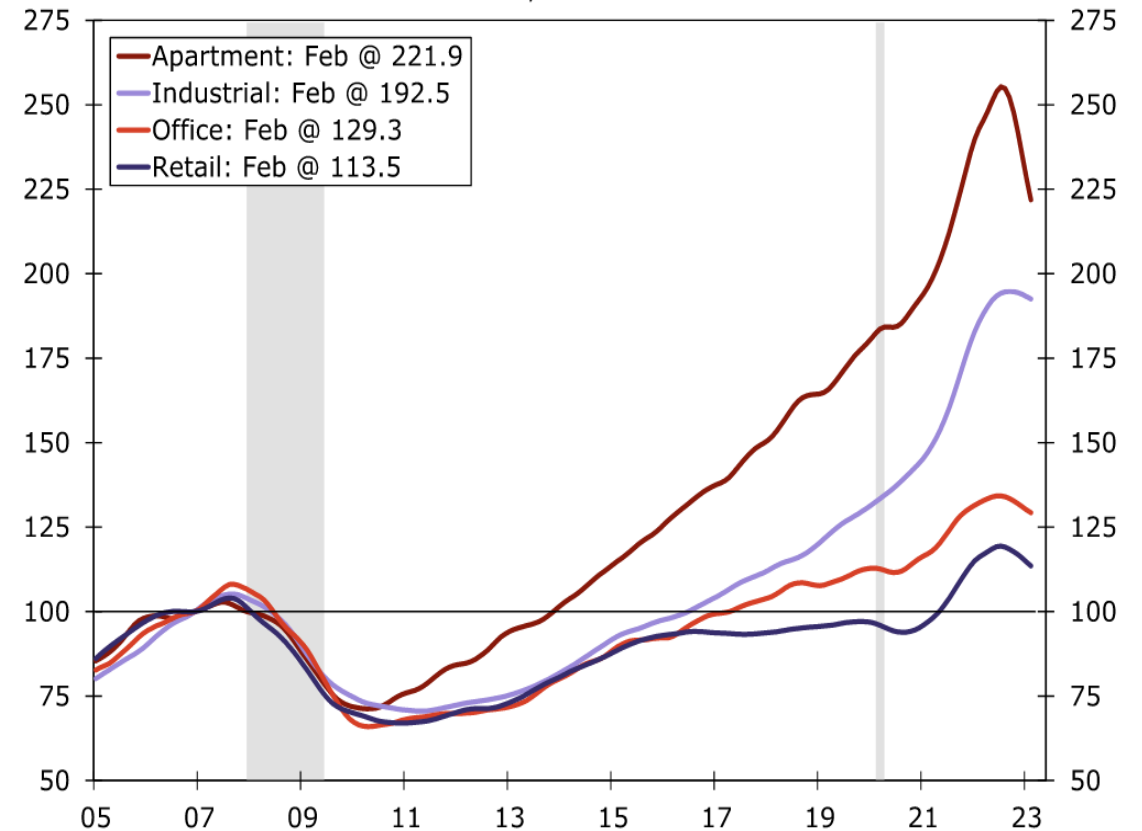


National Non-Res Construction Spending



Commercial Property Price Index

Index, 100=2006



Source: MSCI Real Capital Analytics and Wells Fargo Economics

Nonresidential Rents and Vacancies

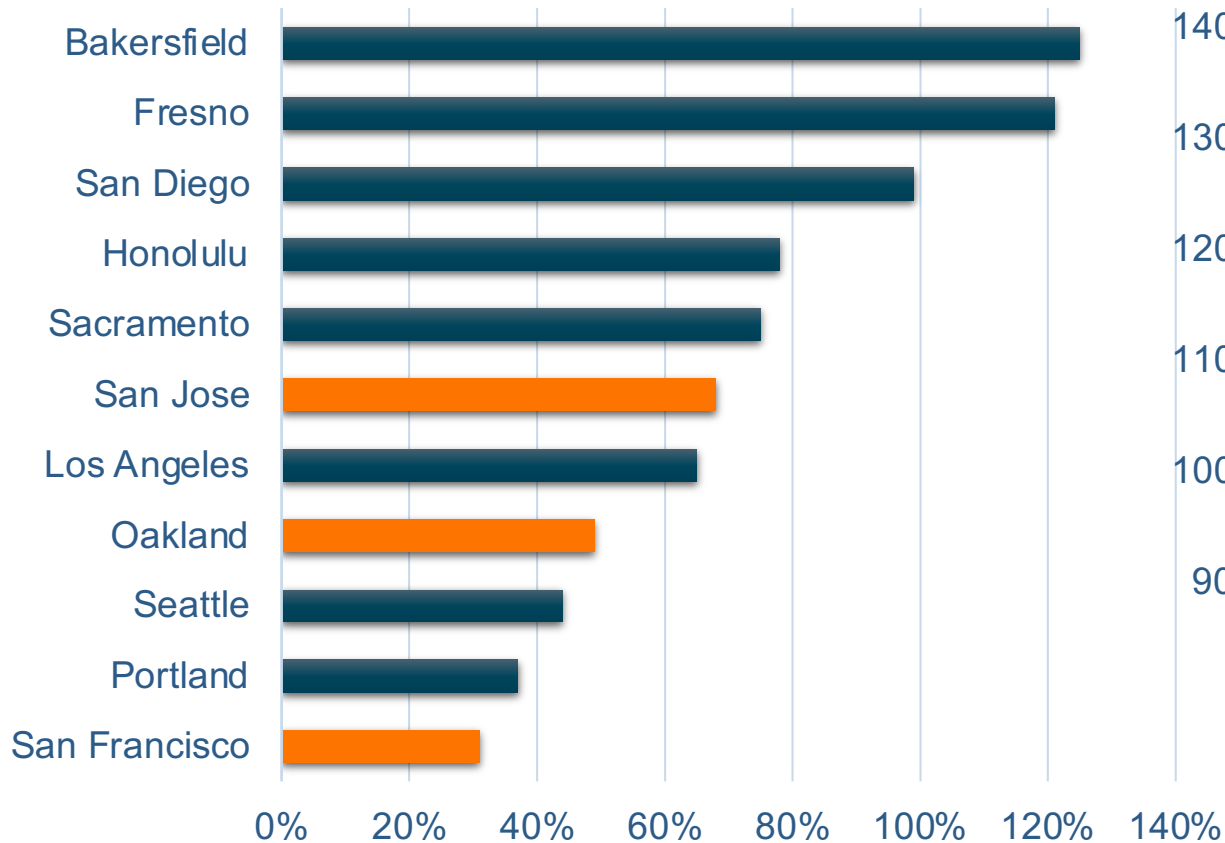


Office	Cost of Rent		Vacancy Rate	
	Q1-23 (\$)	1-Yr % Gr	Q1-23 (%)	1-Yr Chg
Sacramento	28.0	1.0	20.6	1.4
San Jose	48.3	0.7	20.4	1.1
San Francisco (MD)	64.5	0.4	15.2	1.2
Oakland (MD)	35.1	0.0	17.8	0.6
Retail				
San Jose	38.1	0.9	5.8	0.3
Sacramento	24.8	0.7	10.4	0.2
San Francisco (MD)	41.0	0.4	5.0	0.1
Oakland (MD)	31.9	0.3	8.7	-0.2
Warehouse/Distribution				
San Francisco (MD)	13.1	14.7	3.9	-0.1
Oakland (MD)	8.6	13.6	3.0	-2.3
Sacramento	6.2	10.7	4.7	-1.0
San Jose	10.1	9.1	3.0	-2.7

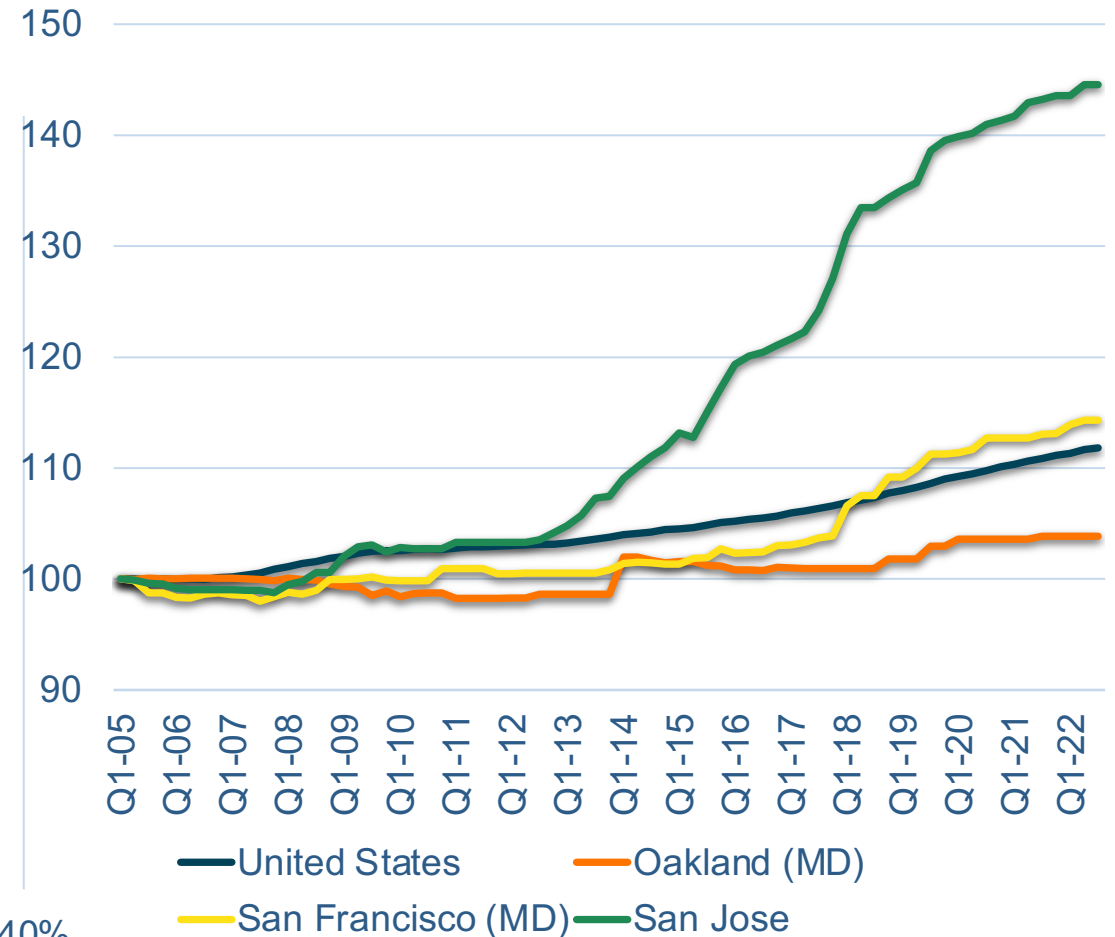
Where are the People?



People Downtown; Sep-Nov 2019 vs 2022, Pacific Cities



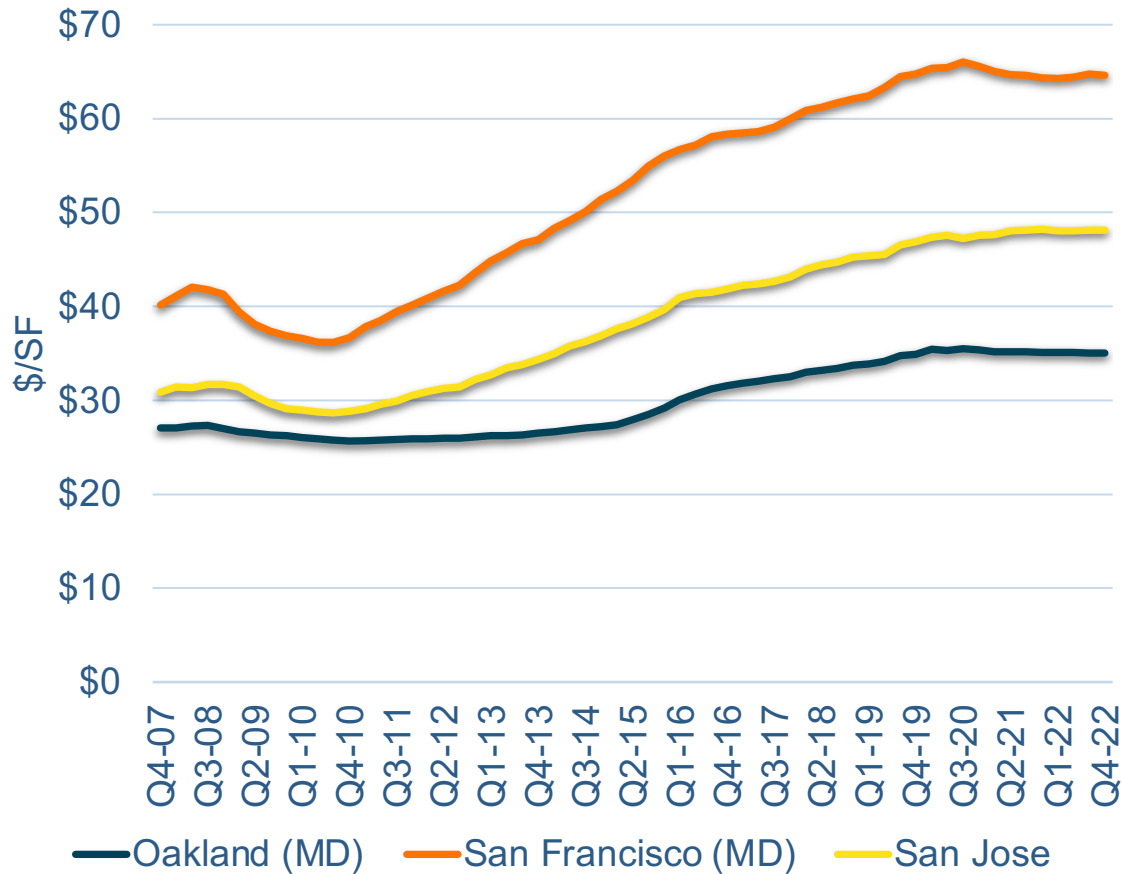
Indexed Square Feet of Office Space



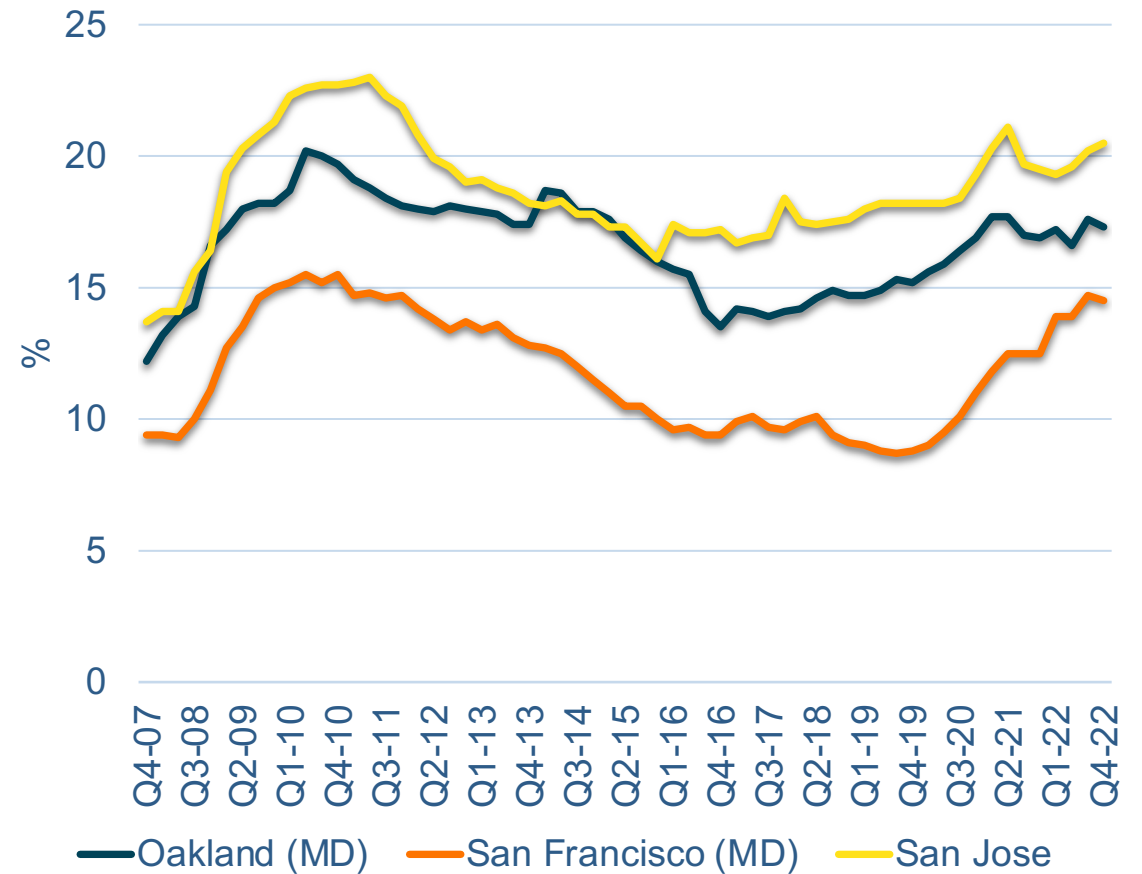
Bay Area Office Deep Dive Cntd.



Rents, All Classes



Vacancy Rate, All Classes

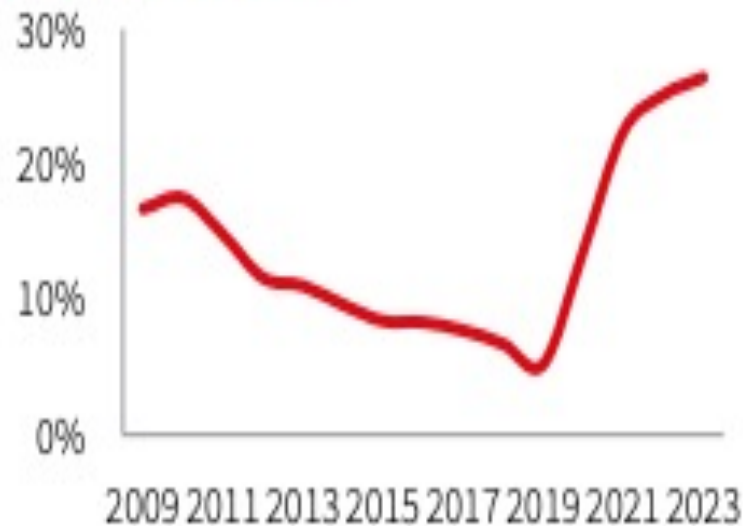


Bay Area Office w/ Shadow Space (JLL)



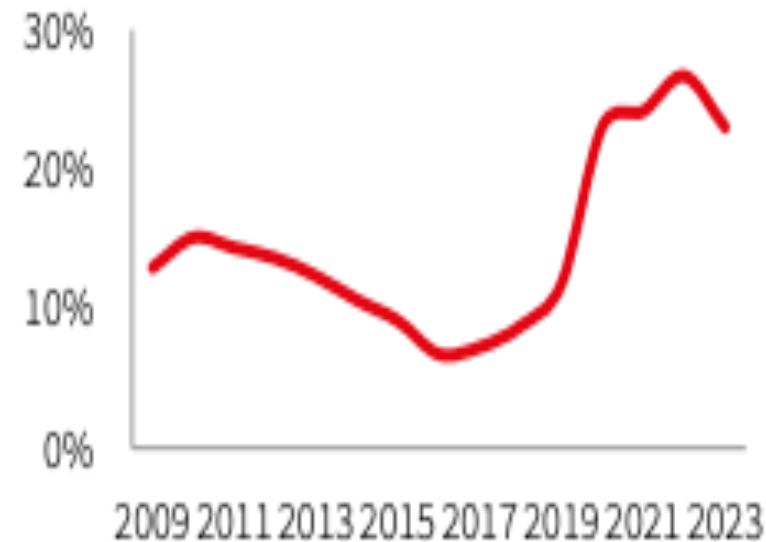
San Francisco

Total vacancy (%)



Oakland

Total vacancy (%)



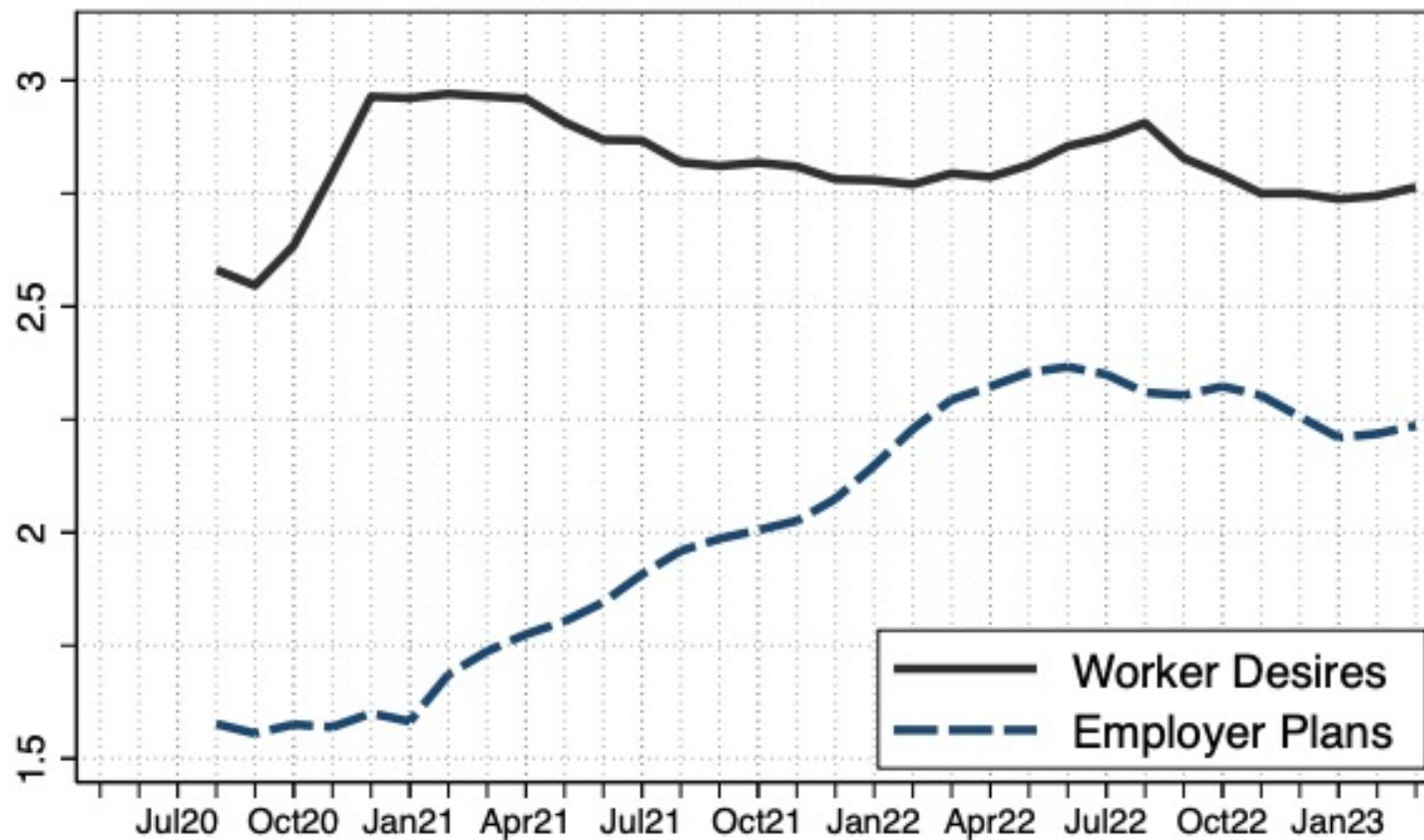
Silicon Valley

Total vacancy (%)





Average Days per Week Working From Home After the Pandemic Ends: Workers Able to WFH



Sample: Workers able to work from home

How much farther can inflation go?



Unit Money Supply



8% to 13% increase in P to offset M2 (with little real growth)

2 Year Inflation Scenarios

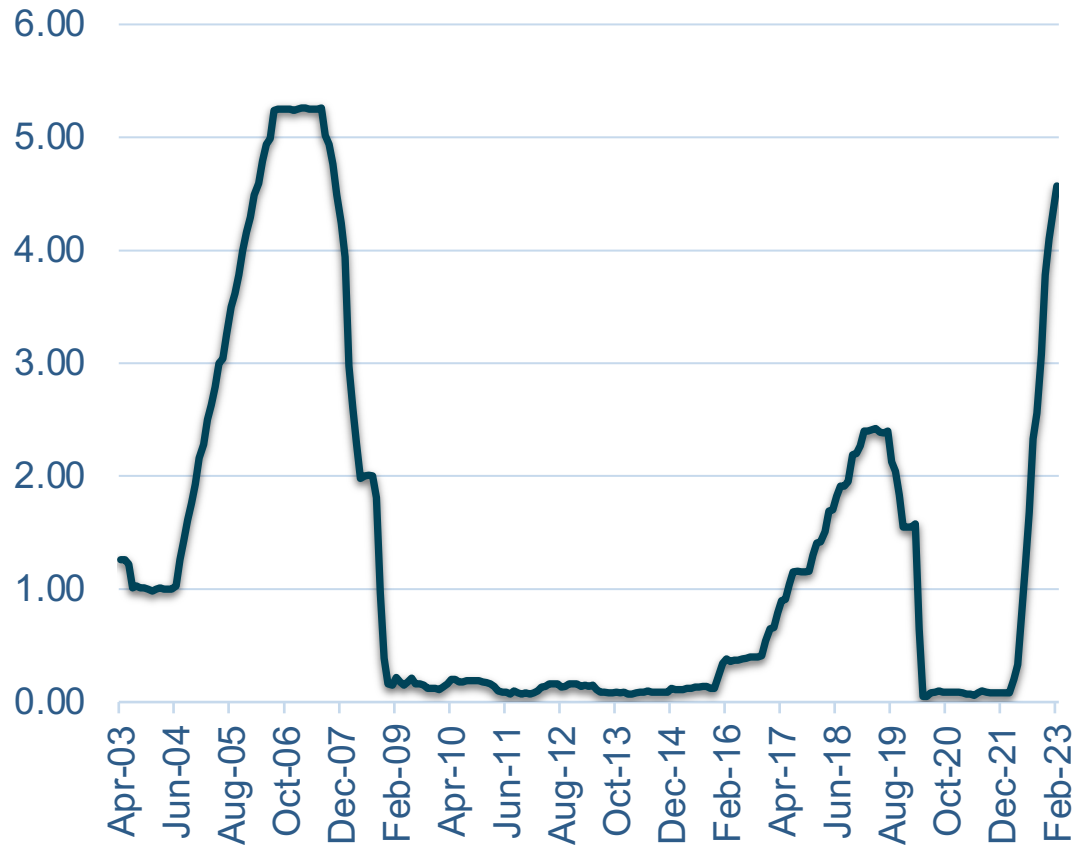
		Target UMS	Weak QT	Strong QT
To Date				
M2	32.5%	0.75	-0.7%	-6.2%
Real Growth	5.0%	0.70	6.2%	1.7%
Inflation	13.6%	0.65	13.7%	8.1%
Remainder	14.0%	0.60	21.1%	16.1%

The Fed Response

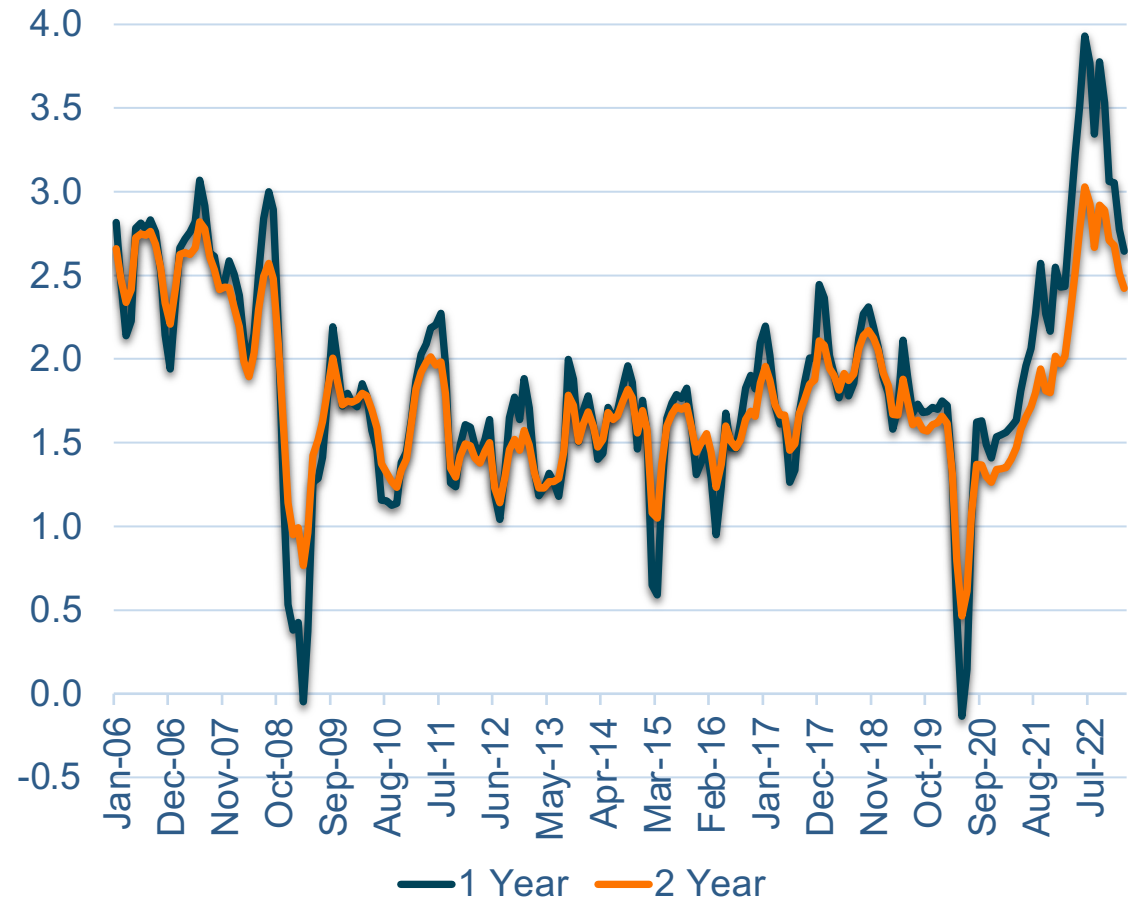
Changing the pace of price adjustment, not the scale of it...



Effective Federal Funds Rate



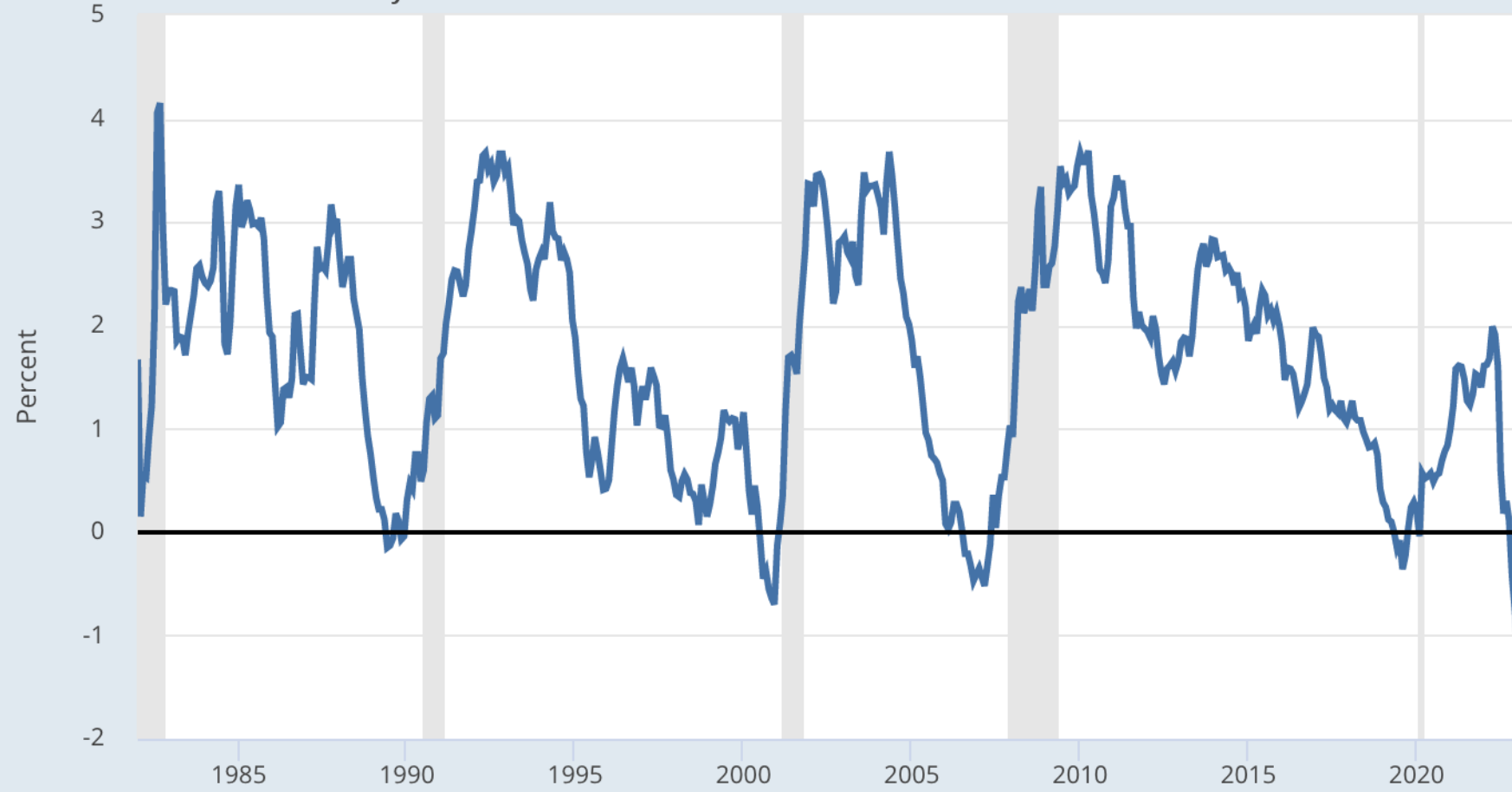
Inflation Expectations





FRED 

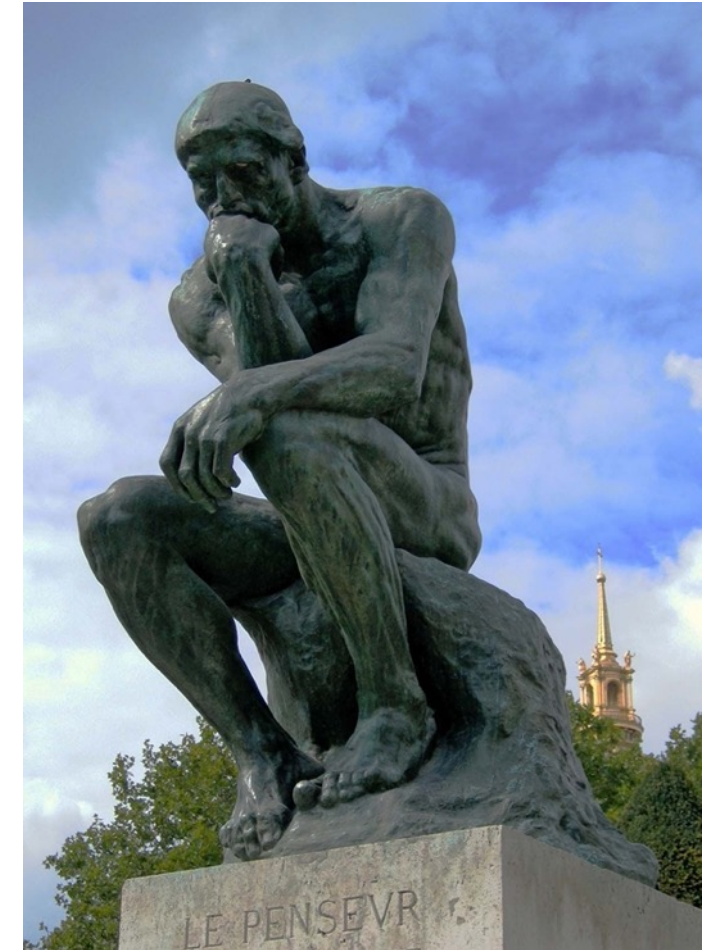
— 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity



Some questions to keep you up tonight



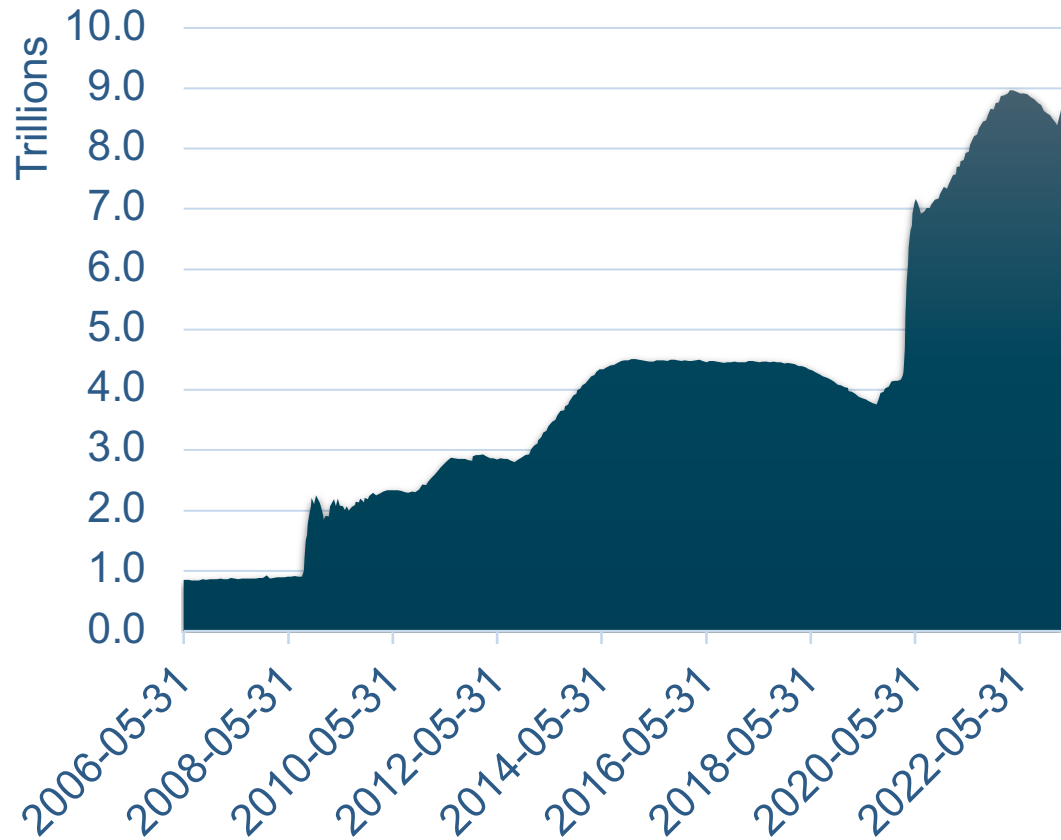
- Does free will truly exist?
- Why is there a "d" in "fridge" but not in "refrigerator"?
- Can an atheist get insurance to cover acts of God?
- If the Fed inverts the yield curve and the economy is otherwise fine, will it cause a recession?



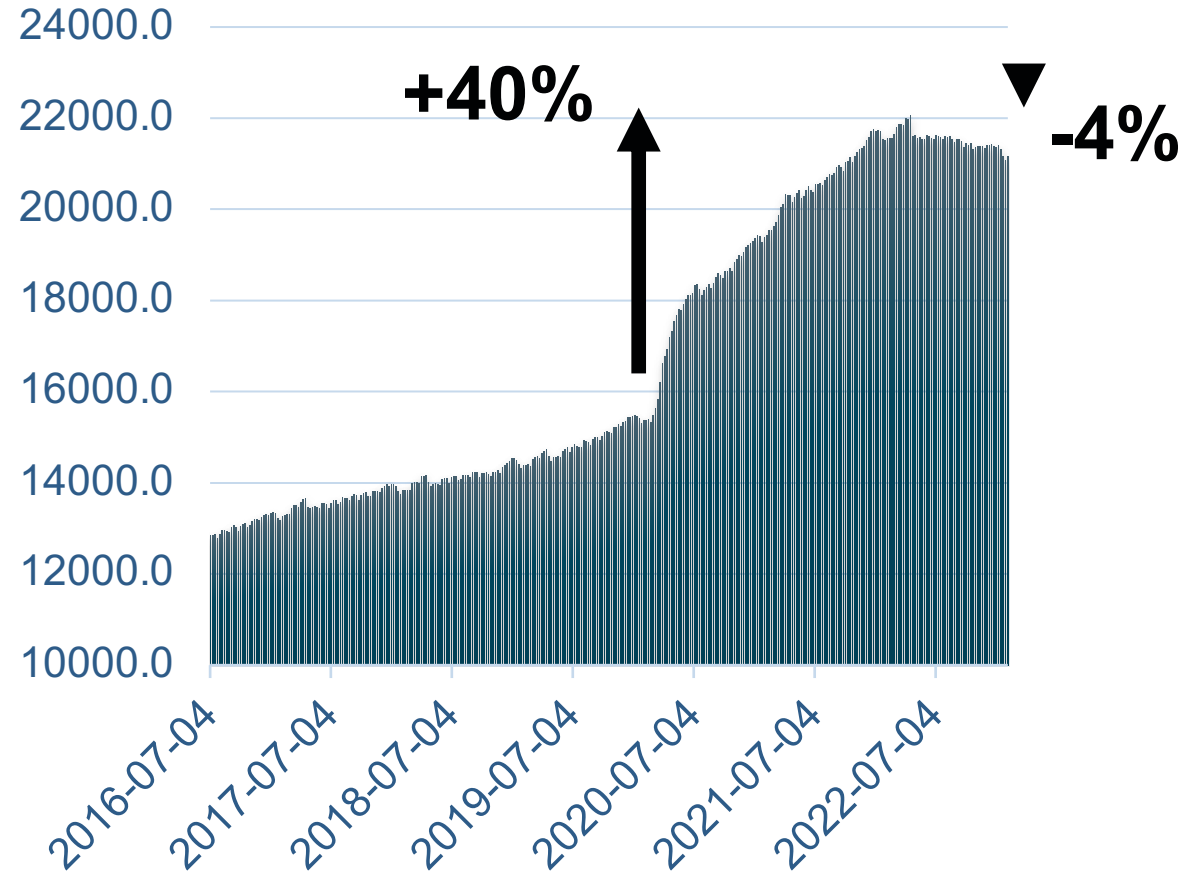
The Fed Response Part 2: QT



Federal Reserve Balance Sheet (Assets)



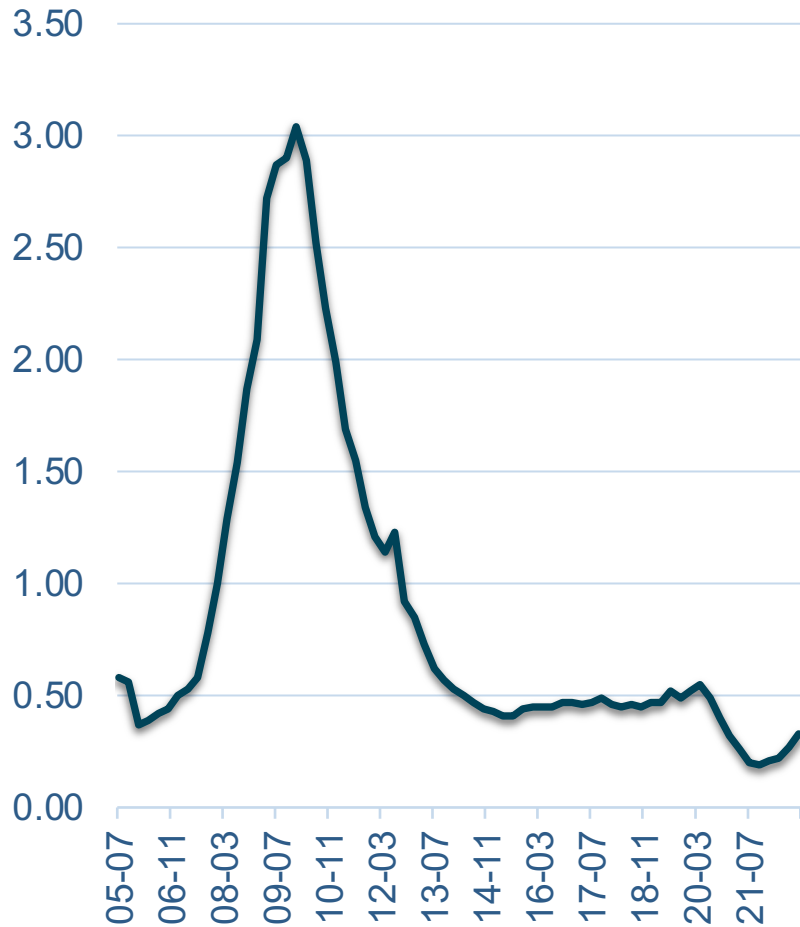
M2 (Weekly)



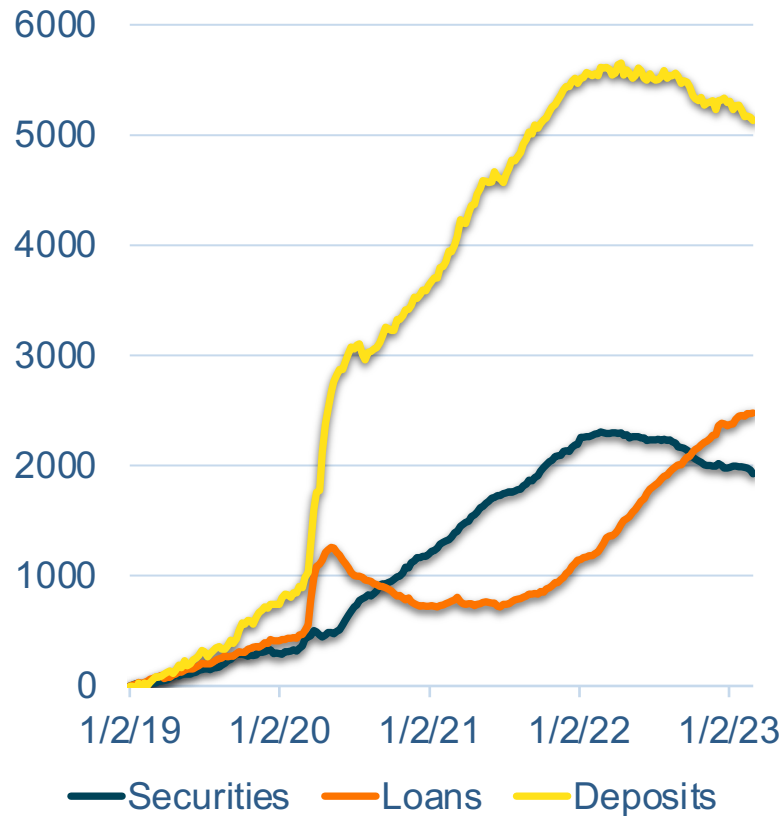
The Banking Crisis



Bank Charge Off Rate



Bank Assets and Liabilities (\$Billions, Change from Jan 2019)



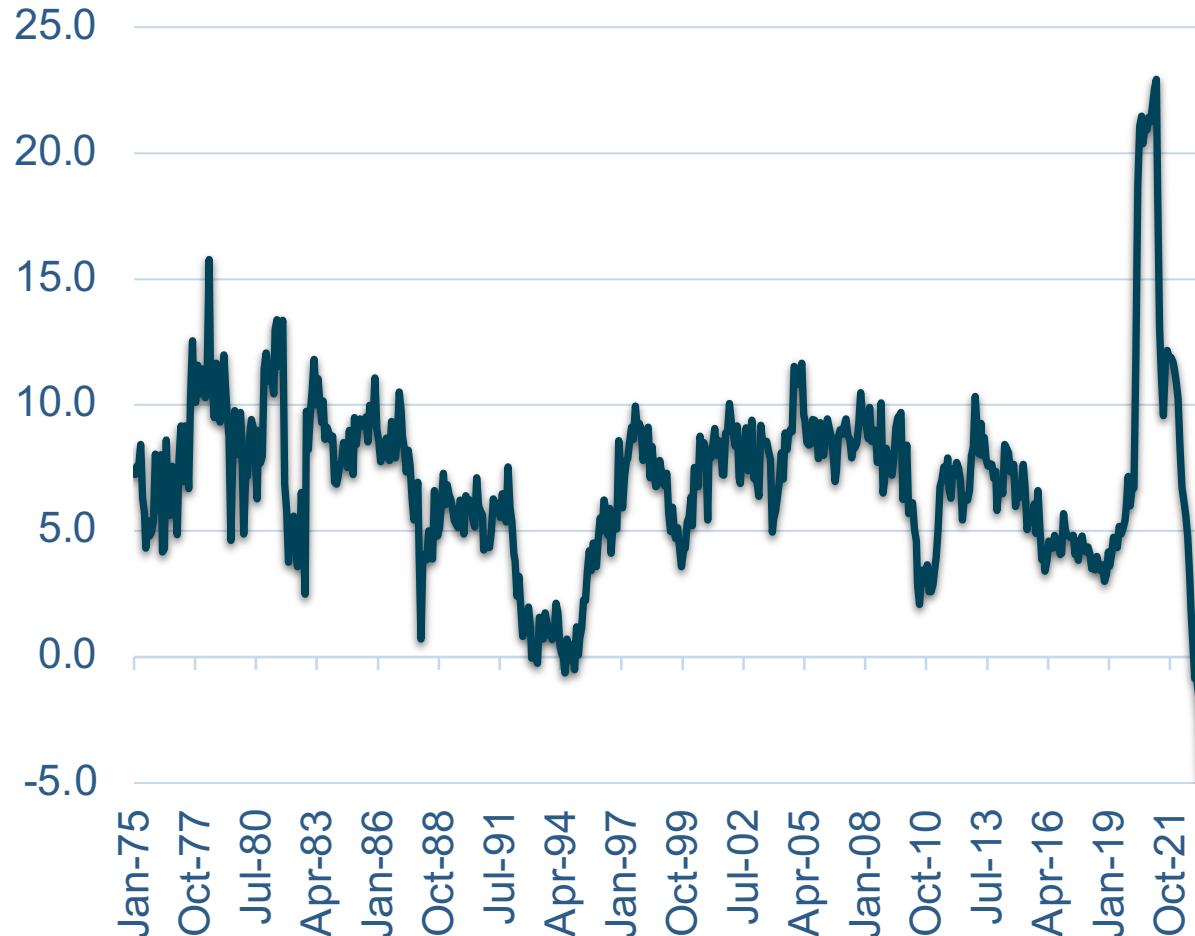
Commercial Bank Balance Sheets

	4/7/21	8/24/22	5/3/23
Securities	5017.0	5728.1	5227.7
		711.0	-500.3
		14.2%	-8.7%
Loans	10355.2	11609.3	12127.8
		1254.1	518.5
		12.1%	4.5%
Deposits	16780.0	18033.3	17150.0
		1253.3	-883.2
		7.5%	-4.9%
Reserves	1407.8	695.9	-205.5

Fed Policy



YoY Growth Deposits



- *Conducting the nation's monetary policy ... in pursuit of full employment and stable prices.*
- *Supervising and regulating banks ... to ensure the safety and soundness of the nation's banking and financial system.*

Error #1: Panic over full employment has negatively impacted price stability

Error #2: Panic over price stability has negatively impacted the banking system



THE WALL STREET JOURNAL.

MARKETS | FINANCIAL REGULATION

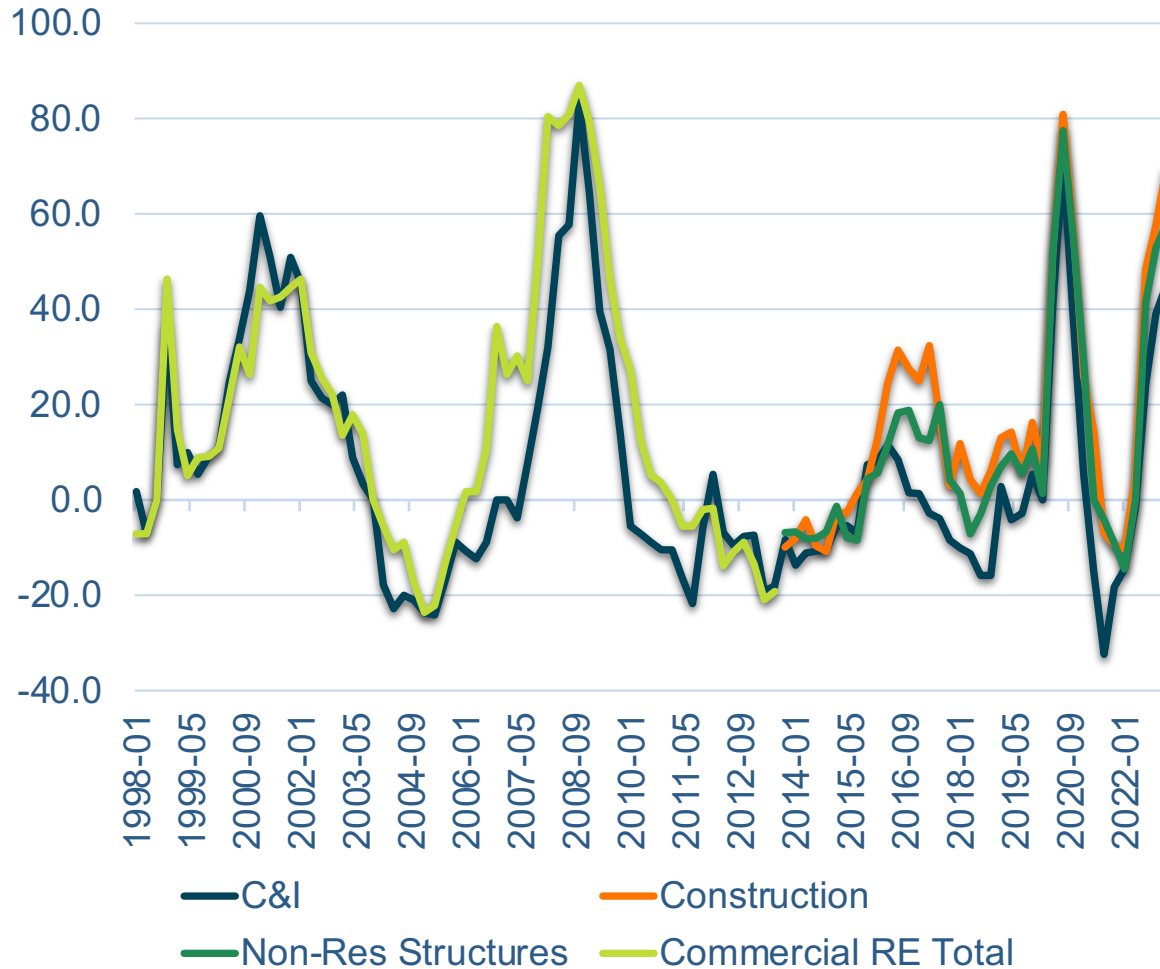
Fed's Barr Calls Silicon Valley Bank a 'Textbook Case of Mismanagement'

Top bank regulator to testify Tuesday alongside other officials

The impact on credit...



Net Percent of Banks Tightening Standard



Net Percent Increasing Spreads



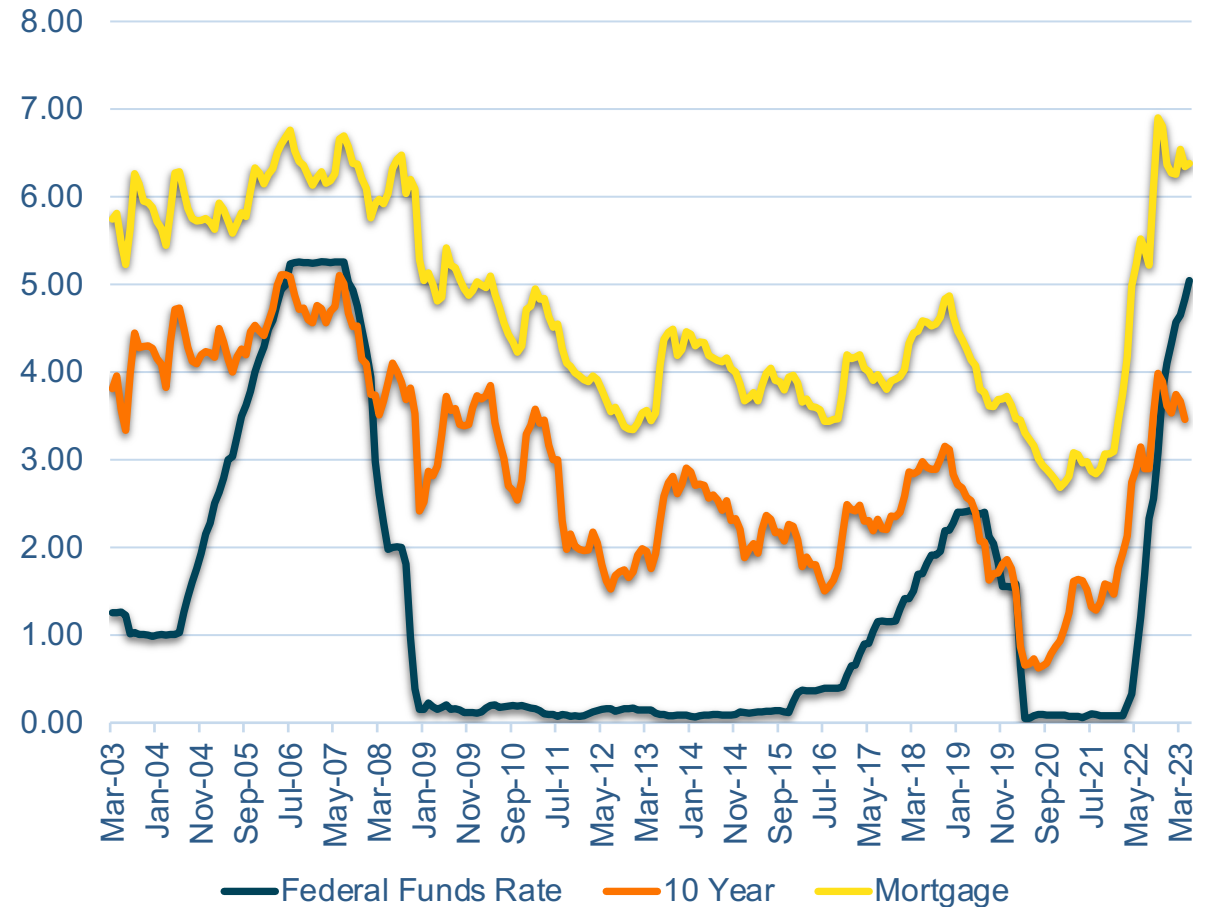
Prepare for Un-Inversion



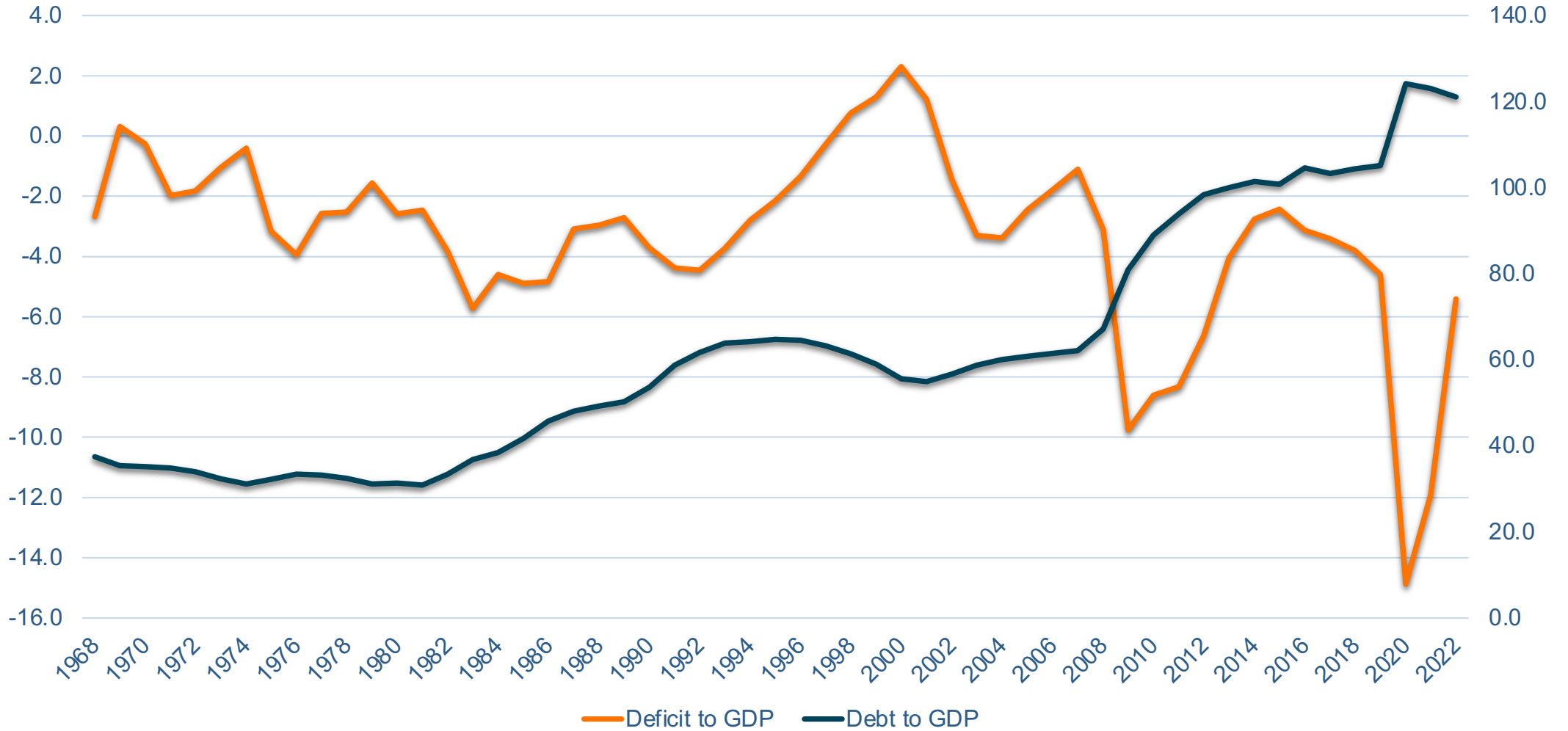
Fed Minutes May 2023

- “In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5 to 5-1/4 percent.”
- “In addition, the Committee ***will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities***, as described in its previously announced plans.”

Interest Rates

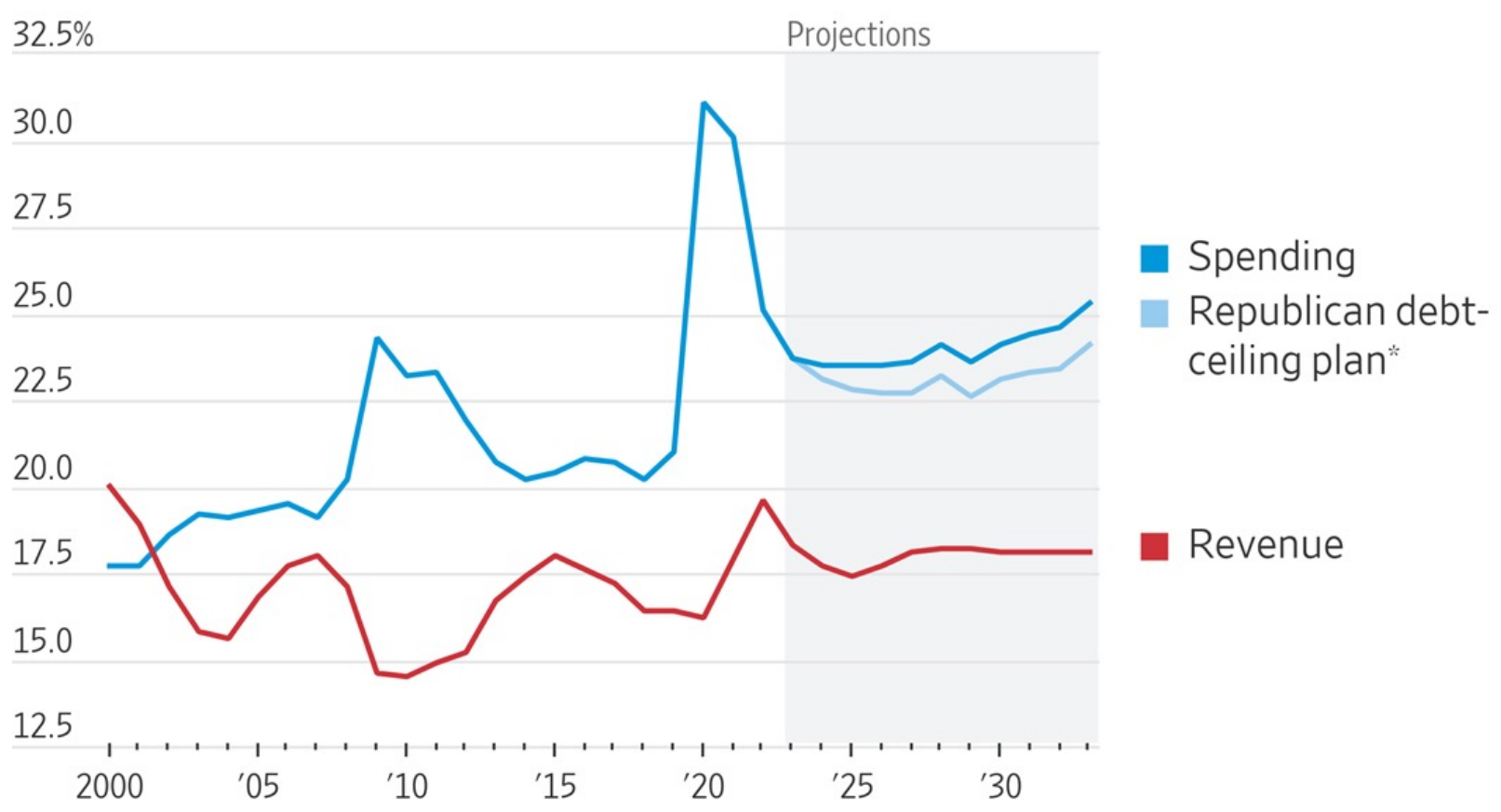


The Federal Situation





Federal revenue and spending as share of GDP



*Excludes repeal of student loan cancelation and renewable energy tax credits.

Source: Congressional Budget Office



Los Angeles Times

How Newsom plans to offset California's \$31.5-billion deficit

California's estimated \$31.5-billion budget deficit is forcing Gov. Gavin Newsom to begin reining in his progressive policy agenda,...

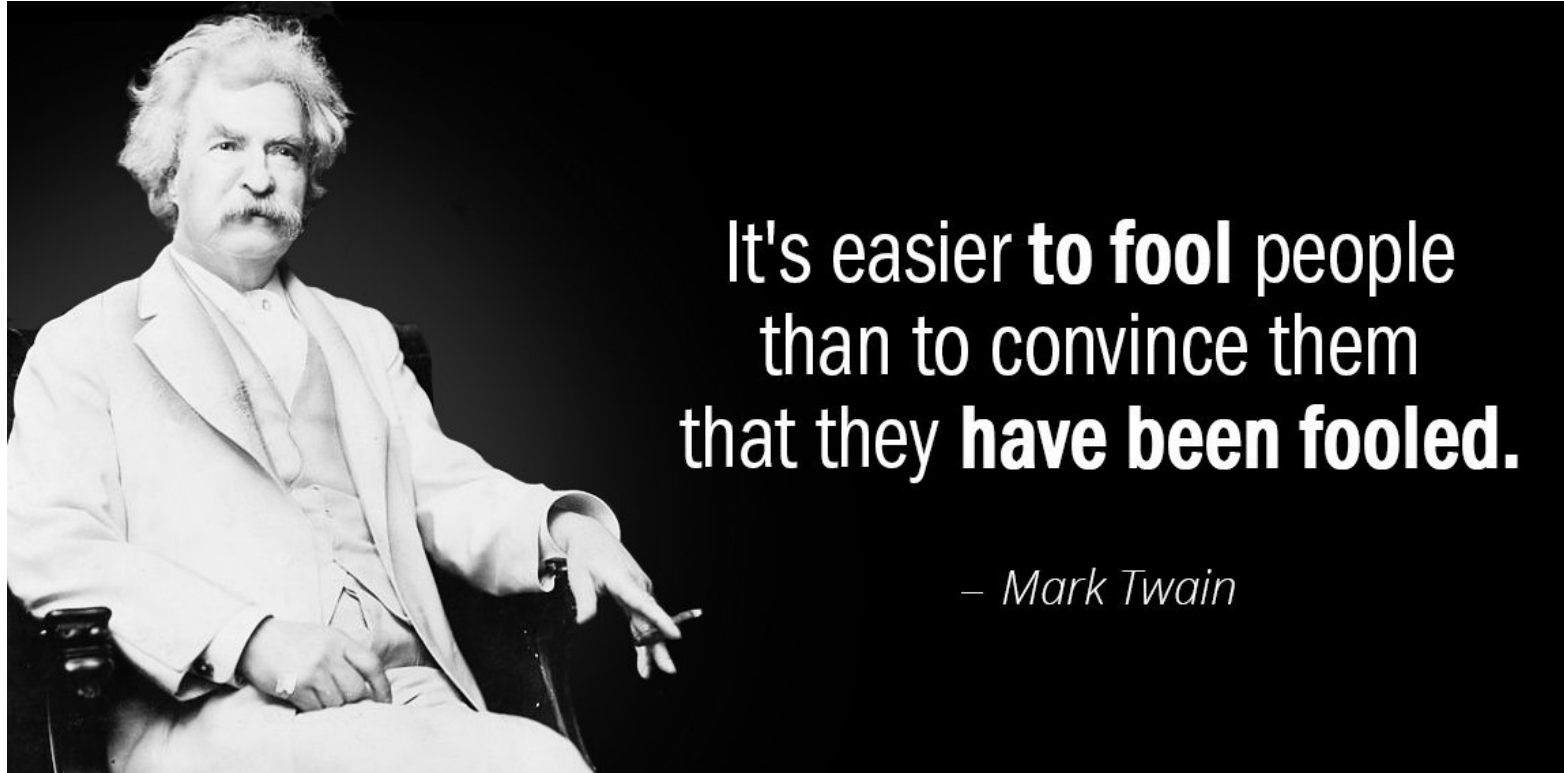


So where are we heading?



- **The Narrative: A recession is nigh!**
 - Economy already in crisis due to ... (pick your favorite political boogie man)
 - Inflation is hurting consumers, real estate collapse driven by mortgage rate hikes
 - The banking failures are a sign of the rot
- **The Reality: A Main Street recession unlikely in near term**
 - Inflation / rising rates are the consequences of excessive stimulus
 - No major structural imbalances in the economy
 - Asset prices will continue to deflate, yet fundamentals remain strong
 - Consumers / business investment should offset resultant weakness real estate, finance
- **The Real Worries**
 - Collapse in filtering will intensify housing shortages
 - Labor shortages are now endemic
 - Public deficit challenges are real
 - The potential (and pointless) bank credit crisis that *could* cause a recession
 - The ongoing gap between the narrative and the reality

The Problem of Narratives...



It's easier **to fool** people
than to convince them
that they **have been fooled.**

– *Mark Twain*



The great enemy of the truth is very often not the lie -- deliberate, contrived, and dishonest -- but the myth -- persistent, persuasive, and unrealistic.

— John F. Kennedy





Thank You

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