



CITY OF
LONG BEACH



CALIFORNIA STATE UNIVERSITY
LONG BEACH
Department of Economics

Answers to Frequently Asked Questions about the Economy

June 21, 2022

Long Beach City Council

Economic Development & Finance Committee Meeting

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Subject Areas for FAQ's

Employment

Inflation & Financial Markets

Gross Domestic Product (GDP) & Economic Growth

Home Prices

Employment



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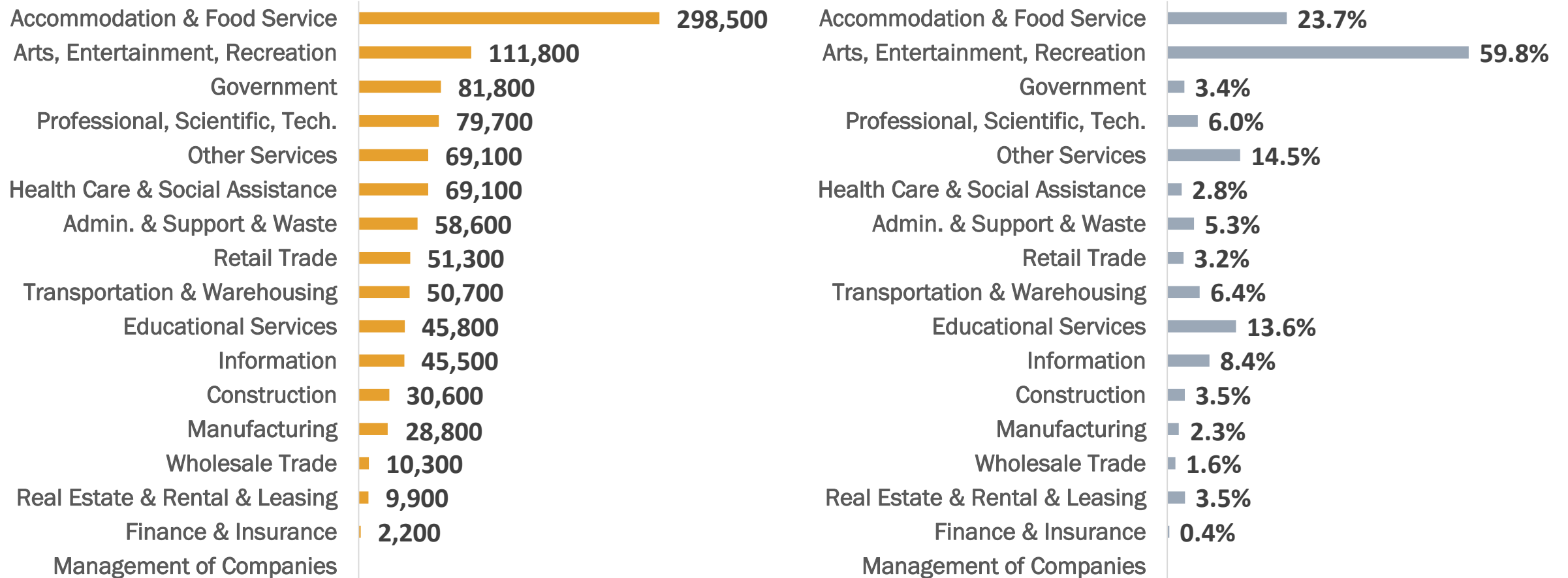
QUESTION

How is the Leisure & Hospitality sector still struggling when its job growth is surging?



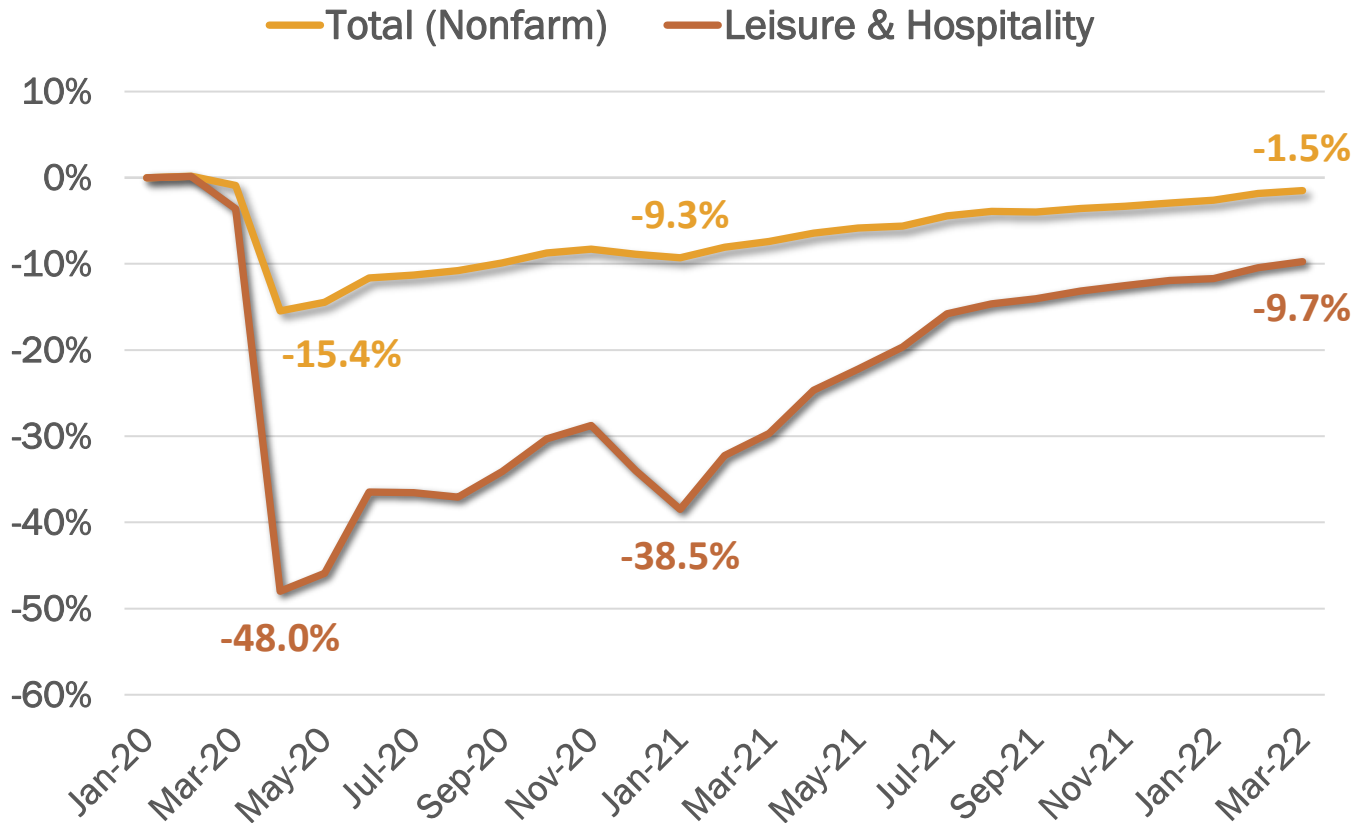
California Employment Recovery

March 2021 – March 2022 Employment Growth



California Employment Recovery

% Change in Employment Since Jan 2020



Total employment has recovered to **98.5%** of its pre-pandemic level

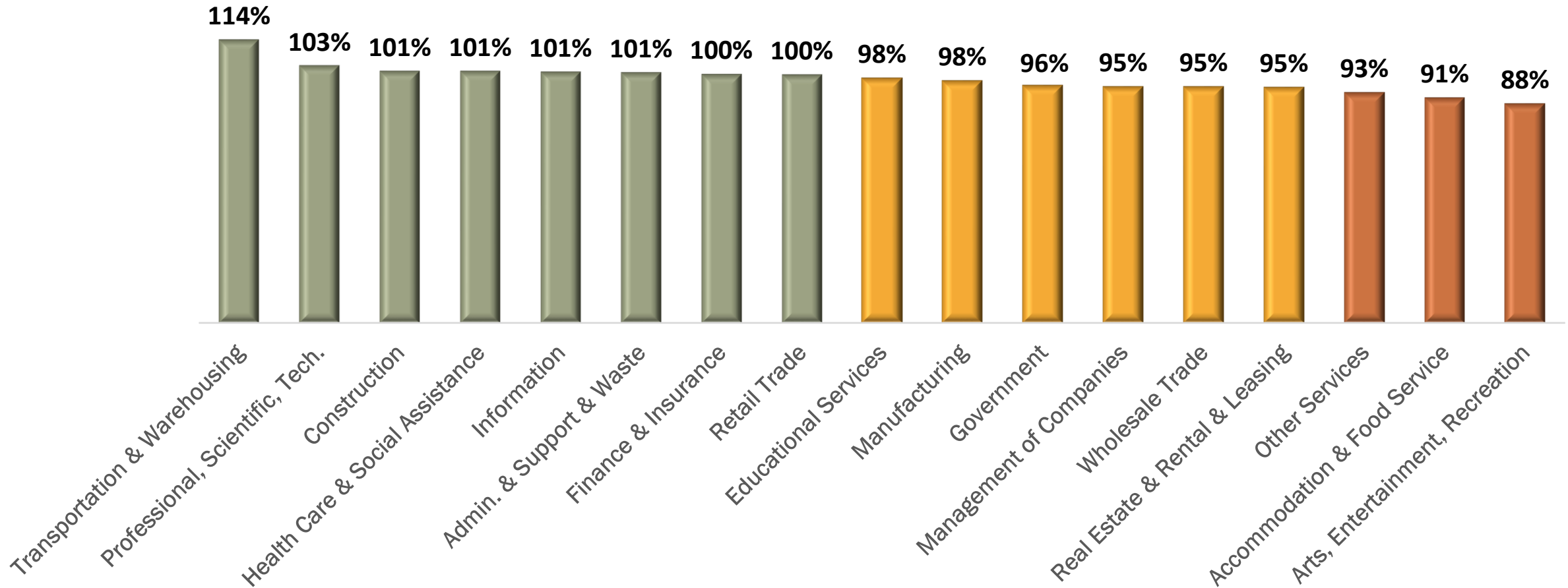
- **2.5 million** jobs recovered since April 2020
- **17.5 million** current jobs

Leisure & Hospitality suffered enormous job losses

- Employment is still **10%** below its pre-pandemic level

California Employment Recovery

March 2022 Employment as Percentage of January 2020 Employment



QUESTION

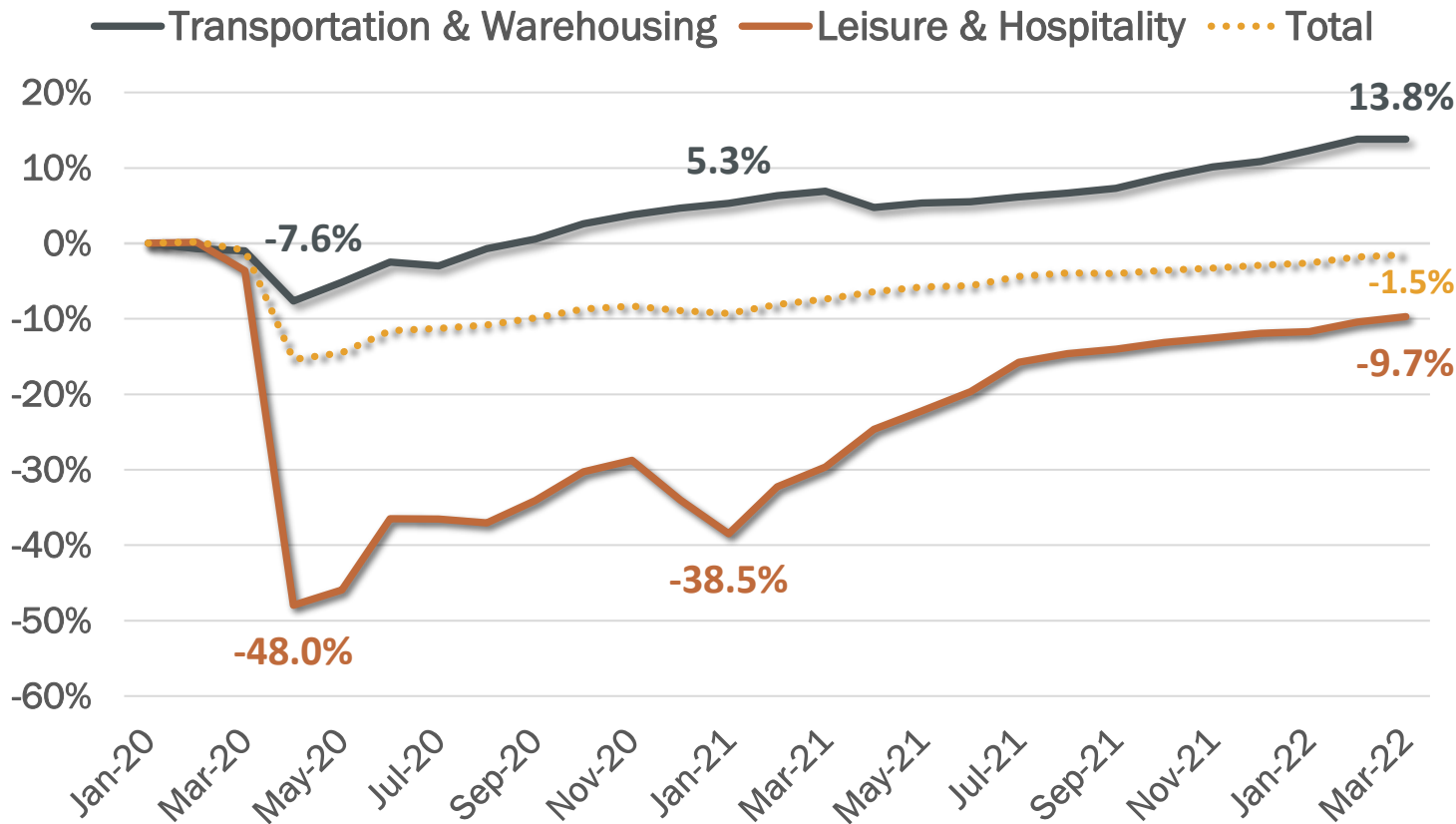
Why is it so hard for service industries to find workers?

Don't service workers want to get back to work?



California Employment Recovery

% Change in Employment Since Jan 2020



They do want to work

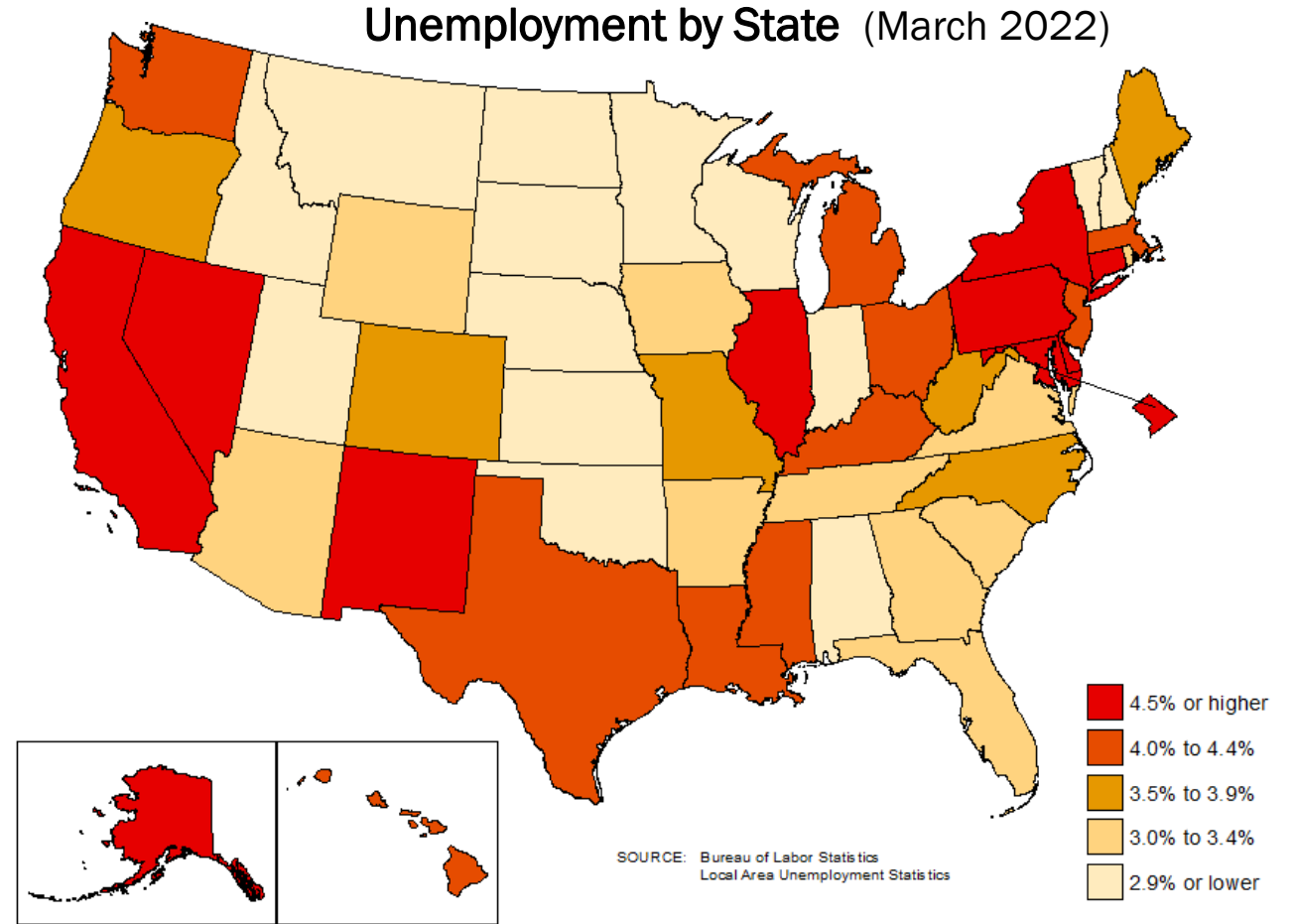
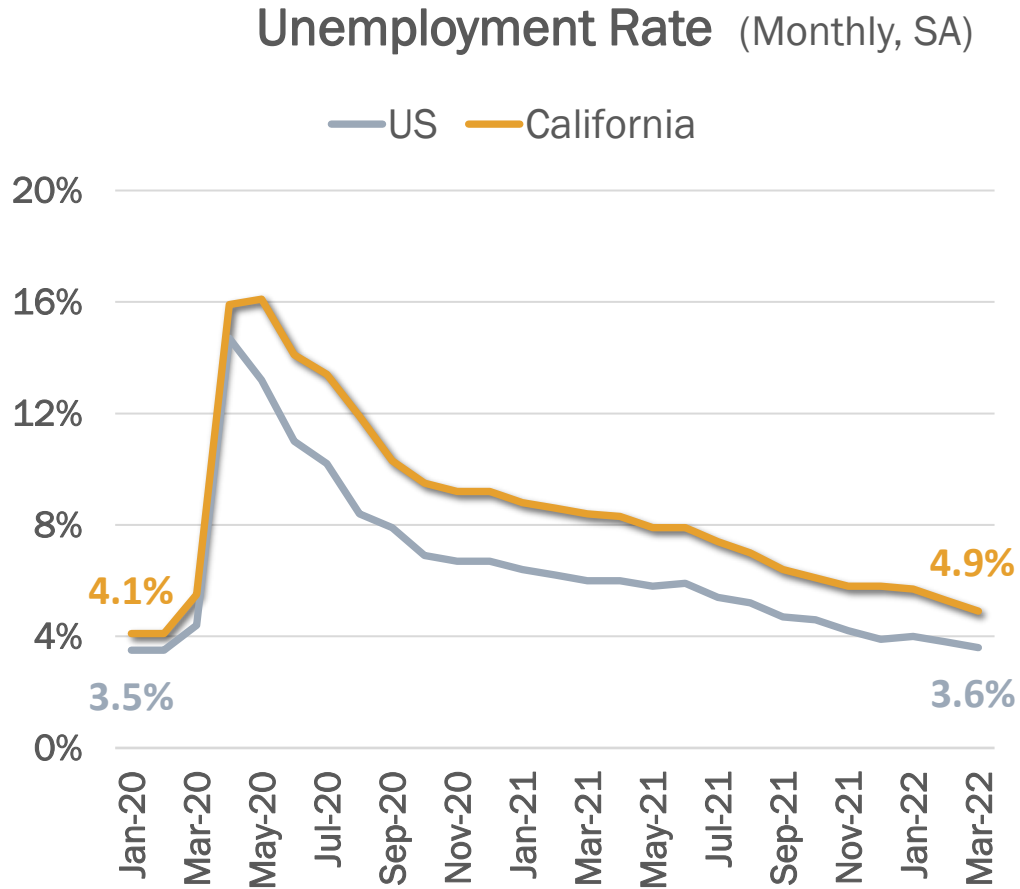
- They just don't want to work for **you**
- e.g. Transportation & Warehousing Employment surged as we substituted in-person services for goods (especially online goods)
- Leisure & Hospitality earnings per job are up **29%** since Jan 2020
 - Also, "reshuffling" within the sector
- "Great Resignation" or "Great Renegotiation"?

QUESTION

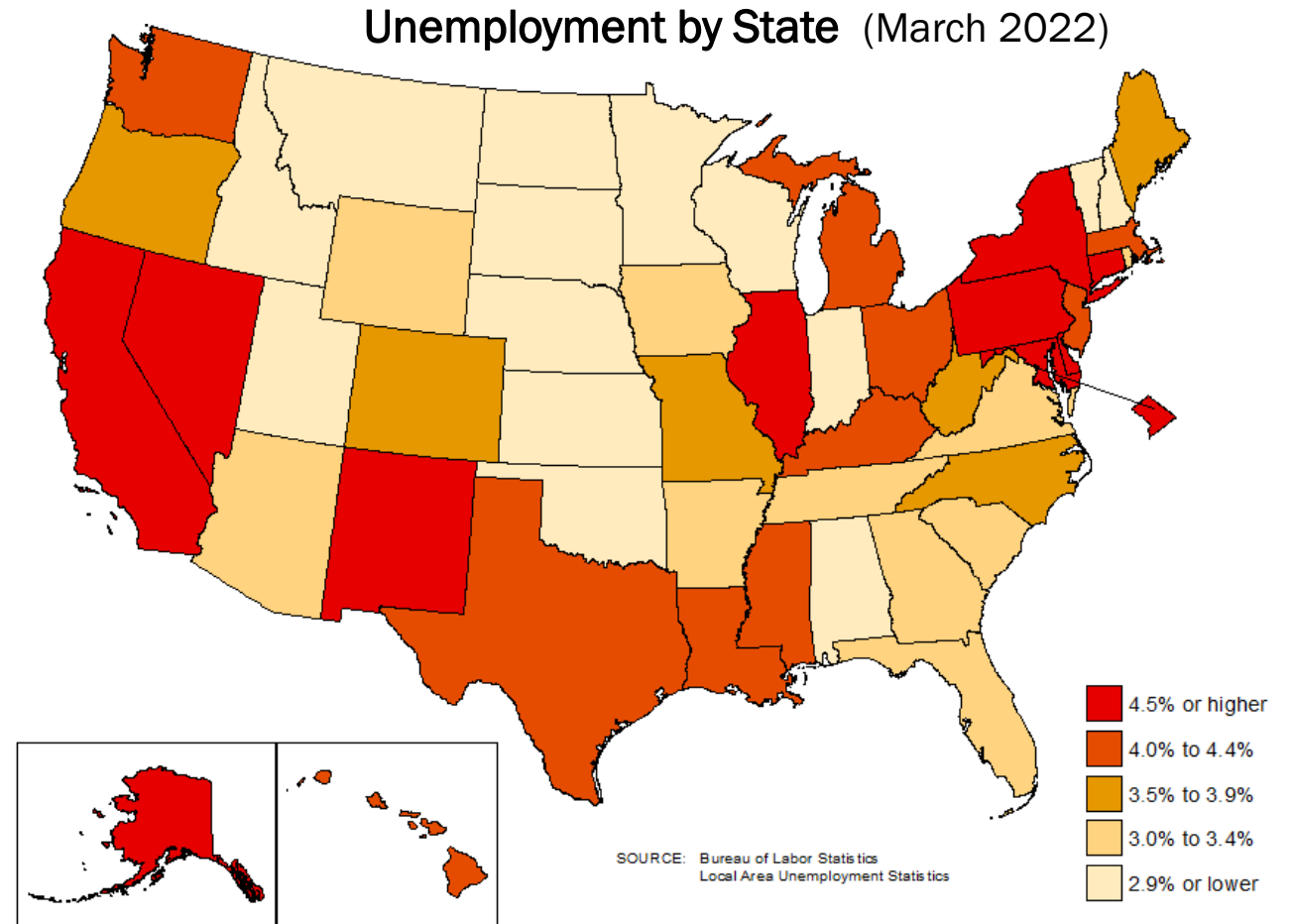
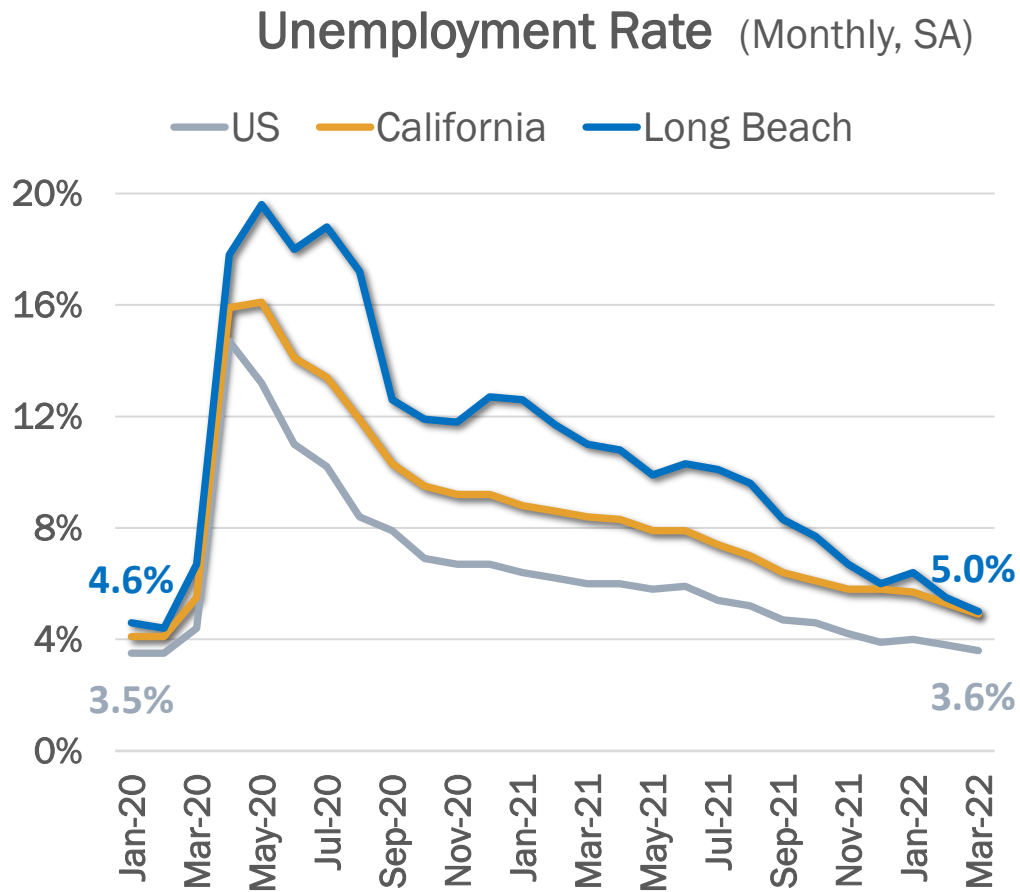
Why is California's
unemployment rate so high?



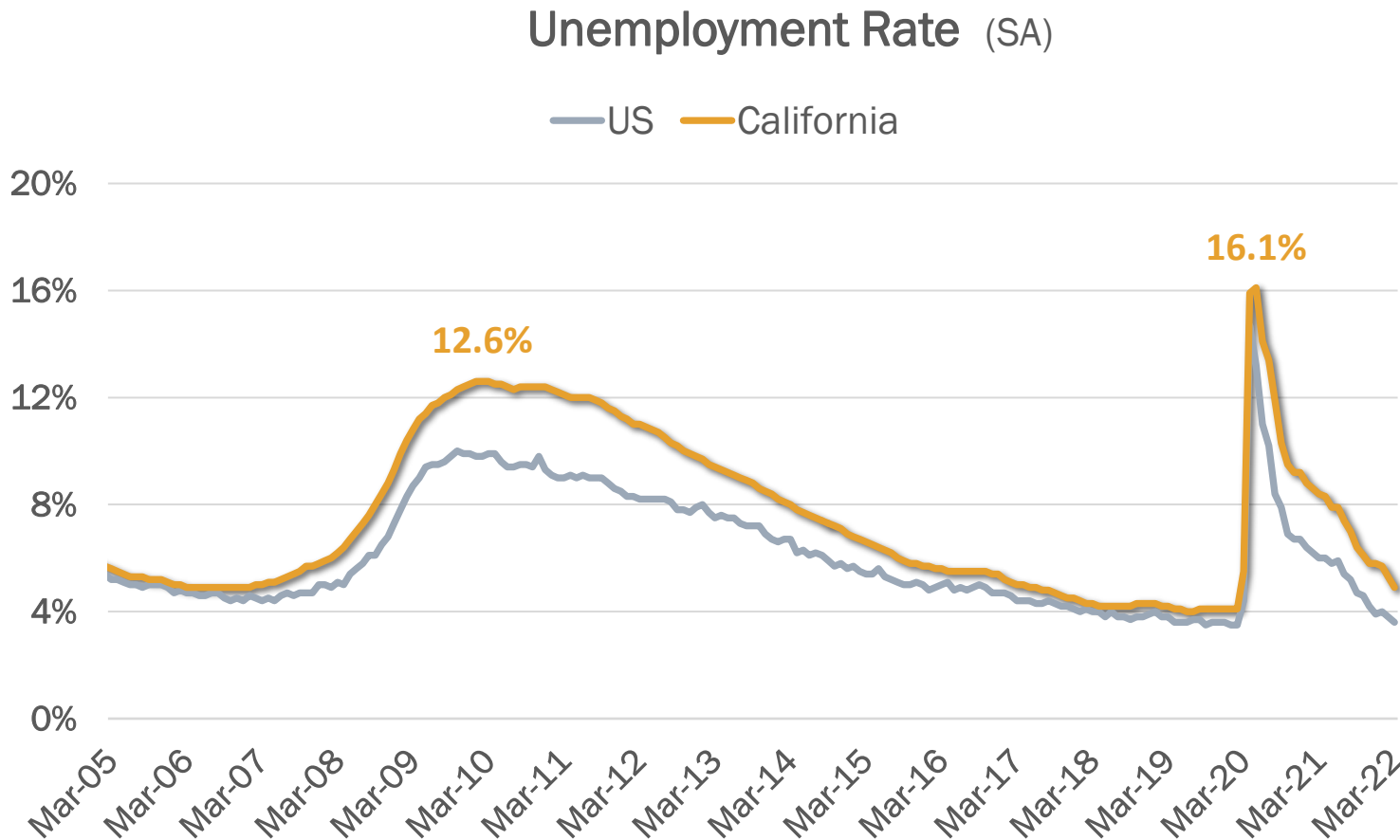
California Recent Unemployment



California Recent Unemployment

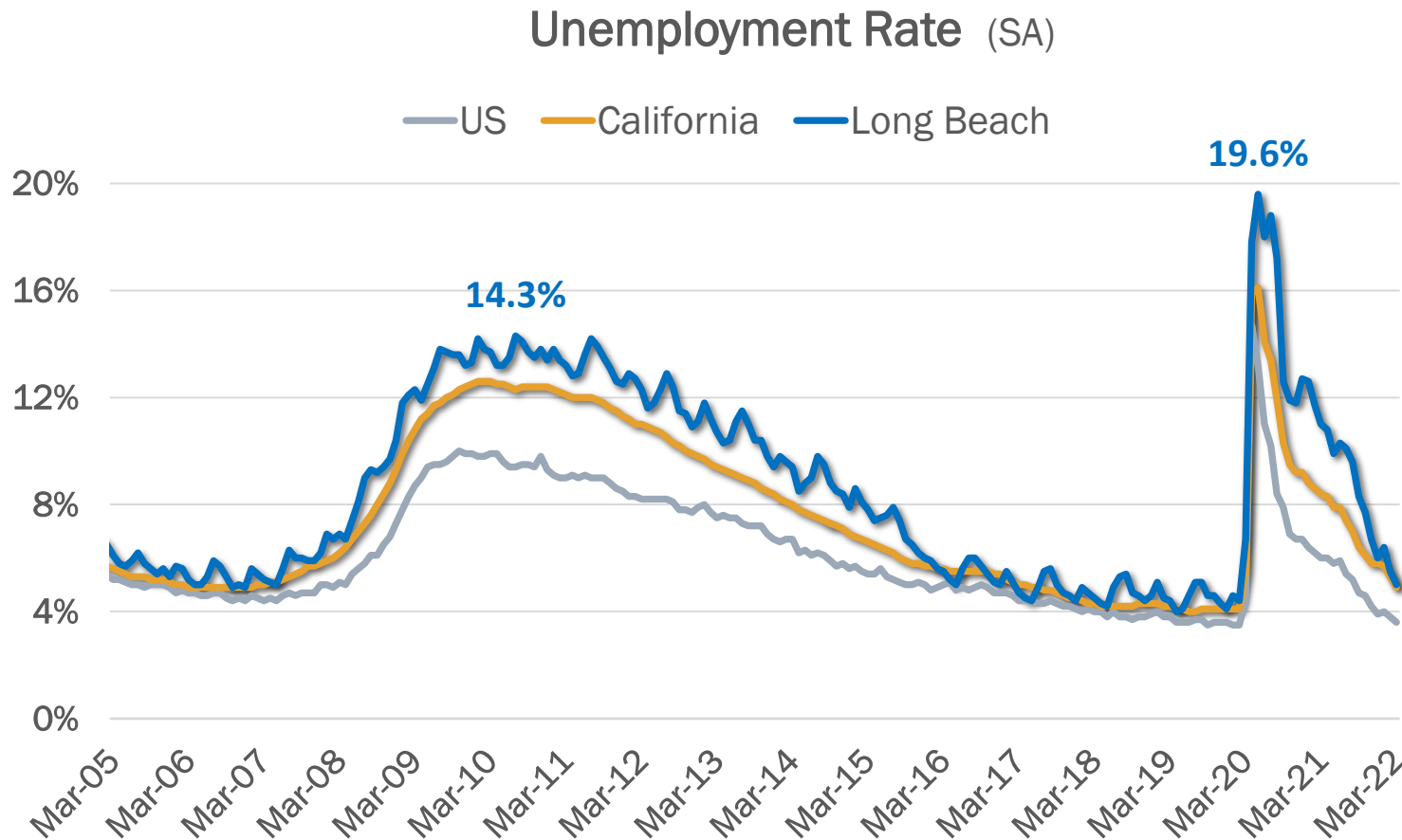


California Unemployment Since 2005



California unemployment typically outpaces national unemployment during economic downturns

California Unemployment Since 2005

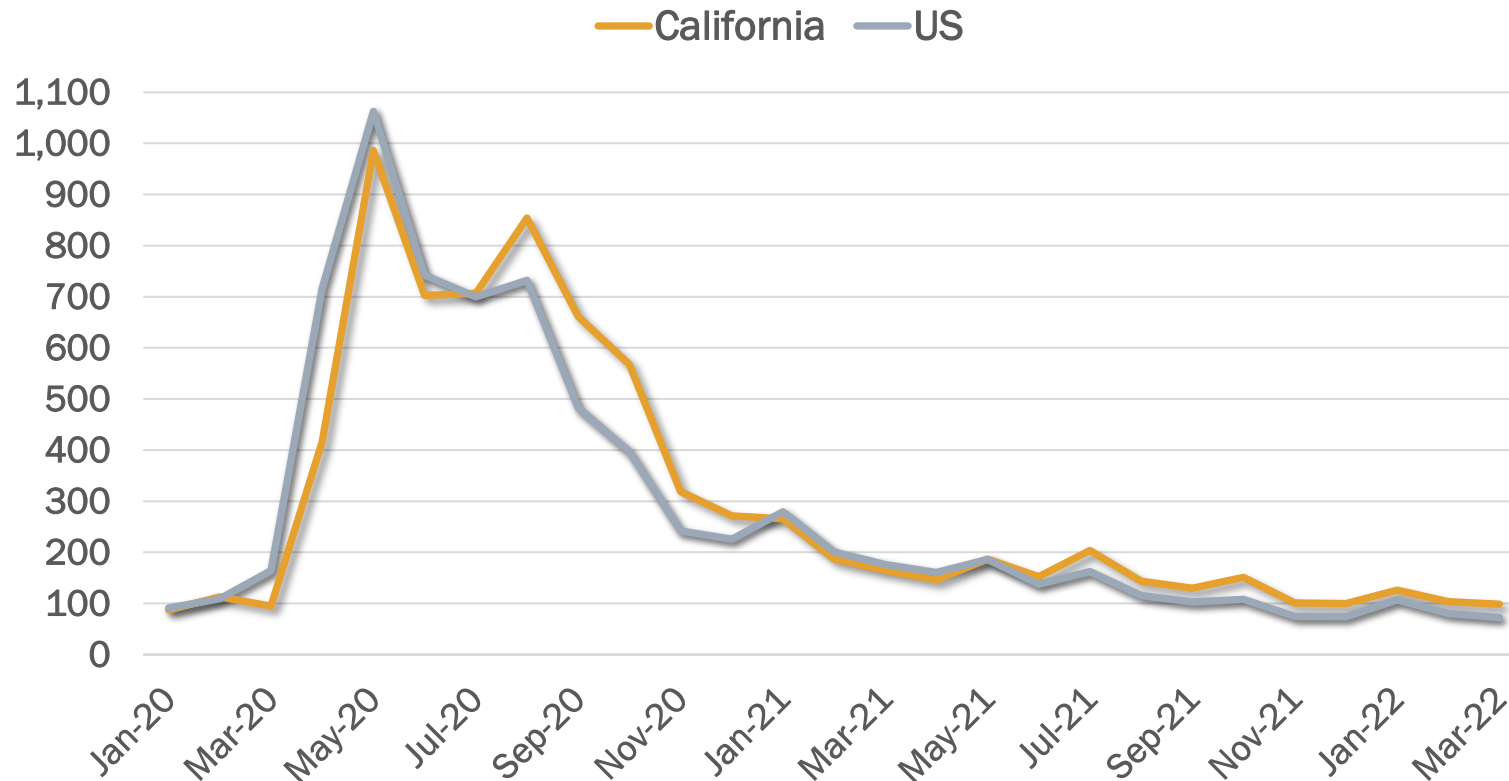


California unemployment typically outpaces national unemployment during economic downturns

Long Beach unemployment is further amplified during downturns

California Insured Unemployed

Continued Claims Index (Jan-Feb 2020 = 100)

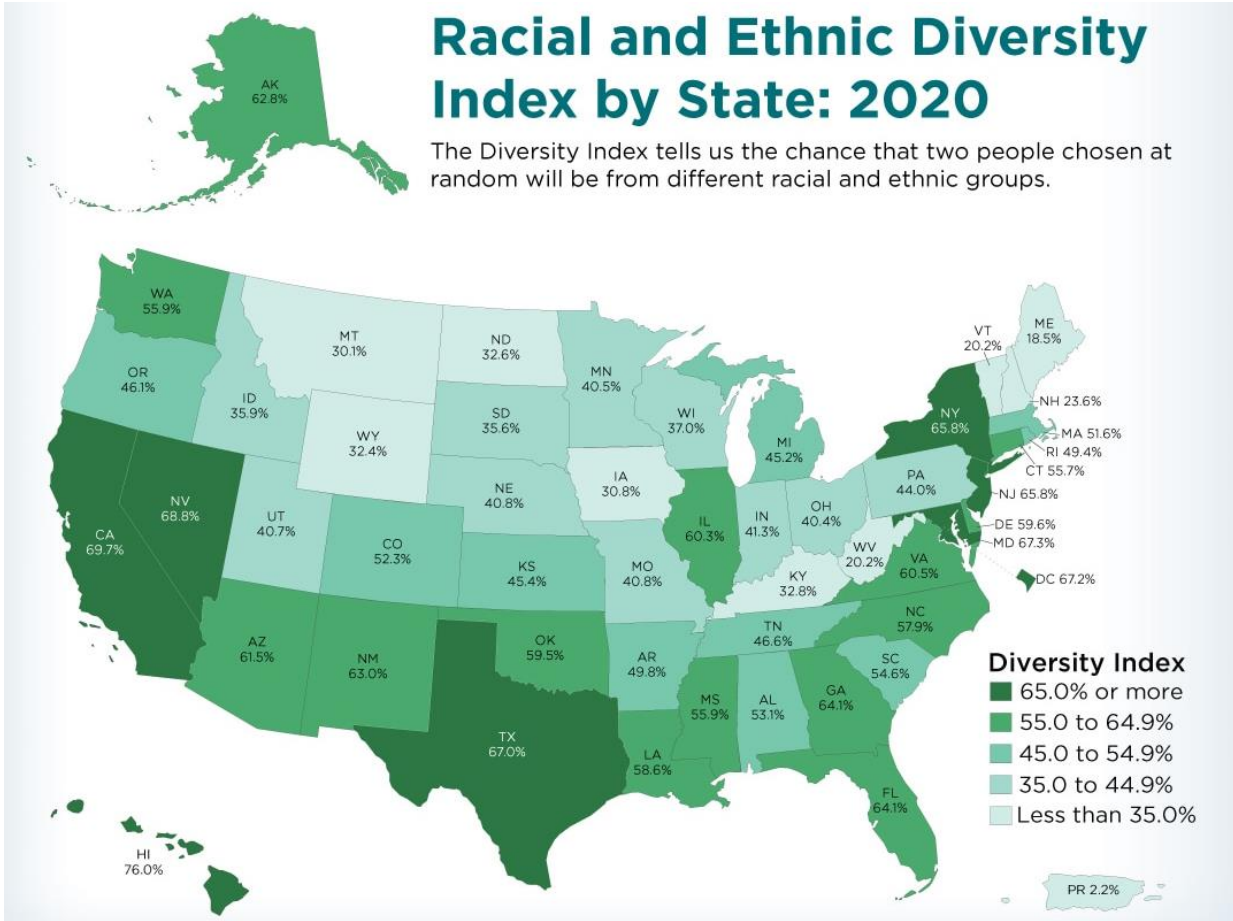


- California's Insured Unemployment moderately outpaces the nation's
- Unemployment benefits probably don't explain California's elevated unemployment rates

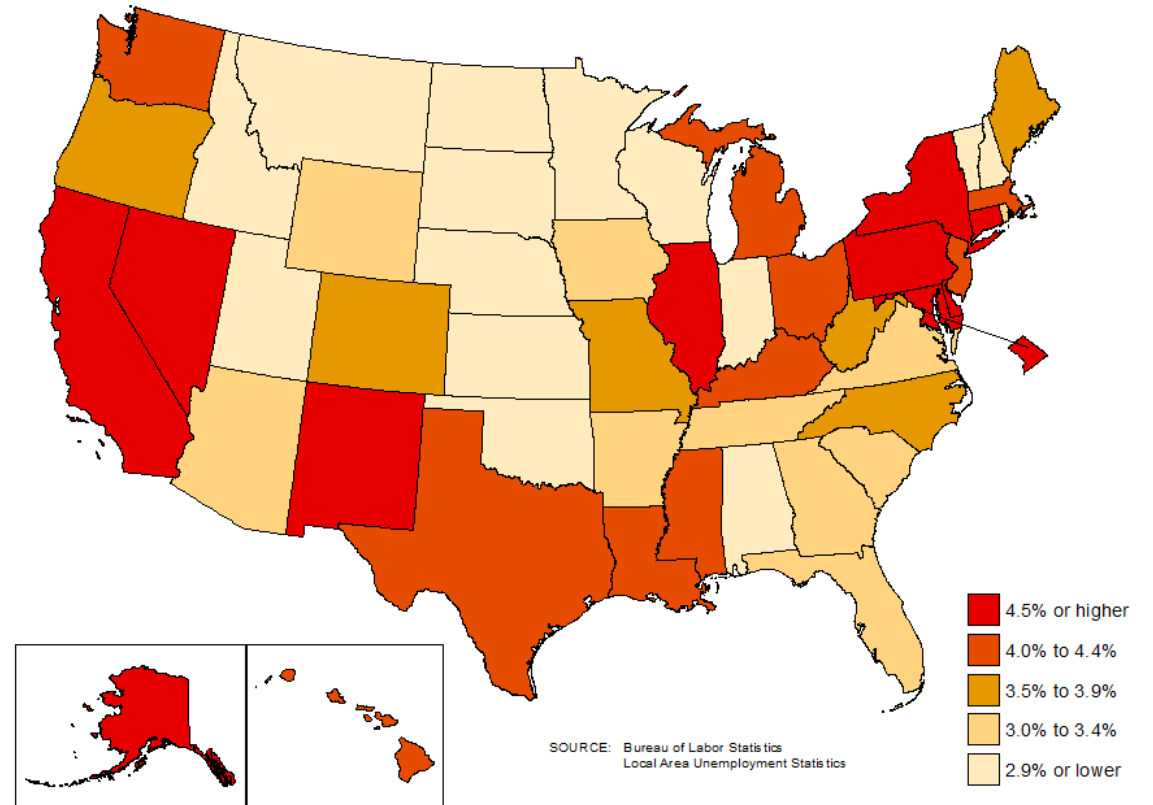
Unemployment & Diversity

Racial and Ethnic Diversity Index by State: 2020

The Diversity Index tells us the chance that two people chosen at random will be from different racial and ethnic groups.



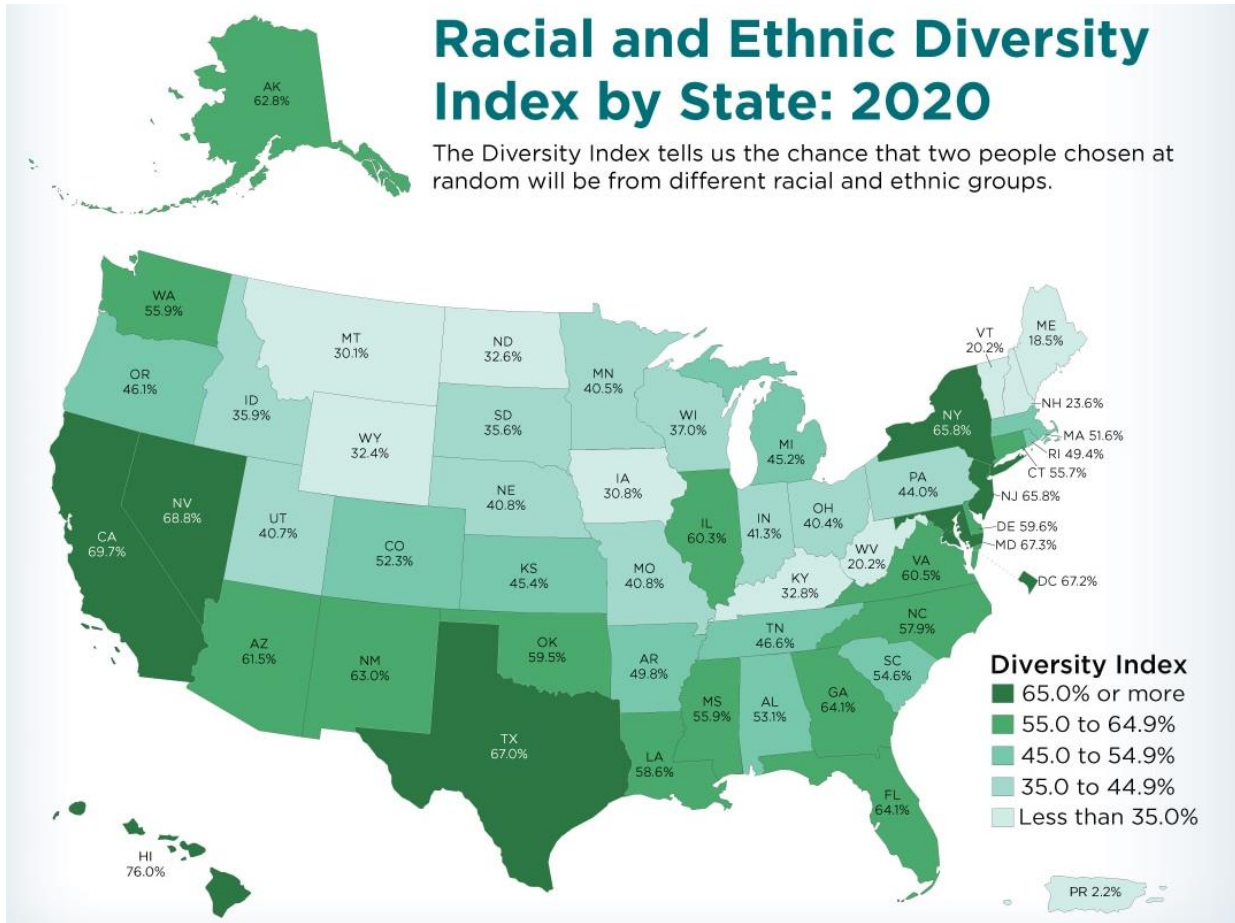
Unemployment by State (March 2022)



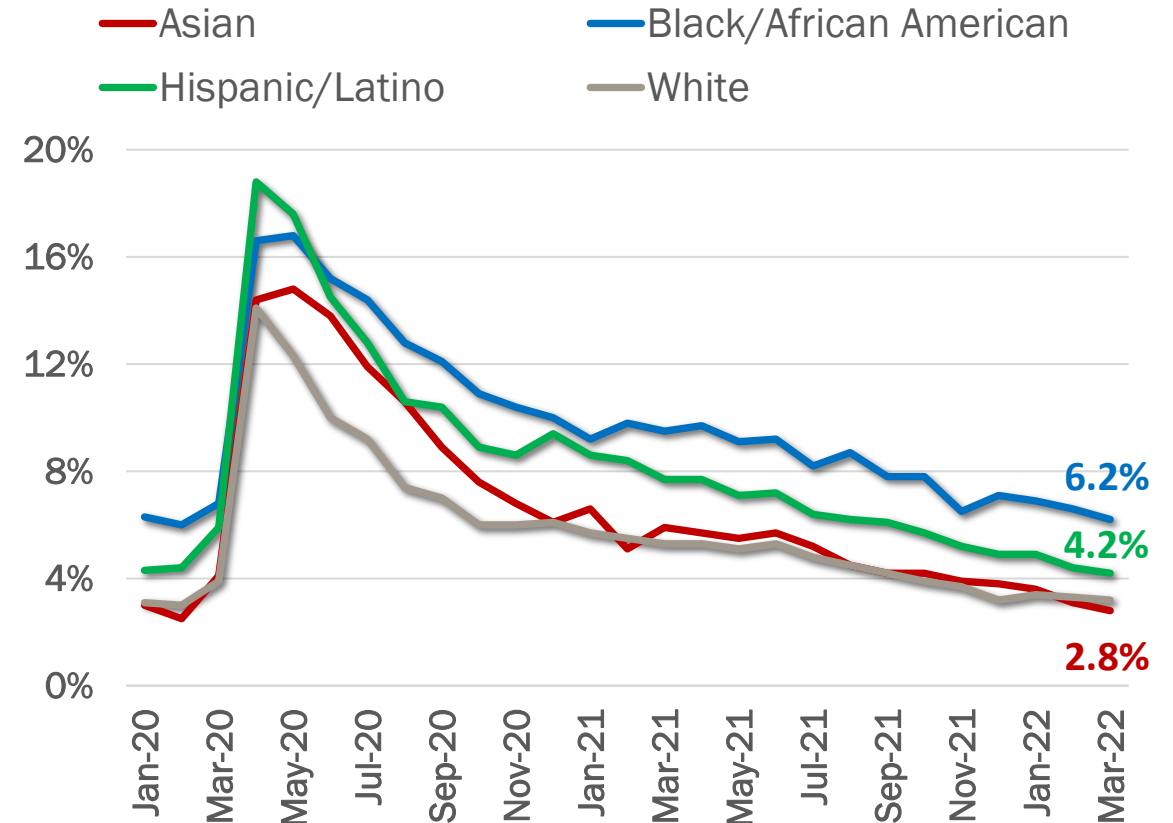
Unemployment & Diversity

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U.S. Unemployment Rate (SA)



Why is California Unemployment Higher?

Traditional Answer

- California employment is more concentrated in Leisure & Hospitality / Tourism, which has been slower to recover
- But before the pandemic:

Sector (2019)	% of CA Jobs	% of US Jobs
Leisure & Hospitality	11.5%	11.1%
Arts, Ent., Rec.	1.9%	1.6%
Accom. & Food Svc.	9.7%	9.5%
Hotels	1.3%	1.1%
Tourism Cluster (UTSA)	10.4%	10.0%
Other Services	3.1%	3.1%

Additional Answers to Explore

- California's diverse population includes large shares of workers facing opportunity gaps
- Because the California labor market is very tight, workers may be spending more time looking for better opportunities

Feb 2022

- Unemployed: 1.01 million
- Job Openings: 1.25 million
- Hires : 671,000
- Separations: 668,000
 - Quits: 491,000

Inflation & Financial Markets



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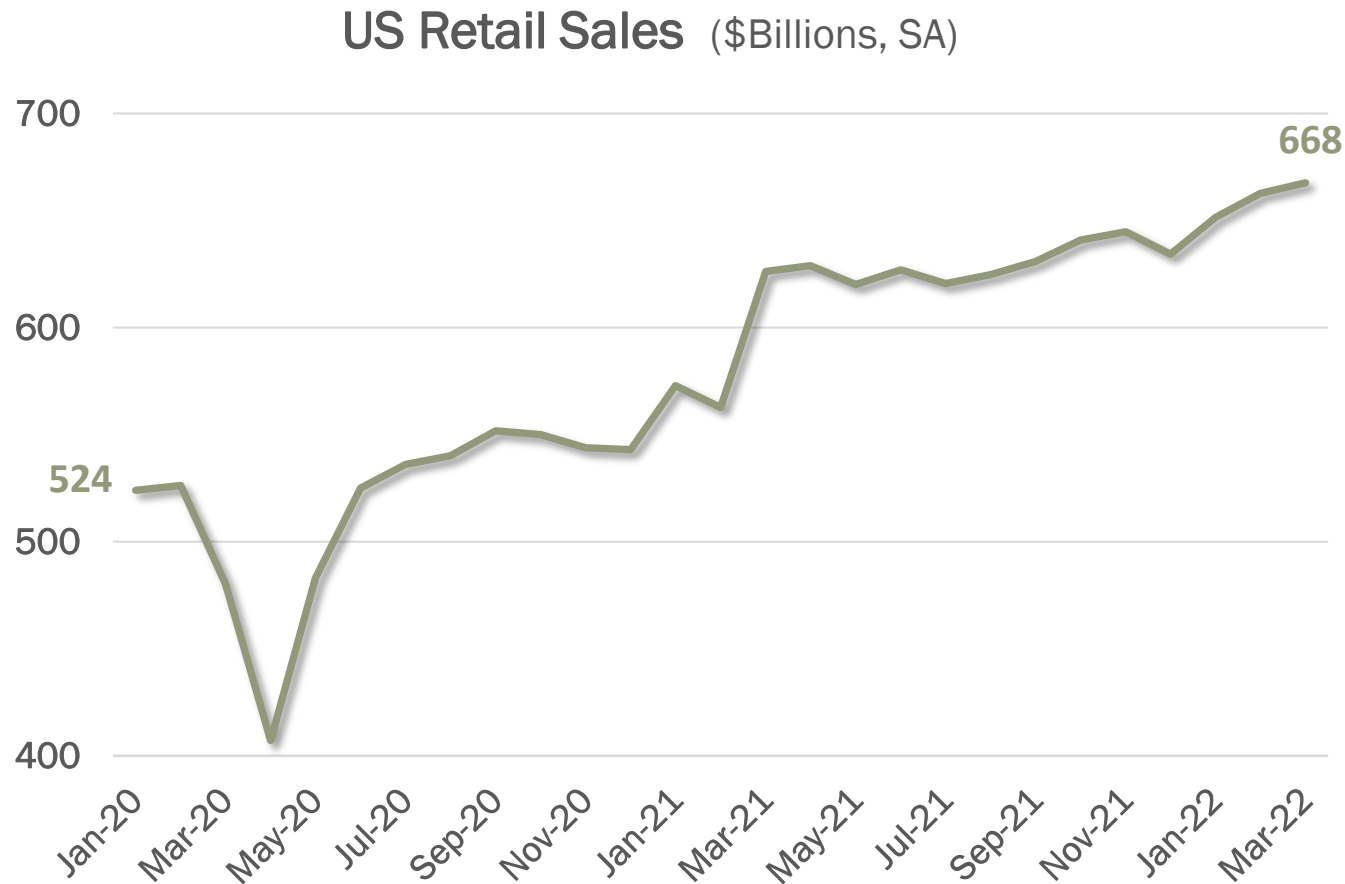
QUESTION

Why is everything so expensive?

How long will this inflation last?



Consumer Demand

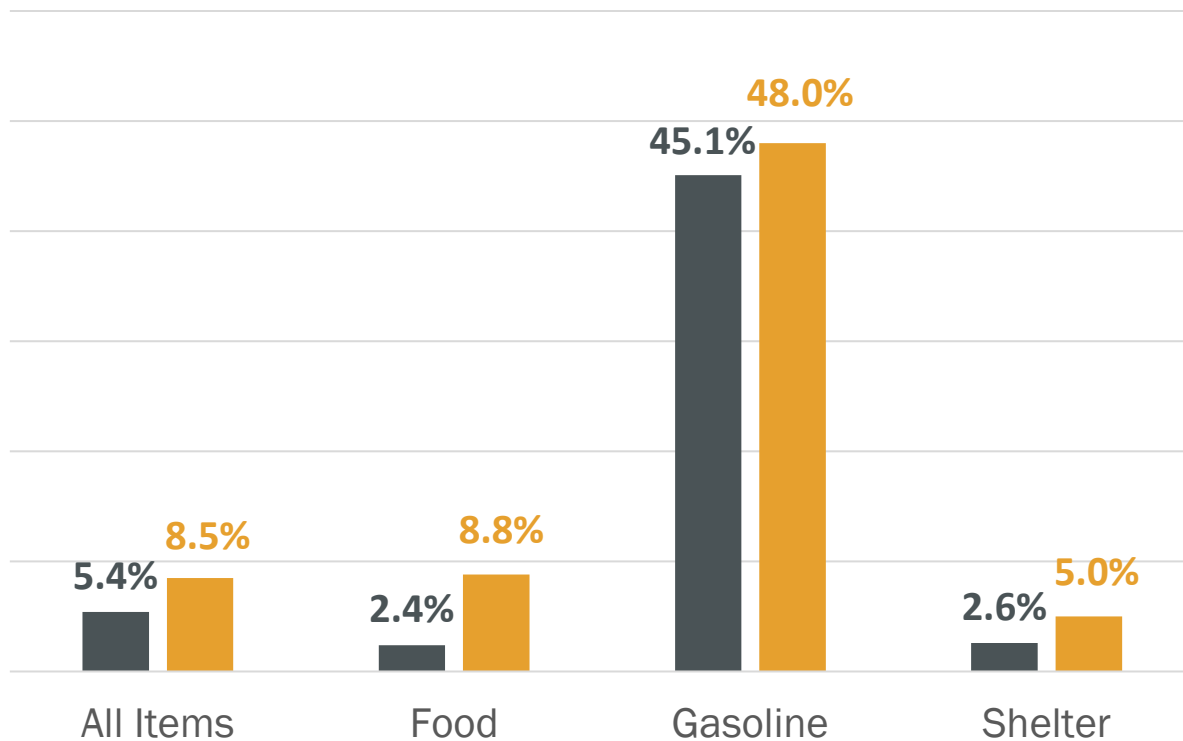


- Retail spending is up **27%** since before the pandemic
- Online retail spending is up **41%** since before the pandemic
- Straining supply chains by increasing the demand for imported goods

Inflation

U.S. 12-month Change in Consumer Prices

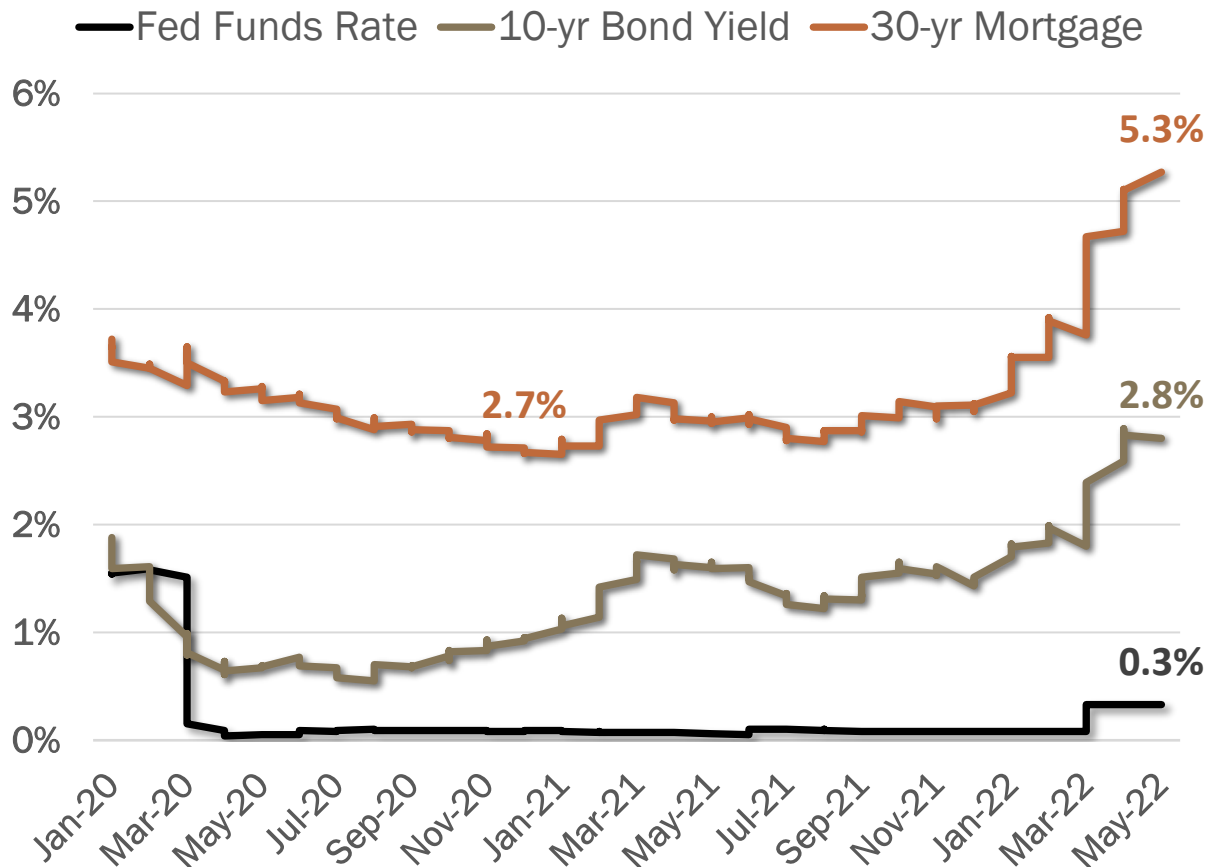
■ Jun 2021 ■ Mar 2022



Inflation has been driven by:

- Heavy consumer demand
 - Unexpected economic expansion
 - \$4.2 trillion in COVID Relief spending
- Supply chains struggling to meet demand
 - Warehouse space and trucker shortages
 - Intermittent COVID lockdowns
 - Feb 2022: Invasion of Ukraine
- Expansionary monetary policy

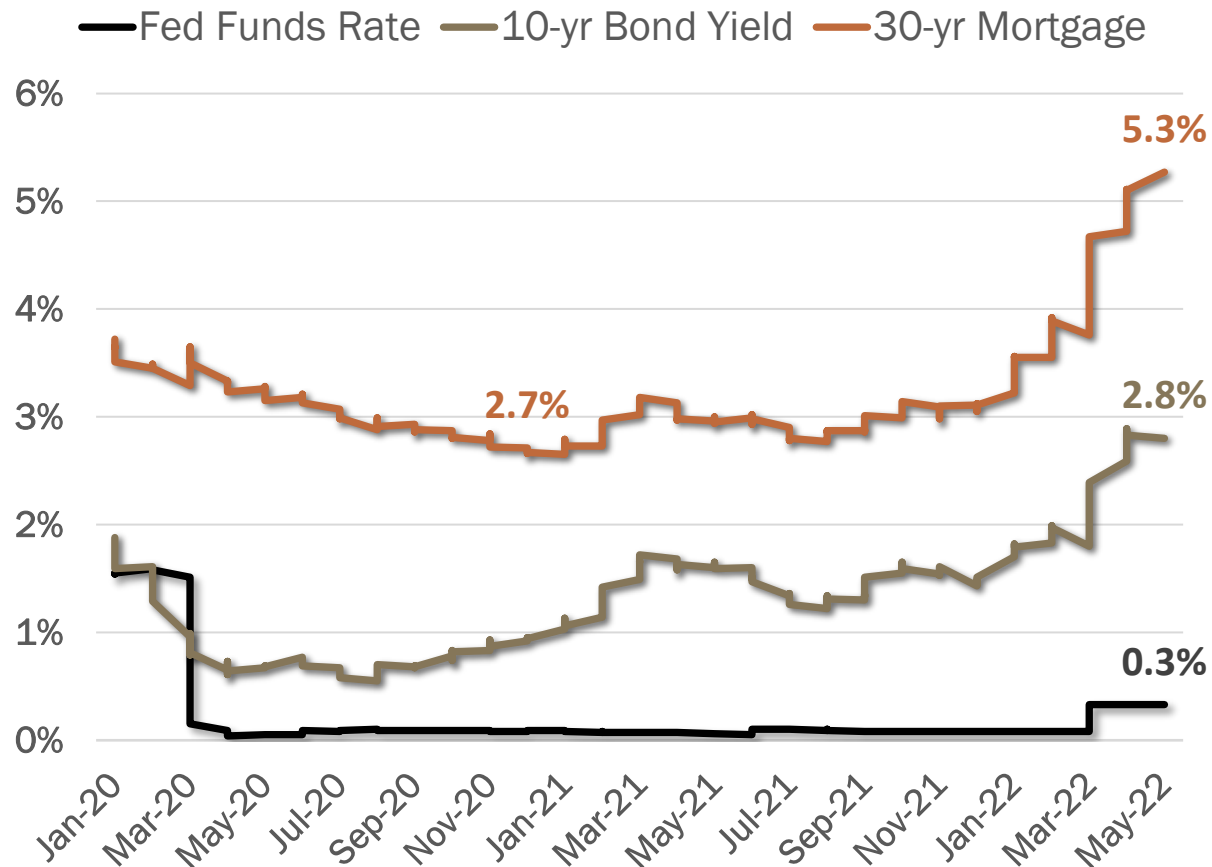
Interest Rates & Monetary Policy



Federal Funds Rate was practically zero from Mar 2020 to May 2022

- Fed lowers interest rates by increasing the money supply through bond purchases
- Bond purchases increase bond prices, thereby lowering bond yields
- Lower bond yields correspond to lower interest rates for mortgages and credit
- Purchased bonds are added to the Fed's balance sheet, which increased from **\$4 trillion** to **\$9 trillion**
- \$5 trillion in debt issued to finance COVID-19 relief spending

Interest Rates & Monetary Policy



Inflation caused by stimulating demand while supply struggled to keep up

Fed is now responding to inflation by contracting the money supply and raising interest rates

- Mar 2022: **0.25%** increase in target rate
- May 2022: **0.50%** increase in target rate

Plans for further rate hikes

Plans to reduce balance sheet

Interest rates have been recently rising in anticipation of those moves

QUESTION

What's up (or down, really) with the Stock Market?



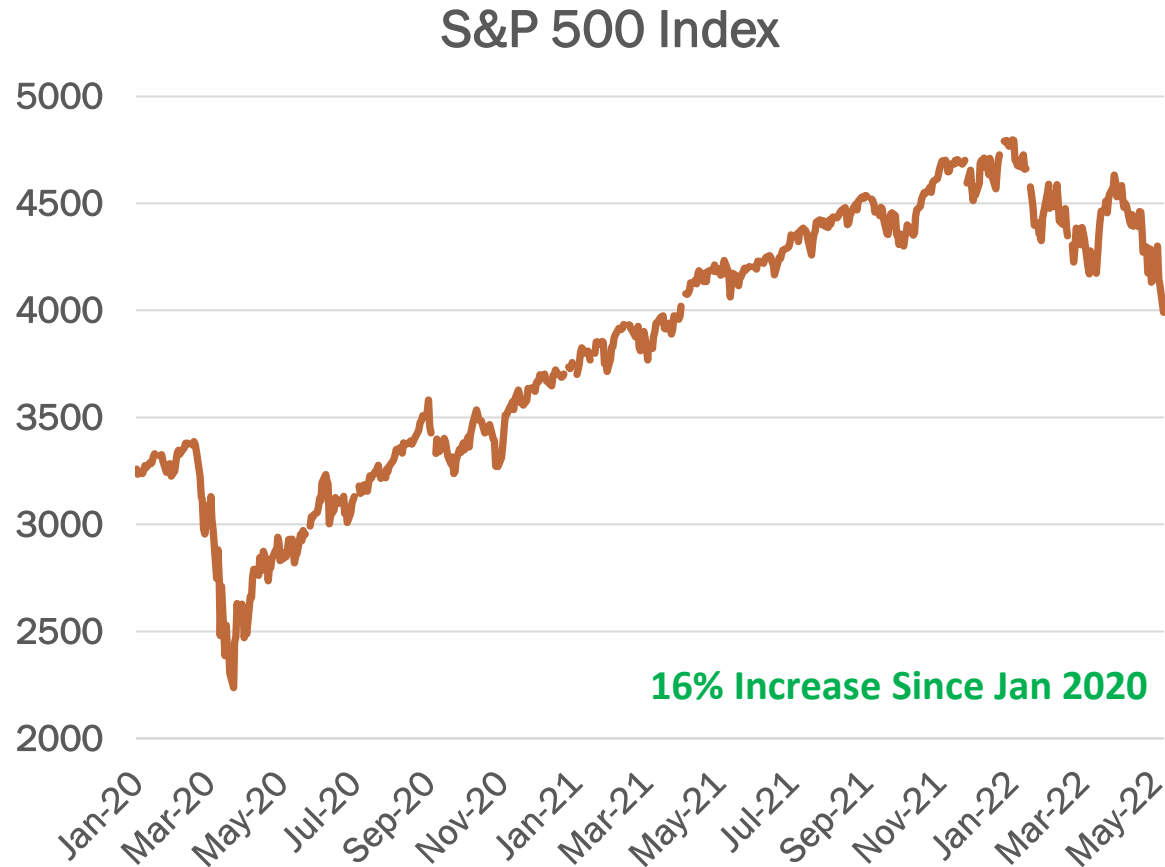
Stock Market



Simplified explanations for recent stock market volatility and decline:

- Uncertainty about future inflation and interest rate hikes
- Uncertainty about supply chain disruptions
- Uncertainty about war in Ukraine
 - Especially regarding fuel prices

Stock Market



But keep in mind that the market is still up **16%** since before the pandemic

GDP & Economic Growth



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QUESTION

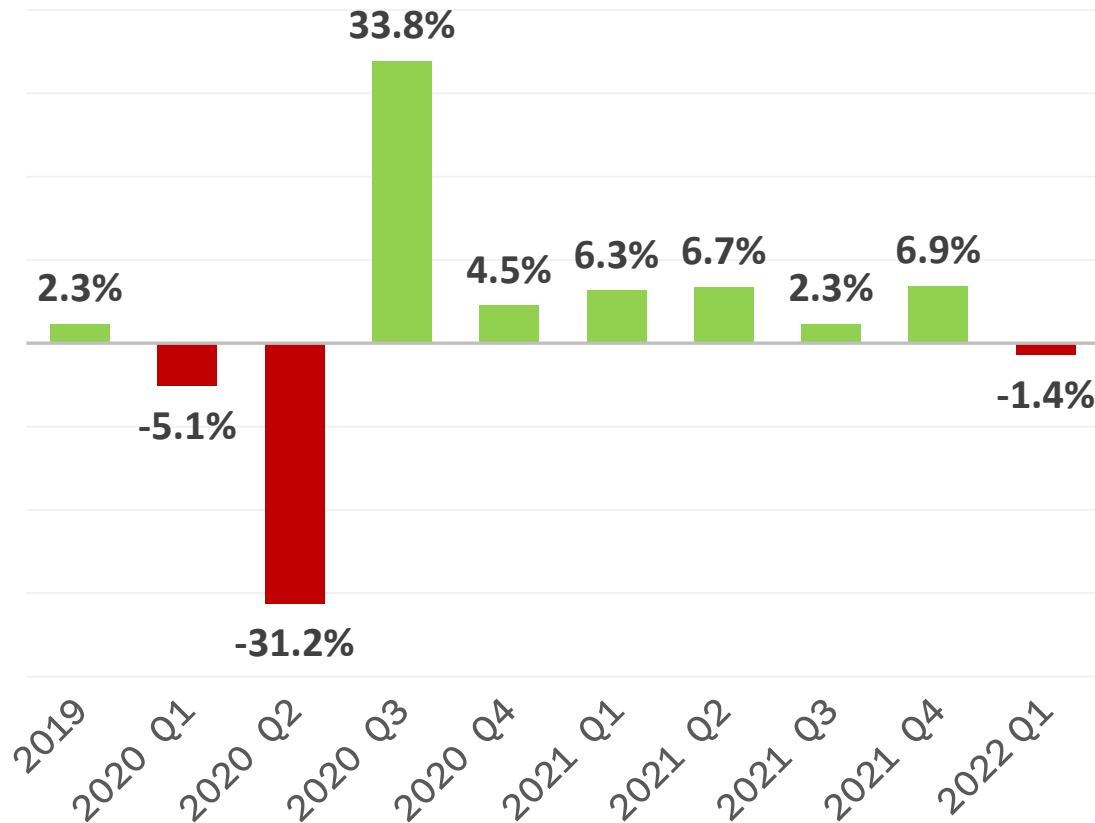
Why did GDP fall last quarter?

Is our increasing demand for imports hurting our GDP?



Gross Domestic Product

U.S. Real GDP Annualized Growth



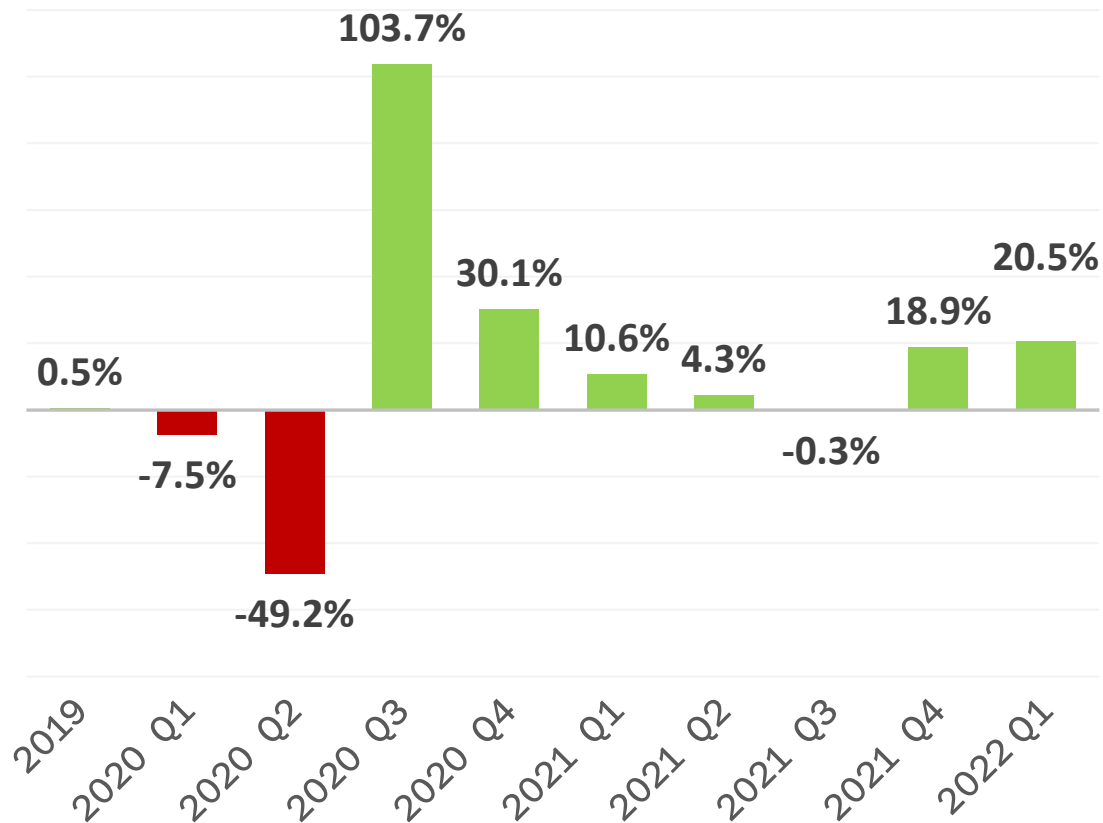
Low interest rates and rapid growth in consumer spending drove strong GDP growth

Recent growth has been curtailed by

- Rising interest rates
- Expired federal stimulus programs
- Limits on supply chain capacity
- Reduced exports
- Reduced investment in inventories
- Excess inventories were accumulated in late 2021 due to supply-chain uncertainty

Imports & GDP

U.S. Real Goods Imports Growth



GDP = Consumption + Investment +
Government Spending + (Exports-Imports)
Net Exports

How do we account for \$3 trillion in imports of consumer goods?

- Subtract: \$3 trillion from Net Exports
- Add: \$3 trillion to Consumption
- Net Effect: **Zero** impact on GDP

- Larger trade deficits only reduce GDP when due to lower **exports**

Home Prices



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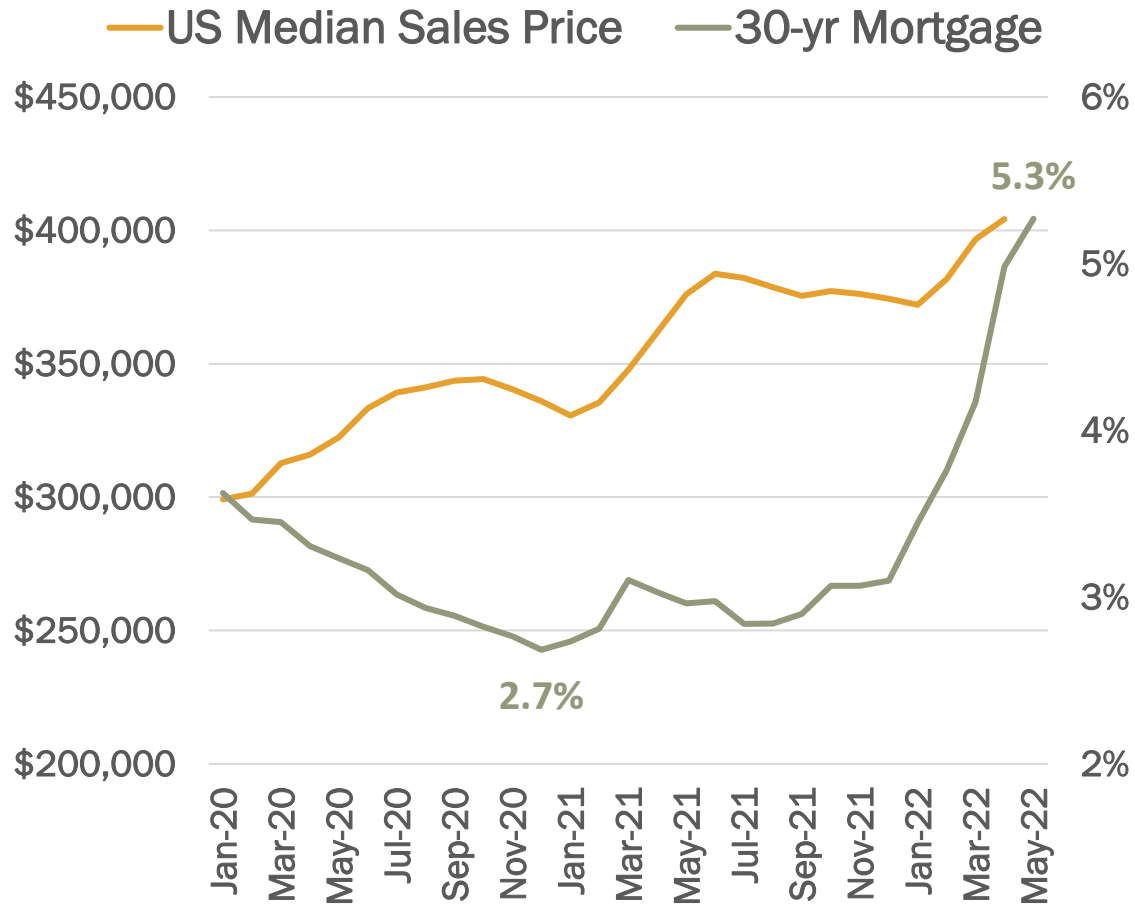
QUESTION

Why are homes so expensive?

Will home prices keep rising?

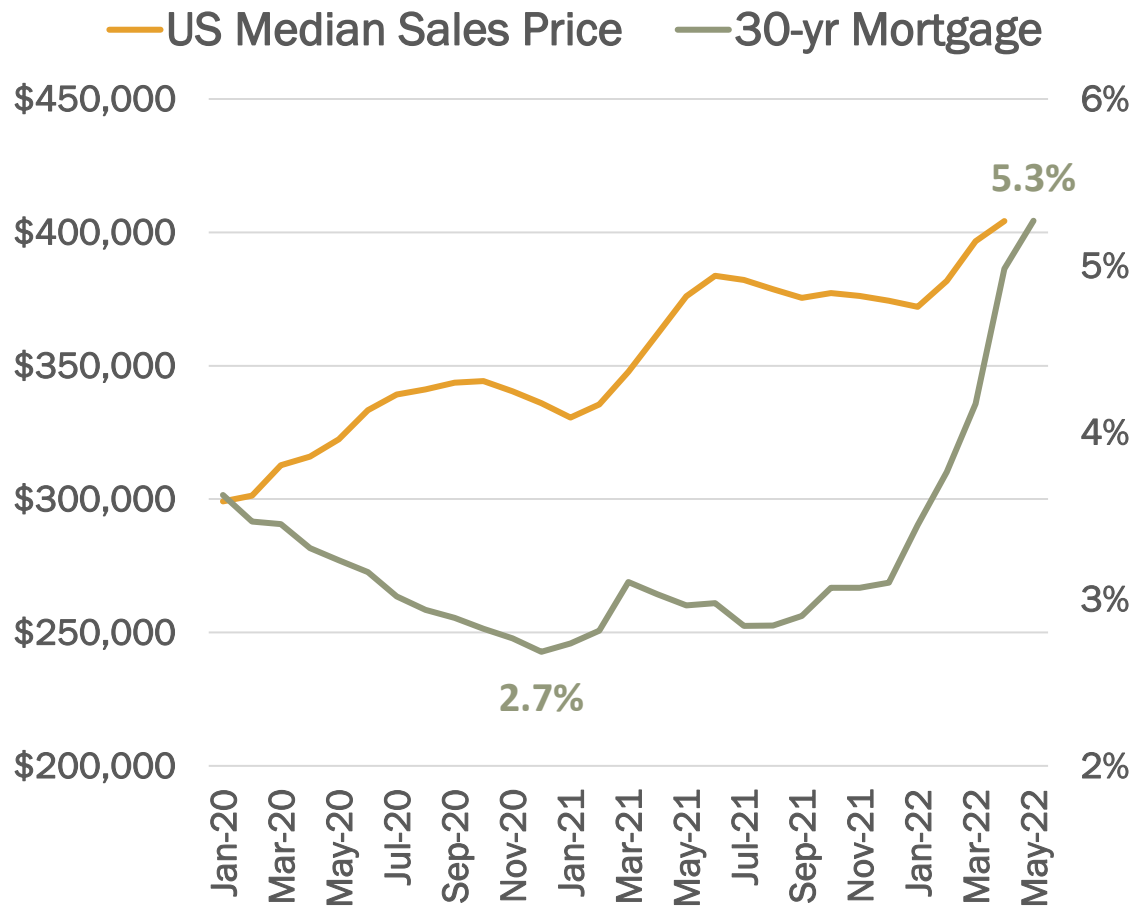


Home Prices



Region (MSA)	Median Sales Price (April 2022)	% Increase Since January 2020
United States	\$404,241	35.1%
Sacramento	\$662,223	28.8%
San Francisco	\$987,222	16.9%
San Jose	\$1,421,444	33.9%
Fresno	\$428,725	22.2%
Los Angeles & Orange	\$999,916	15.3%
Riverside	\$579,000	37.5%
San Diego	\$916,268	18.5%

Home Prices



Loan amount for a 30-yr loan with a \$3,000 monthly payment

- 3% interest rate: \$712,000
- 6% interest rate: \$501,000

Housing Prices have been rising due to

- Low interest rates
- Limited housing supply during pandemic

Prices should fall (or slow) as interest rates rise

- Recent price increases suggest a persistent housing supply shortage



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