

Social Narratives / Economic Realities

Deficits, Bubbles and the U.S. Outlook

Focus on California

Christopher Thornberg, PhD

Founding Partner, Beacon Economics

November 2025



Beacon Economics

- Economic research firm founded in 2006 with a commitment to letting the *data* determine the *answer*.
- Impact studies, Policy Analysis, Regional Development and Revenue Forecasts

Today's Presentation

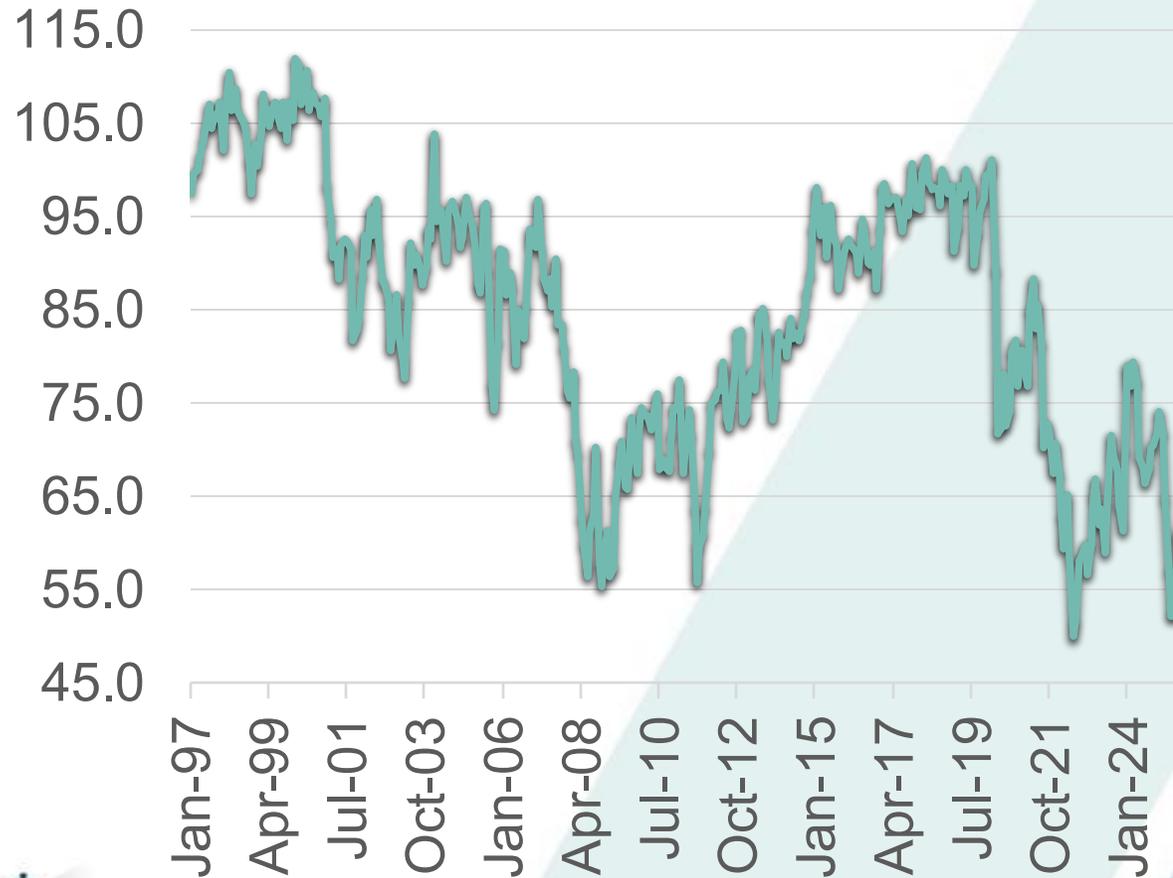
- What we *think* is happening in our economy (our social narrative or “lived experience”)
- What is *actually* happening in our economy (our objective statistical reality)
- It is the combination of the two that drives the forecast: Narratives drive choices, economics determines outcomes.

Good choices and smart policies start with the correct narrative.

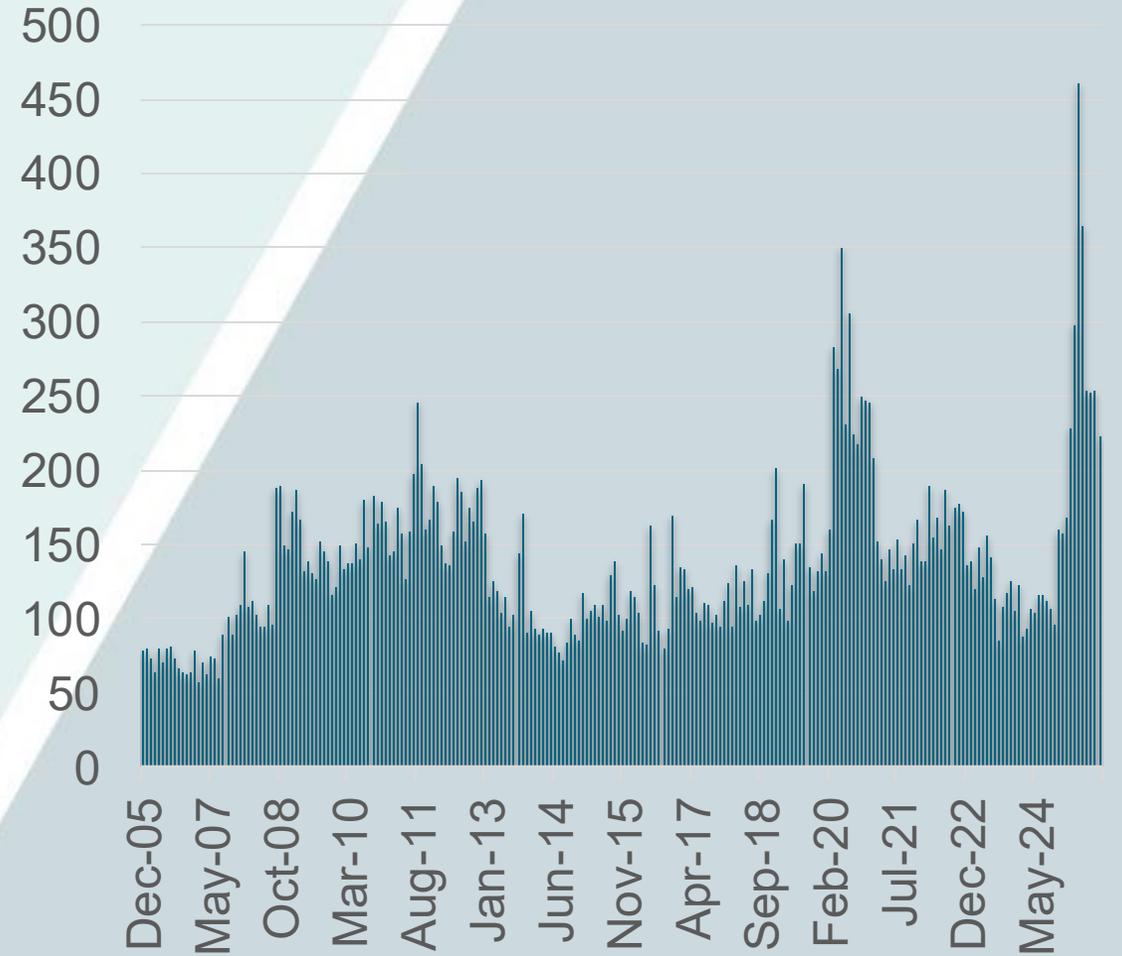


The 2025 Narratives

University of Michigan Consumer Sentiment Index



Policy Uncertainty Index



Forecast Accuracy?

2019: The Real Estate Recession

2020: The Pandemic Depression

2023: The Yield Curve Recession

Real Estate | Market Outlook

Housing Market Crisis 2.0: The Jury Is In For 2018-2019

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

She said the IMF would release an updated world economic forecast on Tuesday that would show just how quickly the coronavirus outbreak ...

7 hours ago

Survey: The U.S. economy has a 64% chance of entering a recession this year



Written by [Sarah Foster](#), Edited by [Amy Sims](#)

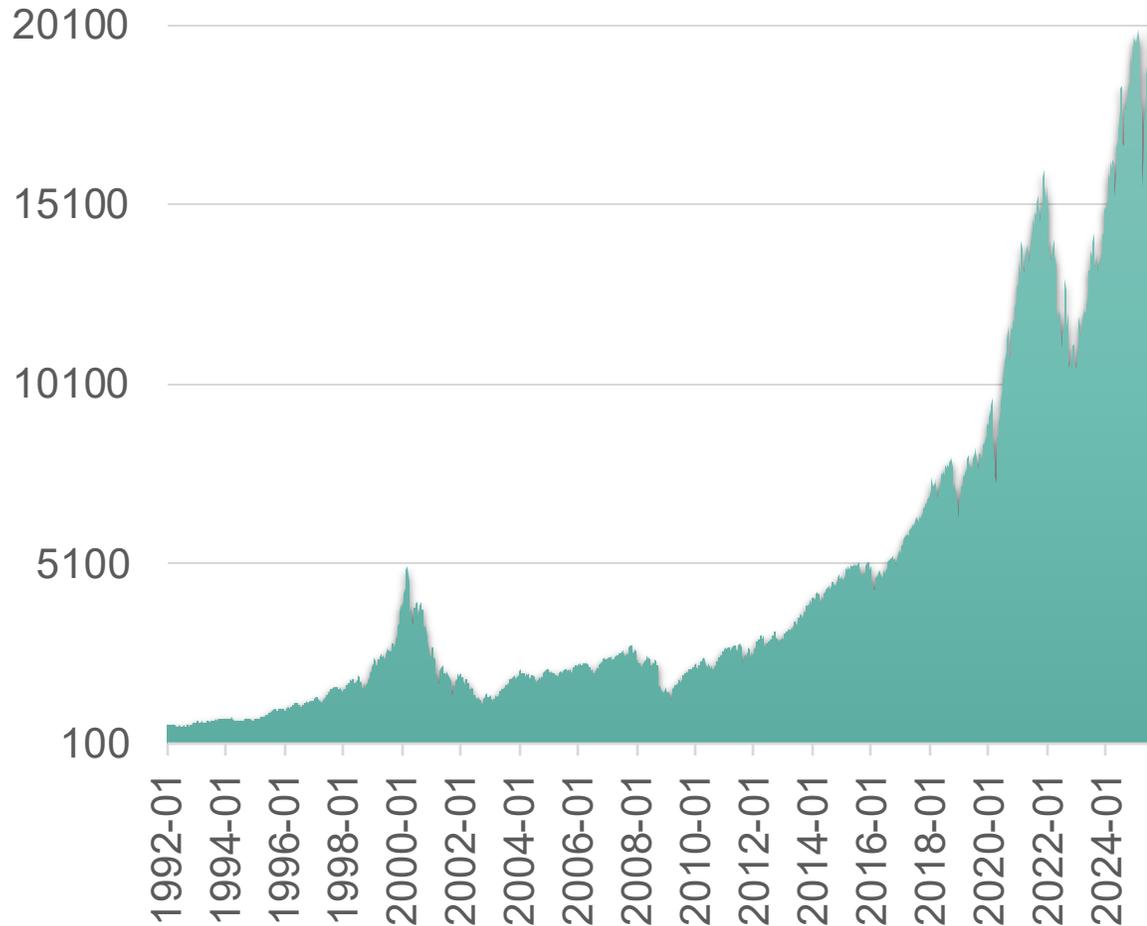
Published on January 04, 2023 | 5 min read



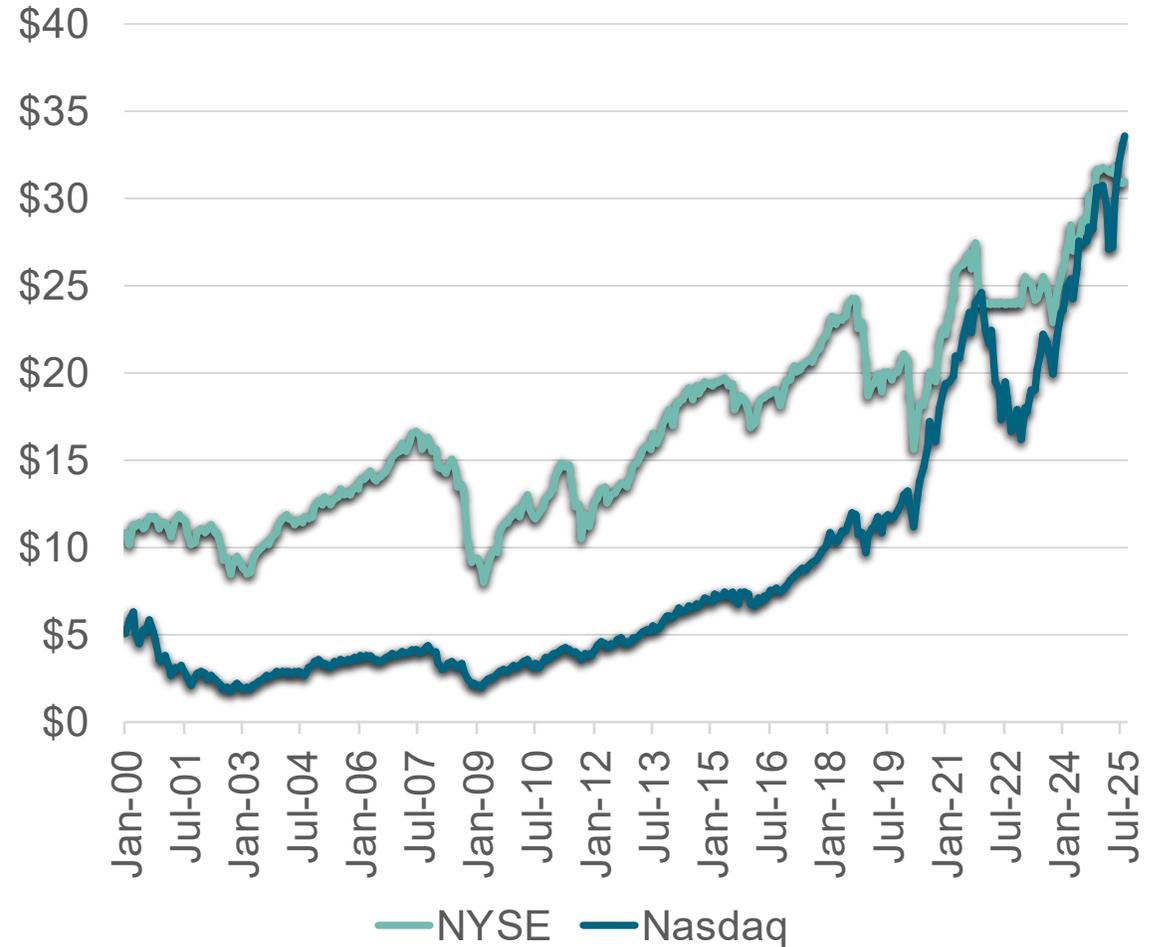
That *Other* Economic Narrative



Nasdaq Composite Index



U.S. Market Cap \$Trillions



Prince Harry at Game 4 of the 2025 World Series on October 28, 2025 in Los Angeles, California





Robert Shiller CAPE

Cyclically Adjusted Price / Earnings Ratio



That *Other* Economic Narrative



Rank	Company	Market Cap (approx.)
1	Nvidia	~\$3.9–4.2 T
2	Microsoft	~\$3.7 T
3	Apple	~\$3.2 T
4	Amazon	~\$2.3 T
5	Alphabet (Google)	~\$2.18 T
6	Meta Platforms	~\$1.8 T
7	Saudi Aramco	~\$1.60 T
8	Broadcom	~\$1.29 T
9	TSMC	~\$1.22 T
10	Berkshire Hathaway	~\$1.05 T



Beacon's Outlook 2025

Economic Trends: slowed, not stopped

- Drags: Pandemic stimulus sugar-high waning, reduced labor supply, political and economic uncertainty
- Strengths: Household & business finances, inflation / rates down
- More fiscal and monetary stimulus being thrown at the economy

The California Economy

- Local economic fundamentals still solid
- Housing supply shortages remain greatest barrier to growth
- Largest problems are largely self-made, bad policy drive by false narratives

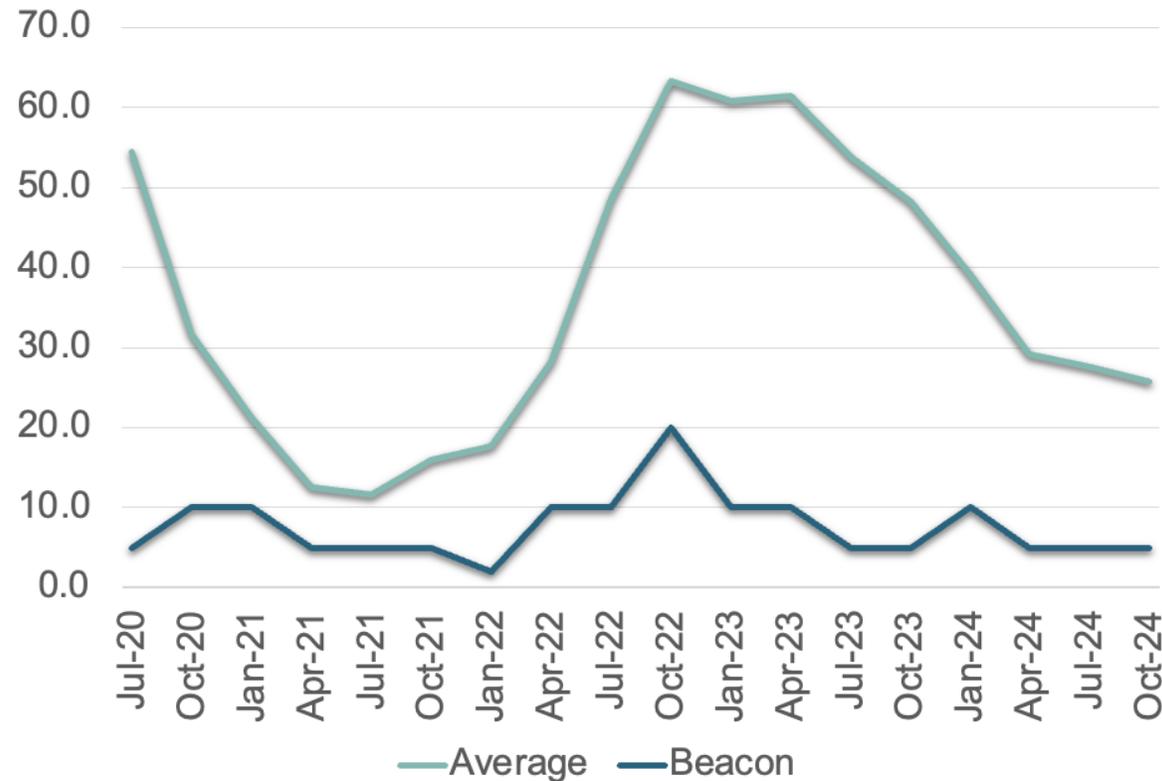
Beware the Imbalances

- Strong private sector finances a function of unsustainable public deficits and debt accumulation along with financial asset bubbles
- Growing external imbalances are the weak link in the chain, and falling demand to invest in the US will lead to higher rates and inflation



Beacon's Outlook 2024

WSJ Recession Probability Forecast
Chance of US entering a recession in the next 12 months



We aren't worried now...

- The consumer is doing fine, ergo the economy is too
- The Fed is backing off on the brakes... sorta.
- Labor force growth picking up

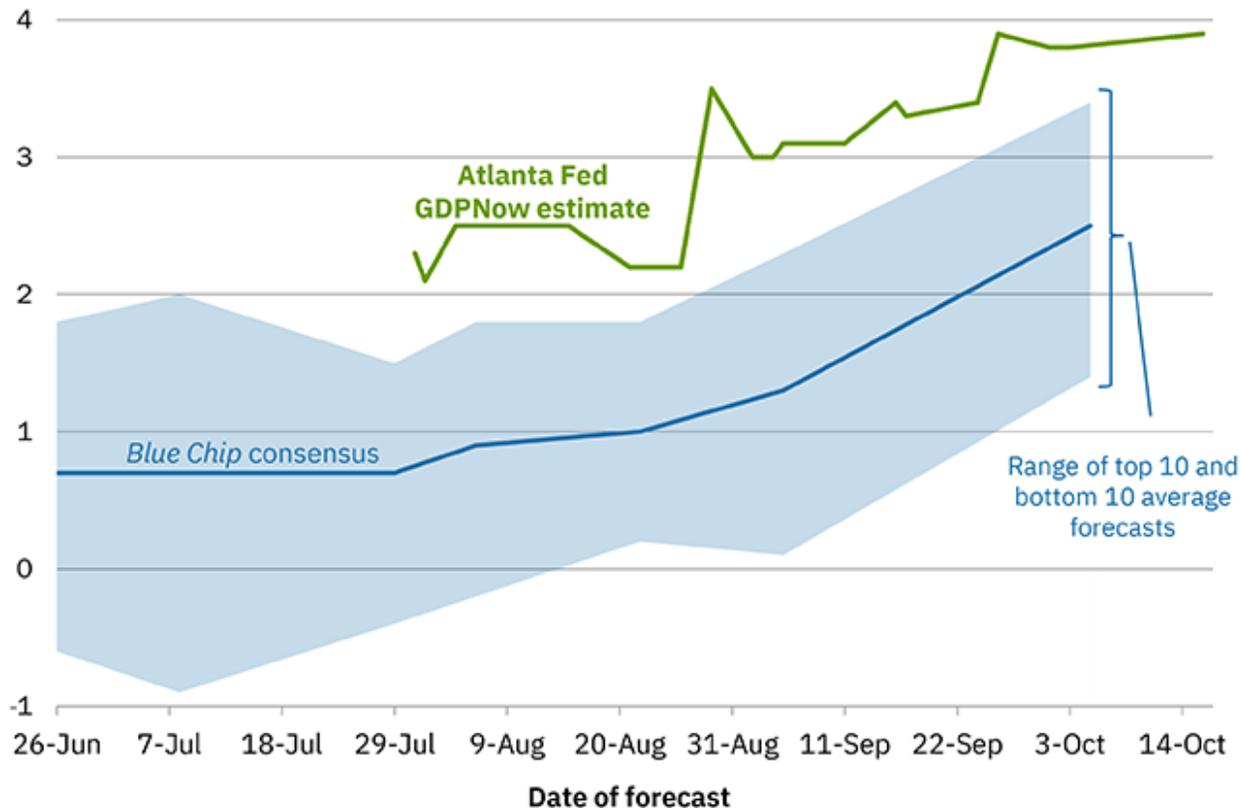
... but we are worried.

- Bubbly asset prices, yawning Federal deficits, growing external imbalances—something has to break eventually
- False narratives driving bad policy and ugly politics



GDP Growth Slowed, not Stopped

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

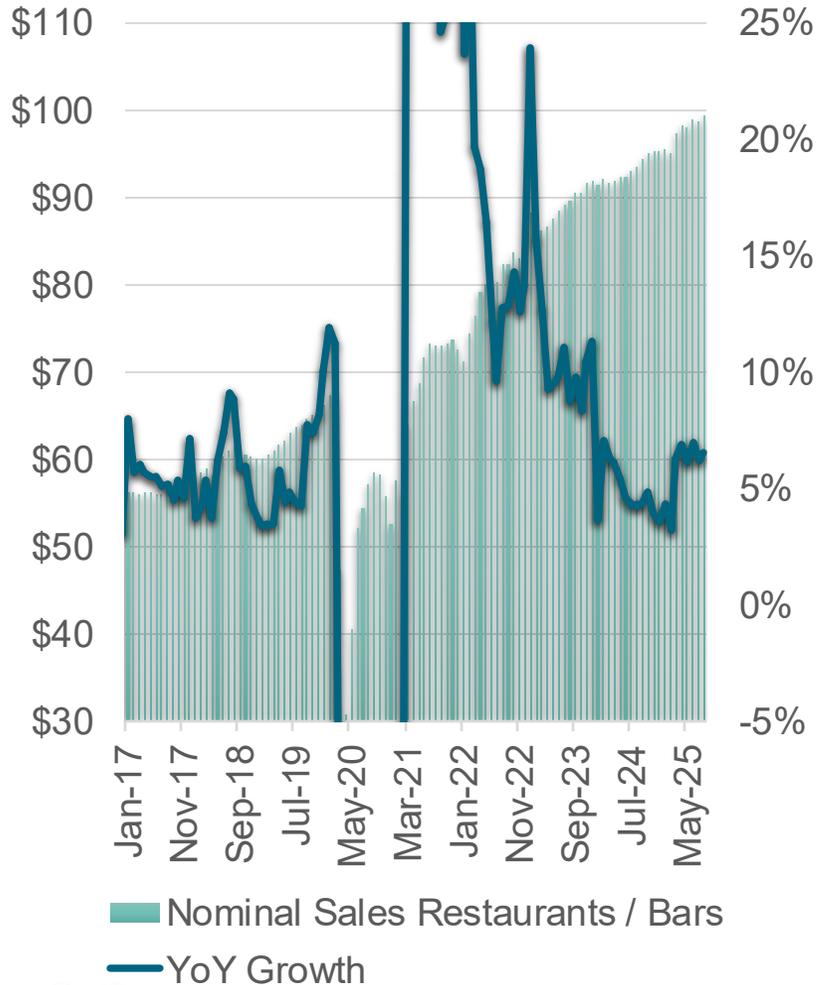
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

	2023	2024	2025
Real GDP Growth	3.4	2.4	1.6
Final Demand Growth	3.7	3.1	2.0
Consumption	2.0	2.3	1.1
Fixed investment	1.0	0.2	1.0
Structures	0.5	-0.2	-0.2
Equipment	0.2	0.2	0.7
IPP	0.2	0.1	0.6
Residential	0.1	0.1	-0.1
Inventories	-0.4	-0.2	-0.4
Net exports	0.1	-0.5	0.1
Exports	0.2	0.4	-0.1
Imports	-0.2	-0.8	0.2
Government	0.7	0.6	-0.1
Federal	0.2	0.3	-0.4
State and local	0.5	0.3	0.3



Consumers: Still Having Fun!

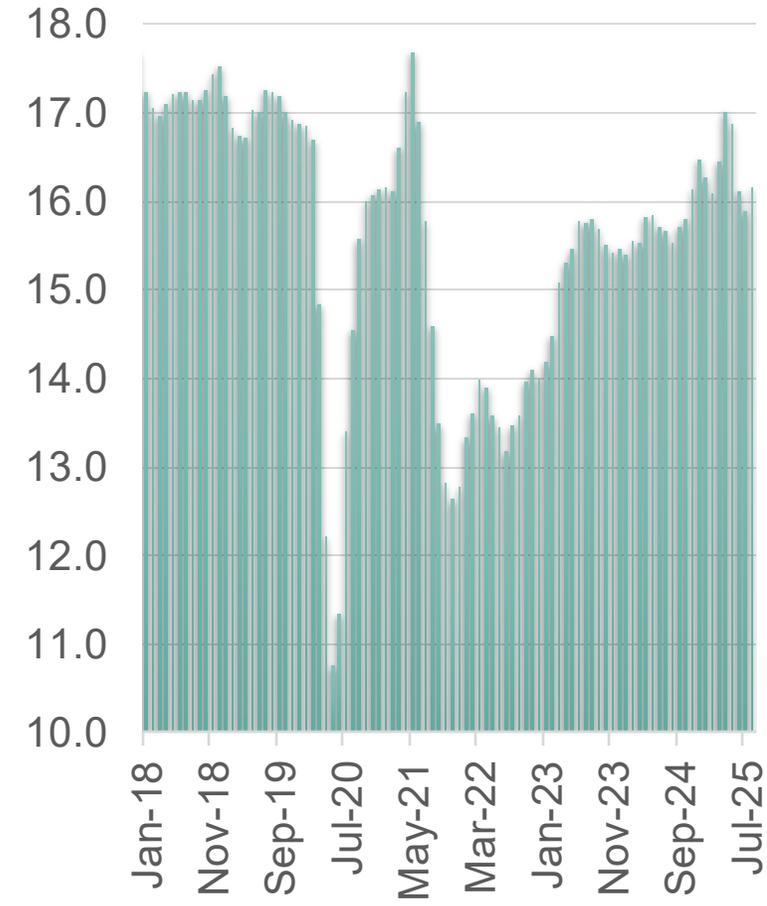
Retail Spending Restaurants



Las Vegas Gaming Revenues

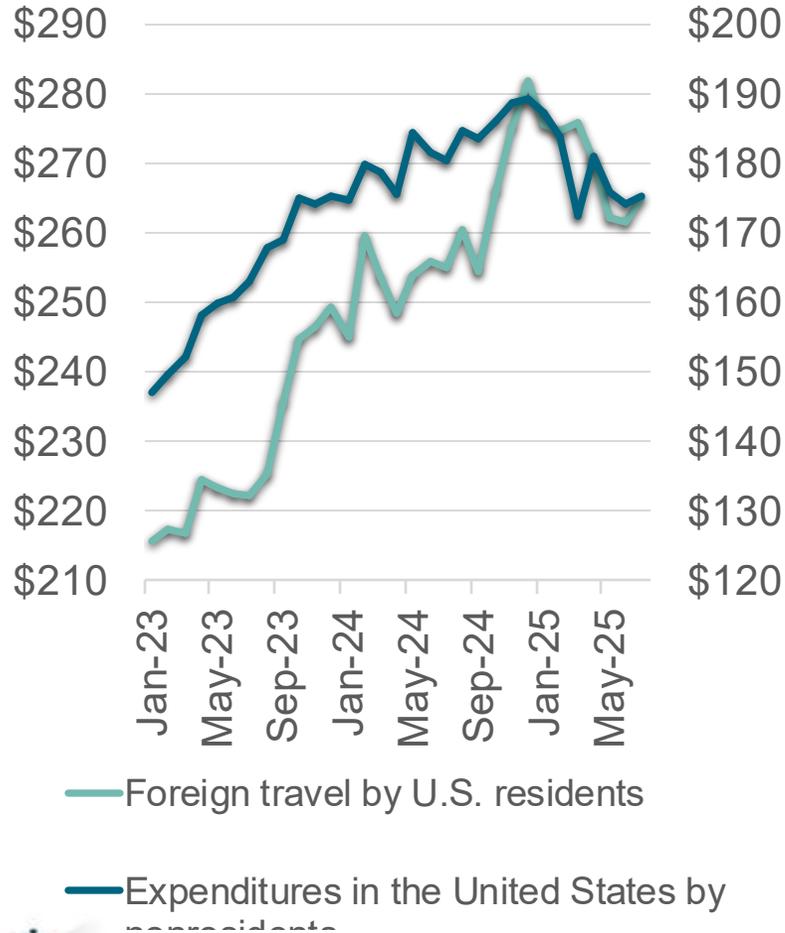


Auto / Light Truck Unit Sales (Mil, SAAR)

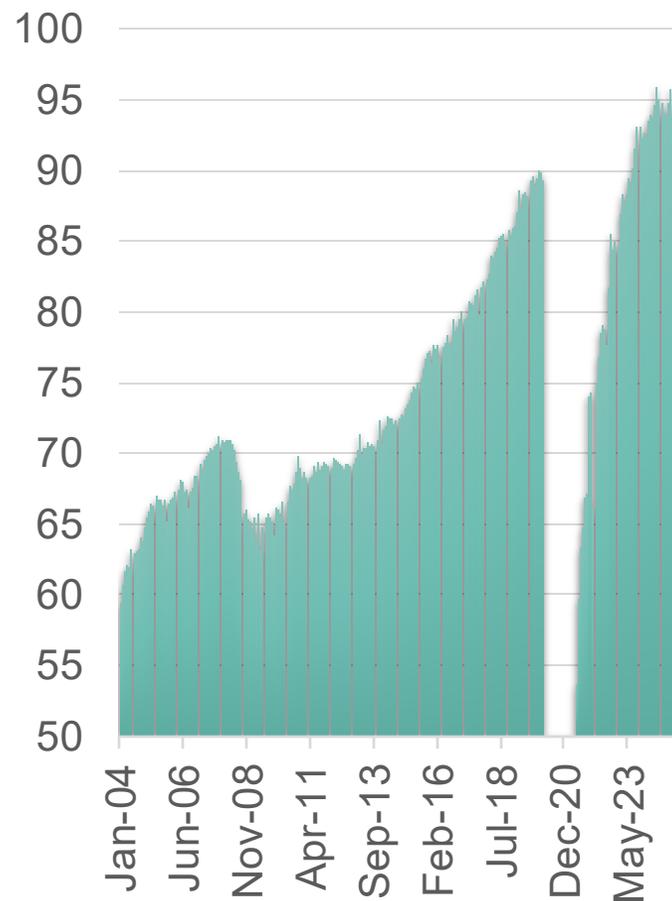


Tourism and Hotels

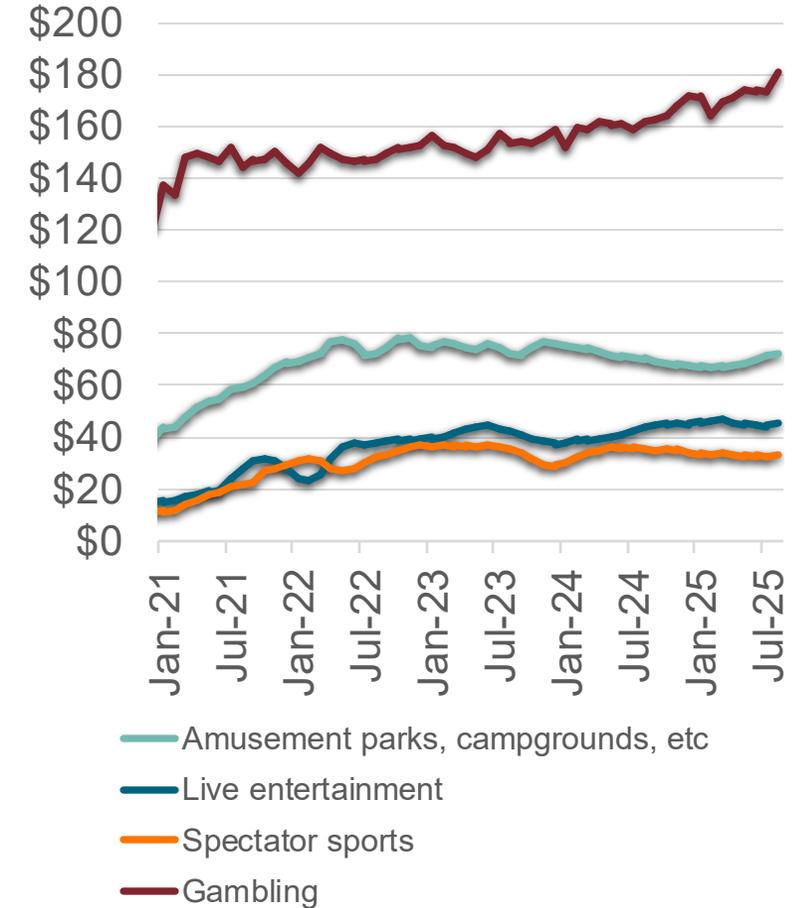
Spending on Foreign Travel (Real) SAAR



US Revenue Passenger Air Miles

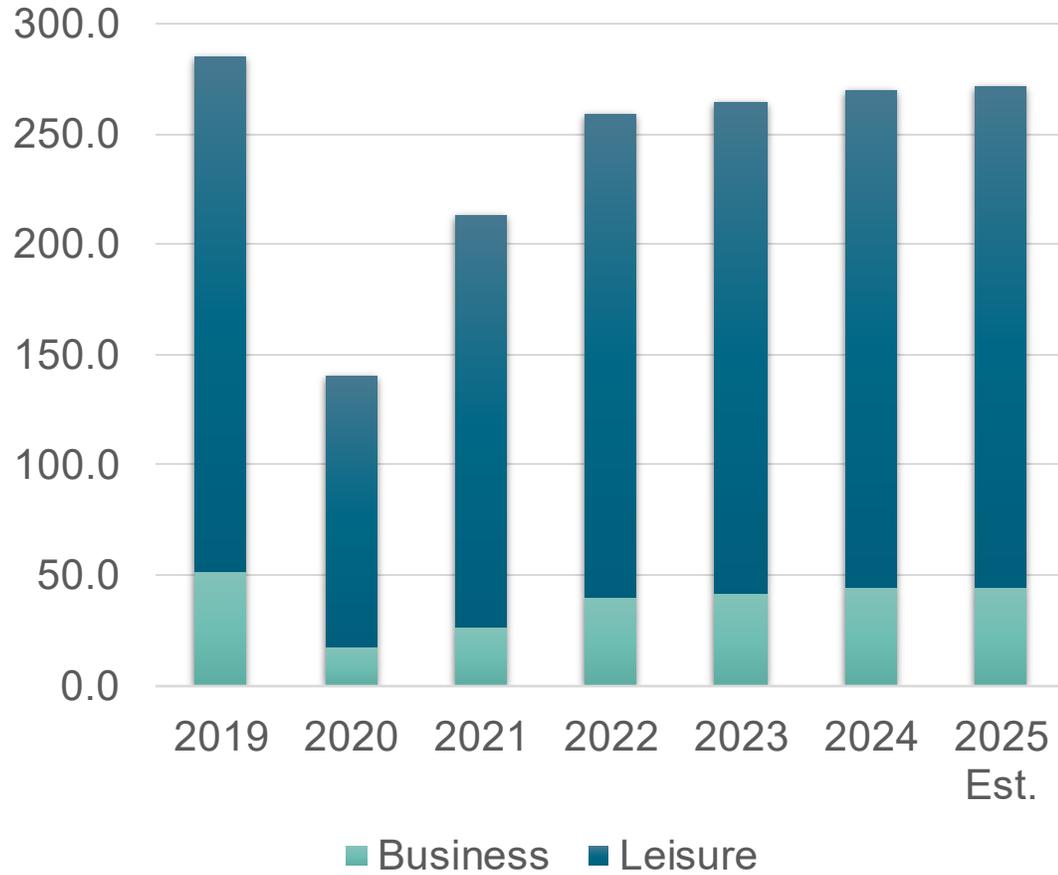


US Entertainment Spending (Real)



State Visitor Counts and Hotels

California Total Visitor Counts



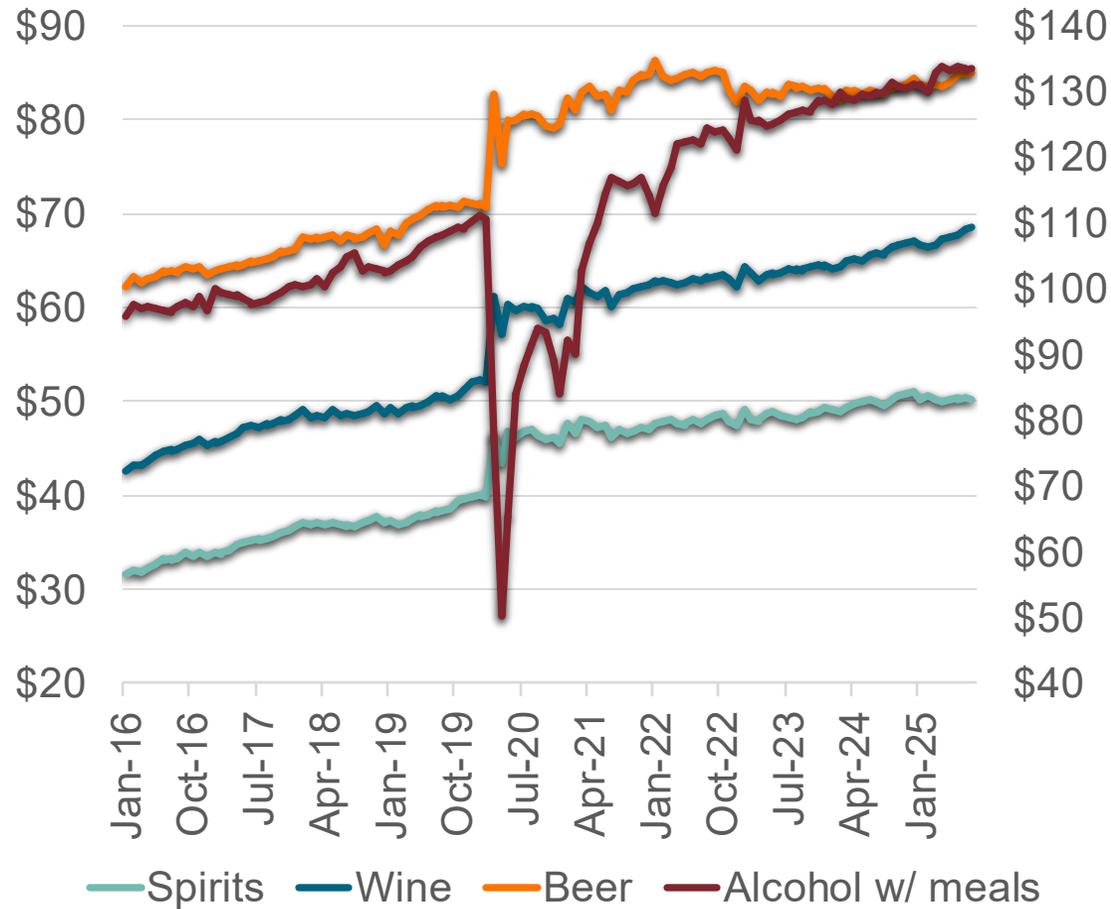
Source: Tourism Economics

Location	Sep-25 RevPAR (\$)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	97.92	-2.3	51.6
Monterey	182.34	2.2	43.7
Napa	268.45	1.3	40.1
Orange County	147.48	-1.1	52.4
San Luis Obispo	119.93	-1.6	31.3
Inland Empire	89.72	-3.0	40.3
Santa Barbara	164.53	-3.4	37.8
Sonoma	126.24	-5.6	8.8
Los Angeles	132.54	-6.4	32.7
San Diego	145.92	-7.9	51.7

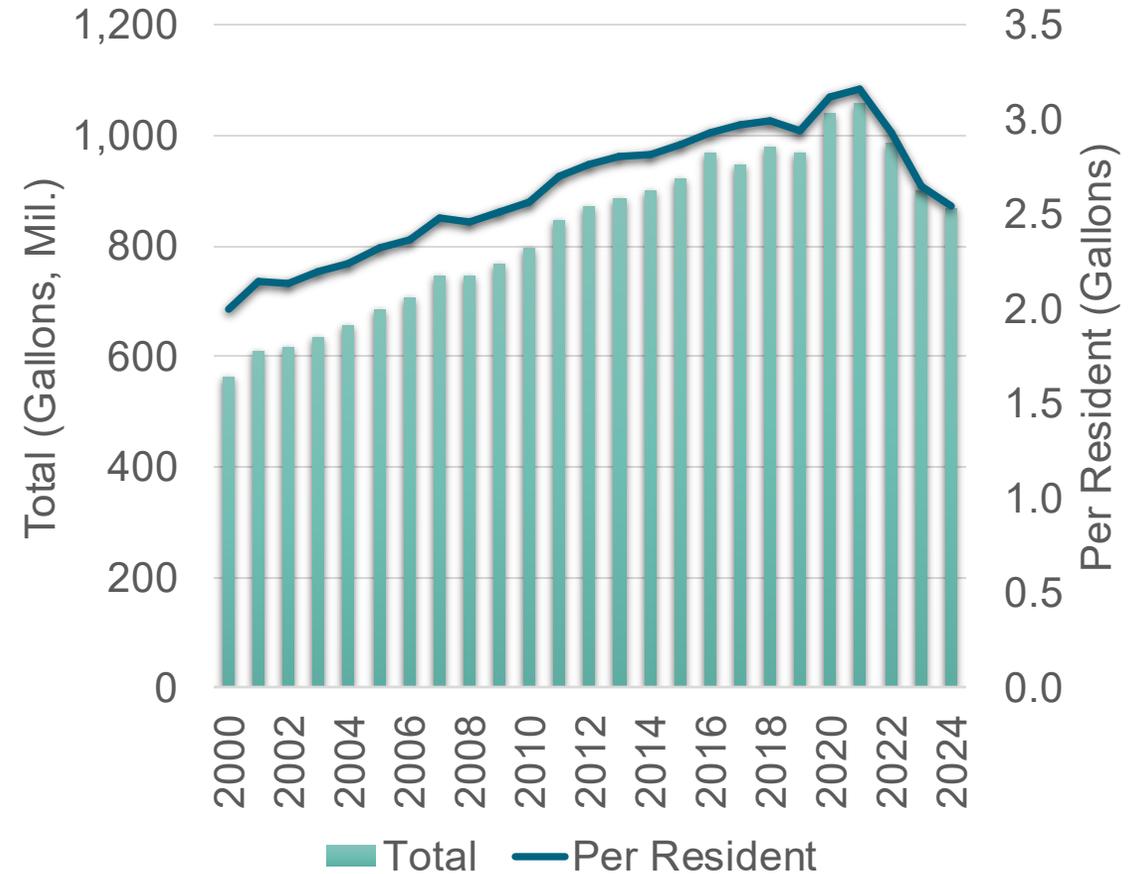


The Wine Industry?

Real Consumption of Alcohol

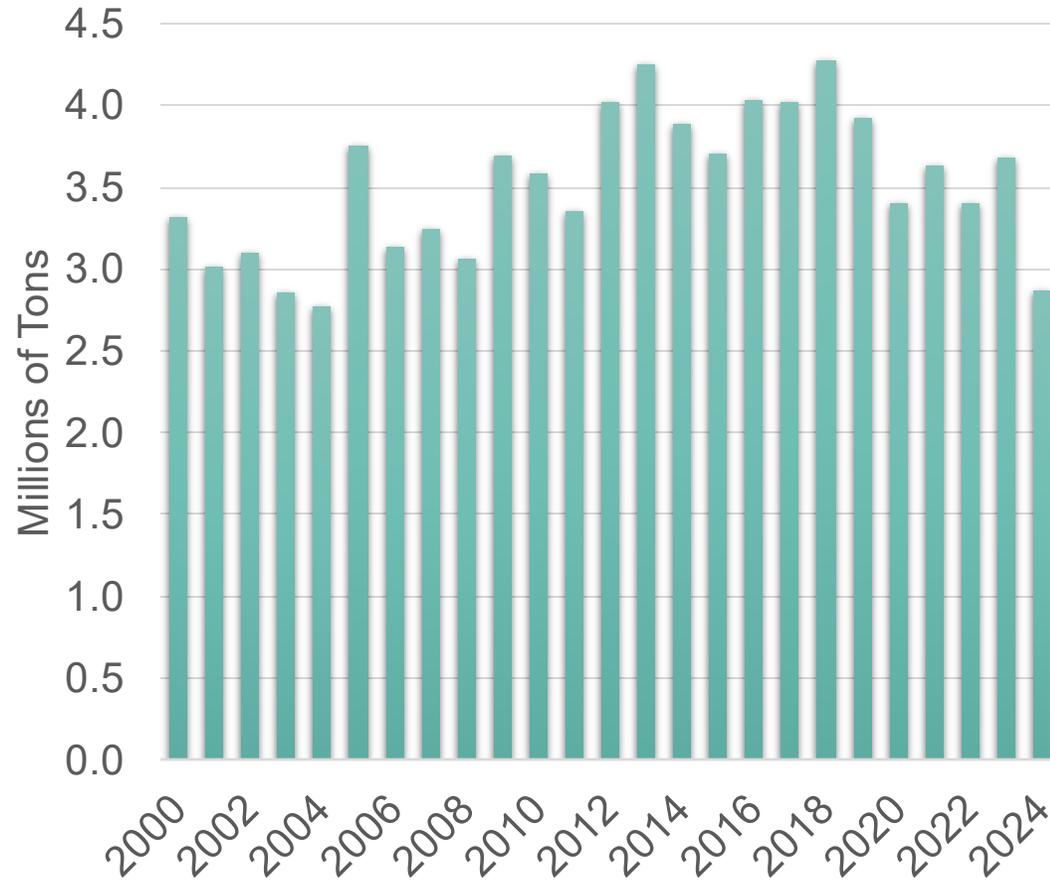


U.S. Wine Consumption



California Grape Crush

California Total Wine Grape Crush



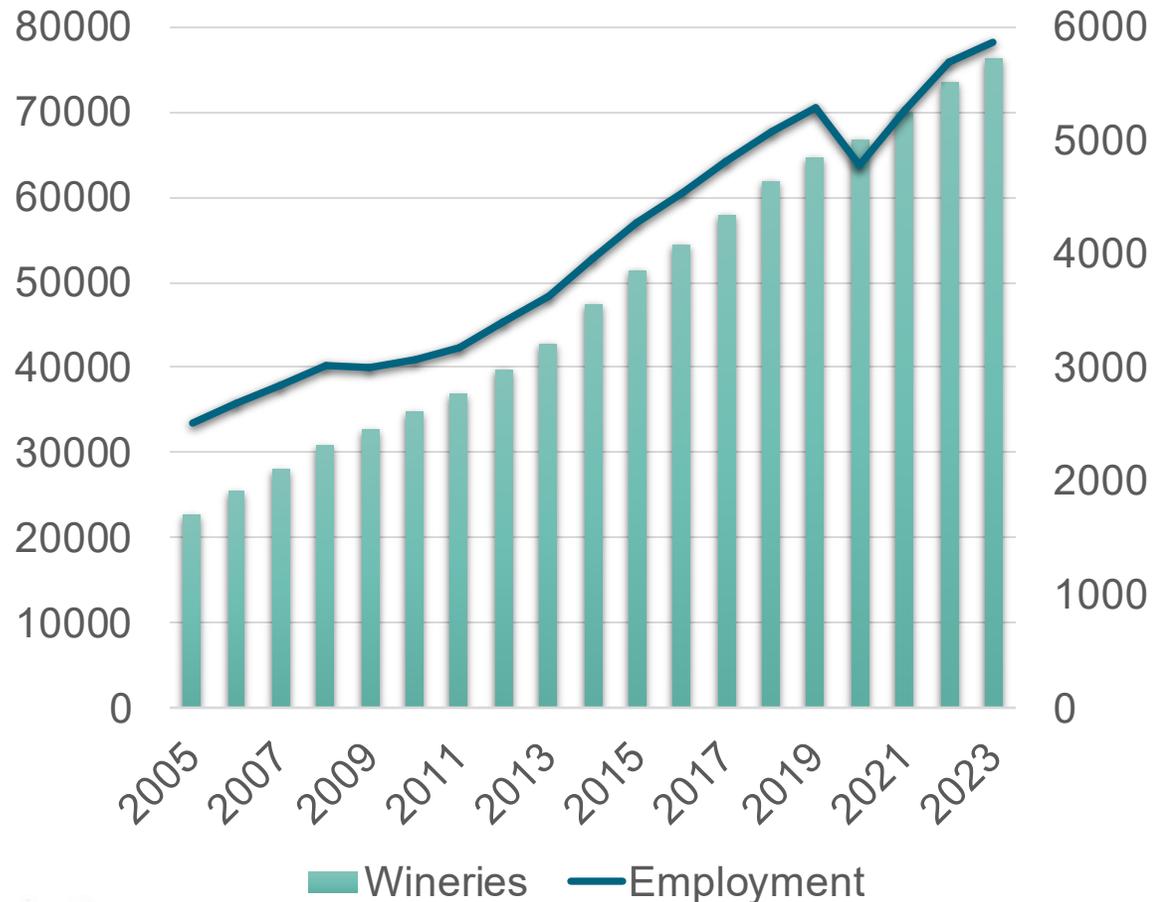
Source: United States Department of Agriculture

Partner Country	Jul-25 YTD (\$ Mil.)	1-Year YTD Chg. (%)	2019 to 2024 Chg. (%)
Total Wine Exports	452.9	-30.2	-1.6
United Kingdom	84.2	-10.3	-27.2
Canada	59.9	-70.5	11.3
Japan	53.7	22.1	-12.7
Korea, Republic Of	27.7	-4.1	133.5
France	22.4	13.1	1.9
Denmark	20.6	1.1	3.5
China	16.9	-77.2	124.3
Germany	12.8	6.8	-37.5
Netherlands	12.3	-13.7	130.1
Mexico	11.6	17.4	6.2



The Wine Tourism Business

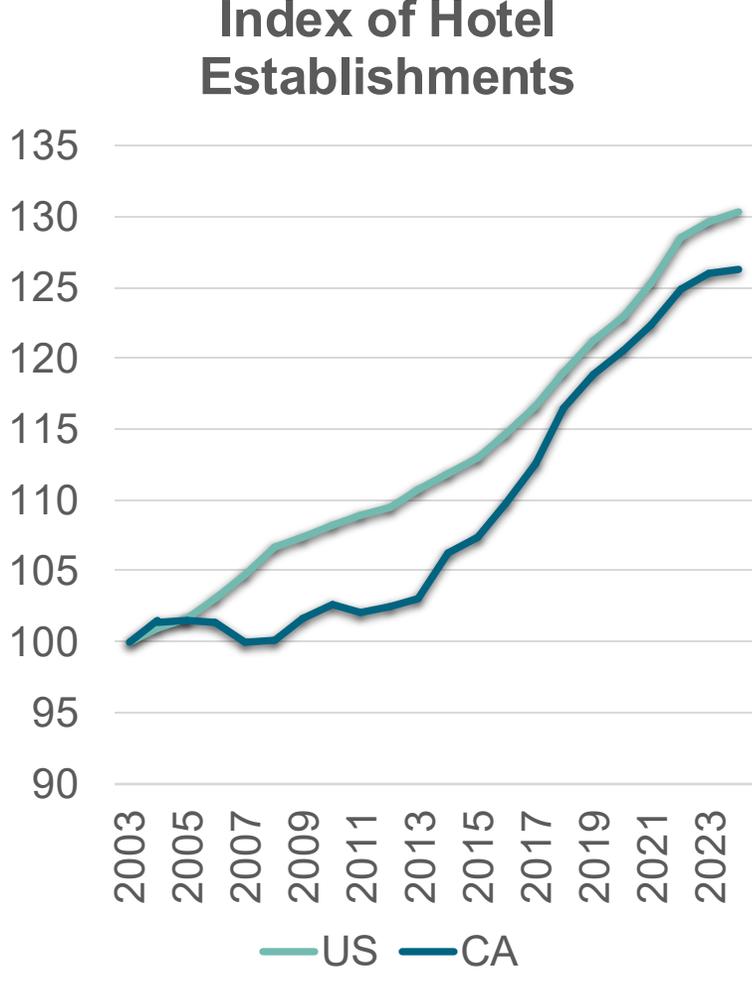
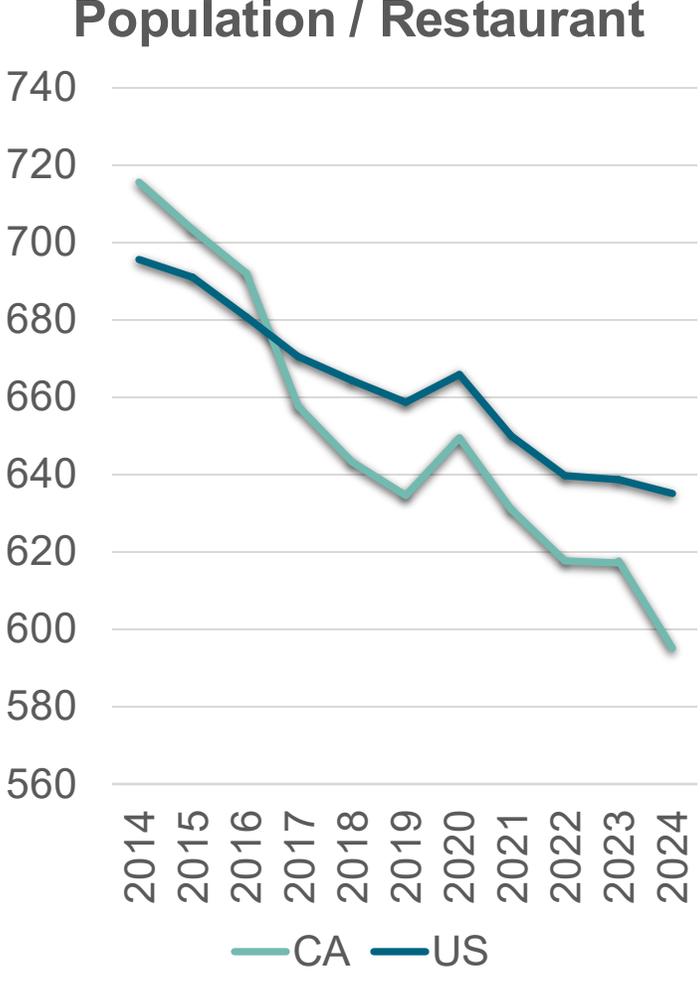
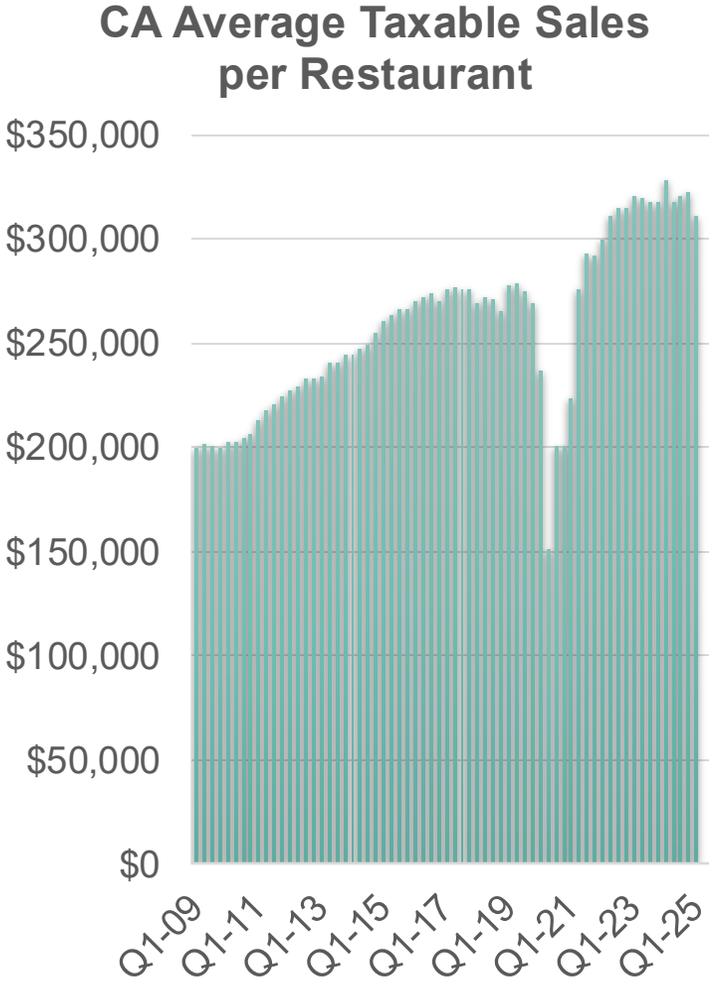
US Winery Employment and Establishments



	Firms	Change 20-25	Emp	Change 20-25
U.S. TOTAL	5,836	877	70,744	6.5%
Napa	512	63	11,274	1.8%
San Luis Obispo	194	25	2,535	13.0%
Sonoma	417	22	6,291	-12.9%
Yamhill	146	22	1,373	0.8%
Monterey	56	19	768	16.2%
Los Angeles	54	11	640	-10.4%
Santa Barbara	139	10	1,462	2.7%
San Joaquin	89	9	2,430	5.0%
San Diego	51	5	469	18.4%
Riverside	50	5	1,522	16.9%
Walla Walla	72	4	652	13.0%

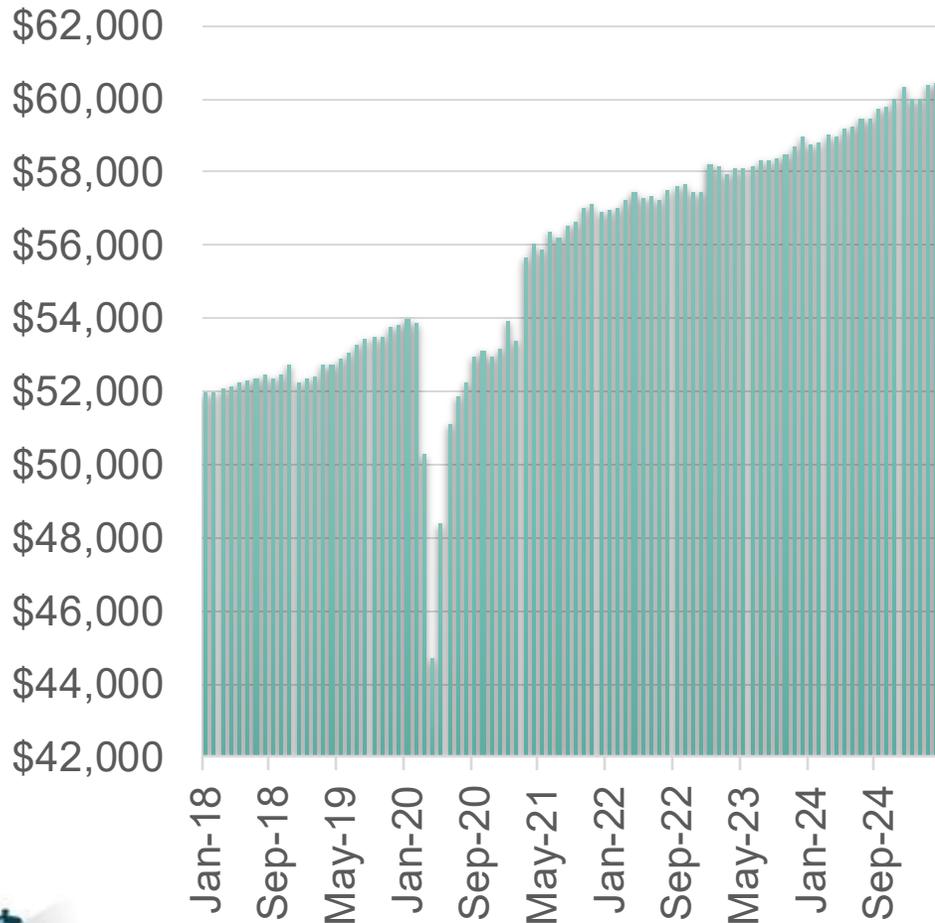


Tourism Over-Supply?



The Recent Consumer Slowdown

Real Per Capita Consumer Spending

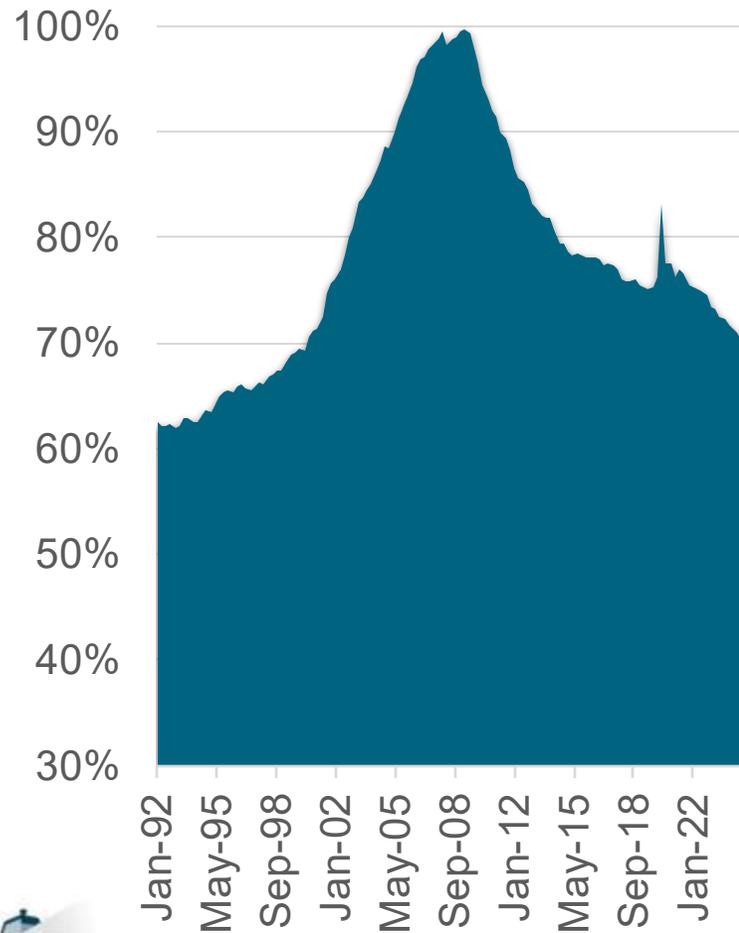


	Jul-25	YOY 24-25	Abs. decel
Real consumption (PCE)	\$16,408	2.1%	-\$102.0
Health care	\$2,931	3.9%	-\$48.0
Nonprofit institutions	\$402	-8.1%	-\$37.5
Transportation services	\$500	0.0%	-\$14.8
Furnishings and durable eq	\$446	0.9%	-\$12.5
Gasoline and energy goods	\$316	-1.5%	-\$11.4
Recreational goods vehicles	\$805	4.9%	-\$10.5
Recreation services	\$623	1.0%	-\$10.0
Financial services	\$1,185	2.4%	-\$8.1
Food services and acc	\$1,083	1.7%	-\$4.7
Motor vehicles and parts	\$612	3.5%	\$5.4
Housing and utilities	\$2,666	1.1%	\$10.7
Other	\$3,118	2.5%	\$11.8
Food beverages	\$1,191	1.7%	\$13.2
Clothing and footwear	\$529	4.9%	\$14.2



Overall Financial Conditions: Great!

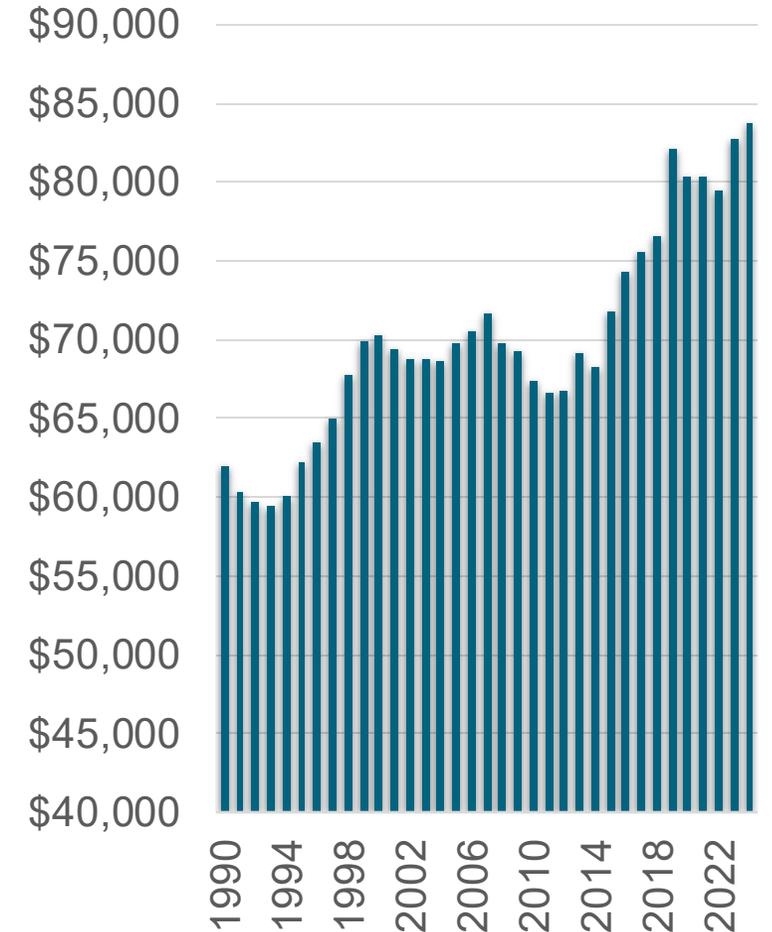
Household Debt as % of GDP



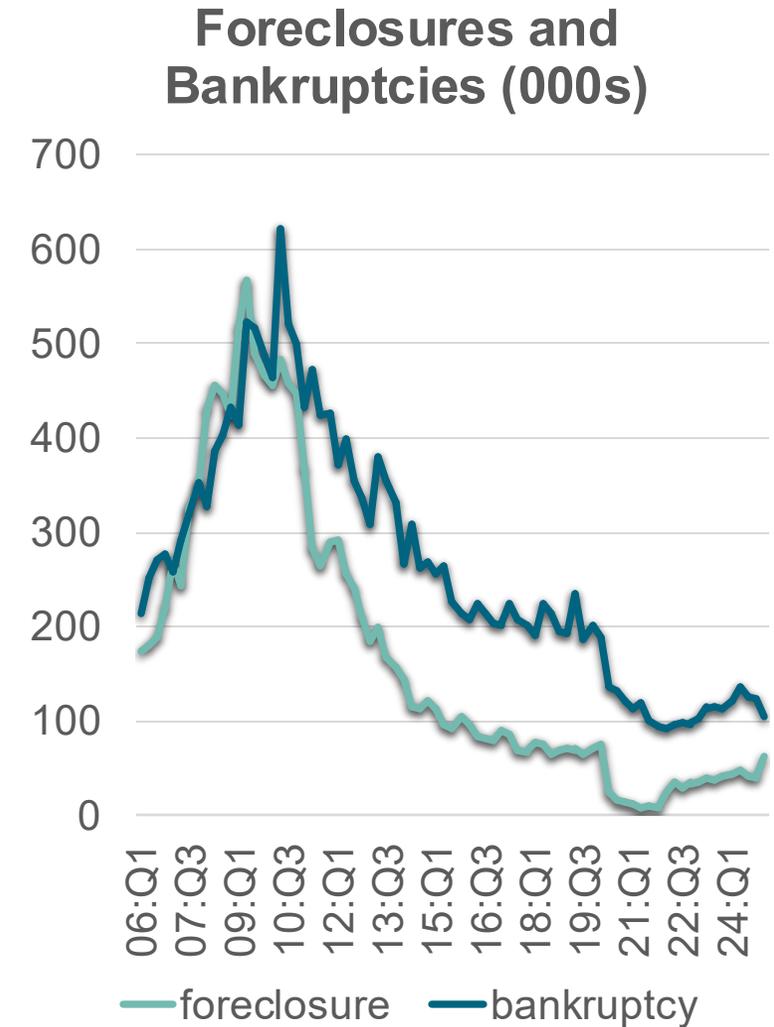
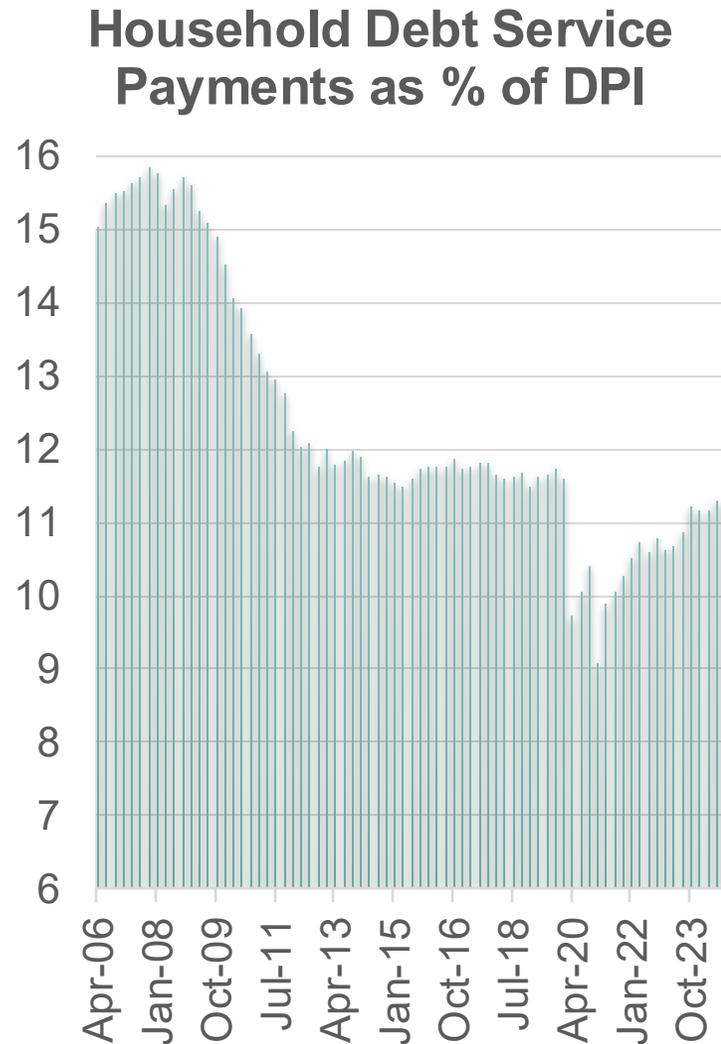
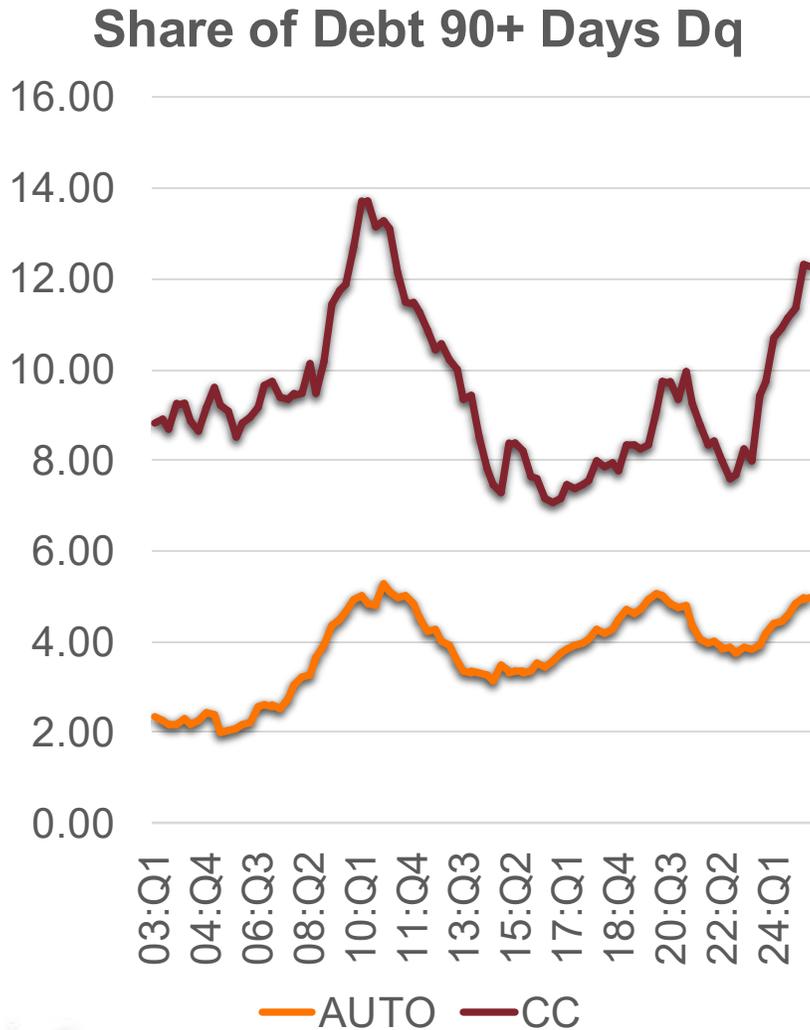
Real Household Net Worth (\$Trillions)



Real Median HH Income



Payment Issues, Not Debt Issues

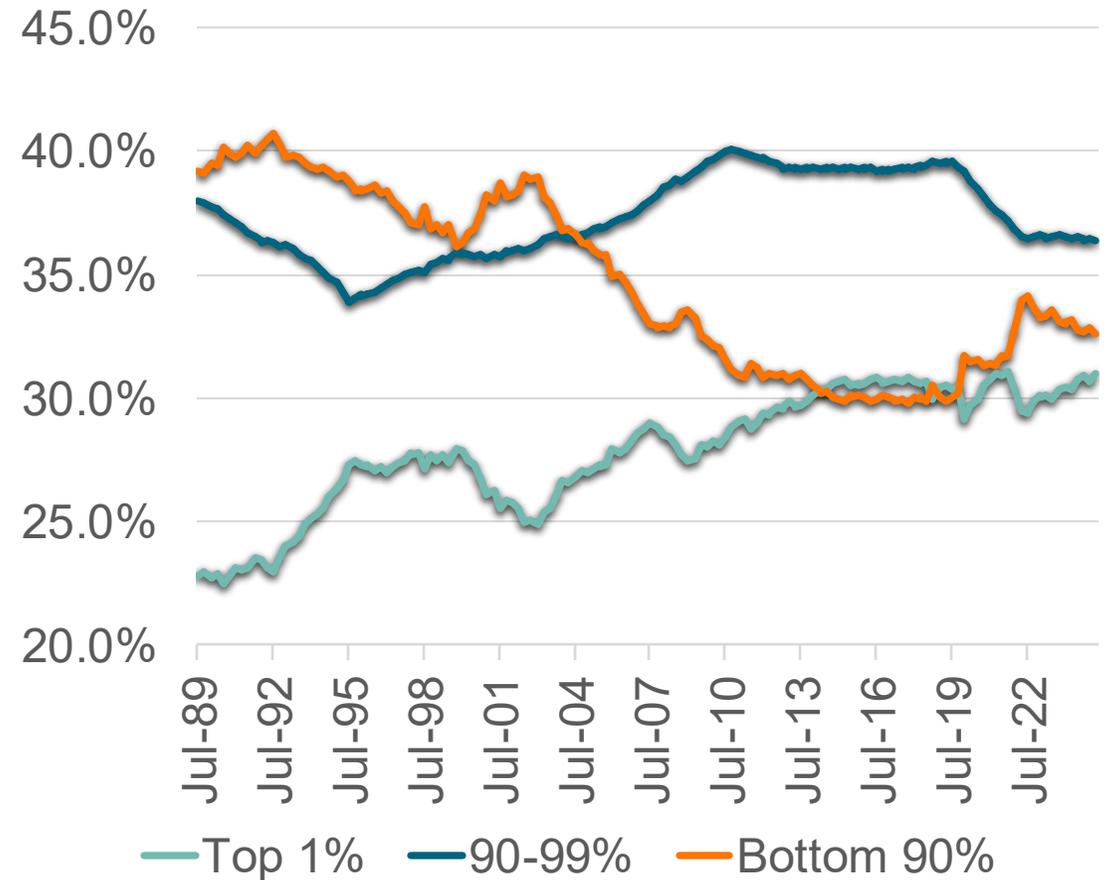


Only gains for the top 10%?

Average Gross Income by Household Quintile

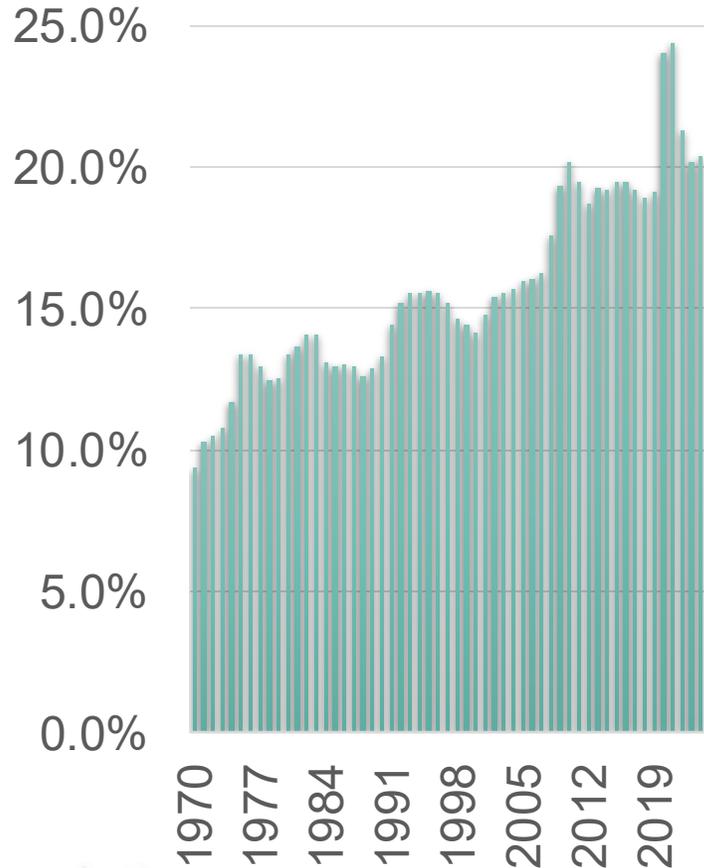
	2024 Average Gross HH Income	Real Growth 14-24	Real Growth 04-14
Lowest	\$18,460	22.8%	-7.1%
Second	\$49,380	23.4%	-3.3%
Middle	\$84,390	21.3%	-0.8%
Fourth	\$136,800	21.1%	2.3%
Highest	\$316,100	26.5%	4.5%
Top 5%	\$560,000	30.9%	2.7%

Share HH Net Worth

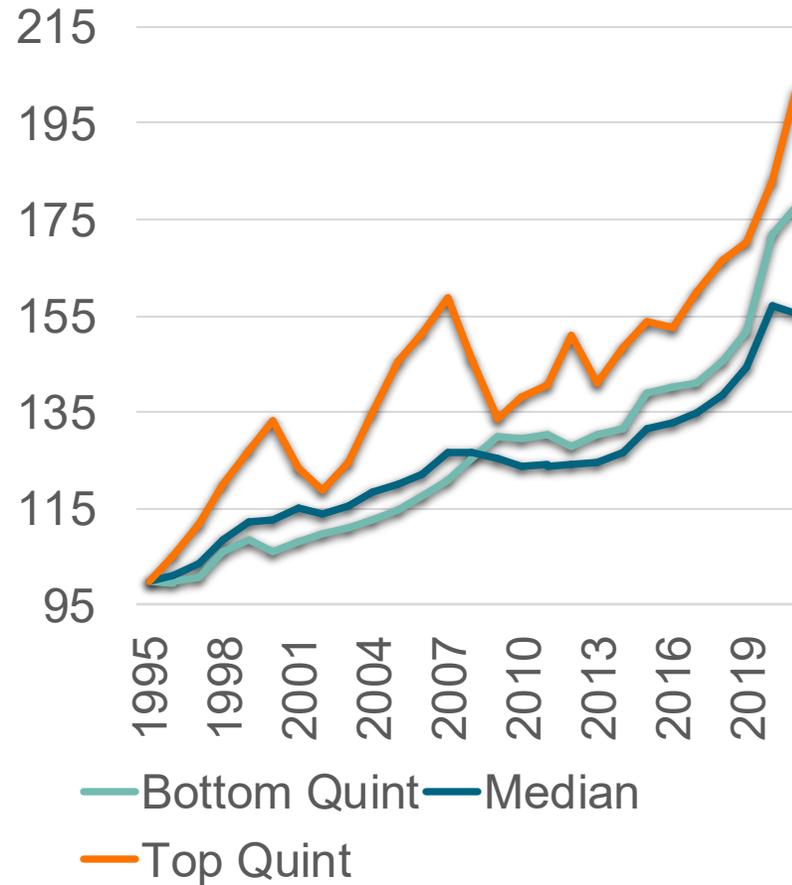


Transfers and Taxes

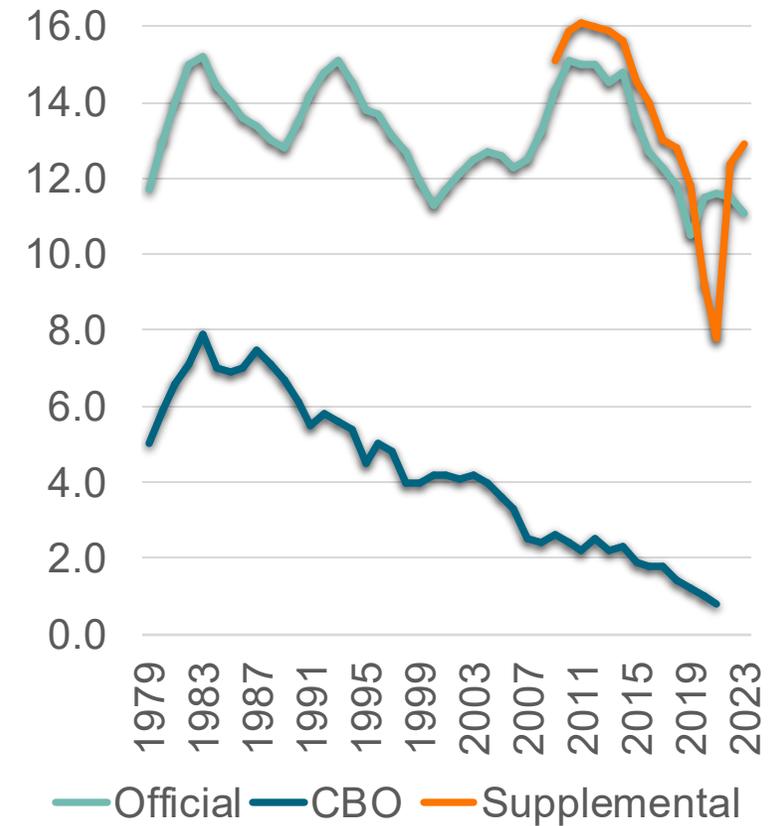
Gov Transfers as % DPI



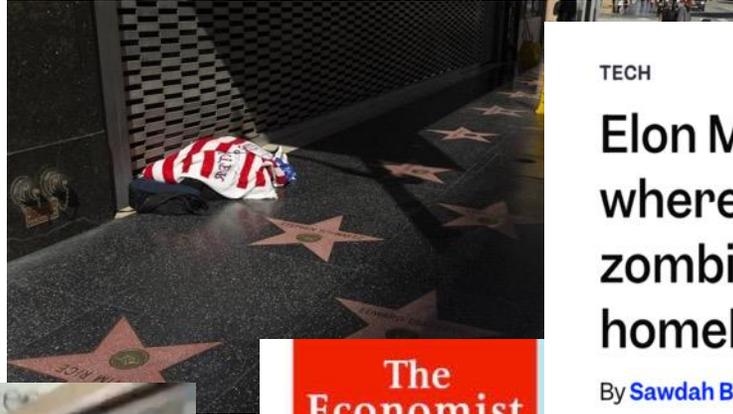
Index of Real Net Incomes by Quintile



Estimates of the Share of US in Poverty



And How About California?



TECH

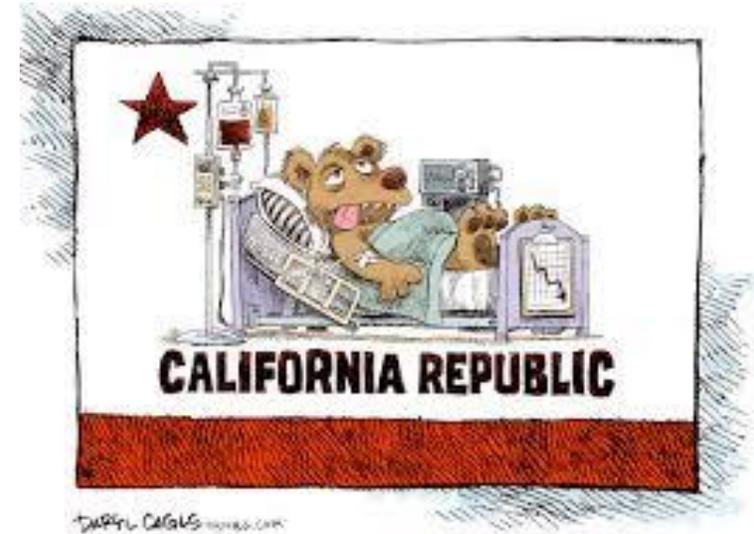
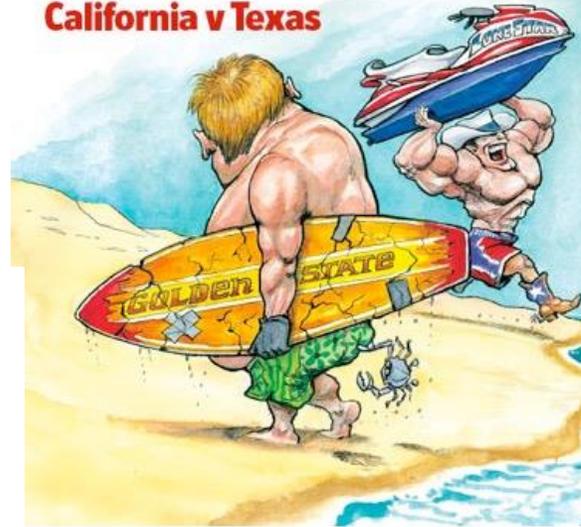
Elon Musk called downtown San Francisco — where Twitter is headquartered — a 'derelict zombie apocalypse' amid its huge homelessness and drug issues

By [Sawdah Bhaimiya](#)

The Economist

Eat less, live longer: it's true
Don't protect bad Belgian art

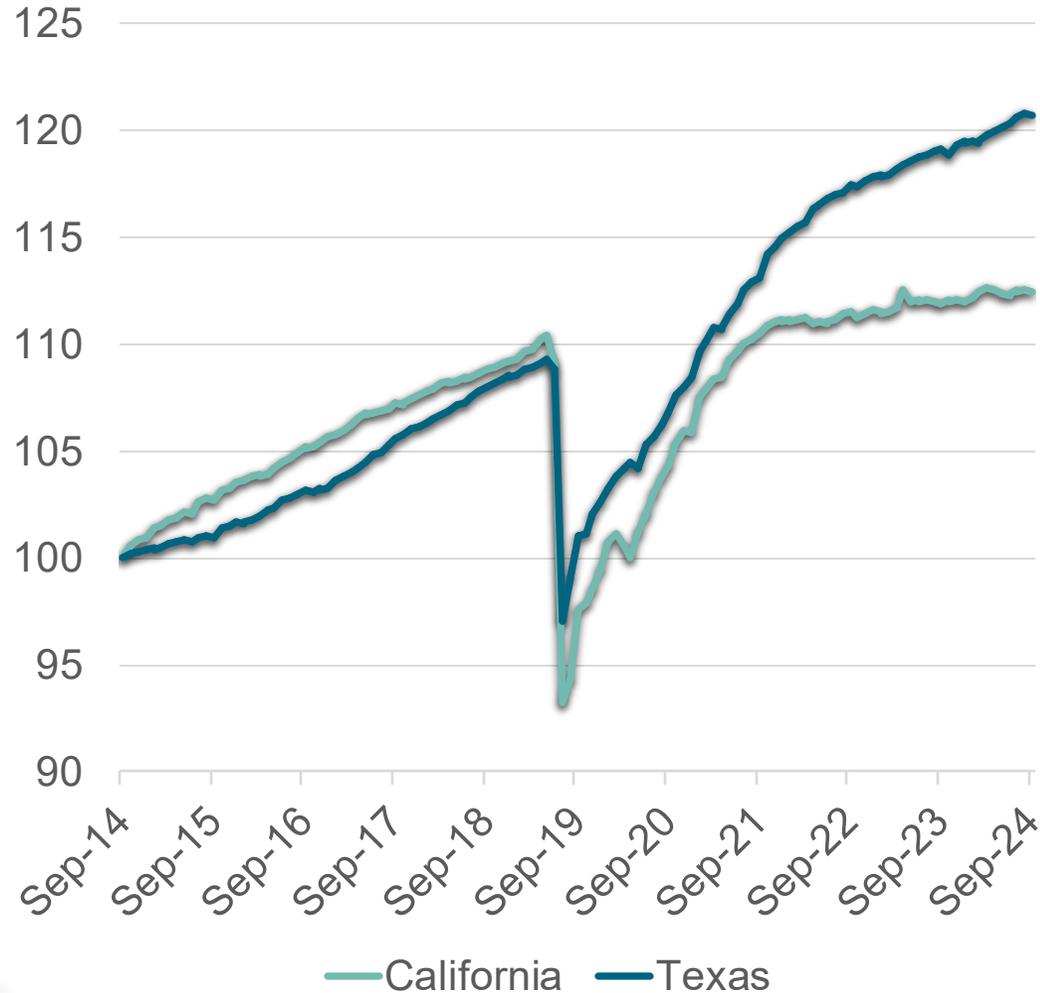
America's future
California v Texas



California has highest poverty rate in the nation, tied with Louisiana

California Nonfarm Employment

Indexed Nonfarm Employment

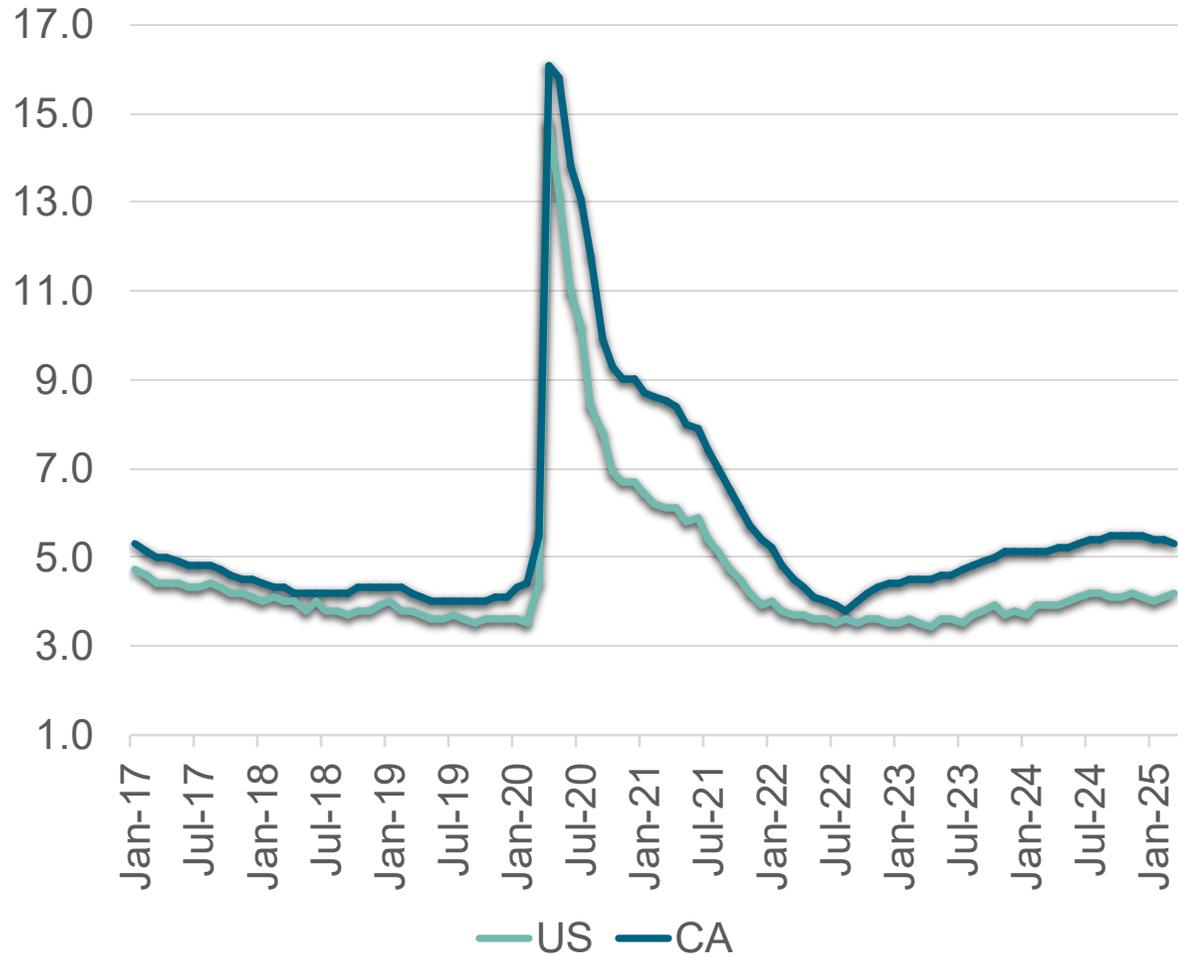


	Jul-25	
Total Nonfarm	18023	83.8
Health Care	3030	156.9
Government	2721	59.4
Education	428	11.8
Logistics	836	4.6
Retail Trade	1585	1.4
Management	288	0.5
Other Services	593	-2.8
Wholesale Trade	651	-6.4
Leisure Hospitality	2005	-8.1
Information	527	-12.4
Financial Activities	785	-15.8
Admin Support	1076	-16.4
NR/Construction	915	-18.4
Manufacturing	1214	-32.5
Prof Sci Tech	1370	-37.1

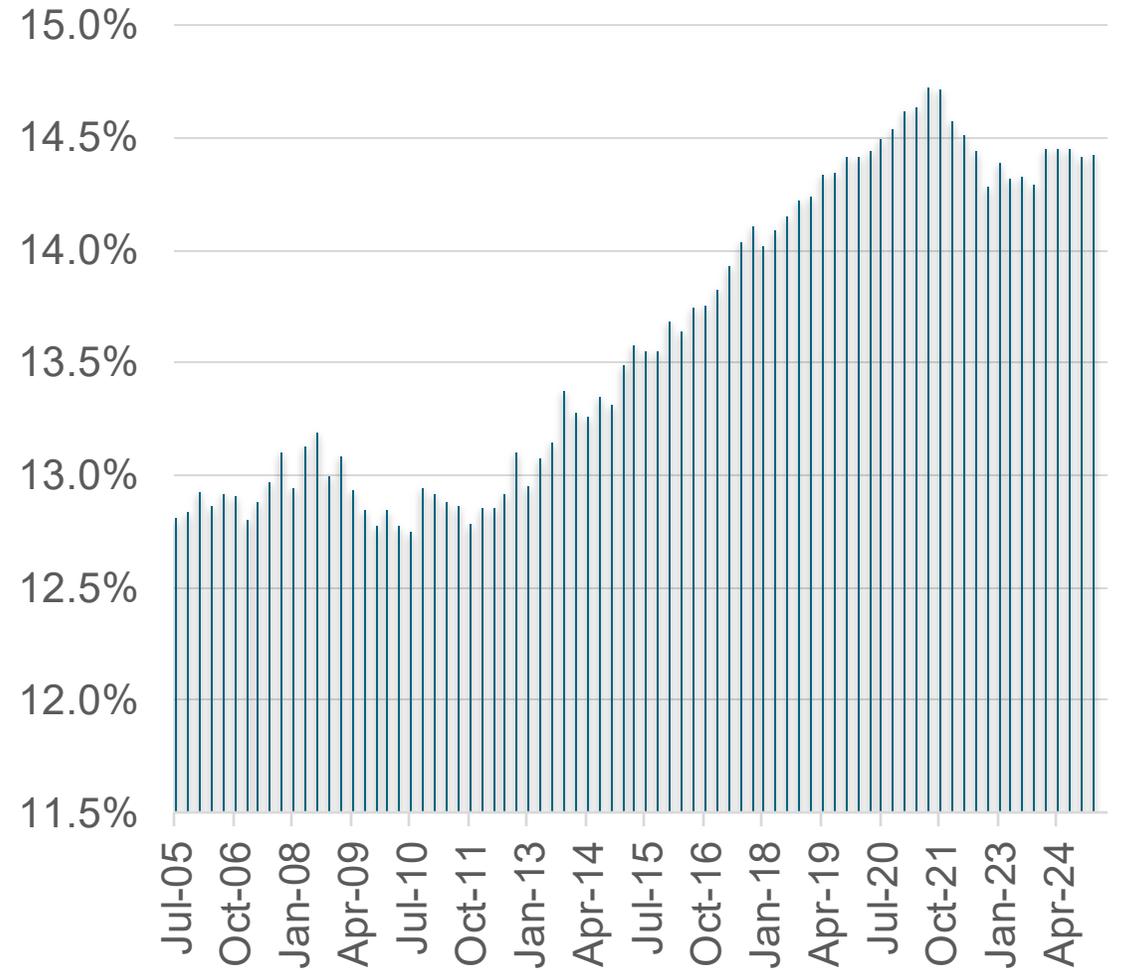


The California Slowdown

Unemployment Rate



CA Share US GDP

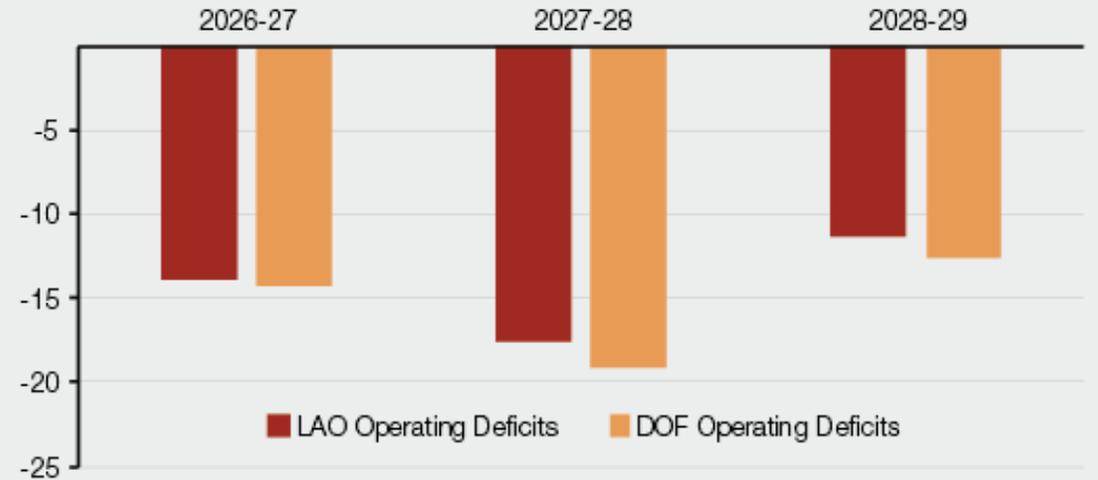


Empty Offices / Government Deficits

Location	Q1-25 (000s sq. ft.)	Empty Sq. Ft. per Office Using Emp.
Los Angeles (MD)	40,307	38.8
Boston	26,140	33.7
Denver	25,258	52.1
San Francisco (MD)	24,151	51.2
Phoenix	20,440	32.3
San Jose	19,989	48.7
Seattle	18,390	29.3
Austin	16,018	38.2
Oakland (MD)	11,445	44.9

Figure 1

LAO Assessment of Future Budget Problems Very Close to Administration's Estimates (In Billions)



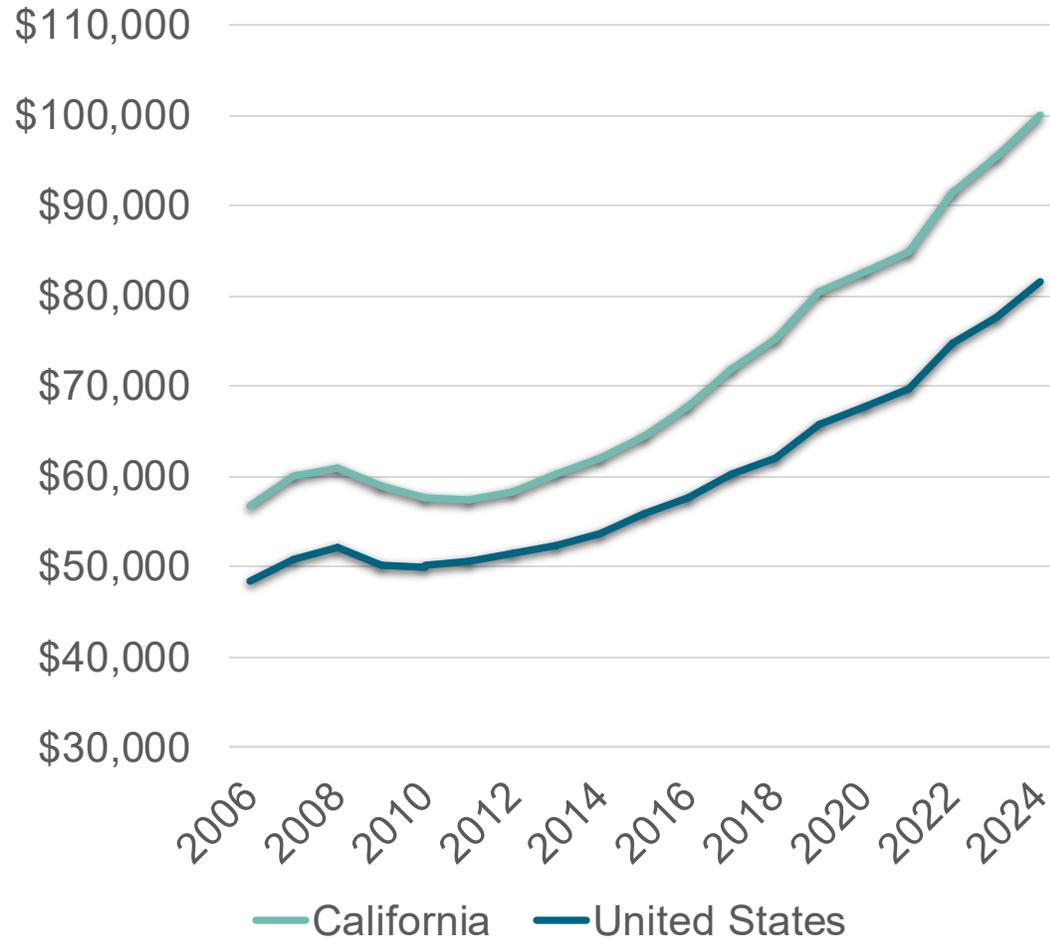
DOF = Department of Finance.

LAOA



Household Incomes Still Rising

Median Household Income



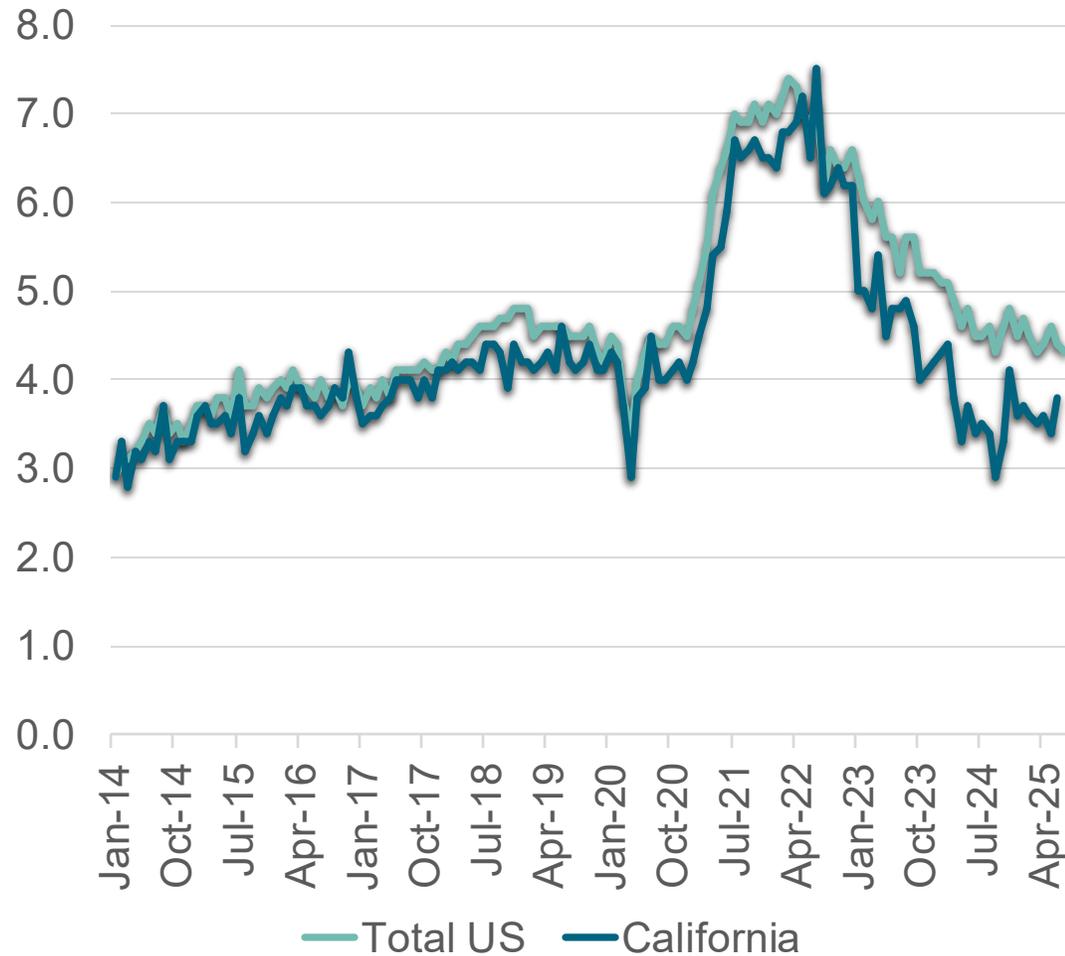
Ranked Median Household Income by County

Rank out of 3,200	County	2023 Med HH Inc
2	Santa Clara	\$154,954
3	San Mateo	\$151,485
10	Marin	\$139,644
18	San Francisco	\$126,730
25	Contra Costa	\$122,794
30	Alameda	\$119,931
52	Orange	\$110,042
54	Placer	\$109,713
56	El Dorado	\$108,594
59	Ventura	\$107,667
61	San Benito	\$107,324
70	Santa Cruz	\$105,631
77	Napa	\$104,686
82	San Diego	\$103,674

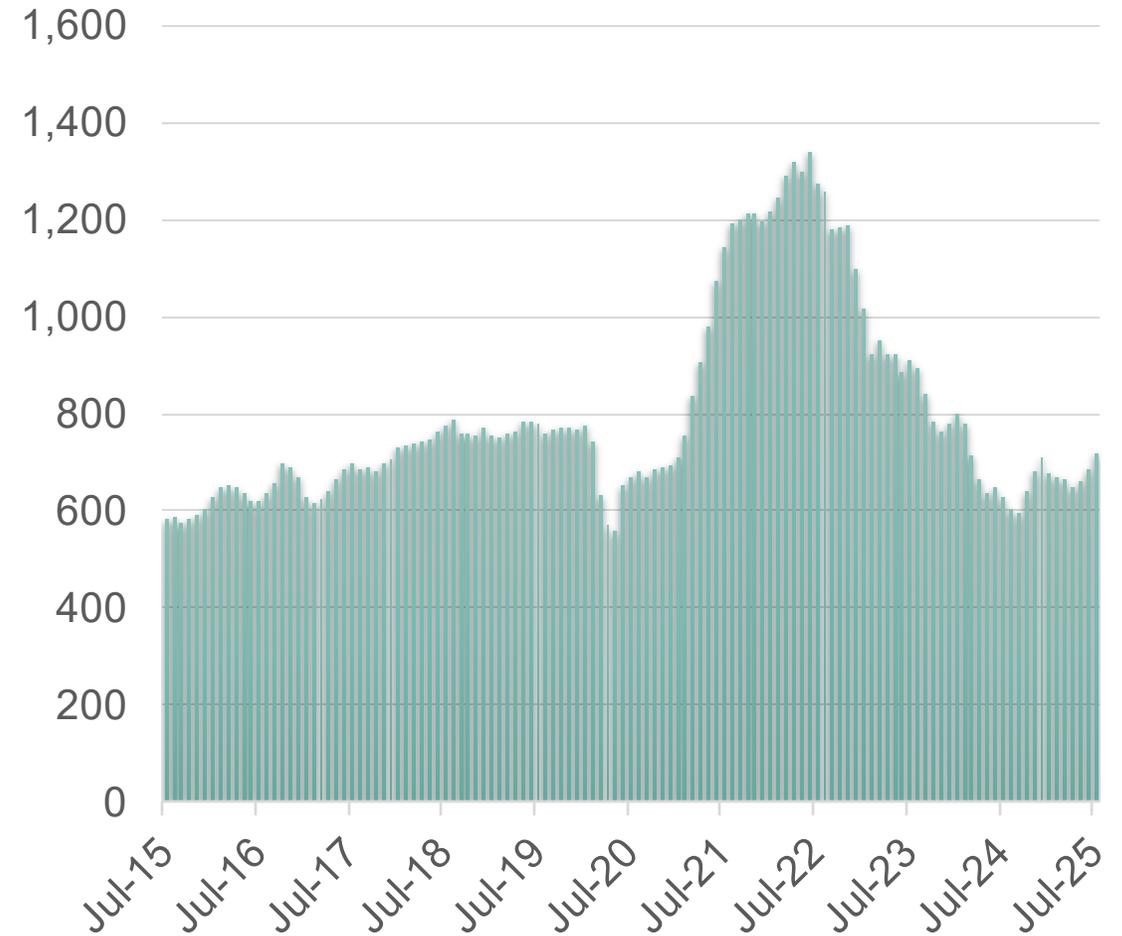


Other Relative Metrics

Job Opening Rates

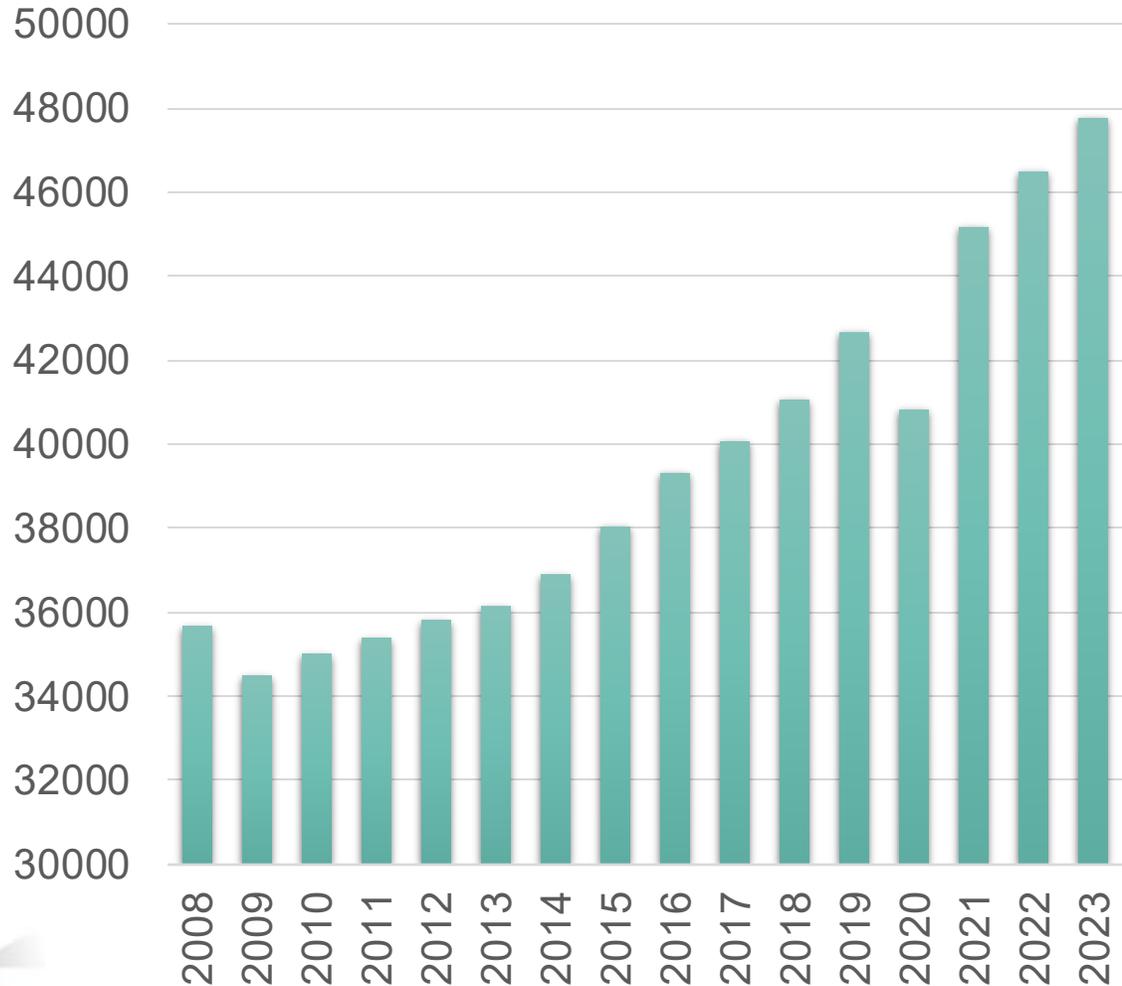


California Job Openings



California Spending

California Real Per Capita Spending

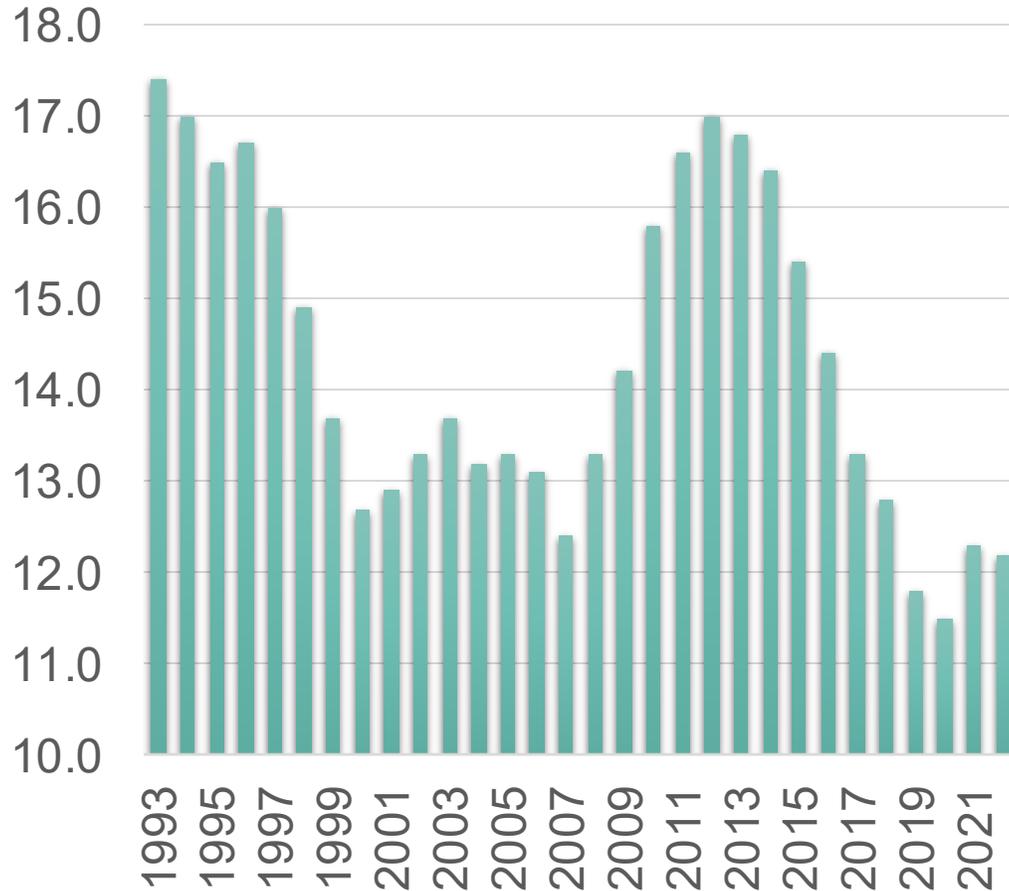


Metro	1-Year Chg. (%)	Chg. Since Q4-19 (%)
California	0.6	23.8
Los Angeles (MD)	-1.0	15.4
Inland Empire	1.4	40.6
Orange County (MD)	0.4	21.6
San Diego	0.6	28.5
Oakland (MD)	1.6	15.1
Sacramento	0.9	28.0
San Jose	2.1	15.8
San Francisco (MD)	3.8	16.8
Stockton	4.8	73.1
Fresno	2.8	38.5
Bakersfield	-0.4	42.1



State Inequality?

California Poverty Rate



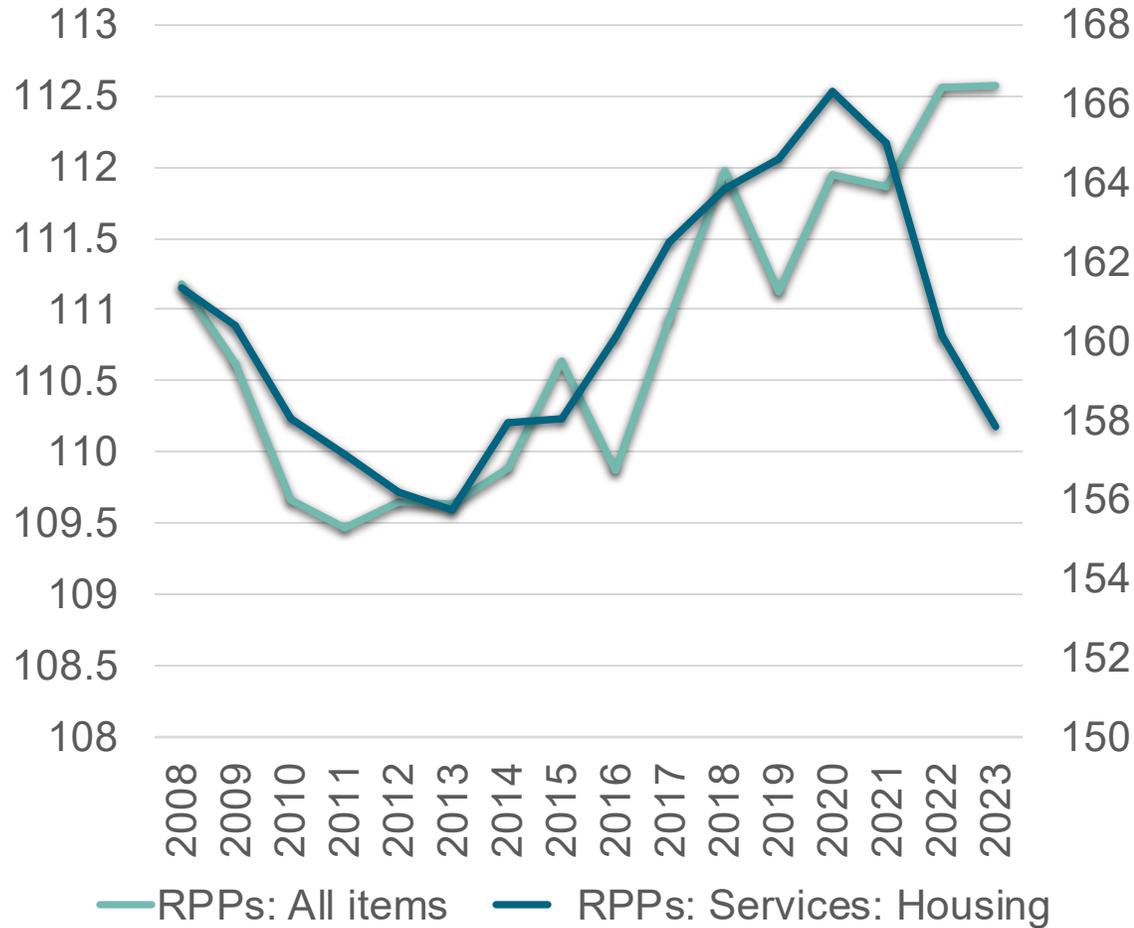
California Incomes by Race / Age 2019-24

	California Incomes by Race / Age 2019-24			
<u>By Race</u>	<u>HHs</u>		<u>Income</u>	
Households	13,798	4.9%	\$100,149	24.5%
American Indian	175	66.6%	\$85,434	48.3%
Hispanic	4,405	12.5%	\$83,179	30.7%
Black	817	-0.5%	\$71,211	29.1%
Asian	2,200	16.4%	\$130,548	25.4%
White	5,730	-6.7%	\$110,258	19.6%
<u>By Income</u>				
15 to 24 years	393	8.0%	\$53,512	21.0%
25 to 44 years	4,725	6.3%	\$110,732	28.5%
45 to 64 years	4,967	-1.3%	\$115,871	22.8%
65 years +	3,713	11.9%	\$71,673	22.8%

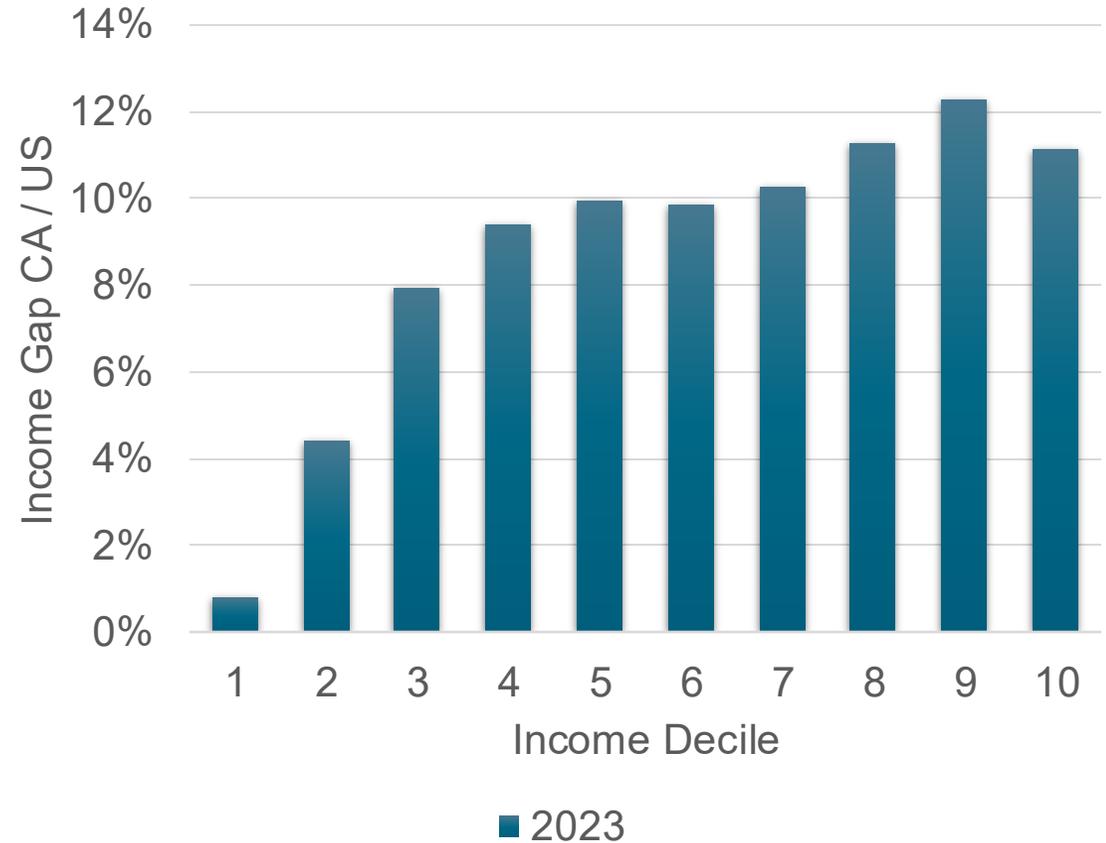


State Poverty?

California Regional Price Parities



Average Household Income Gap (CA to US) by Income Decile with RPP Controls





California Budget
& Policy Center

California's Persistent Poverty Crisis: 2024 Rates Remain Alarmingly High

September 2025 | By California Budget & Policy Center

KEY TAKEAWAY

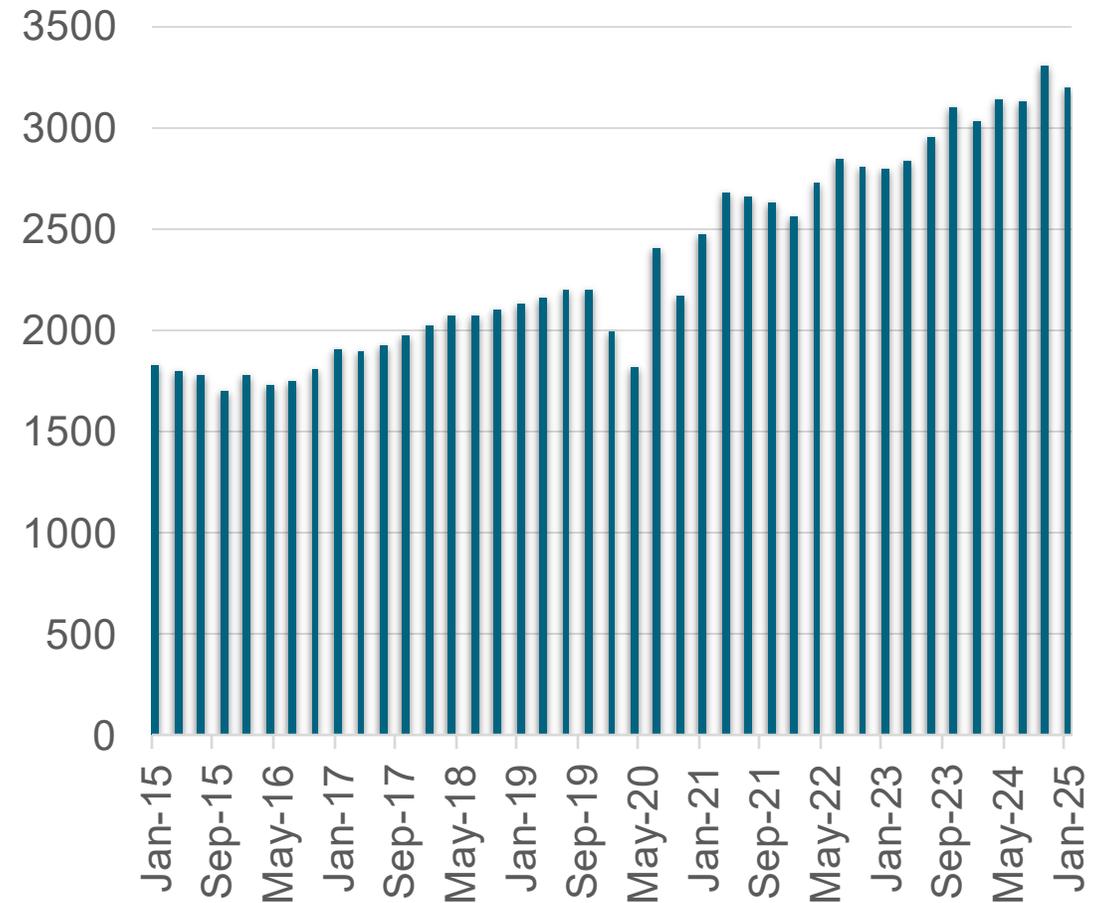
California's poverty rate remains among the highest in the nation (17.7%), with children, people of color, and renters most affected. Recent federal actions threaten to worsen these trends, highlighting the urgent need for bold state leadership.



Business Investment Profits

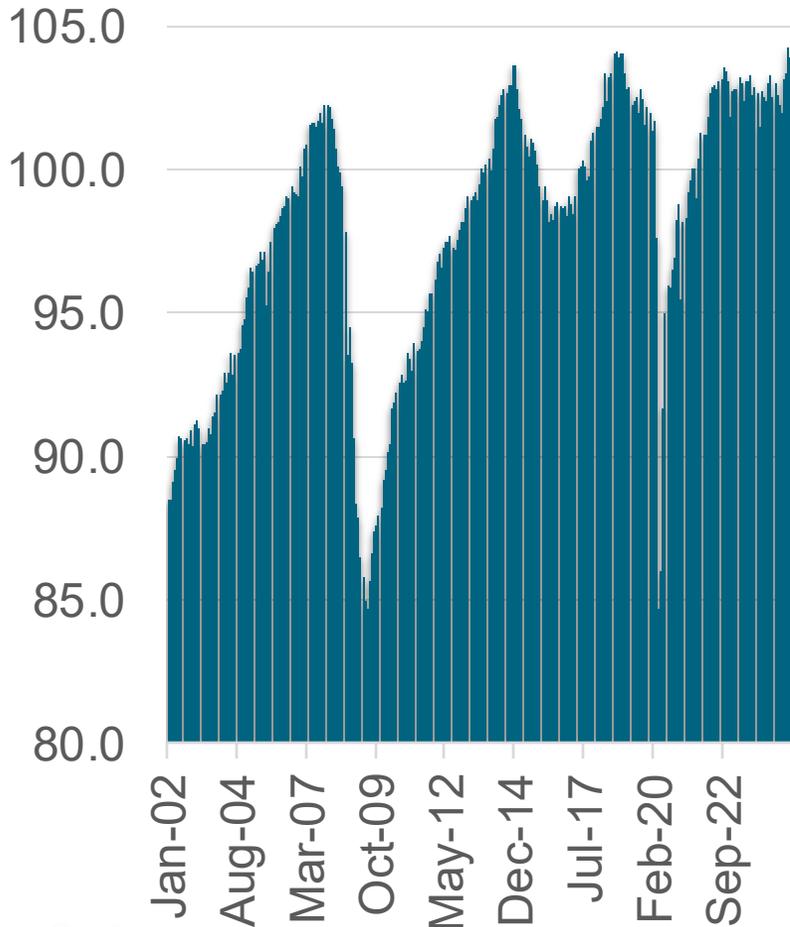
	2025	23-24	24-25
	Q2		
Private fixed investment	4349.3	3.7%	2.2%
Information processing equip	608.1	4.7%	18.8%
Software	841.4	7.1%	9.9%
Transportation equipment	323.2	2.2%	4.8%
Power and communication	128.4	9.1%	3.5%
Industrial equipment	267.0	0.6%	3.4%
Research and development	655.1	2.3%	-0.7%
Residential	785.1	5.1%	-1.3%
Entertainment, literary, and artistic	89.5	-1.5%	-2.6%
Manufacturing	145.1	21.0%	-2.7%
Commercial and health care	164.3	-5.7%	-3.9%
Mining, shafts, and wells	93.6	-6.5%	-16.0%

Corporate Profit After Tax

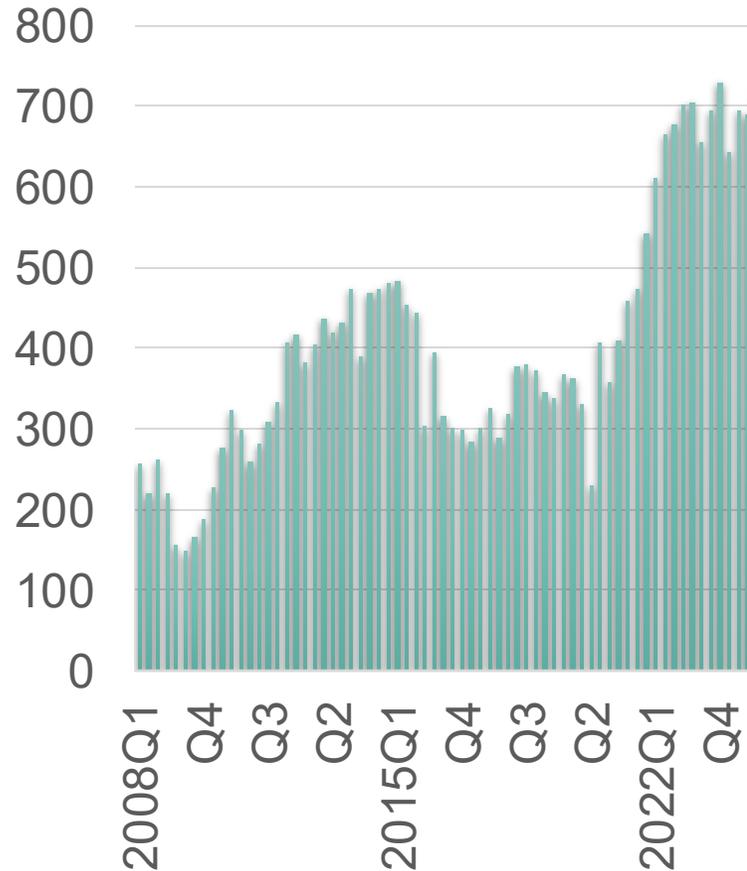


How About Manufacturing?

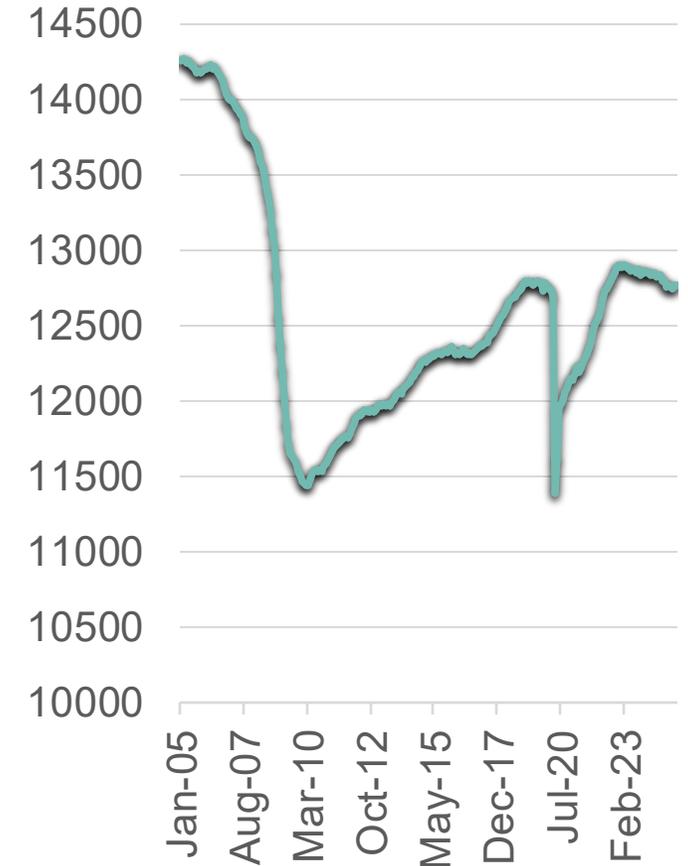
Industrial Production



Manufacturing Profits (Corporate)



Manufacturing Employment

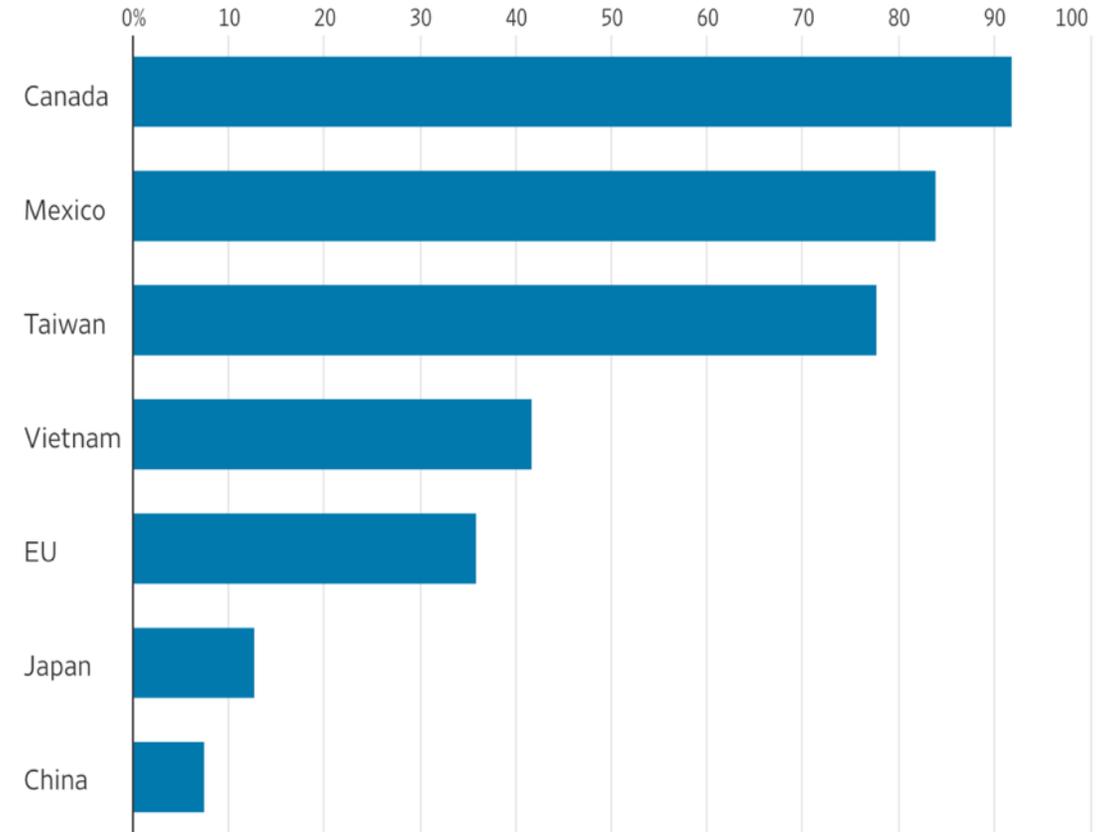


The Tariff Inflation Impact?

The Tariff Tax: Context

	Billions	Share GDP
GDP	\$29,723	
Total Imports Goods	\$3,267	11.0%
~~New Tariffs	\$653	2.2%
Federal Deficit	-\$1,847	-6.2%
Personal Taxes to Feds	\$2,391	8.0%
Corp Taxes to Fed	\$490	1.6%

Share of June U.S. imports that were duty-free, by origin



Source: Barclays Research analysis of U.S. Census Bureau data



U.S. tariff revenue in 2025

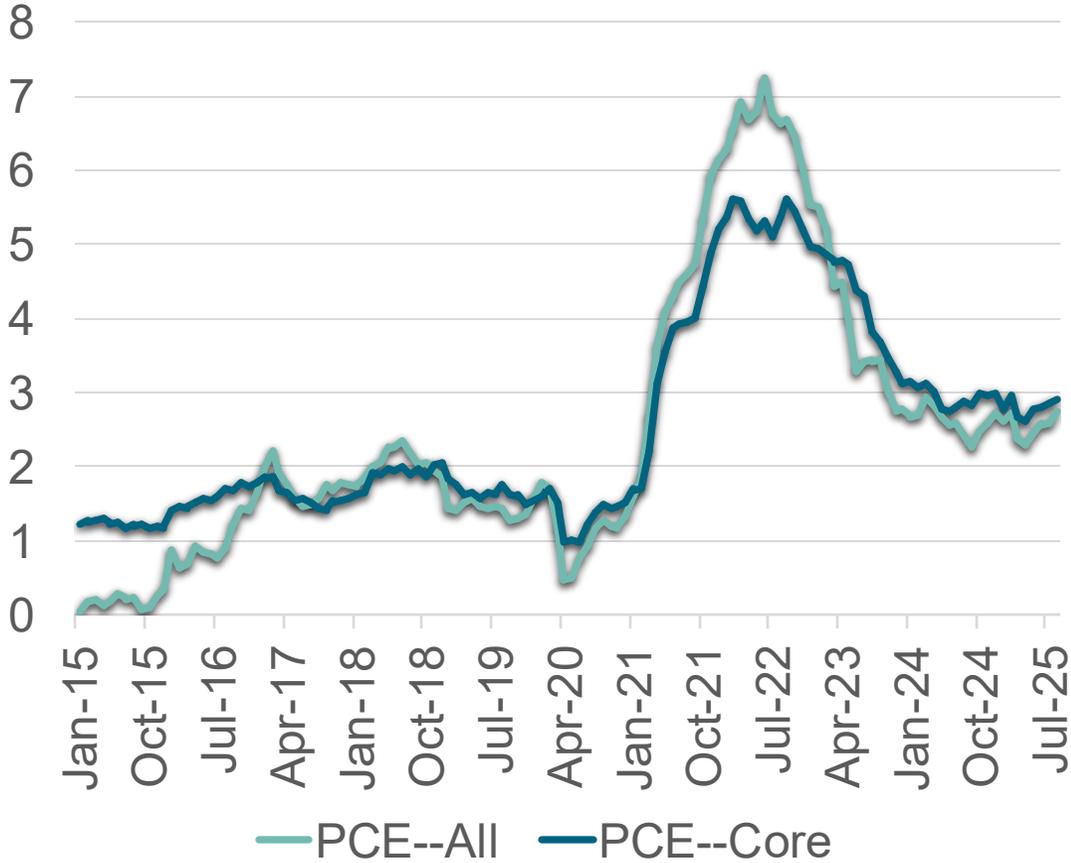
Key collection figures for 2025 include:

- **Fiscal Year (FY) 2025:** As of August, revenue from customs duties totaled approximately **\$171.9 billion**, a substantial increase from \$77 billion in FY 2024.
- **August 2025:** The U.S. collected a record monthly high of nearly **\$30 billion** in customs duties.
- **August 2024:** For comparison, the amount collected in August 2024 was about \$7 billion. 



Inflation?

Y-o-Y % Change Prices



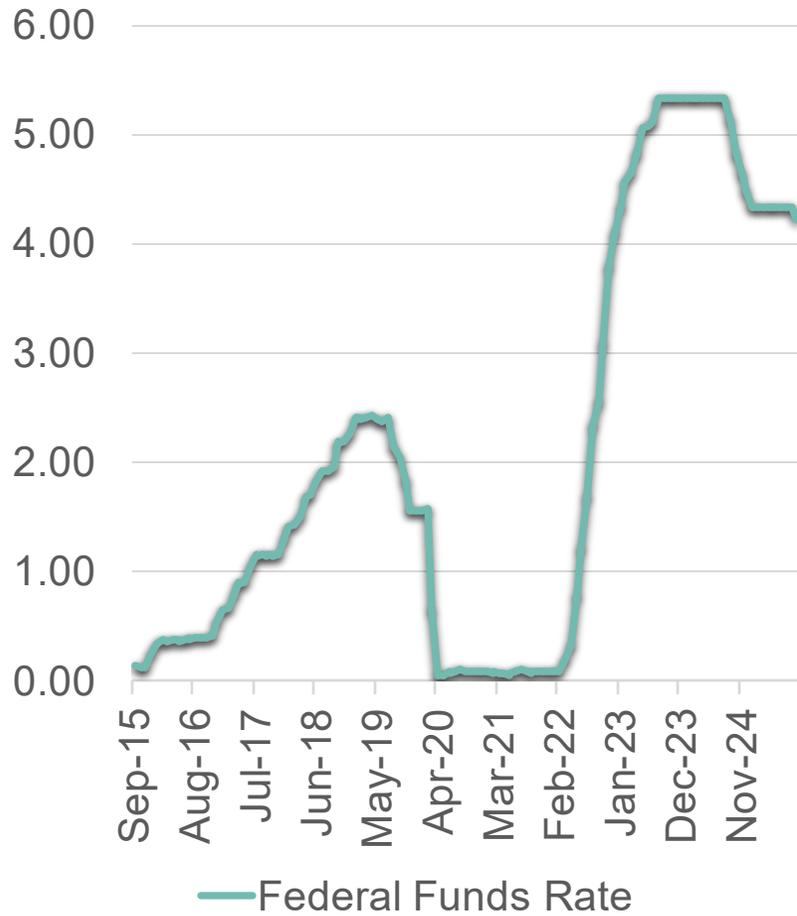
Price Growth by Consumer Spending

PCE Prices	2.7%
Financial services and insurance	5.3%
Transportation services	4.4%
Housing and utilities	4.3%
Recreation services	3.3%
Food services accommodations	3.1%
Other services	2.9%
Health care	2.8%
Other durable goods	2.8%
Motor vehicles and parts	2.6%
Food and beverages Retail	2.2%
Furnishings and household eq	2.1%
Other nondurable goods	1.4%
Clothing and footwear	-0.3%
Recreational goods and vehicles	-1.8%
Gasoline and other energy goods	-5.9%

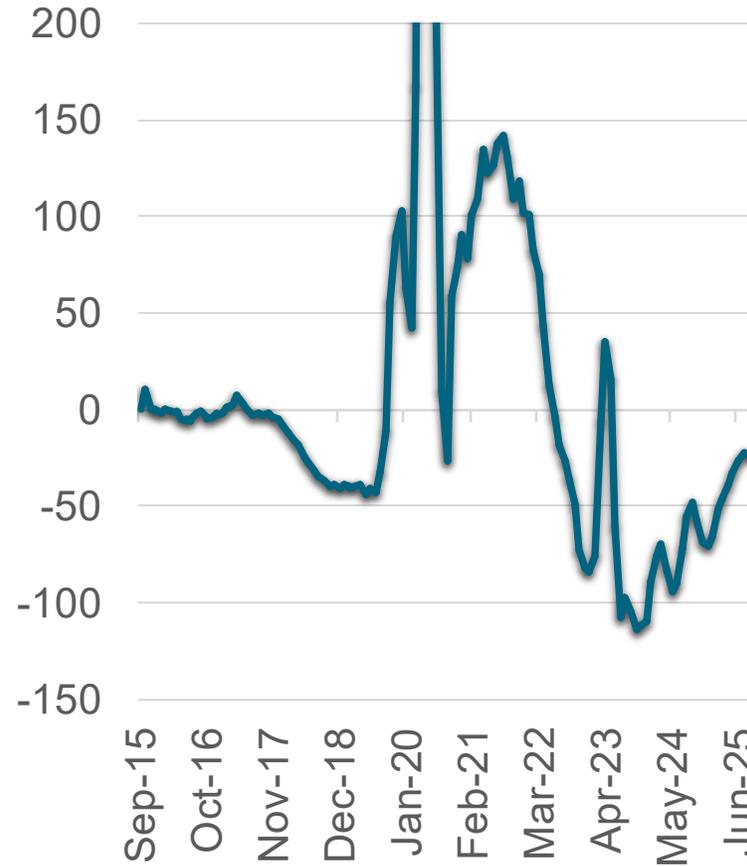


The Fed's Directional Shift

Fed Funds Rate



Change in Fed Balance Sheet (QE / QT)



YoY Growth Bank Deposits and Loans



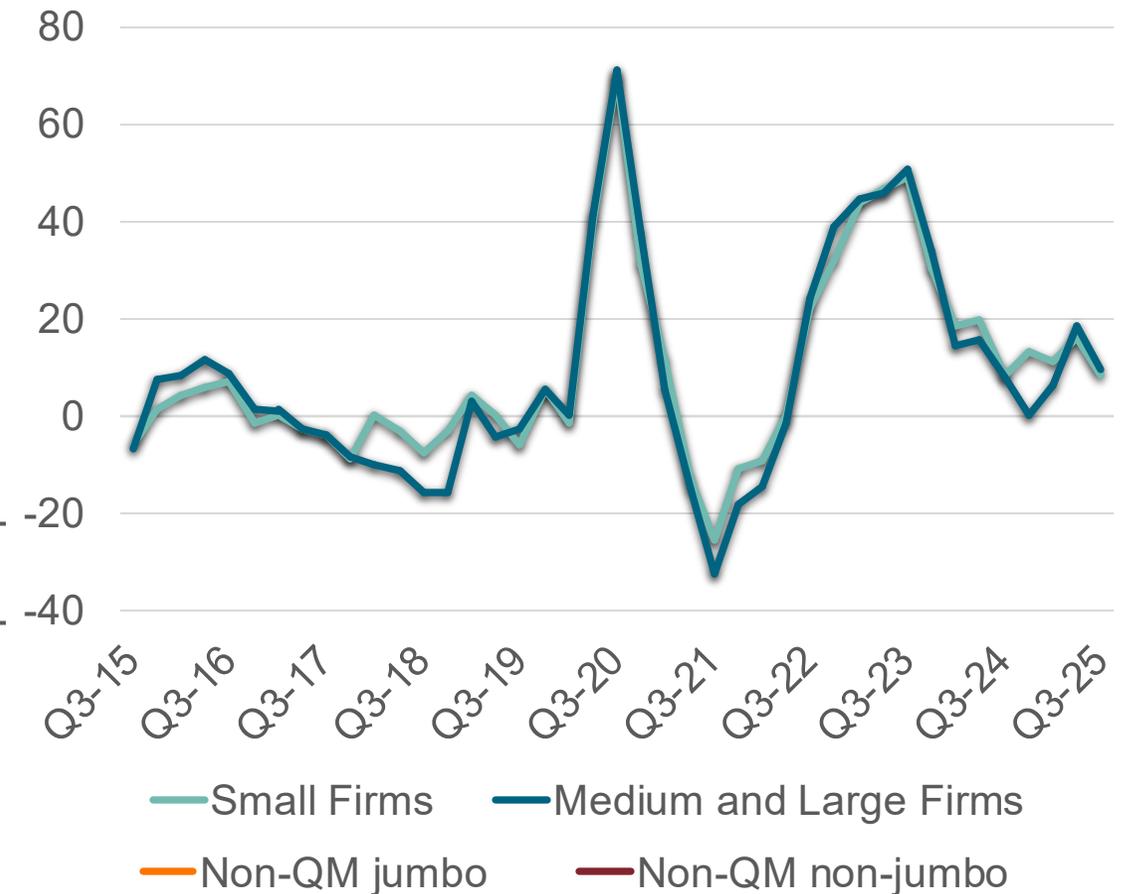
Rates Dropped / Credit Easing



Interest Rates (End of Month)



Net % of Banks Tightening Standards for C&I Loans



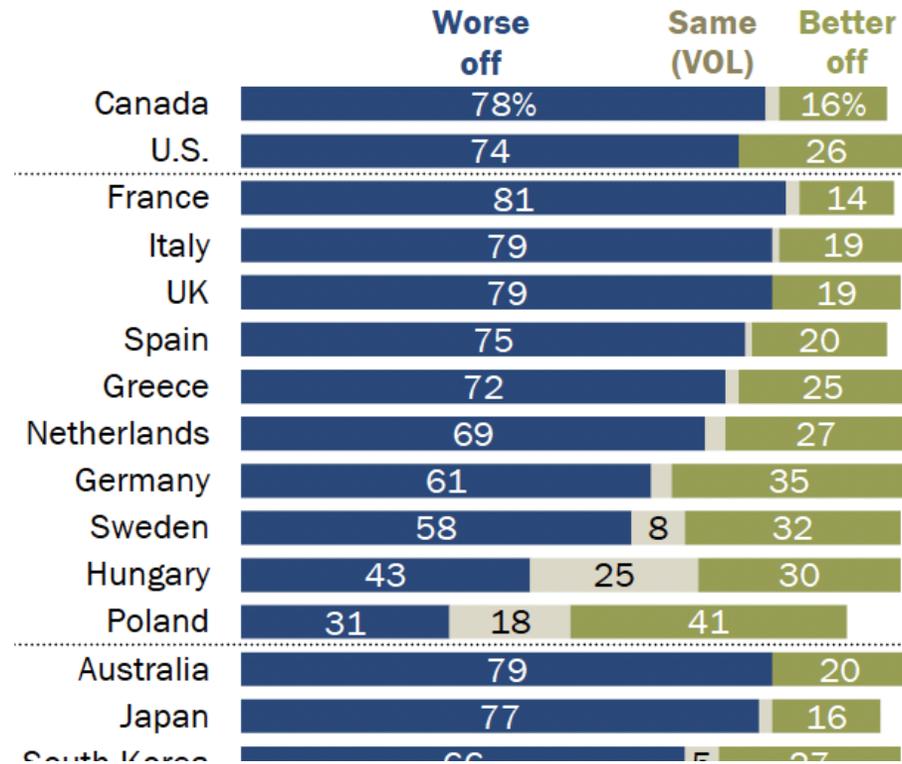
The national mood?

Gallup Poll: US % Very satisfied with Personal Life



Globally, most think children will be worse off financially than their parents

% who say that when children in their country grow up, they will be ___ financially than their parents



Seven in ten college students say the country is headed off on the wrong track, a record low.

Assessment of the Nation's Direction

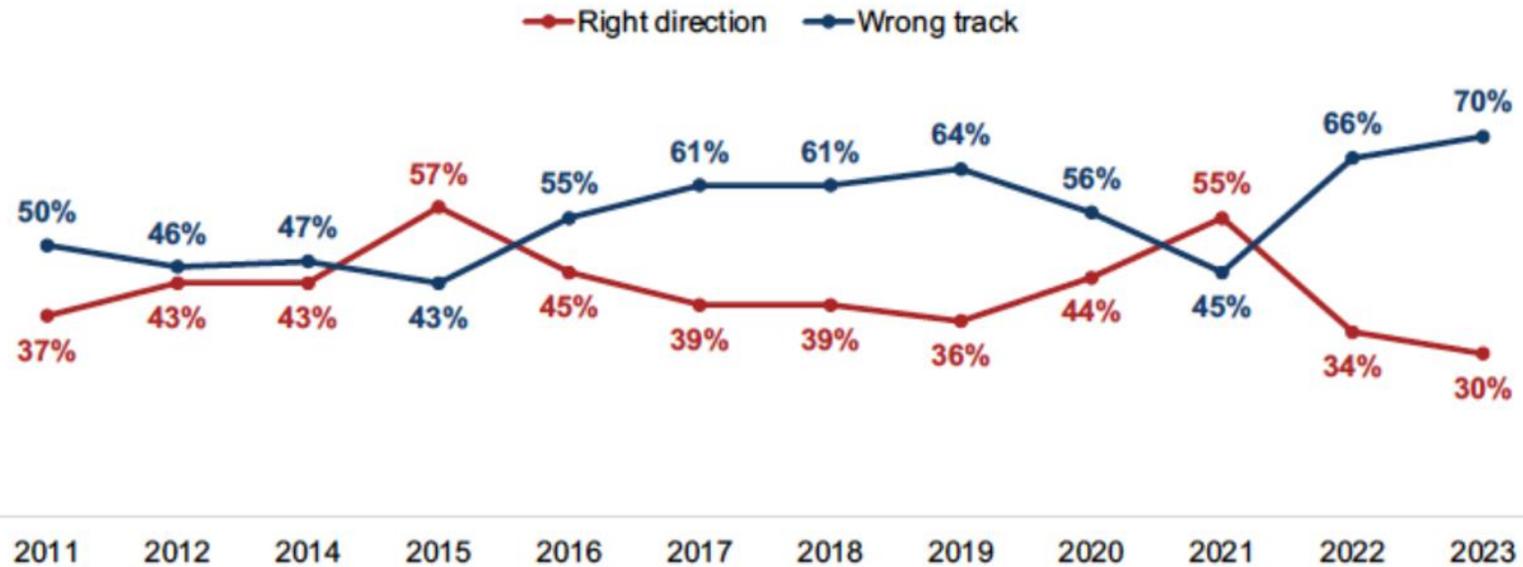
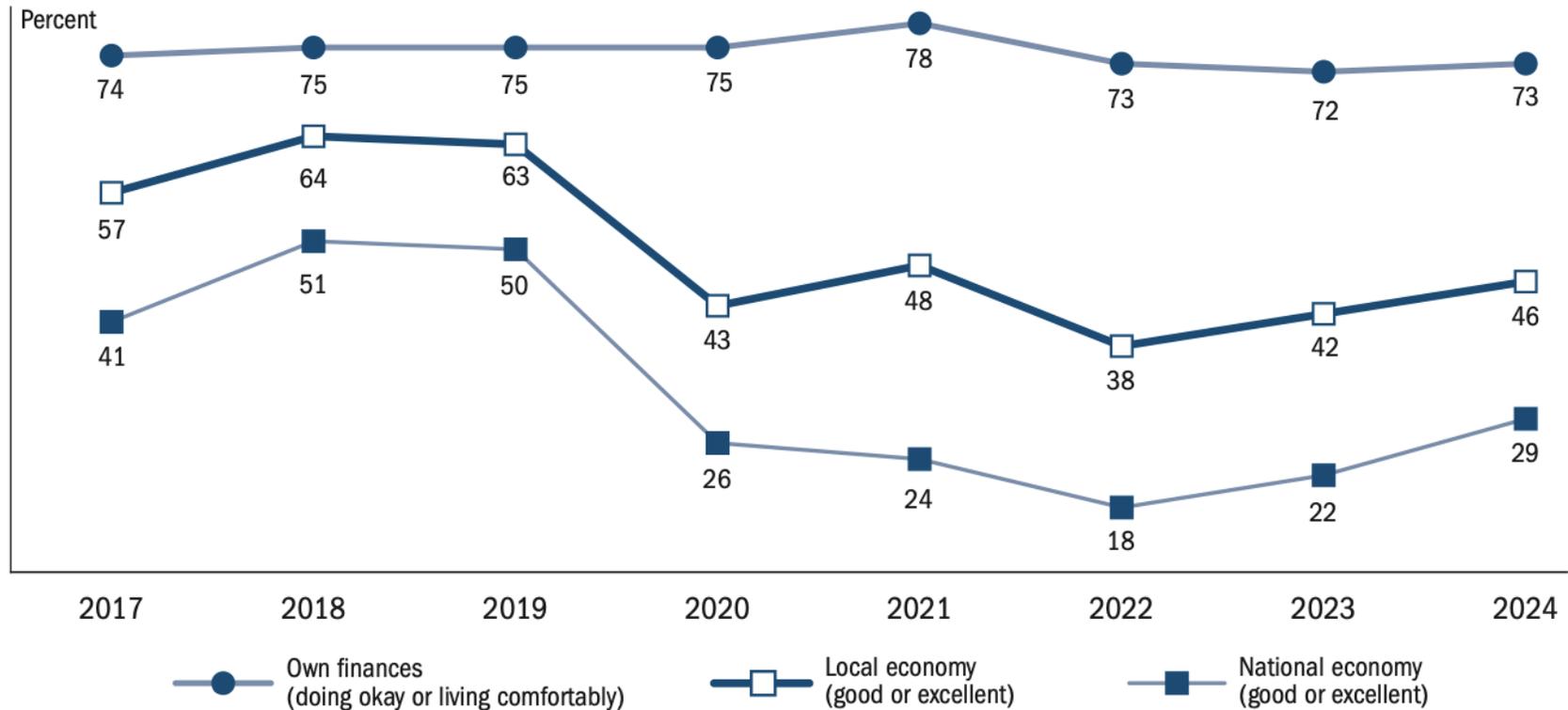


Figure 7. Assessment of own financial well-being, local economy, and national economy (by year)

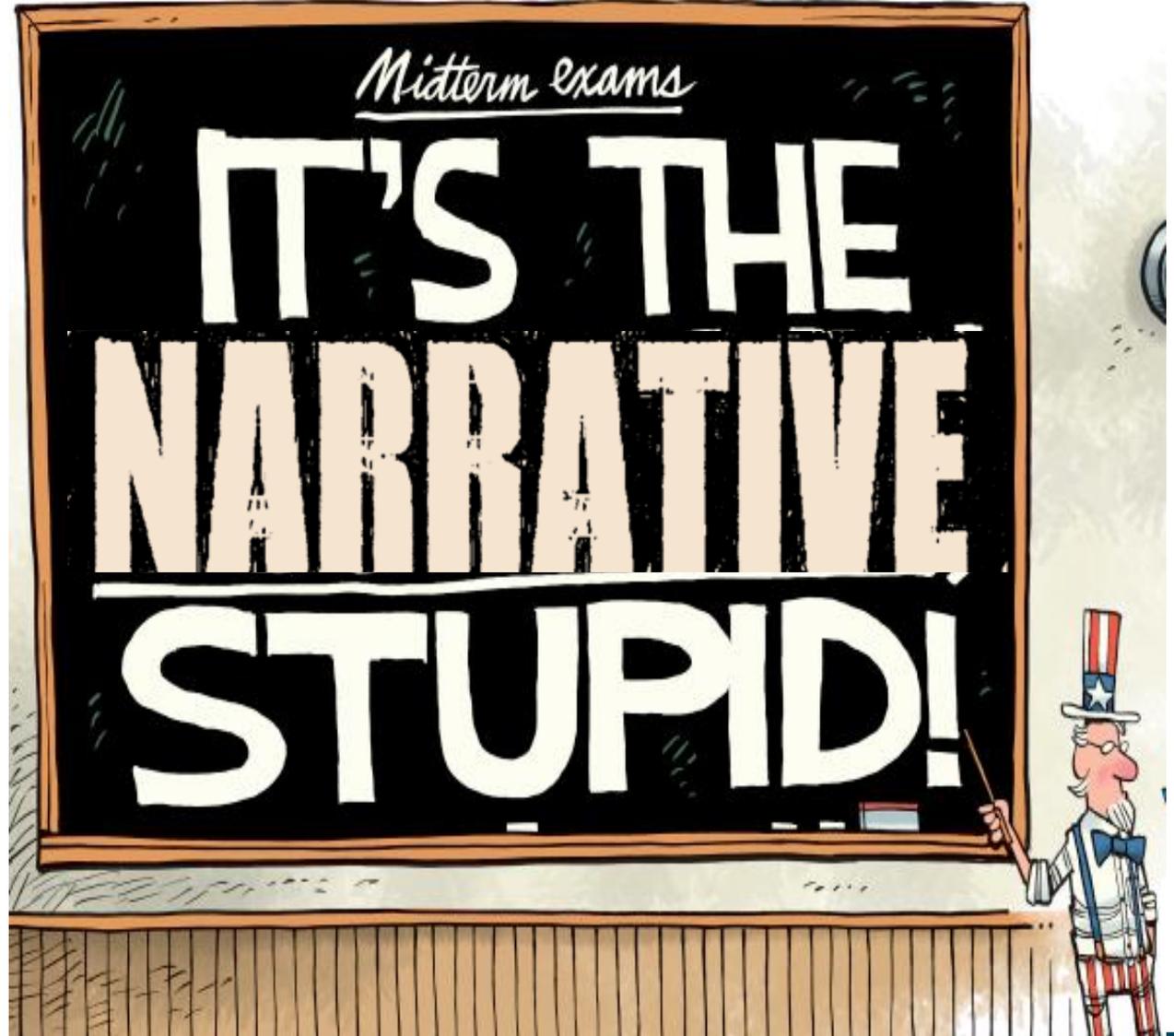


Note: Among all adults. For each series, the responses presented represent the most favorable two outcomes on a four-point scale.



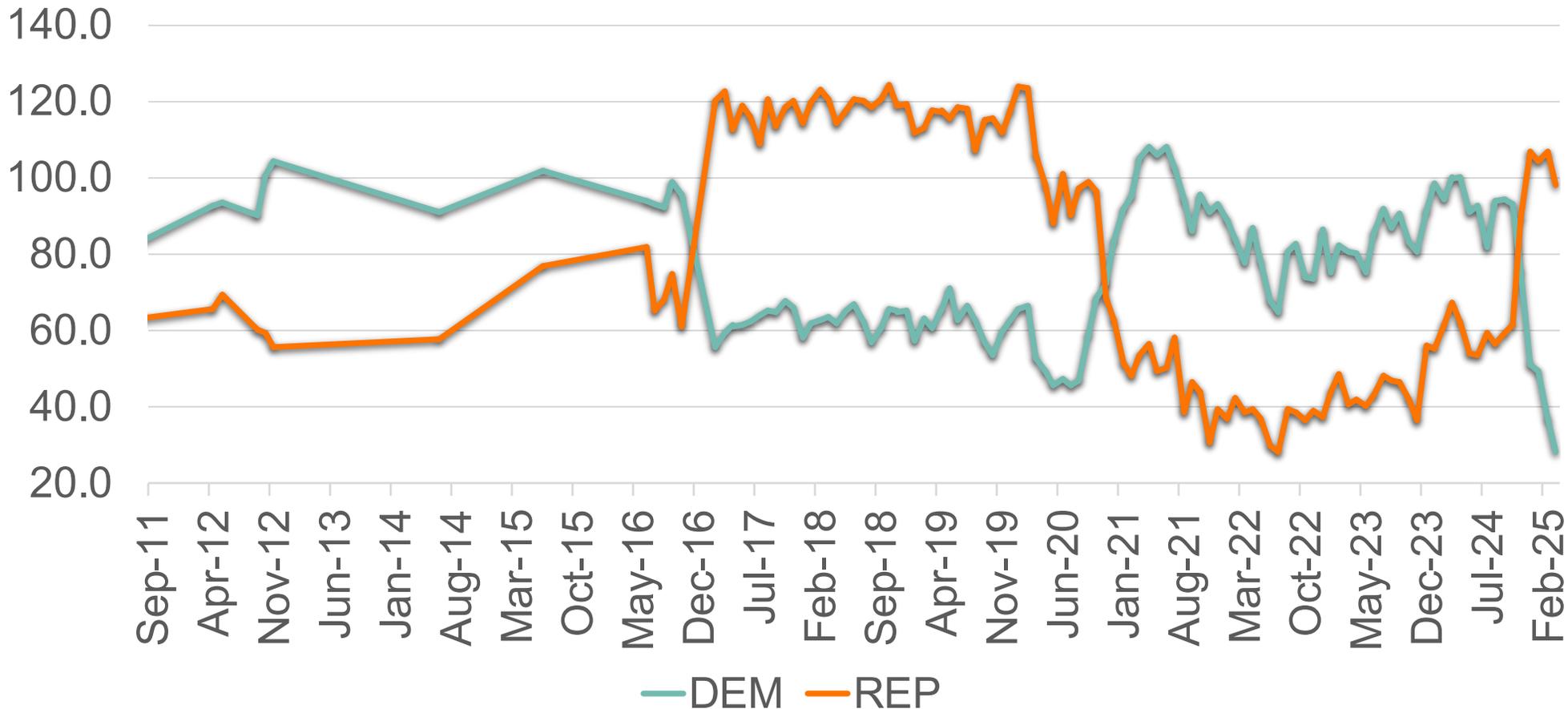
What to make of the Red Wave?

Year	Change in U Mich Cons Sentiment Index from start of Admin	Incumbent Party
1984	33.7%	WIn
1976	16.5%	Loss
1996	15.1%	WIn
2016	10.6%	Loss
2012	9.9%	Win
1964	8.8%	Win
2004	5.1%	Win
2000	4.3%	Loss
1972	4.0%	Win
1988	1.8%	Win
1968	-12.3%	Loss
1992	-16.3%	Loss
2024	-20.4%	Loss
2020	-21.5%	Loss
1980	-24.9%	Loss
2008	-28.1%	Loss



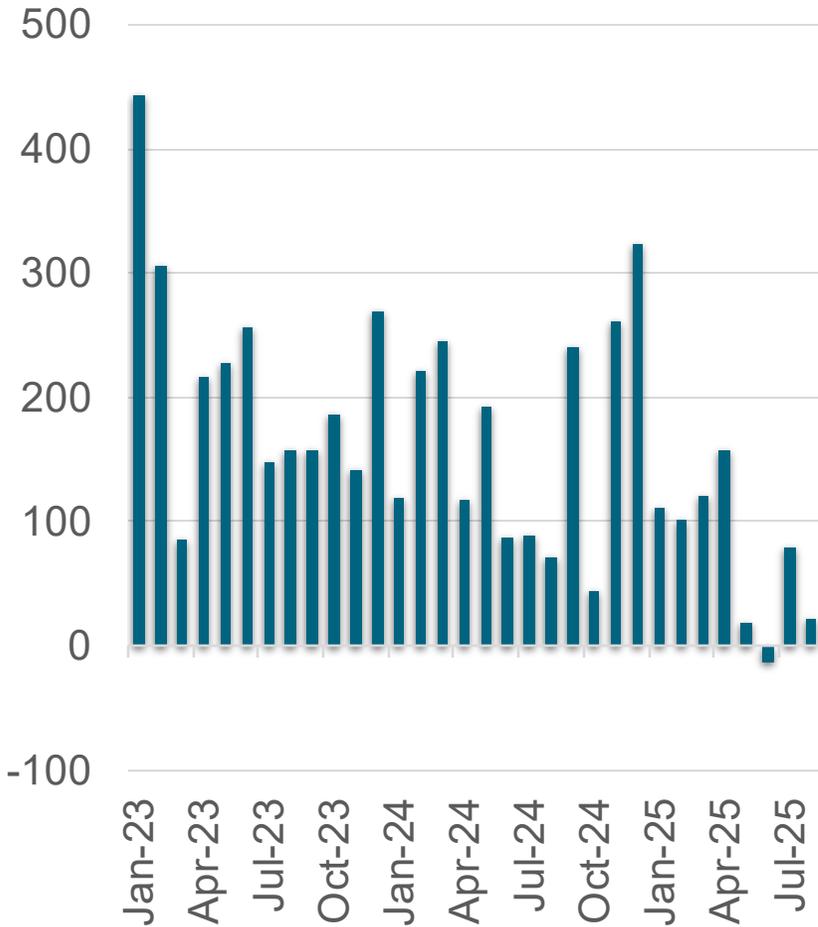
Who should Trump thank for his big election sweep?

Shifting Narratives in Consumer Sentiment!

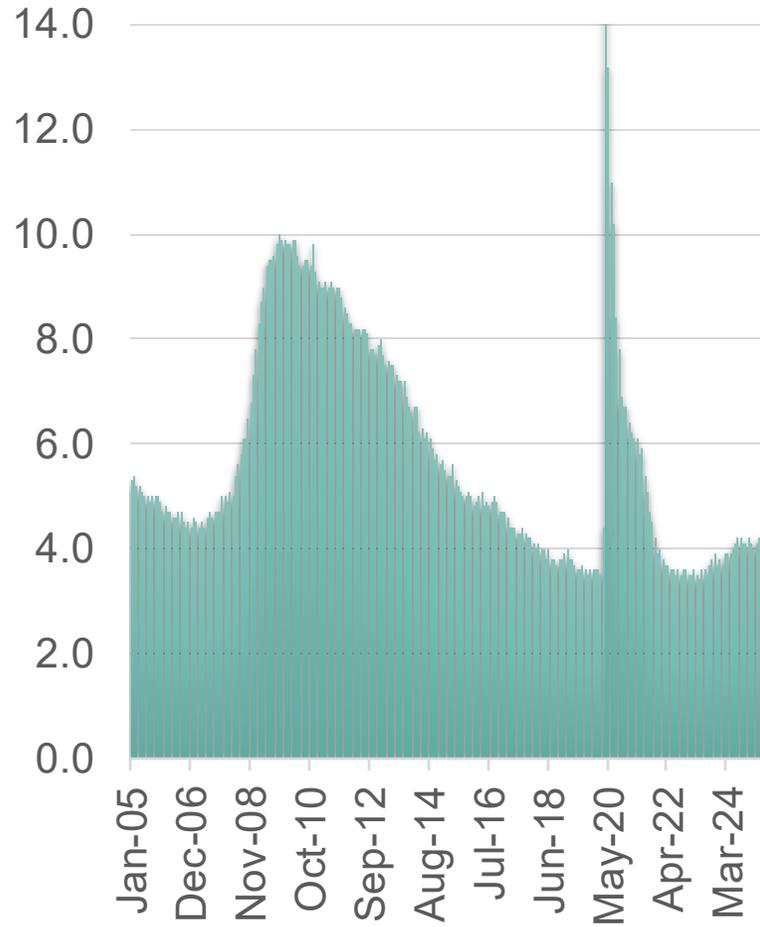


Slowing Labor Market?

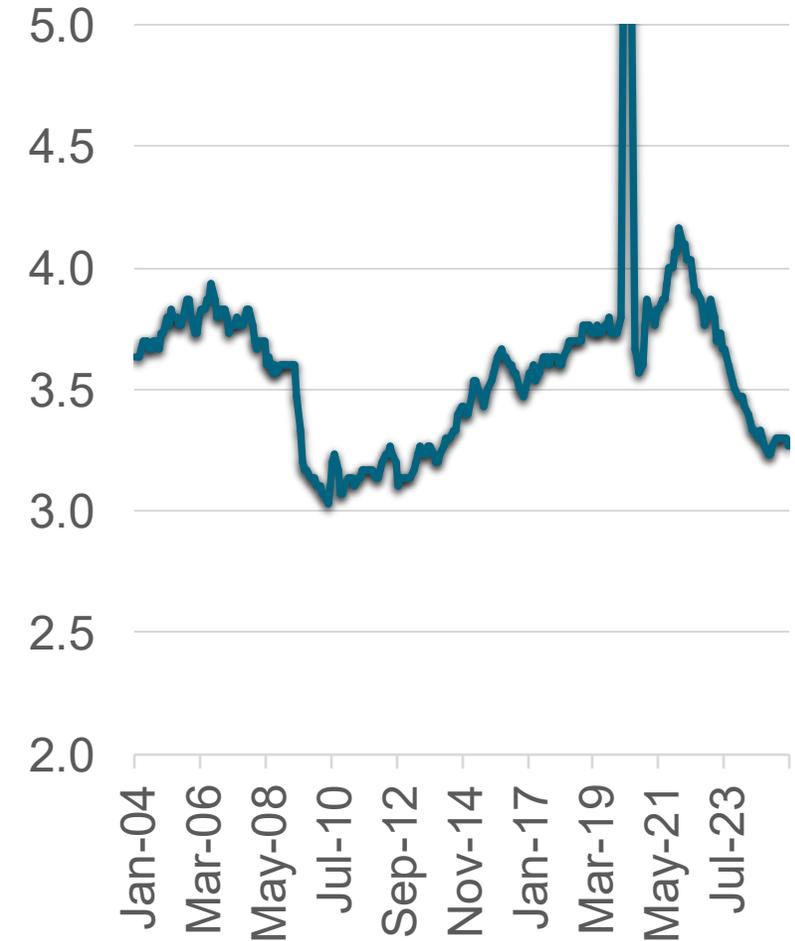
Monthly Change Payrolls



US Unemployment Rate

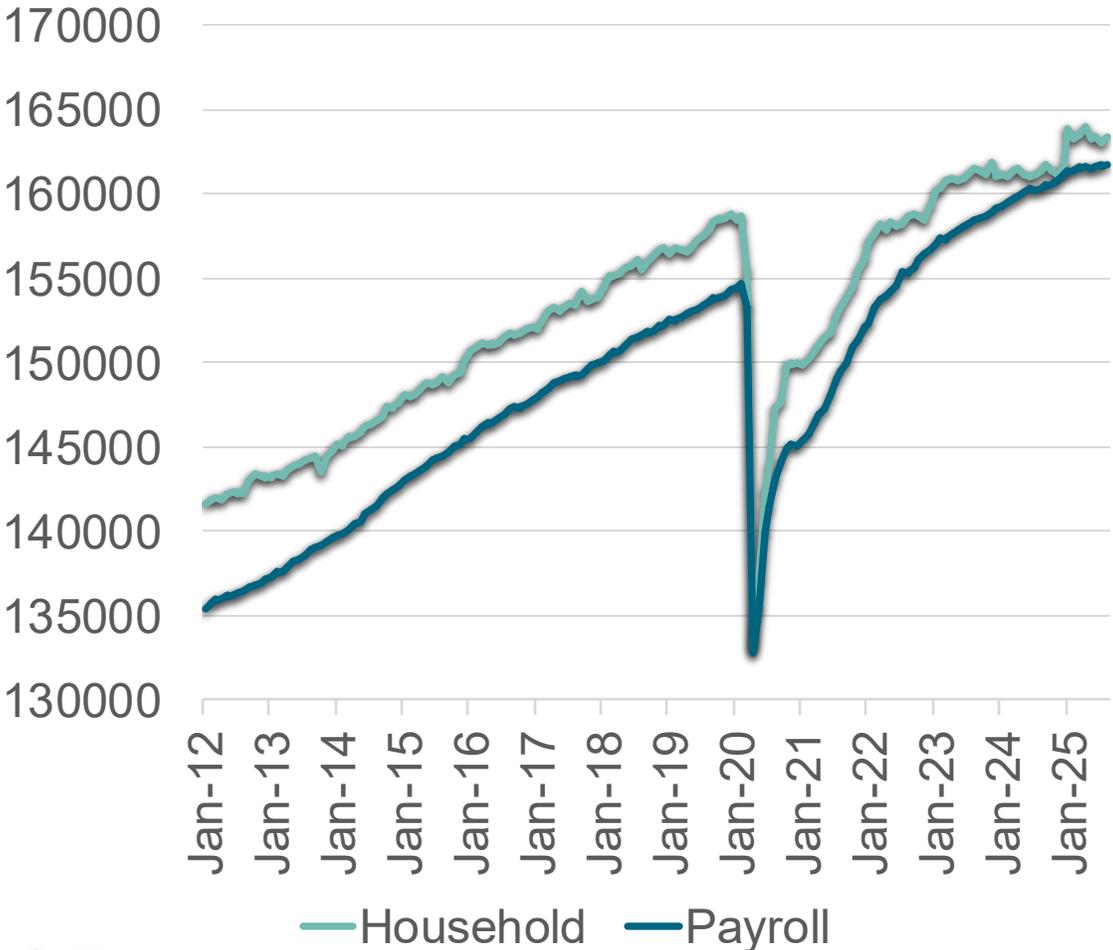


Job Separations Rate

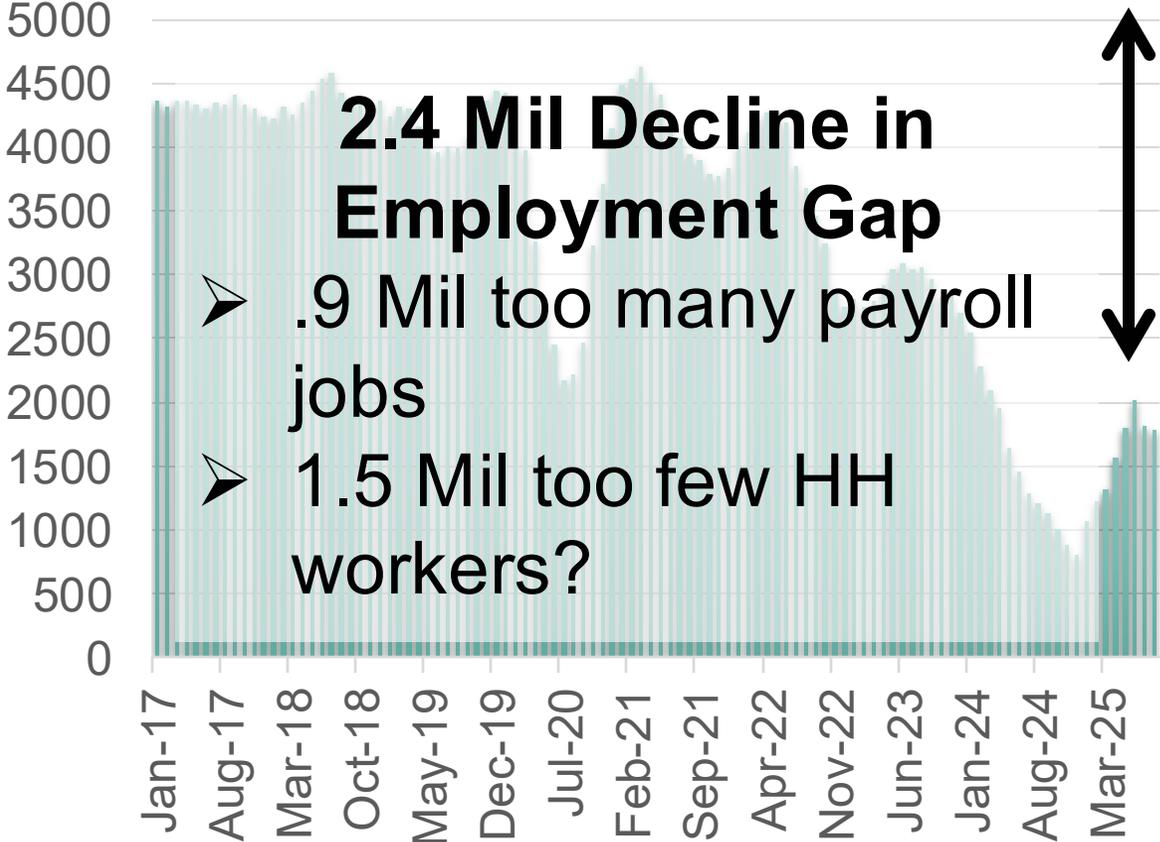


What about the revisions?

Two Estimates of Employment

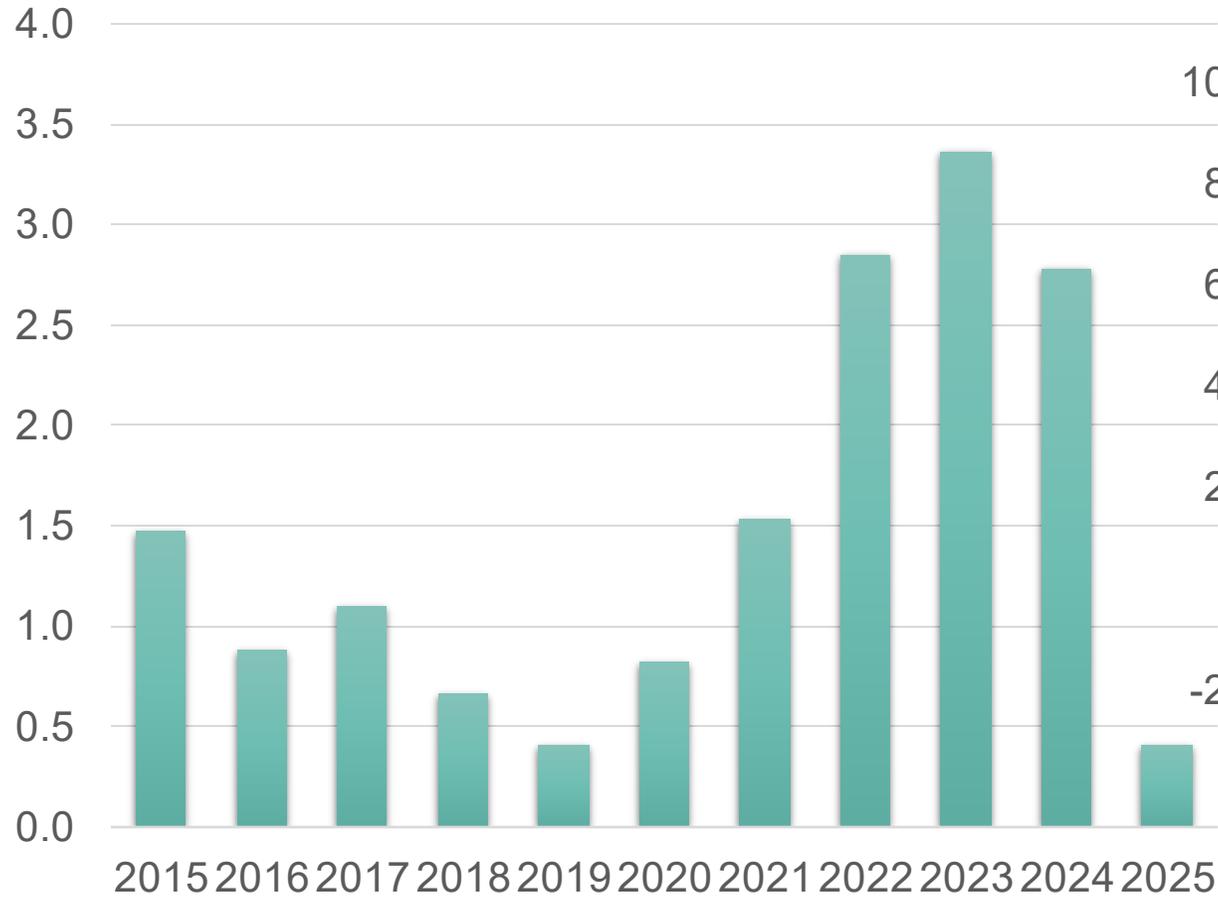


Household – Payroll Emp (Smoothed)

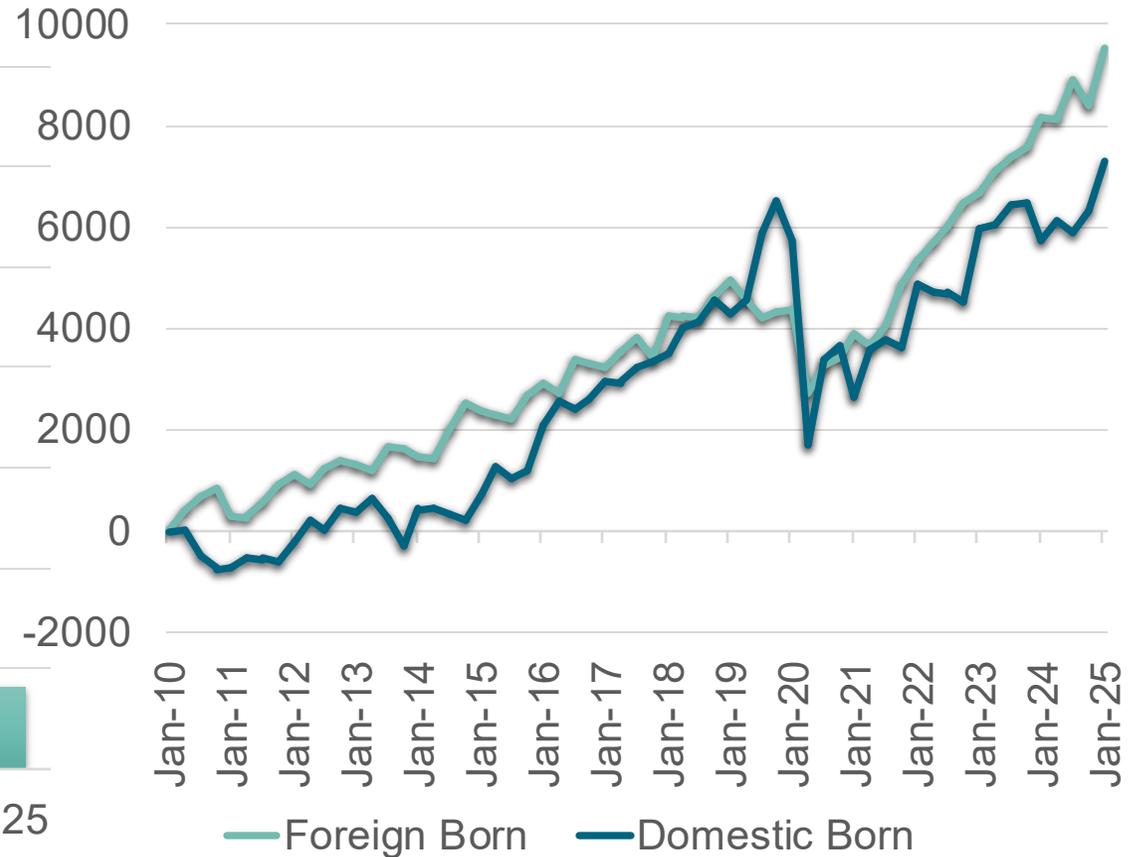


The Immigration Effect

US Net Immigration (CBO Estimates)

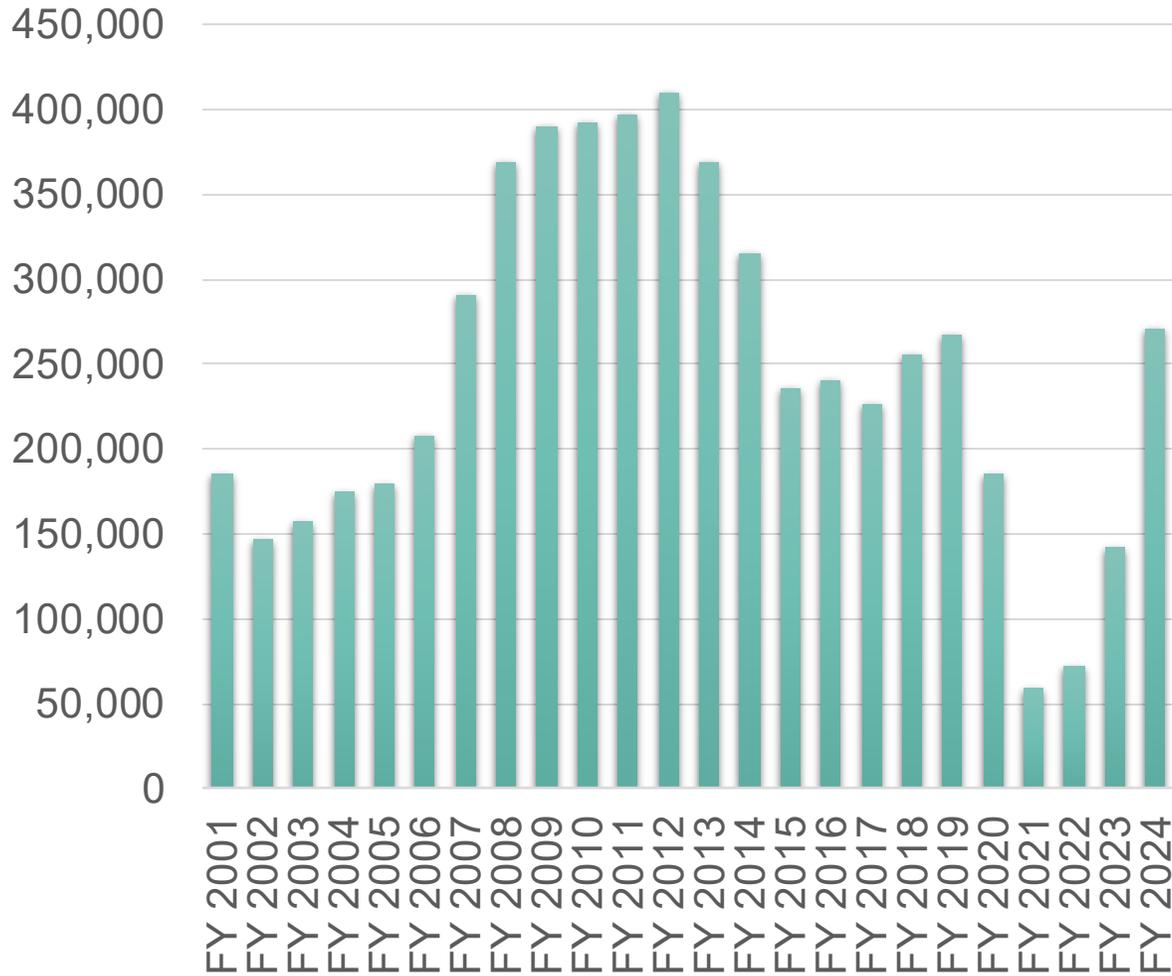


US Labor Force Growth by Nativity (000s)

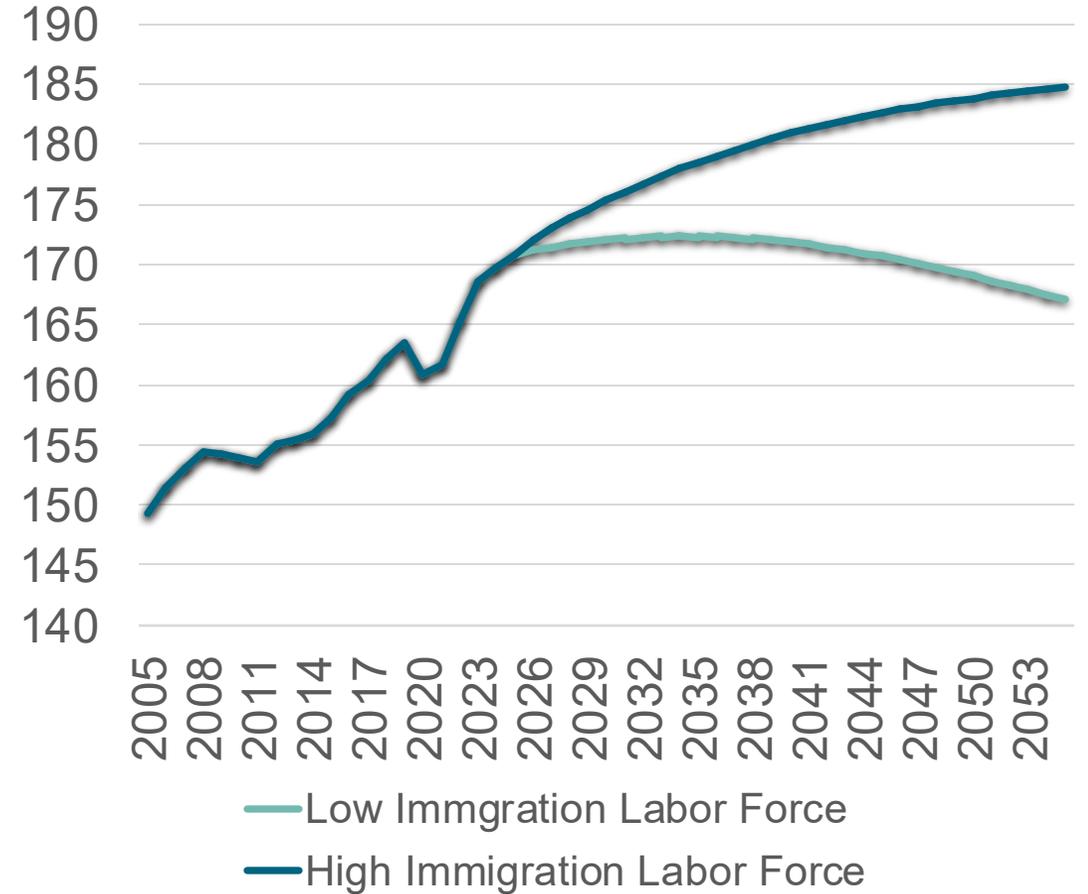


Which is the bigger issue?

Total Removal by Fiscal Year



Immigration and Labor Force Levels (Millions workers)

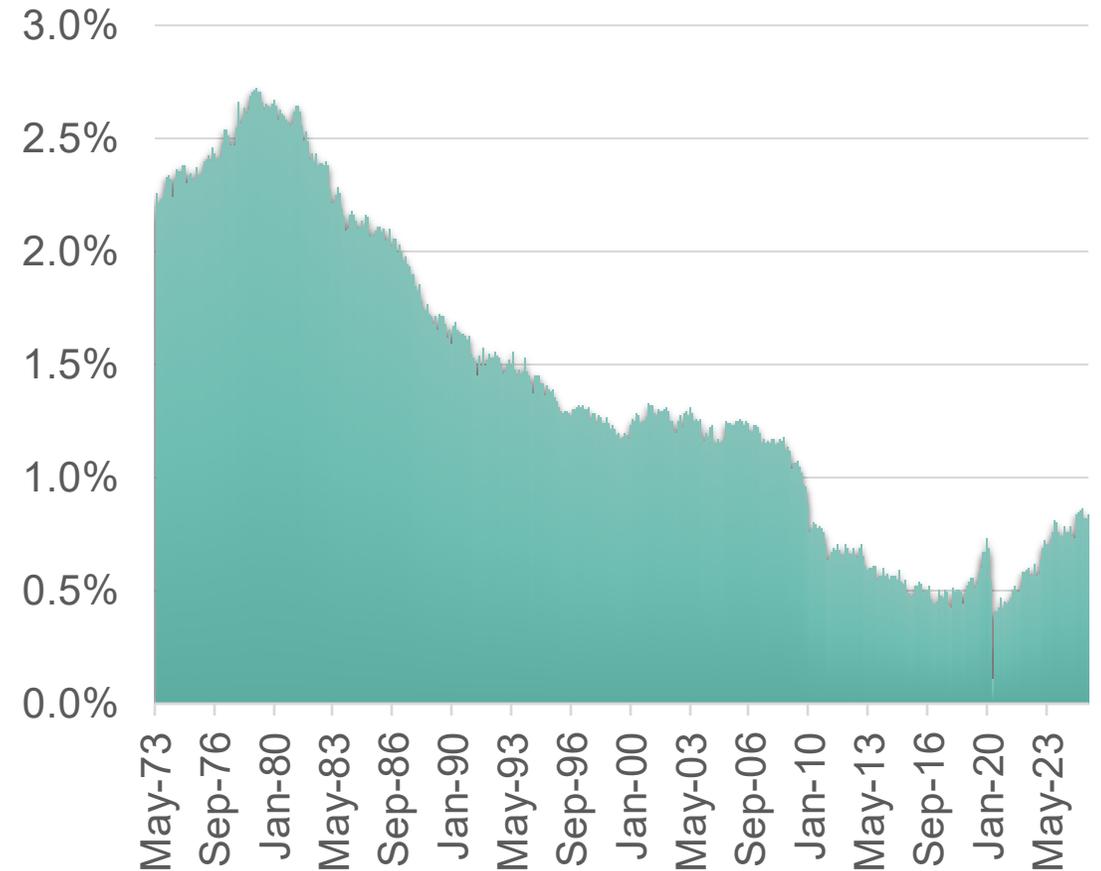


What about AI?

Long Run (10 Yr) Worker Productivity Growth

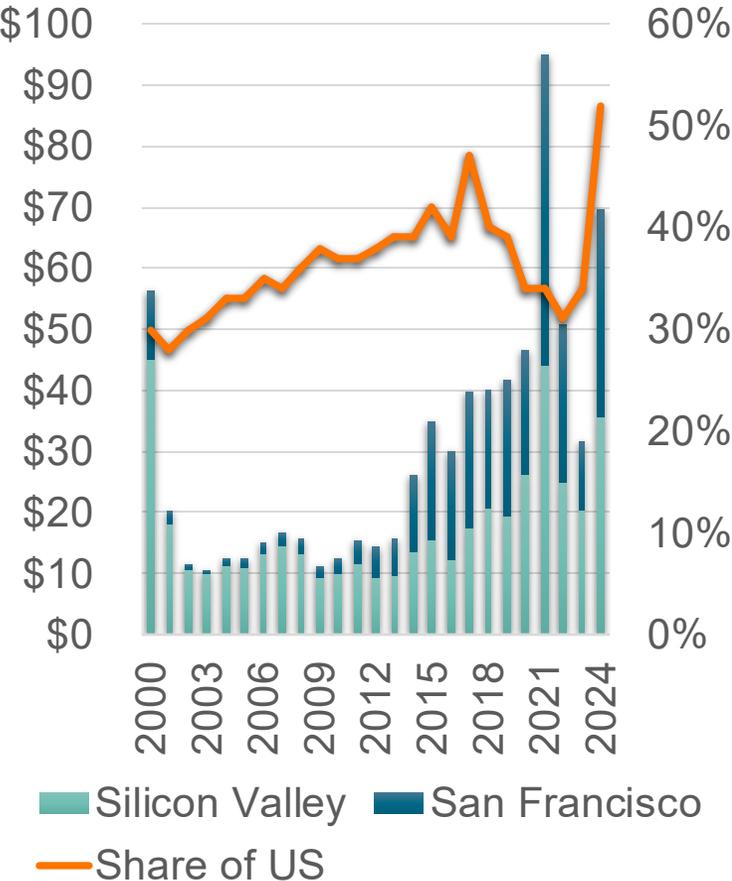


US Long Run Labor Force Growth (10 Year)

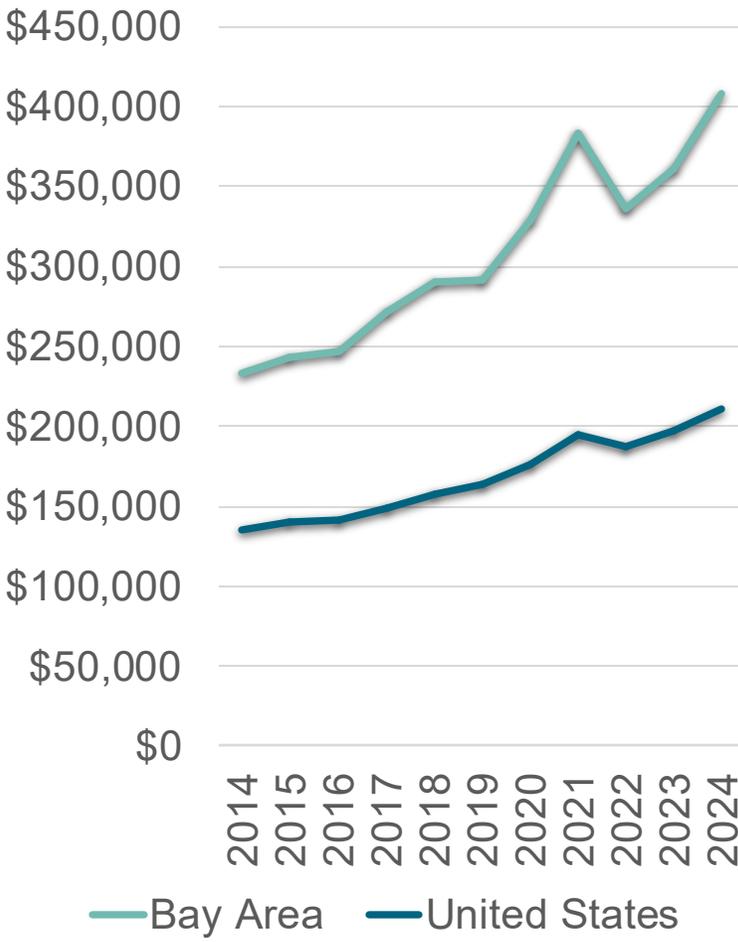


The Tech Bust?

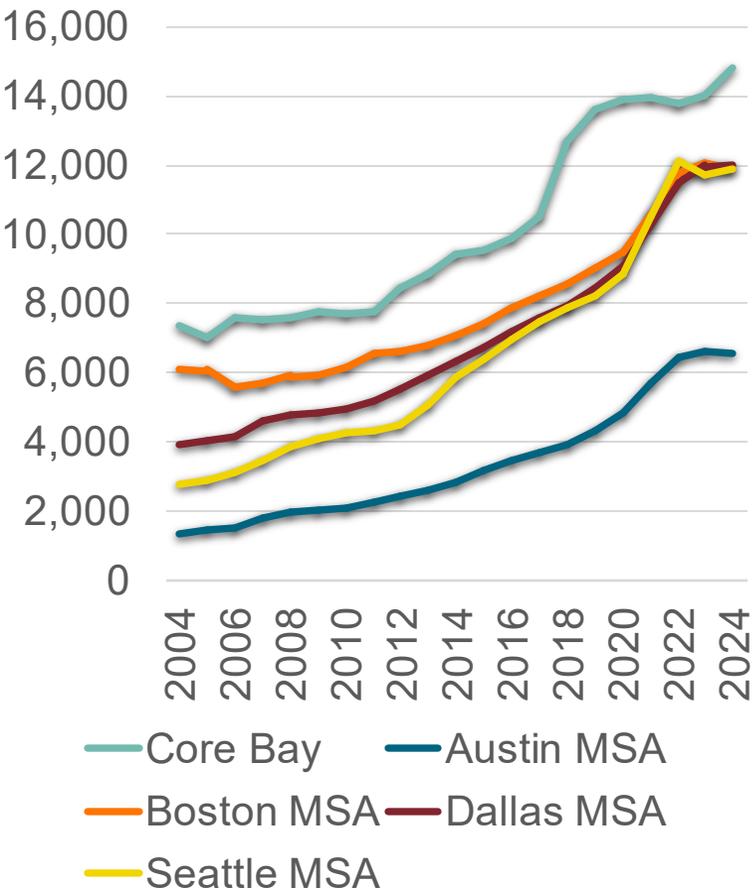
VC Funding in Greater Silicon Valley



Tech Wages

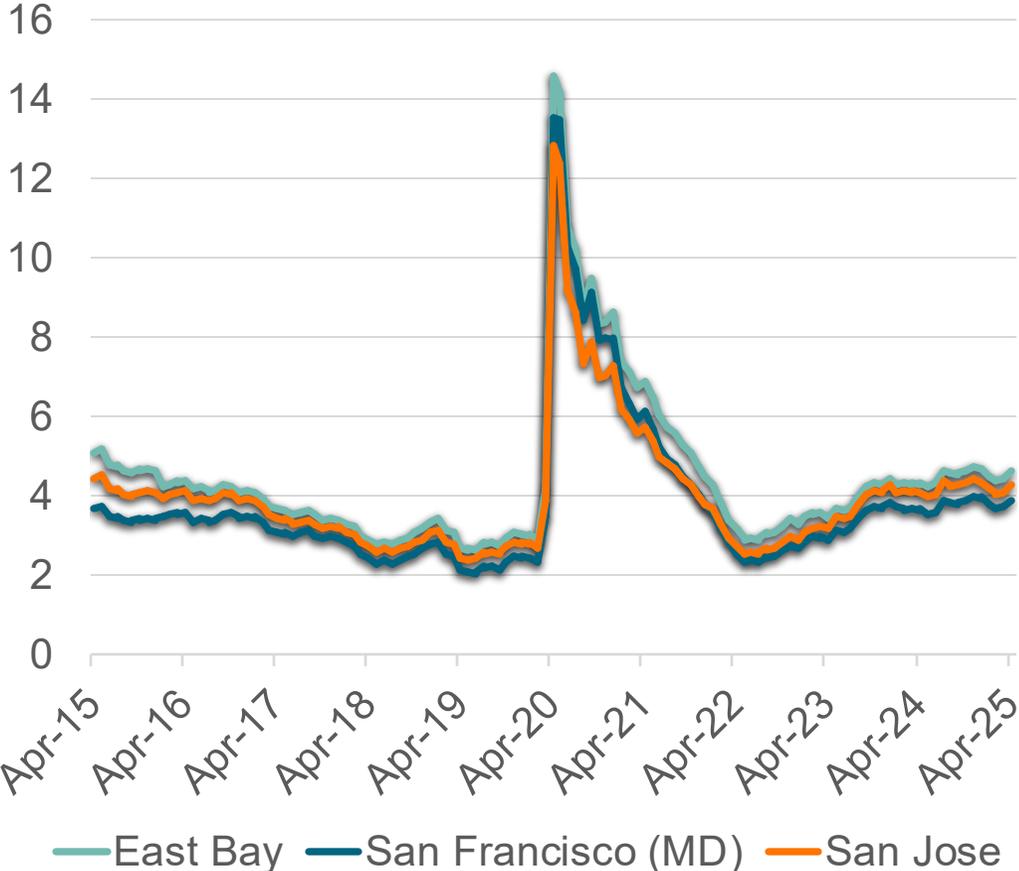


Tech Establishments

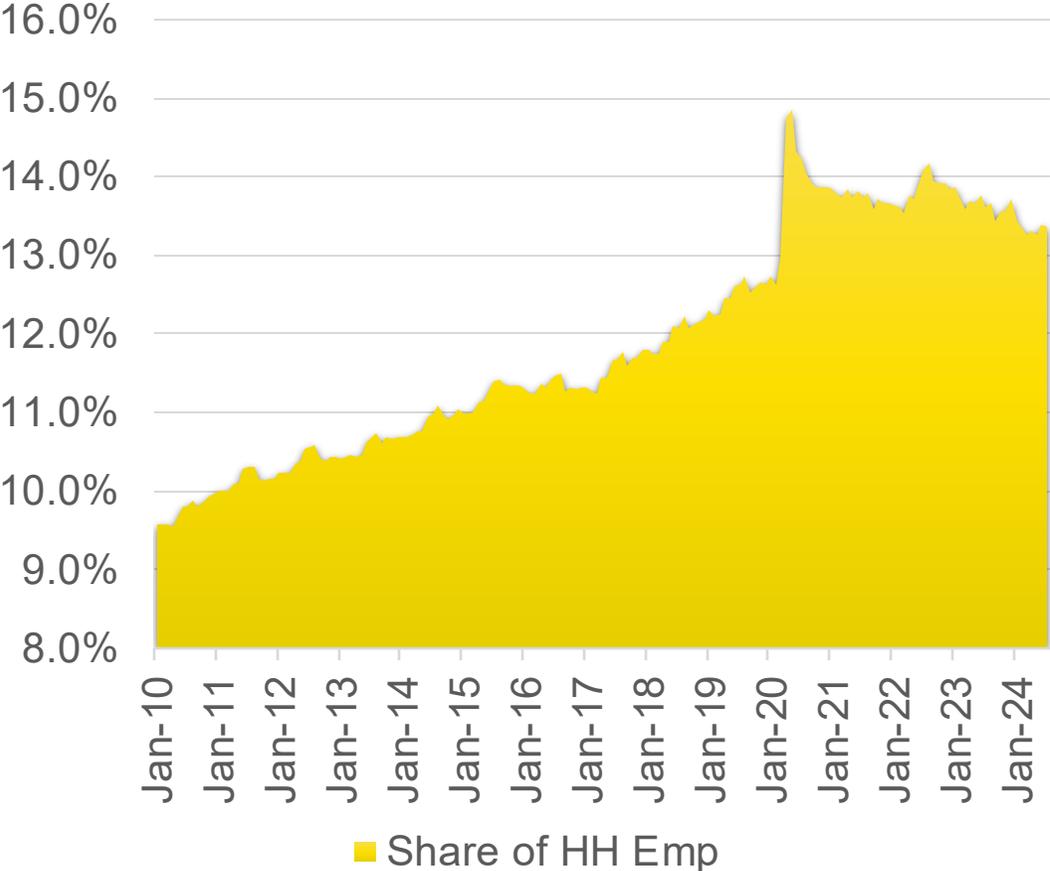


Labor Force Constraints

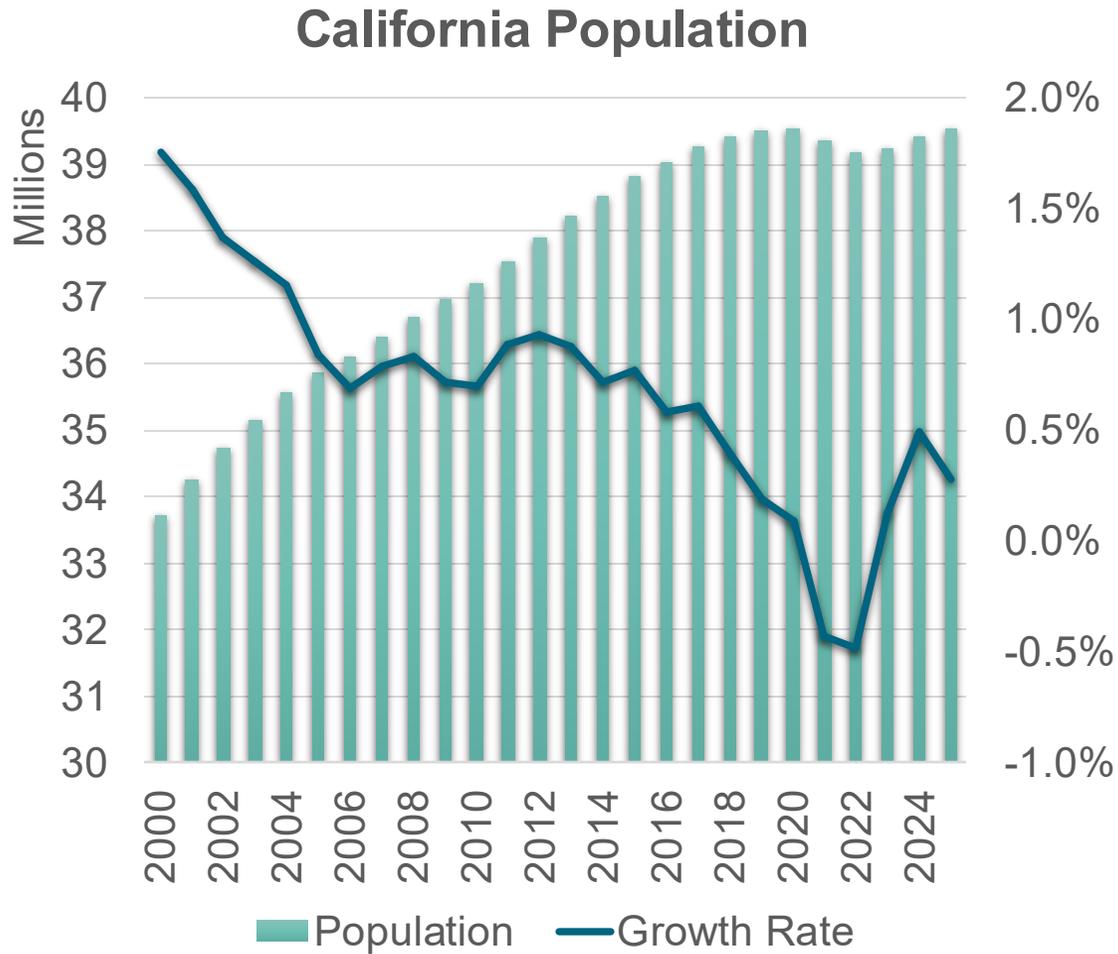
Unemployment Rate



Bay Tech Share of HH Emp



California? It's a Population Problem

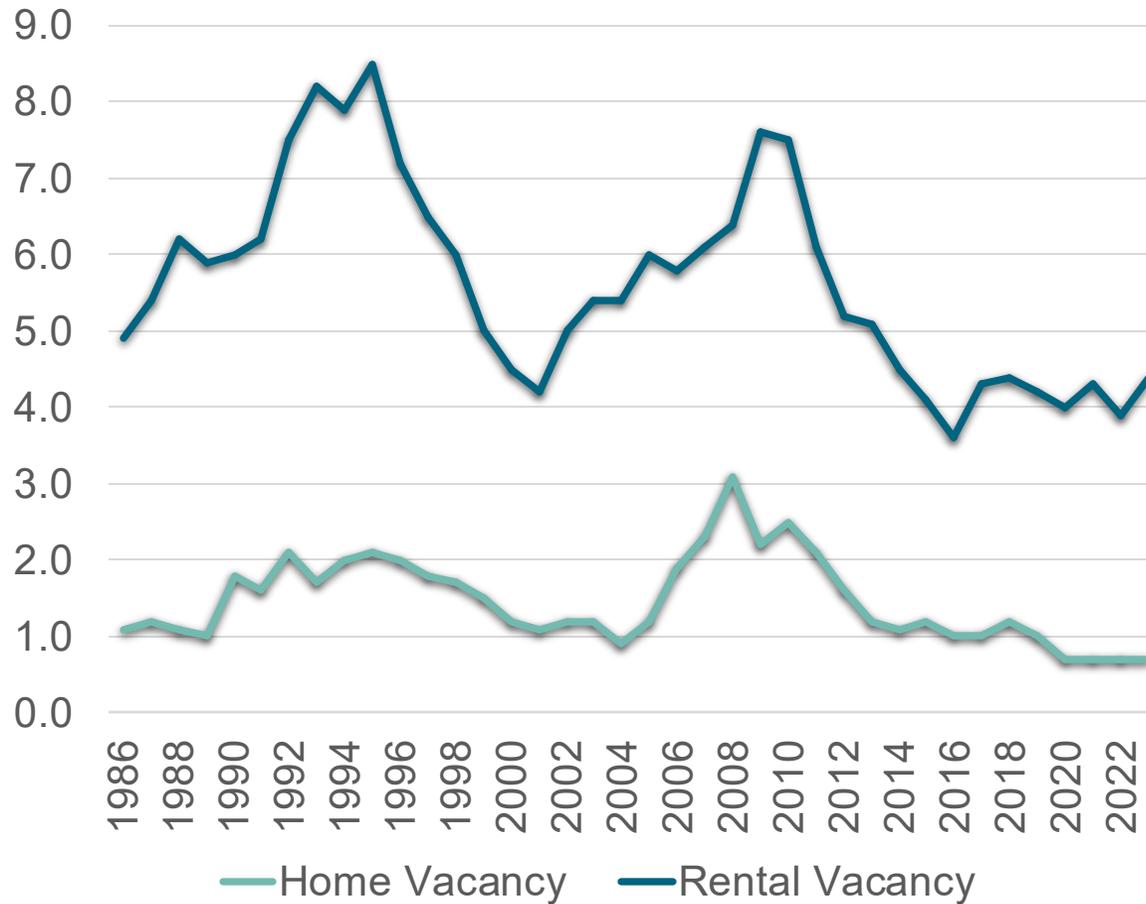


Location	Jun-25 LF (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)	Nbr. since Feb-20 (%)
US	170,380	1.4	3.5	5,963
Texas	15,850	1.5	11.5	1,823
Utah	1,846	0.6	11.4	210
Arizona	3,794	1.4	8.4	319
Nevada	1,682	2.0	7.0	118
Oregon	2,212	0.7	5.7	126
Colorado	3,283	0.4	4.7	154
Washington	4,034	-0.8	1.4	56
California	19,841	0.9	1.1	218

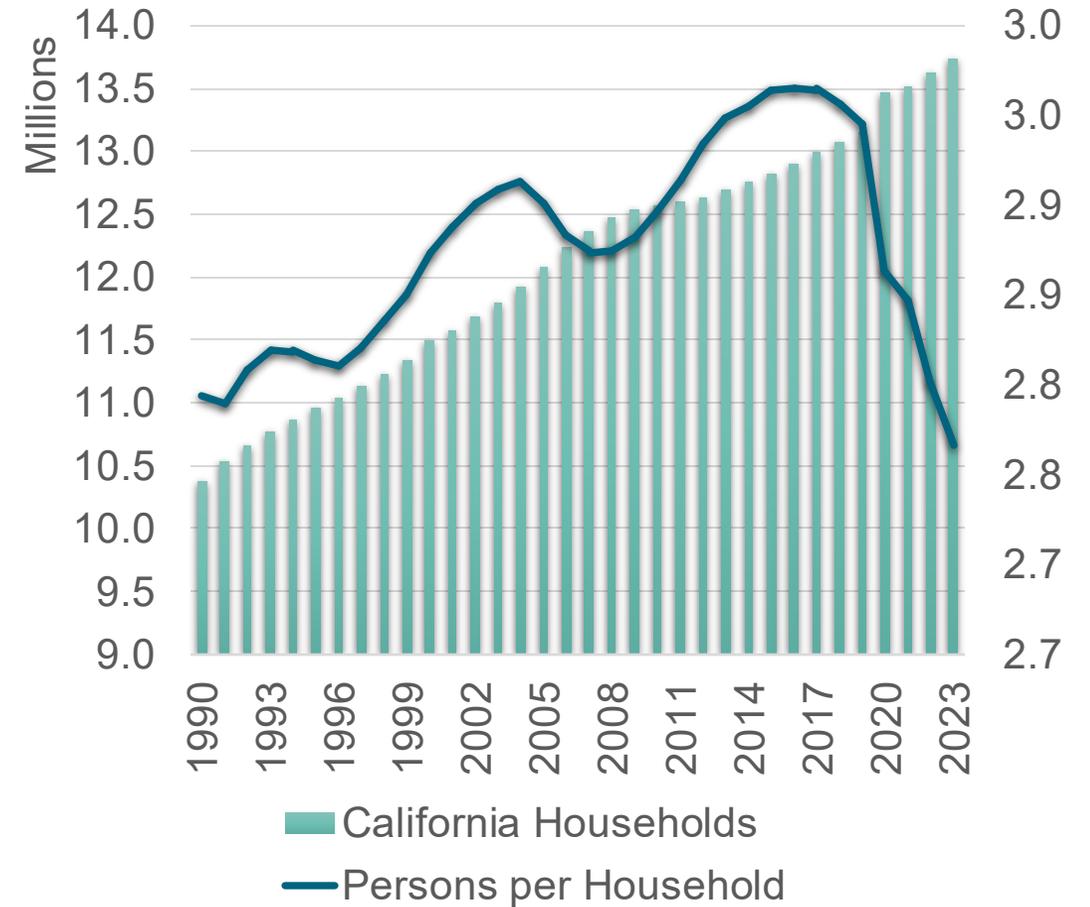


California's "Fleeing" Population?

State Housing Vacancy Rates



California Households



Employment and Labor Force

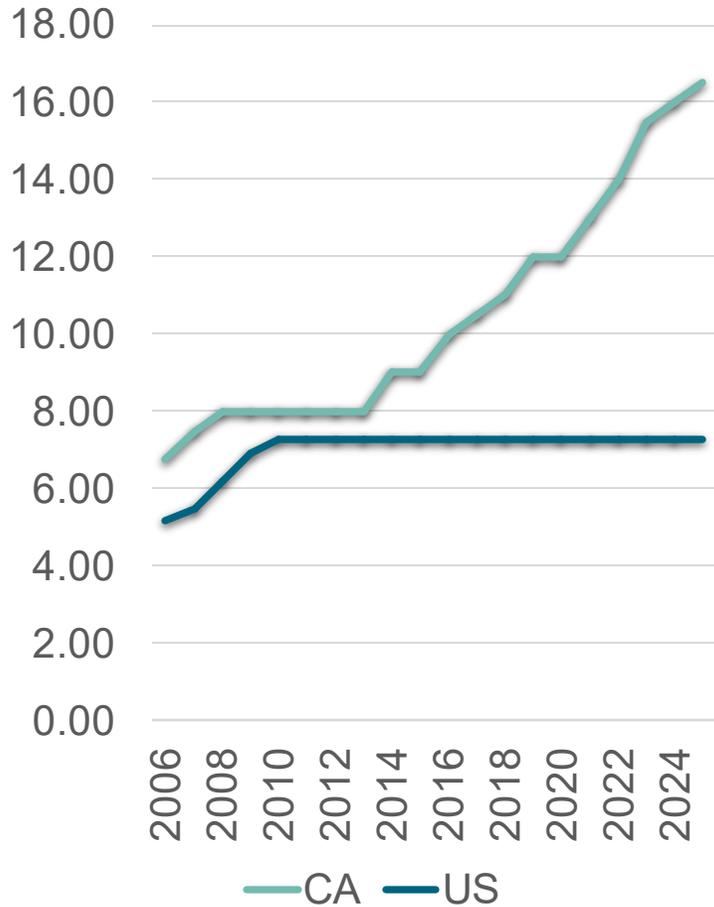
Changes 2019-2025

	Non-Farm Payrolls				Labor Force			
	Jul-25	Gr	Ch	State Sh	Jul-25	Gr	Ch	State Sh
California	18022.7	3.2%	559		19851.7	2.3%	438	
Southern California	9955	2.9%	283	51%	11134.8	1.6%	177	40%
Central Valley	1487	10.3%	139	25%	2011.5	8.0%	149	34%
Bay Area	4001.5	-1.9%	-79	-14%	4113.2	-1.8%	-75	-17%
Inland Empire	1713.7	9.9%	154	28%	2250.6	9.7%	199	45%
Sacramento	1092.8	6.5%	67	12%	1196.7	6.2%	70	16%
San Diego	1567	4.1%	61	11%	1669.9	3.5%	56	13%
Fresno	446.1	10.5%	42	8%	552.8	8.6%	44	10%
Orange County (MD)	1695	0.9%	16	3%	1641	0.6%	10	2%
San Jose	1150.8	0.0%	0	0%	1064.2	0.4%	4	1%
Oakland (MD)	1173.9	-1.6%	-19	-3%	1451.4	-1.7%	-26	-6%
San Francisco (MD)	1138.5	-4.6%	-55	-10%	929.8	-4.4%	-43	-10%

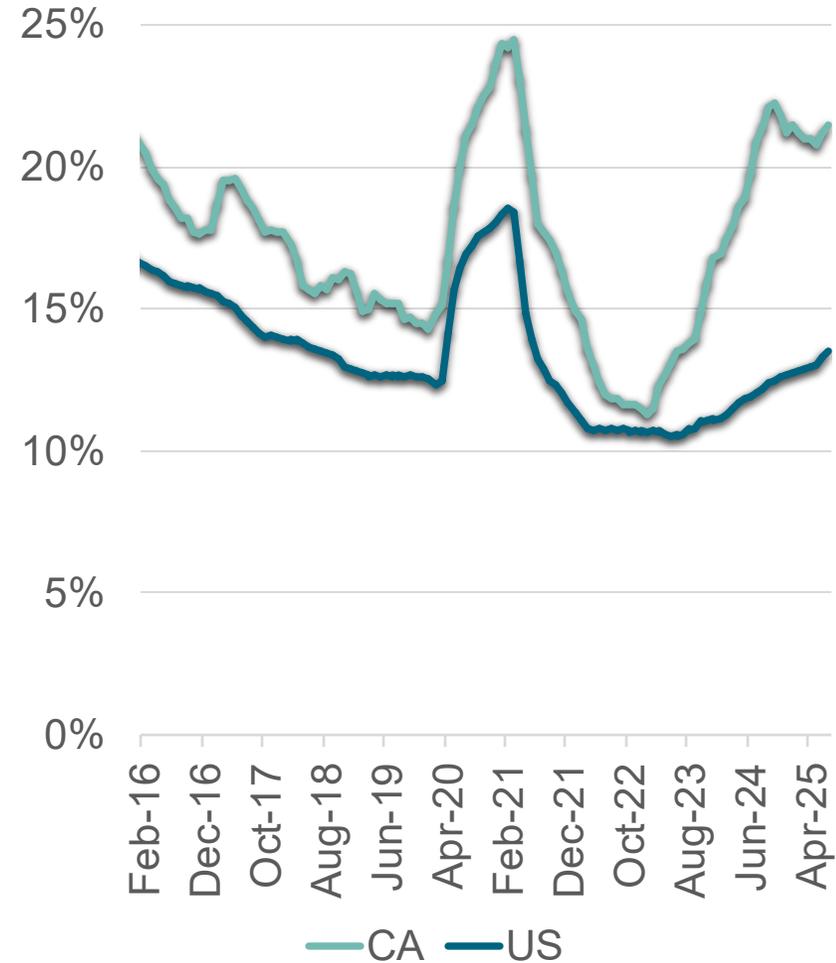


California Unemployment?

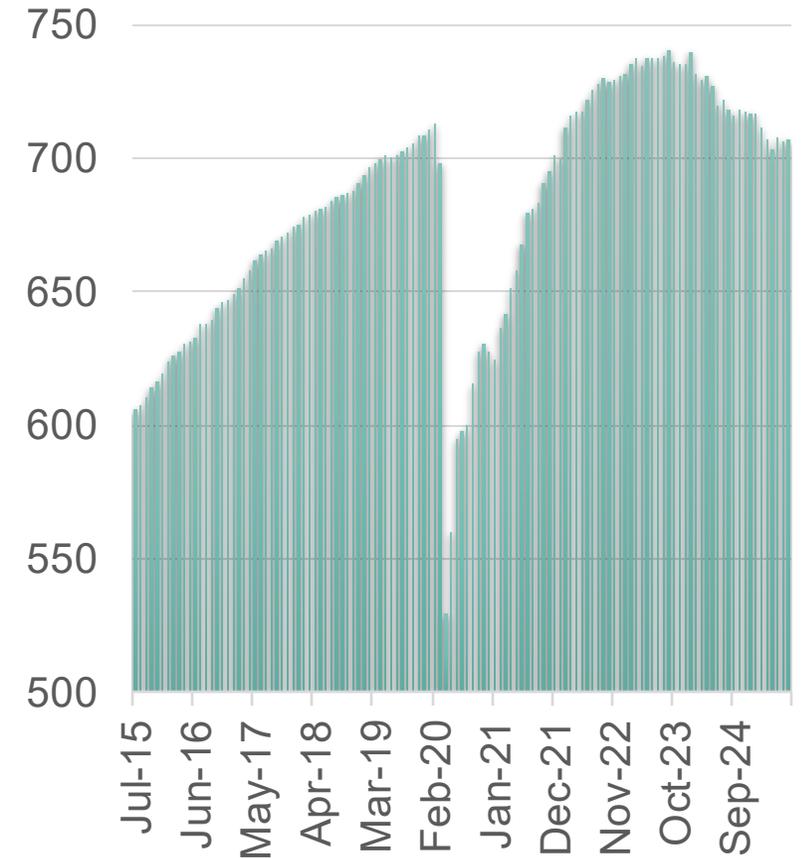
Minimum Wage



Unemployment 16-19

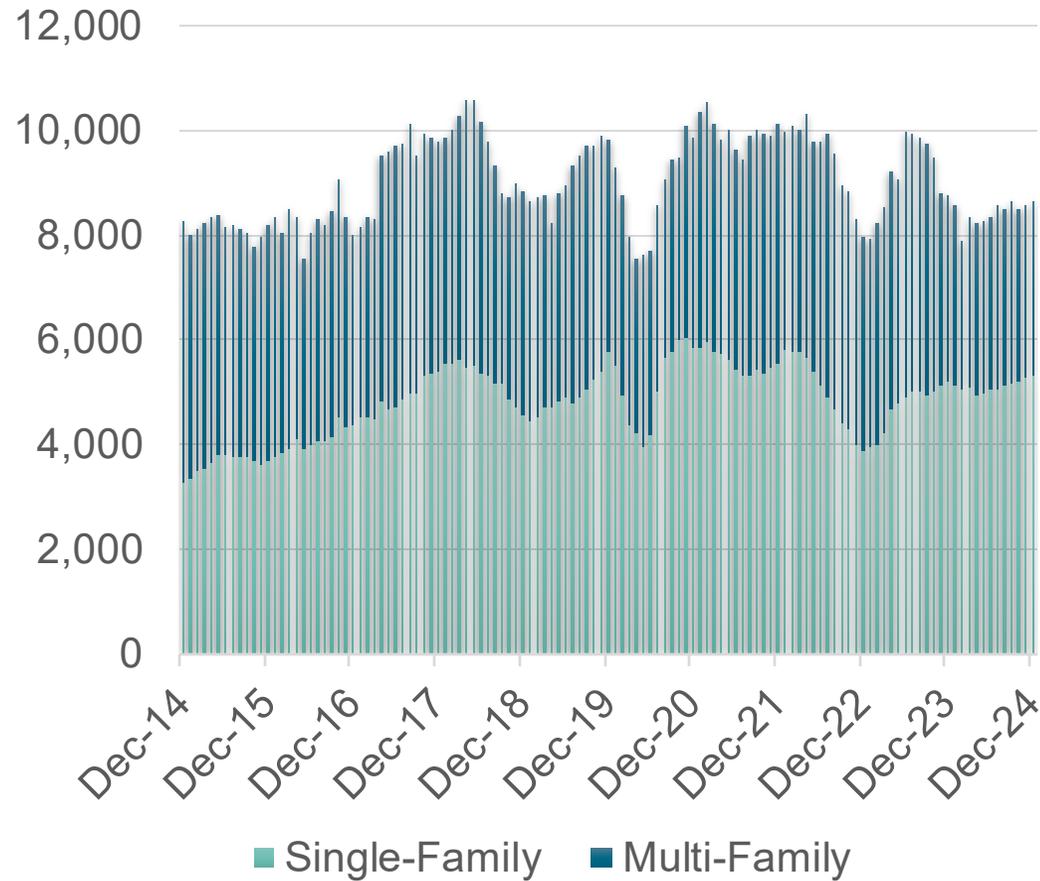


CA Limited Services Restaurant Emp



Residential Permits

California Residential Permits

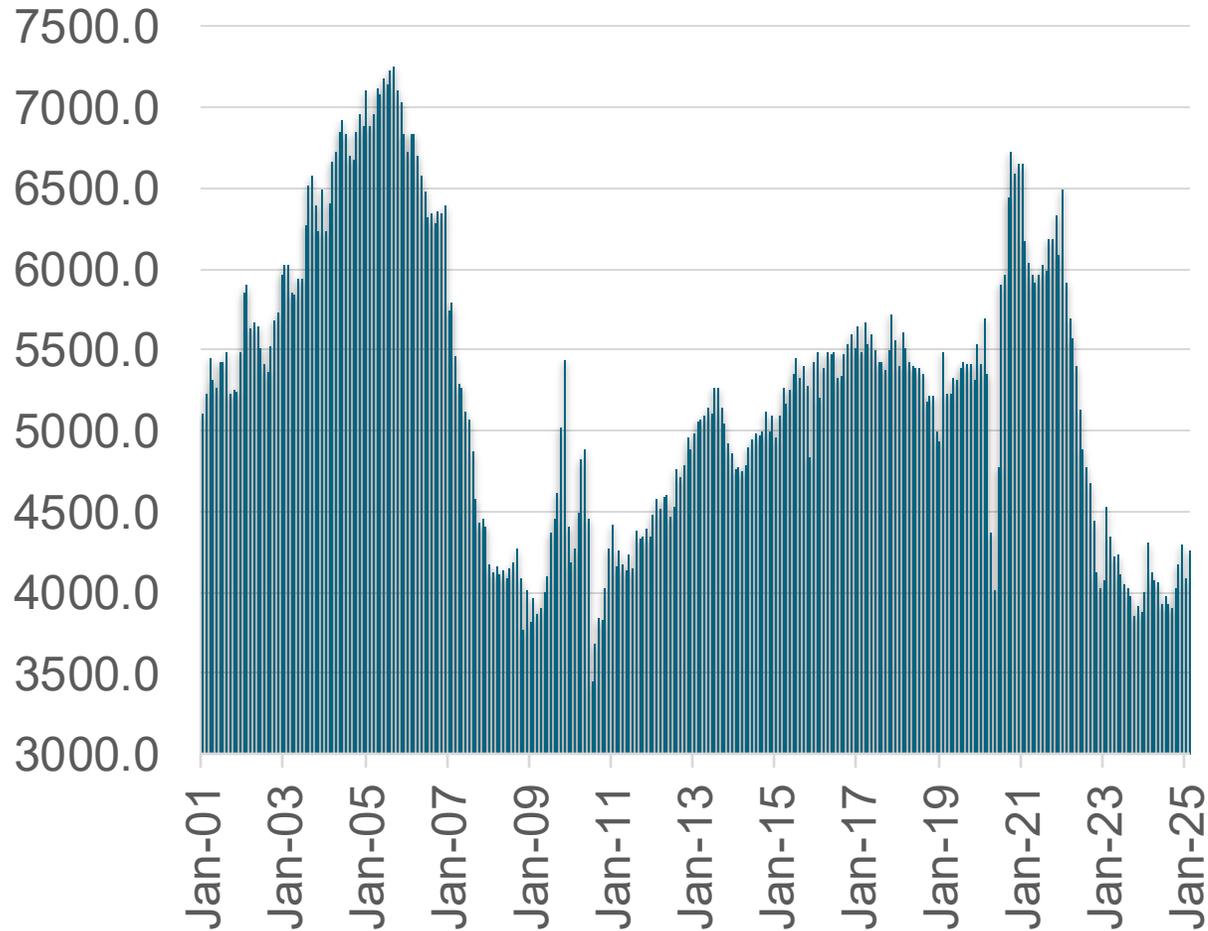


State	Jun-25 YTD SF Permits (Units)	1-Year Chg. (%)	6-Year Chg. (%)
United States	483,693	-5.5	16.3
Texas	78,271	-6.4	27.6
California	29,450	-7.0	1.3
Arizona	19,284	-13.0	20.8
Colorado	9,674	-10.4	-25.8
Washington	9,349	-5.9	-16.1
Utah	8,464	-8.1	2.8
Nevada	6,882	-13.3	18.3
Oregon	4,947	-3.5	-1.0

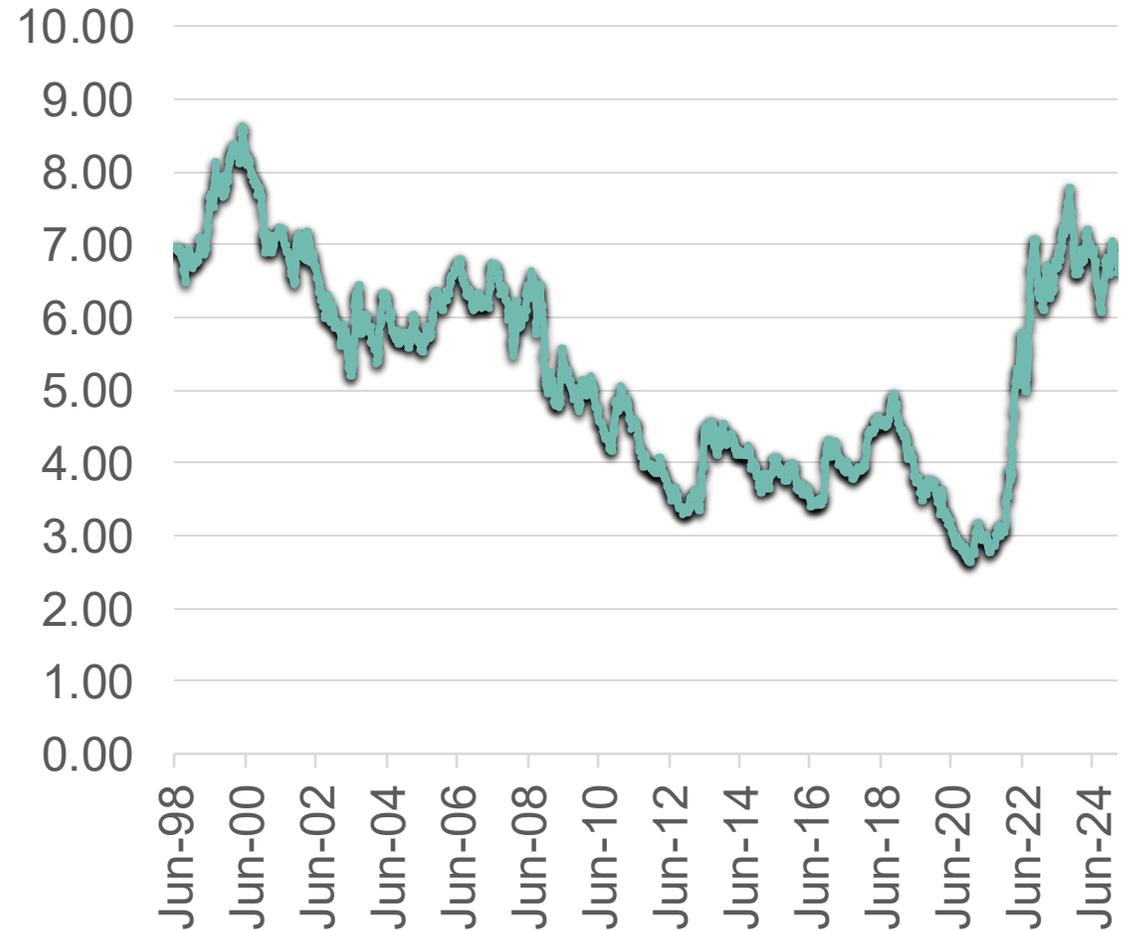


A rate shocked existing home market

Existing Home Sales SAAR (NAR)

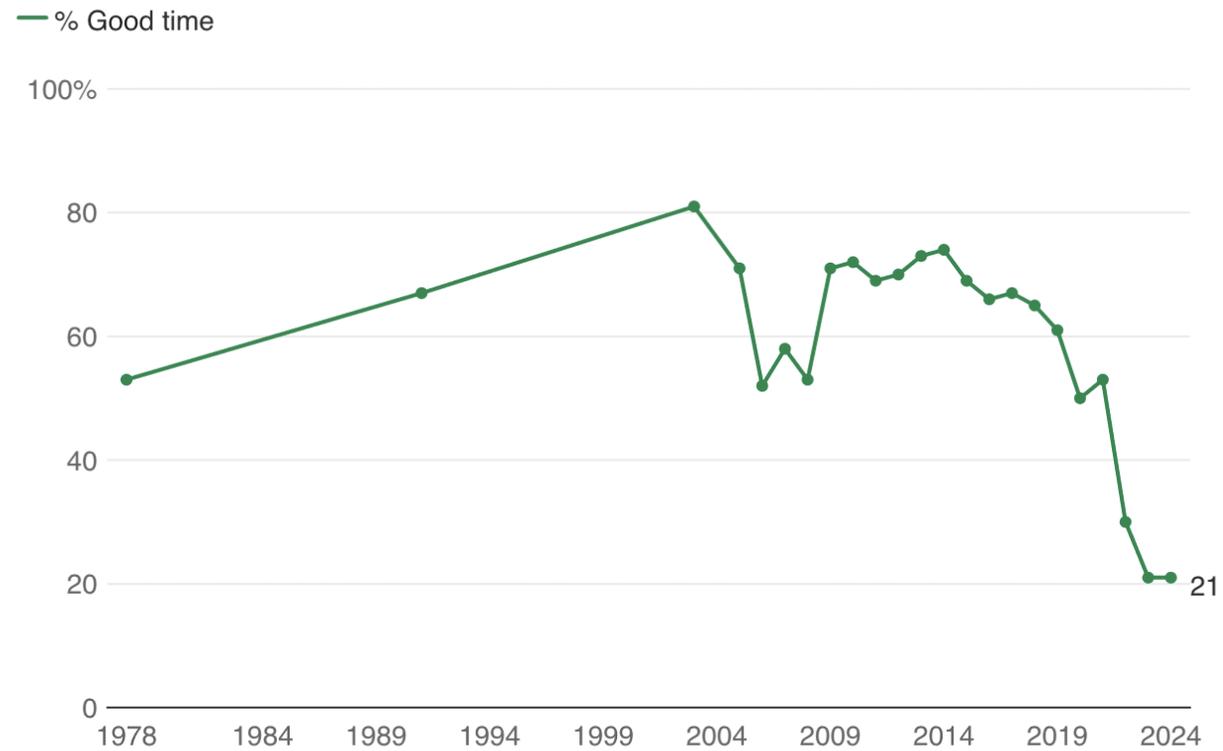


30 Year FR Mortgage Rate



Americans' Positive View of U.S. Housing Market Remains at Record Low

For people in general, do you think that now is a GOOD time or a BAD time to buy a house?



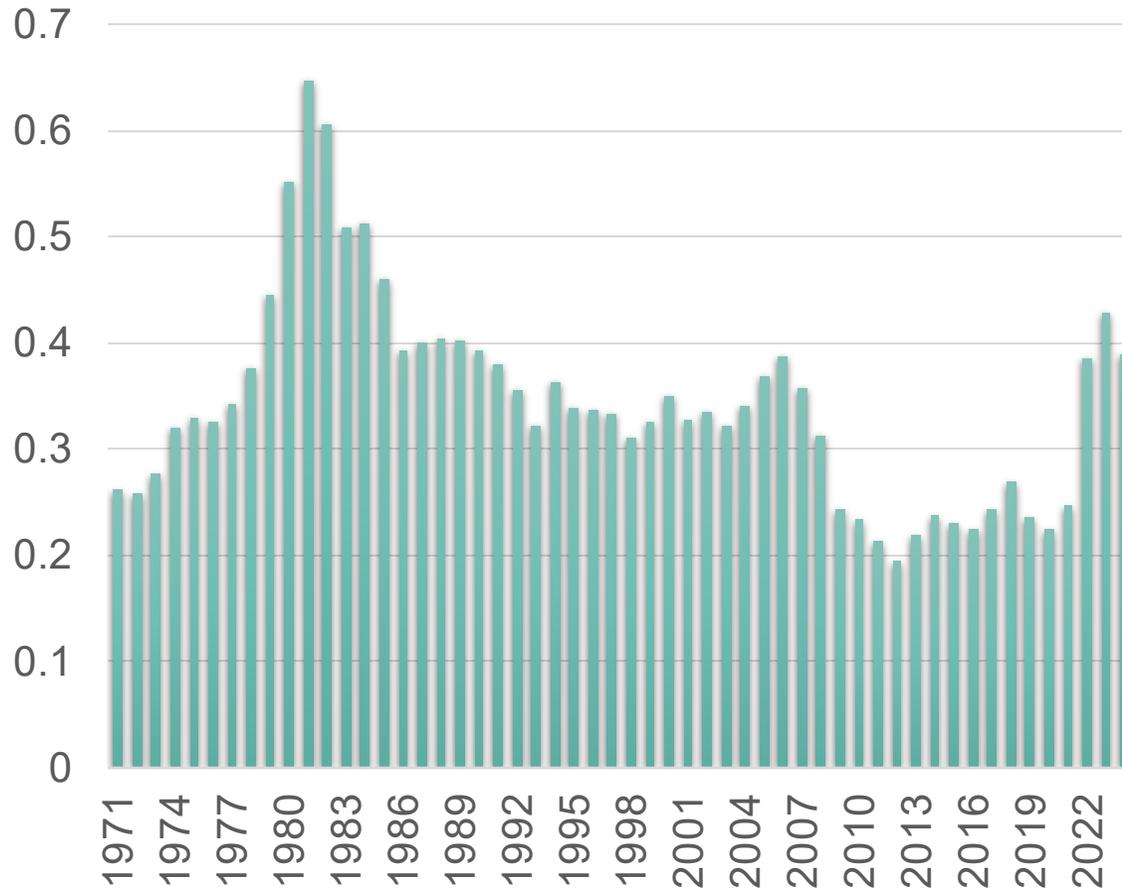
GALLUP®



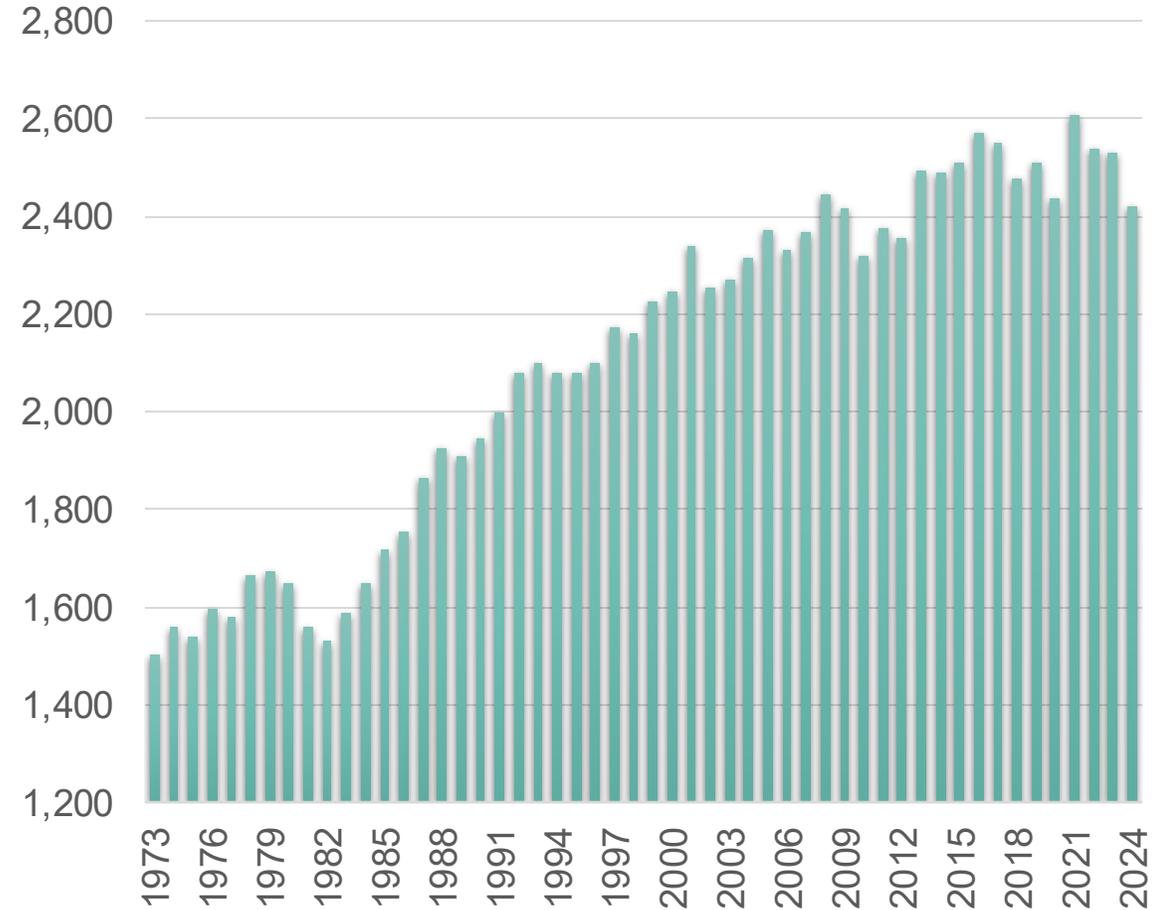
An Affordability Problem?

National Home Affordability

Carrying Costs of Median Priced Home as % of Median HH Income

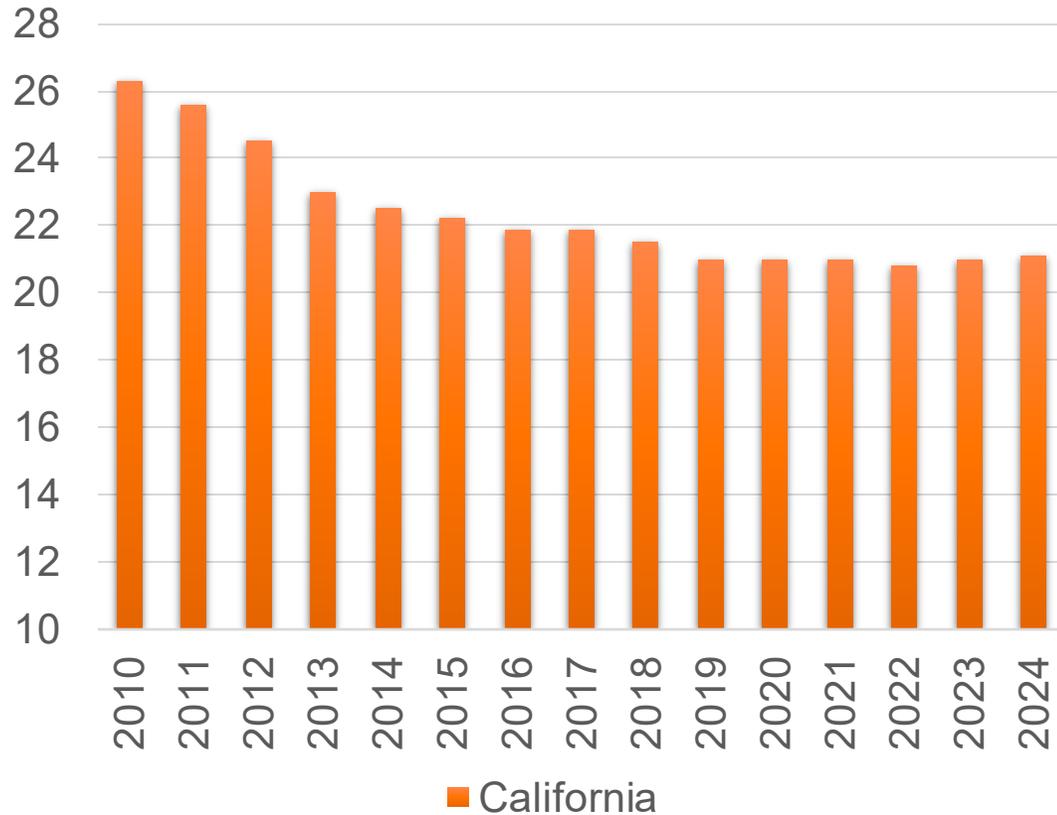


Median SF



CA Owner Affordability

Median Owner Cost as a % of Household Income

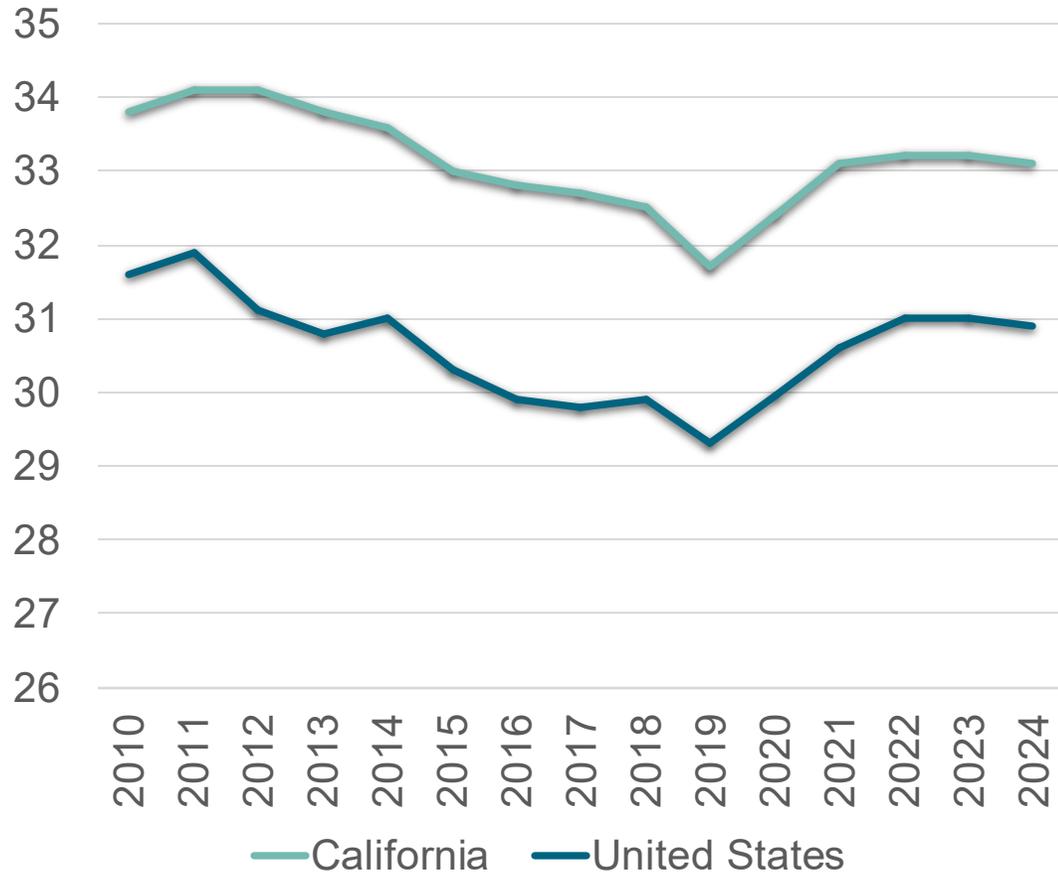


Recent Owner Cost as % of Income	2013 (%)	2018 (%)	2023 (%)
United States	24.8	24.9	27.5
California	29.0	30.2	33.4
Alameda	26.3	28.0	29.5
Merced	25.9	26.4	38.7
Monterey	31.2	31.8	31.8
San Joaquin	26.5	29.0	32.9
San Mateo	23.4	31.1	29.2
Santa Clara	26.2	26.5	27.5
Santa Cruz	31.3	28.4	30.1
Stanislaus	30.1	27.5	27.2



Rental Affordability?

Median Rent as % of Income



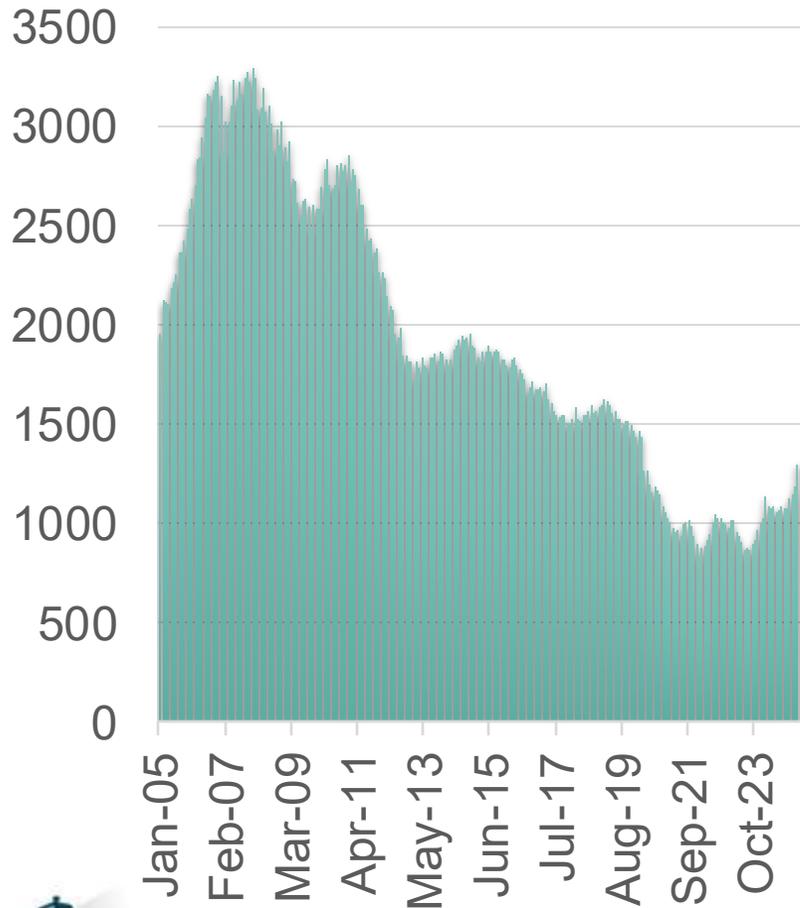
City	2024 Median Post Rent Income (\$)	2023 to 2024 Chg. (%)	2019 to 2024 Chg. (%)	2014 to 2019 Chg. (%)
United States	39,904	6.3	25.6	27.3
California	51,030	6.1	22.3	38.8
Atlanta	47,364	8.7	36.5	40.1
Chicago	42,208	-0.2	23.6	37.0
Dallas	44,986	15.1	33.1	36.2
Denver	52,862	0.5	23.1	55.1
Houston	33,092	-4.7	11.6	20.2
Los Angeles	44,806	4.9	22.7	46.0
Miami	37,540	-6.1	33.2	52.7
New York	48,598	4.6	17.6	31.1
Phoenix	44,883	8.8	33.4	39.4
San Diego	60,439	2.4	27.7	34.5
San Jose	76,317	13.1	25.0	42.9
Seattle	63,177	-1.6	13.9	52.5
Seattle		27.6	0.2	-1.0

Source: American Community Survey

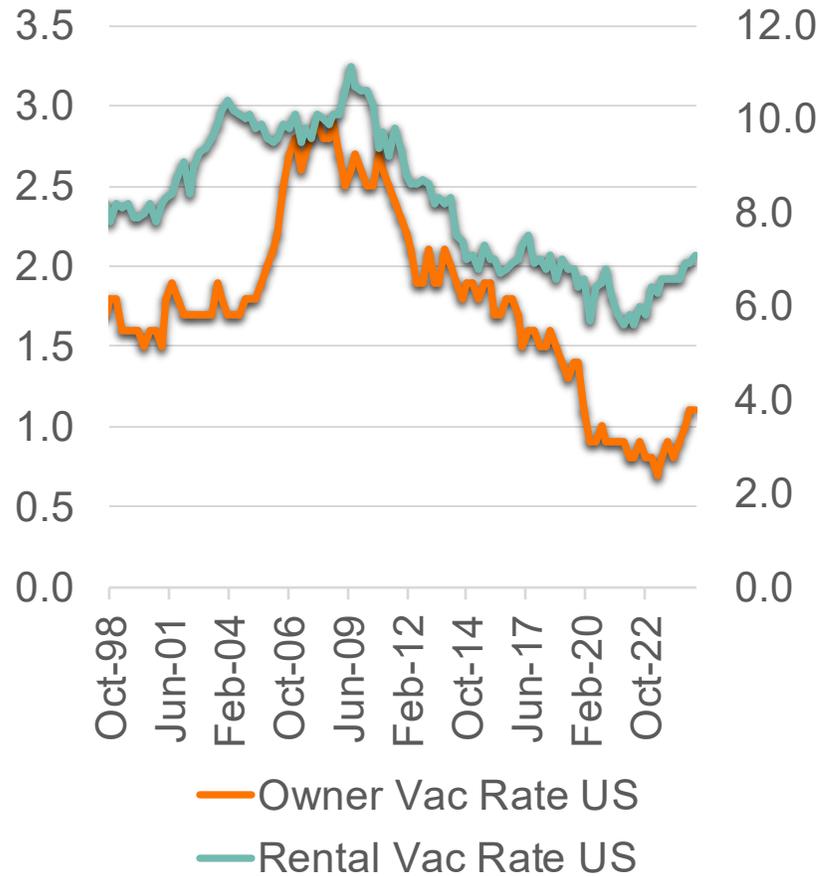


Supply, Supply, Supply...

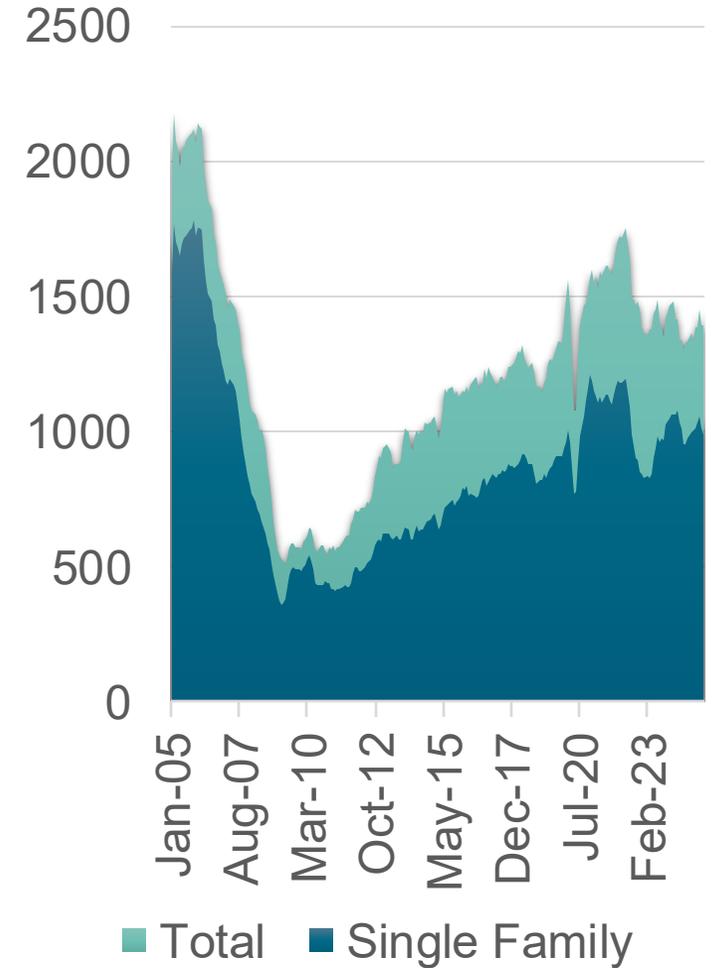
Existing Homes for Sale (NAR)



Housing Vacancy Rate % (HVS)

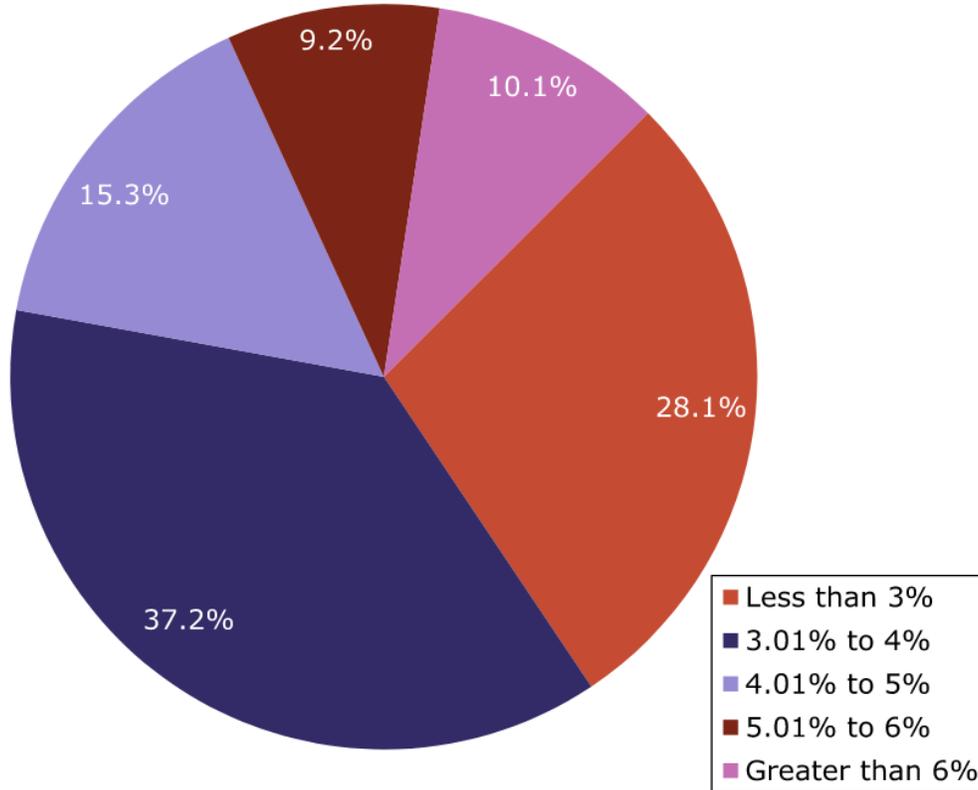


Housing Starts



The Yin and Yang of New Home Markets

Most Outstanding Mortgages Have a Rate <5%
Share of Outstanding Mortgages by Interest Rate, Q3-2023



Source: FHFA and Wells Fargo Economics

Liquidity
Constrained
Housing
Market



Normal
Housing
Market



Our Own Worst Enemy



Failed Scott Wiener State Proposals	Year(s)	Outcome
SB 827 (Transit-Oriented Zoning Reform)	2018	Defeated in committee
SB 50 (Streamlined Mid-Rise Zoning Act)	2019–2020	Failed committee / Senate floor
SB 902 (2–4 Unit Upzoning)	2020	Died in Assembly Appropriations
SB 1120 (Duplex Approval)	2020	Failed
SB 677 (Streamlining Multifamily Approvals)	2025	Defeated in Committee

AB 130: Streamlining Housing Development

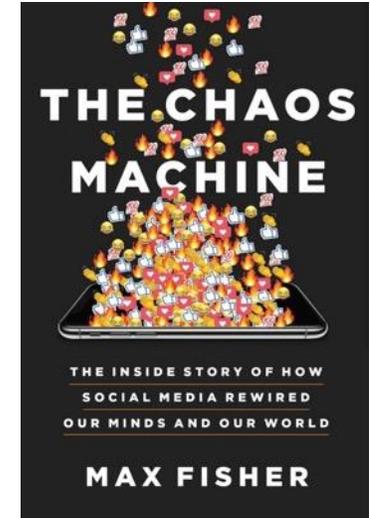
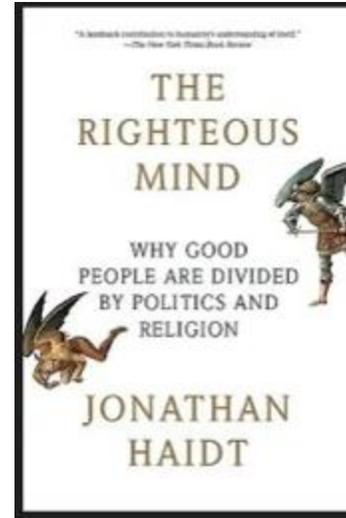
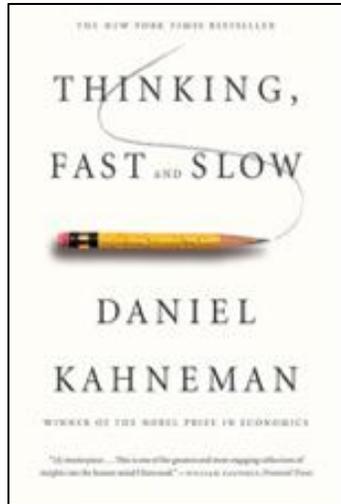
- Streamlined Environmental Review
- Limitation on Legal Challenges
- Priority for Affordable Housing.
- Promotion of Infill Housing

What Else?

- Limited to structures < 80 feet
- Ensures affordable housing is most expensive to build
- Doesn't apply to greenfield investments
- Doesn't apply to infrastructure investments

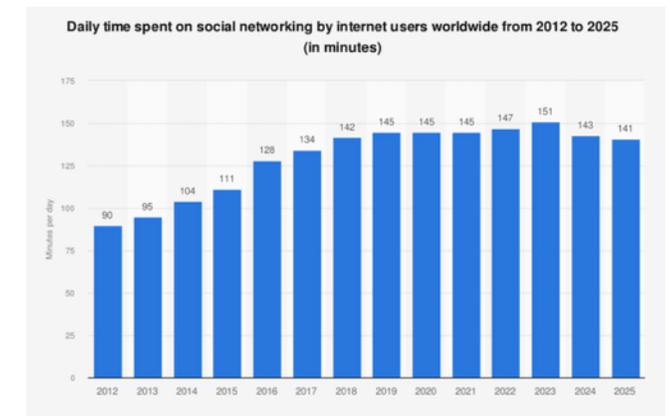
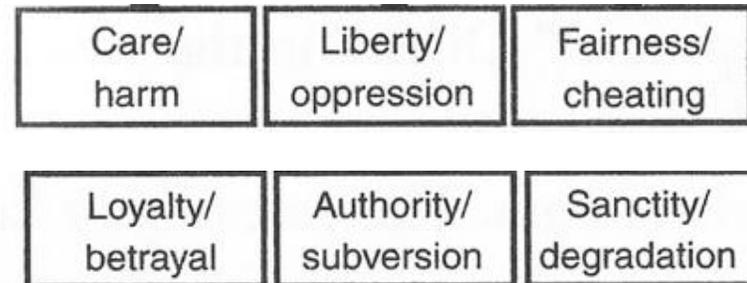


How do narratives go astray?



Moral Nodes: Social issues that blind us emotionally

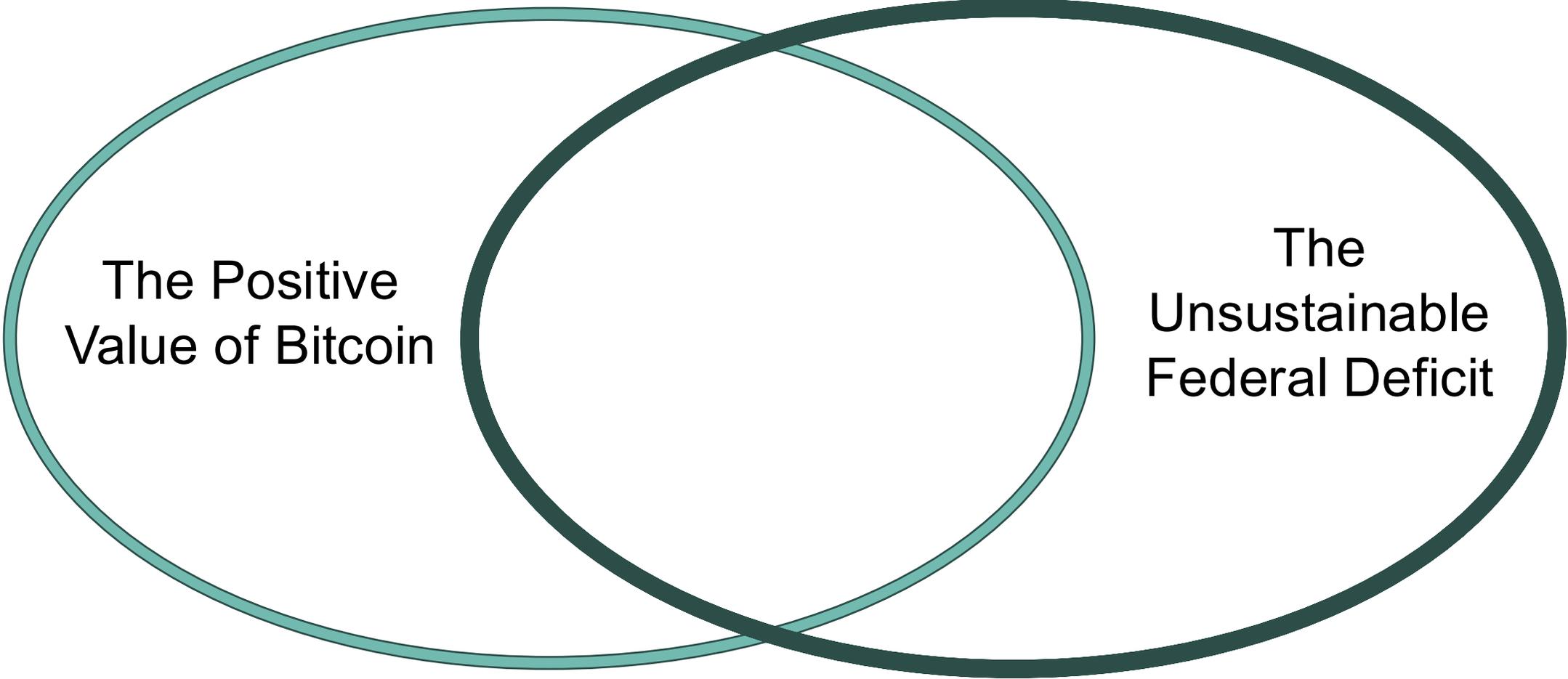
Type	1	2
<u>Style</u>	Emotional	Deliberative
<u>Rules</u>	Heuristics	Deduction
<u>Speed</u>	Fast	Slow
<u>Energy</u>	Low	High



Beware the Narrative

Social Narratives

Economic Reality



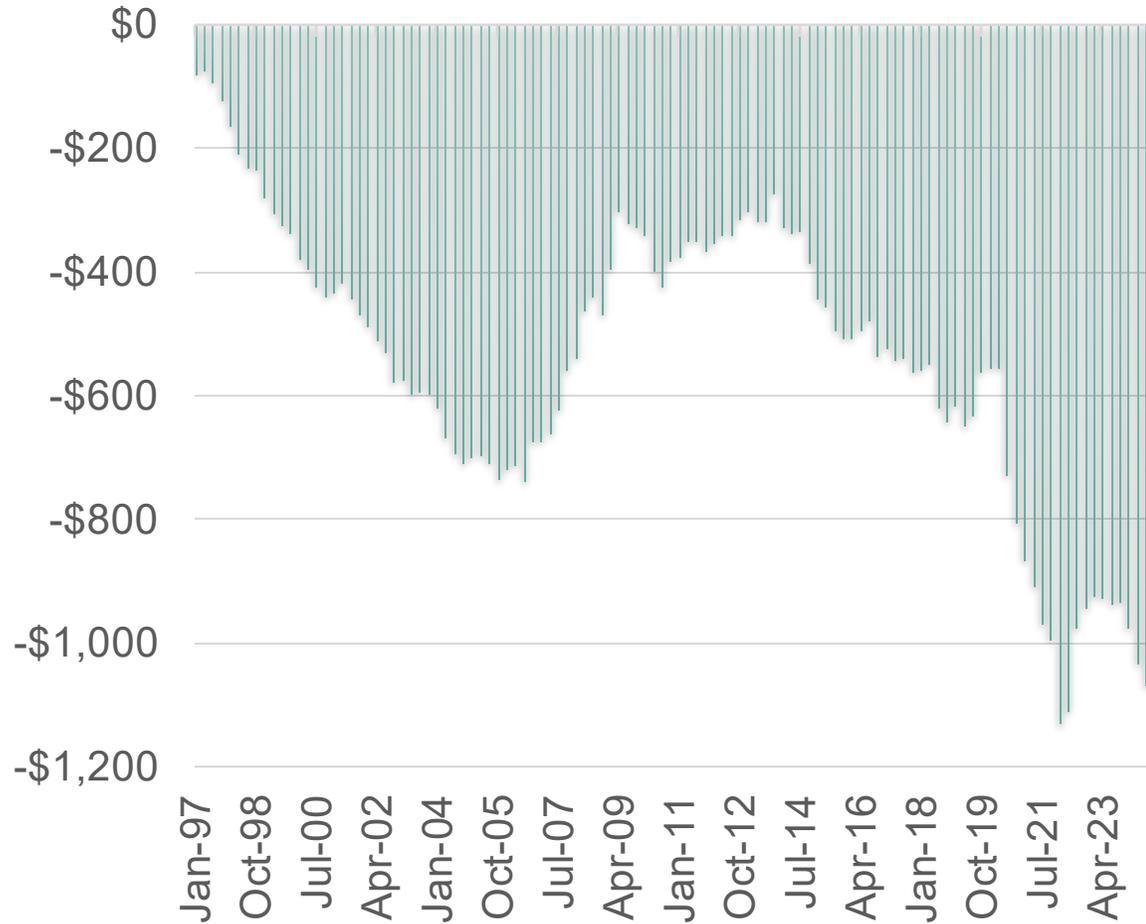
The Positive
Value of Bitcoin

The
Unsustainable
Federal Deficit



An Over-Consumption Problem...

US Trade Deficit (\$Bil, Real)

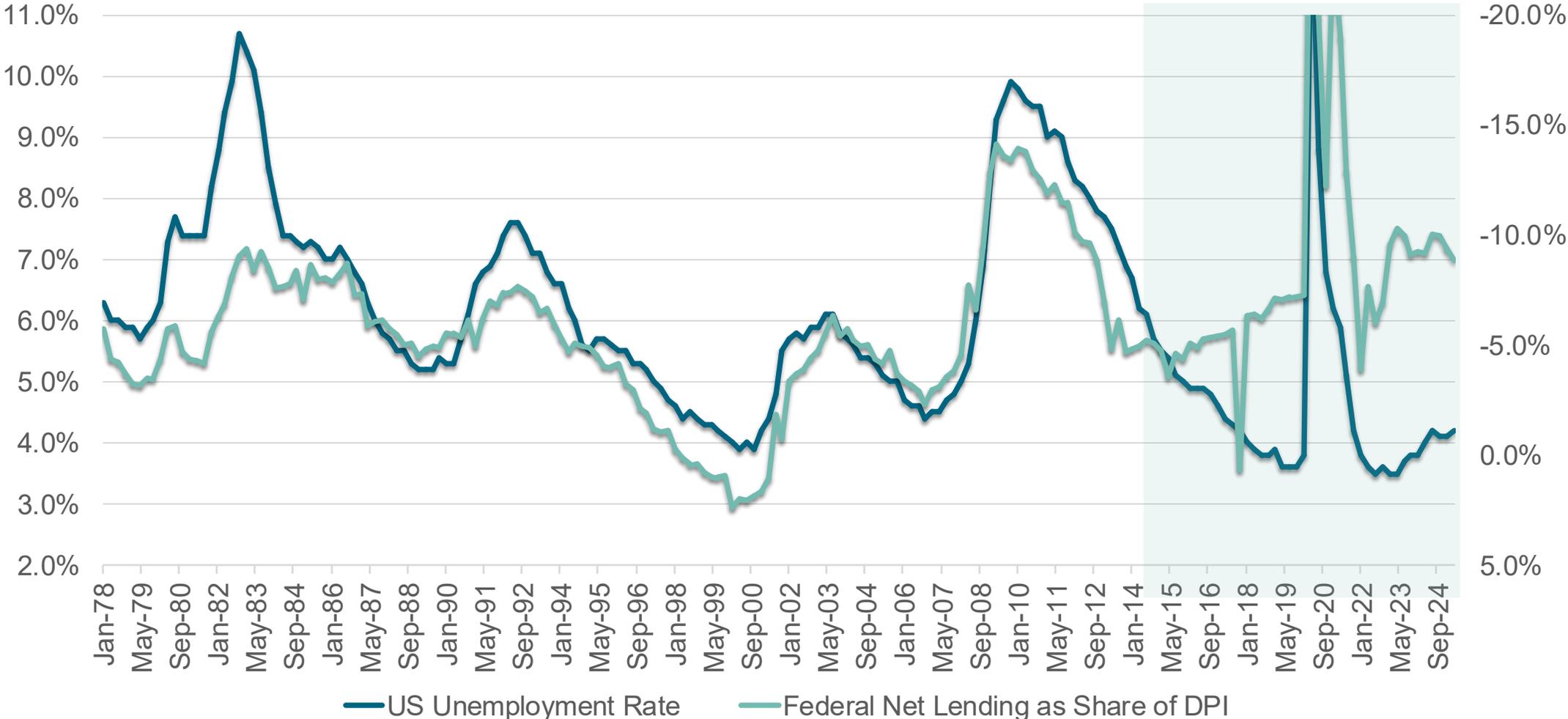


Consumer Spending % GDP



Keynesianism Breaks Down...

Deficits and Unemployment



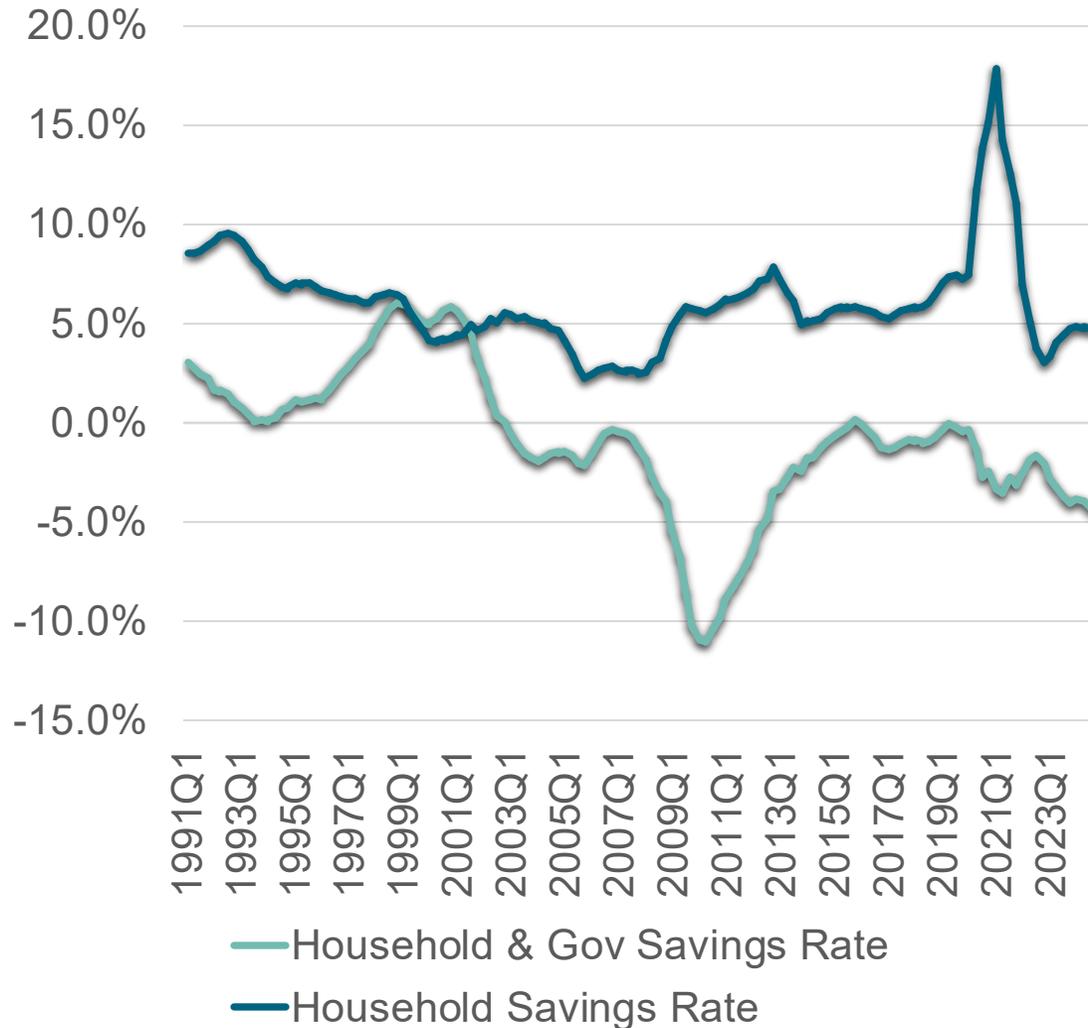
Deficit Closing?

- \$15,500 per household per year
- Higher Taxes: 9% of Household Disposable Household Income
- Reduced Spending: 25% of total current Fed expenditures

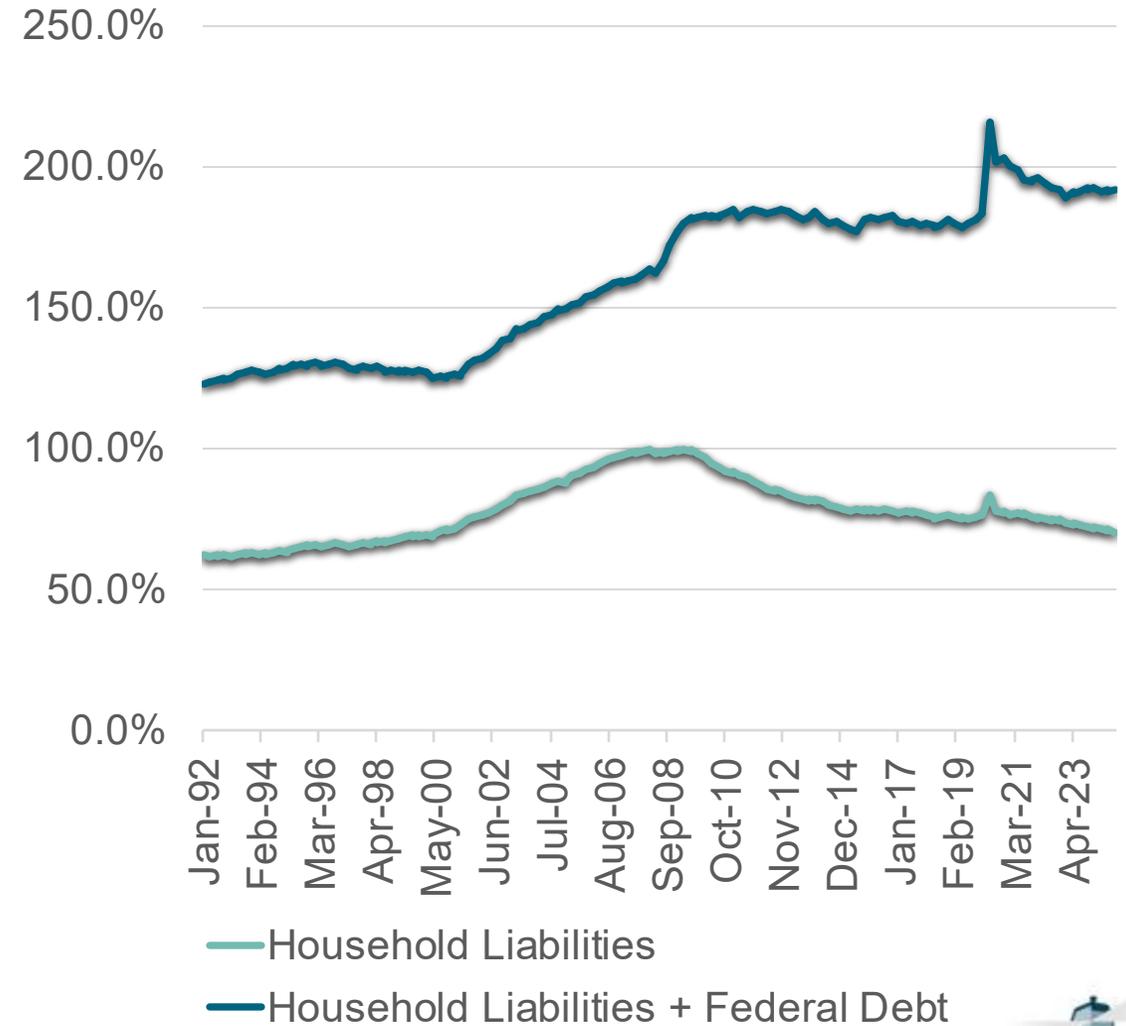


The Wealth / Income Mirage

Household Savings as % of DPI

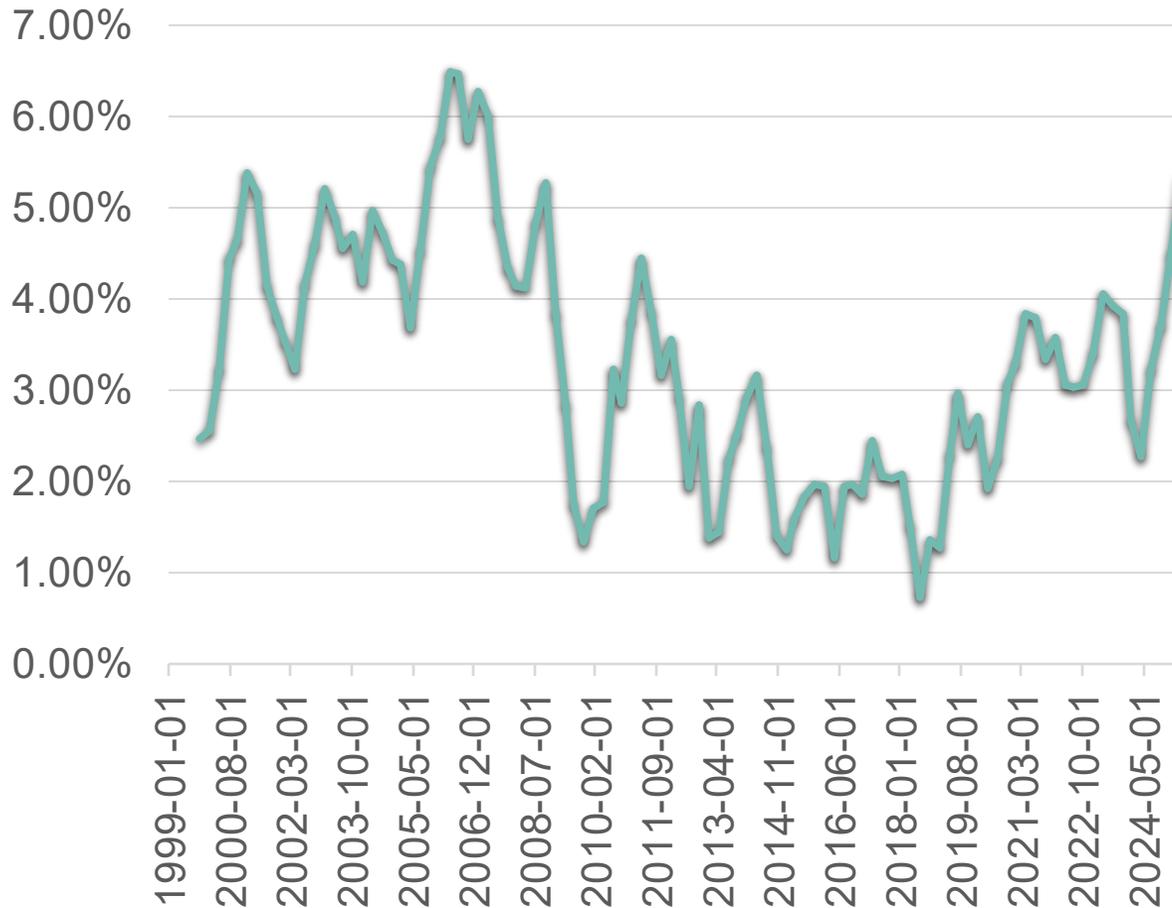


Household Debt as % of GDP



Who is Paying the Bills?

Financial Inflows - Financial Outflows
as % GDP (4 Quarter MA)

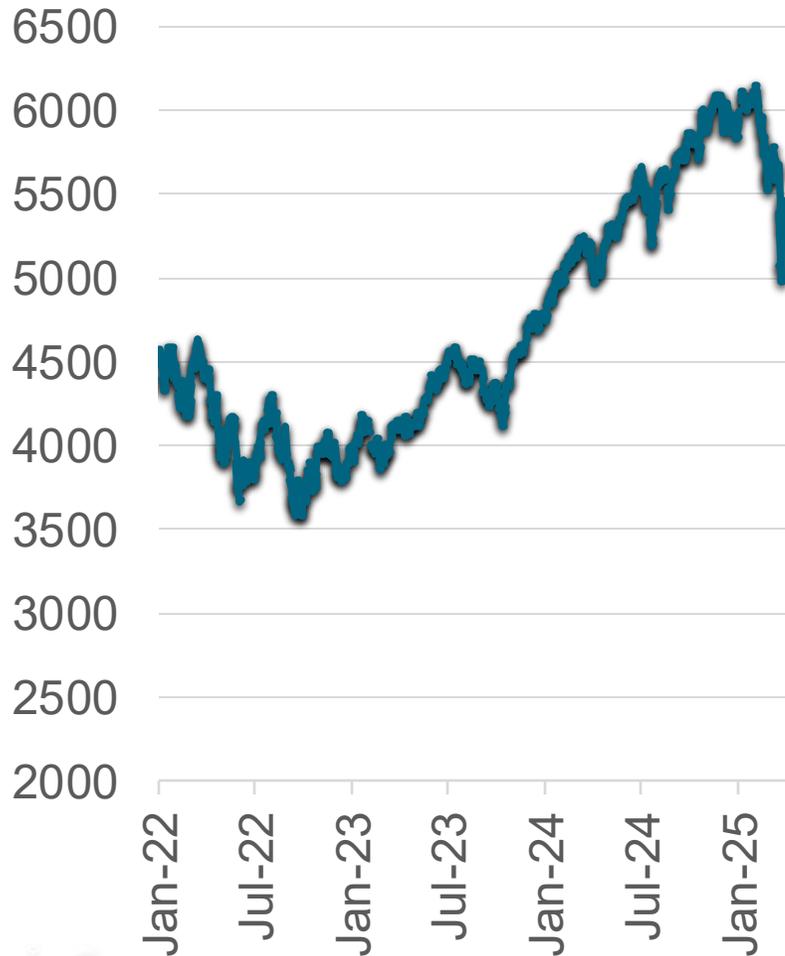


Real Value \$US (Index)



The Recent Reactions to Turbulence

S&P 500 Daily Close



10 Year Treasury Rate (%)



Dollar Index



How does it break?

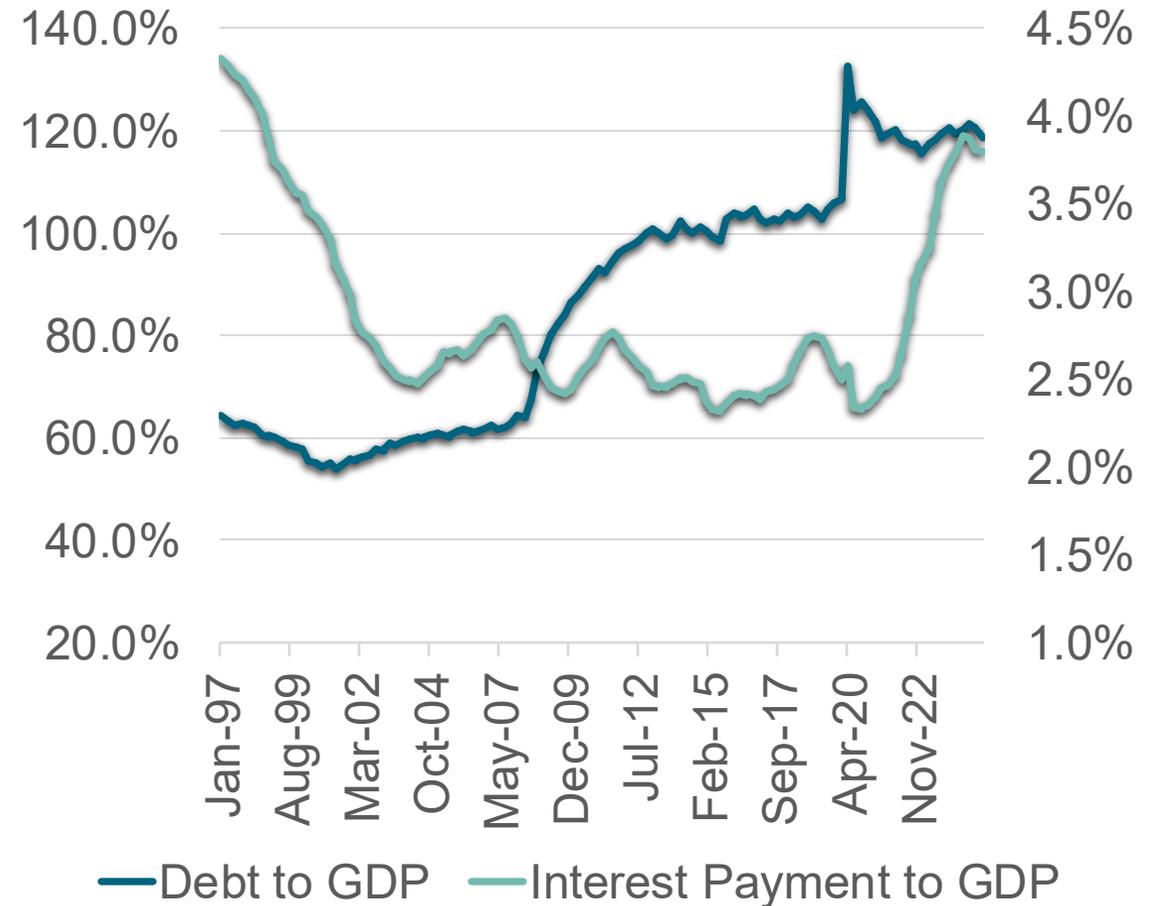
Rates Rise

- Decline in equity markets spurs retraction of foreign capital
- Resultant impact causes deficit to increase just through interest payments—the public debt death spiral
- Fed impact: negligible

What then?

- Increase taxes / Cut spending popping household financial strength
- Cascades through state and local governments
- Federal Reserve rides to the “rescue” with more QE and inflation?

Debt and Interest Payment



The Narrative / Reality Gap

	Q4 12	Q4 16	Q4 20	Q4 24
	Obama	Trump	Biden	Trump
Real GDP Growth YoY Gr	1.6%	2.2%	-1.0%	2.5%
Unemployment Rate	7.8%	4.8%	6.8%	4.1%
Real Per Capita DPI	\$42,342	\$43,846	\$49,476	\$51,637
Household Debt (% GDP)	84.5%	77.9%	77.5%	70.0%
Household Net Worth (% GDP)	413.9%	469.3%	562.3%	539.5%
UM: Consumer Sentiment	79.4	93.1	79.8	72.1
Federal Deficit % GDP	-6.5%	-3.1%	-16.2%	-6.9%
Federal Debt: % GDP	100.1%	104.6%	125.7%	121.9%
Current Account (% GDP)	-2.3%	-2.0%	-3.3%	-4.0%
Net Int Investment (% GDP)	-27.8%	-43.3%	-66.7%	-88.3%
\$Dollar (Broad Real)	87.9	108.0	105.7	119.5
Shiller P/E Ratio	21.24	27.08	32.51	37.22



Growing Risks

Strong Economic Momentum

- Consumer finances / spending remains solid
- Credit constraints lifting, rate shock passing

Turbulence threatening capital inflows

- Leading Indicators: \$US, HH Savings, 10 Year Bond
- Recession starts when / if turbulence hits household finances

California: Focused on the wrong issues

- Housing supply, not affordability
- Labor supply, not income inequality

The real issue?

- The narrative is running amuck
- Political chaos in its wake leaving US policy rudderless

For a copy of slides,
please use the QR Code



Or contact:
Kristen@beaconecon.com

Get In Touch With Us:

Kristen@beaconecon.com
Beaconecon.com

- Economic Outlooks
- Revenue Forecasts
- Cost Projections
- Regional Development
- Housing Studies
- Impact Reports
- CEDS Analysis
- Policy Studies
- Industry Studies
- Labor Markets

