**Overheating?**

In the SCAG Economy

June 11, 2018

Mark Schniepp, Director

**“Overheating” What is it?**

Occurs when existing productive capacity is unable to keep pace with aggregate demand. Growth rises above the trend . . . . . .
“Overheating”

and price inflation results . . .

price level

rate of production

Real Median Household Income

1987 -- 2017

constant 2017 dollars

California

U.S.
Median Home Price Appreciation
SCAG Counties

2018

percent change

12
10
8
6
4
2

Imperial
Ventura
Orange
Riverside
San Ber'dino
Los Angeles

Higher Interest Rates Ahead
Unemployment Rate / Inland Empire
1982 - 2018

Unemployment Rate:
- 1982: 3.9%
- 2018: 3.9%

Median Weekly Earnings per Worker / U.S.
1993 Q4 – 2018 Q1

Median Weekly Earnings:
- 1993 Q4: $310
- 2018 Q1: $355

Constant Dollars / Week
Is the Economy Overheating?

(1) Inflation remains contained at the U.S. level
(2) . . . but is clearly moving higher regionally
(3) And most of the increase is due to housing
(4) There are other sectors of concern ~
   • Construction labor market
   • Apartment building downtown
   • Office building and office rents, L A County

Is the Economy Overheating?

• Housing prices appear to have overheated, but for fundamental reasons
  – Lack of inventory and a fully employed economy
• At the current rate of unemployment, the overall labor market should be overheating but is not . . .
  – A fully employed economy --> higher labor costs
  – Wage inflation has been relatively moderate
  – Some industry sector wages are rising more sharply than others
Average Wage Growth / L.A. County
2007 - 2017

- Professional and Technical
- Hotels and Restaurants
- Construction

Attendance at Disneyland / Anaheim
1999 -- 2017

18.2 million
Who Benefits?

- Working people, working families who are middle to upper income and need housing
- Tech workers
- Construction workers in all regions
- Skilled workers
- Homeowners who are selling
  - Because inventory is so scarce
Who Loses?

- Fixed income households
  - Face higher prices but incomes are constant
- Families wanting to go to Disneyland
- Home buyers
  - Home prices are at record levels in many cities and counties
  - Long-term mortgage rates are rising
- Residential Real Estate industry
  - Higher interest rates and higher housing prices are likely to reduce transactions

Existing Home Sales / Southern California
1998 - 2018 (January through April)
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