



Economic Update US & Monterey Bay Area

Regional Economic Outlook
Monterey Bay Economic Partnership

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NEED
May 1, 2025



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Outline

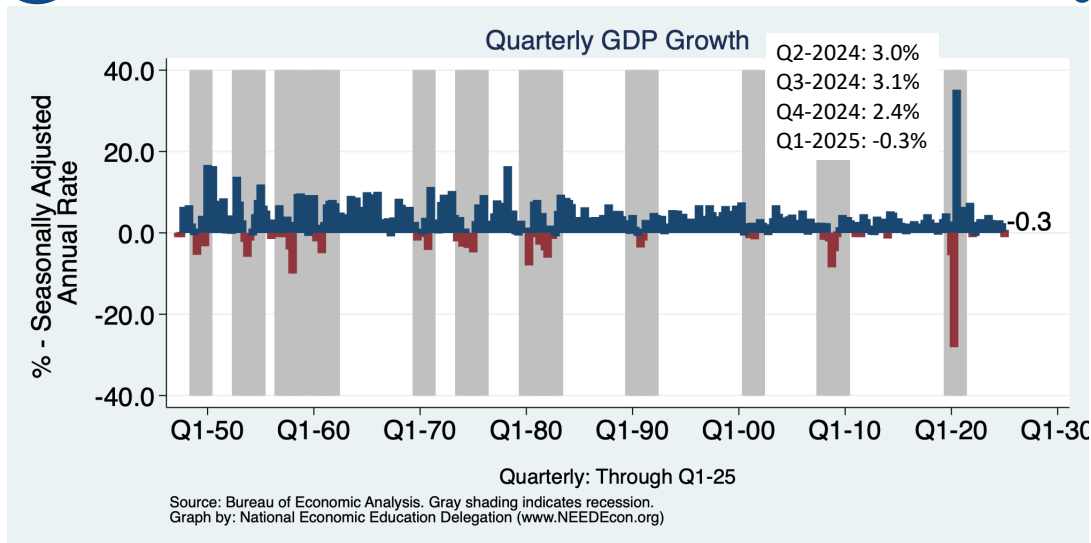
- Economic Indicators
- Big Picture: Uncertainty
- The Local Economy

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Economic Indicators

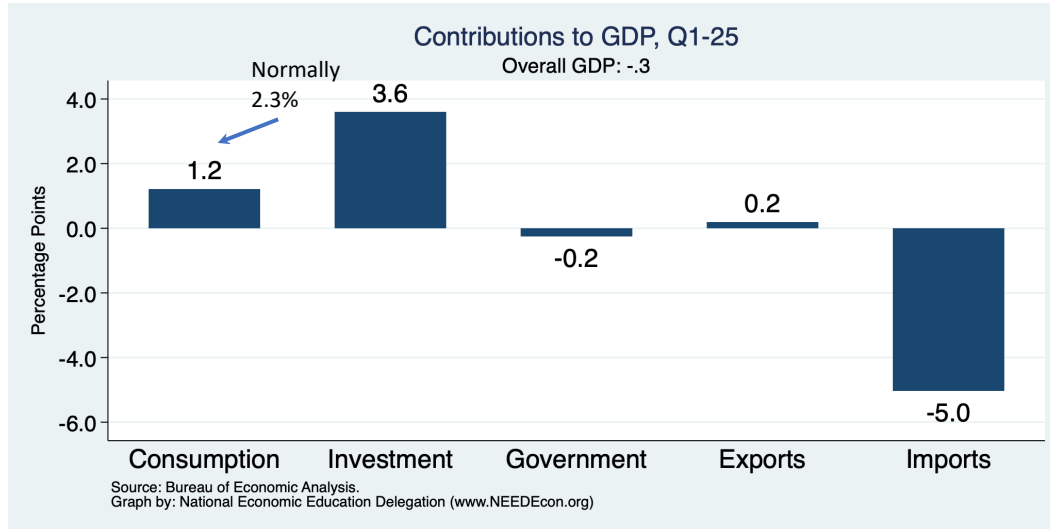
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GDP: Quarterly Growth



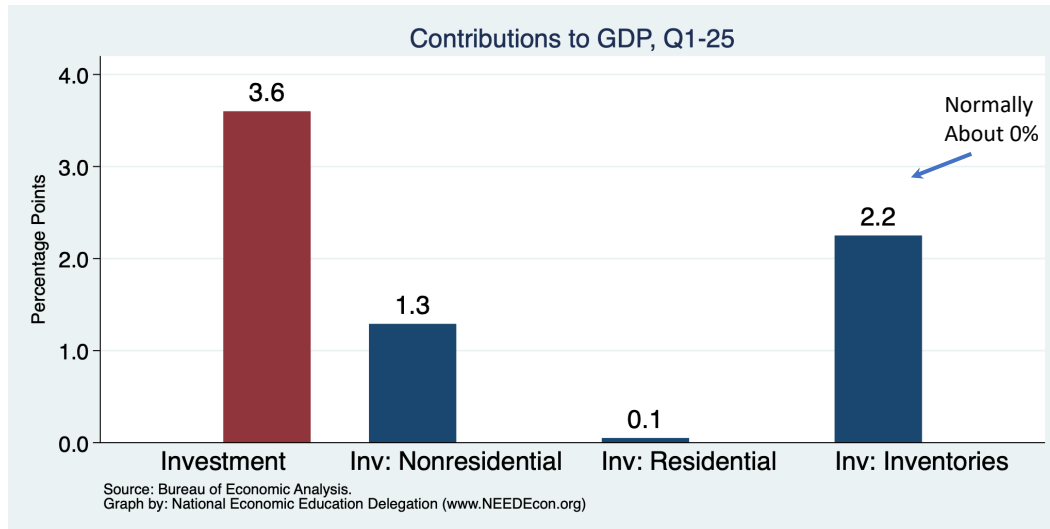
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What Drove GDP to Such Growth?



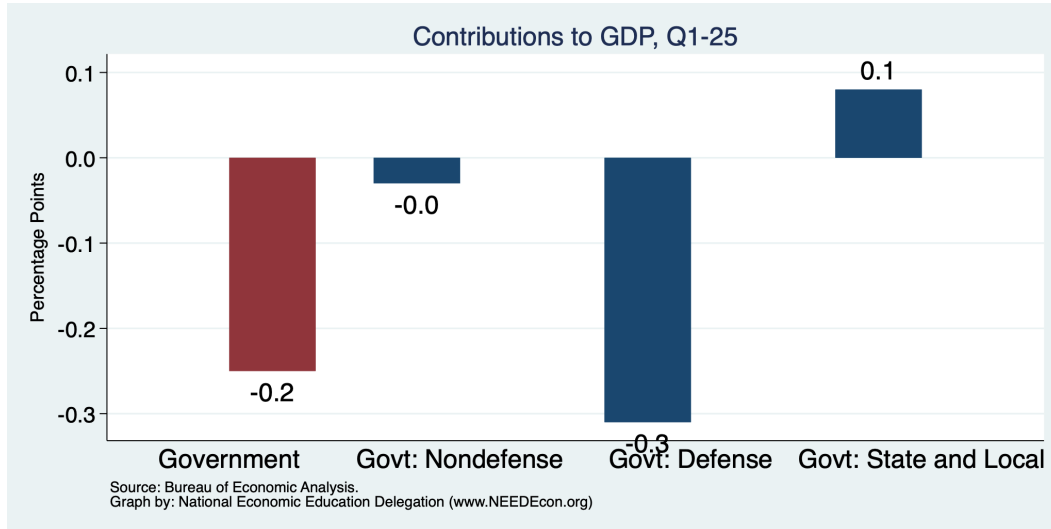
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Imports Went Into Inventories



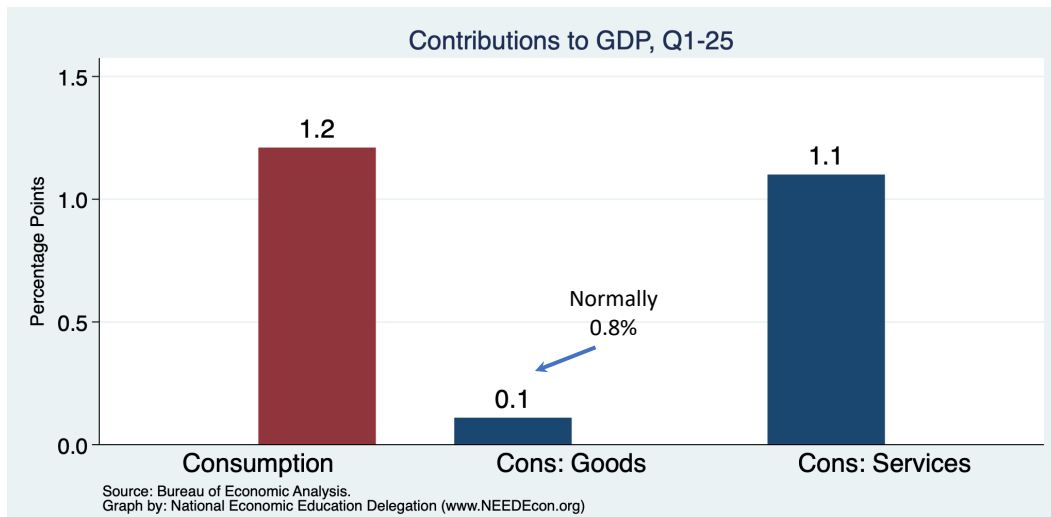
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Government Spending Didn't Help



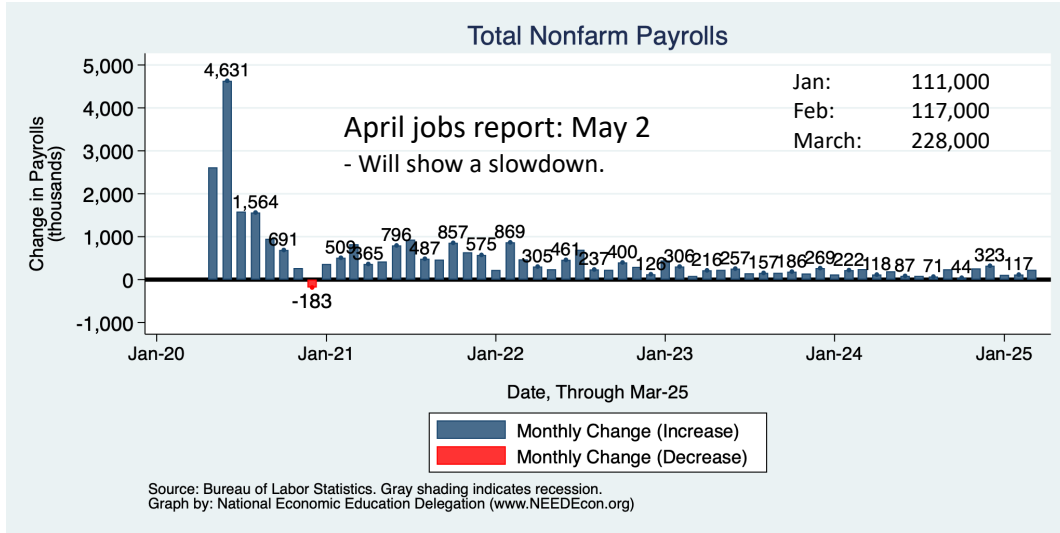
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Consumers Also Tightened

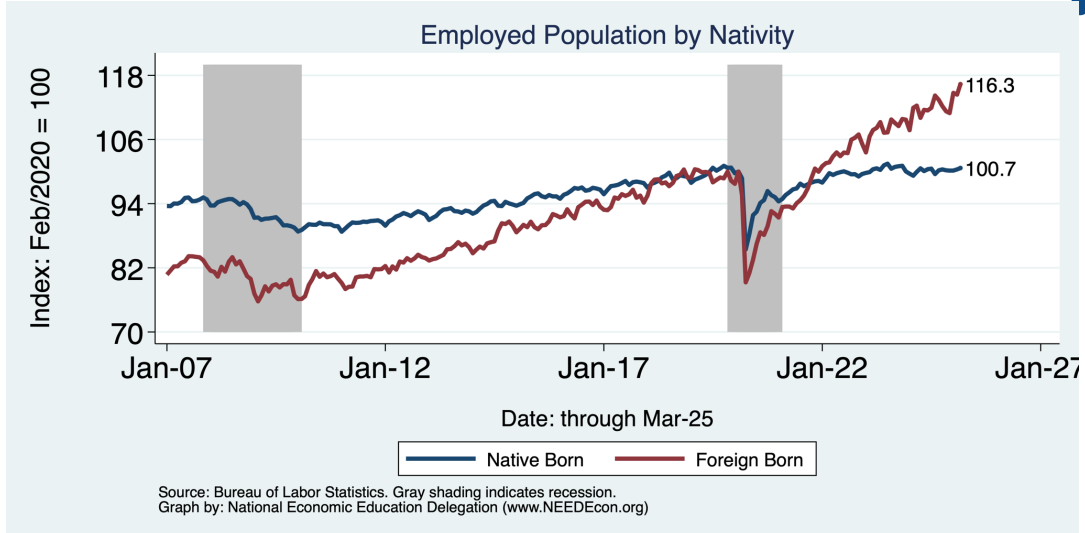


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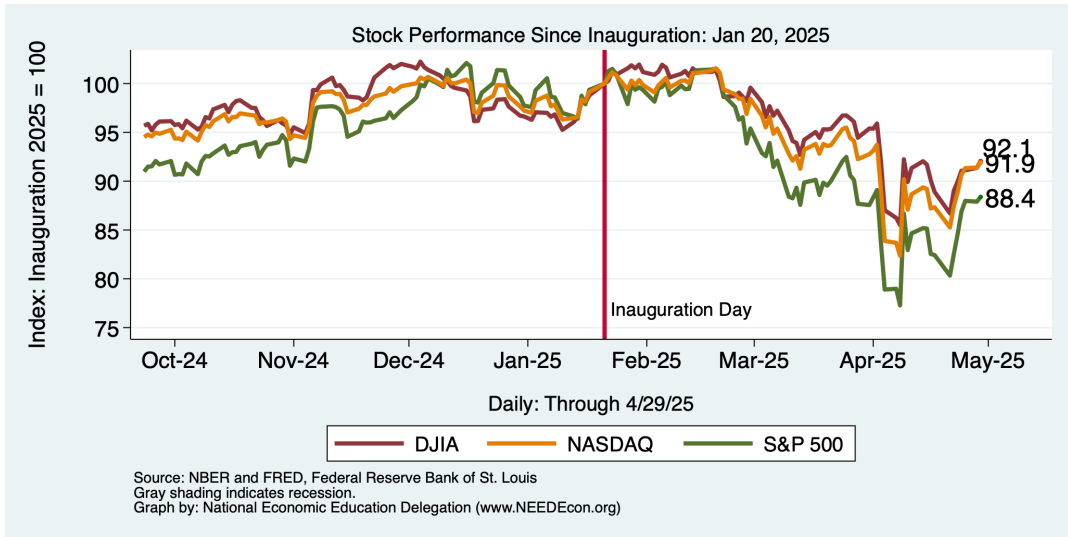
Monthly Changes in Nonfarm Employment



Immigrants to the Rescue?



And Stocks?



Inflation

Inflation: Latest Figures



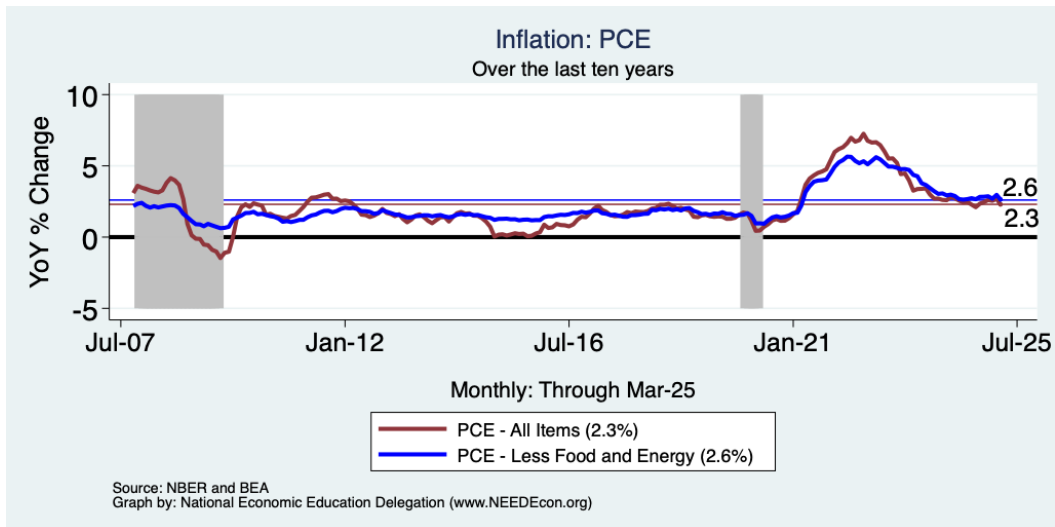
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Source: NYTimes.com

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Fed's Preferred Measure: PCE

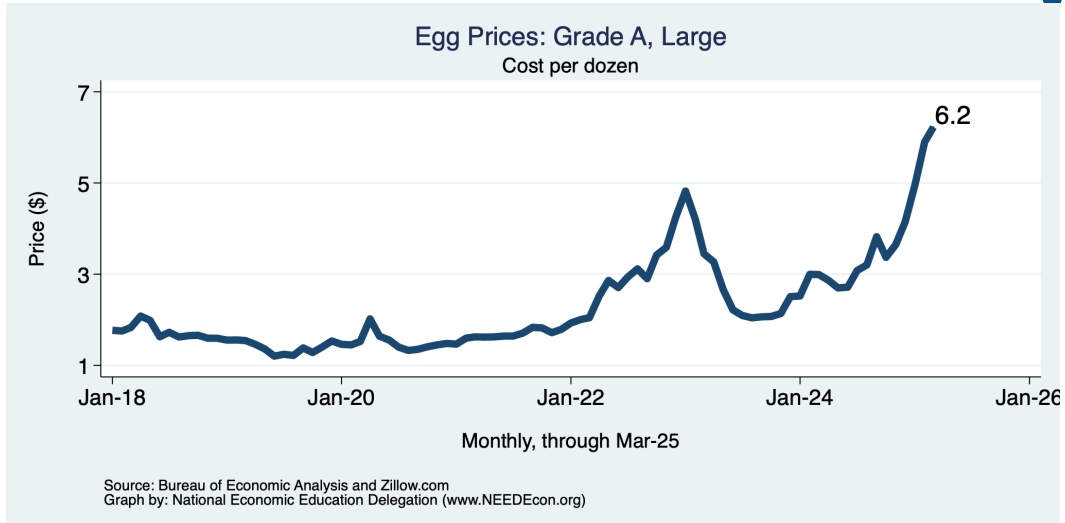


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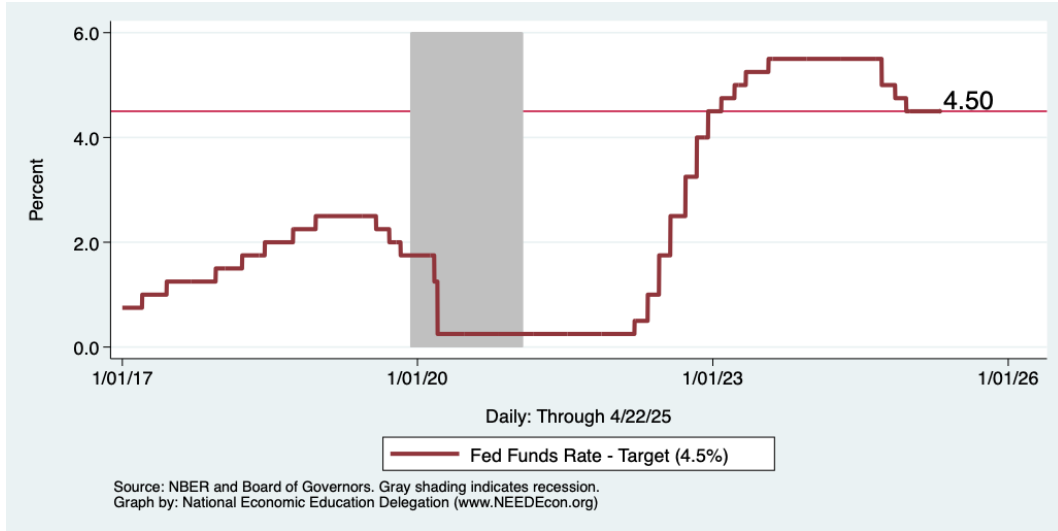
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Price of Eggs?



The Fed: Conservative

Federal Funds Rate



What will the Fed Do?

- Likely sit tight at 4.5 for a while.
- Next FOMC meeting is May 6-7.

Takeaways

- **Is a recession on the horizon?**

- Maybe.
- Many indicators are in the black.
 - 2024 2nd half GDP growth was pretty good – 2.8% YoY.
 - 2025 Q1 < 0 is almost meaningless.

- **The problem?**

- Uncertainties abound!



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Uncertainties

- **Federal Government Policies**

- How far will they go with immigration?
- How many federal employees will be laid off?
- How high will tariffs remain?
- Will Fed Chair Powell be replaced prematurely?




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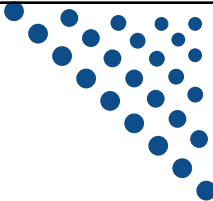


Bigger Picture

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Since Inauguration: Policies = Anti-Growth

- **Deportations**
- **Tariffs**
- **Cuts to spending and employment**
- **Threats to Fed Chair Powell**

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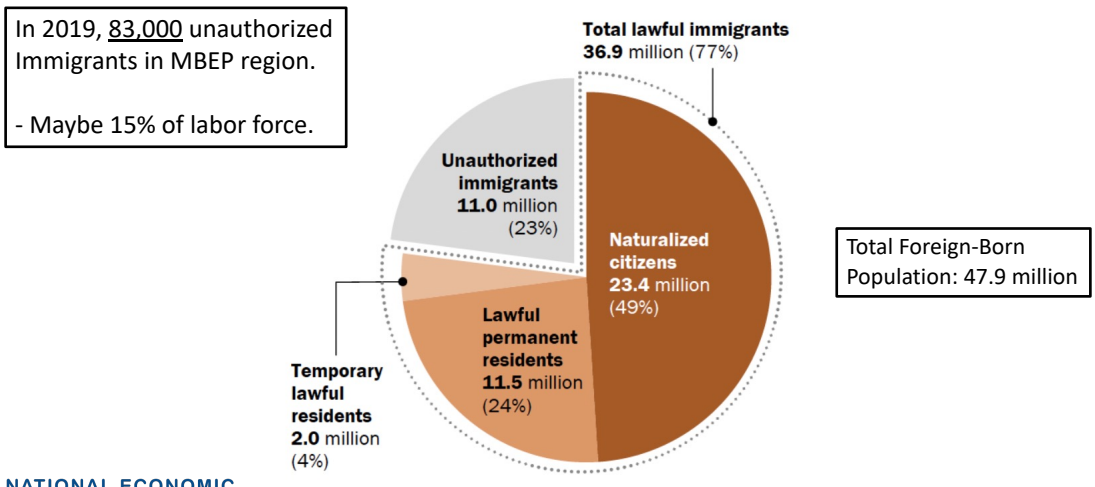
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Immigration

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Unauthorized immigrants were 23% of the U.S. foreign-born population in 2022

Foreign-born population estimates, 2022



Source: Pew Research Center, What we know about unauthorized immigrants living in the U.S., July 22, 2024

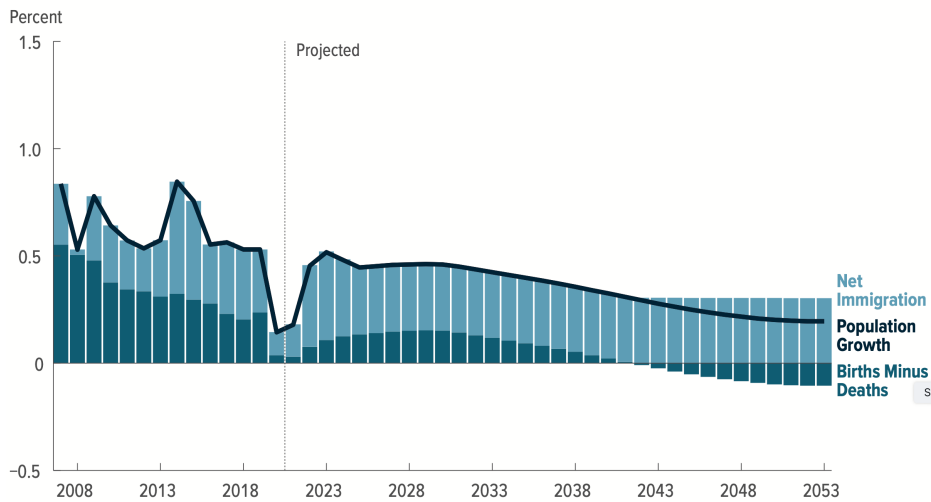
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Why Do We Care? Economic Implications

- Conventional Wisdom Issues:
 - Labor markets: Wages and Jobs
 - Government Revenue and Spending
 - Crime
- Other issues (that don't get talked about much):
 - Gross Domestic Product (GDP)
 - Innovation and Entrepreneurship

Is Immigration Saving the Day?

Population Growth and Its Underlying Factors



Jobs: Conventional Wisdom...Upended

- **What is the conventional wisdom?**

- Low-skilled immigrants come in and take jobs from low-skilled native-born individuals.
 - o 1-1 tradeoff.

- **What does new research show?**

- Low-skilled immigrants contribute positively to the economy.
 - o Every 100 low-skilled immigrants: create 9 jobs for low-skilled native-born.
 - o They create opportunities for low-skilled native-born workers.
- Low-skilled immigrants take jobs that native-born don't want.



Mass Deportations

- **Immigrants work different jobs than do native-born workers.**

- **Immigrants contribute to the local economy.**

- GDP losses of up to \$1.7 trillion annually.

- **Immigrants keep prices low: in particular, food!**

- **Deportations impact tax revenues.**

- \$1,300 more in on average than out, annually.
- Unauthorized immigrants: \$22.6 billion in social security and \$5.7 billion in Medicare payments.

- **Deportations are expensive (\$13,000 each).**

- Total cost \$315 billion.

- **They rob people of their dignity.**



Tariffs



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Why Are We Imposing Tariffs?

- **Raise government revenues.**
 - Laffer curve effect – high tariffs = low revenues.
- **Unfair treatment of our exports.**
 - There is some merit in this, especially wrt China.
- **Close the trade deficit.**
 - There is no merit in this. Tariffs don't do this.
- **Bring manufacturing back to the U.S.**
 - Actually seems improbable.



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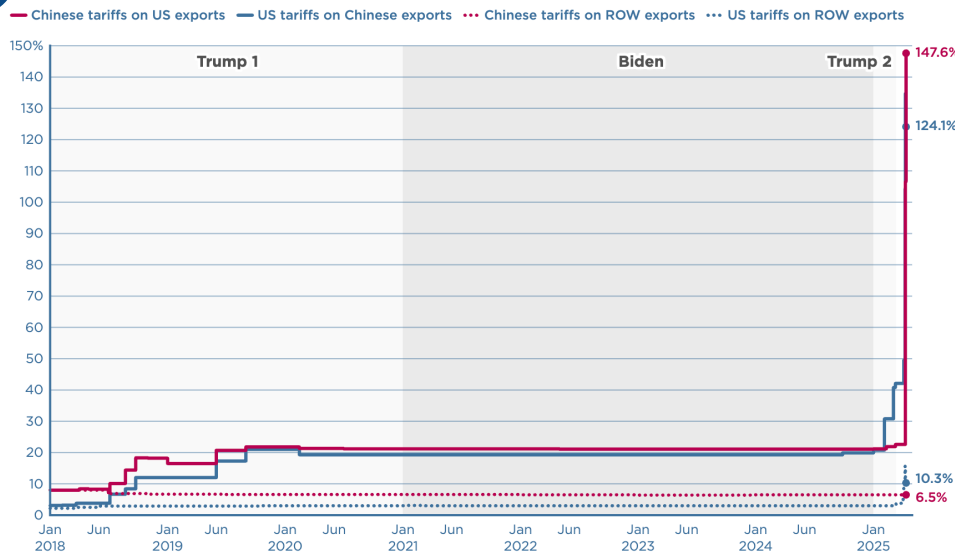
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What Is a Tariff?

- **A tariff is a tax on imports.**
- **Much like, say, the 8% sales tax in California.**
 - Whatever price the seller charges, the buyer pays an extra 8% that goes to the government.
 - But it also means that domestic sellers can simply raise their prices by 8%.
 - A cost to consumers, with no government revenue benefit.
- **A 10% tariff on all imports (such as Trump has imposed) would mean that:**
 - Whatever the foreign exporter charges for a product,
 - US buyers will pay an extra 10% to the US government.
- **Might the seller charge a lower price because of the tariff?**
 - Perhaps, but when Trump used tariffs in 2018 on steel and China, they did NOT.

Where Are Tariffs Today?



Economic Effects of A Tariff

- Economists' cost-benefit analysis quantifies these and shows that the costs exceed the benefits.
- A tariff on one good can harm other industries.
- A tariff on one country just causes displacement to another country.
- Tariffs are NOT an effective tool to reduce the trade deficit.
- Tariffs are NOT a good way to raise government revenue.
- Retaliation from other countries makes tariffs even worse.
- Corruption: tariffs can be selectively reduced.



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Likely Economic Effects

- Reduced imports
- Higher prices for imports
 - And domestically produced goods.
- Reduced exports
- Unchanged trade balance
- Less investment in the United States
- LESS manufacturing activity
- Lower incomes throughout the economy.



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Summary

- **Inflation: close to Fed's 2% target, but a little stubborn.**
 - This is likely to change.
- **Current immigration and trade policies will exacerbate inflation.**
- **Immigration: deportations tax the economy and are expensive.**
 - Many, many ag workers are unauthorized immigrants.
- **Tariffs: are a tax.**
 - Taxes raise prices. Period. Full Stop.
 - Taxes often cost jobs. Tariffs likely will.



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Biggest Problem: Uncertainty

- **Nobody knows how to plan into uncertainty.**
 - Business investment is particularly at risk.
- **Hardly anybody increases spending into uncertainty.**
- **Other countries will look elsewhere if the U.S. is volatile.**
 - Tourists already are. 10.3% drop in March/25.
- **Outlook: is not good.**
 - Inflation is inevitable.
 - Job losses are inevitable.



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Are We Headed for A Recession?

- Uncertain.
- Our current path has many forecasters indicating that a recession is more likely than not.
 - IMF has cut it's U.S. growth forecast to 1.7%, down from 2.8% in 2024.
- We may well already be in a recession (but probably not).
- A slowdown in economic growth is inevitable.
- A bout of stagflation is possible.



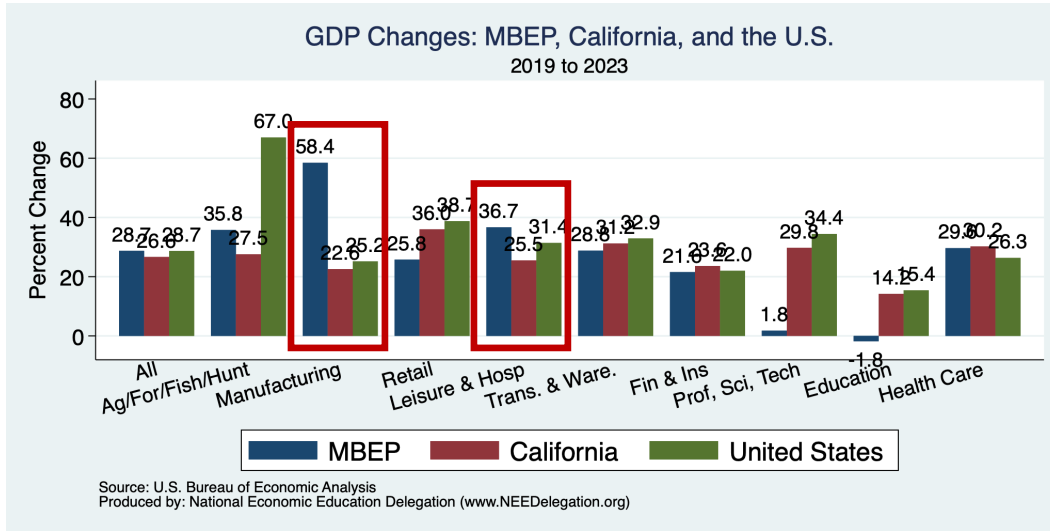
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Locally

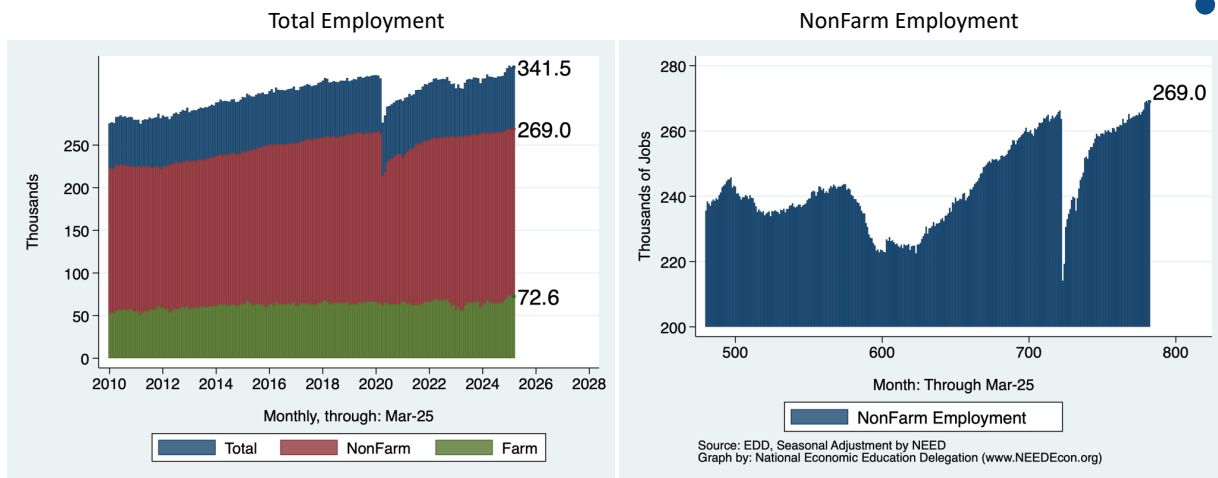


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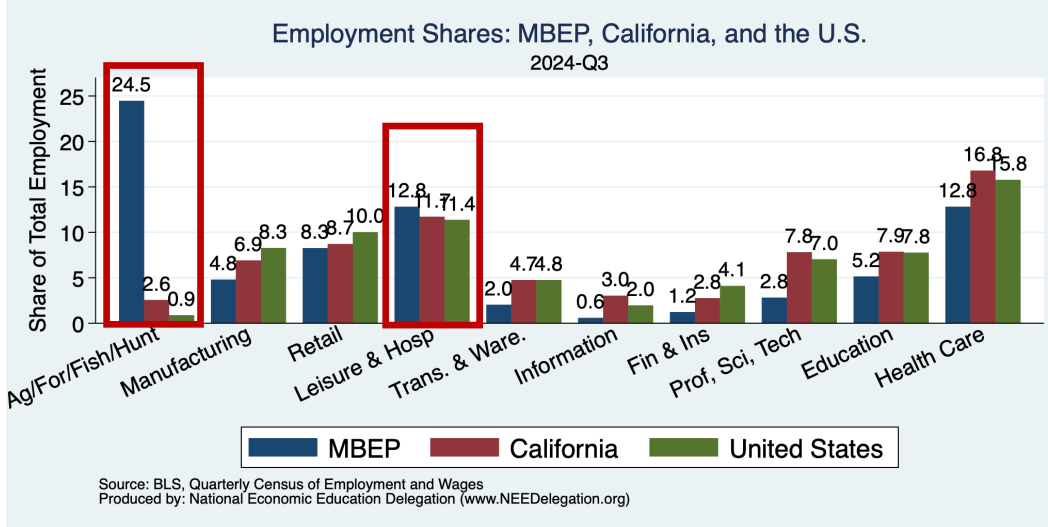
MBEP Economy: GDP Growth



Employment Recovery

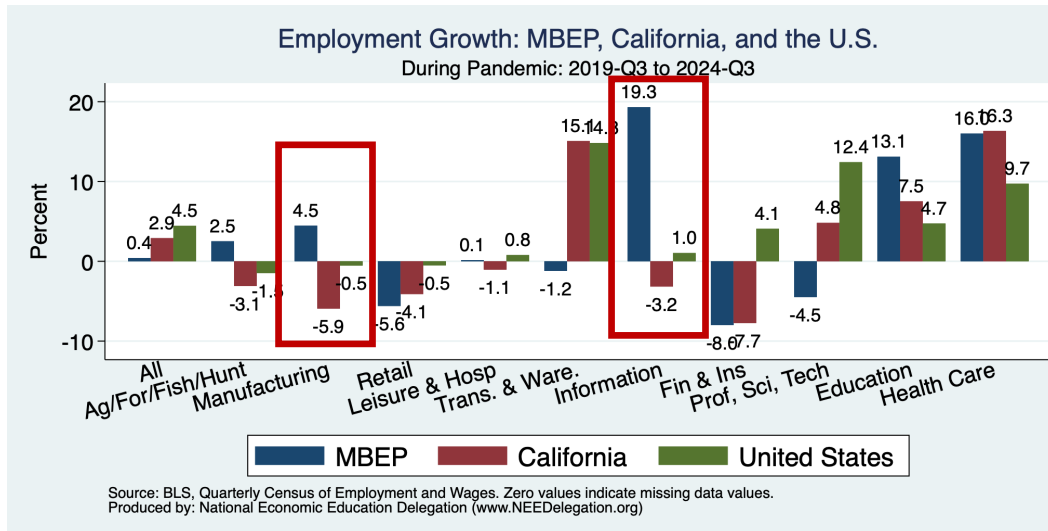


MBEP Economy: Employment Patterns



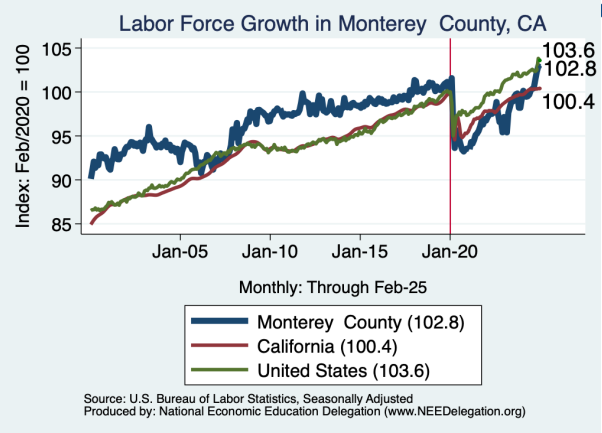
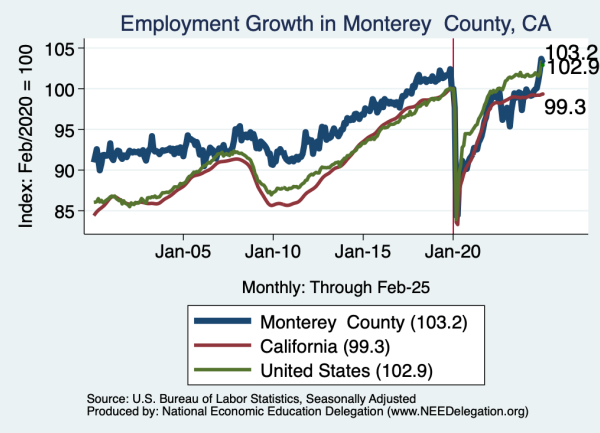
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The Pandemic Effect: Employment

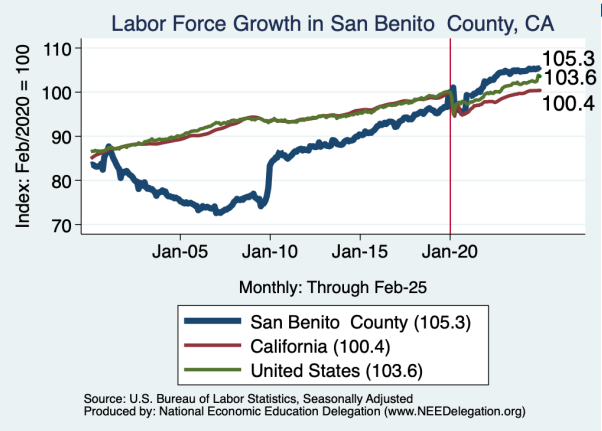
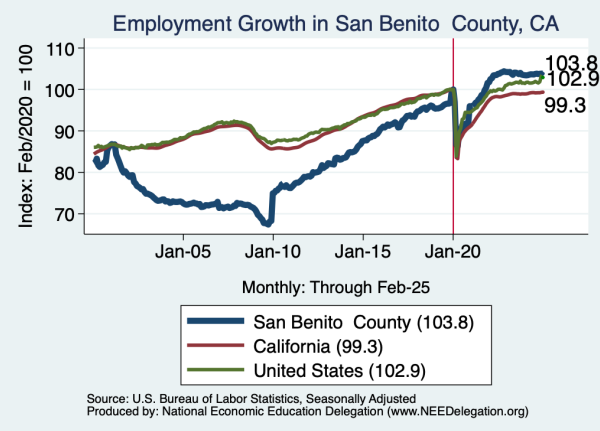


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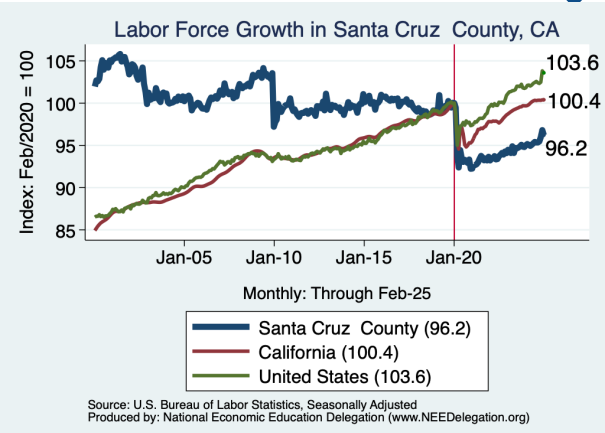
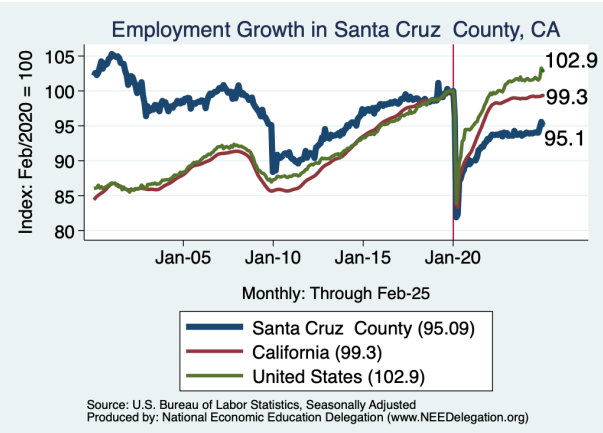
Employment in Monterey County?



Employment in San Benito County?

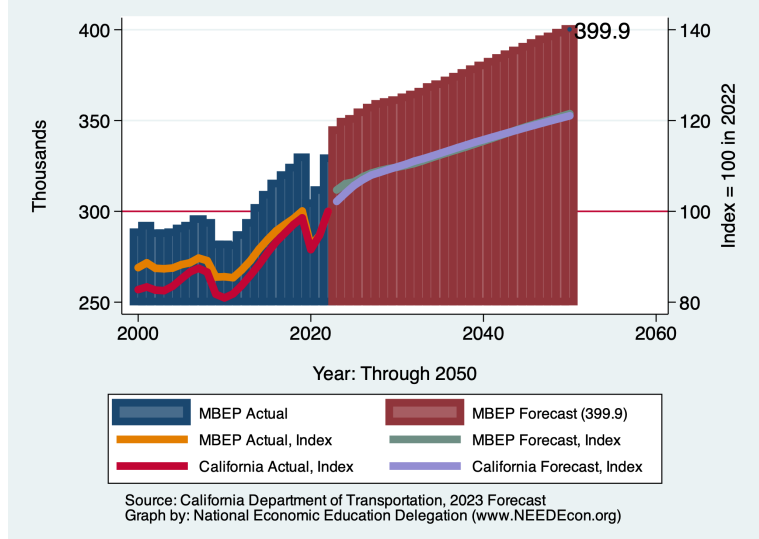


Employment in Santa Cruz County?



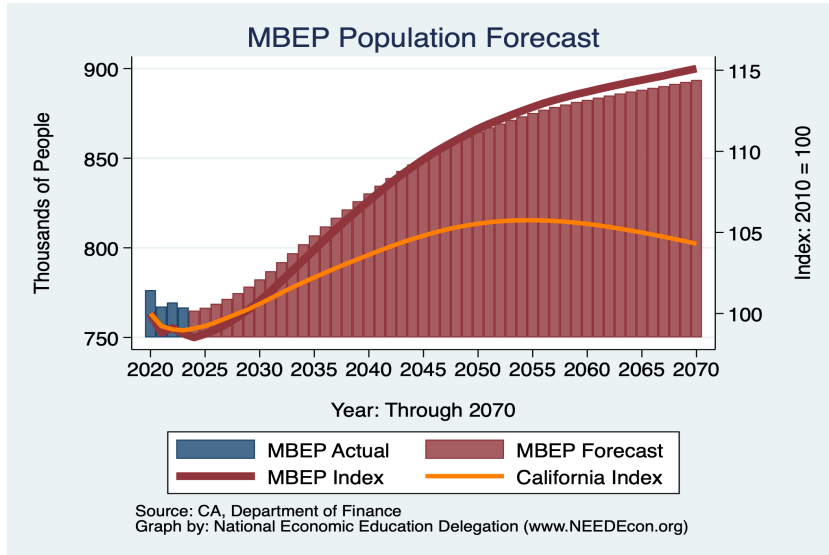
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DOT Forecast: Employment

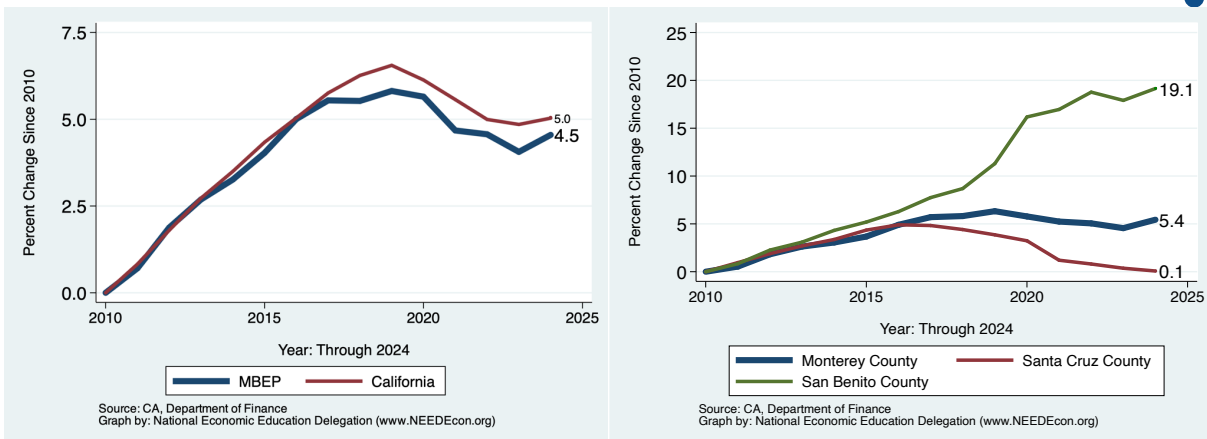


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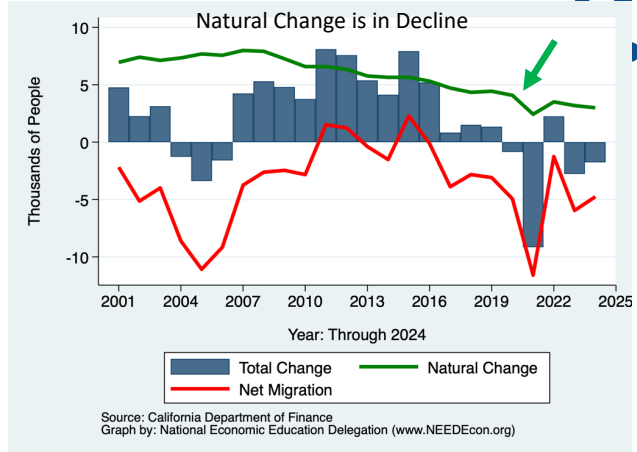
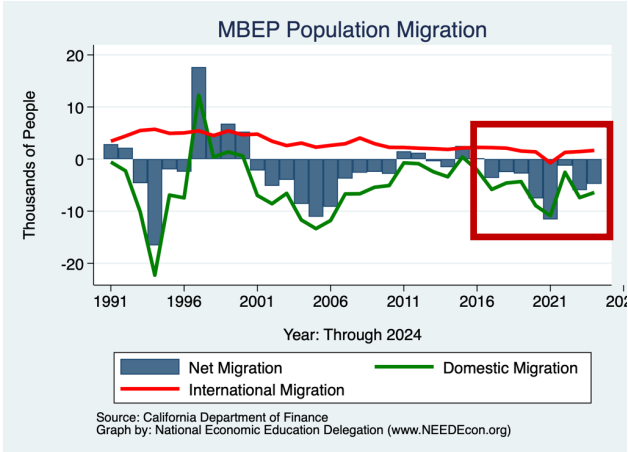
DOF Forecast: Population



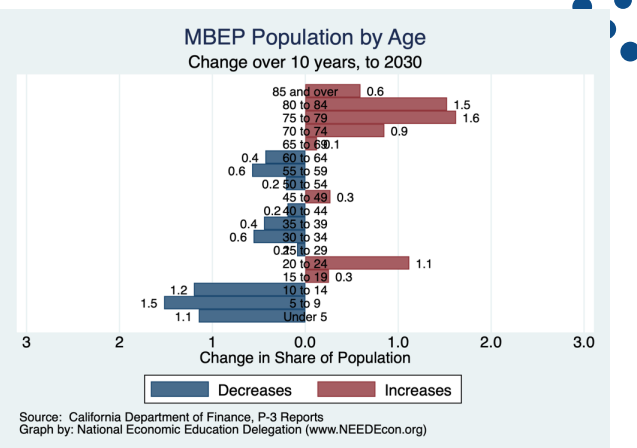
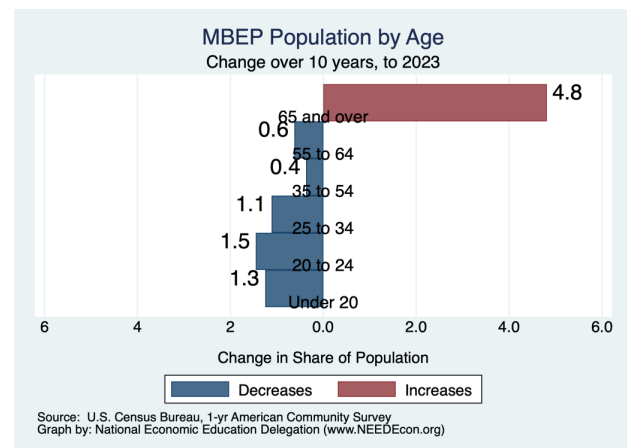
Local Population Change



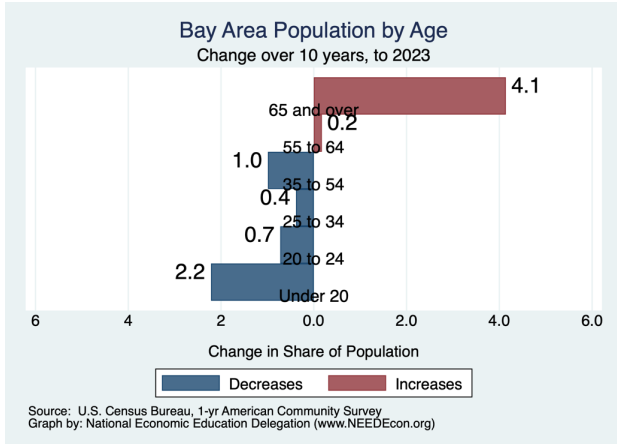
Monterey Bay Area Migration Patterns



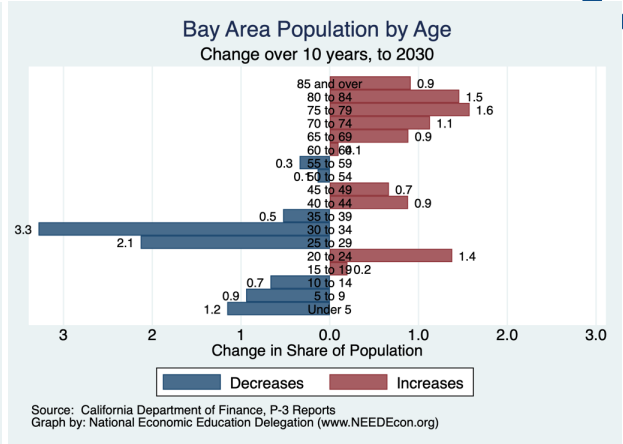
MBEP Population Change



Bay Area Population Change



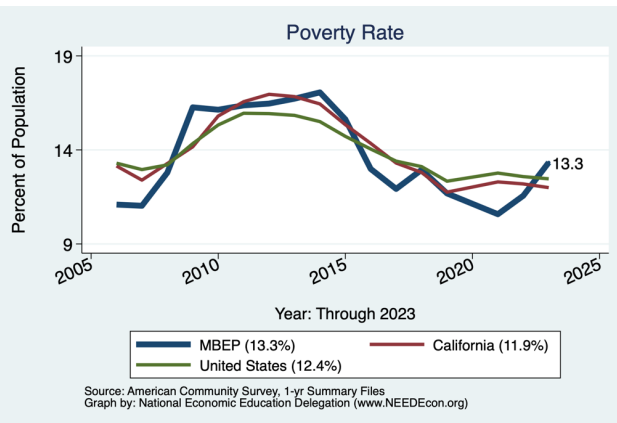
Source: U.S. Census Bureau, 1-yr American Community Survey
Graph by: National Economic Education Delegation (www.NEEDEcon.org)



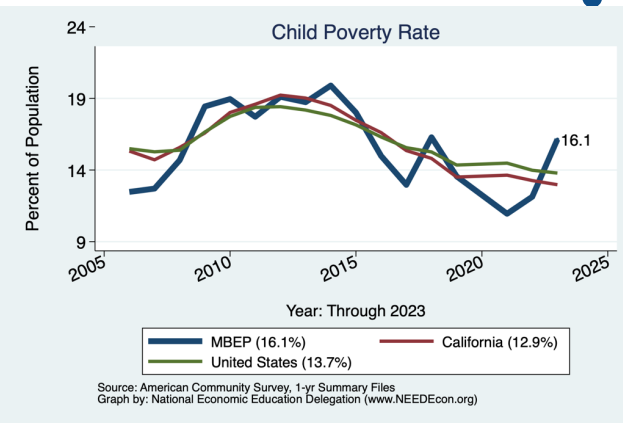
Source: California Department of Finance, P-3 Reports
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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MBEP Poverty



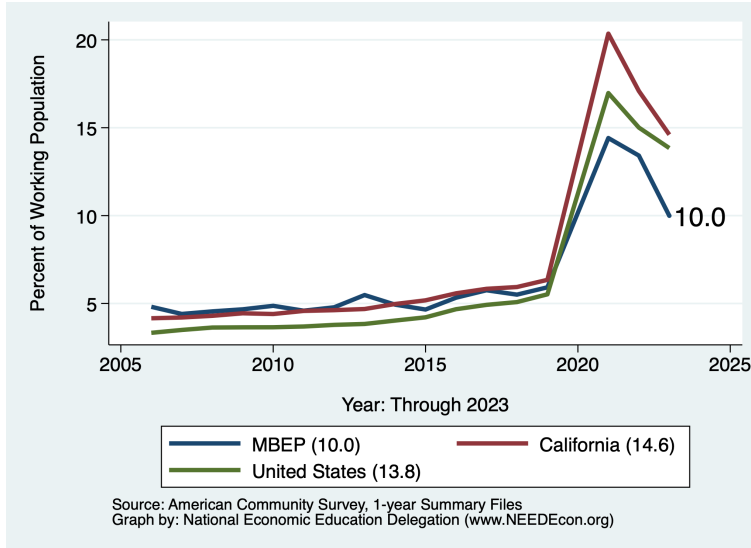
Source: American Community Survey, 1-yr Summary Files
Graph by: National Economic Education Delegation (www.NEEDEcon.org)



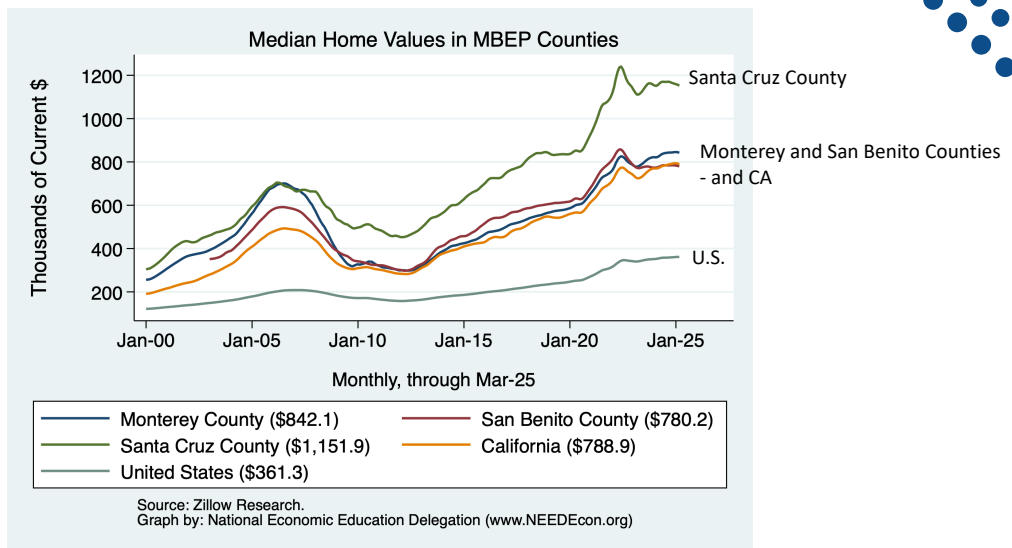
Source: American Community Survey, 1-yr Summary Files
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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Working From Home



Home Prices Around MBEP



Monterey Bay Area: Summary

- **Home prices have returned to trend growth.**
- **Aging population will require in-migration to grow the local economy.**
 - However, recent years have seen more out-migration than in.
- **Employment recovery is picking up pace!**
 - Significant growth in manufacturing and information.
 - Prospects for employment growth seem favorable.
- **Poverty rates are increasing.**
- **Deportations will likely strain the local economy.**



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Thank you!

Any Questions?

www.NEEDecon.org

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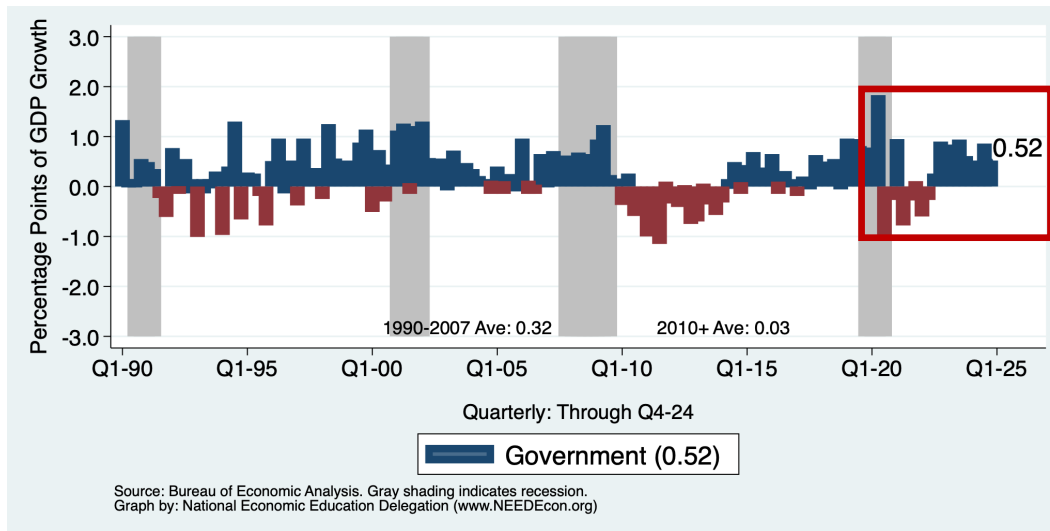
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www.NEEDEcon.org/LocalGraphs

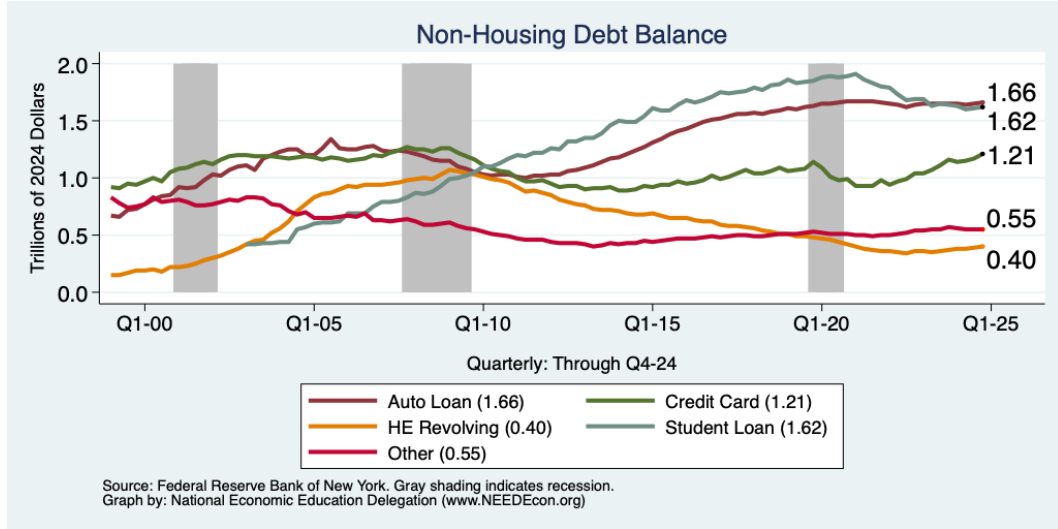
For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.



Contributions to GDP: Government

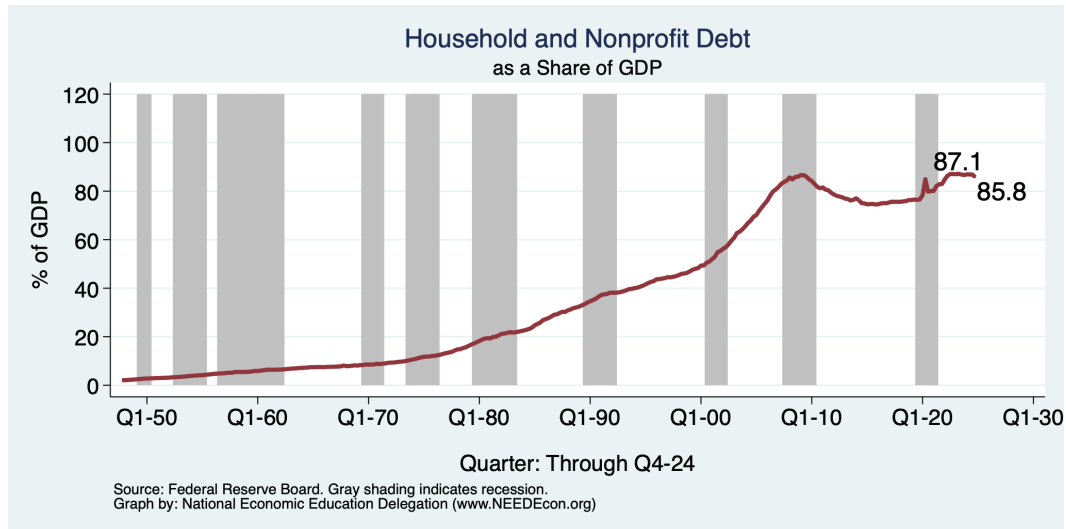


Household Debt: Non-mortgage Sources



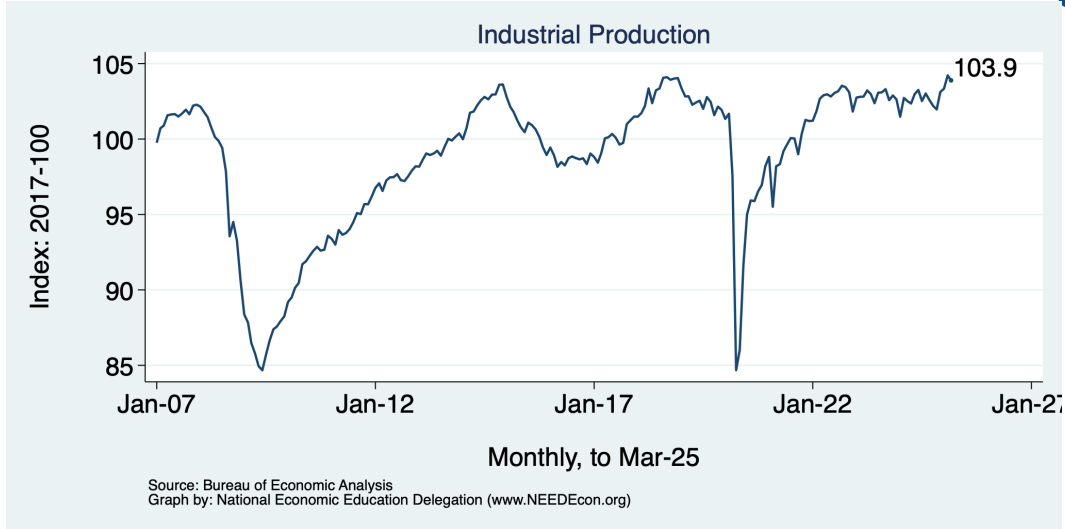
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Household Debt as a Share of GDP

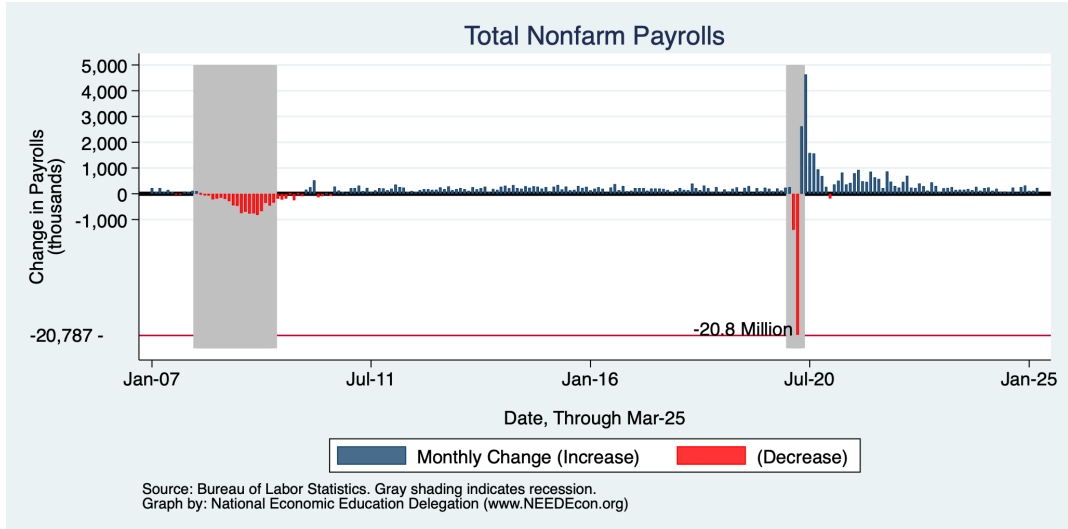


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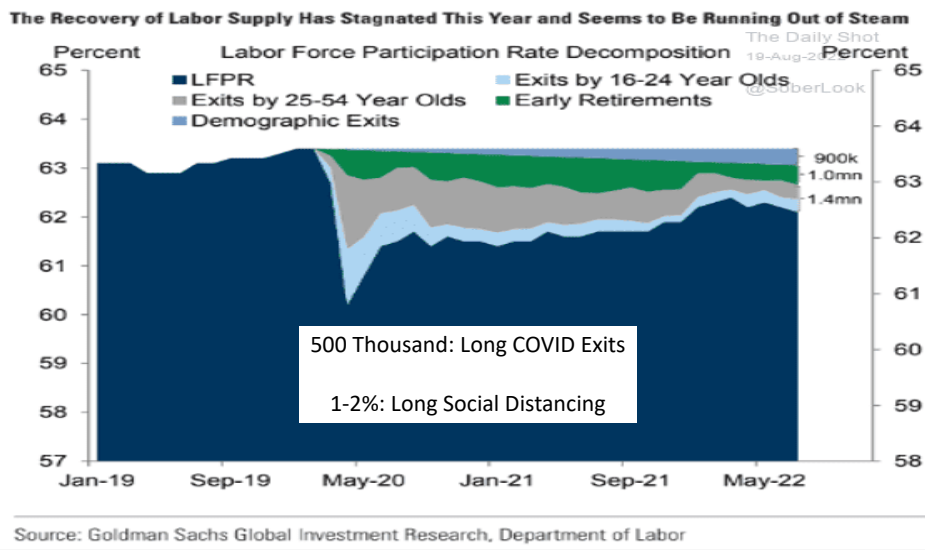
Industrial Production (Manuf, Util, Mining)



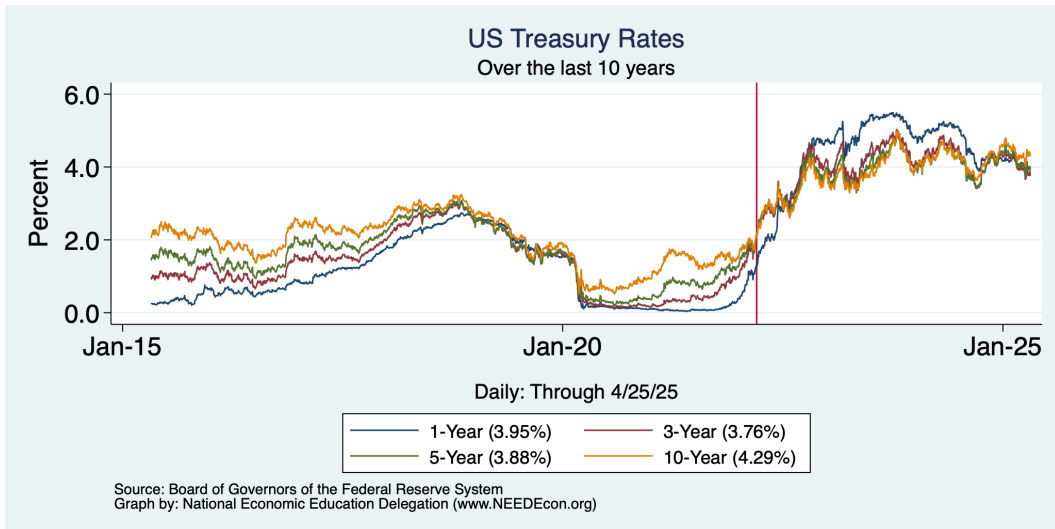
Monthly Changes in Nonfarm Employment



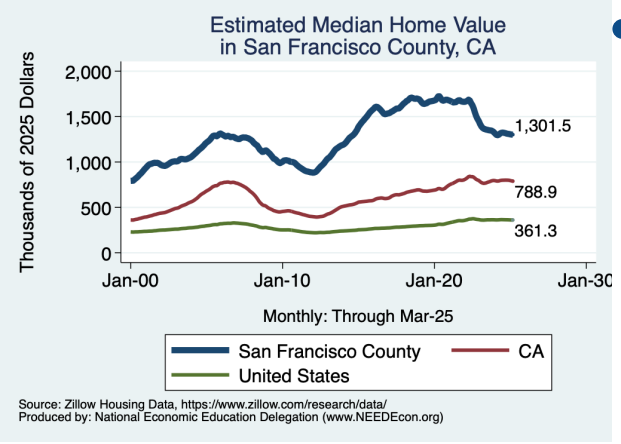
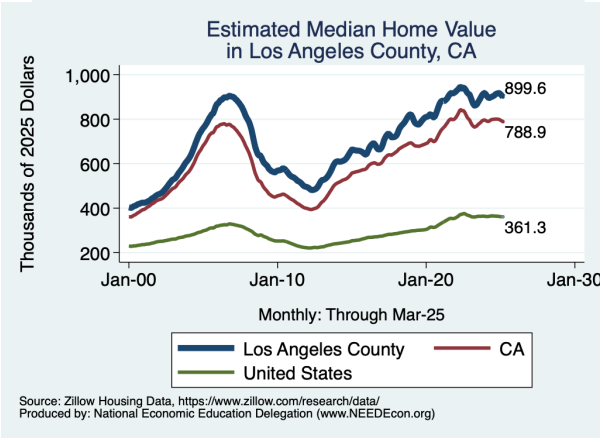
Some Explanations



Treasuries

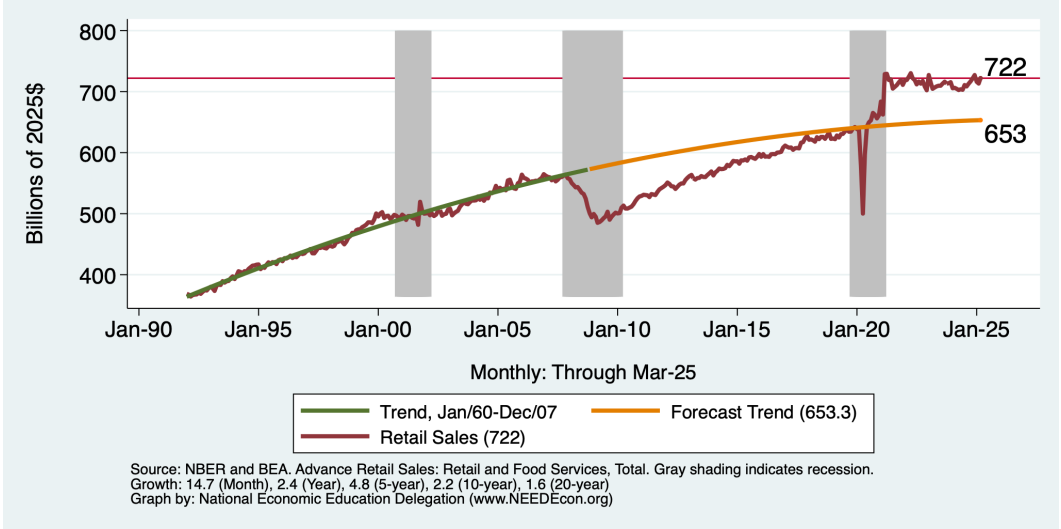


Home Prices ... Down Throughout CA



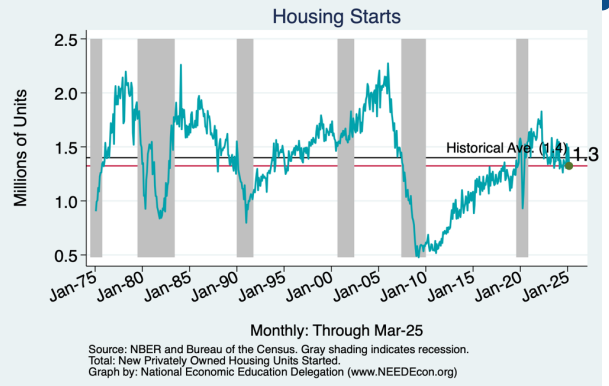
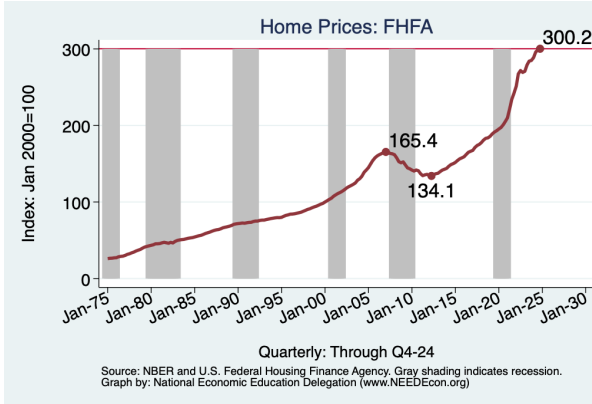
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But SUPER High to Begin With!

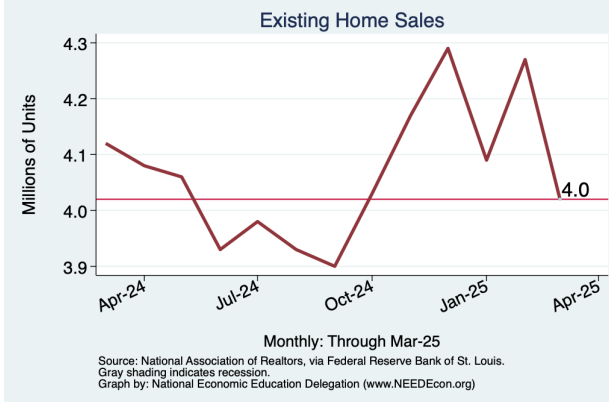
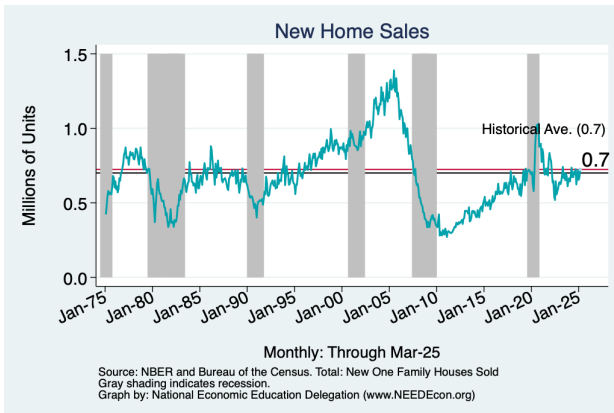


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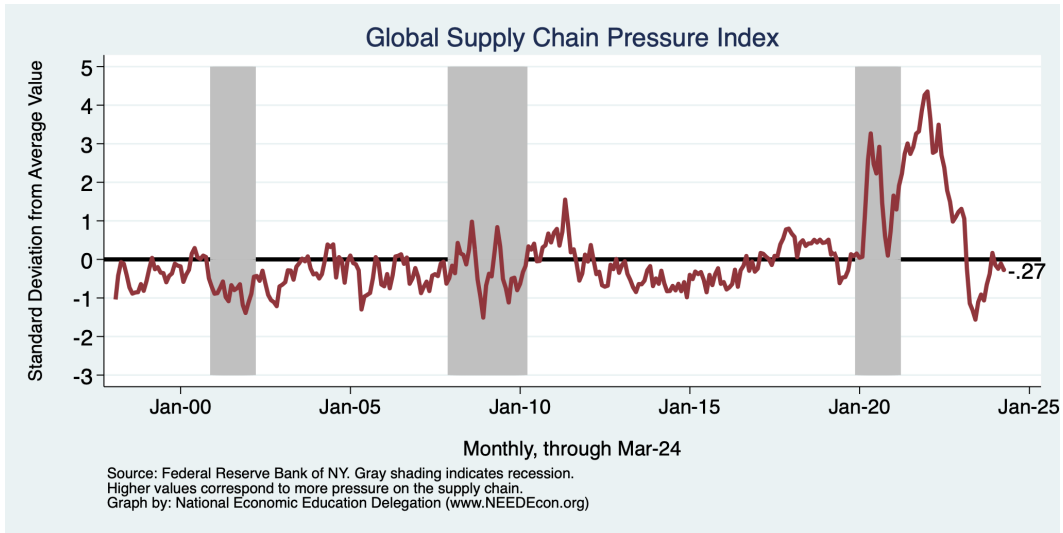
Home Prices and Housing Starts



Home Sales are Not Horrible



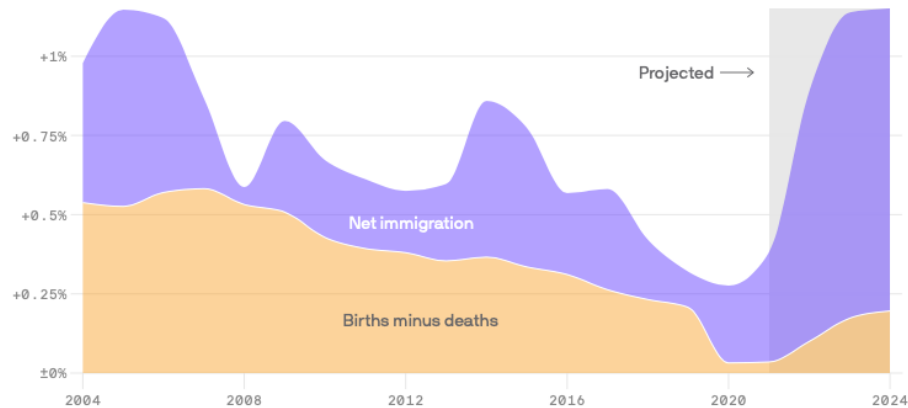
Supply Chains



Is Immigration Saving the Day?

Demographic factors in U.S. population growth

Annual population change 2004-2024



Data: The Brookings Institution via Congressional Budget Office; Graphic: Rahul Mukherjee / Axios

The “Nominal” Side

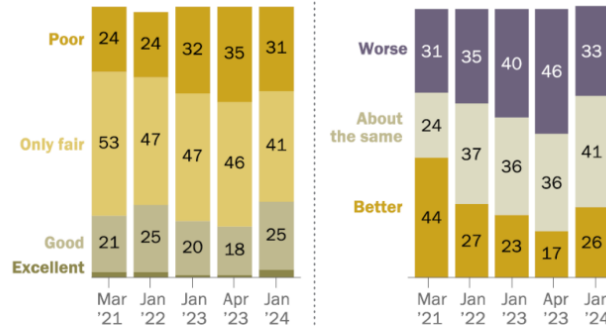
Views of the nation's economy | Pew Research Center

Modest improvement in national economic outlook

% who say that economic conditions in this country today are ___

% who say they expect that economic conditions in the country will be ___ a year from now

- Inflation: A lot of progress on inflation, but the recent data are troubling.
- But, this is not the popular view



Note: No answer responses are not shown. Refer to the topline for full trend.
Source: Survey of U.S. adults conducted Jan. 16-21, 2024.

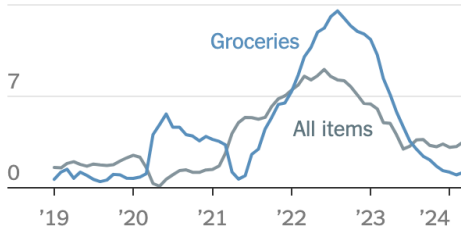


PEW RESEARCH CENTER

Change in prices from a year earlier in select categories

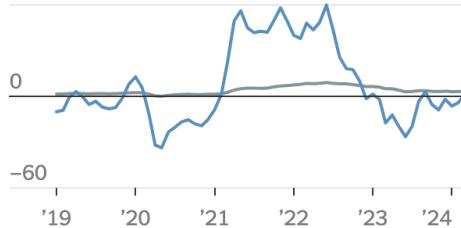
Groceries

+14%



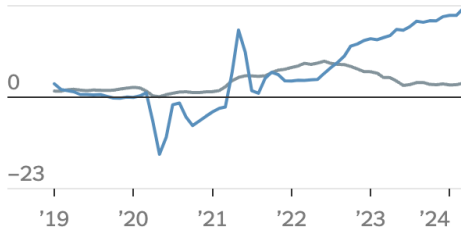
Gasoline

+60%



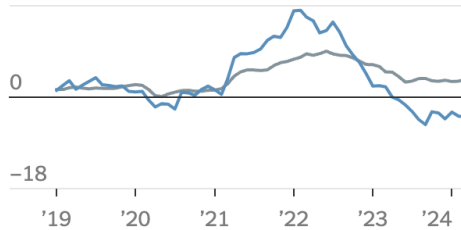
Car insurance

+23%

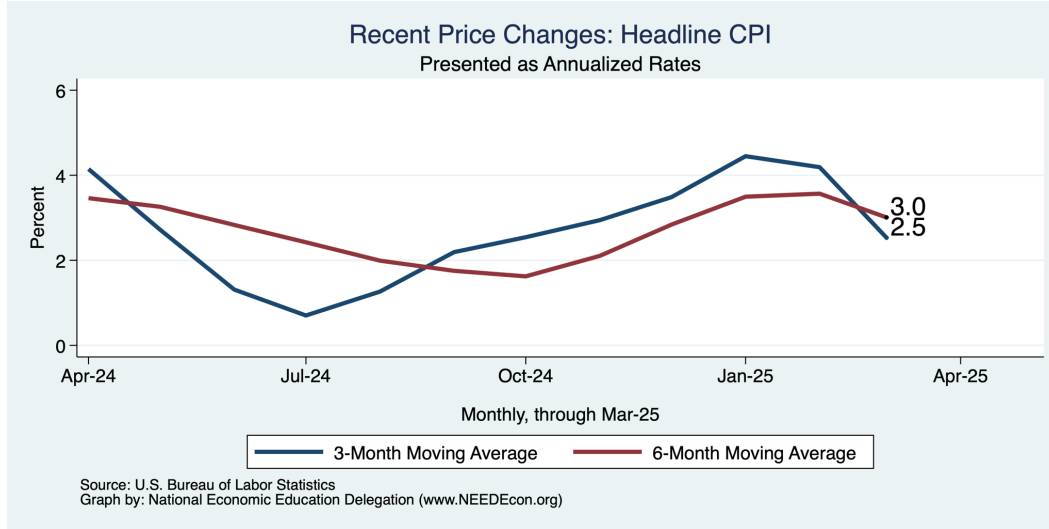


Furniture

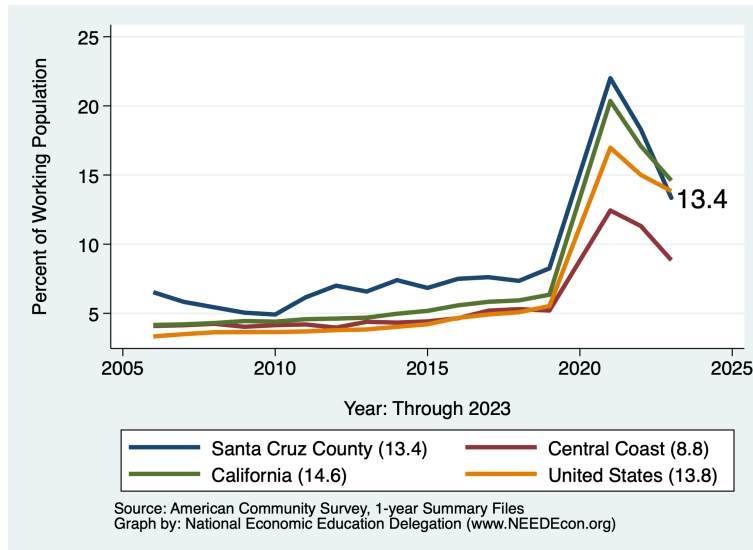
+18%



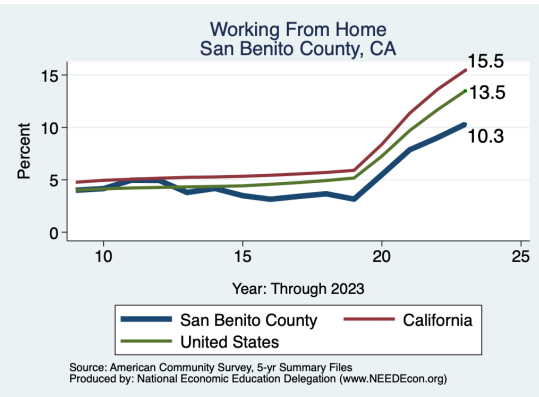
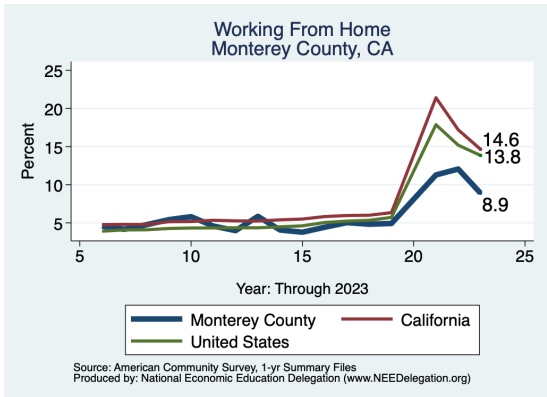
Inflation in the Last 3/6 Months – Still 3%



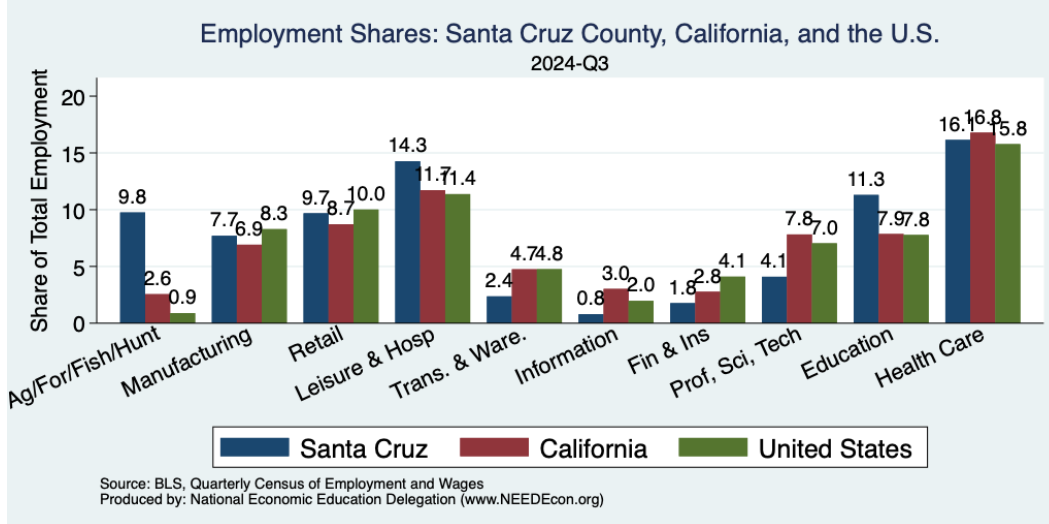
Working From Home



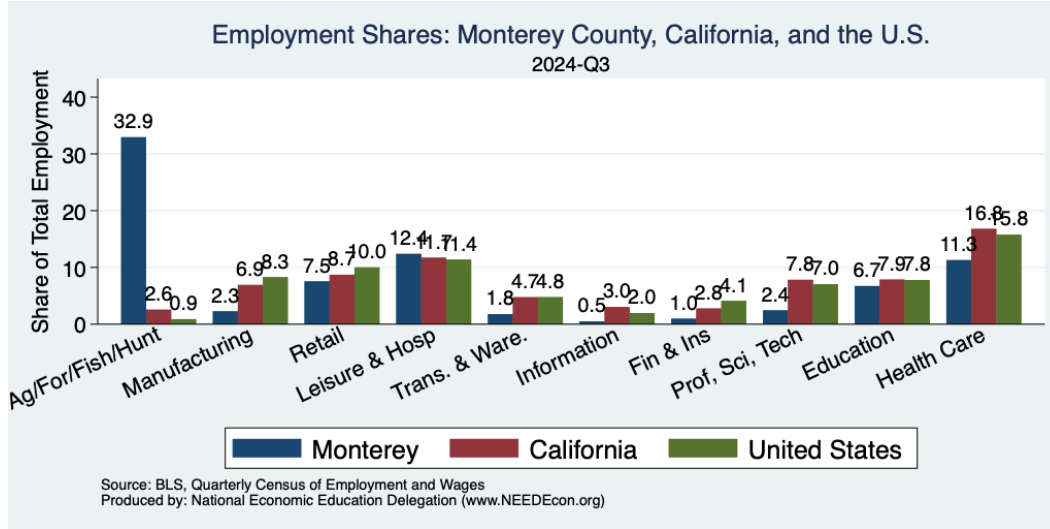
Working From Home



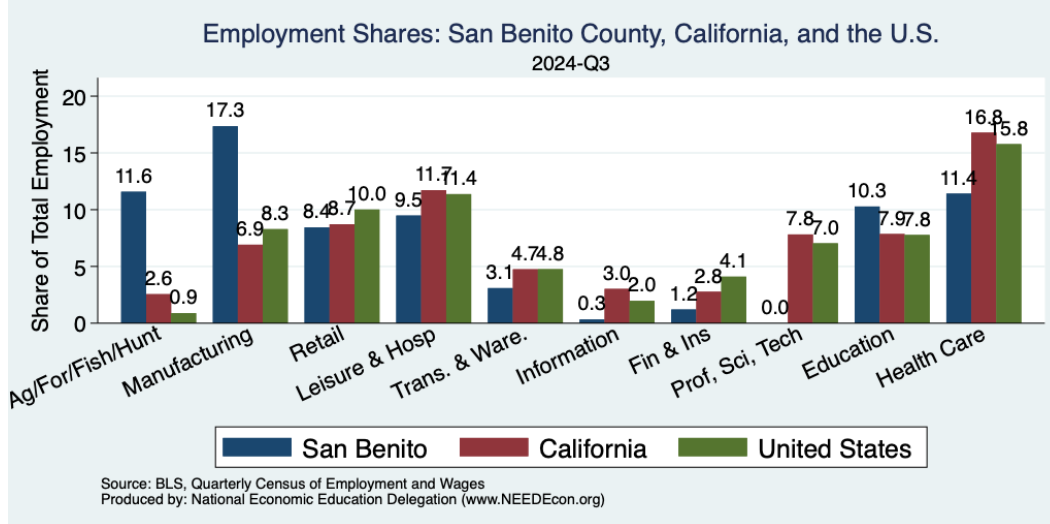
Santa Cruz Economy: Employment



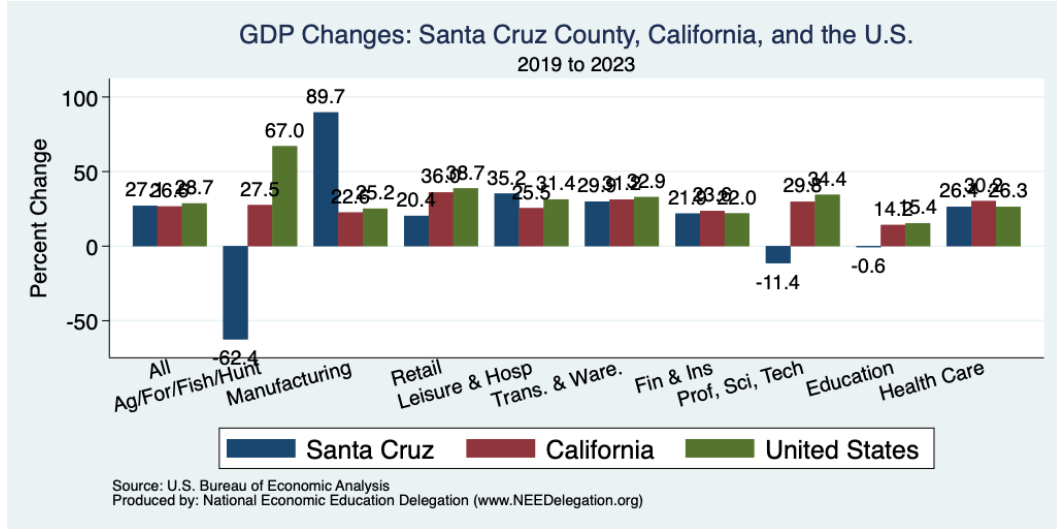
Monterey County Economy: Employment



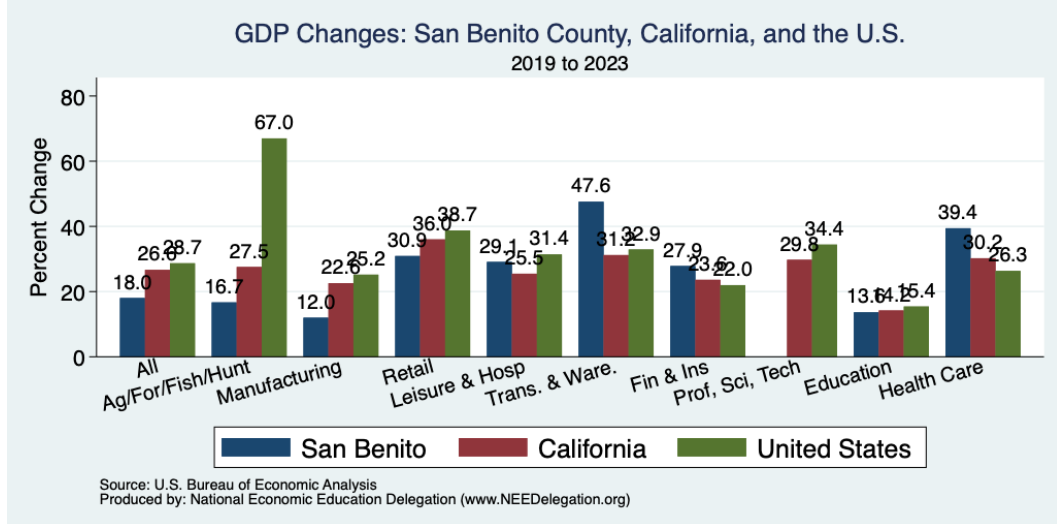
San Benito County Economy: Employment



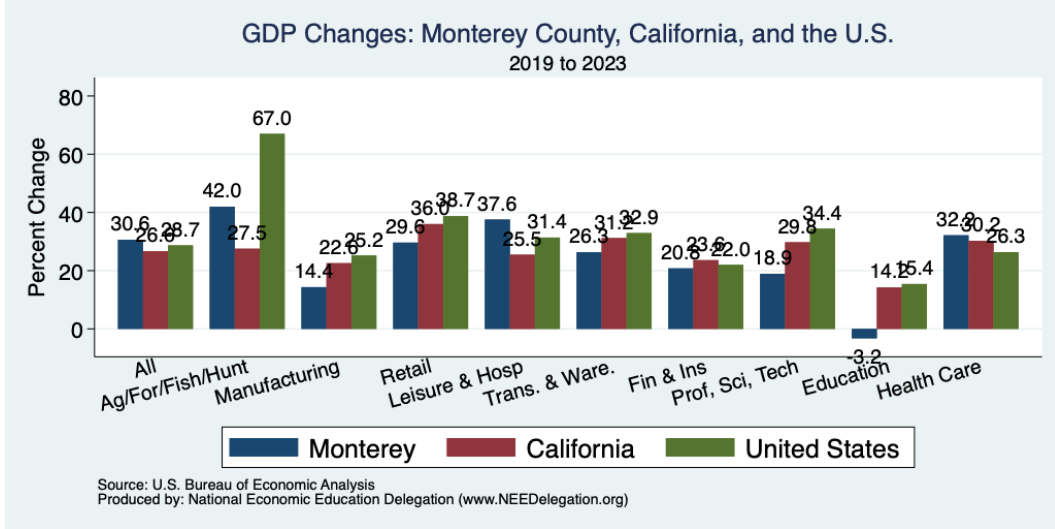
Santa Cruz Economy: GDP Growth



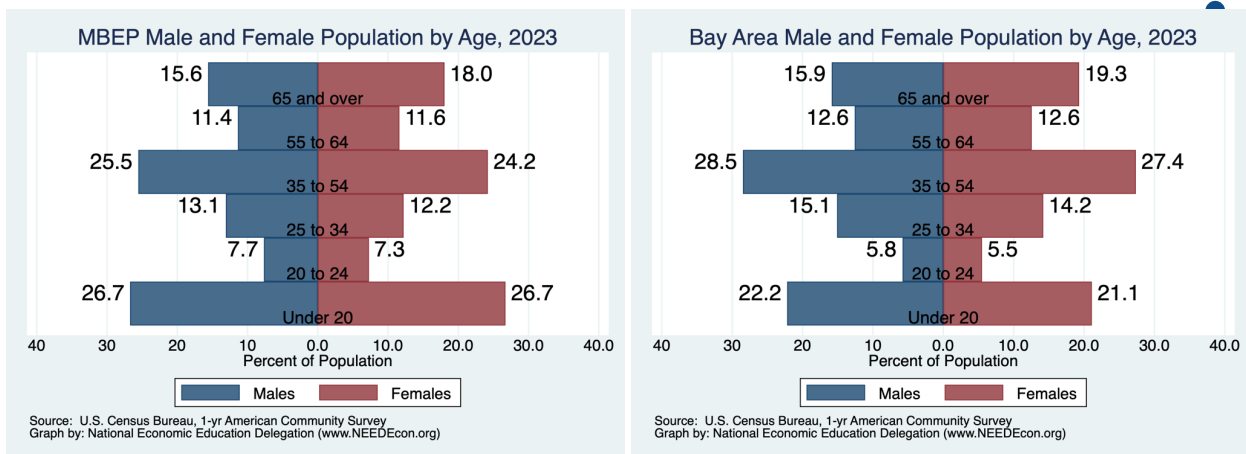
San Benito Economy: GDP Growth



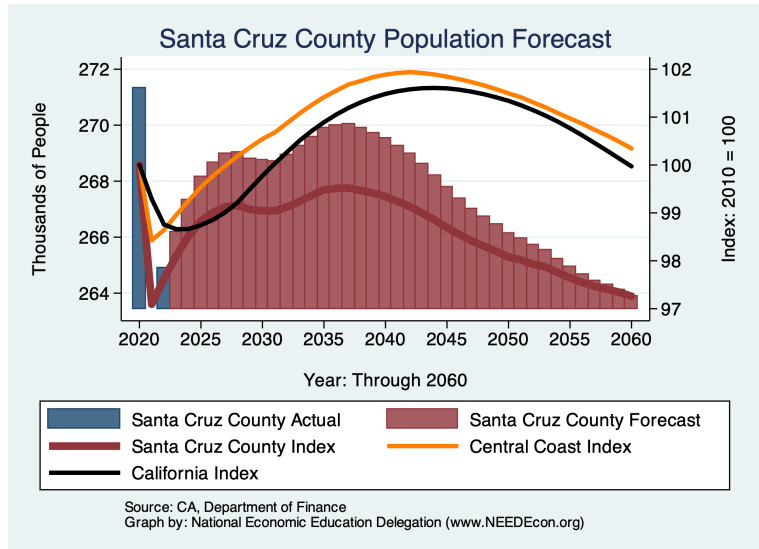
Monterey Economy: GDP Growth



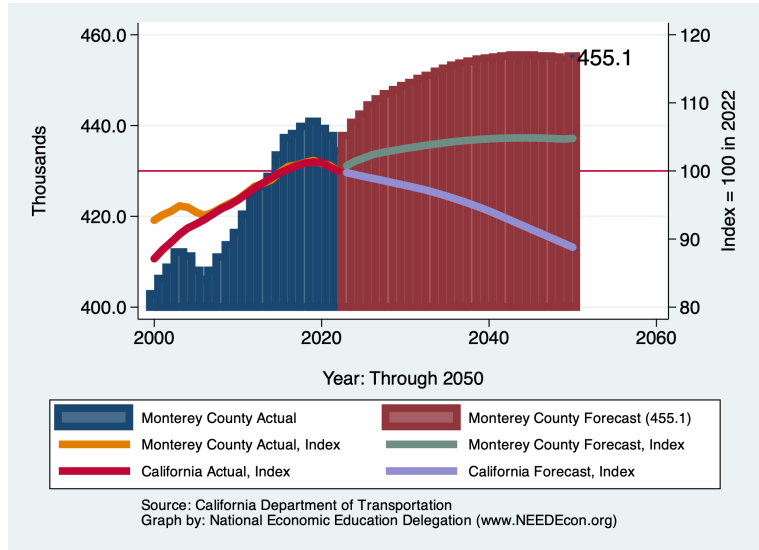
MBEP Population Age Distribution



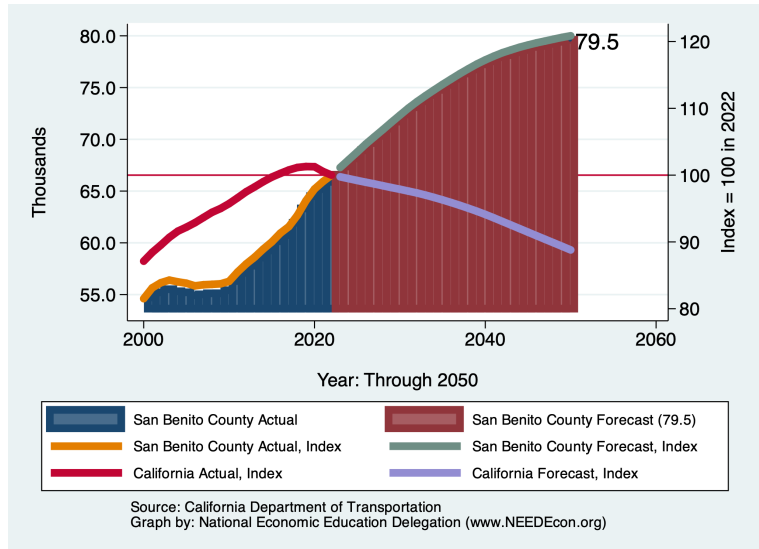
DOF: Santa Cruz County Population



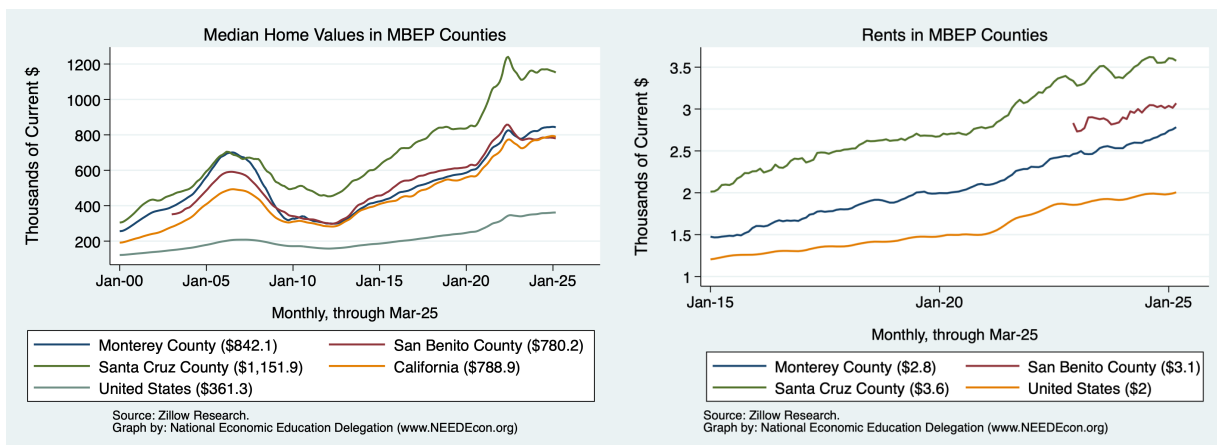
DOF: Monterey County Population



DOF: San Benito County Population

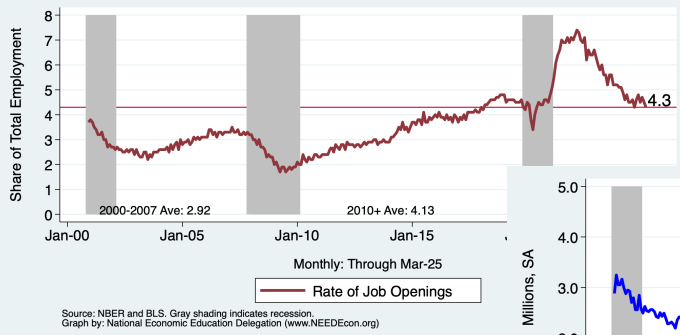


Monterey Bay Area Real Estate



Labor Market is Cooling

Job Openings - Falling



Quits – Falling (Rising?)

