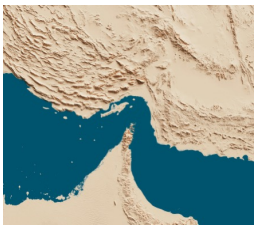


US Economic Update

California Community Colleges Real Estate Education Center

Jon Haveman, Ph.D.
NEED
October 30, 2026



1

Outline

- Economic Indicators
- Housing
- Uncertainty/Interest Rates

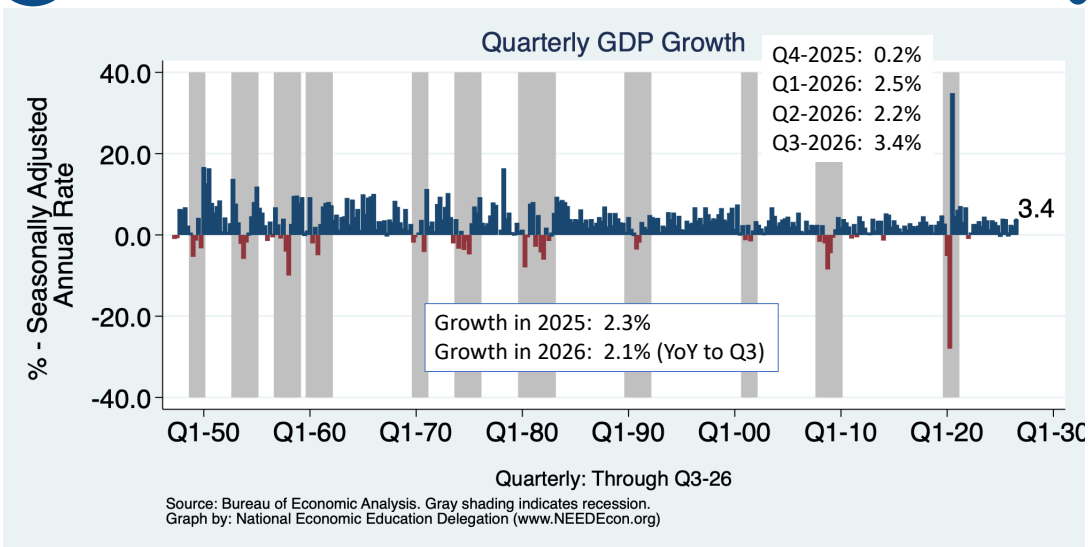
2

Economic Indicators

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3

GDP: Quarterly Growth

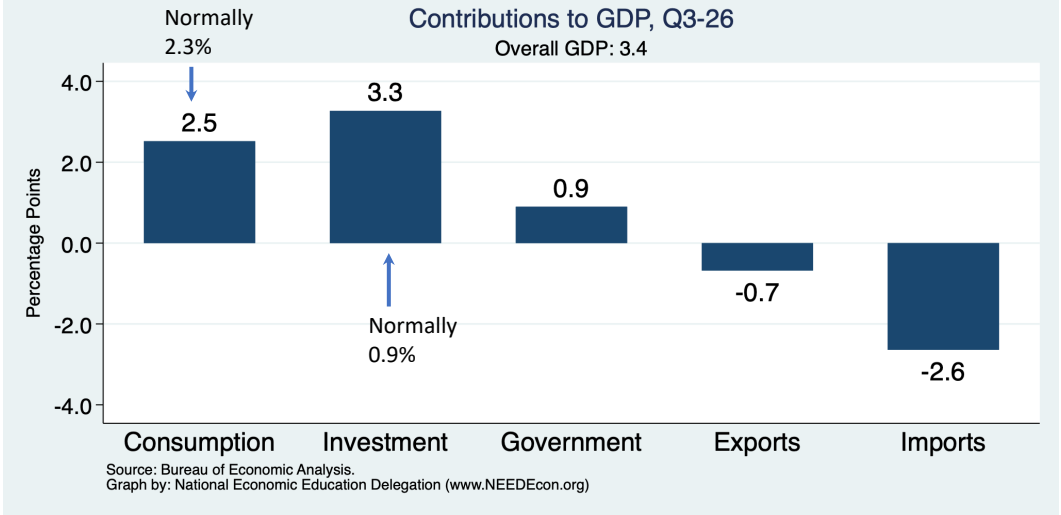


Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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4

What Drove GDP to Such Growth?

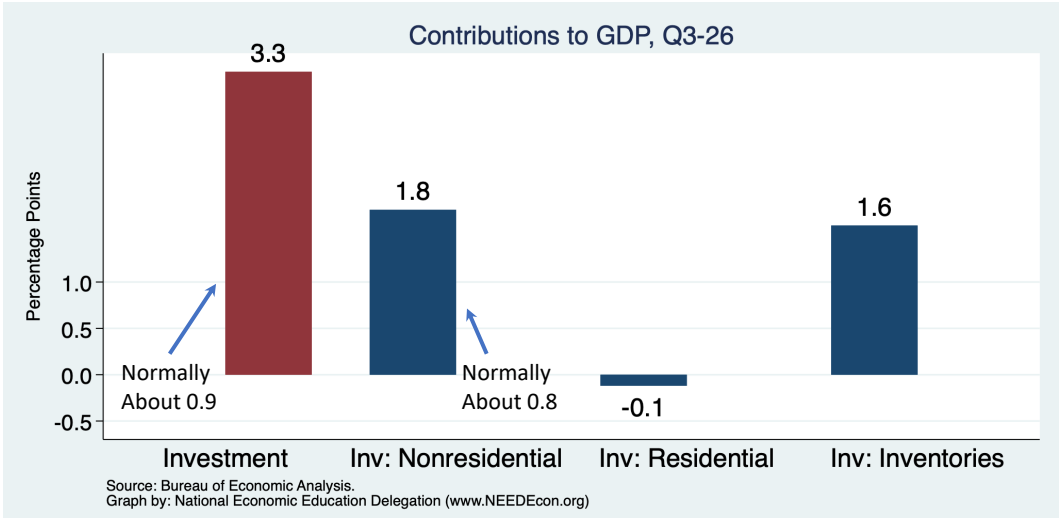


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5

Investment Levels Are Quite High

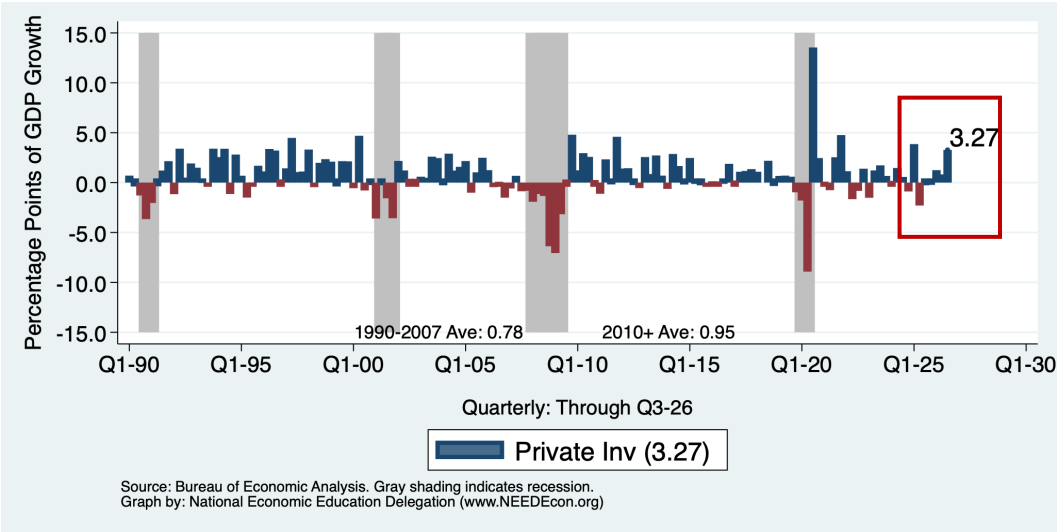


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6

Investment Levels Are AI High

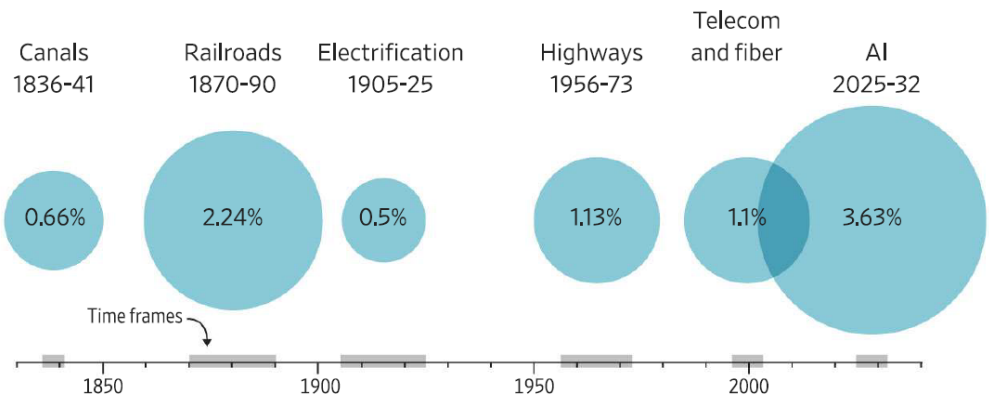


Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

7

AI Boom is Unprecedented

Average annual infrastructure spending as a percentage of GDP



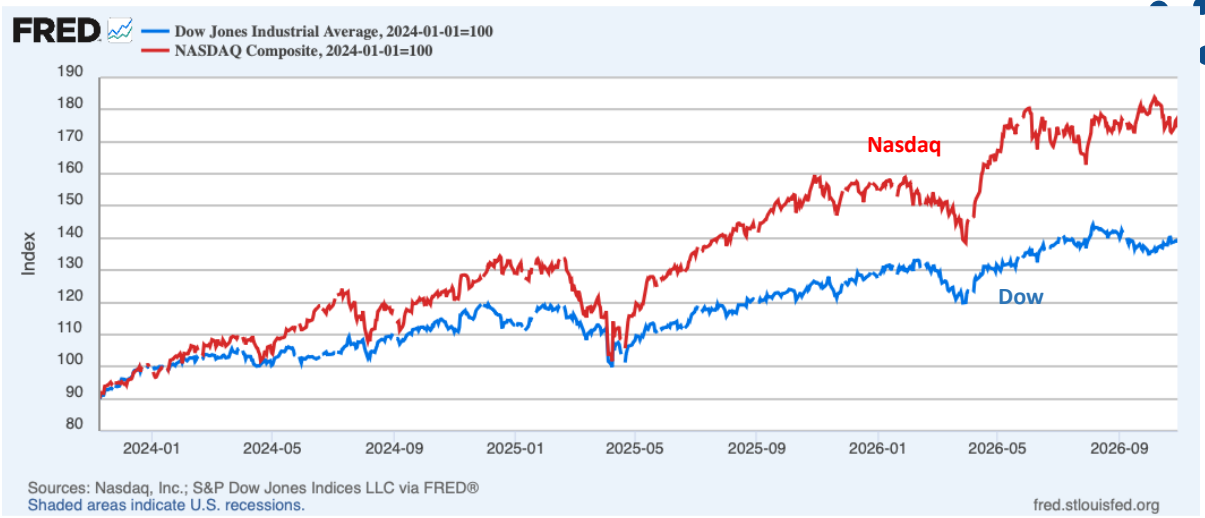
Source: Stijn van Nieuwerburgh

Note: AI spending is estimated.

https://www.brookings.edu/wp-content/uploads/2026/09/4c_Van-Nieuwerburgh.pdf

8

The Stock Market is Being Driven by Tech

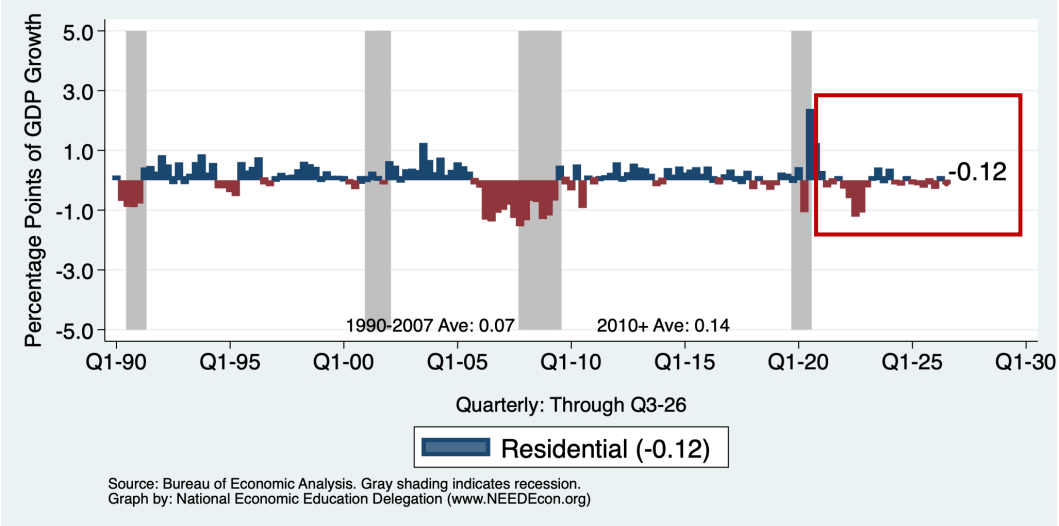


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9

Investment in Residences is Slow

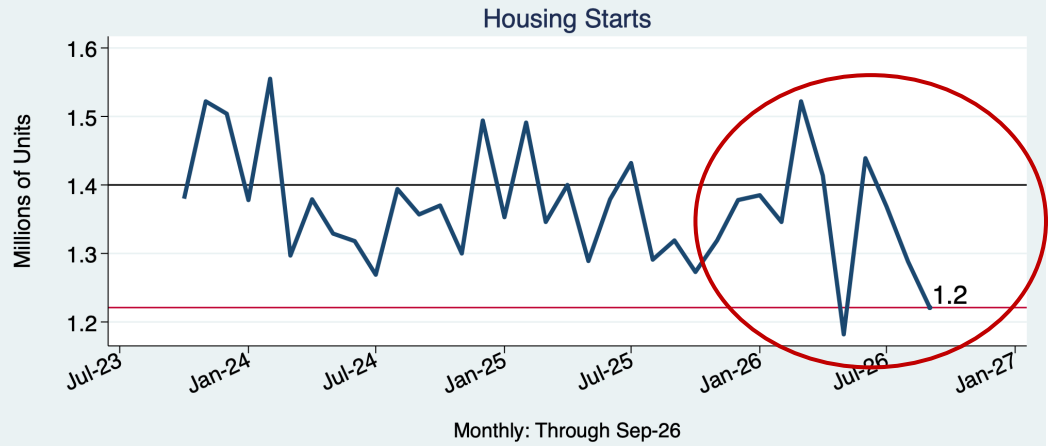


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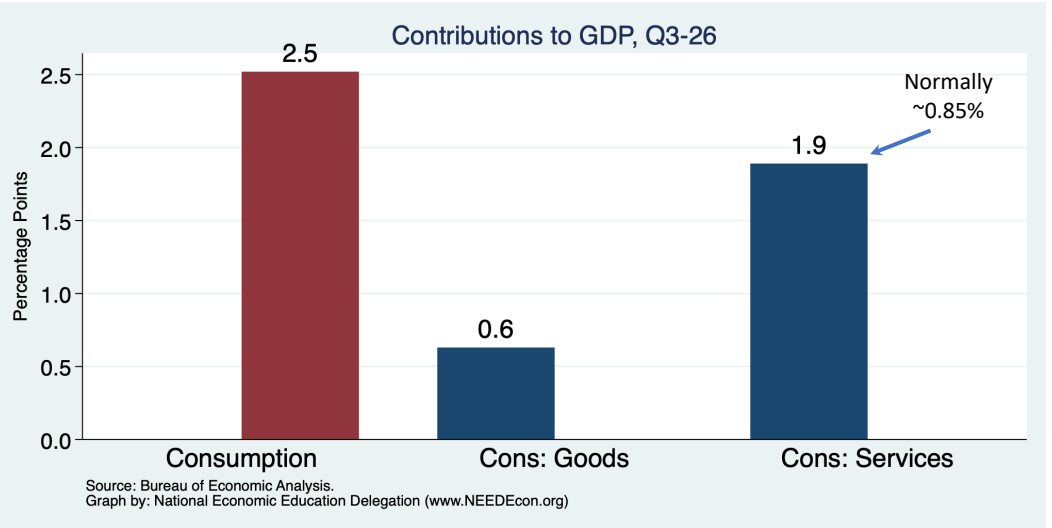
Housing Starts: A Little Low in 2025 and 26



Source: NBER and Bureau of the Census. Gray shading indicates recession.
Total: New Privately Owned Housing Units Started.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

11

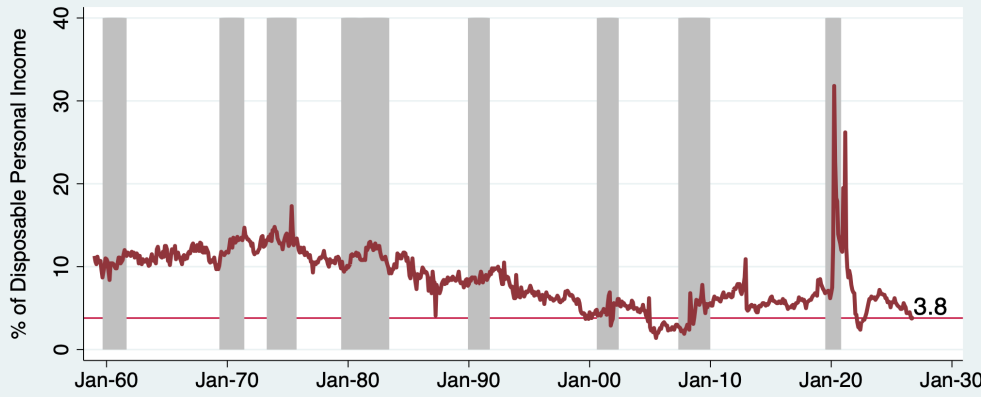
Consumers Continue to Spend



Source: Bureau of Economic Analysis.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

12

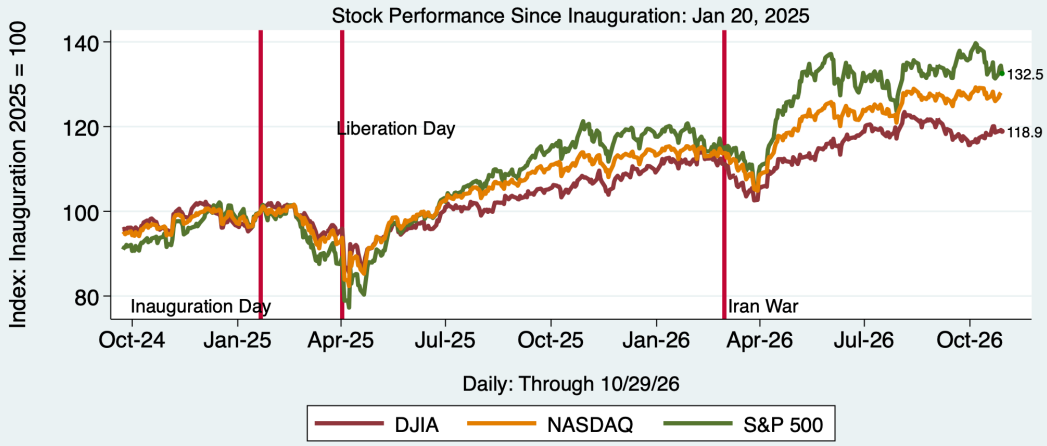
Really Low Savings Rate



Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

13

And Stocks? Wealth Effect on Consumption



Source: NBER and FRED, Federal Reserve Bank of St. Louis
Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

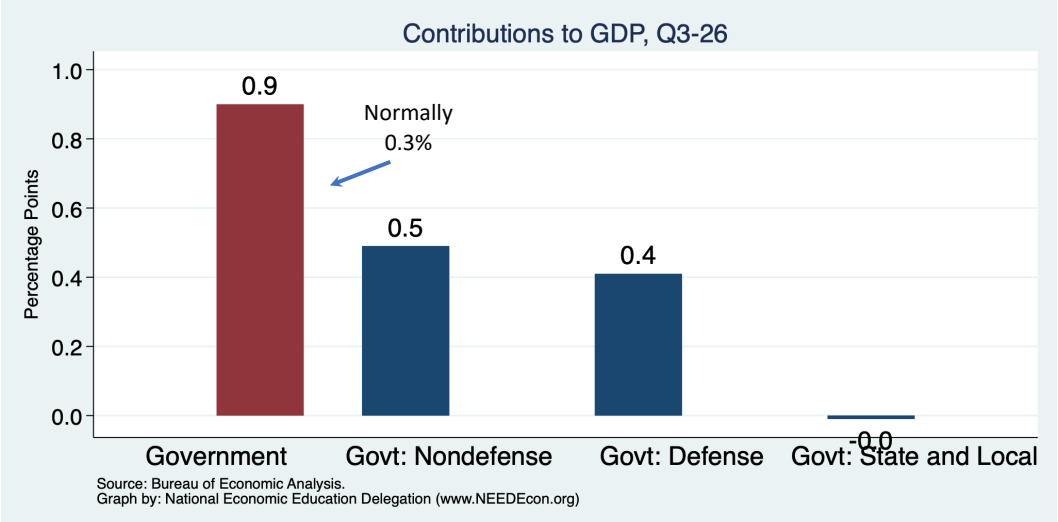
14

Potential Explanations for High Consumption

- **The wealth effect**
- **Low layoffs and stable employment**
- **Inflation-inflated nominal numbers**
  - Much of the increase represents spending more for the same amount of goods rather than an increase in raw purchases.
- **Drawing down savings**
- **Alternative financing**
  - Credit cards, BNPL, 401k hardship withdrawals.

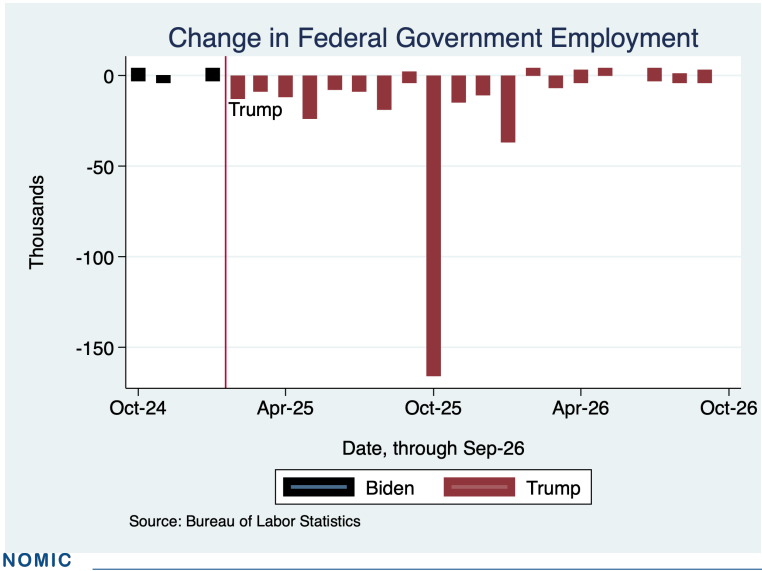
15

Government Spending is Also Contributing



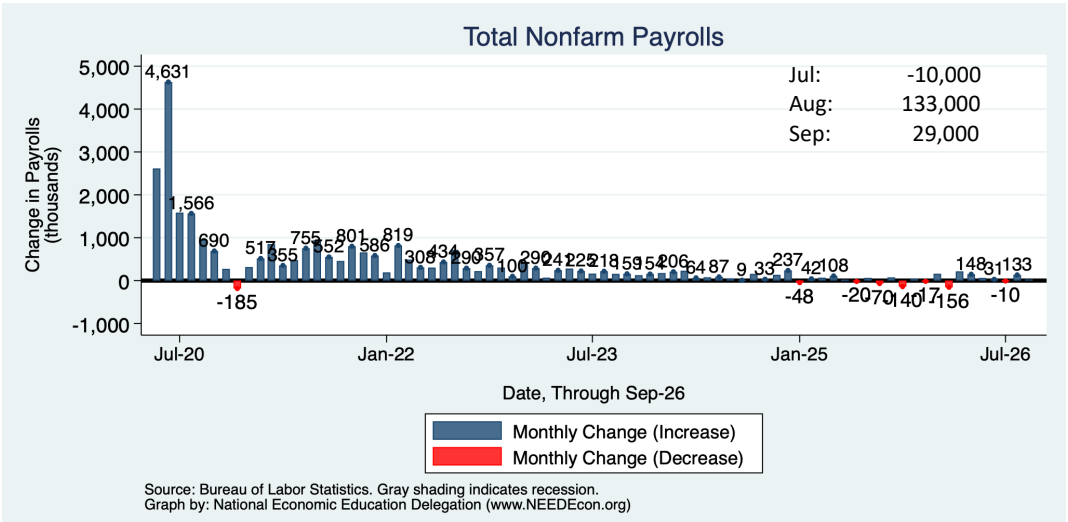
16

Monthly Changes in Federal Gov't Employment



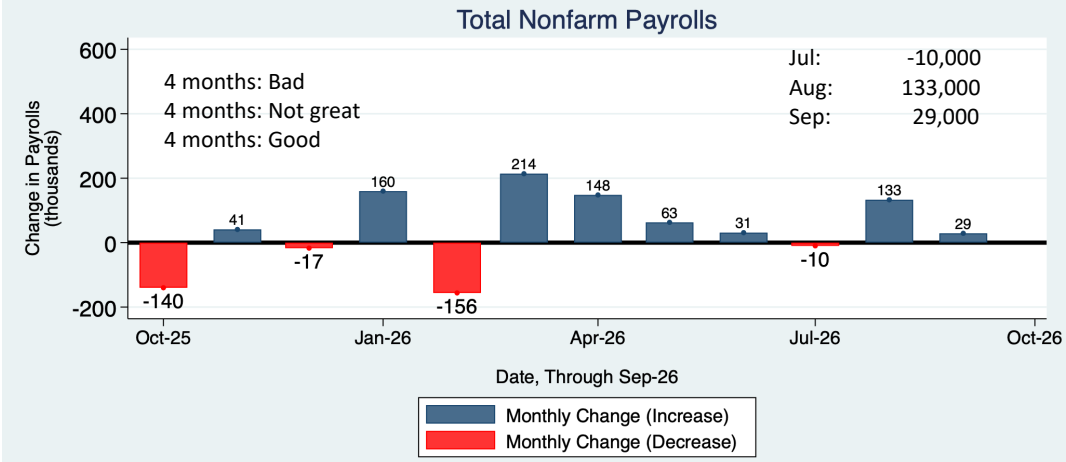
17

Monthly Changes in Nonfarm Employment



18

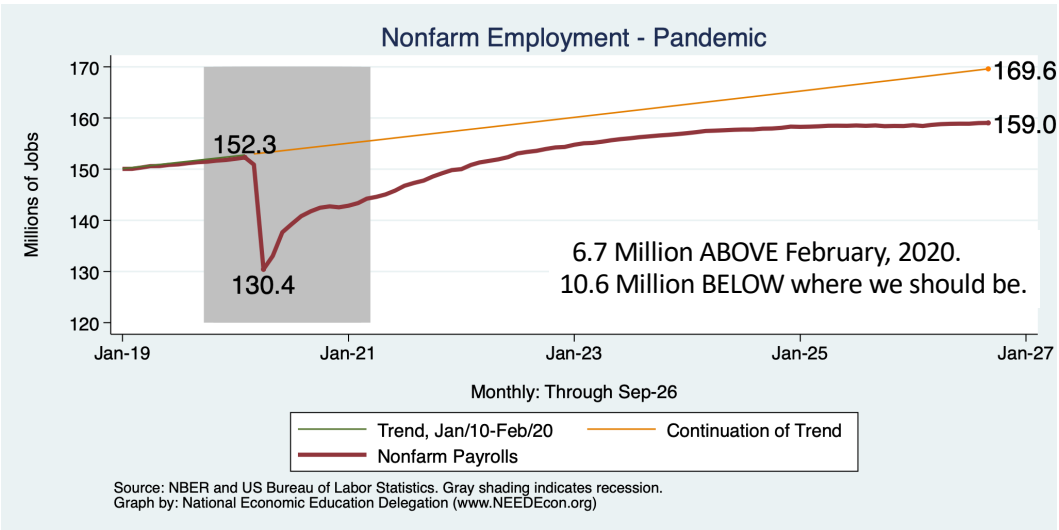
Monthly Changes in Nonfarm Employment



Source: Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

19

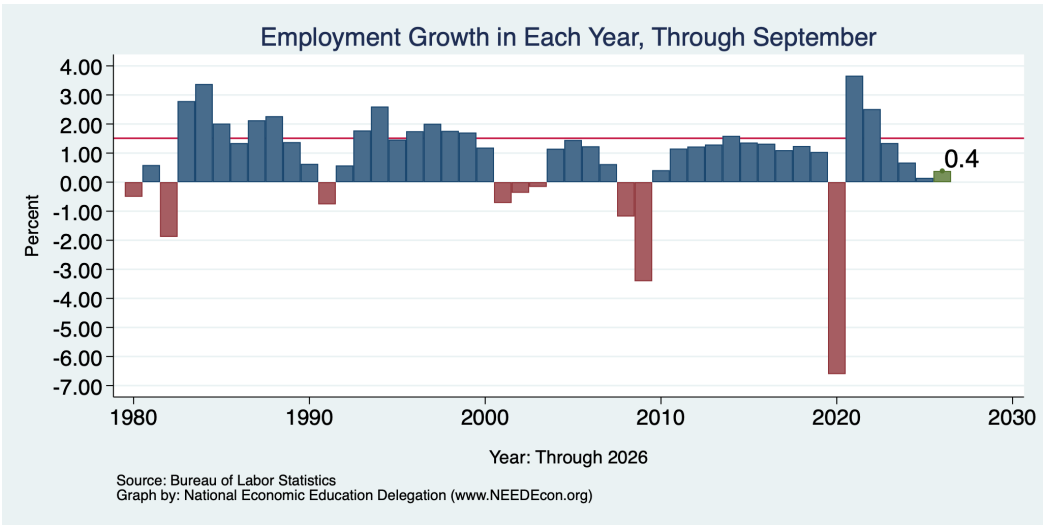
Employment Gap … is Growing



Source: NBER and US Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

20

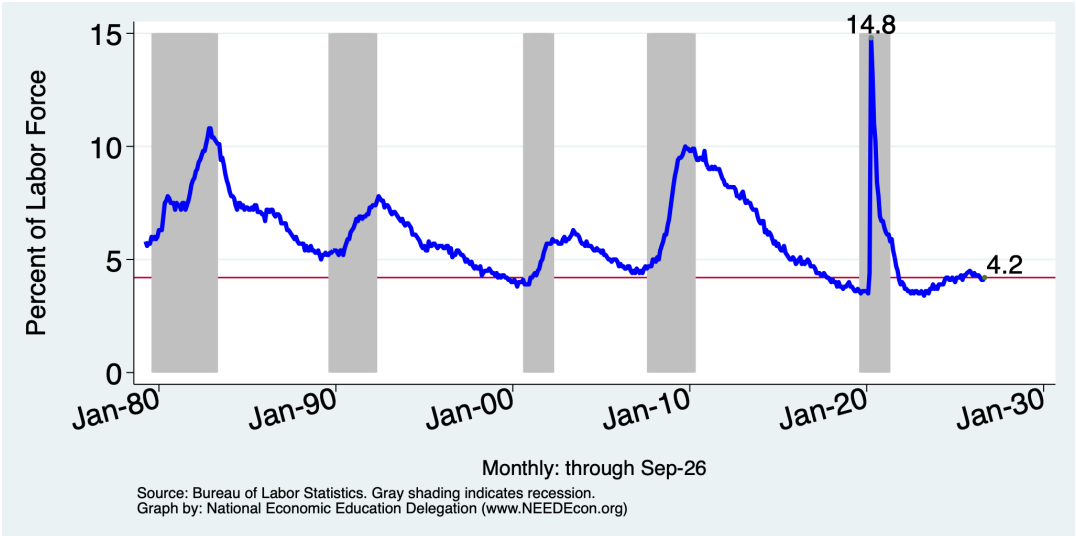
Annual Changes in Nonfarm Employment



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21

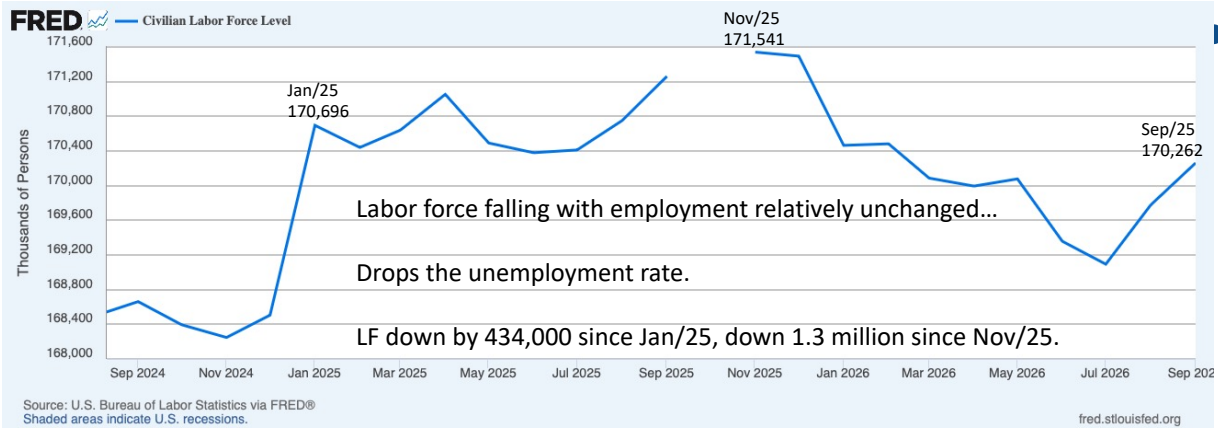
Unemployment Rate



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False Comfort from UR – Labor Force Declines



Declines roughly equally split between foreign born and native born.

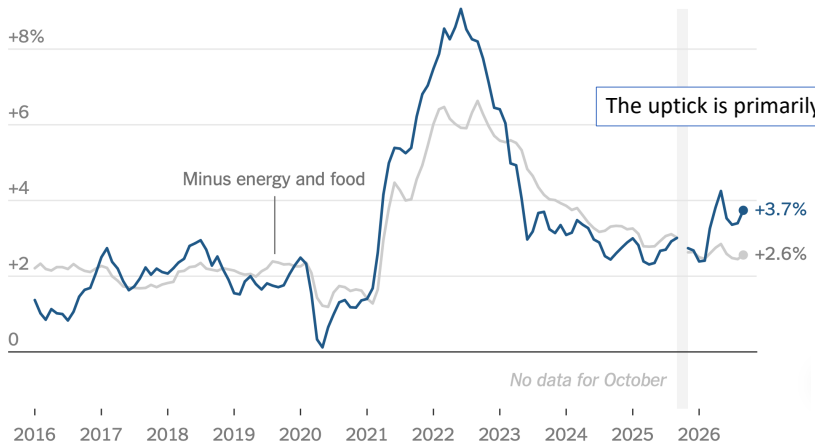
Summary

- **GDP is growing rapidly!**
  - Similar to Q3 last year.
  - Driven by AI and consumers
    - Both may be on tenuous footing.
    - Tech stocks are faltering. But money is just moving to other sectors, buoying the stock market (mostly).
    - If AI goes, it may well take consumer spending with it.
- **Employment growth is nothing to write home about.**
- **Unemployment rate is low for the wrong reasons.**

Inflation

25

Inflation: Latest Figures



Note: Data is year-over-year change in the Consumer Price Index. October 2025 is missing because of the government shutdown. Source: Bureau of Labor Statistics. By The New York Times

Source: NYTimes.com

26

Inflation: Latest Monthly Figures

Airfares

- Up 2 percent in September.
- Up 22.4 percent from the year before.

Food

- Up 0.1 percent in September.
- Up 2.5 percent in the past year.

Streaming Services

- Up 0.4 percent in September.
- Up 3.3 percent in the past year.

Computer software and accessories

- Up 0.4 percent in September.
- Up 28.4 percent in the past year.

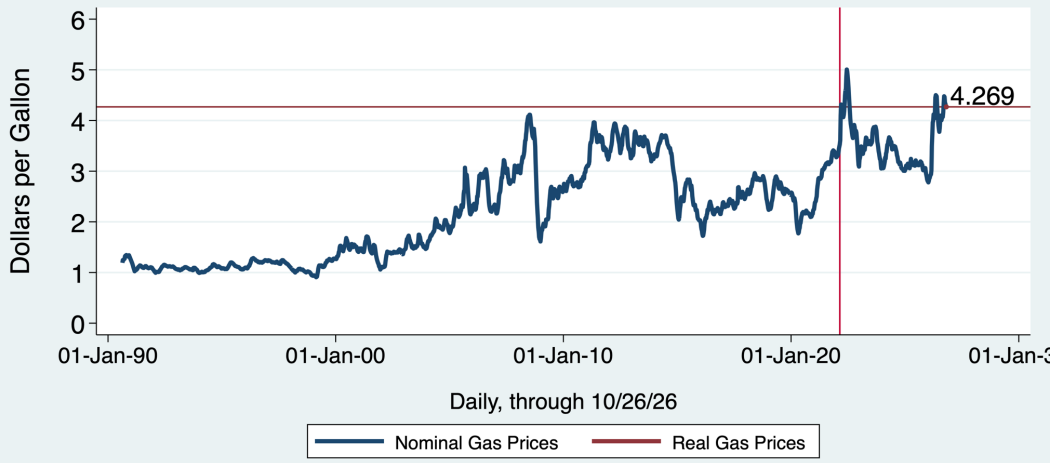
Car and truck rentals

- Up 0.1 percent in September.
- Up 9.1 percent in the past year.

Source: NYTimes.com

27

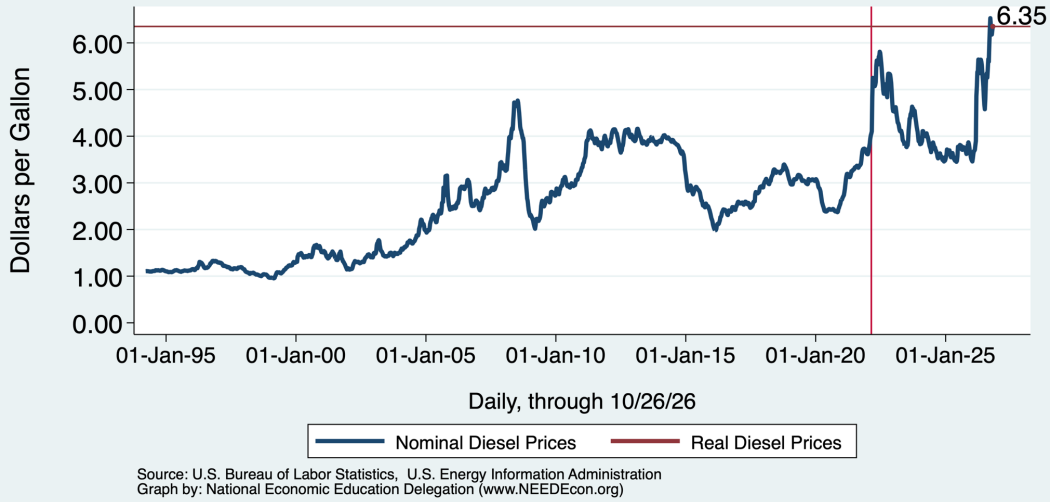
Inflation: Gas Prices



Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

28

Inflation: Diesel Prices



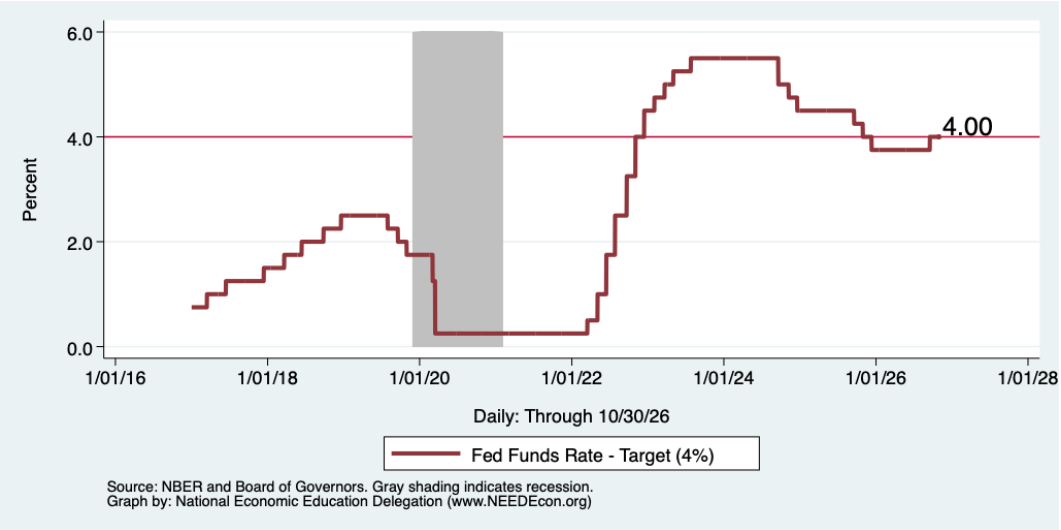
Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

29

Federal Reserve

30

Federal Funds Rate



31

Takeaways

- **Is a recession on the horizon?**
  - I wouldn't be surprised, but not betting on it.
    - Jobs growth is slow.
    - GDP growth is pretty good – but can it be sustained?
    - Inflation has ticked up.
- **Stagflation is very possible.**

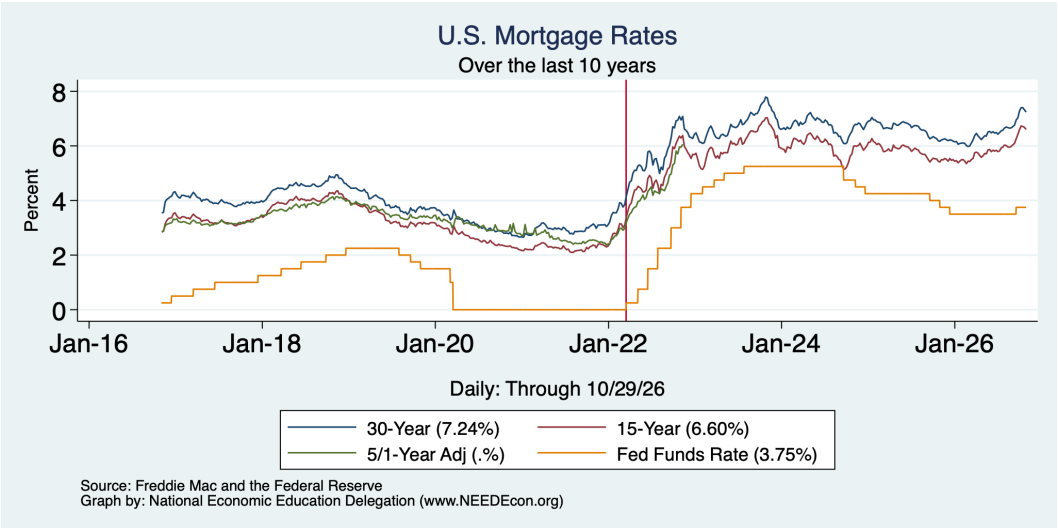
- **The problem?**
  - Uncertainties abound!
  - Whither AI?

32

Housing Stats

33

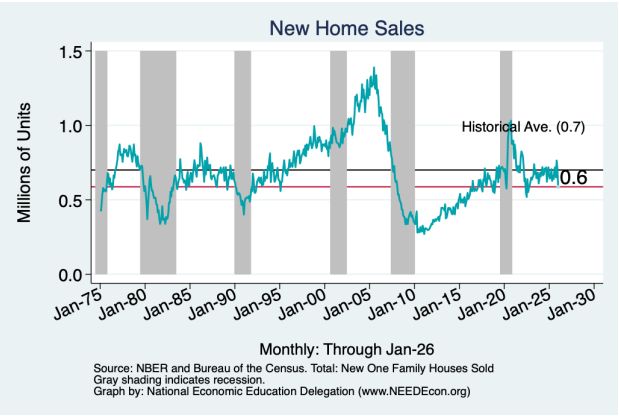
Mortgage Rates

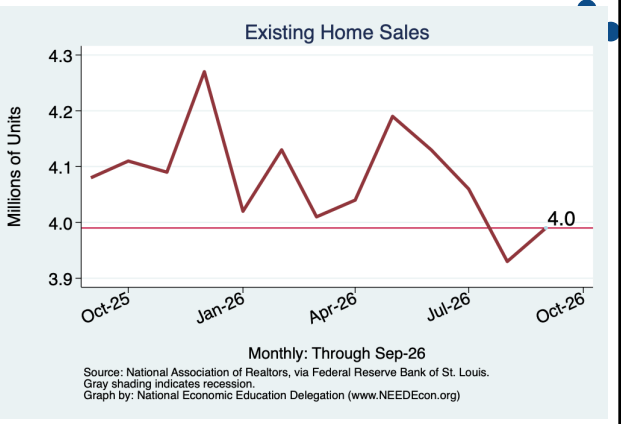


Source: Freddie Mac and the Federal Reserve
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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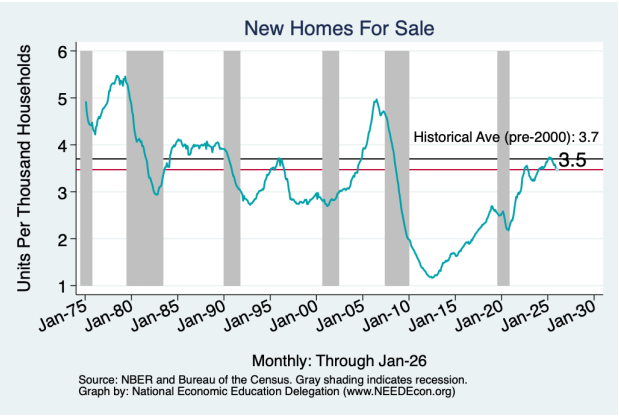
Home Sales are Not Horrible

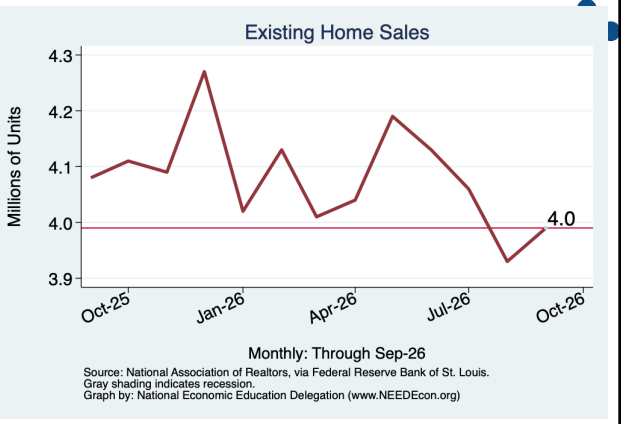




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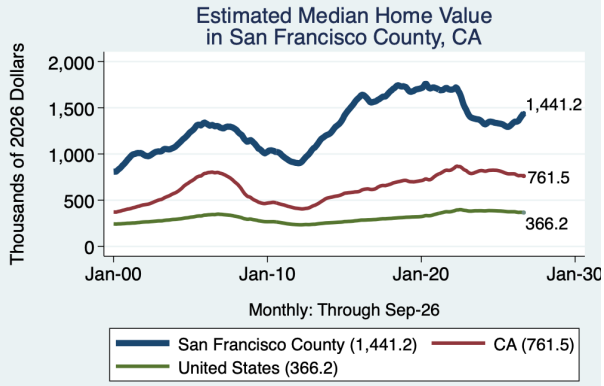
Home Sales are Not Horrible



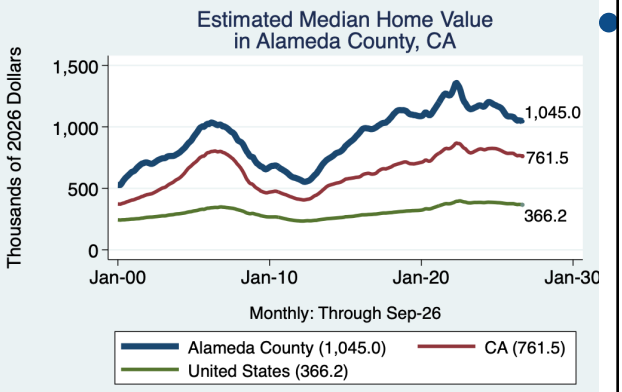


36

Home Prices … in Northern CA



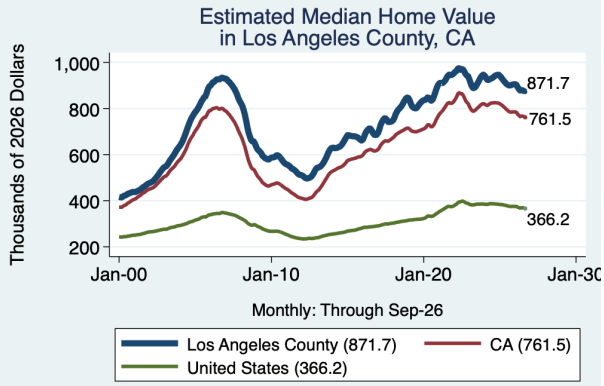
Source: Zillow Housing Data, https://www.zillow.com/research/data/
Produced by: National Economic Education Delegation (www.NEEDEcon.org)



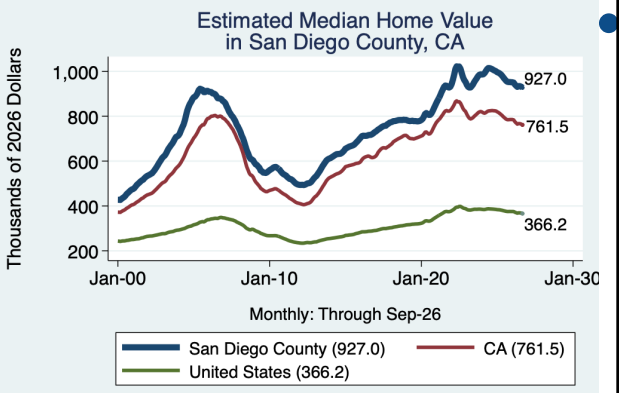
Source: Zillow Housing Data, https://www.zillow.com/research/data/
Produced by: National Economic Education Delegation (www.NEEDEcon.org)

37

Home Prices … in Southern CA



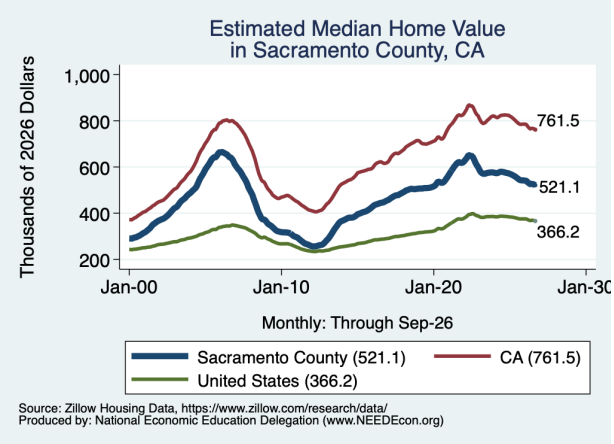
Source: Zillow Housing Data, https://www.zillow.com/research/data/
Produced by: National Economic Education Delegation (www.NEEDEcon.org)

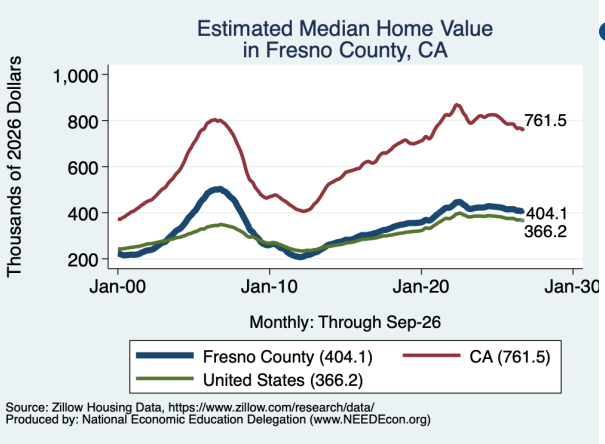


Source: Zillow Housing Data, https://www.zillow.com/research/data/
Produced by: National Economic Education Delegation (www.NEEDEcon.org)

38

Home Prices … in The Central Valley





39

Overview: Real Estate

- **Prices are falling in almost all of CA.**
  - SF, Imperial, Inyo, and Modoc – only counties on an upward trajectory.
- **Interest rates are trending UP – which is very worrisome.**
- **New building is declining**
  - So the pace at which the housing deficit of the 2010's is alleviated is slowing.
- **New building is becoming more expensive.**
  - Construction workers are being deported.
  - Tariffs are raising prices of key materials – e.g., lumber.
  - Transportation costs are rising.

40

Bigger Picture: Uncertainty

41

Uncertainties

- What effect will continued deportations have?
- Will AI continue to drive growth (and inflation)?
- Will tariffs continue to drive inflation?
- How much is/will the war drive inflation beyond fuel prices?
- Will consumers continue to hold up?
- Fed policy with Kevin Warsh

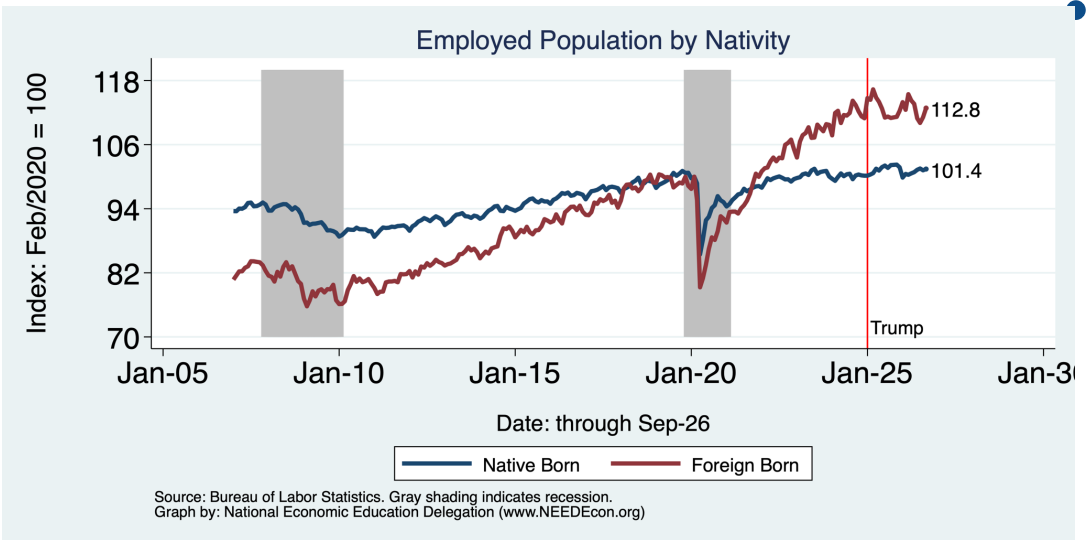
42

Uncertainties

- What about interest rates?

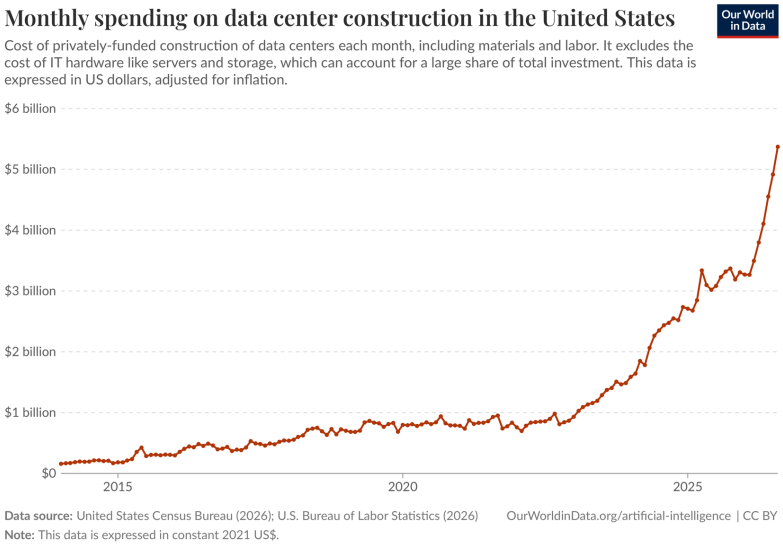
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Immigrants to the Rescue? No Longer



44

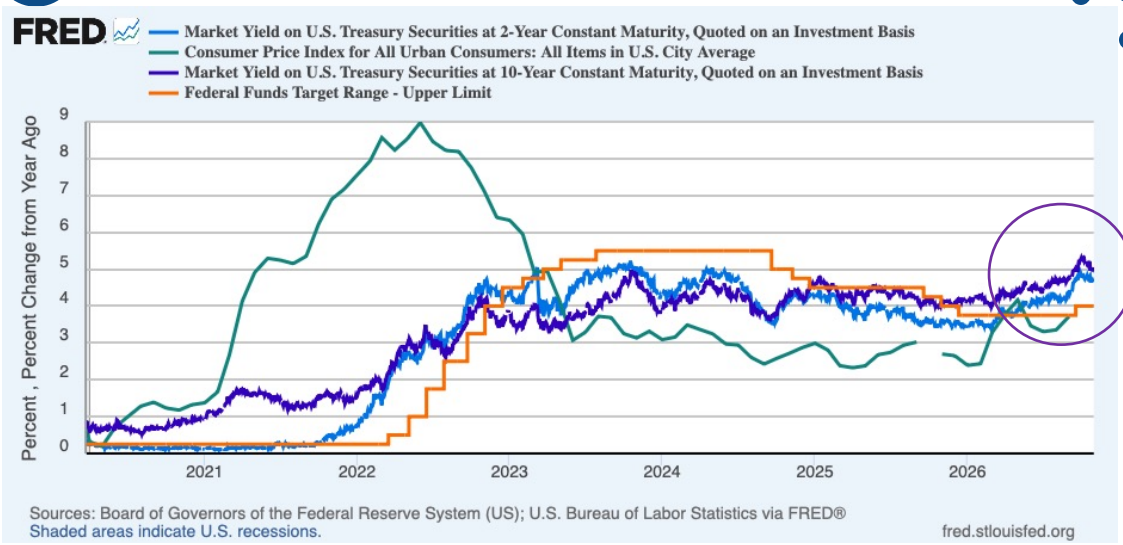
Data Center Investment



Source: www.OurWorldinData.org

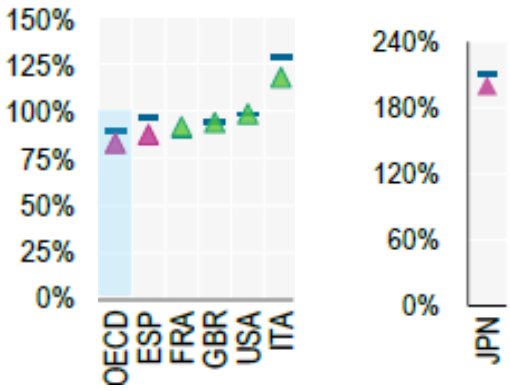
Interest Rates

Interest Rate Are on the Rise



Why Do High Interest Rates Matter?

2025 Levels of Debt to GDP



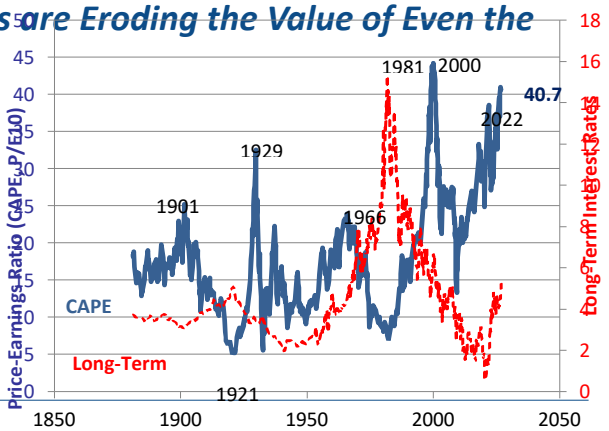
Effects of 1 pcp increase in interest rates on CBO projections for 2056.

1. Debt-to-GDP ratio rises from 175% to 222%.
2. Deficit rises from 9.1% to 14% of GDP.
3. Interest on the debt rises from 6.9% to 11.4%,at which point it would comprise 60% of total federal revenue.

OECD (2026), *Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure*, OECD Publishing, Paris, https://doi.org/10.1787/e9d80efd-

Why Do High Interest Rates Matter 2?

- Housing shortage and housing affordability.
- *WSJ*, 10/5 headline: *The Surge in Rates is Blowing Up Commercial Real-Estate Deals.*
- *WSJ*, 10/8 headline: *Rising Rates are Eroding the Value of Even the Most High-Flying Tech Stocks*
- The Stock Market



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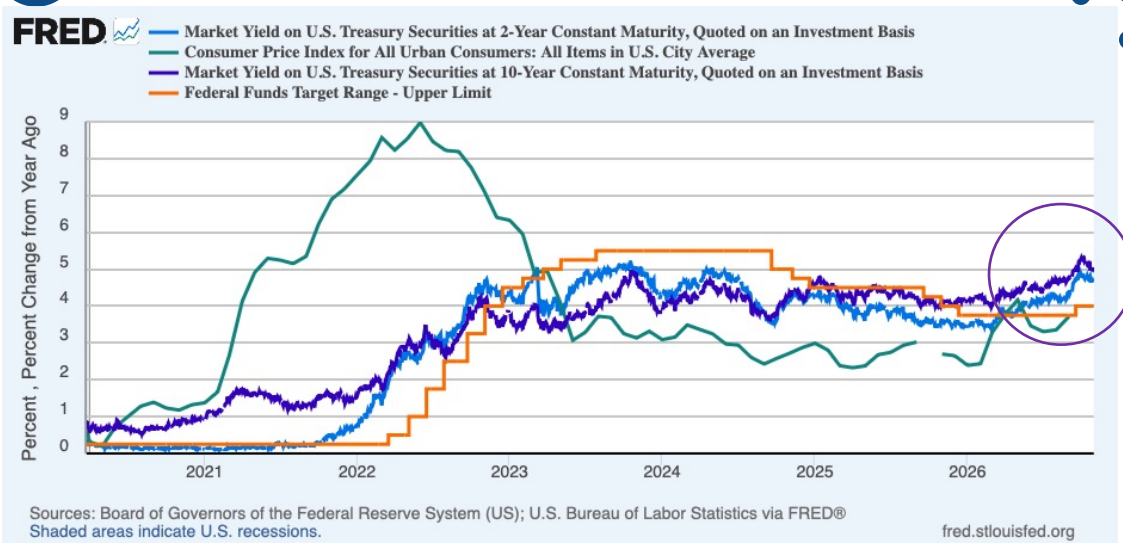
https://shillerdata.com/

Key Questions

1. What Caused the Increase?
2. Are High Rates Likely to Persist?

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Reading the Interest Rate Tea Leaves



Oversimplified Determinants of Interest Rates

1. The Fed sets “money market” interest rates (maturities less than 6 months).
2. Interest rates on short-term bonds (1 to 3 years) depend on market expectations of the evolution of money markets rates over the life of the bond.
3. Longest- term bonds (30 year) mostly reflect expectations of interest rates when the Fed will meet (at least on average) its objectives.

The Federal Funds Rate, the Policy Instrument

- The *federal funds* rate is the interest rate charged on overnight loans of bank reserves between two banks.
- The Fed sets a target range for the federal funds rate; currently 3.75% to 4.00%.
- If the market federal funds rate rises above 4%, the Fed buys government securities which increases the supply of bank reserves.

Since the Start of the Iran war

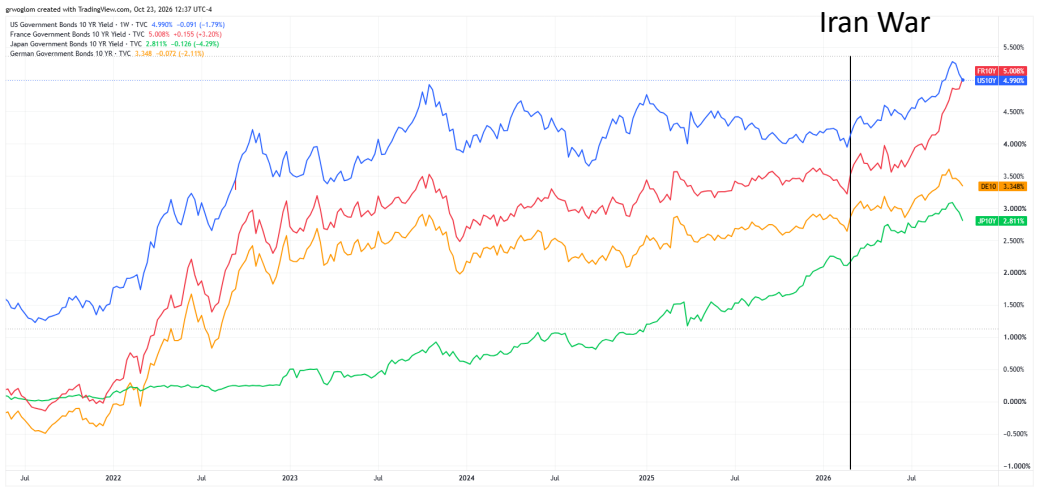
- 2-yr rate rises (on 3/3) first in anticipation that the Fed would raise the federal funds rate.
- 30-yr Rates also rising but by less.
- Fed raises the federal funds rate in September, but not in October.
  - Short-rates are signaling substantial increase in the federal funds rate in the next year or so.
  - Long-term rates are signaling that a substantial fraction of those increases will persist.

Causes of Permanently Higher Rates

- Persistently, high 30-yr interest rates are unlikely to be due to the AI investment boom. More likely, credit markets are signaling that US (and many other developed countries) fiscal debt and deficits are not sustainable.
- The Worst-Case Scenario: A run on the dollar.

55

It Is A World-Wide Rise in Rates



56

Summary

- **Inflation: was getting close to Fed's 2% target.**
  - But is now going in the wrong direction.
- **Current immigration and trade policies will exacerbate inflation.**
  - Deportations
- **The war is driving up prices and uncertainty.**
  - Nobody invests into uncertainty.
- **What if the AI bubble bursts?**
- **Interest rates are becoming a problem.**
  - Fear that higher rates will just become ent

57

Thank you!

Any Questions?

www.NEEDEcon.org
Jon D. Haveman
Jon@NEEDEcon.org

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58