



FLG PARTNERS: ECONOMIC OUTLOOK TO 2027 OCTOBER 2024

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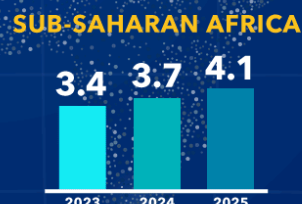
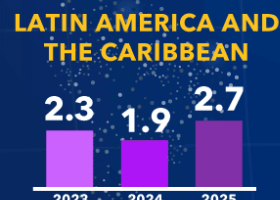
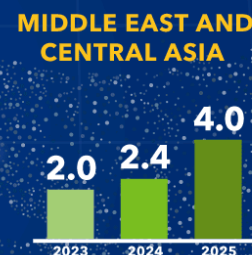
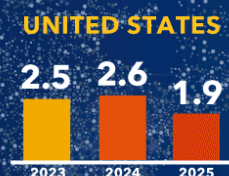
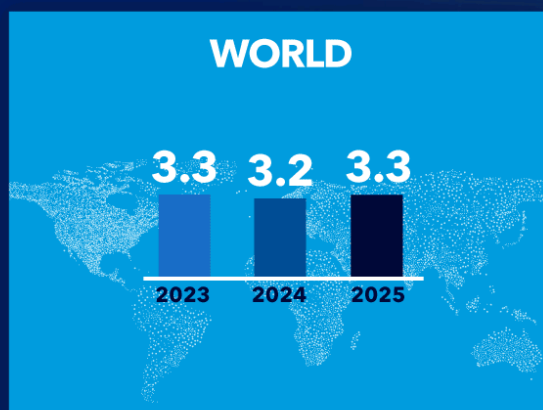
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Global Outlook (IMF)

WORLD ECONOMIC OUTLOOK JULY 2024

GROWTH PROJECTIONS BY REGION

(REAL GDP GROWTH, PERCENT CHANGE)



Source: IMF, *World Economic Outlook Update*, July 2024.

Note: Order of bars for each group indicates (left to right): 2023, 2024 projections, and 2025 projections.

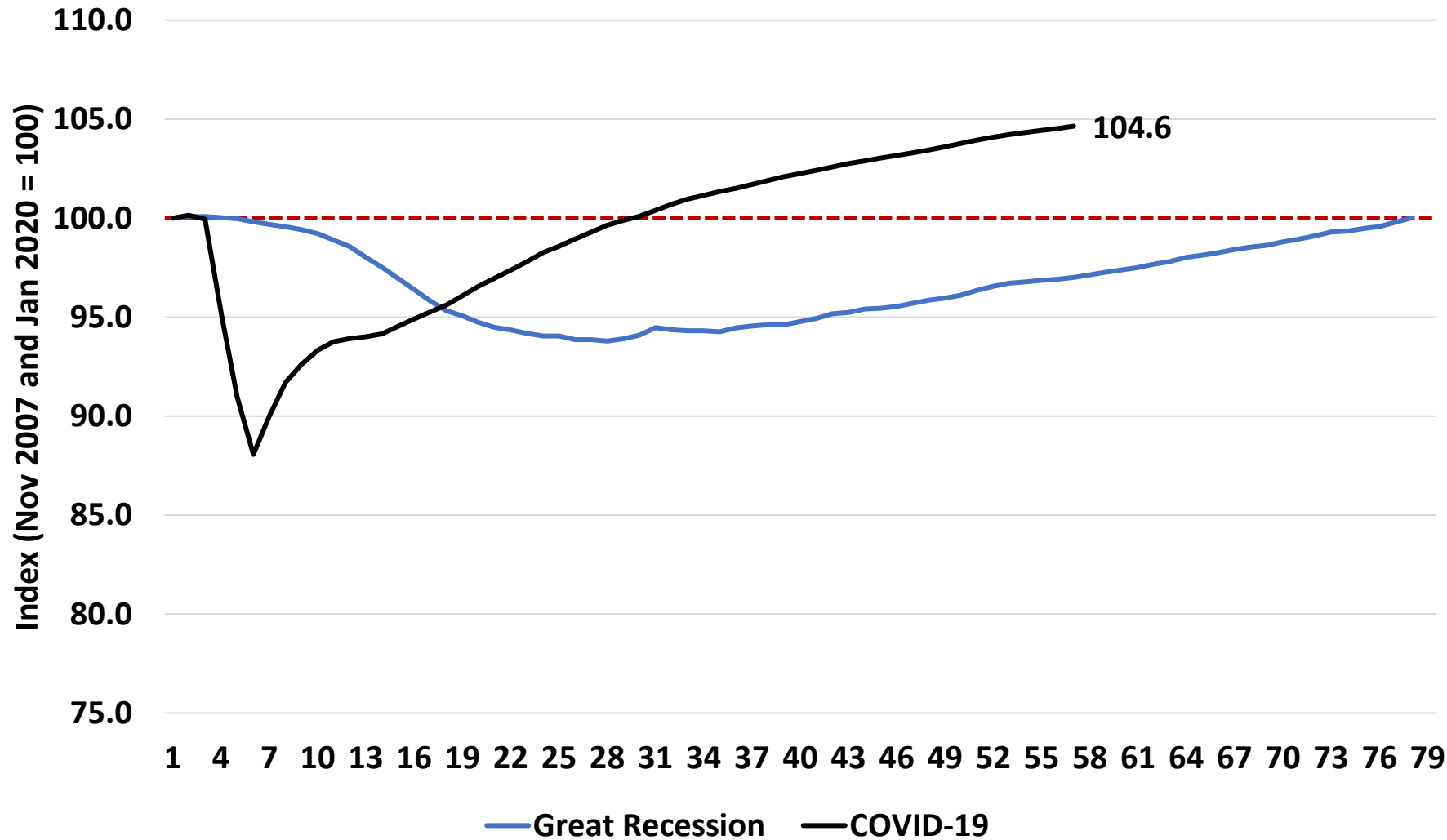
Asia slower: economic issues in China affecting continent

Energy prices under threat if Middle East escalates, Russia wins or both

Europe in midst of existential discussions about growth, productivity and demography: lack of innovation, energy issues and conflict close

American political and policy uncertainty

Employment Recovery Comparison, United States, Great Recession and COVID-19 Recession, Months from Peak Employment, Index Nov 2007 and Jan 2020 = 100, to September 2024

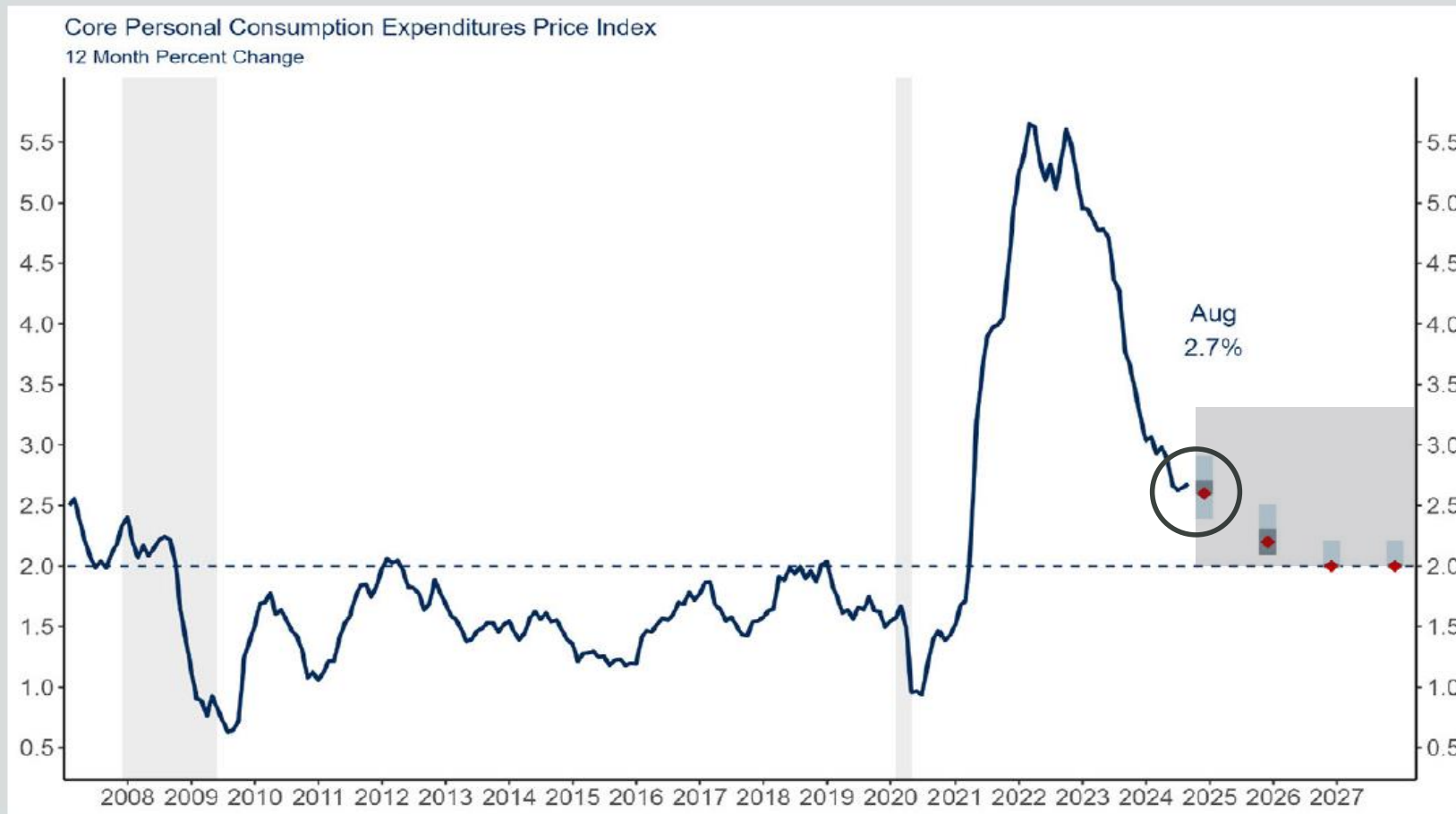


Other labor data to watch:

1. Job openings down
2. Quits down: suggests workers are concerned about job market and are staying put
3. Hours worked annual change down, but stabilizing
4. Unemployment in trend rising, but slowly

The Fed's Favorite Price Index, 2007 to 2027 and beyond: Rates on the Move

Core Personal Consumption Expenditure Price Index

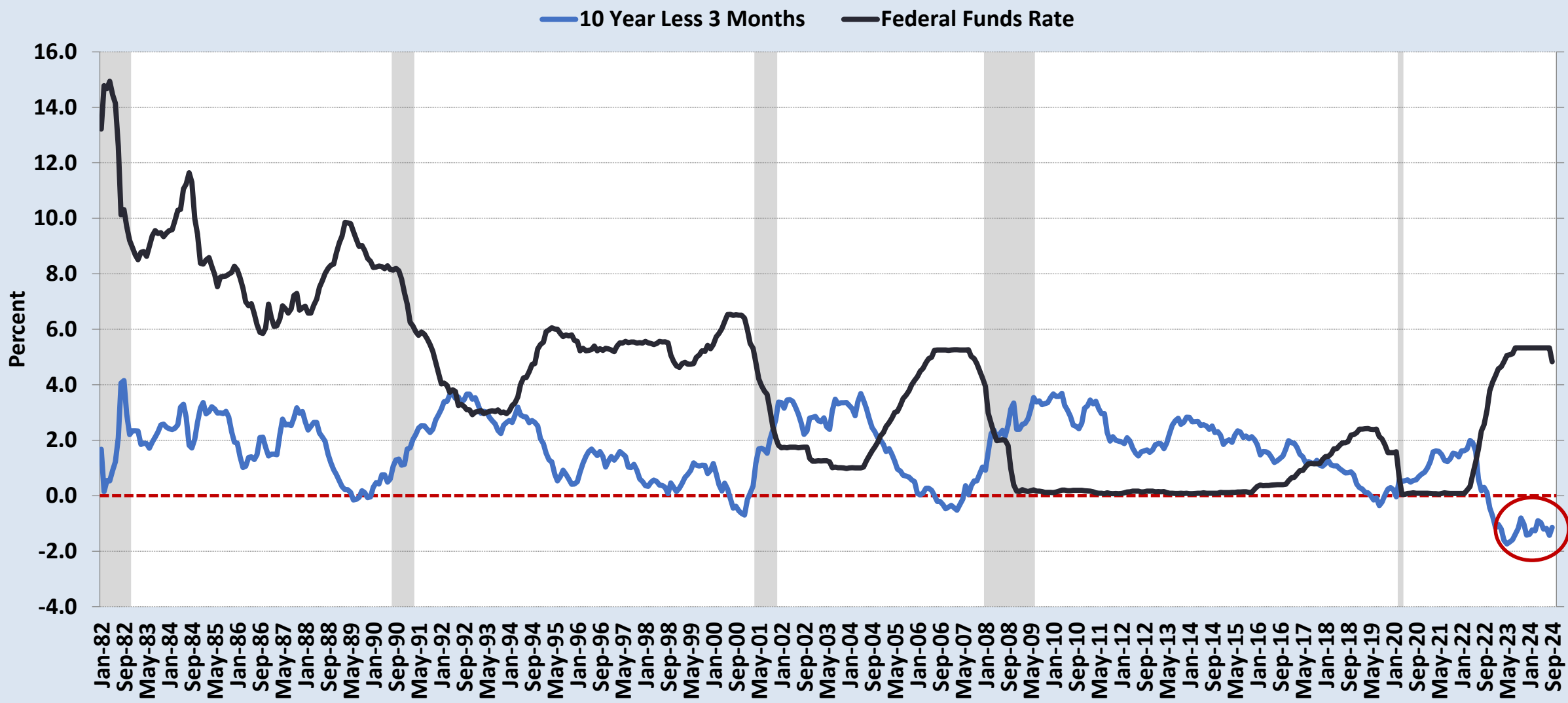


To consider:

Large rate cut in September: will that provide “relief”?

If data continue to beat year-end forecast, continued cuts coming, but will stall if inflation rises again in trend.

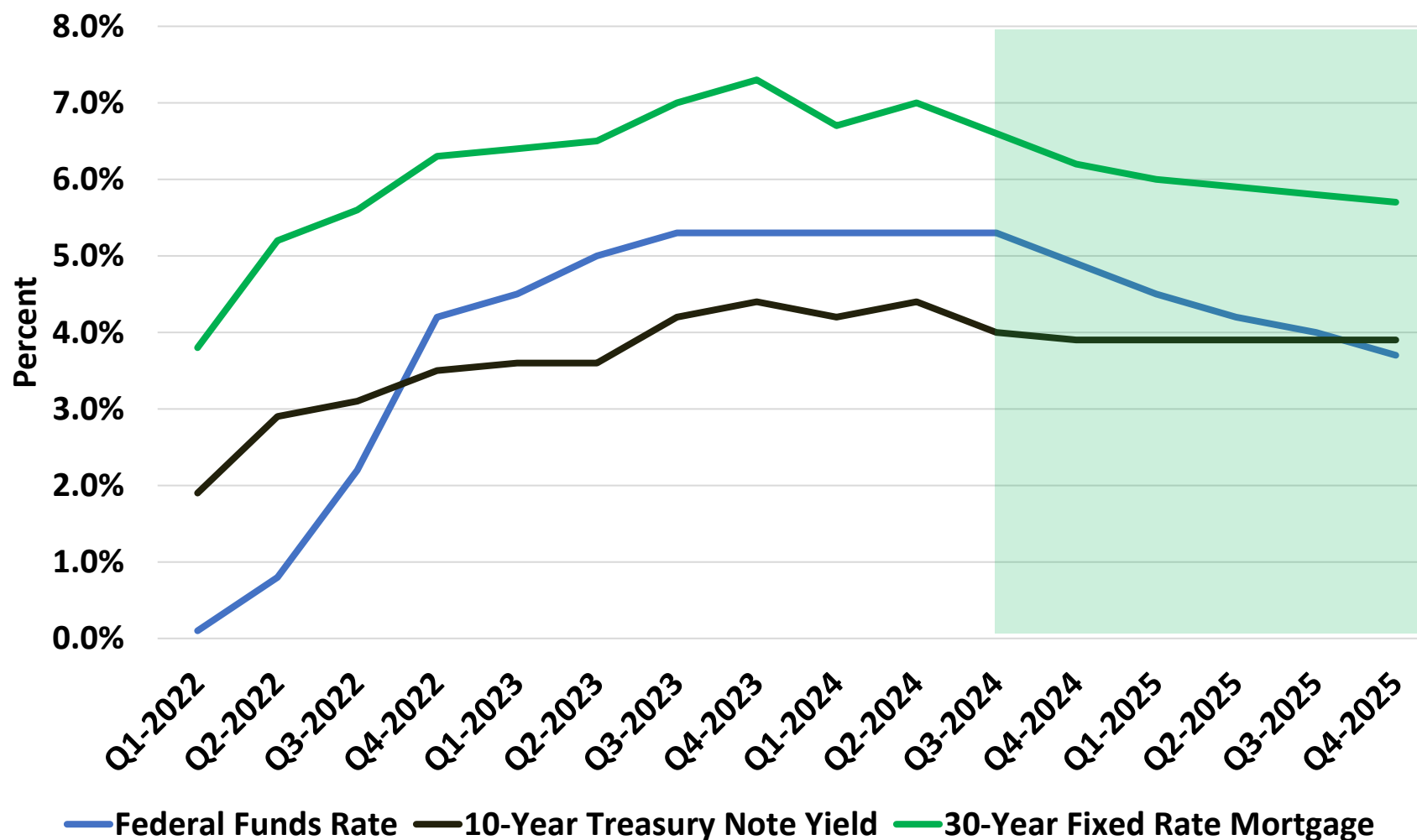
10-Year and 3-Month Treasury Spread, % Point Difference Jan 1982 to September 2024



Source: Federal Reserve Bank of St. Louis/FRED

FNMA Interest Rate Outlook: Q4 2024 to Q4 2025

Mortgages and Policy



Interest rates falling by both force and by shifting supply and demand

Federal reserve likely to consider 200 bps through 2026 in terms of cuts, shaping an attempt at “soft landing”: prime rate also falling

10-Year Treasury’s fall a sign of weakness globally and race to yield and safety

By-product: mortgage rates fall

Economic Policies and the Election

Both cases debt rises

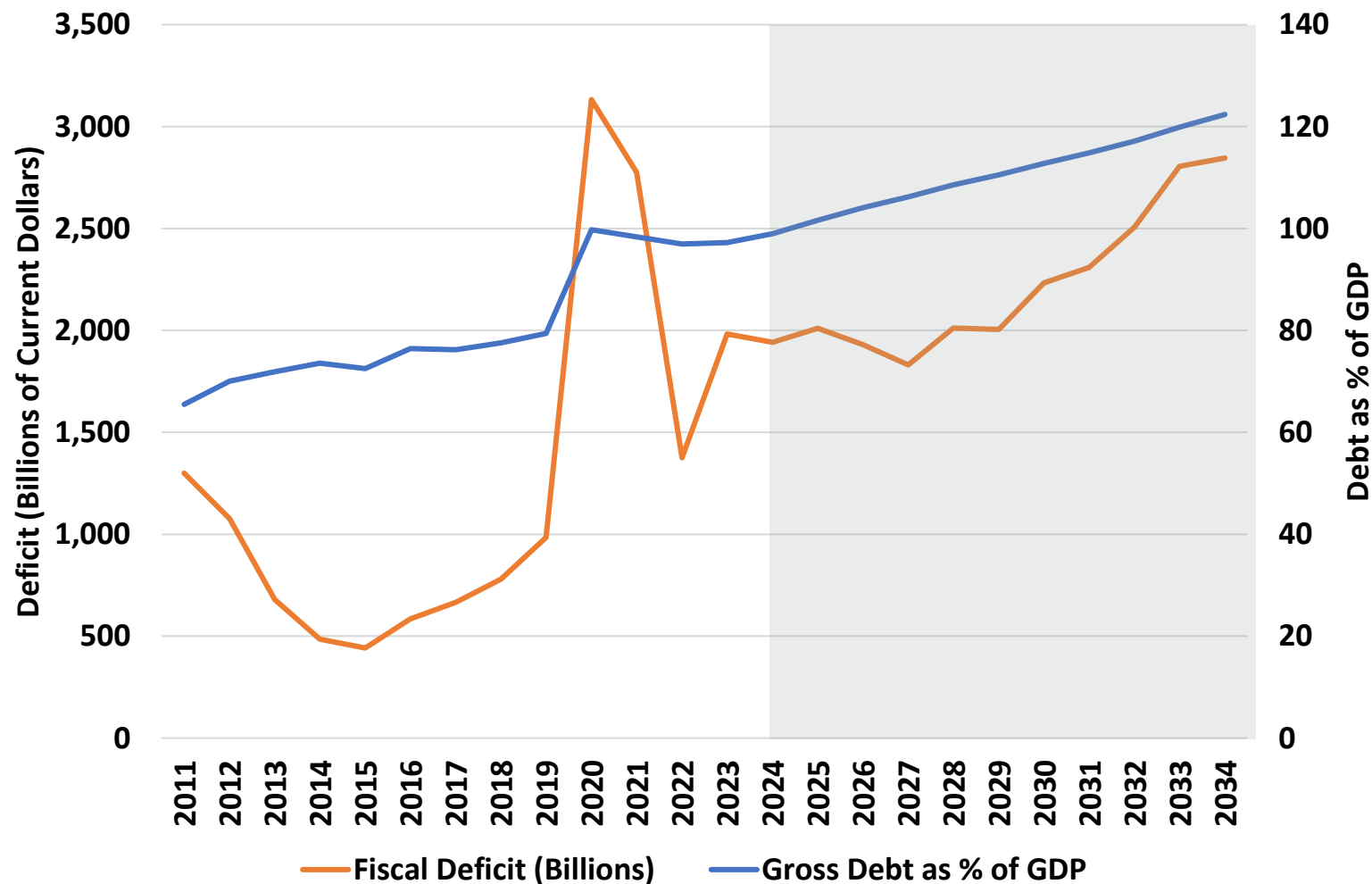
Democrats

- Indirect growth of housing stock by subsidizing demand
- More child care incentives
- Continue tariffs in place
- Continue IRA and CHIPS
- Increase taxes for those > \$400K
- Potentially increase corp taxes to 28% from 21%

Republicans

- Tariff generally to provide incentives for more American manufacturing
- Continue current tax structure
- Unknown size of government change
- Reduce international payments for subsidized defense (NATO?)
- More child care incentives

The National Debt: Projected Fiscal Deficit and Debt as % of GDP, 2011 to 2034 (Forecast in Shaded Area)



Four things to consider status quo:

1. Many countries over 100%, US run-up as fast as any in recent memory
2. Interest payments by federal government to move from 10.8% of total Federal Budget to 16.6% from 2023 to 2034
3. CBO projects by 2028
 1. Federal Funds rate at 3.0%;
 2. 3-mo Treasury at 2.8%
 3. 10-year Treasury at 4.0%
4. Rates and upward pressure and the taming of inflation expectations
5. Really about the world abandoning or not the dollar

Federal Reserve Philadelphia

Forecast, Survey of Professional Forecasters



These data are from August 2024

Bottom Line: No recession in forecast (20% chance in 2025 for now), “late cycle” economy (jobs lost or slower growth with slowing inflation)

Real GDP (%)

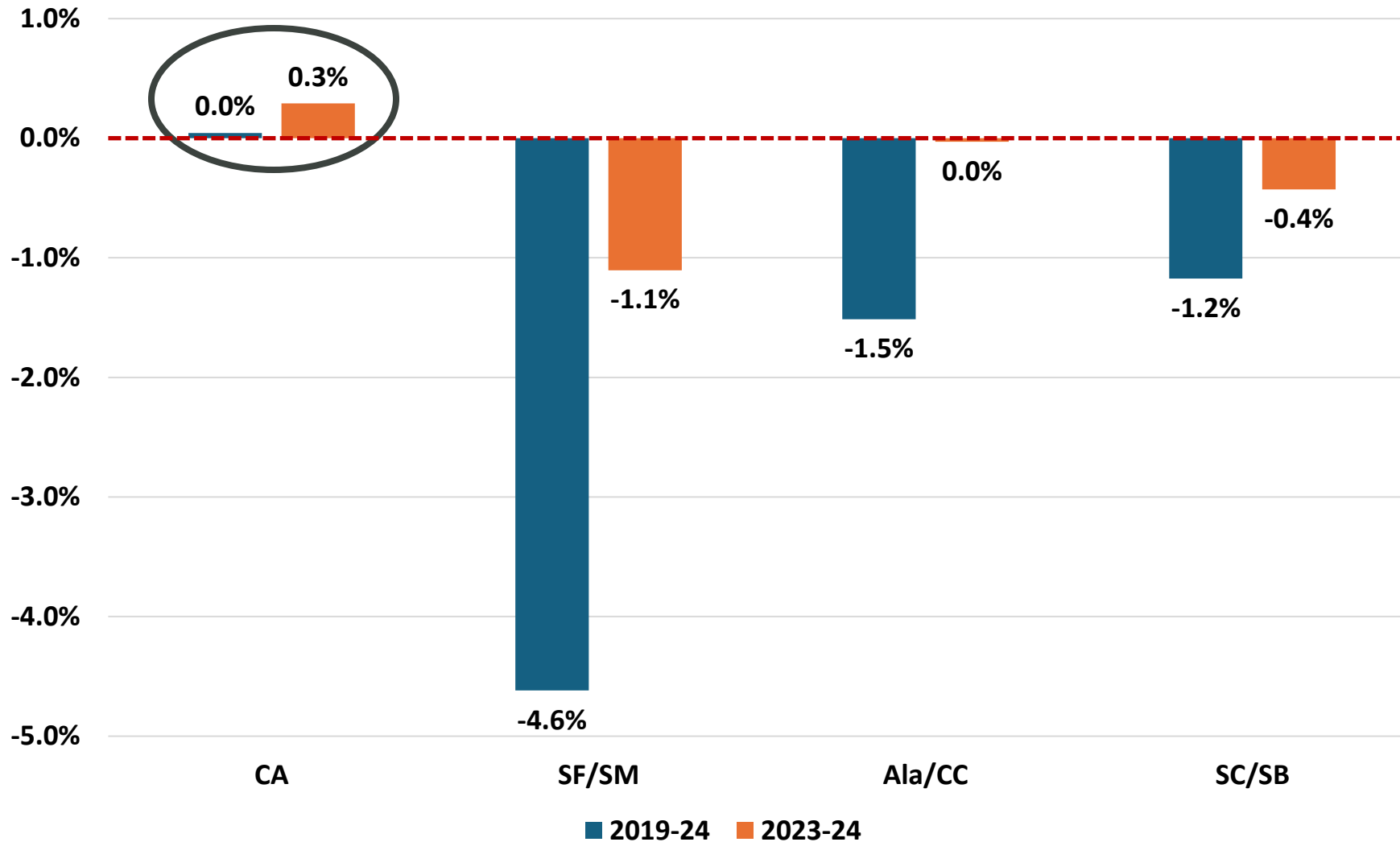
Unemployment Rate (%)

Core PCE Inflation (%)

Annual data (projections based on annual-average levels):

	Real GDP (%)		Unemployment Rate (%)		Core PCE Inflation (%)	
	Previous	New	Previous	New	Previous	New
2024	2.5	2.6	3.9	4.1	2.9	2.8
2025	1.9	1.9	4.1	4.3	2.2	2.2
2026	1.9	2.3	4.1	4.2	2.1	2.0
2027	2.1	2.0	4.1	4.2	N/A	N/A

Labor Force: California, SF/SM, SJ, East Bay, % Change in Workers since Aug 2019 and Aug 2023 as of Aug 2024



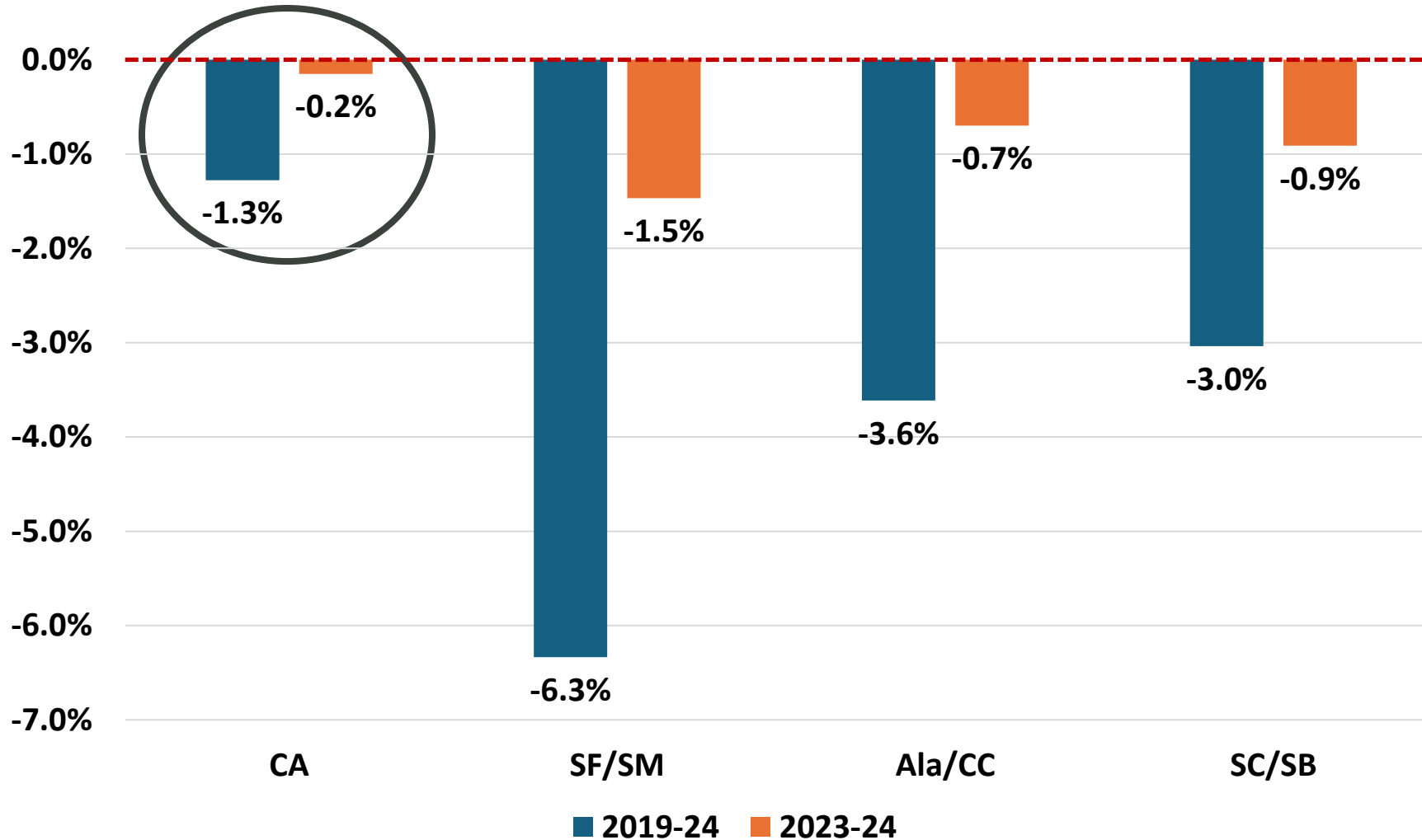
The 2020s will be remembered in CA and the Bay Area as a labor shift and shock

Riverside, San Bernardino, Sacramento Fresno, main recipients of new workers

Demographic shift and slow housing unit growth

Employment Levels: California and Bay Area on Average

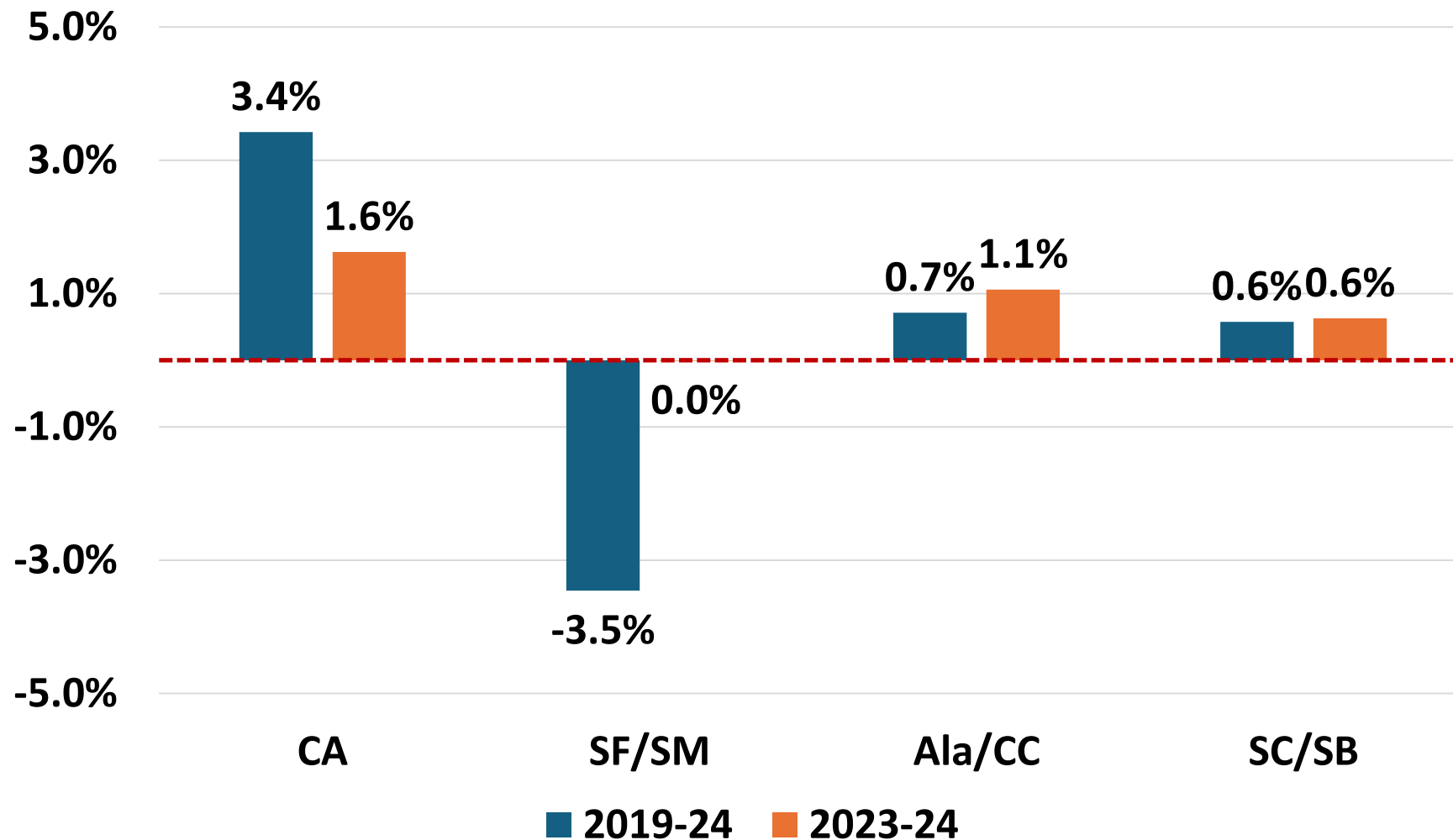
% Change in Workers since Aug 2019 and Aug 2023 as of Aug 2024



Californians employed falling over 5 year period with recovery and expansion otherwise first time outside recession

Small to medium business pressure on wages and search costs due to fewer workers available, thus fewer hired

Employer Hiring: California and Bay Area, % Change in Workers since Aug 2019 and Aug 2023 as of Aug 2024



California businesses hiring, but at a slower pace in 2024

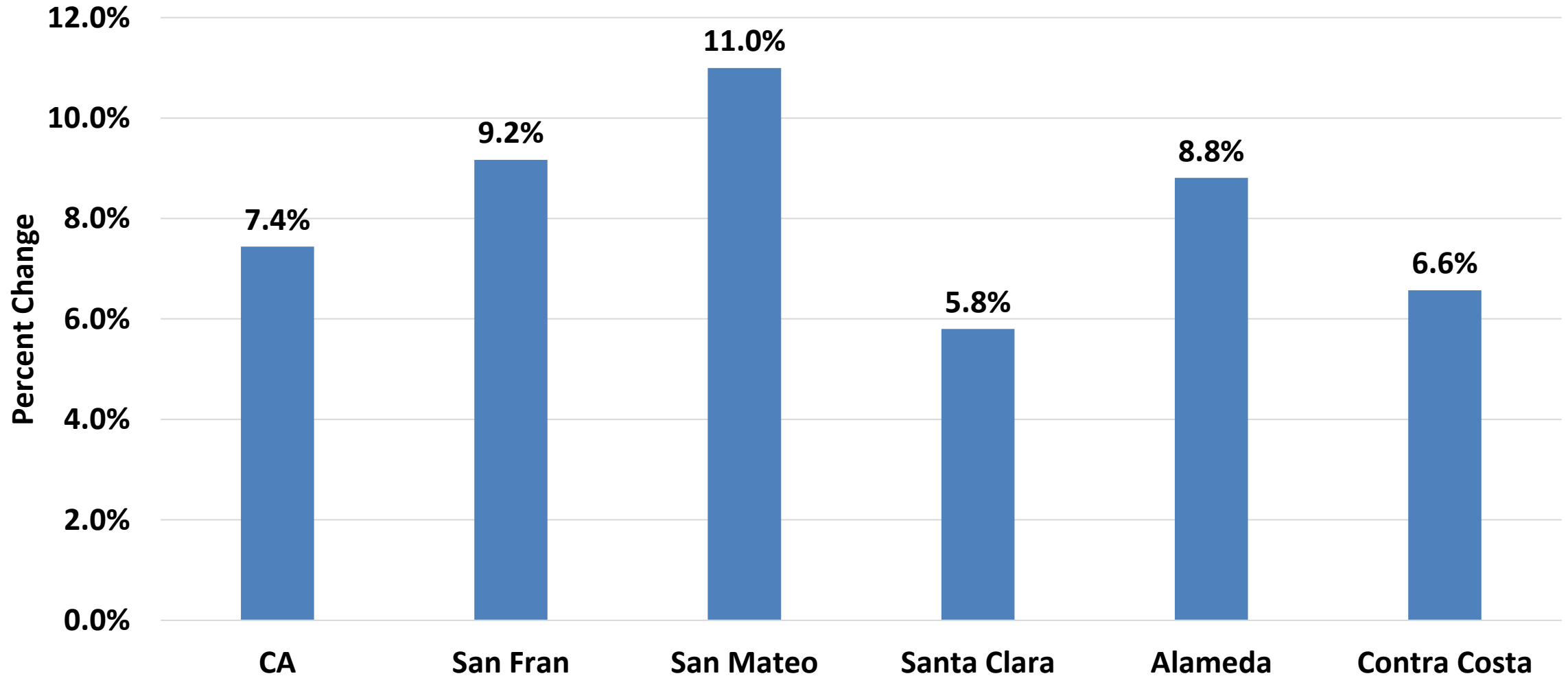
Driving national picture, all states starting to slow down

Construction and healthcare main part of that story

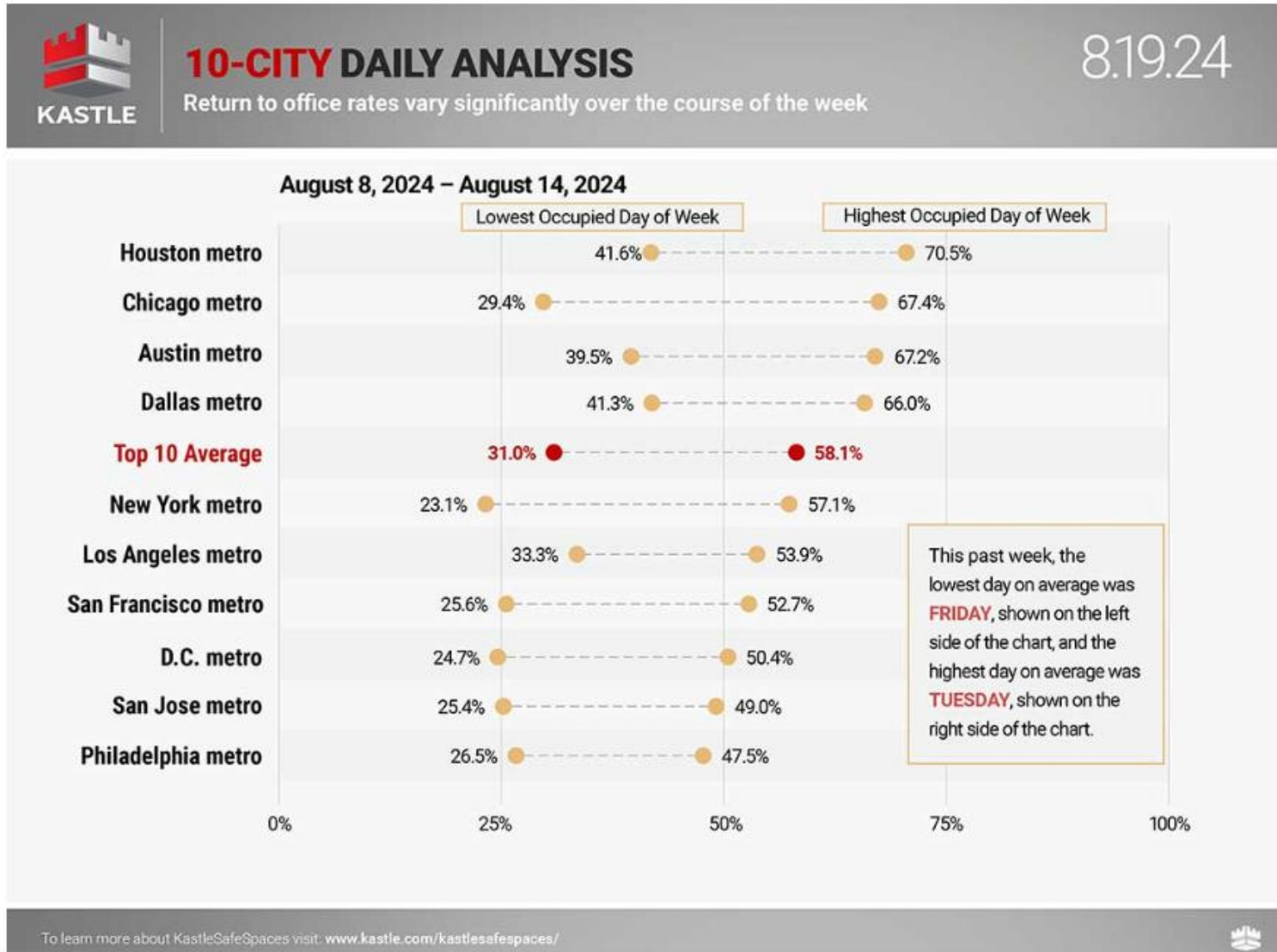
Services otherwise now providing main boost

Forecast: Jobs Growth in the NFN North

% Change by Selected Counties and CA, 2023-30



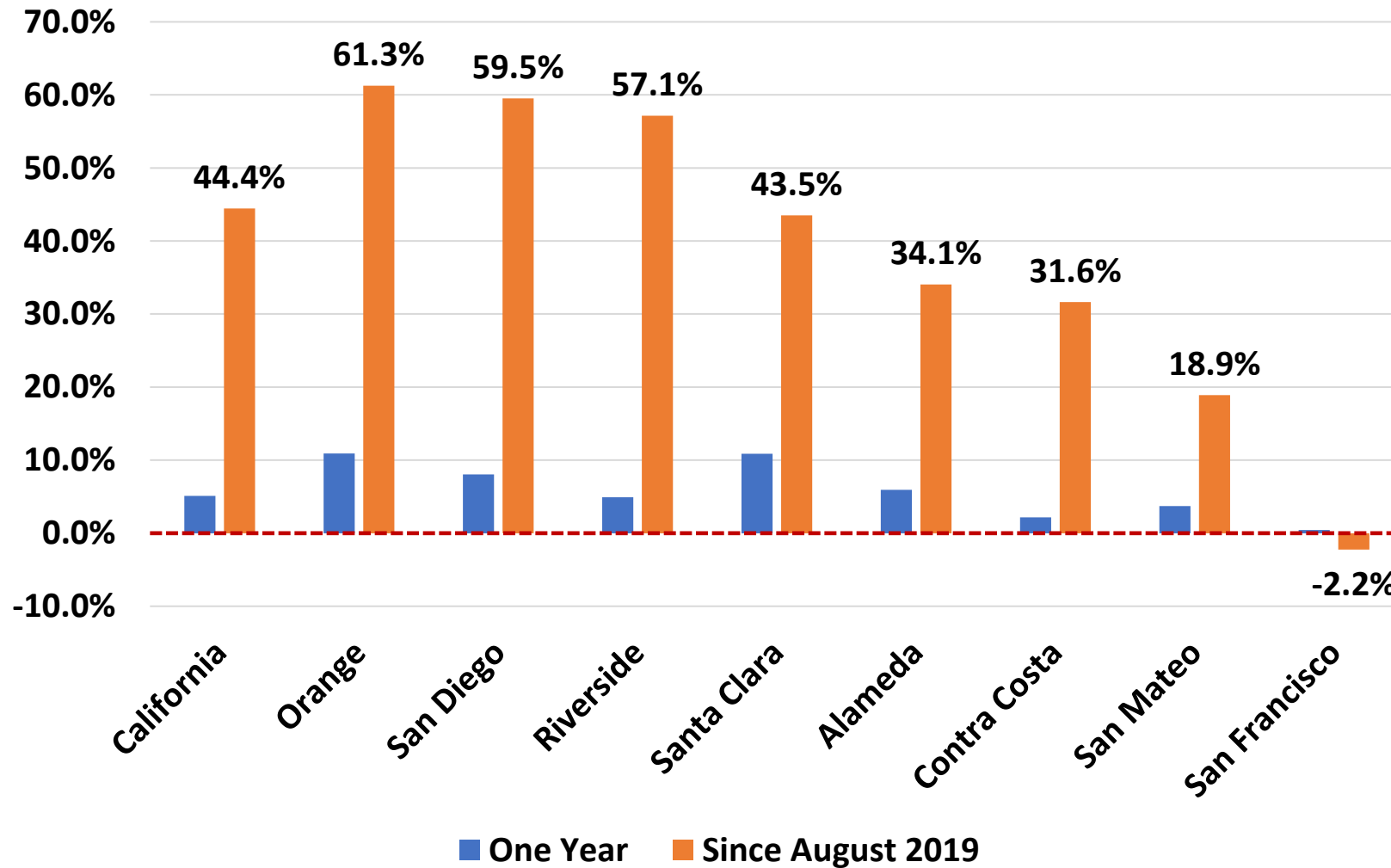
Commercial Real Estate: Commuters and Visitors



- Utilization: Kastle Systems monitors card swipes and provides data
 - Nationwide still 40 to 60 percent of February 2020 utilization
 - Dallas and Chicago more; Houston, San Francisco, Los Angeles less
- Expect some defaulting loans, long-term vacancies (view like unemployment)
- What does this mean long-term?

Source: <https://www.kastle.com/safety-wellness/getting-america-back-to-work/>

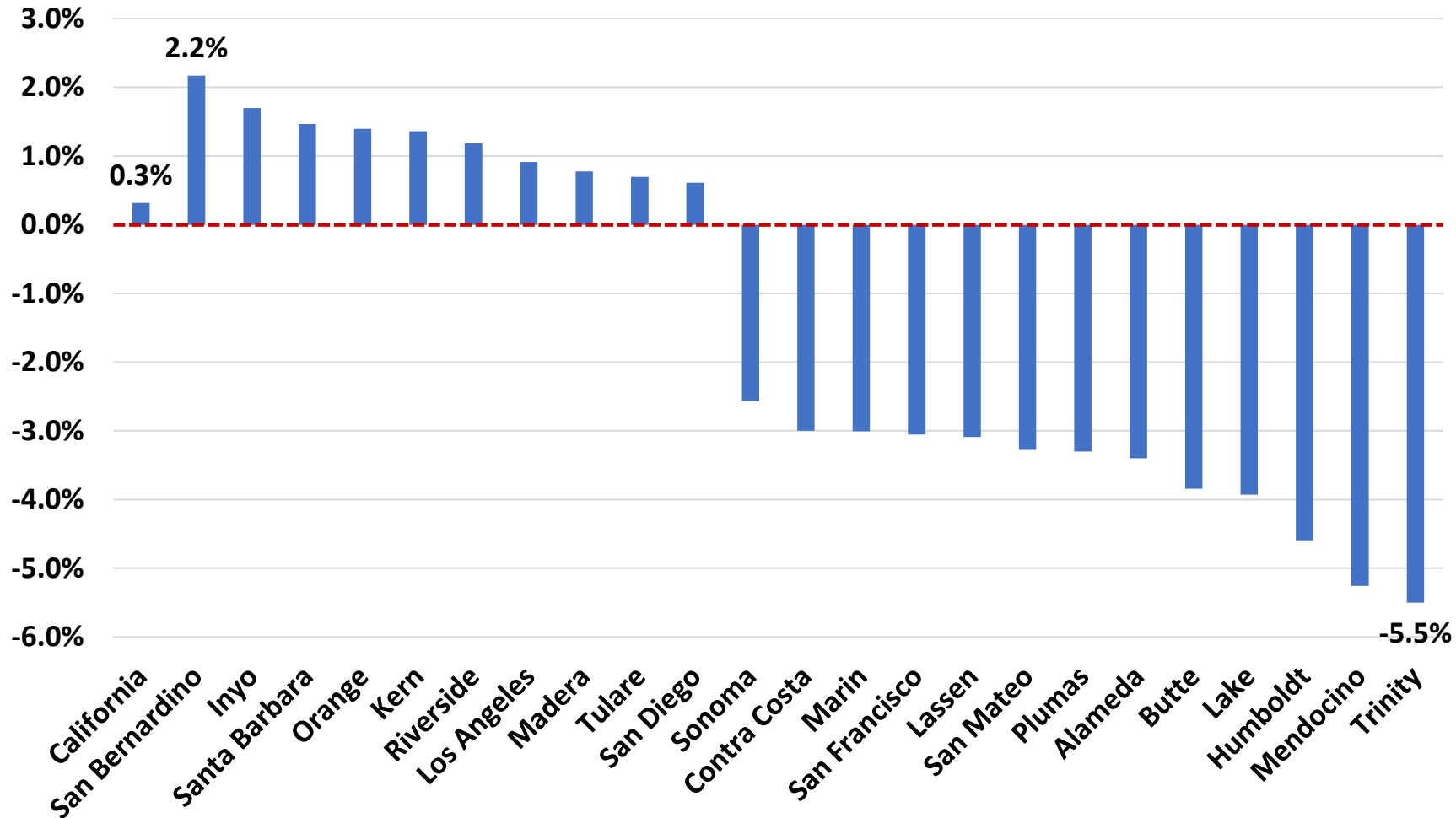
Median Home Price Change (%), NFN North Counties and CA % Change Since August 2019 and Aug 2023 to August 2024



Three major issues:

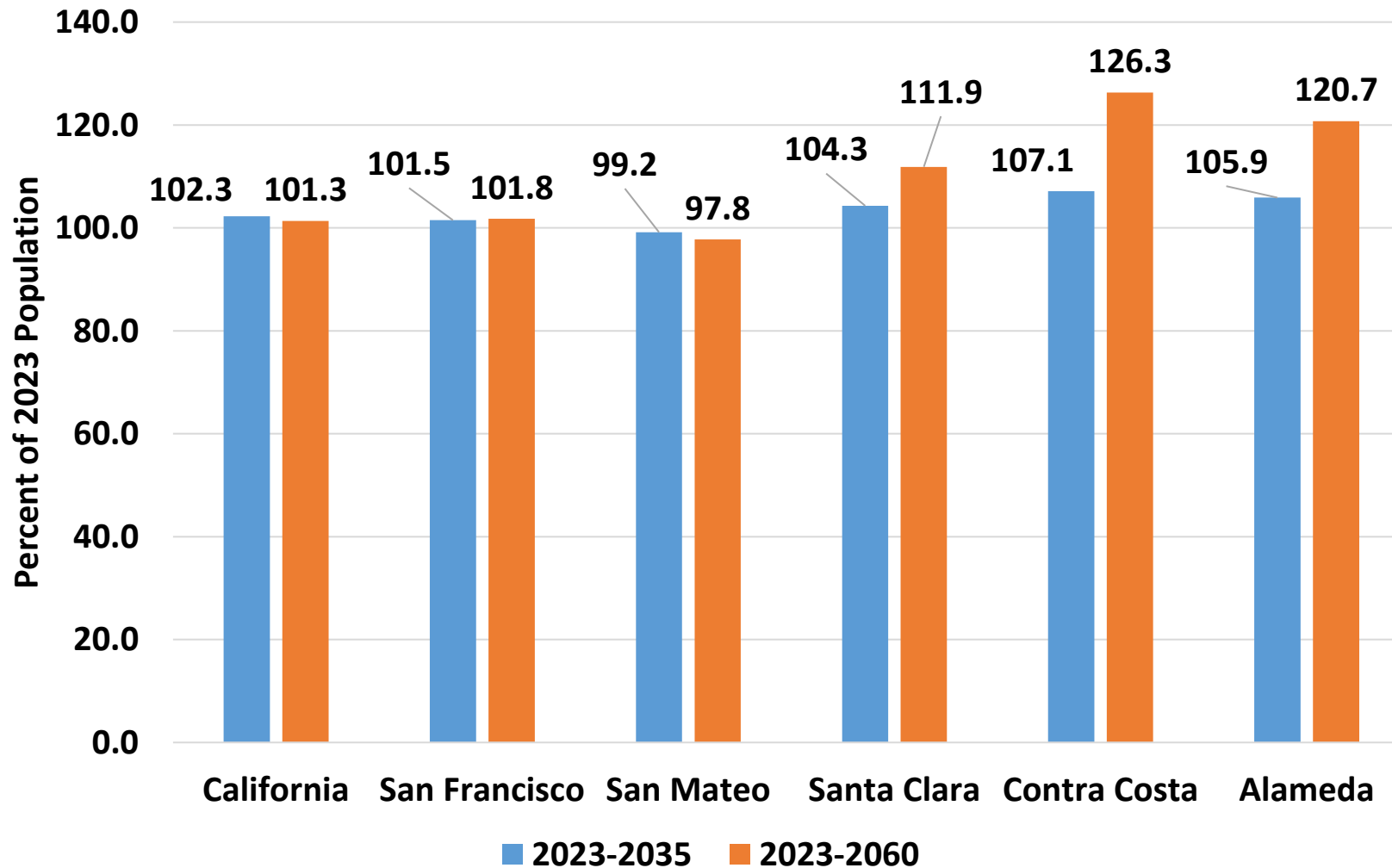
1. Will Prop 33 have any effects if passed? Yes, but in medium term
2. Developers still facing uphill costs of construction and general NIMBY culture in Bay Area
3. Population shifts suggests medium-term issues for both demand and for existing units inventory in Bay Area

Housing Forecast, Aug 2024 to Aug 2025, % Change in Median Home Price, Selected Counties and California



1. Current forecast for CA suggests 50-50 split between homes for sale and homes for rent **as built**
2. Population rising again in CA suggests demand is there
3. How many homes will be built?
4. Rents down, for how long? Watch Nov 5 here
5. Wages up, but in real terms just barely

Population Change to 2035 and 2060 California and Core Bay Area Counties



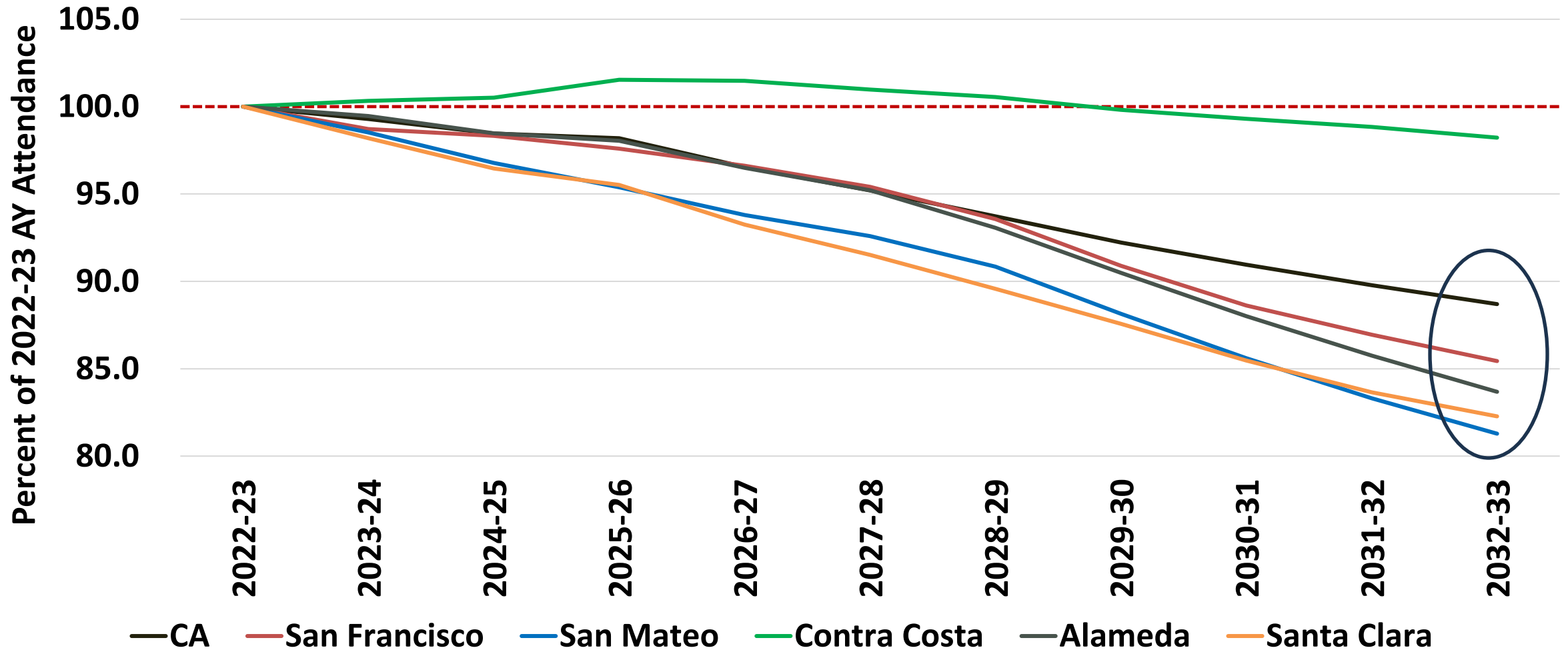
Growth in Santa Clara and East Bay, SF and SM much slower

K-12 attendance and local workers: slower

Change in services demand: aging population, how will this affect housing and labor markets and local new businesses

Will tech in the Bay Area remain?

Demography: K-12 Attendance Change, NFN North and CA, 2023-2033, Index 2022-23 AY = 100



Takeaways: Mixed Indicators

- National/Global
 - Rising credit delinquencies
 - Steady, slowing inflation
 - Equity markets strength continues
 - Interest rates to descend slowly
 - No recession, but slower moving economy
 - Watching hot spots in Ukraine and Middle East closely
- State/Regional
 - Jobs growth slowing down
 - More workers available, what does this mean for housing?
 - Housing markets continue to be stable, San Francisco specifically a great time to buy?
 - Demographic changes: older, less dynamic, fewer kids
 - Tech will remain here also long as universities and VC focus is here

THANKS!

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