



Social Narratives / Economic Realities

Federal Deficits, Asset Bubbles, and the Economic Outlook

Focus on San Jose / Silicon Valley



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June 2026



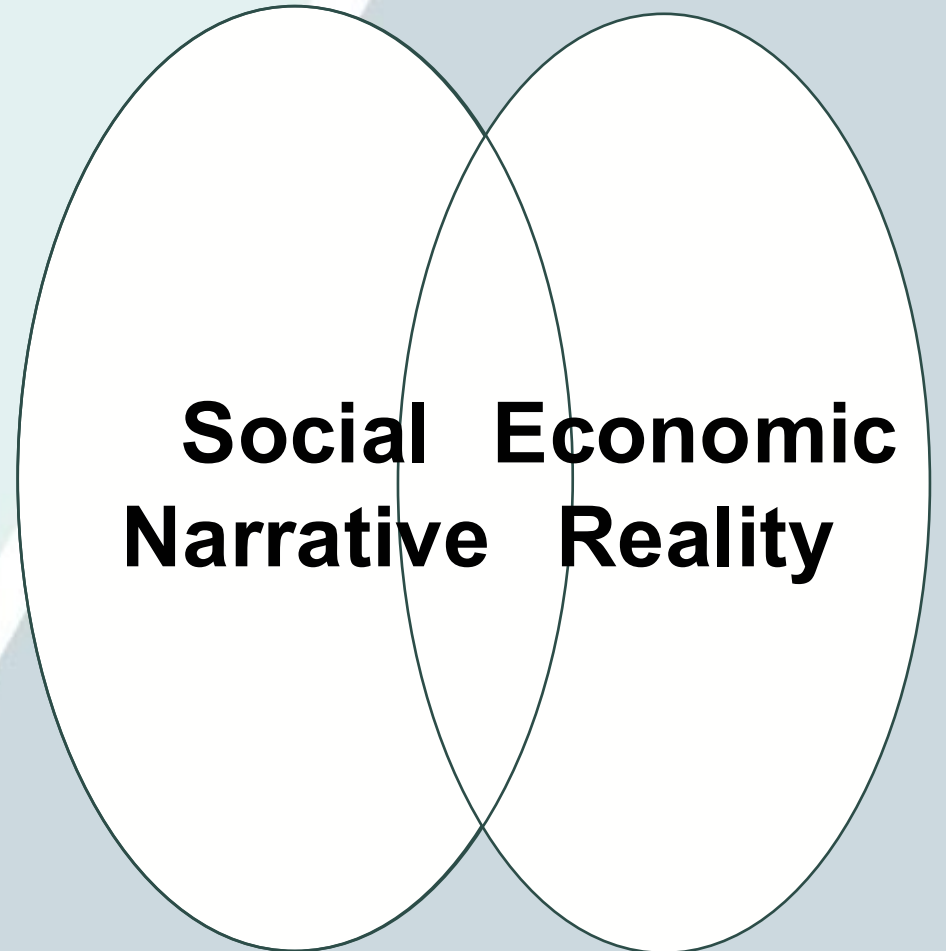
Beacon Economics

- 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

A Tale of Two Economies

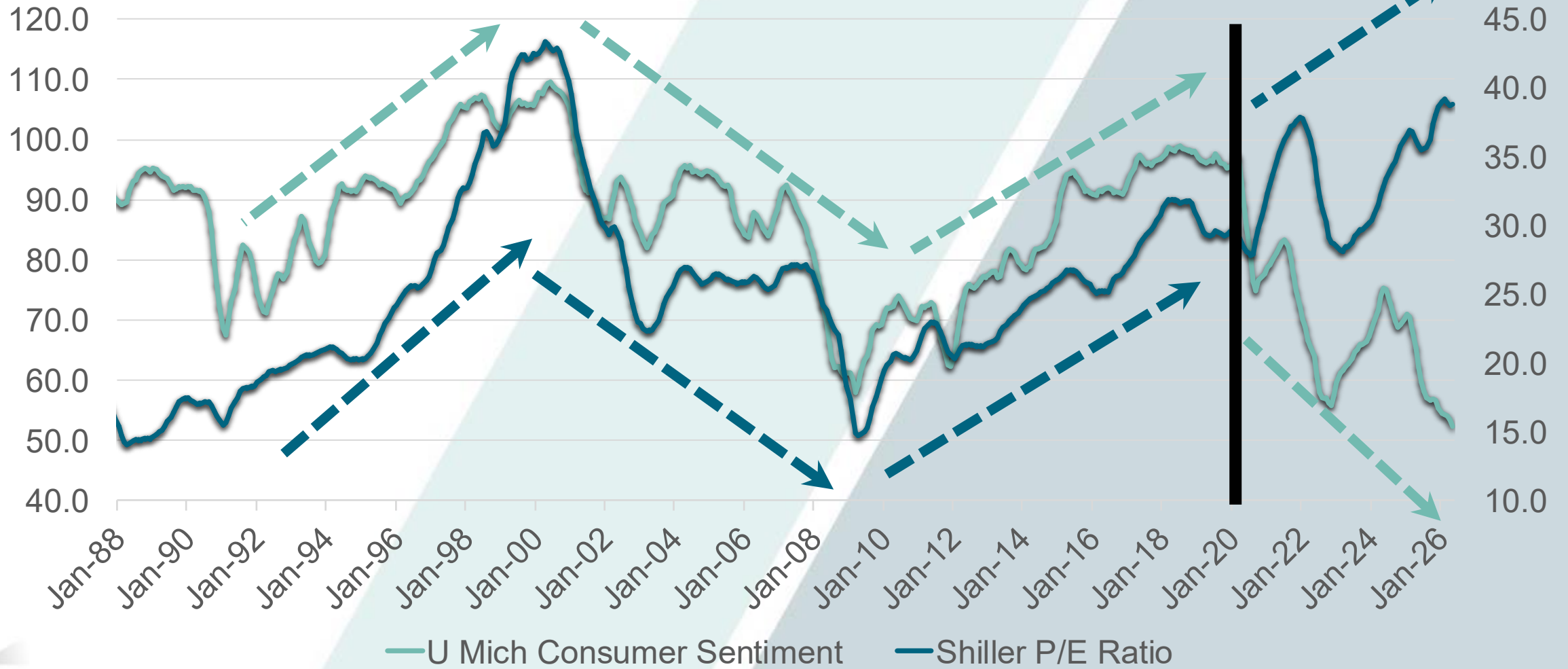
- What we *think* is happening in our economy (our social narrative or “lived experience”)
- What is *actually* happening in our economy (our objective statistical reality)

Good choices and smart policies start with the correct narrative.



2026: Competing Narratives

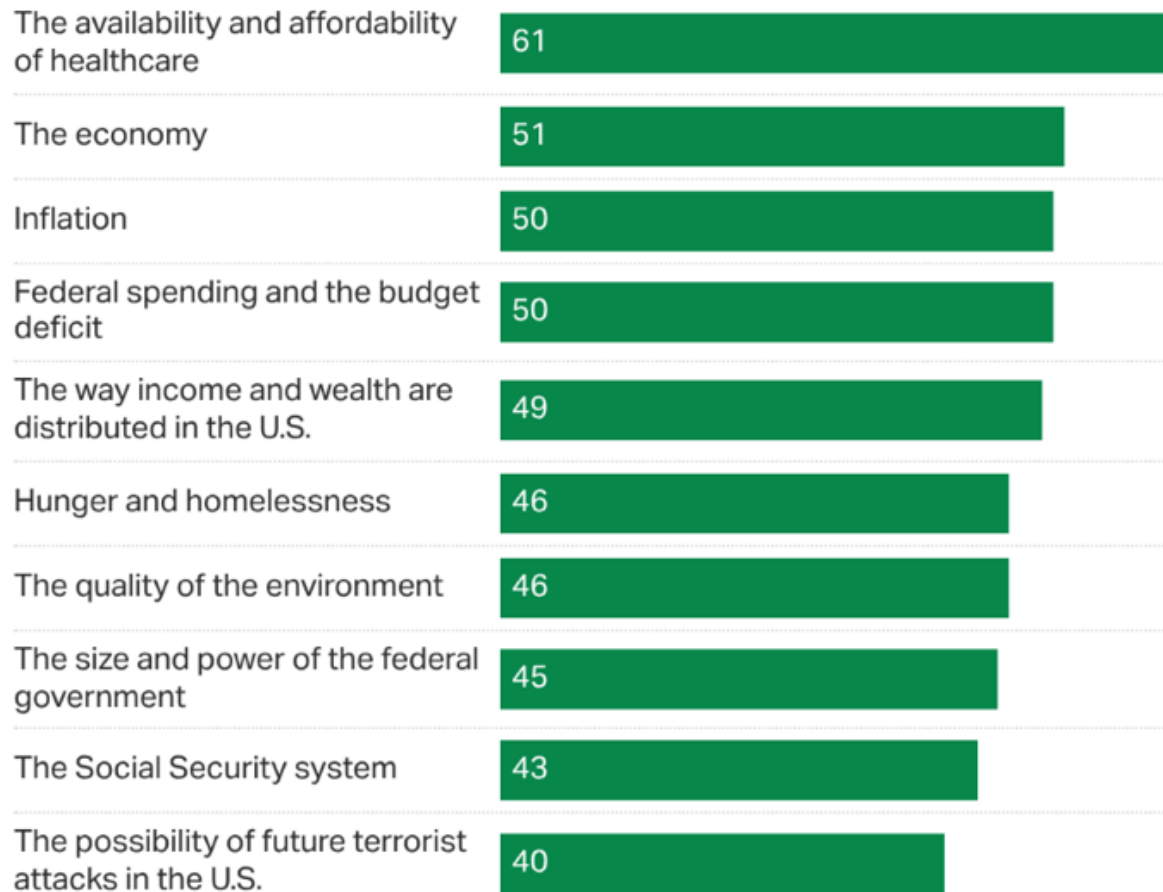
Consumer sentiment and Market P/E Ratio



The 2026 Narratives

What People are Worried About (Gallup)

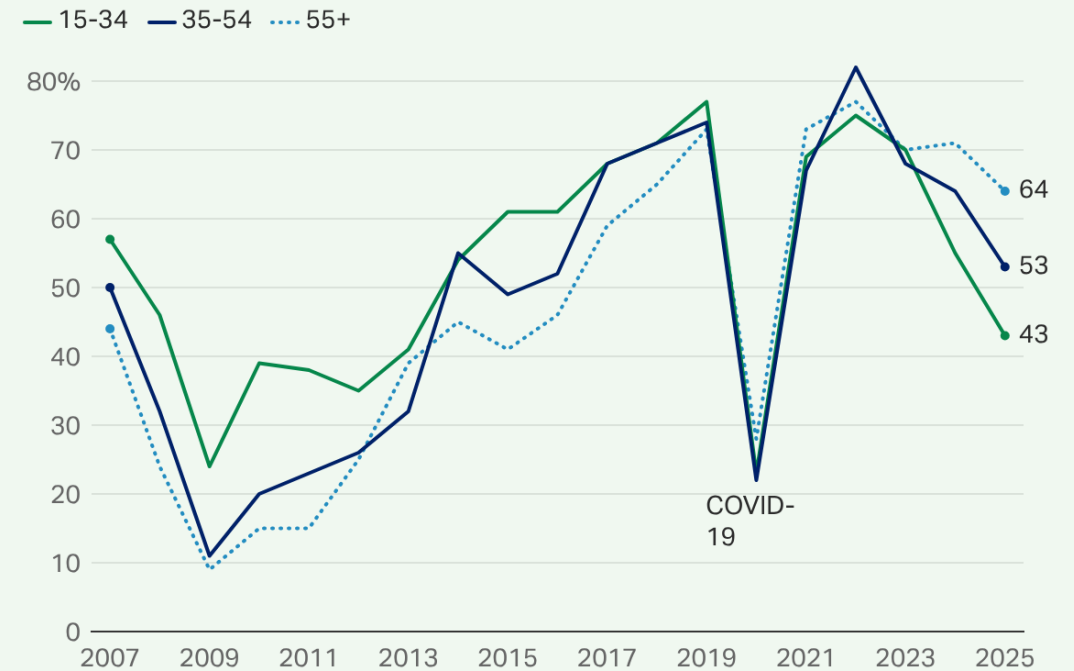
% Great deal



Young Americans No Longer More Positive About Job Prospects Than Older Adults

Thinking about the job situation in the city or area where you live today, would you say that it is now a good time or a bad time to find a job?

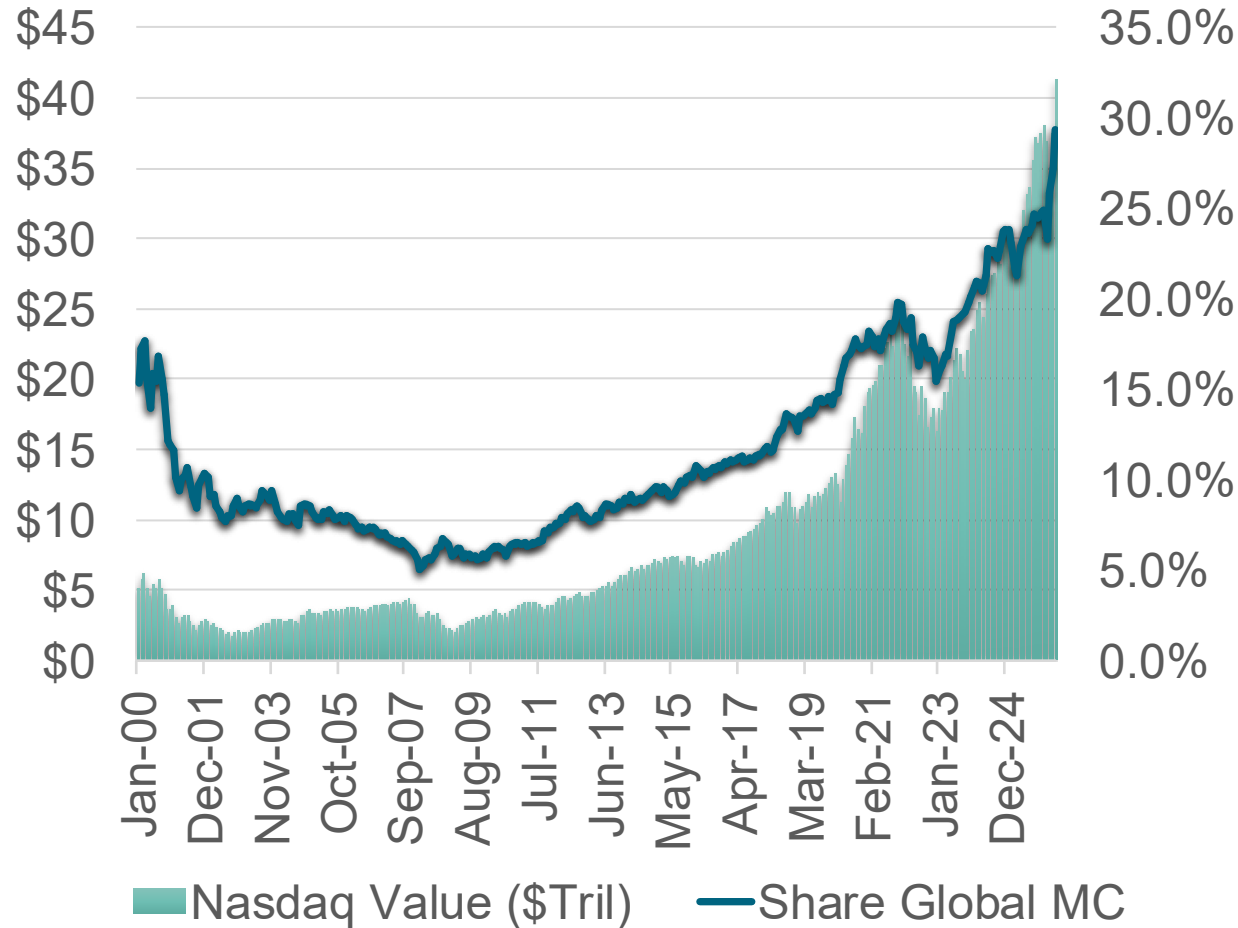
% Good time



That *Other* Economic Narrative



Nasdaq Market Capitalization

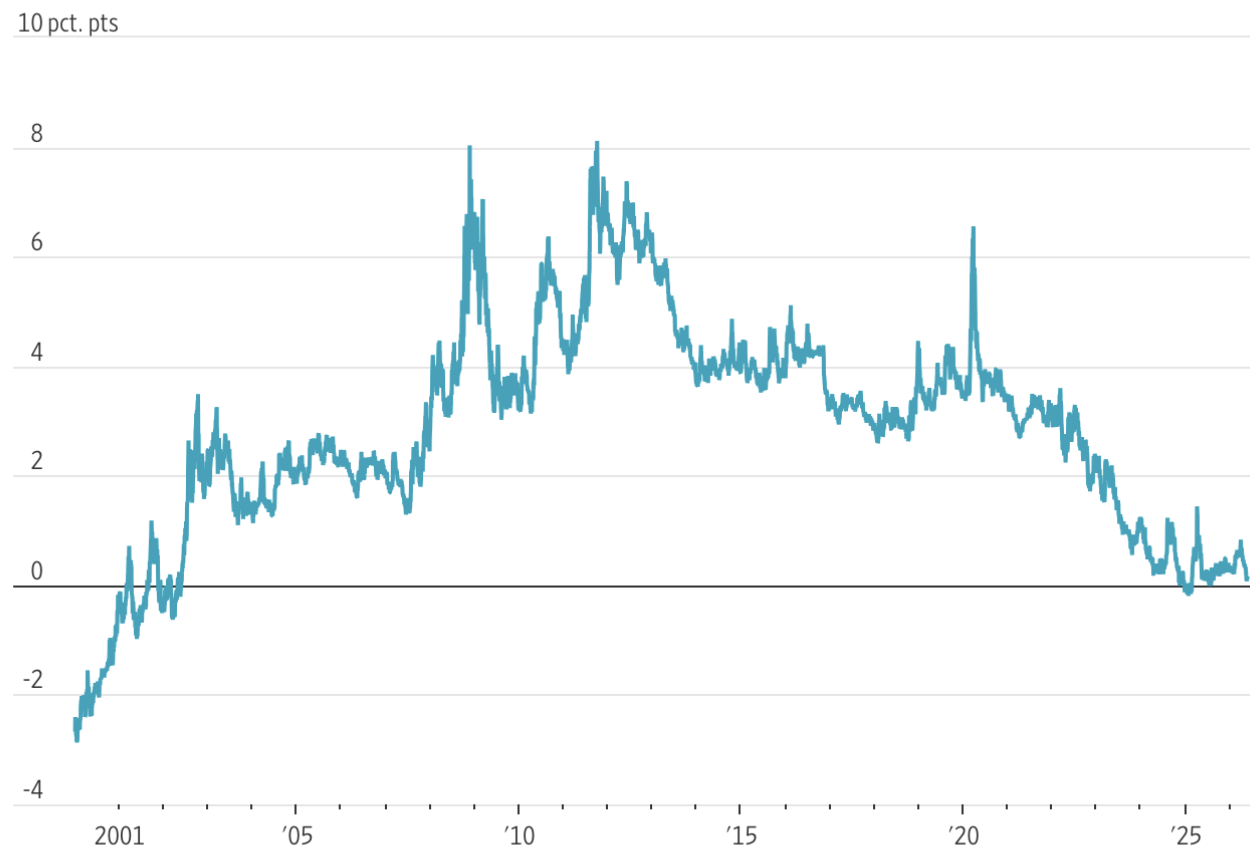


US Corporate Profits and Growth (SAAR)	2019	2025	Shares
	Q4	Q4	
Total	2513.1	4352.1	
Rest of the world	509.9	627.1	
Domestic industries	1913.4	3840.5	101%
Financial	576.7	989.8	21.4%
Utilities	4.0	54.9	2.6%
Durable goods M	199.3	433.4	12.1%
Computer Prod	74.7	187.6	5.9%
Nondurable goods	163.0	326.2	8.5%
Wholesale trade	131.4	229.6	5.1%
Retail trade	173.1	415.8	12.6%
Logistics	39.8	96.8	3.0%
Information	139.9	317.7	9.2%
Other nonfinancial	486.1	976.4	25.4%





S&P 500 equity risk premium



Note: Data updated through May 21

Source: FactSet, Tradeweb ICE, Dow Jones Market Data

- Total sports wagers skyrocketed from **\$4.9 billion in 2017** to **\$121.1 billion in 2023**, with **94% of wagers during 2023 placed online.**



The Beacon Outlook 2026

Economic Trends: Still pointing up...

- Household / Business finances still strong
- More fiscal and monetary stimulus being through at the economy
- Major drags: population growth stalled, political uncertainty

California and Silicon Valley

- Economy growing well on the *intensive* margin
- State housing “affordability” issue is a housing supply crisis
- Bay Area: The AI / VC boom lifting the region, not killing it

Beware the Imbalances

- Strong finances a function of public deficits and financial bubbles
- Even a small disruption in capital inflows could set off a fiscal crisis

Blame the Power of the Narrative

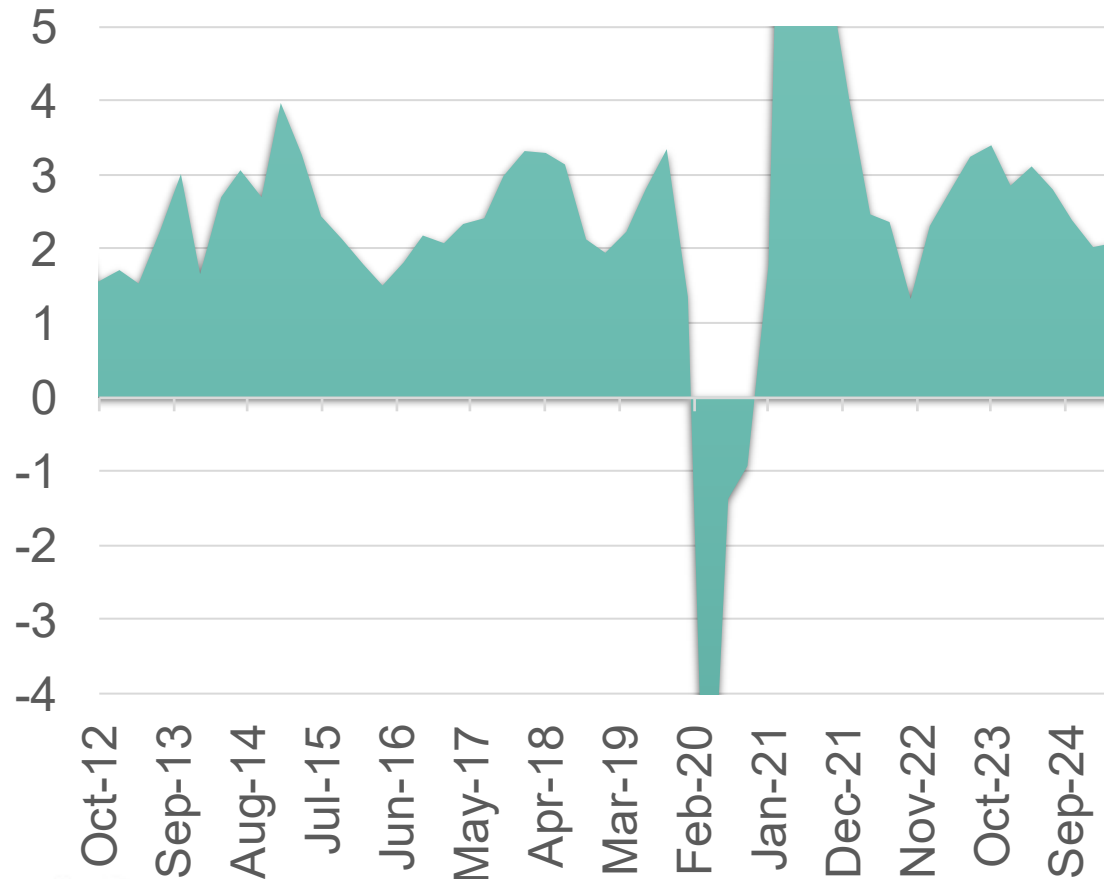
- Common sense policies are prevented by broken narratives
- The rise of populism in the age of abundance



GDP Growth: Slowing into 2026



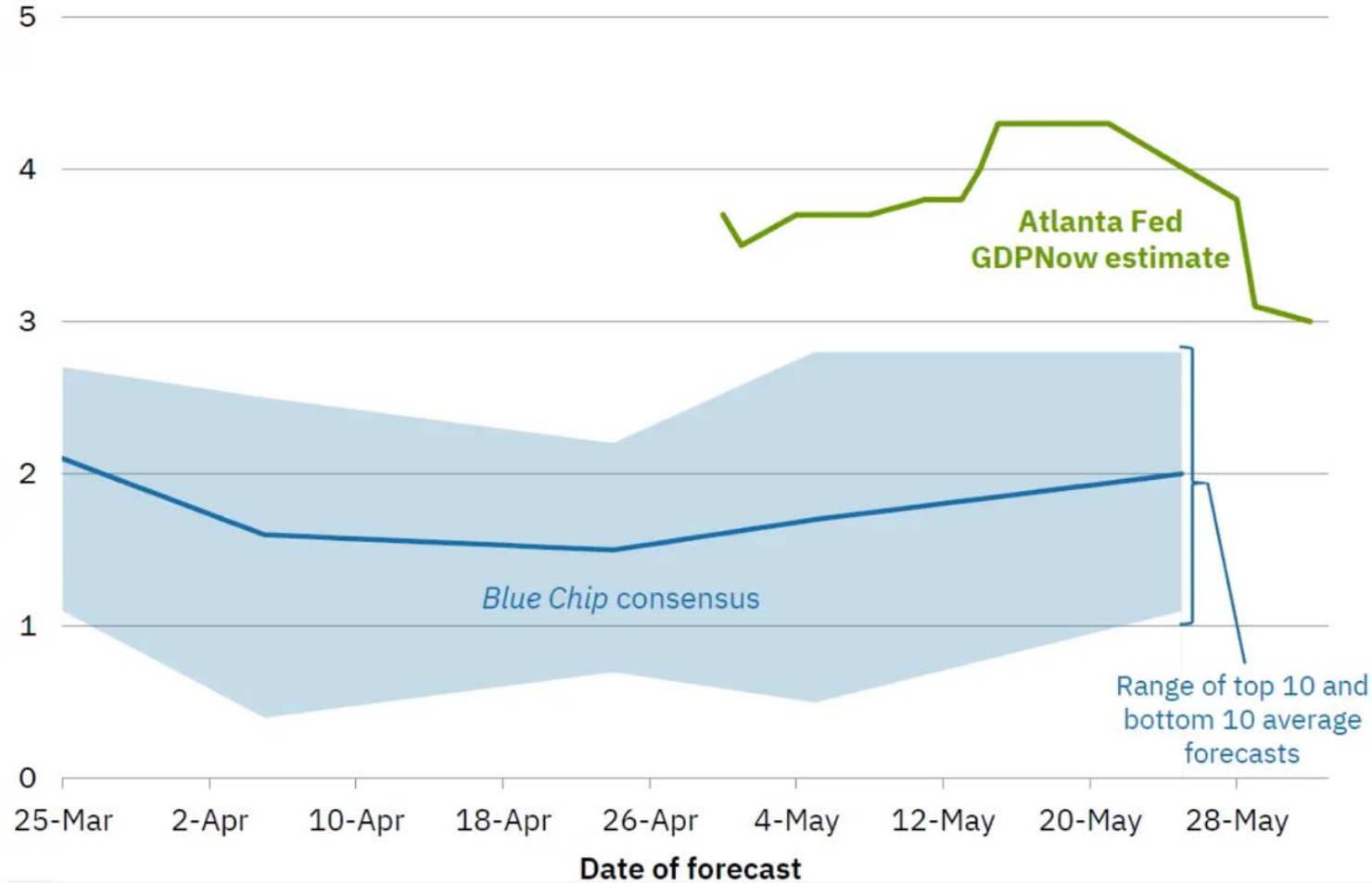
YoY Growth Real GDP
(to Q1 2026)



GDP Growth by Contribution	2023	2024	2025	2026 Q1
GDP	2.9	2.8	2.1	2.0
Final Demand	2.9	3.2	2.4	2.9
Consumption	1.7	2.0	1.8	1.1
Goods	0.4	0.6	0.7	0.0
Services	1.4	1.4	1.1	1.1
Fixed investment	0.6	0.5	0.5	1.1
Structures	0.5	0.0	-0.2	-0.2
Equipment	0.2	0.2	0.4	0.9
Intellectual	0.3	0.2	0.3	0.7
Residential	-0.4	0.1	-0.1	-0.3
Net exports	0.5	-0.4	-0.2	-1.3
Exports	0.3	0.4	0.2	1.3
Imports	0.1	-0.8	-0.4	-2.6
Government	0.6	0.7	0.2	0.7

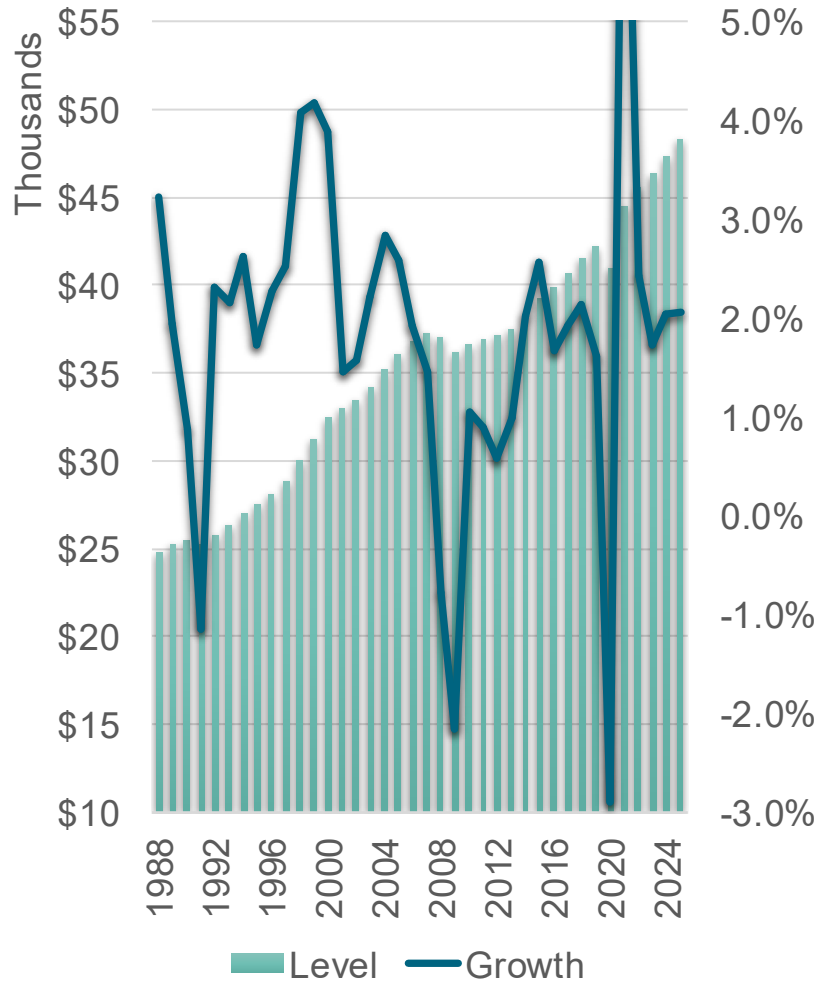


Evolution of Atlanta Fed GDPNow real GDP estimate for 2026:Q2 Quarterly percent change (SAAR)



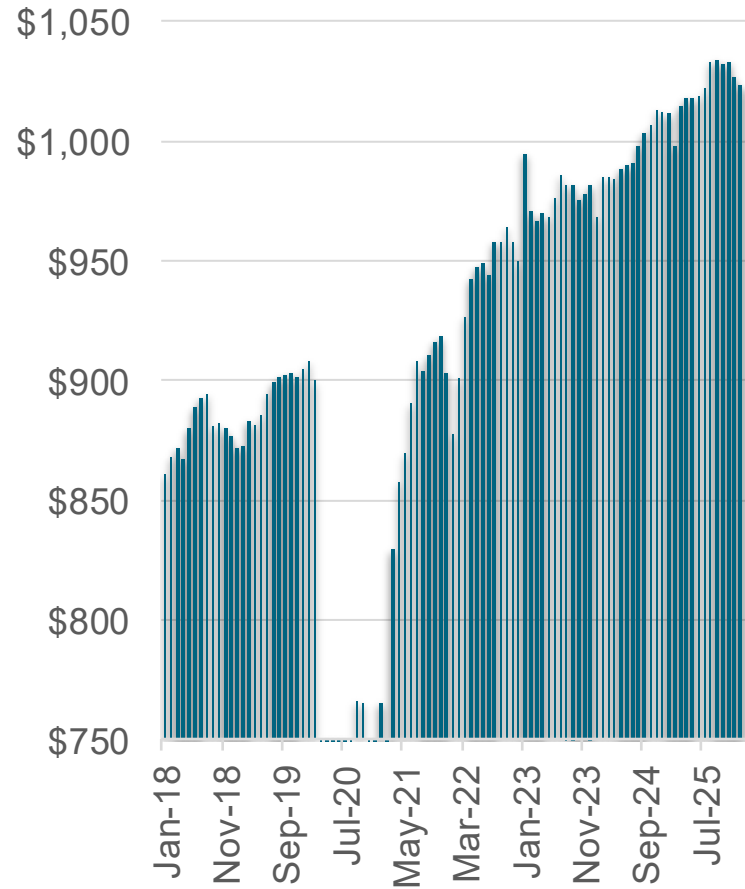
Consumers: Still Having Fun!

Real Per Capita Consumption



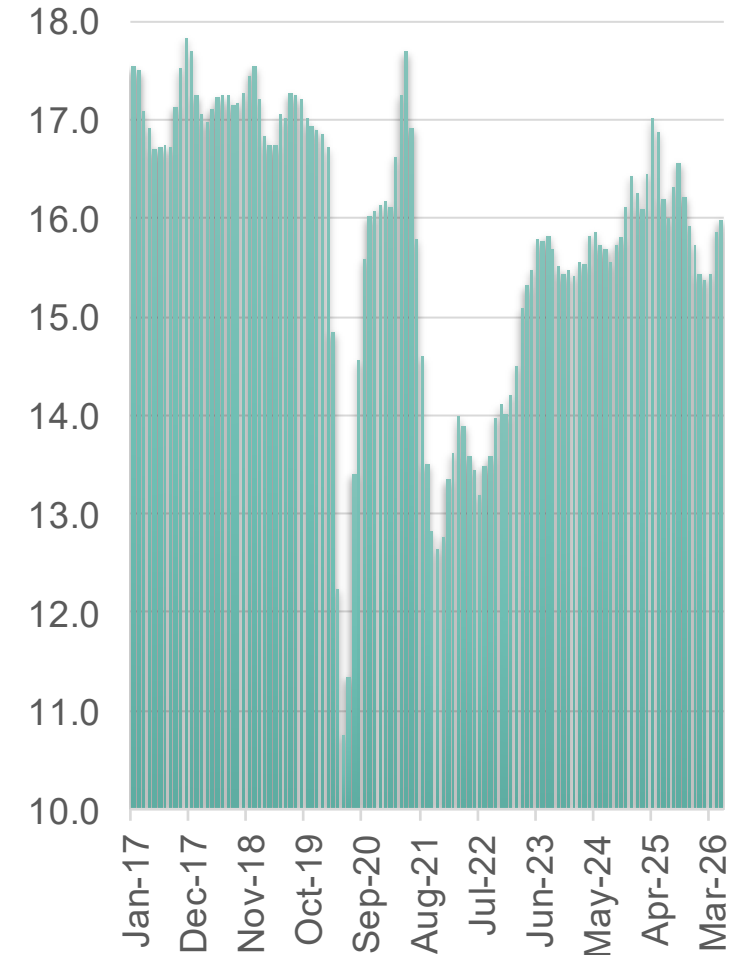
Real Spending Restaurants, Entertainment and Gambling

\$Bil SAAR



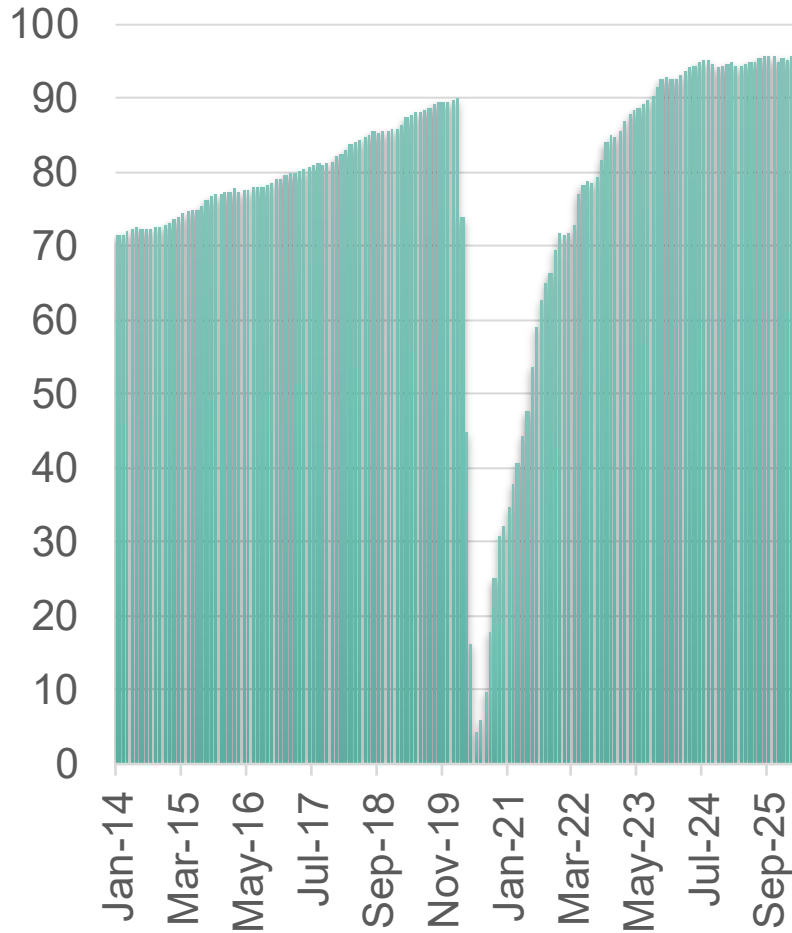
Auto & Light Truck Sales

Millions SAAR

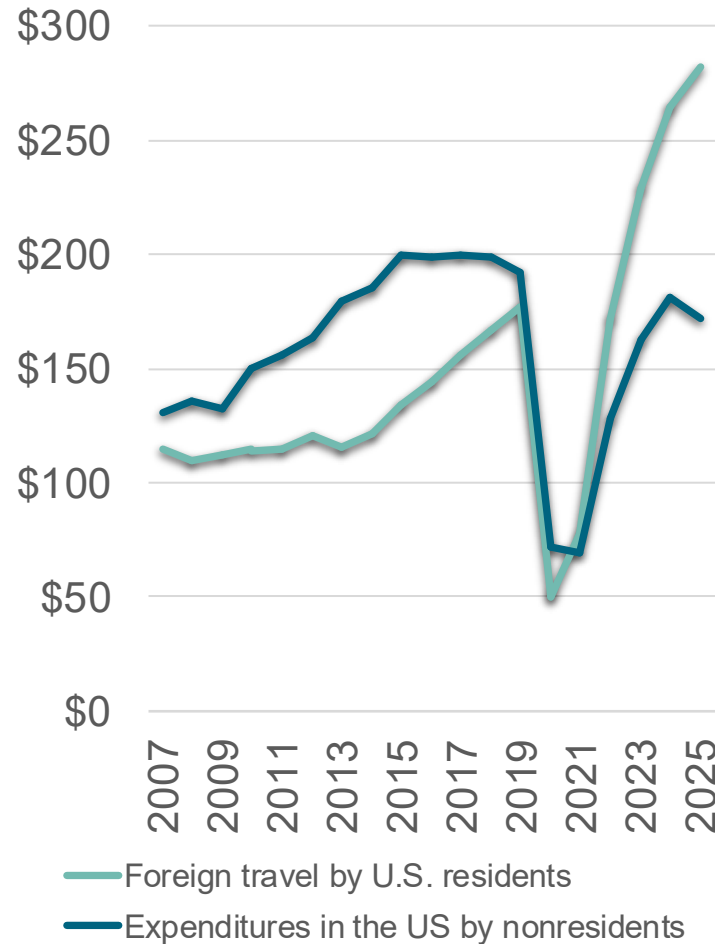


Travel, Tourism and the \$US

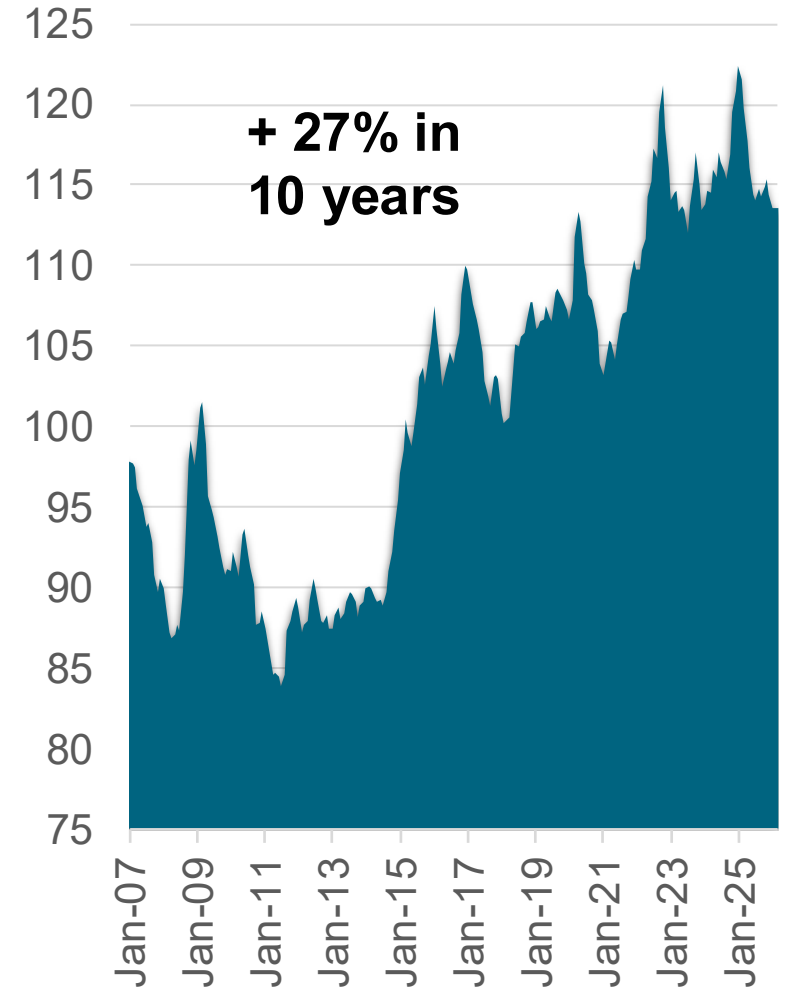
US Air Passenger Miles



Real Spending on International Travel

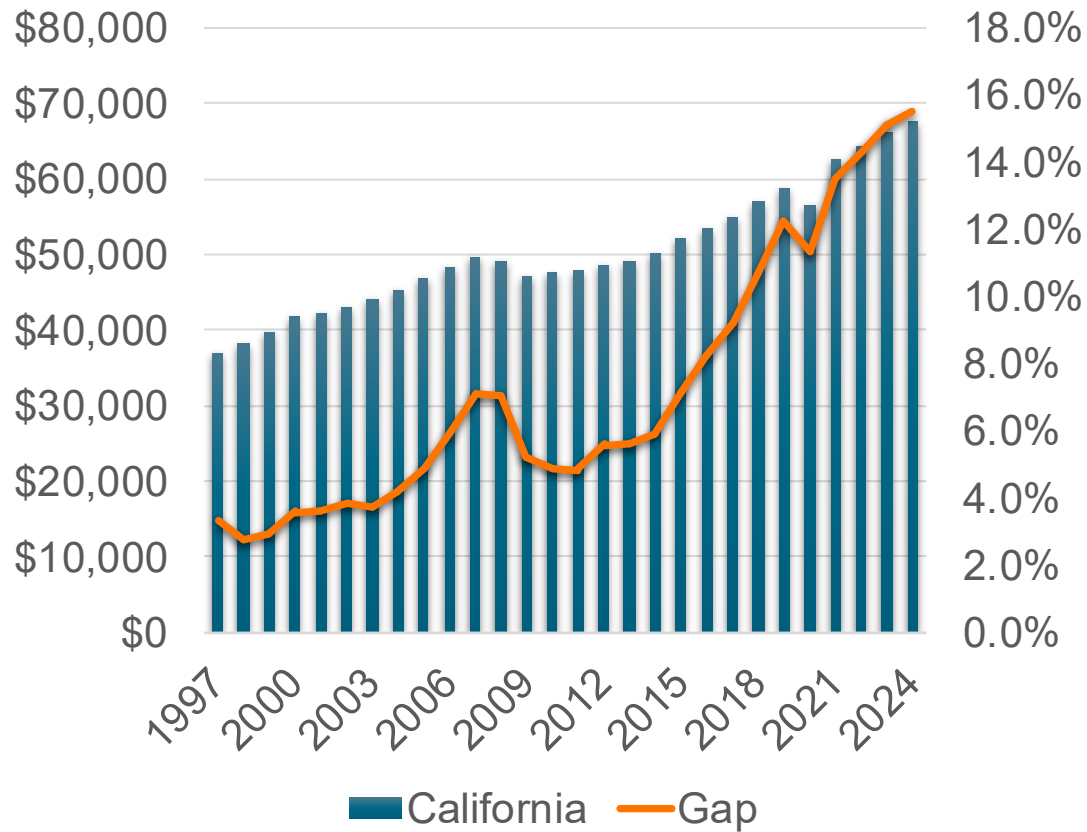


Real \$US Broad Index

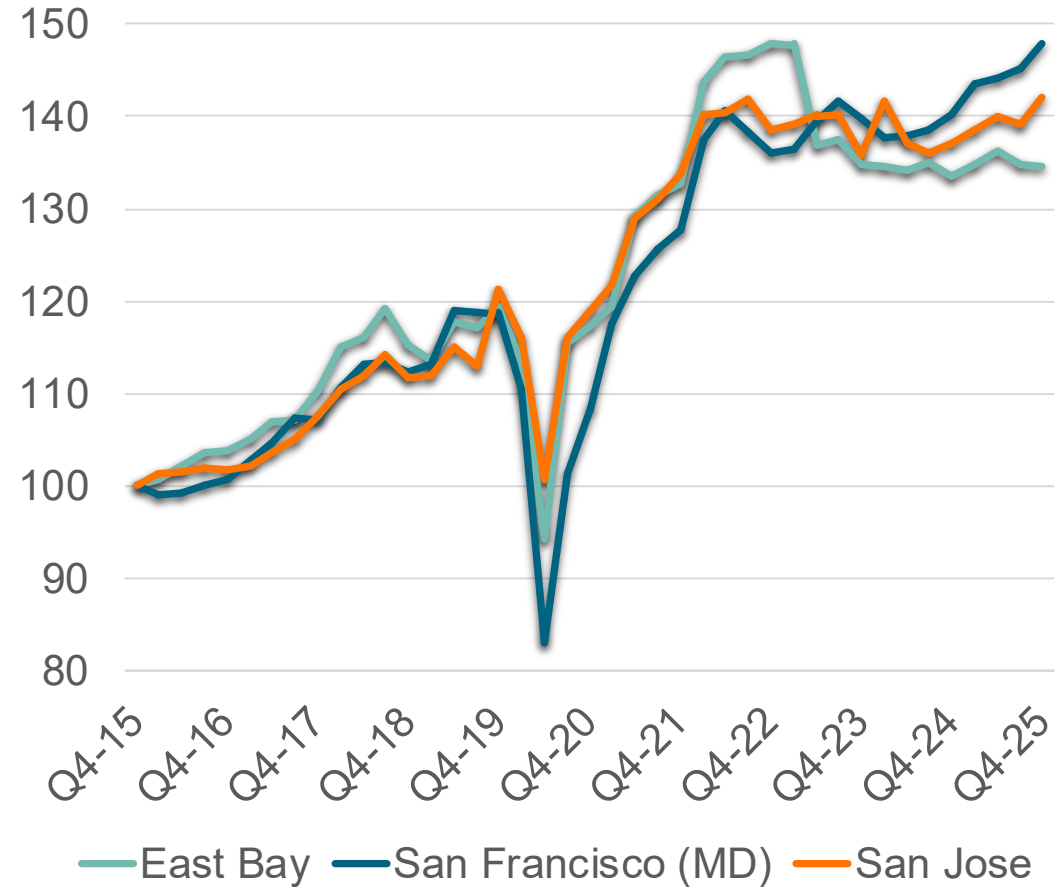


Regional Spending Trends

Real Per Capita Spending CA and CA / US Spending Gap

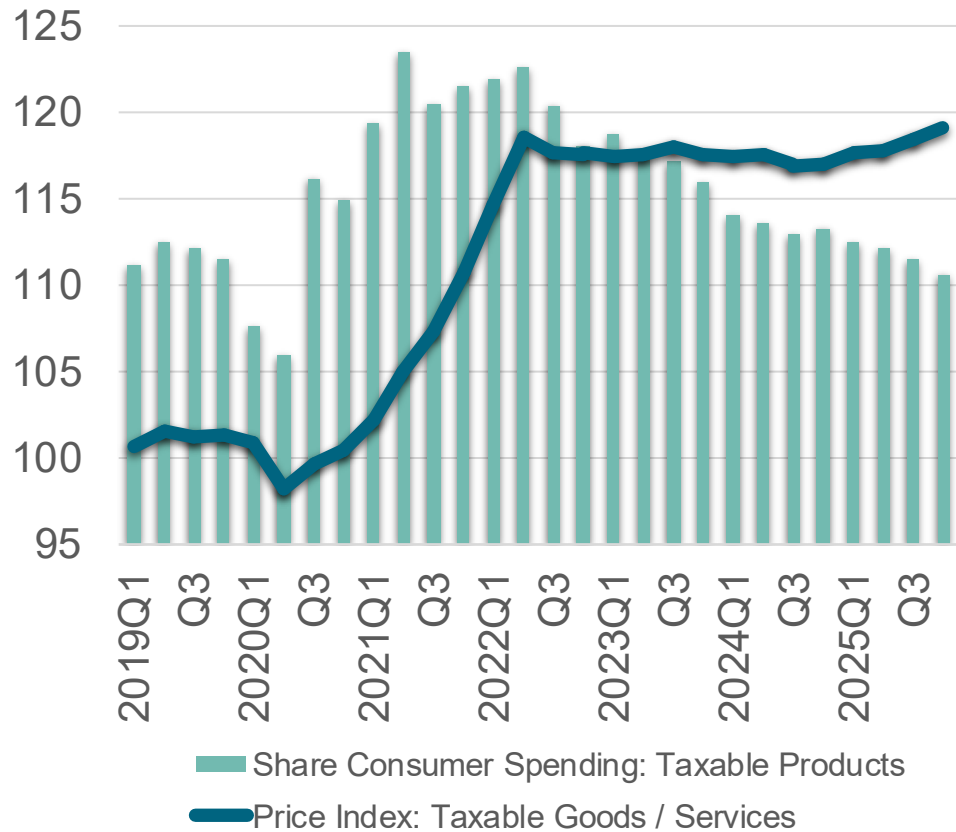


Indexed Tax Receipts



Tax Receipts

Taxable Goods Price Index, Share Total

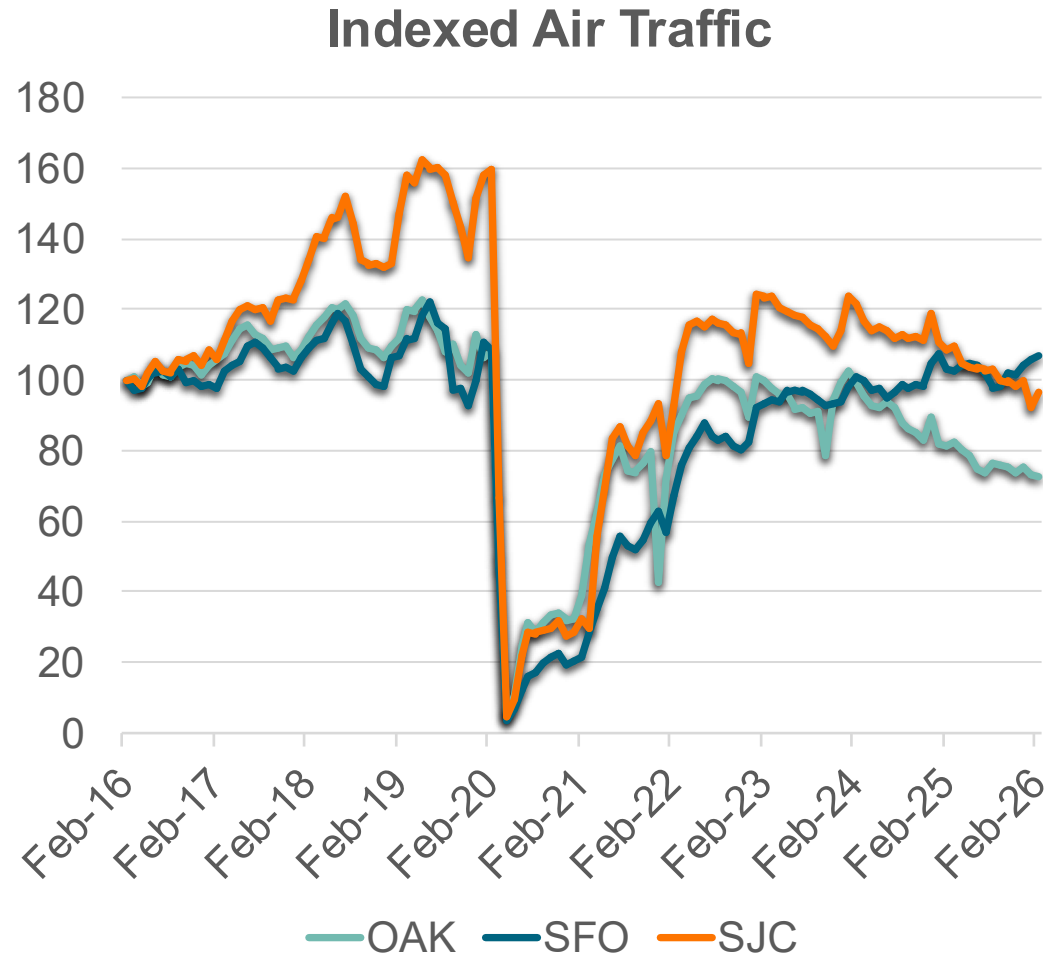


30%
29%
28%
27%
26%
25%
24%
23%

Metro	Q4-25 (\$, 000s)	1-Year Chg. (%)	Chg. Since Q4-19 (%)
California	2,322,650	1.2	24.7
San Francisco (MD)	58,947	5.6	24.6
Stockton	64,786	3.9	73.3
San Jose	149,651	3.7	17.1
Fresno	60,636	3.1	41.8
Inland Empire	311,474	2.4	44.5
Modesto	32,501	2.3	29.8
Ventura	50,888	1.7	31.8
Orange County (MD)	228,312	1.3	20.5
Sacramento	150,791	1.1	30.0
East Bay	155,347	0.8	12.7
San Diego	206,186	0.5	29.8
Los Angeles (MD)	518,077	0.4	16.1
Bakersfield	55,857	-1.0	40.3



Air Travel and Hotels

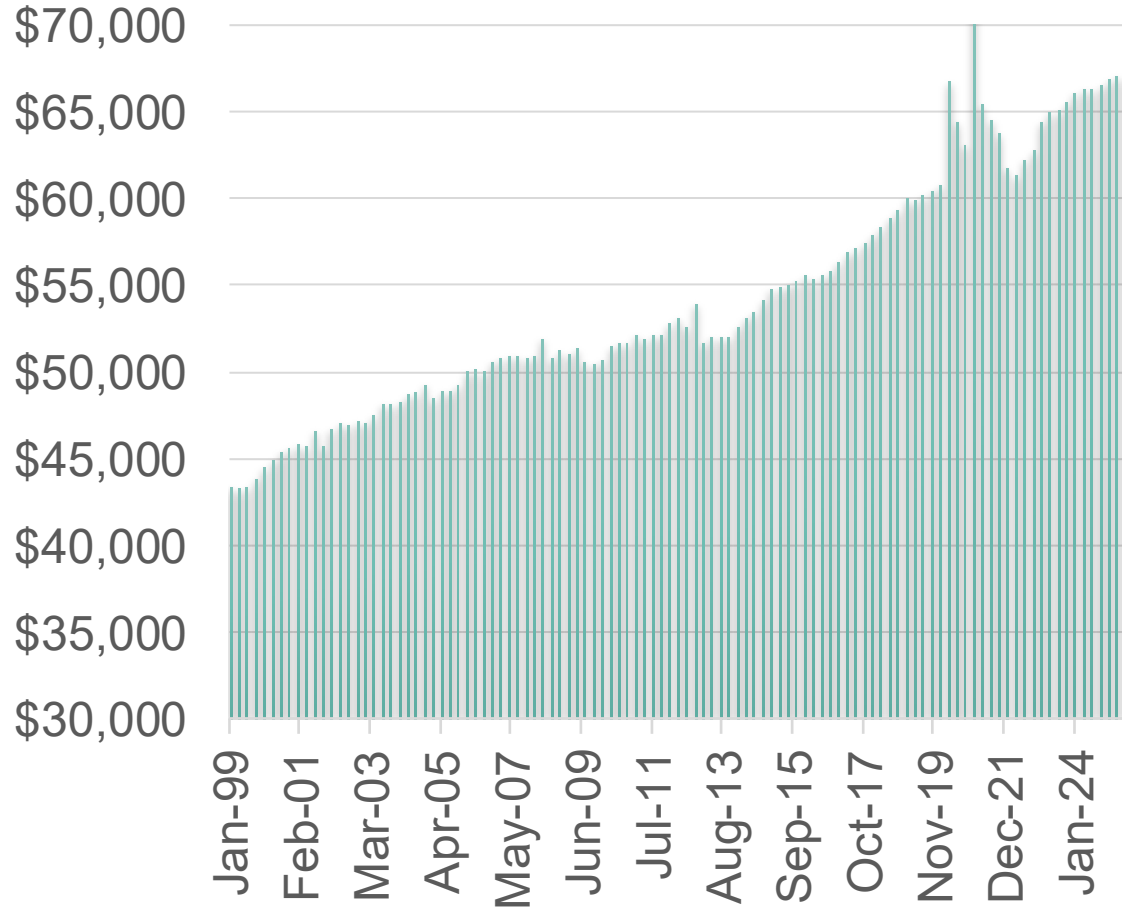


Location	Mar-26 RevPAR (\$)	1-Year Chg. (%)	Chg. since Dec-19 (%)
United States	102.74	1.8	19.2
San Francisco	195.55	26.2	-0.2
Miami	181.48	9.2	23.5
San Diego	164.41	3.2	28.8
Orange County	163.12	7.8	23.5
Las Vegas	158.34	0.8	35.2
Los Angeles	150.22	4.2	12.1
San Jose	138.02	14.9	1.3
Phoenix	123.14	6.8	30.4
Atlanta	80.30	-1.8	8.5
Houston	76.56	3.2	20.9

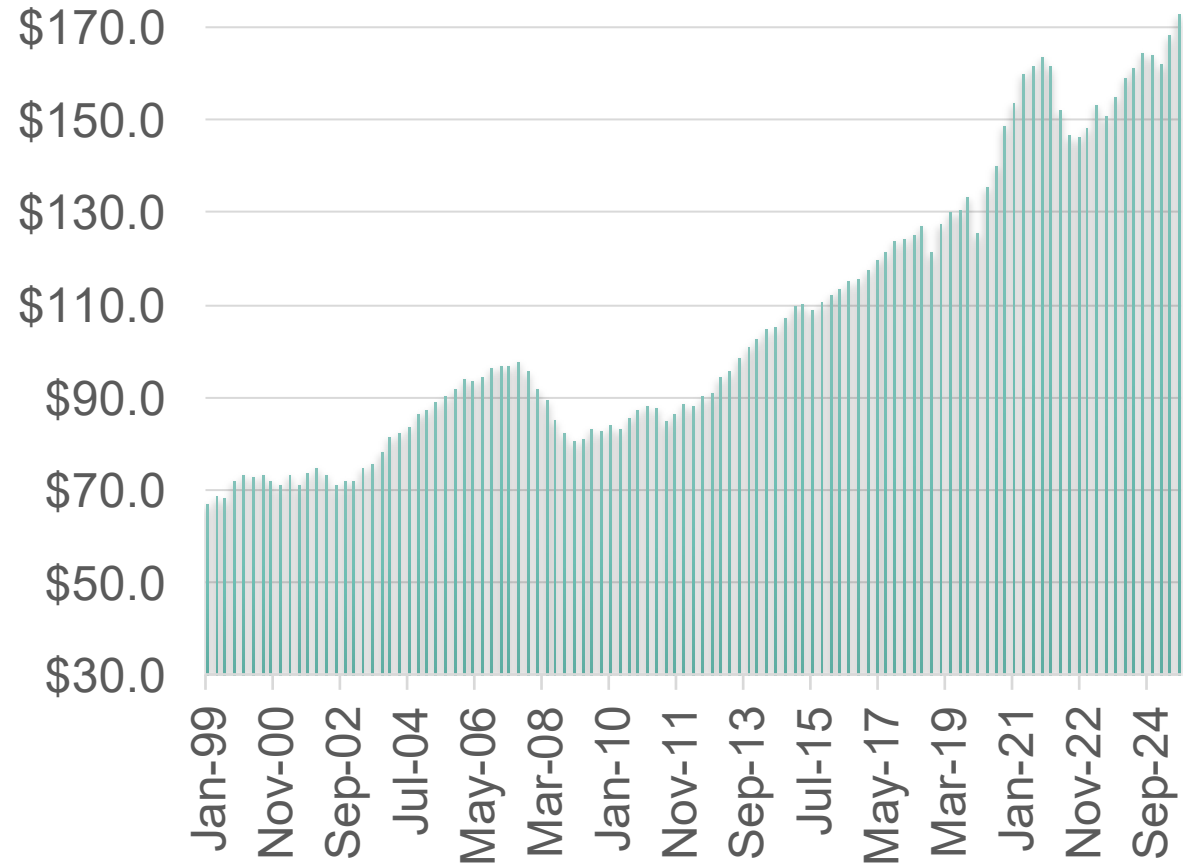


Record HH Income and Net Worth

Real Per Capita Disposable Income

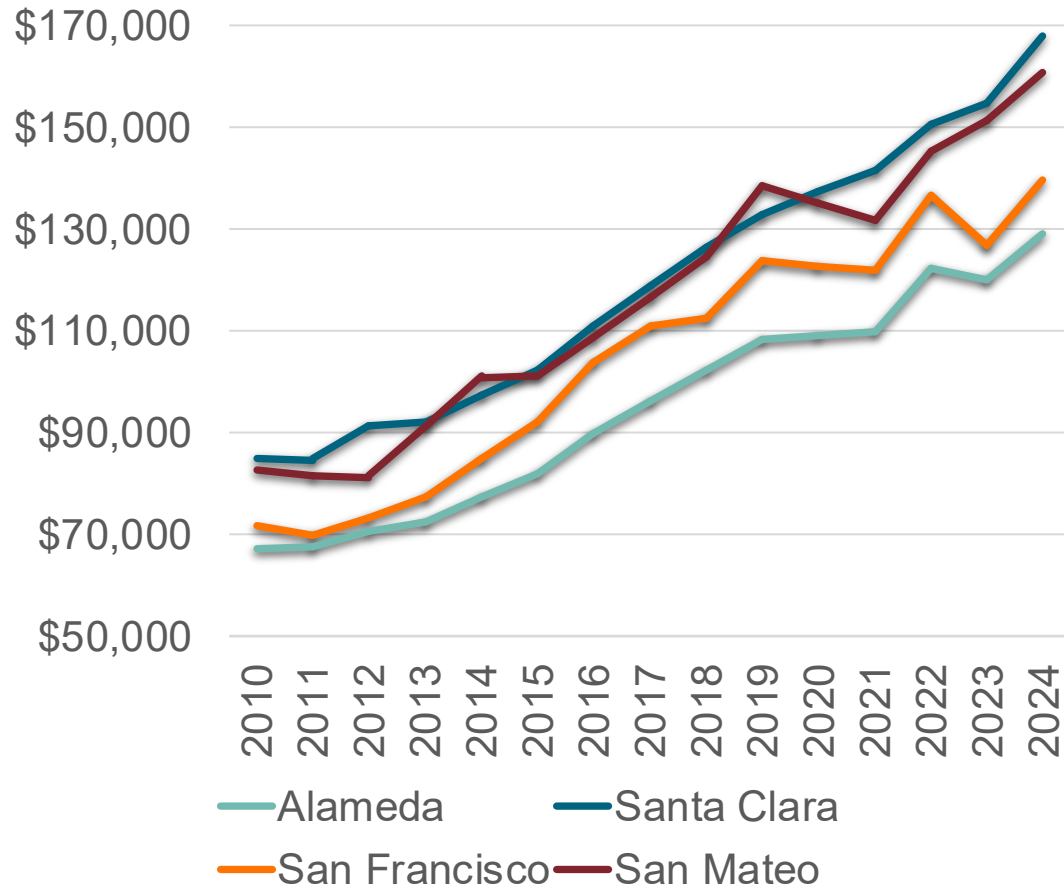


Real Household Net Worth (\$Trillions)



State Income, Local Earnings

Median Household Income

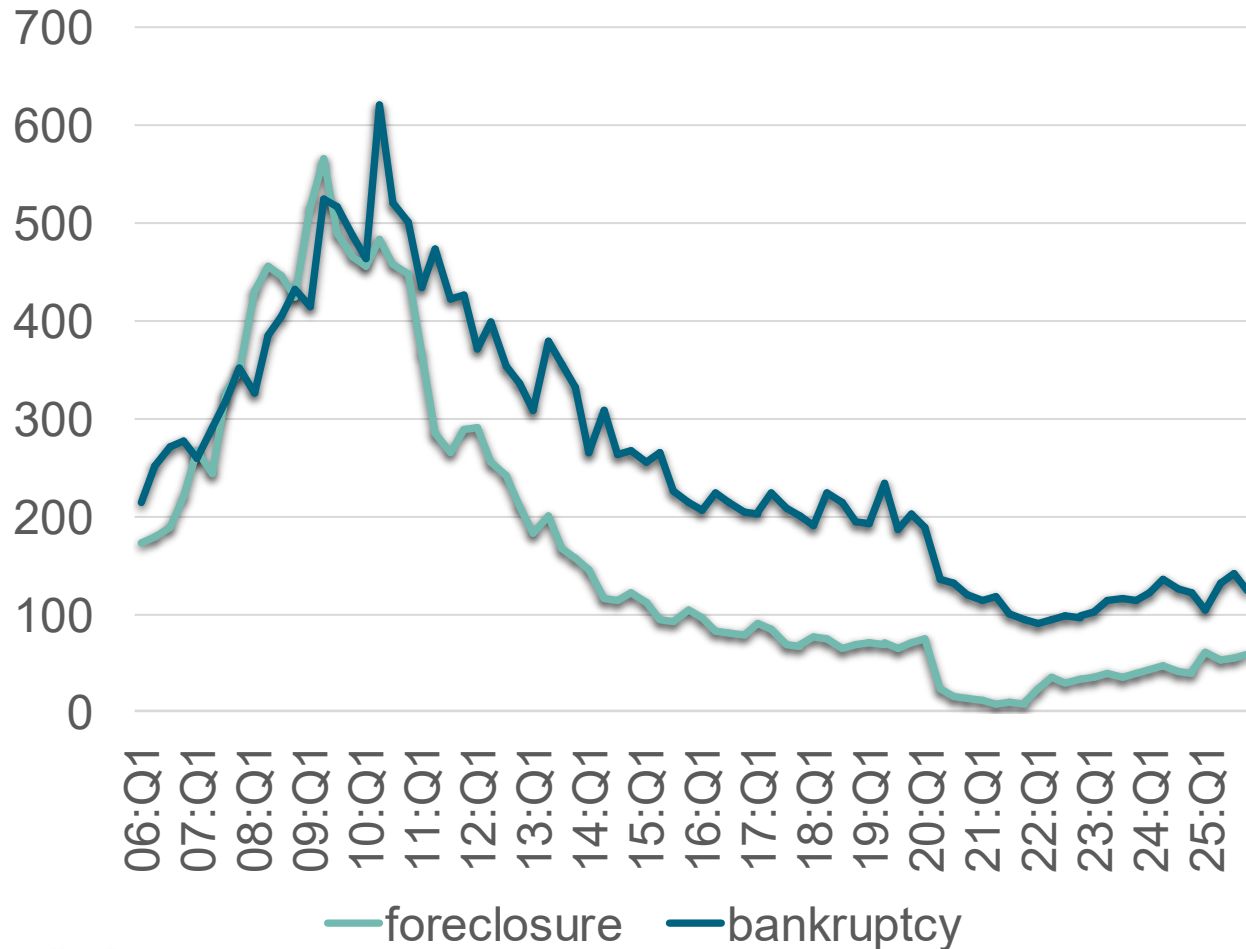


Location	Apr-26 Avg Weekly Wage (\$)	1-Year Chg. (%)	Chg. since Feb-20 (%)
Seattle	1,671	7.4	19.4
San Francisco	1,913	7.4	14.6
East Bay	1,553	7.2	18.8
Santa Rosa	1,272	3.3	23.3
Los Angeles (MD)	1,379	2.8	17.2
San Rafael	1,317	2.6	12.3
Boston	1,530	2.4	15.3
Dallas	1,342	2.3	21.9
Austin	1,308	1.8	16.0
Phoenix	1,289	1.6	18.8
San Jose	1,886	-0.2	7.5
Vallejo	1,098	-6.4	5.8
Napa	1,171	-11.3	9.3

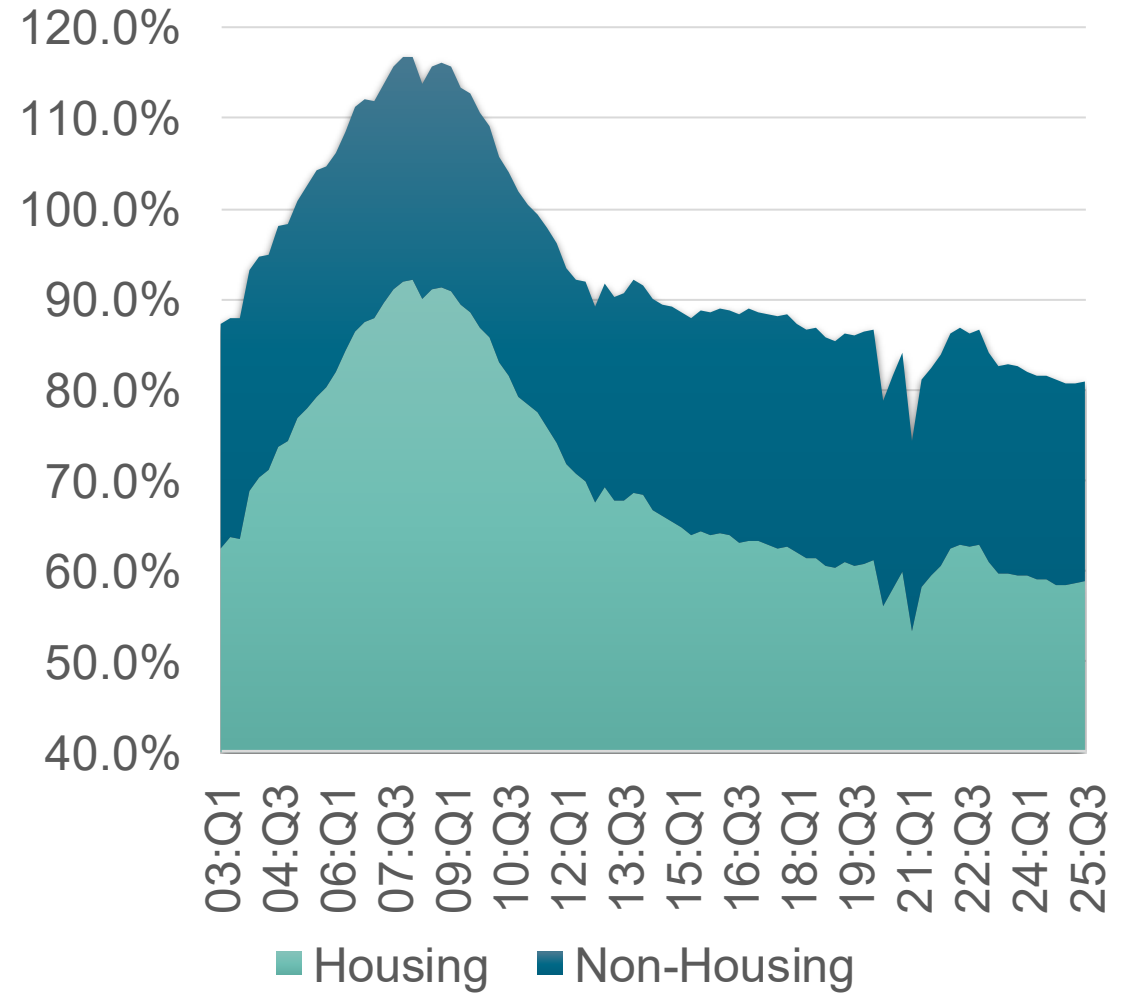


Consumer Debt Situation: Steady

Household Financial Distress (000s)

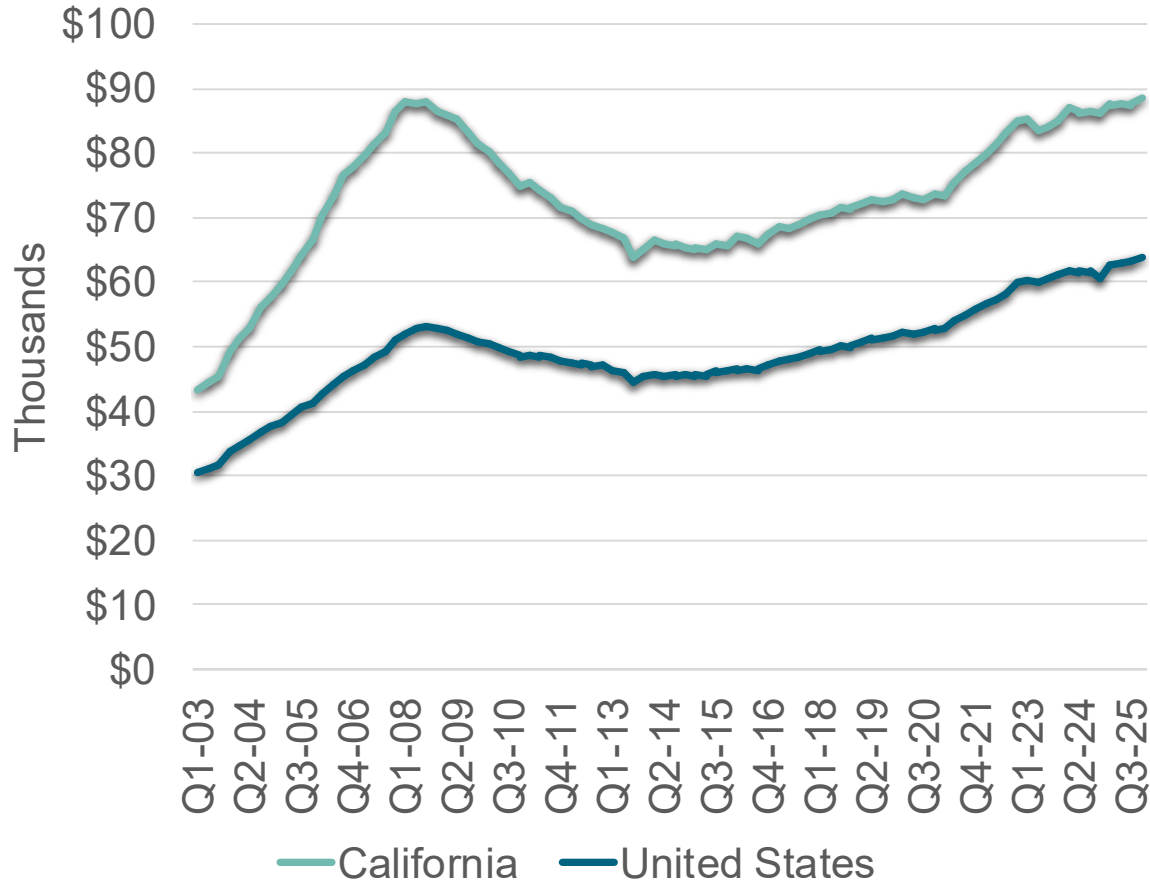


Consumer Debt to DPI

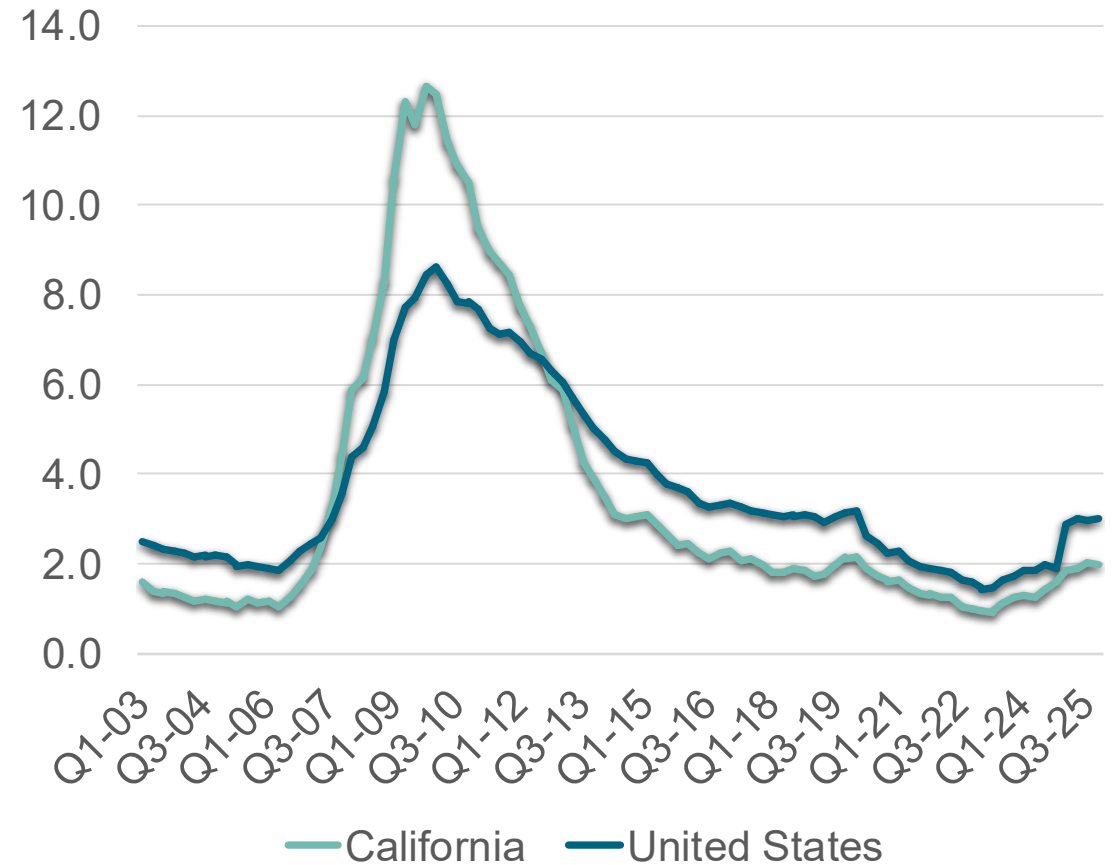


State Consumer Debt Comparisons

Total Debt Balance per Capita

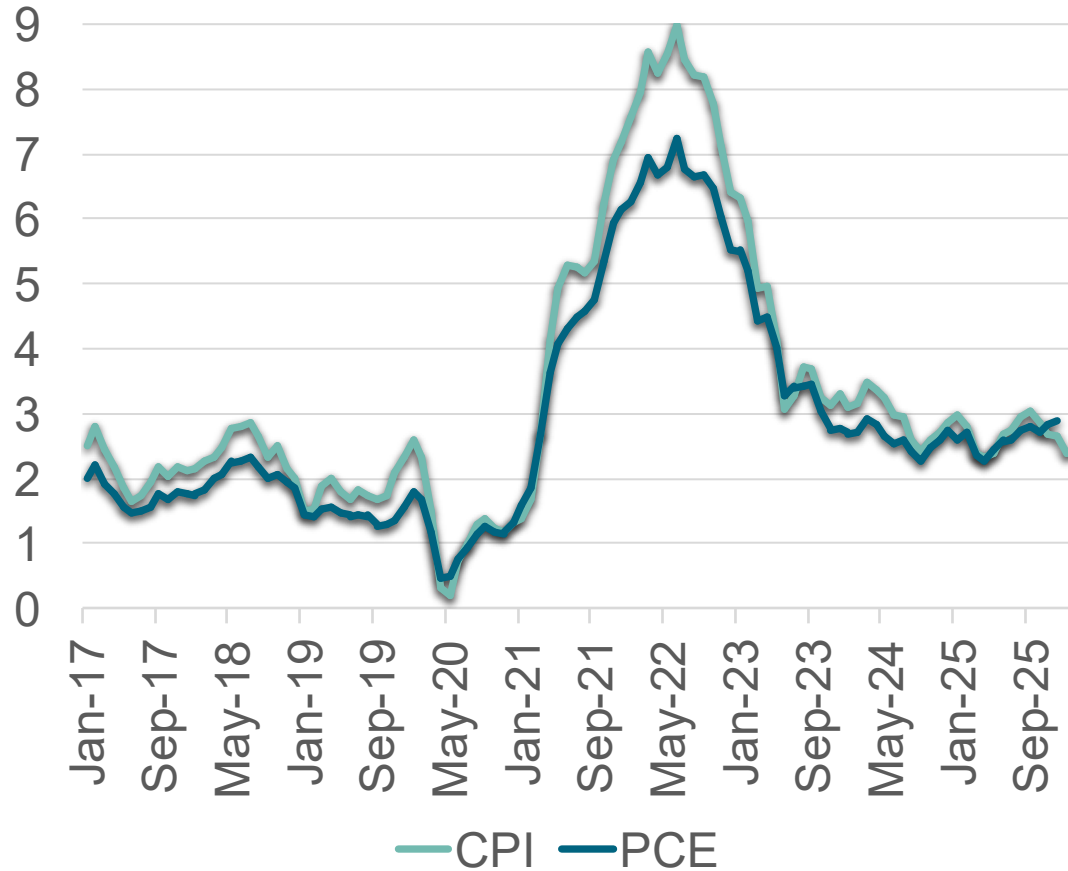


Household Debt: Percent of Balance 90+ Days



Where is Inflation at?

YoY Growth Prices



	Weight	Inflation
PCE Prices to February		2.9%
Finance & insurance	15.7%	6.4%
Recreation services	6.1%	4.6%
Furnishings, HH equipment	3.8%	4.0%
Housing and utilities	21.1%	3.7%
Food Lodging	7.4%	3.3%
Other services	8.3%	2.7%
Health care	16.0%	2.6%
Other nondurables	7.5%	2.4%
Transportation services	2.3%	2.1%
Food for off-premises	5.2%	2.1%
Other durable goods	1.2%	1.8%
Recreational goods	3.0%	1.8%
Motor vehicles and parts	1.5%	1.2%
Clothing and footwear	0.3%	0.3%
Gasoline, energy	-1.3%	-1.9%

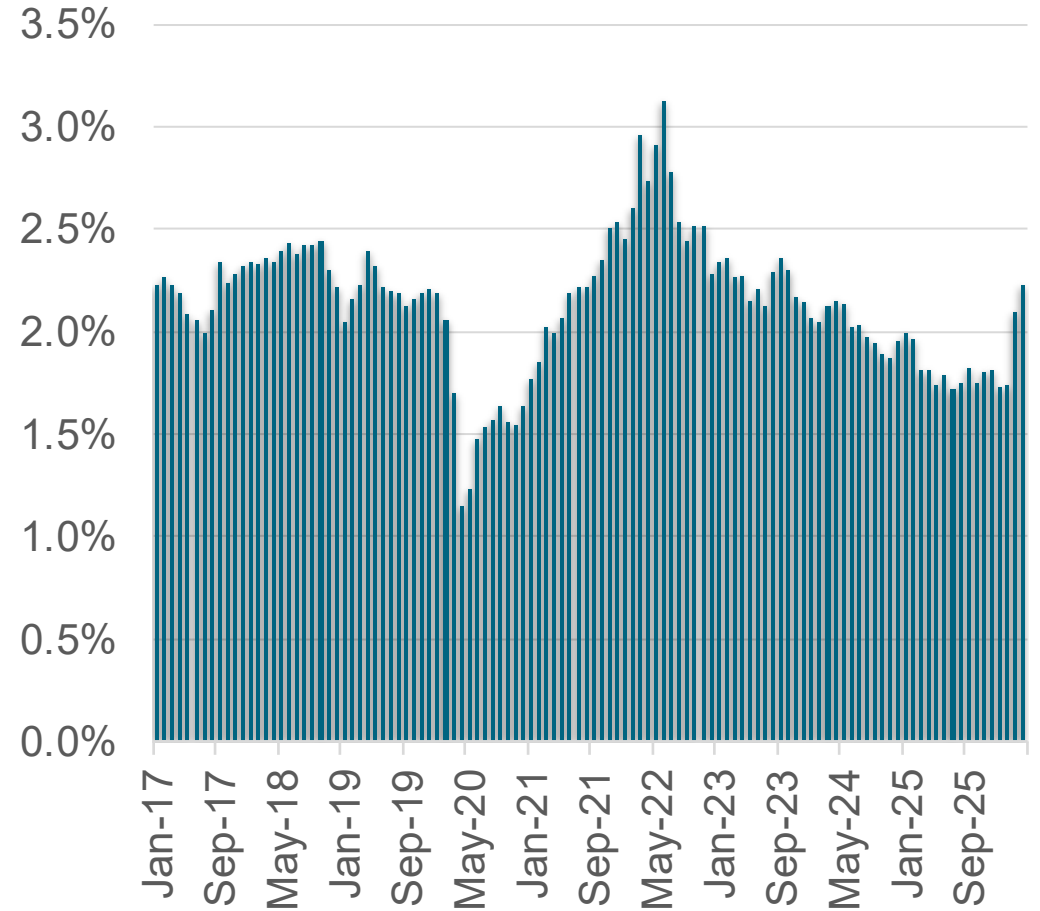


Oil and gas prices?

Inflation Adjusted Price of Oil per Barrel (WTI) \$2026



Gasoline Share Total US Consumption (Nominal Levels)



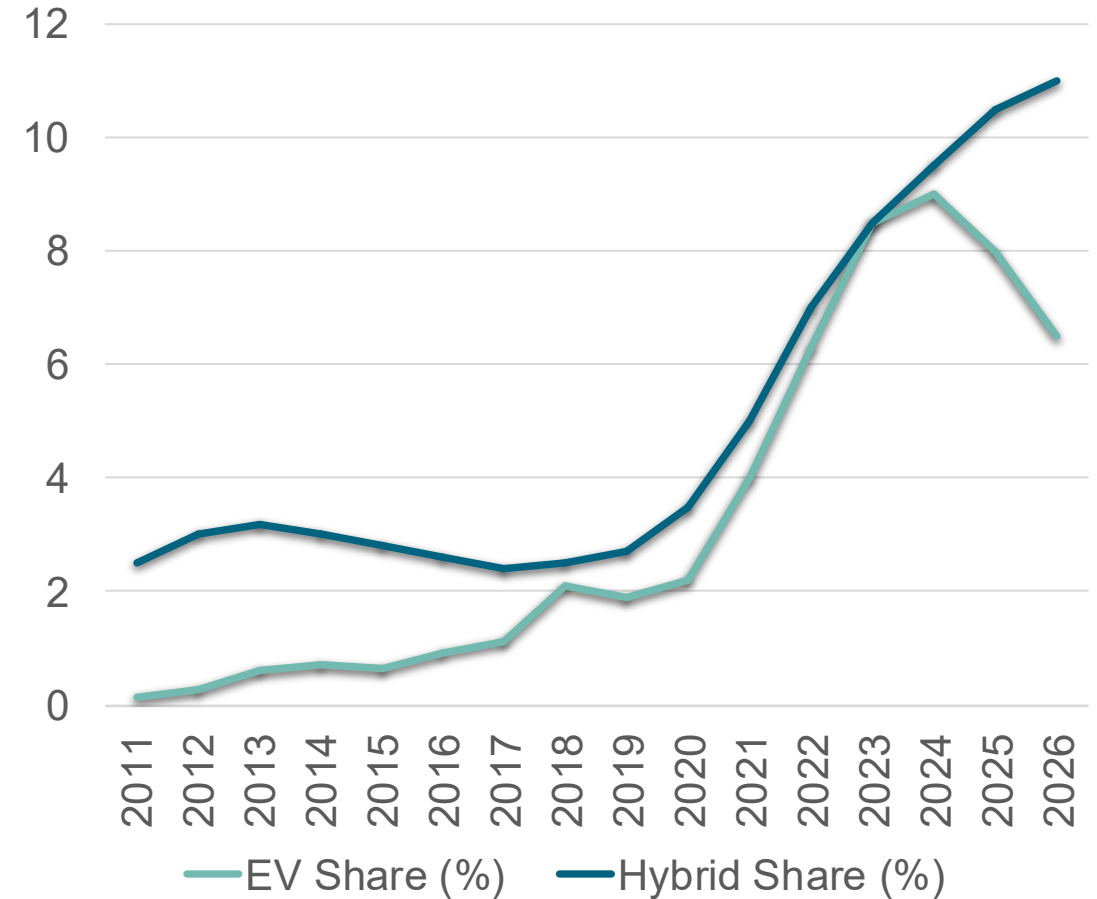
Ameliorating Factors



US Trade in Petroleum and Products (Real, \$Bil, SAAR)



Share New Cars that are Electric & Hybrid (%)

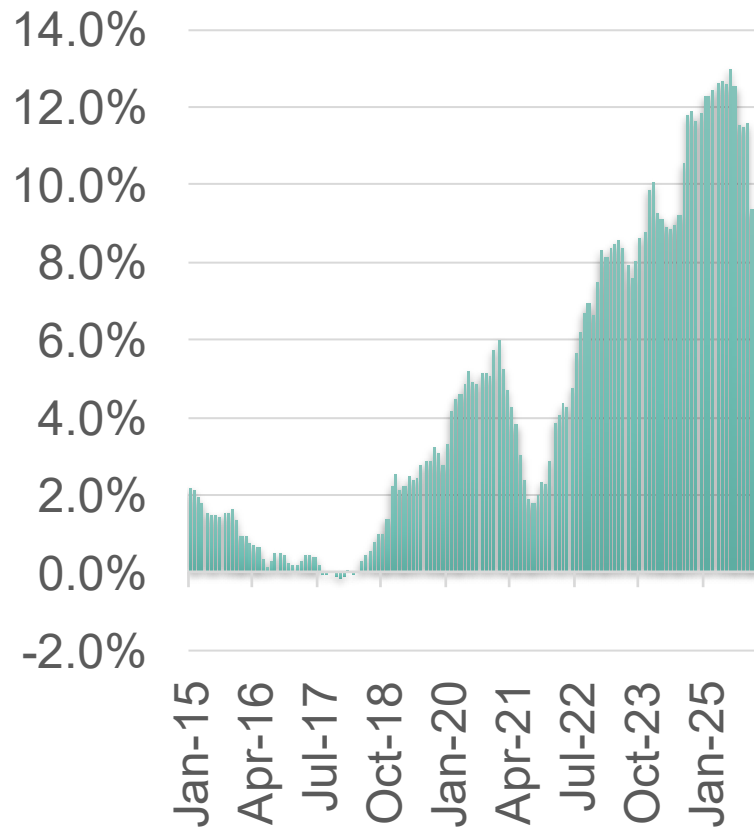


The Insurance Issue

Consumer Insurance Inflation

	Ann Gr 19-22	Ann Gr 22-26
Total	3.19%	3.40%
Life Ins.	2.28%	5.11%
Home Ins.	1.62%	7.44%
Health Ins.	1.41%	2.73%
Auto Ins.	-0.02%	7.00%

Commercial Multiple Peril Insurance YoY Gr



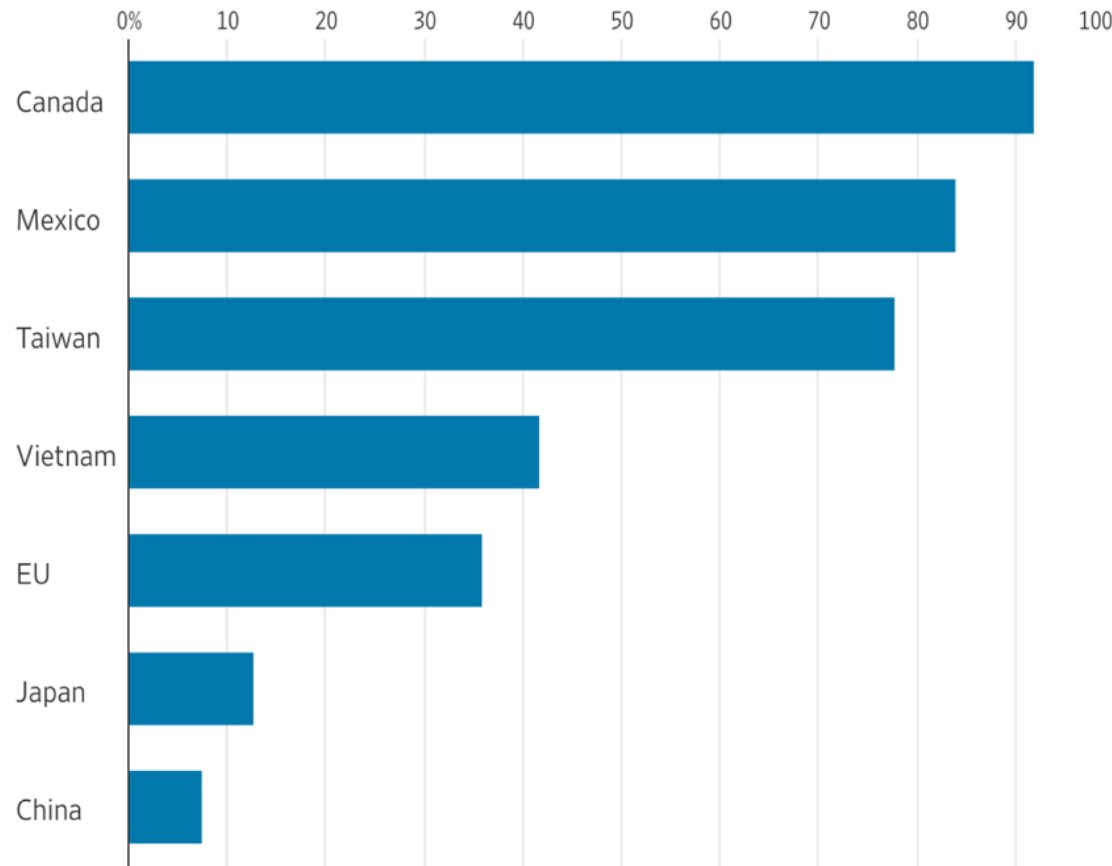
Why is insurance so expensive?

- Higher Claim Costs (more sophisticated products)
- More Claims (climate / behavior)
- Reinsurance Costs
- Regulatory and compliance costs
- Litigation issues: number of cases, nuclear verdicts
- Insurance industry financial losses driven by rising rates



The Tariff Impact?

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



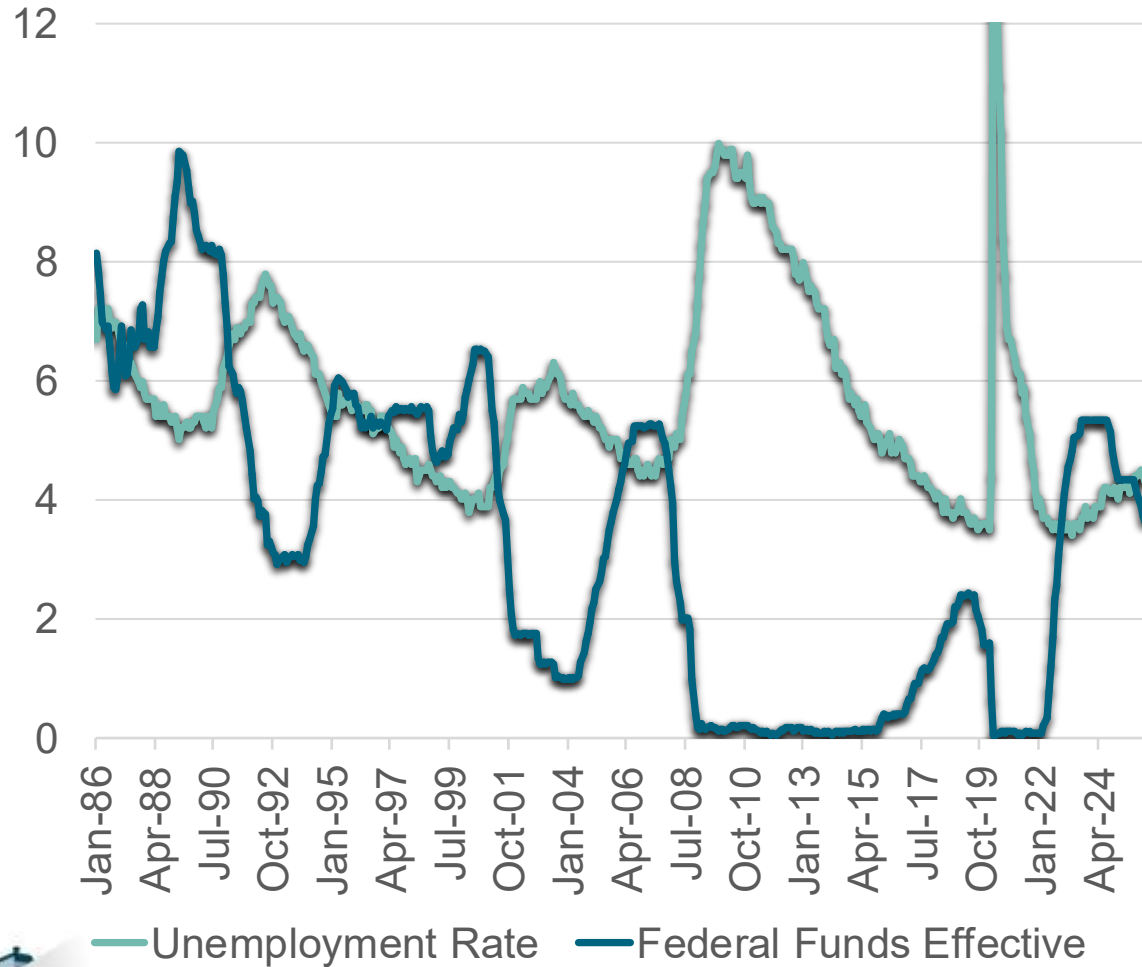
Source: Barclays Research analysis of U.S. Census Bureau data

Country	Exports (% GDP)	Imports (% GDP)	Total (% GDP)
United States	11	15	26
Brazil	18	17	35
China	20	17	37
Japan	22	22	44
India	22	25	47
Russia	27	20	47
United Kingdom	31	33	64
France	31	34	65
Canada	33	34	67
Italy	35	33	68
South Korea	44	42	86
Germany	47	41	88
Switzerland	75	68	143
Belgium	85	82	167
Netherlands	93	83	176
Singapore	174	147	321

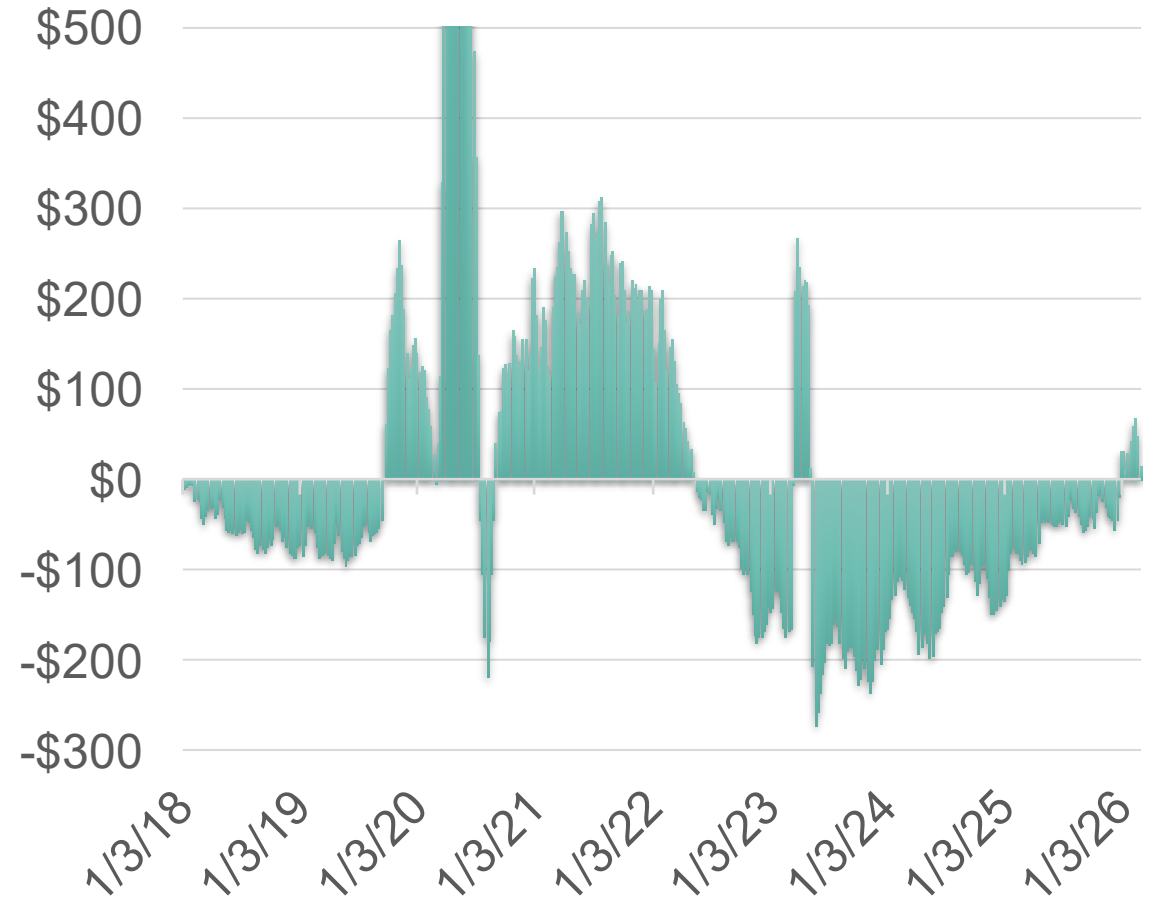


The Fed's Directional Shift

Federal Funds Rate and Unemployment



8 Week Change Fed Balance Sheet (\$Bil)

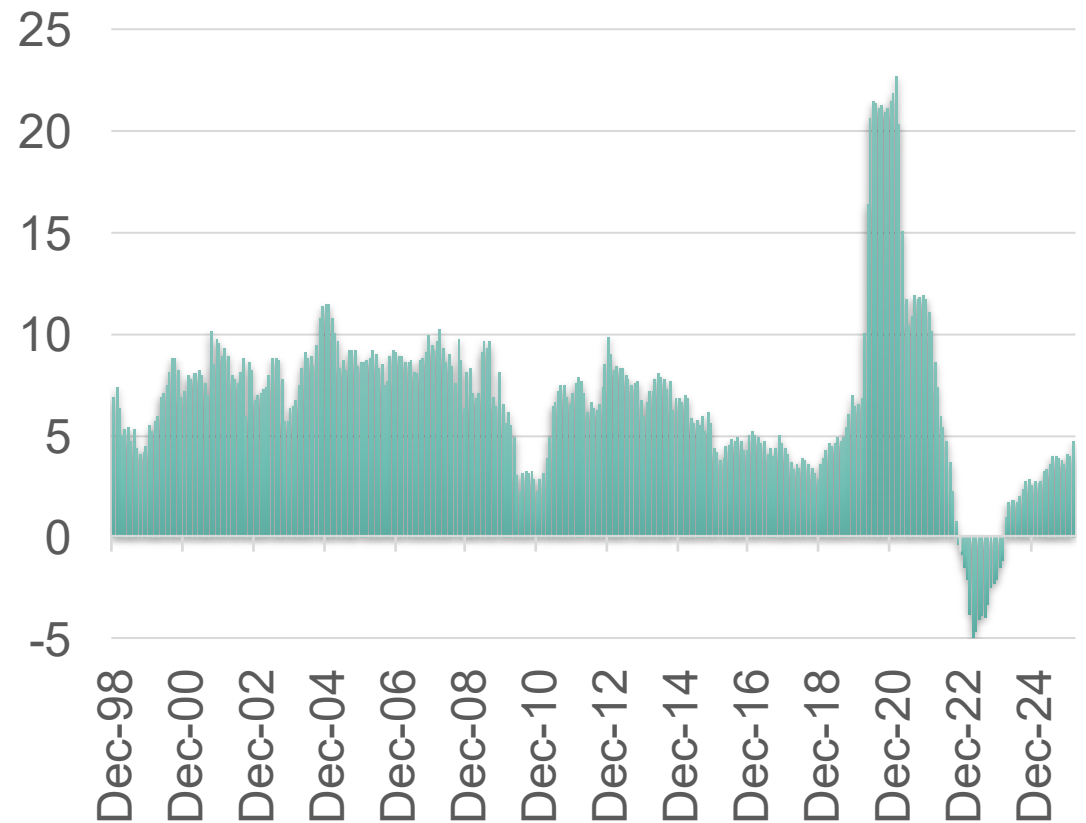


Rates and Deposits

U.S. Treasury Yields

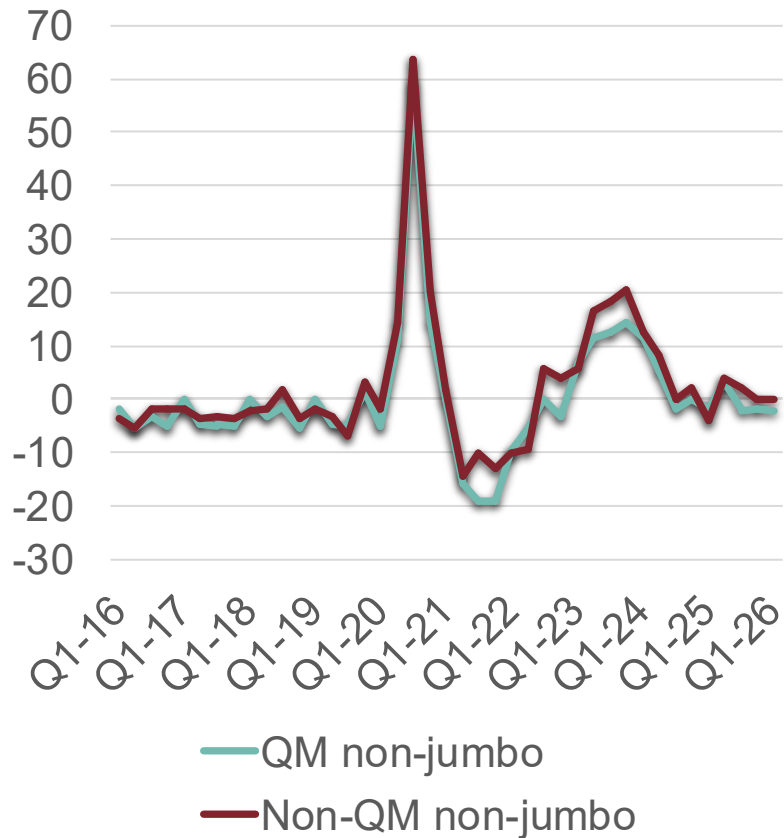


YoY Growth Commercial Bank Deposits

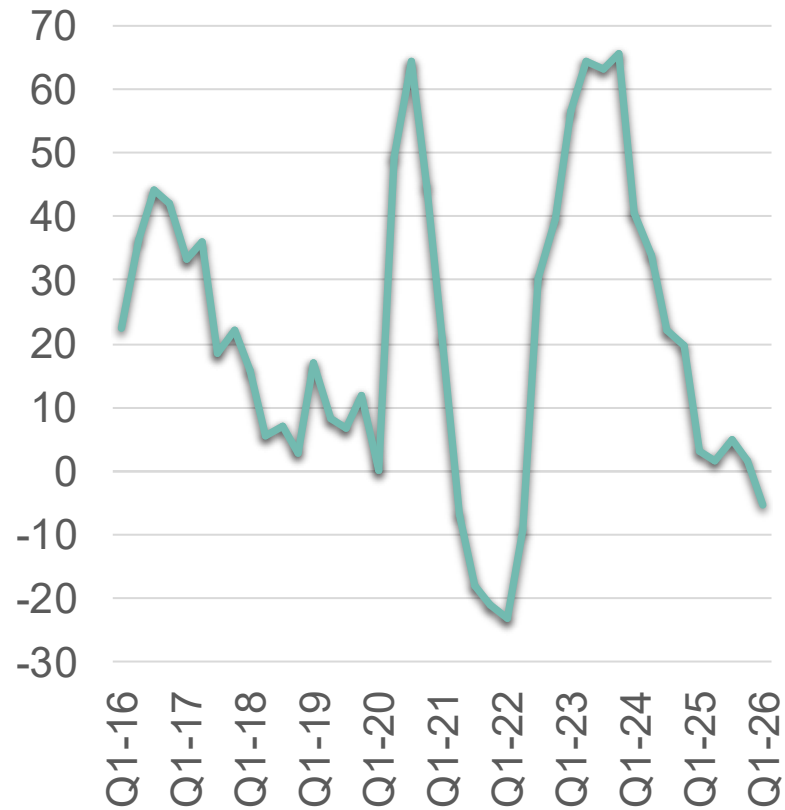


Lending Constraints

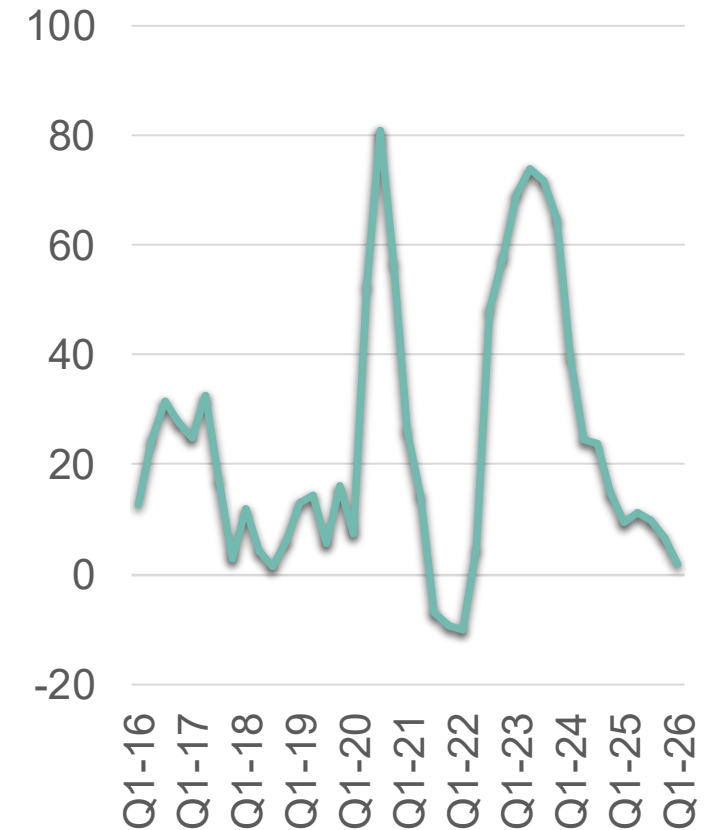
Net % Tightening Standards for Mortgage Loans



Net % Tightening Standards for Multifamily Loans



Net % Tightening Standards for Construction Loans



A K-Shaped Recovery?

Income and Spending by Household Income Quintile

	Avg HH Income 2024	Real Growth 14-24
Lowest	\$18,460	22.8%
Second	\$49,380	23.4%
Middle	\$84,390	21.3%
Fourth	\$136,800	21.1%
Highest	\$316,100	26.5%
Top 5%	\$560,000	30.9%

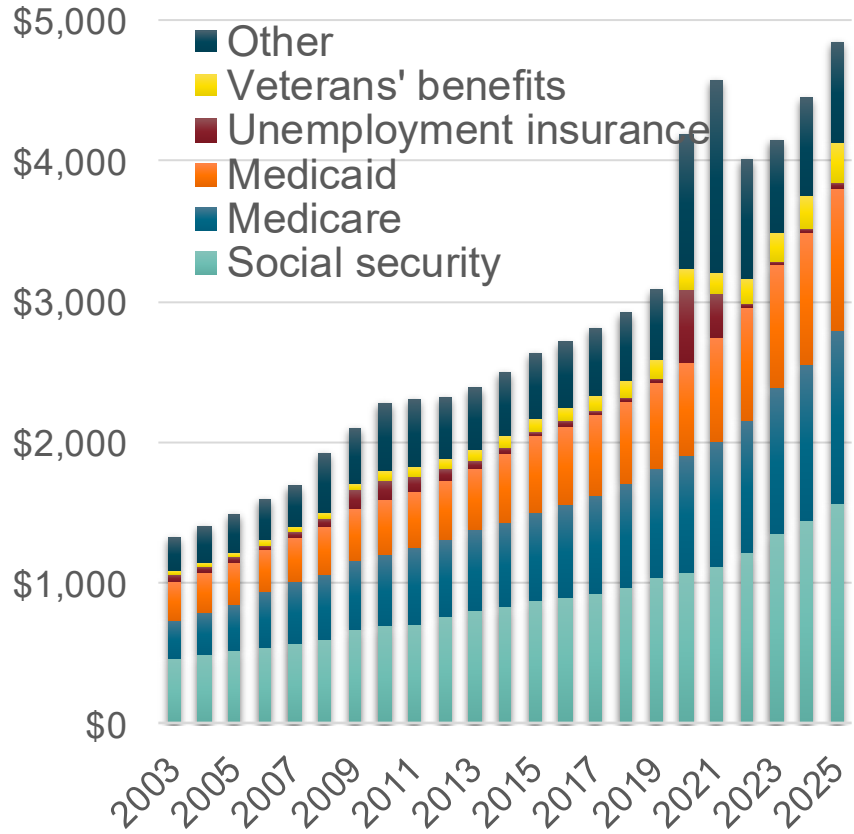
Real Household Incomes by Age

	2004	2014	2024
15 to 34 Years	\$63,276	\$63,042	\$83,514
Share of HHs	23.0%	21.2%	20.2%
35 to 54 Years	\$91,188	\$87,694	\$111,226
Share of HHs	41.2%	35.9%	33.7%
55 Years +	\$55,240	\$60,243	\$69,553
Share of HHs	35.9%	42.9%	46.2%

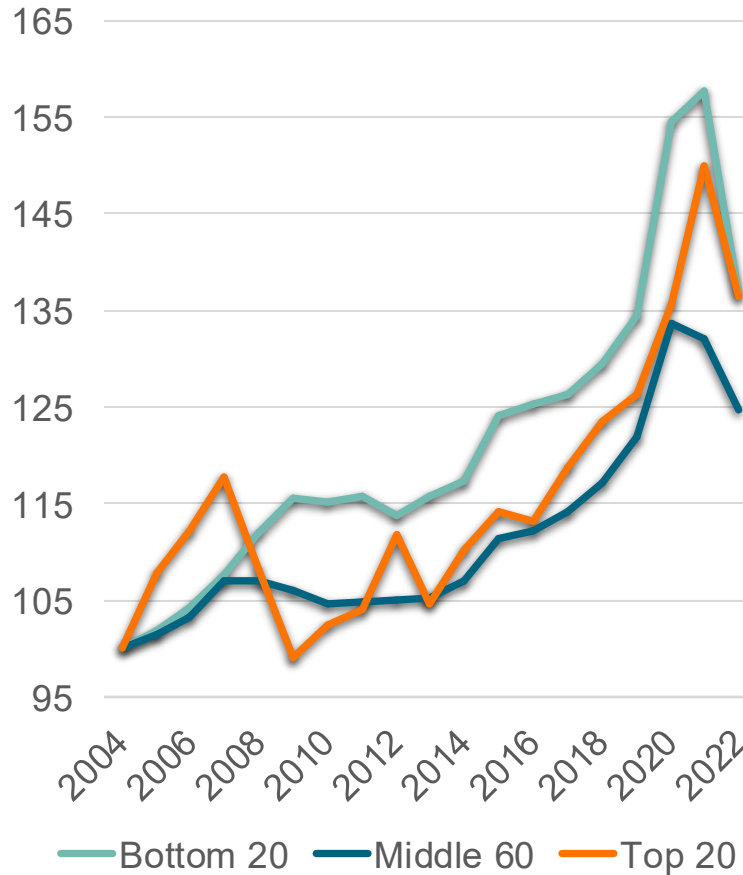


Gross vs Net Income

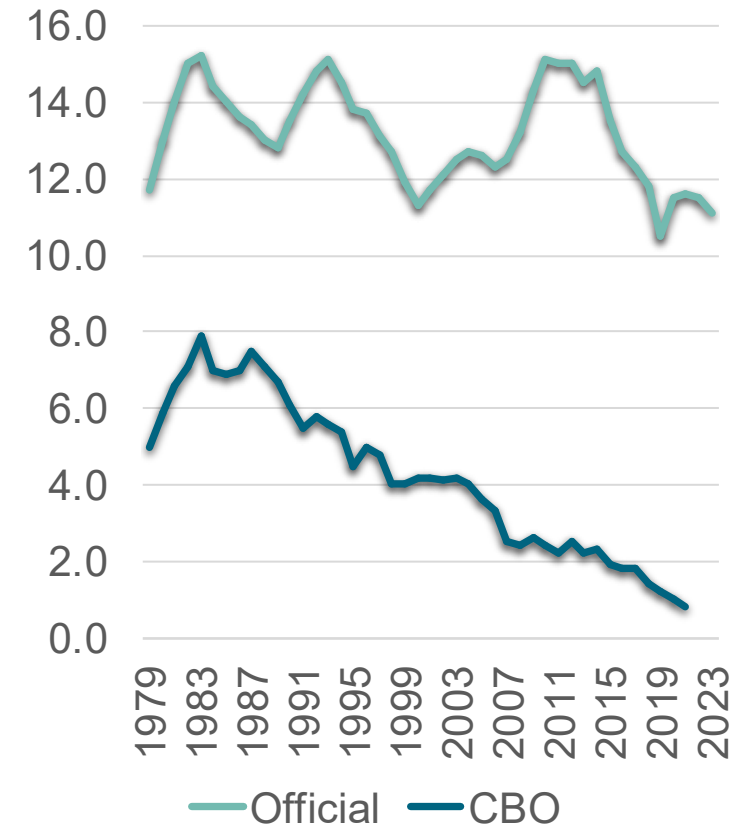
Government Transfers to Households



Net Income After Transfers and Taxes by Quintile (Source CBO)



Estimates of the Share of US in Poverty (Source CBO)



Correlates with Poverty

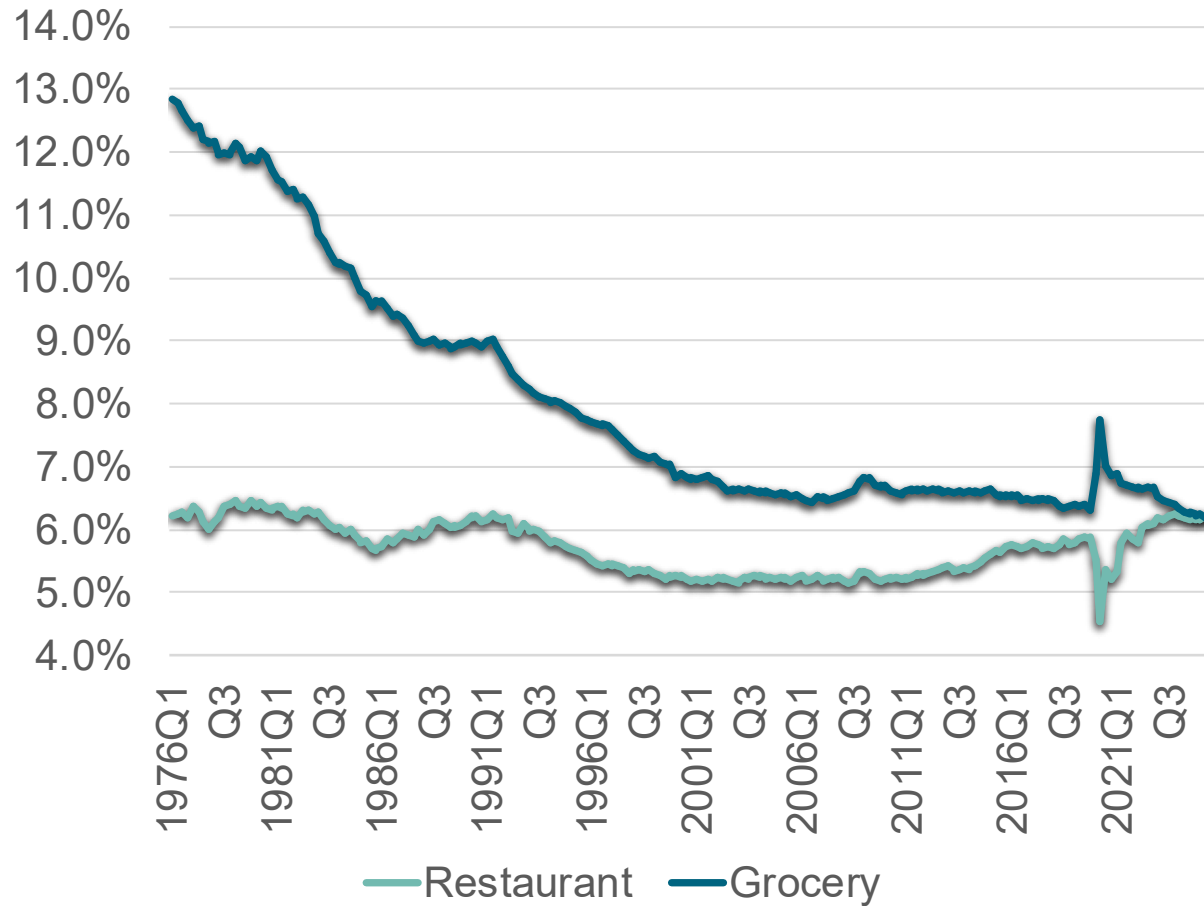
	2024	2018
Less than high school graduate	24.0%	24.4%
High school graduate	14.3%	13.5%
Some college, associate's degree	9.7%	9.5%
Bachelor's degree or higher	4.6%	4.4%
Worked full-time, year-round	2.3%	2.5%
Worked part-time or part-year	14.9%	15.8%
Did not work	21.3%	21.3%
	Married Couple	Single Parent
Families	4.5%	22.3%
1 or 2 children	4.3%	26.8%
3 or 4 children	9.1%	49.2%
5 or more children	22.0%	67.8%



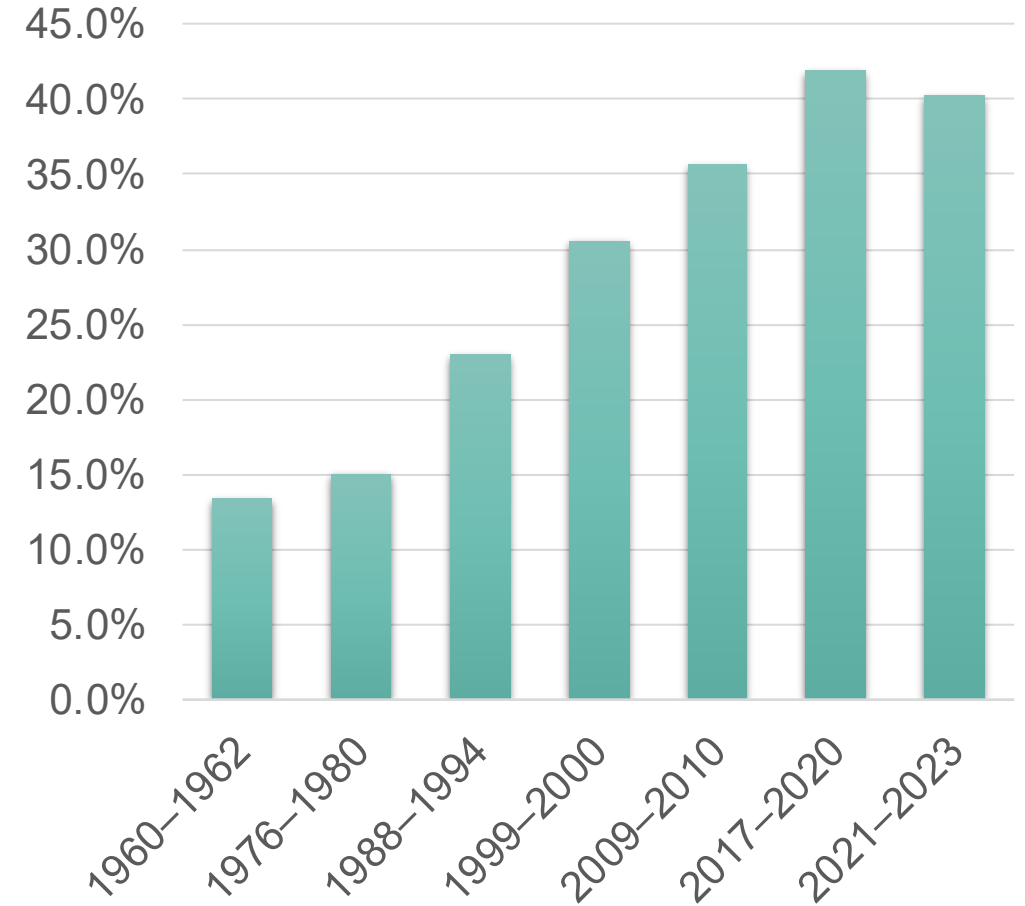
What about the cost of food?



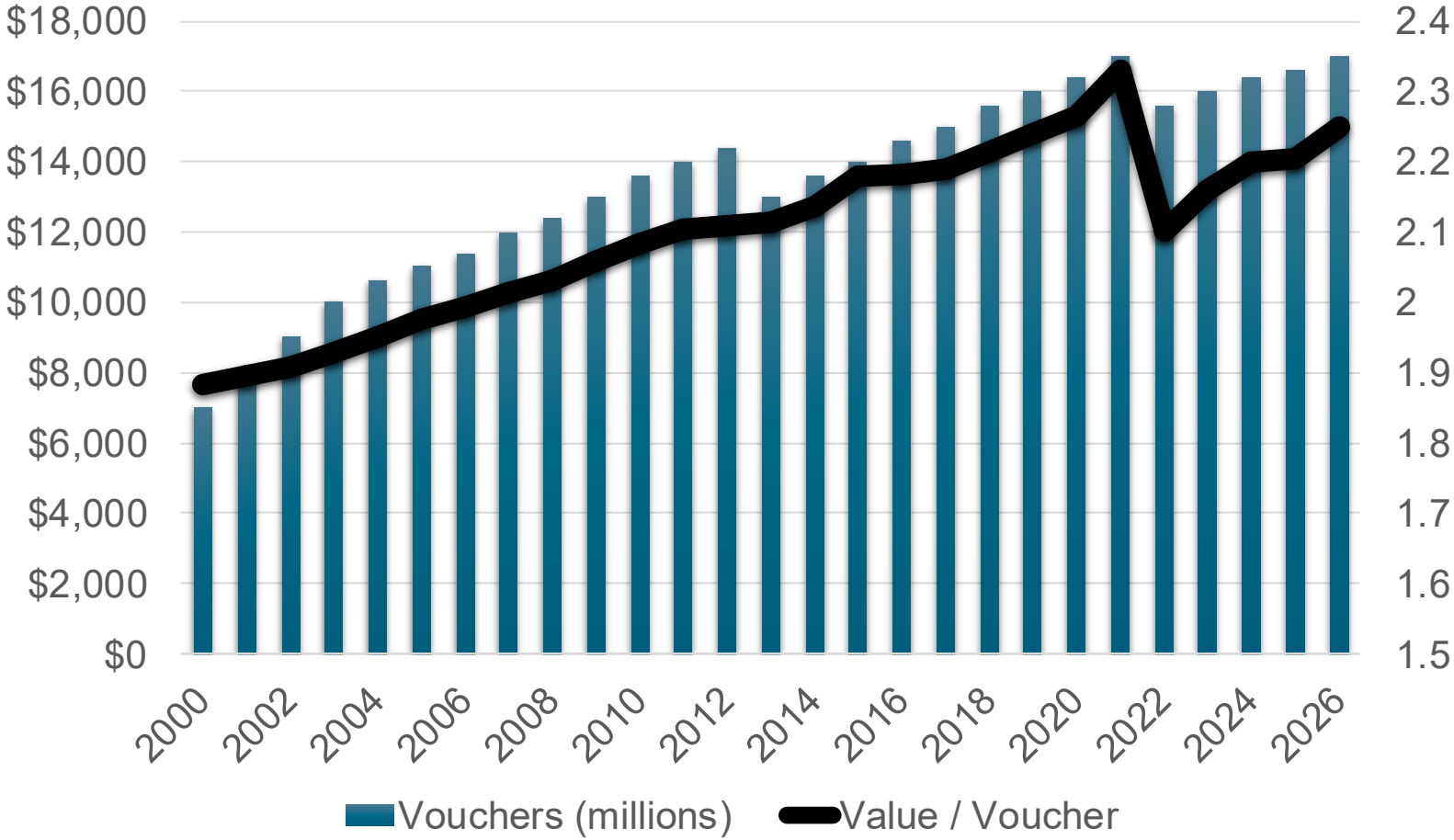
Food Share of total Consumer Spending



US Adult obesity rate

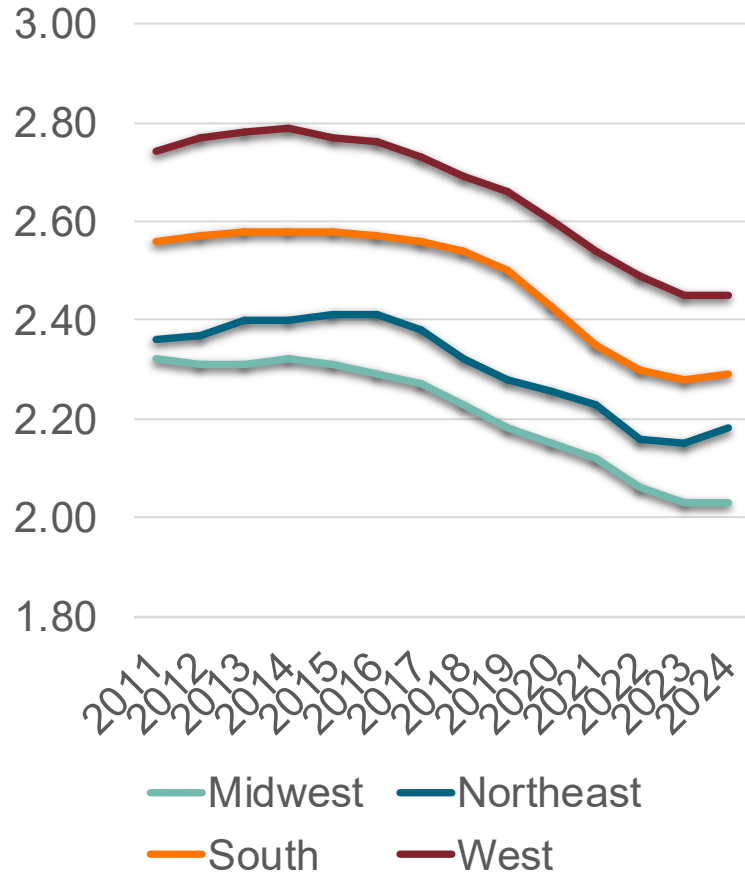


Housing Vouchers (Sect 8) Trends

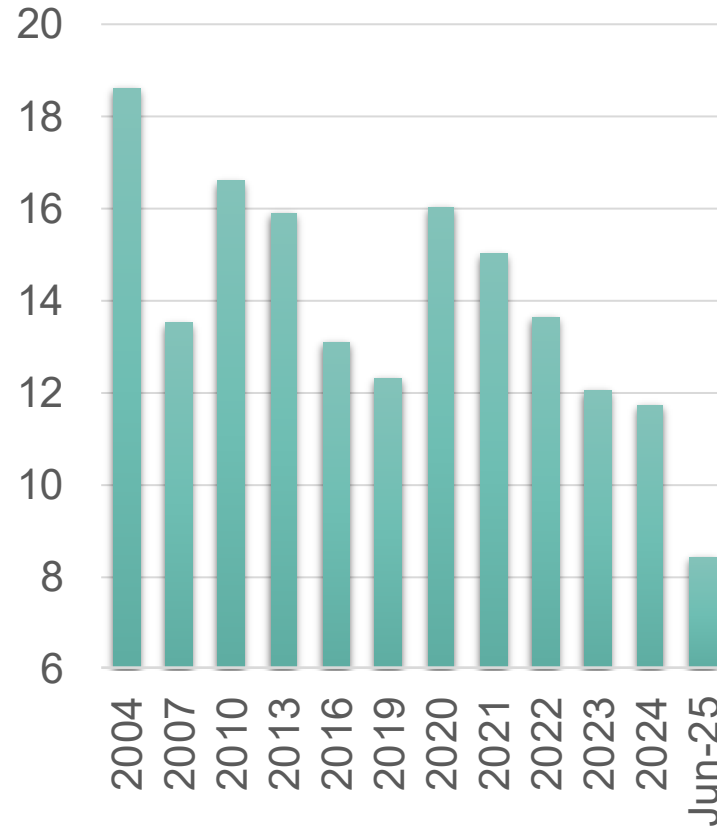


The cost of rental housing?

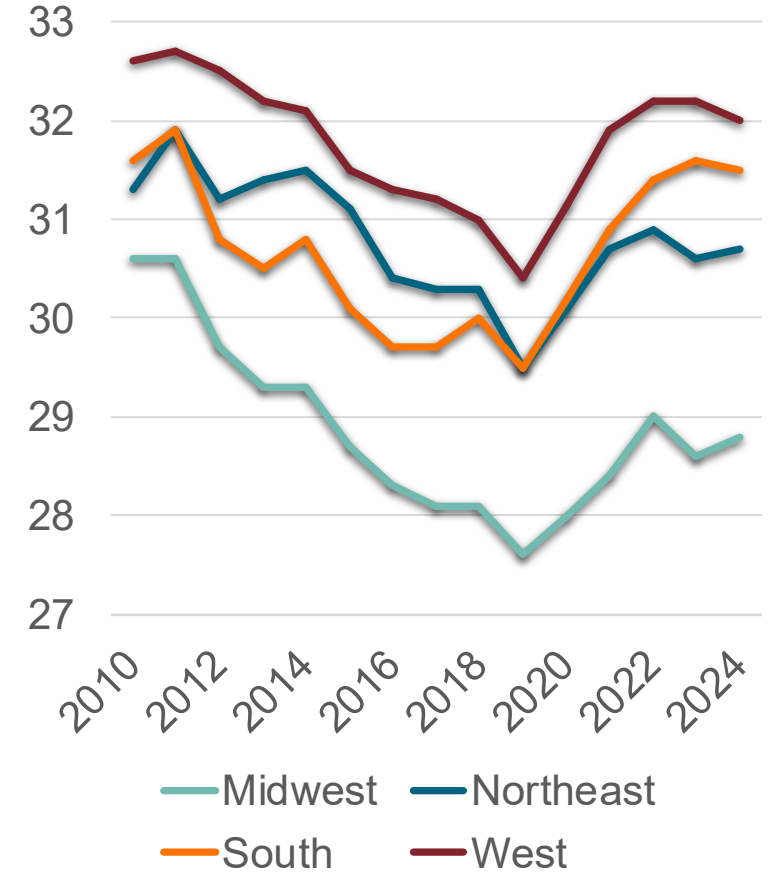
Renter Households:
Average Household Size



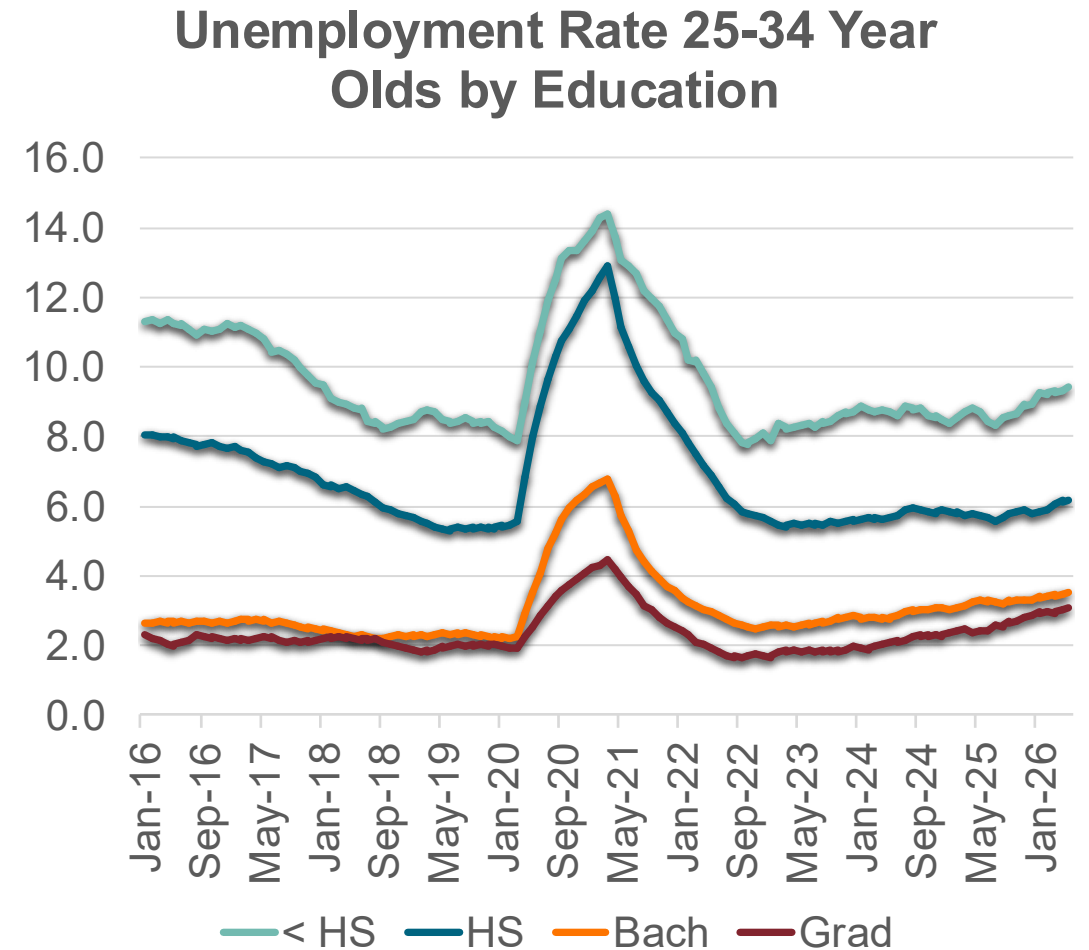
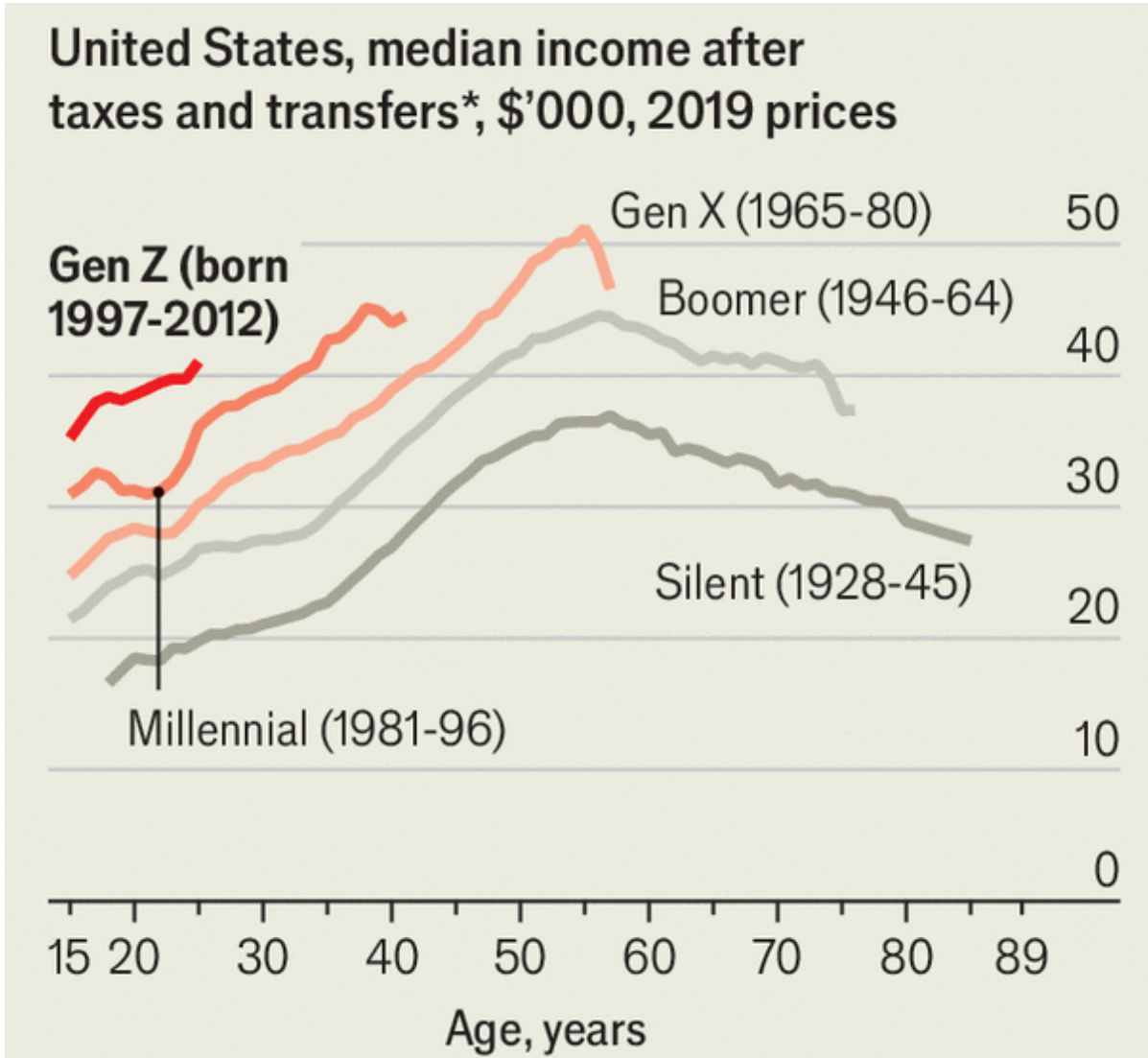
Share of US Renter
Population Late On
Rent: Census



Median Rent as a % of
Household Income



And Poor Gen Z?

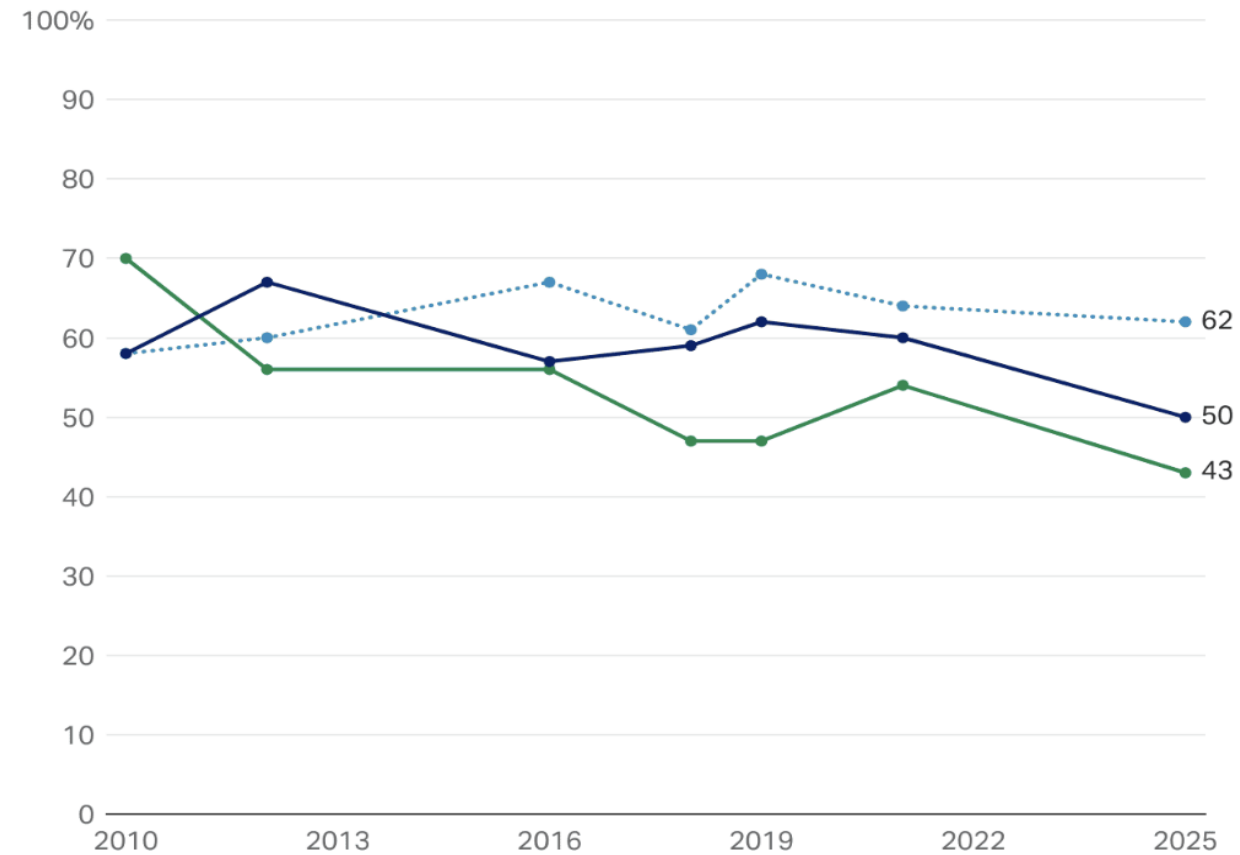


1. Capitalism Stumbles With Young Adults

Just off the top of your head, would you say you have a positive or negative image of each of the following? Capitalism

% Positive

— 18 to 34 — 35 to 54 - - - 55 and older



GALLUP



State Inequality?

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%
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%

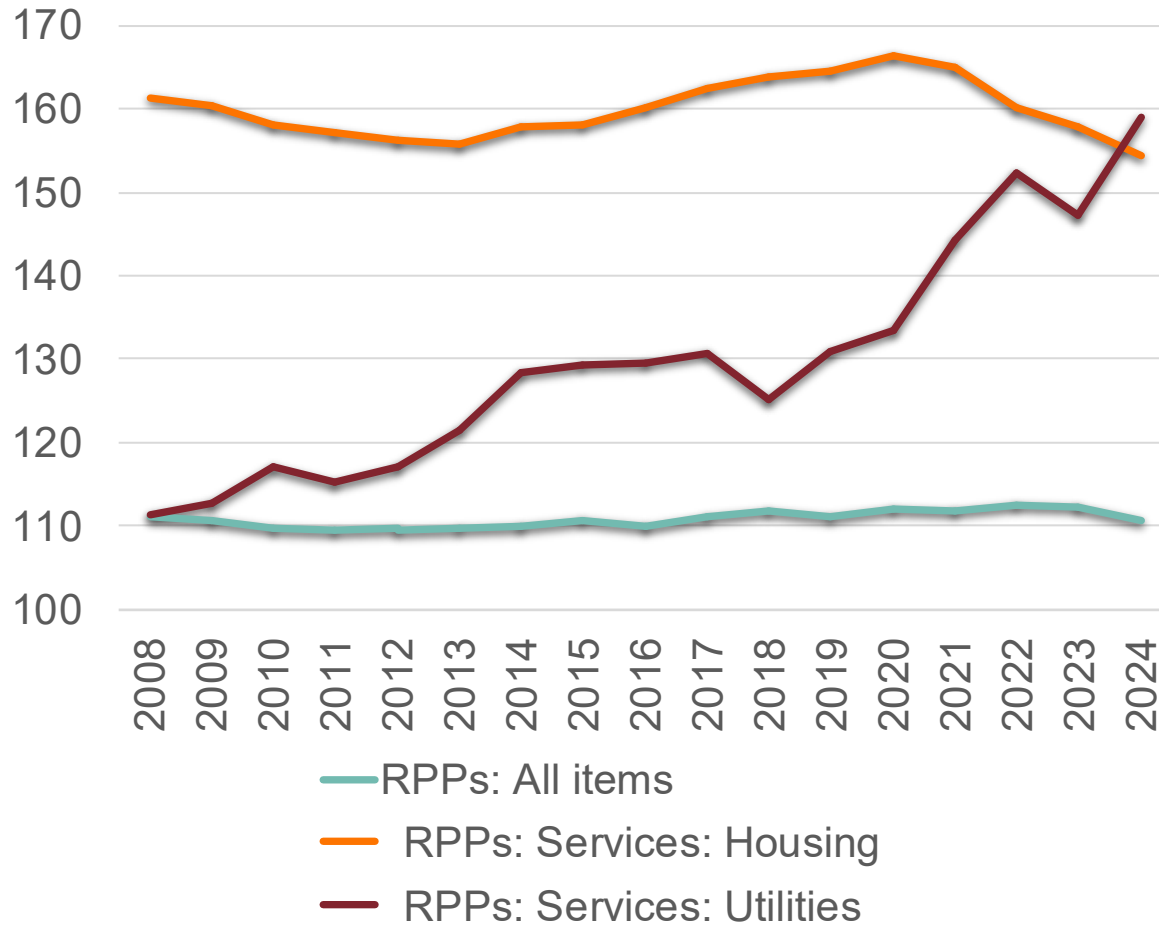
Official Poverty Estimates ACS

	Pov Rate 2024	Ch 14-24
Fresno	18.3%	-9.4%
Tulare	20.3%	-8.3%
San Bernardino	12.5%	-8.1%
San Joaquin	12.8%	-8.1%
Sacramento	12.0%	-6.2%
Los Angeles	13.3%	-5.4%
San Diego	10.0%	-4.7%
Alameda	8.7%	-3.8%
Monterey	13.8%	-3.4%
Contra Costa	8.4%	-2.1%
Santa Clara	7.0%	-1.4%
San Francisco	11.3%	-0.7%
San Mateo	7.1%	-0.2%



California Affordability?

California Regional Price Parities



CA / US Median Income Gap with RPP Control

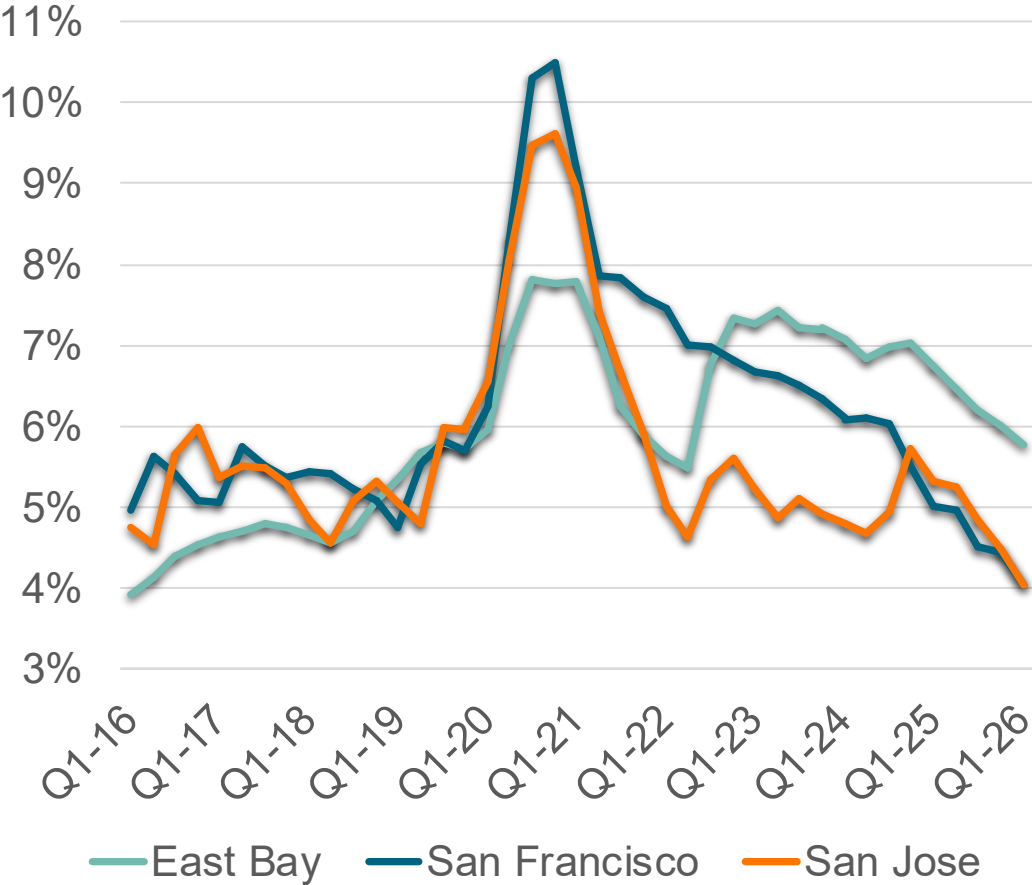
	2018	2024
Santa Clara	66.5%	82.6%
Marin	54.2%	48.7%
San Francisco	49.4%	44.9%
Alameda	35.7%	33.8%
Contra Costa	35.1%	31.9%
San Diego	13.8%	20.0%
Sacramento	8.9%	5.9%
Inland Empire	5.3%	5.8%
Los Angeles	-0.2%	-3.6%
Fresno	-13.5%	-10.9%
Kern	-15.4%	-14.2%



Regional Rental Markets

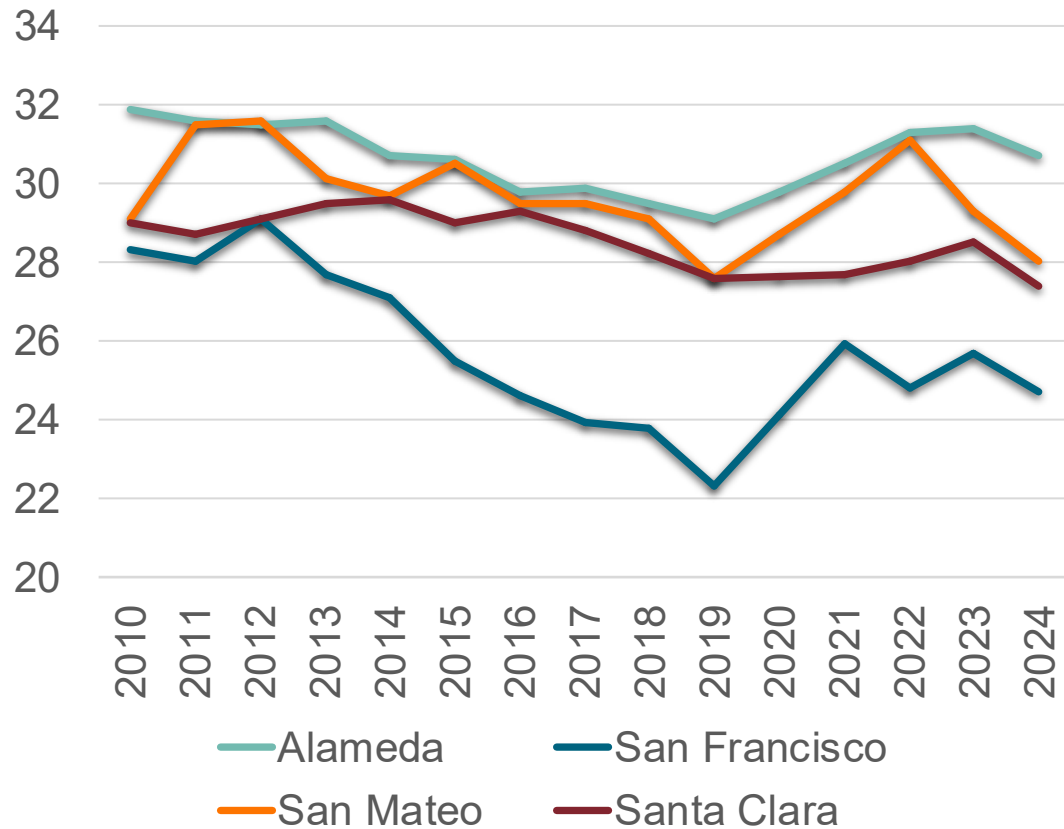
Apartment Asking Rent	Q1-26 (\$)	1-Yr Growth (%)	Change since Q4-19 (%)
United States	1,775.7	0.2	19.4
San Francisco	3,465.2	7.1	11.8
San Jose	3,279.9	4.1	15.2
East Bay	2,496.7	1.6	7.1
Boston	2,940.5	0.4	19.4
Seattle	2,088.5	0.2	15.6
Los Angeles	2,346.9	0.0	10.5
San Diego	2,553.2	-0.2	23.6
Denver	1,797.8	-3.3	10.9
Austin	1,529.4	-4.7	3.9

Apartment Vacancy Rate



Regional Renter Affordability

Median Rent as a % of Household Income

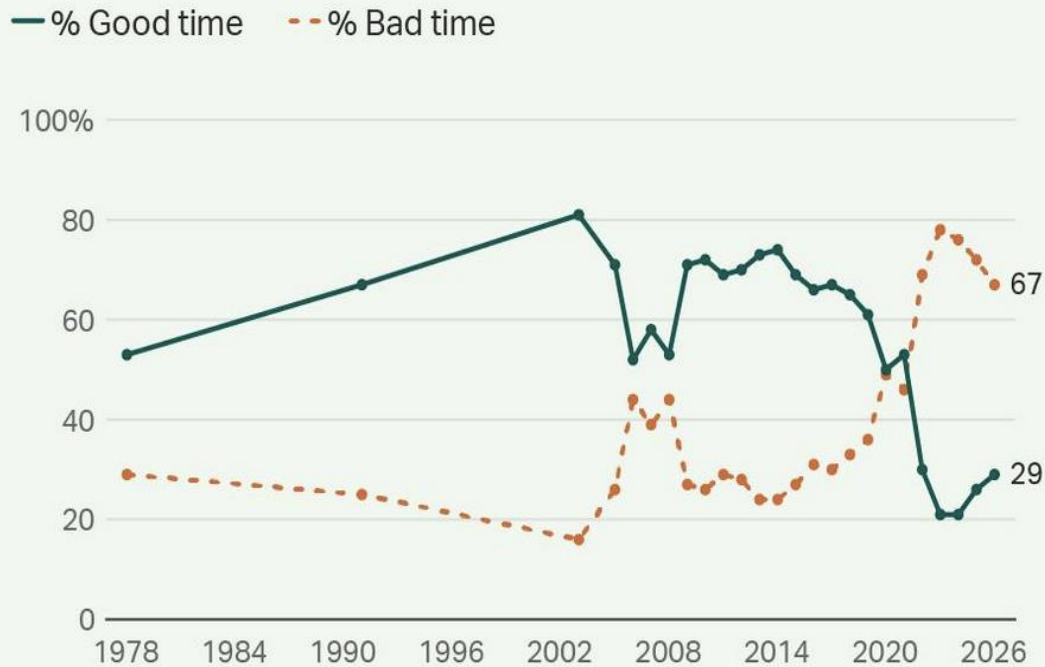


Median Rent as a % of HH Income	2019 (%)	2024 (%)
United States	29.3	30.9
California	31.7	33.1
San Francisco	22.3	24.7
Santa Clara	27.6	27.4
Alameda	29.1	30.7
San Joaquin	31.5	32.1
Sacramento	32.4	33.0
Orange	32.1	33.6
San Diego	32.7	33.9
Los Angeles	33.3	34.0
Contra Costa	30.7	34.3
Riverside	33.2	34.9
Fresno	33.0	35.0
Kern	33.7	35.1
San Bernardino	33.0	35.3



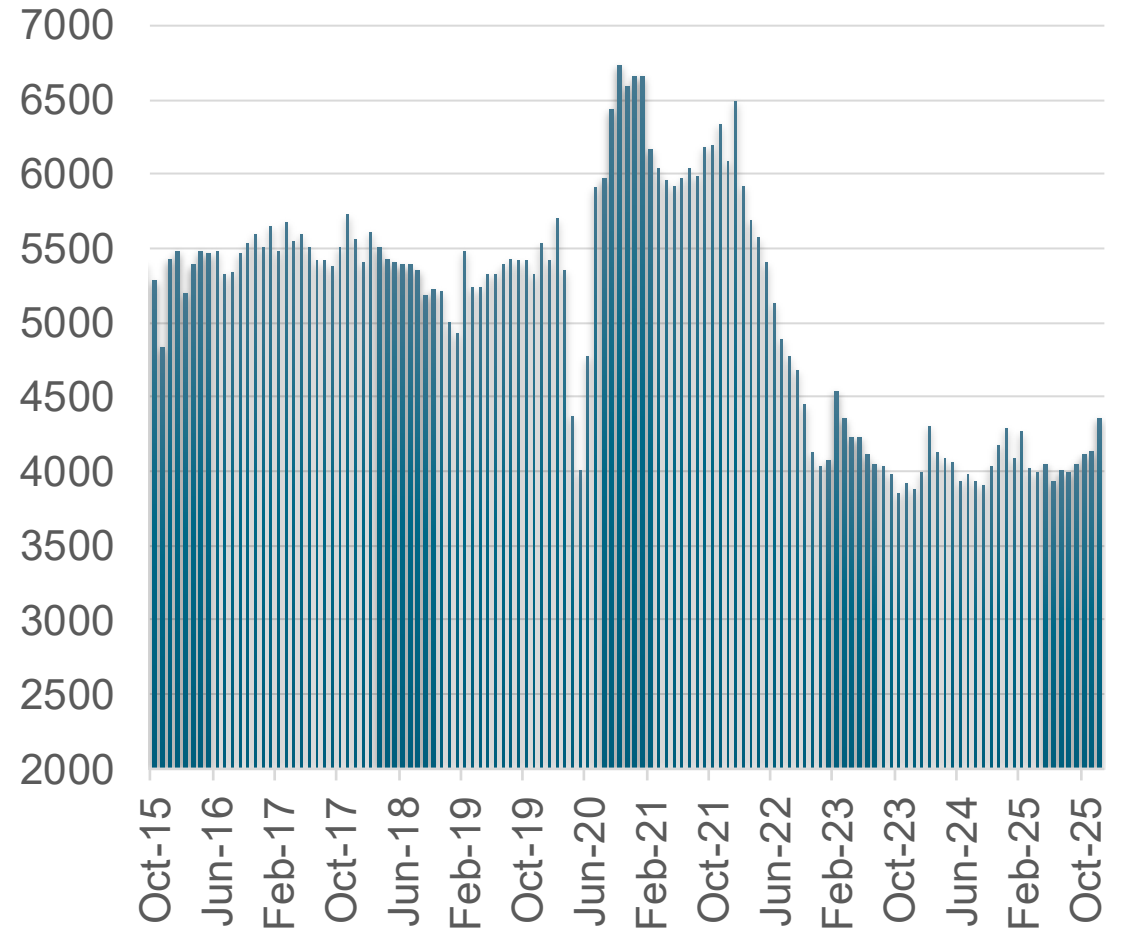
The SF Affordability Crisis

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



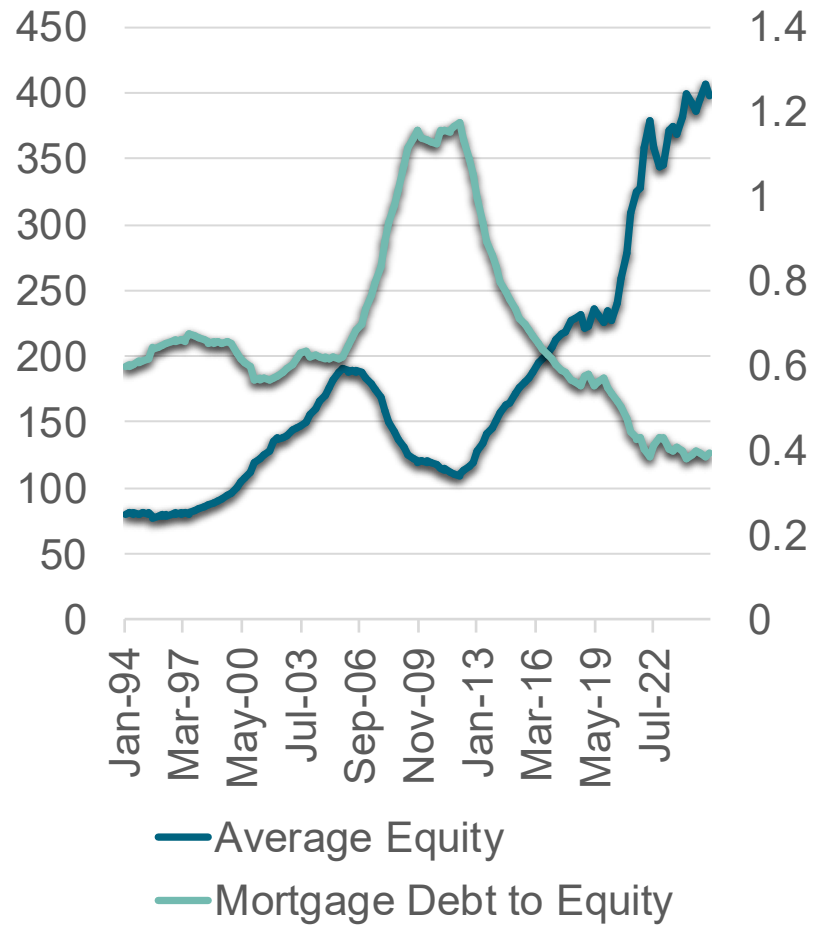
GALLUP

US Existing Home Sales 000s SAAR

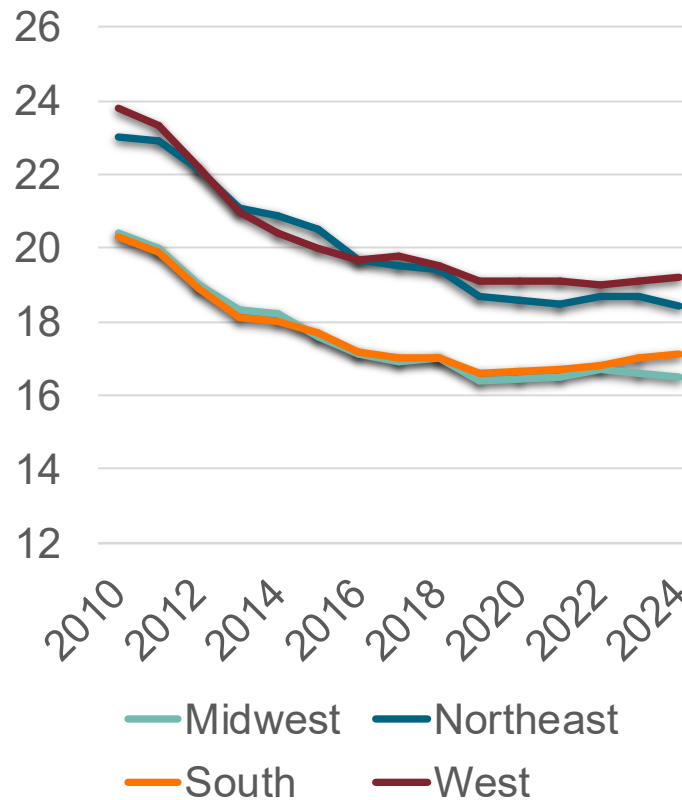


Housing affordability: Fine for owners

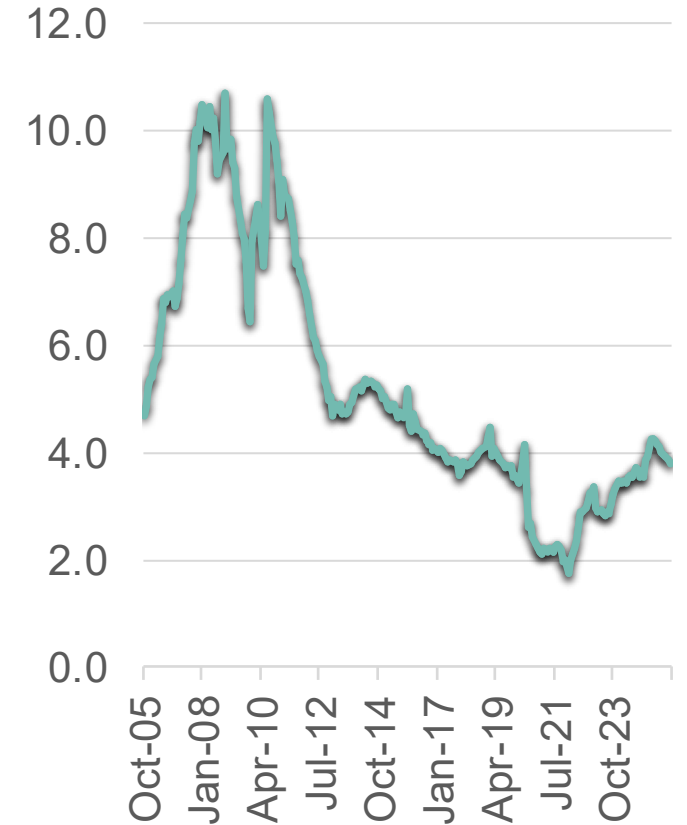
Housing Finance



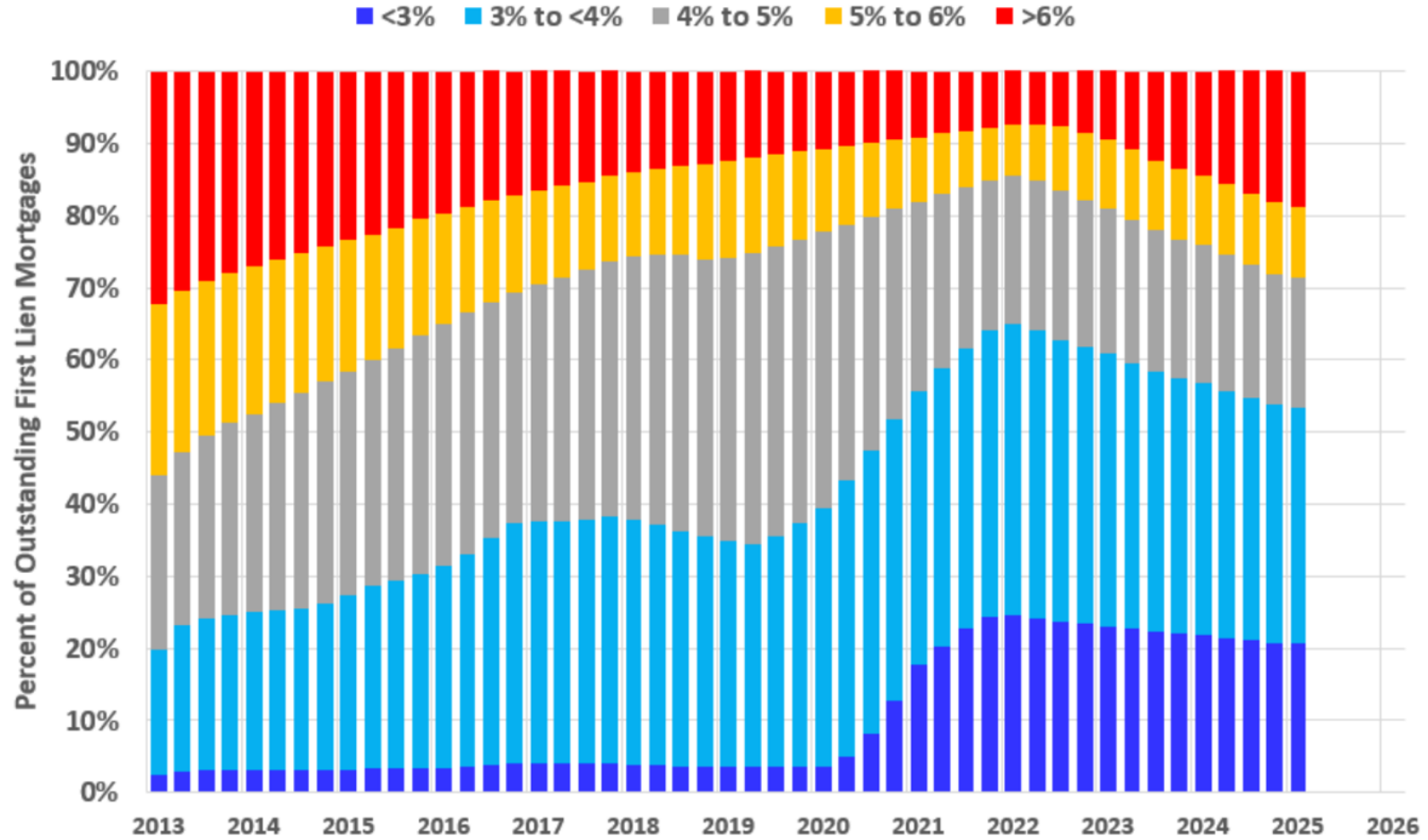
Median Owner Cost as a % of Household Income



Months Supply of Home For Sale



Percent of Closed-End, First-Lien Mortgages Outstanding by Interest Rate

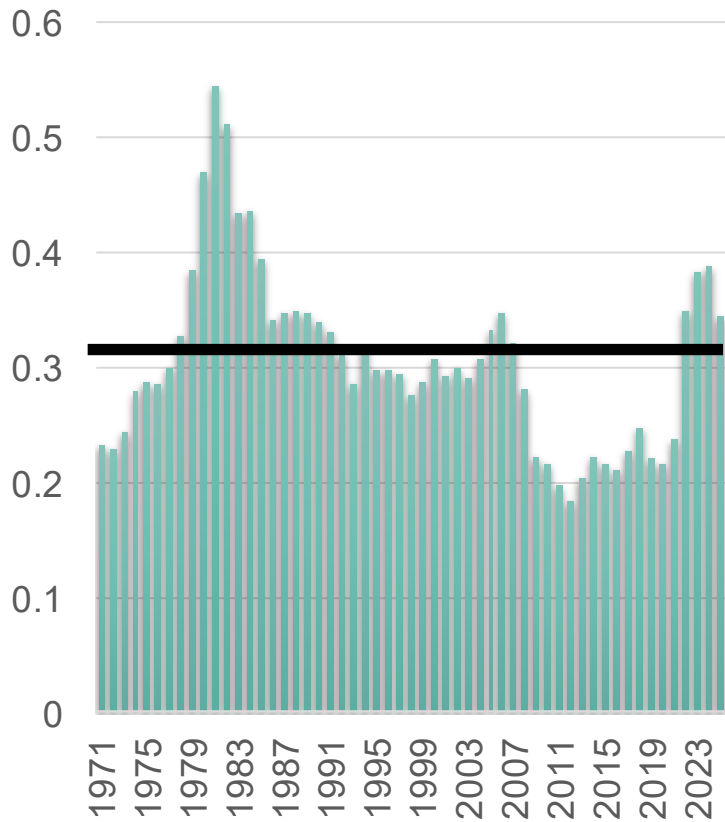


www.calculatedriskblog.com Source: FHFA

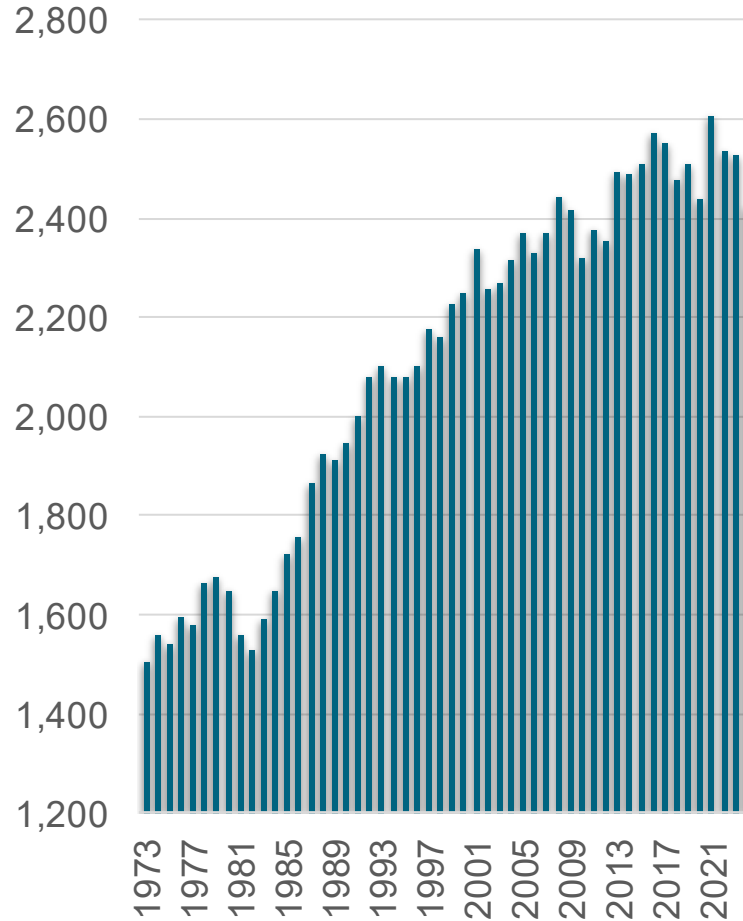


The SF Housing Affordability Crisis?

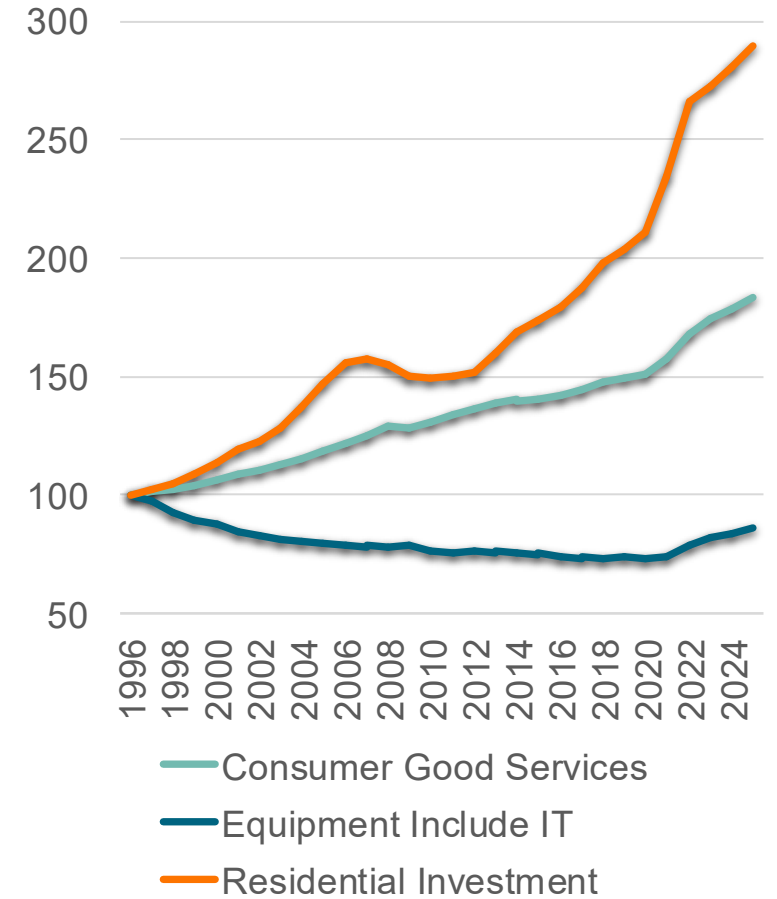
**National Housing Affordability
(Based on 80% LTV)**



Median SF of a New Home



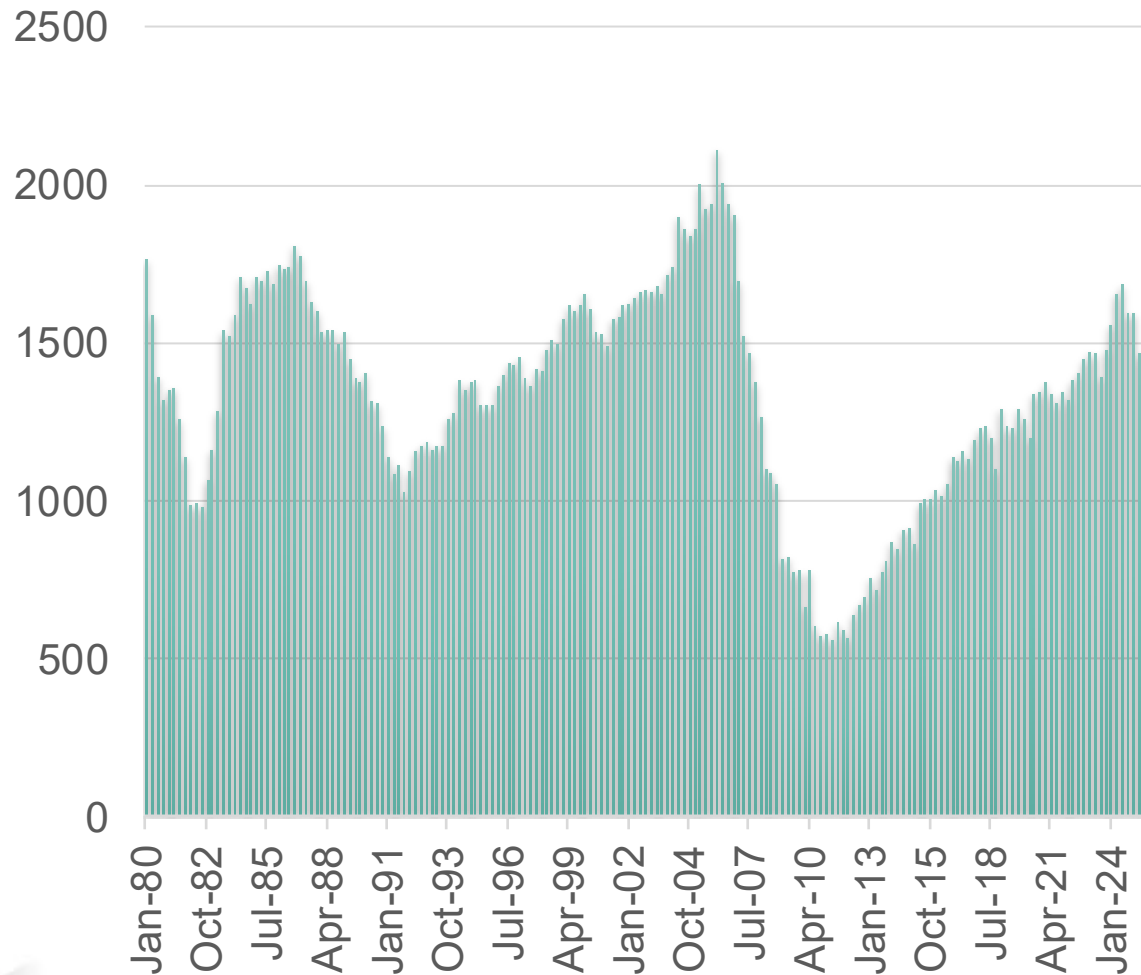
Price Indexes 1996 = 100



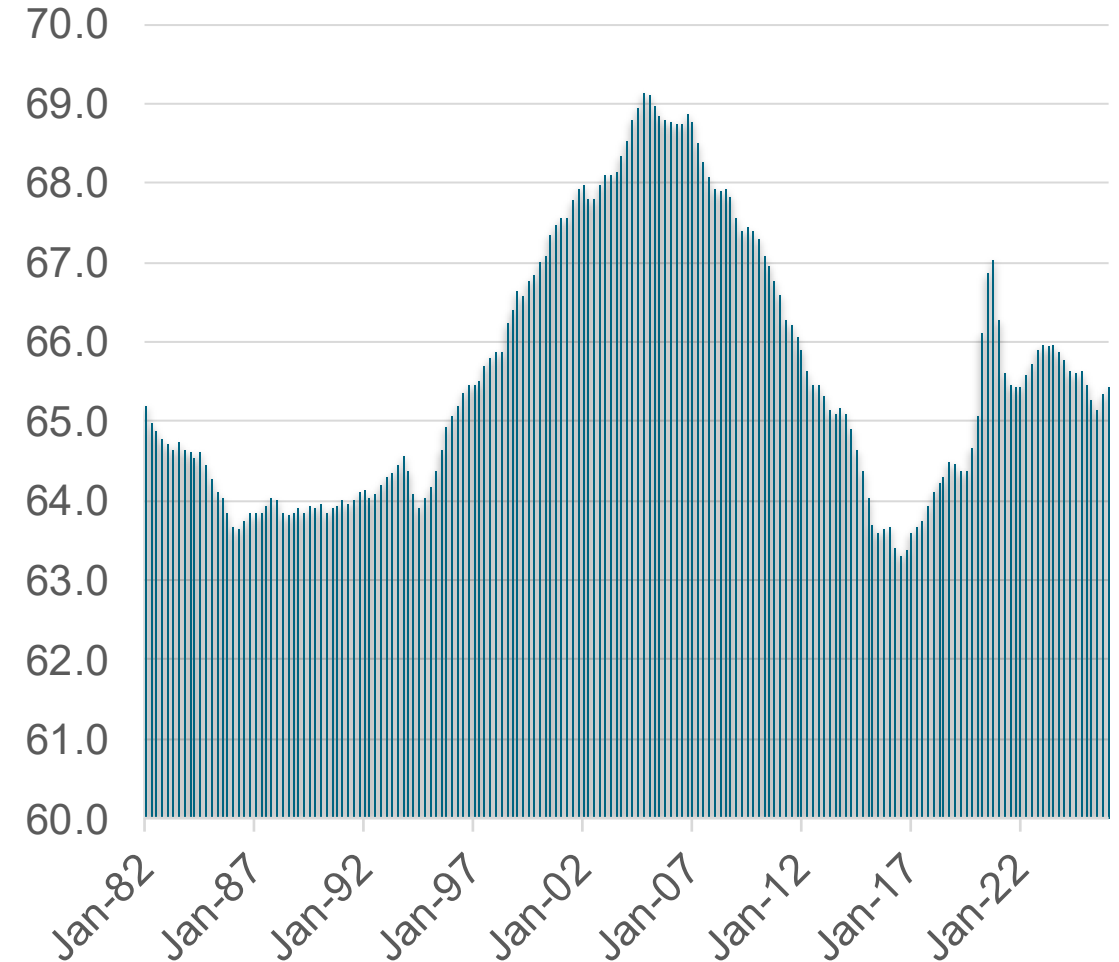
Housing Completions and Sales



US Housing Completions SAAR 000s

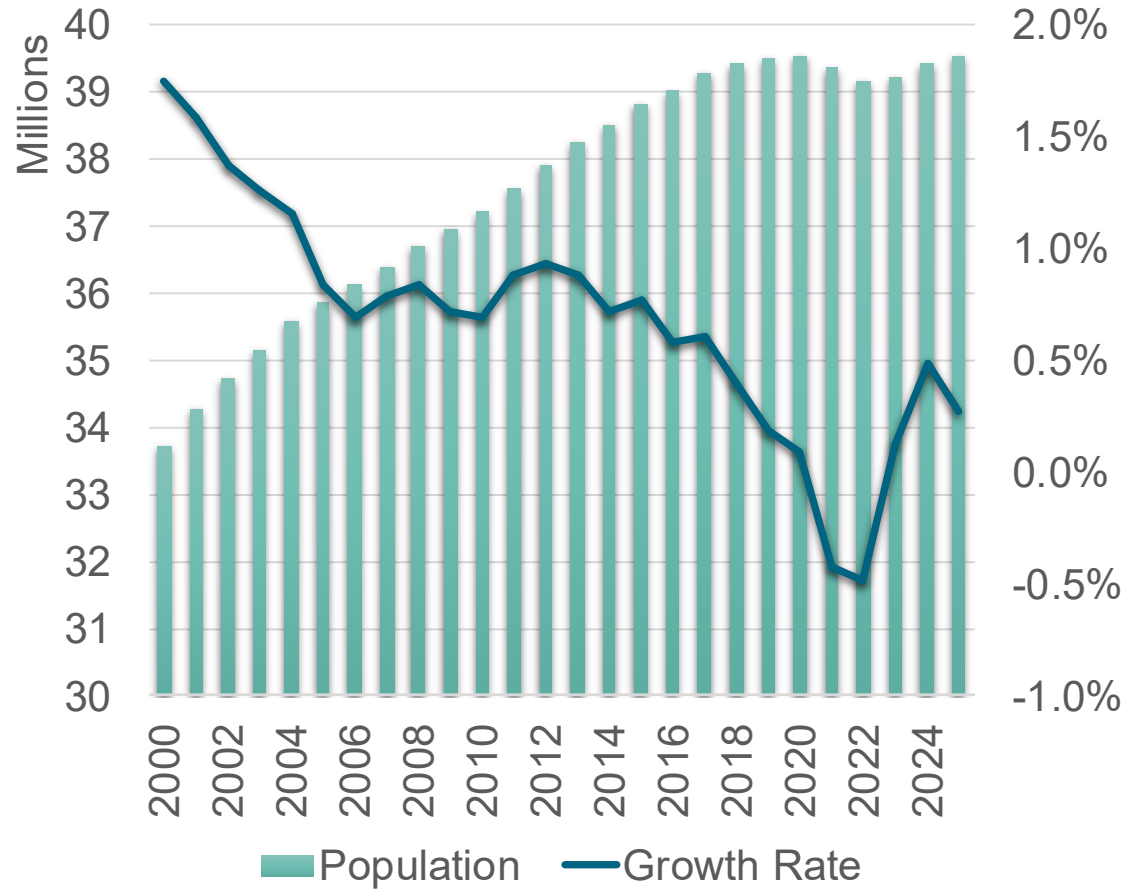


US Ownership %



California's Labor Force Problem

California Population

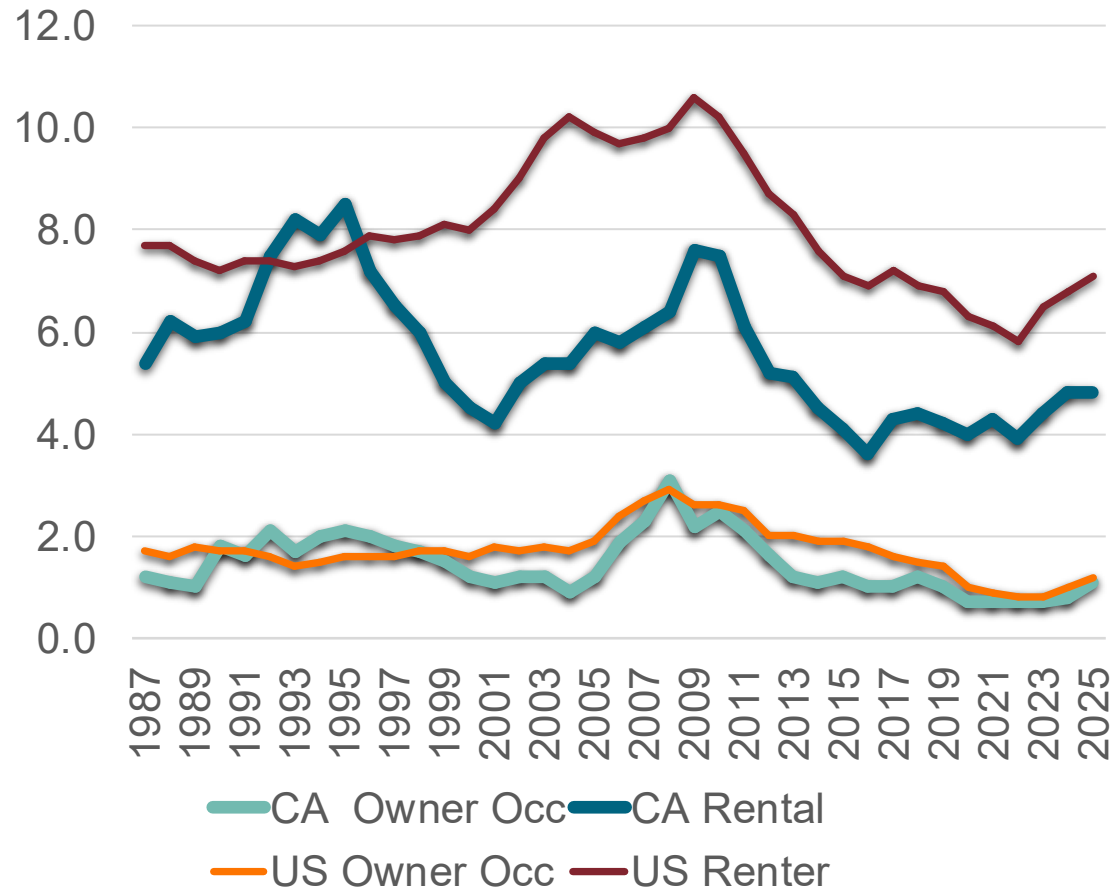


Location	Dec-25 LF (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	171,495	1.8	4.2
Las Vegas	1,274	3.4	10.1
Phoenix	2,805	2.6	12.0
San Diego	1,686	1.7	4.1
Inland Empire	2,256	1.4	8.0
Orange County (MD)	1,647	1.3	0.8
Sacramento	1,203	1.2	5.9
Miami	3,342	1.1	5.5
Houston	3,919	1.0	10.4
San Francisco (MD)	935	0.7	-4.2
Atlanta	3,315	0.5	5.1
Los Angeles (MD)	5,139	0.3	-2.7
Seattle	2,330	-0.6	5.5

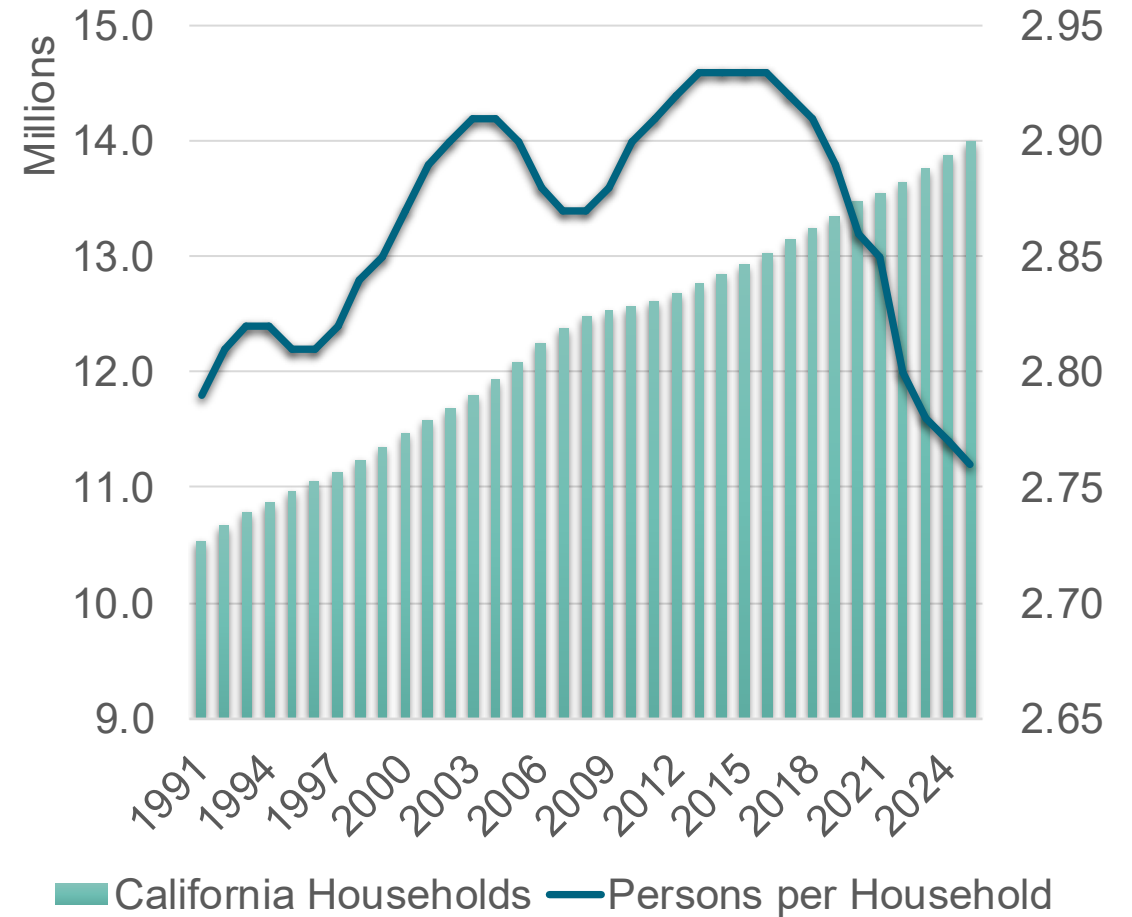


California's "Fleeing" Population?

Housing Vacancy (HVS)

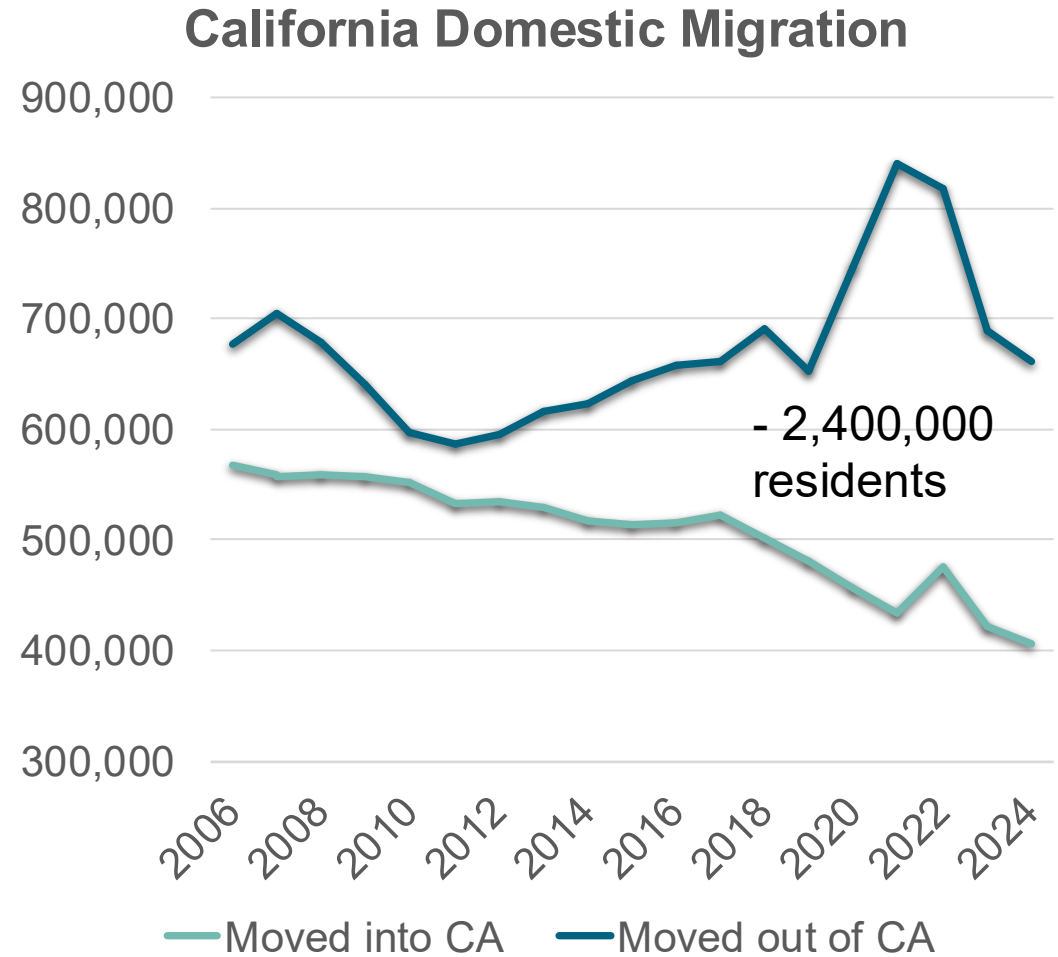


California Households



Labor Force and Migration

California	CA 2024 Est.	CA 5-Year Chg. (%)	US 5-Year Chg. (%)
Labor Force by Age	20,601,616	1.8	5.5
24 and Under	2,538,112	-0.5	5.3
25 to 44	9,544,936	1.6	7.0
45 to 64	7,196,857	-0.1	1.6
65 and Over	1,326,719	20.9	18.2
Labor Force by Edu	16,743,300	0.8	4.6
Less than HS	1,992,471	-5.9	-3.0
High School	3,234,817	0.4	-1.2
Some College	4,301,162	-9.1	-3.3
Bachelor's plus	7,217,891	10.6	15.8



Regional SF Home Sales & Prices

Indexed Home Sales

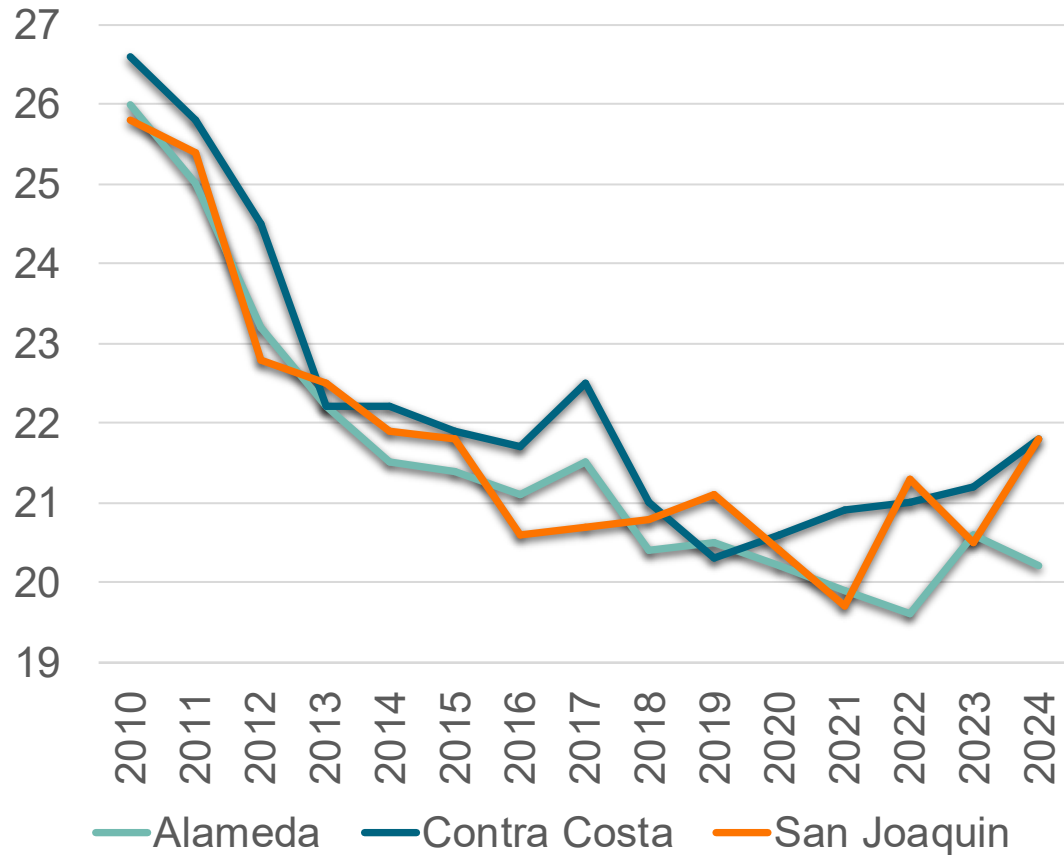


MSA	May-26 Median Home Price (\$000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
San Francisco County	1,923.1	20.4	22.6
San Mateo County	2,059.7	7.1	27.8
Marin County	1,702.9	3.5	27.0
Boston MSA	804.2	3.1	50.4
Sonoma County	854.6	2.4	31.5
Alameda County	1,265.2	1.3	32.9
Phoenix MSA	474.6	1.1	50.1
Dallas MSA	409.3	0.6	35.2
Solano County	580.2	0.4	24.1
Austin MSA	435.9	0.2	31.3
Contra Costa County	833.4	-1.3	22.4
Santa Clara County	1,938.7	-2.6	47.1
Seattle MSA	896.5	-4.0	43.1
Napa County	875.3	-8.5	23.8



Regional SF Home Affordability

Median Owner Cost as a % of Household Income



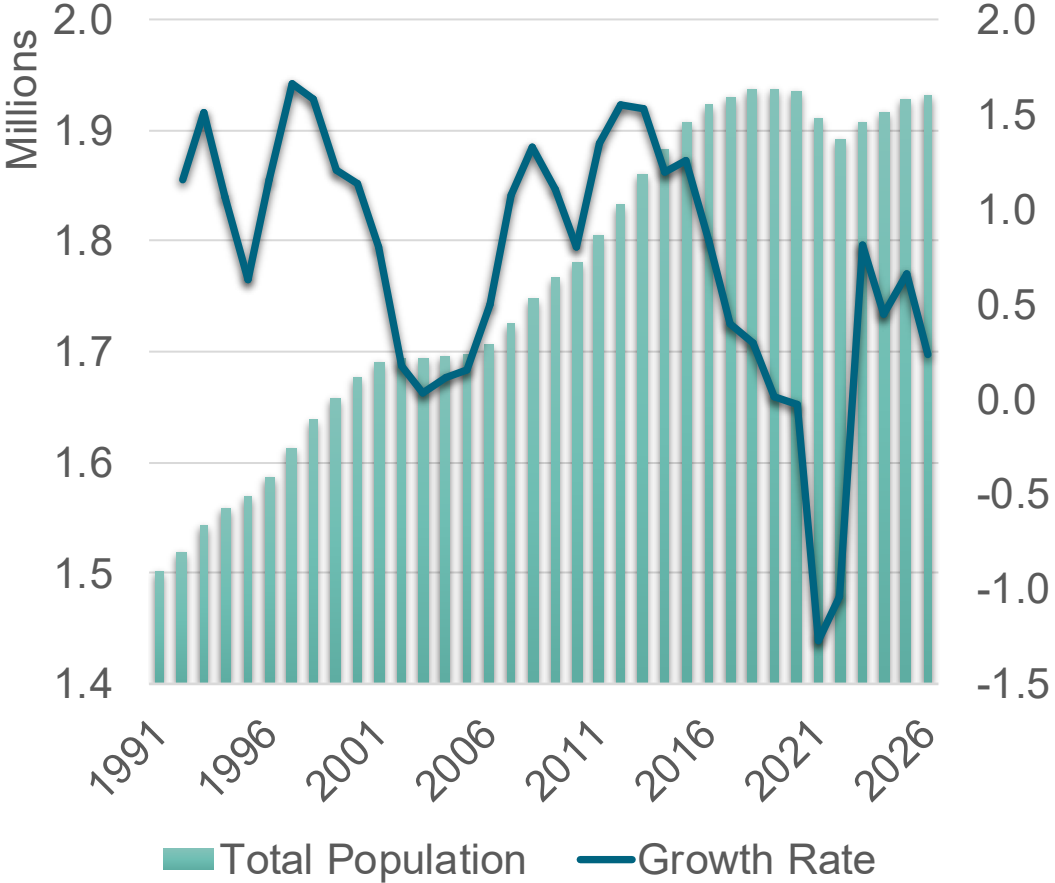
Share Cost Burdened New Buyers
(Purchased in last 2 years)

	Share 2006	Share 2014	Share 2024
California	53.9%	26.1%	34.8%
% of all owners	6.9%	2.4%	2.9%
Florida	35.4%	18.8%	30.8%
% of all owners	5.5%	2.1%	3.9%
Pennsylvania	23.0%	16.2%	20.2%
% of all owners	2.3%	1.1%	1.6%
Texas	26.2%	16.4%	27.9%
% of all owners	3.7%	1.7%	3.2%
Washington	32.4%	17.9%	26.2%
% of all owners	5.2%	1.9%	2.8%

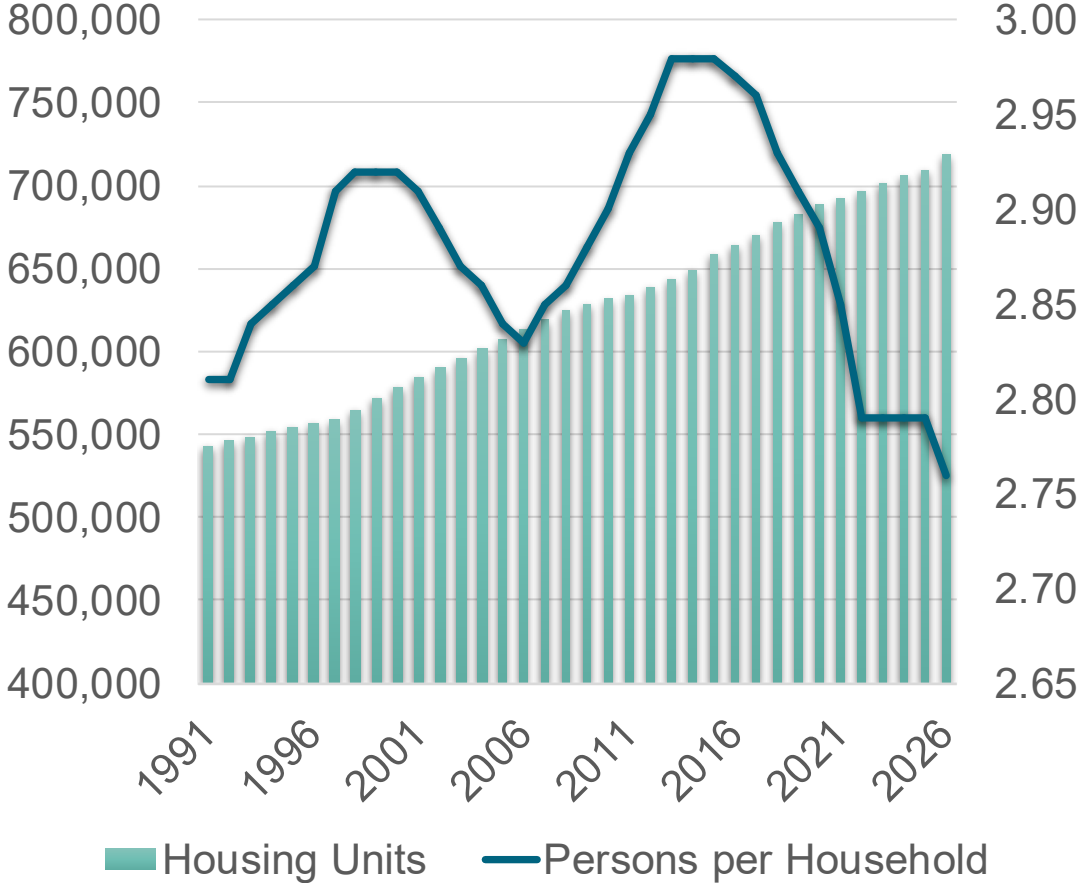


Local Population

Santa Clara County Population

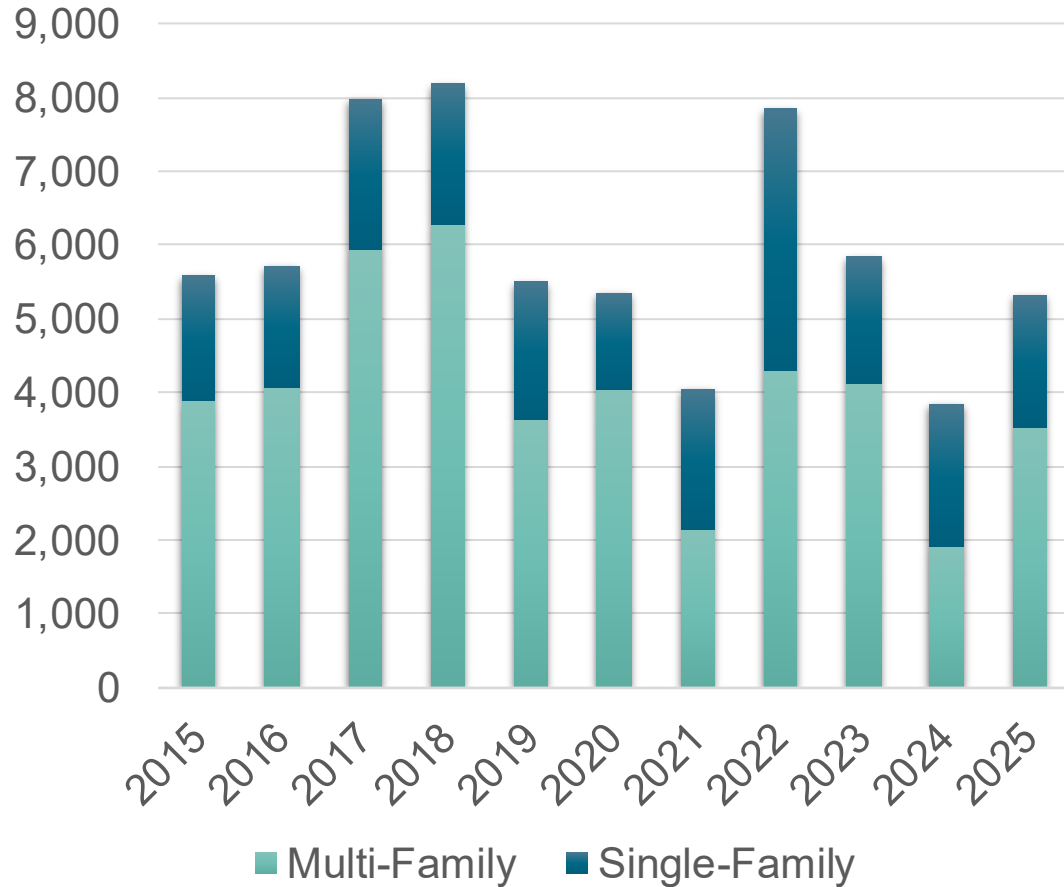


Santa Clara County Housing Units



Residential Permits

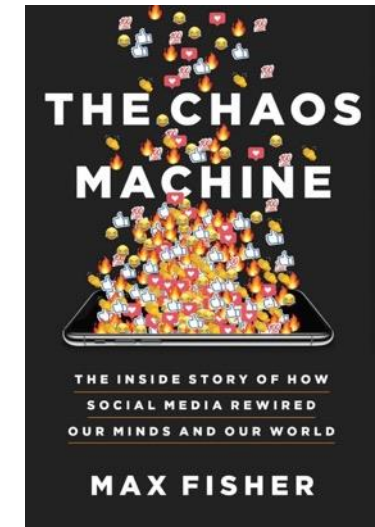
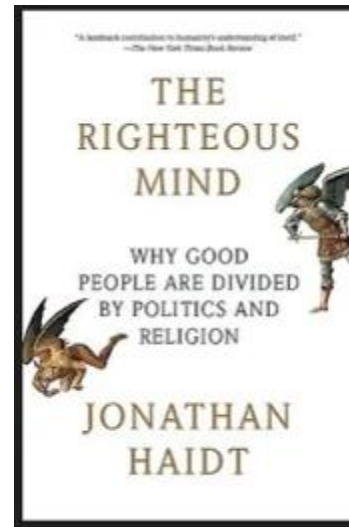
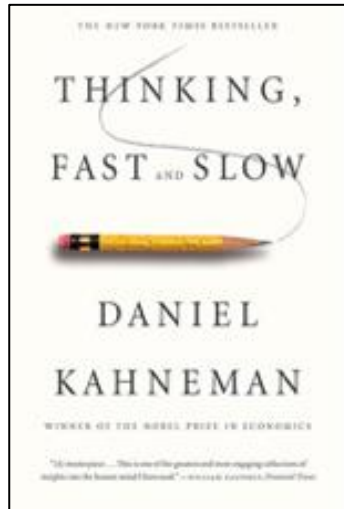
Santa Clara County Permits



Location	2025 Res Permits (Units)	1-Year Chg. (%)	6-Year Chg. (%)
California	103417	1.8435	-6.153
Santa Clara County	5,408	41.1	-1.6
Alameda County	2,778	59.4	-56.6
San Mateo County	2,035	87.0	50.5
Sonoma County	1,682	66.2	-30.8
San Francisco County	1,644	113.5	-48.6
Contra Costa County	1,183	-45.1	-56.0
Solano County	877	-39.7	-19.5
Napa County	338	-23.0	-54.9
Marin County	163	3.2	-32.1



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

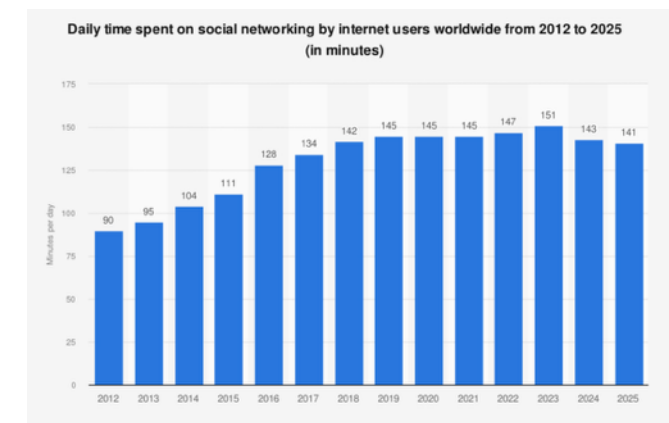
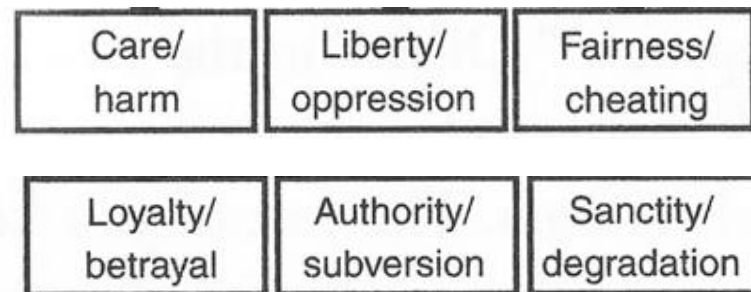
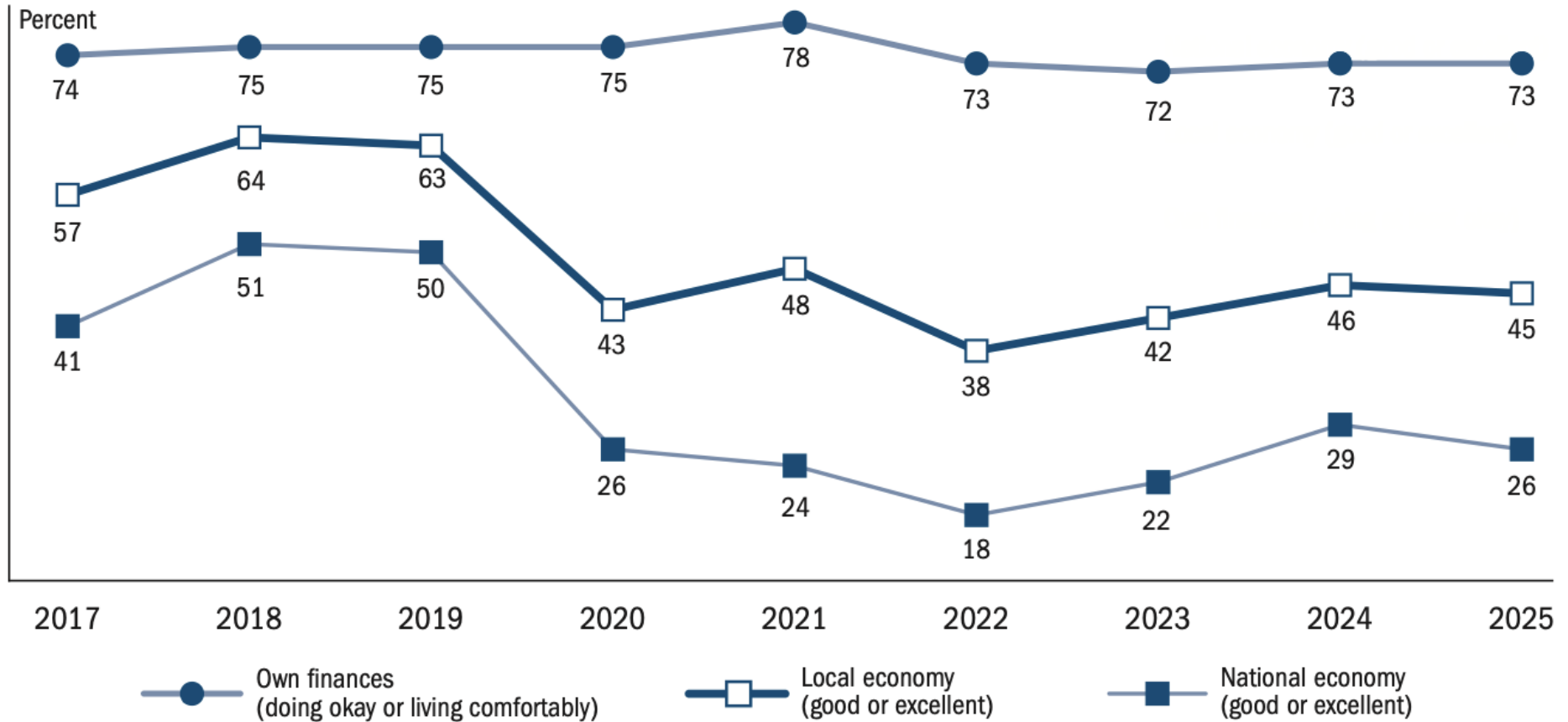


Figure 6. Assessment of own financial well-being, local economy, and national economy (by year)



Labor Markets: Flat

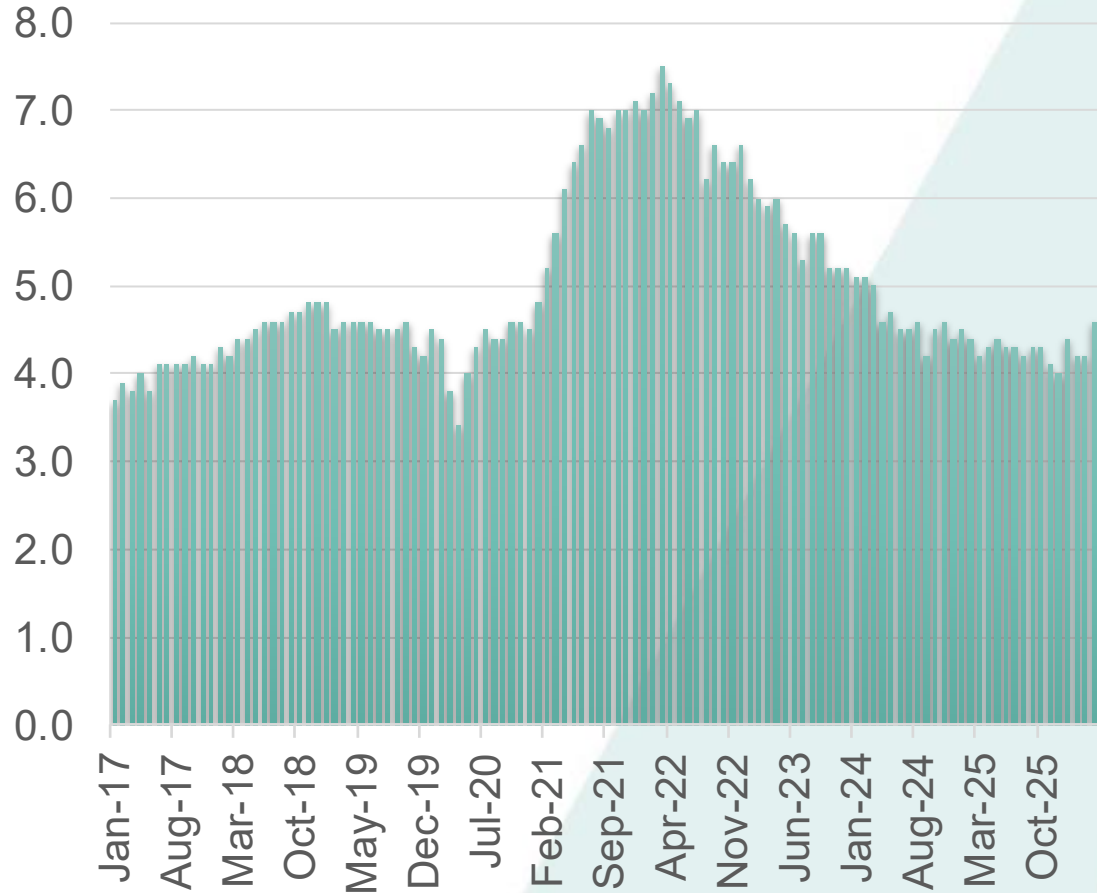


Location	Feb-26 Emplt (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	158,459	0.1	3.9
North Carolina	5,069	0.7	8.5
California	18,124	0.7	2.6
Texas	14,355	0.5	9.8
Pennsylvania	6,179	0.3	1.5
Washington	3,638	0.2	3.5
New York	9,979	0.1	1.4
Ohio	5,669	0.1	1.1
Arizona	3,273	0.0	8.5
Georgia	4,977	-0.1	6.1
Michigan	4,470	-0.3	0.4
Illinois	6,137	-0.3	0.0
Florida	9,969	-0.4	8.9

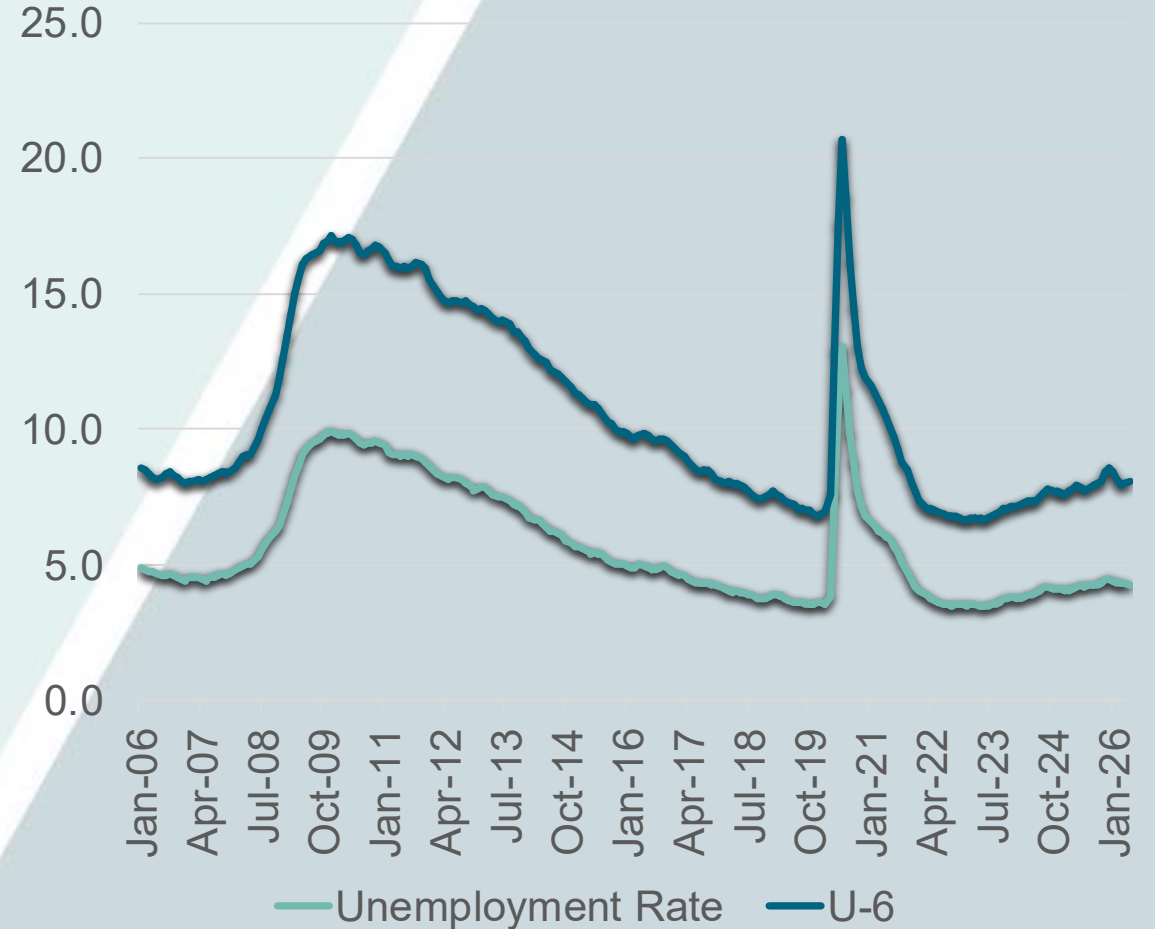


Job Openings & Unemployment

US Job Openings Rate

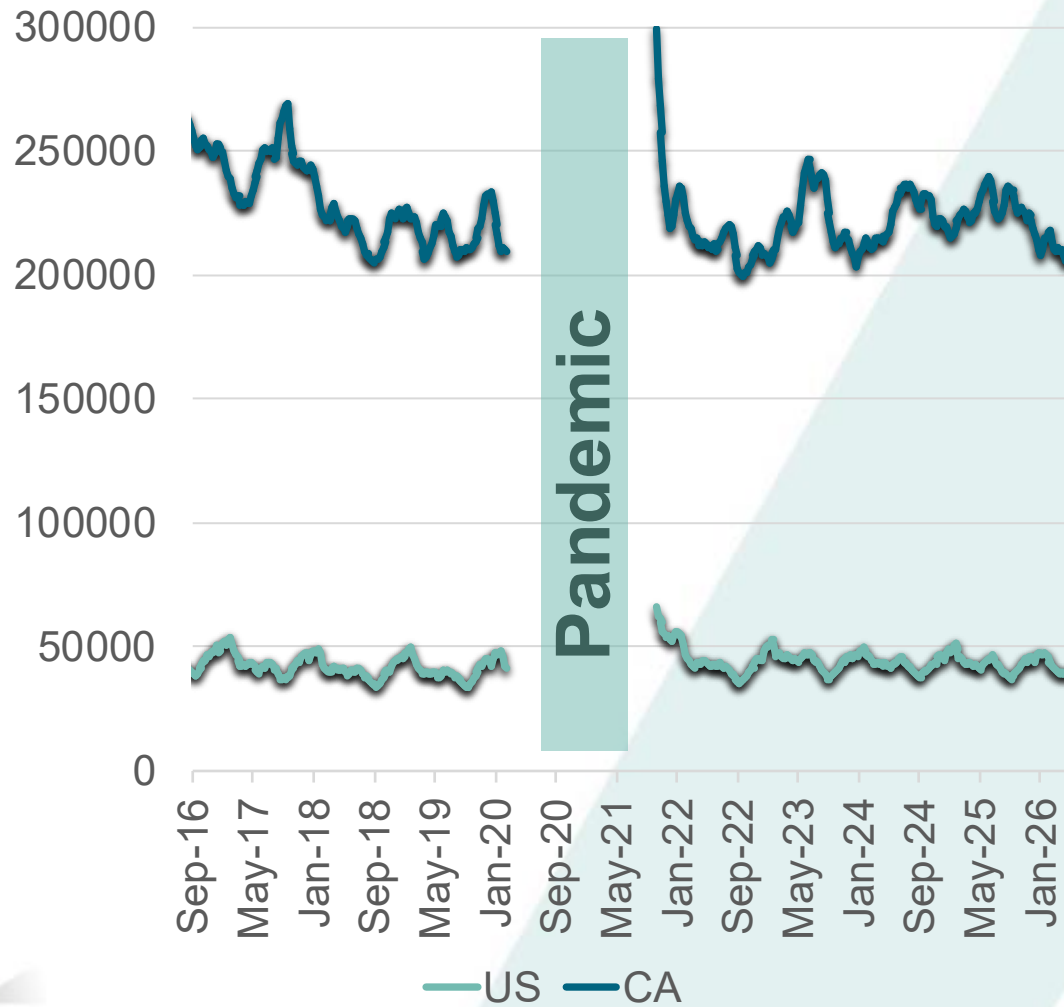


Unemployment Rates

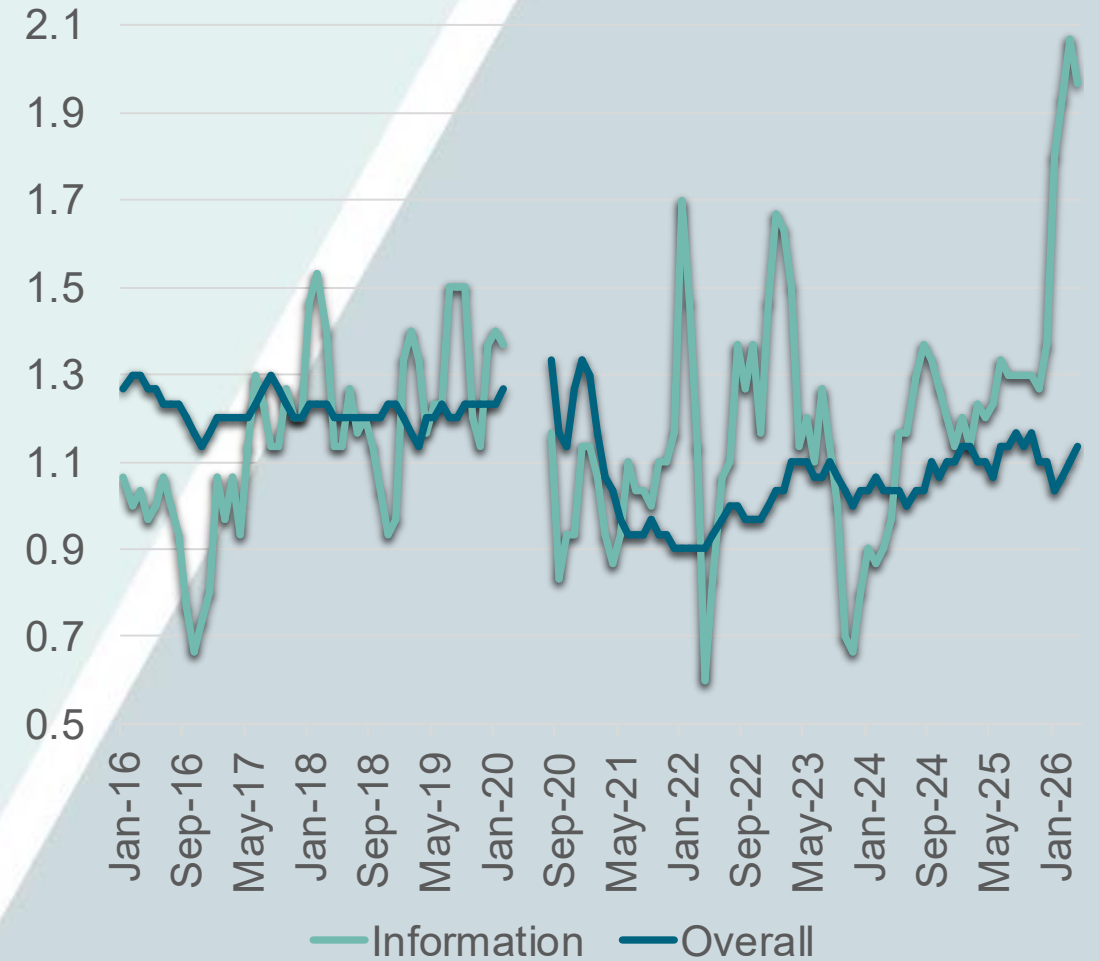


Labor Markets: Cold, not collapsing...

Initial Claims for Unemployment

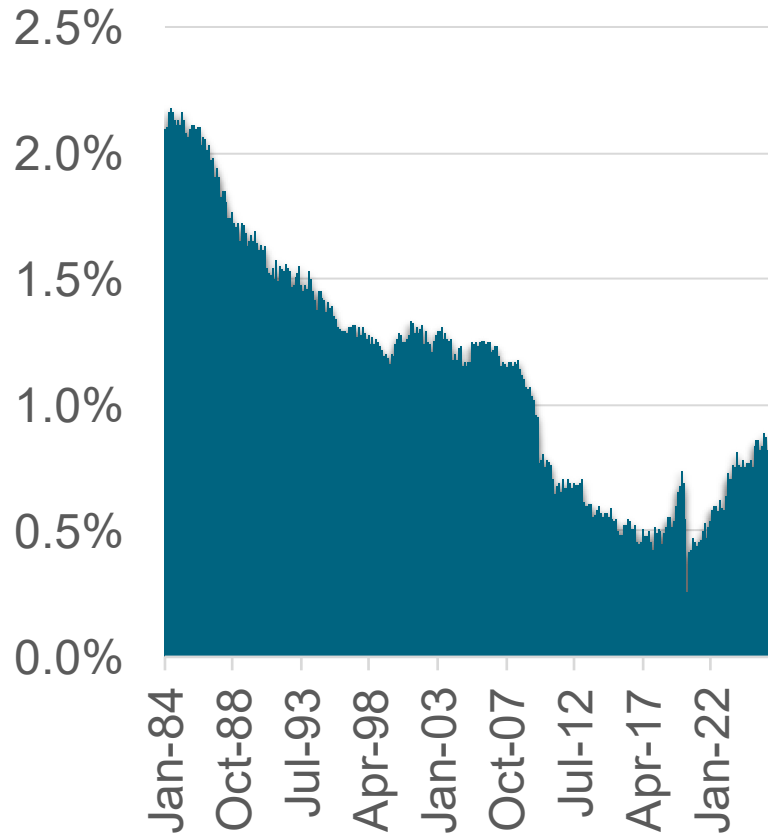


Layoff Rate

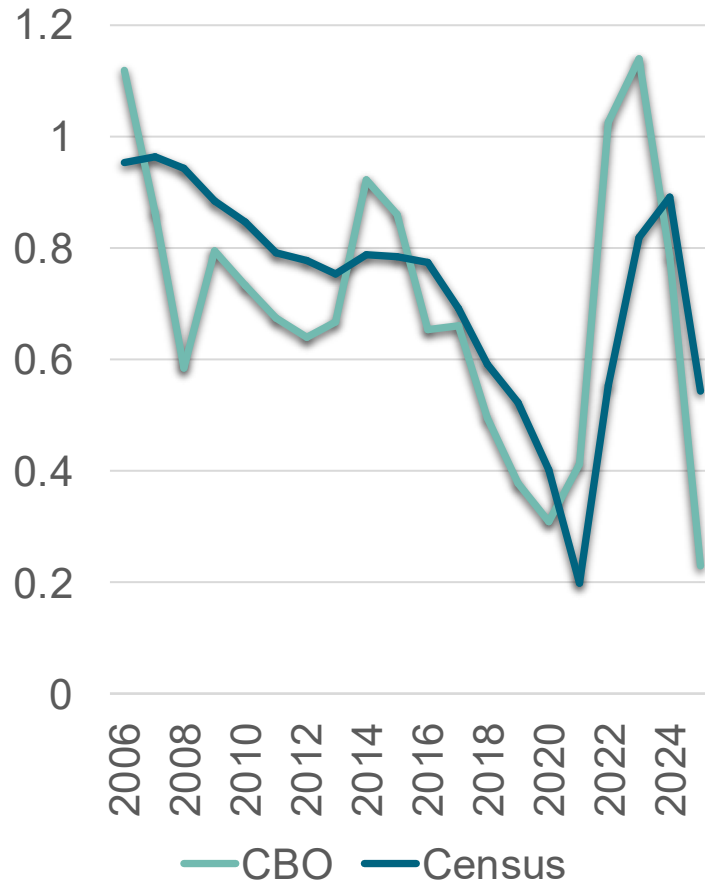


Labor Supply Challenges

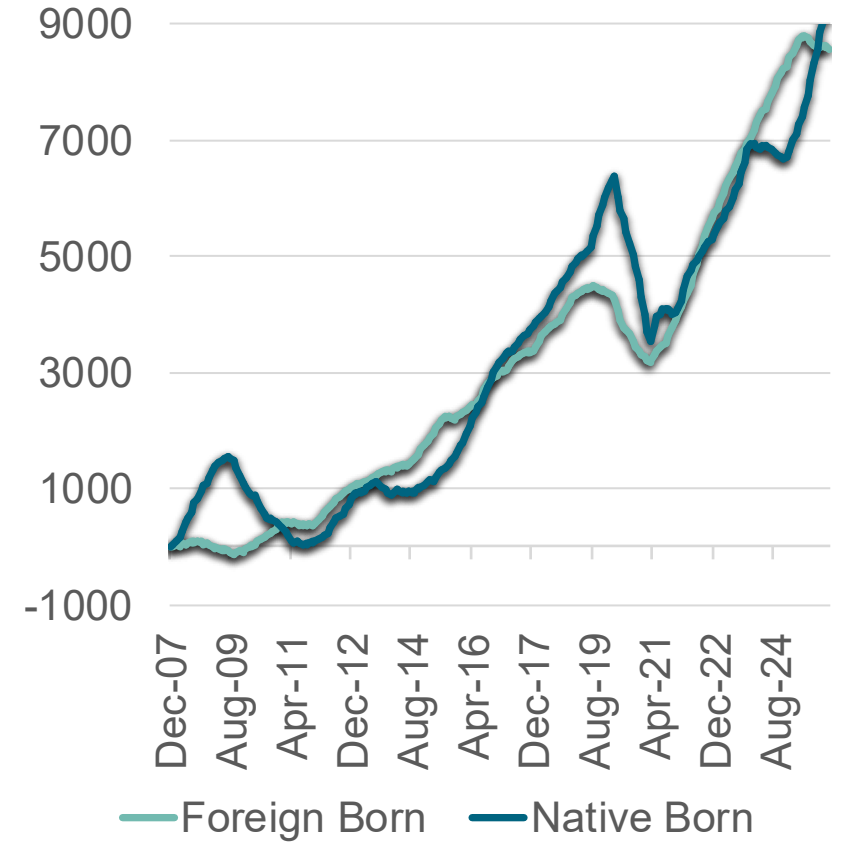
10 Year Labor Force Growth



Population Growth

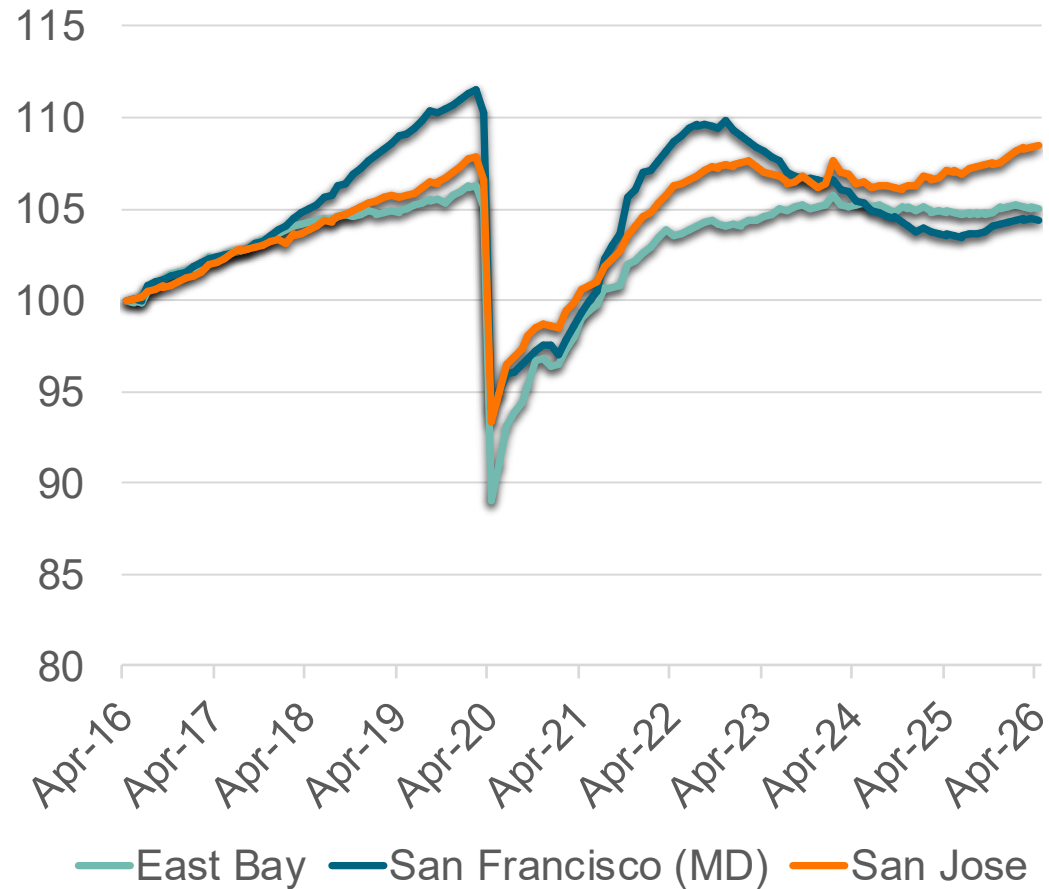


Cumulative Growth in Labor Force by Nativity



Regional Nonfarm Employment

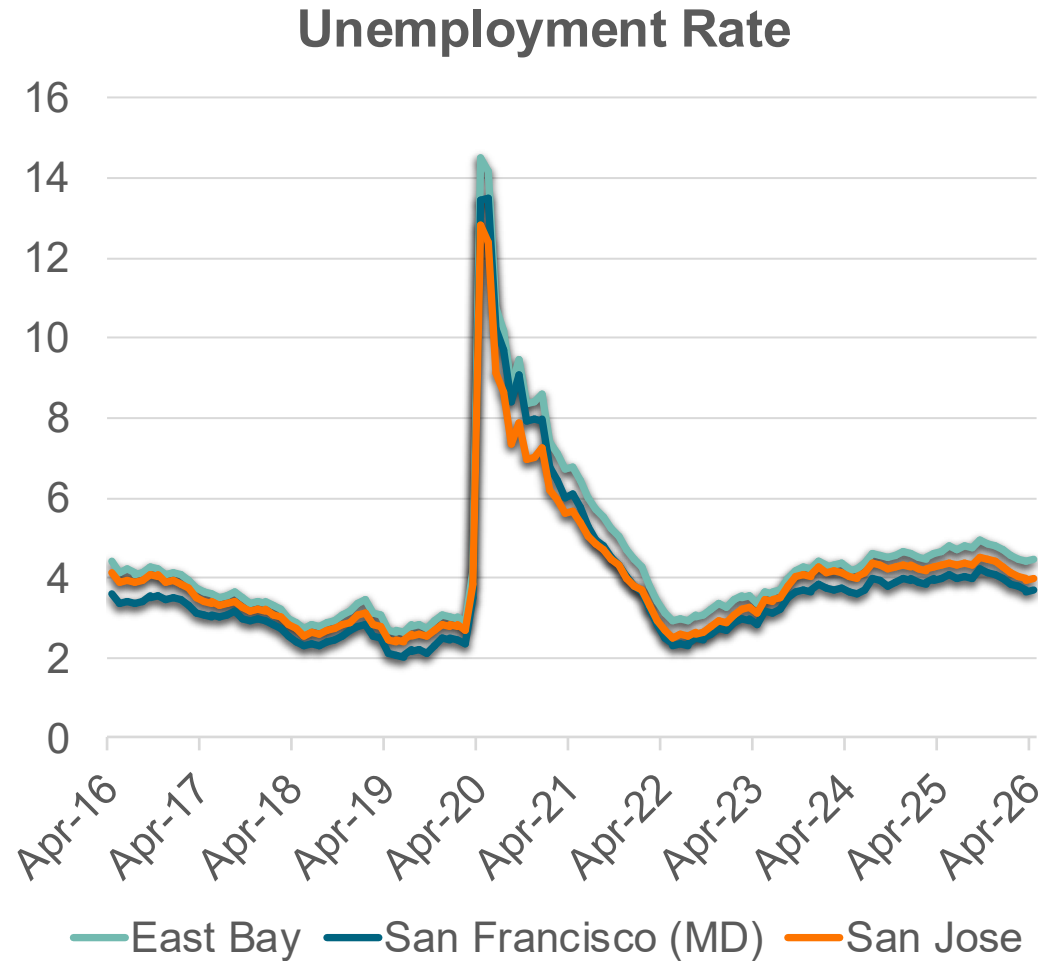
Indexed Nonfarm Employment



Location	Apr-26 Emplt (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	158,736.0	0.2	4.1
California	18,159.7	0.6	2.8
Salt Lake City	849.1	1.3	10.4
San Jose	1,171.6	1.2	0.5
San Francisco (MD)	1,128.7	0.7	-6.9
Austin	1,409.7	0.6	18.9
Dallas	4,333.5	0.5	11.8
New York City (MD)	6,414.4	0.5	2.8
Oakland (MD)	1,188.3	0.2	-1.1
Seattle	2,125.9	0.1	0.4
Chicago	4,757.4	0.1	1.2
Los Angeles (MD)	4,604.3	-0.2	-0.6
Denver	1,639.0	-0.2	5.3
Boston	2,736.3	-0.5	-1.6



Unemployment Rate and Labor Force



Location	Apr-26 LF (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	169,995.0	-0.6	3.2
California	19,720.1	-0.4	0.5
New York City (MD)	6,405.7	0.4	2.8
Los Angeles (MD)	5,094.5	0.3	-3.6
Seattle	2,318.9	-0.1	5.0
Austin	1,553.4	-0.1	19.4
Dallas	4,556.7	-0.2	12.9
San Jose	1,066.6	-0.4	0.1
San Francisco (MD)	910.4	-0.9	-7.2
Salt Lake City	734.5	-1.1	7.6
Oakland (MD)	1,438.4	-1.5	-2.6
Chicago	4,939.3	-2.1	1.2
Boston	2,807.8	-2.3	0.7
Denver	1,738.9	-2.7	2.6



SJ Industry Employment

Industry	San Jose			United States		LQ
	Apr-26 Emplt (000s)	1-Year Chg. (%)	7-Year Chg. (%)	1-Year Chg. (%)	7-Year Chg. (%)	
Total Nonfarm	1,171.6	1.2	2.7	0.2	5.4	1.0
NR/Construction	55.9	7.4	5.5	0.4	8.8	0.8
Education/Health	227.9	5.9	29.2	2.3	15.7	1.1
Other Services	28.8	2.3	-0.9	0.8	2.4	0.6
Information	97.6	0.8	0.3	-3.2	-2.6	4.8
Manufacturing	128.3	0.5	-4.5	-0.5	-1.5	1.4
Wholesale Trade	28.1	0.3	-11.0	0.0	3.0	0.6
Professional/Business	277.8	0.2	0.0	-0.1	5.3	1.7
Retail Trade	72.2	0.0	-13.8	0.0	-0.7	0.6
Government	101.0	-1.3	3.9	-1.1	3.0	0.6
Logistics	16.7	-1.5	9.4	-0.9	16.7	0.3
Leisure and Hospitality	101.3	-2.4	-6.1	0.8	2.7	0.8
Financial Activities	35.9	-2.5	-3.0	-0.9	4.6	0.5



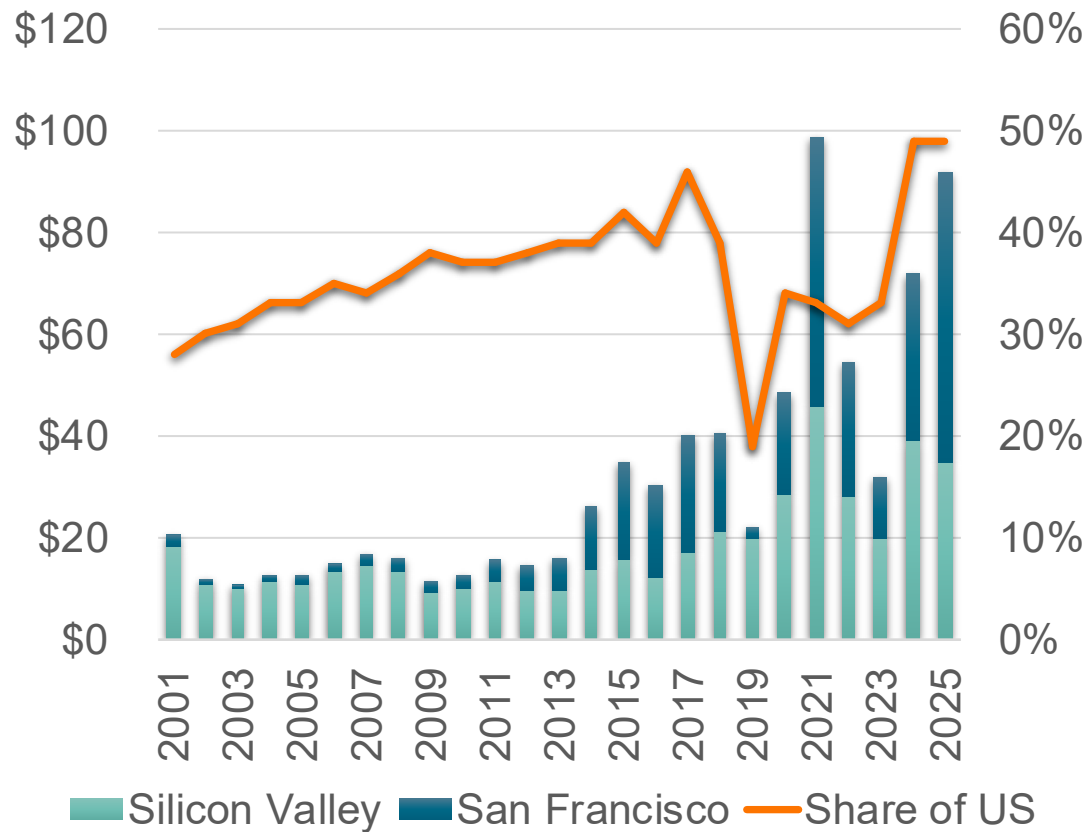
Tech Subsector Employment

Sector	South Bay			US	
	Emplt. Mar-26	1-Year Chg. (%)	7-Year Chg. (%)	1-Year Chg. (%)	7-Year Chg. (%)
Total Tech	284,800	0.6	-1.1	-2.3	4.1
Computer & Electronic Prod. Manufacturing	76,400	1.2	-6.5	-1.6	-4.5
Information	97,100	1.0	0.5	-2.9	-2.3
Computer Systems Design & Related Services	84,600	-0.6	-4.5	-1.8	9.0
Scientific Research & Development Services	26,700	1.5	27.1	-2.2	27.1

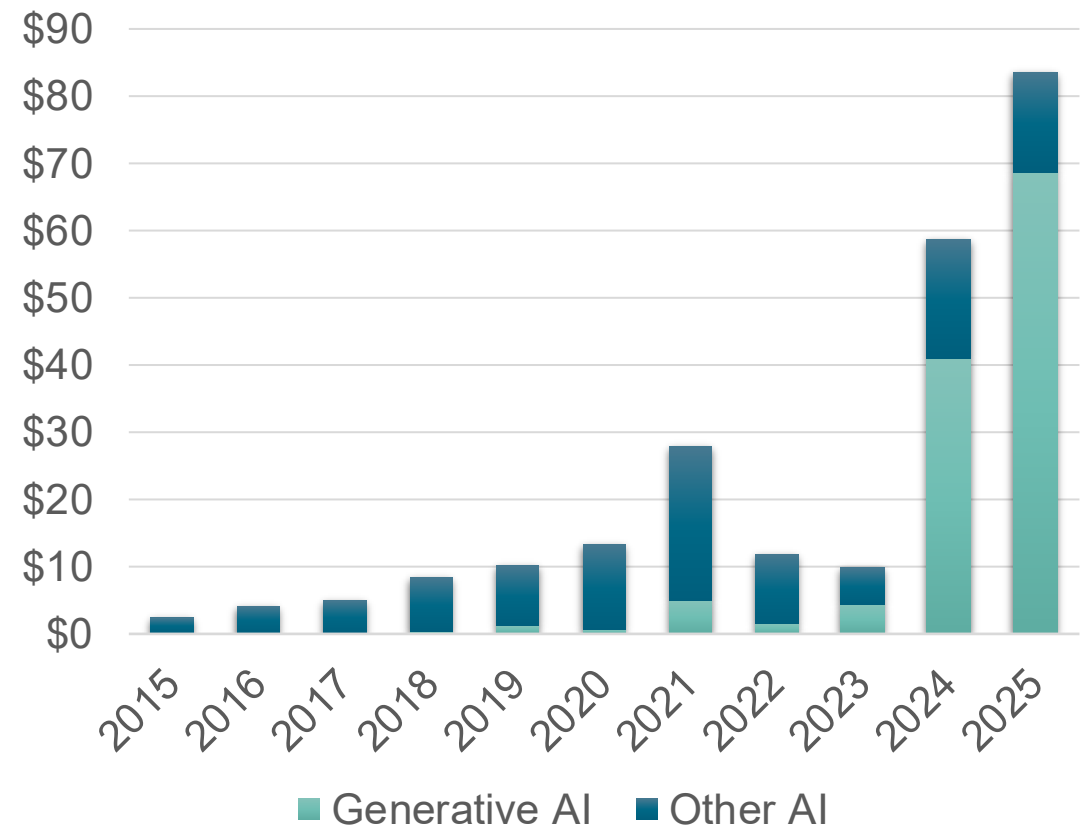


Venture Capital Investment

VC Funding in Greater Silicon Valley

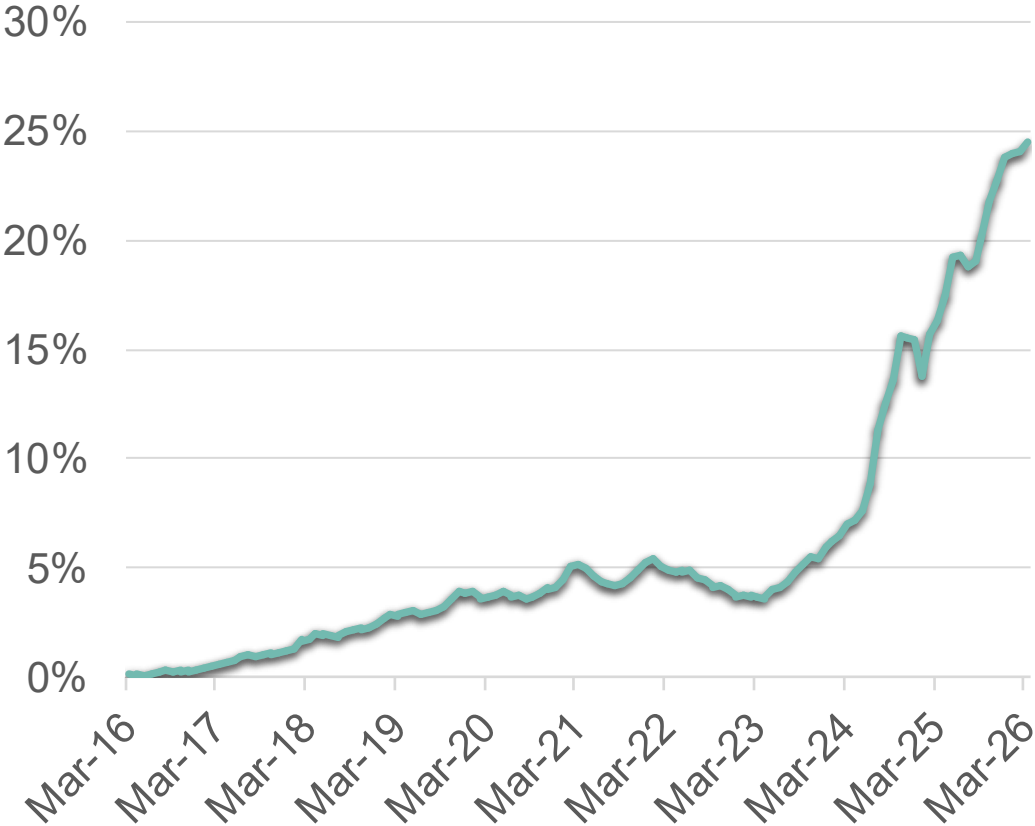


VC Funding to AI Companies in Greater Silicon Valley



Job Postings

Share of San Jose MSA Postings with AI in Job Description

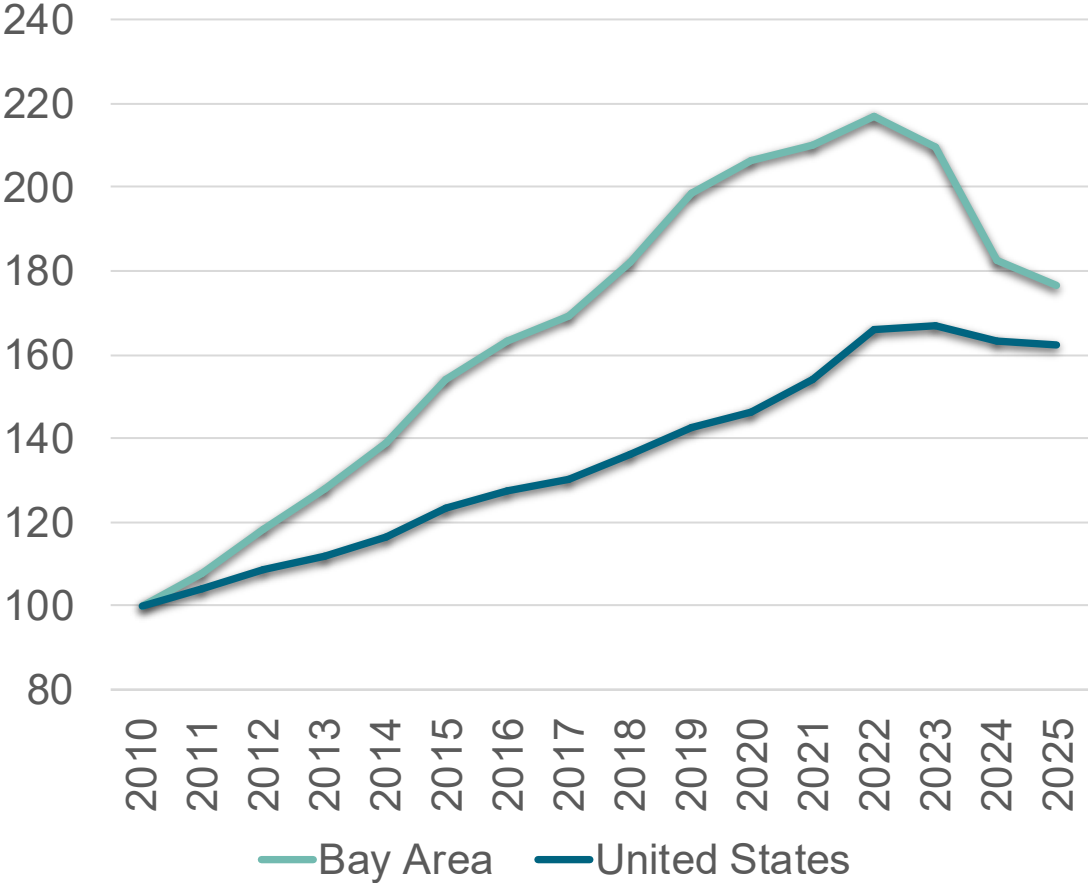


San Jose MSA Job Postings

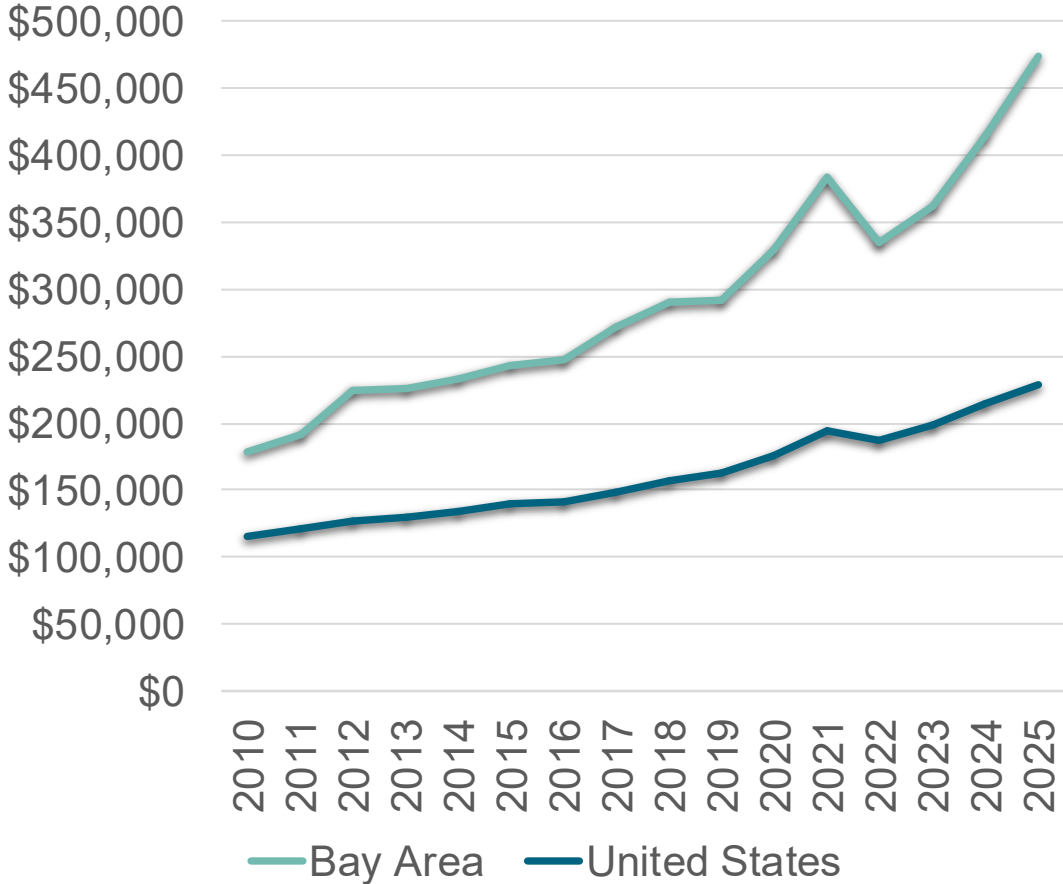


Bay Area Tech: Still Ahead

Indexed Tech Employment



Tech Average Earnings Per Job



What about AI?



5 year Labor Productivity Growth
(Output per Hour worked)



Many waves of transformative technologies

- The Industrial revolution, Railroad, Electricity, Automation / Robotics, the telephone, Digital Communication (the internet) and now AI
- Past cycles: broad based gains in real incomes

It takes time

- The technology needs improvement
- Infrastructure has to be invested in
- It takes time to integrate into human systems

Financial problems are par for the course

- Risky investments promote speculation
- Financial industrial complex rides enthusiasm



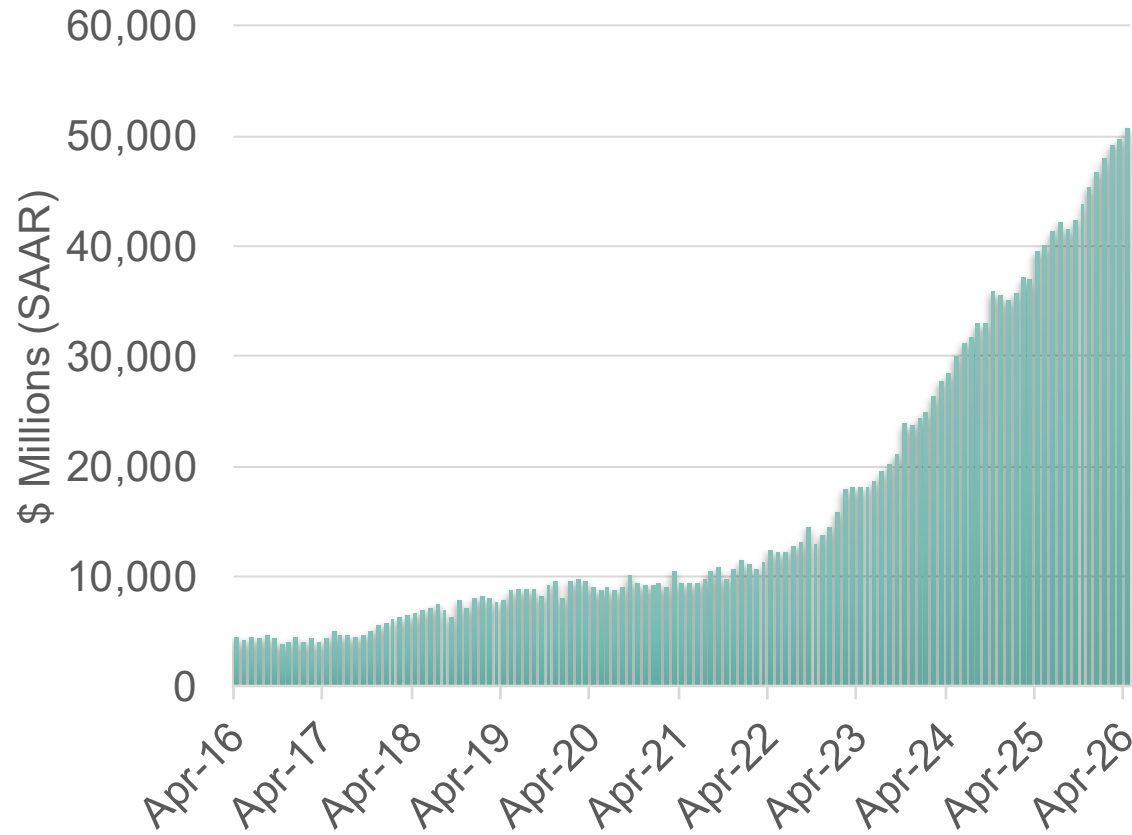


Period	Technology / Sector
1840s–1870s	Railroads
1890s–1900s	Electricity & Utilities
1920s	Radio & Consumer Electronics
1980s	Personal Computers
Late 1990s–2000	Internet / Dot-com Bubble
Mid-2000s	Telecom / Fiber Optics
2023–present	Artificial Intelligence

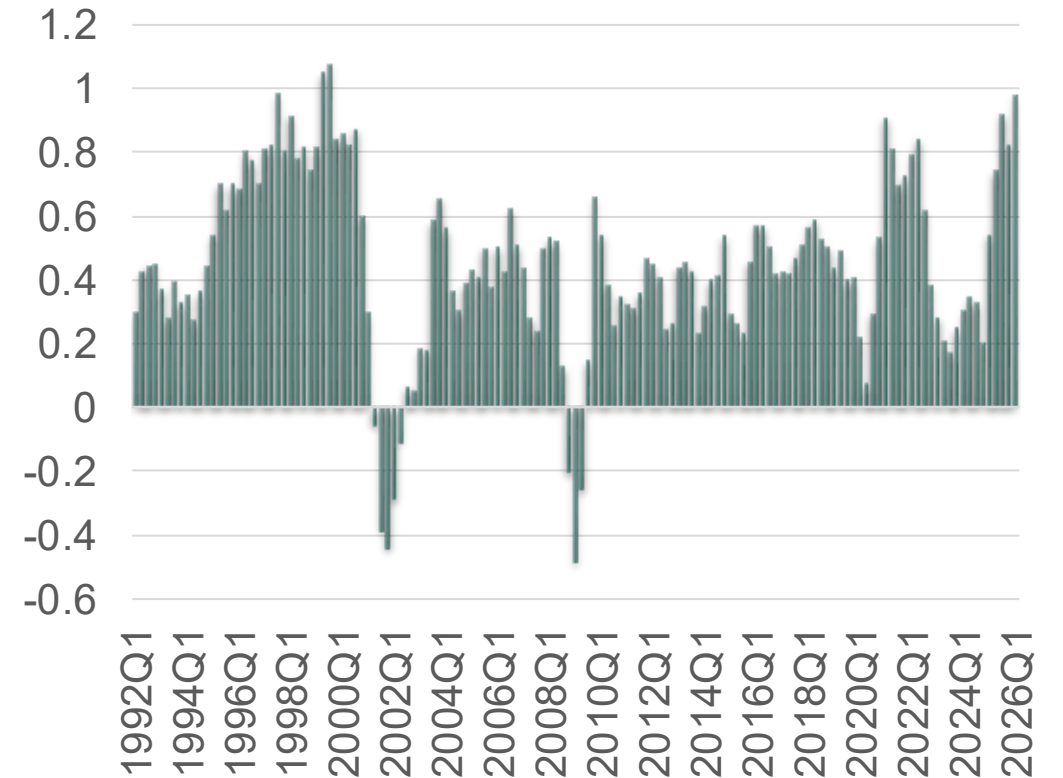


Data Centers and IT Investment

U.S. Data Center Construction Spending

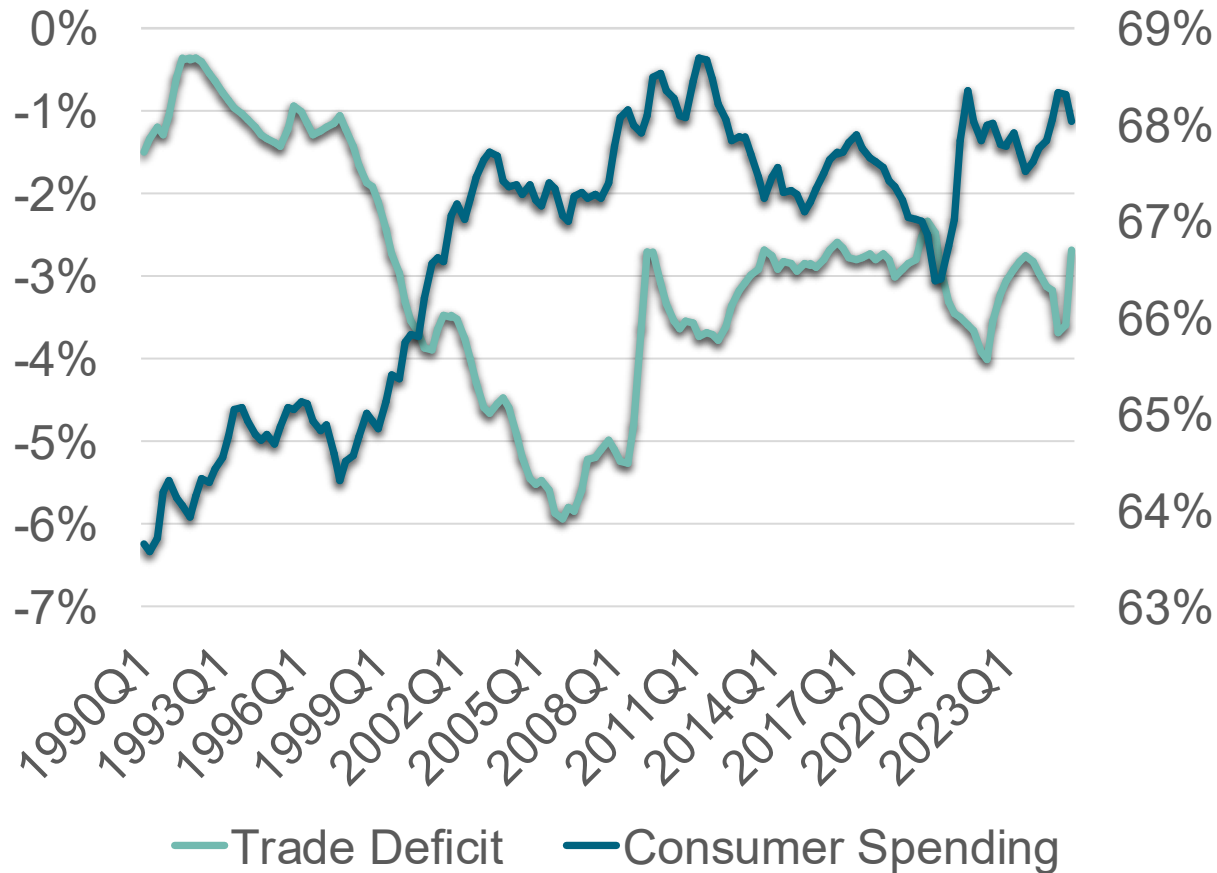


Information Technology Investment Contribution to overall GDP Growth



The Difference Between 2001 and 2026...

Trade and Consumption as % of GDP



Fed Borrowing as Share DPI



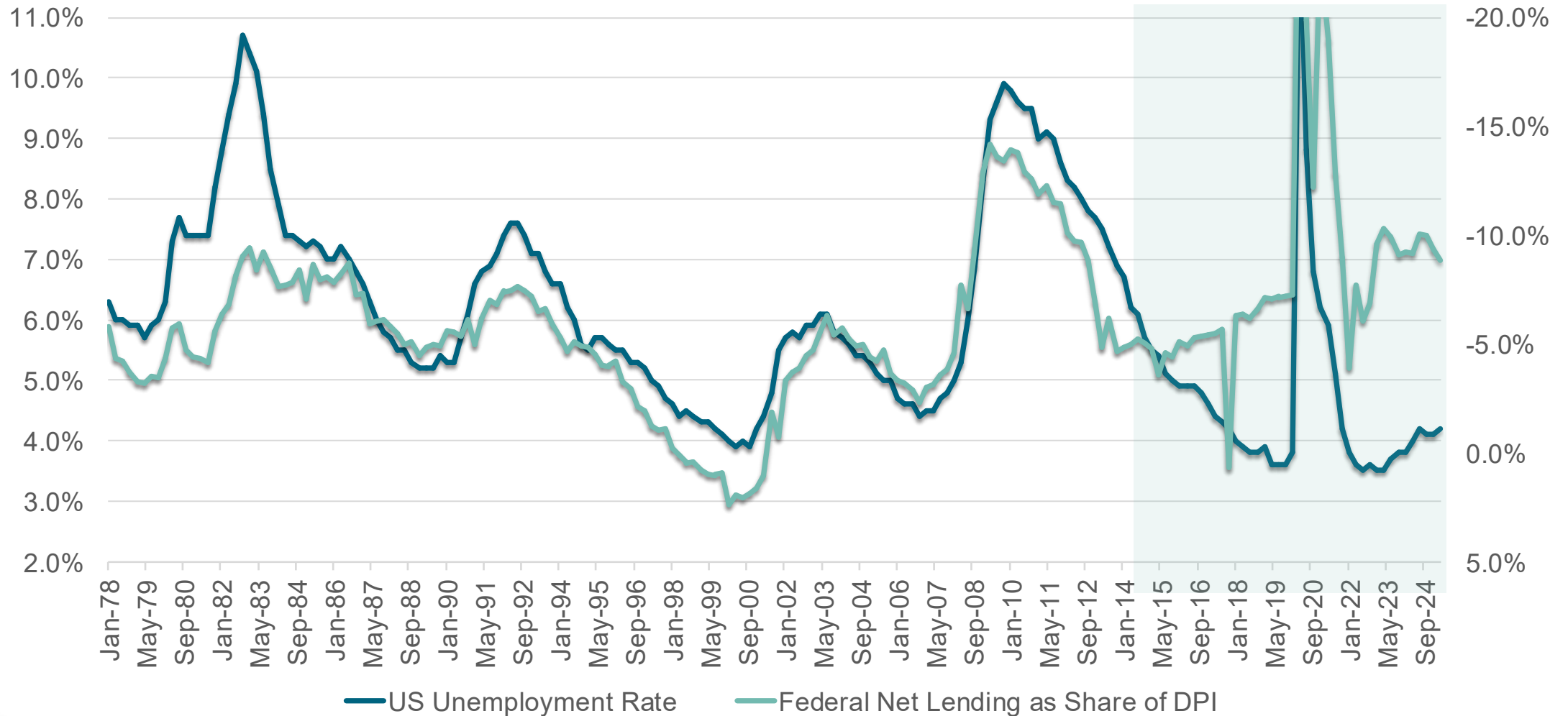
Deficit Closing?

- \$15,000 per household per year
- Higher Taxes: 9% of Household Disposable Household Income
- Reduced Spending: 25% of total current Fed expenditures



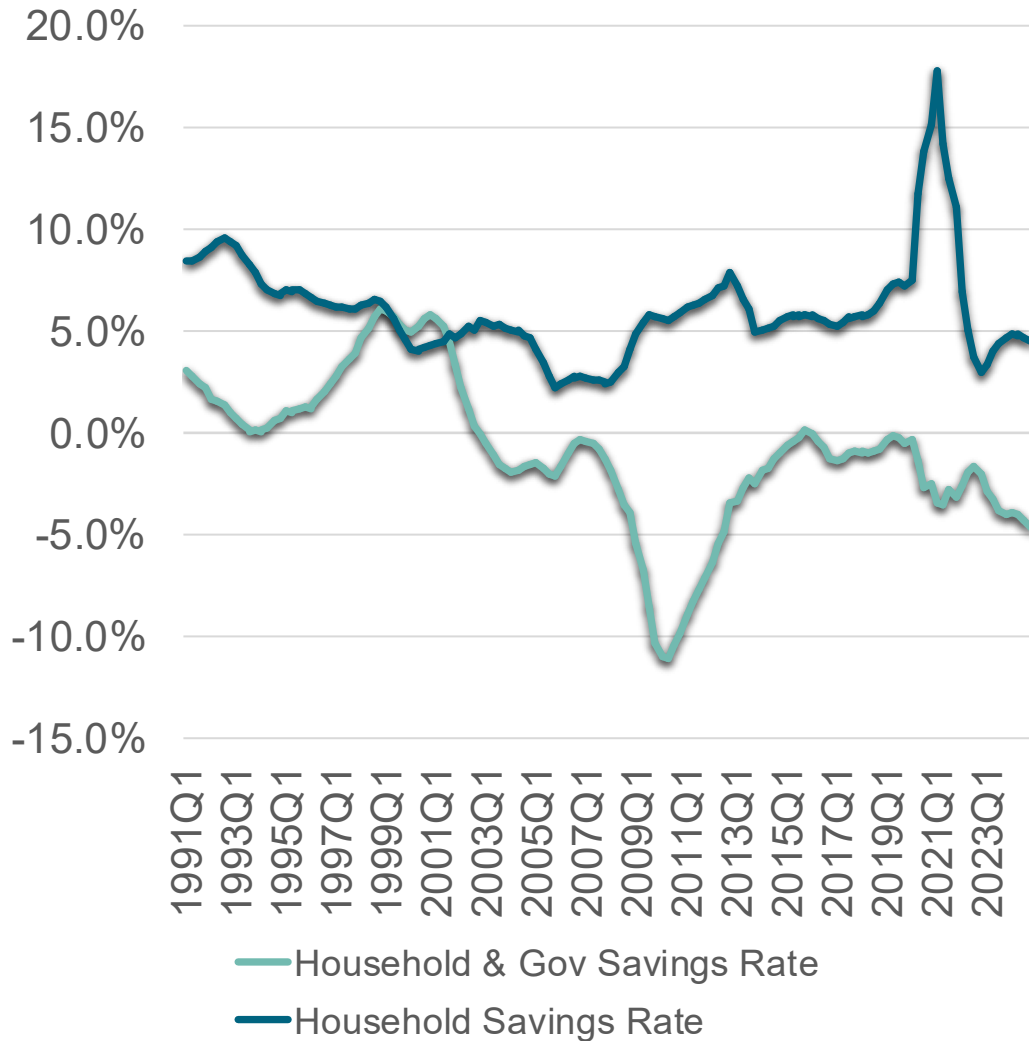
Keynesianism Breaks Down...

Deficits and Unemployment

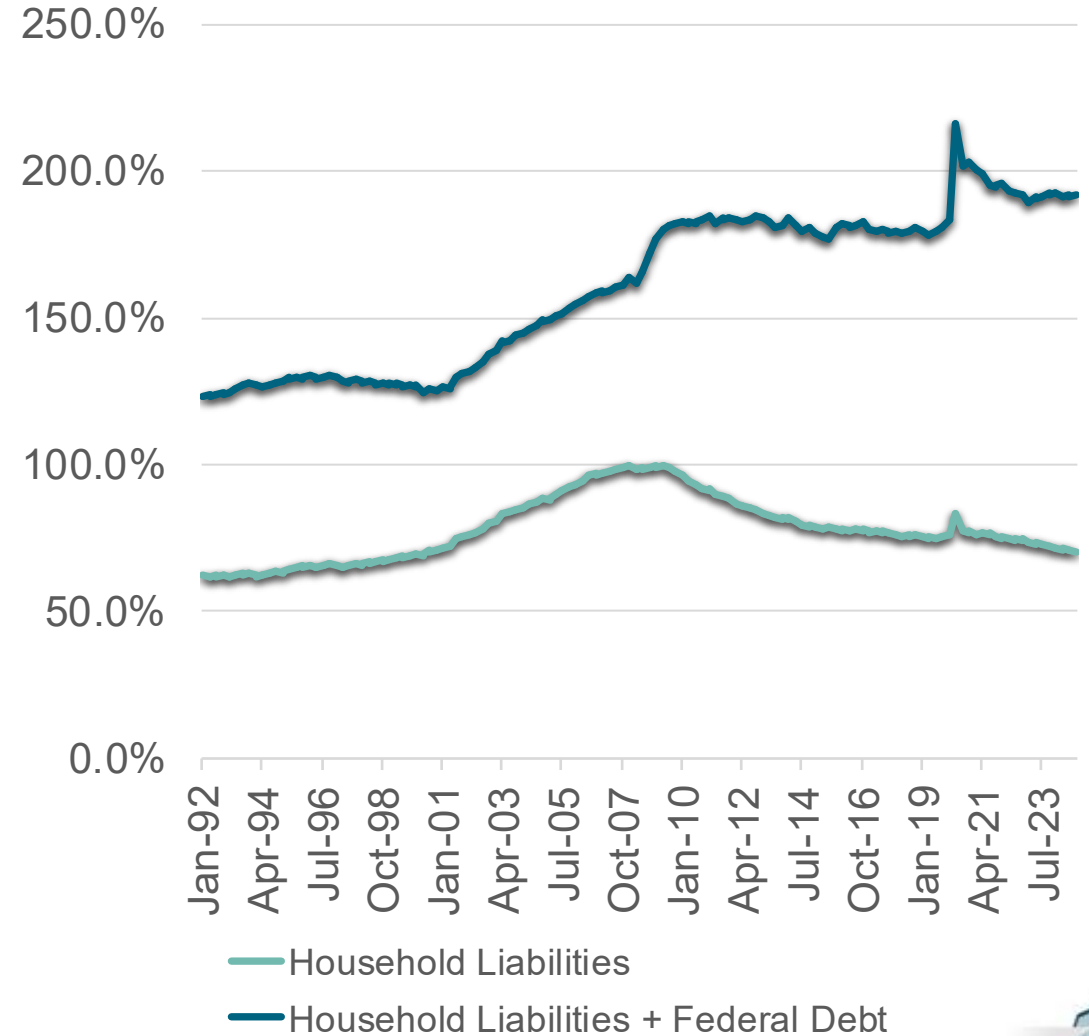


The Wealth / Income Mirage

Household Savings as % of DPI

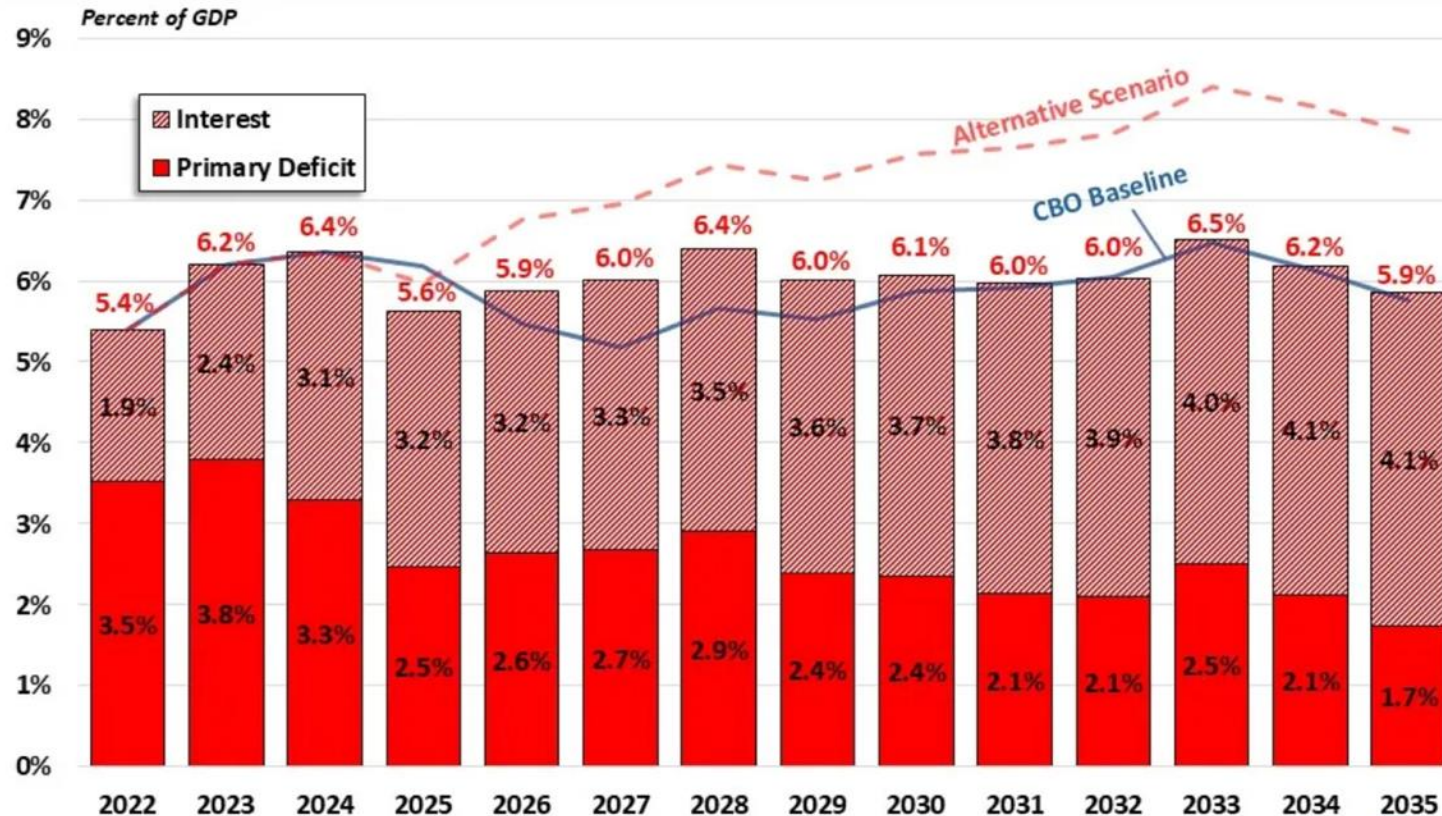


Household Debt as % of GDP



What will reset the focus on the deficit

Deficits Total 6.1 Percent of GDP Over Next Decade



← Tariff Removal

← Forecast: 4%
10 Year forever

← Primary
Spending
Balance?

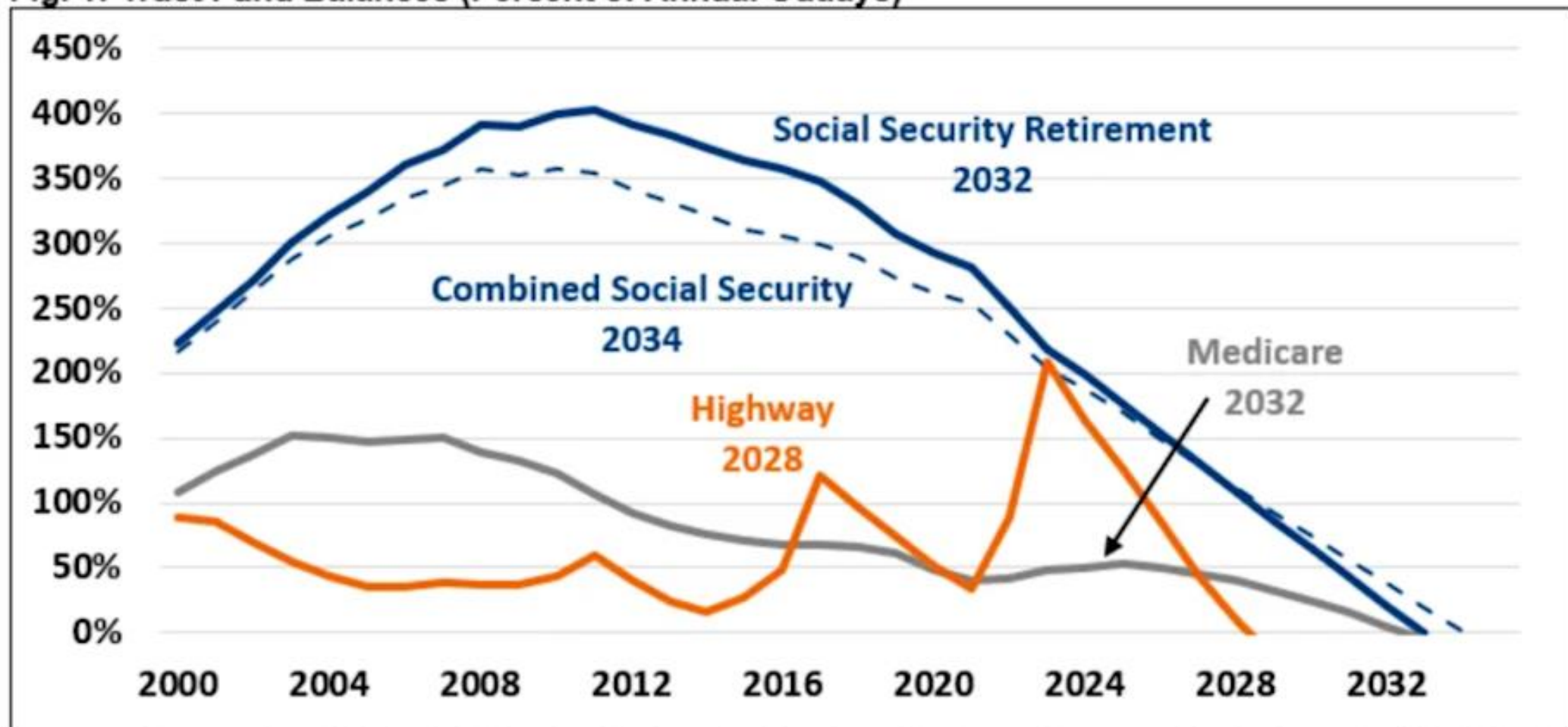
Source: CRFB estimates based on data from CBO, U.S. Census Bureau, and Centers for Medicare & Medicaid Services.

Note: Numbers may not sum due to rounding.

CRFB.org



Fig. 1: Trust Fund Balances (Percent of Annual Outlays)

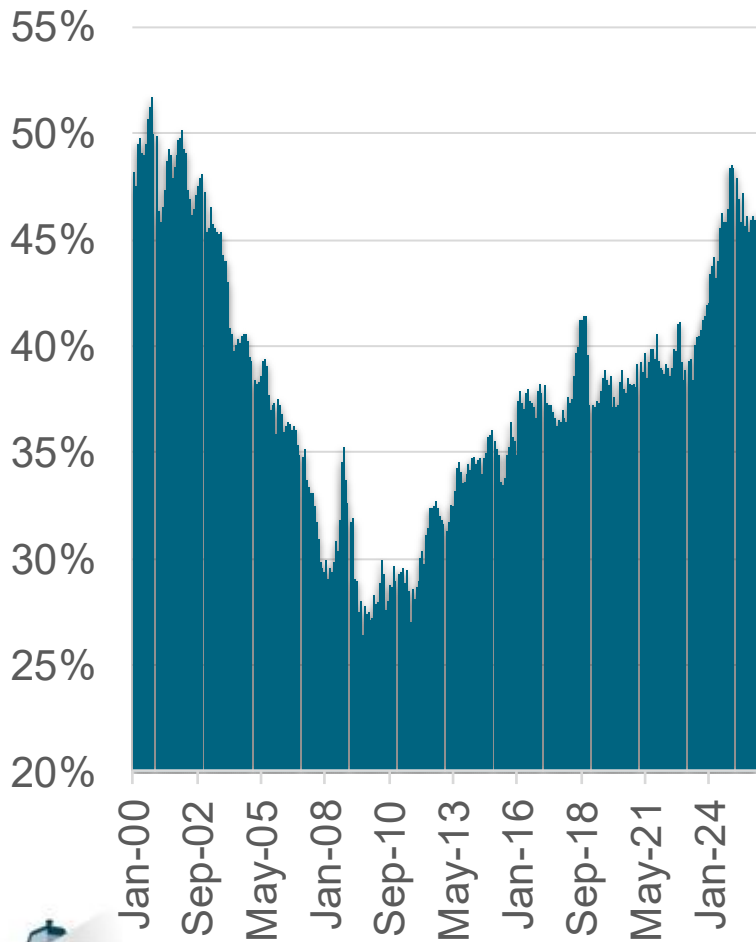


Sources: Congressional Budget Office, Social Security Trustees, Medicare Trustees, Social Security Administration Office of the Chief Actuary, Committee for a Responsible Federal Budget.

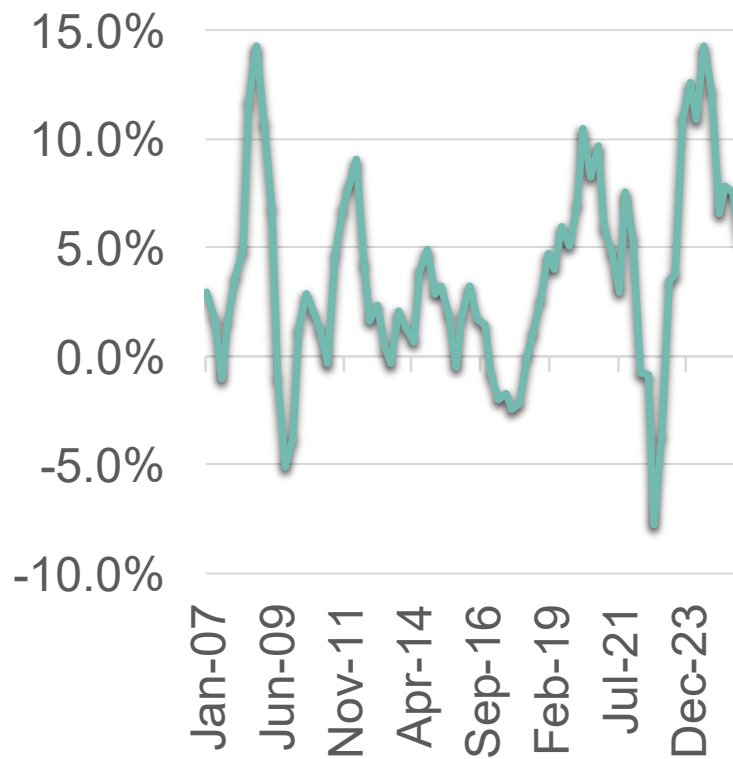


US Reliance on Foreign Capital

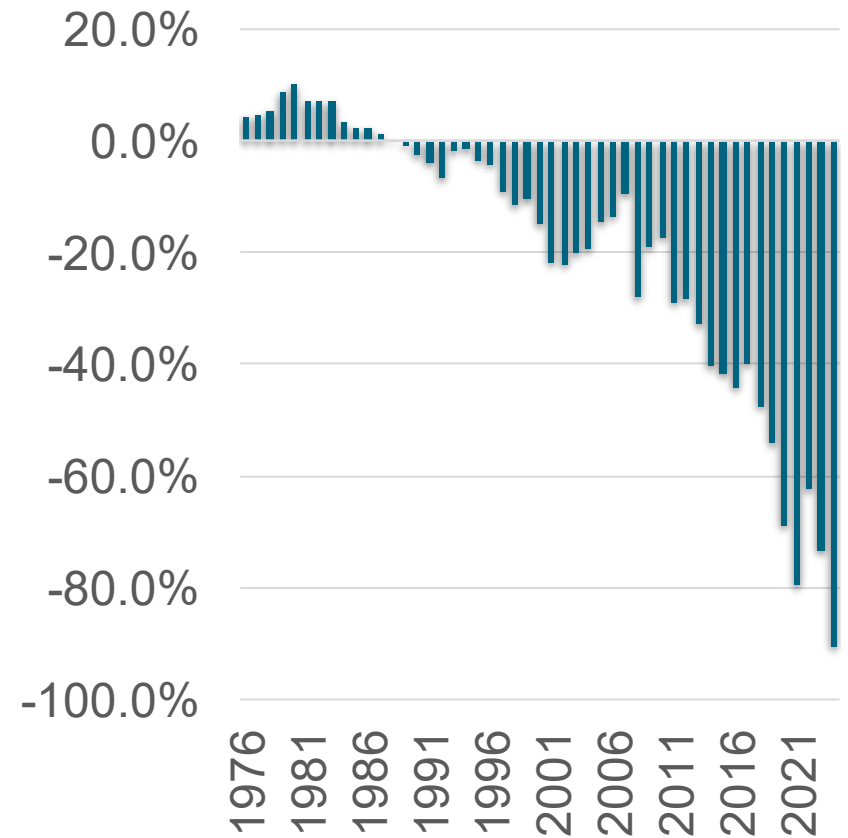
US Share Global Equity Market Capitalization



Net Portfolio Investment Flows into US economy

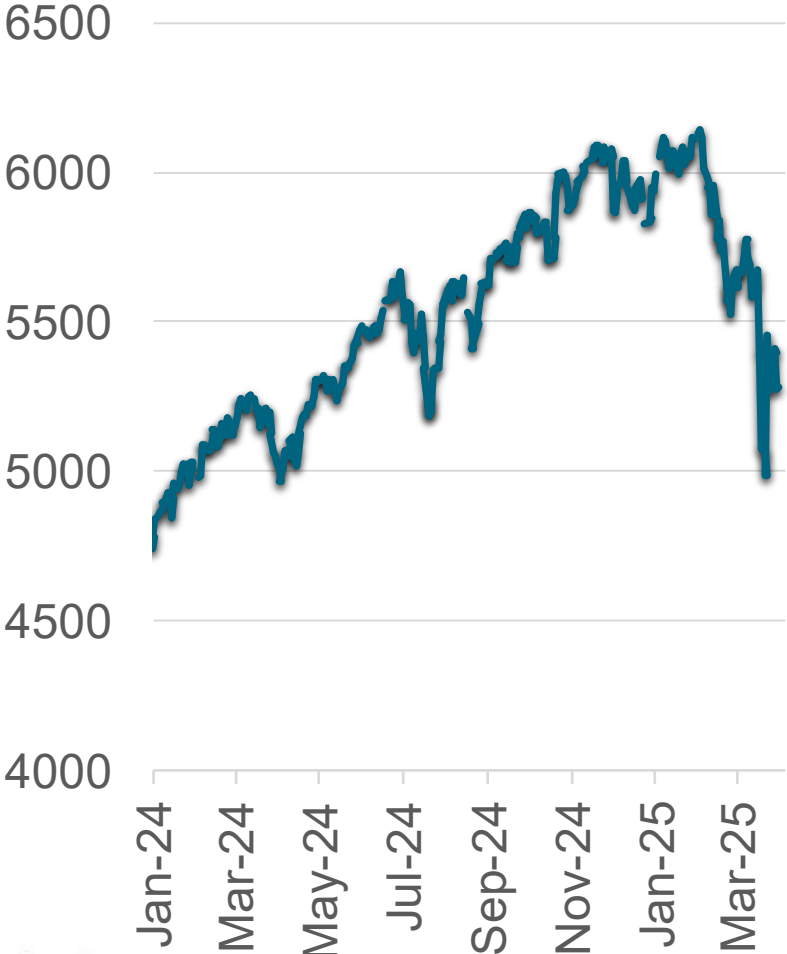


US Net Int Inv Position % GDP



Last Year's Reaction to Turbulence

S&P 500 Daily Close



10 Year Treasury Rate (%)



Dollar Index



Asset Market to Fiscal Crisis...?

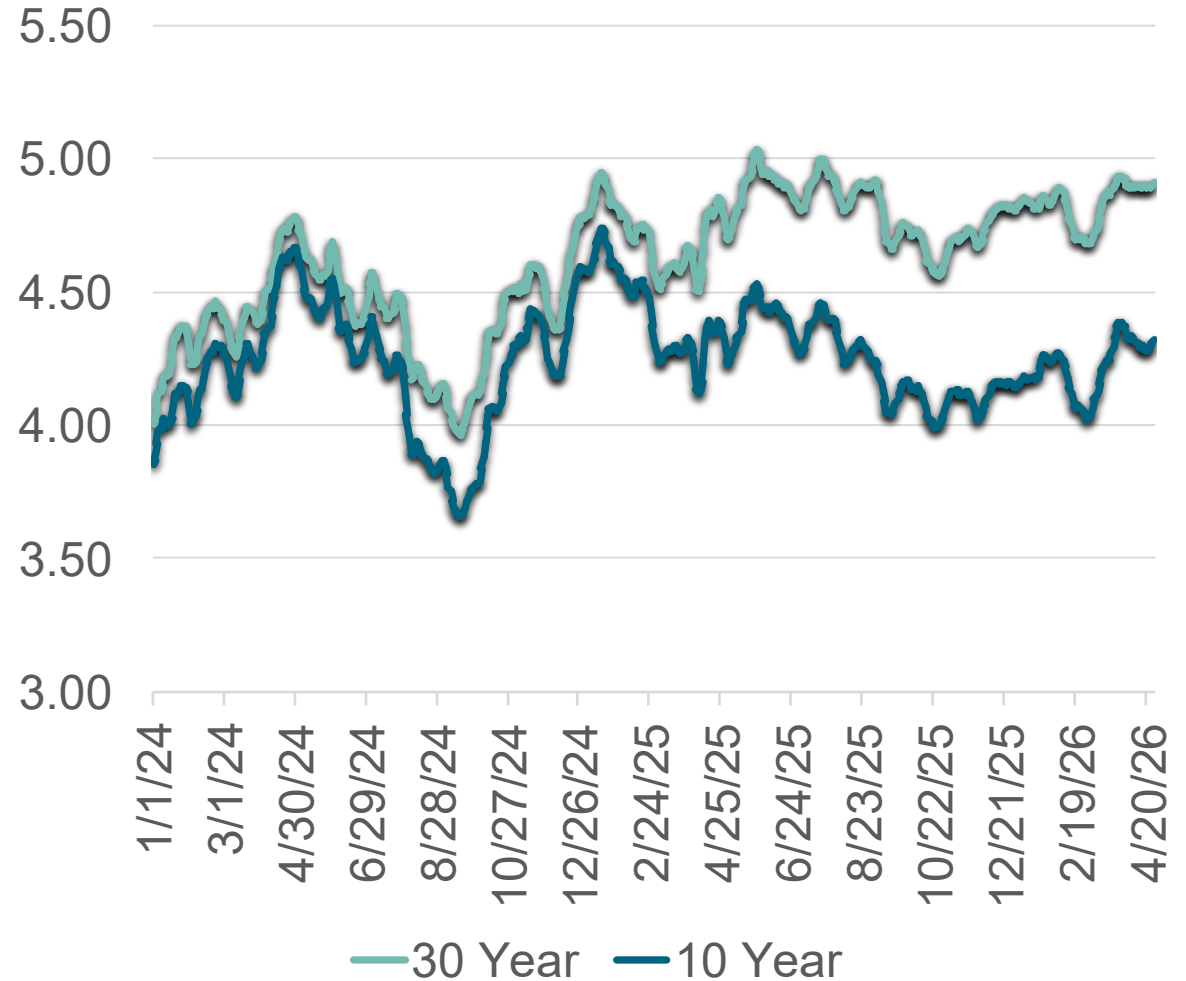
Rates Rise

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

What then?

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

Long Run Spreads



Growing Risks

Economic Trends: Picking Up

- Drags: reduced labor supply, political and economic uncertainty
- Strengths: Household & business finances, inflation / rates down
- Business Investment / Spending solid
- More fiscal and monetary stimulus being thrown at the economy

Beware the Imbalances

- Strong private finances from public deficits and asset bubbles
- Growing external imbalances are the weak link in the chain
- The biggest imbalance is the gap between narratives and reality

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The Power of the Narrative

“Our comforting conviction that the world makes sense rests on a secure foundation: our almost unlimited ability to ignore our ignorance.”

— Daniel Kahneman, *Thinking Fast and Slow*

People can believe pretty much whatever they want to believe about moral and political issues, as long as some other people near them believe it.

— Jonathan Haidt, *The Righteous Mind: Why Good People are Divided by Politics and Religion*

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