

## I. Introduction

- Dr. Joey Vonman is introduced as a research economist from the Garland School of Business at USC.
- He frames his research as using economic data to help businesses make strategic decisions.
- He states that understanding the market environment is crucial for strategic decisions.
- The presentation will cover the economic landscape in January 2025, how it got there, major changes in the economy over the past year, and expectations for 2025.
- Three methods of evaluation will be used: **perception**, **performance**, and **expectations**.

## II. Three Methods of Evaluation

- The three methods are introduced as:
- **Economic perception**: How people feel about the economy.
- **Economic performance**: Objective metrics of the economy.
- **Expectations**: What can be gleaned about the future.
- These factors are typically in sync, but have been out of sync recently, necessitating separate analysis.

## III. Economic Perception

- Overall, economic perception is "not that great".
- **Consumer confidence** is below pre-pandemic levels, despite some recovery since 2022.
- The economy was a top issue for voters in the 2024 election, which usually happens when economic perception is down.
- Despite low consumer confidence, consumer spending has remained stable.
- The biggest drop in consumer confidence occurred between 2021 and 2022, when inflation rose significantly.
- Consumers dislike rising prices, which makes things less affordable.
- **Consumer spending is driven mainly by higher-income households (about 35% of all households)**, while the other 65% have been financially squeezed.
- Prior to the pandemic, all income groups spent more similarly.
- **Example of rising prices**: A \$100 grocery bill in December 2019 would cost \$128 in November 2024.
- If inflation had risen at the pre-pandemic rate, that same grocery bill would have been about \$111.
- It took 15 years for prices to rise by \$28, but only 4-5 years for a similar increase more recently.
- The difference between \$111 and \$128 is called the "frustration index".
- **Positive trend**: wages are now growing faster than prices, allowing consumers to regain lost purchasing power.
- Wage growth is about 4% compared to inflation of 2.7-2.9%.
- If this trend continues, consumers could regain lost purchasing power by the end of 2025.

## IV. Economic Performance

- Economic performance is strong and robust, despite negative perceptions.
- If the economy were graded in January 2025, it would receive a B+.
- **Reasons for strong performance**: Steady consumer spending

- Historically low unemployment in South Carolina
- Steady wage growth
- The labor market has started to cool, leading the Fed to cut interest rates in the second half of 2024.
- The economy is moving away from a "pandemic bubble" towards more sustainable growth rates.
- **Comparison of 2008 and 2020 recessions:**
  - It took about seven years to recover all lost jobs after the 2008 recession.
  - It took only about two years to recover lost jobs after the 2020 recession, despite it being deeper.
  - The faster recovery after 2020 came with a trade-off of higher inflation due to \$6 trillion in stimulus.
  - Price stability was not a concern after the 2008 recession.
  - The economy is still in "recovery mode" because consumers have lost purchasing power.
  - The "goods bubble" emerged in 2020 and 2021 because of social distancing and stimulus money.
  - The goods market peaked in 2021 and began to deflate.
  - The correction period is largely behind us and we are transitioning to sustainable growth rates.
  - This "bubble" can be seen in port activity and container shipments.
  - A peak in 2021 followed by a valley in 2023 and a correction.
  - Positive growth has returned.
  - The same "bubble" pattern is seen in housing markets.
  - Charleston housing sales saw a bubble after the 2020 recession, a readjustment period, and then a return to a long term trend.
  - Median sales prices also show the "bubble" and a correction, with prices still rising, though at a slower rate.
  - Inventory remains low, putting pressure on prices.
- **Labor market:**
  - Unemployment rates in South Carolina have increased from 3% in January 2024 to 4.8% by November.
  - This increase is due to slower job growth, not increased layoffs.
  - The average unemployment rate during economic expansions in South Carolina is 6%, putting the recent increase into perspective.
  - South Carolina is experiencing significant population growth, which contributes to a higher unemployment rate as new residents look for work.
  - South Carolina and Charleston are experiencing about 3% annual employment growth.
- **Population growth** in the southeast is a source of housing demand.
  - South Carolina was ranked number one in population growth in 2023.

## V. Expectations for 2025

- Two main points:
- **Lower risk of recession.**
- **Higher risk of inflation rebound.**
- **Lower risk of recession:**

- A recession checklist is used to evaluate the risk of recession.
- This checklist includes consumer activity, business activity, and the market environment.
- Consumer spending is stable, job growth is slowing but stable, and there are no major red flags in other metrics.
- The goods bubble has deflated, allowing the market to see positive growth.
- Lower interest rates have generated a stimulus effect.
- **Higher risk of inflation rebound:**
  - Inflation is the biggest wild card for the economy.
  - Inflation peaked at 9.1% in June 2022 and dropped to about 3% but has since leveled off.
  - The Fed's target is 2% inflation.
- **Shelter costs** are the biggest driver keeping inflation higher.
  - Even though the rate of house price growth has helped bring inflation down to 3%, it's not likely to bring it down further.
  - There are factors fighting the Fed that are keeping inflation between 2.5 and 3%:
    - Strong consumer spending
    - Labor shortages
    - Elevated government spending
    - Elevated shipping costs
    - Elevated housing prices
    - Potential new tariffs
  - There's a 50/50 chance that inflation will "tick upwards" towards 3% in 2025.
- **Inflation is a major driver of mortgage interest rates.**
  - Banks consider inflation when setting mortgage rates, and increases in expected inflation lead to higher mortgage rates.
  - Despite the Fed cutting rates, mortgage interest rates remained stable between 6.5 and 7% in 2024 because inflation leveled off.
  - Mortgage interest rates are not expected to drop below 6% in 2025 due to inflation.

## VI. Conclusion

- Overall, 2025 is expected to be a good year for Charleston and South Carolina.
- The economy is strong and has adjusted after the pandemic bubble, moving towards sustainable growth.
- The main drivers are steady consumer spending, a strong labor market, and stable wage growth.
- **Inflation is the biggest wild card**, with a 50/50 chance of rebounding to around 3%.
- Housing markets are stable, and strong population growth will drive demand.
- Because mortgage interest rates are unlikely to decline significantly, sales activity will likely remain flat or show small positive growth.
- Inflation will be a big factor in determining sales activity in 2025.

## VII. Q&A

- The biggest highlight of the previous year was wage growth overtaking inflation.
- If this trend continues, consumers will regain lost purchasing power.
- The median sales price appreciation market is projected to be at 4.5%.
- The reason for slower job growth is the pullback from the pandemic bubble.

- Policy makers need to make South Carolina more competitive to capture more activity given the large influx of people moving to the southeast.
- Consumer confidence is becoming more of a political marker.
- Remote workers make it difficult to track employment data.
- Surveys of both employers and individuals are used to track remote workers, but it is still a challenge.