

# The Weekly Take

## Future Reflections: A look ahead with a longtime Wall Street and ex-Fed economist

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### Spencer Levy

At the recent CBRE Multifamily Conference in Austin, Texas, I had the honor of hosting a live event where I met one of the most engaging and deeply connected economic insiders in the country. On this episode, she shares an insightful and revealing look at current events and policy making.

### Julia Coronado

People are people, and they have their political affiliations and lenses on the world. Greenspan did. Yellen did. Powell does. But that doesn't mean you're not making sound decisions within the context of the committee.

### Spencer Levy

That's Julia Coronado, President and Founder of the research firm MacroPolicy Perspectives and a Clinical Associate Professor of Finance at the University of Texas Business School. Julia's resume also includes numerous leadership and advisory positions in the world of finance over the years, and she notably served as an economist for the Federal Reserve from 1997 to 2005, when the Fed's Board of Governors was chaired by Alan Greenspan. A quick program note: Along with her unique expertise, Julia shared some detailed data in the form of charts and diagrams that she displayed for our conference audience. Sorry we can't share those visuals here, but we do our best to help you understand what Julia referenced at the live event. Coming up, a conversation with economist Julia Coronado. I'm Spencer Levy, and that's right now on The Weekly Take.

### Spencer Levy

Well, now I am delighted, and we are going to do a live taping of The Weekly Take with our keynote speaker, Julia Coronado, President and Founder of MacroPolicy Perspectives, UT Austin Professor – wearing great cowboy boots. Come on up.

### Julia Coronado

And I got the memo on the cowboy boots, so...

### Spencer Levy

Well done. You didn't get the hat, but maybe – the day is young. So, let's start big picture. Tell us about your career.

### Julia Coronado

So, my career actually started right here at UT Austin. I got my PhD, and then the Fed hired me and I moved to Washington, DC and worked for the Federal Reserve Board forecasting the economy. That's not actually something they teach you in grad school, right? So, you have to actually learn it by doing it and I learned a lot. It's like a second

education at the Fed. I was there for eight years and then got recruited to Wall Street just in time for the global financial crisis. I went to Wall Street in 2006 – great timing. You know, good forecasting there, but I survived and went to Barclays Capital, BNP Paribas, a hedge fund, Graham Capital. So, I've been in the trenches of financial markets trying to forecast the U.S. and global economies. Put things into perspective for people who are taking risks and then help them frame and understand that risk. And then I launched my own firm seven years ago, and I still work with money managers, people that are trying to allocate portfolios and make decisions in real time.

### **Spencer Levy**

Tell us about your experience at the Fed, specifically, which fed governors did you work for and how'd it go?

### **Julia Coronado**

Yeah. So, when I got to the Fed in 1997, times were good. Alan Greenspan was the chair. He was an excellent boss. For those of you that know Alan Greenspan style, he is into the detail. He will call you on the phone, you junior staff economist, and question you about a footnote on a memo you wrote. He was an insatiable data hound. So, really fantastic to work for. Bernanke came on as Governor just before I left, so I got some overlap with him. But, you know, being a fed watcher and a real time forecaster, I know a lot of these people – I'm going to these fed conferences, I'm working with them, so I know their personalities pretty well and watch the ebbs and flows of different leadership styles.

### **Spencer Levy**

Well, speaking of that, I want to stay away from the numbers first, and I want to talk about the other factors that may influence the fed. It'd be very nice for us to say that nothing influences them. As a matter of fact, one of the things that helps me sleep at night is the fact that the Fed is largely politically independent. In your experience, is it?

### **Julia Coronado**

Yes. Yes. Obviously a lot of the economists that get these appointments have political experience or political affiliations, but the the structure of the fed and the culture of the fed is that once you're in that seat, you are looking at the world and looking at the data in as clear eyed and objective a fashion as you can. Obviously, the way people interpret the data and how they think about appropriate policy decisions is influenced by their political views or correlated to their political views. But, the discussions are really very honest and open and really as deeply rooted in facts and evidence as possible. So, I do trust the Fed and this committee that we have right now. I think that they're going to make the best decisions they can for the economy. I don't think they're going to be overtly politically influenced.

### **Spencer Levy**

Final point on this –

### **Julia Coronado**

Yes.

### **Spencer Levy**

During the 1970s, before Volcker was clear, or at least a lot of people think it was clear that the Fed Chair was influenced by the upcoming election. Where do you fall?

### **Julia Coronado**

I'll use Chair Powell's own words from yesterday. He was asked about this at his press conference – and he gets a little emotional about this. He's very forceful about this, that he's like, look, this is my fourth presidential election as a fed official. He's like, go back and look at the transcripts and see where in those transcripts did we ever talk about the election? And there's a narrative right now in markets and on Wall Street that, because of the election, September is off the table for consideration for the first rate cut? I don't think so. If the data shapes up as they expected – remember they walked into this year expecting to cut rates. They were even telling us that we will be cutting rates sometime this year. That's gotten pushed back by Q1 data. But, let's say Q2 resumes what they had expected to see in terms of inflation dynamics continuing to moderate, there's nothing to say that they wouldn't initiate a gradual sequence of cuts starting in September. In fact, that's my base case.

**Spencer Levy**

Okay. And then that is in the short term. But over the long term you saw the expectations for higher for longer.

**Julia Coronado**

Right.

**Spencer Levy**

Is that your basic outlook?

**Julia Coronado**

Yes. I do think that we will land at an interest rate that is higher than last cycle for a couple of reasons. One, is that, what we're learning about the macro economy is that last cycle was very special in a lot of ways. After the housing crash and the global financial crisis, we had such a long, slow recovery. It was so fragile. And part of that was that the household sector was deleveraging and that's 70% of the economy. There is no interest rate that the fed could lower to that would convince households to take on more debt. They were working down debt on their balance sheets. That process kind of concluded in 2018 and 2019. If we look at debt to income, it's stabilized. Now households don't have too much debt. They're not leaning into debt a lot, but they're not leaning away from debt. So, I do think households are in a good place to be responsive to interest rates. That should mean that the neutral rate is a little bit higher. Second issue is that fiscal policy, it's more supportive of the economy. All else equal, that means you need less monetary stimulus. And then thirdly, is productivity and I am a little bit optimistic. I think that deleveraging cycle and the post GFC recovery was a drag on productivity. Part of it is AI and all the technology, part of it is that the labor market that we have been running is just so darn resilient. And I think there's an interaction that work from home and all the disruptions we've seen – they were hard to manage, but they've delivered us to a better place that I think is going to give us better productivity.

**Spencer Levy**

I hope that we're in better productivity, but I'm just looking at historic examples. And in the book I refer to is – you probably know the book, Robert Gordon, The Rise and Fall of American Workers.

**Julia Coronado**

Yes, yes, yes. Robert Gordon is the bear on productivity.

**Spencer Levy**

Okay, well, there you go. Well, Robert Gordon's book is also on a 900 page door stop but it's a heck of a book, which inform me, it's like, wow, yeah, we aren't going to get more productive. So, what – big picture, what makes you bullish on AI?

### **Julia Coronado**

The thing that's different about this wave of technology and generative AI is just the latest iteration. We've had AI and machine learning that's been working its way into the economy for a number of years now, so it's not brand new. And the difference between this and the latest wave, the wave before this wave was all about consumer technology. Depositing your check on the phone, taking a million pictures, storing them to the cloud, the smartphone, all of that's great for convenience for consumers. But, this wave of technology is business technology. And it reminds me more of the '90s, more of that wave of the internet and the cost of computing and communication and how much it came down, how quickly, and that's spread across industries. So, every industry was adopting that technology. Every industry is adopting this technology. Everybody's leaning into it, investing in it, using it for business transformation. That to me says that it should deliver results. And we see the money being spent. The money being spent on this digital technology – unless businesses are really dumb and making bad decisions – there will be a return on it. And that return should be in – we should see it in the macroeconomic world through better productivity.

### **Spencer Levy**

So, I'll give the emotional side of this because that's my thing. But should we be afraid of AI? Should labor be afraid of AI?

### **Julia Coronado**

You know, there's always the concern about displacement and I think those concerns are very legitimate and clearly one of the challenges. And I talked to some friends of mine that work in education and teaching at the primary and secondary level. One of the sobering statistics is like half the jobs that your students will take when they graduate from college don't exist right now. How do you educate a workforce for such rapid pace of change? So, I think the challenges for training people and getting the skills into our workforce and our young people, and helping mid-level career people to adopt new tools, that's always a challenge. But again, if we look at big picture historically, each of these giant waves of technology creates as many opportunities as it destroys your horse and buggy driver becomes your – yeah, right. Exactly. So, I guess I'm cautiously optimistic, but it does mean challenges for educators, for policymakers.

### **Spencer Levy**

Let's stay big picture. Whether or not U.S. presidential politics, whether geopolitics even matter. And historically and historically, I guess our charts go back 40, 50 years, it hasn't really mattered. Right? Are we in a new world today?

### **Julia Coronado**

Probably not. I mean, that's always a point I stress to is that the macro economy is a lot more resilient to the headlines that you read every day. There's always geopolitics, there's always wars, there's always protests. These things are part of our society. One of the things there's been some articles recently about, particularly the fed and the Fed's independence being at risk. And the idea that Trump wants to, like, kind of be in the room with the fed – that reminds me of the 70s. That's what Jimmy Carter did. That doesn't end well. And I guess that's one of my concerns. I'm an institutionalist. A lot of the strength of the dollar as a reserve currency, a lot of the outperformance of the U.S. economy comes

from the fact that we manage our institutions in a reasonably politics free way. That's the differentiator between us and emerging markets. If we lose that, we could lose that outperformance.

**Spencer Levy**

Well, let's now turn to the U.S. economy. And I know you brought a slide, which I'm going to put up your slides on the screen right now so our friends could use this. So, I'm going to hit the button here, hopefully your slide comes up. There it is.

**Julia Coronado**

A few pictures.

**Spencer Levy**

A few pictures. So, explain to us what's on this screen and why it helps you, help inform you.

**Julia Coronado**

A lot of colorful lines.

**Spencer Levy**

They are colorful.

**Julia Coronado**

Yes. So, the upper left hand side illustrates the outperformance of the U.S. economy. It indexes real GDP to be 100 at – in 2019 and then it shows how different countries and regions have evolved since then. And you can see that the U.S. has dramatically outperformed Europe, the U.K., Canada, Australia. We're kind of neck and neck. And the only area that's performed better has been India and South Korea. So, we've had a really, really strong recovery. The upper right shows that inflation has come down everywhere and is still coming down. So, we've had a little bit of a stalling out. But I think that this is a chart that should give you some optimism that we're going to see progress come and the Fed will be able to lower rates – that there really is a global phenomenon. And that trend has continued in Q1 for most countries. So, we are seeing global inflation. Cool. And then that lower left chart shows what we were just talking about. This is productivity across countries. We are the dark blue line at the top. We are outperforming South Korea. We are outperforming everybody on productivity. Now, you've noted and point well taken – measuring productivity in real time is super challenging. So, we'll take that with a grain of salt. But, that is been a strong strong tailwind at our back. And I think part of it is AI, part of it is the powerful stimulus that was put in place in the US, and part of it is a labor market that's just been relentlessly resilient and delivering dividends for us.

**Spencer Levy**

As I mentioned I'm the Chairman of the Real Estate Roundtable's Research Committee. So I get to meet with the politicians all the time. And the most uncomfortable conversation I had – I was speaking to the Chairman of the House Financial Services Committee and I asked him, why doesn't the Fed just raise the target from two to two and a half? And let me tell you, he came down on me like a ton of bricks.

**Julia Coronado**

Well, that's good.

**Spencer Levy**

And his basic point was that Mexico's target is 3%. And because their target is 3%, it's not the only reason the peso has been harder to control but it is a reason. Should we raise the target?

**Julia Coronado**

No, we should not raise the target. I don't think so. Especially, not while we are in the process of getting inflation down to target. One of the things that led the fed to, like, gallop upward in interest rates was that they felt their credibility was starting to be questioned. They were wrong about inflation. That's fair, we can all be wrong about things. But, then they had to respond and show that they had the willingness and the wherewithal to do what was needed to catch up, and they did. Now they need to show that they have the wherewithal to finish the job, and that takes a certain dose of judgment. And they've been reluctant to move forward despite all the progress we've seen, because they want a little bit more. They want to see that progress resume rather than stall out. But that would be damaging to their credibility. And again, as an institutionalist, I think we get a lot of benefits that we don't clearly identify. The stability of the dollar, the stability of the economy comes from a central bank that will do what is necessary to make sure that we get that. And, so, I think changing the target in midstream would be probably the worst thing we could do.

**Spencer Levy**

But there are, I guess, parlor games talking about what the Fed's really thinking. And I think your position is black and white. The Fed is data driven going to make the right decision for the economy overall. But there was this thing called the Greenspan Put.

**Julia Coronado**

Yes.

**Spencer Levy**

That if the stock market got weird, Greenspan would come to the rescue. Was all that a myth?

**Julia Coronado**

Following the stock market is a little bit different than political influence. Even Chair Powell will talk about financial conditions, as one of the things we look at to gauge where the economy is. Right. So if the stock market is high and business valuations are high and people's 401K valuations are high, all else equal, the economy will perform better. People feel better about their – businesses are more willing to invest. Consumers are more willing to spend and vice versa. So, there is a rhyme and reason. There's a macro rationale for following the stock market, but it's not the only thing you look at. It's – and of course it ebbs and flows and there's a lot of volatility, so you want to be cautious. And right now there's this odd combination of the stock market's done reasonably well. But interest rates and real interest rates are really high and choking certain sectors. And how do we reconcile those two things? And how does the fed reconcile those two things? You know, it had been my concern that Powell might be the guy that hangs on too long, but I actually am more optimistic that he'll say things like the first smell of trouble in the labor market, they'll cut rates.

**Spencer Levy**

Mhmm.

**Julia Coronado**

All – if the labor market keeps powering along, they'll take their time but he's got that insurance policy and he's willing to use it. People are people and they have their political affiliations and lenses on the world. Greenspan did. Yellen did. Powell does. But that doesn't mean you're not making sound decisions within the context of the committee.

**Spencer Levy**

The other thing I'm looking at – this is a bigger picture thing.

**Julia Coronado**

Yeah.

**Spencer Levy**

People's 401K balances didn't didn't matter 30, 40 years ago where everybody had a defined benefit plan.

**Julia Coronado**

Correct.

**Spencer Levy**

Now, most people who have a 401K – and there's Larry Fink, the CEO of Blackrock got on TV last week and said there's a retirement crisis. I think that if we were to look at the Mike Tyson punch in the face type things, that's one of them, both short term and long term. Short term, if we see a dip in the stock market. I think nothing has more impact on consumer confidence than 401K balances. But long term, there's going to have to be some kind of massive bailout. What do you think?

**Julia Coronado**

Bailout of retirees?

**Spencer Levy**

Of retirees? I think retirees, the average 401K balance – I don't have the exact number for retirees.

**Julia Coronado**

Yeah, it's pretty low.

**Spencer Levy**

It's a couple hundred thousand dollars.

**Julia Coronado**

To me, what that also brings us to is the challenges with Social Security, because for the people without 401K balances, by and large, Social Security does a good job of ensuring their retirement and allowing them to live an okay life, maintain their standards of living. So, what are we going to do with Social Security? And do we ensure that those benefits are there at least for that lower tier of households that doesn't have a 401K balance? That's going to be good for sort of the stability. For the middle income, that's where the biggest challenge is. Obviously the upper income stock market is high. Home valuations are high. They're very wealthy. It's fine. It's that middle tier right that really do rely on the 401K and do they have to work a little bit longer, that's always the easiest margin if you have that option. I'm not sure that we're facing a looming crisis, but just as wage growth over the last few decades, it's the middle that's gotten squeezed. It's the middle that's facing the biggest challenges.

**Spencer Levy**

For all the folks out in this room who've been paying in their Social Security taxes since the first day they work. I got bad news for you. Your money is going to a current retiree.

**Julia Coronado**

Yes, there is no savings account.

**Spencer Levy**

There is no savings account. What there is are younger workers that are going to pay for your retirement. And that's where the birth rate falling below 2.1, that's where not legalizing immigrants into the workforce is a necessary solution.

**Julia Coronado**

No, it is. And the US that's also been a source of U.S. outperformance is that we have that flexible workforce. Immigrants can come and go depending on the demand for workers. That's been one of the upside surprises last year was the resumption of both legal and undocumented workers. That growth was really strong. That alleviated a lot of the bottlenecks in the labor market and helped bring down inflation. And as you're pointing out, it helps stabilize our demographic population pyramid and it's available to us. So again, there's that 95% supported bipartisan bill that would help put some structure on it and help kind of make it a more orderly predictable process, I think would be a big positive step for the U.S. economy.

**Spencer Levy**

And there's one other pressure point, and I try not to look at it politically, but I think you have to – that I think is going to come into play into coming up with some reasonable immigration deal. And that's the pressure on city and local budgets because of housing folks that aren't working. And these cities are getting waxed because the value of the average office building and other asset types has gone down substantially – your tax base is eroding. With the erosion of the tax base, bringing immigrants into the workforce is not the solution, but it is part of the solution.

**Julia Coronado**

You're probably old enough like me to remember that that's what New York City did in the '70s. New York City went bankrupt and they were saved by immigration. There was a huge wave of immigration. It helped stabilize the city's finances. They were taxpayers. And that was one of the ways out for New York – to put some structure on it, so that it's not something that's overwhelming the border or overwhelming certain cities. That would help us turn it into a positive.

**Spencer Levy**

So, for those folks who don't know New York City fiscal history, there was a famous headline of the Daily News where it says, President Ford to New York drop dead. So, that was, I think, a pretty clear message that New York was on its own.

**Julia Coronado**

Yeah, yeah, yeah. New York was teetering on the brink and they ended up doing some pretty creative things with their pension finances and basically getting New Yorkers to bail out New York. And by the bonds, it was a wild time to see the biggest city in the US going bankrupt. Right. It's a good thing to remember when we think, oh, everything is so chaotic now. I don't know, things have been chaotic all along in certain dimensions and they work



their way through that crisis without the federal government stepping in and bailing them out.

**Spencer Levy**

And since we're here in Austin, I often make the compare and contrast of New York to Austin. And Austin is one of the fastest growing cities. The tech firms Nashville's in that list as well, but the size of the New York metropolitan area, depending upon how you draw your circles, is 30 plus million people. The size of this metropolitan area is a couple million people. I wish they would include San Antonio in it, but that's wishful thinking because they tried to put an airport between these two cities and then they couldn't get it together.

**Julia Coronado**

It would be great.

**Spencer Levy**

It would be great.

**Julia Coronado**

So would the train between Houston, Dallas, Austin, and San Antonio.

**Spencer Levy**

I'll tell you what and I end this with love to my Texan friends. I think there's no, no scarier word in this state than train. They're not big train fans in this town.

**Julia Coronado**

I know, I know, I know.

**Spencer Levy**

It's too bad. So, let's go to residential now. We have in the audience some of the largest multifamily developers owners in the world. And it's not easy right now. It's not easy right now because many of them built terrific projects in the last five years, bought terrific projects in the last five years. The value has eroded substantially in the last five years. What's your point of view?

**Julia Coronado**

So, the valuation is the key, right. We know, as you guys sort of outlined last time that the fundamentals in terms of especially if we do have this immigration continuing, there's going to be people that need housing and people need housing where largely it's being built, right. The projects underway are in the areas where population is growing and continues to grow. So, Austin's the perfect – we're in the perfect place to have this conference. We have vastly overbuilt, but it will get absorbed over time. It's surviving and adjusting and repricing and finding that new equilibrium. And there's so many unknowns in terms of rates and when they'll come down and by how much. But, I think that one of the takeaways from last cycle – we under built for ten years. We under built residential housing, both multifamily and single family for ten years and we need more housing. So over time there is lots of opportunity. But, I think it's all about the price right now and the financing. It's a challenging environment, but I think probably the next couple of years will deliver some relief.

**Spencer Levy**

Oh, the relief will come in the form of lower interest rates.

**Julia Coronado**

Lower interest rates and banks that are in a better position. Right.

**Spencer Levy**

And I think that the other thing that will provide some relief is most of our developer friends in the room here, generally speaking, will focus on class A, the best multifamily. But I think moving down that spectrum, particularly if we're going to bring the immigrants into the workforce, particularly for lower income people, I think that that segment was not institutionalized until recently because the operating risks of it were too high. The other area that many of our investors in this room focus on, or have a focus on, is what's known as BTR or SFR — build to rent or single family rental. Will they buy or build single family homes? And I'm hugely bullish on the space, but I would say it is probably the single biggest political challenge, both locally and federally, because even here in the state, the red state of Texas, the governor says, oh, it's going to raise prices and we're going to keep institutions out, and I fear rent control or something like that to get them out.

**Julia Coronado**

Yeah. There was a Wall Street Journal article last week talking about how some of these efforts at the state and local level to constrain and restrain the build to rent, which is unfortunate because, I mean, I'm kind of a, you know, all supply is good supply, right? I think that's an area where affordable housing has actually gotten more attention and more support from local governments to facilitate and subsidize it and make it more profitable and lower the risk to developers. So, I think we've made progress in that area. But how do we cast this in a way that, you know, how do you break through that, that view of the greedy Wall Street landlord, and get people to see that it's a place to live that will become more affordable the more you facilitate it.

**Spencer Levy**

Well, a complete non-sequitur. My mother just sold her home in Westchester County, New York, and we moved her into a rental house, a rental, a condominium, and it was a local guy that owned the unit. And I don't want to be pejorative, but he was a jerk, and I would — and I said, this is exhibit A of why you want an institutional landlord. I'm not saying that every institution is unicorns and rainbows, but it is a professionally managed unit. And, so, I think that's yet another argument but right now it's not winning the day. And the reason why it doesn't win the day is because existing tenants are your voters. Future tenants don't count.

**Julia Coronado**

Right, right. Yeah. It's interesting too. I think in the Sun Belt we have a little bit more of the institutional, certainly in the multifamily. Right. There's a lot of institutional and multifamily developments and that's become just a standard. You know, the homeownership rate in Austin is only like 50%. There's a lot of people that come and go because it's a college town or a politics town. So, it's a very high renter occupied city and lots of these apartment developments aren't just top end, they're apartment homes for middle income people. Maybe that can create more of a template or a conversation with. Or you can see where you can find those negotiations with local officials to get them to see that single family is just the natural extension of this. It actually makes housing more accessible and affordable to people because home prices are extremely high.

**Spencer Levy**

Of course, we remember the global financial crisis where I think the whole global financial crisis boiled down to one bad assumption. And it was —

**Julia Coronado**

House prices would never go down.

**Spencer Levy**

Thank you very much. It was one assumption that almost destroyed the world.

**Julia Coronado**

I use that in my class to illustrate the fallacy of assuming the future will look like the past.

**Spencer Levy**

Exactly. Which is why I say look at the behavioral stuff, not just the numbers. The numbers might be wrong today where most people have low rate mortgages and they're not going to sell because why should I get less house for more money? But because we're all primarily in the rental business in this room, it actually is beneficial to some degree because of the buy versus rent decision. But, we certainly need to see some loosening up of the single family market as well. What's your point of view?

**Julia Coronado**

Yeah, yeah. No, I totally agree with that. I'm a let's build it. Let's build more, not less. That's good for affordability. You want inflation to come down, build more housing.

**Spencer Levy**

Agreed. And I spoke to an interesting group last week that said we actually have enough housing. It's just in the wrong places and there is housing. And if you want to go from a geopolitical point of view, they're giving away homes in Sicily, they're giving away homes in Japan. And if you go to certain markets here in the U.S, I'm sure you can get a house on the cheap as well. But is that relevant or does it really come down to jobs and labor is where it's at?

**Julia Coronado**

I mean, we are in a modern market economy, and modern market economies rely on urban centers, and that is where you want people to be, to be able to work in the industries and change jobs and have a diversified labor market and local business area. And so, yeah, it does matter where they are. Now, maybe work from home loosens that up a little bit. We saw that during Covid but then again that's largely pared back. We still have a lot more than we did before. And there's more hybrid work arrangements which mean people want different kinds of homes. So, it's not just where it is, but what kind it is. Now you need a home office if you're a hybrid worker. But it does matter where they are. You can't just say, well, homes are cheap in, you know, Nebraska. Why doesn't everybody go there? That's not where the growth in business is happening.

**Spencer Levy**

And by the way, for anybody here from Omaha, it's a lovely town.

**Julia Coronado**

It's a lovely town. I don't mean to –

**Spencer Levy**

It's a lovely town.

**Julia Coronado**

It's an affordable town.

**Spencer Levy**

So, I was with a large investor yesterday. I was actually at the University of Texas event, and at the University of Texas event, he said that everybody's back to the office in Asia. They're not back here in the United States. And he's very bullish on office there, not bullish on office here. So, you mentioned work from home a few times, which is relevant to the office owners. But it's also relevant to the multifamily builder developers on can I build on Boise, Idaho. So how does that impact you, macro and micro, from your economic outlook?

**Julia Coronado**

I like innovation and to me work from home is an innovation. Certainly it was an innovation of necessity during the pandemic. But, now we've learned some things, like a hybrid work arrangement is fantastic for workers. It allows them to eliminate – man, I used to be a commuting warrior when I lived in New York and I spent so much of my life commuting, and it's really nice not to do as much of that, it's really good for people's productivity, for their happiness with their job and with their need to balance their life. So, I think we need to figure it out and move forward, not try to cram everybody back in the office. I think we need to embrace what works and figure out how to manage it. It's a big challenge for managers. I have a company that is all remote or small – there's seven of us. But, you know, we have to figure out, okay, how do we communicate? How do we regularly check in with each other and make sure how do I evaluate employees performances? So, I have to think through that and work that out as the manager. That's my job. But it certainly makes my employees pretty happy that they have that flexibility.

**Spencer Levy**

Well, this is one area that we may disagree. Now you're talking to a guy who's dad lives in Pound Ridge, New York, and commuted an hour and a half each way –

**Julia Coronado**

Oh, yeah.

**Spencer Levy**

Every day. Happily. Happily. Because that's just the way it was, now I think–

**Julia Coronado**

I didn't know I was unhappy about it until I stopped doing it.

**Spencer Levy**

Exactly. It's way better to spend that hour and a half doing something else. But with the exception of the commute time, which I can agree on that point. I still think it's the superior work environment – and dare I say it, for Americans, for productivity, for people to be domiciled together because there's things that you just can't do.

**Julia Coronado**

It depends a lot on the industry you're in and the environment you're in. And there is definitely lots of research that shows the benefits of communicating and sharing ideas very freely. So, I agree that there's a balance you need to find. For example, in the tech sector, they have embraced it a lot more and stuck with it more, partly because it makes sense if you're a coder, you don't – in fact, it's distracting to have the watercooler conversations. You're in your zone and your coding and so you can be more productive. So, that's why I

like some of the hybrid arrangements, allows you to have the best of both worlds. You can save a certain kind of work for your work from home day, and then a different kind of work in the meetings, in the in-office day and that way you can have both things.

**Spencer Levy**

Well, maybe I'm just old and crusty.

**Julia Coronado**

Maybe.

**Spencer Levy**

When I was a young associate in New York City, I was in the office every day –

**Julia Coronado**

Oh, I know.

**Spencer Levy**

7am and I was out at 11pm and I would never take a phone call after 1:00 on a Friday, because that would be the end of the weekend. So, that I don't miss as part of the job. So, let's end where we began. First look back. How'd you do? And now we're going to look forward to where we go. So, how did you do the last couple of years?

**Julia Coronado**

We've had different kinds of errors. We've had big errors but different kinds of errors. So, we were also behind the curve when inflation was going up a little bit more leaning towards the transitory side – got that wrong. But, then last year we were one of the few that were not calling for a recession. Yes, interest rates had galloped higher really fast, but I was just looking at the labor market, and the labor market was just astonishingly good. I mean, how can we be going into a recession if we're adding half a million jobs a month? Right. It just felt like the U.S. economy is an ocean liner, and there's so much self-reinforcing positive dynamics when you're in the growth zone. So, I just didn't see us rolling over the cliff that quickly. And we also were more optimistic on inflation coming down. We do a lot of what we call sectoral macro. So, we do a lot of bottoms up analysis looking at the auto sector or the insurance sector and housing, etc., and sort of adding things up in addition to running your macro models. So, we also got the faster than expected decline in inflation. What are we looking for the last year? So we were behind the curve then we were ahead of the curve. We still are optimistic that inflation will come down. Q1 was a surprise to us. The reaffirming we've seen was a surprise where we're sort of looking at it and peeling it apart, and it still feels like the dynamics are better, like car prices are more flexible now. There's a lot of flexibility in prices. Consumers are more price sensitive. All of that says the underlying dynamics are better and we still expect progress. And my GDP forecast is about in line with yours, a little bit above 2%. And yeah, a little bit less fiscal, a little bit more organic private demand, but still a decent amount of resiliency. And one of my sources of optimism, and this was, one thing Chair Powell did yesterday that was new was he didn't just talk about the baseline outlook, he talked about scenarios. And one of the things that makes me optimistic is that they have ammo. The fed has ammo. If we hit a stumbling block, if we see the job market slipping, they can cut rates and they can cut rates by more and faster than they're currently planning. And I think we would see a response in the real estate sector. Would see the response in durable goods spending. And, so, I think even in a – we hit an unexpected roadblock scenario, we actually have policies based on the monetary side.

**Spencer Levy**

So, the – I guess the trillion dollar question, two rate cuts, one rate cut, no rate cuts this year?

**Julia Coronado**

We two, we have September and December. As our base case still feels like a good one. We had three, so we took June off the table with that March data that came in. But the data are noisy, it ebbs and flows and we'll see how Q2 unfolds. Right now, I think we're still on track for two rate cuts.

**Spencer Levy**

What's the most important financial indicator for you?

**Julia Coronado**

We're interest rate people. So, a lot of our clients and the people we work with – our fixed income managers also multi-asset categories, but we pay a lot of attention to the signals coming from the yield curve. And even though it's been inverted which was another reason to expect a recession, I think that that's also a thing that's telling us that yes, policy is tight and it will bite and it will allow the fed to ease. And we'll see that curve un-invert over by the end of the year.

**Spencer Levy**

You have a lot of clients in financial services, real estate as a form of financial services. You've got a captive audience of 500 people. What is the advice you would give them for the year to come?

**Julia Coronado**

Stay engaged. This is a good economy. There are opportunities. It's a super uncertain environment, so you have to stay nimble and careful. But, I think it's a good economy. So there's a lot of headlines, a lot of geopolitics, a lot of things that feel really kind of crazy right now. But the underlying dynamics of the economy – and I'm not a perma bull just FYI. Like post GFC, I was super bearish for years. Rightly so, but I try to like – my views evolve with the economy. I – this labor market I just, I love this labor market. It's so dynamic and resilient and it gives us opportunities as business people.

**Spencer Levy**

Well, with that optimism, I want to thank Julia Coronado, President and Founder of MacroPolicy Perspectives, UT Austin, and live guest on the Weekly Take. Well done.

**Julia Coronado**

Hook 'em Horns!

**Spencer Levy**

Hook 'em Horns. Thank you so much.

**Julia Coronado**

My pleasure.

**Spencer Levy**

For more on the state of the economy, we'll be back with some new episodes filled with insights: A flash call with CBRE's capital markets insiders andhoo also a rare peek behind the curtain to help you understand the process of how forecasting is done in our business

with literally the most accurate forecaster working today. So stay tuned for that and other great programming on the way. It's been a while since I mentioned the Talk to Us button on our landing page. So let me take this opportunity to remind you that we love your feedback and comments, and invite you to reach out to us at [CBRE.com/TheWeeklyTake](https://CBRE.com/TheWeeklyTake), and also remember to share the show and subscribe, rate and review us wherever you listen. Thanks once again to Julia Coronado and everyone who came out to see us in Austin. And thanks to you for tuning in. I'm Spencer Levy. Be smart. Be safe. Be well.