Episode 05: When Real Estate Met COVID-19

Let's be honest -- REALTORS face an ever-changing industry. With emerging tech, growing trends, and a booming market, it's vital to keep up. Join me, Gilbert Gonzalez, CEO for the San Antonio Board of Realtors, as I get real with experts on what REALTORS need to know about this industry. It's time to get real.

GG: Today I'm talking with Dr. Keith Phillips, Assistant Vice President and Senior Economist at the Federal Reserve Bank of Dallas – the San Antonio Branch. He's here to talk with us about the economic impact of COVID-19 on our local, state, and national economies, and what we can expect in the coming year. Mr. Phillips, thank you for joining us today.

KP: Sure, Gilbert. Glad to be here.

GG: So I had the opportunity to hear a presentation that you gave back on January 31st, and the title was "Expansion Likely to Continue." Can you tell us a little bit about what we were on track way, way back then it seems like on, in January.

KP: Yeah, that does seem like a long time ago. But heading into this year actually, we had seen pick up on the leading index of economic indicators for the state. Things were kind of accelerating in the service sector, although manufacturing had weakened and it starting, it was starting to pick up, but overall the forecast looked like another good year for the state of Texas. And one of the biggest facing the state at that time was just a lack of workers and given the historically tight labor markets and continue strong economic growth there would kind of be a continued shortage of workers and boy, how things have changed since January.

GG: (1:56) Now when we were having this conversation, we were at the lowest unemployment rate in 50 years now. And is that something that because we were so low, it's gonna be easy to bounce back once this Coronavirus settles down?

KP: Well I, I think being in such good times before it hit and the fact that the economy was actually improving even further is good to dampen somewhat this economic blow. And this, the Coronavirus we're hoping is rather short lived that much of the impact will be over the next three months, followed by some, some rebound. It's going to be a pretty significant hit to the economy. So if we're weaker going into it, I think it would be a worse situation. No doubt. But so I do think it's, it's, it's a good thing that the economy was strong before this hit.

GG: Has there ever been a time in the past where the economy took such a screeching halt?

KP: Not, not while I've been alive. I'm only 60. What's unprecedented about this is that it's basically a lot of, it's basically a government mandated shut down because of the severe impacts that could occur if this virus got out of control. And there's a lot of misunderstanding about that, but the, the severity occurs when hospitals over wound and people can't get to the hospital to get a respirator or a treatment and somebody that could have survived this fairly easily ends up dying because there's a shortage of beds. And that's what we're trying to avoid with those social distancing. That's, we know as a society that this is very costly to the economy and to people's lives. But the other option is, is very, very costly. In terms of people's lives, if the hospital system gets overwhelmed with patients.

KP: (4:37) So I've never seen anything like this where you basically shut down all of the restaurants and, and entertainment, sports and all that. And then, you know, most hospitals, I mean most hotels and things like that have to shut down too, basically this whole shelter in place shuts down the leisure and hospitality industry. That's a dramatic thing. But it's in response to a very dramatic effect that could happen if you don't engage in social distance. And so, no, it's, it's, it's nothing like I've ever seen before. And so it's hard to kind of understand and understand how it's going to play out.

GG: (5: 38) You know, today is March 23rd, and the news says that we are as a city in a County considering a shelter in place. So we'll see what they decide on that, that, that might have already happened by the time this goes out. But that is a impact that's happening to the entire community. How do you think this will affect the economy in general? Is it something, when I think about the prior times where the economic went down, the economy went down, it always involved a specific sector, It felt like, and you can correct me if I'm wrong, whether it was oil and gas or whether it was real estate. This one seems to be affecting everyone. And I think you've mentioned the service that service industry more. How, how can, what do you think will happen once we're out of this? What is, what do you think will happen with the economy?

KP: Well, I think there'll be a bounce back. I think, I think people will return to be out there going to Spurs games going on vacation. You know, traveling on airplanes and all the normal stuff we do. There will be kind of longer lasting effects also, businesses learning from this that they can do more online, that you don't maybe need to travel as much. And there'll be the more demands for technologies and their conference calls and webinars and things like that. Which you know, and people are more people working from home, but that doesn't mean that obviously we're going to every, that the economy will bounce back and it'll, it'll show improvement in the, in the second half. It's just a matter how much it falls and how much you bounce it back. Those are the key questions.

GG: (7:40) So a lot of people compare this to the housing traffic. Hello. A lot of people have compared this to the housing crash of 2008. Would you say that this is something similar?

KP: So it may be similar worth in magnitude, but it'd be very different in the fact that it happens really quickly and then begins to bounce back. This is not a typical type of downturn in the economy. And a typical downturn is, you know, inflation gets out of control and, and the goods sector, construction and manufacturing, tend to turn down first and then services we can after that. And there's a prolonged period of decline in the economy, followed by some bounce back. In general, recessions are defined by period of broad economic decline, lasting at least six months or so. But in the U S we have a dating committee at the National Bureau of Economic Research that determines by looking at abroad host of data, if a recession occurred or not, they will be the ones who determine if this was long enough and deep enough to be called a recession.

KP: (9:00) But it's quite different than the great recession. The great recession was a financial crisis caused by the collapse in the housing sector and it had pretty dramatic regional facts across the country based on the housing situation in those regions. Whereas this is, is is, you know, the epicenter is the leisure and hospitality and transportation industry, although all sectors of the economy will be affected in some way. But it's a, it's a, like I said, it's a, it's a kind of a mandated, mandated economic decline to reduce the spread of a virus. And once the virus plays out, then the economy will, should jump back pretty quickly. So it's quite different than kind of a normal economic recession. We know exactly the causes of this. In fact, we're as a society willing to bear the costs because of the, the cost of this virus spreading is, is, is very, very high.

GG: (10:20) So when you talk about the service industry for San Antonio and then the housing market back in 2008, it felt like San Antonio was somewhat in a better position than the rest of the country. That San Antonio did well weathering that storm. Do you think San Antonio is in that same position this time? Or because San Antonio is such a service industry, will it take it a little bit more harder?

KP: Yeah. So I like to call San Antonio's is as a slogan to her city, steady as she goes a steady as she goes, the economy. We, we tend to be less volatile in when the economy booms, we don't boom as much. And when the economy declines, we don't decline as much. We are we were focused on industries that tend to swing less such as the military of federal government healthcare. And then our tourism sector genuinely isn't as volatile as other areas. So normally in a period of downturn, San Antonio would do better than most areas and do better than the state and nation as a whole. But like you said, San Antonio is a tourist town. We have a lot of jobs in leisure and hospitality. If you look at the last year, on average, the percent of jobs and leisure and hospitality in San Antonio was 12.8% of all jobs were in leisure and hospitality.

KP: (11:58) That was 138,000 jobs. The national average and, and Texas is about 11% of jobs. So we have a 12.8 versus about 11%. So we're, if we just had kind of the national average share of jobs and leisure and hospitality, we have 20,000 fewer jobs exposed to this kind of decline. So I think the San Antonio for this decline will not be insulated. Like it has been in past declines because of the fact that we have a lot of jobs in leisure and hospitality. So when I say leisure and hospitality, I mean restaurants, hotels, sporting events, movie theaters, those are what's in leisure and hospitality. Obviously we have Fiesta Texas and sea world. Yeah. We're a tourist attraction. So that's gonna we're really going to be hurt by this. And but once again, it's for a cause that's very important, which is to reduce the spread of this virus so that the hospitals aren't overwhelmed with patients.

GG: (13:18) I think what you're trying to stress is that yes, it is the reason for the, it's a self-inflicted reason why the service industry is going to get hurt. Because we're saying as a community, no more, we can't be spreading the virus, but that is a greater need at this point in time to save lives then, and we can, we can whether the storm on the economic side. Is that kind of what you're trying to say?

KP: Yeah, that's what I'm saying. Yeah. It's going to be, there's no way around it. It's going to be painful for a lot of people. A lot of people will temporarily lose their jobs. But you know, it is the reason is so that peoples to save lives basically at the end of the day. And because of this, because of this, it's a, you know, it's a public good that people are stanying home and public policy is, is responding to try to help those who are, have been affected by this.

GG: As a state, I believe I heard you say Texas is number one exporting state in the country.

KP: Yes.

GG: And that's because of our energy energy sector, correct?

KP: Yeah, we export a lot of energy and energy-related products. We export a lot of diesel fuel to Latin America and we export a lot of refined products. And now we export a lot of oil with the lifting of the oil export ban in 2015. But we also export a lot of manufactured goods.

GG: (15:08) Now, if we were to just take out the energy sector, I believe that there is also some decline in the cost per barrel of oil. Was that independent of this situation? Is that going to frustrate the situation? What's your thoughts on that part?

KP: So Texas is a major oil producer, oil and gas producer in the U S, and while longterm growth in Texas is more about a low cost of living and low cost of doing business is primarily the reason why we grow faster than the national average. When energy prices swings, it has a pretty important effect on how we do relative to the nations. So back in 2015 and 16, oil prices fell from over a hundred dollars a barrel and mid 2014 till and average price in 2015 somewhere in the low forties. And so there was a big downswing in oil prices in Texas. It went from growing above the national average to growing below the national average. And I think it's clear this year that whatever happens in the nation that Texas will now grow below the national average. So in essence, Texas will go from pulling up national growth to kind of pushing down national growth because we will be weaker than a lot of States because of a significant decline in the energy sector that's likely to occur this year.

GG: Was that going to occur just because of other political issues going on or do you think that that's is a result of this Coronavirus as well?

KP: (17:00) Well, that's a, that's one of the, the reason why the energy sector is like to be, be so very hit hard ends because it's both the demand and supply effect. The demand effect is that, you know, people aren't traveling. There's a huge decrease in demand due to less traveling and less industrial production. But there's also been an increase in supply. So you may be increases output, OPEC kind of as announced. They want to move to market prices, which basically is price war going on within OPEC. And that's increased the supply of oil right when the demand for oil has been reduced a lot. So, you know, we've seen oil prices in the past week in the 20s and the lower 20s, and that's a huge decline and a huge hit to the energy sector. And generally we expect oil prices between be between 20 and $40 a barrel this year.

KP: (18:28) And there's always uncertainty about oil prices, but if we were to guess, it'd be at the lower end of that range, not the upper. And the break even for drilling at least last year was about $50 a barrel on average. So that means that there's not going to be a lot of drilling activity occurring this year, and the energy sector will likely be in a decline. And because the size of the energy sector being larger in Texas than most other States, that'll have a bigger impact on us. So Texas is being hit by both the Coronavirus and the decline in the energy sector.

GG: (19:10) So with that, what are the factors that would lead to a recession and what, what can we do to navigate the recession?

KP: Yeah, so there's a lot of, lot of economists believe that recessions are caused, different recessions are caused by different things. And it's pretty clear that, you know, I can't say definitely that this will be determined to be a recession. We know it's going to be significant. Jobs are going to decline significantly over the next three months, but we don't know when and how much they'll bounce back. But in general, things are caused by different things. Different recessions are caused by different things, but we, we know pretty clearly this recession or this downturn in the economy over the next few months is being caused by this virus and the actions that we needed to take to slow the pattern of growth in the virus.

KP: So there's really not much we can do to stop jobs from declining over the next three months. I mean, you know, if, if, if we didn't take steps to negate this spread of the virus, so to slow the spread of the virus, I think we would have a crisis anyway in a crisis that would cause a lot of deaths in this country. So in terms of people and companies, what can they do? It's very difficult for people directly impacted. If you have a restaurant in San Antonio you know, there's not much you can do. I mean, you can't have customers come into your restaurant and enjoy your product. So you become, you can be creative and try to minimize the impact by, you know, promoting curbside service are promoting a delivery or you know, and restaurants are doing that and employees are, you know, if they get, if they're working at a restaurant and they get laid off, you know, you can look around and see what there are people hiring HEB has been swamped and are hiring for stocking the store shelves. And you know, Amazon is hiring because a lot of people are shopping from home. And so you just have to look around and do the best you can to try to offset some of this decline. And hopefully government policies will step in and provide some, some help to those who, who, who are losing jobs in hours worked over the next three months. But you can be creative and try to minimize that fact, but it's going to have an effect nonetheless and it's, it's likely to be painful.

GG: (22:26) One of those policies that we're hearing about is the one coming out of DC with a stimulus. What do you think the goal is to implement that?

KP: Well the goal, this drop in income that people are gonna feel as they lose jobs and lose hourly work, so it's trying to mitigate the, the negative impact being caused by the social distancing.

GG: Is there any other relief programs that you can think of that may be coming down the pipeline or that have been effective in the past to help in these times?

KP: No. I'd just say that, you know, there's a trade off between precision of the program and timeliness of the program. So some people may question a program that would not discriminate between those who have lost jobs and those who haven't. So you might mail out a certain amount of money to every adult. Why would, why would we do that? Why would, why would the government do that is because when you try to be precise about, you know, sending money to those who need it most, it delays the process. And I think it's a good goal to try to get the people that need it the most. But if that means that those people don't get it for six months or a year, that's gonna mitigate the impacts. They, the people are losing your jobs right away, so they need the relief right away. So there's this trade off between kind of being precise about who gets the relief and being very quick to get it to them. And that's what policy makers are trying to deal with right now. How to, how do you kind of balance that trade off?

GG: So after the SARS and the Ebola outbreak there was about a one month correction I believe because those outbreaks were contained. Do you think that we can bounce back? Well, obviously we can bounce back, but how long do you think it's gonna take until we can bounce back?

KP: So, I mean, in terms of the economy or the stock market, I just, I just say the economy, the stock market's gonna move like it's gonna move. But the, we're, we're hoping that it all depends on how this virus plays out. When kind of the curve term turns up and the virus spreading starts to slow. If we can get that, if the social distancing we do now causes the rate of infections this slow dramatically within the next three months, then we can start easing up on social distancing and the economy can start returning back to normal or at least start seeing job increases in the third quarter and probably even better return of jobs in the fourth quarter. It doesn't mean the unemployment rate at the end of the year will be where it is, where it was in January, but it will mean it'll be lower than it was in the middle of the year. So I think that's, that's a good scenario. But it's very uncertain if that's a scenario that will play out.

GG: (26:25) How do you think mortgage rates are going to play out over the next coming months?

KP: Yeah, so I can't really predict interest rates. And you know, I, I think in general, market rates are lower, mortgage rates are important. Obviously for the, for the home construction. Last year, construction job growth was the strongest of any sector. And market rates had fallen a full percentage point from October of 2018 to August of 2019. So the decline in market rates at the time was quite a boost to the construction sector, the housing, and to the overall economy. But in this time right now, there's a lot of uncertainty, it’s unclear you know, and there's a lot of financial stress in the markets. It’s unclear what will happen to the market rates. And then if mortgage rates will play the same role, at least over the next few months in terms of stimulus, if they did fall, if it would stimulate a lot of housing, because if people uncertain about the economy and about their jobs, they tend to not buy you know, homes and cars. So there's a lot of uncertainty out there and about a lot of things. But we'll see how it plays out.

GG: (28:02) You know, one of the interesting things I've been hearing from our members is that they have been extremely busy and these last couple of weeks people wanting to purchase homes, see homes, put houses on the market. I mean, does that go to consumer confidence or how would you, how would you describe that?

KP: Well, I think that's probably, that's good news. I mean you have your, your, your, the ground there at the, in the real estate market, there are still quite a few people who are fortunate enough to have good job security. You know, we have USAA, it's a big company here that likely it’s continuing in do well given their, that they sell insurance and a host of financial products. And so, you know, there'll be a lot of companies that aren't in leisure and hospitality that continue to do well, and those employees will you know, want to lock in at at if they have feel like interest rates might go up. But going forward over the next three months, it'll be interesting to see if we continue to see that kind of activity. I'm happy to hear that that's happening now. But I think it's unclear if it’ll continue over the next couple of months.

GG: (29:34) So one of the questions I had about consumer confidence is I feel hearing stories or watching people online. There's this pent up pressure from being locked up in the house and everyone wants to get out. And people don't, are having a new found respect for teachers. Do you think as soon as everyone has the green light, they're going to want to go to their favorite places and get out and that will hopefully help us bounce back sooner?

KP: Yeah, I think, I think once people feel confident that they can go and be out in public without a risk to their health they're gonna return and they're gonna, you're going to see restaurants full again and you know, people doing their normal stuff going to the Spurs game, well Spurs won't be playing, but they'll be going out to concerts and things you normally do and life will return to normal. So yeah, I think that will mean that we'll see the economy bounce back in the second half.

GG: (30:50) I know I'm looking forward to being able to go to my favorite taco spot, so I hope thats sooner than later. Do you have any advice for our REALTORS®? Are those in the real estate industry? Anything that you would share with them as far as thoughts on how to weather the storm?

KP: Yeah, so I mean, just like, you know, they're probably already thinking about, I mean if, if their customers do get leery about kind of being out and about and but they are still interested in looking, are you think there'll be interested once this thing dies off and the economy improves and you can, you know, start focusing on your kind of online sales and how you can kind of, I know for REALTOR®, like any, any business person or salesman, they know the value of face to face contact. But in these times it's time to experiment with new ways that you already have the technology for. You know, people can go online and look at houses and see virtual reality of the inside of the house, but, you know, how do you connect with that customer in a realtime way without face-to-face contact?

KP: So I think like other industries are looking at where your, they'll be looking at ways to use technology to develop close contacts that you otherwise wouldn't even kind of think about. So you know, it's as you know, it's all about customers and and meeting the customer's needs. But now companies or industries are figuring out how to do things differently given the environment. And I think REALTORS® will be doing that same thing and exploring new ways to kind of display products and communicate with customers without necessarily having to be there face to face with them.

GG: (33:00) Dr. Phillips, I do appreciate you being with us today and taking some time out of your schedule. I know a lot of people were calling and asking you questions, so I appreciate the fact that you would take the opportunities to talk to our members.

KP: Sure. I hope I have some value, there's so much uncertainty. I wish I could be very precise and tell you exactly what's going to happen over the next six months. But unfortunately it's really not possible. We know. We know that in general what's likely to play out, but we'll all just have to wait and see and do our best to kind of get through this time.

GG: Yeah. This has definitely been, every day is a new day and almost every hour it seems like there's something new going on so we understand the difficulty. Thank you, sir. Have a great afternoon.

KP: You too.

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