

# South Bay Economic Forecast & Industry Outlook, 2017-18

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# Outline

- U.S. Economy
- California Economy
- South Bay/LA County Economy
- Conclusion/Looking Ahead

# Heard in the Headlines

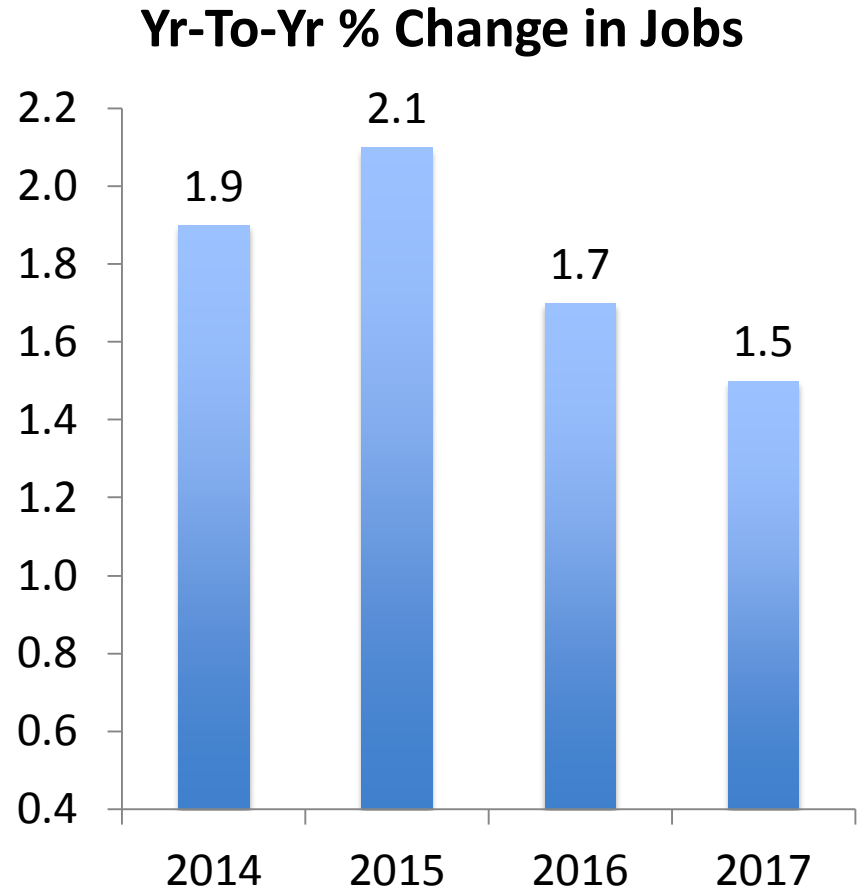
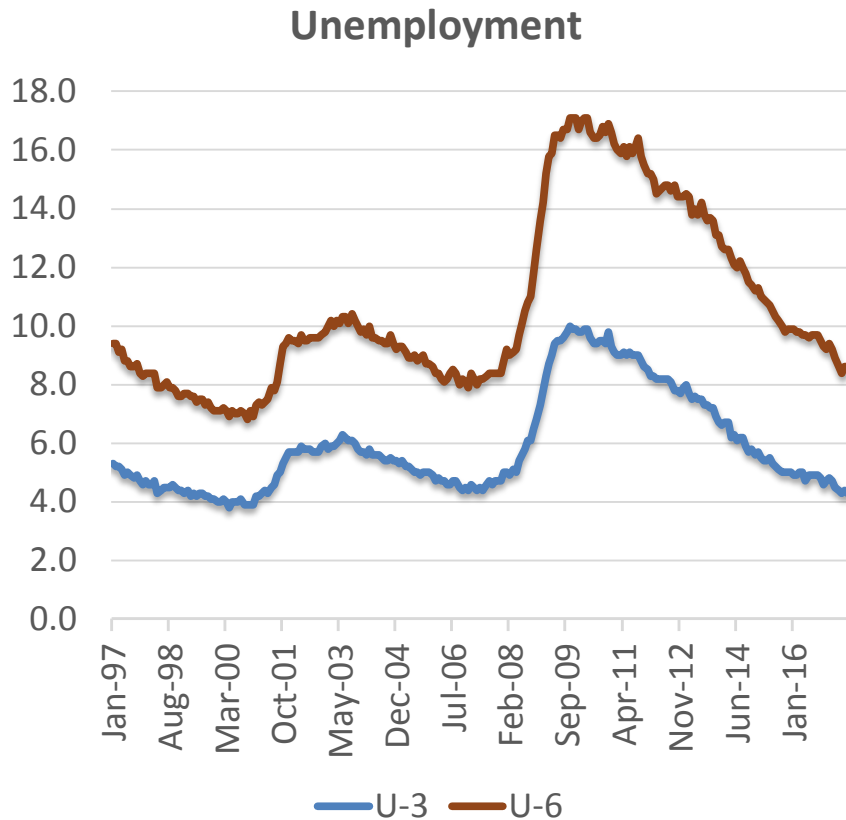
- US Labor Market Slowing...Sign of Recession?
- California in a Housing Crisis
- Policy du Jour in DC
  - Health Care, Tax Reform, Immigration Policy, Trade Policy, etc.

# U.S. Economy

# Vital Signs of the US Economy

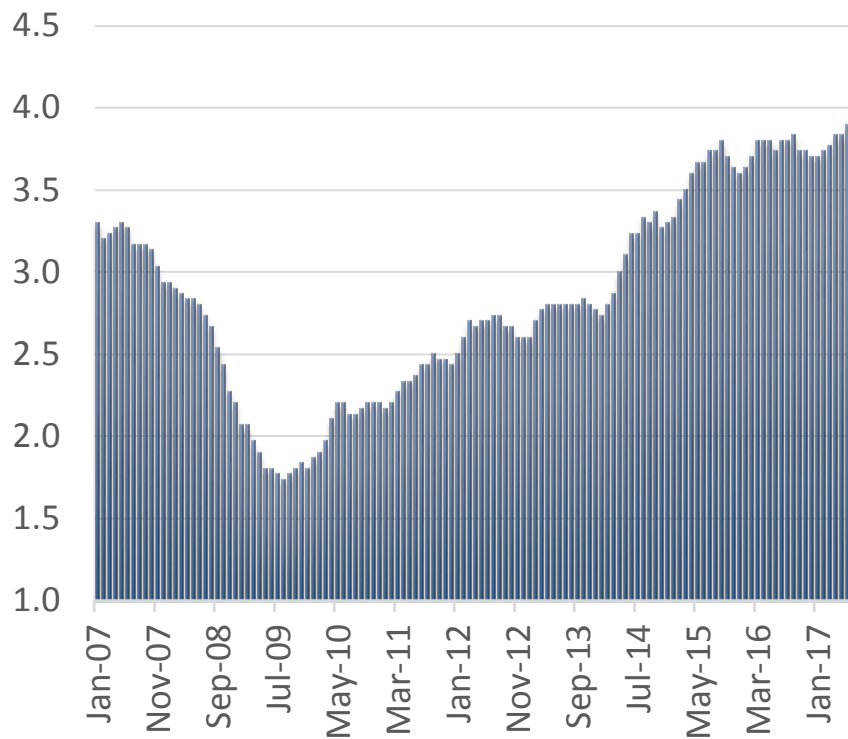
- Labor Market Conditions
- Inflation Rate
- GDP Growth Rate

# Full Employment, Slower Job Growth



# Plenty of Job Openings, Not Enough Workers

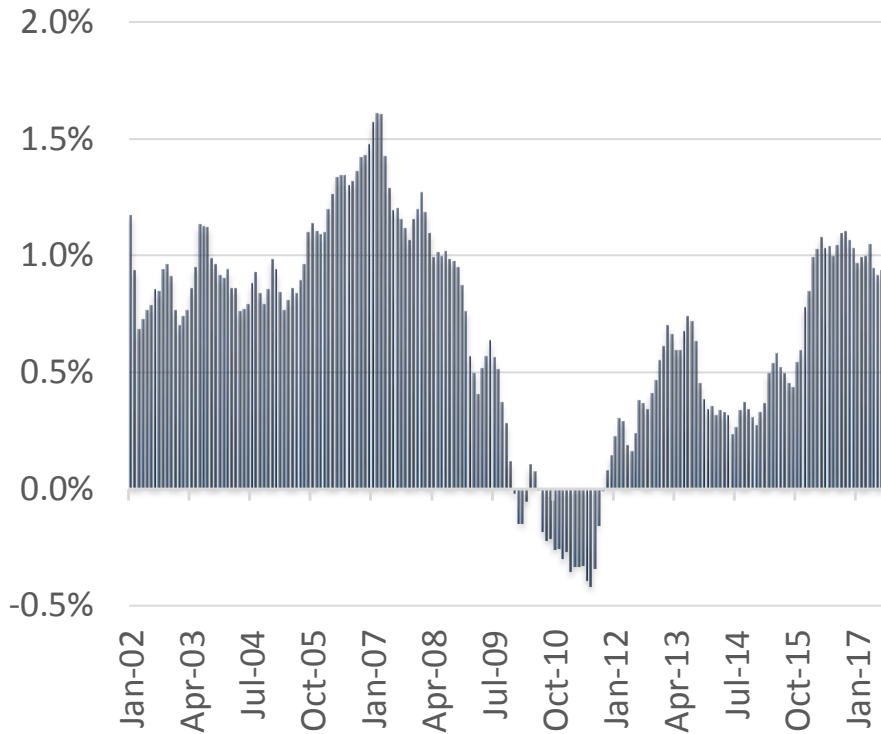
JOLT Job Openings Rate



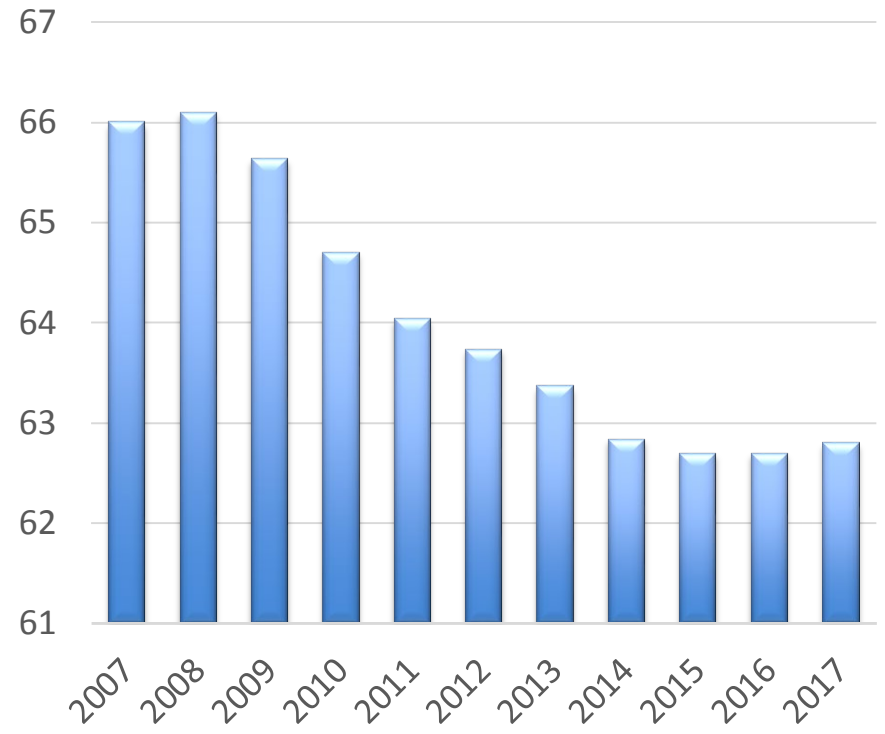
	Level		Rate	
	Jul-16	Jul-17	Jul-16	Jul-17
Total	5973	6170	4.0	4.0
Professional	1265	1116	5.9	5.1
Health care	984	1039	4.9	5.1
Hospitality	760	858	4.6	5.1
Logistics	252	253	4.3	4.3
Mining	13	30	1.9	4.0
Information	84	113	2.9	4.0
Financial activities	322	354	3.7	4.0
Retail trade	626	625	3.8	3.8
Wholesale trade	168	202	2.8	3.3
Construction	238	232	3.4	3.2
Education	107	118	2.9	3.1
Manufacturing	394	390	3.1	3.0
Government	556	513	2.4	2.2

# Labor Force Growth Constrained

### Labor Force Growth

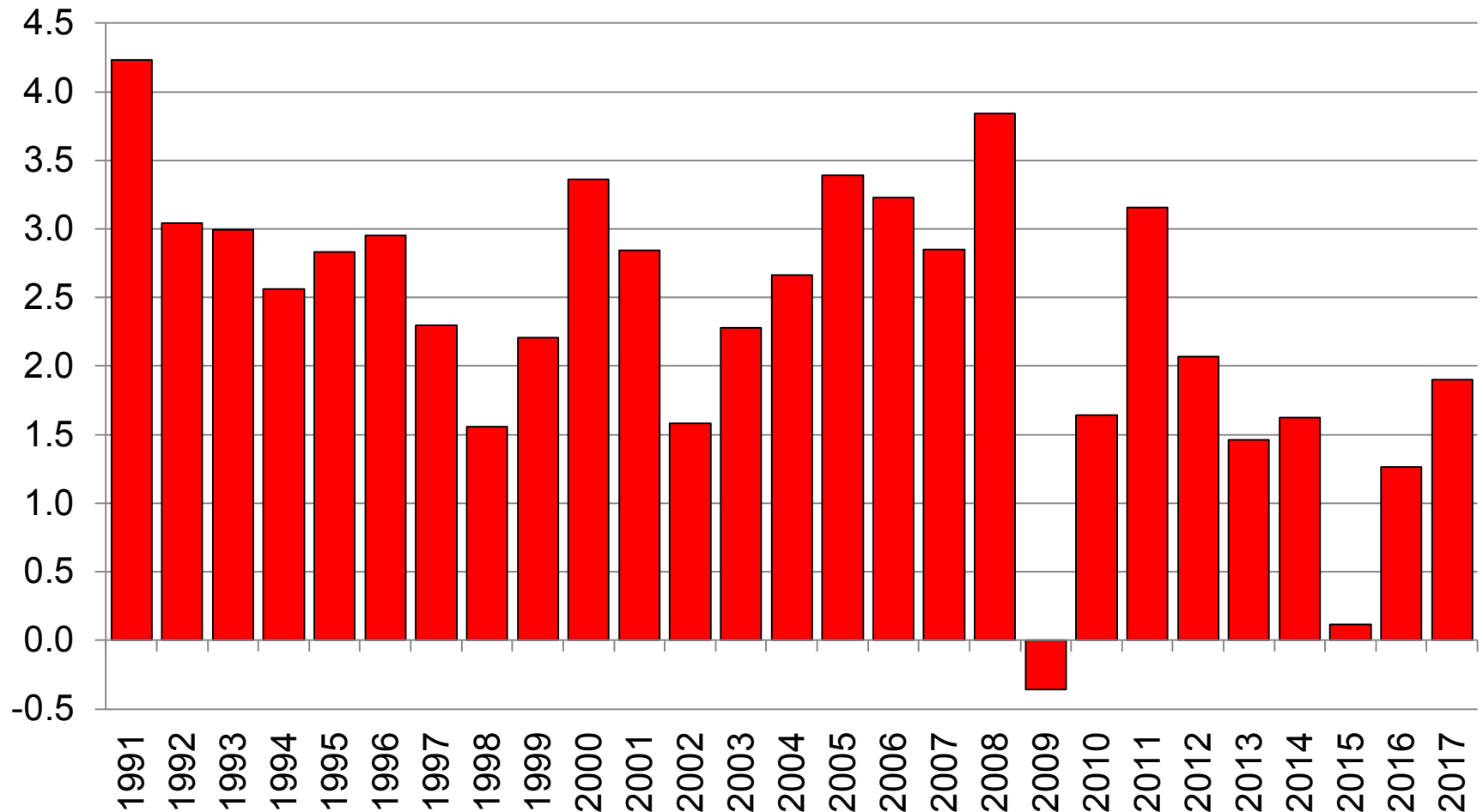


### LF Participation Rate



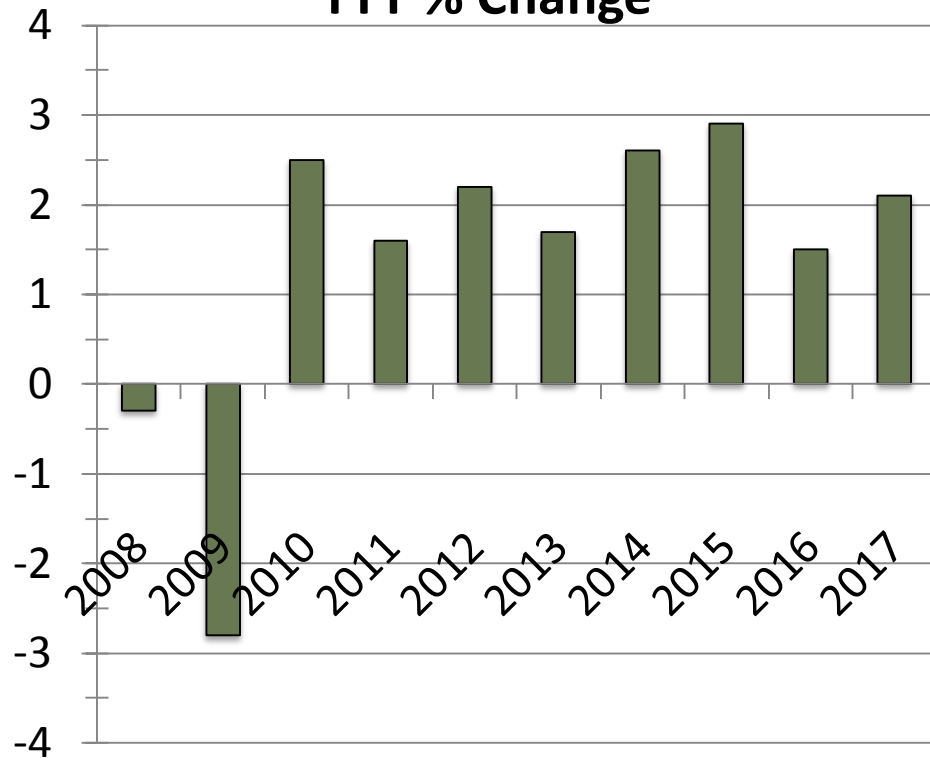


# Inflation Historically Low But Rising



# Two Views of GDP

**Gross Domestic Product  
YTY % Change**



## Contributions to Change in GDP

	2015	2016	2017Q2
GDP % Chg	2.9	1.5	3.1
<b>Contributions in %</b>			
Consumer	2.5	1.9	2.2
Investment	0.9	-0.3	0.6
Net exports	-0.7	-0.2	0.2
Government	0.2	0.1	0.0

# Macro-Economy at a Glance

Sector	Outlook
<b>CONSUMERS</b>	Steady solid growth
<b>BUS. INVESTMENT</b>	Acceleration, energy drag over
<b>GOVERNMENT</b>	Flat
<b>NET TRADE</b>	Imports & Exports up, Imports larger
<b>SUMMARY</b>	Domestic Spending Up

# Fiscal Policy

- Trump Administration/Republican Leadership
  - Tax Cuts
  - Investment in Infrastructure
  - Challenging the Status Quo in Trade
  - Immigration Reform
  - Repealing ACA (Obamacare)

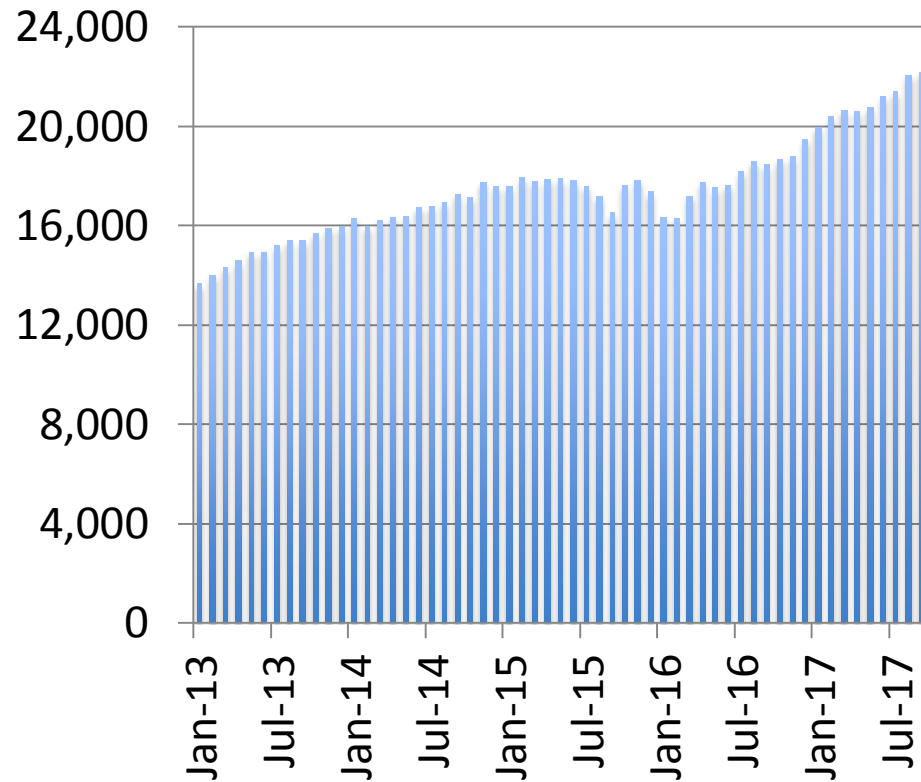
**MAKING CHANGE HAPPEN NOT AS EASY AS EXPECTED!**

# Monetary Policy

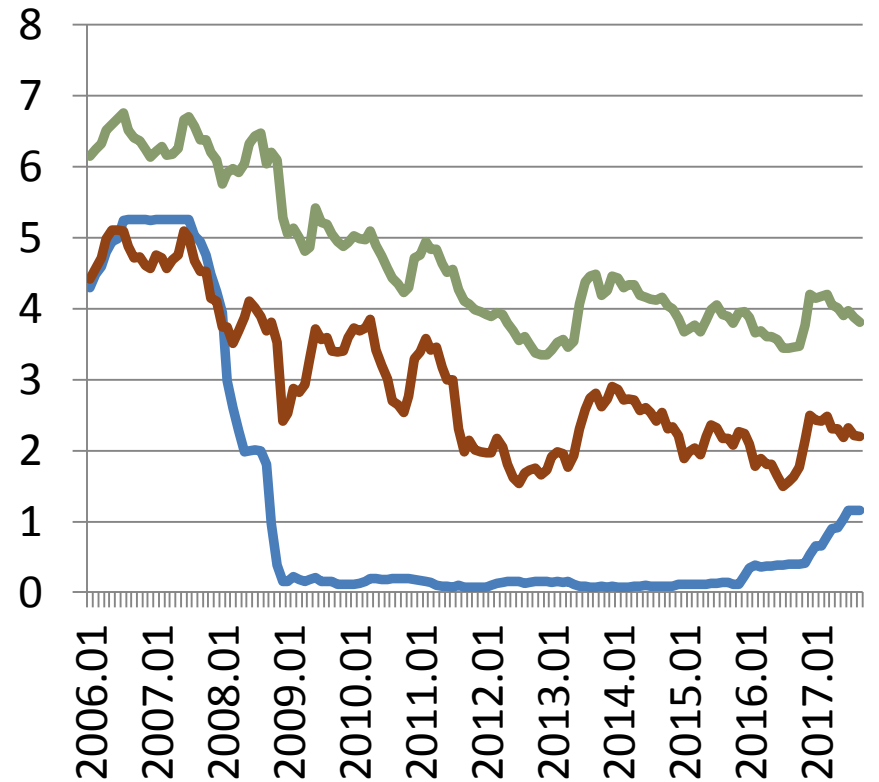
- Rock-bottom federal funds rate 2008-2016
- Adjusting to labor market, inflation, GDP
- Market rates less tied to FFR than before
- Yield curve dynamics
  - FFR increases push up short end
  - Balance sheet activities
  - Markets keep long end low

# Financial Markets

## DJIA, SA



Fed Funds Rate 10 Year Yield 30 Year Mort



# U.S. Outlook

- Continued US Economic Growth: 2017-18:  
2%+
- Domestic Spending Intact
- Oil Prices: Steady
- Inflation: Low, But Rising
- Financial Markets: Rates Up, Equities Frothy

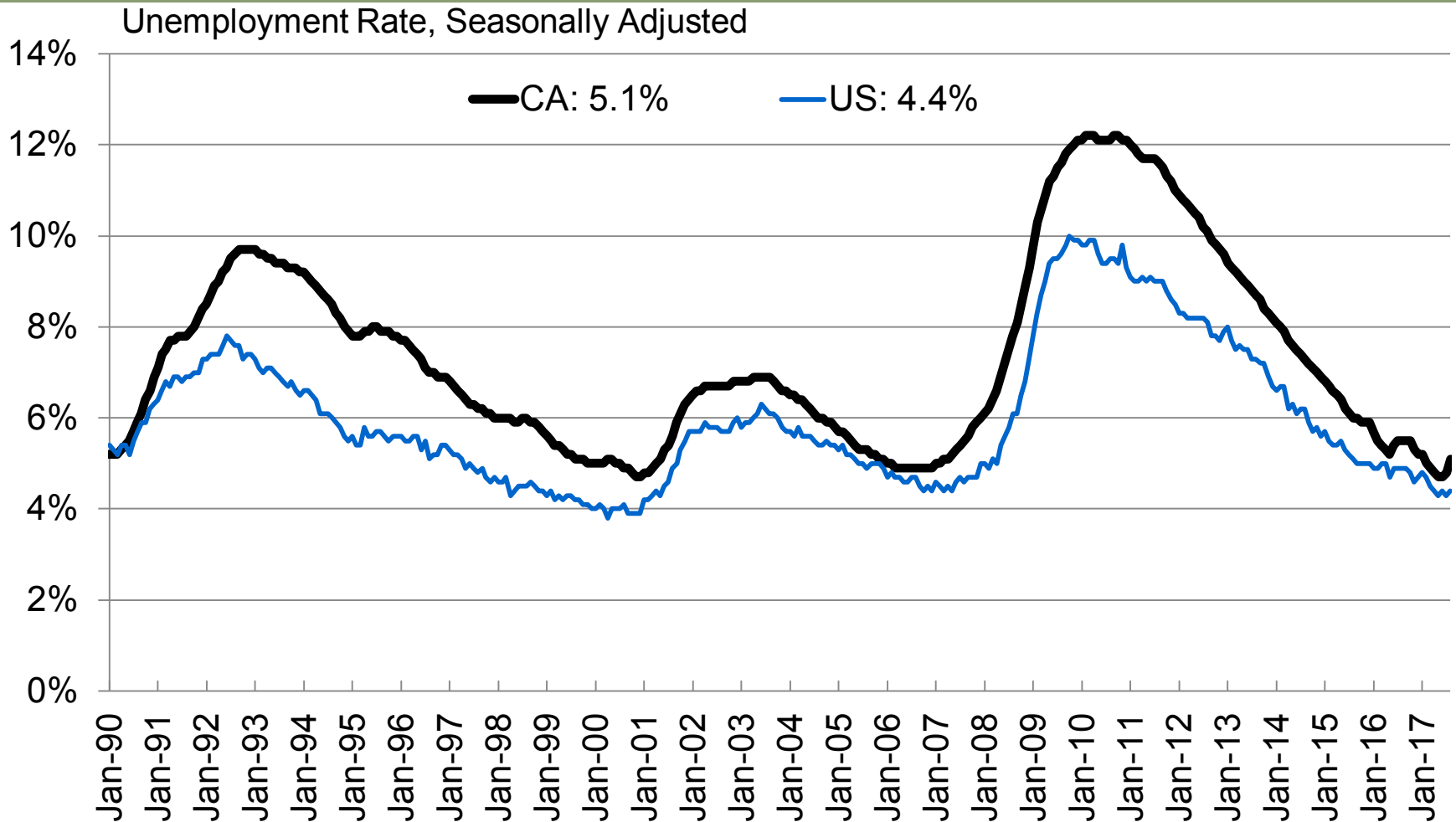
# California Economy



# CA: Fact vs. Fiction

- CLAIMS...
- Business Climate: POOR
- Regulatory Burden: BAD
- Taxes: HIGH
  
- REALITY?
  - You decide....

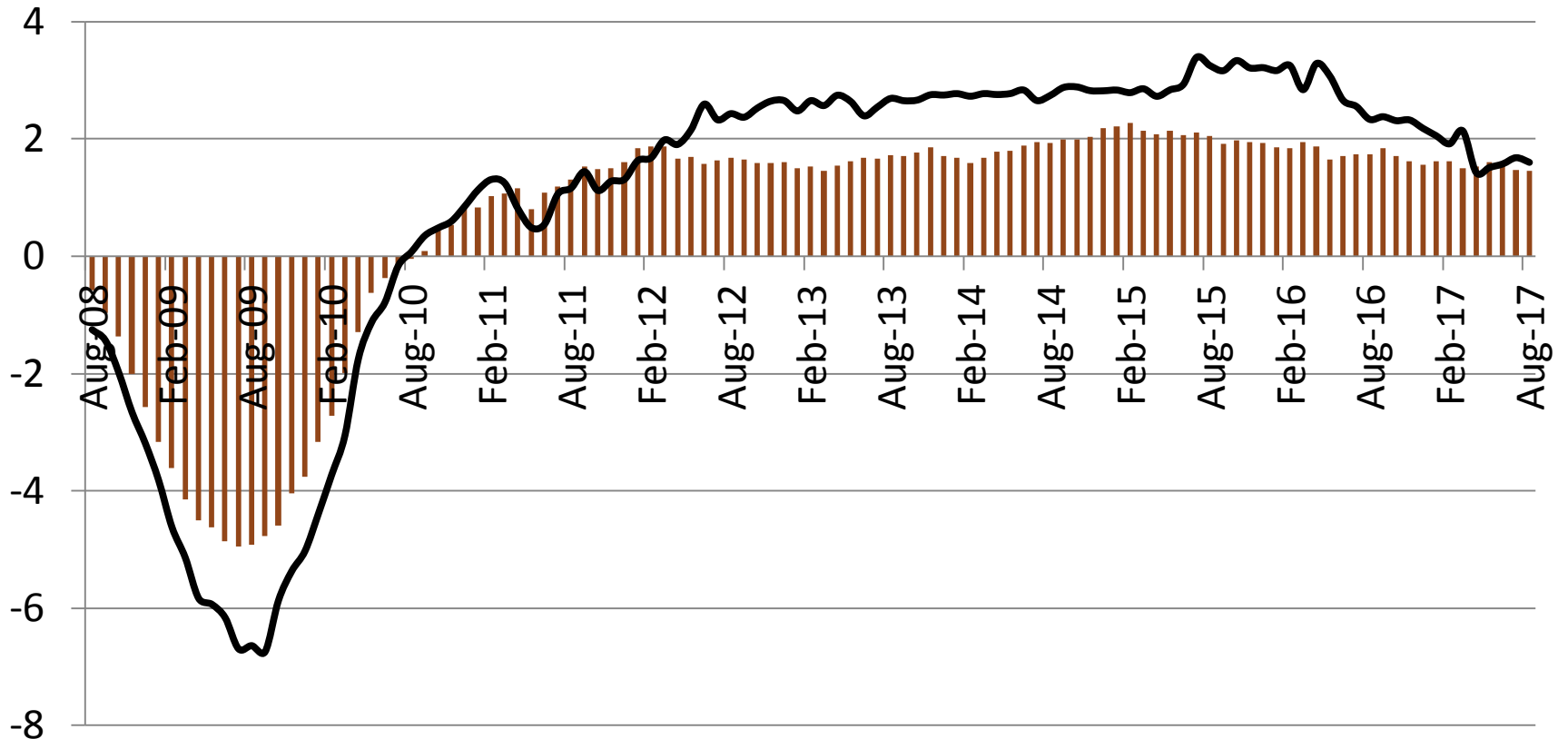
# CA Labor Market at Full Employment



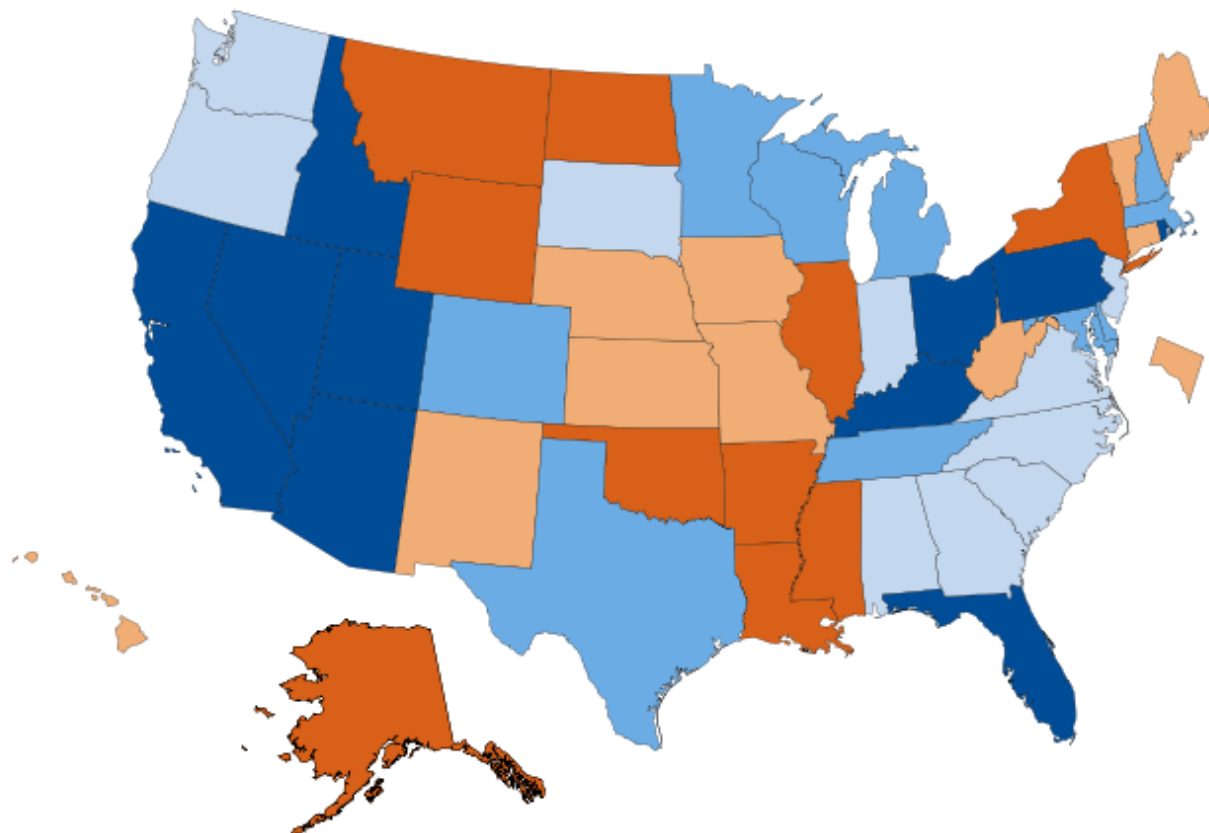
# CA Adding Jobs Faster than U.S.

YTY % change in nonfarm jobs, seasonally adjusted

■ US: +1.5% — CA: +1.6%



# Gross State Product: YTY % Changes CA Among Fastest Growing States



Source: BEA | U.S. = 1.9 %

■ 2.88 to 4.24   ■ 2.03 to 2.87   ■ 1.33 to 2.02   ■ 0.34 to 1.32   ■ -3.72 to 0.33

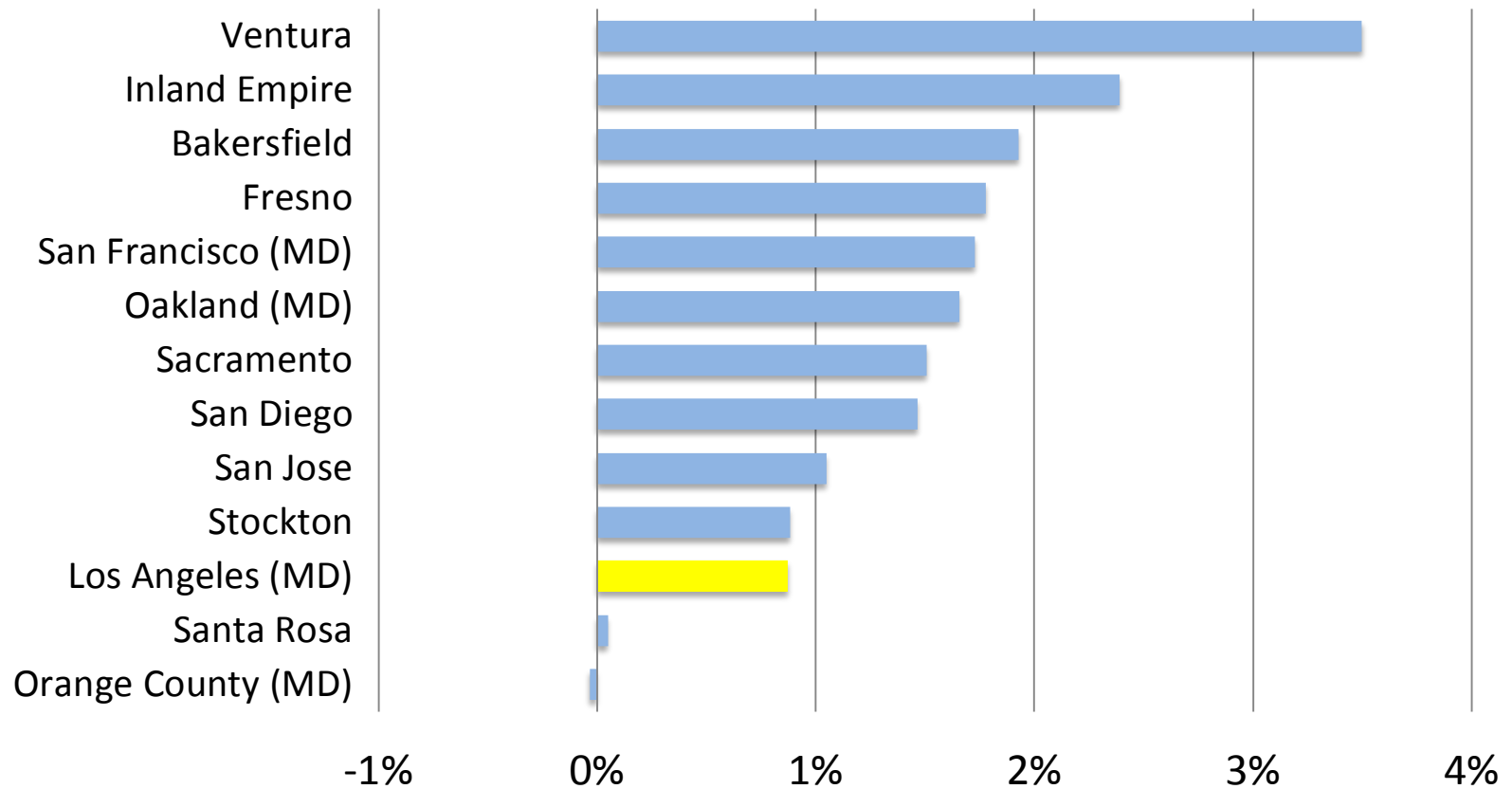
# CA Economic Picture

- CA outpacing US/many states in economic and job growth
- Now at full-employment, job gains harder to get
- Housing
  - Affordability is a near term problem...
  - ...and Constraint on Economy in long run
- Fed/State policies: can be “game changers”

# South Bay/LA County Regional Outlook

# LA County Growth Rate Slowing...

YTY % Change Jobs (Aug-17)

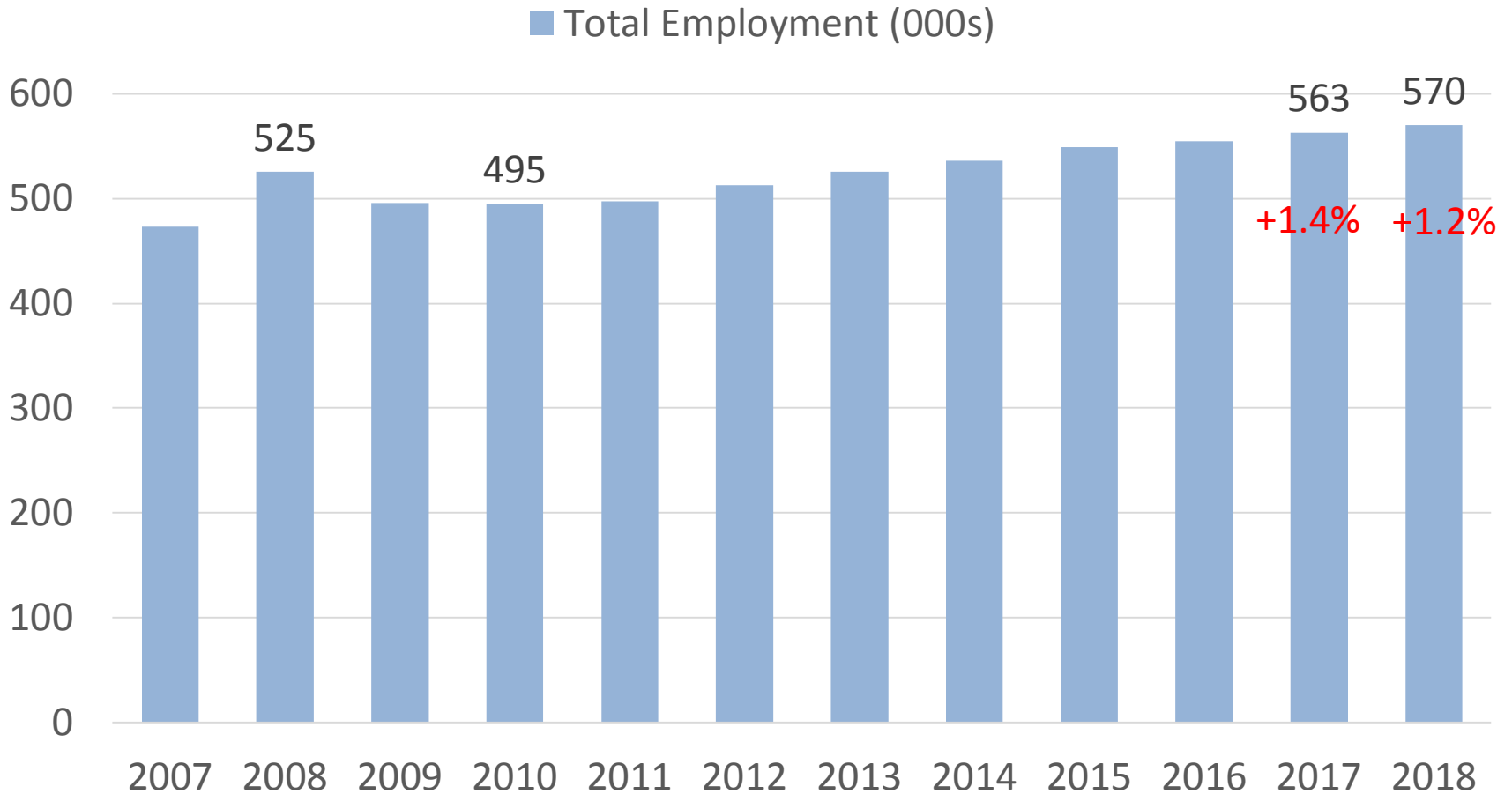


# ...but 1<sup>st</sup> in Absolute Gains

MSA	YTY Change Jobs (Seasonally Adjusted)
Los Angeles-Long Beach-Glendale Metro Division	38,400
Inland Empire	33,600
San Diego	20,900
San Francisco (MD)	19,000
Oakland (MD)	18,900
Sacramento	14,400
San Jose	11,300
Ventura	10,500
Fresno	6,000
Modesto	5,000

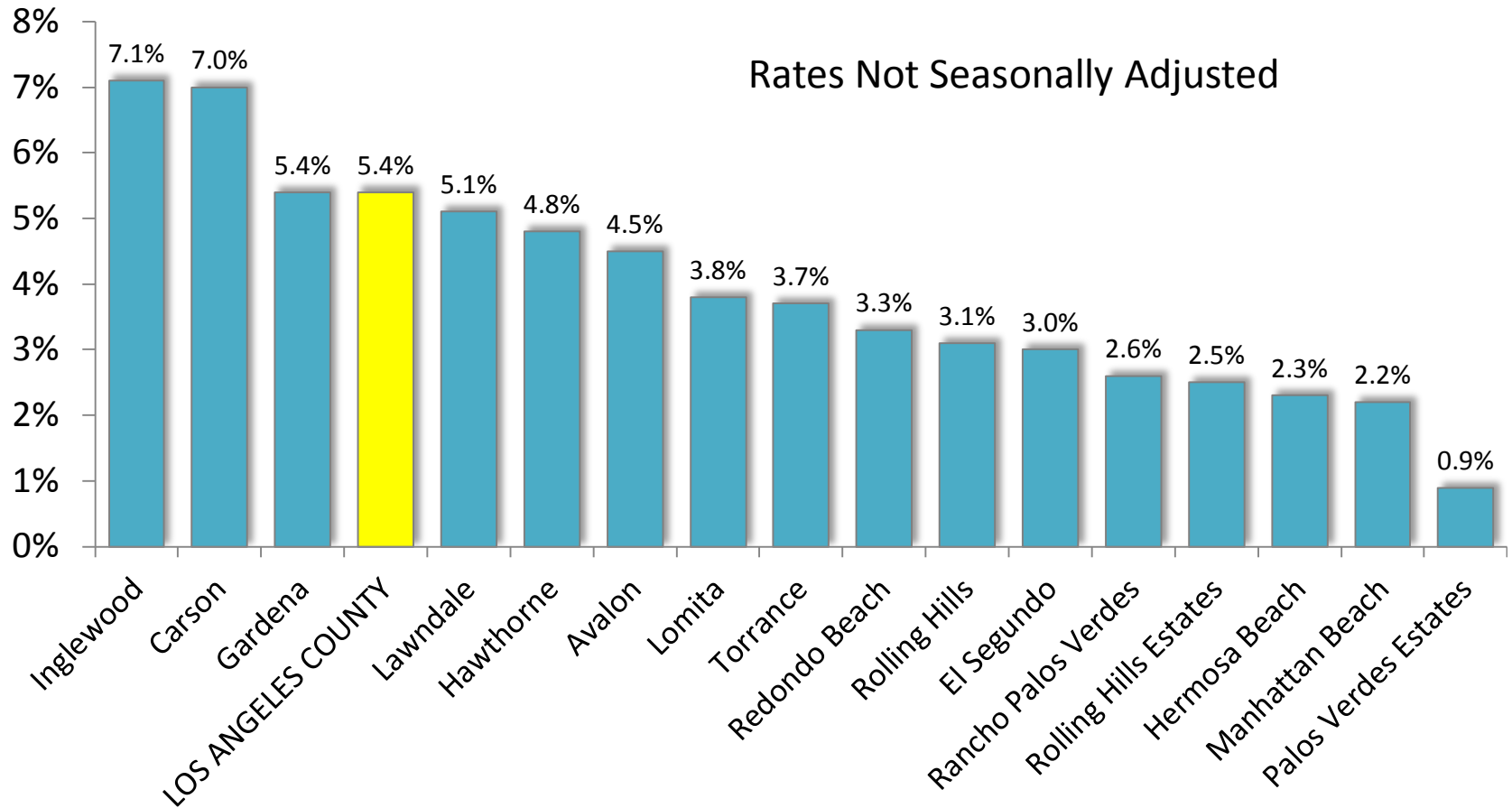


# South Bay Employment Rising



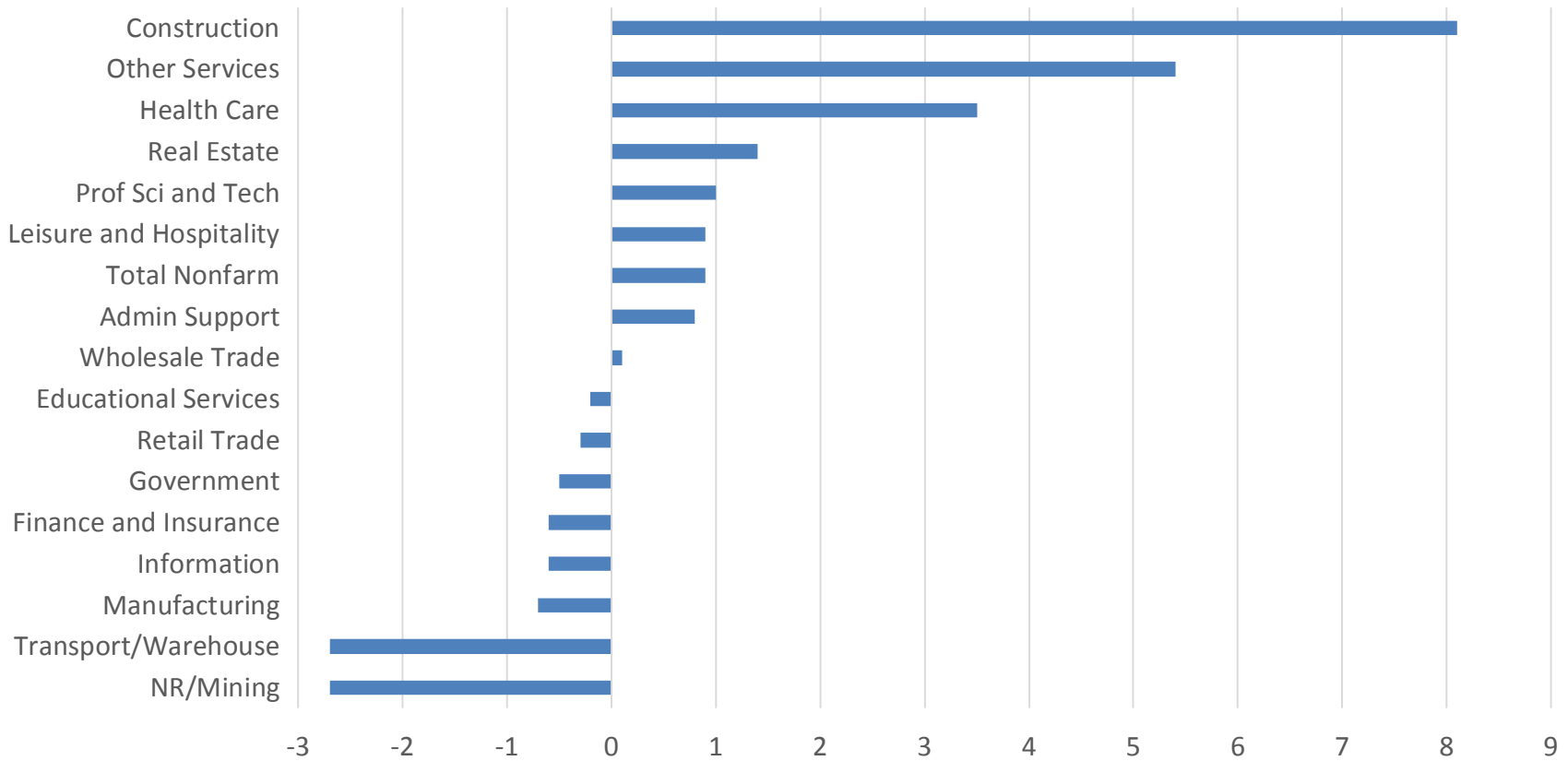
# South Bay Unemployment Rates

## August 2017



# LA County Job Changes by Industry

Year to Year % Chg. (Aug-17)



# Job Changes by Industry in S.B.

Industry	Jobs (000s) in 2016	YTY % Change
Natural Resources	1.5	2.1
Construction	17.4	5.8
Manufacturing	75.7	5.7
Wholesale Trade	26.5	-4.7
Retail Trade	51.9	-0.9
Transportation/Utilities	57.6	5.7
Information	11.5	-3.0
Financial Activities	24.3	1.4
Professional/Business Services	83.1	-6.7
Educational Services	8.6	-1.6
Health Care	65.3	1.7
Leisure and Hospitality	67.0	5.0
Other Services and Unclassified	18.5	-0.7
Government	46.1	3.1
Total	555.0	1.1

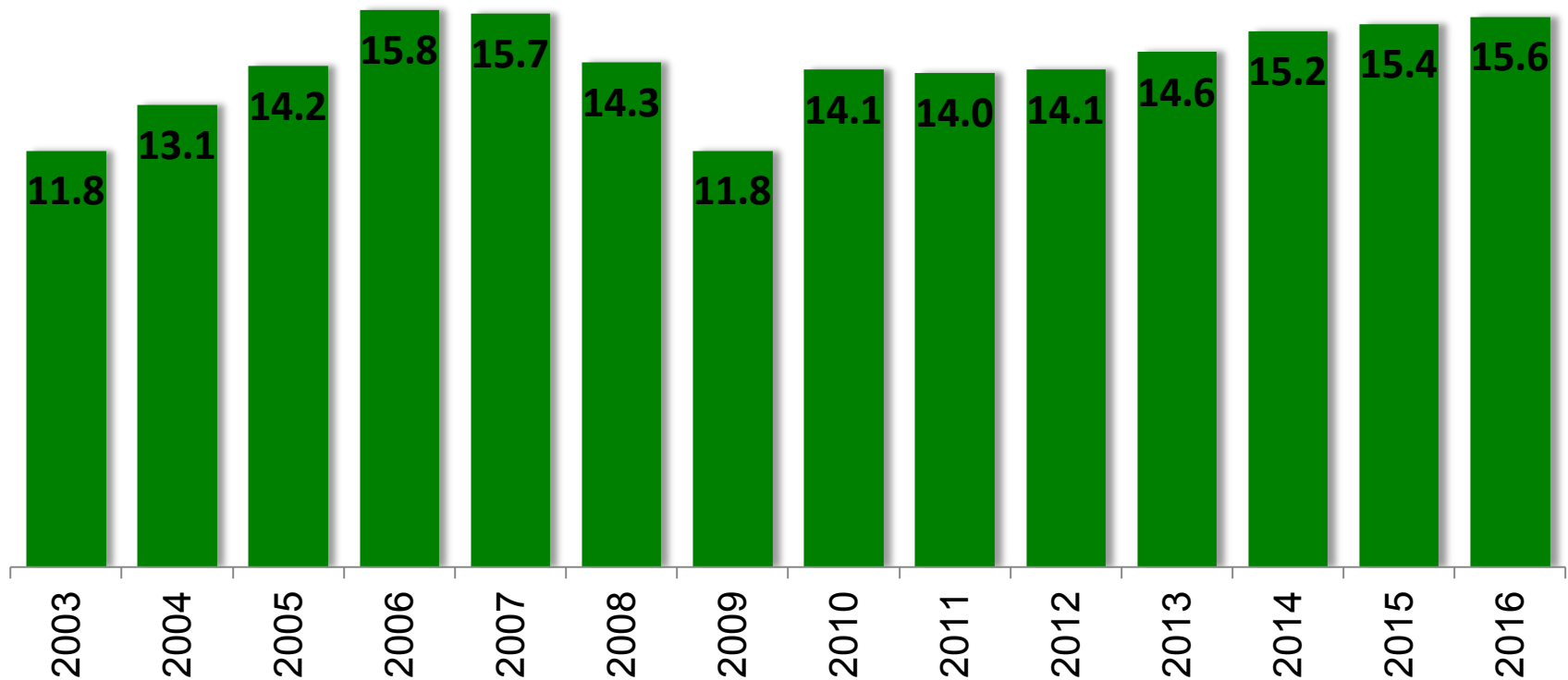
# San Pedro Ports to See Record Year

## Aug '17 YTD %

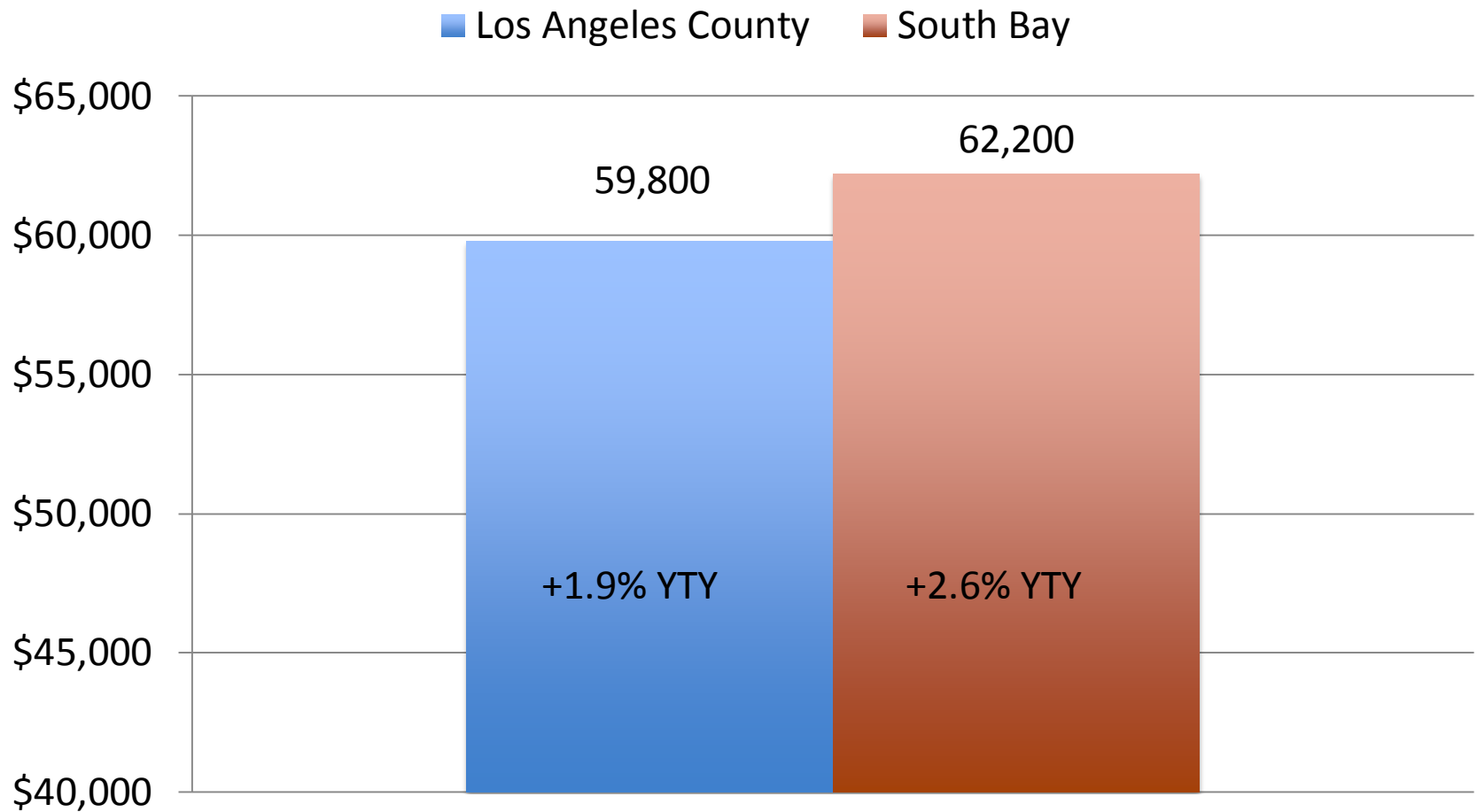
Total: +7.9%

Inbound Loaded: +8.7%

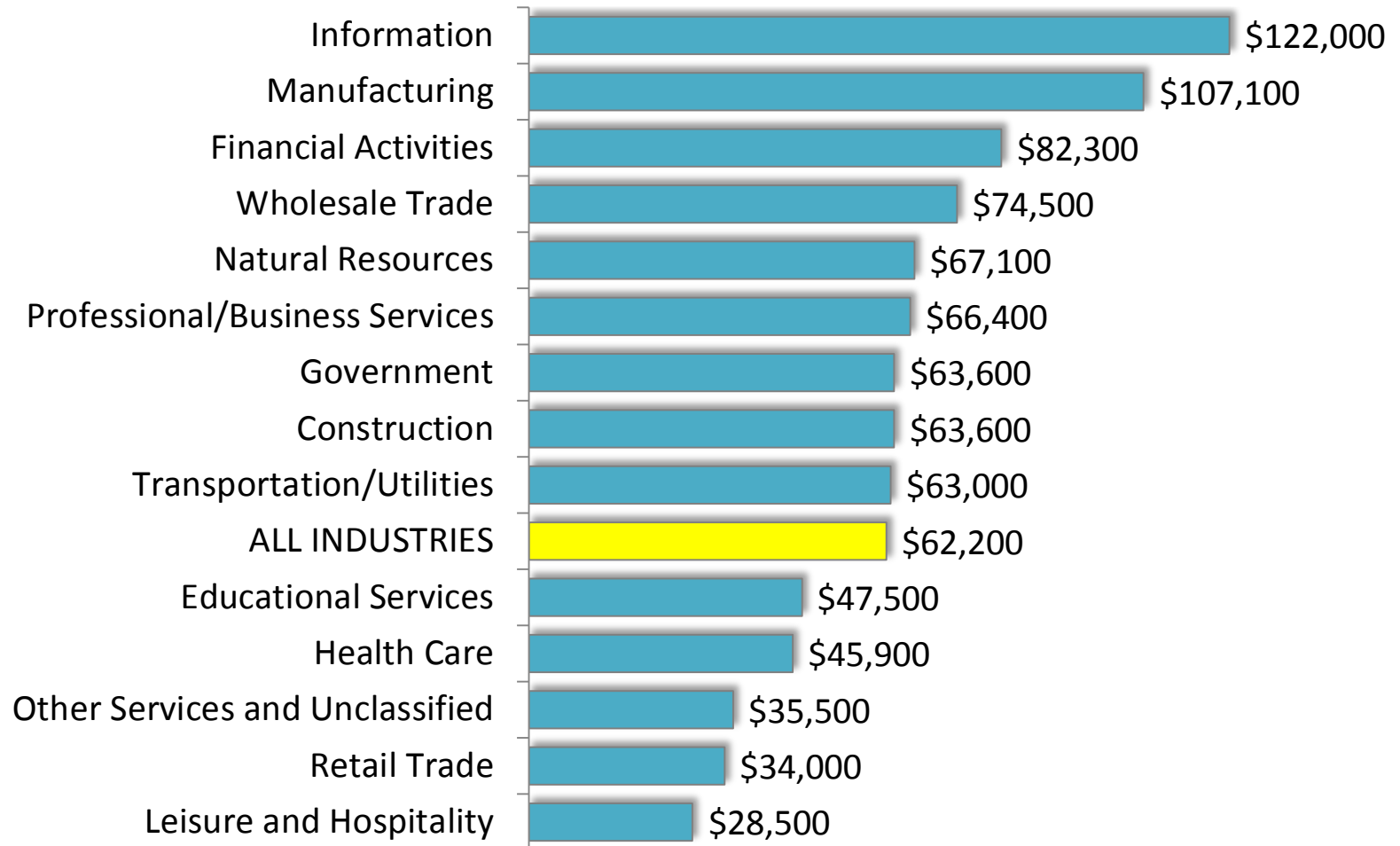
Outbound Loaded: +2.2%



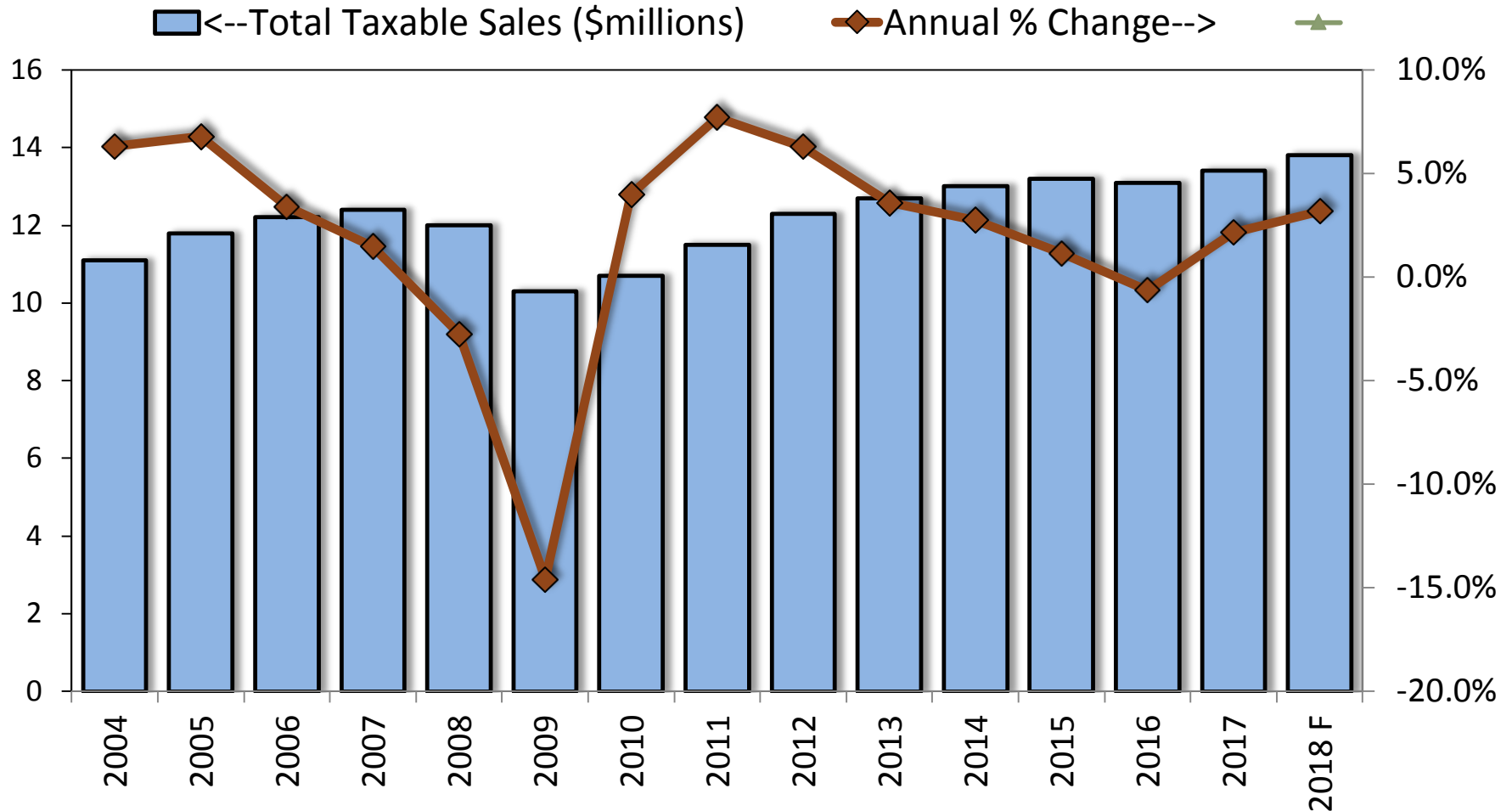
# Average Wage, 2016



# Annual Average Wage by Industry Sector in the South Bay, 2016



# South Bay Total Taxable Sales





# So Cal Residential Outlook

				Price Change		Sales Change	
				MTM	YTY	MTM	YTY
	<b>Aug-16</b>	<b>Jul-17</b>	<b>Aug-17</b>				
<b>Los Angeles</b>	\$524,420	\$573,190	\$575,130	0.3%	9.7%	14.8%	3.4%
<b>Orange</b>	\$749,000	\$785,000	\$789,000	0.5%	5.3%	6.1%	0.5%
<b>Riverside</b>	\$355,000	\$385,500	\$388,500	0.8%	9.4%	6.3%	3.3%
<b>San Bernardino</b>	\$240,500	\$266,250	\$269,950	1.4%	12.2%	18.0%	16.1%
<b>San Diego</b>	\$563,000	\$613,000	\$605,000	-1.3%	7.5%	11.0%	4.9%
<b>Ventura</b>	\$609,000	\$648,500	\$640,000	-1.3%	5.1%	11.4%	-0.2%

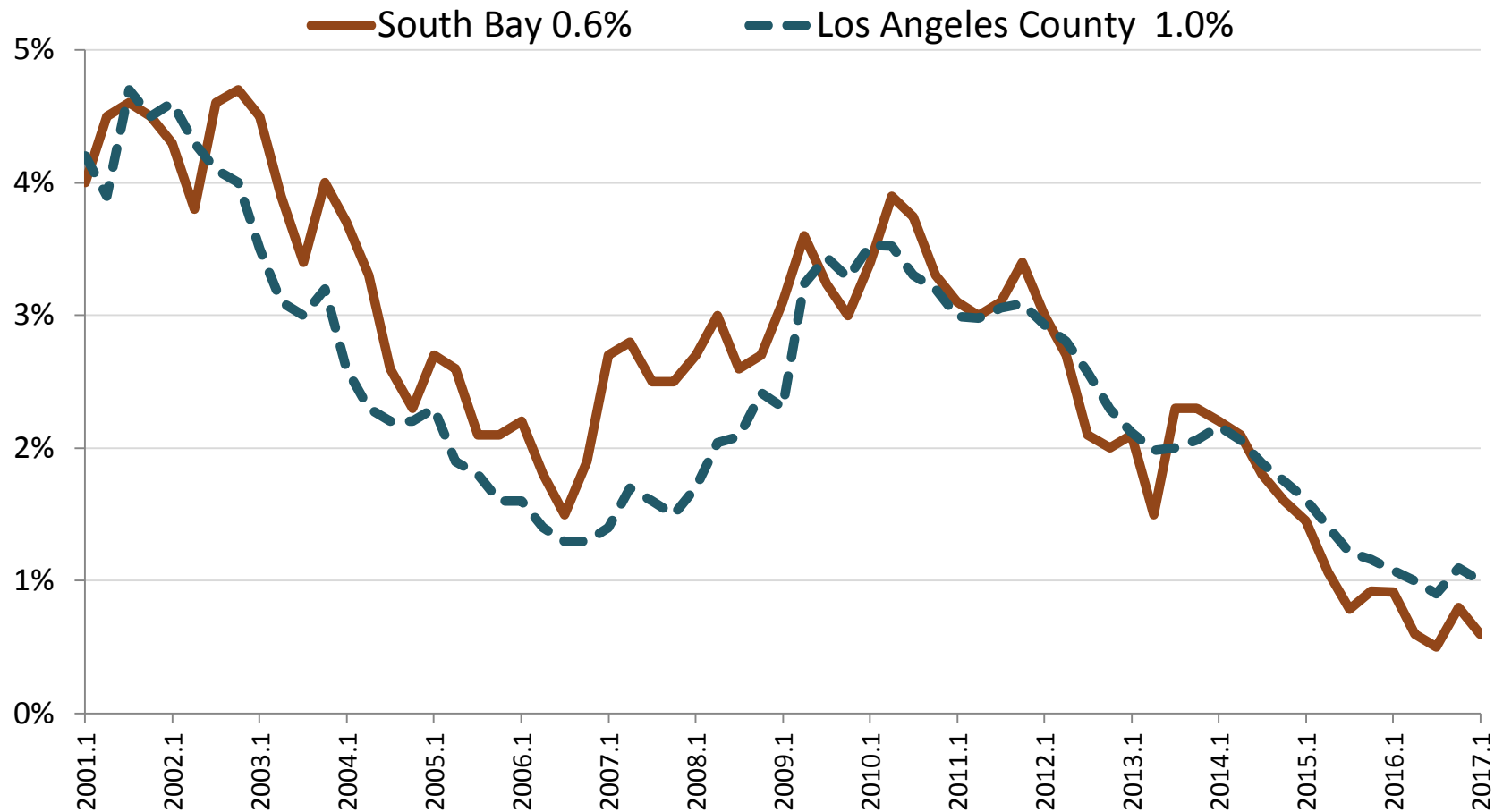
- Lean inventories
- Demand Drivers: job/income growth, low rates, demographics
- Supply Drivers: rising prices, low rates
- Constraints: time, development costs

# Housing in CA: Not Normal

- **Signs of stress:**
  - Homeownership rate at lowest in decades
  - Escalating rents
  - Insufficient building despite growing demand
- **How to Address Chronic Housing Problems**
  - Less about making housing affordable to households
  - Really about supply:
    - Construction
    - Aligning construction with actual needs

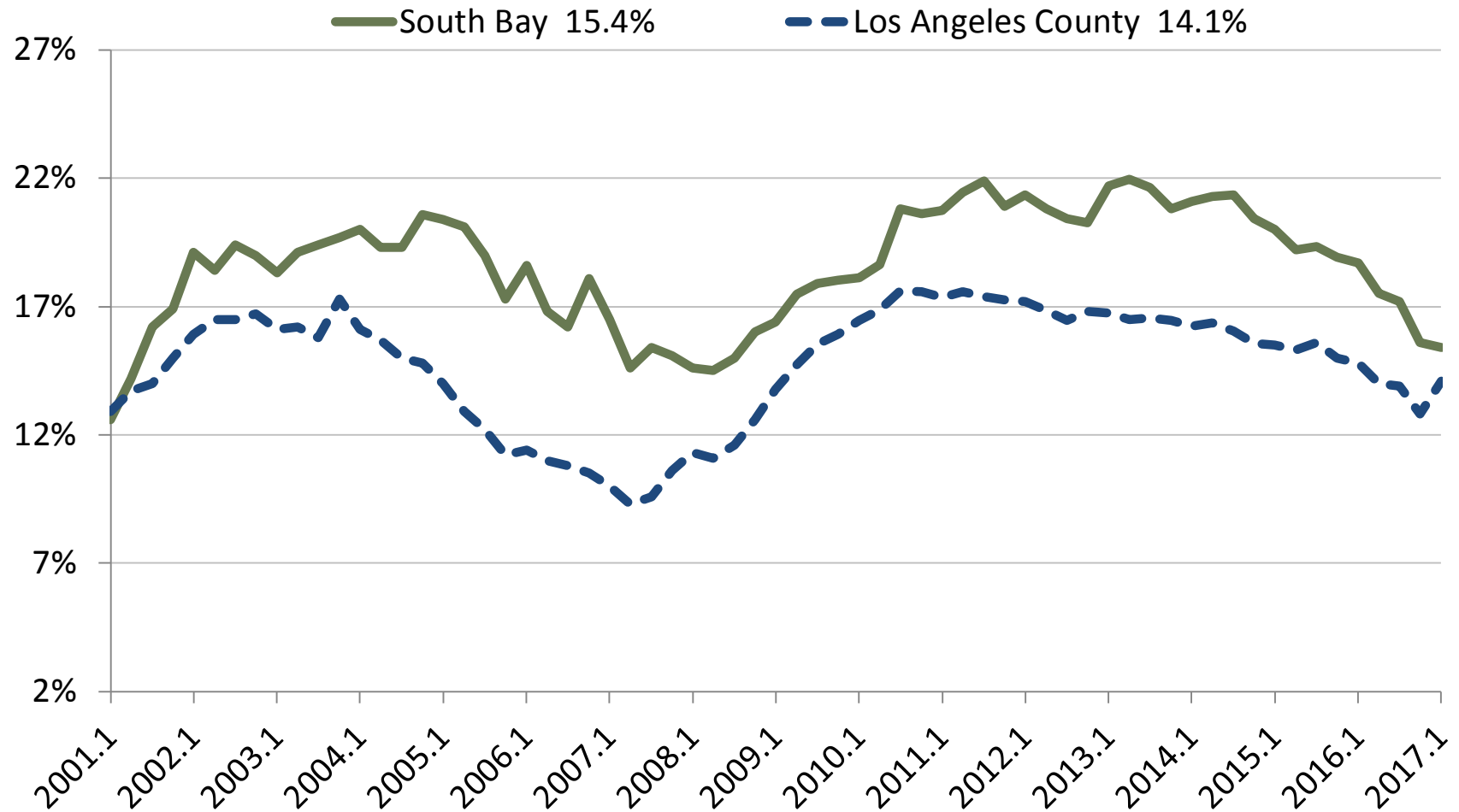
# Industrial Vacancy Rates

% Vacancy, quarterly averages



# Office Vacancy Rates

% Vacancy, quarterly averages



# Conclusion

# South Bay Outlook

- Population: slight uptick
- Wage & Salary Jobs: up 1.2 to 1.5%
- Total Payroll: up 2.5 to 3.9%
- Taxable Sales: up 2 to 3%%
- Housing: mixed, affordability concerns

# Sources of Job & Economic Growth

## LOCAL SERVING – *largest number of jobs*

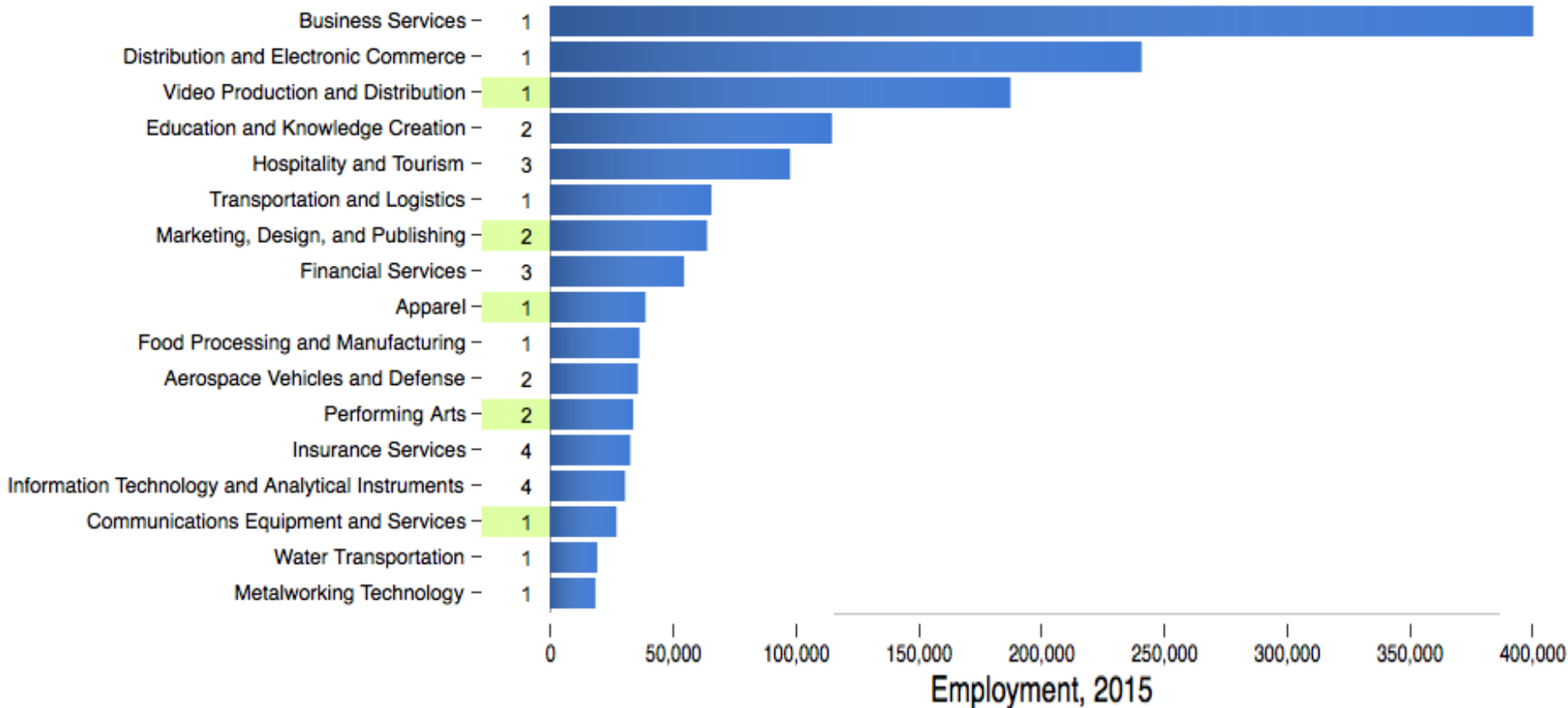
- Health Services
- Retail Trade
- Leisure & Hospitality-Food & Beverage
- Government, Including Education

## EXPORT-ORIENTED – *sources of new growth*

- Goods Movement: Trans/Warehouse, Whsl Trade
- Manufacturing: IT, Aerospace, Bio, Metals Mfg
- Prof, Scientific & Tech/Info Tech; Biosciences
- Education and Knowledge Creation
- Tourism & Entertainment-Hotels, Arts, Recreation
- Agriculture

# SB: Home to Regional Growth Sectors

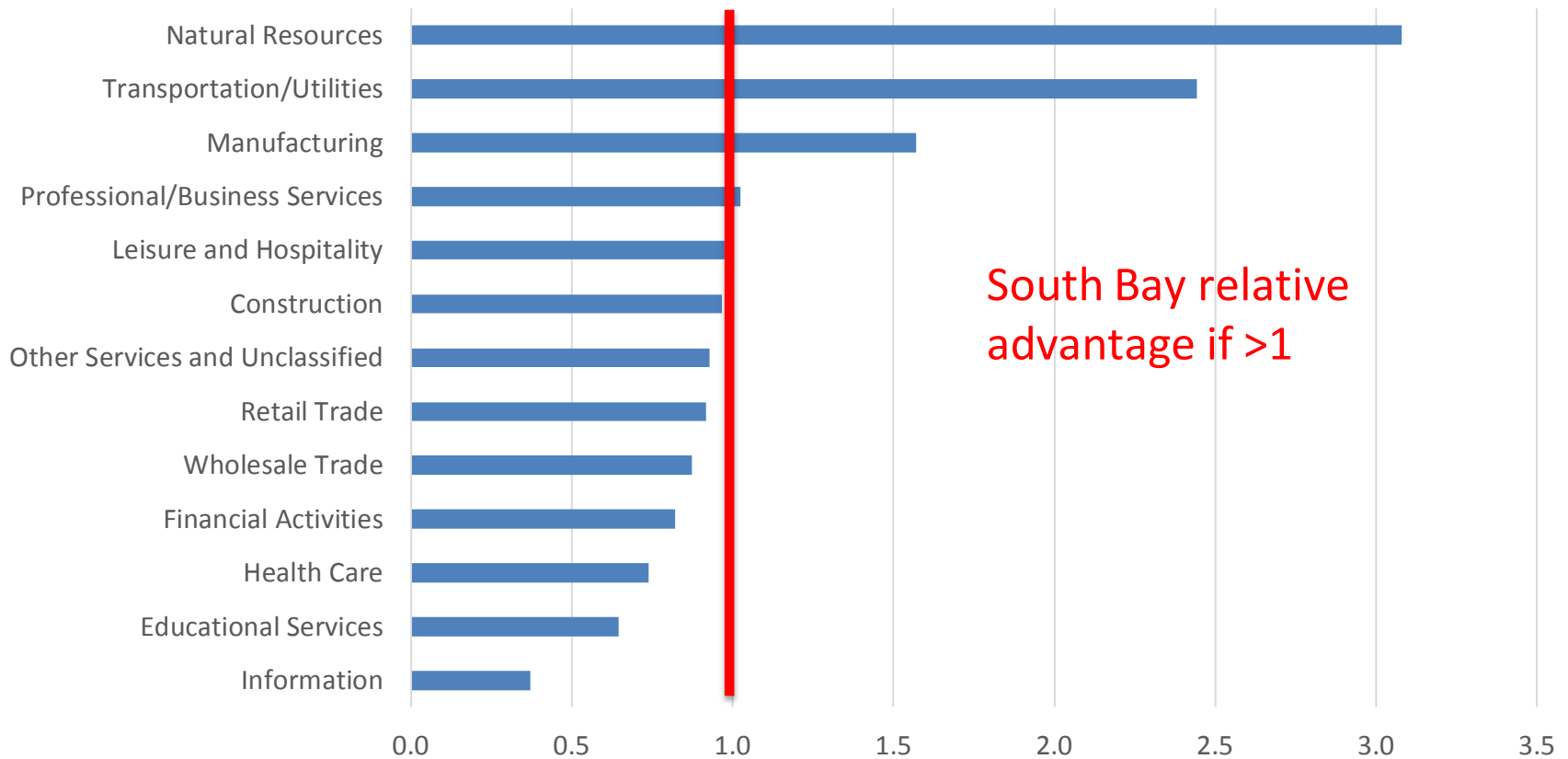
## Traded Industry Clusters-Los Angeles County: US Rank and Employment





# Looking Ahead for South Bay

Relative Concentration by Industry (LQ=South Bay/LA County)



# Thank You!



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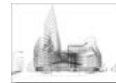
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