



**LONG BEACH**  
STATE UNIVERSITY

Regional Economic Forum  
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# The US and California Economic Outlook

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# Outline

- U.S. Economy
- State & Region
- Conclusion/Looking Ahead

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# U.S. Economy



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# Vital Signs of the US Economy



- GDP Growth Rate
- Labor Market Conditions
- Inflation Rate

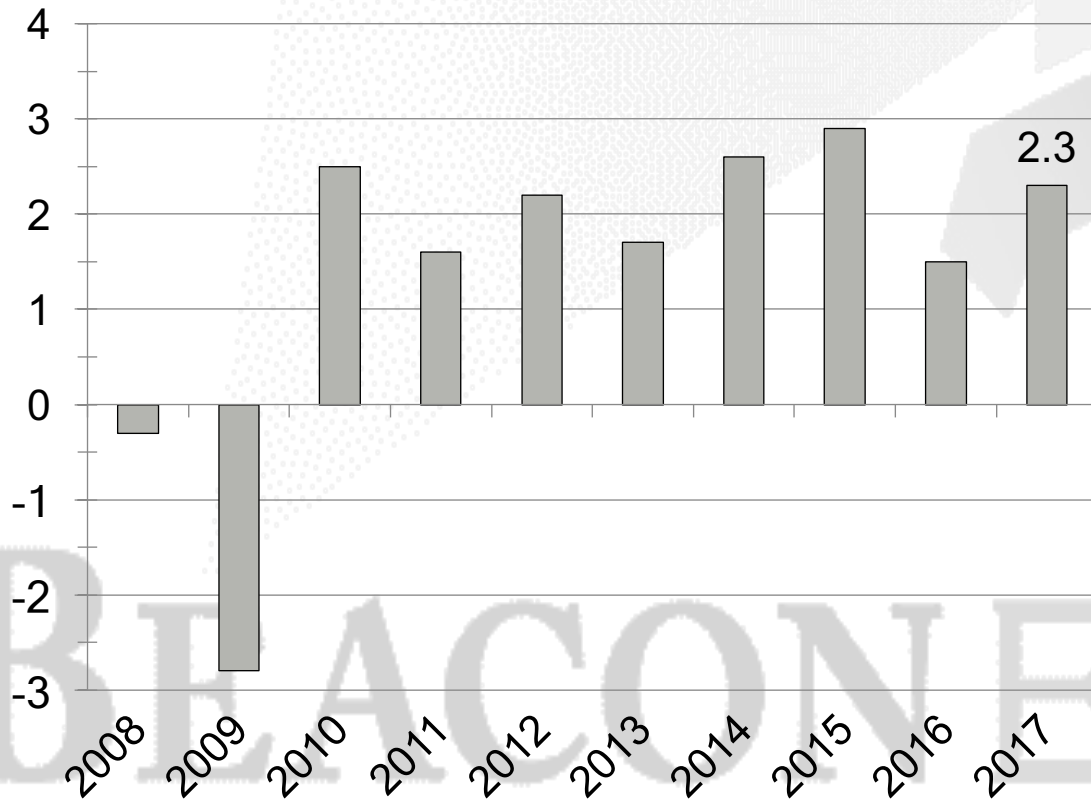
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# GDP

2017: 2.3% --- 2018: 2.5 to 2.8%



**Gross Domestic Product  
YTY % Change**



**Contributions to Change in GDP**

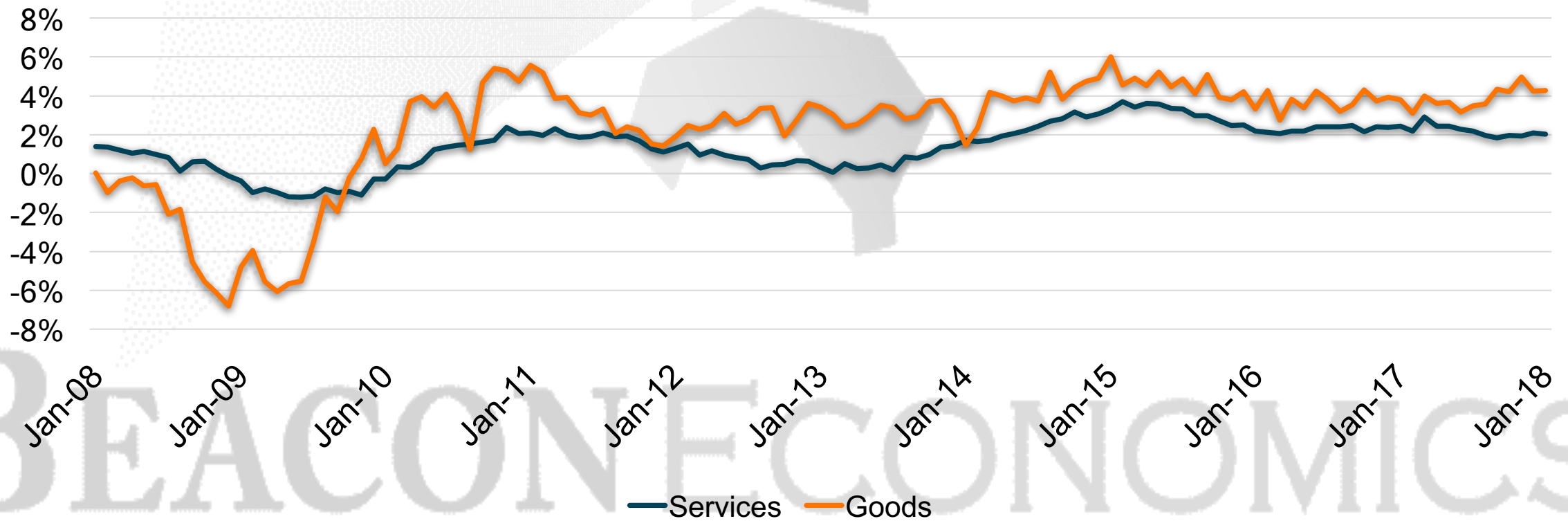
Sector	2015	2016	2017
Consumer	2.5	1.9	1.9
Investment	0.9	-0.3	0.5
Net exports	-0.7	-0.2	-0.2
Government	0.2	0.1	0.0
<b>Total GDP % Chg.</b>	<b>2.9</b>	<b>1.5</b>	<b>2.3*</b>

\* Does not add up due to rounding

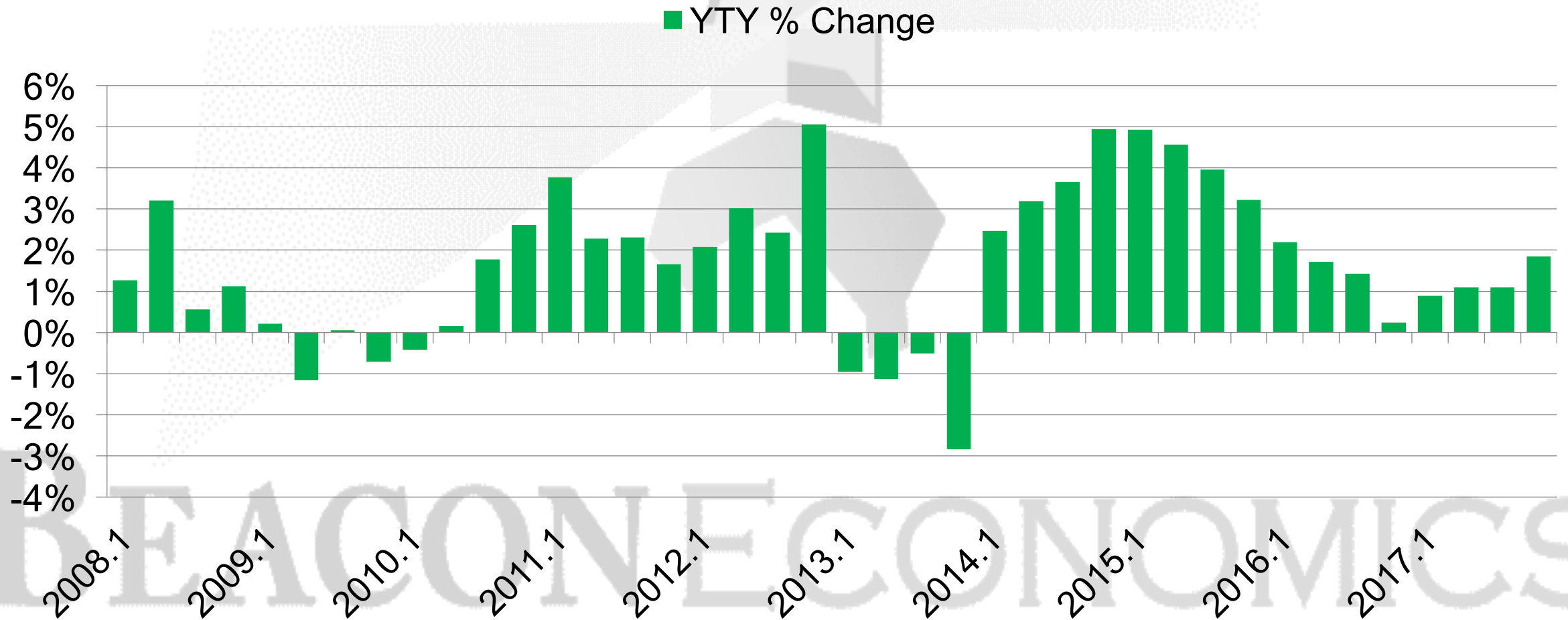
# Consumer Spending: Flywheel of Economy



Real Consumer Spending by Type  
(Y-o-Y Growth to January 2018)



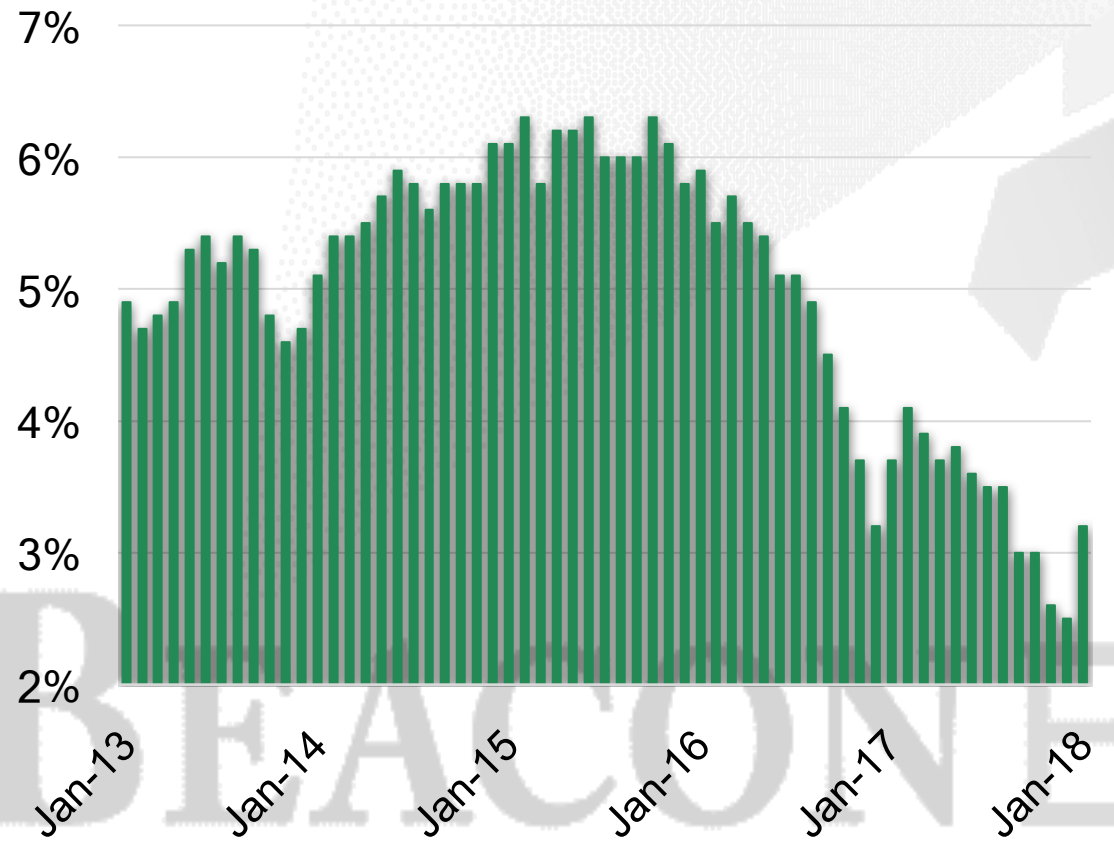
# Real Disposable Personal Income Growth



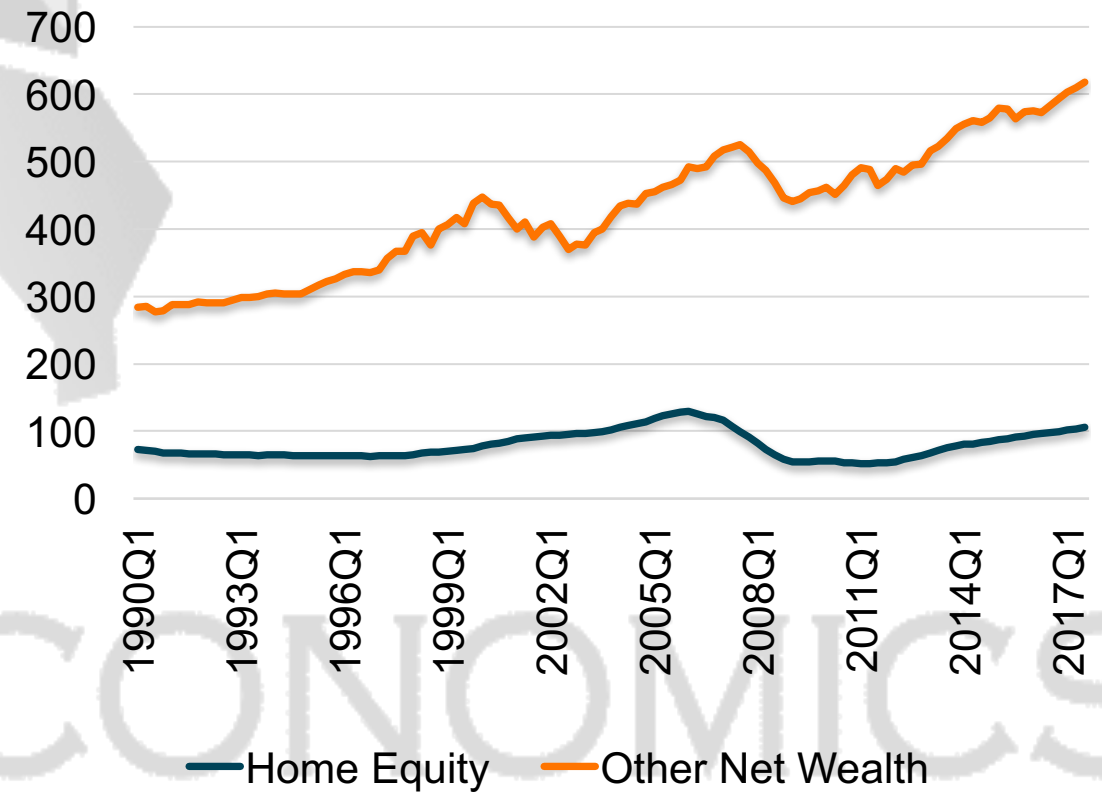
# ...Lower Saving Rate, Growing Wealth...



### Consumer Savings Rate



### Real Average Wealth per Household (FOF, Thous.)

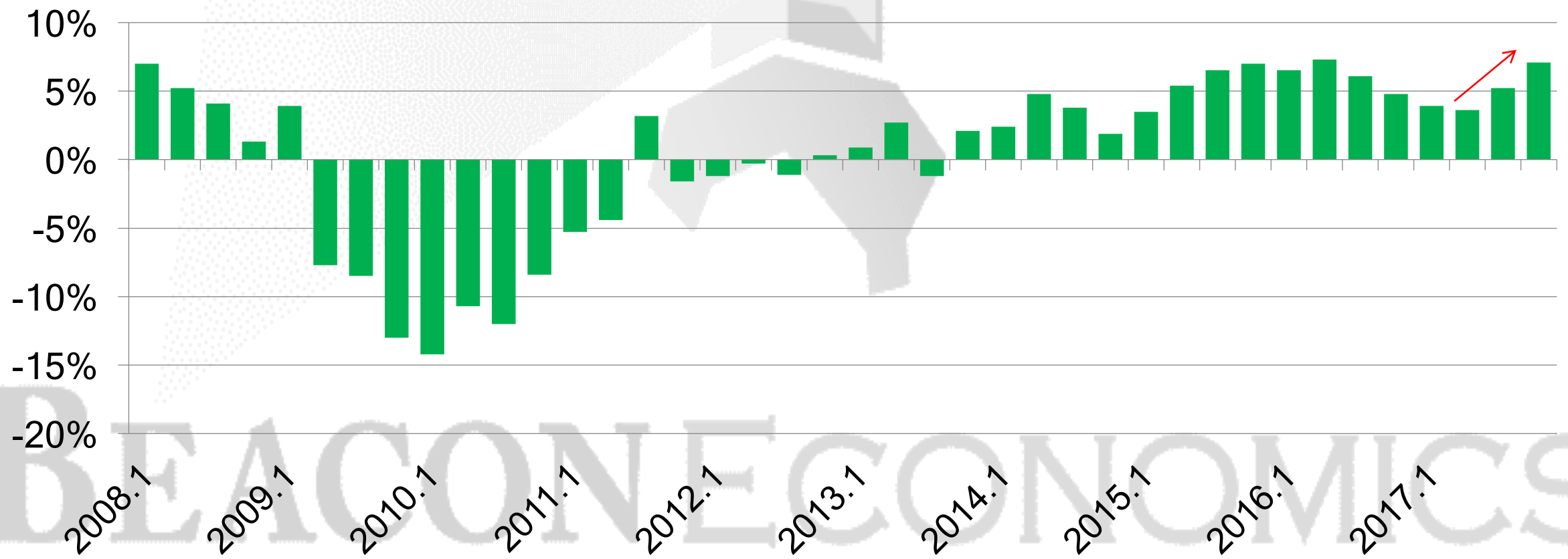




# Credit Card Use Accelerating, but...



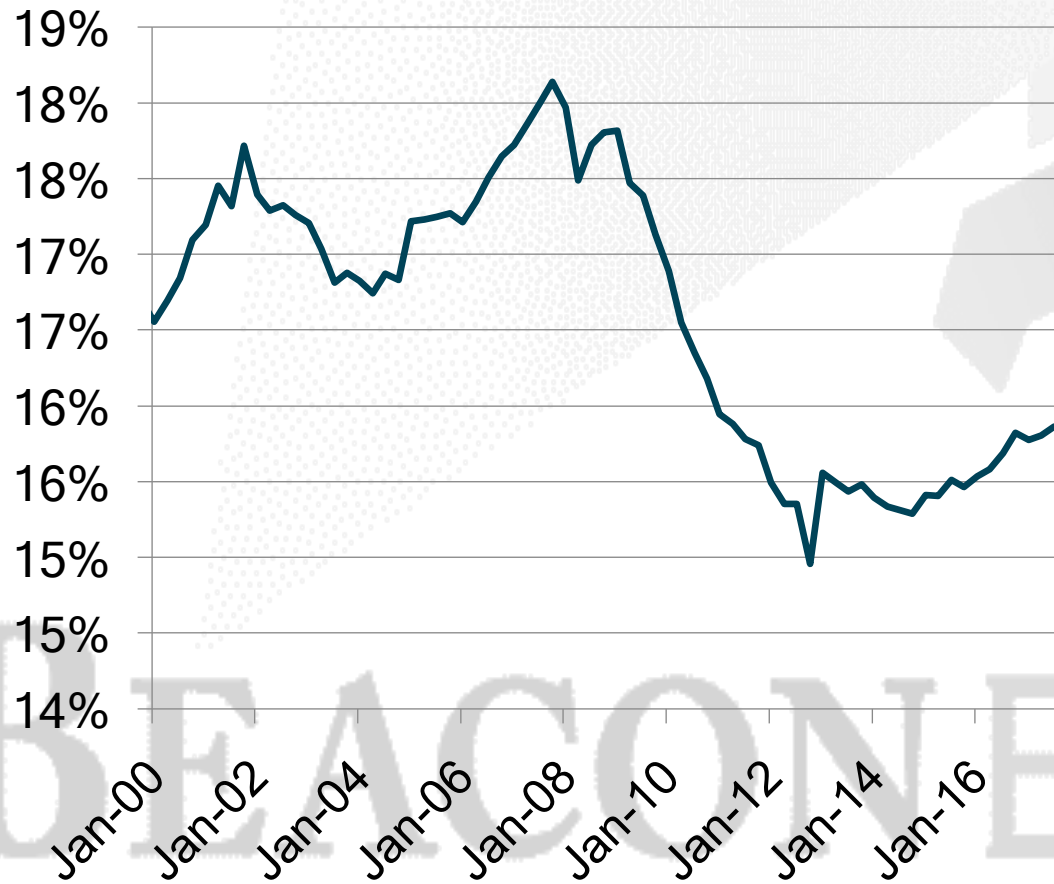
■ YTY % Change Outstanding Credit Card Balances



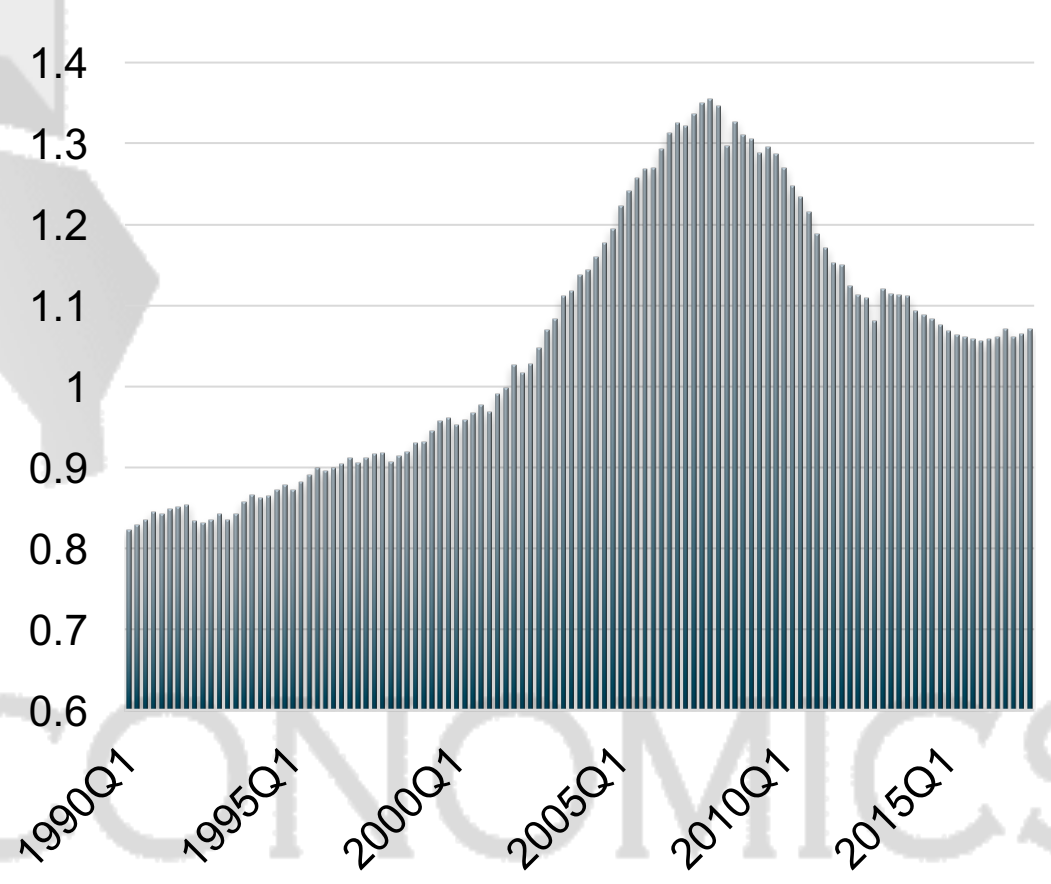
# No Debt Overhang



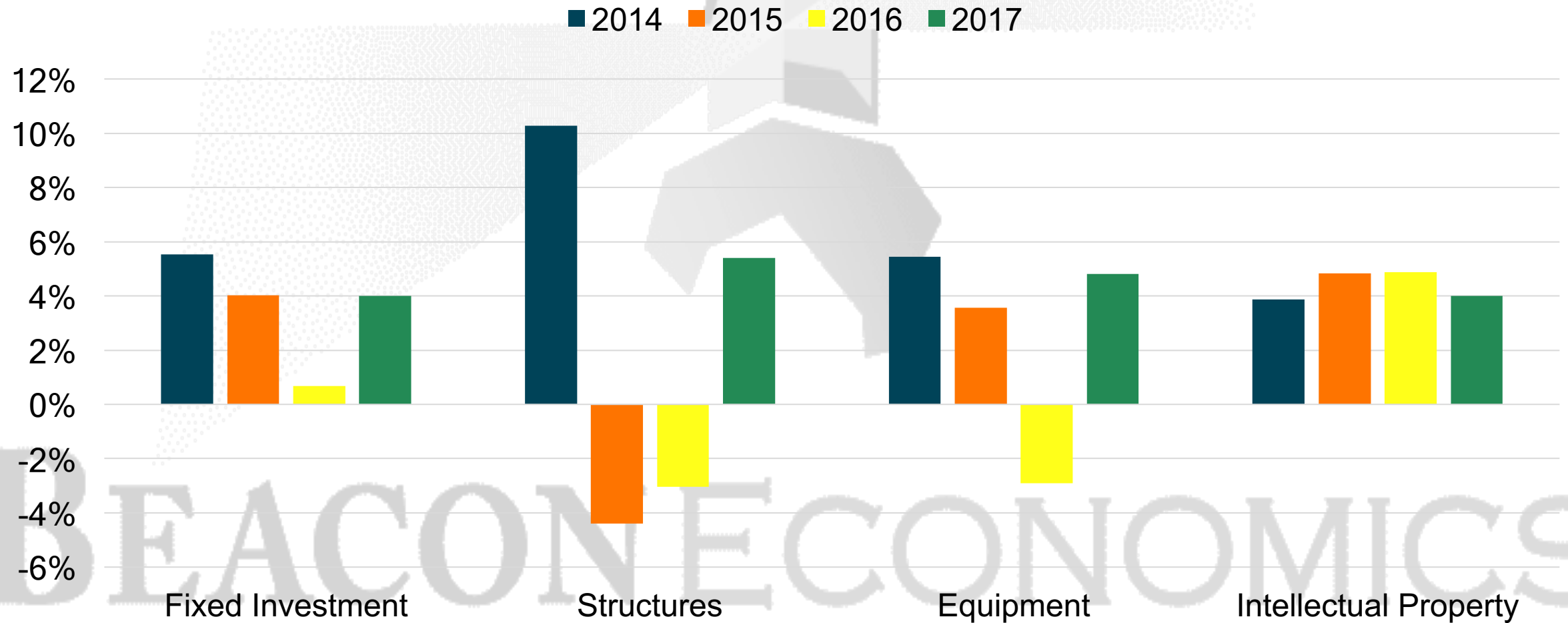
### Household Financial Obligation Ratio



### Household Debt to Income Ratio



# Business Spending Up

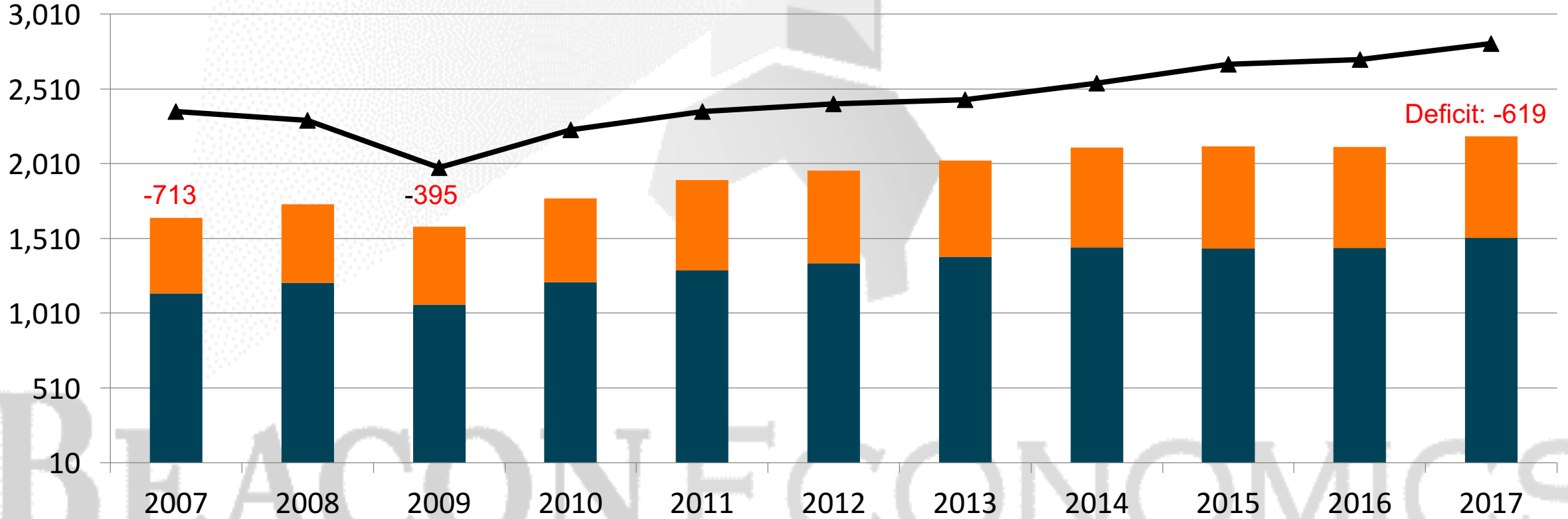


# International Trade Deficit: Pros/Cons



\$ Millions  
(Yr.=2009)

■ Ex-Goods ■ Ex-Svcs ▲ Im-All



-713

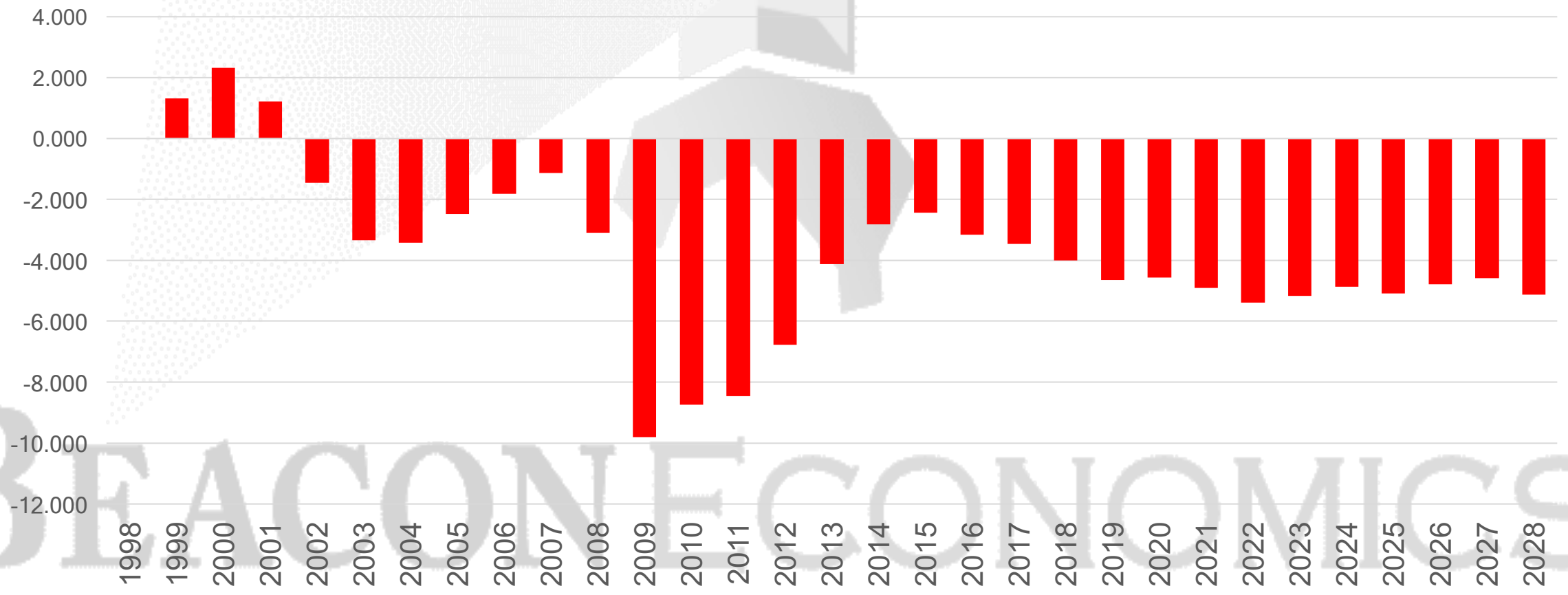
-395

Deficit: -619

# Tax Cuts and Spending Increases Mean...



■ Deficit (-) or Surplus (+) as % of GDP



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# Macro-Economy Summary



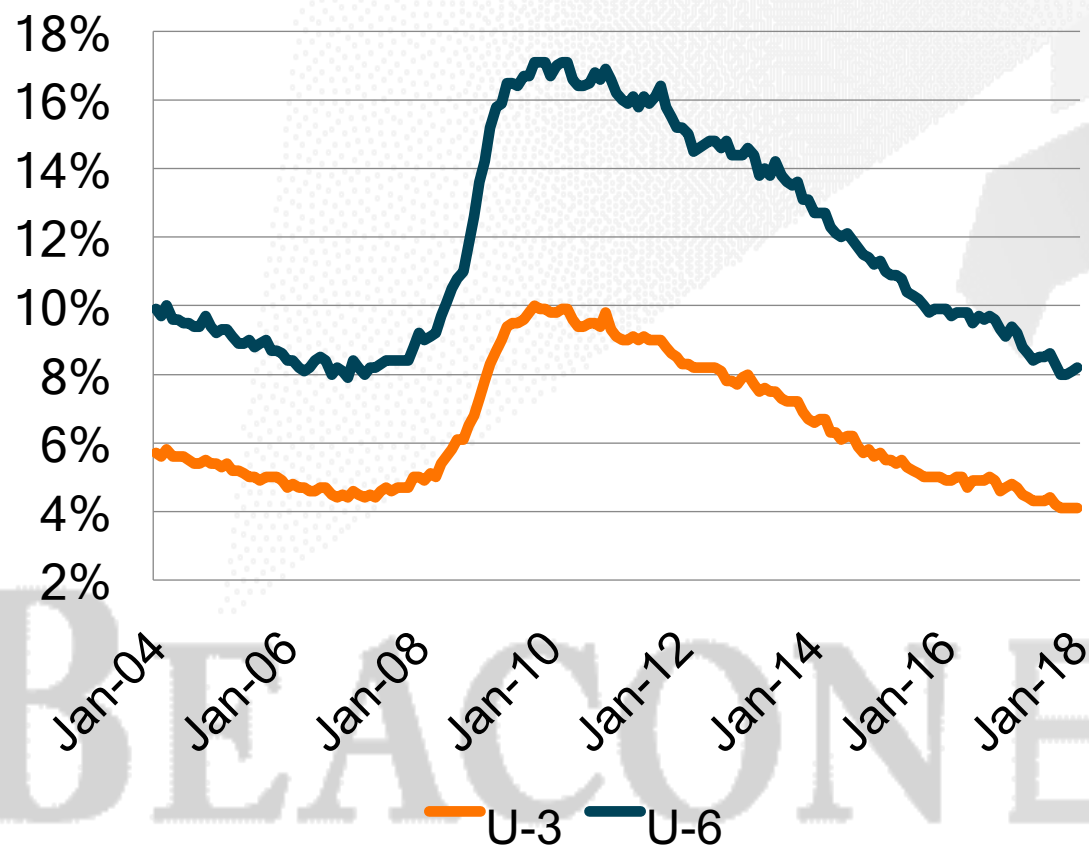
Sector	Outlook
<b>CONSUMERS</b>	Steady solid growth
<b>BUS. INVESTMENT</b>	Acceleration, energy drag over
<b>GOVERNMENT</b>	Flat/Up Slightly
<b>NET TRADE</b>	Imports & Exports up, Imports larger... NET Negative
<b>OVERALL</b>	Domestic Spending Up

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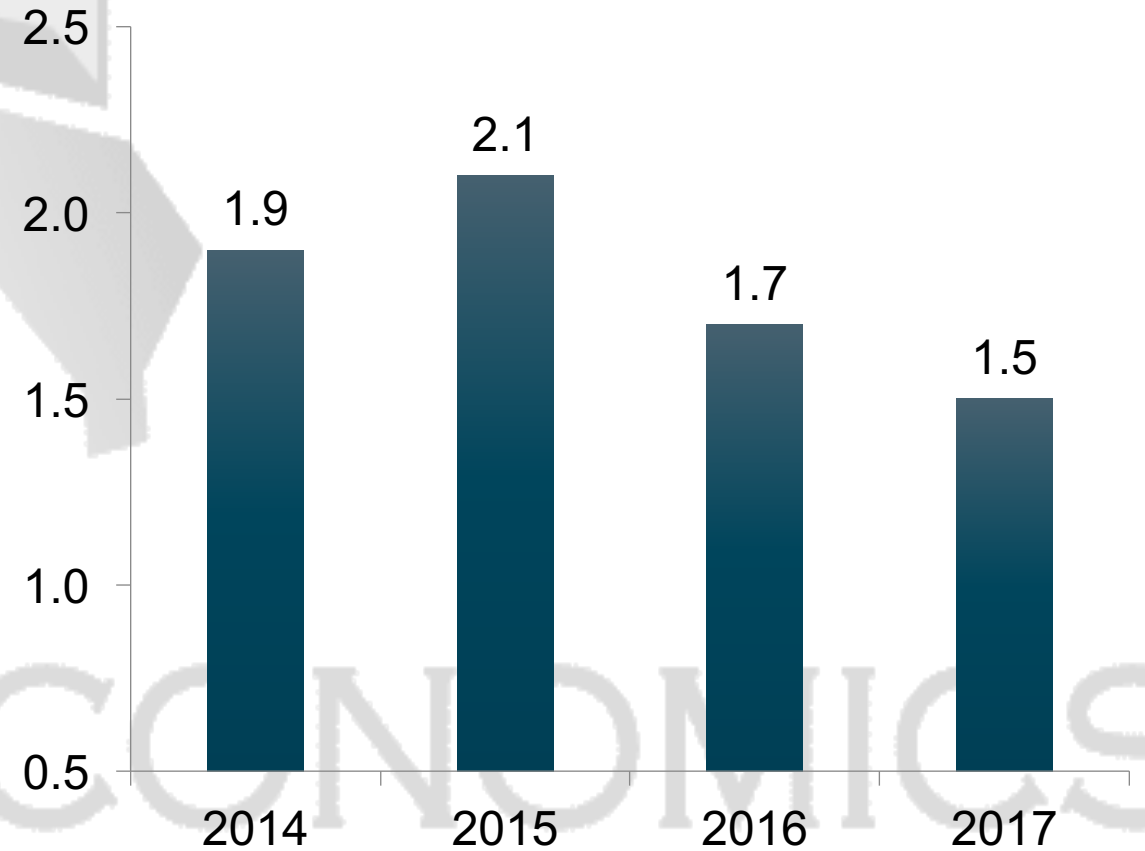
# Full Employment, Slower Job Growth



## Unemployment Rate



## Yr-To-Yr % Change in Jobs



# Plenty of Job Openings, Not Enough Workers



**JOLT Job Openings Rate in %**



**Sector**

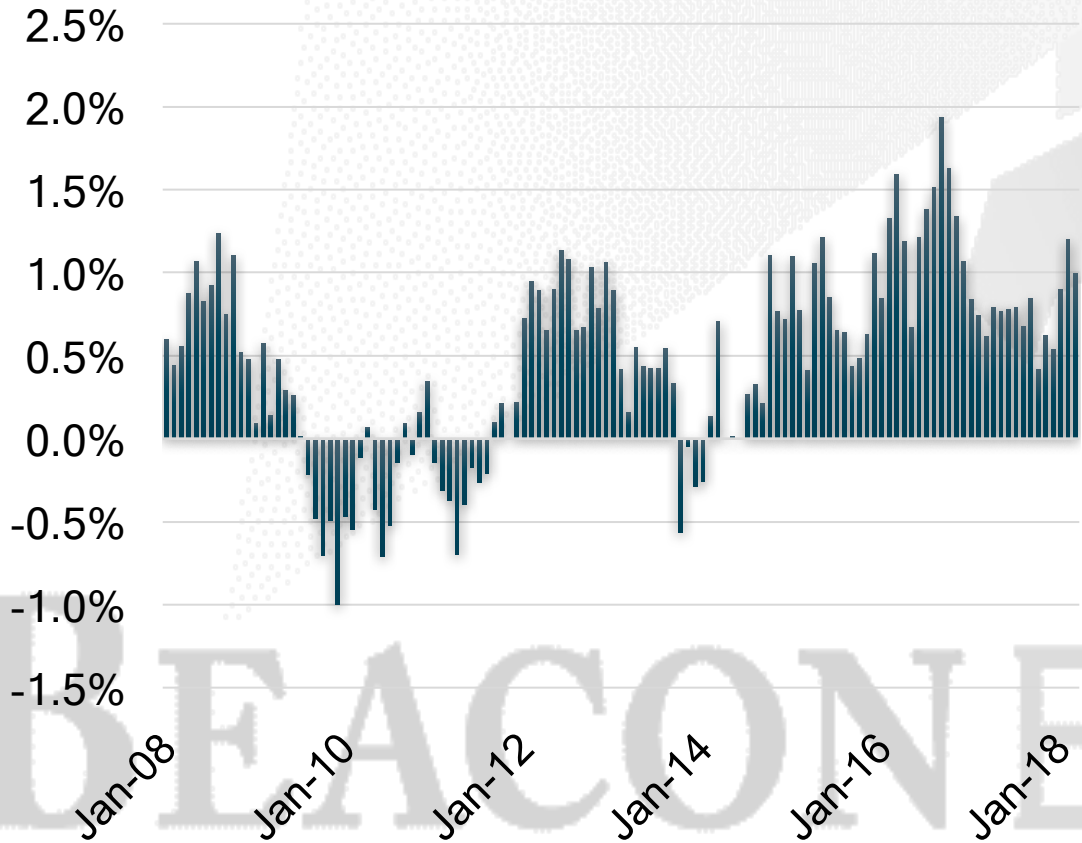
Sector	Level (000s)		Rates	
	Feb-17	Feb-18	Feb-17	Feb-18
Total	5,618	6,052	3.7	3.9
Total private	5,118	5,476	4	4.2
Education & Health	1,228	1,173	5.1	4.8
Trade, Transportation & Util.	929	1,148	3.3	4
Professional & Business	917	985	4.3	4.5
Leisure and hospitality	807	792	4.8	4.6
Government	500	575	2.2	2.5
Manufacturing	352	426	2.8	3.3
Financial activities	362	399	4.1	4.5
Other services	259	222	4.3	3.7
Construction	169	196	2.4	2.7
Information	79	114	2.7	4
Mining and logging	16	22	2.4	3



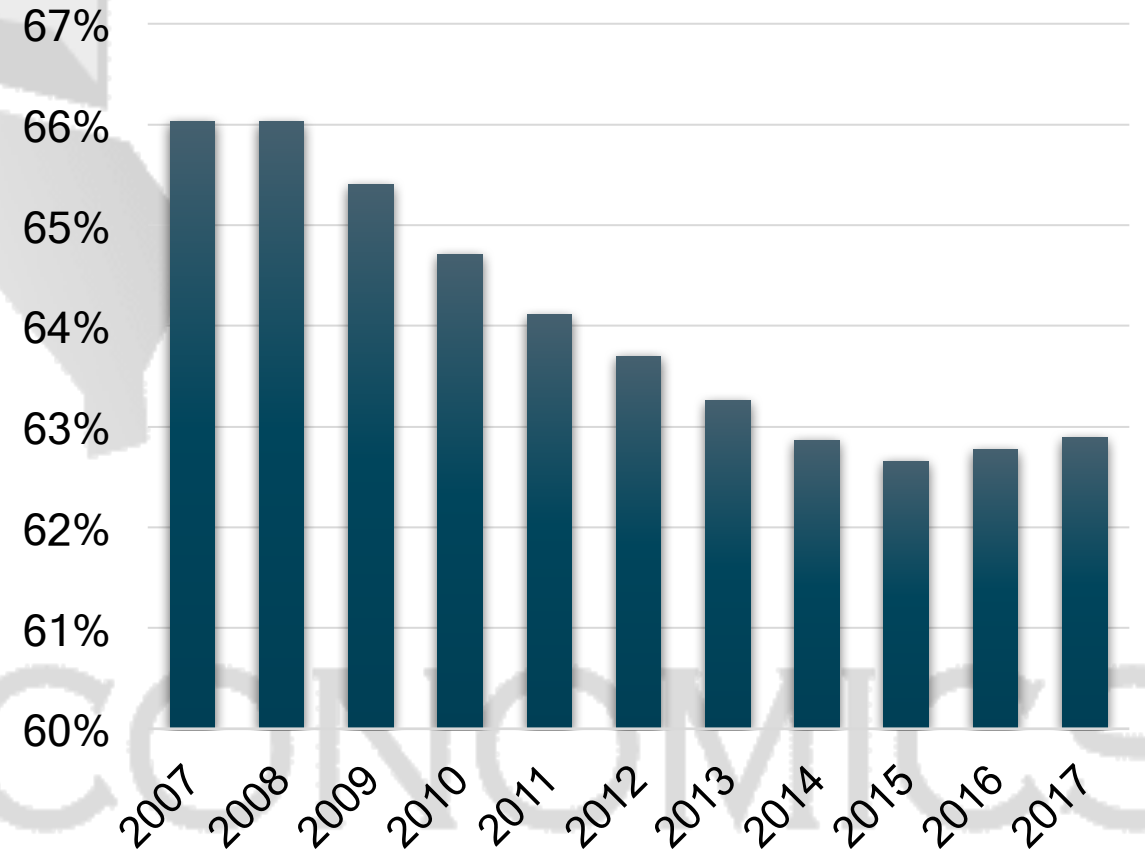
# Labor Force Growth Constrains Potential GDP Growth



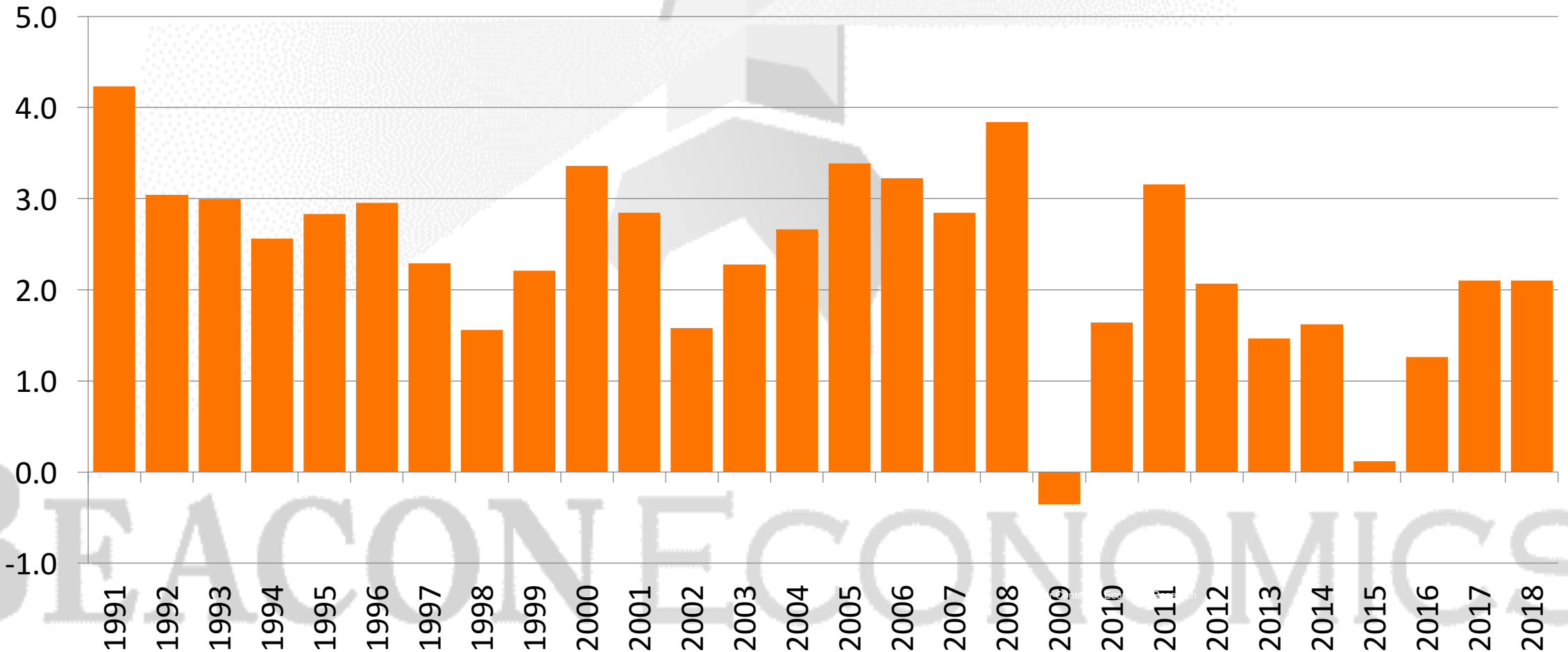
### Labor Force Growth



### LF Participation Rate



# Inflation Historically Low But Rising





# Economic Policy

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# Fiscal Policy & Other Economic Issues



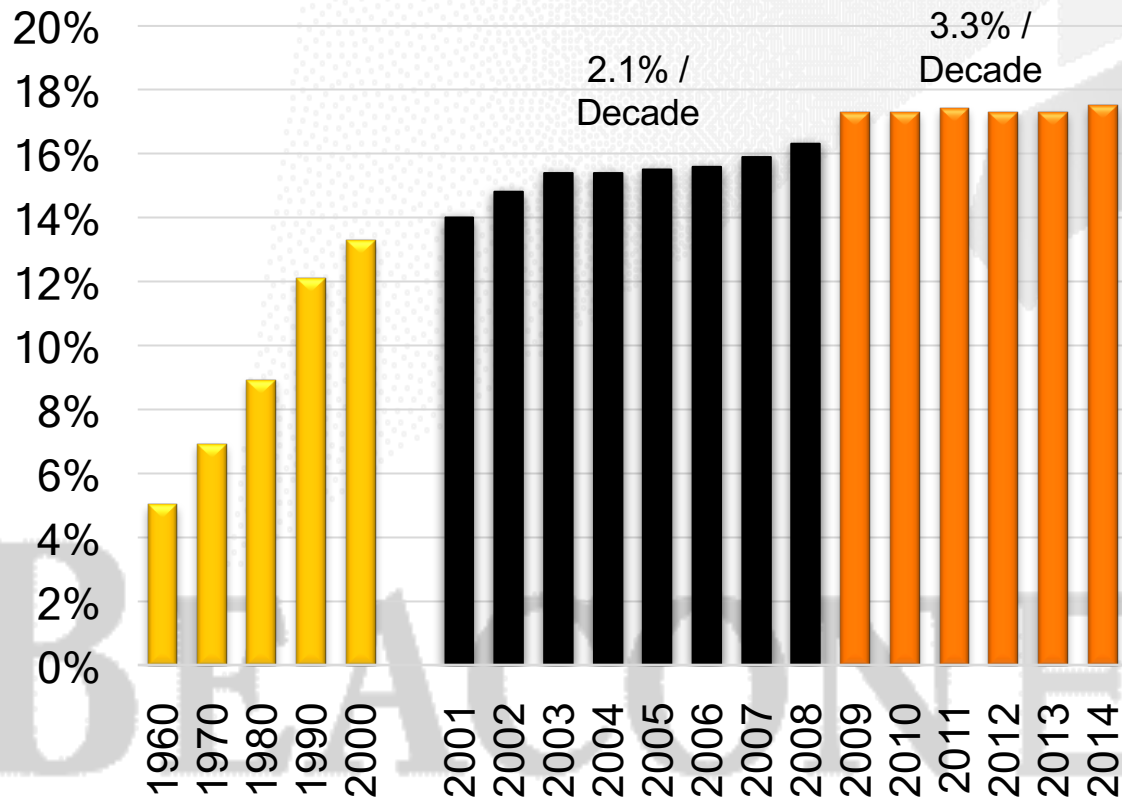
- Tax Cuts/Budget Package: juicing the economy
- Immigration: reforms enable economic growth
- International Trade: consumers or producers?
- Infrastructure: \$4.5 trillion needed
- Health Care: spending reform, not insurance reform

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# Need Changes to US Health Care



**National Health Spending  
As a Share of GDP**



**Per Capita Healthcare Spending  
2015, PPP Adjusted**

<b>USA</b>	<b>\$9,402</b>	France	\$5,428
Norway	\$7,832	Canada	\$5,421
Switzerland	\$7,300	Belgium	\$5,340
Sweden	\$6,285	Australia	\$4,873
Netherlands	\$6,209	Finland	\$4,467
Germany	\$6,204	Japan	\$4,255
Austria	\$6,143	UK	\$3,717

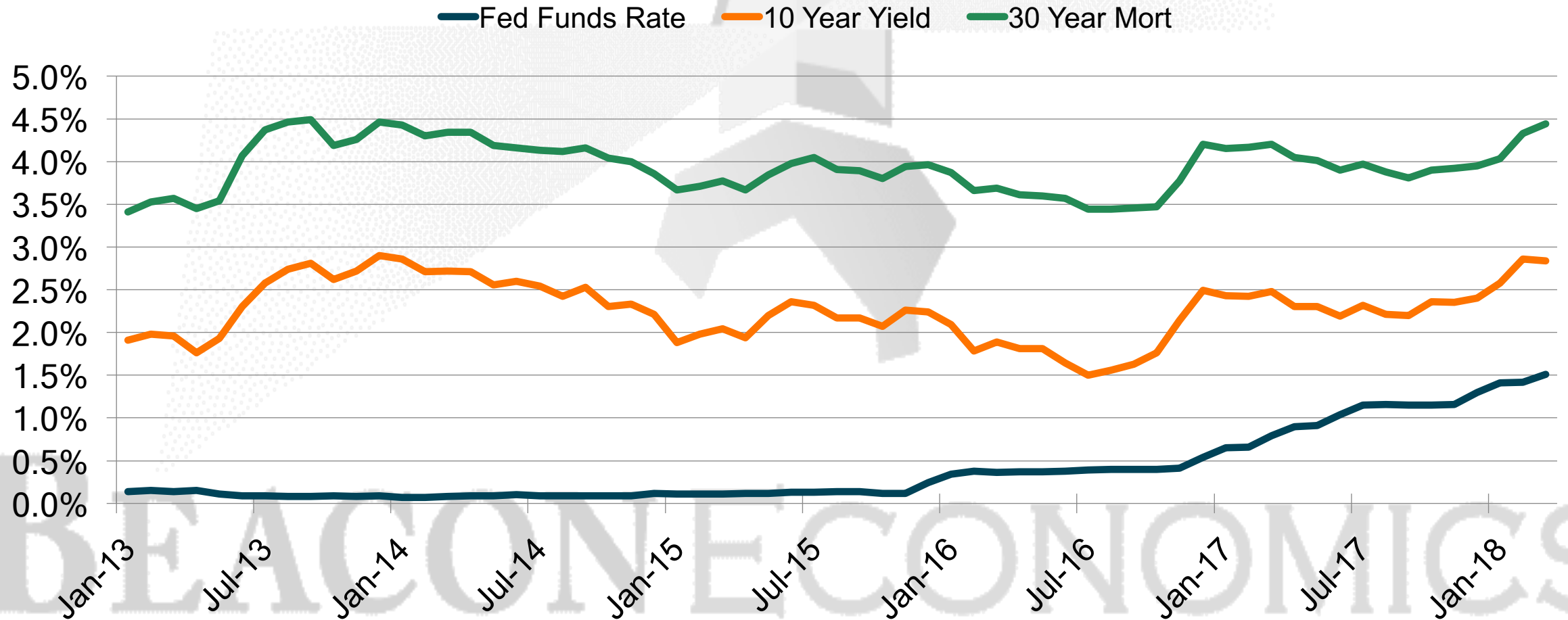
# Monetary Policy



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

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# Financial Markets

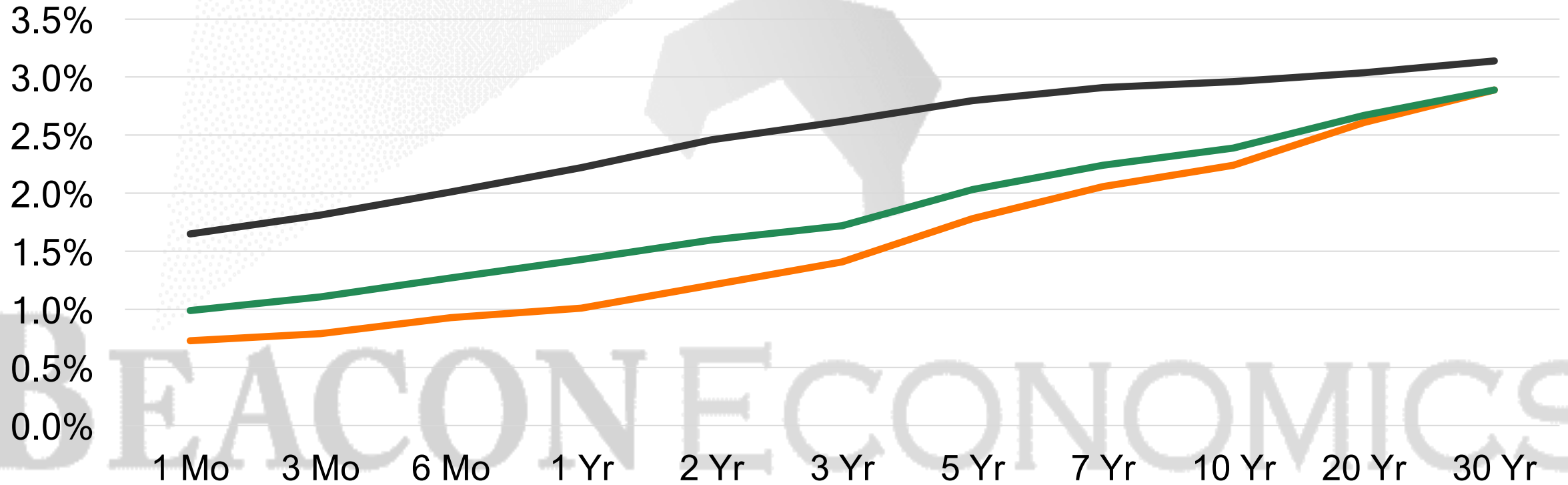


# Yield Curve



## US Treasury Securities

4/20/17 10/20/17 4/20/18







# State Economy

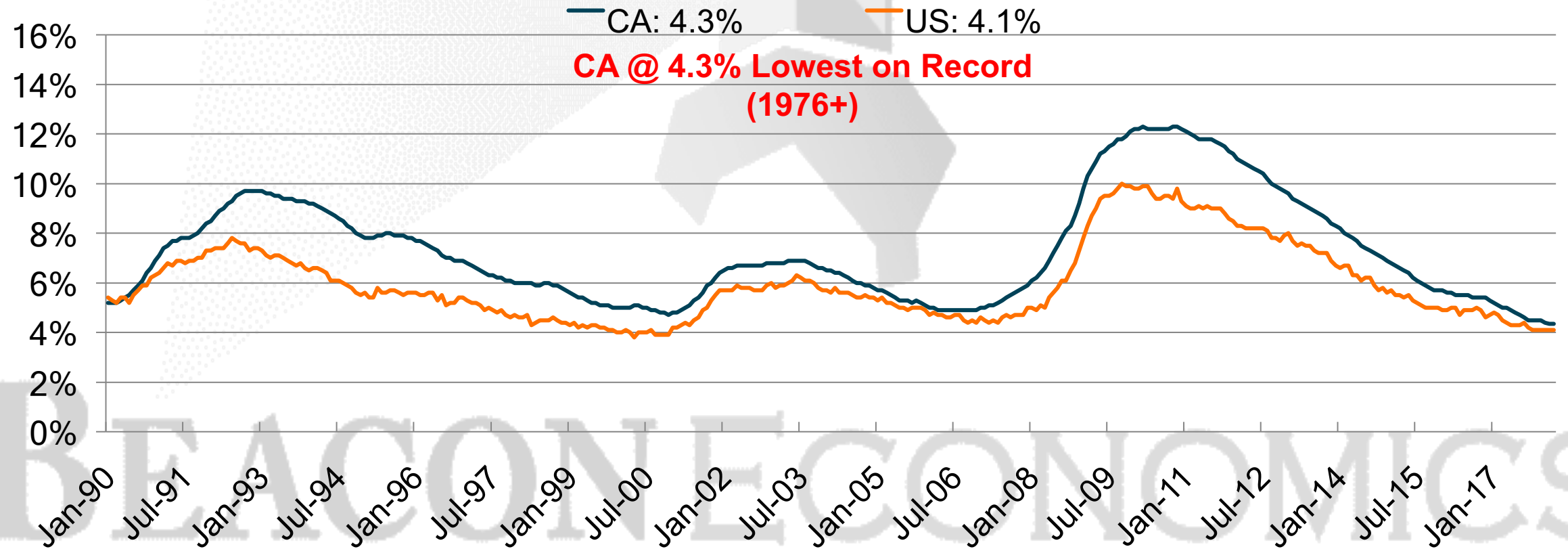


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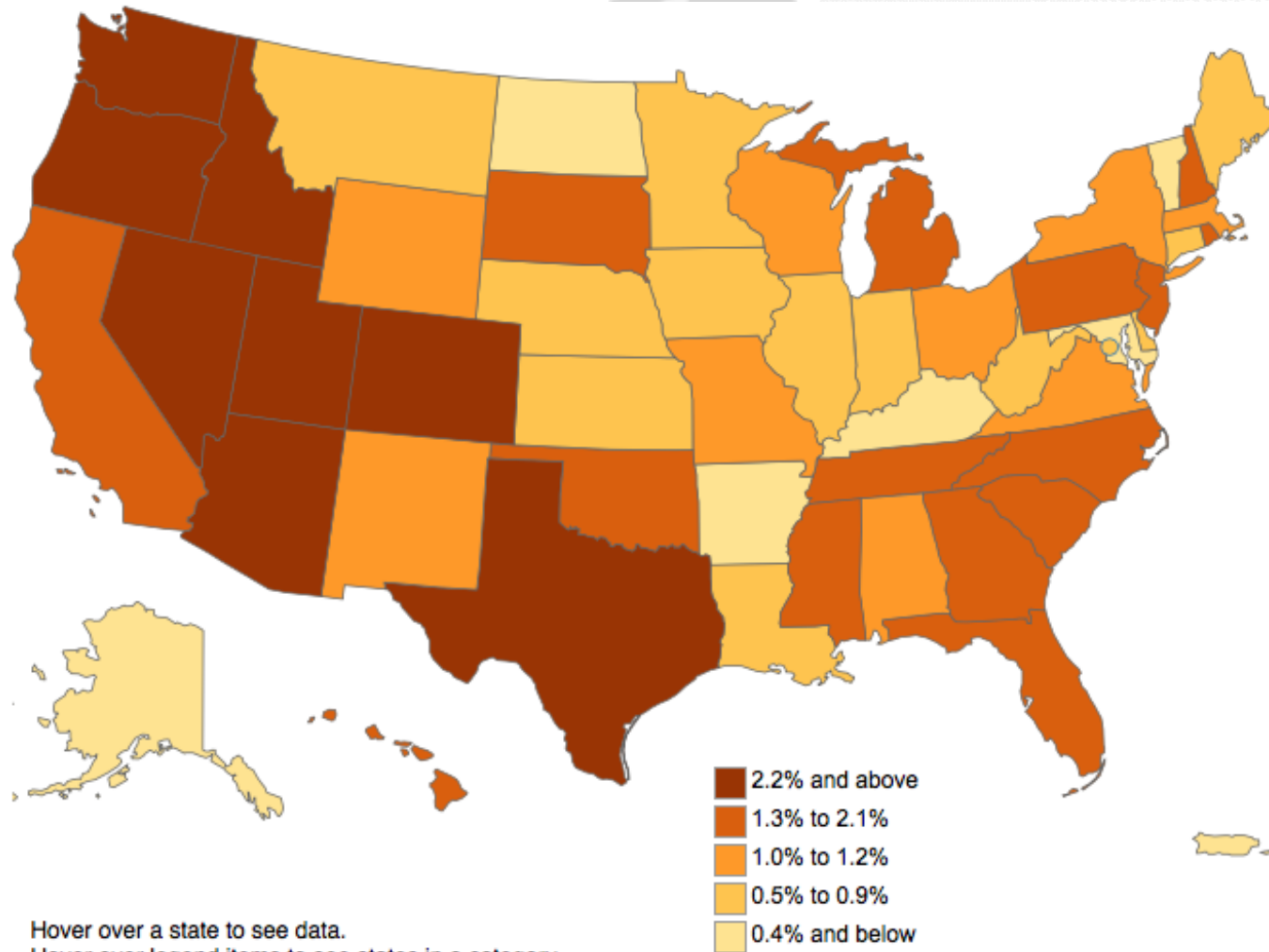
# CA at Full Employment



Unemployment Rate, Seasonally Adjusted



# YTY Job Gains: CA Among Top States

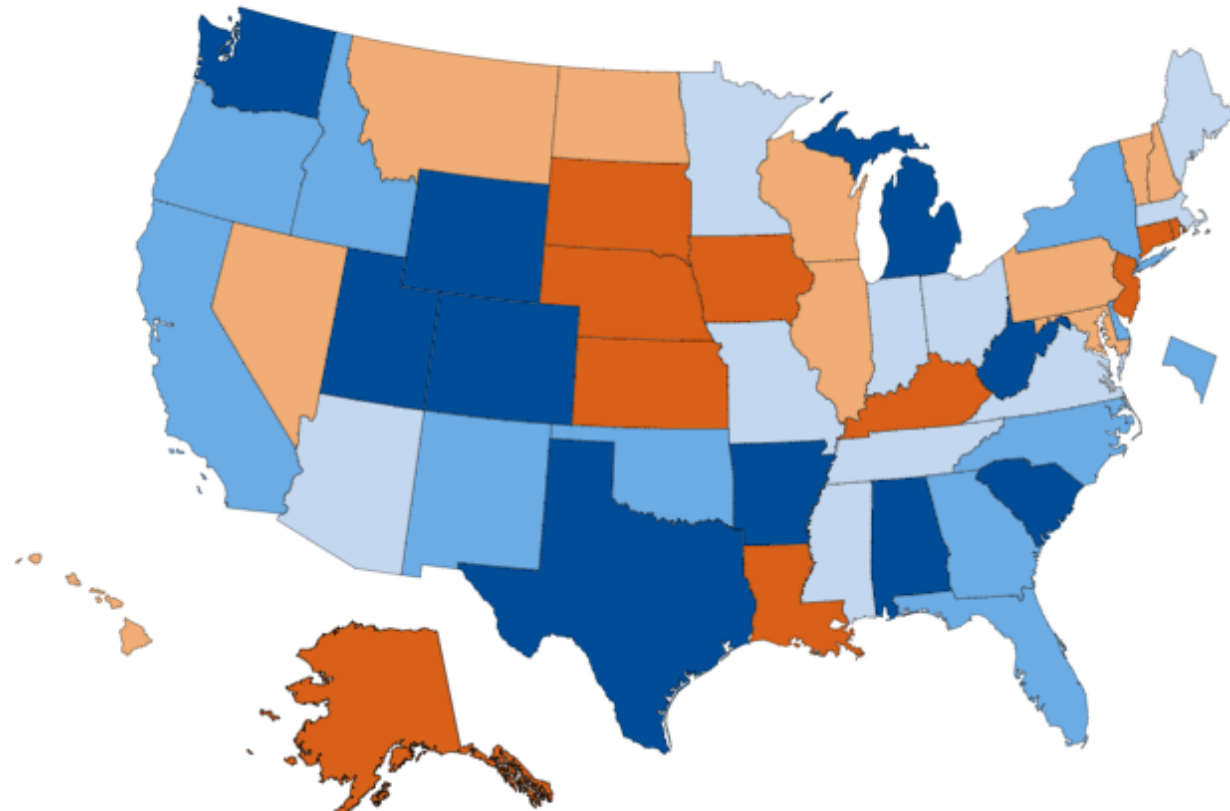


Hover over a state to see data.  
Hover over legend items to see states in a category.  
Source: U.S. Bureau of Labor Statistics.

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# Gross Product Q3-17: YTY % Changes -- CA (2.3%)



Source: BEA | U.S. = 2.2 %

2.88 to 4.50   2.12 to 2.87   1.53 to 2.11   1.10 to 1.52   -2.19 to 1.09

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# Job Gains Across All CA Industries

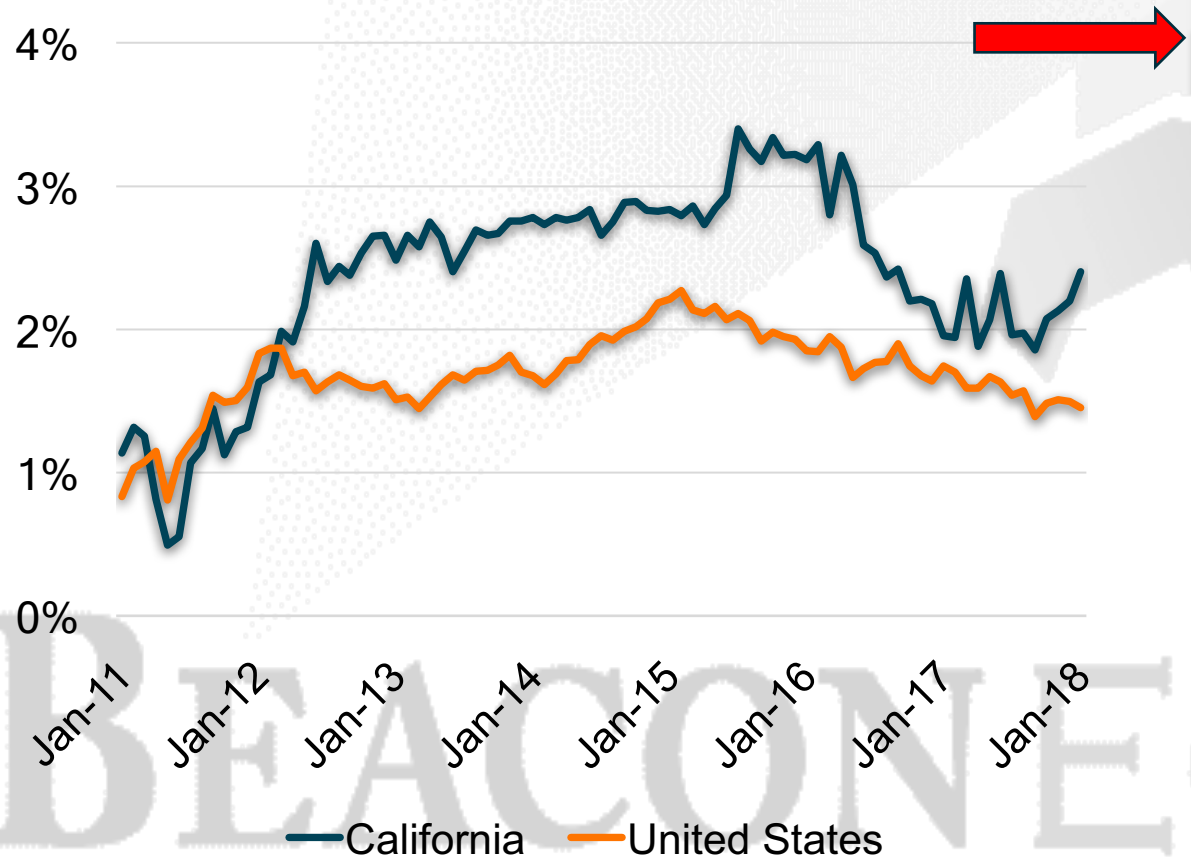


Industry	Mar-18 (000s)	YTY Change	YTY % Change
Total Nonfarm	17,045.8	321.0	1.9%
Health Care & Social Assistance	2,325.4	70.5	3.1%
Construction	850.0	54.4	6.8%
Leisure & Hospitality	1,987.1	45.3	2.3%
Professional, Scientific & Technical Services	1,247.4	29.2	2.4%
Government	2,570.3	26.3	1.0%
Transportation, Warehousing & Utilities	643.1	23.9	3.9%
Administrative & Support & Waste Services	1,122.5	17.1	1.5%
Educational Services	372.9	15.6	4.4%
Retail Trade	1,700.7	11.8	0.7%
Manufacturing	1,322.8	11.7	0.9%
Wholesale Trade	727.7	8.0	1.1%
Information	530.1	7.7	1.5%

# The Big Slowdown

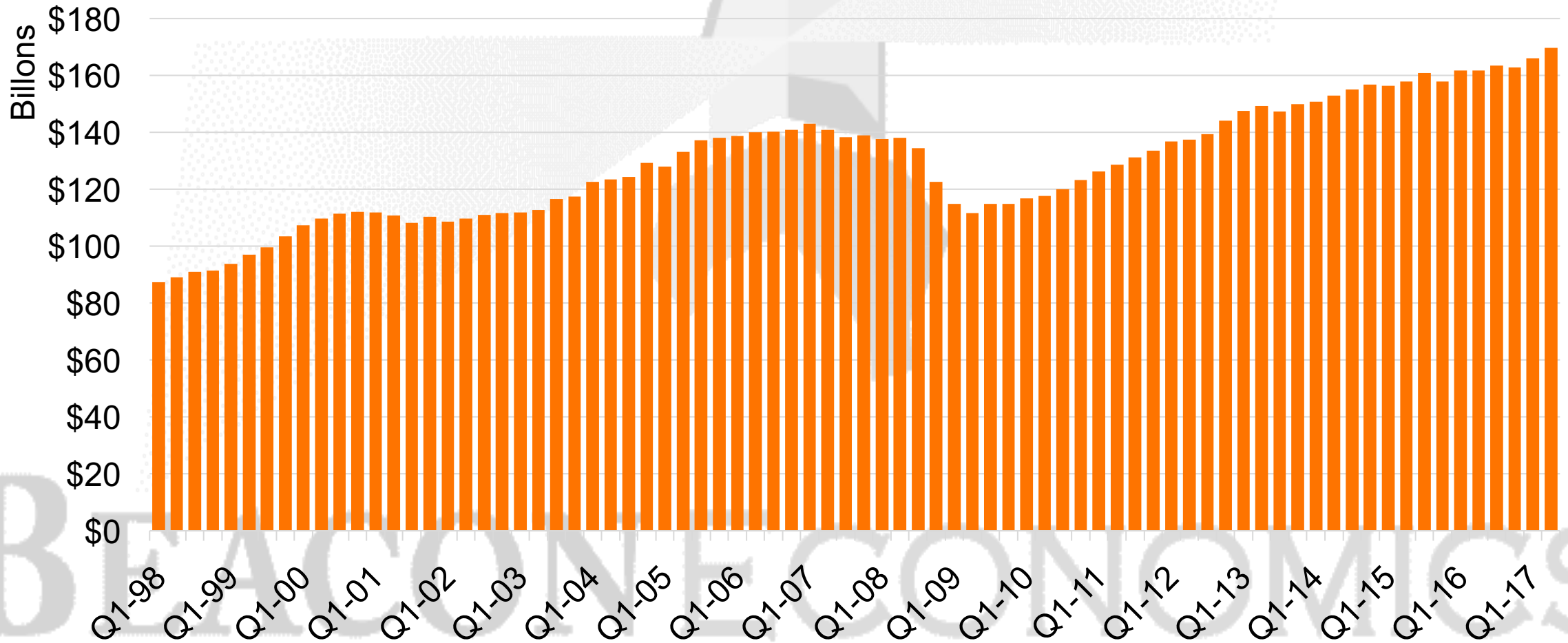


**State and National Job Growth**



Location	2017	14-15	15-16	16-17
Los Angeles MD	4,441,600	2.2%	2.6%	1.3%
Orange County	1,619,000	3.2%	2.6%	2.2%
Inland Empire	1,454,700	4.9%	3.6%	3.8%
San Diego MSA	1,454,200	2.9%	2.7%	2.1%
Oakland MD	1,164,300	3.3%	3.3%	2.4%
San Francisco MD	1,117,900	4.9%	4.0%	2.4%
San Jose MSA	1,099,200	3.8%	3.1%	2.6%
Sacramento MSA	970,200	3.2%	3.4%	2.2%
Fresno MSA	345,100	3.7%	3.5%	2.8%
Ventura County	304,300	0.9%	1.3%	1.3%

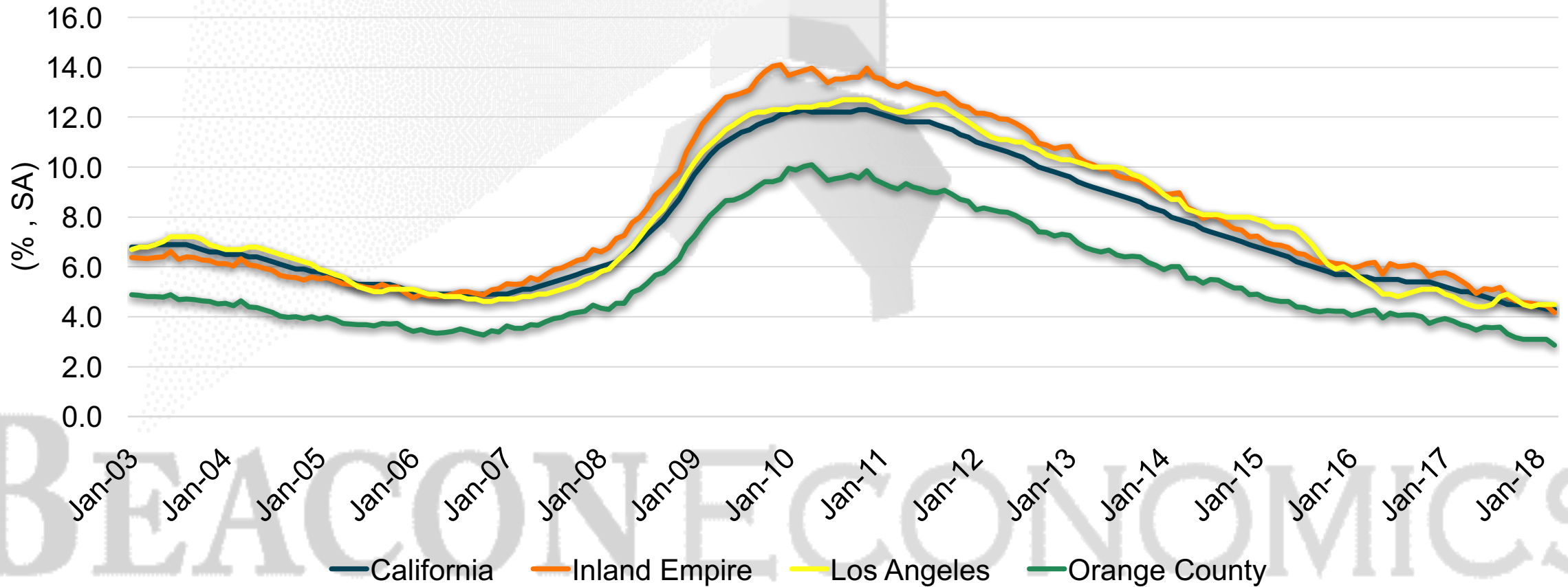
# California Taxable Sales (+4.9% in 2017)



# So Cal Unemployment Rates Edging Down

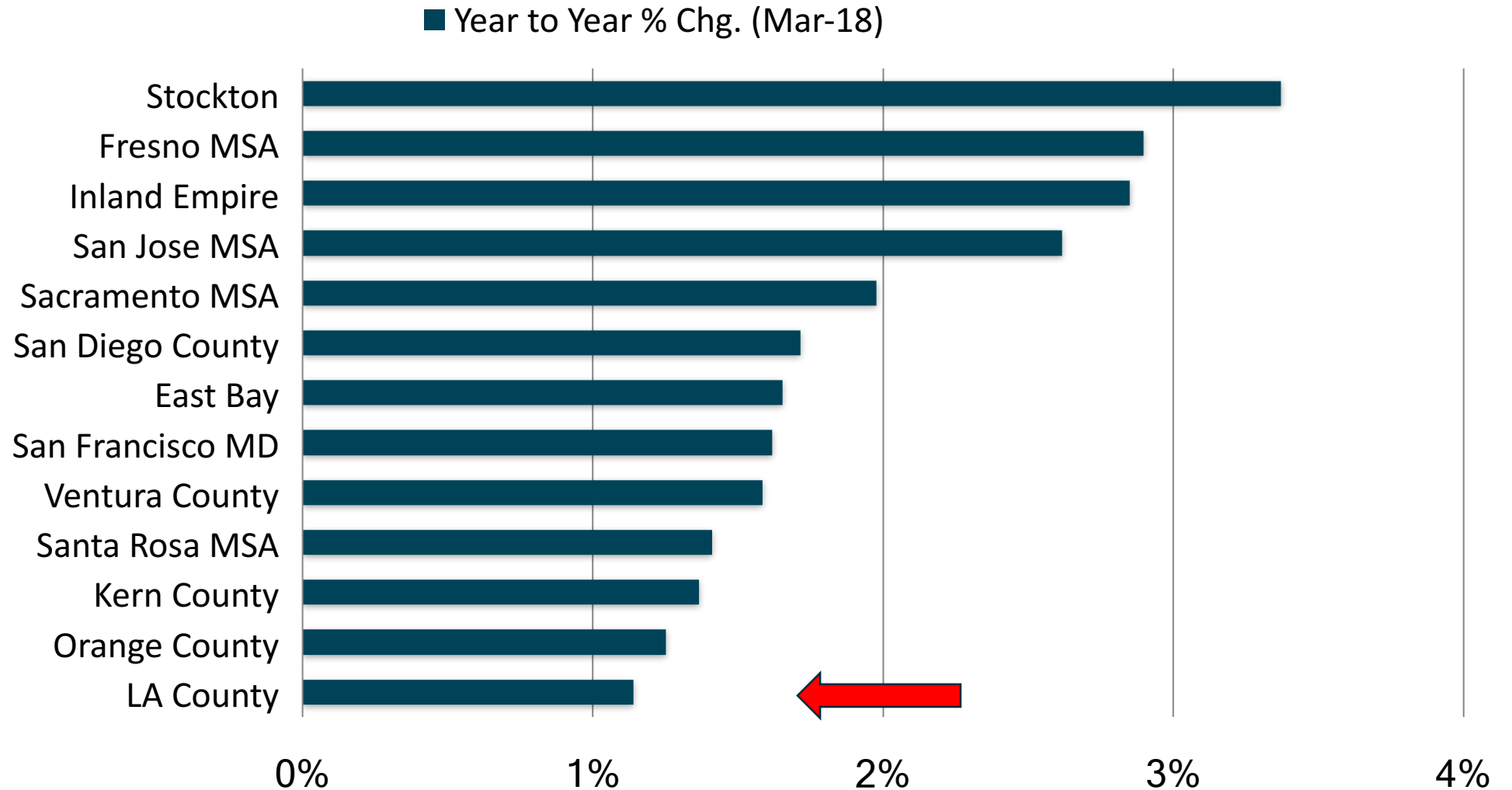


## Unemployment Rates






# Metro Areas Vary in % Job Gains...



# ...Largest Absolute Gains in So Cal



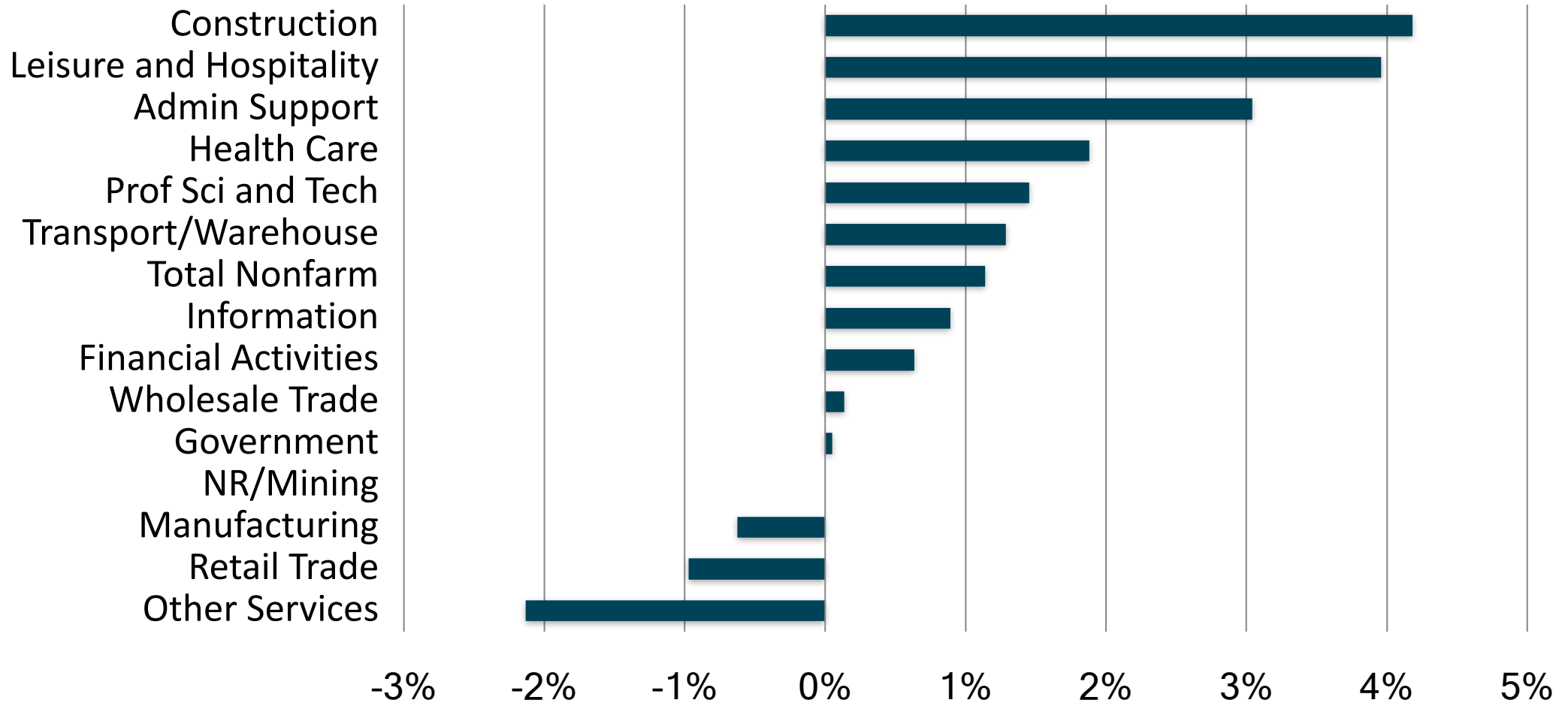
<u>MSA</u>	<u>Mar_18</u>	
Los Angeles County	50,300	
Inland Empire	41,000	
San Francisco MD	36,800	
San Jose MSA	28,500	
San Diego County	24,800	
Orange County	20,100	
East Bay	19,200	
Sacramento MSA	19,000	
Fresno MSA	9,900	
Stockton MSA	7,800	
Ventura County	4,800	

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# Los Angeles County % Job Gains...



■ Year to Year % Chg. (Mar-18)

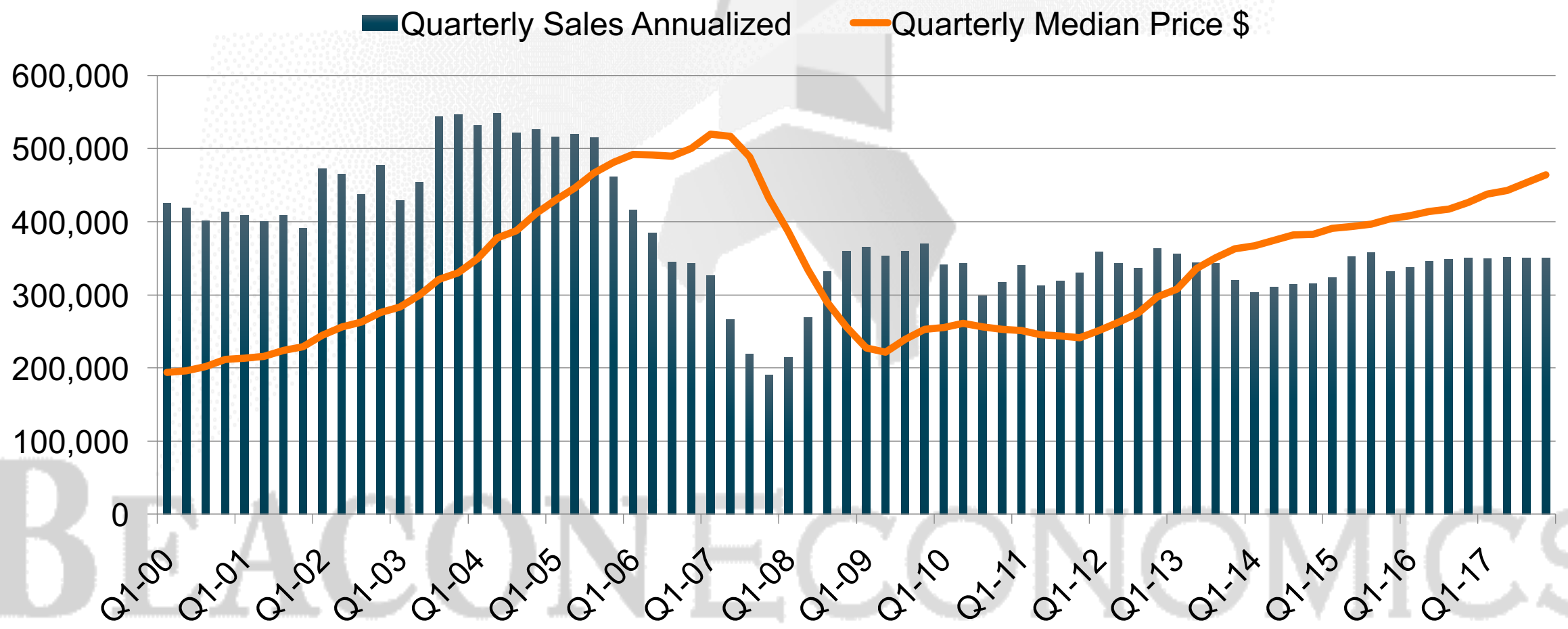




# Local Real Estate / Construction

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# CA Existing Home Sales & Median Price



# So Cal Residential Outlook



County	Q4-16	Q4-17	YTY % Change Price	YTY % Change Sales
Los Angeles	\$558,926	\$604,650	8.2%	0.4%
Orange	\$711,539	\$756,950	6.4%	-1.7%
Riverside	\$337,202	\$369,835	9.7%	-2.1%
San Bernardino	\$279,302	\$299,514	7.2%	3.6%
San Diego	\$553,245	\$596,313	7.8%	-4.6%

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# Housing Affordability: % of HHs Affording Median Priced Home

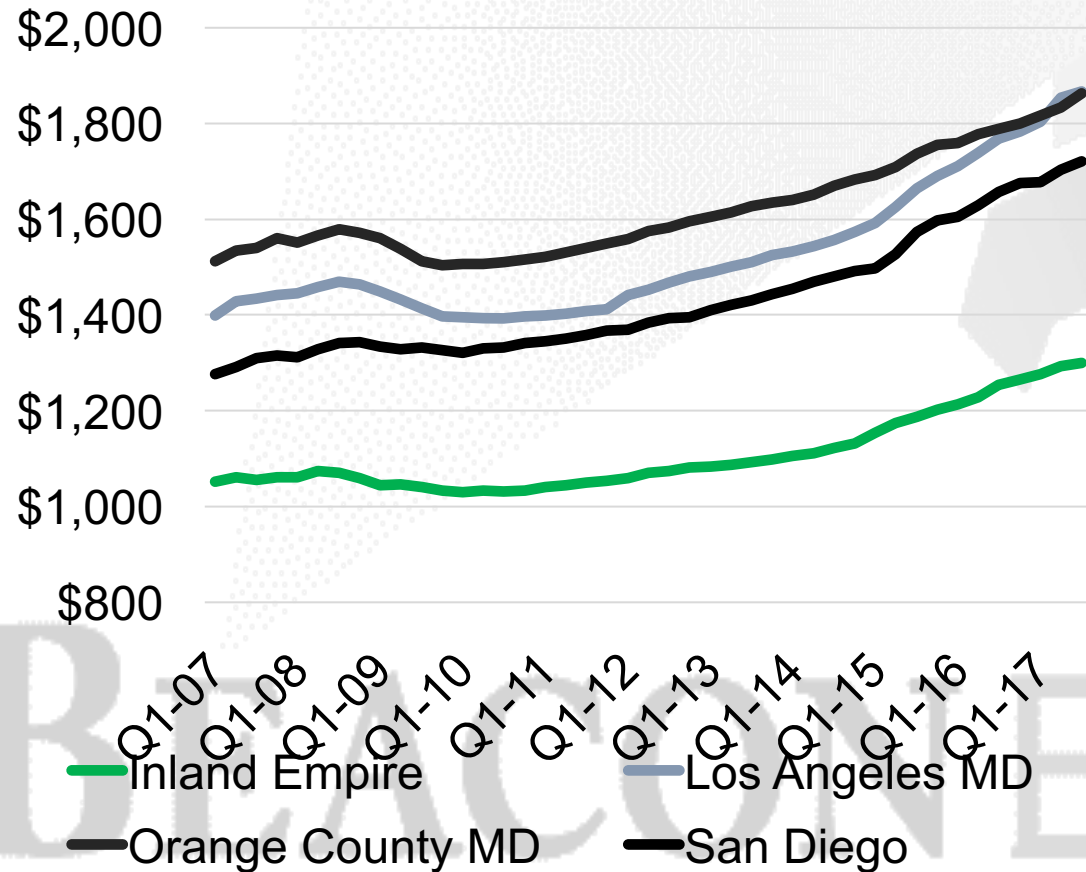


State/Region/County	Q4-16	Q4-17
Los Angeles	28	25
Orange County	22	21
Riverside County	41	38
San Bernardino County	54	50
San Diego County	27	26
California	31	29

# Apartment Rents Rising



## Metro Rents



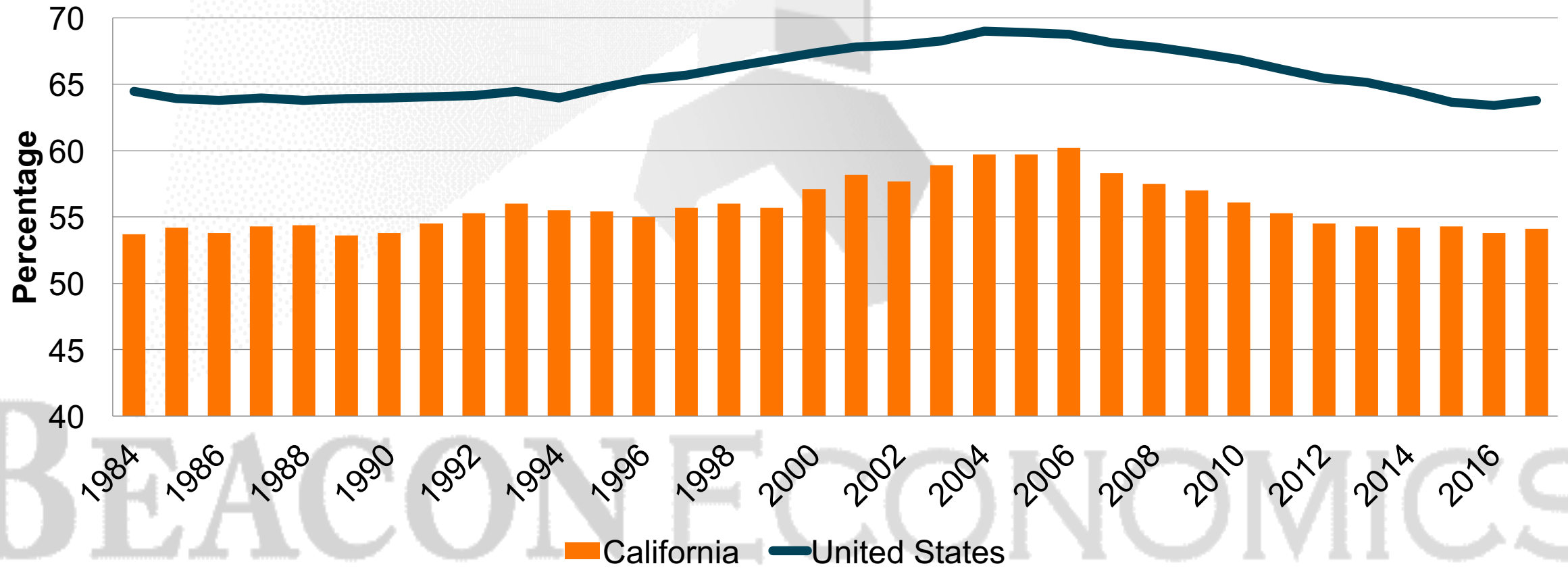
County	Wages	Rents	Share
Ventura	\$57,789	\$1,700	35%
Los Angeles	\$63,236	\$1,830	35%
Santa Barbara	\$52,911	\$1,526	35%
Orange	\$63,849	\$1,827	34%
Riverside	\$45,219	\$1,293	34%
San Bernardino	\$45,762	\$1,293	34%
San Diego	\$60,887	\$1,696	33%
San Luis Obispo	\$44,816	\$1,147	31%



# Homeownership Rate Low. Future Course?



## Homeownership Rate



# Housing: CA's Biggest Challenge



- Signs of stress:
  - Homeownership rate at lowest in decades
  - Rising prices, Escalating rents
  - Not just about affordable housing: all income levels, renter and for-sale housing
- How to Address Chronic Housing Problems
  - Less about making housing affordable to households (demand)
  - Really about supply:
    - Construction: Need 200,000/yr
    - Actual: '15: 95,000, '16: 101,000, '17: 111,000
    - Aligning construction with actual needs
- Social & Economic Concerns
  - Vitality of CA and Region: Growth, Incomes, Tax Revenues



Conclusion/Outlook

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# U.S. Outlook



- Continued US Growth: 2017: 2.3%, 2018: 2.5-2.8%
- Domestic Spending Will Continue
- Oil Prices: Steady in \$55-70/barrel range
- Inflation: Low, But Rising
- Financial Markets: Rates Up, Volatility in Equities
- Policy Uncertainty

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# CA/Local Outlook



- Growth constrained by limited increases in labor force
- Leading sectors: Construction, Consumer-serving Sectors, Tourism, Health Care, Def/Aero
- Housing shortages: owner-occupied and rentals
- Time to invest in future growth, long-run stability

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