

# So...Should We Be Worrying?

## Economic & Industry Outlook, 2017

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**CALBO Annual Business Meeting**  
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# Outline

- U.S. Economy
- California Economy
- Real Estate Outlook
- Conclusion

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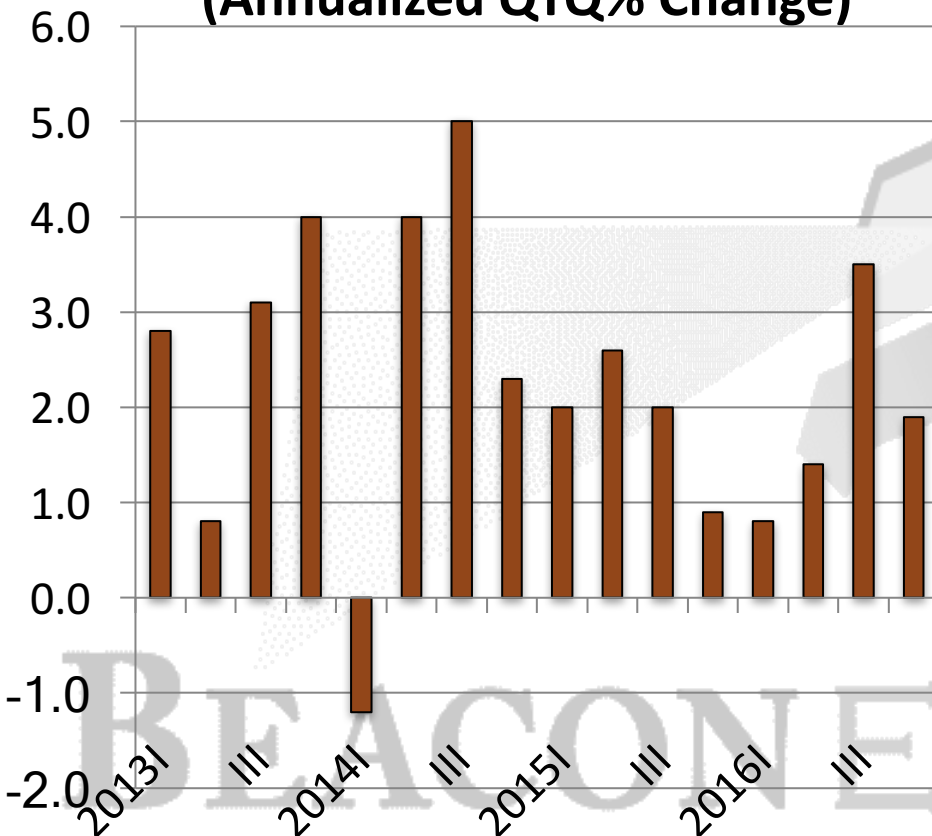


# U.S. Economy

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# Two Views of GDP (% Change)

**Gross Domestic Product  
(Annualized QTQ% Change)**



	2014	2015	2016
<b>GDP</b>	2.4	2.6	1.6
<b>Final Domestic Demand</b>	2.5	3.2	1.7
<b>Consumption</b>	2.9	3.2	2.7
Goods	3.9	4.0	3.6
Services	2.3	2.8	2.3
<b>Investment</b>	4.5	5	-1.6
Structures	10.3	-4.4	-3.0
Equipment	5.4	3.5	-2.9
Intellectual Property	3.9	4.8	4.9
Residential	3.5	11.7	4.9
Change Inventories	-26.7	45.6	-74.9
<b>Net Exports</b>	-0.1	-4.5	-0.7
Exports	4.3	0.1	0.4
Imports	4.4	4.6	1.1
<b>Government</b>	-0.9	1.8	0.8
Federal	-2.5	0	0.6
State and local	0.2	2.9	1.0

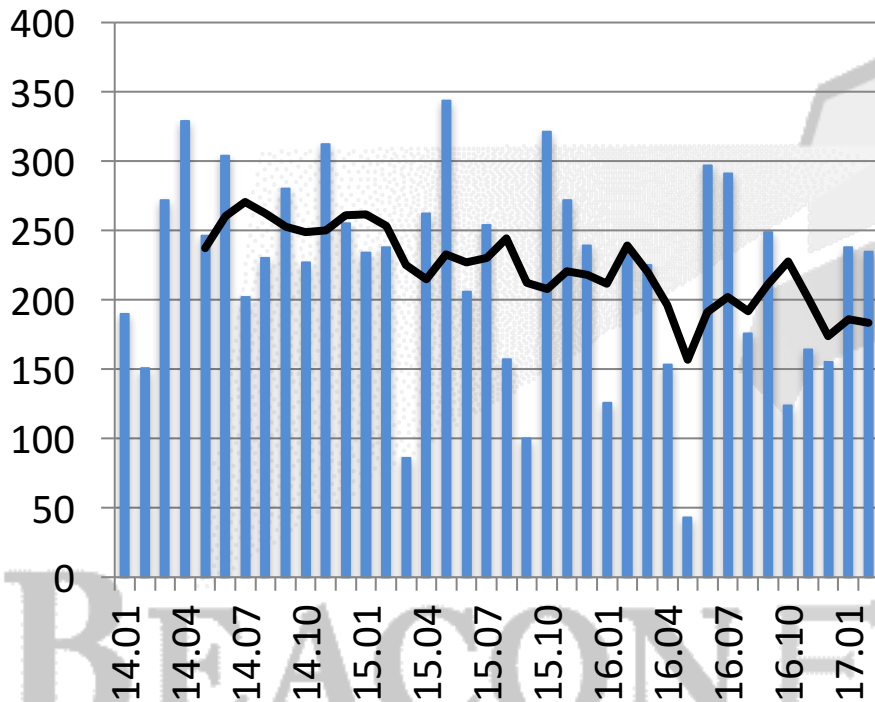
# Sectors of Economy

Sector	Outlook
<b>CONSUMERS</b>	Steady solid growth
<b>BUS. INVESTMENT</b>	Mixed due to energy, should improve
<b>GOVERNMENT</b>	Improved fiscal outlook
<b>NET TRADE</b>	Imports & Exports up, Imports larger
<b>SUMMARY</b>	Domestic Spending Up (+1.7% YTY in'16)

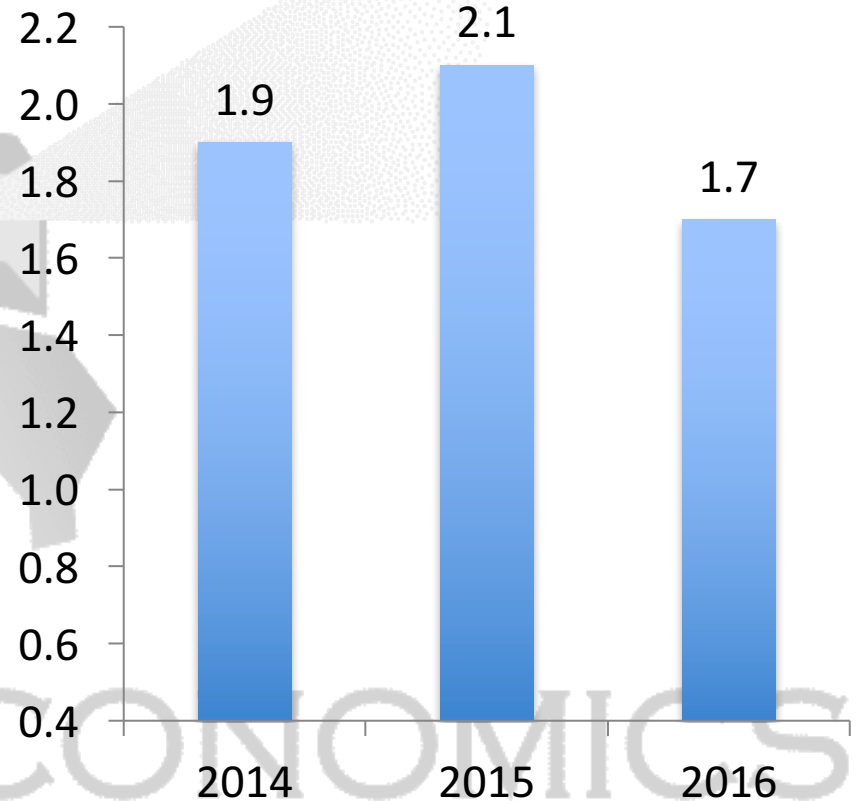
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# Labor Markets – Full Employment

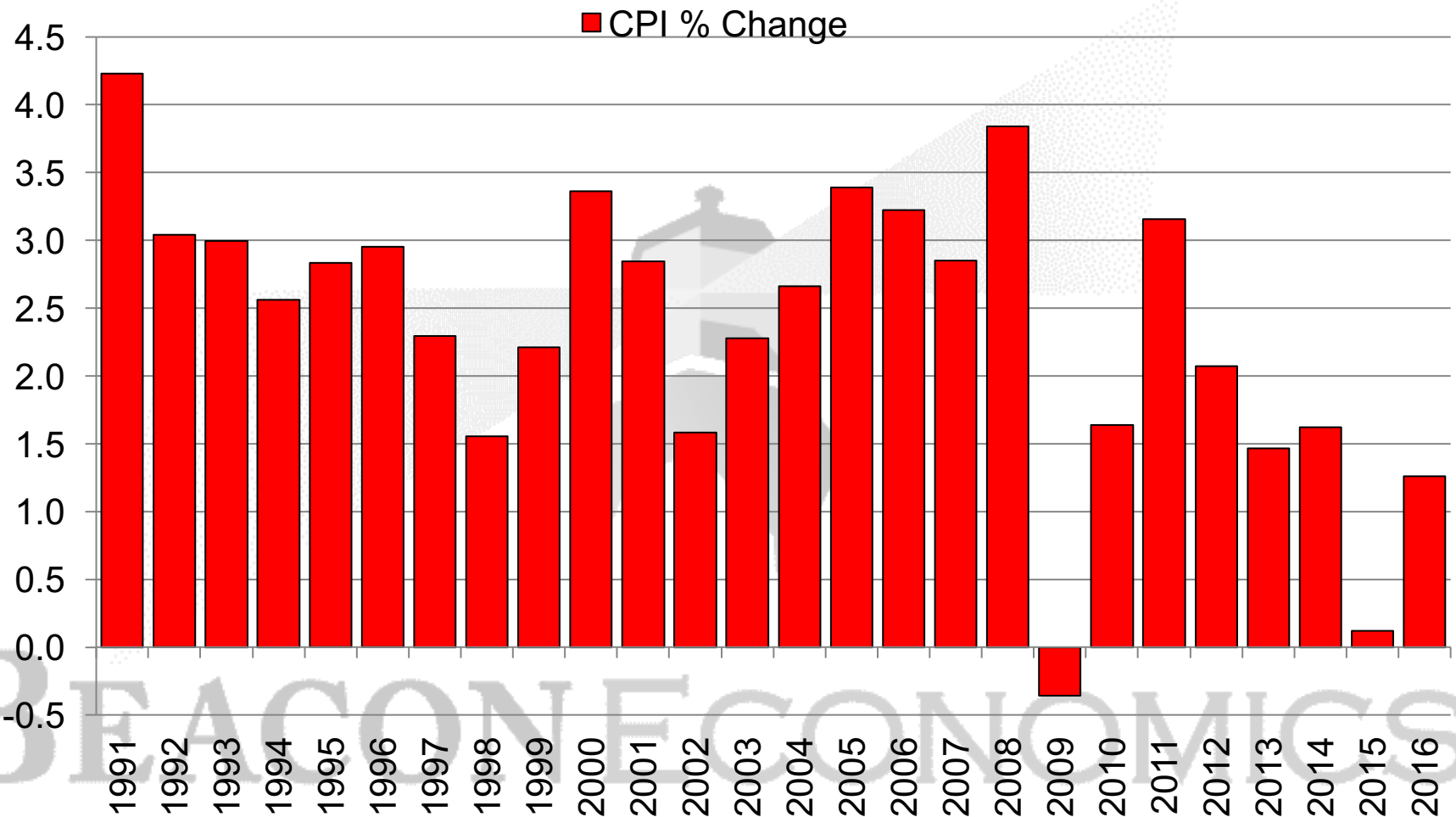
## MTM Jobs



## Yr-To-Yr % Change in Jobs

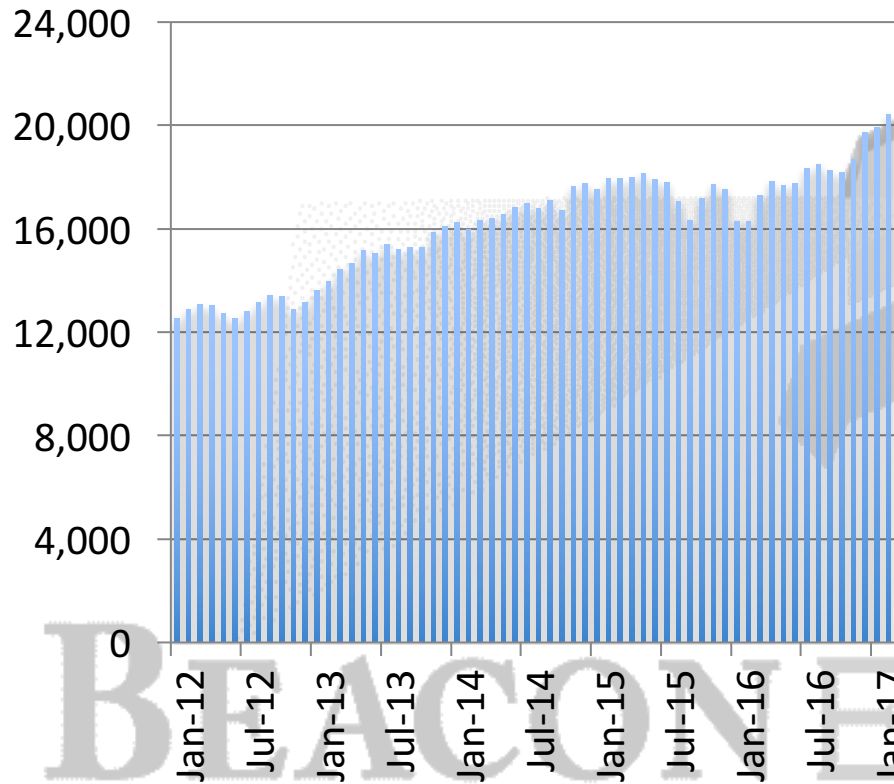


# Inflation Historically Low But Rising

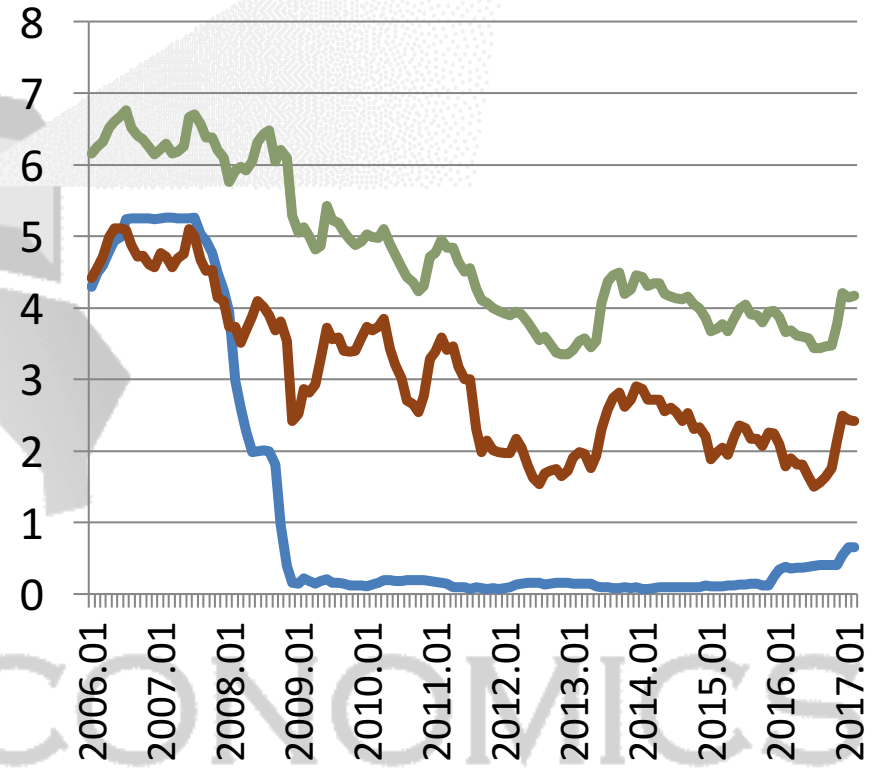


# Financial Markets

## DJIA



Fed Funds Rate 10 Year Yield 30 Year Mort





# Fiscal Policy

- **Proposed By Trump Administration**
  - Tax Cuts
  - Investment in Infrastructure
  - Challenging the Status Quo in Trade
  - Immigration Reform
  - Repealing ACA (Obamacare)
- **When Reality Sets In**
  - Republican factions in Congress
  - Lessons from Schwarzenegger
  - Populist backlash
  - Back to the future: Gridlock in DC?

# Monetary Policy

- Rock-bottom federal funds rate 2008-2016
- Rate hike Dec 2016, 3 expected this year
- Adjusting to labor market, inflation, GDP
- Market rates less tied to FFR than before

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# U.S. Outlook

- Continued US Econ Growth: 2017-18: 2%+
- Domestic Spending Intact
- Energy: Prices Steady; Cap-Ex Plunge Over?
- Inflation: Low, But Rising
- Financial Markets: Volatility, Despite Fed Actions, But With Upward Bias

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# California Economy

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# California Fact versus Fiction



## 2016 Best & Worst States For Business

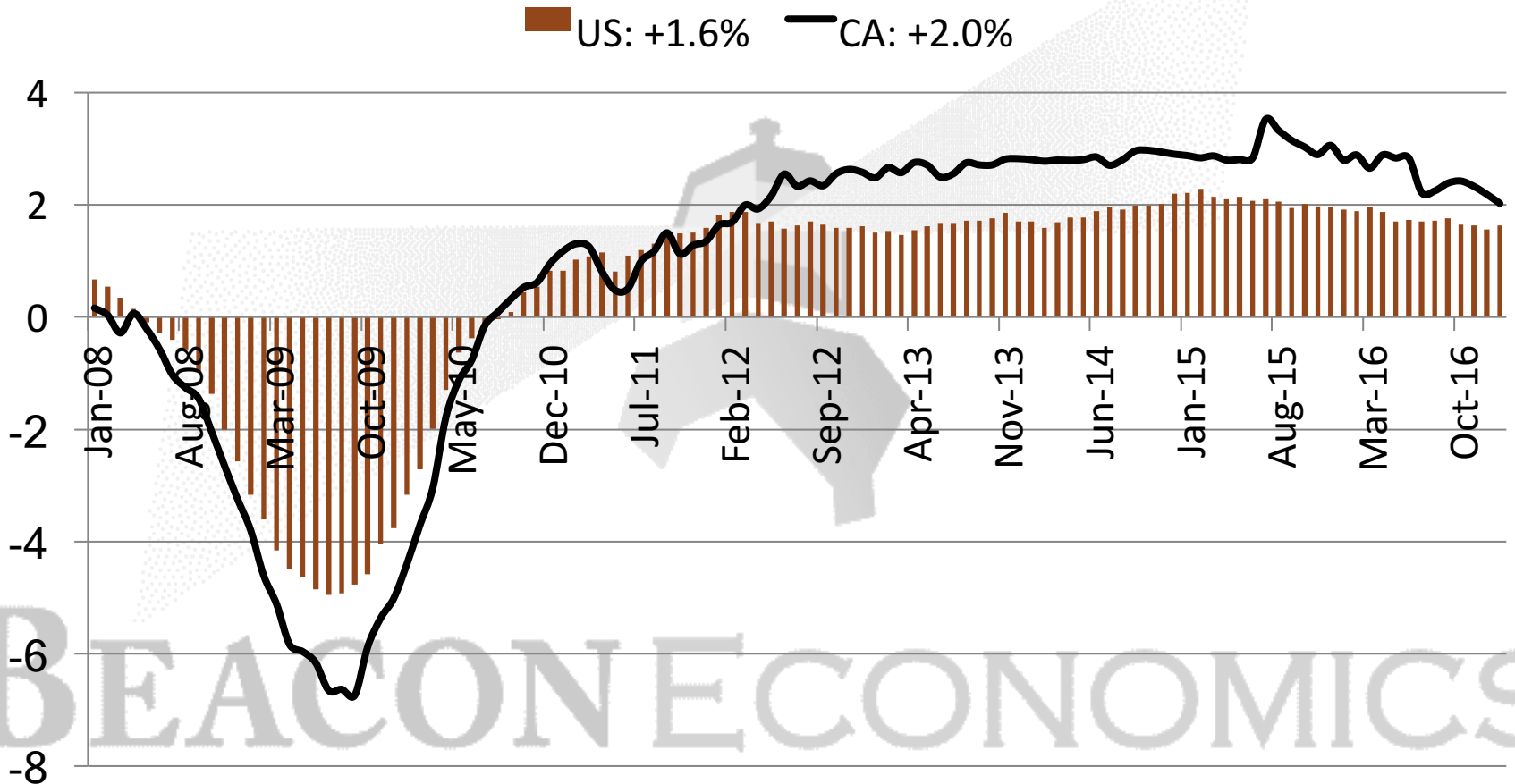
- 50 [California](#)
- 49 [New York](#)
- 48 [Illinois](#)
- 47 [New Jersey](#)
- 46 [Massachusetts](#)
- 45 [Connecticut](#)
- 44 [Hawaii](#)
- 43 [Michigan](#)
- 42 [Oregon](#)
- 41 [Vermont](#)
- 40 [Maryland](#)
- 39 [Mississippi](#)
- 38 [West Virginia](#)
- 37 [Rhode Island](#)



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# CA Adding Jobs Faster than U.S.

YTY % change in nonfarm jobs, seasonally adjusted

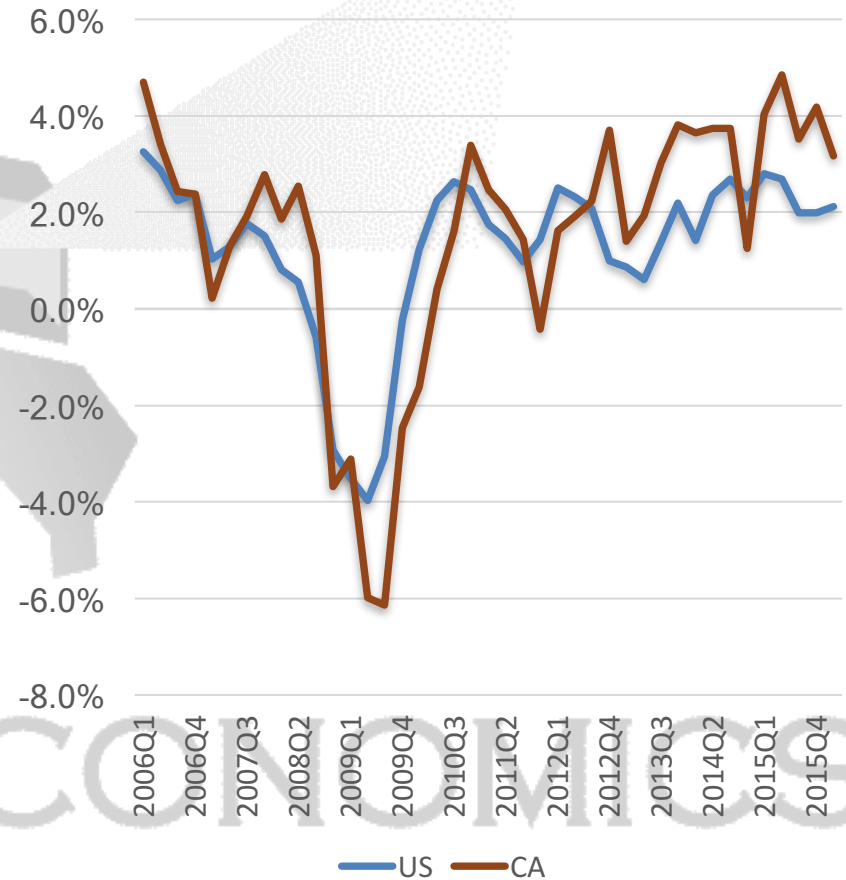


# California Among Fastest Growing States

## 3 Year Change in Payroll Jobs by State

	Abs	Growth	Share
Florida	792.8	3.3%	10.0%
Utah	131.6	3.2%	1.7%
Nevada	117	3.2%	1.5%
Oregon	167.6	3.2%	2.1%
Colorado	219	2.9%	2.8%
Washington	273.7	2.9%	3.5%
Georgia	349.6	2.8%	4.4%
<b>California</b>	<b>1309.1</b>	<b>2.8%</b>	<b>16.5%</b>
Idaho	52.6	2.6%	0.7%
South Carolina	150.7	2.6%	1.9%
Tennessee	211.9	2.5%	2.7%
Texas	828.3	2.4%	10.4%
Arizona	179.4	2.3%	2.3%
North Carolina	264.9	2.1%	3.3%
Delaware	27.9	2.1%	0.4%
Massachusetts	198.6	1.9%	2.5%
Michigan	220.8	1.7%	2.8%

## Real GDP Growth (Y-o-Y)



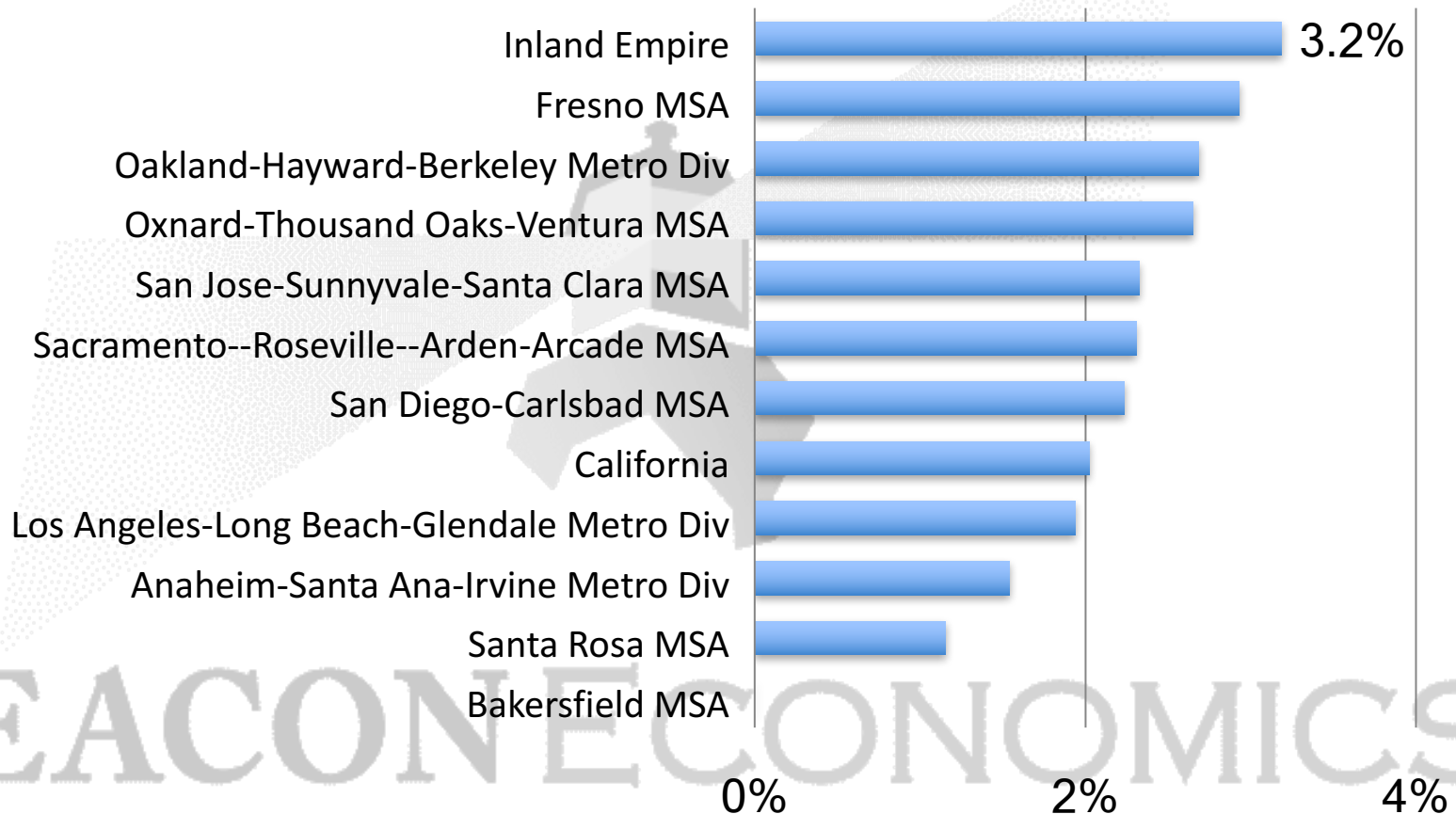
# CA Job Adding Jobs Across Industries

Industry	Jan-16	Jan-17	YTY	YTY %
Education	350	364	14.1	4.0%
Information	512	532	19.9	3.9%
Health Care	2,148	2,226	78.5	3.7%
Logistics	572	590	17.6	3.1%
Prof Sci Tech	1,206	1,239	32.8	2.7%
Other Services	550	565	14.5	2.6%
Government	2,487	2,547	59.7	2.4%
Leisure & Hosp	1,875	1,918	43.3	2.3%
Financial Activities	815	833	18.6	2.3%
Wholesale Trade	719	732	12.8	1.8%
NR/Construction	788	800	12.5	1.6%
Management	225	227	2.3	1.0%
Retail Trade	1,671	1,680	9	0.5%
Admin Support	1,090	1,089	-0.4	0.0%
Manufacturing	1,309	1,305	-4.8	-0.4%
Total Nonfarm	16,317	16,648	330.5	2.0%



# Job Growth Across the State...

## YTY % Change Jobs (Jan.'17)



# ... Wide Variation in Absolute Gains

MSA	YTY Change Jobs (Seasonally Adjusted)
Los Angeles-Long Beach-Glendale Metro Division	84,500
<b>Inland Empire</b>	<b>44,100</b>
San Diego-Carlsbad MSA	31,500
Oakland-Hayward-Berkeley Metro Division	30,100
San Jose-Sunnyvale-Santa Clara MSA	24,600
Anaheim-Santa Ana-Irvine Metro Division	24,200
Sacramento--Roseville--Arden-Arcade MSA	21,600
Fresno MSA	9,700
Oxnard-Thousand Oaks-Ventura MSA	7,900
Santa Rosa MSA	2,300
Bakersfield MSA	0



# Real Estate Outlook

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# Real Estate- Nonresidential

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# Office Vacancy Rates

<b>Vacancy Rate</b>	<b>2015</b>	<b>2016</b>	<b>Vacancy Rate</b>	<b>2015</b>	<b>2016</b>
Bakersfield	11.0	10.3	San Diego	15.0	14.5
Carmel/Monterey	13.8	13.6	San Francisco (MD)	10.5	9.6
Chico	14.7	13.3	San Jose	16.7	16.7
Fresno	19.7	19.6	San Luis Obispo	10.1	10.3
Inland Empire	23.5	21.9	Santa Barbara	9.6	10.4
Los Angeles (MD)	14.8	13.6	Santa Cruz-Watsonville	15.5	14.1
Modesto	22.9	20.3	Santa Rosa	26.3	24.2
Oakland (MD)	16.1	14.4	Stockton	29.0	27.9
Orange County (MD)	16.6	16.1	Vallejo-Fairfield	26.7	25.9
Portland	12.3	12.0	Ventura	20.7	20.6
Redding	17.1	16.9	Visalia	14.8	13.8
Sacramento	19.5	18.6			

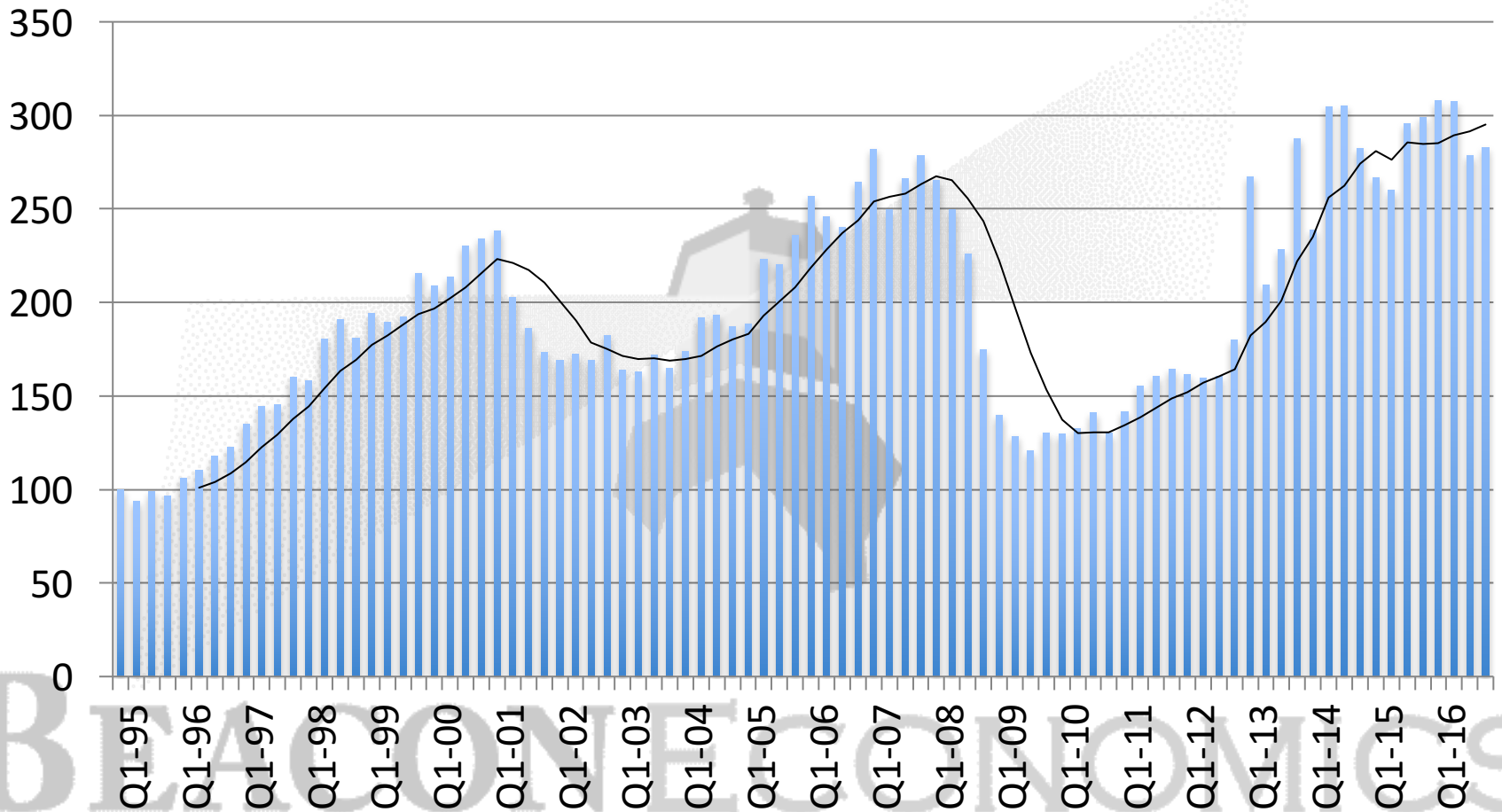
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# Industrial Vacancy Rates

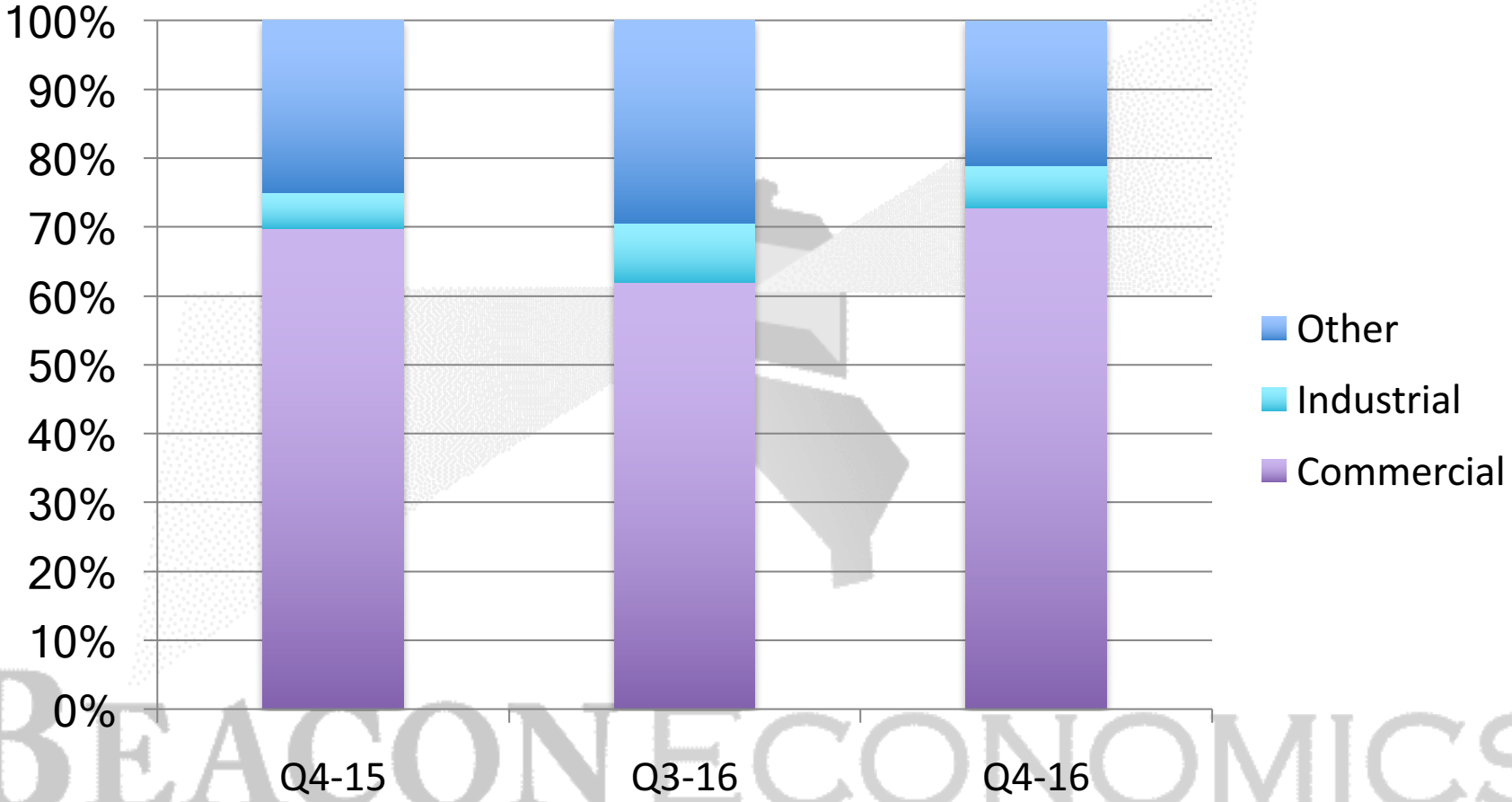
<b>Vacancy Rate</b>	<b>2015</b>	<b>2016</b>
San Jose	14.5	13.3
San Francisco	6.1	5.6
San Diego	11.3	11.0
Sacramento	16.2	15.3
Orange County	6.8	6.4
Oakland	11.8	10.7
Los Angeles	5.0	4.6
Inland Empire	10.7	10.1

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# CA Nonresidential Construction



# CA Nonresidential Construction





# Public Infrastructure Needs

- **Infrastructure Deficit**
  - Longstanding maintenance and upgrade needs
- **Funding mechanisms?**
- **Highways/Other Transportation:**
  - Declining gas tax revenues
  - Alternate fuel vehicles as “free riders”

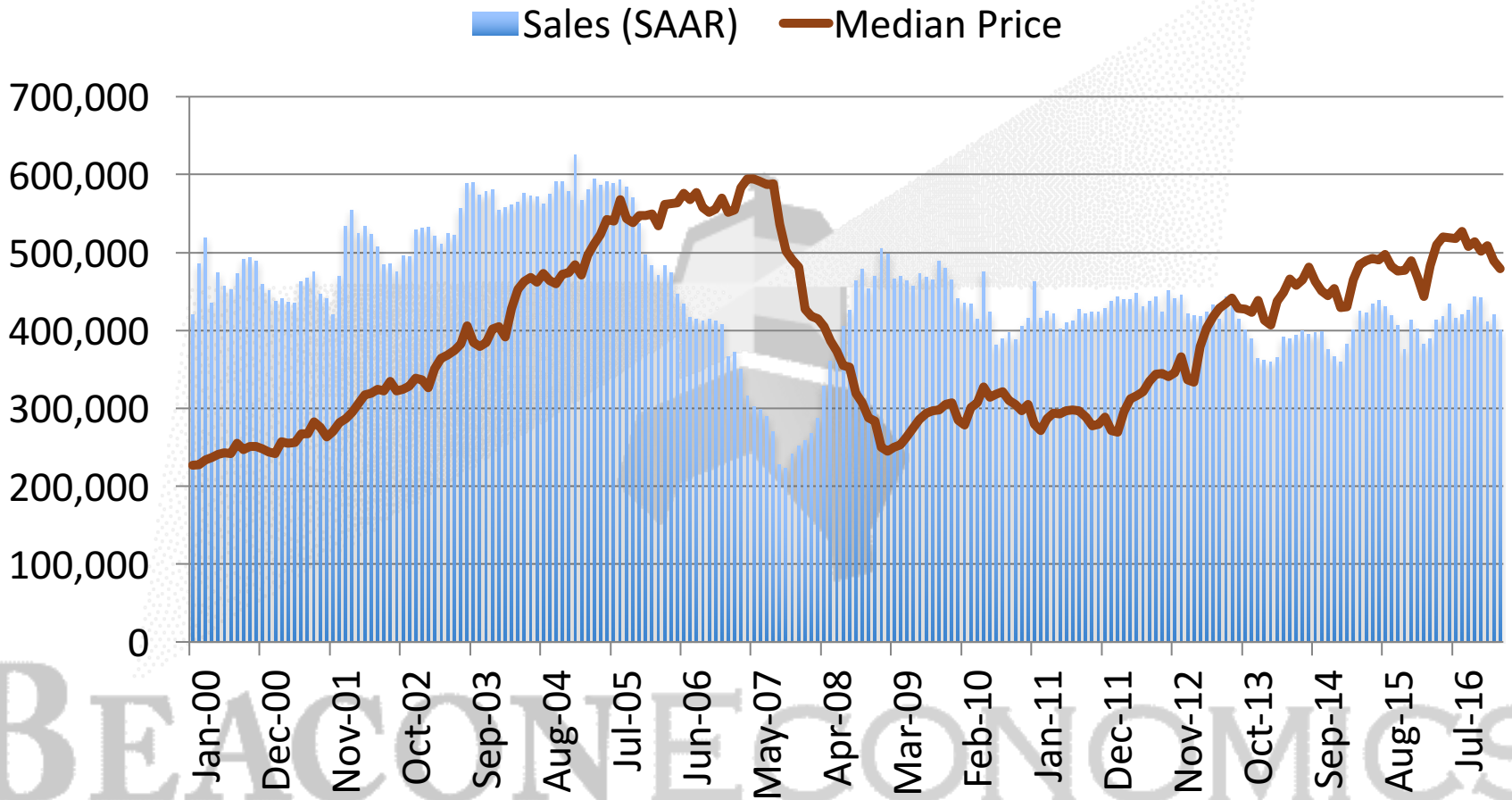
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# Real Estate- Residential

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# CA Existing Home Sales & Price



# Housing Not Yet Normal

- **Demand**

- Drivers: demographics, job/income growth, low rates
- Constraints: credit standards, high down payment requirements

- **Supply**

- Drivers: rising prices, low cost of capital, shortage of housing in many markets
- Constraints: weak demand, time/development

# California Home Prices and Sales

County	Price Change			Sales Change			
	Feb '16	Jan '17	Feb '17	MTM %	YTY %	MTM %	YTY %
LA Metro Area	\$429,980	\$450,710	\$454,270	0.8%	5.6%	-4.9%	3.1%
Inland Empire	\$290,270	\$312,500	\$327,510	4.8%	12.8%	-2.3%	7.1%
S.F. Bay Area	\$698,950	\$730,200	\$784,470	7.4%	12.2%	-4.3%	-2.7%
San Diego	\$523,500	\$550,000	\$559,950	1.8%	7.0%	6.4%	6.8%
Sacramento	\$299,000	\$305,000	\$324,900	6.5%	8.7%	-6.8%	-5.4%
CA SFH (SAAR)	\$444,780	\$489,680	\$478,790	-2.2%	7.6%	-4.7%	4.9%

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# Unsold Inventory (Months) Existing Single Family Homes

<b>County</b>	<b>16-Feb</b>	<b>17-Jan</b>	<b>17-Feb</b>
LA Metro Area	5.4	4.1	4.5
Inland Empire	6.1	4.6	4.8
S.F. Bay Area	3.2	2.5	3.0
San Diego	4.5	3.6	3.5
Sacramento	2.9	2.2	2.5
<b>California</b>	<b>4.7</b>	<b>3.7</b>	<b>4.0</b>

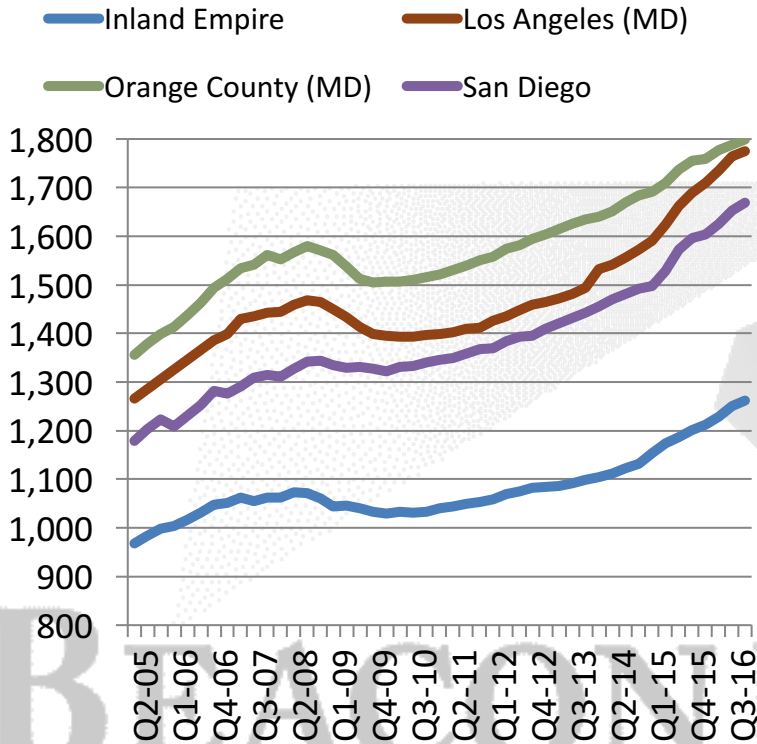
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# Housing Affordability: % of HHs Affording Median Priced Home

State/Region/County	Q4-15	Q4-16
CA SFH	30	31
CA Condo/Townhomes	39	40
Los Angeles Metro Area	32	34
Inland Empire	45	46
S.F. Bay Area	24	25
Sacramento	46	45
US	58	58

# Apartment Rents

## Rents in Southern California

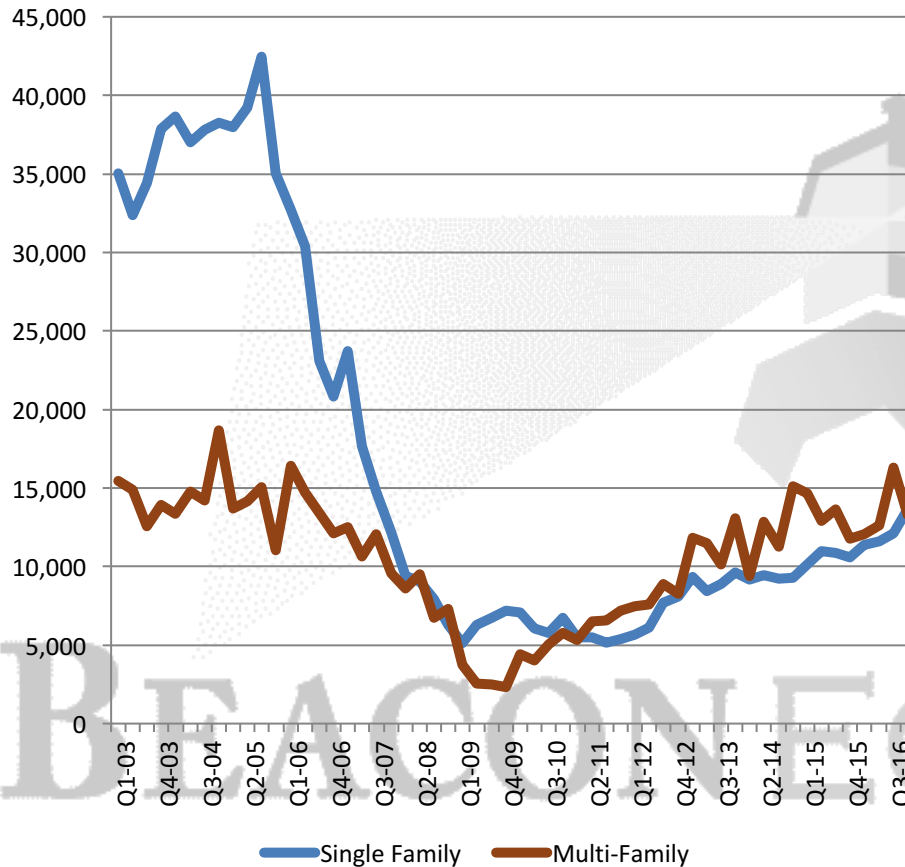


	Wages	Rents	Share
Santa Cruz	\$48,280	\$1,937	48%
Sonoma	\$50,648	\$1,578	37%
San Joaquin	\$44,628	\$1,073	29%
Orange	\$59,923	\$1,781	36%
Monterey	\$44,960	\$1,407	38%
Tulare	\$38,010	\$864	27%
Santa Barbara	\$50,006	\$1,490	36%
San Bernardino	\$44,116	\$1,245	34%
Riverside	\$42,223	\$1,245	35%
Contra Costa	\$65,055	\$1,789	33%
San Diego	\$57,527	\$1,639	34%
San Francisco	\$101,194	\$2,548	30%
Alameda	\$70,697	\$1,789	30%
Fresno	\$42,006	\$904	26%
Kern	\$43,961	\$956	26%
Sacramento	\$57,113	\$1,157	24%
Santa Clara	\$121,314	\$2,111	21%



# State Housing Construction

## State Residential Permits (Units)



## New Pop / Permits

California	4.1	Tulare	4.0
Ventura	6.8	Los Angeles	4.0
Contra Costa	6.6	Fresno	4.0
Sonoma	6.1	San Mateo	3.4
Alameda	5.9	Kern	3.0
Santa Barbara	5.3	Santa Clara	3.0
San Bernardino	5.0	Orange	2.8
Solano	4.6	Placer	2.1
Riverside	4.5	San Francisco	2.1
San Diego	4.2	Sacramento	0.7



# Conclusion

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# California/So Cal Outlook

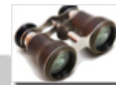
- Continued but Slower Growth in State/Regions
- Labor & Other Input Markets Tightening
- Job Gains Across Spectrum of Industries
- Leaders:
  - Healthcare, Tech, Construction, Tourism, Education
- Housing Market/Homeownership
  - Challenges to CA economy once again
  - Groundhog Day: 1980s, early 2000s, Now

So...should we be worrying?



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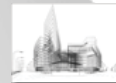
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