



BEACON ECONOMICS

Analysis. Answers

The Economic Outlook

City of Los Angeles
January 2018

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Outline

- U.S. Economy
- California Economy
- Local Outlook
- Real Estate/Construction
- Conclusion/Looking Ahead

Heard in the Headlines

- US Labor Market Slowing...Sign of Recession?
- California in a Housing Crisis?
- Tax Cuts
 - Stimulus to Economy?
 - California Impact?



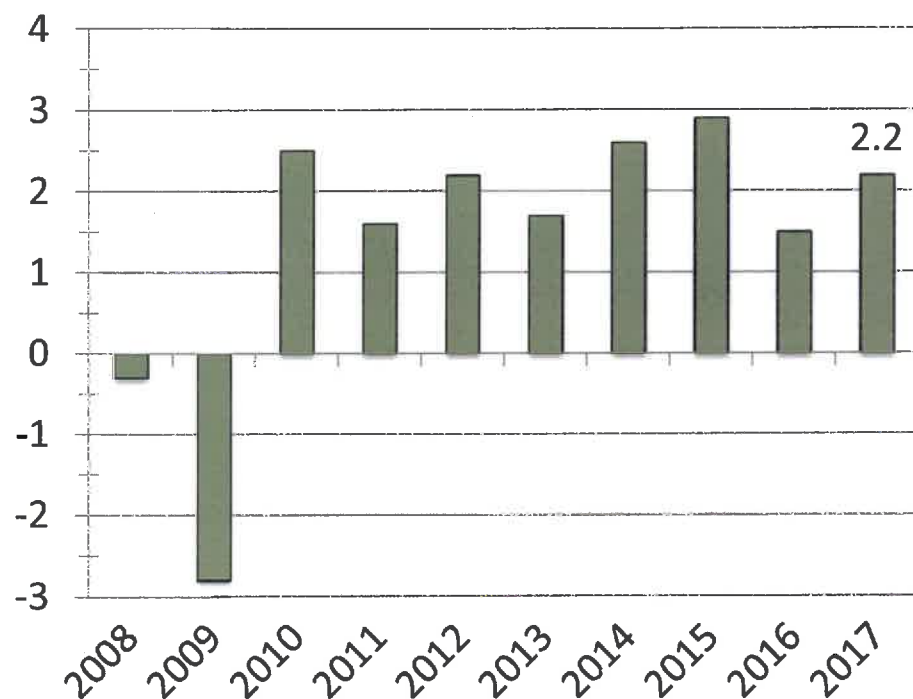
U.S. Economy

Vital Signs of the US Economy

- GDP Growth Rate
- Labor Market Conditions
- Inflation Rate

GDP 2017: 2.2% Annual Growth

**Gross Domestic Product
YTY % Change**



BEACONECONOMICS Analysis. Answers.

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
Total GDP % Chg.	2.9	1.5	2.2

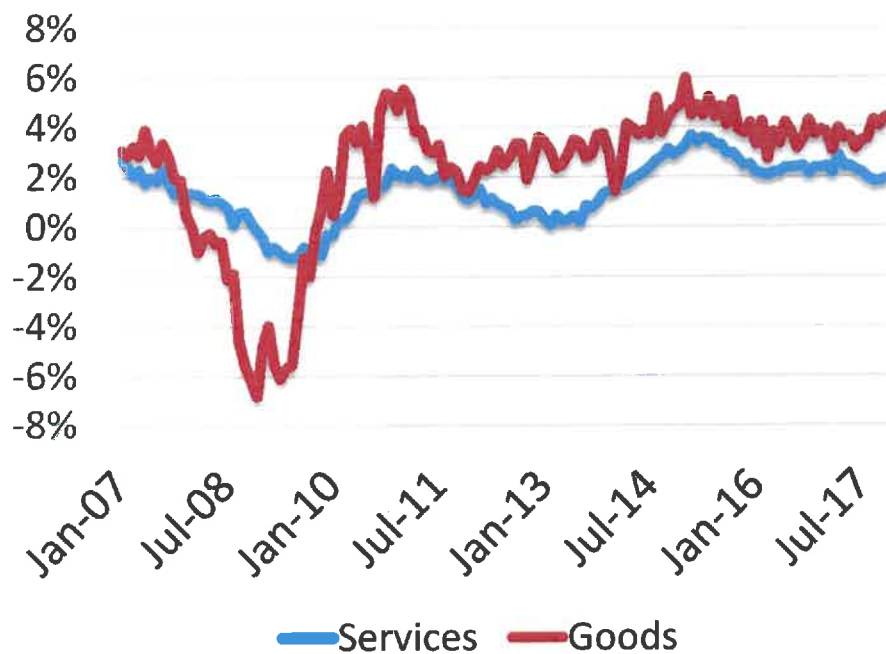
*2017 YTD: Q1-17 through Q3-17

Macro-Economy at a Glance

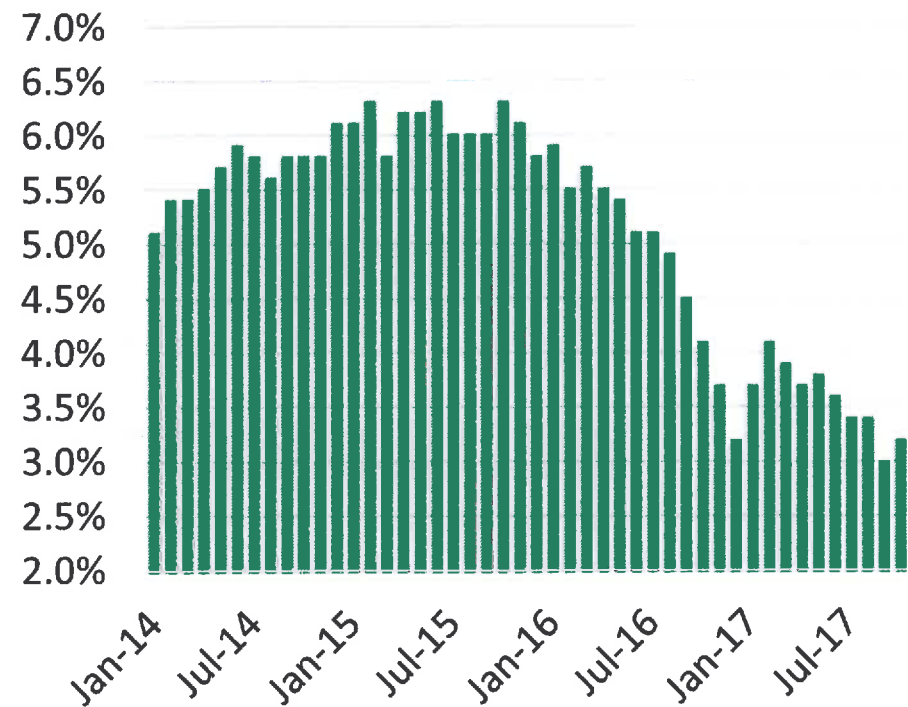
Sector	Outlook
CONSUMERS	Steady solid growth
BUS. INVESTMENT	Acceleration, energy drag over
GOVERNMENT	Flat/Up Slightly
NET TRADE	Imports & Exports up, Imports larger... NET Negative
SUMMARY	Domestic Spending Up

Consumer Spending: Flywheel of Economy

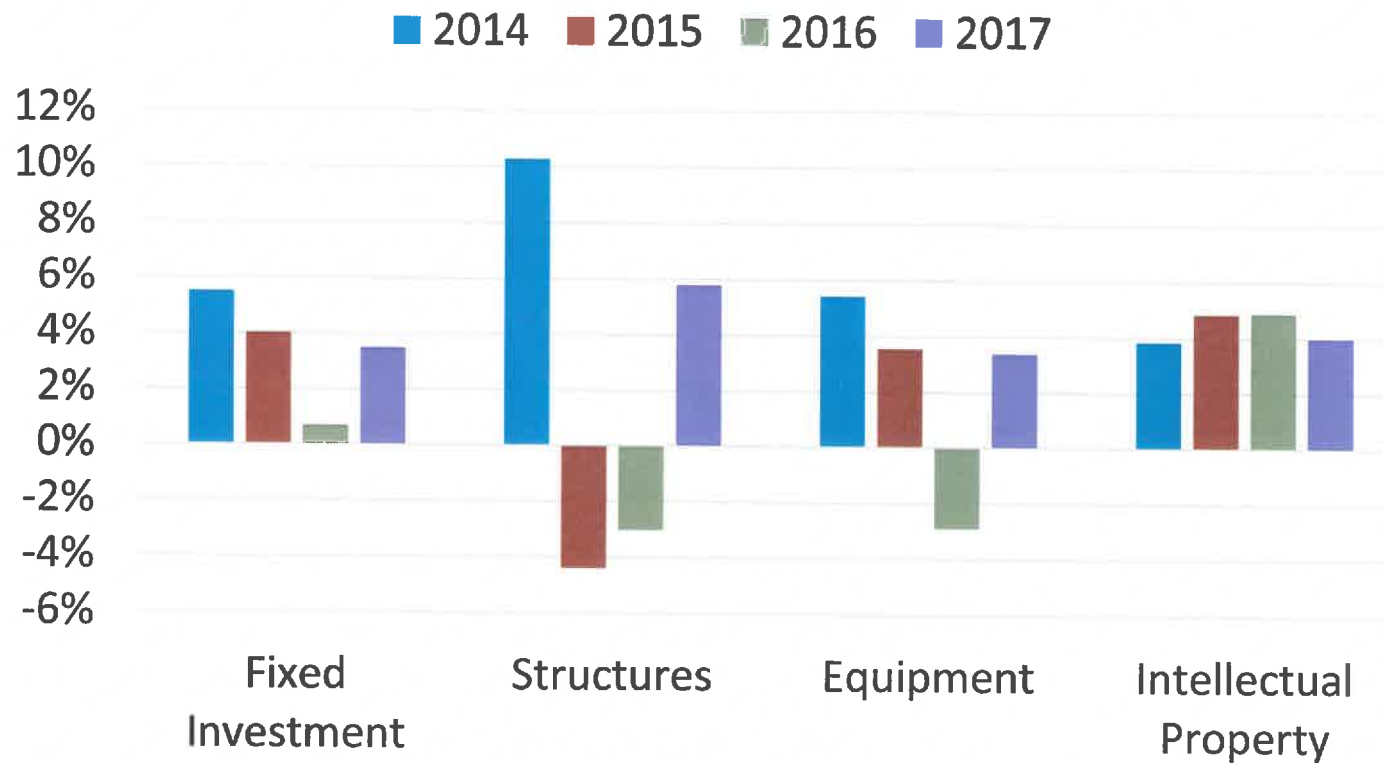
Real Consumer Spending by Type
(Y-o-Y Growth to November)



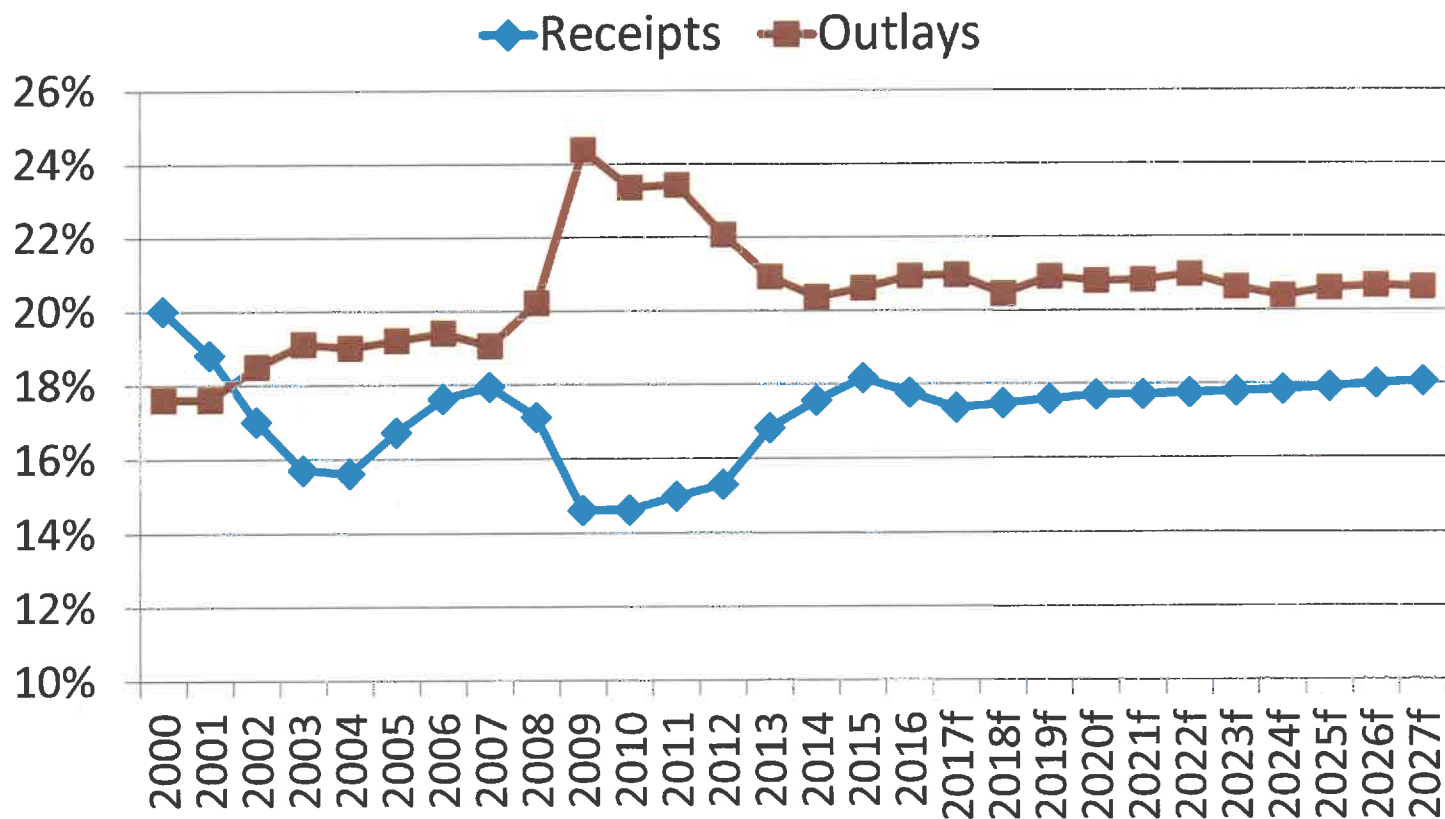
Consumer Savings Rate



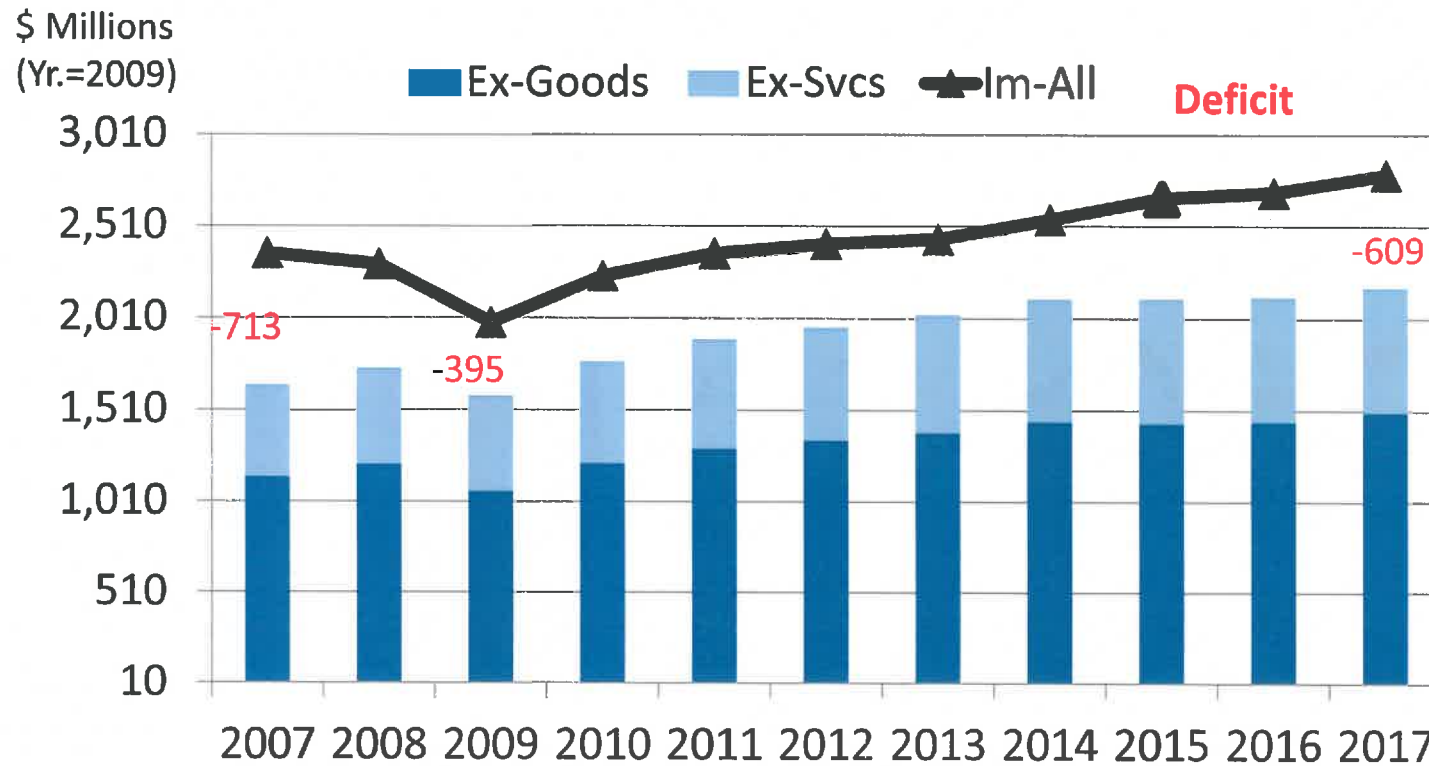
Business Spending Up



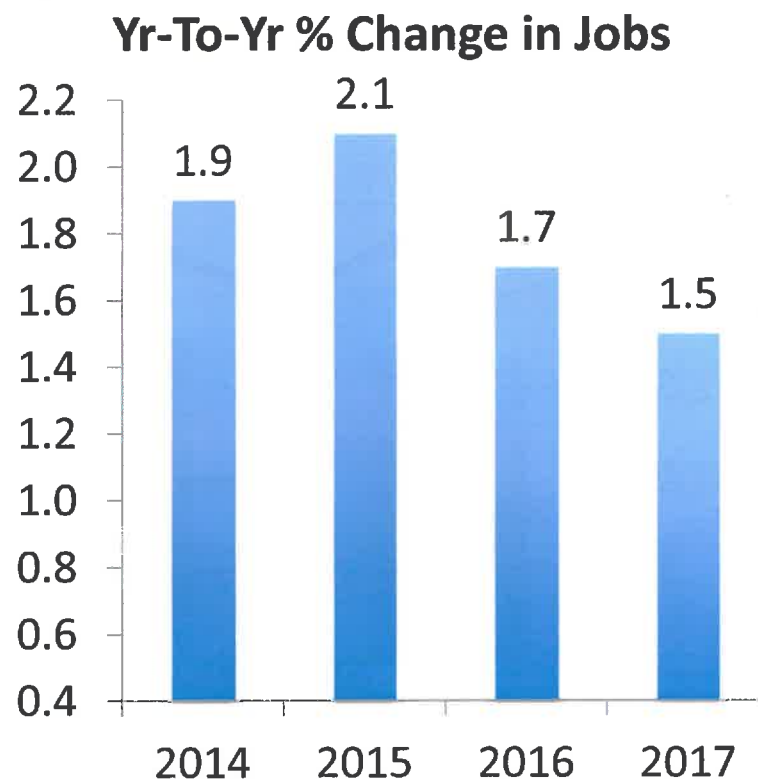
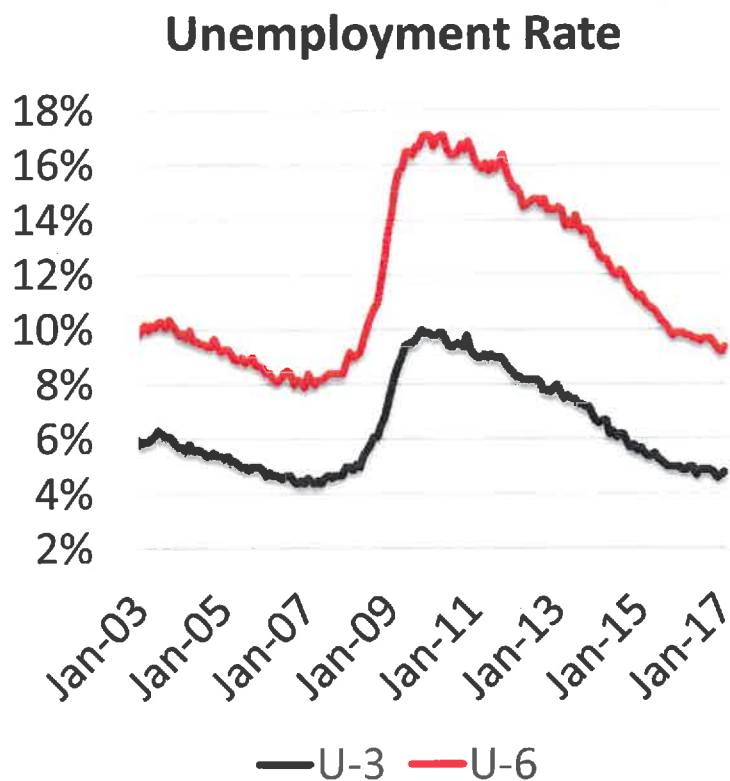
Budget Deficit as % of GDP



International Trade

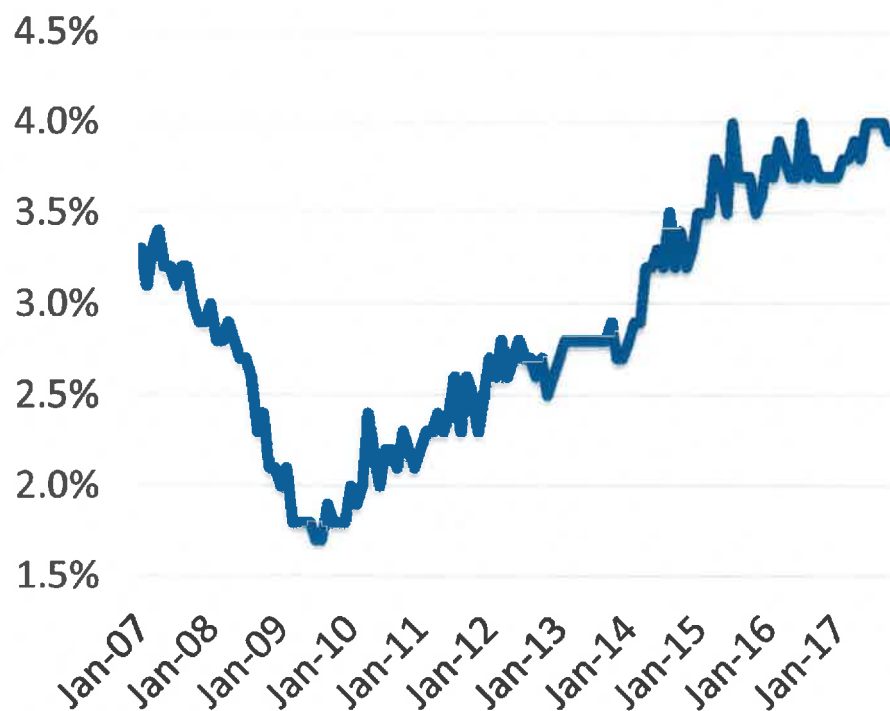


Full Employment, Slower Job Growth



Plenty of Job Openings, Not Enough Workers

JOLT Job Openings Rate

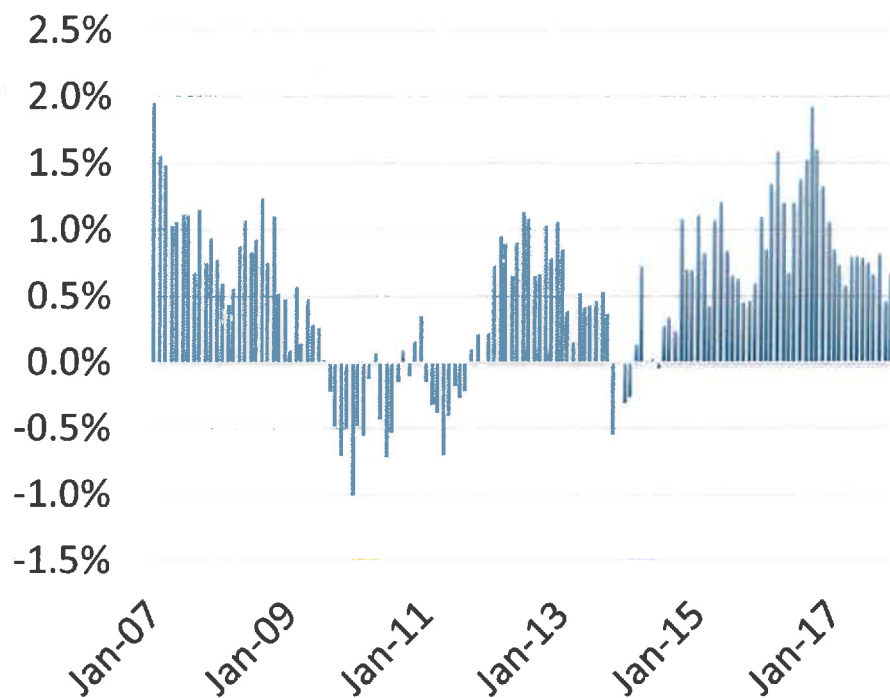


BEACON ECONOMICS Analysis. Answers.

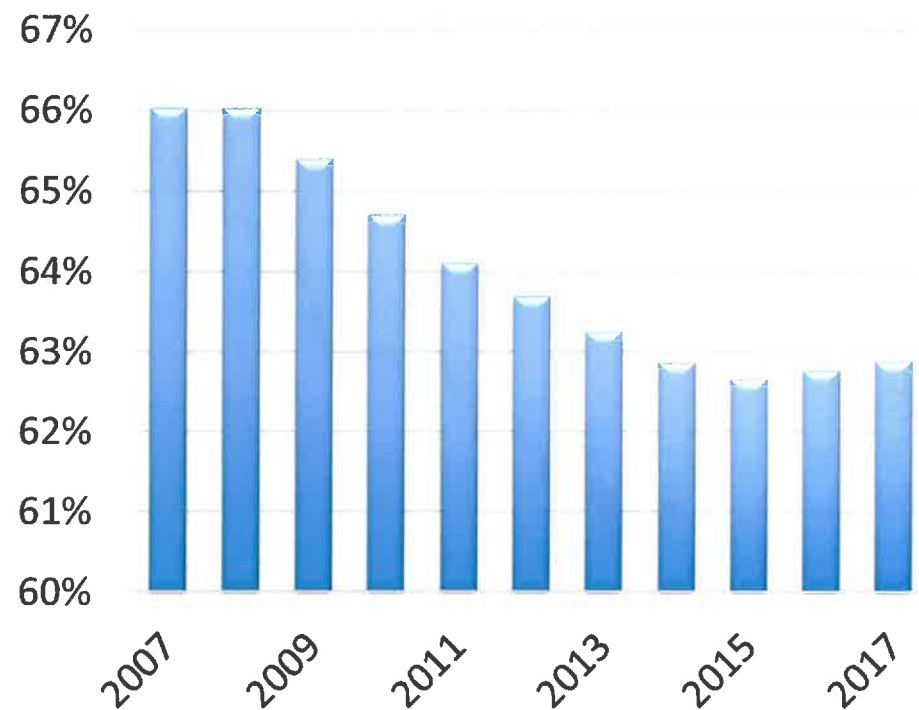
Sector	Level (000s)		Change (%)	
	Oct-16	Oct-17	Oct-16	Oct-17
Total	5,587	5,996	3.7	3.9
Hospitality	731	852	4.5	5.1
Health Care	1,054	1,026	5.2	5
Professional	1,083	1,083	5.1	4.9
Financial activities	317	377	3.7	4.3
Retail trade	650	655	3.9	4
Logistics	186	226	3.2	3.8
Construction	196	227	2.8	3.2
Manufacturing	314	402	2.5	3.1
Information	74	81	2.6	2.9
Mining	12	21	1.7	2.8
Education	107	100	2.9	2.6
Government	484	535	2.1	2.3
Wholesale trade	185	129	3	2.1

Labor Force Growth Constrained

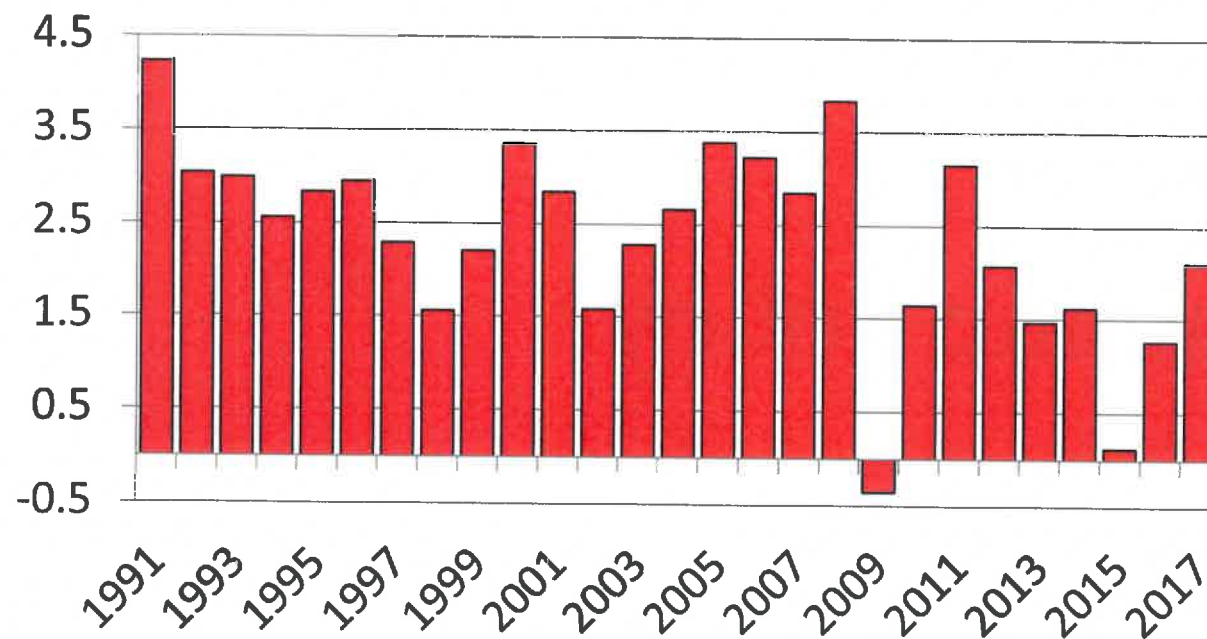
Labor Force Growth



LF Participation Rate



Inflation Historically Low But Rising





Economic Policy

Fiscal Policy-Tax Cuts

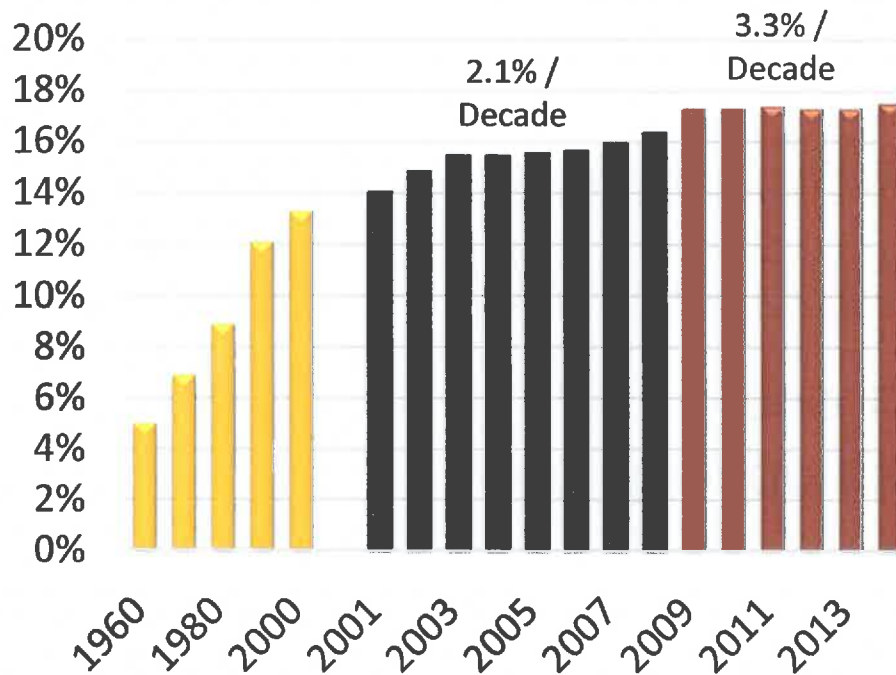
- **Households:**
 - Doubling of Standard Deduction
 - Cuts for all but middle income households
 - Limit on mortgage interest deduction (\$750K of debt)
 - Limit on and state/local tax (SALT) deduction (\$10,000)
 - Lower rate on certain pass-through income
- **Businesses/Corporations:**
 - Lower corporate tax rate (35% down to 21%)
 - Full expensing of short-lived capital
 - Other: International taxation, Deemed repatriation
- **Economic & Fiscal Impact**
 - Marginally higher GDP; Budget Deficit/National Debt higher

Fiscal Policy-Other Issues

- Immigration
- International Trade
- Infrastructure
- Health Care

Need Changes to US Health Care

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



BEACONECONOMICS Analysis. Answers.

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

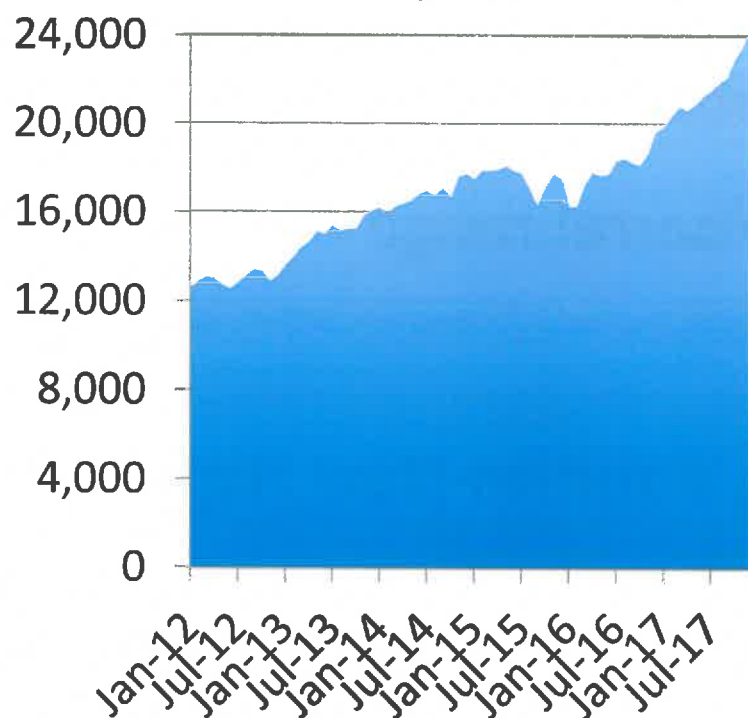
USA	\$9,402	France	\$5,428
Norway	\$7,832	Canada	\$5,421
Switzerland	\$7,300	Belgium	\$5,340
Sweden	\$6,285	Australia	\$4,873
Netherlands	\$6,209	Finland	\$4,467
Germany	\$6,204	Japan	\$4,255
Austria	\$6,143	UK	\$3,717

Monetary Policy

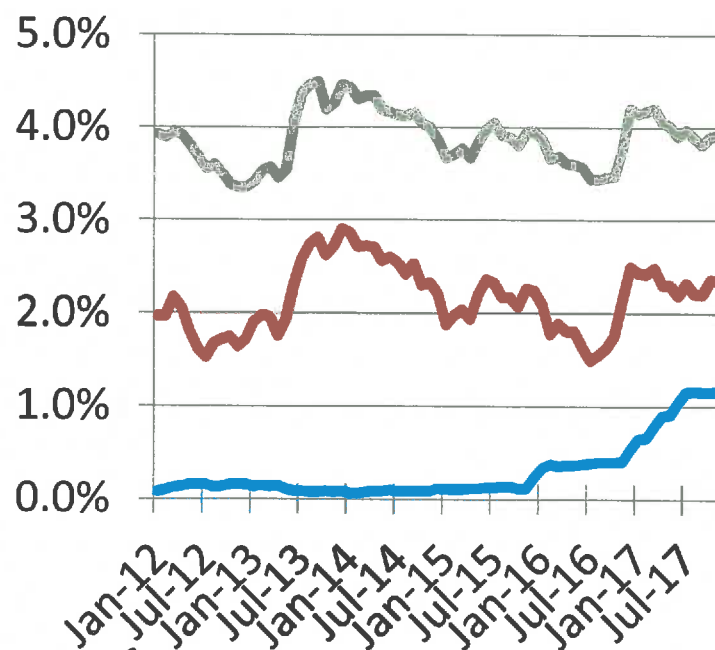
- Rock-bottom federal funds rate 2008-2016
- Adjusting to labor market, inflation, GDP
- Market rates less tied to FFR than before
- Yield curve dynamics *Federal Fund Rate*
 - FFR increases push up short end
 - Balance sheet activities push up long end
 - Markets keep long end low

Financial Markets

DJIA, SA



Fed Funds Rate 10 Year Yield
30 Year Mort



U.S. Outlook

- Continued US Growth: 2017: 2.2%, 2018: 2.5-2.8%
- Domestic Spending Will Continue
- Oil Prices: Steady in \$50-60/barrel range
- Inflation: Low, But Rising
- Financial Markets: Rates Up, Equities-New Highs
- Policy Uncertainty

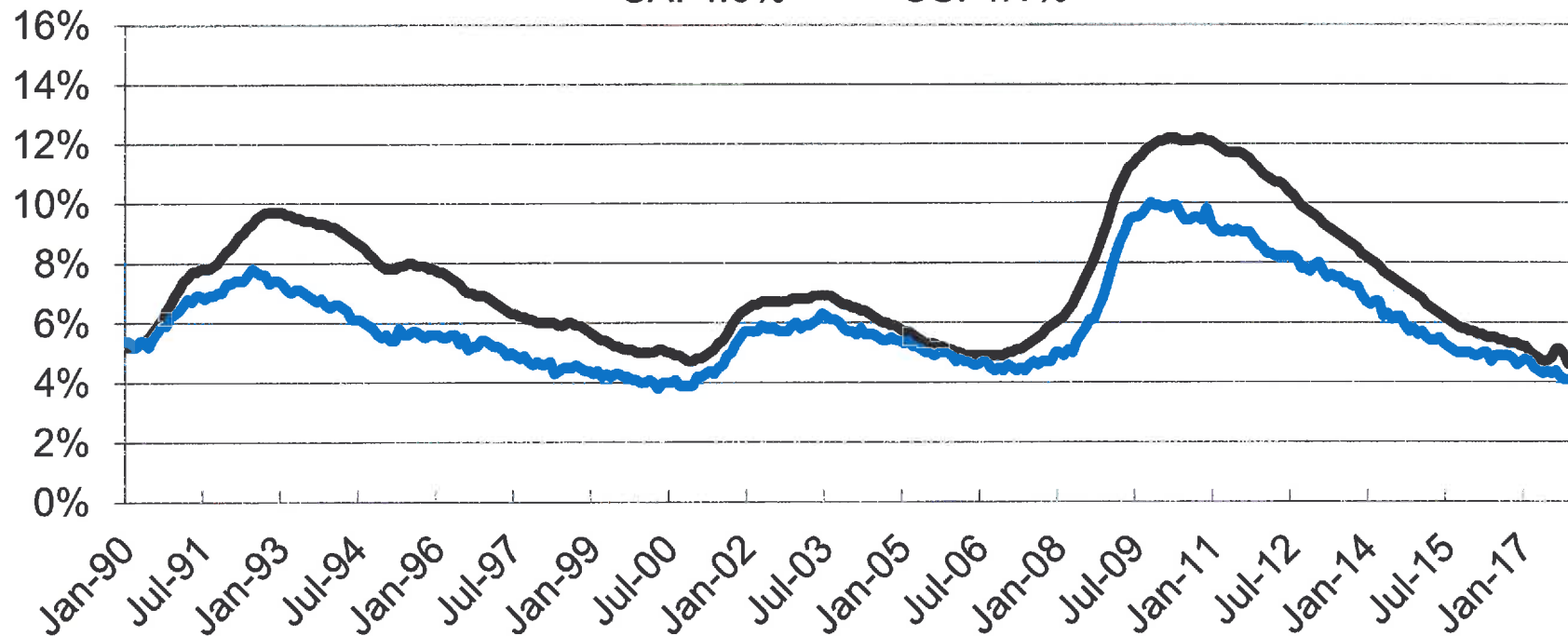


California Economy

CA & US at Full Employment

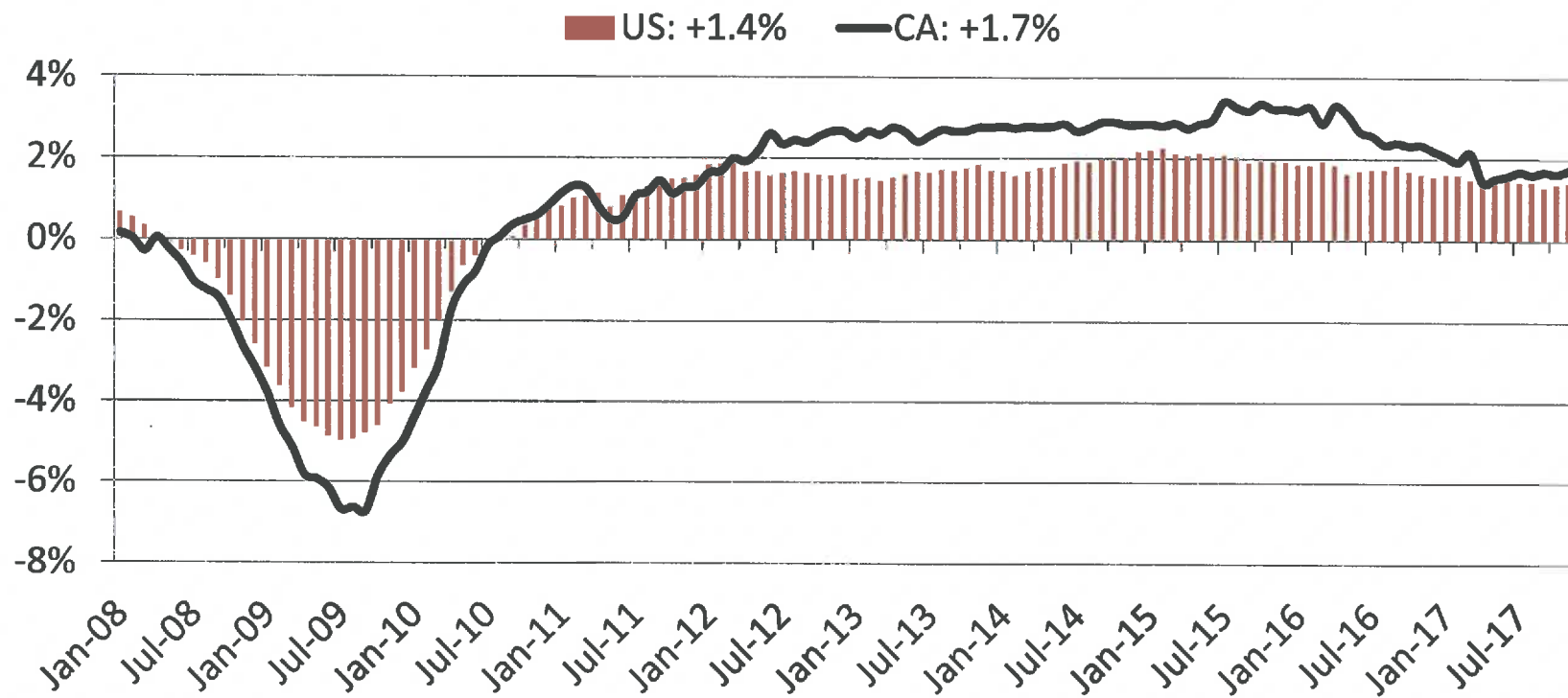
Unemployment Rate, Seasonally Adjusted

— CA: 4.6% — US: 4.1%



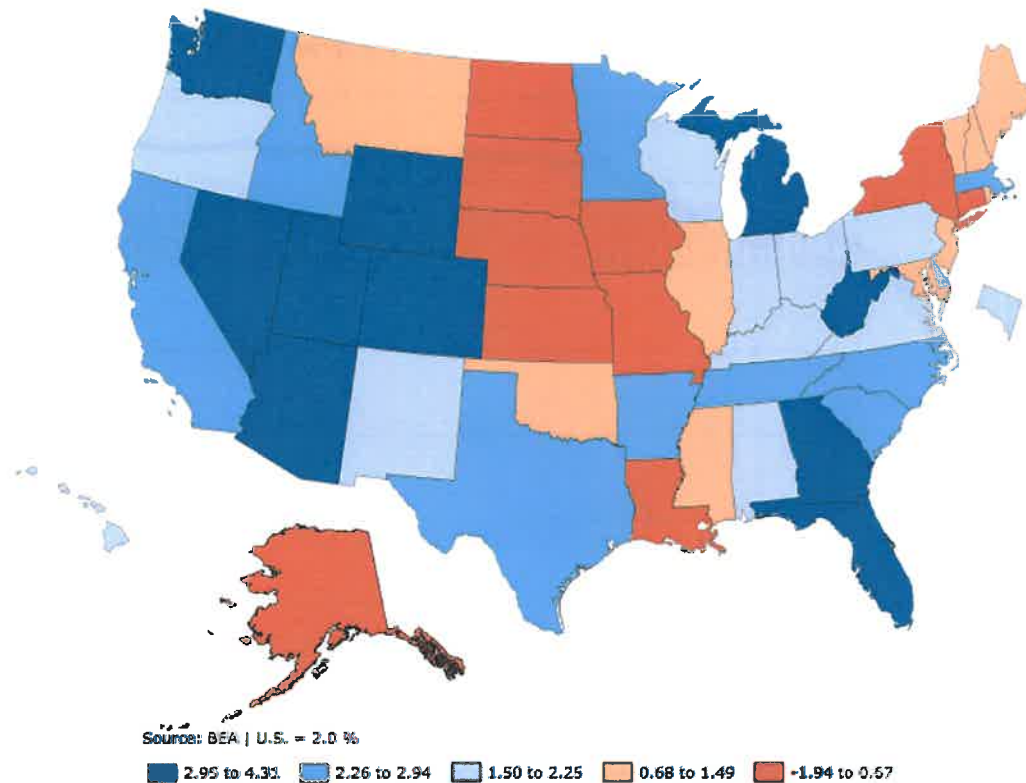
2017 Job Growth Slower than Past Years...

YTY % change in nonfarm jobs, seasonally adjusted

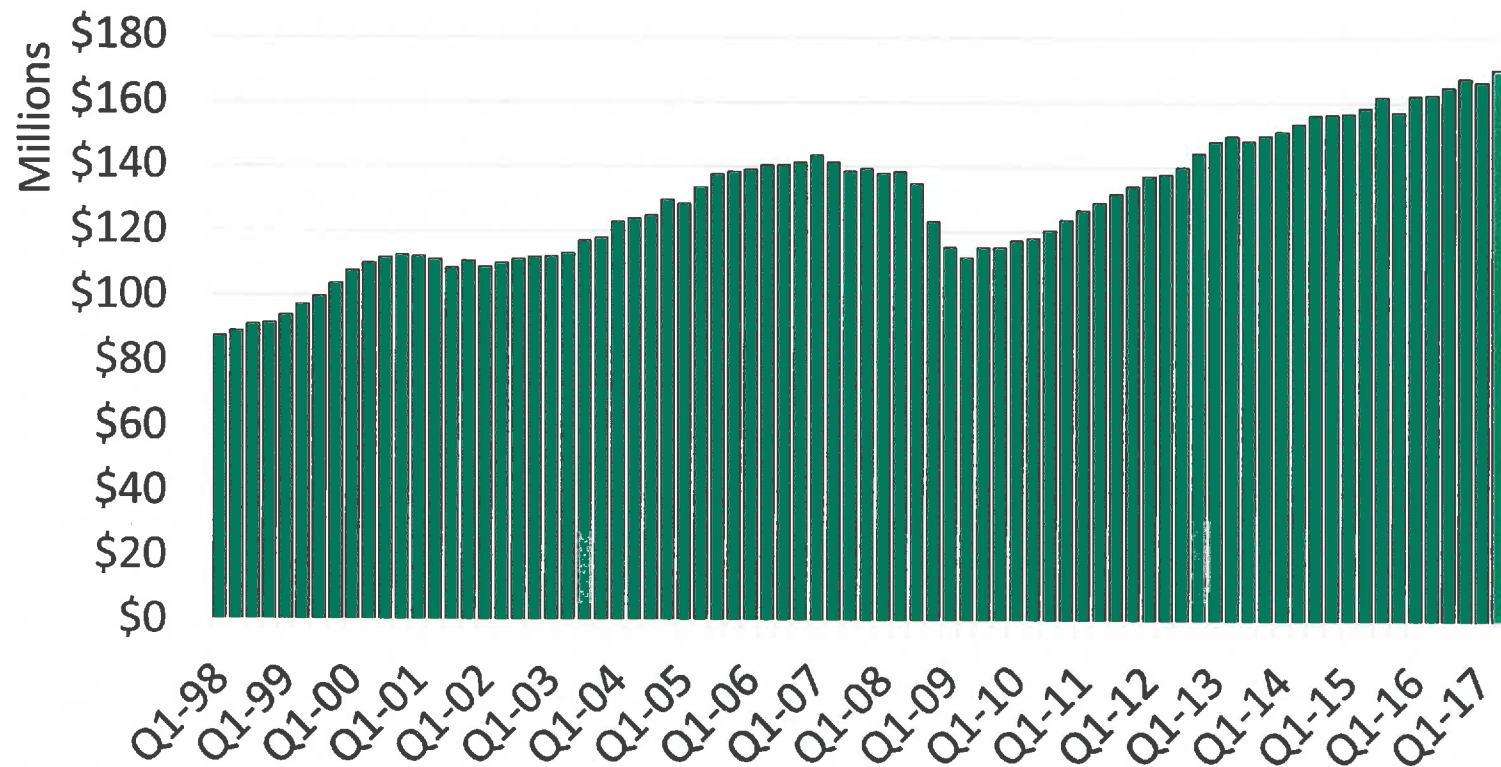


Gross Product: YTY % Changes CA Among Faster Growing States

Real GDP in chained dollars - All industry total, 2016:Q2 - 2017:Q2 Compound annual growth rate between any two periods



California Taxable Sales (+4.1% YTD through Q3-17)



CA Job Adding Jobs Across Industries

Industry	Nov-16	Nov-17	YTY	YTY %
Total Nonfarm	16,633.1	16,921.4	288.3	1.7
Health Care	2,206.9	2,274.4	67.5	3.1
Leisure and Hospitality	1,916.6	1,973.0	56.4	2.9
Construction	786.9	835.3	48.4	6.2
Government	2,539.0	2,580.6	41.6	1.6
Educational Services	357.6	378.2	20.6	5.8
Other Services	566.6	581.7	15.1	2.7
Prof Sci and Tech	1,229.4	1,241.1	11.7	1.0
Durable Goods	815.2	823.0	7.8	1.0
Information	528.0	535.6	7.6	1.4
Real Estate	283.2	287.9	4.7	1.7
Management	226.8	231.3	4.5	2.0
Finance and Insurance	549.1	550.3	1.2	0.2
NR/Mining	23.1	22.8	-0.3	-1.3
Admin Support	1,101.8	1,093.9	-7.9	-0.7
Non-Durable Goods	489.3	477.7	-11.6	-2.4

Source: California Employment Development Department



Local Economy

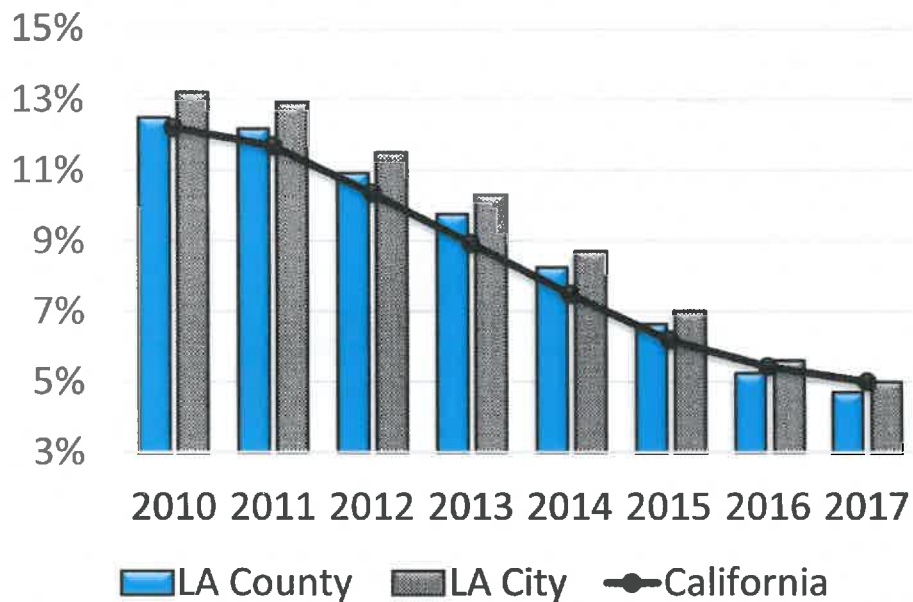
Labor Market – At/Near Full Employment

Not Seasonally Adjusted	Nov 2016	Nov 2017	Change
CA Unemployment Rate	5.0	4.0	-1.0
LA County Unemployment Rate	4.8	4.1	-0.7
City of LA	5.1	4.4	-0.7

From: EDD 1/19/18 next release

Unemployment Lowest in Years

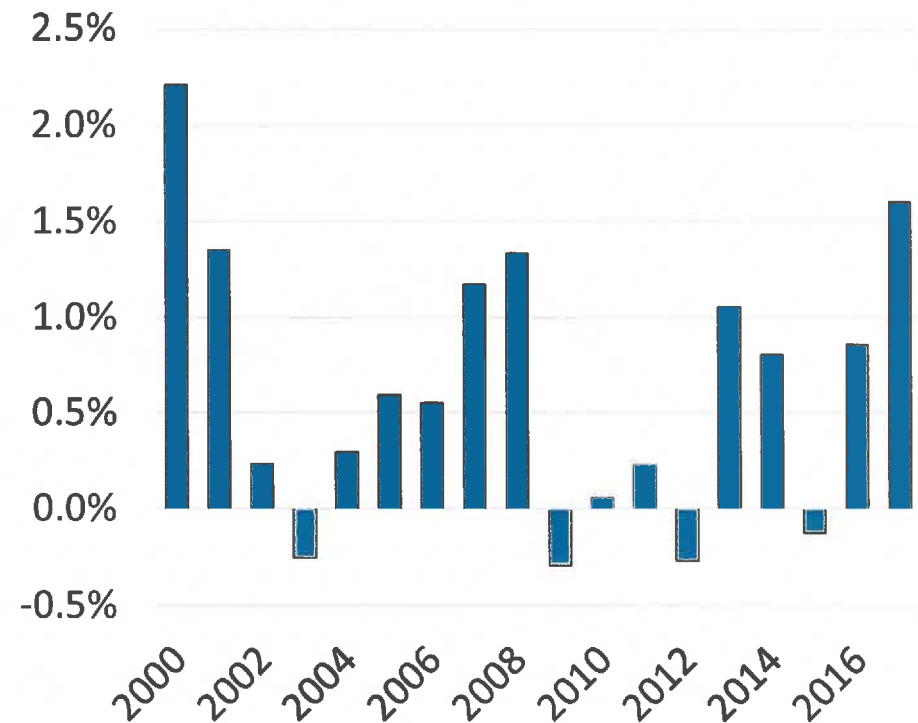
Unemployment Rate (%)



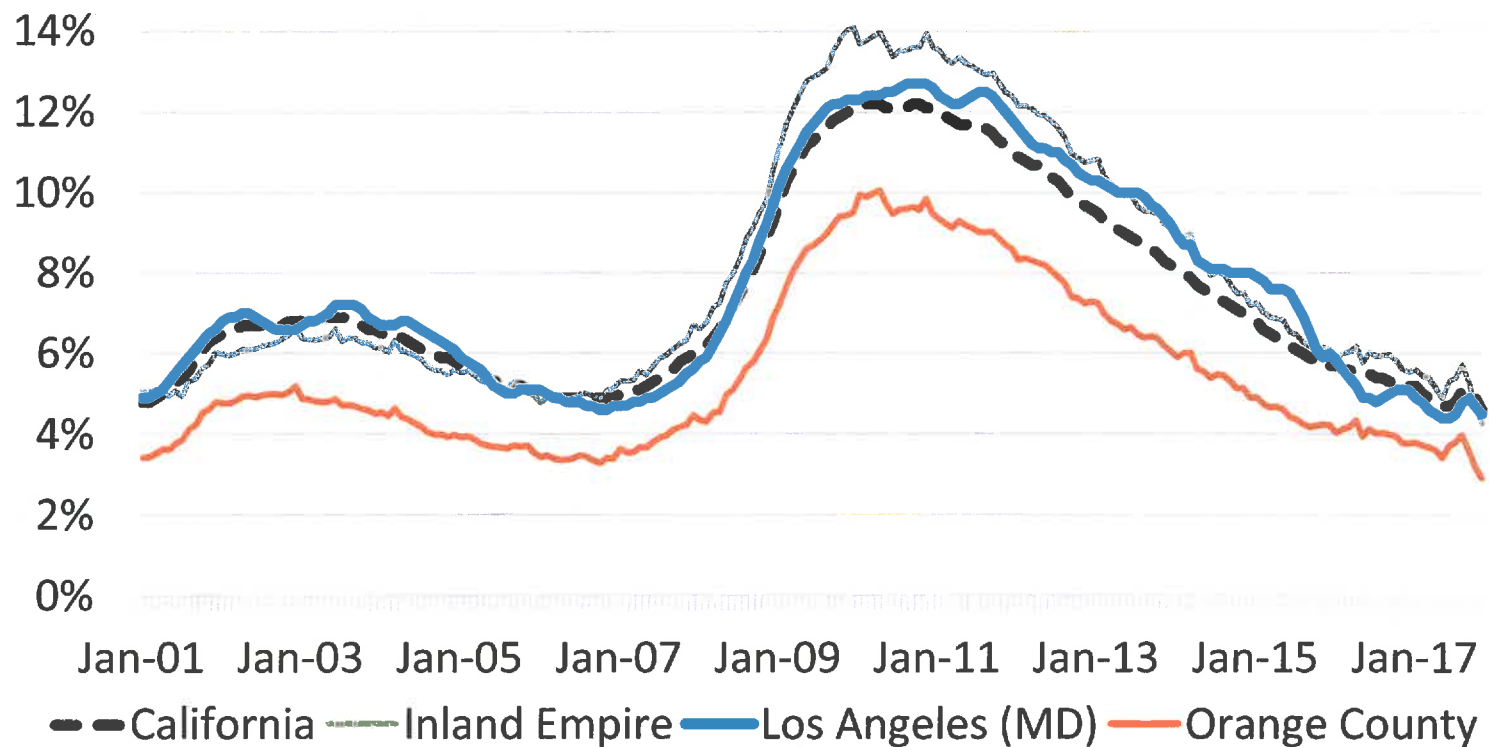
	LA City	LA Cnty.	CA
Participation Rate (%)	65.8	64.2	63.6

BEACONECONOMICS Analysis. Answers.

% Change County Labor Force

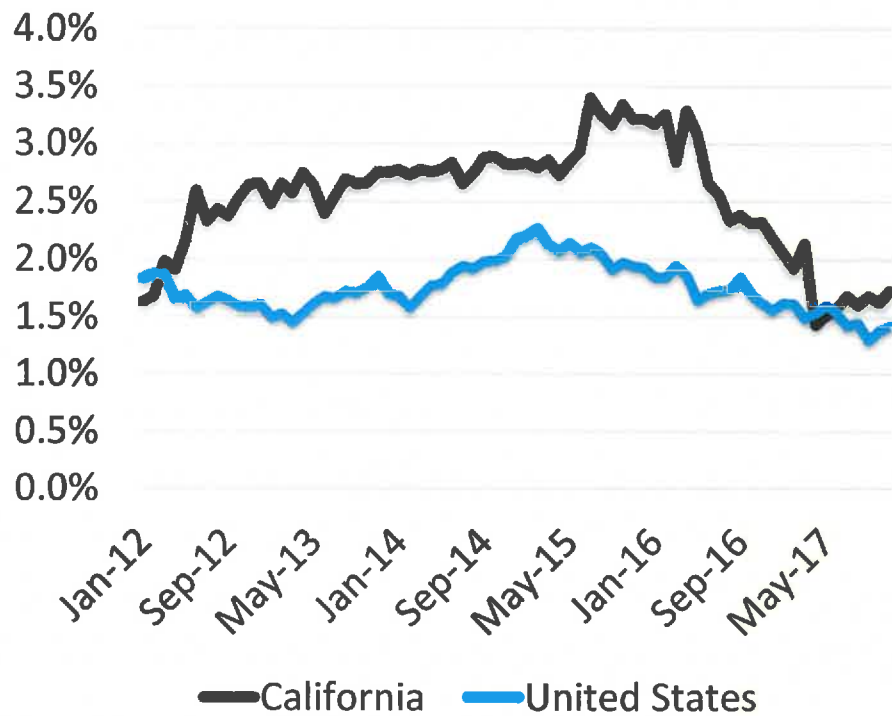


Unemployment Rates



The Big Slowdown

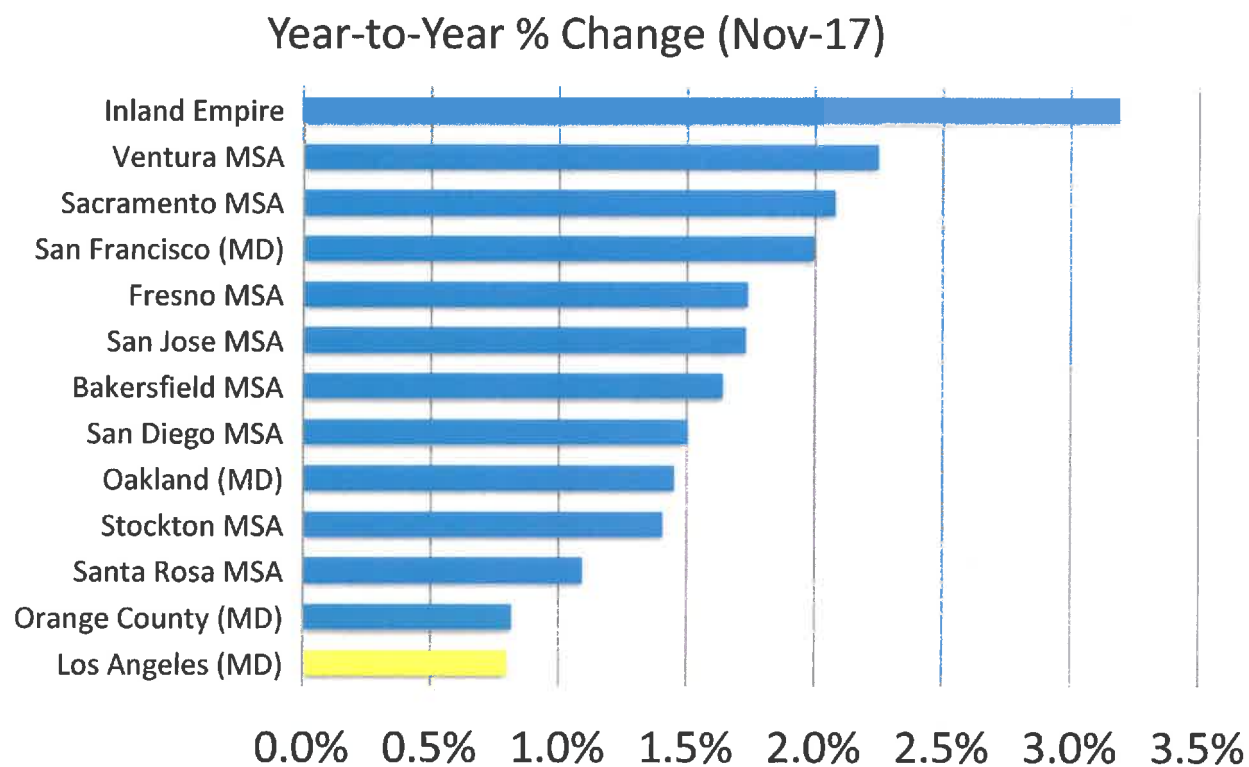
State and National Job Growth



BEACON ECONOMICS Analysis. Answers.

	Nov-17	14-15	15-16	16-17
Inland Empire	1,470,000	5.2%	3.3%	3.0%
Fresno	346,000	3.6%	3.1%	2.3%
S. Francisco	1,125,700	5.1%	4.1%	2.3%
East Bay	1,162,400	3.6%	3.2%	2.0%
Sacramento	978,700	3.6%	3.5%	1.8%
San Diego	1,457,400	3.3%	2.6%	1.7%
San Jose	1,102,100	4.3%	3.3%	1.8%
Los Angeles	4,465,200	2.6%	2.7%	1.4%
Kern	269,400	1.4%	-1.9%	0.9%
Orange	1,600,700	3.6%	2.3%	0.8%

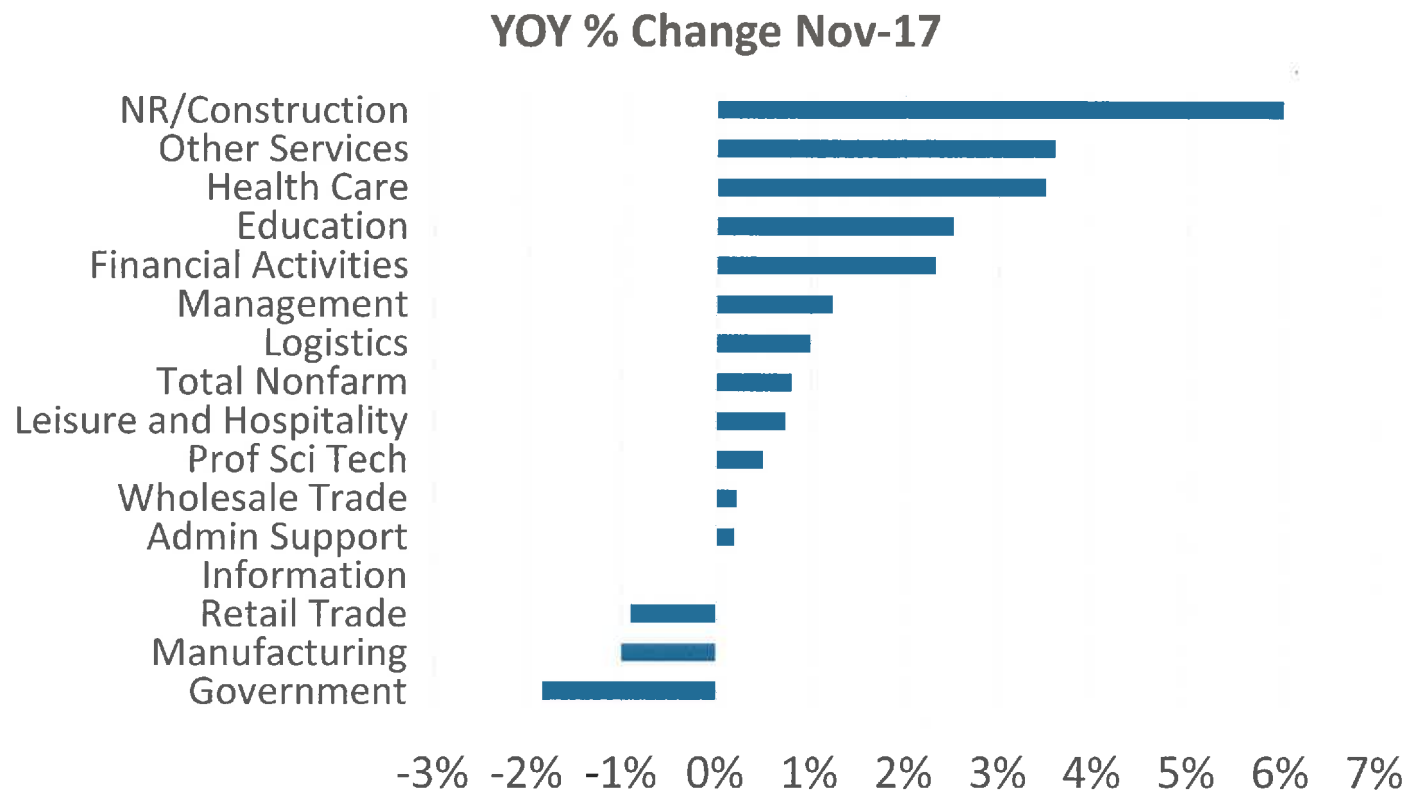
Metro Areas Vary in % Job Gains...



... LA, IE have Largest Absolute Gains

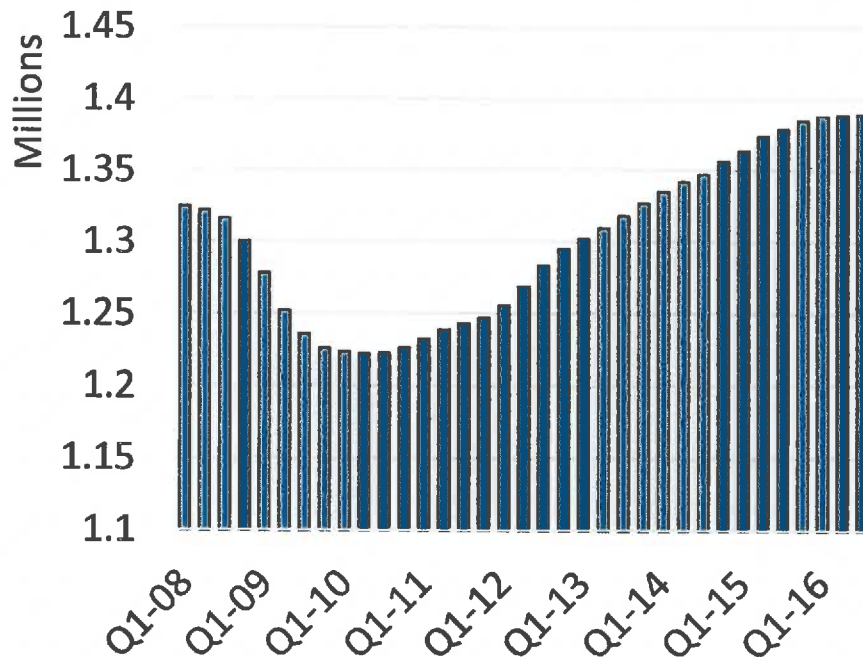
MSA	Nov-17 YTY Change Jobs (Seasonally Adjusted)
Inland Empire	45,400
Los Angeles (MD)	35,200
San Francisco (MD)	22,000
San Diego MSA	21,600
Sacramento MSA	19,900
San Jose MSA	18,700
Oakland (MD)	16,600
Orange County (MD)	12,900
Ventura MSA	6,800
Fresno MSA	5,900
Bakersfield MSA	4,200

LA County Job Changes by Industry



LA City Jobs: Slowing Growth

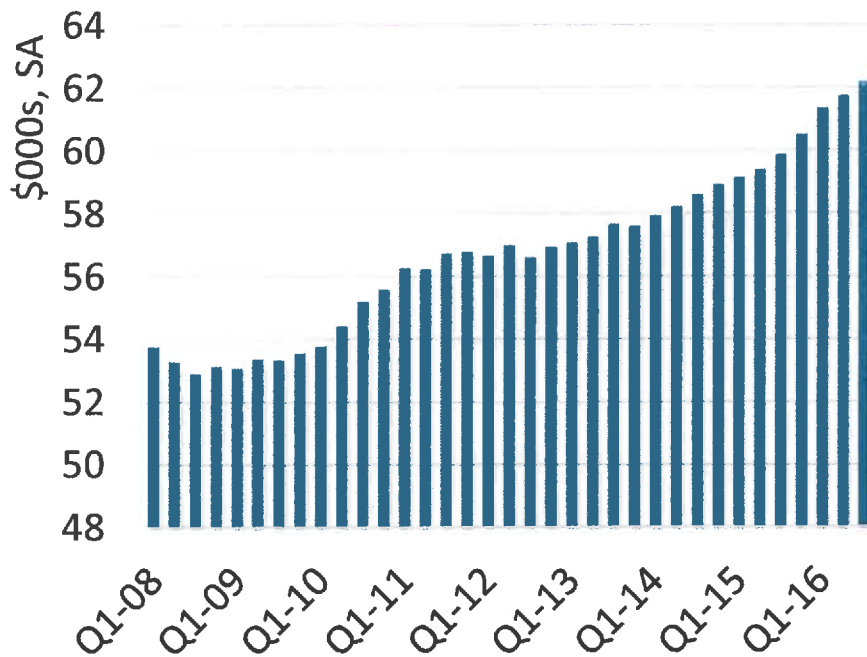
**L.A. City Employment
Q1-08 to Q3-16**



Industry	Jobs (000s)	County Share (%)	1-Yr. Gr. (%)	2-Yr. Gr. (%)
			City	City
Total Private	1,388.90	36.7	0.7	2.3
Health Care	258.2	39.5	0.3	3.0
Hospitality	198.3	39.0	2.2	5.7
Retail Trade	144.6	34.7	-0.2	1.5
Prof, Sci, and Tech	142.5	43.1	0.6	3.2
Financial Svcs.	97.4	44.7	0.6	1.0
Manufacturing	92.4	26.1	-7.1	-3.5
Admin Support	91.9	34.5	-1.1	-0.2
Other Svcs.	75.1	43.0	9.8	5.3
Wholesale Trade	69.5	31.1	-3.4	-1.6
Logistics	65.1	37.2	7.0	7.5
Information	58.2	25.5	1.2	0.8
Education	49.1	50.2	1.0	1.2
Construction	46.5	32.8	5.5	6.1

LA City: Avg. Annual Wage by Industry

Annual Average Wage
Q1-08 to Q3-16



BEACONECONOMICS Analysis. Answers.

Industry	Q3-16 Wage (\$000s)	Annual Growth (%)	
		City	County
Total Private	62.2	3.9	2.7
Information	133.5	4.2	-2.2
FIRE	117.2	2.2	2.1
Prof, Sci, Tech	108.5	3.0	3.1
Education	65.8	2.3	1.7
Wholesale Trade	63.0	5.3	2.1
Logistics	60.5	2.9	1.2
Manufacturing	58.7	5.8	6.8
Construction	56.3	4.4	2.4
Health Care	45.5	6.6	3.6
Admin Support	42.5	4.4	4.0
Hospitality	42.0	5.0	2.2
Other Svcs.	37.6	1.5	3.9
Retail Trade	36.6	3.9	1.8

38

*include part-time job.
Total Salary/Total # of employee*

Key Industries

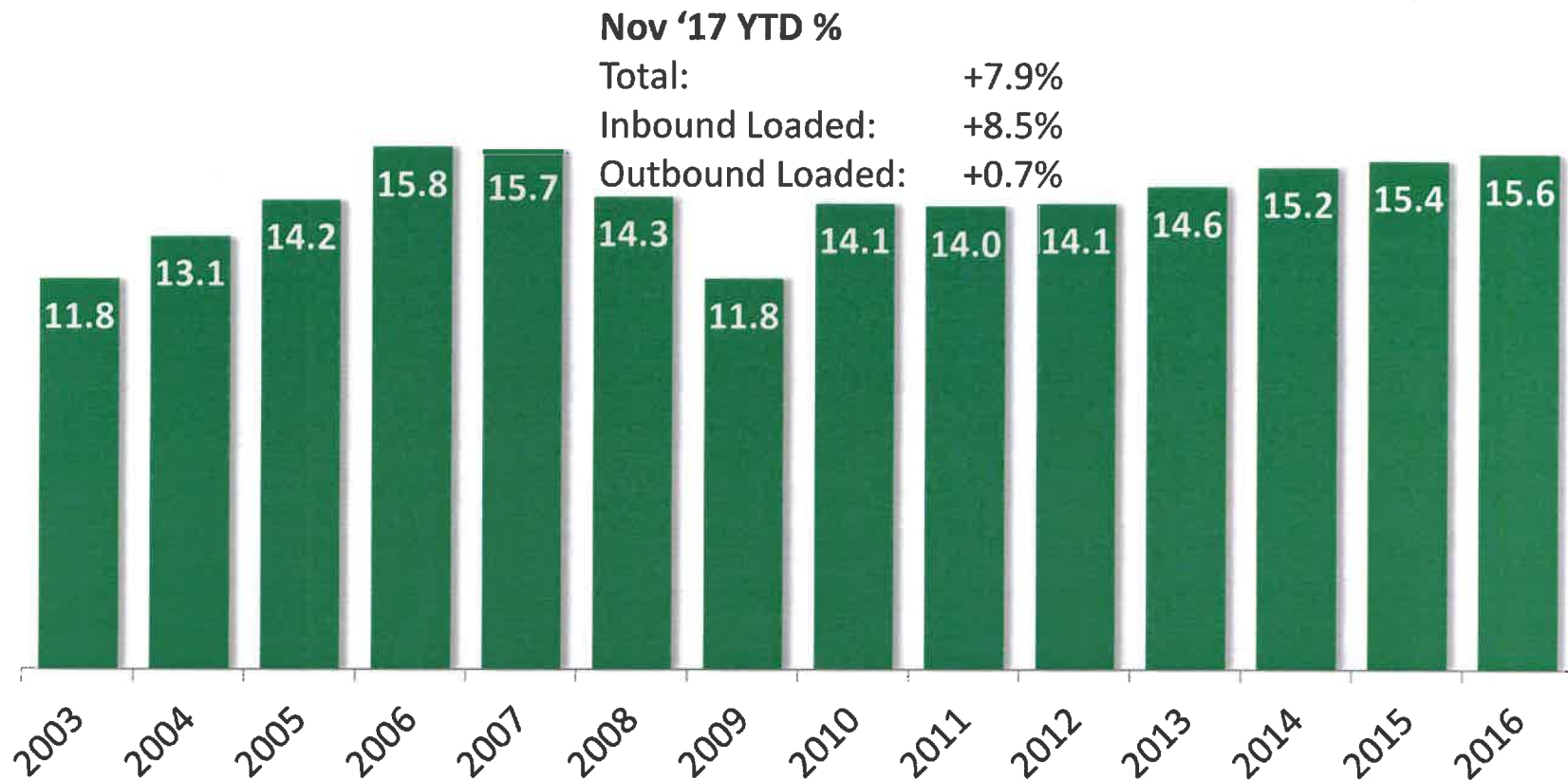
LOCAL SERVING – *largest number of jobs*

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

EXPORT-ORIENTED – *sources of new growth*

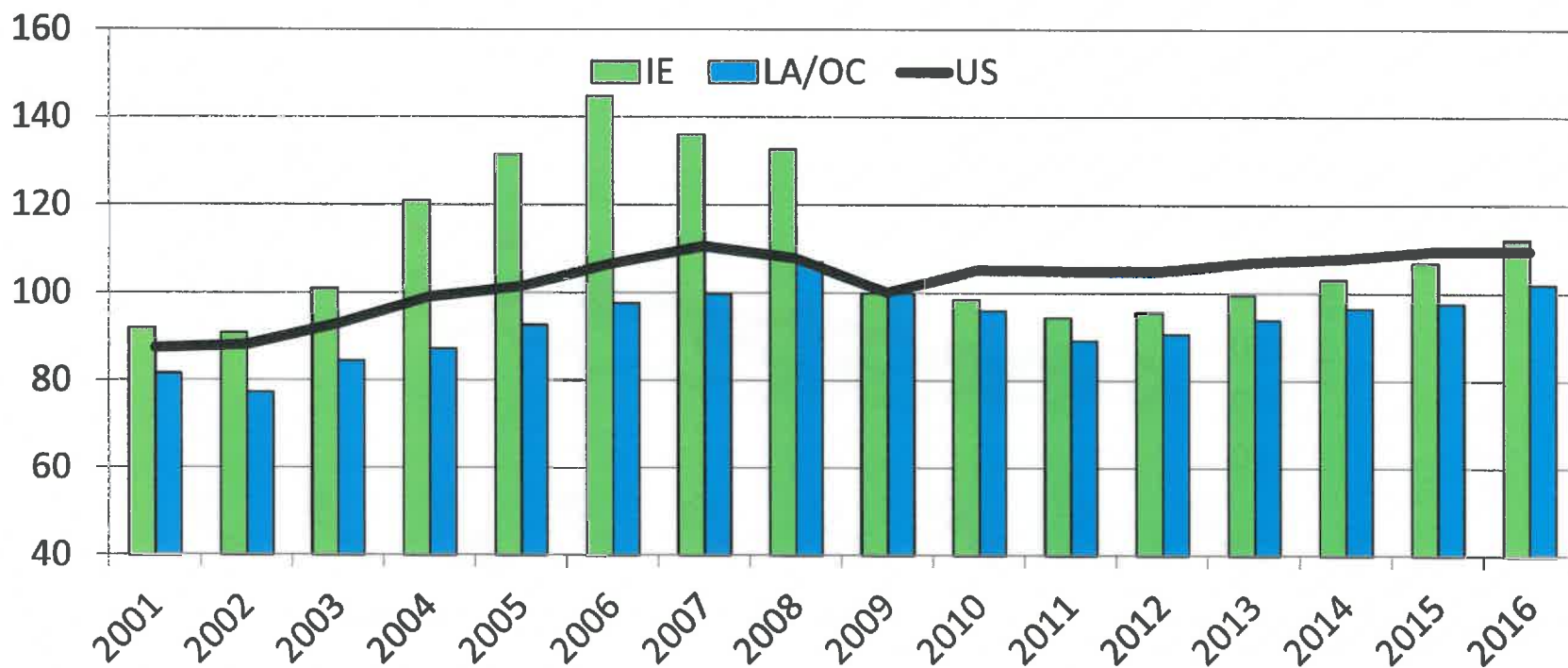
- Goods Movement: Trans/Warehouse, Whsl Trade
- Manufacturing: IT, Aerospace, Bio, Metals Mfg
- Prof, Scientific & Tech/Info Tech; Biosciences
- Education and Knowledge Creation
- Tourism & Entertainment-Hotels, Arts, Recreation
- Agriculture

San Pedro Ports to See Record Year



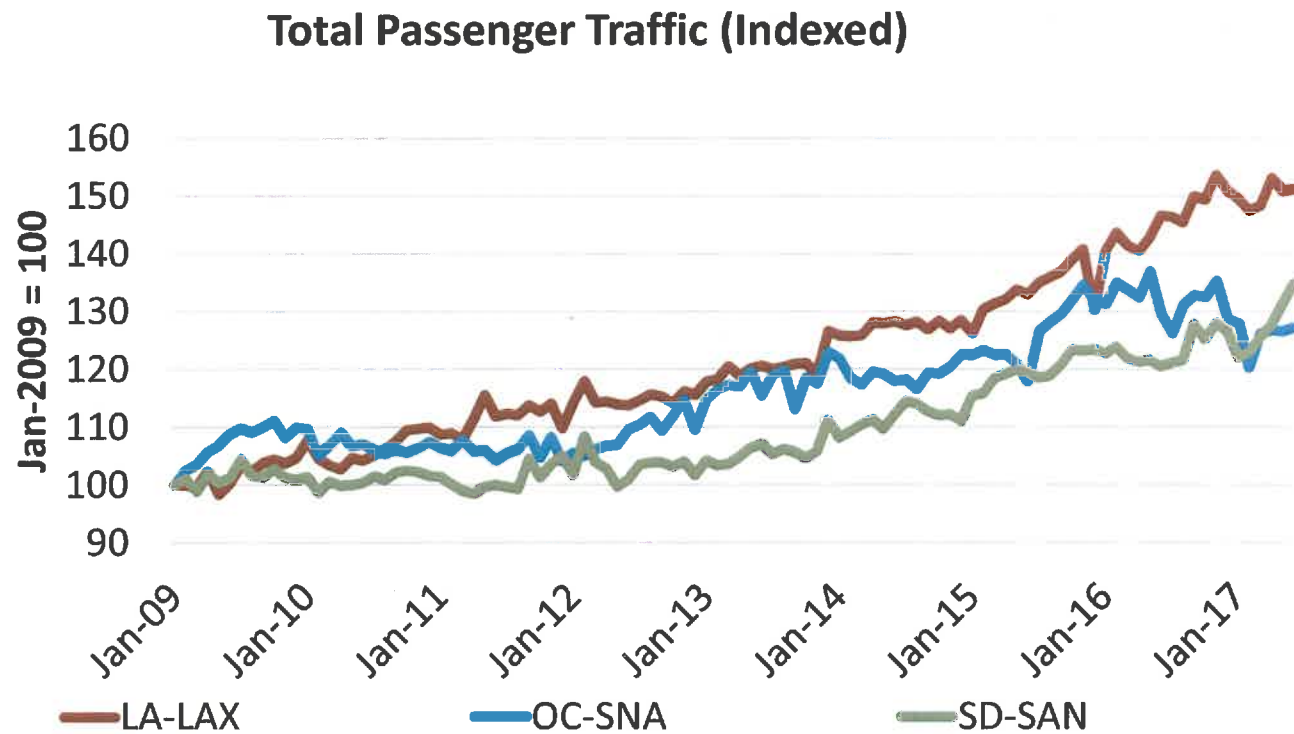
...and Manufacturing Output Rising

Value of Production (2009=100)



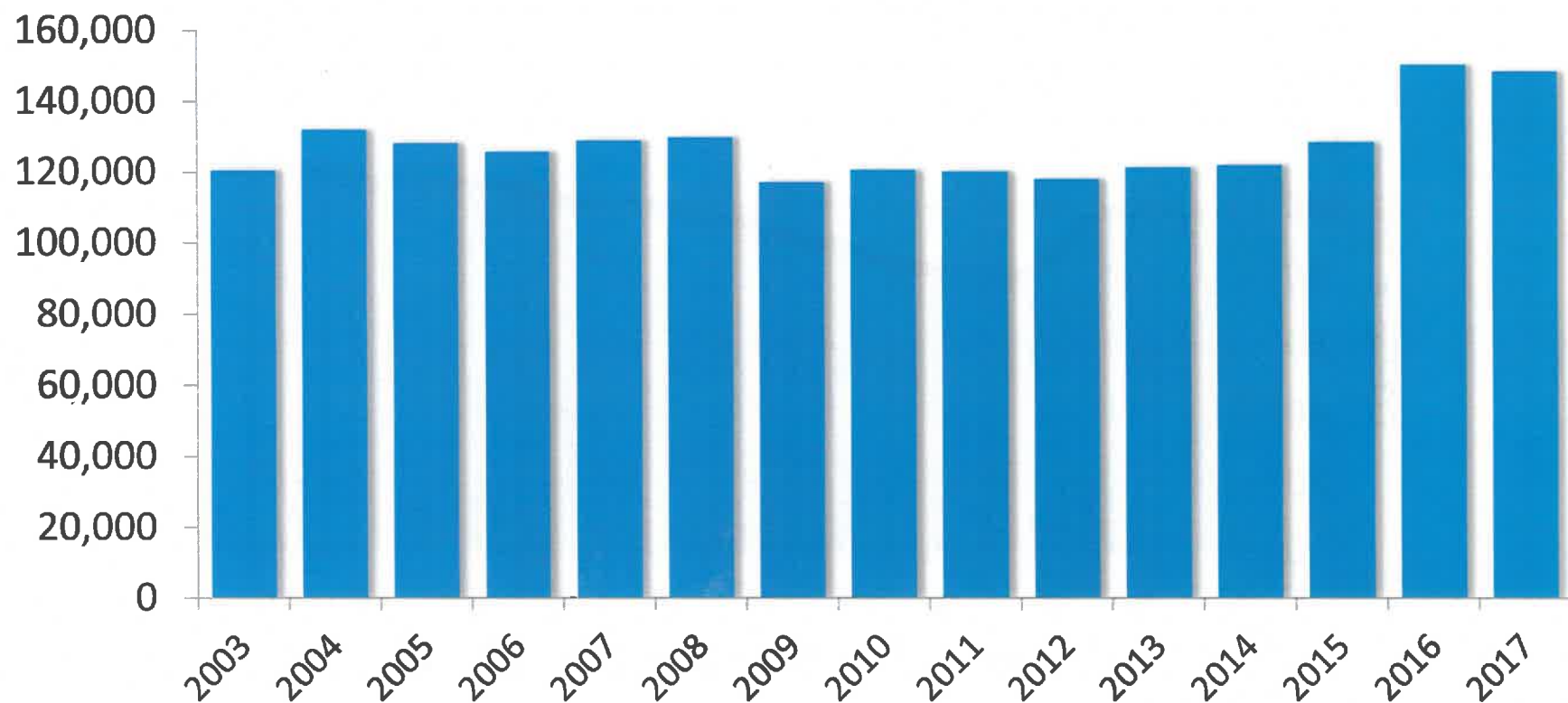
Source: U.S. BEA

Tourism Continues to Advance



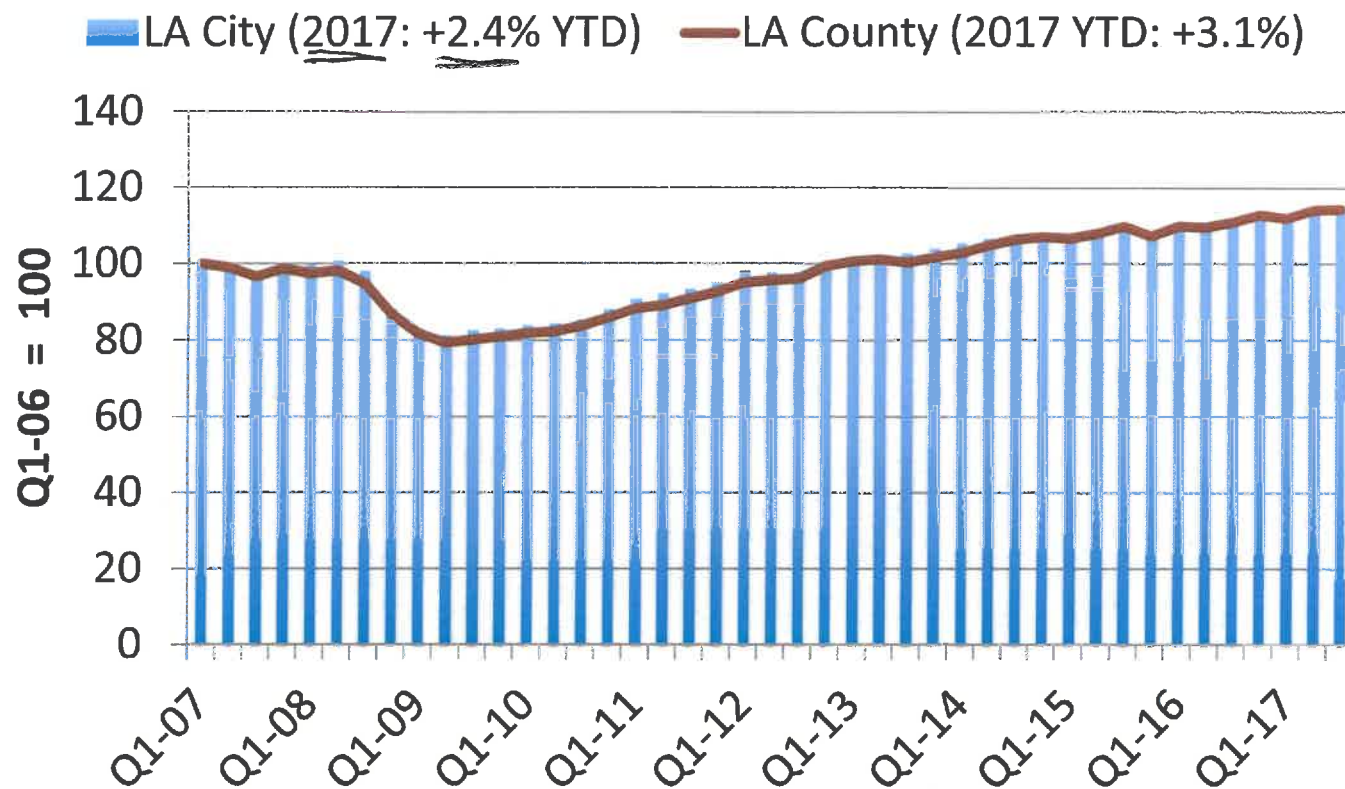
Source: Visit California

Motion Picture and Sound Recording Employment

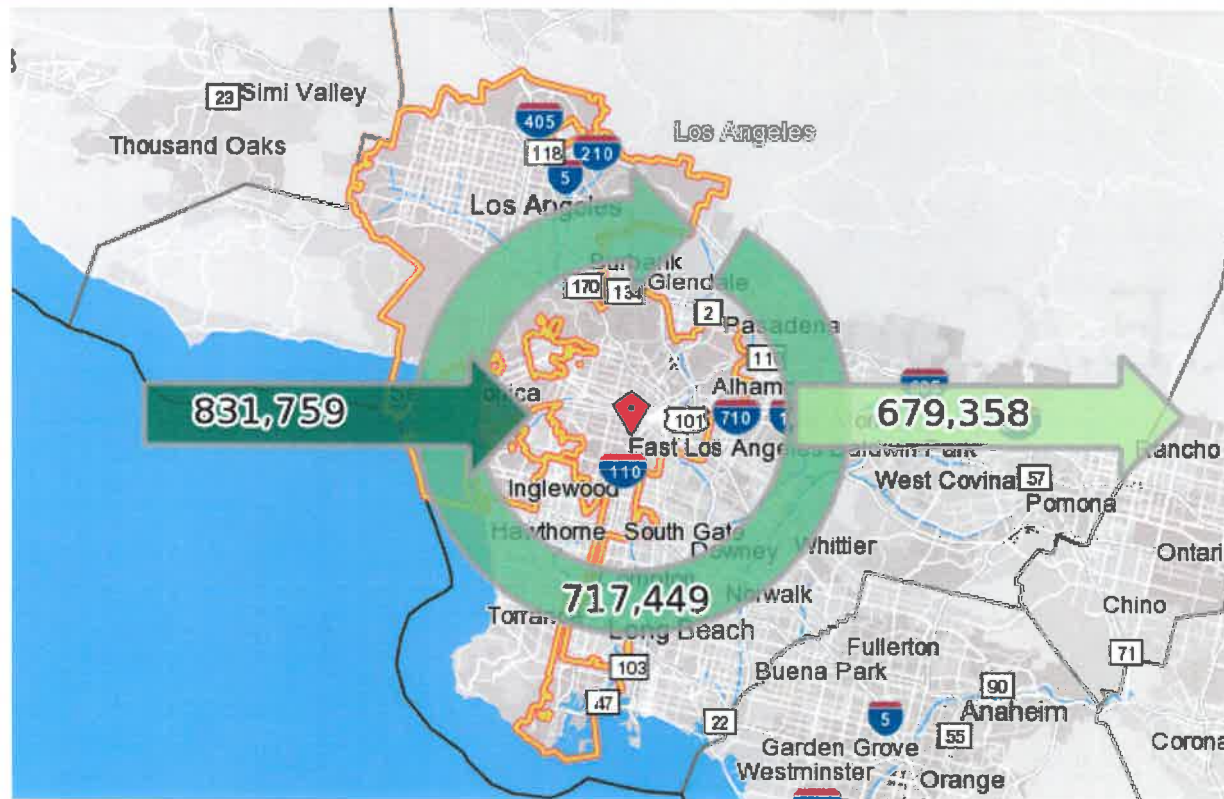


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Taxable Sales



Over Half of LA Residents Work in LA

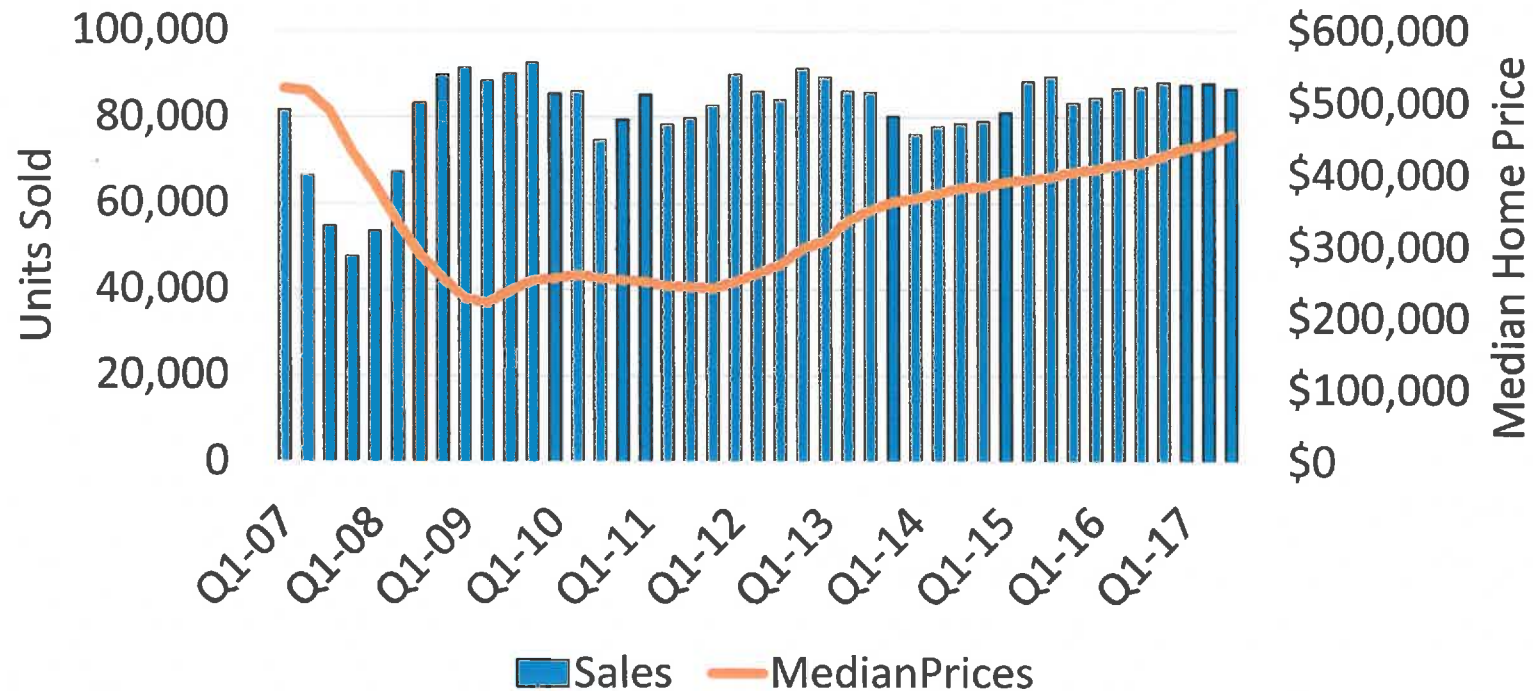




R.E./Construction

California Sales and Prices

Existing Single Family Residences



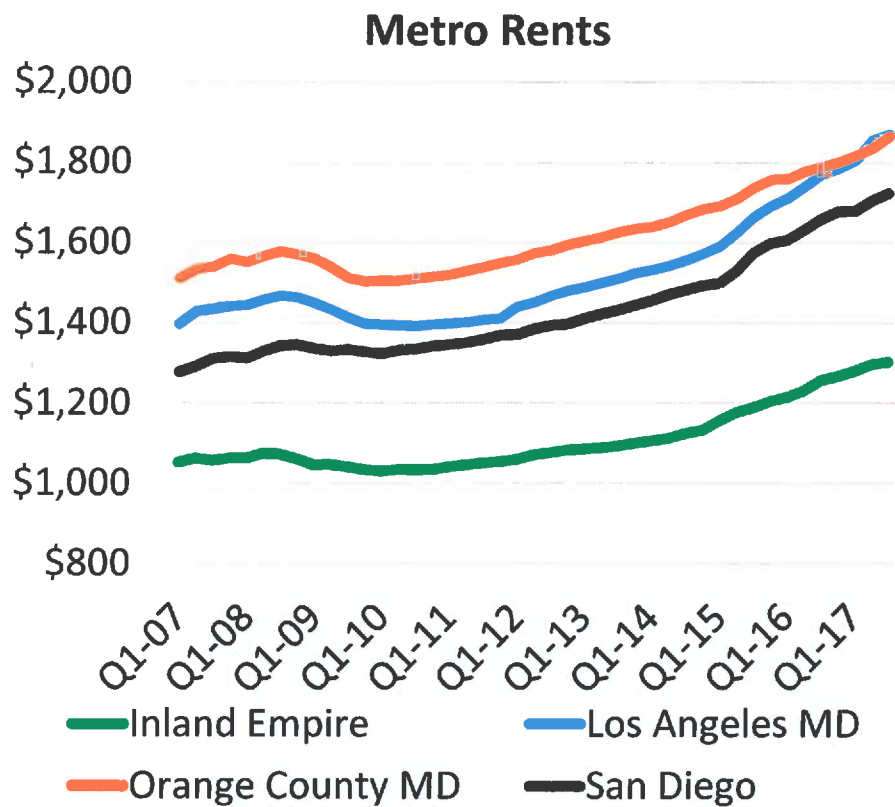
Median Prices Existing Single-Family Homes

	Q3-16	Q3-17	YTY % Chg in Price	YTY % Chg in Sales
City of LA	\$646,656	\$681,798	5.4%	0.8%
County of LA	\$544,835	\$588,466	8.0%	-2.0%

Housing Affordability: % of HHs Affording Median Priced Home

State/Region/County	Q2-16	Q2-17
Los Angeles	30	28
Orange County	22	21
Riverside County	41	39
San Bernardino County	56	51
San Diego County	28	26
Ventura	33	27
California	31	29

Apartment Rents

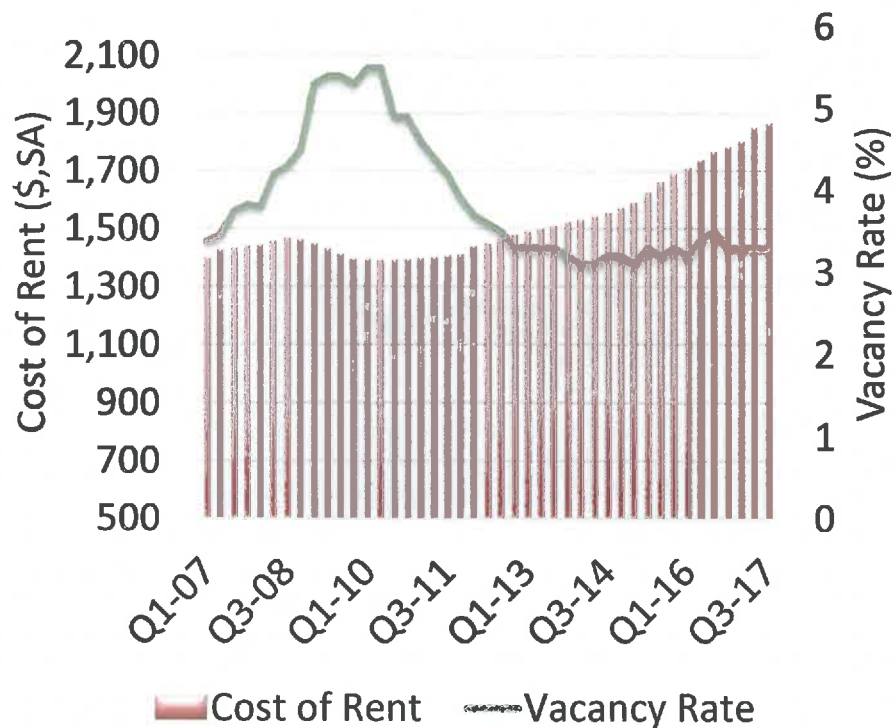


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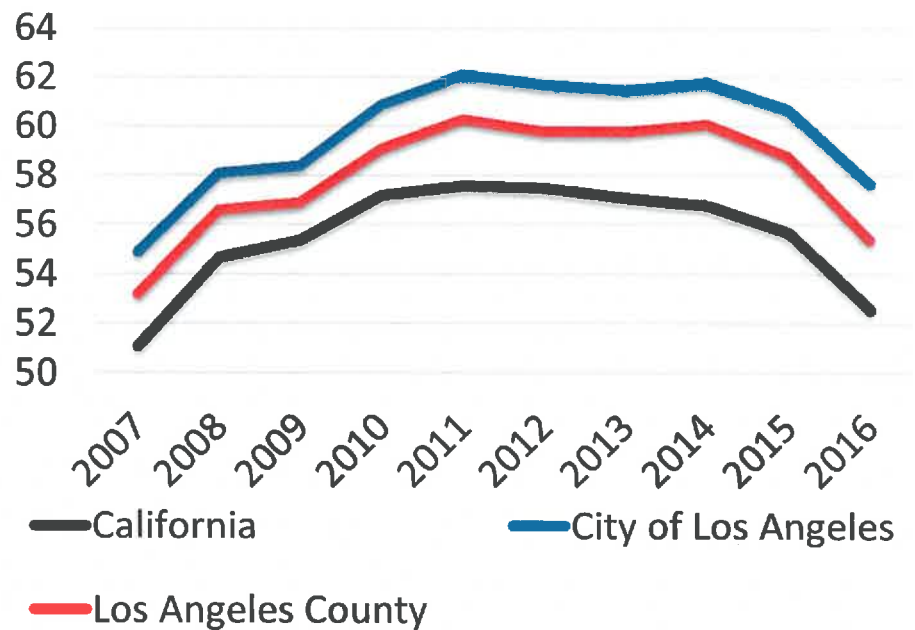
County	Wages	Rents	Share
Ventura	\$57,789	\$1,700	35%
Los Angeles	\$63,236	\$1,830	35%
Santa Barbara	\$52,911	\$1,526	35%
Orange	\$63,849	\$1,827	34%
Riverside	\$45,219	\$1,293	34%
San Bernardino	\$45,762	\$1,293	34%
San Diego	\$60,887	\$1,696	33%
San Luis Obispo	\$44,816	\$1,147	31%

Rental Market Improving

LA Apartment Rental Market



% Renters Spending >30% of Income on Housing



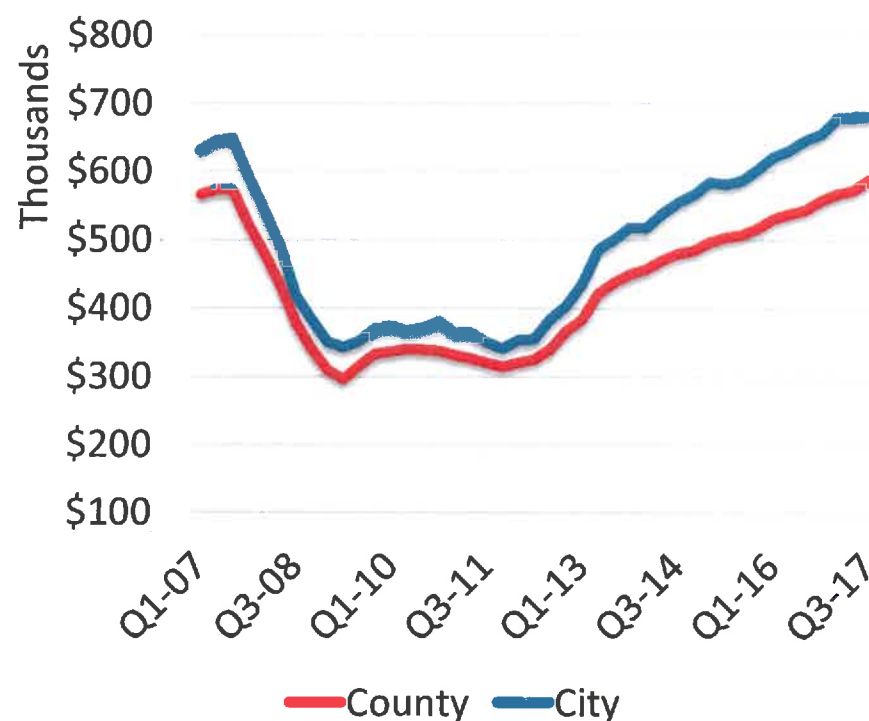
Salary Increase

Don't Just Focus on Affordable Rentals

Pop. Share with Mortgage Burden $\geq 30\%$

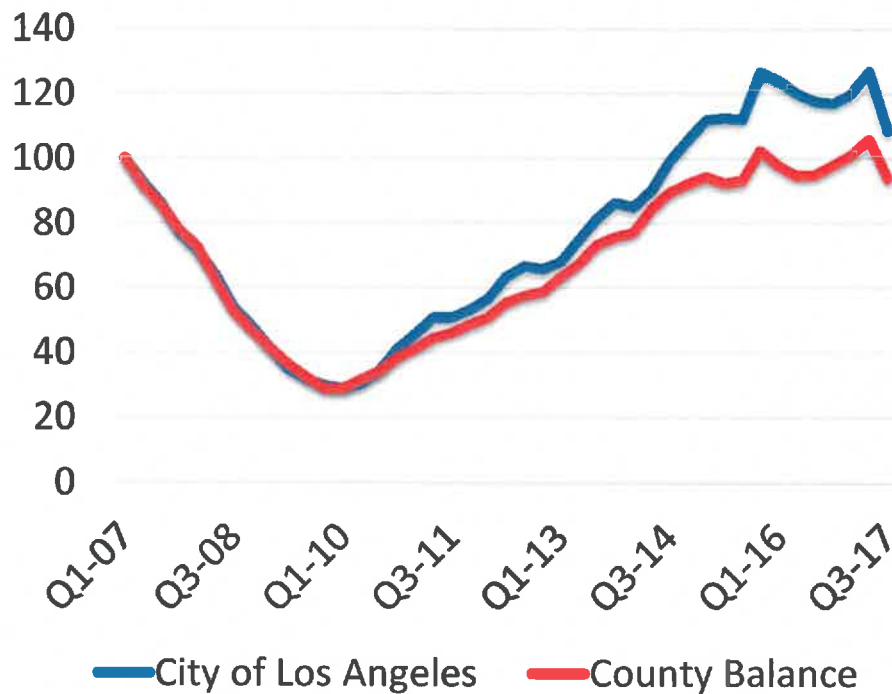
Region	2014	2015	2016
Los Angeles	54.7	52.4	50.4
San Diego	44.4	42.4	40.8
Inland Empire	46.6	44.1	42.1
San Francisco	46.2	44.0	41.3
Orange County	45.5	43.1	41.5
Oakland	46.8	43.6	41.3
Phoenix	35.9	33.5	31.1
Dallas	36.9	35.9	34.5
Houston	34.2	32.4	31.3

Median Home Prices



Residential Construction

Residential Permits Index



Residential Permits

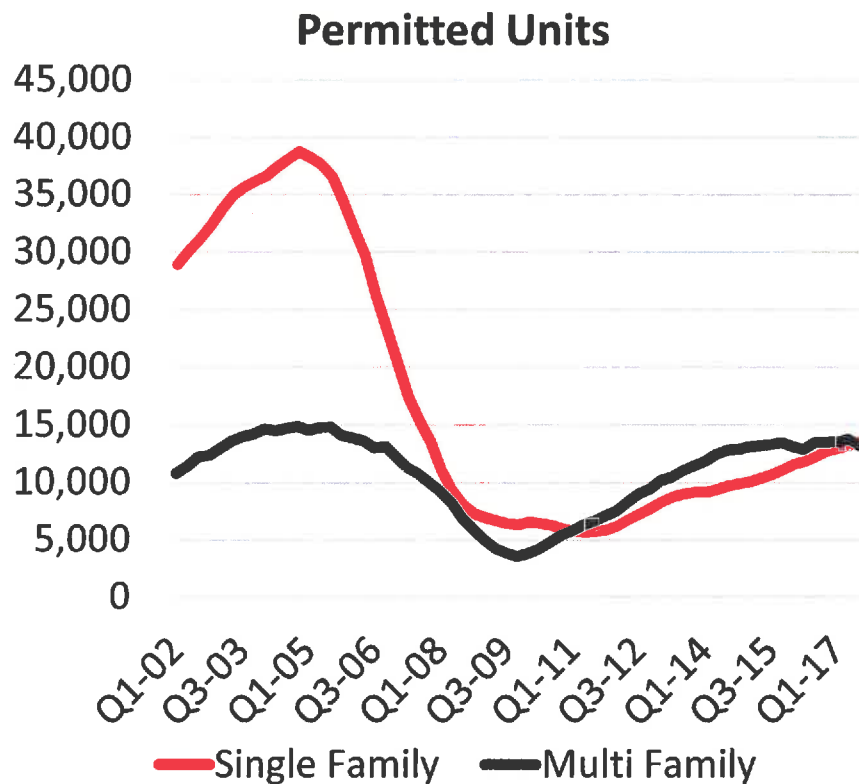
City of Los Angeles

Permit Type	YTD Q3-17	YoY Chg (%)
Multi-Family	11,250	-20.4
Single-Family	2,284	20.3
City Total	13,534	-15.6

Los Angeles County

Permit Type	YTD Q3-17	YoY Chg (%)
Multi-Family	15,673	-12.1
Single-Family	5,325	18.7
County Total	20,998	-5.9

State Housing Construction



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

Housing in CA: ~~New~~ *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

Non-Residential Real Estate

Vacancy Rate (%) by Metro Area in Southern California				
Location	Office		Industrial	
	Q3-16	Q3-17	Q3-16	Q3-17
Los Angeles (MD)	13.9%	14.4%	0.9%	1.1%
Orange County (MD)	9.7%	9.8%	1.4%	2.3%
Inland Empire	13.0%	11.7%	4.3%	3.3%
San Diego	12.4%	11.0%	4.2%	4.7%

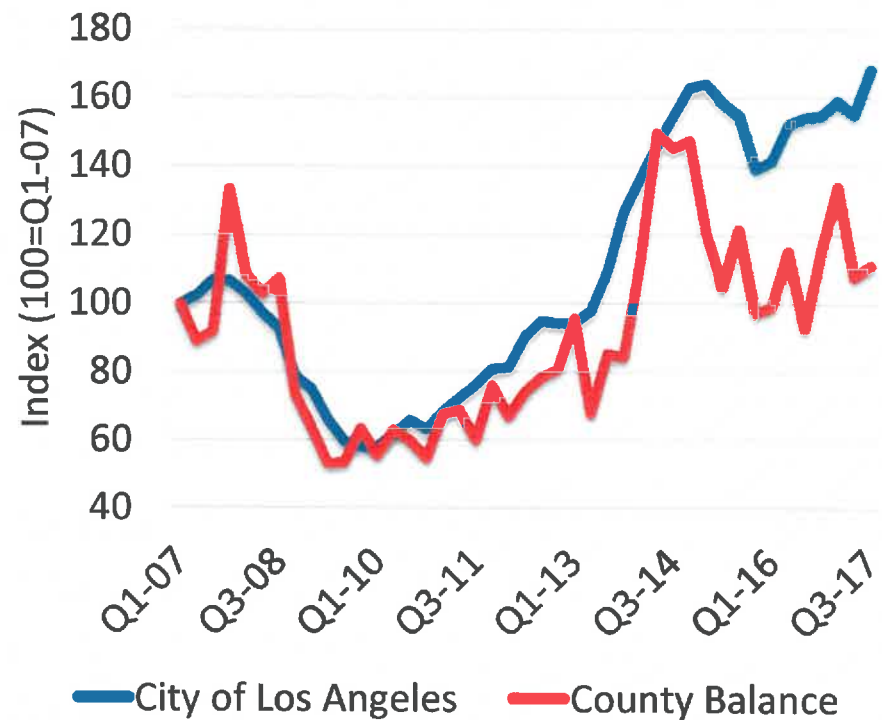
Source: CBRE

Commercial Permits

Nonresidential Permit Values by type

Permit Type	YTD Q3-17	Growth (YoY %)	
		LA County	CA
Hotel	53.7	-85.9	-6.8
Office	443.4	19.8	-48.9
Other Non Res.	542.7	32.5	-7.4
Retail	618.8	21.2	14.9
Commercial	1,481.2	-8.9	-4.7
Alts/Ads	3,202.4	27.9	6.9
Non Res. Total	5,354.6	14.6	2.0

Indexed Nonres. Permit Values





Conclusion

Conclusion/Outlook

- US & CA growth steady, full-employment, job growth harder to achieve
- Leading industries: health care, construction, leisure and hospitality, trans/whsg
- Real Estate:
 - Housing shortage...not just affordable housing
 - MORE SUPPLY needed
- NO Recession



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