

# Los Angeles Economic Outlook

## For the Controller of City of Los Angeles

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# L.A. made the 20-city list for Amazon's HQ2



## The Final 20

Amazon narrows list to these cities for location of its second headquarters



Source: Bloomberg

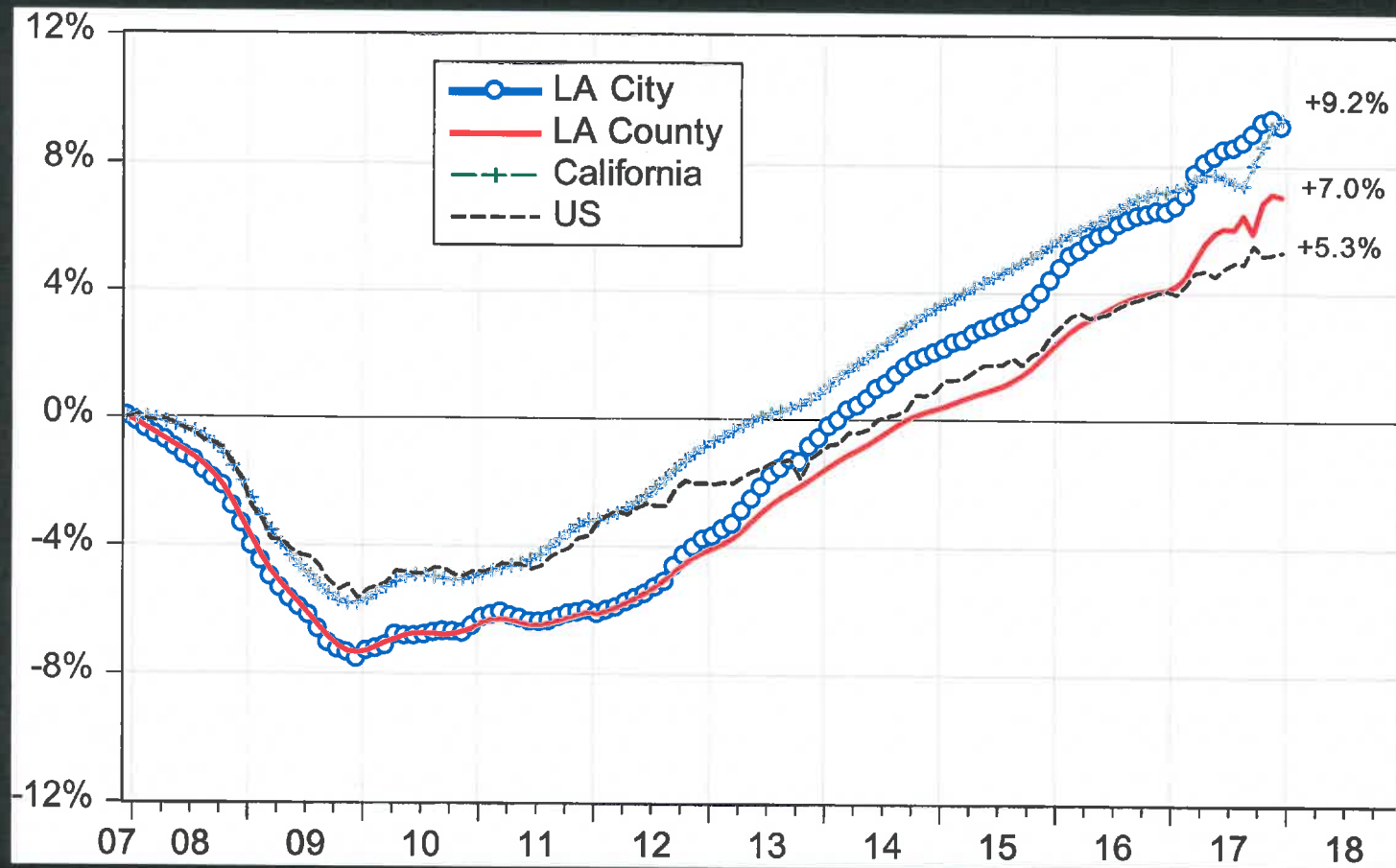
Bloomberg



# The characteristics of a city in the future

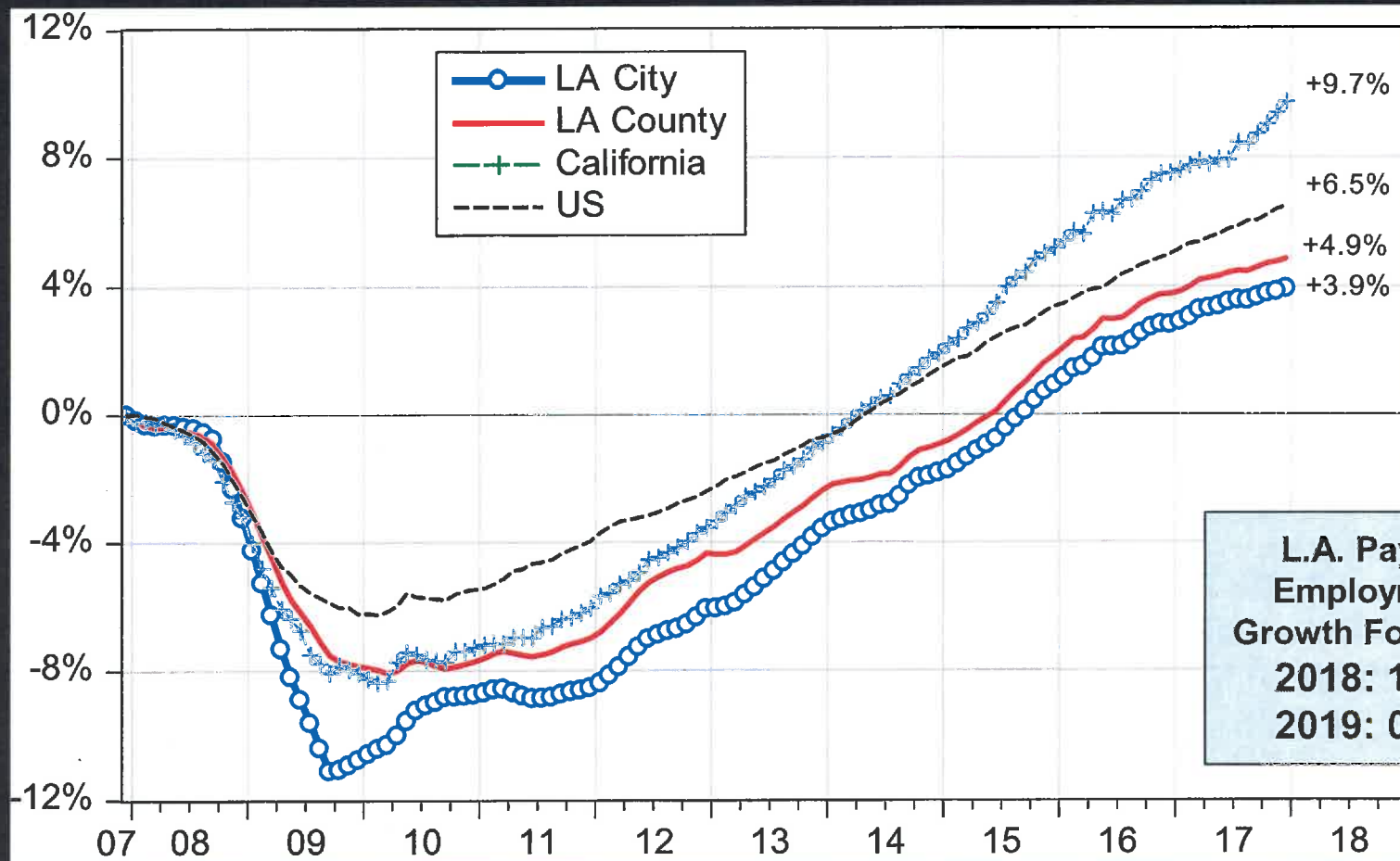
- More than one million people. Size and agglomeration.
- A stable & business-friendly environment.
- Attract & retain strong technical talent.
  - Human capital and first-rate universities
  - Quality of life
  - Affordable housing
- Site location
  - Within 30 miles to the population center.
  - 45 minutes to the international airport.
  - Within 1-2 miles to major highway.
  - On site access to mass transit.

# Household-survey employment % change from 2007m12 to 2017m12



# Payroll employment % change

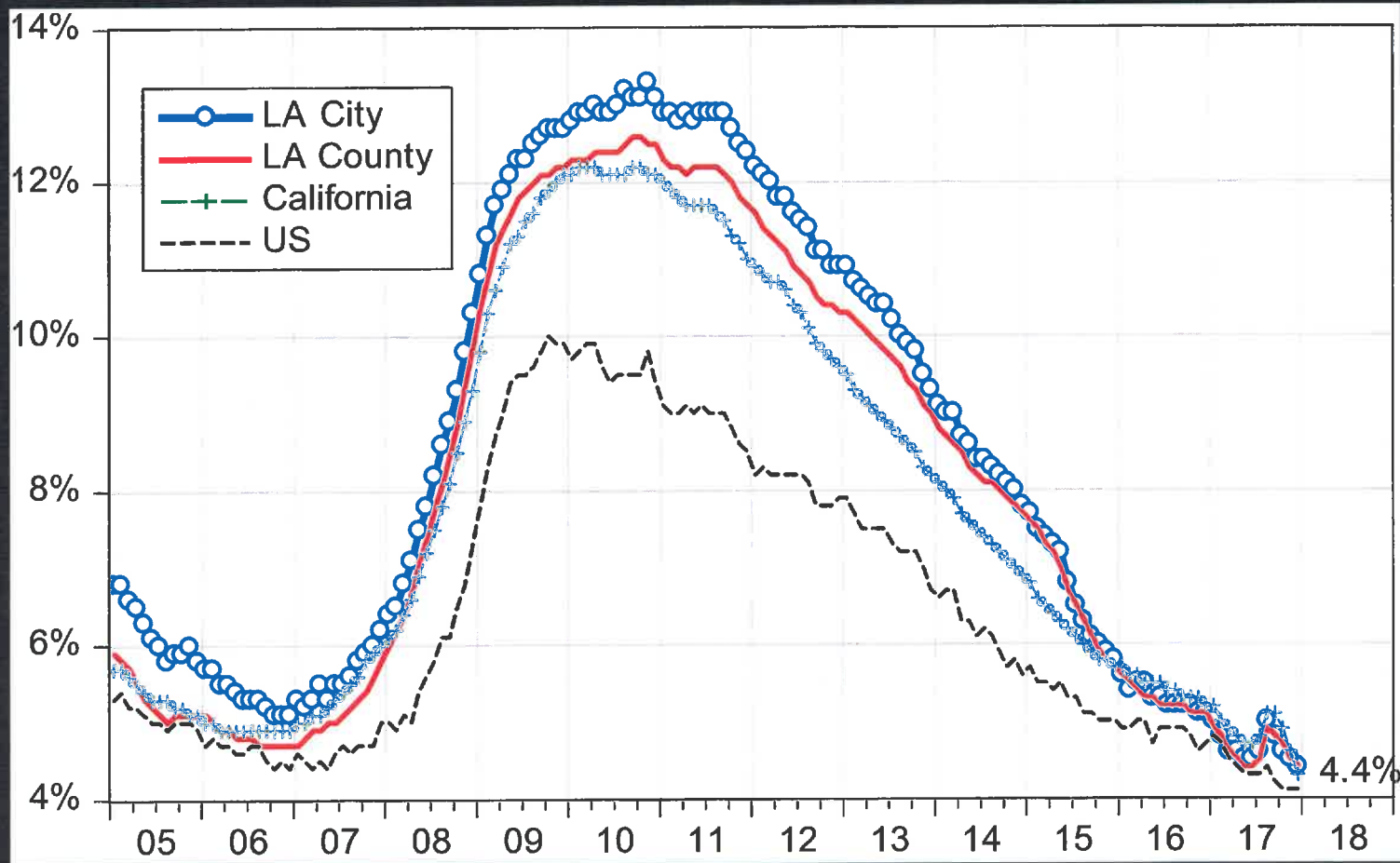
from 2007m12 to 2017m12



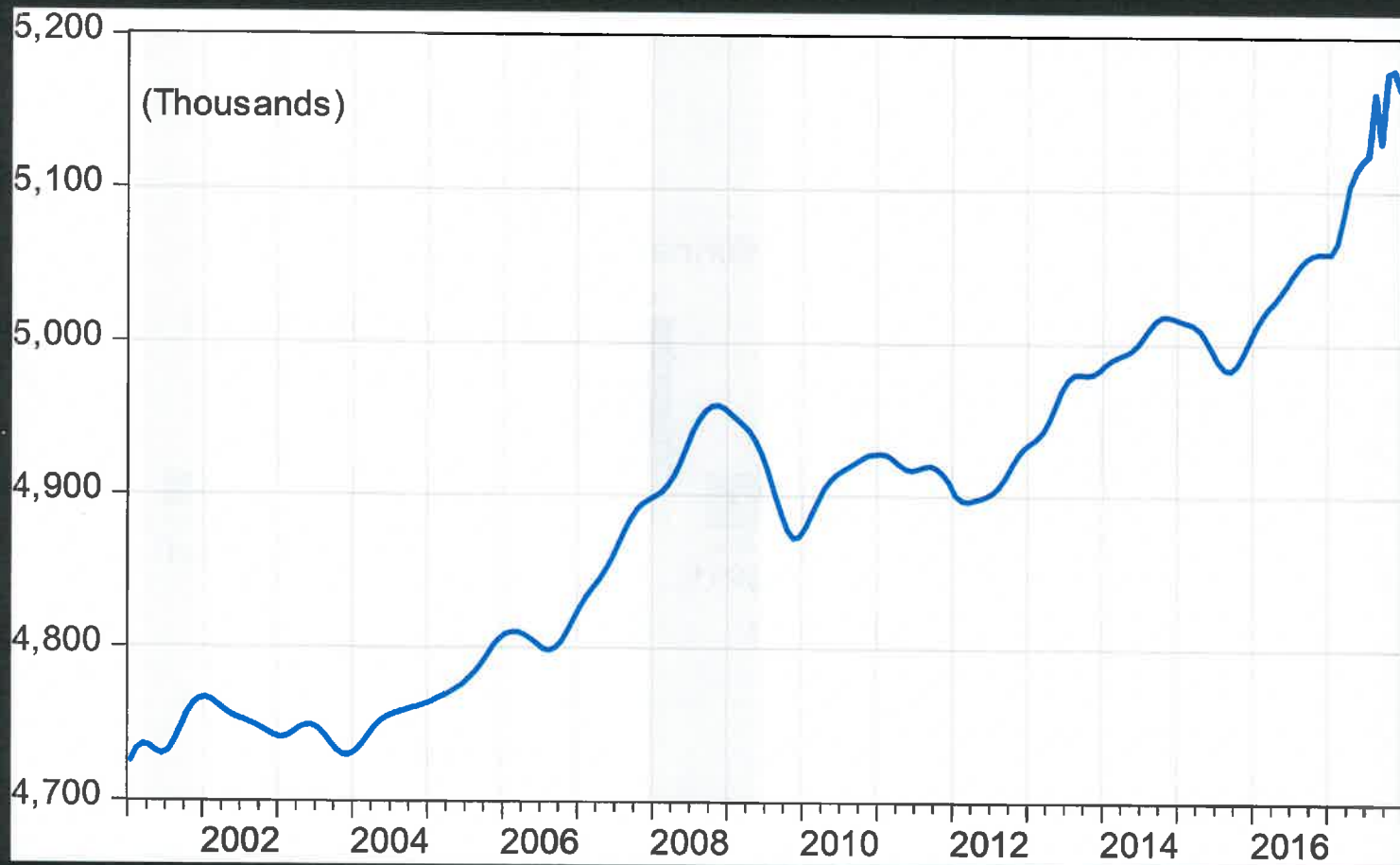
**L.A. Payroll  
Employment  
Growth Forecast:**  
2018: 1.1%  
2019: 0.9%



# Unemployment rates

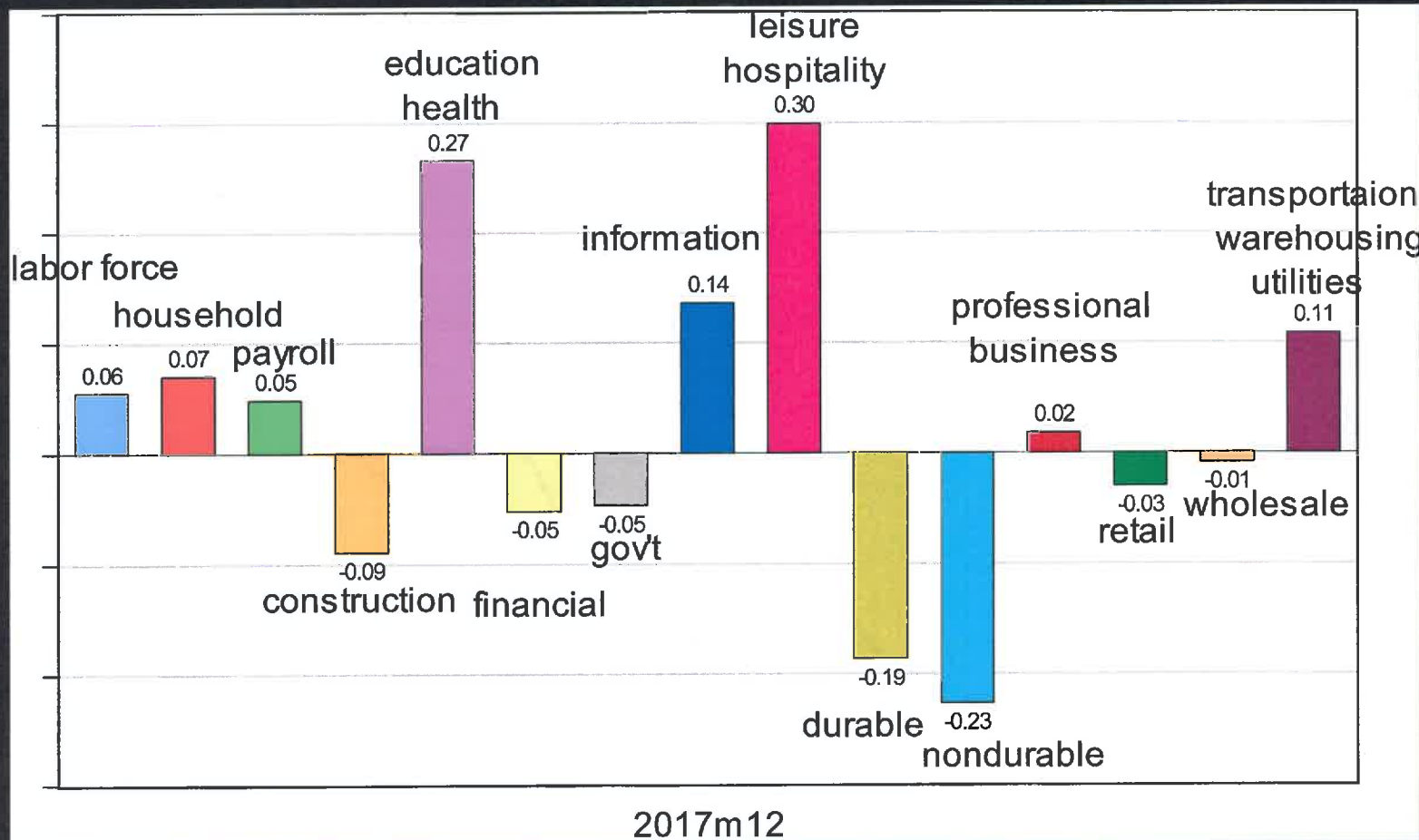


# L.A. labor force continues rising



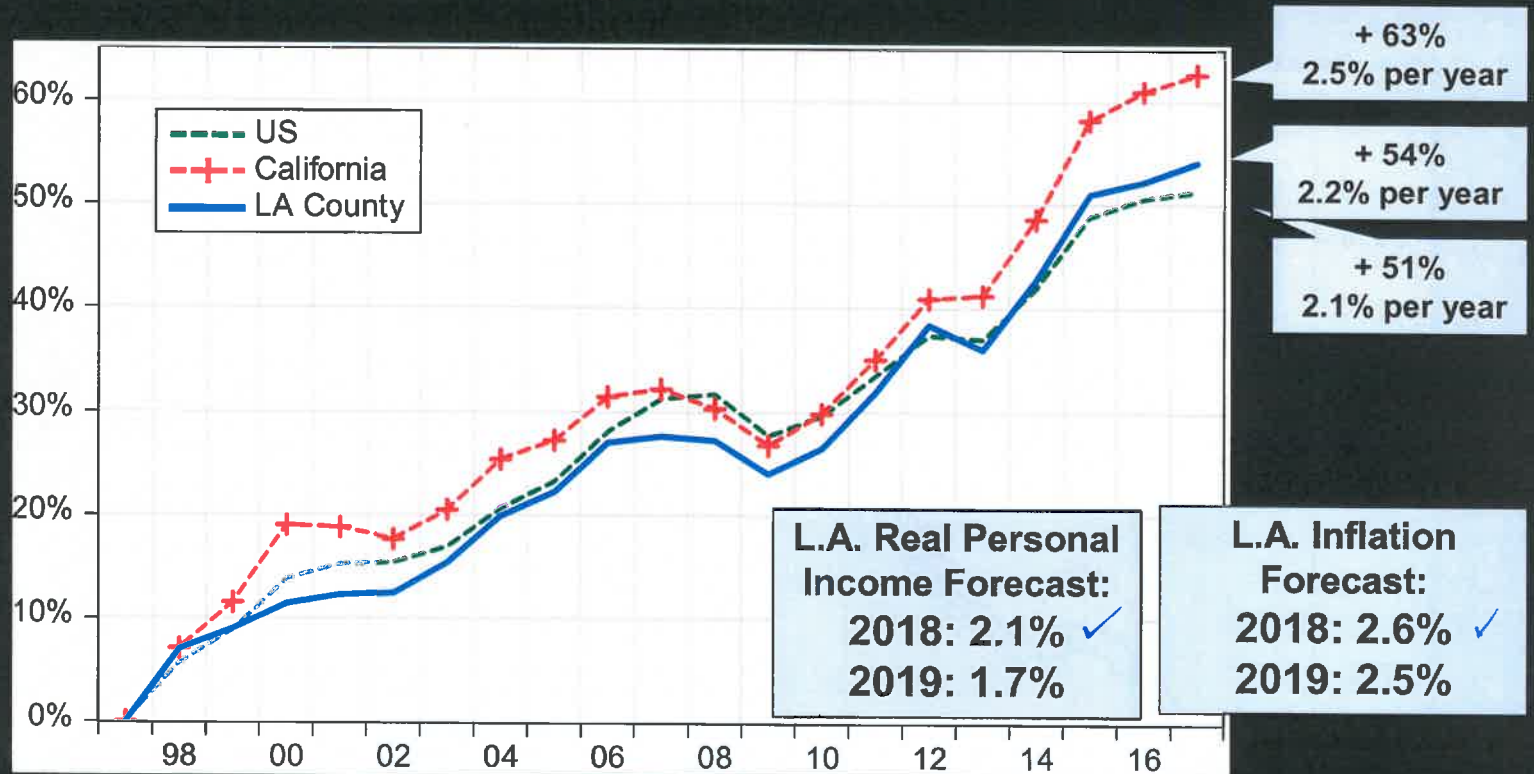
# Uneven job growth in Los Angeles County

accumulated growth from 2007m12 to 2017m12



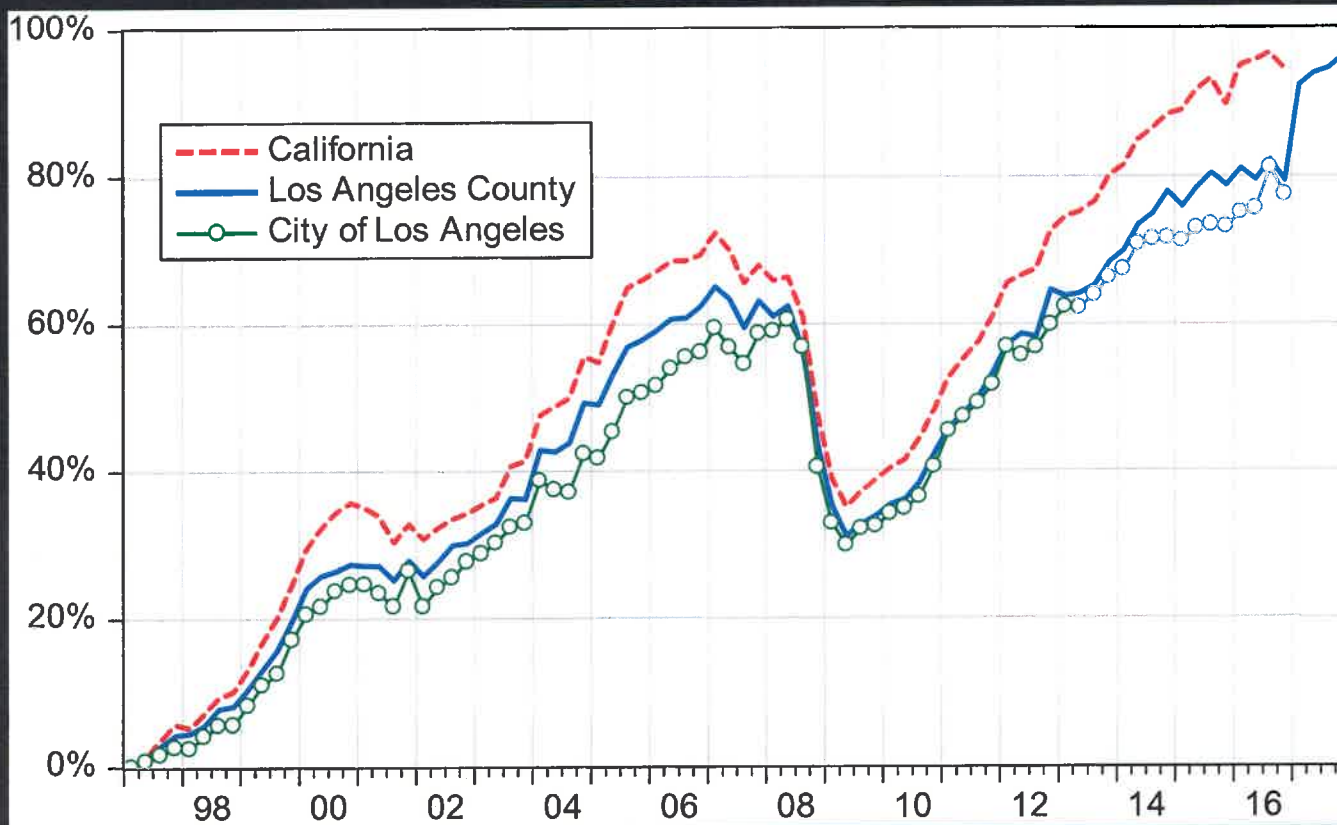


# Real personal income accumulated % change from 1997 to 2017



# Nominal taxable sales

accumulated % change from 1997Q1 to 2017Q4

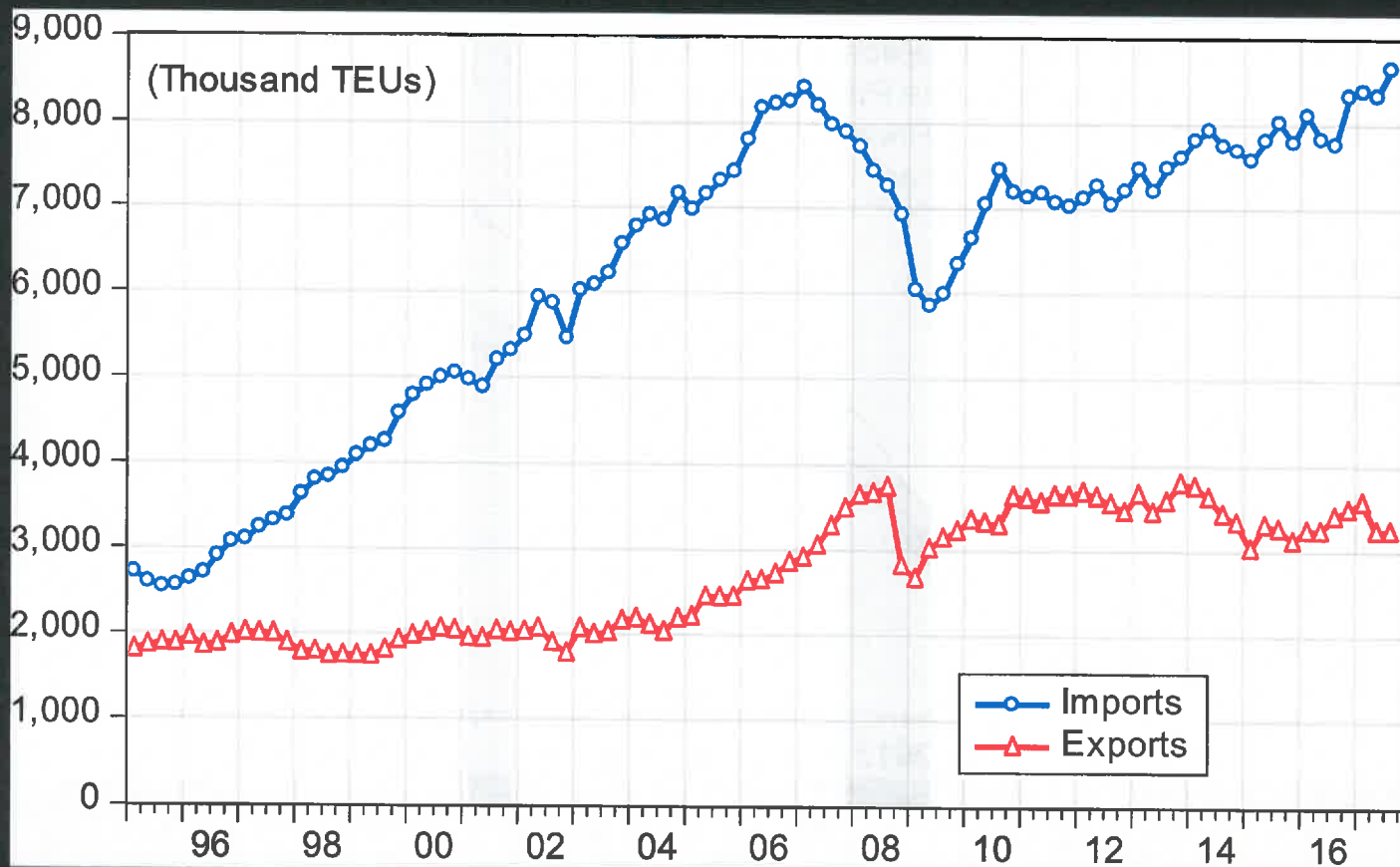


LA: + 96%  
3.4% per year ✓

**L.A. County  
Nominal Taxable  
Sales Growth  
Forecast:**  
**2018: 3.6%** ✓  
**2019: 3.2%**

# U.S. exports are weak, imports are strong and trade deficit persists

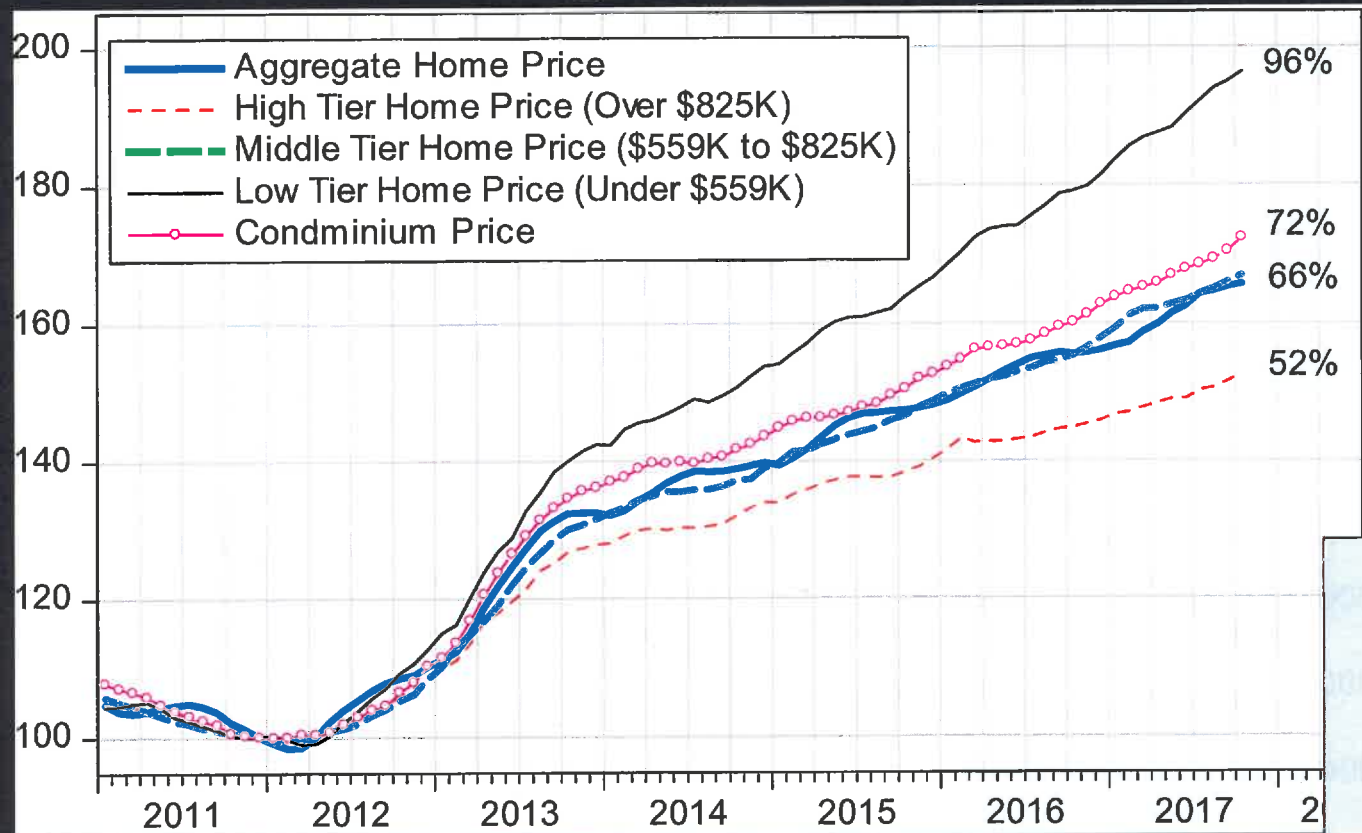
L.A. seaports' exports and imports





# L.A. metro's home prices

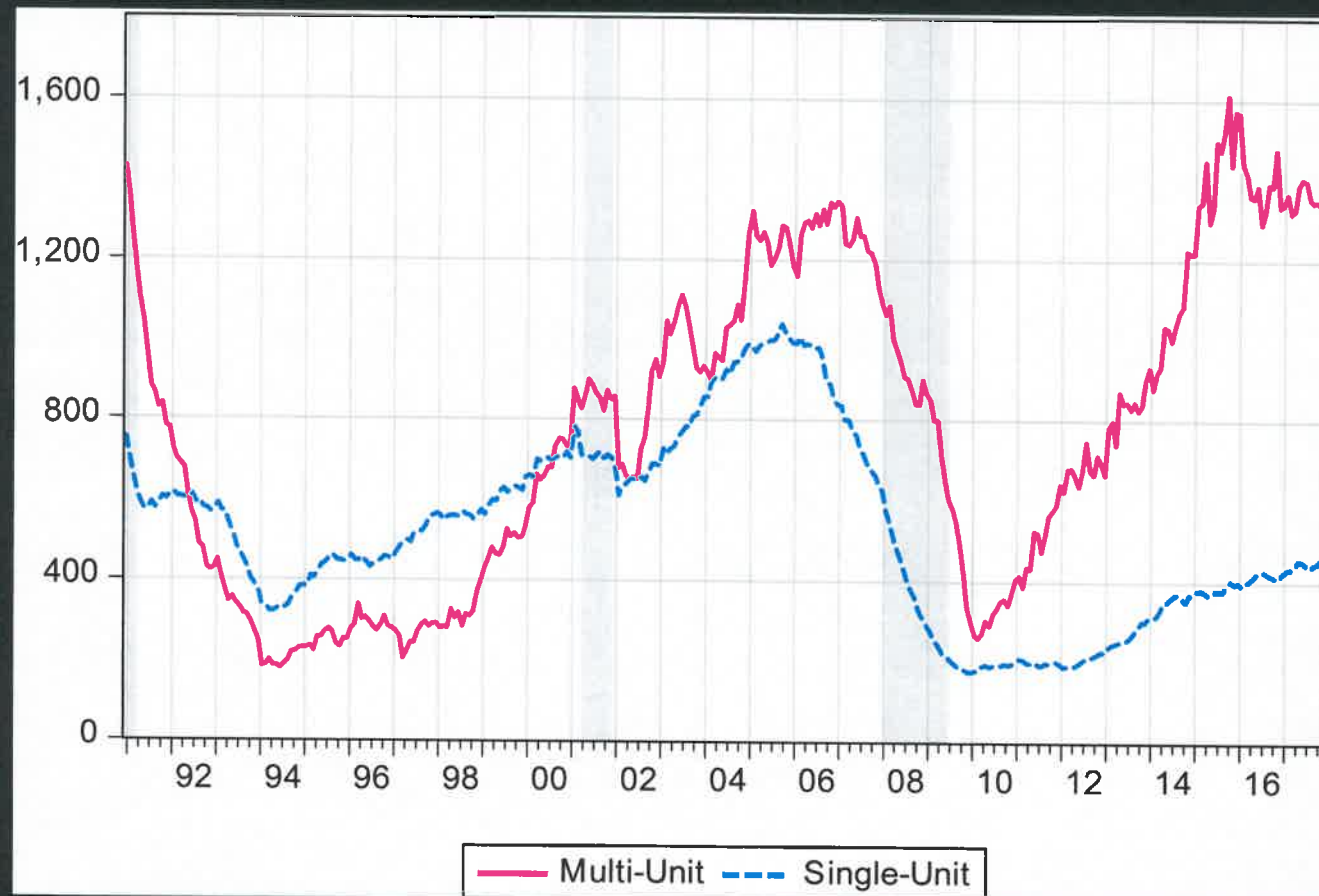
accumulated % change, from 2011m12 to 2017m10



**L.A. Nominal Home Price Forecast:**  
**2018: +3%**  
**[-2%, +6%]**

Source: Case-Shiller Home Price Index, L.A. Metro area (including both L.A. County and Orange County), 2011m12=100

# L.A. County's residential building permits from 1991 to 2017, monthly (12 moving average)



# The impact of new federal tax law on L.A. economy and housing market

- Standard deduction increased to \$24K
- Marginal tax rates decline across bracket
- Mortgage interest deduction limit reduced from \$1M to \$750K for sales
  - Negative impact on homes whose prices ranging from \$900K to \$1.25M
  - Mortgage interest deduction reduced from \$39K to \$29K a year
- State and local income tax (SALT) limit to \$10K
- Itemized deduction tax returns will decline significantly

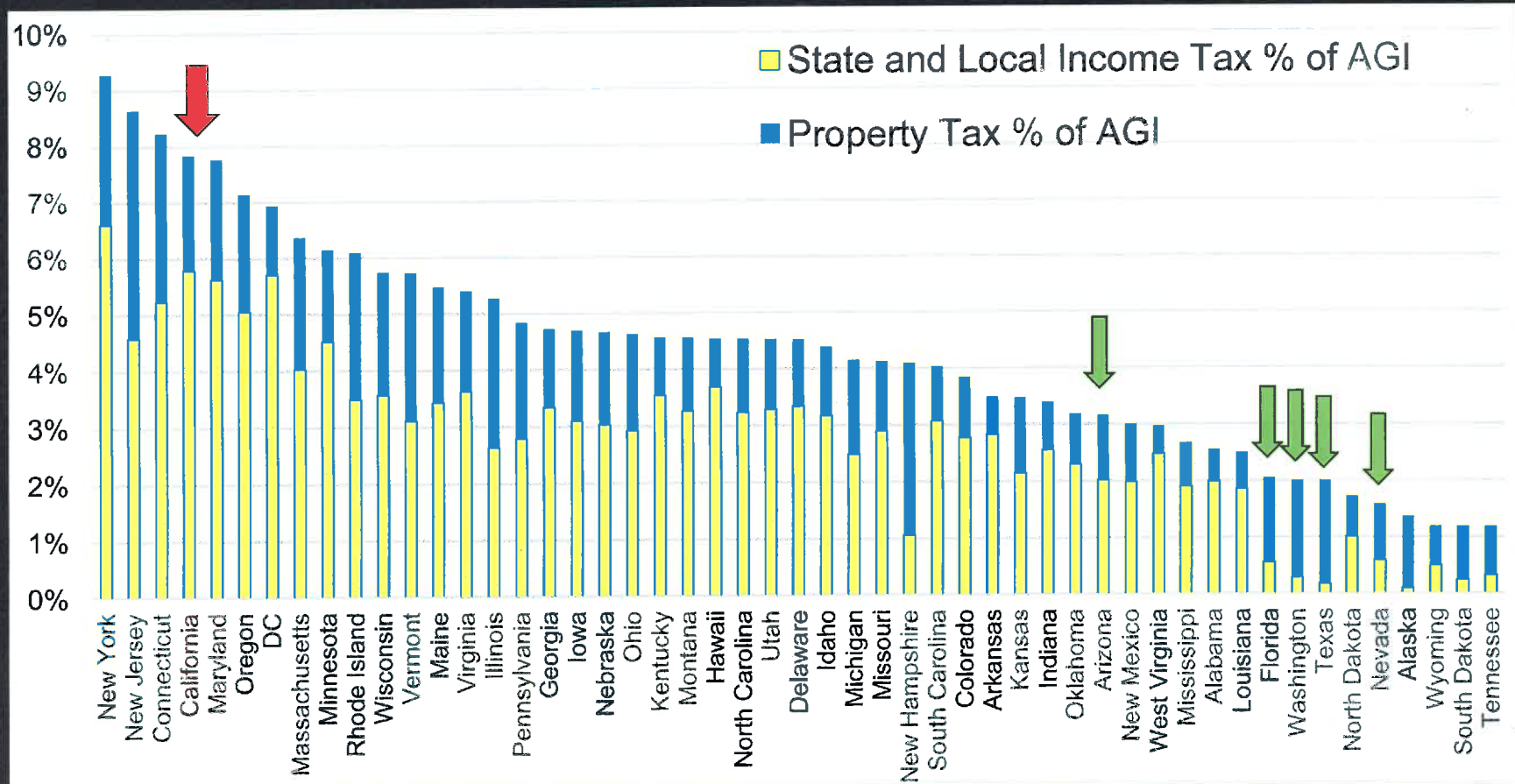


## CA and L.A. benefited from high itemized deduction due to high SALT and high housing prices

Federal Income Tax Return Statistics 2015	US	California	Los Angeles County	Orange County	Santa Clara County
Total number of returns (#)	148,965,910	17,758,580	4,644,280	1,501,130	916,390
Adjusted gross income (AGI) \$M	10,074,264	1,381,845	331,317	127,641	129,357
AGI per return (\$)	67,628	77,813	71,339	85,030	141,159
Adjusted gross income (AGI)	100%	100%	100%	100%	100%
Total itemized deductions % of total number of returns	30%	34%	32%	38%	43%
Total itemized deductions amount (% of AGI)	<b>12%</b>	16%	<b>17%</b>	18%	17%
State and local income taxes (% of AGI)	<b>3.3%</b>	5.8%	<b>6.0%</b>	6.1%	7.6%
Real estate taxes (% of AGI)	<b>1.9%</b>	2.0%	<b>2.1%</b>	2.3%	2.0%
Mortgage interest (% of AGI)	<b>2.8%</b>	3.8%	<b>3.8%</b>	4.3%	2.9%
Income tax (% of AGI)	14.2%	15.2%	15.5%	16.1%	18.5%
Alternative minimum tax (% of #)	3.0%	5.1%	4.3%	6.1%	12.8%

Source: IRS, 2015

# With the limitation of SALT deduction, low-tax states might become more attractive for some people



Source: Federal Tax Returns 2015, IRS

# Top 16% of income household will hit their SALT deduction limit

Los Angeles County Federal Income Tax Return Statistics 2015	Income Distributi on %	Average AGI per return, \$	Itemized Deductio n %	Average Itemized Deduction, \$	SALT, \$	State and local income taxes, \$	Average State and local Income Tax Rate, \$	Real estate taxes, \$	Mortgage interest, \$	AMT %	Average Federal Income Tax Rate Distributi on
<b>AGI Bracket</b>											
Under \$1	100% 2%	\$71,339	32%	\$37,220	\$22,837	\$16,552	6%	\$6,285	\$12,826	4%	15%
\$1 under \$10,000	14%	5,482	4%	17,167	7,277	2,972	1%	4,305	10,362	0%	0%
\$10,000 under \$25,000	25%	17,136	8%	16,067	5,510	1,590	0%	3,920	9,727	0%	2%
\$25,000 under \$50,000	24%	35,967	22%	17,714	5,639	1,643	1%	3,996	9,608	0%	5%
\$50,000 under \$75,000	12%	61,344	45%	20,678	7,079	2,945	2%	4,134	9,925	0%	8%
\$75,000 under \$100,000	7%	86,460	66%	23,158	9,175	4,658	3%	4,517	10,863	1%	10%
\$100,000 under \$200,000	11%	137,009	86%	31,046	14,207	8,491	5%	5,716	13,201	7%	13%
\$200,000 or more	5%	634,619	98%	113,809	80,005	66,817	10%	13,188	20,216	69%	24%



# But all household will also benefit from the reduction of marginal tax rates in the short run

Simulated old and new average tax rates in 2018, assuming standard deduction

AGI Example	Old average tax rate	New average tax rate	Average tax rate reduction	Average tax savings
\$35,967	12.4%	10.9%	1.4%	\$508
61,344	13.4%	11.4%	2.1%	1,269
86,460	14.9%	12.6%	2.3%	2,022
137,009	18.7%	16.1%	2.6%	<b>3,539</b>
634,619	30.8%	27.4%	3.4%	<b>21,266</b>

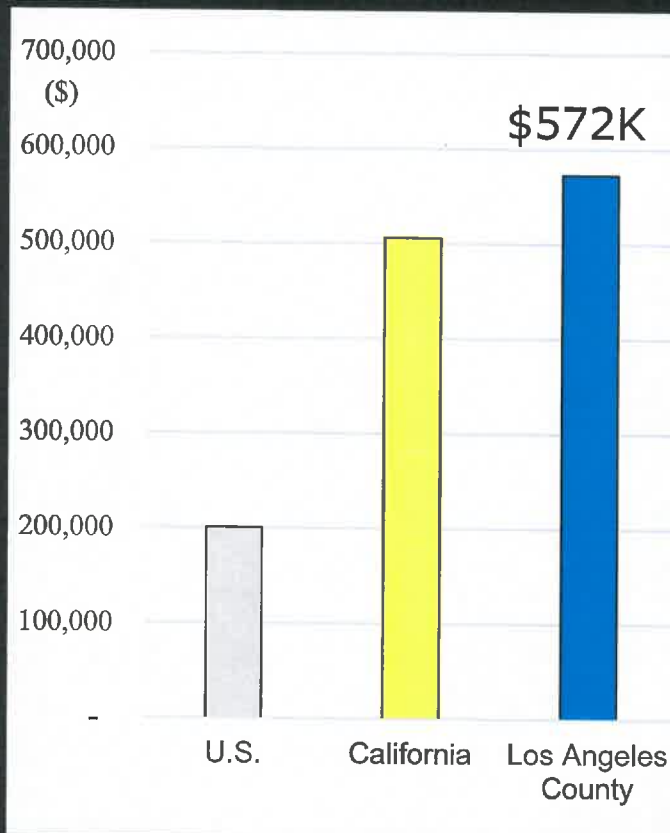
Forgone  
SALT deduction  
Loss

-1,000

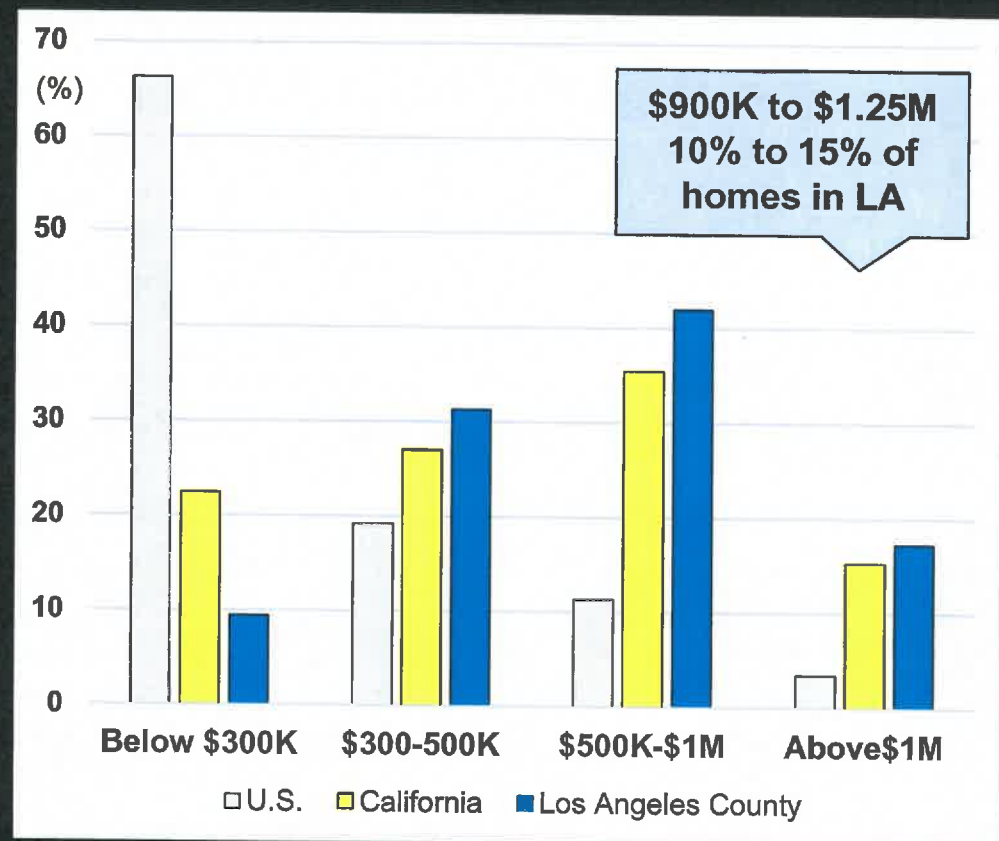
-25,000

# 2017 average home prices

## Median Home Price



## Home price distribution



• Source: Zillow, American Community Survey 2016



# Conclusions

- U.S. economy will continue its robust growth mostly due to new federal tax law and pro-growth / pro-business policies in 2018.
- The L.A. economy will grow slower a bit than the nation's pace.
- The short-term benefits of new federal tax cut for top 10% L.A. residents will be offset by the limitation of SALT deduction. The rest will see more cash in their pocket before 2025.
- Some states like Arizona, Florida, Texas will become relatively more attractive due to the new federal tax law.
- Reduction of mortgage interest for Fed tax deduction will slightly impact negatively on home sales ranging from \$900K to \$1.25M.
- Housing prices growth will be slower than otherwise. Foreign buyers will not be impacted by new federal tax laws.