



# 2016 Southern California Economic Forecast & Industry Outlook



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*September 30, 2015*

# Outline

- U.S. Economy
- California Economy
- Southern California Economy & Industries
- Five-Year Outlook
- Conclusion

# SCIENTIFIC METHOD

“You can observe a lot by watching”

# STOCK MARKET

“The future ain’t what it used to be”

# FORECASTING

“It’s déjà vu all over again!”

# RECESSIONS

“It ain’t over till it’s over”

# Yogi Berra (1925-1915)



**Ph.D. Economics (Honorary)**

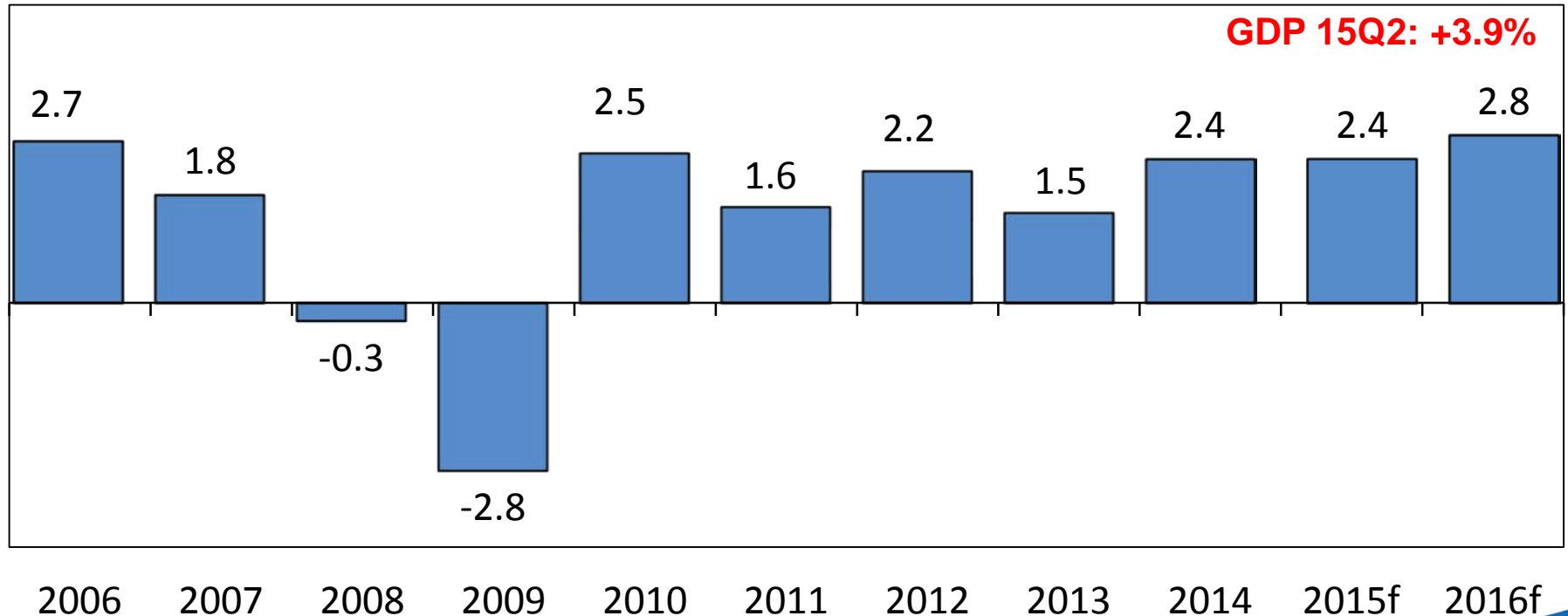


# U.S. Economy



# GDP Low Trajectory But Accelerating

Annual % Change



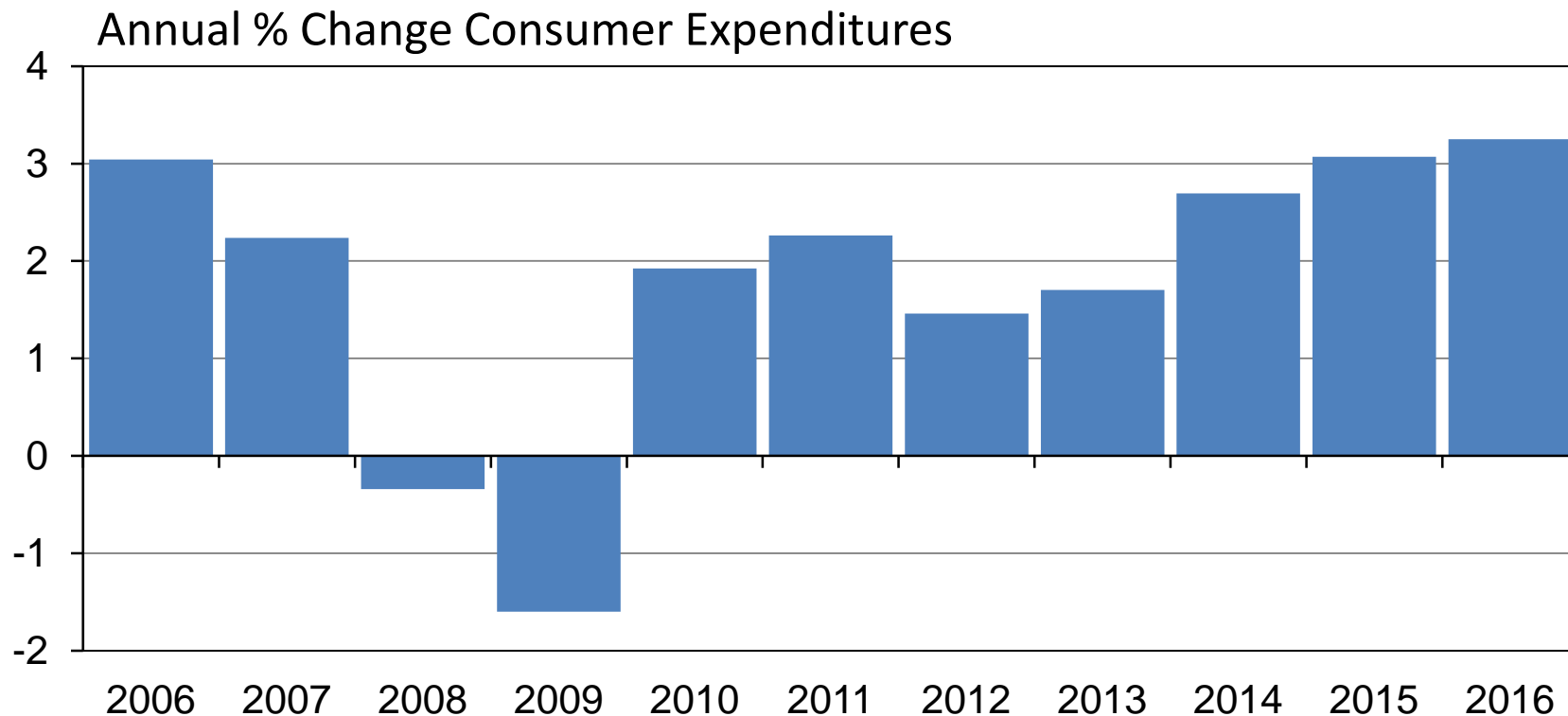
Sources: Bureau of Economic Analysis, forecasts by LAEDC



# Key Sectors of Macroeconomy

- Consumer Sector 
- Business Sector 
- Government 
- International Trade 
- Other Macro Indicators:
  - Labor Market
  - Inflation

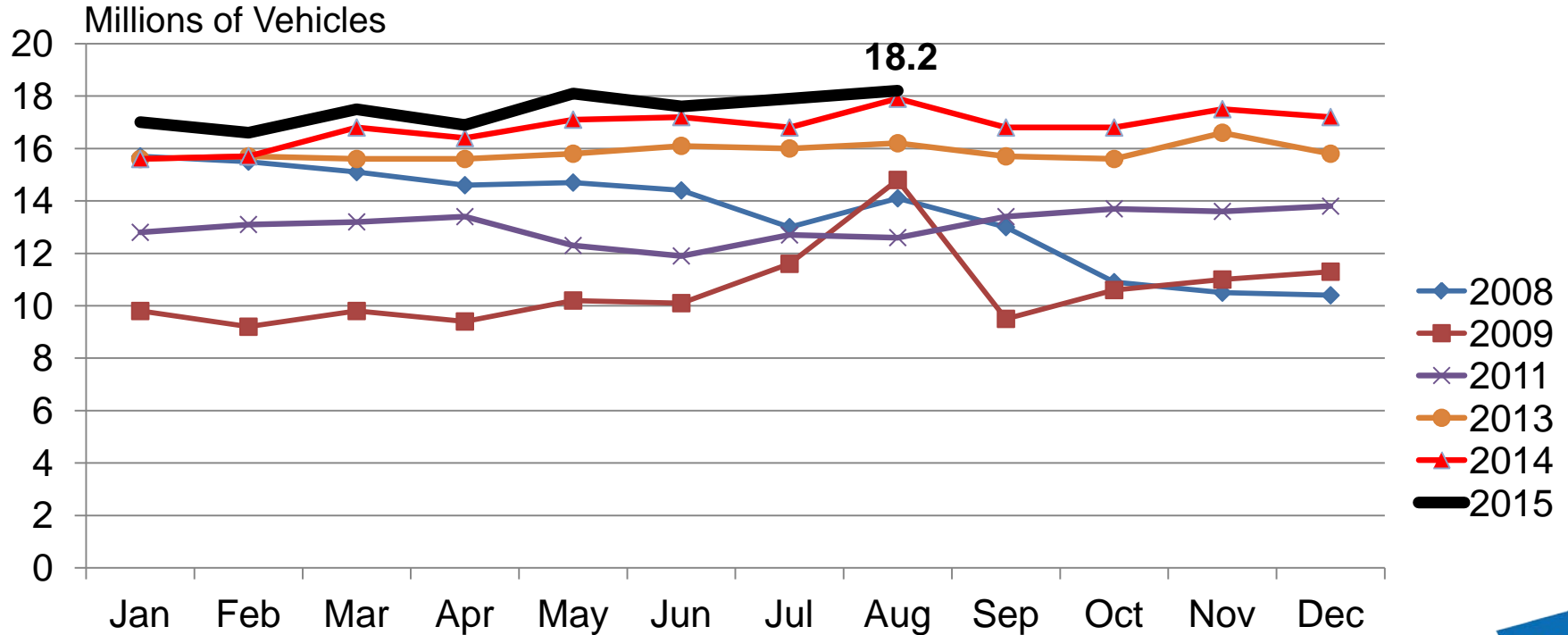
# Incomes Up, Drive Consumer Spending



Sources: Bureau of Economic Analysis, forecasts by LAEDC



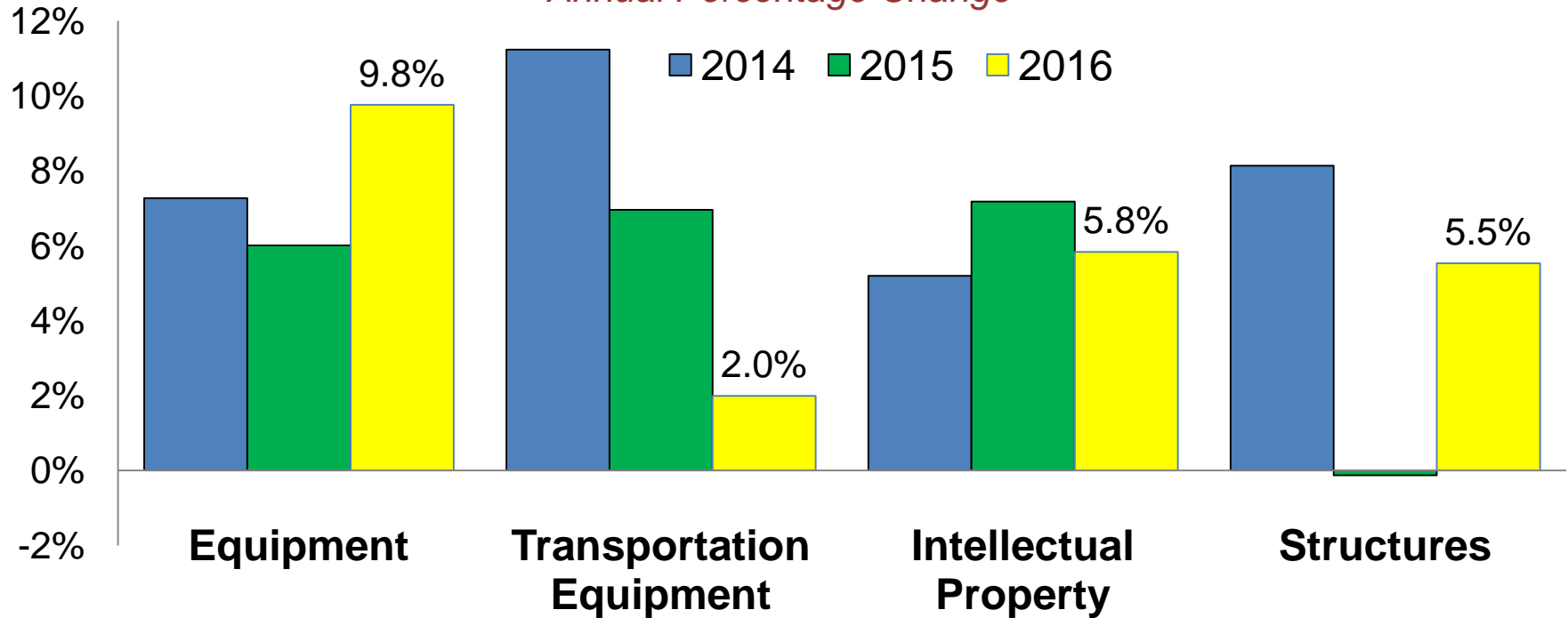
# U.S. Total New Vehicle Sales



Source: BEA

# Business Investment Spending

*Annual Percentage Change*

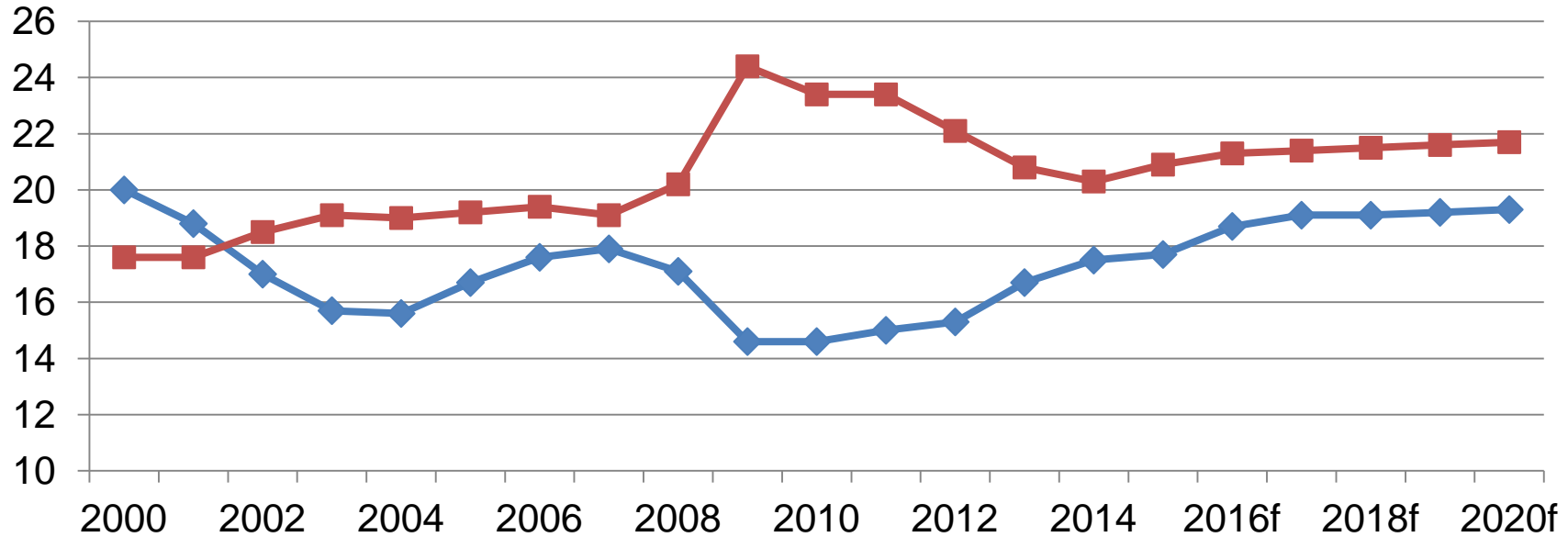


Source: IHS, LAEDC



# Federal Budget Receipts and Outlays as % of GDP

◆ Receipts ■ Outlays

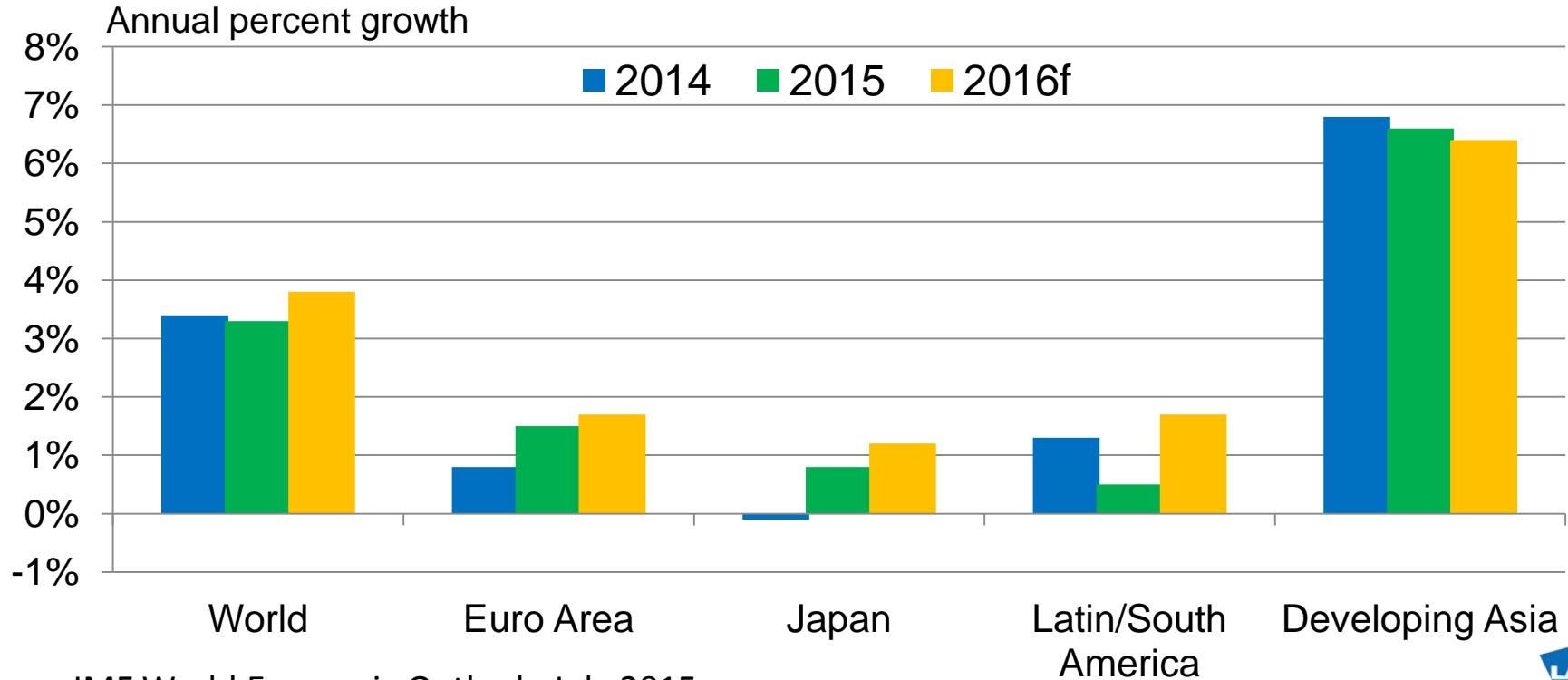


Source: CBO



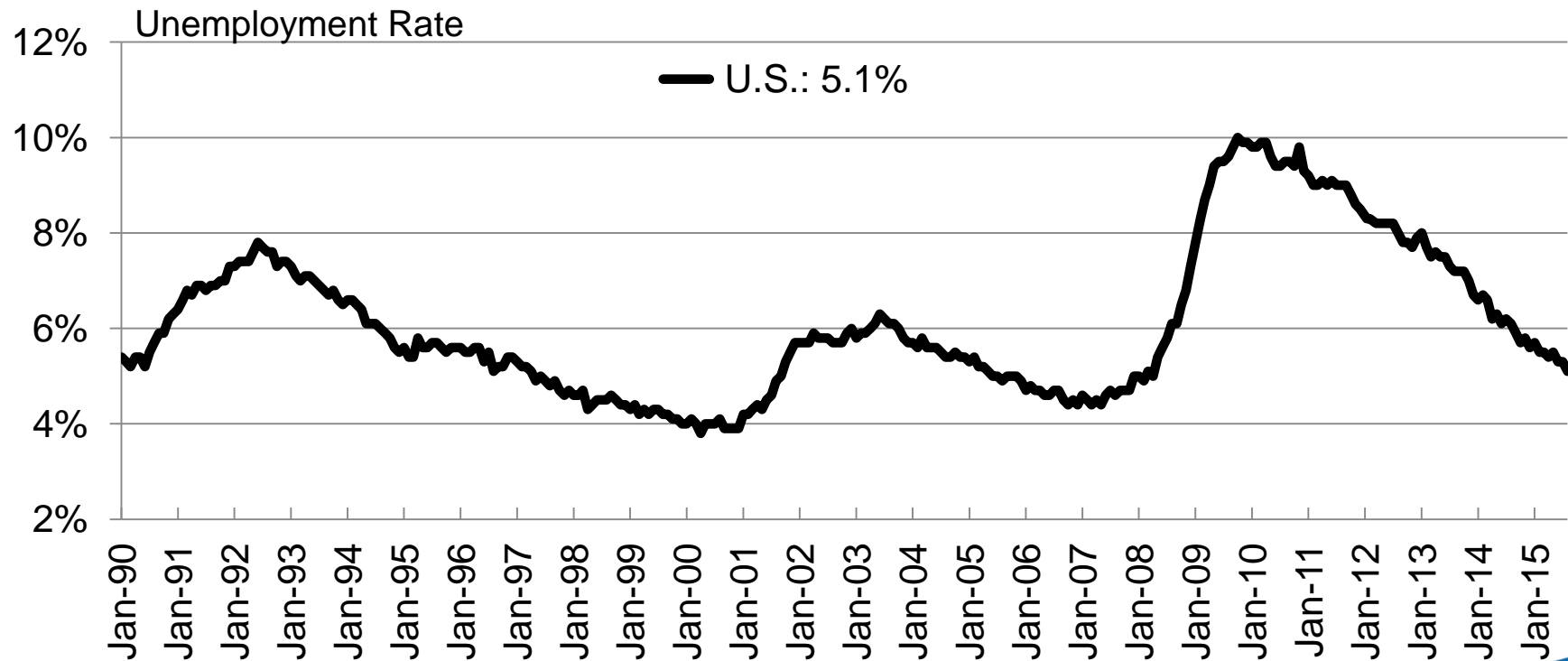
# Global Economic Outlook

*GDP, constant prices (percent change)*



Source: IMF World Economic Outlook, July 2015

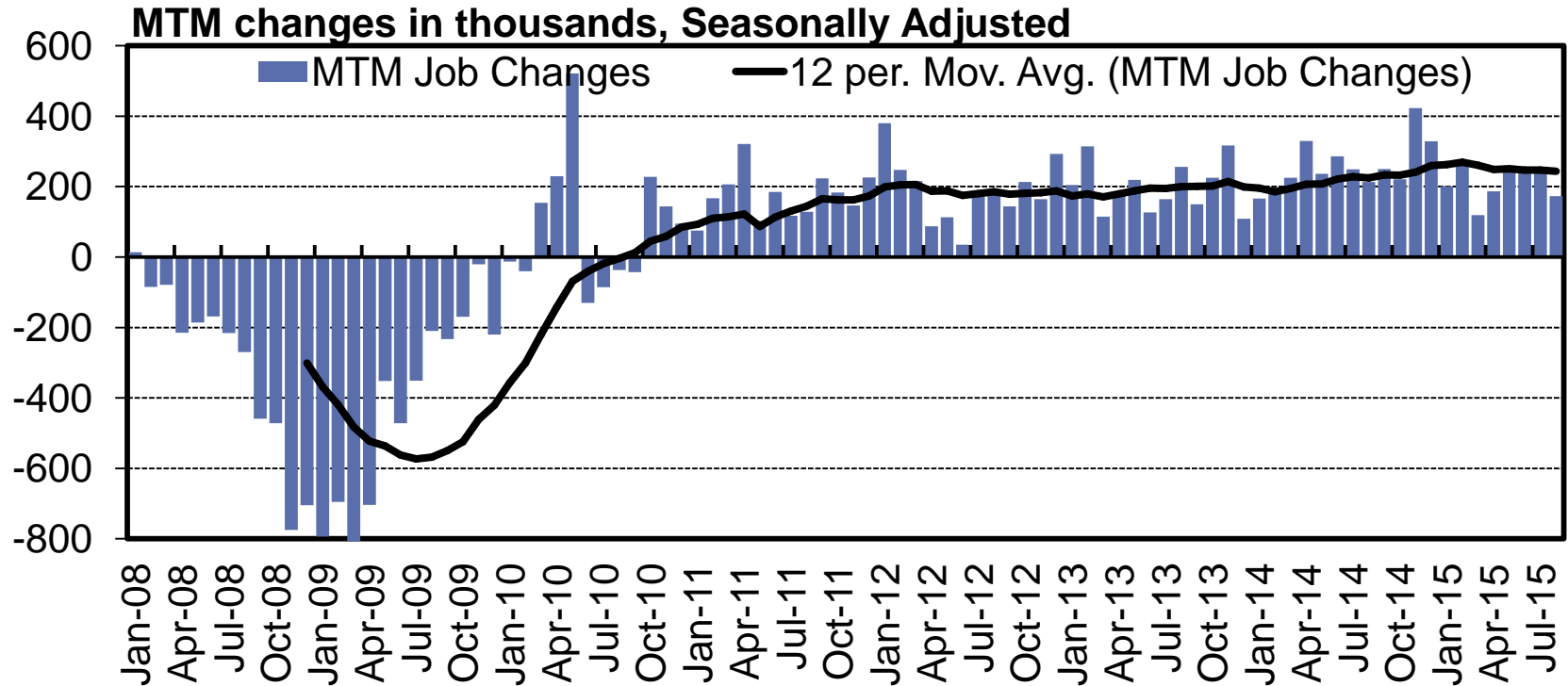
# U.S. In Full Employment Range



Source: US BLS, CA EDD

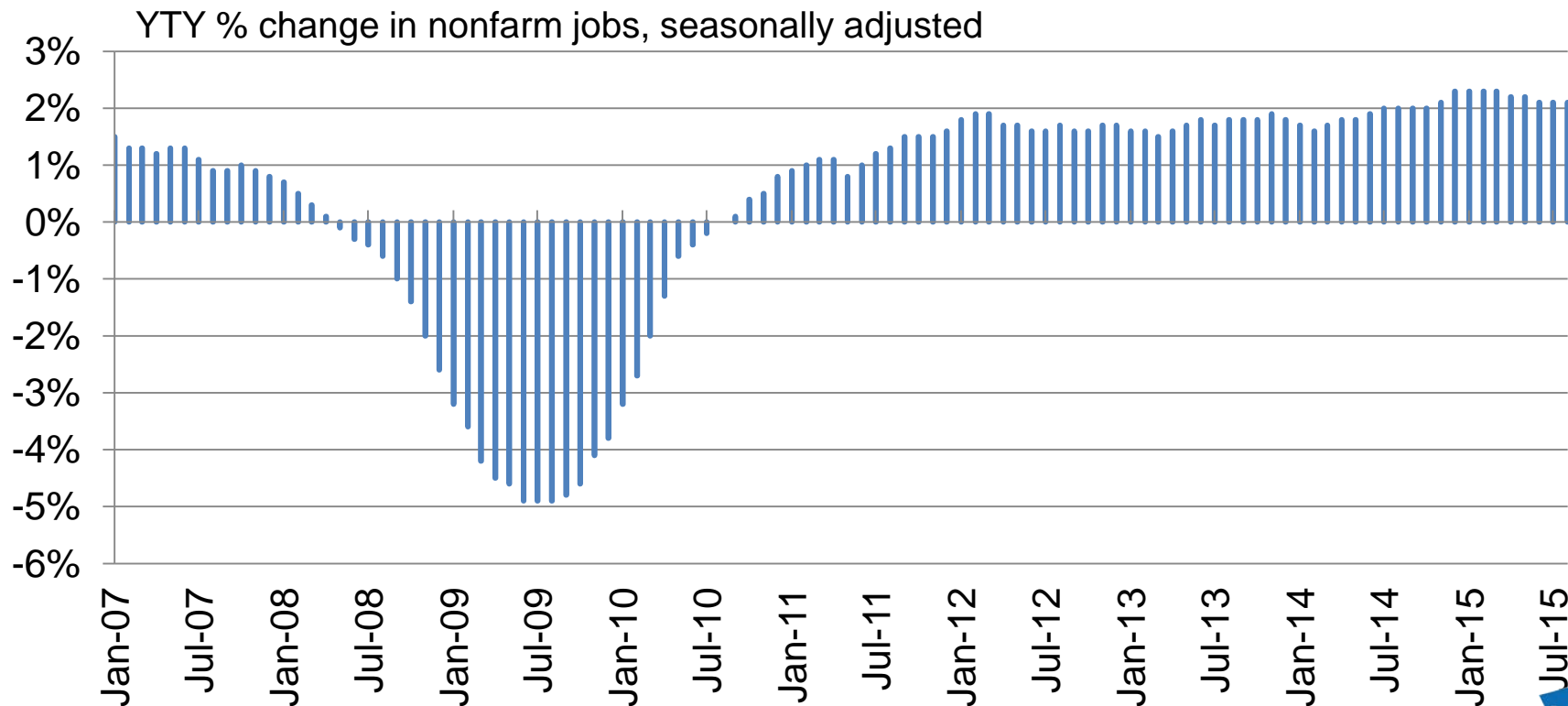


# U.S. Nonfarm Job Growth



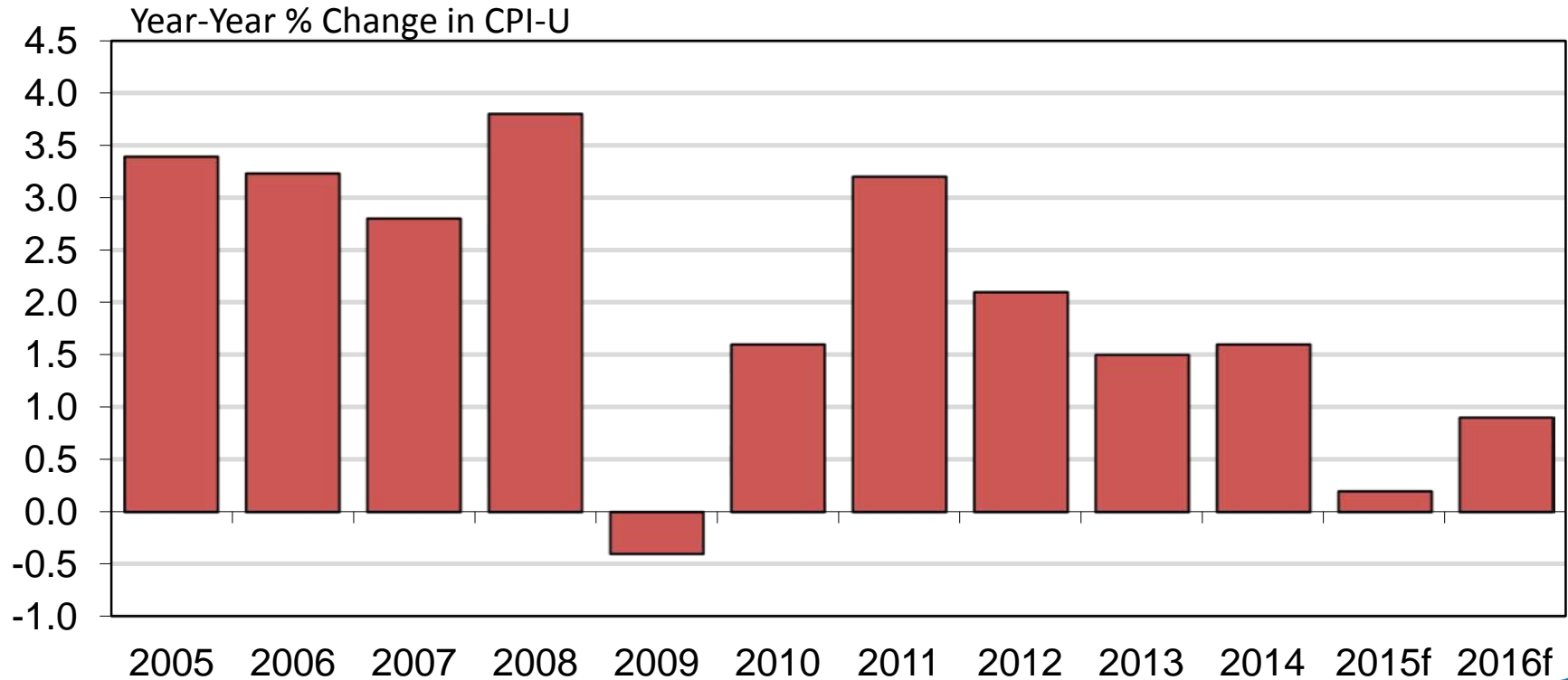
Source: US Bureau of Labor Statistics

# U.S. Adding Jobs At Steady Pace



Source: US BLS, CA EDD

# U.S. Consumer Inflation



Source: Bureau of Labor Statistics; forecasts by LAEDC

# FORECAST: U.S. Slow But Steady

	2012	2013	2014	2015f	2016f
Real GDP - Annual % Chg.	2.2%	1.5%	2.4%	2.4%	2.8%
Nonfarm Jobs - Annual % Chg.	1.7%	1.7%	1.9%	2.1%	1.8%
Unemployment Rate	8.1%	7.4%	6.2%	5.4%	5.0%
Consumer Prices - Annual % Chg.	2.1%	1.5%	1.6%	0.2%	1.6%

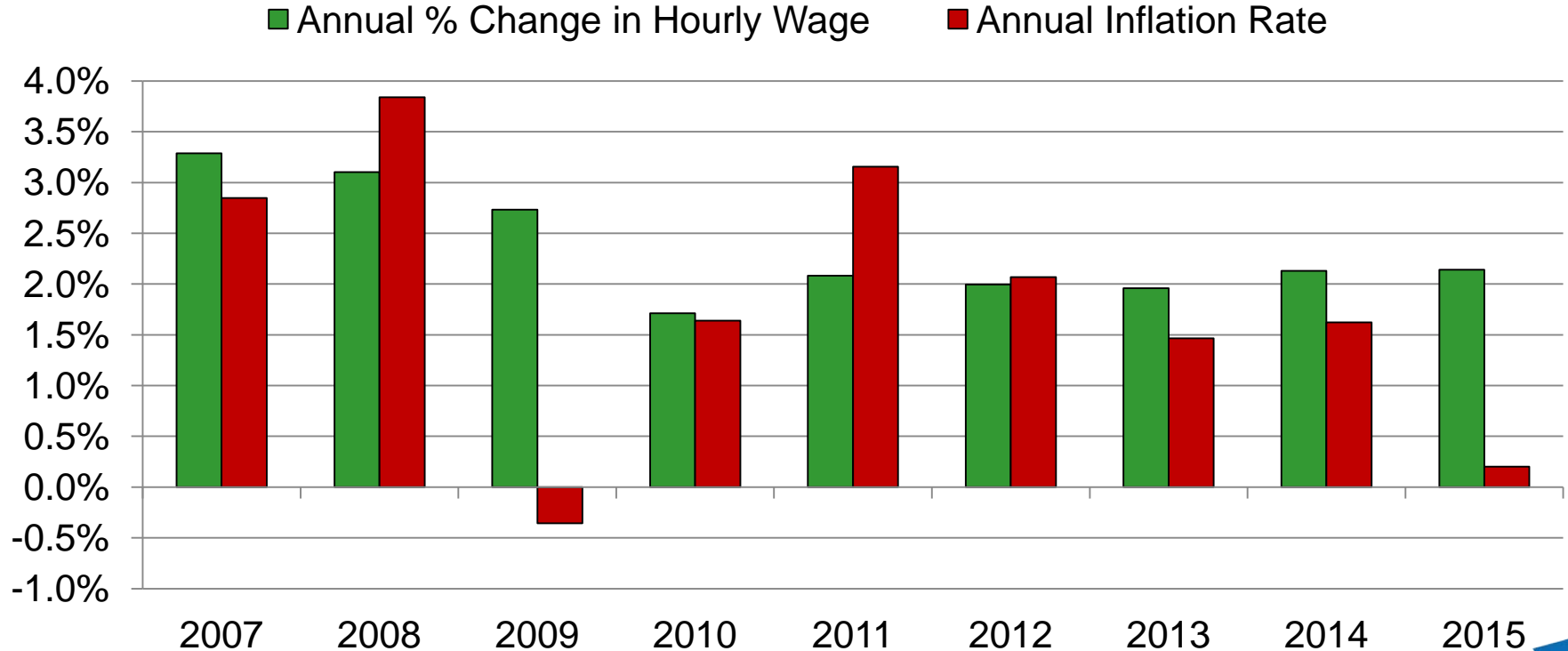
Forecast Source: LAEDC



# U.S. Forecast: What to Watch

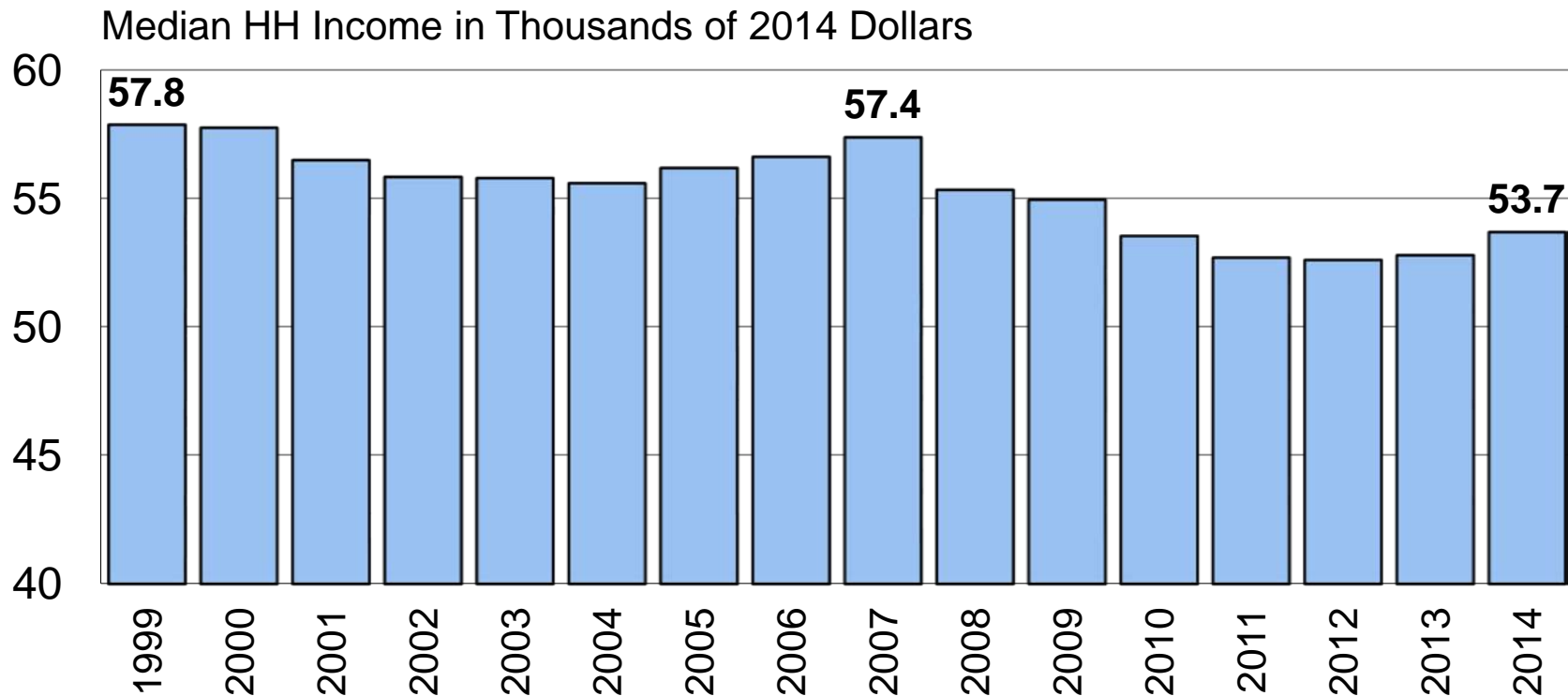


# First Significant Wage Gains vs. Inflation



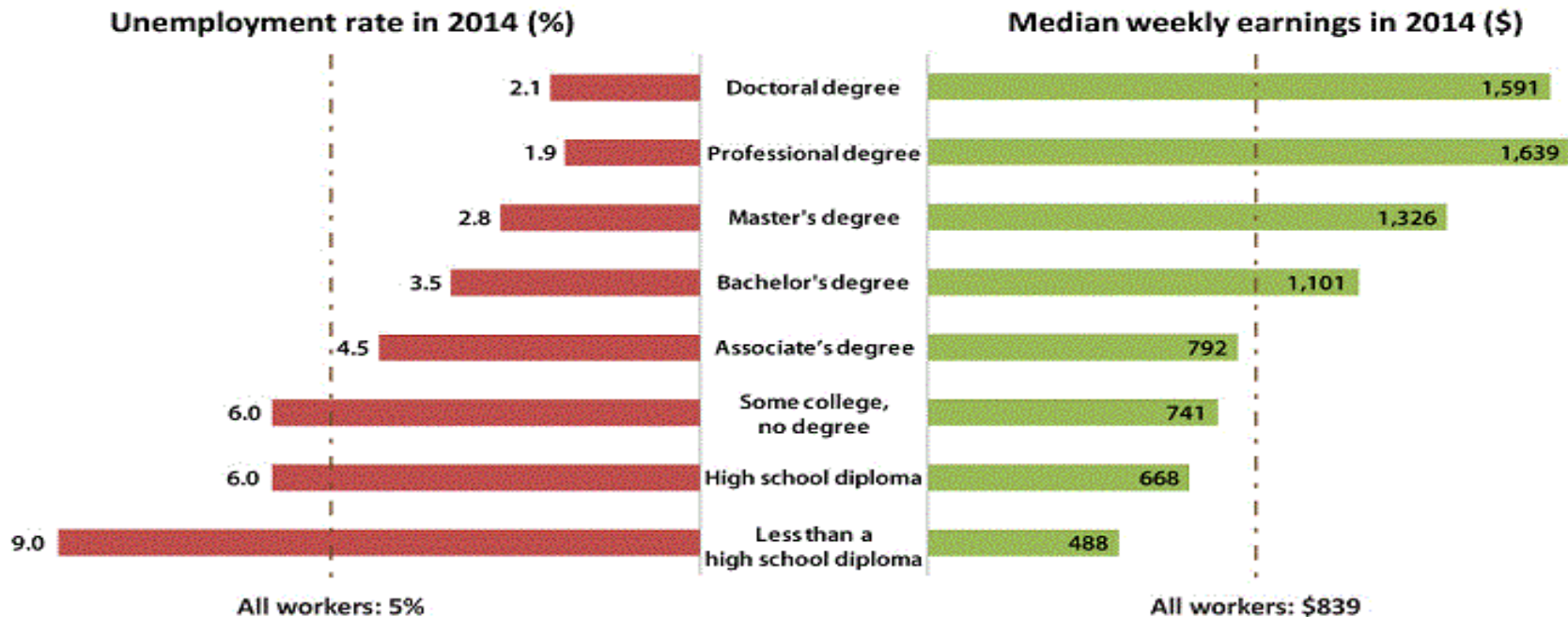
Source: Bureau of Labor Statistics

# Real Household Income Trending Down



Source: Census Bureau

# Earnings/Unemployment by Education



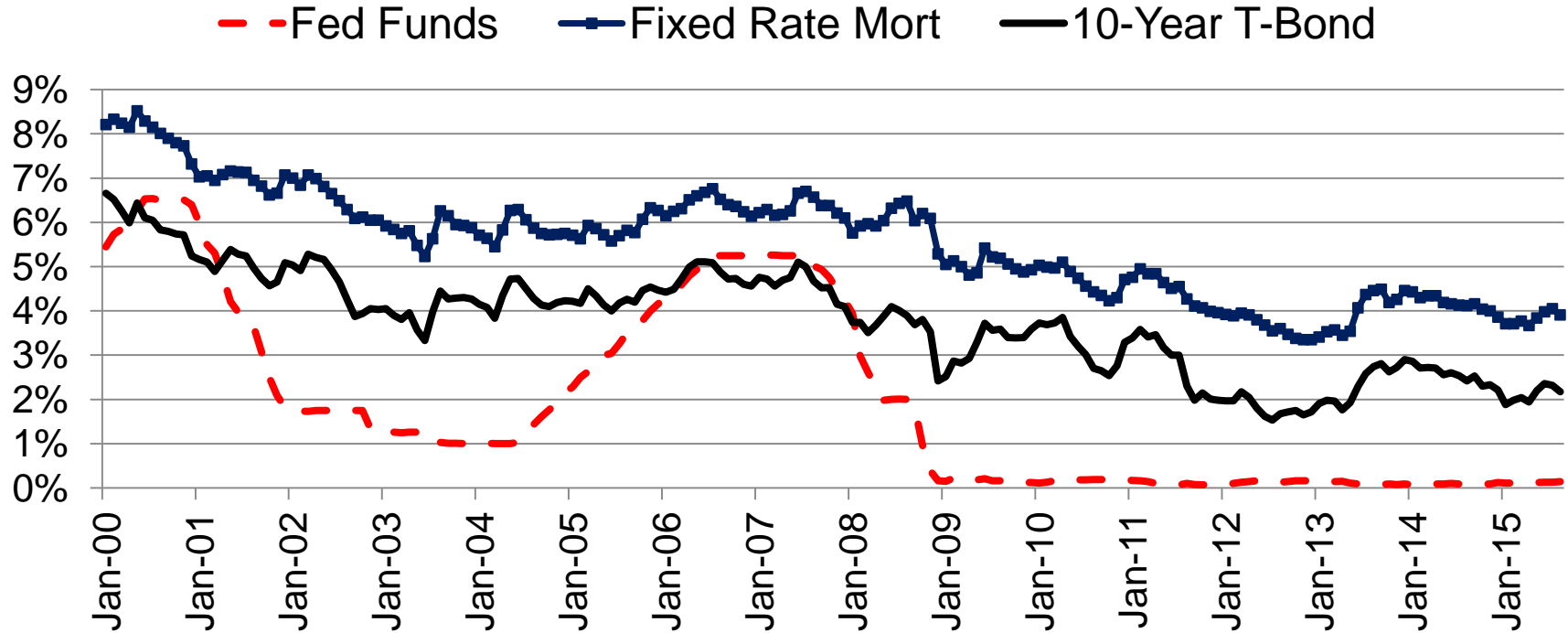
Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.  
Source: Current Population Survey, U.S. Bureau of Labor Statistics, U.S. Department of Labor

Source: BLS



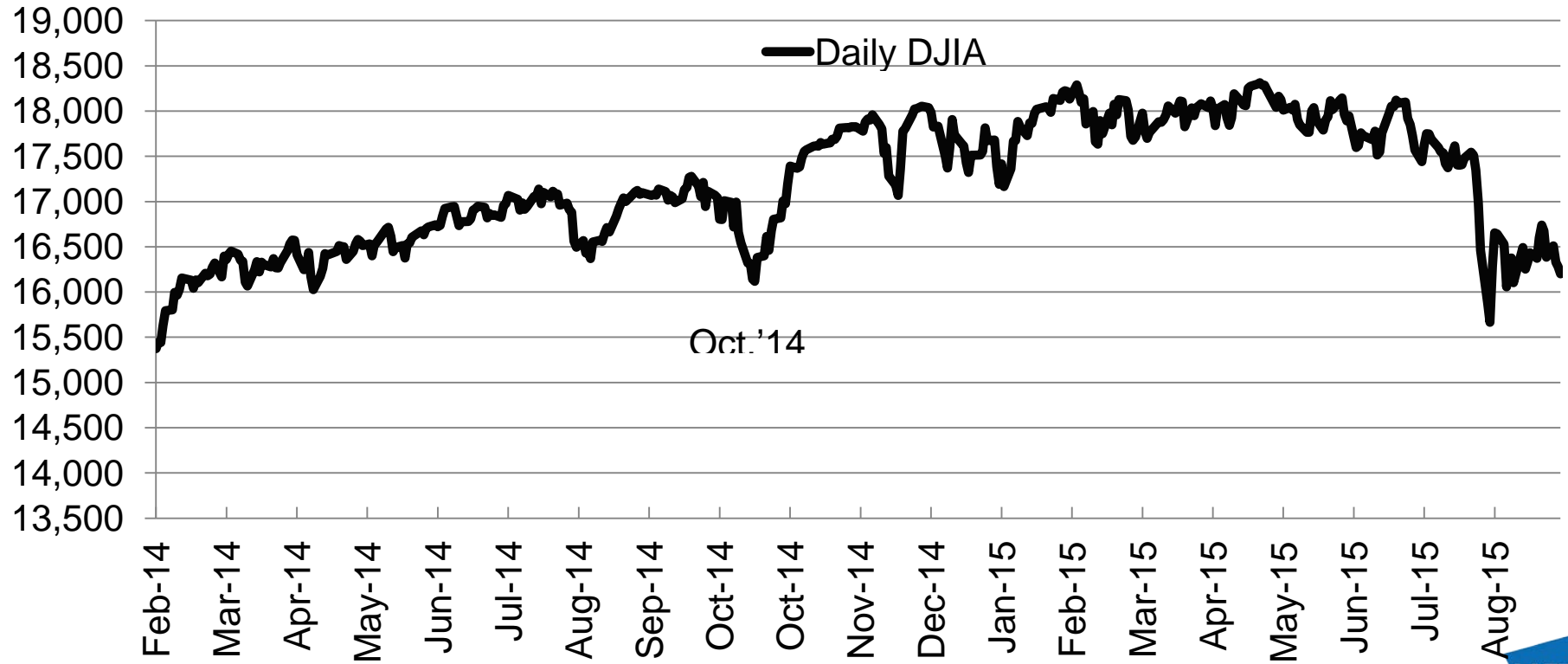


# Key Interest Rates



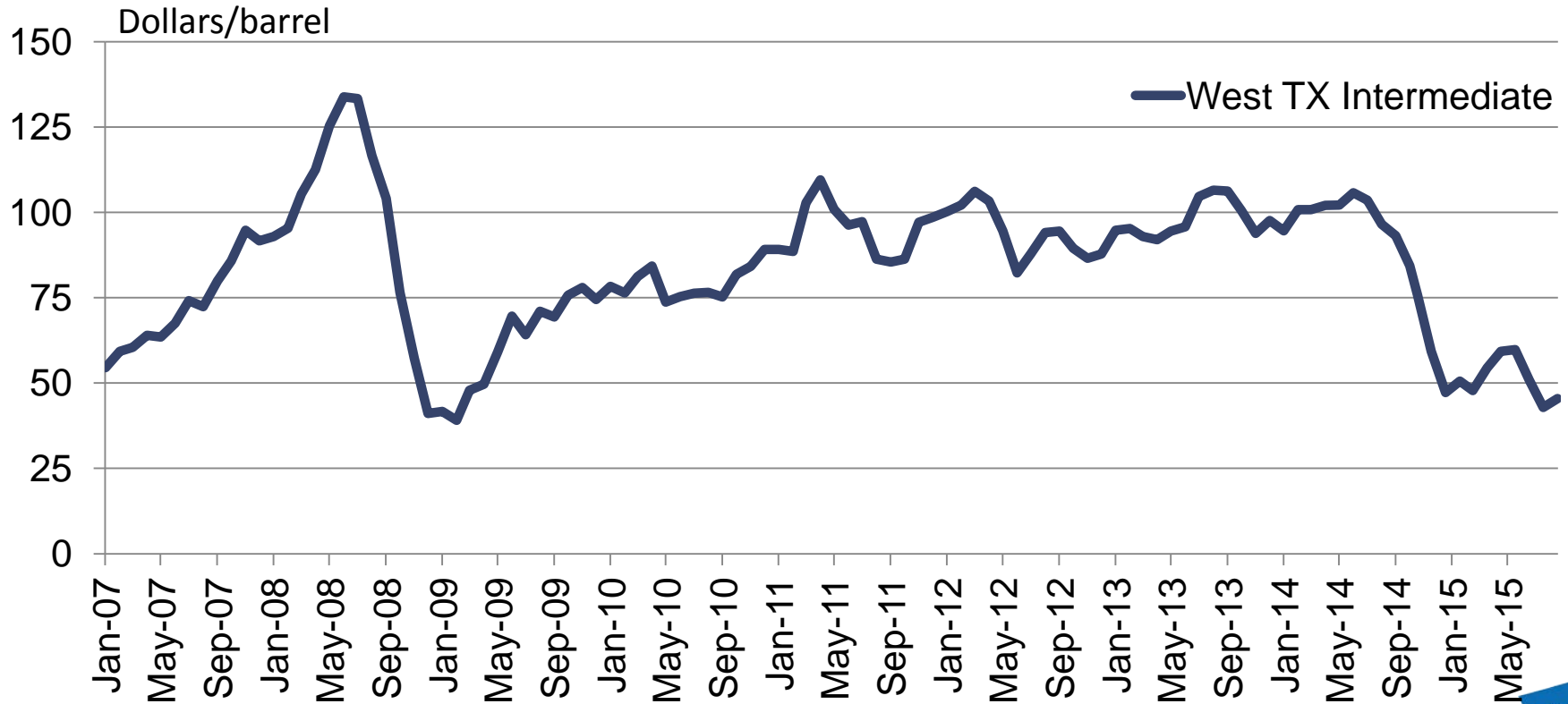
Source: Federal Reserve

# Stock Market Volatility Up



Source: DJIA

# Crude Oil Prices 2007-Present



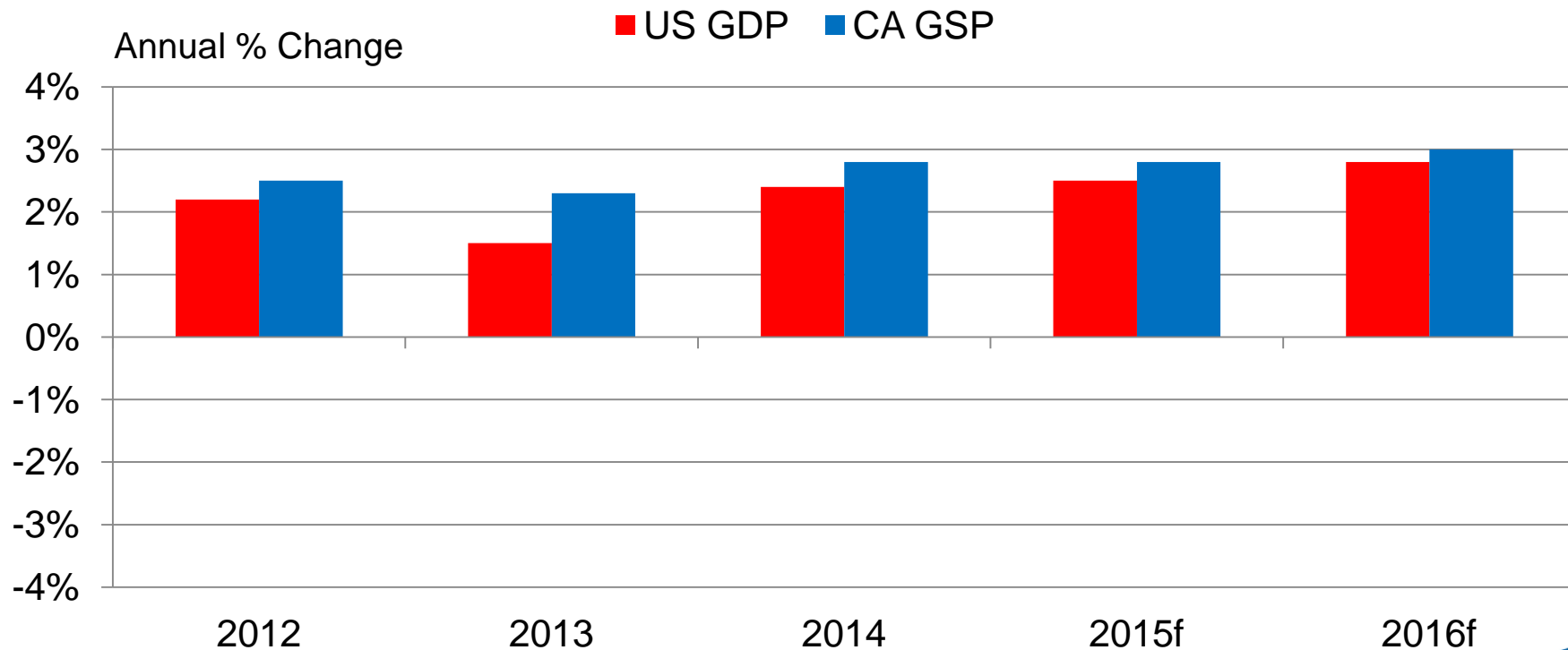
Source: US Energy Information Administration



The background of the slide features a low-angle shot of two flags flying against a clear blue sky. On the left is the United States flag, and on the right is the California state flag, which depicts a grizzly bear on a rock with the words 'EUREKA' and 'CALIFORNIA REPUBLIC' below it. The title 'California Economy' is superimposed in the center in a large, bold, blue font with a slight drop shadow.

# California Economy

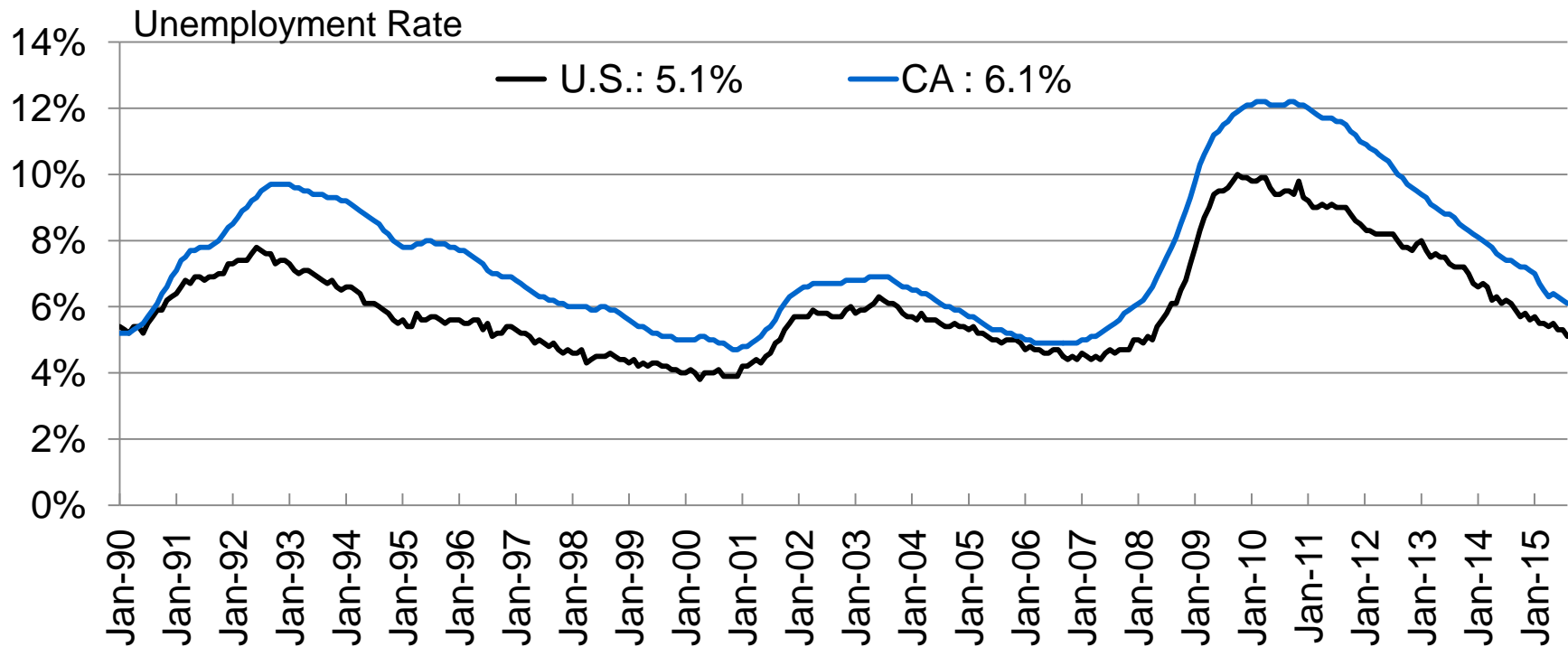
# California Growth Outpacing U.S.



Source: US Bureau of Economic Analysis, IHS, forecasts by LAEDC



# CA Unemployment Rate Falling Quickly

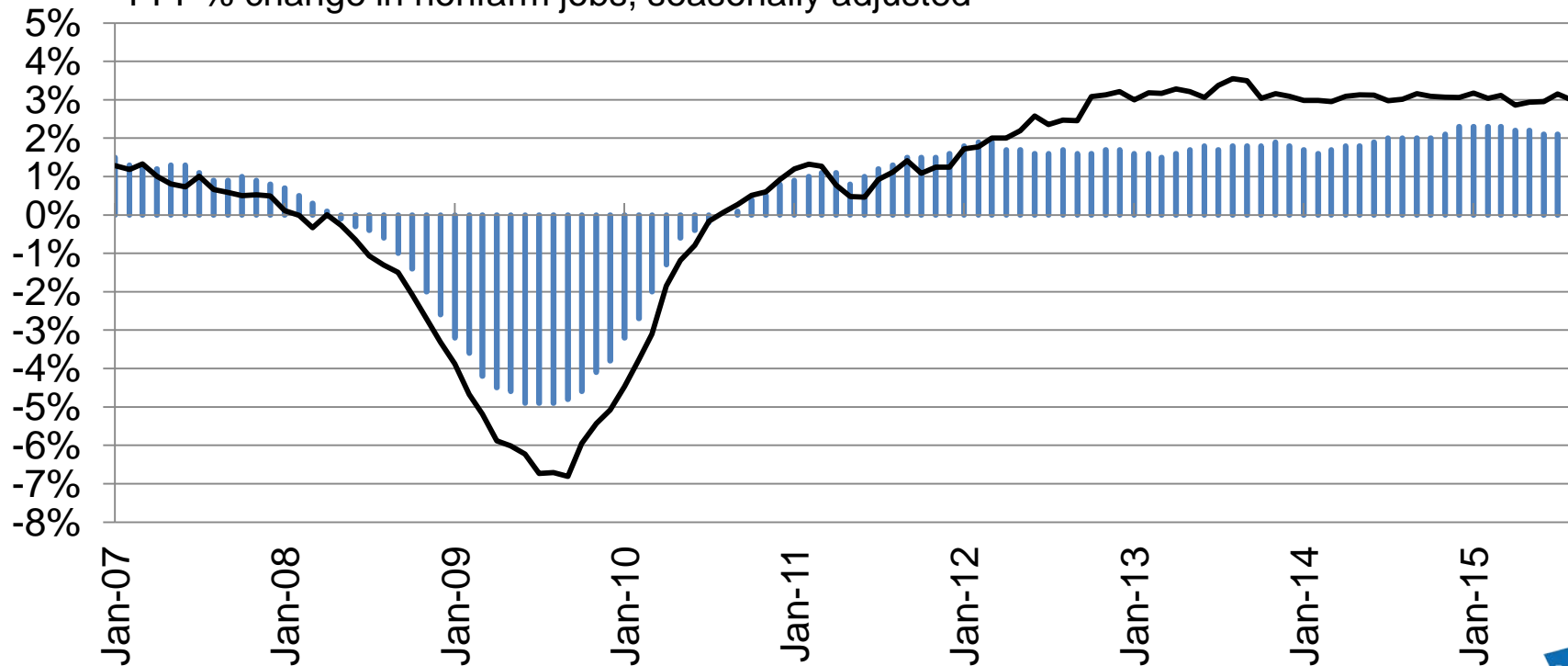


Source: US BLS, CA EDD



# CA Adding Jobs Faster Than U.S.

YTY % change in nonfarm jobs, seasonally adjusted

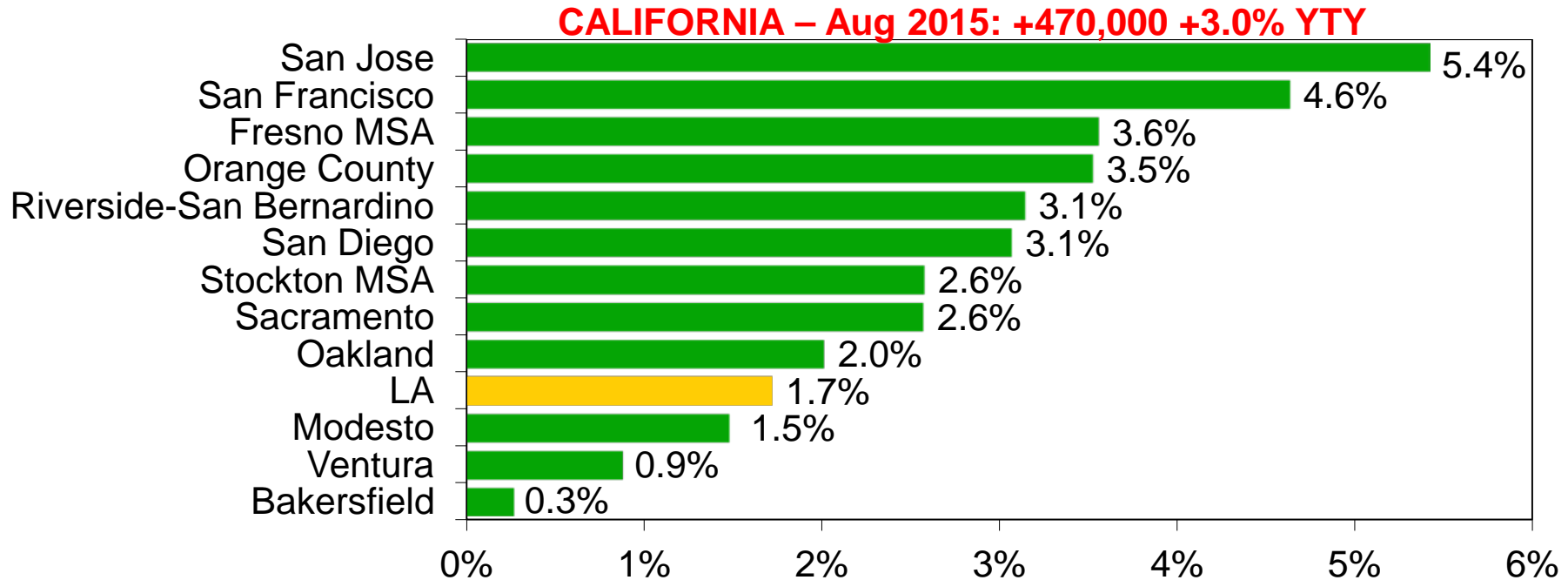


Source: US BLS, CA EDD



# Job Trends by California Metro Area

*Annual percent change in nonfarm jobs, seasonally adjusted*



Source: CA EDD, Labor Market Information Division





# The Drought & El Nino?

- California Drought
  - Immediate effects of drought mainly on agriculture
  - Long run concerns re: drought
- El Nino & California Drought
  - Above normal rain in Southern California
  - Need precipitation in Sierras

# The Drought & El Nino?

- El Nino & The Price of Your 2 PM Chocolate Bar
  - West Africa: 70% of global supply of cocoa
  - Ecuador also significant producer
  - Forecast: Global supply down 2% due to El Nino
  - Expect price of cocoa beans to rise

# California Economic Forecast

	2012	2013	2014	2015f	2016f
Nonfarm Jobs - annual % chg.	2.4%	3.2%	3.0%	2.9%	2.1%
Unemployment Rate	10.4%	8.9%	7.5%	6.4%	5.8%
Personal Income - annual % chg.	7.1%	2.8%	4.7%	4.9%	4.9%
Total Taxable Sales - % chg.	7.3%	5.1%	6.1%	4.5%	6.4%
Housing Permits - thousands of units	57.5	82.3	85.8	104.6	132.3

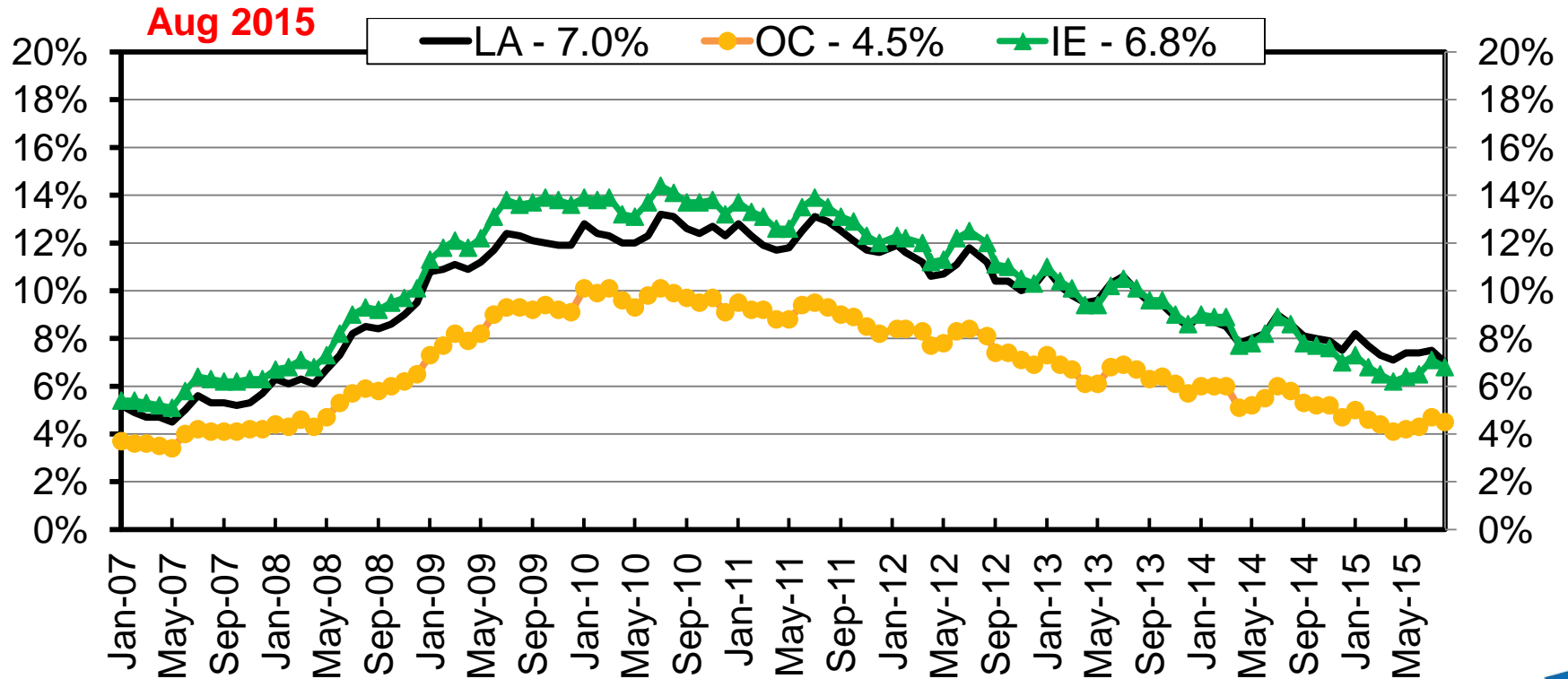
Forecast Source: LAEDC





# **Southern California Economy**

# Local Unemployment Rates

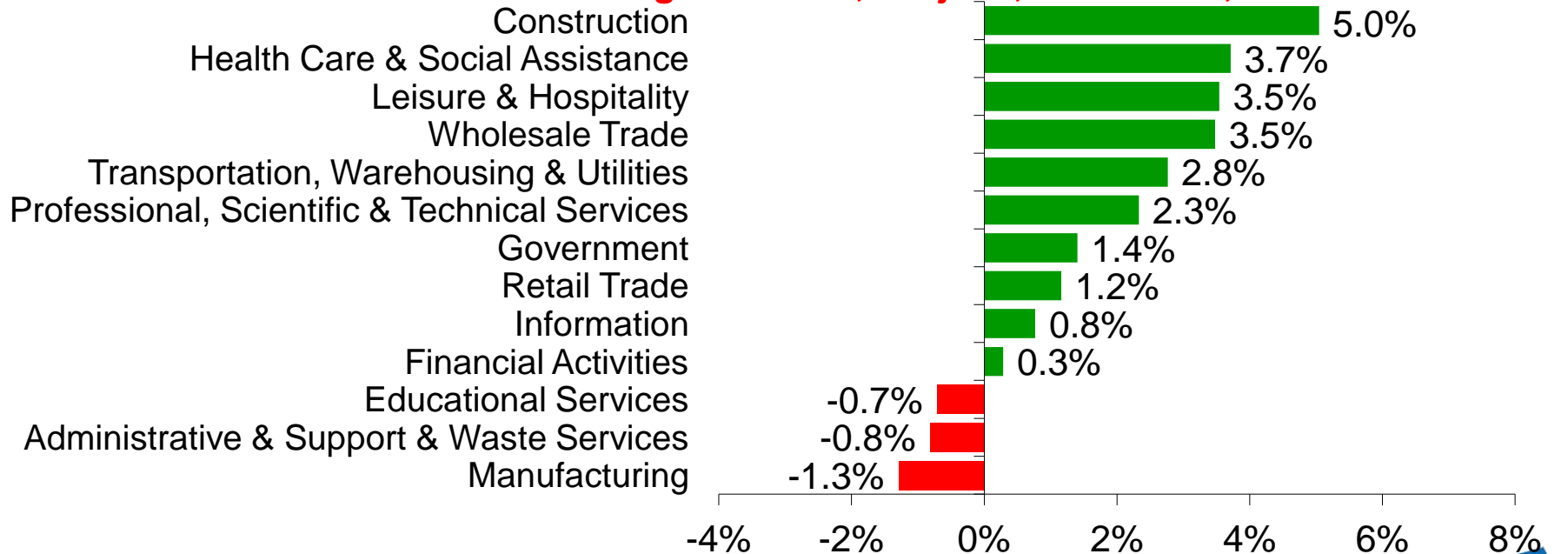


Source: CA EDD, Labor Market Information Division

# Job Trends by Industry – Los Angeles

*YTY % change in nonfarm employment by industry, not seasonally adjusted*

**Aug 2015: +76,300 jobs, +1.8% YTY; u-rate: 7.0%**



Source: CA EDD, Labor Market Information Division

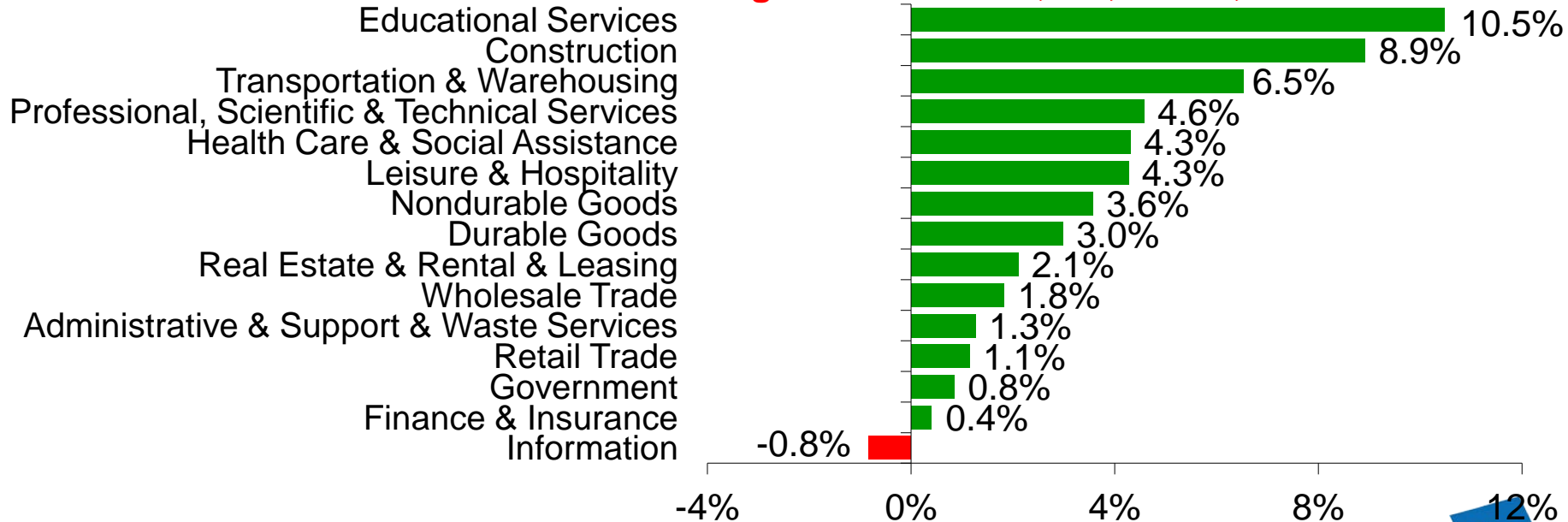


# Job Trends by Industry

## Orange County

*YTY percent change in nonfarm employment by industry*

**Aug 2015 YTY: +48,500, +3.2%; u-rate: 4.5%**



Source: CA EDD, Labor Market Information Division

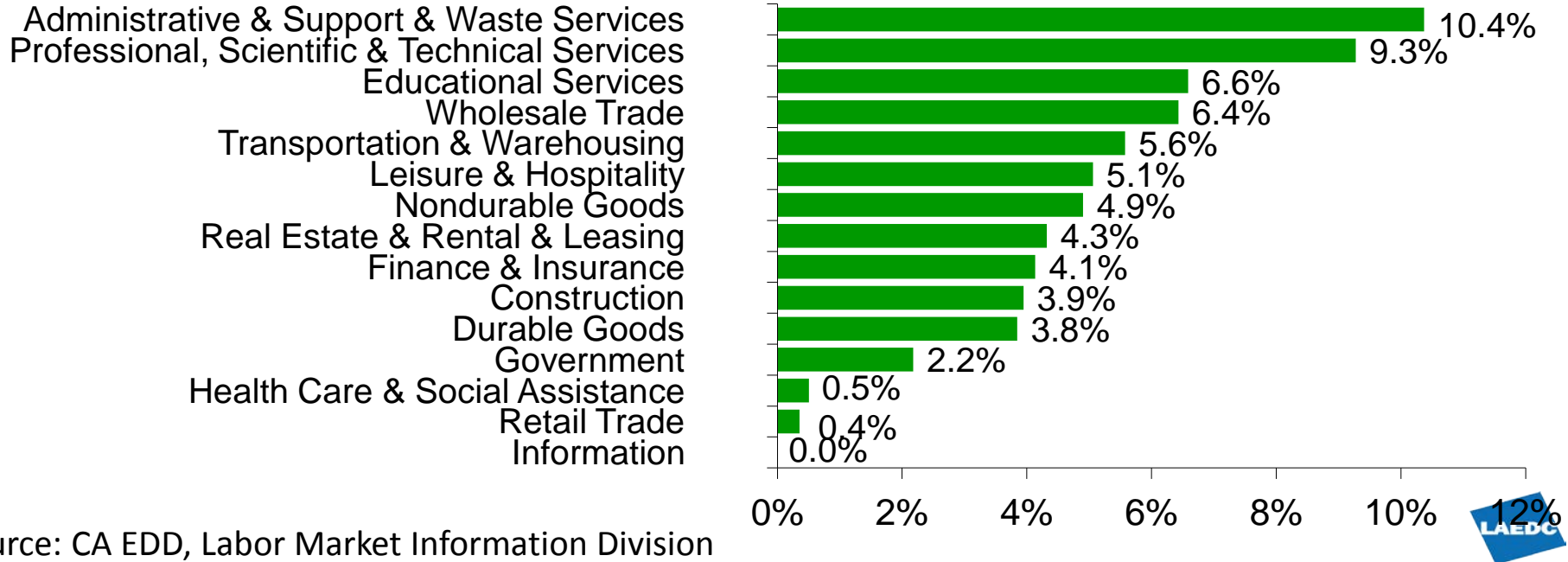


# Job Trends by Industry

## Riverside – San Bernardino

*YTY percent change in nonfarm employment by industry*

**Aug 2015 YTY: +44,500, +3.5%; u-rate: 6.8%**



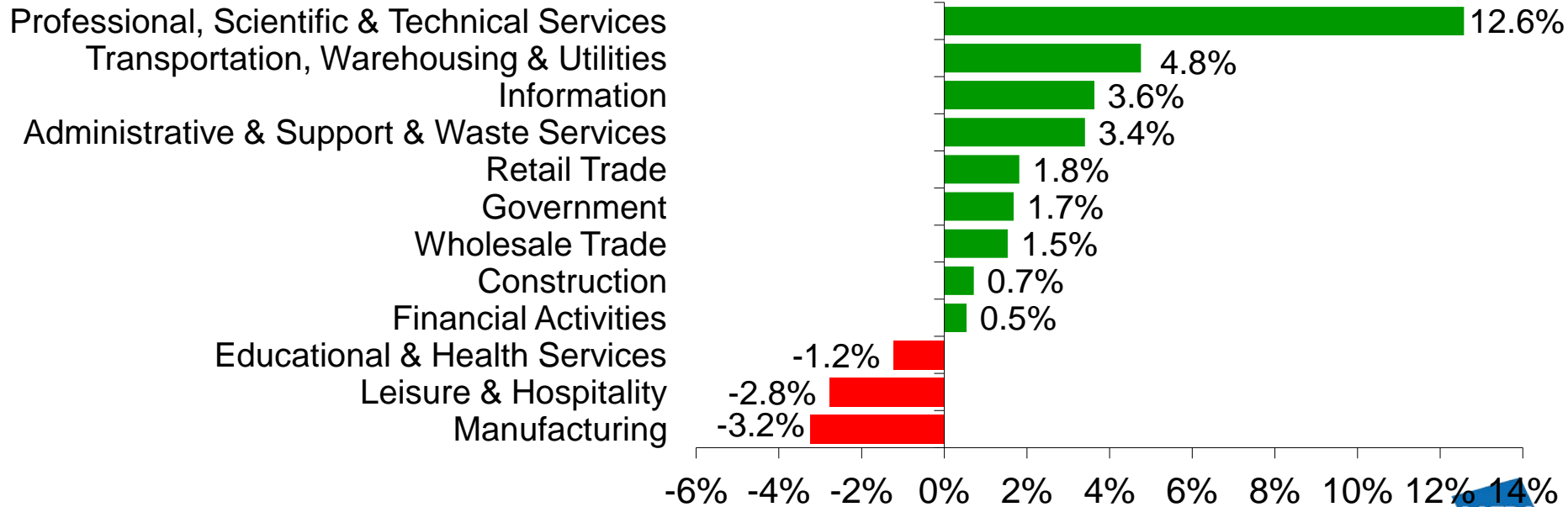


# Job Trends by Industry

## Ventura County

*YTY percent change in nonfarm employment by industry*

**Aug 2015 Total: +2,500, +0.9%; u-rate: 5.8%**



Source: CA EDD, Labor Market Information Division



# Major Industries in Southern California

## TRADED INDUSTRIES

### (Generate New Income)

- International Trade
- Entertainment
- Business Services
- Aerospace
- Fashion & Apparel
- Tourism
- Knowledge Creation

## LOCAL INDUSTRIES

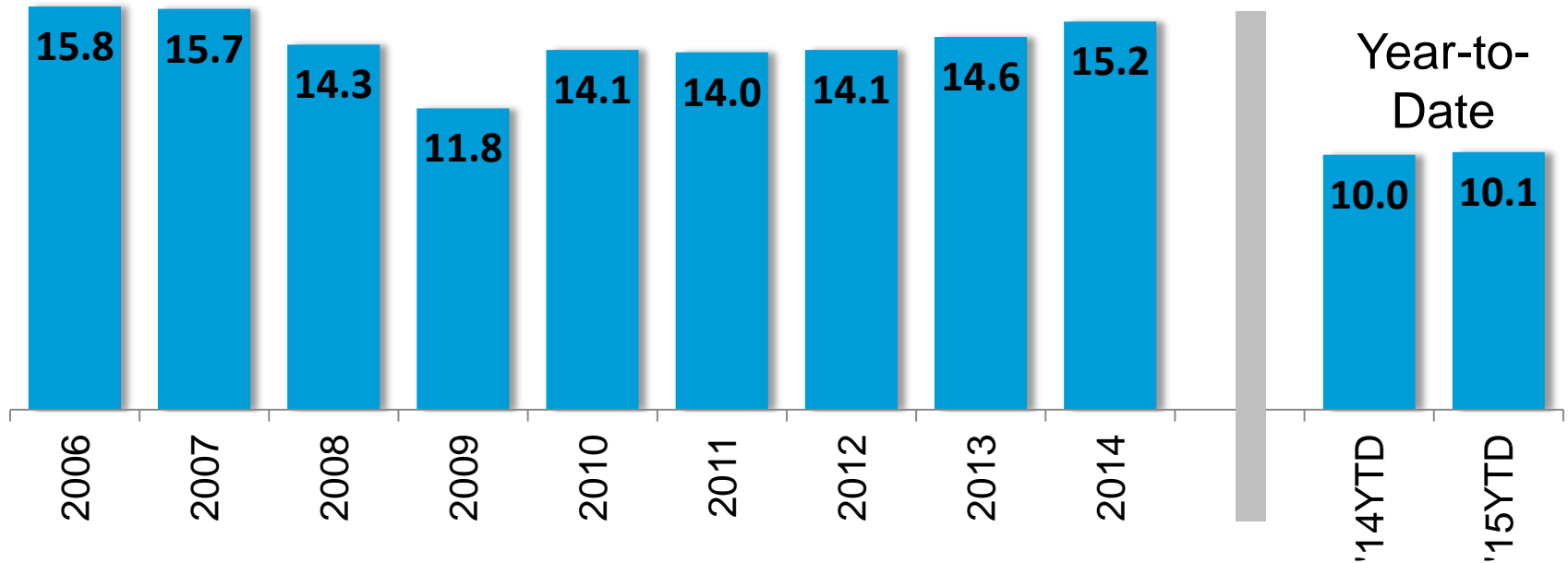
### (Circulate Income)

- Retail Sales
- Leisure & Hospitality
- Health Care/Social Assistance
- Personal Services
- Nonprofit Sector

# Container Throughput San Pedro Bay Ports

Millions of TEUs

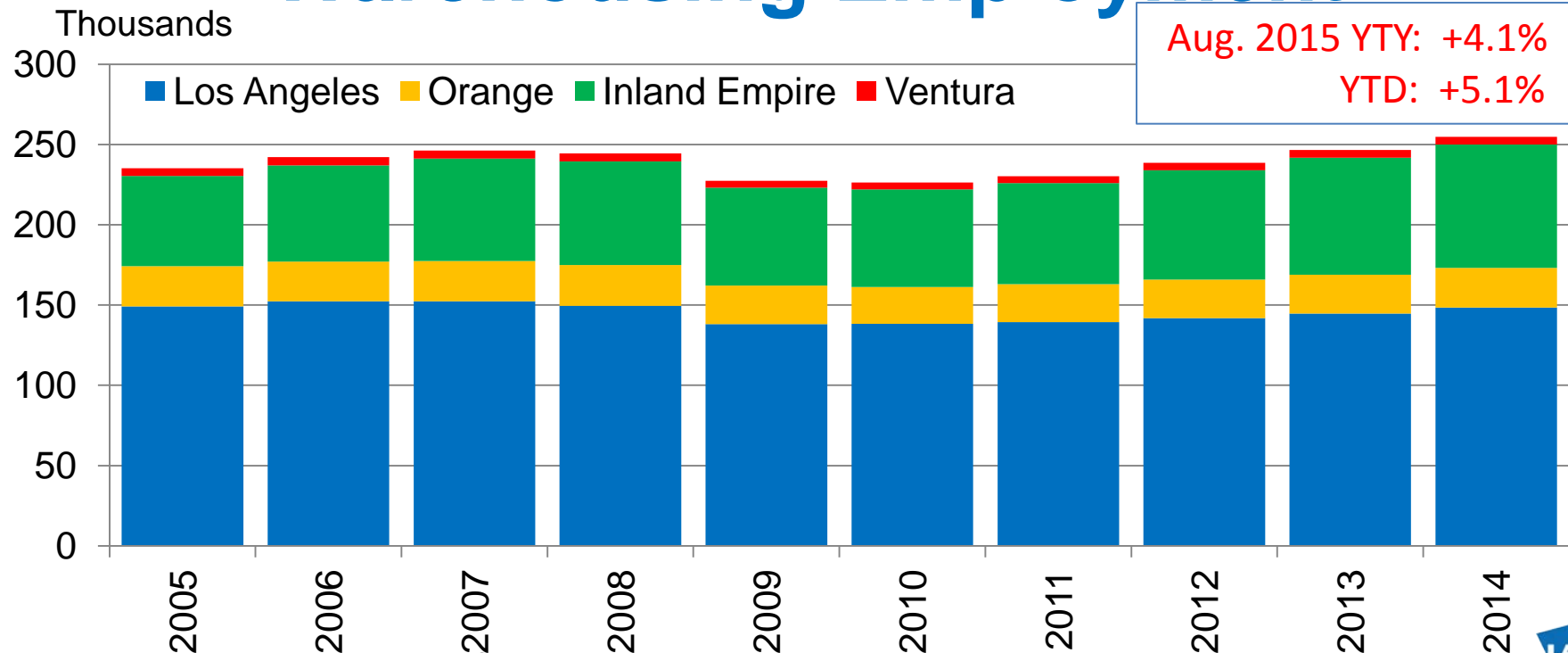
Aug 2015 YTD: +1.1%



Sources: Ports of Los Angeles and Long Beach; forecast by LAEDC



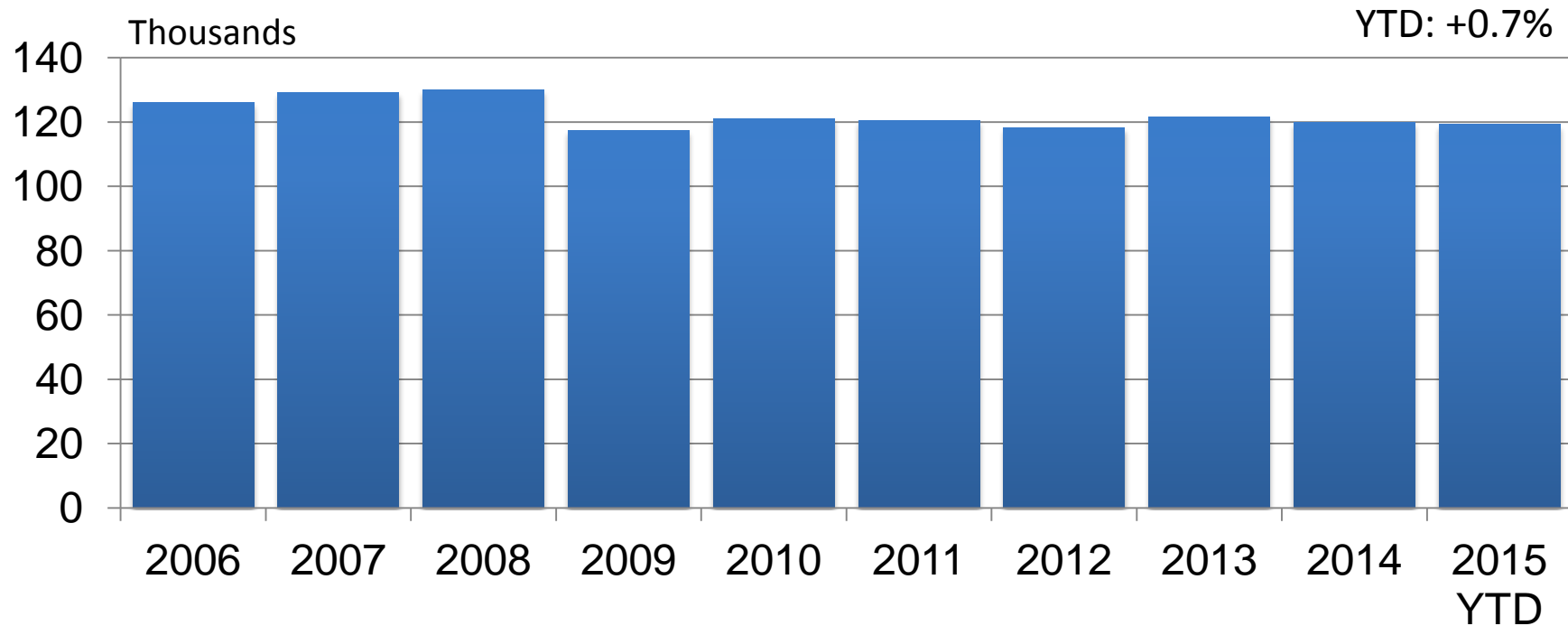
# Southern California Transportation and Warehousing Employment



Source: CA EDD, Labor Market Information Division



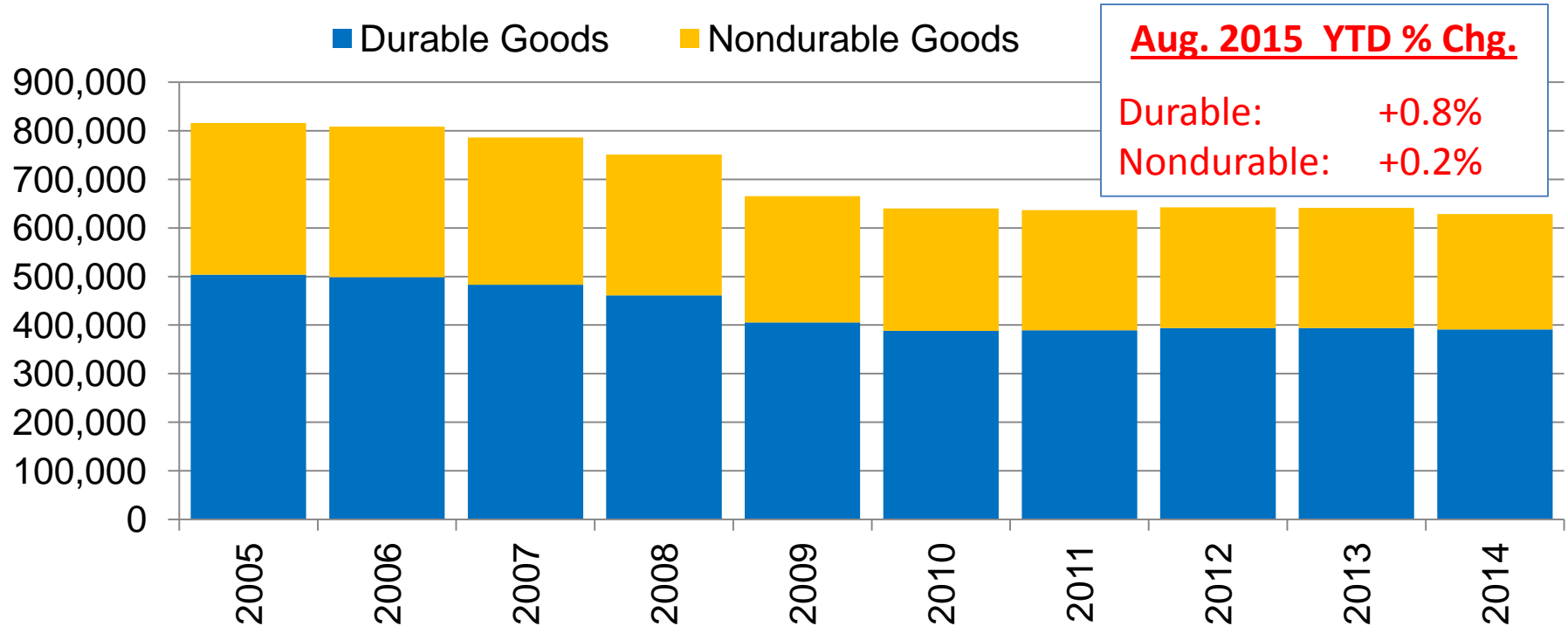
# Motion Picture & Sound Recording Employment in Los Angeles County



Sources: CA EDD. LMID



# So Cal Manufacturing Employment

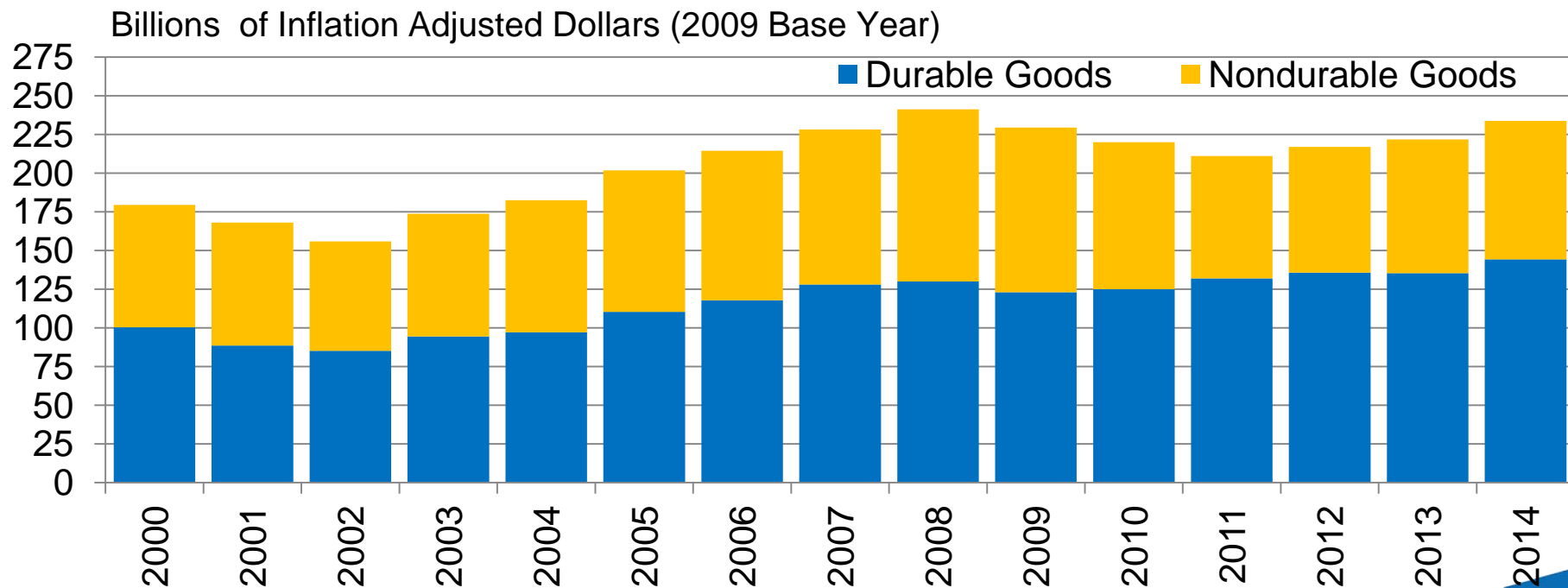


Source: CA EDD, Labor Market Information Division

# Manufacturing Trends

UP >1%	NO/LITTLE CHANGE	DOWN >1%
Furniture Chemicals Plastics Pharmaceuticals	Fabricated Metal Prod Food Apparel Petroleum Products	Primary Metal Mfg Machinery Electronic Products Aerospace Textiles

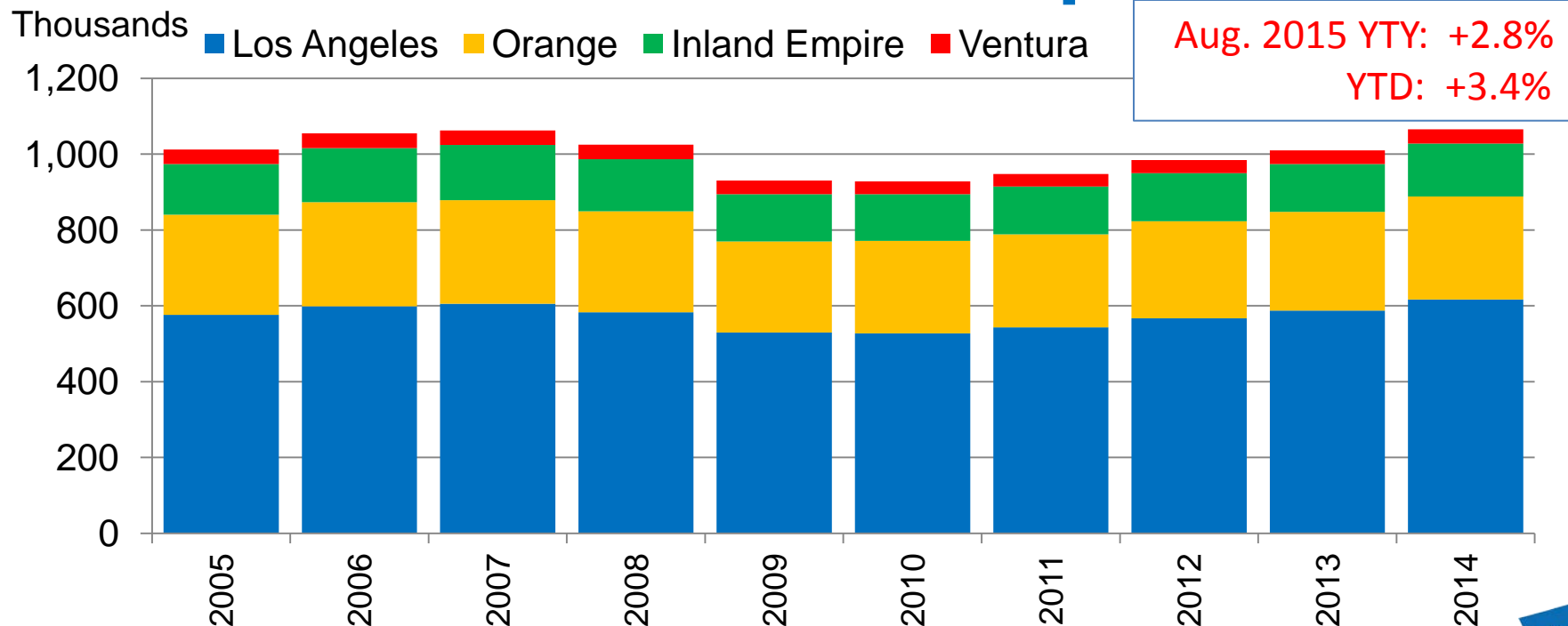
# Value of Manufacturing Output – California



Source: US Bureau of Economic Analysis; IHS Economics



# Southern California Professional & Business Services Employment

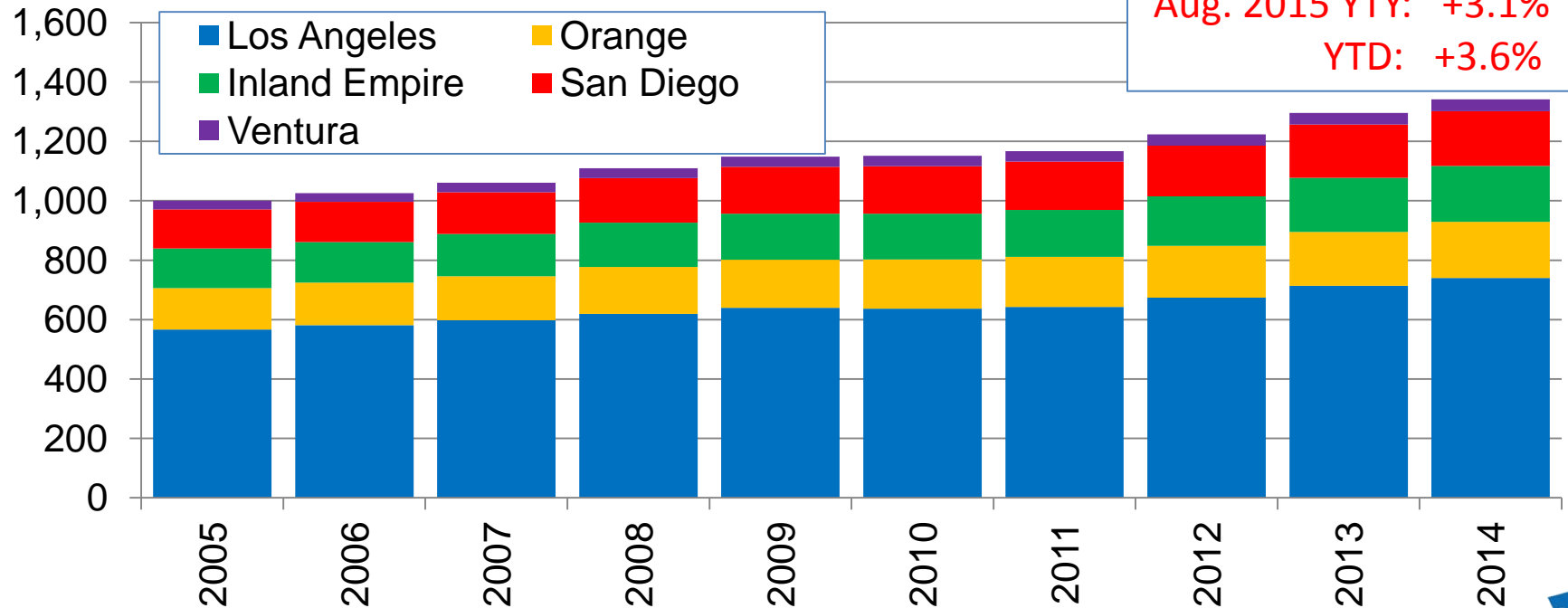


Source: CA EDD, Labor Market Information Division



# Southern California Education & Health Care Employment

Thousands



Source: CA EDD, Labor Market Information Division



# Emerging Industries

- Venture Capital: \$3.1 B to LA/OC in 2015H1
  - Software, IT Services
  - Medical Devices
  - Media & Entertainment
  - Industrial/Energy

# New Industry Cluster?

## L.A.'S GROWING CRAFT BEER INDUSTRY IS GOOD FOR THE ECONOMY, REPORT SAYS



BY SARAH BENNETT

TUESDAY, SEPTEMBER 22, 2015 | 2 DAYS AGO



## Culinary & Beverage Arts

### Los Angeles County

- 54 Craft Breweries
- 1,334 jobs
- \$66 million in direct economic impact

### California

- \$6.5 billion impact, 2014
- 18% increase over 2013



# Housing & Residential Construction

# Median Prices

## Existing Single-Family Homes

County	Aug-14	Aug-15	YTY % Change
Los Angeles	\$469,000	\$502,000	7.0%
Orange County	\$585,000	\$610,000	4.3%
San Bernardino	\$240,000	\$270,000	12.5%
Riverside County	\$299,000	\$315,000	5.4%
Ventura	\$490,000	\$500,000	2.0%
San Diego	\$445,000	\$465,000	4.5%

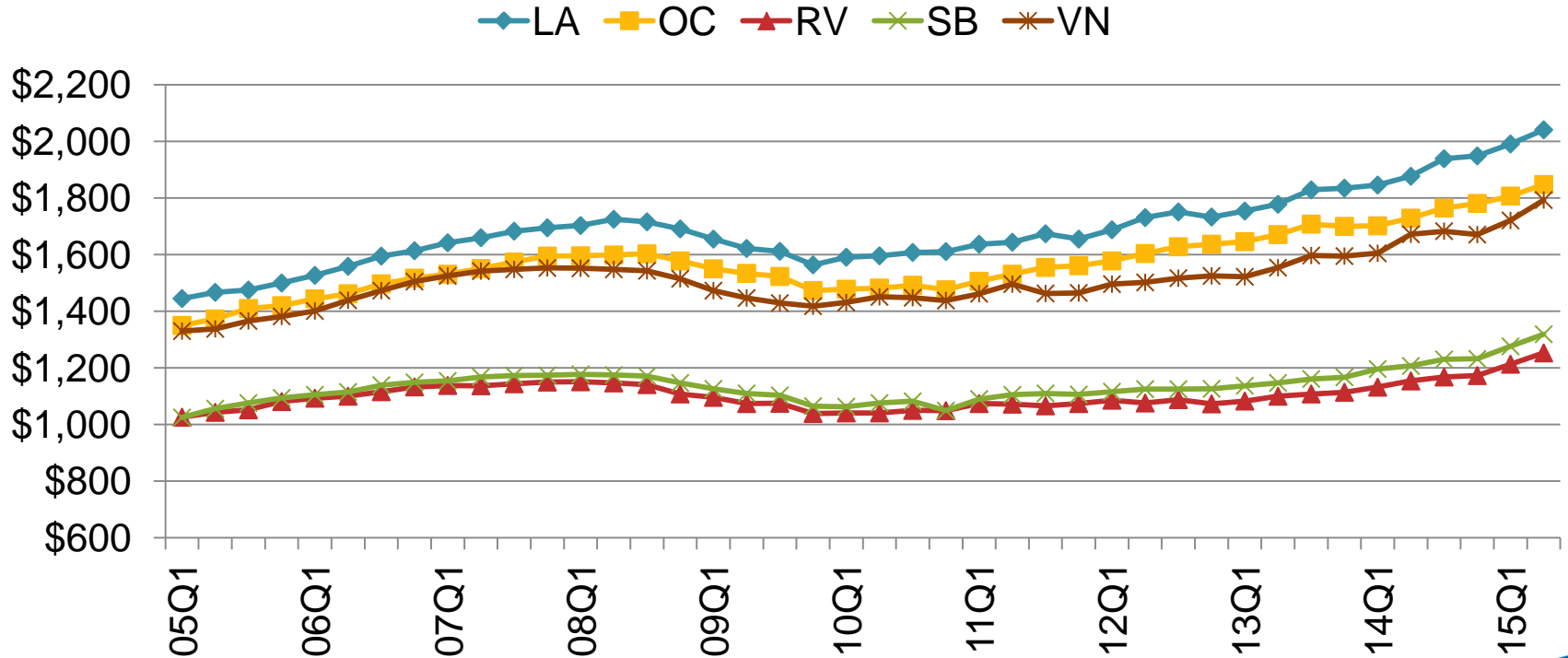
Source: California Association of REALTORS



# Housing Drivers & Constraints

- Drivers:
  - Job and income growth
  - Net increases in wealth
  - Demographics
  - Expected increases in mortgage rates
- Constraints
  - Down payment sources
  - Rising mortgage rates
  - Strict underwriting requirements

# Apartment Rents – Southern California

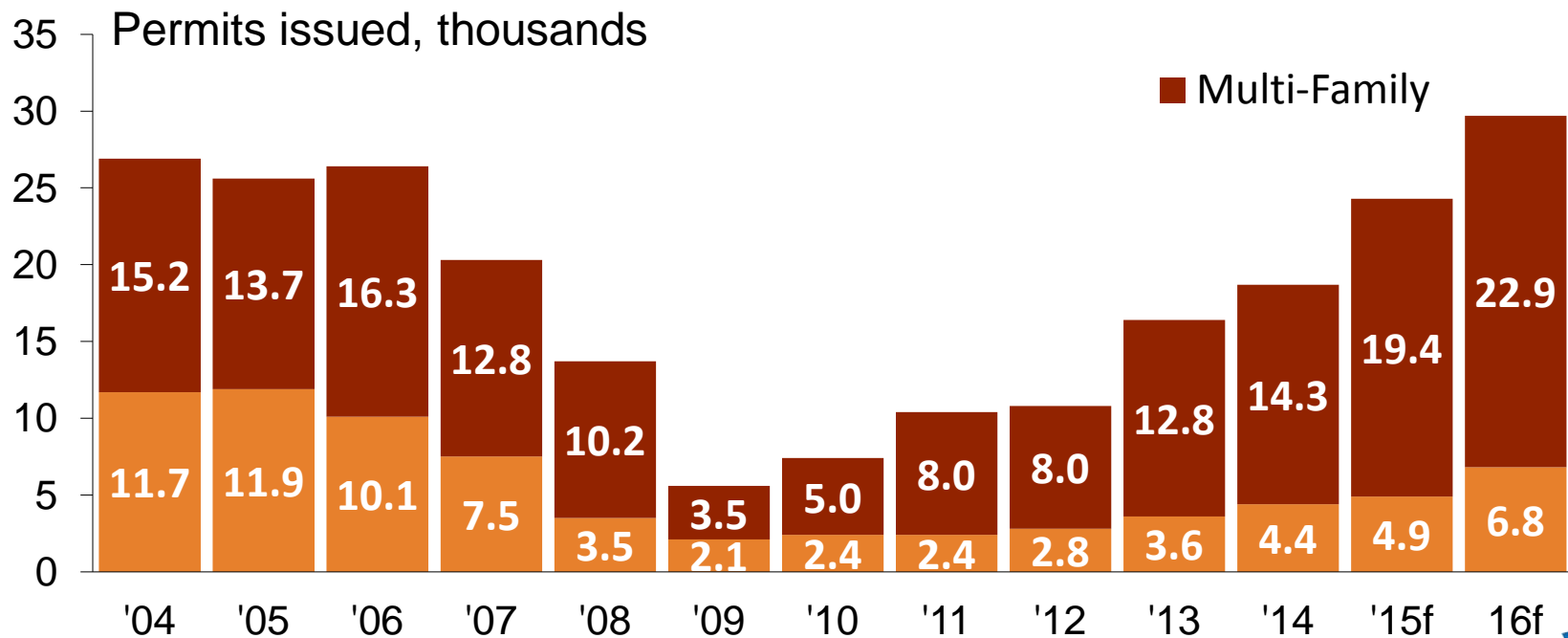


Source: CA Real Estate Research Council





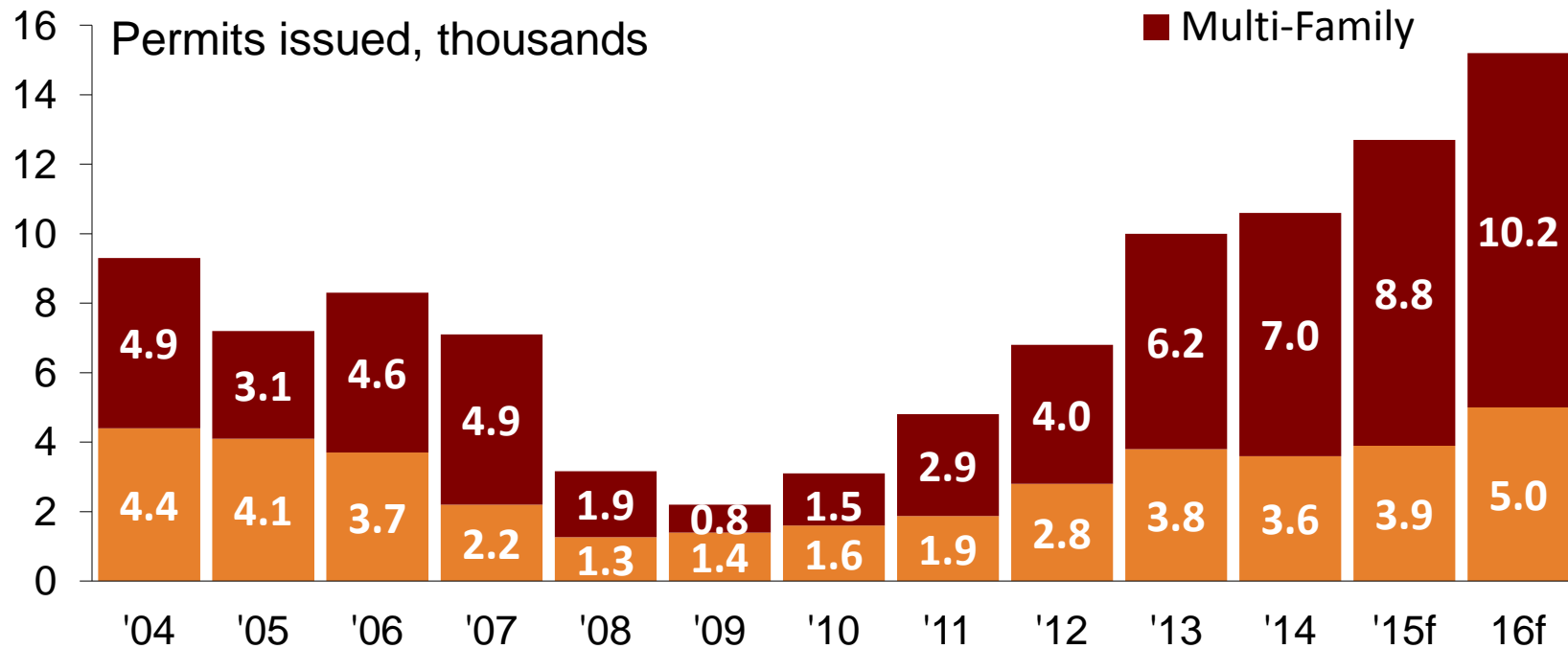
# Residential Building Permits Issued in Los Angeles County



Source: CIRB, California Home Building Foundation, forecast by LAEDC



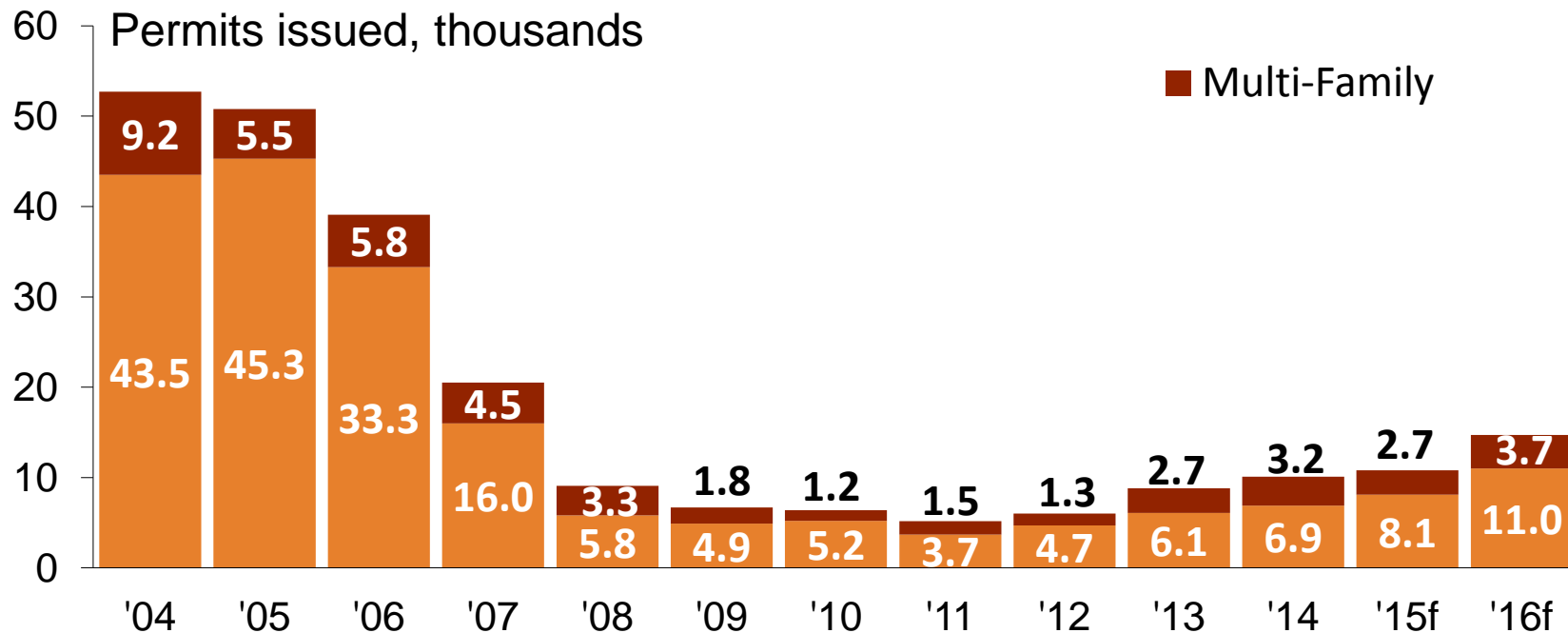
# Residential Building Permits Issued in Orange County



Source: CIRB, California Home Building Foundation, forecast by LAEDC



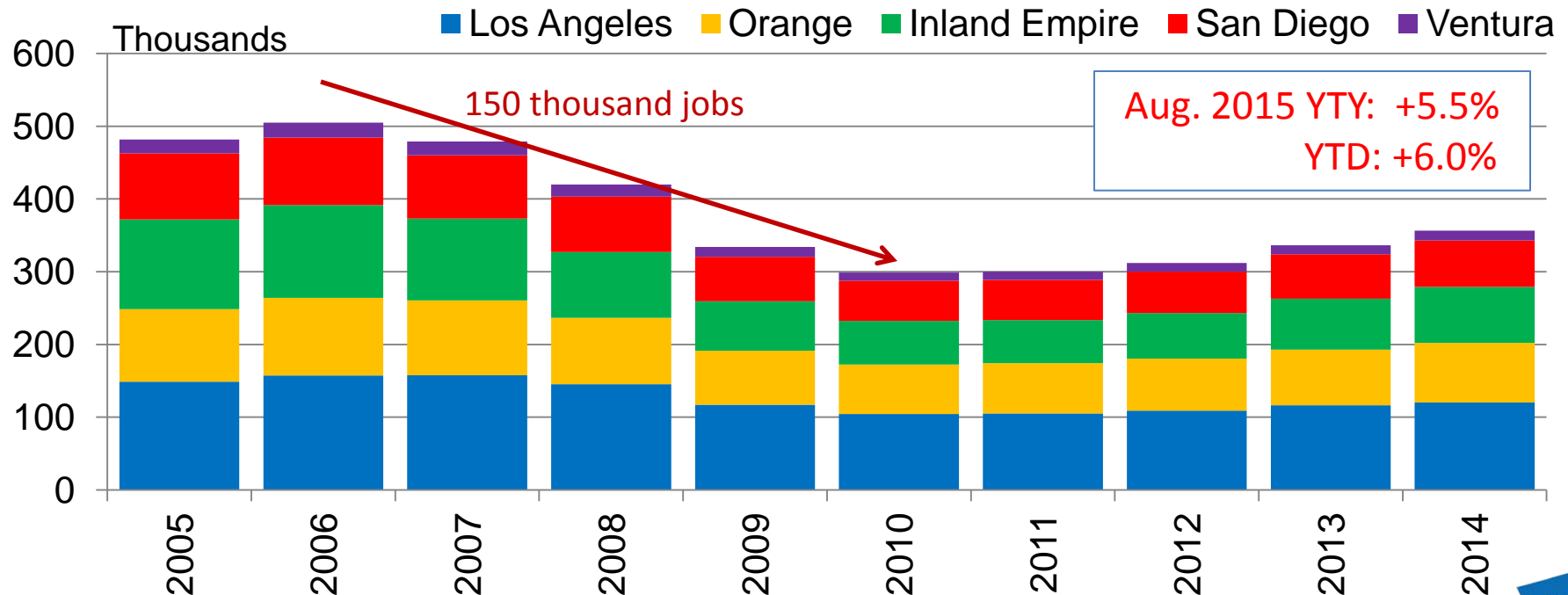
# Residential Building Permits Issued in the Inland Empire



Source: CIRB, California Home Building Foundation, forecast by LAEDC



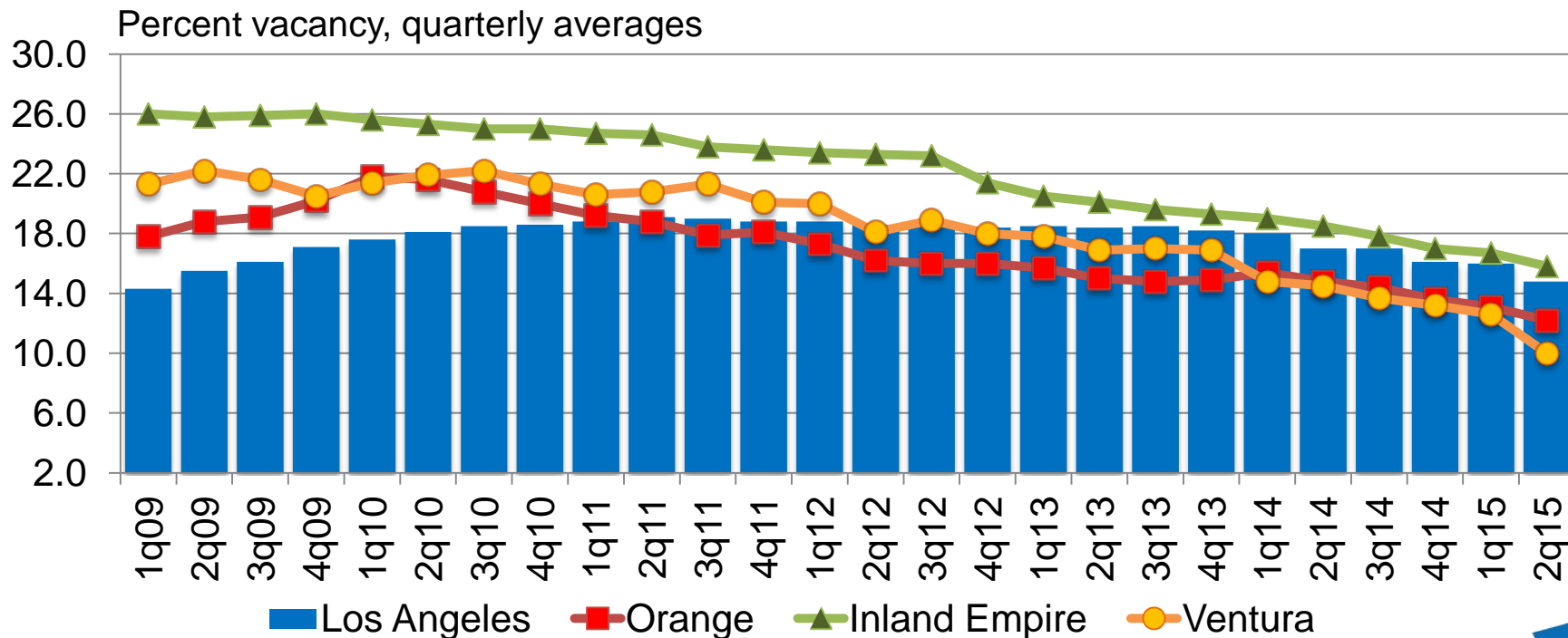
# Southern California Construction Employment



Source: CA EDD, Labor Market Information Division



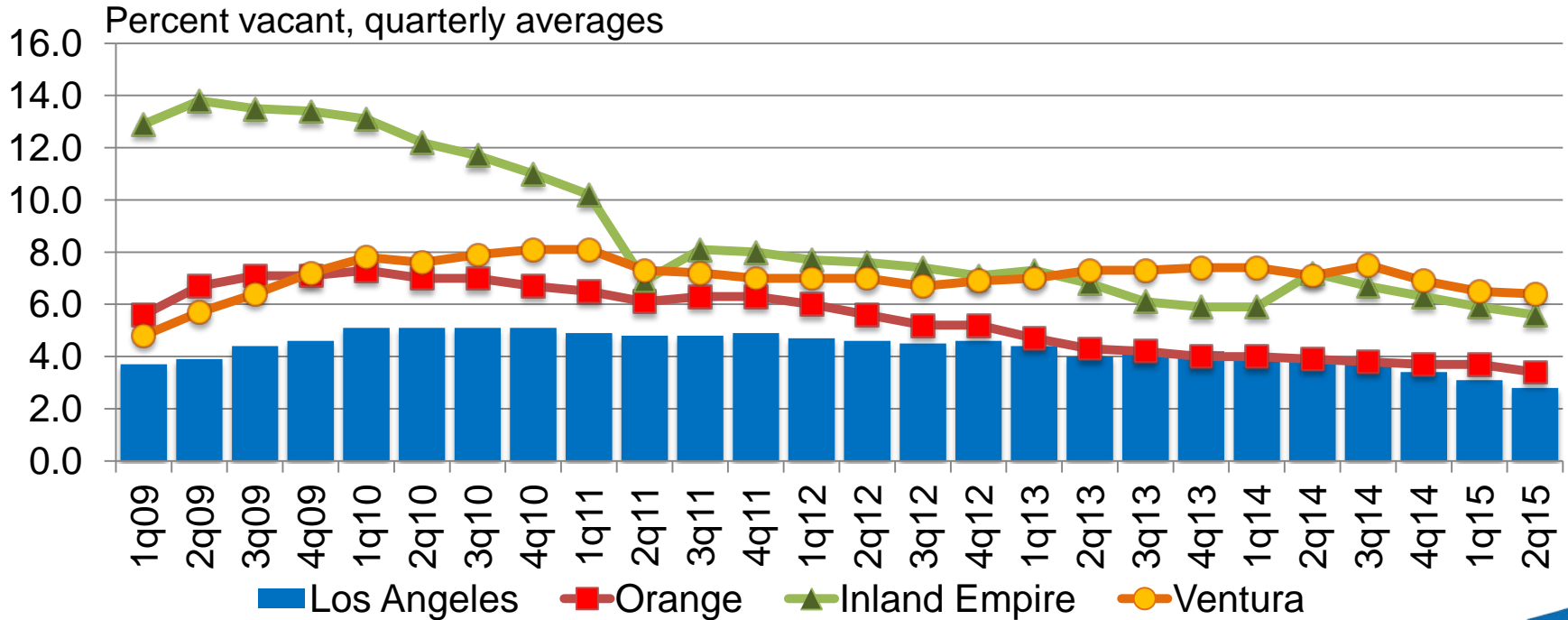
# Office Vacancy Rates – Southern California



Source: Cushman and Wakefield



# Industrial Vacancy Rates – Southern California



Source: Cushman and Wakefield

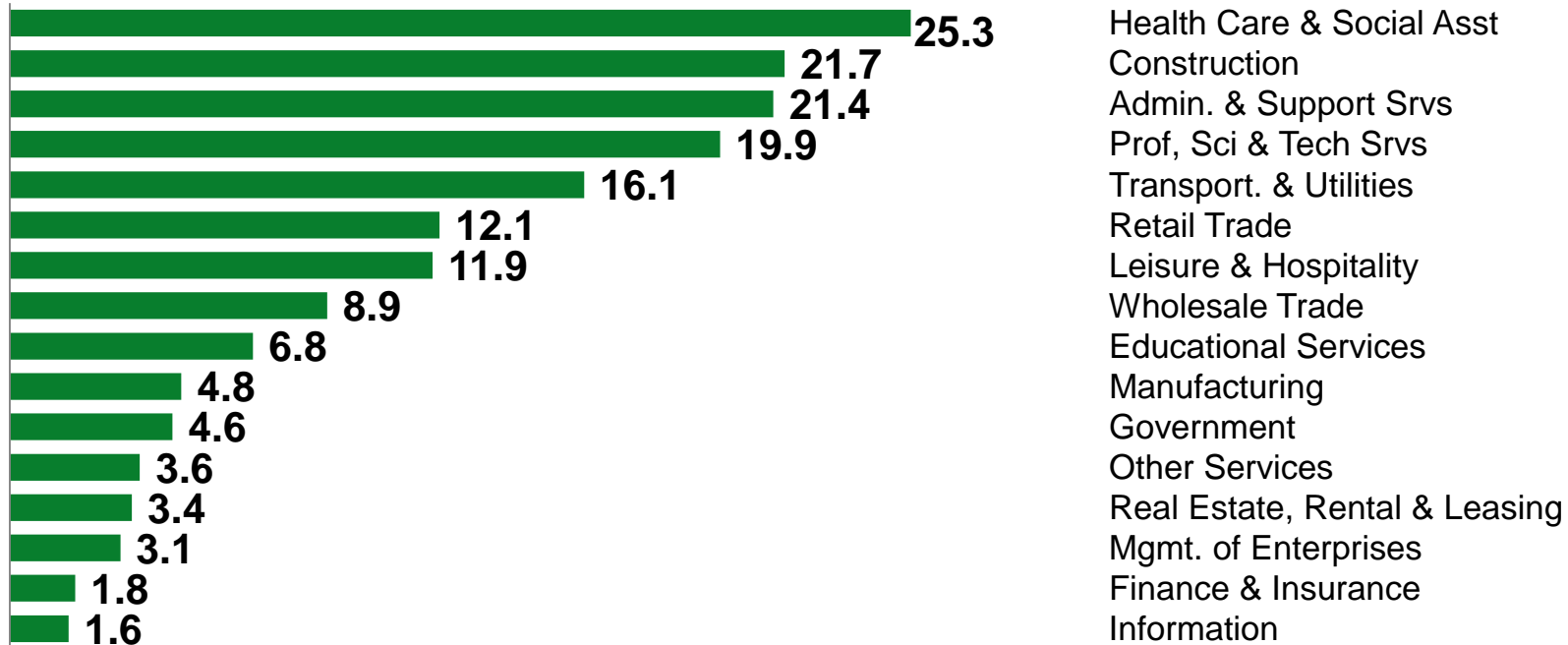




# 2016 Southern California Forecast

# L.A. 5-County Employment Growth, 2016

Total nonfarm job growth forecast for 2016 (thousands): +168.0 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC



# 2016 Top Five Industries by Percentage Gains in Employment

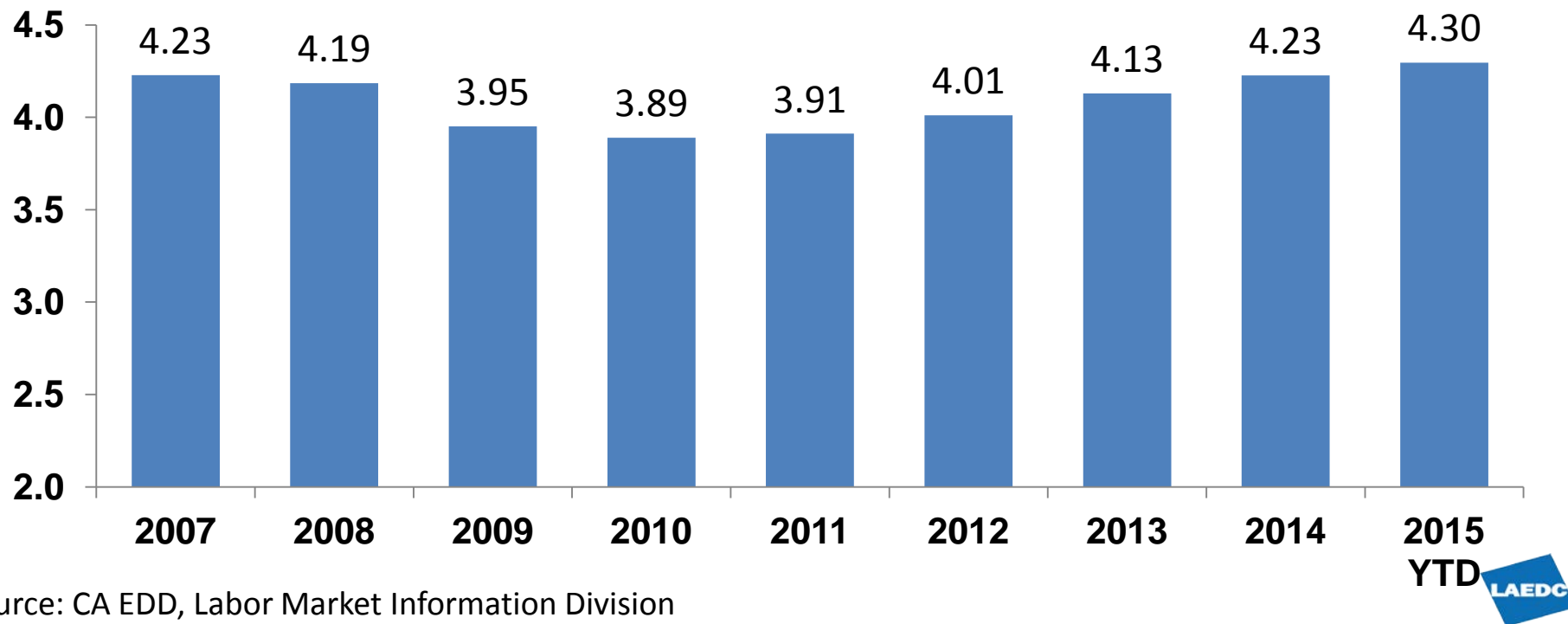
Rank	Los Angeles	Orange	Inland Empire	Ventura
1	Construction	Construction	Trans & Utilities	Prof, Sci, Tech
2	Trans & Utilities	Health Care	Admin & Supp	Construction
3	Admin & Supp	Real Estate	Prof, Sci, Tech	Mgmt of Enterpr.
4	Prof, Sci, Tech	Education	Construction	Trans & Utilities
5	Education	Prof, Sci, Tech	Wholesale Trade	Real Estate

Source: CA EDD, Labor Market Information Division

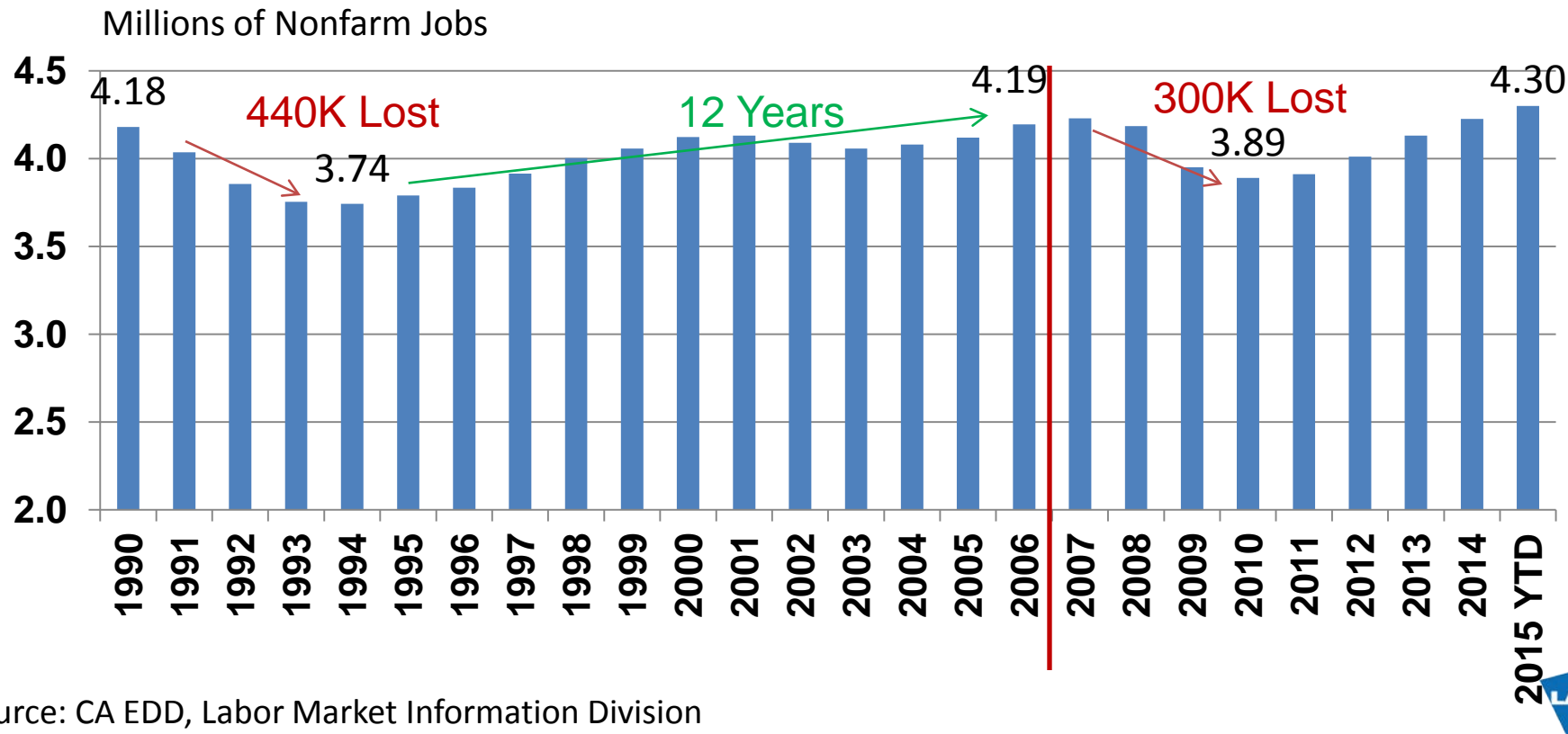


# LA County Nonfarm Employment

Millions of Nonfarm Jobs



# LA County Nonfarm Employment



Source: CA EDD, Labor Market Information Division

A hand holding a pen points to a stock market chart. The chart features a blue grid background with a white line graph showing fluctuations. A red line at the top indicates a price level, with the numbers '49.68' and '1.98' displayed above it. The text 'Five Years Ahead' is overlaid in large, bold, blue letters.

# Five Years Ahead

# U.S. Five-Year Forecast

	2006-10	2011-15	2016-20
GDP - Annual % Chg.	0.8%	2.0%	2.7%
Nonfarm Jobs - Annual % Chg.	-0.5%	1.7%	1.2%
Unemployment Rate	6.8%	7.2%	4.9%
Consumer Prices - Annual % Chg.	2.2%	1.7%	1.9%

Forecast Source: IHS, LAEDC



# Rates Up, Oil Low

	2006-10	2011-15	2016-20
3-Month Treasury	2.1%	0.06%	2.3%
10-Year Treasury	3.9%	2.3%	3.2%
30-Year Fixed Rate Mortgage	5.7%	4.0%	5.1%
Oil Price/Barrel	\$75.45	\$96.86	\$76.32

Forecast Source: IHS, LAEDC



# So Cal Population Grows ...

	Pop in Millions			10-15	16-20
	2010	2015	2020	%/Yr	%/Yr
Los Angeles	9.82	10.12	10.33	0.6%	0.4%
Orange	3.02	3.16	3.31	0.9%	0.9%
Riverside-San Bernardino	4.23	4.44	4.86	1.0%	1.8%
Ventura	0.82	0.85	0.89	0.7%	0.9%

Forecast Source: IHS, LAEDC



# ... and Jobs Advance at Slower Pace

	Nonfarm Jobs in Millions			10-15	16-20
	2010	2015	2020	%/Yr	%/Yr
Los Angeles	3.89	4.32	4.52	2.1%	0.9%
Orange	1.37	1.55	1.67	2.5%	1.6%
Riverside-San Bernardino	1.14	1.34	1.51	3.1%	2.5%
Ventura	0.27	0.30	0.32	1.6%	1.4%

Forecast Source: LAEDC





# Five-Year Employment Trends in So Cal

- Leading (% Gains):
  - Construction
  - Professional & Business Services
  - Education Services
  - Health Care
- Lagging
  - Finance & Insurance
  - Manufacturing



# Conclusion

# Conclusion

- Continued Economic Growth: US, CA, & So Cal
- Income Gains and Growth in Spending
- California Outpacing US
- Job Gains in Most Local Industries
- Real Estate/Construction Outlook Good
- Challenge: Long-Term Job Picture in LA



# 2016 Southern California Economic Forecast & Industry Outlook



## Thank You!

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