LAEDC Economic Forecast & Industry Outlook 2015-2016

February 18, 2015

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Chief Economist, Kyser Center for Economic Research, LAEDC
Outline

- U.S. Economy
- California Economy
- Southern California Economy & Industries
- Southern California 2015-16 Forecast
In Brief – U.S. Economy

- U.S. Economy – faster growth
- Labor Market – full employment, wage gains
- Oil Situation – tough on oil, good for economy
- World Economy – mixed bag for U.S.
- Federal Reserve – U.S. & global concerns
U.S. Economic Growth

Annual % Change

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>3.3</td>
<td>2.7</td>
<td>1.8</td>
<td>-0.3</td>
<td>-2.8</td>
<td>2.5</td>
<td>1.6</td>
<td>2.3</td>
<td>2.2</td>
<td>2.4</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: US Bureau of Economic Analysis, LAEDC Forecasts
U.S. Unemployment Rate

Seasonally Adjusted, Jan 2015: 5.7%

U.S. Nonfarm Job Growth

MTM changes in thousands, Seasonally Adjusted

Key Sectors of Macroeconomy

- Consumer Sector
- Business Sector
- Government
- International Trade
U.S. Consumer Expenditures Up

Annual % Change

Source: Bureau of Economic Analysis, LAEDC forecasts
Household Income Below Peak

Median HH Income in Thousands of 2013 Dollars

Source: Census Bureau

Kyser Center for Economic Research
Business Investment Spending Up

Annual Percentage Change

<table>
<thead>
<tr>
<th></th>
<th>Equipment</th>
<th>Intellectual Property</th>
<th>Structures</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.3%</td>
<td>4.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>2015</td>
<td>7.6%</td>
<td>5.6%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2016</td>
<td>7.0%</td>
<td>4.4%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: IHS, LAEDC
Federal Budget Receipts & Outlays as Percentage of GDP

Receipts

Outlays

Source: Office of Management and Budget
## FORECAST: U.S. Economy to Accelerate

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015f</th>
<th>2016f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP - Annual % Chg.</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Nonfarm Jobs - Annual % Chg.</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>8.1%</td>
<td>7.4%</td>
<td>6.2%</td>
<td>5.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Consumer Prices - Annual % Chg.</td>
<td>2.1%</td>
<td>1.5%</td>
<td>1.6%</td>
<td>1.3%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Forecast Source: LAEDC
U.S. Forecast:
What to Watch
Wage Gains vs. Inflation

Source: Bureau of Labor Statistics
Crude Oil Prices 2005-Present

Source: US Energy Information Administration

Dollars/barrel

West TX Intermediate
Q: When Will Fed Raise Rates?

- Fed ended Quantitative Easing (QE) in October 2014

- Fed to raise short term rates in second half of 2015? *It depends*…

- Concern about Fed getting ‘ahead of the curve’ and ability to react to future events
Stock Market Volatility Up

Source: DJIA
Mixed Global Outlook

Annual % Growth

- 2014
- 2015f
- 2016f

Euro Area
Japan
Developing Asia
Latin America/Caribbean
World

Source: IMF World Economic Outlook, January 2015 Update
California Economy
California Adding Jobs Faster than U.S.

YTY % change in nonfarm jobs, seasonally adjusted

Source: US BLS, CA EDD
CA Unemployment Rate Falling Quickly

Unemployment Rate

Source: US BLS, CA EDD
Job Trends by California Metro Area

Annual percent change in nonfarm jobs, seasonally adjusted

Califonia – Dec 2014: +320,300 +2.1% YTY

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Annual Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose</td>
<td>4.0%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>3.8%</td>
</tr>
<tr>
<td>San Diego</td>
<td>3.3%</td>
</tr>
<tr>
<td>Oakland</td>
<td>2.4%</td>
</tr>
<tr>
<td>Orange County</td>
<td>2.3%</td>
</tr>
<tr>
<td>Stockton MSA</td>
<td>2.2%</td>
</tr>
<tr>
<td>Sacramento</td>
<td>2.0%</td>
</tr>
<tr>
<td>Ventura</td>
<td>2.0%</td>
</tr>
<tr>
<td>Riverside-San Bernardino</td>
<td>1.9%</td>
</tr>
<tr>
<td>LA</td>
<td>1.7%</td>
</tr>
<tr>
<td>Bakersfield</td>
<td>1.6%</td>
</tr>
<tr>
<td>Modesto</td>
<td>1.5%</td>
</tr>
<tr>
<td>Fresno MSA</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Source: CA EDD, Labor Market Information Division
## FORECAST: California Keeps Momentum

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015f</th>
<th>2016f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonfarm Jobs - annual % chg.</td>
<td>2.4%</td>
<td>3.0%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>10.4%</td>
<td>8.9%</td>
<td>7.5%</td>
<td>6.7%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Personal Income - annual % chg.</td>
<td>7.1%</td>
<td>2.8%</td>
<td>4.7%</td>
<td>4.4%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Total Taxable Sales - % chg.</td>
<td>7.3%</td>
<td>5.8%</td>
<td>5.7%</td>
<td>4.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Housing Permits - thousands of units</td>
<td>57.6</td>
<td>82.3</td>
<td>85.3</td>
<td>110.0</td>
<td>135.6</td>
</tr>
</tbody>
</table>

Forecast Source: LAEDC
Los Angeles County & Southern California
In Brief - Southern California

• Economic Activity – broad gains, new highs
• Port Activity – 3rd highest in 2014, 2015?
• Motion Picture & Sound Recording – stronger
• Housing – potential for growth
Local Unemployment Rates

Source: CA EDD, Labor Market Information Division
# of Major Industries and Industries: 169

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Building Foundation &amp; Exterior Contractors</th>
<th>Building Equipment Contractors</th>
<th>Building Finishing Contractors</th>
<th>Other Specialty Trade Contractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Durable Goods</td>
<td>Primary Metal Manufacturing</td>
<td>Fabricated Metal Product Manufacturing</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Electrical Equipment &amp; Appliance Manufacturing</td>
<td>Transportation Equipment Manufacturing</td>
<td>Aerospace Product &amp; Parts</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Furniture &amp; Related Product Manufacturing</td>
<td>Household &amp; Institutional Furniture Mfg</td>
<td>Miscellaneous Durable Goods Manufacturing</td>
</tr>
<tr>
<td>Animal Slaughtering &amp; Processing</td>
<td>Bakeries &amp; Tortilla Manufacturing</td>
<td>Beverage &amp; Tobacco Product Mfg</td>
<td>Textile Mills</td>
</tr>
<tr>
<td>Cut &amp; Sew Apparel Manufacturing</td>
<td>Paper Manufacturing</td>
<td>Printing &amp; Related Support Activities</td>
<td>Petroleum &amp; Coal Products Manufacturing</td>
</tr>
<tr>
<td>Chemical Manufacturing</td>
<td>Pharmaceutical &amp; Medicine Manufacturing</td>
<td>Plastics &amp; Rubber Products Manufacturing</td>
<td>Wholesale Trade Merchant</td>
</tr>
<tr>
<td>Merch Wholesalers</td>
<td>Machinery, Equip &amp; Supplies Merchant Wholesalers</td>
<td>Miscellaneous Durable Goods Merchant</td>
<td>Wholesalers</td>
</tr>
<tr>
<td>Merchant Wholesalers</td>
<td>Wholesale Electronic Markets &amp; Agents &amp; Broker</td>
<td>Retail Trade</td>
<td>Motor Vehicle &amp; Parts Dealer</td>
</tr>
<tr>
<td>Other Motor Vehicle Dealers</td>
<td>Automotive Parts, Accessories &amp; Tire Stores</td>
<td>Furniture &amp; Home Furnishings Stores</td>
<td>Electronics &amp; Appliance Stores</td>
</tr>
<tr>
<td>Building Material &amp; Garden Equipment Stores</td>
<td>Food &amp; Beverage Stores</td>
<td>Grocery Stores</td>
<td>Health &amp; Personal Care Stores</td>
</tr>
<tr>
<td>Periodical &amp; Music Stores</td>
<td>General Merchandise Stores</td>
<td>Department</td>
<td>Stores</td>
</tr>
</tbody>
</table>
Oil and Gas Extraction
Crude Petroleum & Natural Gas Liquid Extraction Mining (except Oil and Gas)
Nonmetallic Mineral Mining and Quarrying Dimension Stone Mining and Quarrying Other Crushed Stone Mining and Quarrying Sand, Clay, & Refractory Mineral Mining Construction Sand and Gravel Mining Other Nonmetallic Mineral Mining Potash, Soda, and Borate
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
Container Throughput
San Pedro Bay Ports

Millions of TEUs

Dec 2014 YTD: +3.8%

Sources: Ports of Los Angeles and Long Beach; forecast by LAEDC
Southern California Transportation and Warehousing Employment

Thousands

Dec 2014 YTY: +4.7%
YTD: +3.3%

Source: CA EDD, Labor Market Information Division
Motion Picture & Sound Recording Employment in Los Angeles County

2014: 130,900, +6.8% YTY

 Shoot Days: +9.6% YTY

Sources: CA EDD. LMID
Southern California Professional & Business Services Employment

Thousands

Los Angeles  Orange  Inland Empire  Ventura

Dec 2014 YTY: +3.5%
YTD: +5.5%

Source: CA EDD, Labor Market Information Division

Kyser Center for Economic Research
SoCal Manufacturing Employment

Dec. 2014 YTD % Chg

Durable: -0.8%
Nondurable: -3.8%

Source: CA EDD, Labor Market Information Division
Manufacturing Trends

Adding Jobs:
- Machinery Mfg
- Furniture
- Miscellaneous Durable Goods

Losing Jobs:
- Petro-Chemical
- Food
- Aerospace
- Electronics
- Pharmaceuticals
- Apparel/Textiles
Value of Manufacturing Output – California

Billions of Inflation Adjusted Dollars (2009 Base Year)

Durable Goods  Nondurable Goods

Source: US Bureau of Economic Analysis; IHS Economics
Southern California
Leisure & Hospitality Employment

Thousands

Dec 2014 YTY: +2.6%
YTD: +2.8%

Source: CA EDD, Labor Market Information Division
Southern California Retail Employment

Source: CA EDD, Labor Market Information Division

Dec 2014 YTY: +1.2%
YTD: +3.9%
Southern California Education & Health Care Employment

Thousands

Source: CA EDD, Labor Market Information Division

Dec 2014 YTY: +3.8%
YTD: +3.5%
Southern California Real Estate
## Median Home Prices

<table>
<thead>
<tr>
<th>County</th>
<th>Dec-13</th>
<th>Dec-14</th>
<th>YTY % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>$430,000</td>
<td>$460,000</td>
<td>7.0%</td>
</tr>
<tr>
<td>Orange County</td>
<td>$570,000</td>
<td>$591,000</td>
<td>3.7%</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>$280,000</td>
<td>$300,000</td>
<td>7.1%</td>
</tr>
<tr>
<td>Riverside County</td>
<td>$232,000</td>
<td>$255,000</td>
<td>9.9%</td>
</tr>
<tr>
<td>Ventura</td>
<td>$449,500</td>
<td>$477,250</td>
<td>6.2%</td>
</tr>
<tr>
<td>San Diego</td>
<td>$420,000</td>
<td>$440,000</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: Dataquick/DQ News
Residential Building Permits Issued in Los Angeles County

Permits issued, thousands

Source: CIRB, California Home Building Foundation, Preliminary Forecast LAEDC (1/27/15)
Southern California Construction Employment

Thousands

- Los Angeles
- Orange
- Inland Empire
- San Diego
- Ventura

Dec 2014 YTY: +2.8%
YTD: +7.8%

Source: CA EDD, Labor Market Information Division
Apartment Rents – Southern California

Source: CA Real Estate Research Council
Industrial Vacancy Rates – Southern California

Percent vacant, quarterly averages

Source: Cushman and Wakefield
Office Vacancy Rates – Southern California

Percent vacancy, quarterly averages

Source: Cushman and Wakefield
2015-2016 Southern California Forecast
Southern California Outlook - Jobs

Annual percent change in nonfarm jobs

Source: CA EDD, Labor Market Information Division; forecast by LAEDC
# 2015 Top Five Industries by Percentage Gains in Employment

<table>
<thead>
<tr>
<th>Rank</th>
<th>Los Angeles</th>
<th>Orange</th>
<th>Inland Empire</th>
<th>Ventura</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Construction</td>
<td>Construction</td>
<td>Construction</td>
<td>Construction</td>
</tr>
<tr>
<td>2</td>
<td>Mgmt of Ent'ps</td>
<td>Information</td>
<td>Information</td>
<td>Prof, Sci, Tech</td>
</tr>
<tr>
<td>3</td>
<td>Admin Support</td>
<td>Prof, Sci, Tech</td>
<td>Health Care</td>
<td>Admin Support</td>
</tr>
<tr>
<td>4</td>
<td>Prof, Sci, Tech</td>
<td>Health Care</td>
<td>Education</td>
<td>Mgmt of Ent'ps</td>
</tr>
<tr>
<td>5</td>
<td>Education</td>
<td>Mgmt of Ent'ps</td>
<td>Prof, Sci, Tech</td>
<td>Information</td>
</tr>
</tbody>
</table>

Source: CA EDD, Labor Market Information Division
Southern California Outlook –
Personal Income

Annual Percent Change

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles County</td>
<td>4.7%</td>
<td>4.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Orange County</td>
<td>4.7%</td>
<td>4.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Inland Empire</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Ventura County</td>
<td>4.4%</td>
<td>4.6%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: CA EDD, Labor Market Information Division; forecast by LAEDC
LAEDC Economic Forecast & Industry Outlook 2015-2016

THANK YOU!