UCR School of Business Administration
Center for Economic Forecasting and Development

Home of the A. Gary Anderson Graduate School of Management

Southwest Regional Economic Forecast

Christopher Thornberg

Founding Partner, Beacon Economics
Director, UC Riverside Center for Forecasting and Development

ECONOMIC FORECASTING & DEVELOPMENT

TEMECULA VALLEY CHAMBER OF COMMERCE

Forecasting 101

Donald Trump Is Elected President in Stunning Repudiation of the Establishment

By MATT FLEGENHEIMER and MICHAEL BARBARO NOV. 9, 2016

Anger of the Electorate

- American families; no raise in 15 years
- The crushing burden of the Affordable Care Act
- Secula
- Excess
- US ma
- Feder
- Crime on t
- Undocume
- Income ine
- The Fed ho
- Technology-real estate-bond-stock-inflationary bubble brewing

Miserabilism

The philosophy of pessimism – or – Trying really hard to convince everyone that things are really bad when, in reality, they aren't.

The Victory of Miserabilism

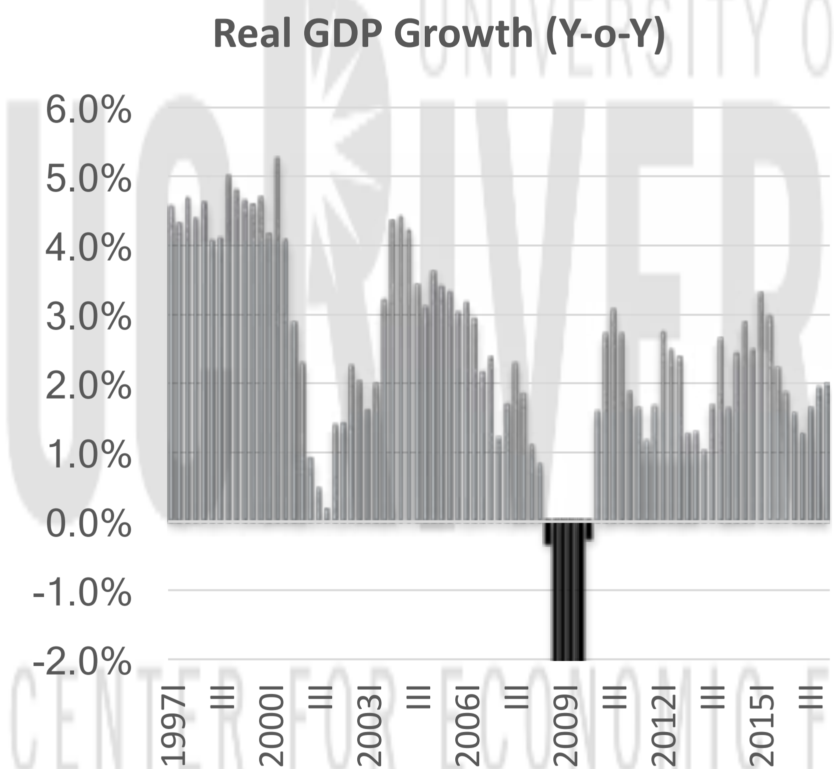
If it ain't broke… don't fix it

- US GDP is growing slow, but it is growing
- Fundamentals still fine, no chance of recession
- U.S.: 5% world's population, 20% of the world's consumption
- Real incomes have been rising, true well-being even more so
- Labor markets are tight
- Inflation slow, interest rates low
- Business investment solid, profits are high
- US energy: too successful for its own good
- Manufacturing: doing fine
- Housing market—signs of progress
- California still way out in front

The true challenges

- Slow growth due to self-inflected wounds / political gridlock
- The global commodity glut
- State and Local budgets still stressed, decaying Infrastructure
- Health cost inflation
- Underfunded pensions and entitlements
- An under-performing housing market / bad financial regulations (Dodd-Frank)
- Growing wealth inequality
- The shift to the information economy
- The growing disconnect between political debate and reality

GDP: Accelerating Despite Weak Start



	2016			2017
	II	III	IV	I
GDP	**1.40**	**3.50**	**2.10**	**0.70**
Final Demand	**2.38**	**2.16**	**2.91**	**1.56**
Consumption	**2.88**	**2.03**	**2.40**	**0.23**
Goods	1.51	0.77	1.29	0.02
Services	1.37	1.26	1.11	0.21
Investment	**-1.34**	**0.50**	**1.47**	**0.69**
Structures	-0.06	0.30	-0.05	0.55
Equipment	-0.17	-0.26	0.11	0.49
Intellectual property	0.35	0.13	0.05	0.08
Residential	-0.31	-0.16	0.35	0.50
Change inventories	-1.16	0.49	1.01	-0.93
Net Exports	**0.18**	**0.85**	**-1.82**	**0.07**
Exports	0.21	1.16	-0.55	0.68
Imports	-0.03	-0.31	-1.27	-0.61
Government	**-0.30**	**0.14**	**0.03**	**-0.30**
Federal	-0.02	0.16	-0.08	-0.13
State and local	-0.28	-0.02	0.11	-0.17

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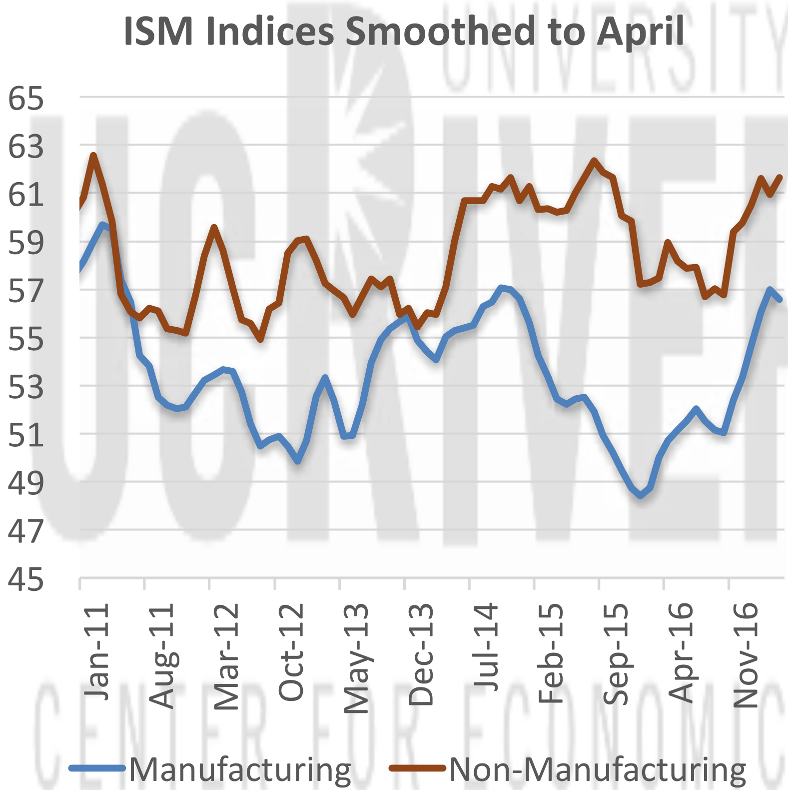
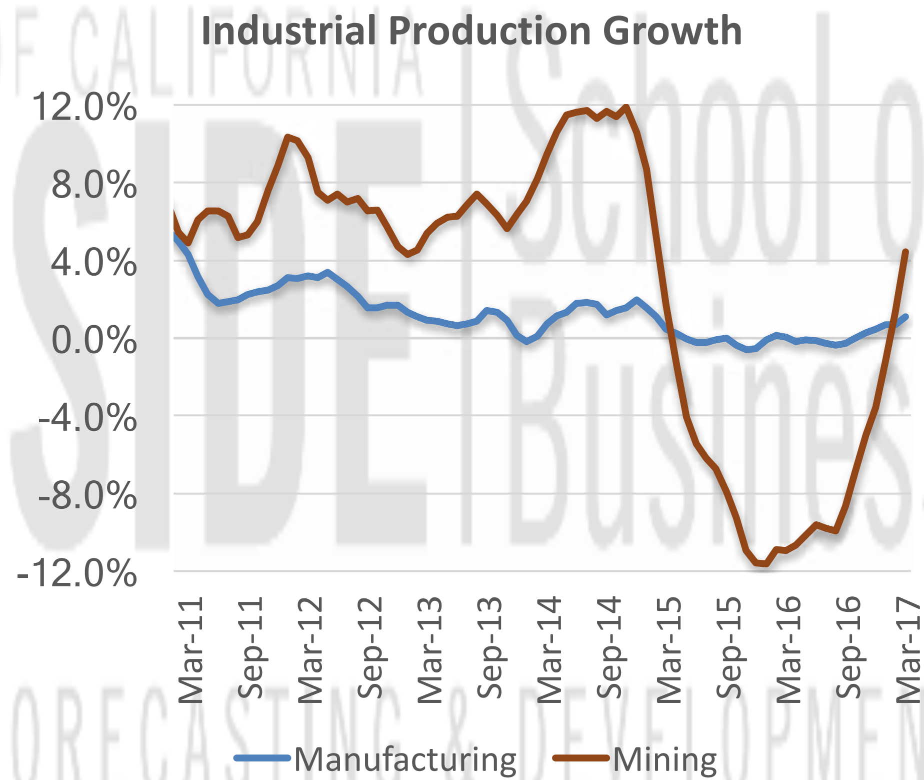
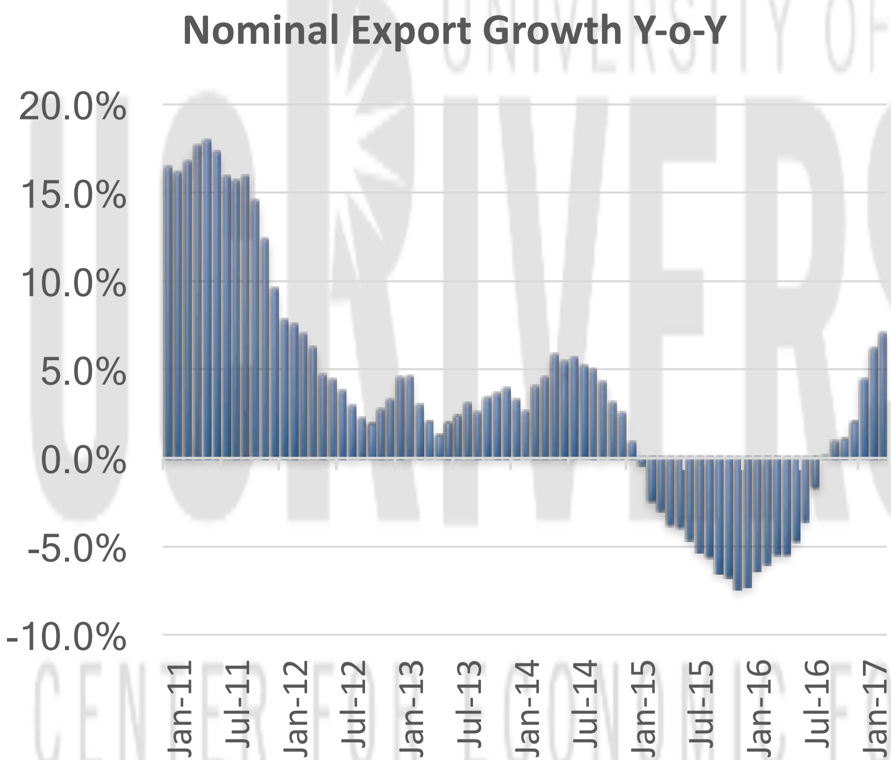
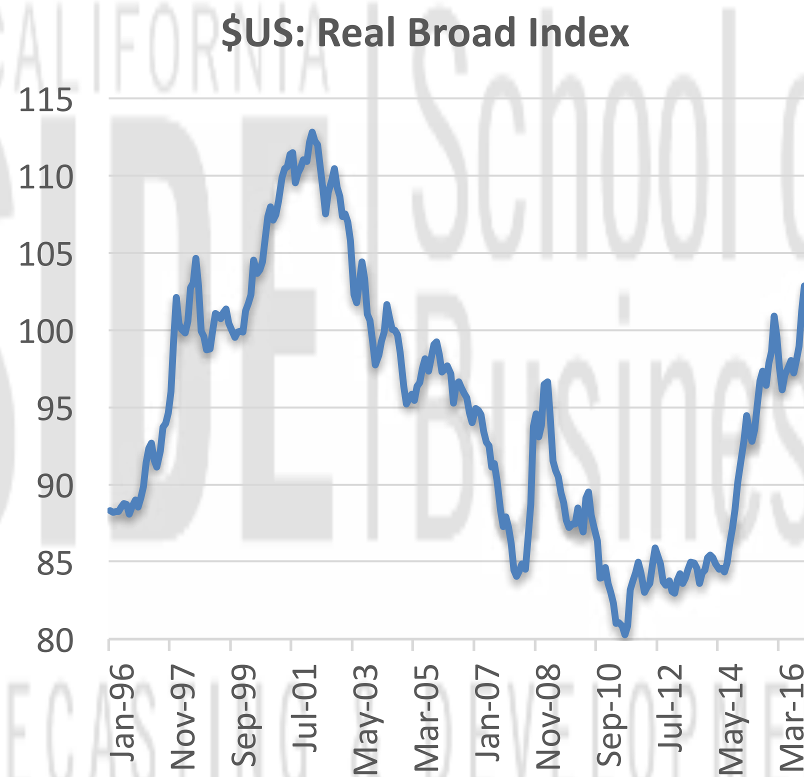
Production Activities



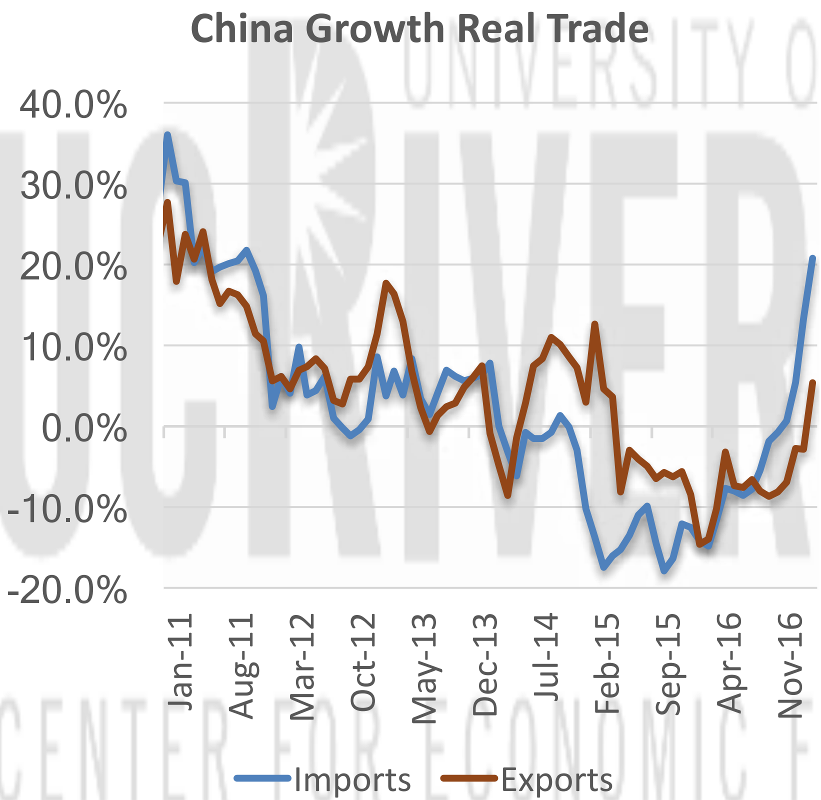


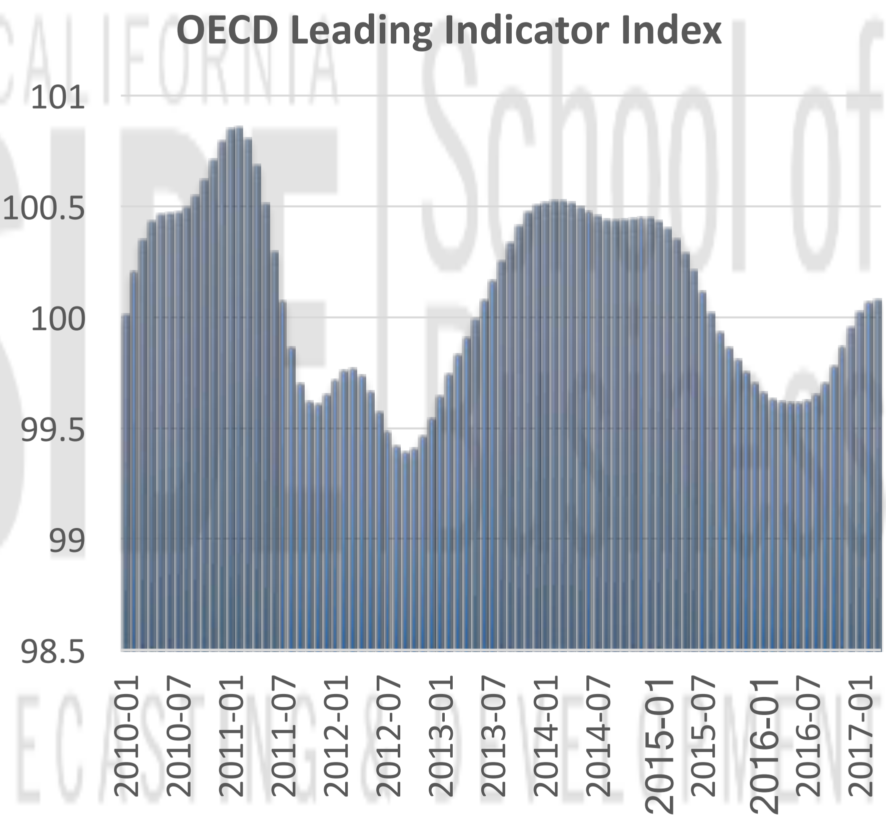
External Accounts



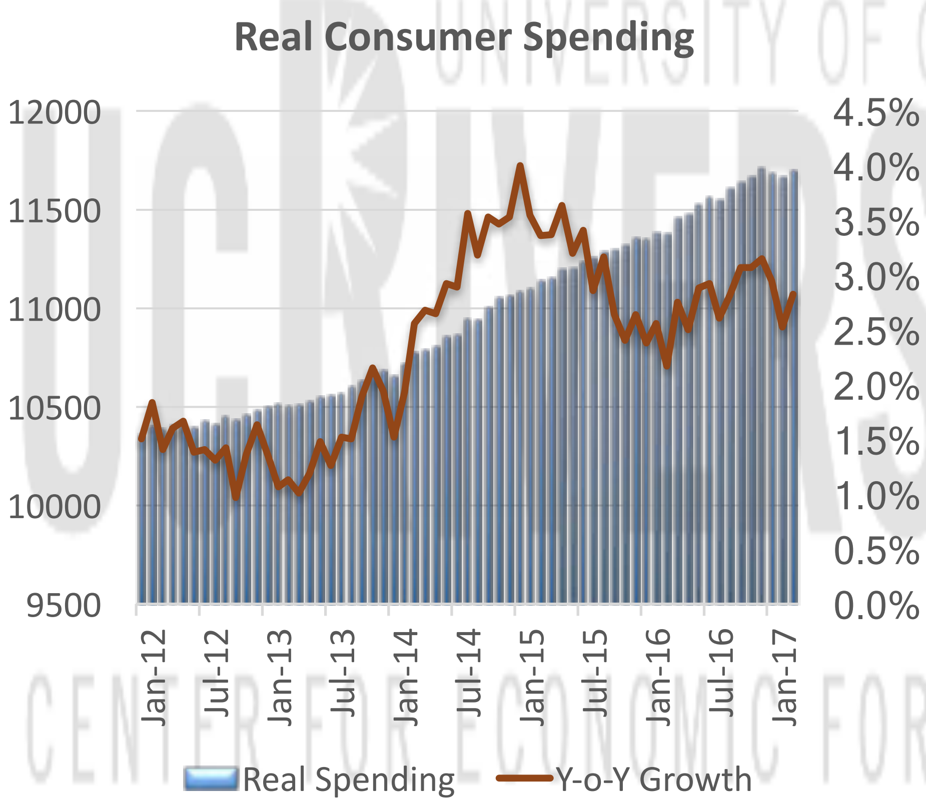


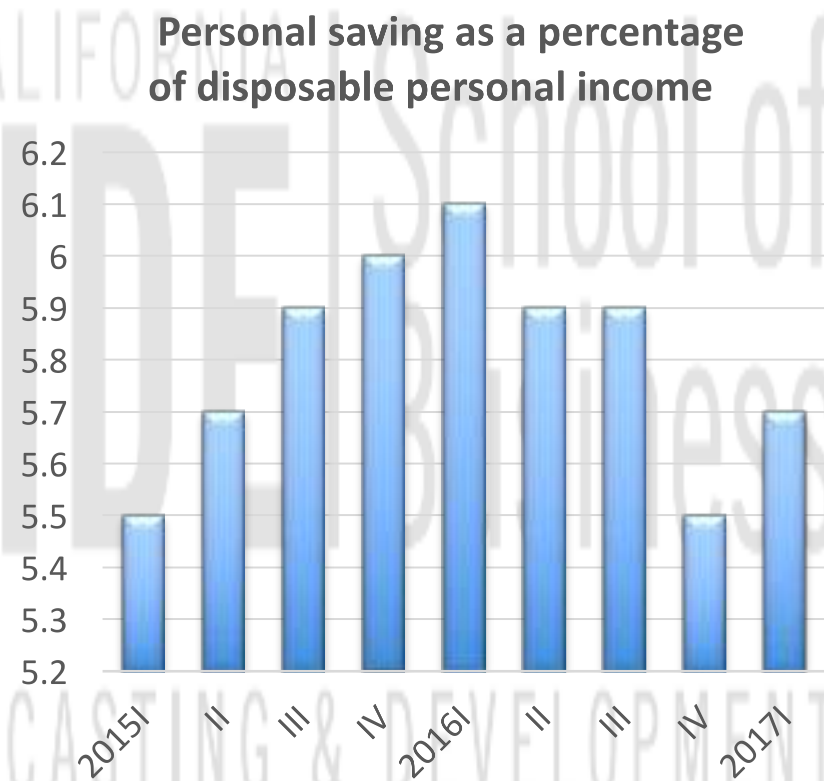
Global Economy: Accelerating





Consumer Spending





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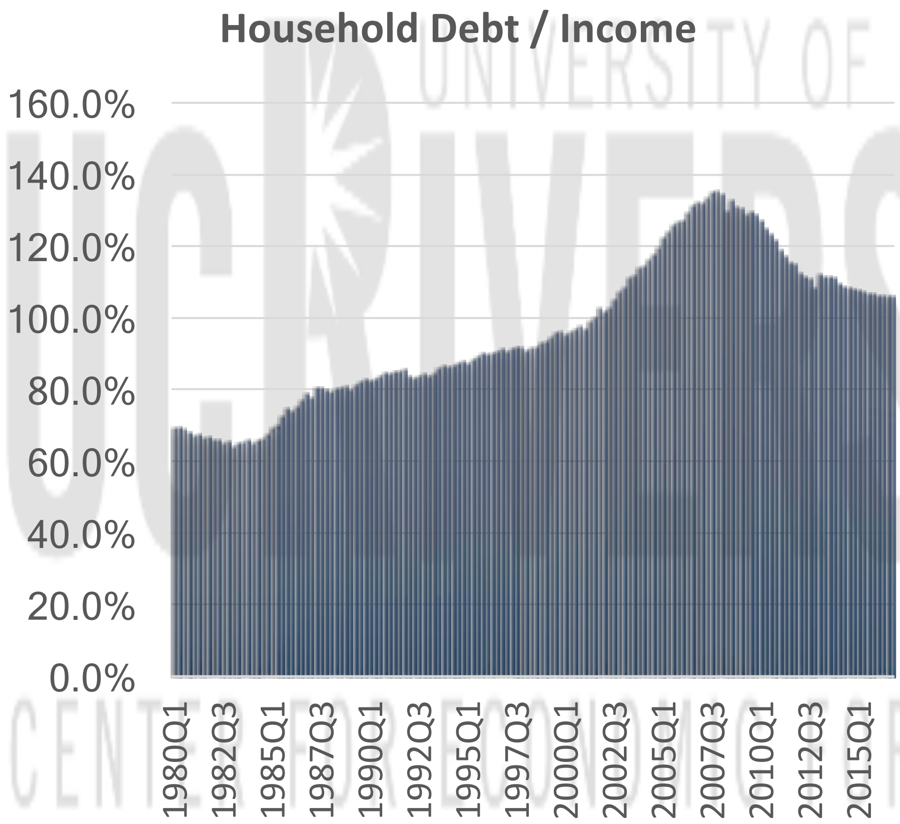
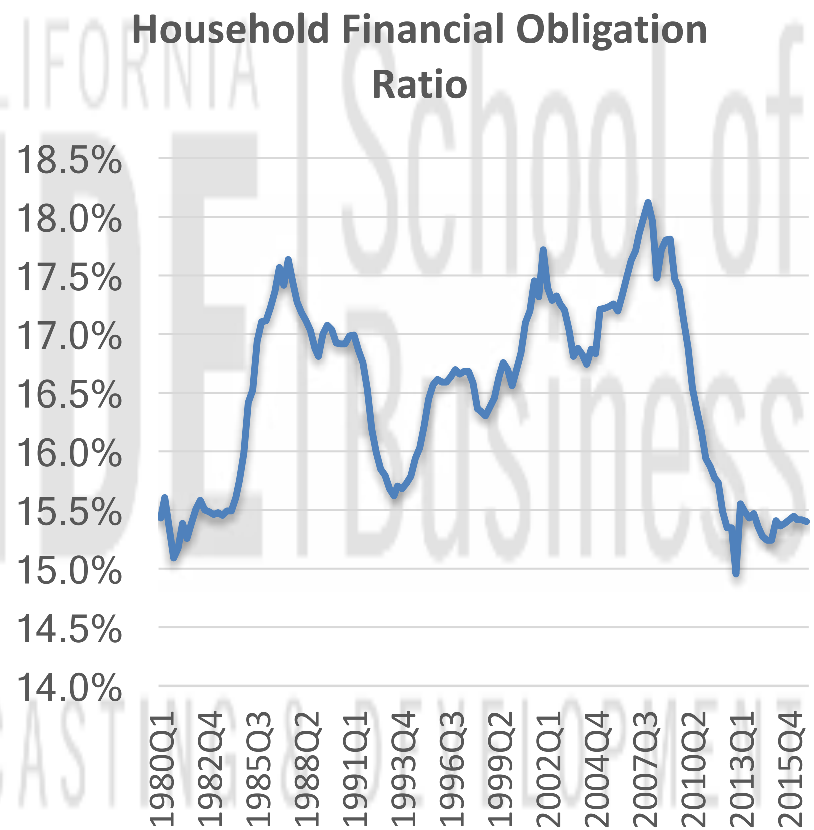
Consumer Credit to Q1

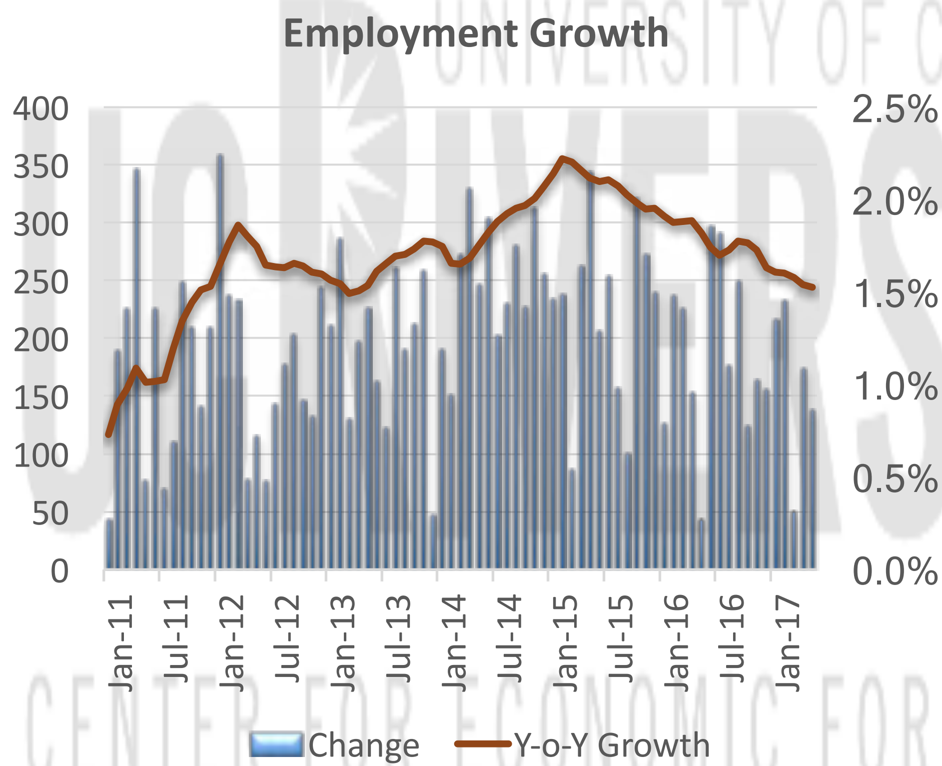
Change (Billions)	Q3	Q4	Q1
Mortgage	-$12.0	$130.0	$147.0
HE Revolving	-$6.0	$1.0	-$17.0
Auto Loan	$32.0	$22.0	$10.0
Credit Card	$18.0	$32.0	-$15.0
Student Loan	$20.0	$31.0	$34.0
Other	$11.0	$10.0	-$10.0

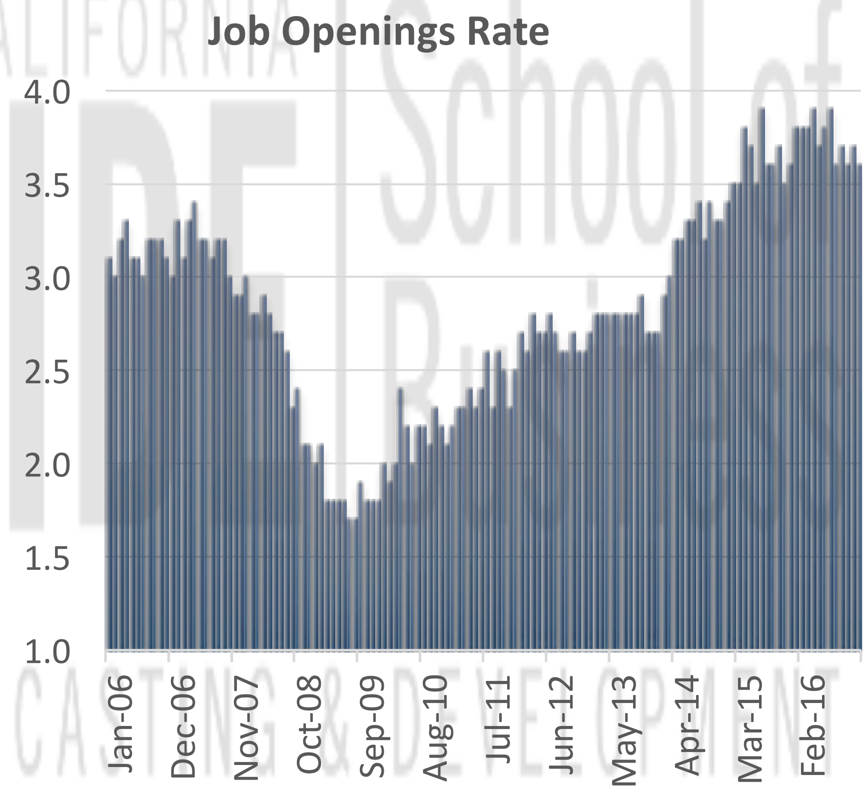
Consumer Debt



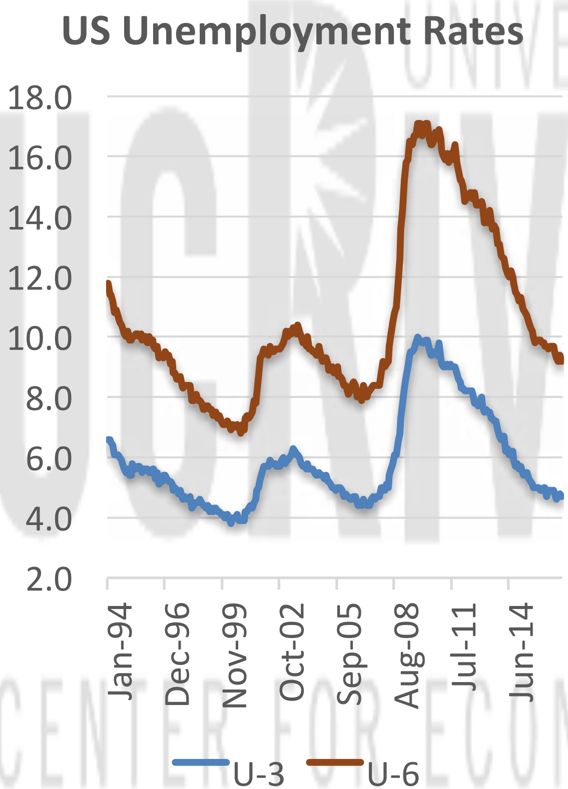


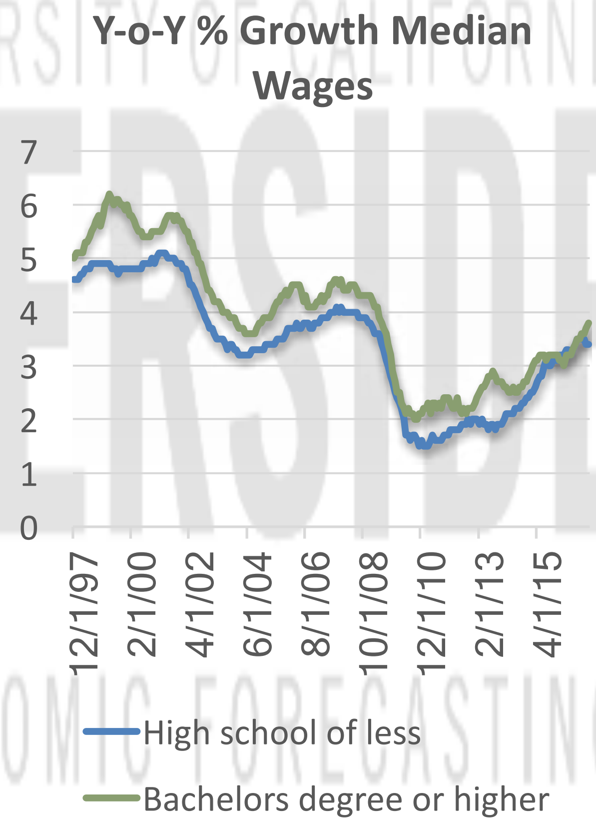
Labor Markets

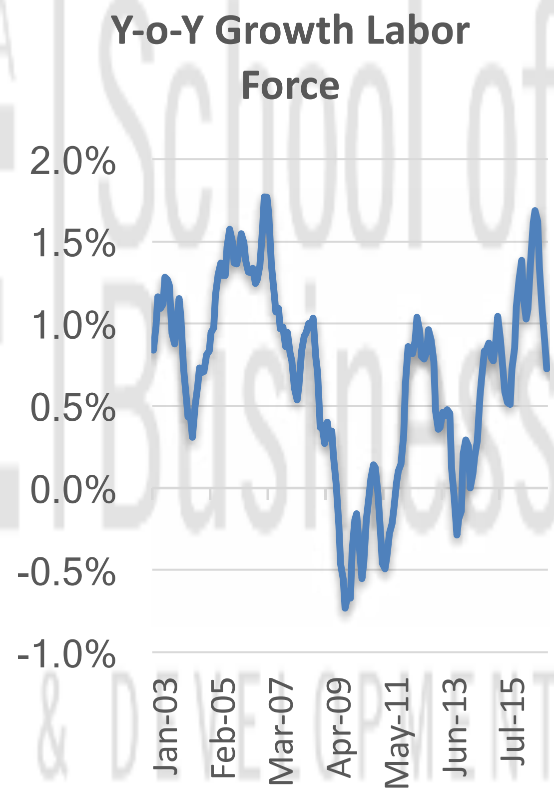




Unemployment







Local Economic Performance

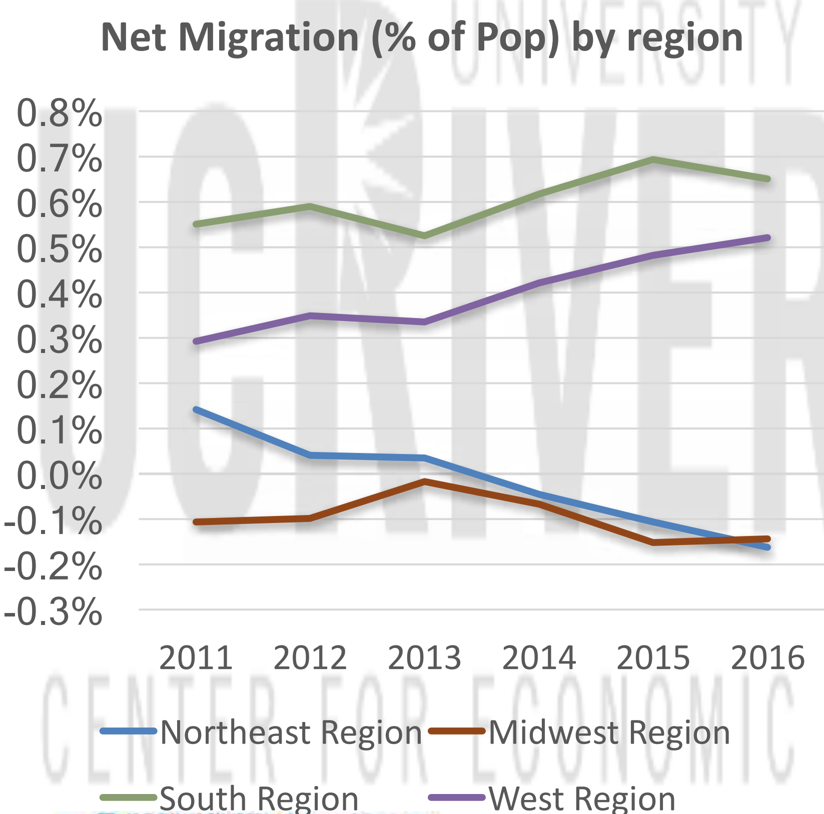
State Unemployment Rate Nov 2016

Alaska	6.9	Wyoming	5.3	Iowa	4.2
New Mexico	6.7	Missouri	5.2	Maryland	4.2
Louisiana	6.4	Oklahoma	5.2	Maine	4.1
DC	6.1	Georgia	5.1	Wisconsin	4.1
Mississippi	6	Kentucky	5	Arkansas	4
Nevada	5.8	New York	5	Minnesota	4
West Virginia	5.8	South Carolina	4.9	Virginia	4
Pennsylvania	5.7	Ohio	4.8	Idaho	3.8
Rhode Island	5.6	Texas	4.8	Colorado	3.6
Washington	5.6	Florida	4.7	Massachusetts	3.6
Arizona	5.5	North Carolina	4.7	Utah	3.4
California	5.5	Michigan	4.6	Hawaii	3.3
Illinois	5.5	Tennessee	4.6	Vermont	3.3
Oregon	5.5	Indiana	4.5	Nebraska	3.2
Alabama	5.4	Kansas	4.4	North Dakota	3
Connecticut	5.4	Delaware	4.3	New Hampshire	2.9
New Jersey	5.3	Montana	4.3	South Dakota	2.9

State Participation 2015

Minnesota	70.2	Pennsylvania	62.8
Wisconsin	68.0	Ohio	62.5
Maryland	66.8	California	62.2
Colorado	66.7	Georgia	61.3
Missouri	65.6	N Carolina	61.2
Virginia	65.2	New York	61.1
Mass.	64.9	Louisiana	60.5
Illinois	64.7	Michigan	60.3
New Jersey	64.1	Arizona	59.8
Indiana	63.7	Tennessee	59.3
Texas	63.7	Florida	59.3
Washington	63.0	S Carolina	59.0

Population Shifts



Net Migration by State 14-16

Florida	1.51%	Ohio	-0.05%
Nevada	1.27%	Penn	-0.06%
Colorado	1.10%	Wisconsin	-0.08%
Oregon	1.08%	Michigan	-0.08%
South Carolina	1.04%	New Jersey	-0.14%
Washington	0.99%	Vermont	-0.19%
Arizona	0.96%	W Virginia	-0.26%
Texas	0.90%	New York	-0.27%
North Dakota	0.79%	Mississippi	-0.28%
Idaho	0.77%	Kansas	-0.30%
Delaware	0.66%	Connecticut	-0.32%
North Carolina	0.66%	Wyoming	-0.35%
Montana	0.60%	New Mexico	-0.47%
Georgia	0.54%	Illinois	-0.58%
Tennessee	0.53%	Alaska	-0.73%
Utah	0.49%		

Income Stagnation?

$100,00
$90,00
$80,00
$70,00
$60,00
$50,00

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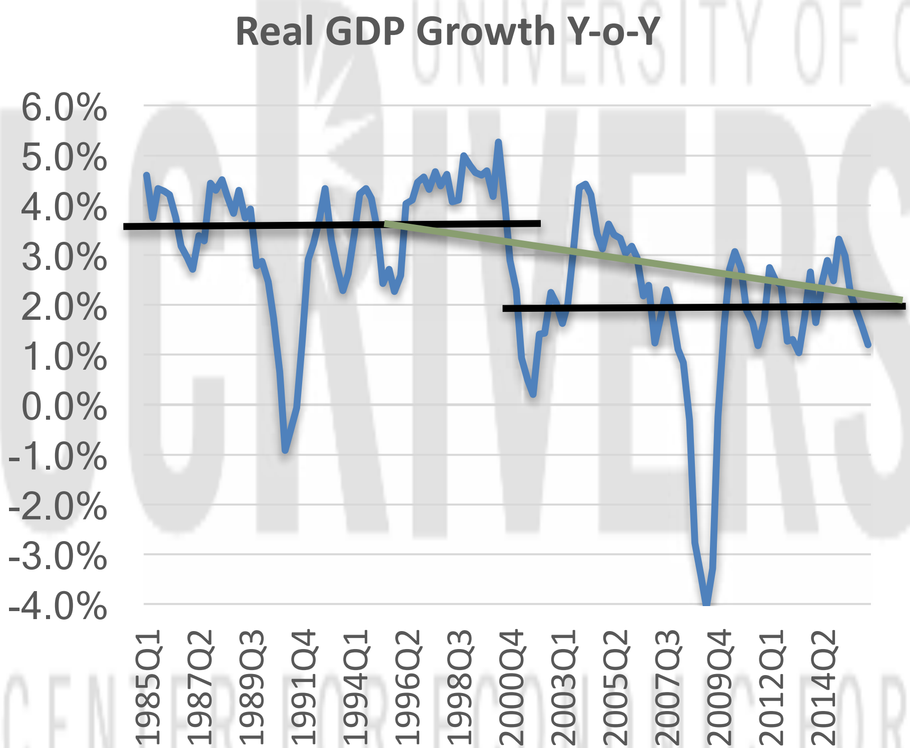
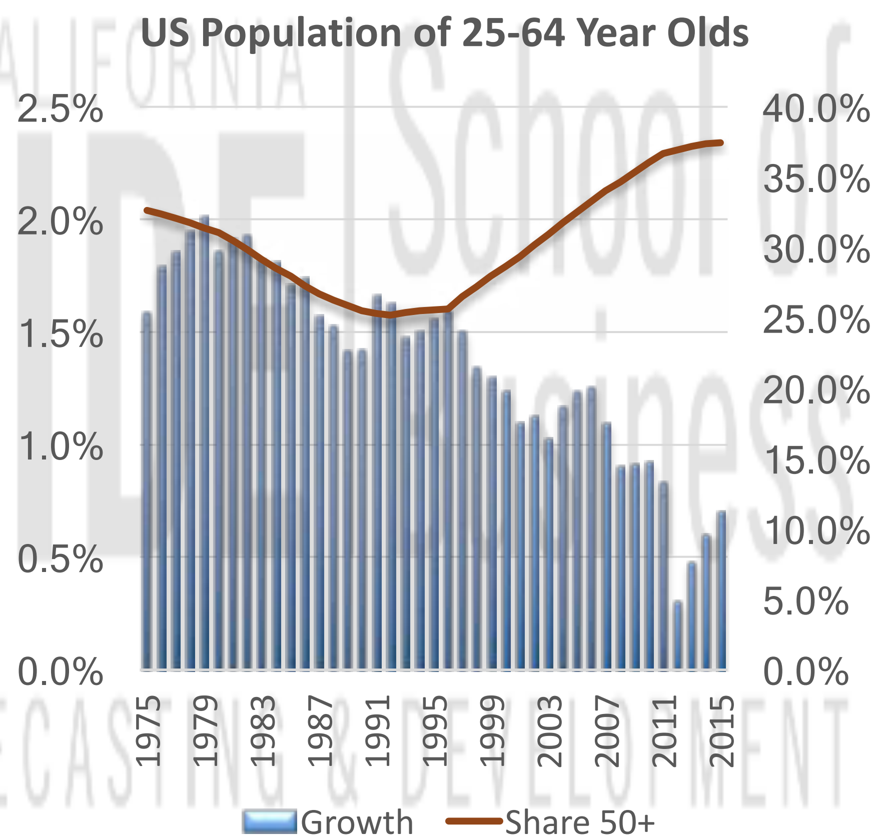
Secular Stagnation?





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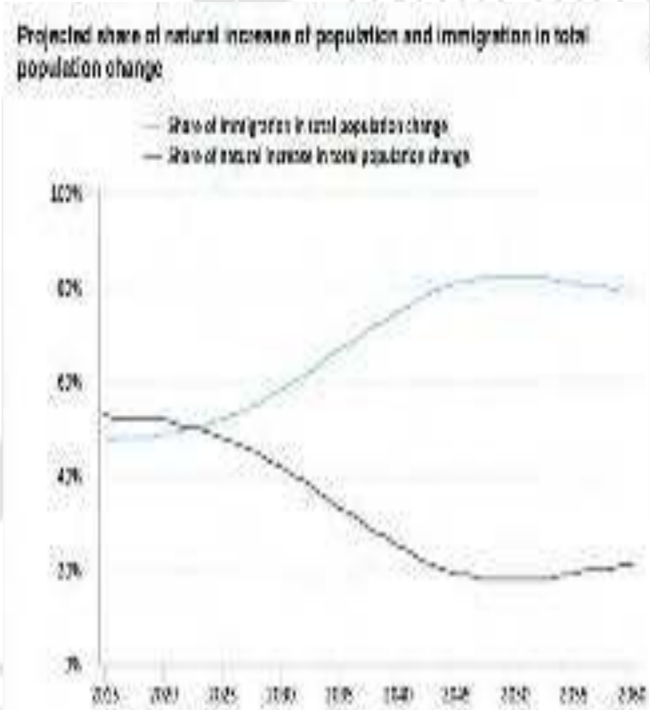
Immigration



California fact versus fiction

Chief Executive NETWORK | CONTINUOUS IMPROVEMENT FOR YOU - THE CEO

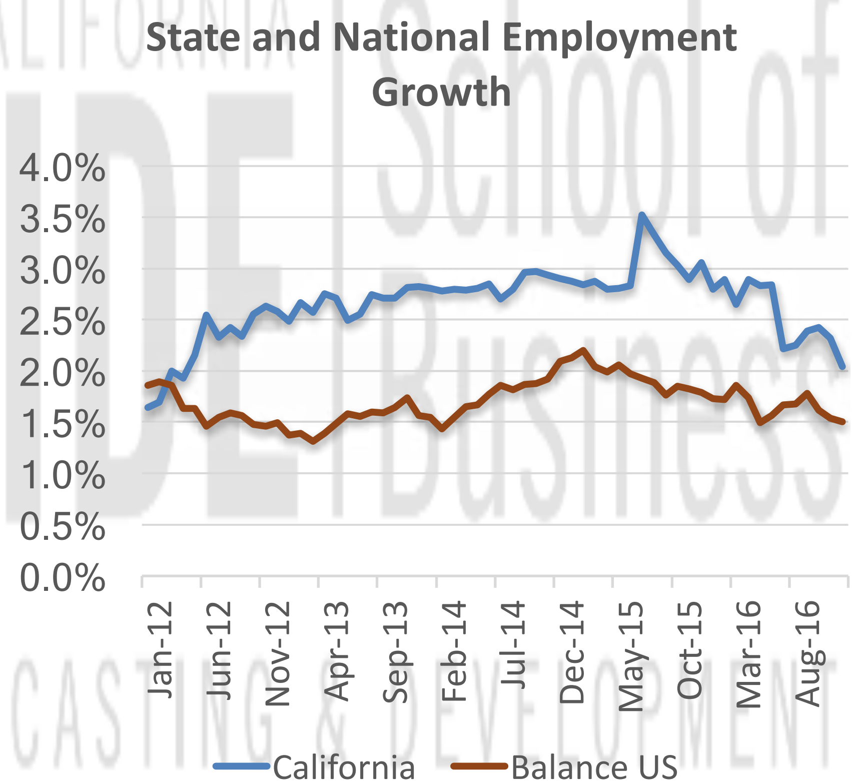
2016 Best & Worst States For Business

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

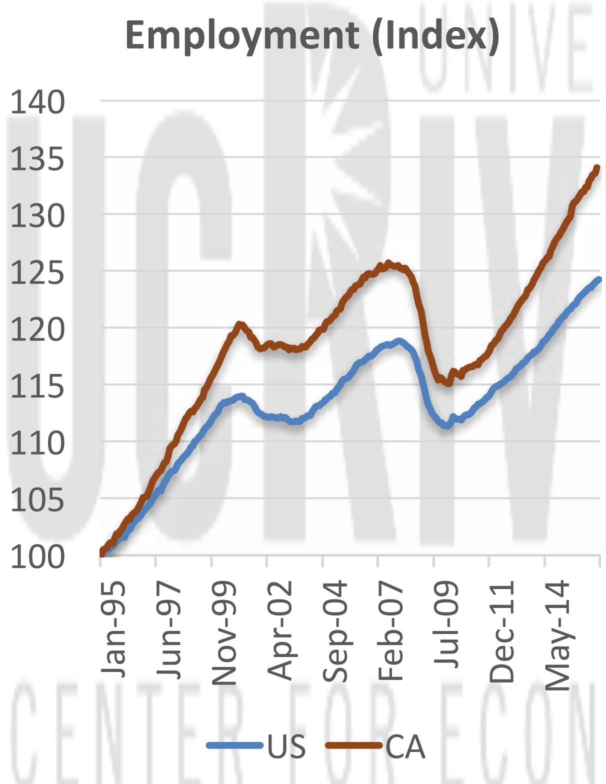
As for California

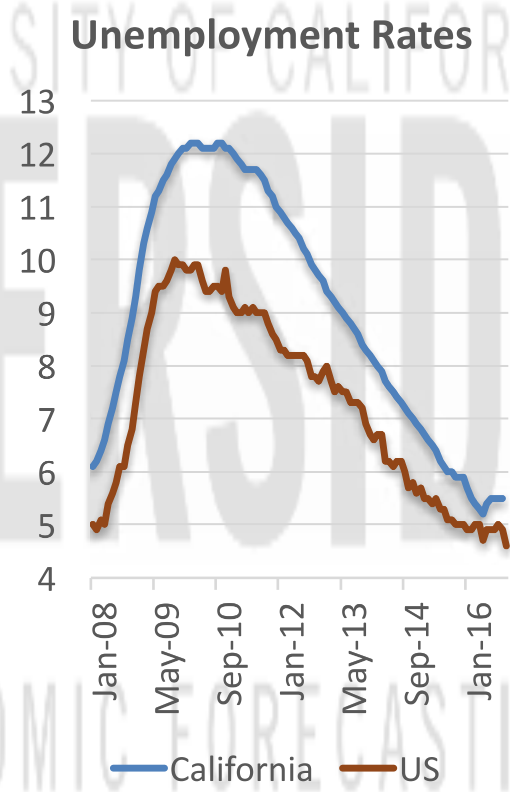
5 Year Change in Payroll Jobs by State

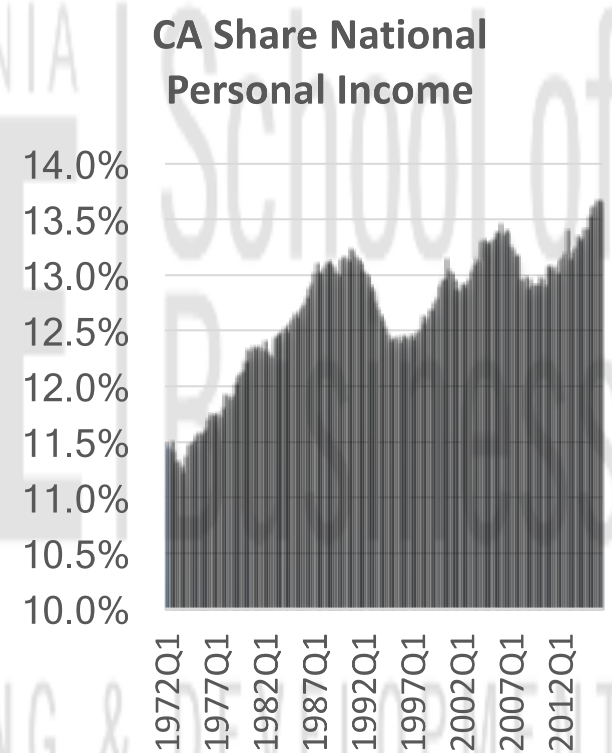
	New Jobs	Ann Gr	US Share
Utah	226	3.5%	1.8%
Nevada	188	3.1%	1.5%
Florida	1,207	3.1%	9.5%
Idaho	96	3.0%	0.8%
Colorado	344	2.9%	2.7%
Oregon	228	2.7%	1.8%
Washington	401	2.7%	3.2%
California	**2,038**	**2.7%**	**16.1%**
Georgia	521	2.5%	4.1%
Texas	1,425	2.5%	11.2%
Arizona	298	2.3%	2.3%
South Carolina	220	2.3%	1.7%
Tennessee	314	2.3%	2.5%
North Carolina	421	2.1%	3.3%
Montana	40	1.8%	0.3%



State Employment / Income

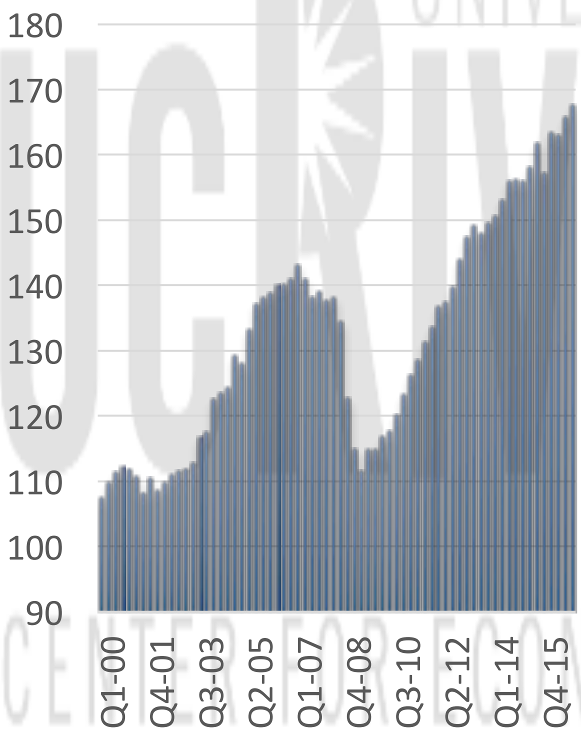




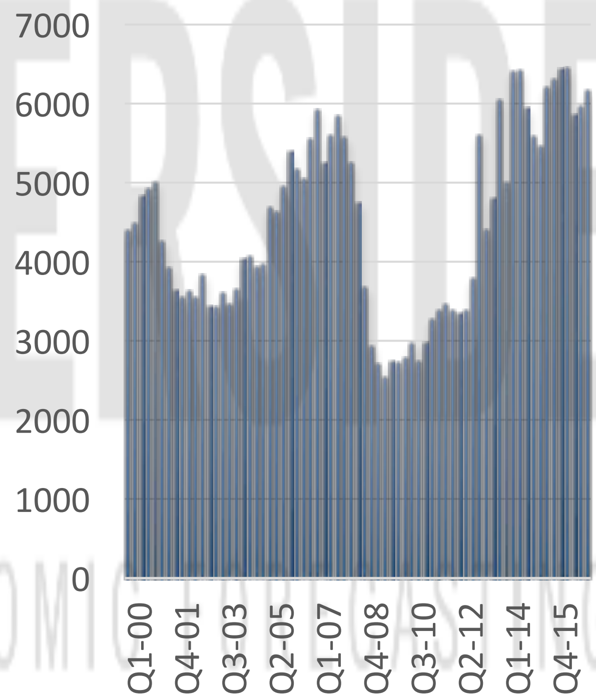


Business Activity

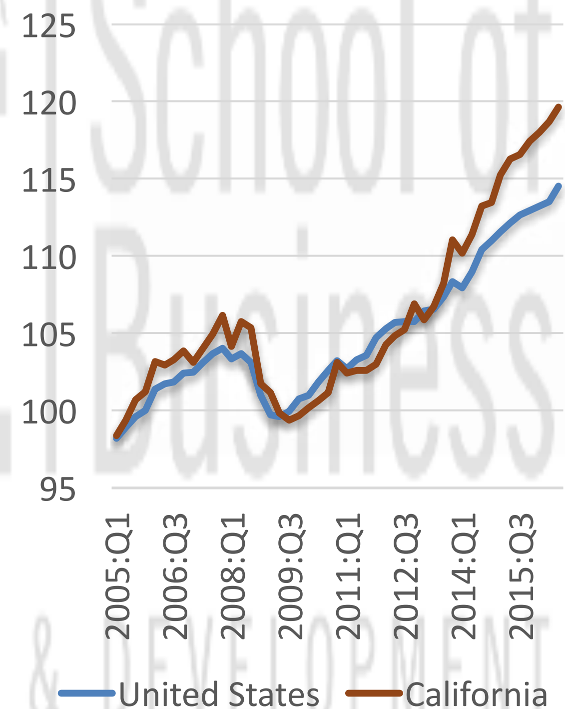
State Taxable Sales



Non-Residential Permit Values

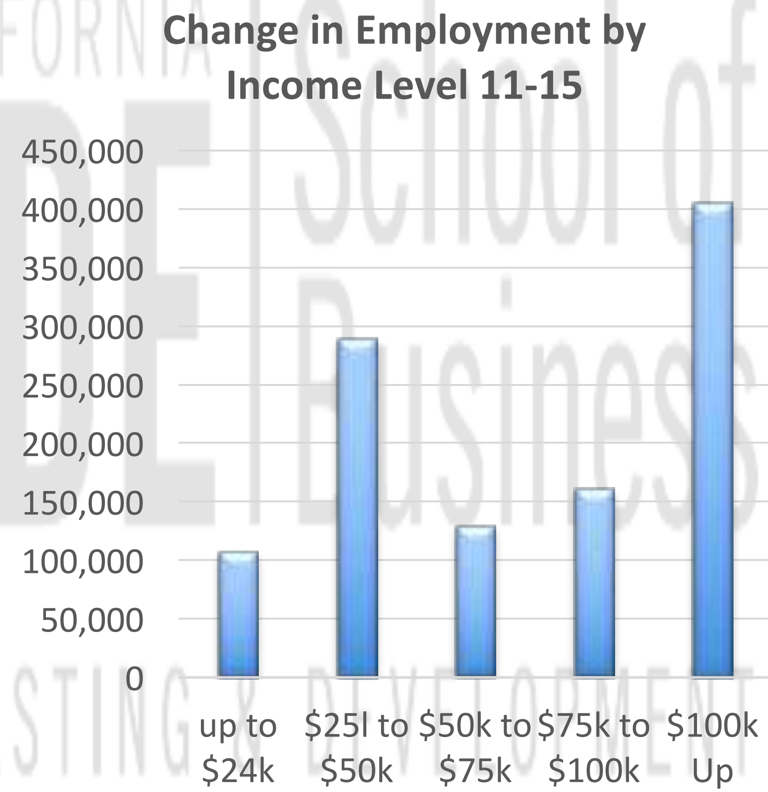


State GDP (Index)



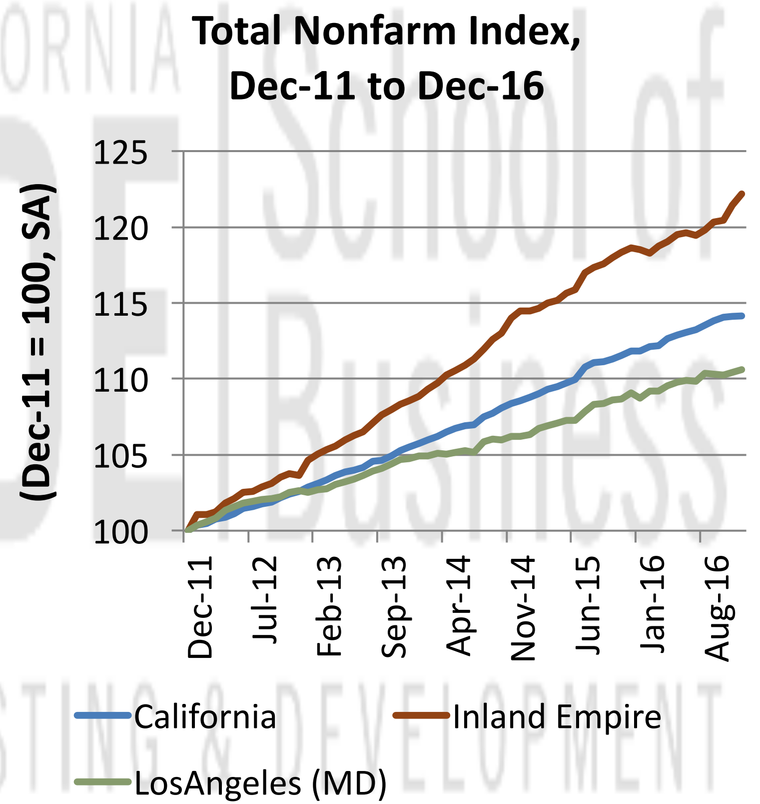
California Employment

	Feb-17	1 Yr	Ch
Total Nonfarm	16676.1	1.9%	315.8
Education	370.2	5.7%	19.8
Government	2538.2	1.9%	46.4
Wholesale Trade	738.1	2.5%	18.3
Financial Activities	830.6	1.7%	14.1
Health Care	2222.8	3.2%	69.3
Prof Sci Tech	1241.8	2.7%	32.9
Other Services	565.3	2.3%	12.9
Retail Trade	1688.9	0.7%	11.3
Management	227.9	1.2%	2.8
Logistics	593.9	3.3%	18.9
Manufacturing	1299.7	-0.7%	-9.6
Information	532.2	3.1%	15.8
Hospitality	1928.6	2.6%	48.9
Admin Support	1091.6	0.0%	0.5
NR/Construction	806.2	1.7%	13.6



Where is Growth?

Payrolls	Mar-17	15-16	16-17
California	16,694.0	2.8%	2.1%
Inland Empire	**1,433.7**	**4.0%**	**3.5%**
Oakland (MD)	1,156.2	3.3%	2.8%
Ventura	306.9	1.2%	2.8%
Fresno	340.5	3.5%	2.7%
San Francisco (MD)	1,110.4	4.5%	2.5%
Sacramento	957.9	3.5%	2.0%
Stockton	228.3	3.9%	2.0%
San Diego	1,436.8	2.7%	2.0%
San Jose	1,081.0	3.3%	2.0%
Santa Barbara	183.1	0.7%	1.8%
Los Angeles (MD)	4,429.6	2.6%	1.7%
Orange County (MD)	1,591.5	2.7%	1.3%
Santa Rosa	201.7	2.5%	0.6%
Bakersfield	257.8	-0.8%	0.6%



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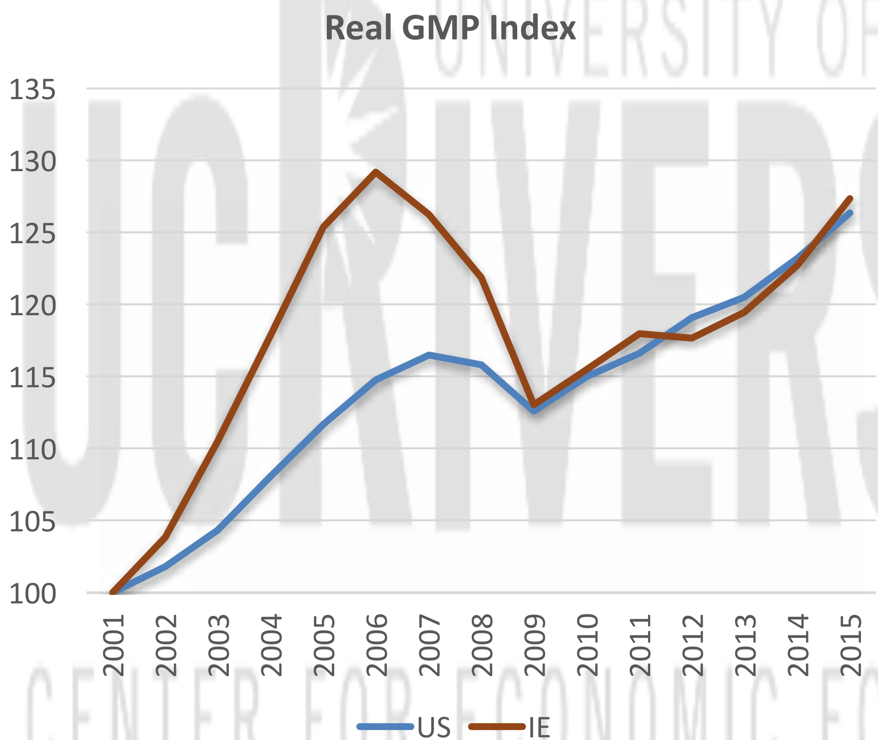
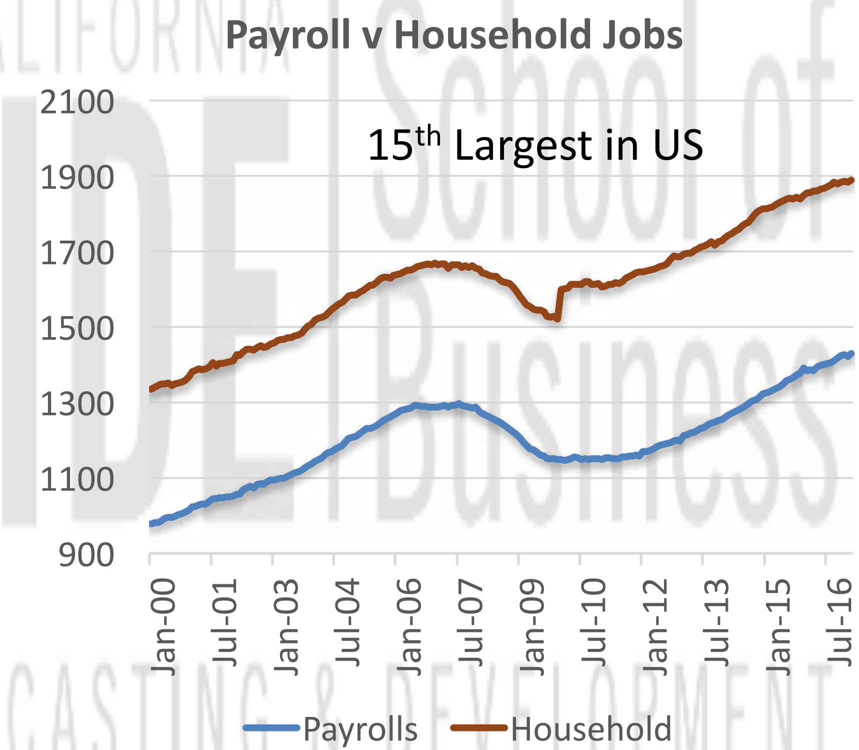
IE Economic Output



	Gr	Gr-US	LQ
All industry total	8.2%		
Government	3.1%	4.1%	7.0%
Retail trade	8.2%	-0.6%	3.4%
Transportation	15.5%	16.0%	2.6%
Construction	21.7%	12.2%	2.1%
Other services	6.0%	2.5%	0.9%
Wholesale trade	31.0%	21.1%	0.9%
Education, health	12.4%	5.4%	0.7%
Entertainment	7.6%	0.3%	0.2%
Manufacturing	9.7%	4.9%	-2.9%
Information	15.5%	-2.7%	-3.9%
Financial	-0.2%	-3.6%	-4.2%
Professional	7.5%	-2.4%	-5.6%

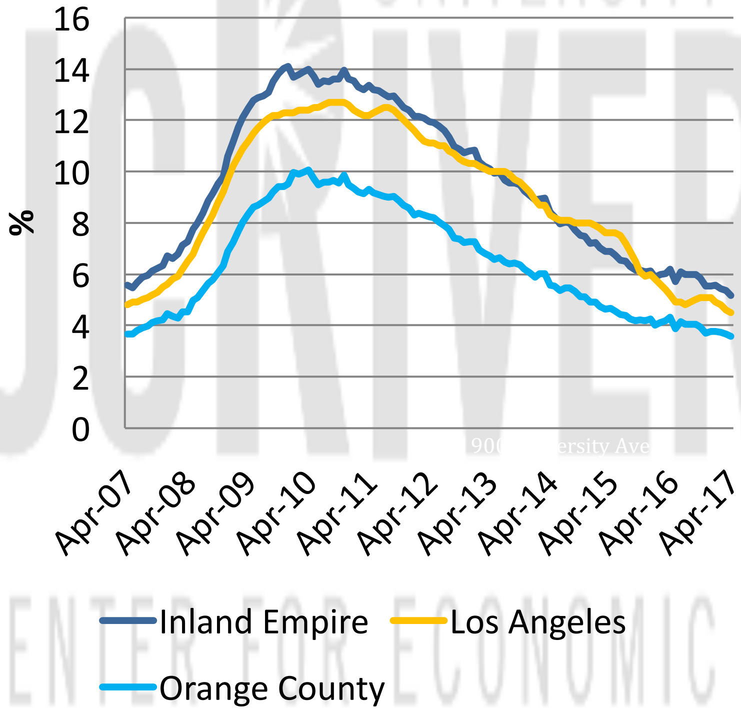
Inland Empire Jobs

Industry	Apr-17 (000s)	Change (000s)	Change (%)
Government	243.7	5.1	2.1
Education/Health	218.6	5.6	2.6
Retail Trade	179.9	0.7	0.4
Leisure and Hospitality	163.1	4.9	3.1
Trans, Warehouse, Util	110.6	6.1	5.9
Construction	106.6	14.5	15.8
Manufacturing	99.4	0.8	0.8
Admin Support	98.9	1.2	1.3
Wholesale Trade	63.5	0.7	1.1
Other Services	46.1	1.6	3.6
Financial Activities	45.2	0.6	1.4
Prof Sci and Tech	39.0	-0.1	-0.4
Information	11.4	-0.2	-1.9
NR/Mining	0.8	-0.1	-11.4
Total Nonfarm	**1436.1**	**41.5**	**3.0**

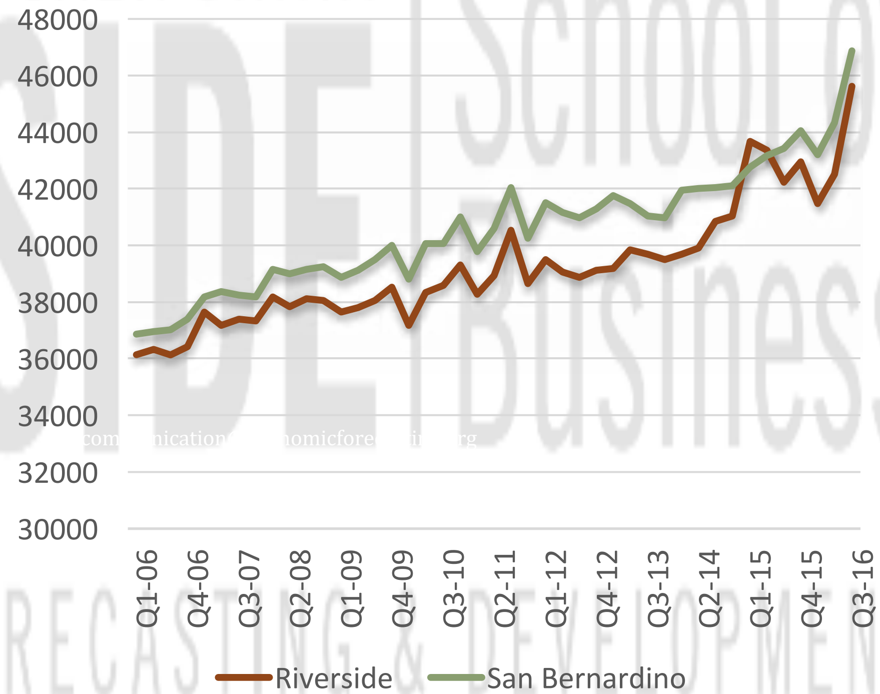


Unemployment and Local

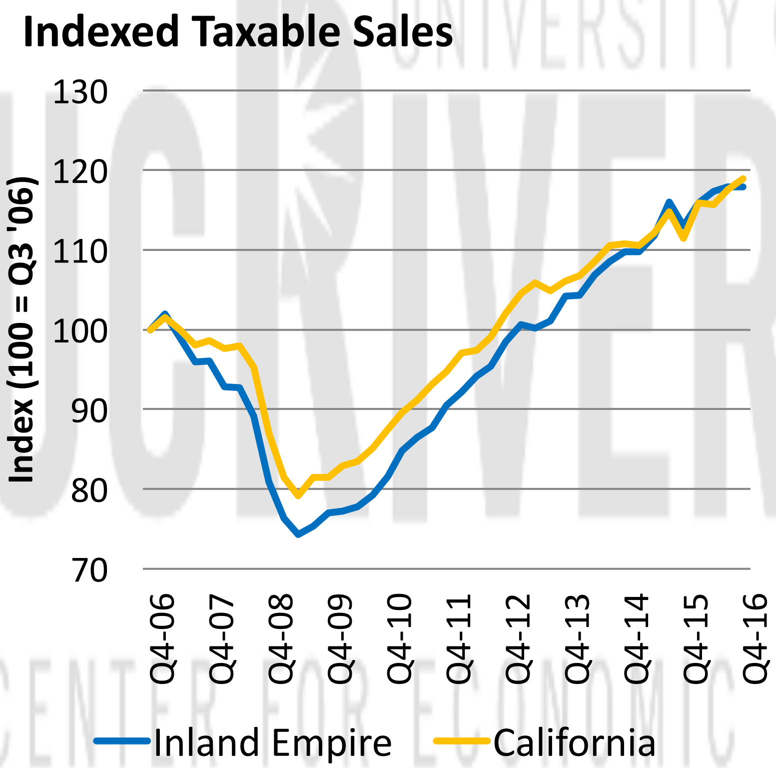
Unemployment Rates



Average Payroll Wage

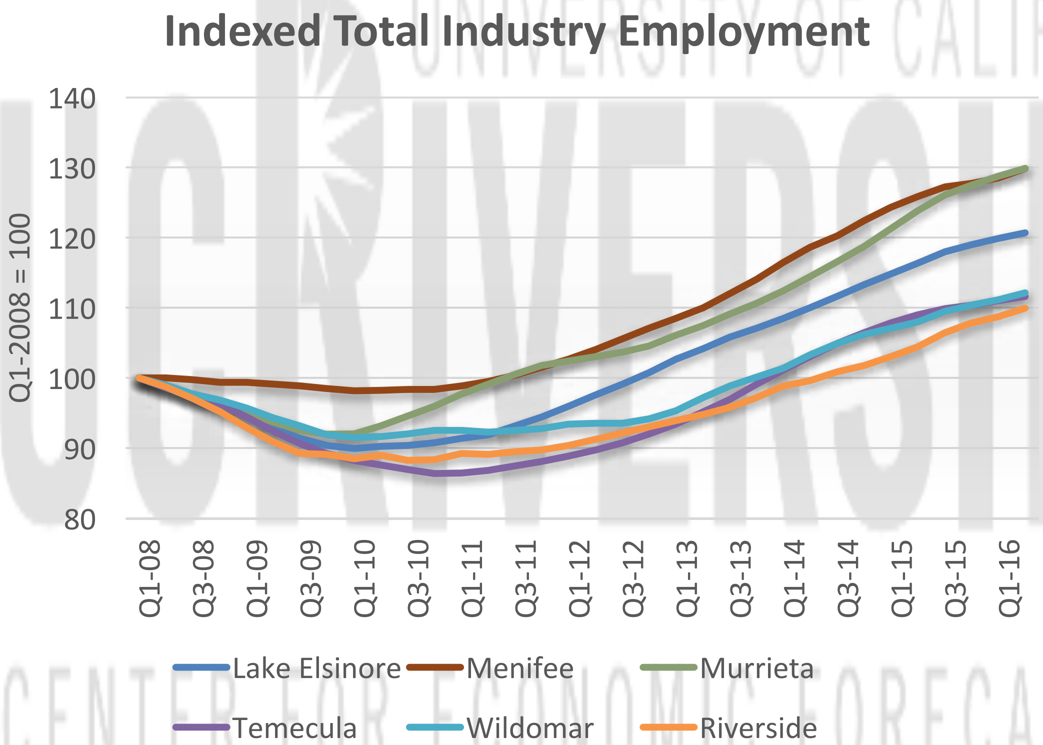


Consumer Spending



Category	Q4-2016	1-Yr. Chg.	1-Yr. % Chg.
Autos & Transp.	31,651,440	1,834,391	6.2
Building & Const.	16,780,272	109,423	0.7
Business & Ind.	28,328,014	-1,502,347	-5.0
Food & Drugs	8,378,738	160,876	2.0
Fuel & Service Stat.	16,407,197	-217,654	-1.3
Consumer Goods	38,835,778	818,887	2.2
Rests & Hotels	19,008,160	1,022,912	5.7
Total	179,007,880	3,804,866	2.2

Local Employment



Number of Establishments, Seasonally Adjusted

Location	Q2-2016	YoY Growth
Lake Elsinore	582	5.2%
Menifee	578	3.0%
Murrieta	1,246	8.4%
Temecula	1,808	3.8%
Wildomar	178	6.0%
Riverside	59,501	7.5%
San Bernardino	55,590	5.0%

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Local Employment

Local Payroll Jobs

		Total Private
Lake Elsinore	Q2-16	10,744
	YoY (%)	2.0
Menifee	Q2-16	11,785
	YoY (%)	1.3
Murrieta	Q2-16	25,889
	YoY (%)	0.9
Temecula	Q2-16	43,074
	YoY (%)	0.8
Wildomar	Q2-16	4,534
	YoY (%)	3.8

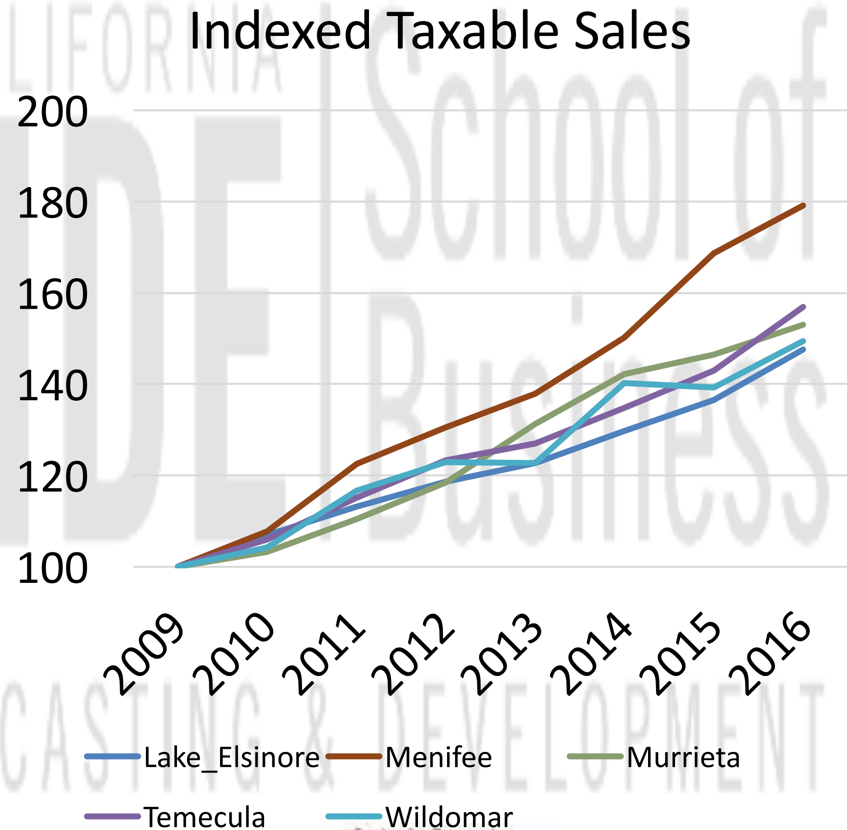
Largest Local Sectors by City

City	#1	#2	#3
Lake Elsinore	Retail Trade	Construction	Leisure Hospitality
Menifee	Leisure Hospitality	Retail Trade	Health Care
Murrieta	Health Care	Retail Trade	Leisure Hospitality
Temecula	Retail Trade	Leisure Hospitality	Health Care
Wildomar	Health Care	Construction	Leisure Hospitality

Taxable Sales

Taxable Sales

City	2016	1 Yr % Chg.	5 Yr % Chg.
Lake Elsinore	827,921	8.1%	30.5%
Menifee	616,009	6.1%	46.1%
Murrieta	1,338,444	4.4%	38.6%
Temecula	3,226,275	9.7%	36.4%
Wildomar	149,529	7.3%	28.1%



Non Residential Permits

	Temecula		Wildomar		Menifee		Lake Elsinore		Murrieta	
Type	2016	1 Yr Gr (%)	2016	1 Yr Gr (%)	2016	1 Yr Gr (%)	2016	1 Yr Gr (%)	2016	1 Yr Gr (%)
Other	16,999.1	82.0	3,425.9	0.2	15,780	0.6	11,625.7	-	4,589.2	-0.3
Non Res Alt.	15,978.3	0.2	1,287.8	3.3	6,153	0.7	2,201.1	-	3,385.9	-0.5
Commercial	7,674.9	0.5	261.9	-1.0	4,846	0.0	2,115.1	-	789.0	-0.9
Total Non Res	40,652.2	1.2	4,975.7	-0.4	26,779	0.4	17,011.2	6.5	8,764.1	-0.6

Resident Employment Income

Total Employed Residents	Menifee, Elsinore & Canyon Lake		Murrieta & Wildomar		Temecula	
	2015	3 Yr % Chg.	2015	3 Yr % Chg.	2015	3 Yr % Chg.
Total	80,240	15.1	56,440	6.3	61,314	4.9

Income for Full Time	Temecula		Murrieta & Wildomar		Menifee, Elsinore & Canyon Lake		Riverside County		Orange County	
Income	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)
< $25,000	35.4	-2.2	38.9	-2.0	42.1	-0.8	44.1	-1.6	39.2	-0.7
$25- $49,999	23.7	-0.4	20.8	-2.0	25.1	-3.1	26.9	0.7	23.2	-0.2
$50-$74,999	14.0	-3.3	18.4	2.0	16.9	-0.4	13.9	-0.3	13.8	-1.2
$75-$99,999	10.6	0.7	11.0	0.4	8.7	2.0	7.0	0.1	8.9	0.6
$100-$149,999	10.3	2.5	7.3	-1.1	5.8	1.1	5.7	0.1	8.7	0.5
>$150,000	6.1	2.7	3.6	2.7	1.4	1.1	2.5	0.9	6.3	0.9

Demographics cont'd

Education Attain.	Menifee, Elsinore & Canyon Lake		Murrieta & Wildomar		Temecula		Orange County		Riverside County	
	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)	2015	3 Yr Chg (p.p)
< High School	15.7	0.0	6.3	-0.5	5.9	-1.6	15.9	-0.1	19.6	-1.1
HS Graduate	30.3	3.1	20.5	1.5	19.4	3.5	17.3	-0.6	26.8	1.9
Some College	35.4	-5.9	41.2	-6.3	37.7	-2.7	28.1	-0.7	32.8	-1.1
BA Degree	10.9	-0.3	18.7	1.7	22.9	-2.1	25.1	1.1	13.3	0.0
Grad	7.7	3.2	13.3	3.6	14.1	2.9	13.7	0.4	7.5	0.3

Househole Income	2015	Growth (%)
Menifee, Lake Elsinore & Canyon Lake	60,000	10.7%
Murrieta & Wildomar	76,000	26.5%
Temecula	88,000	2.3%
Orange County	78,428	9.0%
Riverside County	58,292	10.8%
San Bernardino County	53,803	6.0%

If there were a bread shortage …

Bread Control

Non-Profit Baking

Stronger Baking Regulation

I Support Baking But Not Near My House

Government Must Own The Bread!

Bread Certainty

Baking Impact Fee

Inclusionary Baking

Bakers Are Greedy!

Points-System Loaf Valuation

Tax New Loaves!

Baking bonus – more loaves allowed if some discounted

Government Bakery

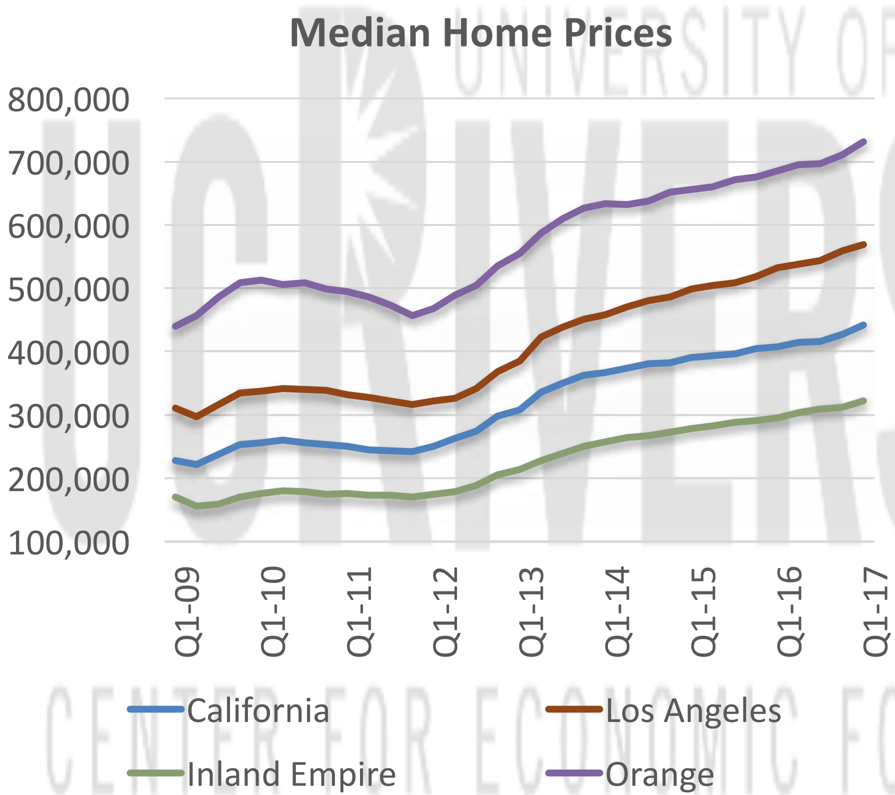
The Bakeries Have Failed!

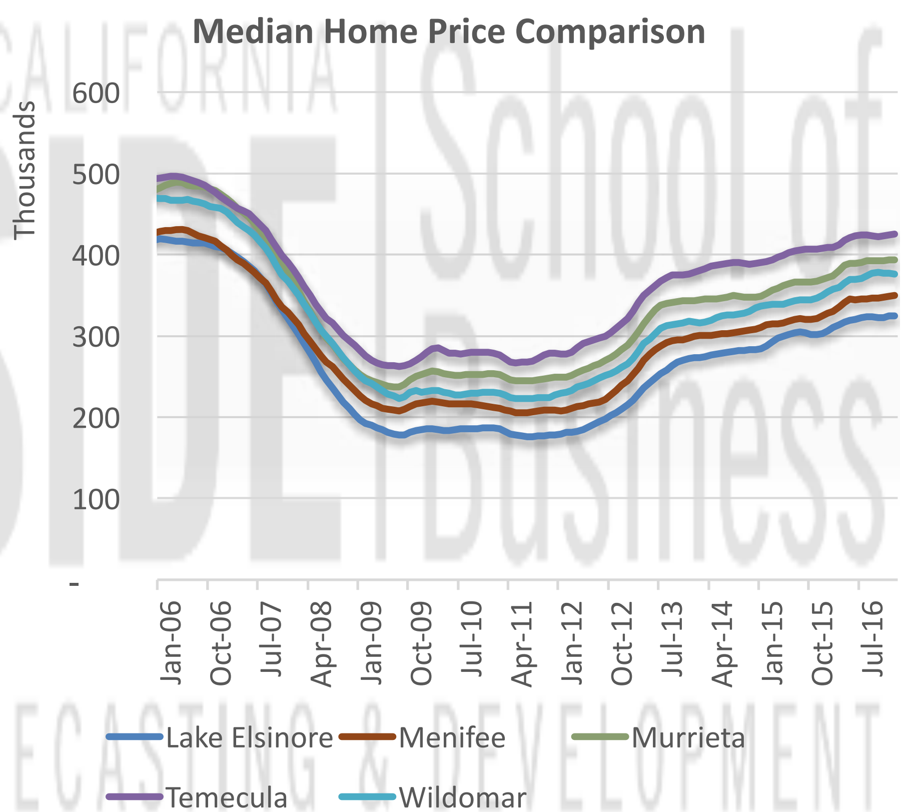
Minimum Loaf Size Regulation

Bread Loaf Baking Targets

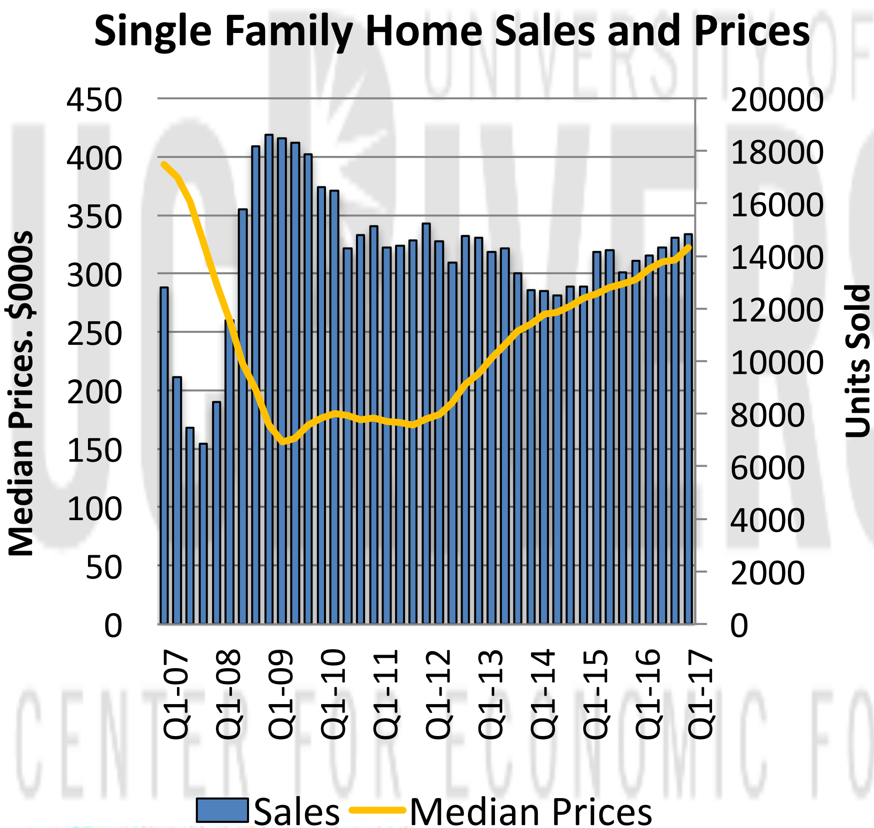
Link Loaf Prices to CPI

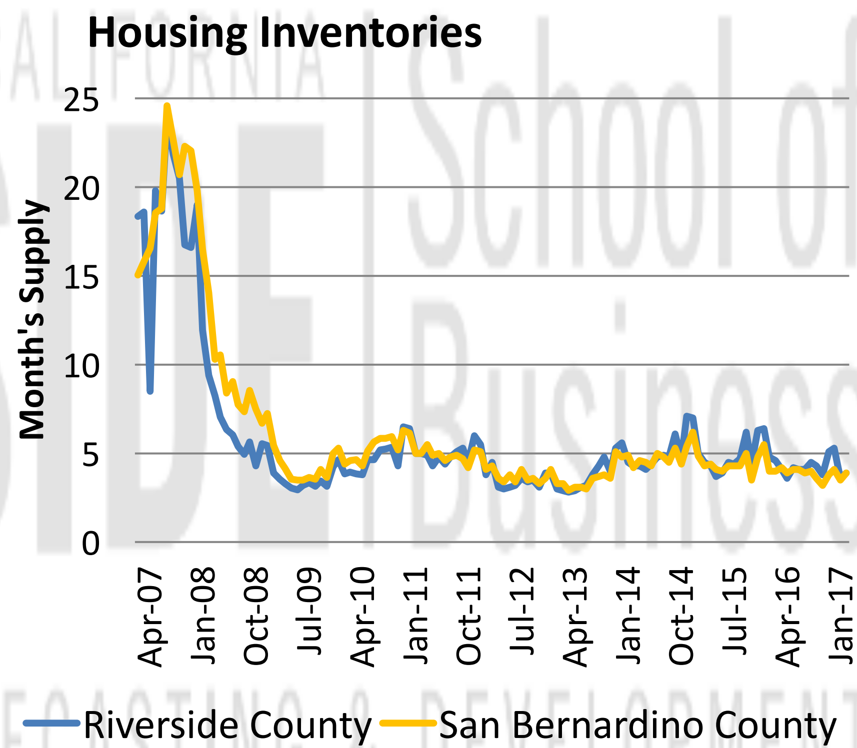
Housing Market





Residential Real Estate cont'd





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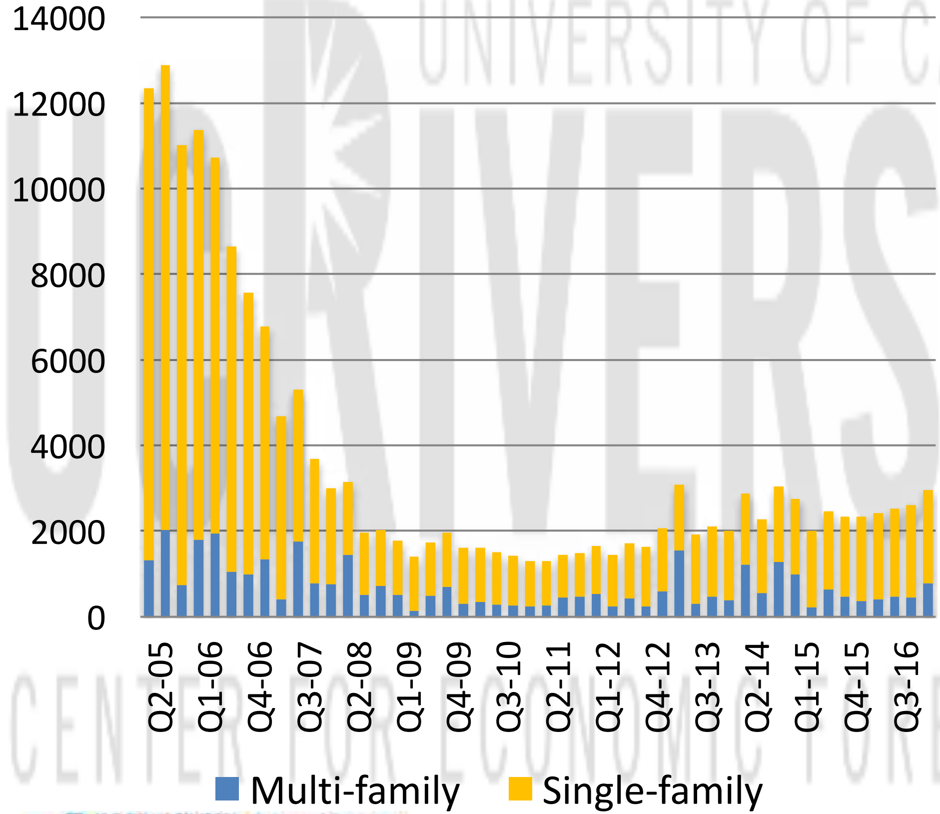
Residential Permitting

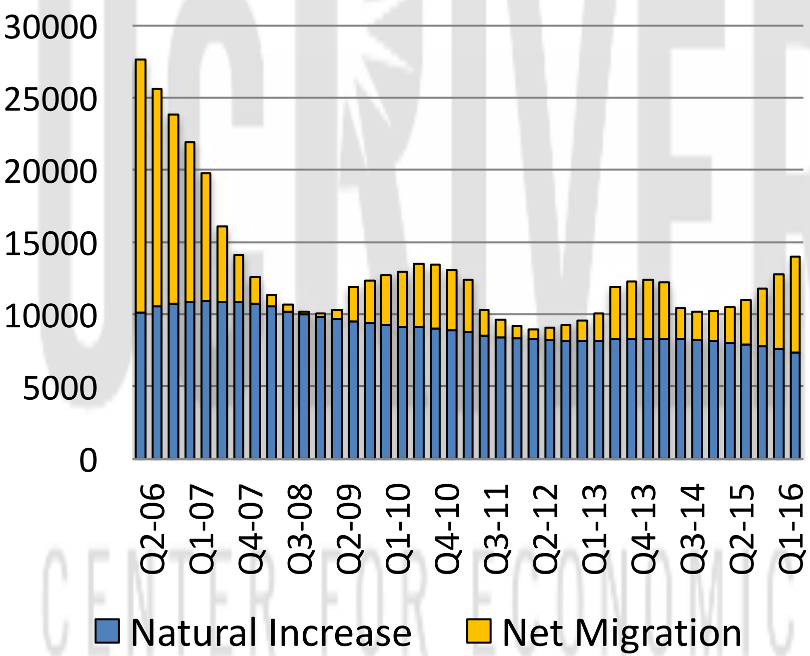


Residential Permits

City	2016	1 Yr % Chg.	5 Yr % Chg.
Lake Elsinore	462	23.9%	156.7%
Menifee	492	40.6%	73.9%
Murrieta	267	-39.9%	142.7%
Temecula	303	75.1%	5.2%
Wildomar	191	81.9%	1,023.5%

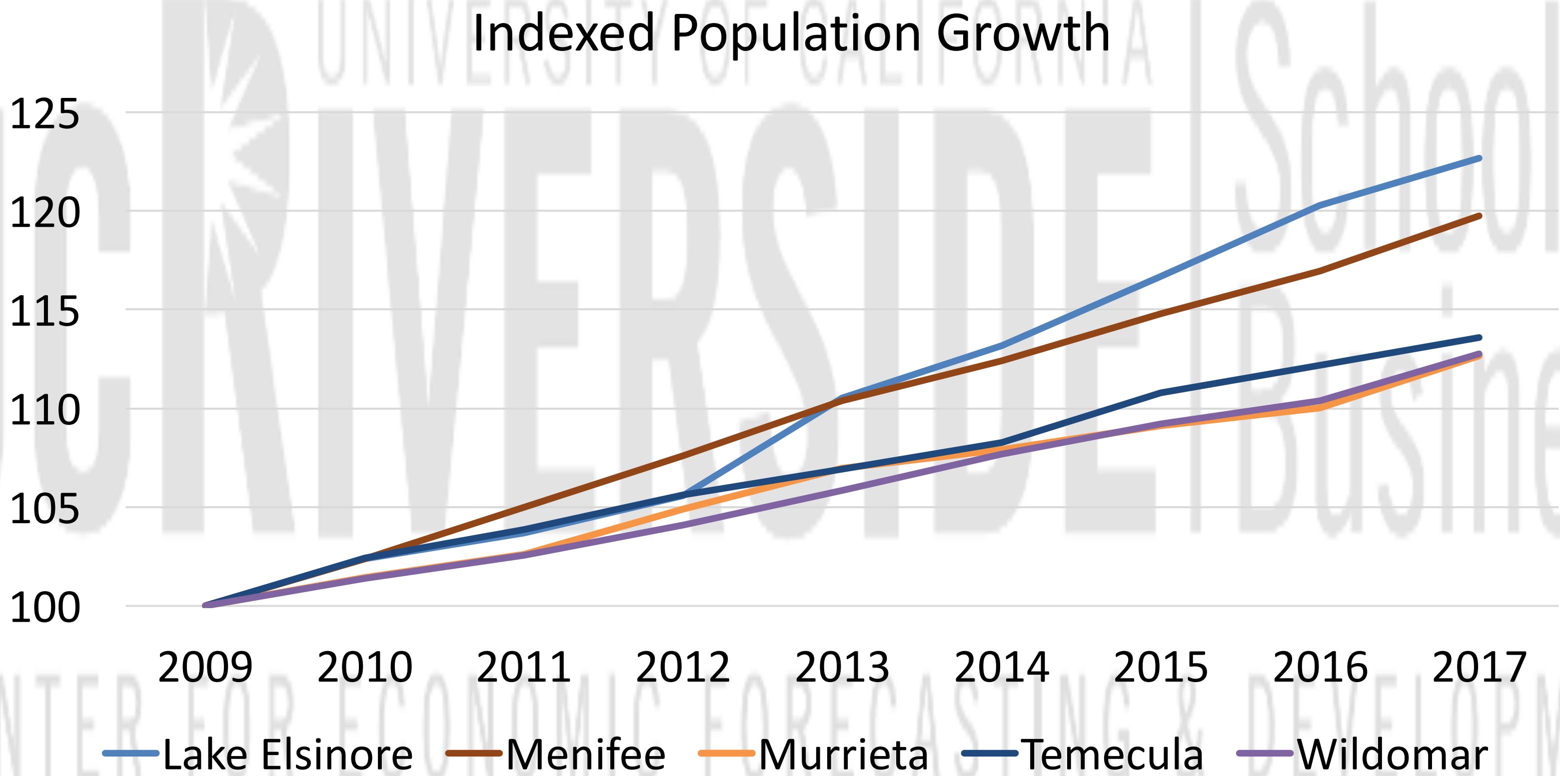
Population Trends

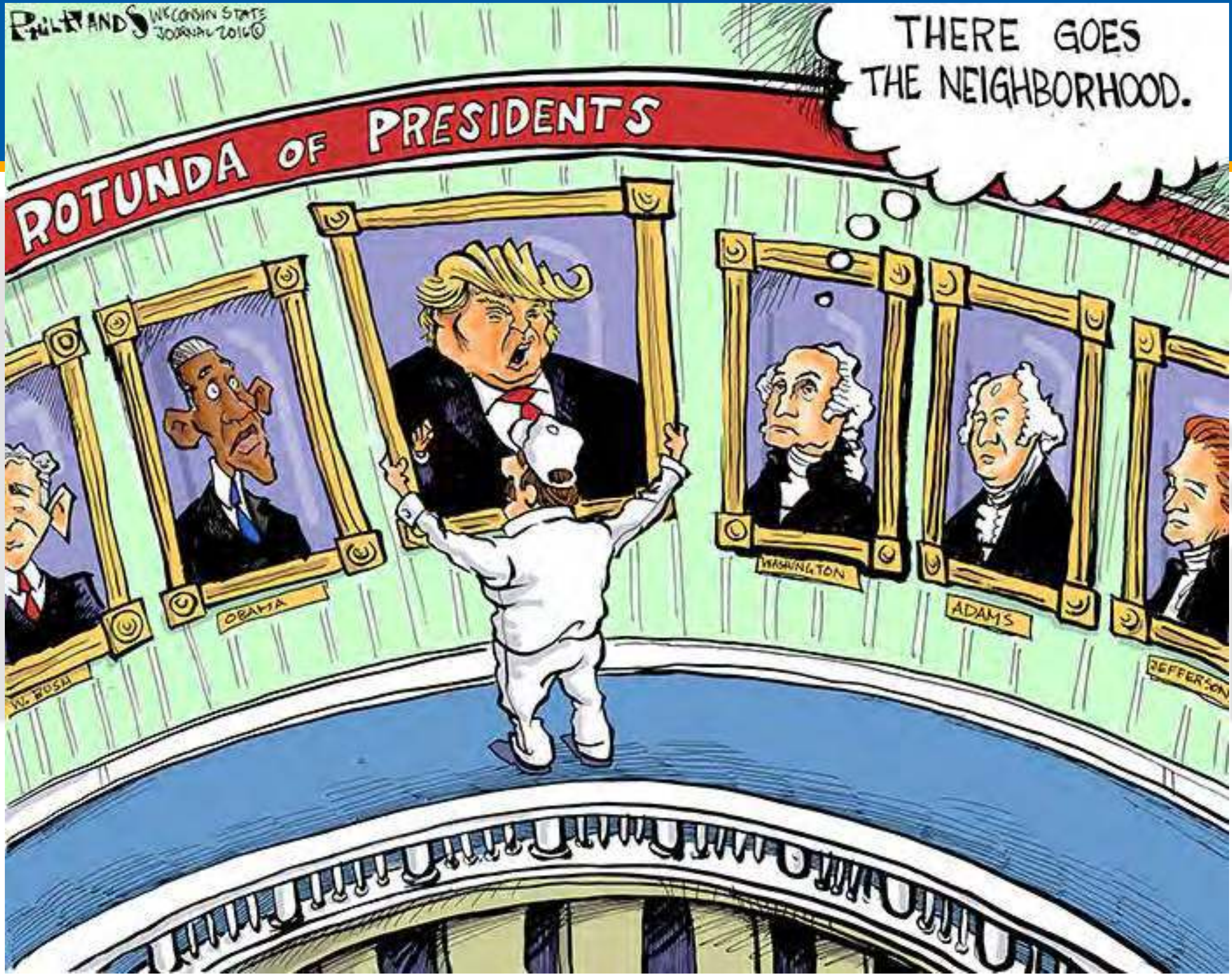
Components of Population Growth



City	2017	1-Yr. Chg.	1-Yr. % Chg.
Riverside	326,792	3,126	0.97
San Bernardino	216,972	1,294	0.60
Fontana	212,786	3,607	1.72
Moreno Valley	206,750	2,038	1.00
R. Cucamonga	177,324	1,643	0.94
Ontario	174,283	4,069	2.39
Corona	**167,759**	**3,828**	**2.34**
Victorville	123,565	512	0.42
Murrieta	**114,914**	**2,682**	**2.39**
Temecula	**111,024**	**1,389**	**1.27**
Unincorporated	682,661	8,045	1.19
Incorporated	3,862,378	53,057	1.39
County Total	4,545,039	61,102	1.36

Demographics

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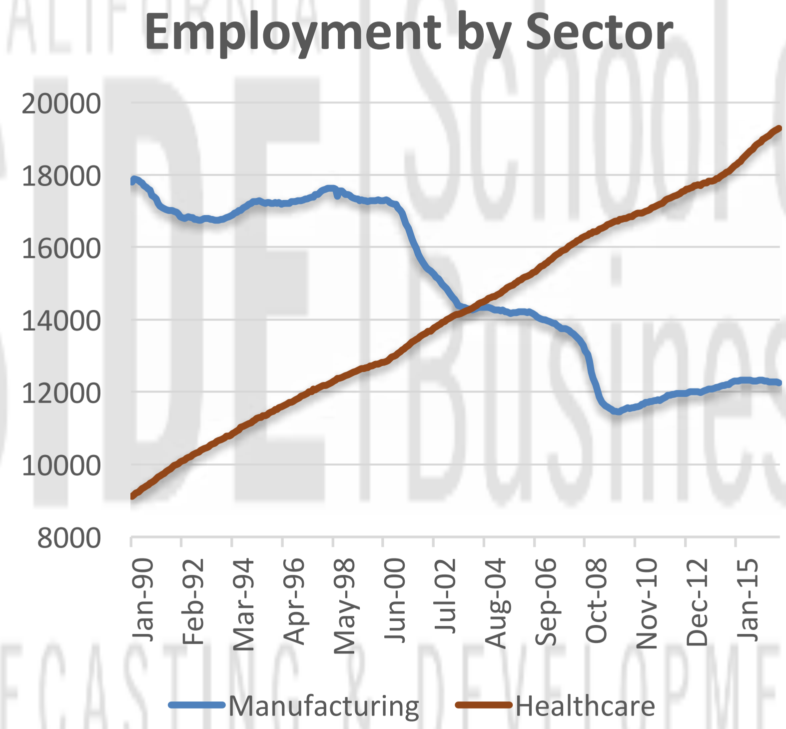
ROTUNDA OF PRESIDENTS
THERE GOES THE NEIGHBORHOOD.
W. BUSH
OBAMA
WASHINGTON
ADAMS
JEFFERSON

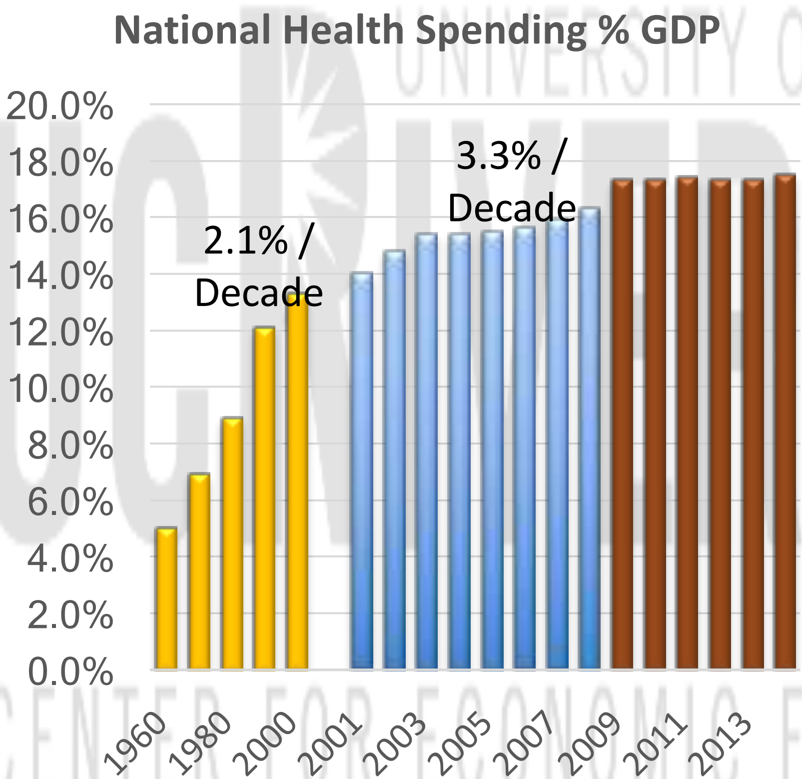
The Future of Obama-care?

US Population Insurance Status

		2015	09-15 Change
65+	Public	44,731	7,913
	Private	1,314	558
	Uninsured	392	34
Total	Public	117,107	21,831
	Private	169,586	9,055
	Uninsured	29,758	-15,907



The Healthcare Crisis



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

Social Insurance

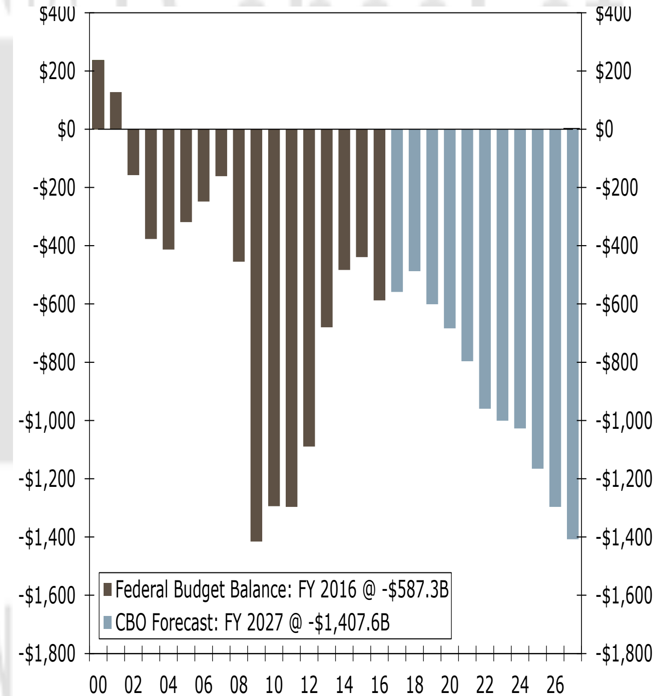
Population Growth Projections

	2015	2015-2025		2025-2035	
Total	**321,369**	**25,966**	**8.1%**	**23,003**	**6.6%**
<18 years	73,635	1,380	1.9%	2,431	3.2%
18 to 24	31,214	(478)	-1.5%	154	0.5%
25 to 44	84,657	8,772	10.4%	3,552	3.8%
45 to 64	84,032	(1,797)	-2.1%	3,553	4.3%
65 years+	**47,830**	**18,090**	**37.8%**	**13,313**	**20.2%**
85 years+	6,304	1,178	18.7%	4,427	59.2%

Medicare Spending Projections

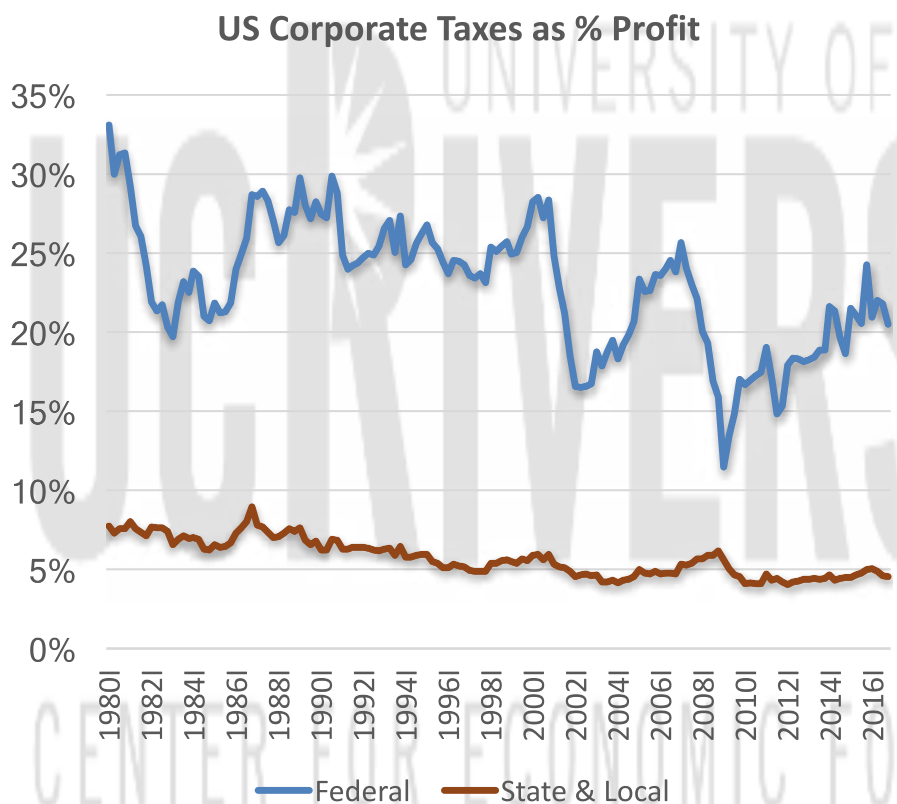
	Fed M. Spending / Senior
1995	$5,461
2015	$13,531
2035*	$43,395
	Spending Share Federal Rev
1995	13.0%
2015	18.7%
2035*	41.0%

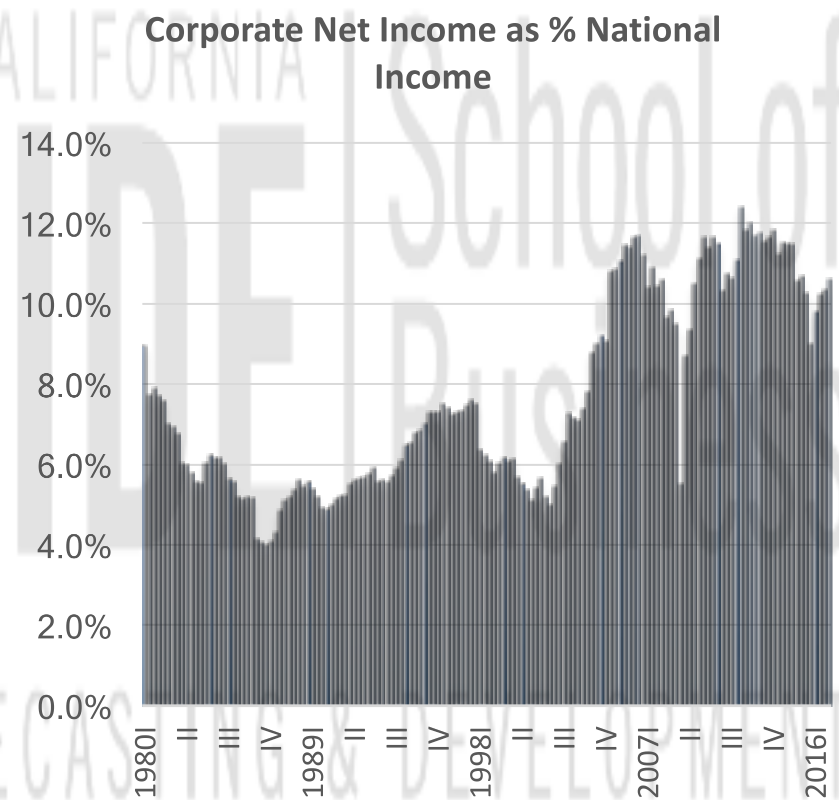
CBO Deficit Projections



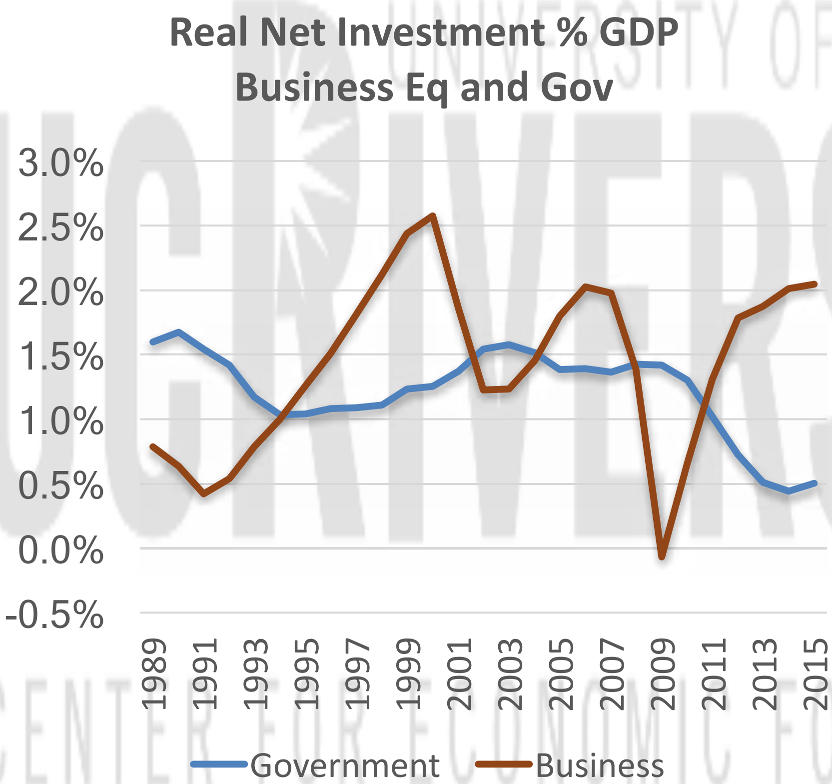
Public Sector

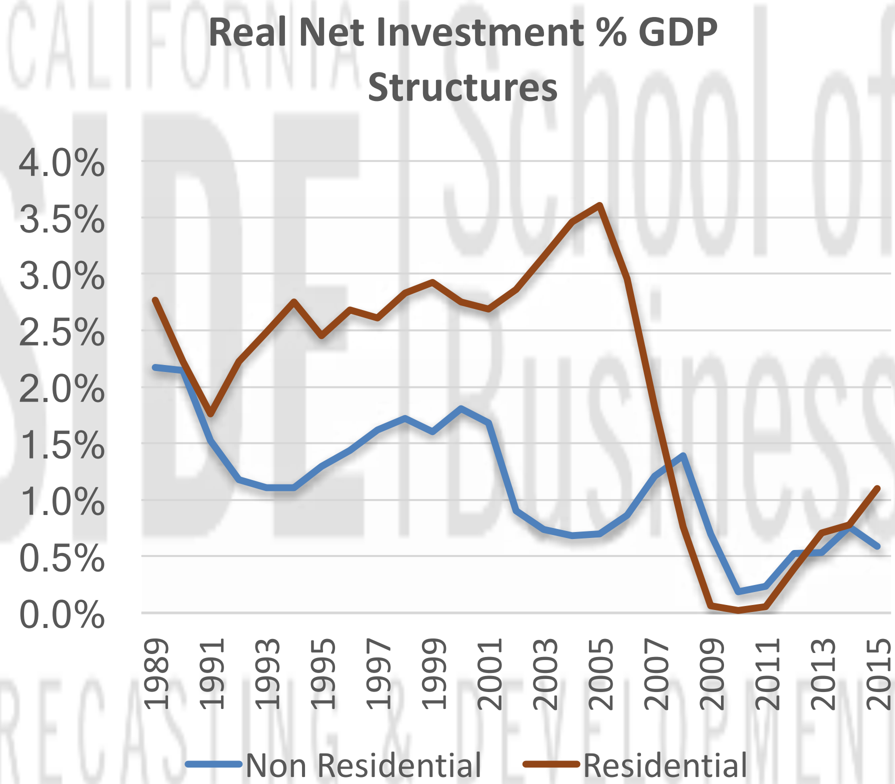
Tax Reform not Tax Cuts



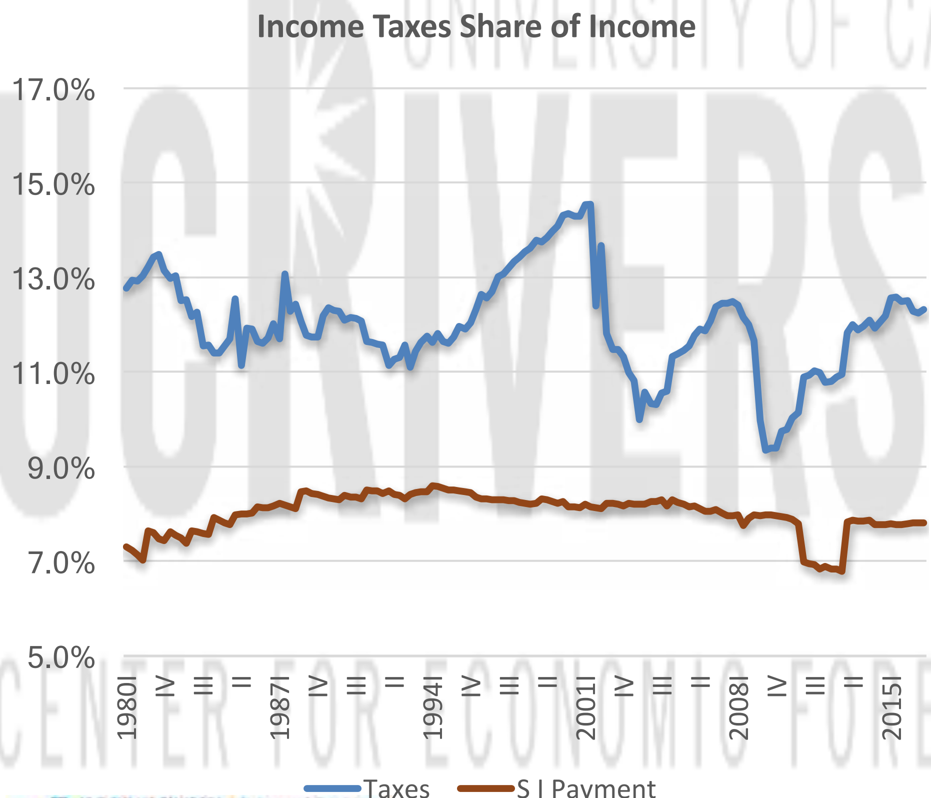


Long Run Trends in Investment





Implications



Real Net Worth

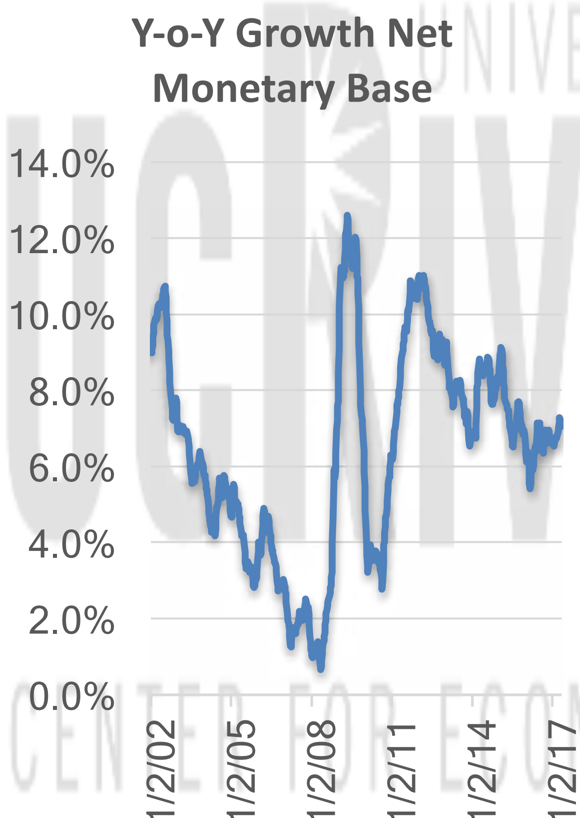
	1989	2001	2013
Mean Net Worth by Percentile of Net Worth			
Less than 25	-$1.0	$0.1	-$13.0
25–49.9	$41.8	$58.4	$35.9
50–74.9	$162.2	$219.9	$177.7
75–89.9	$411.6	$594.0	$546.3
90–100	$2,294	$3,631	$3,962

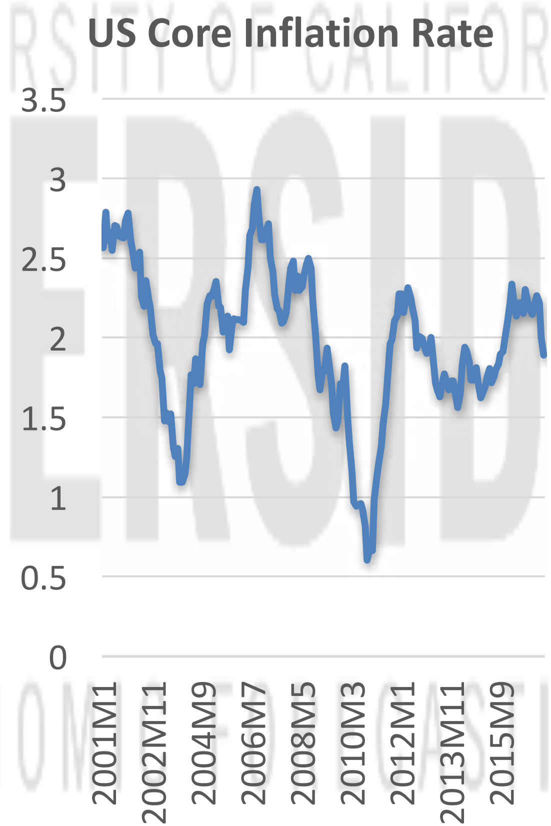
Where can growth come from?

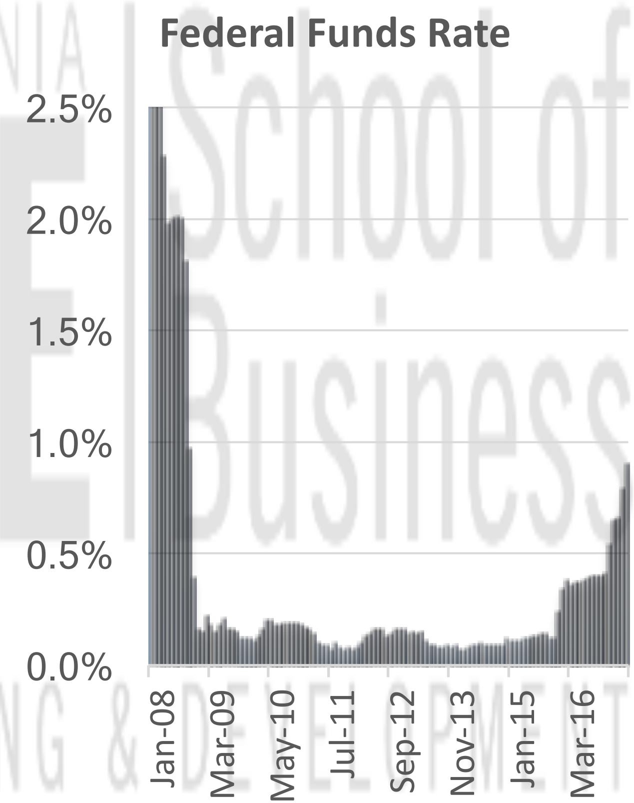
Figure 8: Increase in Average Annual Growth Rate With Estimated Policy Shifts

Policy Change	Boost in Annual Growth Rate	Estimated By
Enact immigration reform to increase number of workers	0.3%	CBO
Reform the income tax code	0.05% - 0.3%	JCT, Treasury
Increase the Social Security retirement ages by two years	0.15%	CBO
Reduce deficits by $4 trillion over ten years	0.1%	CBO
Expand energy production at level of shale boom*	0.09%	CBO
Repeal the Affordable Care Act ("Obamacare")	0.08%	CBO
Ratify the Trans-Pacific Partnership	0.01%	U.S. ITC
Increase public investment in infrastructure, education, and research by $400 billion	0 - 0.01%	CBO

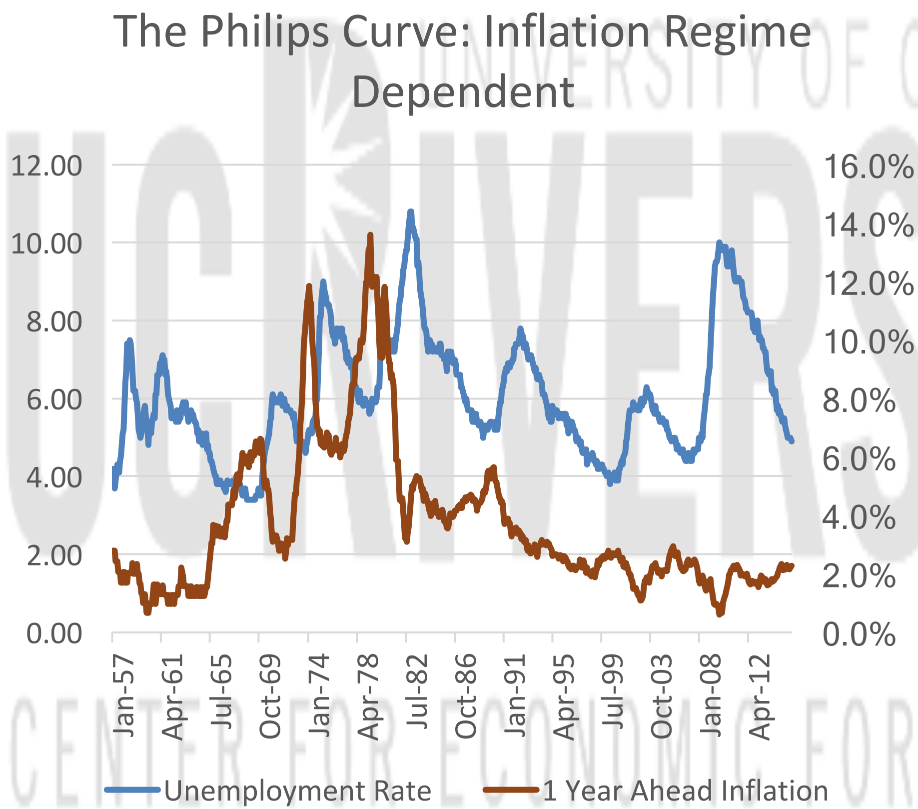
US Inflation

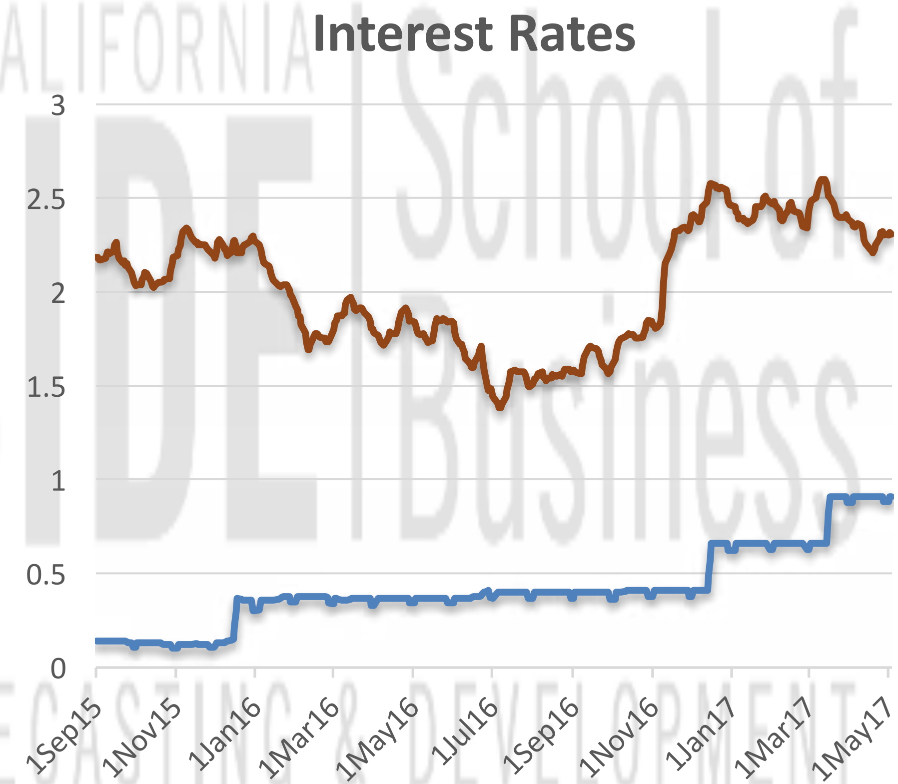






Employment Driven Inflation?





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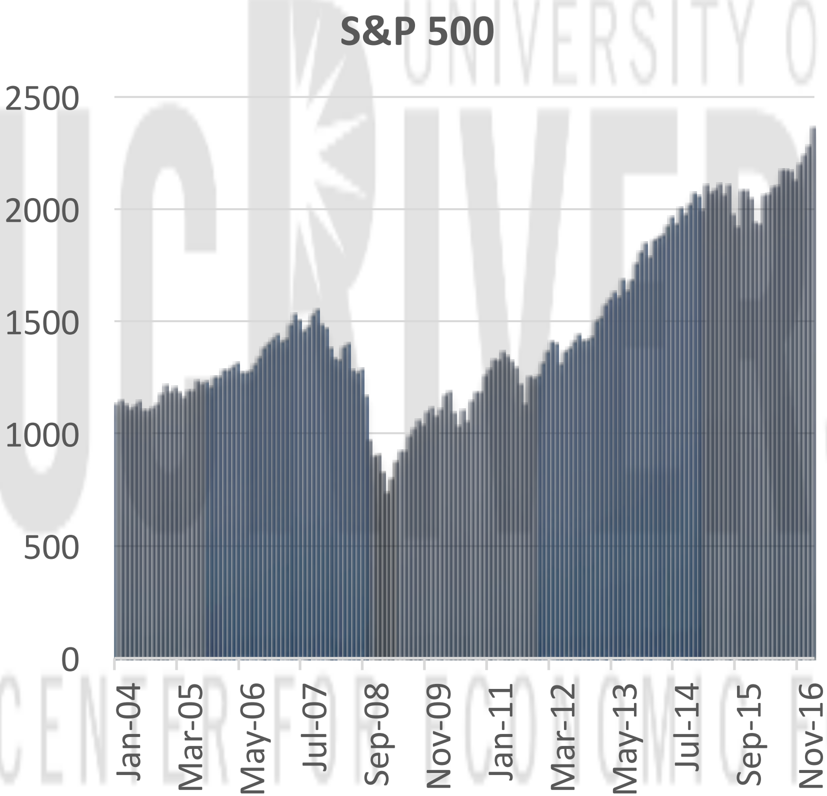
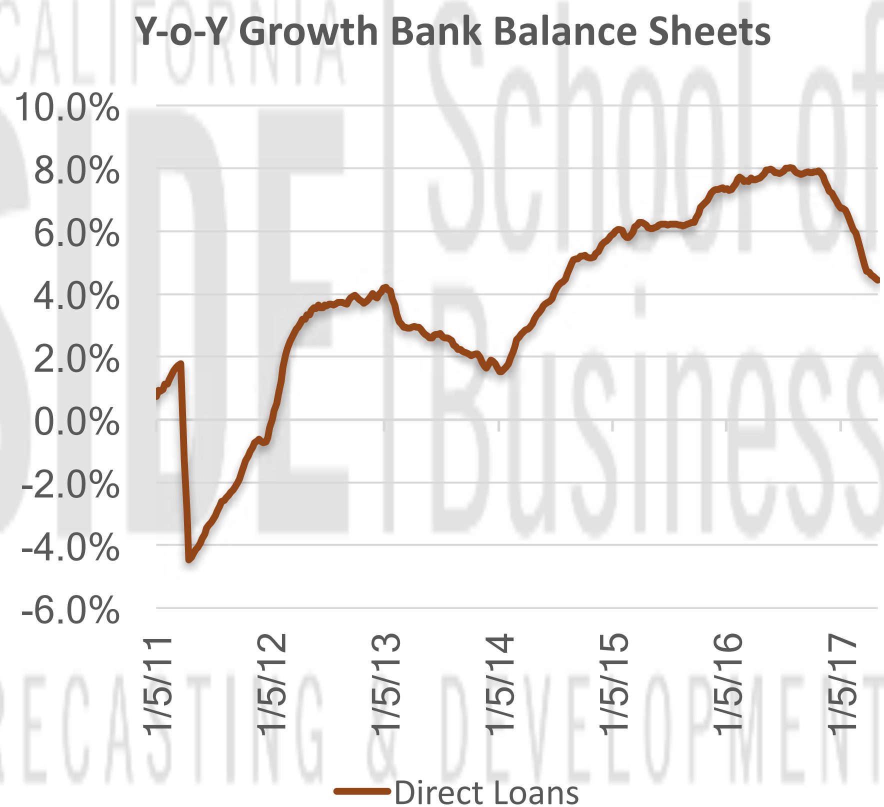
The Big Bubble Part III?





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The Big Picture

The Economic Outlook

- Economic Growth Outlook for 2017: 2-2.5% even with the weak first quarter
- Labor markets to remain tight, wages to put pressure on profits
- Financial markets a bit frothy, but interest rates to remain low
- Exports, business investment to pick up
- California to slow ut mainly due to housing shortage
- LA: Still solid- but growth is constrained by housing, infrastructure

The Trump Factor

- **The Good**: Infrastructure, Mortgage Reform, Government Efficiency, Trade negotiations
- **The Bad**: Interest Rates, Federal Deficit, Personal Liabilities, Deregulation of Wall Street, Foreign policy, Healthcare
- **The Ugly**: The potential for a trade war, Immigration and the Environment, Entitlements, Revenge of the Left

School of Business Administration
Center for Economic Forecasting and Development

900 University Ave.
Riverside, CA 92521

communication@economicforecasting.org
http://soba.ucr.edu
951-827-6329