

The Economic Outlook

Focus on San Jose

June 2016

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BEACON ECONOMICS

Economic Summit

Word of the Day



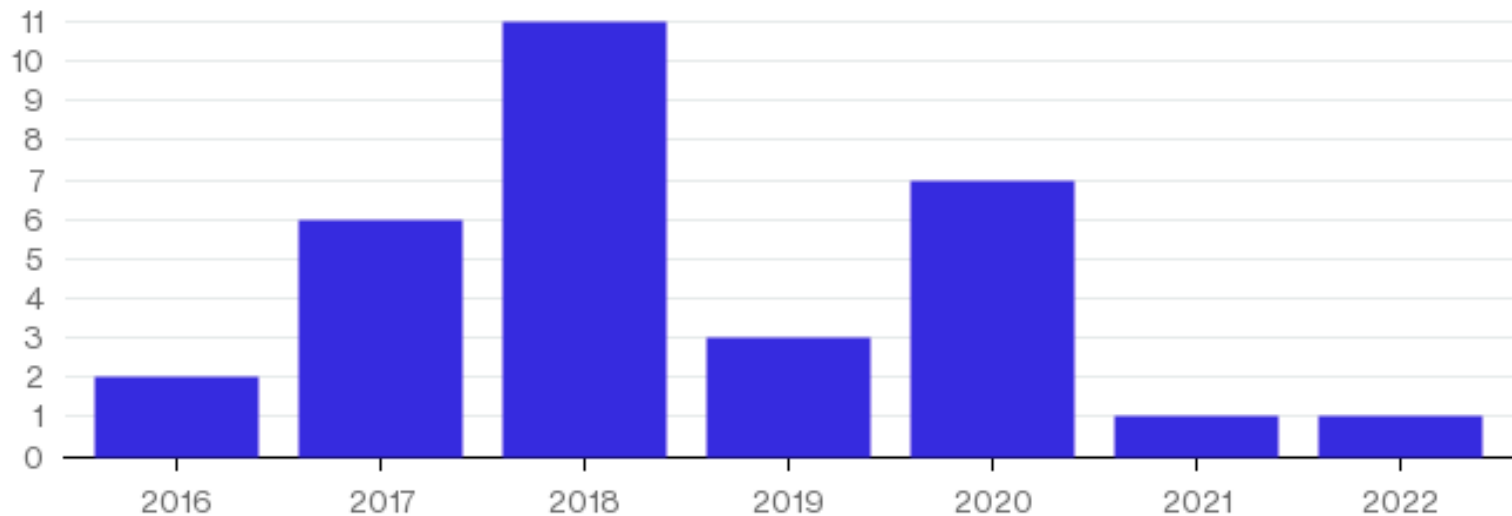
Economic Summit

The Wrong Question

Coming in 2018: U.S. Recession

The next U.S. downturn will hit in three years, according to the median of 31 economists

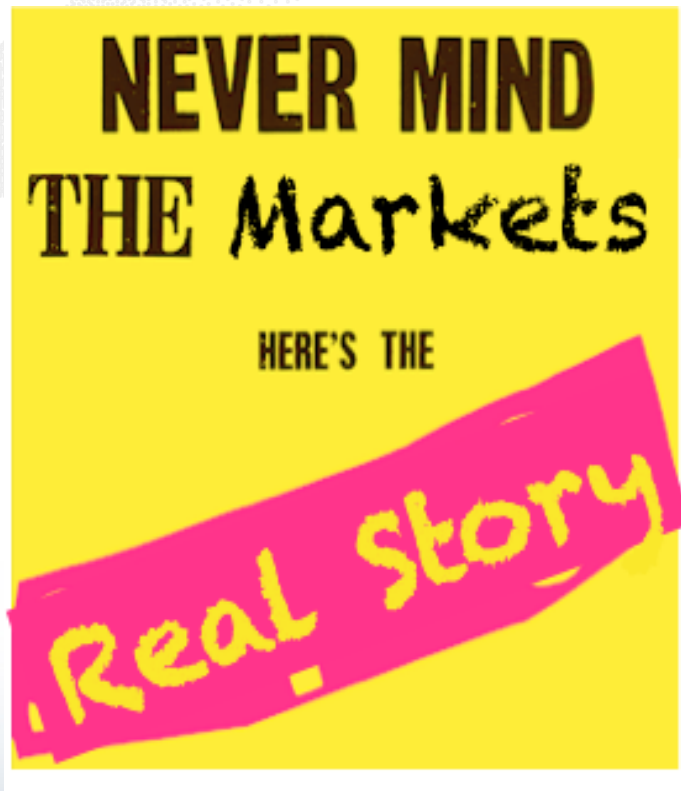
■ Number of economists



Source: Bloomberg News survey

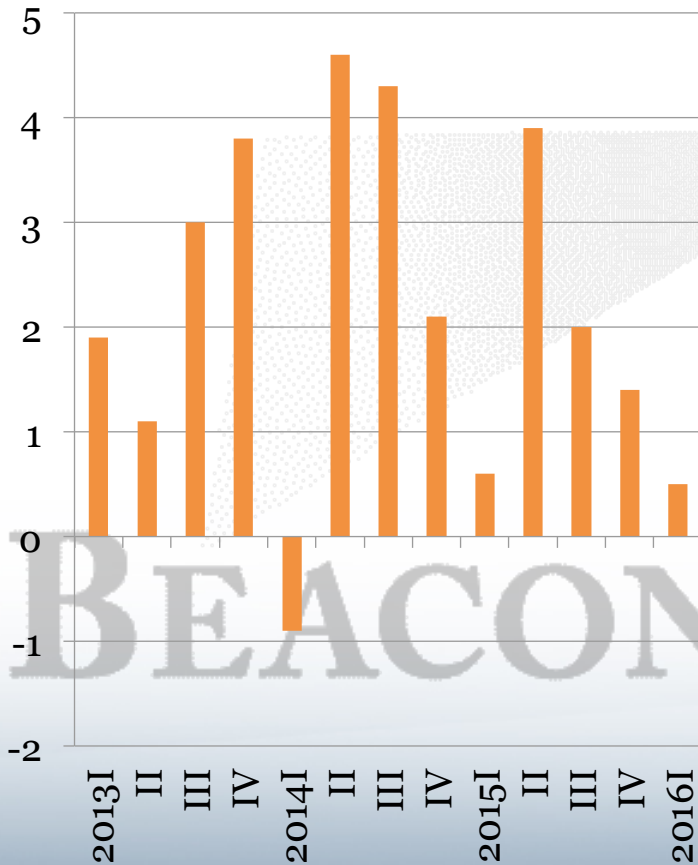
Bloomberg 

- **US Economy Still Moving Along**
 - **2015: Better than it looked**
 - **Labor markets strong**
 - **Forget the turmoil: there is no bubble**
 - **Housing still in recovery mode**
 - **Credit expanding on many levels**
 - **Commodity prices are down**
 - **California is leading, not lagging the nation**
- **Issues? Sure...**
 - **State and Local budgets**
 - **The drought**
 - **Global economy—particularly Asia**
 - **Bad Financial Regulations**
 - **Local Housing shortage**
 - **Pensions / Entitlements**
 - **Growing Inequality / Political Gridlock**



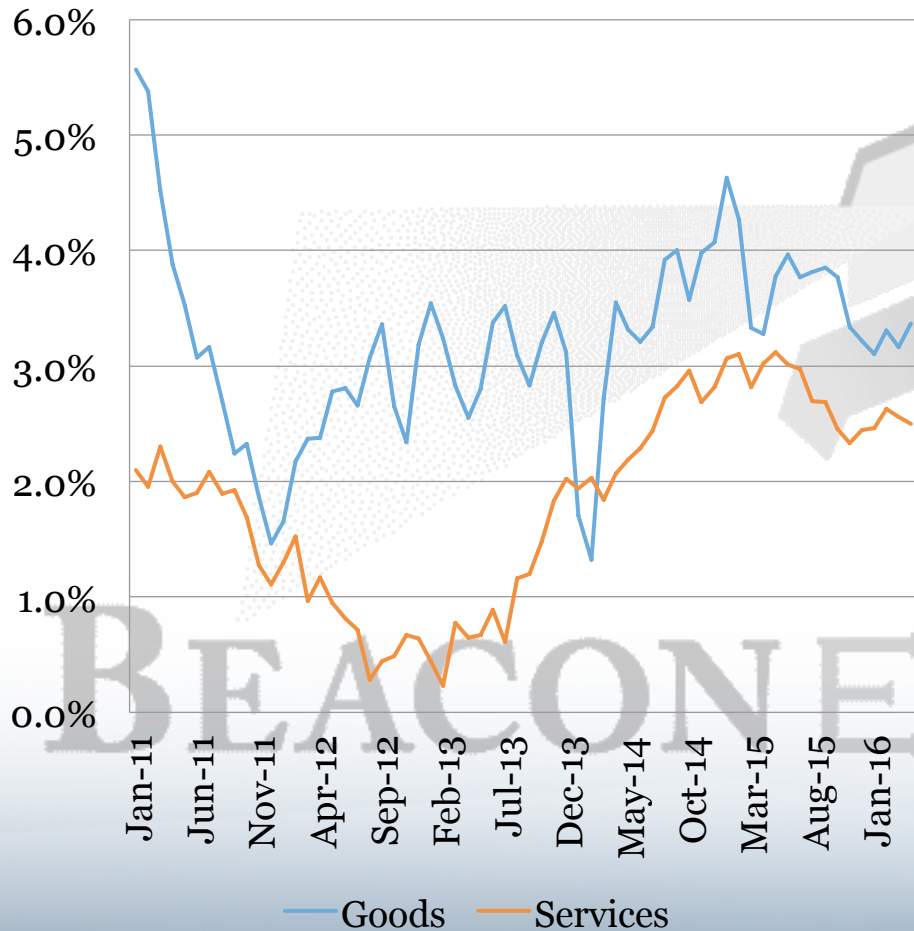
2016: Slow Start (As usual)

Gross domestic product

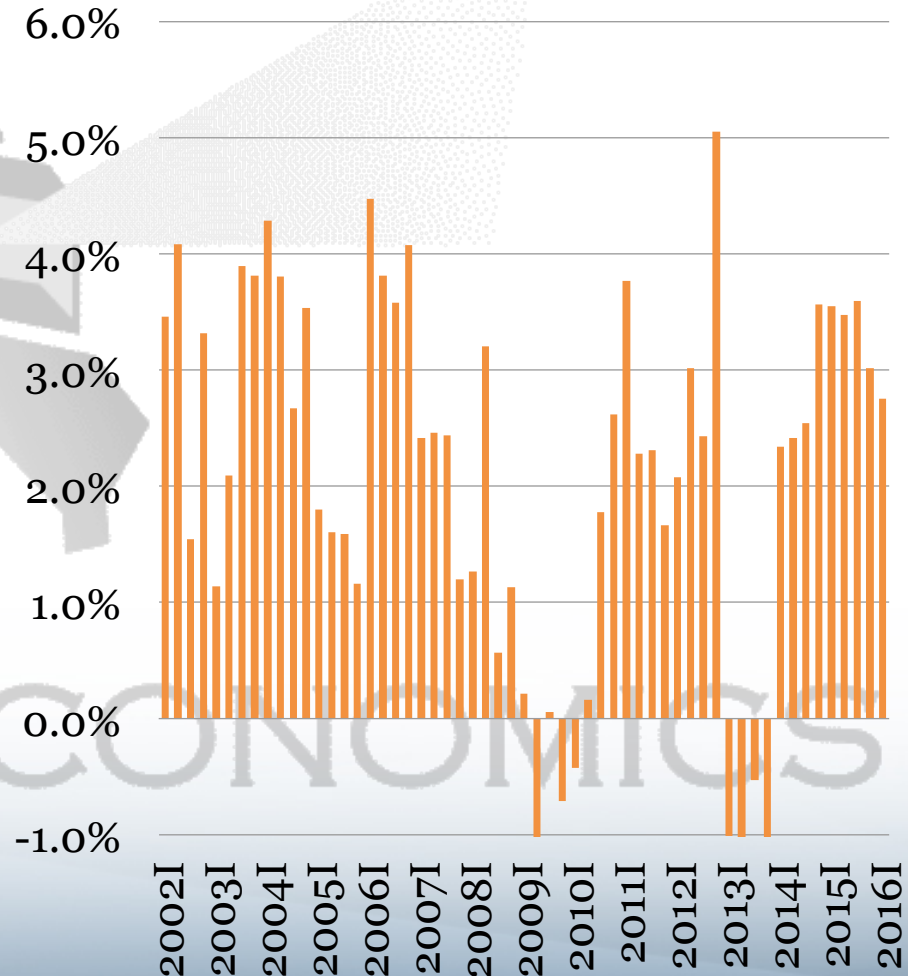


	2015				2016
	I	II	III	IV	I
GDP	0.6	3.9	2	1.4	0.5
Consumption	1.19	2.42	2.04	1.66	1.27
Goods	0.25	1.20	1.08	0.36	0.03
Services	0.94	1.23	0.96	1.30	1.24
Investment	1.39	0.85	-0.11	-0.16	-0.60
Structures	-0.22	0.18	-0.21	-0.14	-0.30
Equipment	0.14	0.03	0.57	-0.12	-0.53
Intellectual property	0.29	0.33	-0.03	-0.01	0.07
Residential	0.32	0.30	0.27	0.33	0.49
Change inventories	0.87	0.02	-0.71	-0.22	-0.33
Net exports	-1.92	0.18	-0.26	-0.14	-0.34
Exports	-0.81	0.64	0.09	-0.25	-0.31
Imports	-1.12	-0.46	-0.35	0.11	-0.02
Government	-0.01	0.46	0.32	0.02	0.20
Federal	0.08	0.00	0.02	0.15	-0.11
State and local	-0.09	0.46	0.30	-0.13	0.31

Real Consumer Spending (Y-o-Y Growth)



Y-o-Y Change Real DPI





BridgeBank

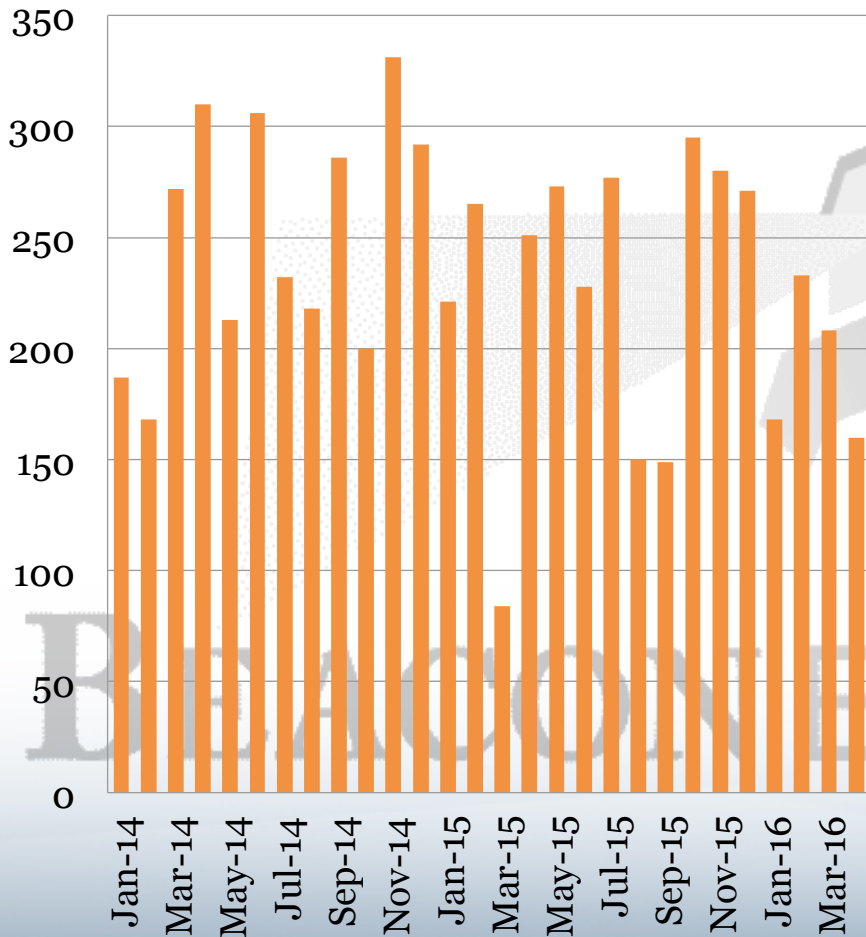
Be bold, venture wisely.

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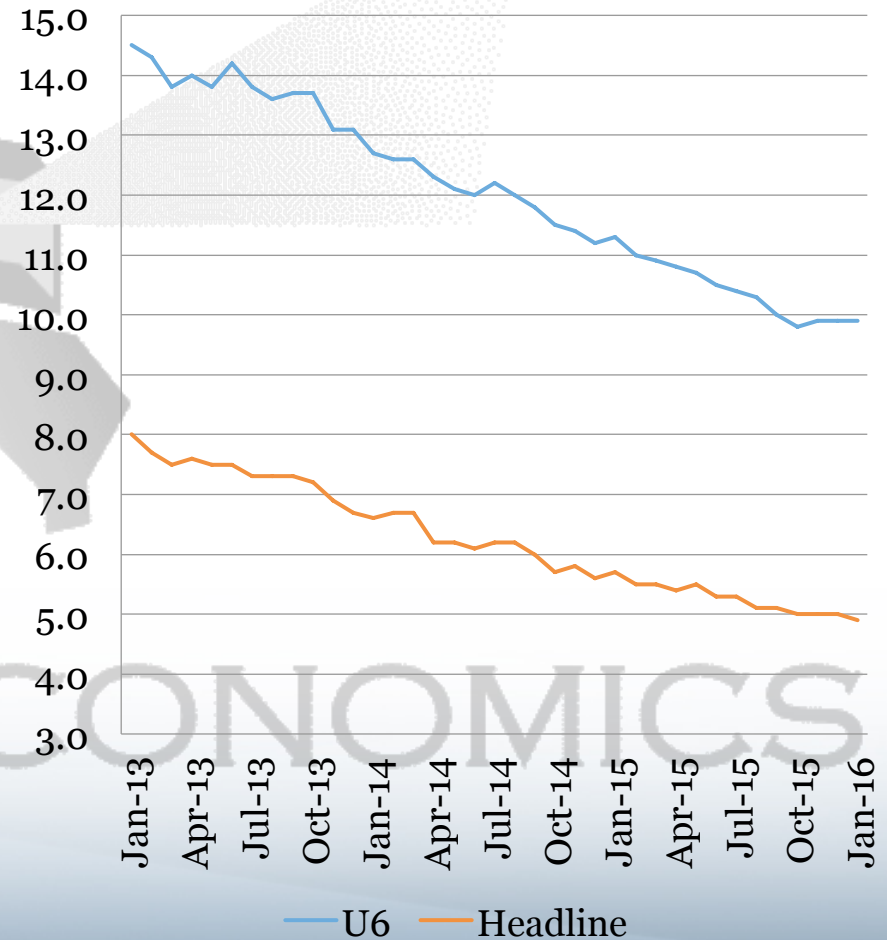


HOPKINS
& CARLEY
A LAW CORPORATION

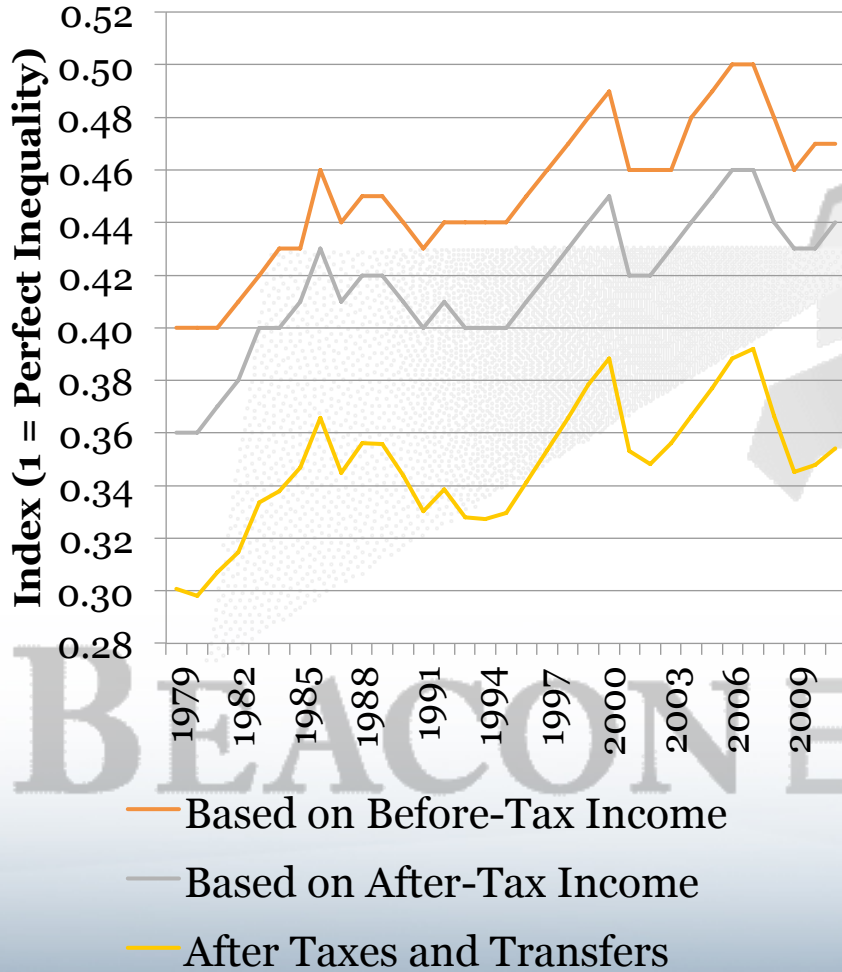
Change Non-Farm Payrolls



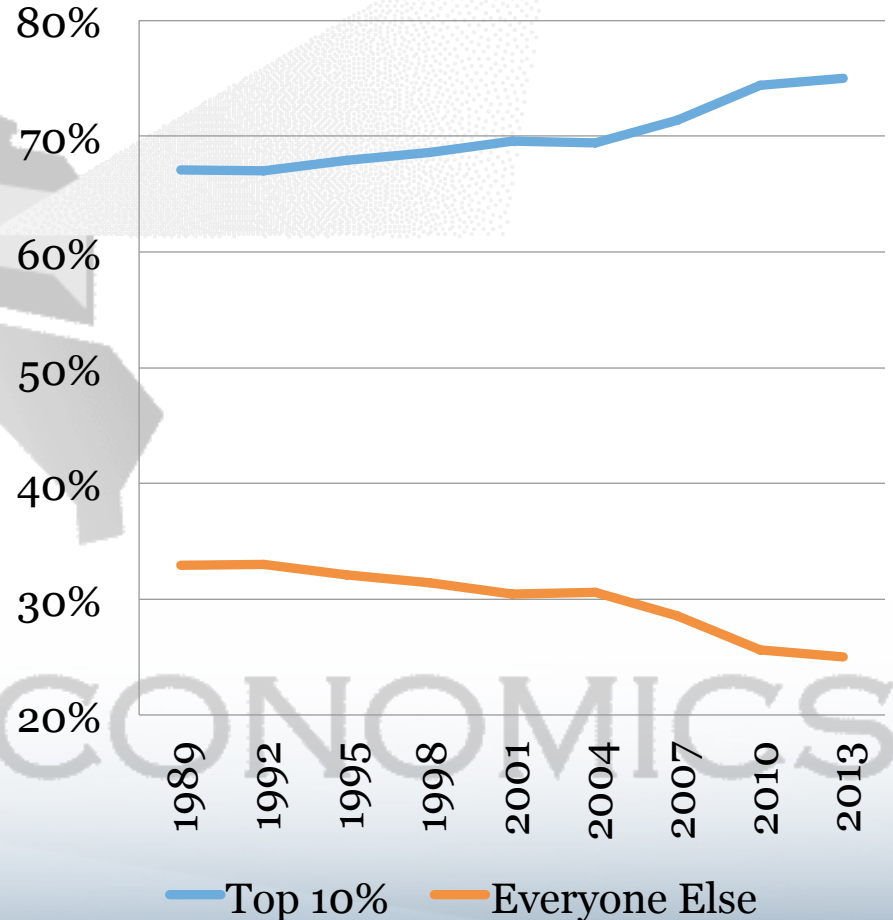
Unemployment Rates



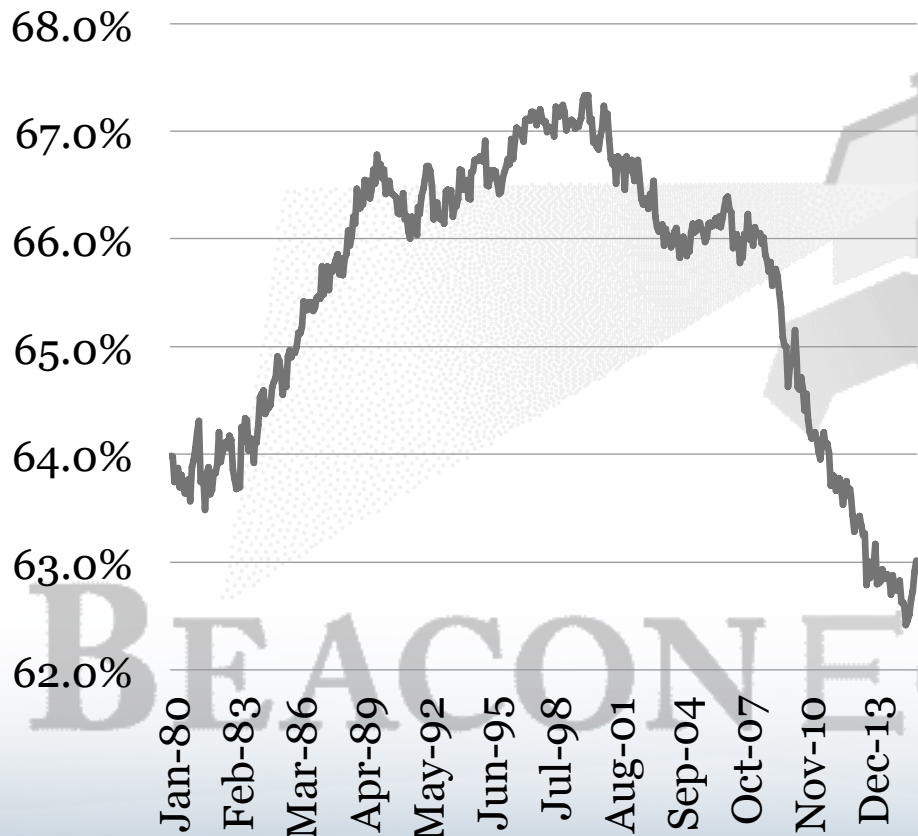
Gini Index (Inequality)



US Holdings of Wealth



Participation Rate



Participation

	Pop 16+	Pt. Rt.
2006	228,815.0	66.2
2015	250,801.0	62.7

Population

	Pt. Rt. 06	Ch. Pop
16 to 24	60.7	4.5
25 to 54	82.9	0.2
55 Plus	38.0	30.0

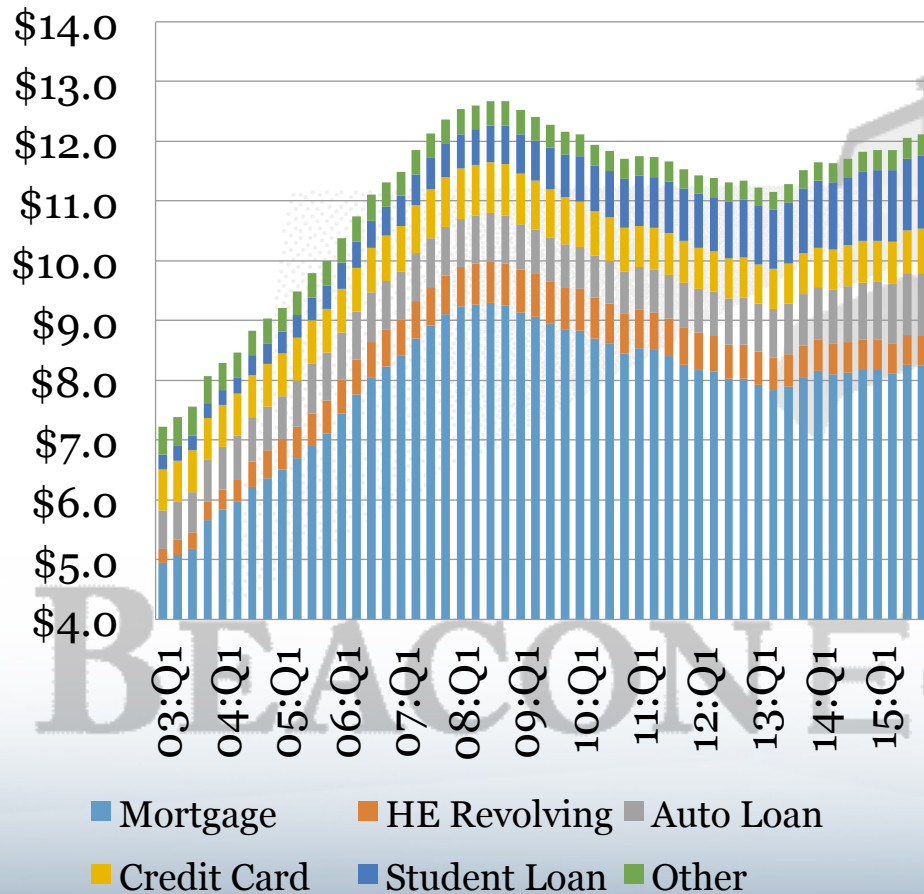
Rates

	Pt. Rt. 15	Missing
16 to 24	55.0	2,419
25 to 54	80.8	2,554
55 Plus	39.9	(1,709)

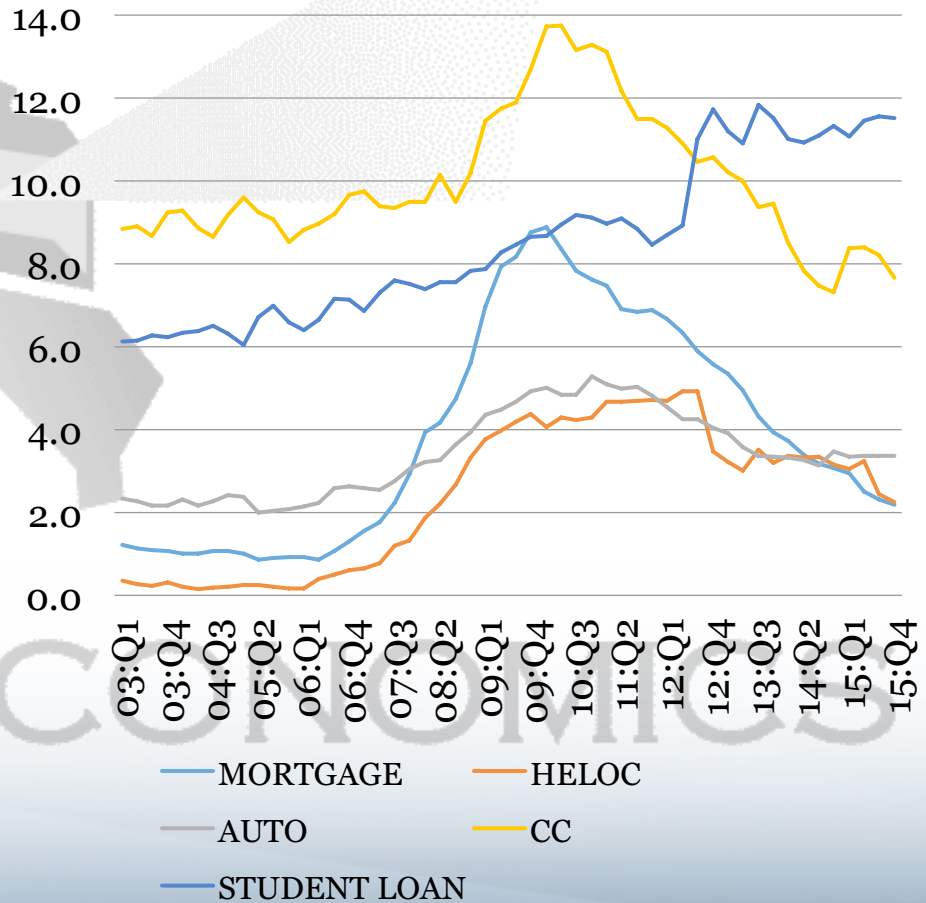
The Millennial Myth

	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%

Outstanding Consumer Credit (\$Trillions)

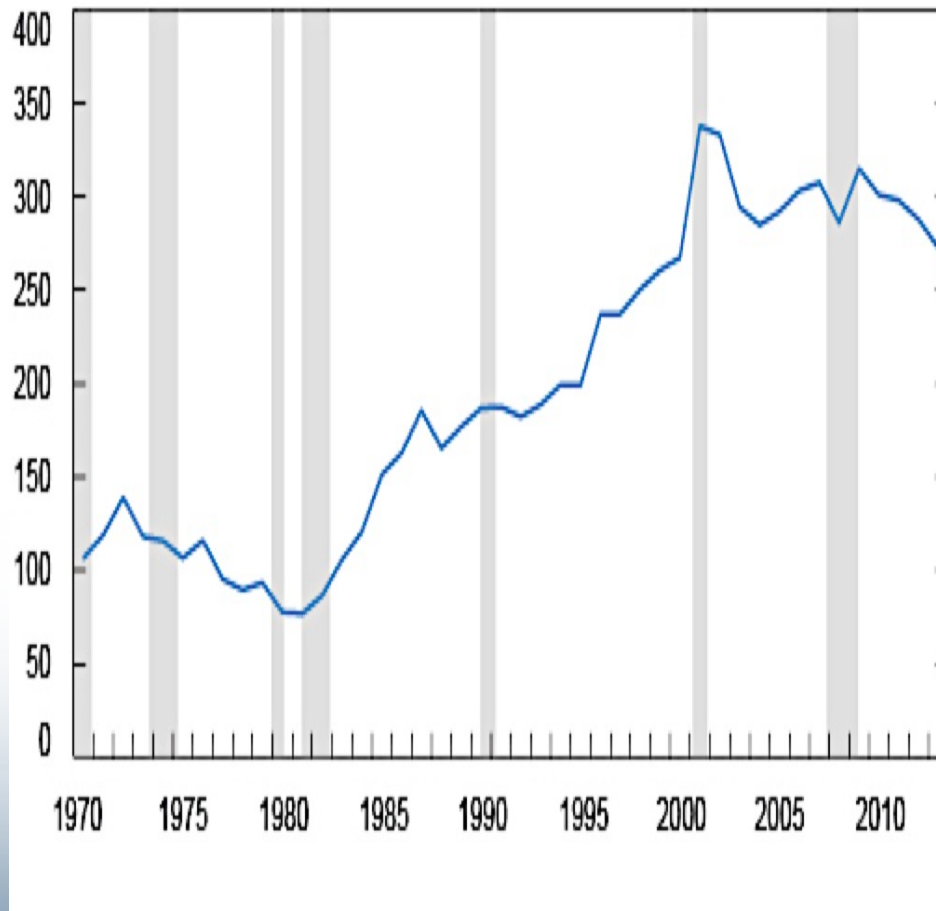


Serious Delinquency Rate (90 day +)



Net Present Value of a Bachelor's Degree, 1970-2013

Thousands of dollars



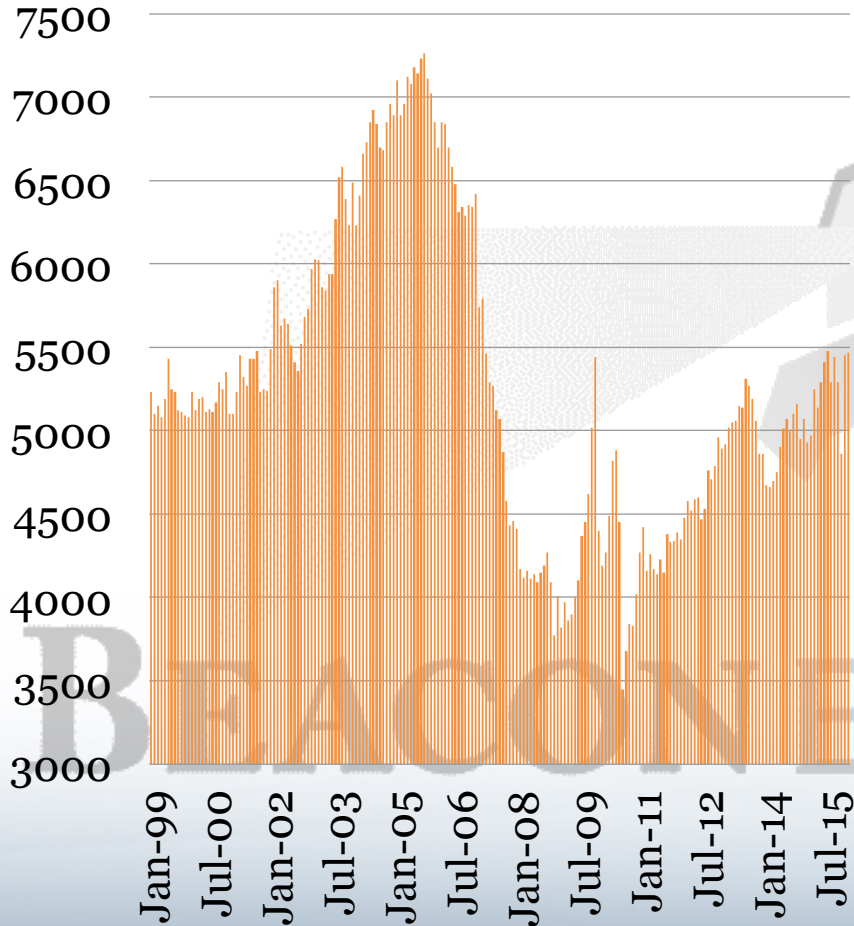
Annual Income

PETROLEUM ENGINEERING	55,103
COMPUTER ENGINEERING	50,542
CHEMICAL ENGINEERING	48,668
COMPUTER SCIENCE	46,060
AEROSPACE ENGINEERING	44,651
INDUSTRIAL AND ORGANIZATI	43,804
MECHANICAL ENGINEERING	43,495
ELECTRICAL ENGINEERING	42,238
MATHEMATICS AND COMPUTER	41,640
PHARMACY PHARMACEUTICAL S	40,933
OPERATIONS LOGISTICS AND	40,840
FINANCE	40,236

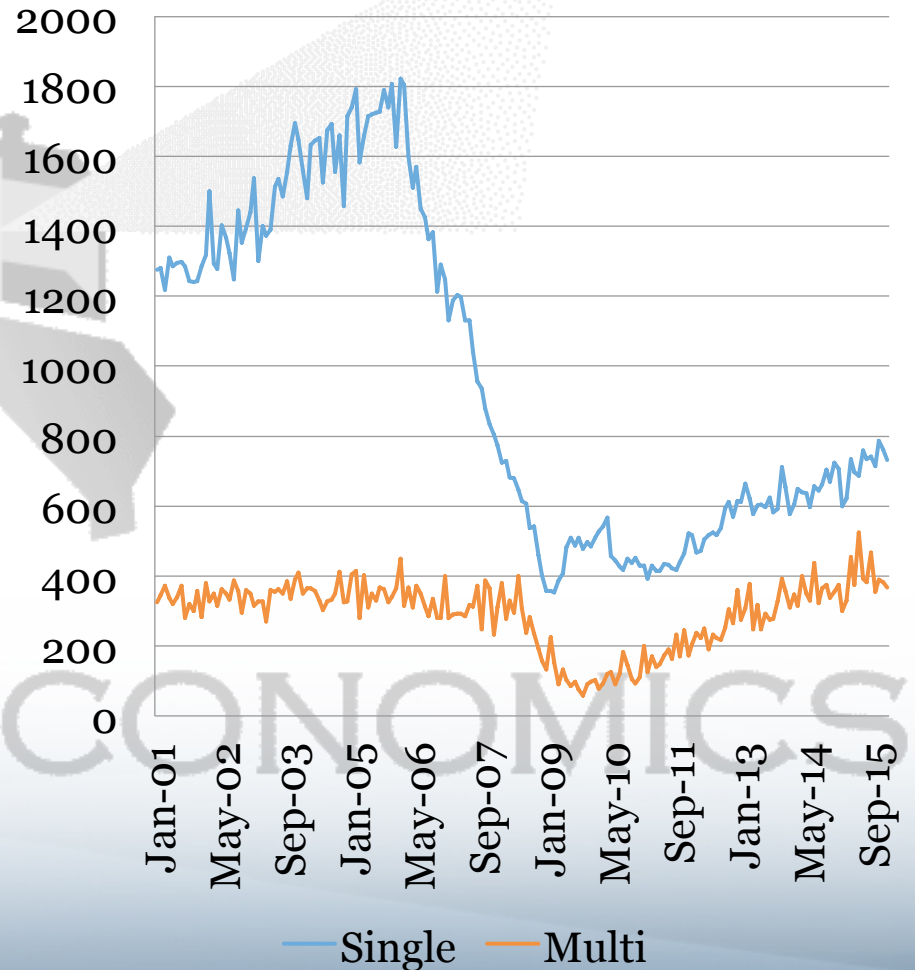
Diploma's Awarded

PSYCHOLOGY	289,968
BUSINESS MANAGEMENT AND A	217,369
BIOLOGY	178,560
GENERAL BUSINESS	171,875
NURSING	170,595
COMMUNICATIONS	162,915
MARKETING AND MARKETING R	160,309
ACCOUNTING	146,322
ENGLISH LANGUAGE AND LITE	132,367
CRIMINAL JUSTICE AND FIRE	123,509
POLITICAL SCIENCE AND GOV	123,106
FINANCE	123,068

Home Sales



Housing Starts SAAR



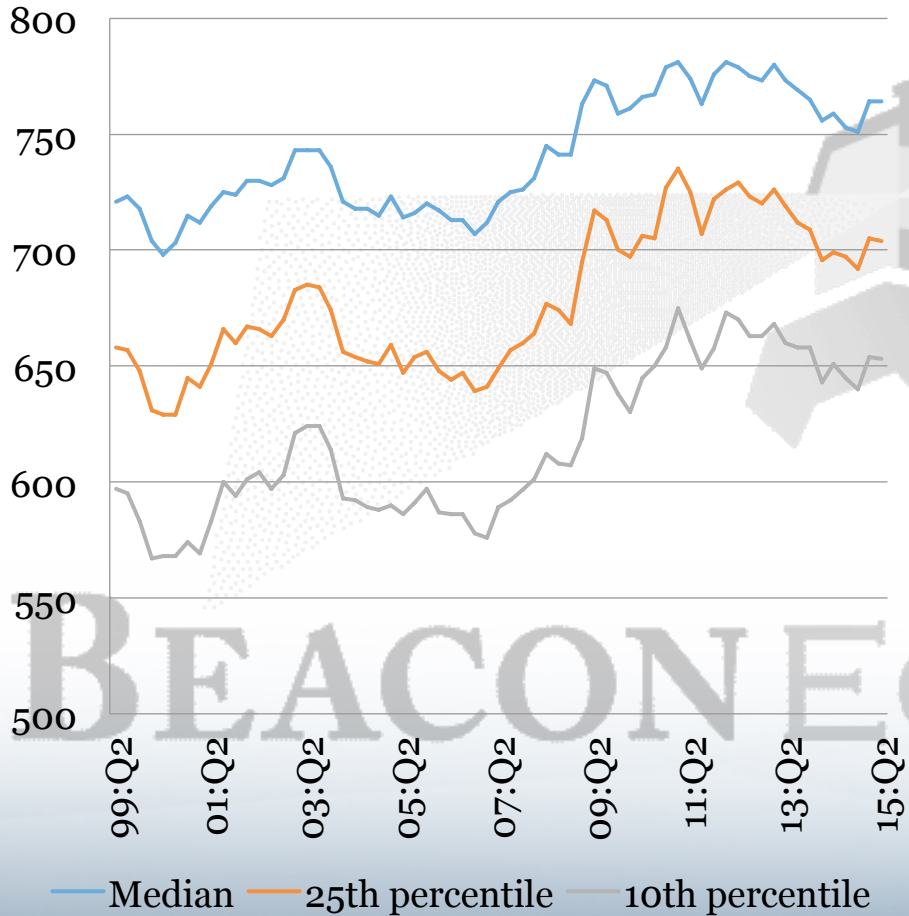
US Housing Affordability



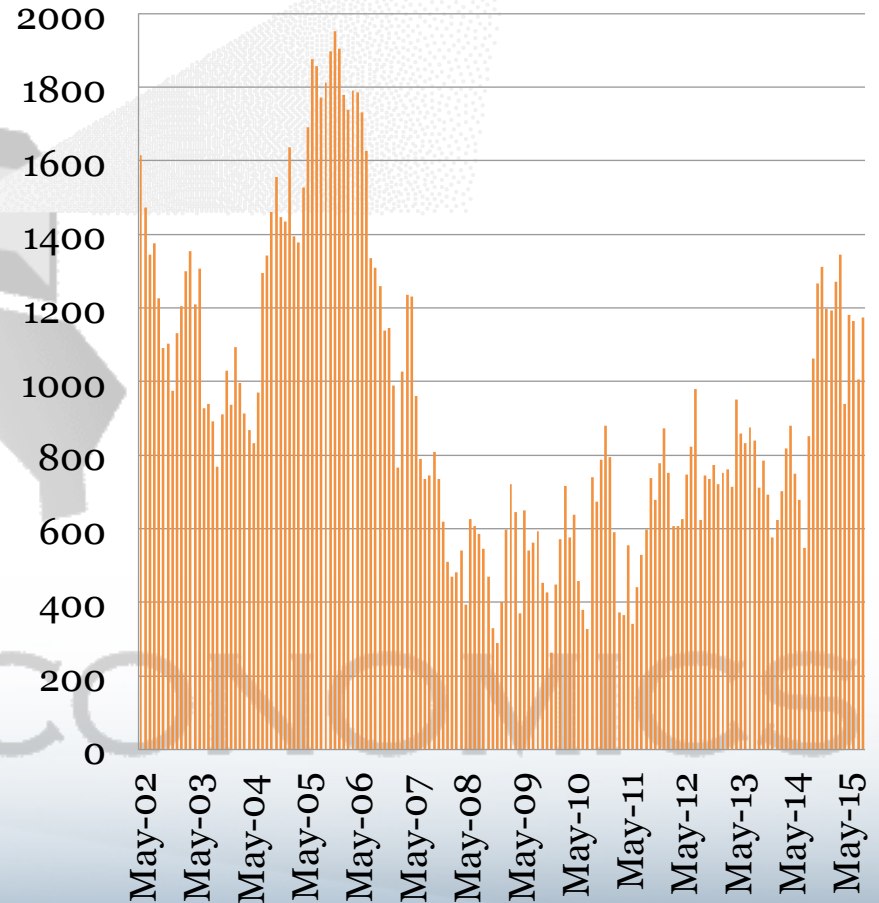
Case-Shiller Regional HPIs

	2014	2015
OR-Portland	7.2%	11.8%
WA-Seattle	6.8%	10.8%
CA-San Francisco	7.8%	10.5%
CO-Denver	8.4%	10.2%
TX-Dallas	8.1%	9.2%
FL-Tampa	5.7%	7.4%
MI-Detroit	3.1%	7.2%
CA-Los Angeles	5.5%	6.9%
CA-San Diego	5.0%	6.9%
FL-Miami	8.3%	6.8%
AZ-Phoenix	2.5%	6.1%
NV-Las Vegas	5.9%	6.0%
GA-Atlanta	4.9%	5.7%
National-US	4.3%	5.4%

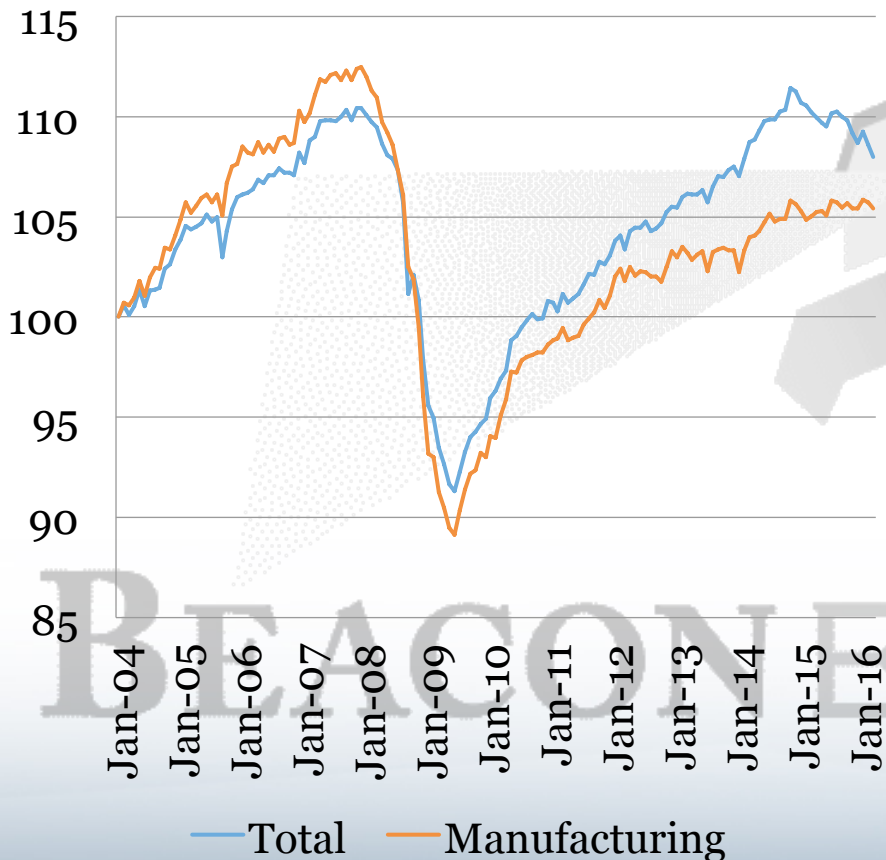
Credit Score at Origination: Mortgages



Change in Households (2 year Smoothed)

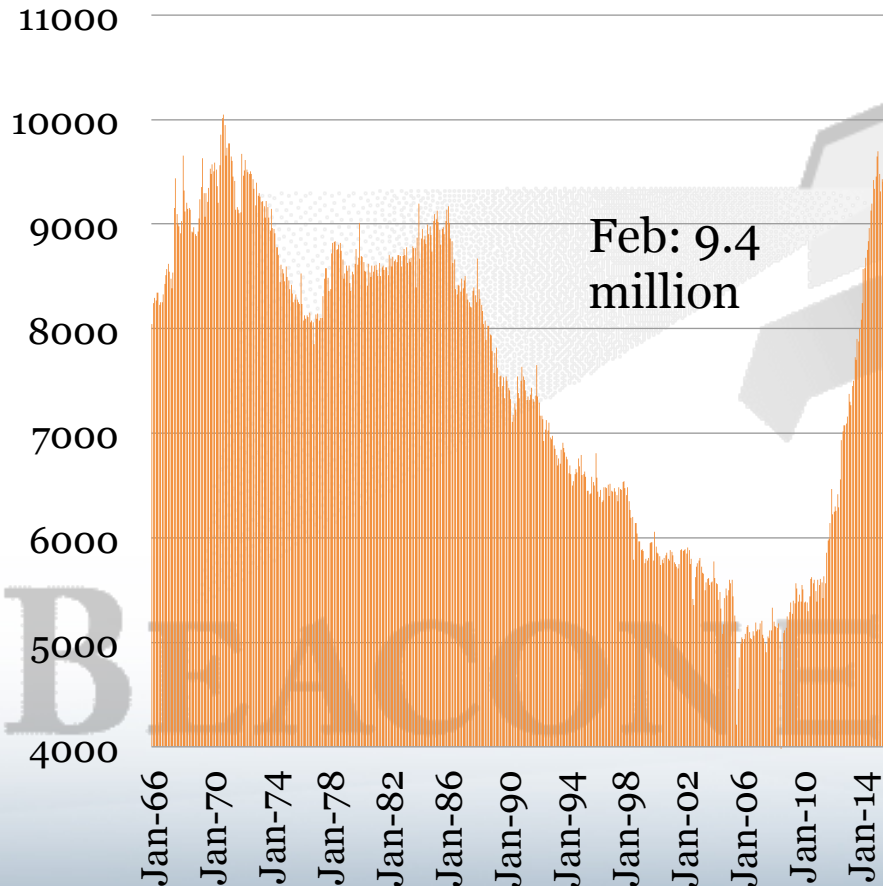


Industrial Production Indexes



	2015 Proportion	Mar. '15 to Mar. '16
Total industry	100	-2
Energy	21.5	-9.6
Consumer products	3.4	-8.6
Oil and gas well drilling	0.4	-55.4
Primary energy	10.8	-11.6
Non-energy	78.5	0.2
Selected high-technology	2.7	2.1
Motor vehicles and parts	5.9	5
Consumer goods	20.9	0.3
Business equipment	9.7	-1.4
Construction supplies	5.1	1.5
Business supplies	6.9	0.7
Materials	25.1	-0.9

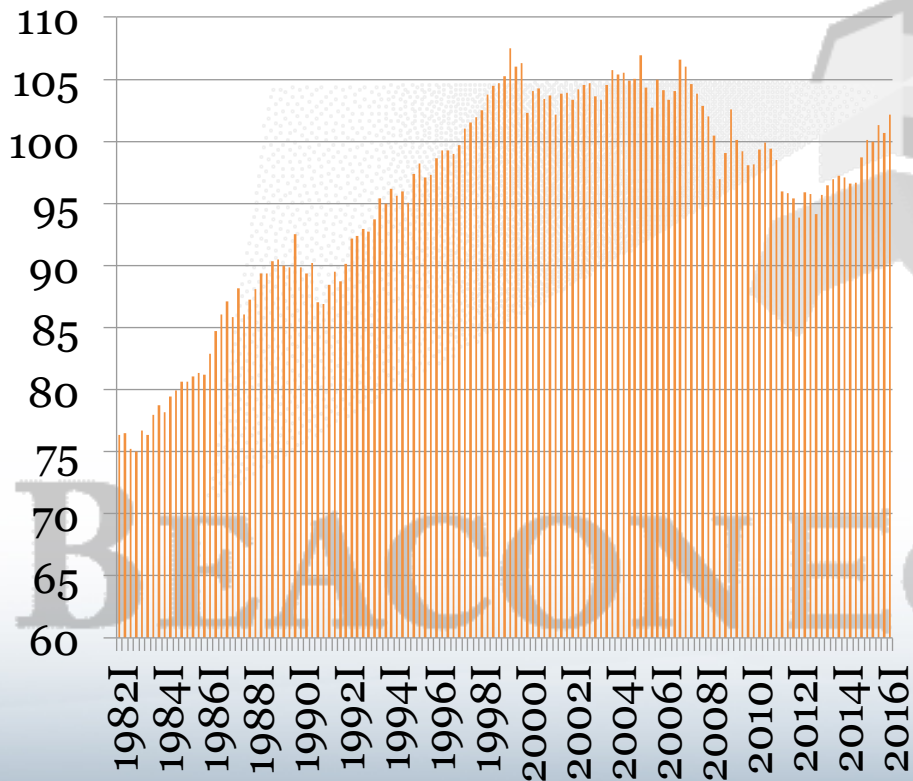
Production Million BBL per day to February



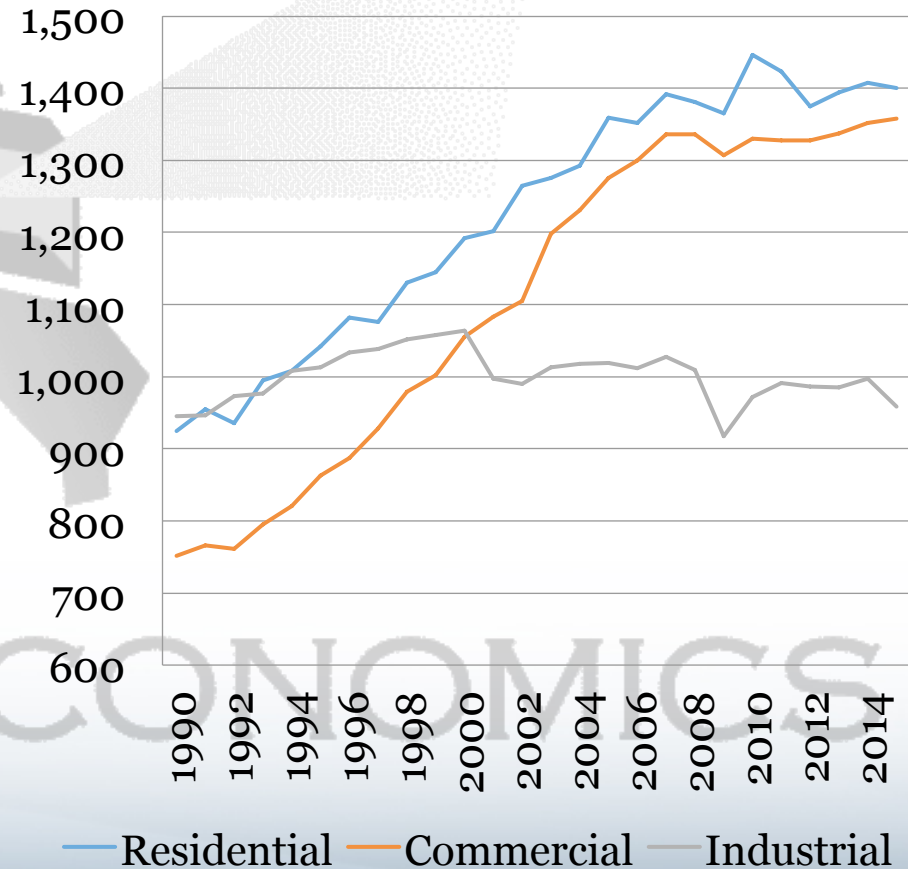
Technical Reserves Shale Energy

	Tcf	BB
46 Nation total	7,576.60	418.9
U.S.	622.5	78.2
China	1115.2	32.2
Russia	284.5	74.6
Argentina	801.5	27
Algeria	706.9	5.7
Mexico	545.2	13.1
Canada	572.9	8.8
Australia	429.3	15.6
UAE	205.3	22.6
Libya	121.6	26.1
Venezuela	167.3	13.4
Brazil	244.9	5.3
Chad	44.4	16.2
Pakistan	105.2	9.1
France	136.7	4.7
Kazakhstan	27.5	10.6

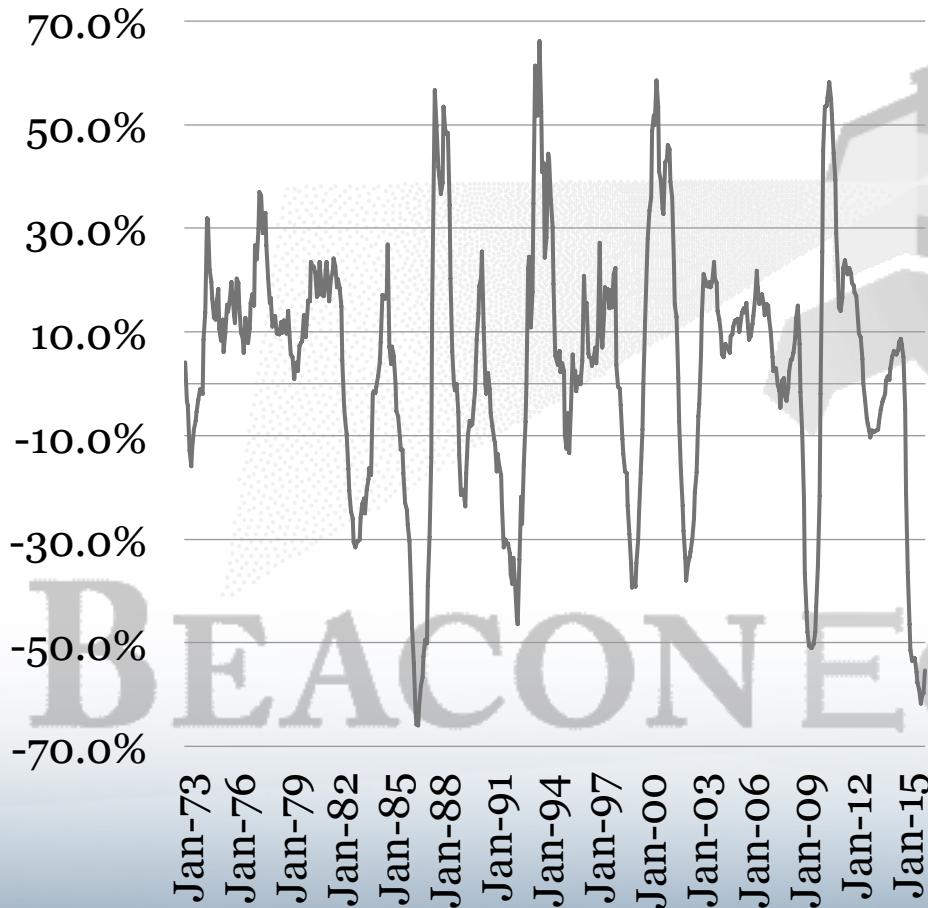
Real Consumer Spending: Gasoline and other energy goods



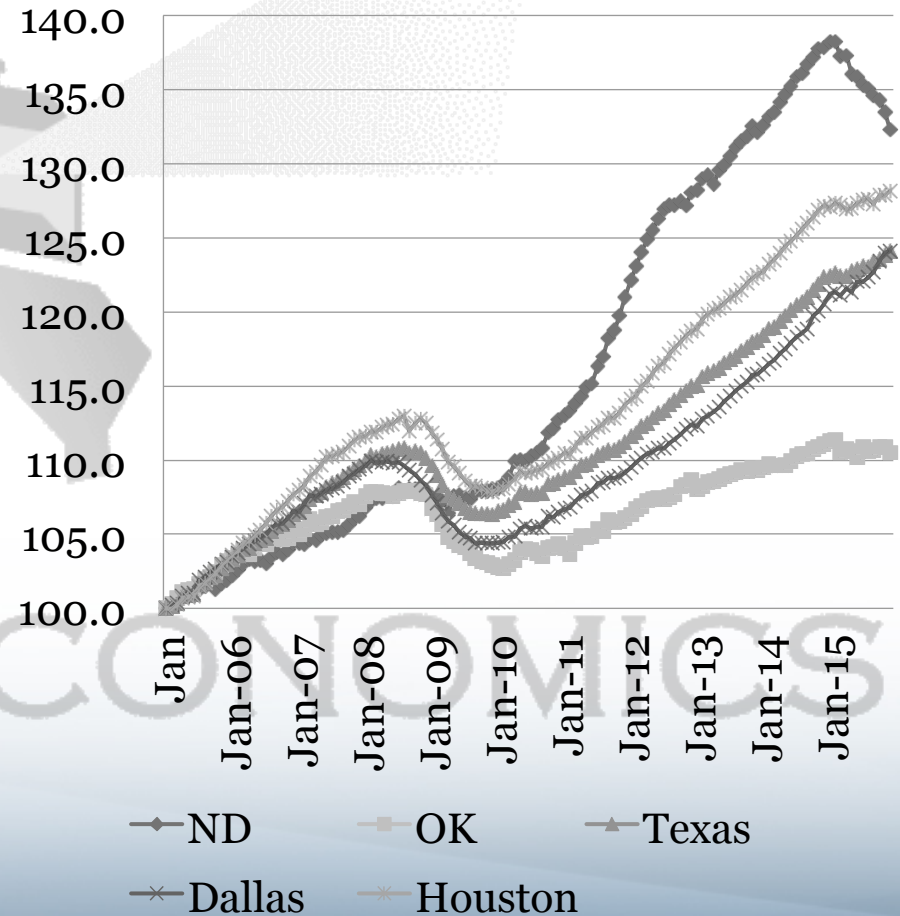
Electricity Consumption



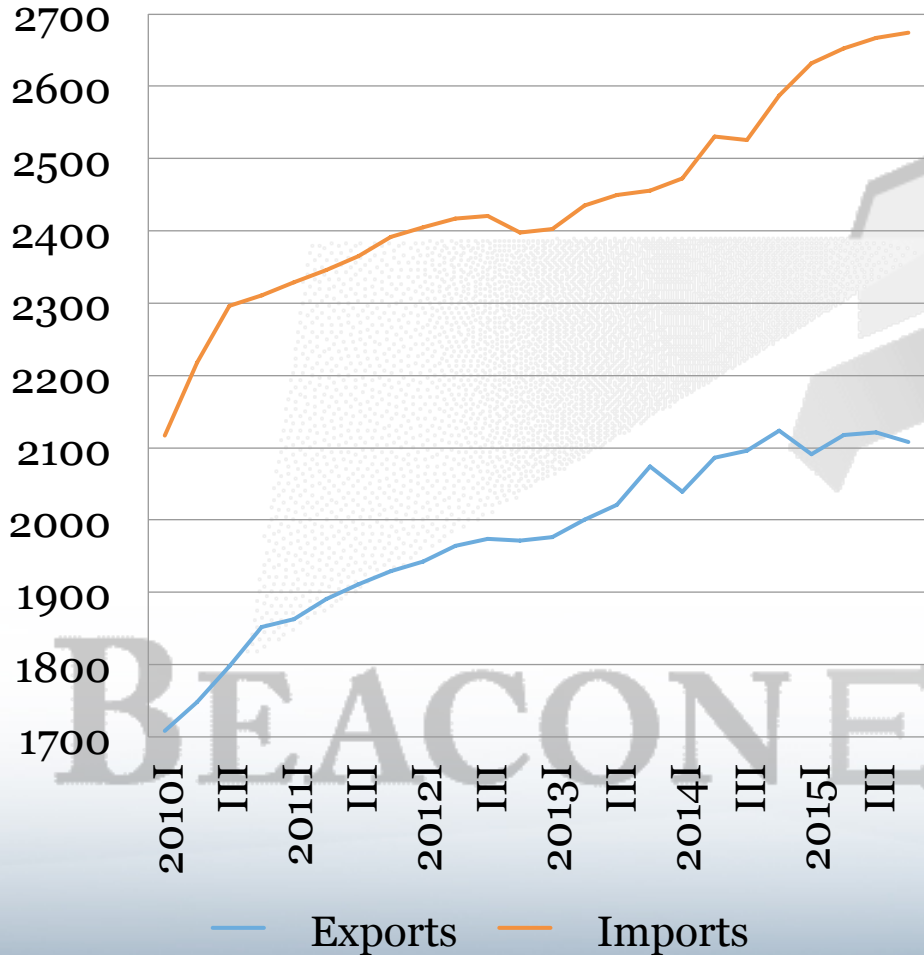
Y-o-Y Change Oil Exploration



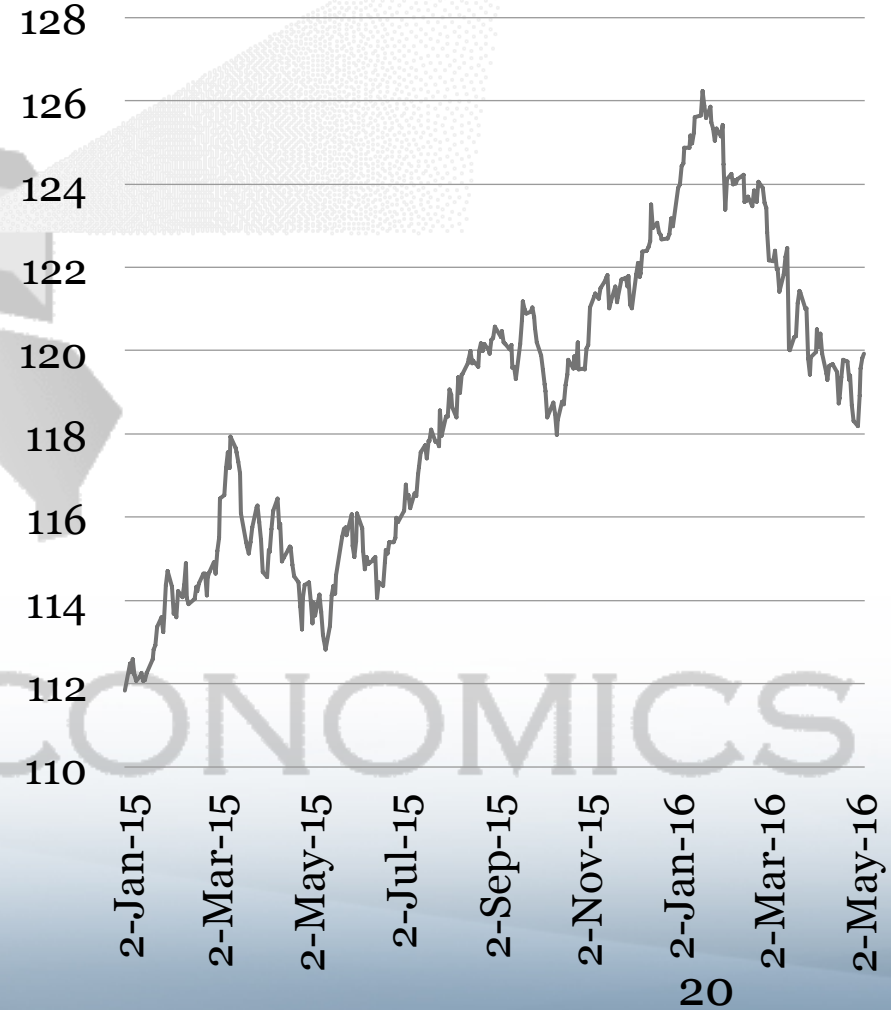
Total Employment Indexes: 2005=100



Real Imports and Exports

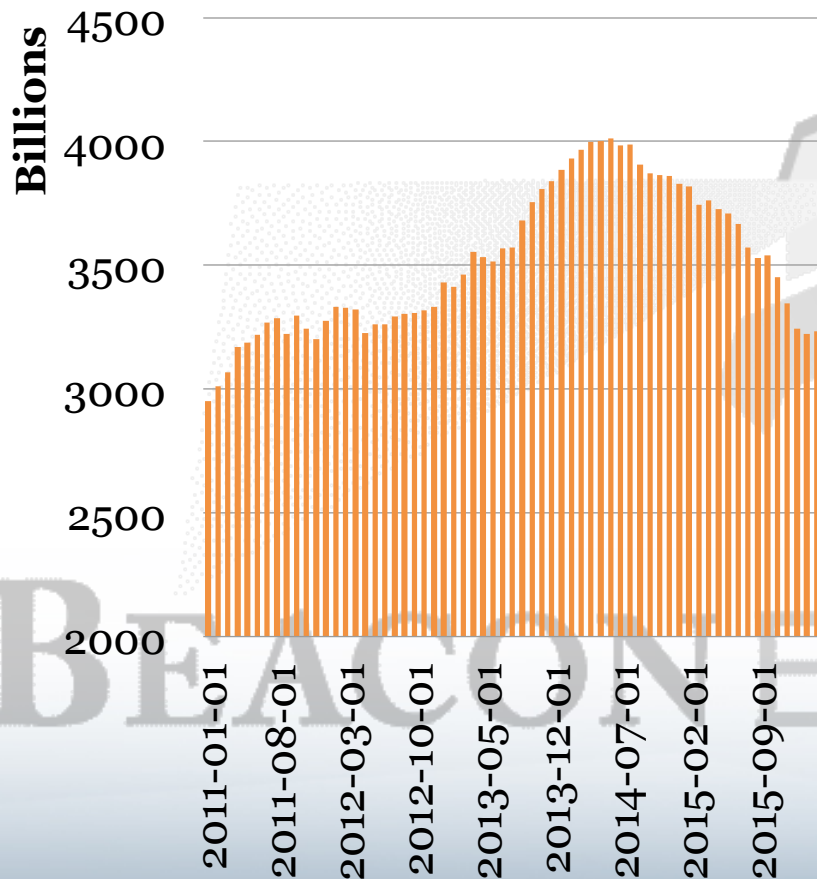


\$US Broad Index

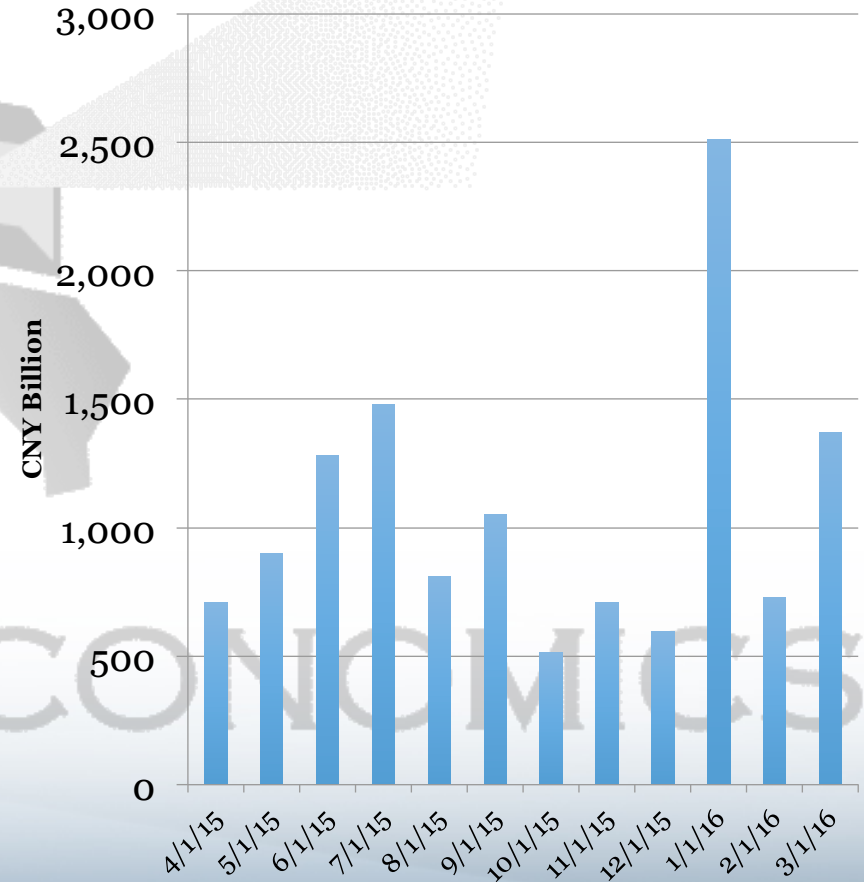


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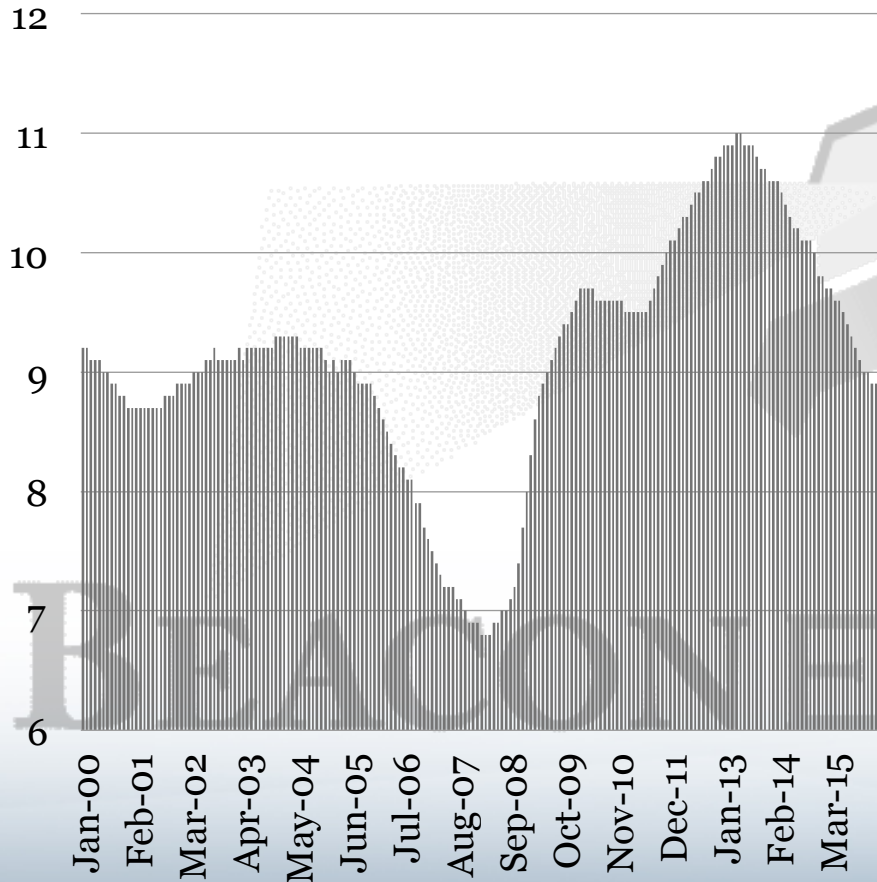
China Foreign Reserves



China New Yuan Loans



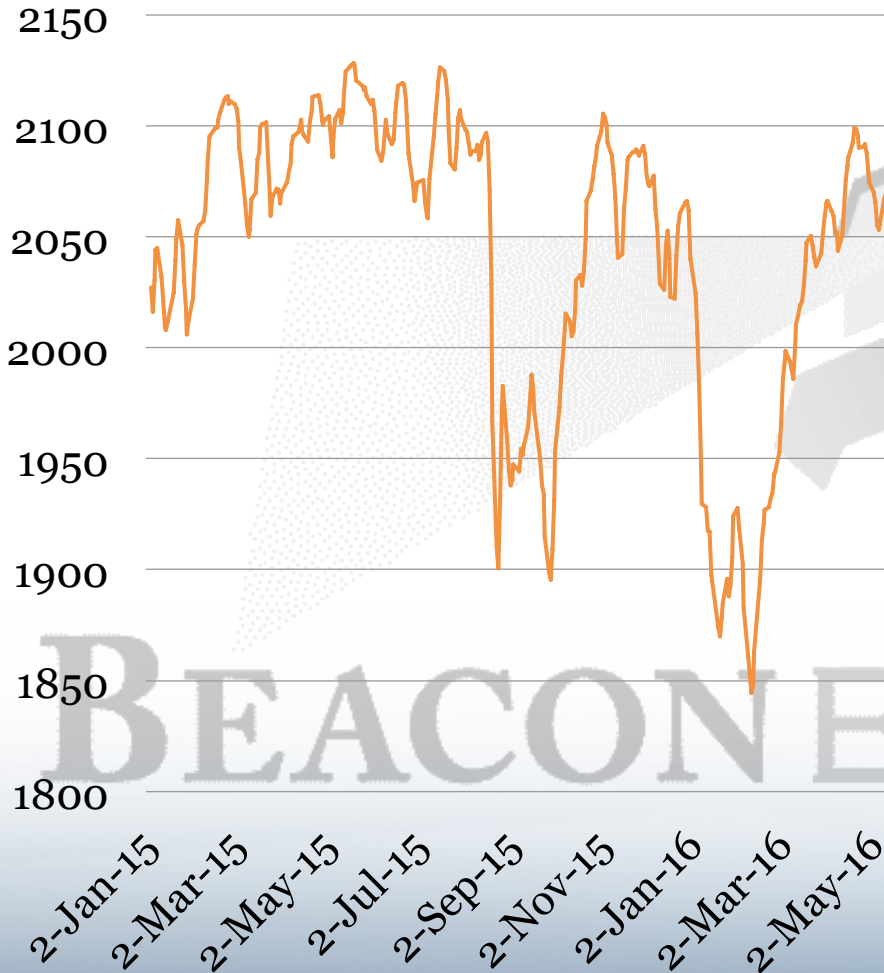
EU Unemployment, SA to Feb



EU Industrial Production Index, SA to Feb



S&P 500 Index

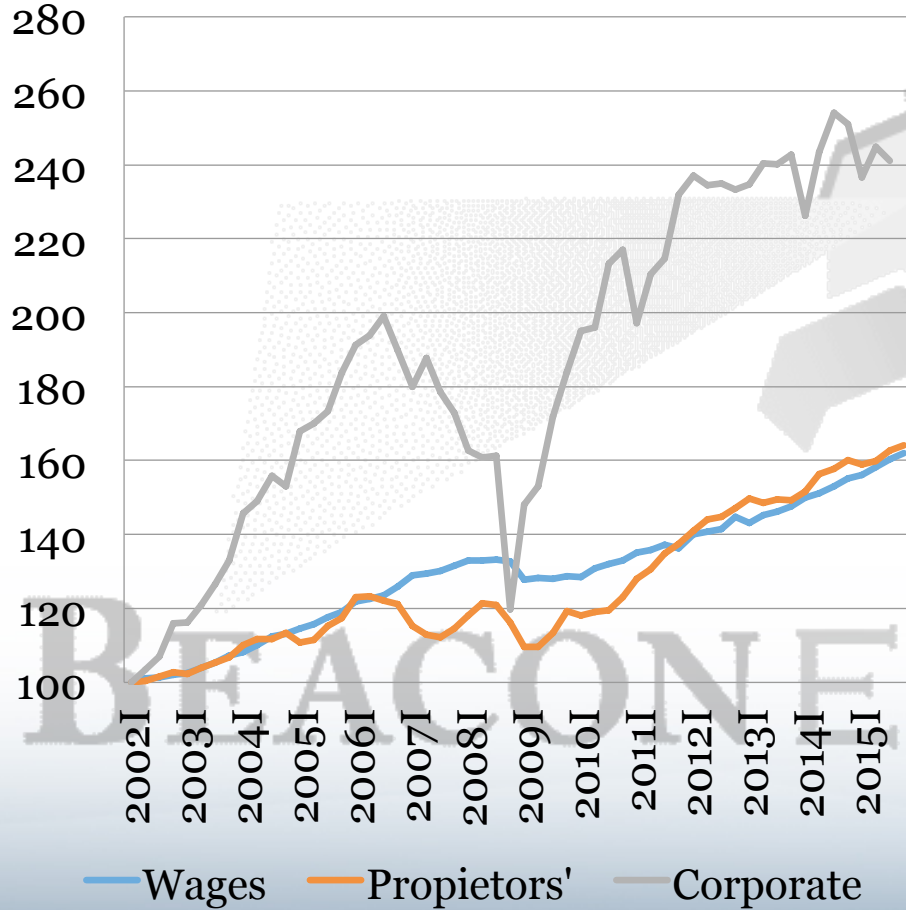


There is No Bubble... (at least not yet)

Why?

1. Asset prices are being driven by fundamentals, not speculation
2. The global savings glut is driving interest rates, not Fed policy
3. Leverage is not a factor
4. The real economy is in balance

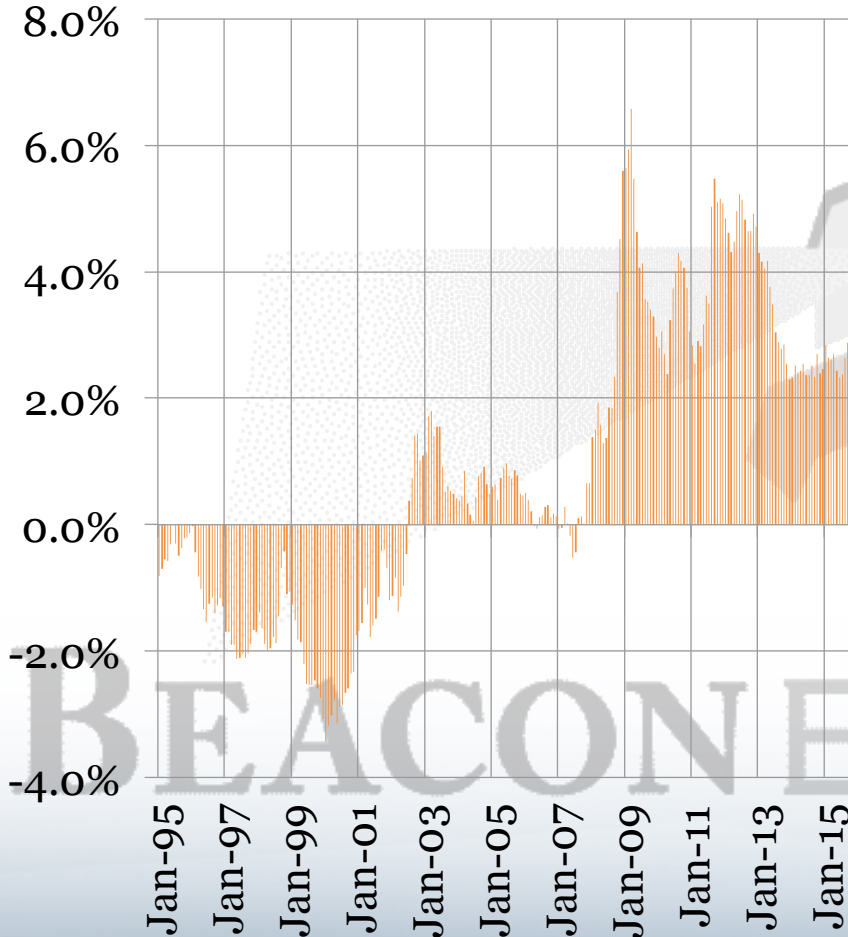
National Income by Type (Index)



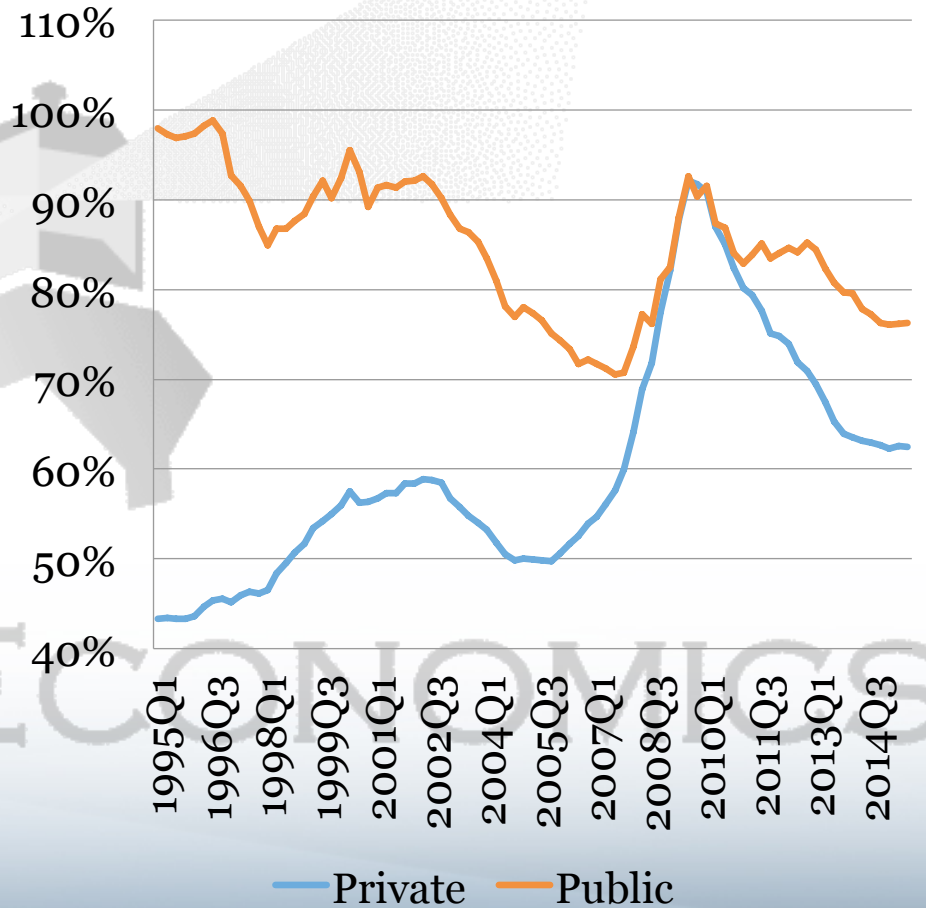
Forward Looking P/E Ratio



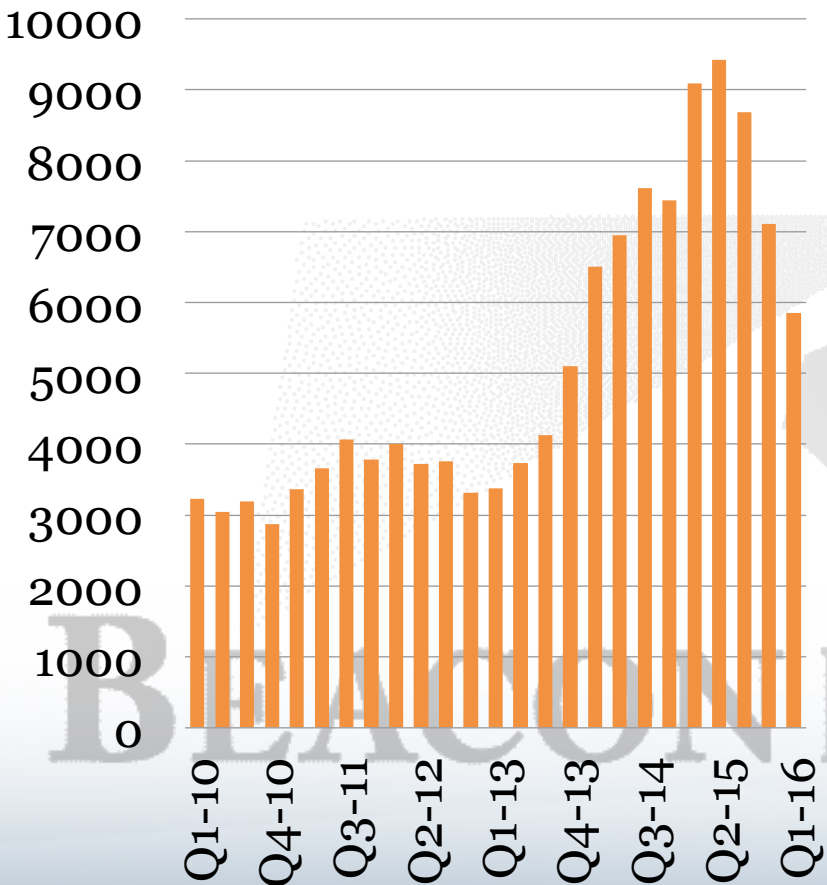
Equity Earnings Spread



**Debt to Equity Ratios (FoF)
Non-Financial Business**



Venture Capital

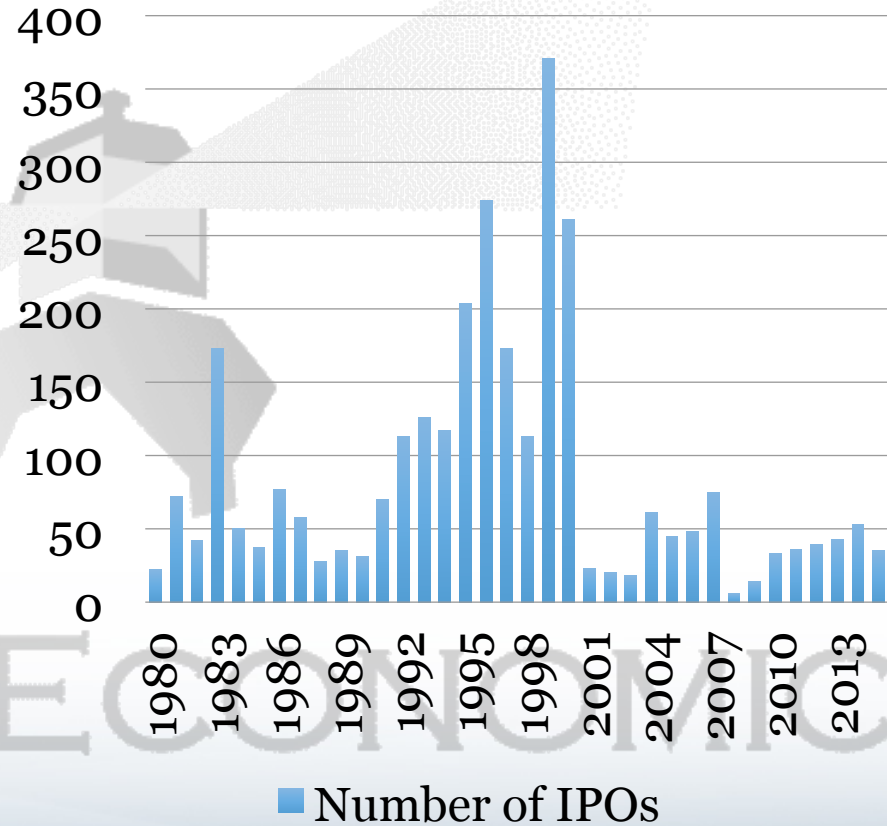


Industry	Q2-15 to Q1-16 (\$M)	YoY (%)
Total	767.4	-20.6
Software	169.8	-55.2
Biotechnology	153.2	-16.5
Industrial Energy	147.2	-28.0
Medical Devices Eq	97.2	129.1
Consumer Products	75.0	70.9
Computers Peripherals	70.0	N/A
Semiconductors	14.8	-74.4
Retailing Distribution	12.9	N/A
Media Entertainment	10.5	397.6
Electronics Instrument	10.1	68.3

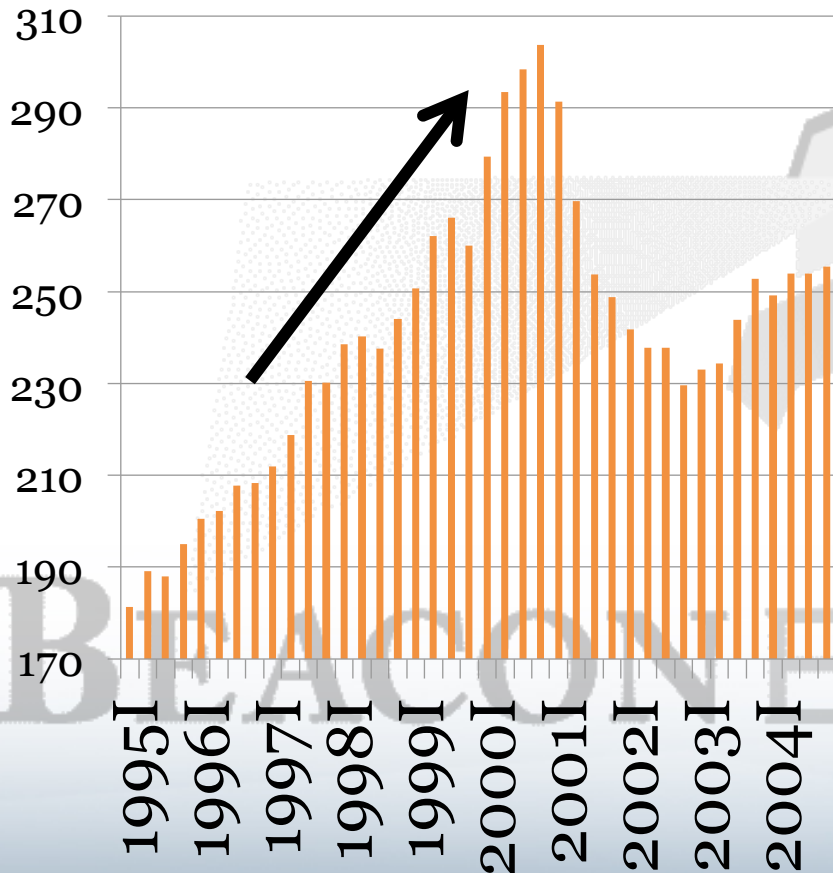
Tech P/Es



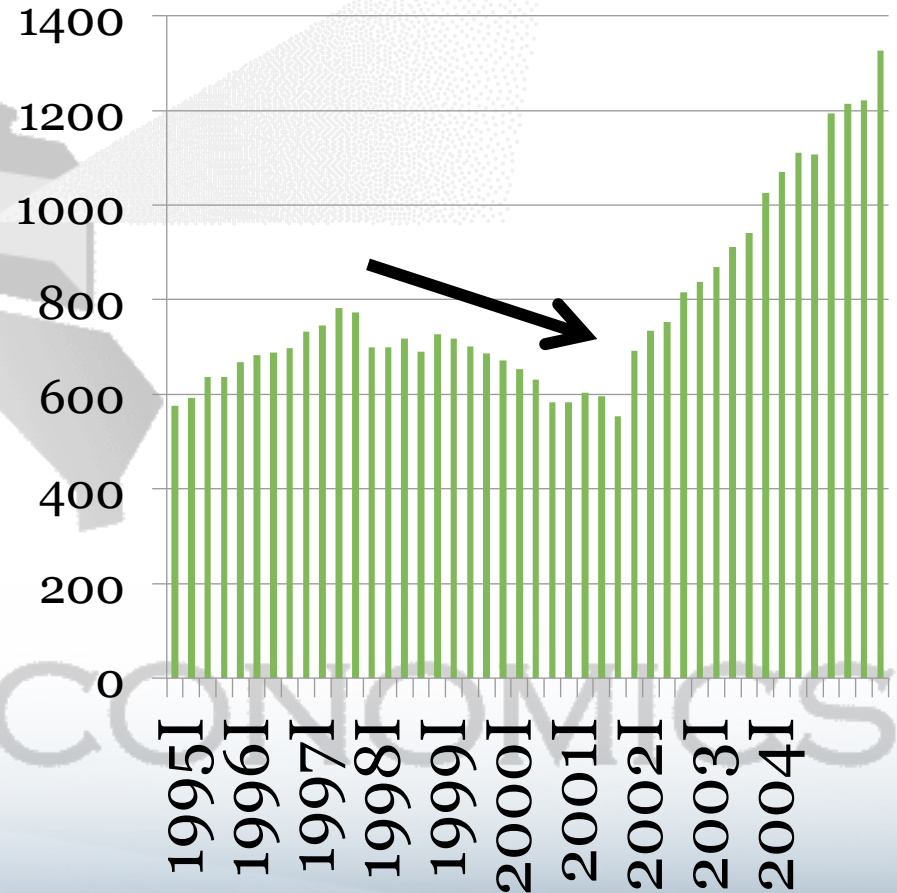
Tech IPOs



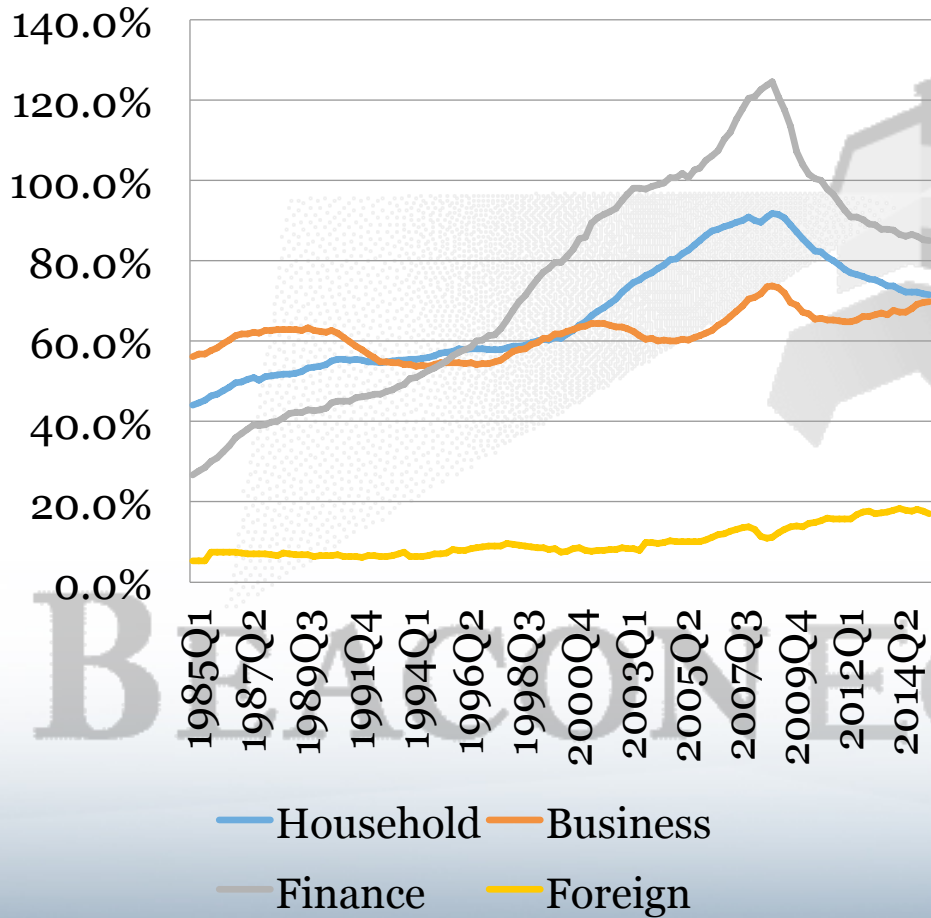
Investment: Information processing equipment



Corporate profits



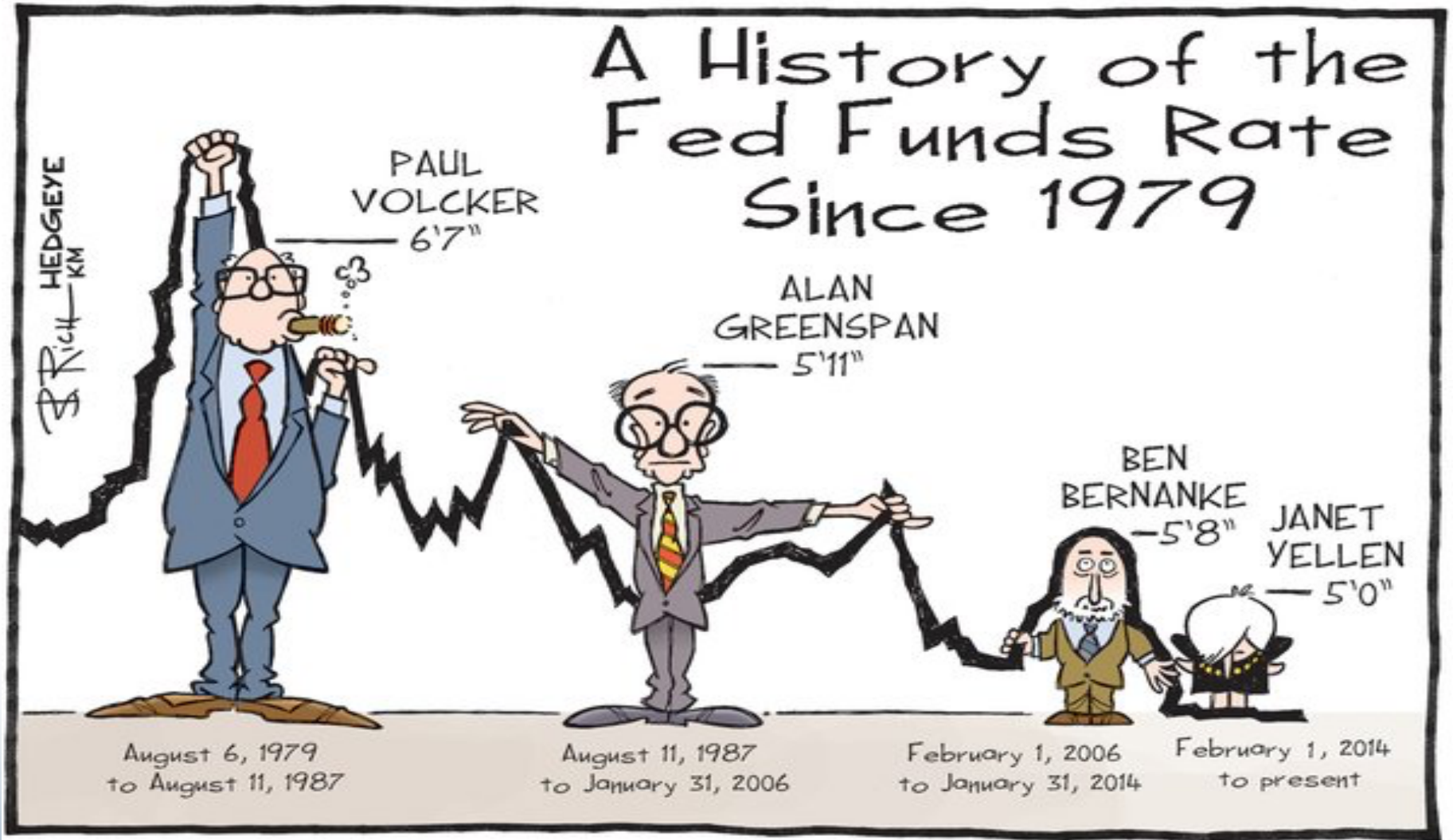
Debt Outstanding as % GDP to Q3



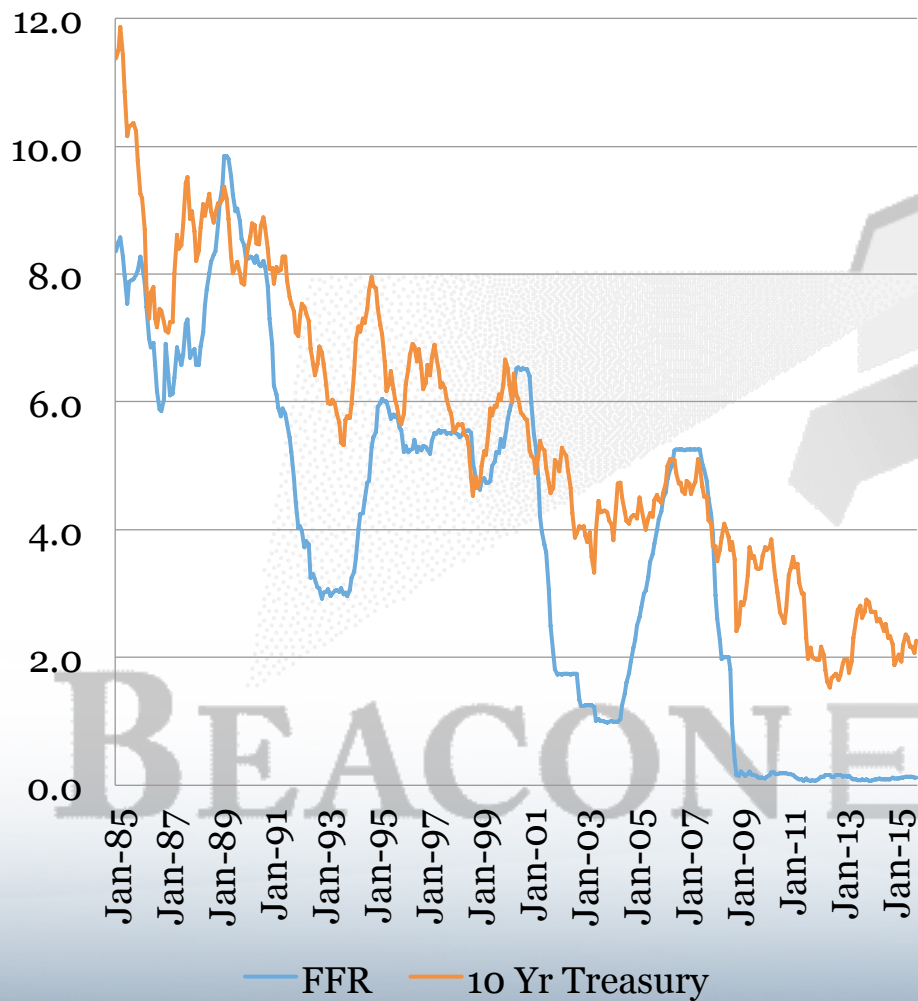
M2 Growth (3 Year)



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Interest Rates



Spread



2016 Best & Worst States For Business

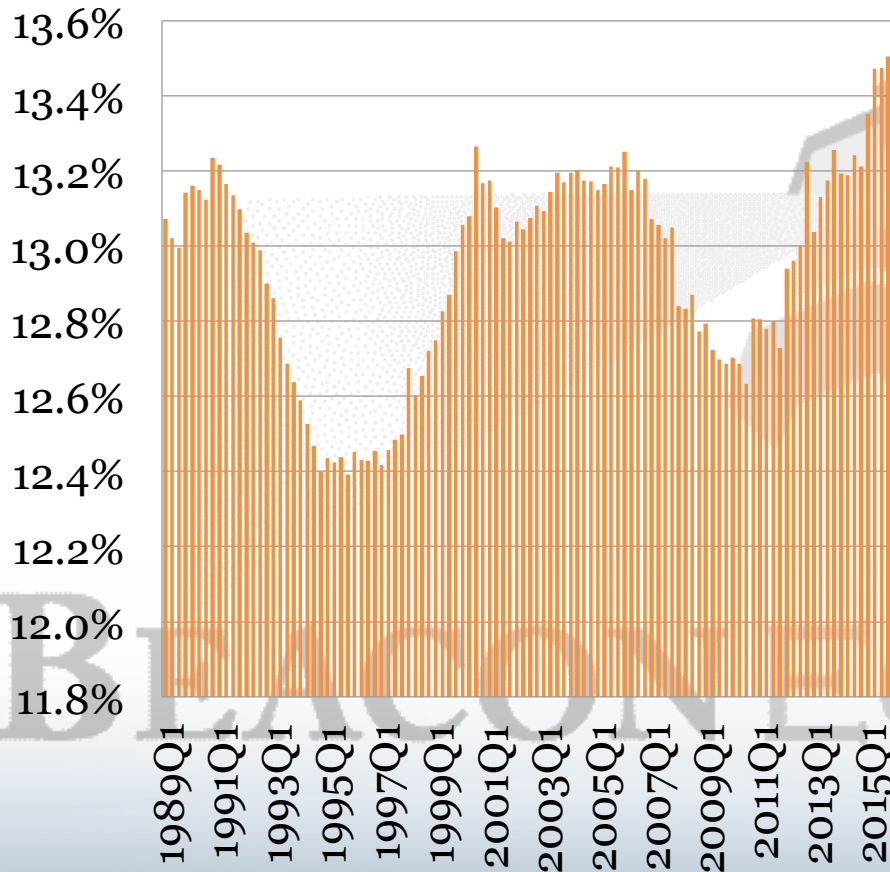
- 50 [California](#)
- 49 [New York](#)
- 48 [Illinois](#)
- 47 [New Jersey](#)
- 46 [Massachusetts](#)
- 45 [Connecticut](#)
- 44 [Hawaii](#)
- 43 [Michigan](#)
- 42 [Oregon](#)
- 41 [Vermont](#)
- 40 [Maryland](#)
- 39 [Mississippi](#)
- 38 [West Virginia](#)
- 37 [Rhode Island](#)



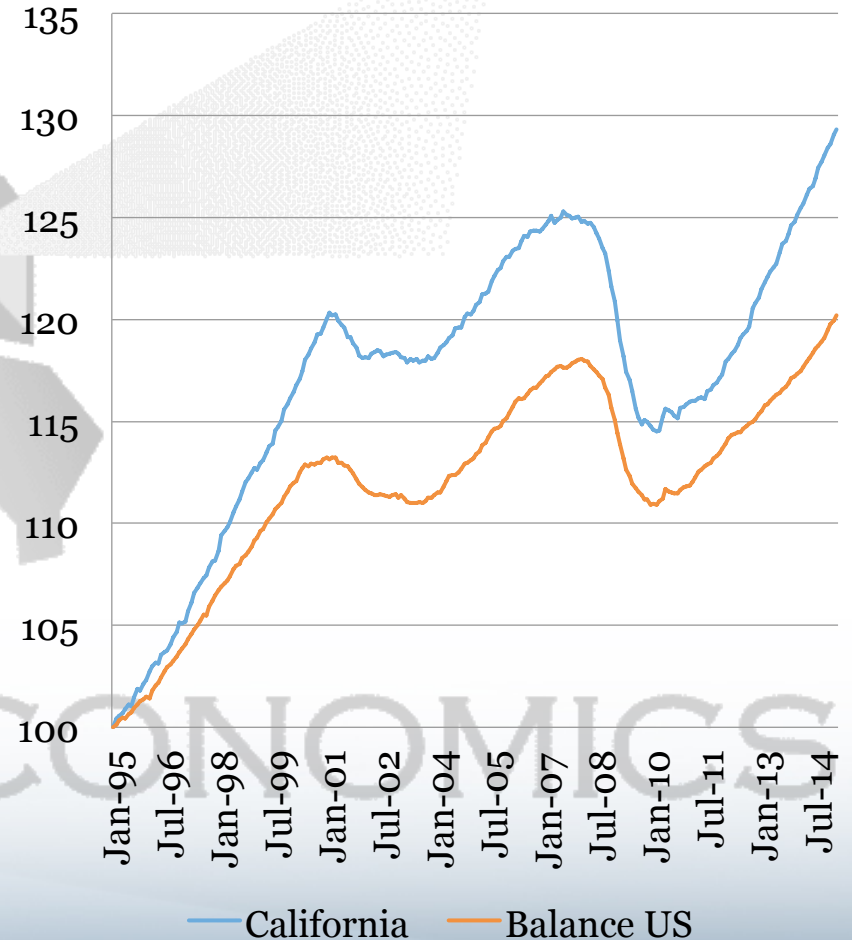
Payroll Job Growth by State: 2015 to 2016

Stars		Solid Growth		Slower Growth		In Decline	
Idaho	24.0 3.6%	Hawaii	15.8 2.5%	Ohio	88.7 1.7%	Montana	2.2 0.5%
Oregon	59.2 3.4%	North Carolina	98.7 2.4%	Wisconsin	44.3 1.6%	New Mexico	1.5 0.2%
Utah	44.8 3.3%	Arkansas	27.4 2.3%	Texas	180.5 1.5%	Alaska	-0.3 -0.1%
Tennessee	92.0 3.2%	Michigan	91.9 2.2%	Mississippi	17.0 1.5%	Kansas	-3.6 -0.3%
Washington	98.2 3.2%	Maryland	52.8 2.0%	New York	134.3 1.5%	Oklahoma	-5.7 -0.3%
Florida	252.9 3.1%	New Hampshire	12.3 1.9%	DC	11.1 1.5%	Louisiana	-18.5 -0.9%
Arizona	81.9 3.1%	Massachusetts	64.0 1.9%	Minnesota	39.0 1.4%	West Virginia	-8.0 -1.0%
Georgia	127.5 3.0%	Rhode Island	8.8 1.9%	Nebraska	13.7 1.4%	Puerto Rico	-10.7 -1.2%
Colorado	71.4 2.8%	Kentucky	33.8 1.8%	Indiana	39.6 1.3%	Wyoming	-9.4 -3.3%
California	446.9 2.8%	Vermont	5.6 1.8%	Illinois	74.0 1.3%	North Dakota	-20.1 -4.4%
Nevada	33.8 2.7%	New Jersey	69.5 1.8%	Alabama	23.5 1.2%		
Virginia	101.7 2.7%			Maine	6.5 1.1%		
Delaware	11.6 2.7%			Pennsylvania	63.7 1.1%		
South Carolina	51.4 2.6%			Iowa	16.7 1.1%		
				South Dakota	4.4 1.0%		
				Missouri	27.3 1.0%		
				Connecticut	15.3 0.9%		

CA Share of National Personal Income



Index Payroll Employment



Economic Summit

	Feb-16	Chg	Gr.
Total Nonfarm	16,310.0	451.6	2.8%
Health Care	2,157.3	84.6	4.1%
Accommodation	1,584.5	64.6	4.3%
Construction	760.7	53.8	7.6%
Prof Sci Tech	1,228.3	40.6	3.4%
Retail Trade	1,682.6	31.5	1.9%
Local Gov	1,721.8	27.4	1.6%
Admin Support	1,065.2	22.3	2.1%
Information	499.0	22	4.6%
Logistics	561.9	21.8	4.0%

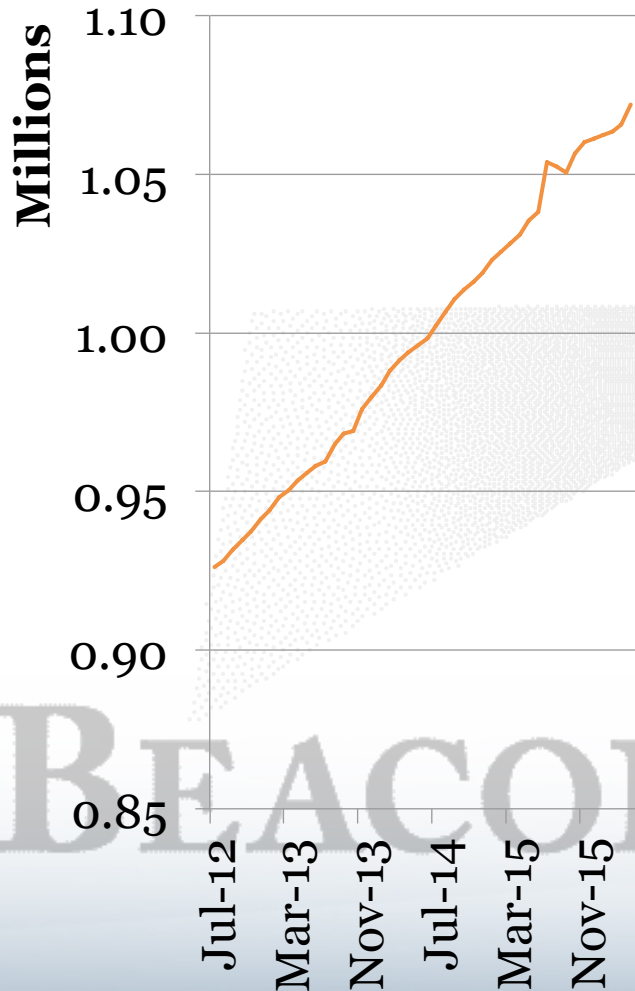
	Feb-16	Chg	Gr.
Education	359.4	18.1	5.3%
Entertainment	301.1	17.3	6.1%
Wholesale Trade	731.5	17	2.4%
Other Services	551.9	11.4	2.1%
State Gov	514.2	9.9	2.0%
Real Estate	273.2	4.7	1.8%
Management	232.4	3.9	1.7%
Finance	525.4	3.5	0.7%
Federal Gov	245.5	2.3	0.9%
Durable Manu	808.2	0.8	0.1%
Non-Durable Ma	478.4	-3.2	-0.7%

Economic Summit

	Feb-16	Ch	#	Un Rt
California	16,310	2.8%	451.6	5.5%
San Francisco	1,076	4.0%	41.4	3.1%
Santa Cruz	100	3.8%	3.7	7.1%
Stockton	223	3.8%	8.1	8.1%
Salinas	135	3.7%	4.8	7.7%
San Jose	1,063	3.6%	37.4	3.8%
Vallejo	135	3.4%	4.4	5.4%
Inland Empire	1,370	3.3%	44.1	5.8%
Modesto	169	3.2%	5.2	8.6%
Visalia	120	3.0%	3.5	10.9%
Sacramento	929	2.8%	25.3	5.2%

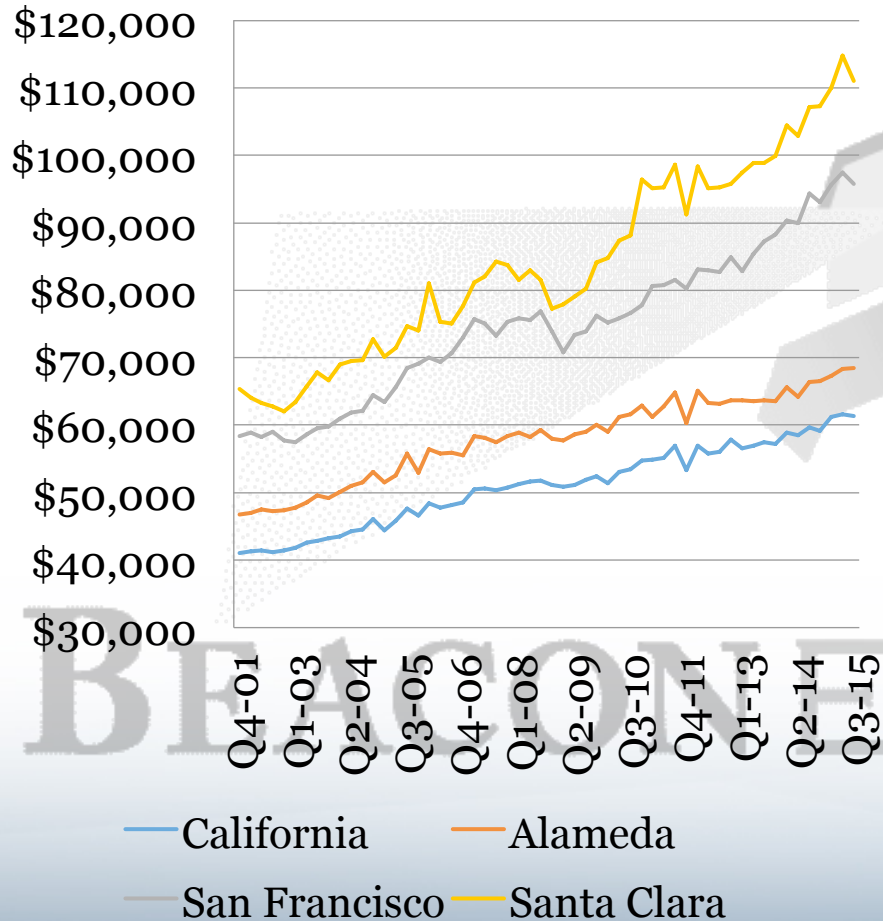
	Feb-16	Ch	#	Un Rt
San Diego	1,407	2.8%	37.8	4.6%
SLO	116	2.7%	3.1	4.2%
Fresno	328	2.7%	8.6	9.4%
East Bay	1,111	2.7%	29.0	4.3%
Santa Rosa	200	2.7%	5.2	4.0%
Orange County	1,565	2.7%	40.6	4.0%
Los Angeles	4,338	2.4%	100.4	5.6%
Santa Barbara	183	2.3%	4.1	5.0%
Chico	78	1.8%	1.4	6.7%
Bakersfield	261	1.2%	3.0	9.8%
Ventura	297	1.0%	3.0	5.1%

Economic Summit



	Apr-16			
Unemployment Rate		4.1%	3.7%	
Total, All Industries	1,078,700	38,400	42,000	3.9%
Construction	46,100	4,400	3,900	10.4%
Manufacturing	161,600	2,700	1,900	1.5%
Computer	48,900	3,800	4,200	9.3%
Semiconductor	41,900	-1,300	-400	-2.0%
Trade, Transportation	140,000	1,300	2,900	1.5%
Information	78,600	8,900	6,100	11.2%
Financial Activities	34,800	500	-100	0.6%
Professional, Scientific	147,900	9,400	8,000	6.5%
Computer Systems	71,500	6,500	3,300	7.6%
Management	13,000	900	700	6.8%
Administrative	64,300	2,800	4,600	6.3%
Educational & Health	163,000	5,300	6,900	4.0%
Leisure & Hospitality	100,400	4,100	5,200	5.0%
Government	95,900	-2,100	1,100	-0.5%

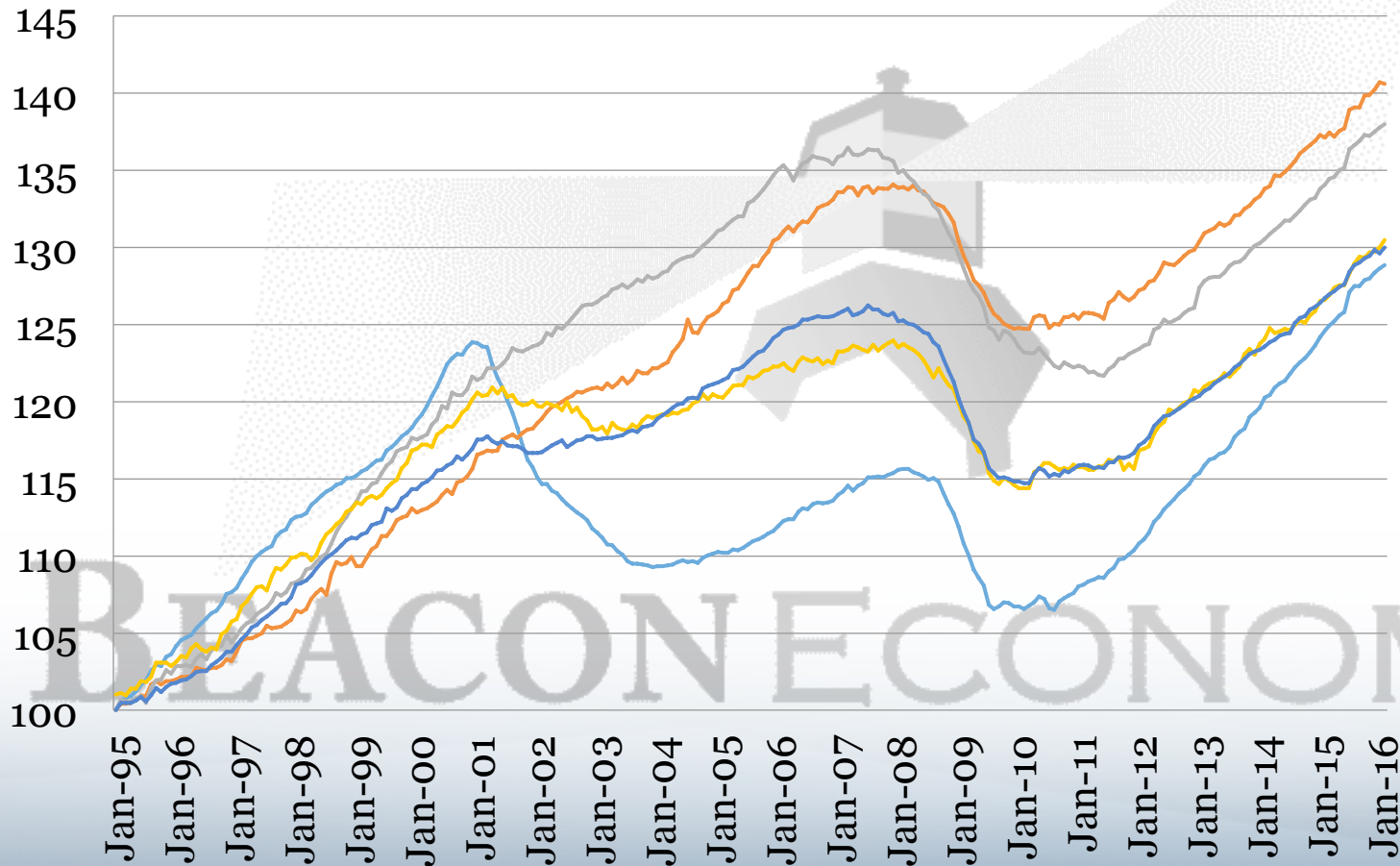
Avg Annual Income



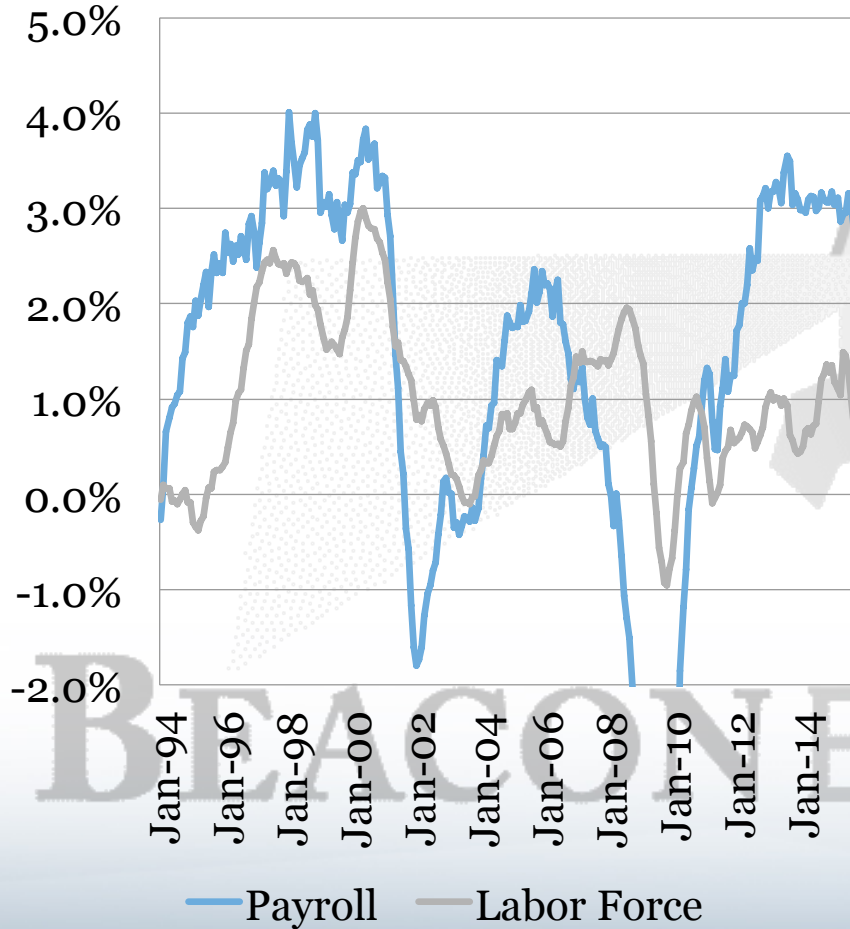
South Bay Sales Tax Receipts by Category

Category	2015 YTD (\$M)	Change (%)
Autos & Transp.	53.5	8.3
Building and Const.	31.6	6.1
Business & Industry	99.5	3.1
Food & Drugs	16.4	2.4
Fuel & Serv. Stations	25.8	-11.3
General Consumer Goods	80.3	2.0
Restaurants & Hotels	46.6	8.5
Total	419.6	4.2

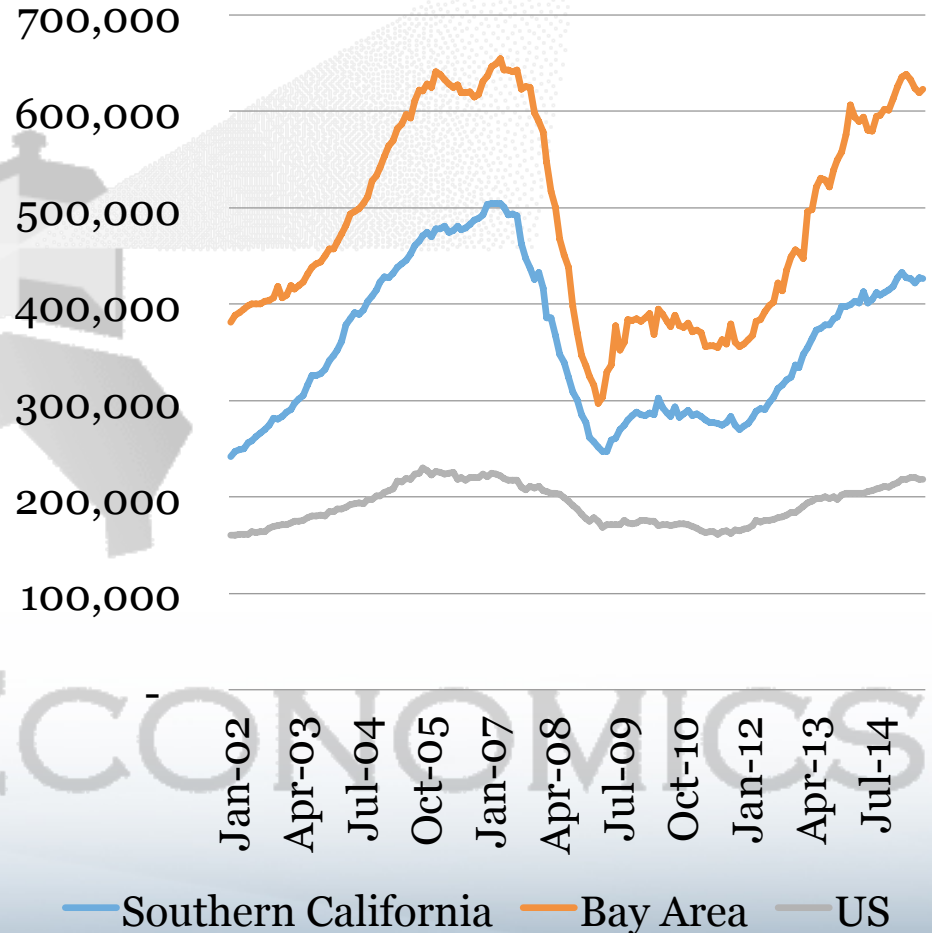
Employment Index by Region 1995=100



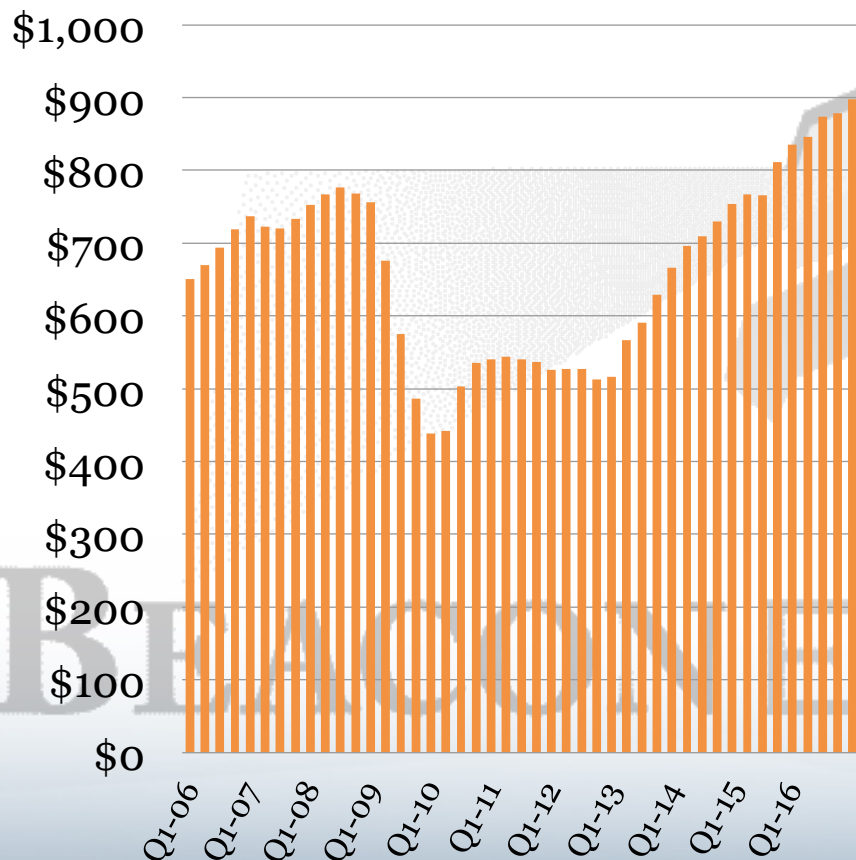
Workforce Trends



Median Home Prices



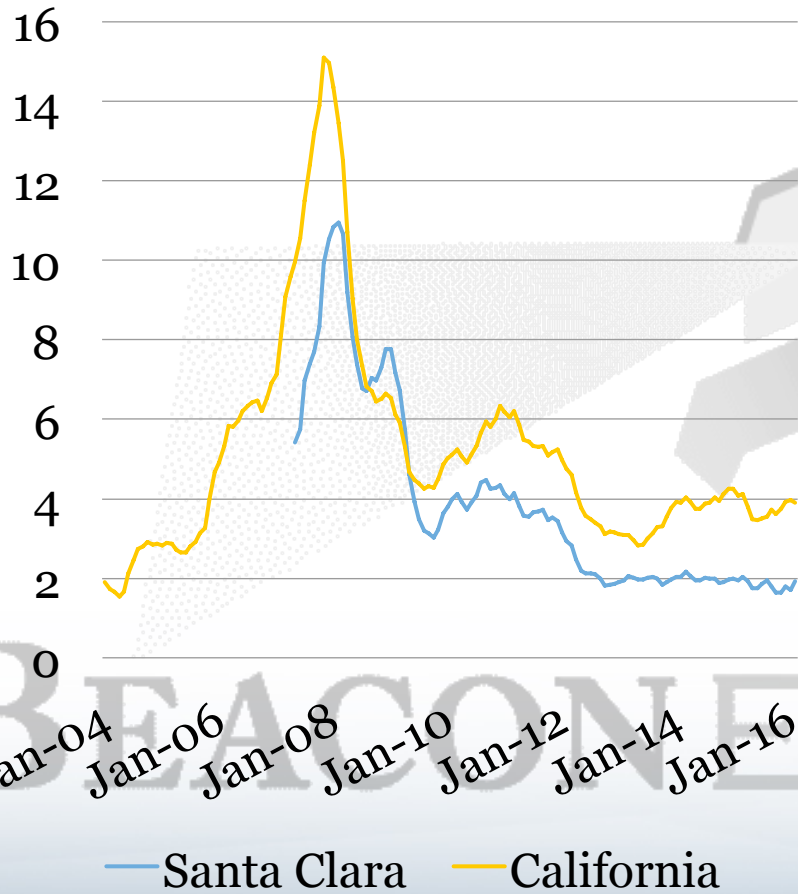
South Bay Real Estate



Residential Real Estate Median Prices

City	2016	Year over year (%)
Sunnyvale	1,490,702	21.9
Santa Clara	1,043,312	17.2
San Jose	822,100	10.5
South Bay	897,303	7.4

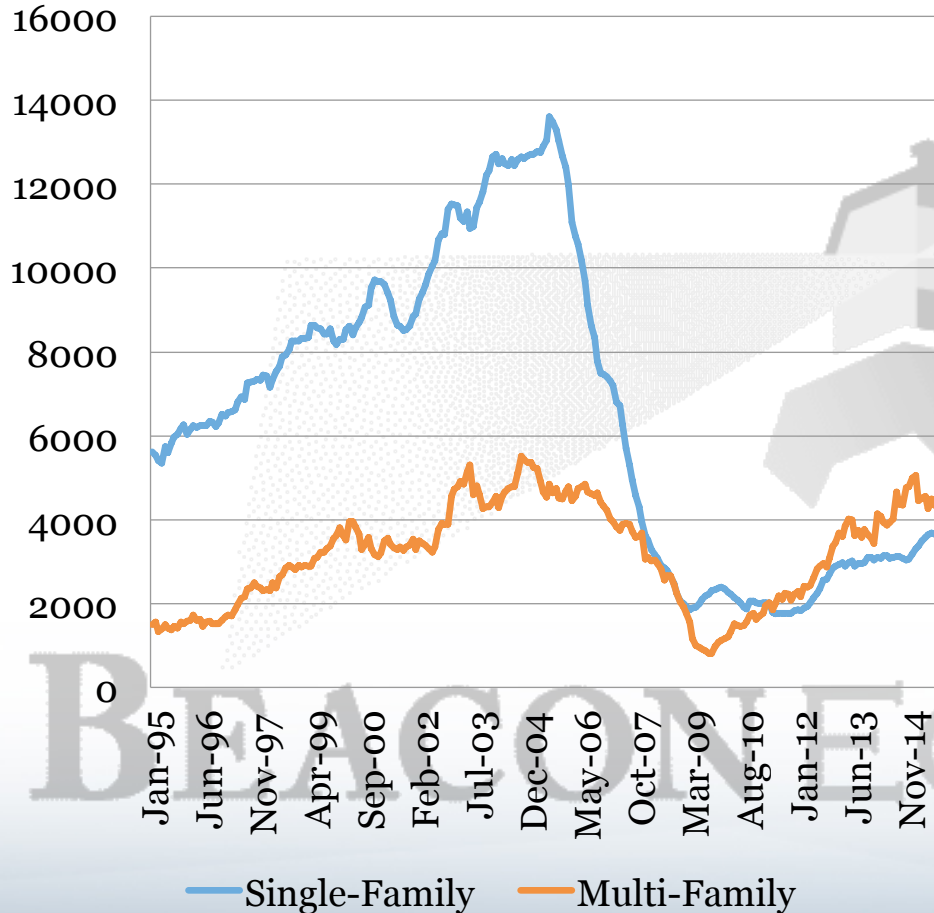
Housing Inventory



CA Housing Affordability



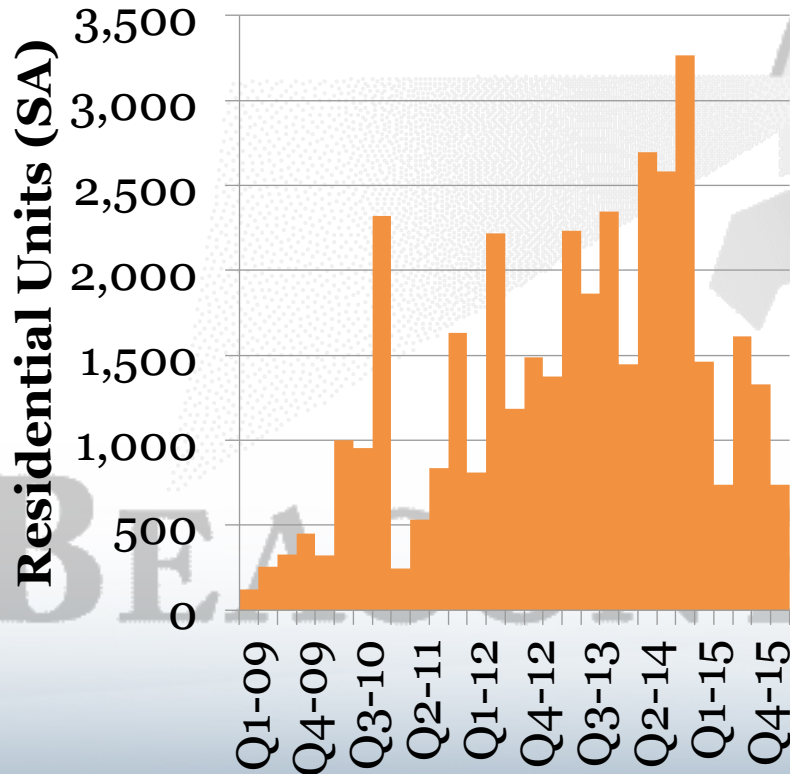
California Permits



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

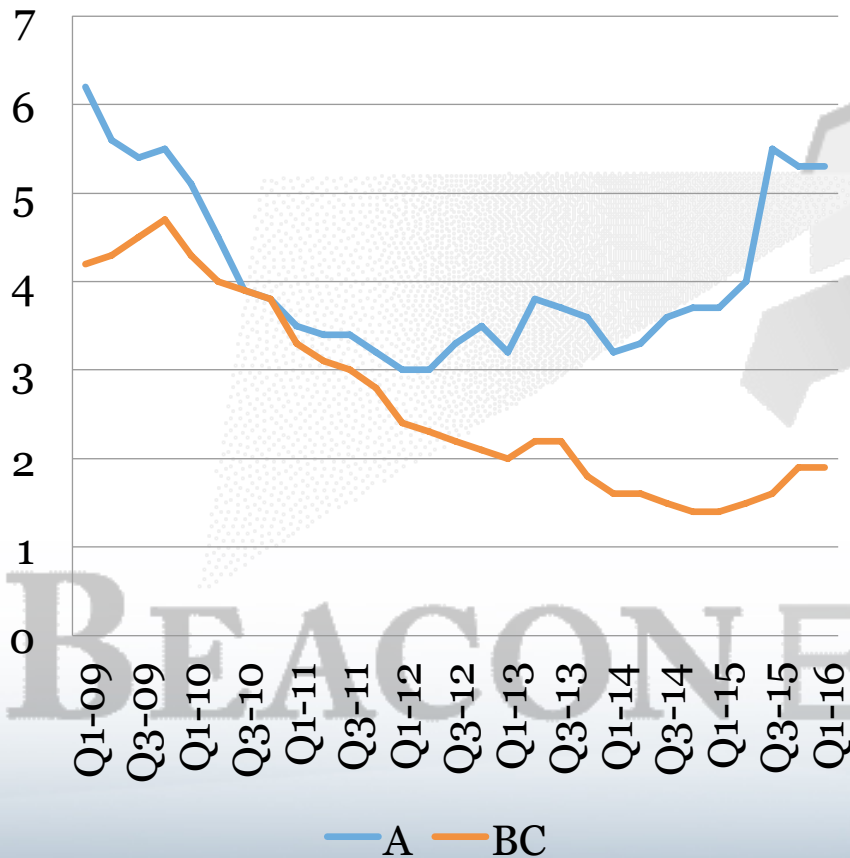
South Bay Residential Permits



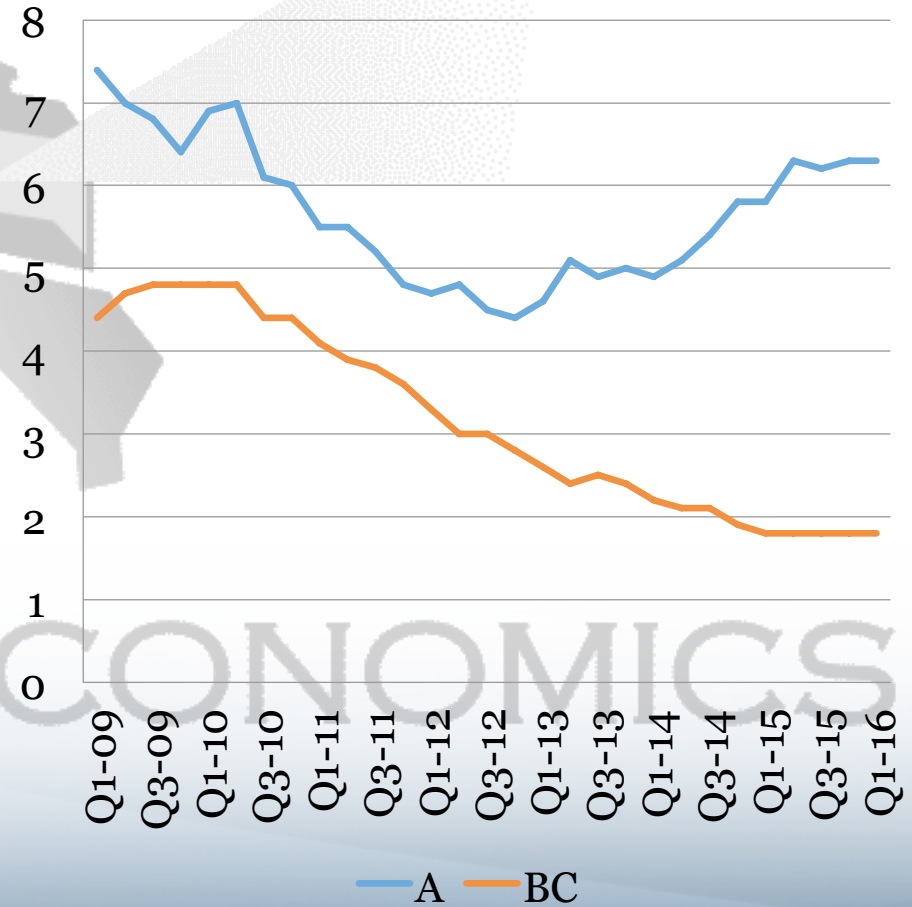
South Bay Residential Building Permits

Permit Type	2016 YTD	Change (%)
Single-Family	447	-4.5
Multi-Family	294	-70.4
Total Residential	741	-49.3

San Jose Vacancy rates



Los Angeles Vacancy Rates



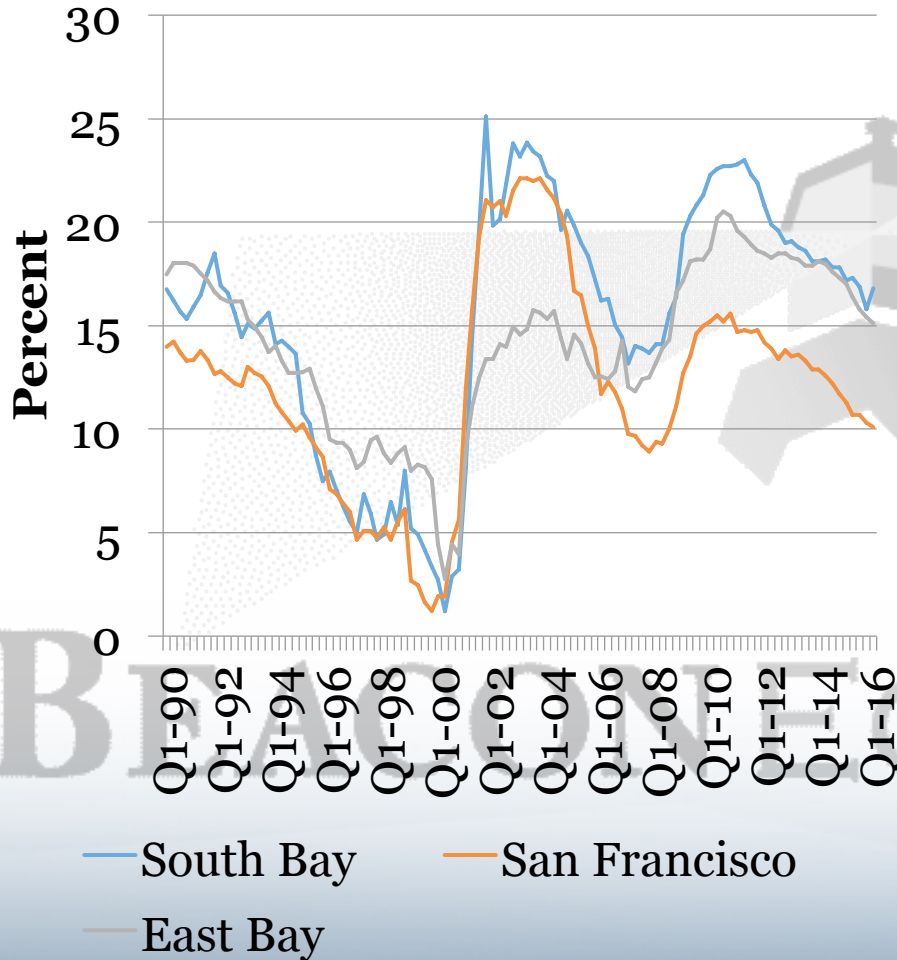
Apartments

Share Renters with > 30% of Income on Rent

	2010	2014		2010	2014
Los Angeles	59.2%	60.1%	San Diego	58.8%	56.7%
Riverside	62.7%	59.8%	Sacramento	58.7%	54.5%
Santa Barbara	56.7%	58.4%	Alameda	53.7%	51.4%
Fresno	57.0%	58.3%	Santa Clara	47.7%	49.2%
Orange	58.3%	58.0%	San Francisco	46.2%	42.5%

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Office Vacancy Rates



South Bay Nonresidential Building Permit Values by Type

Permit Type	2016 YTD (\$M)	Change (%)
New Commercial	1,170	230
Office	1,073	1,286
Retail	29	-59
Hotel	62	-
Other Nonres.	59	-50
Nonres. Alts./Adds.	462	14
Total Nonres.	1,691	91

What not to worry about.

- The US Dollar
- Student Debt
- Asset Bubbles
- Labor Markets
- California Business
- California Tax Levels
- Politics

What to worry about.

- China
- Educational Choices
- Bad financial regulation
- Growing Wealth Inequality
- California Housing
- California Tax Structure
- A lack of engagement

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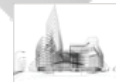
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