BEACON ECONOMICS

Analysis. Answers

The Economic Outlook

Focus on San Jose

June 2017

Christopher Thornberg

Founding Partner, Beacon Economics

Director, UC Riverside Center for Forecasting and Development

San José State UNIVERSITY

BridgeBank

Forecasting 101

Donald Trump Is Elected President in Stunning Repudiation of the Establishment

By MATT FLEGENHEIMER and MICHAEL BARBARO NOV. 9, 2016

The Victory of Miserabilism

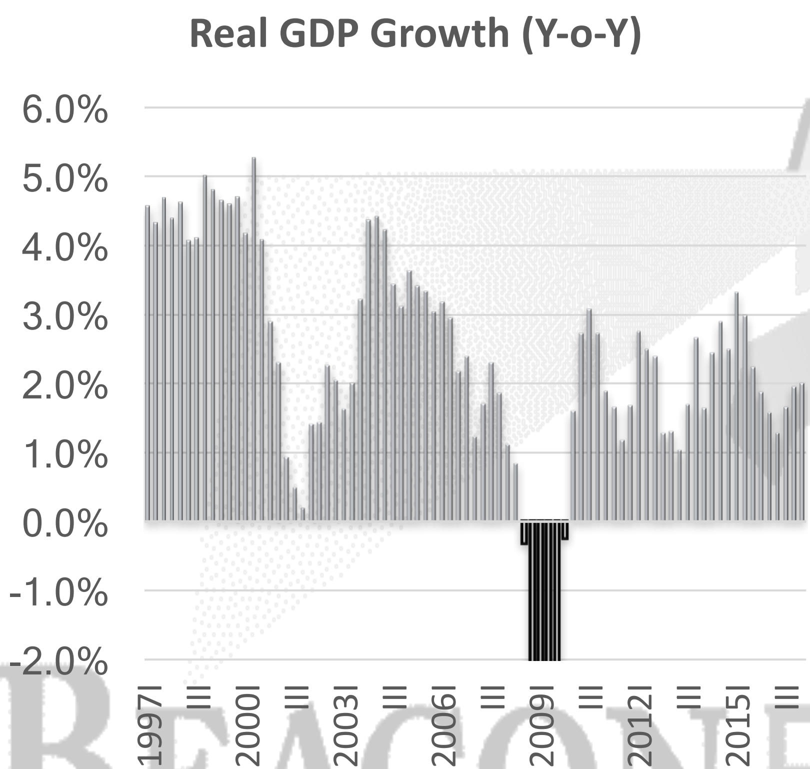
If it ain't broke… don't fix it

- US GDP is growing slow, but it is growing
- Fundamentals are fine, no chance of recession (for now)
- 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

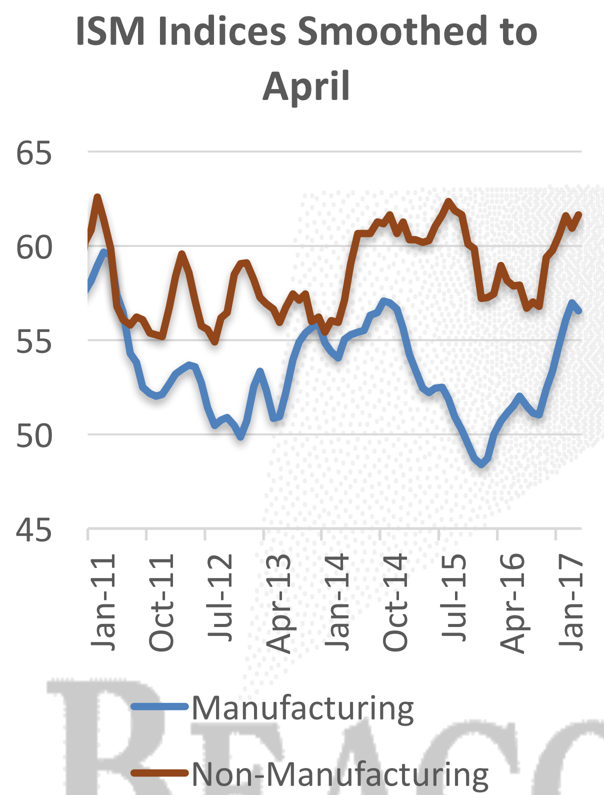
- Slow growth due to self-inflected wounds / political gridlock
- The global commodity glut
- State and Local budgets still stressed, decaying Infrastructure
- Health cost inflation
- Underfunded pensions and entitlements
- An under-performing housing market / bad financial regulations (Dodd-Frank)
-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

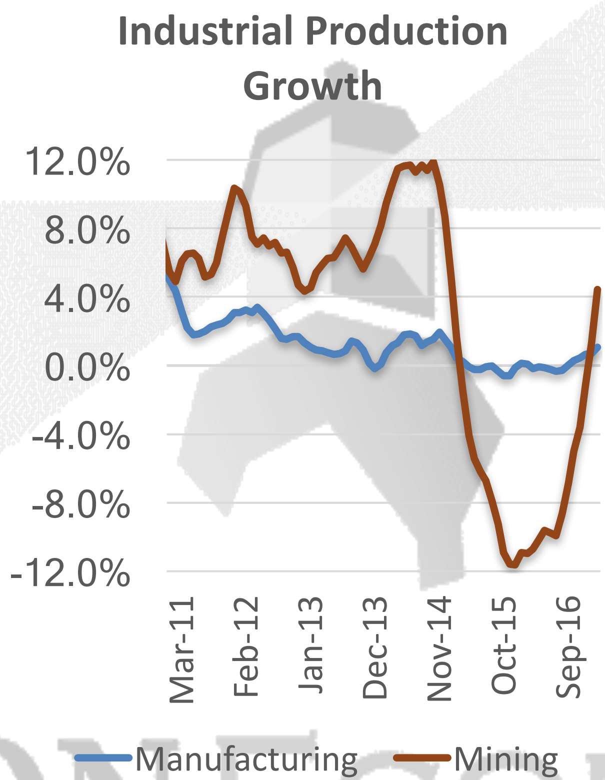
GDP: Accelerating Despite Weak Start



	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

Production Activities

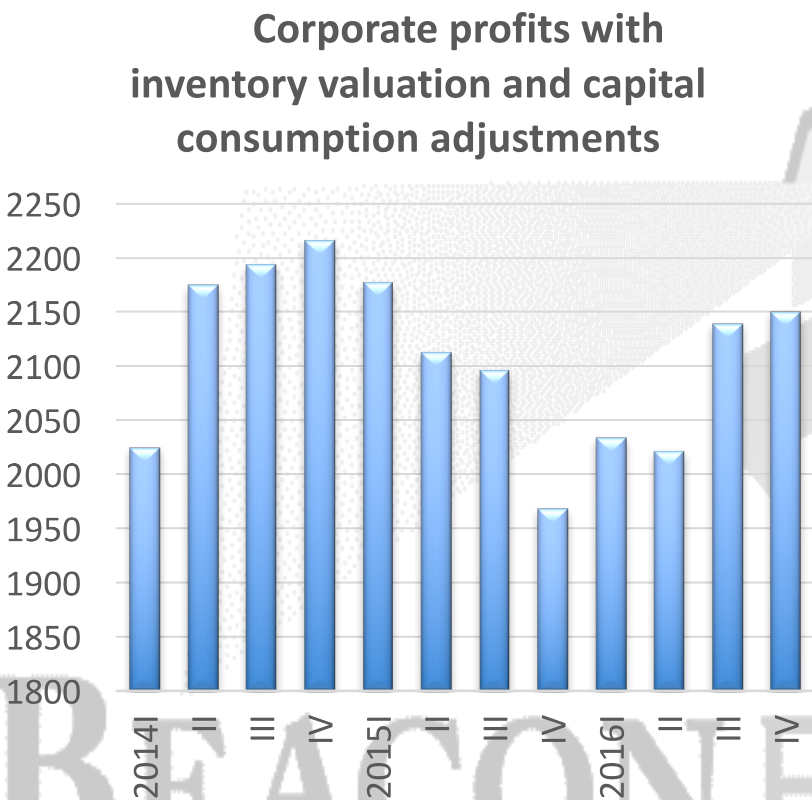




Industrial Production Growth Rates (yoy)

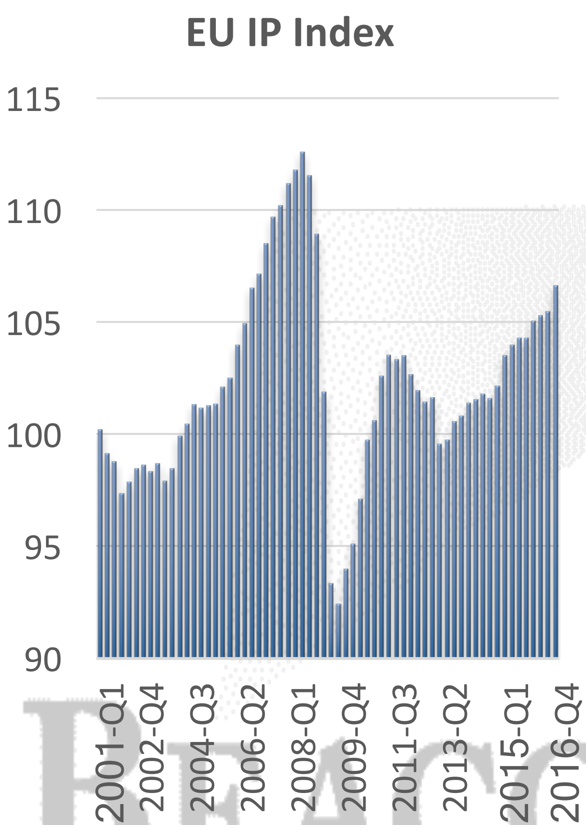
Sector	Share 17	15-16	16-17
Total IP	100.0	-2.7	2.2
Information processing	2.2	0.2	5.4
Industrial and other	5.3	-6.8	1.4
Equipment parts	5.1	-5.1	1.6
Energy	17.2	-7.1	4.2

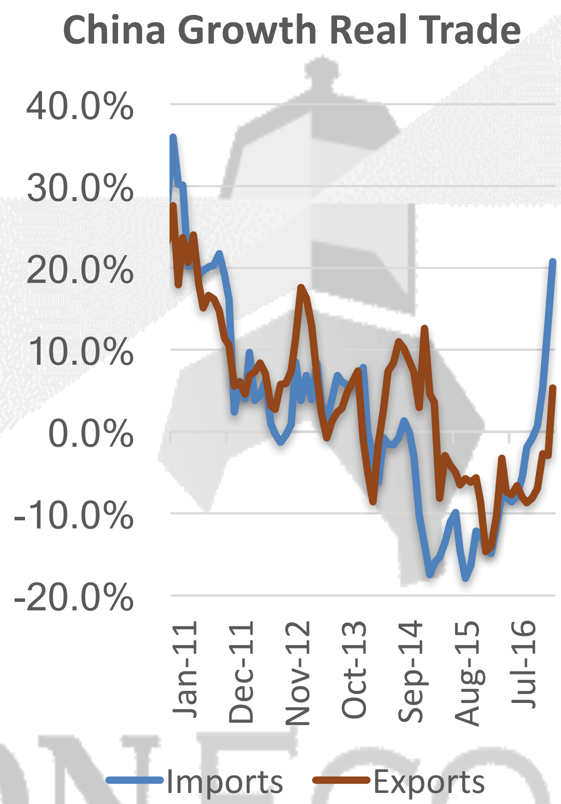
Profits and Investments

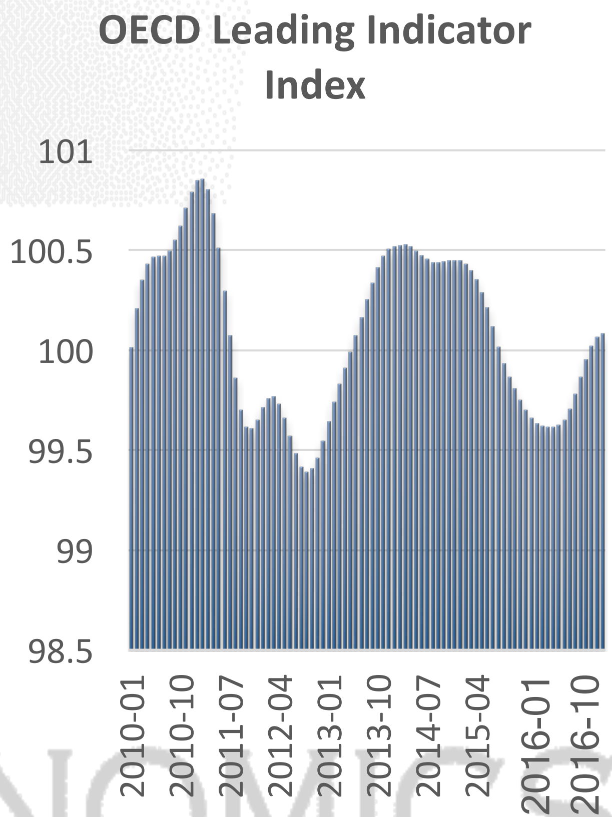


Investment	2017	Gr 15	Gr 16
Total	2,869.1	0.7%	3.0%
Structures	465.9	-2.9%	6.1%
Commercial	164.1	16.3%	6.7%
Mining	71.7	-45.4%	43.5%
Equipment	1,060.0	-2.9%	1.8%
Information	364.1	2.4%	5.0%
Industrial	222.0	2.7%	4.3%

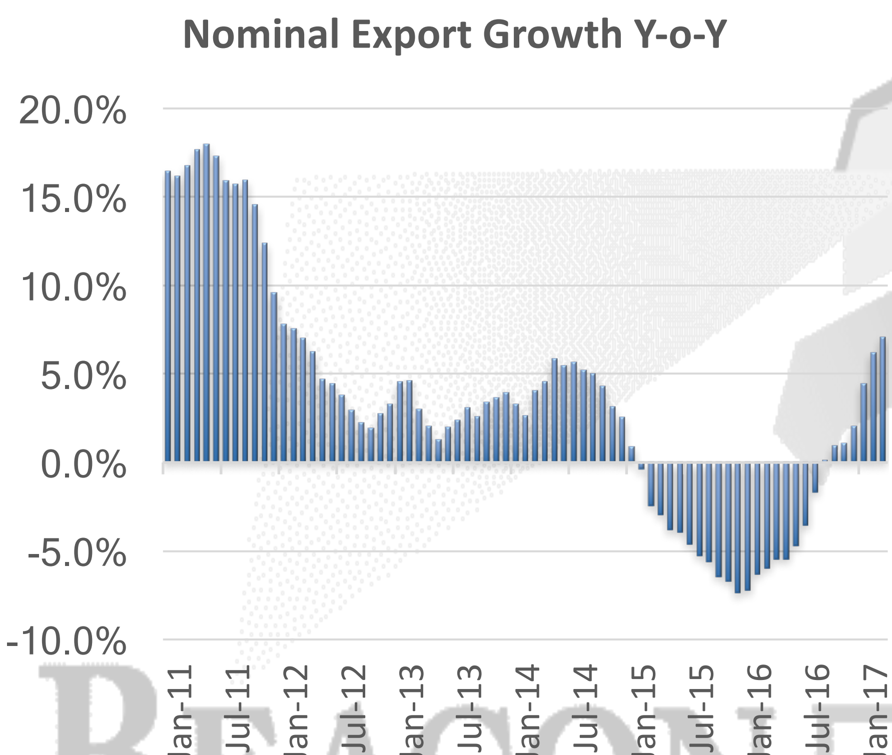
Global Economy: Stronger

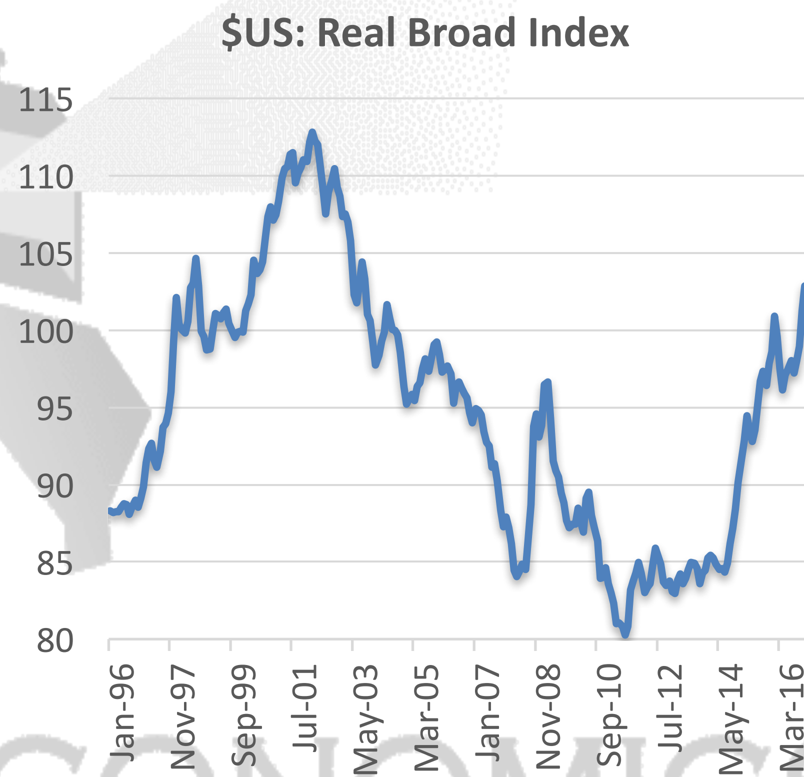




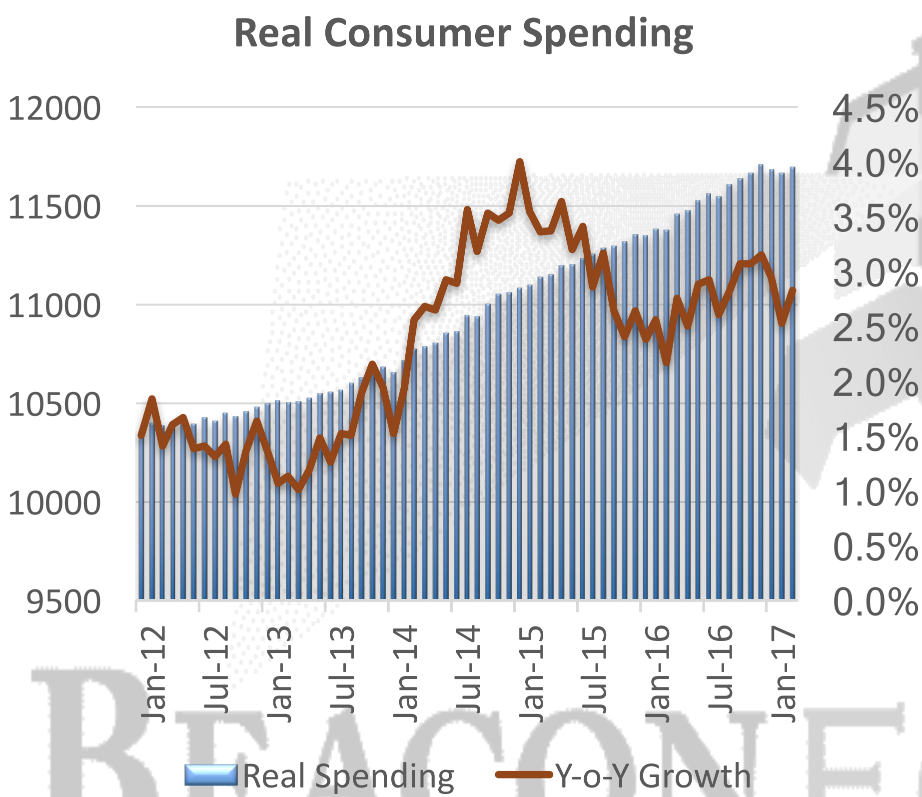


External Accounts



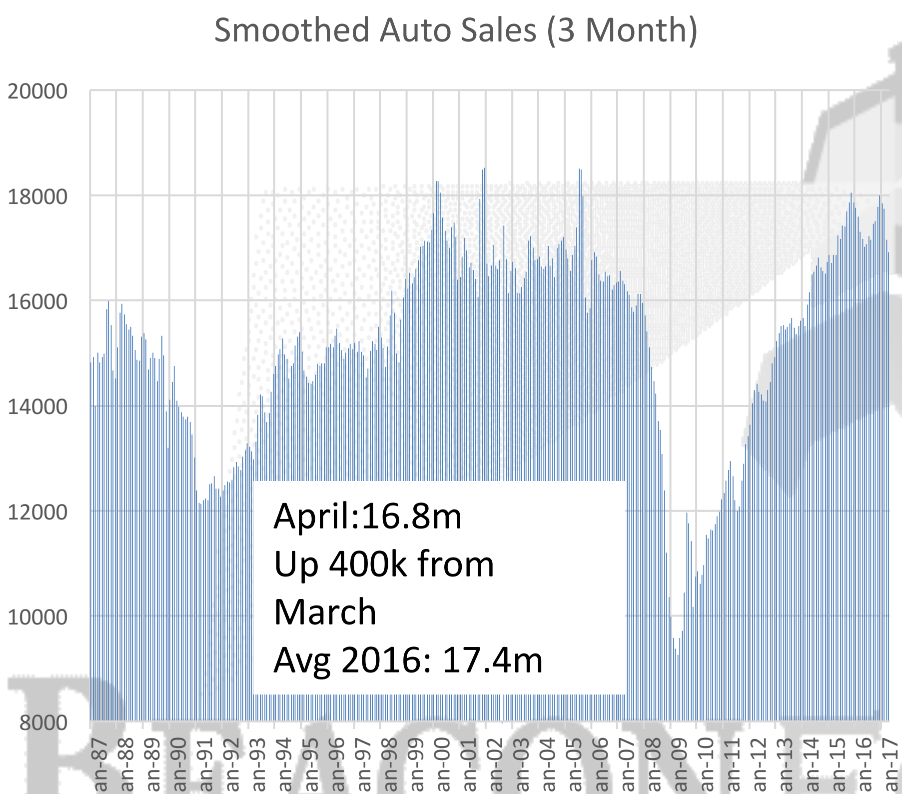


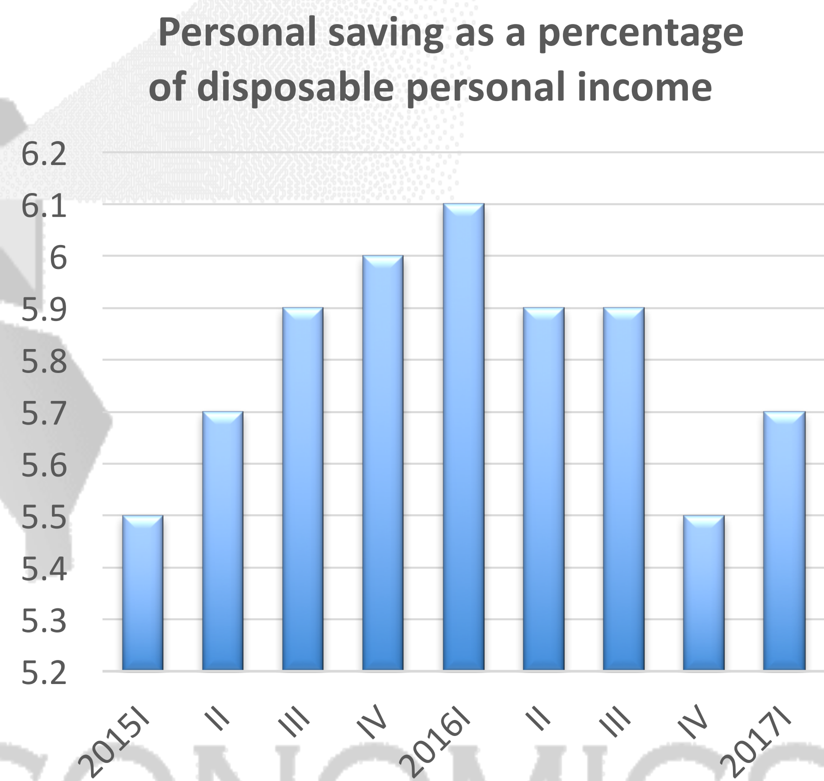
Consumer Spending



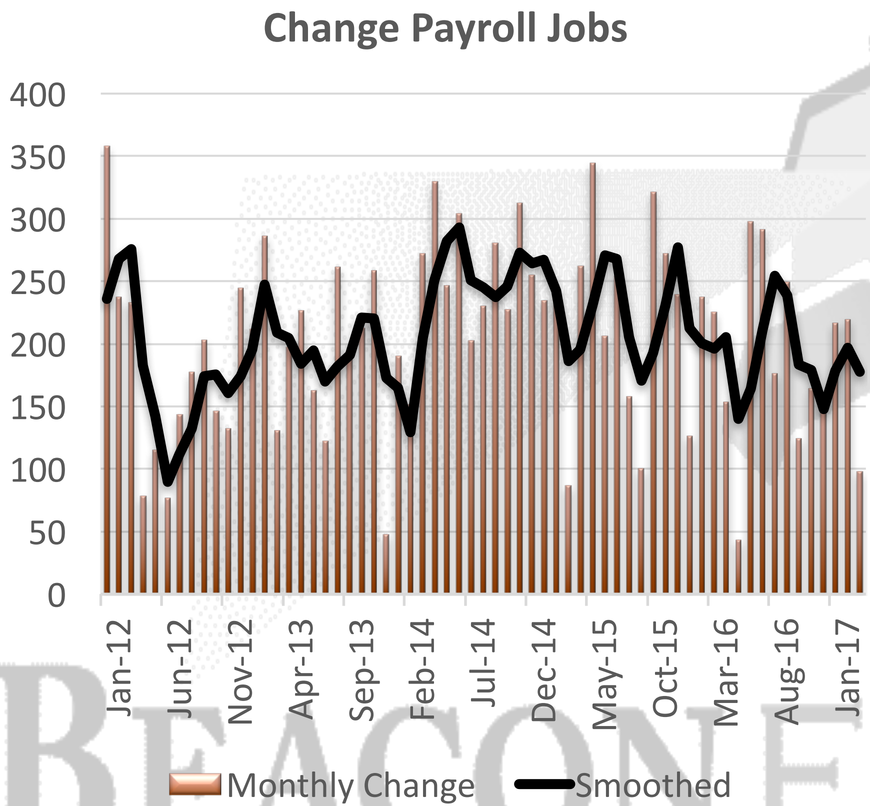
	Q3-Q4	Q4-Q1	Diff
PCE Total (Real)	$100.8	$9.7	-$91.1
Motor vehicles and parts	**$16.8**	**-$19.6**	**-$36.4**
Health care	**$27.0**	**$15.8**	**-$11.2**
Other durable goods	$3.3	-$3.6	-$6.9
Other services	$11.5	$5.2	-$6.3
Food and beverages	$13.6	$8.7	-$4.9
Clothing and footwear	$0.0	-$4.8	-$4.8
Gasoline and other energy	-$1.2	-$5.9	-$4.7
Housing and utilities	-$7.1	-$11.6	-$4.5
Transportation services	$4.7	$1.1	-$3.6
Recreation services	$6.0	$4.2	-$1.8
Furnishings	$4.0	$2.5	-$1.5
Financial services	$3.9	$3.4	-$0.5

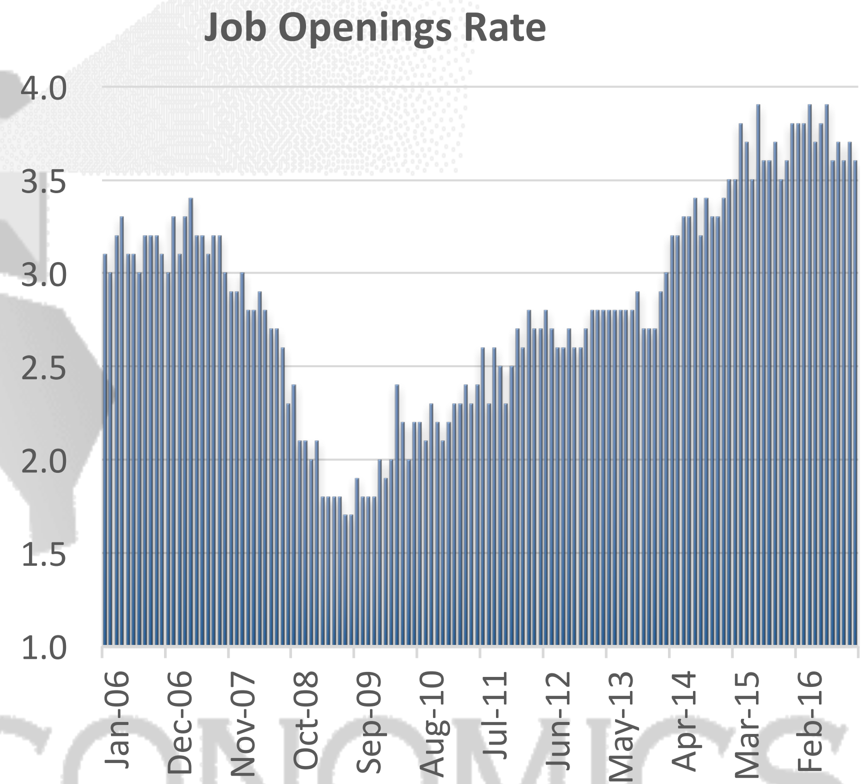
Autos and Savings



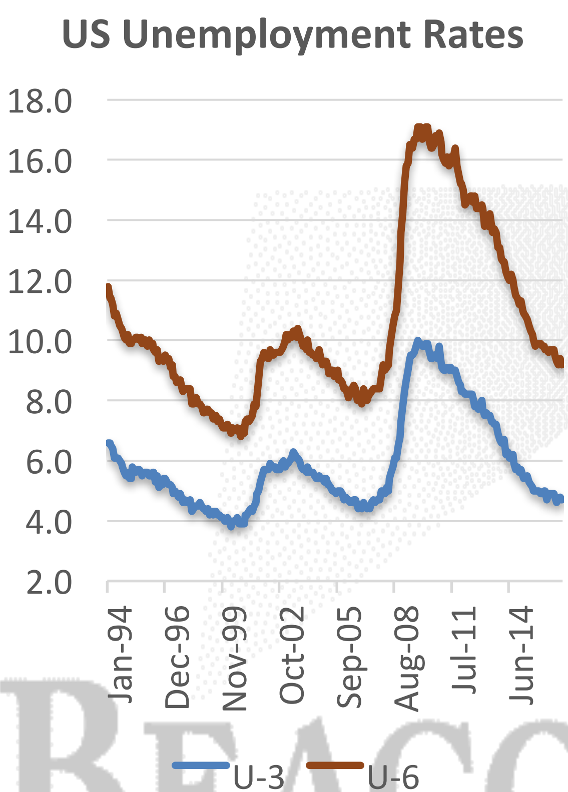


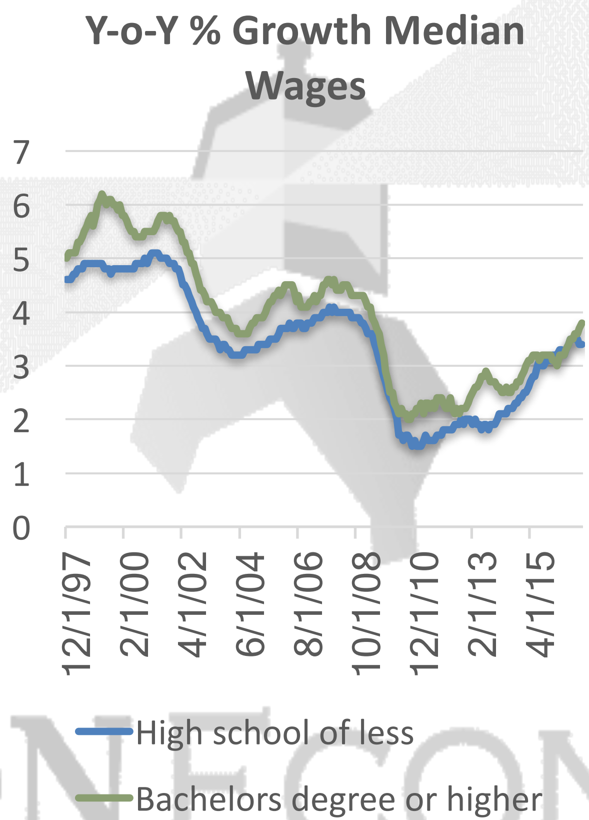
Labor Markets

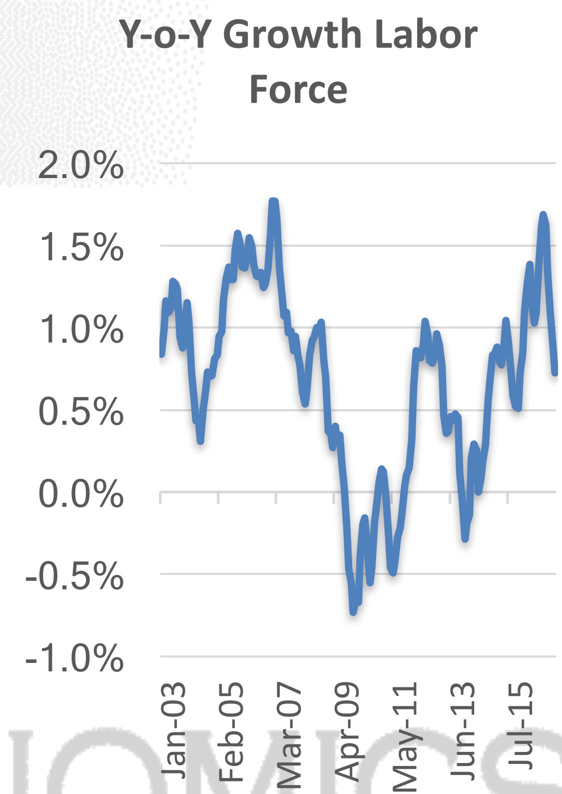




Unemployment







Local Economic Performance

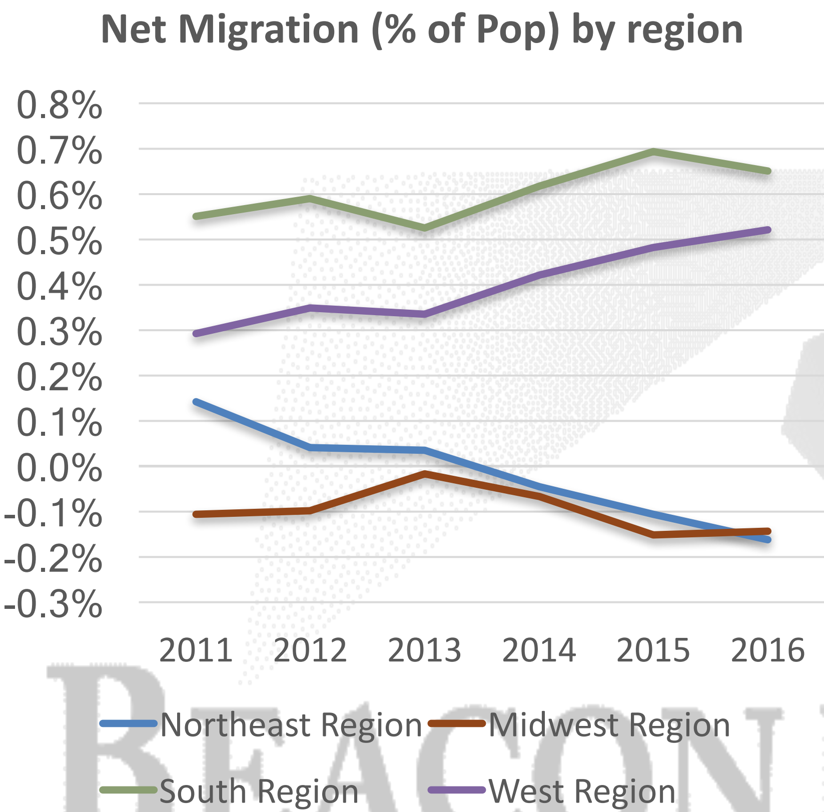
State Unemployment Rate Nov 2016

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?

?

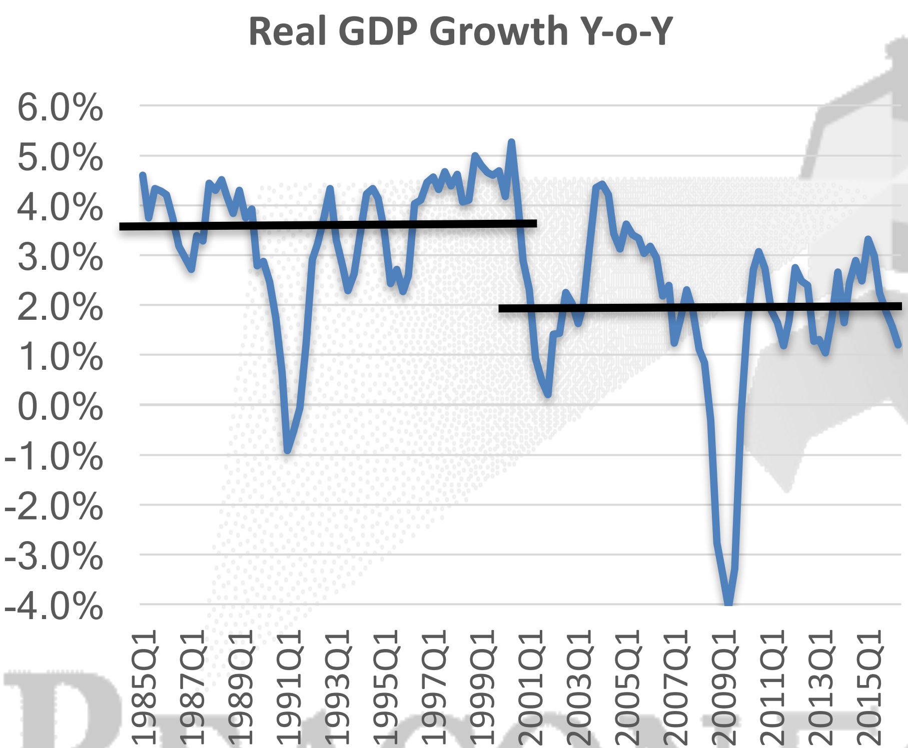
$100,00
$90,00
$80,00
$70,00
$60,00
$50,00

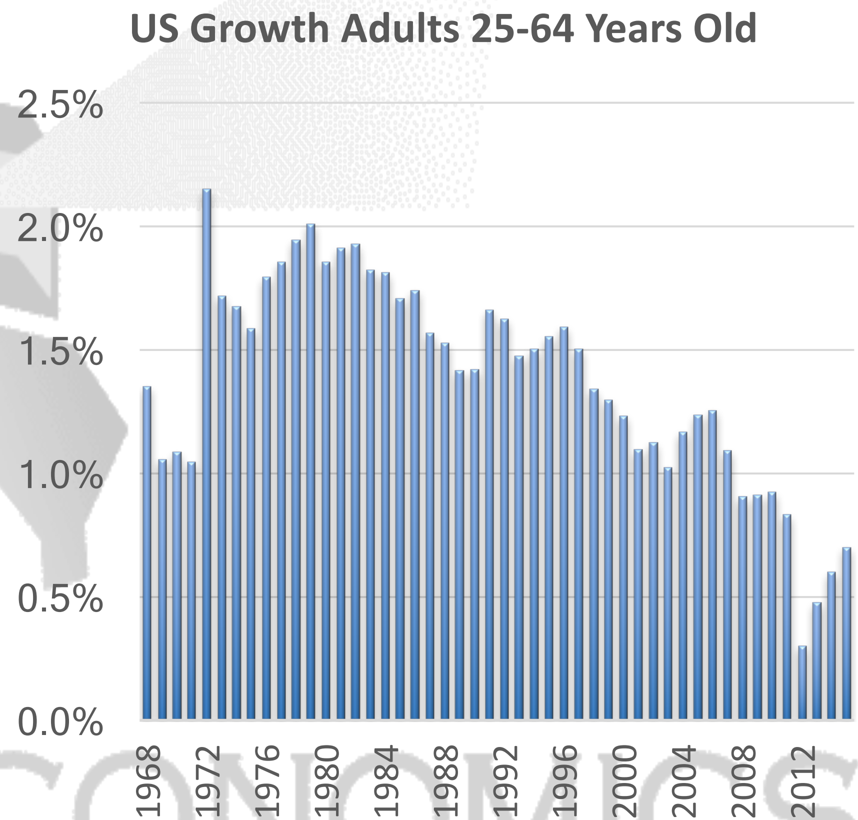
C

tions

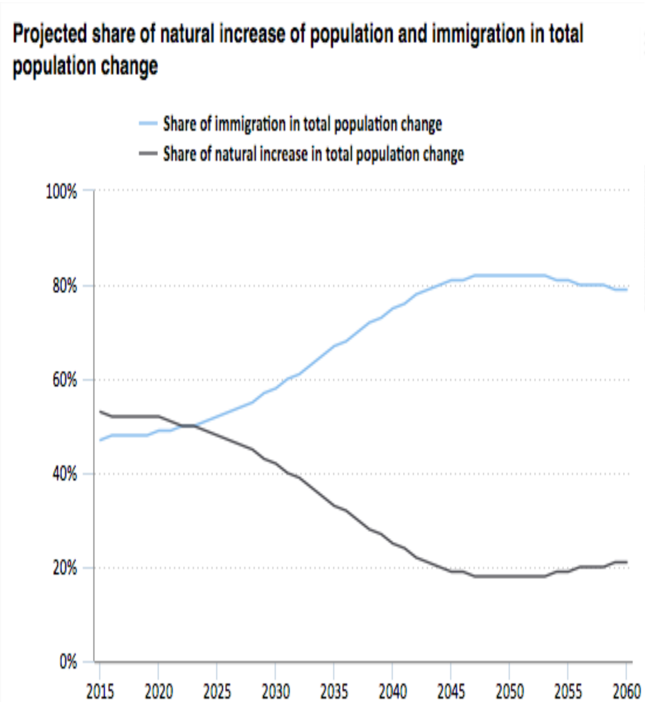
t quality
iety
tion
nditions

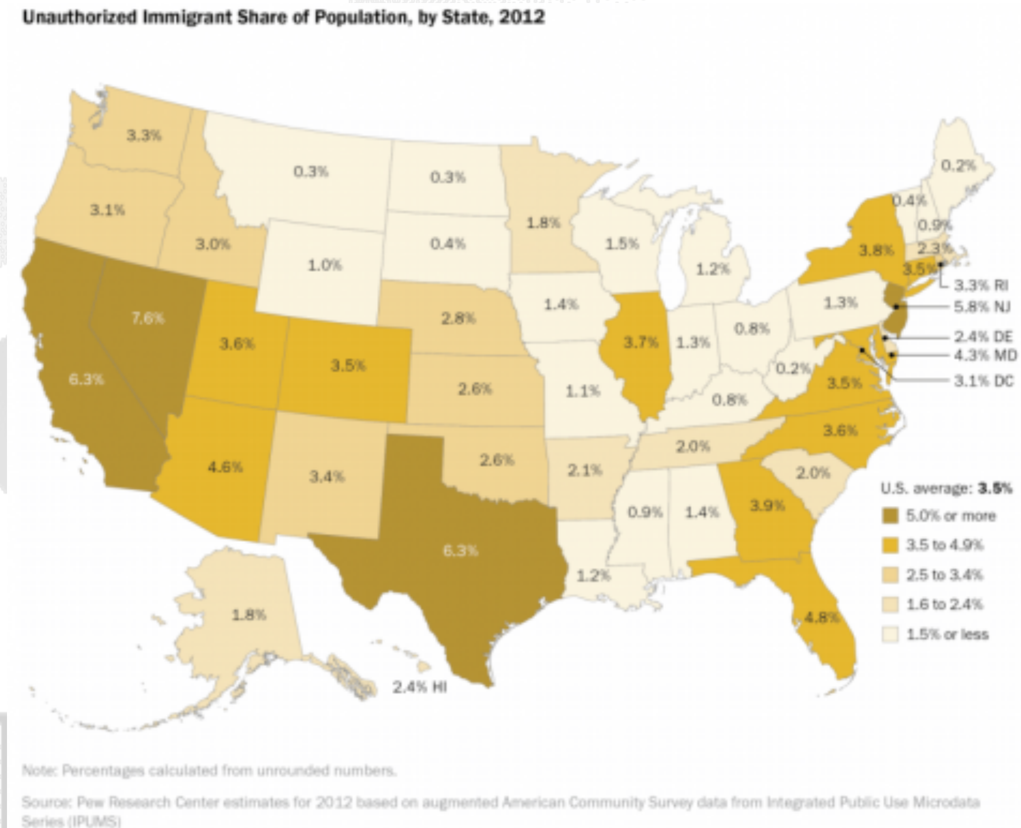
Secular Stagnation?





Immigration





California fact versus fiction

Chief Executive NETWORK

CONTINUOUS IMPROVEMENT FOR YOU - THE CEO

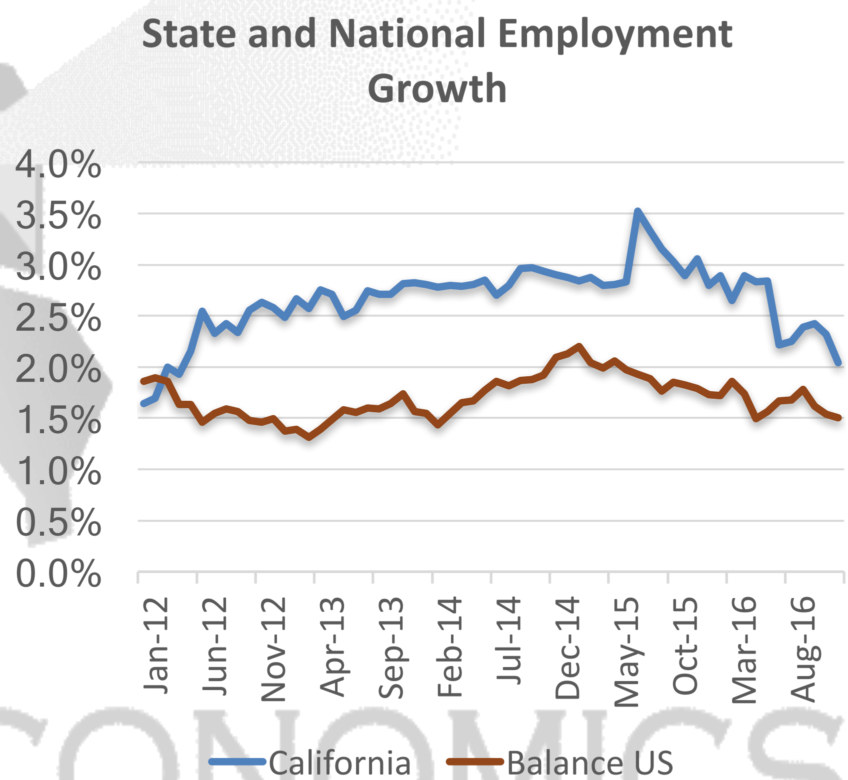
2016 Best & Worst States For Business

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

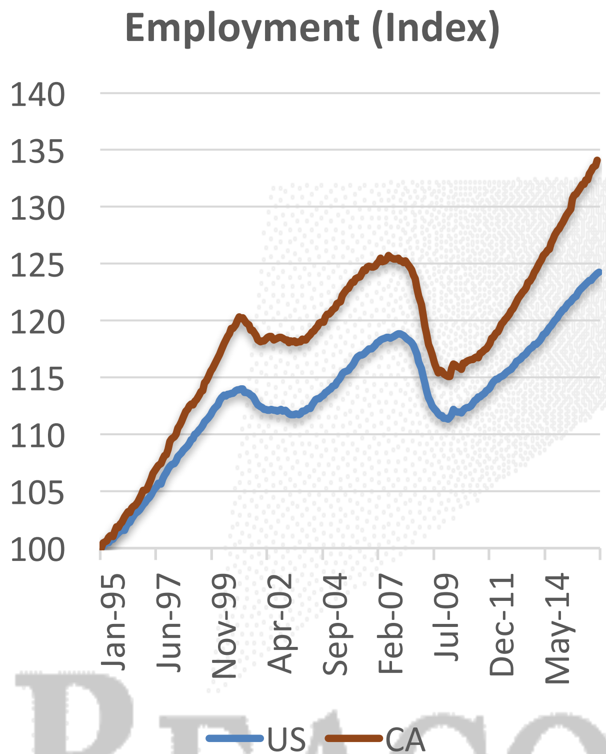
As for California

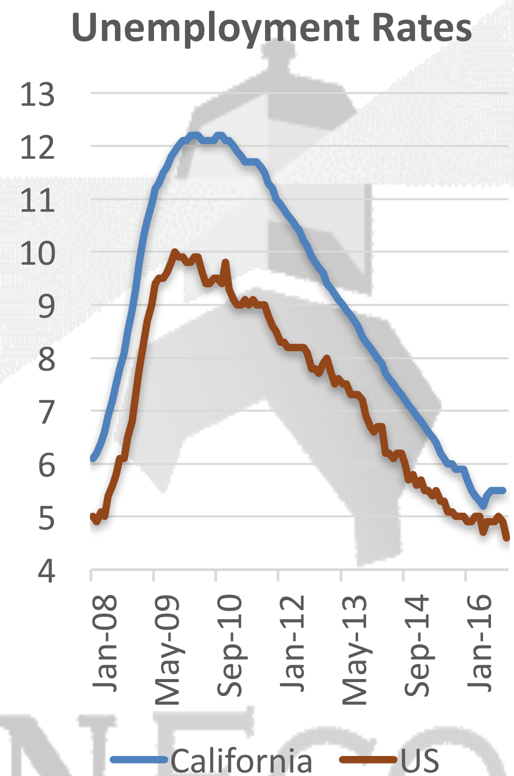
5 Year Change in Payroll Jobs by State

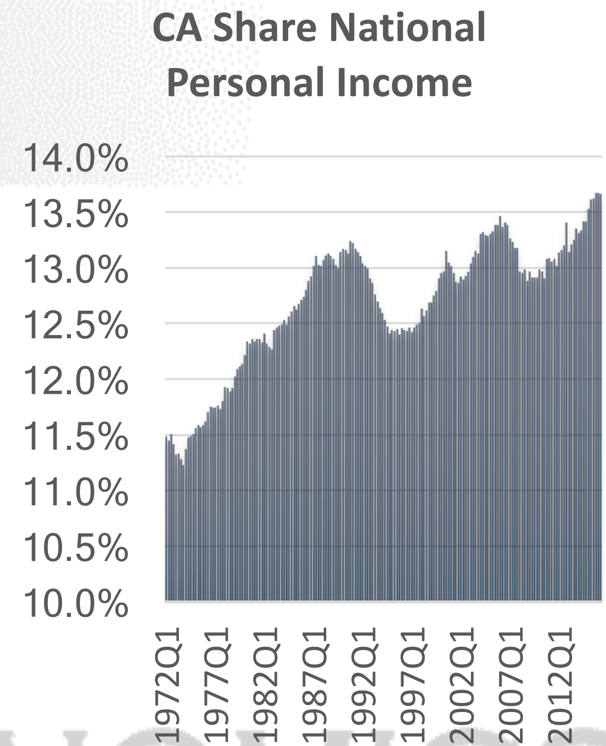
	New Jobs	Ann Gr	US Share
Utah	226	3.5%	1.8%
Nevada	188	3.1%	1.5%
Florida	1,207	3.1%	9.5%
Idaho	96	3.0%	0.8%
Colorado	344	2.9%	2.7%
Oregon	228	2.7%	1.8%
Washington	401	2.7%	3.2%
California	**2,038**	**2.7%**	**16.1%**
Georgia	521	2.5%	4.1%
Texas	1,425	2.5%	11.2%
Arizona	298	2.3%	2.3%
South Carolina	220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

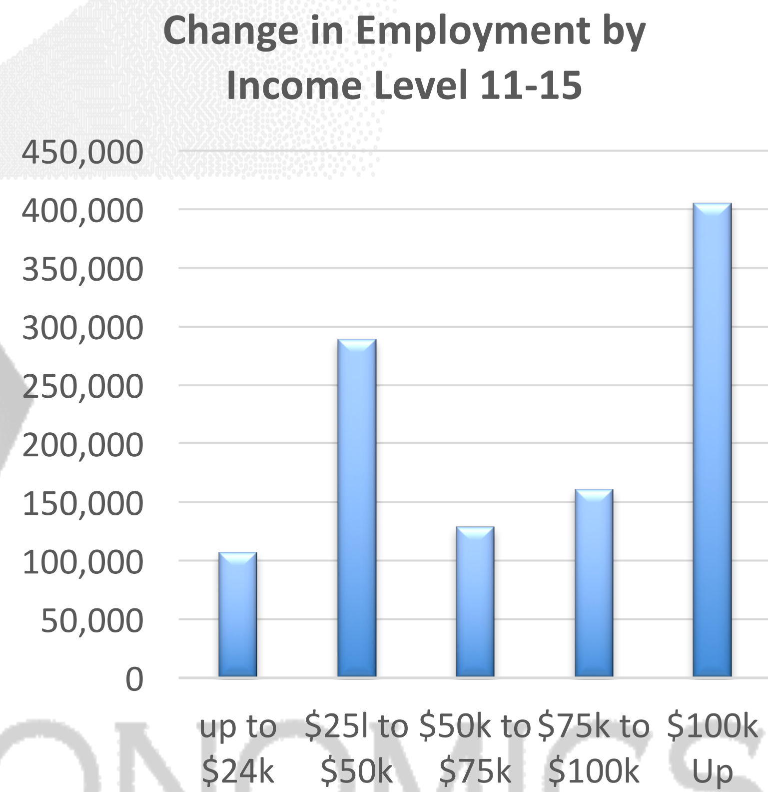




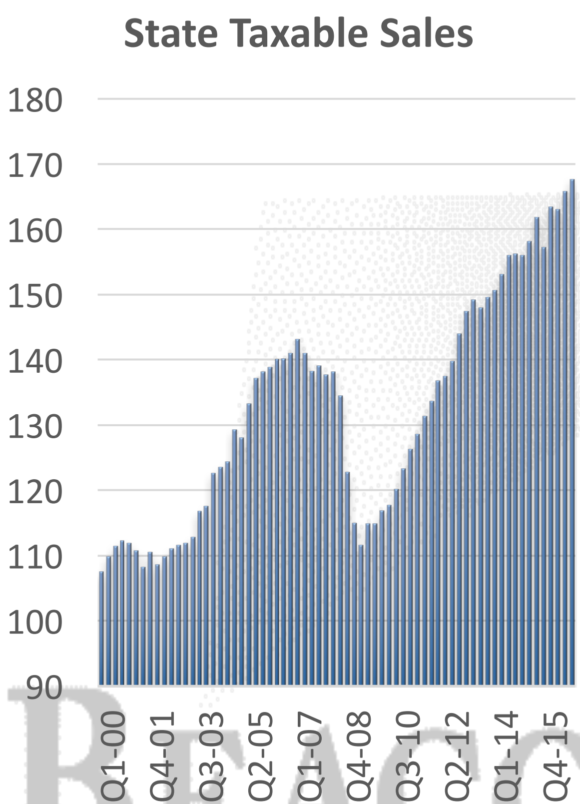


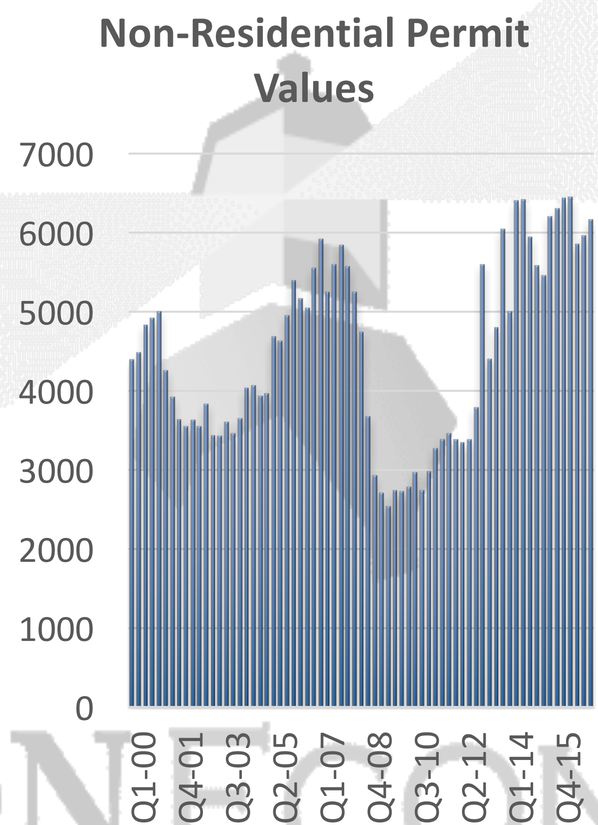
California Employment

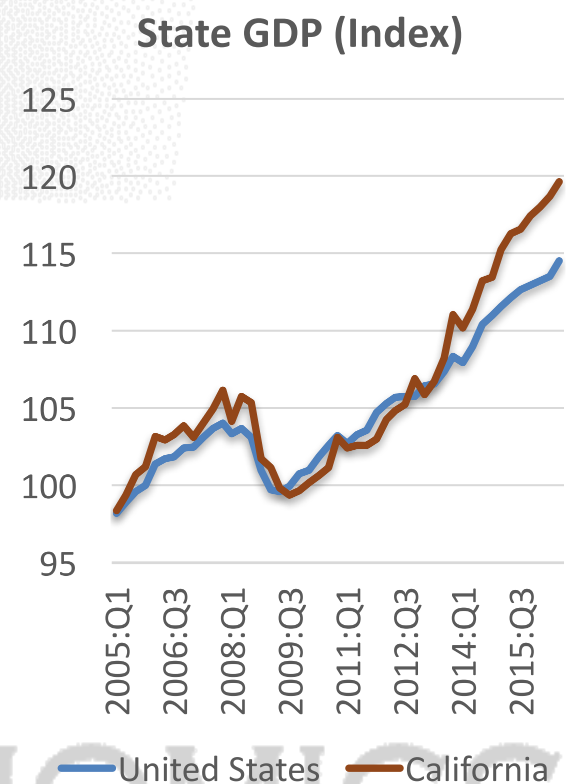
	Feb-17	1 Yr	Ch
Total Nonfarm	16676.1	1.9%	315.8
Education	370.2	5.7%	19.8
Government	2538.2	1.9%	46.4
Wholesale Trade	738.1	2.5%	18.3
Financial Activities	830.6	1.7%	14.1
Health Care	2222.8	3.2%	69.3
Prof Sci Tech	1241.8	2.7%	32.9
Other Services	565.3	2.3%	12.9
Retail Trade	1688.9	0.7%	11.3
Management	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



Business Activity

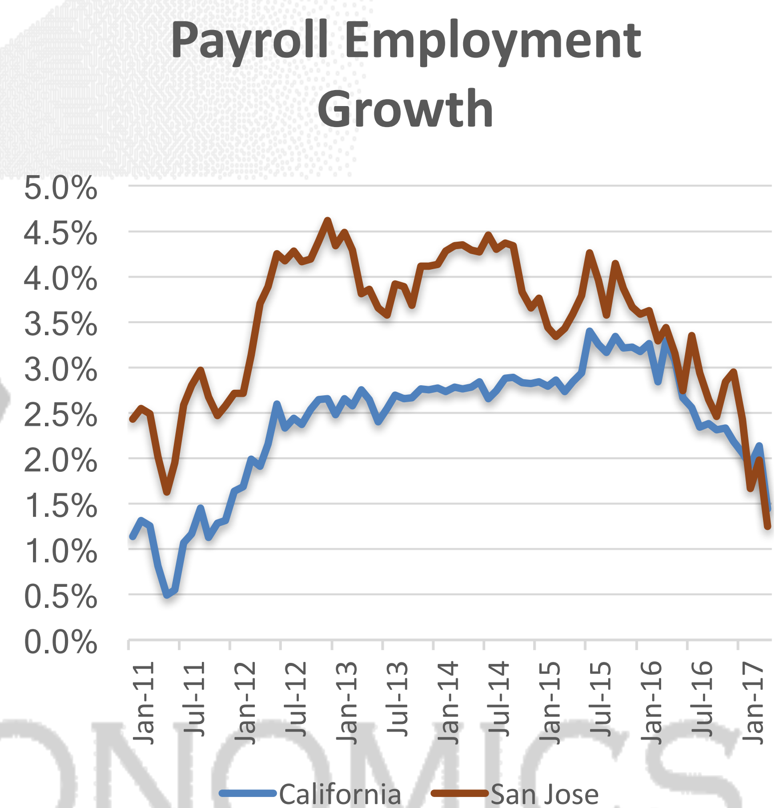






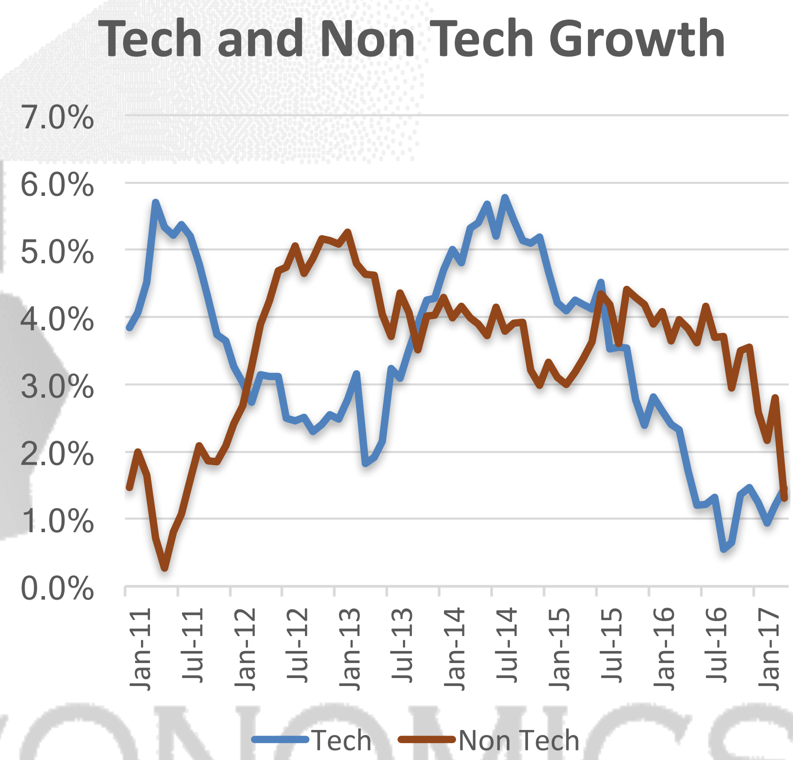
Where is Growth?

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%

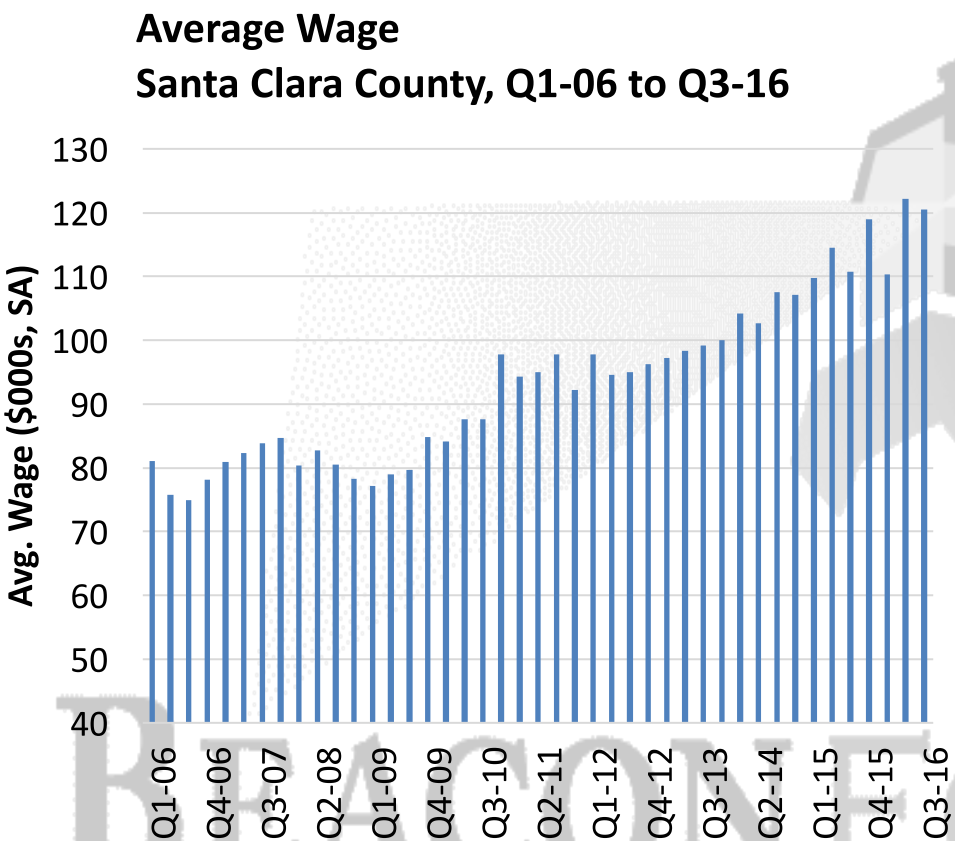


Proximate v Ultimate Causes

Total, All Industries	1,085,100	36,100	14,500	-21,600
Computer Mfg	52,200	6,800	500	-6,300
Construction	47,200	4,600	-200	-4,800
Administrative	61,300	2,700	-2,000	-4,700
Educational Services	44,900	1,500	-1,700	-3,200
Computer Systems	75,800	5,300	2,200	-3,100
Wholesale Trade	36,600	700	-1,400	-2,100
Finance & Insurance	20,800	1,000	-800	-1,800
Health Care	120,900	5,600	4,400	-1,200
Retail Trade	84,900	0	-1,000	-1,000
Real Estate	14,100	500	100	-400
Government	96,700	800	1,100	300
Information	76,200	3,500	3,900	400
Semiconductor Mfg	38,400	-2,700	-1,000	1,700
Leisure & Hospitality	102,800	2,000	5,700	3,700



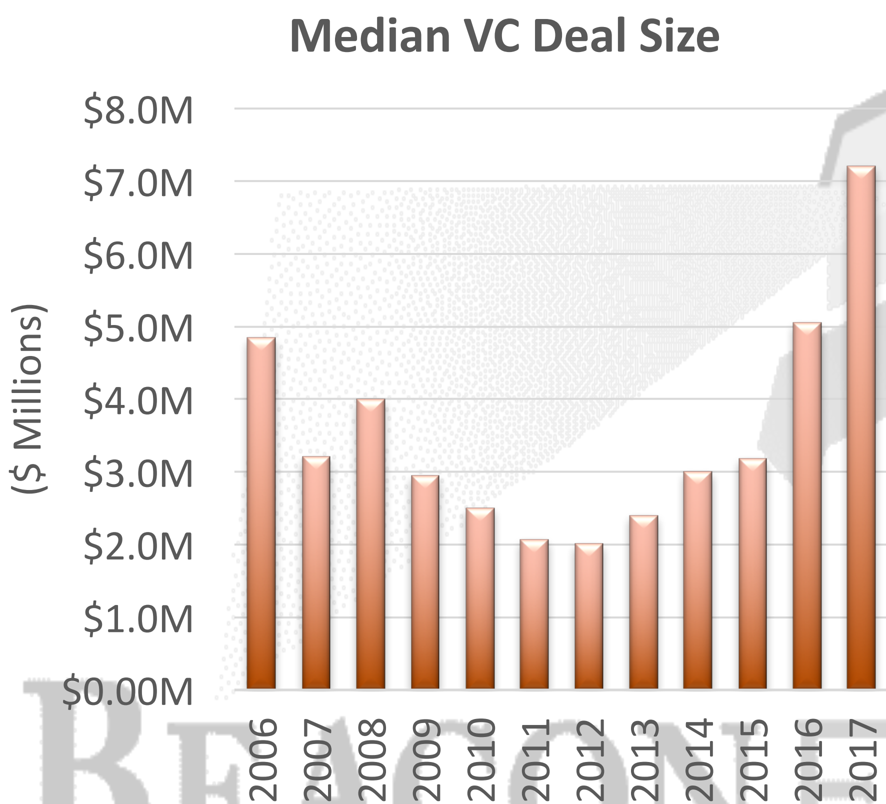
Wages

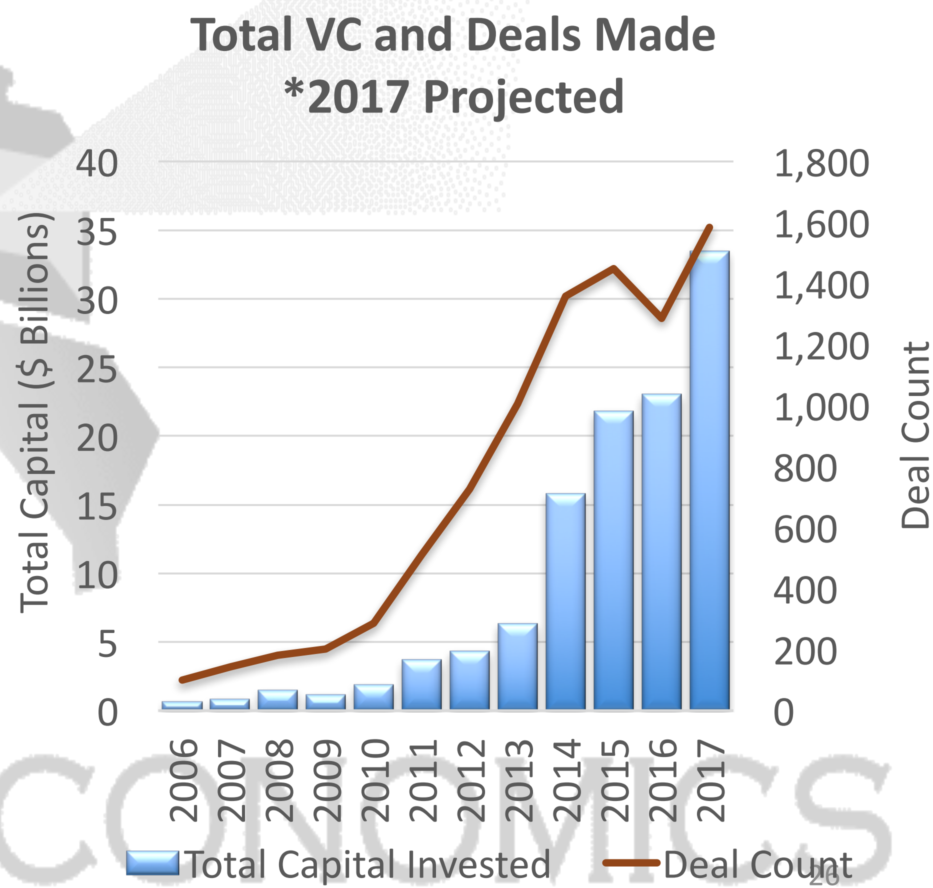


Average Wage by industry, Santa Clara County

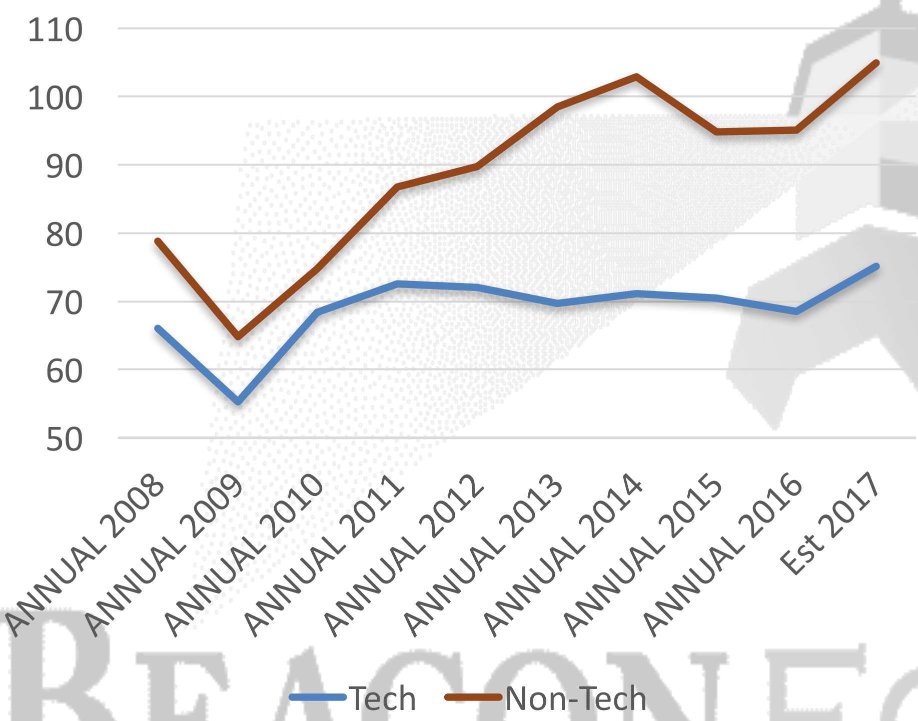
Industry	Q3-16	YOY Growth (%)
Manufacturing	190,396	15.1
Information	313,138	14.1
Other Svcs.	42,622	10.7
Health Care	68,785	8.6
NR/Construction	79,002	8.3
Prof, Sci, Tech, and Mgmt	175,322	7.8
Admin Support	69,317	7.6
Leisure and Hospitality	29,103	7.3
Education	80,625	3.8
Transport/Warehouse/Util	61,256	3.3
Wholesale Trade	126,836	0.0
Fin. Svcs. and Real Estate	126,789	-0.3
Retail Trade	50,021	-3.7
Total Private	124,353	8.7
Government	79,538	10.9
Total	120,535	8.8

West Bay Venture Capital

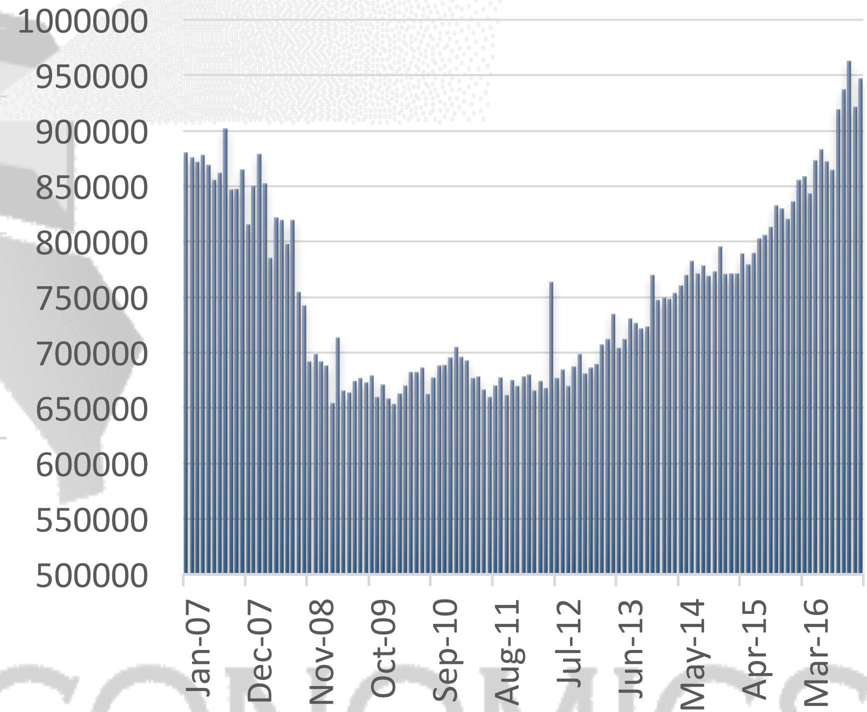




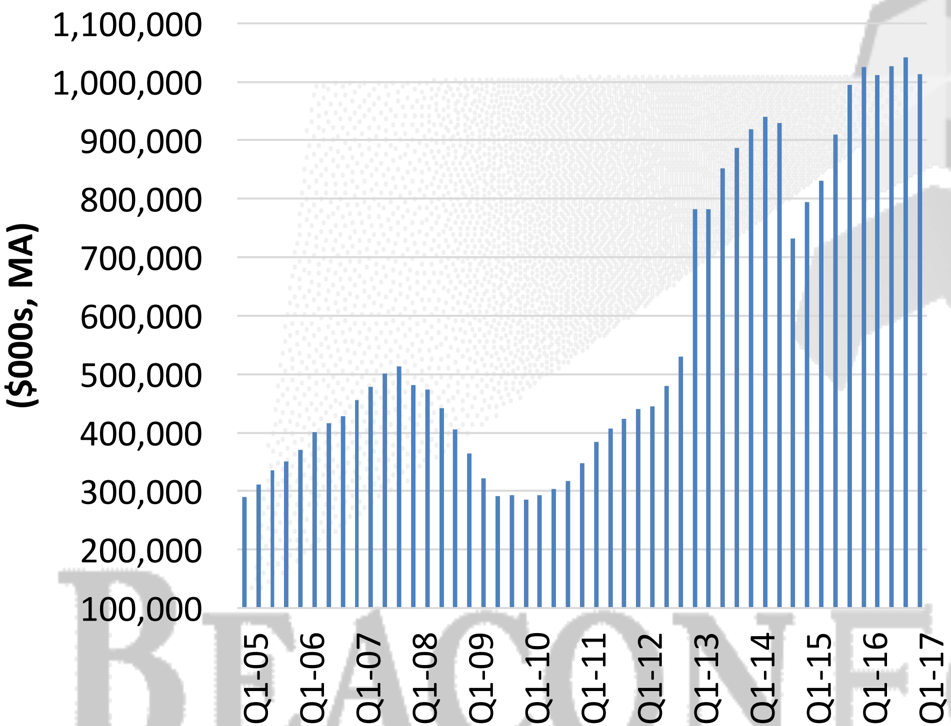
Nominal State Exports



San Jose – SJC Passengers



Nonresidential Construction

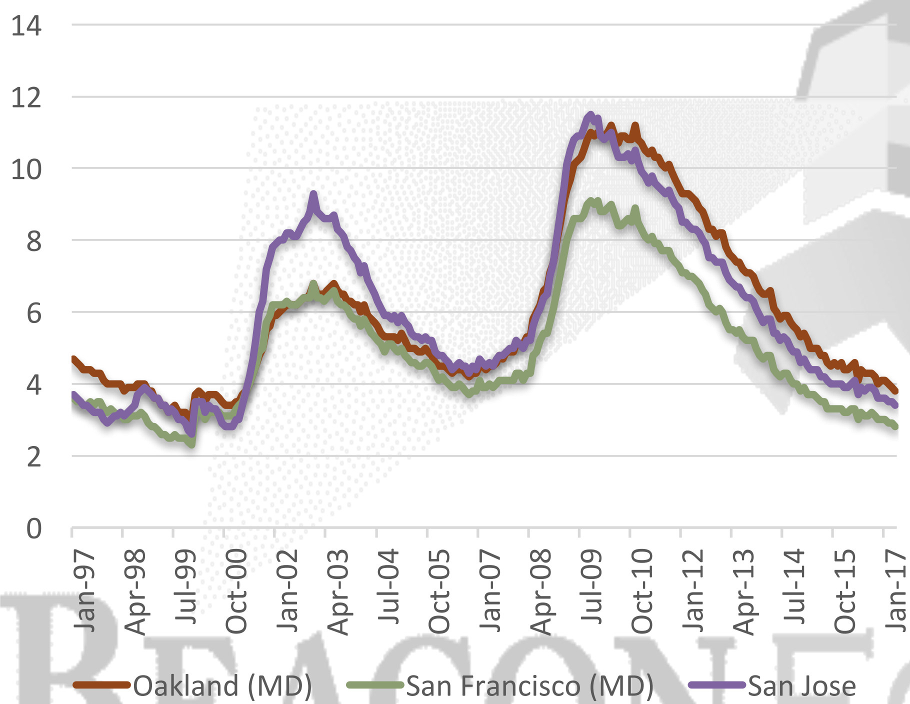


San Jose (MSA) Nonres. Building Permit Values

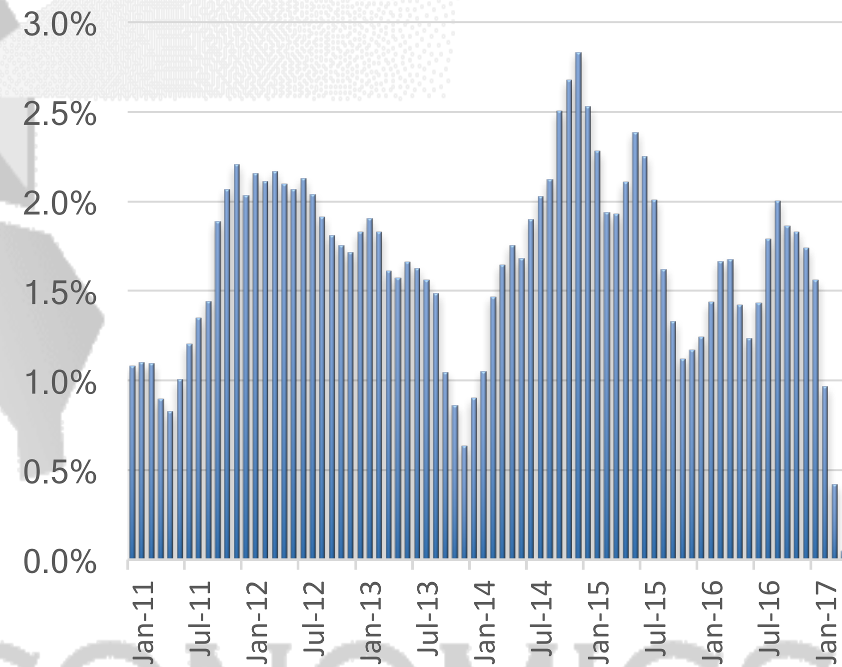
Permit Type	2016 ($000s)	YOY Change ($000s)	YOY Growth (%)
New Commercial	2,064,456	725,636	54.2
Office	1,296,213	610,961	89.2
Retail	232,308	26,582	12.9
Hotel	113,985	89,423	364.1
Industrial	49,257	-57,844	-54.0
Other	438,969	97,599	28.6
Total Nonresidential	4,564,376	1,204,479	35.8

The Ultimate Cause

Unemployment Rate



San Jose Labor Force Growth



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!

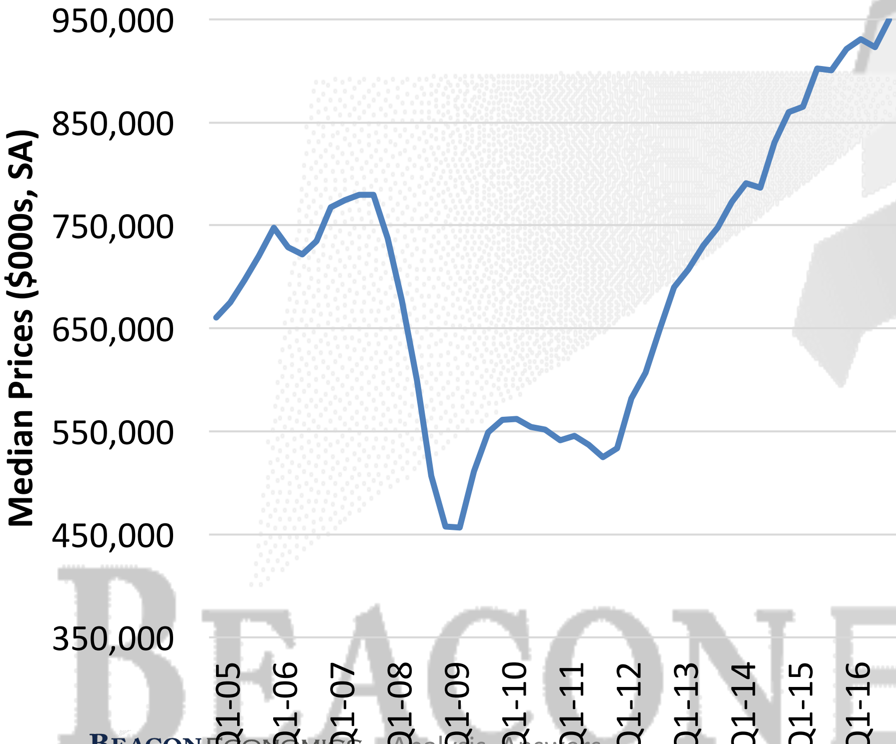
Minimum Loaf Size Regulation

Bread Loaf Baking Targets

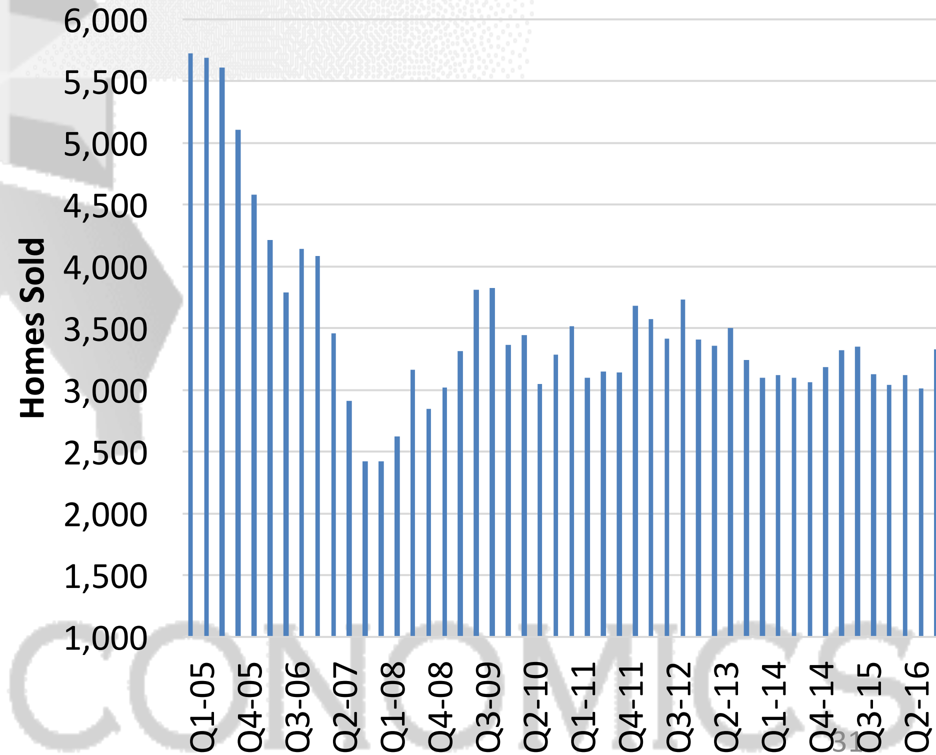
Link Loaf Prices to CPI

Residential Real Estate

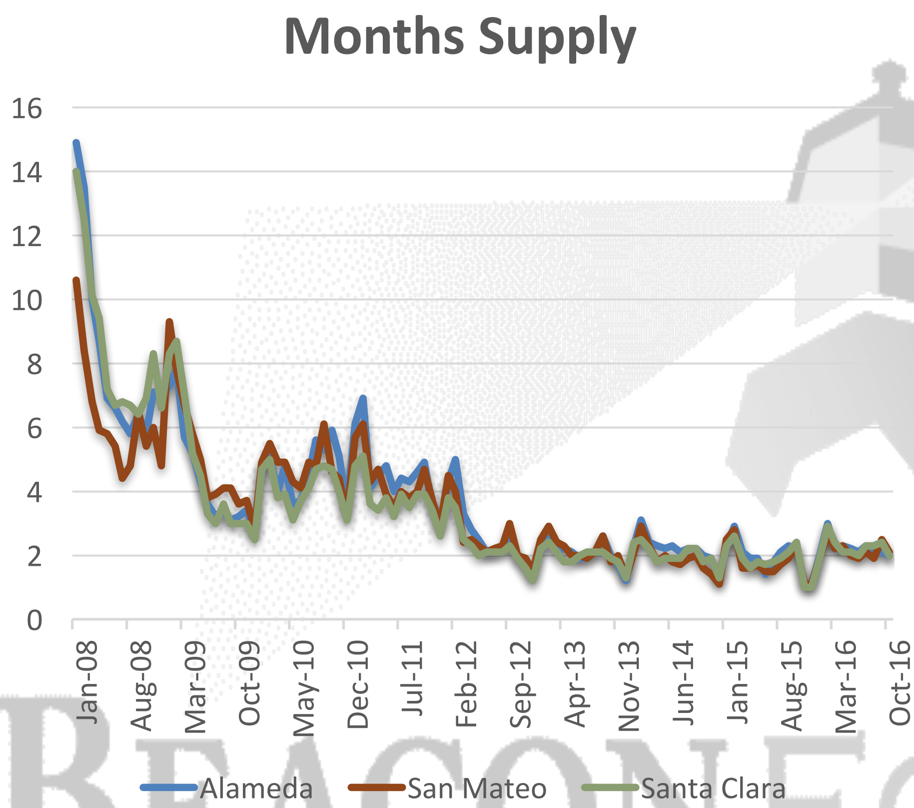
Existing Single-Family Home Prices
Santa Clara County, Q1-05 to Q4-16



Existing Single-Family Home Sales
Santa Clara County, Q1-05 to Q4-16



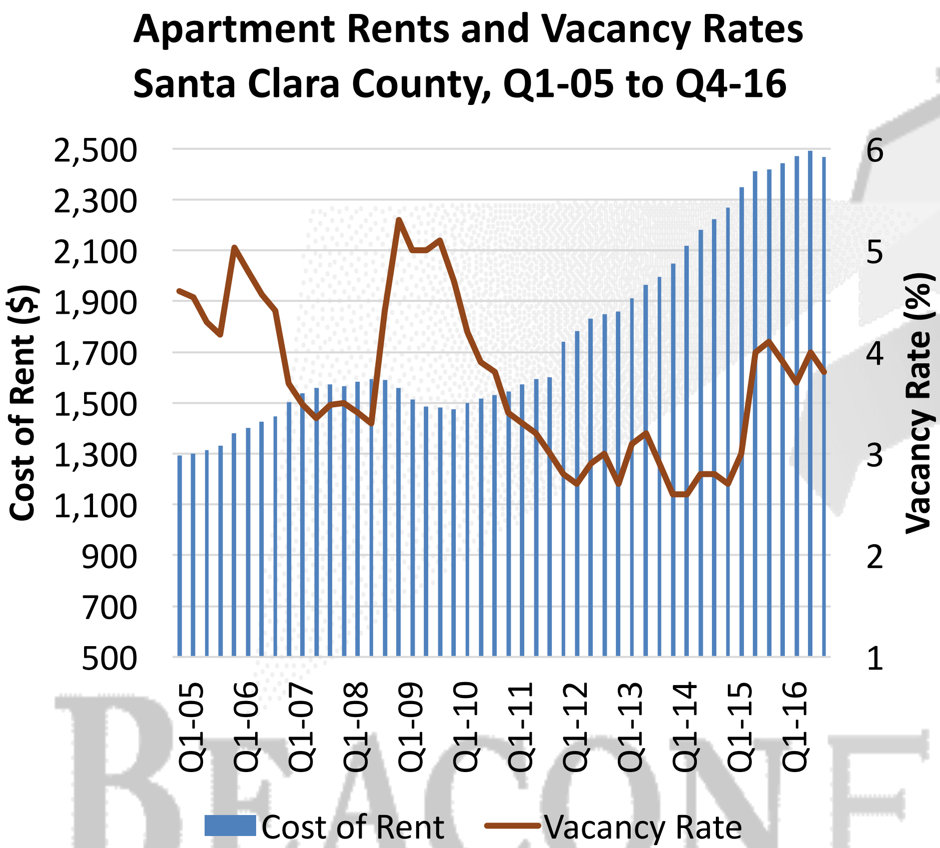
Single Family Markets



Housing Vacancy 2015

	On Market	Total
US	3.1%	7.2%
California	2.1%	4.3%
Santa Clara	1.2%	2.6%
San Mateo	1.4%	2.6%

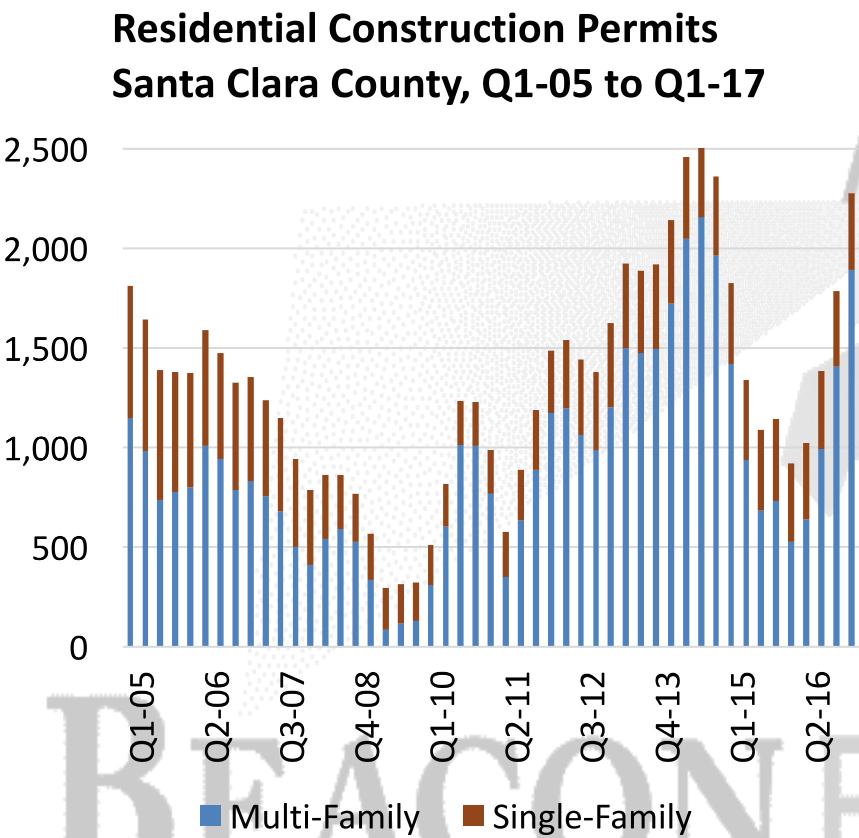
Apartment Rental Market



Apartment Rental Market by Submarkets, Q2-16

Submarket	Cost of Rent Q2-16 ($)	Cost of Rent YOY Growth (%)	Vacancy Rate Q2-16 (%)	Vacancy Rate YOY Change (p.p.)
Northeast San Jose	2,468	7.1	6.8	2.5
Campbell/Los Gatos	1,731	3.8	2.2	-0.6
South San Jose	1,482	3.7	3.5	1.0
Central San Jose	1,803	2.7	4.1	0.1
East San Jose	1,889	2.6	1.1	0.2
Santa Clara	2,088	1.9	1.7	0.8
Cupertino/Saratoga	2,684	1.7	4.3	1.1
Mtn. View/Los Altos	2,306	1.5	4.4	1.0
Sunnyvale	2,049	1.4	2.3	0.1

Residential Construction



Single-Family Units, 2016

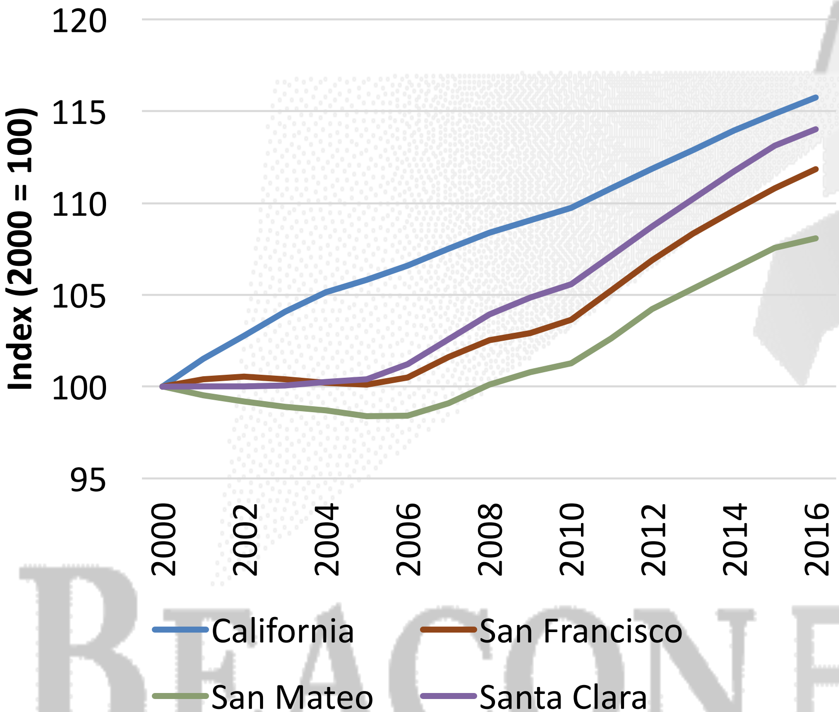
Place	Permits 2016	YOY Level Change	YOY Growth (%)
Sunnyvale	230	79	52.3
San Jose	219	67	44.1
Milpitas	134	61	83.6
Santa Clara	67	14	26.4
Mountain View	26	-31	-54.4

Multi-Family Units, 2016

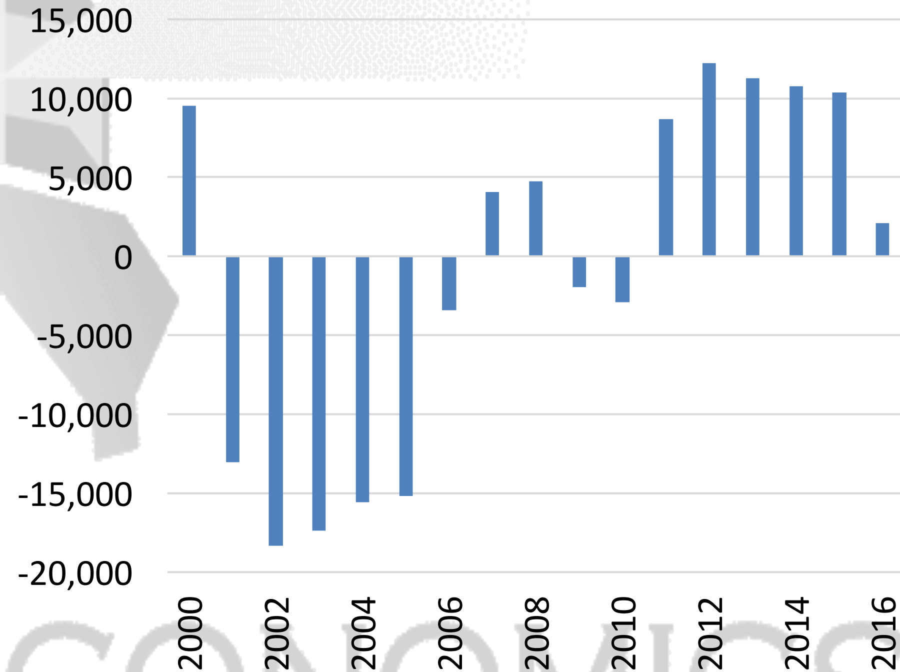
Place	Permits 2016	YOY Level Change	YOY Growth (%)
Milpitas	384	209	119.4
Santa Clara	351	182	107.7
San Jose	1,957	93	5.0
Mountain View	8	8	N/A
Sunnyvale	2	-239	-99.2

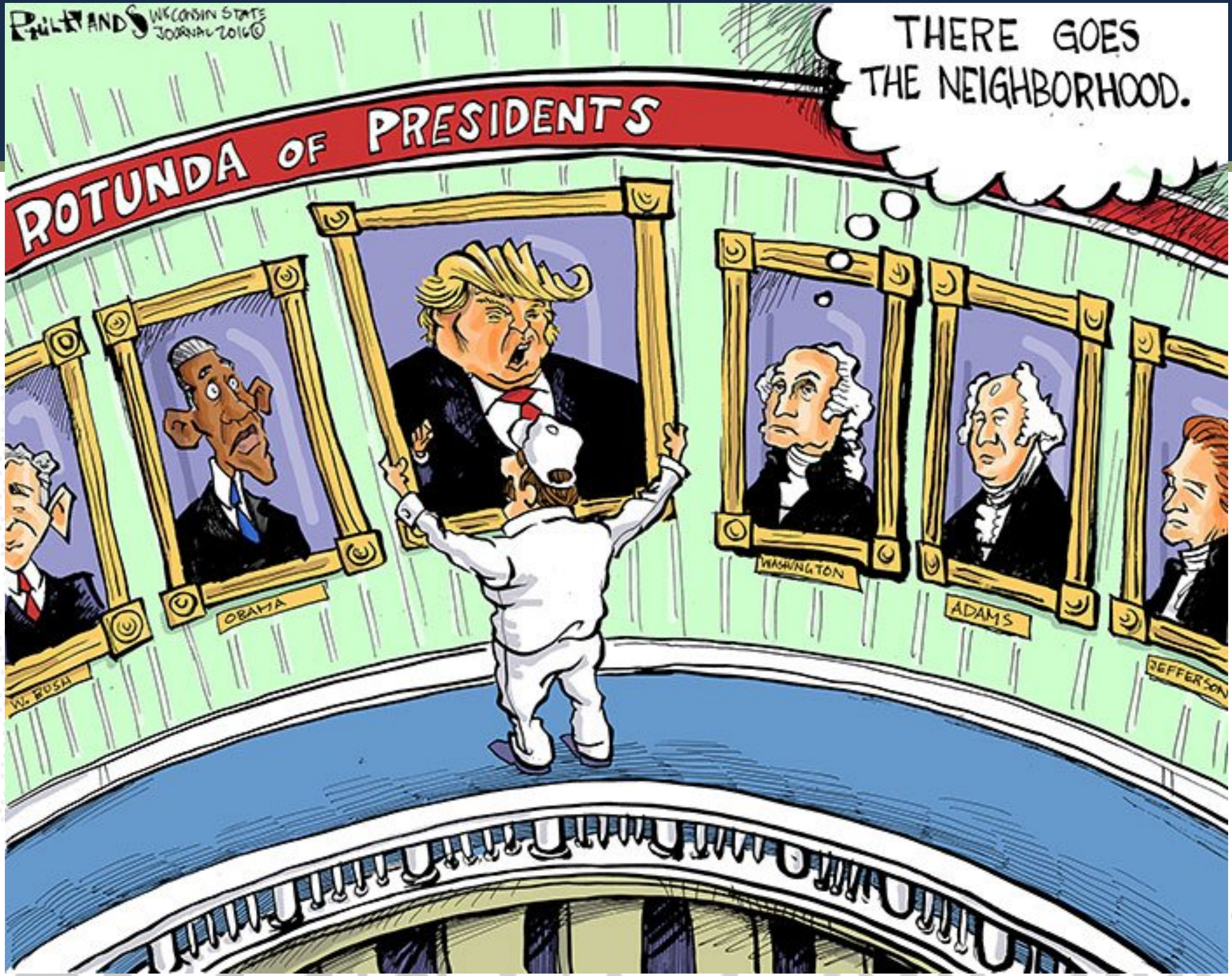
Population

Total Population Growth 2000 to 2016



Net Migration Santa Clara County, 2000 to 2016

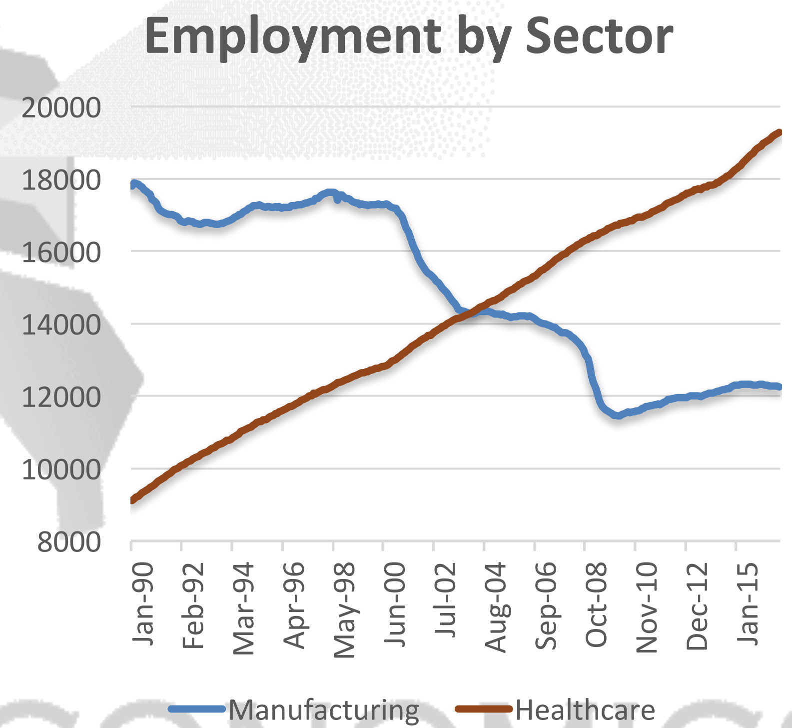



PHIL HANDS WISCONSIN STATE JOURNAL 2016©
THERE GOES THE NEIGHBORHOOD.
ROTUNDA OF PRESIDENTS
W. BUSH
OBAMA
WASHINGTON
ADAMS
JEFFERSON

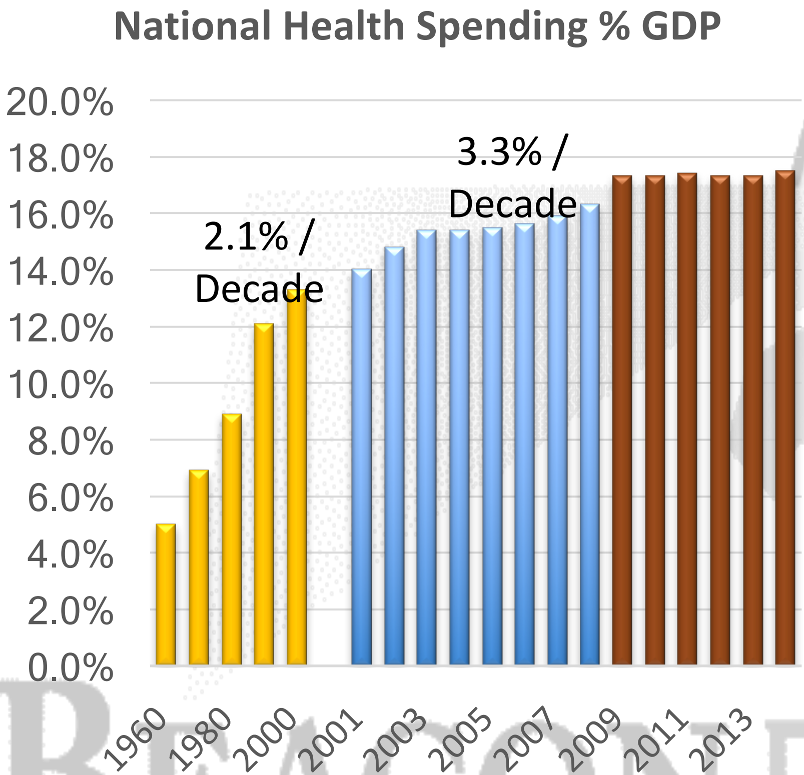
The Future of Obama-care?

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

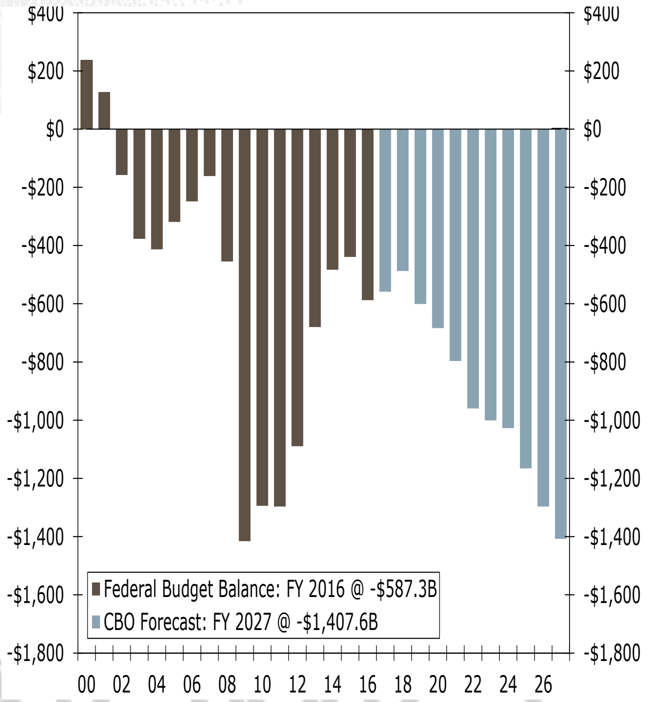
Population Growth Projections

	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%

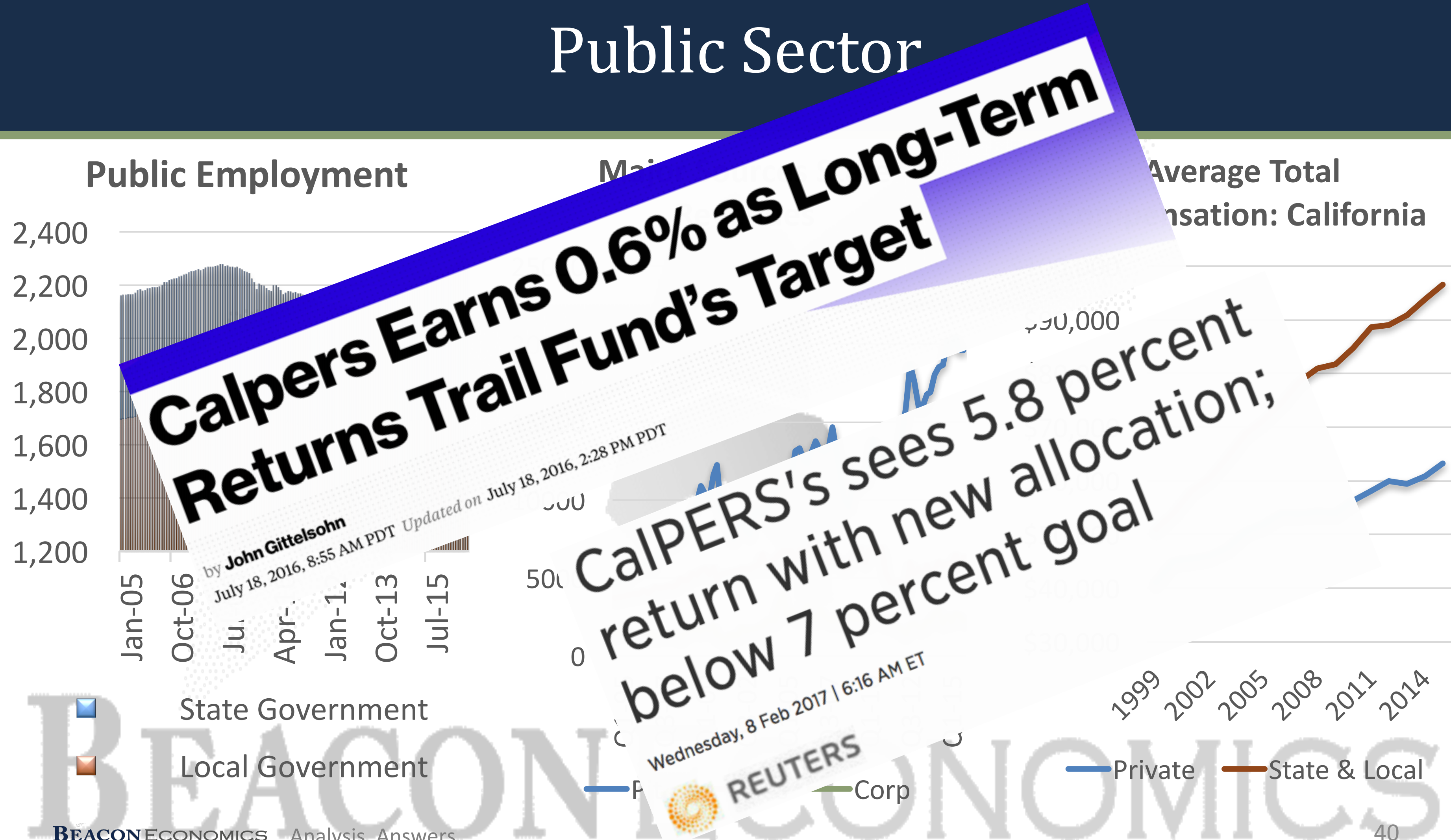
Medicare Spending Projections

	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%

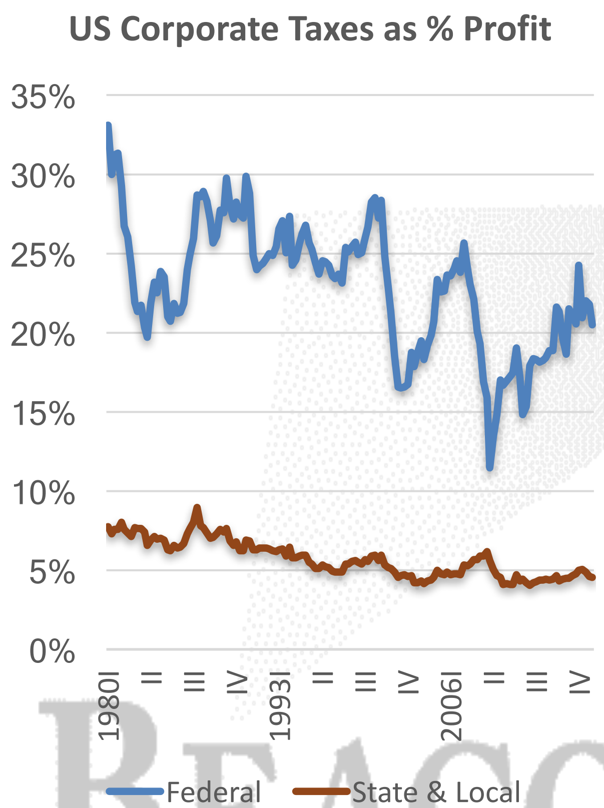
CBO Deficit Projections

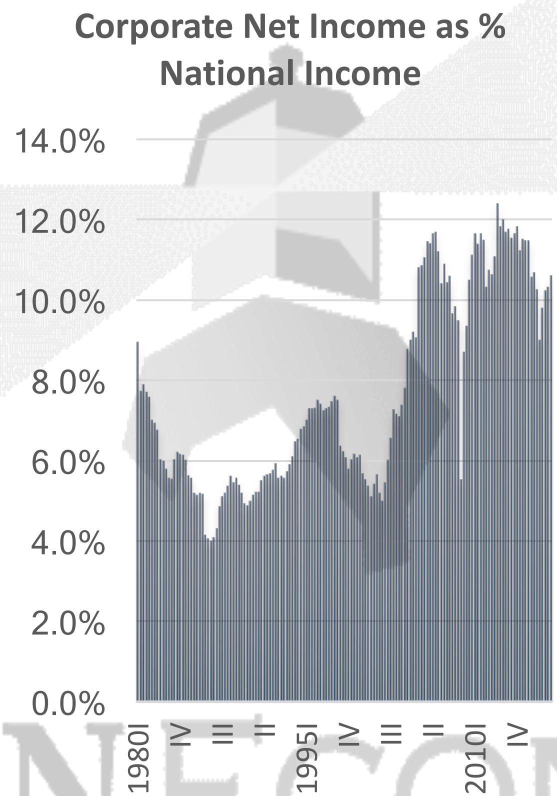


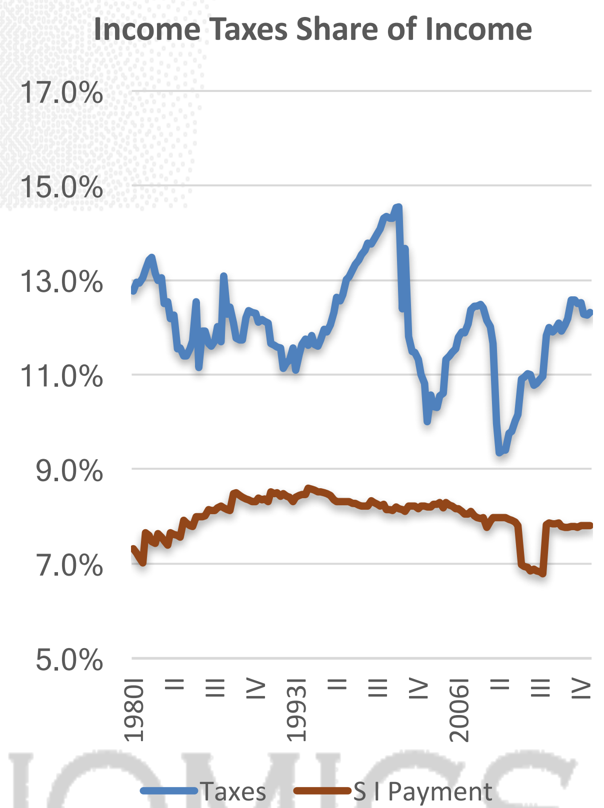
Public Sector



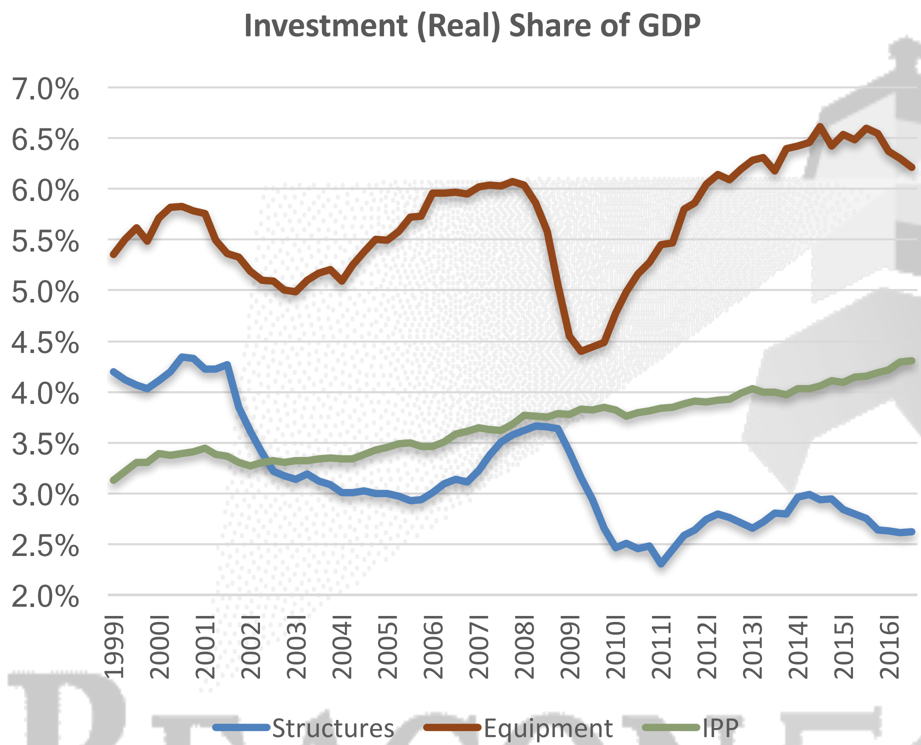
Tax Reform not Tax Cuts







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

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
- San Jose: Still hot- 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

BEACON ECONOMICS

Our Services

- Economic Forecasting
- Regional Intelligence Reports
- Business & Market Analysis
- Real Estate Market Analysis
- Ports & Infrastructure Analysis
- Economic Impact Analysis
- Public Policy Analysis

To view or download this presentation please visit:
www.BeaconEcon.com

Chris@BeaconEcon.com
310-571-3399

For additional information visit www.beaconecon.com