Welcome to the
COUNTY OF SAN DIEGO
ECONOMIC ROUNDTABLE

The longest-running local economic forecasting event in San Diego County!

Sponsored by
Economic Outlook 2013
Impact on California

29th Annual San Diego Economic Roundtable

January 25, 2013

Lynn Reaser, Ph.D.

Fermanian Business & Economic Institute at PLNU
Real GDP Warms
4th quarter, percent change over prior year

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-0.5</td>
</tr>
<tr>
<td>2010</td>
<td>2.5</td>
</tr>
<tr>
<td>2011</td>
<td>2.0</td>
</tr>
<tr>
<td>2012e</td>
<td>1.5</td>
</tr>
<tr>
<td>2013f</td>
<td>3.0</td>
</tr>
</tbody>
</table>
Interest Rates Diverge
Quarter-end, percent

- 10-year Treasury Note
- Fed Funds Target

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California’s Job Growth Overtakes the Nation’s
Nonfarm employment, percent change over prior year
Most California Sectors Add Jobs
Percent change over prior year, October 2012

- Information: 5%
- Construction: 5%
- Professional and bus svcs: 4%
- Health care: 3%
- Financial activities: 2%
- Trade, trans, & utils: 2%
- Manufacturing: -1%
- Government: -2%
California’s Jobless Rate Remains Above U.S. Percent, seasonally adjusted
State Budget Picture Improves
Billions of dollars

FY 2012-13

-1.6

2.4

0.8

FY 2013-14

1.6

0.8

0.8

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California is Top Recipient of U.S. Prime Contracts
Billions of dollars, FY 2011

- California
- Virginia
- Maryland
- Texas
- Massachusetts
Californians Take Large Deductions
Average deduction, thousands of dollars, 2010

- Charitable
- Real estate
- State & local taxes
- Mortgage
### California 2013

#### Drivers
- Housing
- Technology
- Tourism
- Trade
- Agriculture

#### Constraints
- Public spending
- Taxes
- Regulation
- Health care costs
- K-12 education
California Home Prices Recover
October, percent change over prior year
Silicon Valley Dominates Venture Capital
Billions of dollars, first 3 quarters of 2012

- Silicon Valley
- LA & Orange Counties
- San Diego
California Exports Approach $200 Billion
Billions of dollars

*Annualized from first 7 months of 2012 data
Business Starts Flatten Out

Annual totals

*Annualized from first 9 months of data, 2012
Domestic Out-Migration Continues
Years ending July 1, thousands
California to See More Hiring
December, change over prior year, thousands

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Action Steps

- Refinance debt
- Prioritize regulatory reform
- Broaden tax base, lower rates
- Curb health care cost spiral
- Reform education
- Address pensions
Summary/Conclusions

- California continues to recover
- Job gains broad-based
- State’s fiscal position strengthens
- Risks: sequestration, budget shortfalls, “tipping point”
2013 Economic Outlook

Alan Gin
Associate Professor of Economics
Burnham-Moores Center for Real Estate
Employment Growth
San Diego County (1991 - Present)

Source: Employment Development Department
Employment Changes, By Sector
2012 vs. 2011

Administrative and Waste Services
Leisure and Hospitality
Health Care Services
Wholesale and Retail Trade
Professional and Technical Services
Finance and Insurance
Construction
Real Estate
Government
Manufacturing

Total Job Gain = 19,300

Source: Employment Development Department
Seasonally Adjusted Employment
San Diego County (2000 - Present)
USD Index of Leading Economic Indicators for San Diego County

- Designed to lead local economy
- Components:
  - Residential units authorized by building permits
  - Local stock prices
  - Initial claims for unemployment insurance
  - Online help wanted advertising
  - Local consumer confidence
  - National Index of Leading Economic Indicators
- Short-term forecasting tool – 6-12 month outlook
### November 2012

<table>
<thead>
<tr>
<th>Index</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential units authorized by building permits</td>
<td>-0.68%</td>
</tr>
<tr>
<td>Initial claims for unemployment insurance</td>
<td>+1.26%</td>
</tr>
<tr>
<td>Local stock prices</td>
<td>-0.22%</td>
</tr>
<tr>
<td>Consumer confidence</td>
<td>+0.59%</td>
</tr>
<tr>
<td>Online help wanted advertising</td>
<td>+0.25%</td>
</tr>
<tr>
<td>National Index of Leading Economic Indicators</td>
<td>-0.41%</td>
</tr>
</tbody>
</table>
2013 Outlook

- Solid but not spectacular growth expected in year ahead
  - Local economy expected to outpace national economy
  - Job growth of 25,000+ in 2013
  - Unemployment rate to fall to the 8 percent range
  - Job growth in health care, administrative and support services, professional and technical services, leisure and hospitality, and construction
  - Housing market good in 2012, even better in 2013
Potential Problems

- Problems with the national and international economies
- Fiscal difficulties at both the state and national levels
  - "Fiscal cliff" partially dealt with, but fight over debt ceiling could cause havoc in the financial markets
- Loss of good paying jobs leading to greater income inequality
## Occupations with the most projected job openings (2008 – 2018)

<table>
<thead>
<tr>
<th>Title</th>
<th>Median Income</th>
<th>Title</th>
<th>Median Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Salespersons</td>
<td>$20,930</td>
<td>Registered Nurses</td>
<td>$80,734</td>
</tr>
<tr>
<td>Waiters and Waitresses</td>
<td>$18,927</td>
<td>Office Clerks</td>
<td>$29,516</td>
</tr>
<tr>
<td>Cashiers</td>
<td>$19,202</td>
<td>General and Operations Managers</td>
<td>$106,866</td>
</tr>
<tr>
<td>Customer Service Representatives</td>
<td>$35,648</td>
<td>Counter Attendants</td>
<td>$19,570</td>
</tr>
<tr>
<td>Food Preparation and Serving</td>
<td>$19,168</td>
<td>Personal and Home Care Aides</td>
<td>$21,195</td>
</tr>
</tbody>
</table>

Source: Employment Development Department
Employment

Investment and Hiring

Consumer Confidence

Consumer Spending

Cross-out symbol
“It’s tough to make predictions, especially about the future.”

Yogi Berra
US The Problem…
Slow Economic Growth

1990-2012

Potential GDP
Trillion$ Annual Gap
Actual GDP
US Solutions…
Fiscal & Monetary Policy

Federal Government Revenue & Expenditures

- Expenditures: $1.1 Trillion Deficit
- Revenues

Excess Bank Reserves Loanable Funds

- $1.5 Trillion

10 Yr. Treasury & FF Rate

- FF Rate
- 10 Year T-Rate

Graphs:
- 1980-2012
- 1960-2012
US Results…
Below Trend Performance

**Debt / Income Ratio**
- 132%
- 66%
- 5%
- 1%
- 3%
- 8%

**Expansion Begins**
July 2009

**Jobs Gap**
- 7.1M Jobs

**Income Gap**
-9.0%

Jobs Gap-Trend VS Actual

Income Gap-Trend VS Actual

40 Months

2012 research.stlouisfed.org
Then…
“It’s the Economy, Stupid”

Now…
It’s the Labor Market…
US Employment-Population Ratio

42% of Adult Population not Employed

1950 - 2012

4 ppt Drop
Labor Force Challenges

STRUCTURAL-skill mismatches
INCENTIVES-social program expansions
Outlook for San Diego
SD Payroll Jobs
Change Y-O-Y by Quarter 1991-2012
SD 2011 Jobs Actual vs Estimate
(EDD Non-Agricultural Employment)
SD Job Change 2007-2011

Industries

Construction
Manufacturing
Trade, Transportation & Utilities
Information
Financial Activities
Professional & Business Services
Educational & Health Services
Leisure & Hospitality
Other Services
Government

-31,800
-23,300
-13,500
-11,700
-9,700
-7,300
-4,900
-1,200
6,000
19,600

-40,000 -20,000 0 20,000 40,000
## Monthly Unemployment Rates

### November 2011 to 2012 (YOY)

<table>
<thead>
<tr>
<th></th>
<th>San Diego</th>
<th>California (SA)</th>
<th>United States (SA)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.4% to 8.3%</td>
<td>11.3% to 9.8%</td>
<td>8.7% to 7.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan-06</th>
<th>Jan-07</th>
<th>Jan-08</th>
<th>Jan-09</th>
<th>Jan-10</th>
<th>Jan-11</th>
<th>Jan-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>3.4%</td>
<td>3.5%</td>
<td>3.6%</td>
<td>3.7%</td>
<td>3.8%</td>
<td>3.9%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>
SD Per Capita Income
Real 2011$, 1980 – 2011

32% Growth over 31 years
SD Venture Capital Funds
Resources for High Tech Jobs, M$ per Year

$0
$500
$1,000
$1,500
$2,000
$2,500

92 94 96 98 '00 '02 '04 '06 '08 10 12

23Q12
SD Housing Permits & Prices

SD Residential Permits
Annual, 1990 – 2012

SD Home Prices
Cumulative Change in Home Prices 2005-2012
US Housing Starts - Gaining Mo

Privately Owned Housing Starts: 1-Unit Structures (HOUST1F)
HOUST5F+HOUST2F

(Thousands of Units), (Thous. of Units + Thous. of Units)

1960-2012

SF Starts

MF Starts

1960-2020
Trade with Mexico thru Otay Mesa

Trade Value M$
2013 Outlook Summary

- **US**
  - Slow Growth, Below Trend
  - Problem is speed not direction

- **San Diego**
  - Job Growth 1%
  - U-rate 7.5%
  - Home Price +5%
  - Trade with Mexico +6%
  - Military cutbacks threaten SD
2013 San Diego Economic Outlook

29th Annual Economic Roundtable
Marney Cox
Chief Economist
San Diego Association of Governments
January 25, 2013
15 Minute Break

For today’s presentations, the County of San Diego Fact Sheet, other important information and resources, please visit:

http://www.sdcounty.ca.gov/economicroundtable/

Today’s event will be replayed on the County Television Network. For dates, time, and channels, please visit:

http://countynewscenter.com/video/schedule