

“We demand rigidly defined areas of doubt and uncertainty!”  
— Douglas Adams, *The Hitchhiker's Guide to the Galaxy*

# 2016 & 2017 Economic Outlook for The US, CA & Bay Area

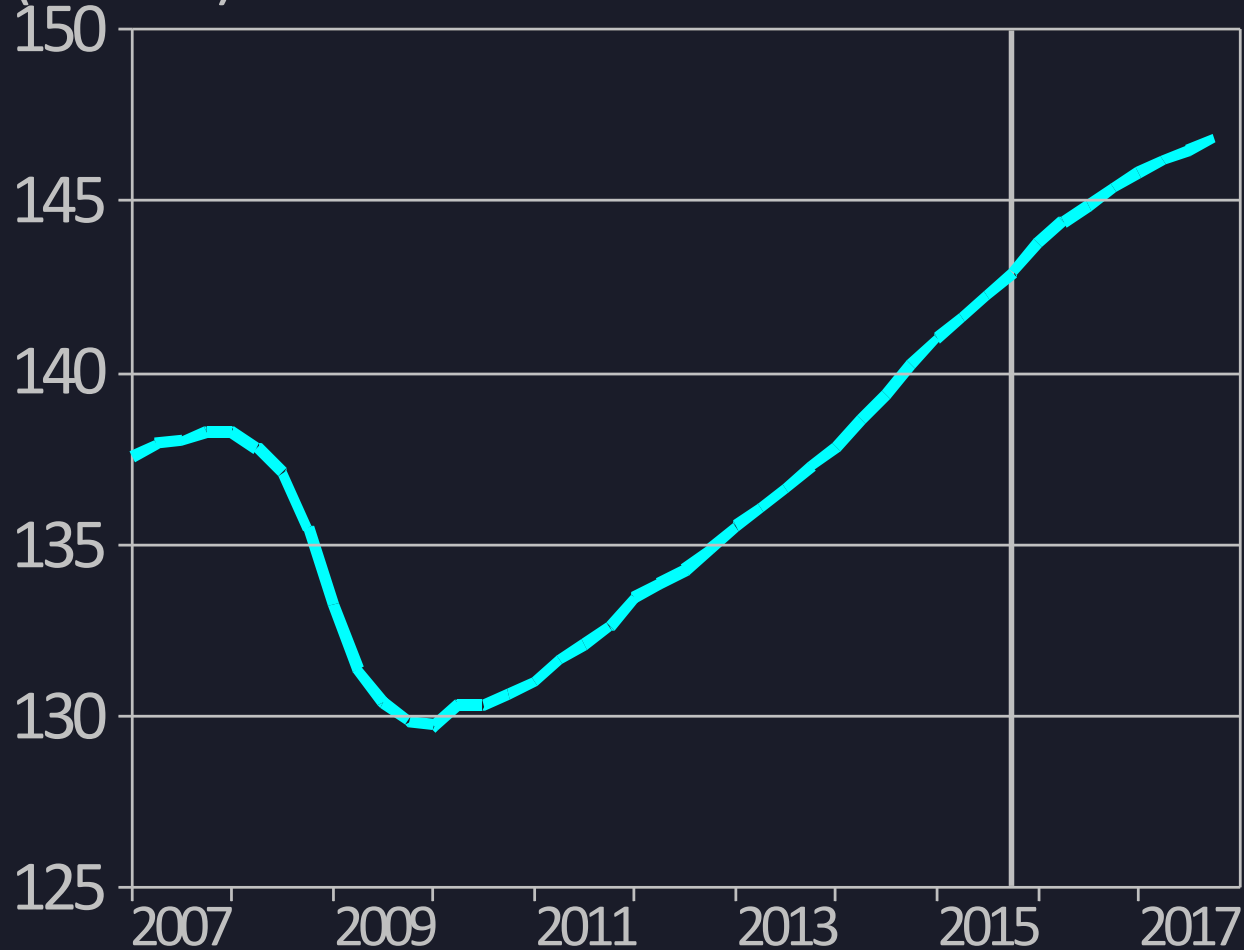
Jerry Nickelsburg  
Adjunct Professor of Economics  
Anderson School of Management  
Senior Economist  
UCLA Anderson Forecast

# US Outlook

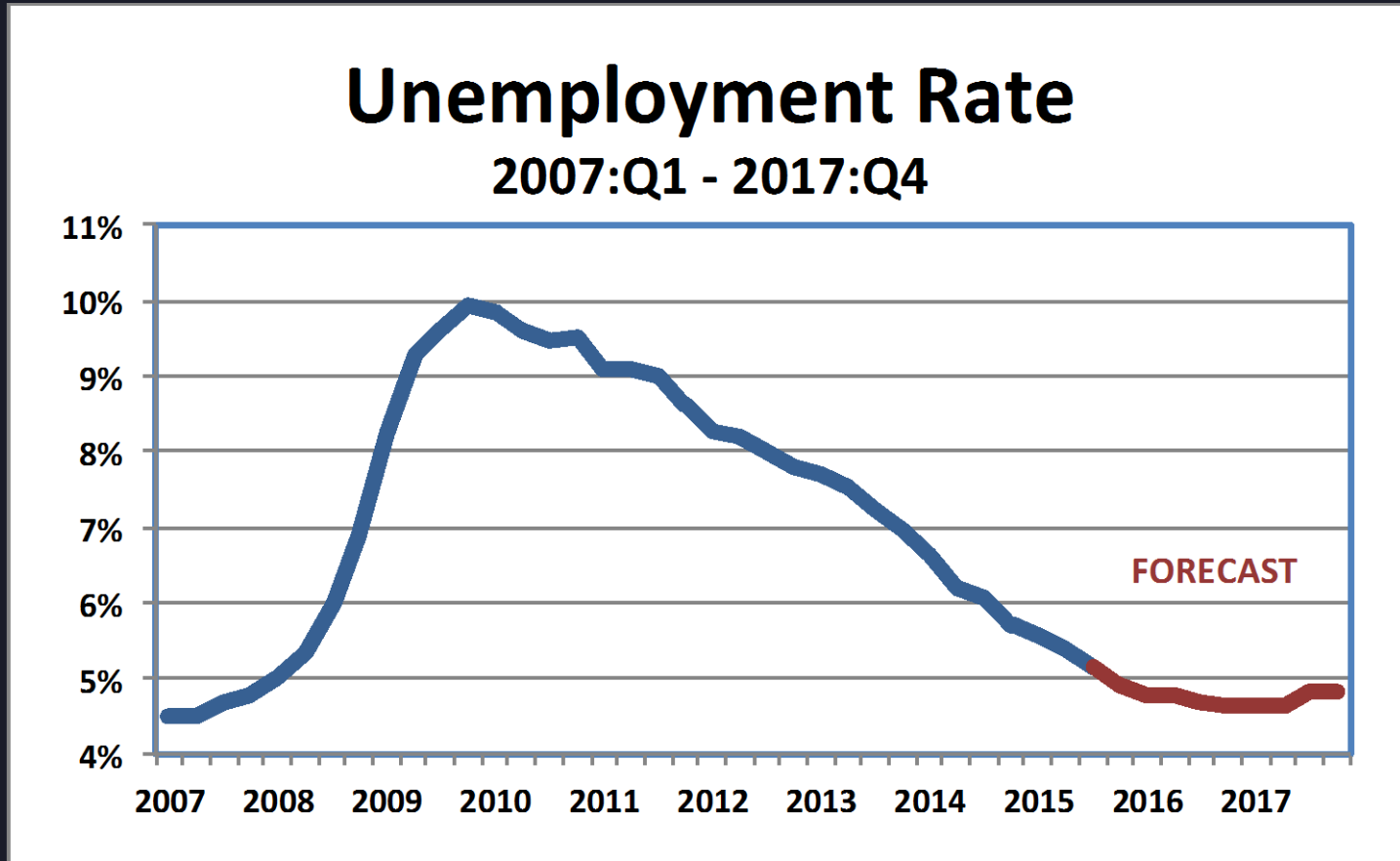
- Economy Approaching “Full Employment”
- 3% Real GDP & 4% Wage Growth  
Inflation to Exceed 2% - Fed Tightens
- But Risks Abound

# Job Growth Remains Solid

(Millions)

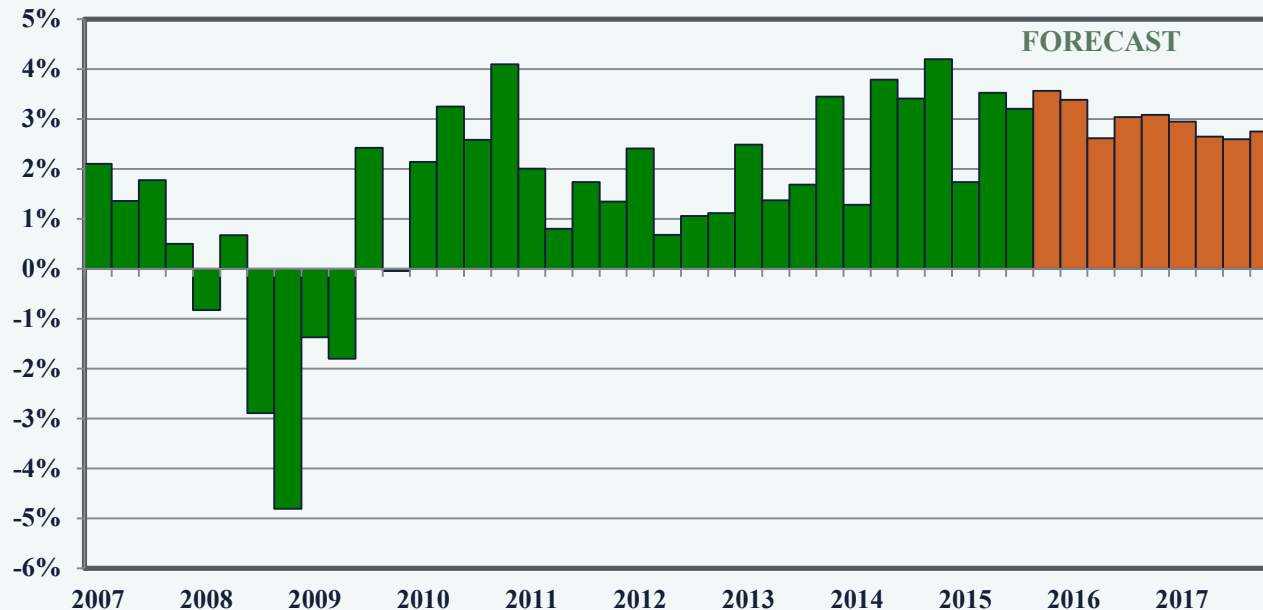


# “Full Employment” as Measured by the Unemployment Rate



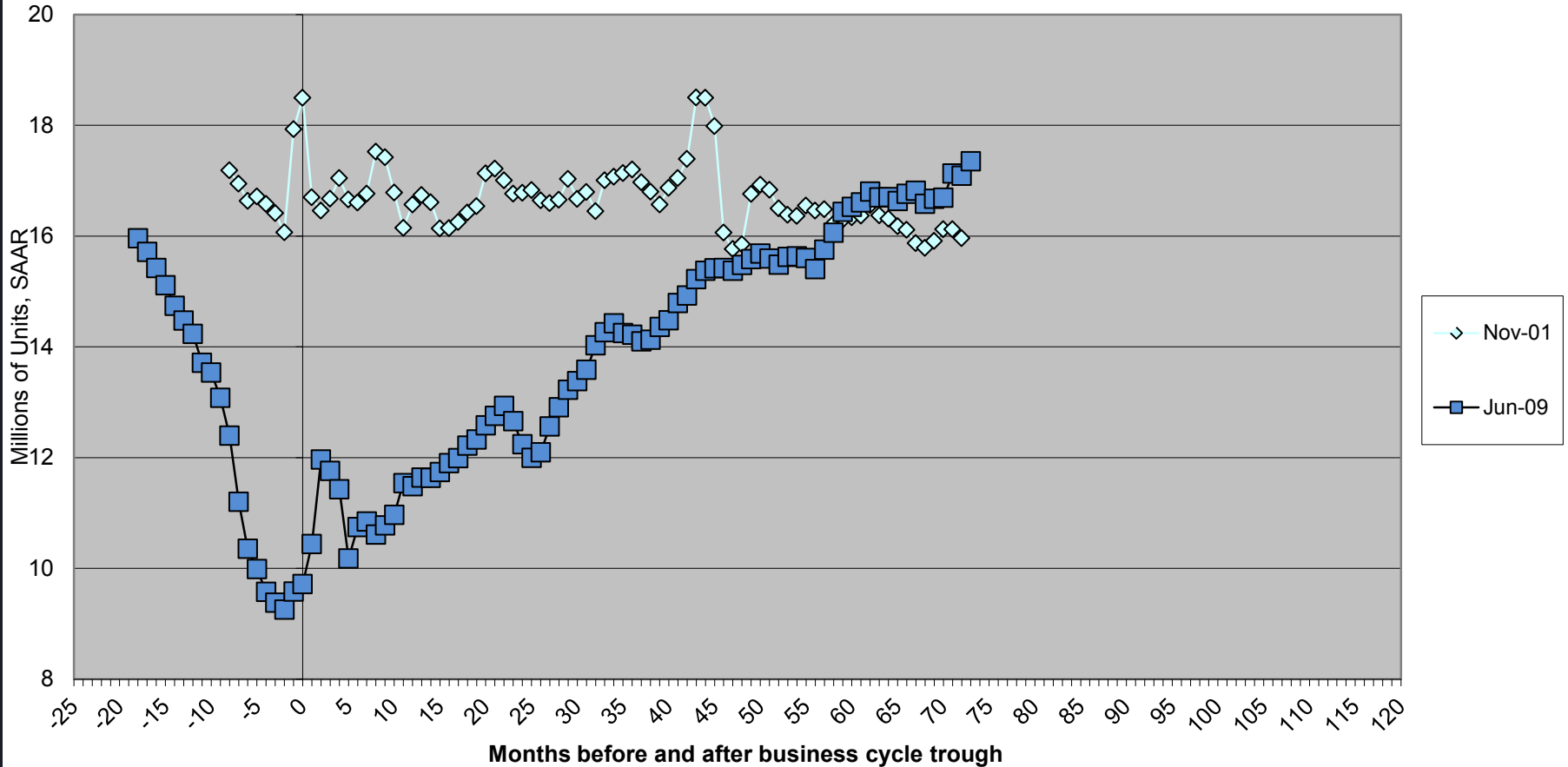
# Consumers Are Now Driving The Expansion

## Real Consumer Spending SAAR, 2007:Q1 - 2017:Q4



# Autos Are Part of The Reason

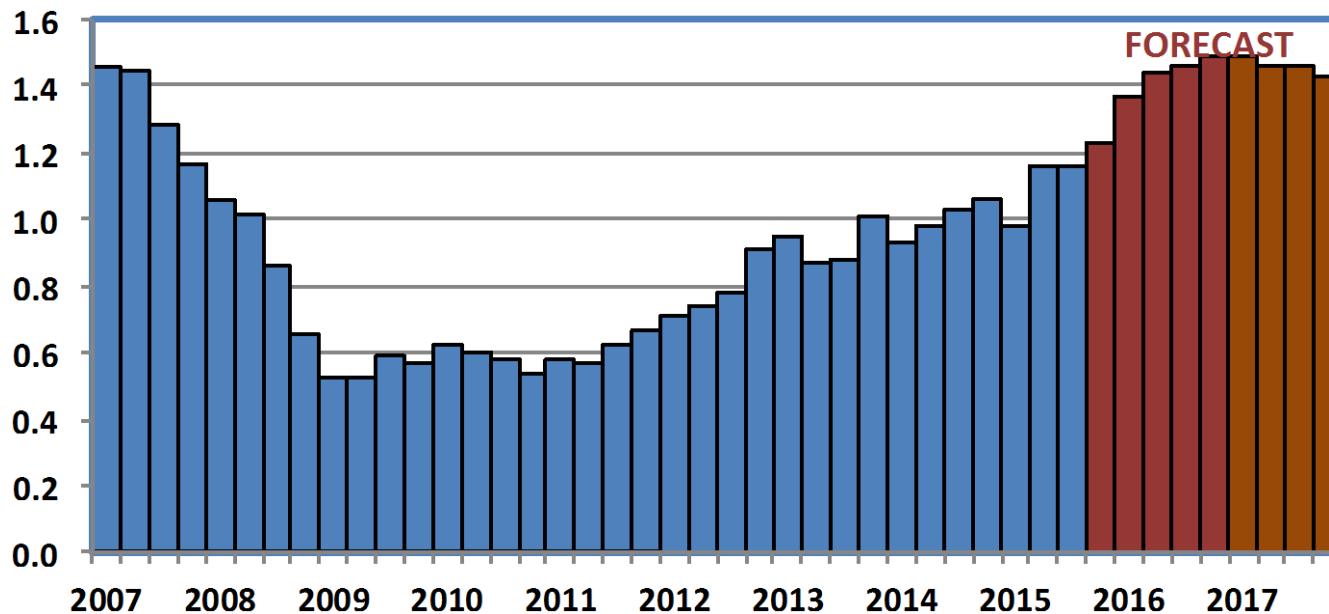
## Light Vehicle Sales Over Expansions: 3 Month Moving Average



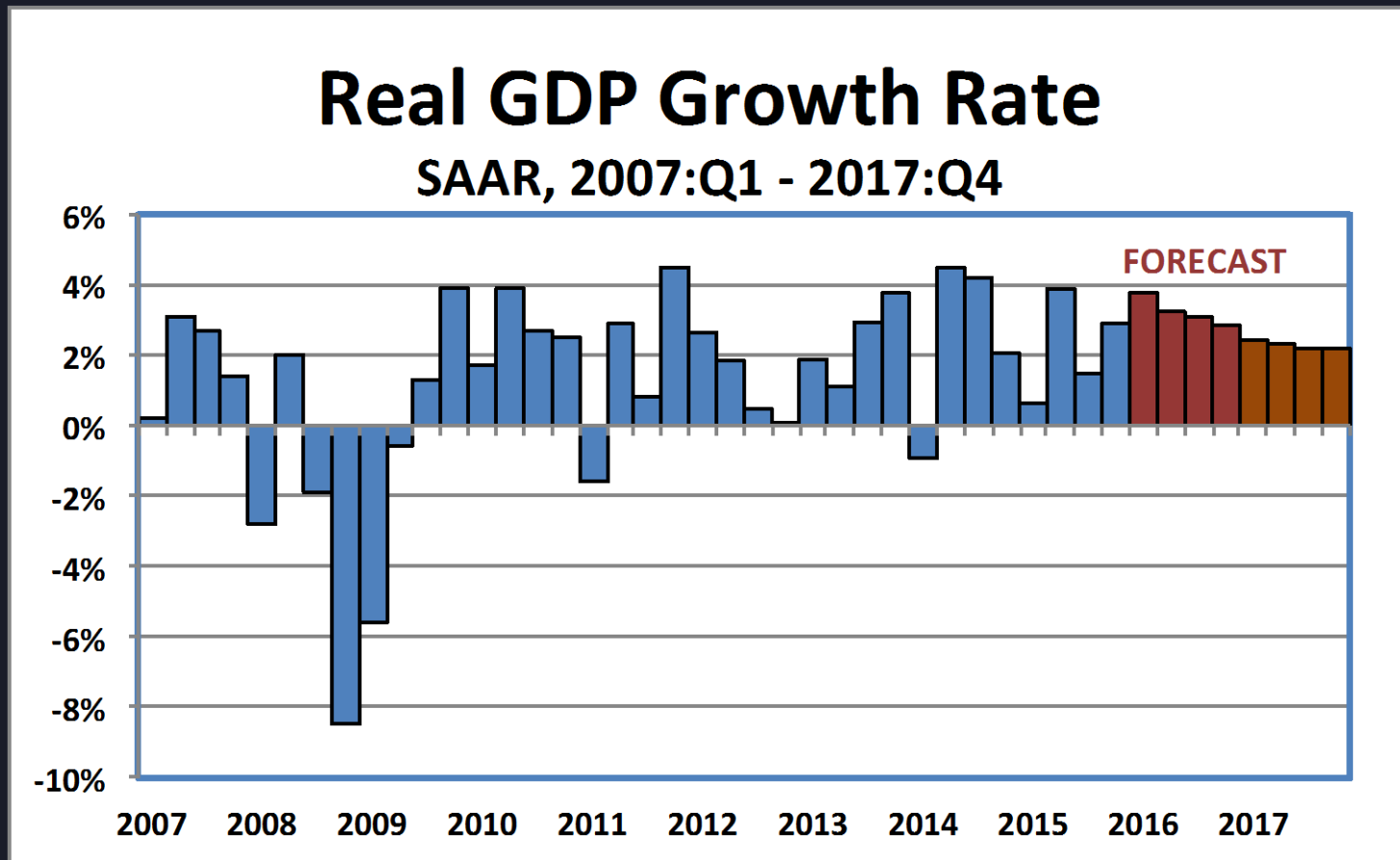
# Housing Starts Rebounding

## Housing Starts

000, SAAR, 2007:Q1 - 2017:Q4



# 3% Real Growth in 2016





# Inflation on Track to 2+%

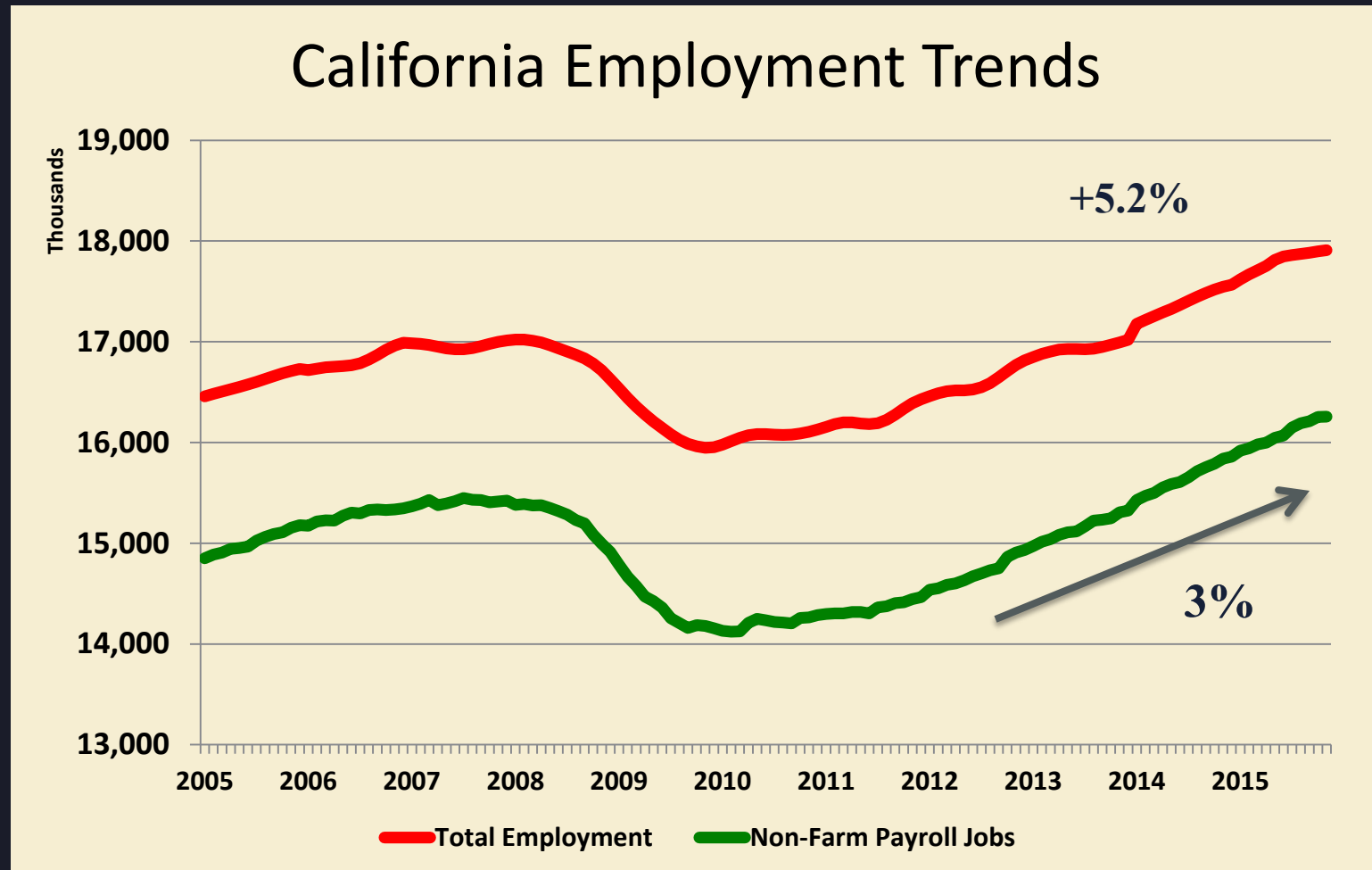
(Percent Change Year Ago)



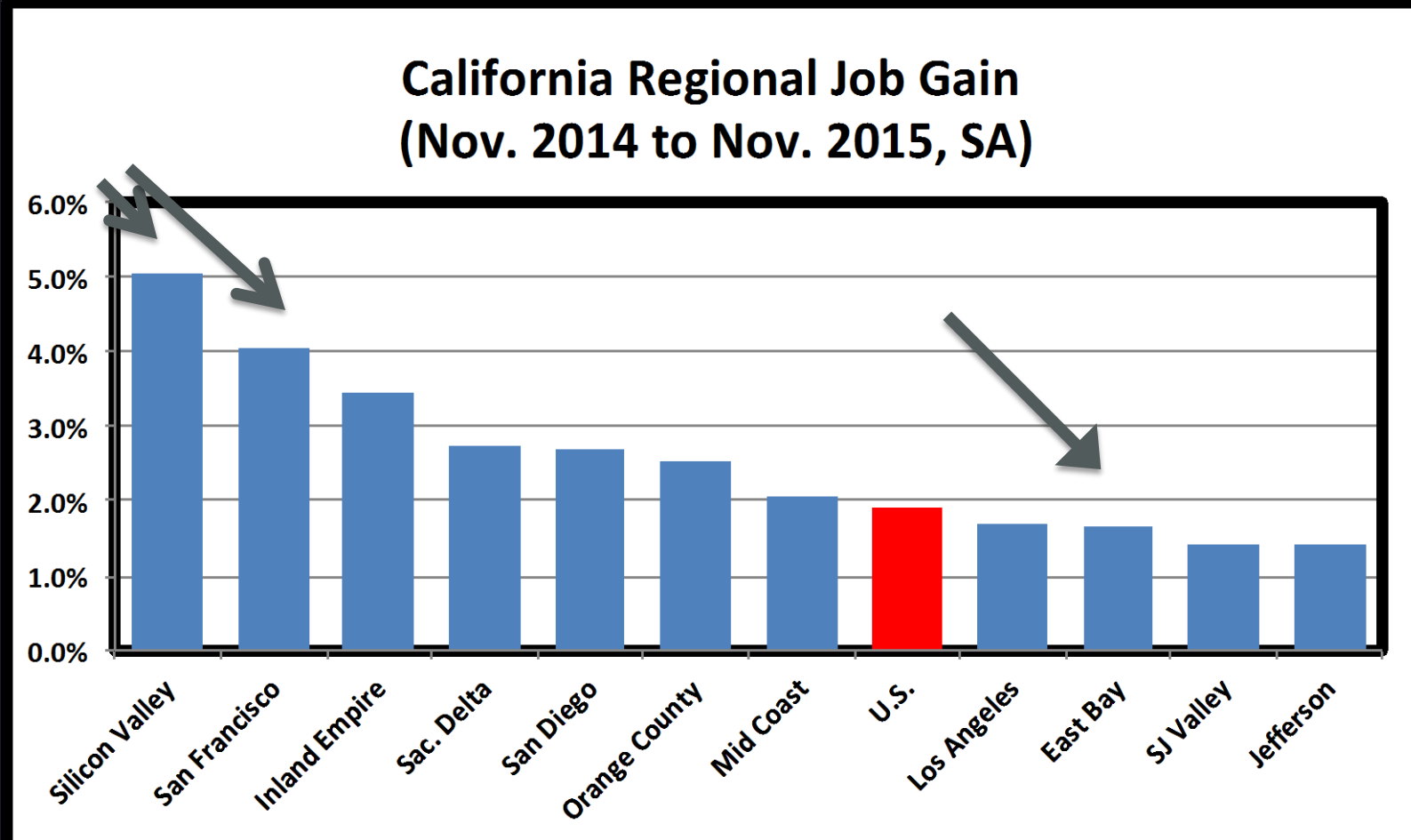
# How Do We Get a Recession?

- Not from housing & autos
  - Paths to a recession
    1. Unicorns, pentacorns and decacorns, oh my!
    2. Equipment & software—enough already!
    3. Manufacturing & China & The Middle East
- It's time to save a lot more!

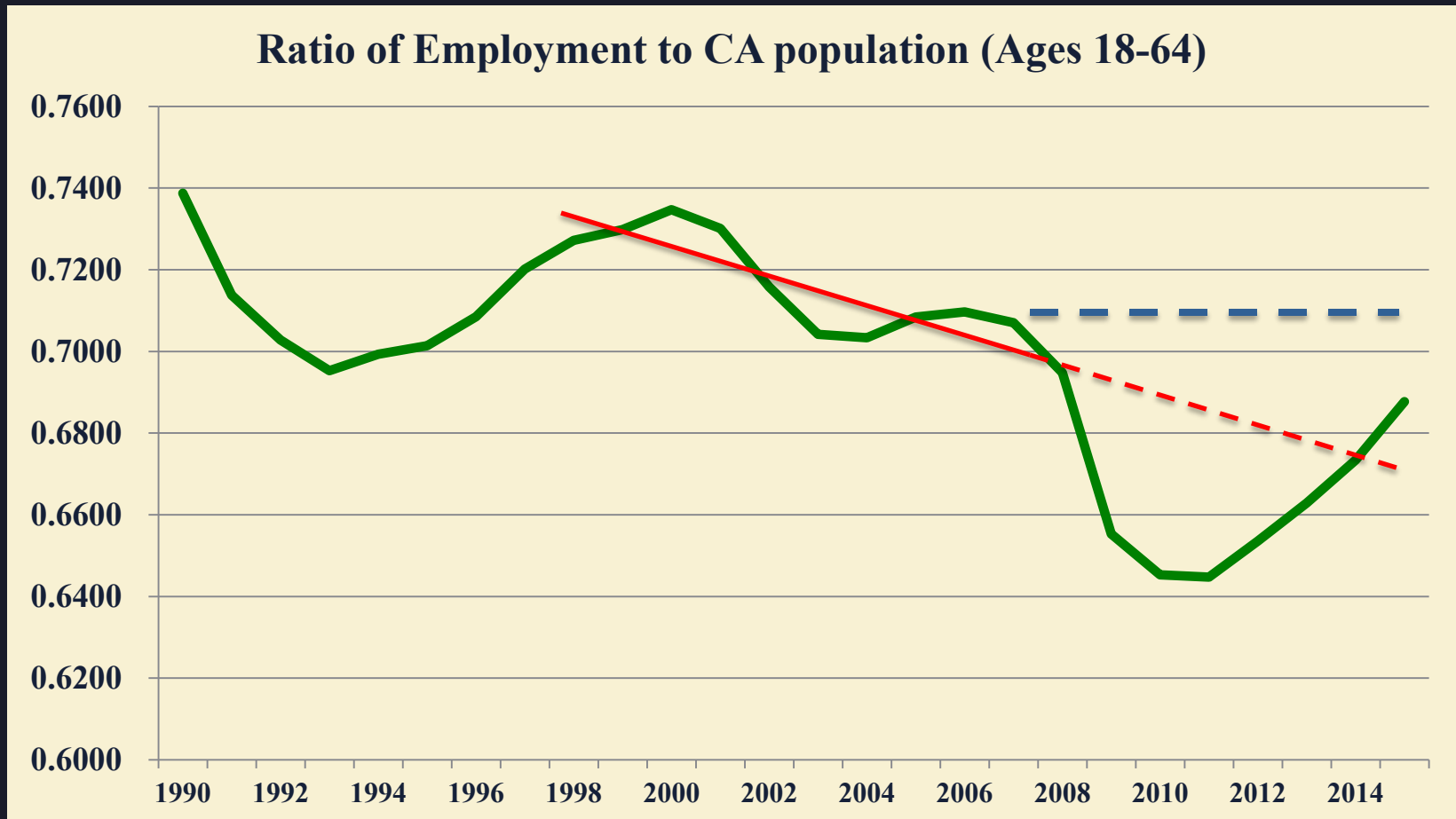
# Record Employment Levels



# Geographically widespread

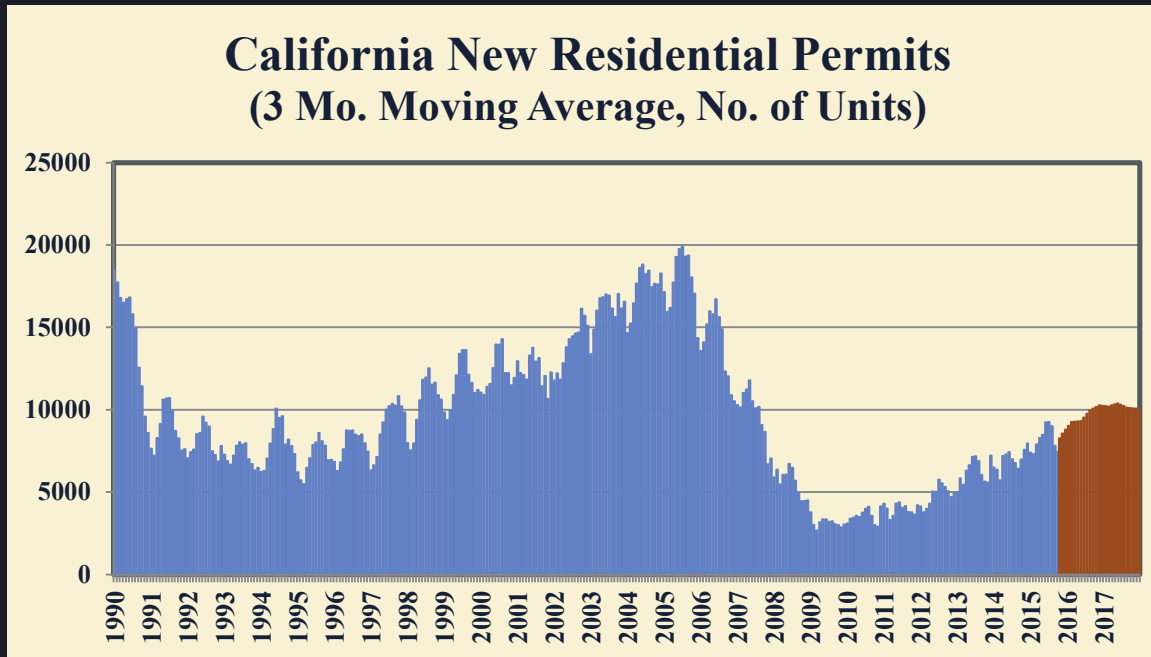


# Population Limits Growth Rates



# Population Growth

|                  | 2015  | 2016  | 2017  |
|------------------|-------|-------|-------|
| Natural Increase | 0.86% | 0.81% | 0.90% |
| With Immigration | 0.86% | 0.90% | 0.94% |
| Housing Starts   | 102.3 | 118.1 | 122.4 |



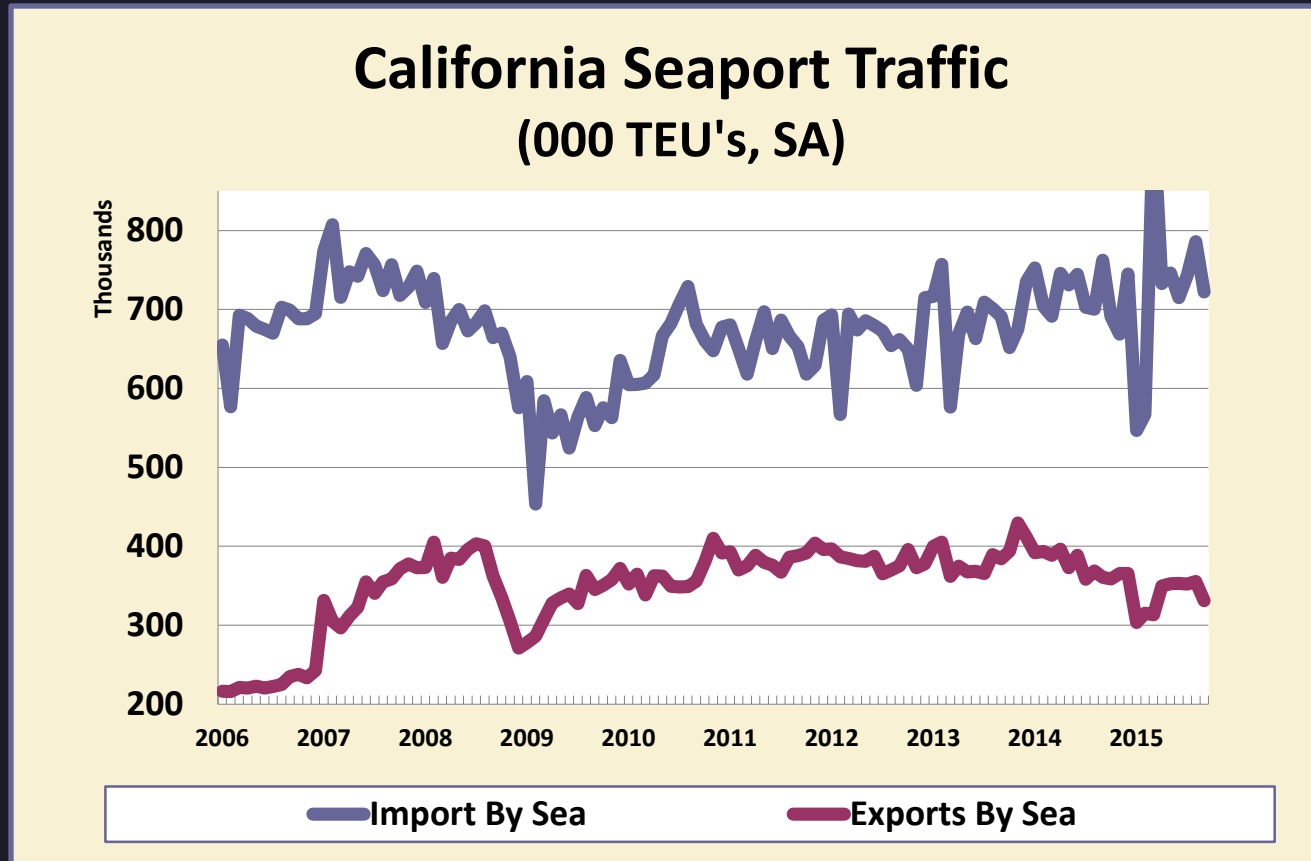
Annual  
Housing  
Starts as %  
of Housing  
Stock 2017  
= 0.87%

# But Slowing Growth Does Not Mean Running out of Steam

- Growth depends on the demand for goods & services
- Housing
- Transportation & Logistics
- Tourism
- Government



# Volumes At The Seaports Are Up





# Record International Visitor Arrivals



# And Income Tax Revenue Soars



# Implications

- CA growth rates will slow down but growth is not stalling because:
- US Economy driving logistics and transportation
- Tourists driving leisure and hospitality
- High rents driving residential construction
- Consumers are driving retail
- Government is expanding modestly on higher tax revenues

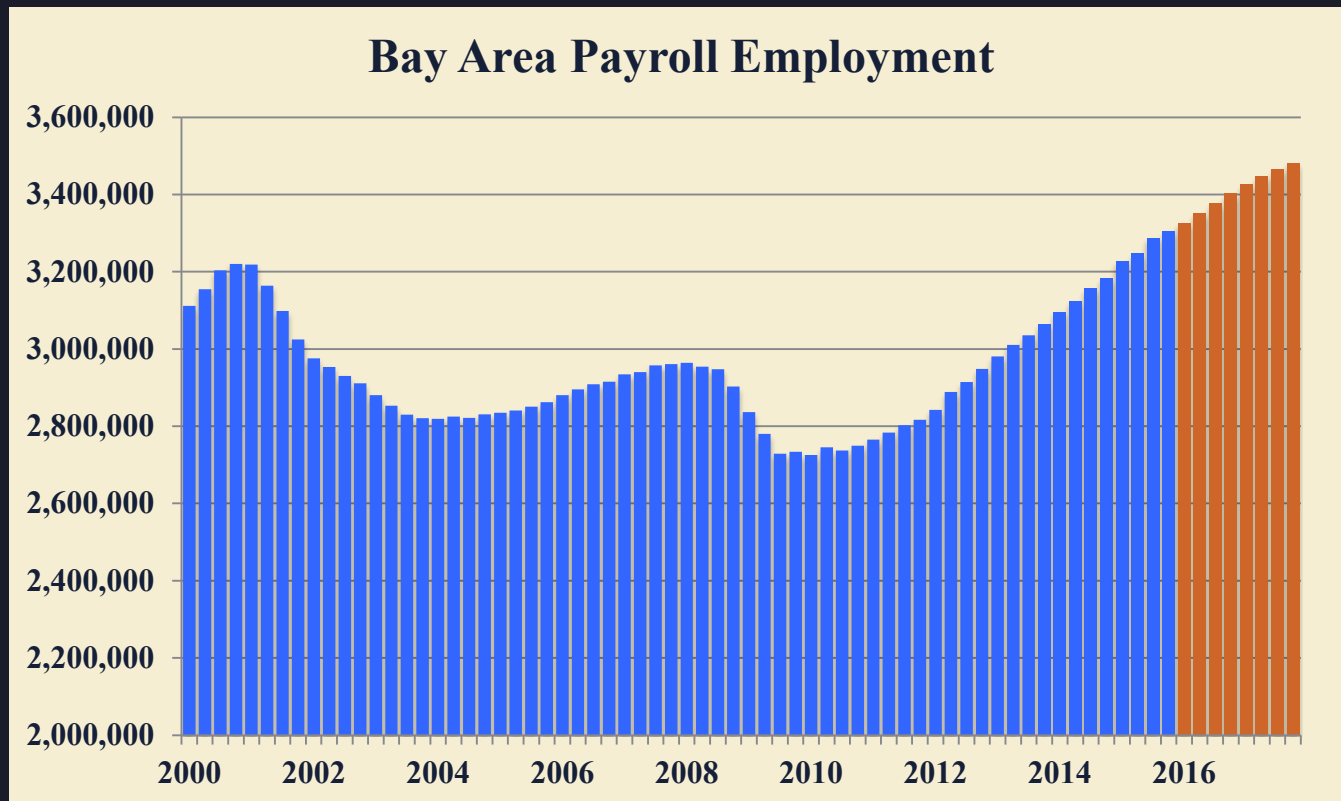
# CALIFORNIA FORECAST

|                         | 2015  | 2016  | 2017  |
|-------------------------|-------|-------|-------|
| Payroll Employment      | 3.0%  | 2.3%  | 1.6%  |
| Unemployment            | 6.2%  | 5.2%  | 4.9%  |
| Personal Income (real)  | 4.3%  | 3.4%  | 3.2%  |
| Housing Permits (units) | 102.3 | 118.1 | 122.4 |
| Population Growth       | 0.9%  | 0.9%  | 0.9%  |

# The Anderson Forecast Bay Area Model

- 5th Annual Bay Area Forecast
- Forecast flows from U.S. to CA to Bay Area
- Variables Forecast
  - Employment
  - Unemployment
  - Personal Income
  - Taxable Sales
  - Employment By Industry

# UCLA Bay Area Employment

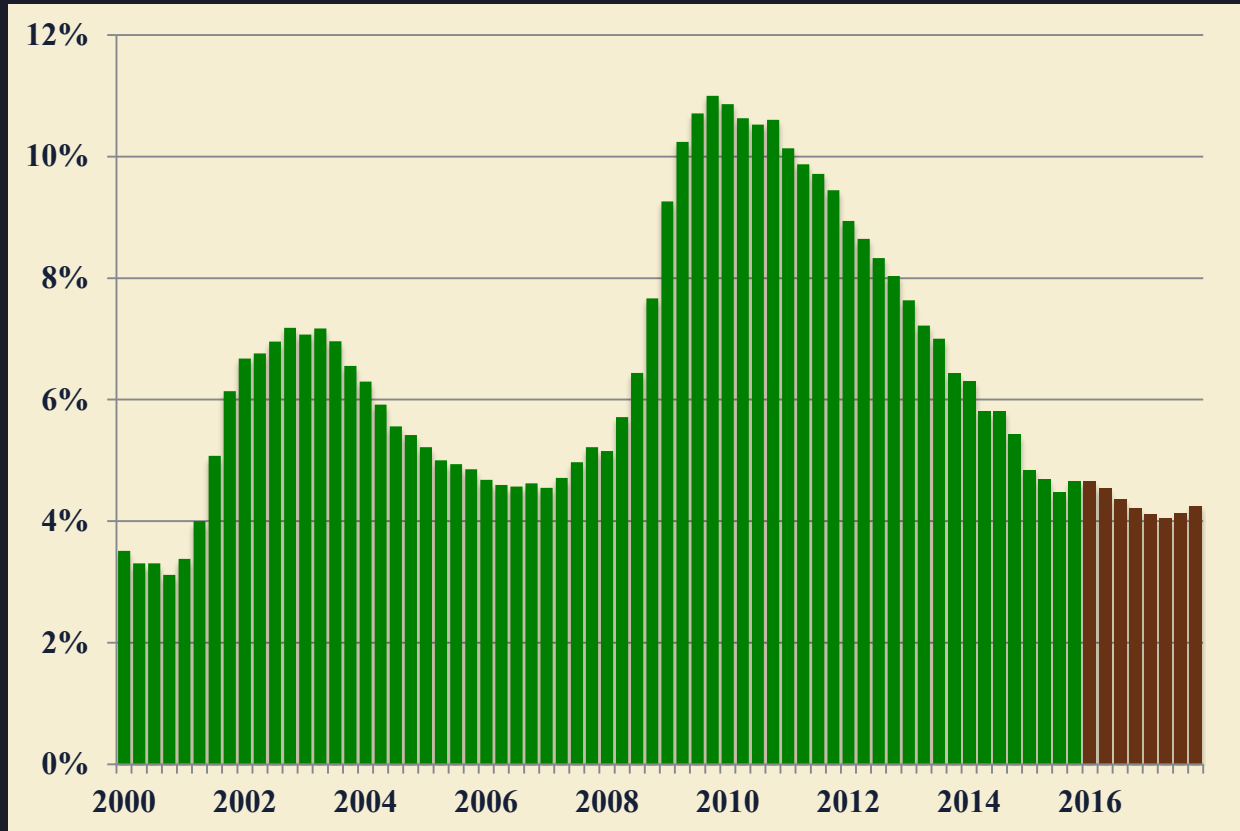


2015  
4.0%

2016  
3.0%

2017  
2.7%

# Bay Area Unemployment



# The Bay Area Forecast

- Bay Area to continue to outperform
- New employment highs in 2016 & 2017
- The risks to the Bay Area Forecast are the same as the US risks but were they to occur, the impact will be greater