



The Economic Outlook *Focus on the IE*

Christopher Thornberg, PhD
Director of the UCR Forecast
Center

TRUMPED! What does it mean for the economy?

The November Surprise!

The Perils of Political Forecasting

 **FiveThirtyEight**

Nate Silver

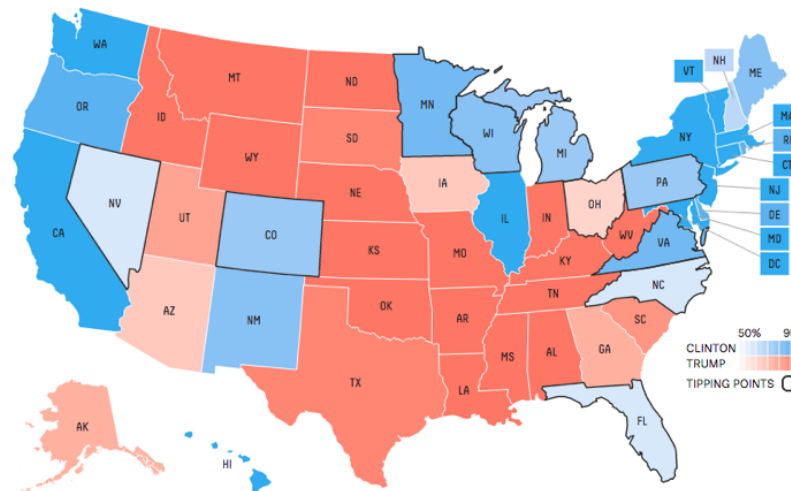
8 am, Tuesday November 8

Who will win the presidency?

Chance of winning

 Hillary Clinton
71.4%

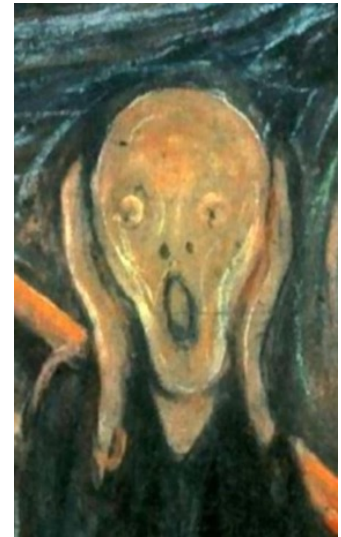
Donald Trump 
28.6%



Forecasting and Development

Anger of the Electorate

- American families, no raise in 15 years
- The crushing burden of the Affordable Care Act
- Secular stagnation / declining productivity
- Excessive taxes / reduced business investment
- US manufacturing output decimated by trade
- Crime on the rise, inner cities in decline
- Energy sector hurt by excessive regulations
- Immigrants stealing US jobs, record numbers of discouraged workers
- Income inequality at record high levels
- Federal debt levels out of control
- The Fed holding rates “dangerously” low



Anger of the Electorate?

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

Things aren't that bad

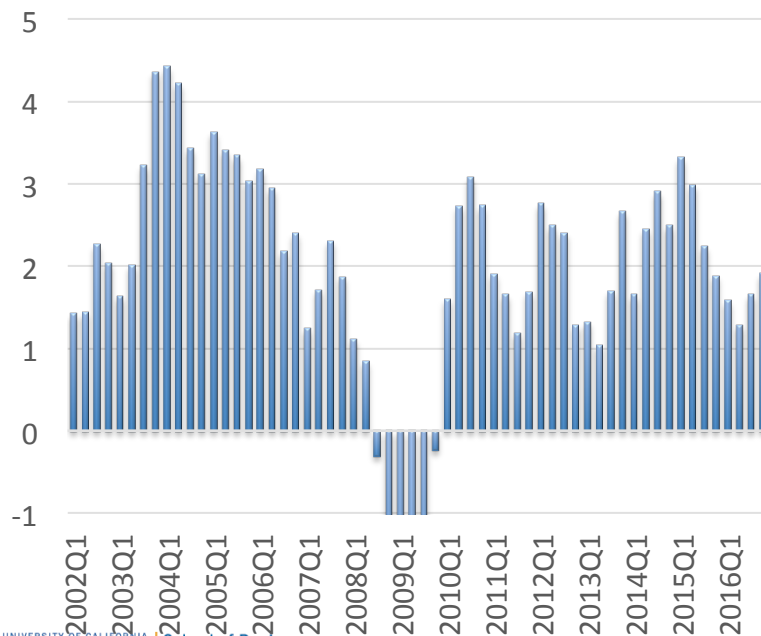
- US GDP is growing slow, but it is growing
- Fundamentals are fine, no chance of recession (for now)
- U.S.: 5% world's population, 20% of the world's consumption
- Real incomes have been rising, true well-being even more so
- Labor markets are tight
- Inflation slow, interest rates low
- Business investment solid, profits are high
- US energy: too successful for its own good
- Manufacturing: doing fine, trade (on net) good for US

The true challenges

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

GDP Growth

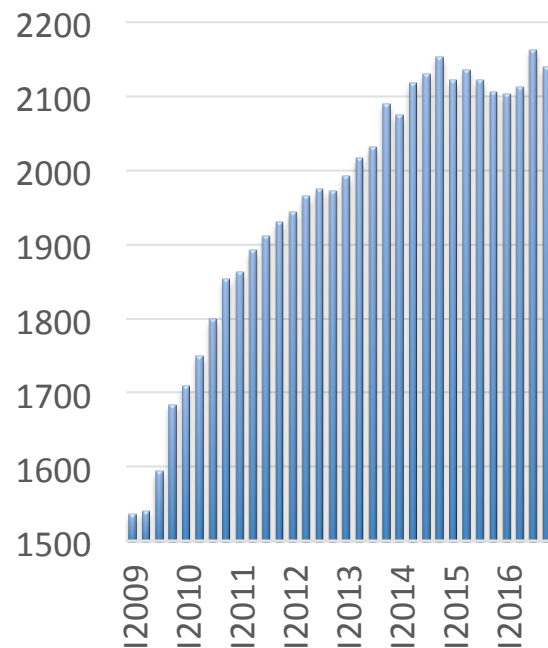
Real GDP: Y-o-Y Growth



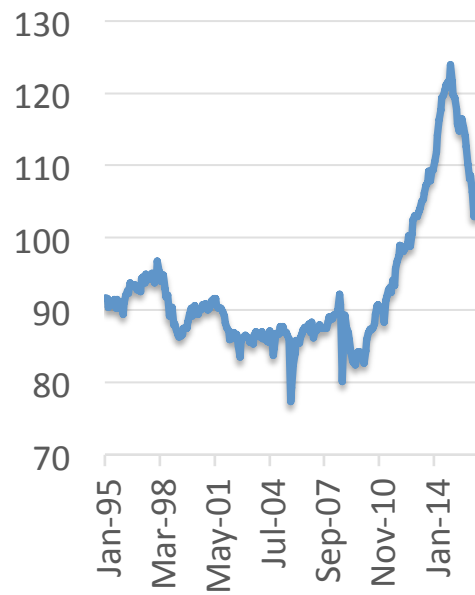
	2016			
	I	II	III	IV
GDP Gr	0.80	1.40	3.50	1.90
Final Demand Gr	1.20	2.38	2.16	2.66
Consumption	1.11	2.88	2.03	2.05
Goods	0.25	1.51	0.77	1.23
Services	0.86	1.37	1.26	0.81
Fixed Investment	-0.15	-0.18	0.01	0.51
Structures	0.00	-0.06	0.30	-0.12
Equipment	-0.59	-0.17	-0.26	0.11
IPP	0.15	0.35	0.13	0.18
Residential	0.29	-0.31	-0.16	0.35
Inventories	-0.41	-1.16	0.49	0.94
Net exports	0.01	0.18	0.85	-1.70
Exports	-0.09	0.21	1.16	-0.50
Imports	0.09	-0.03	-0.31	-1.20
Government	0.28	-0.30	0.14	0.06
Federal	-0.10	-0.02	0.16	-0.08
State and local	0.39	-0.28	-0.02	0.14

Drivers of Rebounding Growth

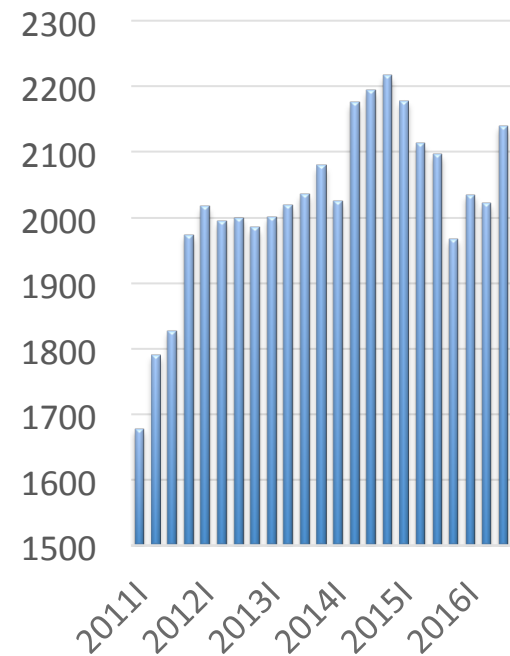
Exports



Industrial Production: Mining

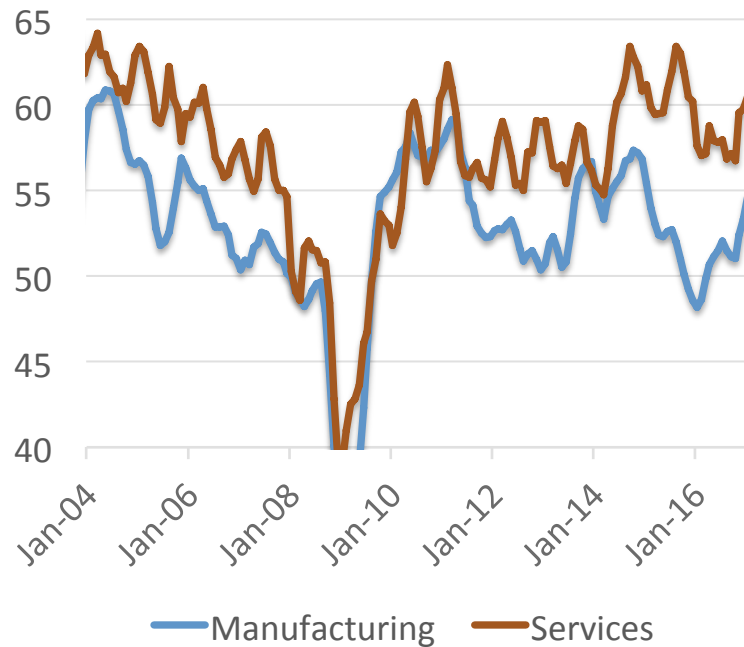


Corporate Profits

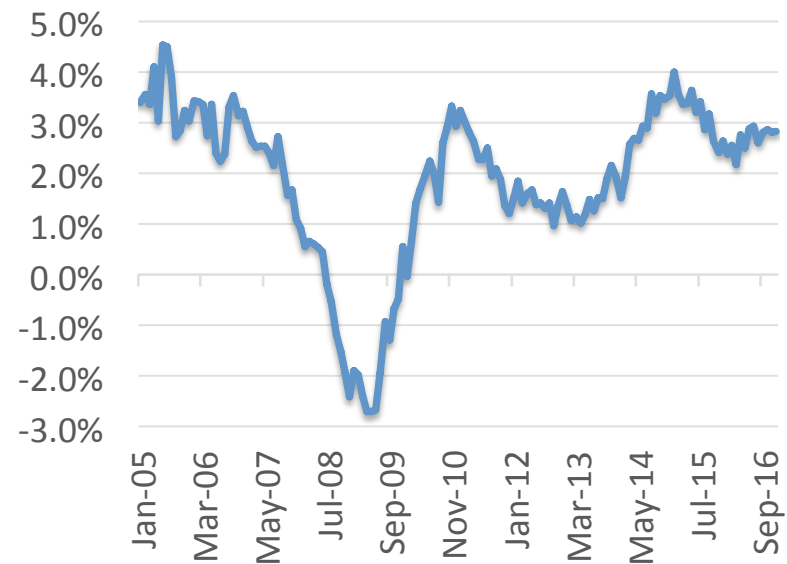


General Indicators

ISM Indexes Smoothed to January

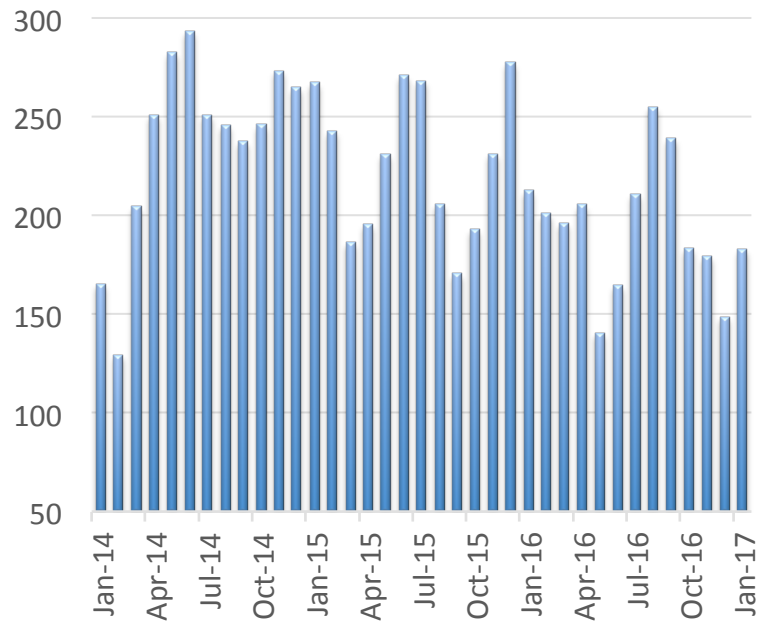


Real Consumer Spending (Y-o-Y Gr) to December

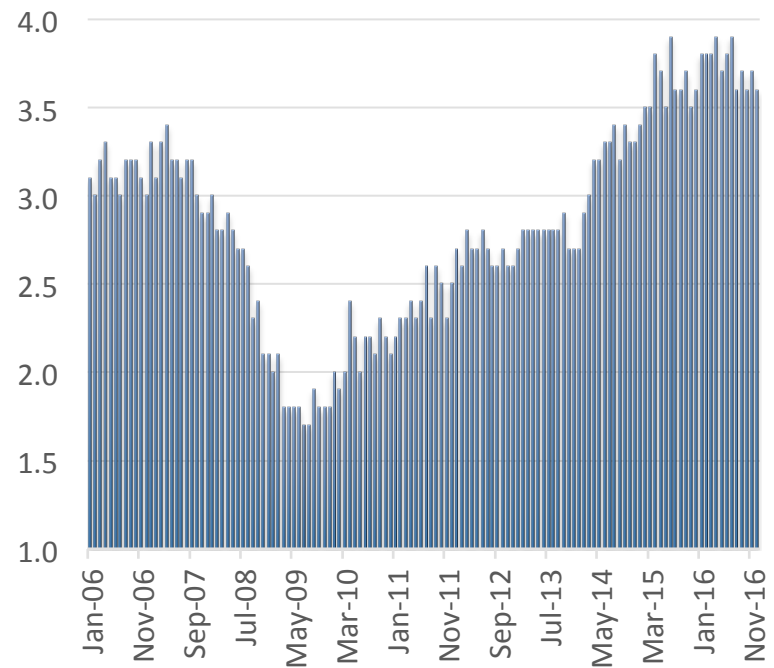


Labor Markets

Monthly Change Payrolls (3 month moving average to January)

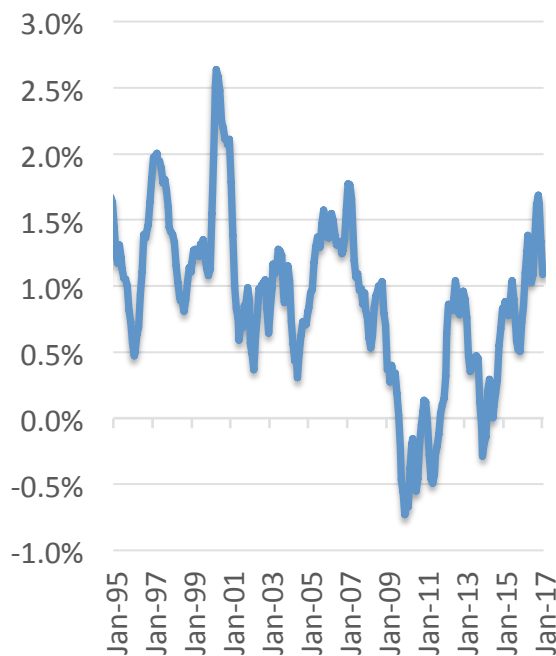


Job Openings Rate

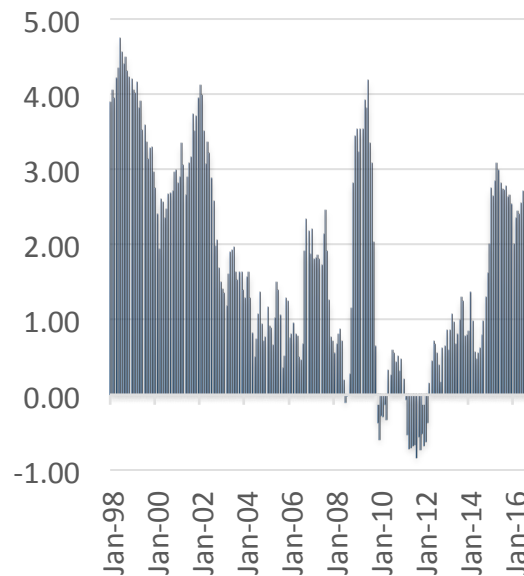


Signs of Tighter Labor Markets

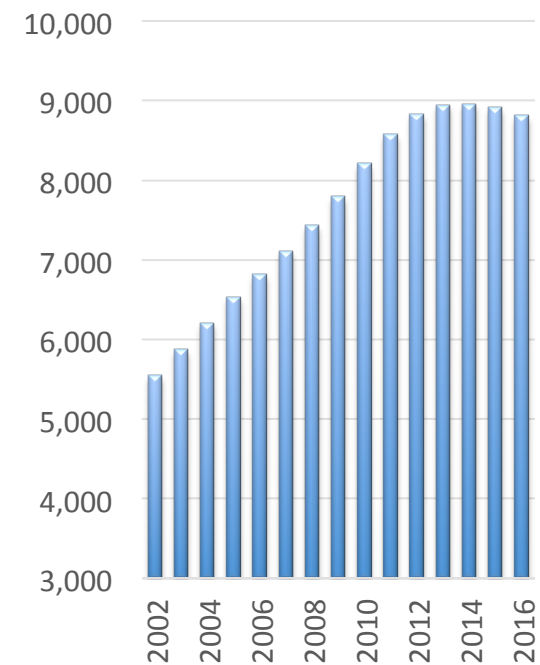
Labor Force Growth



Growth Real Median Wages (Adj, Y-o-Y to Dec)

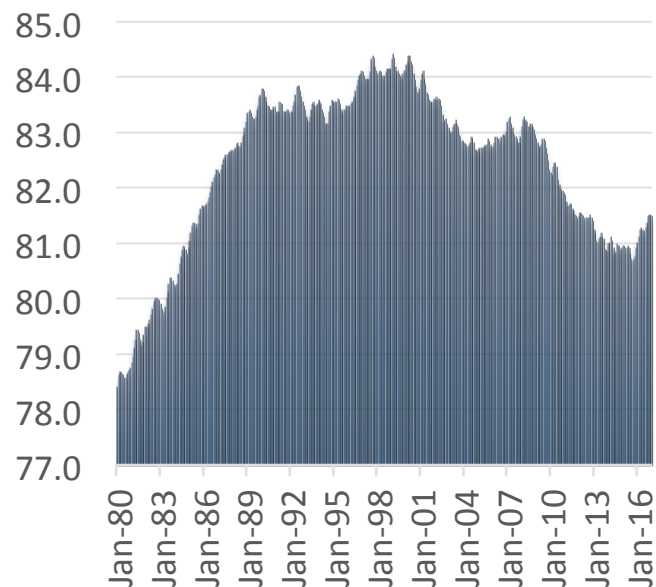


SSDI Enrollment (Thous)



Blue Collar Blues?

Participation Rate 25-54
Year Old



*Change in Labor Force With 2000
Participation Rates (Total 215 Million)*

	Bach +	Some College	High School	< HS	All	
Men					Men	-1,220.1
25 to 34	-70.1	185.1	403.9	326.9	< 55 BC	1,940.1
35 to 44	-62.3	147.1	305.6	119.2	55+ BC	-382.5
45 to 54	-91.1	136.6	237.3	78.5	Bach +	-716.6
55 to 64	-217.7	-57.1	-133.9	16.3	Total	841.0
65+	-275.3	-131.9	-51.1	-24.7		
Women					Women	
25 to 34	-337.4	-161.9	121.8	92.4	< 55 BC	519.0
35 to 44	-362.3	56.6	222.5	124.1	55+ BC	-1,080.8
45 to 54	-37.0	-10.4	63.1	10.7	Bach +	-1,499.4
55 to 64	-435.7	-319.6	-215.3	-80.8	Total	-2,061.1
65+	-327.0	-276.7	-173.7	-14.5		

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

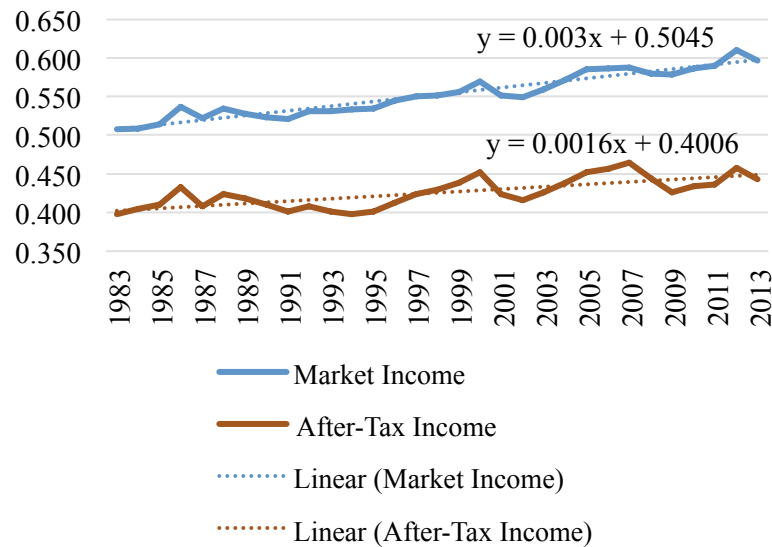
State Participation 2015

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	South Carolina	59.0

Income vs Wealth

Gini Indexes for Gross and Net US Income

Source: Congressional Budget Office

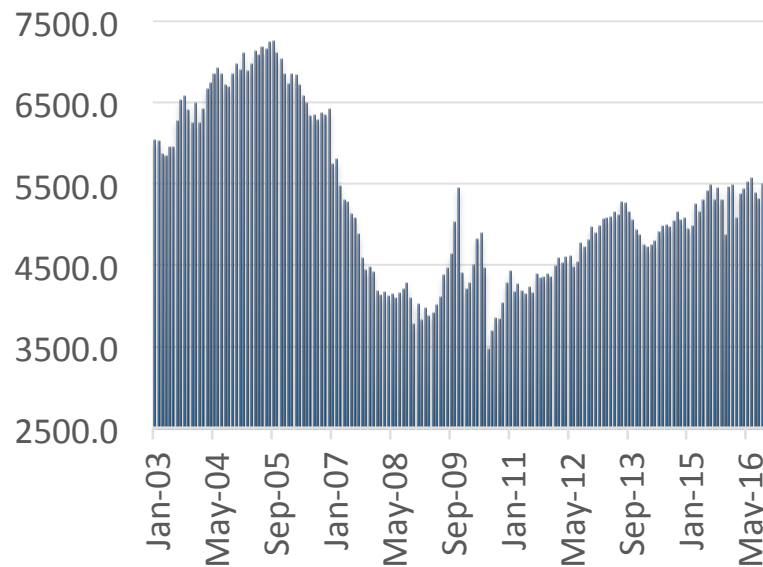


Real Net Worth

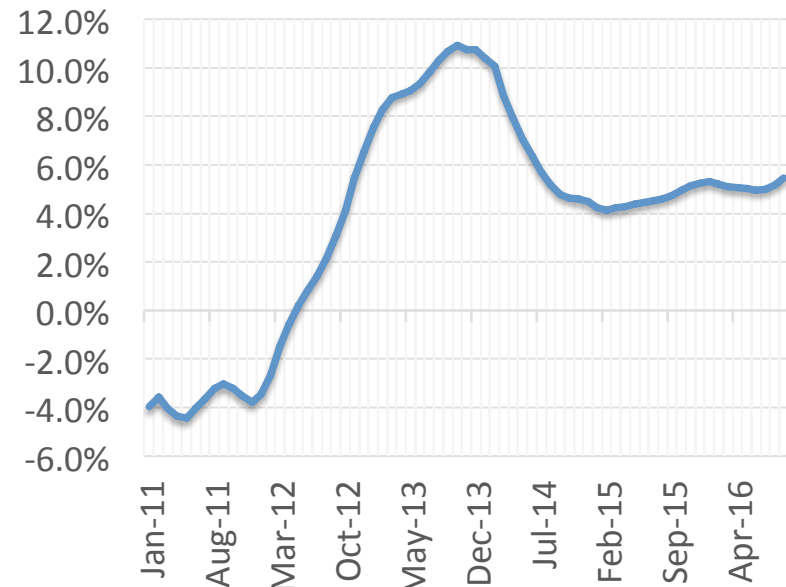
	1989	2001	2013
Mean Net Worth by Percentile of Net Worth			
Less than 25	-\$1.0	\$0.1	-\$13.0
25-49.9	\$41.8	\$58.4	\$35.9
50-74.9	\$162.2	\$219.9	\$177.7
75-89.9	\$411.6	\$594.0	\$546.3
90-100	\$2,294	\$3,631	\$3,962

Real Estate: Slight Warming?

Existing Home Sales to Oct (NAR,
SAAR, 5.6m)

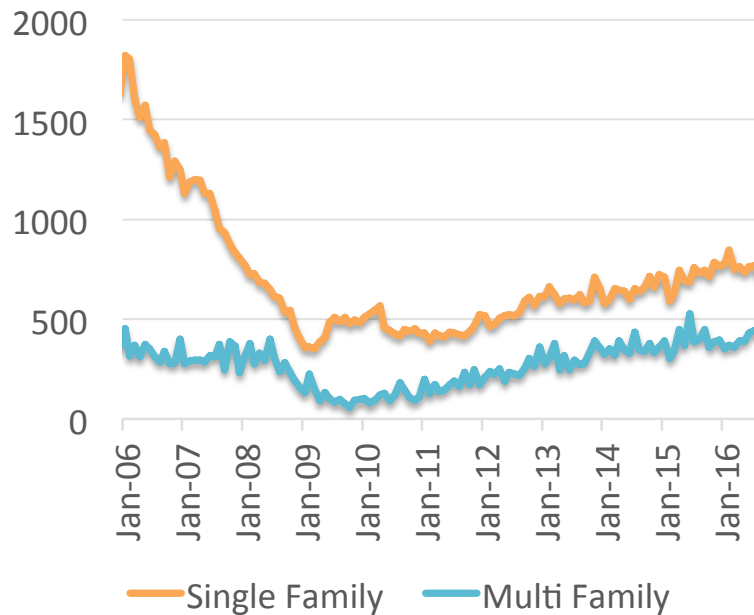


Case Shiller HPI (Y-o-Y Growth)

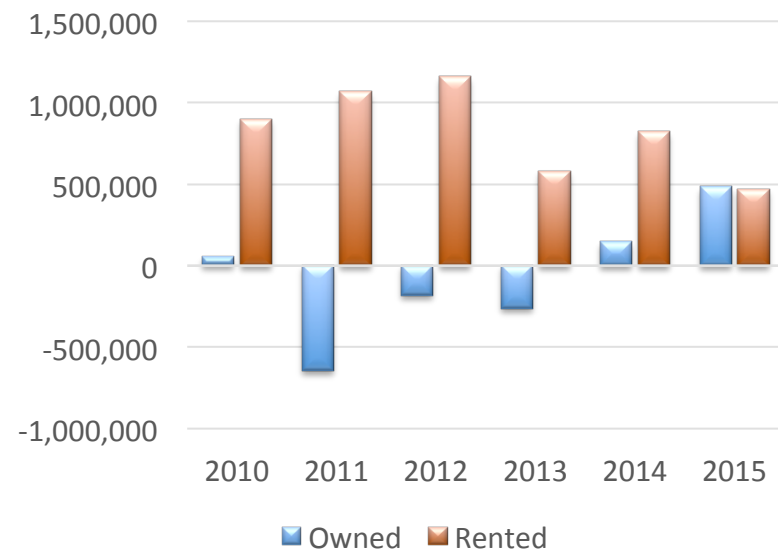


Some Shifts

Housing Starts (SAAR) to August

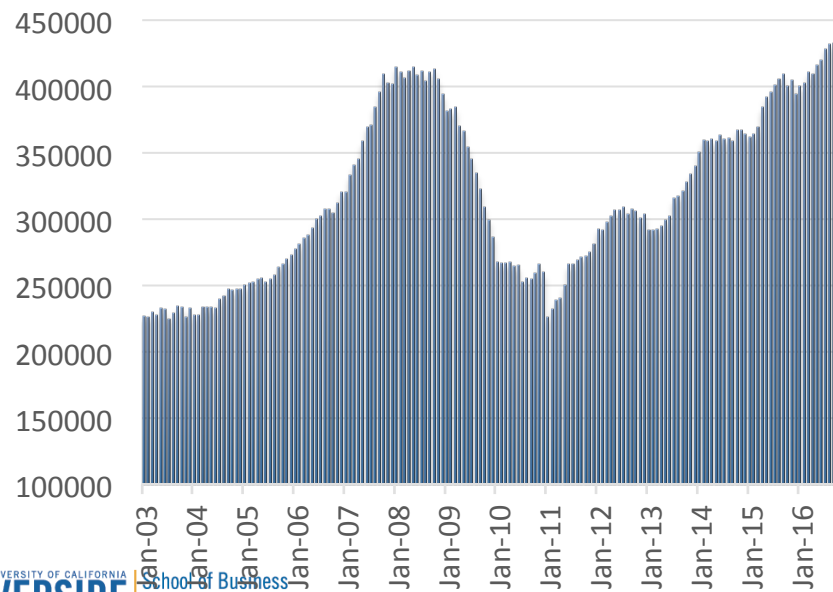


Change in US Households by Tenure from Previous Year (ACS)



Non-Residential

**Value of construction -
Nonresidential - Total**



Spending by Type (\$Mil)

Office	\$60,317	28.9%
Lodging	\$26,650	26.9%
Warehouse	\$19,239	21.0%
Other Recreation	\$15,471	16.9%
Educational	\$18,825	11.8%
Retail	\$40,053	7.9%
Infrastructure	\$118,909	2.6%
Health Care	\$32,666	1.1%
Public - Total	\$287,324	-0.1%
Manufacturing	\$74,999	-3.8%

California fact versus fiction



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](#)

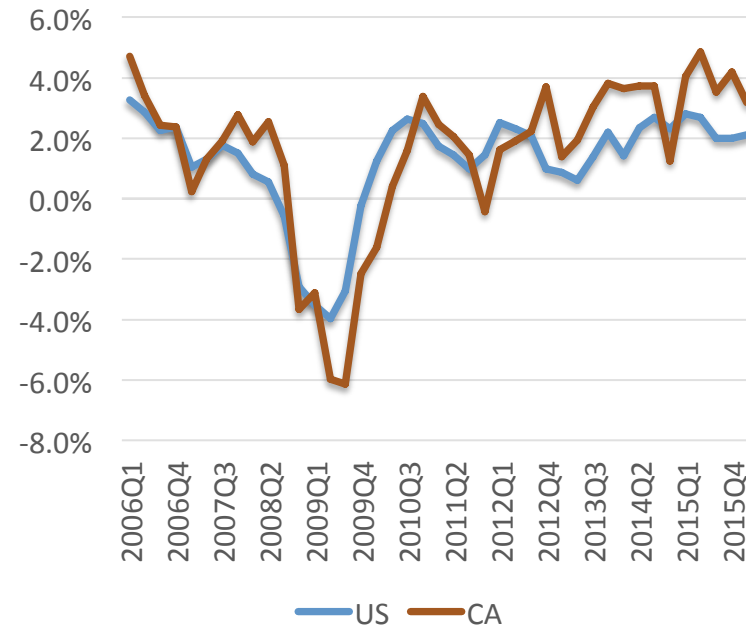


As for California

3 Year Change in Payroll Jobs by State

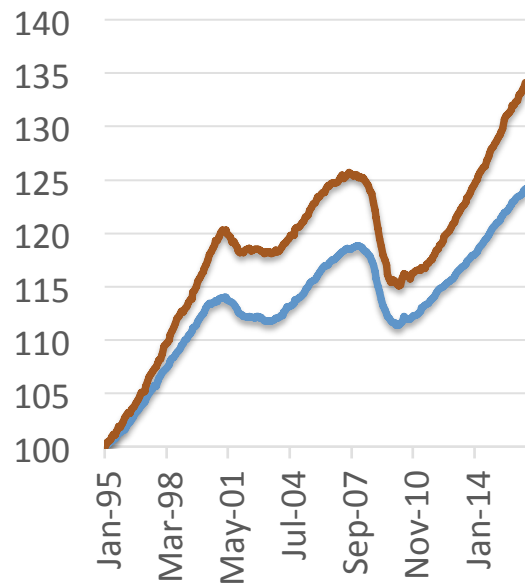
	Abs	Growth	Share
Florida	792.8	3.3%	10.0%
Utah	131.6	3.2%	1.7%
Nevada	117	3.2%	1.5%
Oregon	167.6	3.2%	2.1%
Colorado	219	2.9%	2.8%
Washington	273.7	2.9%	3.5%
Georgia	349.6	2.8%	4.4%
California	1309.1	2.8%	16.5%
Idaho	52.6	2.6%	0.7%
South Carolina	150.7	2.6%	1.9%
Tennessee	211.9	2.5%	2.7%
Texas	828.3	2.4%	10.4%
Arizona	179.4	2.3%	2.3%
North Carolina	264.9	2.1%	3.3%
Delaware	27.9	2.1%	0.4%
Massachusetts	198.6	1.9%	2.5%
Michigan	220.8	1.7%	2.8%

Real GDP Growth (Y-o-Y)



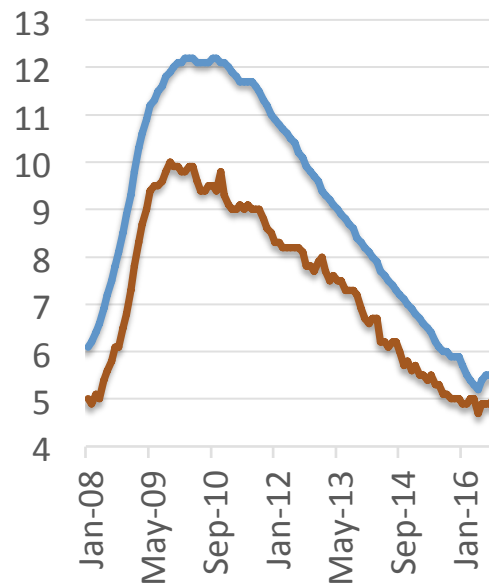
State Employment / Income

Employment (Index)



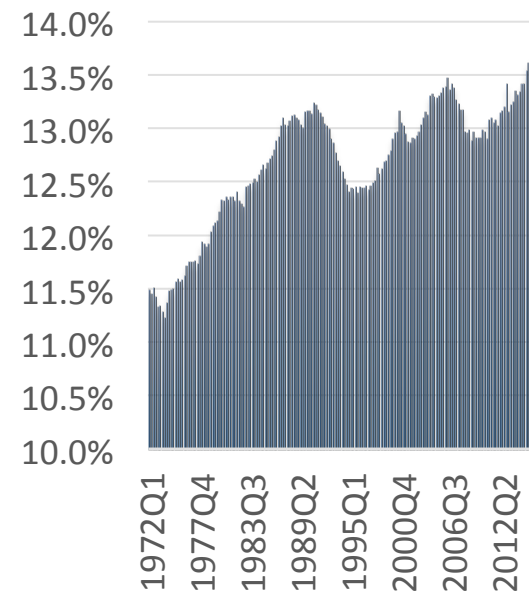
— US — CA

Unemployment Rates



— California — US

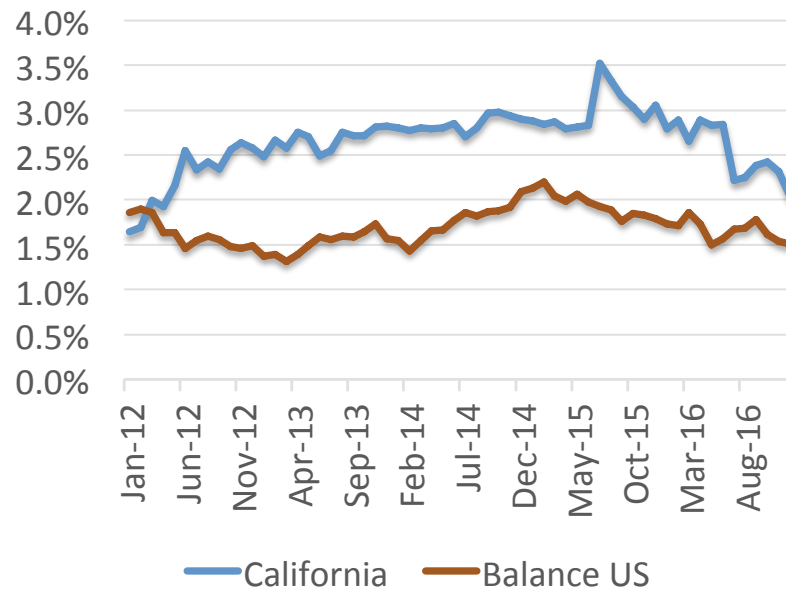
CA Share National Personal Income



Center for Economic
Forecasting and Development

California Employment

State and National Employment Growth

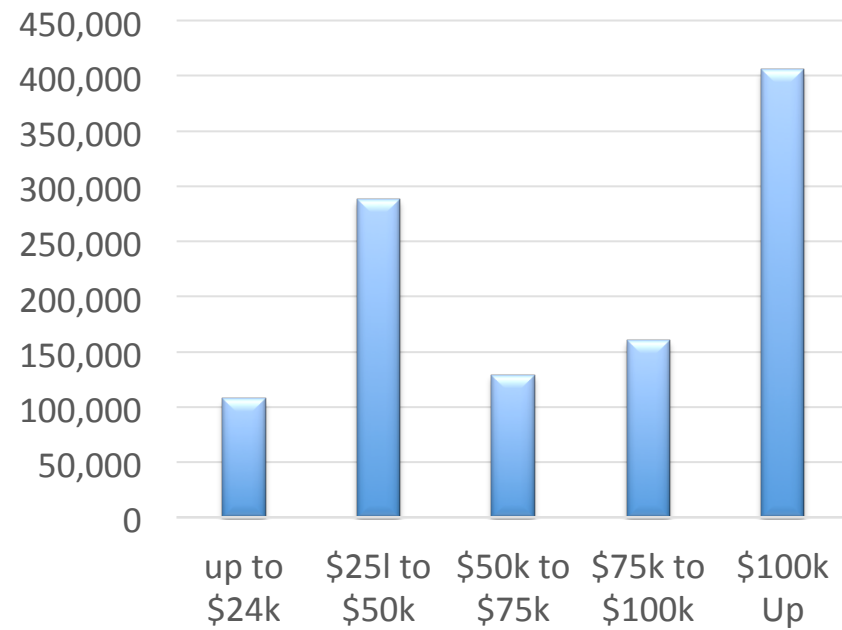


California	2.0%
Modesto	3.6%
Inland Empire	3.2%
Fresno	2.9%
Oakland (MD)	2.7%
Ventura	2.7%
Stockton	2.7%
San Francisco (MD)	2.6%
San Jose	2.3%
Sacramento	2.3%
San Diego	2.2%
Los Angeles (MD)	1.9%
Santa Barbara	1.7%
Orange County (MD)	1.5%
Santa Rosa	1.2%
Bakersfield	0.0%

What and Where

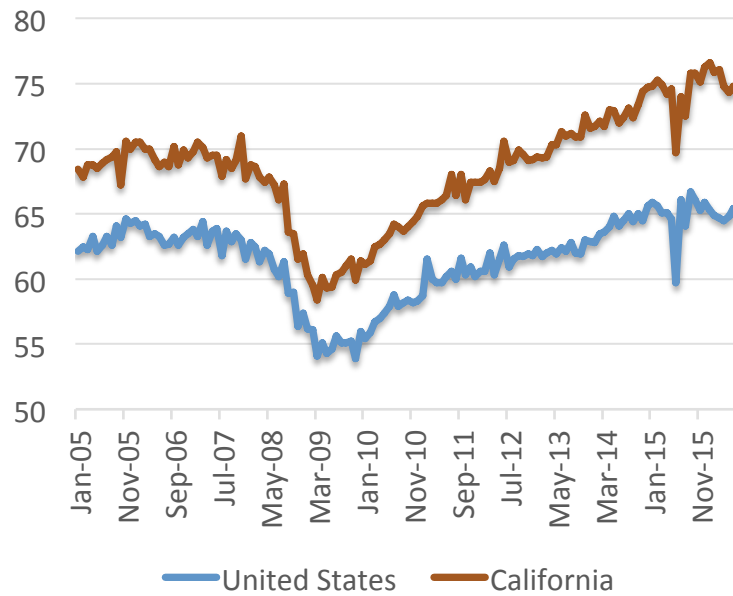
	Jan-17	
Total Nonfarm	16647.6	2.0%
Education	364.1	4.0%
Information	531.7	3.9%
Health Care	2226.2	3.7%
Logistics	589.7	3.1%
Prof Sci Tech	1239	2.7%
Other Services	564.9	2.6%
Government	2546.5	2.4%
Leisure and Hospitality	1917.9	2.3%
Financial Activities	833.2	2.3%
Wholesale Trade	732.2	1.8%
NR/Construction	800.4	1.6%
Management	227.2	1.0%
Retail Trade	1680.1	0.5%
Admin Support	1089.3	0.0%
Manufacturing	1304.5	-0.4%

Change in Income by Income Level

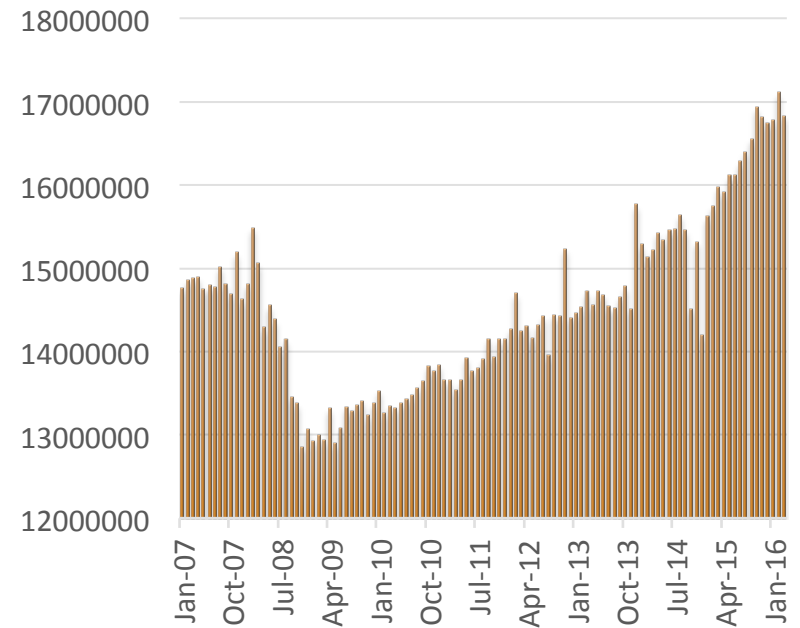


Tourism / Travel

Hotel Occupancy Rates



California Airport Traffic



Taxable Spending

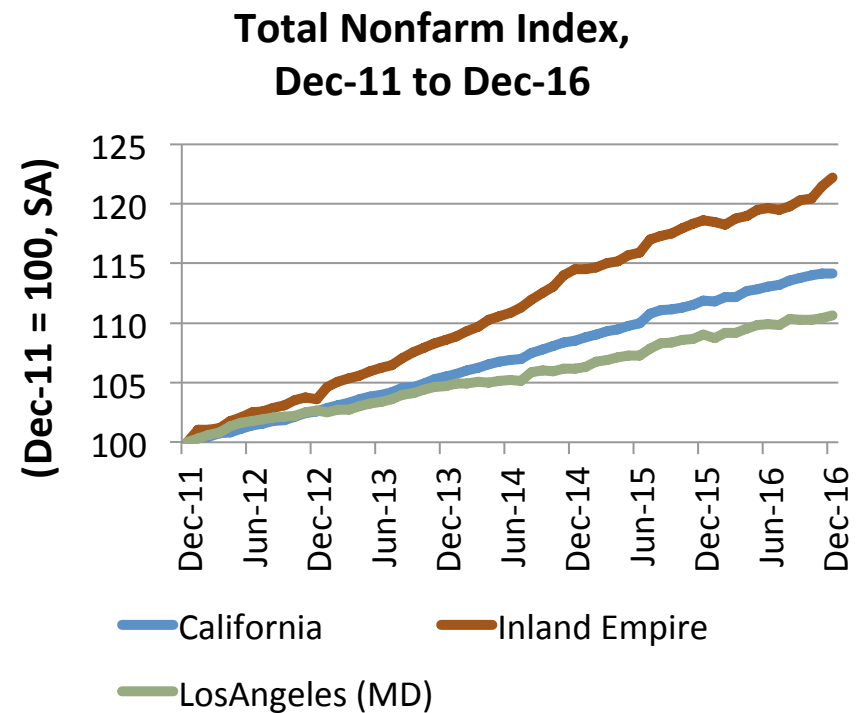
CA Taxable Sales Y-o-Y Growth



California	2.4%		
Tulare	9.6%	Solano	2.6%
Riverside	5.4%	San Diego	2.2%
Sacramento	5.3%	Orange	1.9%
Stanislaus	4.9%	Contra Costa	1.7%
Sonoma	4.5%	Los Angeles	1.5%
Alameda	4.4%	San Bernardino	1.3%
San Francisco	4.0%	Ventura	1.1%
San Joaquin	3.7%	Fresno	-1.0%
Placer	3.1%	Santa Clara	-1.0%
San Mateo	2.8%	Kern	-4.6%

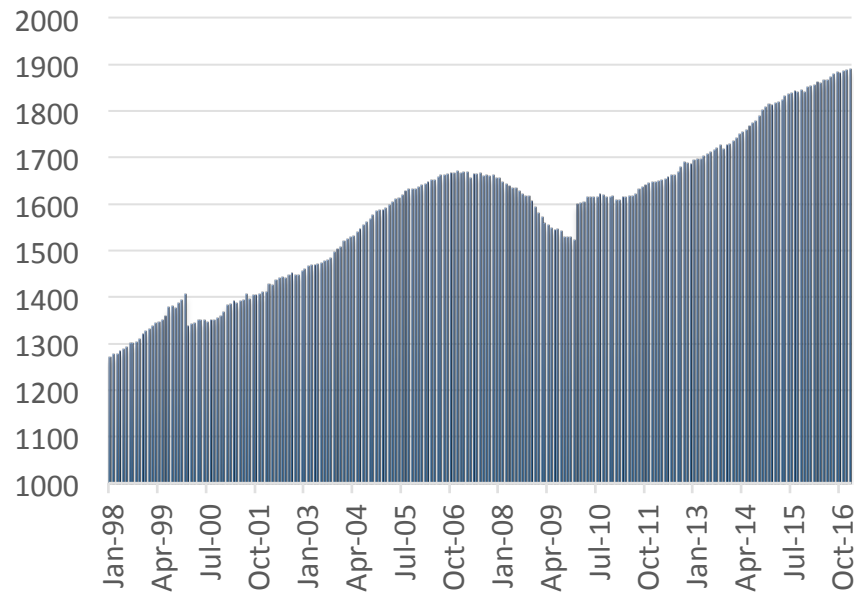
Local Jobs

Total Nonfarm	1427.1	3.2%
Logistics	108.6	7.4%
NR/Construction	97.4	6.9%
Leisure and Hospitality	165.1	5.8%
Other Services	46.5	4.5%
Health Care	199.1	4.2%
Government	246.1	3.8%
Financial Activities	46.2	3.1%
Manufacturing	100.2	2.7%
Retail Trade	181.5	2.7%
Management	9.3	1.1%
Prof Sci Tech	38.9	-0.3%
Information	11.4	-0.9%
Wholesale Trade	61.9	-1.6%
Admin Support	97.3	-3.9%
Education	17.7	-5.9%

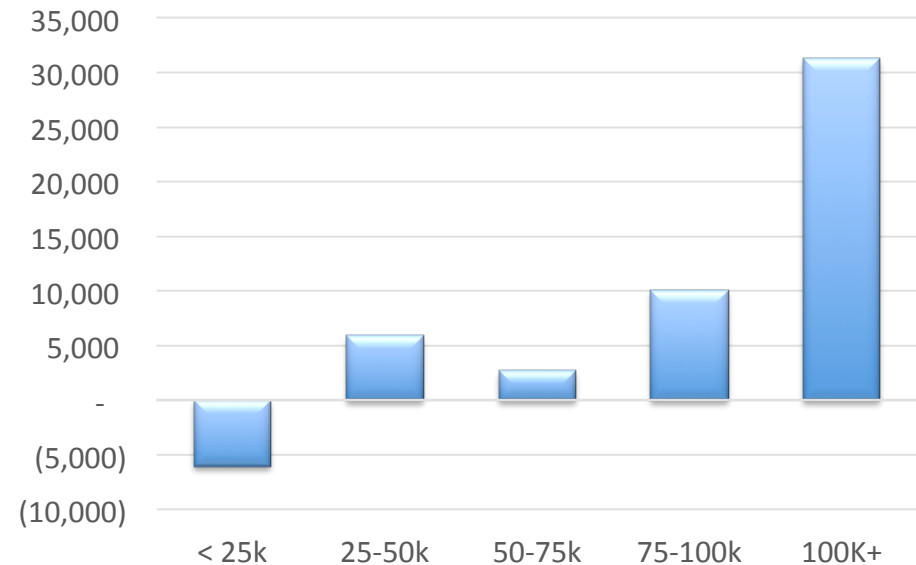


Employed Residents

Inland Empire



Change HH by Income 10-15



Quiz Time

Match the payroll employment growth rate (letters)
(1995-2015) to the California region (numbers)

A	23.6%
B	25.8%
C	27.0%
D	33.8%
E	39.8%

1	Bay Area
2	Central Coast
3	Greater Los Angeles
4	Greater Sacramento
5	So Central Valley