BEACON ECONOMICS

Analysis. Answers

California Partnership for the San Joaquin Valley

Economic Outlook

September 2014

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Trends vs. Fundamentals 2005

Trends

- Consumer spending growth, GDP very strong
- Unemployment near record low levels
- Stock market new highs
- Home prices rising at a double digit pace
- Homeownership rates reaching record high levels
- Consumer delinquencies, foreclosures at very low levels

Fundamentals

- Pace of home construction much higher than population growth
- Consumer credit expansion very rapid, worrying signs of diminished credit quality
- US running a record high trade deficit
- Consumer savings rate collapses
- Wall Street firms leveraging up, financial 'innovation' leading the charge

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Trends vs. Fundamentals: 2014

Trends

- GDP growth below average, negative Q1, output 'gap' has yet to shrink
- Labor markets far from full recovery
- Resale markets slowing, pace of new construction still depressed
- Federal Reserves tapering, fiscal austerity
- Bank credit still tight
- International political and economic instability
- The Lakers are going to stink again this season

Fundamentals

- Employment and incomes are growing, wealth levels at new highs
- Consumer credit starting to expand, savings rate steady
- Foreclosures down, home-ownership rates have stabilized.
- Mortgage lending starting to loosen
- Interest rates are still low, no sign of inflation
- Affordability still good
- $US still low, exports competitive in global economy
- California is one of the fastest growing economies out there

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GDP Growth

	2014 I	2014 II	Avg 2013	Avg 2014	Diff 13-14
GDP	-2.10	4.20	3.13	1.05	-2.08
Personal consumption	0.83	1.69	1.90	1.26	-0.64
Durable goods	0.23	1.00	0.43	0.62	0.19
Nondurable goods	0.00	0.29	0.39	0.15	-0.24
Services	0.60	0.40	1.08	0.50	-0.58
Gross investment	-1.13	2.64	1.32	0.76	-0.56
Structures	0.08	0.26	0.12	0.17	0.05
Equipment	-0.06	0.59	0.35	0.27	-0.08
Intellectual property	0.18	0.17	0.10	0.17	0.07
Residential	-0.17	0.22	0.20	0.03	-0.17
Change inventories	-1.16	1.39	0.54	0.25	-0.29
Net exports	-1.66	-0.43	0.26	-1.05	-1.31
Exports	-1.30	1.31	0.67	-0.04	-0.70
Imports	-0.36	-1.74	-0.41	-1.11	-0.70
Government	-0.15	0.27	-0.35	0.08	0.42
Federal	-0.01	-0.06	-0.48	-0.03	0.45
State and local	-0.14	0.33	0.14	0.11	-0.03

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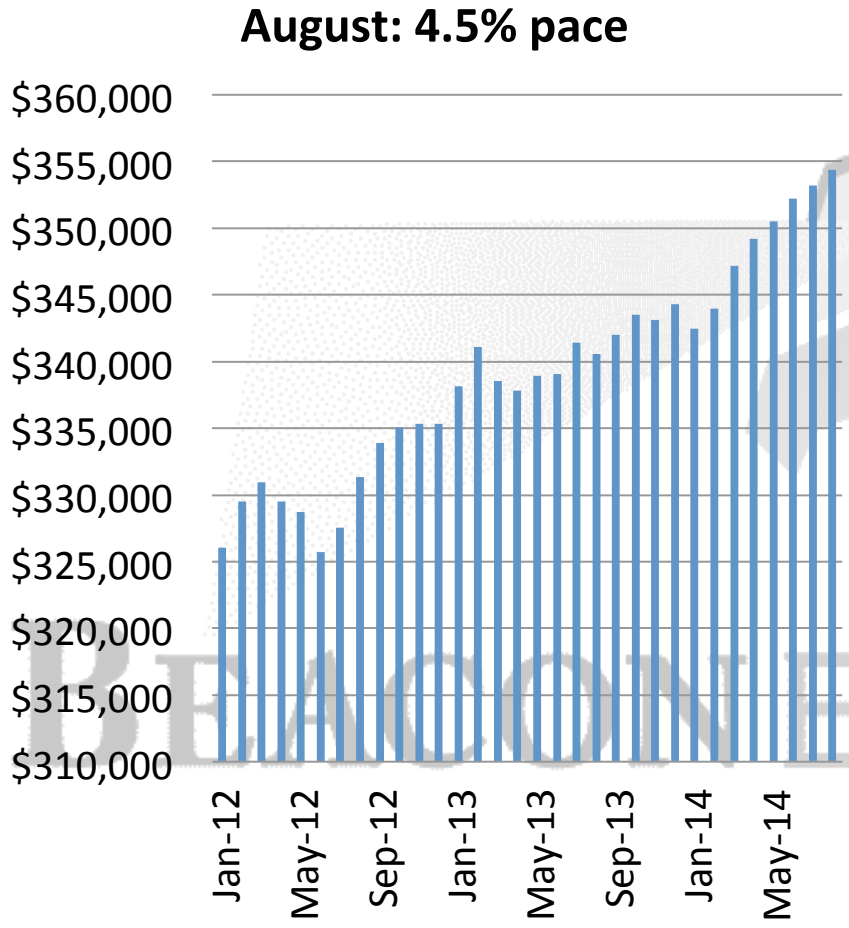
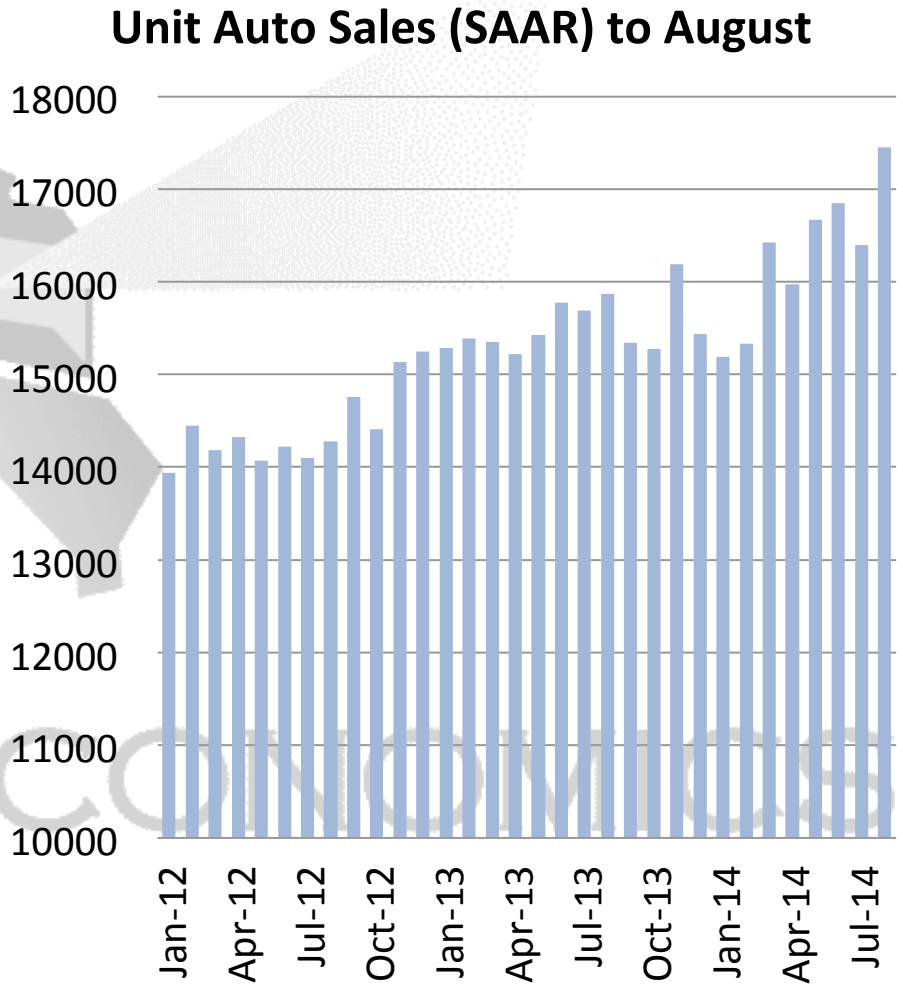
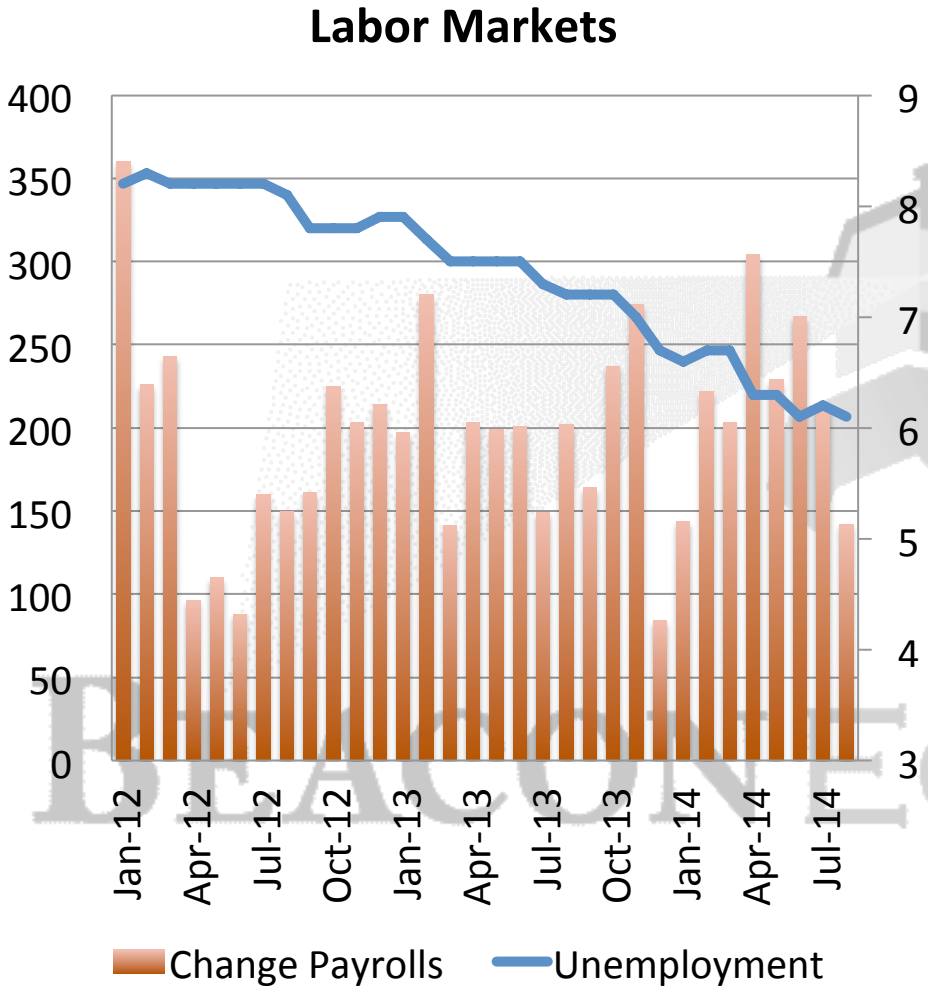
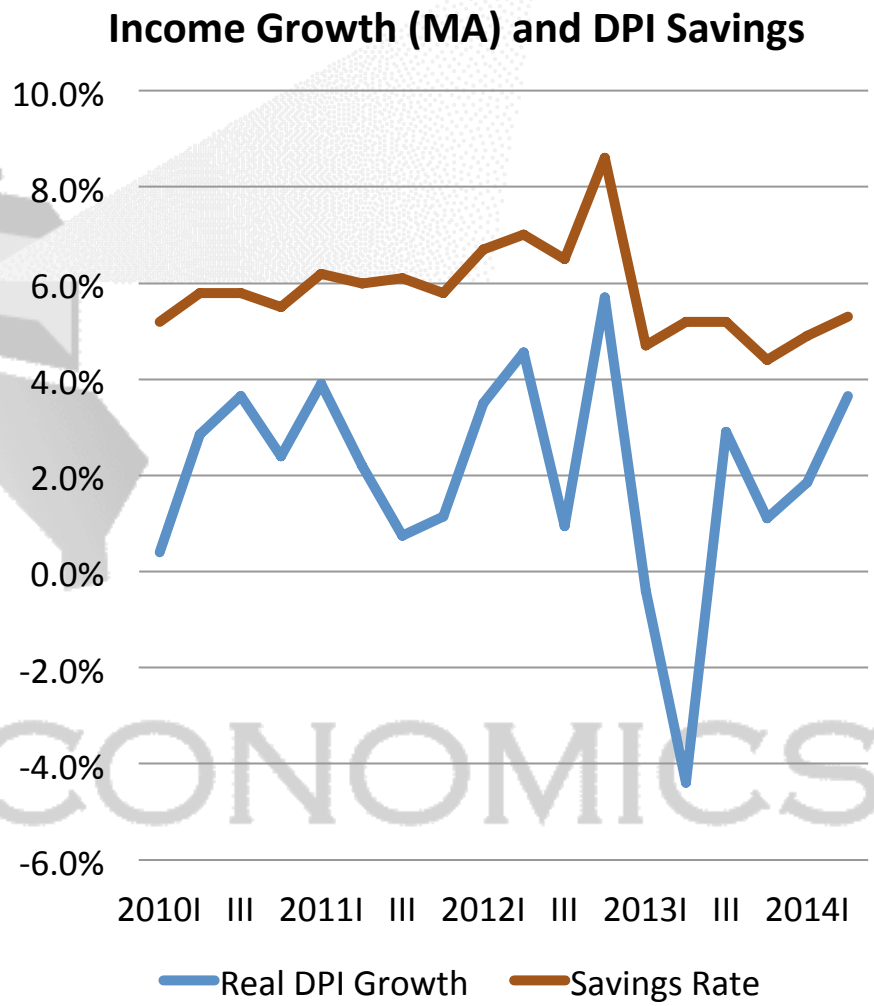
Consumer Spending



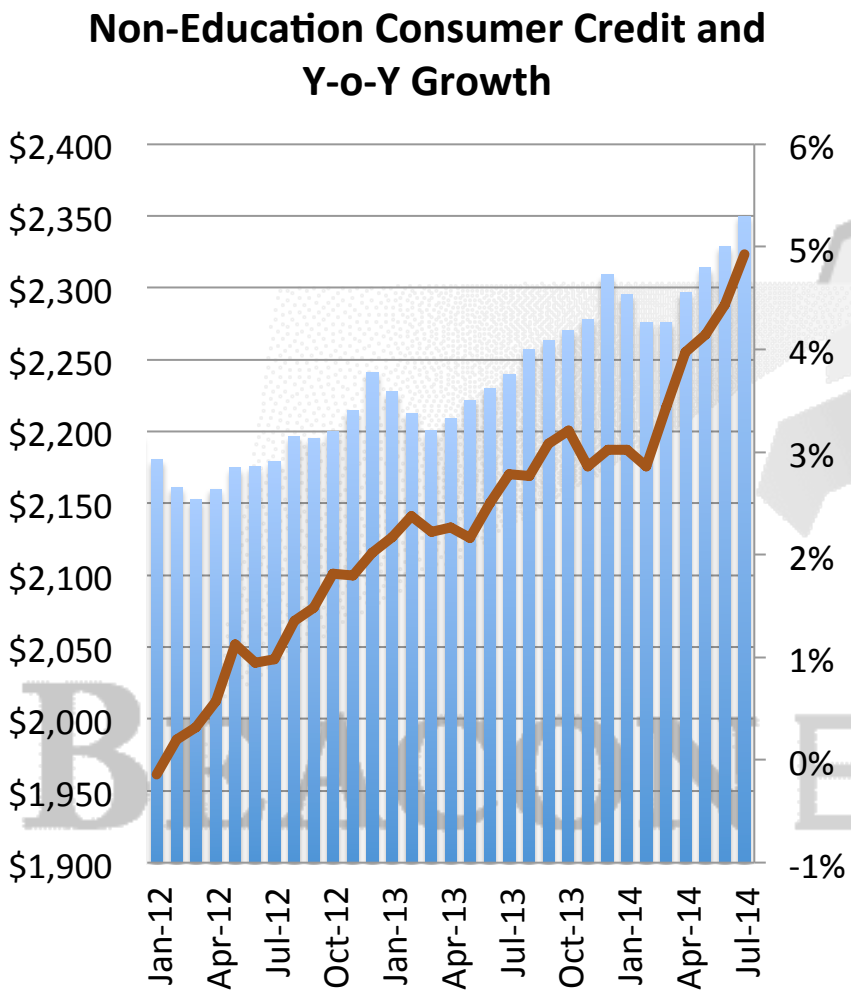


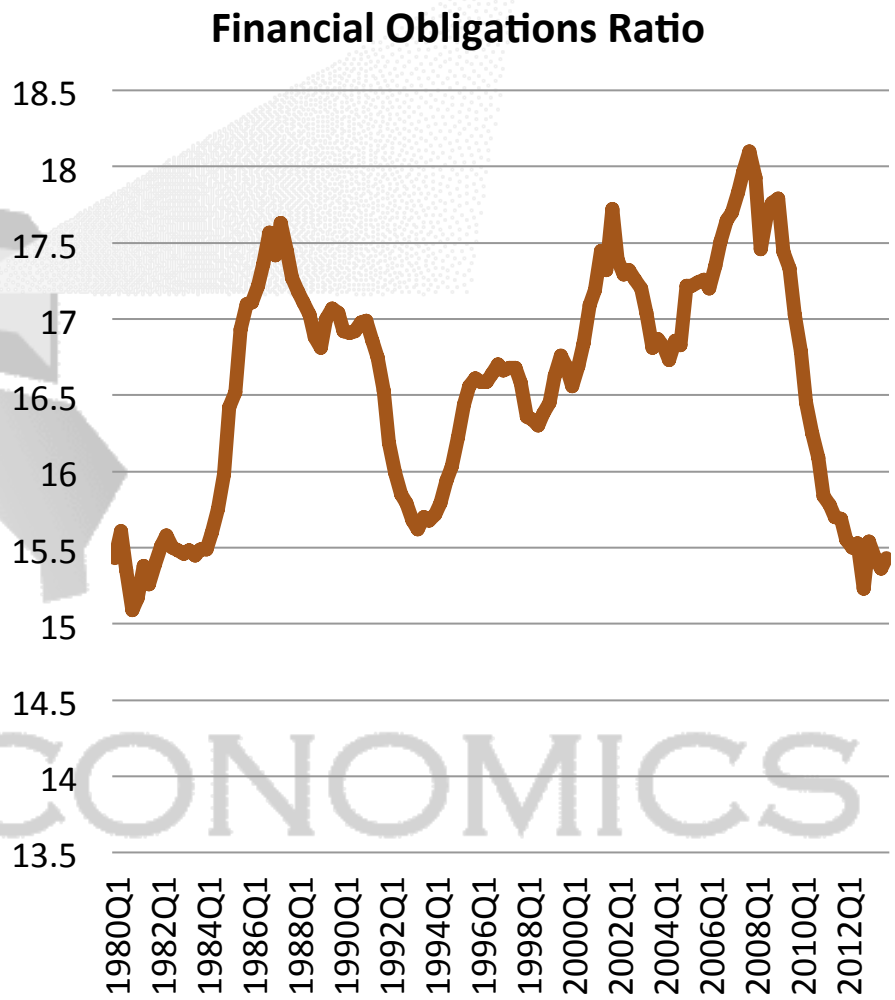
Labor Markets



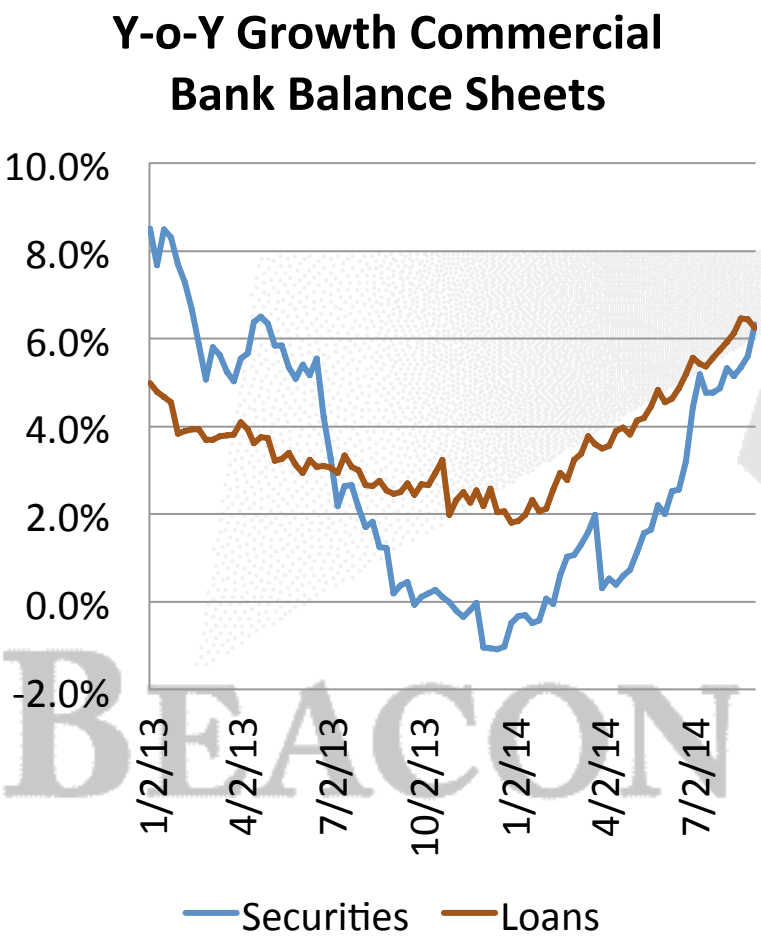


Consumer Credit





US Banking Trends



	Jan to Jan	Jan to July AR
Bank credit	137,880	898,337
Securities in bank credit	(11,720)	225,982
Loans and leases in bank credit	149,600	672,355
Commercial and industrial loans	108,052	235,278
Revolving home equity loans	(39,709)	(14,260)
Closed-end residential loans	(58,945)	57,057
Commercial real estate loans	74,926	114,603
Credit cards and other	(9,676)	27,138
Other consumer loans	34,037	51,454
Other loans and leases	40,915	201,085
LESS: Allowance for losses	(23,447)	(11,636)

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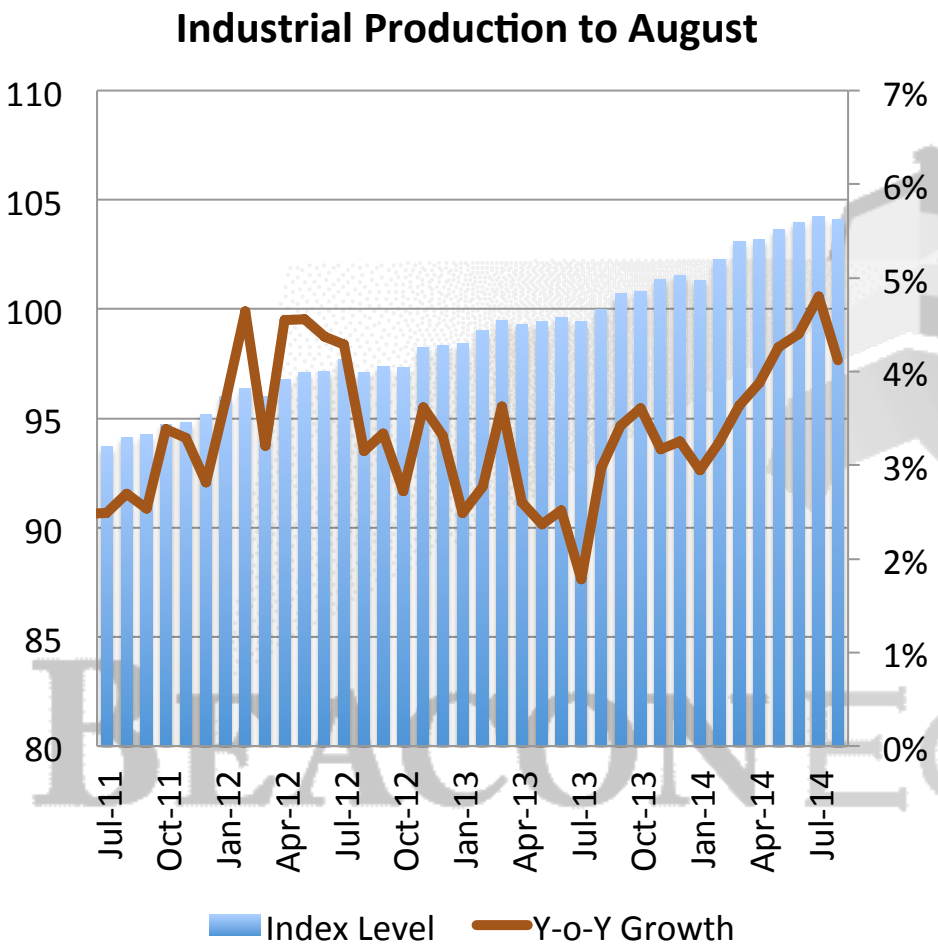
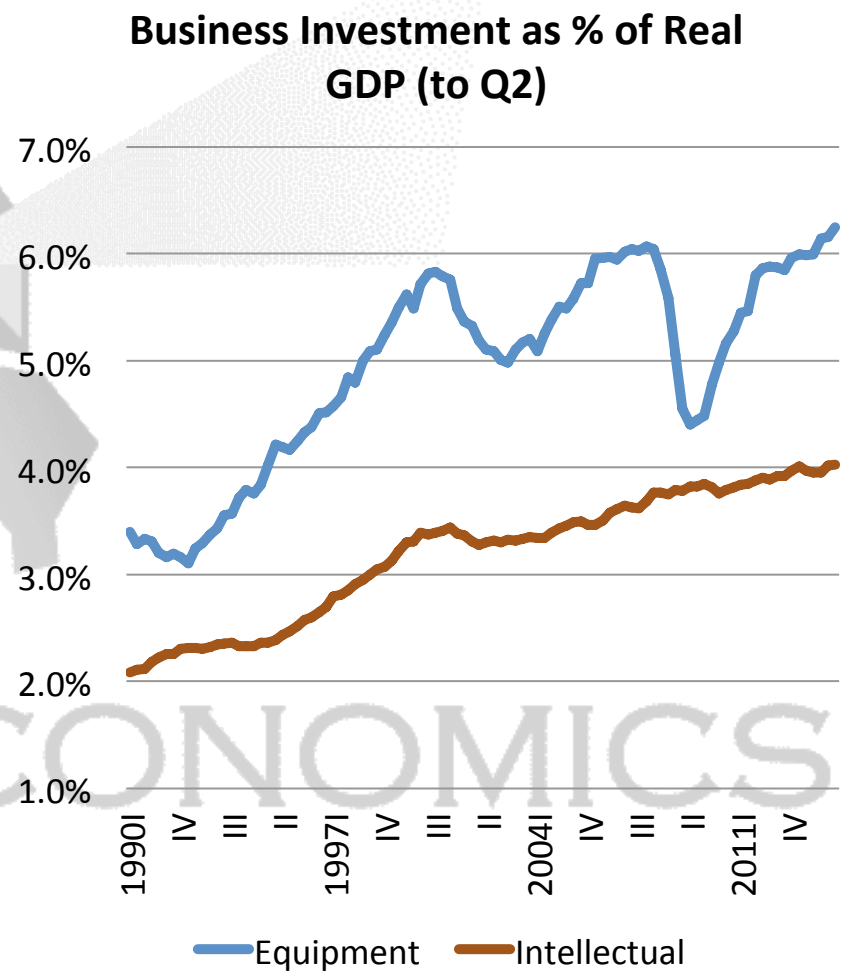
Industrial Production





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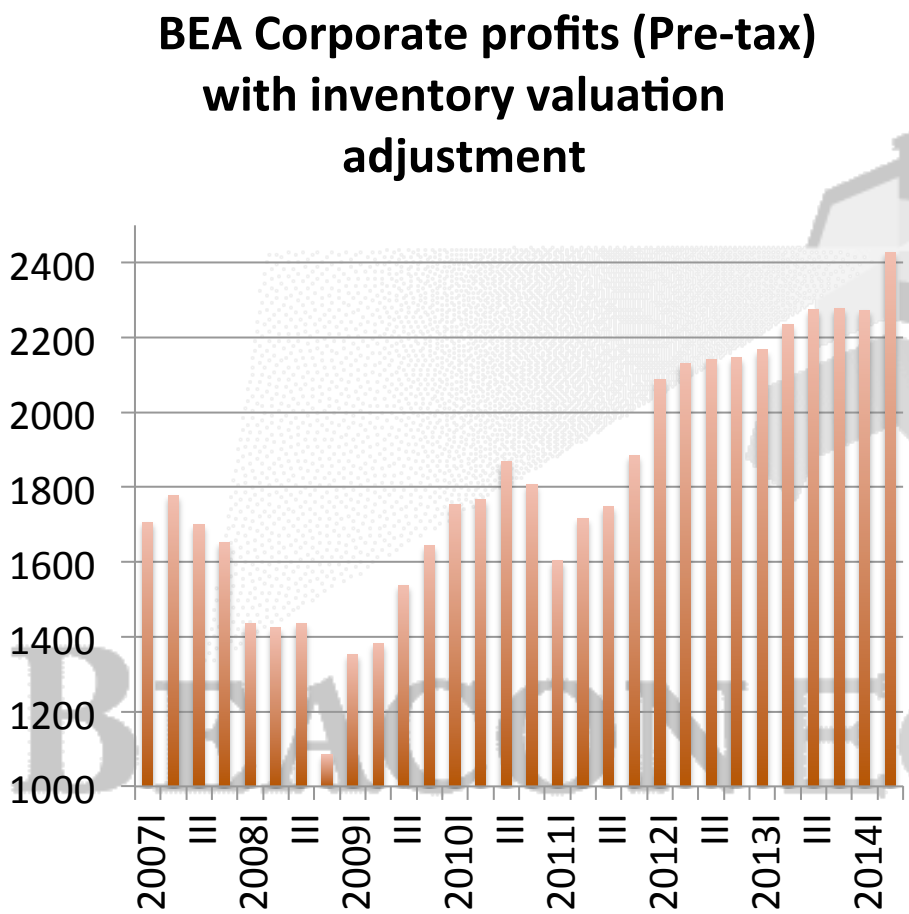
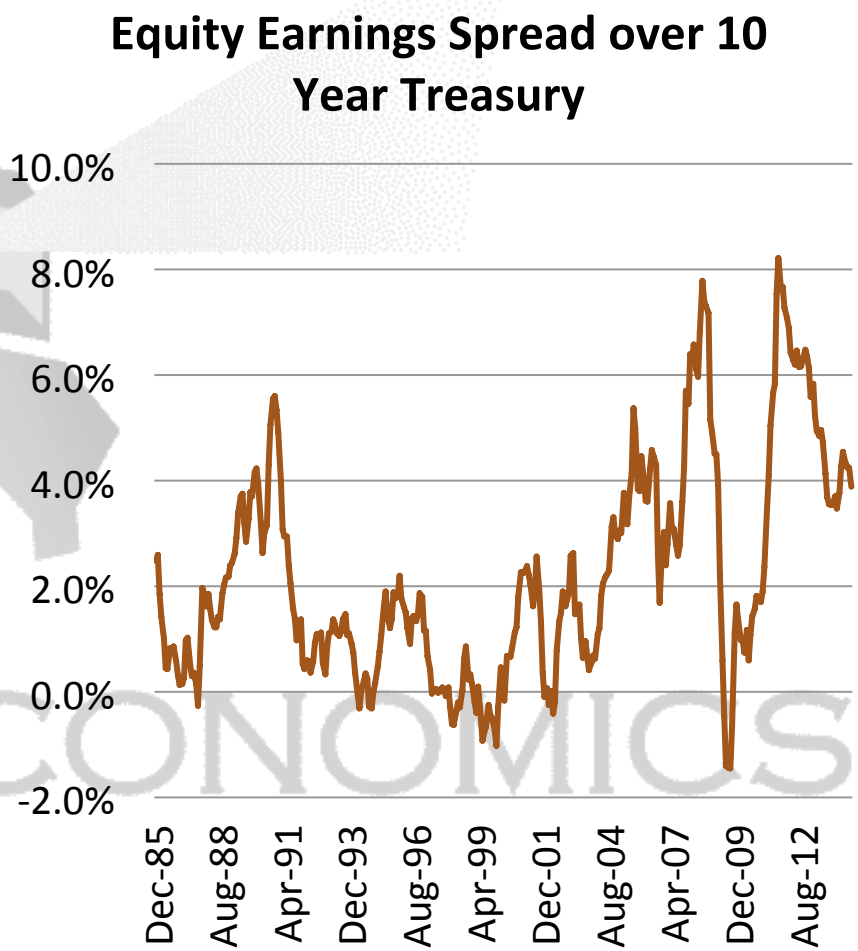
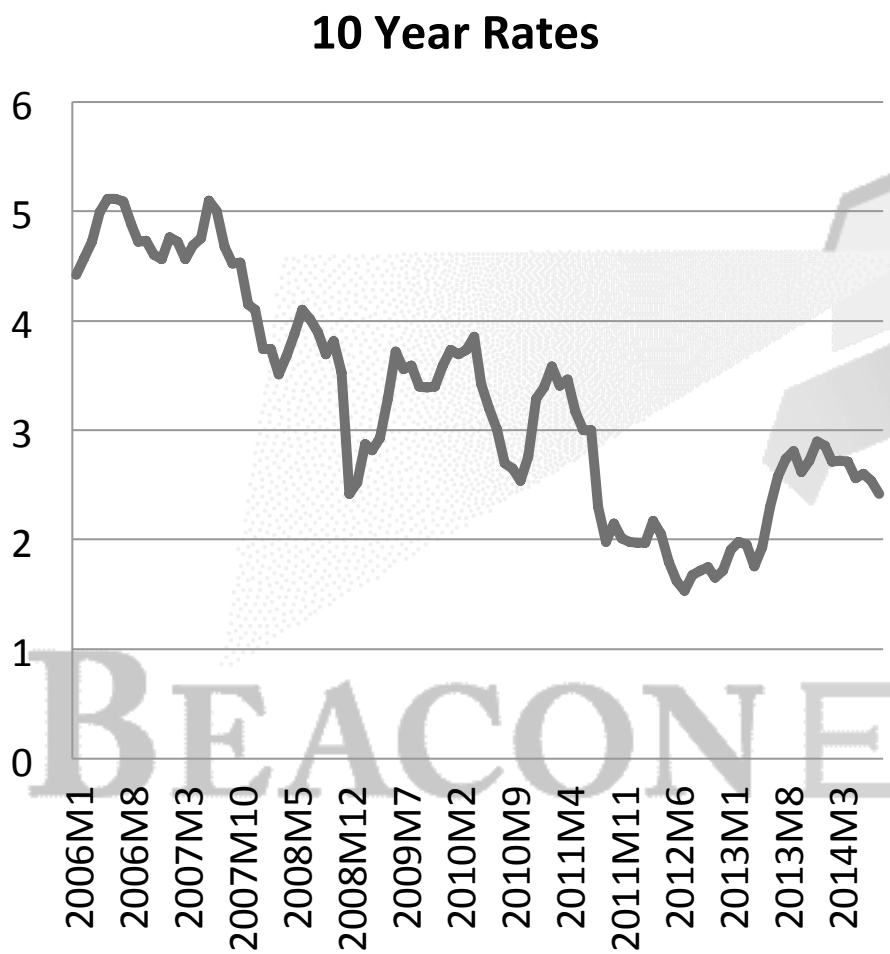
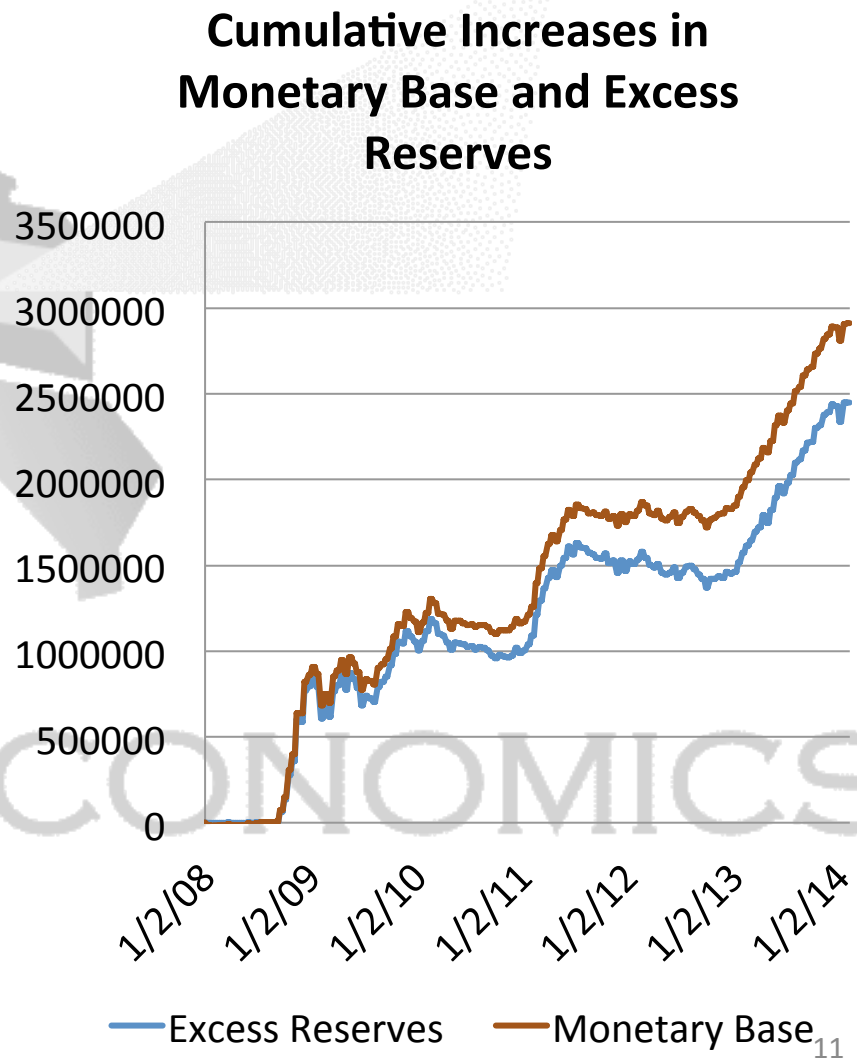
Stock Market Bubble?





Interest Rates





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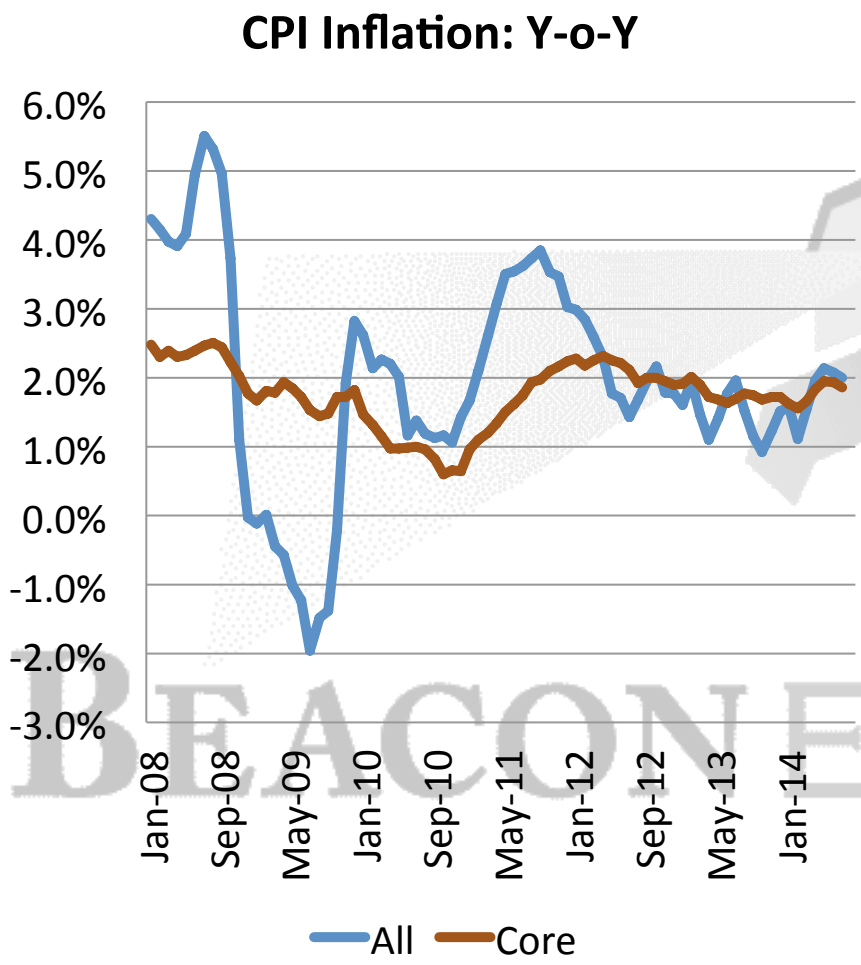
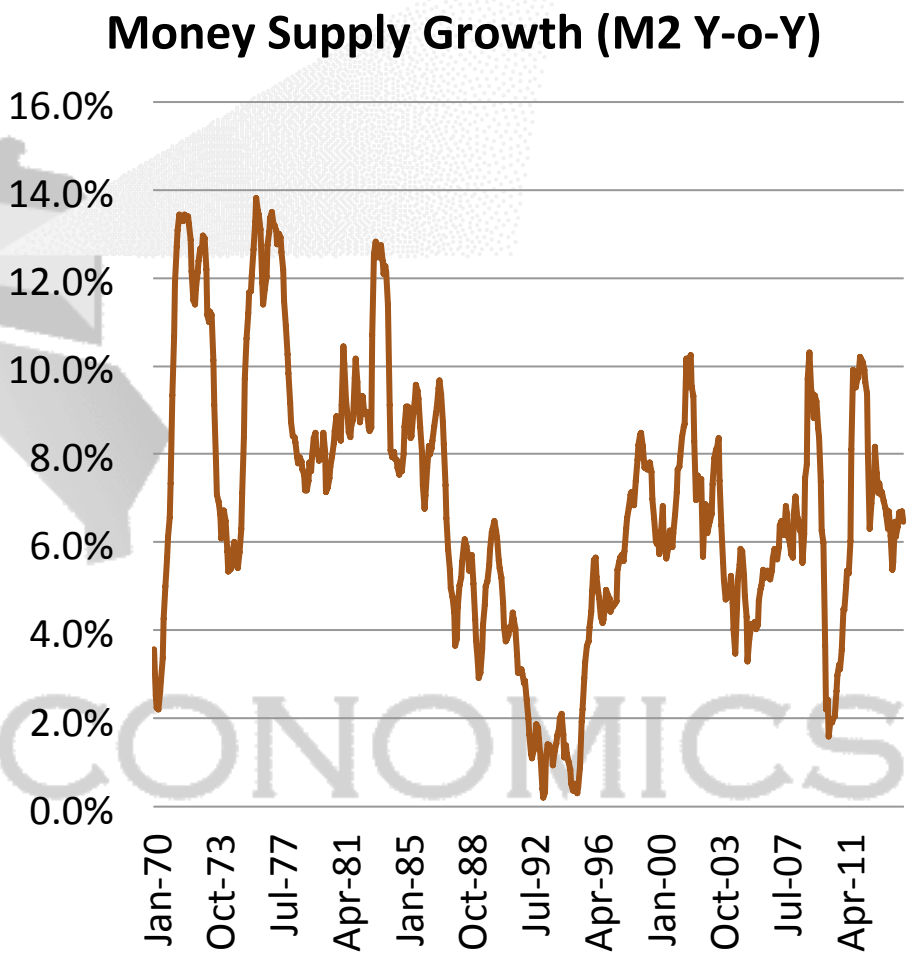
Inflation





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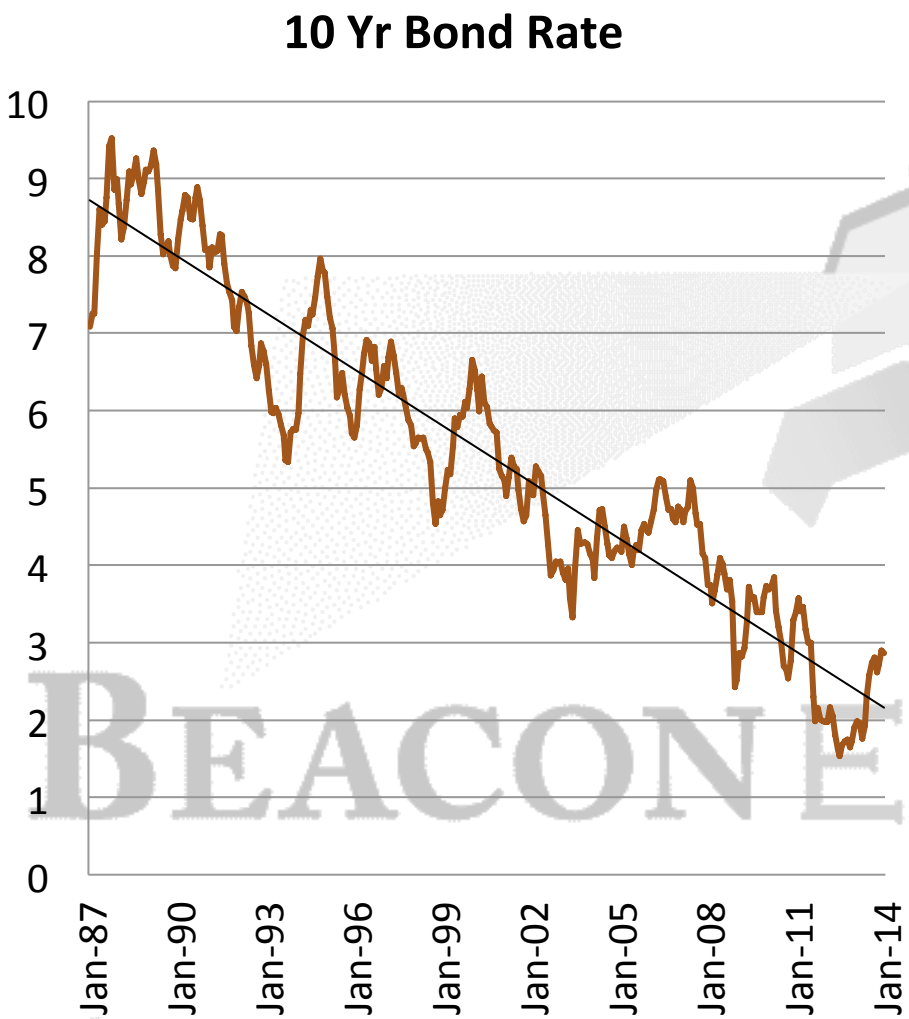
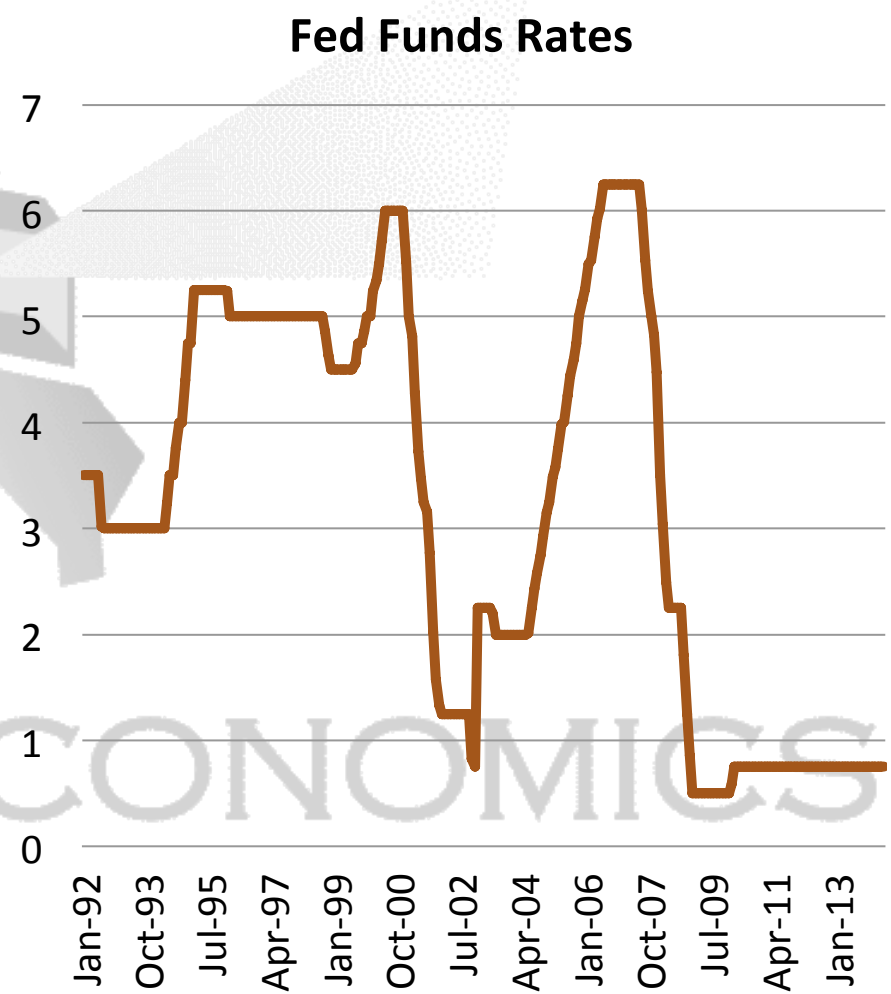
Where are rates heading?





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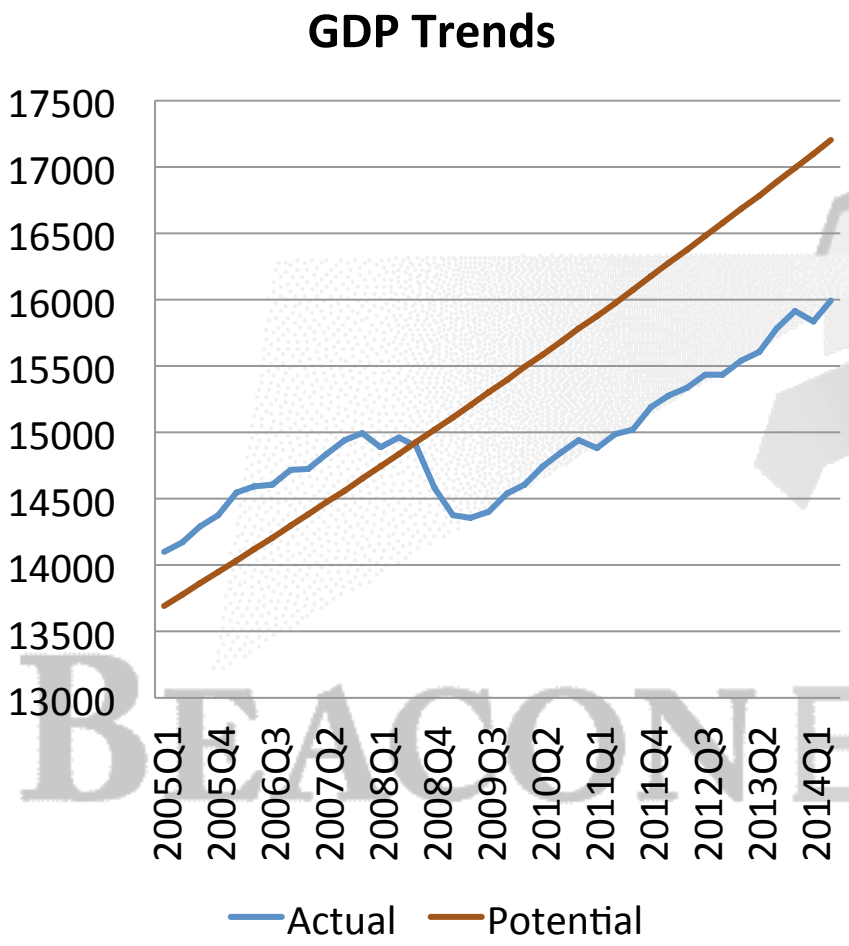
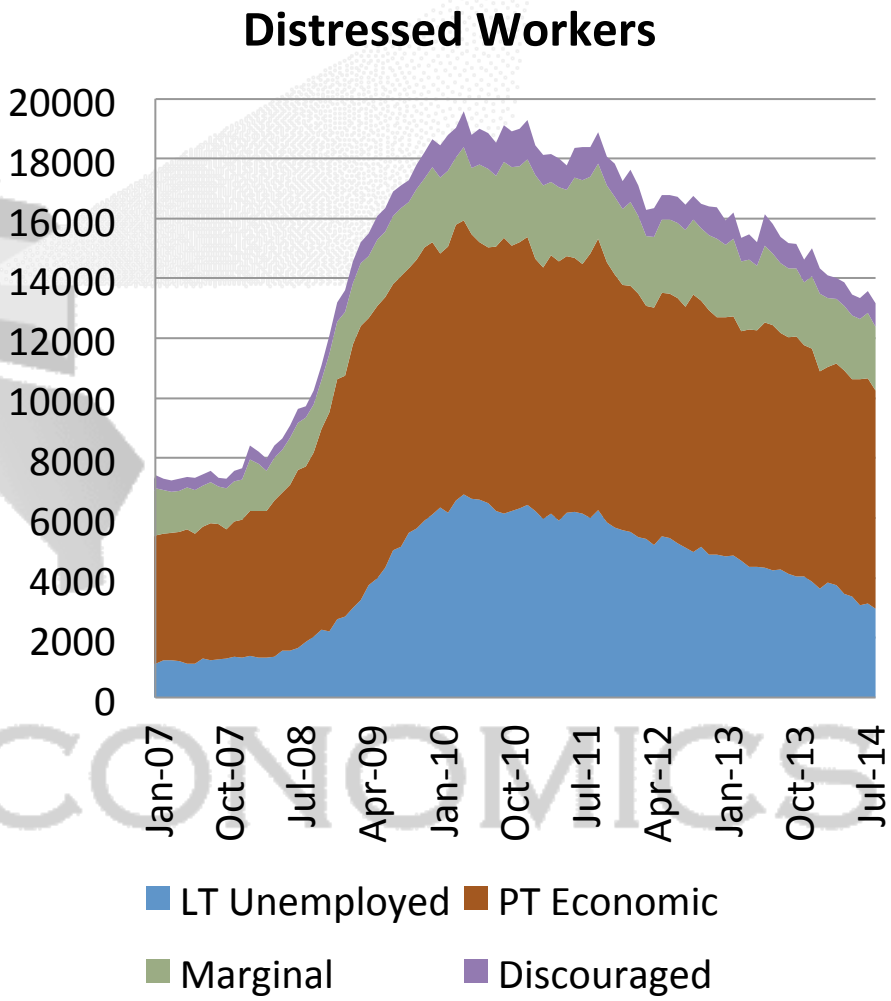
Back to Normal?





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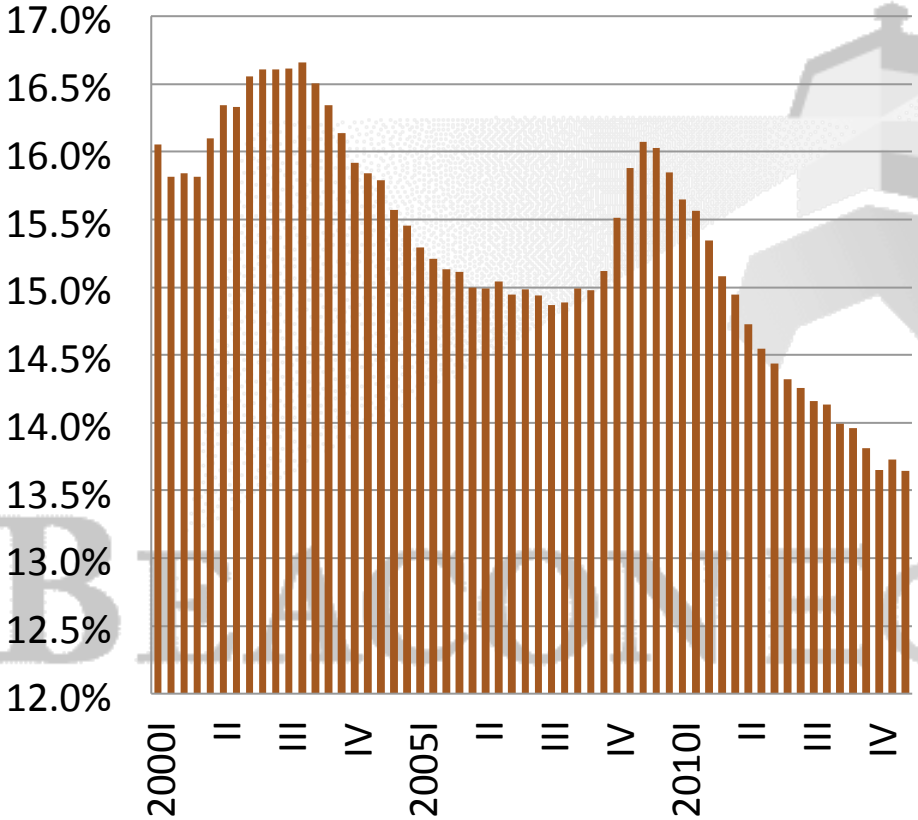
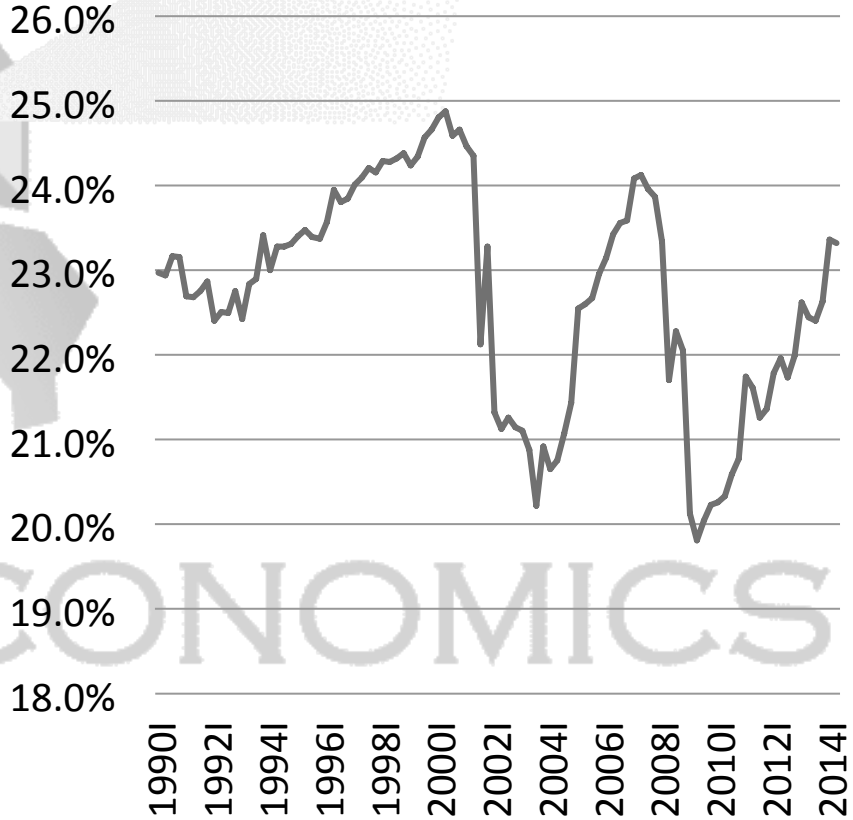
What's wrong with the economy?





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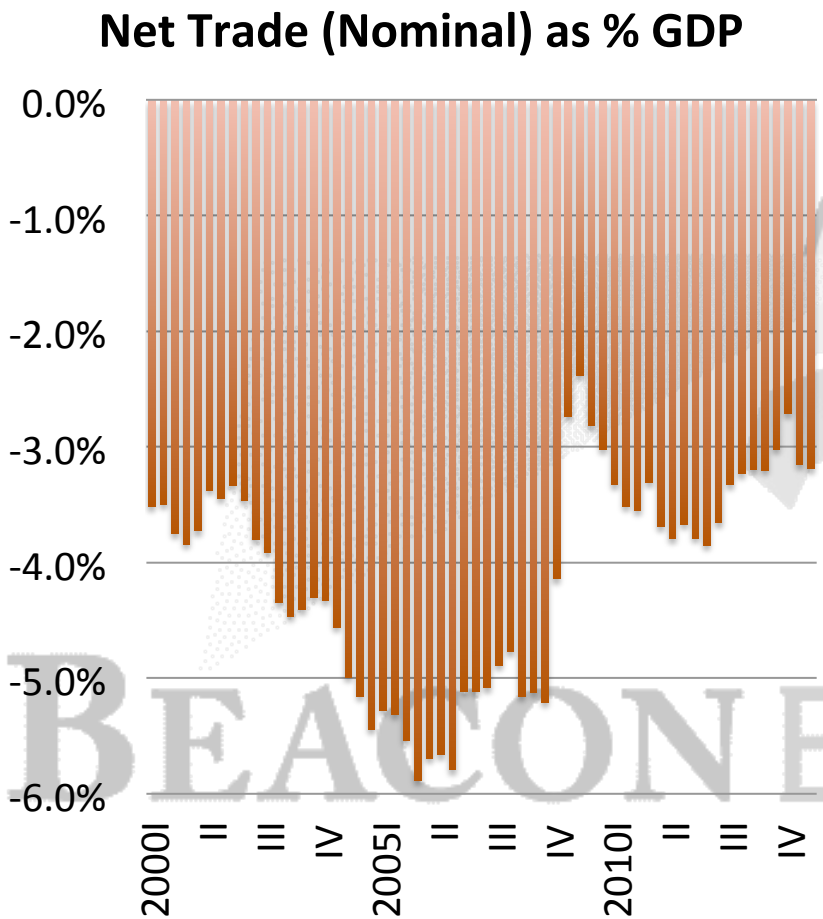

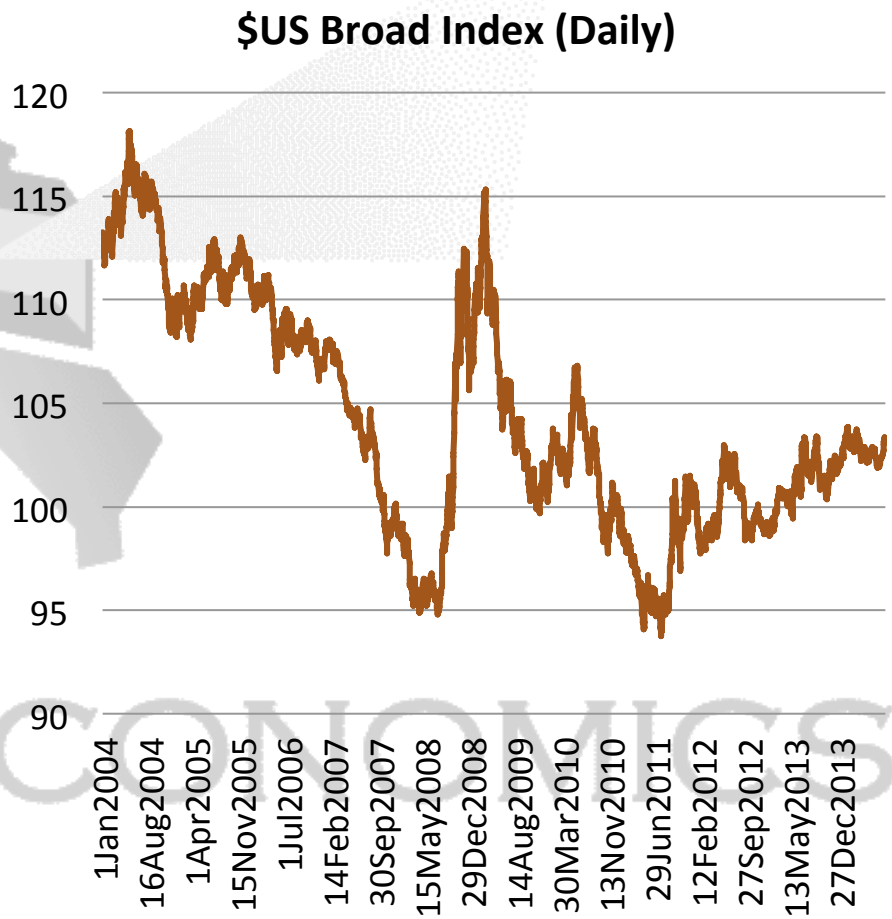

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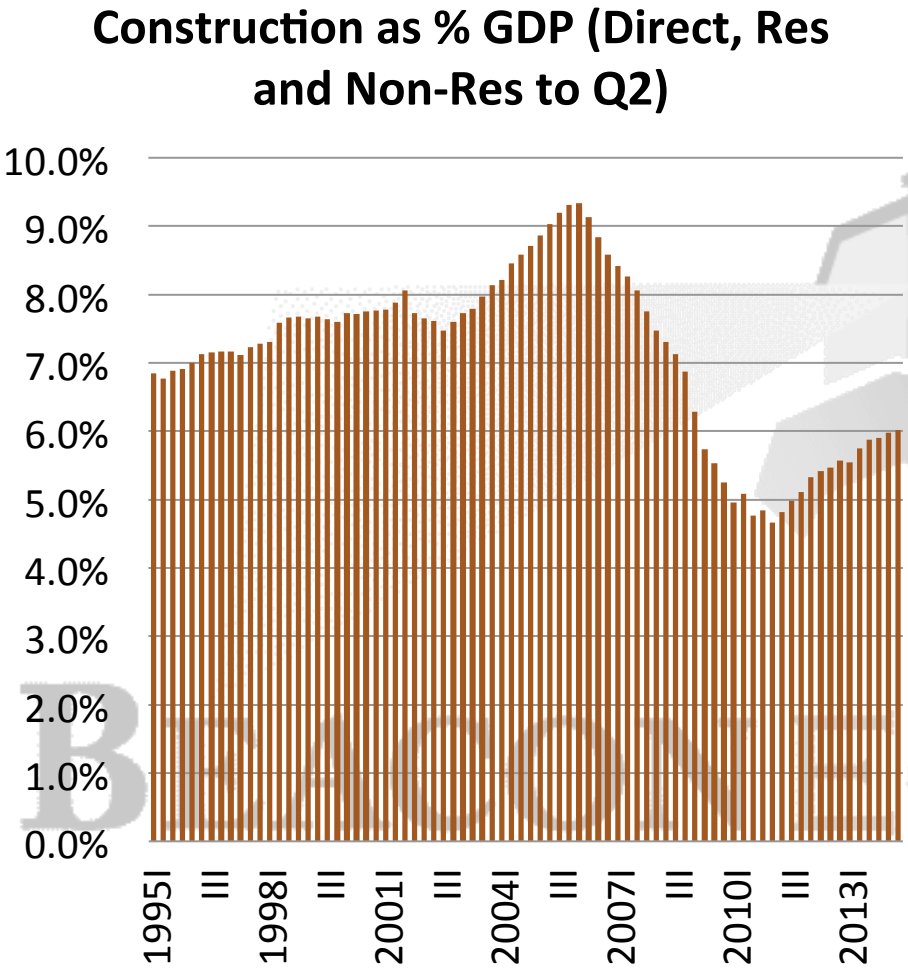
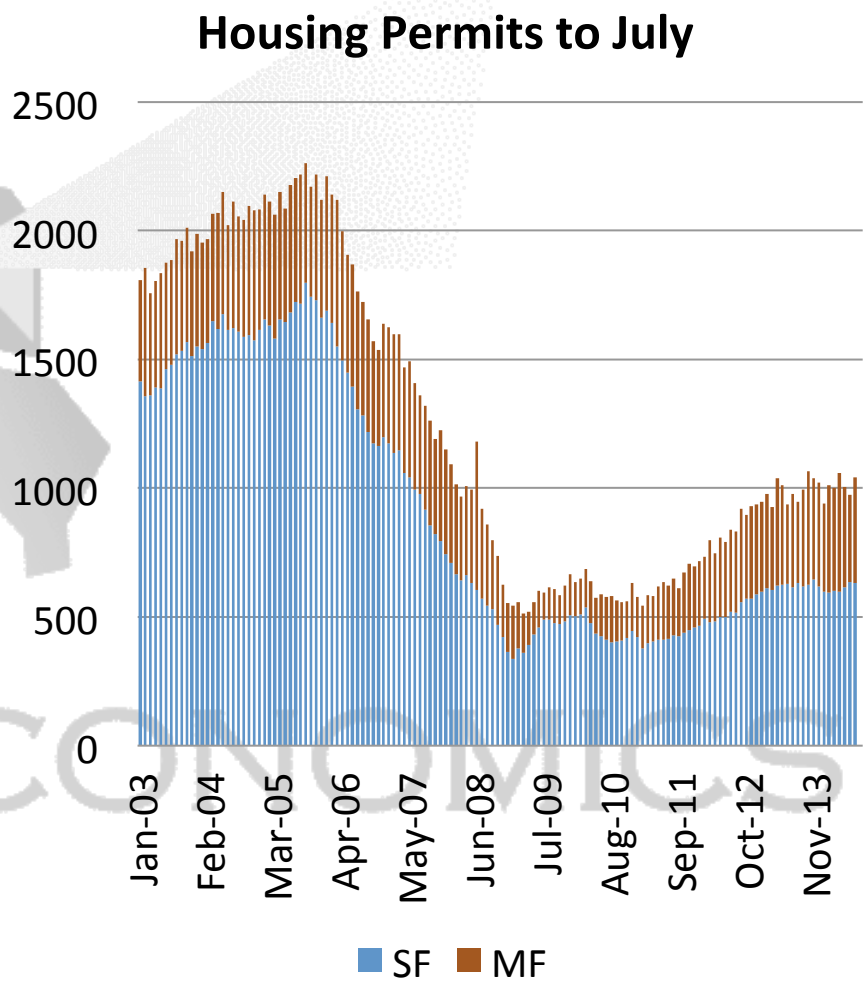
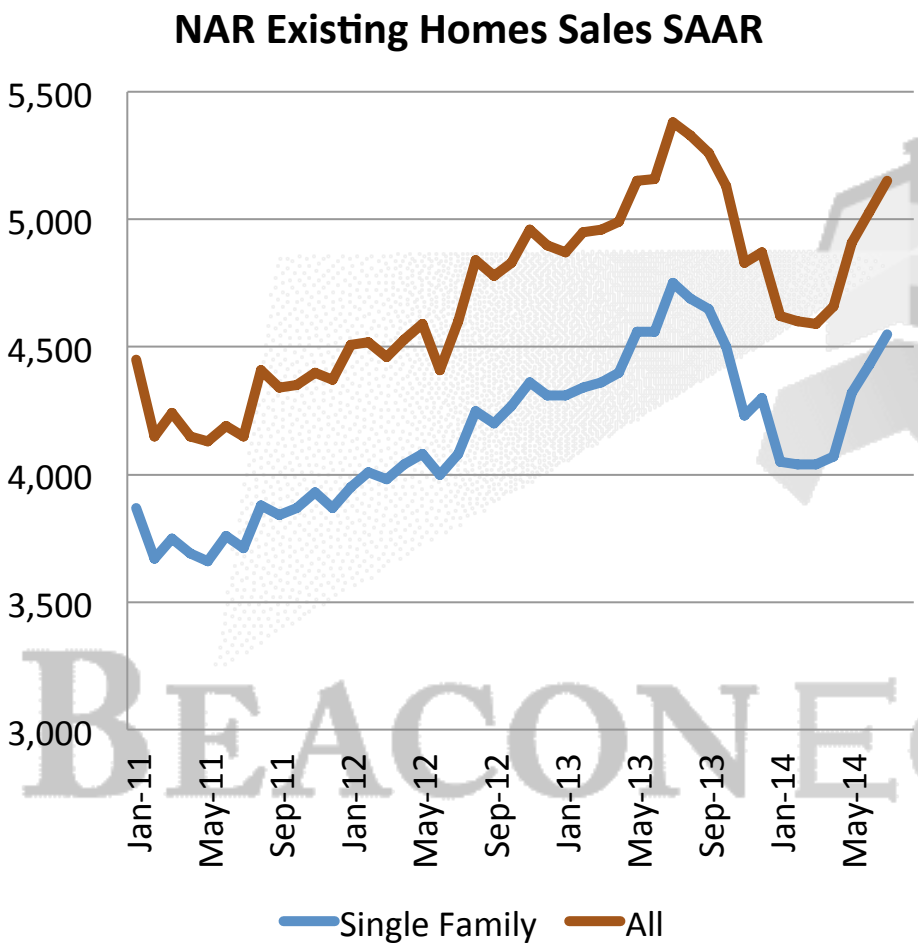
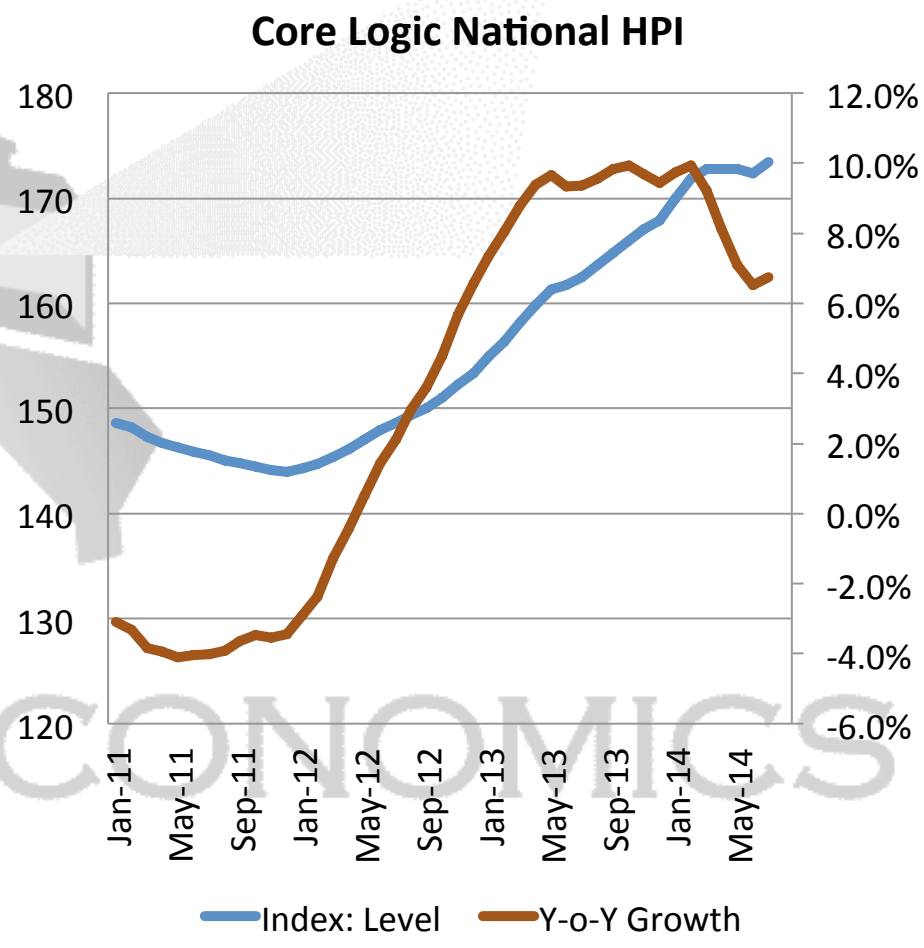
Construction Trends





Housing Sales / Prices





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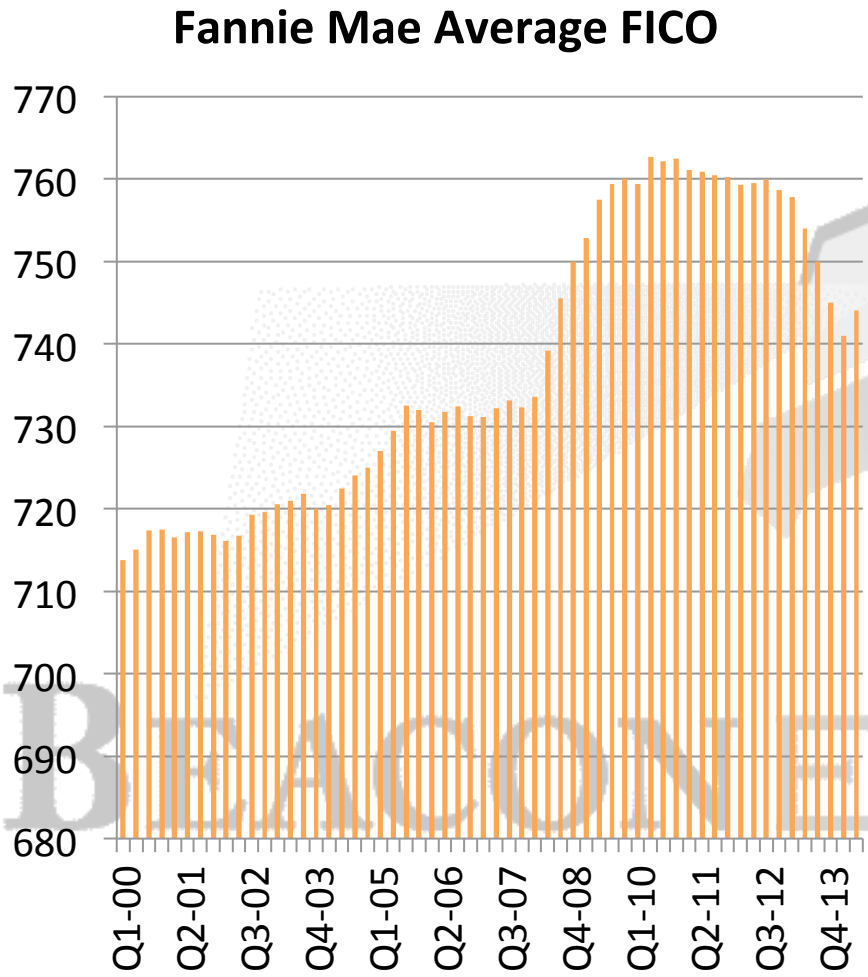
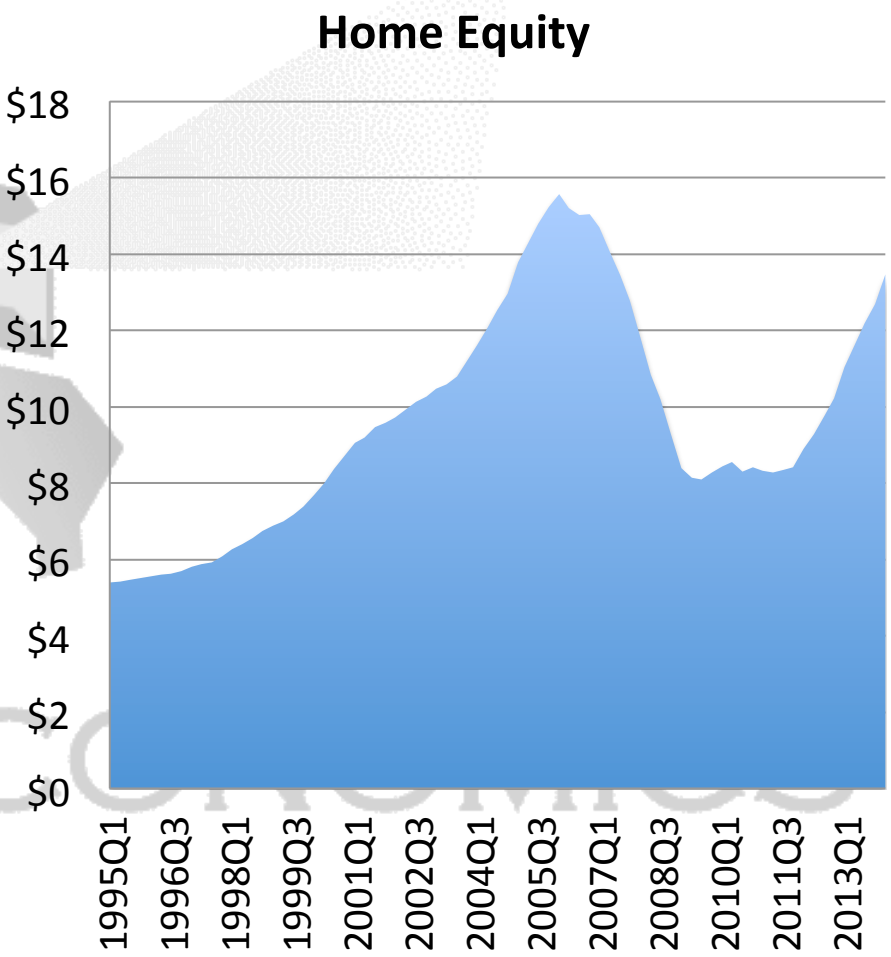
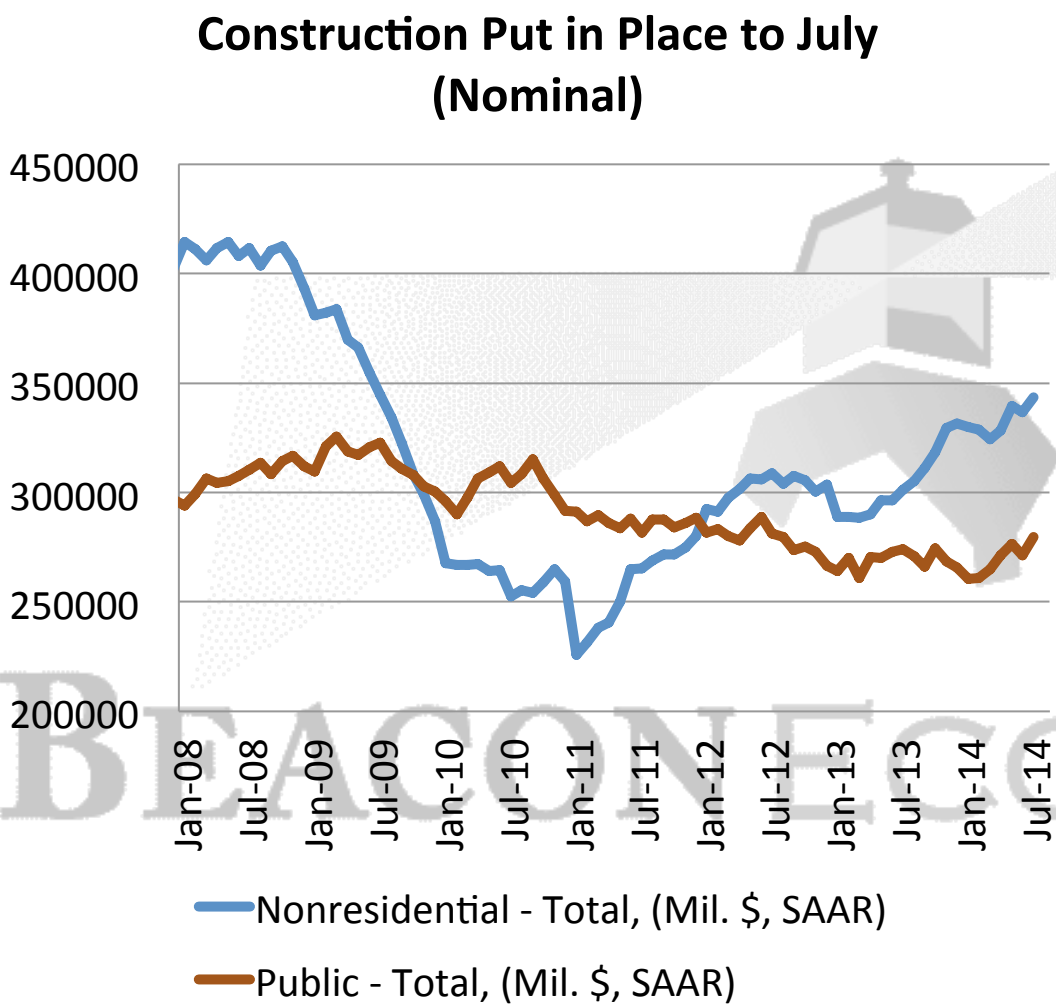
Better Signs…





Non-Res Construction Trends



Growth in Spending by Type of Structure

Office	6957	24.7%
Infrastructure	22589	22.7%
Lodging	2504	20.4%
Manufacturing	5911	12.7%
Commercial	4591	9.7%
Recreation	438	4.2%
State Local	1695	0.7%
Education	-746	-4.4%
Federal	-1257	-5.2%
Health	-1760	-5.8%

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California fact versus fiction

California Hype:

- Business unfriendly
- High taxes
- Over regulated
- People/business fleeing

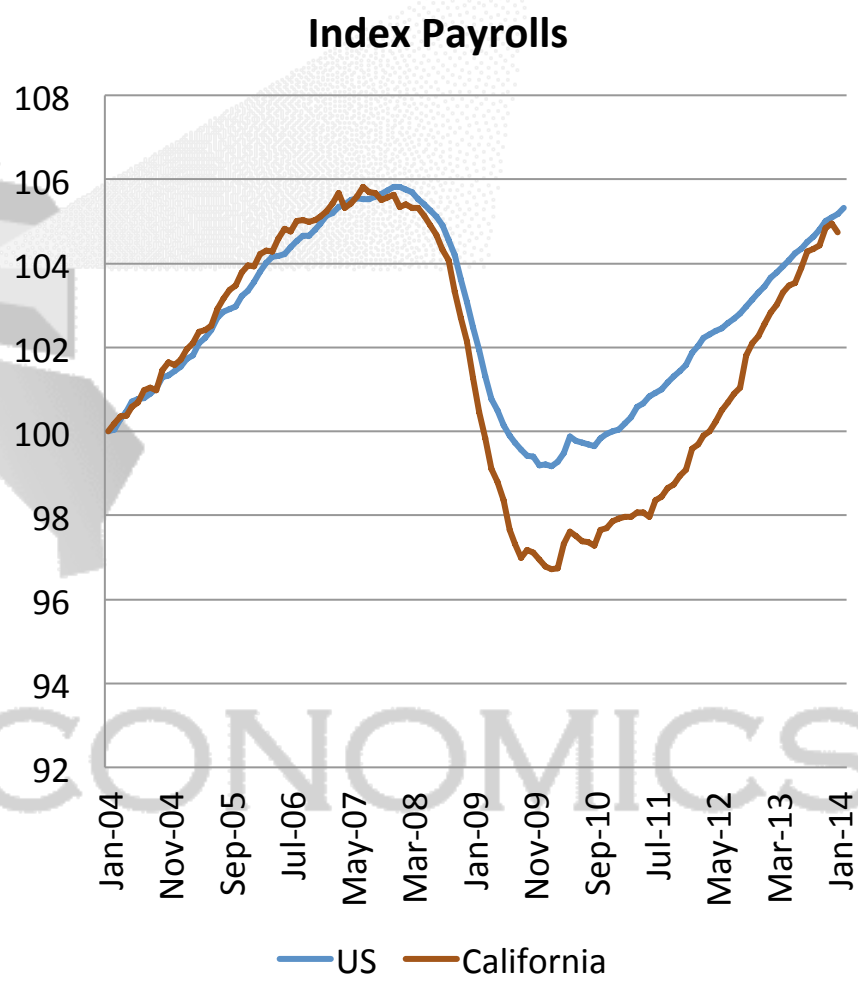
Reality

- "Dumb" tax state
- Still outperforming
- Certain industries more vulnerable than others
- Real enemy: housing costs

Regional Growth: Who's Hot and Not

State Non-Farm Employment

North Dakota	465	4.8%	21.4
Nevada	1,220	3.9%	46.2
Utah	1,332	3.5%	44.8
Texas	11,550	3.3%	371.0
Florida	7,800	3.1%	237.5
Colorado	2,447	2.8%	66.3
Delaware	438	2.7%	11.7
Oregon	1,716	2.7%	45.4
California	**15,473**	**2.4%**	**356.4**
South Carolina	1,933	2.2%	42.5
Indiana	2,994	2.2%	65.1
Washington	3,050	2.2%	65.5
Oklahoma	1,666	2.1%	33.9
Tennessee	2,799	2.0%	53.6



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Employment by Industry

California Industry Employment

	Jul-14	Change (000s)	Change (%)
Education/Health	2,400	85	3.7
Leisure and Hospitality	1,719	44	2.6
Admin Support	1,021	42	4.3
Prof Sci and Tech	1,183	41	3.6
Retail Trade	1,632	28	1.8
Construction	659	23	3.6
Information	469	18	4.1
Government	2,383	18	0.8
Wholesale Trade	712	12	1.7
Management	226	9	4.1
Transport,Warehouse,	512	9	1.8
Other Services	521	6	1.1
Real Estate	264	4	1.7
Farm	405	-1	-0.2
Manufacturing	1,250	-2	-0.1
Finance and Insurance	511	-16	-3.0
Total Nonfarm	15,493	324	2.1

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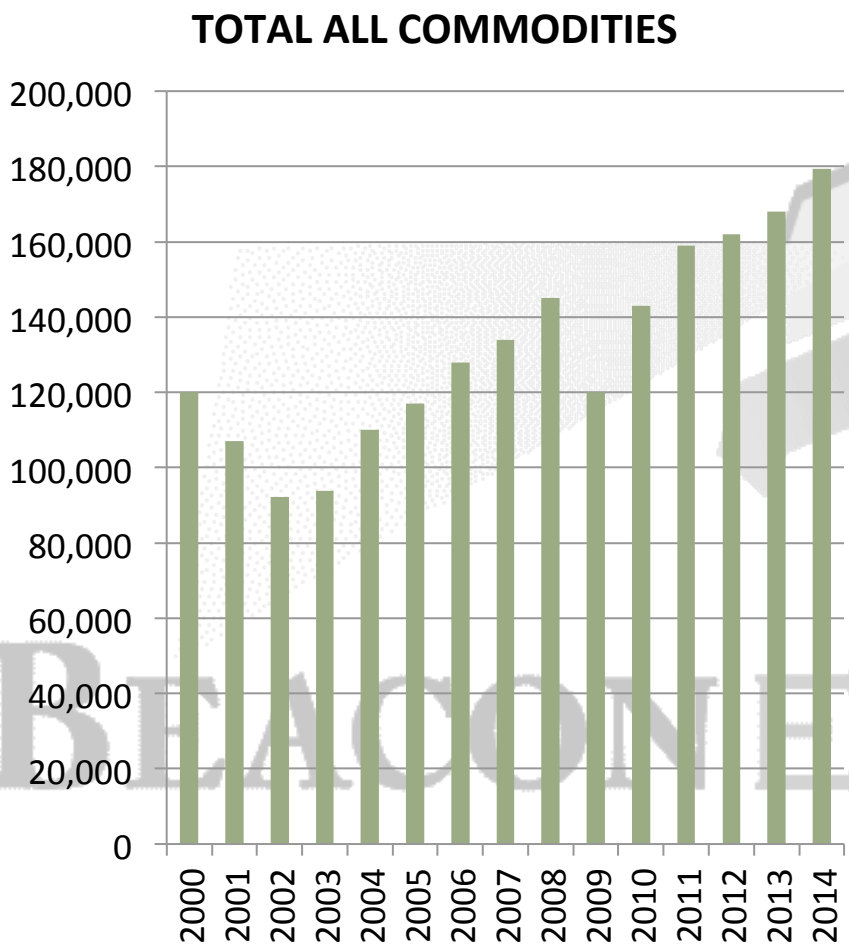
State Exports



Area	Mar-14 Occupancy	YoY Change (%)	Mar-14 ADR	YoY Change (%)
San Diego	73.9	4.5	137.67	6.7
Los Angeles	79.2	3.9	142.15	6.8
Santa Barbara	70.8	3.6	166.52	3.1
San Francisco	84.6	2.3	197.69	11.2
Inland Empire	61.1	2.0	98.31	0.5
Orange County	75.6	1.2	131.80	5.3
South Bay	73.6	0.9	149.62	14.0
San Luis Obispo	71.0	0.8	124.25	1.4
Central CA	58.4	0.8	115.06	-7.0
California	72.3	2.6	135.03	6.6
United States	63.4	1.7	113.55	4.1

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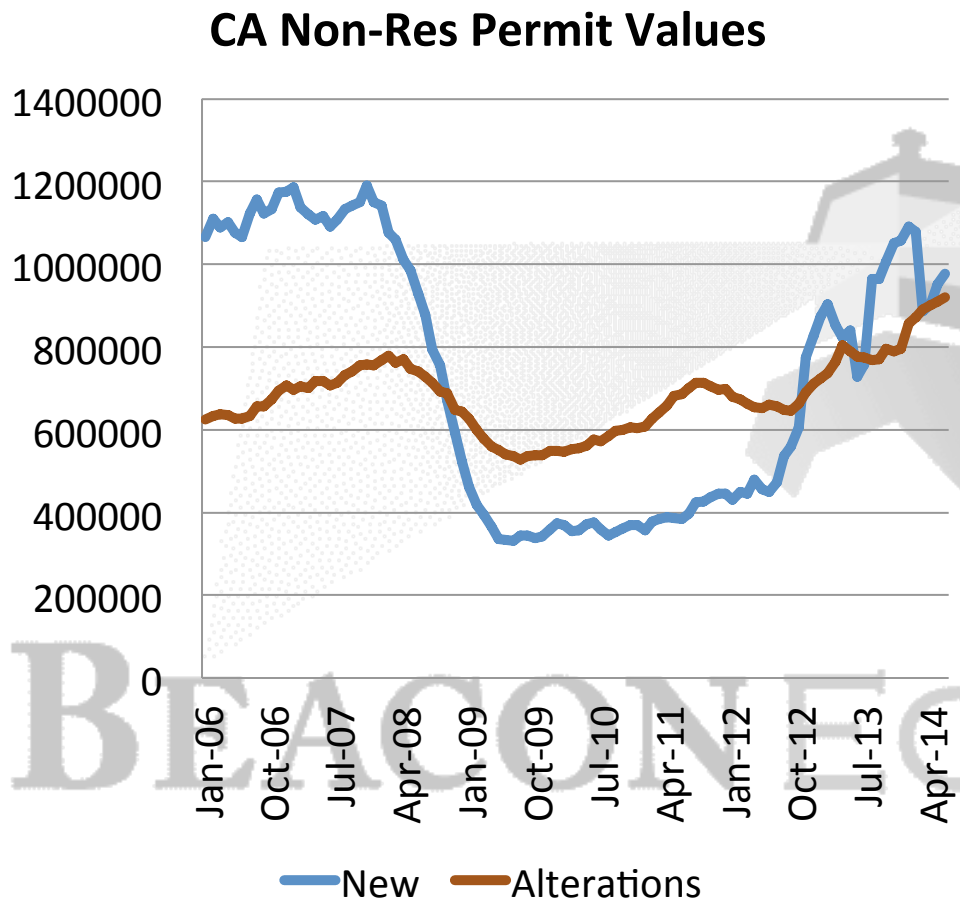
Non-Residential Construction



Non Residential Permits

California, ($ millions)

	2013 YTD	2014 YTD	Change(%)
New Commercial	2,188	3,155	44.21%
Office	600	931	55.16%
Retail	939	1,238	31.83%
Hotel	120	183	52.57%
Industrial	418	351	-15.97%
Other Nonres.	2,348	1,815	-22.72%
Nonres. Alts./ Adds.	4,835	5,564	15.10%
Total Nonres.	9,788	10,885	11.20%

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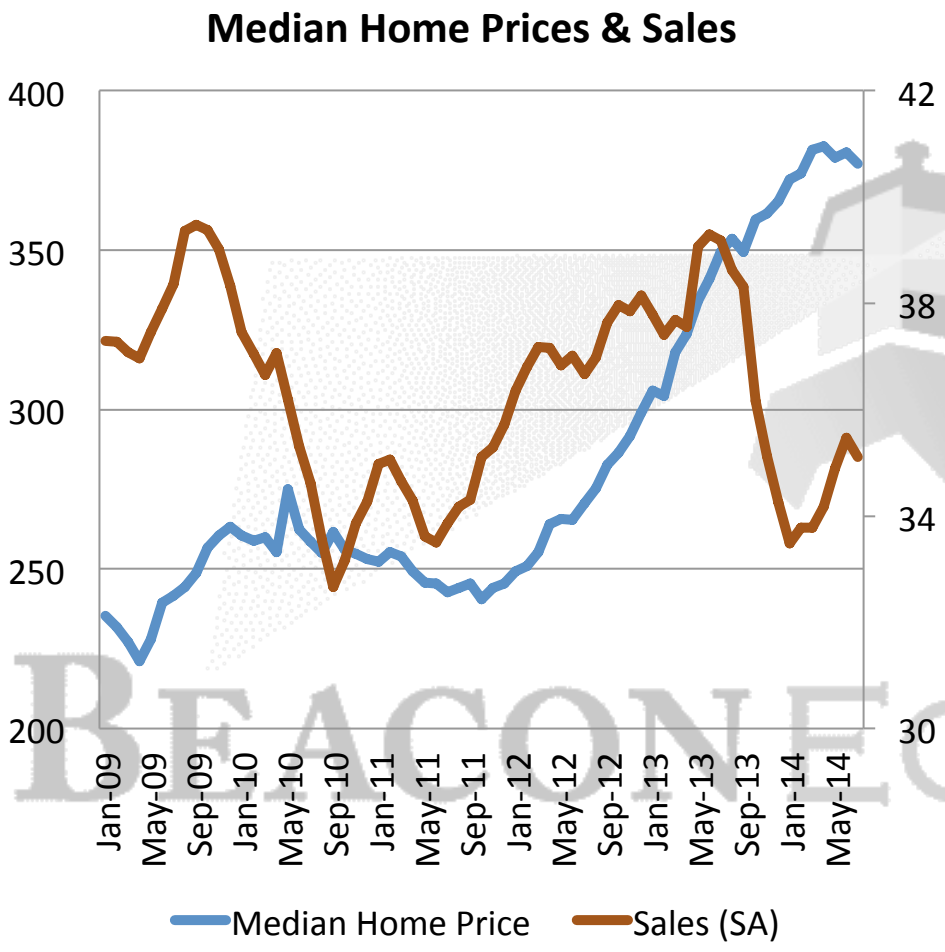
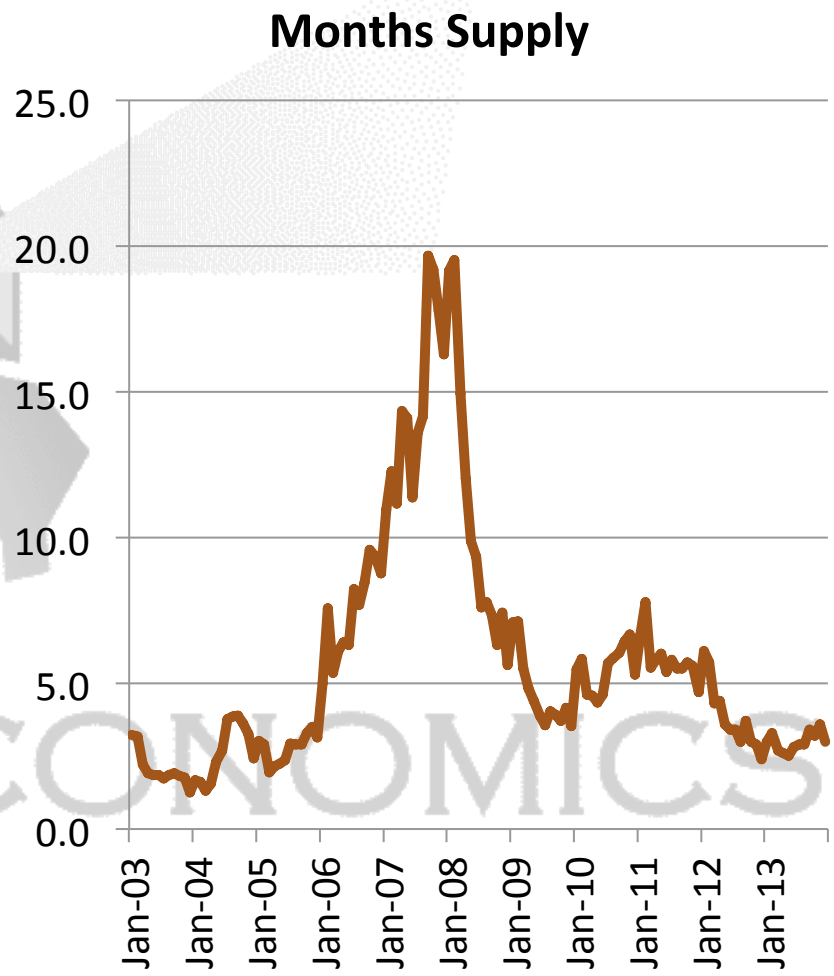
State Real Estate





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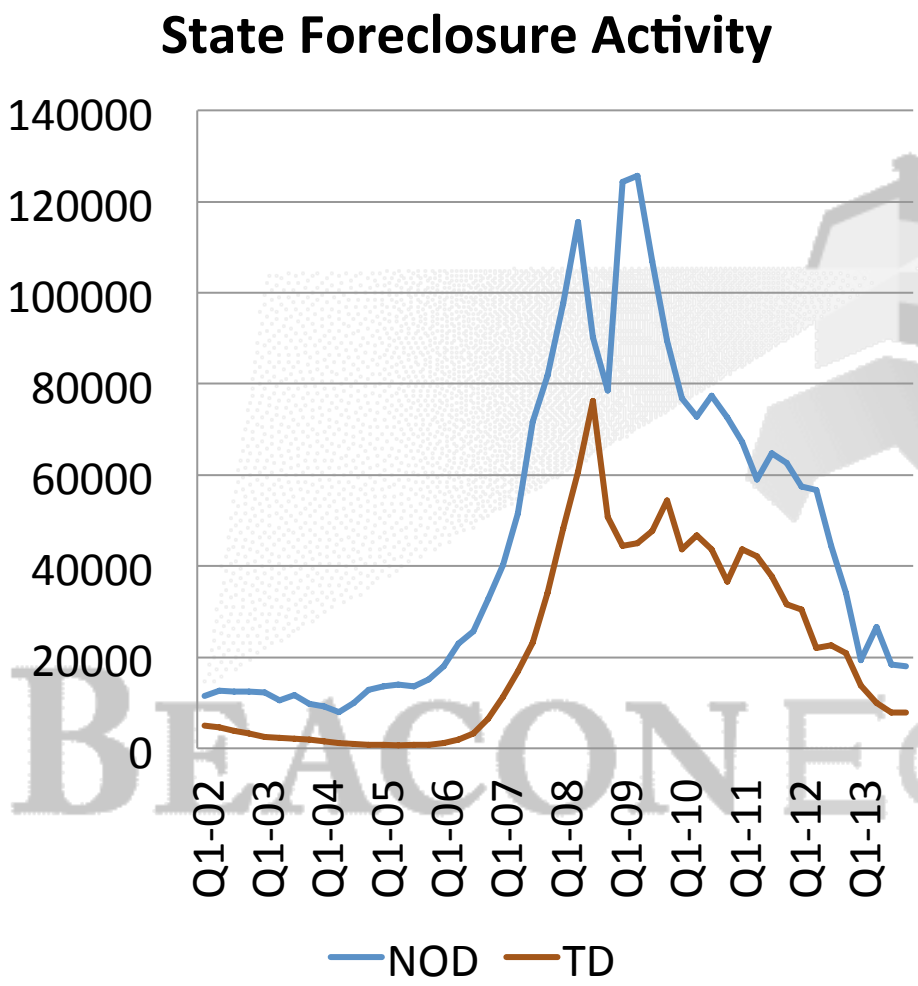
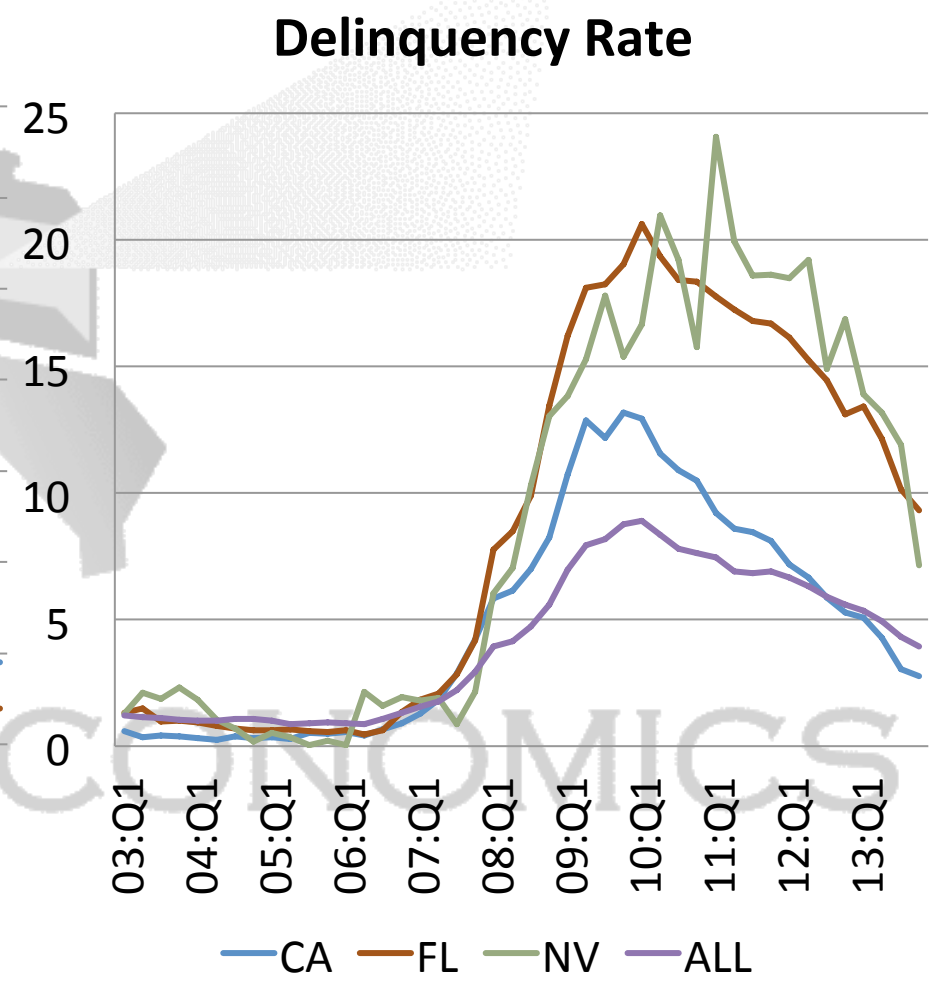
California





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Bubble? No…

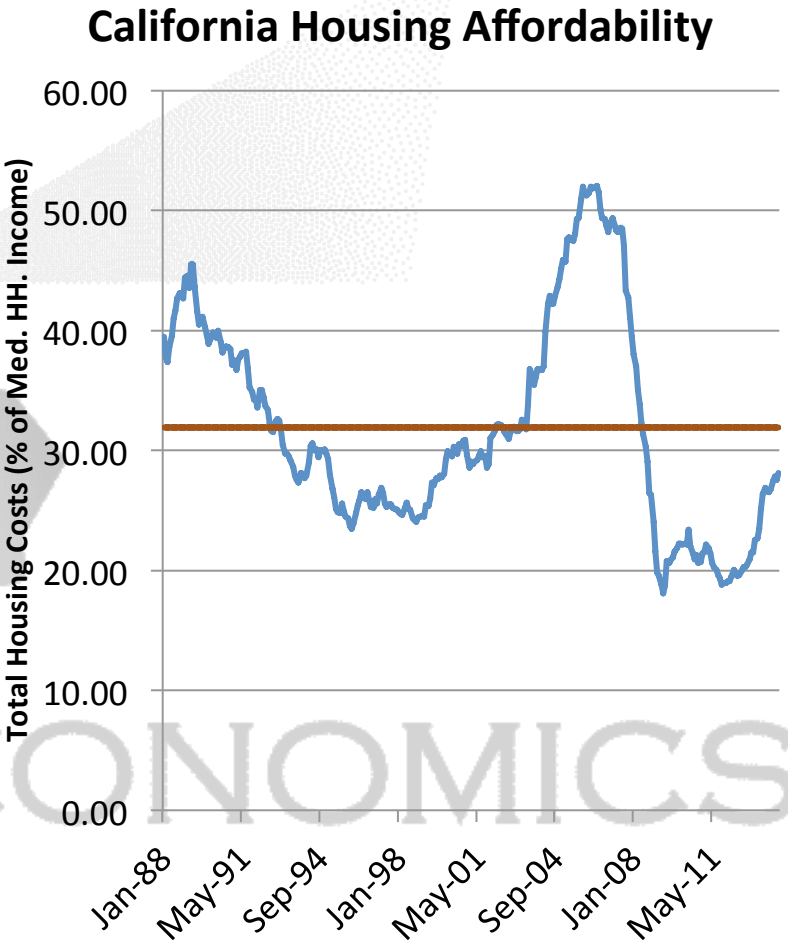
- Long-run

Rental Vacancy Rate (%)

Rank	State	Q1-14
1	Oregon	3.6
2	Idaho	4.0
3	Montana	4.0
4	Maine	4.4
5	Wisconsin	4.4
6	California	5.2

Ownership Vacancy Rate (%)

Rank	State	Q1-14
1	Colorado	0.6
2	South Dakota	0.9
3	Minnesota	1.0
4	Nebraska	1.0
5	North Dakota	1.0
6	California	1.2



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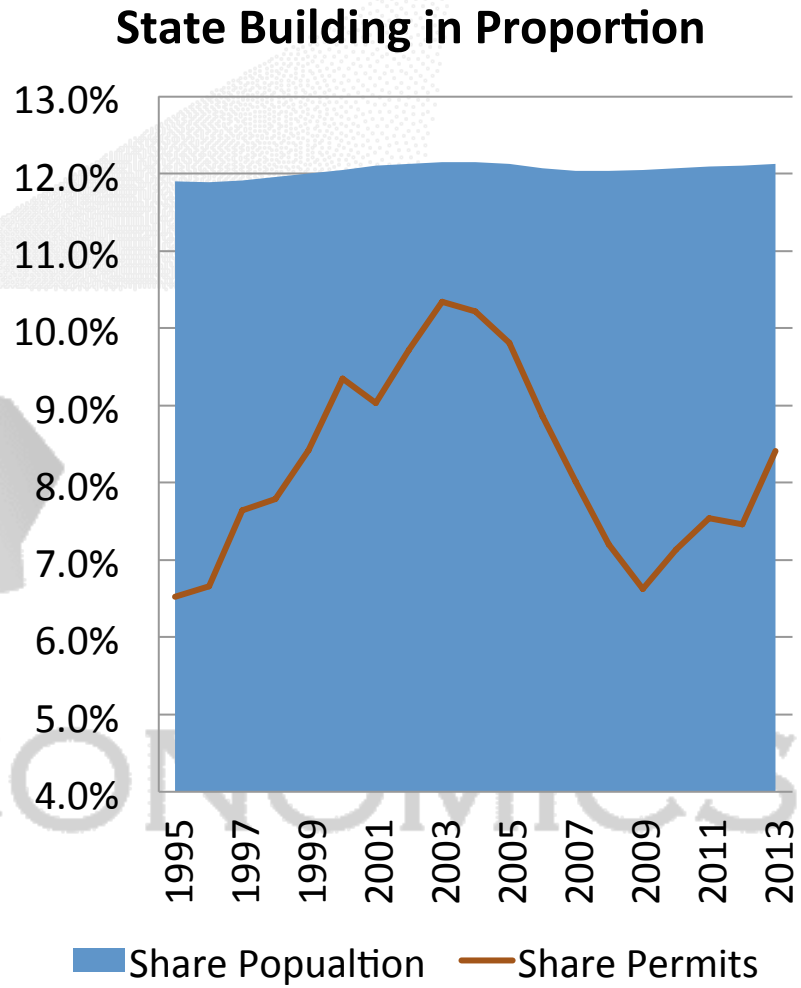
Where Does the State Stack Up?

Metropolitan Area	2013	%Chya
U.S.	$176.6	11.3%
San Jose-Sunnyvale-Santa Clara	**$705.0**	**31.7%**
Honolulu, HI	$625.8	1.5%
Anaheim-Santa Ana-Irvine, CA	**$600.2**	**23.8%**
San Francisco-Oakland-Fremont, CA	**$593.9**	**32.6%**
New York-Wayne-White Plains, NY-NJ	$432.8	5.1%
San Diego-Carlsbad-San Marcos, CA	**$412.3**	**14.7%**
NY: Nassau-Suffolk, NY	$385.4	3.0%
New York-Northern New Jersey	$368.2	1.2%
Bridgeport-Stamford-Norwalk, CT	$360.1	7.8%
Washington-Arlington-Alexandria	$348.7	11.9%
Los Angeles-Long Beach-Santa Ana	**$345.5**	**22.8%**
NY: Newark-Union, NJ-PA	$334.4	2.6%
Boston-Cambridge-Quincy, MA-NH	$332.2	6.6%
Seattle-Tacoma-Bellevue, WA	$312.6	17.8%
Barnstable Town, MA	$307.9	5.6%
Burlington-South Burlington, VT	$278.4	13.1%



In the Long Term?

	2011 Taxes Fees Paid as share PI	
1	Alaska	36.4%
2	Wyoming	22.2%
3	New York	18.7%
4	Delaware	18.1%
5	North Dakota	17.8%
6	West Virginia	17.0%
7	New Mexico	16.5%
8	South Carolina	16.4%
9	Vermont	16.2%
10	Hawaii	15.9%
11	**California**	**15.7%**
12	Mississippi	15.6%
13	Wisconsin	15.6%
	United States Total	14.7%

Total Domestic Net Migration by Income 08-13	
Under $25,000	-192,061
$25,000 to $50,000	-58,600
$50,000 to $99,999	18,955
Over $100,000	2,619
Total	-229,087

	Texas
Under $25,000	-40070
$25,000 to $50,000	-23741
$50,000 to $99,999	-3433
Over $100,000	599

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Where are the jobs?

Non-Farm	Jul-14	From 07	Y-o-Y
San Luis Obispo	111,000	7.1%	4.8%
Fresno MSA	**316,800**	**0.3%**	**3.7%**
San Francisco	1,106,400	10.1%	3.4%
Inland Empire	**1,265,100**	**-2.2%**	**3.0%**
San Diego	1,349,100	1.8%	2.7%
Stockton MSA	**206,800**	**-3.8%**	**2.7%**
Napa MSA	68,500	5.7%	2.7%
Sonoma	187,800	-2.6%	2.5%
East Bay	1,058,500	0.0%	2.3%
San Jose	986,600	6.7%	2.3%
Salinas MSA	127,200	-2.1%	2.3%
Santa Cruz	95,100	-2.0%	2.1%
Sacramento	878,700	-4.5%	1.6%
Los Angeles	4,185,500	-1.1%	1.6%
Ventura	290,900	-2.7%	1.5%
Bakersfield	252,700	5.0%	1.4%
Santa Barbara	174,100	0.4%	1.2%
Orange	1,473,800	-3.5%	1.2%

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Some choice quotes on the Valley

- "nobody lives out there in the tumbleweeds"
- "Inland California is suffering what amounts to a depression. Unemployment rates are extraordinary. Poverty is persistent. Economic growth is rare and localized."
- "Contraction and stagnation have prevented many of your counties from recovering even 50 percent of the employment losses sustained in the downturn."

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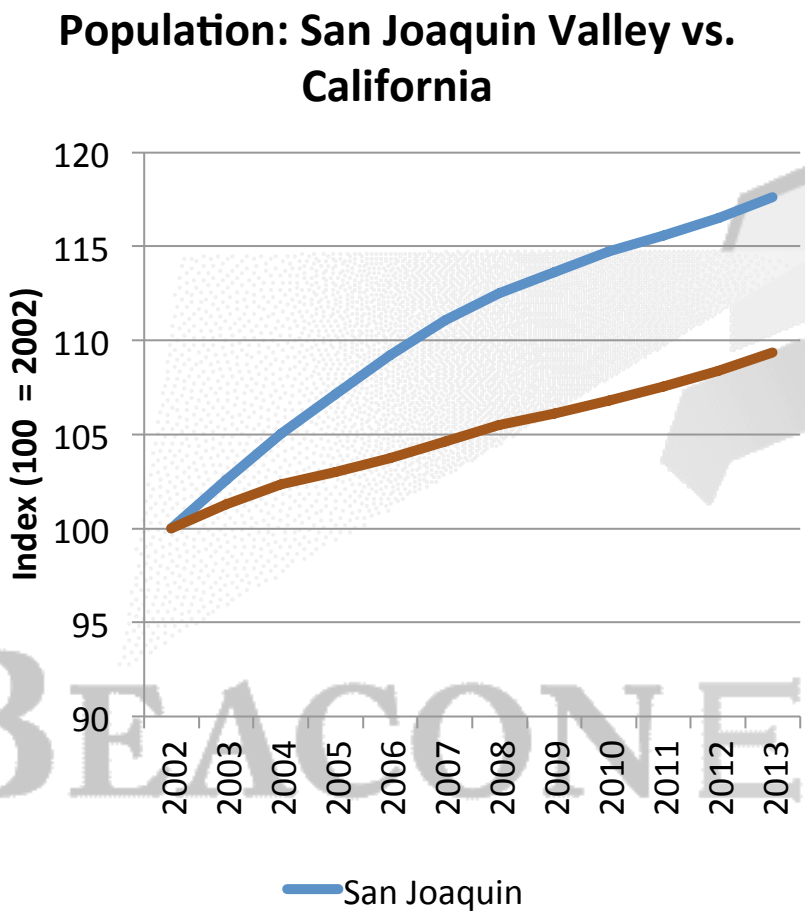
Population



Location	2013	YoY Growth (%)
Fresno County	958,866	1.1
Kern County	866,977	1.2
Kings County	150,479	-0.2
Madera County	153,045	1.1
Merced County	263,026	0.8
San Joaquin County	703,919	0.8
Stanislaus County	527,326	0.8
Tulare County	456,347	0.9
SJV Total	4,079,985	0.9

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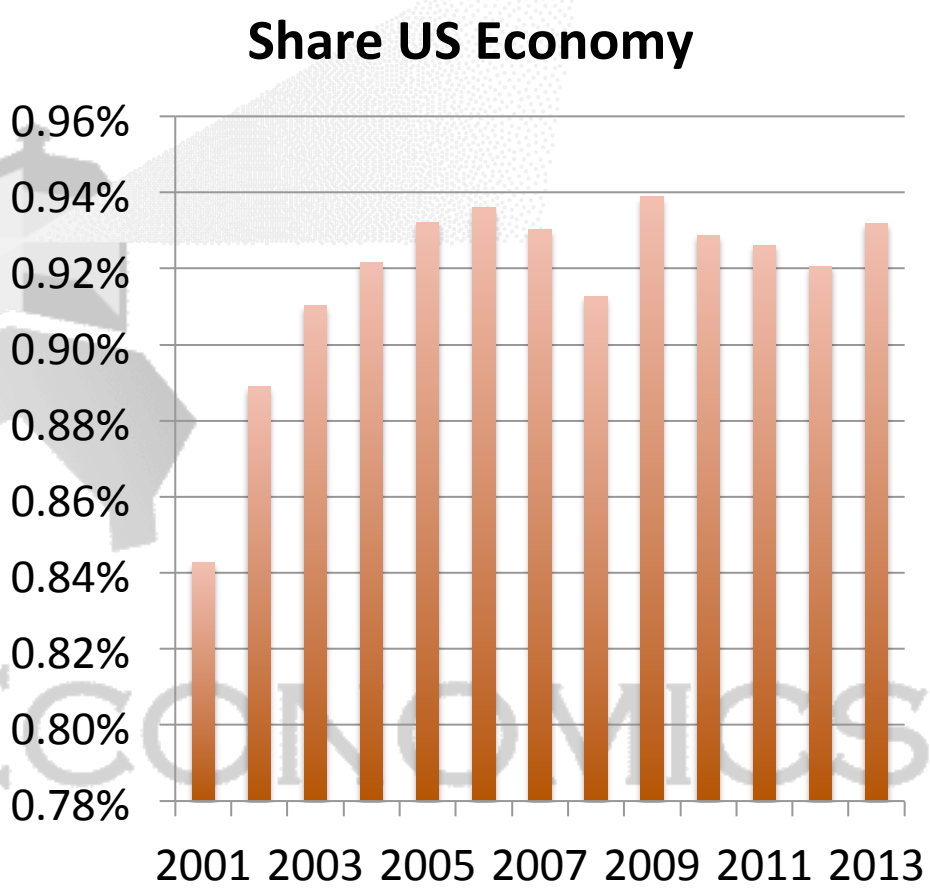
The Reality?

Size of the Local Economy: 2013

24	Connecticut	249251
25	Oregon	219590
26	Alabama	193566
27	South Carolina	183561
28	Kentucky	183373
29	Oklahoma	182086
30	Iowa	165767
31	**SJ Valley**	**149282**
32	Kansas	144062
33	Utah	141240
34	Nevada	132024
35	Arkansas	124218



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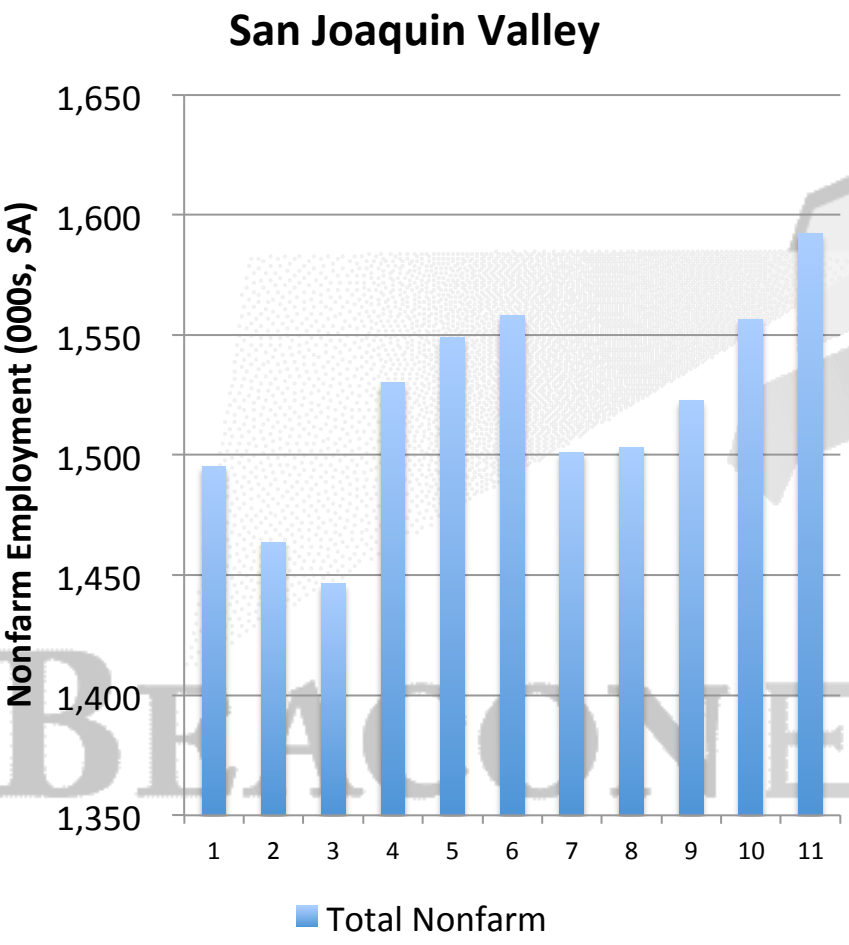
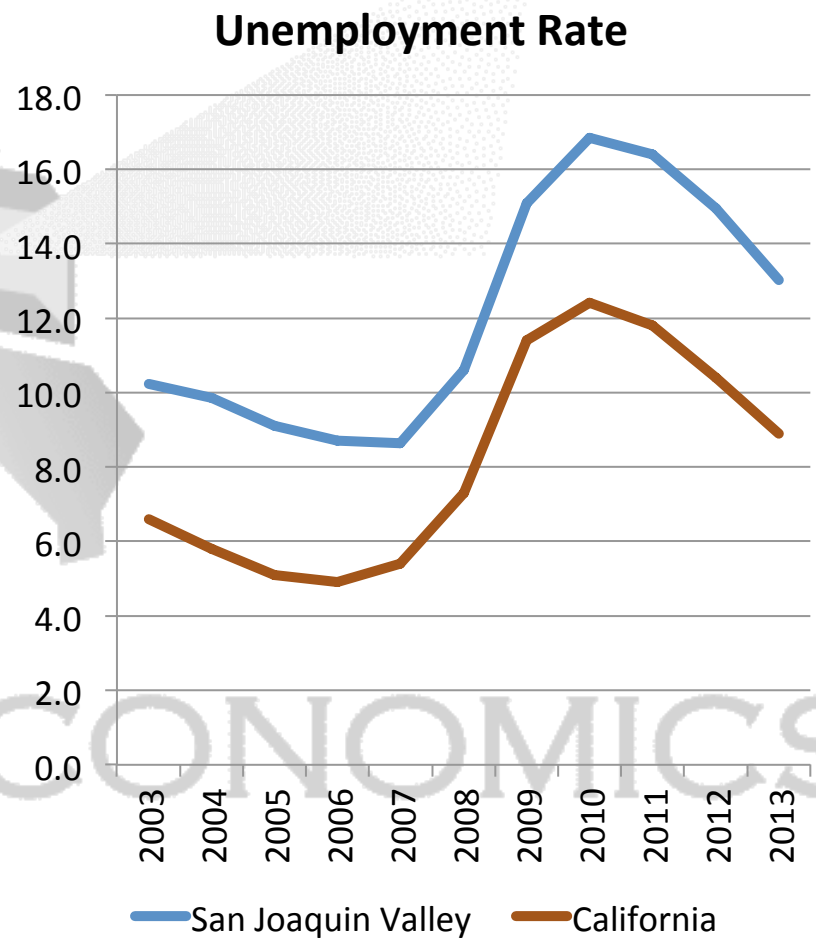
Employment





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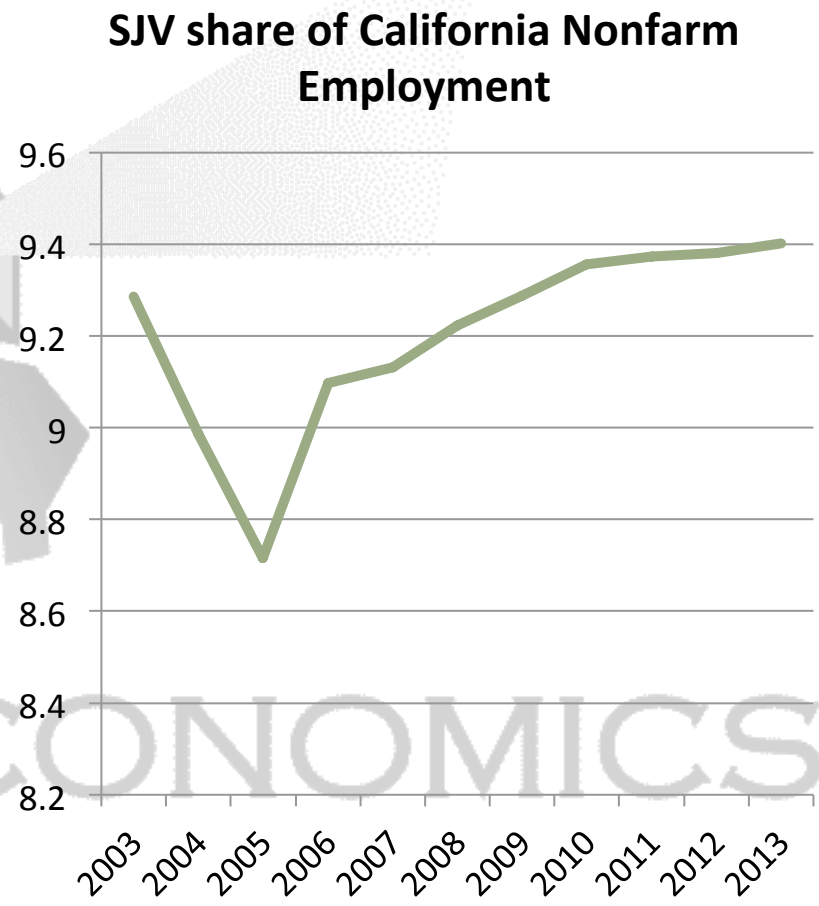
Employment

Industry	Jul-14 (000s)	1-Year Change (%)	5-Year Change (%)
Construction	32.7	8.5	25.7
Admin Support	41.4	7.7	26.1
Professional/Business	94.6	4.6	17.8
Transport, Warehouse	41.3	4.3	22.6
NR/Mining	13.5	4.1	39.0
Other Services	30.4	3.2	12.3
Retail Trade	120.9	2.6	13.5
Education/Health	153.6	2.4	14.0
Prof Sci and Tech	21.9	2.3	9.7
Management	5.1	2.1	5.8
Manufacturing	88.5	2.1	3.5
Leisure and Hospitality	90.3	1.8	11.6
Real Estate	8.8	1.2	2.9
Government	218.6	0.8	-3.8
Farm	190.0	0.6	15.1
Wholesale Trade	35.9	0.0	6.4



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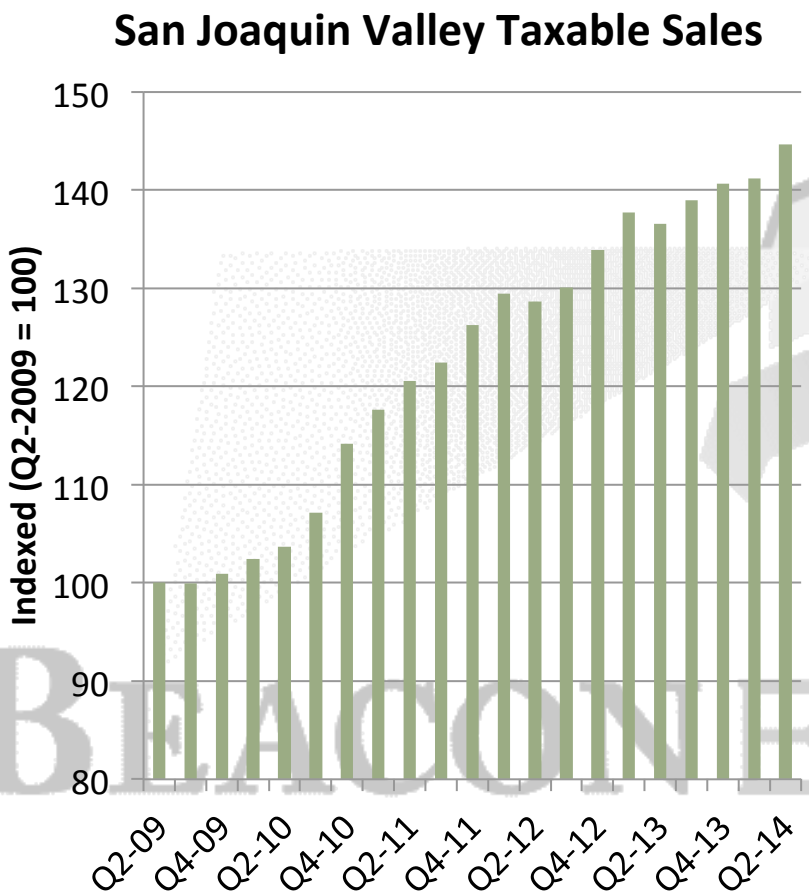
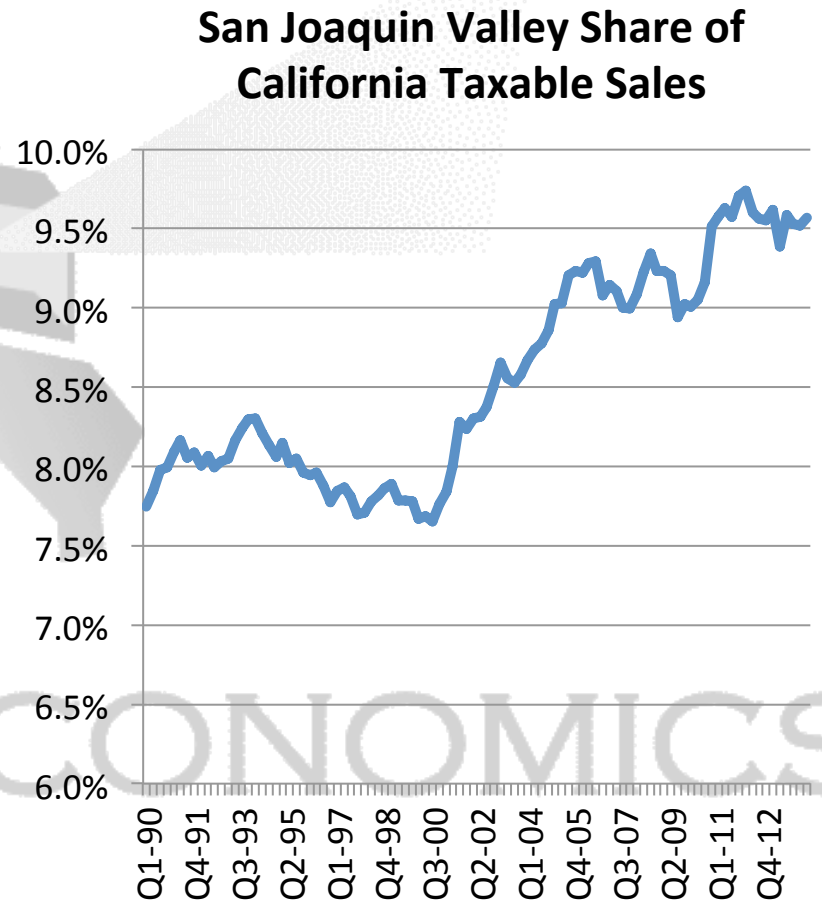
Taxable Sales





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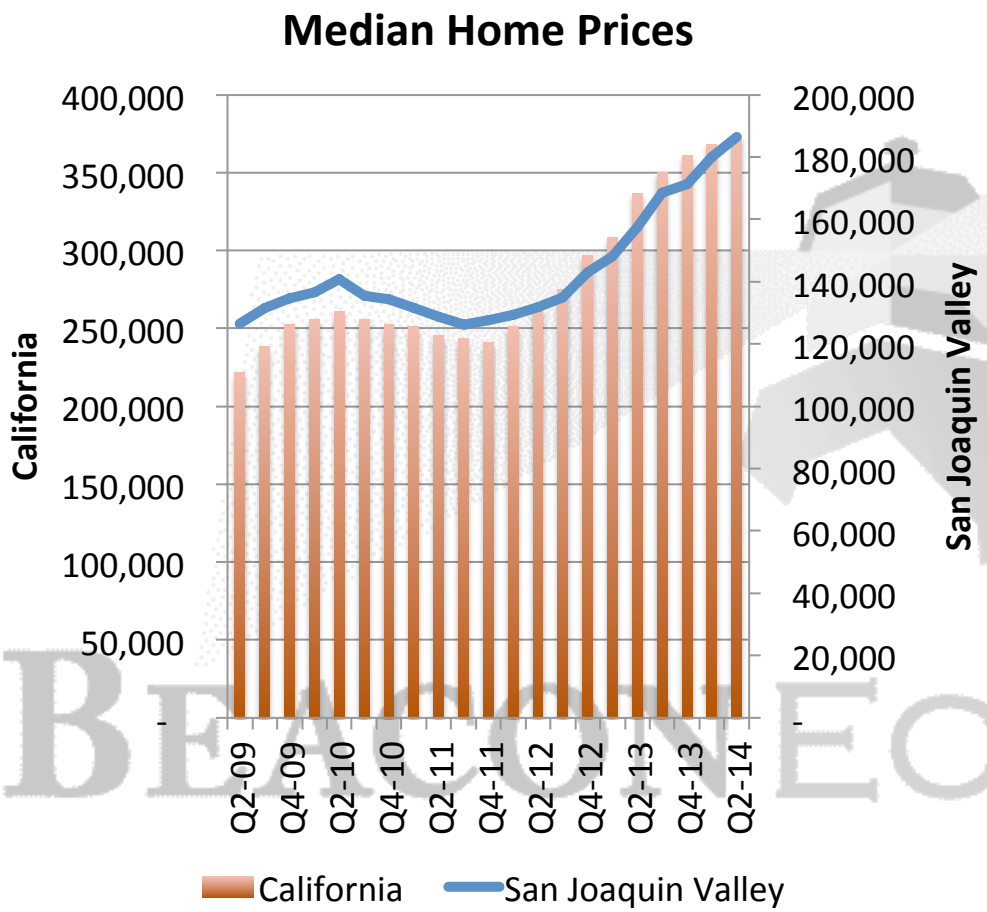
Home Prices



MSA	Q2-14	Year over Year (%)
Merced	$179,899	25.0
Modesto	$208,339	23.5
Stockton	$239,768	23.0
Madera	$183,451	21.3
Hanford	$158,901	14.9
Visalia	$158,811	13.9
Fresno	$189,458	11.8
Bakersfield	$171,800	10.7
San Joaquin Valley Total	$186,303	3.5

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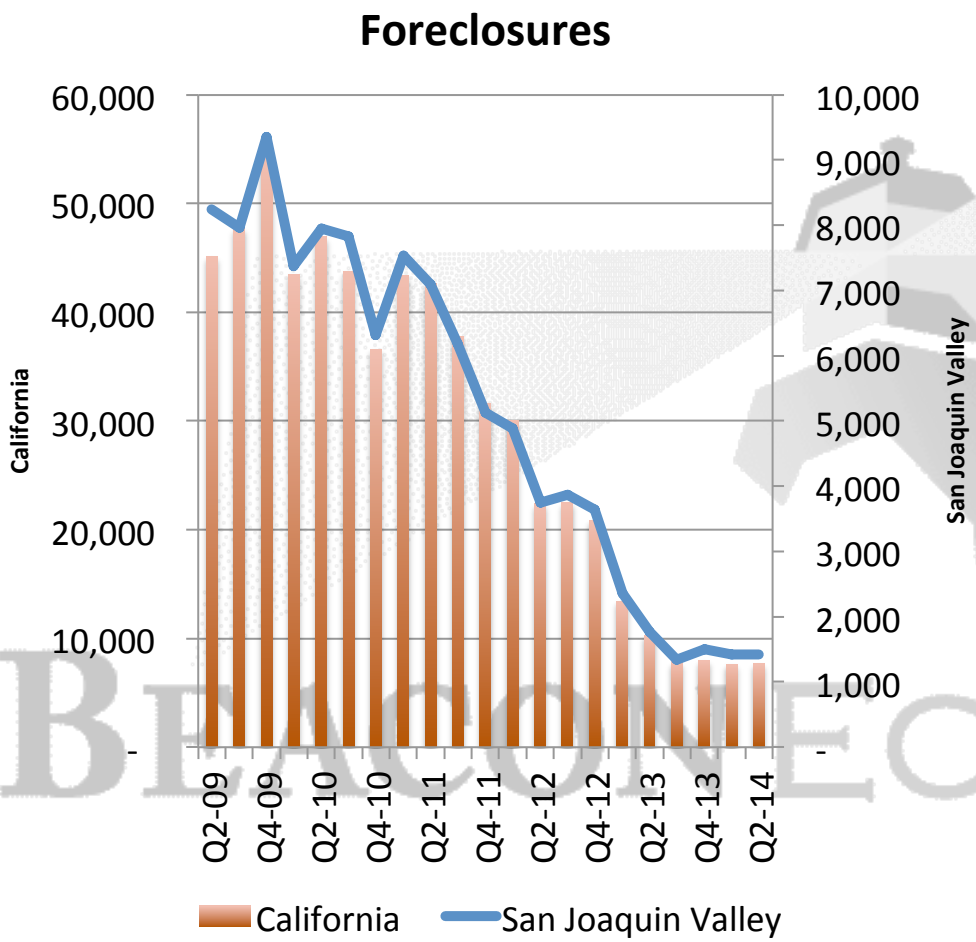
Distressed Properties



MSA	Q2-14	Year over Year (%)
Madera	58	-34.7
Stockton	218	-31.0
Modesto	175	-26.2
Fresno	344	-22.2
Hanford	50	-17.3
Bakersfield	317	-7.3
Visalia	176	-6.6
SJV Total	1,418	-19.9

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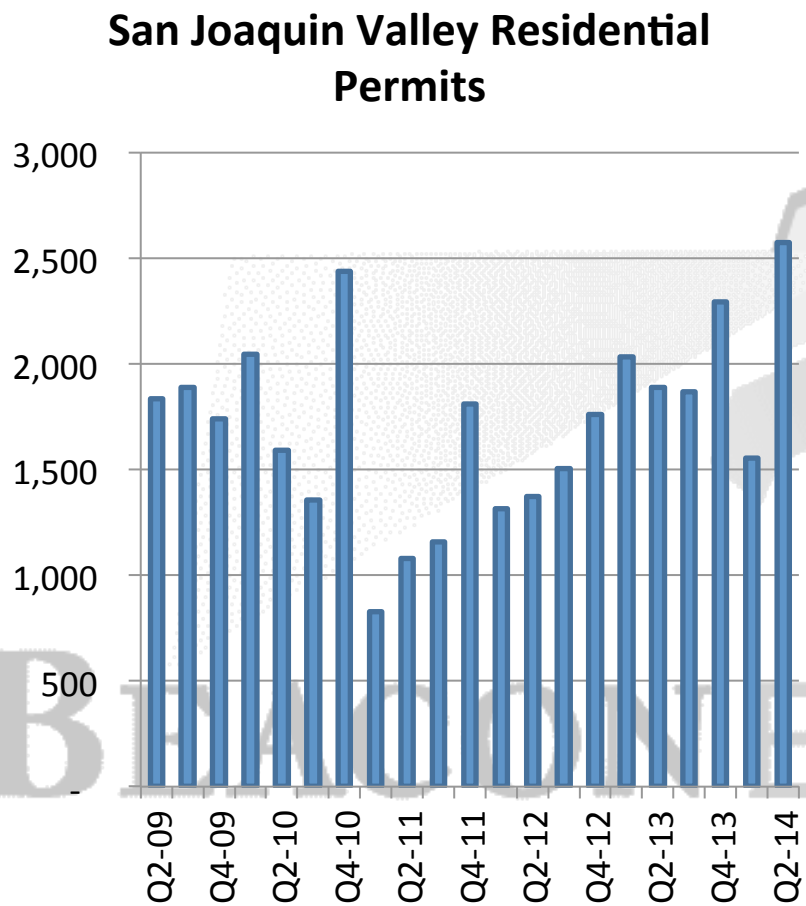
Residential Permits



Select Counties	Q2-14	Q2-13	% Change
Single-Family			
Merced	62	28	121.4
Madera	48	31	54.8
Kings	79	53	49.1
San Joaquin	469	342	37.1
San Joaquin Valley Total	**1,944**	**1,778**	**9.3**
Multi-Family			
Kern	227	30	656.7
Fresno	234	77	203.9
Tulare	170	0	170.0
Madera	0	4	-100.0
San Joaquin Valley Total	**631**	**111**	**468.5**

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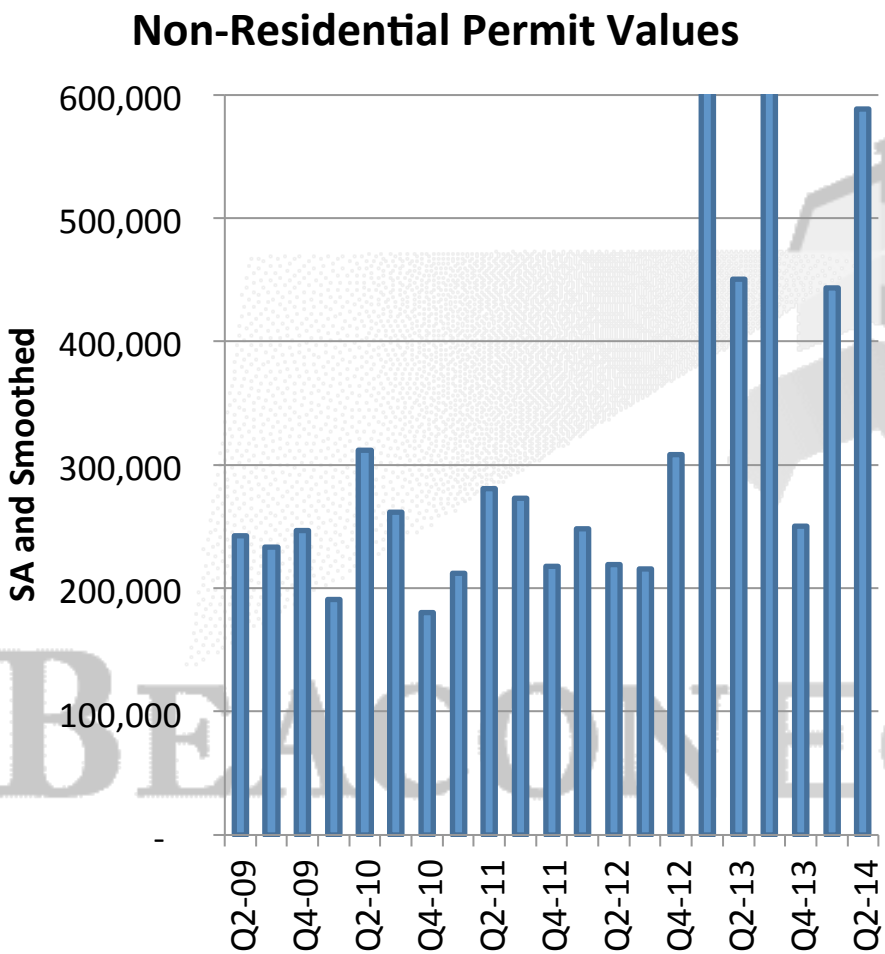
Non-Residential Permits



Type	Q2-14 Value	YoY Change (%)
Commercial	$253,390	42.7
Retail	$211,161	39.7
Office	$35,714	63.6
Industrial	$40,564	22.1
Non-Res Alts.	$269,436	62.0
Non-Res Total	$698,961	55.1

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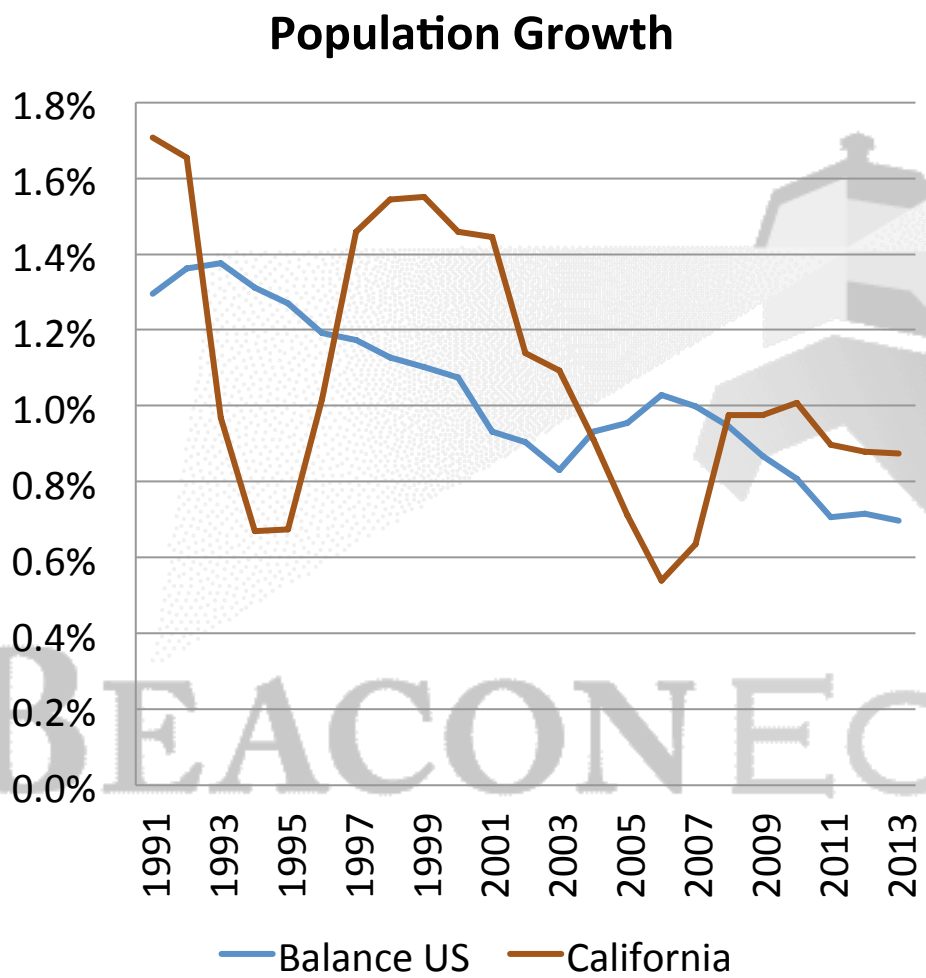
Population Growth



Projections 2015-35

California	7,282,418
Los Angeles	1,039,140
Riverside	912,494
San Bernardino	672,825
Kern	572,927
San Diego	415,116
San Joaquin	385,088
Sacramento	340,238
Fresno	337,624
Contra Costa	231,569
Tulare	208,237
Stanislaus	173,841
Orange	169,977
Santa Clara	164,041
Merced	128,413
Solano	101,718
Placer	97,480
Madera	92,852
Alameda	90,980

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Personal Income

Location	Median HH Income (2012)	YoY Change (%)
Merced County	$41,627	8.8
Stanislaus County	$45,910	5.3
Kern County	$45,935	1.5
San Joaquin County	$42,039	-0.3
Tulare County	$43,597	-2.1
Fresno County	$50,722	-2.8
Kings County	$46,405	-8.8
Madera County	$40,302	-9.7
San Joaquin Valley	**$44,567**	**-0.3**
California	**$58,328**	**1.8**

Location	Per Capita Income (2012)	YoY Change (%)
Madera County	$31,669	6.3
Kern County	$34,453	5.1
Stanislaus County	$34,138	3.4
Fresno County	$34,074	2.8
San Joaquin County	$33,024	2.7
Merced County	$30,630	2.1
Tulare County	$31,307	0.9
Kings County	$31,835	0.2
San Joaquin Valley	**$32,641**	**2.9**
California	**$46,477**	**4.1**

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Issues

Share of Families in Poverty

	2006	2012
Fresno	16.3%	24.1%
Kern	17.1%	20.0%
Kings	15.7%	17.3%
Madera	18.1%	19.0%
Merced	17.4%	20.6%
San Joaquin	10.4%	14.7%
Stanislaus	11.2%	16.0%
Tulare	18.5%	25.6%
SJ Valley	15.1%	19.7%
California	9.7%	12.9%

Share of Workforce with Bachelor Degree or more

	2005	2012
Fresno	19.7%	18.6%
Kern	15.8%	15.3%
Kings	10.8%	12.1%
Madera	12.7%	12.4%
Merced	13.5%	12.8%
San Joaquin	17.3%	18.9%
Stanislaus	14.6%	16.1%
Tulare	12.5%	14.7%
SJ Valley	16.0%	16.3%
California	29.5%	30.9%

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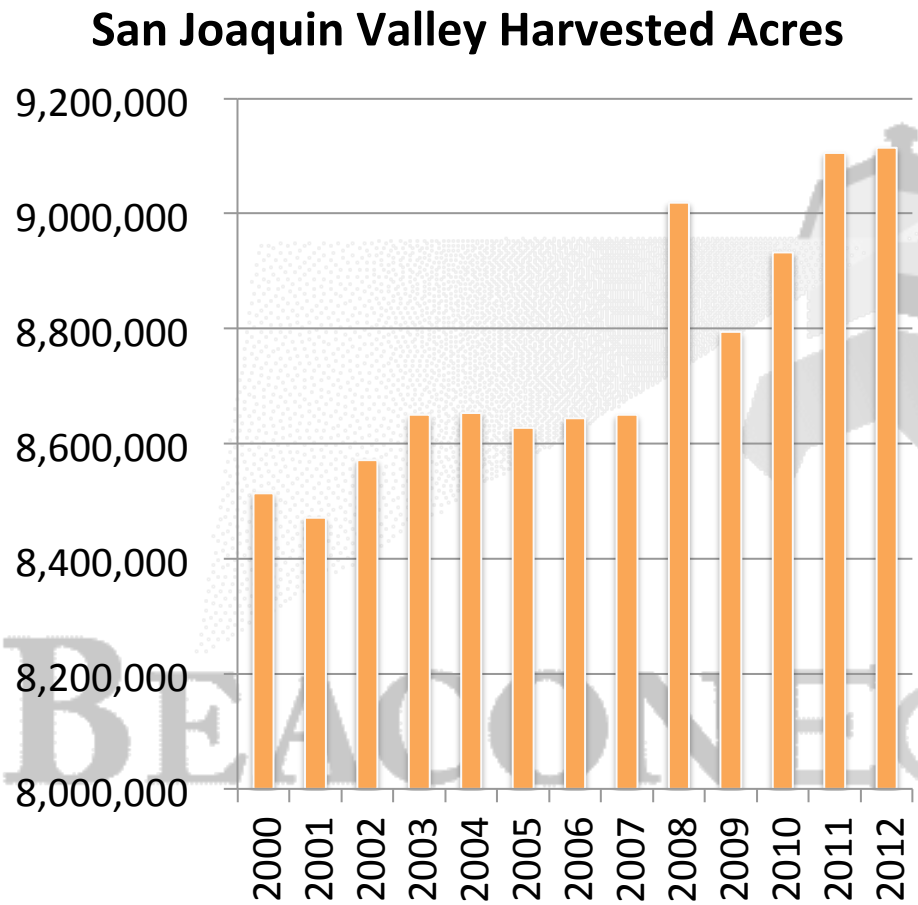
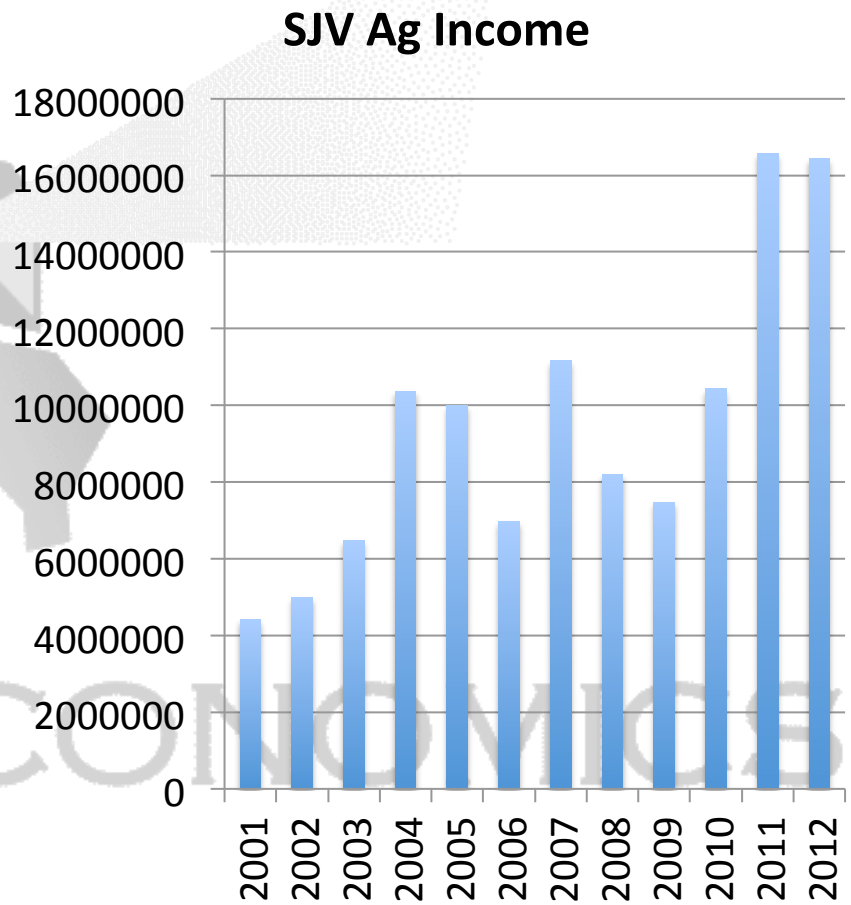
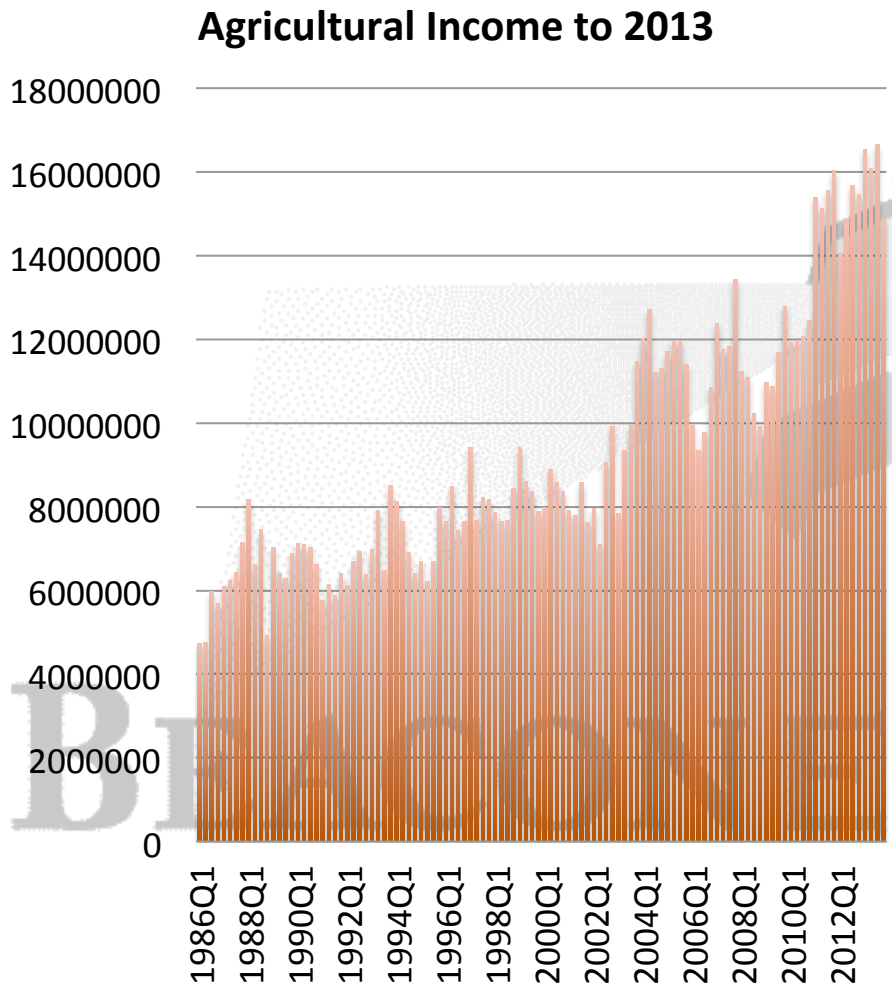
The Legacy of Ag

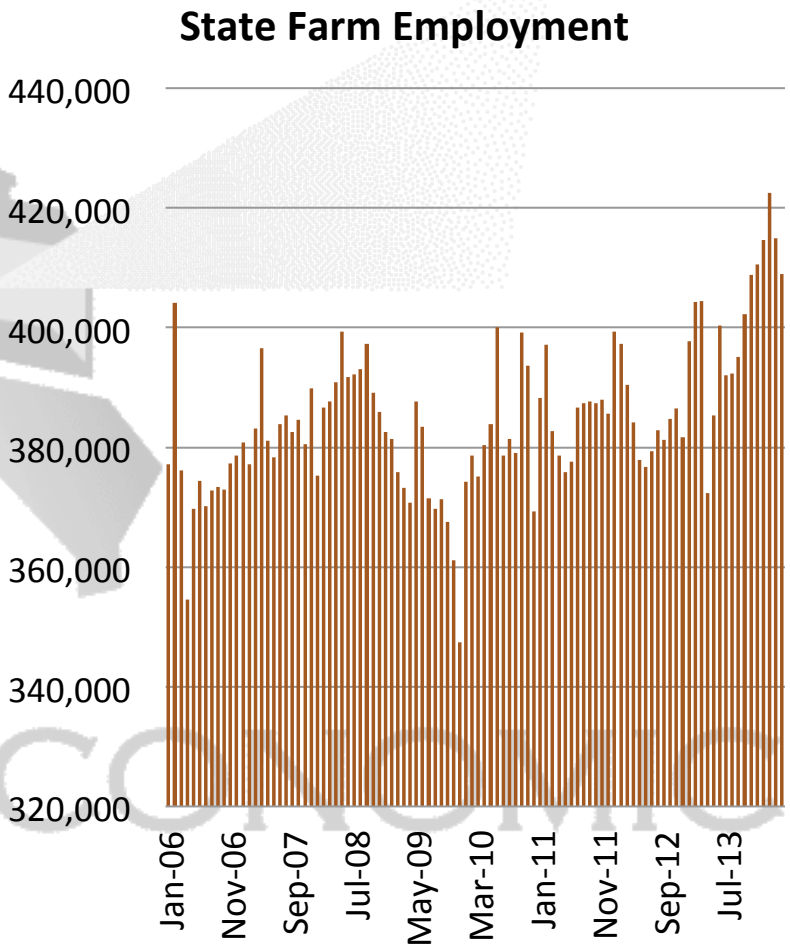




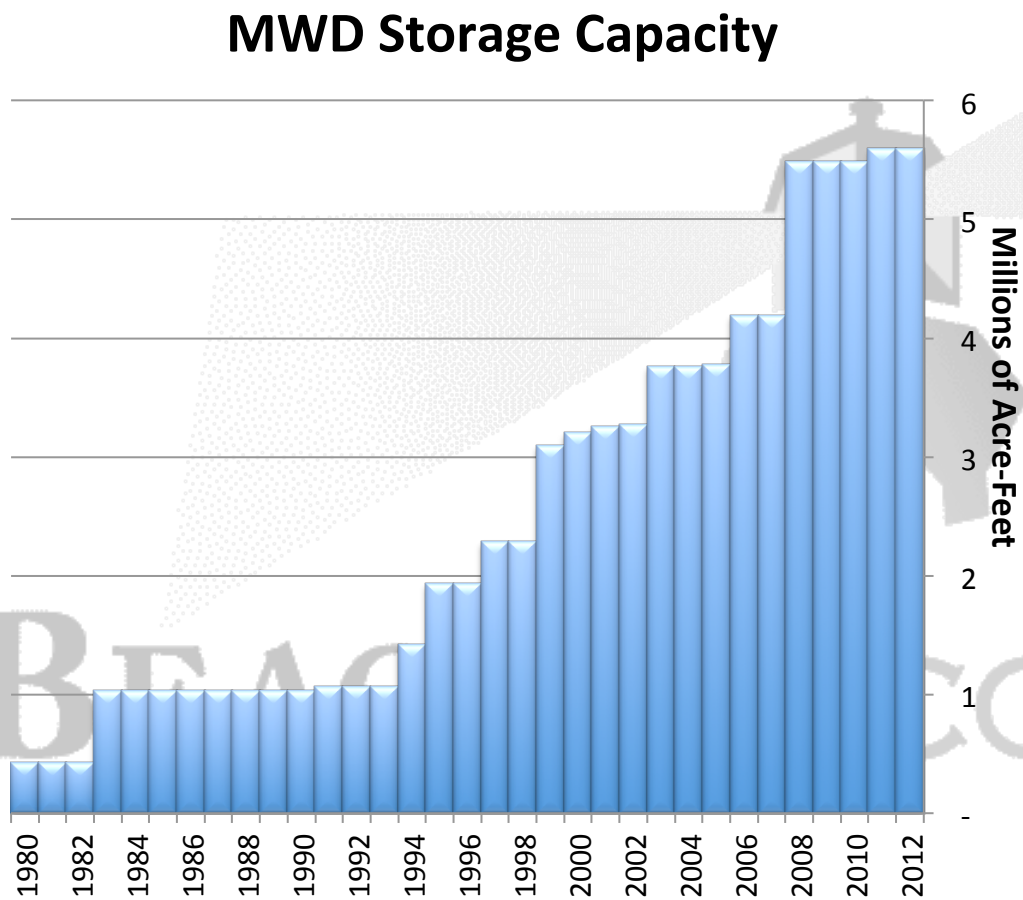
The Drought!!

Ag and the Drought





The Role of Reservoirs



- Storage capacity has increased 13 times since 1980
- Right now, 2.7 million acre-feet of water is being stored
- MWD continues to make investments in storage projects, such as roughly $2 billion for the construction of Diamond Valley Lake

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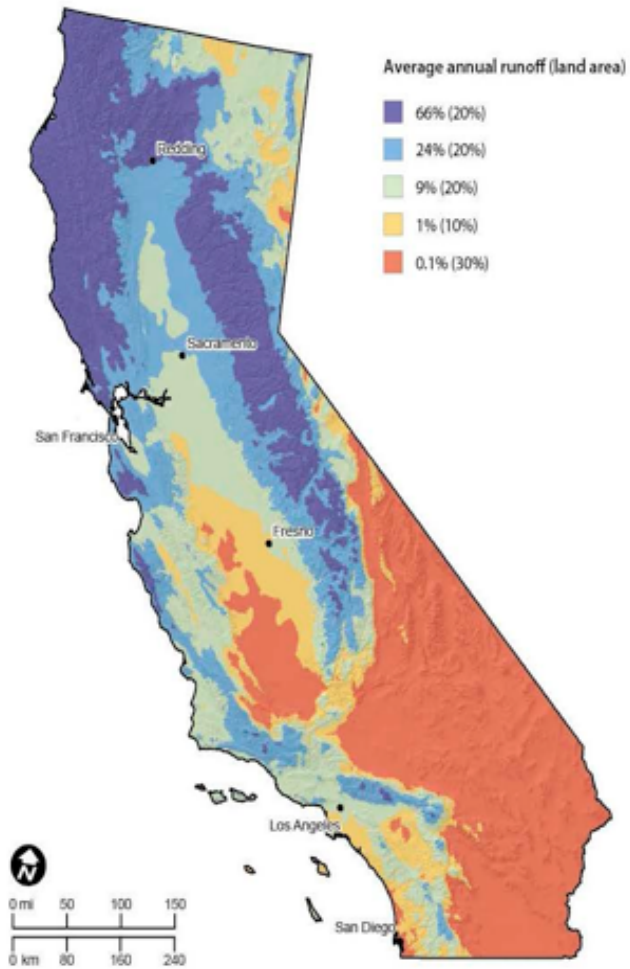
The Delta in California



Annual Average Supply and Consumption
1998-2005 Net m.a.f.

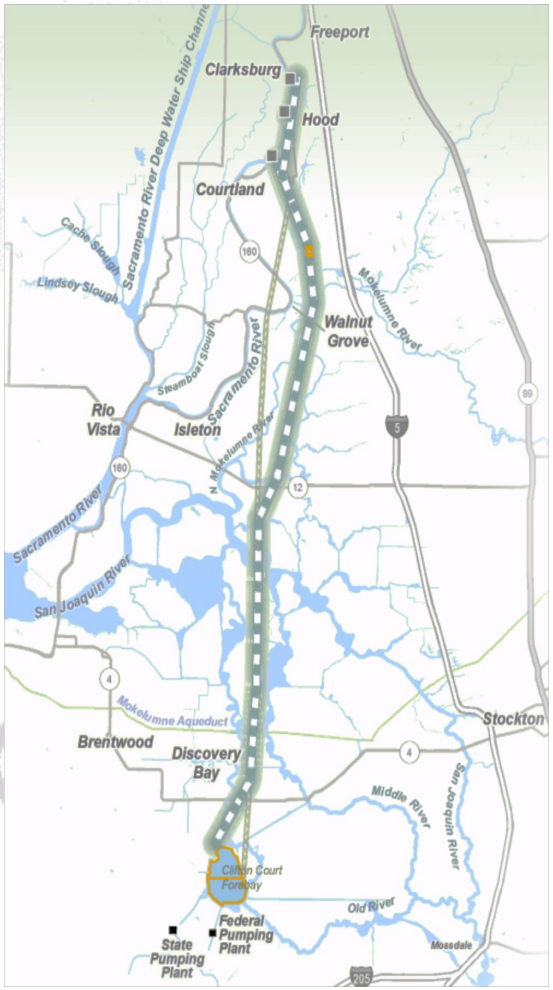
	Ag	Urban	Envir.	Total
North Coast	0.6	0.1	21.0	21.7
Sacramento River	6.6	0.7	7.6	14.9
San Joaquin River	6.0	0.4	1.0	7.4
Tulare Lake	7.7	0.3	0.1	8.1
South Coast	0.7	3.5	0.1	4.3
Colorado River	3.7	0.5	0.0	4.2
San Francisco Bay	0.1	1.0	0.6	1.7
Central Coast	0.8	0.2	0.1	1.1
North Lahontan	0.4	0.0	0.2	0.6
South Lahontan	0.3	0.1	0.1	0.5
California	27.0	6.6	31.0	64.6

Source: PPIC, "Managing California's Water: From Conflict to Reconciliation," Chapter 2

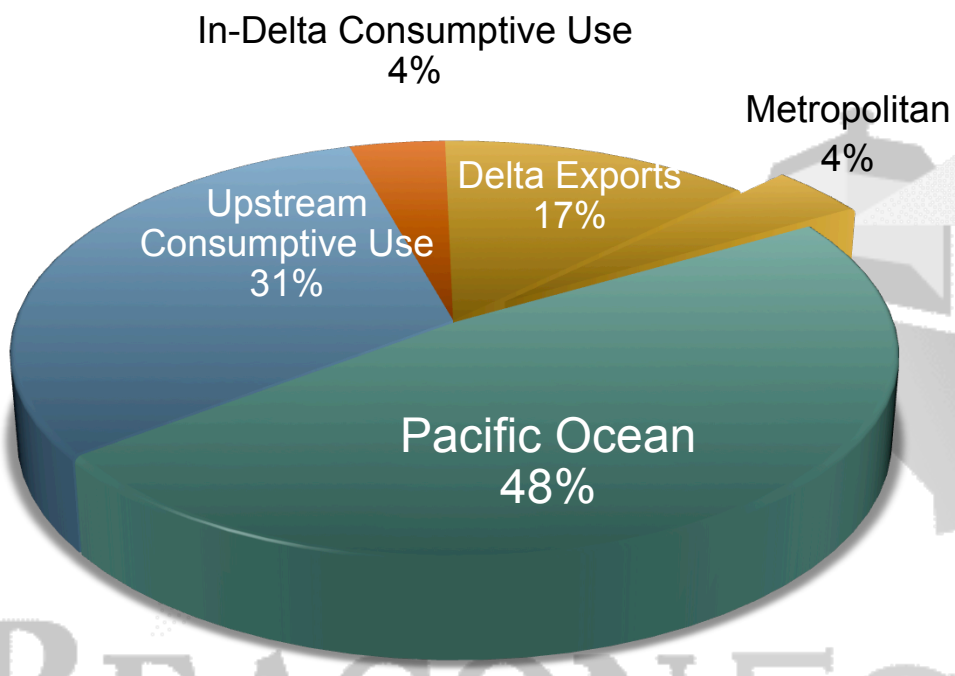
The BDCP

- Ecosystem Restoration & Preservation
  - Reduce pollutants, invasive species, poaching
  - Improve hatchery practices
  - Up to 145,000 acres of habitat restoration, preservation
  - Expanded recreation areas

- A New Conveyance System
  - New intakes in the north
  - Two gravity flow tunnels (~30 miles; 9,000 cubic-feet per second) delivering to South
  - Would complement southern pump extraction
  - Allow for better management of delta species
  - Potential to restore supplies for SWP, CVP
  - Protection from earthquake and sea level rise risk by providing alternative delivery method



Average Distribution of Delta Water



Source: Delta Vision Report, Average 90-05
Based on annual average 32.9 maf

Delta exports mean a lot to a lot of places

Share of Deliveries from SWP*	
San Jose via Santa Clara Valley Water District	40%
Los Angeles via LADWP	44%
Fremont via Alameda County Water District	27%
Livermore, Pleasanton, San Ramon, Dublin via Zone 7 Water District	61%
Share from CVP	
Federal Water**	65%

* Rough approximations based on available data
** Share of Federal deliveries of water to central valley, does not include other sources

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So what does it mean?

Big Themes for the 2014 / 15

- Consumers will continue to spend on better income, wealth results
- Housing recovery to rebound by end of year
- Commercial will continue slow recovery
- Exports, business spending to grow steadily
- Fed to continue to taper, long term rates to drift up slowly—flatter yield curve ahead
- The SJV will continue to grow faster than the state

Future issues remain

- Government spending constrained
- Global economy still wobbly
- Construction activity far to go to get back to normal
- State short on affordable housing / needs CEQA reform
- State budget surplus in name only
- Long term issues: healthcare, pensions, entitlements
- Locally, poverty, development, quality of life issue to be dealt with

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