January 31, 2020
Sonoma State of The County Conference

GROWTH & REGENERATION
& THE WAGES OF SUCCESS
U.S. California & Sonoma

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Road Map

• The soaring Sonoma economy
• The US Outlook
• The California Outlook:
  – Employment, Trade, Tourism & Housing
  – Risks
• Sonoma County Forecast
Historically Low Unemployment

SONOMA COUNTY UNEMPLOYMENT RATE (1990-2018)
Record Employment Levels

SONOMA COUNTY EMPLOYMENT
(1990-2018)

Payroll Employment Growing at 1.9%

17% above 2010 levels
IF PEOPLE ARE LEAVING THE STATE THEN?

California Regional Job Gain
(Nov. 2018 to Nov. 2019, SA)

- San Francisco: 3.0%
- Silicon Valley: 3.0%
- North Bay: 2.5%
- San Diego: 2.5%
- Inland Empire: 2.0%
- SJ Valley: 2.0%
- Sonoma: 1.5%
- Los Angeles: 1.5%
- East Bay: 1.5%
- Central Coast: 1.0%
- U.S.: 1.0%
- Sac. Delta: 1.0%
- Orange County: 0.5%
Relative Home Prices Improve

Sonoma FHFA Home Price Index

2018 3195 Permits
2019 1995 Permits
THE TRADE DEAL PHASE 1
What to make of it?
Commodity markets: not much
THE TRADE DEAL PHASE 1: The Important Issues

- CUT TRADE DEFICIT BY $200B
- END MADE IN CHINA 2025 SUBSIDIES
- END SUPPORT FOR SOE’S COMPETING WITH US COMPANIES IN CHINA
- OPEN CHINA’S MARKETS TO US GOODS WITHOUT BARRIERS
- WRITE IP LAWS TO REFLECT US IP PROTECTION
- ALLOW U.S. TO RESTRICT CHINA’S INVESTMENT & PURCHASES W/O RETALIATION
THE TRADE DEAL PHASE 1

IS THIS THE BEGINNING OF THE END OF TRADE WARS?
THE NEW CHINESE FACTORY
THE NEW US FACTORY

Durable Goods Manufacturing

$MILLIONS

200,000
190,000
180,000
170,000
160,000
150,000
140,000
130,000
120,000
110,000
100,000


DG Mfg Output
DG Mfg Emp

JOBS

1400000
1300000
1200000
1100000
1000000
900000
800000
700000

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THE REST OF THE WORLD

• BREXIT: IT IS COMING, BUT WHAT IS IT?

• MIDDLE EAST: IRAN AND?

• EUROPE: DEBT, RECESSION & IMMIGRATION
TRILLION $ FISCAL DEFICITS

Federal Budget Deficits (Billions $, Annual Data)

-1,400 $ -1,200 $ -1,000 $ -800 $ -600 $ -400 $ -200 $ 0 $ 200 $ 400 $ 600 $ 800 $ 1,000 $ 1,200 $ 1,400 $ 2012 2014 2016 2018 2020

ASSUMES NO RECESSION
Yield Curve Returns to Positive Slope
10-Year Treasury vs. 3 Month Bills
Interest Rates to Remain Low in a Narrow Range
Mnuchin says we’ll see ‘massive investment’ back into US because of game-changing tax cut
Business Investment

Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis

myf.red/g/pM39
HOUSING STARTS FLAT

Thousands of Units, SAAR

<table>
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<tr>
<th>Year</th>
<th>2012</th>
<th>2014</th>
<th>2016</th>
<th>2018</th>
<th>2020</th>
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<tr>
<td>Units</td>
<td>500</td>
<td>700</td>
<td>900</td>
<td>1,100</td>
<td>1,300</td>
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FORECAST
Credit Problems to Surface in Light Vehicle Triggering a Slowdown in Sales
Retail Sales

Source: Federal Reserve Bank of St. Louis
myf.red/g/pU7a
Strong Real Consumer Spending to Slow

Real Consumer Spending (Percent Change, SAAR)

- 2012
- 2014
- 2016
- 2018
- 2020

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Real GDP Growth Remains on a 2% Track, With Slowdown in Late 2020
Summary

• FORECAST: U.S. grows at a slower rate in 2020 with elevated recession risk

• TRADE WARS: Might be over, but a risk

• OTHER RISKS
  – Bond market and corporate debt
  – Instability elsewhere in the world
  – Collapse in consumer confidence
CALIFORNIA

HOW IS IT DIFFERENT?
GDP Growth 2011-2018
PETROLEUM INDUSTRY

GDP GROWTH vs. OIL & GAS SECTOR

%

Washington | California | Texas | Colorado | United States

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TECH INDUSTRY

GDP GROWTH vs
(INFORMATION + PROF. SCI. TECH. SERVICES)

%
LOGISTICS: SEAPORTS

YoY Change In Goods Movement: CA Ports (%, SA, TEU's, Oct 2016 to Oct 2019)
LOGISTICS: AIRPORTS
(Monthly, SA, Tons)
Transportation, Warehousing & Utilities
(SA, 000 Jobs, 2018-2019)
INTERNATIONAL AIR ARRIVALS IN CALIFORNIA

International Passenger Arrivals (S.A. Monthly)

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HOUSING: EXISTING SINGLE FAMILY HOME SALES

California Home Sales (NSA)

2015-2017 Average = 420K
SALT

AUG. -3.3%
HOUSING: PERMITS FOR NEW HOMES

Monthly California New Residential Permits
(3 Mo. Moving Average, No. of Units)
IMPLICATONS FOR THE FORECAST

• Slower growth in some sectors
  – Tech affected by trade wars and weaker US investment
  – Full employment constraint

• Into 2020 growth in:
  – Leisure & hospitality, health care & social services, education, information

• Risks to the forecast
  – the same as U.S. risks
CALIFORNIA FORECAST

KEY INDICATORS

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<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Payroll Jobs (Q4 to Q4)</td>
<td>1.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>4.3%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Housing Permits (units)</td>
<td>118</td>
<td>128</td>
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Forecast
Sonoma County

• Solid Growth in Personal Income: 4.0%-4.7%
  – But slower employment growth: < than 1%
• The Policy Challenge: faster development in a constrained economy
• Recession risk exists, but the timing is uncertain