

Economic Outlook 2017-2018

Assembly Committee on Jobs, Economic Development and
the Economy

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Issues For Forecasting

- Economic Growth
 - What is possible
 - A baseline forecast
- How it may all go awry

Economic Growth Calculus

Change in GDP =



Change in Labor Force



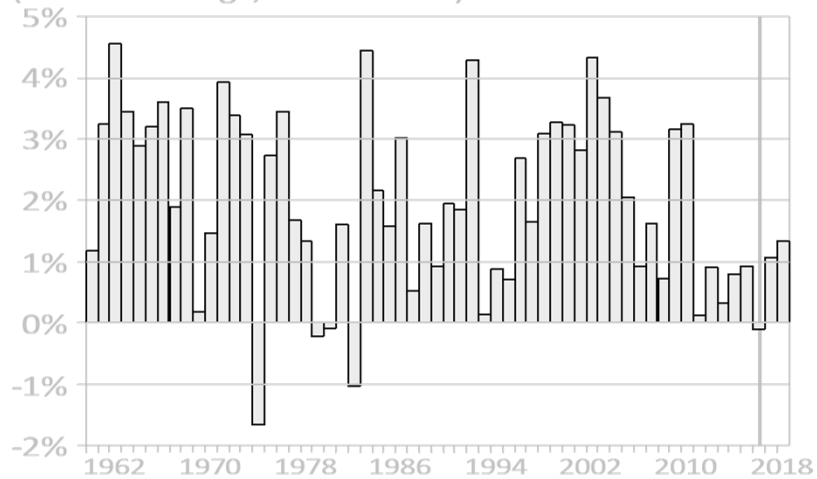
Change in Capital Stock



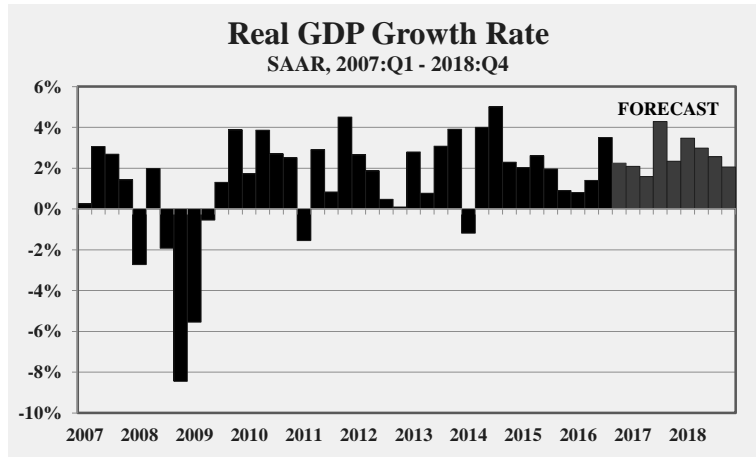
Change in Technology

Productivity Growth

(Percent Change, Annual Data)



Real GDP Growth on 2% to 3% Growth Track

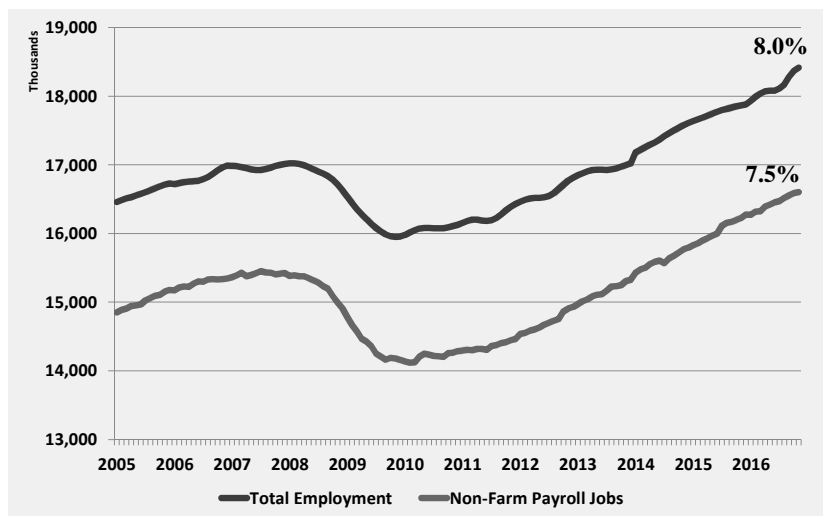


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California Record Employment Levels

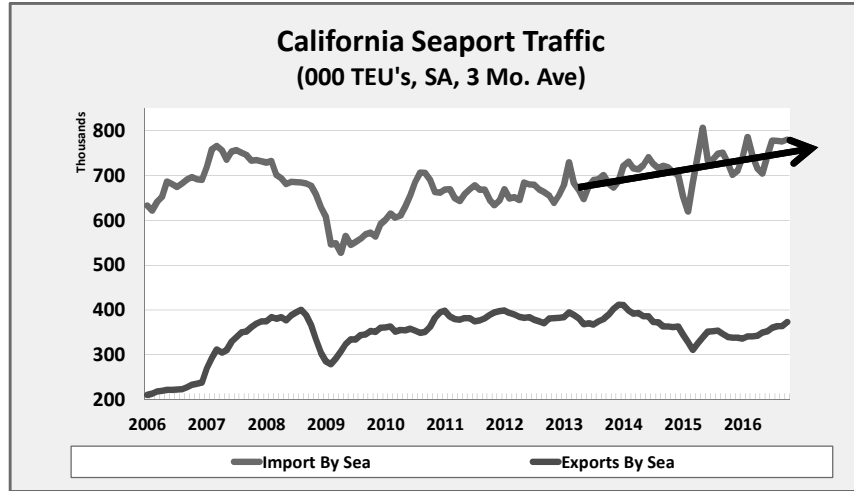


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Trade Through CA Ports

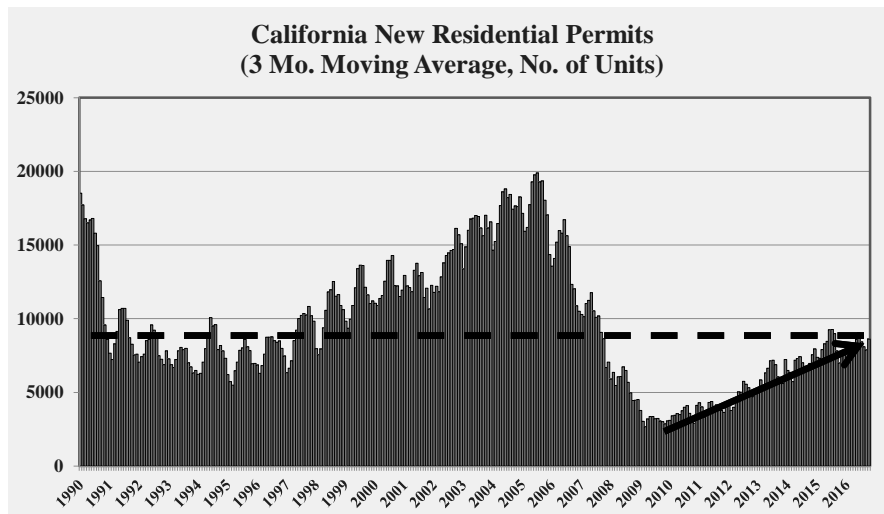


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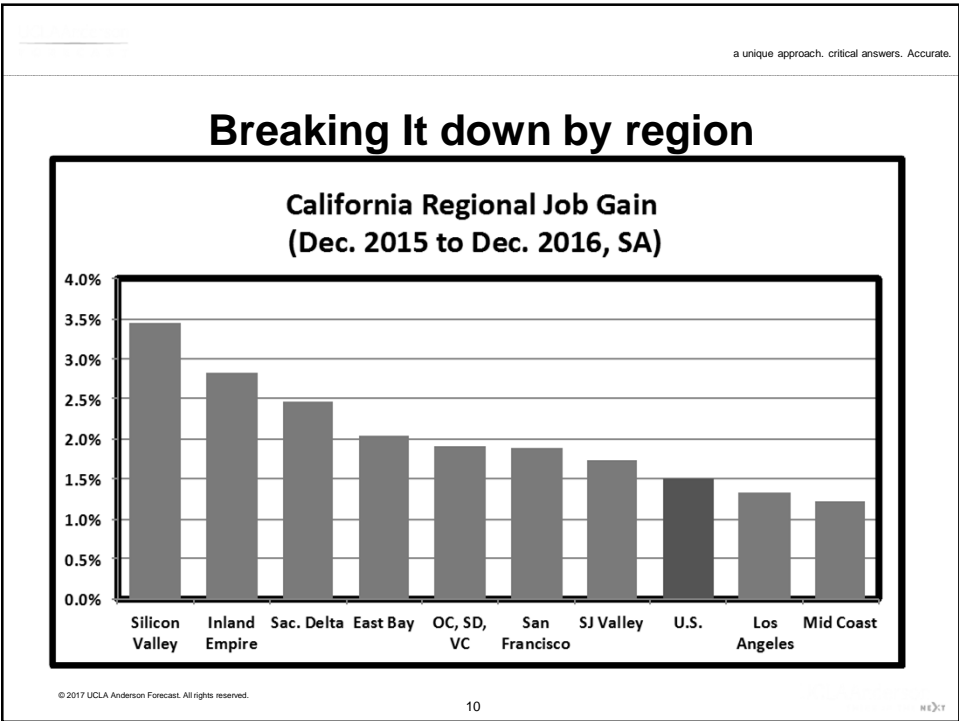
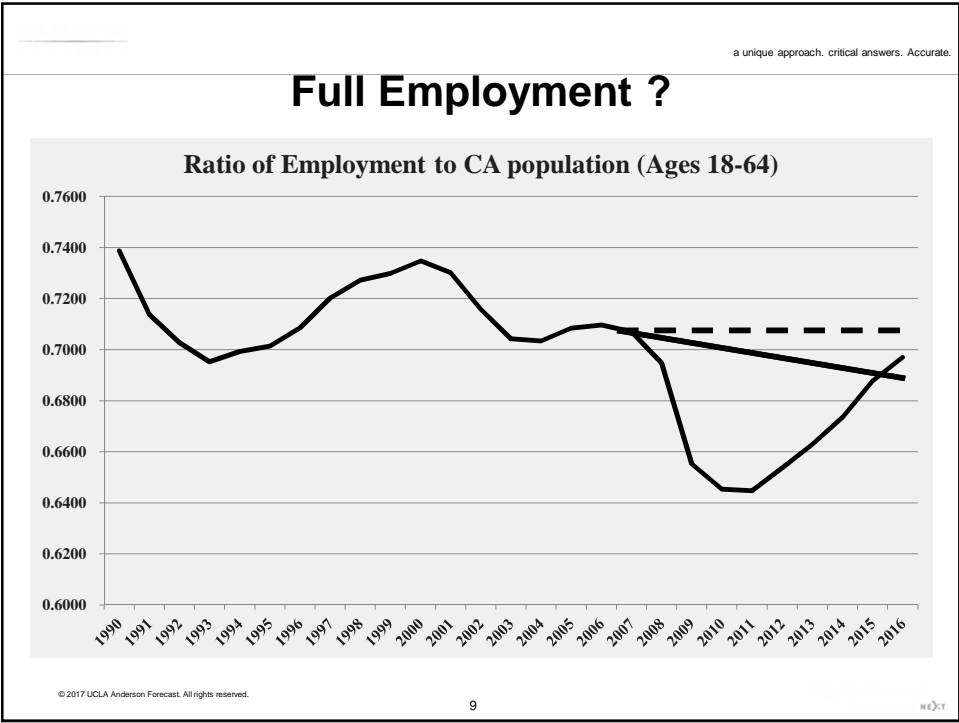
Home Building



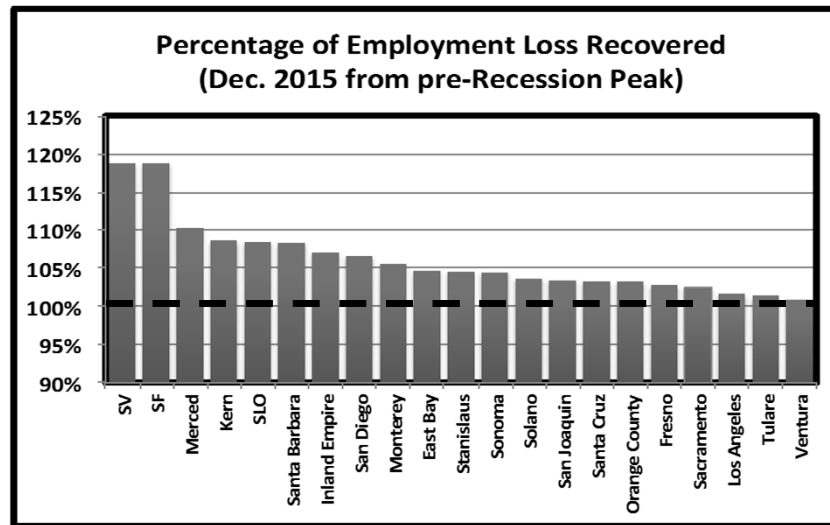
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Employment At Peak Levels



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Deportation

- It can't happen right away & It will be expensive
- It will affect agriculture, meat production, non-durable goods manufacturing
 - Mitigated by
 - Imports
 - Overtime
 - A small increase in domestic labor
- Where have all the gardeners gone?
- Multiplier effects

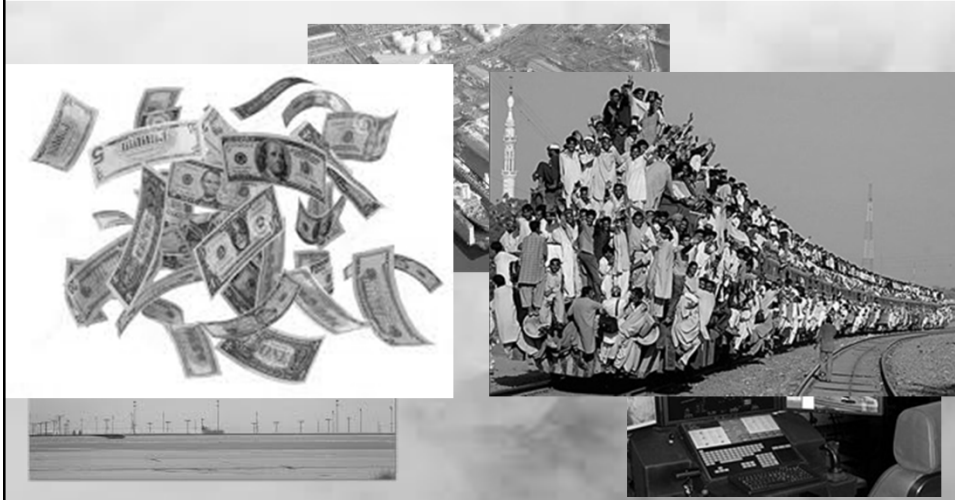


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Higher Defense Spending



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Higher Defense Spending

- California disproportionately benefits
 - San Diego, OC & LA
 - Silicon Valley
- Where do the people come from?
 - Not in the unemployed
 - Higher wages
 - Re-hire recent retirees
 - Domestic migration

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Other Risks

- Tech run-out
- Sanctuary Cities
- Infrastructure Spending
- Deficit Blowup
- Interest Rates
- Obamacare
- Geopolitical

Implications

- Full employment: for now
- Slower growth but solid growth in a constrained economy (labor force and housing)
- Considerable risks to the forecast
- Tech boom not abating, though fundamentals should dictate a slowing in employment growth

BASELINE CA FORECAST

| | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|
| Payroll Employment | 2.6% | 1.8% | 1.5% |
| Unemployment | 5.4% | 5.2% | 5.2% |
| Personal Income (real) | 1.9% | 3.6% | 3.8% |
| Housing Permits (units) | 102.7 | 118.9 | 119.5 |
| Population Growth | 0.9% | 1.0% | 1.0% |