Economic Forecast

Introduction - General Economy

Note: The information provided in this Economic Forecast does not take into consideration the outcome of the recent Presidential election and possible future changes in economic policies.

The United States economy has experienced slow but steady growth since the end of the Great Recession in late 2009. The September 2016 UCLA Anderson Forecast indicates that the economy will continue to expand modestly in the next few years with GDP growth anticipated to be between 2.0% and 2.5%, much the same as the last seven years since the recession. As the economy nears full employment, the forecast expects that the labor market will slow down. The unemployment rate is anticipated to hold steady between 4.8% and 5.0% for the next few years. Inflation, as measured by the Consumer Price Index (CPI), is anticipated to increase by 2.9% in 2017, which should stimulate an increase in interest rates, including an anticipated increase of the Federal funds rate to 1.9% by the end of 2018. The UCLA Anderson Forecast indicates that gains in consumer expenditures, the housing market and capital spending will fuel the modest growth of the economy in the coming years. A report released by the Federal Reserve Board in September 2016 indicates that “economic activity is expanding at a moderate pace.”

The University of Michigan’s Index of Consumer Sentiment decreased between the second and third quarters of 2016. Per the preliminary October 2016 report, the decline concentrated mostly among households with incomes below $75,000, as confidence among upper income households have remained steady in the past 24 months. Consumer confidence in lower income households have likely been negatively impacted by the uncertainty surrounding the outcome of the presidential election. The Conference Board’s Consumer Confidence Index was 103.5 points in September 2016, which was the highest level since the recession fueled largely by continued growth in employment, and dropped to 98.6 points in October 2016. Despite the decline, consumers still rated current conditions favorably and anticipate moderate strengthening of the economy in the near-term.

National Economy

According to the Congressional Budget Office (CBO) Monthly Budget Review for September 2016, the federal government had an estimated budget deficit of $588 billion in fiscal year 2016, which was $149 billion greater than the deficit in fiscal year 2015. Viewed as a percentage of the nation's Gross Domestic Product (GDP), the deficit increased from 2.5% in 2015 to 3.2% in 2016, the first increase in the deficit since 2009. The three major sources of government revenues: individual income taxes, social insurance taxes, and corporate income taxes, increased by approximately 1% in 2016. At the same time, total Federal outlays increased by about 5%.

The Budget Deficit as a percentage of GDP is projected to fall to 2.6% in 2018 and then to increase to 4.6% by 2026. Health care and retirement spending is predicted to continue growing, and anticipated rising interest payments on federal debt is expected to outpace revenue growth leading to increasing deficits in future years. The CBO expects that by 2026, budgetary outlays will rise to 23.1% of GDP, exceeding the growth in the economy.

Increases in consumer spending, business investment, and residential investment will drive the economic expansion over the next few years. CBO forecasts, released in August 2016, of percentage change for key National indices are presented as follows:

National Indices	Notes	Forecast			Projected Annual Average	
		2016	2017	2018	2019-2020	2021-2026
Real GDP	1	2.0%	2.4%	2.1%	1.7%	2.0%
CPI	1	1.8%	2.3%	2.3%	2.4%	2.4%
Unemployment	2	4.6%	4.5%	4.7%	5.0%	4.9%
3-Mo. T-Bill	3	0.3%	0.7%	1.4%	2.4%	2.9%
10-Yr. Treasury Note	3	1.8%	2.3%	2.8%	3.2%	3.6%
Fed. Deficit % to GDP	4	3.2%	3.1%	2.6%	3.2%	4.2%

Notes:
1 – Fourth Quarter to Fourth Quarter, percentage change
2 – Fourth Quarter Level, Percent (Annual averages reported reflect value for last year in the range)
3 – Calendar Year Average, Percent
4 – Year-over-Year Change, as a percentage of Gross Domestic Product

California Economy 

The Governor signed the 2016-17 Budget on June 27, 2016, adopting a budget projected to end with $8.5 billion in total reserves. The State's projected 2016-17 reserve of $8.5 billion is a combination of $1.8 billion in the Special Fund for Economic Uncertainties and $6.7 billion in the Budget Stabilization Account. The 2016-17 Budget Act assumes an increase in revenue of $3.3 billion, or 2.8%, versus the prior year, and a fund balance carryover of $2.7 billion. The budget outlines $170.9 billion in expenditures and pays down $1.3 billion in budgetary debt from prior years. Overall General Fund spending is projected to grow by 6.0% with the majority of the spending growth in education, health and human services, and over $2.0 billion of one-time funding for various aged infrastructure improvements.

Local economists at UCLA and Chapman University predict that the California economy will continue to experience growth through 2018, although not at the same pace as in prior years. The economic recovery most likely hit its peak in 2015 and is now in decline. Per the September 2016 UCLA Anderson Forecast, employment will grow by 2.0% in 2016, 1.7% in 2017 and 1.1% in 2018 with the unemployment rate projected to stay relatively stable at approximately 5.4% for the next few years.

Forecasts by local economists of average, nominal percentage changes for key state indices are presented as follows:

California Indices	Chapman	UCLA		
	2016	2016	2017	2018
CPI	2.2%	2.4%	2.9%	2.8%
Taxable Sales	4.3%	4.3%	4.3%	4.1%
Personal Income	5.4%	4.8%	6.2%	6.0%
Payroll Employment	2.5%	2.6%	1.6%	1.1%
Unemployment Rate (not % change)	N/A	5.4%	5.3%	5.4%

Sources: Chapman University, Economic and Business Review, June 2016 and UCLA Anderson Forecast For the Nation and California, September 2016

Orange County Economy

In Orange County, economic recovery continues, at a somewhat slower pace than the recent post-recessionary years. When compared to national, state and peer counties, Orange County economic indicators continue to perform well. Orange County's 2015 payroll employment increased by 3.2%, in line with the state's growth of 3.0%, with the highest gains in construction, services, financial and government sectors.

Two of the County's major funding sources are property taxes and sales taxes, which commonly rise and fall in connection with changes in the housing sector and taxable sales activity. Both housing and sales trends have exhibited growth since 2012. Chapman University forecasts taxable sales to increase by 4.1% in 2016. Home price growth is forecasted at 4.6% in 2016; well off the peak price surge of 20.3% in 2013.

Overall, Orange County economic recovery has been steady. Key growth trends are highlighted in the chart below and additional discussion of key indicators follows.

(Year-to-Year Percentage Changes)

Orange County Indices	**2012**	**2013**	**2014**	**2015**	**2016 Forecast**
Payroll Employment	2.6%	2.7%	2.3%	3.2%	2.6%
Total Personal Income	6.8%	0.5%	4.5%	4.7%	5.2%
Taxable Sales	6.8%	4.3%	4.7%	3.1%	4.1%
Permits – Dwelling Units	28.2%	69.6%	1.8%	8.2%	3.0%
Consumer Price Index	2.0%	1.1%	1.3%	0.9%	2.2%
Homes Index, Resale Single Units (1990 = 100)	4.9%	20.3%	6.0%	2.7%	4.6%

Source: Chapman University, Economic and Business Review, June 2016

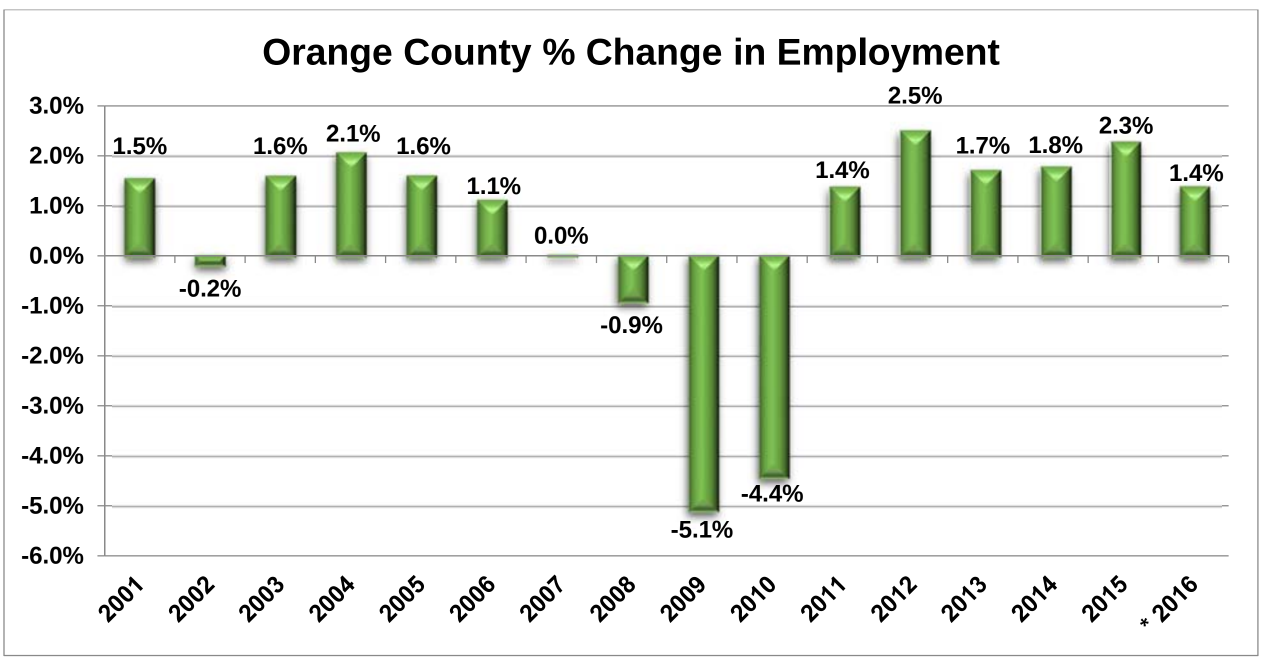
Employment – According to Chapman University and data released by the California Employment Development Department, payroll employment has increased across the State, but unemployment rates are still higher for inland counties than for coastal counties. In 2015, the five sectors with the highest year-over-year growth in Orange County were: construction (10.2%), leisure & hospitality (4.9%), educational & health (4.2%), information (4.1%), and professional & business services (3.2%). Orange County's rate of unemployment was 4.1% as of September 2016 and remains below the national rate of 4.8% and California's rate of 5.3%.

Key employment indices and analysis for Orange County follow:

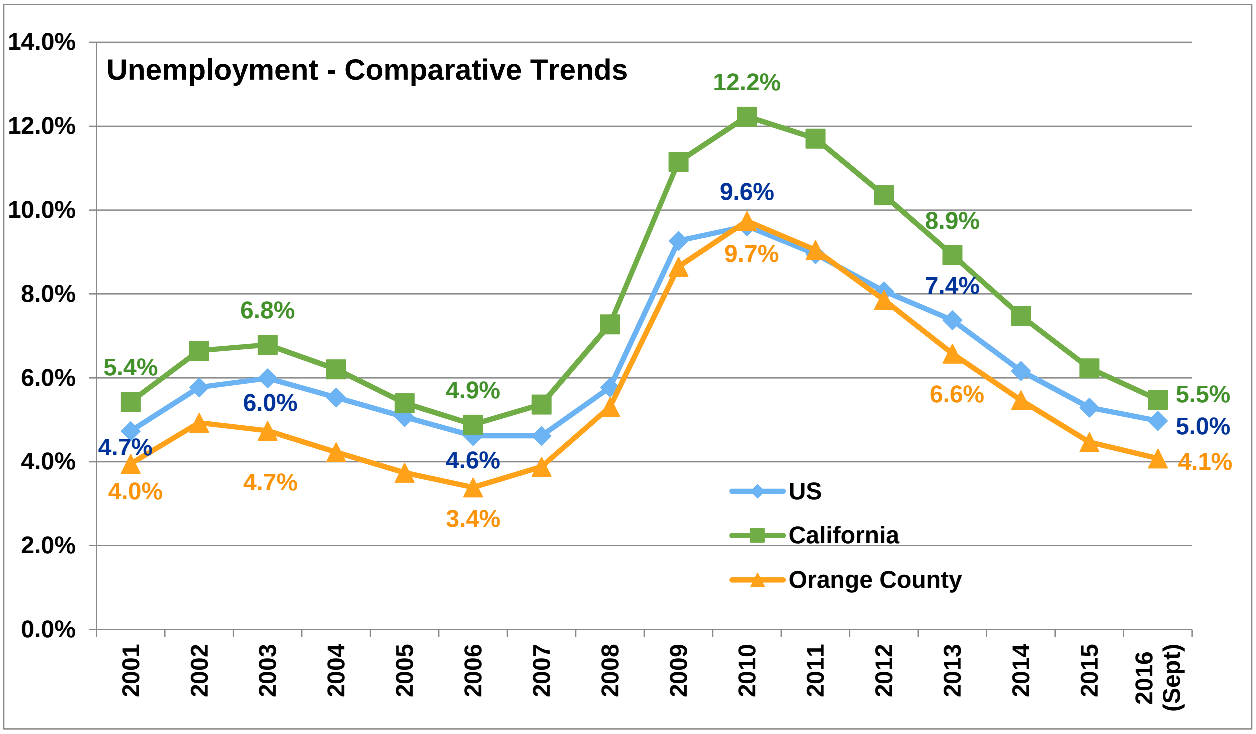
COMPARATIVE EMPLOYMENT STATISTICS (September 2016 preliminary)			
	Total Labor Force	**No. of Employed**	**% Unemployment**
Los Angeles County	5,150,200	4,881,700	5.2%
Orange County	**1,636,400**	**1,570,100**	**4.1%**
Riverside County	1,054,100	986,100	6.5%
San Bernardino County	942,100	886,700	5.9%
San Diego County	1,594,400	1,518,900	4.7%

Source: State of California Employment Development Department

Orange County industry employment varied slightly from the State in 2015. Job growth in the County outpaced California in all general categories except for manufacturing and trade, transportation & utilities. The only sectors in Orange County that experienced a decline in employment levels versus 2014 were mining & natural resources, utilities and manufacturing. The California Employment Indicator Index, as reported by Chapman University in August 2016, reflected a decline from 107.2 in the second quarter of 2016 to 106.7 in the third quarter (an Index indicator greater than 100 suggests job creation and growth). Job growth is expected to continue in the third quarter of 2016, however, at a slightly slower pace than the first half of the year.



Source: State of California Employment Development Department; 2016 change is an average of 9 months ended September 30, 2016 compared to the prior year 2015 annual employment



Sources: US Bureau of Labor Statistics (National); State of California Employment Development Department (State and County); Annual average for the calendar year. 2016 data is the 9-month year-to-date average unemployment rate.

Housing – The Southern California and Orange County housing market has continued to grow in 2016, but is slowing down. Median home prices are growing due to continued job growth and low mortgage rates, however, unit sales have declined recently due to lower affordability and inventory constraints.

In Orange County, the median home sales price increased by 4.1% year-over-year, with unit sales staying flat as reported by CoreLogic in September 2016. Of the peer counties used for comparison, San Diego exhibited the highest sales volume rate increase year-over-year.

Residential Permit Valuation is expected to increase by 4.5% in 2016 to above the $3 billion level for the first time ever. This growth, however, is a decrease from the 11.2% growth in 2015.

Key housing indices and analysis for Orange County are as follows:

PEER COUNTIES - COMPARATIVE HOUSING ANALYSIS							
County	Median Home Price (as of September)			Unit Sales (as of September)			Median Household Income
	2015	2016	% Change	2015	2016	% Change	2015
Los Angeles	$490,000	$526,000	7.3%	7,266	7,004	-3.6%	$59,134
Orange County	**$615,000**	**$640,000**	**4.1%**	3,193	3,192	**0.0%**	**$78,428**
Riverside	$315,000	$334,500	6.2%	3,446	3,424	-0.6%	$58,292
San Bernardino	$268,500	$298,250	11.1%	2,554	2,602	1.9%	$53,803
San Diego	$460,000	$495,000	7.6%	3,633	3,786	4.2%	$67,320
Ventura	$499,000	$500,000	0.2%	1,001	919	-8.2%	$80,032
So. California	$435,000	$460,000	5.7%	21,093	20,927	-0.8%	N/A

Sources: CoreLogic (Housing); and U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates (Income)

Distressed sales, made up of both short sales and real-estate owned sales, were 4.7% of total home sales in Southern California in September 2016, down from 5.1% in August 2016 and 7.0% in September 2015.

Foreclosure rates are calculated by dividing total County housing units per the U.S. Census Bureau by the total number of properties that received notices of default (new filings, foreclosure in process, not yet recorded) within the month. The lower the second number is in the ratio, the higher the foreclosure rate (e.g. 1 in 100 is higher than 1 in 1,000). RealtyTrac, Inc. reports that 1 in 2,151 Orange County homes received a foreclosure filing in September 2016. Among peer counties, Orange County had the lowest foreclosure rate in September (see following table). RealtyTrac, Inc. also indicated that the average foreclosure sales price in Orange County was $535,000 in August 2016, approximately 12% lower than non-distressed home prices. Per the County of Orange Clerk-Recorder's Office, for the first nine months of 2016, there were 2,790 notices of default issued and 687 trustee's deeds filed (completed and recorded), which was down 21% and 10%, respectively, for the same period last year.

Foreclosures	
Los Angeles County	1 in 1,831
Orange County	**1 in 2,151**
Riverside County	1 in 963
San Bernardino County	1 in 925
San Diego County	1 in 1,892

Source: RealtyTrac, Inc., September 2016

Taxable Sales – Taxable sales represent consumer spending transactions that are subject to sales and use taxes. The California Board of Equalization (BOE) reports sales on a quarterly basis, generally two quarters in arrears (the Department of Finance provides monthly projections two months in arrears). Taxable sales provide an indication of economic activity and drive County funding sources such as General Purpose Revenue sales taxes and General Fund department sources such as Public Safety Sales Tax and a portion of Realignment Revenue.

After drops in years 2007 through 2009, there has been growth in Orange County's taxable sales in years 2010 through 2014 and growth rates of 3% to 4% are projected for 2015 and 2016. General Fund sales tax receipts typically trend with taxable sales. Orange County historical taxable sales are summarized in the following table:

Orange County Annual Taxable Sales		
For Calendar Year	**Taxable Sales (Billions)**	**Percent Change**
2016 (f)	$64.7	4.1%
2015 (f)	$62.2	3.4%
2014	$60.1	4.4%
2013	$57.6	4.3%
2012	$55.2	6.8%
2011	$51.7	8.5%
2010	$47.7	4.3%
2009	$45.7	-14.7%
2008	$53.6	-6.4%
2007	$57.3	0.2%
2006	$57.2	3.9%

Sources: Board of Equalization for 2006-2014, Chapman University, Economic and Business Review, June 2016, for 2015-2016 forecasts

Taxable sales tend to increase when personal income increases. Based on Chapman University's June 2016 Economic & Business Review report, total personal income for Orange County is forecasted to increase by 5.2% in 2016.

Summary

The national, state and local economy will continue to experience slow and modest growth in the next few years. With no significant increases to County funding sources on the horizon, continued focus on maintaining current levels of service rather than growth in existing services or new services appears to be the most prudent course of action.

Through the diligent efforts of Departments and deliberate and timely action by the Board of Supervisors, the County is able to continue delivering high quality public services and leverage limited additional resources for one-time projects. The County is also conscious that deliberate and careful action ensures that measures taken now do not create long-term, inadvertent consequences. It is a priority of the County to prudently plan for today and the future to achieve its goal of enriching the lives of Orange County residents and the more than 40 million people who visit annually.