Economic Forecast

Introduction - General Economy

The United States economy has experienced continued growth since the end of the Great Recession in late 2009. The September 2017 UCLA Anderson Forecast indicates that the economy will continue to expand moderately in the next few years with GDP growth anticipated to be between 2.1% and 2.8%; the unemployment rate to remain at or below the current 4.4% for the next few years; inflation, as measured by the Consumer Price Index (CPI), will increase by 1.8% in 2018 and 2.6% in 2019; and the Federal funds rate will increase to 2.6% by the end of 2019. The UCLA Anderson Forecast further indicates that the growth of the economy in the next few years will stem from increased defense, household goods and services consumption, housing, and equipment spending. UCLA's forecasts for GDP and inflation were in line with Chapman University's June 2017 forecast.

A report released by the Federal Reserve Board in September 2017 projects that "economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further." Trends in key economic indicators in recent quarters reflect moderate growth in household spending and business fixed investment, while the labor market has experienced job gains and declining unemployment.

Consumer sentiment, also known as consumer confidence, is a statistical measurement and economic indicator of the perceived overall health of the economy by consumers. Both the Conference Board and the University of Michigan survey consumers and report findings about the expected level of spending by consumers. The results of the surveys are used by news and investment outlets to report on economic conditions. The University of Michigan's average quarter Index of Consumer Sentiment slightly decreased between the second and third quarters of 2017. However, per the preliminary October 2017 report, consumer sentiment rose to 101.1, from 95.1 in September 2017, and was at its highest level since the beginning of 2004. The Conference Board's Consumer Confidence Index increased in one year by 22.4 points, to 125.9 points in October 2017 which was the highest level in almost 17 years. Consumers rated current conditions favorably due to a strong job market and anticipate continued expansion of the economy in the near-term.

National Economy

According to the Congressional Budget Office (CBO) Monthly Budget Review for September 2017, the Federal government had an estimated budget deficit of $668 billion in fiscal year 2017, which was $82 billion greater than the deficit in fiscal year 2016. Viewed as a percentage of the nation's Gross Domestic Product (GDP), the deficit increased from 3.2% in 2016 to 3.5% in 2017. The three major sources of government revenues: individual income taxes, social insurance taxes, and corporate income taxes, increased by approximately 3% in 2017. At the same time, total Federal outlays increased by about 4%.

The Budget Deficit as a percentage of GDP is projected to fall to 2.8% in 2018 and then to increase to 5.2% by 2027. 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 2027, budgetary outlays will rise to 23.6% of GDP as opposed to the current projection over the next few years of 21.0% of GDP, exceeding the growth in the economy.

Increases in consumer spending and business investment are expected to drive real GDP economic expansion over the next few years. CBO forecasts, released in October 2017, of percentage change for key National indices are presented as follows:

National Indices	Notes	Forecast		Projected Annual Average	
		2017	2018	2019-2020	2021-2027
Real GDP	1	2.2%	2.0%	1.5%	1.9%
CPI	1	2.1%	2.3%	2.4%	2.4%
Unemployment	2	4.3%	4.2%	4.8%	4.9%
3-Month T-Bill	3	0.9%	1.5%	2.4%	2.8%
10-Year Treasury Note	3	2.4%	2.8%	3.4%	3.7%
Fed. Deficit % to GDP	4	3.6%	2.8%	3.5%	4.6%

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 – Annual Average, Percent
4 – Year-over-Year Change, as a percentage of Gross Domestic Product

California Economy

The Governor signed the 2017-18 State Budget on June 27, 2017, adopting a budget projected to end with $9.9 billion in total reserves. The State's projected 2017-18 reserve of $9.9 billion is a combination of $1.4 billion in the Special Fund for Economic Uncertainties and $8.5 billion in the Budget Stabilization Account. The 2017-18 Budget Act assumes an increase in General Fund revenue of $7.3 billion, or 6.2%, versus the prior year, and a fund balance carryover of $2.4 billion. The budget outlines $183.3 billion in expenditures and pays down $1.8 billion in budgetary debt from prior years and state employee pension liabilities. The budget also includes a one-time cash loan-funded supplemental payment of $6.0 billion to the California Public Employees' Retirement System (CalPERS) to reduce the state's unfunded pension liability. Overall General Fund spending is projected to grow by 3.0% with the majority of the spending growth in education and general government.

Local economists at UCLA and Chapman University predict that the California economy will experience a slowdown in the rate of growth through 2019. The September 2017 UCLA Anderson Forecast, pegs employment growth at 1.1% in 2017, 0.9% in 2018 and 0.9% in 2019 with the unemployment rate projected to decrease to 4.5% by 2019.

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

California Indices	Chapman	UCLA		
	2017	2017	2018	2019
CPI	N/A	2.7%	2.2%	2.8%
Taxable Sales	5.5%	1.9%	3.8%	4.3%
Personal Income	5.2%	4.2%	5.0%	5.7%
Payroll Employment	2.1%	1.7%	1.0%	0.9%
Unemployment Rate (not % change)	N/A	4.9%	4.7%	4.5%

Sources: Chapman University, Economic and Business Review - June 2017; and UCLA Anderson Forecast For the Nation and California - September 2017

Orange County Economy

In Orange County, Chapman University Economists forecast that growth will continue, but is anticipated to be at a slower pace than recent years. When compared to national, state and peer counties, Orange County economic indicators continue to perform well. Orange County's 2016 payroll employment increased by 2.3%, in line with the state's growth of 2.1%, with the highest gains in services, construction, 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 2017. Price growth for single-family existing homes is forecasted at 6.2% in 2017.

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	2013	2014	2015	2016	2017 Forecast
Payroll Employment	2.7%	2.3%	3.2%	2.3%	1.5%
Total Personal Income	-1.9%	4.9%	4.9%	4.3%	4.5%
Taxable Sales	4.3%	4.4%	2.1%	3.6%	4.1%
Residential Permits	69.6%	1.8%	2.5%	10.9%	3.9%
Homes Index, Resale Single Units (Base Year = 2009)	20.3%	6.0%	2.4%	4.3%	6.2%

Source: Chapman University, Economic and Business Review, June 2017

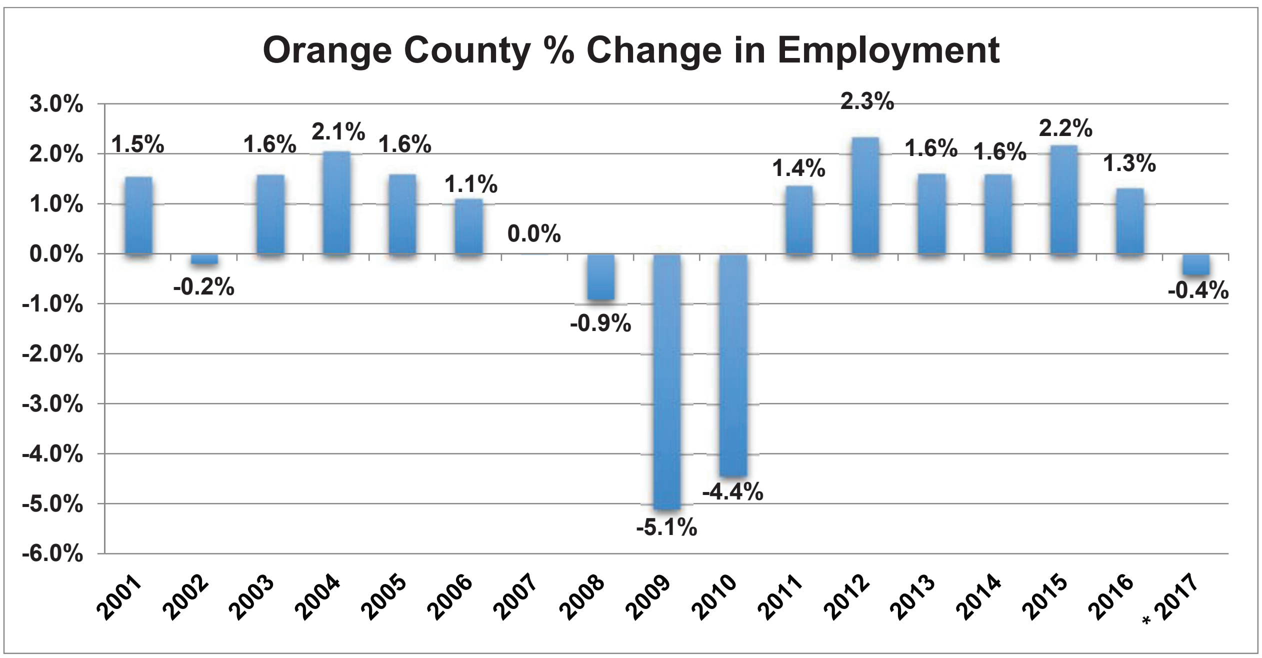
Employment – According to Chapman University and data released by the California Employment Development Department, payroll employment has increased across the State, but unemployment rates are still higher for inland counties than for coastal counties. In 2016, the five sectors with the highest year-over-year growth in Orange County were: construction (5.7%), leisure & hospitality (3.9%), transportation & warehousing (3.4%), professional & business (3.3%), and other services (2.8%). Orange County's rate of unemployment was 3.6% as of September 2017 and remains below the national rate of 4.1% and California's rate of 4.7%.

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

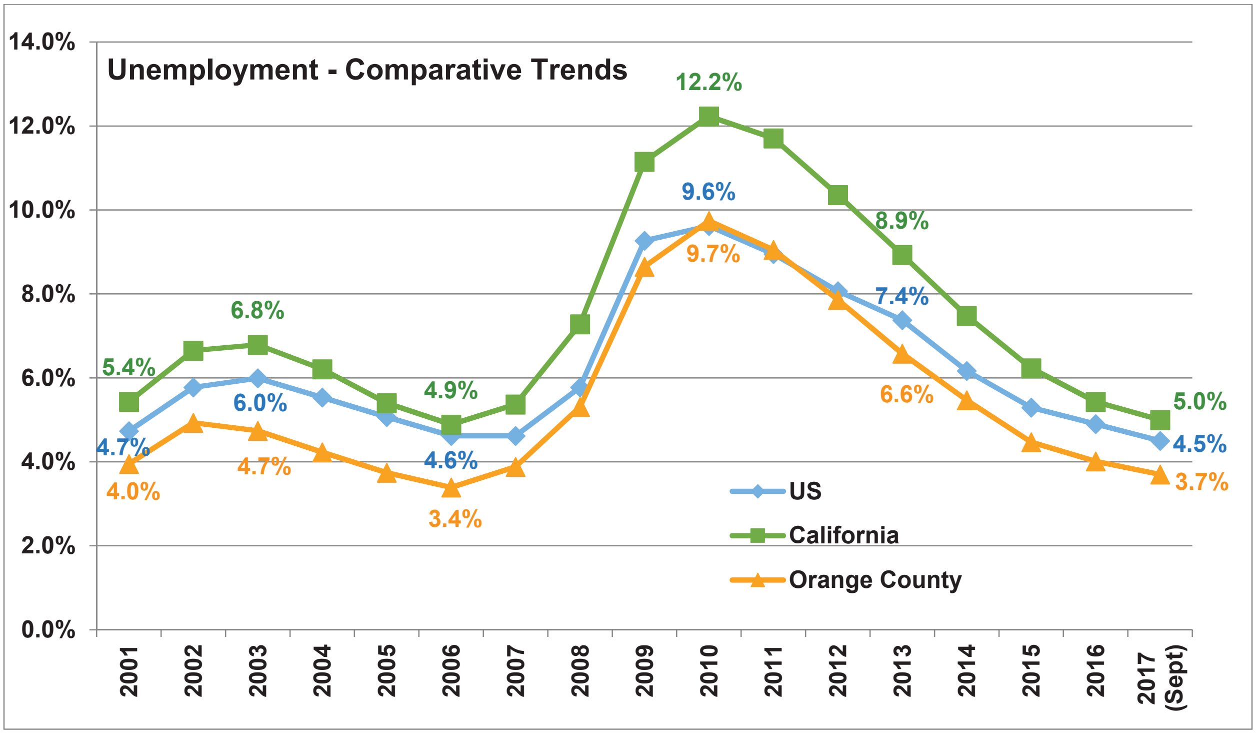
COMPARATIVE EMPLOYMENT STATISTICS (September 2017 preliminary)			
	Total Labor Force	**No. of Employed**	**% Unemployment**
Los Angeles County	5,197,400	4,945,900	4.8%
Orange County	**1,612,400**	**1,554,200**	**3.6%**
Riverside County	1,070,700	1,010,200	5.6%
San Bernardino County	951,700	903,800	5.0%
San Diego County	1,586,200	1,521,400	4.1%

Source: State of California Employment Development Department

Job growth in Orange County has outpaced the Nation as a whole, but has seen a sharp decline in 2016 due largely to slower growth in the construction industry as well as low unemployment and a tight labor market. Compared to job growth of 2.6% for the State in 2016, the County saw an increase of 2.3%, with job growth slightly lower than the State in all general categories except for services and government. Sectors in Orange County that experienced a decline in employment levels when compared to 2015 were mining & natural resources, utilities, and manufacturing.



Source: State of California Employment Development Department; 2017 change is an average of 9 months ended September 30, 2017 compared to the prior year 2016 annual employment



Sources: US Bureau of Labor Statistics (National); State of California Employment Development Department (State and County); Annual average for the calendar year. 2017 data is the 9-month year-to-date average unemployment rate.

Housing – In 2017, the Southern California and Orange County housing market has slowed down in growth compared to recent post recessionary years. Median home prices have continued to increase, with the median sale price for Southern California in September 2017 matching the 2007 peak of $505,000. However, unit sales have declined due to lower affordability and inventory constraints.

In Orange County, the median home sales price increased by 10.9% year-over-year, with unit sales up 4.6% as reported by CoreLogic in September 2017. Of the peer counties used for comparison, Orange County exhibited the highest sales volume rate increase year-over-year.

Residential Building Permit Valuation is an estimate of the total cost of residential building construction. In Orange County, it is expected to increase by 9.5% in 2017 to $3.4 billion, which is slightly higher than the 9.2% growth in 2016.

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
	2016	2017	% Change	2016	2017	% Change	2016
Los Angeles	$525,000	$575,000	9.5%	7,179	6,921	-3.6%	$61,338
Orange County	**$640,000**	**$710,000**	**10.9%**	3,191	3,338	**4.6%**	**$81,837**
Riverside	$335,000	$360,000	7.5%	3,571	3,440	-3.7%	$60,134
San Bernardino	$299,000	$325,000	8.7%	2,717	2,843	4.6%	$56,337
San Diego	$495,000	$535,000	8.1%	3,786	3,553	-6.2%	$70,824
Ventura	$506,000	$549,500	8.6%	881	861	-2.3%	$80,135
So. California	$460,000	$505,000	9.8%	21,325	20,956	-1.7%	N/A

Sources: CoreLogic (Housing); and U.S. Census Bureau, 2016 American Community Survey 1-Year Estimates (Income)

Real-estate owned (REO) properties are a class of property owned by a lender after an unsuccessful sale at a foreclosure auction. REO sales made up 1.5% of total home sales in Southern California in September 2017, in line with August 2017 and down from 2.6% in September 2016.

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 3,369 Orange County homes received a foreclosure filing in September 2017. Per the County of Orange Clerk-Recorder's Office, for the first nine months of 2017, there were 2,377 notices of default issued and 507 trustee's deeds filed (completed and recorded), which was down 15% and 26%, respectively, for the same period in 2016.

Foreclosures	
Los Angeles County	1 in 2,365
Orange County	**1 in 3,369**
Riverside County	1 in 1,202
San Bernardino County	1 in 1,474
San Diego County	1 in 2,986

Source: RealtyTrac, Inc., September 2017

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 2008 and 2009, there has been growth in Orange County's taxable sales in years 2010 through 2015 and growth rates of 3% to 4% are projected for 2016 and 2017. 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**
2017 (f)	$66.2	4.1%
2016 (f)	$63.6	3.6%
2015	$61.4	2.1%
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%

Sources: Board of Equalization for 2007-2015, Chapman University, Economic and Business Review, June 2017, for 2016-2017 forecasts

Taxable sales tend to increase when personal income increases. Based on Chapman University's June 2017 Economic & Business Review report, total personal income for Orange County is forecasted to increase by 4.5% in 2017.

Summary

The national, state and local economies are expected to continue experiencing modest growth in the next few years. With no significant increases to County funding sources on the horizon, continued effort 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 in an effort to achieve the goal of enriching the lives of Orange County residents and the more than 40 million people who visit annually.