Economic Forecast

Introduction - General Economy

The 2019 Strategic Financial Plan economic forecast is informed primarily by projections developed by Chapman University and University of California Los Angeles (UCLA). This overview discusses key economic indicators impacting Orange County including gross domestic product, consumer price index, consumer confidence, personal income, employment, housing, and taxable sales.

While the United States economy has continually improved since the end of the Great Recession in late 2009, Gross Domestic Product (GDP) growth is anticipated to slow from 2.1% this year to 1.2% in 2020, returning to 2.1% in 2021, on a fourth quarter to fourth quarter basis according to the September 2019 UCLA Anderson Forecast. The forecast also projects that from 2020 to 2021 the unemployment rate will increase from 3.7% to 4%; inflation, as measured by the Consumer Price Index (CPI), will decrease from 2.2% to 2%; and the federal funds rate will decrease from 1.5% to 1.3%. While the forecast does not anticipate a recession, growth is assumed to decline to a near recession level in the second half of 2020. The negatively sloped yield curve, decreasing employment growth, and sluggish housing activity underscore that economic growth is notably slowing and projected to stall due to the effects of trade tensions and the 2017 tax cuts wind down.

Consumer sentiment, also known as consumer confidence, is a statistical measurement and an indicator of consumers' perceived overall health of the economy. Both the University of Michigan and the Conference Board survey consumers and report findings about their expected level of spending. Survey results are used by news and investment outlets to report on economic conditions. October updates from these sources suggest a mixed outlook. The University of Michigan reports that consumer confidence has continued to be positive and consistent in the last few years, with an October 2019 Index of Consumer Sentiment at 95.5, which is practically equivalent to the 2019 average of 95.6 and slightly under the two-year average of 97 since the beginning of 2017. While consumers have been optimistic, they remain cautious due to various uncertainties that could substantially curtail income and job opportunities. In the same vein, the Conference Board's Consumer Confidence Index reflects a decrease from 137.9 in October 2018 to 125.9 in October 2019, a decrease of 12 points year-over-year and 0.4 points from the prior month. Again, consumers indicated some concerns related to business conditions and job growth in the short term, but confidence levels are still relatively high and the expectation is that consumers will not curtail holiday spending.

The Federal Reserve Board, as of October 2019, lowered the federal funds rate target range to 1.50% to 1.75%, which is down from the prior year's target range of 2.00% to 2.25% and reflects downward adjustments made in July, September and October 2019. The decision to lower the rate target range supports the outlook that "sustained expansion of economic activity, strong labor market conditions and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes," but acknowledges uncertainties about the outlook. The timing and scope of future adjustments to the range will factor in labor market conditions, inflation pressures and expectations and interpretations of financial and international developments. Recent key economic indicators reflect solid job gains, low unemployment, increased household spending, but weak business fixed investment and exports.

National Economy

The Congressional Budget Office (CBO) in its September 2019 Monthly Budget Review estimates that the fiscal year 2019 federal budget deficit is $984 billion, an increase of $205 billion from fiscal year 2018, and 4.7% of gross domestic product (GDP). The deficit is the highest since 2012, and increased as a percentage of GDP for the fourth consecutive year. The major sources of government revenues, individual income taxes and social insurance taxes, are anticipated to increase by 4% in 2019. Total federal outlays are projected to increase by 7%, adjusted for timing shifts of certain payments.

Based on the CBO August 2019 Update to the Budget and Economic Outlook: 2019 to 2029, the budget deficit is projected to swing between 4.4% (2027) and 4.8% (2023-2025 and 2029) of GDP between 2020 and 2029, distinctly exceeding the average over the last half-century. While both revenues and outlays grow quicker than GDP over the next decade, a constant gap is projected between the two. The CBO anticipates that from 2020 to 2029 revenues will increase from 16.4% to 18.2% of GDP, whereas outlays will rise from 21% to 23% of GDP.

The following table provides CBO forecasts of key national indices.

National Indices	Notes			Annual Average	
		2020	2021	2022-2023	2024-2029
Real GDP	1	2.1%	1.8%	1.7%	1.8%
CPI	1	2.4%	2.4%	2.5%	2.3%
Unemployment Rate	2	3.7%	4.0%	4.6%	4.6%
3-Month Treasury Bill	3	2.1%	2.3%	2.3%	2.5%
10-Year Treasury Note	3	2.2%	2.5%	2.9%	3.1%
Deficit	4	4.6%	4.5%	4.7%	4.7%

Source: Congressional Budget Office An Update to the Economic Outlook: 2019 to 2029, August 2019

Notes:
1 – Fourth Quarter to Fourth Quarter, Percentage Change
2 – Fourth Quarter Level, Percent (Annual averages reflect value for last year in the range)
3 – Calendar Year Average, Percent
4 – Gross Domestic Product, Percentage Of (Adjusted for timing shifts)

California Economy

On June 27, 2019, the Governor signed the FY 2019-20 State Budget, which proposes to end the year with $19.2 billion in total reserves, including $16.5 billion in the Budget Stabilization Account, $1.4 billion in the Special Fund for Economic Uncertainties, $900 million in the safety net reserve, and $377 million in the state's school reserve. The 2019-20 Budget Act assumes an increase in General Fund revenues and transfers in of $5.8 billion, or 4%, over the revised 2018-19 level, and a fund balance carryover of $6.8 billion. The General Fund expenditure budget totals $147.8 billion, a 4% increase over revised prior year estimates. The budget also allocates a surplus of $21.5 billion in discretionary General Fund resources for paying down state debts and liabilities, one-time and new ongoing programmatic spending, and optional reserves.

Local economists at UCLA and Chapman University predict that the California economy will experience slowing growth through 2020. The September 2019 UCLA Anderson Forecast projects employment growth at 0.8% in 2019, 0.9% in 2020, and 1.1% in 2021 with the unemployment rate at 4.4% in 2020.

The following table provides forecasts by local economists of key state indices.

California Indices	Notes	Chapman	UCLA		
		2019	2019	2020	2021
CPI	1	N/A	3.3%	2.5%	2.2%
Taxable Sales	1	3.5%	3.6%	2.3%	2.5%
Personal Income	1	4.0%	4.7%	4.2%	4.1%
Payroll Employment	1	1.5%	0.8%	0.9%	1.1%
Unemployment Rate	2	N/A	4.4%	4.4%	4.5%

Sources: Chapman University Economic & Business Review, June 2019; UCLA Anderson Forecast, September 2019

Notes:
1 – Percentage Change
2 – Not Percentage Change

Orange County Economy

In Orange County, Chapman University forecasts that growth will continue to be moderate. When compared to the nation, State, and surrounding counties, most Orange County economic indicators perform relatively well.

Payroll employment in 2019 is projected to increase by 1.3% for Orange County, in comparison to 1.5% for the State, with most jobs created in the services sector, such as those for trade, transportation & utilities, financial activities, information, professional & business, education & health, and leisure & hospitality.

Two of the County's major funding sources are property taxes and sales taxes, which commonly fluctuate with changes in the housing sector and taxable sales activity. Both housing and sales trends have exhibited growth since 2012. Chapman University forecasts increases of 1.2% for the price of existing single-family homes and 2.6% for taxable sales in 2019.

Overall, Orange County economic recovery has been steady. The following table provides trends in key local indices, followed by a discussion of the economic indicators.

Orange County Indices (Year-To-Year Changes)	**2015**	**2016**	**2017**	**2018**	**2019 Forecast**
Payroll Employment	3.2%	2.6%	2.1%	2.1%	1.3%
Total Personal Income	7.9%	3.1%	4.6%	5.6%	4.5%
Taxable Sales	2.1%	1.9%	3.3%	4.1%	2.6%
Residential Permits	2.5%	11.4%	(15.2%)	(18.2%)	1.8%
Existing Homes Price Index, Single-Family (Base Year = 2009)	2.4%	4.3%	6.2%	4.8%	1.2%

Source: Chapman University Economic & Business Review, June 2019

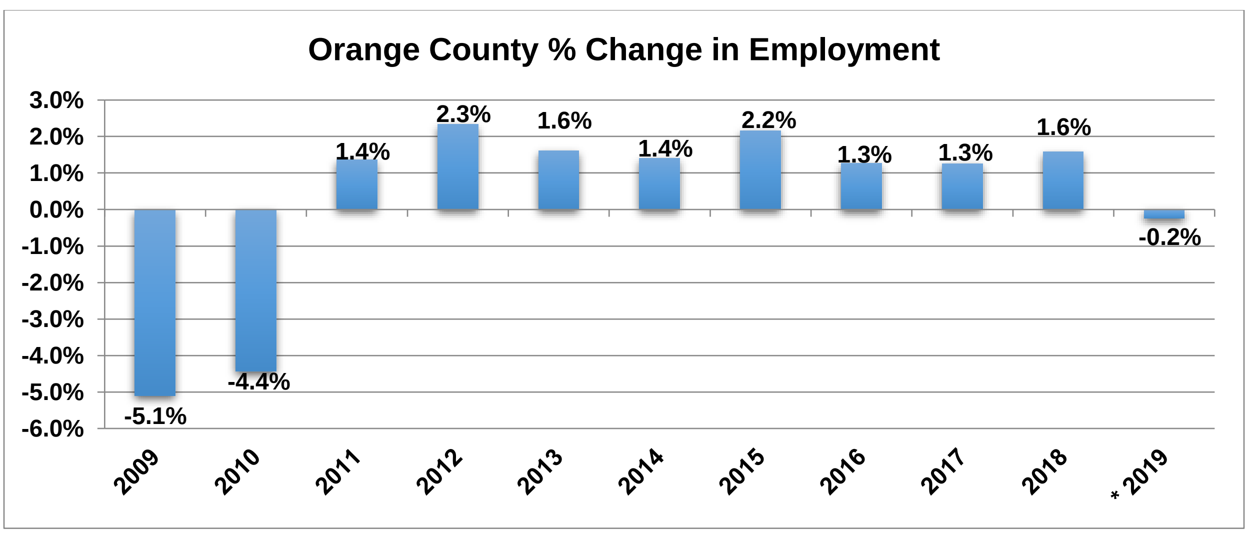
Employment – According to the California Employment Development Department, the highest payroll employment year-over-year growth in Orange County were in the construction (3.0%), educational & health services (1.2%), financial activities (1.8%) leisure & hospitality (2.7%), and professional & business services (2.4%) industries. As of September 2019, Orange County's unemployment rate was 2.4%, which remains below that of the nation at 3.3%, the State at 3.5%, and all surrounding Southern California counties as shown in the following table.

The following table provides key employment indices for Orange County and surrounding Southern California counties.

COMPARATIVE EMPLOYMENT STATISTICS			
County	**Total Labor Force**	**Total Employment**	**Unemployment Rate**
Los Angeles	5,140,600	4,911,800	4.5%
Orange	**1,631,900**	**1,592,800**	**2.4%**
Riverside	1,103,200	1,061,400	3.8%
San Bernardino	970,700	938,600	3.3%
San Diego	1,608,100	1,564,800	2.7%
Ventura	421,100	407,800	3.2%

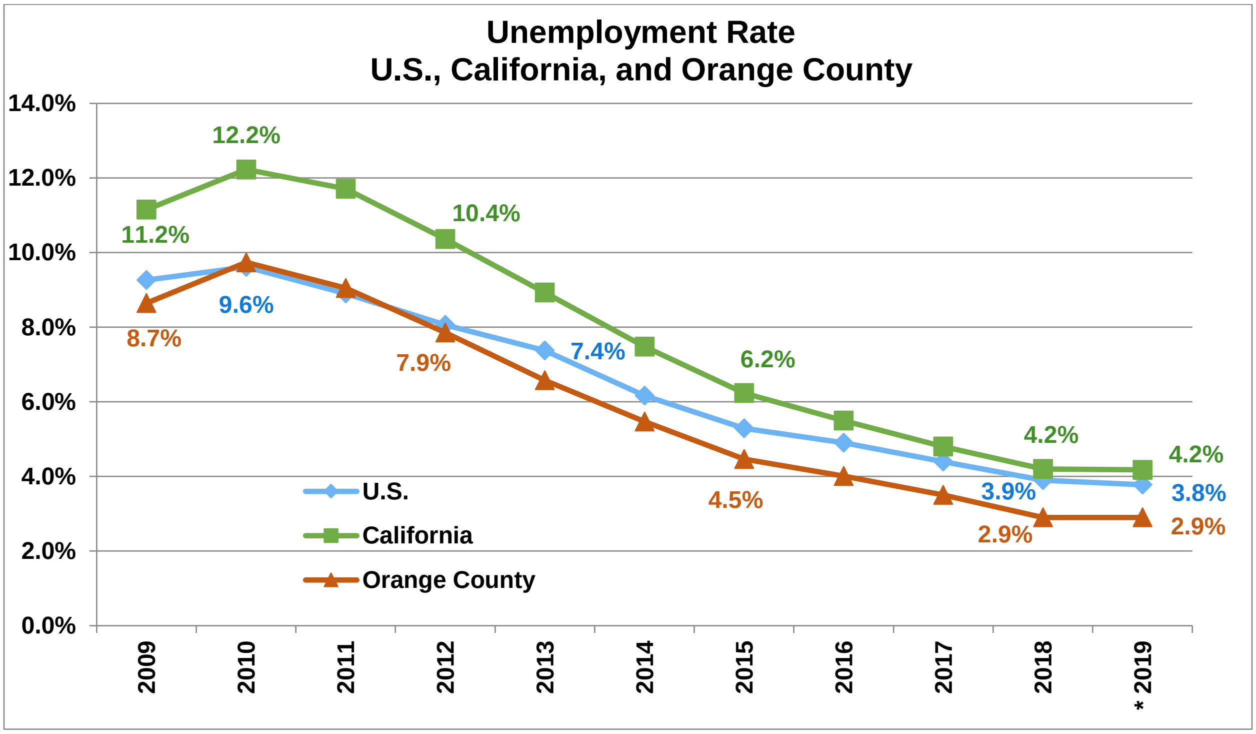
Source: State of California Employment Development Department, September 2019 preliminary

Chapman University's June 2019 Economic & Business Review forecasts weaker job growth in Orange County, declining from 2.1% in 2018 to 1.3% in 2019, and beneath the State's projected 1.5% in 2019. One reason for the decline in employment growth is that construction jobs dwindled in 2018 because of rising mortgage rates in that year. Employment growth is anticipated to be moderate in various sectors, including construction and construction-related ones such as financial activities and professional & business services. Furthermore, the lack of growth in information service jobs presents a long-term concern for the County's economy.



*Reflects change between 2018 annual employment and 9-months average ending September 30, 2019.

Source: State of California Employment Development Department



*Reflects 9-months average unemployment rate.

Sources: U.S. Bureau of Labor Statistics (National); State of California Employment Development Department (State and County); Annual average for the calendar year.

Housing – While housing in the County remains comparably unaffordable, affordability is increasing due to lower mortgage rates. Chapman University indicates that the housing affordability index is projected to increase from 64.3 in 2018 to 68.5 in 2019.

As reported by the Orange County Register on October 31, 2019, using data compiled by DQ News for September 2019, Southern California home sales were up by 10.4% year-over-year, and was the largest increase in almost three years. Southern California's median home sales price in September 2019 increased 2.5% year-over-year to $533,000, but was based on increases in only three of the six counties. For Orange County, the median home sales price decreased by 2.3% while unit sales increased by 13.1% year-over-year. In comparison to surrounding counties, Orange County exhibited the highest median sales price at $733,000, and was 35.6% above that of the six-county region.

Residential Building Permit Valuation is an estimate of the total cost of residential building construction. In Orange County, it is expected to decrease by 2.5% in 2019 to $2.7 billion, which is drastically higher than the 13.4% decline in growth in 2018 (Chapman University).

The following table provides key housing indices for the Southern California region.

COMPARATIVE HOUSING STATISTICS							
County	**Median Sales Price** (as of September)			**Unit Sales** (as of September)			**Median Household Income**
	2018	**2019**	**% Change**	**2018**	**2019**	**% Change**	**Last 12 Months**
Los Angeles	$595,000	$618,000	3.9%	5,644	6,055	7.3%	$68,093
Orange	**$740,000**	**$723,000**	**(2.3%)**	2,565	2,902	**13.1%**	**$89,759**
Riverside	$389,000	$393,000	2.1%	3,138	3,498	11.5%	$66,964
San Bernardino	$330,000	$351,000	5.7%	2,395	2,550	6.5%	$63,857
San Diego	$575,000	$570,000	(0.9%)	2,954	3,388	14.7%	$79,079
Ventura	$590,000	$588,500	(0.3%)	744	859	15.5%	$84,566
Southern California Total	$520,000	$533,000	2.5%	17,440	19,253	10.4%	N/A

Sources: Lansner, Jonathan. "Southern California Home Sales Soar 10.4%, Largest Jump in 3 Years." Orange County Register, October 31, 2019; U.S. Census Bureau, American Community Survey 1-Year Estimates of Median Household Income in past 12 months – September 2019

Foreclosure rates are calculated by dividing the 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 results in the . 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 3,853 Orange County homes received a foreclosure filing in September 2019. Based on County of Orange Clerk-Recorder's Office data, 1,819 notices of default were issued and 311 trustee deeds were filed (completed and recorded) for the first nine months of 2019, which decreased by 21.0% and 26.7%, respectively, from the same period in 2018.

Foreclosures	
Los Angeles County	1 in 2,946
Orange County	**1 in 3,853**
Riverside County	1 in 1,622
San Bernardino County	1 in 2,138
San Diego County	1 in 3,852
Ventura County	1 in 3,743

Source: RealtyTrac, Inc., September 2019

Taxable Sales – Taxable sales represent consumer spending transactions that are subject to sales and use taxes. Taxable sales provide an indication of economic activity and contribute to County funding sources such as General Purpose Revenue sales taxes and General Fund department sources such as Public Safety Sales Tax and Realignment Revenue. General Fund sales tax receipts typically trend with taxable sales.

After 2009, Orange County's taxable sales increased annually from 2010 through 2018 with growth projected at 2.6% for 2019. The following table provides annual taxable sales for Orange County.

Orange County Annual Taxable Sales		
Year	**Taxable Sales (Billions)**	**% Change**
2019 Forecast	$68.9	2.6%
2018	$67.2	4.1%
2017	$64.6	3.3%
2016	$62.5	1.9%
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%)

Sources: Board of Equalization for 2009-2016; California Department of Tax and Fee Administration for 2017; Chapman University Economic & Business Review, June 2019, for 2018 and 2019 forecast

Taxable sales tend to increase when personal income increases. Chapman University's June 2019 Economic & Business Review forecasts a 4.5% increase in total personal income for Orange County in 2019.

Summary

The national, state, and local economies are expected to experience slowing growth in the next few years with some economist predicting a risk of global recession in late 2020. Through diligent departmental endeavors and deliberate and timely action by the Board of Supervisors, the County is committed to continue delivering high quality public services, leveraging limited resources for one-time projects and priorities, and seeking creative alternatives and partnerships for expanding or establishing new programs and services.

The County will continue to ensure that measures taken now do not create long-term, unintended consequences. It is a County priority to judiciously plan for today and the future in an effort to achieve the goal of enriching the lives of Orange County residents and visitors.