Economic Forecast

Introduction - General Economy

The 2020 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.

The global economy contracted severely as a result of the Novel Coronavirus (COVID-19) pandemic and the shutdown measures employed in an attempt to contain the virus. As a result of surging COVID-19 infections and continued social distancing, the December 2020 UCLA Anderson Forecast projects slower growth in Gross Domestic Product (GDP) of 1.8% in first quarter 2021 and recovery at 6% beginning in second quarter 2021 due to mass vaccinations and a substantial spike in consumption of services previously curbed by the pandemic. Growth over 3% is anticipated through 2023, with the economy returning to its prior peak by year-end in 2021. Housing activity is expected to remain strong through 2023 due to low interest rates, additional inventory previously constrained by the pandemic, and demographic shifts related to telecommuting opportunities and millennials starting families. Inflation, as measured by the Consumer Price Index (CPI), is projected at approximately 2.1% to 2.2% annually and the unemployment rate is estimated to hover above 5% through 2021, slowly progressing to 4% by 2023. The forecast also assumes that the economy will improve because of fiscal relief; however, without further aid and depending on the need for additional social distancing and the pervasiveness of COVID-19 infections, the economy may slip into recession.

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. Updates from these sources suggest a mixed outlook. The University of Michigan reports an unforeseen increase in consumer sentiment in December due primarily to a partisan shift and a more positive long-term economic outlook, with a preliminary December 2020 Index of Consumer Sentiment at 81.4, above the November 2020 index of 76.9 and still well below the December 2019 index of 99.3. Employment and income decreases are expected to grow and consumer sentiment about personal finances remains unchanged as any adopted federal relief will not support recipients until after the holidays. In the same vein, the Conference Board's

Consumer Confidence Survey reports that consumer outlook in the short-term remains steady and that consumers do not anticipate an improved economy nor job market. Nonetheless, the Conference Board's Consumer Confidence Index reflects a decrease from 101.4 in October 2020 to 96.1 in November 2020.

The Federal Reserve Board, as of November 2020, maintained the federal funds rate target range at 0% to 0.25% and anticipates continuing this until maximum employment and inflation has increased to 2% and remains above 2% for a period of time. The decision to maintain the rate target range supports the Federal Reserve's price stability and maximum employment goals. The Committee acknowledges that "overall financial conditions remain accommodative," but "the ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term." The timing and scope of future adjustments to the range will factor in readings on public health, labor market conditions, inflation pressures and expectations and financial and international developments. While still well below early 2020 levels, recent activity reflects a recovering economy and labor market; weaker demand and earlier oil price declines have been suppressing inflation.

National Economy

The Congressional Budget Office (CBO) in its November 2020 Monthly Budget Review: Summary for Fiscal Year 2020 reports that the fiscal year 2020 federal budget deficit totaled $3.1 trillion, three times the fiscal year 2019 deficit, and 14.9% of GDP, due primarily to the economic impacts of the pandemic and the countering passed legislation. The major sources of government revenues, individual income taxes and social insurance taxes, decreased by 6% and increased by 5%, respectively. Total federal outlays are projected to increase by 47%.

Based on the CBO September 2020 Update to the Budget Outlook: 2020 to 2030, the budget deficit is estimated to be 8.6% of GDP in 2021, decreasing through 2027, subsequently increasing for a few years, and amounting to 5.3% of GDP in 2030. The CBO projects that outlays as a percentage of GDP decrease over four years, and subsequently increase from approximately 22% to 23% of GDP in 2030 due to a shift from pandemic-related spending to major entitlement program spending focused on the aging population and growing healthcare costs.

The following table provides CBO forecasts of key national indices.

National Indices	Notes	2021	2022	Annual Average	
				2023-2024	2025-2030
Real GDP	1	4.8%	2.2%	2.2%	2.1%
CPI	1	1.6%	2.0%	2.2%	2.2%
Unemployment Rate	2	7.6%	6.9%	5.9%	4.4%
3-Month Treasury Bill	3	0.2%	0.2%	0.2%	1.0%
10-Year Treasury Note	3	0.9%	1.1%	1.5%	2.6%
Deficit	4	(8.6%)	(6.1%)	(4.7%)	(4.8%)

Source: Congressional Budget Office An Update to the Economic Outlook: 2020 to 2030, July 2020
Congressional Budget Office An Update to the Budget Outlook: 2020 to 2030, September 2020

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

California Economy

On June 29, 2020, the Governor signed the FY 2020-21 State Budget, which is projected to end with $11.4 billion in reserves, consisting of $8.3 billion in the Budget Stabilization Account, $2.6 billion in the Special Fund for Economic Uncertainties, and $450 million in the Safety Net Reserve. The FY 2020-21 General Fund revenues and transfers budget is estimated to remain flat at $137.7 billion, due to tax revenue decreases offset by reserve transfers and loans from special funds for closing the shortfall. The General Fund expenditure budget totals $133.9 billion, a 9% or $13 billion decrease over the revised prior year level. As outlined by the Legislative Analyst's Office (LAO) in *The 2020-21 Budget: Overview of the California Spending Plan* publication, major features of the spending plan include education, cost shifts and borrowing, COVID-19 spending, safety net programs, and funding for local governments. Since then, LAO's *The 2021-22 Budget: California's Fiscal Outlook* reports a projected one-time $26 billion surplus in FY 2021-22 and a forecasted ongoing deficit increasing to $17 billion by FY 2024-25.

State labor markets are in general not as strong as those in the nation at 2020 year-end due to the more restrictive mandates adopted by California than those in other states. Both the December 2020 UCLA Anderson Forecast and December 2020 Chapman University Economic & Business Review project that recovery after the pandemic will be faster in the State than in the nation. While California's recovery may occur later than some other states, the State's rebound is ultimately anticipated to trend similarly to that of the nation. Chapman University also brings attention to the net outflow of 173,000 California residents to other states in 2019, totaling 770,000 people from 2015 to 2019, which presents longer-term impacts to California's economy.

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

California Indices	Notes	Chapman	UCLA		
		2021	2021	2022	2023
CPI	1	N/A	2.3%	2.8%	2.4%
Taxable Sales	1	12.6%	8.1%	1.5%	2.5%
Personal Income	1	6.0%	1.3%	5.0%	5.9%
Payroll Employment	1	2.5%	6.1%	3.4%	2.2%
Unemployment Rate	2	N/A	6.9%	5.2%	4.4%

Sources: Chapman University Economic & Business Review, December 2020; UCLA Anderson Forecast, December 2020

Notes: 1 – Percentage Change; 2 – Not Percentage Change

Orange County Economy

Chapman University indicates that the pandemic affected Orange County more than the State, due to the County's greater reliance on tourism. Given the assumption of COVID-19 vaccinations, the County's recovery is anticipated to trend similarly to that of the State, continuing through year-end 2021. Furthermore, residential construction activity will drive the Orange County economy.

Payroll employment is projected to decrease by 8.6% in 2020 and increase by 2.6% in 2021 for Orange County, in comparison to 7.1% and 2.5%, respectively, for the State. Most jobs are forecasted to be created in the services sector, such as those for trade, transportation & utilities, construction, 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. Chapman University forecasts increases of 7.8% in 2020 and 4.4% in 2021 for the price of existing single-family homes and a decrease of 13.5% in 2020 and an increase of 12.5% for taxable sales in 2021.

The following table provides trends in key local indices, followed by a discussion of the economic indicators.

Orange County Indices (Year-To-Year Changes)	**2017**	**2018**	**2019**	**2020 Estimate**	**2021 Forecast**
Payroll Employment	2.1%	2.0%	1.3%	(8.6%)	2.6%
Total Personal Income	4.5%	5.6%	3.9%	5.8%	5.8%
Taxable Sales	3.3%	3.6%	3.3%	(13.5%)	12.5%
Residential Permits	(15.2%)	(21.3%)	27.0%	(39.1%)	(38.0%)
Existing Homes Price Index, Single-Family (Base Year = 2009)	6.2%	4.8%	0.9%	7.8%	4.4%

Source: Chapman University Economic & Business Review, December 2020

Employment – According to the California Employment Development Department, Orange County payroll employment decreased by 8.4% from October 2019 to October 2020 in nearly all industries except for construction. The following table provides payroll employment changes.

Industry	Percent Change From October 2019 to October 2020
Construction	1.8%
Educational & Health Services	(5.7%)
Financial Activities	(3.8%)
Government	(5.9%)
Information	(15.1%)
Leisure & Hospitality	(24.6%)
Manufacturing	(9.6%)
Other Services	(20.5%)
Professional & Business Services	(4.5%)
Trade, Transportation & Utilities	(5.7%)

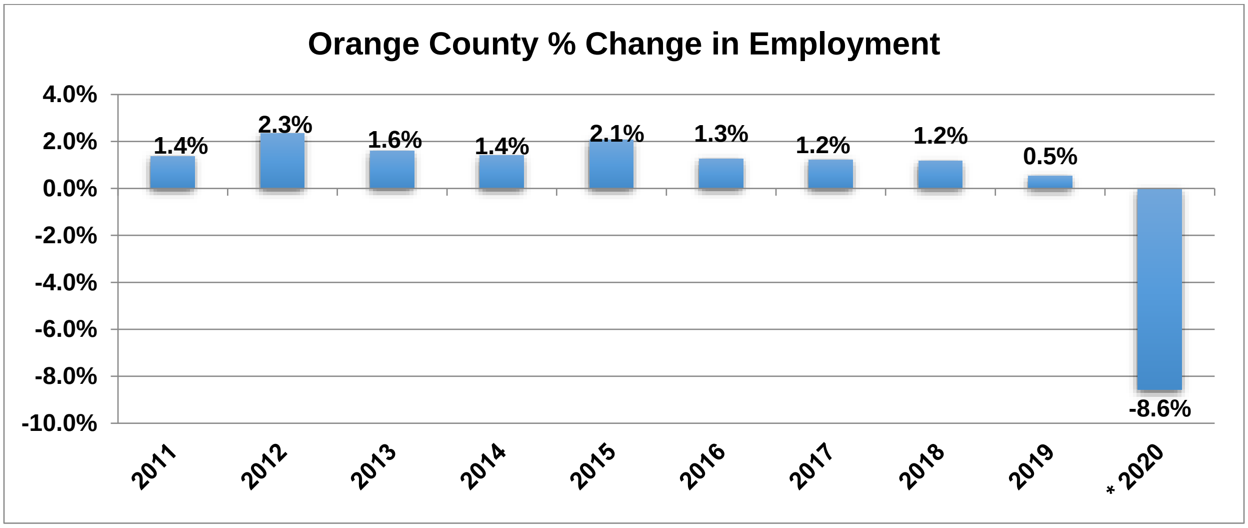
As of October 2020, Orange County's unemployment rate was 7.5%, which is above that of the nation at 6.9%, but below the State's 9.3%. Except for Ventura County, Orange County's unemployment rate is below surrounding Southern California counties.

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	5,089,800	4,476,400	12.1%
Orange	**1,625,500**	**1,502,800**	**7.5%**
Riverside	1,122,100	1,021,000	9.0%
San Bernardino	988,200	898,700	9.1%
San Diego	1,610,900	1,486,400	7.7%
Ventura	420,000	390,100	7.1%

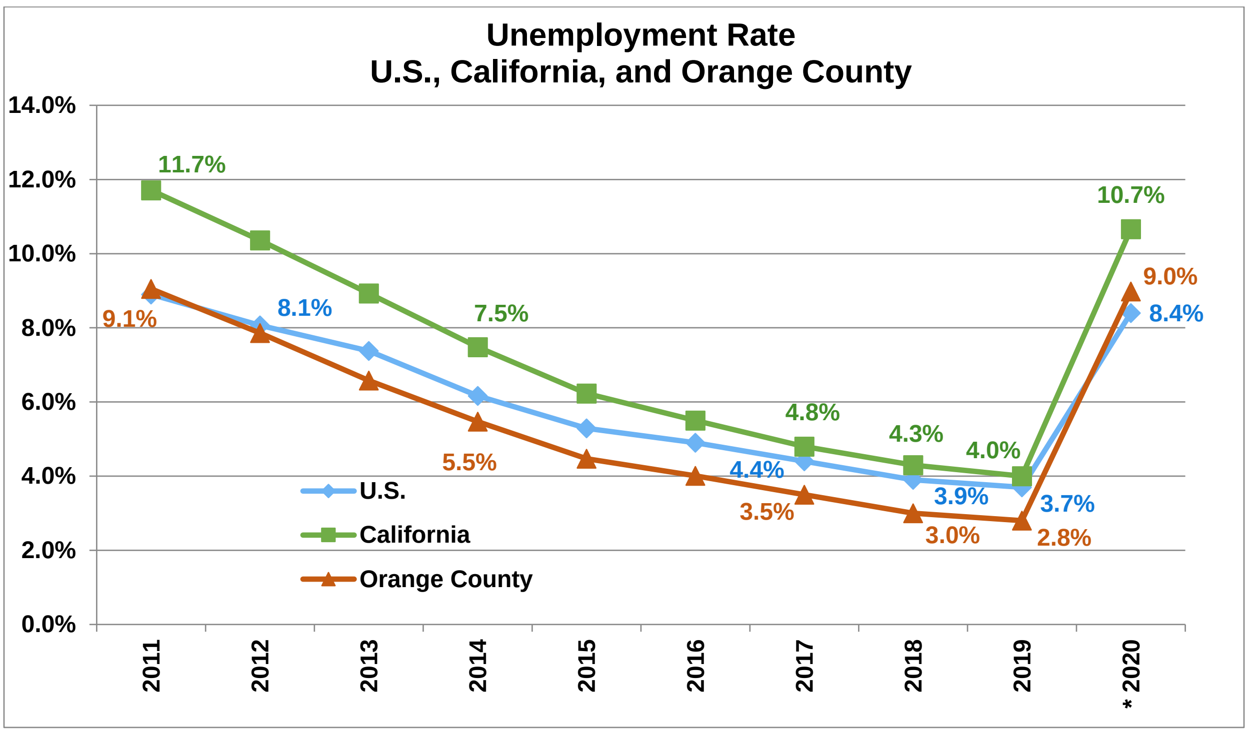
Source: State of California Employment Development Department, October 2020 preliminary

Chapman University projects weaker job growth in Orange County than in the State, due to the County's dependency on tourism and related impacts on the leisure and hospitality jobs industry. Payroll employment is projected to decrease by 8.6% in 2020 and increase by 2.6% in 2021 for Orange County, in comparison to 7.1% and 2.5%, respectively, for the State. While tourism will rebound post-pandemic, job growth will be hampered by higher value-added jobs requiring higher compensation.



*Reflects change between 2019 annual employment and 10-months average ending October 30, 2020.

Source: State of California Employment Development Department



*Reflects 10-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 – Due to low mortgage rates and their associated betterment on housing affordability, Chapman University indicates that the housing affordability index is projected to increase from 77.7 in 2020 to 78.7 in 2021.

The California Association of Realtors October Home Sales and Price Report indicates that Southern California home sales increased by 17.5% from October 2019 to October 2020, which includes gains in all counties in the Southern California regions. Southern California's median home sales price in October 2020 increased 15.4% year-over-year to $657,750. For Orange County, the median home sales price increased by 13.4% while unit sales increased by 29.3% year-over-year. In comparison to surrounding counties, Orange County exhibited the highest median sales price for existing single-family homes.

Residential Building Permit Valuation is an estimate of the total cost of residential building construction. In Orange County, it is expected to decrease by 25.4% in 2020 and increase by 29.4% in 2021 (Chapman University).

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

COMPARATIVE HOUSING STATISTICS					
	Median Sales Price (single family homes, as of October)			Unit Sales (single family homes, as of October)	Median Household Income
	2019	2020	% Change	% Change (from prior year)	Last 12 Months
Los Angeles County	$647,900	$728,160	12.4%	13.1%	$72,797
Orange County	**$820,000**	**$930,000**	**13.4%**	**29.3%**	**$95,934**
Riverside County	$420,000	$485,000	15.5%	18.5%	$73,260
San Bernardino County	$319,000	$365,000	14.4%	16.0%	$67,903
San Diego County	$652,000	$749,000	14.9%	21.2%	$83,985
Ventura County	$660,000	$750,000	13.6%	1.9%	$92,236
Southern California	$569,900	$657,750	15.4%	17.5%	N/A

Sources: California Association of Realtors October Home Sales and Price Report; U.S. Census Bureau, 2019 American Community Survey 1-Year Estimates of Median Household Income in past 12 months

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. 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 9,740 Orange County homes received a foreclosure filing in November 2020. Based on County of Orange Clerk-Recorder's Office data, 1,240 notices of default were issued and 172 trustee deeds were filed (completed and recorded) for the first eleven months of 2020, which decreased by 47.6% and 53.5%, respectively, from the same period in 2019.

Foreclosures	
Los Angeles County	1 in 8,929
Orange County	**1 in 9,740**
Riverside County	1 in 6,373
San Bernardino County	1 in 6,670
San Diego County	1 in 10,284
Ventura County	1 in 9,405

Source: RealtyTrac, Inc., November 2020

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.

The following table provides taxable sales for Orange County, including historical annual increases from 2012 through 2019 with growth projected at a decrease of 13.5% in 2020 and an increase of 12.5% in 2021.

Orange County Annual Taxable Sales		
Year	**Taxable Sales (Billions)**	**% Change**
2021 Forecast	$67.9	12.5%
2020 Estimate	$60.3	(13.5%)
2019	$69.7	3.3%
2018	$67.5	3.6%
2017	$65.1	3.3%
2016	$63.1	1.8%
2015	$61.9	3.0%
2014	$60.1	4.4%
2013	$57.6	4.3%
2012	$55.2	6.8%

Sources: Board of Equalization for 2012-2014; California Department of Tax and Fee Administration for 2015-2019; Chapman University Economic & Business Review, December 2020, for 2020 forecast

Taxable sales tend to increase when personal income increases. Chapman University forecasts a 5.8% increase in total personal income for Orange County in both 2020 and 2021.

Summary

The national, state, and local economies are expected to experience slow growth through spring or summer 2021. Contingent on fiscal relief and the prevalence of COVID-19 infections, some economists predict a risk of recession. As the County navigates through these uncertainties, the County remains committed to public health and safety. The combined efforts of the Board of Supervisors and departments toward proactively addressing the pandemic's impacts coupled with responsible fiscal management will position the County to anticipate and address challenges as they arise.

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.