

Christopher Thornberg  
Founding Partner, Beacon Economics

*The US Economic Outlook*  
Focus on California  
October 2013

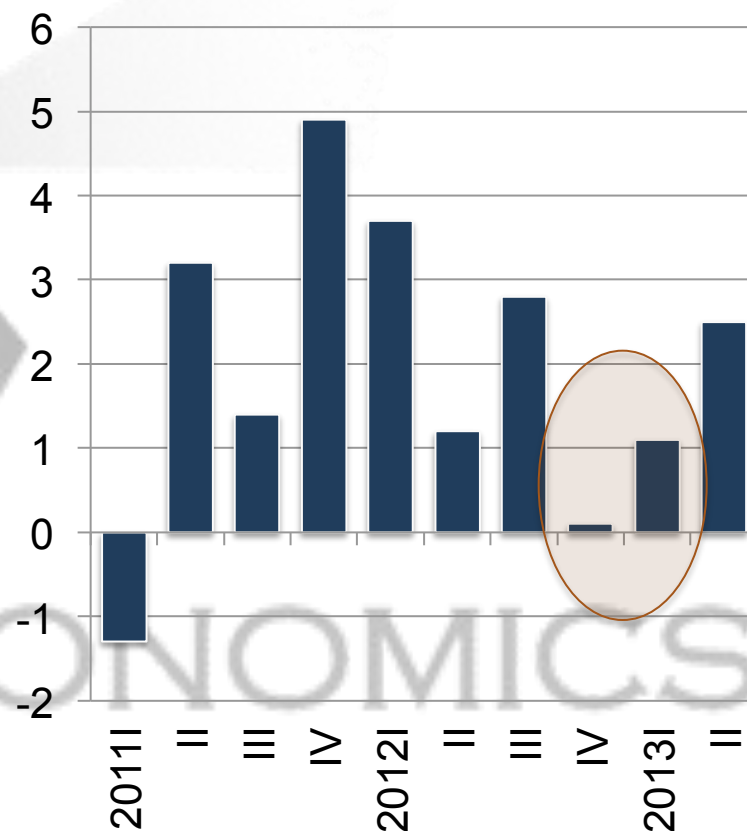
# Bernanke was right... things *are* improving.

- Sure—it's been a recovery to forget
  - The US never saw the typical post-recession bounce
  - Averaging 2.2% growth over the last 4 years
  - Employment, participation, foreclosures have yet to return to normal
- Focus on the trends, not the levels
  - Economy seeing some modest acceleration despite headwinds
  - Consumers holding steady despite tax increases
  - Business Investment soft, but earnings are solid
  - State and local government starting to turn the corner
  - Interest rates still very low, Residential markets remain hot
  - California is leading growth, rather than being a hindrance
- The big problem: political extremists on both sides
  - Budget crises, undetermined regulations
  - focusing on the unimportant issues of the economy

# GDP: Picking up after a bad couple quarters

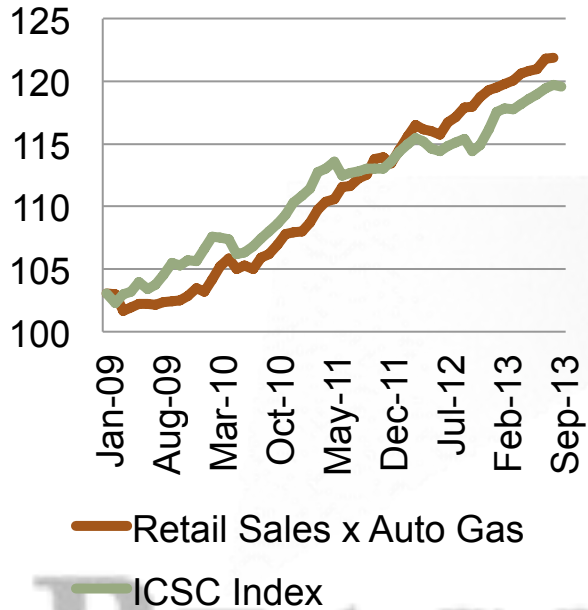
|                                    | 2012         | 2013         |              | 2013        |
|------------------------------------|--------------|--------------|--------------|-------------|
|                                    | Avg          | I            | II           | III est     |
| <b>Gross domestic product</b>      | 1.95         | 1.10         | 2.50         | 2.10        |
| <b>Final Private Demand</b>        | 2.66         | 1.03         | 2.10         |             |
| <b>Personal consumption</b>        | 1.39         | 1.54         | 1.21         | 1.24        |
| Durable goods                      | 0.56         | 0.43         | 0.45         | 0.30        |
| Nondurable goods                   | 0.25         | 0.43         | 0.28         | 0.50        |
| Services                           | 0.58         | 0.69         | 0.48         | 0.44        |
| <b>Private domestic investment</b> | 0.49         | 0.71         | 1.48         | 1.21        |
| Structures                         | 0.24         | -0.80        | 0.40         | 0.39        |
| Equipment                          | <b>0.25</b>  | <b>0.09</b>  | <b>0.16</b>  | <b>0.15</b> |
| Intellectual property products     | 0.11         | 0.14         | -0.04        | 0.21        |
| Residential                        | 0.38         | 0.34         | 0.37         | 0.31        |
| Change in private inventories      | -0.49        | 0.93         | 0.59         | 0.13        |
| <b>Net exports</b>                 | 0.30         | -0.28        | 0.00         | -0.39       |
| Exports                            | 0.32         | -0.18        | 1.11         | 1.35        |
| Imports                            | -0.02        | -0.10        | -1.11        | -1.73       |
| <b>Government consumption</b>      | <b>-0.22</b> | <b>-0.82</b> | <b>-0.18</b> | <b>0.05</b> |
| Federal                            | -0.18        | -0.68        | -0.12        | 0.01        |
| State and local                    | -0.04        | -0.14        | -0.06        | 0.04        |

## Gross domestic product

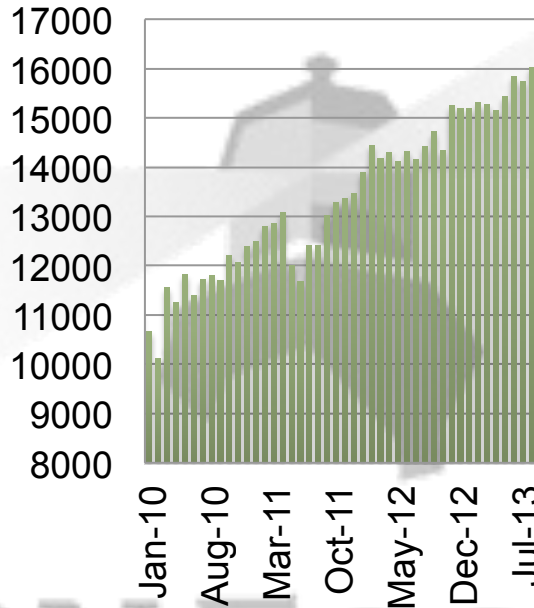


# Consumer Update

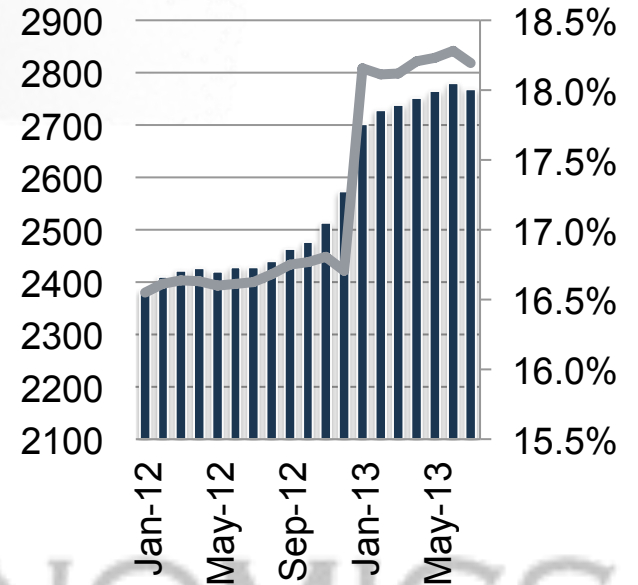
## Retail Sales



## Auto Sales



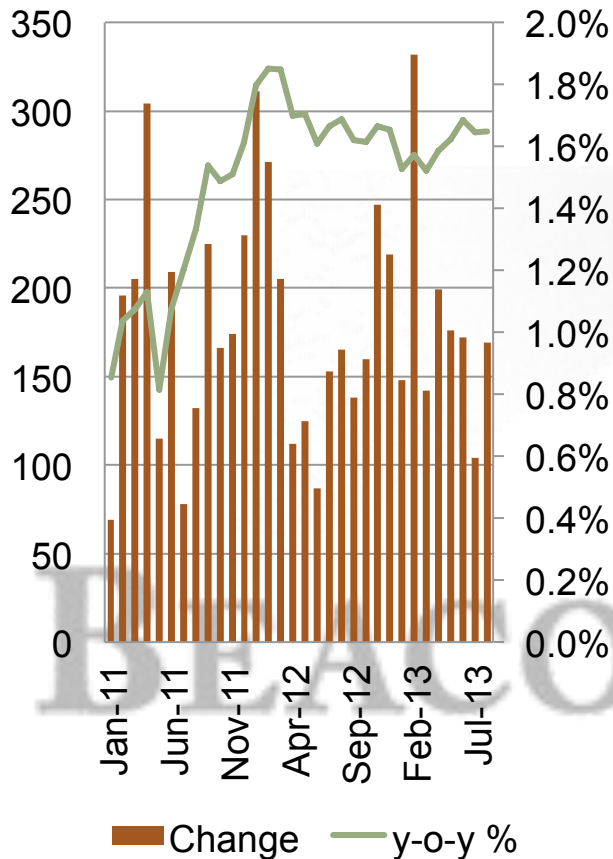
## Personal Taxes Paid, % Income



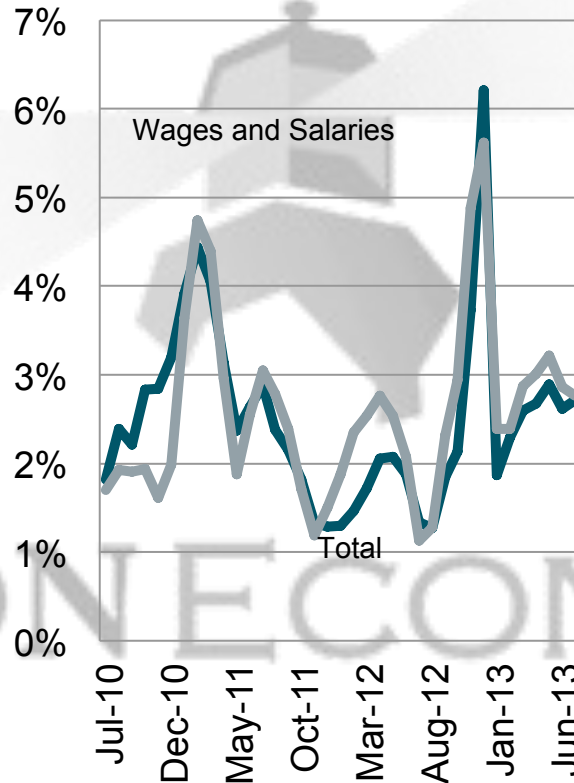
|    | Auto Sales | Gr   | Retail x Auto Gas | Gr   | ICSC Retail | Gr   |
|----|------------|------|-------------------|------|-------------|------|
| Q1 | 15252      | 2.2% | 294077            | 1.0% | 118         | 2.2% |
| Q2 | 15471      | 1.4% | 296575            | 0.8% | 119         | 0.7% |
| Q3 | 15657      | 1.2% | 299055            | 0.8% | 120         | 0.9% |

# Employment and Income

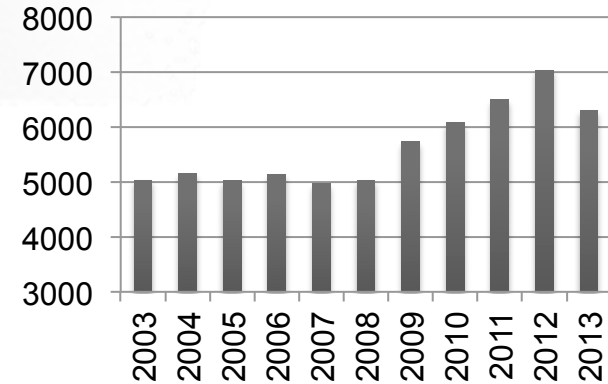
### Payroll Jobs



### Y-o-Y Growth in Real Personal Income



### Not in Labor Force, but want a job (August readings)

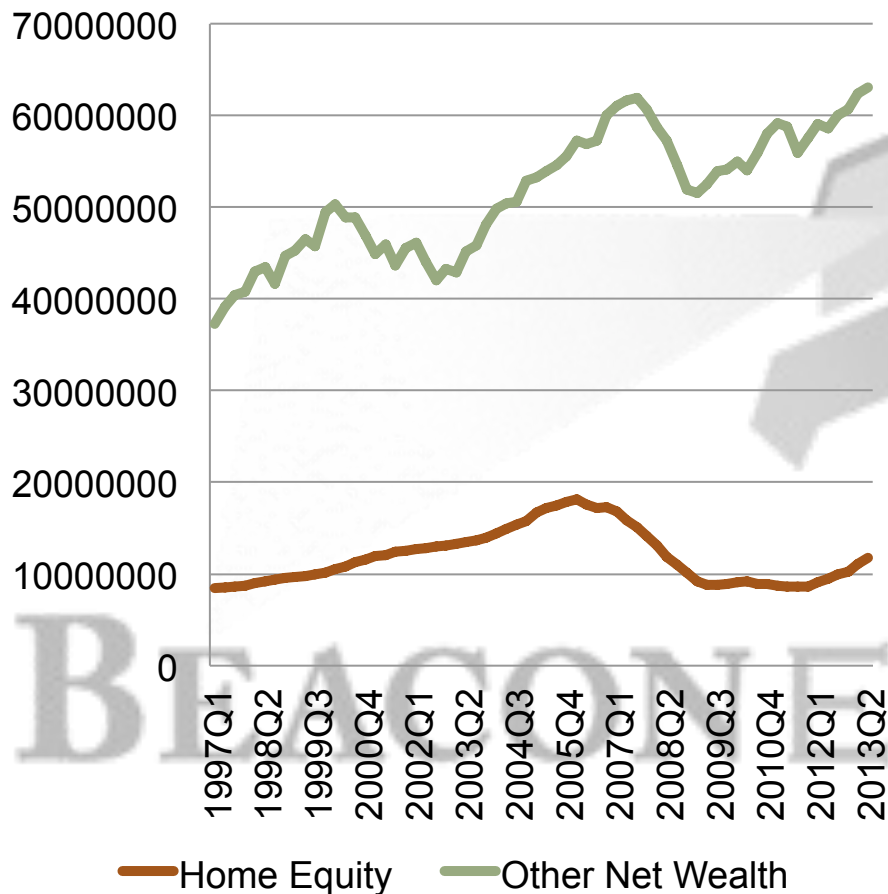


### Part Time Employment

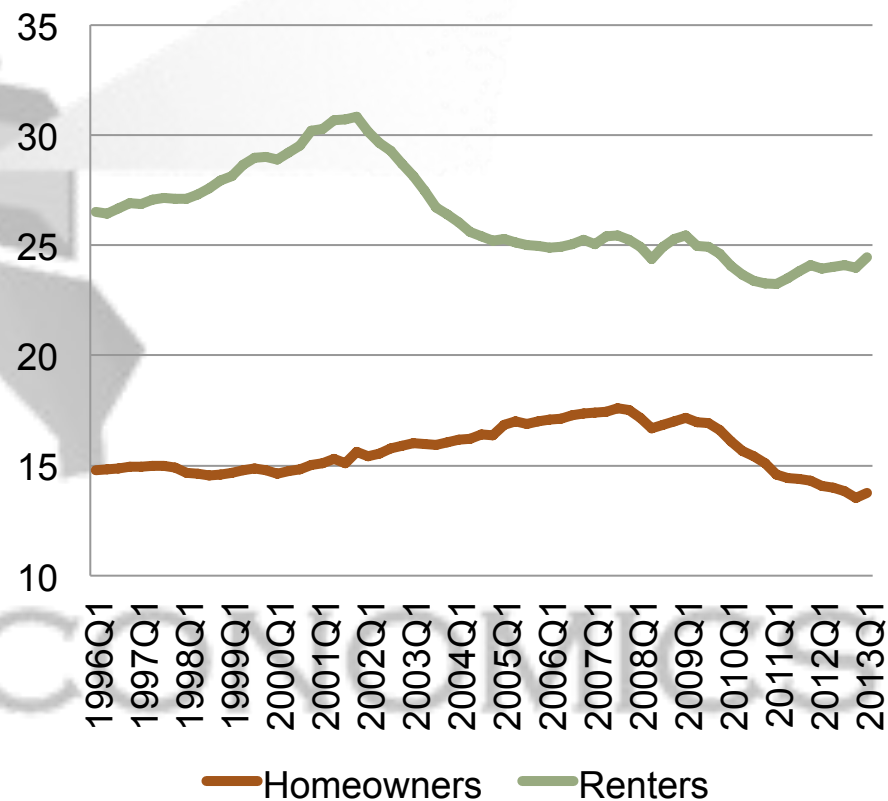
|             | 13-Aug | Change |
|-------------|--------|--------|
| Total       | 141947 | 2029   |
| Full Time   | 115227 | 1815   |
| PT Economic | 7785   | -125   |
| PT Non-Econ | 18935  | 339    |

# Q2 Flow of Funds

## Real Household Wealth

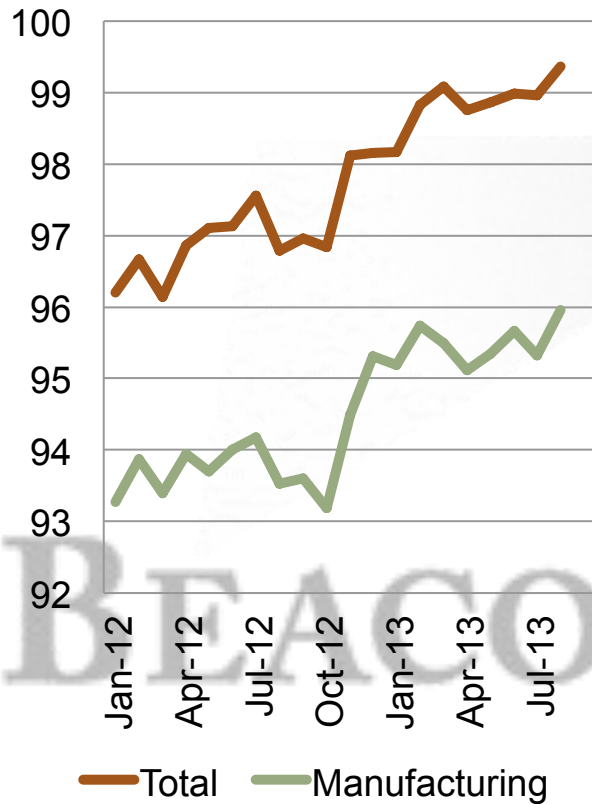


## Financial Obligation Ratio: % of Disposable Income

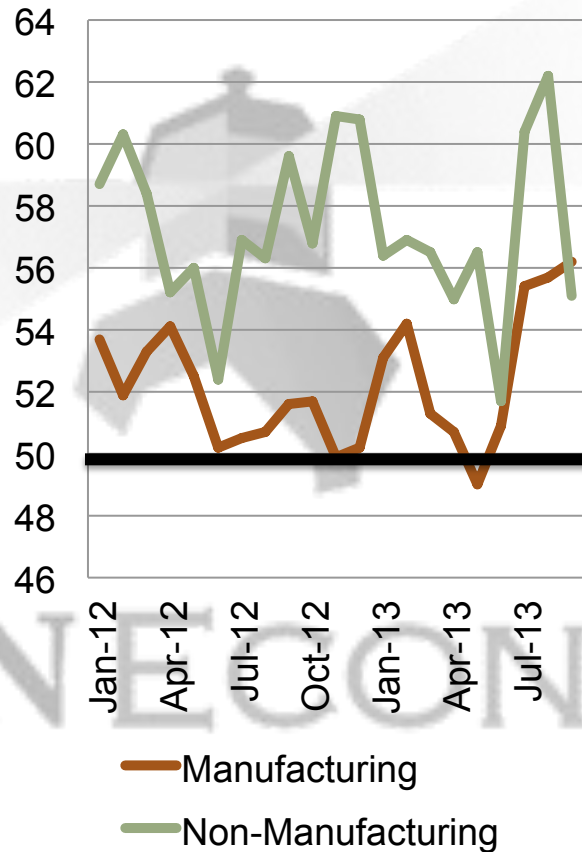


# US Production

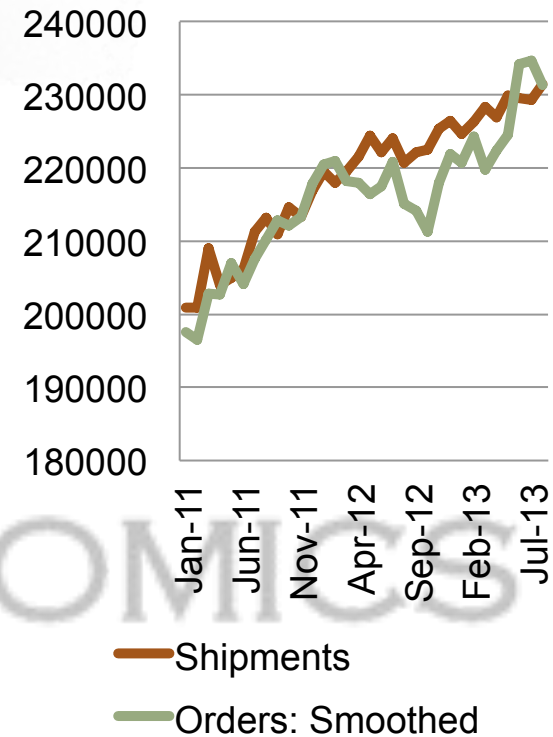
## US Production to August



## ISM Surveys

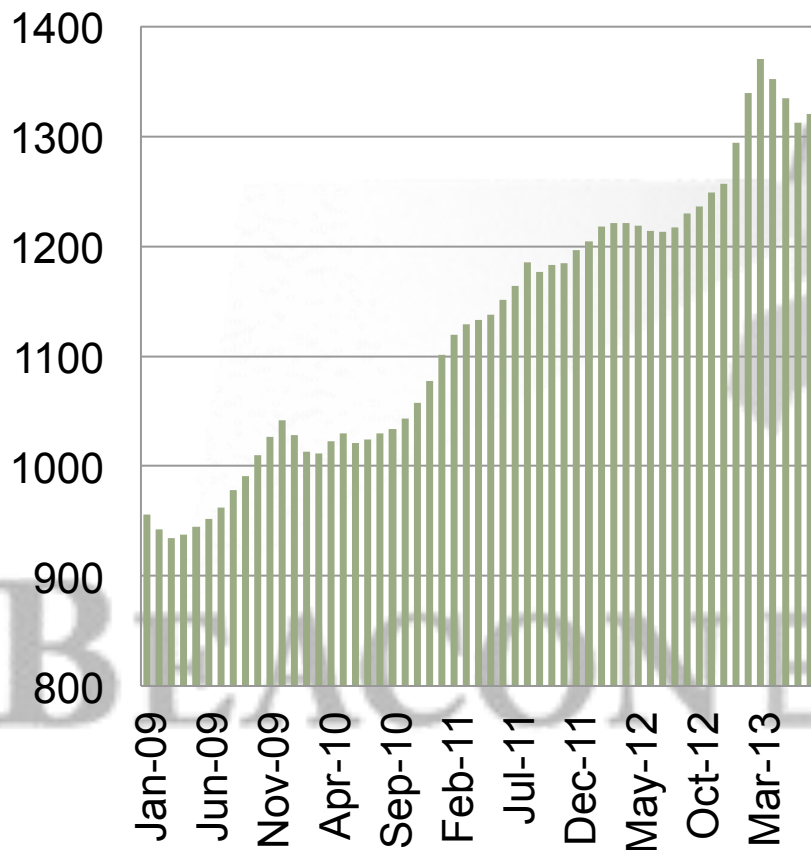


## Advance Orders and Shipments (Durables)

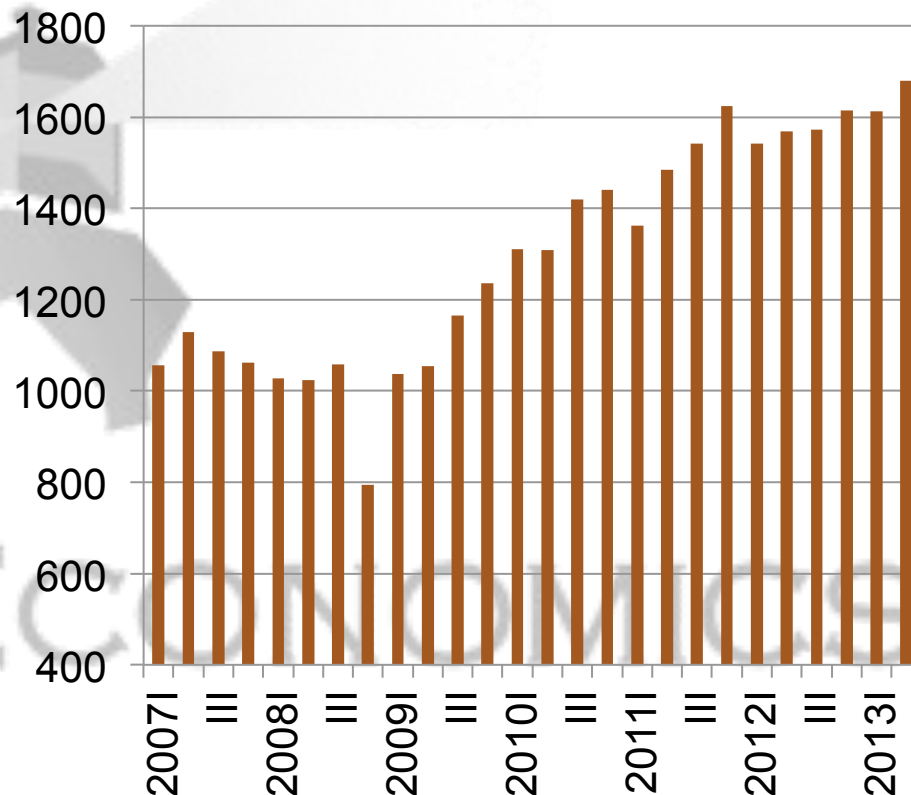


# Great Earnings

## Proprietors Income



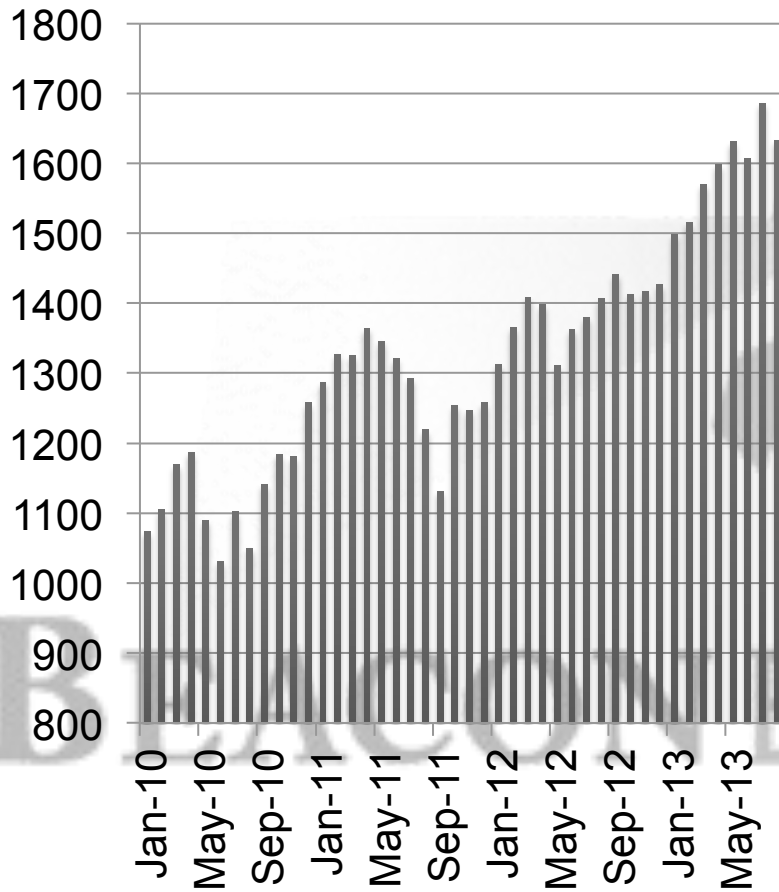
## Corporate Profits after tax, IVA and CCAdj



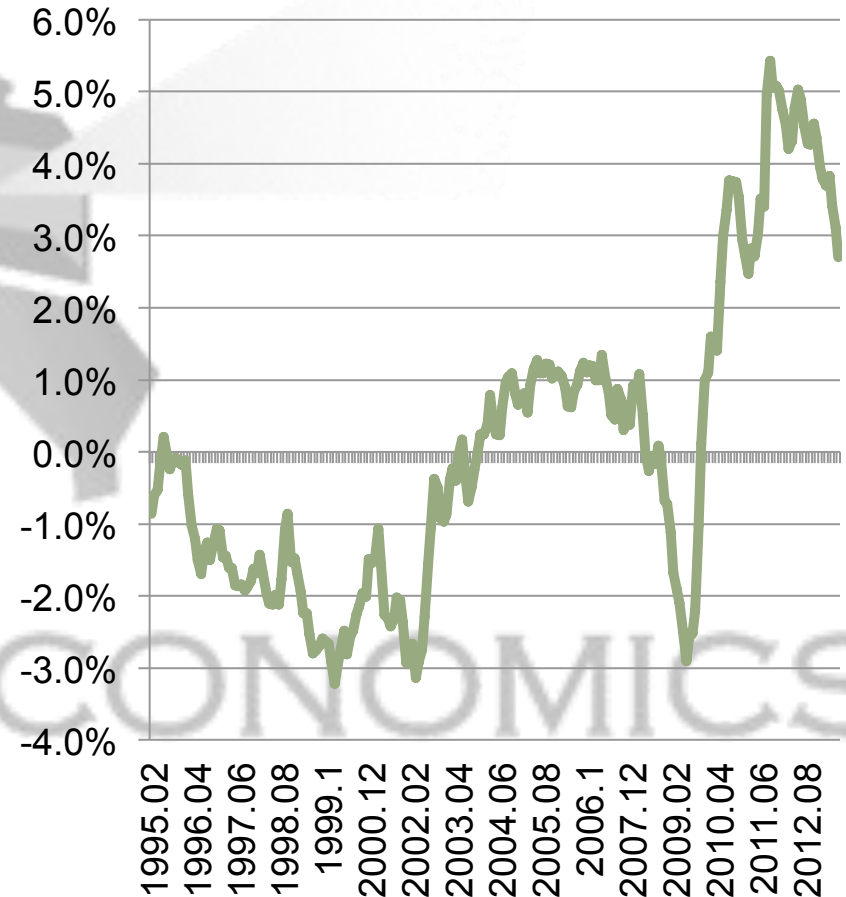


# Bubble? Nah...

## S&P Stock Price Index

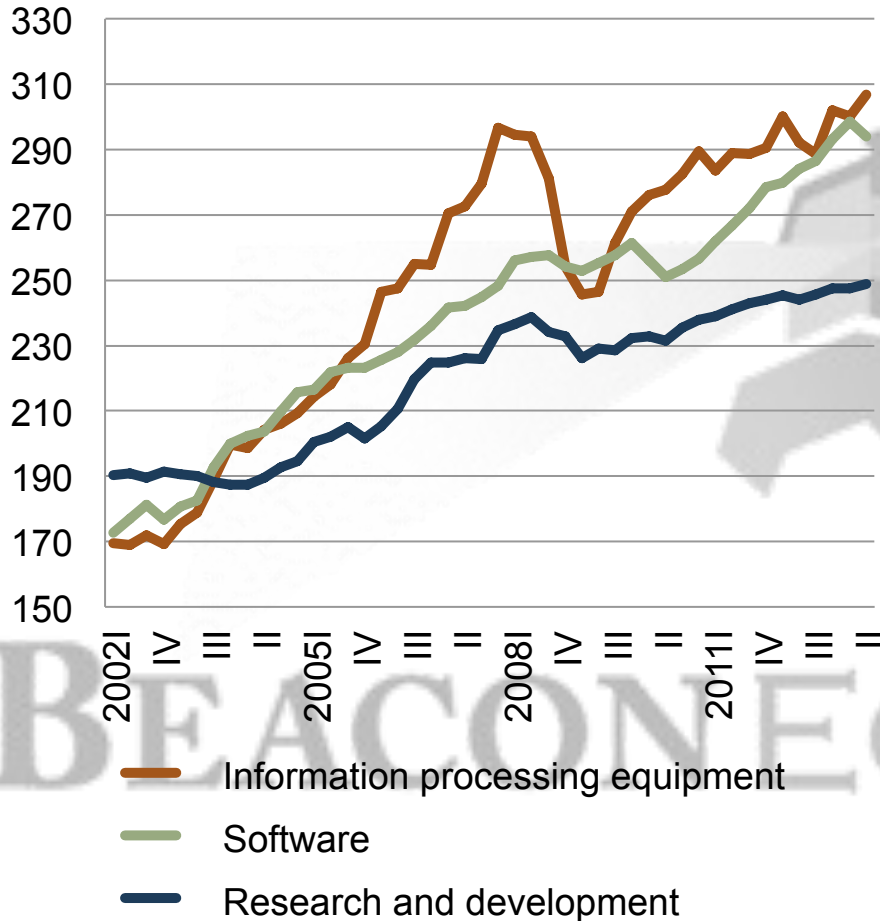


## Implied Equity Premium Over Treasuries

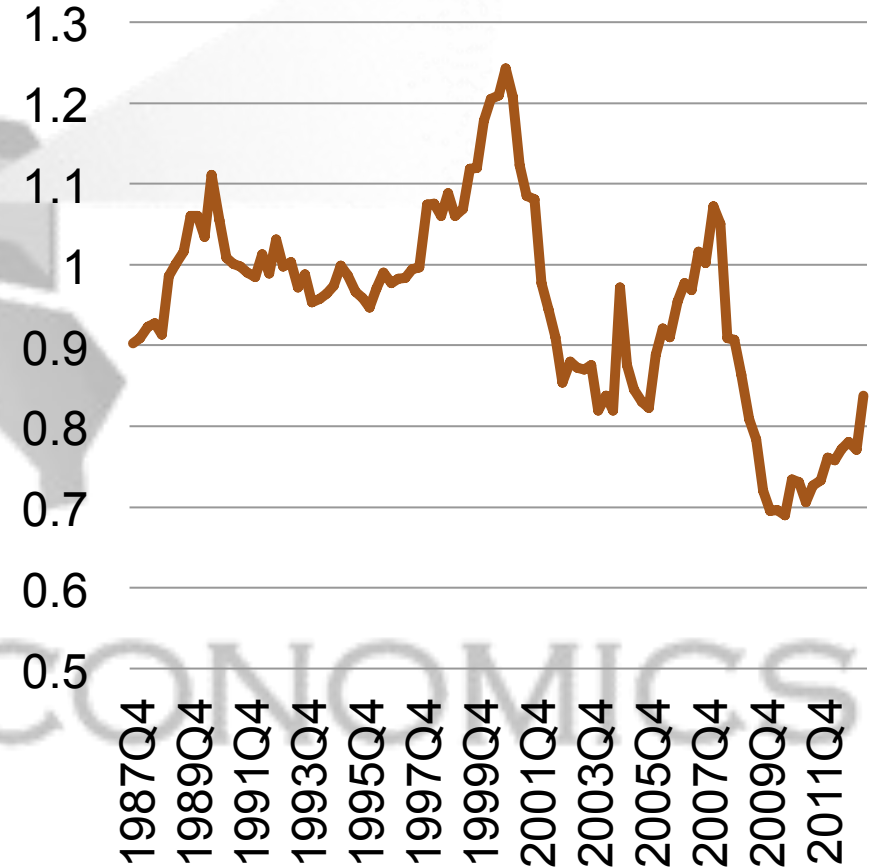


# Business Investments

## Real Tech Investments: US \$bil

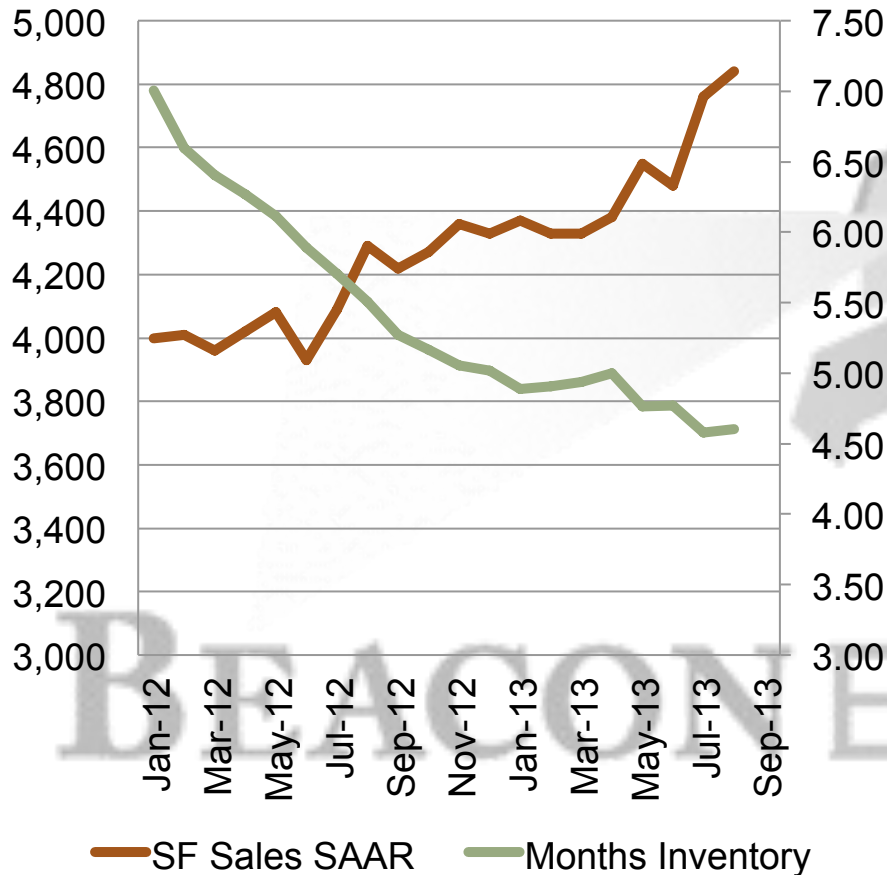


## Capex Ratio

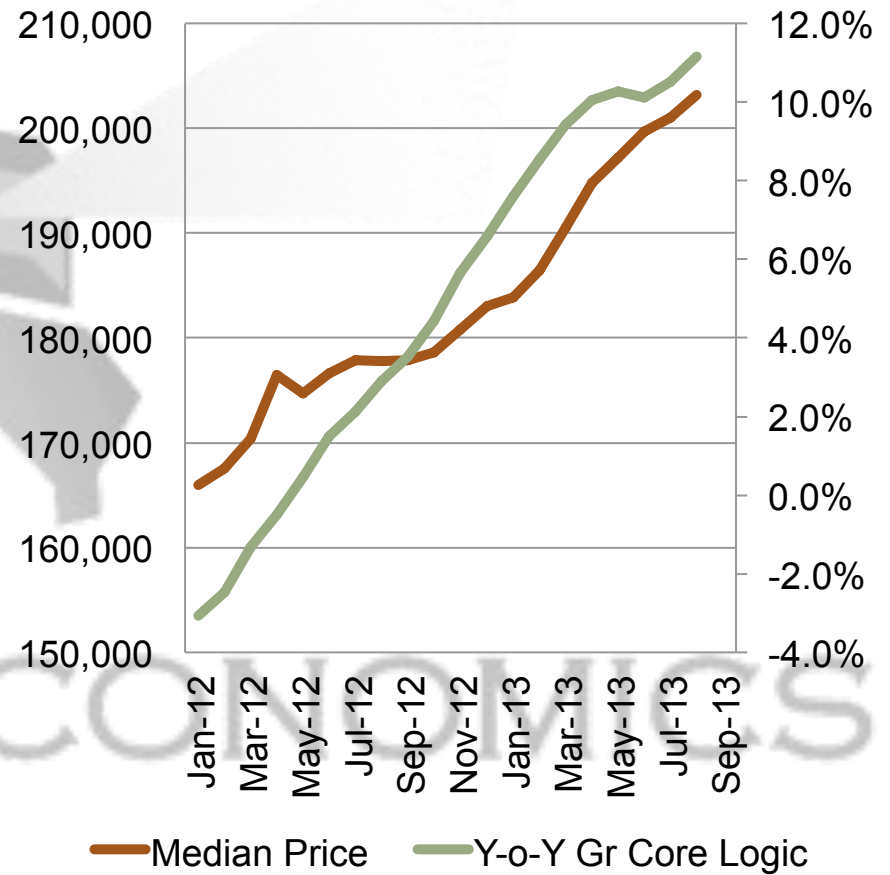


# Housing Markets

## Home Sales

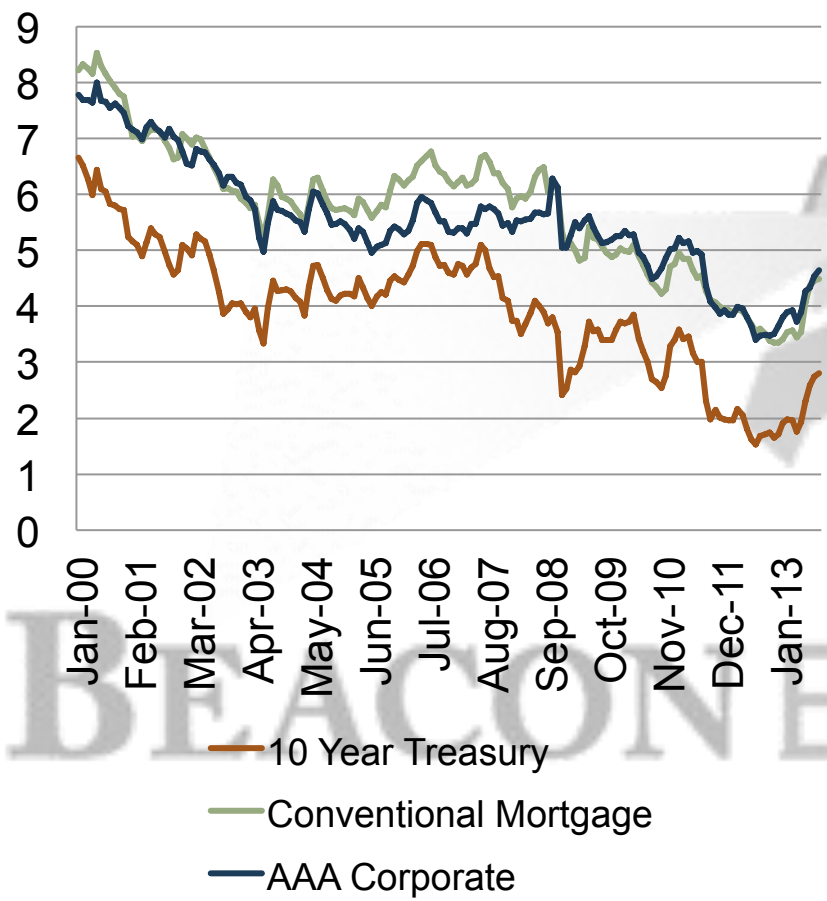


## Home Prices

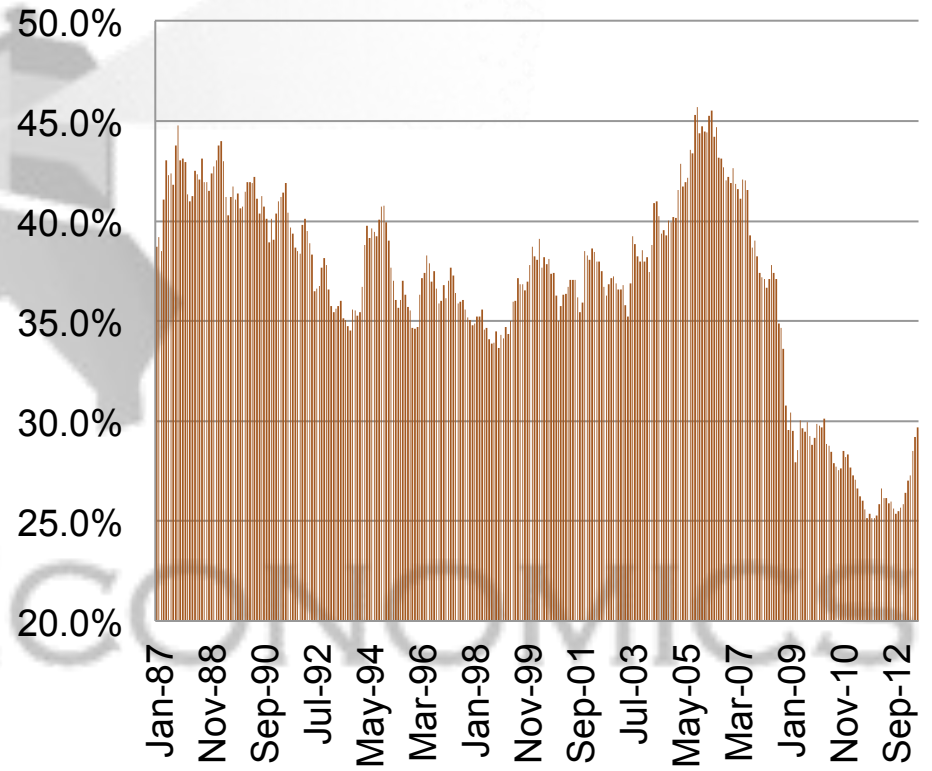


# Interest Rates and Affordability

## Annual Interest Rates



## Estimate Monthly Payments as Share Median income with Tax Adjustment

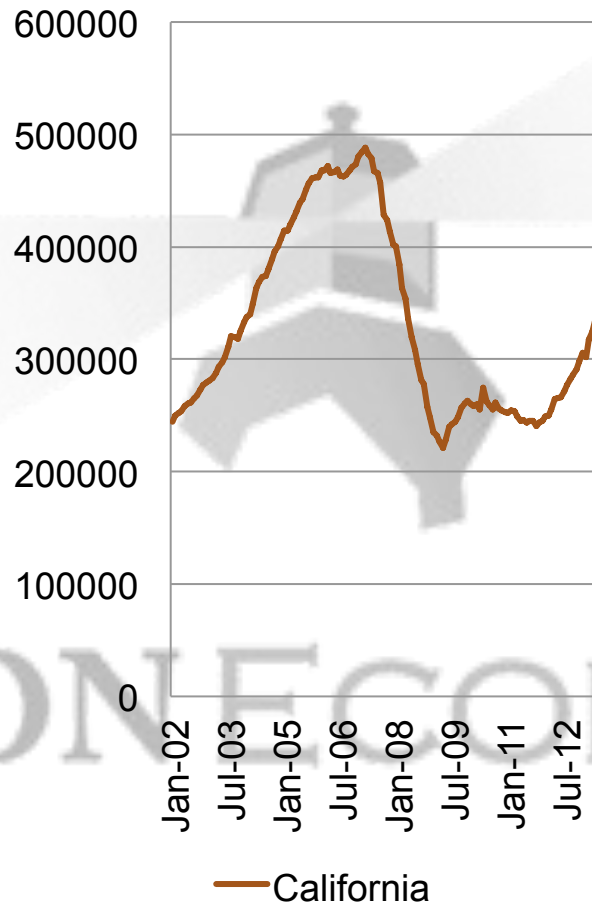


# Residential: Regional Take

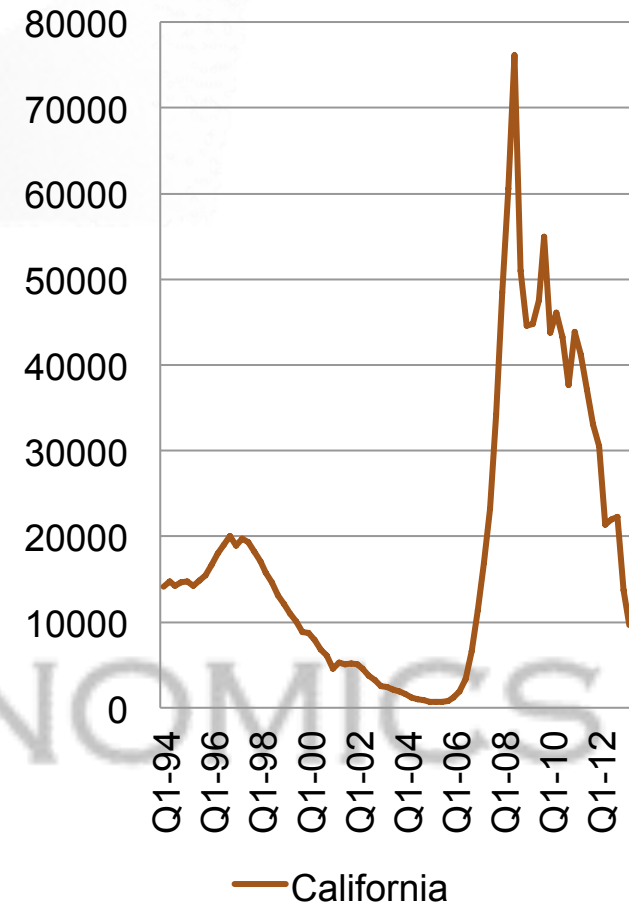
## Case Shiller: Aug-Aug

|                  | Y-o-Y |
|------------------|-------|
| NY-New York      | 3.4%  |
| DC-Washington    | 5.9%  |
| MA-Boston        | 6.2%  |
| IL-Chicago       | 7.6%  |
| TX-Dallas        | 8.5%  |
| MN-Minneapolis   | 9.4%  |
| CO-Denver        | 9.7%  |
| OR-Portland      | 12.2% |
| WA-Seattle       | 12.4% |
| FL-Tampa         | 12.5% |
| FL-Miami         | 13.7% |
| MI-Detroit       | 16.8% |
| GA-Atlanta       | 18.4% |
| AZ-Phoenix       | 18.9% |
| CA-San Diego     | 20.4% |
| CA-Los Angeles   | 20.8% |
| CA-San Francisco | 24.8% |
| NV-Las Vegas     | 27.5% |

## State Median Prices



## Foreclosures

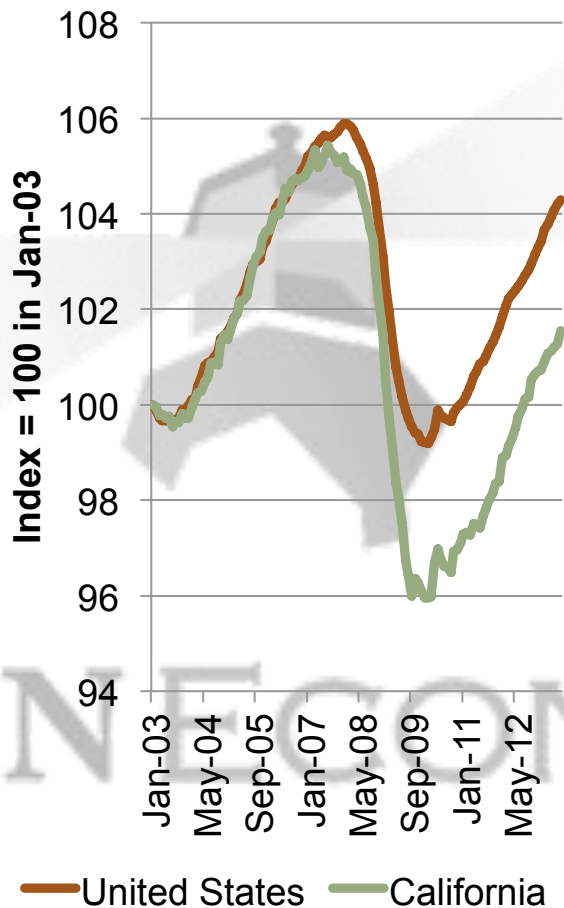


# Where are those jobs?

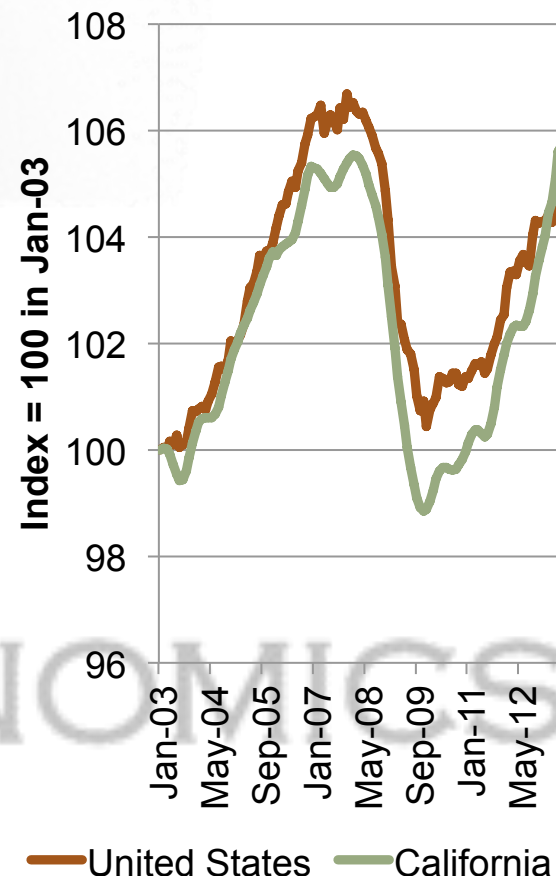
## Change in Payroll Jobs

|    |                |       |
|----|----------------|-------|
| 1  | Idaho          | 2.98% |
| 2  | Texas          | 2.79% |
| 3  | Colorado       | 2.71% |
| 4  | North Dakota   | 2.62% |
| 5  | Mississippi    | 2.52% |
| 6  | Utah           | 2.25% |
| 7  | Montana        | 2.00% |
| 8  | Washington     | 2.00% |
| 9  | Nevada         | 1.96% |
| 10 | Arizona        | 1.96% |
| 11 | New Jersey     | 1.92% |
| 12 | Georgia        | 1.90% |
| 13 | California     | 1.76% |
| 14 | Florida        | 1.72% |
| 15 | South Carolina | 1.70% |
| 16 | Minnesota      | 1.69% |
| 17 | Missouri       | 1.69% |
| 18 | Oregon         | 1.67% |

## Payroll Employment

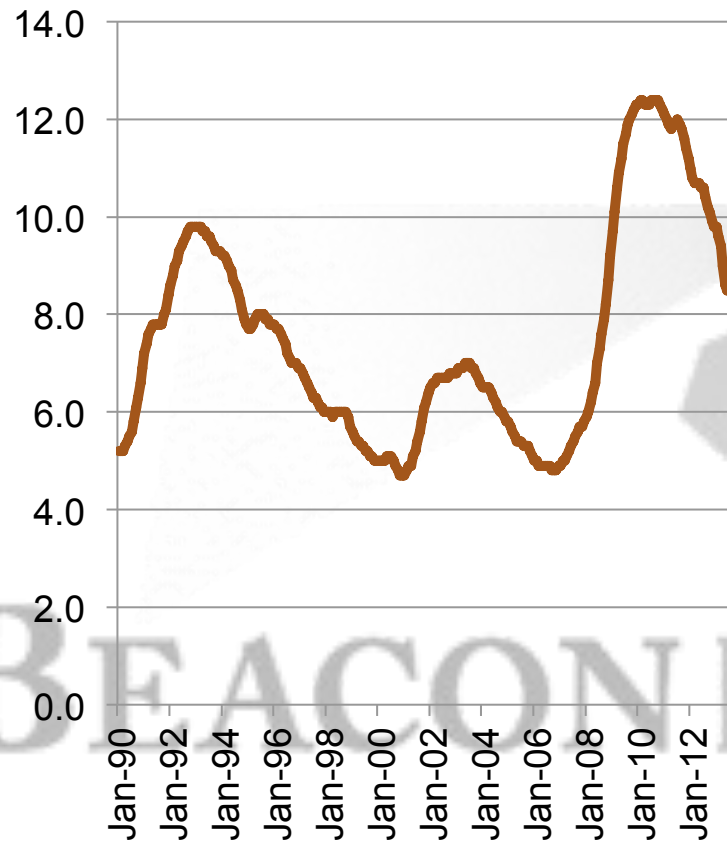


## Household Employment



# Unemployment

**State Unemployment**



|                 |
|-----------------|
| Orange County   |
| Solano          |
| Los Angeles     |
| Inland Empire   |
| East Bay        |
| Bakersfield     |
| San Diego       |
| Napa            |
| San Francisco   |
| San Luis Obispo |
| Visalia MSA     |
| Fresno          |
| Sacramento      |
| Monterey        |
| Ventura MSA     |
| Sonoma          |
| Santa Barbara   |
| San Jose        |

UnEm Ch 06-13

|      |     |
|------|-----|
| 10.1 | 5.4 |
| 13.6 | 5.3 |
| 10.0 | 5.0 |
| 12.6 | 4.6 |
| 11.5 | 4.2 |
| 8.9  | 4.0 |
| 8.4  | 3.7 |
| 8.1  | 3.3 |
| 7.2  | 3.2 |
| 7.3  | 3.0 |
| 9.5  | 2.8 |
| 7.1  | 2.8 |
| 5.9  | 2.5 |
| 6.4  | 2.5 |
| 6.4  | 2.5 |
| 6.5  | 2.4 |
| 6.6  | 2.1 |
| 5.3  | 1.4 |

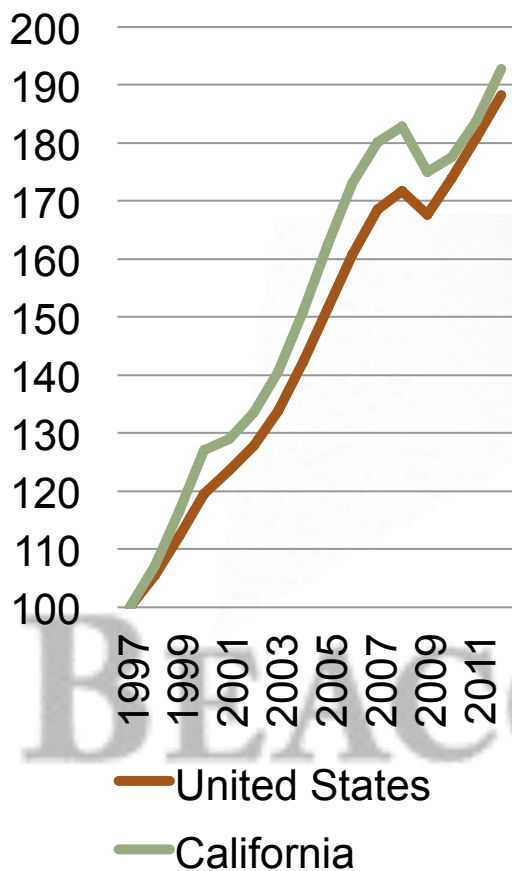
# Regional Growth





# Real GSP Growth

## Index 1997 = 100



## GDP Growth by State (2012) (%)

| Rank | State      | Growth |
|------|------------|--------|
| -    | USA        | 2.46   |
| 1    | N Dakota   | 13.38  |
| 2    | Texas      | 4.82   |
| 3    | Oregon     | 3.95   |
| 4    | Washington | 3.63   |
| 5    | Minnesota  | 3.55   |
| 6    | California | 3.47   |
| 7    | Utah       | 3.42   |
| 8    | Indiana    | 3.30   |
| 9    | Tennessee  | 3.28   |
| 10   | W Virginia | 3.27   |
| 11   | N Carolina | 2.68   |
| 12   | S Carolina | 2.68   |
| 13   | Arizona    | 2.60   |
| 14   | Florida    | 2.43   |
| 15   | Maryland   | 2.43   |
| 26   | Illinois   | 1.91   |

## Structure California Economy

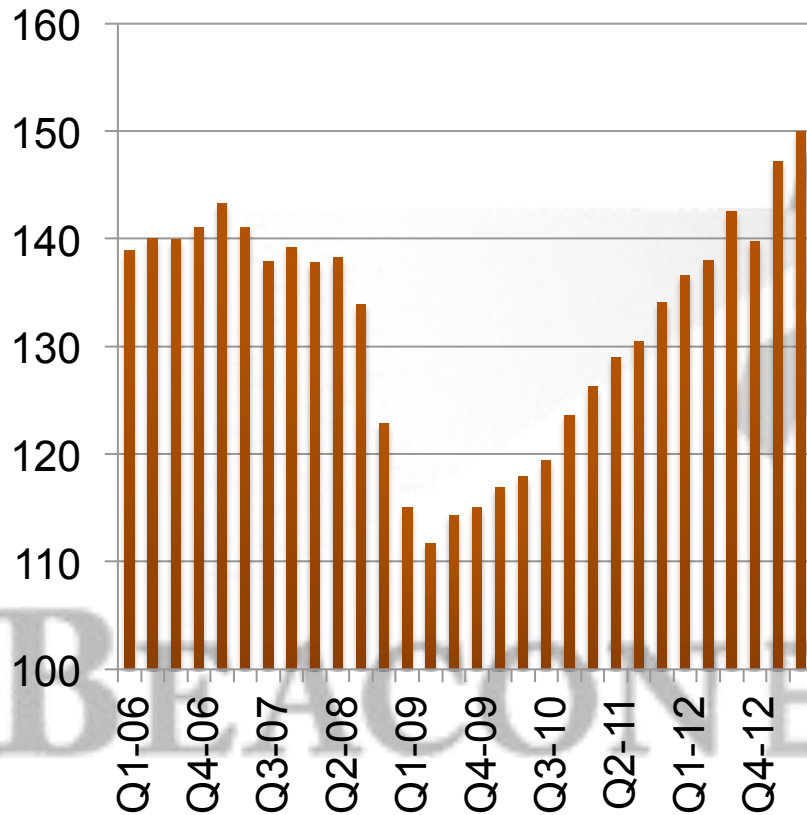
|                       | Share | Growth | Cont    |
|-----------------------|-------|--------|---------|
| All industry total    |       | 3.5%   |         |
| Manufacturing         | 11.6% | 8.0%   | 0.895%  |
| Information           | 8.3%  | 8.3%   | 0.656%  |
| Retail trade          | 6.6%  | 5.5%   | 0.360%  |
| Real estate           | 16.1% | 2.1%   | 0.349%  |
| Finance insurance     | 5.6%  | 6.2%   | 0.342%  |
| Wholesale trade       | 5.4%  | 4.8%   | 0.255%  |
| Professional, science | 9.3%  | 1.8%   | 0.172%  |
| Construction          | 2.9%  | 6.0%   | 0.172%  |
| Administrative        | 3.2%  | 5.4%   | 0.169%  |
| Accommodation         | 2.7%  | 4.8%   | 0.128%  |
| Mining                | 1.0%  | 10.2%  | 0.099%  |
| Utilities             | 1.5%  | 6.0%   | 0.086%  |
| Transportation        | 2.4%  | 1.8%   | 0.044%  |
| Health care           | 6.2%  | 0.5%   | 0.032%  |
| Education             | 0.9%  | 2.4%   | 0.021%  |
| Arts, entertainment   | 1.4%  | 1.5%   | 0.020%  |
| Other services        | 2.2%  | 0.3%   | 0.007%  |
| Management            | 1.2%  | 0.2%   | 0.003%  |
| Agriculture           | 1.2%  | -4.7%  | -0.063% |
| Government            | 10.3% | -1.0%  | -0.106% |

# Where / what are those jobs?

|                    | Aug-13  |       |       |                 | Aug-13  |      |
|--------------------|---------|-------|-------|-----------------|---------|------|
| Total Nonfarm      | 14671.8 | 1.5%  | 223.9 | California      | 14671.8 | 1.5% |
| Construction       | 616.5   | 5.0%  | 29.1  |                 |         |      |
| Natural Resources  | 29.3    | -3.3% | -1    | Napa            | 65.6    | 4.0% |
| Durable Manu       | 782.1   | -0.1% | -1.1  | San Jose        | 936.2   | 2.9% |
| Non-Durable Manu   | 471.2   | 0.0%  | -0.1  | San Luis Obispo | 105.3   | 2.8% |
| Wholesale Trade    | 700.4   | 3.1%  | 21.2  | Santa Barbara   | 173.2   | 2.4% |
| Retail Trade       | 1566.3  | 0.2%  | 2.8   | Solano          | 122.2   | 2.3% |
| Logistics          | 499.6   | 2.3%  | 11.4  | Orange County   | 1434.7  | 2.2% |
| Information        | 432.3   | -0.4% | -1.8  | San Francisco   | 1024.7  | 2.1% |
| Finance            | 533.5   | 1.5%  | 7.9   | Ventura MSA     | 284.6   | 1.8% |
| Real Estate        | 259.6   | 2.6%  | 6.7   | Fresno          | 287.1   | 1.7% |
| Prof Sci Tech      | 1141.9  | 2.0%  | 22.5  | Bakersfield     | 247     | 1.7% |
| Management         | 207.8   | 3.1%  | 6.2   | Los Angeles     | 3947.1  | 1.7% |
| Admin Support      | 961.2   | 3.0%  | 27.8  | Visalia MSA     | 110.1   | 1.4% |
| Education          | 352.3   | 2.9%  | 10    | Monterey        | 123.3   | 1.1% |
| Health Care        | 1574.7  | 1.7%  | 26.4  | San Diego       | 1278.4  | 1.1% |
| Accommodation      | 1406.1  | 4.0%  | 54.7  | Sonoma          | 174.8   | 0.9% |
| Arts Entertainment | 271     | 4.4%  | 11.5  | East Bay        | 990.8   | 0.8% |
| Other Services     | 510.4   | 0.5%  | 2.7   | Inland Empire   | 1162.7  | 0.6% |
| Federal Gov        | 243.4   | -2.1% | -5.2  | Sacramento      | 827.6   | 0.2% |
| State Gov          | 478.4   | 0.0%  | 0.2   |                 |         |      |
| Local Gov          | 1634.2  | -0.5% | -7.4  |                 |         |      |

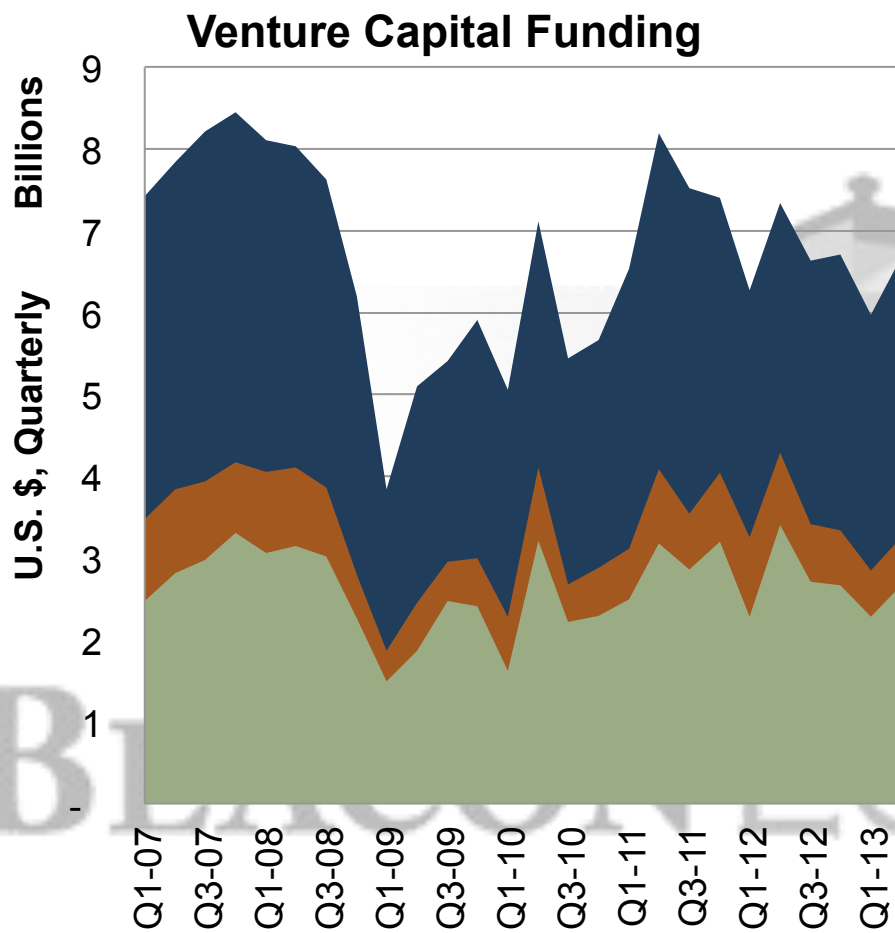
# Spending

## Taxable Sales



|                 | Q2-13      | Y-o-Y Gr |
|-----------------|------------|----------|
| Los Angeles     | 35514153.2 | 5.7%     |
| Orange County   | 14373082.4 | 5.1%     |
| Riverside       | 7495948    | 7.5%     |
| San Diego       | 12371533.1 | 4.4%     |
| Alameda         | 6771873.1  | 7.4%     |
| Santa Clara     | 9383569.1  | 5.3%     |
| San Bernardino  | 7692308.6  | 5.4%     |
| Sacramento      | 4969777.1  | 4.3%     |
| Fresno          | 3146743.2  | 6.7%     |
| Placer          | 1932337.7  | 10.4%    |
| Sonoma          | 1989531.3  | 9.1%     |
| San Luis Obispo | 1295664.9  | 11.7%    |
| San Francisco   | 4127592.1  | 3.6%     |
| Solano          | 1628350.5  | 7.1%     |
| Yolo            | 958991.6   | 11.8%    |
| San Mateo       | 3569110.6  | 2.9%     |

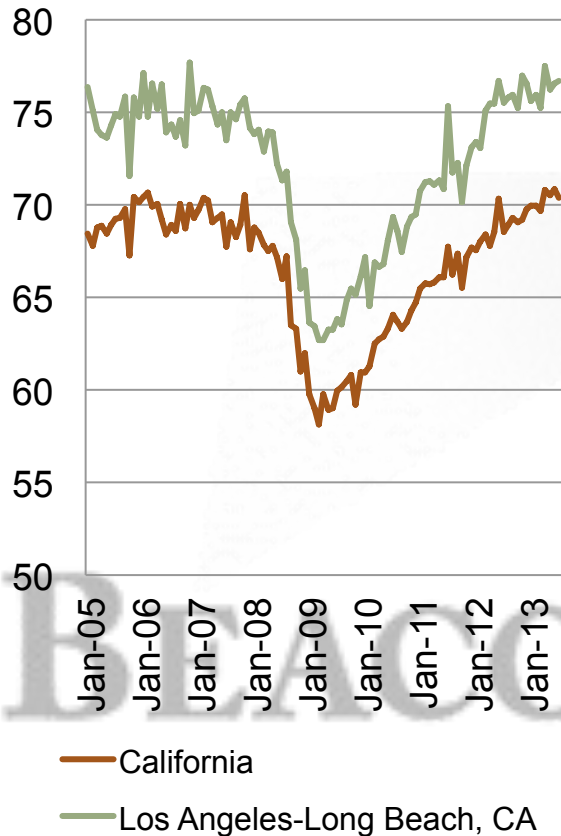
# Center of R&D World



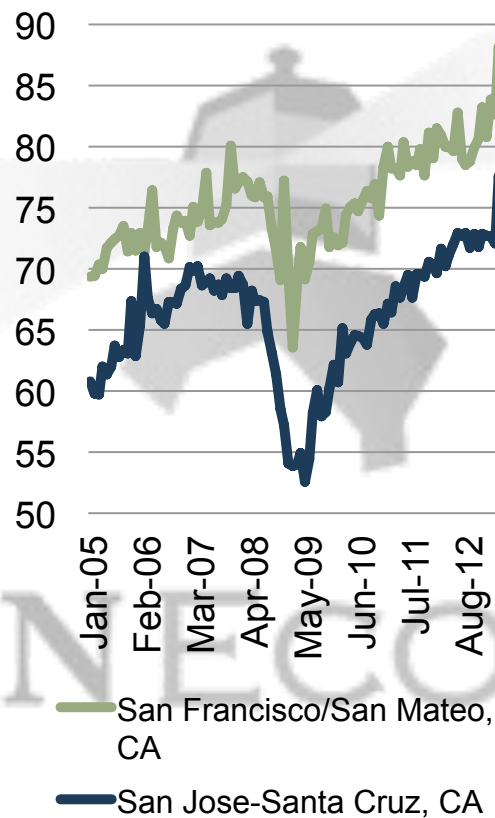
| Industry                    | Q2-13<br>(000s) | YoY<br>Change |
|-----------------------------|-----------------|---------------|
| Total                       | \$2,664.8       | -21.8%        |
| Software                    | \$1,054.6       | -10.6%        |
| Biotechnology               | \$345.7         | 94.3%         |
| IT Services                 | \$288.0         | 37.8%         |
| Media and Ent.              | \$272.4         | -38.5%        |
| Med. Devices and Equip.     | \$158.6         | -48.7%        |
| Industrial Energy           | \$154.9         | -64.0%        |
| Consumer Products and Srvs. | \$112.9         | 267.0%        |
| Networking and Equip.       | \$84.4          | 100.6%        |
| Semiconductors              | \$59.3          | -73.2%        |
| Telecommunications          | \$44.0          | -73.3%        |
| Retailing and Dist.         | \$43.5          | -48.2%        |
| Healthcare Services         | \$18.0          | 157.1%        |
| Comps. and Peripherals      | \$13.5          | -32.3%        |
| Financial Services          | \$9.2           | -86.5%        |
| Other                       | \$5.7           | -9.1%         |
| Business Products and Srvs. | \$0.1           | *             |
| Electronics Instr.          | \$0.0           | -100.0%       |

# Hotels: Busy

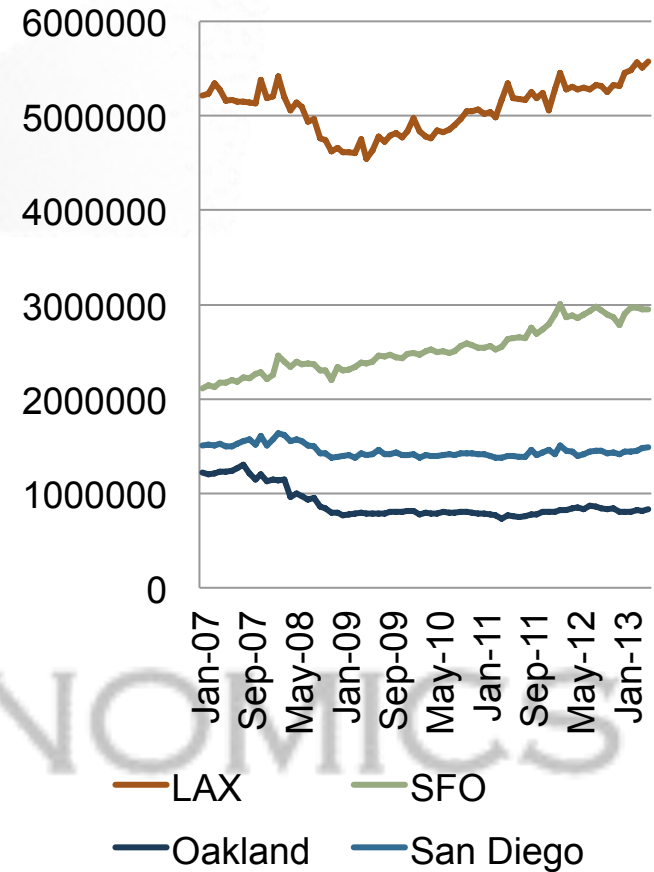
## Hotel Occupancy Rates



## Hotel Occupancy Rate %



## Airport Traffic



# Revenues Up: Prop. 30 & Economy

## State Government Revenues - \$000s (Comparison to Actuals)

|                | Fiscal<br>2011-12 | Fiscal<br>2012-13  | Change<br>(%) | Fiscal<br>2013-14 YTD | YTD<br>Change (%) |
|----------------|-------------------|--------------------|---------------|-----------------------|-------------------|
| Pers. Inc. Tax | 50,699,022        | 67,314,600         | 32.8          | 12,680,261            | 11.6              |
| Corporate Tax  | 8,051,423         | 7,620,406          | -5.4          | 1,095,781             | 1.5               |
| Sales/Use Tax  | 19,438,408        | 20,073,343         | 3.3           | 5,349,742             | 17.3              |
| Other          | 5,285,031         | 5,070,023          | -4.1          | 1,058,436             | 1.5               |
| <b>Total</b>   | <b>83,473,884</b> | <b>100,078,372</b> | <b>19.9</b>   | <b>20,184,220</b>     | <b>11.9</b>       |

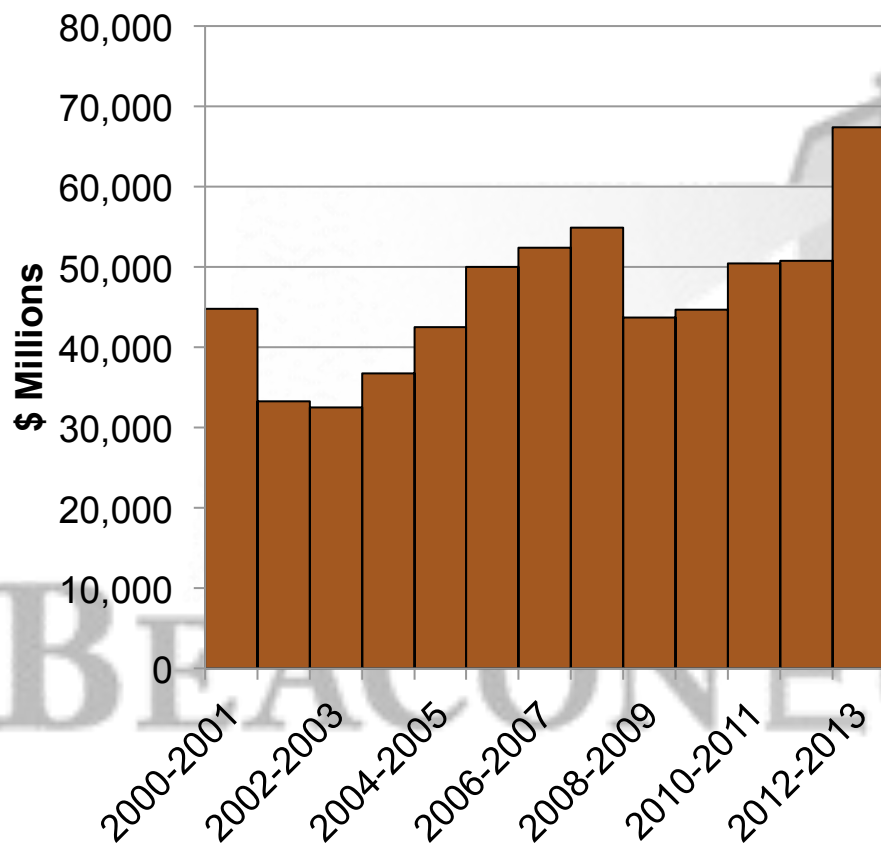
# Even Beating Expectations

## State Government Revenues - \$000s (Comparison to DOF Budget)

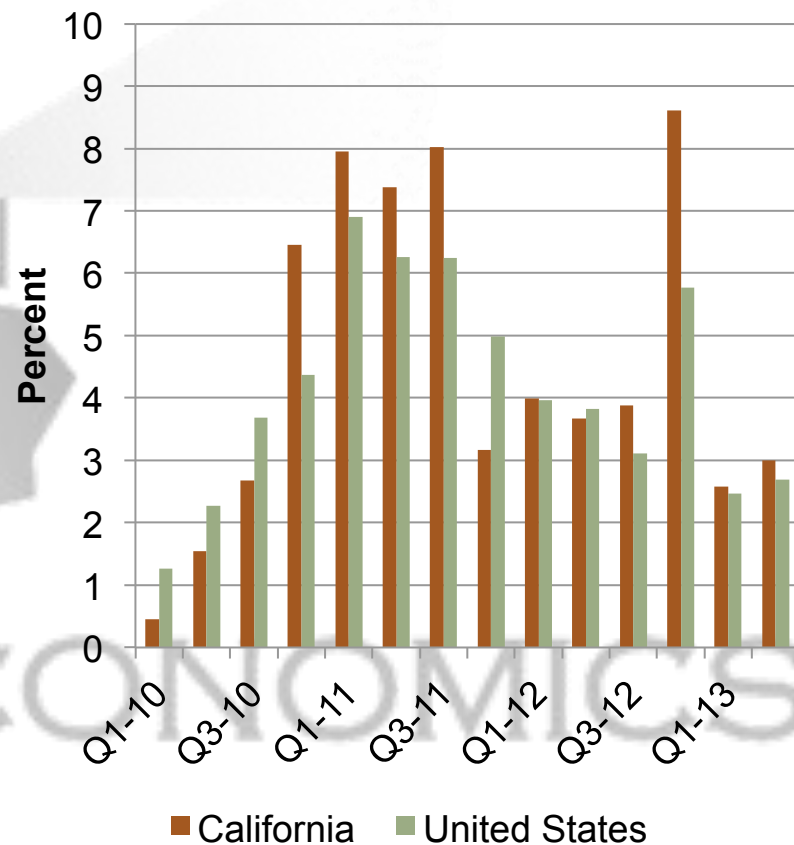
|                | 2012-13<br>Budget | 2012-13<br>Actuals | Diff. (%)  | 2013-14<br>Actuals | Difference<br>from<br>Budget (%) |
|----------------|-------------------|--------------------|------------|--------------------|----------------------------------|
| Pers. Inc. Tax | 66,073,435        | 67,314,600         | 1.9        | 12,680,261         | 1.0                              |
| Corporate Tax  | 7,224,338         | 7,620,406          | 5.5        | 1,095,781          | -3.8                             |
| Sales/Use Tax  | 19,985,405        | 20,073,343         | 0.4        | 5,349,742          | 2.1                              |
| Other          | 4,796,667         | 5,070,023          | 5.7        | 1,058,436          | -9.1                             |
| <b>Total</b>   | <b>98,079,845</b> | <b>100,078,372</b> | <b>2.0</b> | <b>20,184,220</b>  | <b>0.5</b>                       |

# PIT Up as Incomes Rise

## Personal Income Taxes



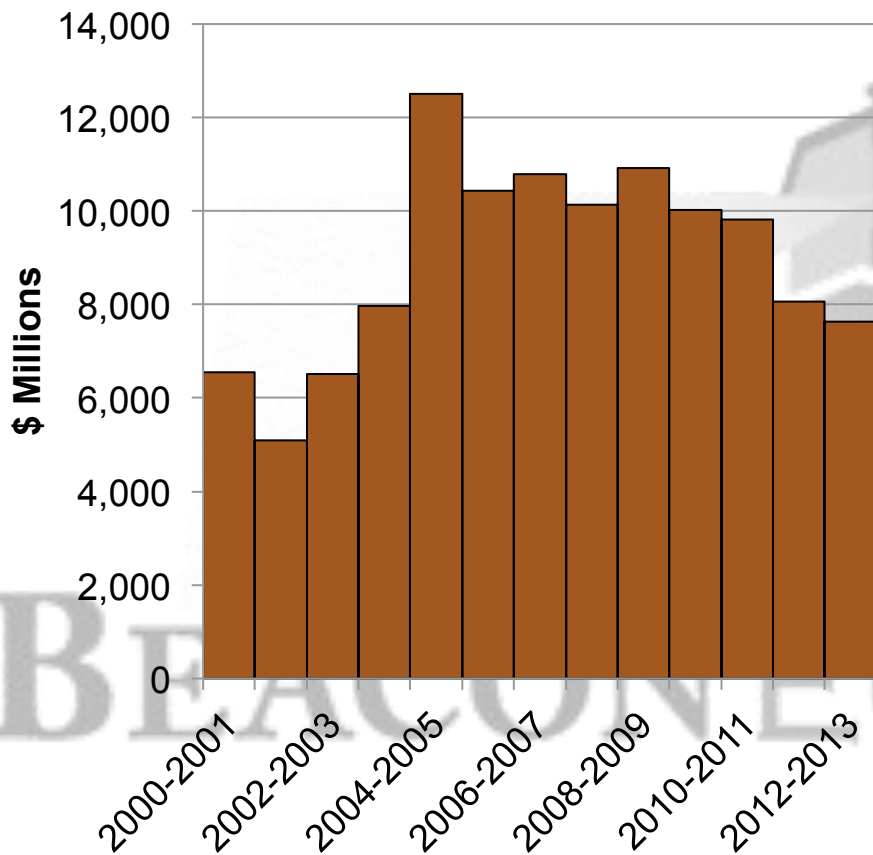
## Income Growth



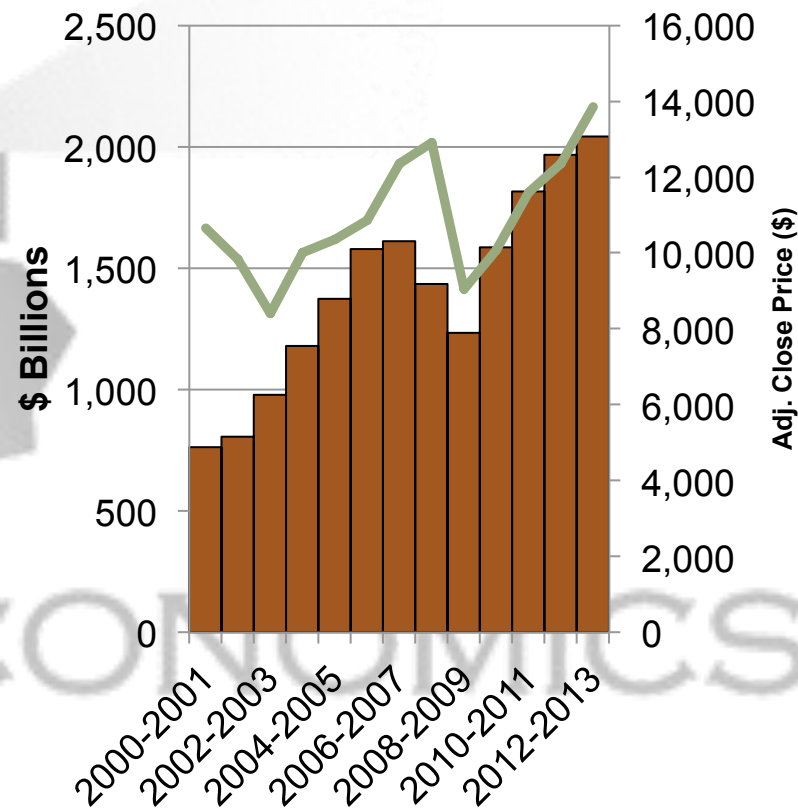


# CORP Lags Despite Better Profits

## Corporate Taxes



## U.S. Corporate Profits and Equity Market



# Judicial Funding Increases

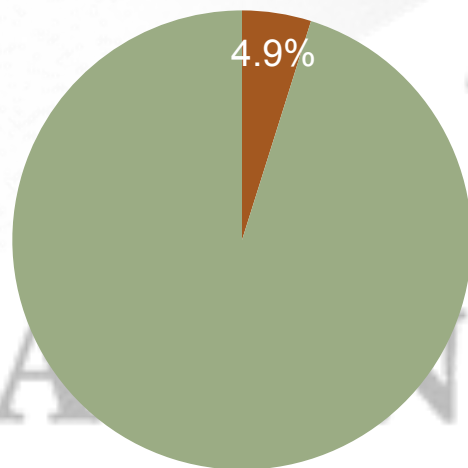
| Expenditure Item                           | 2012-13<br>Enacted | 2013-14<br>Enacted | Change<br>(%) |
|--|--------------------|--------------------|---------------|
| Judicial Branch                            | 3,929,728          | 3,975,565          | 1.2           |
| Commission on Judicial<br>Performance      | 4,133              | 4,198              | 1.6           |
| Judges' Retirement System<br>Contributions | 424,907            | 459,768            | 8.2           |

○ Augmentation of \$3 million General Fund for:

- Supreme Court
- Courts of Appeal
- Habeas Corpus Resource Center

○ \$60 million General Fund

- To support trial courts
- Inc. changes to promote efficiencies and reduce workload for trial courts



■ Judicial Branch   ■ Other Expenses

# What about Prop 30?

## What is good about Prop 30?

- A balanced budget, with money for education

## Why Prop 30 DOESN'T bother me

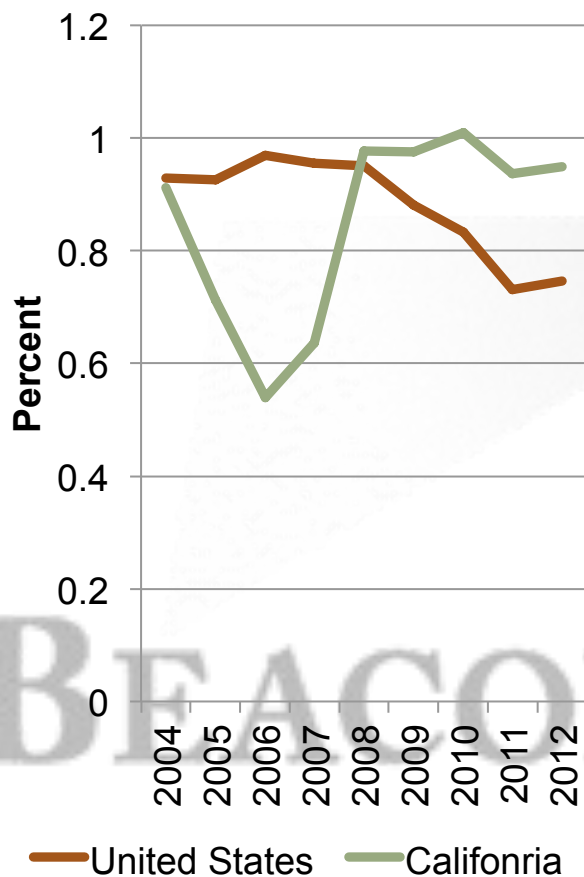
- Because we are a high tax state: We aren't
- Because rich people will move out of state: They would have already

## Why Prop 30 DOES bother me

- Because it makes us more reliant on a unreliable source of income:  
Surplus in 2 years? Oh no!
- We need real reform: fairer taxes on broader bases
- Because we voted it in without any true expenditure reforms: The pension system is broken and desperately needs fixing

# In the Long Term?

## Population Growth



## 2011 Taxes Fees Paid as share PI

|           |                     |              |
|-----------|---------------------|--------------|
| 1         | Alaska              | 36.4%        |
| 2         | Wyoming             | 22.2%        |
| 3         | New York            | 18.7%        |
| 4         | Delaware            | 18.1%        |
| 5         | North Dakota        | 17.8%        |
| 6         | West Virginia       | 17.0%        |
| 7         | New Mexico          | 16.5%        |
| 8         | South Carolina      | 16.4%        |
| 9         | Vermont             | 16.2%        |
| 10        | Hawaii              | 15.9%        |
| <b>11</b> | <b>California</b>   | <b>15.7%</b> |
| 12        | Mississippi         | 15.6%        |
| 13        | Wisconsin           | 15.6%        |
| 14        | Iowa                | 15.5%        |
| 15        | Maine               | 15.4%        |
| 16        | Minnesota           | 15.4%        |
| 17        | Rhode Island        | 15.3%        |
|           | United States Total | 14.7%        |

## 07-12 Net Domestic Migration by Income

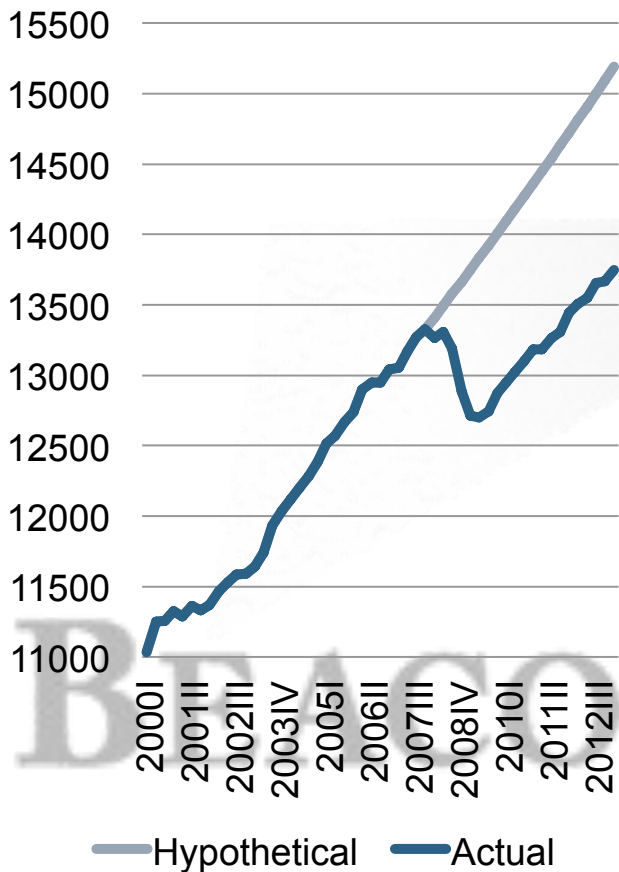
| Income                 | % Migration |
|------------------------|-------------|
| Under \$10,000         | -0.53       |
| \$10,000 to \$19,999   | -1.86       |
| \$20,000 to \$29,999   | -1.62       |
| \$30,000 to \$39,999   | -1.10       |
| \$40,000 to \$49,999   | -1.09       |
| \$50,000 to \$74,999   | 0.41        |
| \$75,000 to \$99,999   | 0.14        |
| \$100,000 to \$149,999 | 0.11        |
| \$150,000 to \$199,999 | -0.42       |
| \$200,000 to \$250,000 | 2.69        |
| Over \$250,000         | -0.07       |

# Growth Patterns

|               | 2010   | 2060 Est |                | 2012       | Ch 11-12 | NI      | NIM    | NDM       |
|---------------|--------|----------|----------------|------------|----------|---------|--------|-----------|
| State Total   | 37,309 | 52,694   | California     | 37,826,160 | 255,853  | 269,379 | 96,463 | (109,989) |
| So Cal        | 21,176 | 28,087   | Los Angeles    | 9,911,665  | 50,829   | 74,712  | 31,403 | (55,286)  |
| South CV      | 3,365  | 6,758    | San Diego      | 3,147,220  | 21,899   | 24,402  | 9,496  | (11,999)  |
| Bay Area      | 7,493  | 10,024   | Orange         | 3,071,933  | 24,813   | 20,970  | 8,805  | (4,962)   |
| North CV      | 2,744  | 4,373    | Riverside      | 2,244,399  | 23,897   | 16,797  | 3,433  | 3,667     |
| No Cal        | 1,158  | 1,701    | San Bernardino | 2,065,016  | 11,668   | 18,495  | 3,320  | (10,147)  |
| Central Coast | 1,373  | 1,751    | Santa Clara    | 1,828,597  | 21,716   | 14,525  | 8,640  | (1,449)   |
|               |        |          | Alameda        | 1,540,790  | 14,570   | 9,970   | 5,992  | (1,392)   |
|               | Diff   |          | Sacramento     | 1,439,874  | 8,990    | 9,772   | 2,916  | (3,698)   |
| State Total   | 15,384 |          | Contra Costa   | 1,069,803  | 8,428    | 5,226   | 2,337  | 865       |
|               |        |          | Fresno         | 946,823    | 7,545    | 9,931   | 1,258  | (3,644)   |
| So Cal        | 6,911  | 44.9%    | Kern           | 855,522    | 6,683    | 9,028   | 1,101  | (3,446)   |
| South CV      | 3,393  | 22.1%    | Ventura        | 834,109    | 3,894    | 5,554   | 1,389  | (3,049)   |
| Bay Area      | 2,531  | 16.5%    | San Francisco  | 820,349    | 7,226    | 3,194   | 4,265  | (233)     |
| North CV      | 1,629  | 10.6%    | San Mateo      | 736,362    | 8,382    | 4,377   | 2,315  | 1,690     |
| No Cal        | 543    | 3.5%     |                |            |          |         |        |           |
| Central Coast | 378    | 2.5%     |                |            |          |         |        |           |

# The Disappointing Recovery

## US GDP



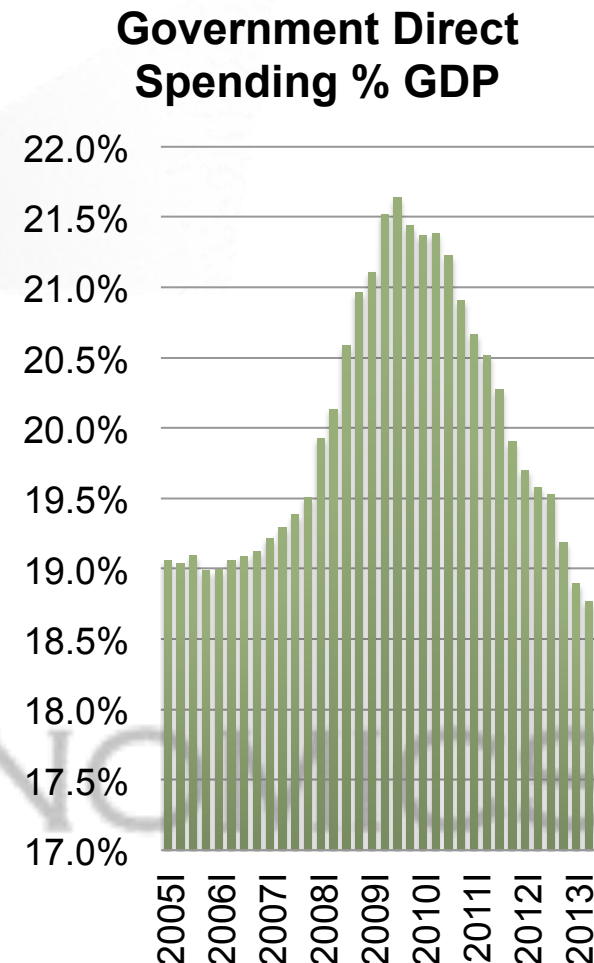
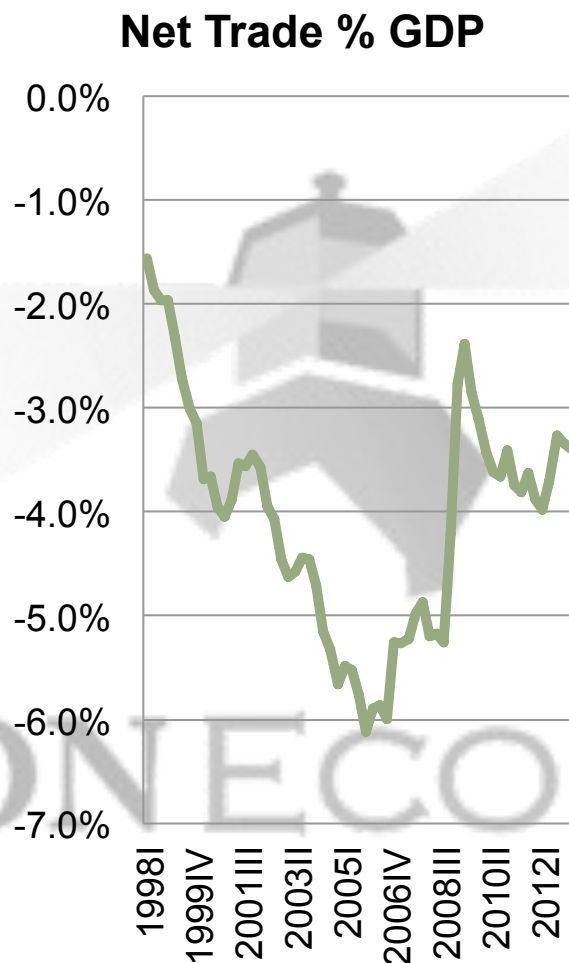
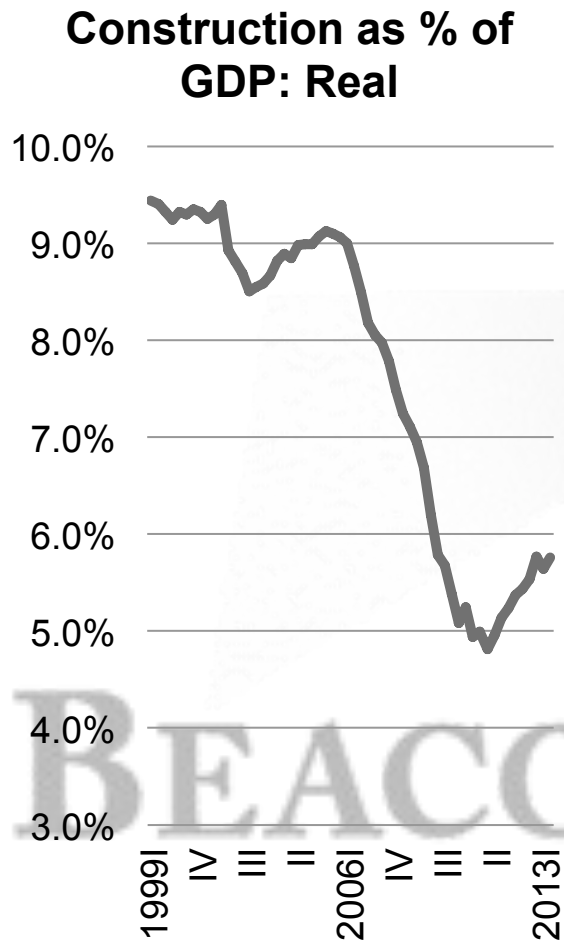
## Taxes as share income



## Consumer Spending as % GDP

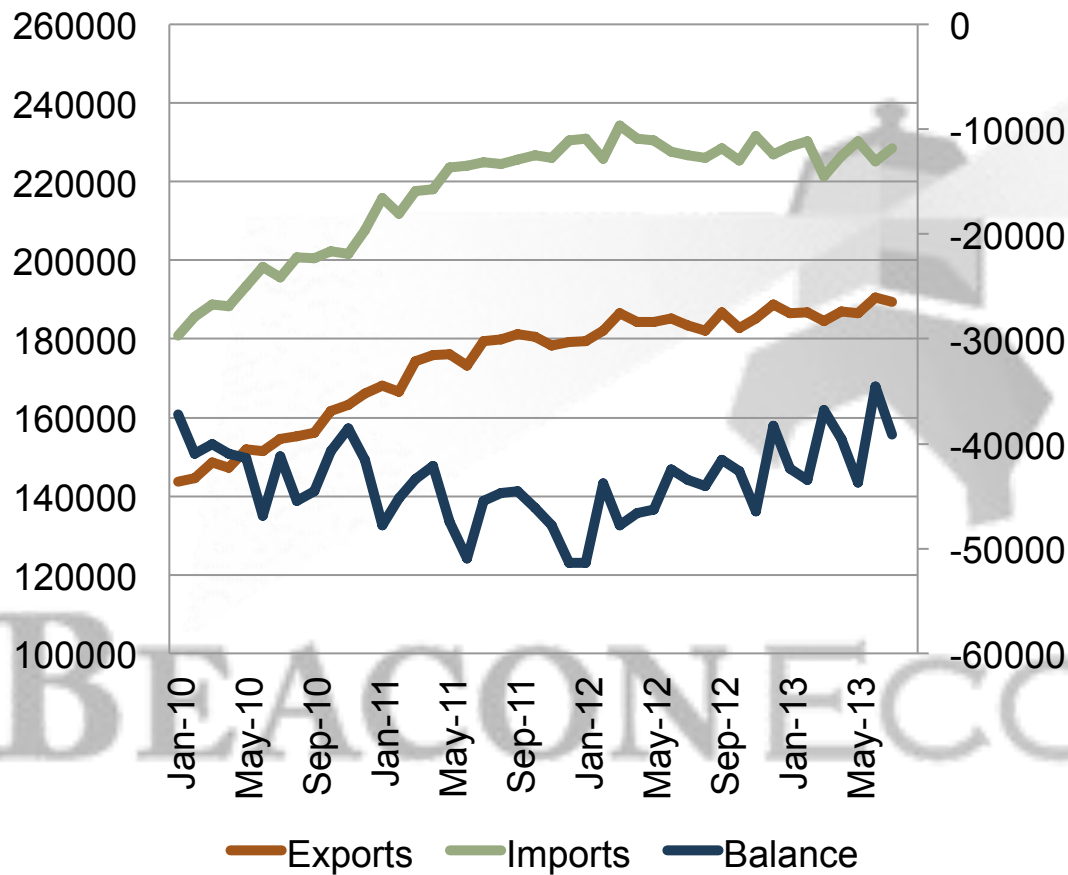


# What's wrong with the economy?

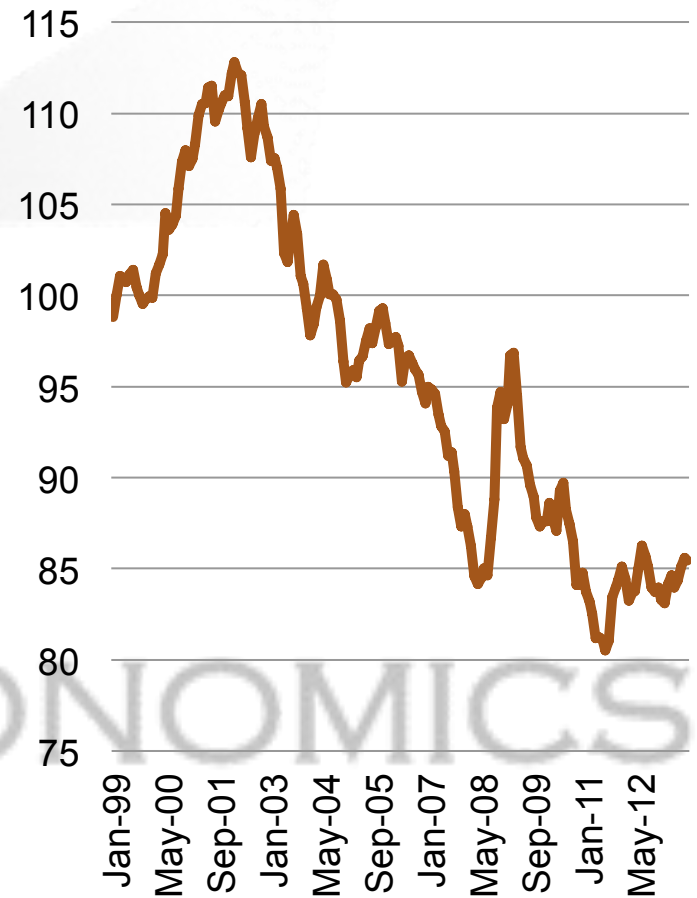


# Trade

## Nominal Trade to July



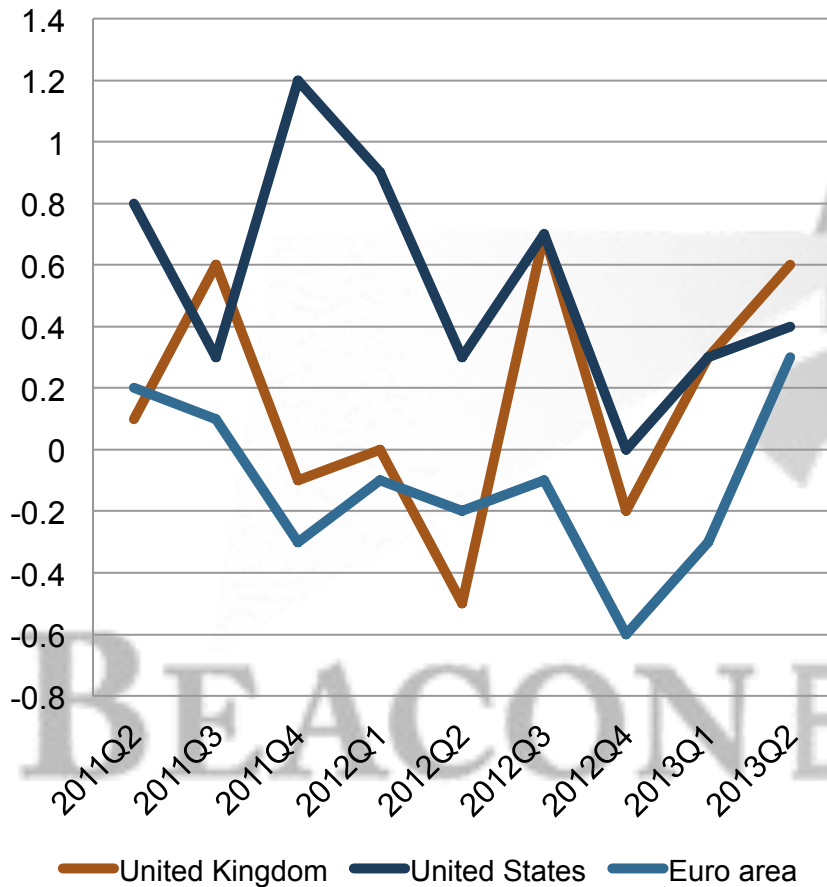
## \$US Broad Index Real



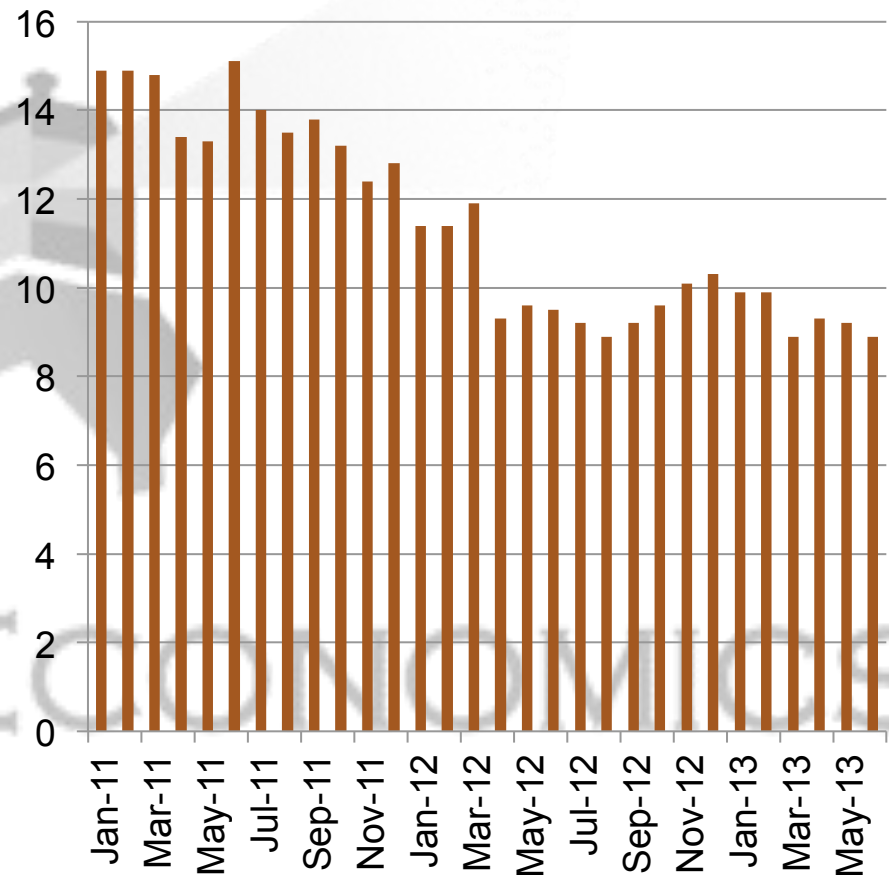


# The World? Turning a corner.. We hope.

### GDP Growth (SA)

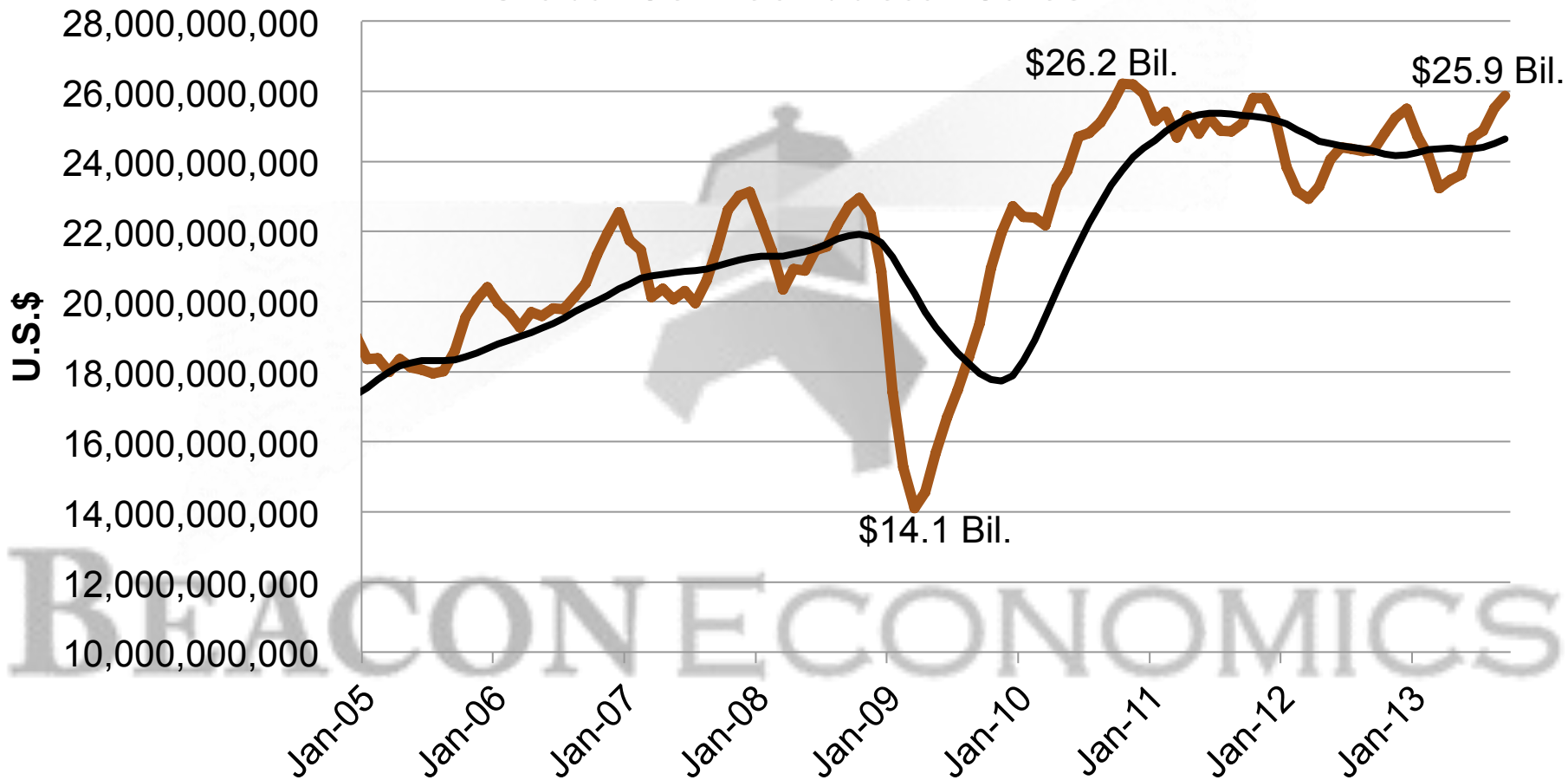


### China Industry Value Added: Y-o-Y Growth



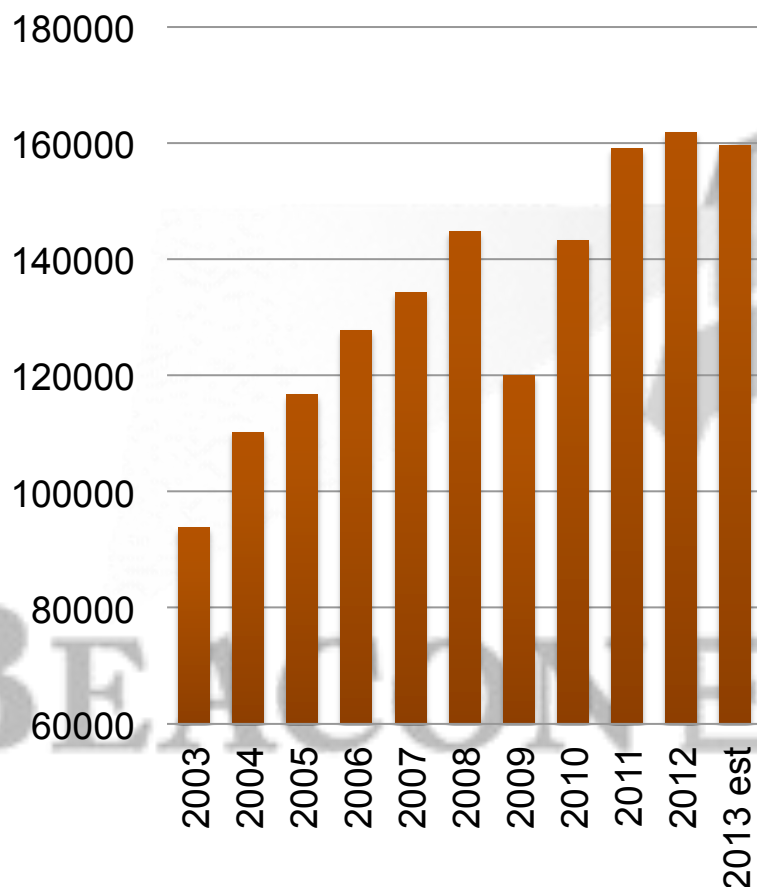
# Tech Industry: A Global Tick Up?

## Global Semiconductor Sales



# California Exports

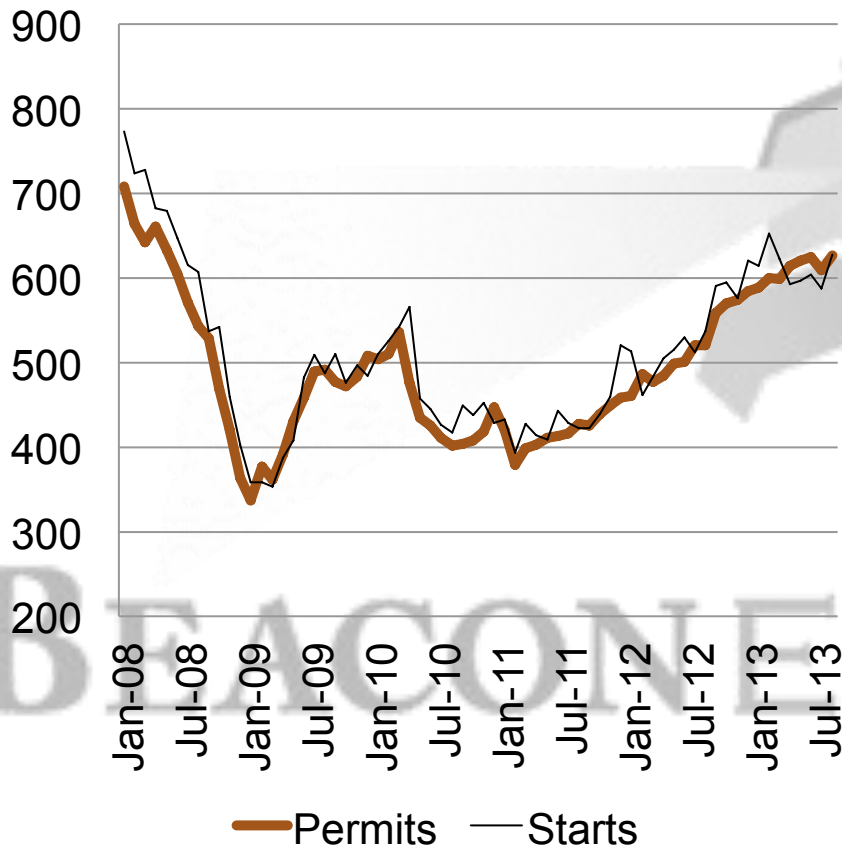
## State Produced Exports



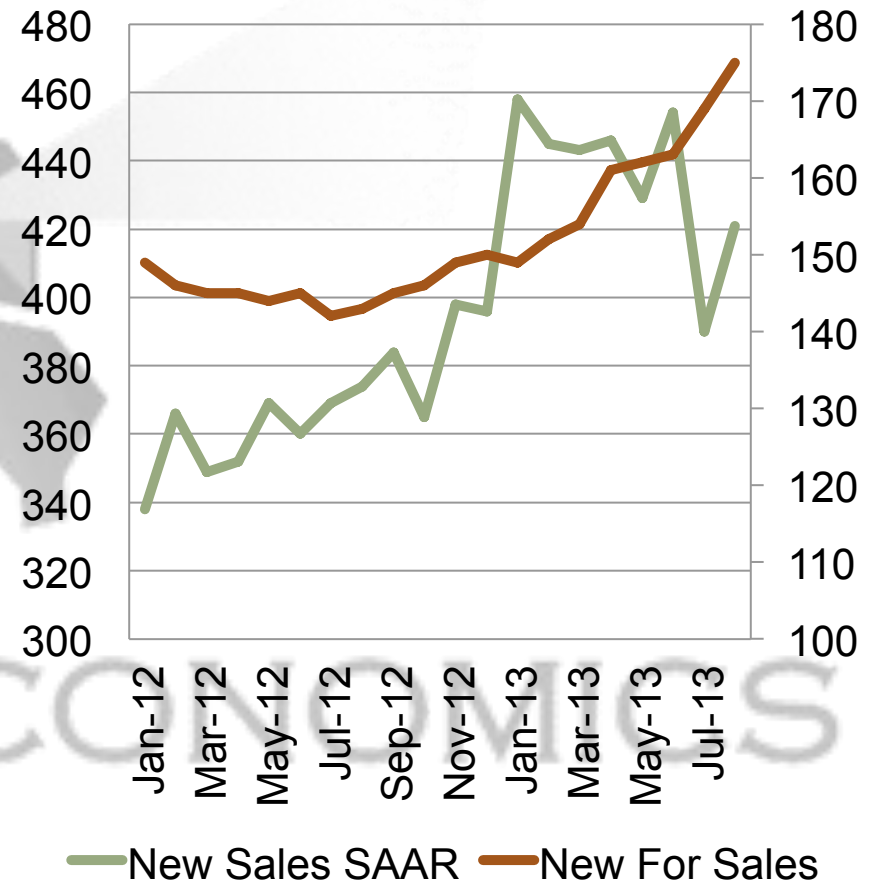
|                           | 2013 est | % Change |
|---------------------------|----------|----------|
| TOTAL                     | 159583   | -1.4%    |
| Electric Machinery Etc    | 28333    | 1.1%     |
| Industrial Computers      | 20473    | -22.0%   |
| Optic Photo Etc Medic     | 17620    | -0.4%    |
| Nat Etc Pearls Stones     | 8410     | 26.1%    |
| Aircraft                  | 9738     | 16.4%    |
| Edible Fruit & Nut        | 10010    | 9.0%     |
| Vehicles                  | 6043     | -16.8%   |
| Mineral Fuel Oil          | 5333     | -16.2%   |
| Pharmaceutical            | 5185     | 17.7%    |
| Plastics                  | 4299     | -0.3%    |
| Iron And Steel            | 2625     | -13.2%   |
| Chemical Products         | 2691     | 14.5%    |
| Dairy Prods               | 1640     | 12.3%    |
| Miscellaneous Edible      | 1787     | 10.9%    |
| Beverages Spirits         | 1842     | 8.2%     |
| Articles Of Iron Or Steel | 1646     | 9.0%     |
| Aluminum                  | 1567     | -3.0%    |
| Edible Vegetables         | 1401     | 4.7%     |
| Organic Chemicals         | 1462     | 47.8%    |
| Arms And Ammunition       | 1447     | 292.5%   |

# SF Housing Construction

## Single Family Starts / Permits

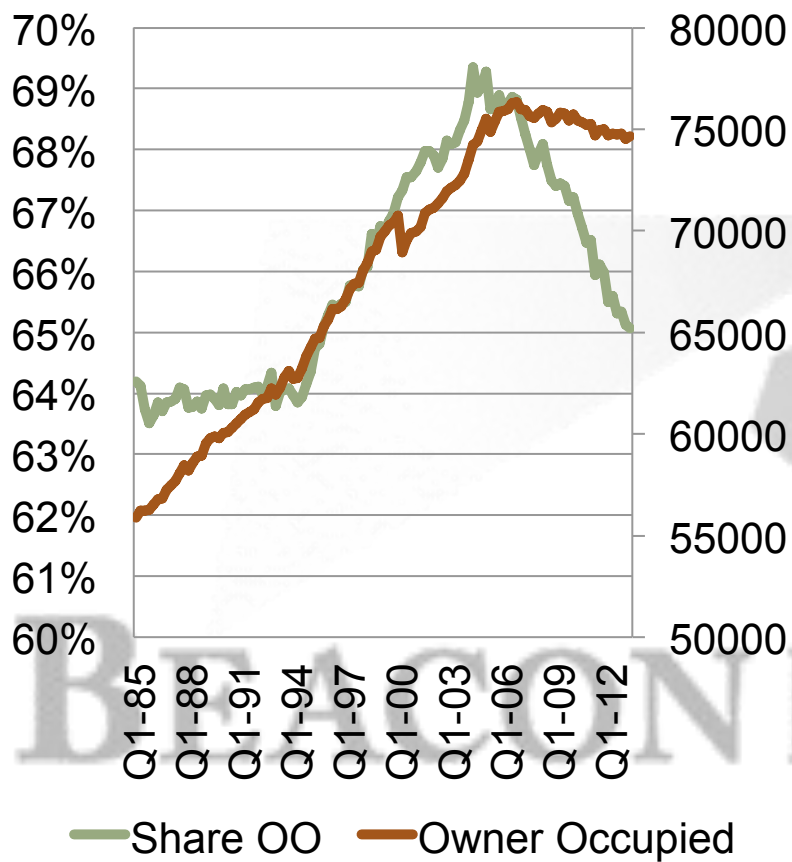


## New Home Sales



# Why? Ownership Rates Still Falling

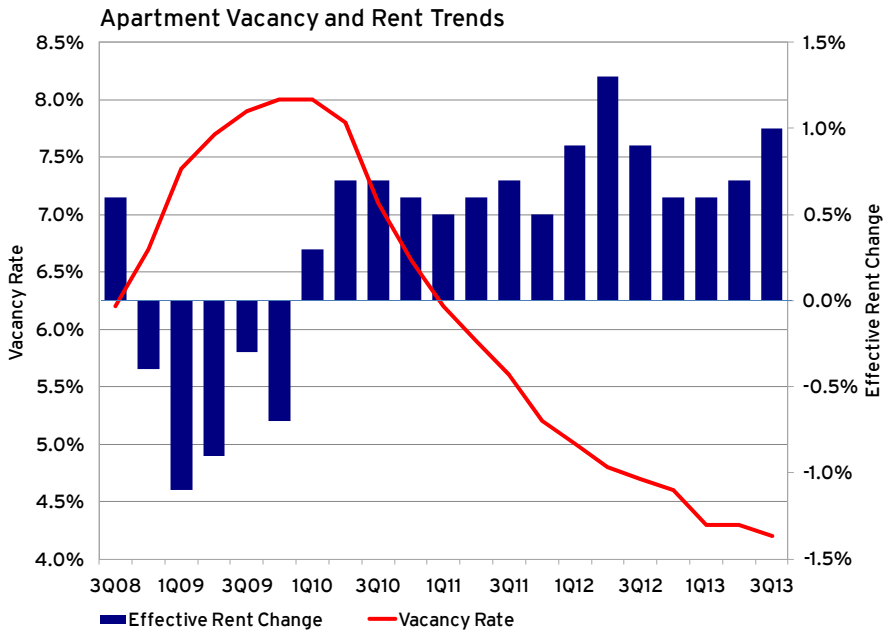
## Ownership HVS



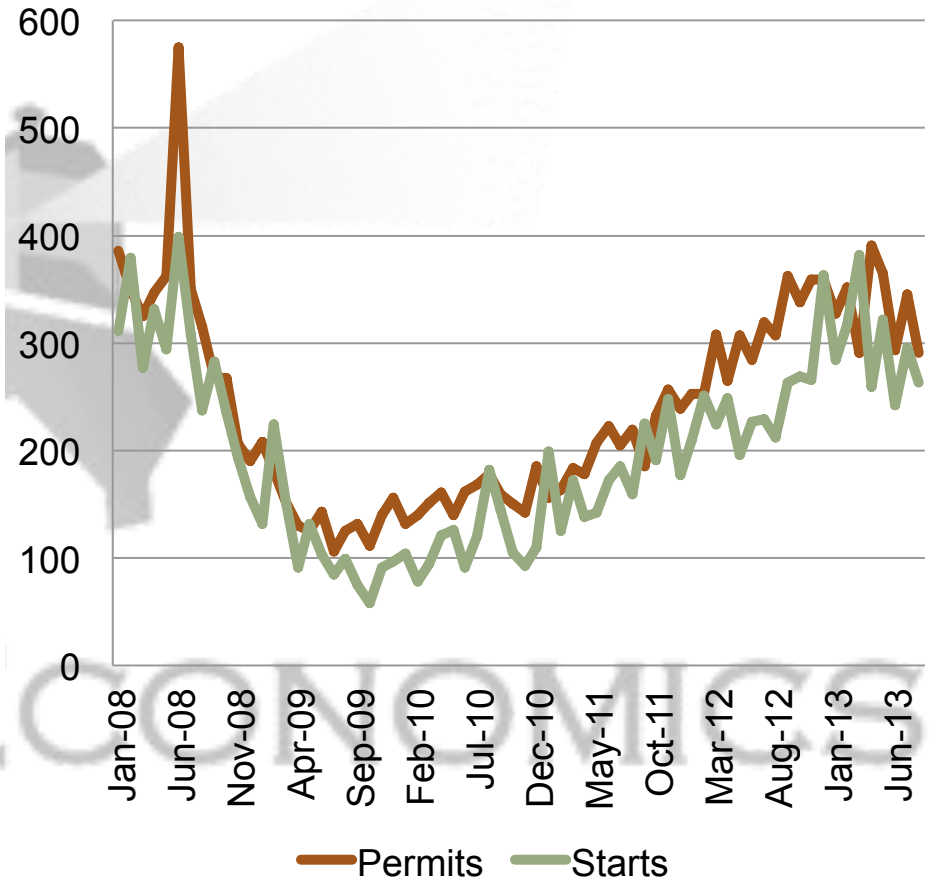
## Housing Tenure: March CPS

| Year | Total   | Multi-Family Owners | Multi-Family Renters | Single-Family Owners | Single-Family Renters | Owner % |
|------|---------|---------------------|----------------------|----------------------|-----------------------|---------|
| 2000 | 103,149 | 5,503               | 22,524               | <b>64,878</b>        | 10,244                | 68.2    |
| 2001 | 104,884 | 5,897               | 22,548               | <b>66,167</b>        | 10,271                | 68.7    |
| 2002 | 107,729 | 5,638               | 22,480               | <b>68,765</b>        | 10,846                | 69.1    |
| 2003 | 109,751 | 6,106               | 23,027               | <b>69,817</b>        | 10,801                | 69.2    |
| 2004 | 110,597 | 6,182               | 22,677               | <b>70,924</b>        | 10,814                | 69.7    |
| 2005 | 111,971 | 6,528               | 22,470               | <b>72,020</b>        | 10,953                | 70.2    |
| 2006 | 112,966 | 6,478               | 22,784               | <b>71,860</b>        | 11,844                | 69.3    |
| 2007 | 114,459 | 6,927               | 23,257               | <b>72,371</b>        | 11,904                | 69.3    |
| 2008 | 115,250 | 7,065               | 23,584               | <b>72,294</b>        | 12,306                | 68.9    |
| 2009 | 115,647 | 6,846               | 23,842               | <b>72,007</b>        | 12,953                | 68.2    |
| 2010 | 115,922 | 6,996               | 23,795               | <b>71,814</b>        | 13,317                | 68.0    |
| 2011 | 117,095 | 7,093               | 24,483               | <b>71,508</b>        | 14,012                | 67.1    |
| 2012 | 119,472 | 7,279               | 25,634               | <b>71,934</b>        | 14,625                | 66.3    |

# Apartment / Multi Family

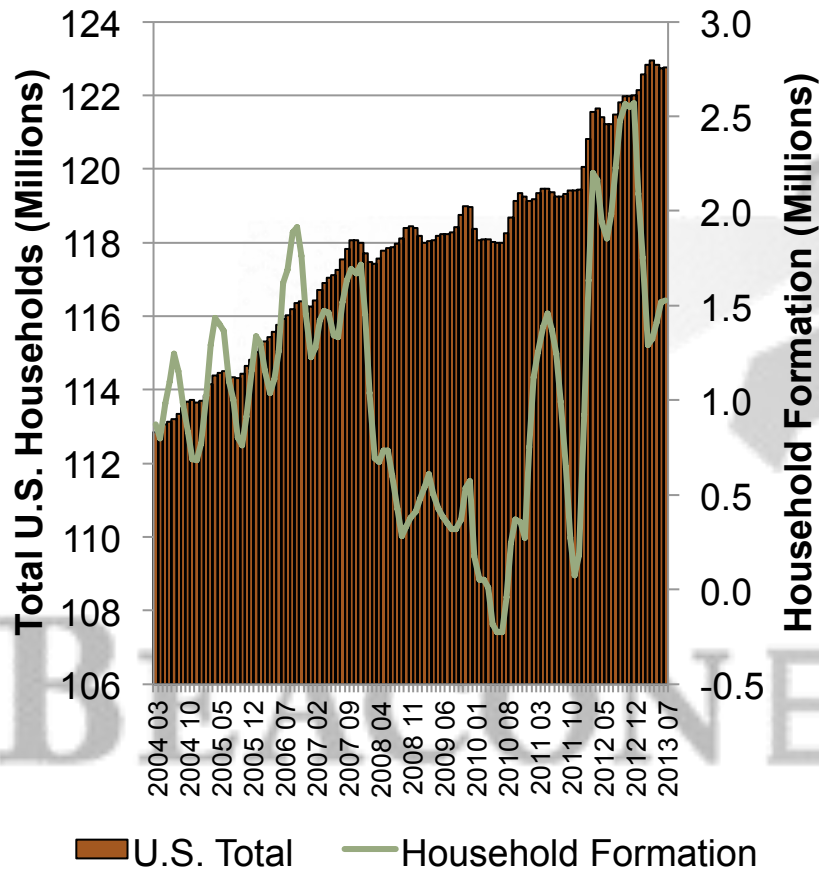


## Multi-Family Permits and Starts



# How many units do we need?

## U.S. Household Formation



|                           |           |
|---------------------------|-----------|
| Current Completions       | 770,000   |
| Excess Supply             | 809,000   |
| Current Pace HH Formation | 1,500,000 |
| Pent Up Demand (2012)     | 850,000   |

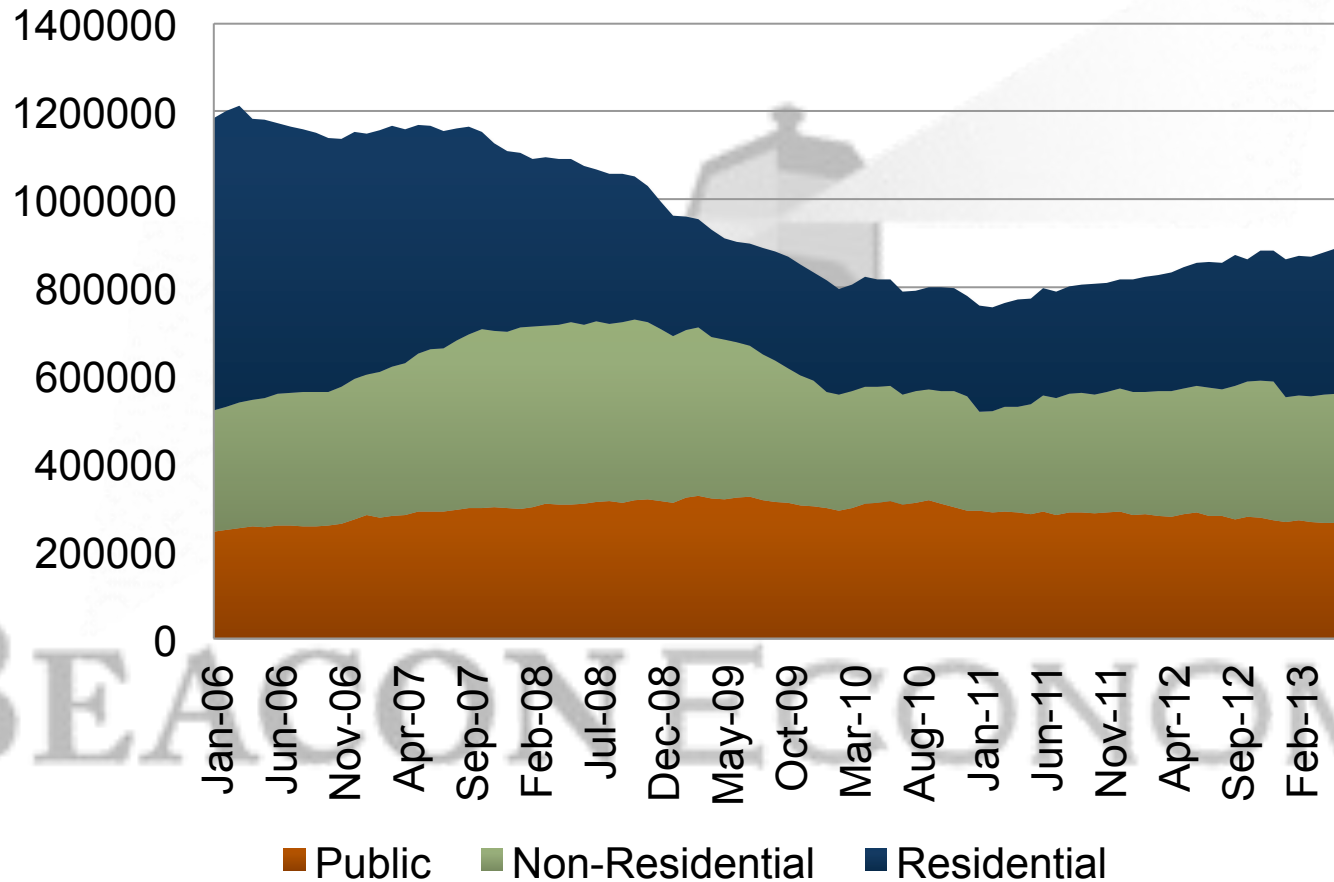
### Excess Supply from HVS

|                       | 2003    |      | 2013    |       |
|-----------------------|---------|------|---------|-------|
|                       | 2nd Qtr |      | 2nd Qtr |       |
| All housing units     | 121,233 |      | 132,754 |       |
| ...Year-round vacant. | 11,663  | 9.6% | 13,701  | 10.3% |
| ...For rent..         | 3,646   | 3.0% | 3,614   | 2.7%  |
| ...For sale only      | 1,256   | 1.0% | 1,460   | 1.1%  |
| ...Rented or sold     | 1,000   | 0.8% | 1,151   | 0.9%  |
| ...Held off market.   | 5,762   | 4.8% | 7,476   | 5.6%  |
| ...Occ'l use.         | 2,060   | 1.7% | 2,449   | 1.8%  |
| ...URE                | 935     | 0.8% | 1,255   | 0.9%  |
| ...Other              | 2,766   | 2.3% | 3,773   | 2.8%  |

Excess? 809.8

# Construction

## Construction Spending to June

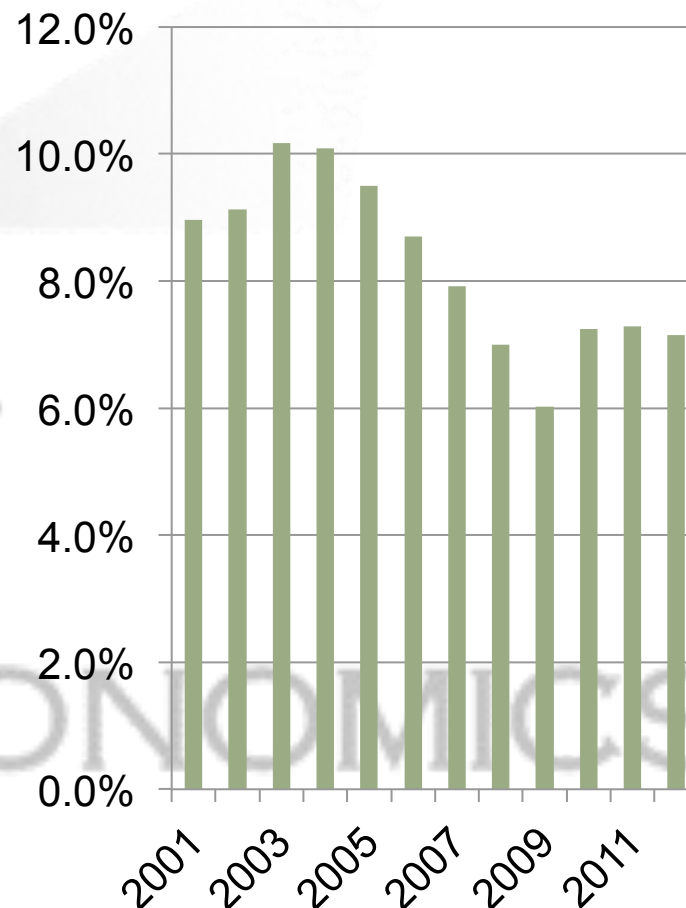




# Where Does the State Stack Up?

| Metropolitan Area                           | 2013.1 p       | %Chya        |
|---|----------------|--------------|
| U.S.  | \$176.6        | 11.3%        |
| <b>San Jose-Sunnyvale-Santa Clara</b>       | <b>\$705.0</b> | <b>31.7%</b> |
| Honolulu, HI                                | \$625.8        | 1.5%         |
| <b>Anaheim-Santa Ana-Irvine, CA</b>         | <b>\$600.2</b> | <b>23.8%</b> |
| <b>San Francisco-Oakland-Fremont, CA</b>    | <b>\$593.9</b> | <b>32.6%</b> |
| New York-Wayne-White Plains, NY-NJ          | \$432.8        | 5.1%         |
| <b>San Diego-Carlsbad-San Marcos, CA</b>    | <b>\$412.3</b> | <b>14.7%</b> |
| NY: Nassau-Suffolk, NY                      | \$385.4        | 3.0%         |
| New York-Northern New Jersey-Long Island    | \$368.2        | 1.2%         |
| Bridgeport-Stamford-Norwalk, CT             | \$360.1        | 7.8%         |
| Washington-Arlington-Alexandria             | \$348.7        | 11.9%        |
| <b>Los Angeles-Long Beach-Santa Ana, CA</b> | <b>\$345.5</b> | <b>22.8%</b> |
| NY: Newark-Union, NJ-PA                     | \$334.4        | 2.6%         |
| Boston-Cambridge-Quincy, MA-NH              | \$332.2        | 6.6%         |
| Seattle-Tacoma-Bellevue, WA                 | \$312.6        | 17.8%        |
| Barnstable Town, MA                         | \$307.9        | 5.6%         |
| Burlington-South Burlington, VT             | \$278.4        | 13.1%        |
| NY: Edison, NJ                              | \$267.3        | -8.6%        |
| Denver-Aurora, CO                           | \$261.2        | 15.4%        |

## CA Share Permits



# Housing Comparisons

|   | United States |      |      | California |      |      | San Francisco |      |      | Los Angeles |      |      |
|---|---------------|------|------|------------|------|------|---------------|------|------|-------------|------|------|
|   | '08           | '10  | '12  | '08        | '10  | '12  | '08           | '10  | '12  | '08         | '10  | '12  |
| Ownership Share                             | 66.6          | 65.4 | 63.9 | 57.0       | 55.6 | 54.0 | 56.9          | 54.4 | 53.0 | 51.2        | 49.8 | 48.4 |
| Vacancy Rates                               | 12.4          | 13.1 | 12.4 | 9.1        | 9.3  | 8.4  | 7.8           | 8.1  | 6.1  | 6.4         | 6.8  | 6.0  |
| Percent of Units w/ 1+ Resident per Bedroom | 3.2           | 3.4  | 3.3  | 7.9        | 8.6  | 8.2  | 4.9           | 5.6  | 5.5  | 11.2        | 12.1 | 11.2 |

## Percent of Households who spend less than 25% of Income on Housing

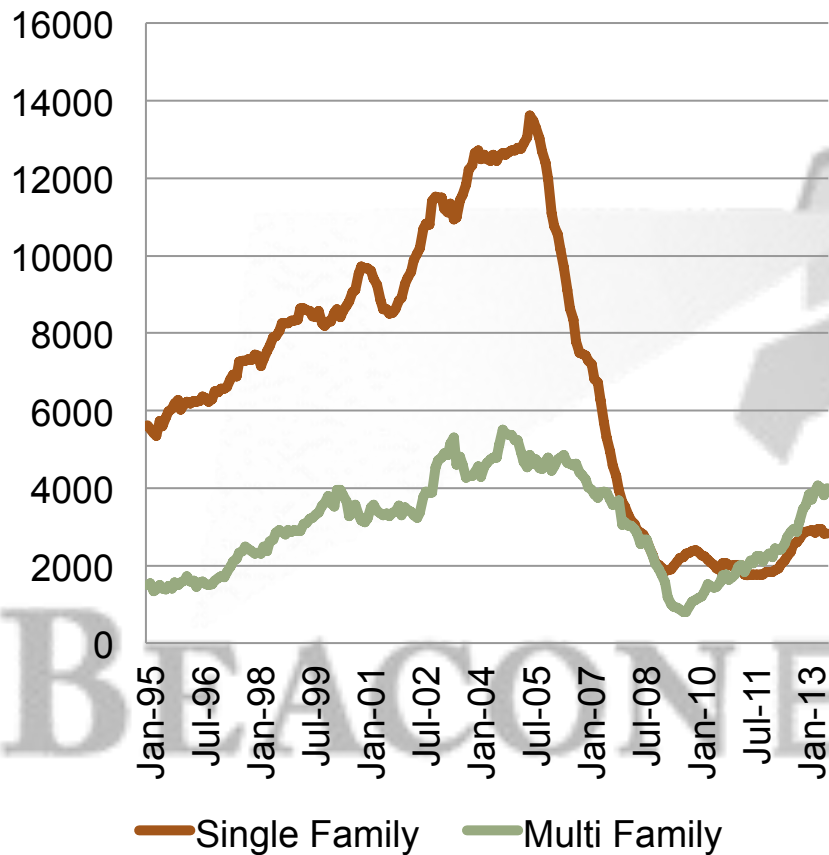
|                           |      |      |      |      |      |      |      |      |      |      |      |      |
|---------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Homeowners                | 62.4 | 62.6 | 66.1 | 54.1 | 55.0 | 57.0 | 55.0 | 55.5 | 58.0 | 53.3 | 53.1 | 54.9 |
| Homeowners w/<br>mortgage | 49.8 | 49.6 | 55.4 | 34.6 | 36.4 | 41.3 | 35.0 | 36.7 | 44.0 | 34.1 | 34.3 | 38.0 |
| Renters                   | 38.6 | 35.4 | 36.5 | 33.6 | 31.2 | 31.2 | 38.9 | 36.7 | 36.0 | 32.1 | 29.4 | 29.6 |

# Income Comparisons

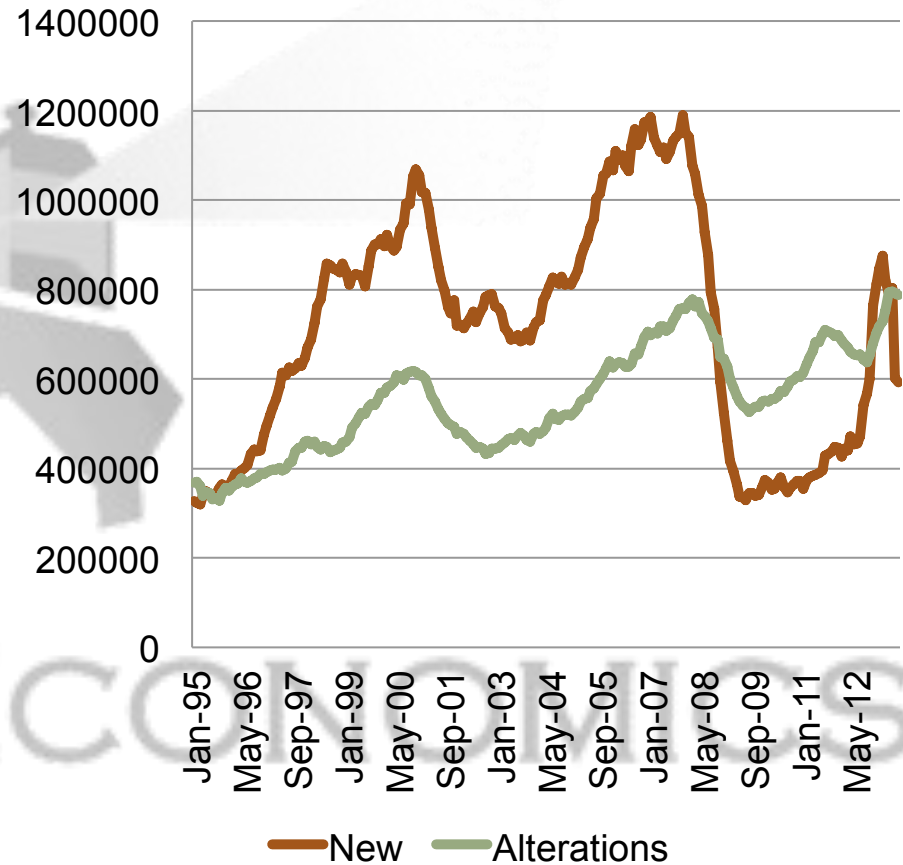
|                                       | United States |      |      | California |      |      | San Francisco |      |      | Los Angeles |      |      |
|---------------------------------------|---------------|------|------|------------|------|------|---------------|------|------|-------------|------|------|
|                                       | '08           | '10  | '12  | '08        | '10  | '12  | '08           | '10  | '12  | '08         | '10  | '12  |
| Median Household Income (\$thousands) | 52.0          | 50.0 | 51.4 | 61.0       | 57.7 | 58.3 | 76.8          | 73.0 | 74.9 | 60.3        | 56.7 | 57.3 |
| Per Capita Income (\$thousands)       | 27.6          | 26.1 | 27.3 | 29.4       | 27.4 | 28.3 | 40.5          | 37.7 | 40.5 | 29.2        | 27.1 | 28.0 |
| Poverty Rate (% of families)          | 38.6          | 35.4 | 36.5 | 33.6       | 31.2 | 31.2 | 38.9          | 36.7 | 36.0 | 32.1        | 29.4 | 29.6 |
| Households w/ Income +\$100,000 (%)   | 21.0          | 19.9 | 21.6 | 28.1       | 26.4 | 27.5 | 38.3          | 36.7 | 33.4 | 28.0        | 26.0 | 27.2 |

# State Construction

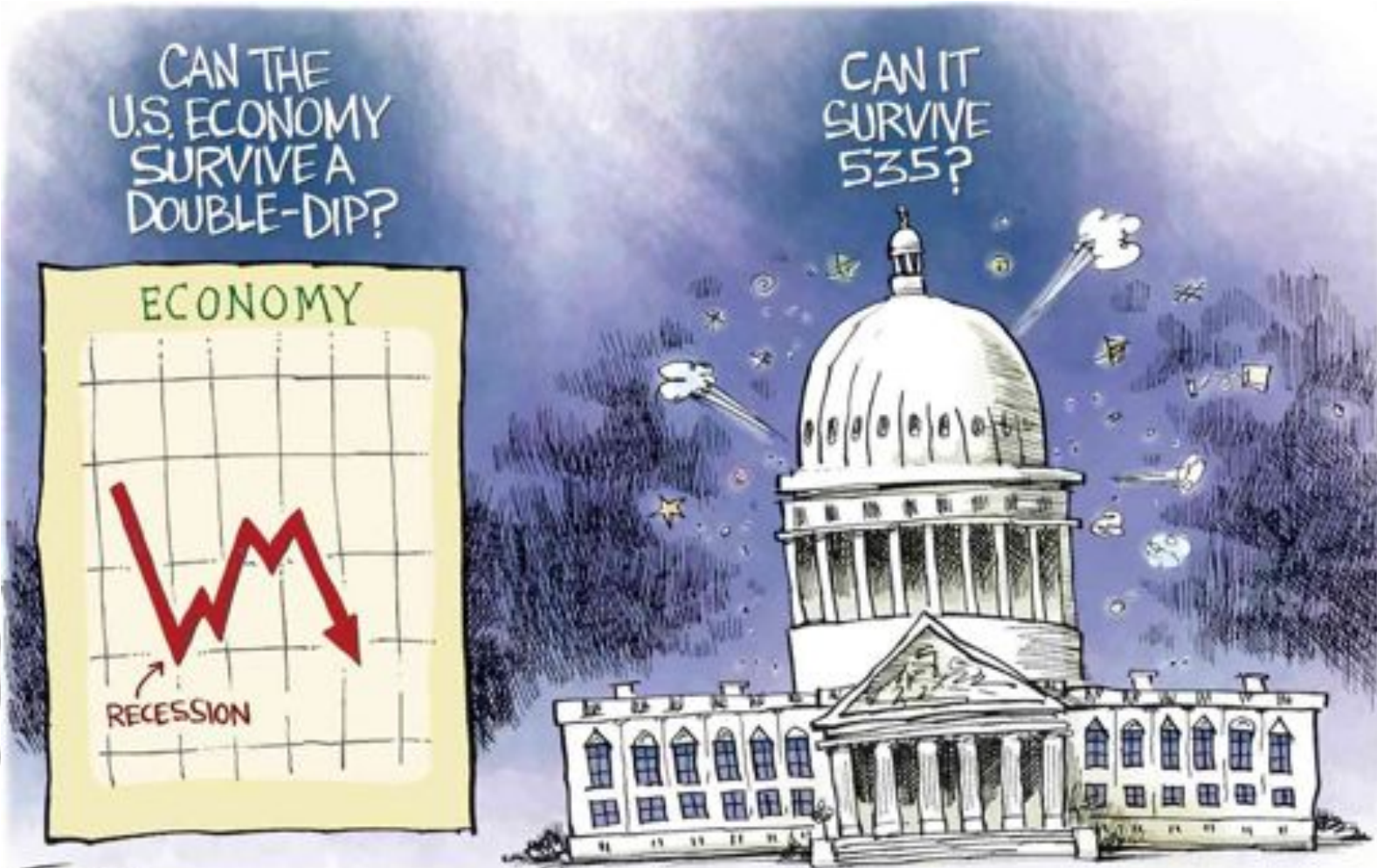
## Residential Unit Permits



## Non-Residential Values

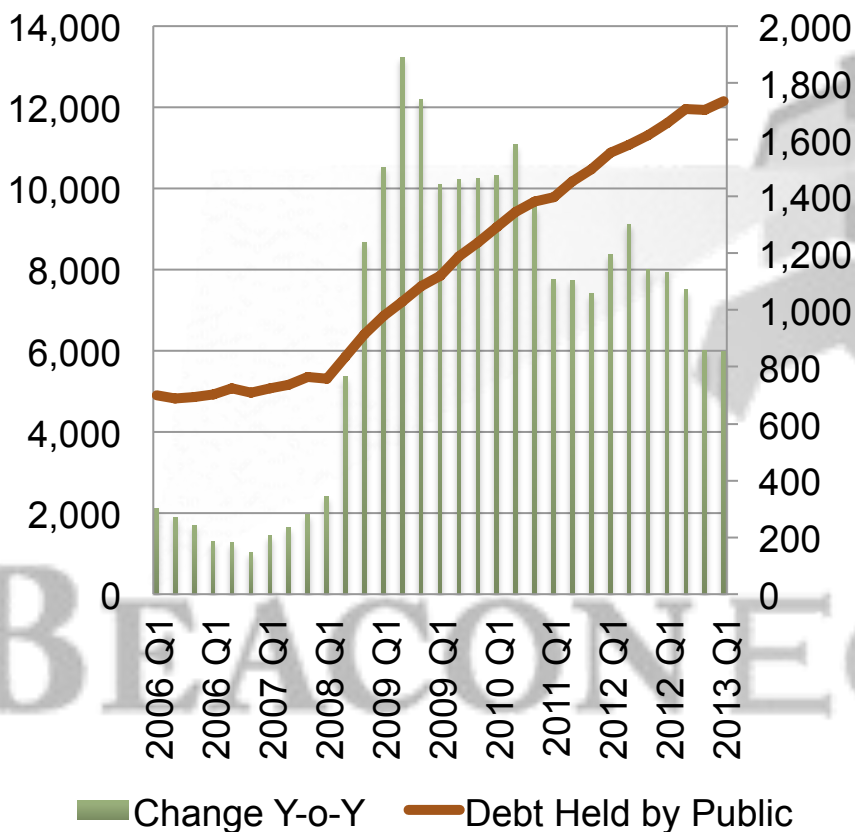


# The big source of uncertainty...

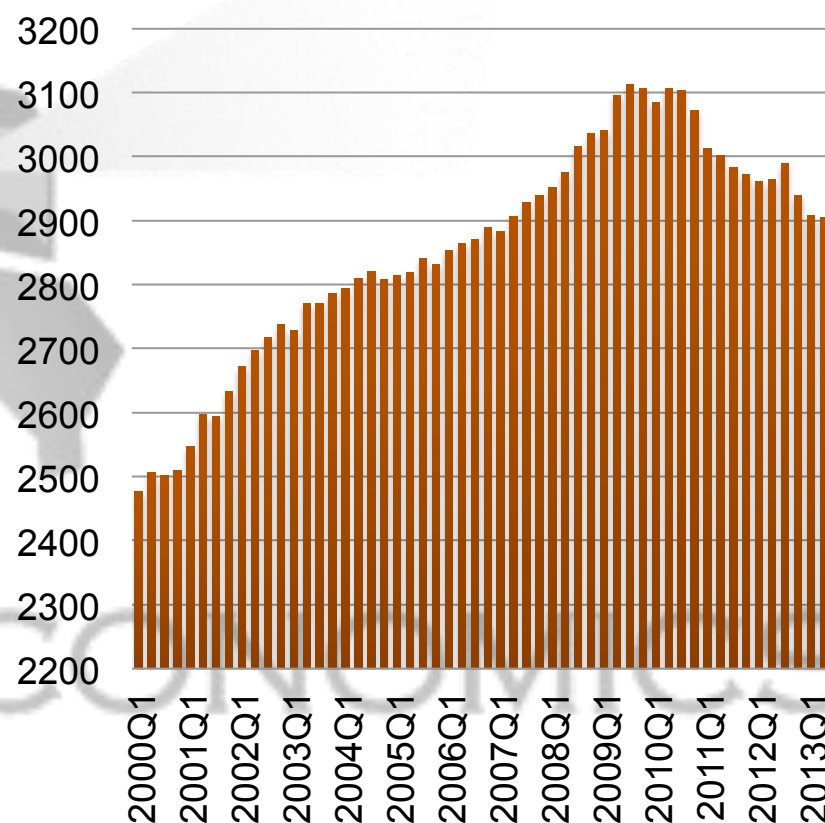


# The Deficit: Not an Issue

## Federal Debt Held by the Public and Federal Reserve



## Real Public Spending, Fed State and Local combined



# The Shut Down, Debt Ceiling

## How much loss of spending?

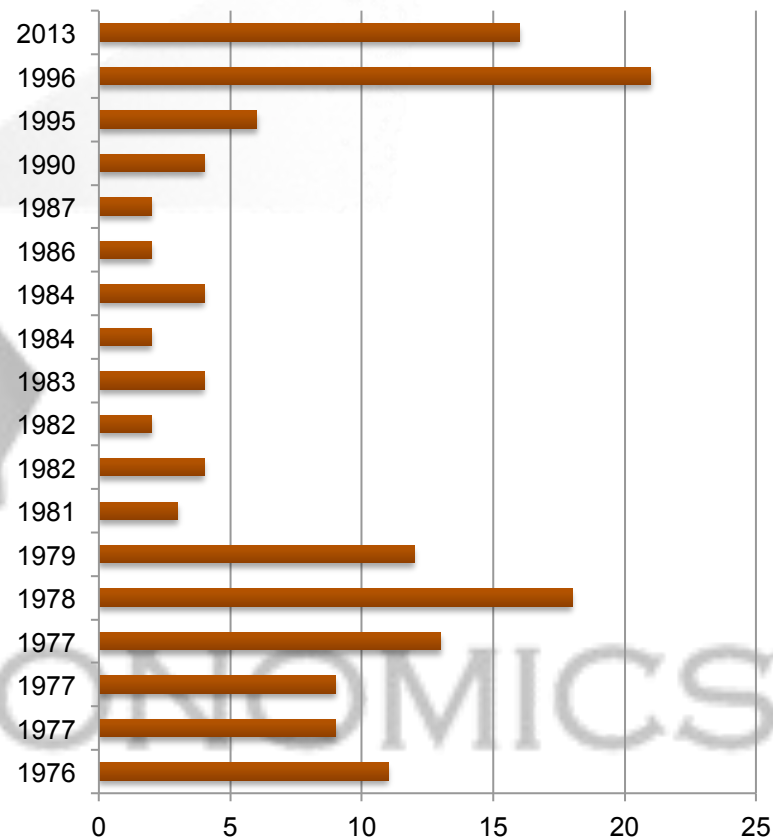
|                 | GDP    |       | Income |       |
|-----------------|--------|-------|--------|-------|
|                 | 2013Q2 |       |        |       |
| GDP             | 16661  |       |        |       |
| Defense         | 776.3  | 4.7%  | 142.4  | 18.3% |
| Fed Non-Defense | 476.3  | 2.9%  | 300.7  | 63.1% |
| State Local     | 1869.3 | 11.2% |        |       |

*Customs / TSA / Air Traffic still operating*

### ○ Indirect Effects

- Restricted Exports / Imports (Pesticides)
- Tourism
- Fishing Industries
- SBA Loans
- Federal Programs (Head Start / WIB)
- Uncertainty Effects

## Days



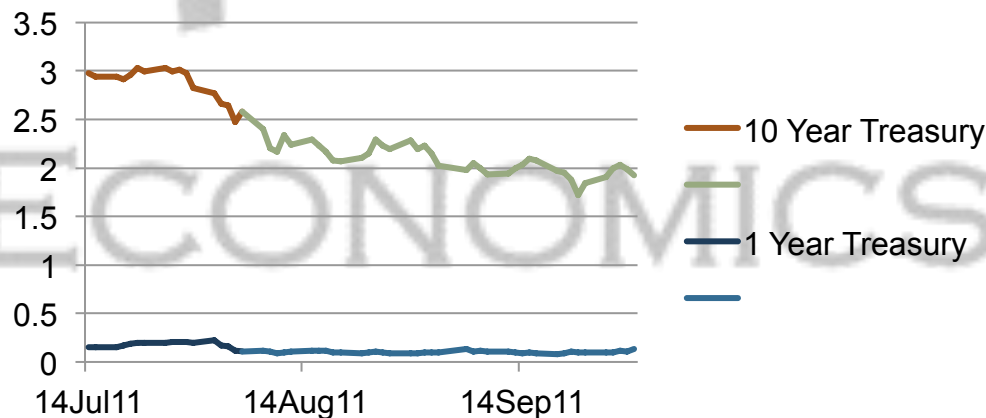
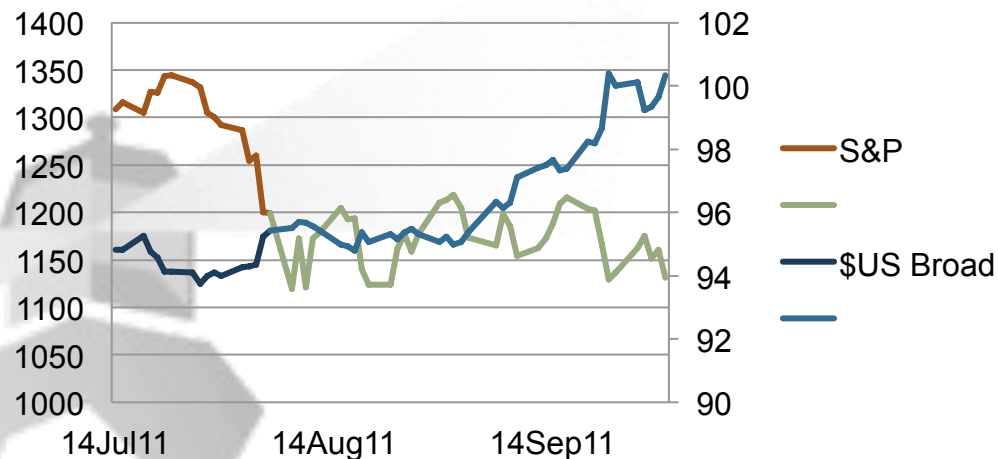
# Debt Ceiling Debate: Worse



*What would Lew Do?*

- AP management
- IOUs
- Commemorative Coin
- Other action?
- Oct 31: Actual hit?

**Last Downgrade: August 5, 2011**

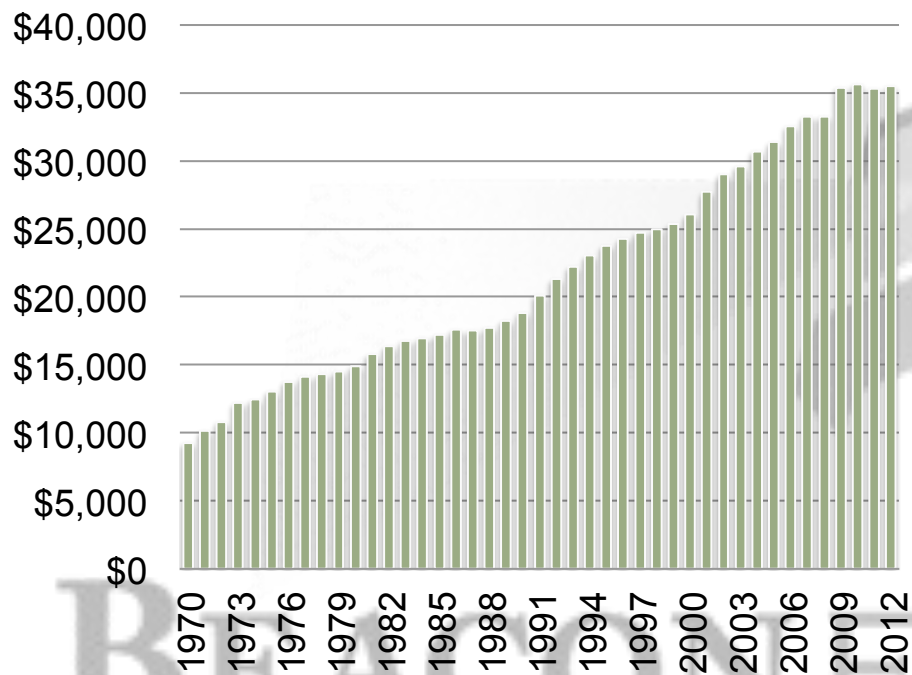


|          | Federal Budget | GDP      | Share |
|----------|----------------|----------|-------|
| 2012 Exp | \$3,892        | \$16,245 | 24.0% |
| 2012 Rev | \$2,449        | \$16,245 | 15.1% |
| Diff     | \$1,443        | \$16,245 | 8.9%  |



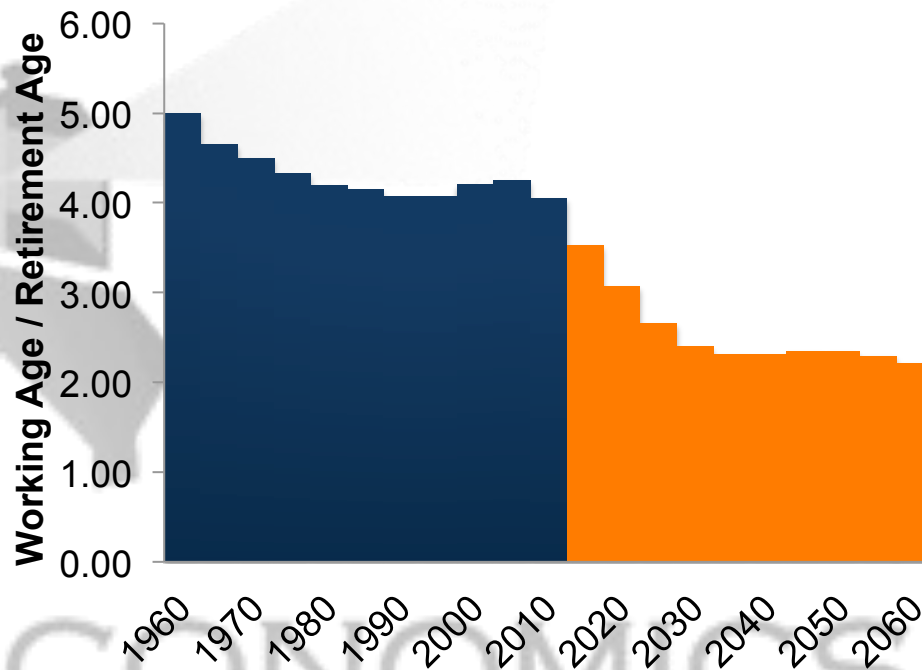
# Social Insurance: Unsustainable

**Real Public Spending Per Retiree**  
Source: Census, BEA



Cost / Working Age Person

**US Support Ratio and Projections**  
Source: Census



1970      2010      2050\*  
\$2,059      \$8,795      \$29,823

\* Based on per capita growth half the rate from 1970 to 2010

# Obamacare? Not the issue...

| Per capita expenditure<br>(PPP int. \$) |         | Per capita government<br>expenditure (PPP int. \$) |         |
|---|---------|--|---------|
| USA                                     | \$8,608 | Norway   | \$4,859 |
| Norway                                  | \$5,674 | Netherlands  | \$4,388 |
| Switzerland                             | \$5,564 | USA  | \$3,954 |
| Netherlands                             | \$5,123 | Denmark  | \$3,886 |
| Denmark                                 | \$4,564 | Switzerland  | \$3,640 |
| Canada                                  | \$4,520 | Austria  | \$3,388 |
| Austria                                 | \$4,482 | Germany  | \$3,316 |
| Germany                                 | \$4,371 | Canada   | \$3,183 |
| Belgium                                 | \$4,119 | Niue   | \$3,136 |
| France                                  | \$4,085 | France   | \$3,135 |
| Ireland                                 | \$3,894 | Sweden   | \$3,132 |
| Sweden                                  | \$3,870 | Belgium  | \$3,128 |
| Australia                               | \$3,692 | United Kingdom                                     | \$2,747 |
| Finland                                 | \$3,332 | Ireland  | \$2,742 |
| United Kingdom                          | \$3,322 | Iceland  | \$2,623 |
| Iceland                                 | \$3,264 | Japan  | \$2,540 |
| Japan                                   | \$3,174 | Australia  | \$2,529 |

# State Pension Problems

| Rank | State          | ANPL as % of Revt |
|------|----------------|-------------------|
| 1    | Illinois       | 241.7%            |
| 2    | Connecticut    | 189.7%            |
| 3    | Kentucky       | 140.9%            |
| 4    | New Jersey     | 137.2%            |
| 5    | Hawaii         | 132.5%            |
| 6    | Louisiana      | 130.2%            |
| 7    | Colorado       | 117.5%            |
| 8    | Pennsylvania   | 105.0%            |
| 9    | Massachusetts  | 100.4%            |
| 10   | Maryland       | 99.5%             |
| 11   | Texas          | 92.5%             |
| 12   | Rhode Island   | 91.5%             |
| 13   | West Virginia  | 86.2%             |
| 14   | Maine          | 76.6%             |
| 15   | Montana        | 62.5%             |
| 16   | California     | 61.8%             |
| 17   | Oklahoma       | 61.6%             |
| 18   | Indiana        | 61.5%             |
| 19   | North Dakota   | 61.2%             |
| 20   | South Carolina | 59.7%             |

Adjusted Net Pension  
Liabilities as % of  
Revenue

Moody's June 2013  
report with updated  
methodologies

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# So what does it mean?

## ■ 2013: The Unwinding Continues

- H2: 2% to 2.5%
- 2014—should be better

## ■ Big Themes for the Year

- Consumers will continue to spend—after mid year hit from Payroll tax
- Housing recovery to accelerate, look out for apartment oversupply
- Commercial will continue slow recovery
- Exports, business spending to grow slowly
- Treasuries to stabilize, settle down more
- Look for Fed to continue to make noise, start moving later in the year
- Gains in state and local to have some modest offset for Fed

## ■ Future issues remain

- Policy uncertainty in 2<sup>nd</sup> half is a big issue
- We still have to deal with national / state entitlement reform
- European situation could heat up next year



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[Chris@BeaconEcon.com](mailto:Chris@BeaconEcon.com)  
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