The Economic Outlook and Orange County Taxable Sales Forecast

OCTA Briefing, July 27, 2022

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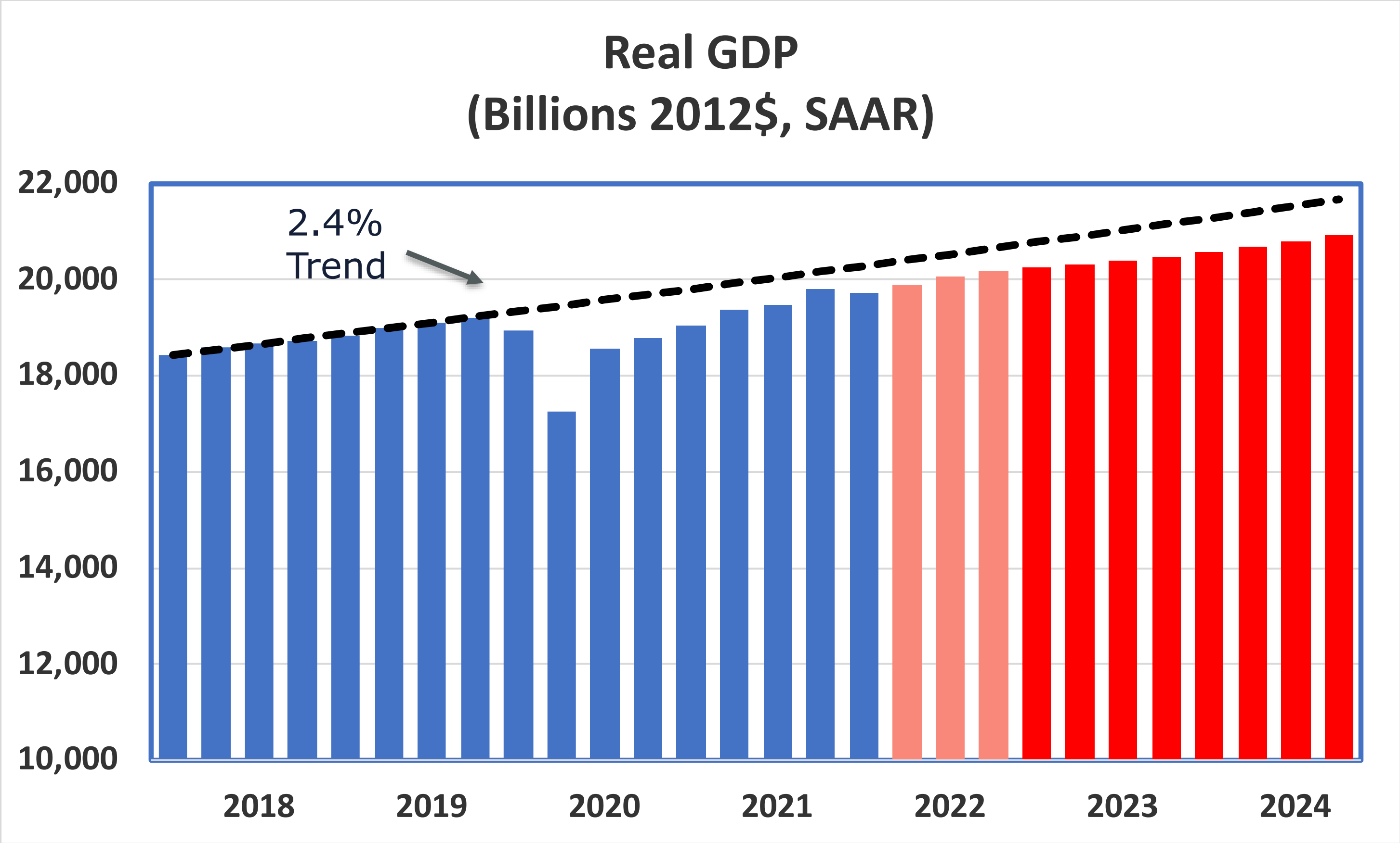
UCLA Anderson Forecast

Critical Questions

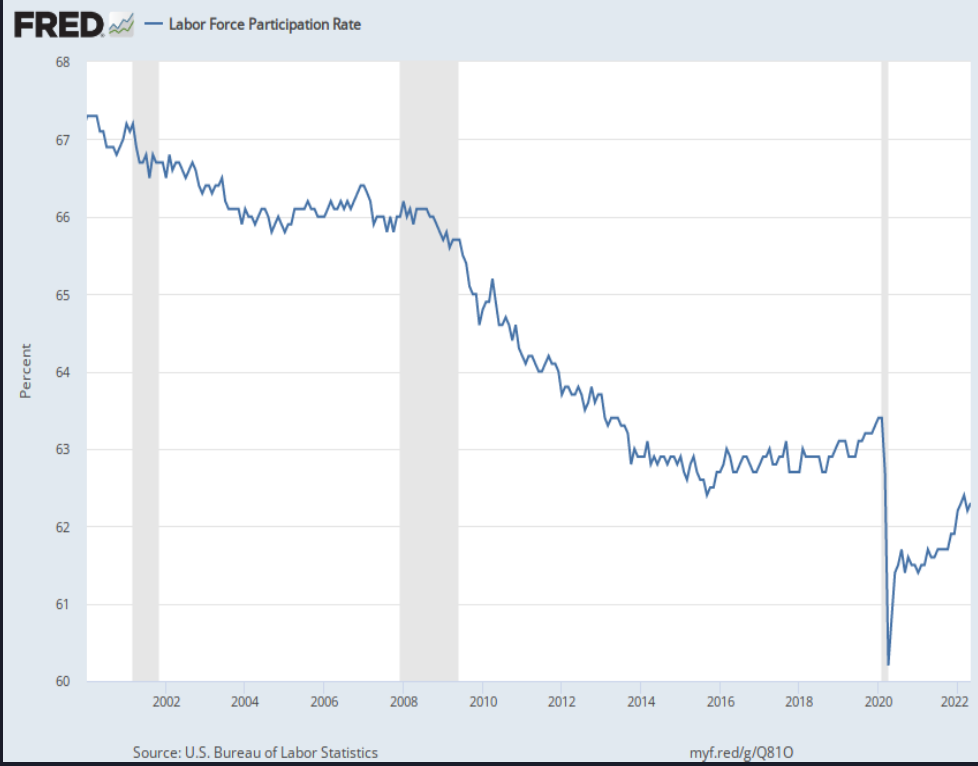
A recession like no other since 1918/19 and 1920/21

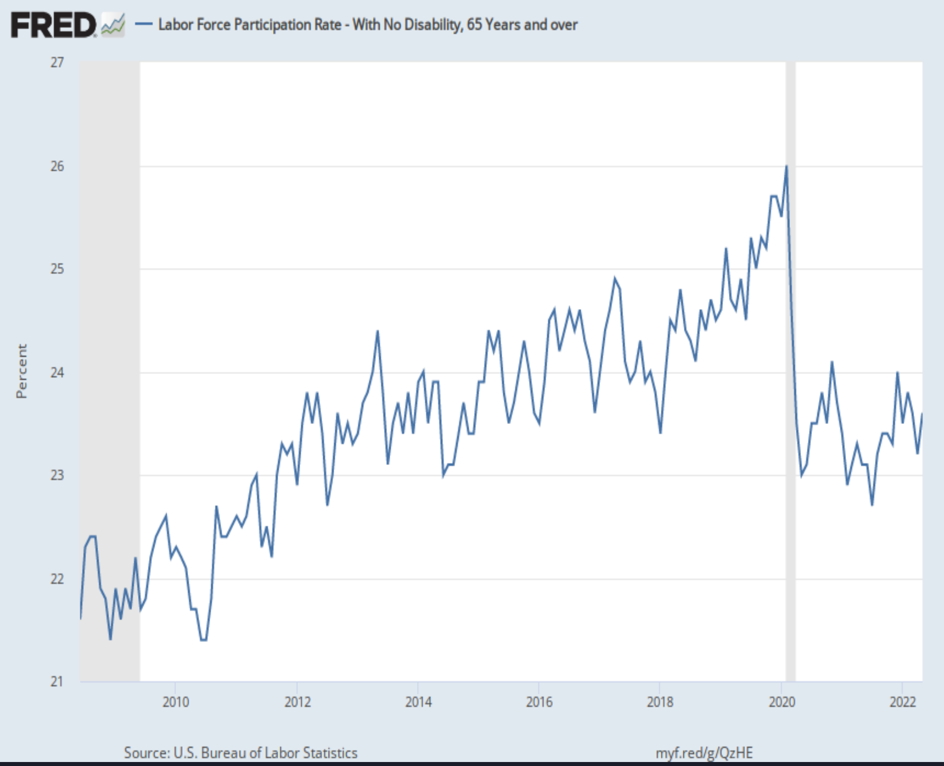
- *Is the economy overheated?*
- *Fed Policy – a little more unemployment is good for us?*
- *Breaking it Down By State & Sector*
- *Hospitality and Housing – A geographically disparate recovery*

June 2022 FORECAST

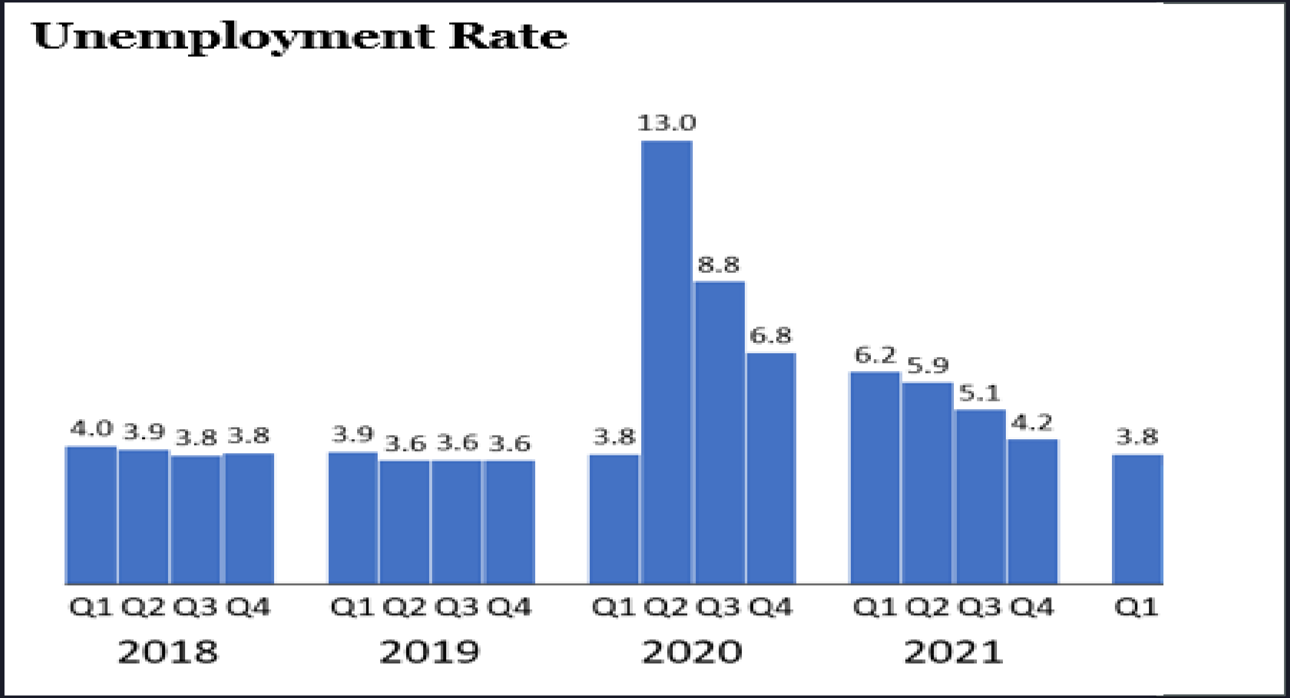


LABOR FORCE PARTICIPATION

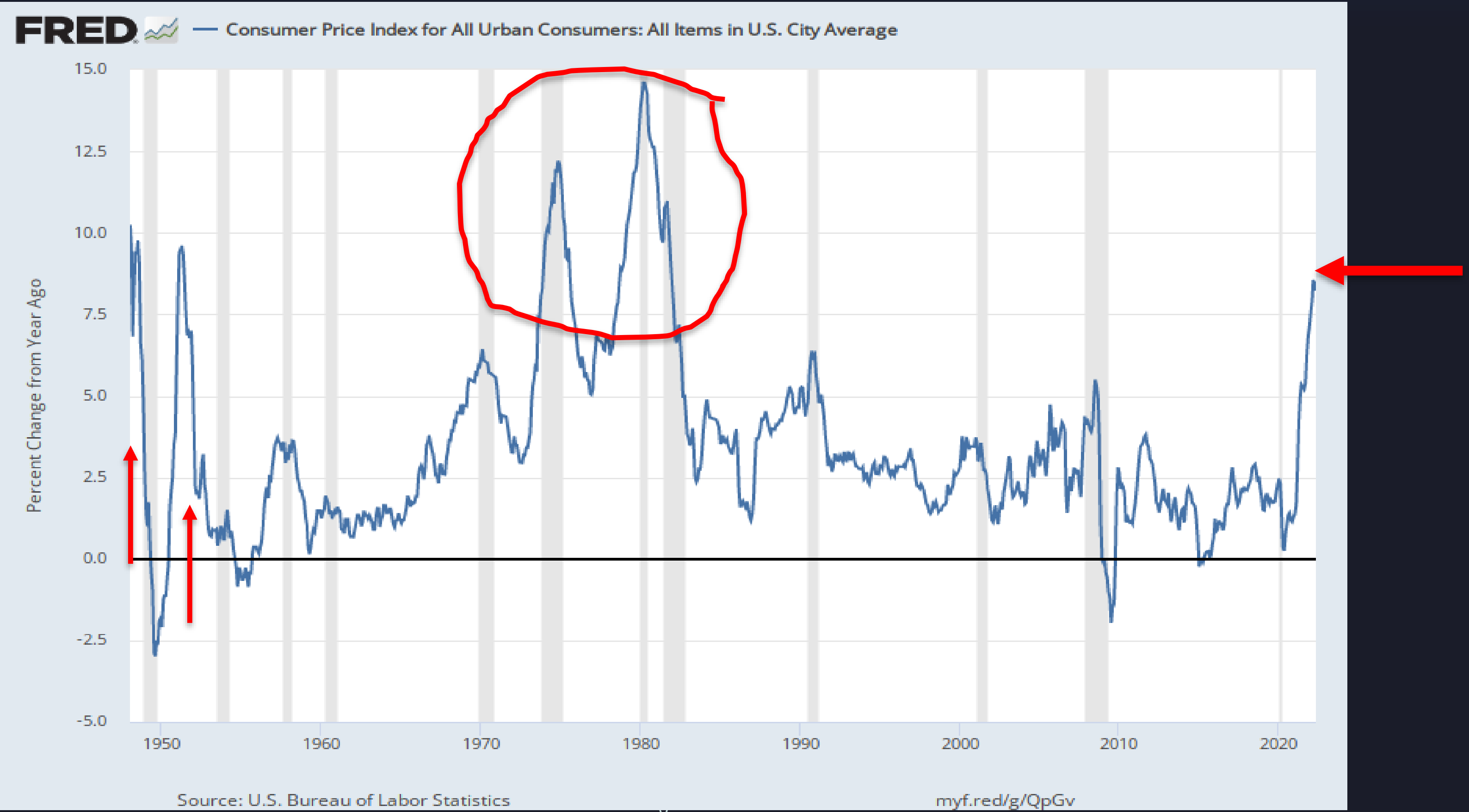




MAY UNEMPLOYMENT RATE = 3.6%



INFLATION:
Annual Change in Consumer Prices



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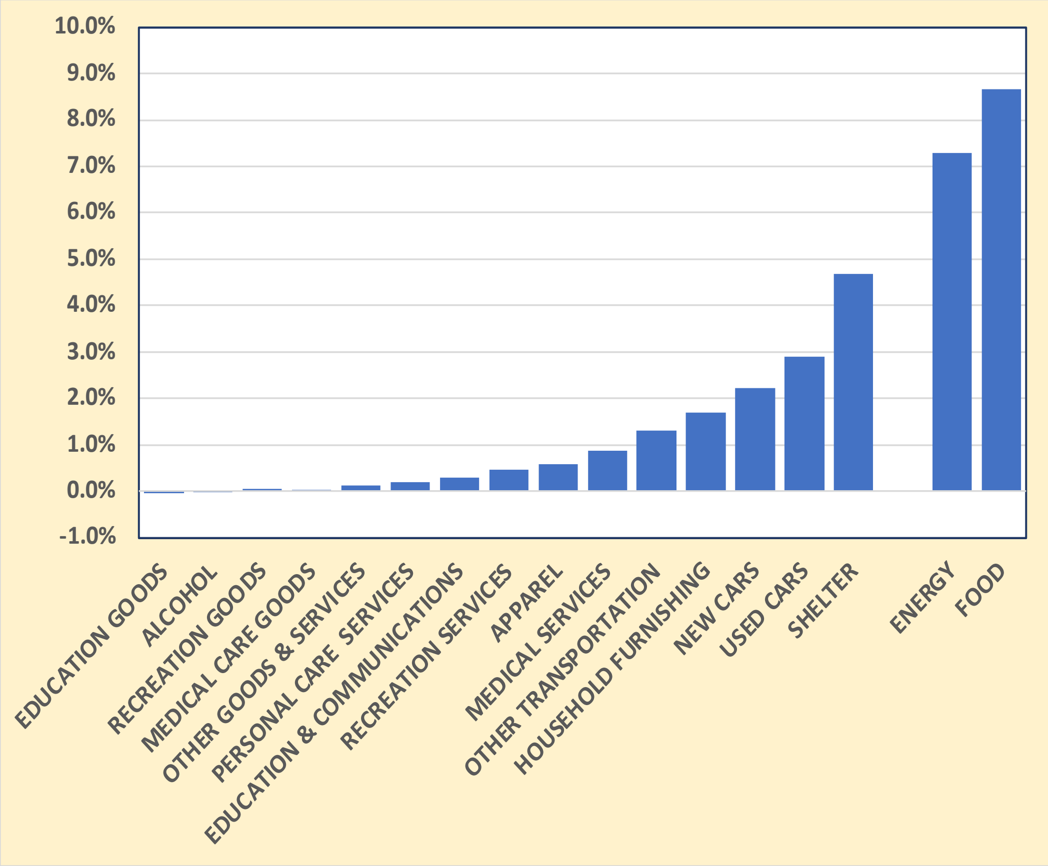
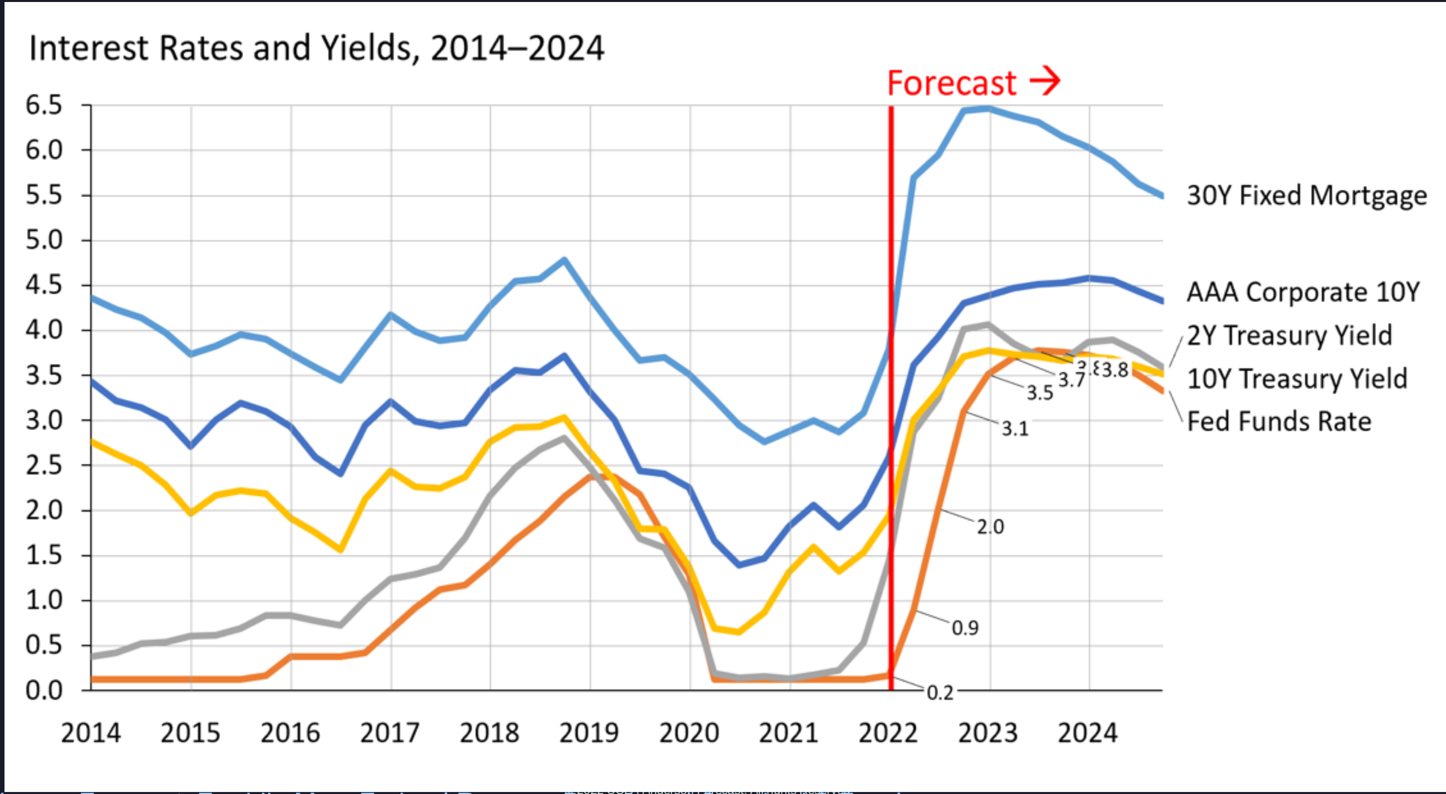
BEHIND THE HEADLINE NUMBER OF 8.6% CUMULATIVE CONTRIBUTION TO CPI

MAY 21 TO MAY 22



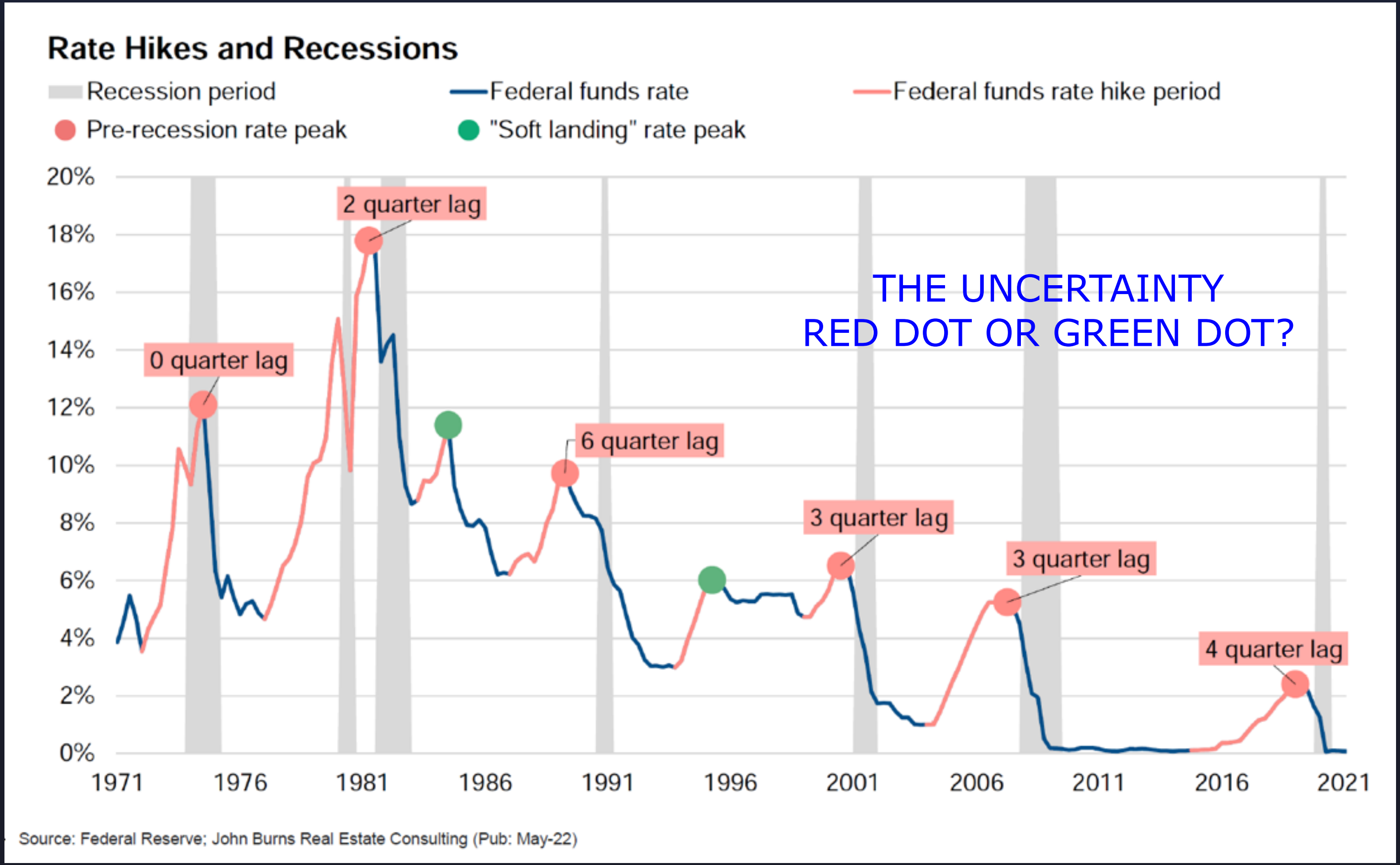
IT'S MOSTLY FOOD ENERGY SHELTER

THE FED WILL TRY TO FINESSE WITH INTEREST RATE HIKES

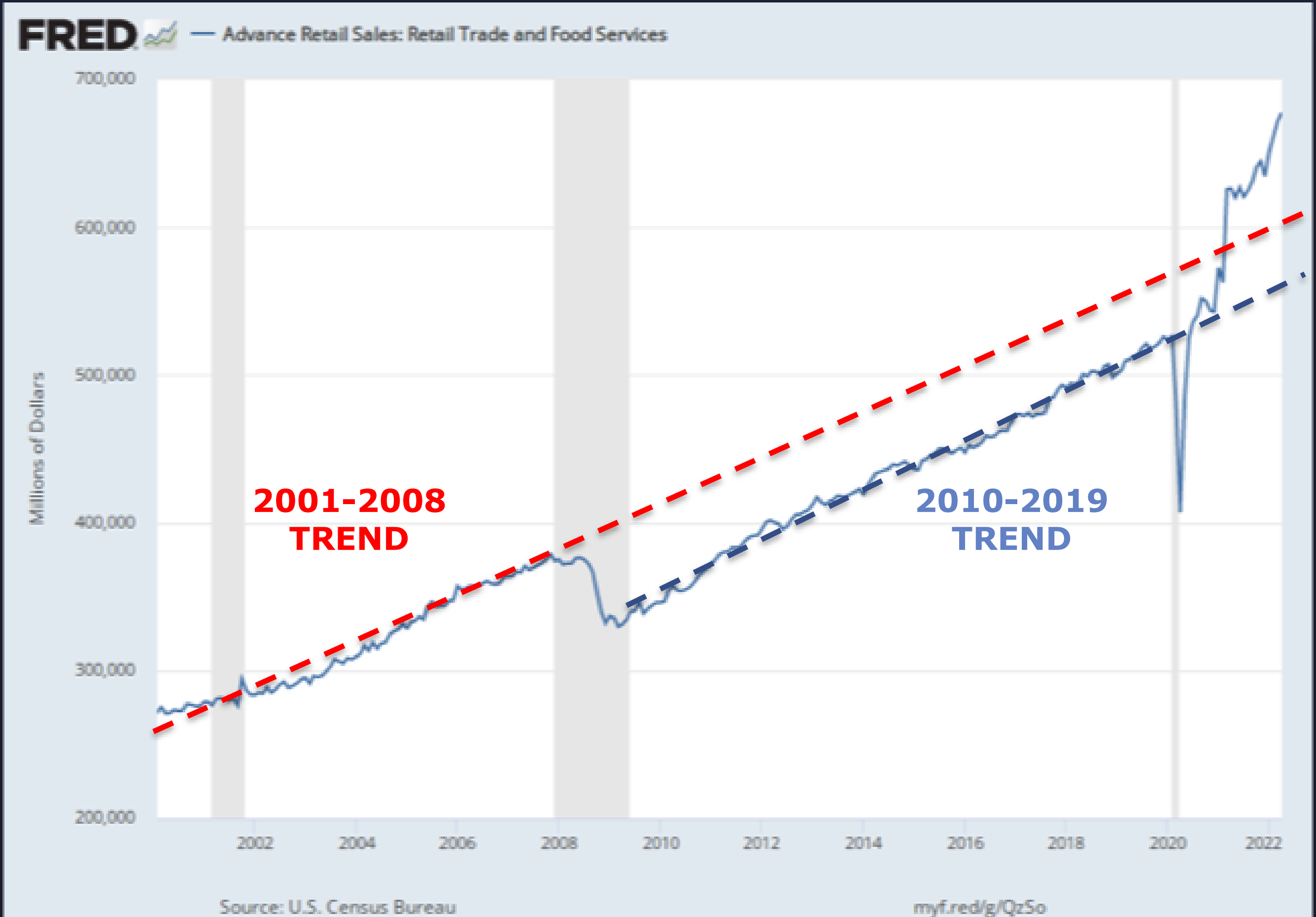


Source: UCLA Anderson Forecast, Freddie Mac, Federal Reserve Board, and Standard & Poor's

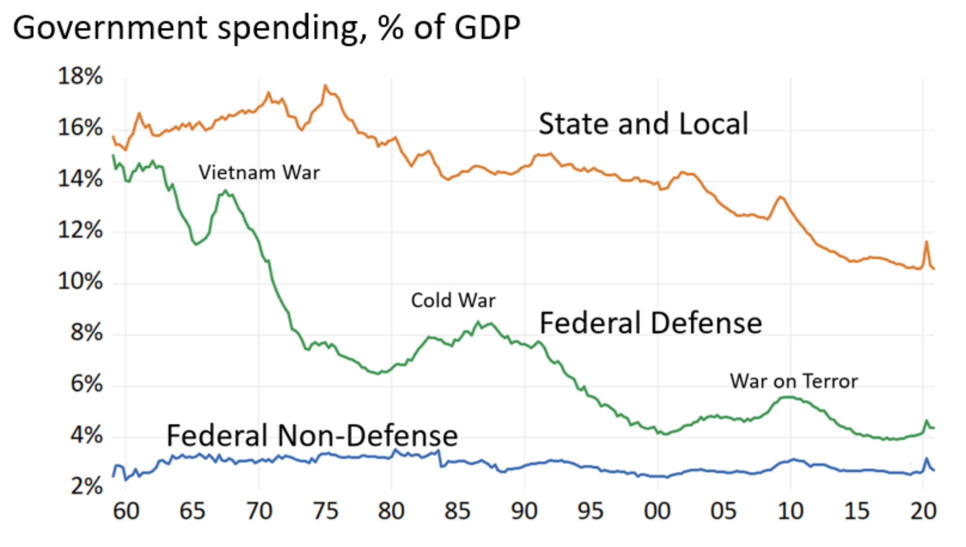
RATE HIKES AND RECESSIONS: THE EVIDENCE

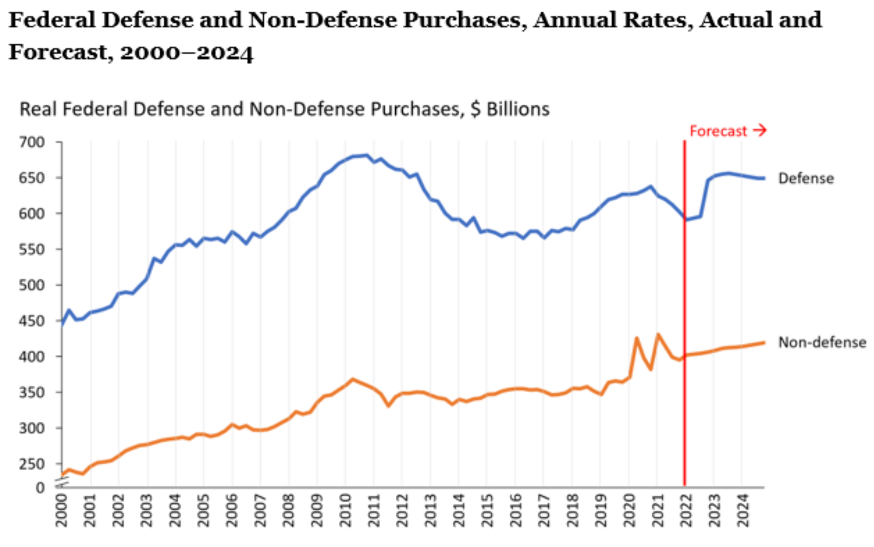


Goods purchases growing slower than the rate of inflation, Restaurants and Bars Faster

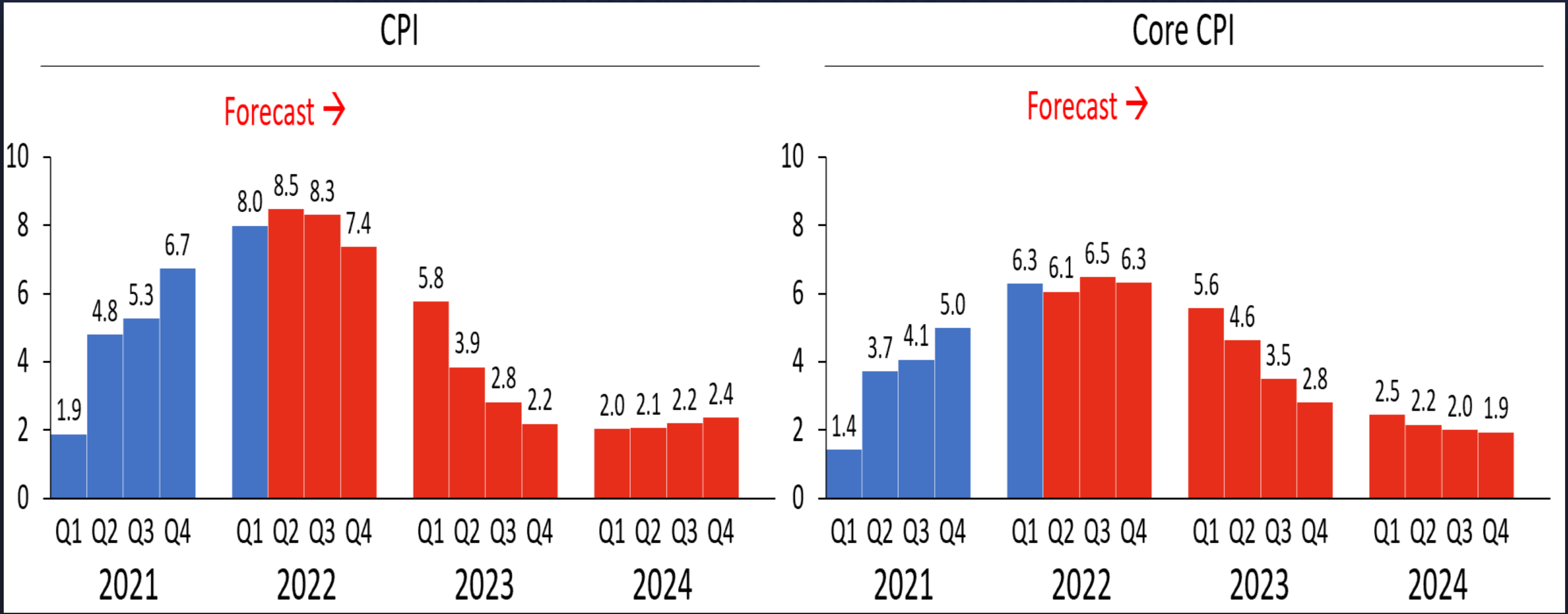


Into an already booming economy and tight labor market, add stimulus from more defense spending





Source: UCLA Anderson Forecast and U.S. Bureau of Economic Analysis. Notes: $ Billions, chained 2012 prices

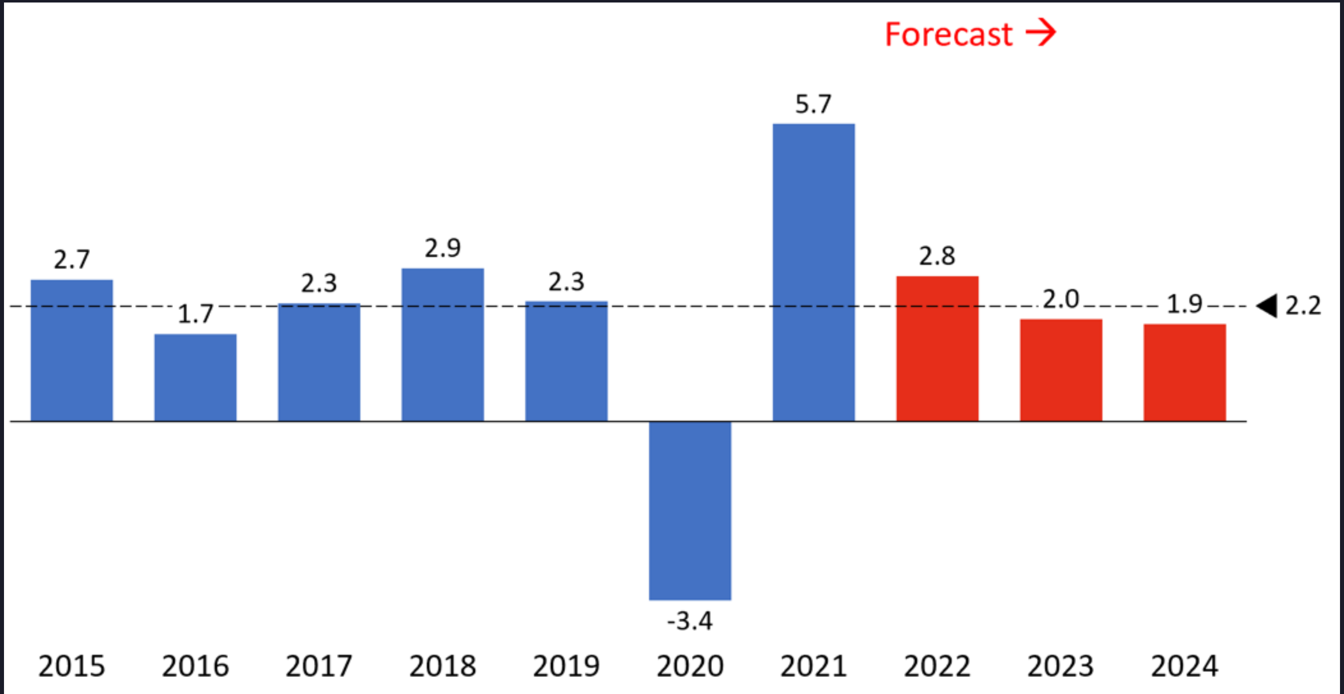


Source: UCLA Anderson Forecast, U.S. Bureau of Labor Statistics, and U.S. Bureau of Economic Analysis

CRITICAL ASSUMPTIONS

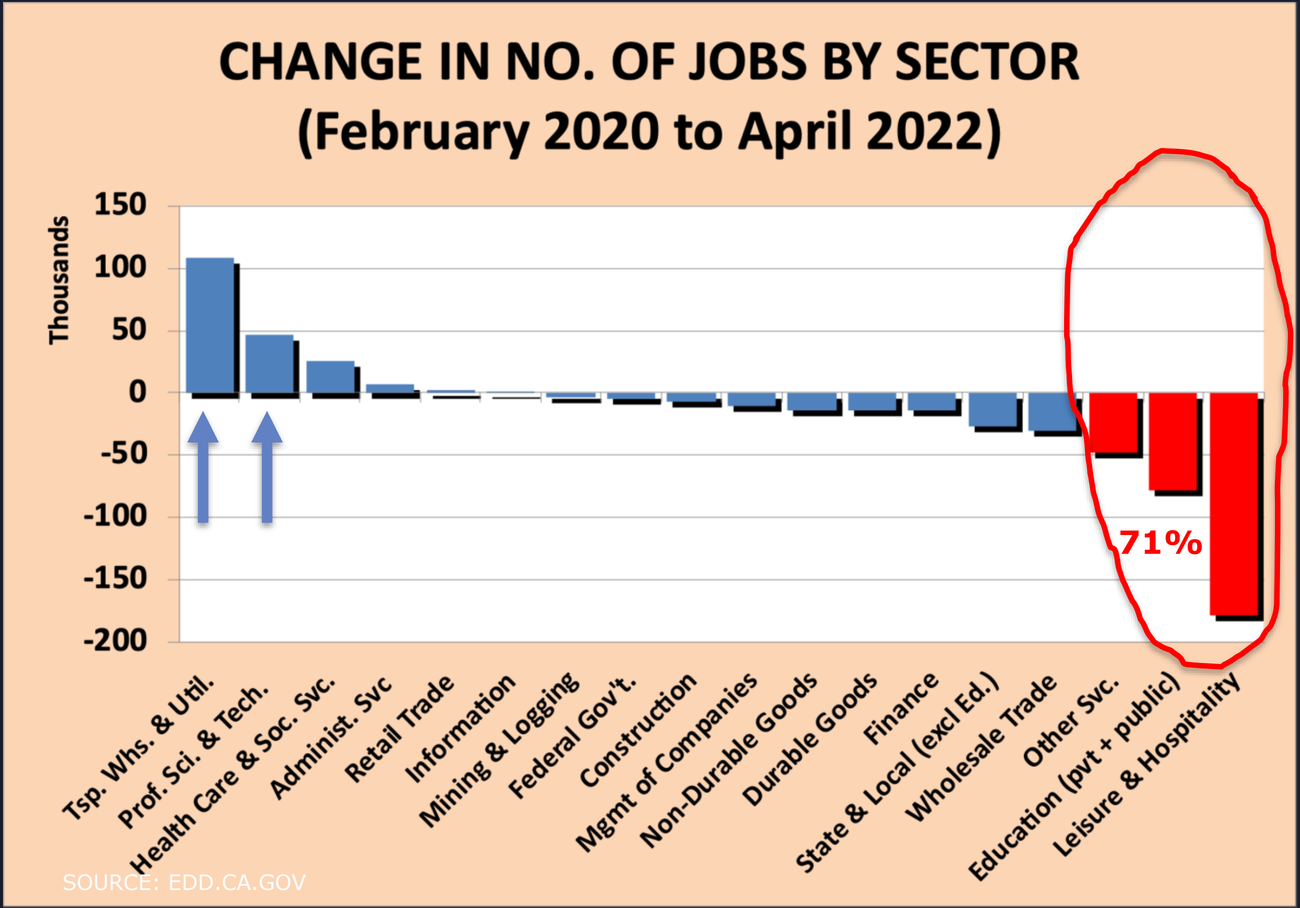
- COVID-Zero Policies in China have a decreasing impact on supply chains
- The war in Ukraine does not have a lasting effect on food
- The Federal Reserve sticks a soft landing
- The drought in the U.S. India NE Africa does not result in further contractions in food supply
- The Pandemic does not deliver another damaging wave
- Political and Geopolitical events do not upset the economy

With assumptions on COVID/CHINA/UKRAINE/WEATHER & The Fed hitting one of those green dots Real GDP growth of 2.8% in '22 , Slowing to 2.0%

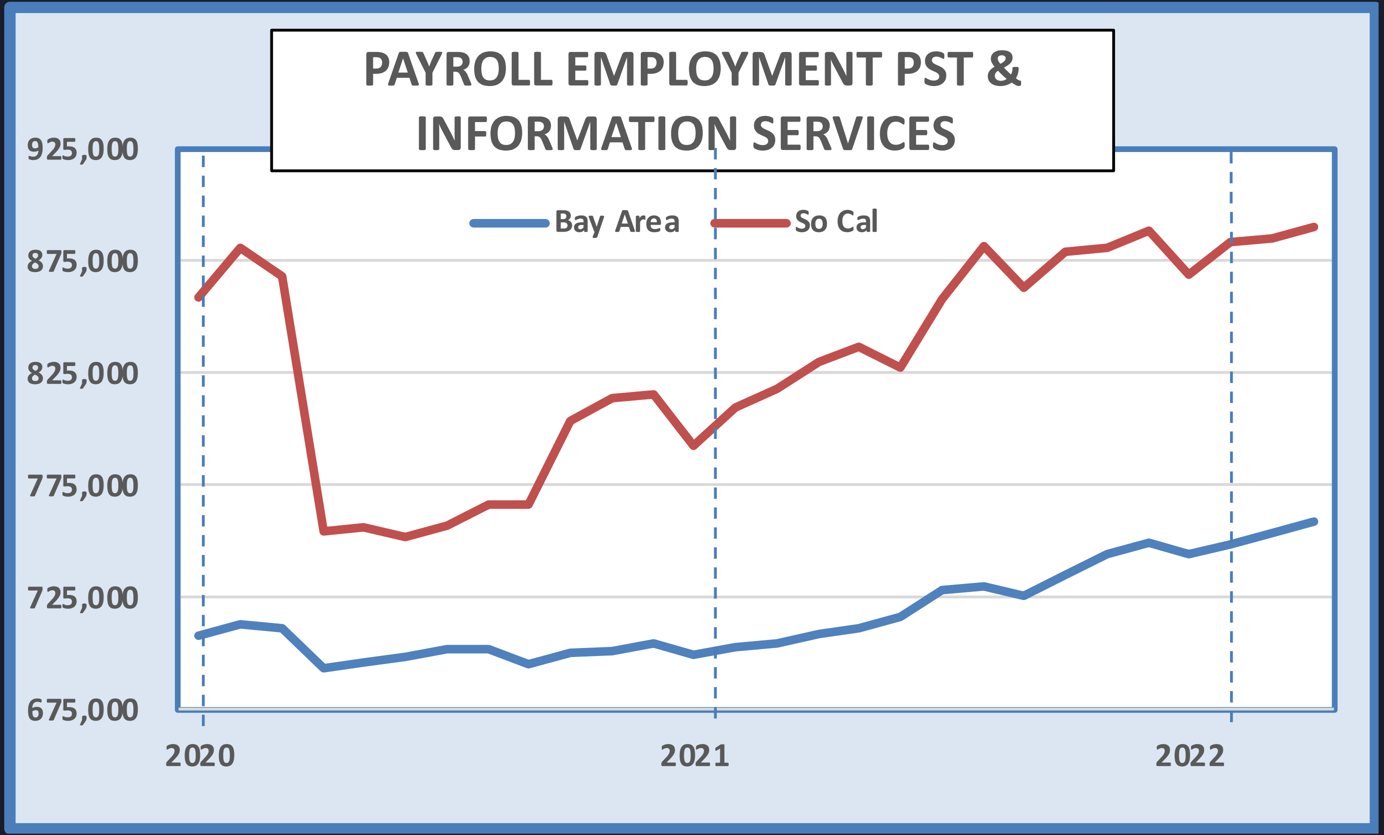


Source: UCLA Anderson Forecast and U.S. Bureau of Economic Analysis

Non-Farm Payroll Job Loss By Sector



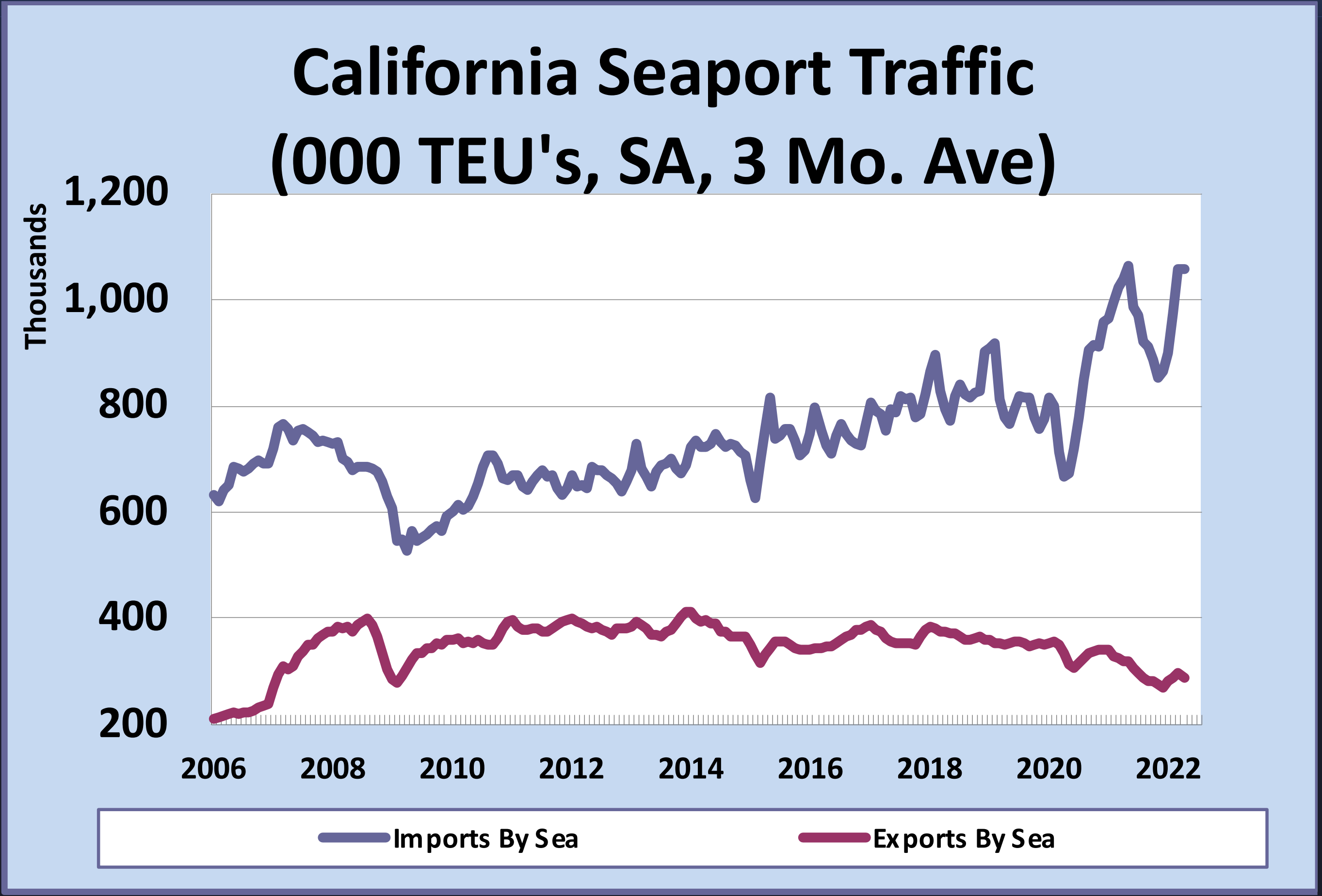
TECH-CENTRIC EMPLOYMENT 2020-2022



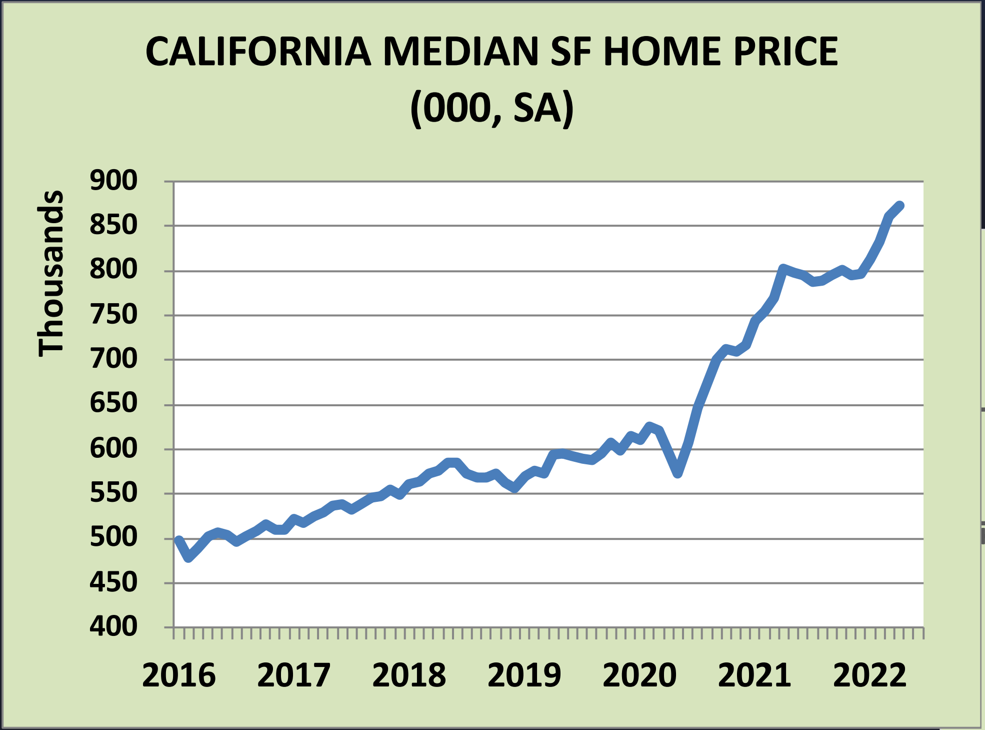
LOGISTICS

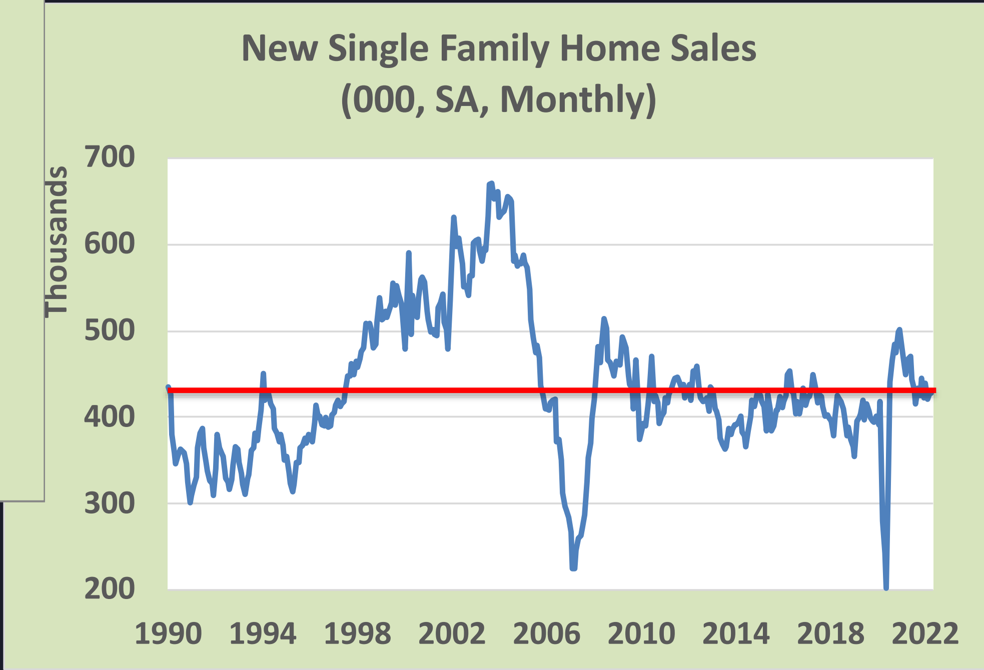
INBOUND GROWS

OUTBOUND SHRINKS

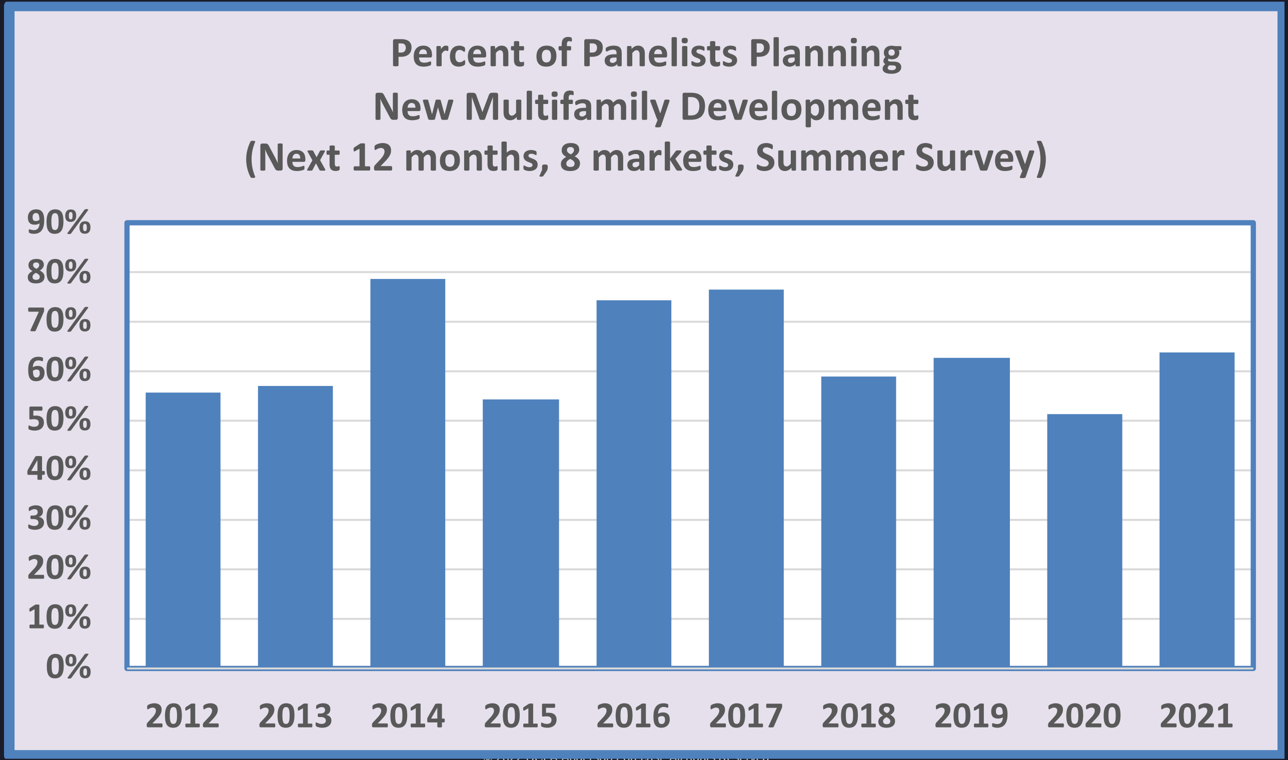


HOME PRICES AT RECORD HIGHS

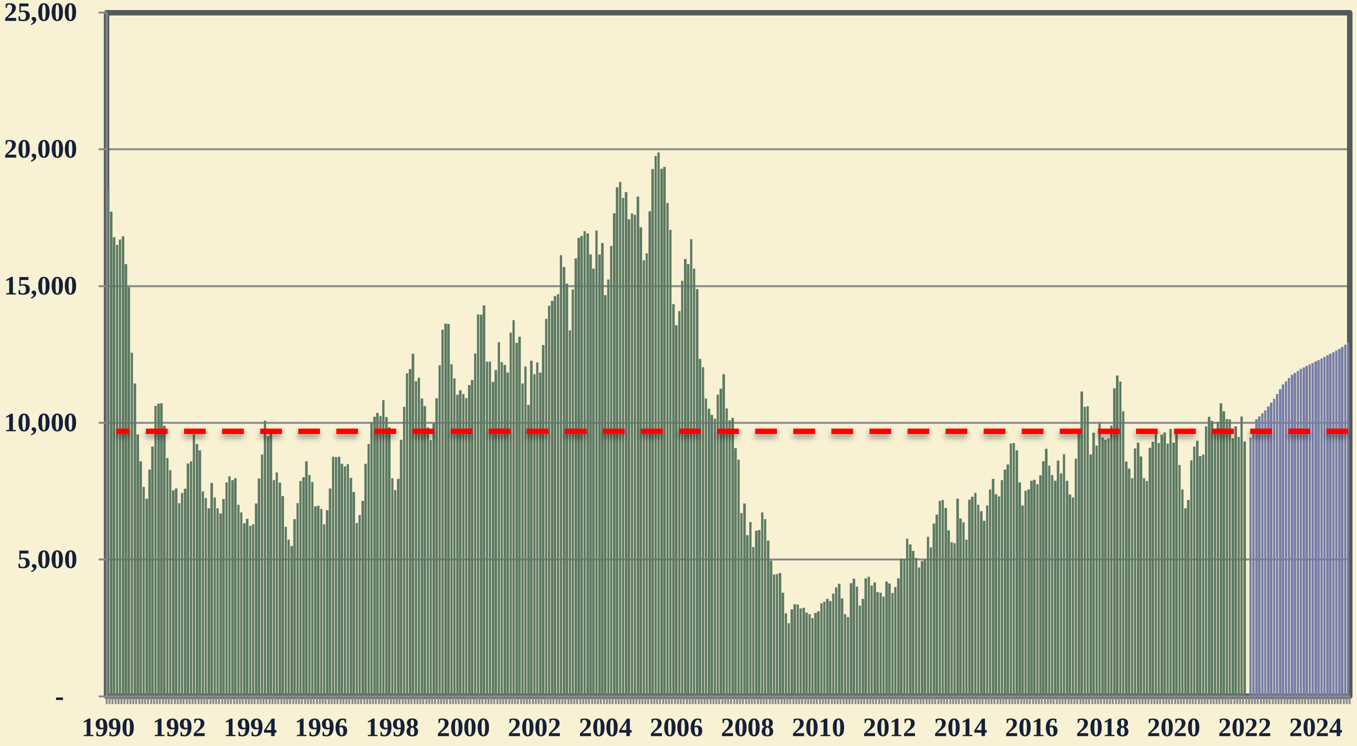




Summer Allen Matkins / UCLA Anderson Forecast California Commercial Real Estate Survey



California New Residential Permits
(3 Mo. Moving Average, No. of Units)



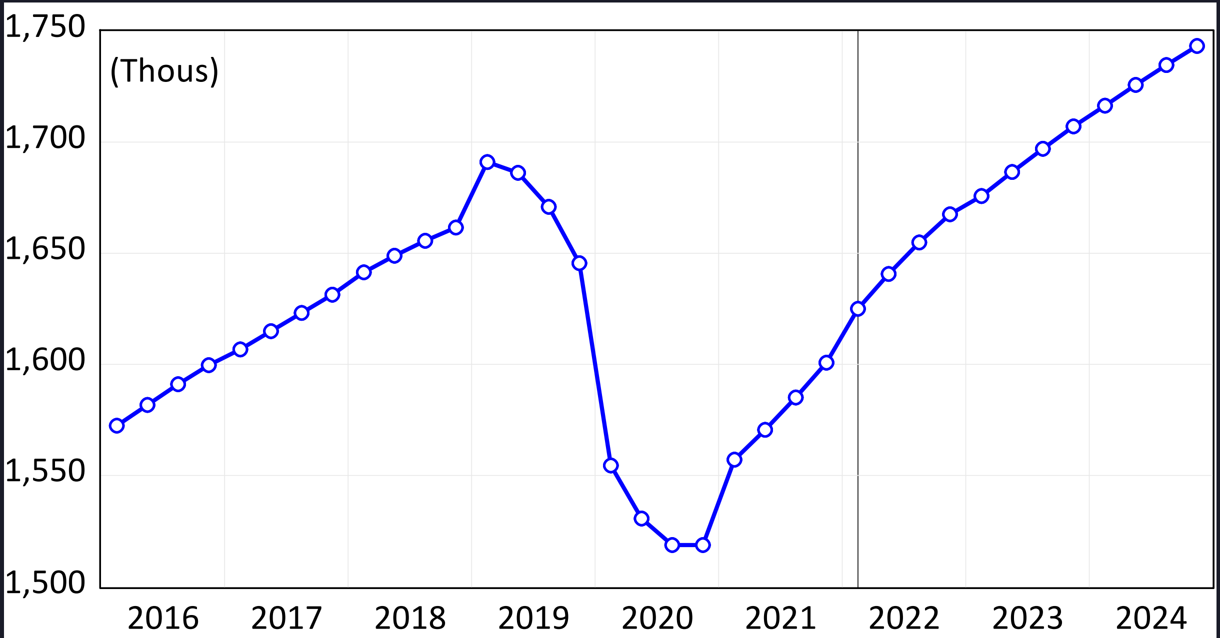
CALIFORNIA SUMMARY

- California Tech, Logistics & Construction are expected to continue to grow, but at a slower rate
- Job loss remains concentrated in human contact sectors, but the gap is closing
- Defense buildup and infrastructure will strengthen CA growth in the out years

CALIFORNIA FORECAST KEY INDICATORS

	2022	2023	2024
Employment	4.3%	1.5%	0.7%
Unemployment	4.5%	4.1%	4.5%
Housing (thousand)	125	135	143
Real Personal Income	-4.5%	2.4%	2.9%

O.C. payroll jobs are forecast to recover to its pre-pandemic level by 2023 Q3

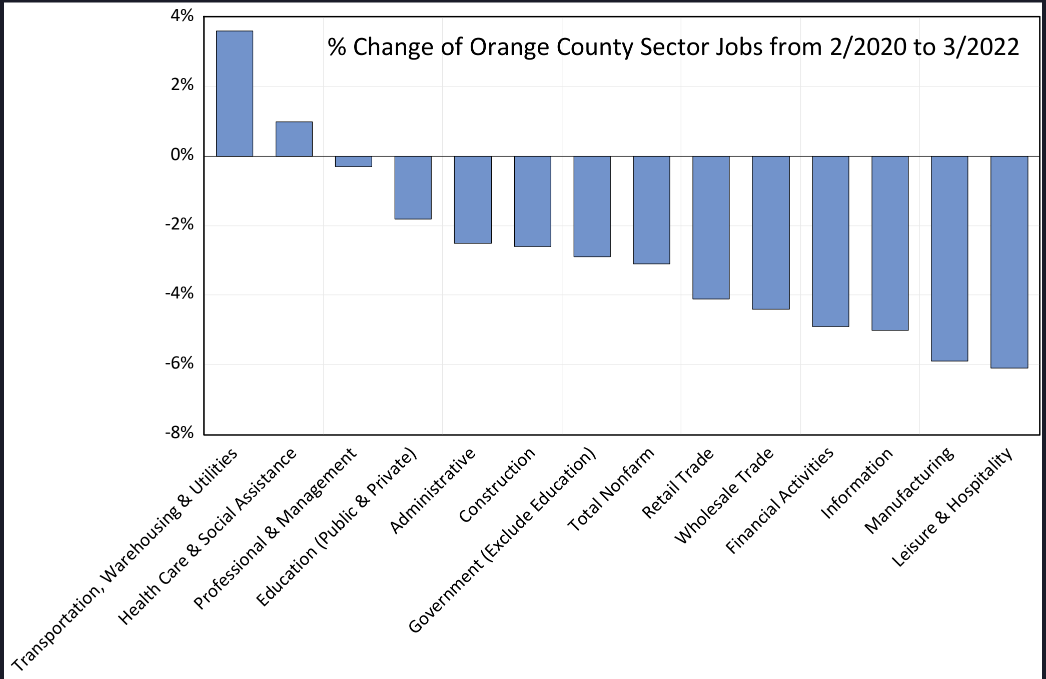


Payroll job growth:
2020: -8.5%
2021: 3.1%

Forecast:
2022: 4.3%
2023: 2.7%

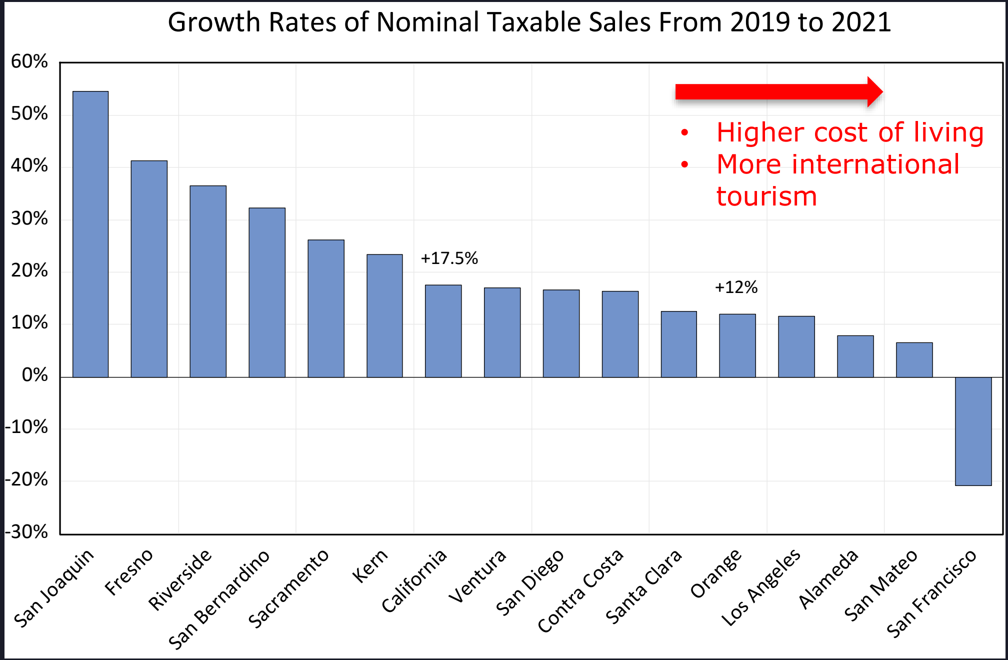
Sources: California EDD and Anderson Forecast

During the pandemic, the job gaining sectors in O.C.: Transportation & warehousing, and Health care. Big job loss sectors: Leisure & hospitality, and Manufacturing



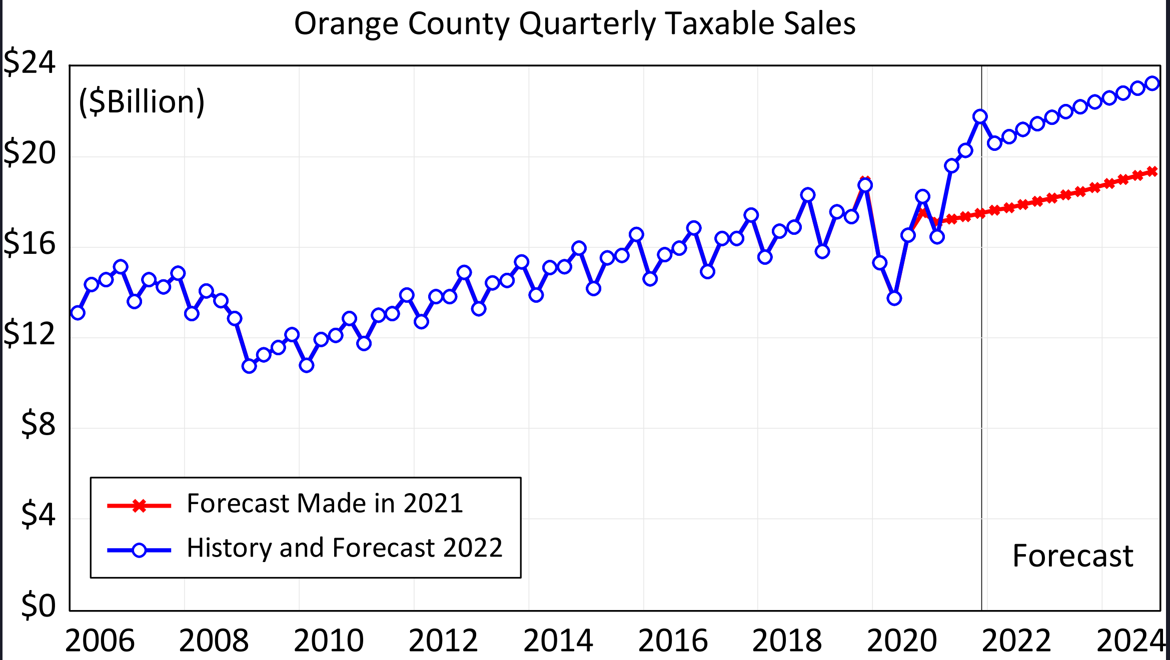
Source: California EDD

Difference of sales growth by county is mostly due to tourism and their relative growths in jobs and population.

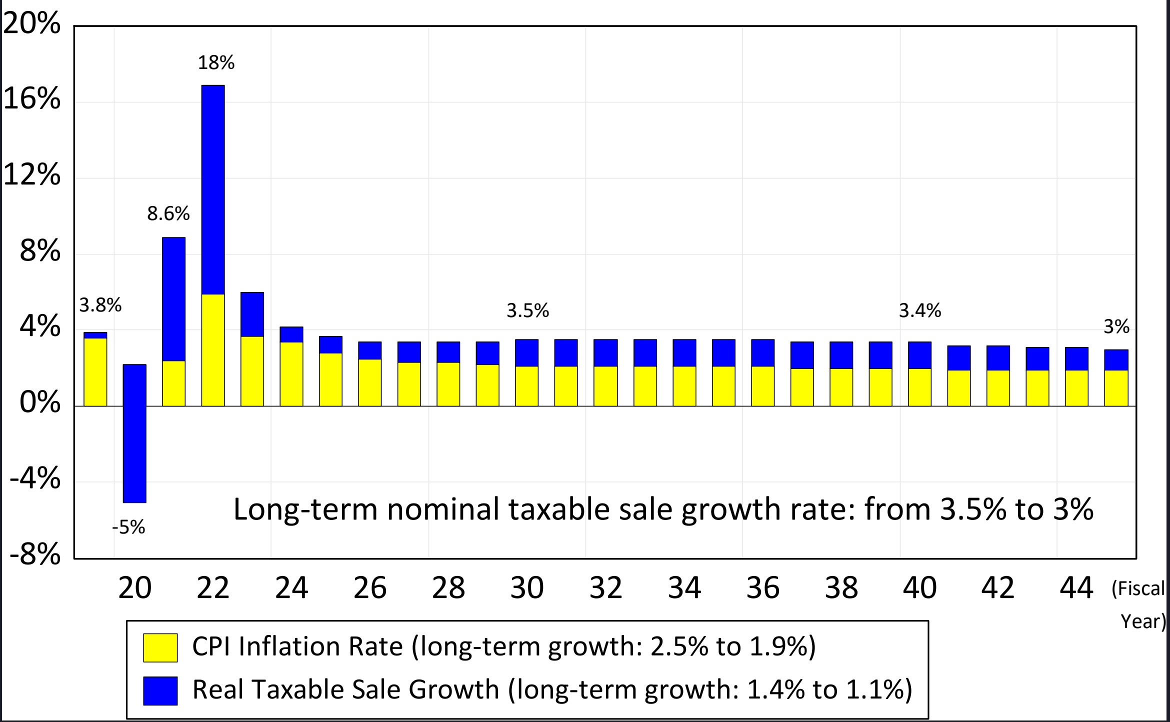


Source: California Department of Tax and Fee Administration
Note: The selected counties are 15 largest counties in CA in terms of taxable sales in 2021

O.C. actual taxable sales in 2021 were much better than our forecast due to extremely high real retail sales and elevated inflation



The long-term growth of O.C. taxable sales will convert to 3.5% in 2030 and slow down to 3% in 2045



Summary

- Orange County’s economy grew slower than the California average due to (1) lack of tourism and (2) its higher cost of living and lower growths in jobs and population.
- Total Orange County jobs will recover to its pre-pandemic level by 2023 Q3.
- High growth on taxable sales in the past year will slow down.