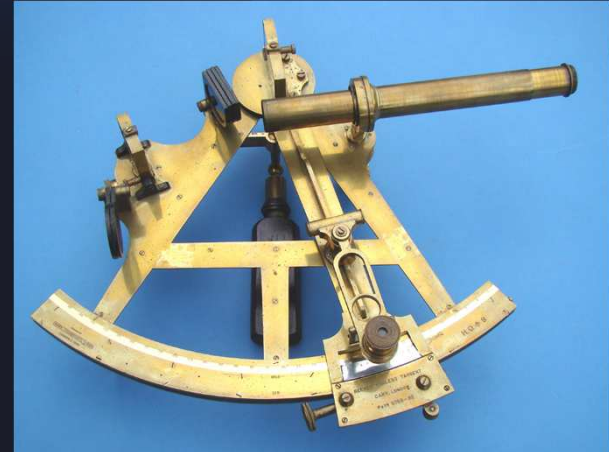


## Forecasting In The Time of Trump

### US & CA Economic Outlook ACCCA – ACBO Budget Workshop, 2017



Jerry Nickelsburg  
Adjunct Professor of Economics  
Anderson School of Management  
Senior Economist  
UCLA Anderson Forecast





## Road Map

- US Outlook -- GDP
  - Productivity constraints
  - Demand constraints
  - Fed Policy
- California Outlook
- Trumponomics: The Unknowns
- State Tax Revenues



# Economic Growth Calculus

Change in GDP =



Change in Labor Force



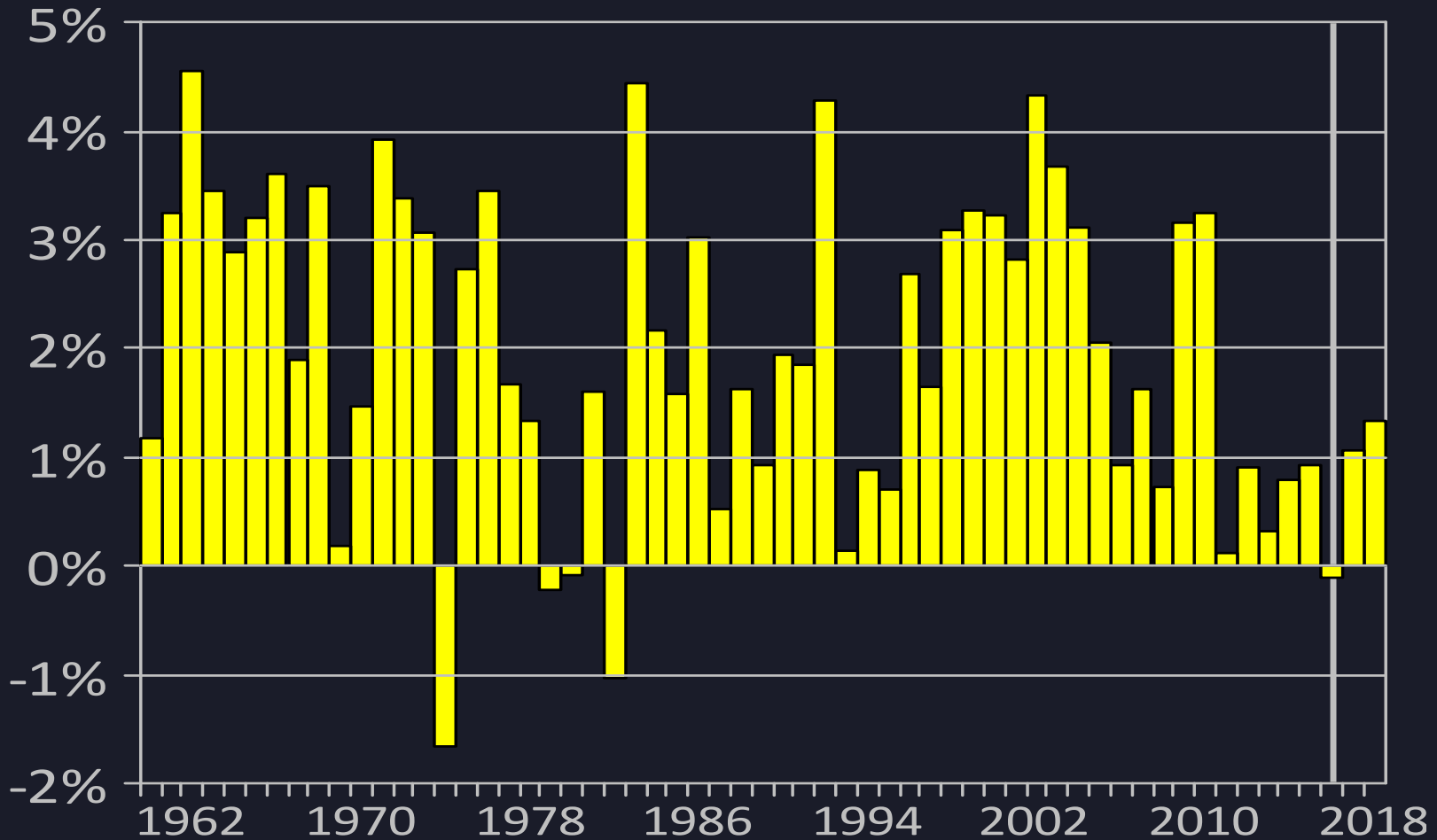
Change in Capital Stock



Change in Technology

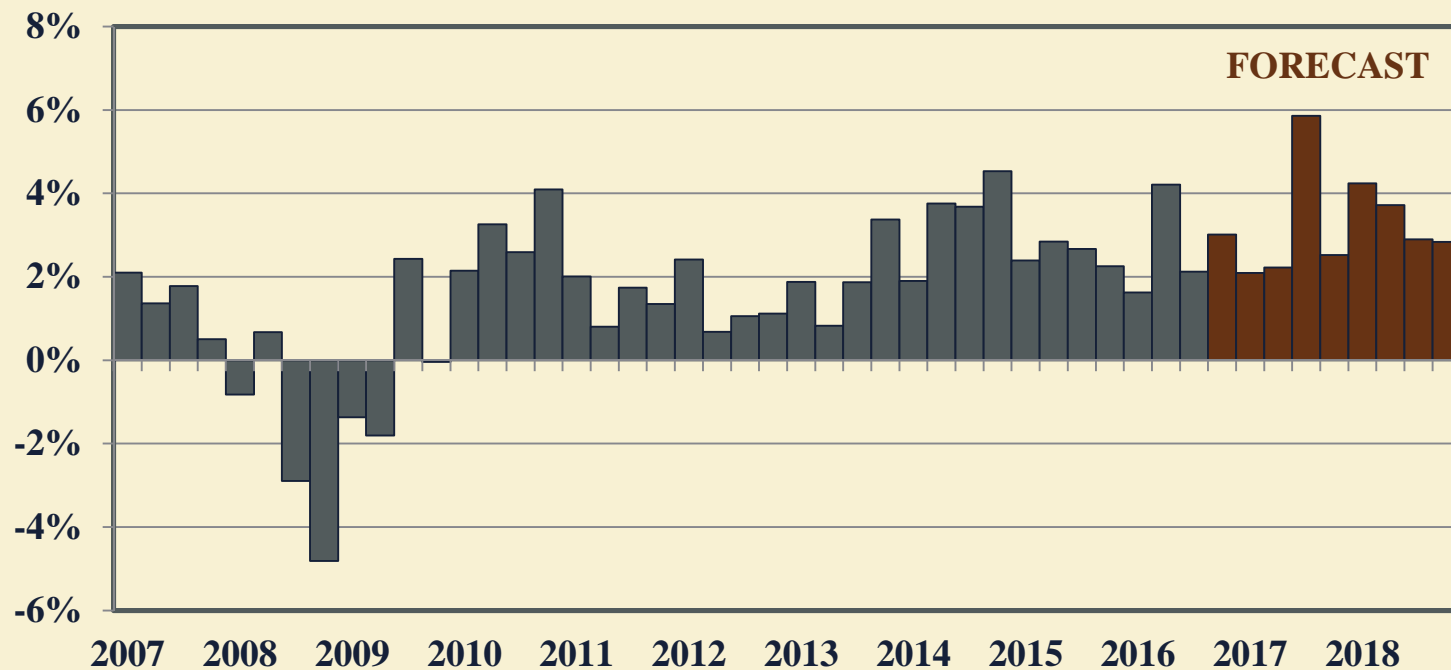
# Productivity Growth

(Percent Change, Annual Data)



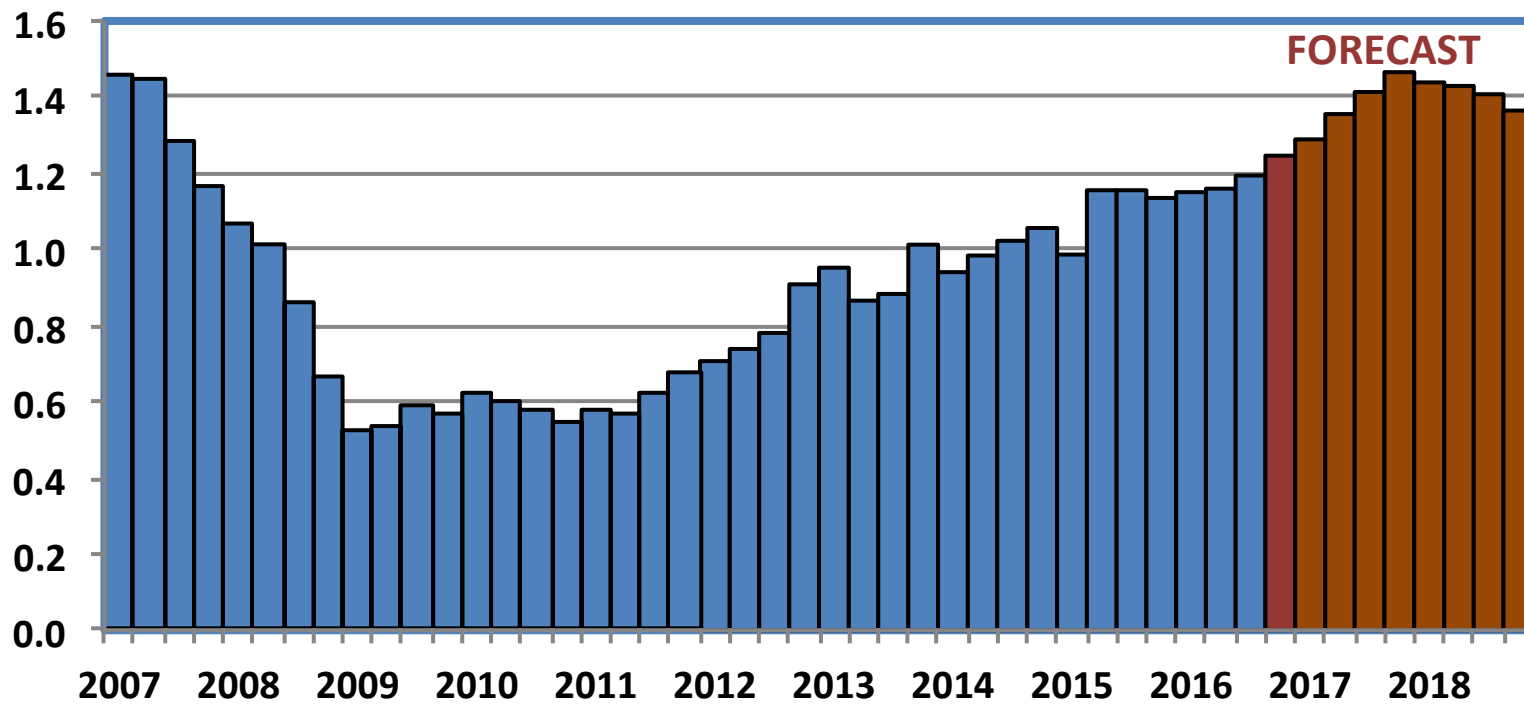
# Temporary Increase in Consumption Growth From Stimulated Economy

Real Consumer Spending  
SAAR, 2007:Q1 - 2018:Q4



# Housing Grinds Higher

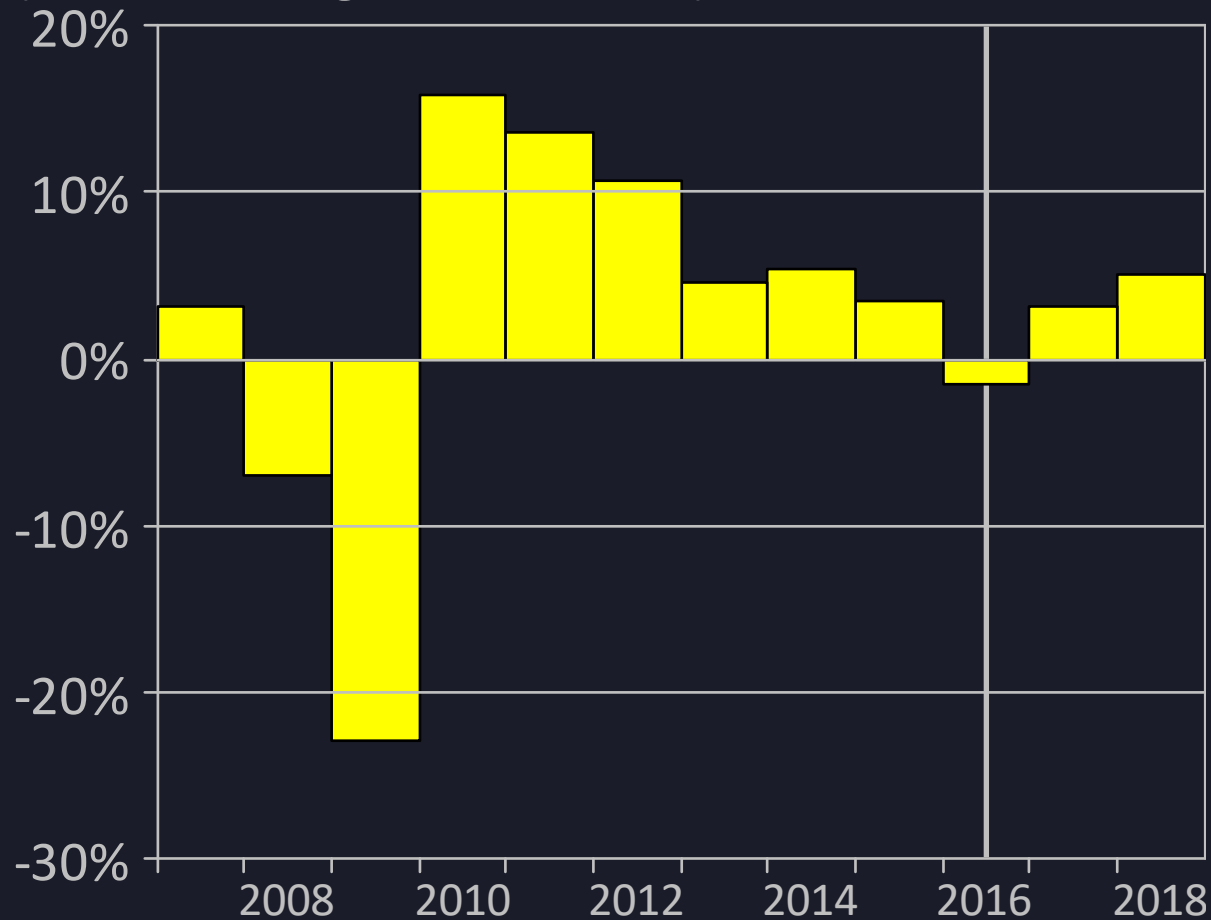
## Housing Starts 000, SAAR, 2007:Q1 - 2018:Q4



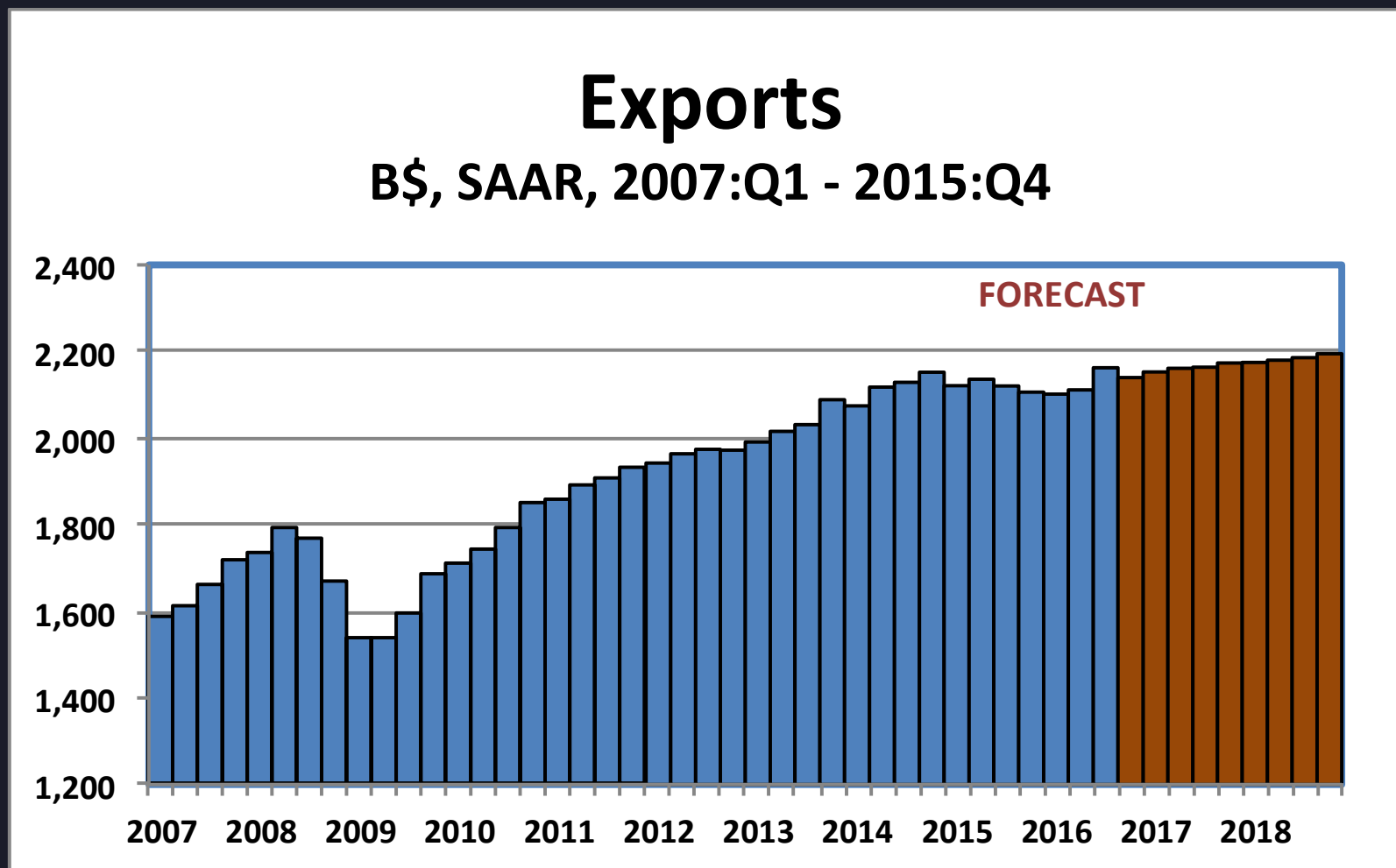


# Equipment & Software Rebounds

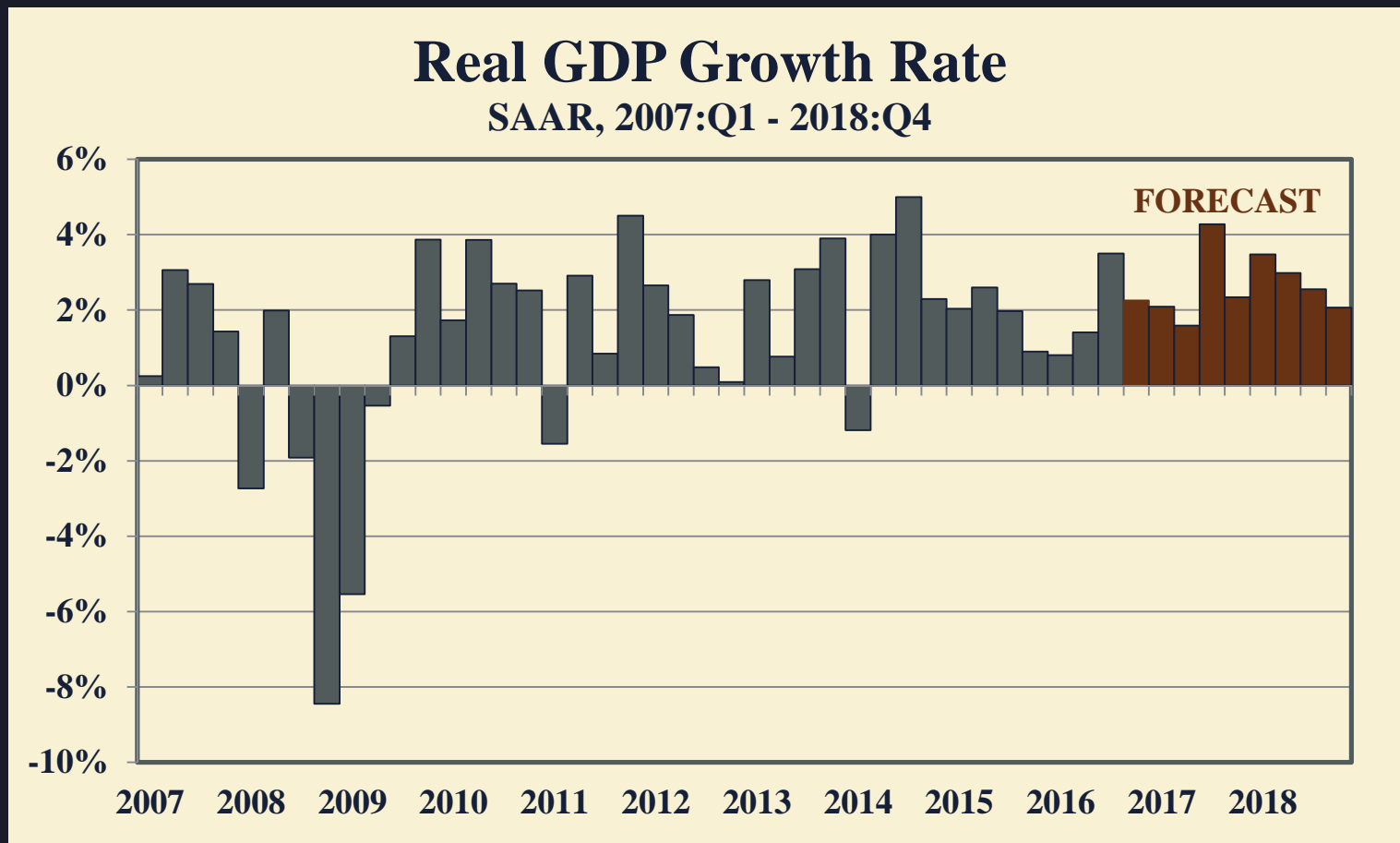
(Percent Change, Annual Data)



# Net Exports Going Negative



# Real GDP Growth on 2% to 3% Growth Track

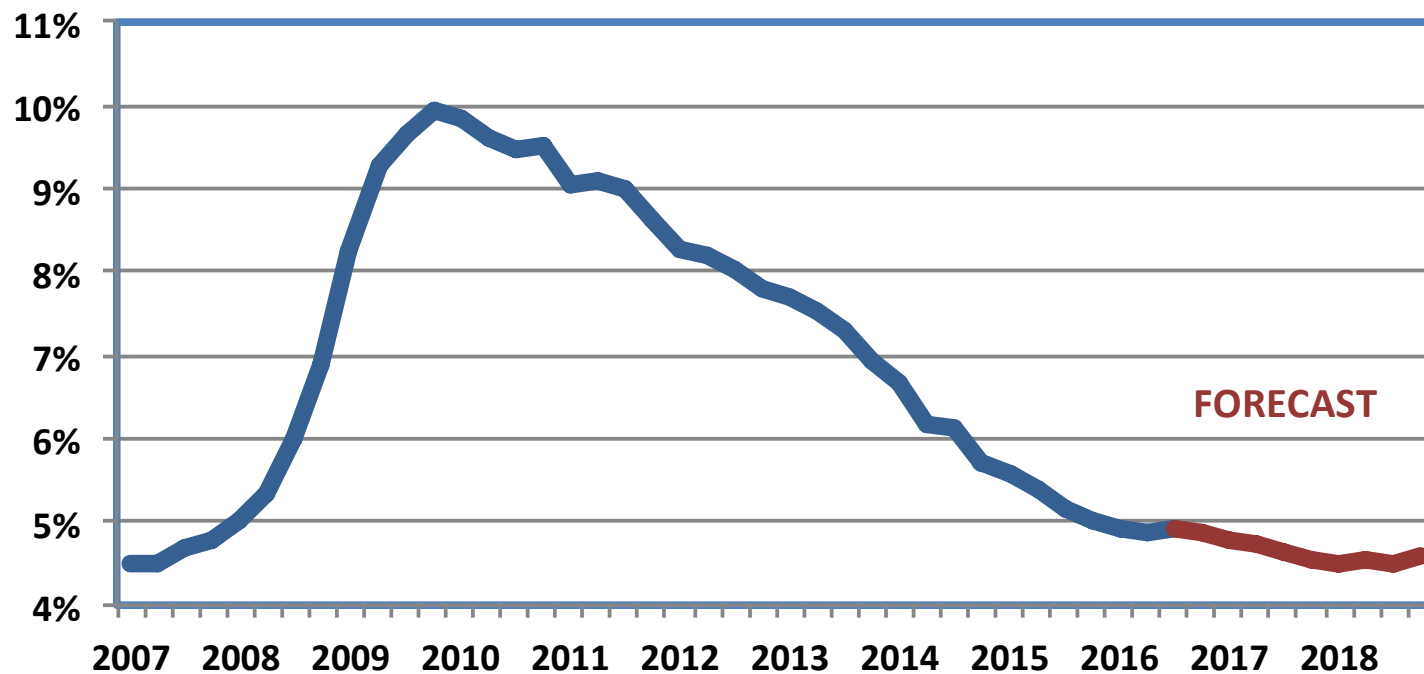


# Unemployment Continues To Fall

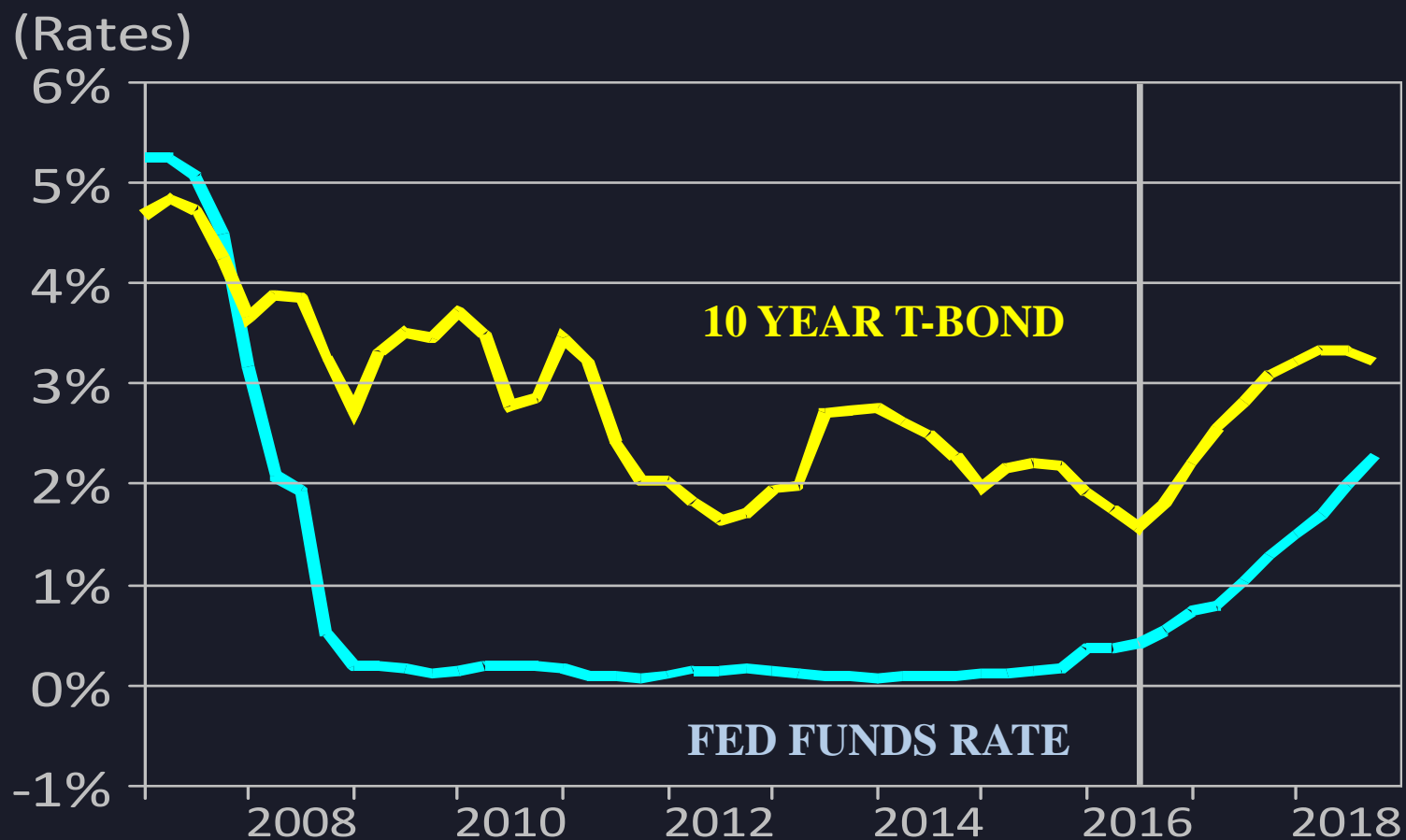
## How low can it go?

### Unemployment Rate

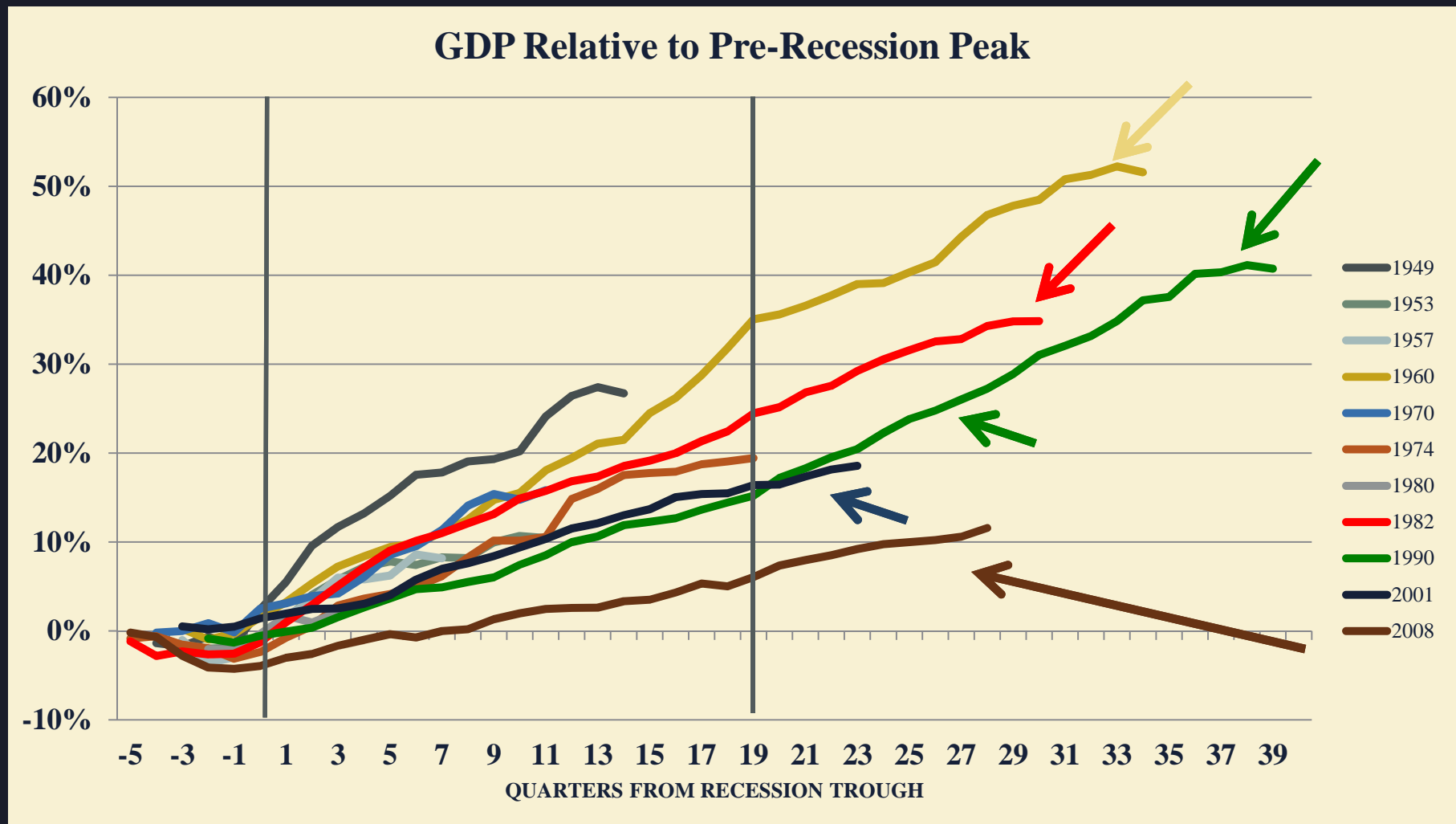
2007:Q1 - 2018:Q4



# Fed in a Tightening Cycle



# Are we due for a recession?

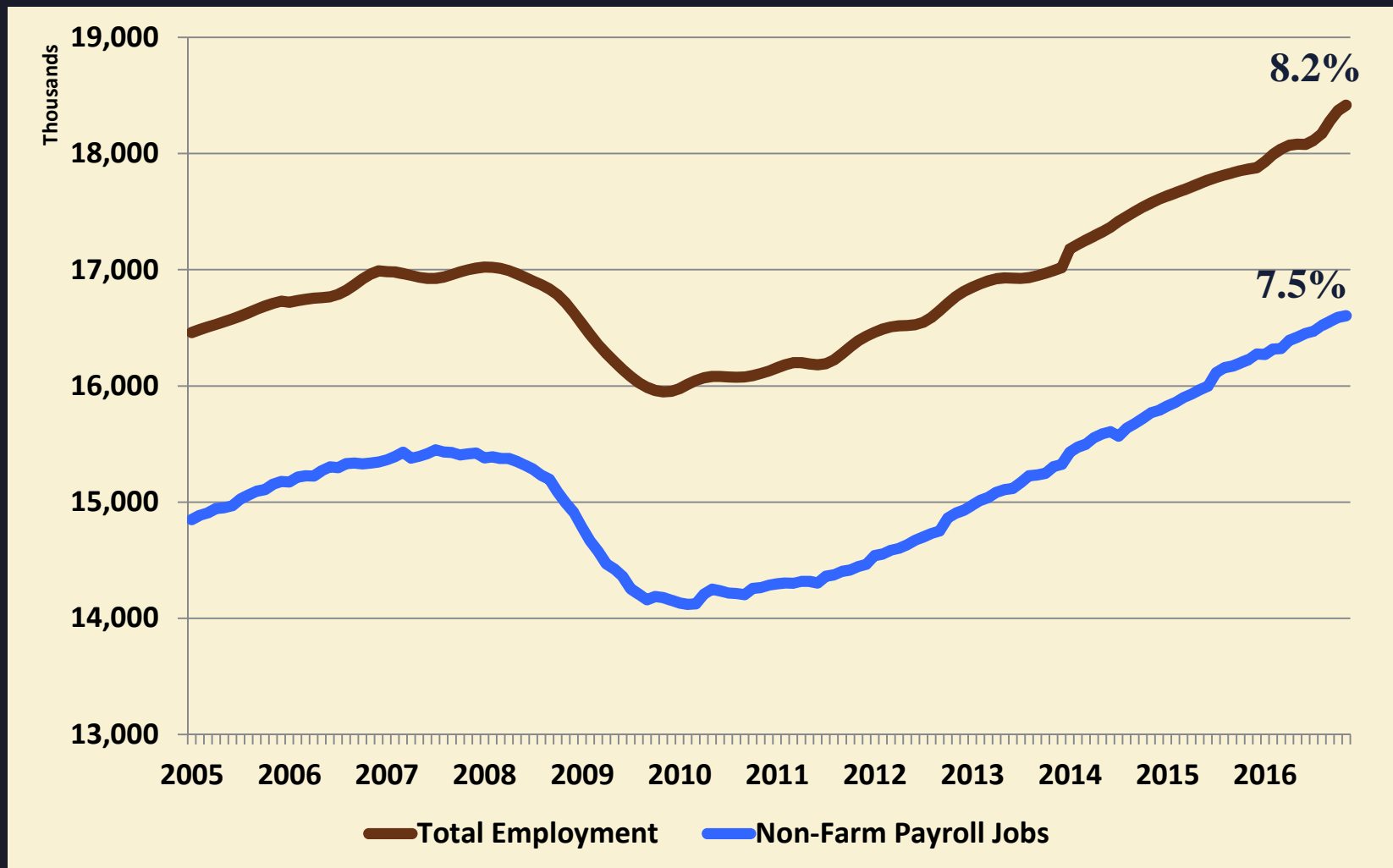




# Dead Reckoning US Forecast

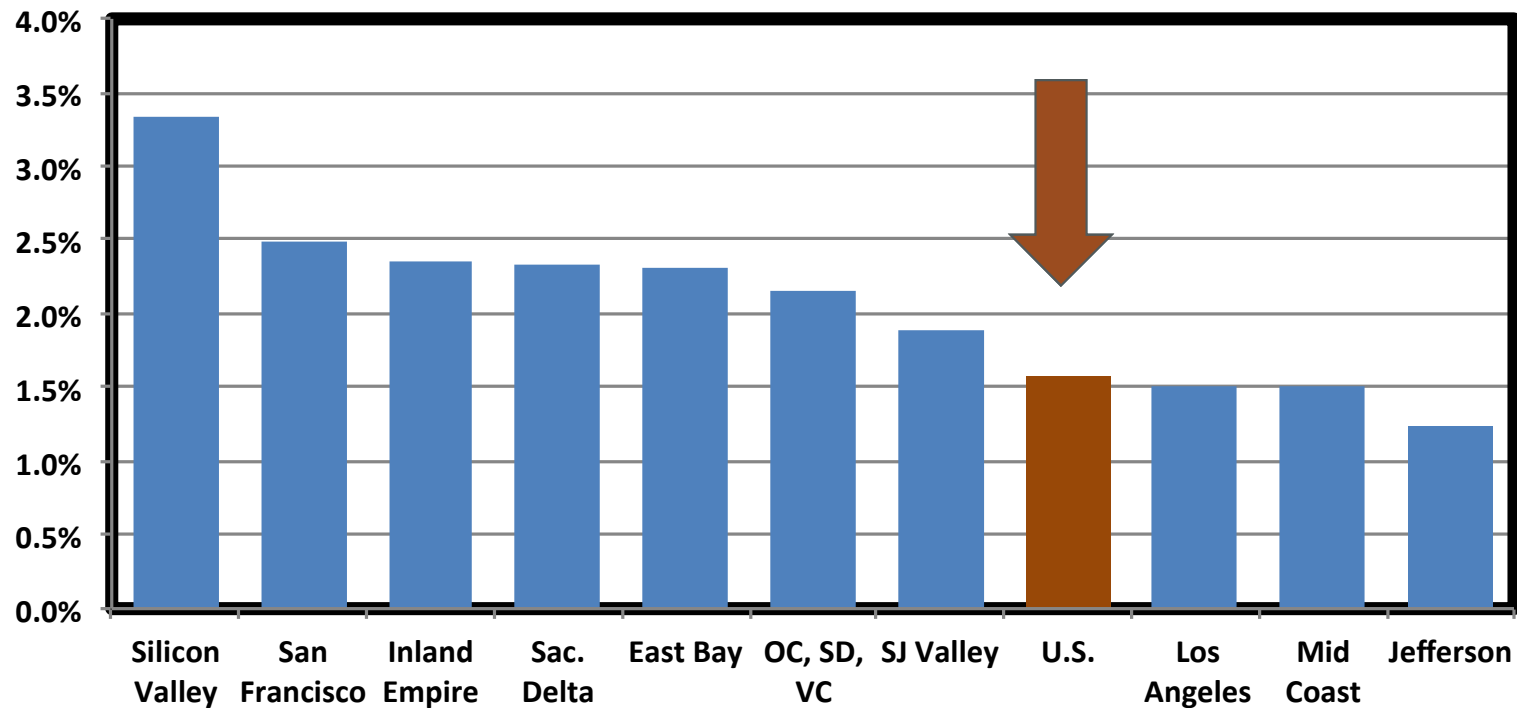
- Economy continues to grow
- Investment rebounds somewhat
- Full employment causes wages to increase
- Unemployment and inflation reach or exceed Fed targets
- But to get much higher GDP requires inducing more people into the work force and inducing more business investment – perhaps the Trumpian stimulus can do that, perhaps not

# California Record Employment Levels



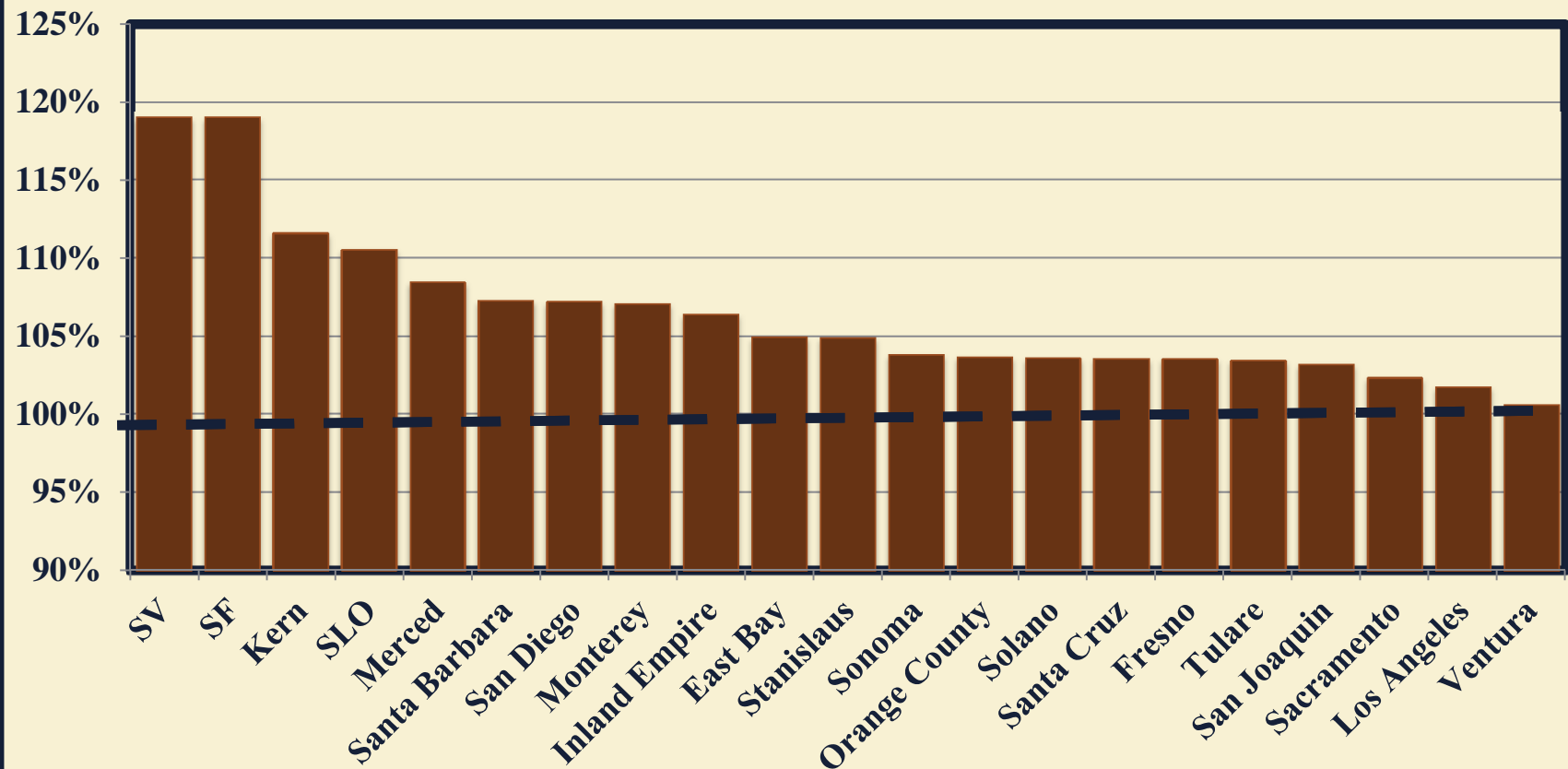
# Breaking It down by region

**California Regional Job Gain  
(Nov. 2015 to Nov. 2016, SA)**



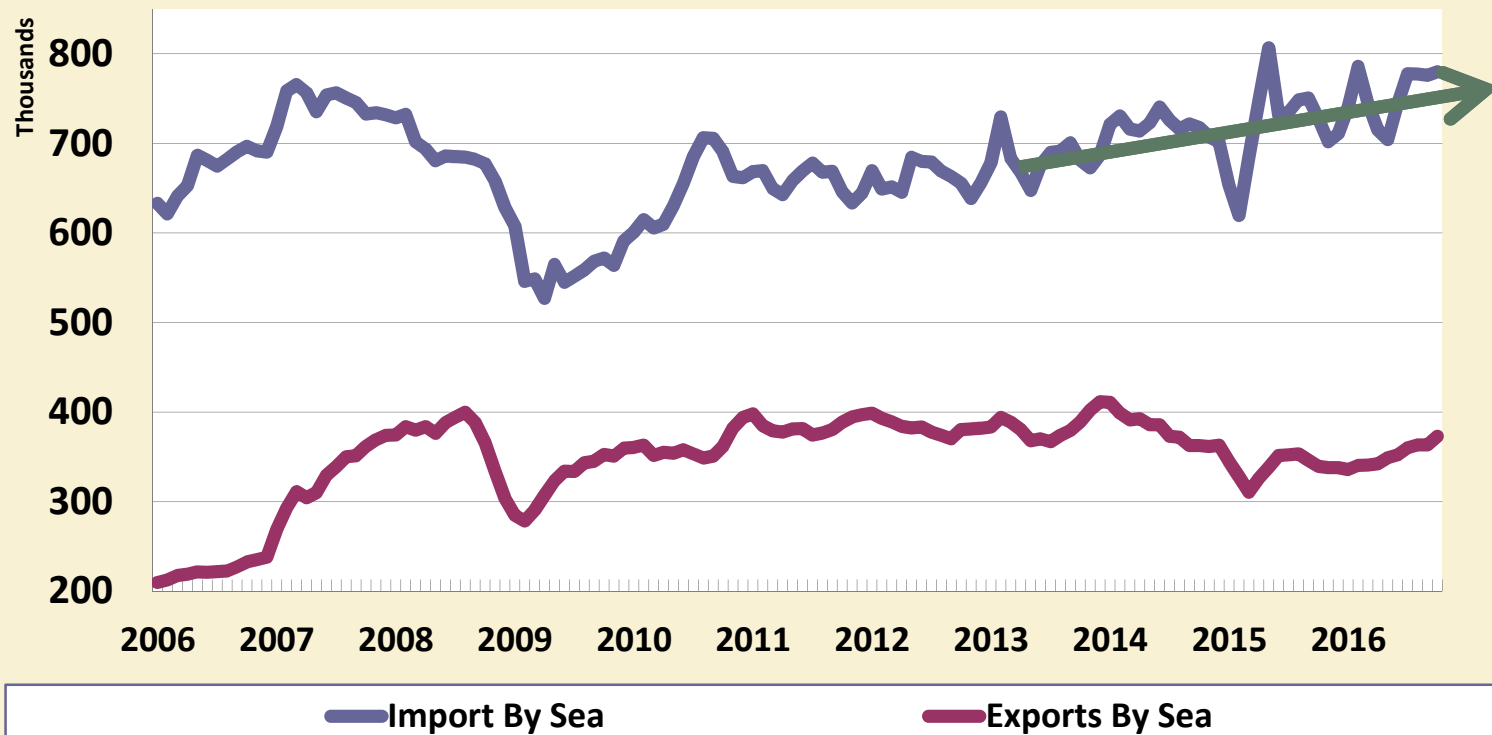
# Most of California has recovered

## Percentage of Employment Loss Recovered (Nov. 2015 from pre-Recession Peak)



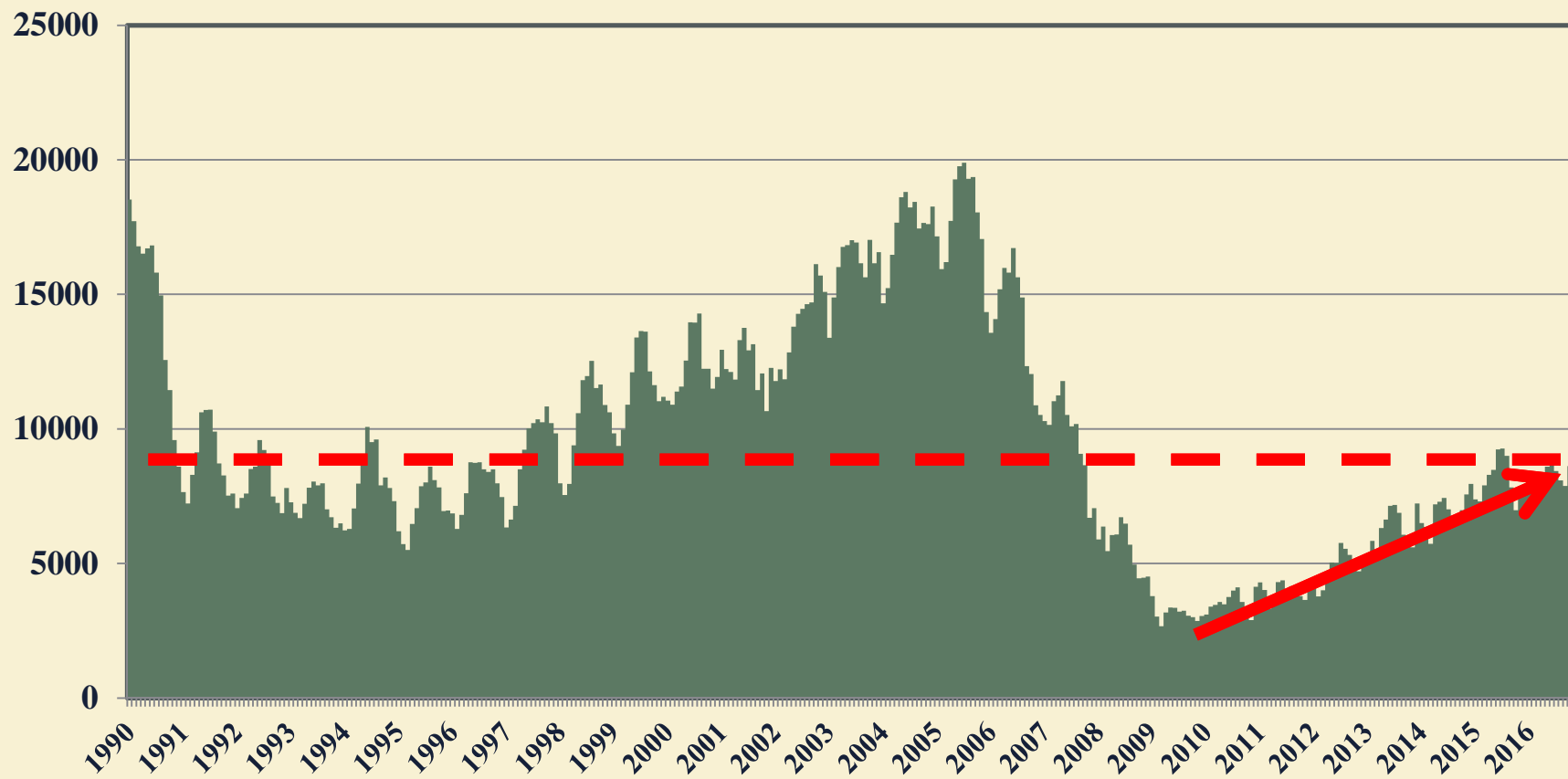
# Trade Through CA Ports

California Seaport Traffic  
(000 TEU's, SA, 3 Mo. Ave)



# Home Building

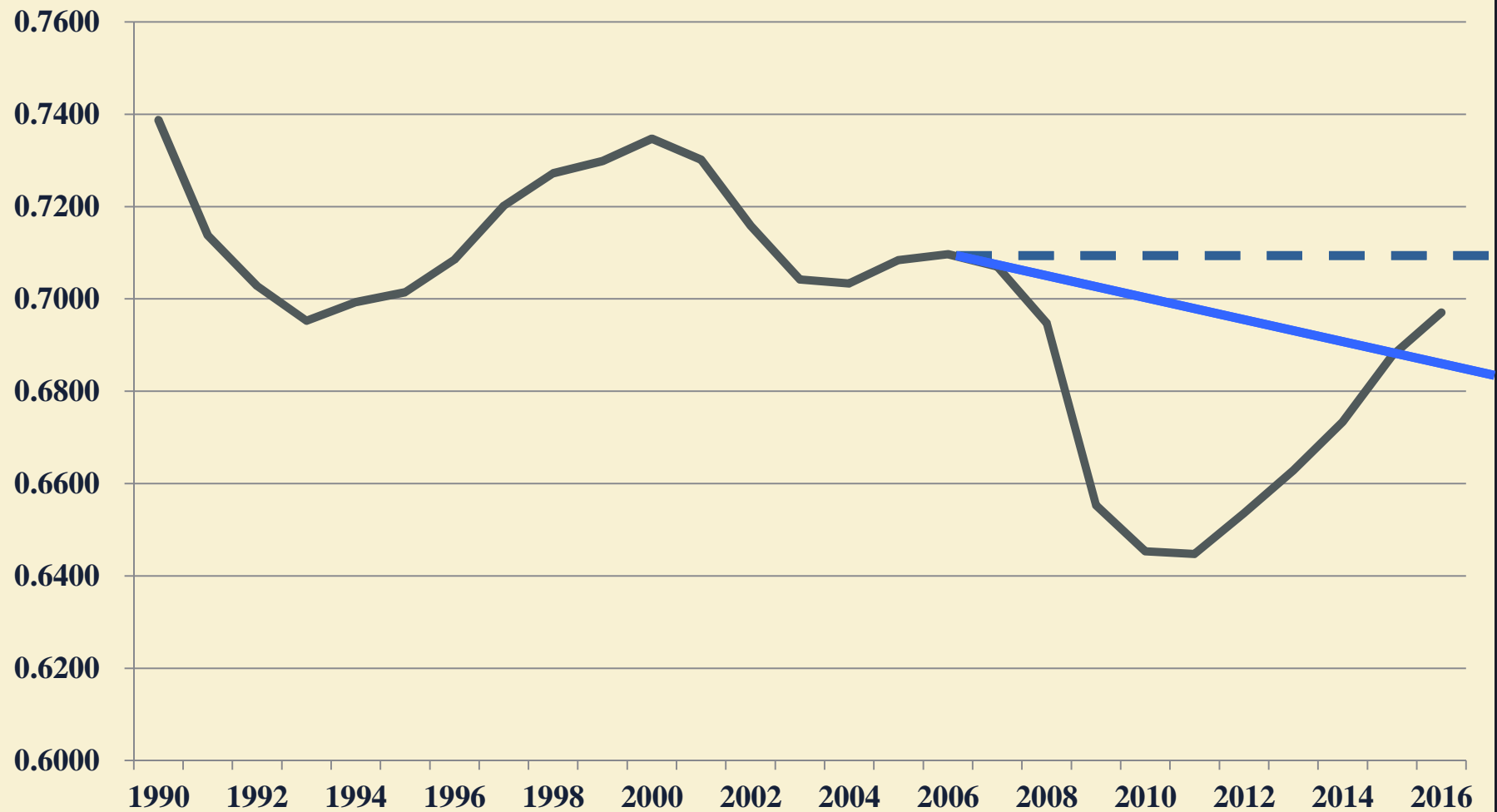
**California New Residential Permits  
(3 Mo. Moving Average, No. of Units)**





# Full Employment ?

Ratio of Employment to CA population (Ages 18-64)



# Implications

- Full employment: for now
- Slower growth but solid growth in a constrained economy (labor force and housing)
- Growth in The US economy and CA specific impacts gives us the speed for our dead reckoning forecast for 2018

## DEAD RECKONING FORECAST

	2016	2017	2018
Payroll Employment	2.6%	1.8%	1.5%
Unemployment	5.4%	5.2%	5.2%
Personal Income (real)	1.9%	3.6%	3.8%
Housing Permits (units)	102.7	118.9	119.5
Population Growth	0.9%	1.0%	1.0%

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# deportations



# deportation

- It can't happen right away & It will be expensive
- It will affect agriculture, meat production, non-durable goods manufacturing
  - Mitigated by
    - Imports
    - Overtime
    - A small increase in domestic labor
- Where have all the gardeners gone?
- Multiplier effects





# Higher Defense Spending



## Higher Defense Spending

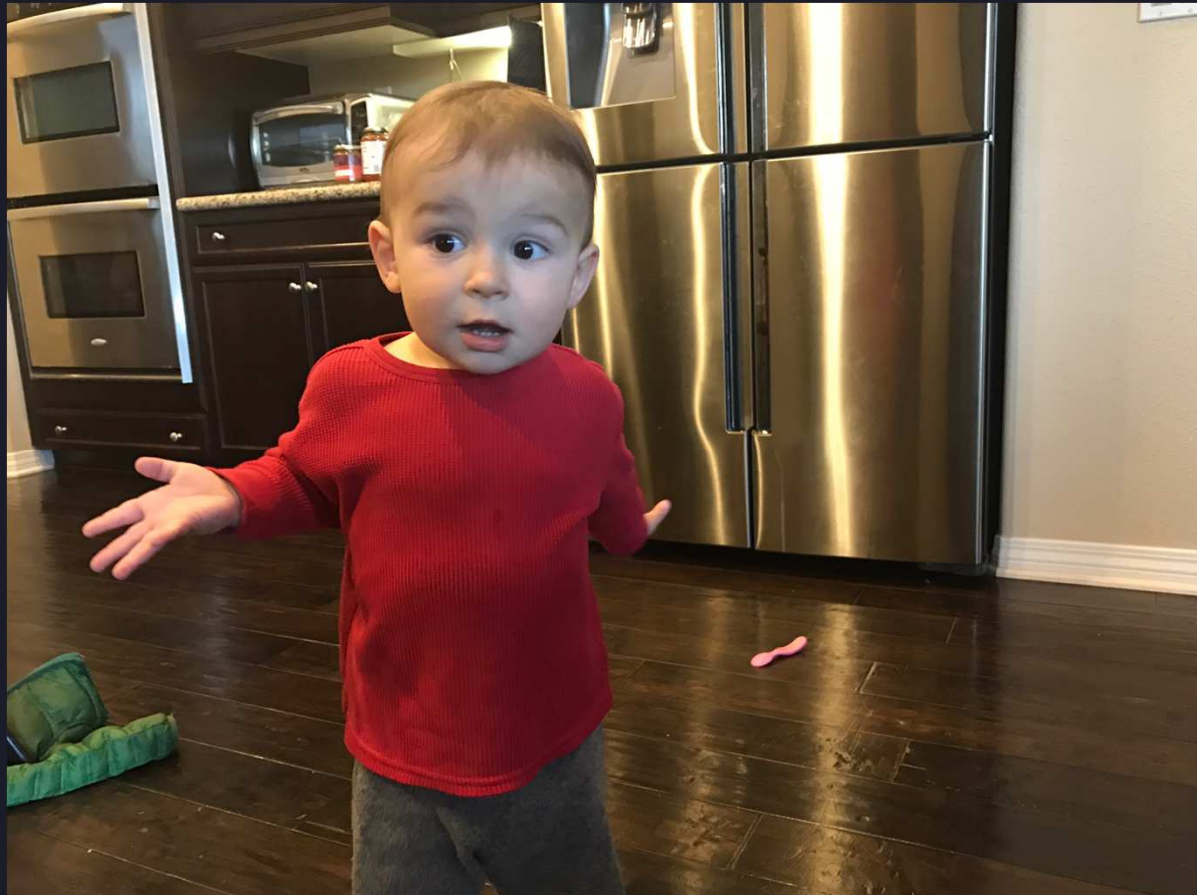
- California disproportionately benefits
  - San Diego, OC & LA
  - Silicon Valley
- Where do the people come from?
  - Not in the unemployed
  - Higher wages
    - Re-hire recent retirees
    - Domestic migration

# Infrastructure Spending





# SO WHAT WILL HAPPEN?

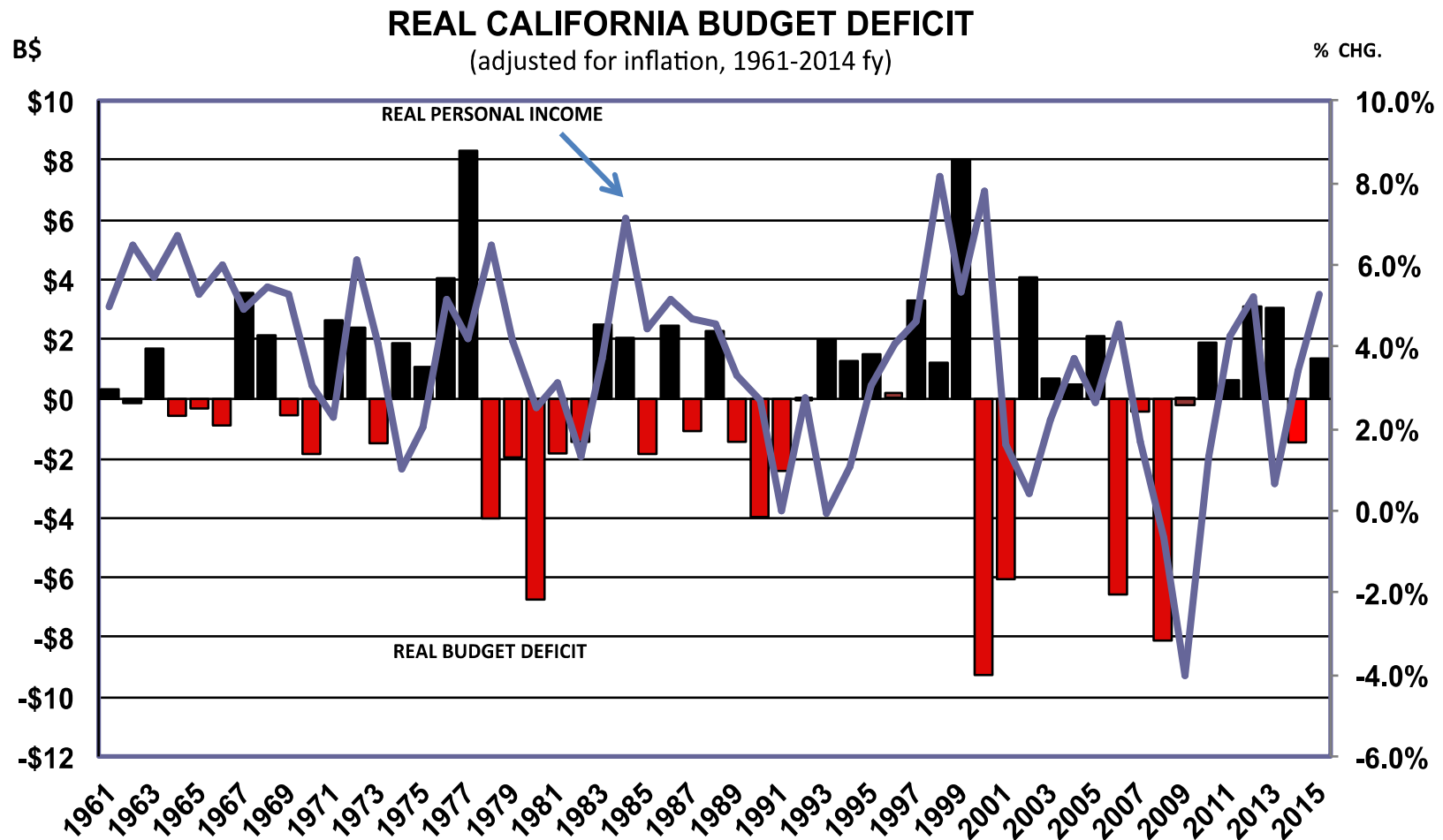


PROBABLY OK FOR THE NEXT YEAR

## DEAD RECKONING FORECAST

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Population Growth	0.9%	1.0%	1.0%

# But what if a recession happens?



## Final Thought on The Forecast

This is Major Tom to Ground Control/  
I'm stepping through the door/  
And I'm floating in a most peculiar way/  
And the stars look very different today

...David Bowie, Space Oddity 1969