

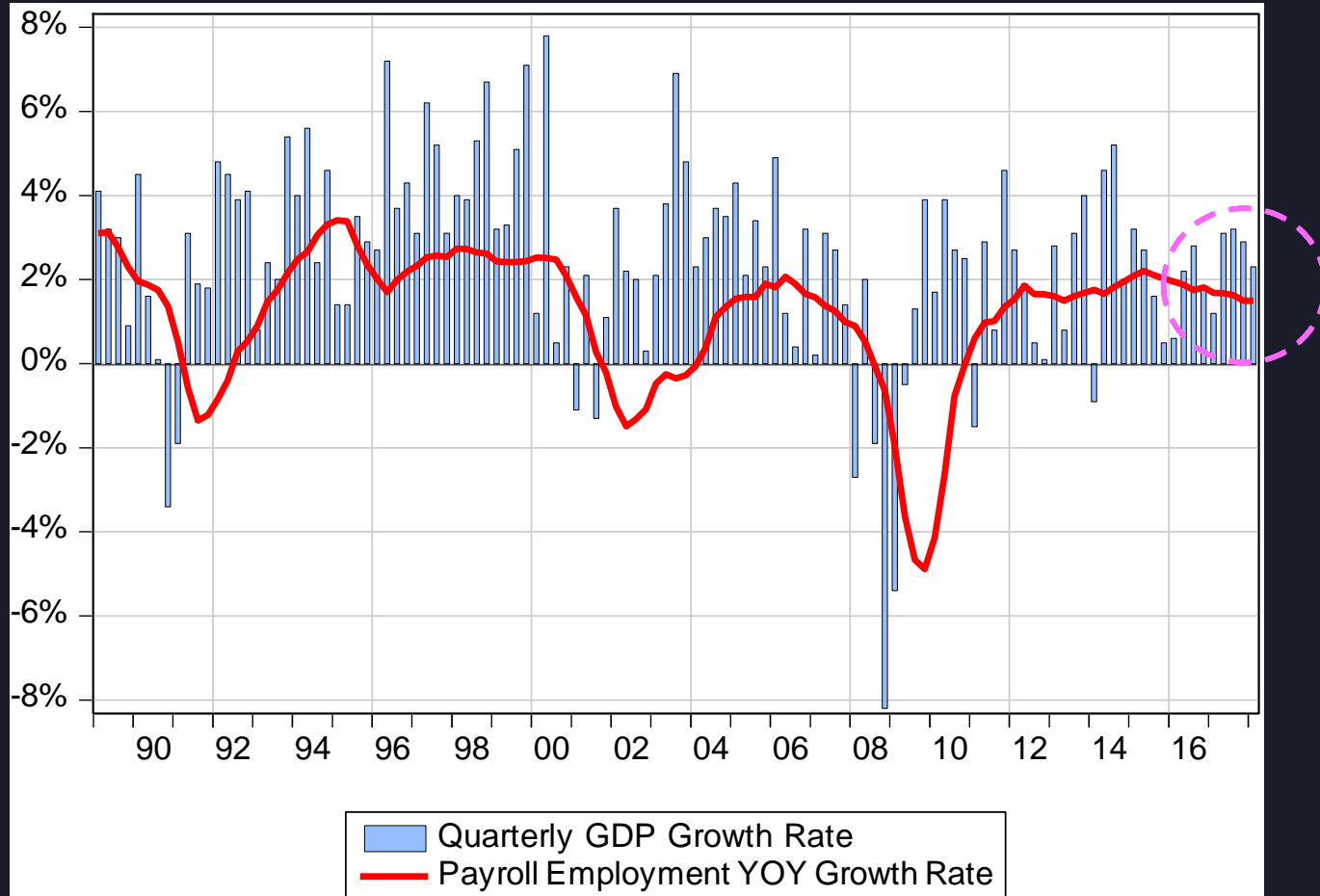
The Economic Outlook and Orange County Taxable Sales Forecast

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Jerry Nickelsburg, Director
William Yu, Economist

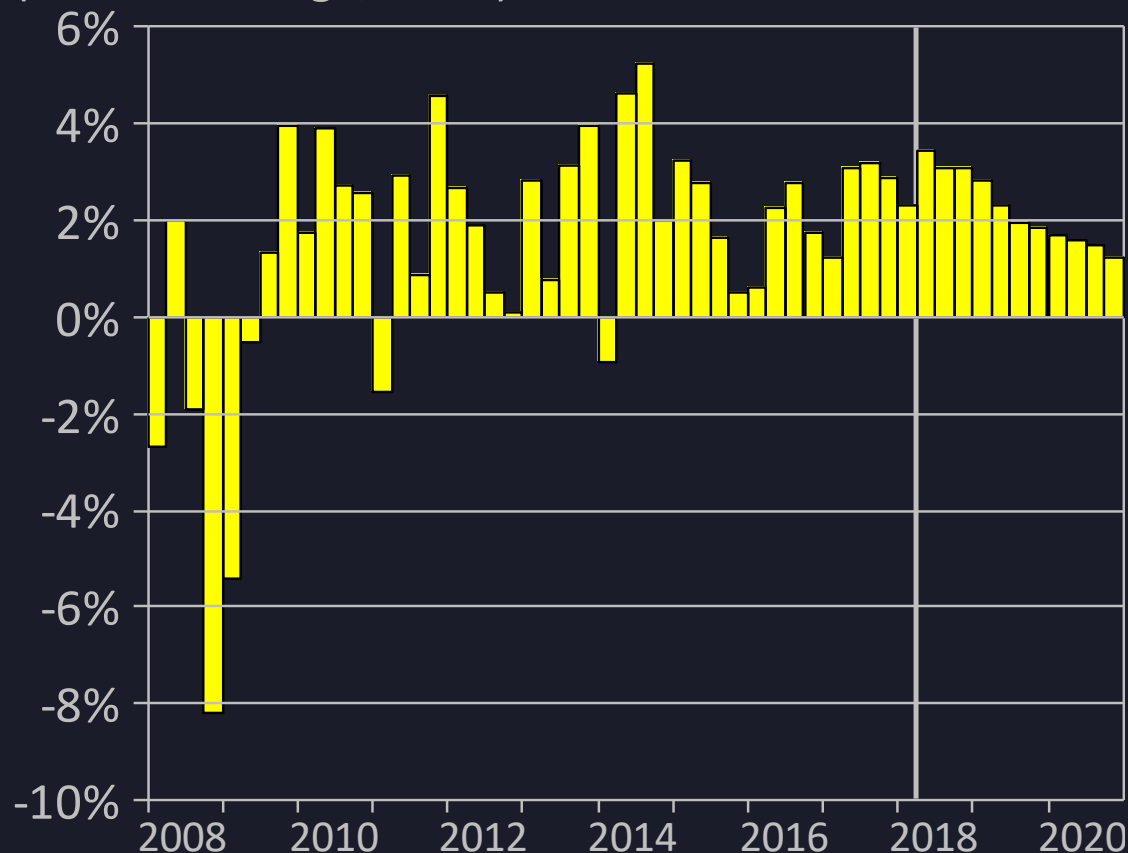
UCLA Anderson Forecast

U.S. economy is growing at 3%

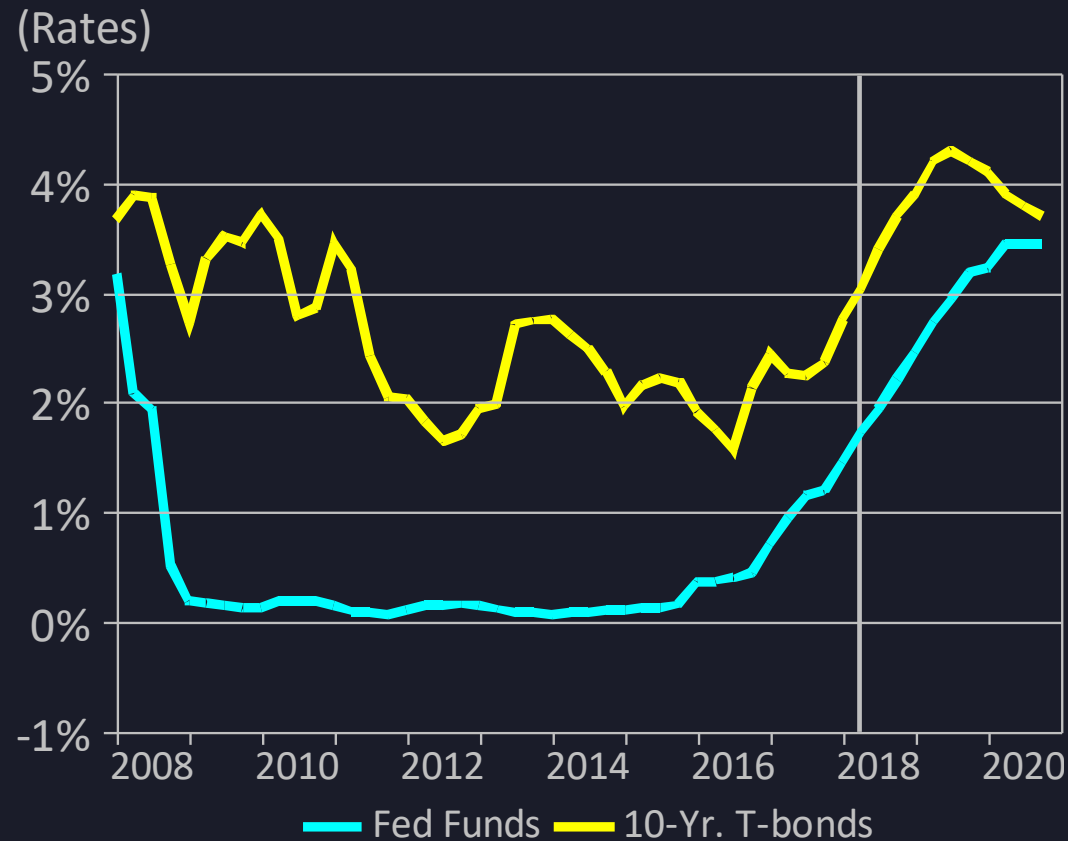


3% real GDP growth in '18 slowing in '19, and '20

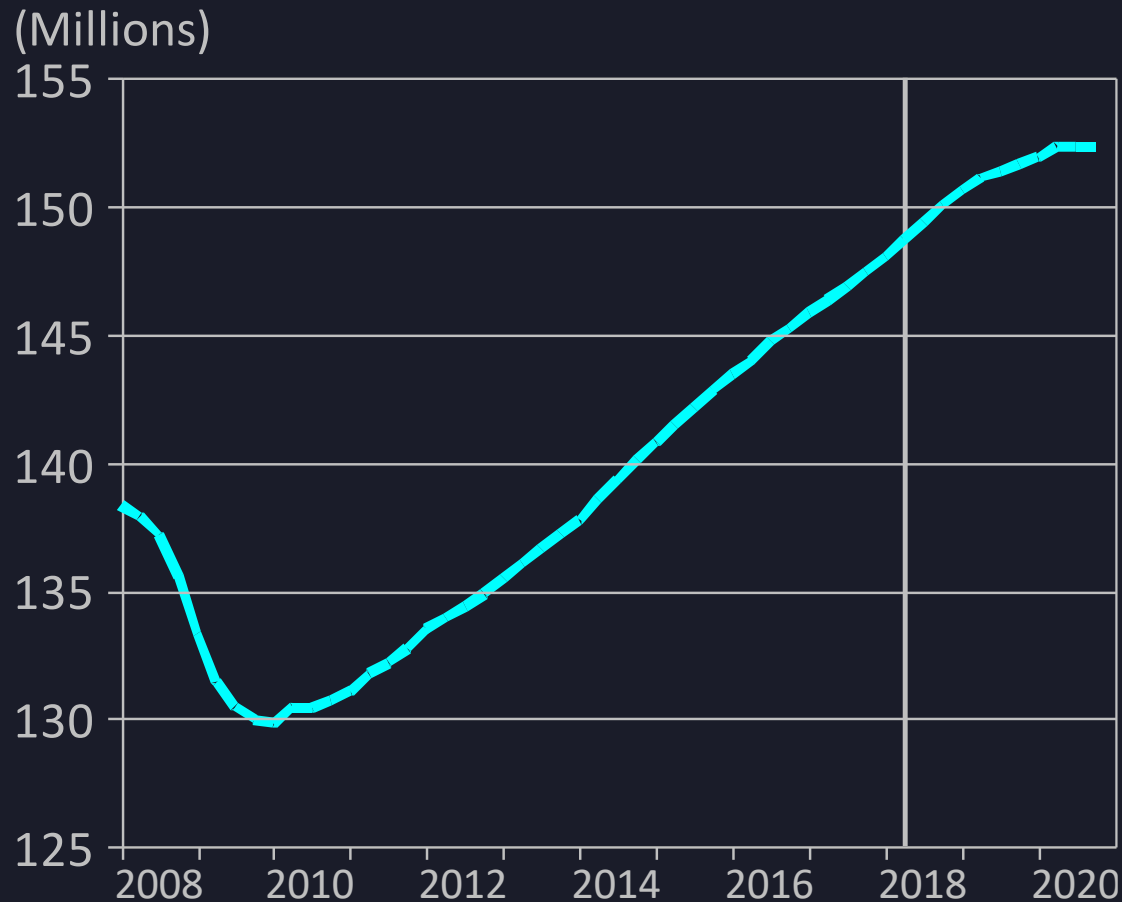
(Percent Change, SAAR)



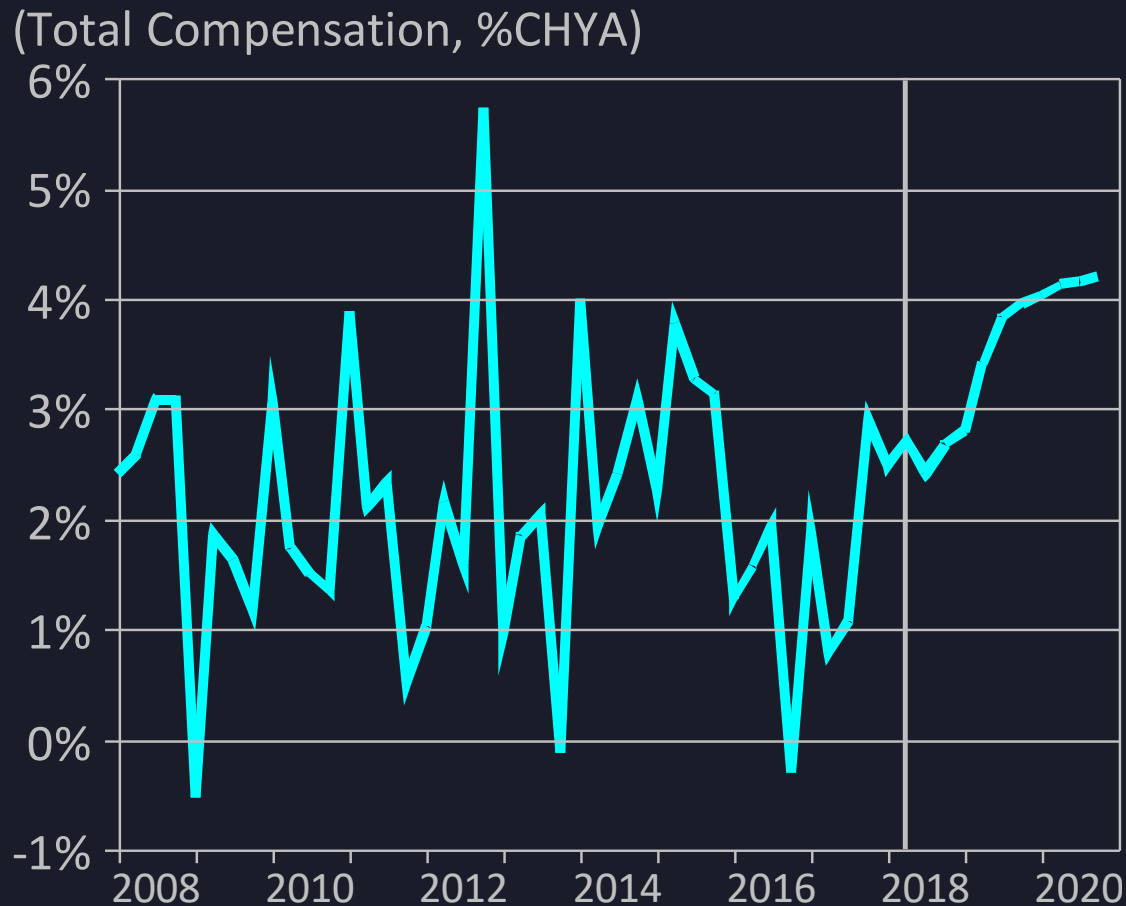
Interest rates on the rise



Employment growth remains solid



Employee compensation rises with tightened labor markets



With higher inflation

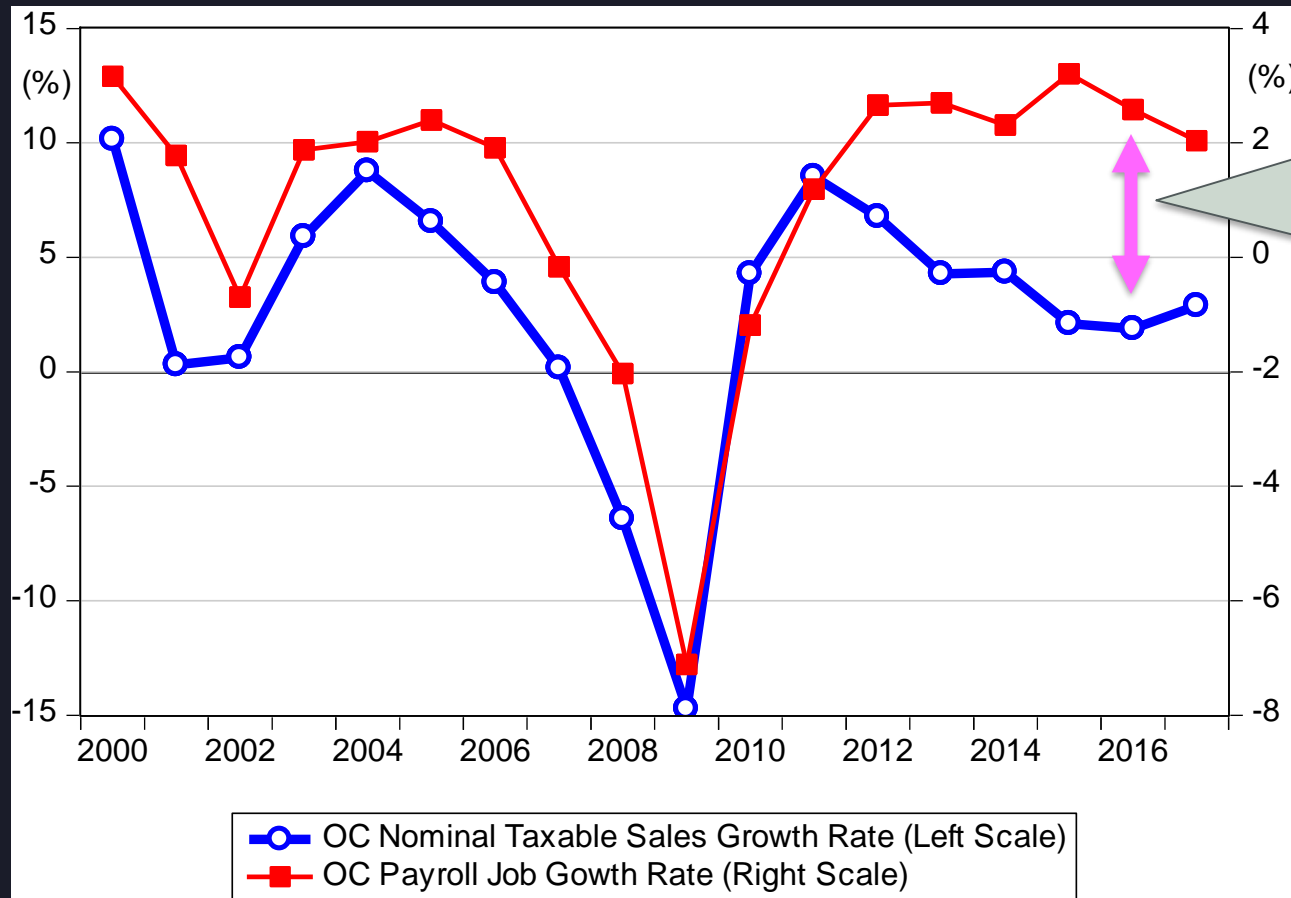
(Percent Change Year Ago)



Where are we in the housing cycle?



Why our forecasts on O.C. taxable sales in the past few years were too optimistic?

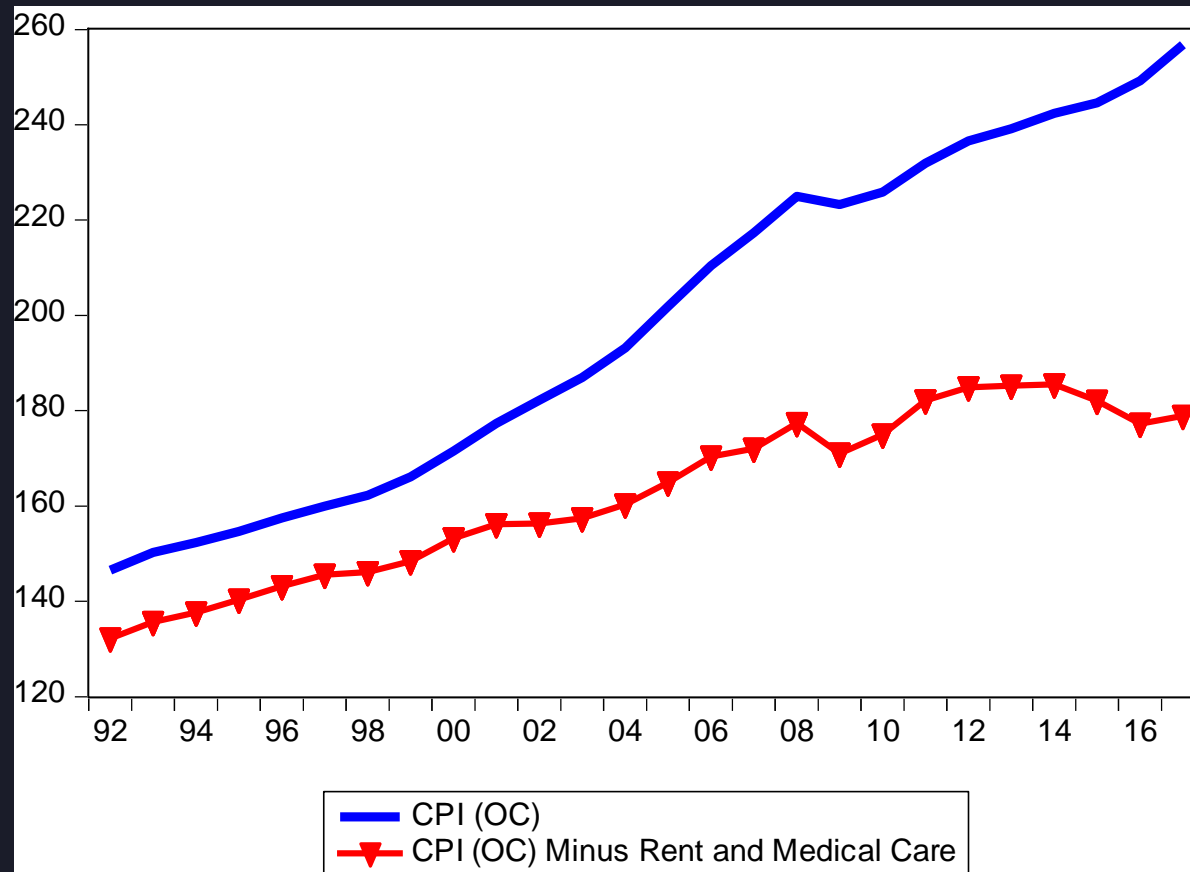


While OC economy was doing well, its taxable sales growth were pretty weak.

We suggest three reasons:

- (1) In 2014 and 2015, CPI inflation was almost zero due to the oil/gasoline price slump.
 - Oil prices have been stabilized.
- (2) Online retailers without CA physical presence did not collect sales tax.
 - Recent Supreme Court ruling says all online retail purchase need to pay sales tax.
- (3) Traditional CPI inflation didn't measure taxable sales well in recent years.

Inflation on housing and medical care is higher than that of most taxable sales goods

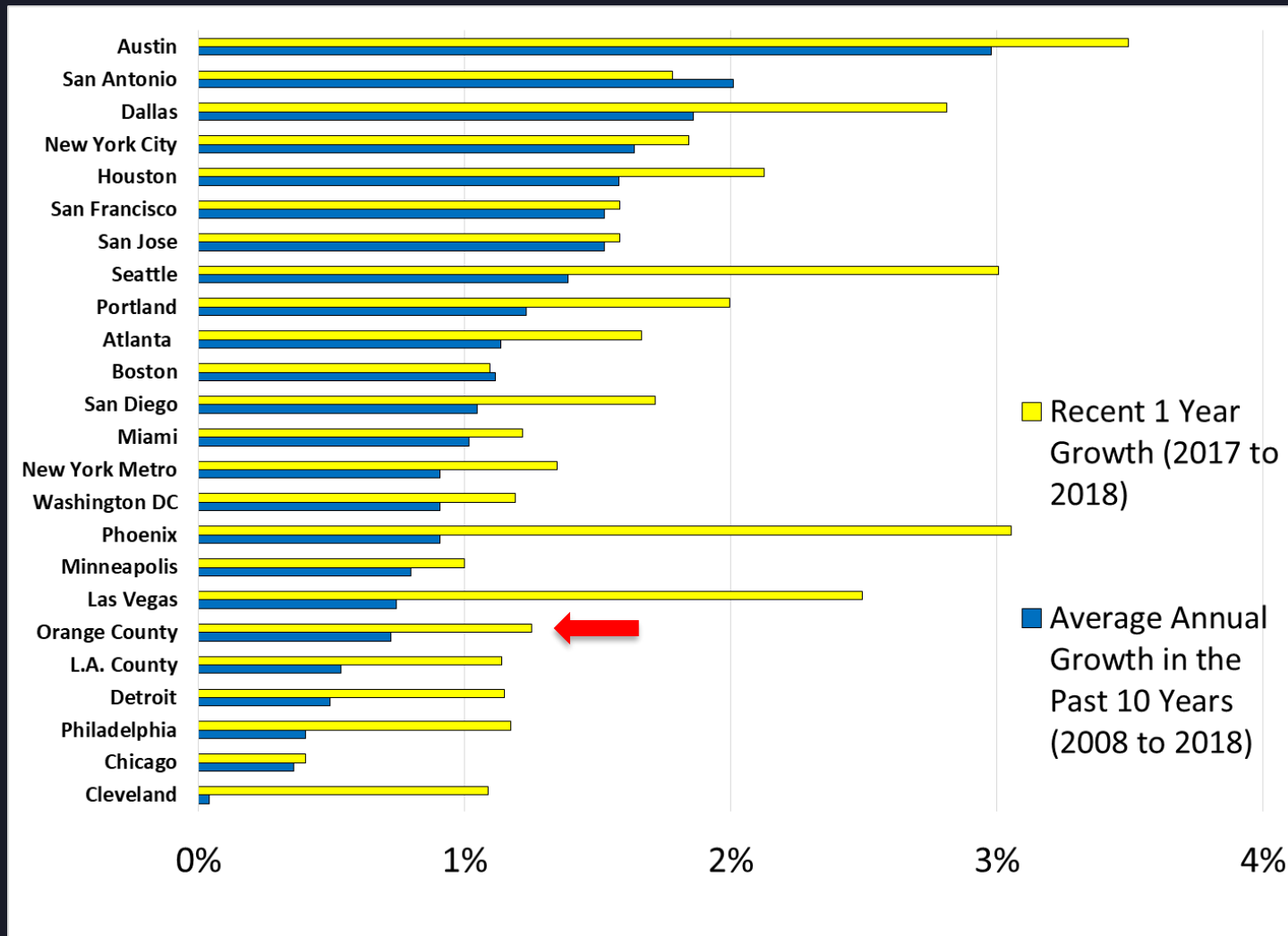


We develop a new measurement of CPI for taxable sales.

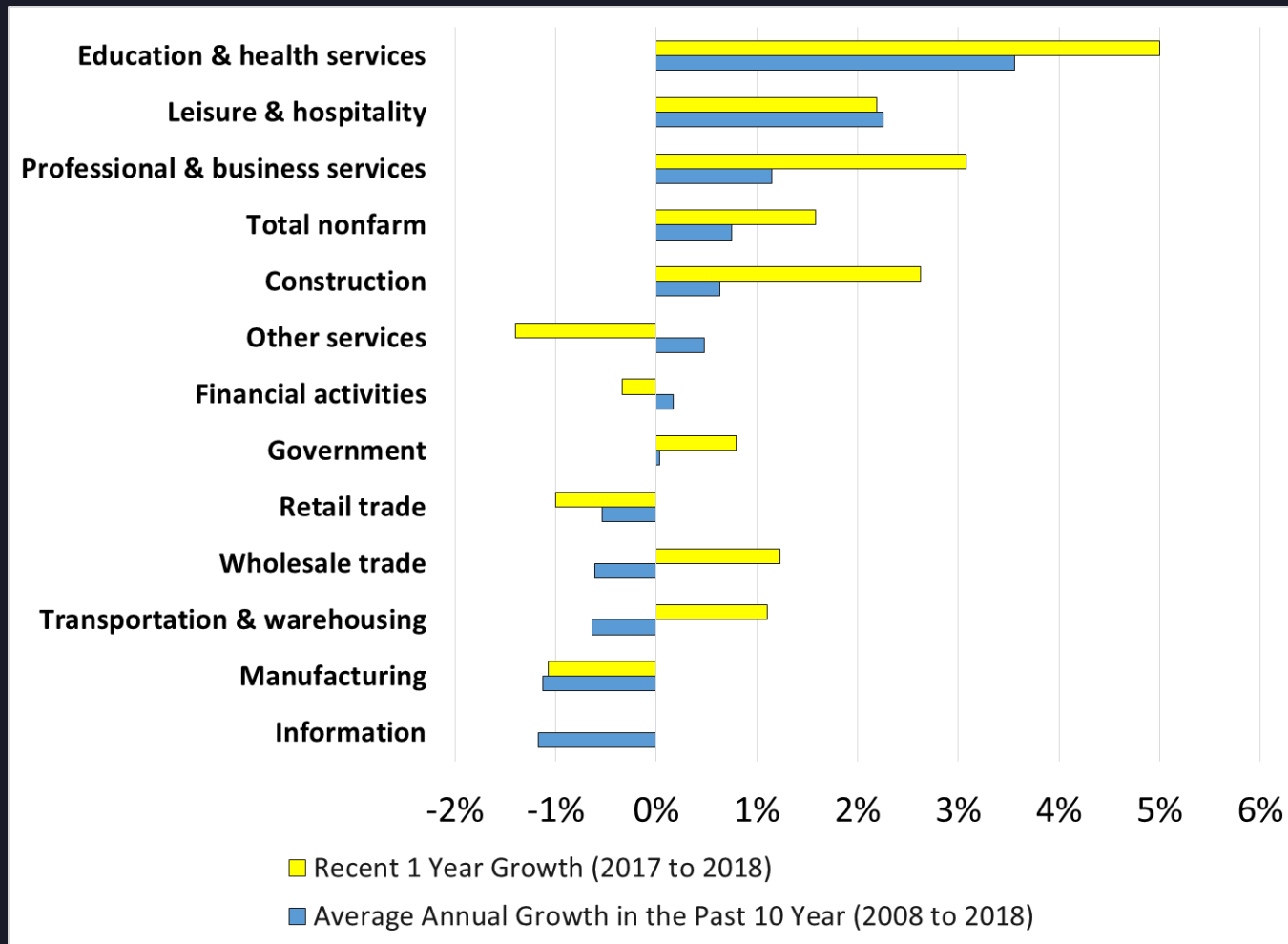
California Forecast

	2018	2019	2020
Payroll employment	2.2%	1.7%	0.8%
Unemployment rate	4.1%	3.8%	4.1%
Real personal income	2.5%	3.6%	2.9%
Population growth	0.7%	0.7%	0.6%

Major metro payroll employment growths

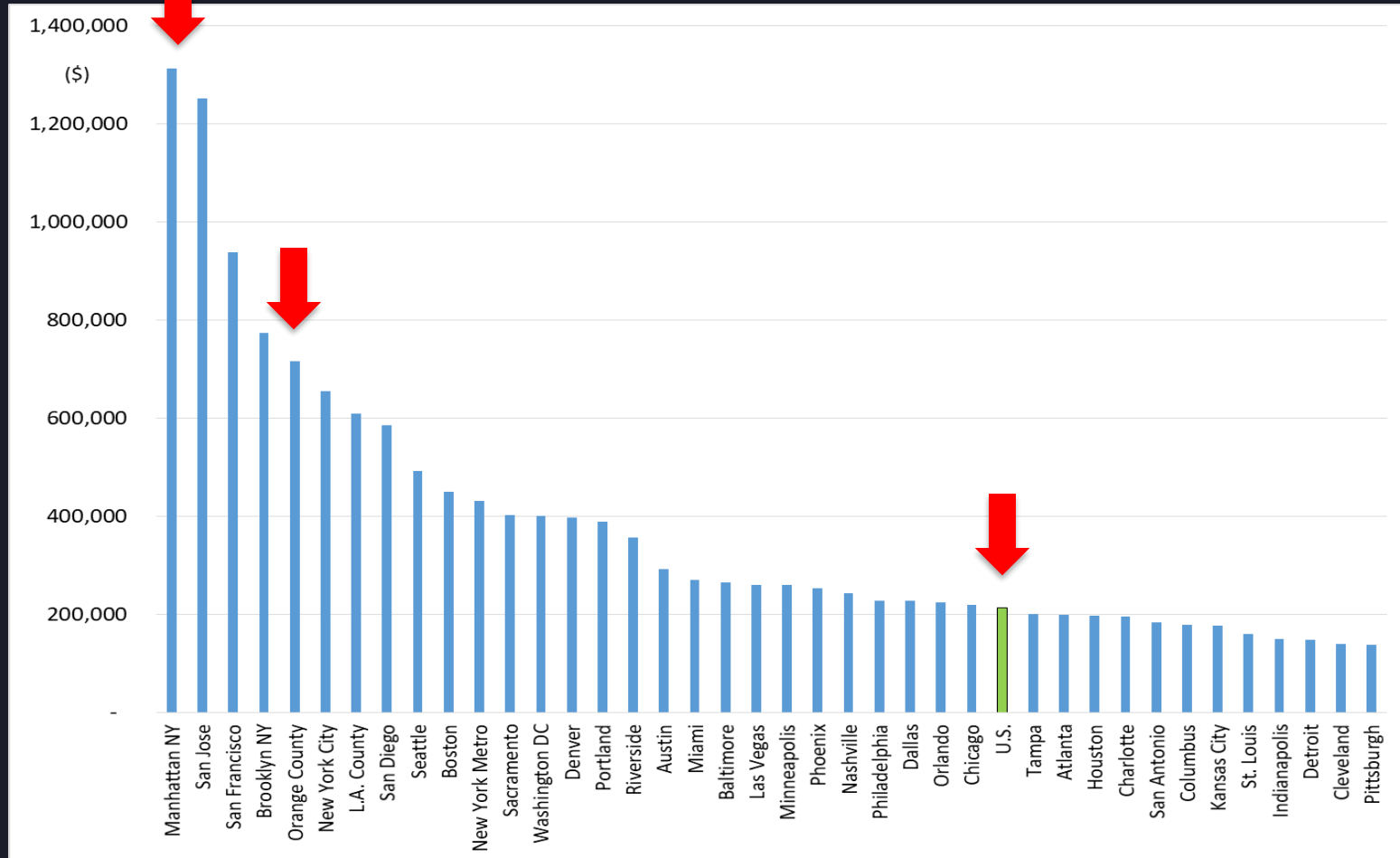


Orange County sector payroll job growth



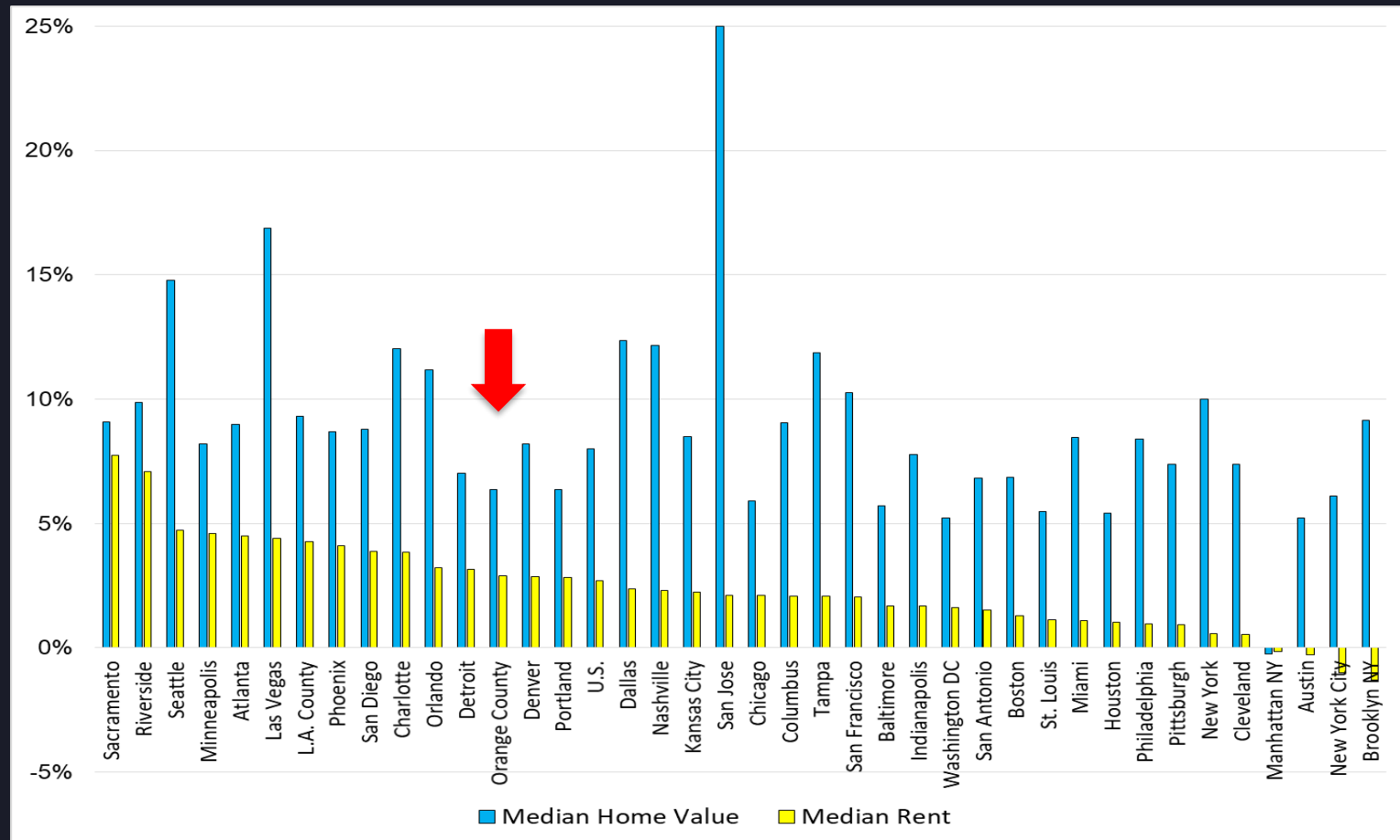
Zillow's median home value index

in March 2018 for major metros in the U.S.



O.C. housing market is doing well.

Year-over-year growth rate (17m3 to 18m3)
of Zillow's median home value and median rent



Forecast risk: full-blown trade wars

- U.S. economy (\$20 trillion); exports \$2.5 trillion; imports \$3.1 trillion.
- U.S. economy might dip into recession
- U.S. exports growth might slow
- U.S. imports prices might go up
- China's FDI investments to California might decline

2016 Orange County Forecast (Made in April 2016)

	CPI Inflation	Nominal Taxable Sales Level (Million\$)	Nominal Taxable Sales Growth	Real Taxable Sales Growth
2016	2.4%	66,337	6.5%	4.0%
2017	3.0%	69,775	5.2%	2.1%

Real Data (2017 estimated)

2016	1.9%	62,511	1.9%	
2017	3.0%	64,313	2.9%	

Recalculated 2016 Forecast with new CPI measurement with forecast of real taxable sale growth made in April 2016

	CPI Inflation (For Taxable Sales)	Nominal Taxable Sales Level (Million\$)	Nominal Taxable Sales Growth	Real Taxable Sales Growth
2016	-2.6%	62,160	1.3%	4.0%
2017	0.9%	64,042	3.0%	2.1%

Orange County Nominal Taxable Sales Growth Forecast

