



U.S. And RIVERSIDE COUNTY OVERVIEW AND FORECAST

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**May 6, 2014
Riverside County, Board of Supervisors**

A Dime Between Two Nickels...

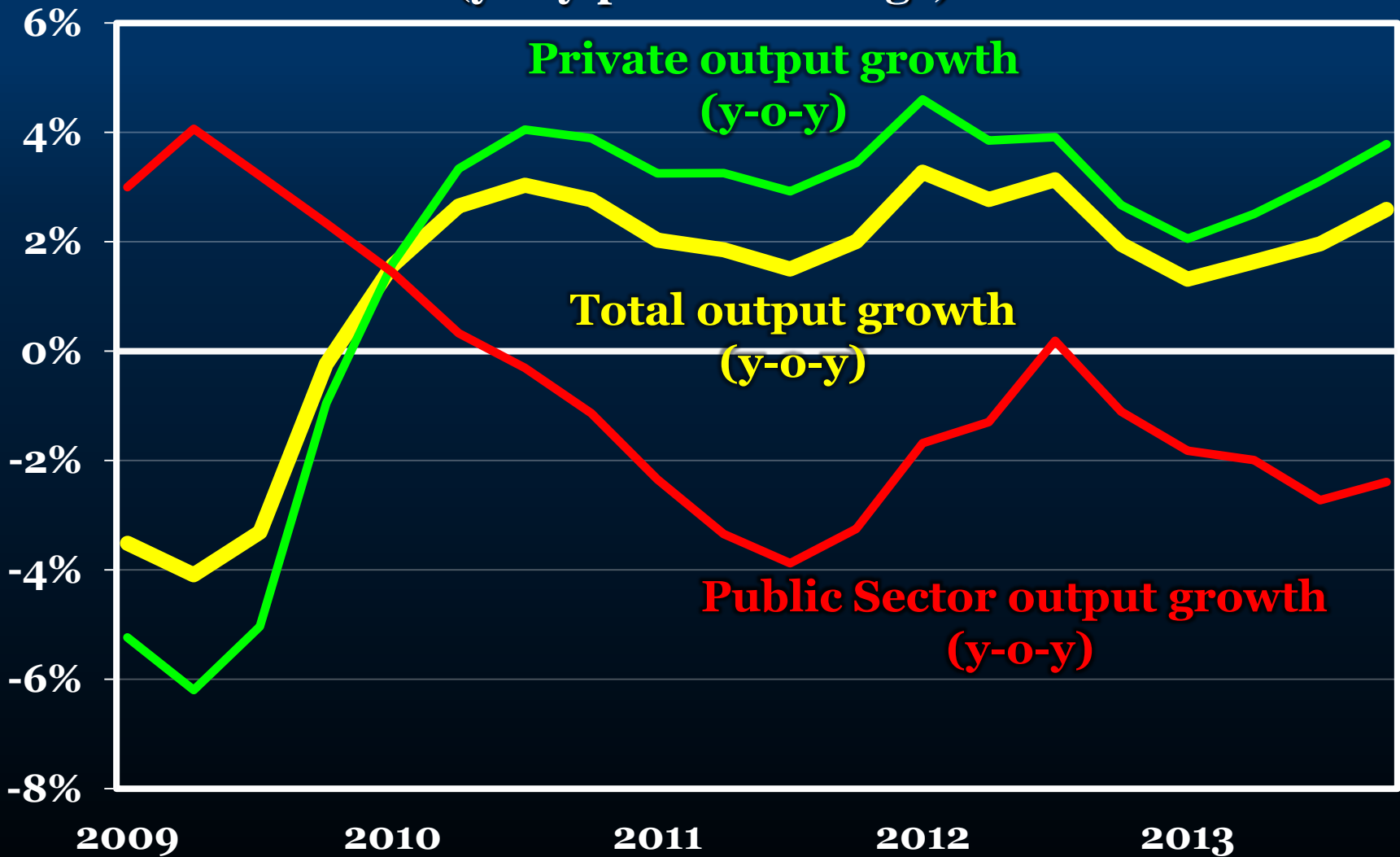
- ✓ **A Dime... Enjoy the next three years**
 - **Three Reasons for Optimism**
- ✓ **Two Nickels...Life After the Great Recession**
 - **Challenges Abound**



The Private Sector is Doing Fine...

Real Output Growth Private vs. Public

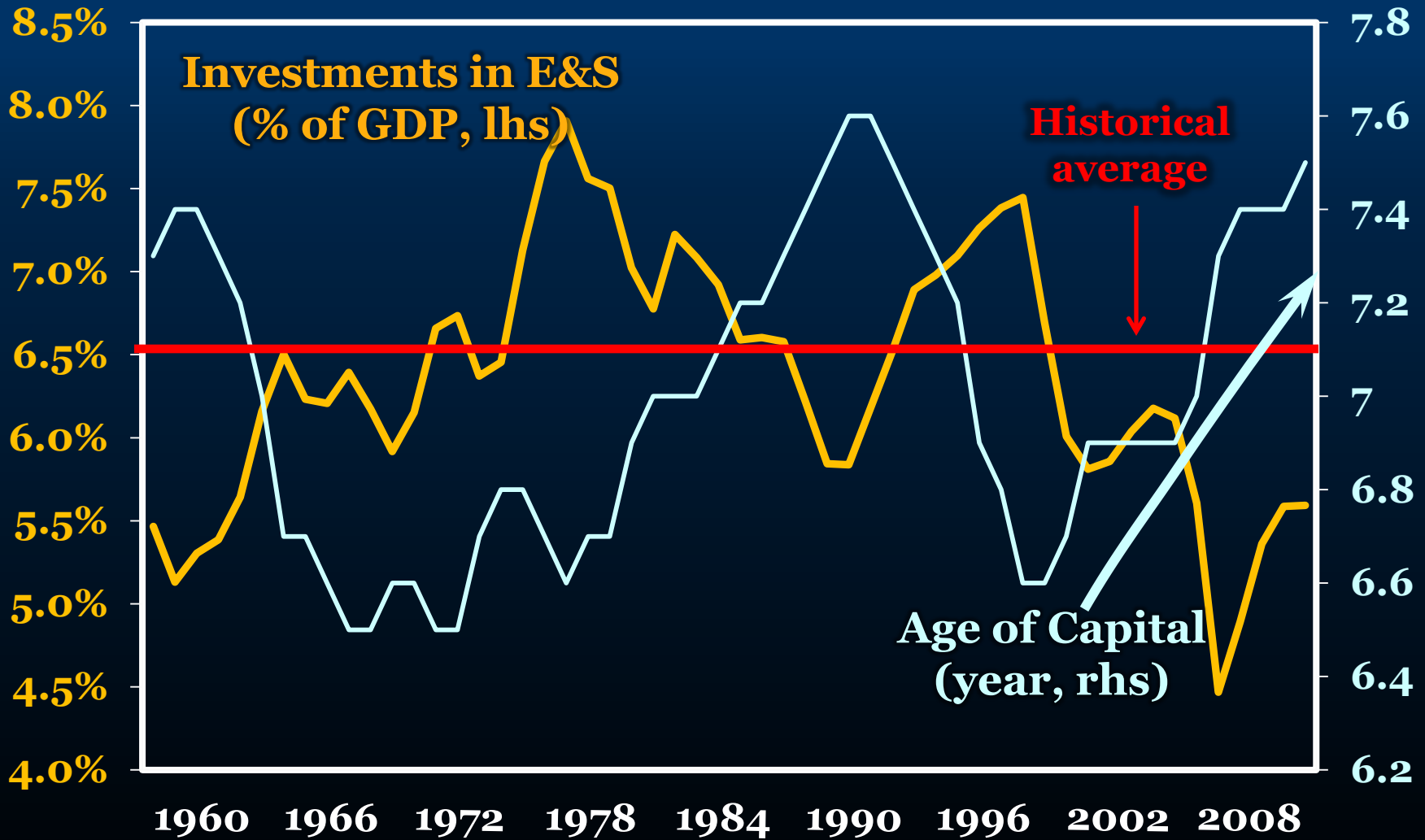
(y-o-y percent change)



Business Investments Should Pick Up

Old and Shrunk: Below-trend Investments & Ageing Capital

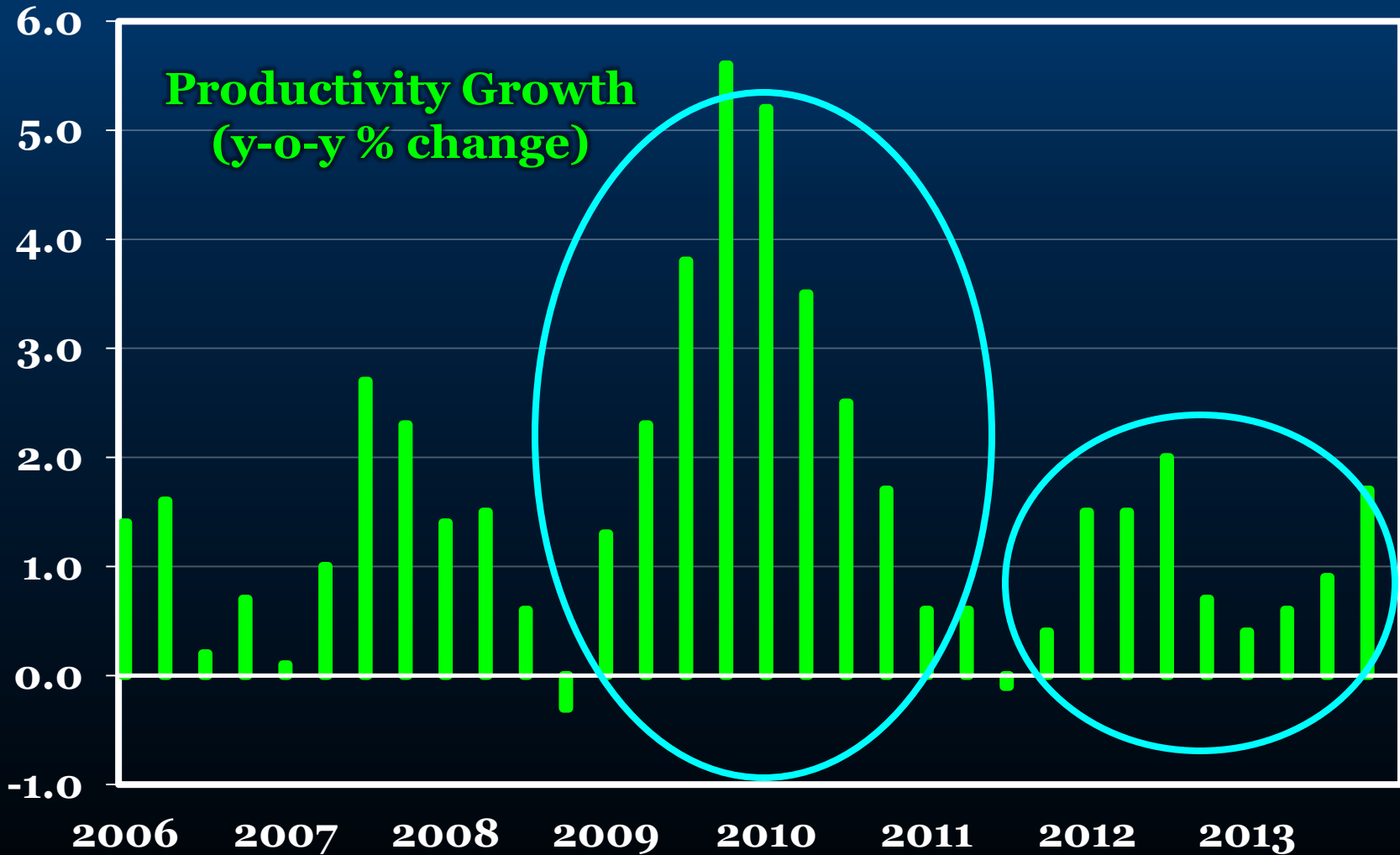
(Investments in E & S, % of GDP; age of private fixed assets, years)



Hiring Too...

Productivity is Waning...Employment Should Increase

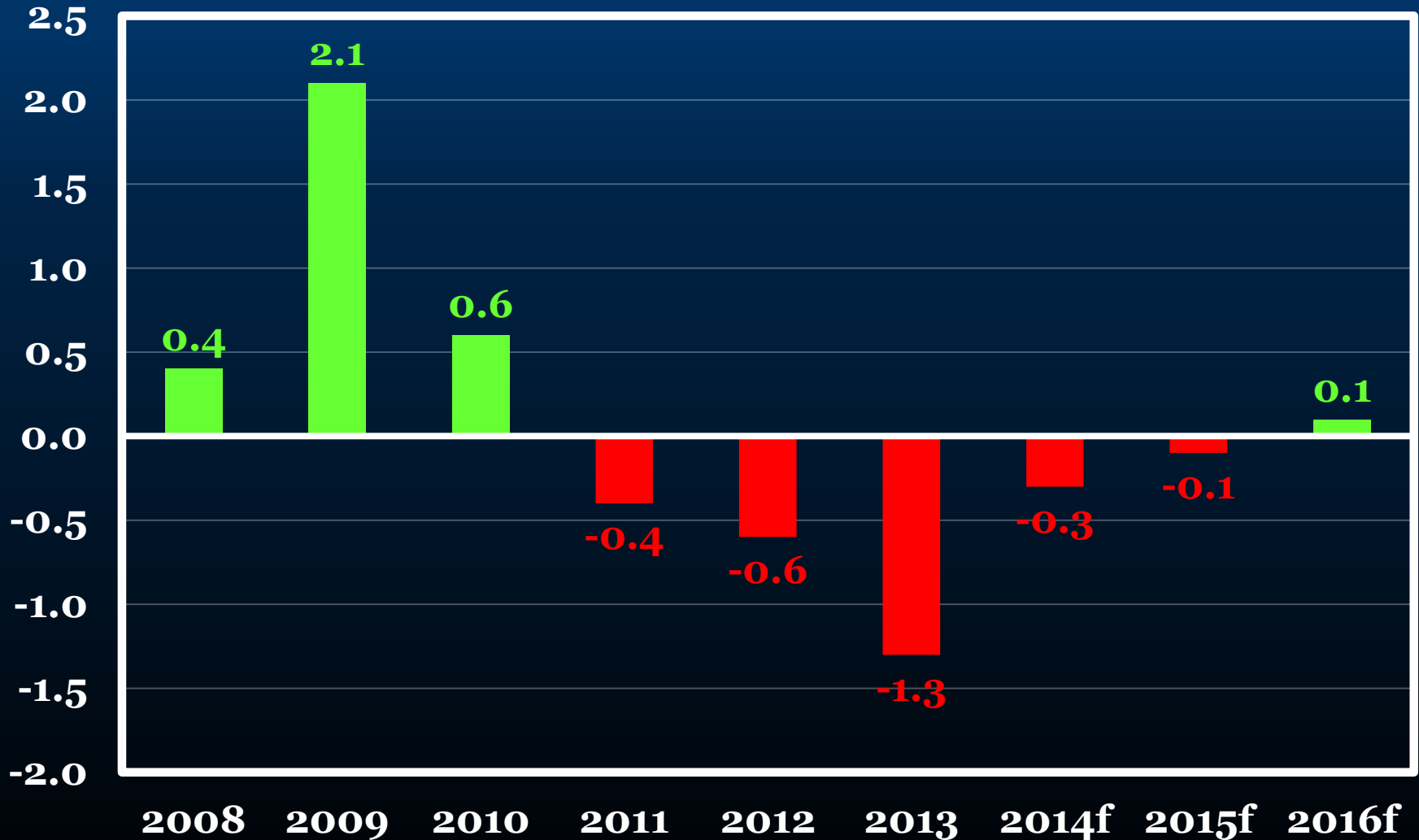
(productivity y-o-y percent change)



Fiscal Policy: Smaller Drag on Growth

Contribution to Real GDP Growth

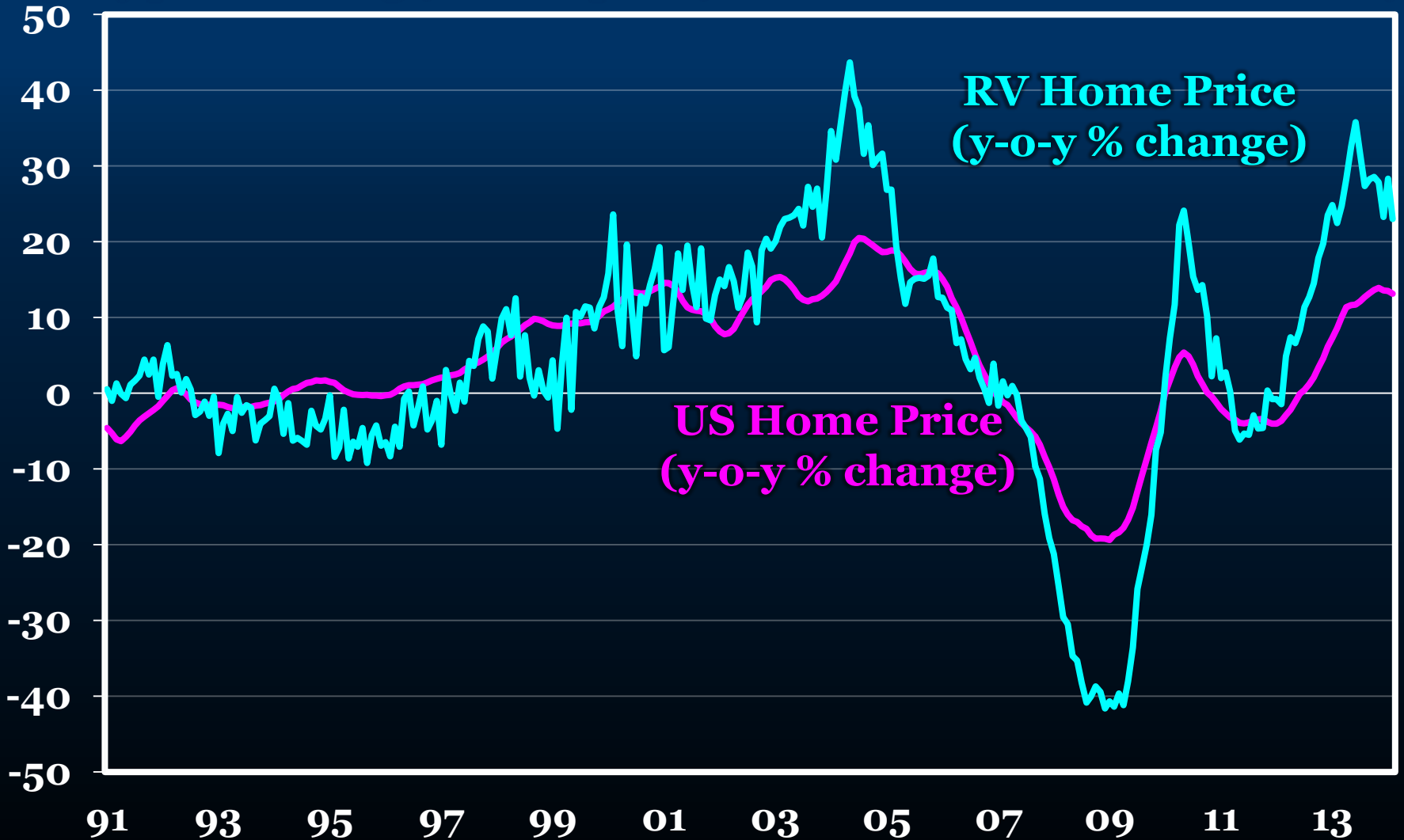
(percentage points)



Housing Rebound has been Spectacular

Particularly in RV County

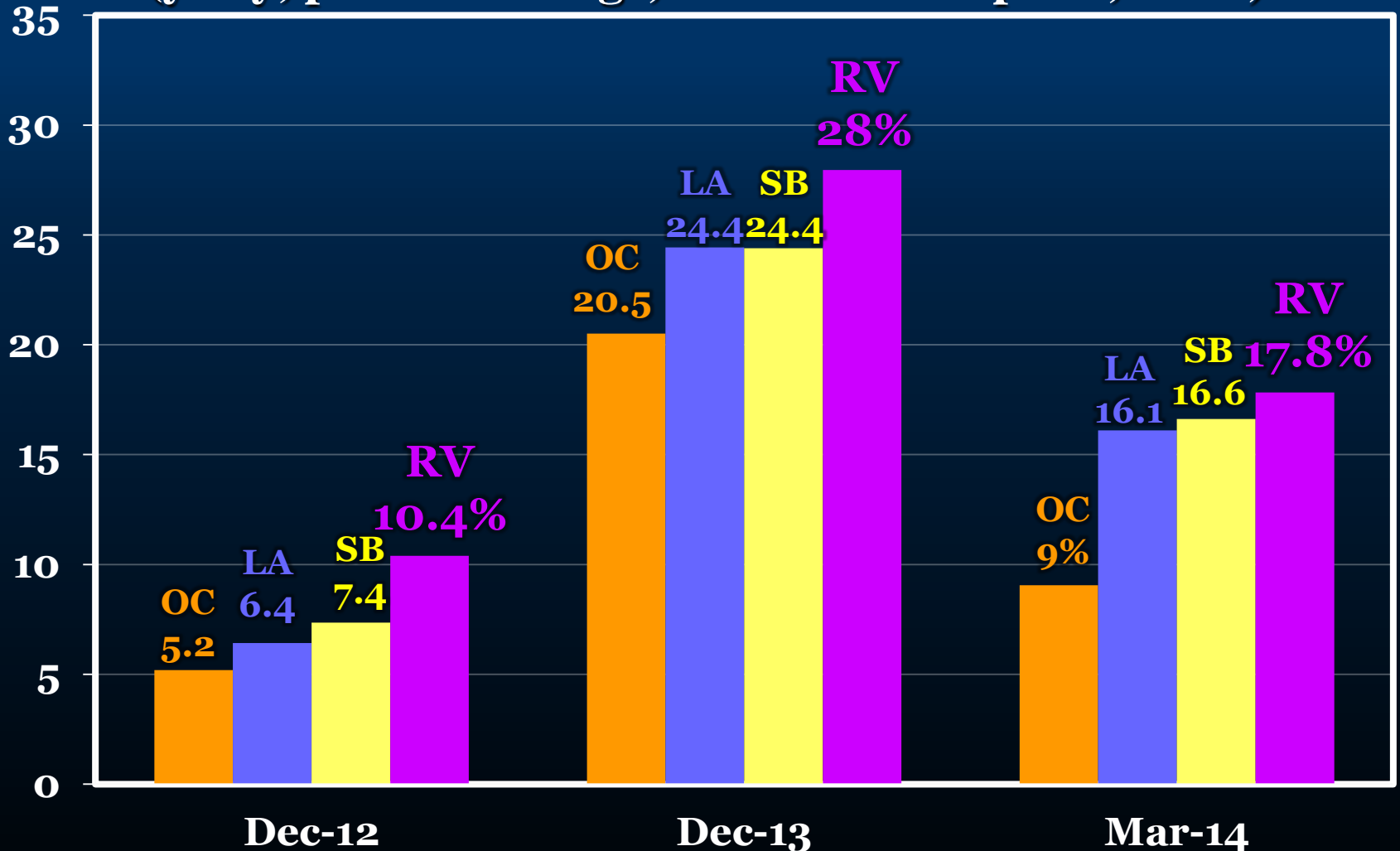
(y-o-y percent change; median prices; Case/Shiller for US and CAR for RV)



RV County Home Prices

Have Outperformed Neighboring Counties

(y-o-y, percent change, median home price, CAR)

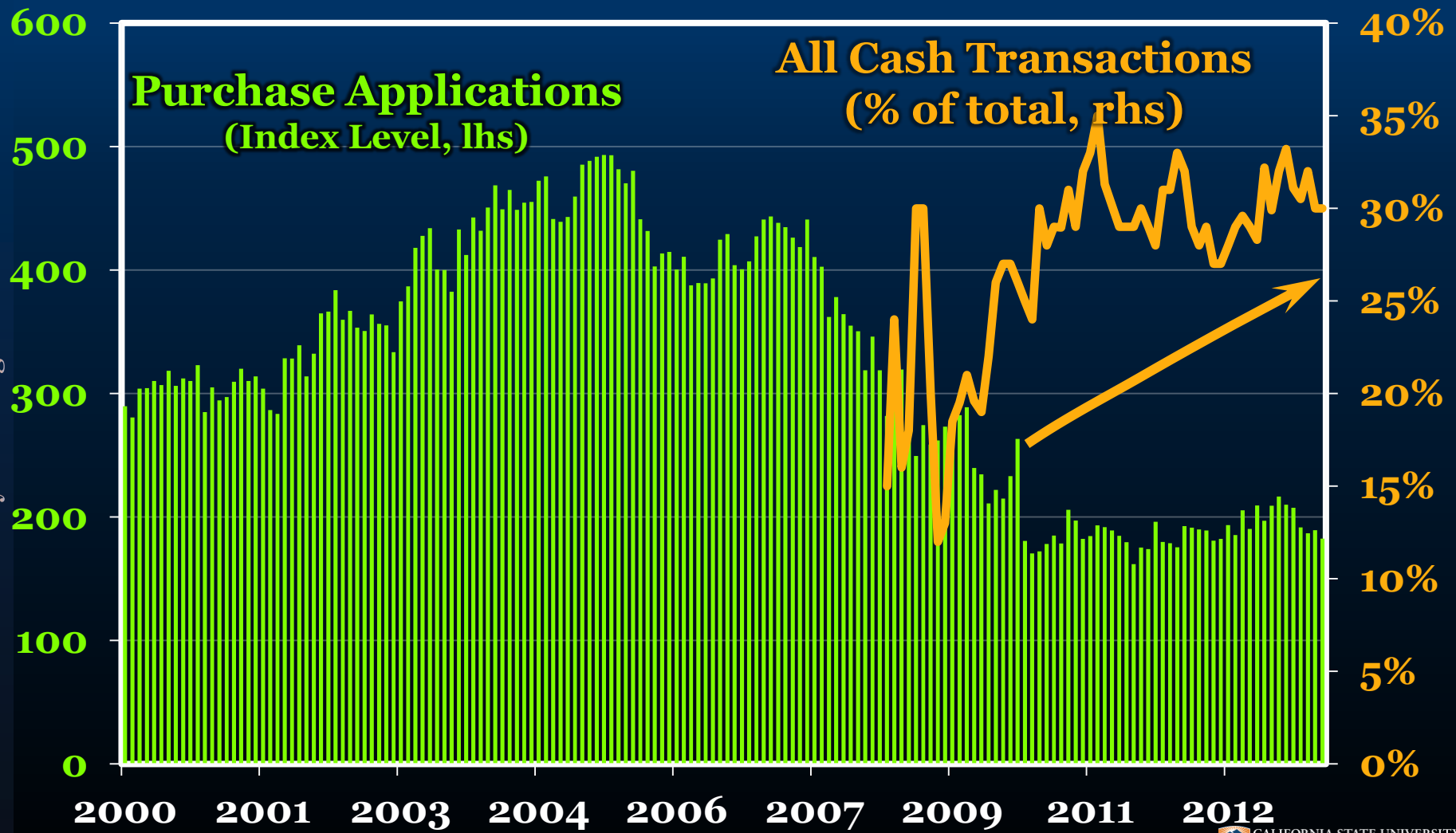


But the Push has Come from Investors

Mortgage Applications Low; All Cash Transactions at Record Highs

(applications index level; all-cash transactions percent of total)

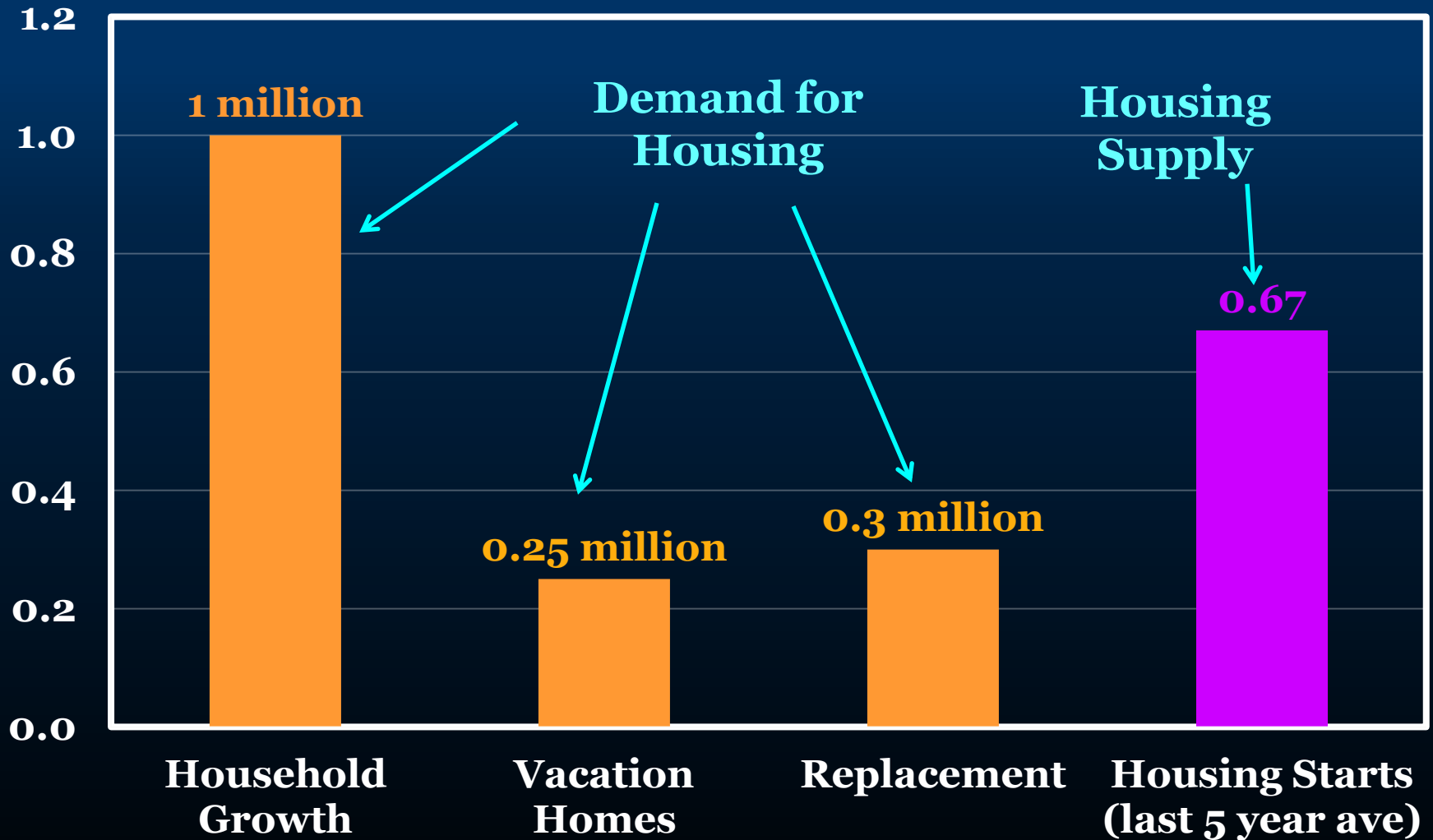
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Housing Sector Will Boost Growth

Large Imbalances: Supply Significantly Below Historical Demand

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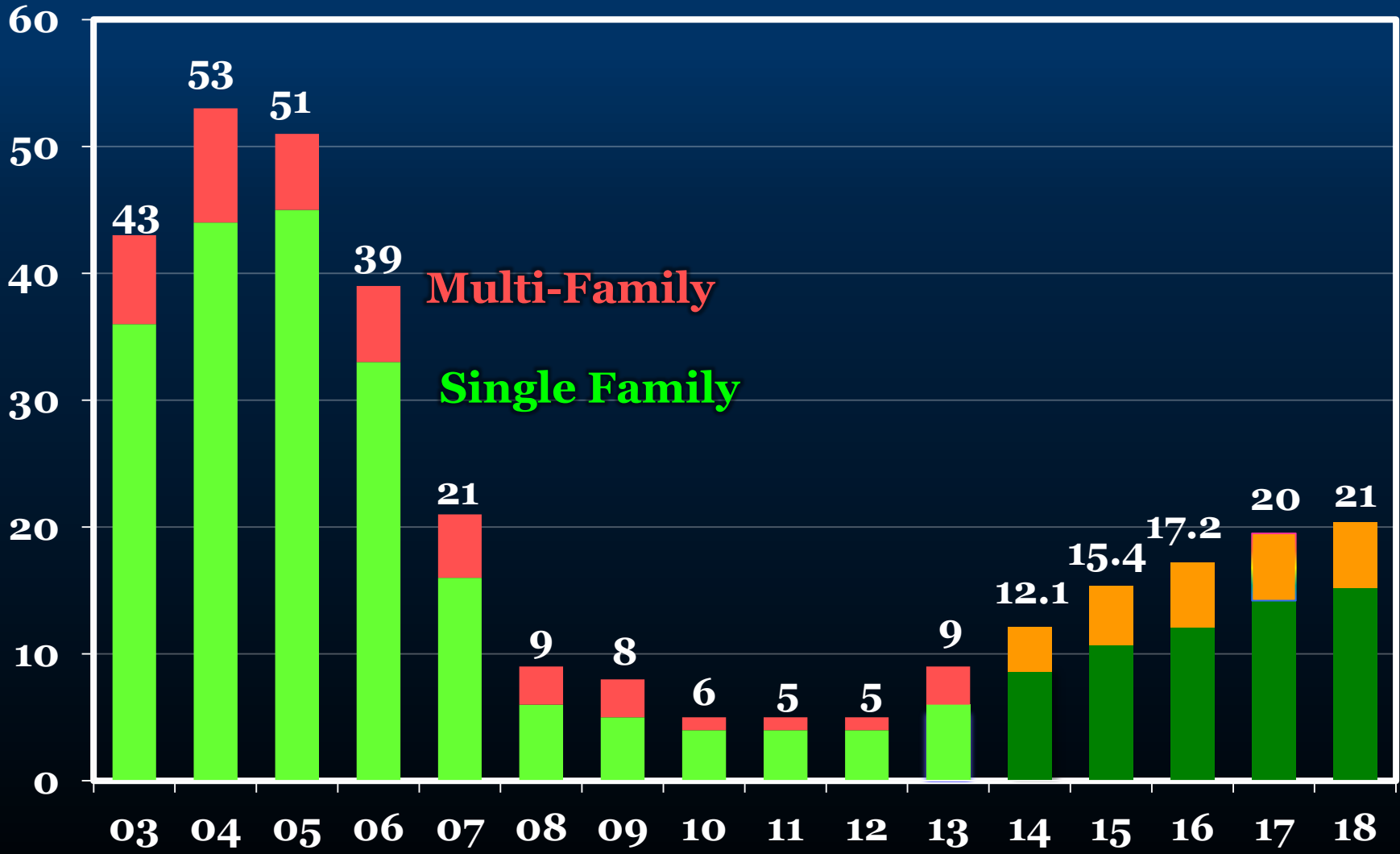


Inland Empire Construction:

Recovering... but Slowly

(residential building permits, actual and forecast, thousands of units)

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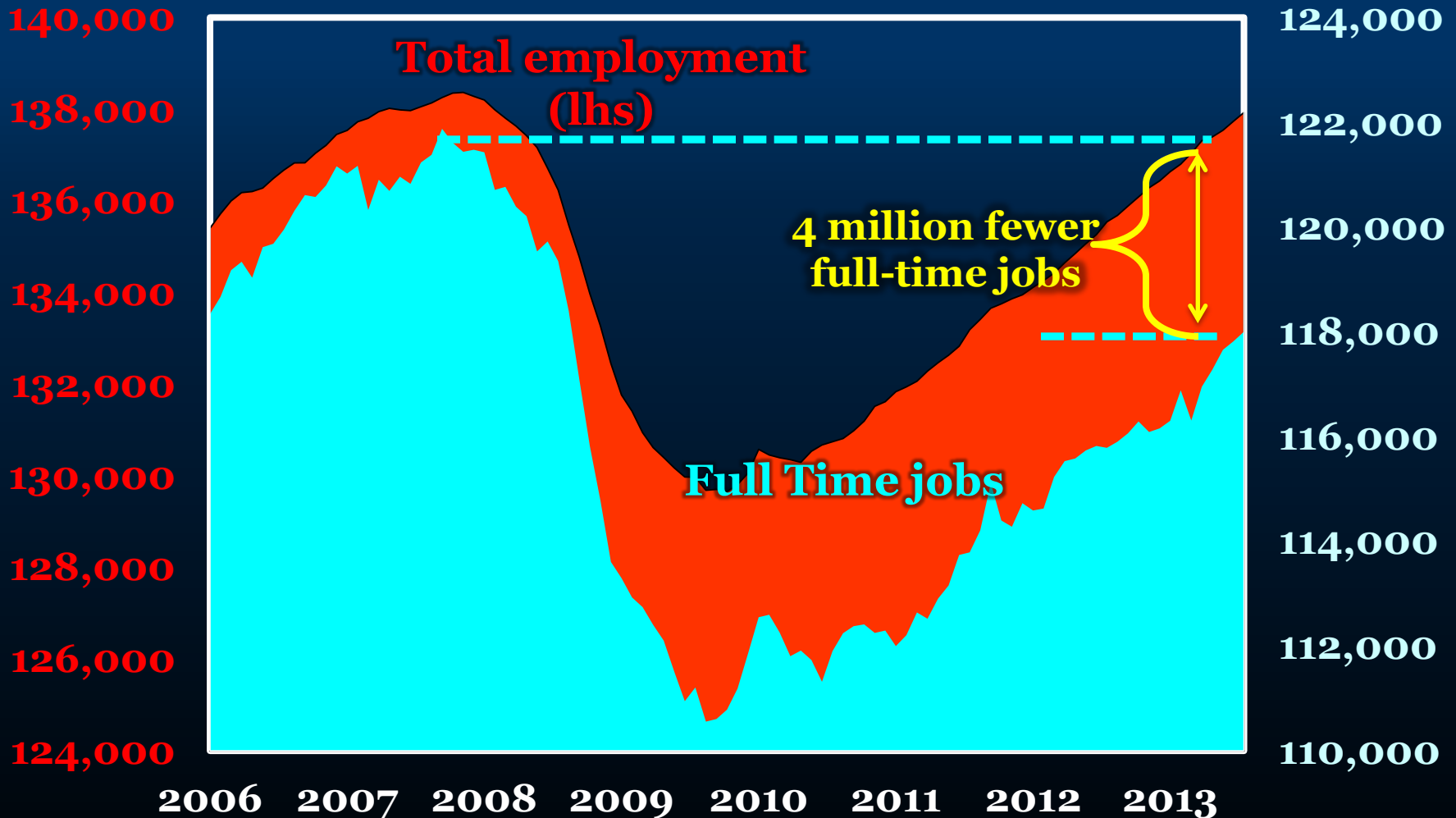
Why not a “Breakout” Year?

✓ Challenges and Risks

- Labor Markets: Troubles Abound
- Bubblicious: Market Highs
- The Clarity Gap: the Fed and the Rest

Labor Market Pathologies

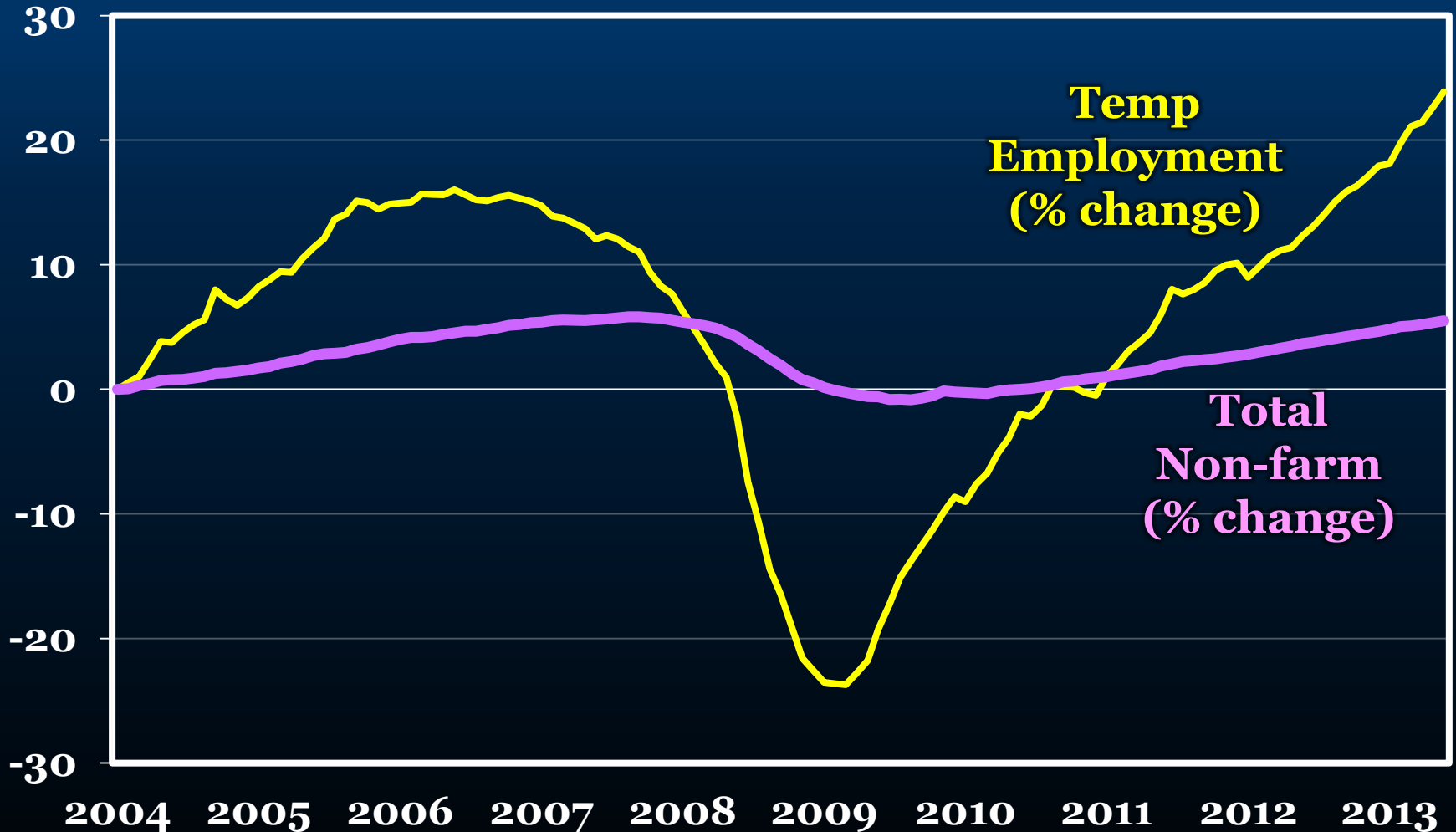
The Part-Time Nation: Full-time Employment down 4 million
(level, thousands of employees)



Labor Market Pathologies:

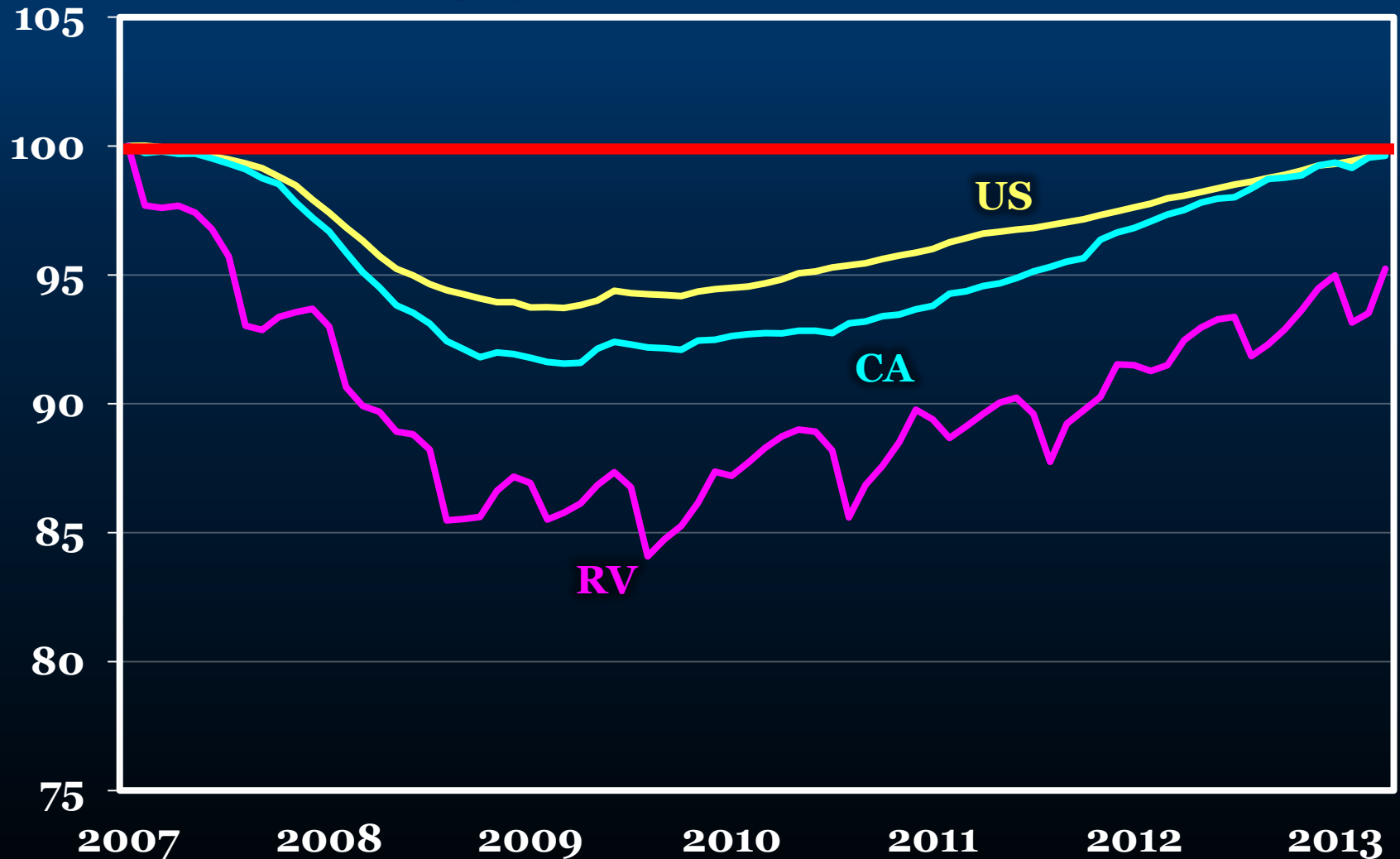
The Temp Nation: Temp Employment Surging

(percent change since Jan-2004)



RV Lagging Behind US and CA in Recovering Pre-Recession Employment levels

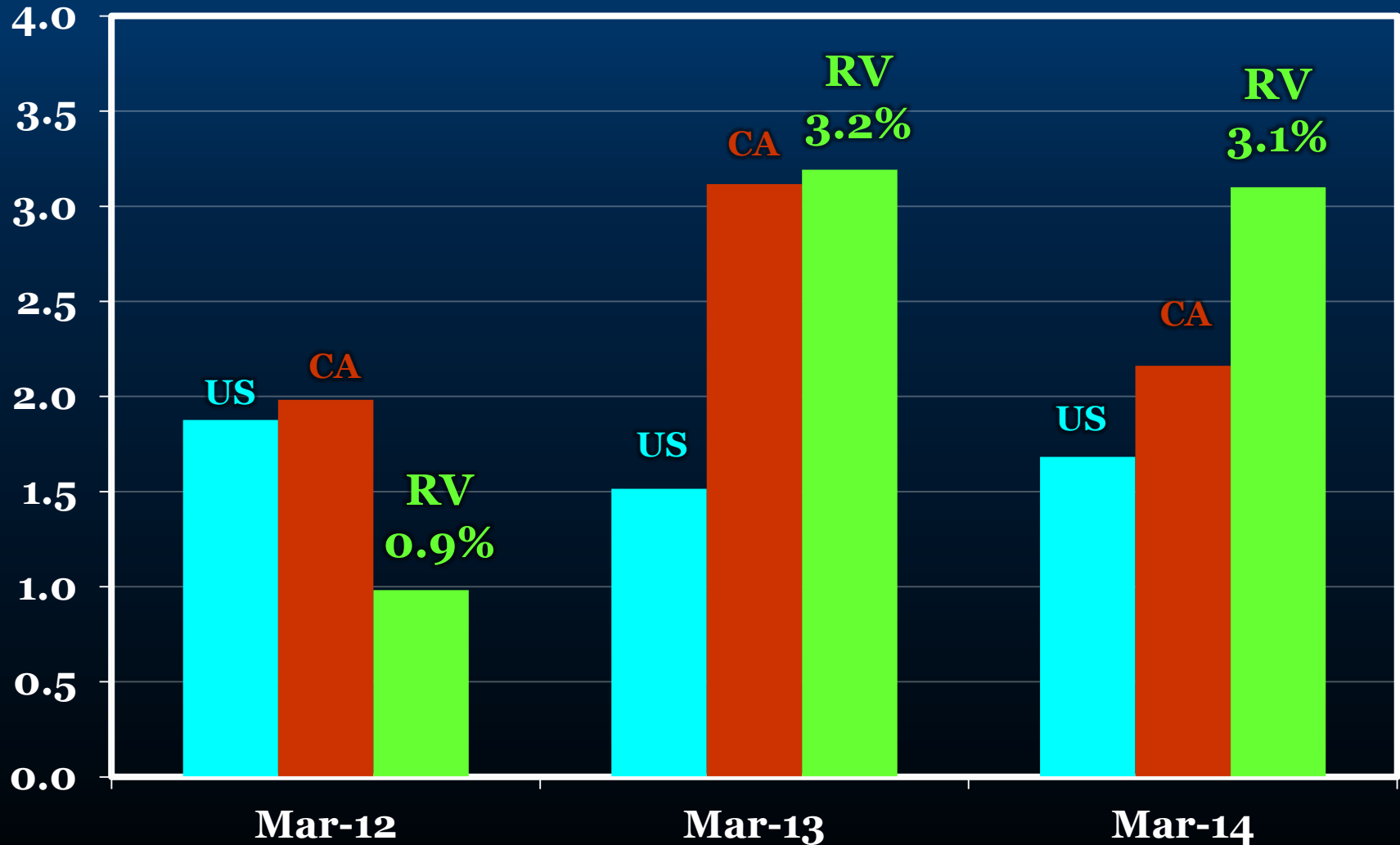
(total employment level, Index, Dec 2007=100)



Job Growth in the County has Picked Up

RV Employment growth faster than US and CA

(Employment growth, total non-farm, y-o-y percent change)

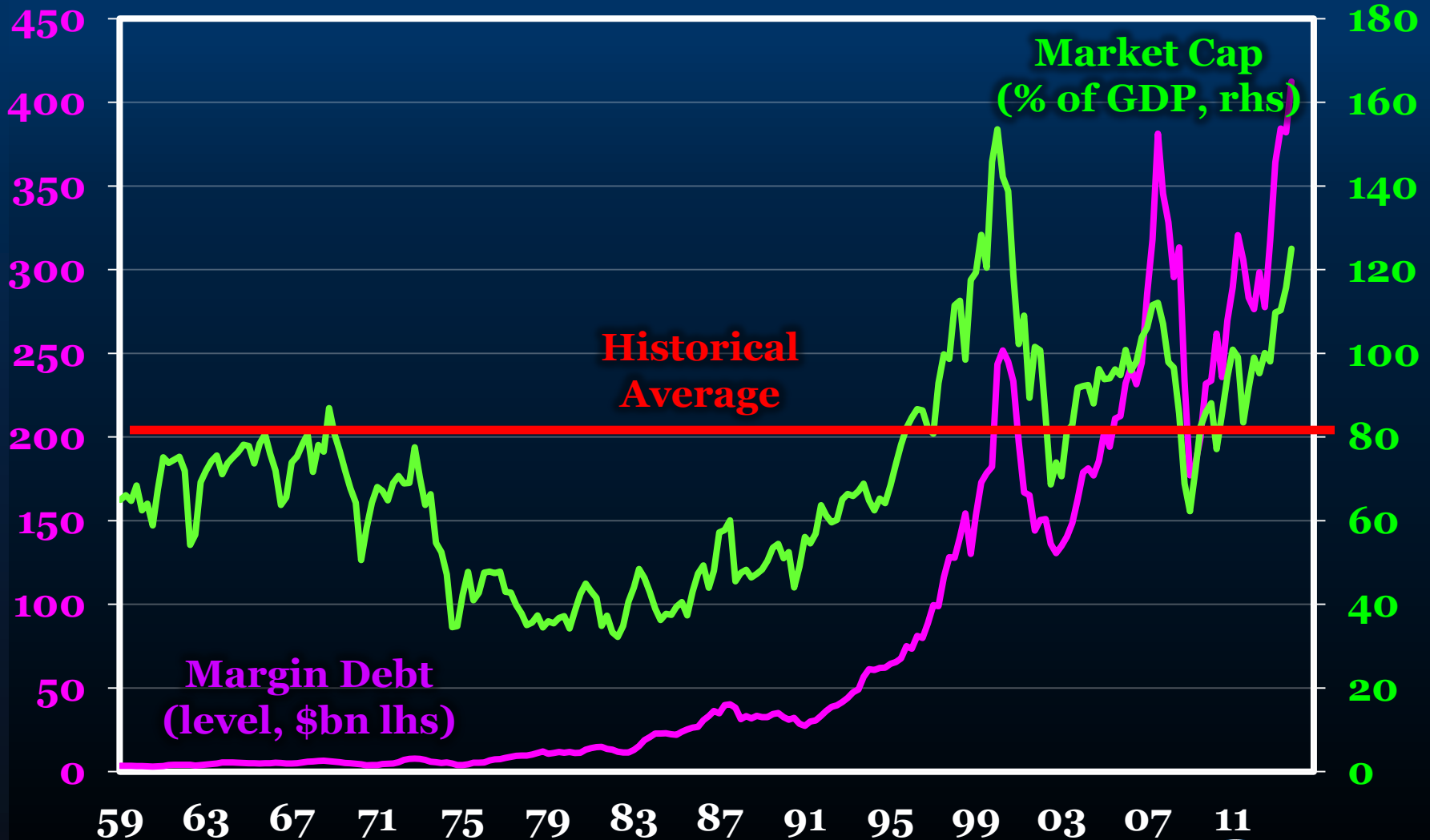


On the Bubbly Side: Market Froth

Margin Debt at Record High; Market Cap also Near Record

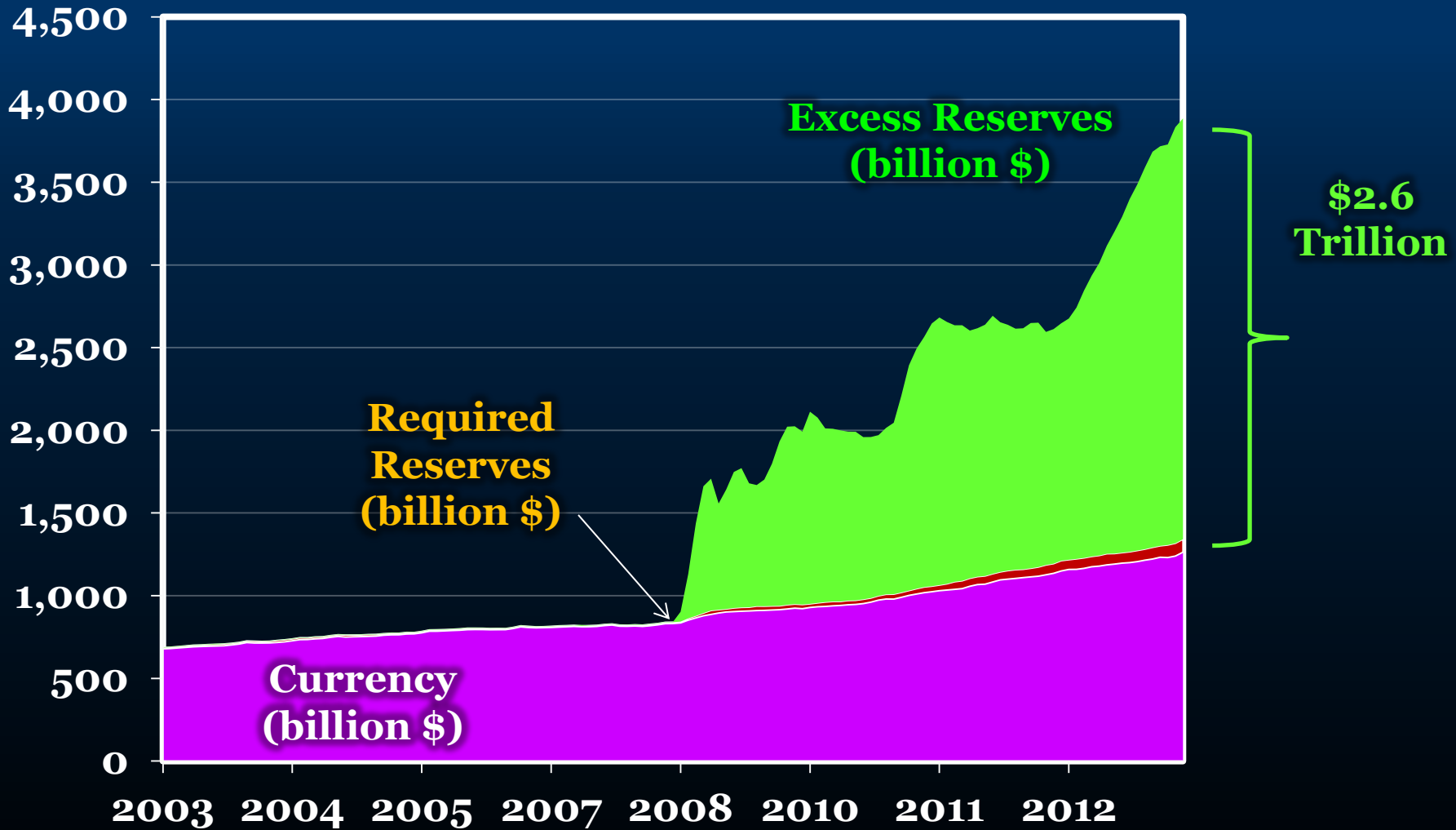
(Margin Debt level; Market Cap, percent of GDP)

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Newly Minted and Unused

QE Money Mostly laying Fallow as Bank Excess Reserves
(level, billions of dollars)



The Fed Clarity Gap: Some Guidance, Please?

Dec 2008	“Exceptionally low... for some time”
Mar 2009	“...for an extended period”
Aug 2011	“...at least through mid-2013
Jan 2012	“...late 2014”
Sep 2012	“...through mid-2015”
Dec 2012	“...at least as long as unemployment is above 6.5%”
Mar 2014	...?????

Our Outlook

- ✓ **Q4 2014 – End “Taper”**
- ✓ **Late 2015/Early 2016– Start Hiking Rates**

National Forecasts

Year	RGDP	Consumer Prices	Unemployment Rate	Payroll Employment
2013	1.9	1.5	7.4	1.7
2014f	2.5	1.8	6.5	1.9
2015f	3.1	2.1	6.1	2.0
2016f	3.0	2.2	5.8	2.1



Riverside County

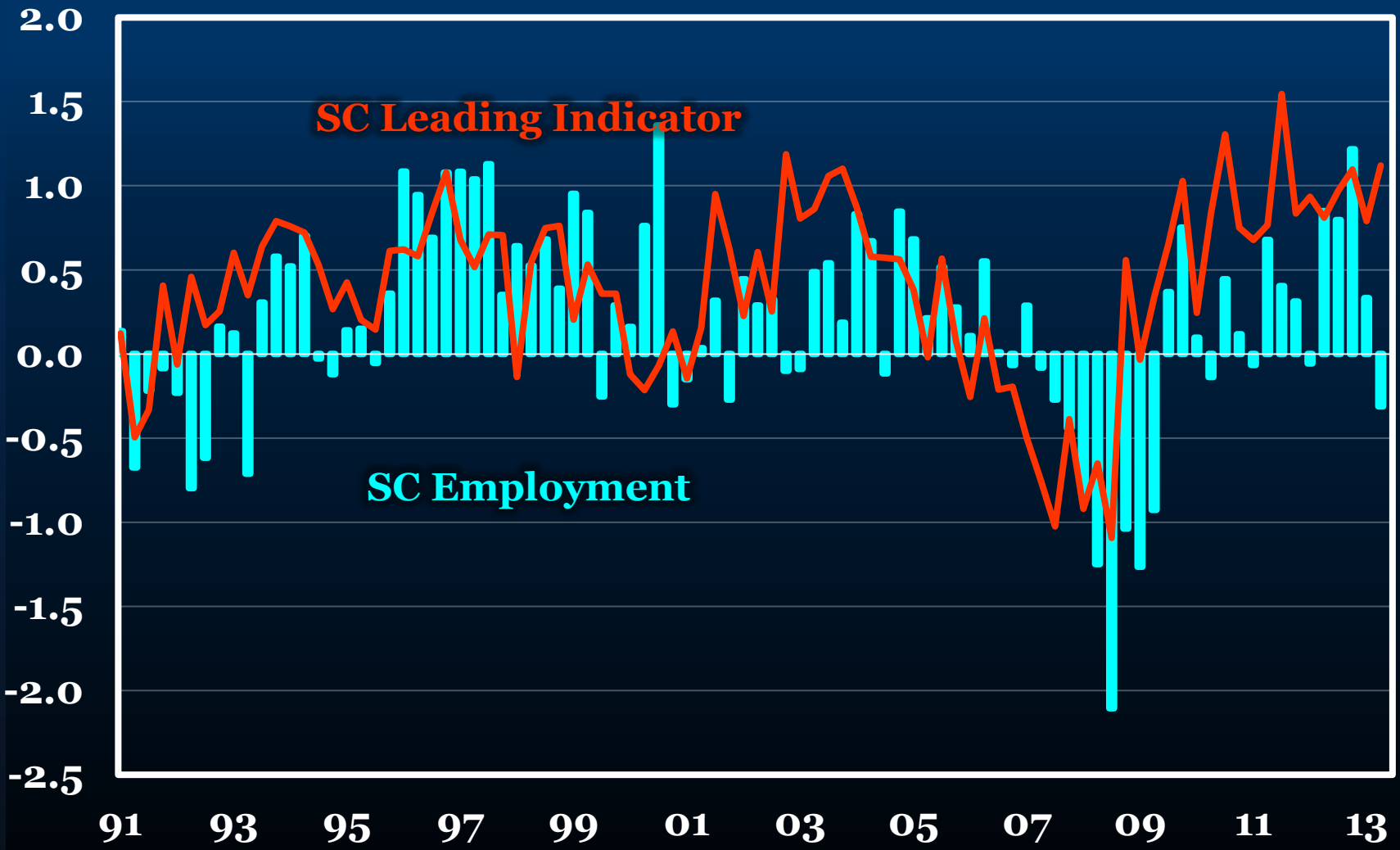
RIVERSIDE COUNTY

CSUF SoCal Leading Indicator

Shows Further Improvement

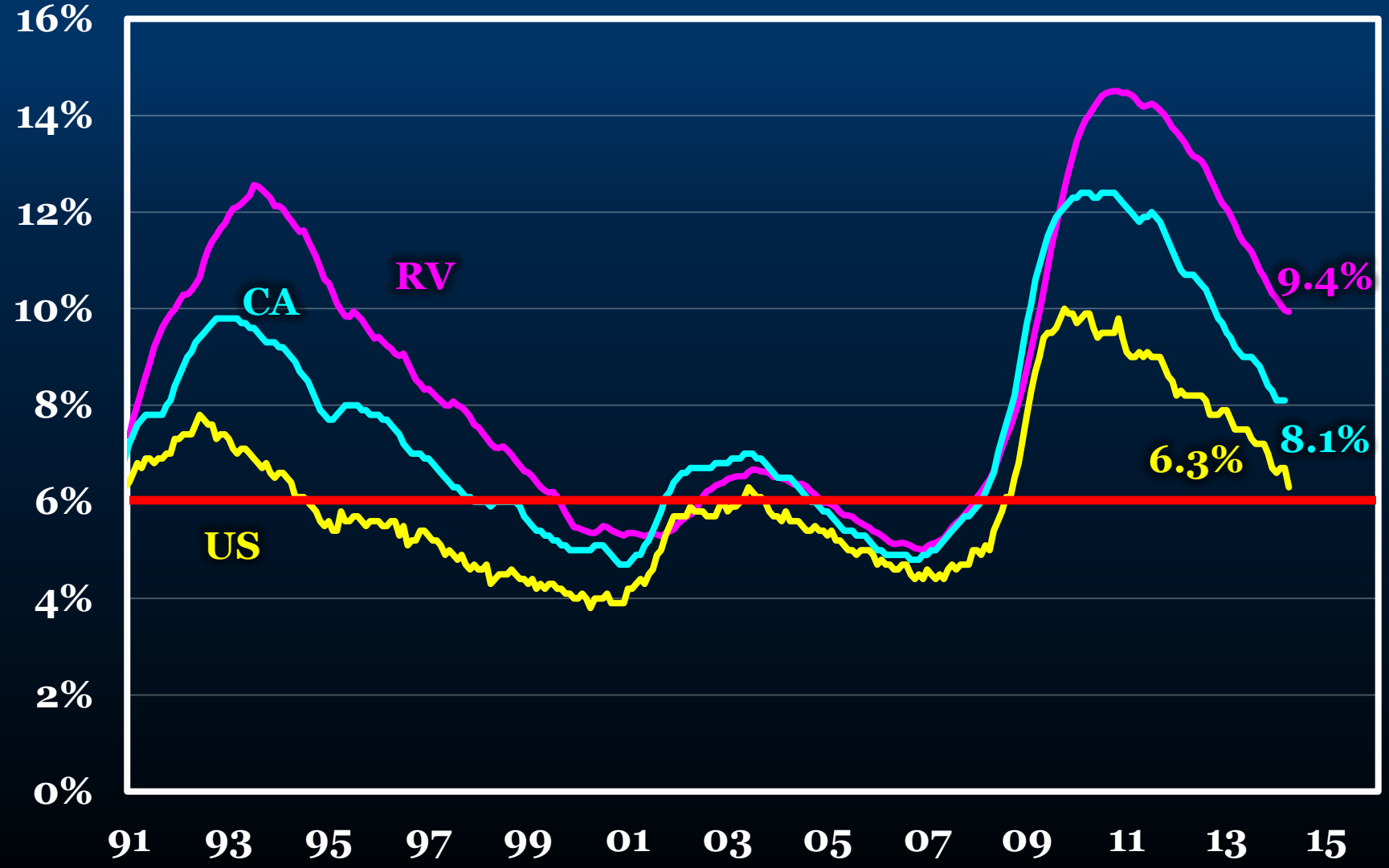


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RV Unemployment Rate Declining... But Still Above 9%

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RV-SB Job Market

A Sector-Specific View: 2007-2014

Wage & Salary Employment	2007-2010	2010-Current
Total Nonfarm	-171,500	122,400

Trade, Transp. & Utilities	-47,900	34,000
Health Care	7,300	31,100
Leisure & Hospitality	-14,400	21,700
Professional & Bus. Services	-21,300	12,800
Government	-10,100	8,900
Construction	-42,800	8,900
Education	-2,300	4,900
Manufacturing	-28,800	1,400
Financial Activities	-7,500	1,100

RV Median Home Price

Rebounding Strongly



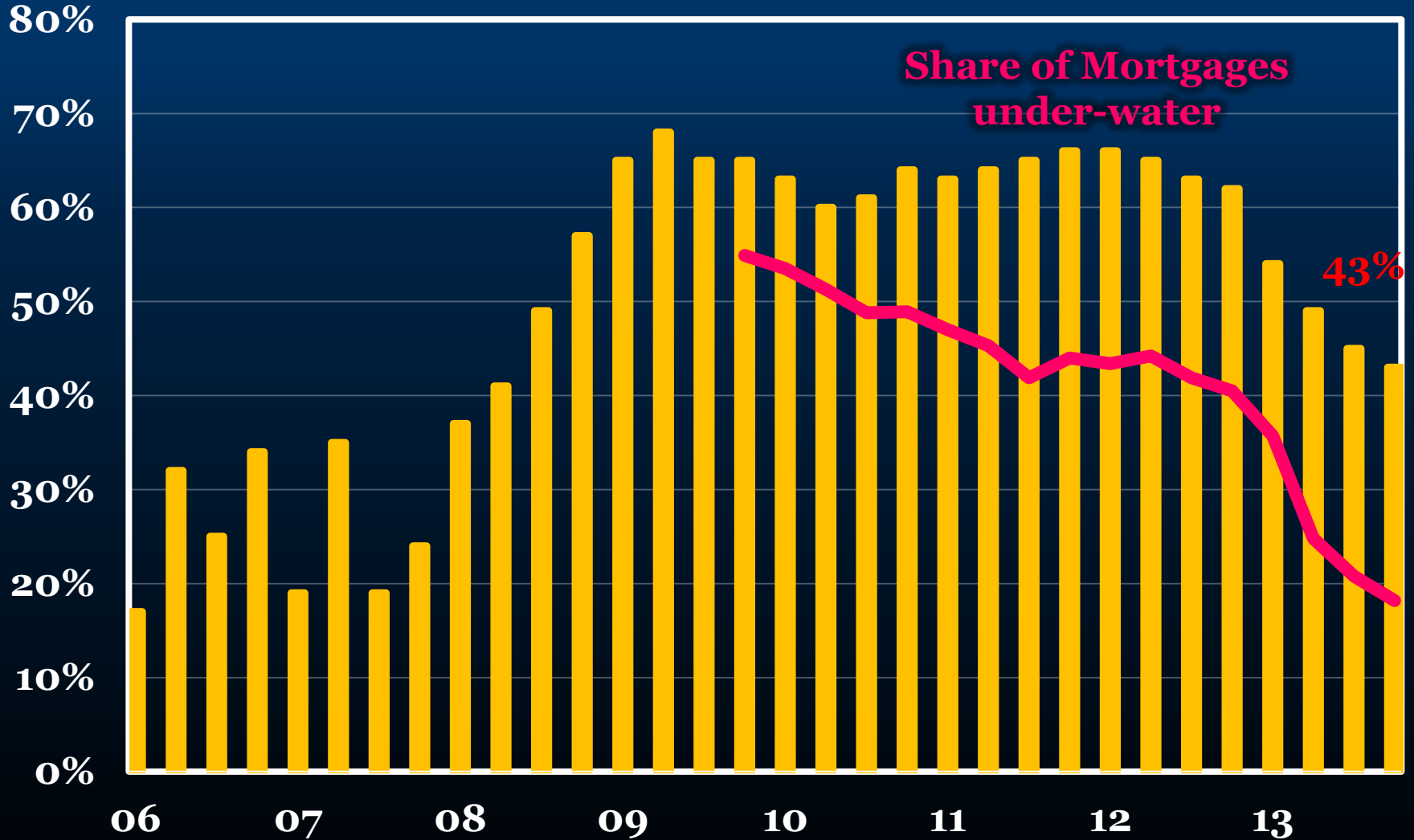
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Housing Affordability has Declined

...but So Have the Share of Homes Underwater

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RV Forecasts: Main Variables

Year	Unemployment Rate	Payroll Employment	Median Home Price (growth)
2013	10.3	3.1	28
2014f	9.3	2.8	8.2
2015f	8.4	3.0	7.7
2016f	7.3	2.9	6.9

Outlook for RV Assessed Valuation Brighter

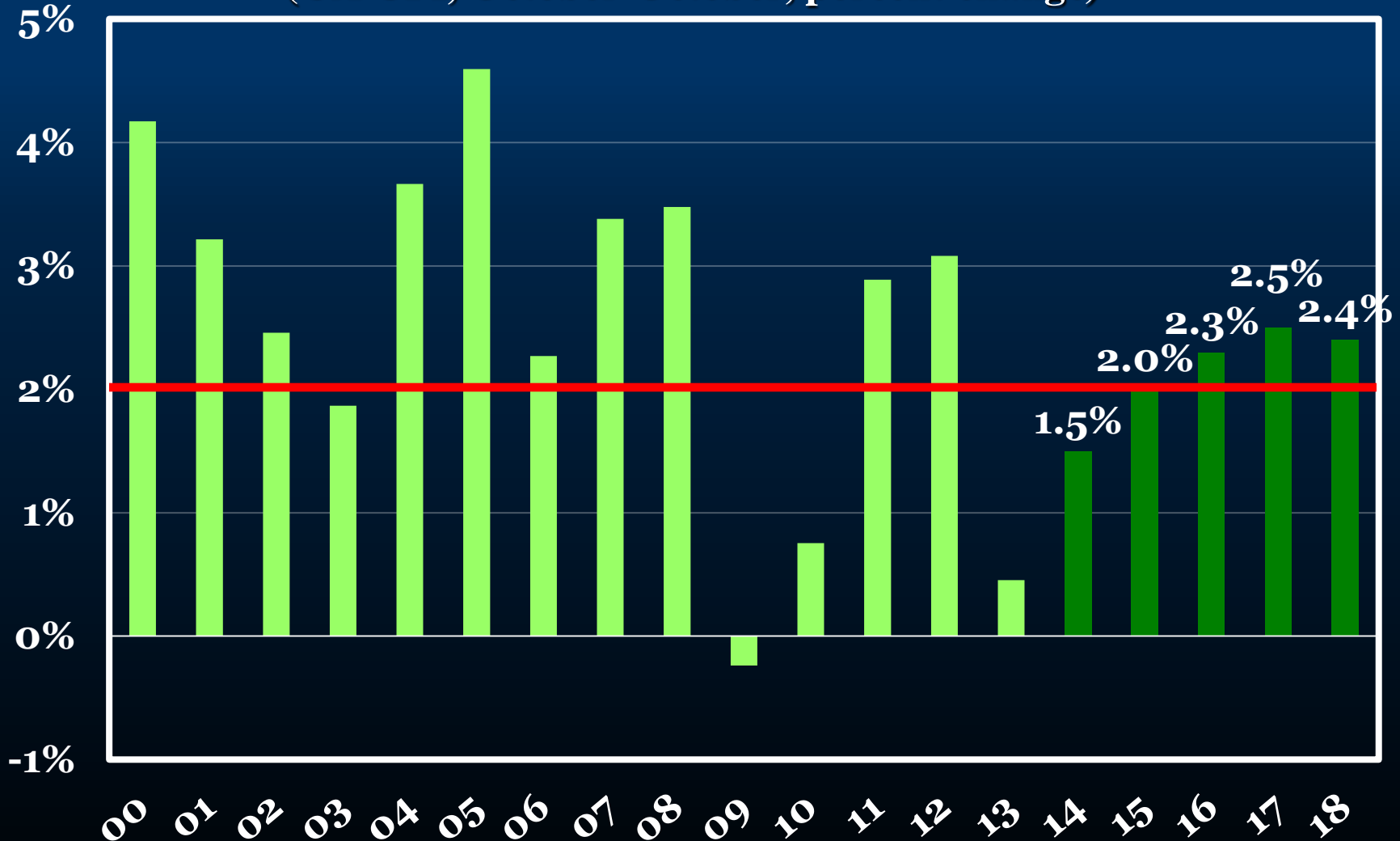
Why are Assessed Valuations Projected to Grow?

- ✓ Increasing home prices
- ✓ Reversal of Prop 8 Temporary Tax Reductions
- ✓ Pick-Up in CA CPI (for Prop 13)
- ✓ An Overall Improved Economic Outlook

Low CA Inflation in Near-Term...

...but Projected to Increase

(CA CPI, October-October, percent change)



Secured Assessed Valuation Forecasts

Level (billions of dollars) and growth rate (percent)

Secured Assessed Valuation

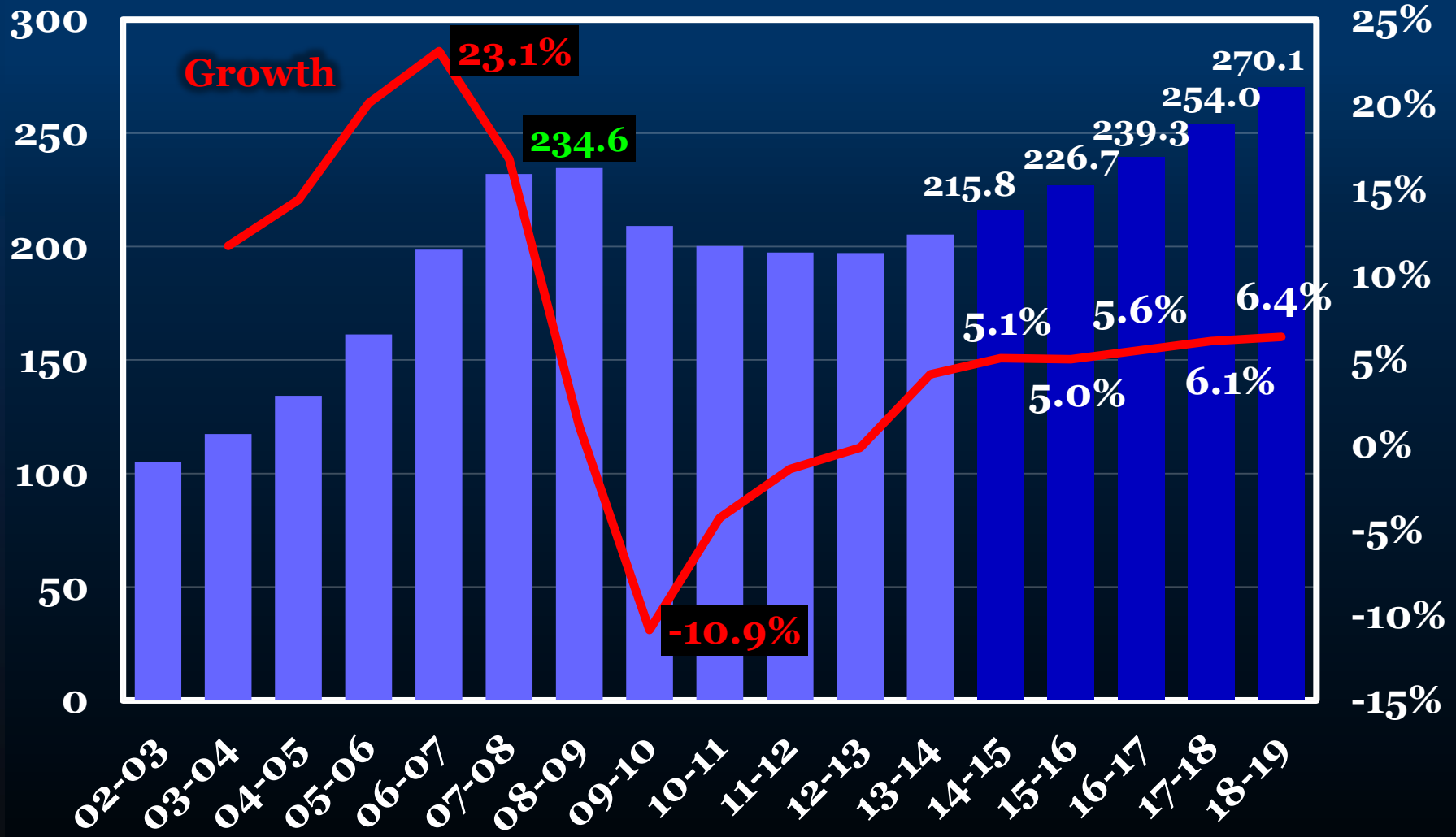
FY	Commercial	Growth	Non-Commercial	Growth	Total	Growth
13-14	41.7	1.3%	163.6	4.9%	205.3	4.2%
14-15	42.7	2.4%	173.0	5.8%	215.8	5.1%
15-16	44.3	3.6%	182.4	5.4%	226.7	5.0%
16-17	46.5	5.1%	192.8	5.7%	239.3	5.6%
17-18	49.4	6.2%	204.5	6.1%	254.0	6.1%
18-19	52.3	5.8%	217.8	6.5%	270.1	6.4%

Secured Assessed Valuation

On an Up-Trend
(billions of dollars)

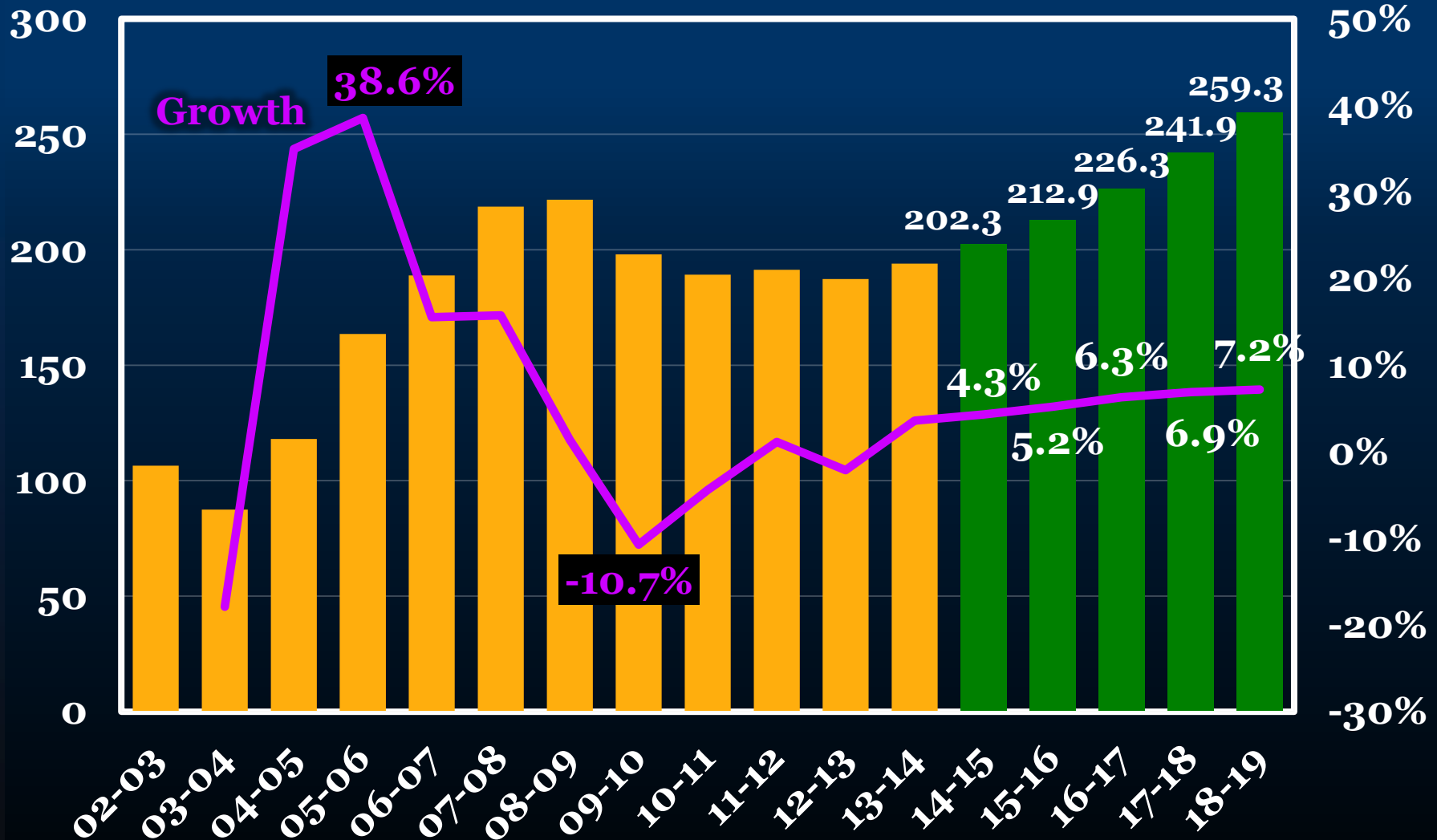


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Motor Vehicle Licensing Fees

Moderate Growth



Documentary Transfer Tax Fee ... Still below FY 07-08

Documentary Transfer Tax Dollars

FY	Dollars	Growth
10-11	9,958,654	-6.7%
11-12	9,365,385	-6.0%
12-13	11,123,316	18.8%
13-14	12,391,374	11.4%
14-15	13,531,381	9.2%
15-16	15,534,025	14.8%
16-17	18,143,741	16.8%
17-18	20,774,584	14.5%
18-19	23,392,181	12.6%



Questions?

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