REGIONAL INTELLIGENCE REPORT™

BEACON ECONOMICS Prepared by Beacon Economics, LLC.

California State University, Long Beach

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The U.S. Economic Outlook: Much Ado About Nothing

Ostensibly, the year has not started well for the U.S. economy. The financial markets spooked in January and equity values dropped sharply even as treasuries rallied to highs not seen since 2012. The markets have recovered, but that hasn't stopped the perpetual worries about China, oil prices, high-yield credit, tech bubbles, deflation, and so on.

However, taking a step back from the noise, the reality is that the U.S. economic expansion continues to move along at a steady, if mediocre, pace. More importantly, there is little reason to believe that the nation will stray from its current path of growth in 2016. Beacon Economics continues to forecast growth in the 2.5% plus range for the year, with perhaps even better numbers next year.

Consumer Spending: Retail sales grew at their weakest pace in years at the end of 2015. But interpreting these data can be tricky since they are based on nominal numbers and inflation is the slowest it has been in decades. Real spending data from the Bureau of Economic Analysis indicates that 2015 was a strong year for consumer spending on goods, particularly in the auto sector where U.S. automakers enjoyed a record year. This shouldn't be surprising given the strong labor market and rising real incomes. The modest slowing seen in the first quarter of this year is being offset by an increase in savings—savings that will surely be spent later in the year.

Construction: The building industry has been one of the slowest recovering sectors in the United States. Single-family housing starts are still under 800,000 (SAAR), one-third less than the long-term, stable number of 1.1 million. But the pace of construction is rising and 2016 is shaping up to be a good year. Fundamentals such as the average equity share of owners and the overall housing vacancy rate have finally returned to historic norms. Credit is slowly easing for borrowers and household formation is picking up. Home prices are still relatively good given low mortgage rates.

Manufacturing: While the ISM Manufacturing Indexes have been running below 50, suggesting contraction, real output data from the U.S. Federal Reserve indicates the opposite—that manufacturing output is up, albeit at a slower than normal pace. January's figure was the highest since the 'Great Recession' began. Some sectors, such as autos, are performing well. Others, particularly primary metals, are being hit by the global commodity glut. All in all, the sector added 50,000 jobs last year—not bad given the circumstances.

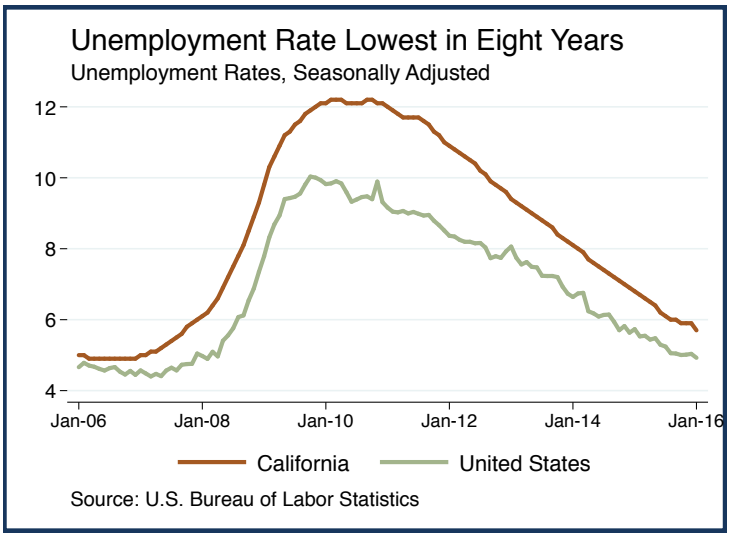
Exports: The final worry is the troubled global economy and its impact on U.S. exporters. But despite a slow down in China, oil-producing nations that are in various states of economic distress, and a strong U.S. dollar, exporters managed to increase their overseas sales in 2015 over the previous year by a small amount. The widening trade deficit last year was driven by imports, as U.S. consumers ramped up spending.

There are plenty of reasons why the U.S. economy will not grow as rapidly as everyone would like over the next couple of years, but there is little reason to believe the nation's economy will stop growing. The slow pace of growth may even be an underlying strength as the surest path to a downturn often comes from major imbalances that form in the heady days of a rapid economic expansion. Sometimes it pays to be a tortoise—particularly when that 'tortoise' offers the relatively high quality of life that so many American's enjoy.

California Economy Outpacing the Nation

California did it again. The high-priced, over-regulated, fruits-and-nuts state that everyone loves to hate turned in another strong performance in 2015. For the fourth year in a row, California outpaced the nation in job growth as well as output. The state experienced broad-based gains across its key industries ranging from agriculture to high tech, and nearly everything in between.

By the end of 2015, the unemployment rate stood at 5.9%, the lowest since late 2007. Meanwhile, California outpaced the nation in growth of wage and salary (nonfarm) jobs (3.0% vs. 2.1% for the U.S.), and actually accelerated to its fastest pace of job growth in over fifteen years. The state added over 460,000 jobs, with both coastal and inland regions participating in that growth.



Nearly every industry in California experienced job gains over the past year, generally adding to the gains of recent years. Health Care & Social Assistance, Leisure & Hospitality, and Construction led the state's industries, combining to produce nearly 45% of the state's total job gains last year. Only Mining and Logging lost jobs, as that sector reeled from the plunge in energy prices.

California's housing market continued its upward trajectory last year in terms of prices, sales, and new construction. The statewide median price for a home was $403,600 in final quarter of 2015, an increase of 5.5% from one year earlier. Sales rose by 10.5%, but were still constrained by lean inventories. Meanwhile, rental markets across the state were marked by low vacancy rates and rising rents, as the state's homeownership rate (54.3%) showed little sign of improvement. Looking ahead, higher home prices and sales, driven mainly by income growth, low but rising mortgage rates, and demographics, ought to trigger an increase in construction over this year and next.

Job Gains Across California's Industries

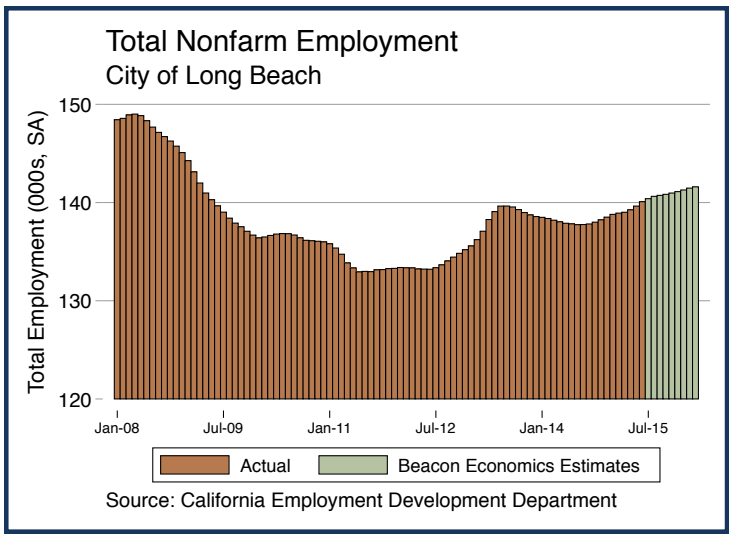
Industry	2015 Jobs (000s)	Change '14-15 (000s)	Change '14-15 (%)
Construction	726.6	52.2	7.7
Transport,Warehouse,Uti	553.5	30.1	5.8
Information	482.5	19.6	4.2
Leisure and Hospitality	1,828.3	69.4	3.9
Education/Health	2,455.8	90.0	3.8
Admin Support	1,058.8	33.8	3.3
Prof Sci and Tech	1,207.4	34.1	2.9
Real Estate	271.9	6.7	2.5
Retail Trade	1,663.4	34.5	2.1
Management	230.1	4.5	2.0
Government	2,460.0	48.3	2.0
Finance and Insurance	526.2	9.6	1.9
Farm	423.3	6.9	1.6
Other Services	545.3	8.7	1.6
Wholesale Trade	720.8	10.8	1.5
Manufacturing	1,292.2	18.0	1.4
NR/Mining	29.0	-2.6	-8.3
Total Private	13,591.7	419.4	3.2
Total Nonfarm	16,051.8	467.7	3.0

Source: California Employment Development Department

This year is shaping up to be one of steady gains in overall economic activity and employment, with the state's key industries continuing to see job growth and the fortunes of California's households improving with rising wages and growth in personal income. Despite concerns over the business climate, the state economy is one of the most dynamic in the country, as evidenced by the large amount of venture capital it has attracted on a consistent basis over the last several years.

Employment

The labor market in the City of Long Beach improved over the last year, with jobs growing by 2.0% from March 2015 to March 2016, based on data from the California Employment Development Department (EDD) and Beacon Economics' estimates. Nonfarm employment in the City stands at 141,725 jobs and continues to account for approximately 3.3% of Los Angeles County's nonfarm workers. But while job growth in the City resembled the rate of growth in the County (2.0%) over the last year, the City has lagged the County in recovering from the economic recession. Employment in the City of Long Beach remains 5% below its pre-recession peak, reached in March 2008, while employment in Los Angeles County has surpassed its pre-recession peak by 1.8%. Despite this gap, conditions for City residents have improved markedly. The EDD estimated that the City's unemployment rate declined to 5.5% in March 2016 compared to 13.4% in March 2010.



Providing the largest boost to nonfarm employment growth last year was the Professional, Scientific, Technical, and Management Services sector. Wages in this sector tend to be high with the average wage in 2014 in Long Beach estimated at $71,000.

Another industry experiencing robust job growth in the City was Real Estate Services. Homeownership rates have been especially low in recent years, which has led to higher demand for the types of services that residential real estate property managers provide.

Job growth in Transportation/Warehousing grew by 3.6% over the year. Port activity is off to a good start in 2016 following a mixed performance in 2015 (detailed further below).

A few sectors in the City of Long Beach lost jobs over the year. Information and Administrative Support Services accounted for 150 lost positions, while the Finance and Insurance Services sector accounted for another 75 lost jobs. The latter sector has been losing jobs since the start of 2014.

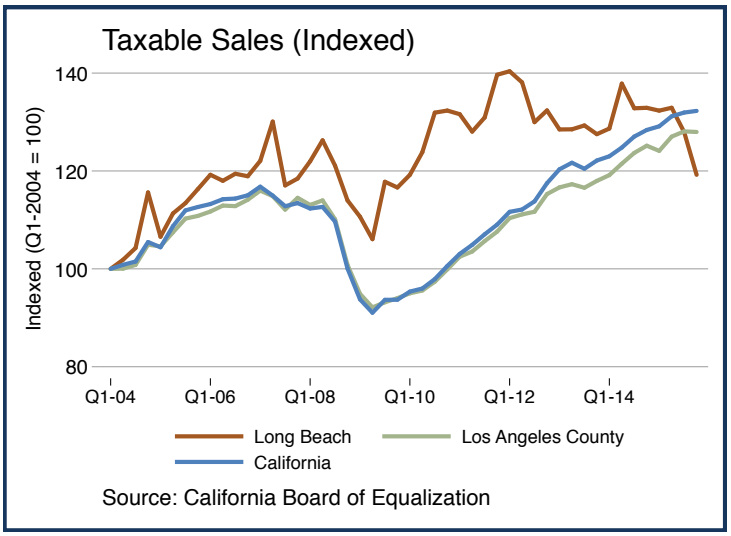
Employment by Sector

Sector	Long Beach		L.A. County
	Mar-16	YOY (%)	YOY (%)
Prof, Sci, Tech and Mgmt	11,675	5.6	3.0
Real Estate	3,500	4.4	4.6
Government	14,175	**3.0**	1.1
Local	10,100	3.6	0.8
State and Federal	4,075	1.6	2.0
Transport/Warehouse	13,675	3.6	1.4
Leisure and Hospitality	20,225	2.6	3.9
Health Care	24,450	1.9	4.3
Manufacturing	7,825	1.6	-1.7
Other Services	6,550	1.6	1.3
NR/Construction	6,100	0.7	2.8
Retail Trade	13,275	0.6	1.6
Wholesale Trade	5,800	0.5	0.0
Educational Services	1,125	0.4	6.5
Admin Support	8,625	-1.0	-0.3
Finance and Insurance	3,175	-2.3	0.4
Information	1,525	-3.0	2.5
Total All Industries	**141,725**	**2.0**	**2.0**

Source: EDD & Beacon Economics

Local Spending

Consumer spending has been a driving force in the economy of the City of Long Beach since the end of the recession, although spending growth slowed during the fourth quarter of 2015. Taxable sales also dipped in the fourth quarter, declining 10.3% year-over-year. While the decline is noteworthy, it is not necessarily a cause for concern. Generally, the smaller the geography, the more volatile the spending, thus trends at the county and state level tend to be more stable. Furthermore, taxable sales data is slightly lagged, so the latest quarters of data are based on early estimates that may be revised upwards in the future.



Among spending categories, Autos and Transportation has experienced the most growth. According to the latest taxable sales receipts data, spending in that category grew 8.5% from the third quarter of 2014 to the third quarter of 2015 in Los Angeles County, as consumers responded to cheap gasoline prices and took advantage of low interest rates on auto loans. Lower gasoline prices have led to a steep decline in spending in the Fuel and Service Station category in Los Angeles County, as well as in the rest of the state. This is good for the local economy, however, because it allows consumers to spend their incomes on other goods and services.

Taxable sales receipts growth in the Business and Industry category was flat during the third quarter of 2015 compared to 2014 levels. Still, while business-to-business spending on services lagged relative to other economic indicators, businesses continued to spend more on structural improvements and expansions, as indicated by the 8.2% increase in taxable sales receipts in the Building and Construction category.

Sales Tax Receipts by Category in Los Angeles County

Category	Annual Growth (%)		$Mil
	Q3-2014	Q3-2015	Q3-2015
Autos and Transportation	6.1	8.5	61.3
Building and Construction	6.0	8.2	24.6
Restaurants and Hotels	9.1	6.7	54.9
Food and Drugs	4.7	3.1	21.2
General Consumer Goods	3.5	2.9	90.3
Business and Industry	11.0	0.0	50.0
Fuel and Service Stations	0.6	-15.4	34.7
Total	**6.0**	**2.6**	**381.1**

Source: HdL Companies

Increased business and visitor travel helped boost spending in the Leisure and Hospitality category significantly. Spending on Restaurants and Hotels in Los Angeles County increased 6.7% year-over-year from the third quarter of 2014 to the third quarter of 2015. Hotel data suggests that tourism and business travel are growing steadily in both the City of Long Beach and across the County. From 2014 to 2015, the annual average daily hotel room rate in the City increased by 10.6% to roughly $156.44, outperforming the average room rate growth in Los Angeles County of 6.6%. Local residents and businesses have also contributed to Leisure and Hospitality spending, a trend that should persist as the economy continues to improve.

Port Activity

The City of Long Beach is home to the Port of Long Beach, a major gateway for international trade. A strong U.S. dollar, weakness among global trading partners, and a stronger domestic consumer sector have all impacted recent trade trends at the Port. The weak global economy, particularly the slowdown in China, is playing a significant role given that the Port is an important trade hub for Asian markets. Asian countries remain the largest trading partner for both imports and exports through the Port, however imports continue to make up the bulk of trading activity. In value terms, imports to the Port of Long Beach declined 11.9% from 2014 to 2015, while exports fell 16.1% over the same period. At the Port of Los Angeles, the decline was more severe, at 20.7%. The value of imports was down in part because the strong U.S. dollar has made imported goods cheaper, while constraining exports by making them more expensive in nominal terms.

The flow of containers through the Port was consistent with economic fundamentals in 2015. Inbound containers rose by 3.1% in response to strength in U.S. domestic spending, while outbound containers dropped 4.9%, reflecting the decrease in real goods exports at the national level from 2014 to 2015.[1] Altogether, the total container count through the Port actually rose by 5.4% to the third highest level on record. This is because of a 20% increase in empty containers that more than offset the decline in outbound containers.

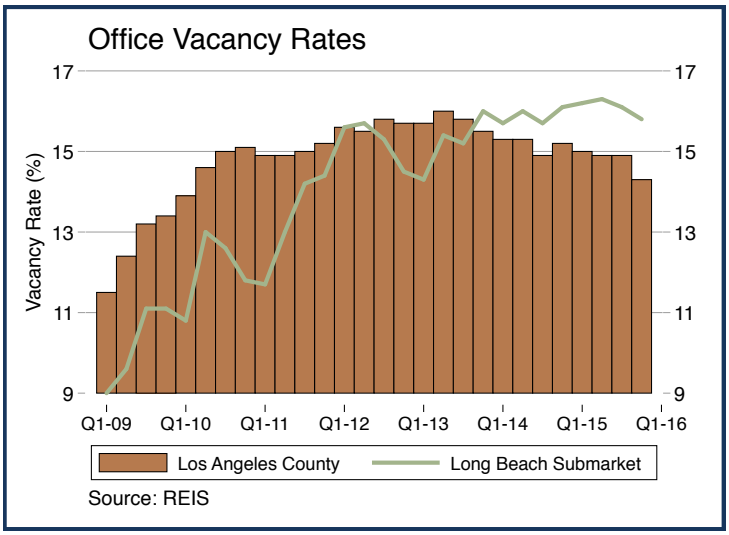
Despite the hurdles in 2015, the outlook for 2016 remains positive. Inbound container volume increased 4.7% year-over-year in the first quarter of this year, while outbound containers increased by 2.5%. Along with an 11.6% increase in empties, total container throughput at the Port was up 6.1% in the first quarter of 2016.

[1]It should be noted that total inflation-adjusted exports actually rose at the national level last year because the decline in real exports of goods was more than offset by the increase in real exports of services.

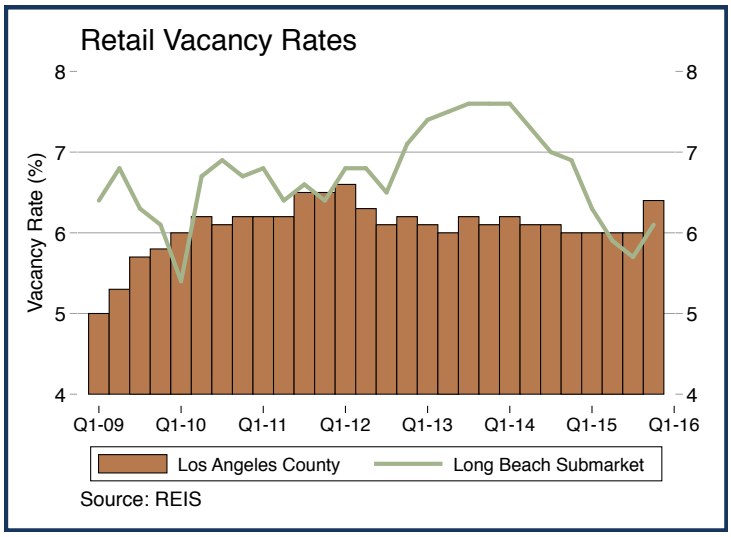
Commercial Real Estate

The City of Long Beach remains an attractive location for businesses. Commercial real estate statistics indicate that the demand for office, retail and industrial space improved in 2015.

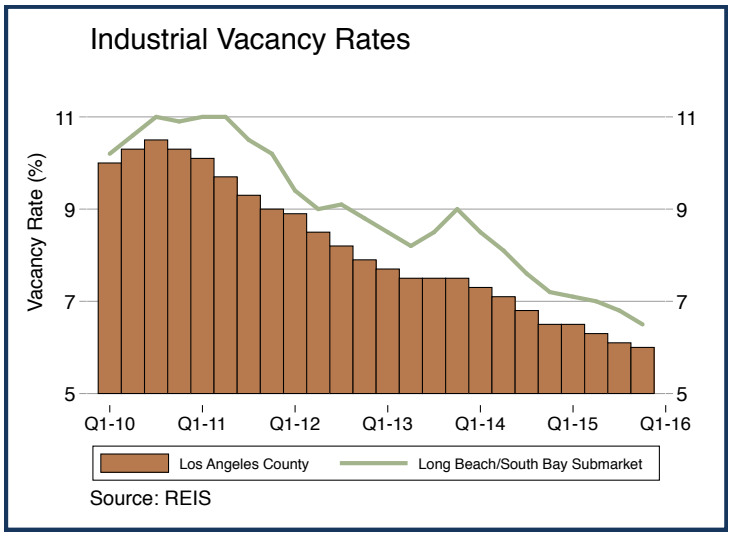
Office vacancies in the City of Long Beach market improved but remained elevated due to a large amount of stock added between 2013 and 2015. According to estimates provided by REIS, a leading commercial real estate company, the office vacancy rate reached 15.8% in the fourth quarter of 2015, an improvement of 30 basis points from one year earlier. Office rents grew by 2.4% in the Long Beach market over the same period, compared to 3.9% in Los Angeles County as a whole. A mixed performance among the City's office-occupying sectors is one reason why the office vacancy rate remains elevated; job gains in the Professional and Business Services sector have been offset by cuts in the Information and the Finance and Insurance sectors.



The vacancy rate at retail stores in the Long Beach market has improved dramatically for two full years, falling to 6.1% in the fourth quarter of 2015. Based on recent employment trends, demand is being driven by furniture and home furnishing stores as well as by local food services and drinking establishments. Retail rents in the Long Beach market grew by 5.6% from 2014 to 2015 compared to 3.2% growth in Los Angeles County. Part of the vigorous rent growth stems from an increase in new structures. Permits for new retail stores in the City of Long Beach totaled $16.5 million in 2015, including a permit for a new $5 million auto dealership. Comparatively, construction permit values for new retail stores totaled just $3.7 million from 2011 to 2014, cumulatively.

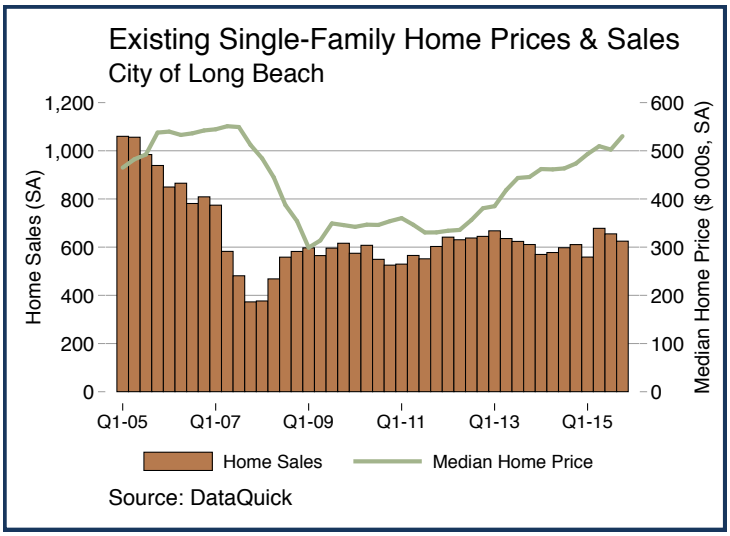


Demand for industrial properties also continues to grow with vacancy rates trending downward and rents rising. The vacancy rate for warehouse and distribution centers in the Long Beach/South Bay market fell to 6.5% in the fourth quarter of 2015, a 70 basis point improvement over the prior year. Meanwhile, rents at warehouse and distribution centers grew by 2.3% in the Long Beach/South Bay market, a hair less than rent growth in Los Angeles County (2.6%). Last year marked the lowest level of construction activity for new industrial properties in four years with permits totaling just $10.0 million, down from $17.4 million in 2014 and $47.4 million in 2013. However, major industrial projects are in the works, including projects at Douglas Park, which was the former home of Douglas Aircraft, DC Jets, and Boeing.



Residential Real Estate

Home prices in the City of Long Beach continued to accelerate over the last year, following broader trends in the County and state. The median price of a single-family home rose by 12.0% from the fourth quarter of 2014 to the fourth quarter of 2015, reaching $530,300. Home prices in the City remain 3.7% below their pre-recession peak, but are much more affordable now than in 2007 given the recent growth in income and historically low interest rates.

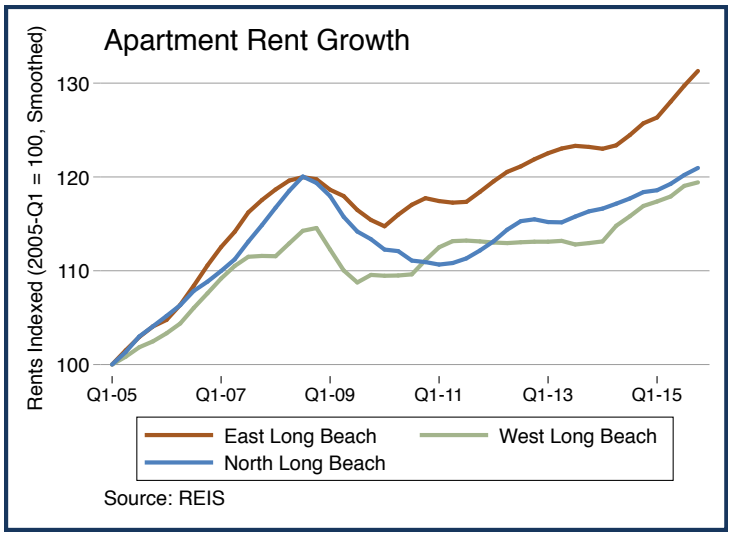


The pace of home sales remained flat in 2015, largely due to a shortage of homes available on the market. Lack of housing supply remains a concern for the local market and for much of the state, and will continue to drive home prices higher. Permits for just 20 single-family units were filed in 2015 in the City of Long Beach, a decrease from the paltry 25 permits filed in 2014 and hardly enough to replace aging homes that have become inhabitable. Over the last ten years, only 570 single-family units have been permitted in the City, a major reason why there were 1,600 fewer households living in the City in 2014 than in 2005.

Trends in foreclosures and defaults in the City of Long Beach indicate that fewer homeowners are in danger of losing their homes. In 2015 there were a total of 562 notices of default and 137 notices of foreclosure, the lowest levels for both indicators since 2005.

Apartment rents also accelerated across the City of Long Beach. From the fourth quarter of 2014 to the fourth quarter of 2015, the average apartment rent grew by 4.7% in East Long Beach, by 3.3% in West Long Beach, and by 2.9% in North Long Beach. Since 2005, rents have grown the most in East Long Beach compared to the other two markets. Vacancy rates have improved significantly in all three markets.

Increased demand, coupled with the absence of a rent control ordinance has helped encourage the development of many new apartments in the City of Long Beach. There were 130 permits filed for multifamily housing units in 2015, on top of the 294 units permitted in 2014. Over the last ten years, the City has permitted three times as many multifamily units as it has single-family units.



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