

The 2020 Economic Outlook

U.S. and California

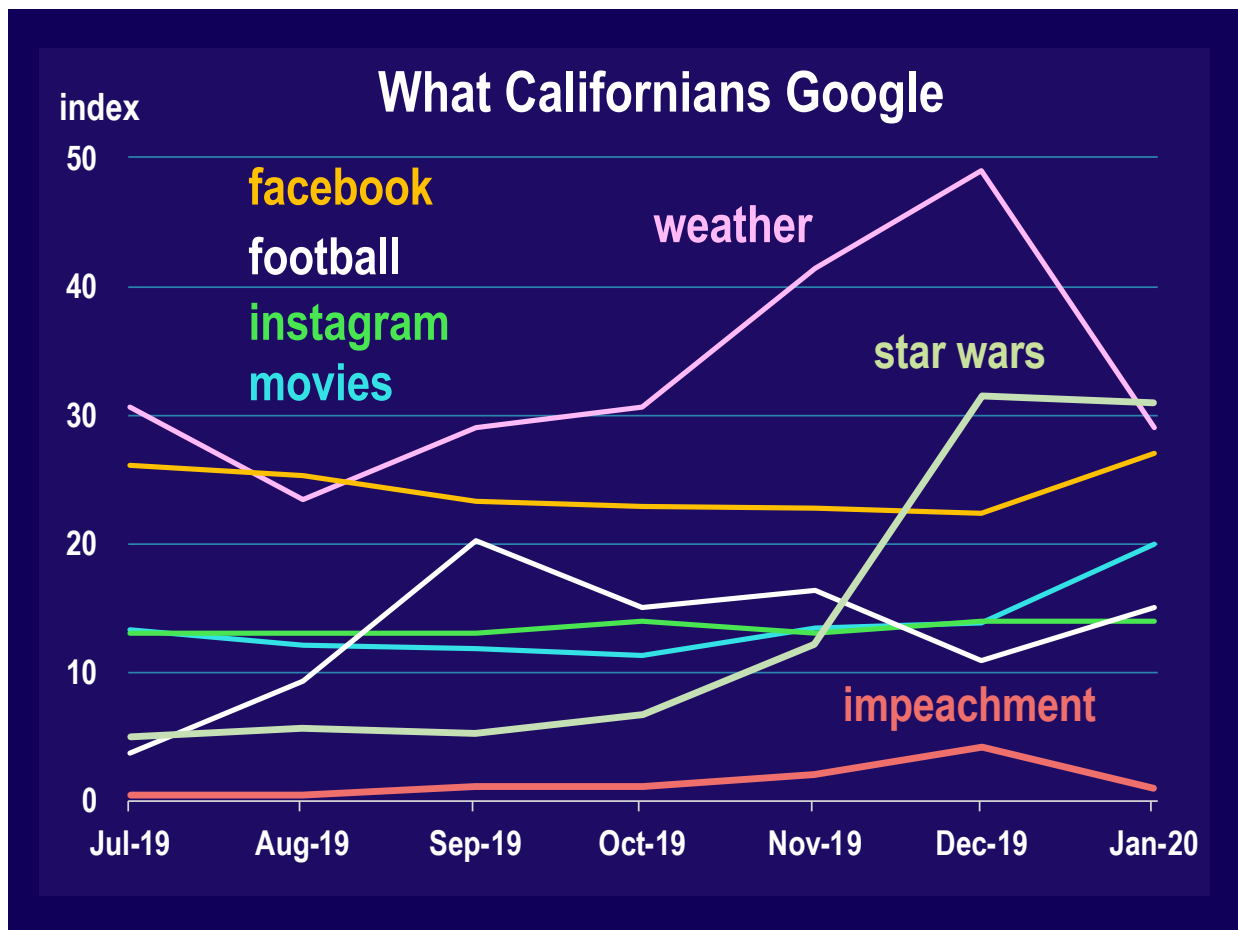
January 15, 2020



Mark Schniepp
Director

What are Californian's Concerns?

- (1) Economy ?
- (2) Global Warming ?
- (3) Homelessness ?
- (4) This year's Presidential Election
- (5) The Stock market ?
- (6) The next Recession ?
- ✓ (7) None of these ?

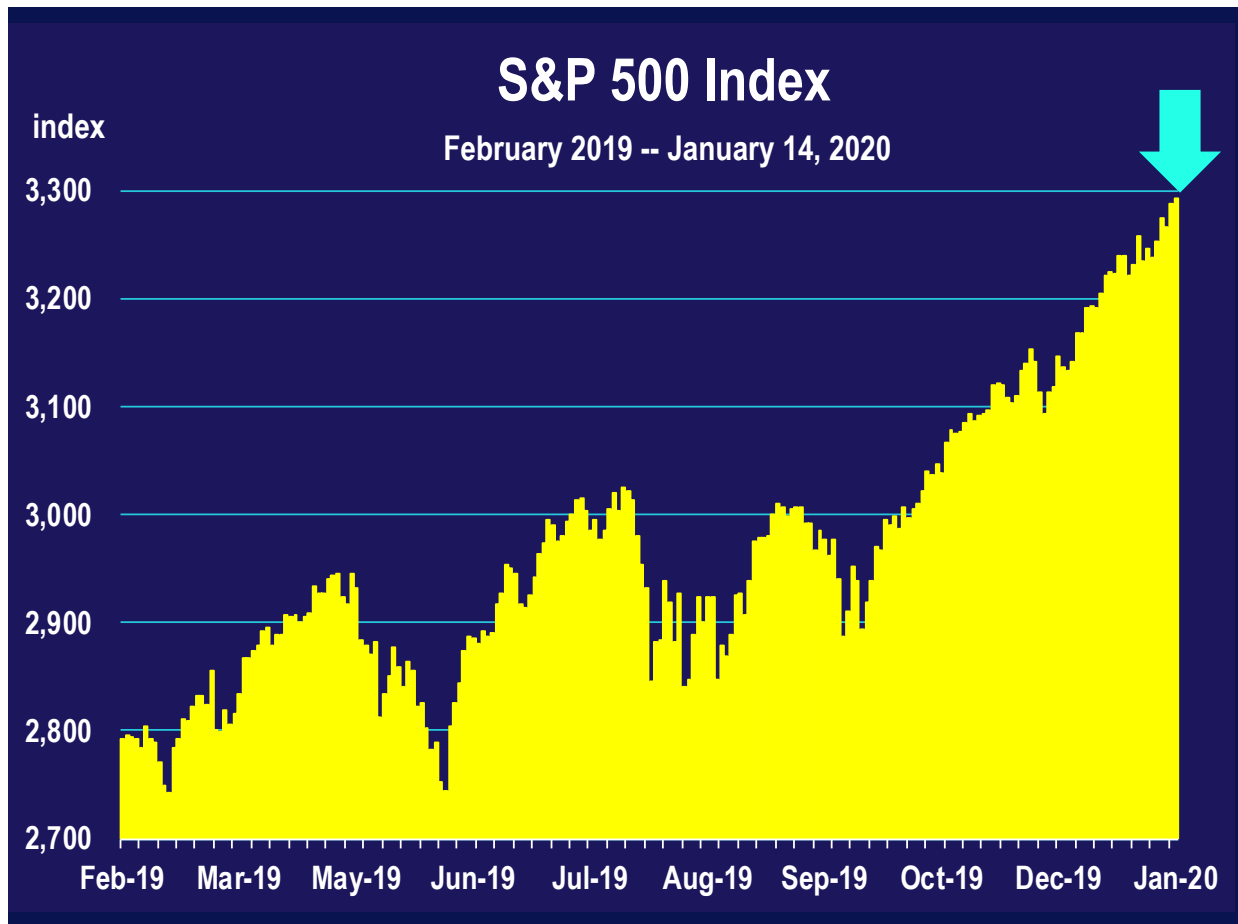


Agenda: *the outlook for California*

- (1) What you should know
- (2) Searching for Recession
- (3) What you should know about California
- (4) Community College Update
- (5) The 2020 outlook

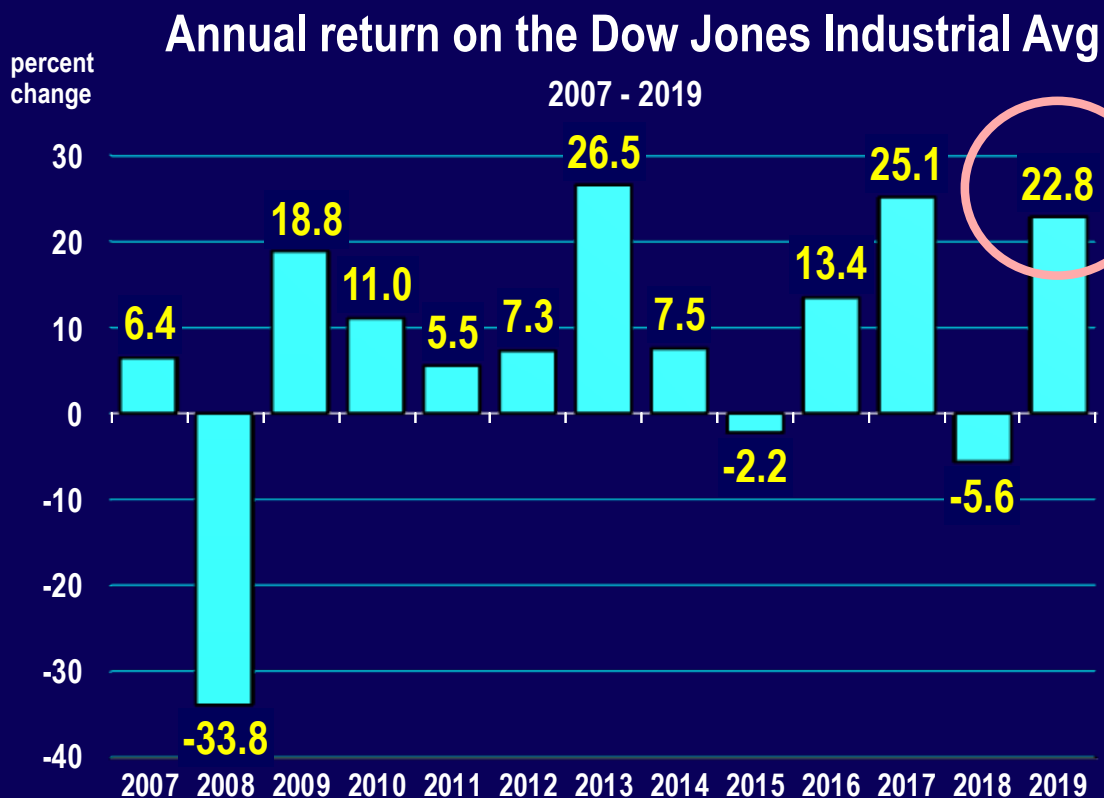
What you should know about the Economy

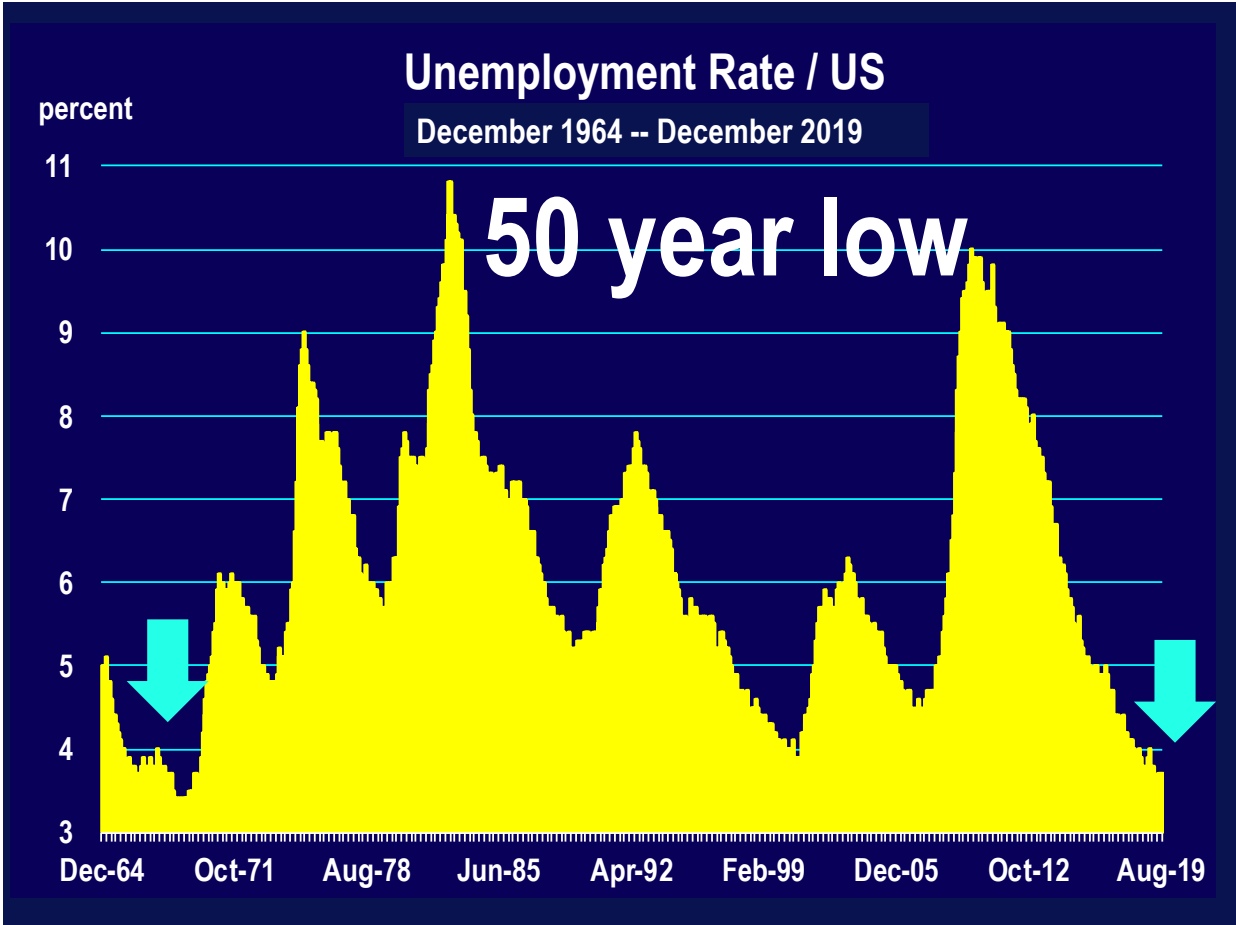
- ❑ Unemployment rate just dipped to 3.5 %
- ❑ All time record job creation continues in the U.S.
- ❑ The economy has slowed however
 - to 2.3% in 2019 (from 2.9% in 2018)
- ❑ Uncertainty from the trade war has been a cloud over the economy
 - which is now abating due to a Phase 1 agreement
- ❑ Stock market is at all time record highs

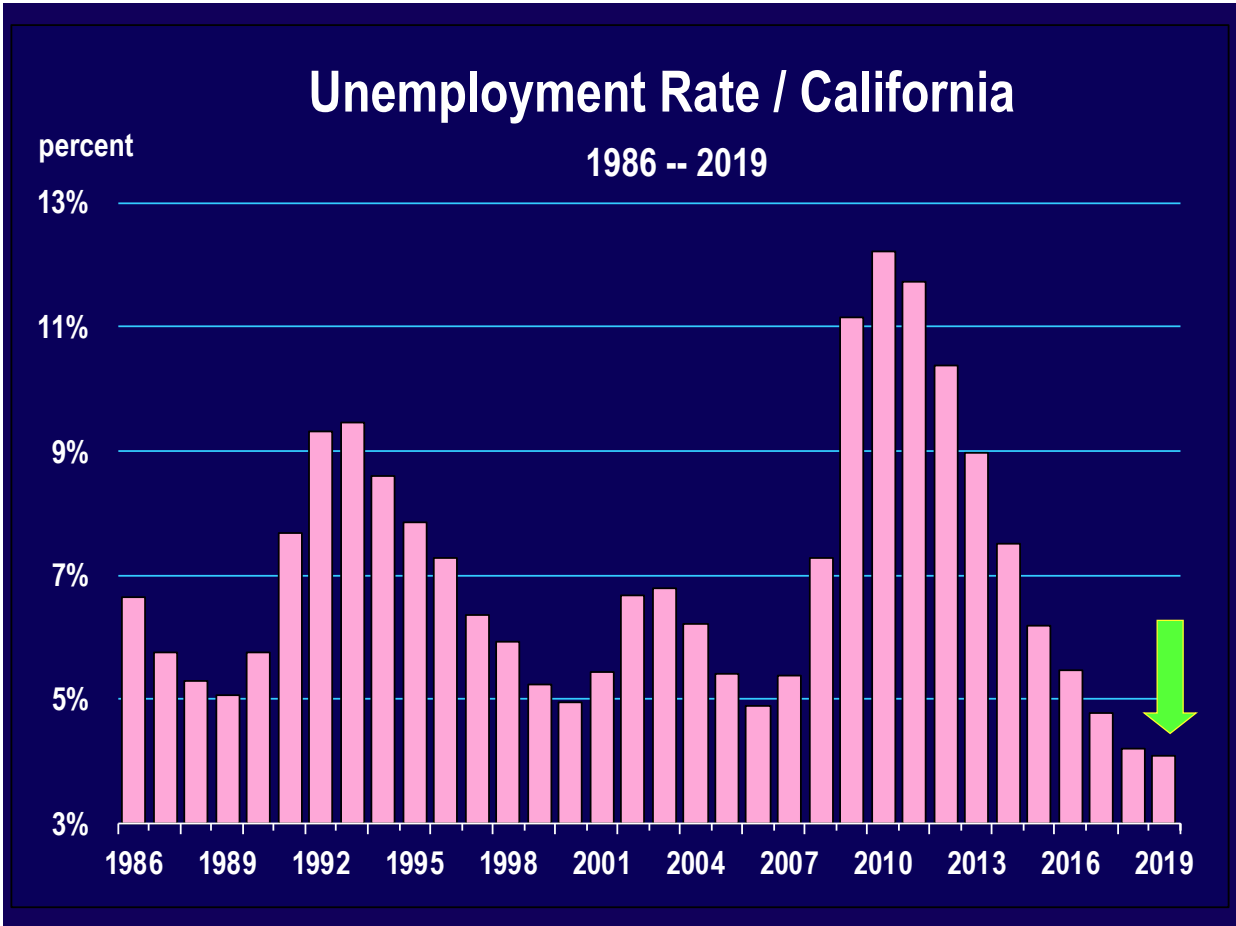
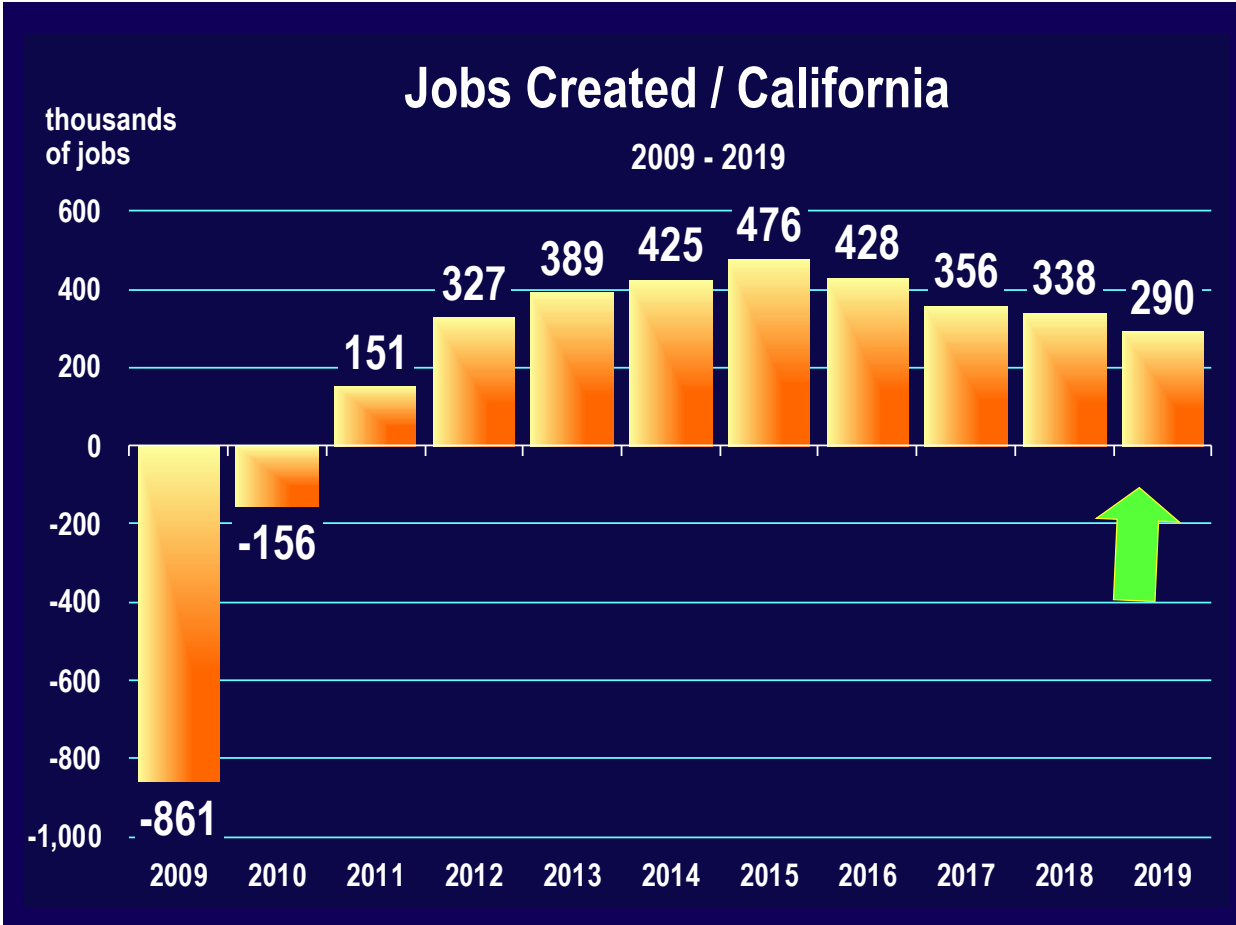


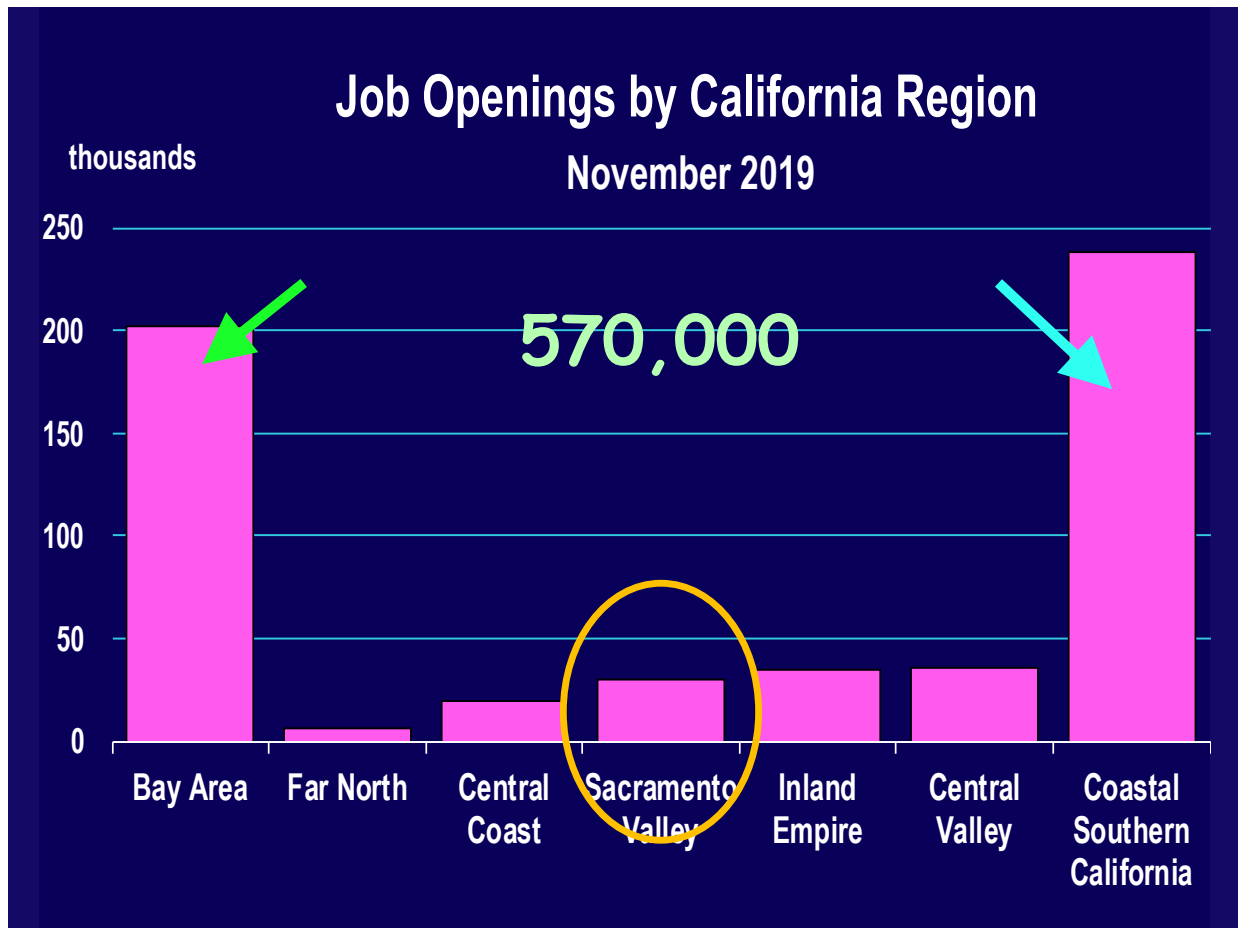
More of what you should know

- ❑ Long term interest rates remain very low
- ❑ Household wealth is at all time record highs
 - ❑ record high stock market
 - ❑ very low debt
 - ❑ record high home prices
- ❑ Real wages have eclipsed their previous peak
- ❑ Inflation around 2 percent, or less









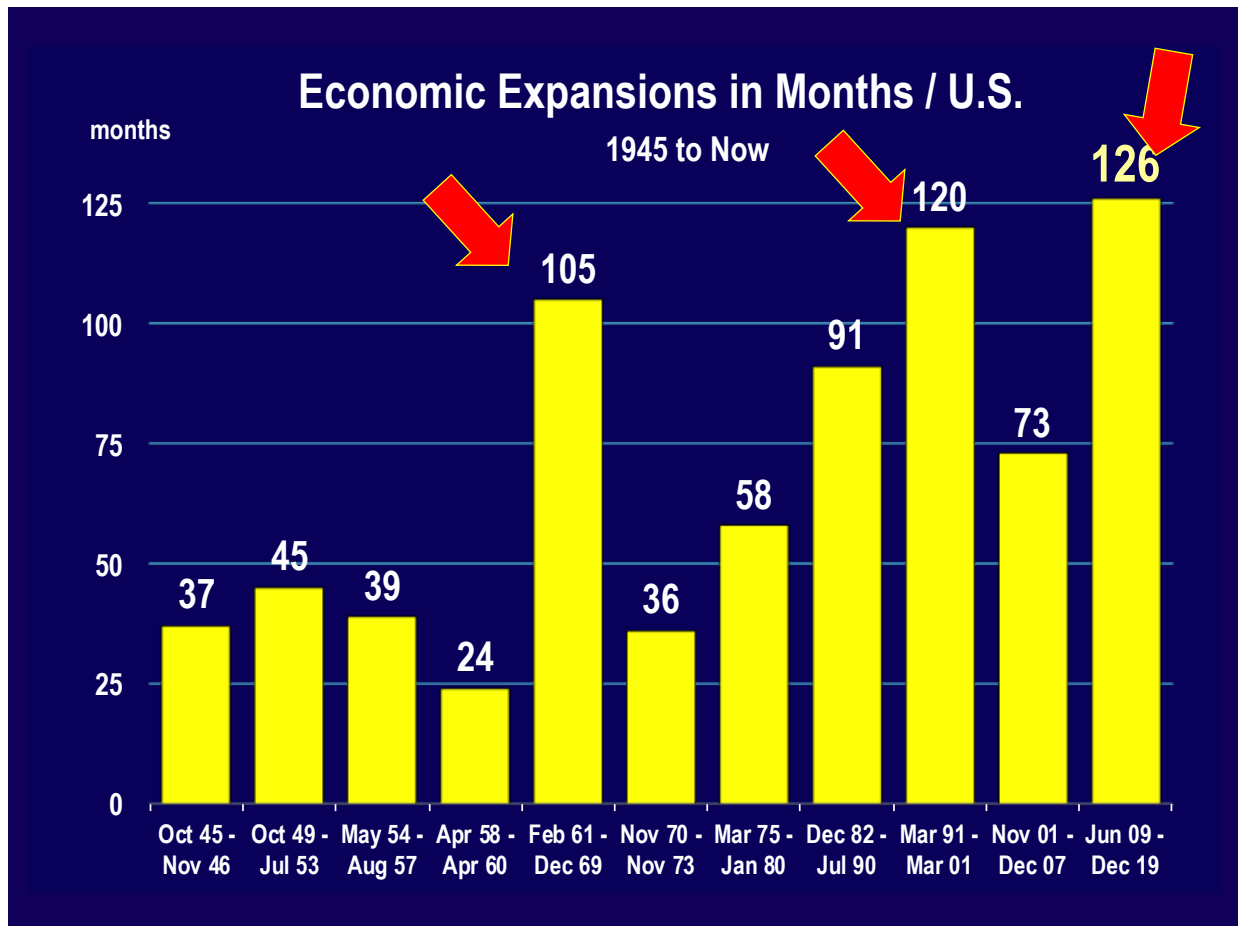
How do you handle job openings?

- we don't have any job openings
- we recruit new college graduates
- we raid other companies
- we use all social media to recruit
- we're hoping the next recession will eliminate our need to hire

Searching for recession



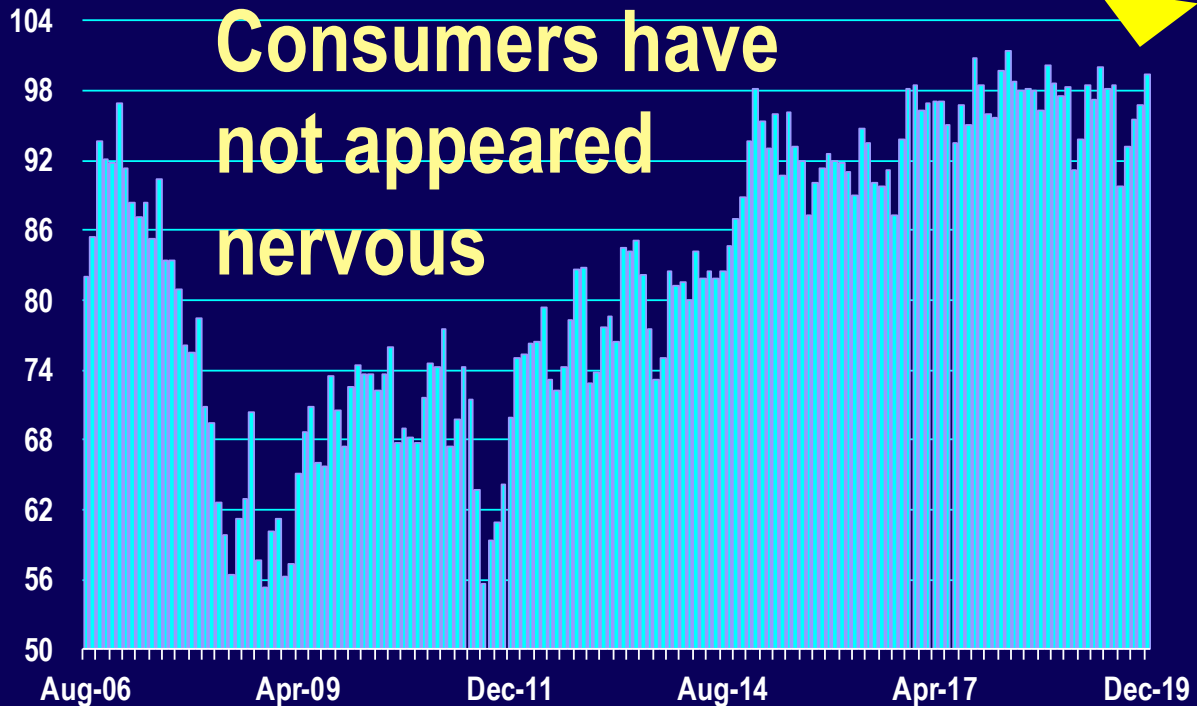
Searching for the most widely anticipated recession in history



index
1985=100

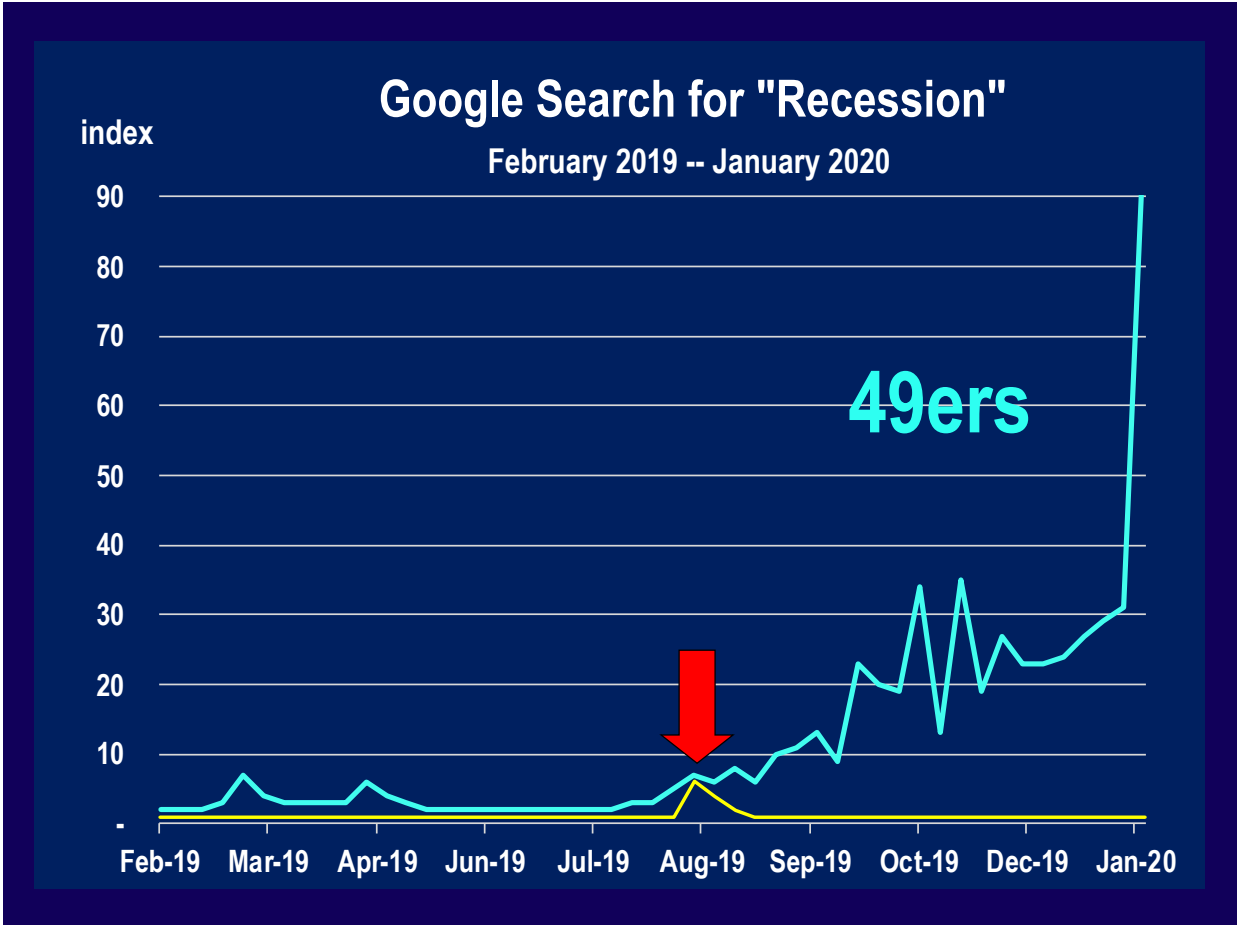
Consumer Sentiment / University of Michigan

August 2006 -- December 2019



What would Consumers Worry About ?

- . . . their jobs
 - today and in 6 months
- . . . their wealth
 - the stock market
 - their home values
- . . . about recession

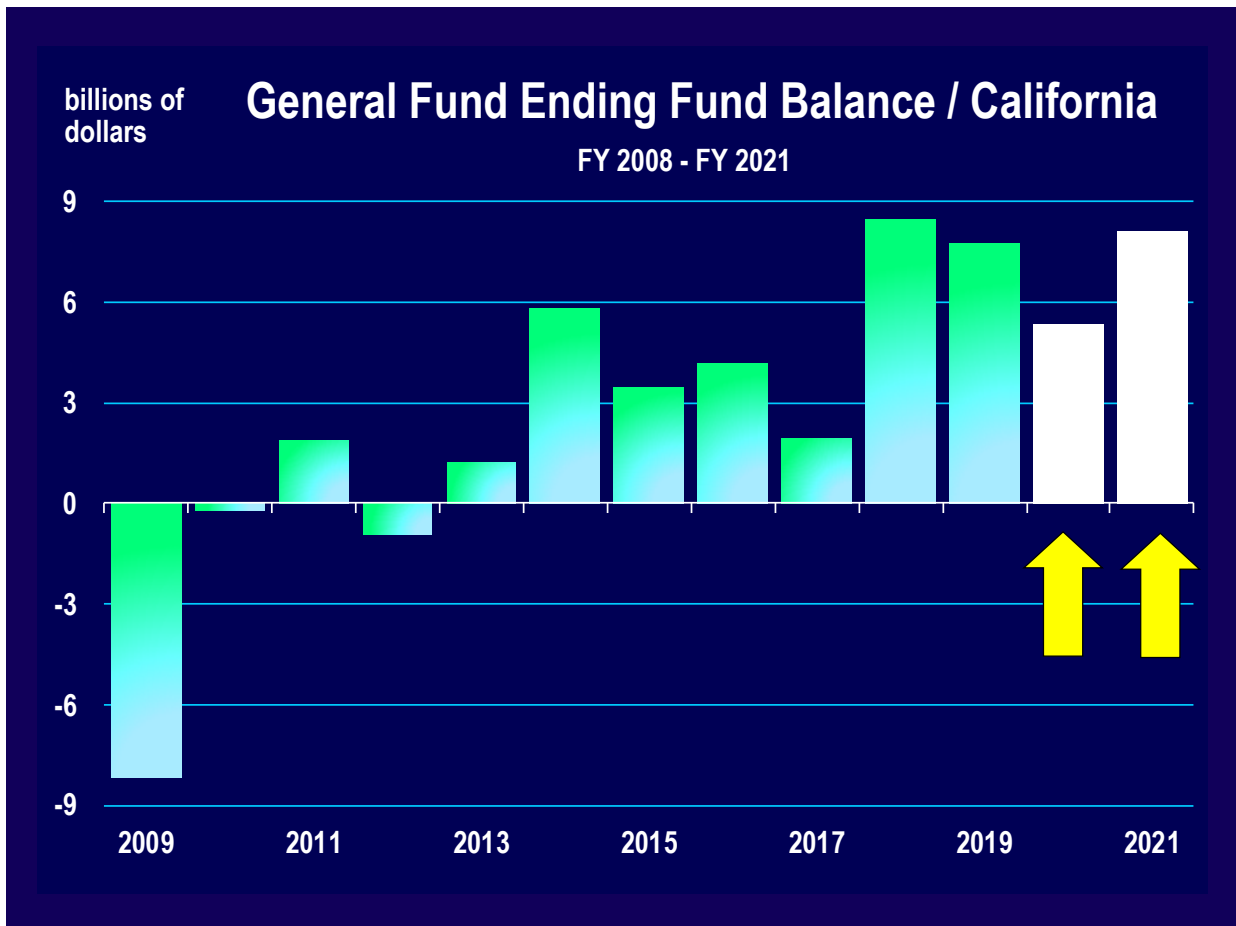


Even Gavin Newsom talks recession (January 10, 2019 news conference)

Revenue Could Drop by Nearly \$70 Billion in a Recession

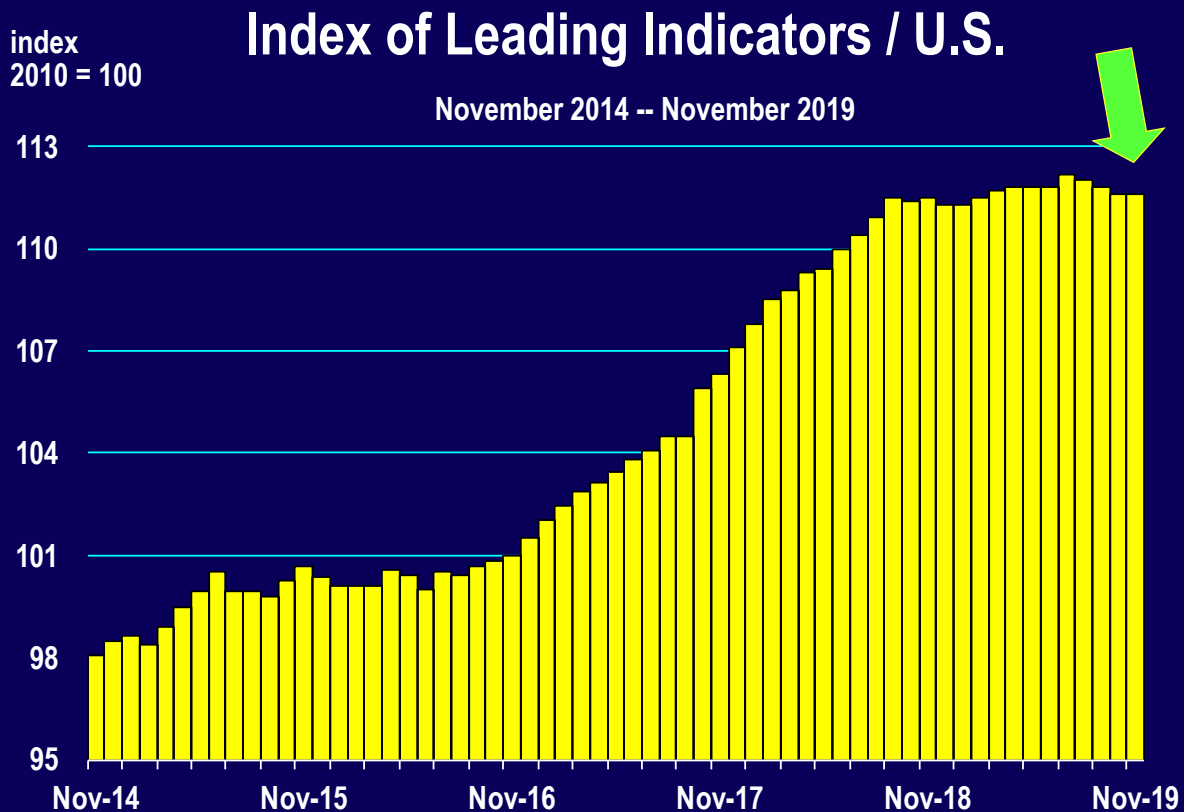


California State Budget 2019-2020 / June 27, 2019



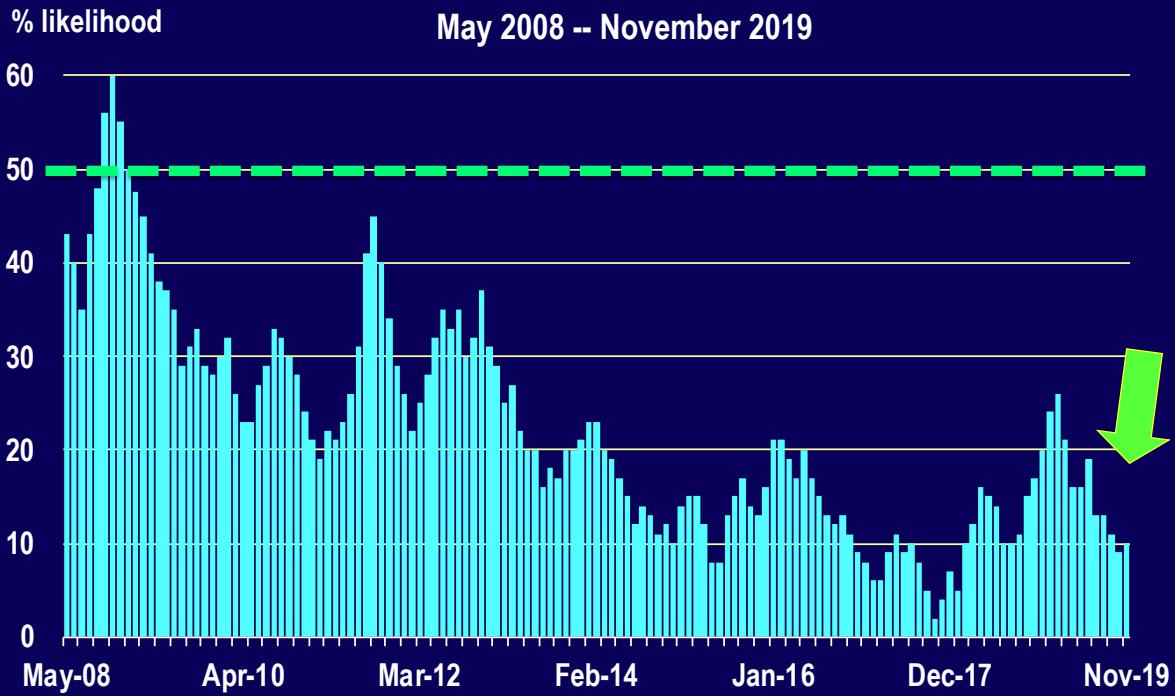
Who Should Worry about Recession?

- Anyone that has a job
- Business owners
- State, County, and City governments
- Anyone with debt
 - can't be serviced with lower revenues
- Lenders
- Most everyone



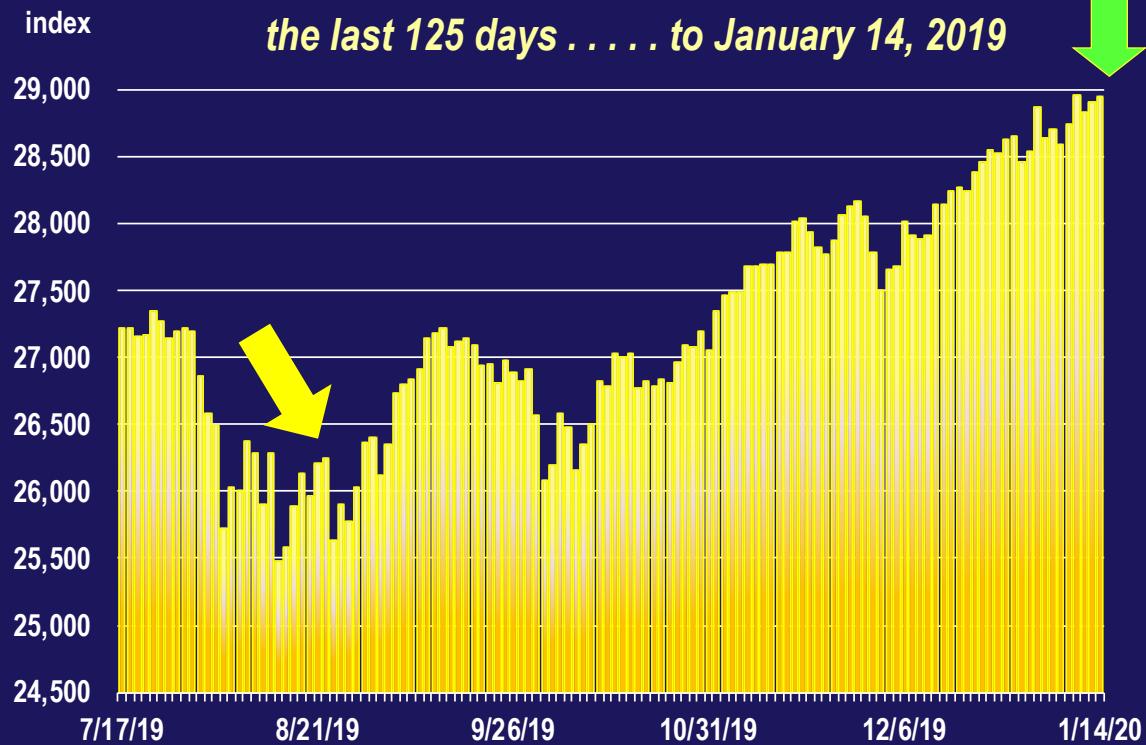
Probability of Recession / U.S.

the probability that the U.S. economy will be in recession in 6 months



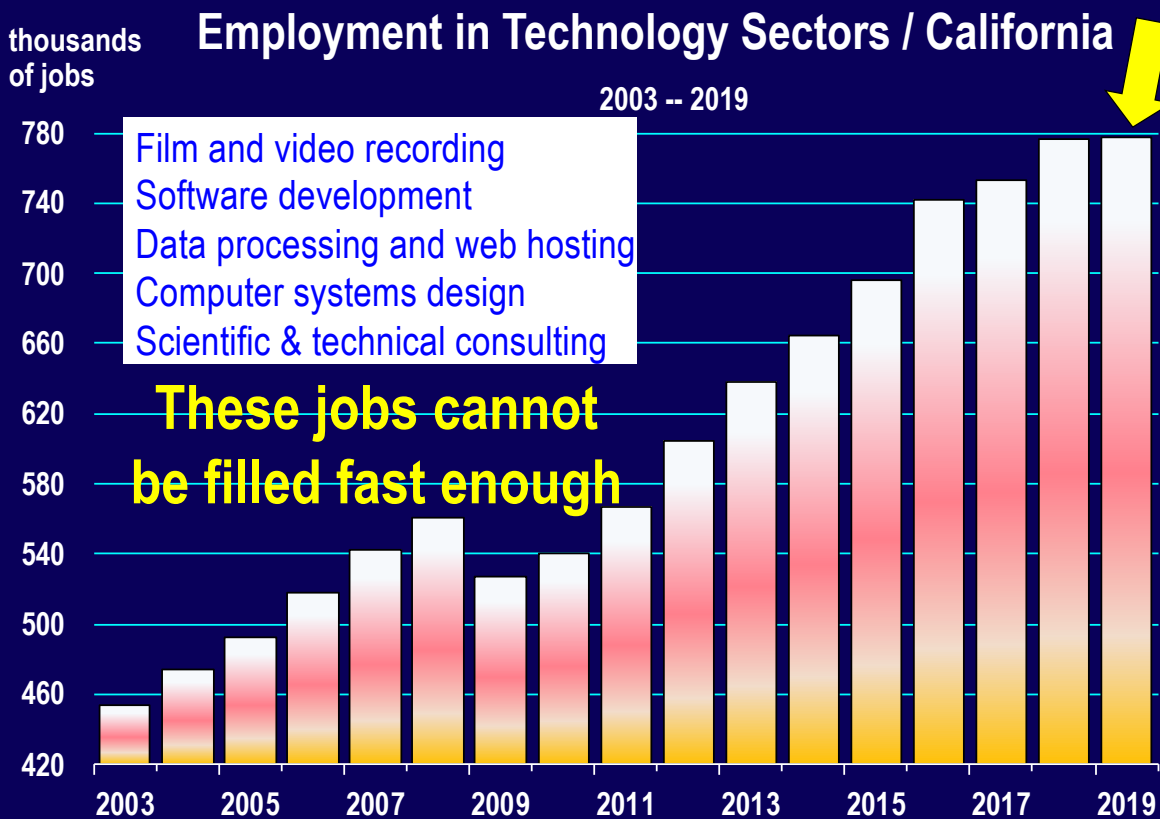
Dow Jones Industrial Average

the last 125 days to January 14, 2019



What you should know about the *California* economy right now

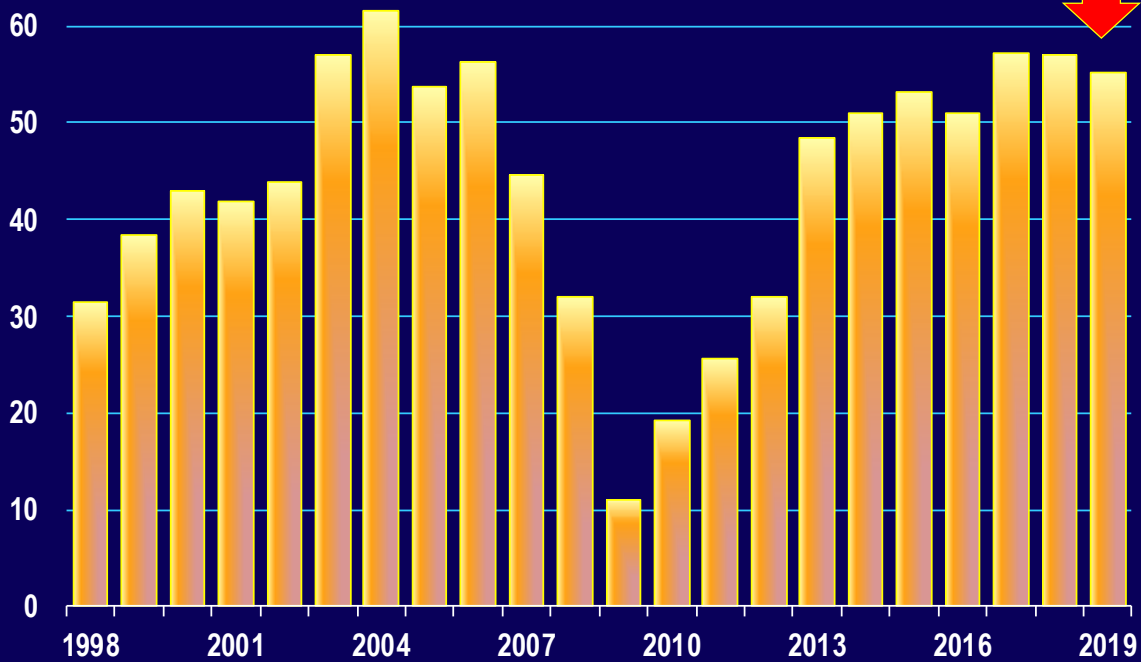
- ❑ Surprising sustained strength in job creation
- ❑ New development remains especially strong
 - Building booms in Los Angeles, Bay Area, Orange County, Sacramento and Central Valleys
 - High speed rail project continues
 - Fire rebuilds in Northern California
- ❑ Technology remains the principal engine of growth in California



New Apartment Unit Production / California

thousands of units permitted

1998 -- 2019

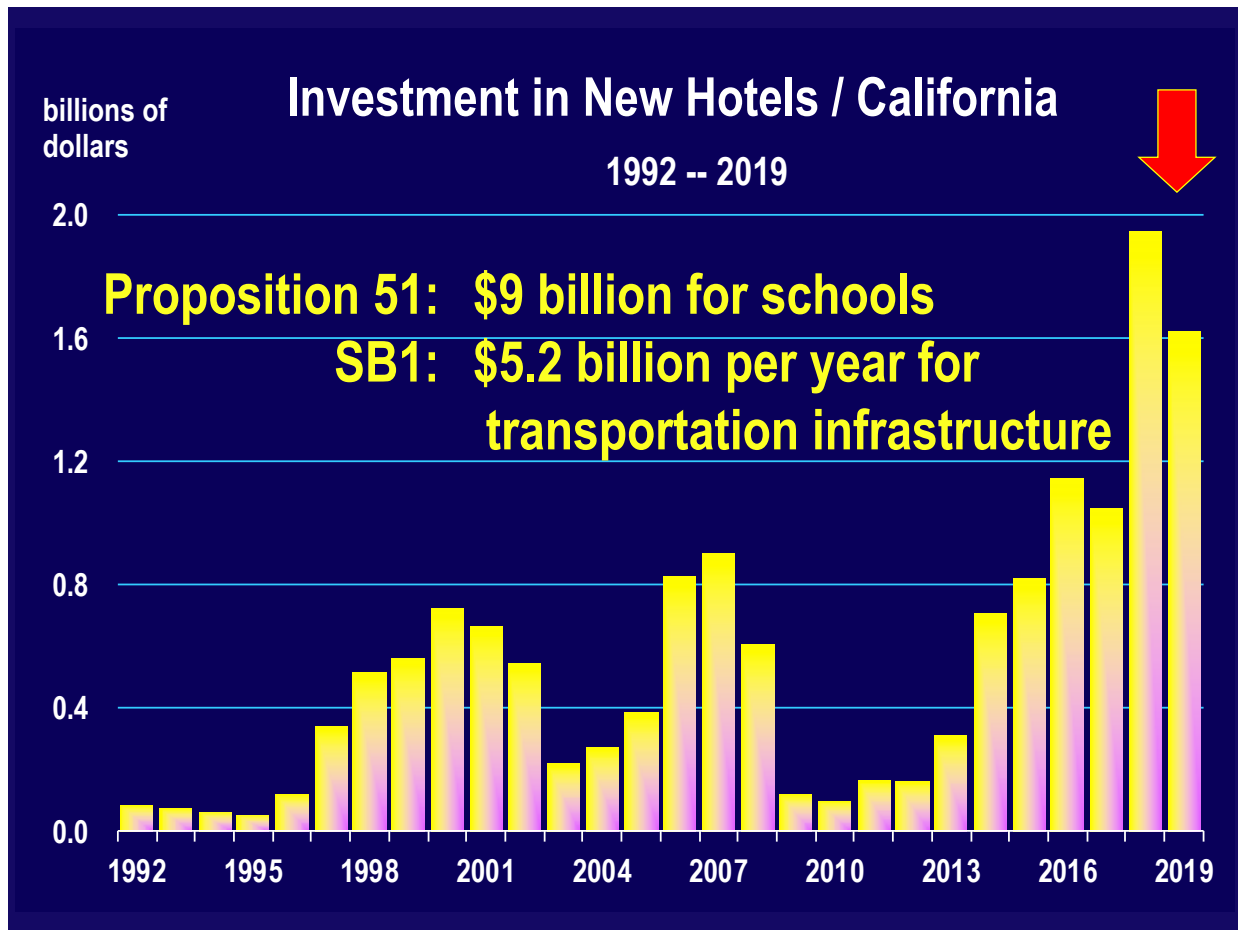


Investment in New Commercial & Industrial Structures / California

billions of dollars

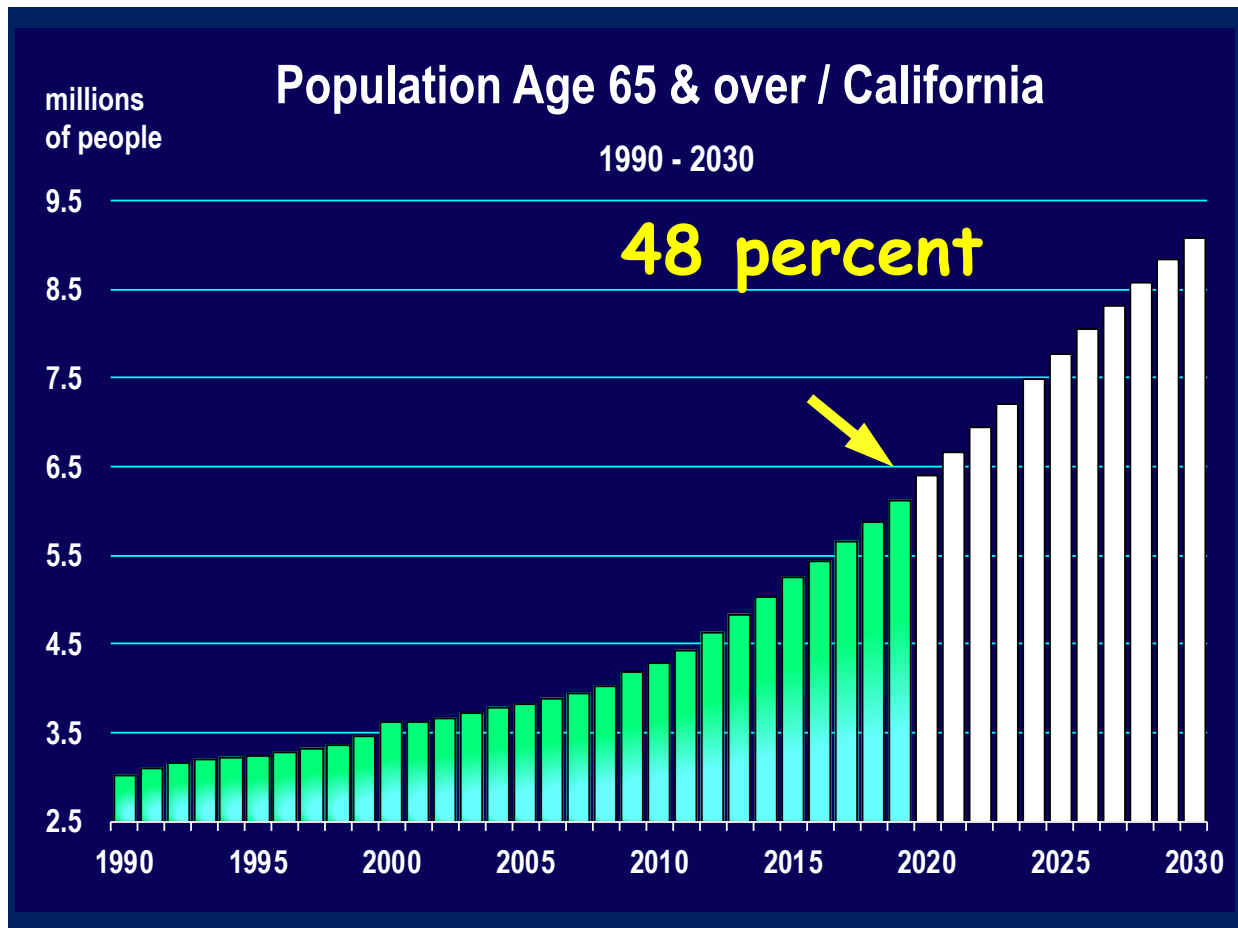
1979 -- 2019





Community College Update

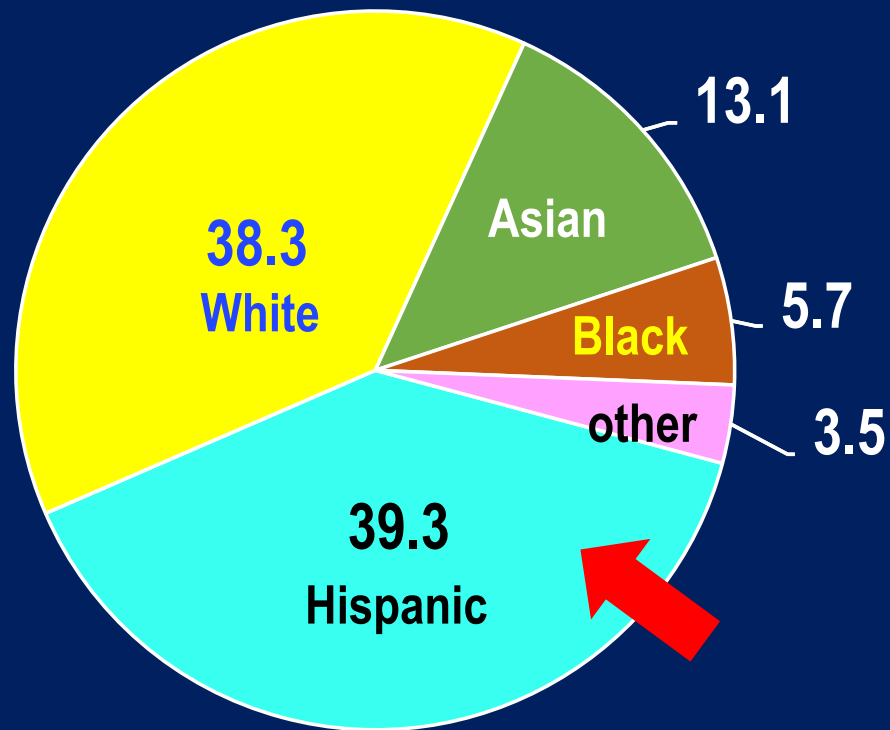
Current Enrollment & Future Demand



CA Demographics are changing

- The fastest growing age cohort is 65+
- The largest age cohort is the Millennial generation, born 1980 to 1999 and are now aged 21 to 40
- And because Millennials don't have kids
- . . . population growth has now slowed to the lowest rate since records have been kept
- Net in-migration to California has turned negative
- Hispanic population now the dominant ethnicity in California

Distribution of Ethnicity / California • 2019



Student Demographics / Ethnicity

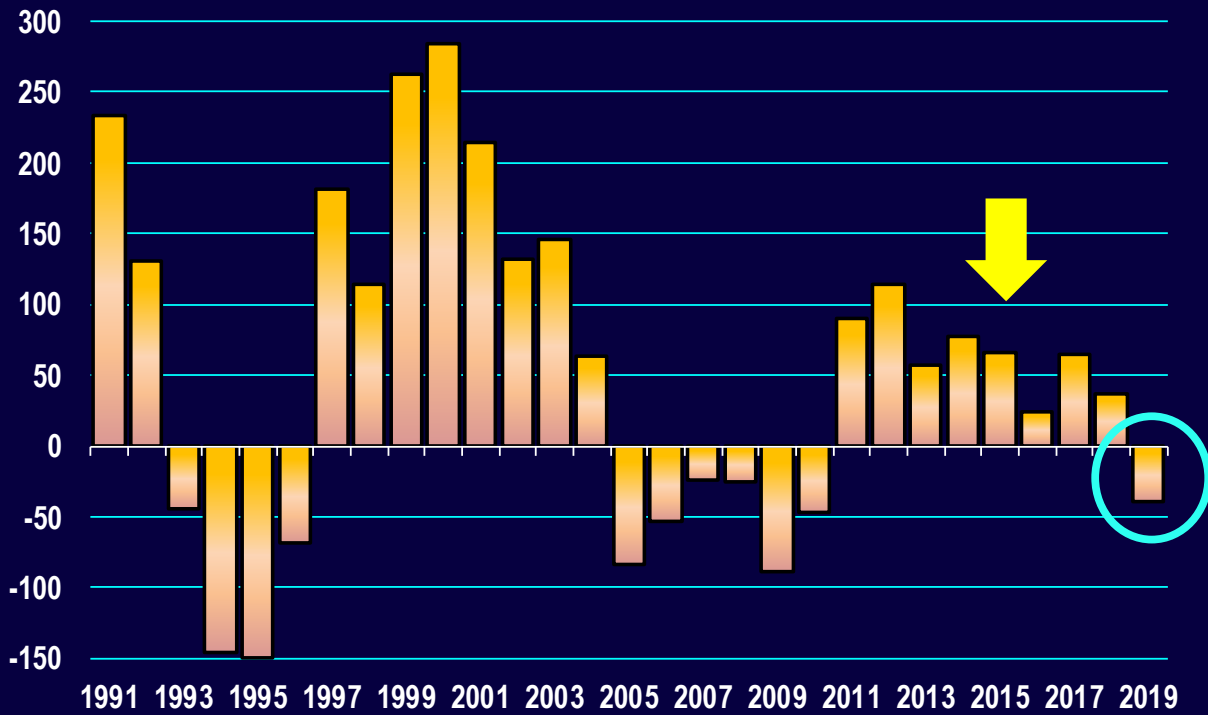
2017 - 2018

(1) Black	6%
(2) Asian	12%
✓ (3) Hispanic	45%
(4) White	26%
(5) Multi-Ethnicity	4%
(6) Other	8%

thousands of persons

Net In-migration / California

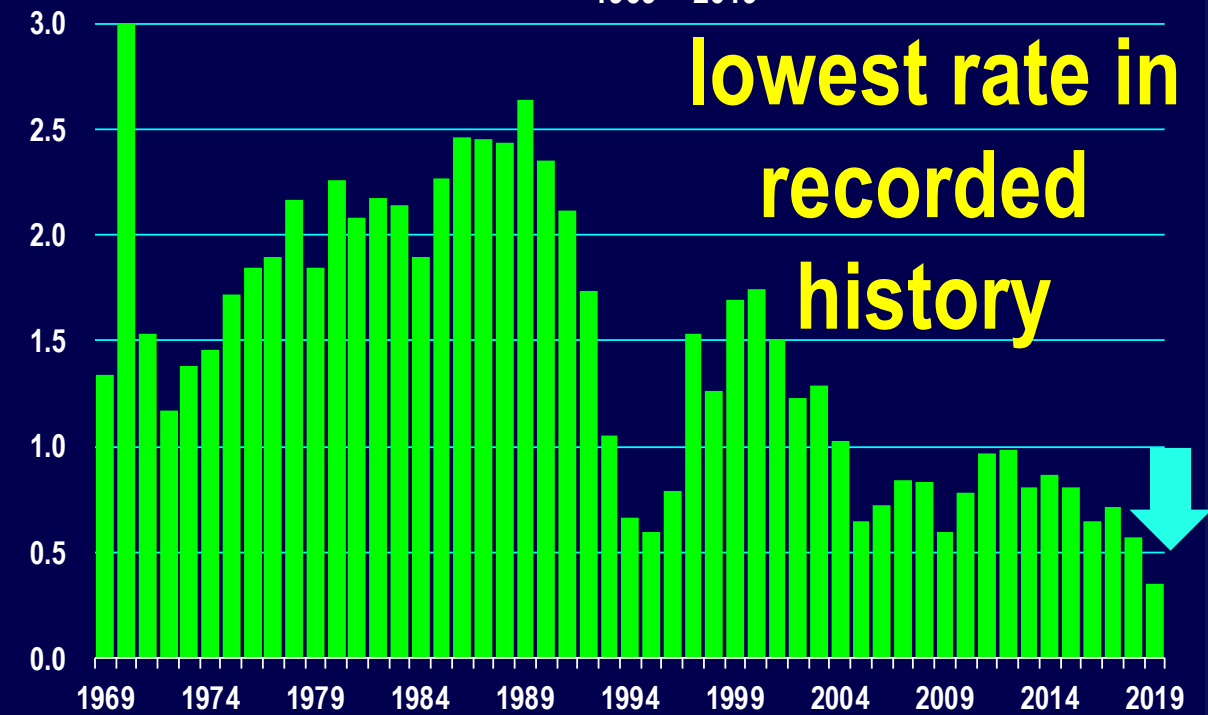
1991 - 2019

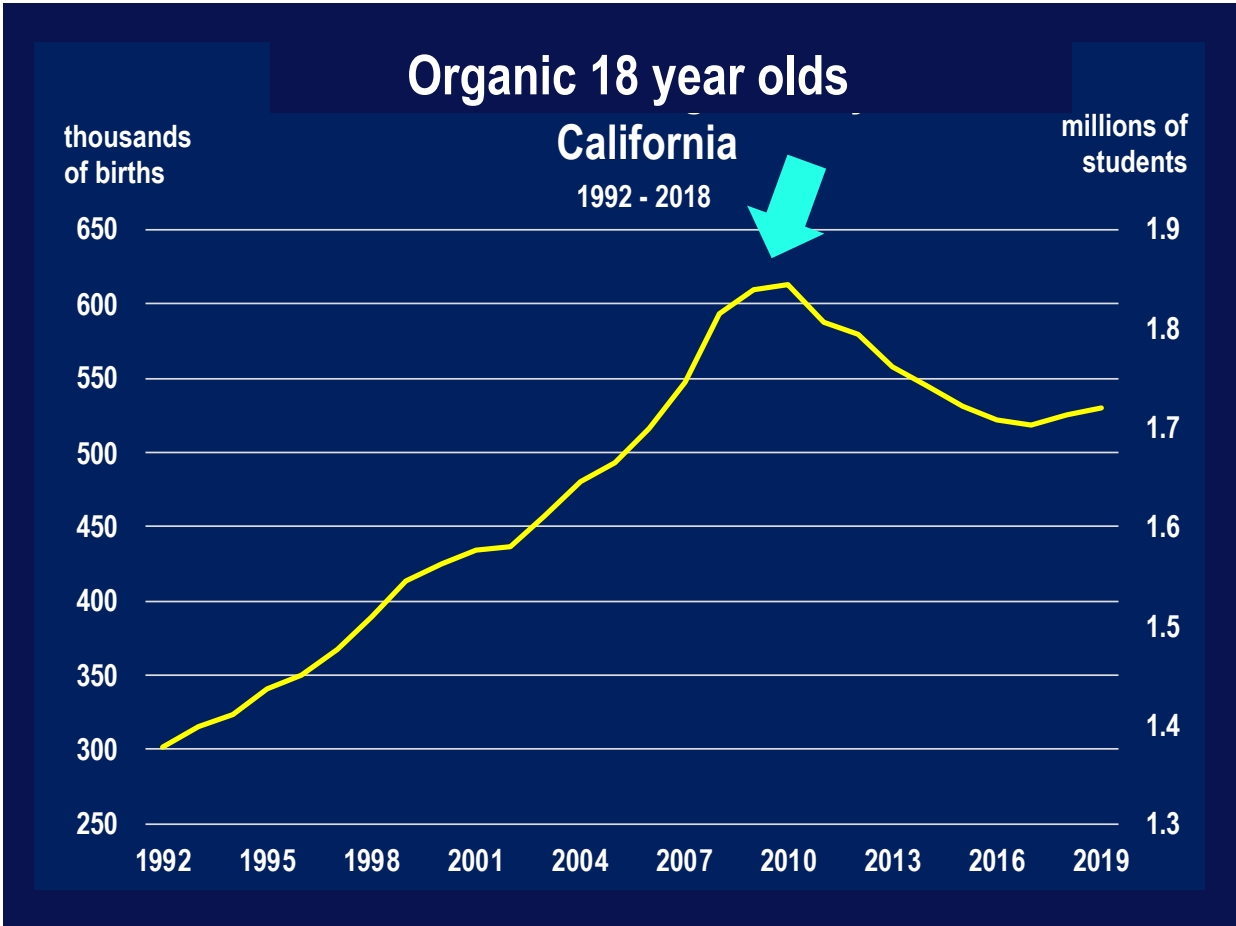
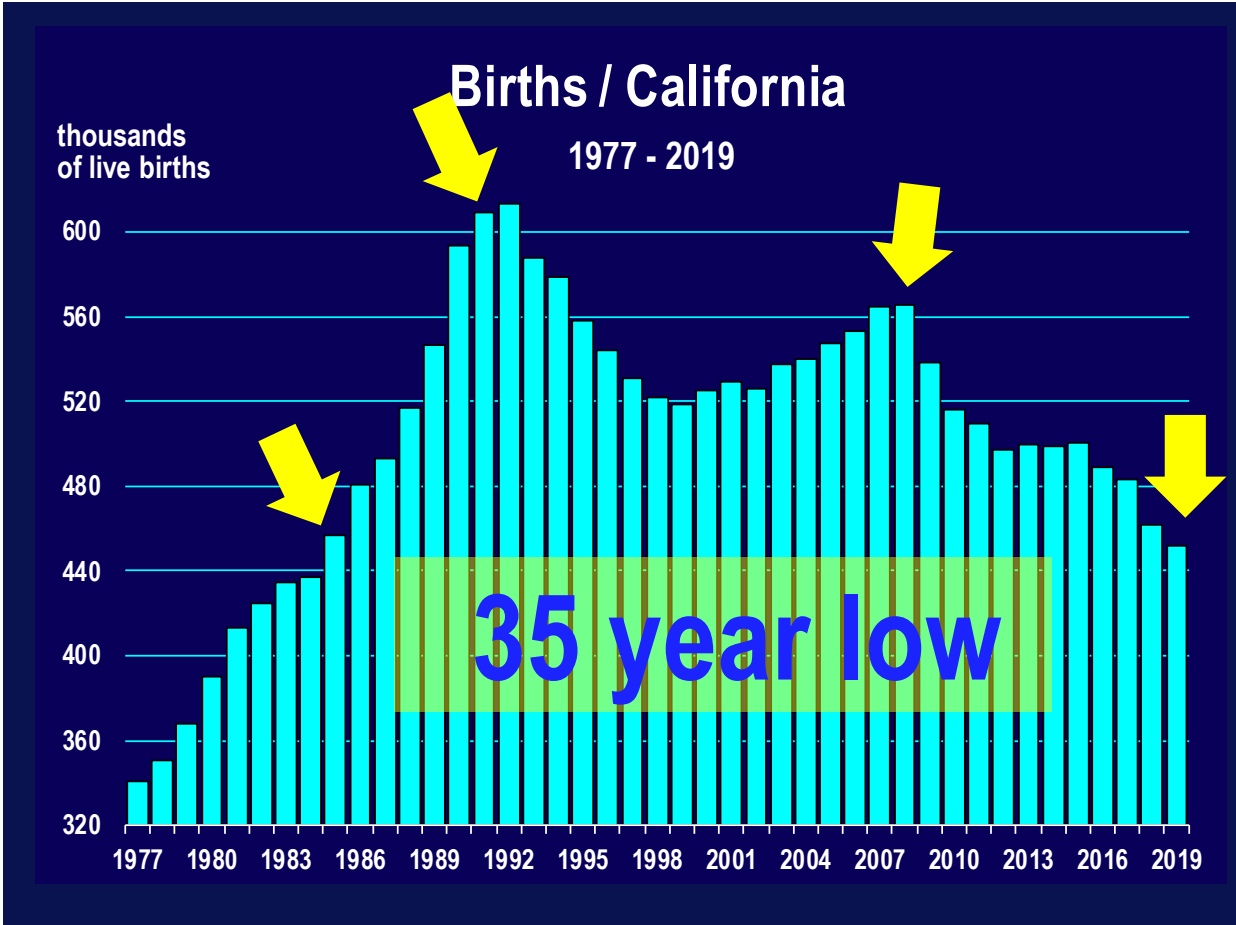


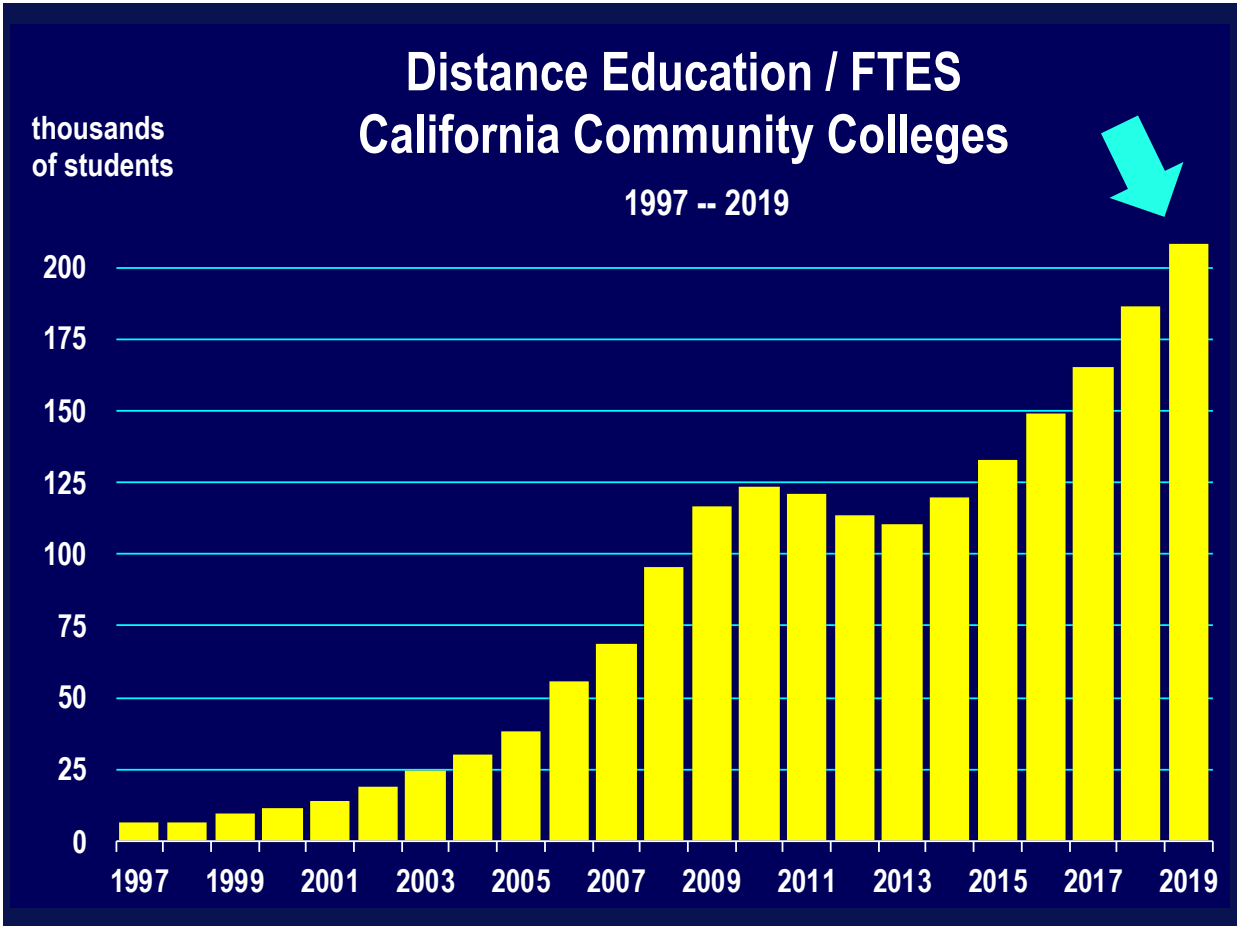
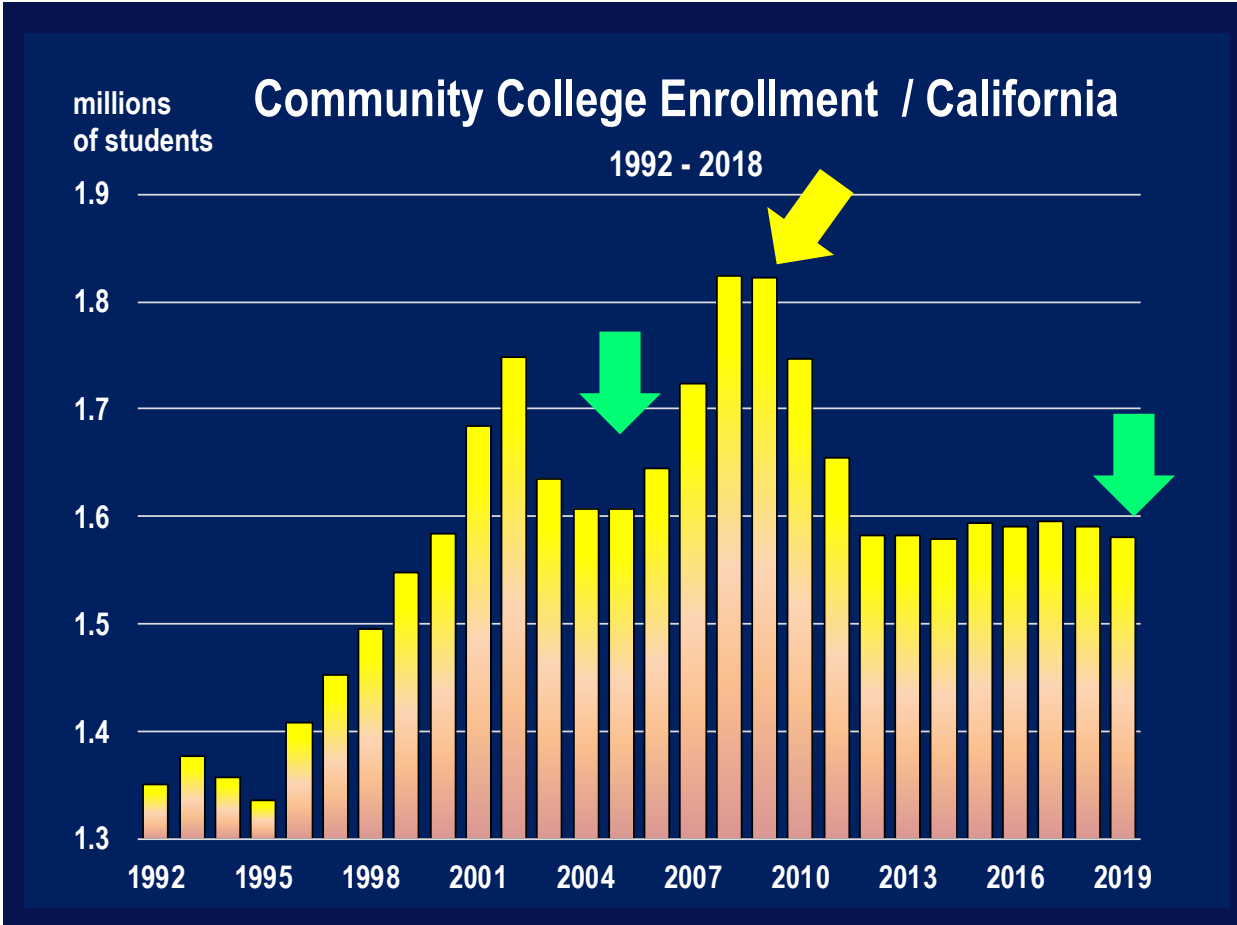
percent change

Population Growth / California

1969 -- 2019



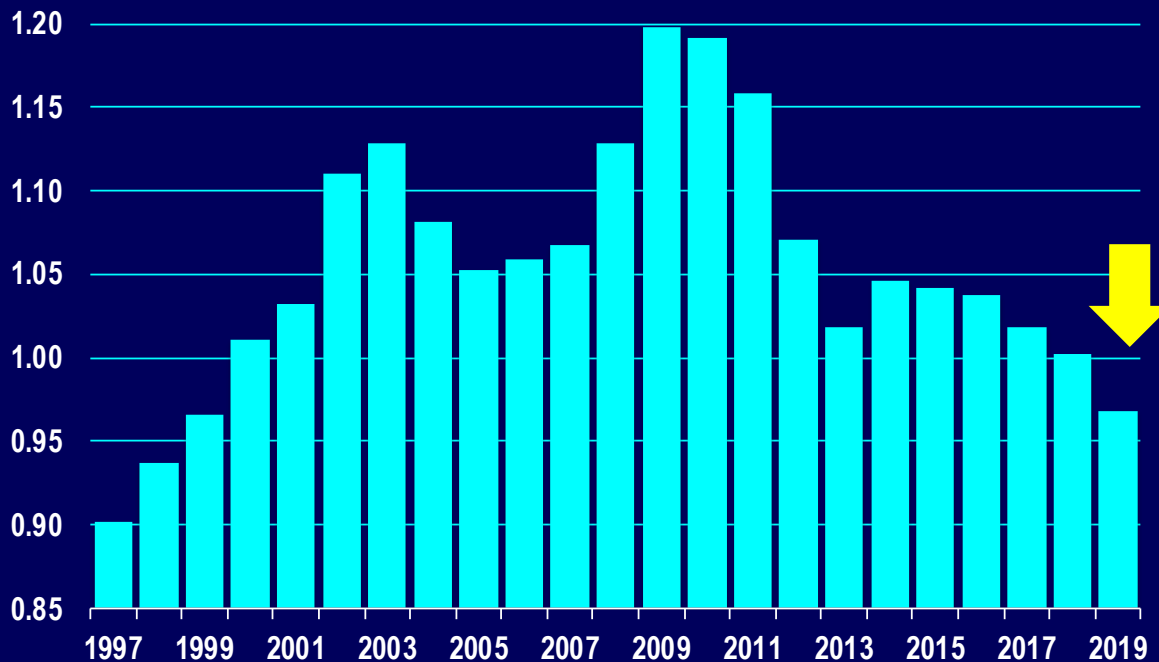




On-Campus Enrollment / FTES California Community Colleges

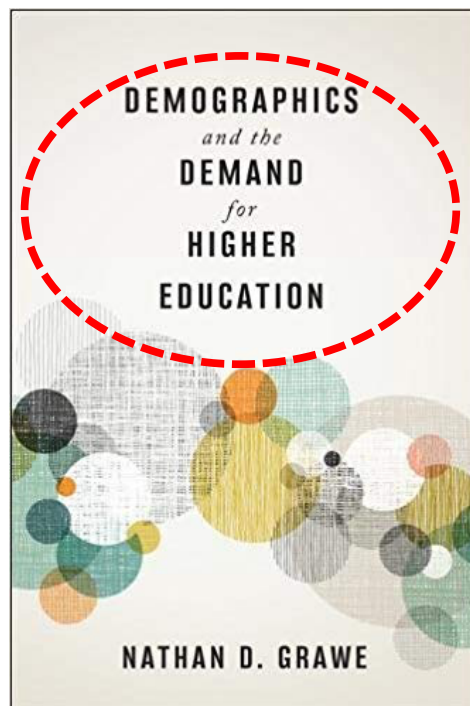
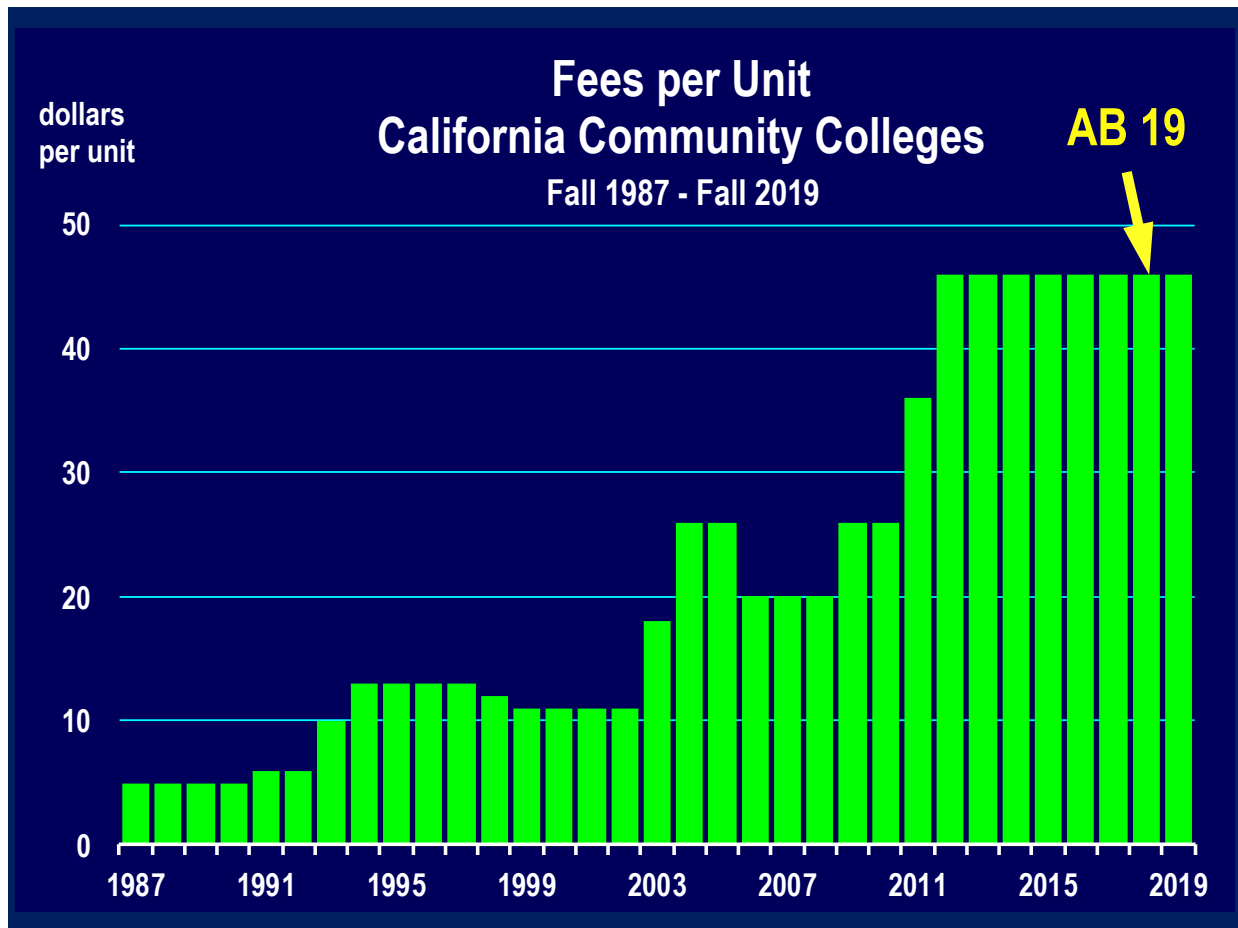
millions of
students

1997 -- 2019



Factors Affecting CC Enrollment

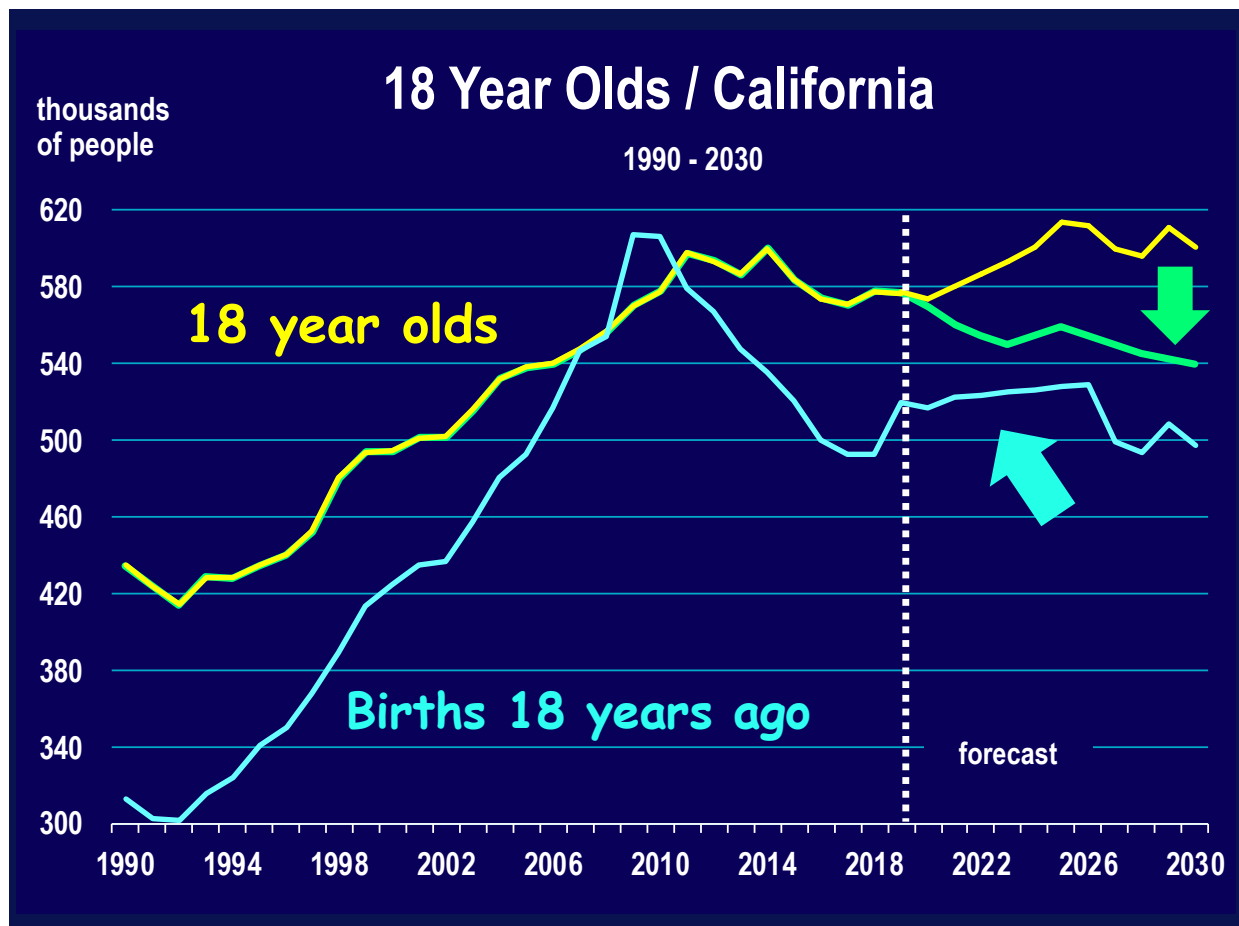
- Pool of graduating 12th graders in the region
- Number of Births lagged 18 years: Organic 18 YO's
- Per unit fees
 - **did not have much impact on FTE students**
- Economy had a negative correlation on part time student enrollment
 - **Less enrollment of Part Time students when the economy created more jobs and the unemployment rate fell**
- 18-24 year old population growth
 - **25 to 34 pop growth a factor for some colleges**



**Will 2 or 4 year colleges thrive
or flounder in the coming decade?**

Demand for higher education

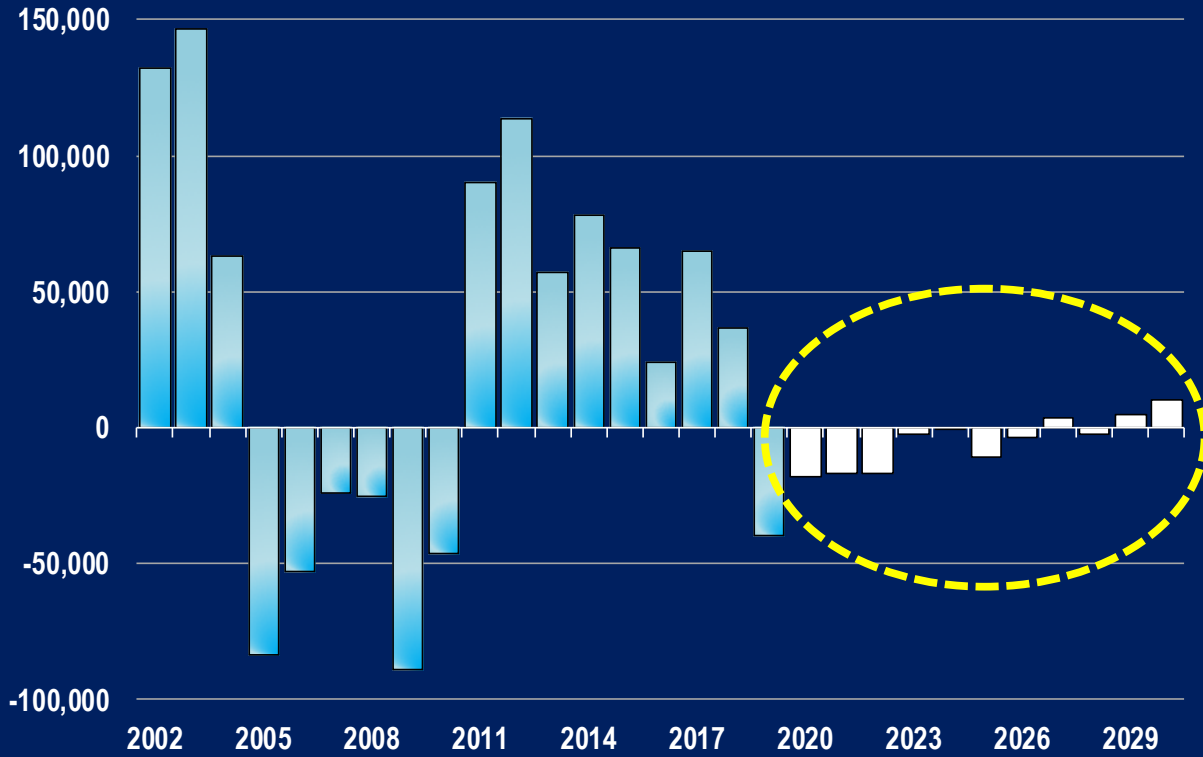
- ❑ Demographic changes are raising challenges for higher education in the U.S.
- ❑ The nation's fertility rate plunged by more than 12 percent since 2007
- ❑ No recovery in fertility rates has since occurred
- ❑ Therefore, beginning in 2026, the number of native-born kids reaching college age will begin a rapid decline



in-migrants
minus out-
migrants

Net In-migration / California

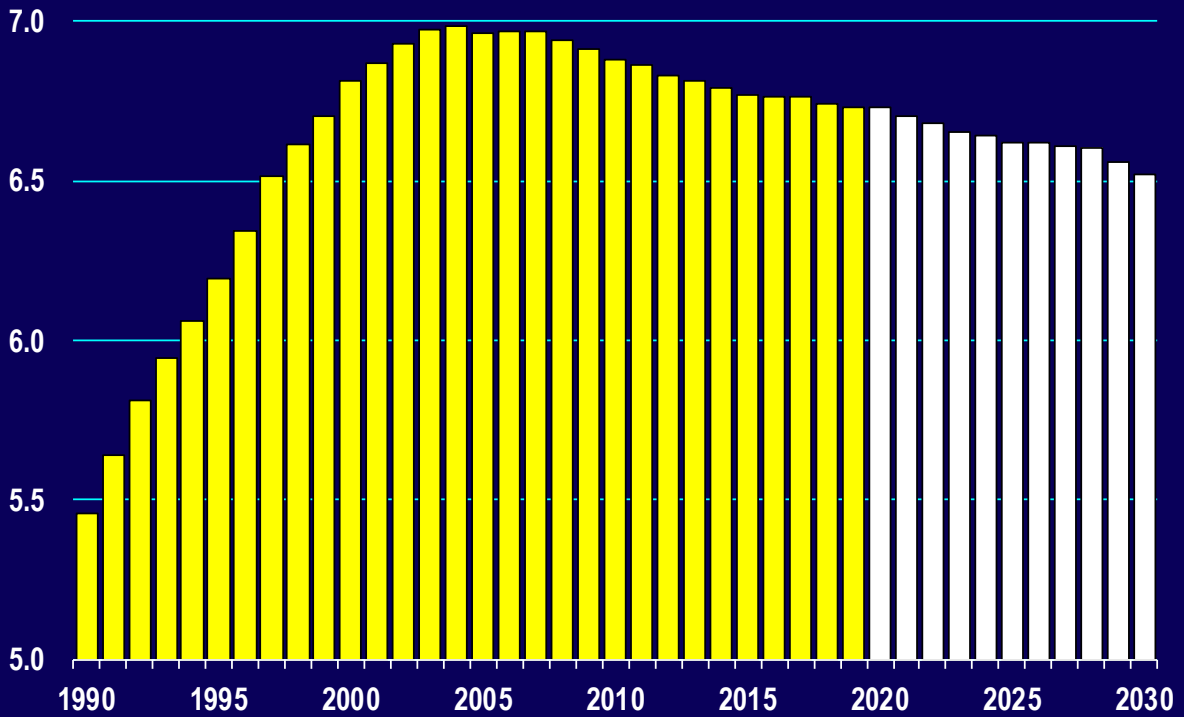
2002- 2030



millions
of kids

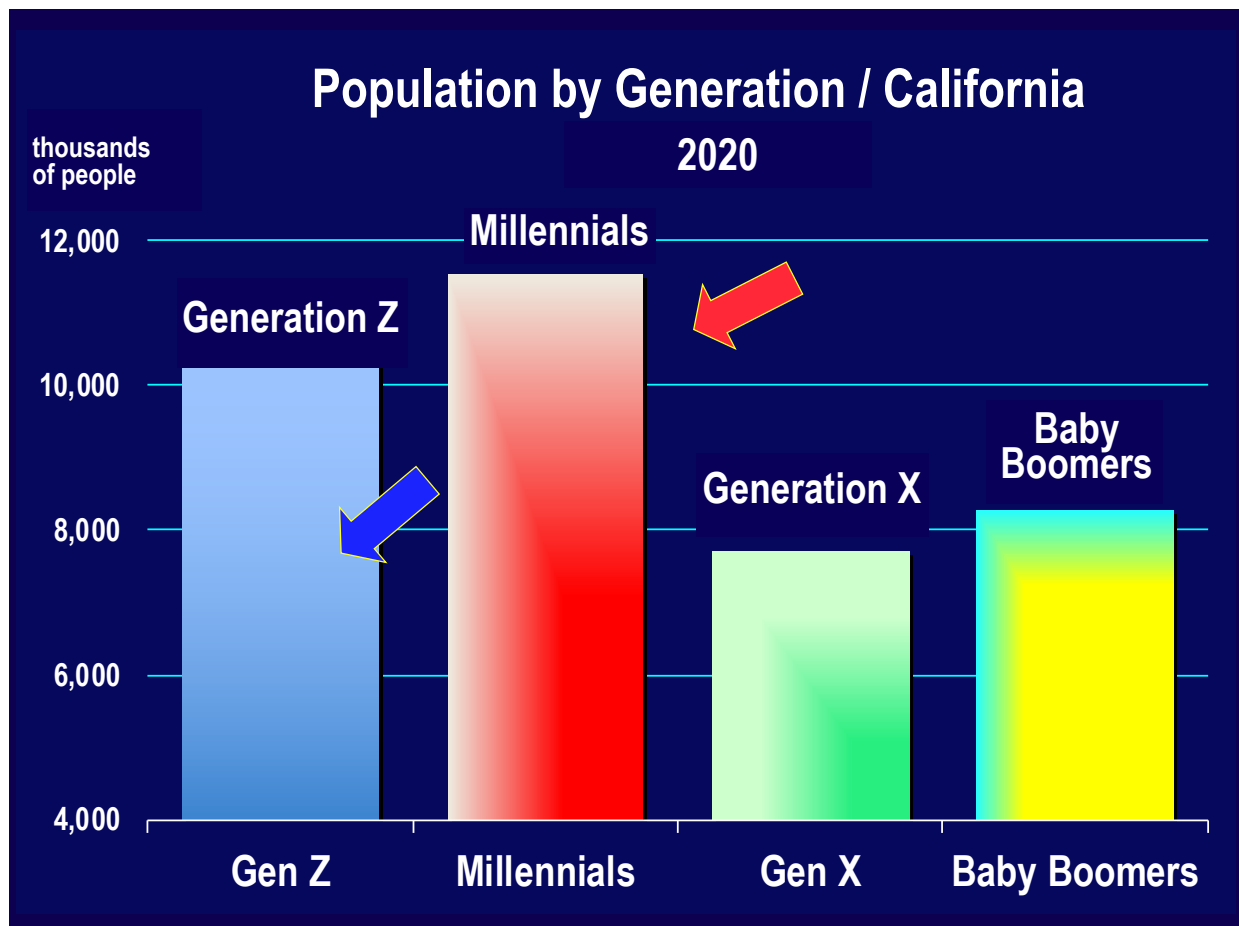
Population Ages 5 to 17 / California

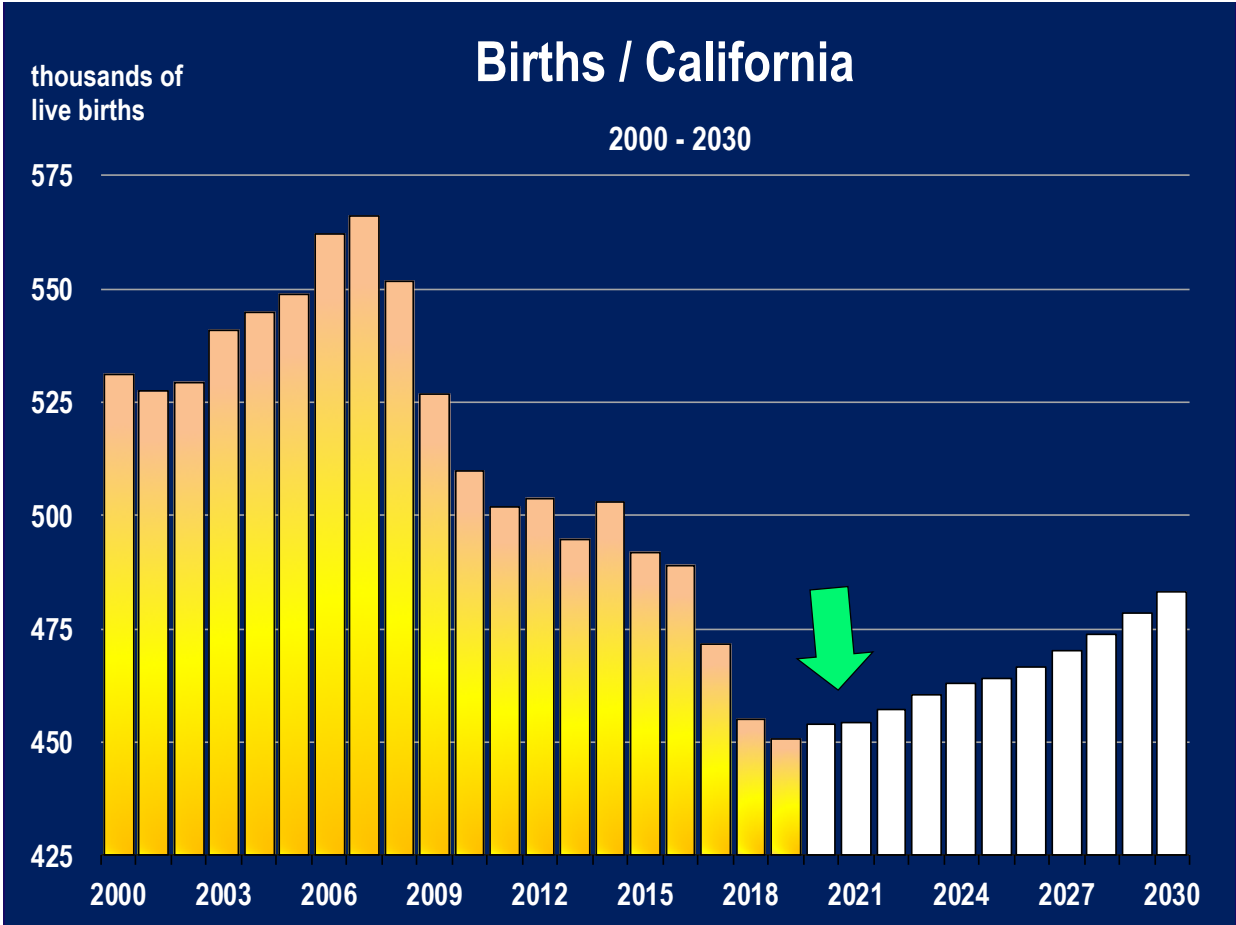
1990 - 2030



Demand for higher education

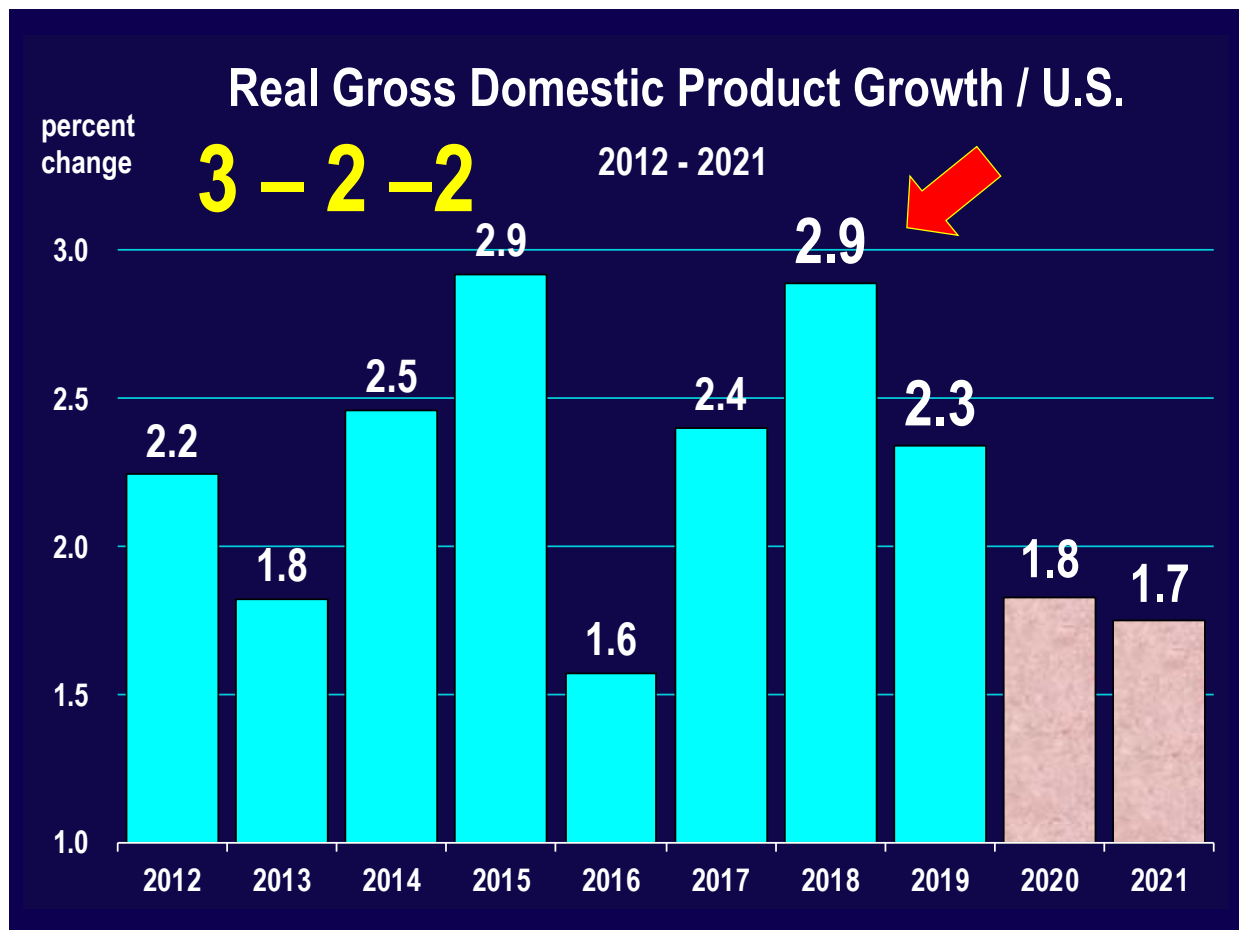
- ❑ Expect modest increase in enrollment for 2 and 4 year colleges over next few years . . .
- ❑ Stability through 2023, then the models show a rise in 2024 and 2025 before “the weight of the current birth dearth reduces enrollment by more than 15 percent (latter half of 2020s)
- ❑ So after 60 years of steady growth in demand, the future suggests challenges for many 2 and 4 year higher learning institutions





The 2020 Forecast





2020 Economic Summary


- 3-2-2 economy, revised upward from 3-2-1
 - *A 1 percent economy moves the U.S. into vulnerable recession range*
- Interest rates remain low through 2020
 - *1.8 percent today for the 10 year Treasury*
- Inflation a non-issue
- The housing market is not going to collapse
- Labor markets will remain tight

What you can expect in 2020

- Another ~~6~~¹² months of economic expansion
 - but with a more pronounced slowdown
 - otherwise, another year of a boring economy
- Recession delayed until
- But you should start preparing for the risk of recession as early as mid year 2020
- Expect continued difficulty recruiting
- Expect a more volatile stock market

What's coming in the 2020s

- No more Tom Brady in the Super Bowl
- 5G (lightening fast, much lower latency)
 - 5G iphone this year . . . In September?
- Autonomous vehicles will assuredly be here
- Streaming content wars
 - Netflix, Disney, Amazon, Hulu, Sling
 - will blur the lines between movies and TV
- Alexa will control all systems inside a home
- The economy (and the world) will not collapse in 2030 from climate change

A young boy with brown hair is looking out a window. He has a thoughtful or bored expression. A large light blue thought bubble is positioned above him, containing the text "yawn. . . . another year of growth and prosperity". Three smaller white thought bubbles lead from the main one towards the boy's head. The background outside the window is a blurred landscape with trees and a path.

yawn. . . .
another year of
growth and
prosperity

*The Economic Outlook
for the U.S. & California*