Economist Sees About 3 Percent Growth in Local GDP

Ray Major of SANDAG said full employment and a diverse, sound economy have the San Diego region uniquely positioned for a prosperous 2017. “Let’s take advantage of a lot of things in the future.”

Growth: Populationwise, we’re going to continue to grow. About 62 percent of our economy seems to be pretty much resistant to recession, and that helps moderate the economy here in San Diego.

GDP growth — I think we will exceed 3 percent next year, for the first time in a long time, and that will be very good for the economy as a whole. Hospitality and travel I think will outpace GDP. The military is going to expand its presence here in San Diego, which is good for the economy.

Population driven sectors: Health care continues to grow as the population ages and we move toward home health care.

Construction and real estate will continue to grow through 2018 until you see the interest rates start to go up. When the interest rates go up, I think we’re in trouble.

The Trump impact: “Trumponomics,” in a nutshell, is fiscal stimulus. If you take a massive fiscal stimulus and put it into any economy that’s really near full employment, it’s going to equal to more growth. But we’re also going to have higher levels of inflation and interest, and then I don’t know what happens. So 2020, I don’t know; maybe we go into a recession.

If you take a look at the driving sectors, you look at innovation, careers in the military. You see that they are all up. They were up in double digits. And I think the policies that Trump is proposing, if some of those get passed, are positive for these particular industries.

Demographics: If you take a look at the demographic perspective, we have a diverse population of 3.2 million people. We are the fifth largest county in the entire nation. We are younger, richer, and better educated than the rest of the nation. Some might say we’re better dressed and better looking, too.

Innovation: In the last 20 years, think of the revolution that came from San Diego-based companies: Qualcomm, developing the cell phone, for instance; Illumina, the genetic sequencing and being able to know what happens in your genes at any time, and fiscally, will be revolutionary for the next 50 years. Companies need to spend $65 billion on security in the next couple of years to prevent hacking. A lot of companies here in San Diego are working on security, which is, again, a huge growth industry.

Defense: We have companies like General Dynamics (NASSCO), who design and construct the ships. General Atomics (ASI), the manufacturer of the predator drone that was so instrumental in the war on terror. The situation room, that was done on technology that was developed here in San Diego by a company called ViaSat. Amazing things are happening in San Diego.

Inflation: I think we’re going to hit that nice 2 percent mark. So if interest rates rise in the 2, 3 percent range, you’re going to see mortgages start to go up, too. And it’s going to add a trillion dollars to the debt by 2018.

Growth sectors: You take a look at supporting sectors of the economy; this is where we had the most growth. Health care and social services up 34 percent since the bottom of the recession.

Manufacturing: There are two sectors in the economy that still haven’t recovered: manufacturing and mining, which has been on an up-trend here for the last couple of years. However, we still aren’t back to the pre-recession levels.

Wages: 70 percent of the jobs that were created in this region were low-paying jobs. They were below the mean income. And that makes it very difficult to afford housing here in San Diego.

Housing: Here’s the problem, though. The average price of a house now is $567,000. That takes a dual income of $79,000 to qualify for that home with 20 percent down. The average income in the region is $55,300.

So that means that you can qualify for a home of $232,000. So even if two people with average incomes buy a house, they can only afford something that is $433,000.

This is not only a problem in San Diego; it’s a problem in any major metropolitan area. But this is probably the biggest problem that we have, is the affordability.

Challenges: There are a lot of unknowns and possibly volatile policies that could happen at the national level, especially with immigration and trade. You could have California versus Trump. I don’t know what kind of battle this will be. It could be really big and interesting to watch.
More than 340 business leaders attended the San Diego Business Journal’s annual summit to hear experts share their insights on our region’s fiscal future.

The event wrapped with all panelists signaling a positive thumbs up for the region’s 2017 economy. Expert panelists were: Ray Major, SANDAG; Brett Good, Sponsor Robert Half, Southern California and Arizona; Tom van Betten, Sponsor Cushman & Wakefield; Jane Finley, Sponsor Kaiser Permanente; Kevin Dusi, Sponsor Moss Adams LLP; Trindl Reeves, Sponsor Barney & Barney, a Marsh & McLennan Insurance Agency LLC Company; Tom Wornham, Sponsor San Diego Private Bank.
Thank you to our sponsors for an insightful Economic Trends 2017 forecast.
Health Care Sector Forges Ahead With Continued Growth

Optimistic about: “The very diverse economic background we have, which we are seeing in our job market.”

Keeps her awake at night: “What's happening with the Affordable Care Act.”

– Jane Finley, Senior VP & Area Manager, Kaiser Permanente

Jane Finley of Kaiser Permanente spoke on the impact of the health care sector on the local economy and also how headlines about proposed changes to the Affordable Care Act had dominated the previous 48 hours.

The health care sector impact: We, as a health care sector, employ 140,000 people in San Diego. We contribute $6.9 billion in wages. Typically, we have people in San Diego. We contribute as a health care sector, employ 140,000 individuals, whether it’s technology, data, digital needs basis, etc., we’re seeing low at this point. 2) Repeal and Replace. 3) And the latest one that’s got a lot of energy in the last 48 hours is Repeal and Delay.

Affordable Care Act: With the passage of the Affordable Care Act in 2010, there were significant and substantial changes to the health care industry in every sector, whether an insurance company, an employer buying insurance, hospitals, doctors, etc. To say that there’s change that’s happening in 2017 is an understatement.

There are three possibilities with what is going to happen with the Affordable Care Act. 1) Amend, which seems kind of low at this point. 2) Repeal and Replace. 3) And the latest one that’s got a lot of energy in the last 48 hours is Repeal and Delay. All of those have significant impacts on the industry and can spin off into a million different ways.

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The bottom line is, because of the growth in jobs and people in the health care sector, with stable California government, no matter what happens nationally, I feel that the health care industry in San Diego is strong, because of the great leadership we have here.

Facilities expansion in the region: As people are employed and the region grows, there is an expansion of facilities. UCSD just opened their new medical center. Kaiser Permanente will be opening our medical center (in at least 110 days). And we’re adding a thousand jobs with that opening.

So we have people to take care of, and we have a responsibility. We’ll exercise that responsibility by hiring the right people and be here for the communities that we serve.

Attracting the right workforce: It’s really about engaging professionals, demonstrating the growth that we can provide in a company. It’s making sure we understand the professional needs, connecting them with those professional needs, and helping those folks grow.

The other piece that we’re finding with a lot of our workforce, whether it’s millennials or baby boomers, but certainly the millennials, is they want to be in a value-based organization.

They want to understand that what they’re doing is not just trying to get a paycheck but helping to be part of something bigger.

They want to meet their intrinsic value needs. And, of course, with health care, that’s what we do every day.

Buckle In Employers, Your People Are In Hot Demand

Optimistic about: “The improvement of the reputation of San Diego as a business center.”

Keeps him awake at night: “San Diego is a highly desirable place to live, but if people don’t see an opportunity to own a home, they’re paying $2,500 to $3,000 living with three roommates, they pack up and go to Austin; they go to Colorado Springs; they go to Charlotte.”

– Brett Good, Senior District President of Professional Staffing Services, Robert Half, Southern California and Arizona

Brett Good of Robert Half touched on how since January 2014 the local unemployment rate has fallen from 7.2 percent to 4.3 percent and why he remains bullish on the San Diego economy.

Job growth: We’re going to continue to see the unemployment rates continue to go down. Are we going to see $15 an hour wages because it’s mandated or just because it’s supply and demand?

For those discouraged workers that are rejoining the workforce, as we look at the labor force population, it’s not growing as quickly as the client numbers are going up. We’re absorbing those people. Collectively, as businesses, we need to determine how we retrain many of those individuals to become productive employees within the market.

From a job opening perspective, we are at an all-time high nationally. So there’s a lot of demand in the marketplace right now.

Recruitment: San Diego was in the top 10 of every category — career prospect ranking, quality of life ranking, cultural diversity ranking. But where we fell to No. 21 was cost of living index. So I think that’s going to be a challenge for us in this area, especially the talent that we want to keep here.

Already, as we go up, we place individuals, whether it’s technology, data, digital needs basis, etc., we’re seeing a high volume of counteroffers and a multiple-offer environment or direct hiring of people that have the skill sets that are in high demand right now.

Emerging trends: I’m bullish in terms of the employment market in 2017. I think it’s going to be a good employee market. Employers, prepare to buckle in. It’s going to be a challenge for a lot of different reasons for you to retain and develop new talent.

We’re actually seeing organizations bring on more project professionals to do the work. The time frame that people are taking to hire right now and to make a decision is actually longer now than it was during the great recession.

And as a result of that, during that process, they are losing individuals that are good individuals to other opportunities, because there’s so many out there. If you find somebody that you like and is eligible and can do the job, make a decision, because you’ll lose them if you don’t.

Hiring veterans: So what’s our responsibility to help retrain those individuals in Southern California or San Diego right now? It’s a tremendous opportunity for businesses here, and it’s something that I know people rally around and try to help support. There are steps to make sure they are equipped to contribute the way that we need them to contribute.
Business Environment Anxiously Waits on Policy Changes

**Optimistic about:** “The growth in tech and life science and startups in our manufacturing sector. All of those are looking really positive for 2017.”

**Keeps him awake at night:** “The uncertainty of what’s going to happen on policy.”

– Kevin Dusi, Senior Tax Manager, Moss Adams LLP

Kevin Dusi of Moss Adams LLC spoke about the range of scenarios from the Trump administration, from a general optimism about the business environment to possible policy changes with jobs repatriation, taxes and trade.

**On bringing jobs back to the U.S.:** One of the key things that Donald Trump is looking at is on that is a reduced rate for re-creation; some saying at 10 percent, some are saying to bring it back with a 0 percent rate. I don’t think that’s going to happen. I think we’re looking more at about a 10 percent rate.

**Workforce:** One key thing with millennials is understanding what success means to them, because each one is going to have a little bit different take on it. Finding out how to make that work in the culture of the organization that’s trying to recruit them.

**Incentives:** California still has a lot of things that are available to our clients. One of them is the California Competes Credit. That’s been around for a while. One of the many metrics they look at is based on increased head count and average wage. Those are both expected to go up. So for our manufacturers and our tech clients, that’s definitely an opportunity there that they can pursue. That is one of the few incentives in California to actually keep businesses here.

One thing that Trump has mentioned, and specific to manufacturing companies, is an election to instantly expense all those assets that you’re putting into a service. That obviously has a big impact on growth and on expenditures in San Diego with the manufacturing base.

**Interest rate increase:** I think that’s a pretty safe bet. I think for 2017, it’s going to be a little slower climb, maybe two, maybe three hikes. Everybody is waiting to see what actually happens next.

But, really, with the key thought of getting more money into the economy, for the U.S. as a whole as well as San Diego in particular, I think that arc is extremely exciting for San Diego.

As we’re seeing growth in San Diego kind of triggered by these additional funds and reduced rates, there’s going to be challenges in getting quality head count. There’s going to be challenges in keeping wage costs down.

**Taxes:** There are going to be reduced tax rates. What those end up at is anybody’s guess at this point, but we’re looking at corporate rates of 15 to 25 percent; individuals with a ballpark 33 percent maximum tax rate.

The estate tax is likely the easier one in terms of the general talk of repealing. And a lot of talk also is of replacing that with some sort of income tax on estates over the $10 million mark.

**Trade:** A lot of the concern is that the Apples of the world, all these billions and trillions of dollars are sitting offshore. Having to bring that back into our economy, I would say the biggest thing being proposed is a reduced rate on a one-time repatriation where you could bring that back at a preferential rate.

Added Safety Scrutiny, Cyber Premiums Top Concerns

**Optimistic about:** “We’ve seen a huge growth in the number of startups, so that’s great. I think that bodes well for the future.”

**Keeps her awake at night:** “I worry about the public markets a bit and companies that are publicly traded and trying to go public. The life-science community is very dependent on that. I think the choppy waters are going to make that difficult.”

– Trindl Reeves, Principal/Chief Sales Officer, Barney & Barney, a Marsh & McLennan Insurance Agency LLC Company

Trindl Reeves of Barney & Barney noted some potential good news in workers’ compensation rates but also raised some cautionary factors at play in the commercial insurance arena.

**Workers’ Compensation:** Good news, the Department of Insurance says from this time last year, they have reduced rates by about 10 percent. So rates are going down, which is a great thing.

**But there are three pieces of legislation that went into effect Jan. 1 that you should be aware of.**

First, the formula formerly used to calculate your experience modification has changed. And the point behind the change is really to level the playing field between large and small companies.

The second thing is first aid. It used to be optional to report first-aid claims for officers and directors had the option to fined — whether they’re included or excluded from workers’ comp. In the past, one of them is the California Competes Credit. That’s been around for a while.

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Multiple Forces Continue to Drive Office Rents Higher

Tom van Betten of Cushman & Wakefield said the San Diego real estate market is in the up-turn phase, defined by declining vacancies and increasing rents.

Construction trends: Construction is a bit in check right now, and that’s essentially because of the equity and the debt required without a prior commitment. The deep-pocket developers, like the Irvine Co., for instance, are going to build and deliver a couple of buildings this year.

Workspace: We’ve learned a lot as we’ve transitioned to scooping floor plans and planning to get rid of the private offices. You have to look at people individually, and really, the solution that’s come out of this is, like moving into an open floor plan, many times it’s driven by the CFO trying to lower the square foot per person component of space. More people, less space. You can have an open plan, but you need some privacy places — phone rooms, things like that, so you don’t have to hide in a stairway or hallway to call your spouse.

Rent: And there’s a lot of opportunity in San Diego for these commercial “fixer-uppers,” if you will. In fact, two-thirds of the office inventory in San Diego is over 25 years old.

Rent is going up. A lot of that is because vacancy is at a nine-year low. But it’s also because of the renovations and the remodeling of the existing buildings. When you take an old building, an investor buys it, and they reposition it and remodel it and make it attractive to what tenants want today, it costs a lot of money, just like a residential remodel. And those dollars invested need to be recovered in increasing rent.

Startups: We’re really excited to see new types of brands — not just the sports cluster in North County. We worked to bring the coworking plan to downtown San Diego and actually proving that a high-rise downtown can be cool.

So I’m excited every year to announce new companies that have chosen to plant the flag — talent attracts talent. Just to have Google and Intel, one of the reasons I’m so excited to see these brands up here, is for years we wanted to tell a different story than Qualcomm and ViaSat. Georgia Tech is actually seeing these brands, and there’s even good interest from a large online retailer in San Diego that could bring hundreds of jobs.

I still have clients that feel that there’s not enough money in San Diego. The angels are hard to find, and venture capital is obviously multiplied the farther you go up the state of California. So, although we did see layoffs with Qualcomm and other clients, when they do get bought and they move the commoditized action somewhere else, the innovation stays here and starts new companies.

Increased costs: I’ve got many frustrated clients right now that can’t find that ideal real estate. Years ago we had dozens of choices, and today you might have two, and one has a lot of activity on it.

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Increased costs: I’ve got many frustrated clients right now that can’t find that ideal real estate. Years ago we had dozens of choices, and today you might have two, and one has a lot of activity on it. So, we’re having to manage expectations, more than ever, on how long it really takes.

Military, Infrastructure Spending Among Our Backstops

Tom Wornham of San Diego Private Bank said there are still investment opportunities within the market and that the diverse local economy will help minimize impacts in the next downturn.

Regulation: I think we all would agree that money laundering is bad. We all would agree that stupid loans are bad. And I think we all agree that investment bankers stealing is bad. So, to that end, how do you solve these issues? We keep the BSA Patriot Act. You probably put Glass-Steagall back in place. They did a pretty good job of keeping the banking system sound for 16 years. I would argue you could probably lose Dodd-Frank, because this is something that hasn’t even been implemented yet and hasn’t affected a lot of stock.

Increased costs: We’re excited because we have a lot of great customers out there that are looking at investment opportunities as we hit the hardest cycle where we call it “the second mouse gets the cheese.” Perhaps the folks have overextended, and we’ve all seen the real estate part where they do change, they change directions, and then all of a sudden there may be some great investment opportunities. Probably not the greatest time if you’re a newly-minted developer and you’re doing your first deal.

Local economy: We look at being in San Diego, where we’ve got a three-part economy. Coming into a new administration, I would certainly be a little bit more concerned about trade right now. I’m absolutely bullish on military. And if you look at infrastructure spending, we’re pretty excited about that. But it’s important to look at what got us through the last recession.

The military spent $6 billion in construction. The airport spent at least $1 billion. The port, also. You add them all up; you’re getting about a $20 billion infusion into this economy during the times of the last recession. So if we can just continue to get that into this next part of what could be a downturn, I think it’s going to be a real boon.

Millenials: I think it’s also time to bet on millennials. They are slowly becoming first-time home buyers. I’m a huge believer that ultimately they’ll buy.

Trade: I think bringing $3 trillion back to the U.S., if you allocate infrastructure, job re-creation, job retraining and entice people to invest in new plans, it’s a home run. So I’m a huge proponent of that.

If we do it right, NAFTA won’t be negatively impacted at all, and it would be great if people were starting to manufacture more in Tijuana than Taipei. If we bring more jobs back from China, back into the NAFTA region, that’s going to be a huge plus.

Workforce: I think that technology companies do it better than anybody else. We reached out with labor and tried to put together mentoring programs so that you have skilled jobs that don’t require college graduates, because that’s a huge part of the workforce in San Diego. And you’ve got to bring labor into the conversation, because those mentorships need to exist. Otherwise, you’re not going to have a skilled labor force. We need welders. We need folks that don’t necessarily have a four-year education.