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UCLA Anderson Forecast: Nation and Region Remain Healthy

Additional Report Looks at U.S. and Los Angeles Housing Markets

LOS ANGELES, (September 29, 2015) UCLA Anderson Forecast's third quarterly report in 2015 for the United States considers whether or not the economy can withstand an increase in the prime lending rate. The forecast concludes that the answer is, "Yes." The forecast for the national economy for the next two years is a healthy one, a slim chance of a recession and a slight chance of a surge in growth. In California, the forecast remains largely unchanged since June. Growth in employment in California will continue, albeit it at a slower pace by 2017, as the unemployment rate falls to about 4.8%, similar to that of the nation as a whole.

The National Forecast

In his forecast for the national economy, UCLA Anderson Forecast Director Edward Leamer provides historical perspective regarding the current expansion that is now in its twenty-fifth quarter. Leamer points out that the U.S. is in its fourth-longest expansion since 1948. Using history as a guide -- and given that the Fed will ultimately start raising interest rates later this year -- Leamer says that some might think there is an 80% chance of the current expansion ending soon. Not so, says Leamer, because the tepid pace of GDP growth, amounting to a modest, cumulative, increase of 13%, so far is exceeded by only two of the other post-1948 expansions. As a result, the forecast says there is a 20% probability of an imminent recession.

Leamer says the expansion seems destined to continue for at least a couple more years and probably more due to other key factors: jobs, housing and cars. The modest gain in the employment to population ratio (3% more growth is expected to return to pre-recessionary levels) and the critical housing and automobile sectors are not yet in an overbuilt status. Therefore, when short-term interest rates do rise, sectors that are far from being overbuilt won't likely crash. Though the rate of automobile sales has returned to 17 million units per year, Leamer points out that much of these sales reflect the replacement of older cars with new ones, indicating that the sector is not considered overbuilt.

The forecast for GDP growth is in the 2% to 3% range, better in 2016 than the year after. The forecast anticipates an improving labor market, a declining unemployment rate and a rising employment to population ratio. Yields on bonds will be driven upward with a rise of inflation by about one percentage point.

The California Forecast

In the California forecast report, Senior Economist Jerry Nickelsburg estimates total employment growth at 2.7% in 2015, 2.2% in 2016 and 1.4% in 2017. Real personal income growth is estimated to be 4.6% in 2015 and forecast to be 4.5% and 4.2% in 2016 and 2017, respectively. At the same time, the unemployment rate should drop below 6.0% through the balance of 2015. Unemployment will fall throughout the next year and will average 5.2% -- unchanged from the June forecast. In 2017, Nickelsburg expects the unemployment rate to be approximately 4.8%, same as in the U.S.

Nickelsburg's September essay, titled "California Housing – Will it ever be affordable," takes a look at the state's housing environment. Nickelsburg says that home prices in California will become increasingly less affordable over the next two years, as the amount of building will not meet new demand.

Housing is Back

In a companion essay to the national and state forecasts, UCLA Anderson Senior Economist David Shulman examines the national real estate picture. Shulman writes that after a long, difficult period, housing starts are poised to approach the long-term average (1959-2014) of just under 1.5 million units in 2016. The housing forecast calls for starts of 1.14 million units this year, 1.42 and 1.44 million units in 2016 and 2017, respectively. Even though this level of forecasted activity represents a level far below the mid-2000s boom level of more than two million units a year, Shulman says there is reason to be optimistic. He cites a continued economic expansion with low probability of a recession in the near-term, healthy employment growth of 200,000 new jobs monthly, rising household formations, relatively low mortgage rates and easing credit standards for mortgages.

Prices and existing home sales will continue to rise, despite higher interest rates in the forecast. Shulman notes that the housing recovery is occurring under the backdrop of an unprecedented decline in homeownership. Homeownership now is where it was in 1989, yet Shulman believes this trend has about run its course and will soon begin reversing. The flip side of declining homeownership rate is a rise in renting which has triggered a boom in multi-family housing starts. Multi-family housing starts, which bottomed in 2009 at 112,000 units will exceed 400,000 this year and average 460,000 units over the next two years. The high rental increases are being sustained by very low rental apartment vacancy rates. In fact, Shulman says, we are seeing a trend of investors purchasing new single-family houses for the rental market.

However, affordability has become a real issue with the 46% of renters, compared to 40% ten years ago, paying more than 30% of their income on rent.

China Syndrome and Its Impact on Los Angeles' Economy and Housing Market

In another essay, Economist William Yu looks at the turmoil in China's economy and the potential implications for Los Angeles' economy. Yu says that China's economy was, is, and will be more volatile

than suggested by Beijing's official numbers. According to Yu, China's economy, housing market, stock market, and currency are all in trouble.

Yu says that even though China has tried to contain its imploding crises, its economy has come to a restructuring crossroads. If it transitions smoothly to a service and consumption based economy, its medium growth rate could reach 5%. If not, its outlook will be more dismal, with 2-3% growth and an economy trapped in the middle income level.

The implication for Los Angeles is that China's turmoil might reduce the growth of Los Angeles' exports and tourism, but Chinese investment in Los Angeles real estate will persist due to better and safer expected returns in the U.S. Los Angeles' housing market, despite becoming more expensive and unaffordable, is not in a bubble. Its housing prices are highly unlikely to bust this year or next.

About UCLA Anderson Forecast

UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state's rebound since 1993. More recently, the Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001. Visit UCLA Anderson Forecast at <http://www.uclaforecast.com>.

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