



**From: Alan Nevin**  
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**To: Phil Adams**

**Re: 2022: It's Another Upbeat Year for California**

But It has been a strange year for both the Nation and the Golden State:

This past year has been almost without precedence, both on an international and national level. We have experienced at least 12 plagues:

### THE 12 PLAGUES

- |                                 |                                 |
|---------------------------------|---------------------------------|
| ➤ COVID Omicron                 | Erratic movement in gold prices |
| ➤ Rampant inflation             | Run-up in used car prices       |
| ➤ Shortage of computer chips    | 11,000,000+ job openings        |
| ➤ International shipping crisis | Tornadoes & Storms              |
| ➤ Wild upswing in lumber prices | Taliban Takeover of Afghanistan |
| ➤ Shortage of truckers          | Smash & Grabs                   |

And with it all, we have had the **lowest interest rates** in decades and the **real estate market continues to be vibrant throughout the Nation and particularly on the West Coast with an insatiable appetite for new and existing homes and commercial properties.**

Better yet, the Nation and California is ending the year with an unemployment rate of 3.9%.and apparently an endless supply of jobs that employers just can't be filled

Although this Forecast focuses on California, it is only logical to take a look at what is happening on a Nationwide basis.

### The Nation

It was almost two years ago when we learned about COVID and the world hasn't been the same since. In April 2020, the Nation's unemployment rate skyrocketed to 14.8%,

the highest in memory. But we persevered and 1 1/2 years later, the rate was down to 4.8% and now we end the year with 3.9%, just where we like it.

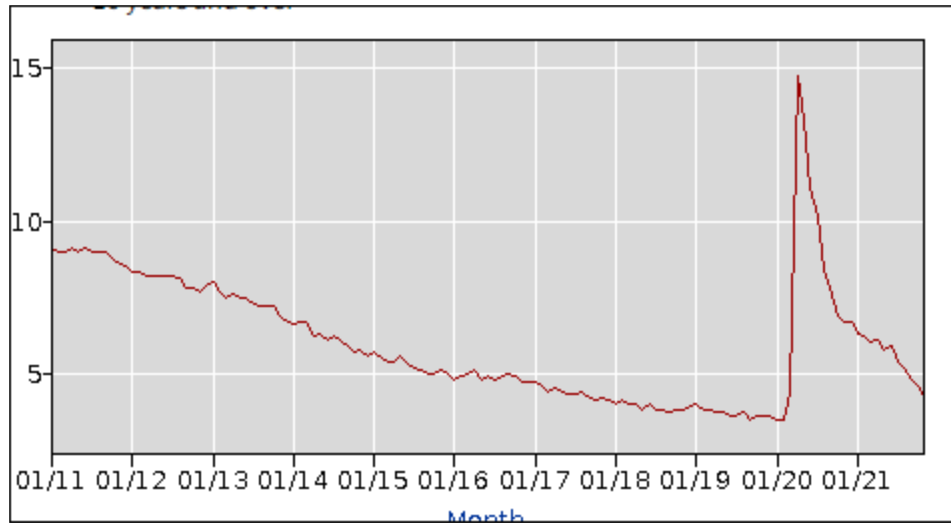
<b>Unemployment Rate United States August 2019-December 2021</b>	
Month	Unemployment Rate
Aug-19	3.6%
Apr-20	14.8%
Aug-20	8.4%
Sep-21	4.8%
Oct-21	4.6%
Nov-21	4.2%
Dec-21	3.9%

Source: BLS.gov

In 2021 our Nation added almost 6,000,000 jobs and we are only 1,000,000 jobs away from where we were before COVID. Obviously, we should be further ahead by now, but we are on our way.

<b>Non-Farm Employment United States Jan-Dec. 2021</b>	
Month	Jobs
January	142,736,000
December	148,611,000
<b>Change</b>	<b>5,875,000</b>

Source: BLS.gov



Our big problem now is that we have almost 11,000,000 job openings. There appear to be several reasons why we have so many openings:

- people retiring early;
- moms who have elected to stay home with their kids while Daddy still works (or vice versa);
- COVID fears;
- Enhanced unemployment benefits; and
- folks who are just waiting for the right job to come along.

### Job Openings United States 2019-2021

Month/Year	No. Openings
3Q2019	7,129,000
3Q2020	6,593,000
<b>3Q2021</b>	<b>10,721,700</b>

Source: BLS

And initial job claims (i.e. unemployment) have declined to less than 200,000, the same as pre-COVID.

And if the service in your favorite restaurant is a little slow or if the lines at the market are a little longer, it's because the proprietors can't find folks who want to work. End of story.

Initial Job Claims United States August 2019-December 2021		
Month	Claims	Change
Aug-19	171,386	n/a
Apr-20	5,981,787	5,810,401
Dec-21	184,000	(5,797,787)

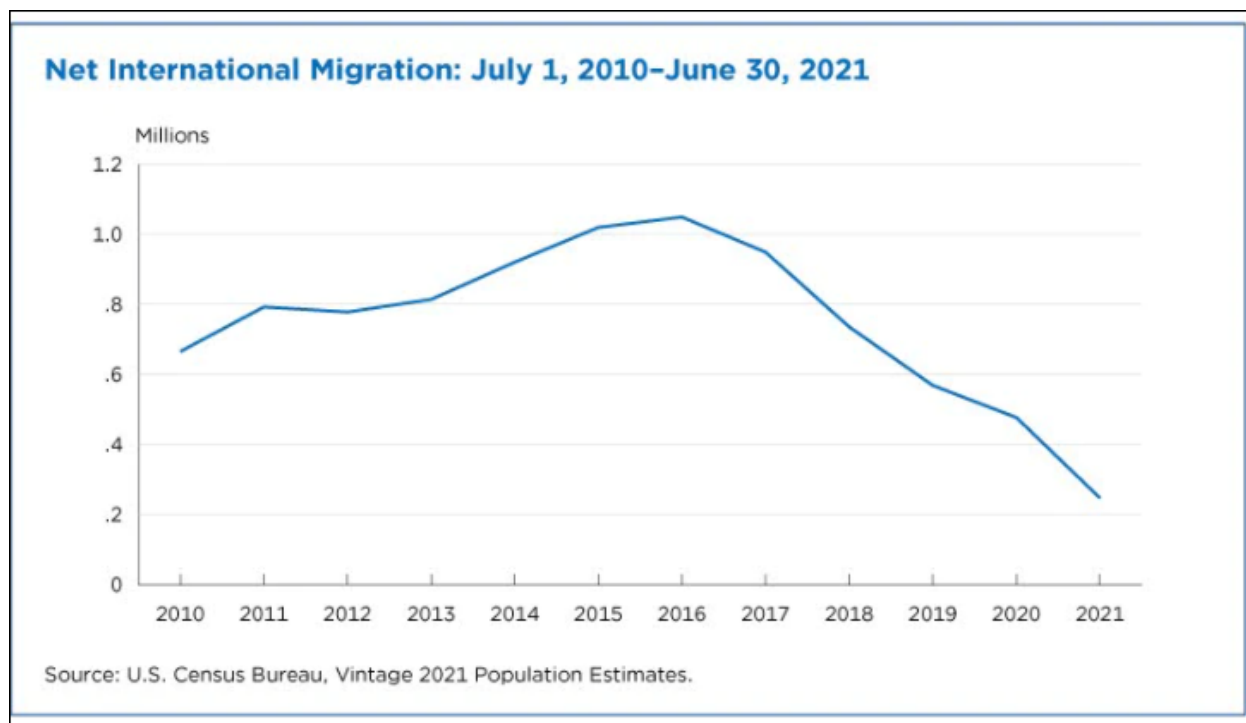
Source: BLS.gov

**Forecast:** I am fairly certain that the Nation will add 3,000,000 to 4,000,000 jobs this year. I think the pay scales will increase sufficiently to entice people to go back to work and others will find the right job for themselves. In any event, we will gain a substantial number of jobs and our unemployment rate will remain at 4.0%, perhaps a little lower.

### Net International Migration

One of the ways that the United States maintains a viable employment base is through international migration. Unfortunately, starting in 2016 and continuing today, there has been a substantial decline in net international migration.

The three states that are in continual need of incoming labor are California, Texas and Florida. Those three states accounted for 50% of the decline since 2016.



### Inflation

We have been enjoying essentially no inflation for the past five or six years. Unfortunately, it's time for a reset. We are currently at more than 6.0% as a result of the shipping problems, rising fuel prices, labor costs and an all-around shortage of merchandise on the shelves.

**Forecast:** During the course of the year, many of the shipping and trucking traffic problems we face now will be mostly solved and inflation will drop back to the 3-4% level by the end of the year. Pointedly, it is not a shortage of goods; it is a shortage of traditional delivery services.

### The Price of Money

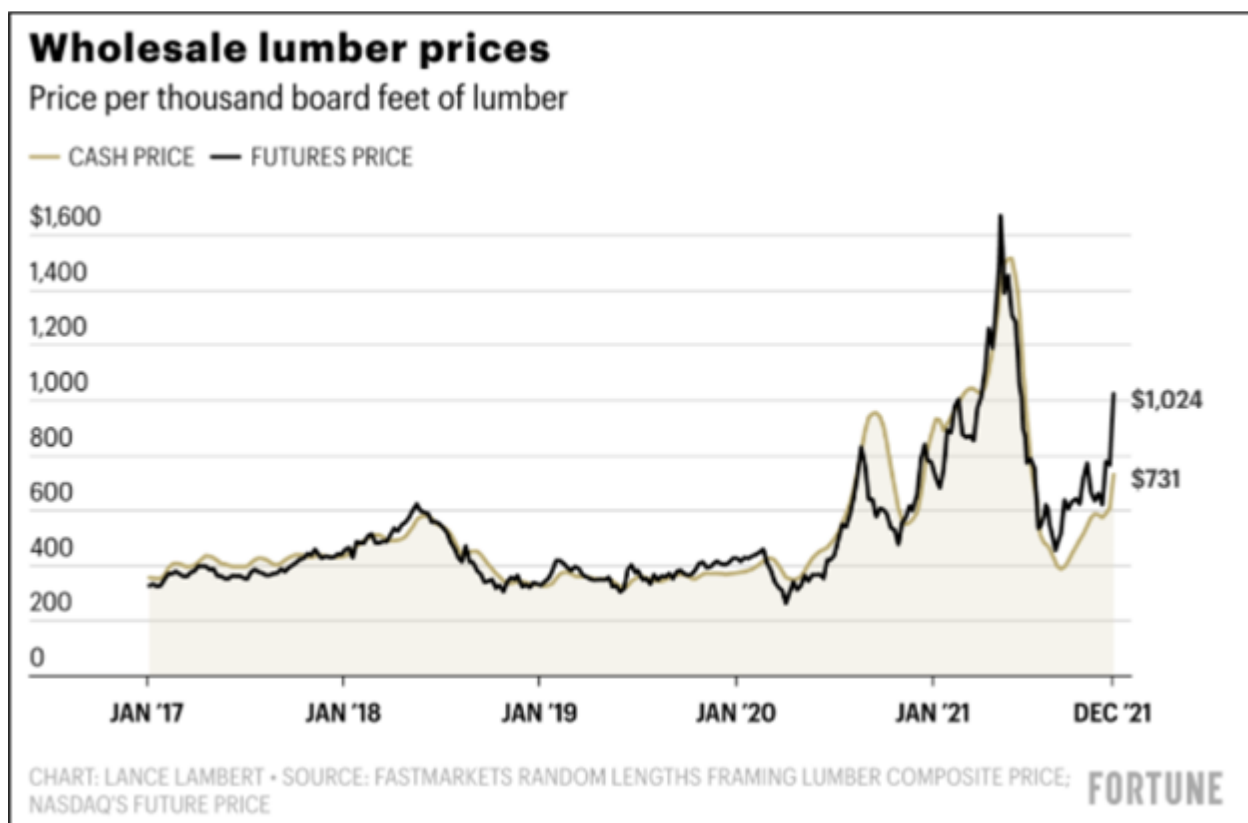
Like inflation, we have been living the good life and it's time to push the reset button. It is rather obvious that the Feds will gradually move up the discount rate which will have an immediate effect on the 10-year T-bill (which determines mortgage rates).

**Forecast:** There is a very strong possibility that long term interest rates will gradually move upward and by the end of 2022, mortgage rates could be at the 3.75%-4.00% range. Now that isn't a tragedy based on historical norms, but it is a bucket of ice water compared to what we have become accustomed to. Lenders will resist raising rates because that puts a damper on their bottom line. To that extent, they must continue to produce those mortgages in order to meet annual goals.

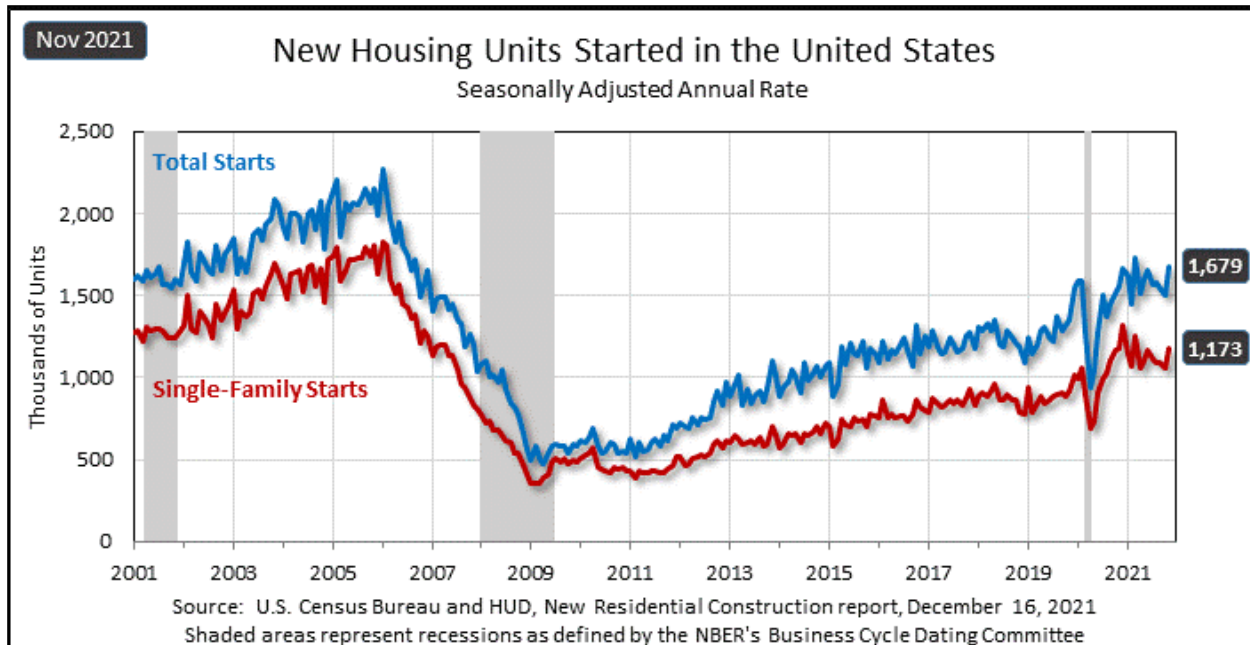
And, of course, higher rates make it harder to qualify for a home. And no one wants to face a decline in home sales and the furnishings and home improvements that go with it. After all, 40% of residential construction dollars are spent in the Home Depots of the Nation.

### The Housing Market

First, let's talk about new construction. The costs of construction have skyrocketed, mostly because of the cost of materials. The price of lumber has increased from its traditional \$300 per 1,000 board feet to more than \$1,000. And plumbing fixtures and appliances, most of which are manufactured overseas, are backlogged on ships. And, oh, yes, labor is in short supply, too.



Having said that, construction of new homes, condominiums and apartments were at a decade high in 2021 with production of more than 1,700,000 units. It's the highest production level since the last great recession.



**Forecast:** It is highly likely that the ships bogged down in the harbor will get unloaded eventually and that normalcy will prevail. Further, lumber prices will return to some form of rationality. For those reasons, and because financing is plentiful and developers are ambitious, 2022 will once again see production in the range of 1,700,000 units, and that's a good thing for America.

In addition, we will see a major increase in non-residential construction and particularly in the public sector, thanks to the recently approved Federal Public Works legislation. The last few years have not been as robust as the residential sector.

### Non-Residential Construction United States 2015-2021

Year	Private Sector	Public Sector	Total	Index
2015	\$ 447,283	\$ 286,842	\$734,125	1.00
2016	\$ 447,289	\$ 290,423	\$737,712	1.00
2017	\$ 444,289	\$ 289,799	\$734,088	1.00
2018	\$ 465,457	\$ 303,849	\$769,306	1.05
2019	\$ 500,139	\$ 337,458	\$837,597	1.14
2020	\$ 479,023	\$ 352,042	\$831,065	1.13
2021 (1)	\$ 470,283	\$ 343,886	\$814,169	1.11

Source: U.S. Census

(1) projected from October totals by Census.gov

### Car Sales

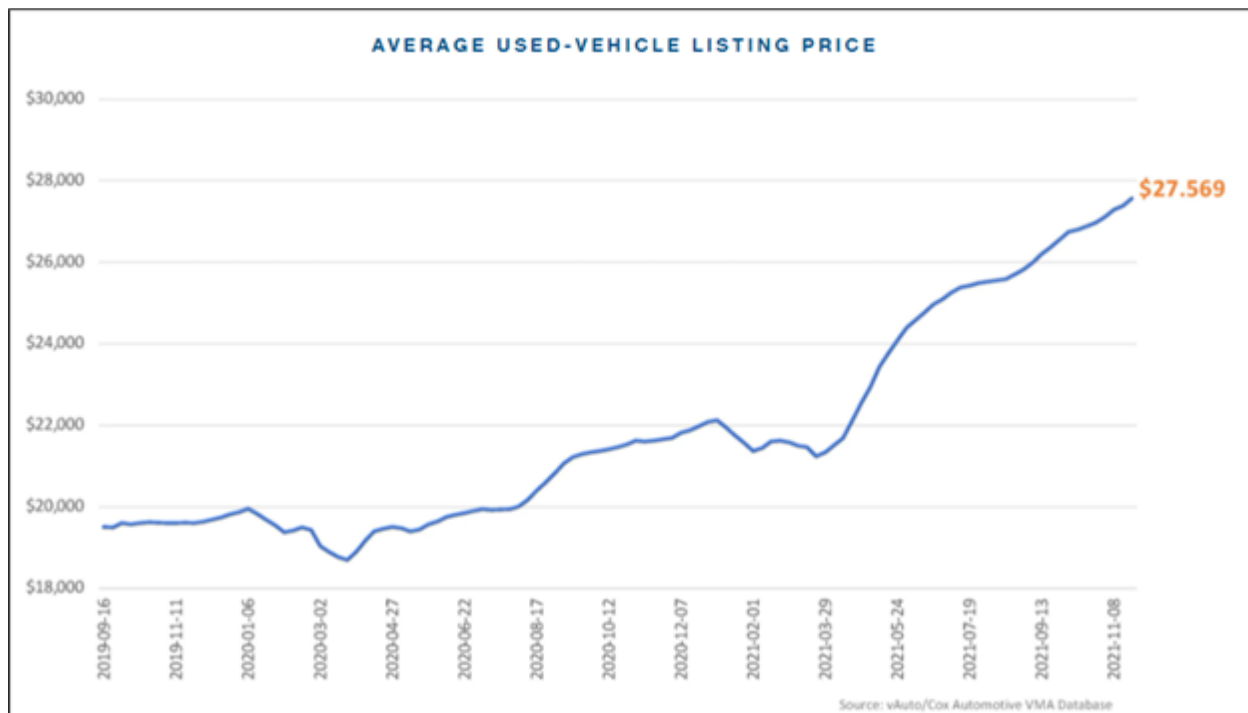
Automobile sales are a good indicator of how consumers feel about the economy. In 2020 and 2021, the appetite was there, but the cars weren't. The chip problem has caused a massive slowdown in delivery and we will wind up 2021 with barely 15 million new cars sold instead of the usual 17 million.

### New Car Sales United States 2015-2021

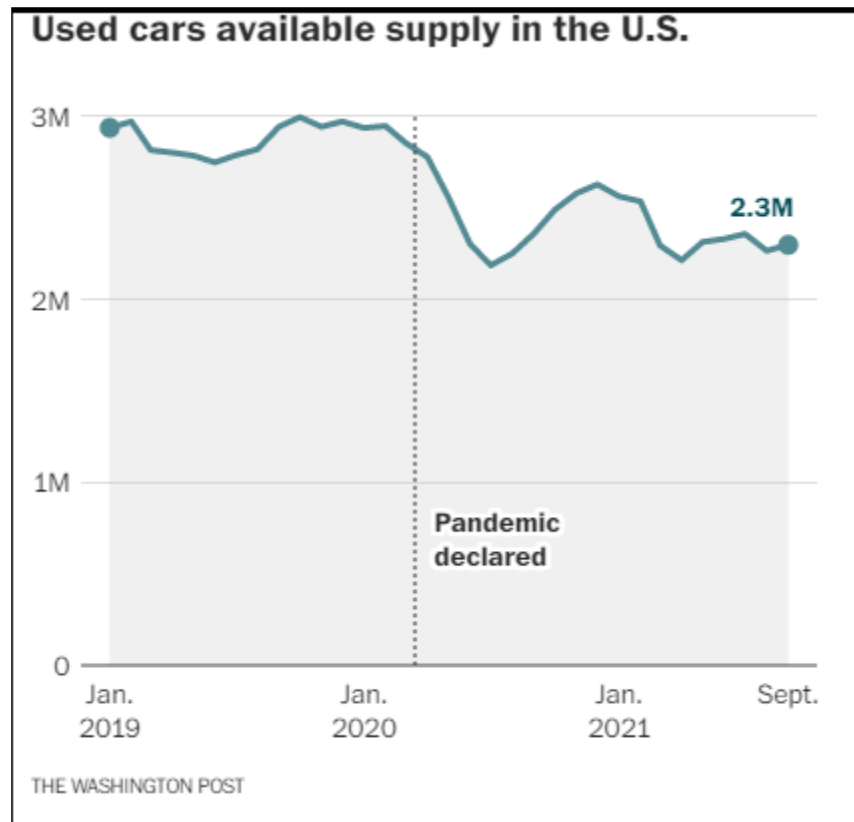
Year	No.
2015	17,404,970
2016	17,500,719
2017	17,212,565
2018	17,323,849
2019	17,023,894
2020	14,697,837
2021 (P)	15,000,000



Because new cars were not readily available, there has been a massive increase in demand for used cars and that has caused used car prices to soar.



And the supply of used cars gradually declined.



Had normalcy prevailed, used car sales would have been at the 42 million level by now.

Used Car Sales United States 2015-2021	
Year	No.
2015	37,300,000
2018	40,420,000
2020	39,300,000
2021	39,100,000

I like to use this example because it is strangely like the California coastal real estate market. Econ 101: Supply and demand.

**Forecast:** Normalcy in the auto industry will prevail by year's end 2022.

## COVID

Total deaths have subsided somewhat since the beginning of 2021, thanks to massive inoculations. As warmer weather approaches in the spring and a high percentage of folks get the jab, the number of deaths per month will subside.

<div style="background-color: #002060; color: white; padding: 10px; text-align: center;"> <b>COVID Deaths United States September - December 2021</b> </div>			
End of Month	Deaths	Change	Monthly
Sep-21	57,174		
Oct-21	43,229	(13,945)	(2,324)
Nov-21	33,588	(9,641)	(1,607)
Dec-21	30,429	(3,159)	(527)

**Forecast:** By year end 2022, monthly deaths Nationwide will decline to the 10,000-15,000 monthly level. Just as a touch of reality, every year, without COVID, 2.8 million people die in the U.S. from a myriad of causes.

## The Economic State of California

This section puts the great state of California into economic perspective.

### Gross Domestic Product

The State of California, prior to COVID, has had a wonderful pace of growth with the Gross Domestic Product increasing at 5.0-6.0% each year. COVID took its toll and in 2020, the GDP declined for the first time in more than a decade.

**Forecast:** When the final numbers are tabulated, 2021 will have a GDP increase of 6.0-7.0%, playing catch-up and moving forward. In 2022, the GDP increase should be in the 5.0-6.0% range.

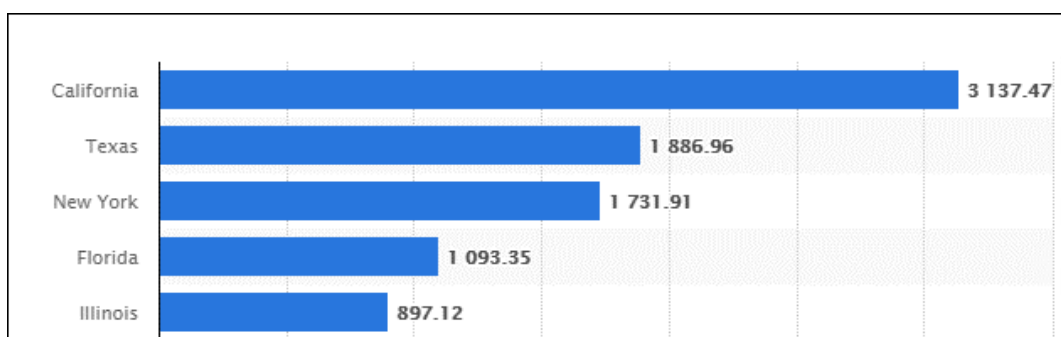
### Change in Gross Domestic Product California 2015-2021

Year	Trillions	Change	% Change
2015	\$ 2,553,772	\$ 158,610	6.6%
2016	\$ 2,657,798	\$ 104,026	4.1%
2017	\$ 2,819,111	\$ 161,313	6.1%
2018	\$ 2,997,733	\$ 178,622	6.3%
2019	\$ 3,137,469	\$ 139,736	4.7%
2020	\$ 3,071,000	\$ (66,469)	-2.2%
2021 (p)	3,300,000	229,000	6.9%

Source: CA Dept. of Finance; U.S. Bureau of Economic Analysis

This exhibit shows the ranking of the top five states in terms of Gross Domestic Product (\$000):

### Gross Domestic Product Top Five States



### Population Change

As the media have told us on numerous occasions, California has lost population in the past year. Let's take a look at the last decade to see what has transpired. The loss of population was four-fold: (1) a decline in natural increase (more deaths than births – thanks to COVID); (2) a decline in births (blame it on COVID); (3) much less legal immigration; and (4) folks moving out of California.

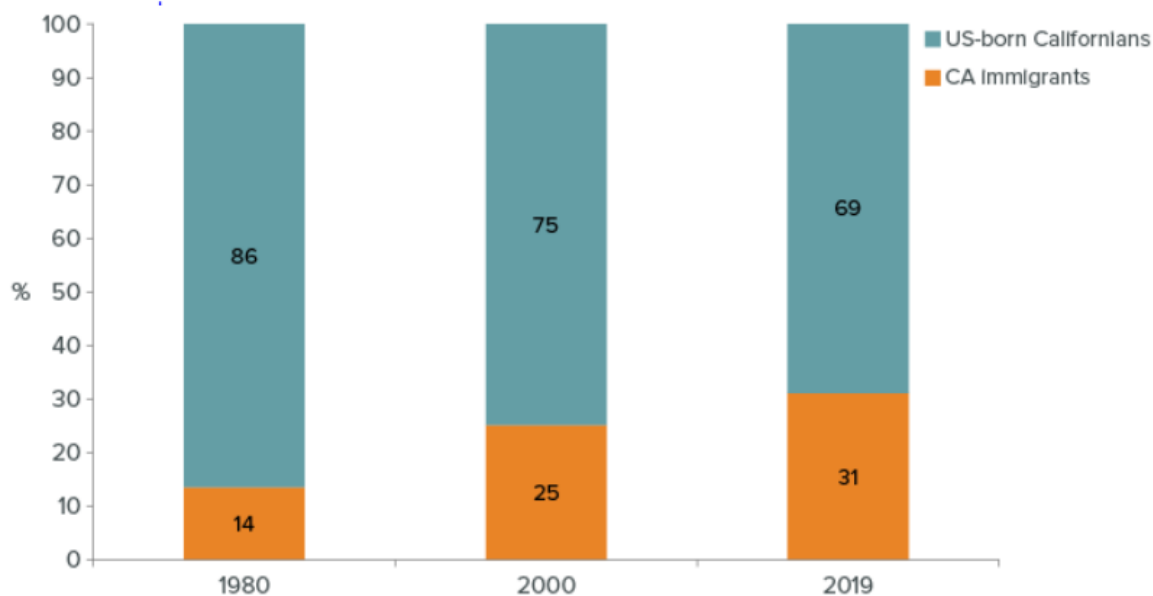
### Migration California 2010-2020

Basis	2010	2020	Change
Natural Increase	271,985	76,066	(195,919)
Legal Immigration	117,813	27,424	(90,389)
Domestic Migration	(49,573)	(276,663)	(227,090)
Total	340,225	(173,173)	(513,398)

Source: Ca. Dept. of Demographics

Yes, there is out-migration, but there is also in-migration: we know that 60% of persons moving to California have a bachelors' degree, but also of interest is that fact that the immigrants who make up a growing share of the California workforce have a college degree. Our state is getting smarter which is important because of the types of jobs we are creating.

Immigrants make up a growing share of California workers with college degrees



SOURCE: 2019 one-year American Community Survey data and decennial censuses accessed through IPUMS.

**Forecast:** the natural increase (more births than deaths) will turn positive when COVID is conquered (or at least controlled) and legal immigration may increase with the present administration.

I doubt if the domestic outmigration situation will change. We have just gotten too expensive for some folks to live here. Optimally, the loss of population will subside and someday we will see the state's population top 40.0 million. We are still the golden state.

### Employment

Prior to COVID, California was a job machine. From 2015 to 2019, the state added more than 800,000 jobs, in third place behind Texas and Florida.

#### Employment In the Big Three (Pre-COVID) 2015-2019

State	YE 2015	YE 2019	Change	% Change
California	17,804,150	18,629,682	825,532	4.6%
Texas	12,603,859	13,677,859	1,074,000	8.5%
Florida	9,226,214	10,115,912	889,698	9.6%

Bureau of Labor Statistics

Prior to COVID, all sectors of the California economy were in a positive job mode. In this exhibit, we show the job gains of the economic drivers in the 2015-2019 timeframe:

<b>Economic Drivers</b> <b>California</b> <b>December 2015-December 2019</b>				
Category	2015	2019	Total Change	Annual Change
Education & Health Services	2,505,500	2,851,200	345,700	69,140
Professional & Business Services	2,452,400	2,749,000	296,600	59,320
Leisure & Hospitality	1,774,300	2,053,900	279,600	55,920
Government	2,483,500	2,593,600	110,100	22,020
Information	470,400	569,600	99,200	19,840
Financial Activities	781,300	848,100	66,800	13,360
Manufacturing	1,288,200	1,328,200	40,000	8,000
<b>Total</b>	<b>11,755,600</b>	<b>12,993,600</b>	<b>1,238,000</b>	<b>247,600</b>

Source: U.S. Bureau of Labor Statistics

When COVID took hold, California lost almost 3,000,000 jobs. Now, since March 2020, the state has added 2,212,000 jobs and is less than a half million jobs away from pre-COVID totals.

<b>Employment Trends</b> <b>California</b> <b>March 2020 - November 2021</b>		
Month	Total Employment	% Unemployment
March 2020	18,193,000	
April 2020	15,507,400	(2,685,600)
November 2021	17,719,400	2,212,000
<b>Employment to Reach Pre-COVID Total</b>	<b>473,600</b>	

Source: CA EDD

The state's unemployment rate has dipped to 6.9% and on a track to reach the pre-COVID unemployment rate by the end of 2022.

Unemployment Rate California March 2020 - November 2021	
Month	Unemployment Rate
March 2020	5.1%
April 2020	16.0%
November 2021	6.9%
Source: CA EDD	

**Forecast:** The Nation and the State will experience a very positive 2022 unless a follow-on to Omicron causes undue health issues and Russia invades the Ukraine and China decides to show off its military prowess in Taiwan.

### California Exports

California continues to be a powerhouse of exports. The two largest customers are Mexico and Canada.

Exports from California (\$Millions) Top 10 Countries 2015-2020									
Rank	Country	2015 Value	2016 Value	2017 Value	2018 Value	2019 Value	2020 Value	Change 2015-2020	% Change
1	Mexico	26,788	25,260	26,773	30,763	27,965	24,078	-2,710	-10%
2	Canada	17,262	16,233	16,843	17,698	16,696	15,923	-1,339	-8%
3	China	14,384	14,323	16,432	16,339	15,848	15,022	638	4%
4	Japan	11,743	11,759	12,830	13,030	11,887	10,651	-1,092	-9%
5	Korea, South	8,683	8,211	9,589	9,975	9,199	9,784	1,101	13%
6	Hong Kong	8,761	9,662	12,109	9,906	8,424	6,330	-2,431	-28%
7	Taiwan	7,727	6,987	6,326	6,831	7,224	7,397	-330	-4%
8	Germany	5,344	5,350	6,038	6,592	6,439	6,477	1,133	21%
9	Netherlands	5,634	5,457	5,785	6,429	6,409	5,673	39	1%
10	India	4,568	5,129	5,014	6,122	5,636	4,974	406	9%

Source: Census.gov, Foreign Trade



The largest segment of exports is machinery and machines, including motor vehicles and aircraft engines and parts.

Exports from California Top Commodities 2020		
Rank	Descripton	Millions
1	Motor Vehicles (Tesla)	\$ 5,651
2	Civilian Aircraft Engines & Parts	\$ 4,991
3	Machines & Apparatus for the Mfg. of Semi Conductors	\$ 4,821
4	Electronic Integrated Circuits	\$ 3,864
5	Machines for the Reception, Conversion & Transmission	\$ 3,790
6	Almonds	\$ 3,364
7	Diamonds (including polishing)	\$ 3,198
8	Machines & Apparatus for Mfg.	\$ 3,050
9	Composite Diagnostic or Lab Reagents	\$ 2,856
10	Parts & Accessories for automatic data processing	\$ 2,475

Source: Census, state exports

**Forecast:** A continuation of a very good trend once COVID subsides.

### Residential Construction

The past several years residential construction has been stable, averaging 110,651 units annually in the 2016-2020 period. The final 2021 figures are not yet available, but it appears that construction units permitted will total more than 120,000, the highest level in a decade. Note that the multi-family category includes both condominiums, townhomes and rental properties.

### Residential Building Permits California 2012-2021

Year	Total	SFD	MF
2012	59,638	27,558	32,080
2013	85,472	36,991	48,481
2014	85,844	37,089	48,755
2015	98,233	44,896	53,337
2016	100,265	49,254	51,011
2017	110,000	56,000	54,000
2018	117,079	62,236	54,843
2019	119,985	79,486	40,499
2020	105,925	60,824	45,101
2021F	120,000	75,000	45,000

Average			
2012-2015	82,297	36,634	45,663
2016-2020	110,651	61,560	49,091

Source: U.S. Census

**Forecast:** Another year of 110,000+ production with prices of production leveling off.

### Home Ownership

Home ownership in the United States has been continually higher than in California. We tracked home ownership back to 1950 and can show that it is consistently in the mid-50%'s range, significantly less than in the United States as a whole. The mid-50's percentage has been the same in California, regardless of home prices.

The exhibit shows that the explosion of home prices began in the 1980's and relates to the population per housing unit. Notably, the massive change in population in California created a demand for purchasable housing units that could not be satisfied.

The 2020 Census shows once again what happens to housing prices when the ratio of population per housing unit approaches 3.0.

**Home Ownership & Prices  
Selected States  
1950-2020**

Year	California			Population Change by		Population Change by		Pop. Per Housing Unit
	% Owned	Price	% Index	Population	Population change	Housing Units	Housing Units Change	
1950	54%	\$ 12,788	1.00	10,586,223		3,590,660		
1960	55%	\$ 18,500	1.50	15,717,204	5,130,981	5,465,870	1,875,210	2.74
1970	55%	\$ 24,640	1.93	19,971,069	4,253,865	7,000,174	1,534,304	2.77
1980	55%	\$ 99,550	7.78	23,667,764	3,696,695	9,277,041	2,276,867	1.62
1990	56%	\$193,700	15.15	29,758,213	<b>6,090,449</b>	11,182,513	1,905,472	<b>3.20</b>
2000	57%	\$241,350	18.87	33,871,653	4,113,440	12,214,500	1,031,987	3.99
2010	56%	\$304,770	23.83	37,253,956	3,382,303	13,680,081	1,465,581	2.31
2020	55%	\$717,930	56.14	39,237,836	1,983,880	14,366,336	686,255	2.89
<b>1950-2020</b>				<b>28,651,613</b>		<b>10,775,676</b>		<b>2.66</b>

Source: FHFA; CAR, Census

**Forecast:** At the beginning of his term, Governor Newsome opined that we need to produce 500,000 housing each year. I am quite certain that we will not reach that goal, but we will continue to produce. **On the sale housing front, I am projecting that existing home price increases subside to the 8-9% level, less than half the experience of 2021.**

Overall, 2022 will be a good year for our Nation and California. The state may have lost a member of Congress and a half million people, but it continues to be a powerhouse of creativity; well-paying jobs, a vibrant work force and excellent institutions of higher learning. It's just a shame that housing isn't less expensive and readily available. But some things never change.