State of the Economy for 2013

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Executive Director, Fermanian Business & Economic Institute
Point Loma Nazarene University
Key Topics

- Election Implications
- Global Outlook
- U.S. & California Economy
- San Diego Economy
- Local Commercial Real Estate
- Investments in 2013
- Conclusions
Election Implications
Election Implications

- Tension of divided Washington
- Sequestration avoided/delayed
- Taxes raises for many
- Entitlement programs spared
- Debt ceiling fight looms
Federal Budget Deficits Accumulate
Trillions of dollars, fiscal years

<table>
<thead>
<tr>
<th>Year</th>
<th>Deficit (Trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-1.6</td>
</tr>
<tr>
<td>2010</td>
<td>-1.4</td>
</tr>
<tr>
<td>2011</td>
<td>-1.2</td>
</tr>
<tr>
<td>2012</td>
<td>-1.0</td>
</tr>
<tr>
<td>2013f</td>
<td>-0.8</td>
</tr>
</tbody>
</table>
Global Outlook

I RESPECT YOUR
RIGHT TO VOTE

AS LONG AS
YOU VOTE RIGHT
Recession Still Grips Key European Nations
2013 real GDP, percent change over prior year

- Ireland
- Germany
- France
- Italy
- Spain
- Portugal
- Greece

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China Achieves Soft Landing
Real GDP, percent change over prior year

- 2009
- 2010
- 2011
- 2012e
- 2013f
Mexico Sees Steady Growth
Real GDP, percent change over prior year
Risks to Global Forecast
Probability, percent

- Fiscal Cliff
- Europe's Debt Crisis
- Iran and the Middle East
- China
- Terrorism
- Natural Disasters
U.S. Economy
U.S. Economy

Pluses
- Financial conditions
- Housing
- Consumers
- Global growth
- Natural gas/energy

Minuses
- Government cutbacks
- Commercial building
- Health care costs
- Regulation
Real GDP Warms

4th quarter, percent change over prior year

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Home Builders Break Ground
Thousands of units

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Jobless Rolls Subside
Percent of labor force, quarterly average

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Consumer Price Inflation Bumps Higher
4th quarter, percent change over prior year

- 2009
- 2010
- 2011
- 2012e
- 2013f

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California
California 2013

Drivers
- Housing
- Technology
- Tourism
- Trade
- Agriculture

Constraints
- Budget
- Business costs
- Taxation
- K-12 education
California Sees More Hiring
December, change over prior year, thousands

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San Diego
San Diego 2013

Drivers

- Defense & Tech
- Housing
- Tourism
- Political Clarity
- Local Banks

Constraints

- Budgets
- Business costs
- Regulations
National Security Spending to Decline
Billions of dollars, fiscal years

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>714</td>
</tr>
<tr>
<td>2011</td>
<td>711</td>
</tr>
<tr>
<td>2012</td>
<td>670</td>
</tr>
<tr>
<td>2013</td>
<td>640, *580 (Under sequestration)</td>
</tr>
</tbody>
</table>

*Under sequestration
Venture Capital Returns
Millions of Dollars

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San Diego Attracts More Tourists
Number of visitors, millions,

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San Diego’s Home Prices Advance
S&P/Case-Shiller Index, Jan 2000=100, seasonally adjusted

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Homebuilders Back in Business
Housing permits, number of units, thousands

![Bar graph showing the number of housing permits for single family and multi family homes from 2008 to 2013. The graph indicates an increase in permits for both categories from 2008 to 2013.](image)

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San Diego Office Vacancies Shrink
Percent, annual average

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San Diego Adds More Jobs
December, change from prior year, thousands

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San Diego Commercial Real Estate

FOR CRYING OUT LOUD HENDRICKS... WHEN I SAID THERE WAS A DIP IN THE REAL ESTATE MARKET, I DIDN'T MEAN YOU....!
Apartments

Strengths
- More jobs
- Military demand
- Real incomes constrained
- Supply limited

Weaknesses
- Ownership/rental returns shift
- Less favorable tax treatment

Grade: A
Industrial

**Strengths**
- Biotech expands
- E-commerce demands on warehousing
- Foreign trade expands
- Companies focus on efficiency

**Weaknesses**
- Defense cuts
- Manufacturers cautious

Grade: B+
Office

**Strengths**
- Business and financial services
- Health care
- Limited “spec” building

**Weaknesses**
- Government cutbacks
- Corporate cost cutting

Grade: B
Retail

**Strengths**
- Rising consumer spending
- Forward thinking
- Entertainment demand

**Weaknesses**
- Changing tastes
- E-Commerce pressures
- Churning among tenants

Grade: B-
Investments in 2013
## Investments

<table>
<thead>
<tr>
<th>Category</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td></td>
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<tr>
<td>U.S.</td>
<td>A-</td>
</tr>
<tr>
<td>Europe</td>
<td>B+</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>A</td>
</tr>
<tr>
<td>Bonds</td>
<td>D</td>
</tr>
<tr>
<td>Commodities/Industrial metals</td>
<td>B</td>
</tr>
<tr>
<td>Precious Metals</td>
<td>B+</td>
</tr>
<tr>
<td>Real Estate (range)</td>
<td>B-/A</td>
</tr>
<tr>
<td>Art and collectibles</td>
<td>B+</td>
</tr>
<tr>
<td>Agricultural Commodities</td>
<td>B+</td>
</tr>
<tr>
<td>Agricultural Land</td>
<td>A-</td>
</tr>
</tbody>
</table>
Recap

- Global economy firms
- U.S. better growth but political risks
- Fed keeps foot on accelerator
- California recovers, but budget pressures
- San Diego grows steadily, adds more jobs but with some headwinds
Action Steps

- Prepare various budget scenarios
- Refinance business and personal loans
- Align employee incentives to firm goals
- Innovate and build value for customers
- Review your investment strategy
- Educate yourself & your firm
Questions

Cartoon: "What is the meaning of life? I don't know. The computers are down."
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2013 Economic Outlook Hashtags:
#EOF2013    #actioneconomics

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