COUNTY OF SAN DIEGO

AGENDA ITEM

DATE: **October 11, 2022** **XX**

TO: Board of Supervisors

SUBJECT
RECEIVE A PRESENTATION ON FISCAL YEAR 2022-23 ECONOMIC UPDATE (DISTRICTS: ALL)

OVERVIEW
Average annual inflation in the San Diego region through July 2022 grew to an average of 7.9%.[1] Soaring local and national inflation rates led the Board of Governors of the Federal Reserve System (Fed) to raise the federal funds rate, the overnight interest rate at which banks loan the Federal Reserve money. Inflation over the last year and resulting Fed monetary policy actions to control inflation have caused uncertainty in equity, fixed income, commodity, and housing markets, among others. Economists, business managers, families, and individuals across the country are grappling with what the financial future may hold. San Diegans have questions about how these macroeconomic decisions impact their checkbook.

With a current population of 3.3 million, the County of San Diego (County) is the second largest county in California and the fifth largest in the nation; in addition, its population is expected to continue to grow. San Diego's local economy is similar to the United States and State of California economies, and the County is impacted from cost drivers such as staffing, services, contracts, supplies and major County General Fund revenue sources such as General Purpose Revenue (GPR), sales tax, program revenue, and fees.

Today's recommended action is to receive, via presentation, the Fiscal Year 2022-23 Economic Update, which will provide greater insight into broad national and State economic issues as well as a regional update and forecast on the local economy, including County cost drivers and General Fund revenue sources.

RECOMMENDATION(S)
CHIEF ADMINISTRATIVE OFFICER
Receive the Fiscal Year 2022-23 Economic Update through presentation.

[1] Bureau of Labor Statistics. CPI for All Urban Consumers. San Diego-Carlsbad, CA (2012 – July 2022).

EQUITY IMPACT STATEMENT

As of August 2022, the County's unemployment rate was 3.4%. Even though the region is experiencing a relatively low unemployment rate, some areas are experiencing lower rates than others. According to the San Diego Association of Governments (SANDAG), unemployment has impacted each community in the region differently.[2] In fact, communities with the lowest quartile in unemployment saw a rate of 2.3% while communities with the highest quartile in unemployment experienced a rate of 3.7%. This measure is a lagging economic indicator, meaning that it can confirm economic patterns over time. Today's economic update will address the unemployment rate as well as other economic indicators as they apply and are experienced in the San Diego region.

In the forecasted economic trends for the County, indicators such as unemployment rate and property value will vary among different constituencies, with Black San Diegans experiencing a higher degree of hardship than represented by the median data. A history of racially restrictive covenants and discriminatory policies have resulted in lower rates of home ownership, higher rent burden, and depressed wages in comparison to White individuals.[3] The COVID-19 pandemic has not only illuminated these discrepancies but exacerbated them as well. For example, among County low wage earners who lost their job at the start of the pandemic, 25% were still unemployed after a year, while high wage earners had seen a 2.4% increase in jobs. Across California, Black and Latinx households make up 58% of the lowest income families, while White and Asian households are disproportionately represented in the highest income brackets.[4]

Historically, when the Federal Reserve raises interest rates, it more immediately and significantly impacts already marginalized communities.[5] Research by UCSD also finds that Black households experience 13.5% higher inflation volatility than White households, which affects cost of living.[6] During an economic downturn, tax revenue tends to deplete, while demand for services goes up.[7]

SUSTAINABILITY IMPACT STATEMENT

Receiving a presentation related to the Fiscal Year 2022-23 Economic Update supports the County of San Diego's sustainability goal of providing just and equitable access to County services, policy decision-making, and resource allocation in support of sustainable communities. In addition, it is through the budget and economic updates, resource allocation, and Operational Plan processes that the County will be able to continue its pursuit of all seven County of San Diego Sustainability Goals.

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[2] SANDAG Data Science Department. Unemployment Analysis as of August 25, 2022.
[3] San Diego Workforce Partnership. "San Diego's Racial Equity Gap: How We Got Here." September 16, 2020.
[4] Public Policy Institute of California. "Income Inequality in California." July 2022.
[5] Center for American Progress. "The Federal Reserve Must Be Careful Not To Jeopardize the Strong Economic Recovery." June 13, 2022.
[6] Federal Reserve Bank of Richmond. "Do Black Households Face Higher and More Volatile Inflation?" July 2022.
[7] Center on Budget and Policy Priorities. "State Tax Changes in Response to the Recession." March 9, 2010.

FISCAL IMPACT

There is no fiscal impact associated with the Fiscal Year 2022-23 Economic Update. There will be no change in net General Fund costs and no additional staff years.

BUSINESS IMPACT STATEMENT

This action will provide information to the business community about the current economic status of the region and the County government.

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

Average annual inflation in the San Diego region from 2012 through 2020 was 2.1%; in January 2021, inflation remained flat at 1.7%.[8] Through the rest of 2021, inflation increased to an average of 5.7% and through July 2022 inflation grew to an average of 7.9%.[9] These soaring episodes of inflation locally and throughout the country led the Board of Governors of the Federal Reserve System (Fed) to raise the federal funds rate, the overnight interest rate at which banks loan the Federal Reserve money. Changes in the federal funds rate send ripple effects into the economy, including Treasury yields, corporate and municipal bonds, credit card interest rates, auto loans, home loans, employment, costs of goods and services, and more. After holding the federal funds rate at near zero during the first two years of the pandemic, the Fed raised rates by 25 basis points in March 2022 to 0.33%.[10] In its most recent action in September 2022, the Fed raised rates to 3.25%.[11]

Inflation since the pandemic and resulting Fed monetary policy actions to control inflation have caused uncertainty in equity, fixed income, commodity, and housing markets, among others. Economists, business managers, families, and individuals across the country are grappling with what the financial future may hold. San Diegans have these same questions about how these macroeconomic decisions impact their checkbook.

UCLA Anderson Forecast indicates the US economy is sending mixed signals; it has remained robust in certain sectors of the economy, including labor markets and consumer spending, healthy personal savings, improved supply chains, and increased commodity prices.[12] On the other hand, there are economic indicators that point towards an imminent recession, including high inflation, a tightened monetary policy, low consumer sentiment, a softened housing market, and real wages that have declined.[13] In May 2022, the Congressional Budget Office forecasted

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[8] Bureau of Labor Statistics. CPI for All Urban Consumers. San Diego-Carlsbad, CA (2012 – July 2022).

[9] Ibid.

[10] Federal Reserve Bank of St. Louis. Federal Funds Effective Rate. As of September 1, 2022.

[11] Board of Governors of the Federal Reserve System. “Federal Reserve Board approves discount rate action by the Boards of Directors of the Federal Reserve Banks of New York, Minneapolis, and San Francisco.” September 22, 2022.

[12] UCLA Anderson Forecast. *September 2022 Economic Forecast*. “A Mixed-Signals Economy With Below-Trend Growth and Persistently High Inflation.”

[13] Ibid.

GDP to grow by 7%, 6%, 5%, and 4% for the quarters that remain in the County's fiscal year,[14] but given all of the turbulence in the economy, UCLA is now predicting GDP growth of only 1.2%, -0.4%, 0%, and 0.2%.[15] The US economic picture went from sunny to static.

The troubling signs in the national economy could flow down to the State of California's economy. According to the Legislative Analyst Office, "the state's 'big three' taxes – personal income, sales, and corporation taxes – are more likely than not to fall below the Budget Act assumption of $210 billion."[16] At the beginning of the year, forecasts for gross state product in 2022 were 4.2% and 2.7% in 2023.[17] However, so far in 2022 the State's economy has contracted by 1% (first quarter).[18]

San Diego's local economy follows the United States and State of California economies in many aspects, including unemployment, consumer spending, and inflation. These economic indicators as well as others like median home prices, impact major County cost drivers such as staffing, services, contracts, supplies and major County General Fund revenue sources such as General Purpose Revenue (GPR), sales tax, program revenue, and fees.

After the Fed raised the federal funds rates in March 2022 by 25 basis points, the median home price in the San Diego region reached a record high of $975,000 in April 2022.[19] Since that time, median home prices in the region have fallen $90,000 through August 2022[20] in response to Fed actions and rising 30-year mortgage rates. This cooling of the local housing market is good for housing affordability but also an indicator of cooling local economic activity.

With a current population of 3.3 million, San Diego County is the second largest county in California and the fifth largest in the nation; in addition, its population is expected to continue to grow to 3.6 million – an increase of 9% – by 2035.[21] The top five sectors by gross regional product (GRP) in San Diego over the past 10 years have been professional services (35%), government (20%), innovation (12%), retail (12%), and healthcare (6%).[22]

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[14] Congressional Budget Office. *The Budget and Economic Outlook: 2022 to 2032*. 10-Year Economic Projections by Quarter.
[15] UCLA Anderson Forecast. *September 2022 Economic Forecast*. "A Mixed-Signals Economy With Below-Trend Growth and Persistently High Inflation."
[16] Legislative Analyst's Office. *Updated 2022-23 "Big Three" Revenue Outlook*. September 14, 2022.
[17] Los Angeles County Economic Development Corporation. *2022 Economic Forecast*. February 2022.
[18] Bureau of Economic Analysis. *Gross Domestic Product by State, 1st Quarter 2022*. June 30, 2022.
[19] California Association of Realtors. Historical Housing Data. Median Prices of Existing Single-Family Homes. January 1990 – August 2022.
[20] Ibid.
[21] County of San Diego. Adopted Operational Plan Fiscal Years 2022-23 and 2023-24. pg. 29.
[22] Bureau of Economic Analysis. Gross Domestic Product by County and Metropolitan Area. 2011 – 2020.

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LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

Today's action aligns with the County of San Diego's 2022 – 2027 Strategic Initiatives of Sustainability, Equity, Empower, and Community by providing an economic update to the Board of Supervisors, County employees, and the public.

Respectfully submitted,

HELEN N. ROBBINS-MEYER
Chief Administrative Officer

ATTACHMENT(S)

N/A