SCAG™

14TH ANNUAL SOUTHERN CALIFORNIA
ECONOMIC SUMMIT

ACCELERATING THE REGION

Event Program

Thursday, December 7, 2023
Sheraton Grand Los Angeles

14TH ANNUAL SOUTHERN CALIFORNIA
ECONOMIC SUMMIT

8:00 A.M.

REGISTRATION & NETWORKING

9:30 A.M.

WELCOME & OPENING REMARKS

KOME AJISE, *Executive Director, SCAG*
ART BROWN, *President, SCAG Regional Council*

9:50 A.M.

SOUTHERN CALIFORNIA ECONOMIC UPDATE

This session will present SCAG's analysis on the state of the region's economy, providing an overview of sector-specific employment changes and highlighting opportunities for growth. The full findings of this analysis appear in the "Regional Briefing Book" publication.

GIGI MORENO, *Senior Economist, SCAG*

10:15 A.M.

ACCELERATING THE ECONOMY THROUGH CONNECT SOCAL

Beyond getting people from point A to point B, what is the value of transportation to the region's economy? This panel will tie major areas of regional planning outcomes—jobs, equity, housing—to economic and environmental resilience for the entire region.

HASAN IKHRATA
Chief Executive Officer, San Diego Association of Governments

LYNN VON KOCH-LIEBERT
Executive Director, Strategic Growth Council

SHANNON SEDGWICK
Director, Institute for Applied Economics at Los Angeles County Economic Development Corporation

Moderator:
JAN C. HARNIK
Immediate Past President, SCAG Regional Council

11:30 A.M.

LUNCH

12:15 P.M.

KEYNOTE ADDRESS

This keynote address will examine the integration of regional planning elements, and how the region can harness technology and future trends to shape economic development toward the future we want.

GREG LINDSAY, *Urban Tech Fellow, Cornell Tech*

12:45 P.M.

ACCELERATING THE REGION'S PRODUCTIVITY & POTENTIAL

Accelerating the region isn't possible with the same old planning formula, and the region can't rest on past successes. It's time to prepare for a different future—with more automation, artificial intelligence and slower population growth. How do we take advantage of these coming changes to create the future of mobility, remove barriers to housing and make significant progress toward economic and environmental sustainability?

JASSON CROCKETT
Head of California State Policy, Snap, Inc.

BRIAN MERCHANT
Technology Columnist, Los Angeles Times

KAMEALE TERRY
Co-Founder & Chief Executive Officer, ChargerHelp, Inc.

MICHAEL SPAGNA
Provost & Vice President for Academic Affairs, California State University, Dominguez Hills

Moderator:
PAUL GRANILLO
President & Chief Executive Officer, Inland Empire Economic Partnership

2:00 P.M.

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ECONOMIC OUTLOOK &

PROGRAM SUMMARY

Welcome to the 14th Annual Southern California Economic Summit, an event designed to provide up-to-date, region-wide and county-specific economic analysis for Southern California. This year's event holds special significance, following SCAG's release of the draft Connect SoCal 2024 Regional Transportation Plan/Sustainable Communities Strategy. SCAG adopts Connect SoCal every four years, in the process building consensus for a vision that extends to 2050—when many of the economic, environmental and demographic changes emerging in 2023 will be long-term features of life in Southern California.

The 14th Annual Southern California Economic Summit takes place in a regional context of persistent inflation, rising interest rates, labor disputes, empty office buildings, high housing costs and predictions of recession. Yet the region's economy proves resilient, with low unemployment, increasing housing production and growth in key economic sectors. Connect SoCal charts a course for the region's continued prosperity that can expand to include more people and places in the region.

To accelerate the region toward this collective vision, SCAG relies on collaboration with and between local jurisdictions, along with diverse communities, businesses and individuals comprising the region. The Southern California Economic Summit provides numerous opportunities to discuss and plan for the durable, equitable prosperity of Southern California in 2023, as well as 2050. Welcome to the conversation.

ECONOMIC OUTLOOK **BY REGION**

The SCAG region, consisting of Imperial, Los Angeles, Orange, Riverside, San Bernardino and Ventura counties, generally mirrors national economic trends and has overcome challenges including tech layoffs, inflation, rising interest rates, labor disputes and vacant office buildings. In the SCAG region, employment is holding strong, with an annual employment growth rate of 2.1 percent in 2023.

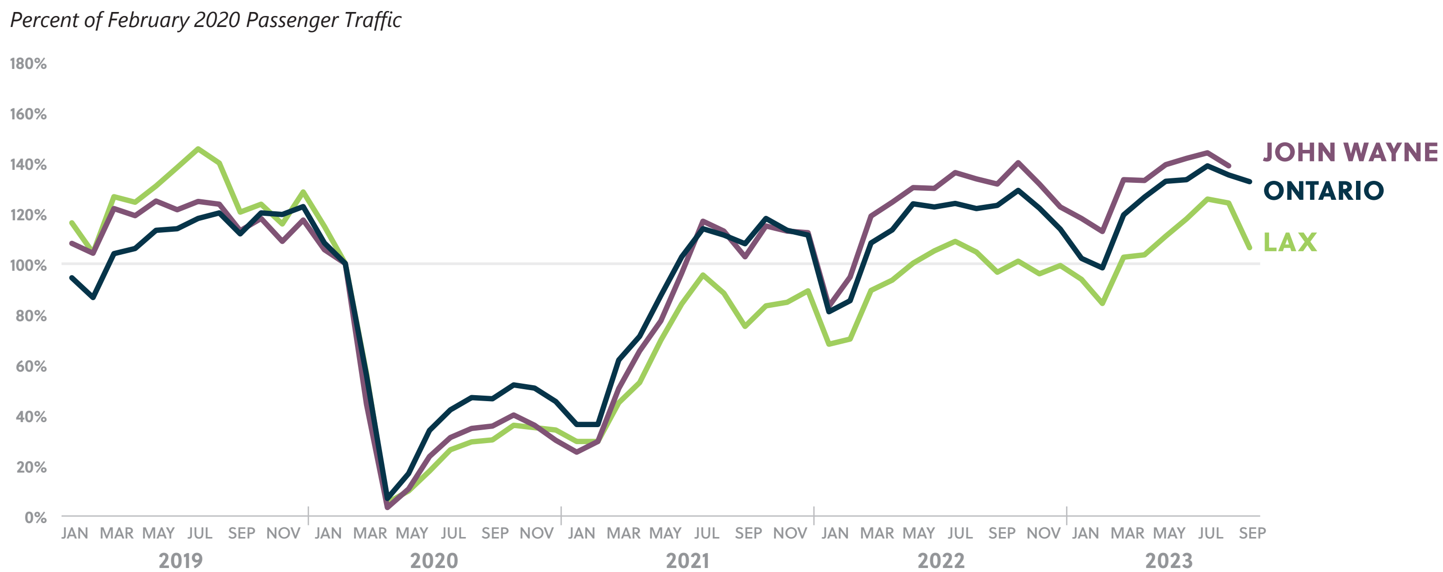
ECONOMIC OUTLOOK

SCAG REGION

Despite persistent inflation, rising interest rates, labor disputes, empty office buildings and prognostications of recession in 2023, the SCAG region economy proved resilient. The SCAG region's key economic highlights over the past year include continued low unemployment, continued growth in hospitality services, increasing numbers of jobs, increasing housing permits and a recovering tourism industry. The resolution of labor disputes at the ports and in Hollywood builds the region's economic momentum.

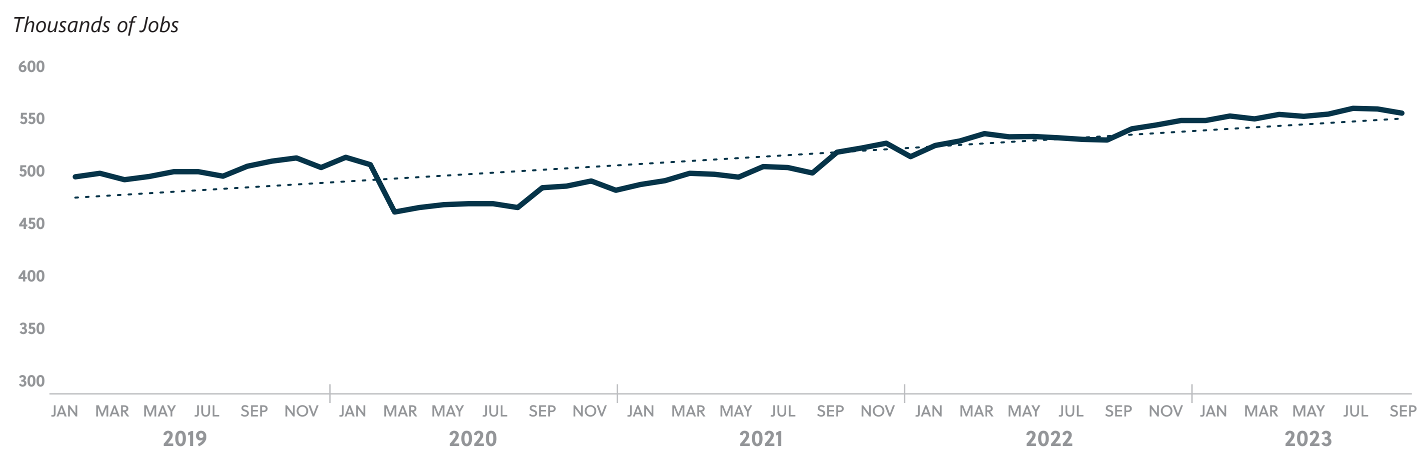
Despite the strikes, the region remained at full employment, with the unemployment rate hovering between 4 and 5.5 percent. Jobs grew across a wide range of sectors, reflecting

EXHIBIT 1 SCAG Region Airport Passenger Traffic Has Recovered to Pre-Pandemic Levels



Source: Los Angeles World Airports, Statistics for LAX, https://www.lawa.org/en/lawa-investor-relations/statistics-for-lax/volume-of-air-traffic; John Wayne Airport, Monthly Airport Statistics, https://www.ocair.com/about/news-info/statistics/; and Ontario Airport, Passenger and Freight Statistics, https://www.flyontario.com/air-service/statistics. All accessed 11/02/2023.

EXHIBIT 2 SCAG Region Professional, Scientific, and Technical Services Employment



Note: Professional, Scientific, and Technical Services is NAICS code 54.
Source: Based on data from EDD (2023).

the region's diverse industry mix, with the Health Care and Social Assistance (North American Industry Classification System (NAICS) 62) sector leading the way. The Arts, Entertainment, and Recreation (NAICS 71) sector restored all jobs lost from the COVID-19 pandemic recession and established a new peak level of employment. This reflects the return of out-of-region tourism and strong local demand for leisure services. **EXHIBIT 1** shows passenger traffic at the region's three largest airports in relation to pre-pandemic (February 2020) levels; all were above pre-pandemic levels by early 2023.

High profile layoffs in the tech sector early in 2023 were broadly viewed as an indicator of a forthcoming recession. However, the SCAG region economy remained strong despite the layoffs. Employment in advanced Manufacturing (NAICS 31-33) subsectors, software development, and scientific and technical consulting remained on a steady path of growth. **EXHIBIT 2** shows the steady growth of jobs in the Professional, Scientific, and Technical Services sector (NAICS 54).

Steady job growth, rising wages and stable household income support continued consumer spending in the region and across the nation. Though spending on taxable goods decreased by 14 percent in the first quarter of 2023, consumers shifted spending toward services and adapted to increased prices, as taxable sales rebounded by over 6 percent in the second quarter. This shift contributes to the job and wage growth in service-based industries.

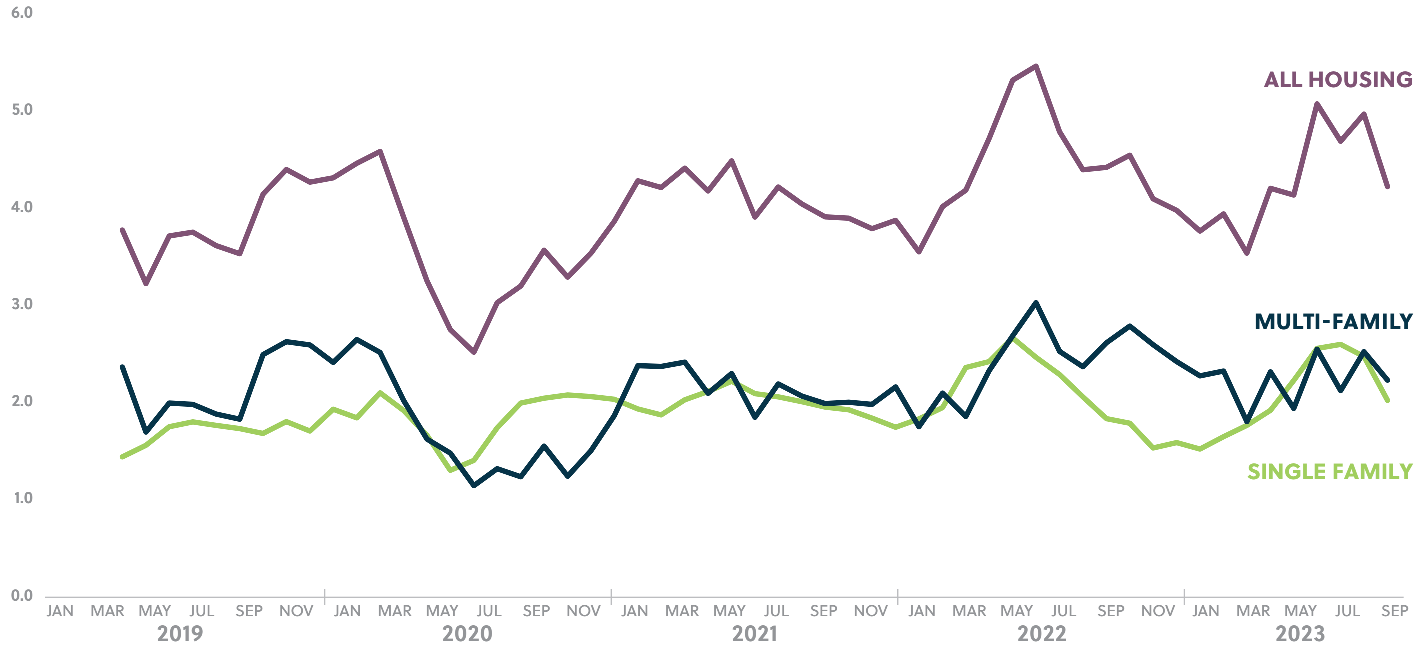
During the first nine months of 2023, housing permits were on track to match 2022 numbers, despite unfavorable interest rates. **EXHIBIT 3** shows an upward trend in residential housing permits since 2020. The increased pace of new home building is partially driven by the existing housing stock falling short of the demand for housing in the region. Moreover, the surge in single- and multi-family homes in Los Angeles, Orange, Riverside and San Bernardino counties has also pushed employment in the construction industry to record levels.

Sale prices of existing homes declined in 2022, but this appears to be a temporary correction. Existing home prices increased in early 2023 in the SCAG region, and now home prices are approaching record levels again. The existing home market is hamstrung by extremely low inventories, which has driven buyers to new construction.

With the economic momentum of 2023, we expect 2024 to begin with a strong labor market, new development, revived tourism and increased foreign trade. However, the economy is expected to slow due to continued inflation and high mortgage rates throughout 2024. Ultimately, this will likely soften labor markets. The region's annual growth for 2023 is expected to land at a robust 2 to 4 percent. This is expected to slow to less than 1 percent by mid-2024.

EXHIBIT 3 SCAG Region Residential Permits Growing Since 2020

Thousands of Monthly Residential Units from Permits (Three-Month Moving Average)



Source: CIRB (2019-2022) and Census Building Permits Survey (2023)

ECONOMIC OUTLOOK

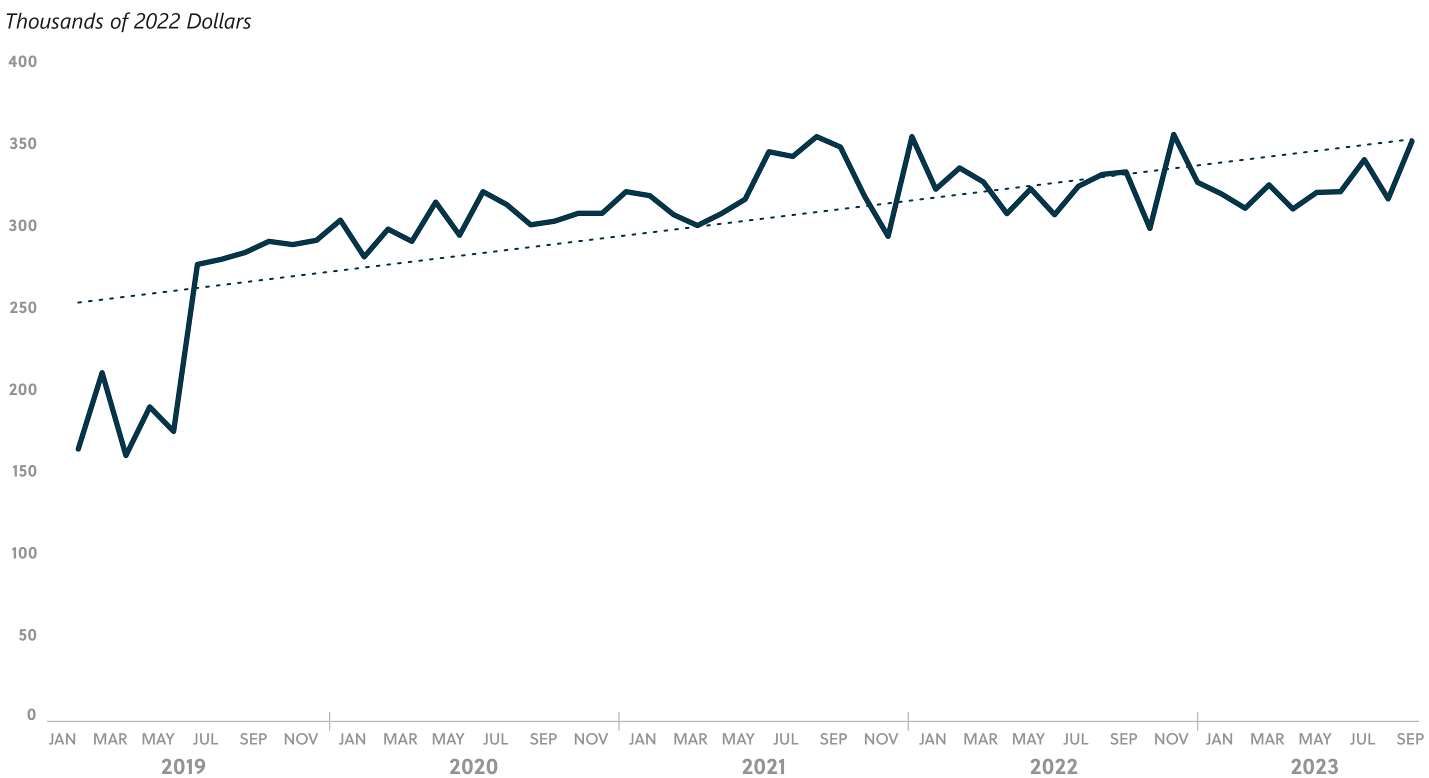
IMPERIAL COUNTY

Imperial County's economy continues to be stable. Unemployment is currently near 19 percent, up from 15 percent at the end of 2022, but still slightly lower than the 10-year average of 20 percent. The size of the labor force increased by 2,900 (4.2 percent) in the past year. Real median household income in 2022 was $59,000, an increase of $1,700 from the previous year. Median home prices of $310,000 are near record highs and have been stable since 2019.

Agriculture production in Imperial County reached $2.6 billion in 2022, an increase in real terms of 6.3 percent relative to 2021. In 2022, vegetables and melons led total production at $1.1 billion, followed by livestock (mostly cattle), with a total value of $616.7 million.

> Geothermal generation and lithium extraction projects equate to over $10 billion of new economic investment in Imperial County.

EXHIBIT 4 Imperial County Real Median Home Prices and Trendline



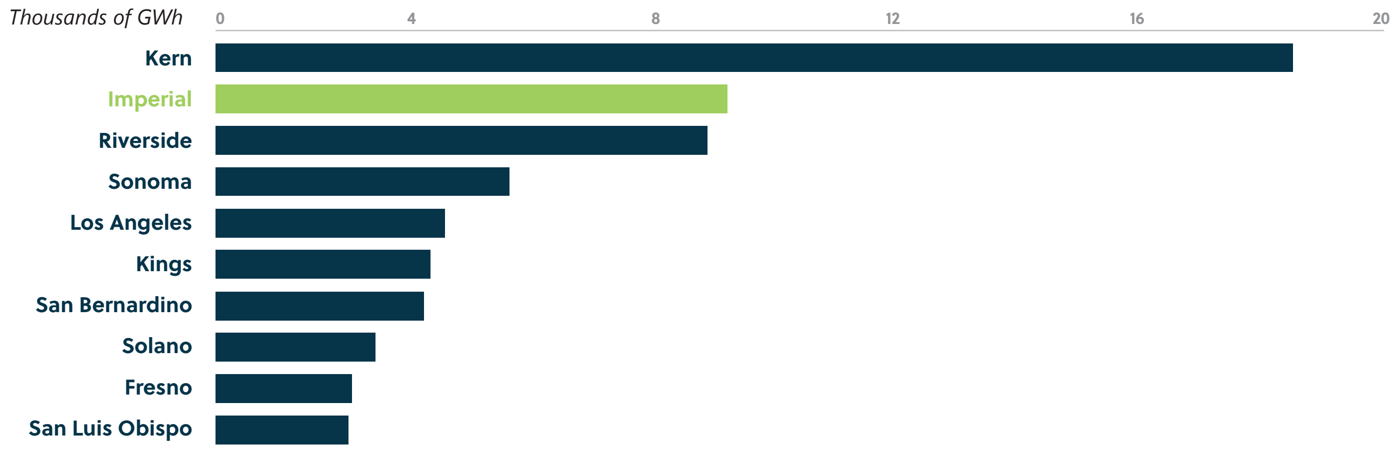
Source: California Realtors Association. Dotted line represents linear trend.

The county continues to see significant investment in solar production and battery storage. Over 3,400 megawatts (MW) of electricity generation is currently on-line—enough to power one million homes. Another 1,600 MW of solar power and 4,200 MW of battery storage are under construction or in the entitlement process in Imperial County.

Eleven total geothermal generation and lithium extraction projects are currently being permitted in the county, which will account for an additional 750 MW of renewable energy generation and 160,000 metric tons per year of lithium extraction. These projects equate to more than $10 billion of new economic investment. Project construction is predicted to start in early 2025. Imperial County ranks second in the state for renewable energy production, behind Kern County, and leads the SCAG region in renewable energy production (see **EXHIBIT 5**).

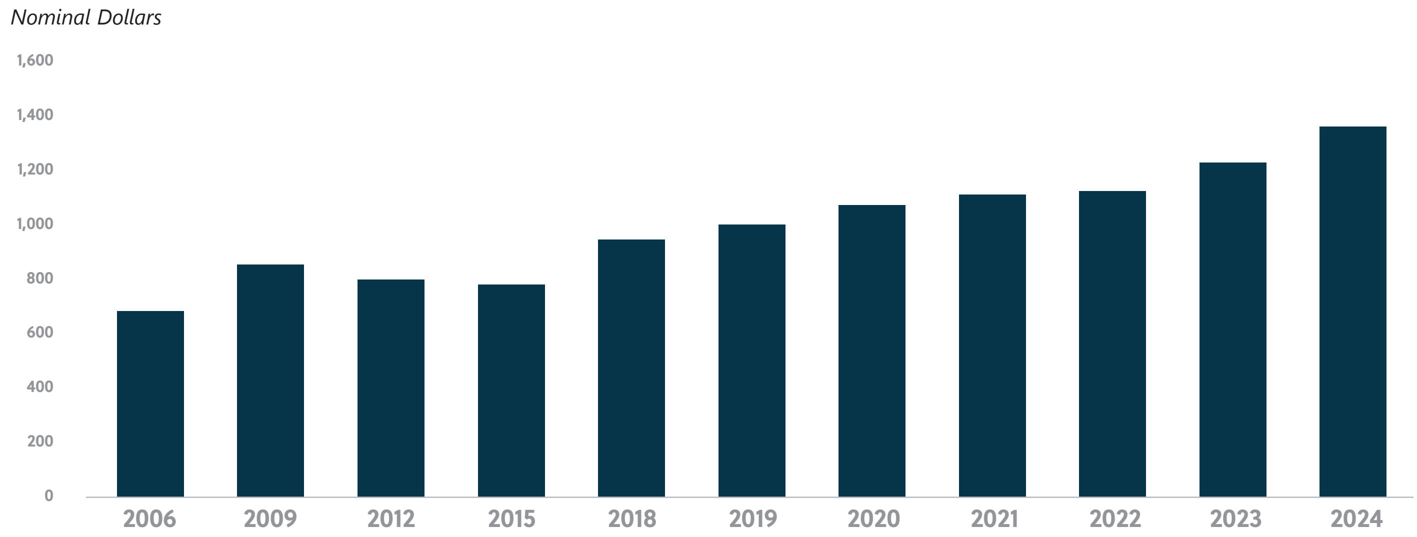
As is the case for much of the United States, Imperial County households face pressure from high inflation and housing supply and affordability constraints (see **EXHIBIT 6**). County businesses face pressures from high borrowing costs and rising wages due to tight labor markets. A wet 2023 winter quelled drought worries in the near term, but long-term water supply, storage and distribution issues remain.

EXHIBIT 5 Imperial County Leads Renewable Energy Generation in the SCAG Region, 2023



Source: California Energy Commission (2023).

EXHIBIT 6 Median Fair Market Rents in Imperial County for a Two-Bedroom Unit



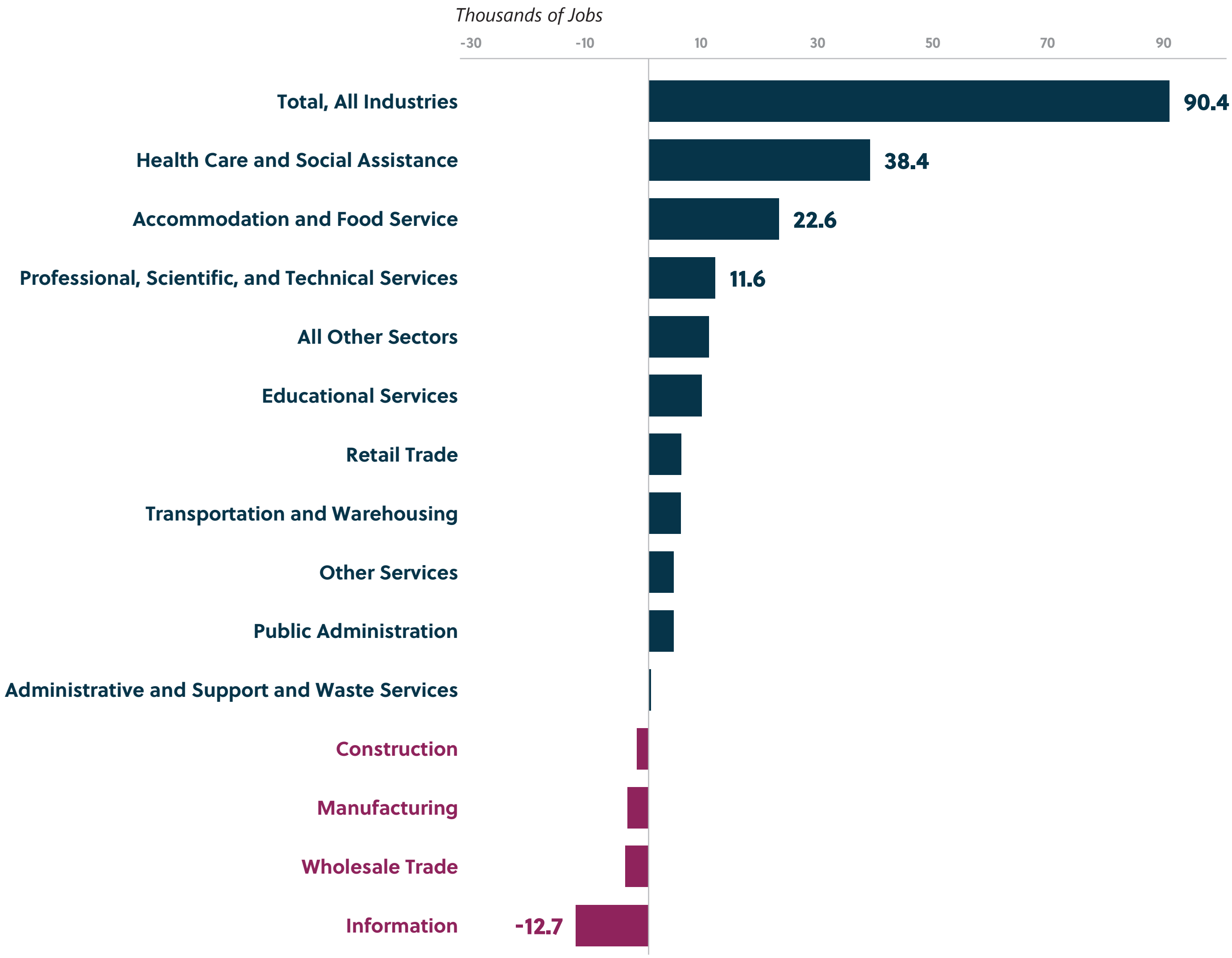
Source: HUD 50th Percentile Fair Market Rents.

ECONOMIC OUTLOOK
LOS ANGELES COUNTY

The Los Angeles County economy has overcome most of the challenges it faced during the COVID-19 pandemic. Total payroll jobs moved beyond pre-pandemic levels in late 2022. Following the recovery, population decline, housing supply and affordability, and poverty have become the county's primary challenges. Over the past year, the county's economy has faced new challenges, including labor disruptions in key industries (notably trade and logistics, and television and film production), slowing global economic growth, geopolitical conflict and a struggling office market due to continued effects of hybrid and remote work.

Predictions of a recession by the end of 2023 never manifested—with a real possibility the county avoids a recession in favor of modest sustained growth in the coming years. As the Federal Reserve continues tight monetary policy

EXHIBIT 7 Los Angeles County Job Growth Between 2022 and 2023 by Industry Sector



Note: Employment for 2023 is annualized based on employment data for January-September 2023 employment and average sector growth between 2000 and 2019. The category "All Other Sectors" combines sectors that make up less than 10 percent of total employment.
Source: Based on data from EDD (2023). Sectors defined by two-digit NAICS codes.

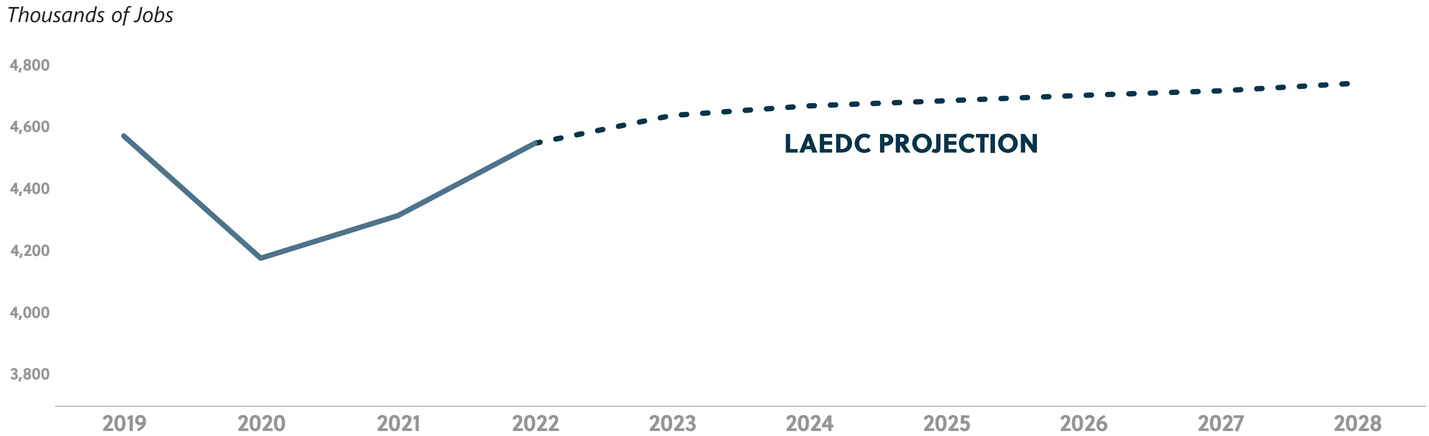
to achieve their inflation goal, economic and employment growth is expected to cool. The Los Angeles Economic Development Corporation (LAEDC) forecasts relatively flat employment growth in the county—less than 1 percent between 2024 through 2028.

A persistent strength of Los Angeles County's economy is its global connectedness. However, new risks have emerged, including the global economic slowdown, foreign conflicts and recession in China, all of which could have outsized implications to economic growth in Los Angeles County and the SCAG region.

Another strength is the county's economic base, which is the foundation for LAEDC's forecast of total payroll employment and Gross Domestic Product (GDP). The county's growth is expected to continue at a slower rate. Year-over-year growth in real GDP is expected to be 1.2 percent in 2024, down from 2 percent in 2023. Employment is forecast to grow by 98,000 jobs (1.8 percent) from 2022 to 2023, and 33,800 jobs (0.6 percent) from 2023 to 2024. Inflation in Los Angeles County is expected to increase by 3.7 percent year over year from 2022 to 2023 and expected to slow to 2.4 percent in 2024 in response to the federal government's continuing monetary and fiscal measures.

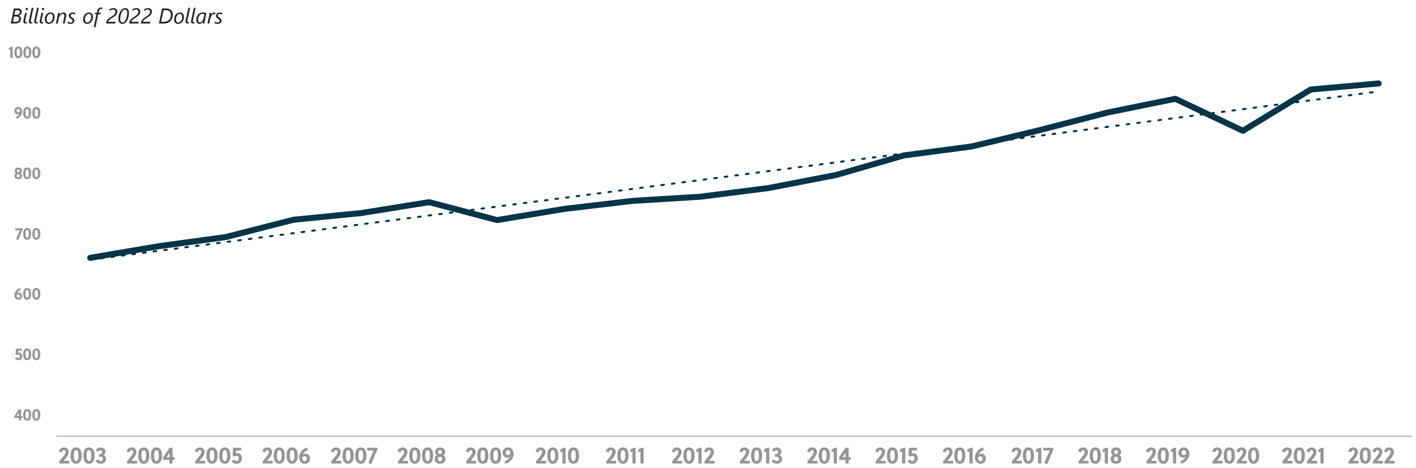
As the county navigates its strengths and opportunities for future economic development, addressing disparities, bolstering housing affordability and enhancing economic resilience will continue to be key to its future growth and prosperity.

EXHIBIT 8 Los Angeles County Employment and LAEDC Projection 2023-2028



Source: EDD (2023), LAEDC

EXHIBIT 9 Real Gross Domestic Product for Los Angeles County and Trendline



Note: Linear trend shown as dotted line.
Source: Based on data from FRED and REMI (2023).

ECONOMIC OUTLOOK

ORANGE COUNTY

Orange County continues to be a major contributor to the SCAG region's economic base. Orange County enjoys the region's lowest unemployment rate, highest educational attainment and highest median household income. Orange County also imports workers who commute daily from all neighboring counties. Since 2022, the county's total employment and labor force participation rate increased. The top three sectors with the largest employment increases since 2022 are Health Care and Social Assistance; Professional, Scientific and Technical Services; and advanced Manufacturing subsectors, such as medical devices. The county has invested in transportation infrastructure and housing supply. In addition, large individual projects, such as Disneyland Forward and OCV!BE, continue to promise thousands of new jobs, both during construction and after completion.

EXHIBIT 10 Projected Employment Growth from 2020 to 2030 in Orange County's Largest Sectors

Note: Lower wage jobs defined as jobs paying less than $5k below annual average wage, mid-wage jobs are jobs paying within $5k of annual average wage, and higher wage jobs are jobs paying more than average annual wage in 2022 in Orange County.
Source: Based on data from EDD (2023), Industry Projections, and Lightcast.

> Orange County's unemployment rate of 3.7 percent remains the lowest in the SCAG region and well below the state average of 4.9 percent.

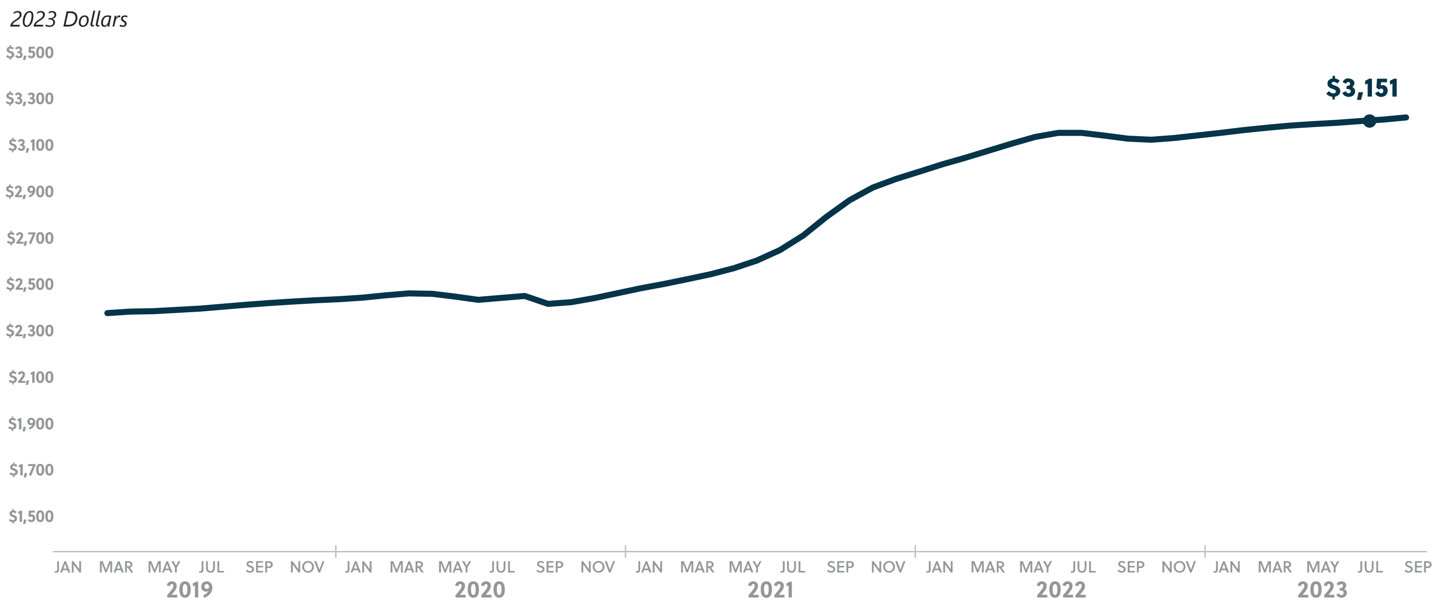
Despite increased unemployment over the past year, from 2.8 percent in 2022 to 3.7 percent in 2023, Orange County's unemployment rate remains the lowest in the SCAG region and well below the state average of 4.9 percent. A recent projection of employment growth in Orange County expects nearly 250 thousand new jobs in the county's top 10 sectors over the next 10 years (Lightcast). **EXHIBIT 10** shows this growth by sector and by wage levels. Despite projected robust employment growth, much of the growth is projected in lower- and mid-wage jobs.

Despite these strengths, Orange County also faces challenges, especially a chronic lack of workforce housing supply. As of July 2023, Orange County's median home price was $1.3 million, significantly higher than the Southern California regional and state average. County rents also continue to increase, reaching a record high of $3,151 per month in July 2023, as shown in **EXHIBIT 11**.

New housing construction has not kept pace with the high demand to live and work in the county, despite a slight increase in residential housing permits in 2023 relative to 2022. Based on countywide building permit data, approximately 4 percent more housing units were built in the 12 months ending July 2023 compared to the same period a year prior.

Looking forward, Orange County executives remain optimistic yet continue to highlight inflation as one of their most pressing concerns. With the potential for a mild recession in 2024 and rapidly intensifying geopolitical tensions, additional headwinds may materialize, yet Orange County's diverse industry base, high performing industry clusters and skilled workforce talent can help to moderate impacts from any severe future economic disruptions.

EXHIBIT 11 Zillow-Observed Rent Index for Orange County



Source: Zillow

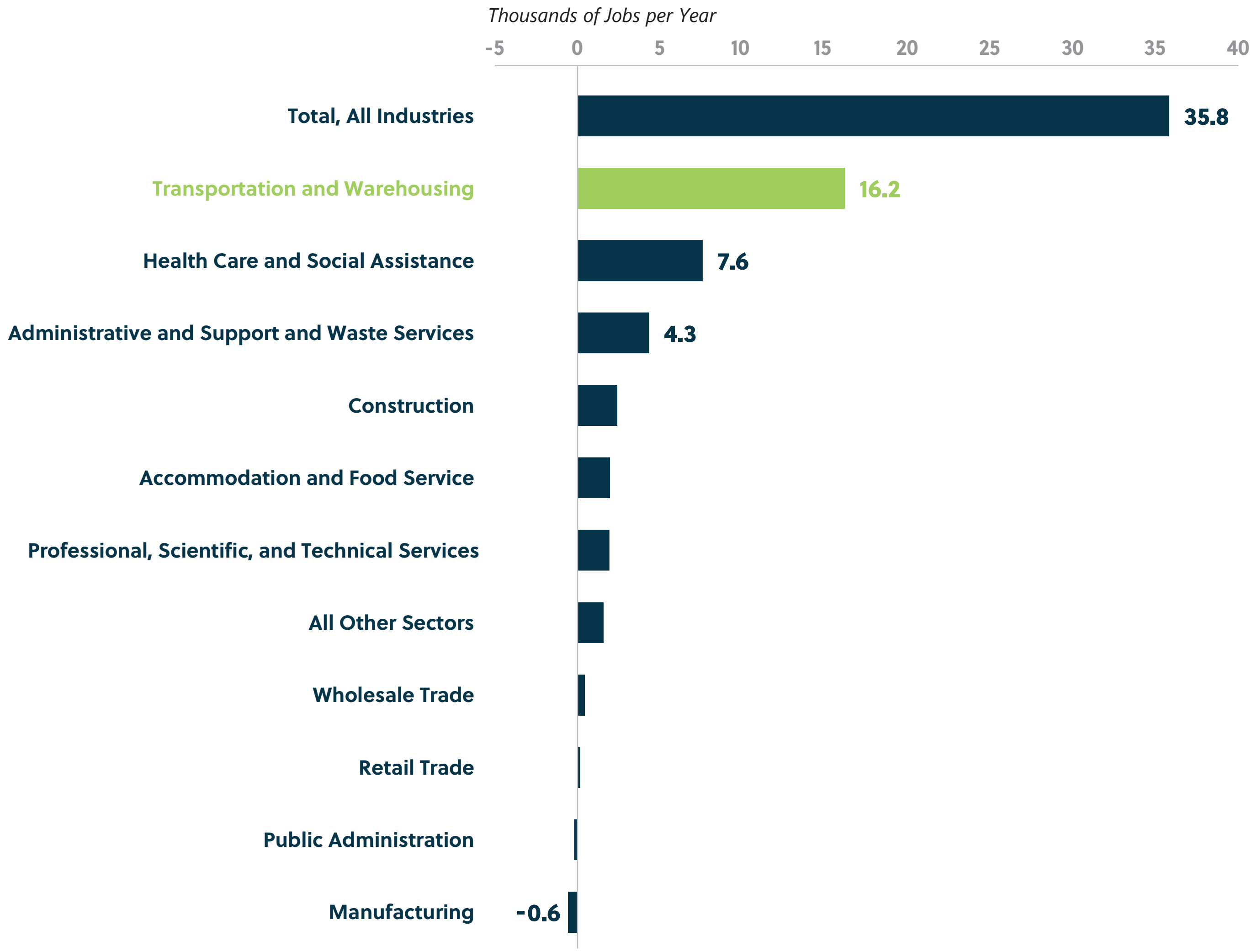
ECONOMIC OUTLOOK

RIVERSIDE & SAN BERNARDINO COUNTIES

The economies of Riverside and San Bernardino counties have undergone significant changes over the past year, as they transitioned to the post-pandemic period. The counties led the SCAG region's labor market recovery, returning to February 2020 job levels by mid-2021. Unemployment rates were at historically low levels a year ago, due to the strength of the region's Transportation and Warehousing sector (NAICS 48).

The Transportation and Warehousing sector has been key to the Inland Empire's growth and resilience, especially during the COVID-19 pandemic. In the 5-year period from 2018-2022, the average annual job growth in the Inland Empire was over 35,000 jobs, see **EXHIBIT 12**. During this 5-year period, the Transportation and Warehousing sector grew an average of 16.2 thousand jobs per year, making up 45 percent

EXHIBIT 12 Inland Empire Average Annual Job Growth between 2018 and 2023



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Source: Based on data from EDD (2023). Sectors are defined by two-digit NAICS codes.

of average annual job growth. However, employment levels in this sector peaked in late 2022, and have since declined as consumption patterns shifted from goods back to services as the pandemic receded.

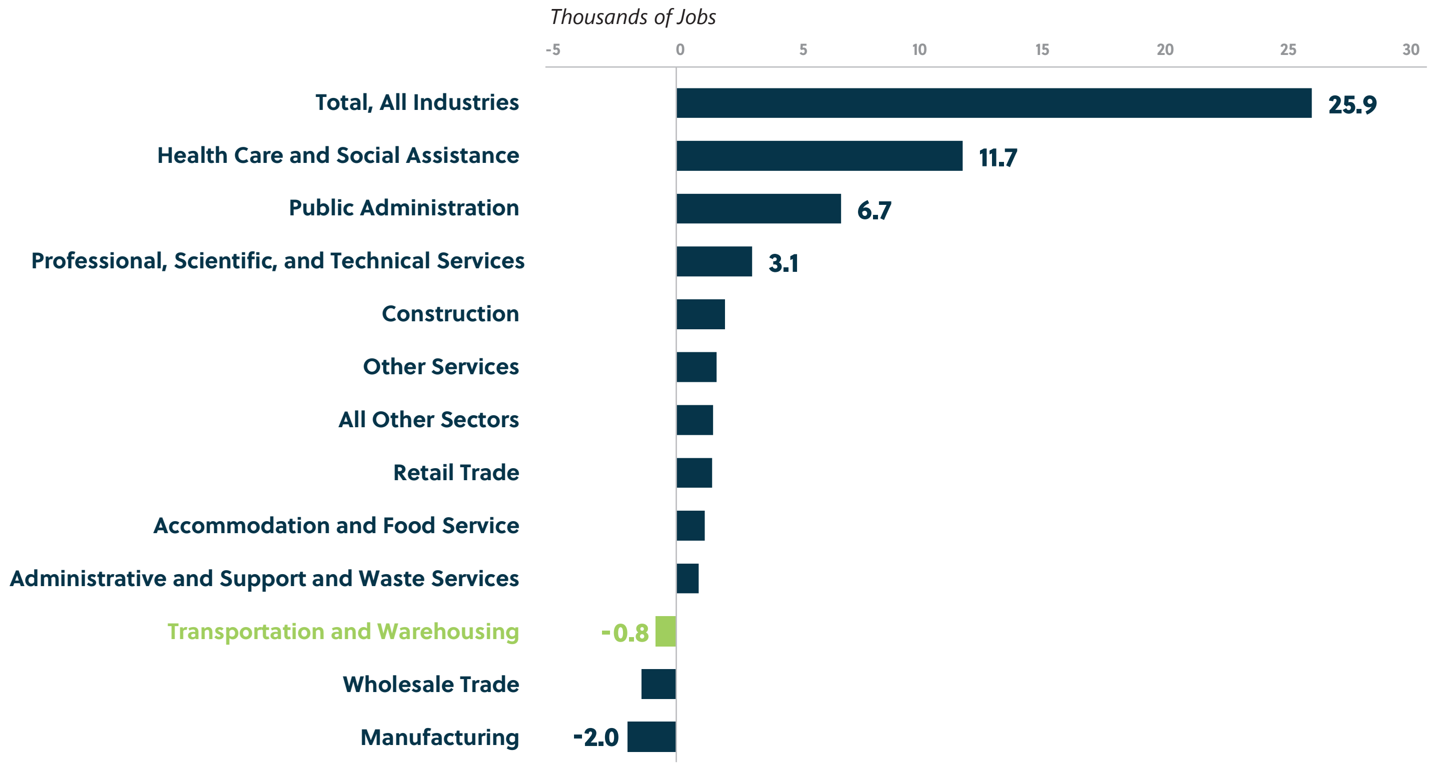
EXHIBIT 13 shows annual job growth between 2022 and 2023, marked by a smaller increase in job growth for the region and a small decrease in job growth for the Transportation and Warehousing sector. At the same time, Health Care and Social Assistance; Public Administration; and Professional, Scientific, and Technical Services were the top growth sectors in the region.

A possible related concern is a stagnant labor force. This contrasts with the Inland Empire's three decades of rapid population gain and growth in the labor force and corresponding increases in the labor force. Having peaked in December 2022 at 2.2 million, the Inland Empire labor force has since decreased by 1.6 percent—in Riverside County shrinking by close to 20,000 and in San Bernardino County by 17,000. The California Department of Finance projects only modest increases in net migration (i.e., an increase in in-migration relative to out-migration) over the next two years, suggesting that a return to past labor force growth rates is unlikely.

Both cyclical and structural factors will determine where the economies of Riverside and San Bernardino are heading in 2024. A national recession, forecast by some analysts, would reduce imports and adversely affect the Transportation and Warehousing sector. With a mild recession or no recession, the region's job growth in the coming year would instead be sustained by continued growth in the following sectors: Health Care and Social Assistance; Public Administration; Arts, Entertainment, and Recreation; and Professional, Scientific, and Technical Services. Nevertheless, we expect the region's unemployment rate to rise modestly.

The long-term outlook for the Inland Empire is less obvious. The area has a relatively large number of residents but when measured by per capita gross domestic product, it ranks near the bottom of U.S. metropolitan areas. The region has a "chicken-and-egg" problem: to attract higher value-added industries, it must make a significant investment in human capital. But it needs to retain newly minted graduates with both jobs and attractive communities to entice them to stay in the region. Without it, trends toward higher educational qualification requirements will likely lead to job vacancies that cannot be filled due to the lack of qualified workers, resulting in further automation.

EXHIBIT 13 Inland Empire Job Growth Between 2022 and 2023 by Sector



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Source: Based on data from EDD (2023). Sectors are defined by two-digit NAICS codes.

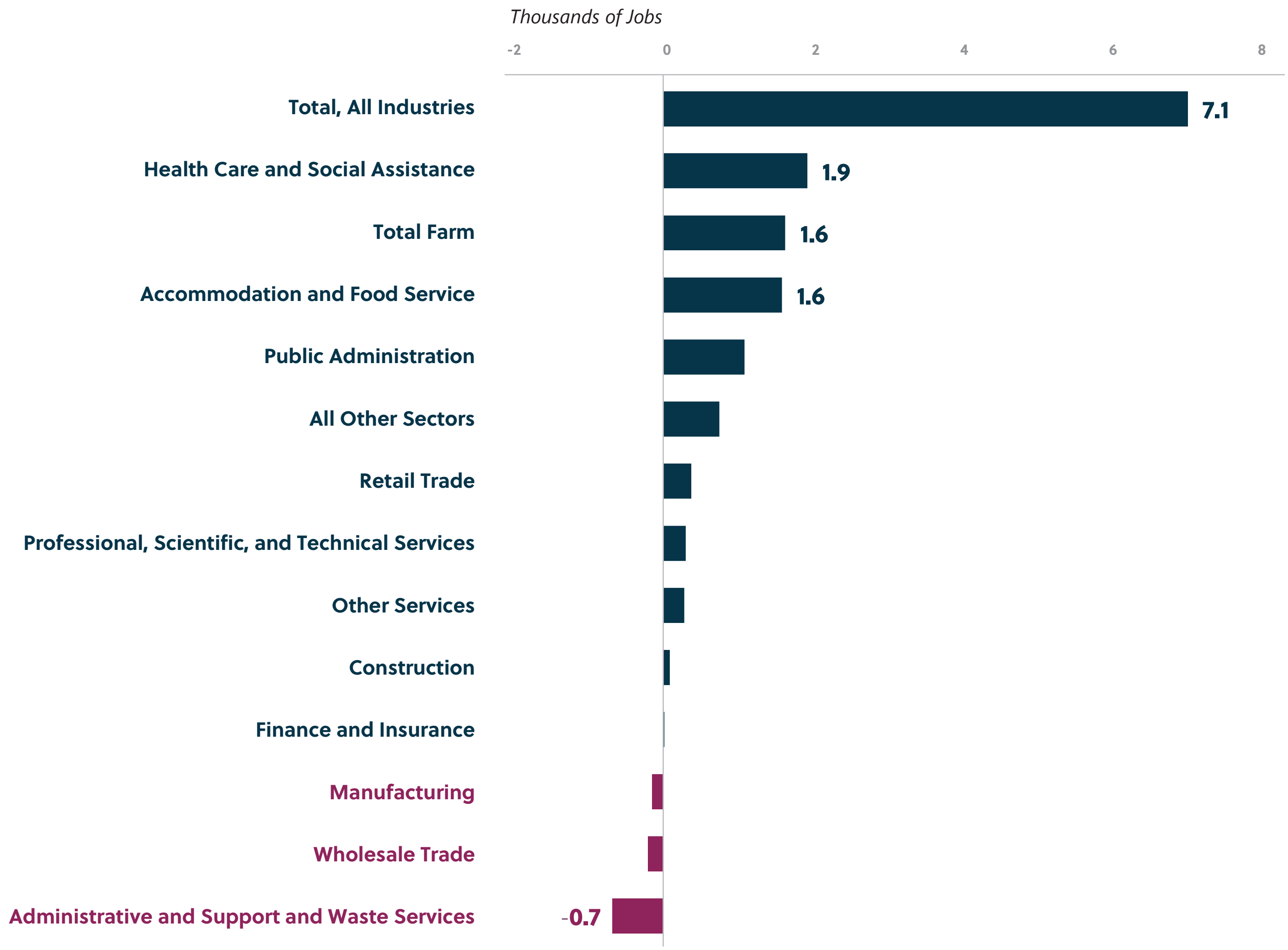
ECONOMIC OUTLOOK
VENTURA COUNTY

Since the pandemic low in mid-2020, Ventura County gained more than 27,400 jobs, the most for any 3-year period since 1998-2000. Employment surged 4.2 percent in 2022, principally due to recovery of pandemic-impacted jobs. Year-to-date data suggest that 2023 job growth will be 2 percent. Employment gains in 2023 were largest in the Health Care and Social Assistance sectors, as shown in EXHIBIT 14.

The unemployment rate rose gradually for most of 2023 and stands at 4.5 percent. This has softened the Ventura County labor market and relaxed wage pressures. The labor force remains 2 percent below (8,200 participants) pre-pandemic levels.

Ventura County's Gross Domestic Product (GDP) increased by 9.1 percent in 2021, reflecting the post-pandemic recovery. 2023 GDP is expected to grow by 4.8 percent, fueled by

EXHIBIT 14 Ventura County Job Growth by Sector 2022-2023



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Source: Based on data from EDD (2023). Sectors are defined by two-digit NAICS codes.

> **Ventura County's 2023 GDP is expected to grow by 4.8 percent, fueled by new housing projects, growth in Transportation and Warehousing, and employment in Manufacturing.**

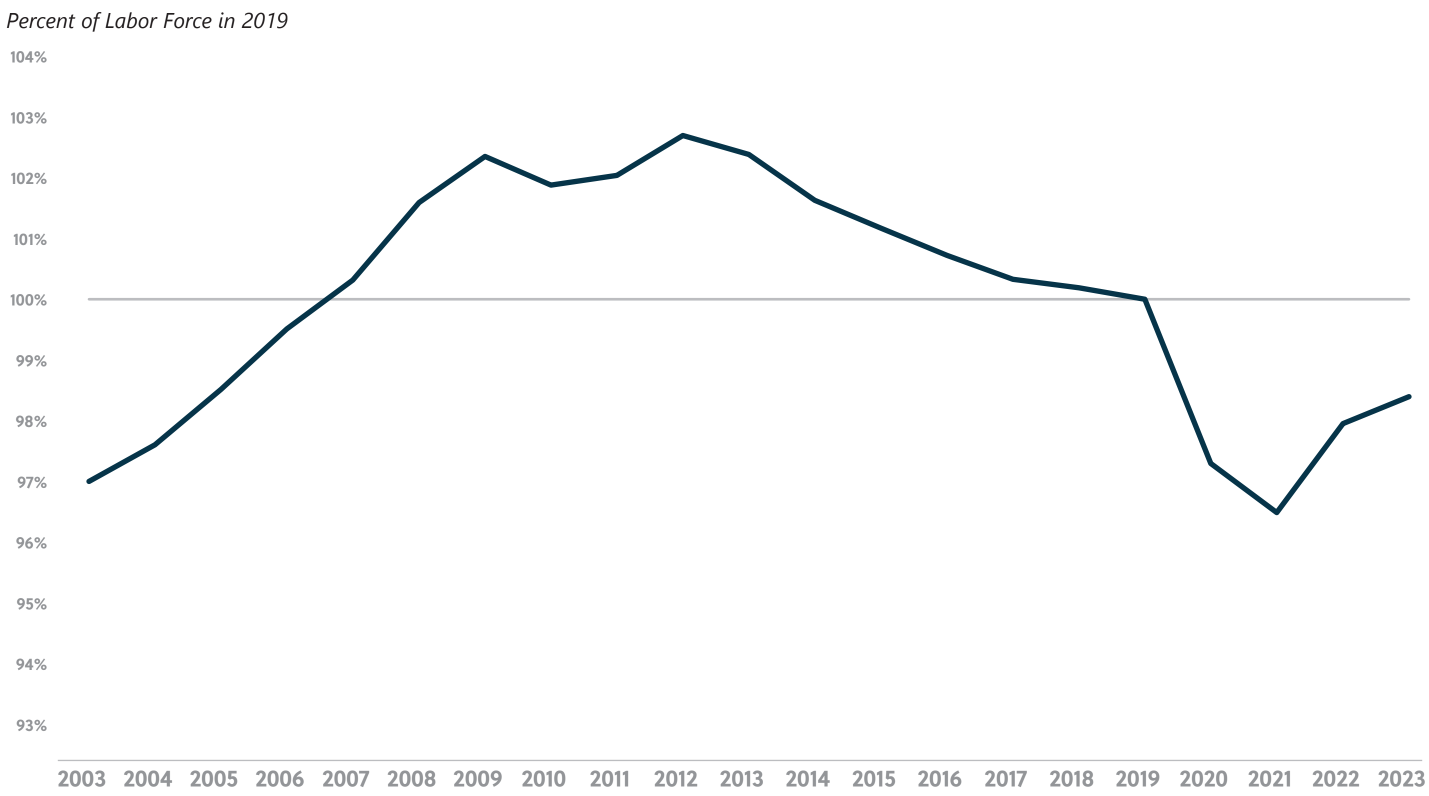
a surge in new housing projects, a sharp increase in the Transportation and Warehousing sector and a 2.6 percent increase in Manufacturing sector employment.

GDP per capita is now at the highest level since 2014. The long period of stagnant growth that characterized Ventura County's economy reversed in 2019 with the creation of higher paying jobs in the Manufacturing; Professional, Scientific, and Technical Services; Health Care and Social Assistance; Construction (NAICS 23); and Public Administration sectors. The population has been in decline since 2016, and this trajectory will continue because out-migrants persistently outnumber in-migrants.

The labor markets demonstrate new momentum this year; consequently, Ventura County will not lag behind the rest of the SCAG region as it has for much of the last decade. The challenge going forward will be the shrinking labor force, which has not provided enough workers to fill open positions in the county (see **EXHIBIT 15**).

Employment growth is expected to slow to less than 1 percent in 2024, and unemployment will rise, pushing the rate toward 5 percent. More housing construction should continue because the entitlement queue is full of projects from Ventura to Thousand Oaks. Slower overall growth is expected in 2024; however, if Ventura County residents maintain their consumption patterns through 2024, a recession can be averted.

EXHIBIT 15 Ventura County Labor Force Relative to Pre-Pandemic Labor Force



Note: Labor force for 2023 is annualized based on data from January-September 2023.
Source: Data from EDD.

NOTES:

SCAG™

INNOVATING FOR A BETTER TOMORROW

2024
Regional Conference & General Assembly

SCAG will host the 59th annual **Regional Conference & General Assembly on May 2-3, 2024**, at the **JW Marriott Desert Springs Resort & Spa** in Palm Desert. Mark your calendars to join Southern California's most influential leaders, innovators and policymakers for collaborative, solution-oriented discussions on fostering change and addressing challenges in our communities.

scag.ca.gov/GA2024

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