

ECONOMIC OUTLOOK: PRIVATE ACTIVITY GETS A BOOST BUT PUBLIC FUNDING AT RISK

by Larry J. Kosmont, CRE and Matt Goulet

StudyLA's Public Opinion Survey results convey a certain bullishness on both Los Angeles and the nation. More than half of respondents reported they expected both the regional and national economy to do somewhat or much better than last year. Nonetheless, the numbers show a declining trend in economic optimism from results in 2016 and 2015. The optimism expressed seems primarily aligned by political perspective and modulated by demographics such as income, age and gender. Opinions expressed in the survey also reveal increasing concern for the future of California's middle class, with the state's job creation profile looking like an hourglass with job growth at the lowest and highest income range but thin in the middle.

Barring any drastic global disruption, Angelenos have some reason for economic optimism and can anticipate a generally pro-business climate, at least on a national scale. President Trump and the Republican-led Congress are inclined to reduce tax and regulatory barriers. In anticipation of lower corporate tax rates and related costs, hiring activity is likely to sustain and possibly pick up in 2017, and capital investment should notch up as well. Associated investor confidence should continue to lift Wall Street, although with continued market volatility, but reduced Federal spending on social programs may suppress household purchasing power and consumer spending.

The outlook for the public sector is not as bright; overall, California's public sector is likely to experience contraction. If realized, the impending curtailment of Federal departments that fund local projects and programs such as the Community Development Block Grant and TIGER transportation grants will strain local budgets and public sector hiring in Southern California cities. Potential impacts on tax-exempt bond ratings and higher costs of debt are likely ahead for public agencies as interest rates creep higher.

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Further pressures on the public sector will begin to unfold later in 2017 as California's leaders move quickly to solidify their stance on federal policies. From accelerated carbon footprint reduction to immigrant protections, California's leadership appears focused on operating independently. The declining percentage of respondents with a favorable economic outlook may reflect these tensions and issues, such as the Trump administration's threats to cut off federal funding in response to the "sanctuary" movement. California's determination to forge ahead alone could lead to reduced infrastructure investment, continued anemic housing, and reductions in California's federal funding, which could increase pressure for more state and local tax increases in an already tax-heavy state. These conditions may accelerate the flight of established large employers, particularly from southern California. As this "go-it-alone" posture plays out over the longer term, federal funding losses may compel California's bureaucratic infrastructure to shrink. Another potential casualty could be reduced government funding for public-private partnerships designed to induce private investment, a cornerstone of local development.

Nonetheless, California's proximity to Asia has spurred foreign investment in the Golden State, which is expected to continue as a driver of economic prosperity. Growth in technology, biosciences and media will continue to propel Los Angeles' and California's future. Still, California is as vulnerable as it is dynamic, and next year's LA Public Opinion Survey may tell a changing story. •

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