SAN DIEGO COUNTY TREASURER-TAX COLLECTOR

MARKET WATCH

FIRST QUARTER | 2017

0.7%

1Q U.S. GDP growth vs Q4 2.1%

2.0%

1Q Personal Consumption Growth vs Q4 1.3%

4.5%

National Unemployment Rate March 2017

4.2%

San Diego County's Unemployment Rate March 2017

MARKET OVERVIEW

The Federal Reserve raised interest rates in March, setting the Federal Funds target rate between 0.75 percent and 1 percent. The Federal Reserve has increased rates just three times during the current 10-year economic recovery: Dec 2015, Dec 2016 and March 2017. The market expects 1-2 additional rate hikes this year, with the next hike expected in June.

The economic data was mixed in 1Q17, with strong job growth and housing data offsetting weak GDP growth. While the inflation rate is at the Fed's 2% target, the Fed does not expect inflation to get out of control. GDP in 1Q17 grew at just 0.7%, well below the 2.1% pace in 4Q16, as consumer spending lagged.

Major U.S. stock indexes recorded solid gains and hit record highs in the first quarter. The Dow Jones Industrial Average was up 4.6%, the S&P up 5.5% and the Nasdaq up 9.8%. Hopes for regulatory reform and economic stimulus under the Trump administration were the key drivers to the strength.

U.S. bonds have stabilized after the 4th quarter rally following the Trump victory. The yield on the benchmark 10-yr bond ended the first quarter at 2.39%, down 5 bps from the year end level.

Crude oil futures ended Q1 at $50.60, down $3 from the beginning of the year. Gold prices rose during the quarter to $1,249/oz on heightened geopolitical concerns.

UPCOMING EVENTS

FRAUD PREVENTION SEMINAR

Friday, August 4, 2017

DEBT SYMPOSIUM

Friday, November 3, 2017

U.S. ECONOMY

U.S. GDP growth declined in Q1 to 0.7%, the slowest pace since the first quarter of 2014. The deceleration was driven by a sharp drop off in consumer spending, which grew at just 0.3% vs 3.5% in Q4. This was the result of less spending on durable goods like computers, kitchen appliances and motor vehicles. Strength in business and personal fixed investments were positive drivers in the quarter and bodes well for future growth if consumer spending rebounds. The core PCE Index, the Federal Reserve's preferred inflation gauge, rose to 2% in the first quarter, up from 1.3% in 4Q. The biggest influence on inflation is oil prices, which should remain under control given the global supply glut. The national unemployment rate in March fell to 4.5%, the lowest level in nearly a decade. Wages continued to rise modestly with average hourly earnings up 2.7% in March, following a 2.8% increase in February.

FIRST QUARTER | 2017

SAN DIEGO AREA ECONOMIC TRENDS

San Diego County's unemployment rate declined to 4.2% in March and remained below that of Los Angeles County (4.6%), Riverside County (5.3%), the state of California (4.9%), and the nation (4.5%). The rate declined 0.7% year-over-year as local nonfarm payrolls grew by 29,600 workers, or 2.1%. Government sector gains drove much of the employment growth year-over-year, accounting for 6,700 new jobs. Educational and health services grew by 6,200 jobs, healthcare and social assistance added 6,300 jobs and construction added 5,700 jobs.

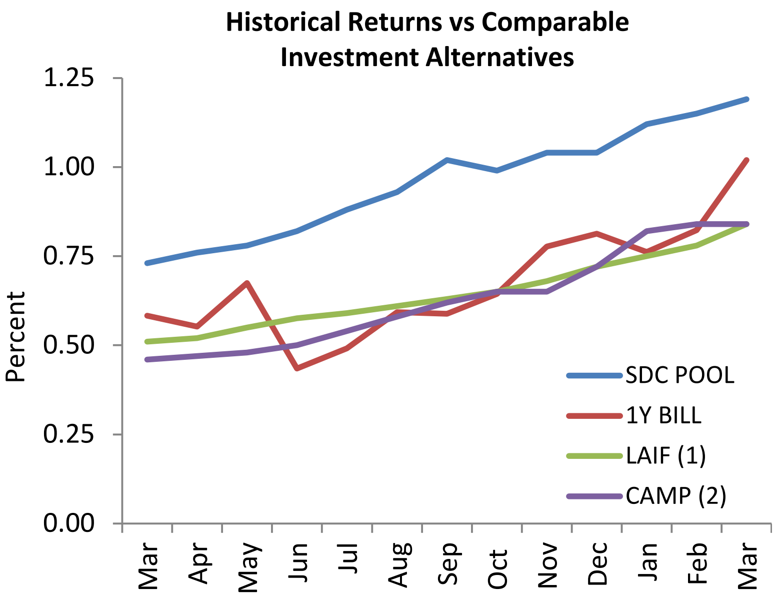
The University of San Diego's Index of Leading Economic Indicators (LEI) ticked up 0.4% in February. The gain was led by strong gains in consumer confidence and an upbeat outlook for the national economy. Building permits were down sharply for the second month in a row, with total residential units authorized down 69% year-over-year. The weakness is concentrated in multi-family units, with only 193 multi-family units authorized so far this year vs 1,545 for the same period last year. The LEI has increased for six consecutive months, with the last three months particularly strong, and bodes well for the region's economy.

The County's real estate market remains strong with the median home price in March at $515,000, up 7.7% over last year. This is still below the nominal 2005 peak of $517,500, the equivalent of $644,487 in 2016 dollars adjusted for inflation.

Home prices continue to rise faster than household incomes driven by a lack of supply, low interest rates and strong job growth. There were 4,369 active home listing in San Diego County in March, which was the fifth lowest month since 2009.

The average rent in the County reached $1,748 a month, up 8% year over year. Despite the big yearly jump, the average rent rose just $5 month in the last six months.

COUNTY POOL RETURNS



(1) Local Agency Investment Fund
(2) California Asset Management Program

MONTHLY POOL YIELDS	
Mar-16	0.73
Apr-16	0.76
May-16	0.78
Jun-16	0.82
Jul-16	0.88
Aug-16	0.93
Sep-16	1.02
Oct-16	0.99
Nov-16	1.04
Dec-16	1.04
Jan-17	1.12
Feb-17	1.15
Mar-17	1.19

Annualized Yields

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