

MARKETWATCH

SECOND QUARTER | 2017

2.6%

2Q U.S. GDP growth
(vs. 1.2% in 1Q)

0.3%

2Q personal
consumption growth
(vs. 2.2% in 1Q)

4.4%

National
Unemployment Rate
June 2017

4.3%

San Diego County
Unemployment Rate
June 2017

MARKET OVERVIEW

The Federal Reserve raised interest rates for the second time this year in June, setting the Federal Funds target rate between 1 percent and 1.25 percent. The market had been expecting 1 additional rate hike this year, but odds for that move have fallen below 50% following a stream of mixed economic data, especially with respect to inflation. Modest tightening may occur as the Fed begins winding down holdings of government securities on its balance sheet, which could be announced as early as September.

The yield curve flattened as longer maturities remained relatively stable, despite increases on the short end. The yield on the benchmark 10-yr bond ended Q2 at 2.30%, down 9 bps in the quarter.

The economic data were mixed in 2Q17, with strong job growth and improvements in GDP and consumer spending somewhat overshadowed by a sharp decline in inflation to just a 0.3% annual rate and weakness in auto sales.

Nevertheless, major U.S. stock indexes recorded solid gains and continued to hit record highs in the second quarter. The Dow Jones Industrial Average was up 4.0%, the S&P 500 rose 3.1%, and the Nasdaq was up 3.9%. Hopes for regulatory and tax reform under the Trump administration persisted, and corporate earnings were strong.

Crude oil futures were volatile during Q2 and ended at \$46.04, down almost \$7 from the beginning of the year. Gold prices were fairly stable, despite the dollar falling 4.8%.

UPCOMING EVENTS



DEBT SYMPOSIUM

Friday, November 3, 2017

U.S. ECONOMY

U.S. GDP growth improved to 2.6% in Q2, compared to a revised 1.2% growth rate in Q1, driven primarily by a 2.8% increase in consumer spending. Many other data points were less positive, however. Corporate spending still rose, but at a much lower rate than in Q1, reflecting subdued expectations for pro-business policies from the Trump administration. Weakness was especially evident in the auto industry and also residential investment, which plunged by the most in seven years. The core PCE Index, the Federal Reserve's preferred inflation gauge, also rose just 0.3% in the second quarter, compared to 2.2% in Q1. This slowdown could lead the Fed to scale back its efforts to raise rates. After hitting a 16-year low in May, the national unemployment rate ticked up slightly in June to 4.4% as labor force participation rose. Wage growth remained soft, however, with average hourly earnings rising 2.5% from a year earlier.



SAN DIEGO AREA ECONOMIC TRENDS

San Diego County’s unemployment rate rose to 4.3% in June, but remained below those of Los Angeles County (4.5%), Riverside County (5.7%), San Bernardino County (5.4%), the state of California (4.9%), and the nation (4.4%). The rate was still down 0.7% year-over-year as local nonfarm payrolls grew by 27,800 workers, or 2.0%. The government sector again drove much of the growth, adding 6,100 new jobs. Healthy gains were also recorded in construction (5,700 jobs), educational and health services (4,600), and other services (4,200).

The University of San Diego’s Index of Leading Economic Indicators (LEI) jumped 0.8% in June, the largest monthly gain since April 2015. Improvements in consumer confidence and the outlook for the national economy contributed to the gain, along with strong local stock performance and an increase in building permits. This strength was partially offset by a modest downturn in the local labor market.

The LEI has not declined for eight consecutive months, indicating a stable to positive outlook for the region’s economy.

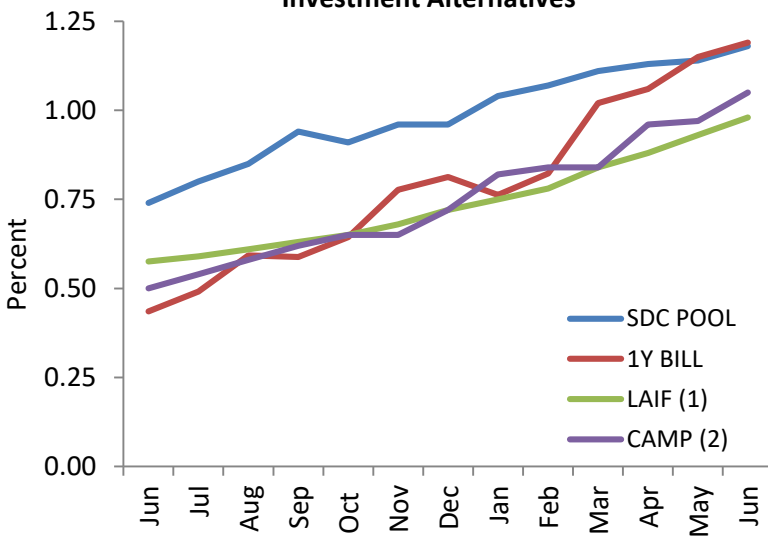
Driven by a lack of supply, the County’s median home price reached a new record in June for the third consecutive month at \$543,500. While this represents a 9.8% increase from a year ago, it’s still well below the inflation-adjusted 2005 peak of over \$644,000.

The number of sales in June was roughly flat compared to 2016, but the 5,828 active listings represented a 12.6% plunge from the prior year. Further contributing to the shortage, the number of building permits issued was down 45% in the first five months of 2017. This trend reversed in June, however, with the number of permits that month nearly matching the annual total through May.

According to Axiometrics, average rent in the County topped \$2,000 for the first time ever in June, or nearly \$700 more than the national average.

COUNTY POOL RETURNS

Historical Returns vs Comparable Investment Alternatives



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

MONTHLY POOL YIELDS

Jun-16	0.74
Jul-16	0.80
Aug-16	0.85
Sep-16	0.94
Oct-16	0.91
Nov-16	0.96
Dec-16	0.96
Jan-17	1.04
Feb-17	1.07
Mar-17	1.11
Apr-17	1.13
May-17	1.14
Jun-17	1.18

Annualized Yields, net of fees



Dan McAllister

SAN DIEGO COUNTY TREASURER-TAX COLLECTOR

San Diego County Administration Center

1600 Pacific Highway, Room 101

San Diego, CA 92101

Telephone: (619) 531-5222 | Website: www.sdttc.com