On Jan. 22, the San Diego Business Journal hosted its annual economic forecast. Mark Cafferty, president and CEO of the San Diego Regional Economic Development Corp., moderated the discussion. Michael Pugliese, economist with Wells Fargo, was keynote speaker, addressing national, international and local trends.

A panel of five industry experts provided insight and answered questions from the audience. The event was held at the Hyatt Regency La Jolla at Aventine. Excerpts from speeches on the following pages are edited for clarity and brevity.

Thumbs up: Mark Cafferty, Ryan Ratcliff, Alessandra Lezama, Lynette Seid, Trindl Reeves and Brett Good offer their opinion on the San Diego economy in 2020.
You can see that for most of this cycle it's actually pretty there after the United States was following right behind territory but everywhere started to slow, and then shortly slowing and growth going outright negative.

And you might see this and ask, why is that a positive? It doesn’t sound like a good thing. Well, yeah, it’s got some maybe long-run implications. From a here and now standpoint, generally speaking, lower taxes or more government spending means faster growth.

Seeing a Value in Deficit Spending

Again, it may come with some trade-offs on the longer-run perspective. But if you’re running a 5 to 6 percent budget deficit, it gives you a little more juice than say, an economy like Germany — which is running a 2 percent budget surplus at the moment — maybe doesn’t have. And this is unusual. You don’t usually see this type of trend at this point in the cycle.

And this chart here shows you generally speaking when a recession comes around, the budget deficit gets a lot bigger, or more negative. And then it turns around. And it doesn’t matter who the president is. Maybe the magnitude of it is a little different. But this follows a very, very cyclical trend.

And you can really see here, this kind of downturn more recently, this growth in the deficit, is very unusual during a period where we’re not seeing a recession.

Low Wage Earners Get a Bump

Another one is the wage growth side of things continues to be tremendous, particularly on an inflation adjusted basis. You look at inflation adjusted real wage growth and it’s the strongest it’s been in at least a decade, and it has been a tremendous pickup in the past year. To an extent, this is why you’re seeing these headlines that say something like: “Aw, business investment not necessarily that good. And then when we look at it on a distribution basis, it looks even better.

So if you take the bottom two quintiles of earners, they’re seeing 4 or 5 percent nominal wage growth. It’s some of the fastest wage growth for these earners that we’ve seen in decades. And it gets back to the point of this tremendous labor market pressure that we’ve seen growing slowly but steadily over the course of this entire expansion. So again, you kind of look at that trend. Thinking about this from a here and now perspective, the question is, are you worried about a recession? This is encouraging because those individuals have a higher marginal capacity to consume. What that means is that someone making $40,000 a year is a lot more likely to spend their next dollar of income than someone making $400,000 a year.

Evidence for Recession?

And so if you stop and think about it, that is where most of the concern — over the past six, 12 months — came from of: Is there a recession coming? Is one imminent? Are we going to have major problems with the economy?

And our real position for the most part was, “no,” that we are going to see a slowdown, that we’re in the midst of one right now. But it’s the difference between growth slowing and growth going outright negative.

And at least so far it’s proven to be right.

And what evidence do we have of that? Well one, the U.S. is willing to run along the easiest fiscal policy in the world. If you look at this chart right here, more red means bigger deficits, more green means smaller, even a surplus. The U.S. there at the bottom is the only country running 5 to 6 percent budget deficits compared to most parts of the developed world, like different parts of Europe, Canada, Japan, so on and so on.

As California Grows, Residents Flee

San Diego is certainly up there with 2½ percent population growth. This is a population growth map. You look at California, and population growth last year was essentially flat. But if you look at the states that are doing really well, and it’s every state that touches California. All of these states are seeing 1, 2, 2½ percent population growth. That is probably, I think, the more negative challenge, if I was going to highlight one.

Population growth is positive in San Diego, it is still growing. But what you do have are kind of these periods of domestic out-migration: think U.S. individuals who are moving elsewhere in the country. (That’s offset by international immigration to the United States and some of that natural increase.) And to an extent I think the big thing driving that is the affordability issue. You’re still not back to where we were in terms of single family and even multifamily building permits in San Diego.

Affordability continues to be a real challenge, really across all of California. This isn’t just a San Diego story. I hear this a lot when I’m traveling across different, large metropolitan areas that are doing really well. You have this kind of strange challenge of a local economy is booming, strong wage growth, strong labor market growth and employment growth. But these affordability challenges — high rent growth, high home price growth, maybe not as much building as we’d like to see — and that’s creating some real challenges there on the regional side.
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San Diego Economy Grows And Changes. Yet Challenges Persist

ECONOMY: The Numbers Look Amazing, But Workers Need Housing Help, Small Firms Need Nurturing

Mark Cafferty is president and CEO of the San Diego Regional Economic Development Corp. He moderated the give-and-take between five panelists at the Jan. 22 Economic Trends breakfast. Prior to that, he offered his perspective on the San Diego economy. Some excerpts from his speech:

As everybody makes their way to the stage, I’m going to go through a few slides for you.

San Diego, at the end of last year, was at 2.9 percent unemployment countywide. People have thought that it’s extremely healthy to get 5 percent unemployment. To get down to 2.9 percent unemployment sounds amazing, but I’m going to talk about that in a moment.

Job growth has been about 32,200 jobs — so not the most we’ve seen in the years where we’ve seen kind of consistent economic growth, but it’s still growing and in a positive direction.

We have 1.6 million total jobs in the region right now, and 1.2 million households, or 1.2 million housing units, and these are things we’re taking a very close look at as well, but let me talk about what’s deeper and behind some of those things in both positive and negative ways.

Housing Costs Remain a Key Issue

So right now, in San Diego, as you look around at your friends and neighbors, 53 percent of our households are cost burdened, which means that 53 percent of the people we know are paying well over 30 percent of their overall income towards their rent and their mortgage, and we’re only seeing the home prices and the rent in San Diego and in California continue to rise while we struggle with the policies that allow us to build the supply that we need.

It used to be on a regular basis at EDC that we could talk to people in the different markets around the country, and we could say it’s expensive, it’s not as bad as the Bay Area …, but we really can’t say that anymore. We’ve gotten to a point where our cost of living is on par with all of those metros, and our wages, in many instances, are not.

So that’s something that economic development professionals and economists need to look at very critically.

Of College and Small Businesses

Secondly, 42 percent of new jobs will require a degree or credential. Keep in mind that as a well-educated region, we’ve never been much higher than about 33, 34, 35 percent of the overall population actually having a four-year college degree, and that doesn’t put us that much off from other well-educated regions. We’ve got to really make sure that the credentialing and the training increases significantly in the years ahead to make sure that the local workforce growing up in San Diego has an opportunity to make it in this economy.

So third thing, 72 percent of job growth comes from small businesses. We’re finding increasingly that when we can provide just a little bit of support to small businesses who hang their head down in trying to grow their company, that the relationships in this room, the relationships outside of this room that we can connect those businesses to, whether it’s key international markets, whether it’s legal or real estate advice, whatever it might be, helping small business get the connections they don’t have is something locally that we can do to help grow more jobs and more quality jobs within this business.

Venture Capital Flows to San Diego

And this next one is a very, very important one: $1.8 billion in the first three quarters of 2019 in venture capital funding coming into San Diego, and that number continues to increase. So as places like the Bay Area and New York continue to dominate that scene, Silicon Valley, Bay Area, and New York City, if you’ve seen the five regions in the country — there’s a Brookings’ piece that was put out — the five regions in the country that are growing the most technology jobs and pulling in the largest share of venture capital, San Diego is now in the top five. It’s a distant five from one, two and three, but top five in the nation. So we’re really starting to get recognized domestically and investors as a place where they want to invest increasingly in size in technology and entrepreneurship, and all those things are critical.

Foreign Direct Investment Arrives

There are three things that our organization will be looking at closely. Within that, you’ve got to really look at that over the last five years, $11.3 billion in foreign direct investment has been coming into this region for biotech and life sciences and health care.

So not only is the venture capital market recognizing San Diego as a place to invest in, but as we have branched out internationally, people are starting to see that science and technology and entrepreneurship is something that they want to be investing in from afar.

Now, there was a time a few years ago where we looked at statewide economic indicators, and California draws more foreign direct investment in the state by far. No one else is even close. But San Diego was way at the bottom of that list. We weren’t performing near where we should have been. So with partners like Biocom and Connect, and different organizations throughout San Diego, the universities, the research institutions, this effort to really try to develop more international connections must continue.

Sometimes people think that leads to a Japanese company coming in and acquiring a San Diego-based company, and that’s a bad thing, historically. If you actually look at the Japanese inbound investment into San Diego, it has grown jobs in this market. So that money is coming, and it’s actually coming into the region to help support the growth in many of these businesses, and increasingly, if you look at the efforts of an organization like Biocom, they actually have an office in Japan now, because they’re pulling in numbers all the time and either want to be part of the San Diego and California market or invest in the San Diego and California market. That’s a very different picture than what we had just 10 years ago.

National Security, Cybersecurity Intersect

There are $8 billion in defense contracts every year. It’s hard to live in San Diego and not reach your left or right hand out and not touch someone who is in the military in some way, shape or form. My wife is a Navy doctor. That’s what brought us here 20 years ago, and we really never looked back. But as you look around, that economy is so critical to who we are as a region.

And another thing that has happened in San Diego because of the huge defense investments in the region, is the defense technology industry has grown to kind of really make San Diego, in some ways, sort of the Silicon Valley of defense technology.

At one point in time, cybersecurity was seen as something that was fully focused on the protection of government data and defense center data. Try to think of an element of your life right now where cybersecurity is not critical to you. Your financial information, your health information, your personal information, your children’s education information, whatever it is, increasingly, people have to be able to protect that data.

And here in San Diego, because of things like SP-AWAR, now called NAVWAR, a huge investment from the military over the years — to make sure they were investing in and protecting their data — has allowed a lot of contractors and companies that have worked with them to spin out and really create a cybersecurity sector here in our economy that really is something, the third largest in the country, and has the capacity to grow.

More Work to Do

So the last thing that I’ll point to is real exports. We have grown to $24 billion in exports. So for us at EDC, these are the types of things that we’re working on day in and day out and what we’re looking at, but the one thread kind of through all of it is that in that 2.9 percent unemployment, in that economic growth cycle, a rising tide in this region has not lifted all boats.

You don’t have to look very far, even from where we stand, to find people who are still struggling in this economy, whose businesses aren’t what they once were, whose jobs aren’t what they once were. Markets have changed and people’s careers to be very different than what they once were.

So as we talk about the numbers behind all these things, I think that we always have to keep in mind the people, who are here in our community, who are part of this economy. It’s going to take all of us to continue to invest in this local region as best we can to make sure that this economy continues to grow to be the world-class economy that we know that it is and that it can be.
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Despite a Strong Economy, Insurance Cos. Must Weather a Storm

INSURANCE: Nuclear Verdicts, Disasters, Unfavorable Rules Test Industry

Trindl Reeves, principal with Marsh & McLennan Agency, sees "unprecedented" times in the insurance marketplace. Here are some excerpts from her appearance at the Economic Trends breakfast:

Disasters Big and Small

Some years are good, and some years are not so good, but they’re not terribly bad. This year is bad.

I spoke here in January, and then by April we saw a market change in the commercial insurance marketplace. It was dramatic, and every quarter since, it’s gotten worse.

I’ve been doing this for over 30 years, a long time, and went through 9/11, and all of that, and I’ve never ever experienced an insurance marketplace like we’re seeing today. It is unprecedented.

It’s a hundred percent based on losses. It’s just the losses across the board are huge. And when we think about it, you’ve got severe weather events in the U.S. These storms that we’re having — and a lot of them you don’t even hear about. You get a hailstorm in Texas, and it will be millions or a billion-dollar claim, and you didn’t even hear about it.

You’re hearing about the hurricanes and the fires. By the way, the Australian fire issue is still going. They’re predicting that will be about a hundred billion dollars in loss. And that will impact our market, because it all comes from the same pot of money? It’s all the same reinsurance people, and that kind of thing. So these natural disasters are big.

We’re seeing kind of really unprecedented settlements on large claims, so we’re calling them nuclear verdicts. When we had a traditional verdict, you knew what to expect on a settlement, and now they’re kind of an order of magnitude above that.

It’s a hundred percent based on losses. It’s just the losses across the board are huge.

Trindl Reeves

Time to Start Caring

So what areas are being hit hard?

Property insurance:

There’s a large food processing business here in San Diego; it carries, call it, $100 million in property insurance to insure all their facilities around the world. They haven’t had a claim in six years. They pay $700,000 in premiums.

They have older facilities. Some of them lack sprinklers in parts. The insurance companies start every year telling them the company needs to do some things to make it more safe, like get rid of a bird’s nest in the roof of an unsprinklered building that’s next to the heating element, and the client’s response is “no intent to comply,” because they don’t want to do it. So, now, we’re in this new market. The insurance company says, “No thanks. We’re done; nonrenewal.”

And no one else will take them because the clients have ignored all the recommendations for years and years, and their premium goes from $700,000 to $2.4 million, because they didn’t care.

Hit By Auto Rates

We’re in nine years of rate increases on auto, and the last few it’s been double digits every year. The losses are outpacing the premiums still. It’s because of distracted driving, high-speed car accidents causing multiple cars involved, and just the costs to repair these minor fender-benders is significant because of the technology in the cars.

Directors and Officers

D&O basically is insurance that protects the board for a breach of fiduciary duty. So if you screw up in running a company, and the shareholders sue you, this insurance protects you so they don’t take everything you own.

So this D&O insurance market, you have to look at it in two buckets: There are public companies and then there are private companies. Private companies are seeing some increases, double digits, you know, 20 percent, but their premiums are not huge, so the number is not as big, but they’re still seeing increases; but public companies are seeing north of 50 percent, and that is driven companies out — AIG has basically pulled out of that market. It is a capacity issue, and everybody is scrambling to find replacements.

Know Risk Environment

So those are three hot spots. The only bright spot is workers’ comp, and for years it was the only thing we talked about, and now it’s the only area that actually continues to go down, but we’ll see how long that lasts?

And, you know, for those of you that are managing risk in your companies or are responsible for that, I would say you’ve got to be really involved. You’ve got to make sure the C-Suite, the leadership team is aware of the environment. You’ve got to really be thoughtful about how you’re risk managing from insurance companies and show some effort to try to comply. You really need to work to differentiate yourself with the insurance companies in the renewal process so they see you as a better risk.

Cybersecurity

I would say we’re probably at about a 70 percent take-up rate, meaning people that have cybersecurity coverage.

You’re hearing about the big sensational ones, but we get multiple claims a day on cyber breaches. Companies often don’t have a breach response plan. They don’t know what to do in that very first moment. They call panicked.

Often if you want insurance to pay, you have to use their people, their forensic people, their adjustors...

So there’s that process to make sure they’re up to speed on, and now we have the CCPA, the Consumer Privacy Act of California, which is our little compliance deal on how you handle PHI, personally identifiable information, so companies are going to be held to a standard on how they handle personal information received from their customers and employees, and if you don’t handle it right and you’re out of compliance, they’re going to audit. You will get fined and penalties.

So the big takeaway for that, for the CCPA and cyber insurance, is to make sure your cyber policy will actually respond in the event that you are not compliant with CCPA and you have a cyber breach.

Litigation Climate

The Bill Lerach firm was here. He went to jail. All those guys left and started their own firms, so they’re, like, having babies. They’re multiplying. They’re suing businesses, and it’s dramatic.

I had a conversation with AIG to kind of coax them to come back into the life science market, and they went through just a litany of issues, and it was all legal-related with the economic climate. There’s a recent case law called the Cyan decision that happened last year. Basically, when a company is sued, they’re typically sued in federal securities court. Now it can be sued in state court as well. So for one incident, one kind of claim, so to speak, you can have two actual cases going on, so two sets of legal fees, two defenses, and these state court judges don’t even know securities law. Big verdicts are coming out of that.

Still Reason for Optimism

Yeah, I’m generally optimistic. All of our clients’ sales, payroll, and head count are increasing, so I think there’s going to have to be something major to change that in the short run. It would have to be this Coronavirus, terrorist attack, something like that I think could cause a spiral out of control. But for my business, I think it’s going to be a really, really rough year, I don’t see it changing in a positive way in the next 12 months, but overall, the economy, I’m a big thumbs up for the next 12 months.
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MMA-West.com
With Rising Health Care Costs, Leaders Think About Stemsing Demand

**HEALTH CARE:** Some 80% of Health Is Out of Practitioners’ Hands

Lynette Seid, area CFO of Kaiser Foundation Health Plan and Kaiser Foundation Hospitals, oversees all the financial operations for Kaiser, including forecasting. Here are some excerpts from her appearance at the Economic Trends breakfast:

**Employer Insurance Grows**

Health care is always at the forefront of everyone’s mind. Affordability continues to be the highest concern across the board.

Today 51 percent of people are getting health insurance through their employers. A couple of years ago it was 47 percent. So what does that mean to me? It says more people are employed, and you can see it in the unemployment numbers that are here, and particularly in San Diego. We’re also seeing a decline in Medicaid for us in California. It’s Medi-Cal, and that has gone from about 21 percent to a little over 20 percent. Again, that’s due to low unemployment.

As the economy starts to turn, if it were to go south, you’re going to see people employed start to come down, more people may be enrolling in Medicare, Medicaid.

**Rising Insurance Costs and Small Employers**

As for the cost trend since 2007 for health care: in 2007, it was 11.9 percent. You remember that, everybody remembers that. Lots of drugs, lots of things, everything coming into play. There’s been a very steady decline [in cost increases] but still, the anticipated amount is going to be 6 percent in 2020. Six percent, and our wage increase estimate for 2020, just the wages alone, is in that 2.9 to 3 percent. So, again, what you’re looking at is this disparity between the cost of health care going up 6 percent, but wages and salaries are only going up 3 percent.

What we see with employer groups, this is normal. This is what’s been happening over these past 10, 15 years, and so the employer groups have reacted by doing a lot of cost shifting to the employees, and we see all the time across the board, but now the employer groups are also saying, “How much more can the employees pick up? I’m only giving them 3 percent cost of medical. Costs are going up 6 percent, so where is that ending?” So it becomes, now, a shared interest by both the employers, employer groups, and the employees as to how this all gets funded.

The consumer price index, by the way, for that same time period, over the 12 months is 2.3 percent, and medical services for the last 12 months was 5.1. Very much on par with what the projections are for 2020.

**Health Care vs. Other Influences on Health**

Seid showed a diagram of factors that influence a person’s health. Socioeconomic factors such as income and social support make up 40% of the physical environment makes up 10%. Behaviors, including diet, exercise and tobacco use make up 50%. Access to health care and quality of health care make up the remaining 20%.

So really what goes into your health? I don’t know if you’ve heard the term “the social determinants of health.” This is becoming the future of where we’re going with health care.

Twenty percent is the actual cost and the component piece that’s dedicated to health care. So people come in and they are sick, they go to the emergency room or they see their primary care doctor. All of those costs are in the 20 percent range.

But 80 percent of factors that impact your health are not part of this health care component piece. So this is what we’re trying to address, and really, bring to light and socialize with everyone. These are the social determinants of health.

You look at the socioeconomic factors, you have education, job status. Food is a very big insecurity. Food and housing tend to be — if I don’t have a place to live or I don’t know where my next meal is coming from, I’m not going to continue to worry about this ache I have in my back.

So you have all of these component pieces: The physical environment, health behaviors — I think smoking is continuing to be hovering in that 19, 20 percent, something like that. It hasn’t really gone down. Vaping has only increased the potential for that, and all of these are behaviors within that.

An Investment in Health

So when we take a look at what goes into health and how are we addressing it as a community of health care providers, we have to go much deeper than how do we become more affordable just in this health care space. We have to actually decrease the demand for this health care space, which means you have to be shifting investments and how you look at the future state into these other — the other 80 percent of the social determinants of health if you want to, in the long-term, reduce the cost of health care.

So this is a really interesting shift on how we’re looking at it. It’s no longer just how much are we paying the health care providers, we have to go much deeper than how do we address what are we doing in the community. What is the lifestyle? What are the things that are going on that help create that demand.

Gavin Newsom, the governor of California, has announced his priorities for 2020 and his investments for his budget. Homelessness is way up there. He’s putting aside $1.4 billion for homelessness; public school education; climate action; affordable health care, including undocumented seniors over the age of 65; consumer protection;

So we’re seeing it in our state, we’re seeing it within the federal government, and we’re seeing it here locally in San Diego.

The social determinants of health are going to require investment, and it’s going to have to be ongoing. We won’t necessarily see any of the benefits yielding next year. It’s going to be a long-term investment for a long-term outcome.

**Cost Factors: Chronic Diseases, Pharmaceuticals**

We do have some real problems today. Chronic diseases tend to be at the forefront of the top of the spending that you’re seeing. These are people with chronic diseases. At the top of the list is obesity and diabetes. It’s crippling, just the cost of caring for these individuals.

The second piece is, you know, we all talk about pharmacy. Pharmacy is our friends, and then pharmacy has a very high cost that comes with it. I was around in 2014, 2015 at Kaiser San Diego when the Hepatitis C drug, miracle drug, came for curative purposes, and then when I saw the cost of it, I nearly choked. At that time it was about a hundred thousand dollars treatment for curative. So this is — this is now — at some advanced stages of Hep C, you’re not going to be able to regenerate back, but going forward, you can actually eliminate that.

So that was really the whole big thing. A hundred thousand dollars, if you have a high population, you know, you can start doing the math on that. It’s very easy to see the cost go up. But now we’re in this new era of biologics, and these are really advancing to a degree, because they are life altering. So these are things that — they’re talking about fixing retina problems and stopping that, so these people will be avoiding severe eye disease, blindness, but we’re now talking about a price tag of $1 million, $2 million, or even higher for the entire treatment for that.

We have not, as an industry, seen that — and yet, it’s coming. They’re talking about it. It’s already there in the pipeline. So these are very real things that are happening, but they are also life altering. So at some point, this is where America, we come in and we spend the money on here. Many of the other countries outside of the United States do not. They limit severely some of these advances.

So is it going to alter our mortality rate, which hasn’t necessarily gone up, even with our advancements in technology and what we’ve been able to do? So these are all questions, but they are there today. Employer groups can certainly do what they can for their employee base to address the current chronic diseases that they have. They all have the detailed information. You all have the detailed information of the diseases that are in your population, your employee group, and definitely address those to try to break that trend.
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**Upward Wage Pressure**
Talent is alive and well. I think in a microcosm of that, some of you may have seen about three weeks ago where Taco Bell had made a big splash that their store managers would be paid up to $100,000.

A brilliant PR move, because how many applicants did Taco Bell actually get sending their resumes and inquiries to Taco Bell? But No. 2, it’s also a competitive move that they had to do that, because you look at other organizations, such as In-N-Out Burger, it offers 20% higher than that for store managers.

So Taco Bell had to respond to what was taking place in the market. And in a microcosm, when you hear those numbers and think about that, what it really equates to is the upward pressure of wages you’re going to continue to see in San Diego and elsewhere as we get into 2020.

**Incentives to Leave Current Jobs**
These are some BLS (Bureau of Labor Statistics) numbers that just came out Jan. 15, so if you were looking at all occupations, San Diego metro area, compared with the United States average, wages are at about 11.8 percent higher in the San Diego marketplace, and, yet, when you look at what the average annual expenditures are in San Diego versus national average for housing, it’s 43% higher. You take all average expenditures, it’s about 32 percent, so you’ve got 11% on the compensation side of a 30% delta on expenditures. So some surveys that we’ve conducted with employees and workers in San Diego found interesting results, 49 percent of San Diego workers describe themselves as underpaid. Shocking, right? Sixty-two percent have negotiated for higher pay. And it’s interesting, when you overlay the commentaty that was made regarding the billions of dollars that are being flown into San Diego from a VC/tech perspective, many of those dollars are going toward technology, biopharma, biotech, et cetera, and there is a robust gig economy here with independent contractors.

And what this legislation is doing is really challenging how an IC is classified, where the assumption now is that an IC should be classified as an employee versus an IC. And there’s a tremendous amount of risks associated how an IC is classified, where the assumption now is that an IC should be classified as an employee versus an IC. And there’s a tremendous amount of risks associated with trying to find a gig or an opportunity in this new economy.

**The Cultural Fit**
Employees have a choice of where they want to work, how they want to work, what work they want to perform, and organizations need to be responding to those needs and requirements.

Employees have a choice of where they want to work, how they want to work, what work they want to perform, and organizations need to be responding to those needs and requirements.

Brett Good

Employees are very astute to what those cultures are and want to be working with like-minded professionals in that environment, and organizations are working very hard to define what their culture is, and then how do they actually find people to fit into that, and as long as we continue as a community to, you know, to be very aware of a new Gen Y, and Gen Z’s coming in to technology and creating an environment that is purpose filled.

**Optimistic or Pessimistic**
Thumbs-up.
There’s no way we go from 2.9% unemployment to 6 or 7% unemployment in 12 months. It may go up. Unless there’s something catastrophic takes place at a global or national level, the numbers just don’t move that quickly. So while they may go up, it will still be a very tight labor market. So thumbs up (on optimism).

Brett Good, senior district president for Robert Half
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Businesses Can Use Resources to Help Us Meet Childcare Challenges

WORKFORCE: From Technology to Employee Benefits, Solutions Are Needed

We’ve all heard the “It takes a village.” It truly does, and it’s not just a problem for women. It’s a problem for men. It’s a problem for our local economy.

Alessandra Lezama

Alessandra Lezama is the CEO of TOOTRIS, an on-demand childcare company. I’ve been in San Diego 19 years. I’ve been an entrepreneur and technologist, so I’ve been a CEO to data center operations and software companies. And so just so everyone understands here how I got involved in childcare, I sit on the board of the San Diego Regional Chamber of Commerce, and part of my duties is to sit on some of their committees, so I picked the education and workforce committee, because it behooved me to really understand the points of pain of the employers here in San Diego, me included, and what I learned is that the third biggest problem that we face in San Diego today is actually the lack of childcare.

The Problem

In that age group, 0 to 5, is the critical deficit. And I never really thought about the tremendous economic impact that it has, and so I brought some data… So just to put in perspective, there’s about 13 million children, zero to 5 years old that at some point access childcare; this is before preschool. About 675,000 childcare providers, these are licensed childcare providers service these children. And through their services, we employ over 1.5 million wage employees. That’s important. In California, alone, 1.6 million children are on some type of daycare, childcare, or child development center, and it has an impact of over $12 billion, $7 billion of that is directly related to employment, the other is overflow...

Incorporating Care into Benefits

It behooves employers to understand their role in childcare as it relates to incorporating it into benefits for their employees, if they are to move forward with the new generations, because to the points that we’ve been making all morning long, the way that employees view an opportunity and select from the opportunities that are out there for them, have a tremendous impact on lifestyle.

If an employee doesn’t have peace of mind about child care, that employee won’t be able to focus on work.

No Programs for Medium Income

The No. 3 economic issue facing us is lack of affordable childcare? So 60 percent, that’s a huge number, 60 percent of families in San Diego alone cannot afford childcare, quality childcare, and that is because about 60 percent of our employee population makes between $70,000 and $120,000 a year, and so guess what? Snowball effect.

There are subsidies, financial aid programs to assist very low-income families, but there’s a program that assists that medium wage family income. And, now, here comes the snowball. Guess who it impacts the most? One out of every four women in the workforce when they have their first child drop out of the workforce. Because when they pencil out that they have to spend $1,800 on average for adequate childcare, it doesn’t pan out...

Economic Impacts

So now the family dynamic and the family income drops. They’re purchasing power drops, and so, now, if I was going to go out to dinner once a week, no longer do I. So there’s an immediate impact to the local economy. So how does that convert over to employers? Well, let me help you understand, as an employer myself, and please fact check me if I’m saying something wrong. On average, the cost of acquisition of a hundred-thousand-dollar-a-year employee is $35,000.

Typically, at a hundred-thousand-dollar wage, that employee is of critical productivity levels in my organization. So now, not only am I paying a recruiter a 25% on average, or 30% average finding fee, right, placement fee, but I have to train this new resource, which is going to cost me additional money, and then I’m going to have to wait a ramp-up period until that person becomes at the level of productivity than the employee that I lost. So it compounds. It has a compounding effect, and then we think about how many more women are now at a level where they pursue executive careers, and high-powered positions within organizations in their early 30s. Think about the high percentage of women that it represents when I say that one in four drop out of the workforce once they have their first kid....

The Challenges

There are two main types of childcare. There’s the center based, these are the big buildings that you see with the big play yards. Some I’m going to mention the Discovery Isles of the world, the Bright Horizons of the world, there’s the KinderCares of the world, those are center based. In order to go through the licensing process, the policies that support compliance regulations are so convoluted that if I pulled out the list right now, I’d need another half hour just to take you through it. It’s convoluted, no automation of systems, technology, no incorporation of universal enrollment. No one has taken the initiative to review the policies. Current policy gets in the way of investors...

There’s a huge other opportunity, however, in high-quality licensed childcare, and that is family; in-home childcare. And this is when — typically women that want to stay home, but want to continue to earn an income and want to have the opportunity to spend time with their children, but also have a passion for children. They actually open up their home to turn that into an in-home childcare center.

Well, these are the majority of those 675,000 childcare providers that I mentioned. At the beginning of the presentation, so they’re huge proponents, and they truly propel forward this childcare model, but they, themselves, have a lot of impediments and barriers to being licensed and to get the support that they need.

This is one of the most critical roles that there is in the education journey of a child. We all know, from all of the studies that a child learns the most in their first 5 years of life. … Their five years is considered to be early childhood. Well, early childhood educators that get a bachelor’s, and sometimes a doctorate, in their career, they come out and get their first job and are getting paid on average $13 an hour. So it’s not conducive to incentivize more women, in this way.

If a child reaches 5 years of age and doesn’t reach kindergarten readiness, which means, for example, knowing how to read at the age of five, they enter the school system, and now guess what, remember that snowball effect...

Technological Solutions

So how did I get involved in childcare in all of this, being a technologist? Because it truly is technology that can help solve these types of problems; technology that bridges the gap of private and public funding. … We need employers. We need the community to engage. We’ve all heard the “It takes a village.” It truly does, and it’s not just a problem for women. It’s a problem for men. It’s a problem for our local economy. It’s a problem for our employers. It’s a problem attracting talent.

Creative Ways

Talking about talent, San Diego is becoming the second hot bed of technology. Getting talent to childcare is key because not even remote employees that don’t have adequate childcare can be productive in the way that technology enables them to be. I encourage employers to be active in your chambers, in your community, and find creative ways to invest in childcare, like creating an early childhood scholarship fund for your employees that will cost you a lot less than $30,000 or $35,000 to replace a valuable resource.

These early education scholarship funds can be as low cost as $3,000 a year per employee, and you can attract much better talent. You can certainly keep the absenteeism down due to lack of adequate childcare, and you can incentivize employees to continuously improve their skills and continue to grow personally, professionally, and financially.
Employees’ inability to secure Child Care has major effects for businesses and the economy?

70% of Families with children in San Diego have two working parents
Without affordable Child Care parents – mostly women – opt out of the workforce
Employers can spend up to 140% of an employee’s annual salary to replace them
Families can spend up to 40% of household income on Child Care for two young children
$57 Billion in annual lost earnings, productivity and revenue is due to lack of Child Care

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Housing Appreciation May Slow; Office Market Set to Follow Economy’s Trajectory

REAL ESTATE: Great Recession-Style Housing Price Decline Is Not in the Cards

I’m actually here less as an economist and a little bit more as a representative of the Burnham-Moores Center for Real Estate at USD. My portfolio today is to talk about residential real estate and commercial real estate in San Diego.

I’ll talk about the residential market first. Largely what I want to get at here is sort of supply and demand factors. The graph on the left is thinking about the housing market in terms of sales and how many homes are listed for sale. So I want to first look at what happened in 2017 and the end of 2018. Realtors like to talk about this as months of inventory, along the lines of if we have 9,000 homes for sale in San Diego County, and we’re selling 3,000 of them a month, how long is it going to take us to get through the available inventory?

And I’ve given Orange County and Riverside County numbers for context here. But in ‘18, we saw this number was going up in all three counties. There’s lots of stuff on the shelf, but it’s not moving. This is largely driven by a slowdown in the sales activity in the county.

If you look at the graph on the right, that’s what’s going on in terms of how much prices are going up in these three counties, relative to the year before, so I think when you start to look at that increase in months of inventory going along with the slowdown and how fast prices were going up in the second half of 2018, now those trends are reversed a little bit in 2019 here. You see that the months of inventory is coming down and the price appreciation is kind of getting back up to that 5 percent appreciation that we’ve gotten used to in the last several years.

No Drastic Dip, But a Classic Slow Motion

Now the thing with months of inventory is, there are two reasons why that might be falling. It’s either we’re selling at a faster pace than we were before, or we just don’t have as many homes listed for sale. So I think the real dynamic in the residential real estate market that I want to leave you with has been that in 2019, there has been a slight uptick in sales activity relative to what we saw in ’18, but a large part of this factor is that there just aren’t as many homes for sale.

So when you look at that graph and you see we’re down to two and a half months of inventory, that’s a relatively low number, as you can see in the graph, relative to recent history. So it’s a fairly tight market if you’re looking to buy or sell a home, but it’s more of a Low Sales, Low Inventory kind of market. I think if you’re looking forward, I believe the running theme for both residential and commercial is a lot of what you’re going to see in 2020 depends on the question of are we going to continue with the sort of gradual slowing economy, or are we actually going to see a recession in the back half of 2020, early 2021?

I think in either case, a slowing residential real estate market in San Diego would not be what we saw in 2008, 2009. I know a lot of people who basically have one recession’s worth of memory about this. Several colleagues of mine, who are recent transplants to San Diego, are saying, “I’m going to wait for the recession.” Home prices are going to drop 25 percent, and then I’m going to move in.

And I say that’s not at all what I expect to see. If we see a recession, I’d expect to see more of a classic Southern California slow market, which is relatively low levels of sales. Home price appreciation does slow down: depending on where you’re looking, you might see some price declines, but it’s just basically flat appreciation, closer to 0 percent.

Mulling the Commercial Market

I’ll quickly pivot to the commercial real estate market. Commercial real estate is harder — commercial real estate, I think, is the really healthy one. Because it takes so long to start building new space, we tend to build right into the recession when nobody wants the space anymore, and that’s when you see the rise of vacancy rates, and then it kind of takes a while to lease all that new space on the back end of the downturn.

No Repeat of 2008 Expected

Asked about the possibility of a housing crash, Ratcliff had this to say:

I don’t see anything, you know, at the level of leverage, as we heard about in the old hits from 2005, 2006 — you know, “No income. No job” loans. Can you fog a mirror? OK, here’s $500,000 to buy a house. We don’t have that kind of lending activity going on the way we used to.

I do feel like this is the latter end of an expansion. Home prices have been on a run for a while, but if we do see — again, kind of the best case scenario, it’s just that we see that slight uptick in sales, but a fairly tight market in about a 5 percent appreciation, I think that’s a continuation of where we are at now.

If we’re thinking about more of that recession scenario, I think, again, the collapse happens on the volume/sales side, but not any of the sell-at-any-price distress sales that go with a significant increase of job loss. In 2009 those distress sales led to the significant decrease of prices, and I don’t expect to see that dynamic in the current market. So the recession scenario would be flat prices and low sales.

It’s either we’re selling at a faster pace than we were before, or we just don’t have as many homes listed for sale.

Ryan Ratcliff is an associate professor of economics at the University of San Diego School of Business. He specializes in forecasting, macroeconomic and financial economics. Ratcliff kicked off his presentation with some recent history. He showed a slide depicting months of housing inventory in three Southern California counties. The slide also showed year-over-year growth in median home sales prices.
BUSINESS
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#1
BEST BUSINESS SCHOOL
IN SAN DIEGO
by Bloomberg Businessweek, 2019-20

#10
BEST GREEN MBA
IN THE NATION
by Bloomberg Businessweek, 2019-20

TOP 50
BEST BUSINESS SCHOOL FOR UNDERGRADS
IN THE NATION 3 YEARS IN A ROW
by Poets&Quants, 2018, 2019 and 2020

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Panelists (from left): Ryan Ratcliff, USD School of Business; Alessandra Lezama, Tootris; Brett Good, Robert Half; Lynette Seid, Kaiser Permanente; and Trindl Reeves, Marsh & McLennan.

Keynote Speaker Michael Pugliese, Wells Fargo

Panelists (from left): Ryan Ratcliff, USD School of Business; Alessandra Lezama, Tootris; Brett Good, Robert Half; Lynette Seid, Kaiser Permanente; and Trindl Reeves, Marsh & McLennan.

Guests attended the forum at the Hyatt La Jolla Aventine.

Mark Cafferty, San Diego Regional Economic Development Corp. moderates the panel discussion.

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Moderator Mark Cafferty, San Diego Regional Economic Development Corp.; Dana Vanderip, Make-A-Wish; Chris Sichel, Make-A-Wish; and Rodger Dougherty, Kaiser Permanente

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