**ATTACHMENT B**

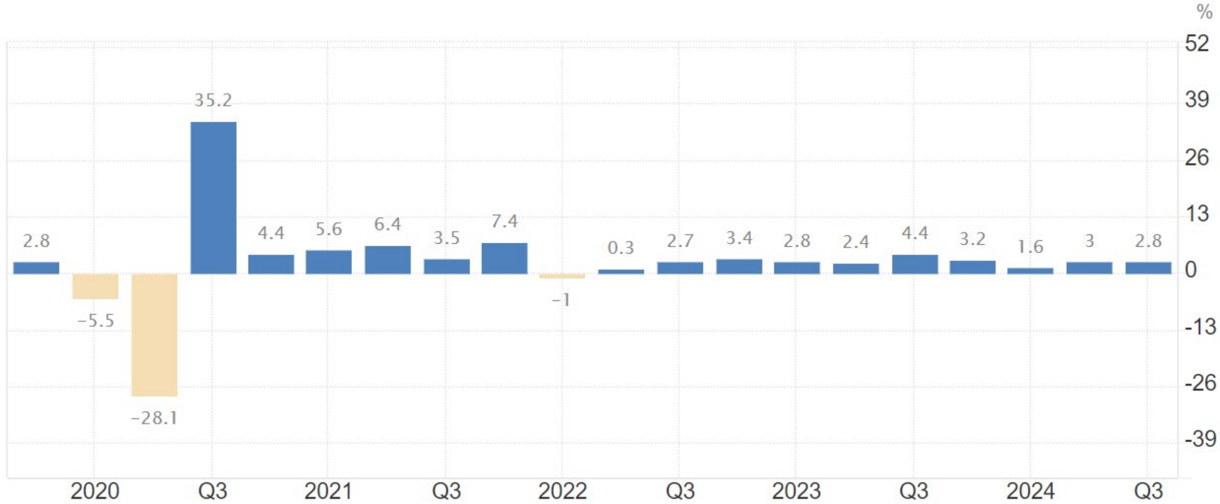
## The Economy

At the national level, economic growth through the third quarter of calendar year 2024, was led by GDP (gross domestic product) growth and strong consumer (retail) spending despite lower yet still higher than preferred inflation rates and borrowing costs with interest rates. The gross domestic product (GDP), a measure of all goods and services produced in the economy, increased at an annualized rate of 2.8% in the third quarter of 2024, in between the first quarter of 1.6% and second quarter of 3.0% growth. As of October 2024, the consumer price index (CPI), which measures changes in the prices paid by consumers for a basket of goods and services, was 2.6%. This is lower than the 3.2% CPI from a year ago. Assumptions in the LRFF report for general cost increases are using a CPI of 3% in FY 2026 and FY 2027 and 4% for FY2028 and beyond. The unemployment rate, as of October 2024, is 4.1% which is up from 3.7% at the beginning of the 2024 calendar year and is consistent with a "soft-landing" economic slowdown. The unemployment rate in the past six months has been in the low 4% range as a result of the economy slowing down. As expected, the slowdown in economic growth intends to avoid recession for the purpose of stopping the economy from overheating and continuing to experience higher inflation. There are factors to monitor that could change the expected economic growth pattern such as the election results and changing national economic policies and geopolitical events.

The local economy continues to show sluggish performance in the calendar year 2024 with higher than U.S. growth expected in 2025 and 2026 led by technology and aerospace; however, recent election results has added additional market uncertainty to this outcome. The UCLA Anderson outlook states, "The California economy is expected to grow faster than the national economy in 2025 and 2026, but not by much. The risks to the forecast are political and geopolitical, and on the downside, the interest rates could potentially still disrupt the current expansion and, on the upside, international immigration and accelerated onshoring of technical manufacturing could increase growth."

According to the U.S. Bureau of Economic Analysis (BEA), the US economy expanded an annualized 2.8% in the third (calendar) quarter of 2024, below 3% in the second quarter. Personal spending increased at the fastest pace since the first quarter of 2023 (2.8%), boosted by a 6.0% surge in consumption of goods and a robust spending on services, mostly prescription drugs, motor vehicles and parts, outpatient services and food services and accommodations. Government consumption also rose more, led by defense spending, and investment in equipment increased. In addition, the contribution from net trade was less negative, with increases in both exports and imports, led by capital goods, excluding autos. On the other hand, private inventories dragged from the growth, and fixed investment slowed, led by a decline in structures and residential investment.

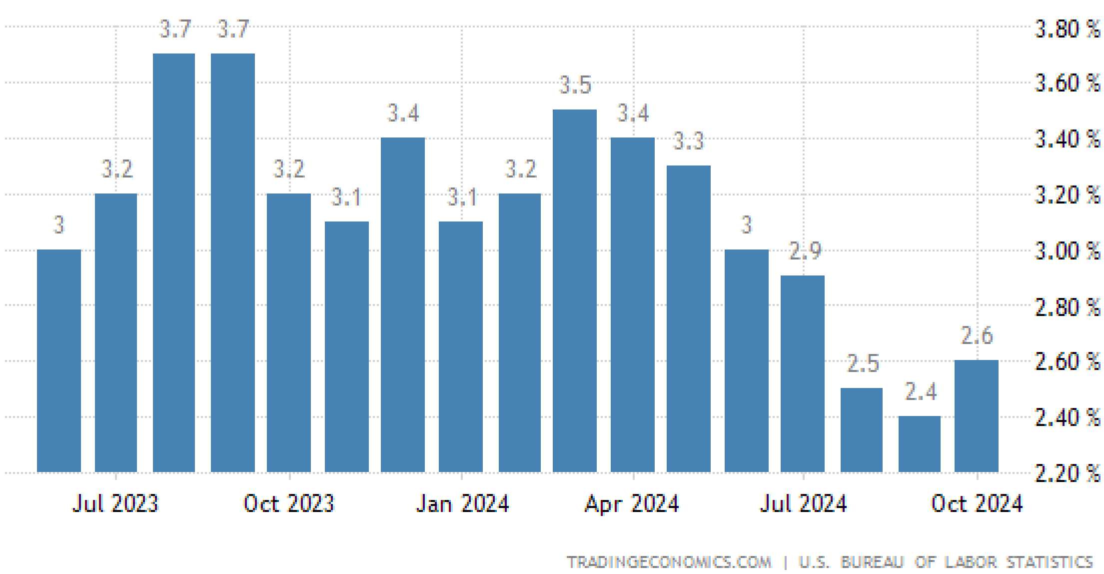
**Table 1: National Gross Domestic Product (GDP)**
**Real GDP: Percent Change from Preceding Quarter**




U.S. Bureau of Labor Statistic

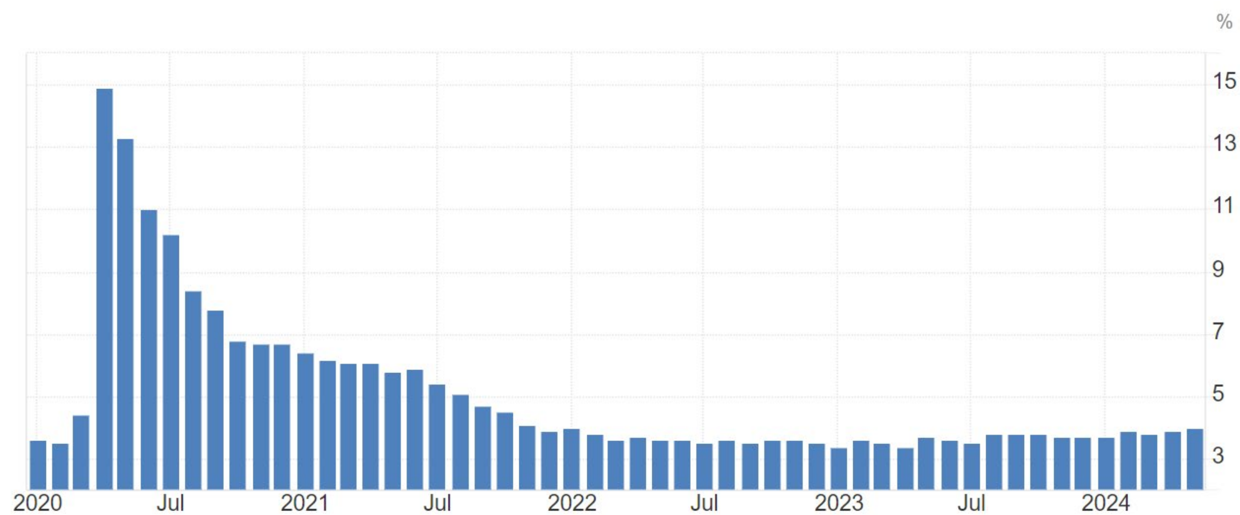
The national inflation rate remained steady but still slightly high compared to the 2% rate targeted by the federal reserve at 2.6% in October 2024, up from September (2.4%) which was the lowest rate since May 2020 (0.1%). It marks the first increase in inflation in seven months, as energy costs declined less, mainly due to gasoline and fuel oil while natural gas prices rose, the same as in September. Also, inflation for shelter steadied at 4.9%. On the other hand, inflation slowed for food and transportation and prices continued to fall for new vehicles and used cars and trucks. On a monthly basis, CPI rose by 0.2%, consistent with the previous three months. The index for shelter rose 0.4%, accounting for over half of the monthly increase. Meanwhile, core inflation remained steady at 3.3% as expected.

**Table 2: National Inflation Rate (aka Consumer Price Index (CPI))**



The nation's unemployment rate is 4.1% as of October 2024, compared to a record high of 14.7% at the height of the pandemic in April 2020. The number of unemployed individuals was broadly unchanged at 7 million. Among those without employment, permanent unemployment rose slightly to 1.8 million, while temporary layoffs were little changed at 846,000. In turn, long-term unemployment was little changed from the previous month at 1.6 million. In the meantime, the labor force participation rate eased by 0.1 percentage points to 62.6%. Per the State of California's Employment Development Department, the state's unemployment rate as of September 2024 is 5.3% with the prior year being 5% and the County of Santa Clara is 4.1%. Historically, the Bay Area job growth has been led by the Peninsula for the past several years. The unemployment rate for the San Francisco Peninsula and Palo Alto is 4.2% and 3.5% respectively as of September 2024; last year it was 4% and 3.3%, respectively.

**Table 3: U.S. Unemployment Rate**




U.S. Bureau of Labor Statistic

The elevated inflation rate has resulted in the continued erosion of purchasing power; however, there is still growth in U.S. consumer spending. Personal consumption expenditures (PCE) are the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending, and thus it is one of the main factors that indicates future economic growth. Strength in PCE spending tends to prompt additional business spending. Personal spending in the United States rose by 0.5% from the previous month to an annualized rate of $20.024 trillion in September 2024, accelerating from the 0.3% increase in the previous month, and ahead of market expectations of a 0.4% increase. The result extended the period of resilience of the US consumer to higher interest rates, adding leeway for the Federal Reserve to hold rates at a restrictive level to combat inflation. The rise was owed to higher spending in goods, amid increases for durable goods and non-durable goods, consistent with the jump in spending for services.

**Table 4: Personal Consumption Spending Growth**