



# *Smooth Sailing on the Bay?*

## **REGIONAL ECONOMIC OUTLOOK 2007-2008**

**January 25, 2007**

**Joseph P. Bort MetroCenter  
Oakland, California**

 **Association of Bay Area Governments**

# *Smooth Sailing on the Bay?*

## **Regional Economic Outlook: 2007-2008**

### **Agenda**

**8:30 a.m. Registration**

**9:00 a.m. Welcome and Overview**

**9:10 a.m. California Outlook:  
Soft landing in 2007?**

**Howard Roth**, Chief Economist  
California Department of Finance

- Will the state's housing slowdown cause a recession?
- If not, will high energy prices and interest rates?
- Where are the strengths in the economy?

**9:50 a.m. Bay Area Outlook:  
Calm Waters or Rocky Seas?**

**Paul Fassinger**, Research Director  
Association of Bay Area Governments

- Bay Area index of leading indicators
- Is the economy stronger?
- Economic trends in the Bay Area's future

**10:30 a.m. Break**

**10:40 a.m. Bay Area Retail Sales:  
The Short-Term Outlook**

**Randy Deshazo**, Senior Regional Planner  
Association of Bay Area Governments

- County taxable sales forecast
- Sales tax winners and losers

**11:15 a.m. The Real Estate Market:  
Prognosis for the Next Two Years**

**John Karevoll**, Analyst  
DataQuick Information Systems

- Current trends: Prices & sales volume for California and the Bay Area
- Dipping deeper – Trends that don't make newspaper headlines
- Bay Area vs. California – Where the Bay Area differs from the state



*California Outlook:  
Soft landing in 2007?*

---

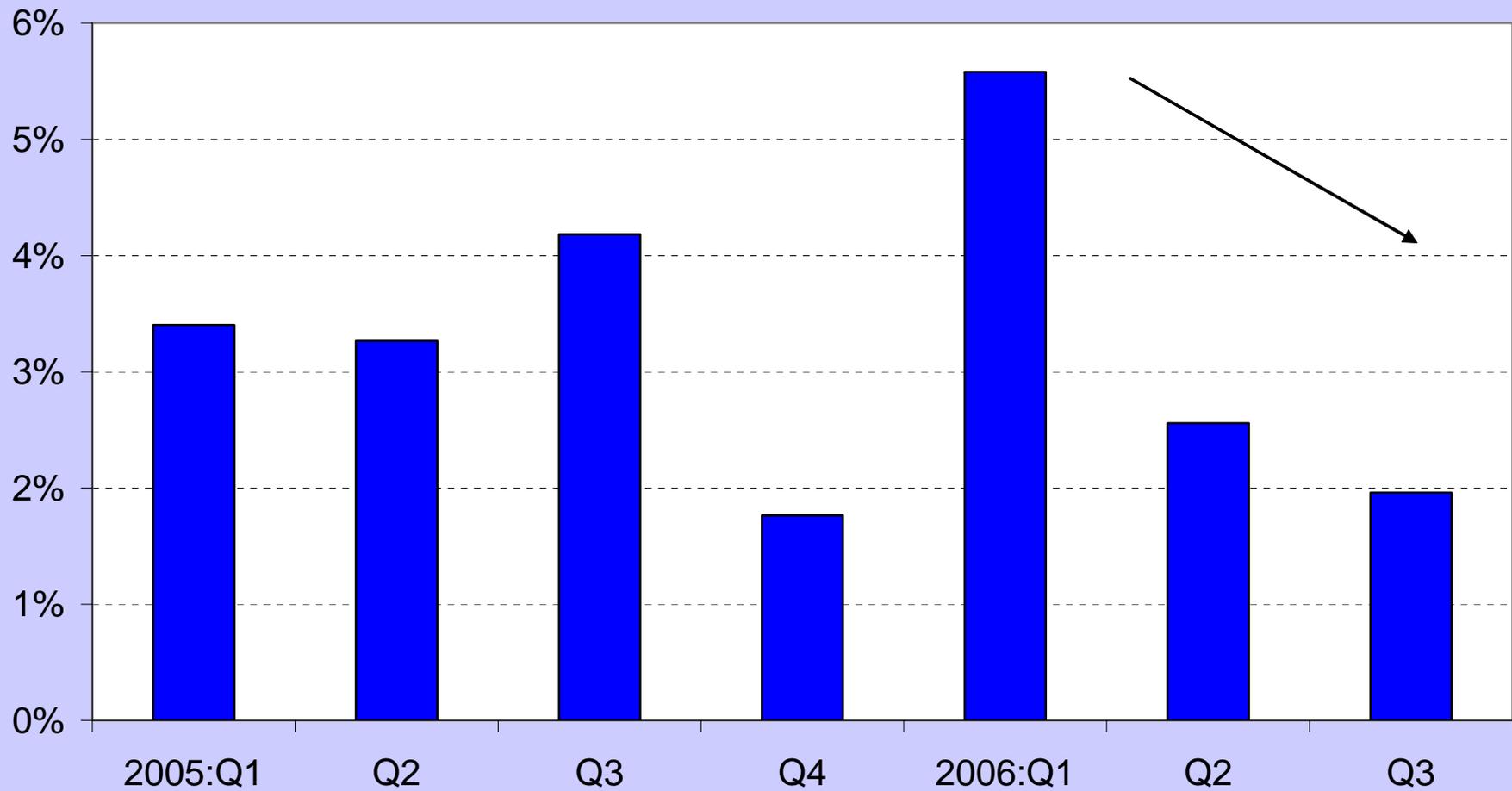
**Howard Roth**  
**Chief Economist**  
**California Department of Finance**

# Overview

- California and national housing sector downturns are not yet over - both economies will decelerate in the first half of 2007
- Both economies pick up in 2008
- Major risks:
  - The housing sector downturns turn out to be worse than expected
  - Interest rates jump

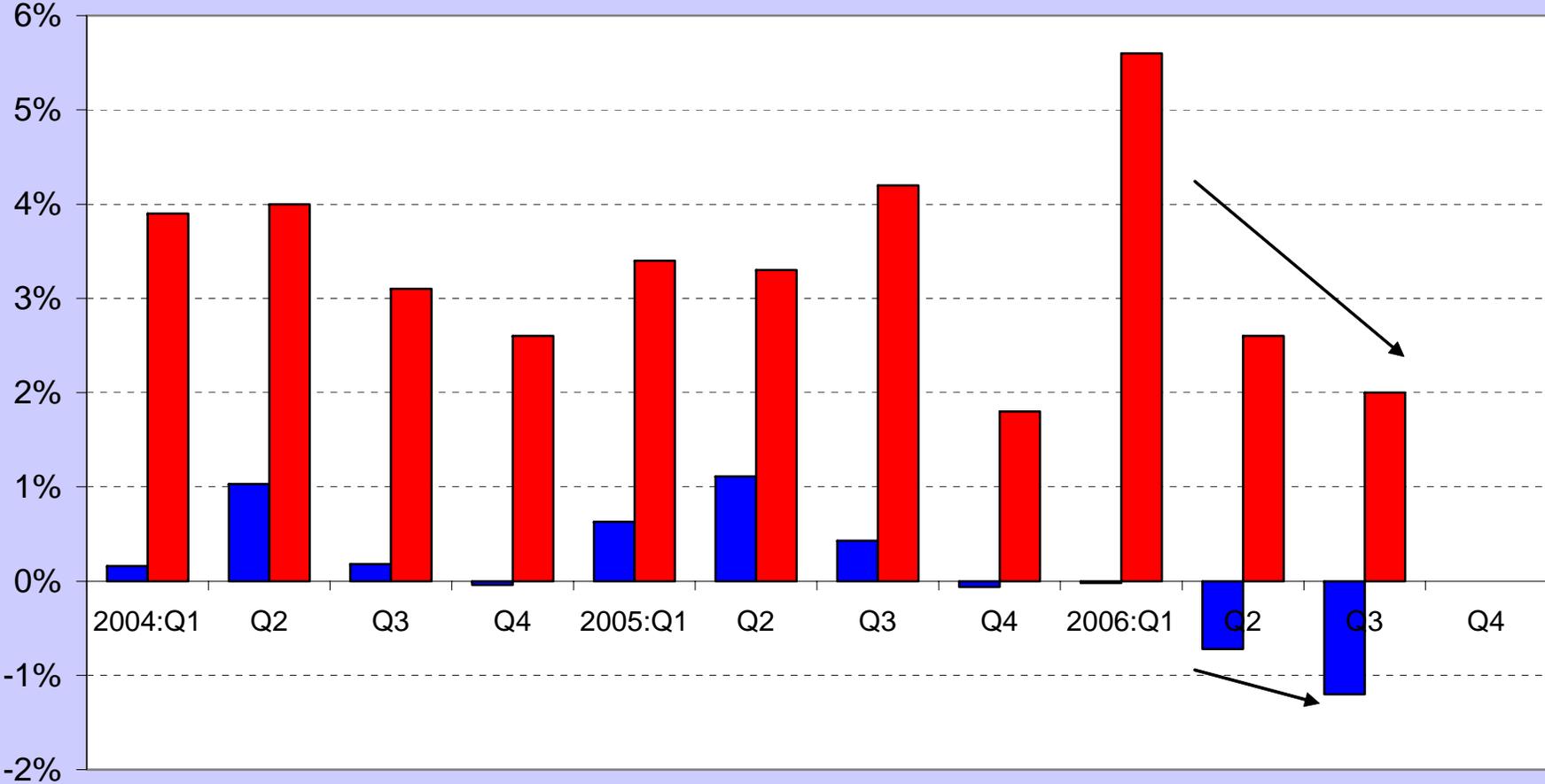
# National Economic Output Slows

## Real GDP, Quarter-to-quarter Growth, Annualized



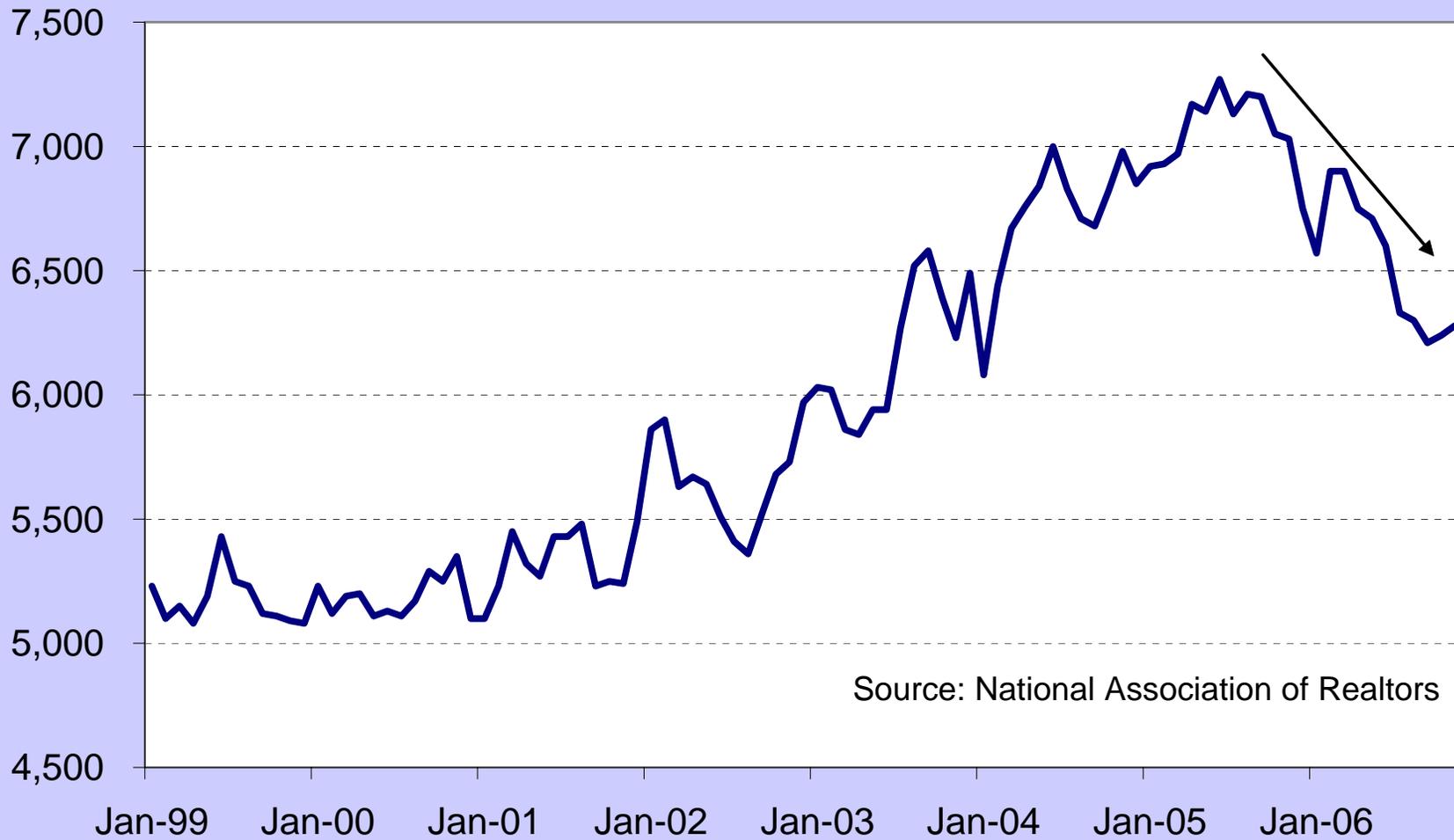
# Housing Downturn Pulls Down Economic Growth

## Contribution of Residential Construction to Real GDP Growth

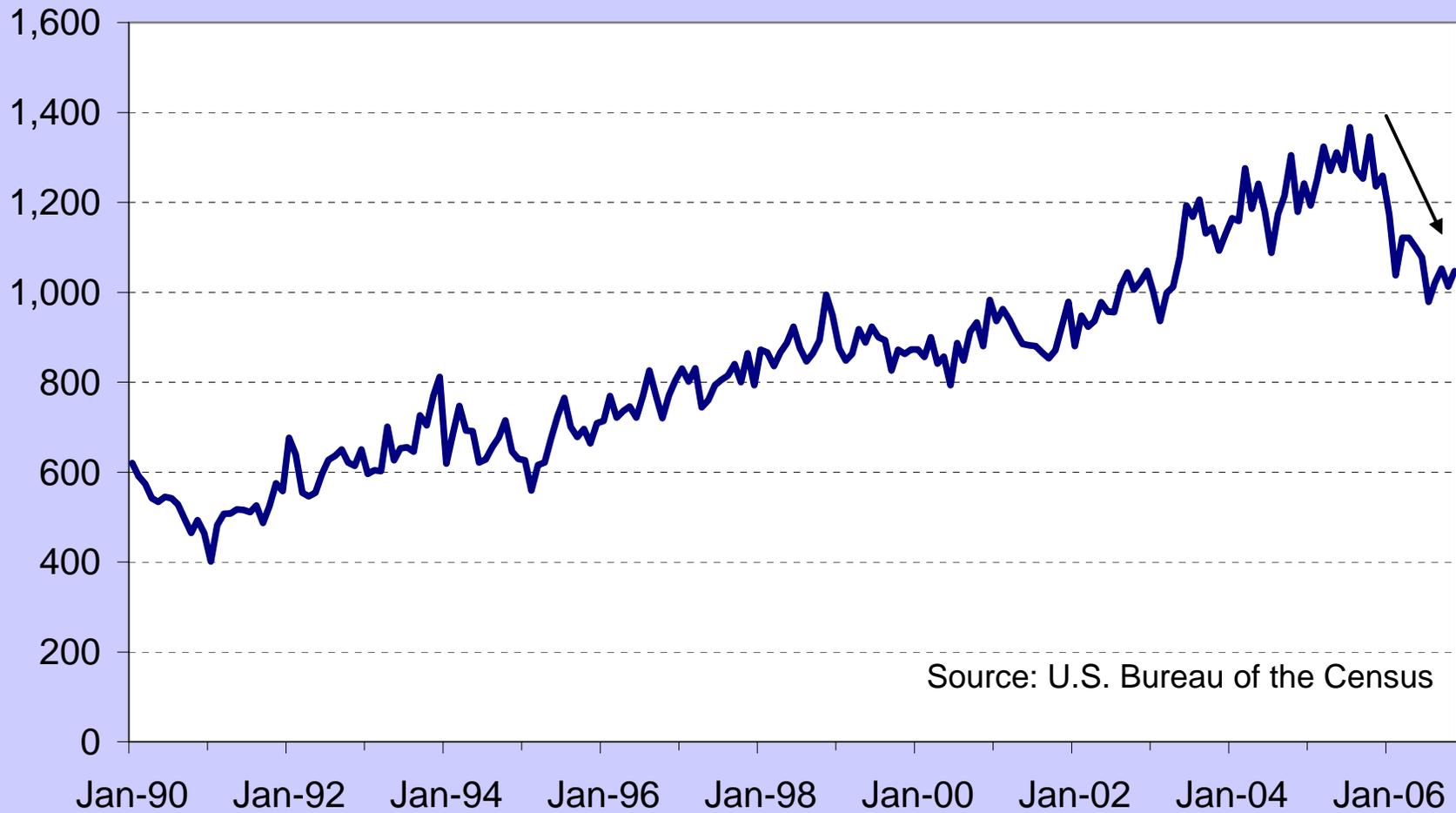


# U.S. Existing Home Sales Plunge

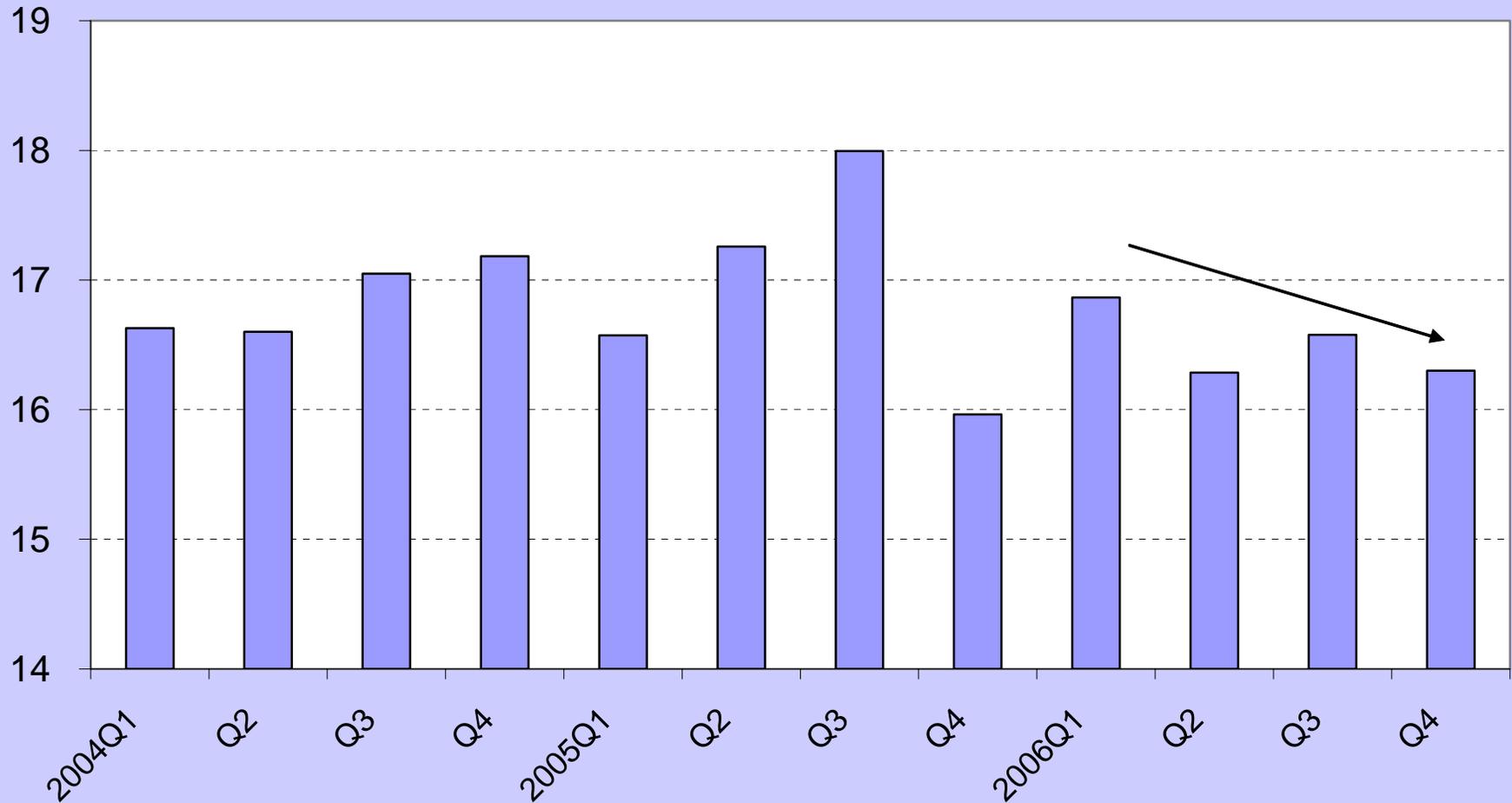
1,000s of Units, Seasonally Adjusted Annual Rate



# U.S. New Home Sales Drop Thousands

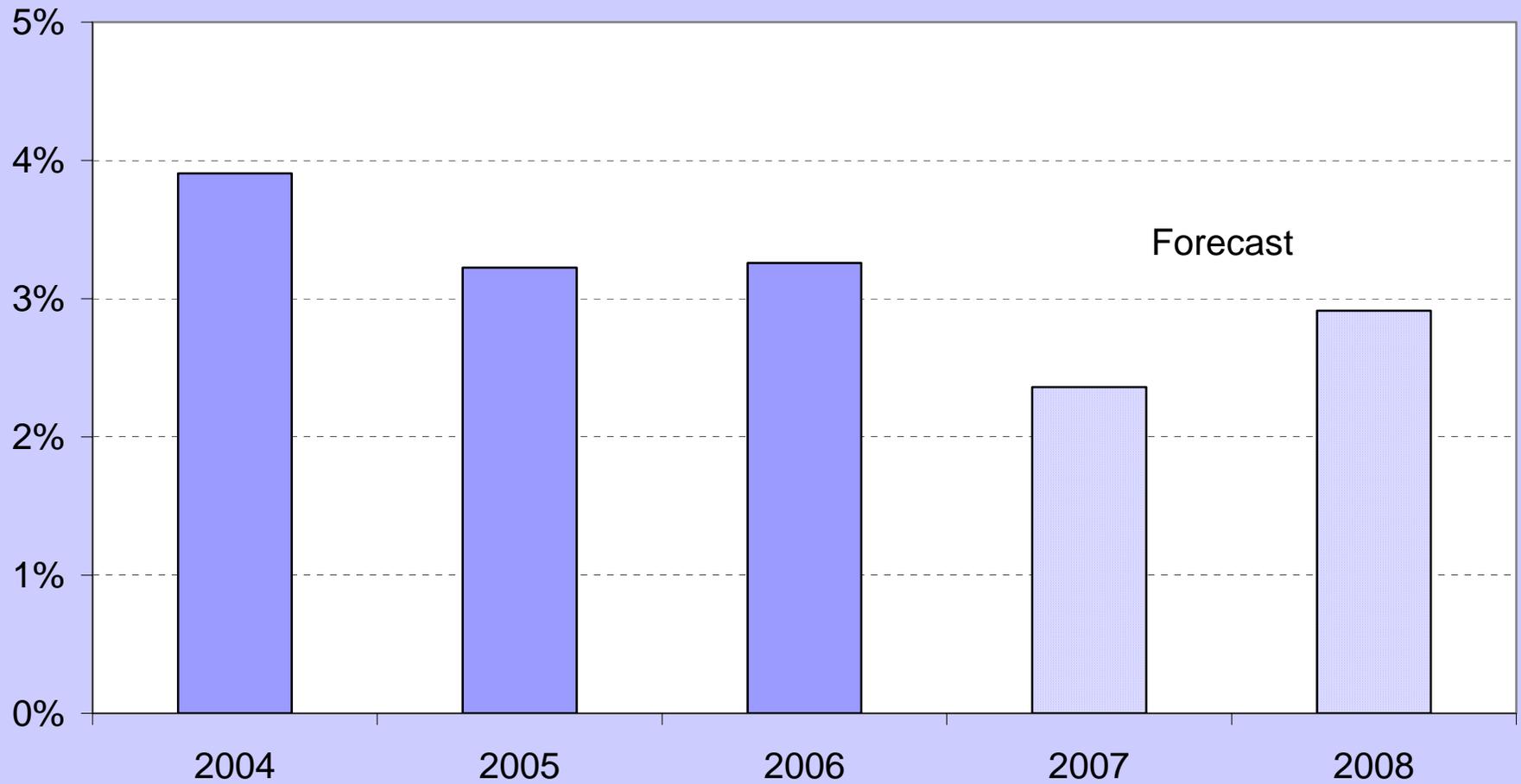


## U.S. Light Vehicle Sales Slide Millions of Units



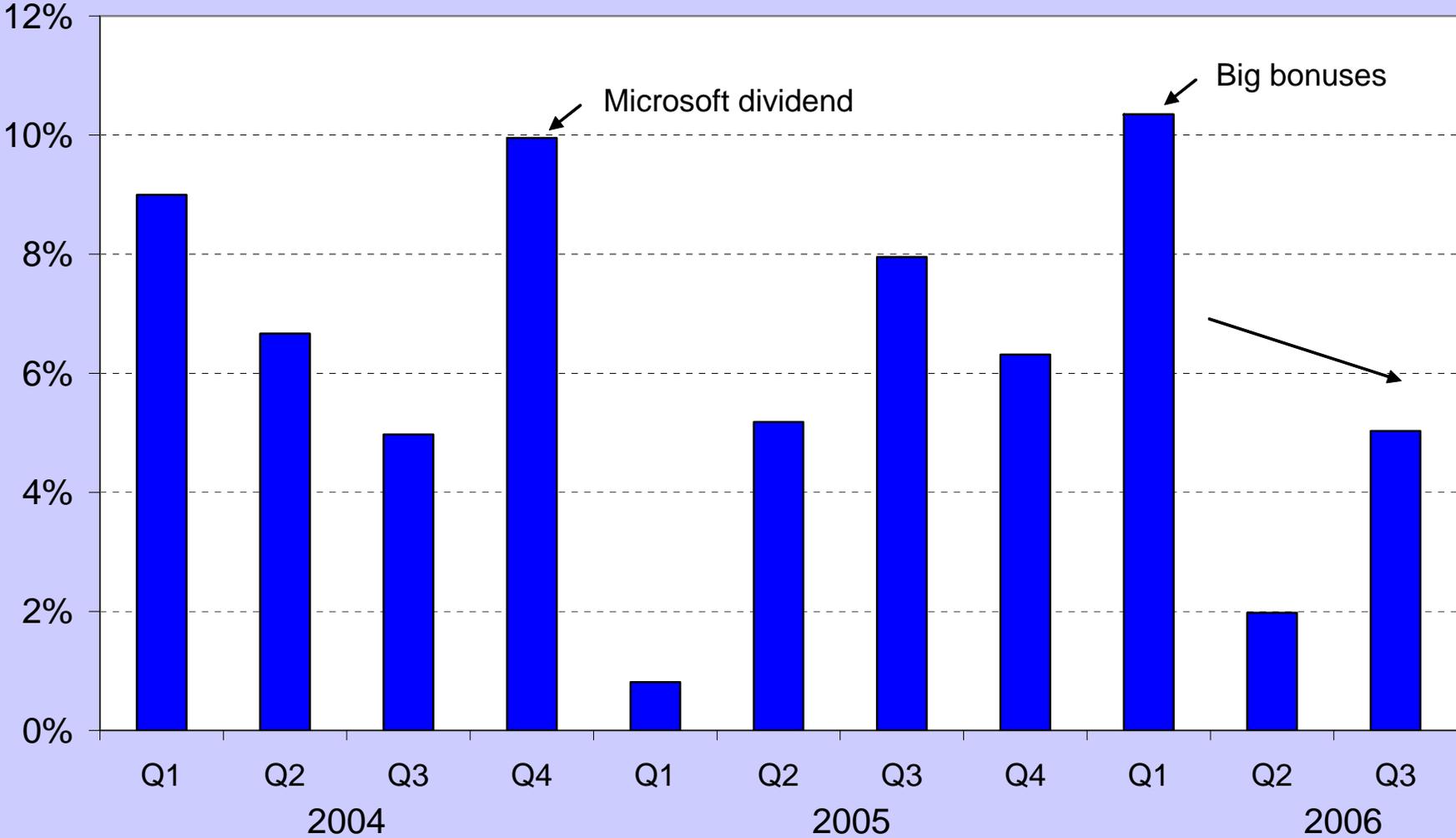
Source: U.S. Bureau of the Census

# Real GDP Annual Growth

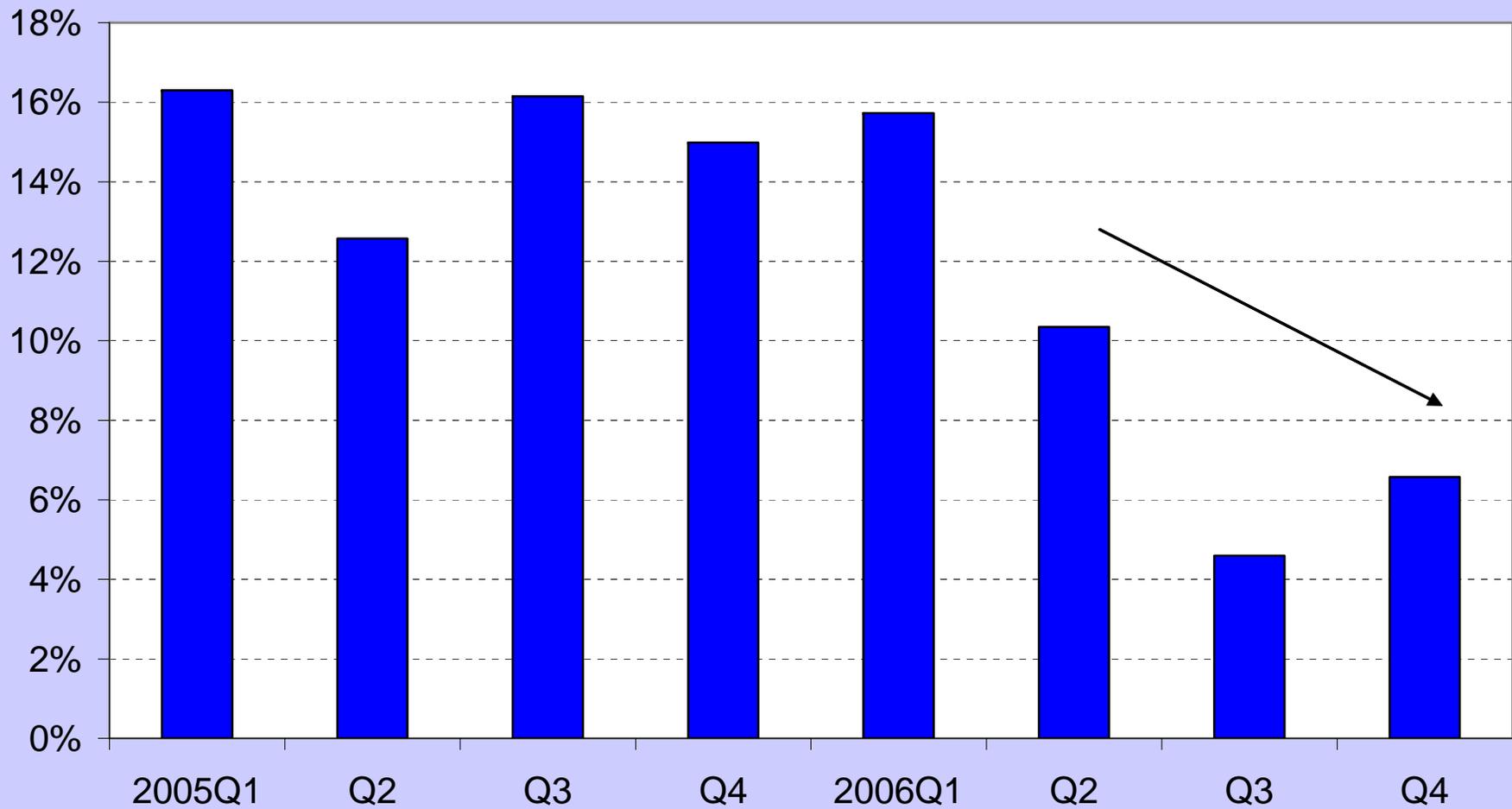


# California Personal Income Slows

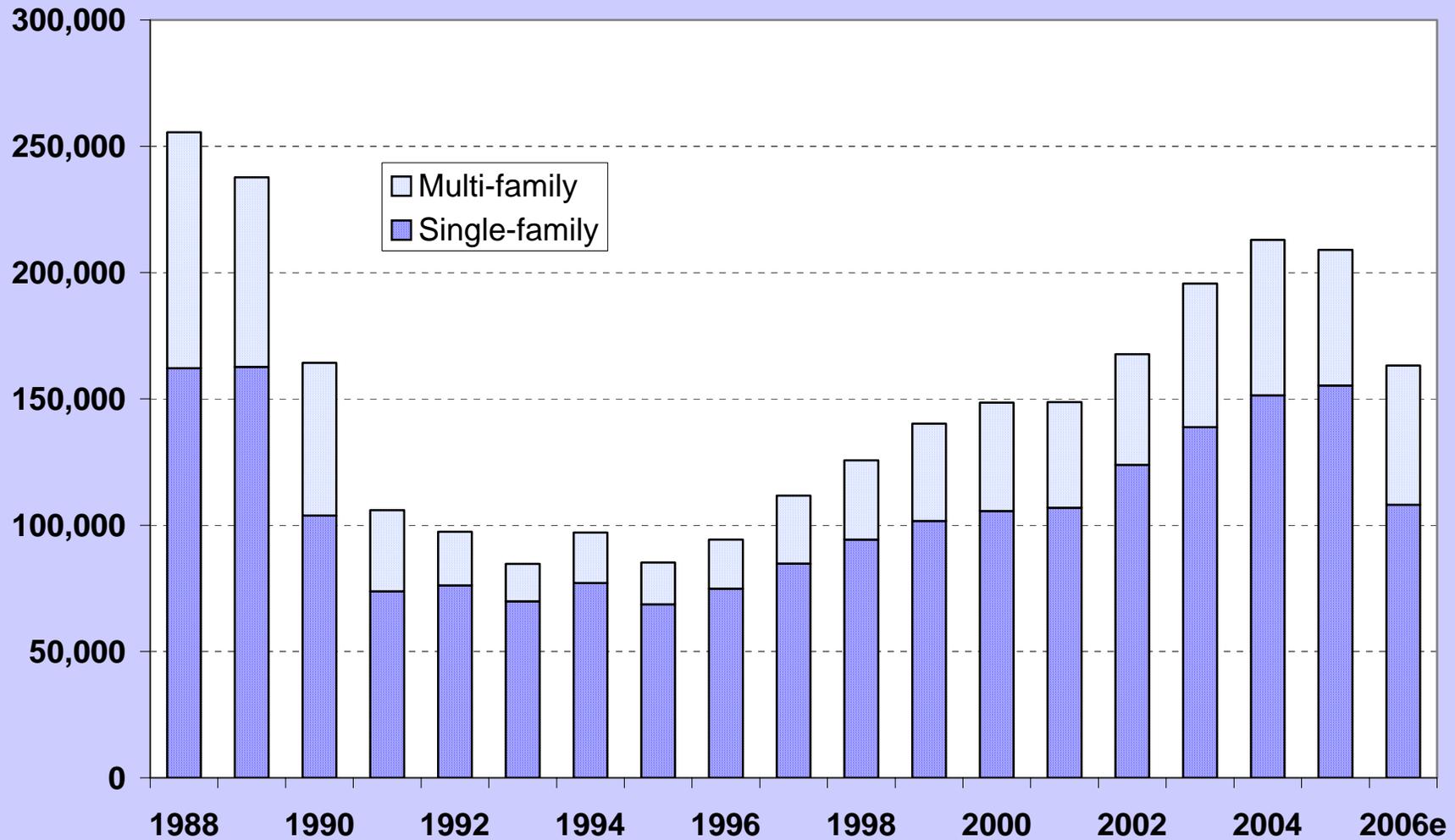
Quarter-to-quarter growth, annualized



## California Personal Income Tax Withholding Slows Year-to-year Growth



## California Housing Permits Tumble Annual

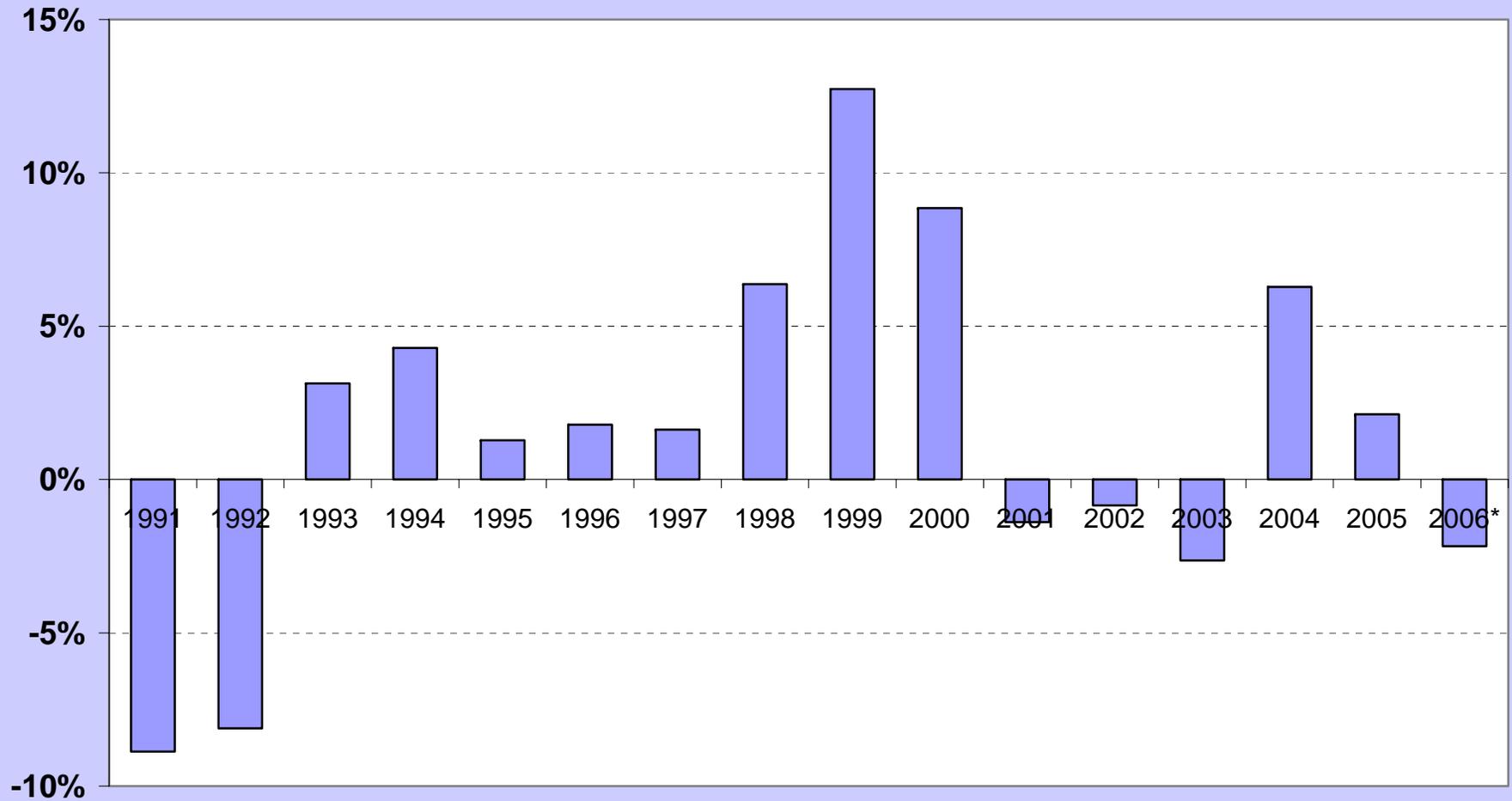


e: estimate based on first 11 months of 2006; Source: Construction Industry Research Board

## California Existing and New Home Sales Plunge

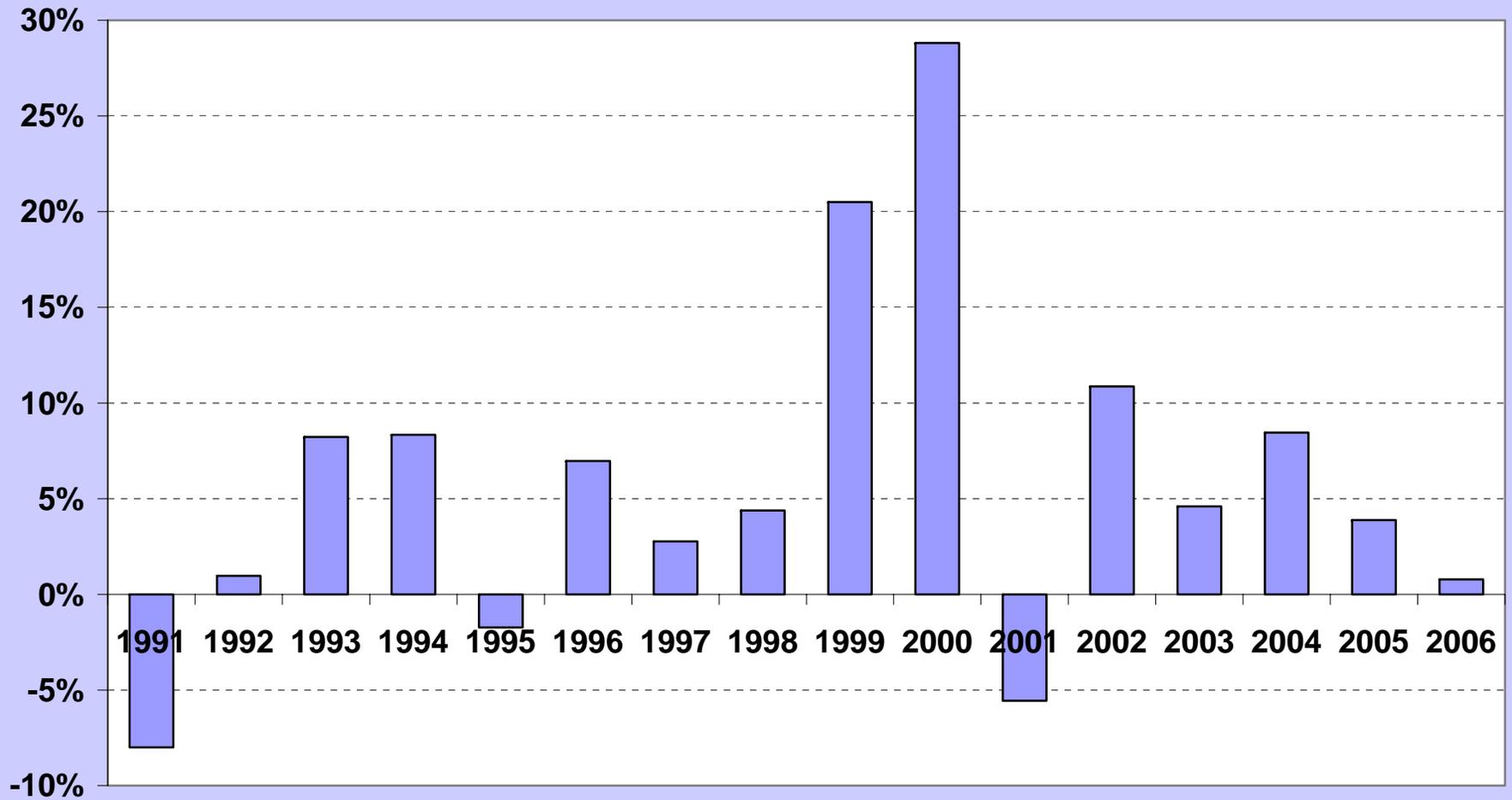


## New Automobile Registrations in California Slip Annual Percent Change

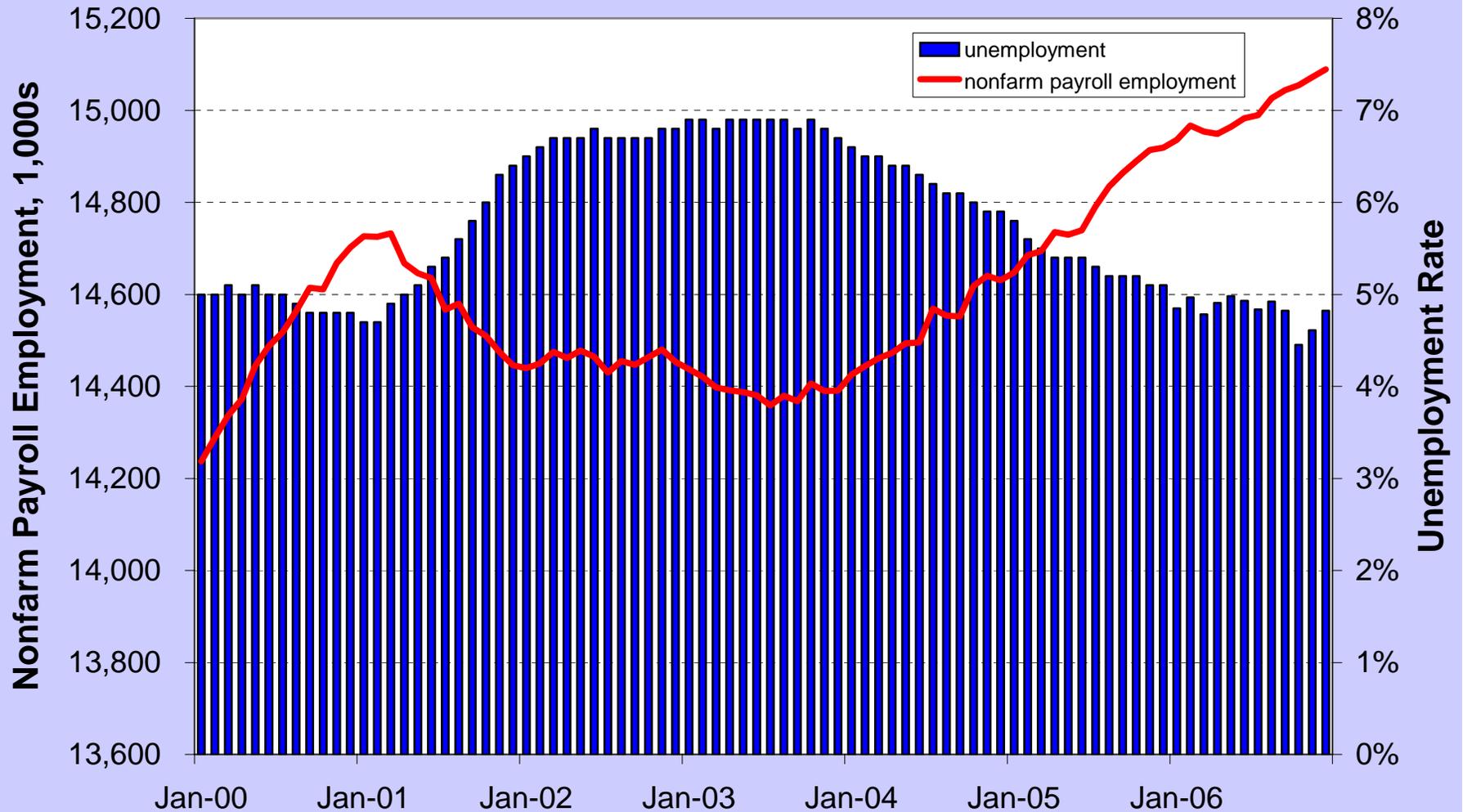


\*First 10 months

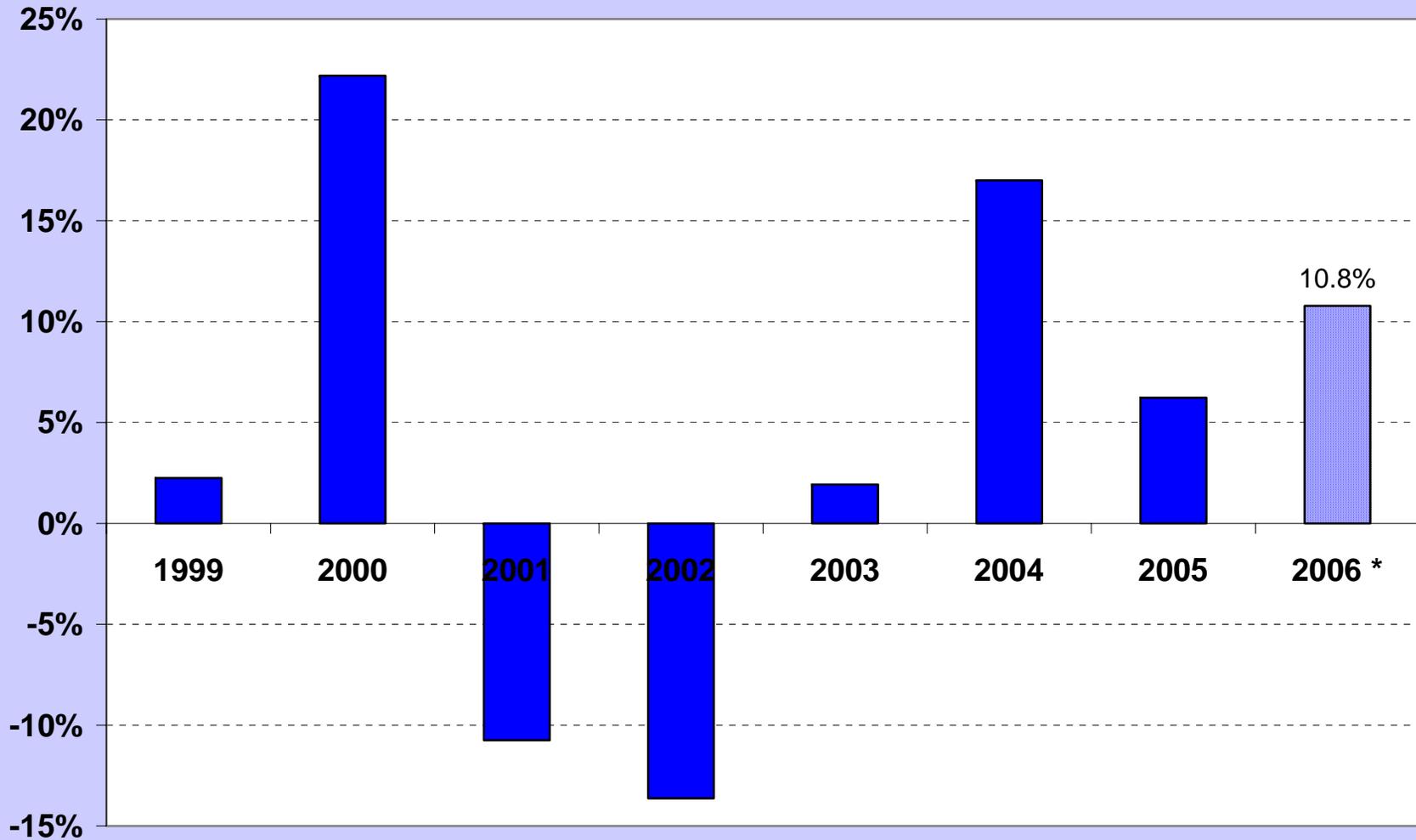
## New Business Incorporations in California Inch Up Annual Percent Change



# California Labor Markets--Steady Gains



## Made-in-California Merchandise Exports Expand Annual Percent Change



\* first three quarters



*Bay Area Outlook:  
Calm Waters or Rocky Seas?*

---

**Paul W. Fassinger**  
**Research Director**  
**Association of Bay Area Governments**

# Short Term Expectations for the Bay Area

- Slow to moderate job growth is expected to occur in 2007 and 2008
- Incomes are expected to grow slightly more than inflation
- Given moderate energy markets and soft housing market, inflation is not expected to grow rapidly

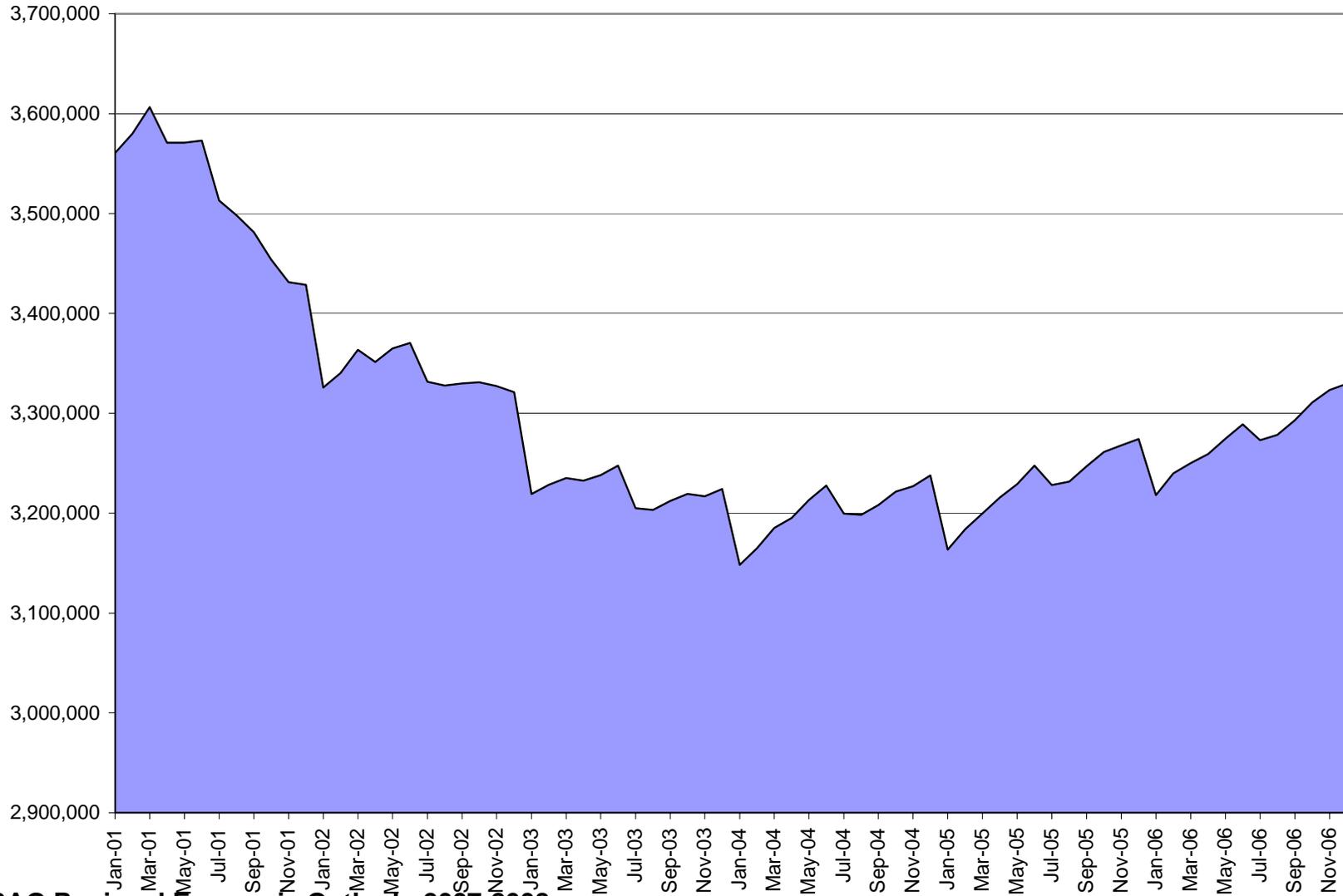
# Recent Bay Area Employment

## California EDD Industry Employment

	2001 December	2002 December	2003 December	2004 December	2005 December	2006 December	
Oakland	1,053,100	1,053,900	1,033,000	1,039,700	1,057,900	1,075,700	1.7%
San Francisco	1,025,300	989,500	951,900	953,500	960,600	979,200	1.9%
Vallejo	118,300	124,400	125,400	128,000	130,900	133,200	1.8%
Napa	63,700	63,300	63,400	63,400	65,300	66,200	1.4%
Sonoma	195,600	190,100	191,000	190,900	193,500	192,200	-0.7%
Santa Clara	972,500	899,800	874,400	877,400	881,100	896,900	1.8%
Bay Area	3,428,500	3,321,000	3,239,100	3,252,900	3,289,300	3,343,400	1.6%
Yearly Change		-107,500	-81,900	13,800	36,400	54,100	

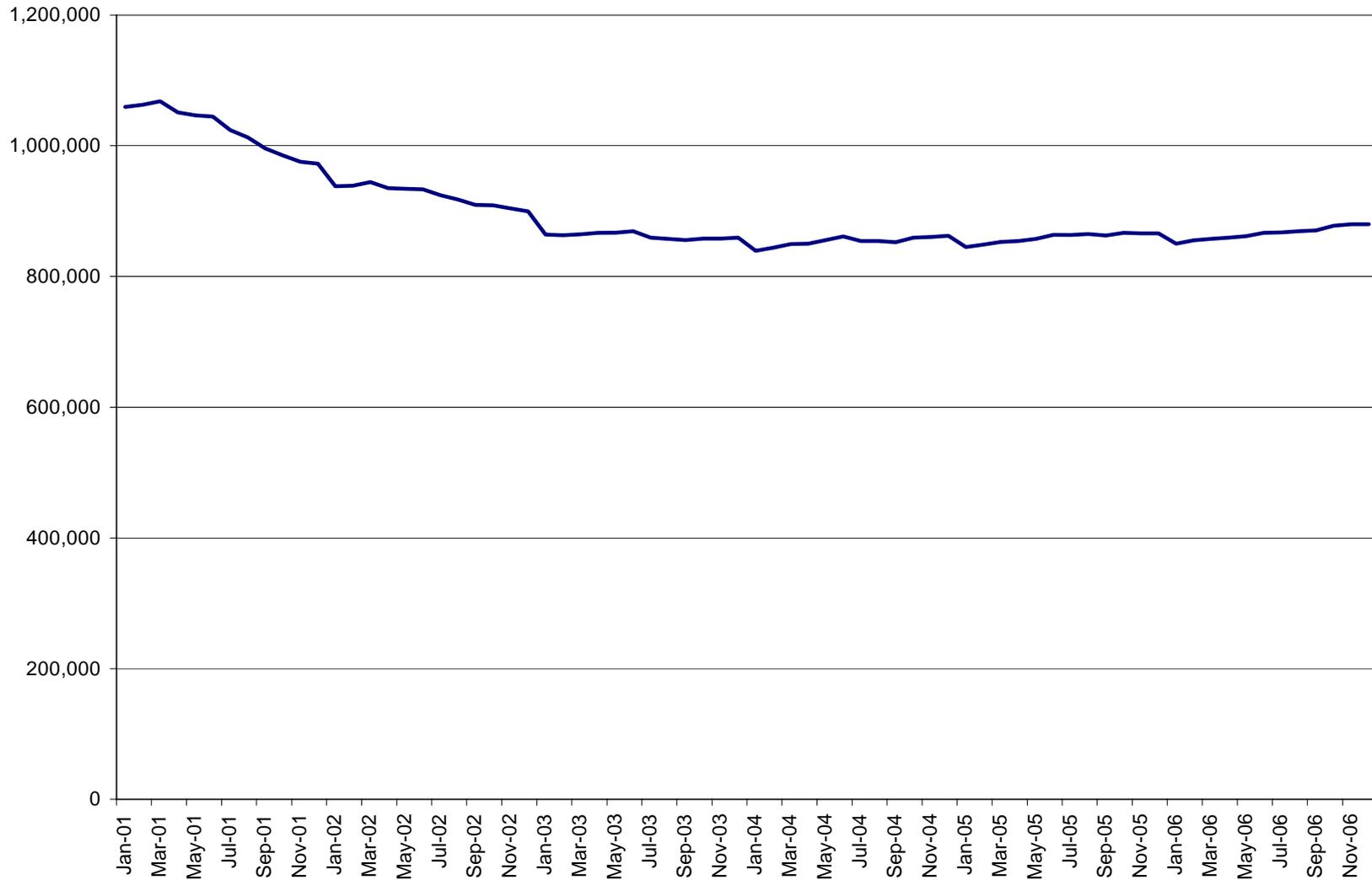
# Bay Area Employment

## EDD Wage and Salary



# Santa Clara County Employment

## EDD Wage and Salary



# Unemployment Rates

## EDD Civilian Unemployment Rates

	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
Oakland	5.3%	6.3%	5.8%	5.0%	4.1%	3.9%
San Francisco	5.3%	6.0%	5.3%	4.6%	3.8%	3.5%
Vallejo	5.2%	5.9%	5.9%	5.4%	4.6%	4.5%
Napa	4.6%	5.2%	5.0%	4.9%	4.0%	3.8%
Sonoma	4.2%	5.1%	4.9%	4.4%	3.8%	3.7%
Santa Clara	7.2%	8.6%	7.1%	5.6%	4.5%	4.2%

# Employment By Industry

## December 2006 Industry Employment

	Oakland	San Francisco	San Jose	Vallejo	Santa Rosa	Napa	Total
Farm	1,400	2,700	5,000	1,400	3,600	2,400	16,500
Natural Resources and Mining	1,200	200	200	400	200	100	2,300
Construction	81,600	44,100	45,800	13,500	14,300	4,700	204,000
Manufacturing	95,900	45,500	171,100	8,900	23,500	11,600	356,500
Trade, Transportation and Utilities	206,300	171,700	139,300	29,300	35,900	9,400	591,900
Information	29,200	39,500	37,500	1,600	3,700	700	112,200
Financial Activities	73,400	90,000	36,900	5,900	9,600	2,800	218,600
Professional and Business Services	157,400	190,000	164,200	12,200	21,200	5,600	550,600
Educational and Health Services	124,600	103,900	100,200	17,000	22,200	8,100	376,000
Leisure and Hospitality	86,000	119,900	74,200	12,200	19,900	8,800	321,000
Other Services	35,100	38,600	25,200	4,300	6,200	1,800	111,200
Government	183,600	133,100	97,300	26,500	31,900	10,200	482,600
Total	1,075,700	979,200	896,900	133,200	192,200	66,200	3,343,400

# Employment Shares

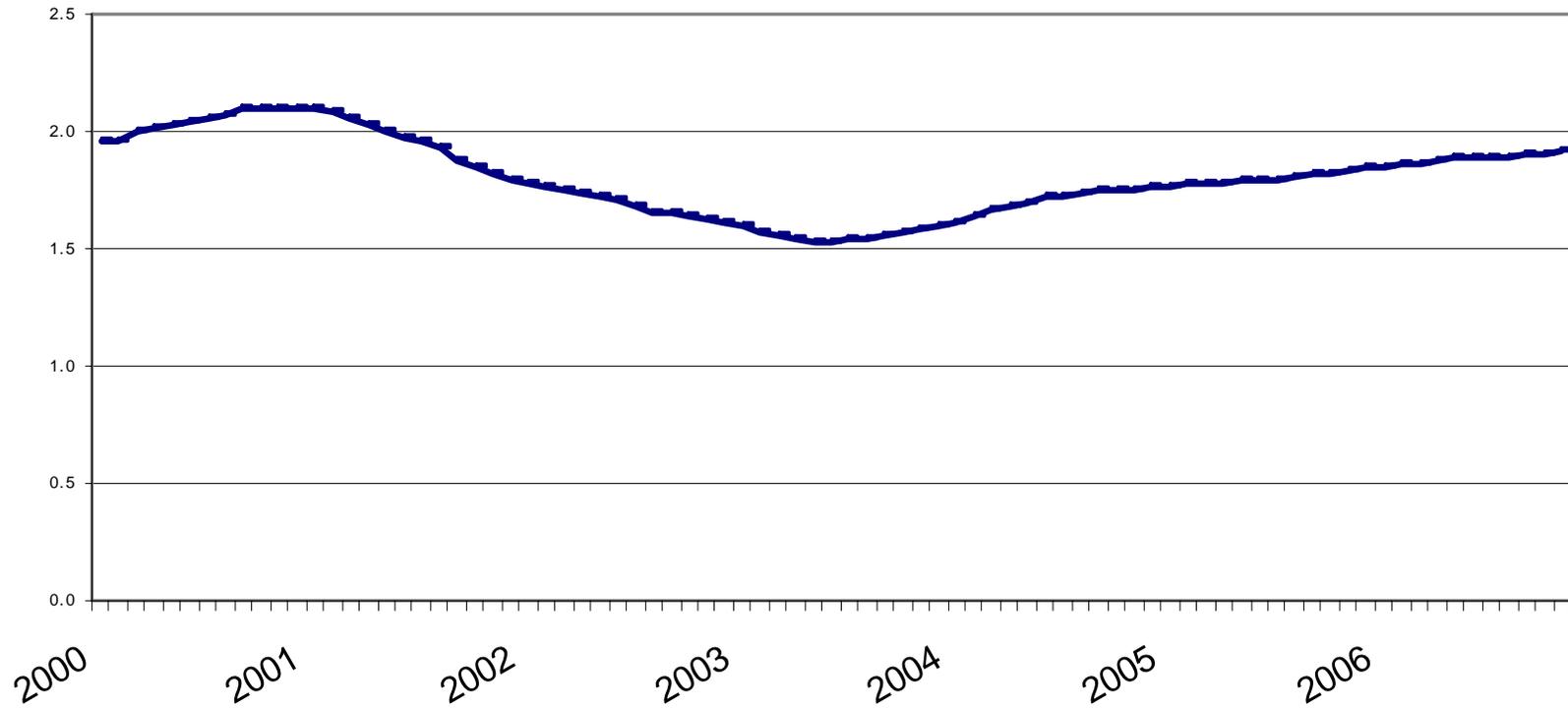
## December 2006 Industry Employment

	Oakland	San Francisco	San Jose	Vallejo	Santa Rosa	Napa
Farm	8%	16%	30%	8%	22%	15%
Natural Resources and Mining	52%	9%	9%	17%	9%	4%
Construction	40%	22%	22%	7%	7%	2%
Manufacturing	27%	13%	48%	2%	7%	3%
Trade, Transportation and Utilities	35%	29%	24%	5%	6%	2%
Information	26%	35%	33%	1%	3%	1%
Financial Activities	34%	41%	17%	3%	4%	1%
Professional and Business Services	29%	35%	30%	2%	4%	1%
Educational and Health Services	33%	28%	27%	5%	6%	2%
Leisure and Hospitality	27%	37%	23%	4%	6%	3%
Other Services	32%	35%	23%	4%	6%	2%
Government	38%	28%	20%	5%	7%	2%
Total	32%	29%	27%	4%	6%	2%

# Bay Area Index

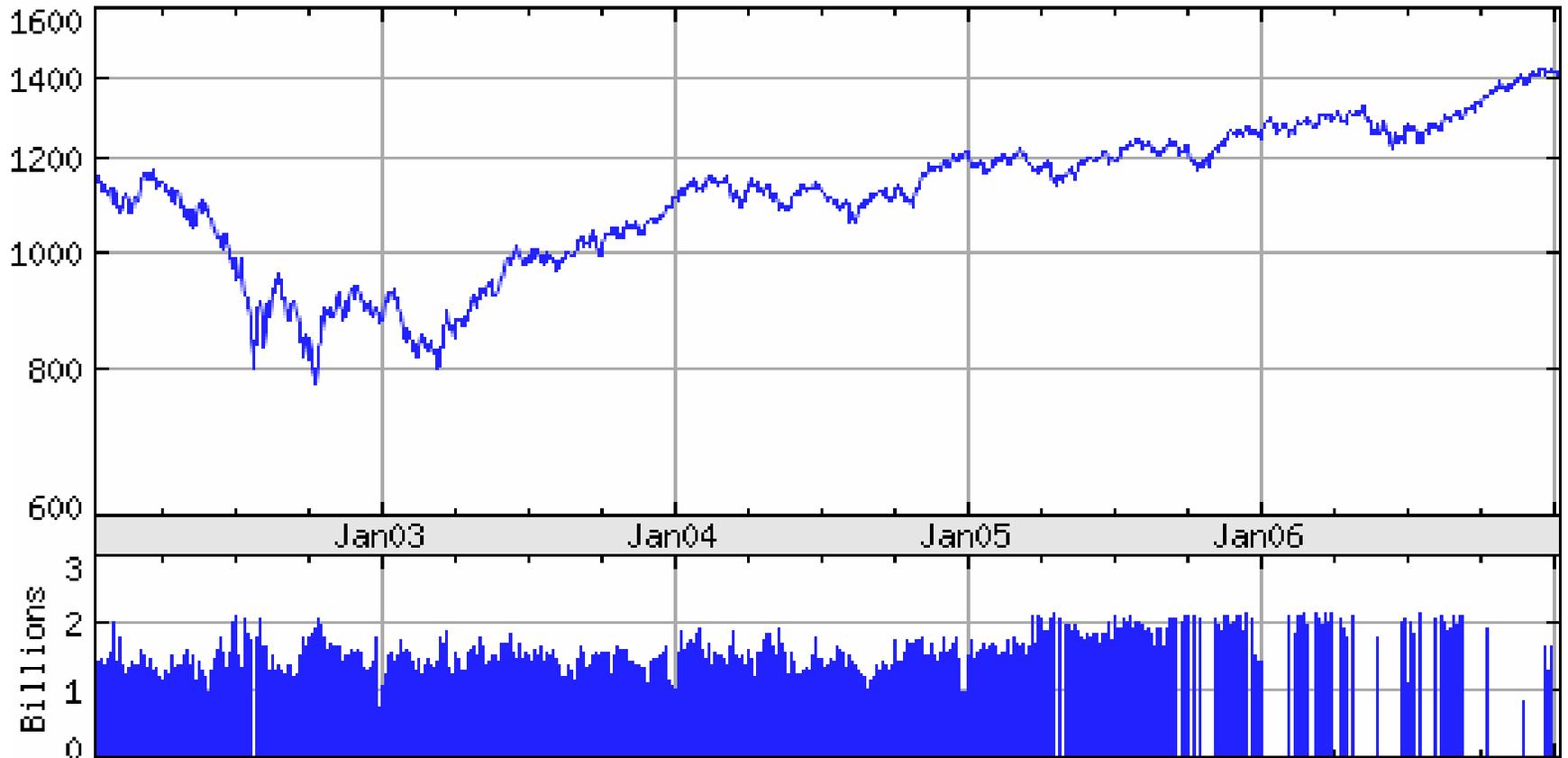
- Leading economic indicator for the Bay Area
- Indicates employment growth 3 to 6 months in advance
- Components include:
  - Book-to-Bill Ratio for printed circuit boards
  - S&P 500
  - Airline passenger travel
  - Regional retail sales data
- Components represent 12-month moving averages

# Bay Area Index



# S&P 500 Index

S&P 500 INDEX (STANDARD & POOR)  
as of 5-Jan-2007



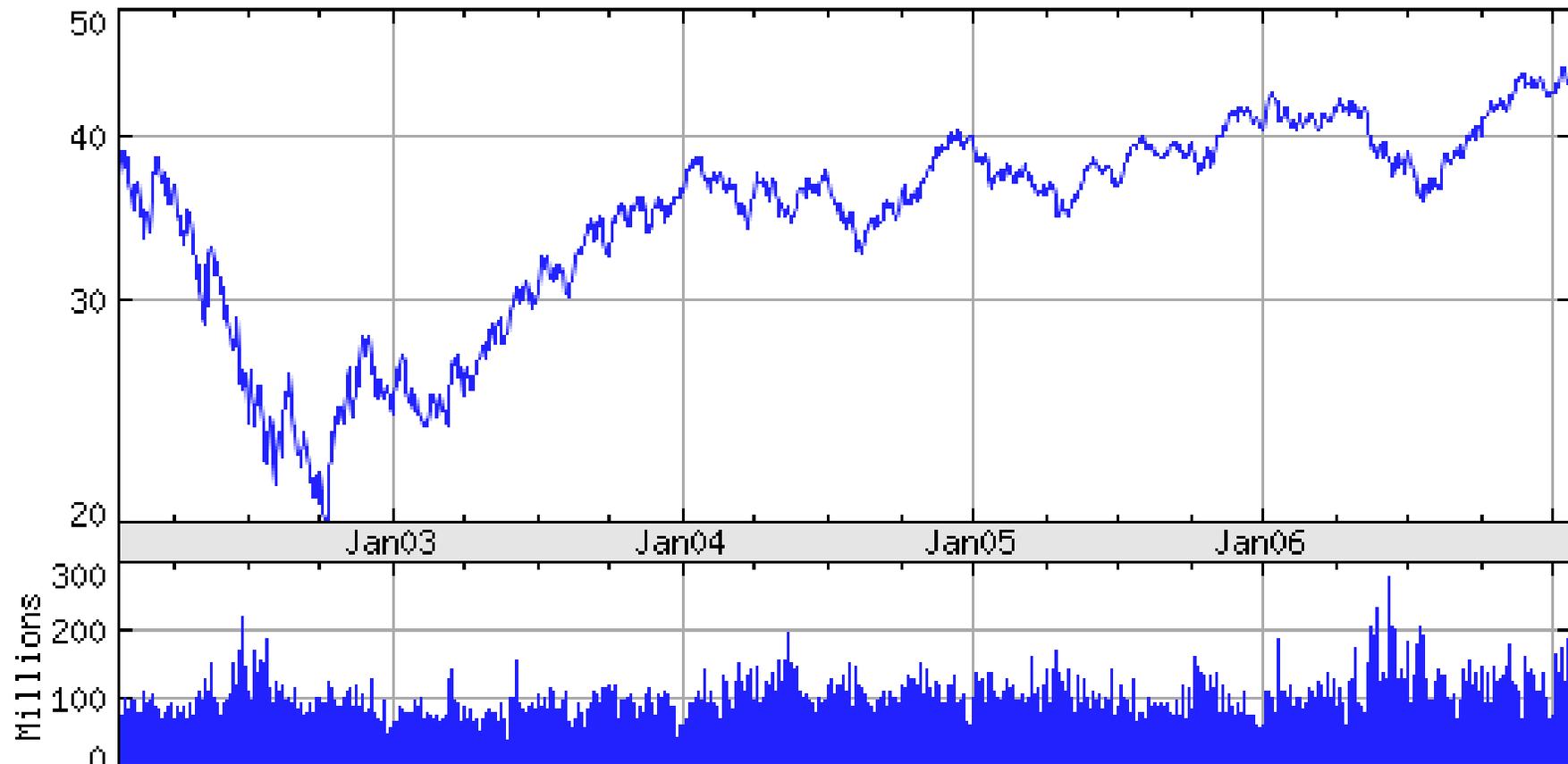
Copyright 2007 Yahoo! Inc.

<http://finance.yahoo.com/>

# Tech Stock Index

NASDAQ-100 TRUST SERIES I  
as of 19-Jan-2007

Splits: ▼



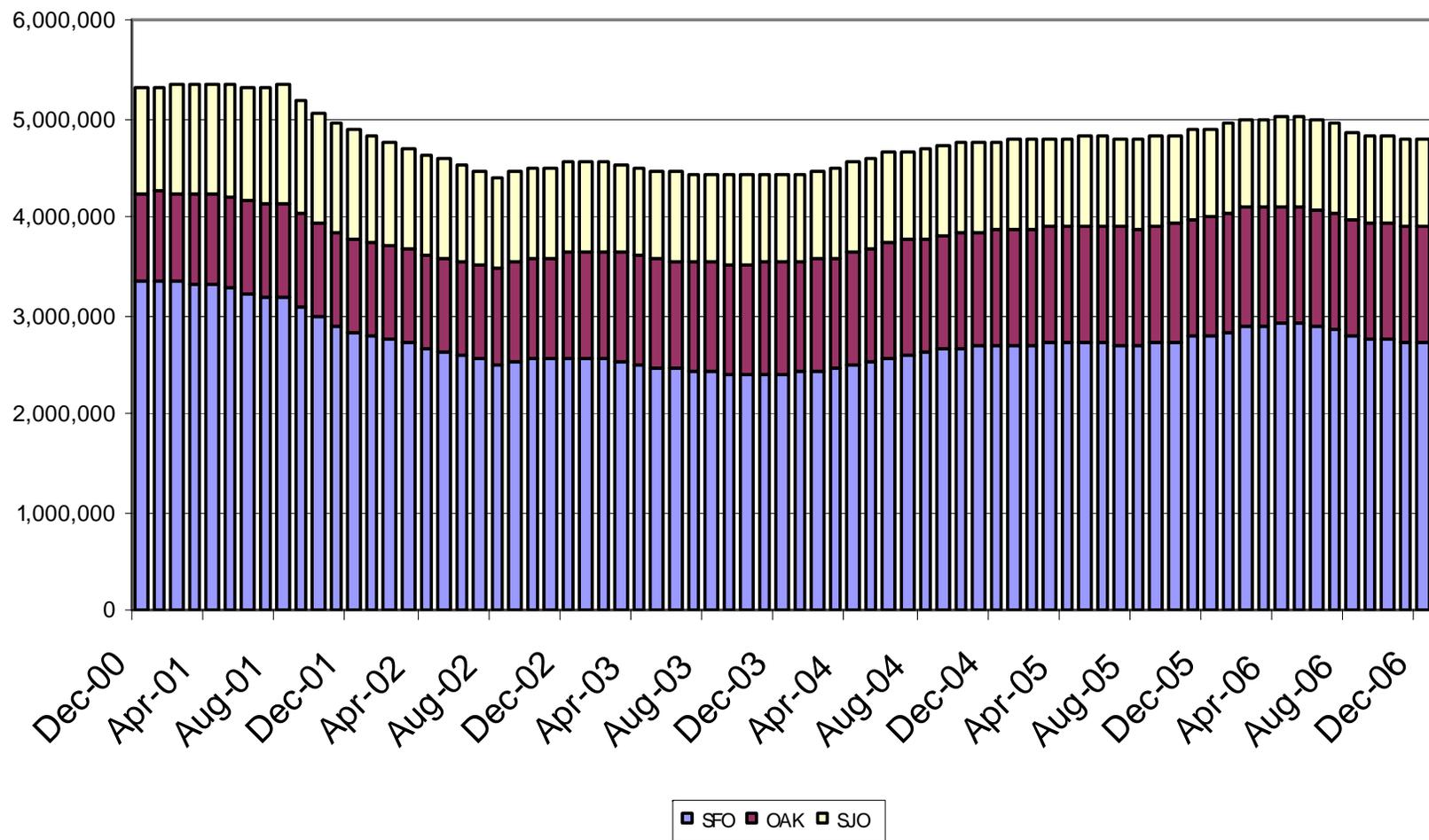
Copyright 2007 Yahoo! Inc.

<http://finance.yahoo.com/>

# Stocks In NASDAQ 100

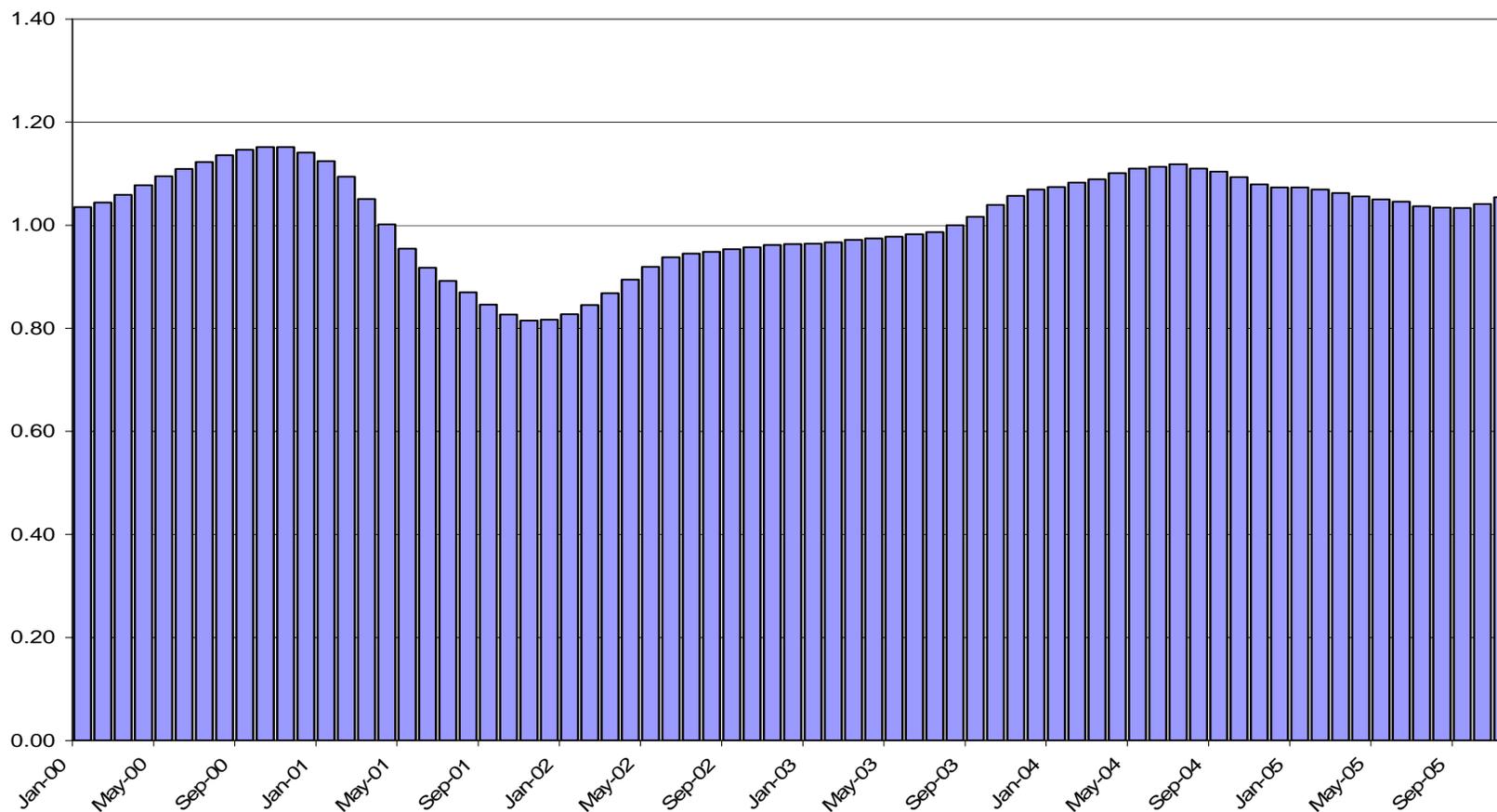
- Adobe
- Amazon.com
- Apple, Inc.
- Applied Materials
- Autodesk
- Cadence Design Systems
- Cisco Systems
- Dell, Inc.
- eBay
- Electronic Arts, Inc.
- QUALCOMM, Inc.
- Lam Research Corporation
- Flextronics Internat
- Google, Inc.
- Intel Corporation
- Intuit, Inc.
- Juniper Networks, Inc.
- Level 3 Communications
- Microsoft Corporation
- Monster Worldwide, Inc.
- Network Appliance, Inc.
- Oracle Corporation
- Sun Microsystems, Inc.
- Yahoo! Inc.

# Airline Passengers Bay Area



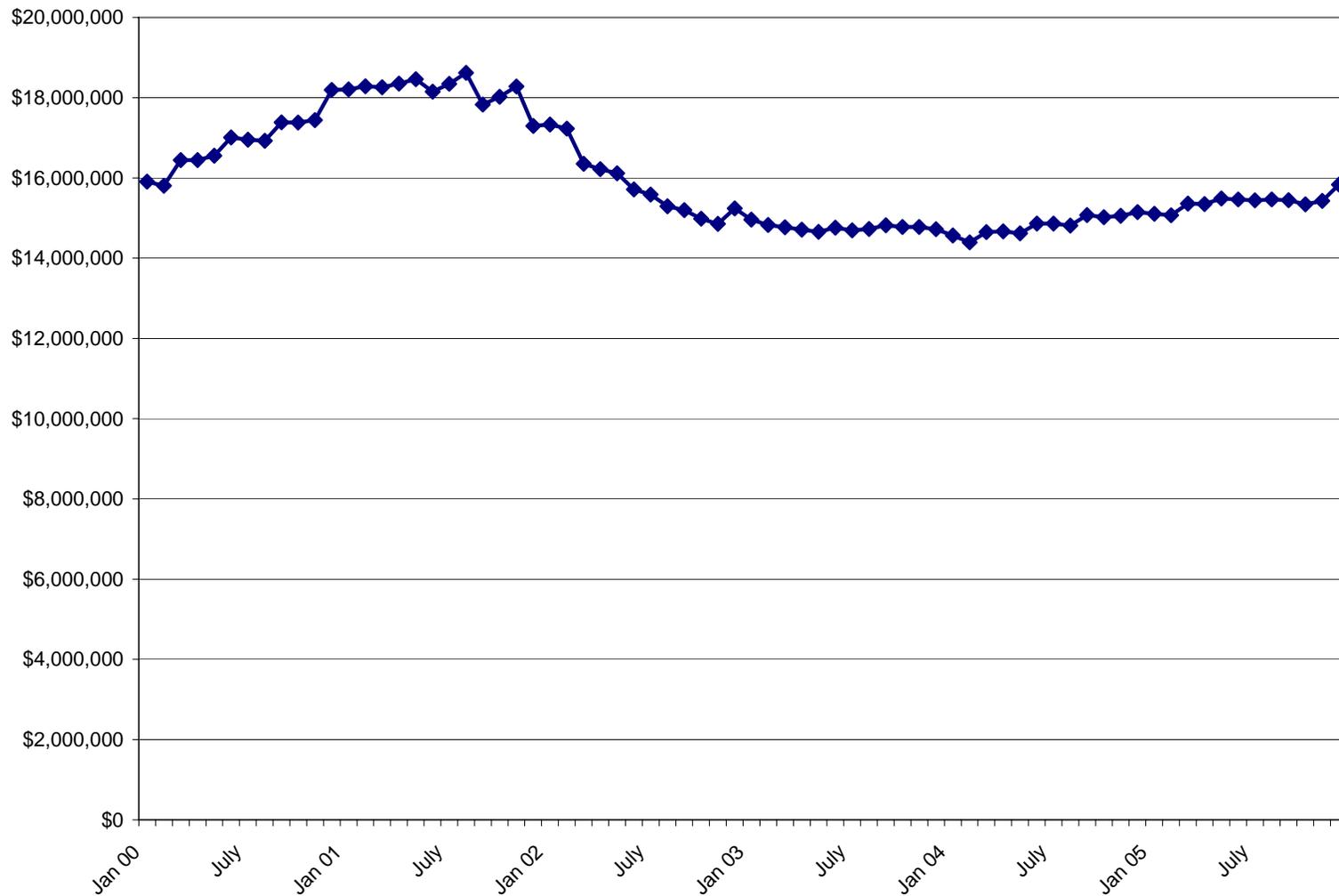
# Book-to-Bill Ratio 2001-2006

## IPC Printed Circuit Boards 12-Month Moving Average



# Retail Sales for Bay Area 2001-2006

## 12-Month Moving Average TDA Receipts

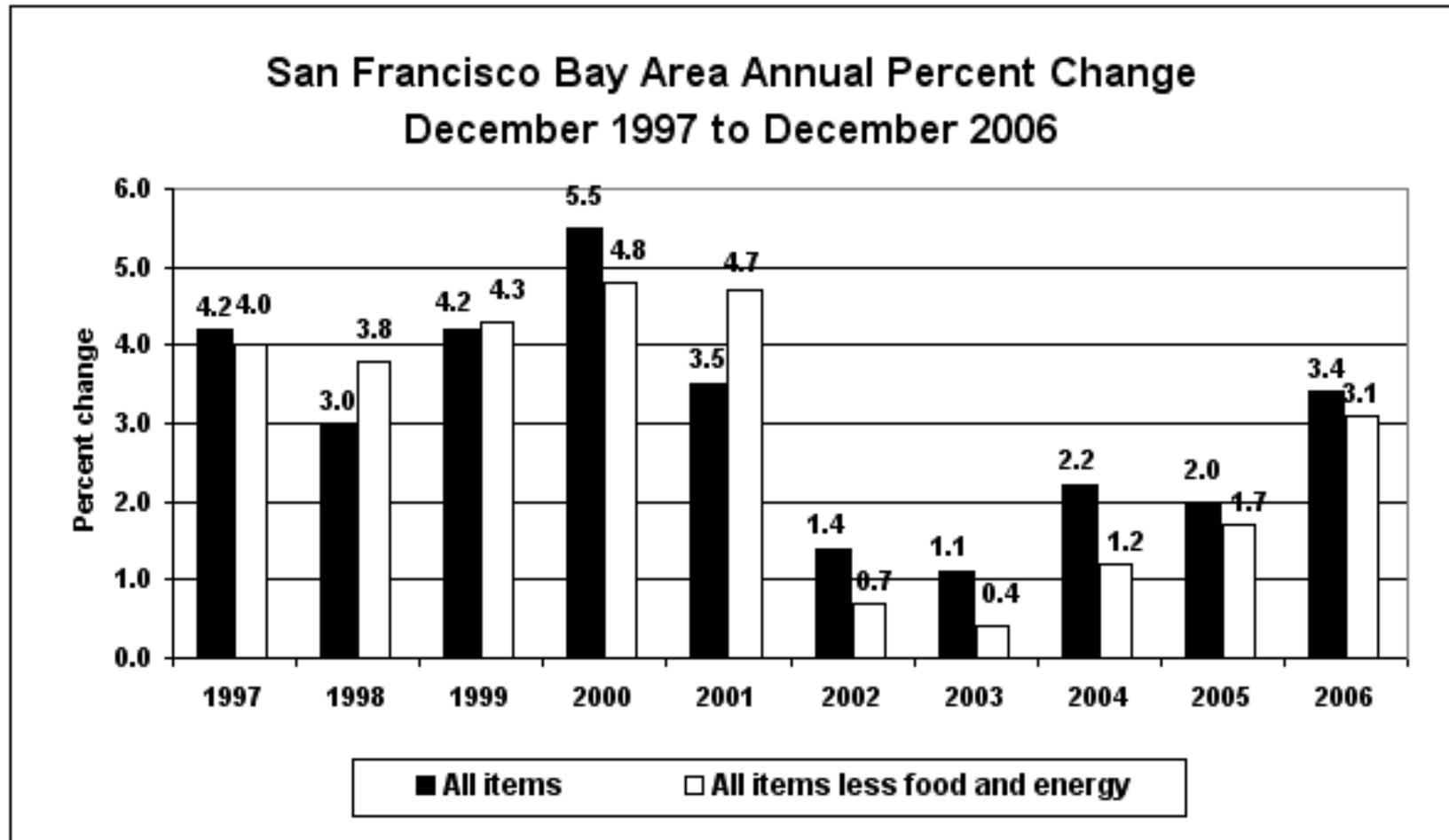


# Growth Ranges for the Bay Area

1990-2006

- Inflation (BLS CPI-U Bay Area)
  - 1.6% to 5.4% annual change
- Household Income
  - -2.0% to 6.3% real annual change
  - 1.2% to 8.5% nominal annual change
- Employment
  - -4.9% to 5.3% annual change
  - -171,300 to 177,200 annual change

# Bay Area CPI



U.S. Dept. of Labor, Bureau of Labor Statistics

# Household Income

## Constant 2005 Dollars

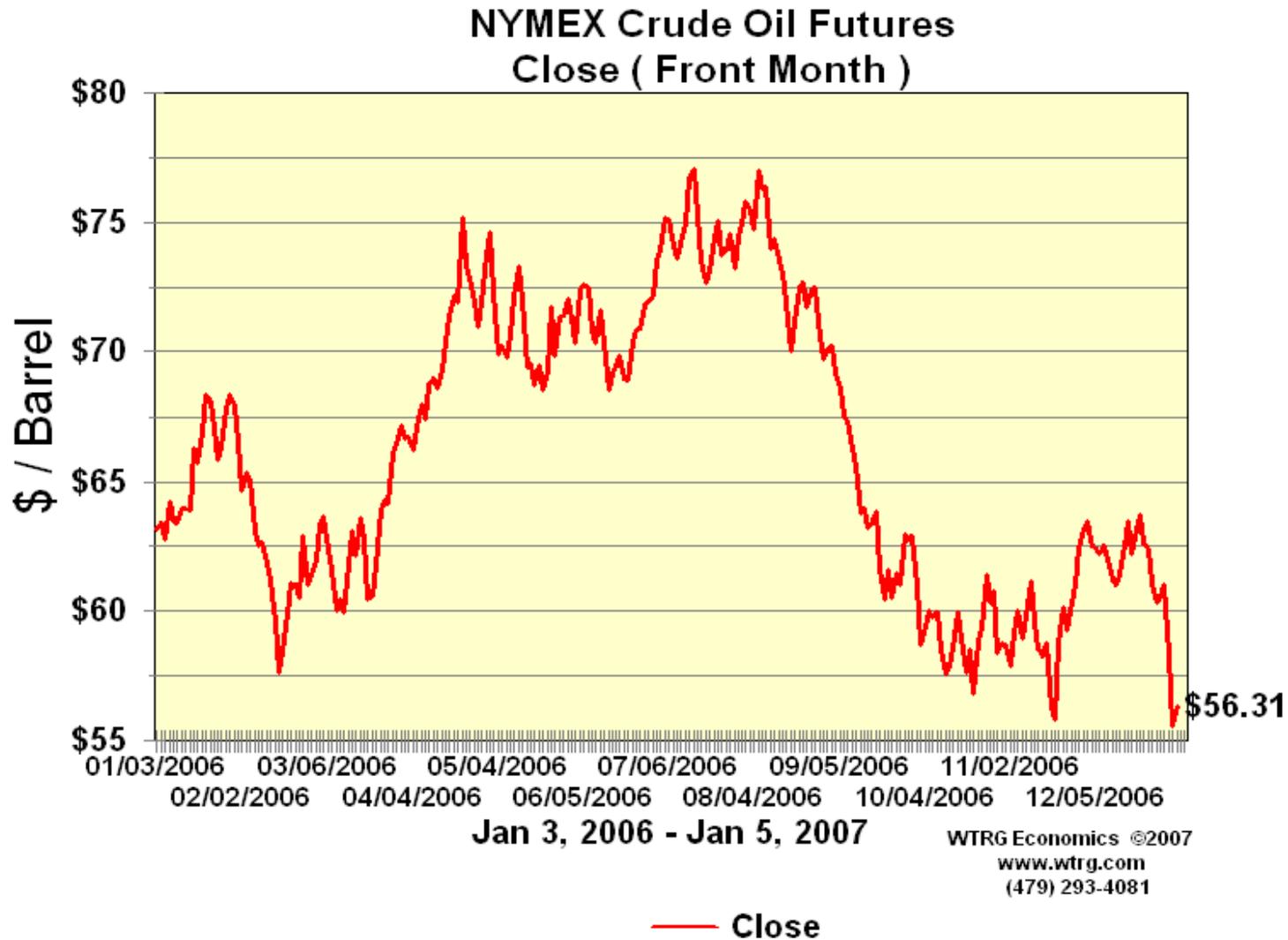
	2005	2006	2007	2008
Alameda	\$ 88,800	\$ 89,870	\$ 90,770	\$ 91,680
Contra Costa	\$ 98,400	\$ 99,580	\$ 100,580	\$ 101,590
Marin	\$ 121,600	\$ 123,060	\$ 124,290	\$ 125,530
Napa	\$ 85,900	\$ 86,930	\$ 87,800	\$ 88,680
San Francisco	\$ 97,400	\$ 98,570	\$ 99,560	\$ 100,560
San Mateo	\$ 121,700	\$ 123,160	\$ 124,390	\$ 125,630
Santa Clara	\$ 97,900	\$ 99,070	\$ 100,060	\$ 101,060
Solano	\$ 84,400	\$ 85,410	\$ 86,260	\$ 87,120
Sonoma	\$ 82,600	\$ 83,590	\$ 84,430	\$ 85,270
Region	\$ 97,400	\$ 98,570	\$ 99,560	\$ 100,560

# Expected Employment Growth

## Wage and Salary Employment

	2007	2008
Oakland	16,900	14,900
San Francisco	14,000	13,500
San Jose	11,500	13,100
Vallejo	2,000	1,800
Santa Rosa	1,700	2,400
Napa	900	1,300
Total	47,000	47,000

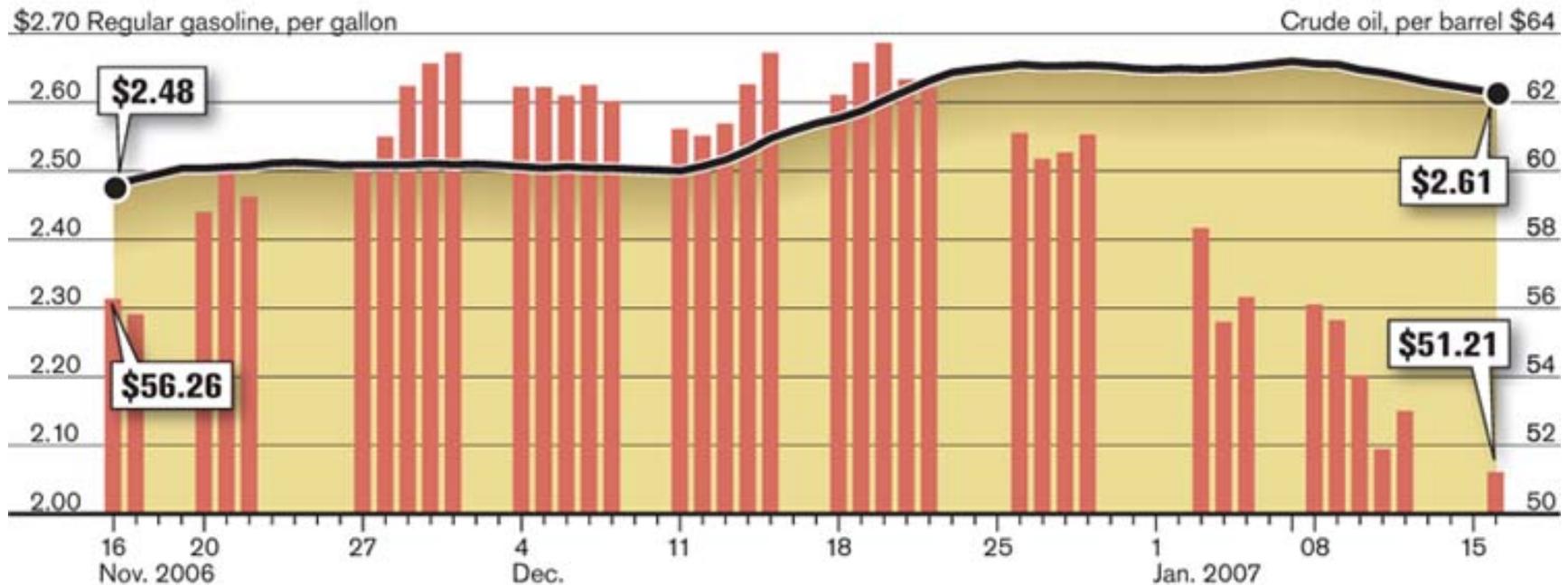
# Oil Futures Prices



# Gasoline Prices

## Rising like a rocket, falling like a feather

Gasoline prices usually fall much more slowly than they rise, even when crude oil prices plunge. After a quick jump in December, California gas prices are inching down.



Sources: AAA of Northern California, U.S. Energy Information Administration

The Chronicle

# Moderate to Slow Economic Growth

- Soft housing market
  - Less construction spending
  - Less spending generated by new households
  - Less equity to use for consumer spending
- Local cost structure still high
  - Housing prices even now dampen economic growth
  - Local wages respond to local housing prices
- Energy prices
  - Energy price rises have slowed, but energy is more expensive
  - Still a risk for higher prices – war, disaster, disruption

# Longer-Term Health of Region

- Physical Advantages of the Region
- Existing Economic Infrastructure
- Ability to Generate Productivity Gains
- Housing Costs

# Forecast Summary

	2004	2005	2006	2007	2008
Inflation	2.2%	2.0%	3.4%	2.4%	2.8%
Income growth	0.8%	4.2%	1.2%	1.0%	1.0%
Job growth	22,320	27,000	54,100	47,000	47,000

Inflation estimates are for the Bay Area only

Income growth describes expected growth in real income

Jobs growth is for wage and salary jobs

# Conclusions

- Bay Area Index and its components suggest slow to moderate growth
- Santa Clara no longer lags the region
- Energy prices and soft housing market important
- Future expectations for growth a balance between Bay Area and national factors



*Bay Area Retail Sales:  
The Short-Term Outlook*

---

**Randy Deshazo**

**Senior Planner**

**Association of Bay Area Governments**

# Retailer Ups & Downs

## 2006 Comparable-Store Sales

### General Merchandise

■ CVS	+8.2%
■ Target	+4.8%
■ Wal-Mart	+1.8%

### Apparel

■ Chico's FAS	+2.4%
---------------	-------

### Home Supply

■ Pier 1	-11.4%
----------	--------

Source: Business Wire Retail Report

# Retailer Ups & Downs

## 2004-2005 Comparable-Store Sales

	2004	2005
■ American Eagle Outfitters	+21.4%	+15.8%
■ Bombay Company	-13.0%	-2.0%
■ Big Lots	-0.3%	+1.5%

# Retailer Trends

## Number of Vehicles Sold During 2005 Compared to 2004

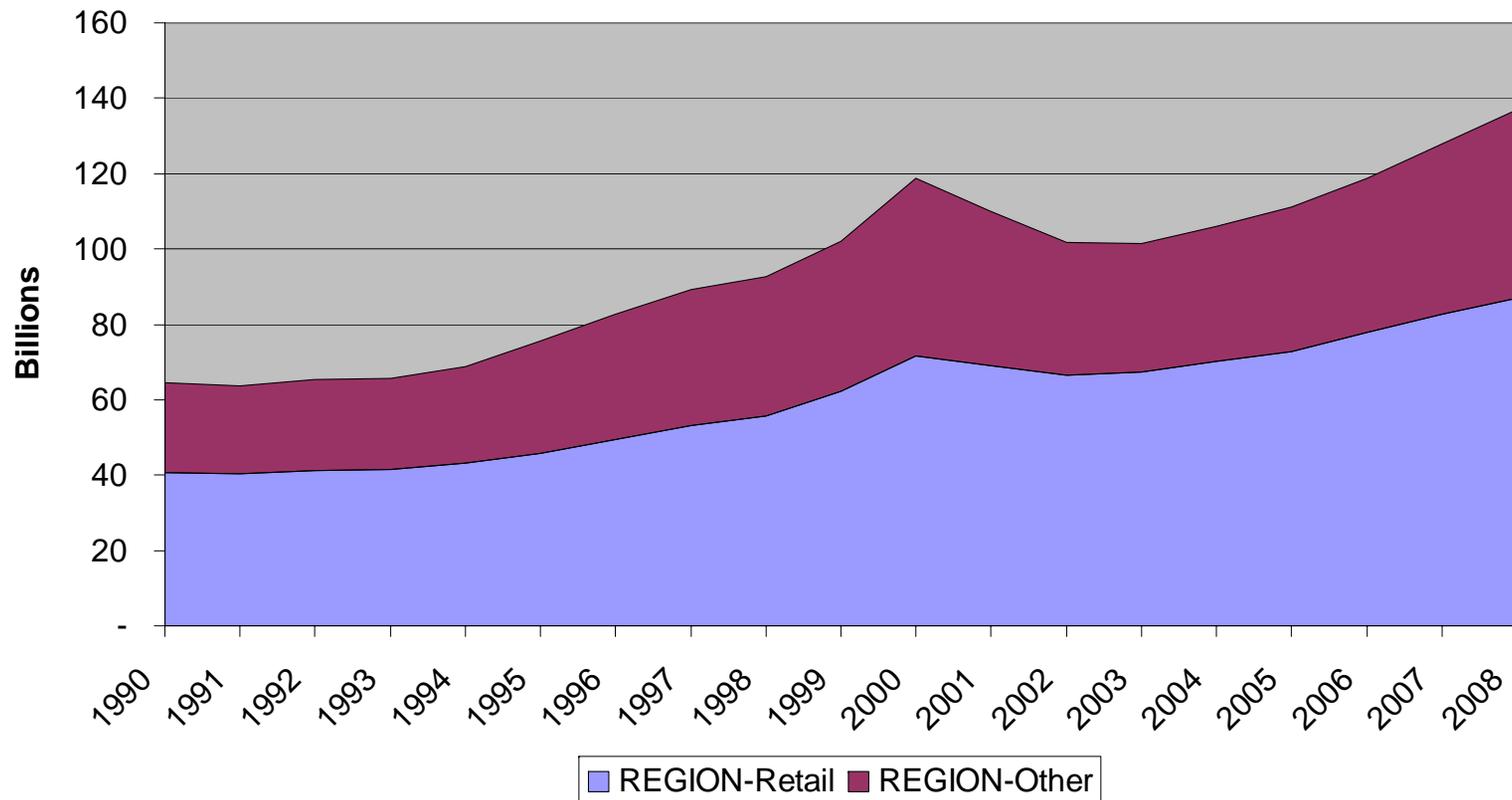
■ GM	-3.8%
■ Ford	-4.3%
■ Chrysler	+5.0%
■ Toyota	+9.9%
■ Honda	+5.8%
■ Nissan	+10.3%

The big three lost ground to Toyota in 2006, with industry experts forecasting that Toyota will become the number 2 vehicle selling firm in the United States.

Source: Detroit News

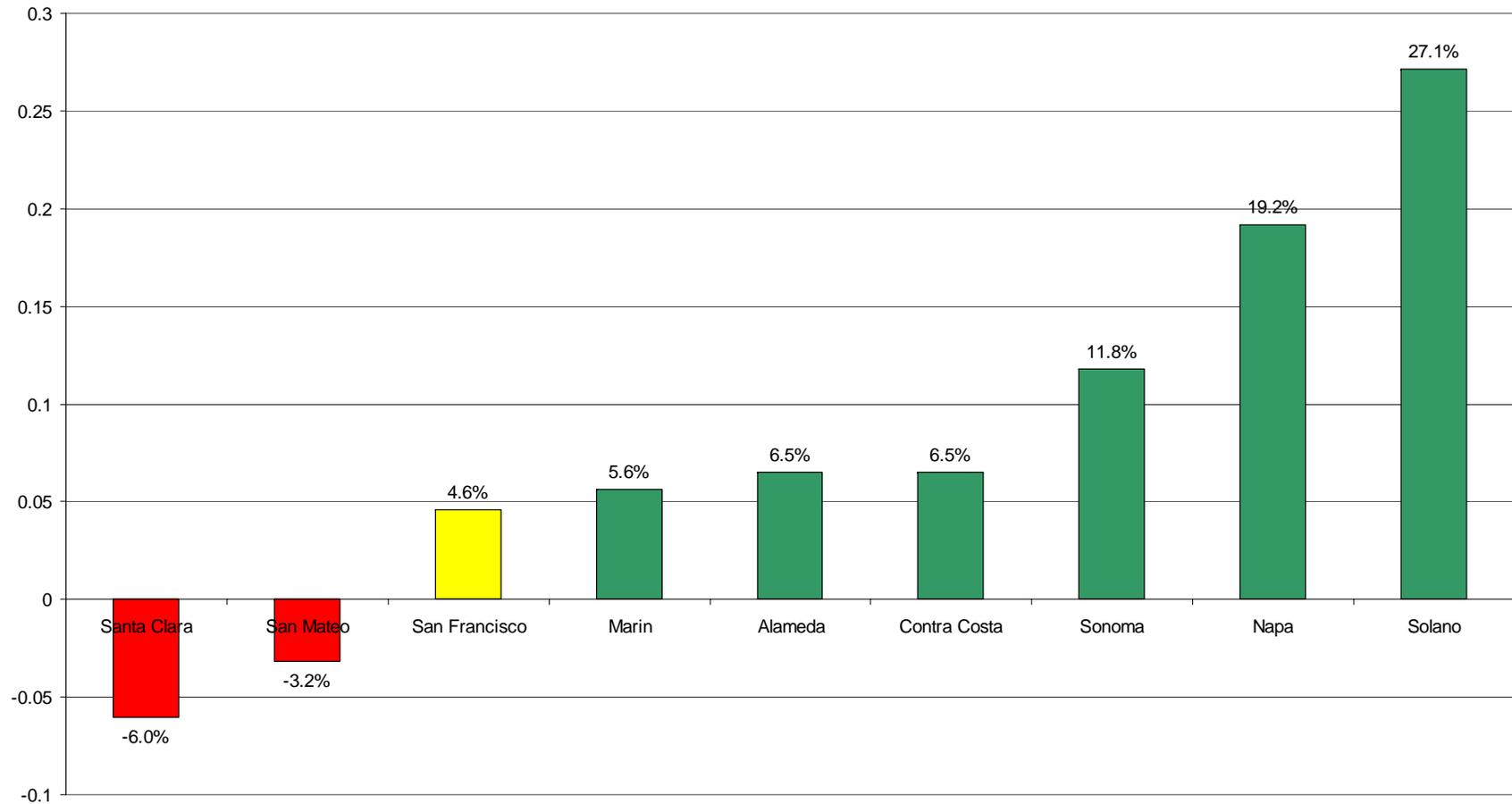
# Regional Sales

Regional Sales 1990-2008



# County Ups & Downs

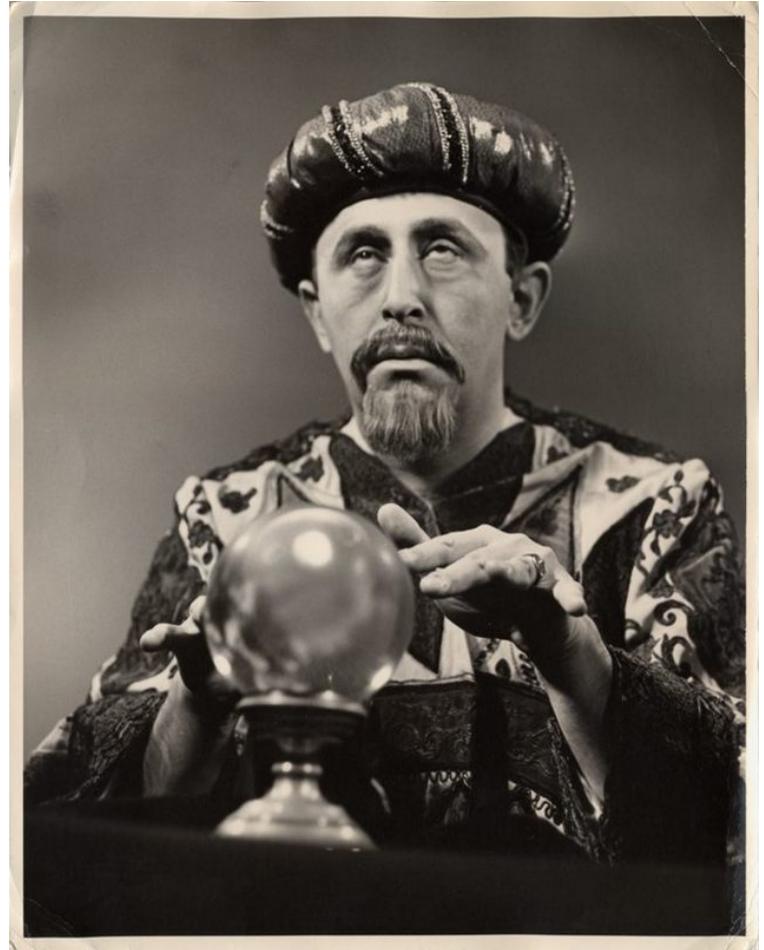
Change in total taxable sales from 2001 to 2005



# Taxable Sales Forecast

Despite natural disasters and an ongoing war, Consumer Confidence Index up from 100.25 in 2005 to 105.78 in 2006.

This indicates growing confidence in the economy.



# Outlook for Taxable Sales

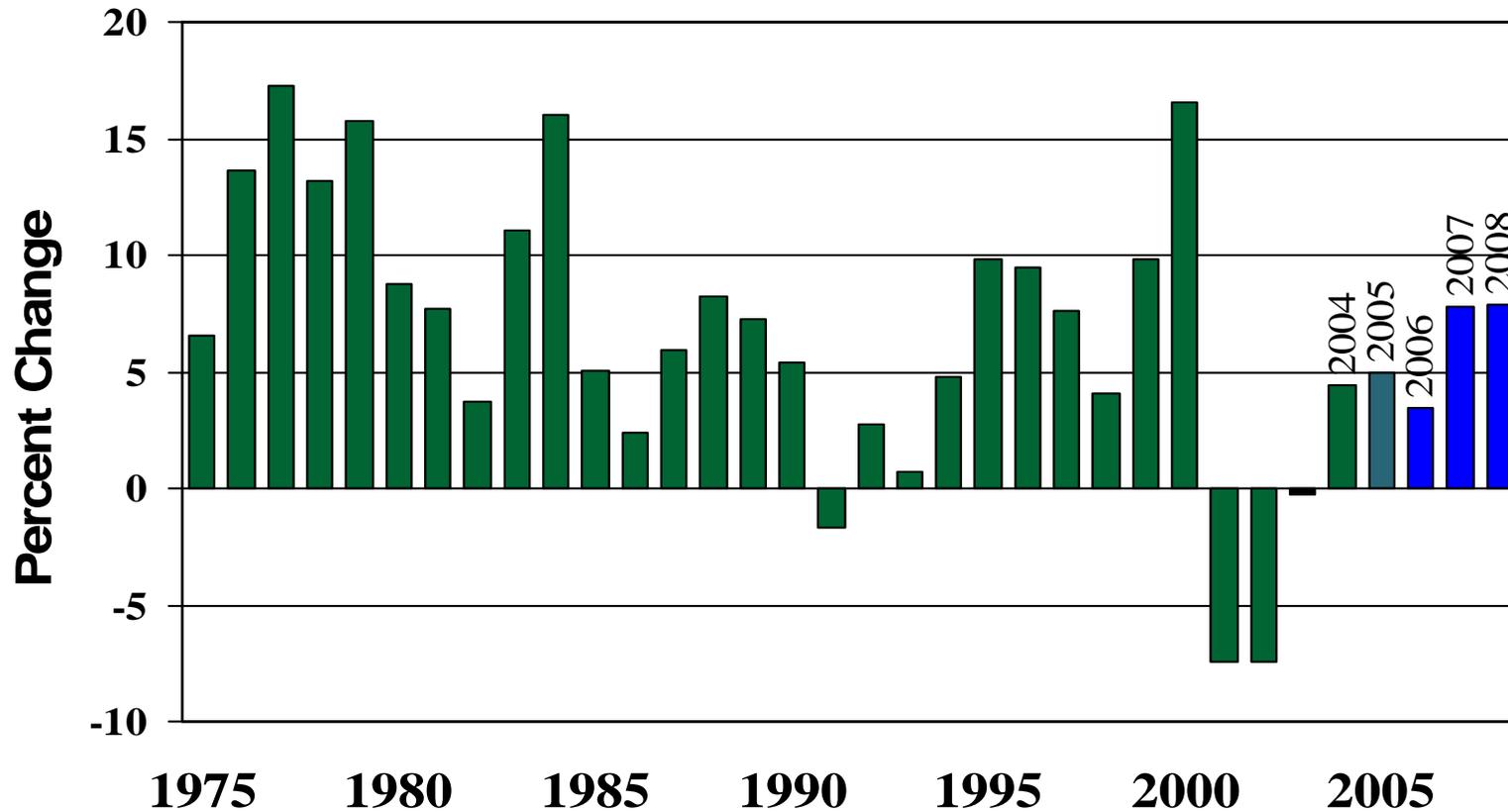
- Consumer confidence index has climbed over last year's level
- Job market improvement
- Mean household income increasing
- Steady sales growth

# Outlook for Taxable Sales

- Steady sales during 2006
- Slow job market may not support this growth
- Concerns about costs of homeownership may squeeze sales

# Taxable Sales Growth

San Francisco Bay Area (nominal dollars)



Source: California Board of Equalization, ABAG

# Taxable Sales Growth

## San Francisco Bay Area

### Nominal Percent Growth

	2002	2003	2004	2005	Estimate 2006	Forecast 2007	Forecast 2008
<b>Retail Stores</b>	-3.5	1.1	4.3	6.5%	4.4%	5.6%	6.6%
<b>All Other Taxable</b>	-14.0	-2.8	4.6	12.4%	3.1%	12.1%	10.7%
<b>Total Taxable Sales</b>	-7.4	-0.3	4.4	8.5%	4.0%	7.9%	8.1%

# Taxable Sales Growth

## East Bay & South Bay

### Nominal Percent Growth

	2002	2003	2004	2005	Estimate 2006	Forecast 2007	Forecast 2008
<b>Alameda County</b>	-6.6	0.5	7.6	5.4%	4.3%	6.0%	6.5%
<b>Contra Costa County</b>	-0.8	0.5	6.3	3.8%	4.3%	7.6%	7.5%
<b>Santa Clara County</b>	-14.6	-1.4	5.3	6.0%	3.7%	8.0%	8.1%

# Taxable Sales Growth

## North Bay

### Nominal Percent Growth

	2002	2003	2004	2005	Estimate 2006	Forecast 2007	Forecast 2008
<b>Napa County</b>	6.2	-4.2	7.4	9	4.7	7.0	6.9
<b>Solano County</b>	6.9	5.2	7.8	4.9	4.1	3.2	3.4
<b>Sonoma County</b>	-1.7	1.4	5.8	6.0	4.8	7.9	7.6

# Taxable Sales Growth

## West Bay

### Nominal Percent Growth

	2002	2003	2004	2005	Estimate 2006	Forecast 2007	Forecast 2008
<b>Marin County</b>	-2.6	1.1	4.2	2.9	3.3	6.4	5.8
<b>San Francisco</b>	-7.0	-0.8	6.2	6.7	3.1	5.7	5.4
<b>San Mateo County</b>	-9.7	-2.2	3.9	5.4	3.7	7.3	6.9

# Commercial Real Estate Trends

- Vacancy rates continue to drop throughout the Bay Area, reaching four year lows in 2005
- Office vacancy rate: 14%
- R&D vacancy rate: 19.1%
- Warehouse vacancy rate: 6.9%
- Manufacturing vacancy rate: 5.5%

Source: NAI BT Commercial

# Retail Space

- Throughout the Bay Area, asking annual rents ranged from \$30/SF to \$48/SF.
- Demand for space, especially space for restaurants, continues to drive up rates in San Francisco, in particular.
- Location is everything, especially in retail. Even with annual rents reaching \$400/SF in Union Square, vacancy rates are extremely low (1.5%).

# Sub-regional Trend Break-outs

<b>Office Space (Direct space and full service)</b>			
	<b>3Q2004</b>	<b>3Q2005</b>	<b>3Q2006</b>
<b>San Francisco</b>	\$23.38	\$25.79	\$28.90
<b>East Bay</b>	\$22.35	\$22.08	\$22.43
<b>San Mateo</b>	\$25.94	\$24.74	\$27.95
<b>Santa Clara</b>	\$24.40	\$23.60	\$20.74

# Sub-regional Trend Break-outs

<b>R&amp;D Space (Direct space and full service)</b>			
	<b>3Q2004</b>	<b>3Q2005</b>	<b>3Q2006</b>
<b>East Bay</b>	\$9.60	\$9.60	\$9.72
<b>San Mateo</b>	\$18.00	\$18.48	\$19.56
<b>Santa Clara</b>	\$11.16	\$12.48	\$12.00

# More Information

Including County Forecasts by Quarter  
(available 2/1/07)

<http://data.abag.ca.gov/retail/>



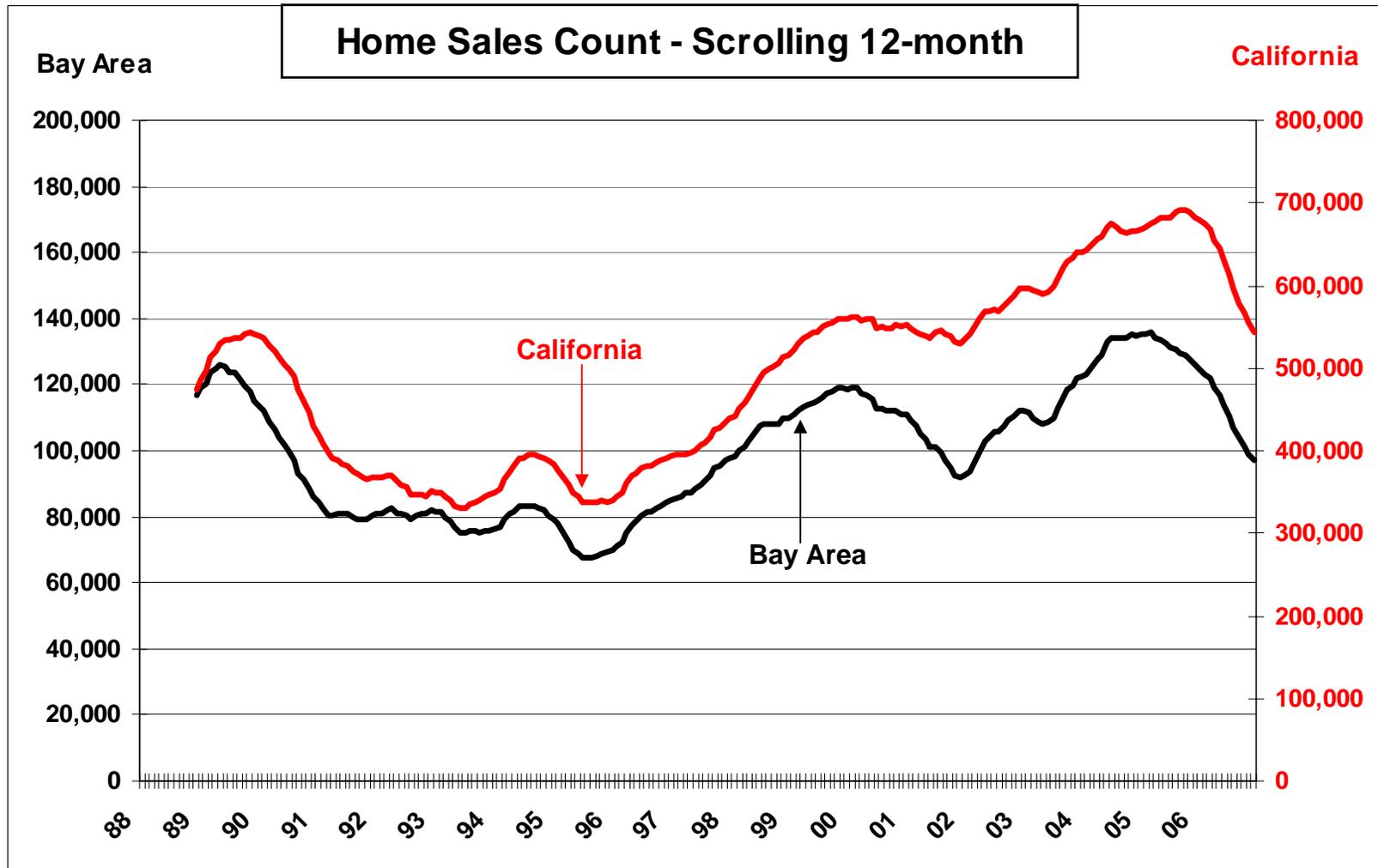


*The Real Estate Market:  
Prognosis for the Next 2 Years*

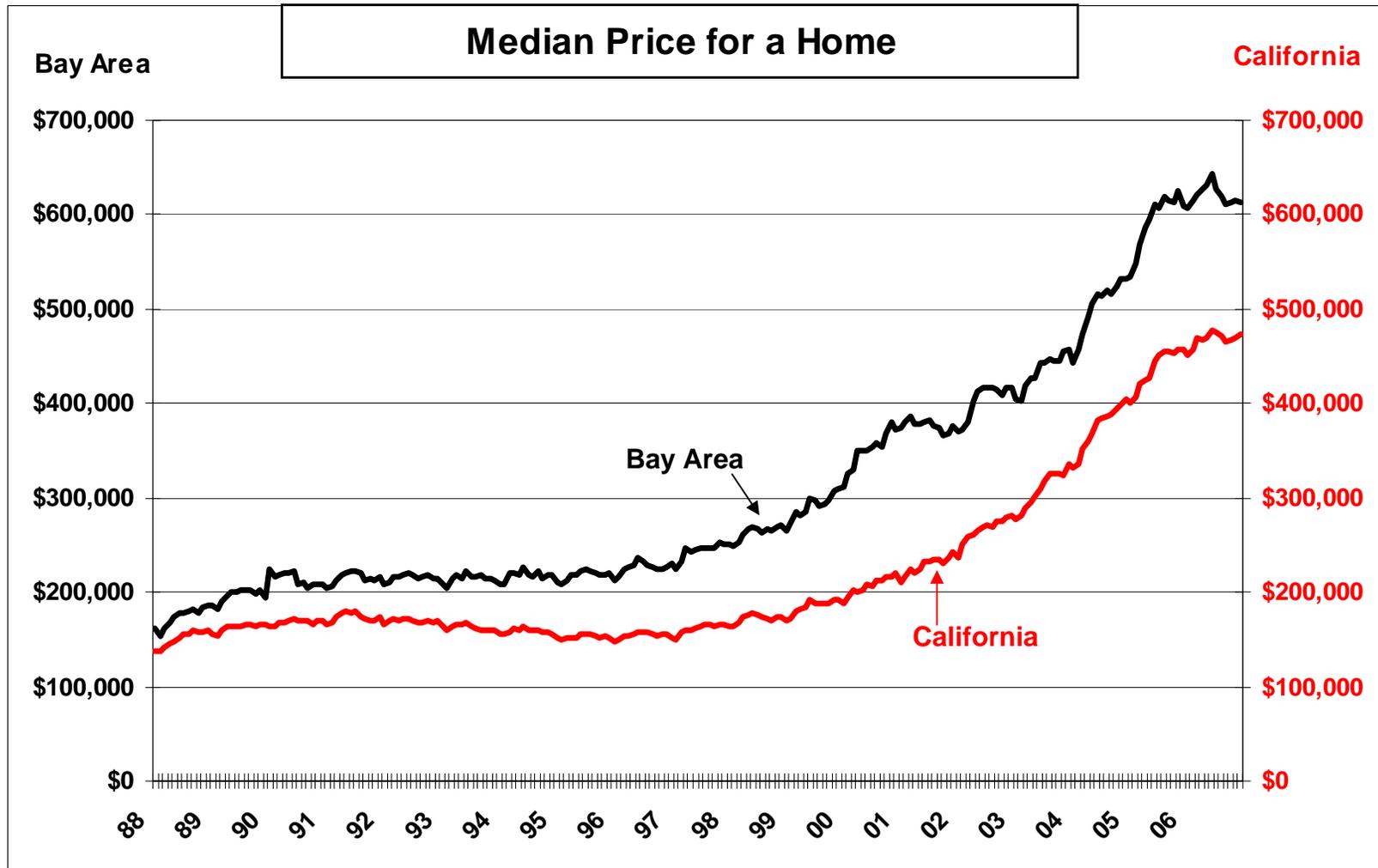
---

**John Karevoll**  
**Analyst**  
**DataQuick**

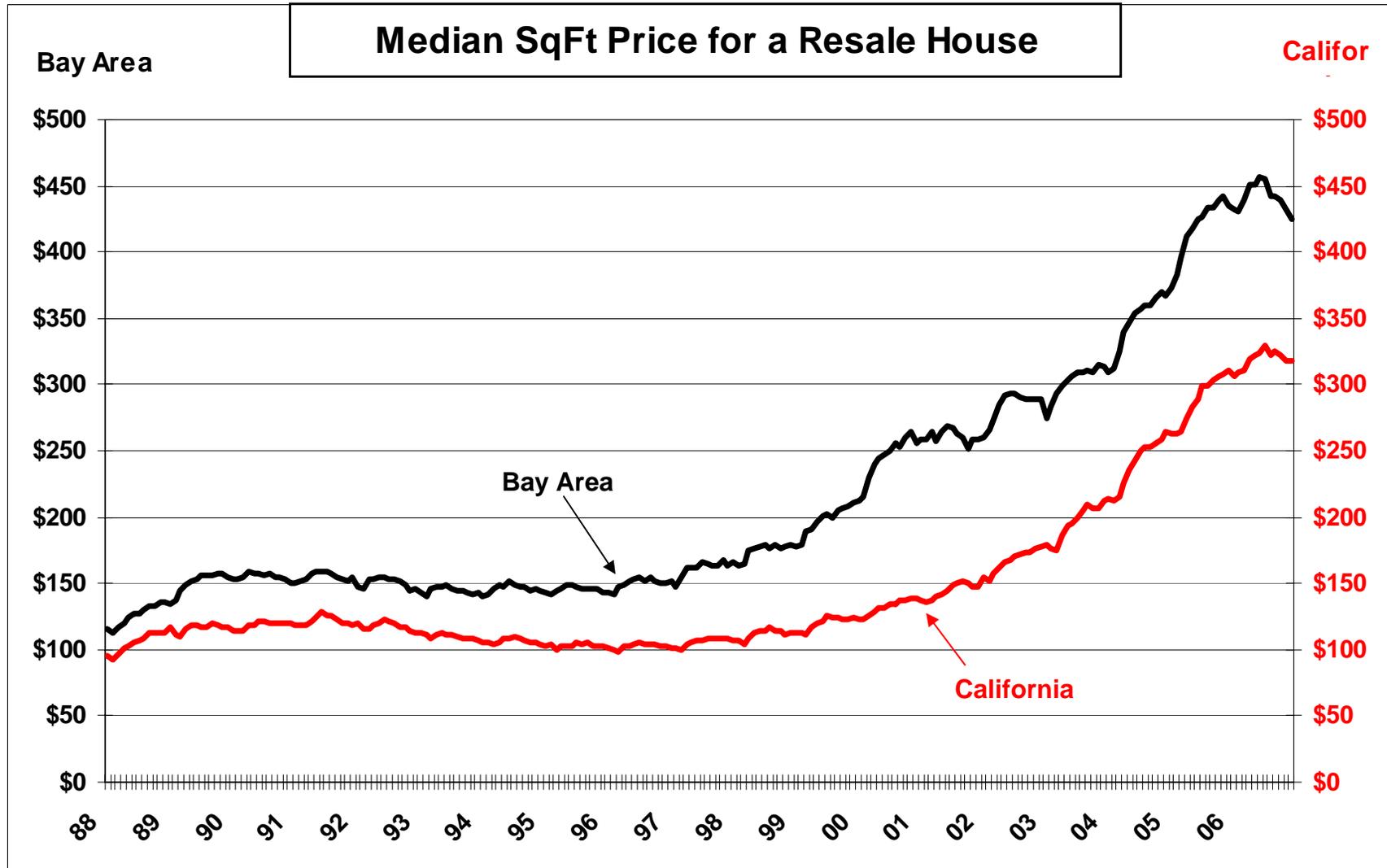
# Home Sales Count



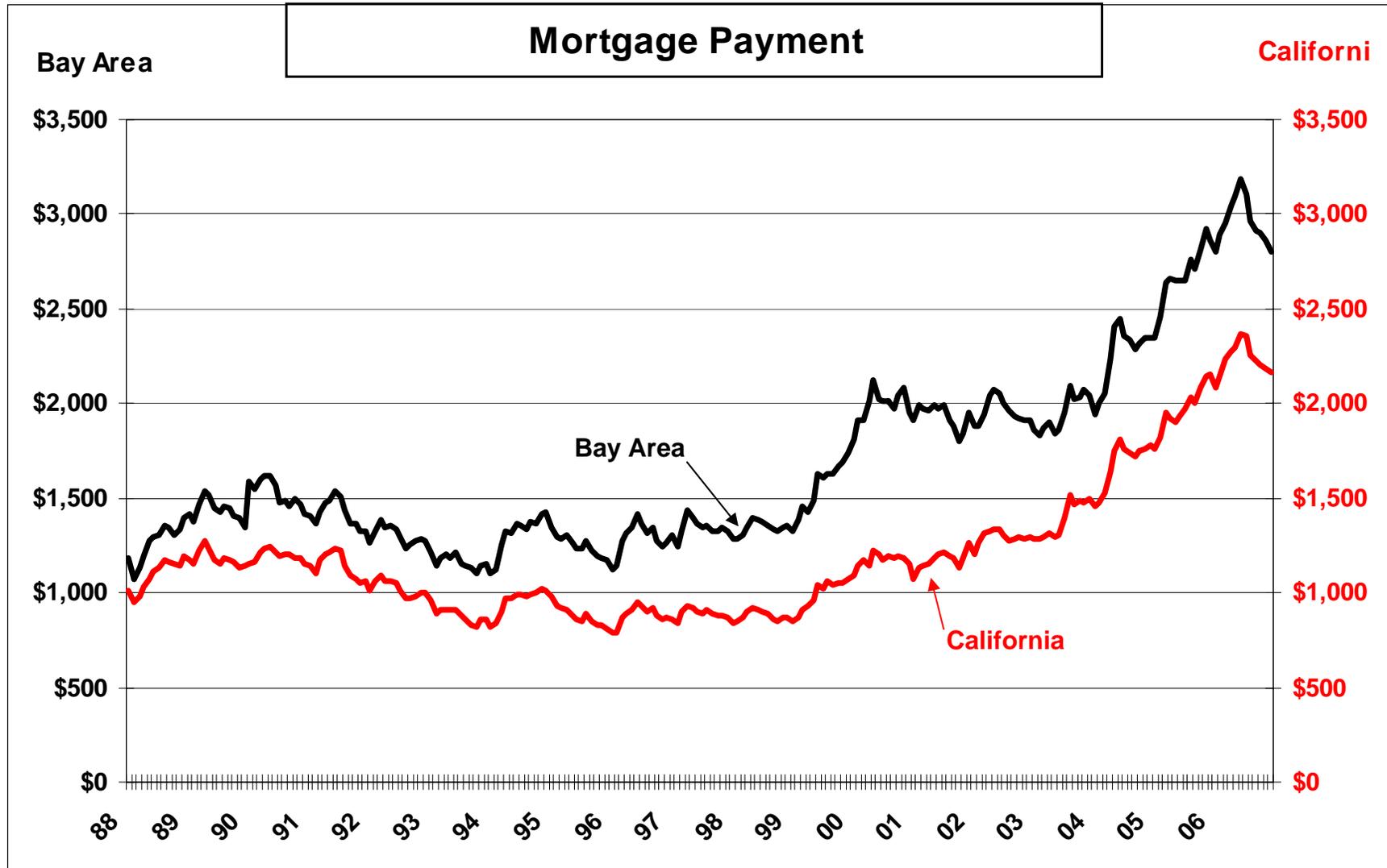
# Median Home Price



# Median Square Feet Price

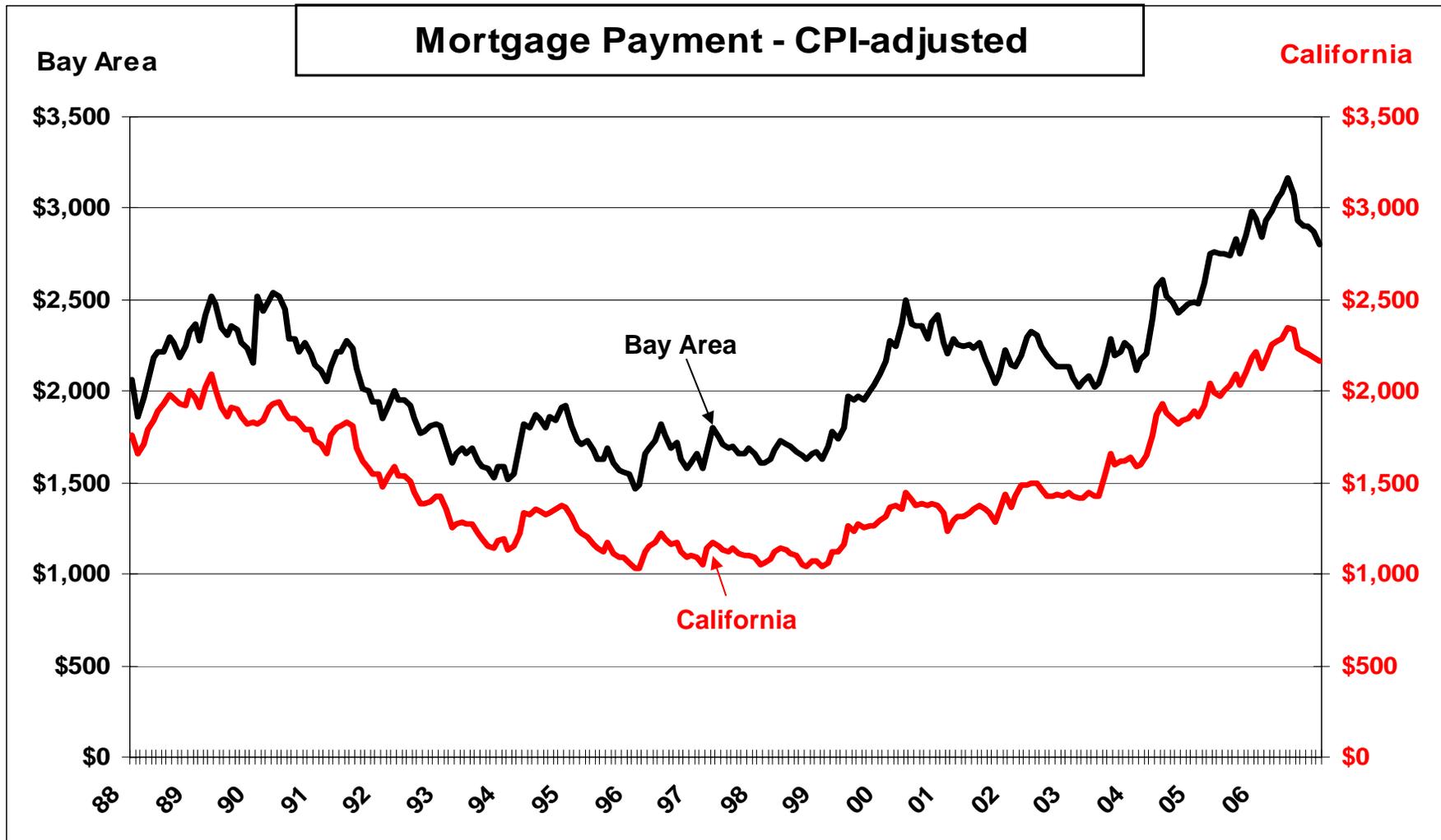


# Mortgage Payment

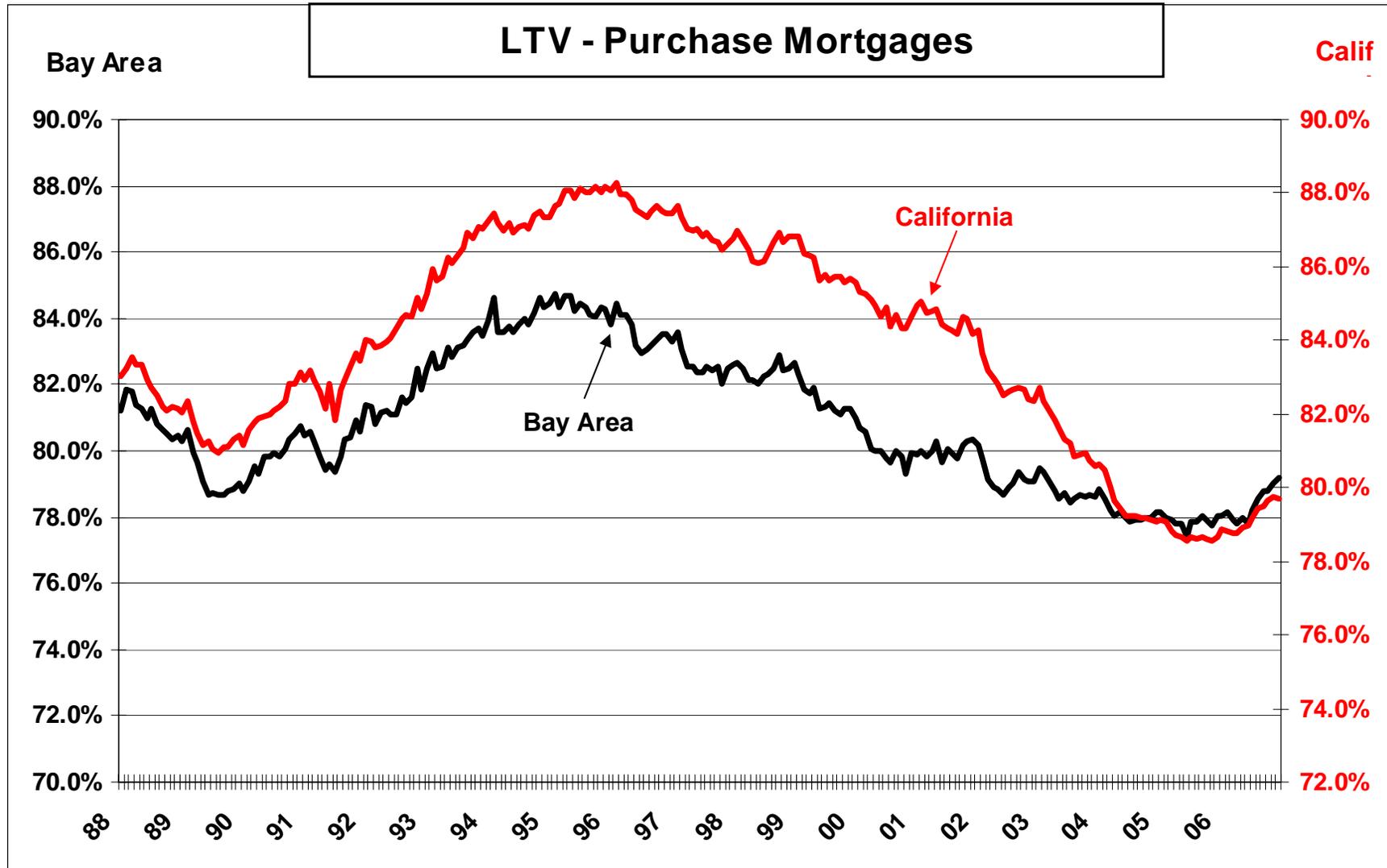


# Mortgage Payment

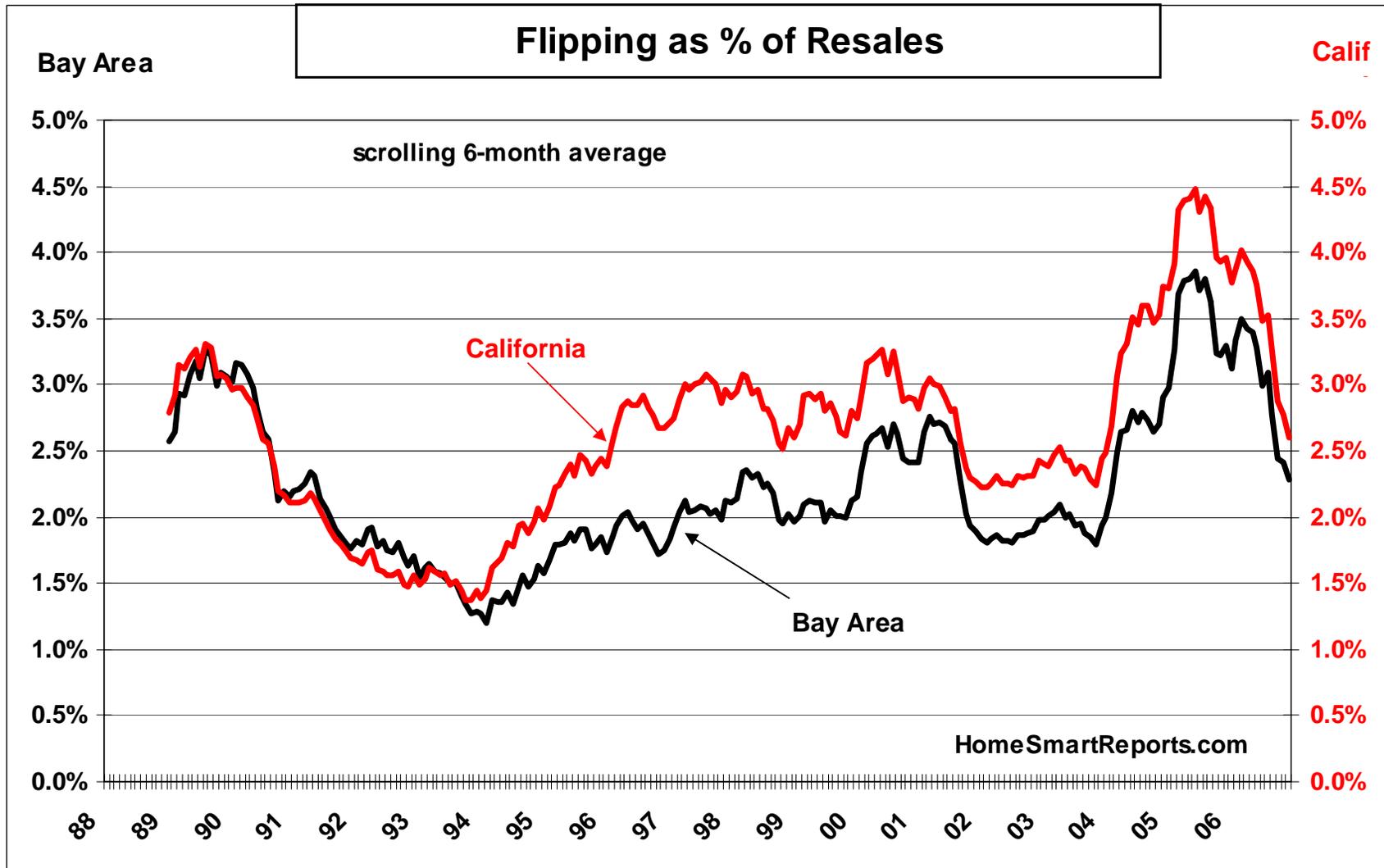
## CPI-Adjusted



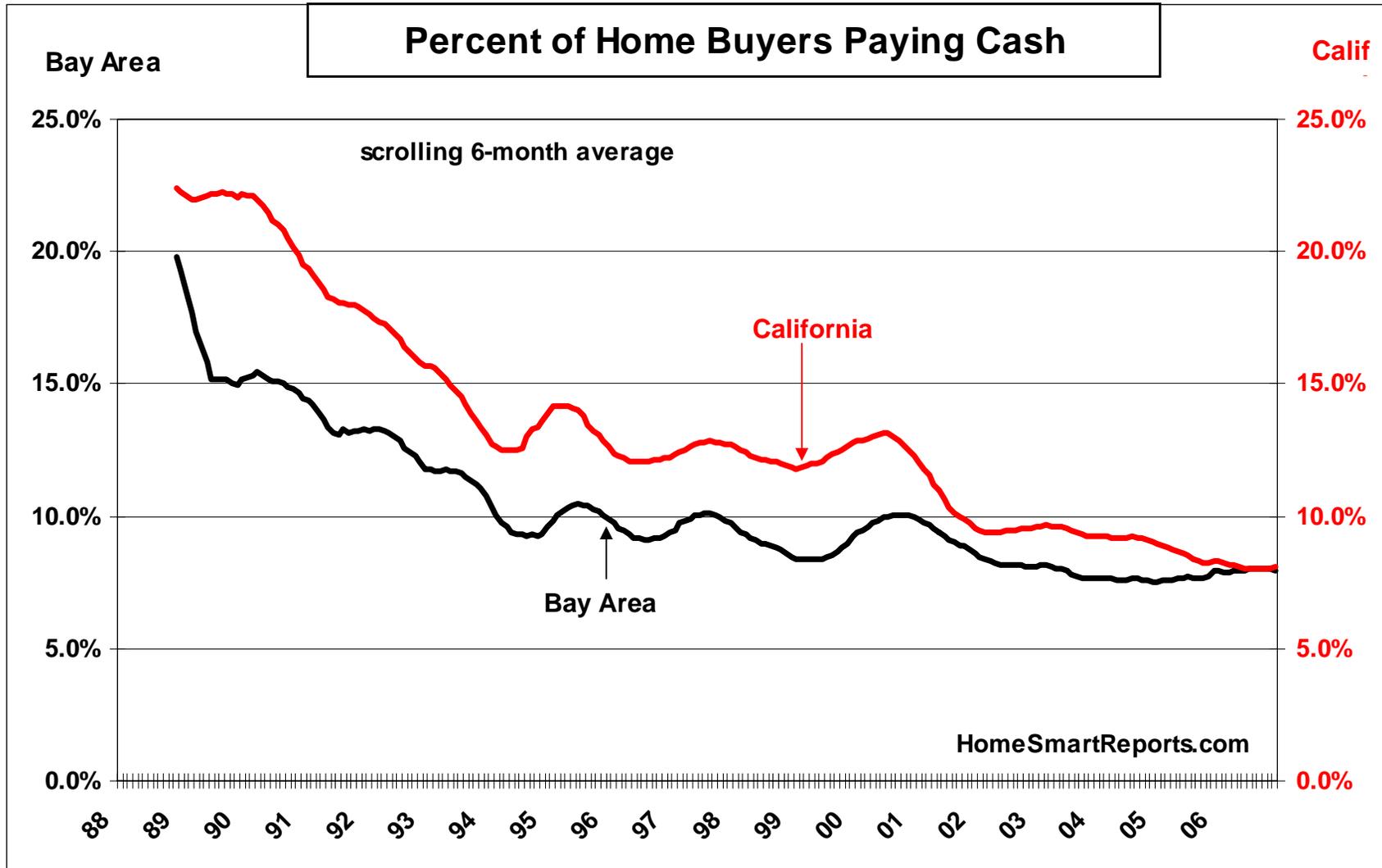
# LTV – Purchase Mortgages



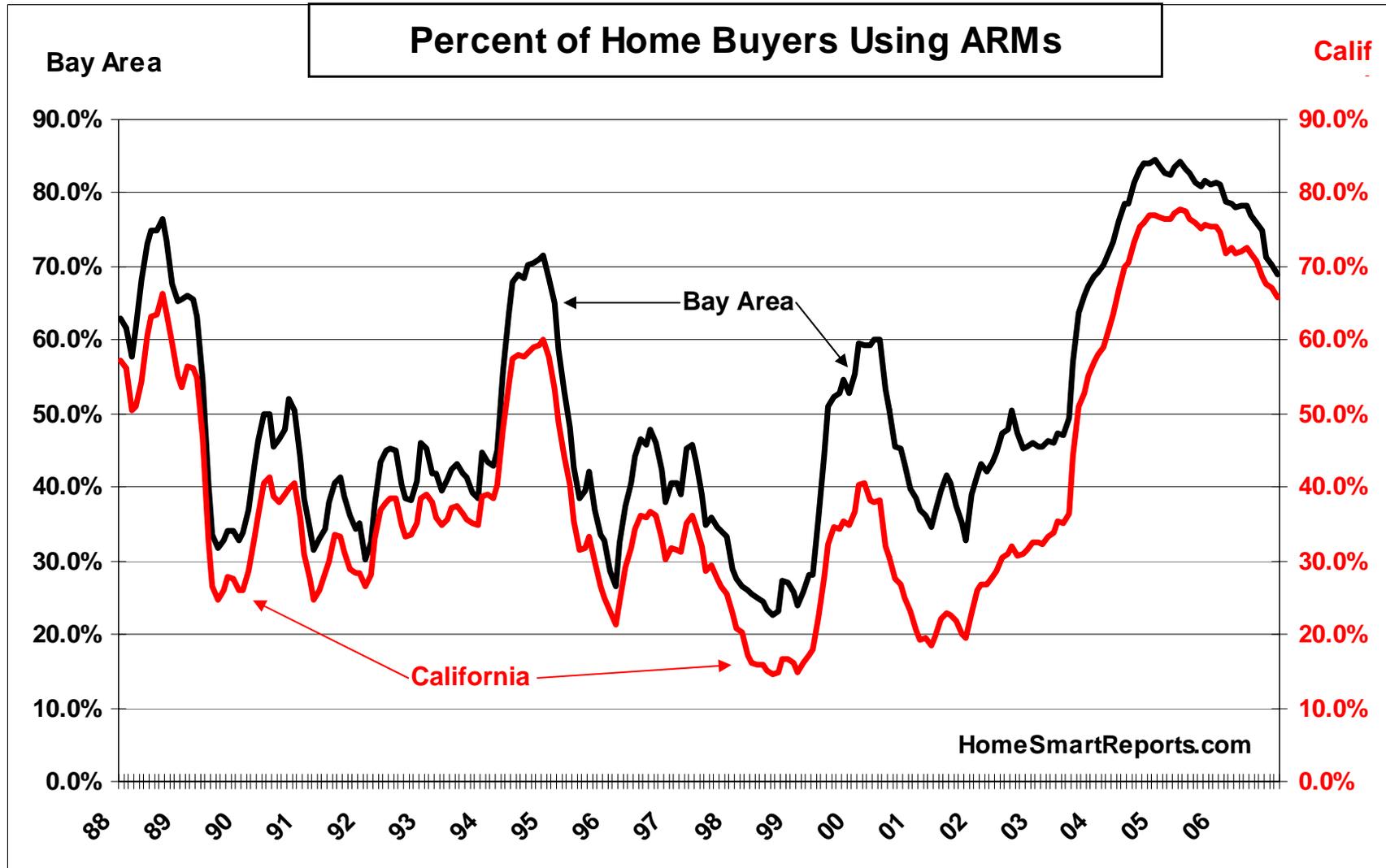
# Flipping



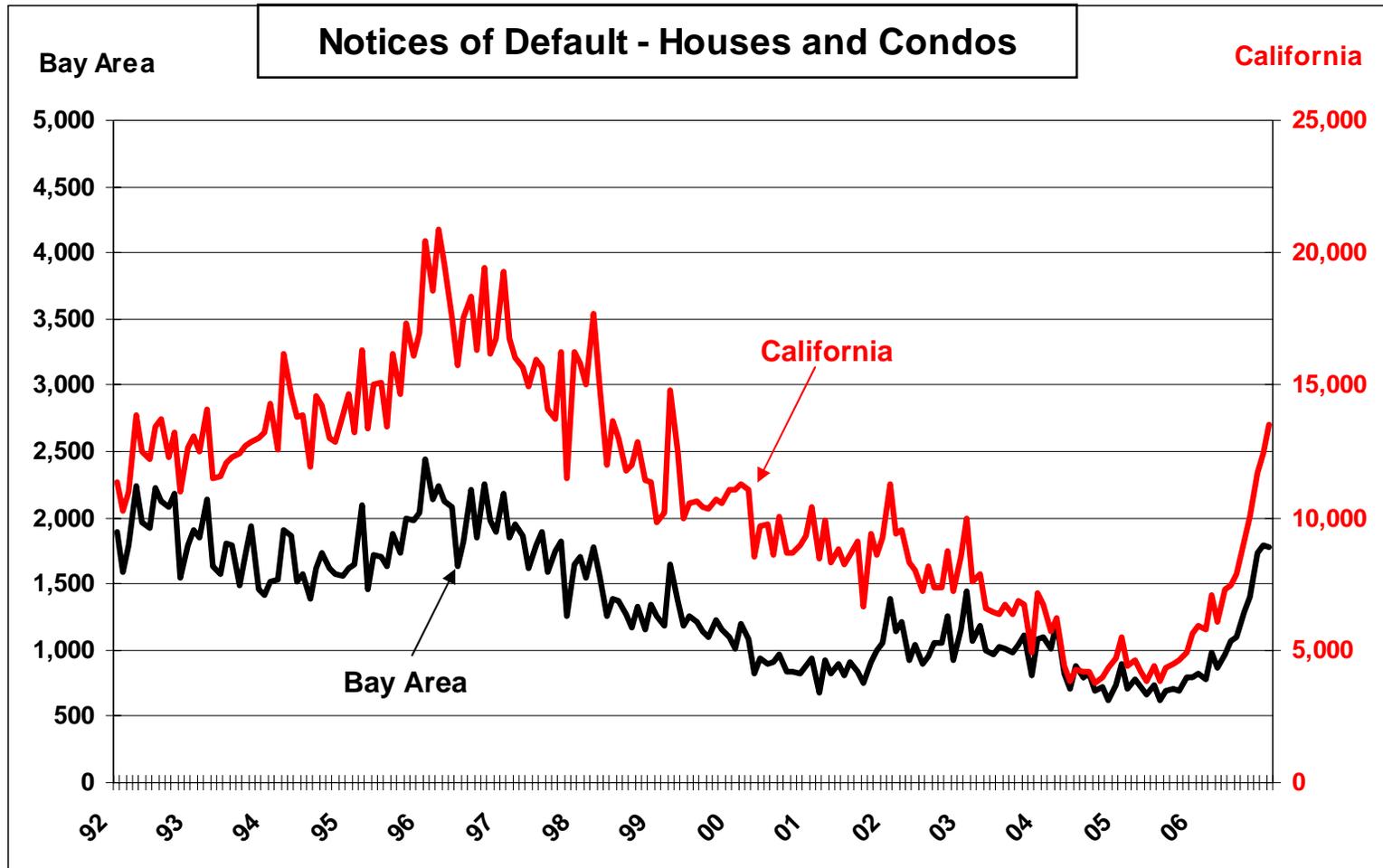
# Home Buyers Paying Cash



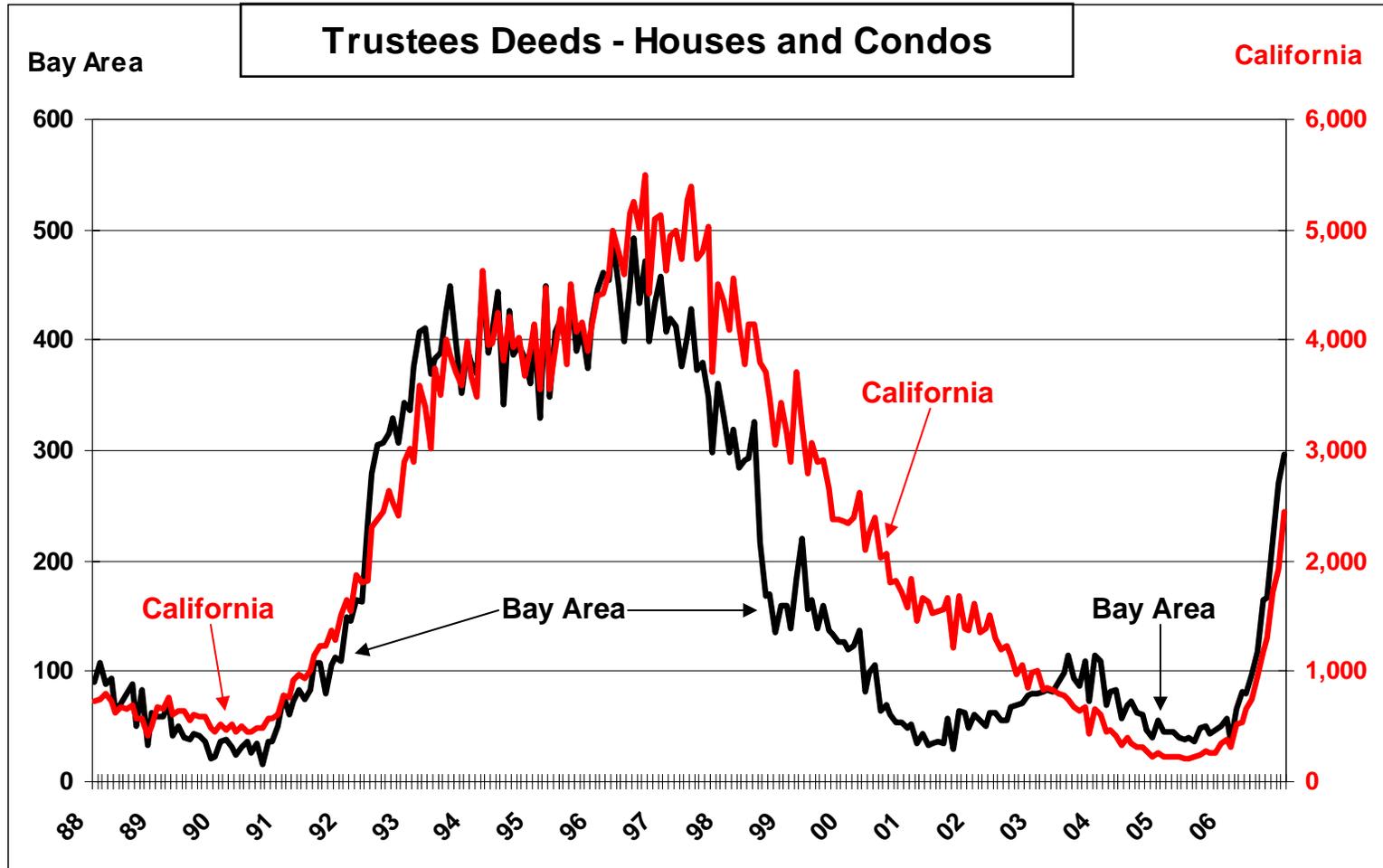
# Home Buyers Using ARMs



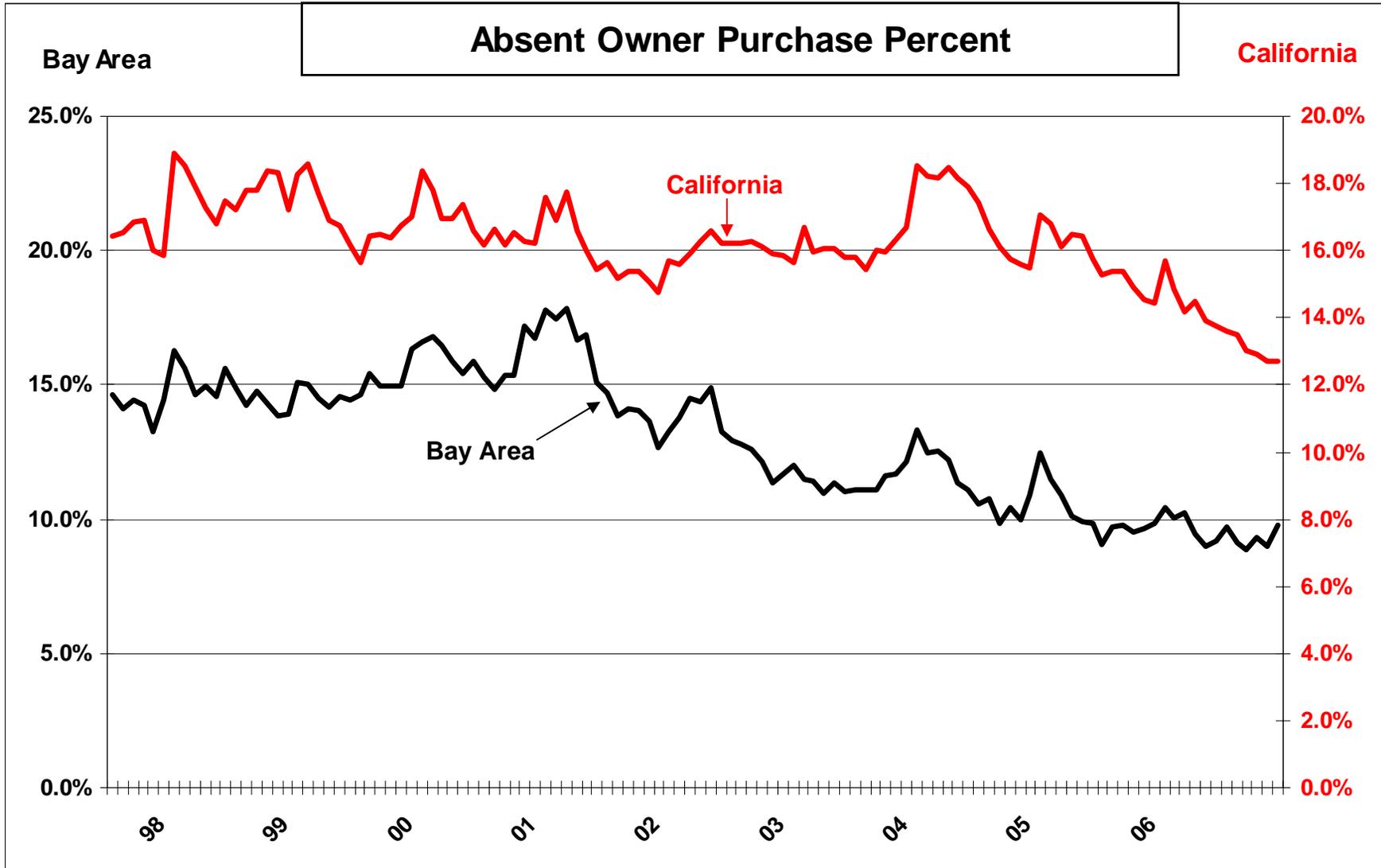
# Notices of Default



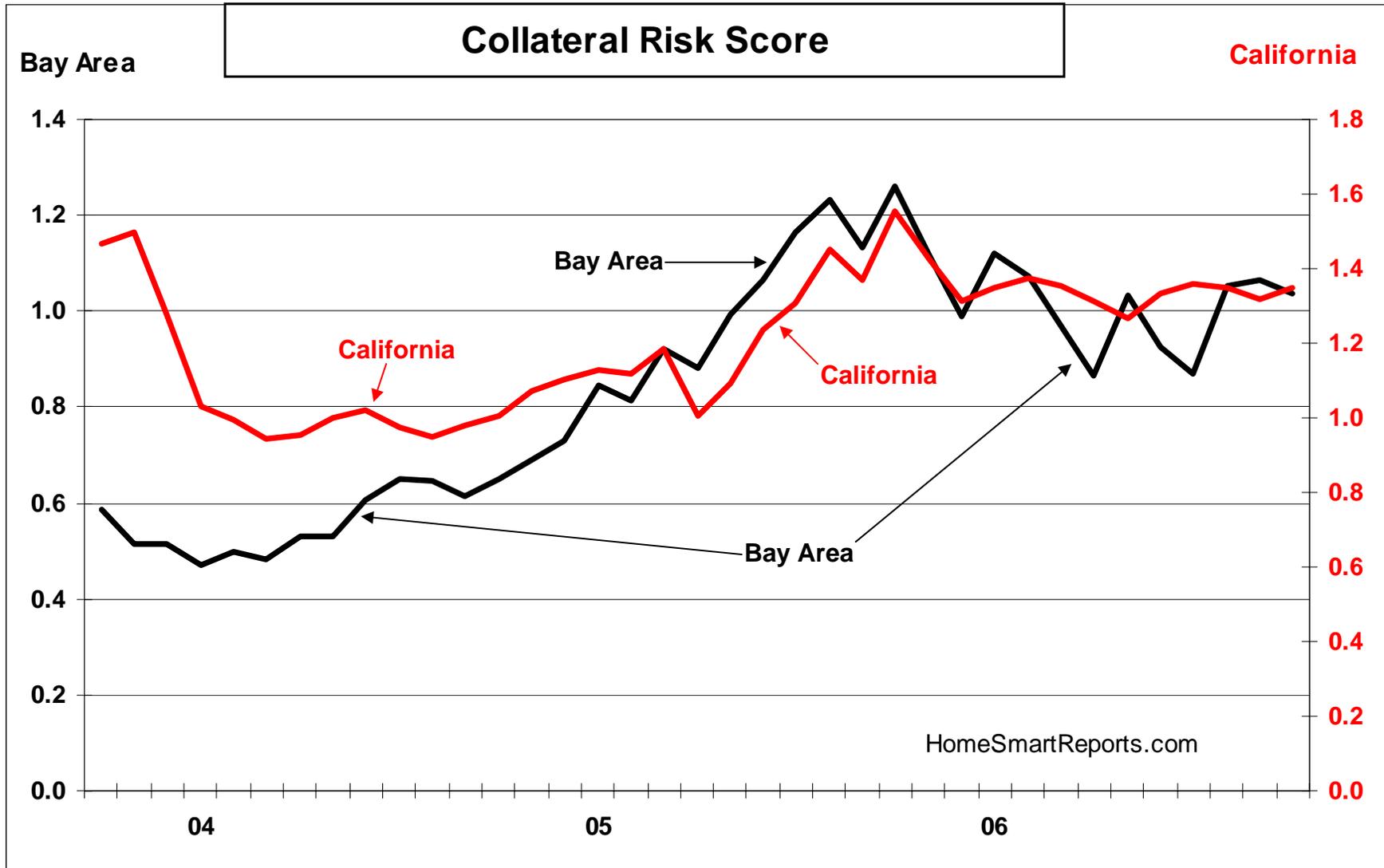
# Trustees Deeds



# Absent Owner Purchase



# Collateral Risk Score



# Home Buyer Surnames

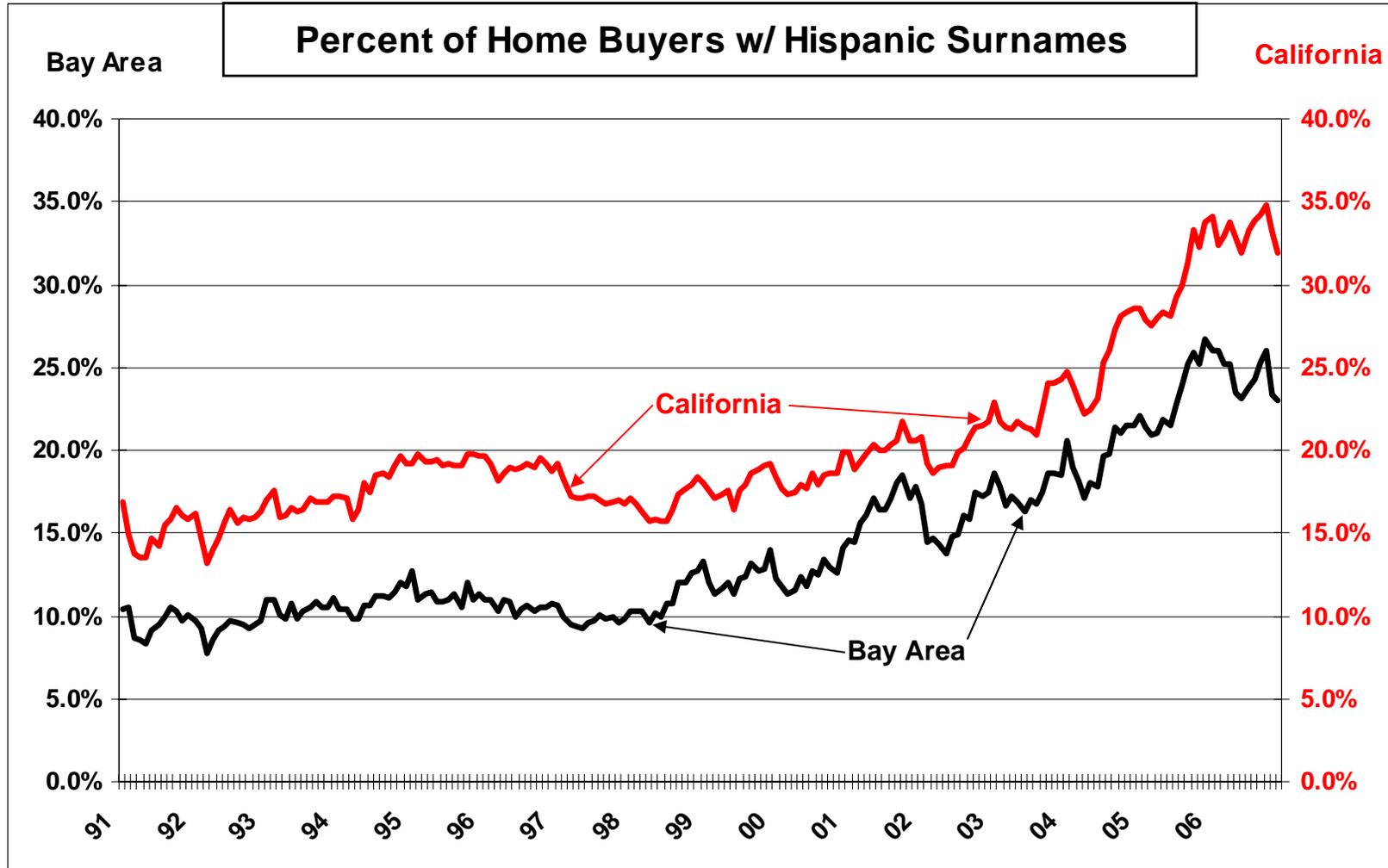
## Most Common

### Statewide

### Bay Area

	1996	2006	1996	2006
1	Smith	Garcia	Lee	Nguyen
2	Garcia	Hernandez	Nguyen	Garcia
2	Hernandez	Martinez	Smith	Lee
4	Johnson	Lopez	Johnson	Hernandez
5	Lee	Rodriguez	Wong	Martinez
6	Martinez	Gonzalez	Brown	Lopez
7	Lopez	Sanchez	Williams	Rodriguez
8	Rodriguez	Ramirez	Chen	Gonzalez
9	Gonzalez	Perez	Jones	Sanchez
10	Hud	Lee	Miller	Wong
11	Nguyen	Nguyen	Garcia	Smith
12	Brown	Smith	Chan	Ramirez
13	Williams	Flores	Tran	Johnson
14	Perez	Johnson	Martinez	Tran
15	Jones	Kim	Anderson	Perez

# Hispanic Surnames





land and property data you can build on™

**DataQuick Information Systems**

**San Diego**

**(888) 604-3282**

**[www.dataquick.com](http://www.dataquick.com)**

**John Karevoll, Analyst**

**Custom reports: (909) 867-9534**

**[jkarev@dataquick.com](mailto:jkarev@dataquick.com)**

**[www.dqnews.com](http://www.dqnews.com)**