BEACON ECONOMICS

Recovery, Wherefore Art Thou?

Jon Haveman

Founding Principal, Beacon Economic

ABAG General Assembly – Oct. 21, 2010

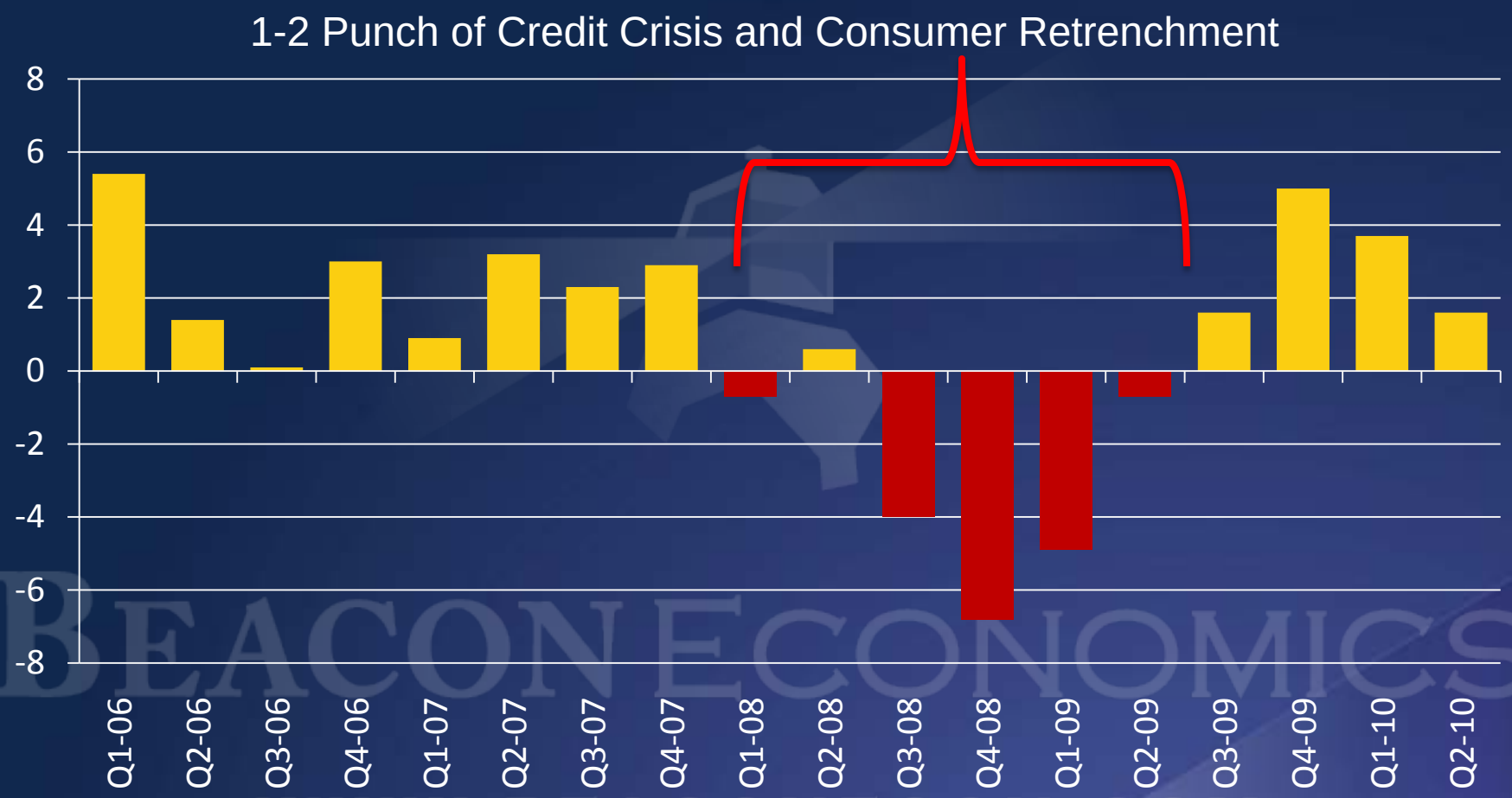
BEACON ECONOMICS
WWW.BEACONECON.COM

Outline

- What just happened?
- Why did it happen?
- Where do we stand now?
- Where do we go from here?
- The Bay Area

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

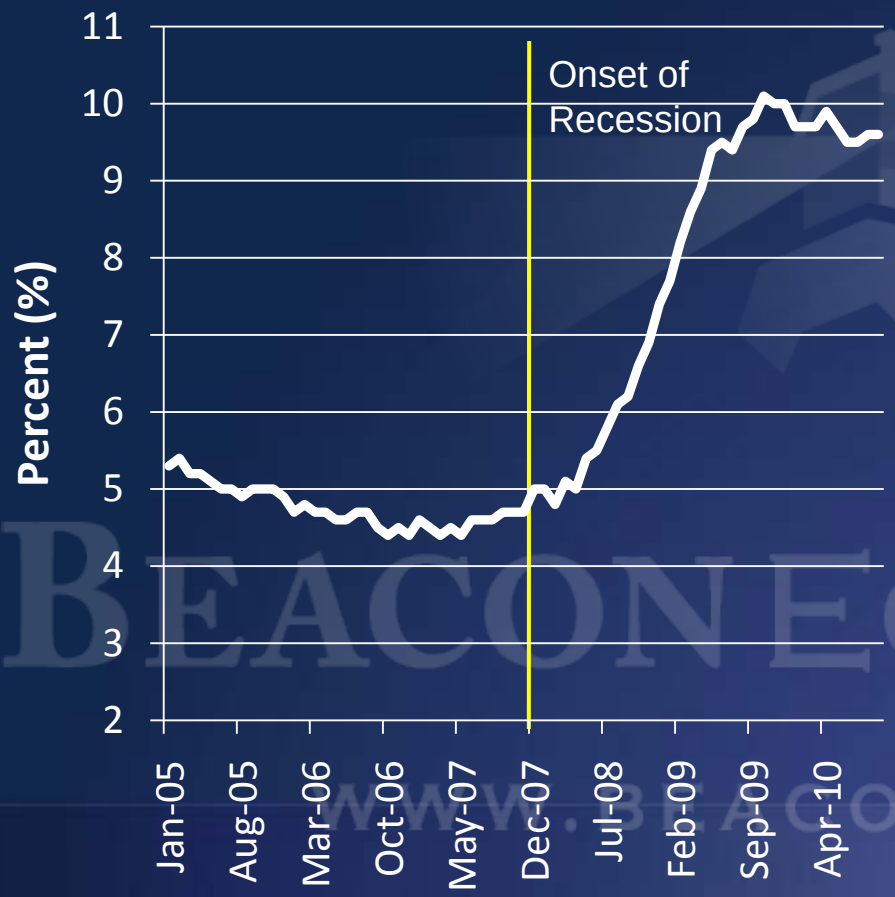
The Great Recession



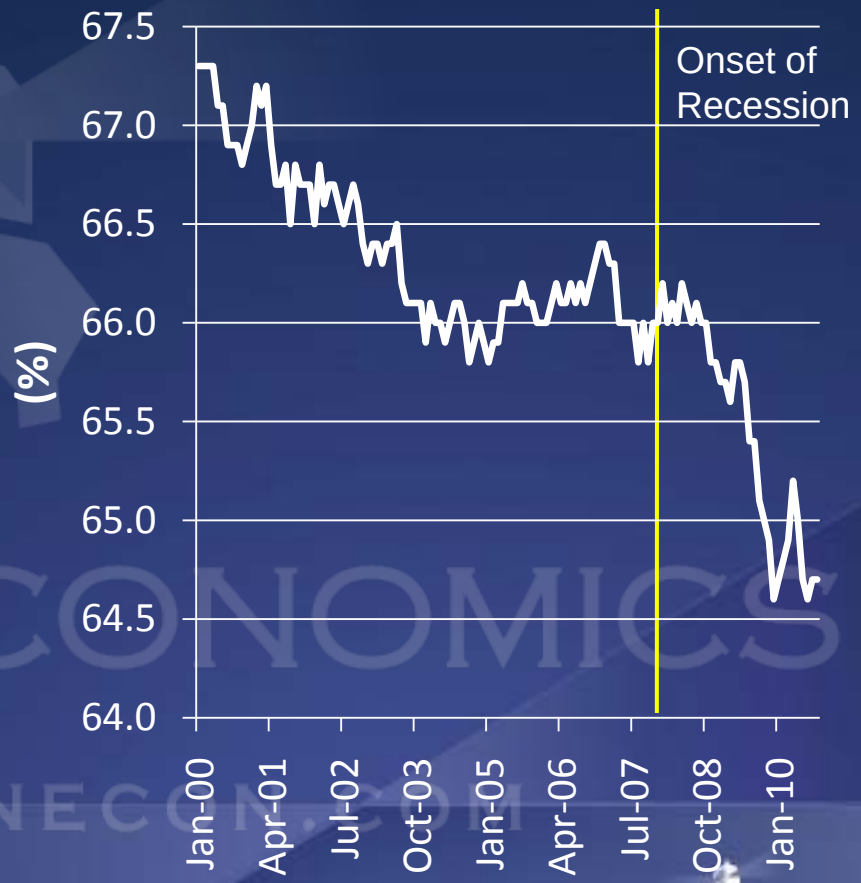
Source: Bureau of Economic Analysis

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

US Unemployment



Source: Bureau of Labor Statistics

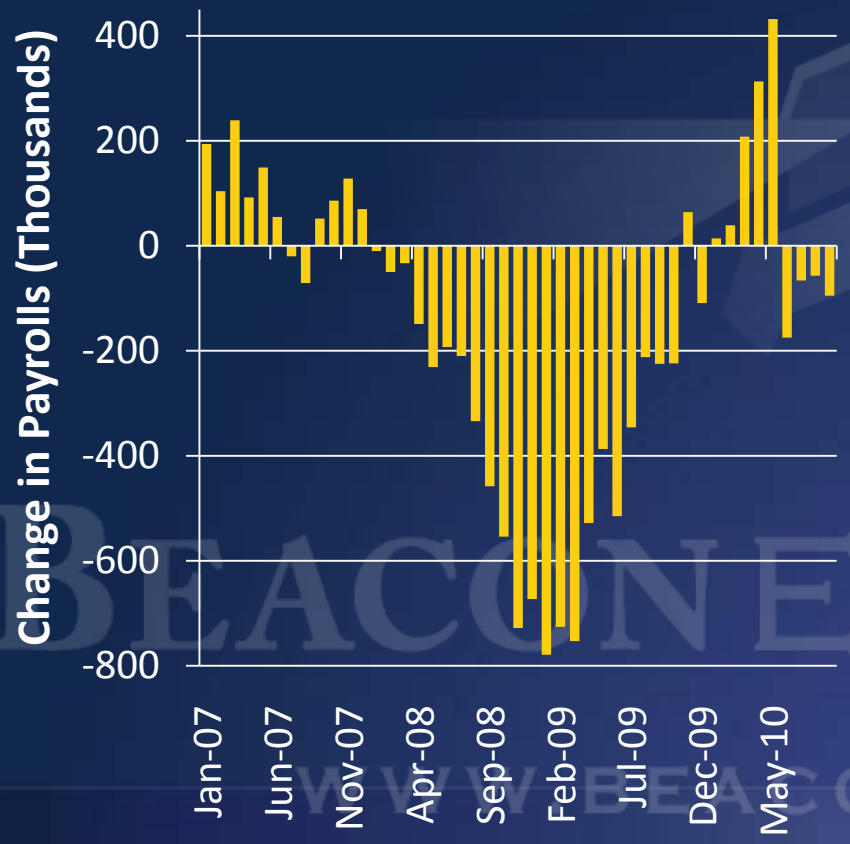


Source: Bureau of Labor Statistics

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Jobs, Jobs, Jobs

National Change in Payrolls to September



Source: Bureau of Labor Statistics

Change in Payrolls by Sector (000s)

	Jan-03 to Dec-07	Dec-07 to Dec-09	2010 Change
Total Nonfarm	**7,685**	**-8,363**	**613**
Education/Health	2,121	791	261
Professional/Business	2,127	-1,563	246
Admin Support	709	-1,114	240
Health Care	1,814	661	239
Leisure Hospitality	1,362	-544	178
Manufacturing	-1,141	-2,192	136
Retail Trade	**612**	**-1,206**	**86**
Other Services	115	-200	50
Transport/Warehouse	340	-377	27
Wholesale Trade	406	-474	25
Federal Government	-34	69	19
Utilities	-30	0	-7
Information	-241	-275	-37
STATE GOVERNMENT	106	38	-38
Financial Activities	314	-570	-80
Construction	**787**	**-1,795**	**-92**
LOCAL GOVERNMENT	679	-3	-231

Source: Bureau of Labor Statistics

BEACON ECONOMICS
WWW.BEACONECON.COM

California: A widespread hit

Source: California Employment Development Department

Location	Aug-10	Peak to Current (%)
Inland Empire	1,093.5	-14.4
Santa Rosa	167.9	-12.4
Modesto	143.2	-11.2
Oakland (MD)	934.3	-11.2
Orange County (MD)	1,358.4	-11.0
Stockton	189.8	-10.5
Fresno	277.6	-10.0
California	**13,827.9**	**-9.0**
SAN FRANCISCO (MD)	**913.0**	**-8.9**
SAN JOSE	**845.2**	**-8.3**
San Diego	1,210.5	-7.9
Santa Barbara	161.6	-7.3
Bakersfield	222.6	-7.2
Salinas	121.7	-6.0

Source: California Employment Development Department

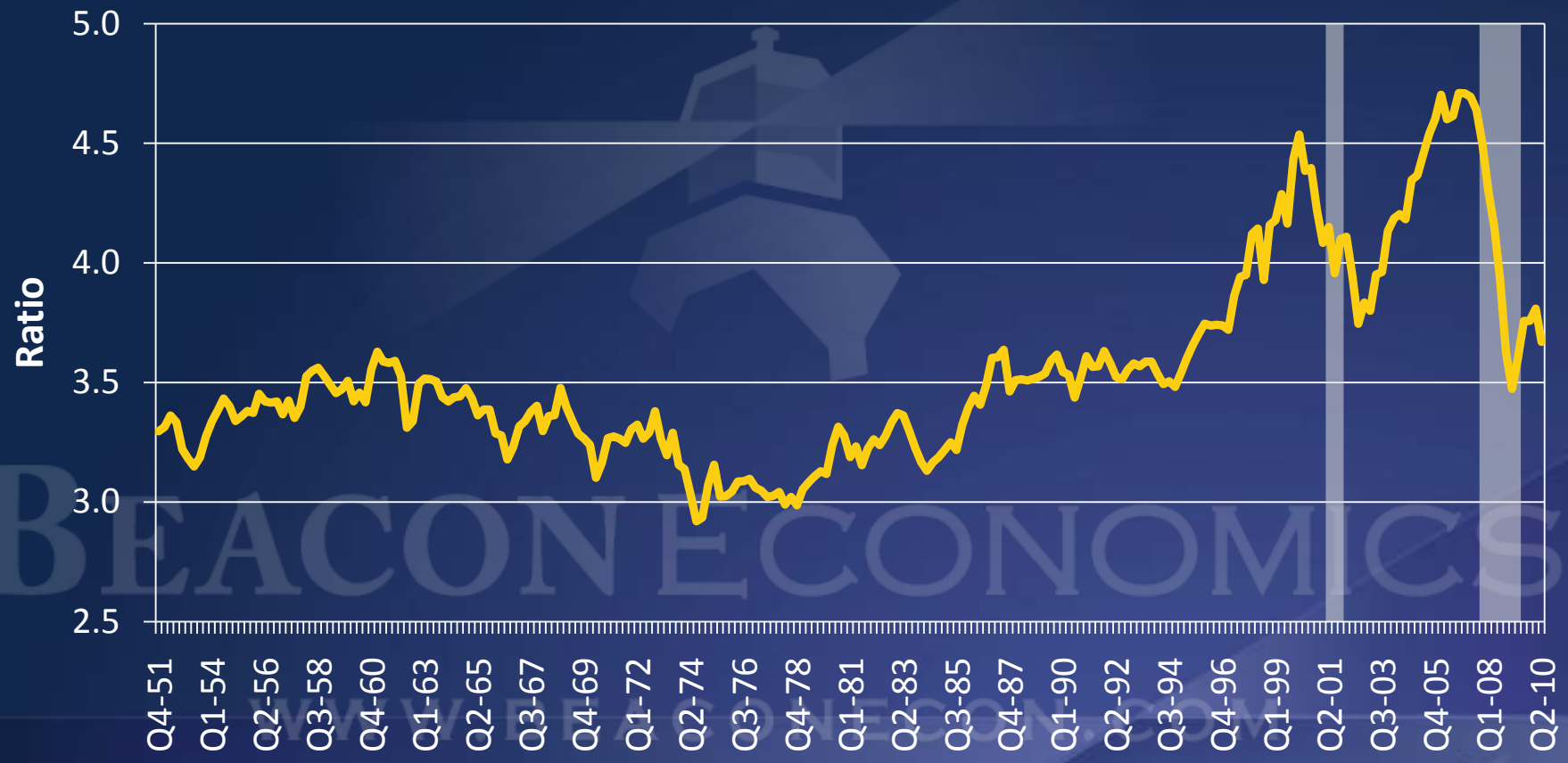
BEACON ECONOMICS
WWW.BEACONECON.COM

Why did it happen?

- Housing
- Consumers
- Financial Markets

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Roots of the Great Recession

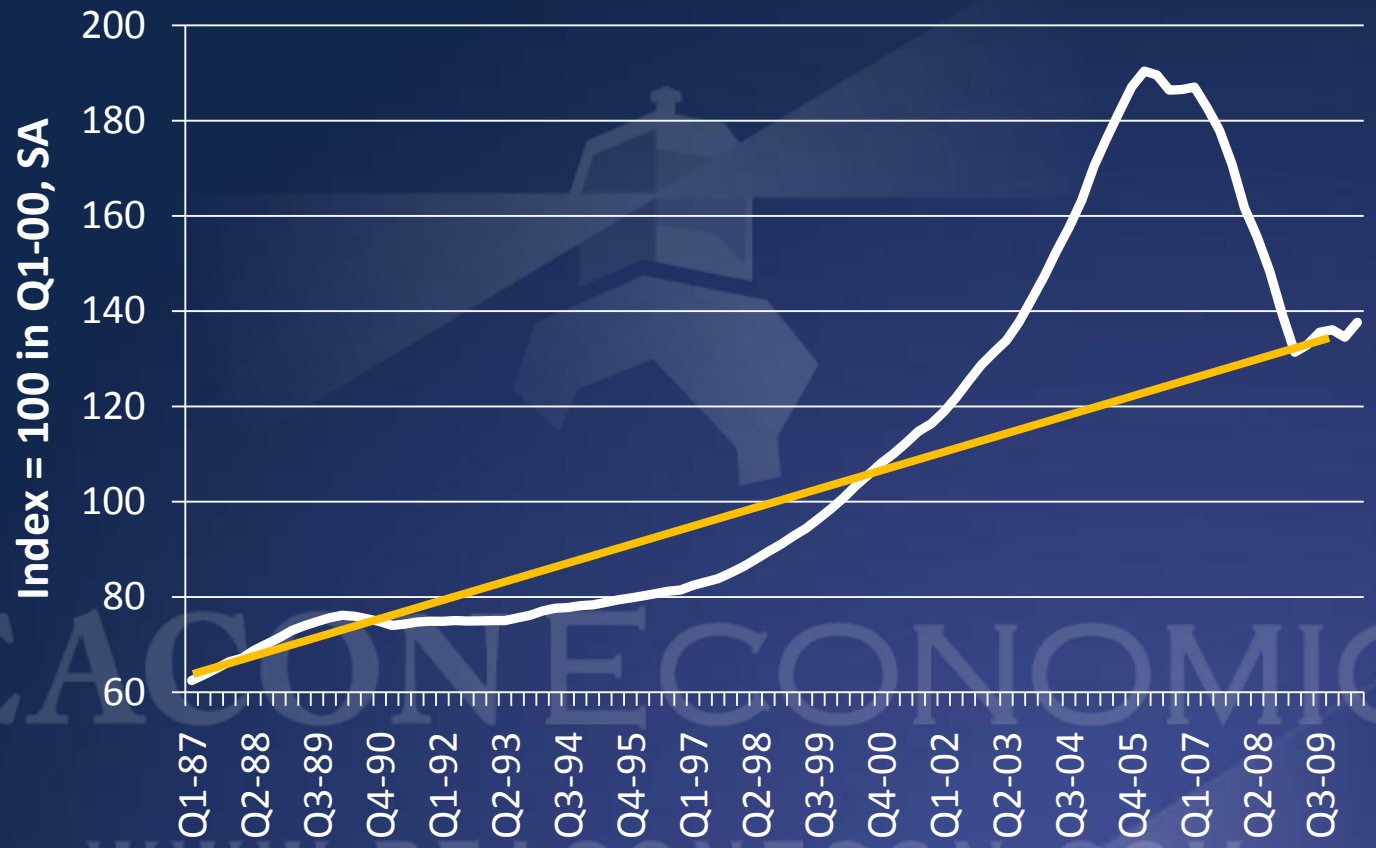


Source: Federal Reserve Board,
Bureau of Economic Analysis

BEACON ECONOMICS

National Housing Markets

Case-Shiller US National Values to Q2-10

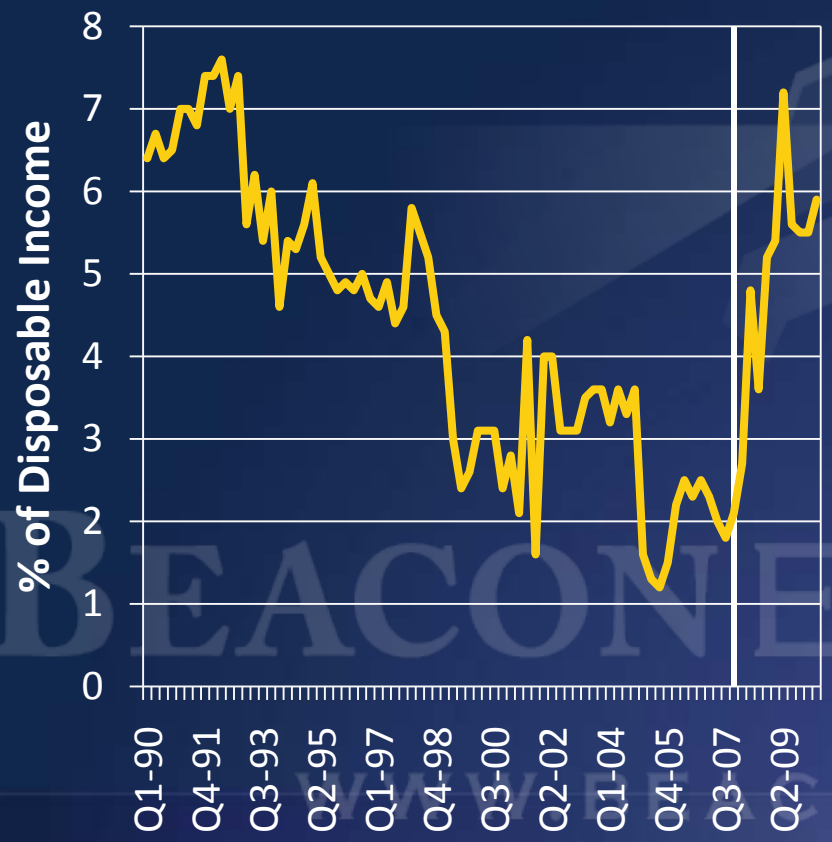


Source: Standard and Poor's

BEACON ECONOMICS
WWW.BEACONECON.COM

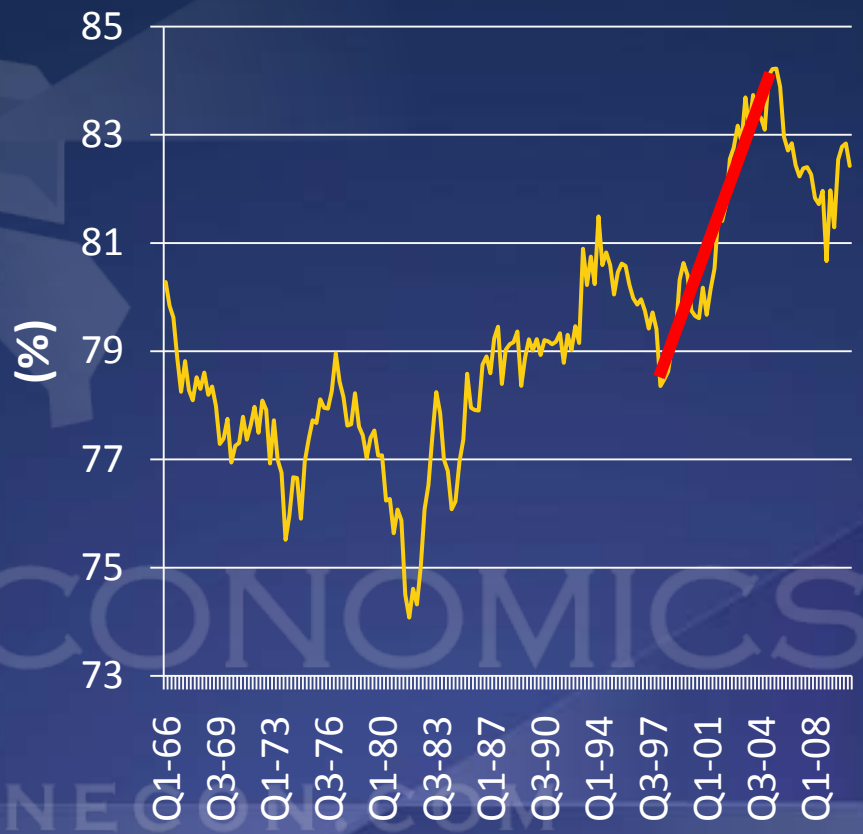
National Consumer Imbalance

BEA U.S. Personal Savings Rate to Q2-10



Source: Bureau of Economic Analysis

Spending as % of Income to Q2-10



Source: Bureau of Economic Analysis

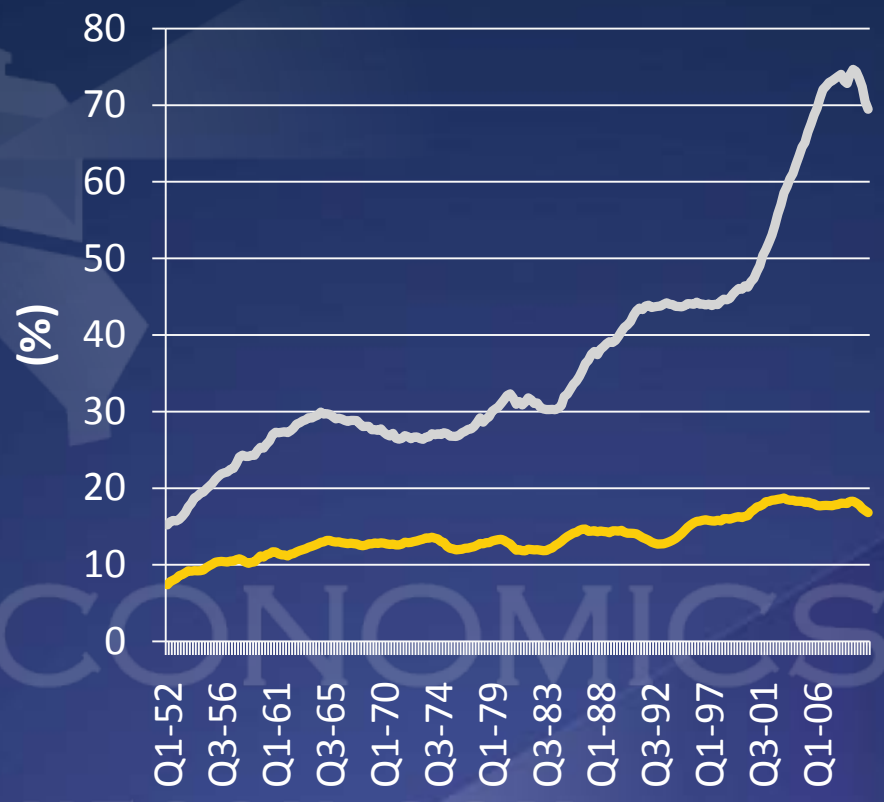
BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

The Credit Bubble

Household Debt as % of Net Worth to Q2-10

Source: Federal Reserve Board

Consumer Debt as % of GDP to Q2-10

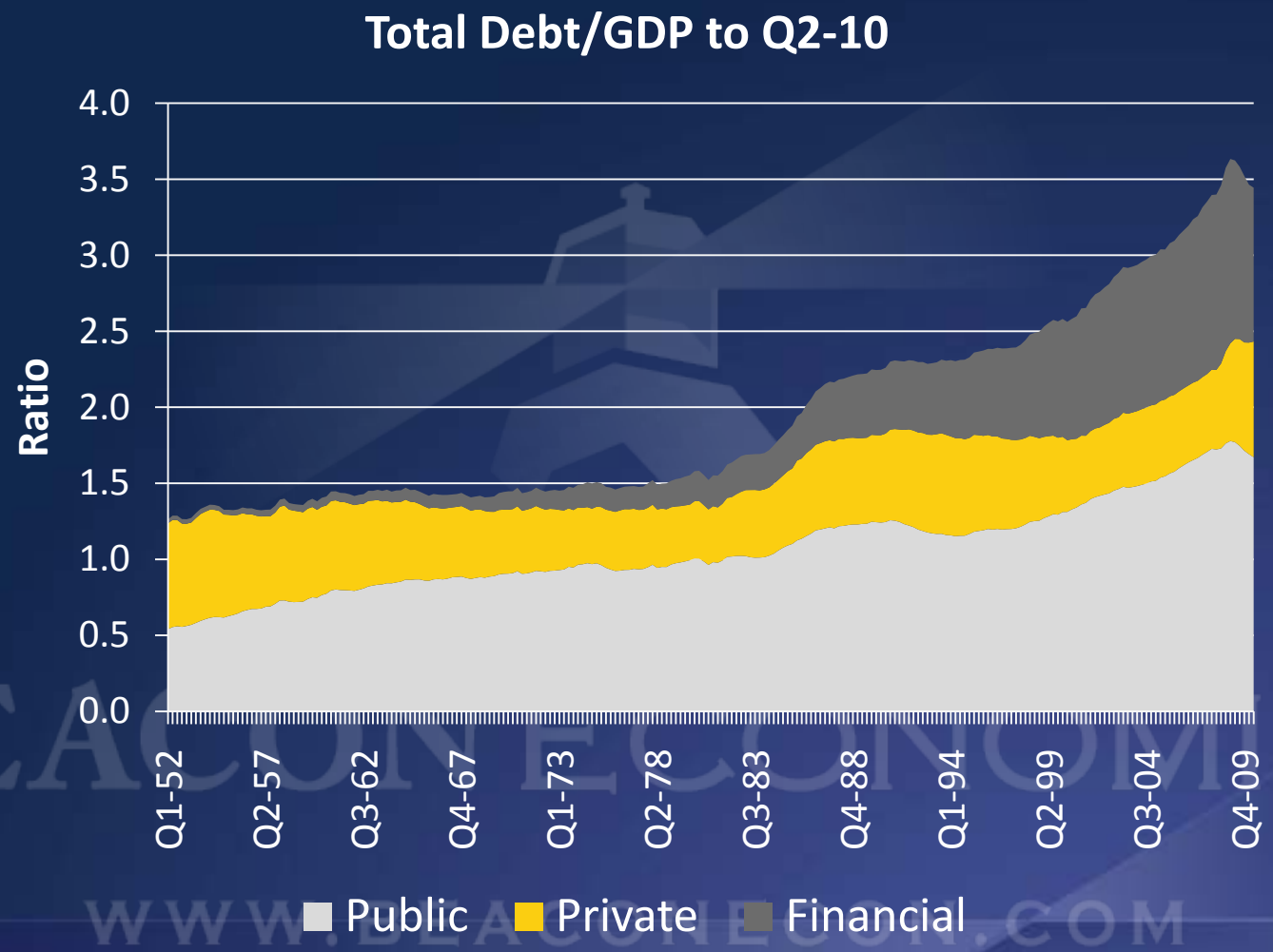


Mortgage Other Consumer Credit

Source: Federal Reserve Board

BEACON ECONOMICS
WWW.BEACONECON.COM

Financial Sector Imbalance



Source: Federal Reserve Board

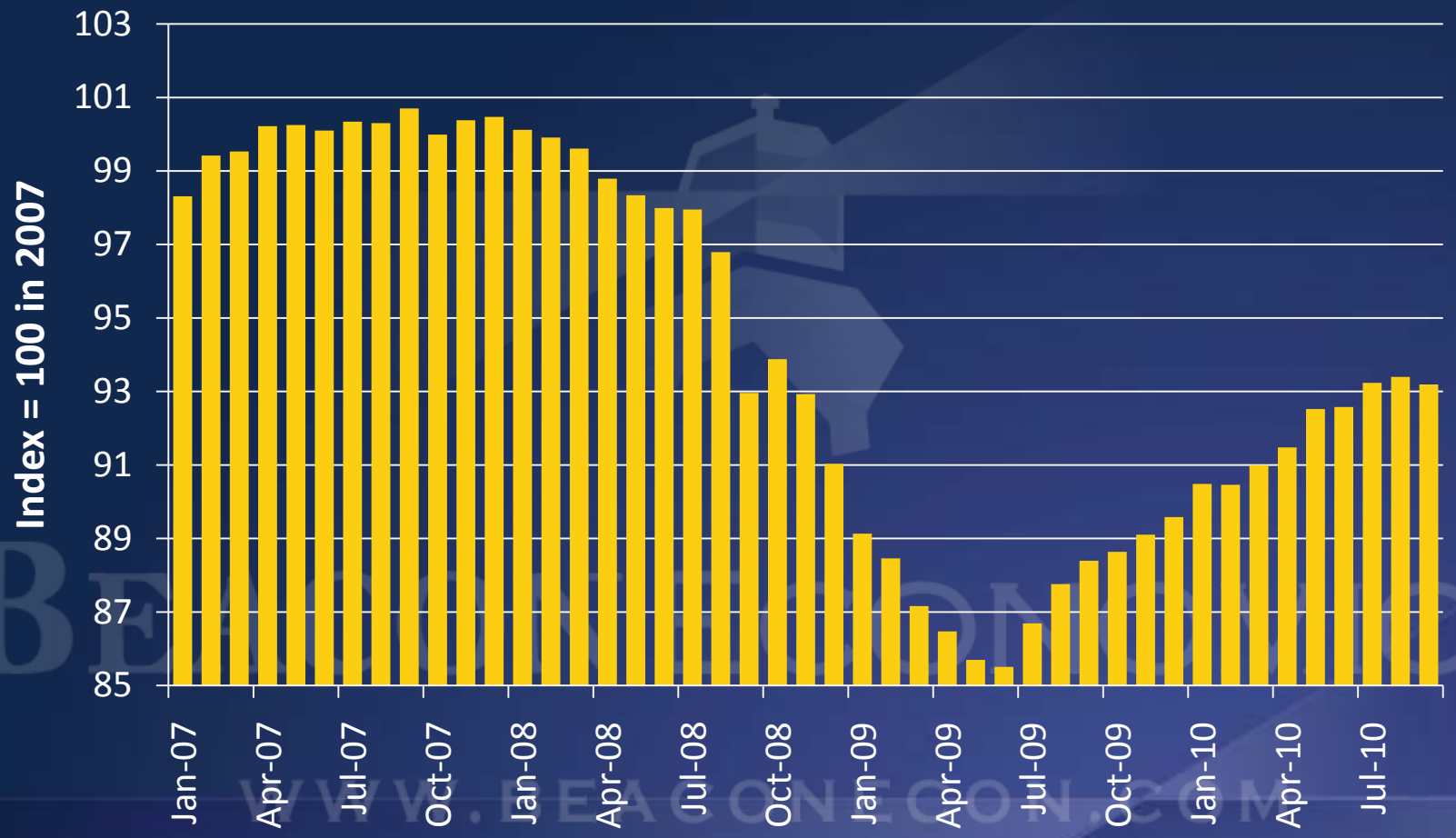
BEACON ECONOMICS
WWW.BEACONECON.COM

Where do we stand now?

- Signs of improvement
  - Industrial production growing…but slowing
- Signs that the improvement is tenuous
  - Private sector employment growth slowing

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

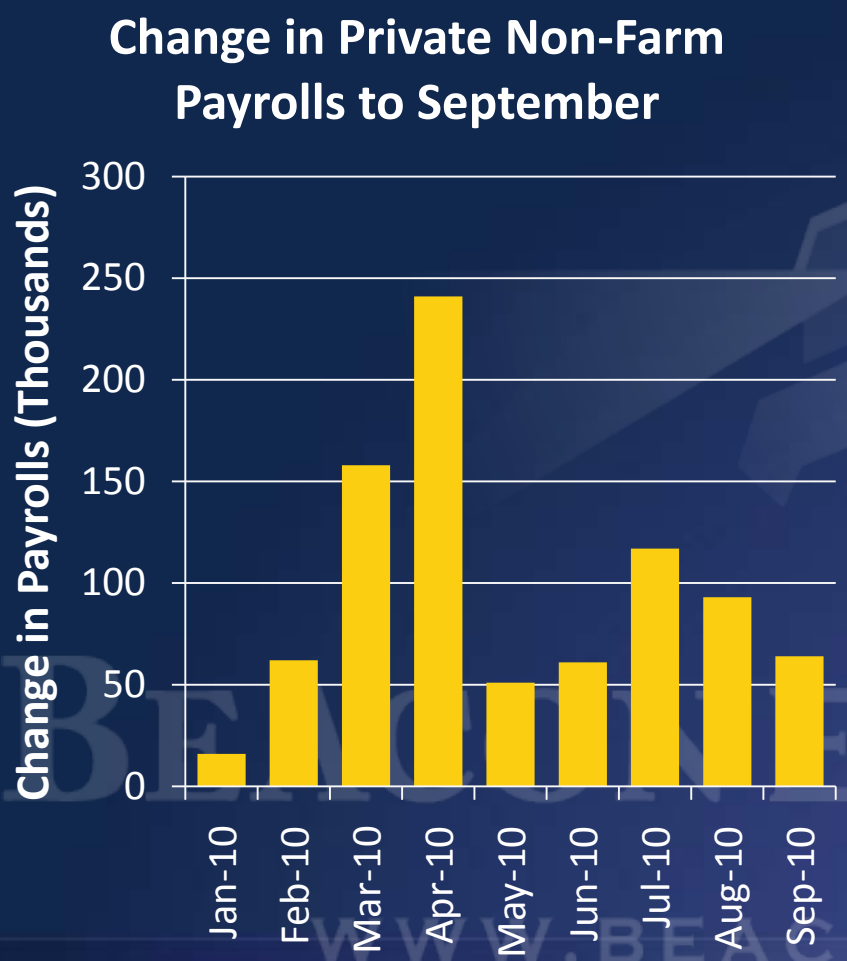
US Industrial Production to September



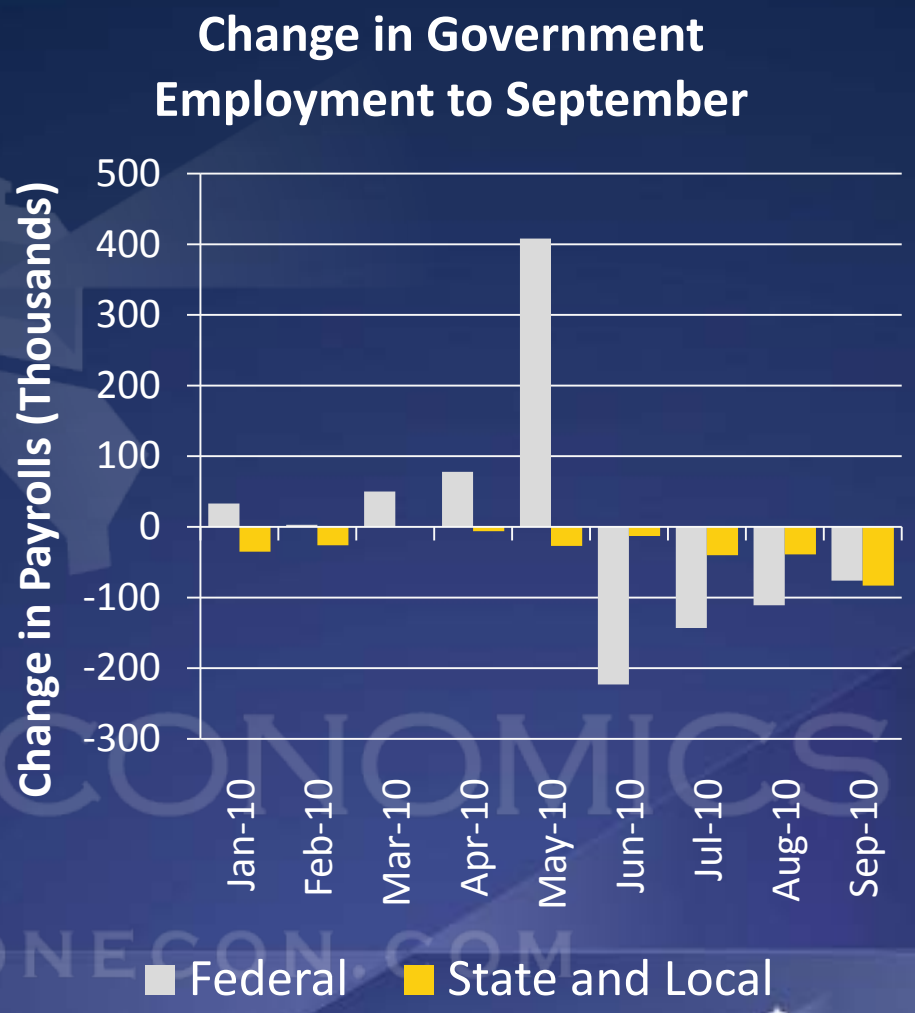
Source: Federal Reserve Board

BEACON ECONOMICS
WWW.BEACONECON.COM

More: Jobs, Jobs, Jobs



Source: Bureau of Labor Statistics

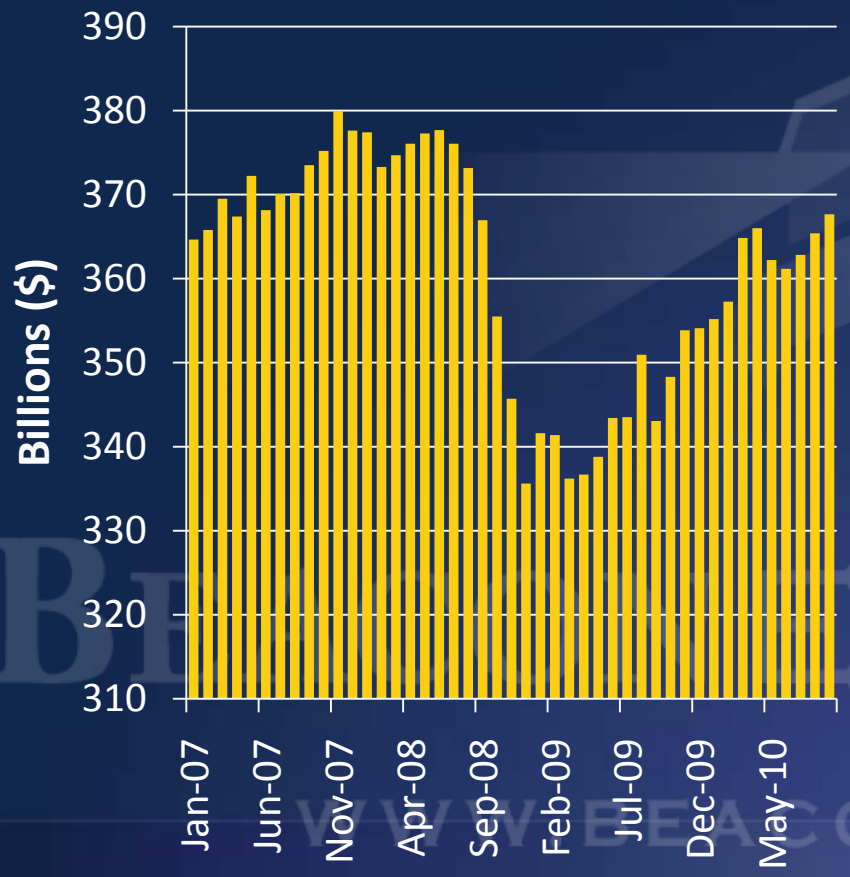


Source: Bureau of Labor Statistics

BEACON ECONOMICS
WWW.BEACONECON.COM

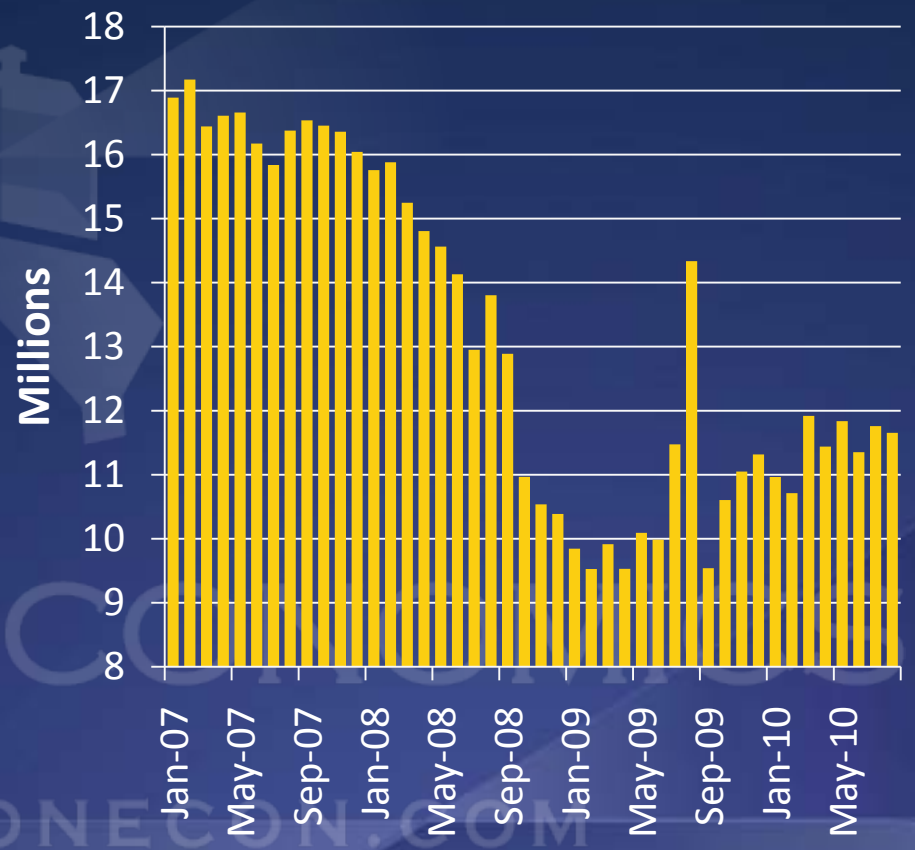
US Consumer Markets

Nominal Retail Sales to September



Source: Census Bureau

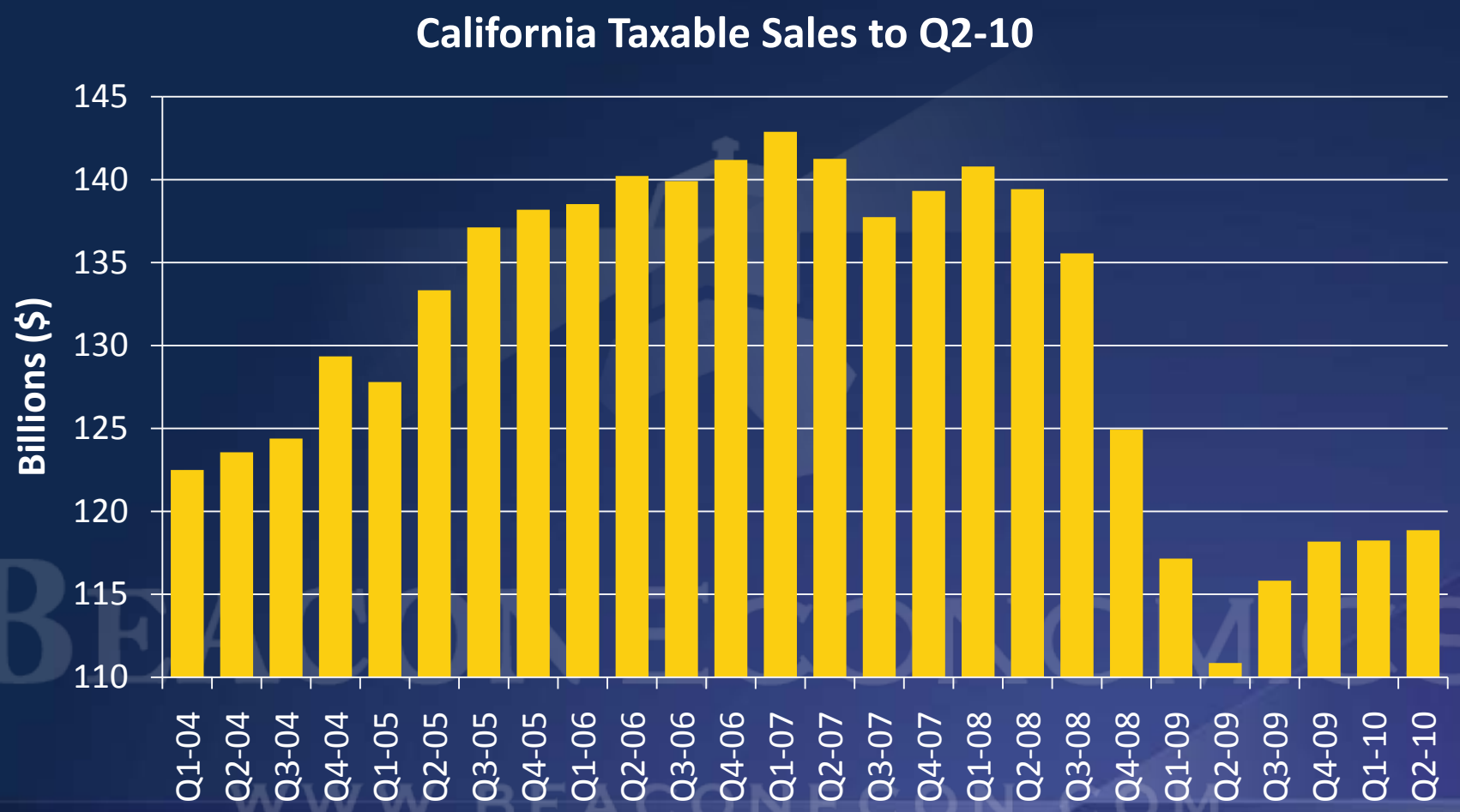
Auto and Light Truck Sales to August, SAAR



Source: Bureau of Economic Analysis

WWW.BEACONECON.COM
BEACON ECONOMICS

CA: Spending

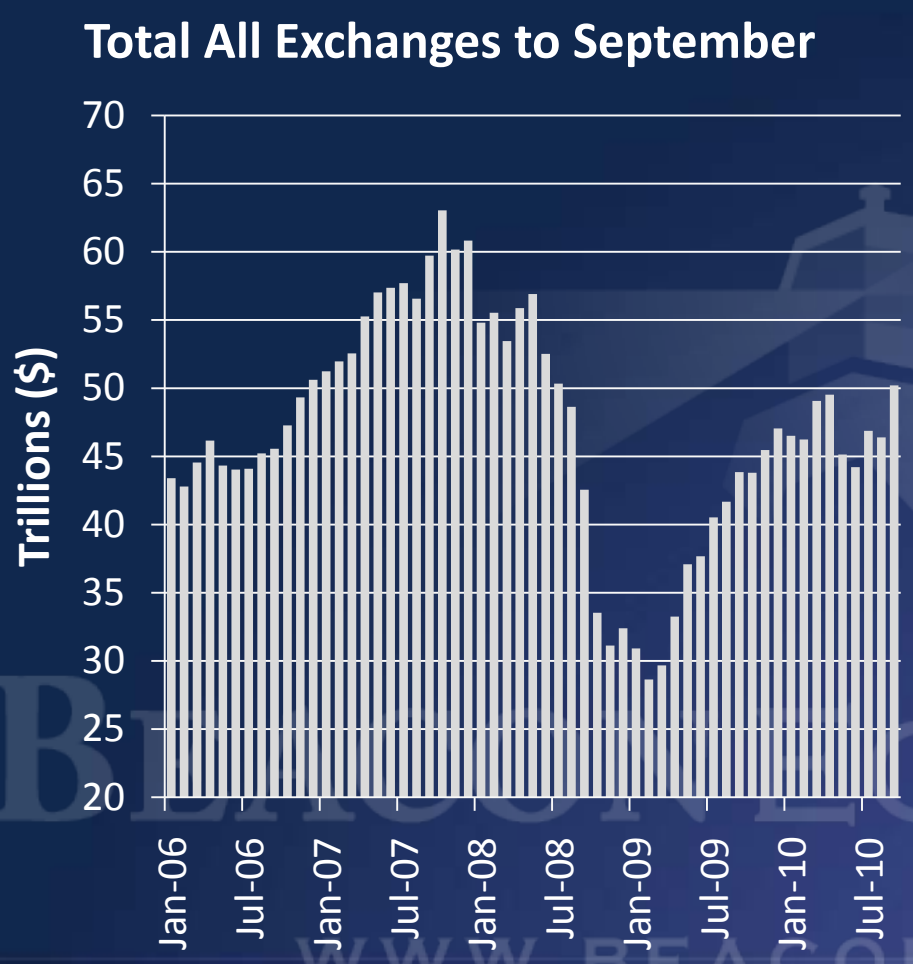


California State Board of Equalization

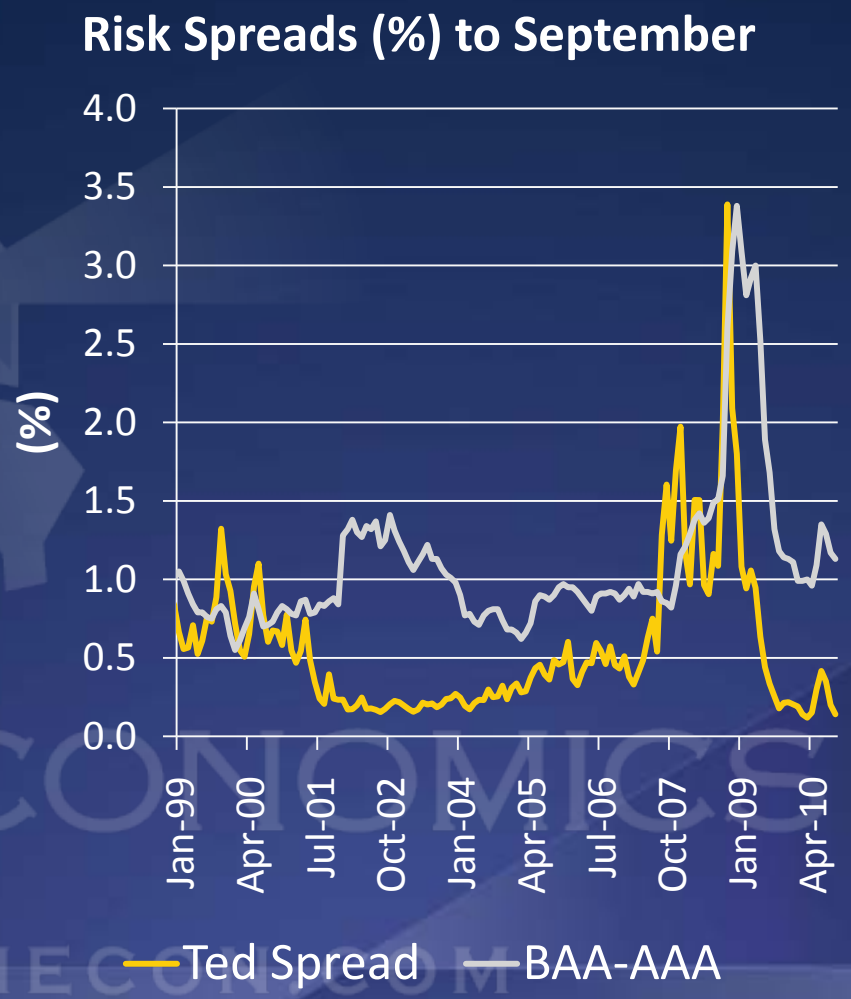
WWW.BEACONECON.COM

BEACON ECONOMICS

Financial Rebound



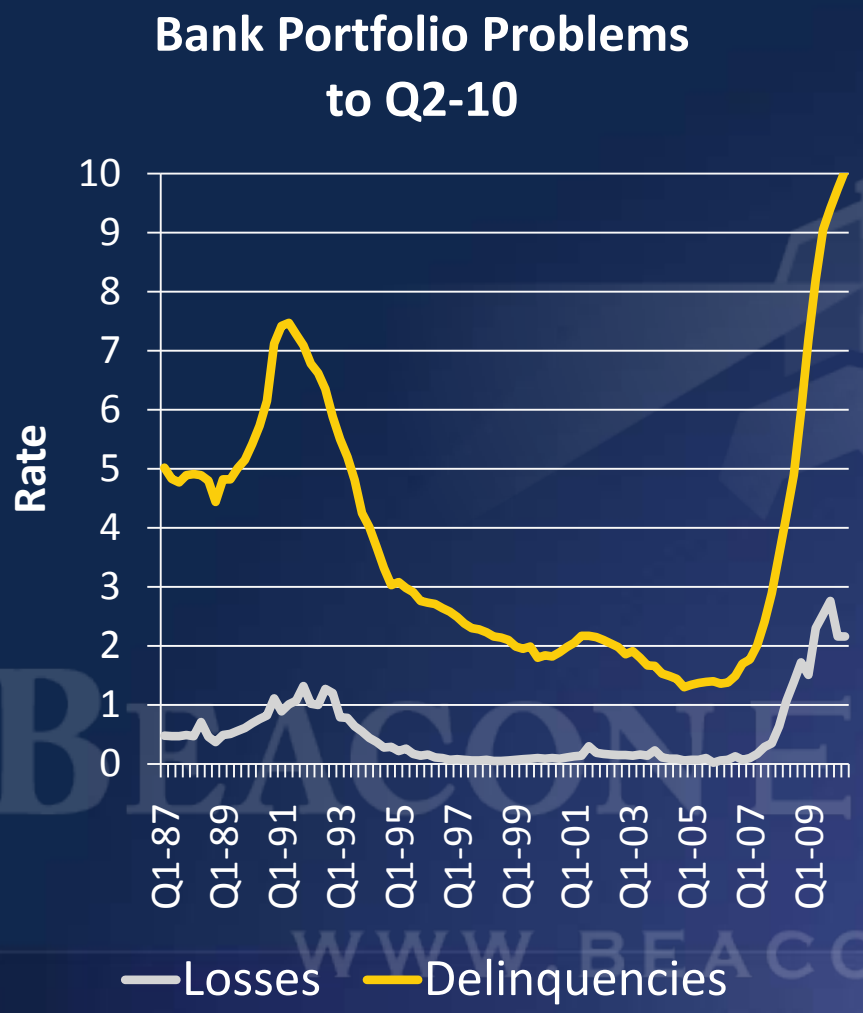
Source: World Federation of Exchanges



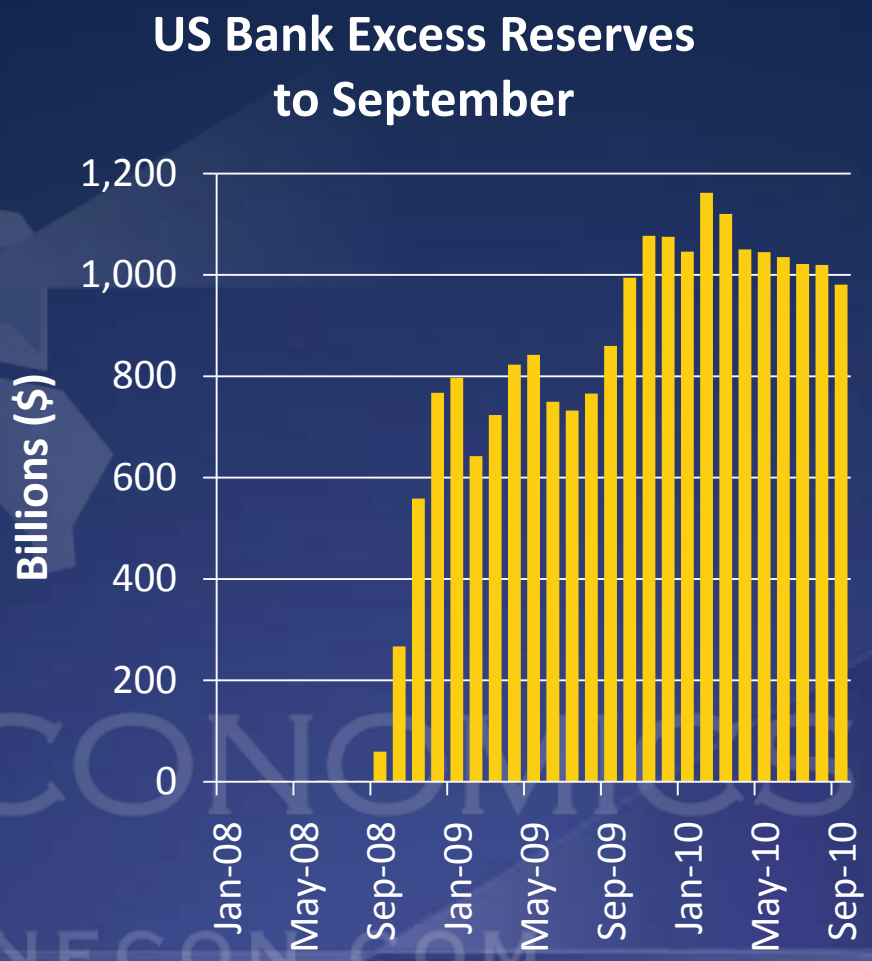
Source: Federal Reserve Board, British Bankers' Association

BEACON ECONOMICS
WWW.BEACONECON.COM

National Credit Markets Cleared?



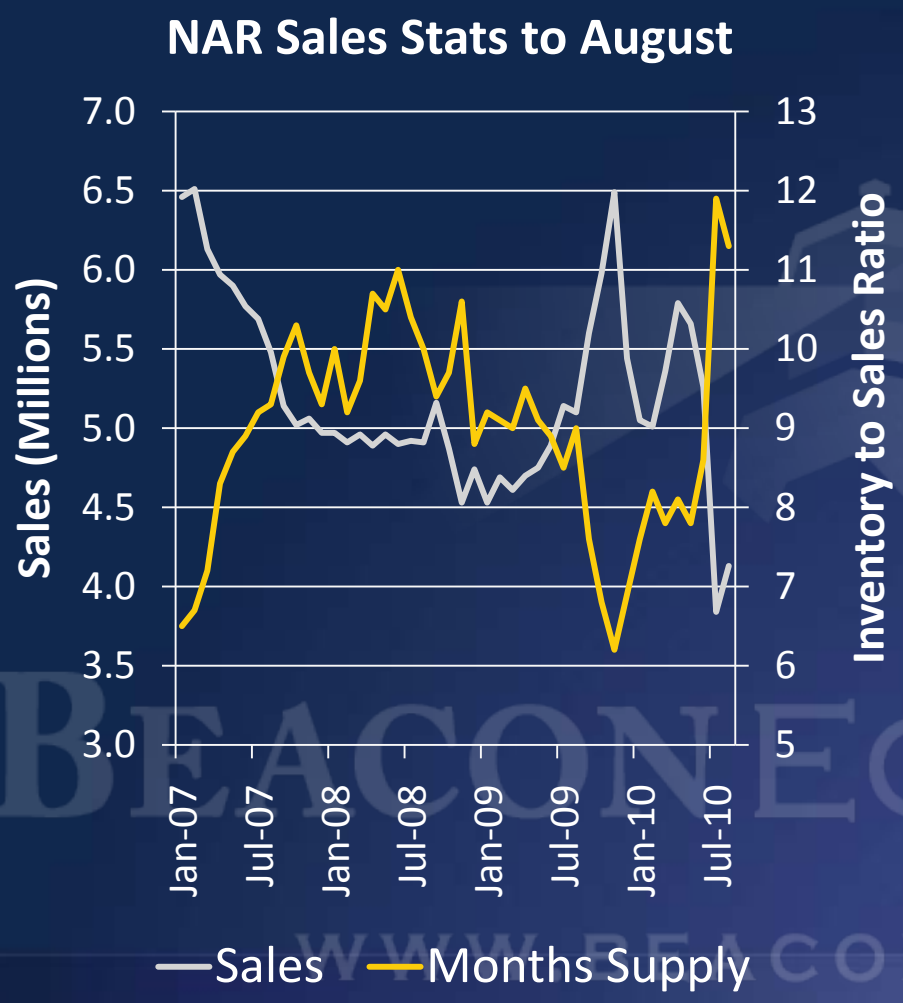
Source: Federal Reserve Board



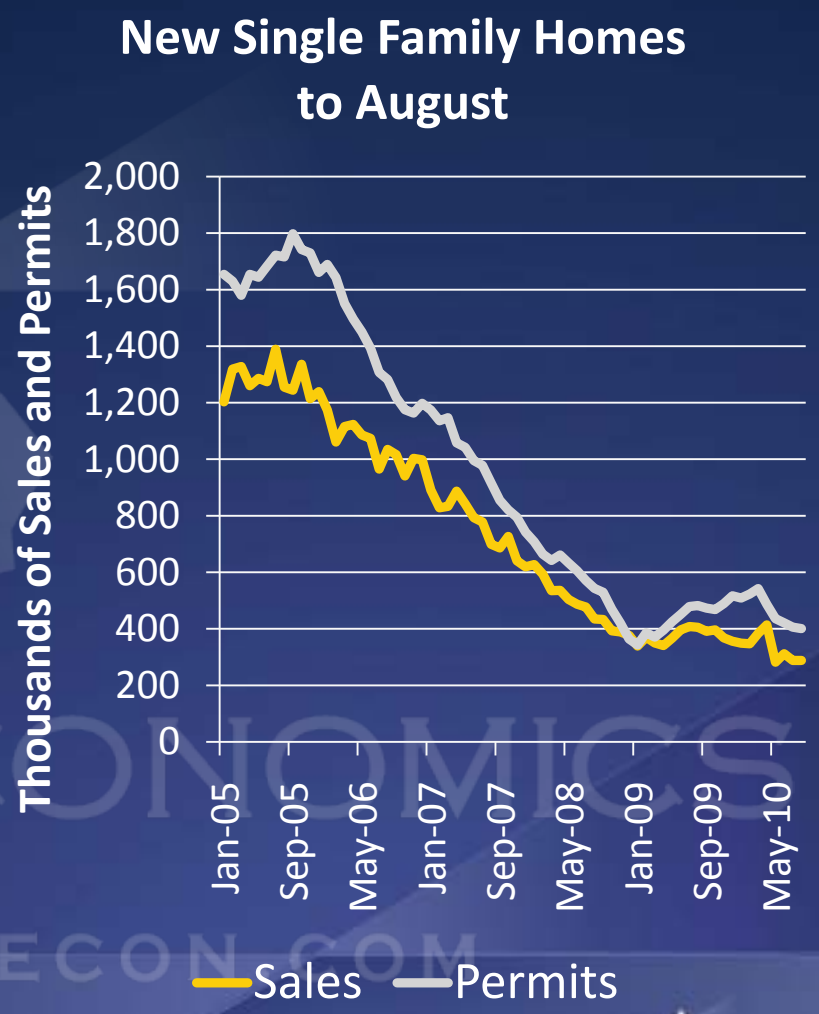
Source: Federal Reserve Board

BEACON ECONOMICS
WWW.BEACONECON.COM

US Housing Market



Source: National Association of Realtors



Source: Census Bureau

BEACONECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

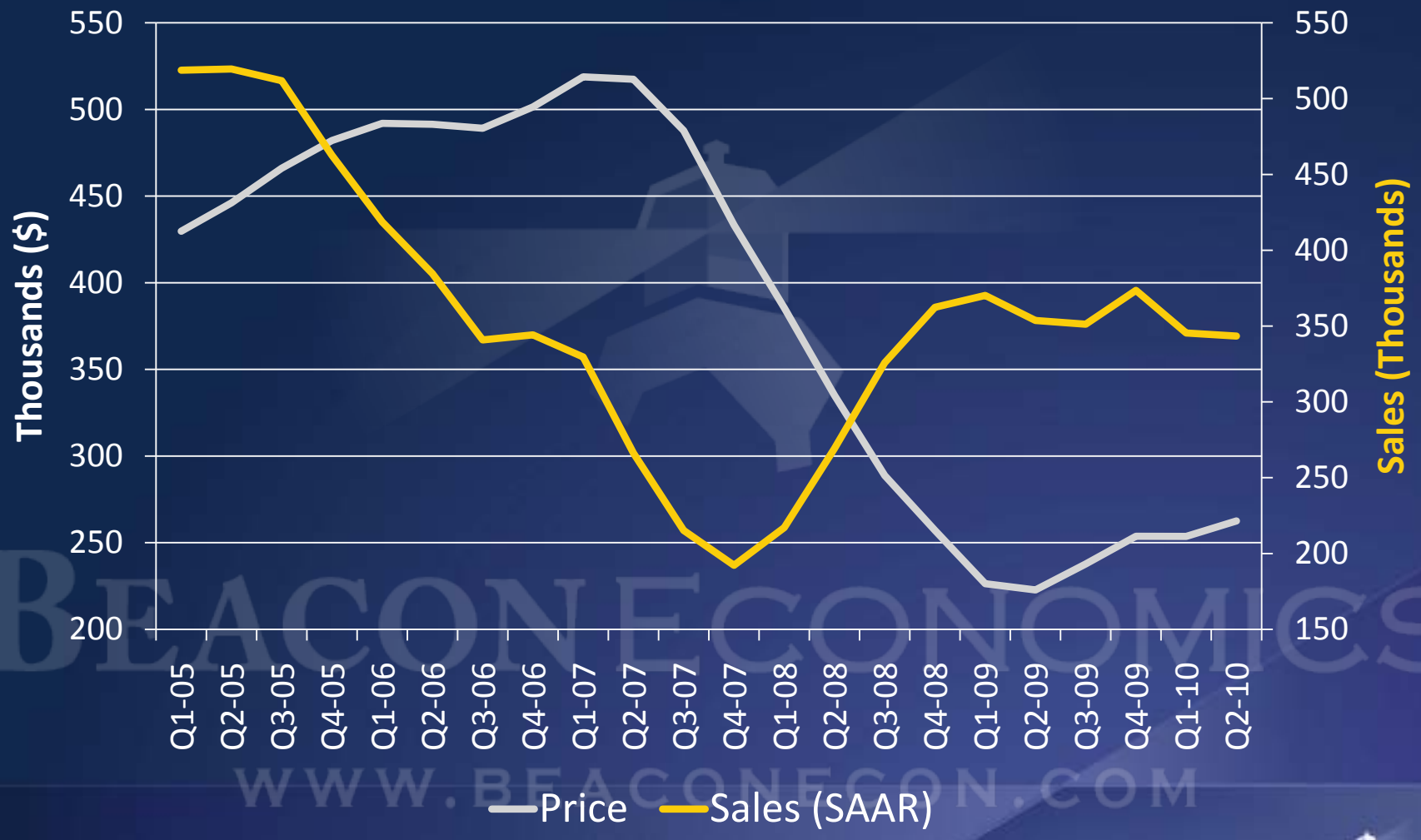
How Many Underwater? as of Q2-10

CBSA Name	# Mortgages	Negative Equity Share
Las Vegas-Paradise NV	449,205	72.83
Stockton CA	129,100	62.36
Vallejo-Fairfield CA	92,418	57.93
Phoenix-Mesa-Glendale AZ	966,635	56.03
Bakersfield-Delano CA	153,522	52.04
Riverside-San Bernardino-Ontario CA	861,023	51.33
Fresno CA	153,362	46.85
Visalia-Porterville CA	69,237	44.81
Sacramento--Arden-Arcade--Roseville CA	494,024	43.41
Salinas CA	61,704	41.57
Oakland-Fremont-Hayward CA	547,903	32.44
San Jose-Sunnyvale-Santa Clara CA	347,365	19.79
San Francisco-San Mateo-Redwood City CA	324,164	9.48

Source: First American CoreLogic

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

CA Housing Sales to Q2-10

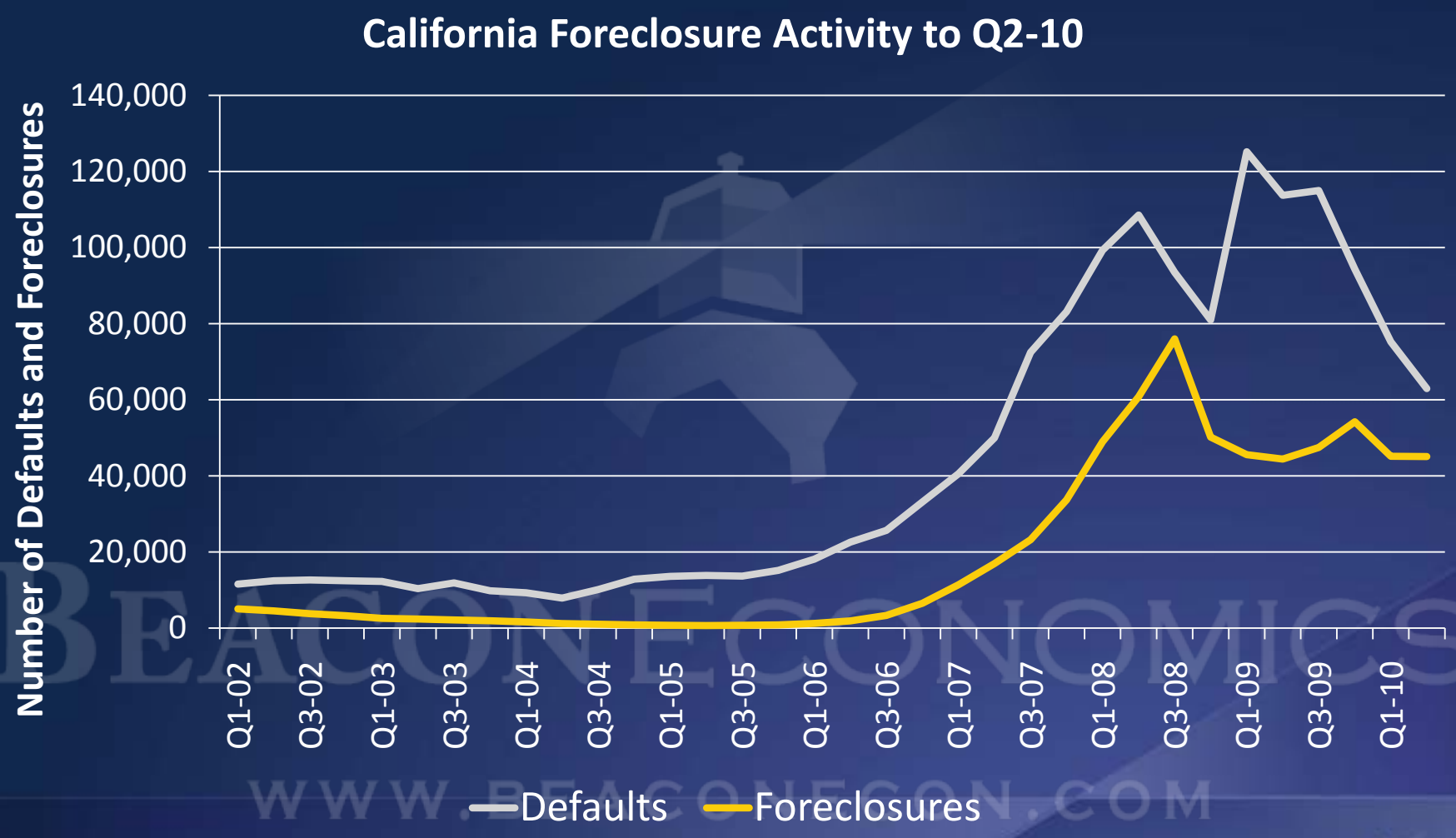


BEACONECONOMICS
WWW.BEACONECON.COM

Source: DataQuick

BEACON ECONOMICS

CA Real Estate Markets



Source: DataQuick

BEACONECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

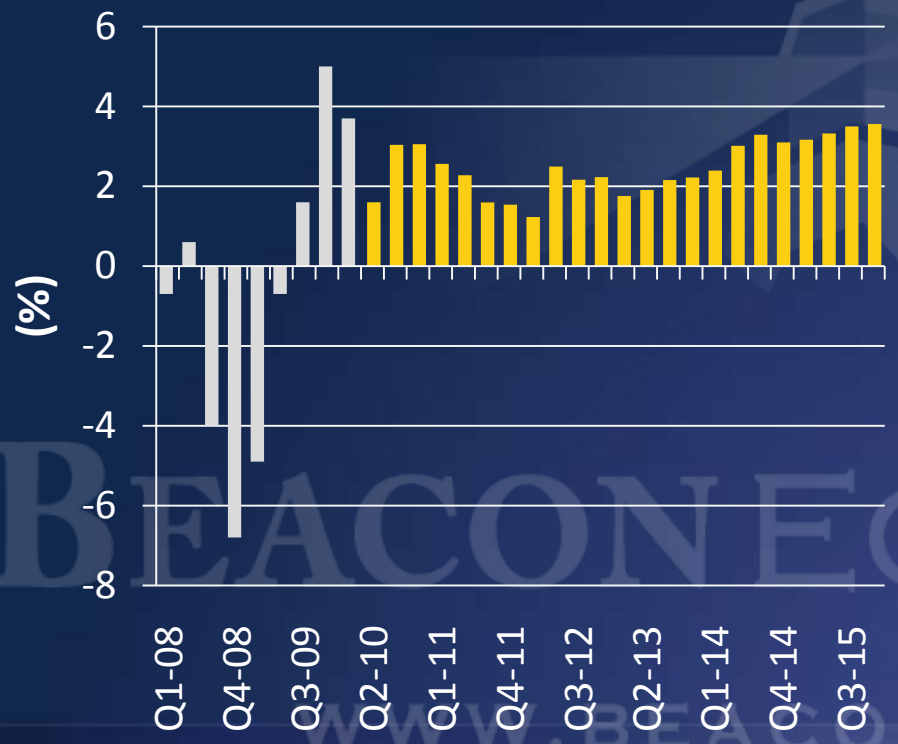
What comes next?

- *Double Dip?*
- *Slow Recovery?*
- *The typical post-recession bounce?*

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

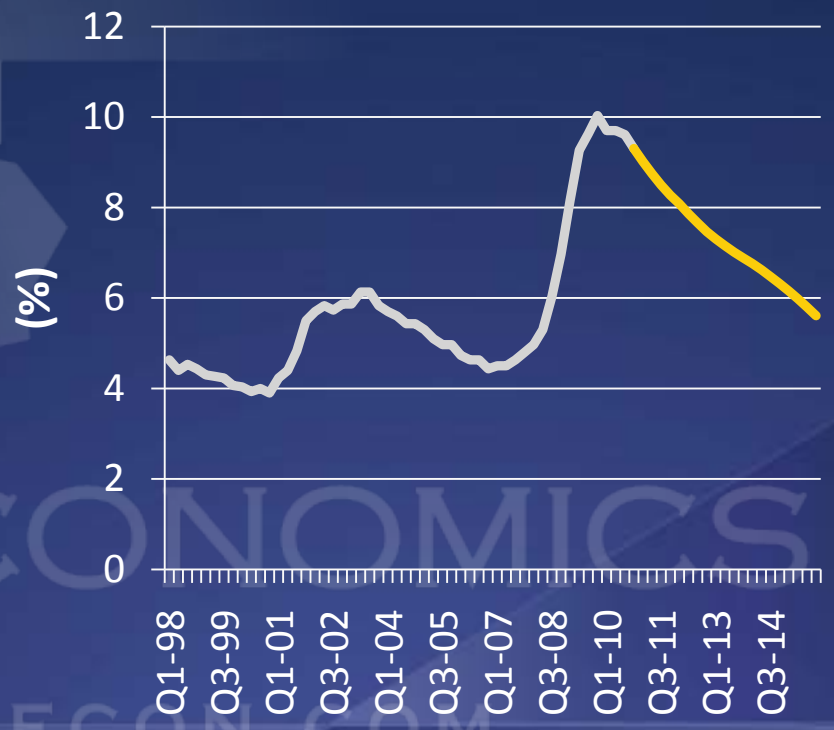
US GDP and Unemployment Forecast

GDP Growth to Q4-15 as of Q2-10



Source: Bureau of Economic Analysis
Forecast by Beacon Economics

Unemployment Rate to Q4-15 as of Q3-10



Source: Bureau of Labor Statistics
Forecast by Beacon Economics

BEACON ECONOMICS
WWW.BEACONECON.COM

What about a Double-Dip?

- Need some sustained shock to the system
- There is potential (worry scale: 1-10):
  - Housing (3)
  - Consumers (4)
  - Deficit/Bond Markets (5)
- Only through gross negligence on the part of policymakers is this possible
  - Policy signals deficits over the long term
  - Tax cuts expire on Jan 1, 2011

BEACON ECONOMICS
WWW.BEACONECON.COM

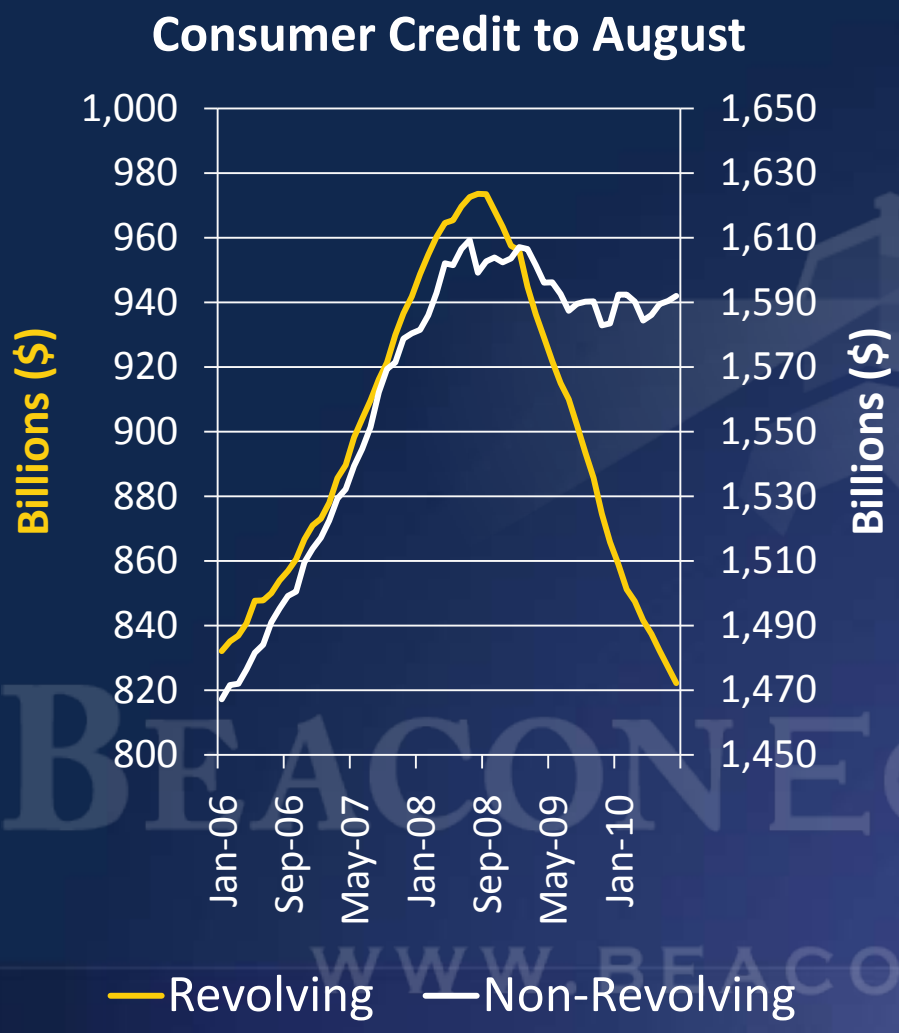
National Housing Bounce

Price Trough to Jul-10 (Case-Shiller)	
CA-San Francisco	17.5
CA-San Diego	11.8
MN-Minneapolis	11.4
DC-Washington	10.1
CA-Los Angeles	9.1
OR-Portland	7.2
OH-Cleveland	6.3
MA-Boston	5.1
AZ-Phoenix	4.7
TX-Dallas	3.3

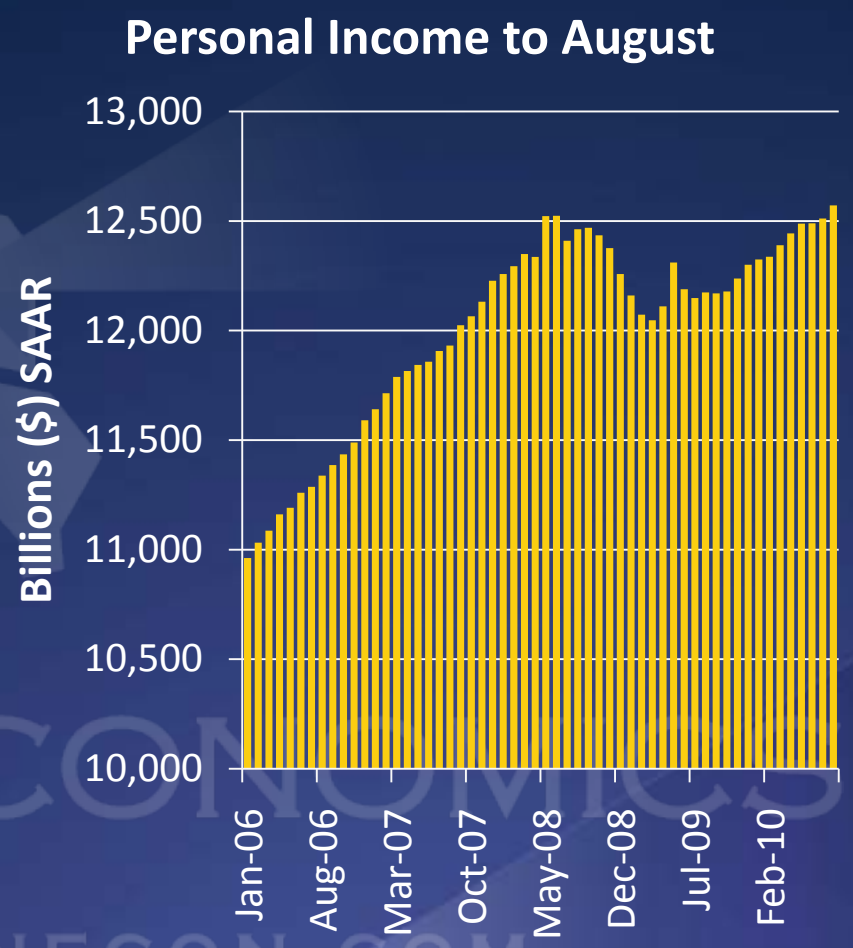
Price Trough to Jul-10 (Case-Shiller)	
CO-Denver	3.0
MI-Detroit	2.9
WA-Seattle	2.8
IL-Chicago	2.8
NY-New York	2.3
GA-Atlanta	1.9
FL-Miami	1.5
NC-Charlotte	0.0
FL-Tampa	0.0
NV-Las Vegas	0.0

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Consumer: Spending Fumes?



Source: Federal Reserve Board

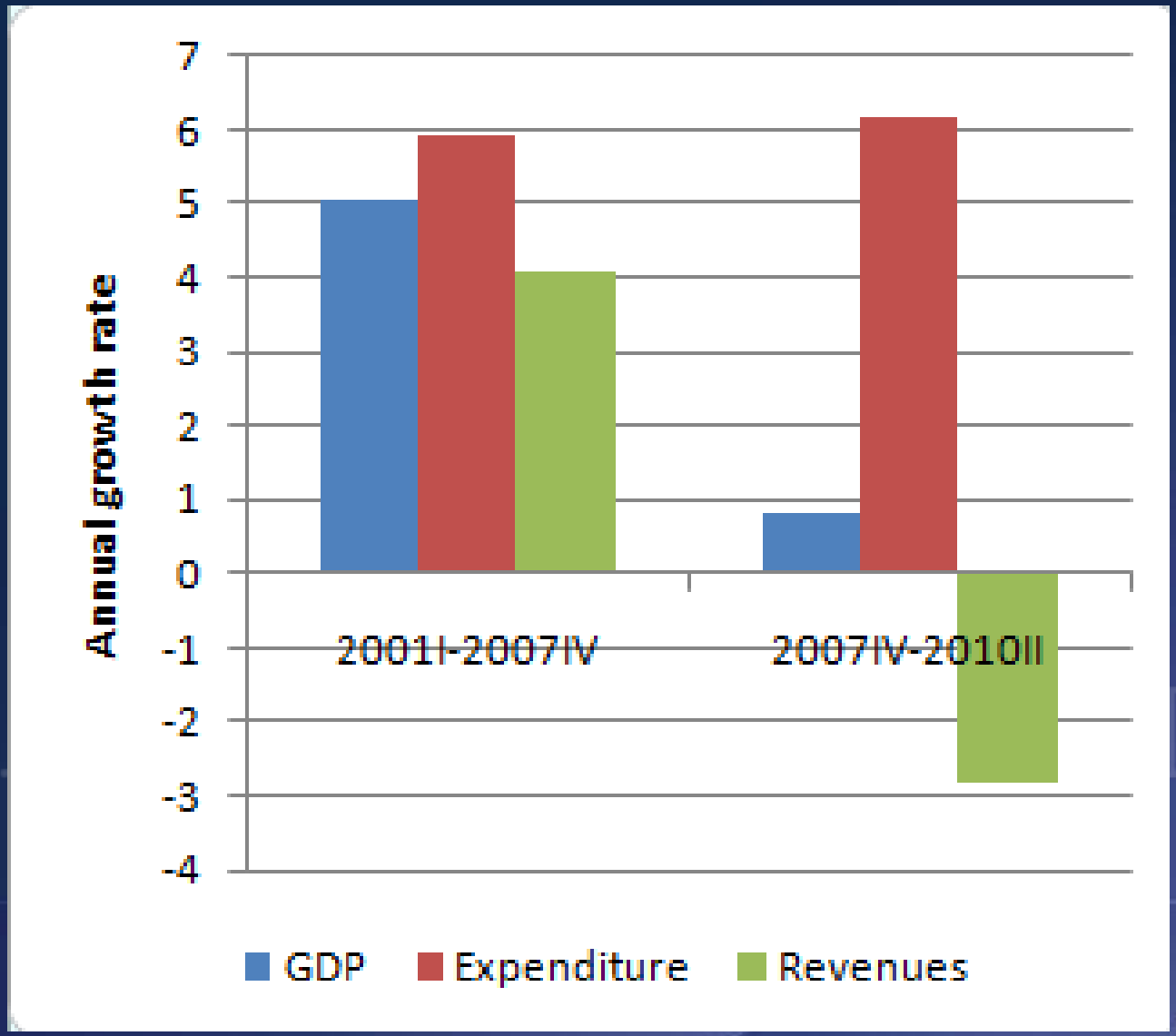


Source: Bureau of Economic Analysis

BEACONECONOMICS
WWW.BEACONECON.COM

BEACON ECONOMICS

Attack the Deficit Now?



BEACON ECONOMICS

What to do with the Bush tax cuts?

Permanent?

Expire?

Temporary extension?

Top 2%?

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Summary

- The Recession is Over… not in the clear yet
  - Consumer weakness will likely continue
  - Housing bounce is ending
  - Most likely scenario- slow recovery for two years (+?)
- Tax Policy, both short and long run, is crucial
  - Short run stimulus, long run danger
  - Must convince bond markets of long run fiscal sanity
- It's not permanent
  - It's just going to take some time—PATIENCE!!
  - No inflation worries
  - Lending practices must loosen for real progress

BEACONECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

CA Summary

- California has been part of the recession's epicenter
  - Housing, exports, business investment
- Early employment gains have ceased
  - Should resume soon, but may be too slow to affect unemployment in the near term
- Decisions now will affect economy long term
  - Budget
  - Education, infrastructure, regulatory environment
- Years before recovery is complete
  - Catching up to potential could be 5+ years

BEACONECONOMICS
WWW.BEACONECONOMICS.COM

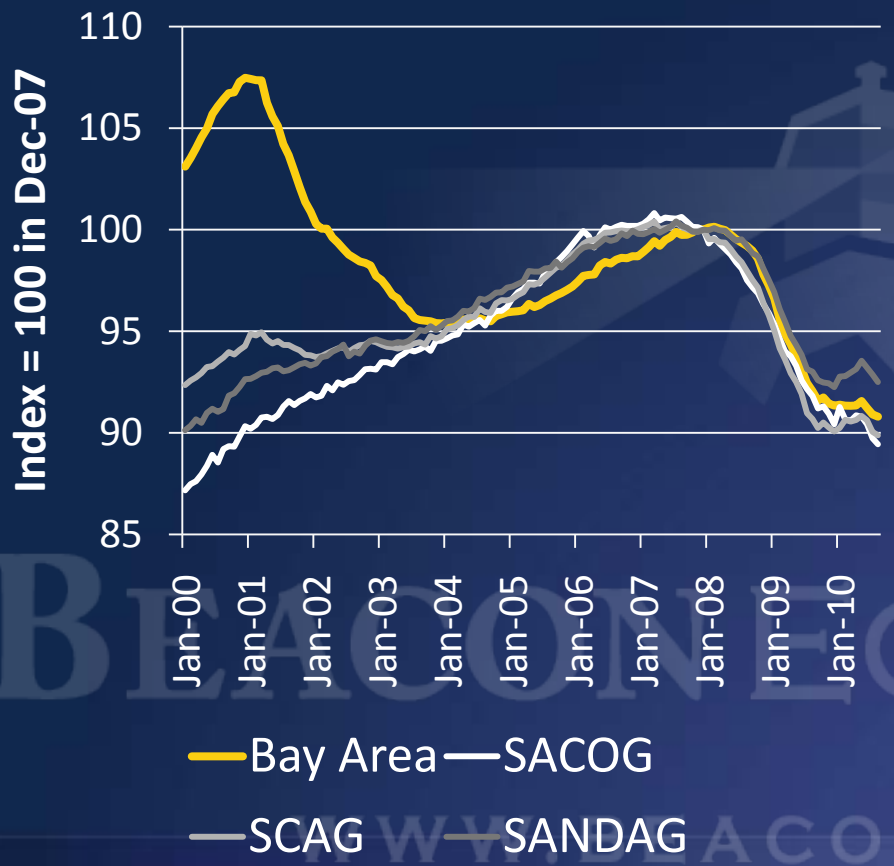
Bay Area Forecast

- Employment
- Taxable Sales
- Housing Markets

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Employment

Total Nonfarm Employment to August



Source: California Employment Development Department

Unemployment Rates to August

Source: California Employment Development Department

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Nonfarm Employment

	Aug-10 Employment	Drop from Peak to Trough (%)	Increase Since Trough (%)
Inland Empire	1,093.5	-14.4	-
Santa Rosa	167.9	-13.3	1.0
Sacramento	804.9	-11.2	-
East Bay (MD)	934.3	-11.2	-
Vallejo	116.2	-10.9	-
Fresno	277.6	-10.1	0.1
Los Angeles (MSA)	5,102.3	-9.8	-
Napa	59.3	-9.7	-
San Francisco (MD)	913.0	-8.9	-
San Jose (MSA)	845.2	-8.9	0.7
San Diego	1,210.5	-8.1	0.3

BEACON ECONOMICS
WWW.BEACONECON.COM

Source: California Employment Development Department

BEACON ECONOMICS

Unemployment Rate and Labor Force

	Aug-10 Unemployment Rate (%)	Unemployment Rate Low to Peak Change	Dec-07 to Trough % drop in Labor Force
Inland Empire	14.0	10.2	-1.77
Fresno	17.4	10.0	No Drop
Sacramento	12.5	8.2	-0.23
San Jose (MSA)	11.0	7.9	No Drop
Vallejo	11.9	7.9	-0.01
Los Angeles (MSA)	11.6	7.8	-2.12
Oakland (MD)	11.1	7.6	-0.53
San Diego	10.3	7.1	No Drop
Santa Rosa	10.4	7.1	-2.26
Napa	9.7	6.5	-0.57
San Francisco (MD)	8.9	6.1	No Drop

Source: California Employment Development Department

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Taxable Sales

Location	Q2-10 (Millions)	Drop from Peak to Trough (%)	Increase since Trough (%)
Bay Area	26,600	-20.5	7.3
SACOG Region	7,155	-23.2	2.6
SCAG Region	55,300	-23.2	4.5
SANDAG Region	10,300	-20.1	7.4
San Francisco (MD)	7,261	-19.0	7.3
San Jose (MSA)	7,572	-22.1	12.1
Oakland (MD)	8,323	-21.8	5.4
Vallejo	1,301	-26.2	2.4
Napa	562	-17.2	3.4
Santa Rosa	1,579	-24.4	2.9

Source: California Board of Equalization

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

State Housing Markets

	Sales Volume			Median Price		
All homes	Aug-09	Aug-10	%Chng	Aug-09	Aug-10	%Chng
San Mateo	606	591	-2.5	559,000	610,000	9.1
San Bernardino	3,276	2,513	-23.3	145,000	158,000	9.0
Santa Clara	1,736	1,556	-10.4	451,000	480,250	6.5
Contra Costa	1,587	1,397	-12.0	261,500	278,000	6.3
Alameda	1,538	1,351	-12.2	340,000	360,000	5.9
Sonoma	505	484	-4.2	315,000	332,000	5.4
Riverside	4,145	3,478	-16.1	190,000	200,000	5.3
San Diego	3,306	3,113	-5.8	325,000	337,000	3.7
Orange	2,790	2,538	-9.0	427,750	440,000	2.9
San Francisco	514	451	-12.3	635,000	652,500	2.8
Napa	120	121	0.8	350,000	354,000	1.1
Solano	677	542	-19.9	200,500	202,500	1.0
Los Angeles	7,189	6,180	-14.0	329,500	330,000	0.2
Ventura	796	719	-9.7	375,500	370,000	-1.5
Marin	235	205	-12.8	713,000	649,000	-9.0

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

% of Single-Family Homes in Default and Foreclosure

Region	Q2-10 % in Default	Peak % in Default	Q2-10 % in Foreclosure	Peak % in Foreclosure
Inland Empire	1.12	2.54	0.97	1.67
Vallejo	1.09	2.04	0.80	1.49
Fresno	0.74	1.52	0.60	0.88
East Bay (MD)	0.81	1.38	0.52	0.91
San Diego	0.70	1.37	0.44	0.80
Napa	0.48	0.88	0.39	0.62
Los Angeles (MSA)	0.62	1.31	0.38	0.61
Santa Rosa	0.53	0.86	0.30	0.57
San Jose (MSA)	0.52	1.07	0.28	0.51
San Francisco (MD)	0.41	0.62	0.20	0.21

Source: California Department of Finance, DataQuick

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Bay Area Forecast

(SF, EB, and SJ)

	Current Level (2010 Q2)	Peak Level (Various)	Return to Peak
NF Employment	2,710	2,962	2015 Q4
Taxable Sales	23,155	26,872	2015 Q1
Home Prices			
- San Francisco (MD)	695,093	891,542	90% in 2015 Q4
- East Bay (MD)	350,475	646,658	69% in 2015 Q4
- San Jose MSA	552,695	779,001	98% in 2015 Q4

BEACONECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

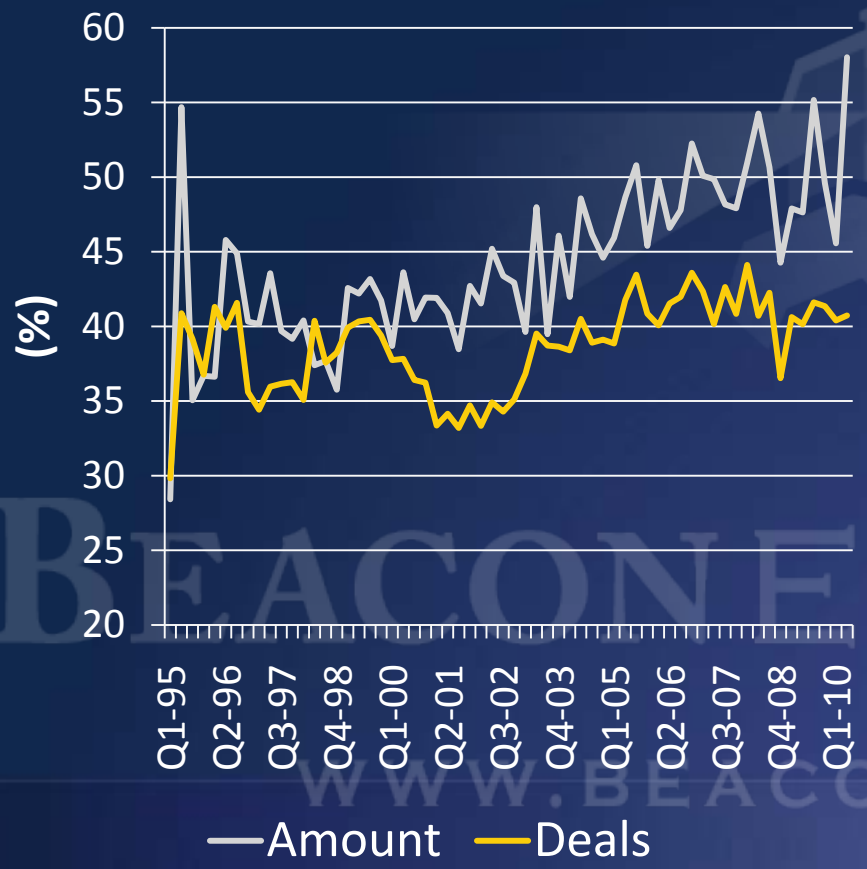
Bay Area Summary

- Recovery will be slow in coming
- It will also be uneven
  - East bay and Napa/Sonoma slower than other regions
- Fundamentals remain intact, but in jeopardy
  - Educational opportunities
  - Infrastructure
- Remains an attractive region for investment

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

Venture Capital

California's Share of US Venture Capital to Q2-10



Q2-10	Value of All Deals (Millions)	% of Total US VC
Bay Area	2,826	43
California	3,782	58
United States	6,517	

BEACON ECONOMICS
WWW.BEACONECON.COM
BEACON ECONOMICS

BEACON ECONOMICS

Analysis. Answers.

- *Economic Forecasting*
- *Regional Intelligence Reports*
- *Business & Market Analysis*
- *Real Estate Market Analysis*
- *Ports & Infrastructure Analysis*
- *Economic Impact Analysis*
- *Public Policy Analysis*

To view or download this presentation please visit: www.BeaconEcon.com

Jon@BeaconEcon.com
415-457-6006

BEACONECONOMICS
WWW.BEACONECON.COM