The U.S. and California
Is The Recovery Here at Last?

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Senior Economist
UCLA Anderson Forecast

State of the County
January 20, 2010

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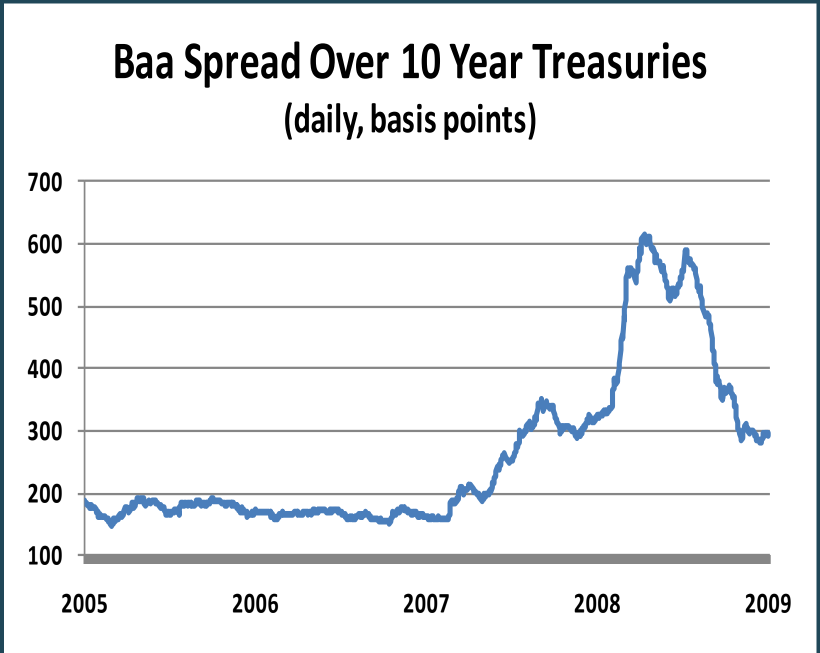
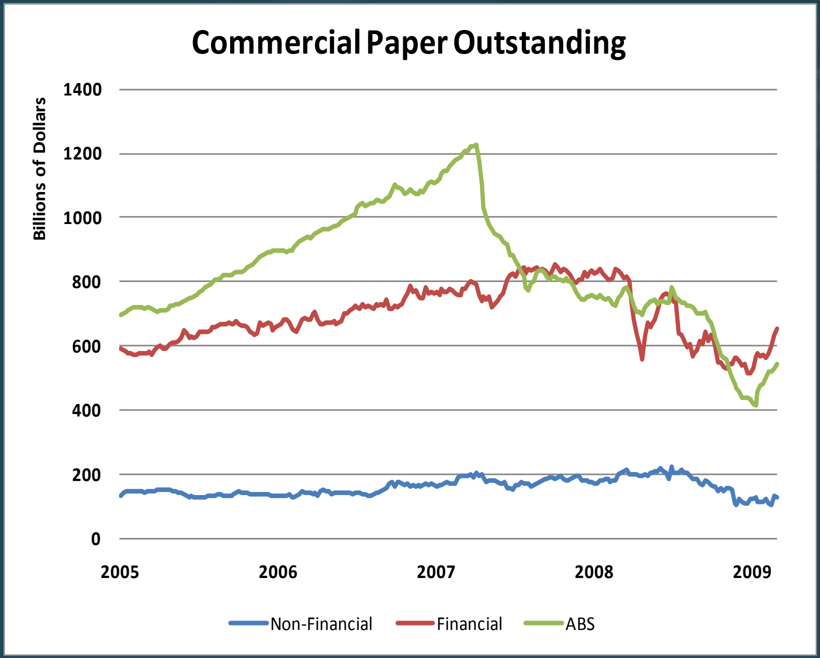
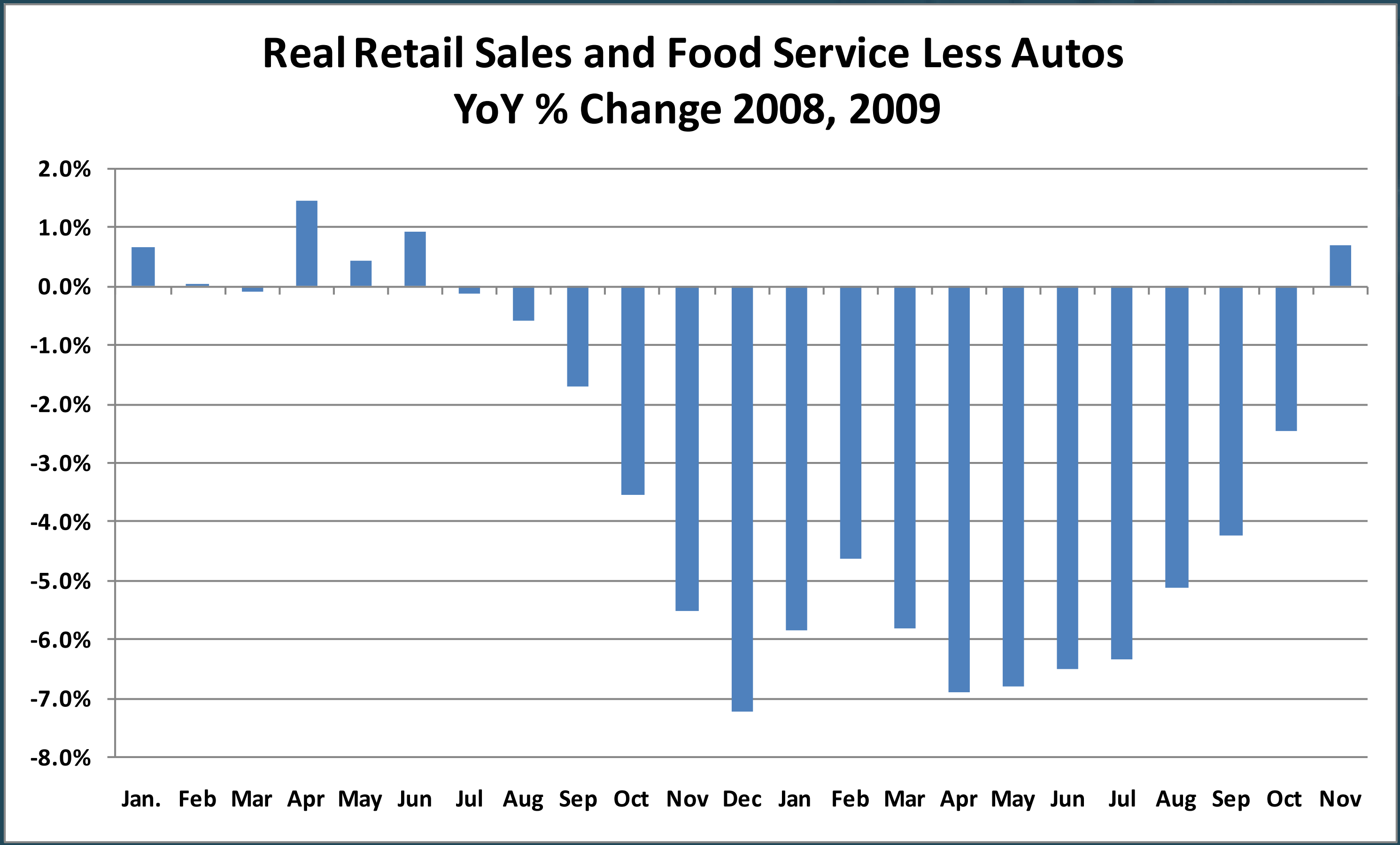
SEPTEMBER 2008

In September 2008
Financial Markets Stopped Functioning





And Consumers Stopped Spending



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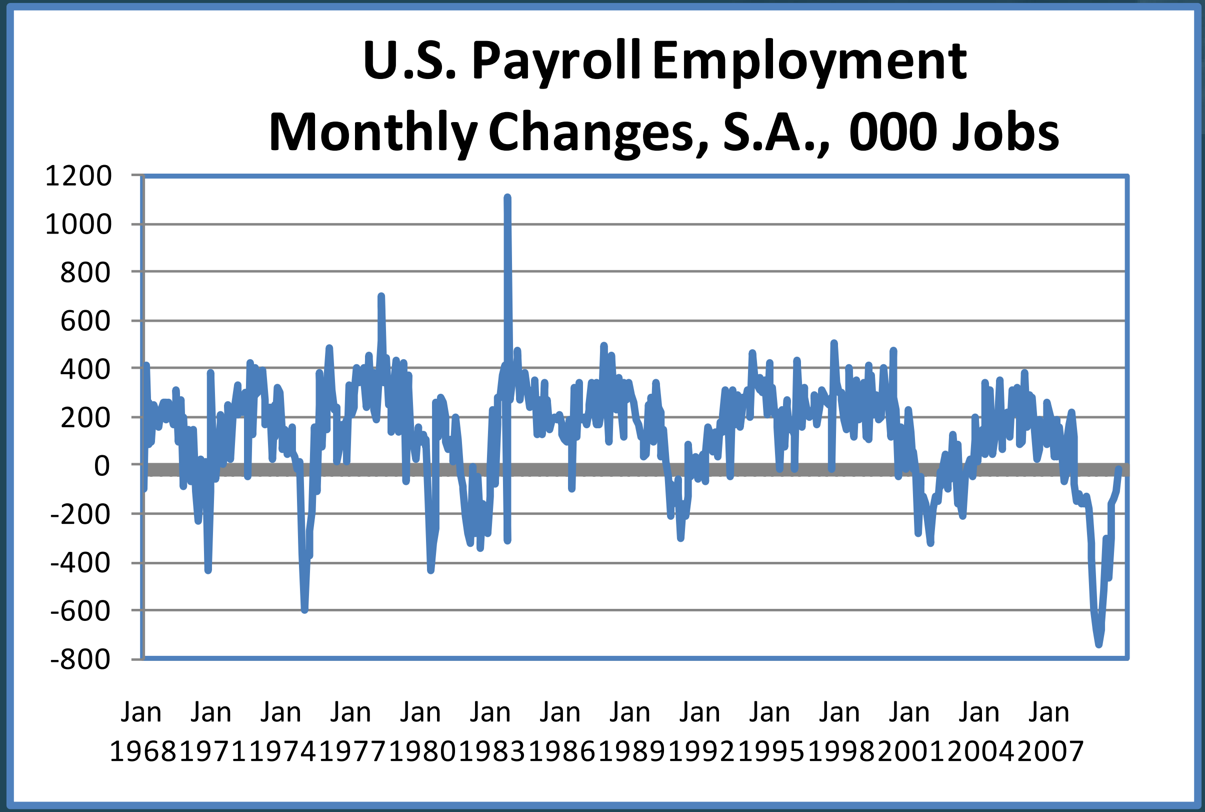
Leading to a collapse of consumption and investment

Unemployment Rises Sharply

6.1% in September '08 to 10.2% in October '09



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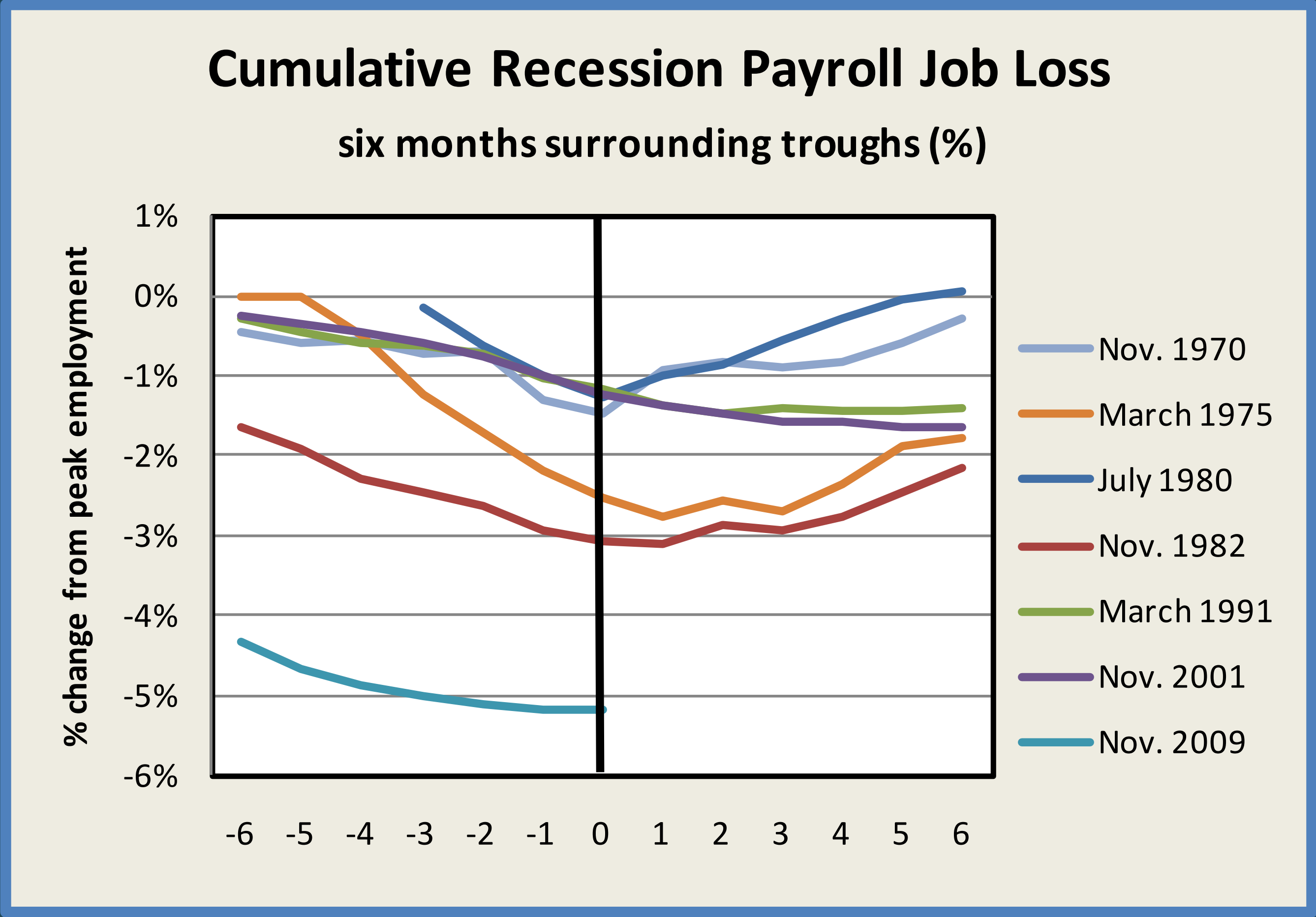
WHAT DOES THE END OF A RECESSION LOOK LIKE?

Payroll Job Losses Do Not End Before The Recession



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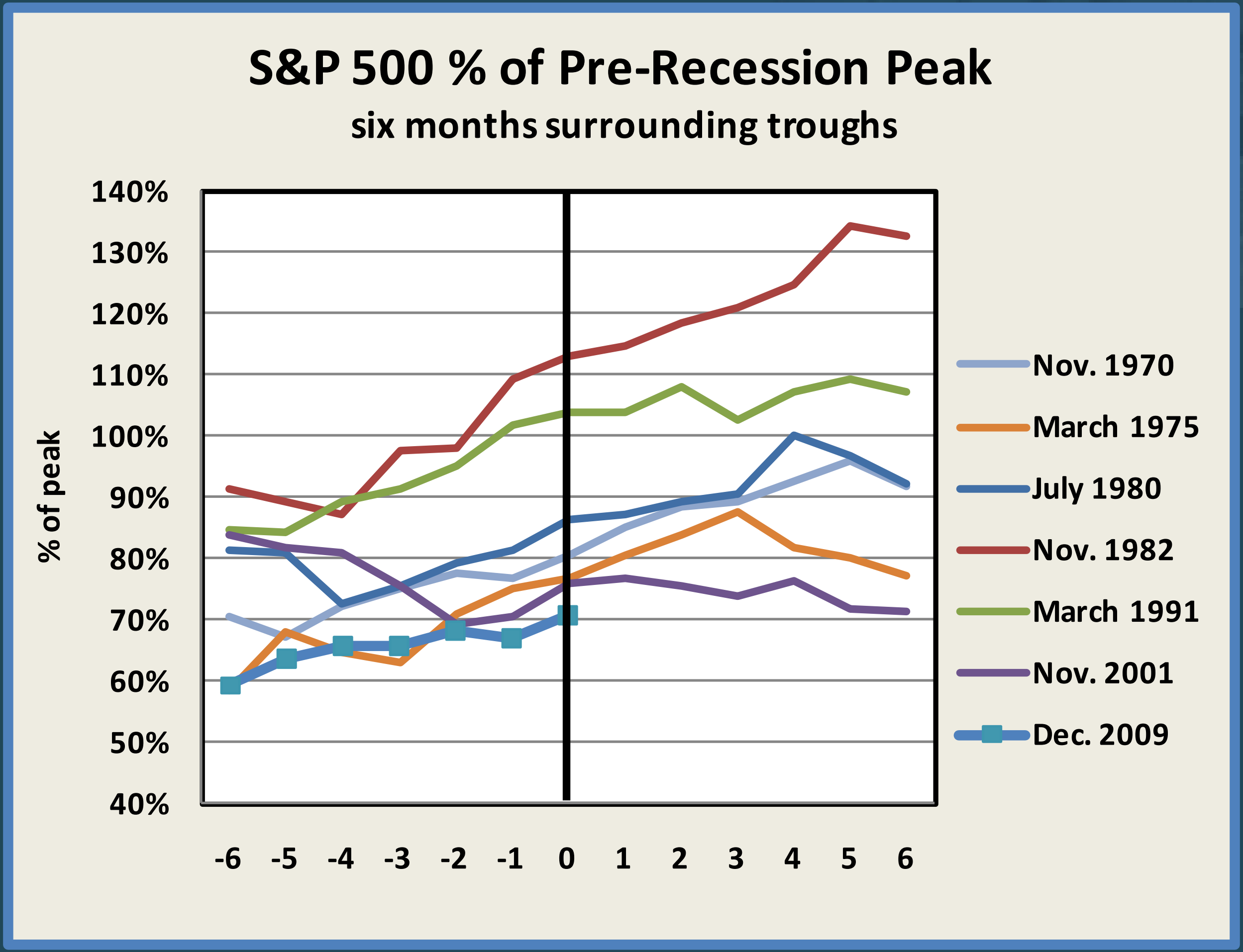
The Stock Market
Bottoms Out 5-6 Months Before the End



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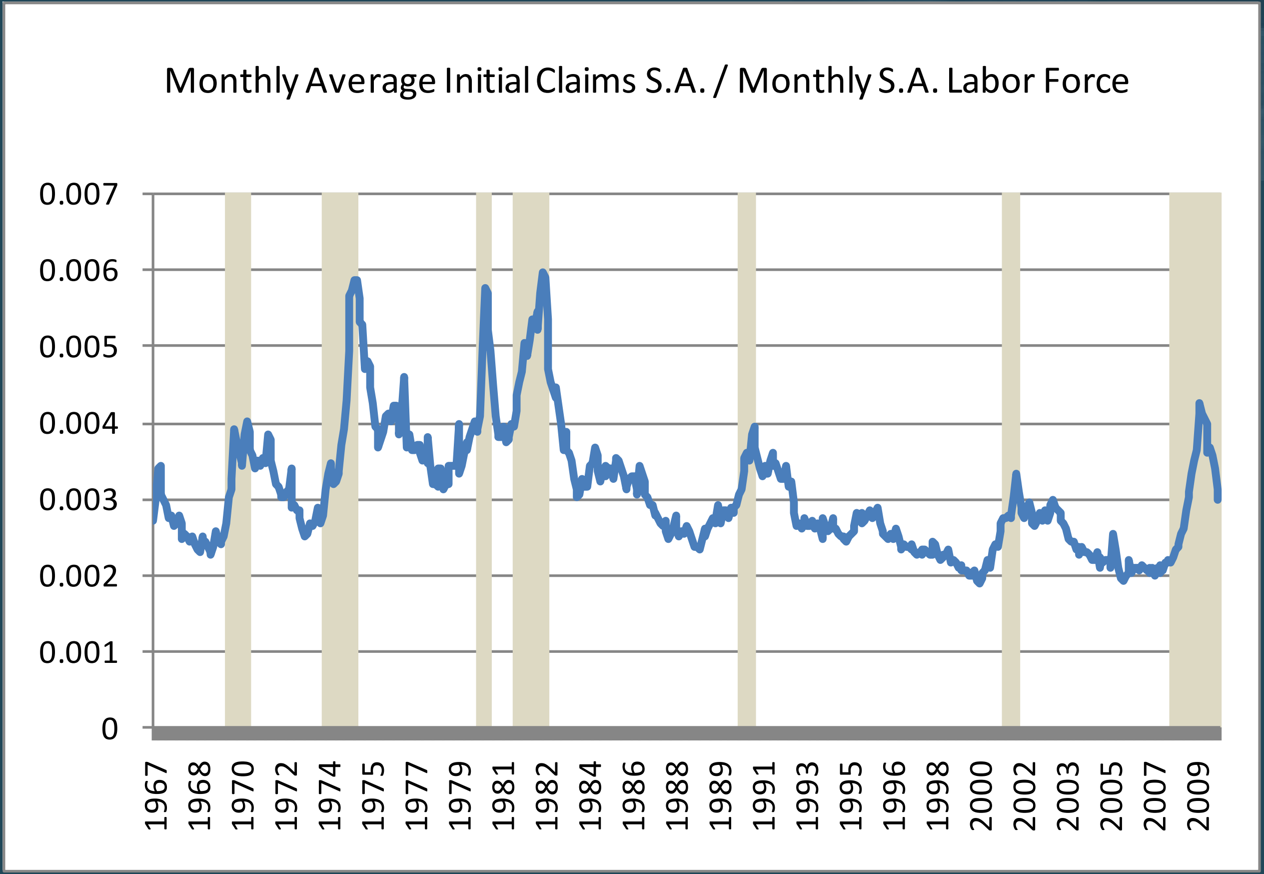
The Recession Ends

2-3 Months After Peak Initial Claims for Unemployment

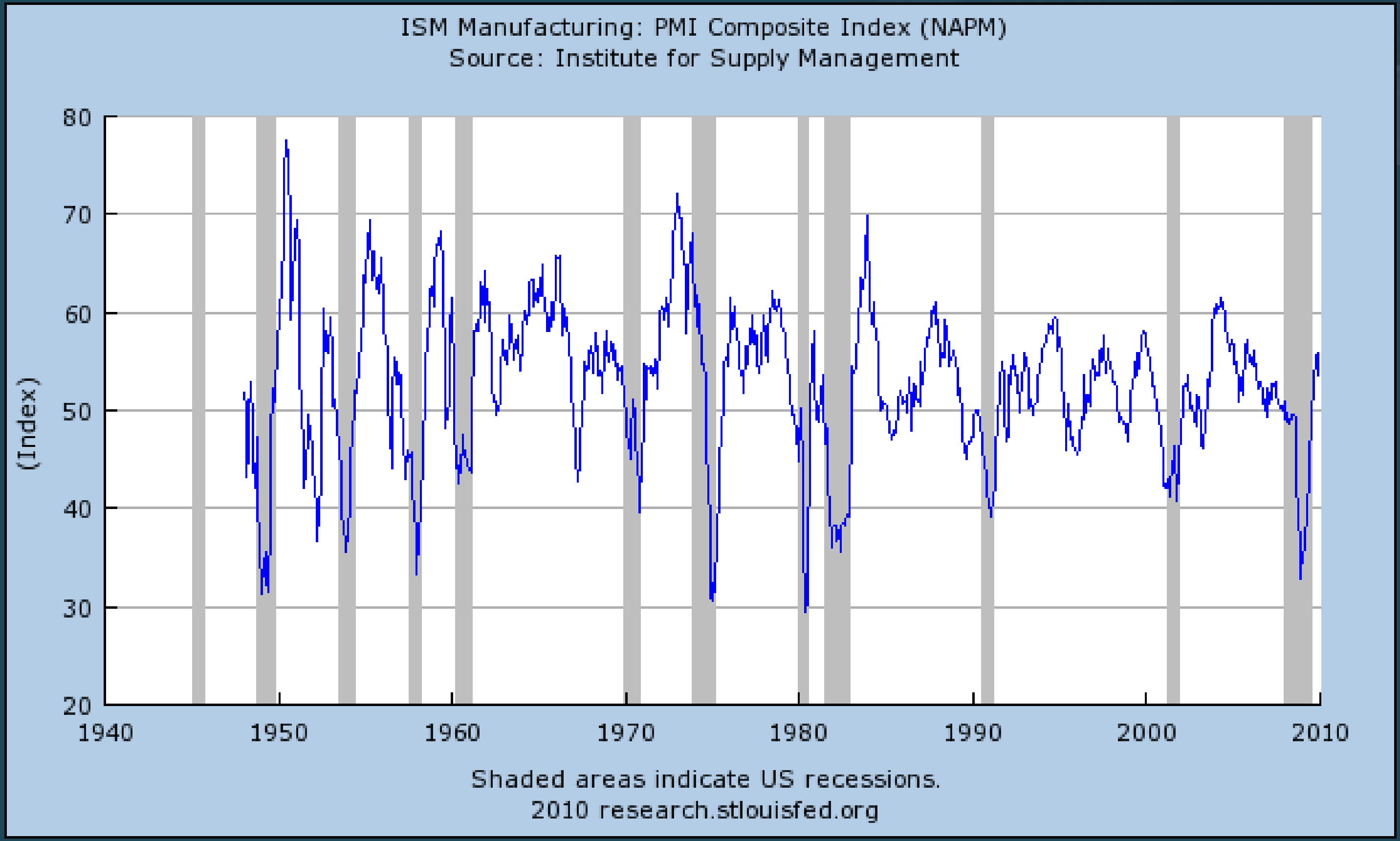
Claims Peaked in March



The Recession Ends

Soon After the Trough in Manufacturing Activity

ISM Manufacturing Index Hit 50 in August



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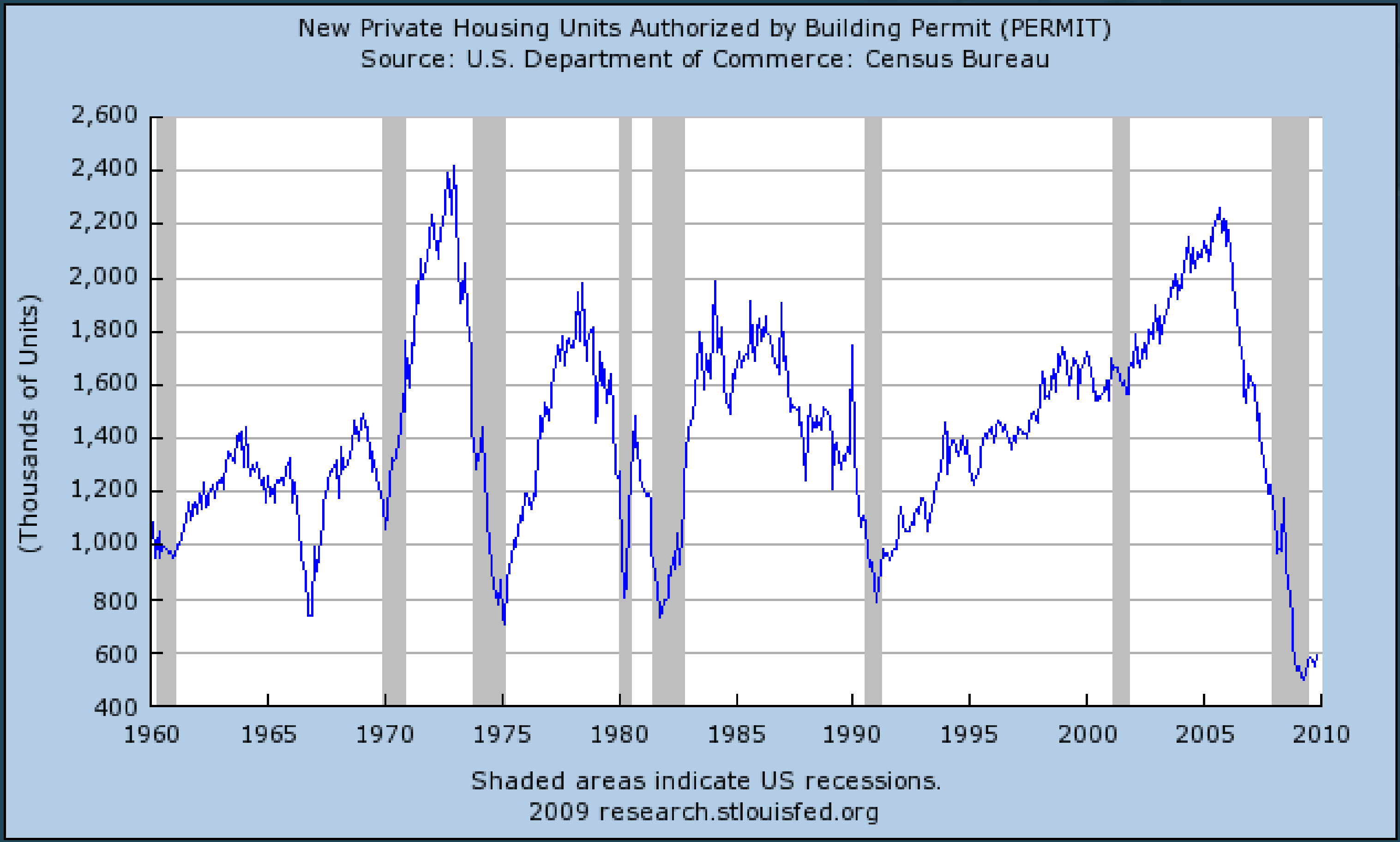
The Recession Ends
Several Months After the Trough of Building Permits
Building Permits Established a New Low in April



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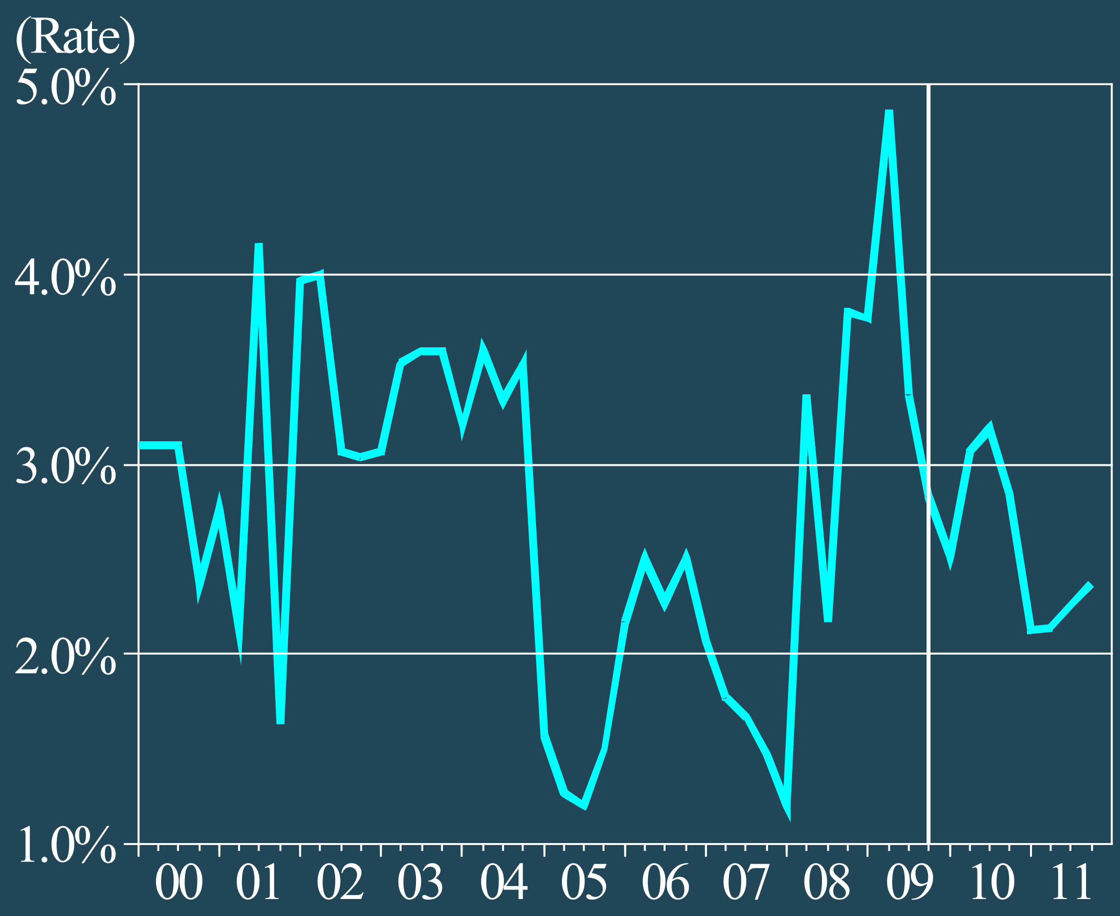
Savings Rate Gradually Rises

Saving Rate, 2000 – 2011F, Quarterly Data



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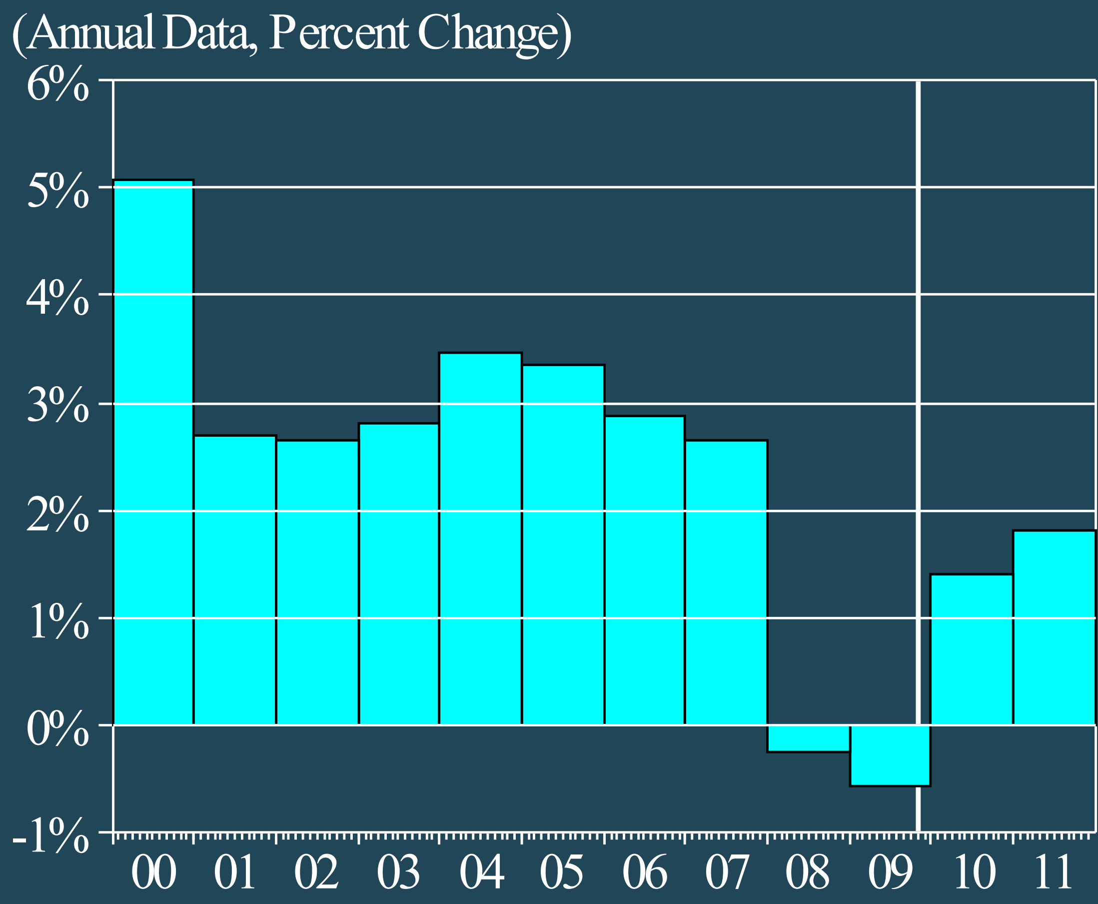
Sources: Dept. of Commerce and UCLA Anderson Forecast

Consumption Growth Modest

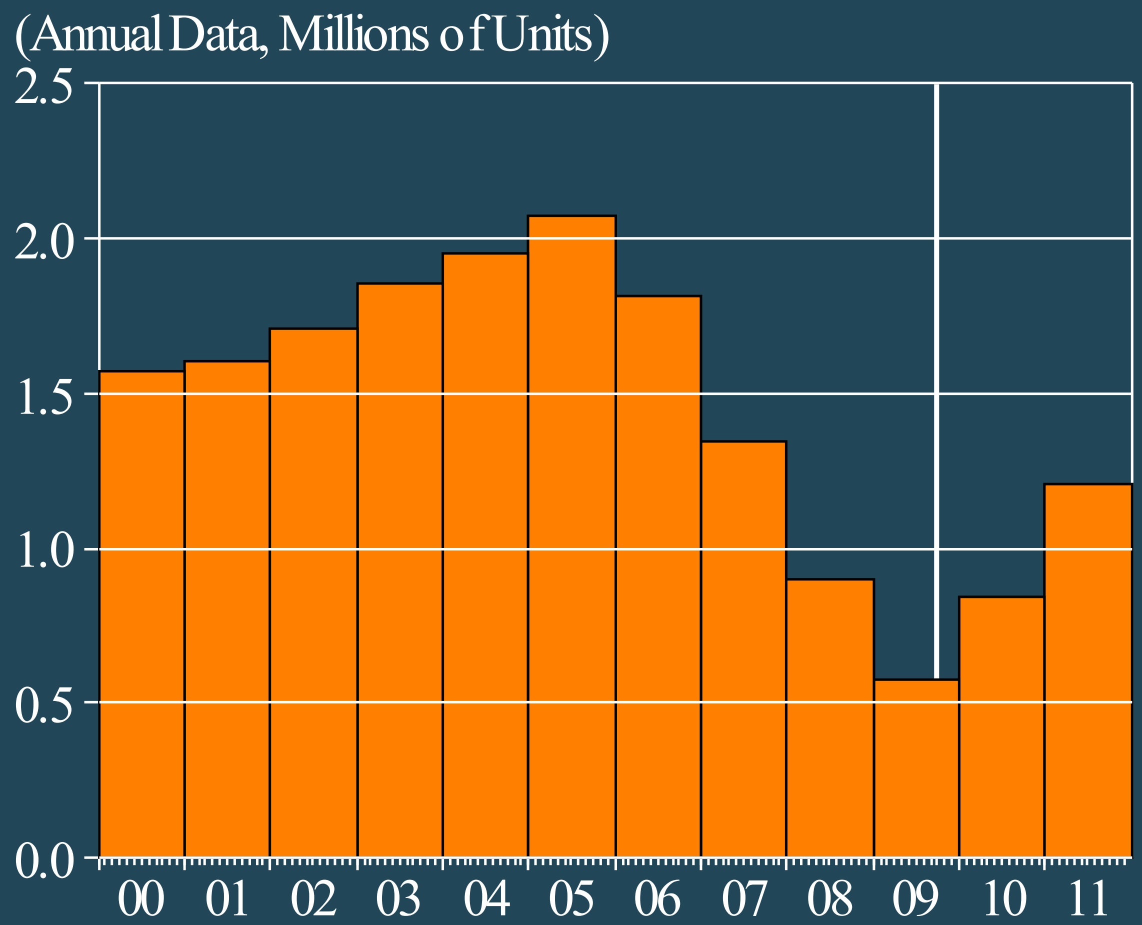
Real Consumption Growth, 2000-2011F



Sources: Dept. of Commerce and UCLA Anderson Forecast

Housing Starts Rebound off Lows

Housing Starts, 2000-2011F

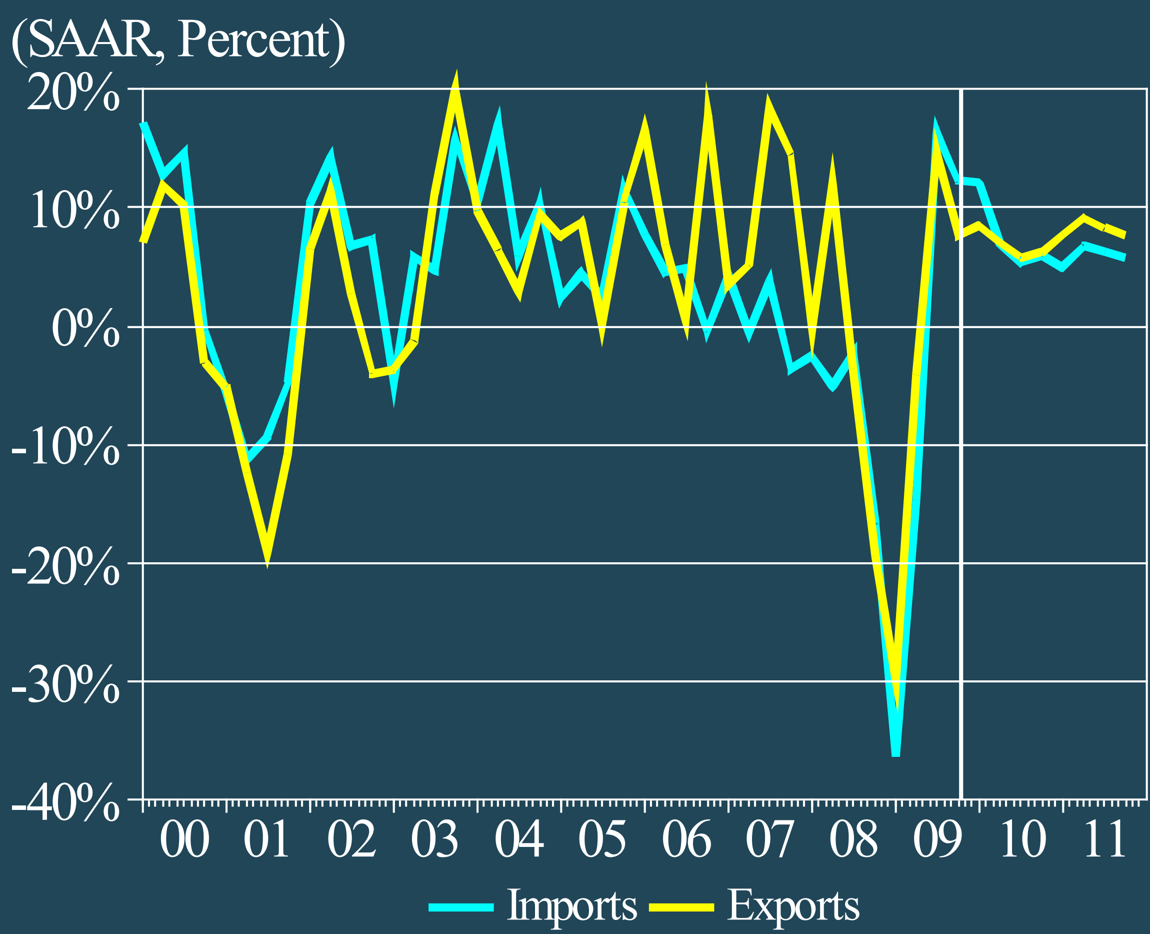


Sources: Dept. of the Census, UCLA Anderson Forecast

Big Inventory Cycle Helps Near

Exports to Outpace Imports

Growth in Real Imports and Exports, 2000:Q1 – 2011:Q4F



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Sources: Dept. of Commerce, UCLA Anderson Forecast

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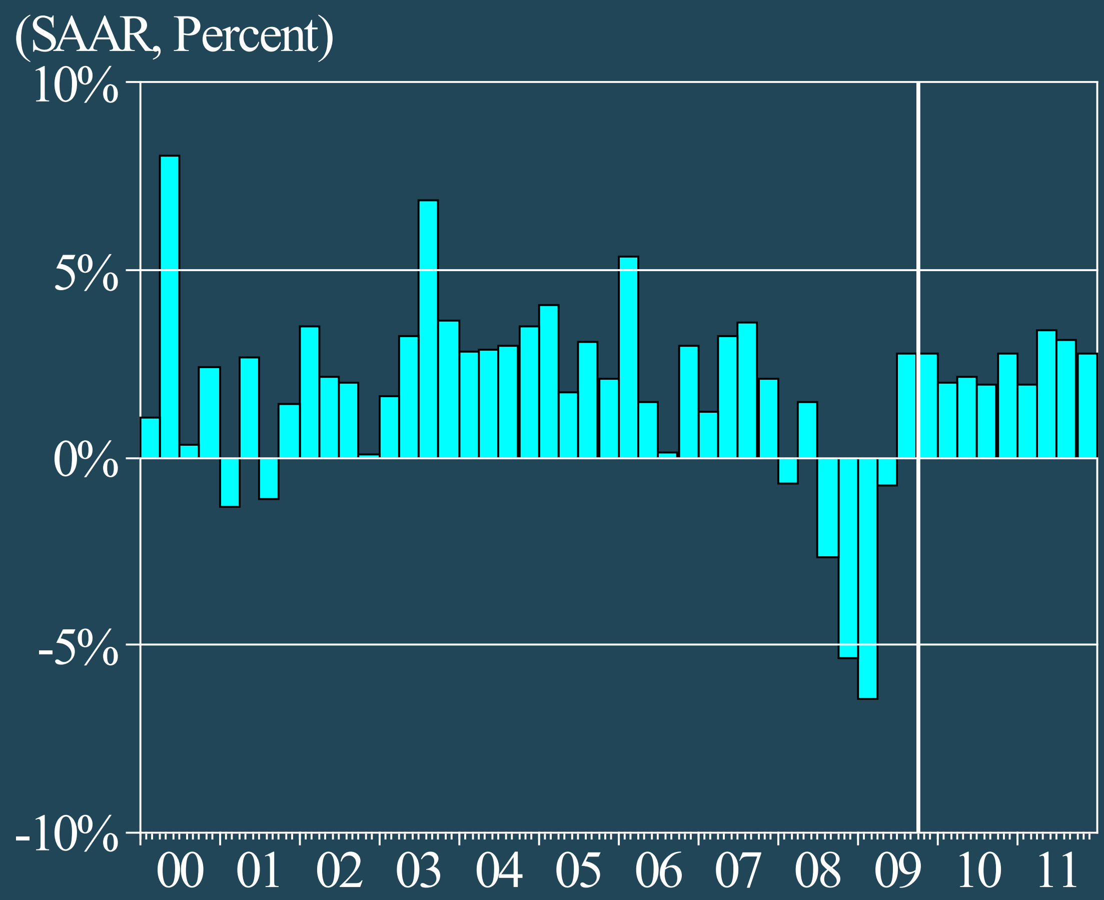
Closer Look at the Forecast

Growth in Real Imports and Exports, 2010:Q1 – 2011:Q4

Sources: Department of Commerce, UCLA Anderson Forecast

Sluggish GDP Growth

Real GDP Growth, 2000Q:1 – 2011:Q4F



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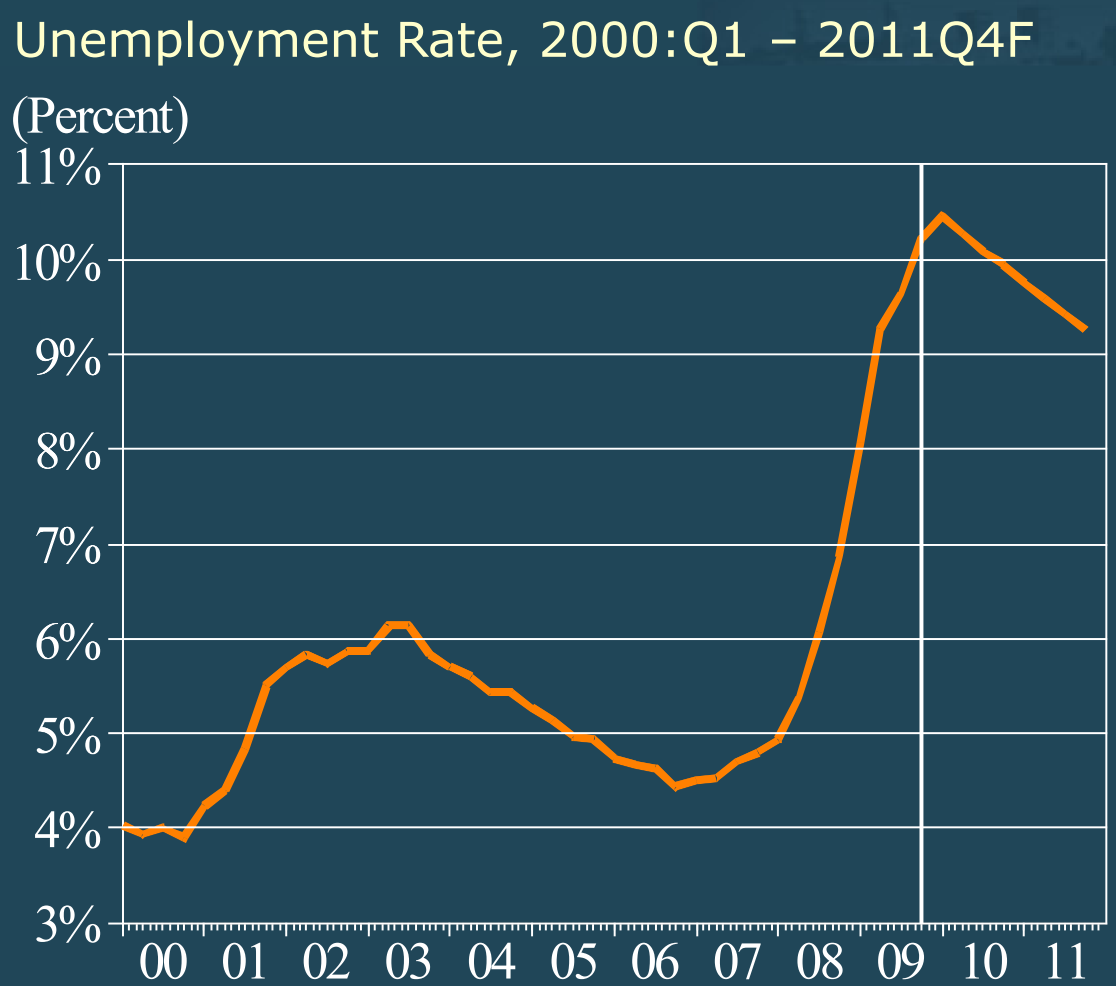
Sources: U.S. Dept. of Commerce, UCLA Anderson Forecast

Unemployment Hangs Way too High



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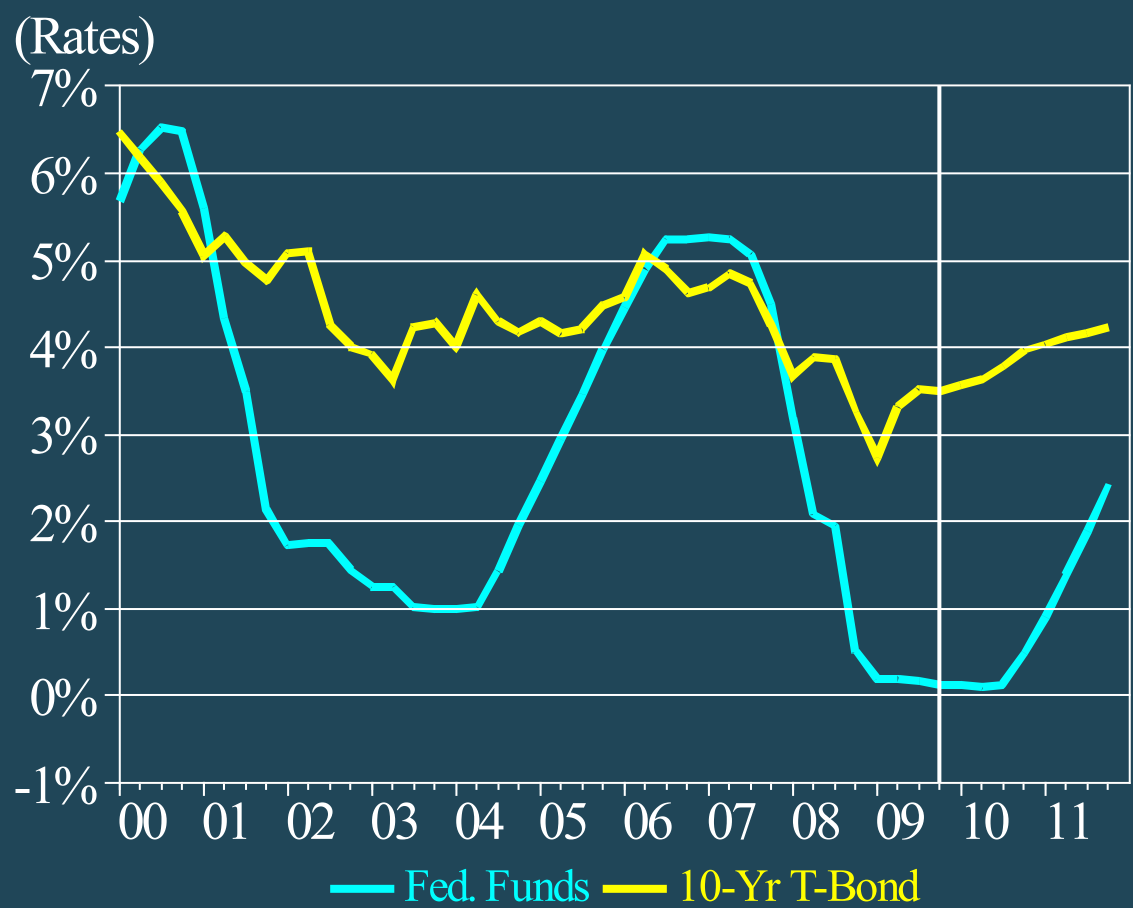
Sources: Bureau of Labor Statistics, UCLA Anderson Forecast

Zero Interest Rate Policy to End in Late 2010

Fed Funds Vs. 10-Year U.S. Treasury Bonds, 2000:Q1 – 2011:Q4F



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Sources: Federal Reserve Board, UCLA Anderson Forecast

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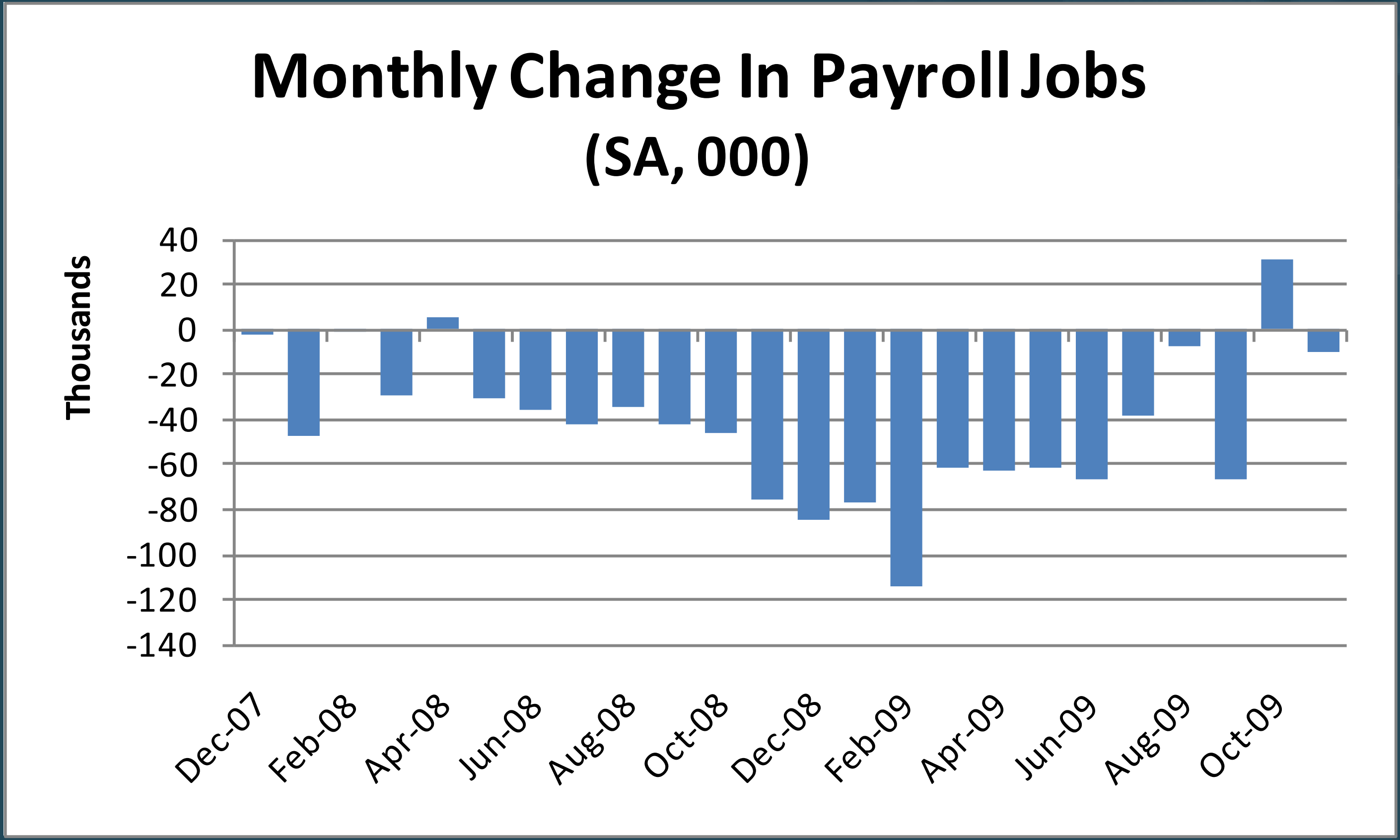
What We Worry About

- Protectionism and Trade Wars
- Deficits, Inflation, and Fed Policy
- Government Intervention
- Geopolitical Risk

CALIFORNIA:

EMPLOYMENT, TRADE, HOUSING, AND GOVERNMENT

But, Payroll Job Loss is Declining



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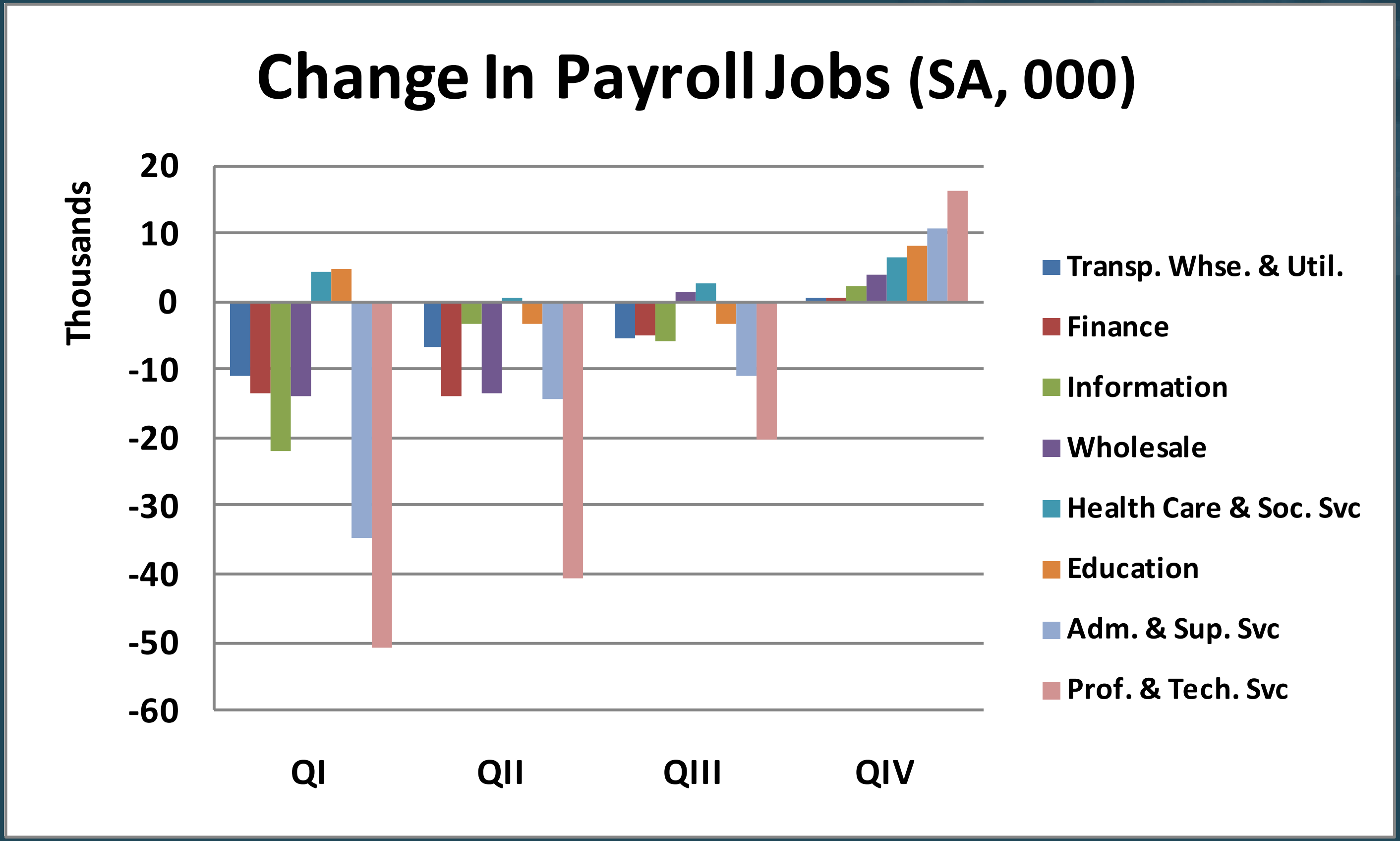
Many sectors now adding jobs



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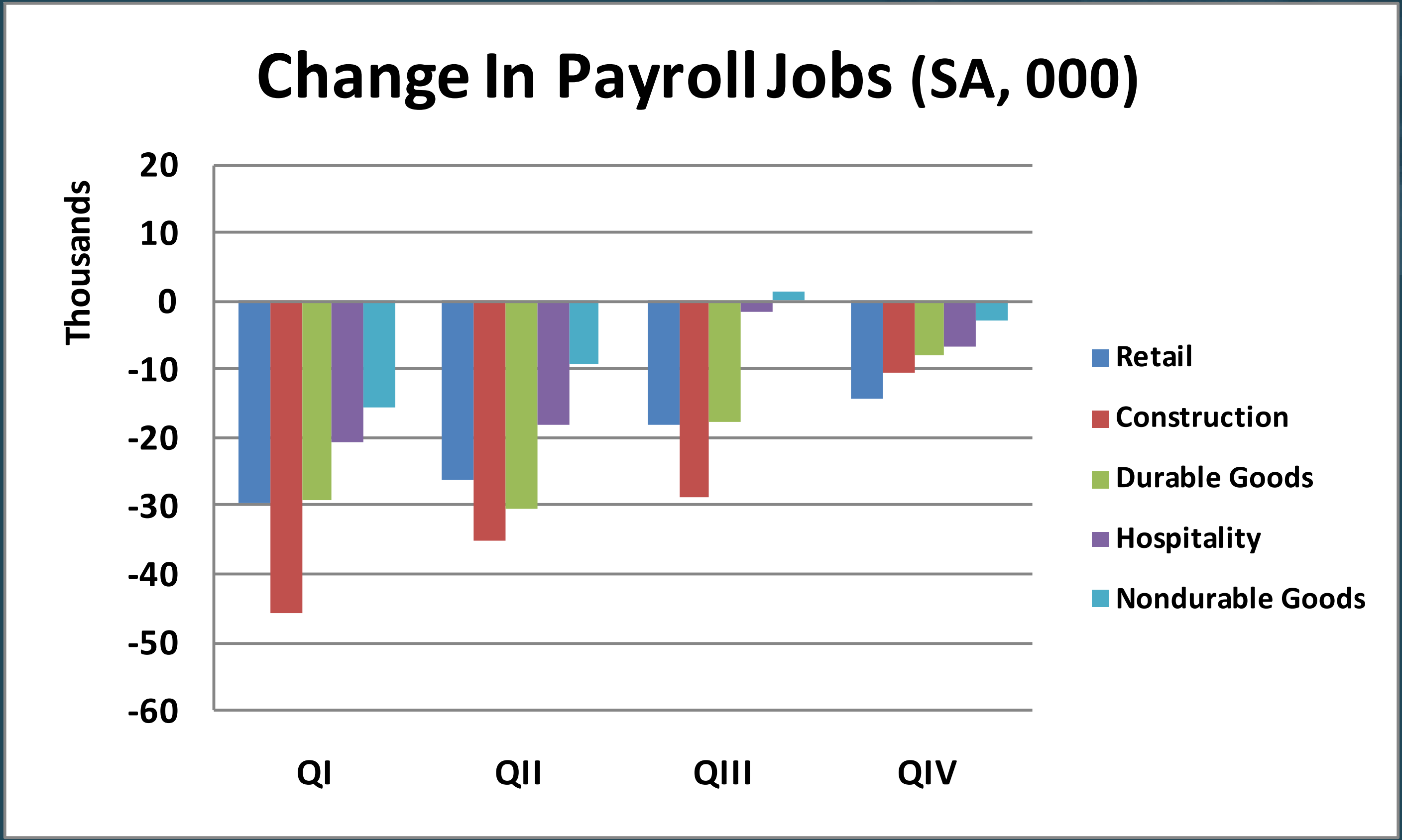

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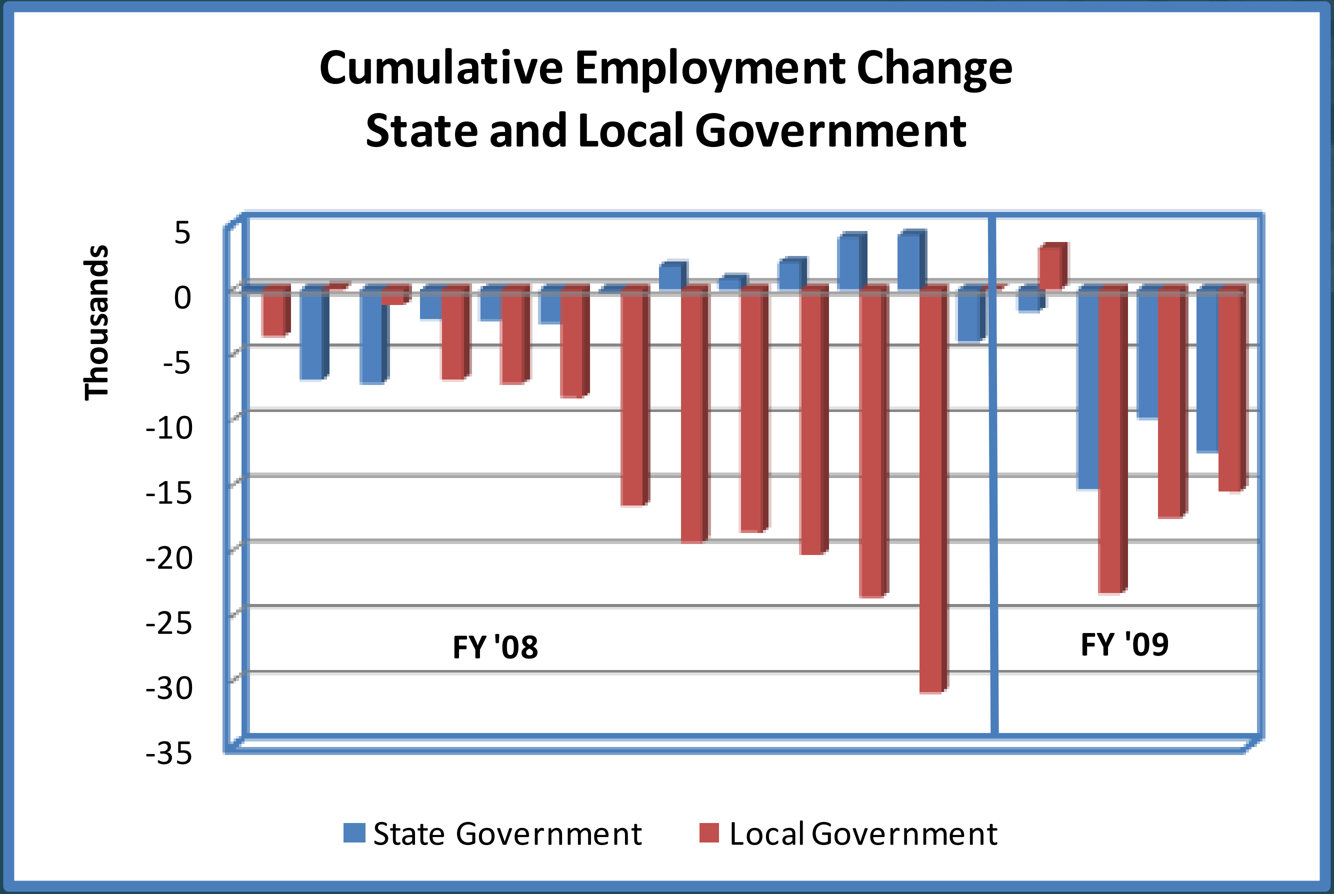
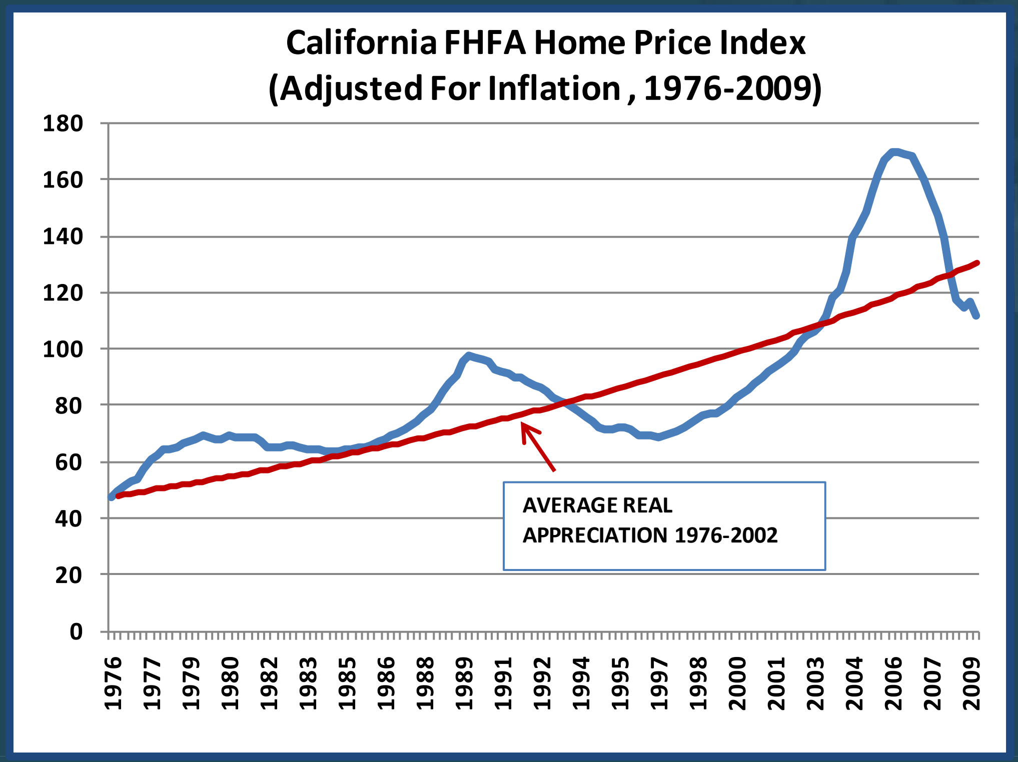
Public Sector cuts not yet sufficient



Housing Markets: Home Prices



Case Shiller and FHFA Purchase Only Confirm a Bottoming of Prices

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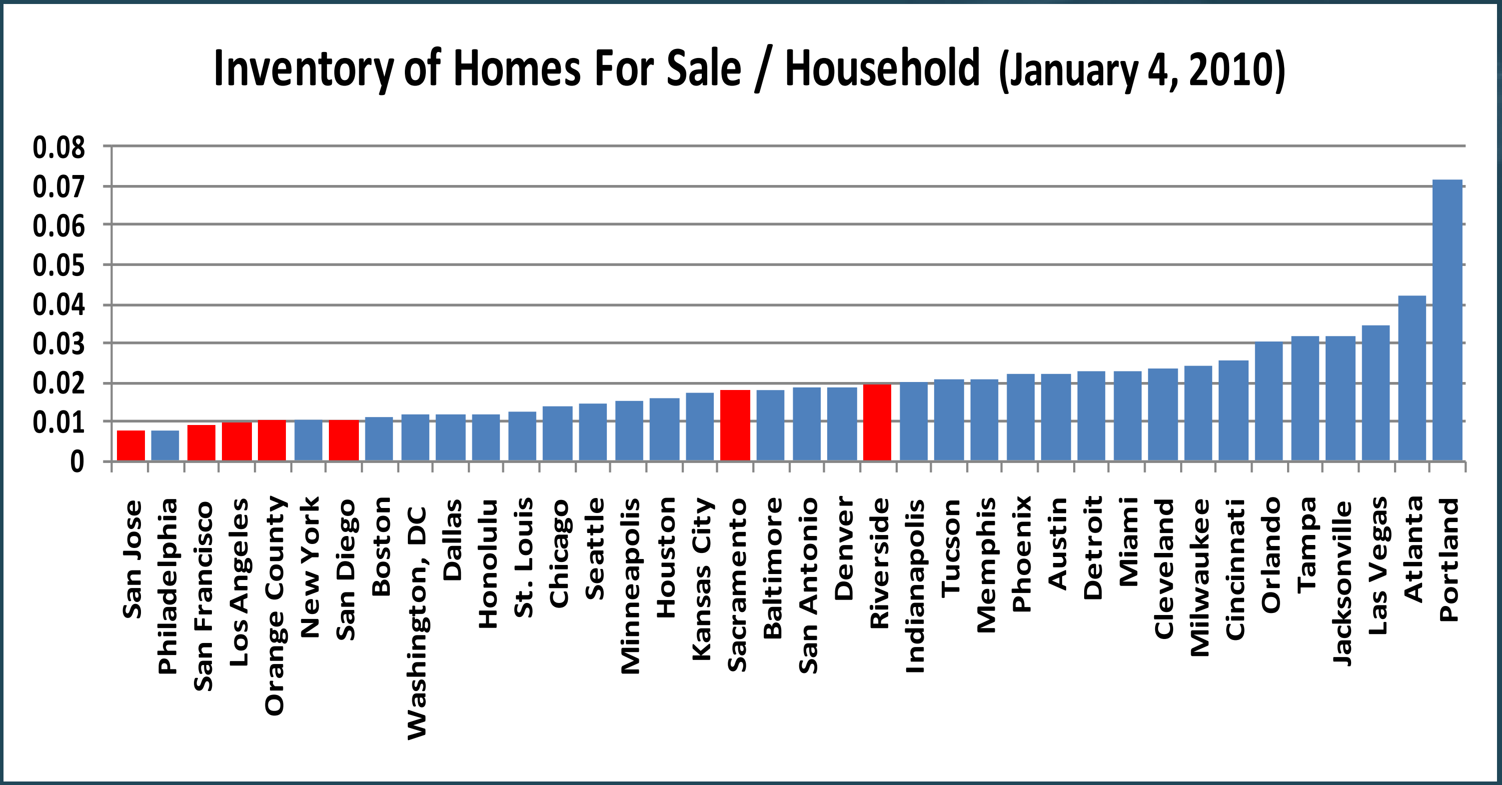
Housing Markets: Inventories are low



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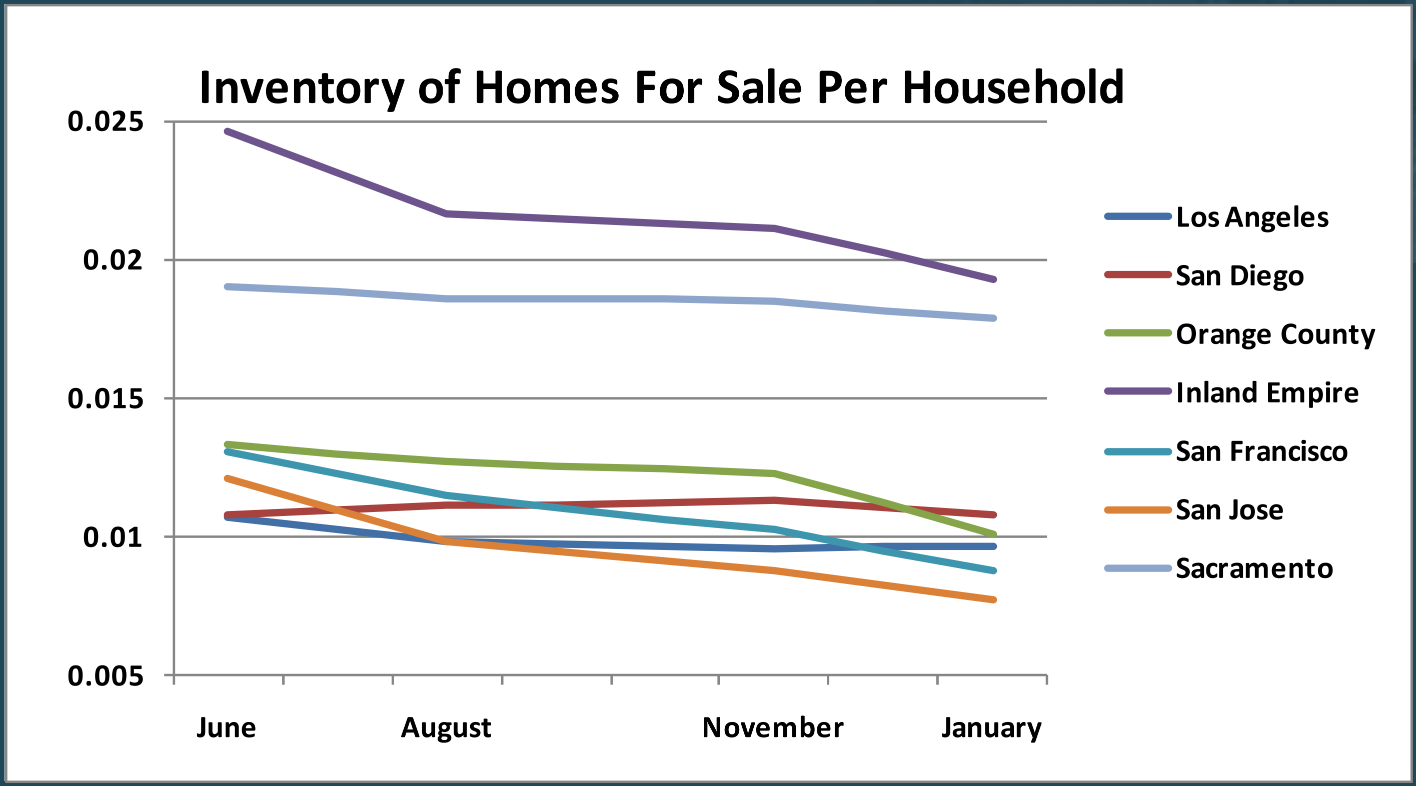
Housing Markets: Inventories are falling



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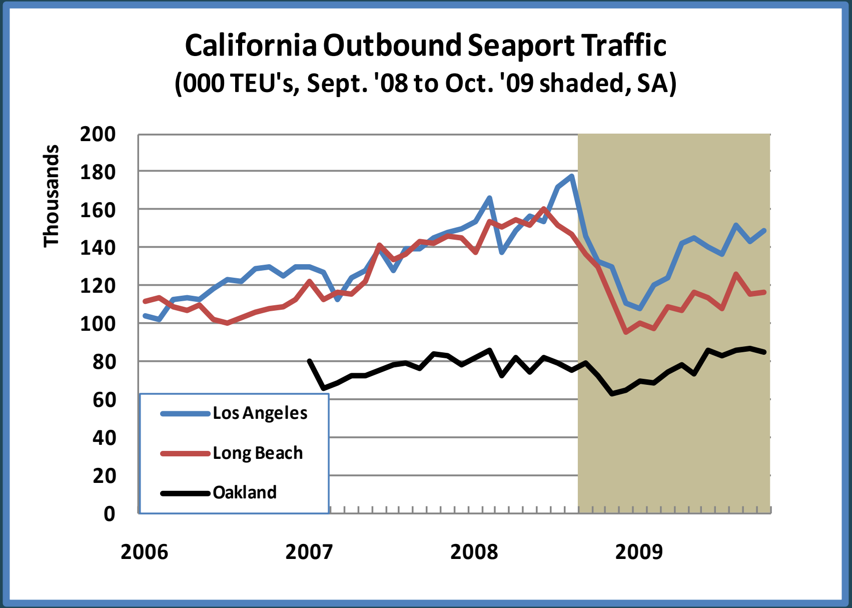
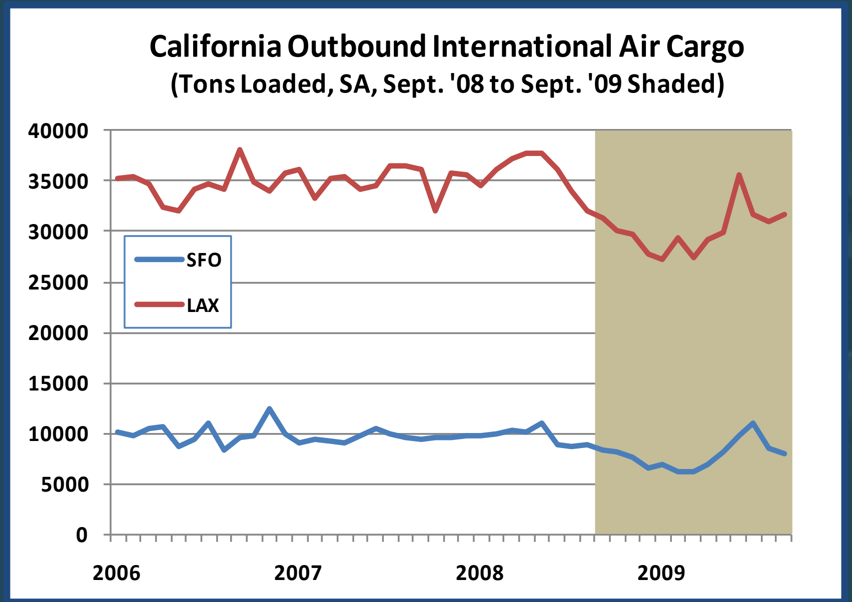
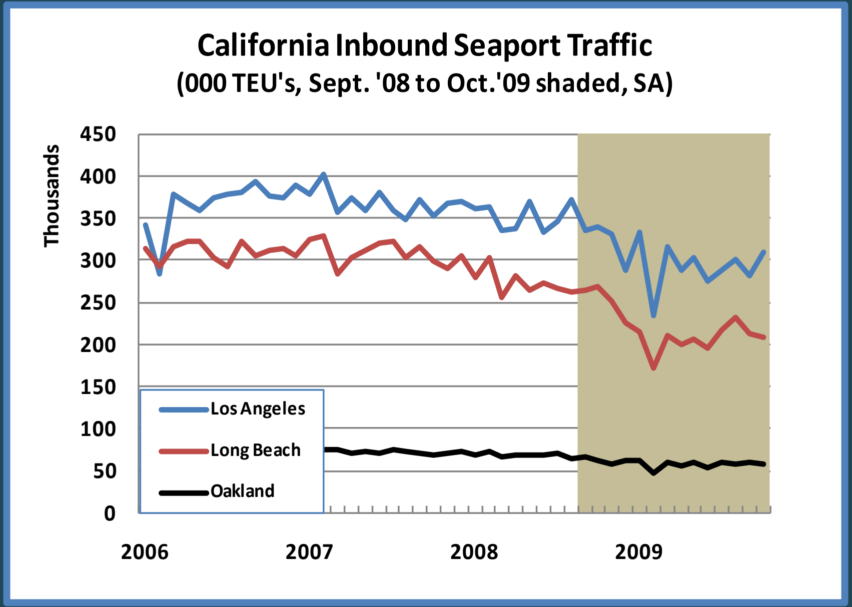
Exports are showing a pulse





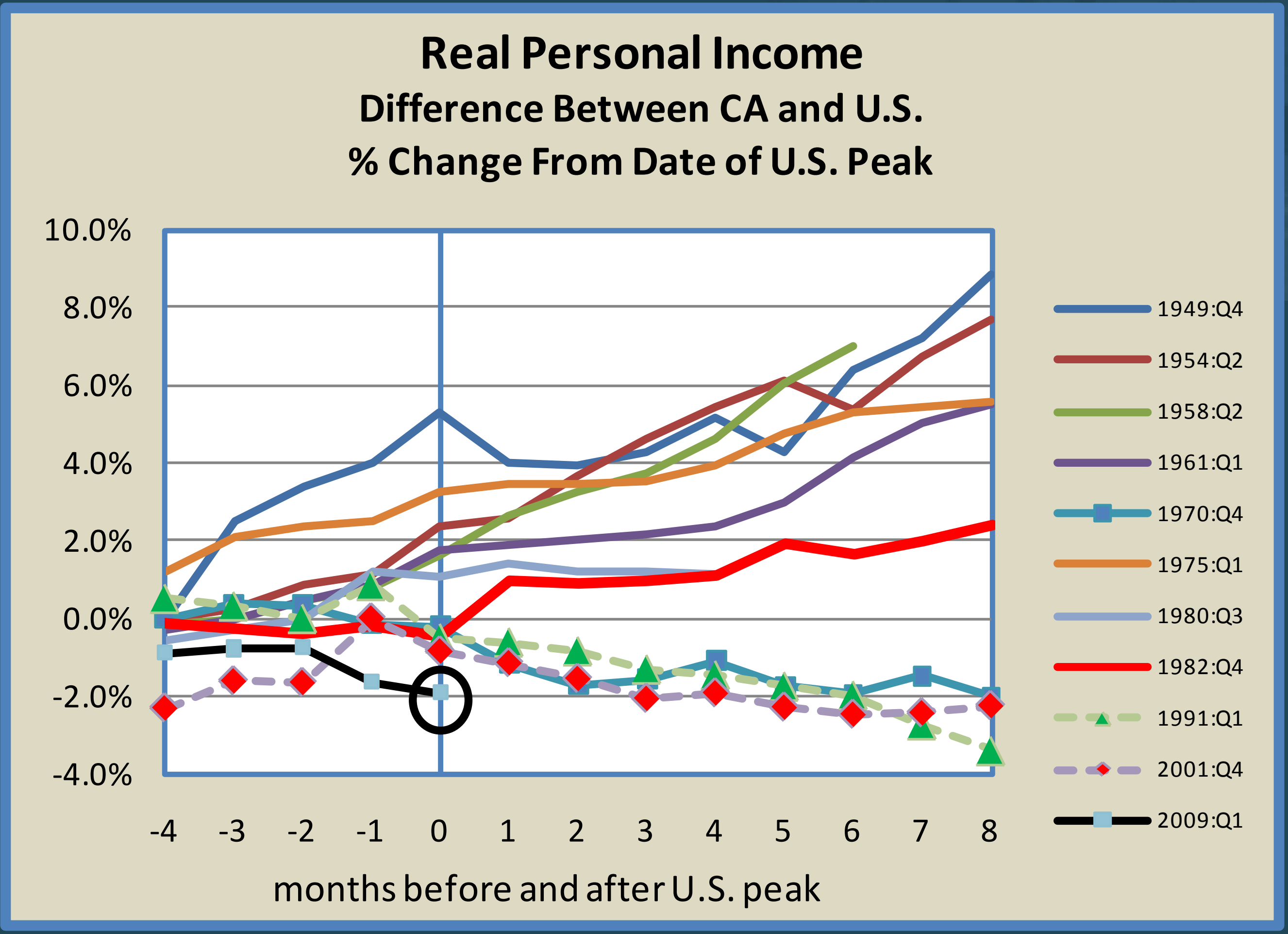
imports remain flatlined



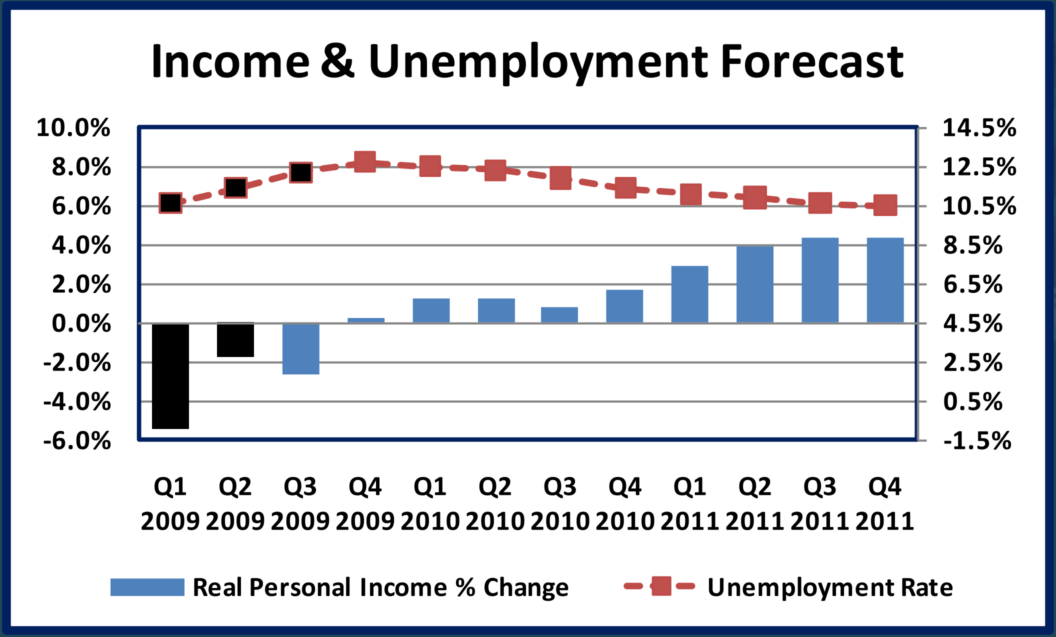
Recap of Employment Trends

- Private Sector:
  - Most private sectors are no longer losing jobs
  - Construction – permits stabilized & poised for growth
  - Manufacturing – evidence of increased export demand & declining job loss
  - Trade & Retail await recovery of consumer demand
- Public Sector
  - More contraction still to come

Recession and Recovery Growth Rates CA vs. U.S.– A Hybrid Recovery



2009-11: California Forecast



	2009	2010	2011
Real Personal Income:	-2.7%	0.4%	2.8%
Payroll Employment:	-4.3%	-0.3%	1.5%
Unemployment	11.7%	12.0%	10.8%

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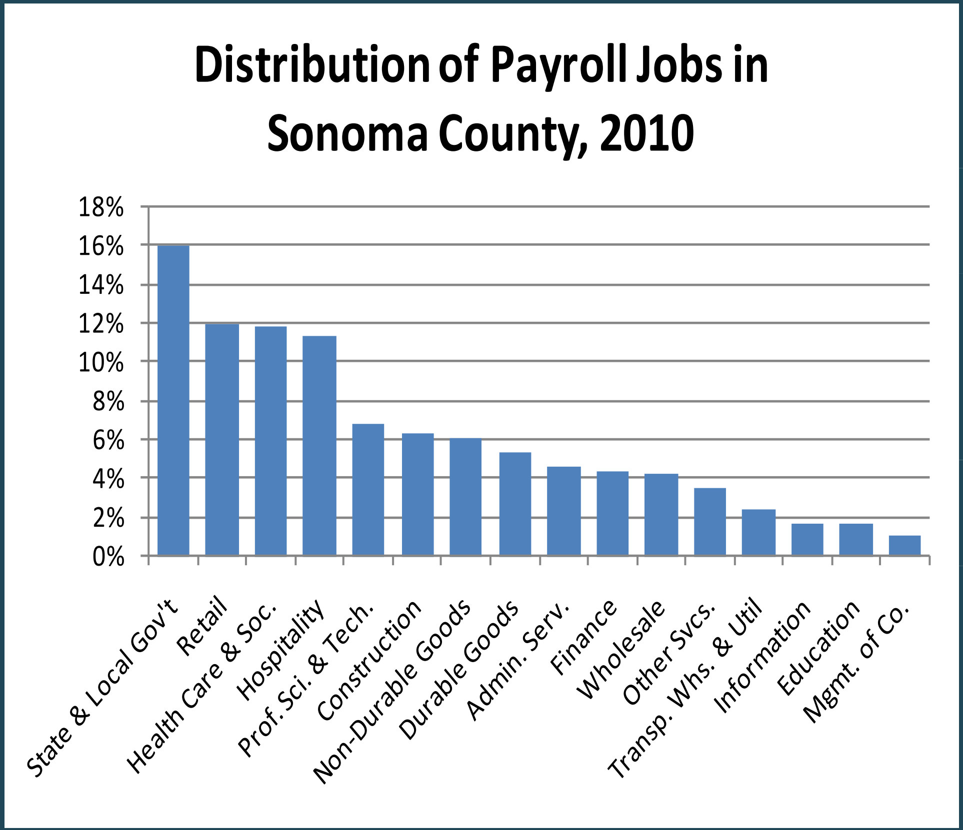
Sonoma County & The Recovery



- Government, & Retail likely to contract in '10
- Construction, Hospitality & Mfg. flat in '10
- Health Care & Prof. & Bus Svc. Only source of near term growth

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