

The Economic Recovery Why is it taking so long?

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Sonoma State of The County
Conference.
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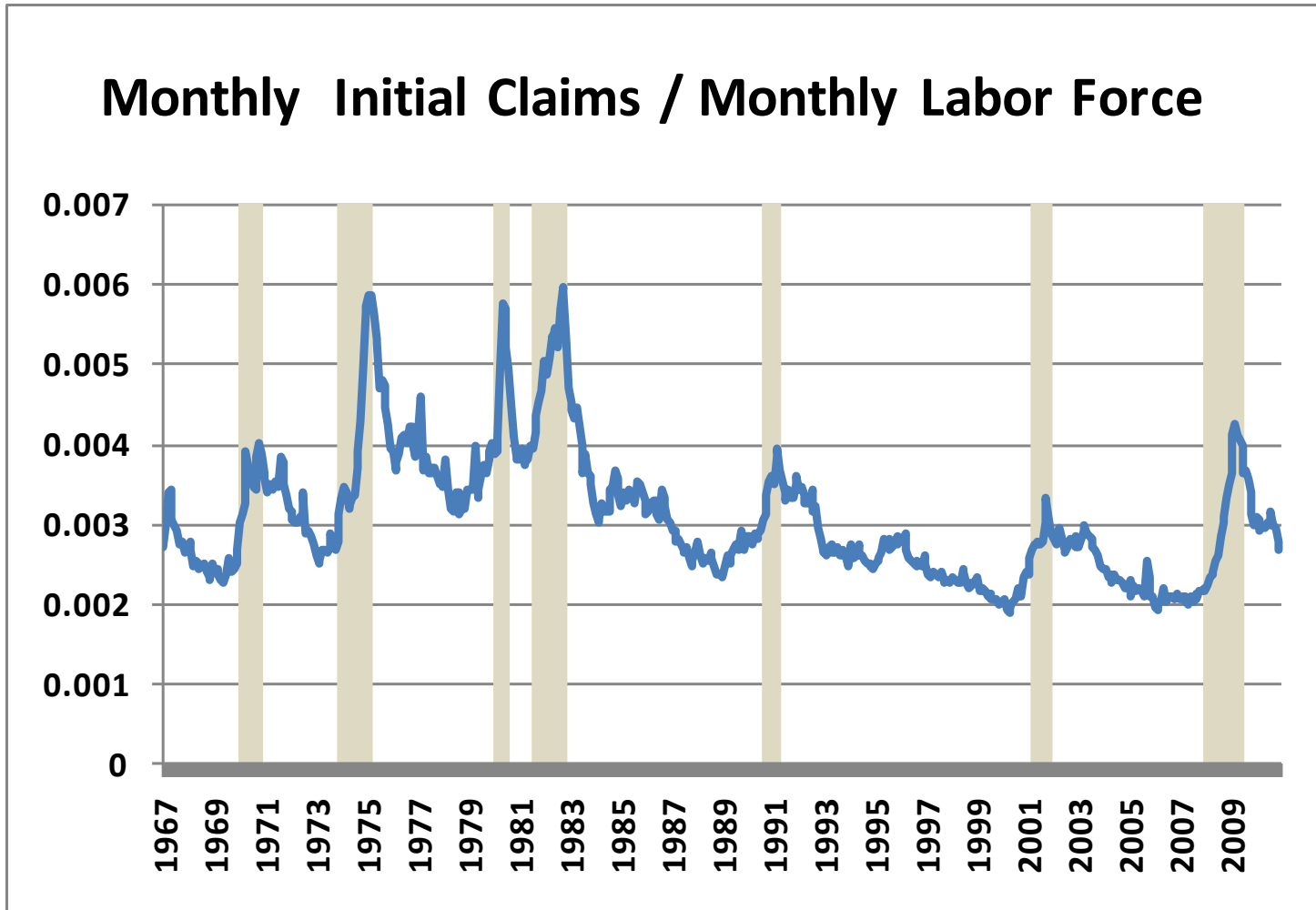
Main Themes

- U.S. Outlook
 - It looks like a recovery but with some differences
 - Double Dips
 - Forecast
 - Risks of the forecast
- California
 - growing, but slowly
 - Housing markets
 - Sacramento—A change in the winds?
 - Forecast
- Sonoma Employment

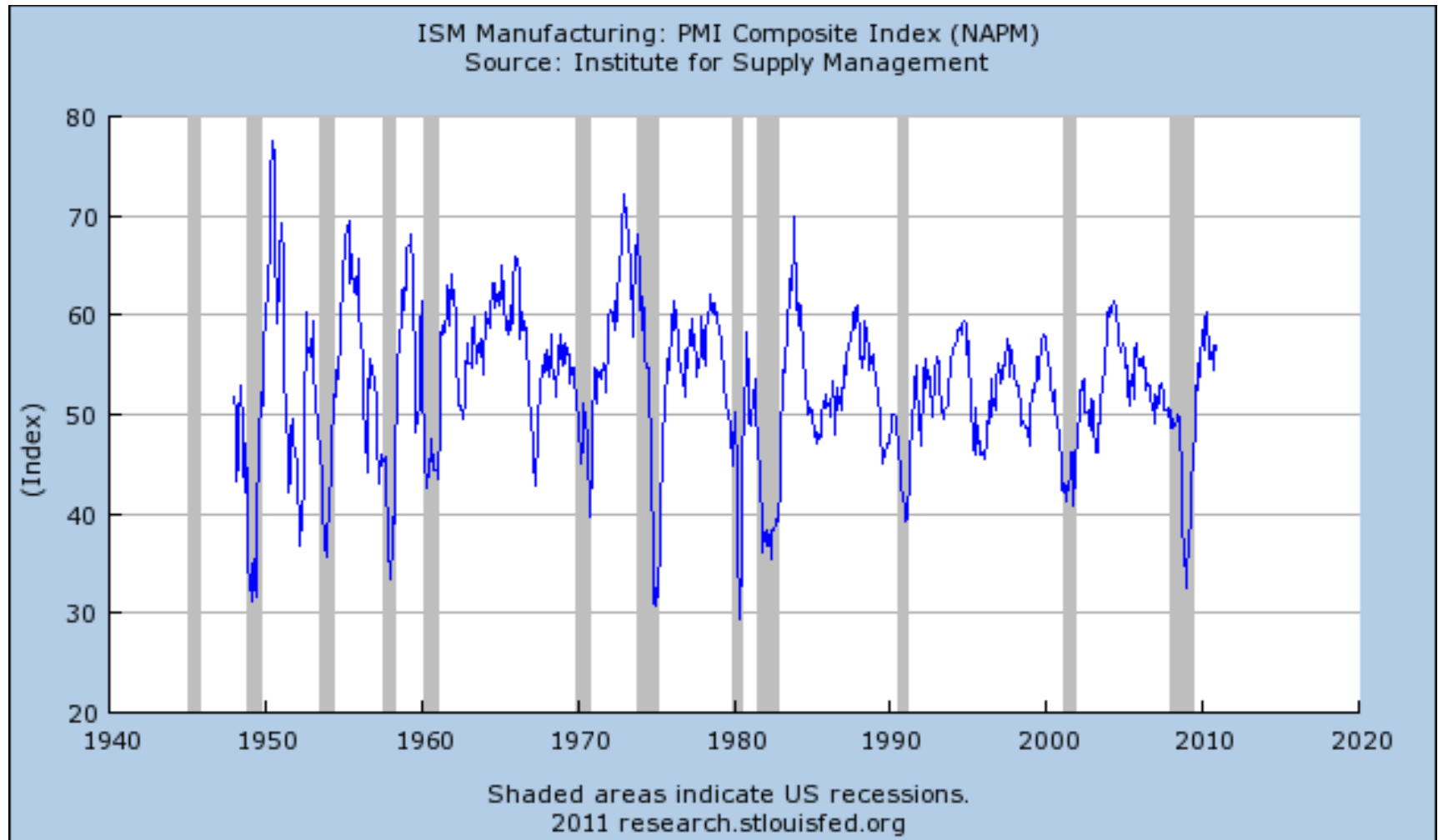
IT LOOKS LIKE A RECOVERY...BUT

Initial Claims for Unemployment

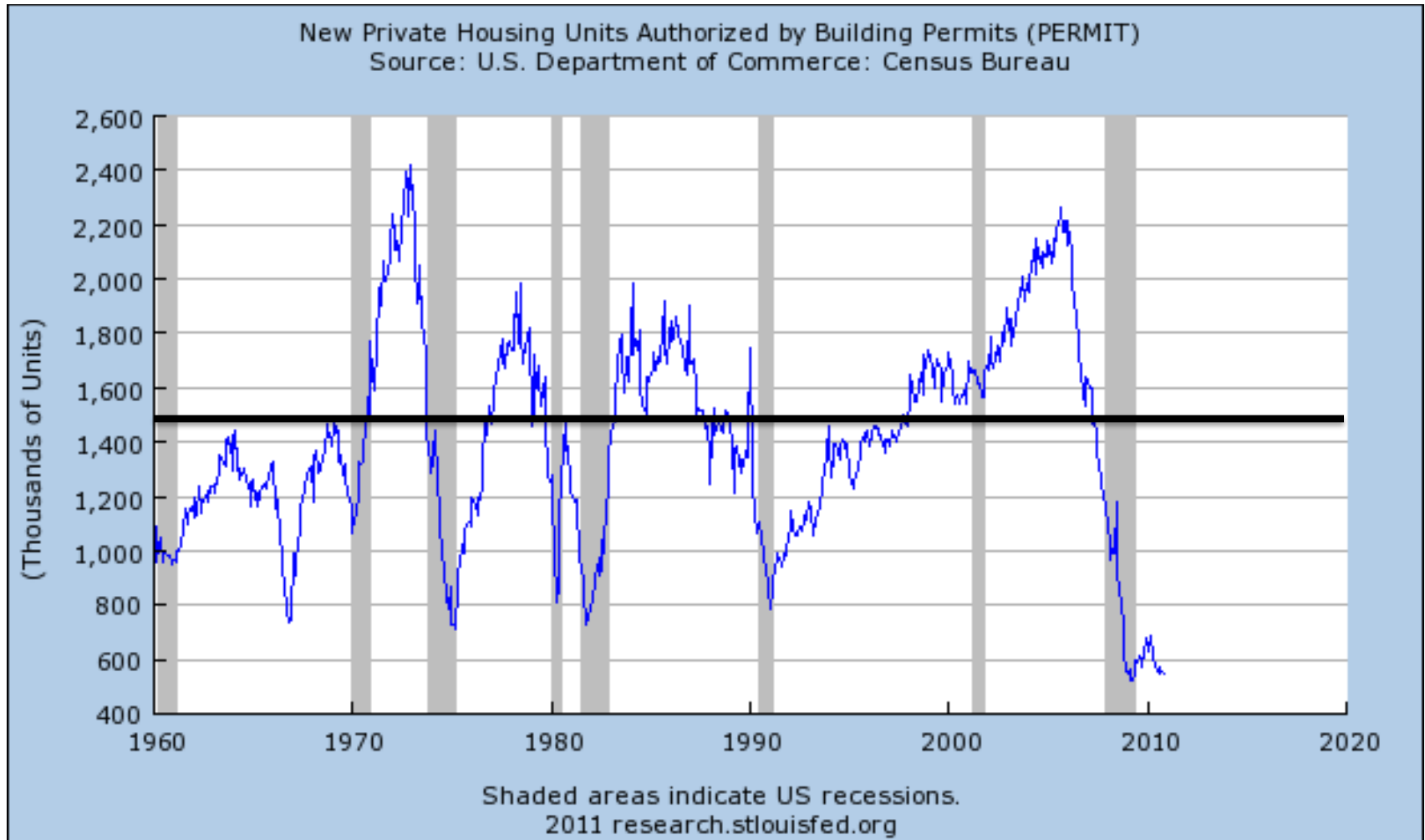
A pattern similar to other deep recessions



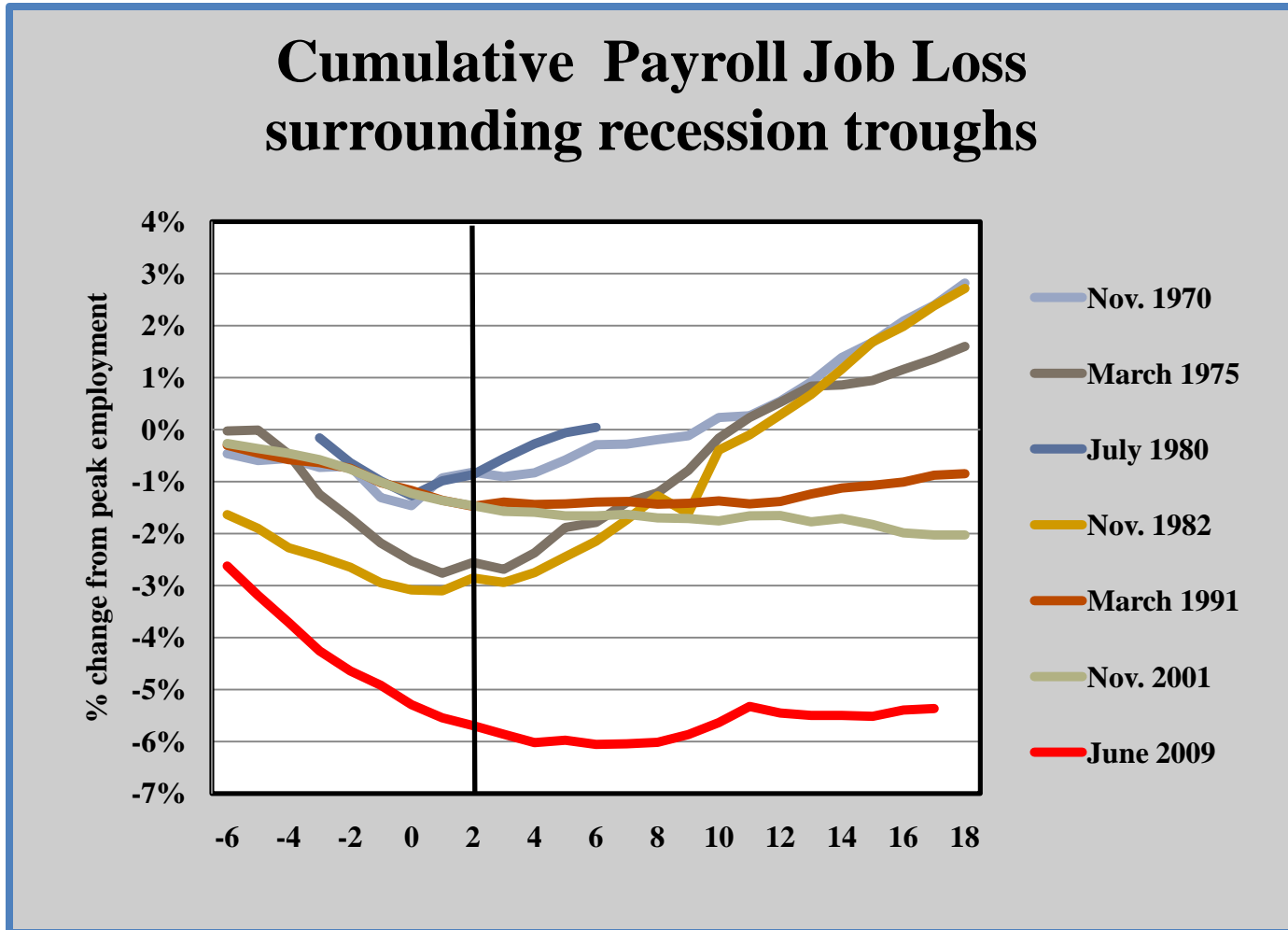
Manufacturing Bounced Back



Residential Construction – Waiting for the Recovery



The Changing Face of Recovery



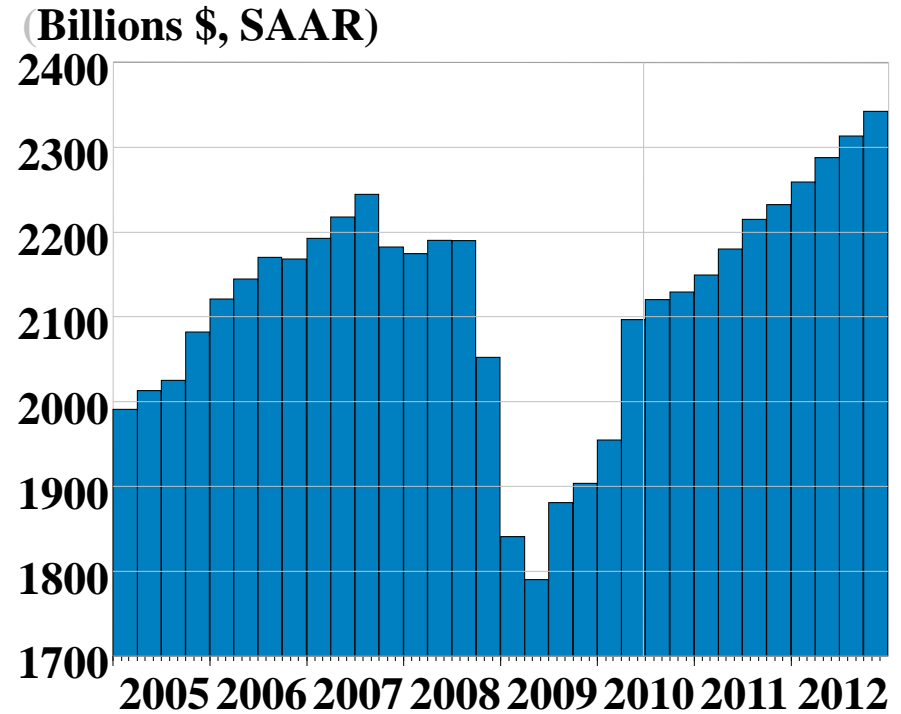
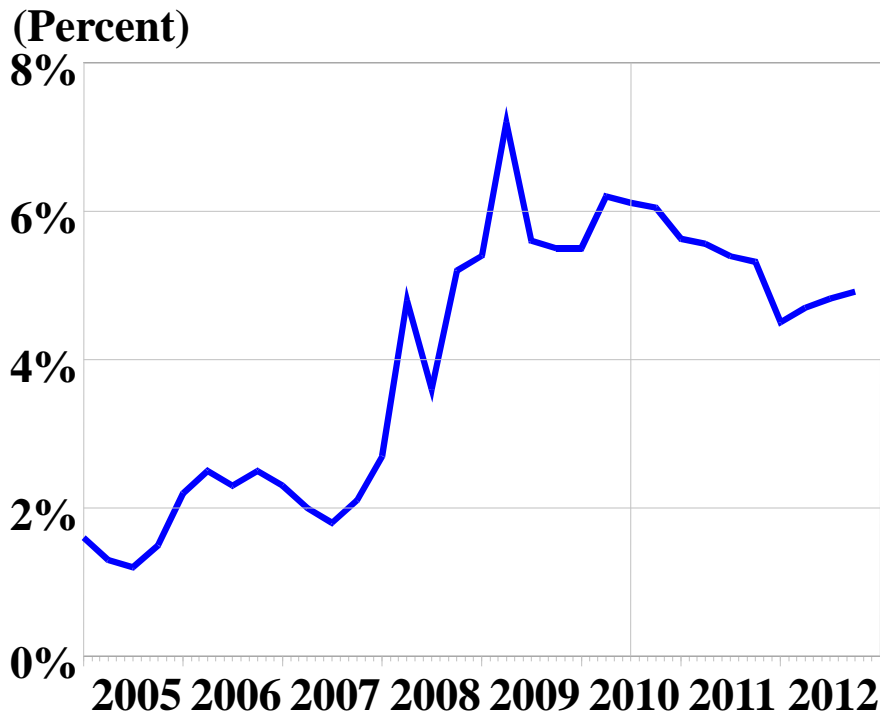
Systemic & Policy Uncertainty

- Systemic
 - Wall Street Panic
 - Consumer Expectations
- Policy
 - Rhetoric
 - Taxation
 - Healthcare
 - Energy
 - Financial Regulation

“Leakages” Reduce Policy Efficacy

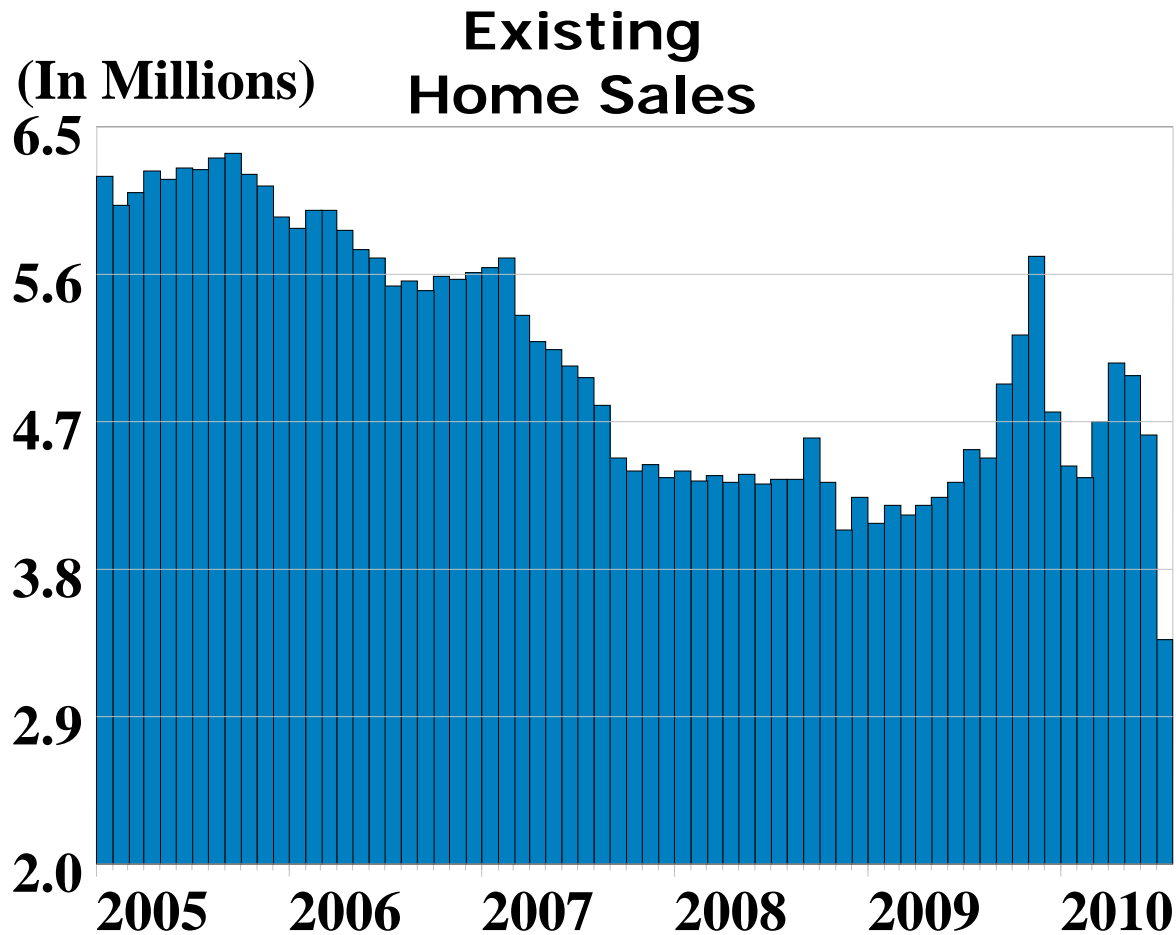
Higher Savings Rate

Flood of Imports



Source: Department of Commerce and UCLA Anderson Forecast

Home Sales Policy & Distortions



Source: National Association of Realtors

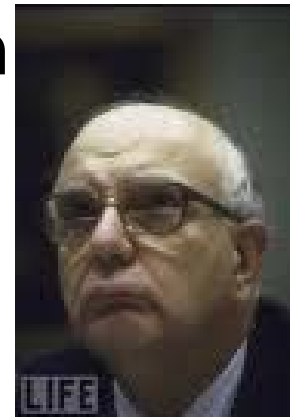
Will it be a W-Recession?

- ***1933 and 1937***
- ***1980 and 1981***
- ***Three Angles***
 - ***Policy***
 - ***Patterns***
 - ***Probabilities***



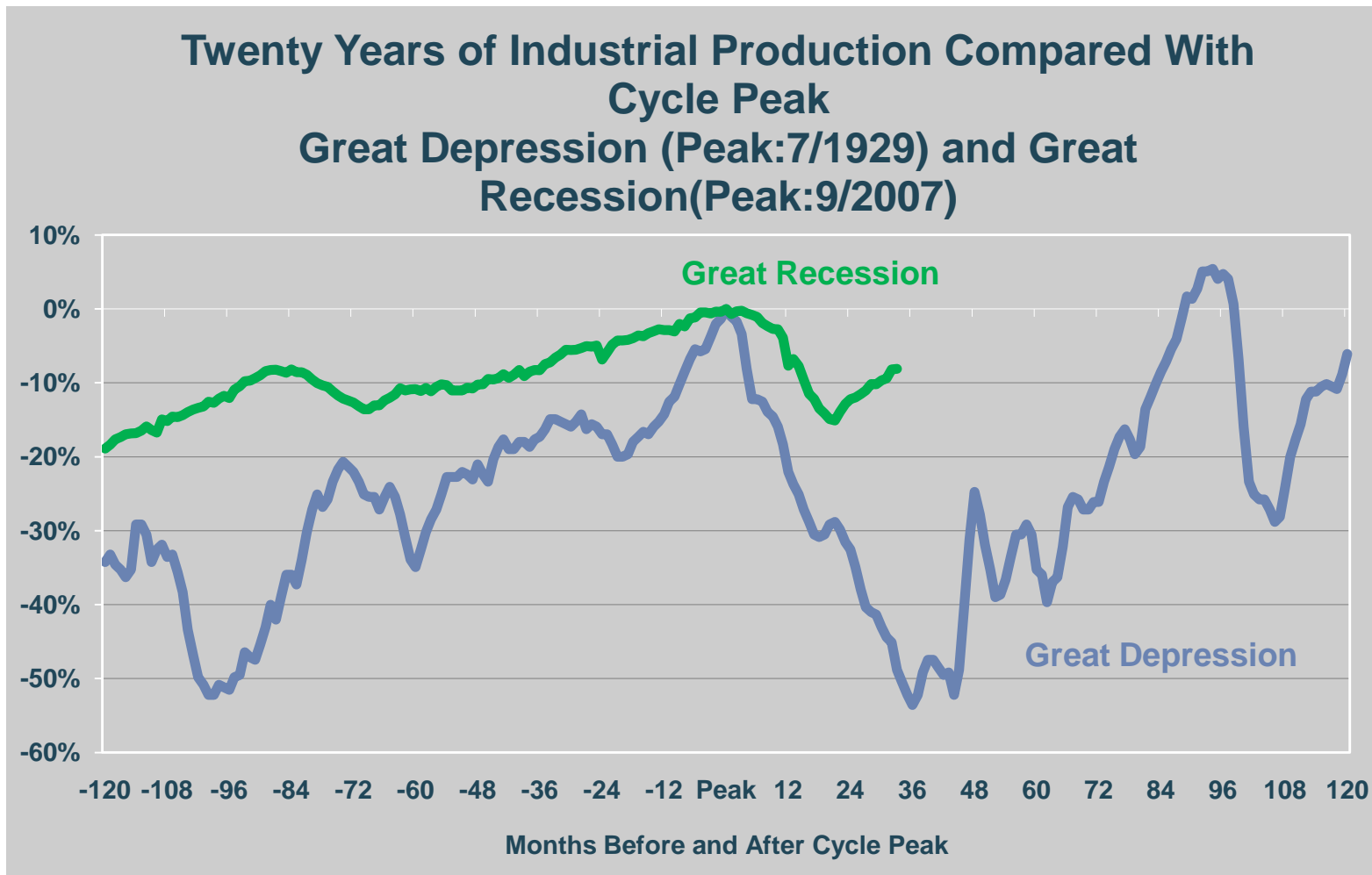
Policy

- 1937/38 Mr. Roosevelt's Recession
 - Reductions in New Deal Spending
 - Federal Reserve Tightens
- 1981/82 Mr. Volker's Recession
 - End of '80 recession with $>10\%$ inflation
 - Fed slams on the brakes
 - Interest rates rise to $> 20\%$



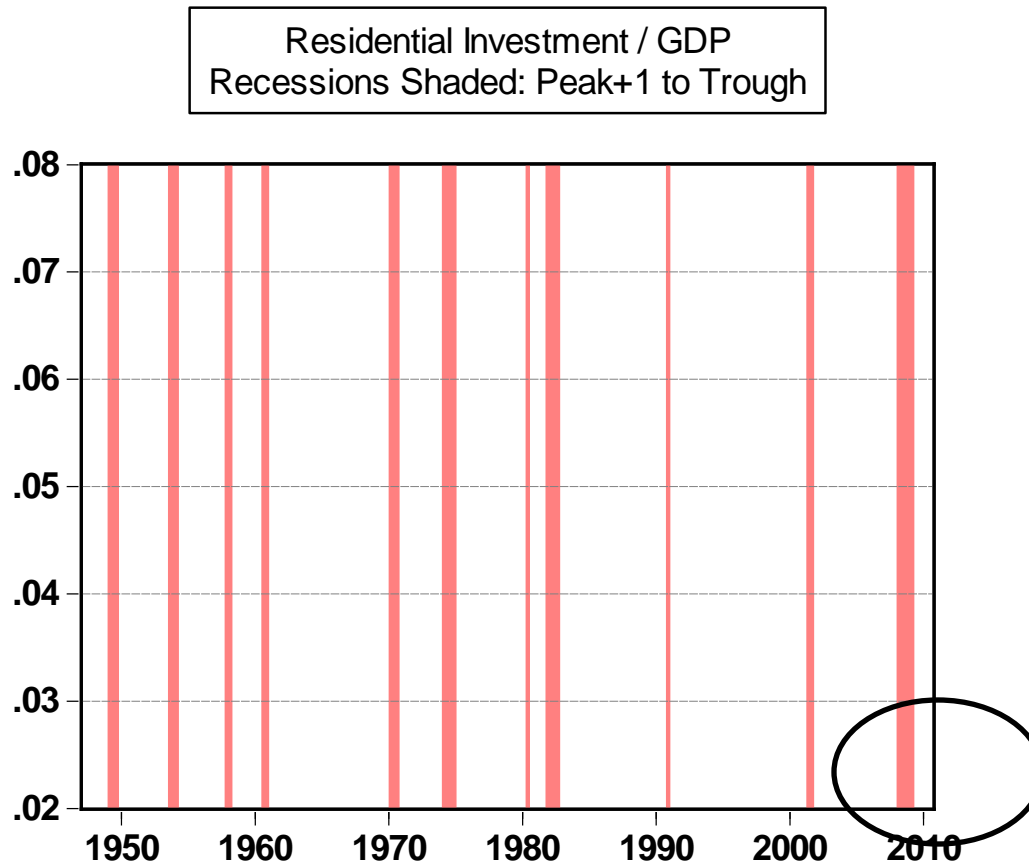
Industrial Production Patterns

What do we learn from '37/'38?



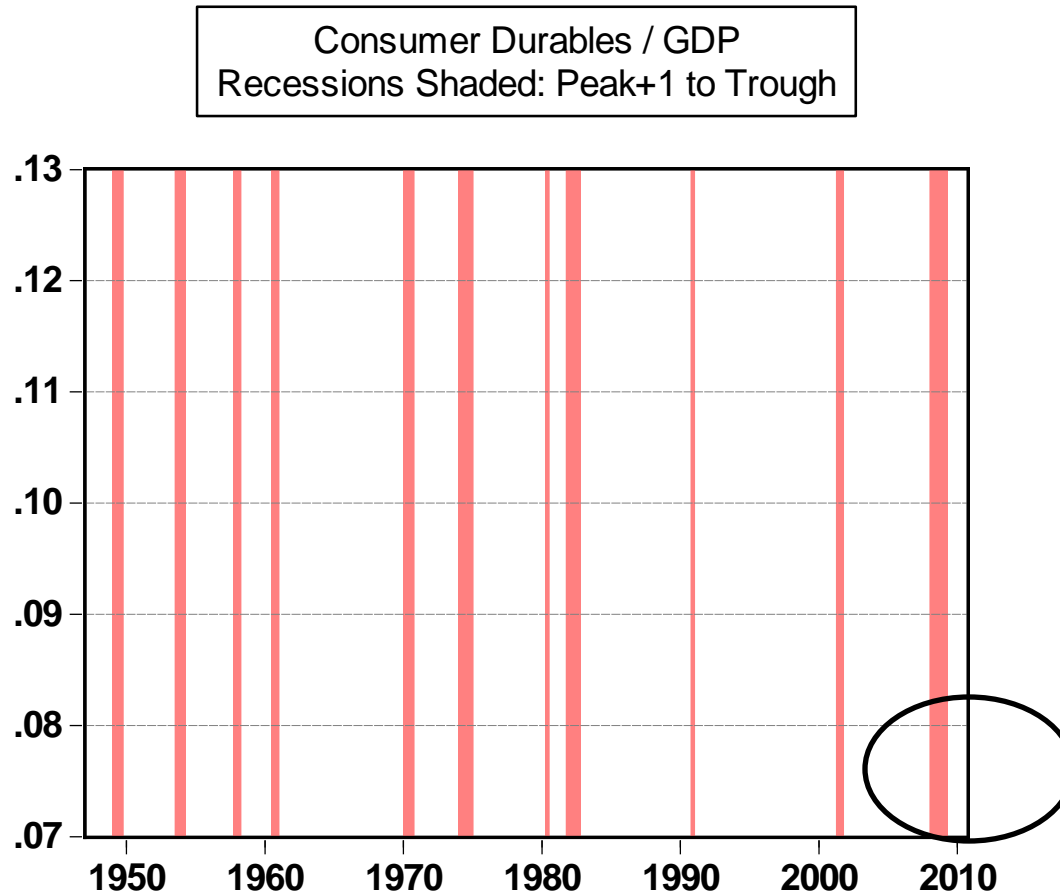
LOW PROBABILITY OF SIGNIFICANT DECLINES

Residential Investment on the floor



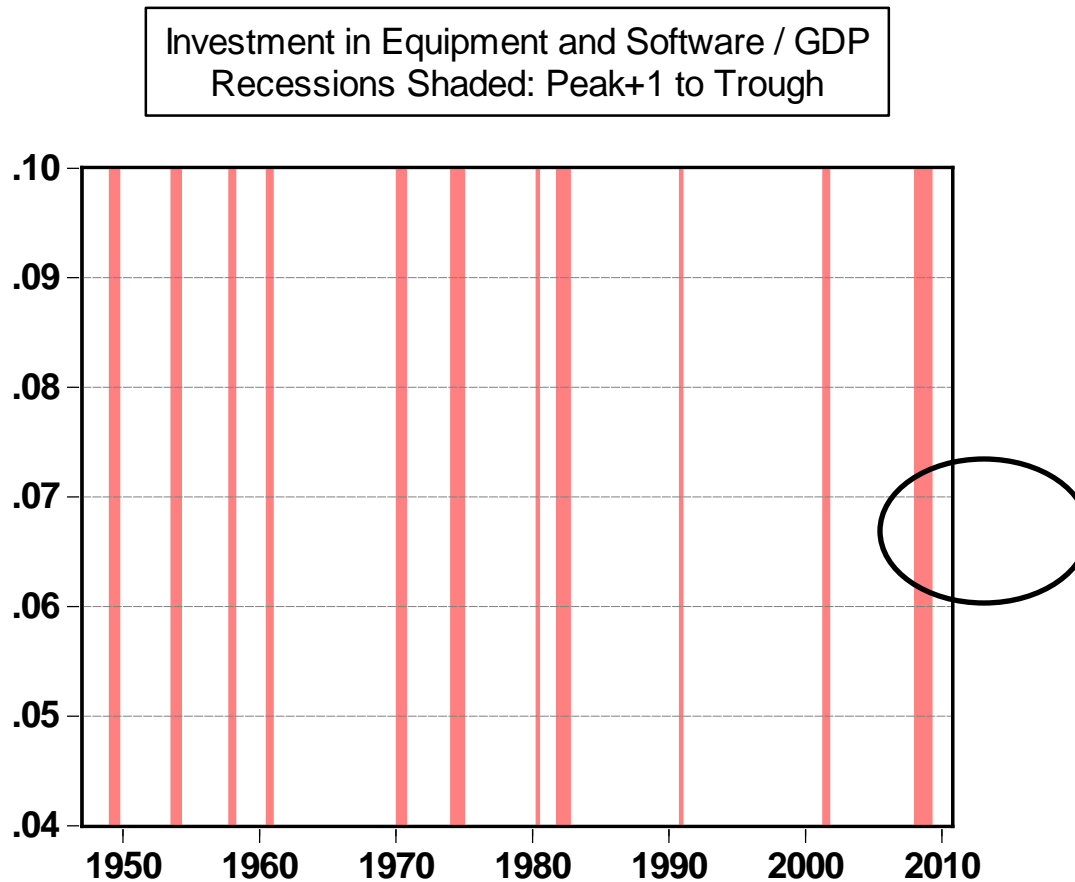
LOW PROBABILITY OF SIGNIFICANT DECLINES

Consumer Durables on the floor



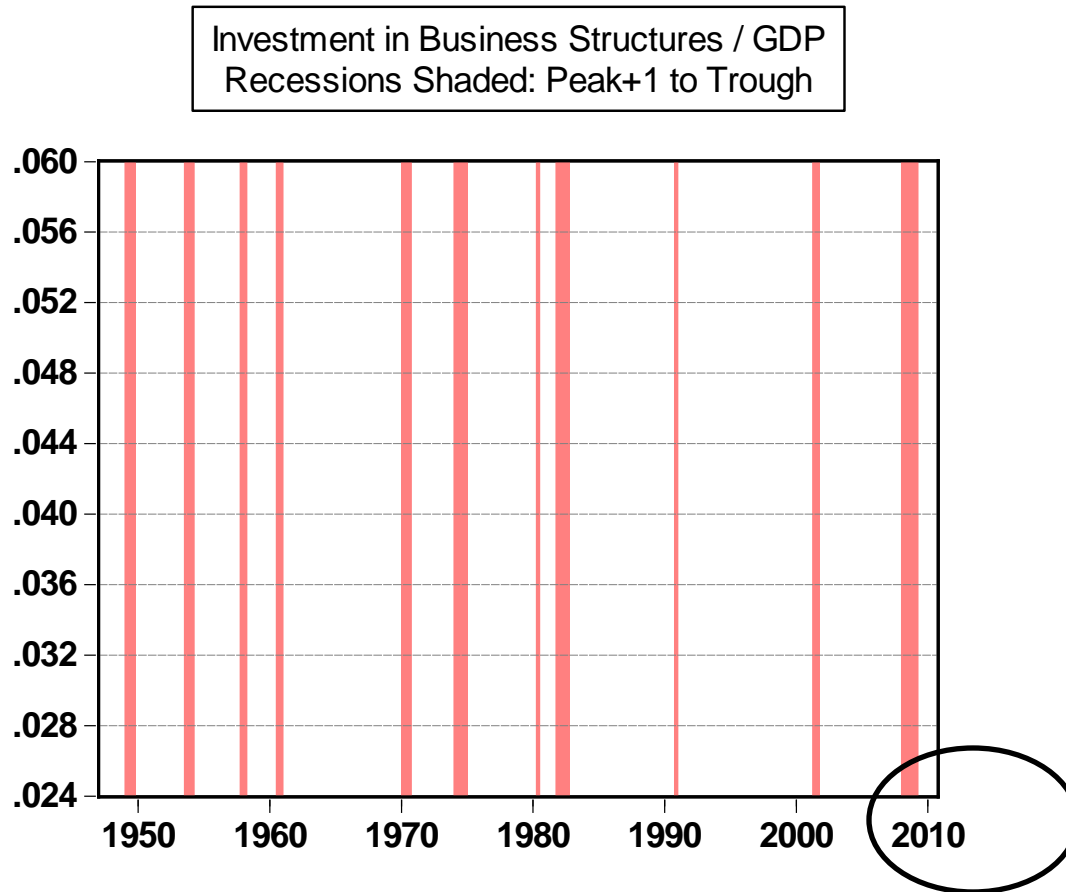
LOW PROBABILITY OF SIGNIFICANT DECLINES

Equipment and software at a 30 Year low



LOW PROBABILITY OF SIGNIFICANT DECLINES

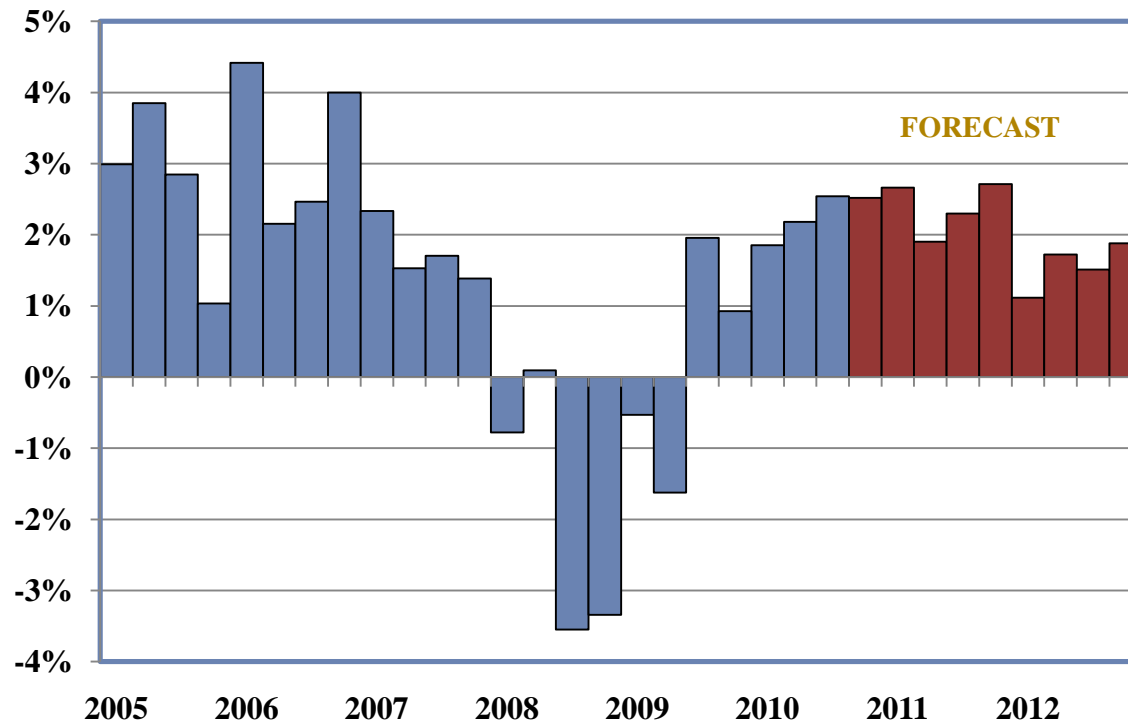
Business Structures near a 30 Year low



THE FORECAST (DECEMBER 2010)

Consumers Struggle With Balance Sheets

Real Consumer Spending 2005:Q1 - 2012:Q4

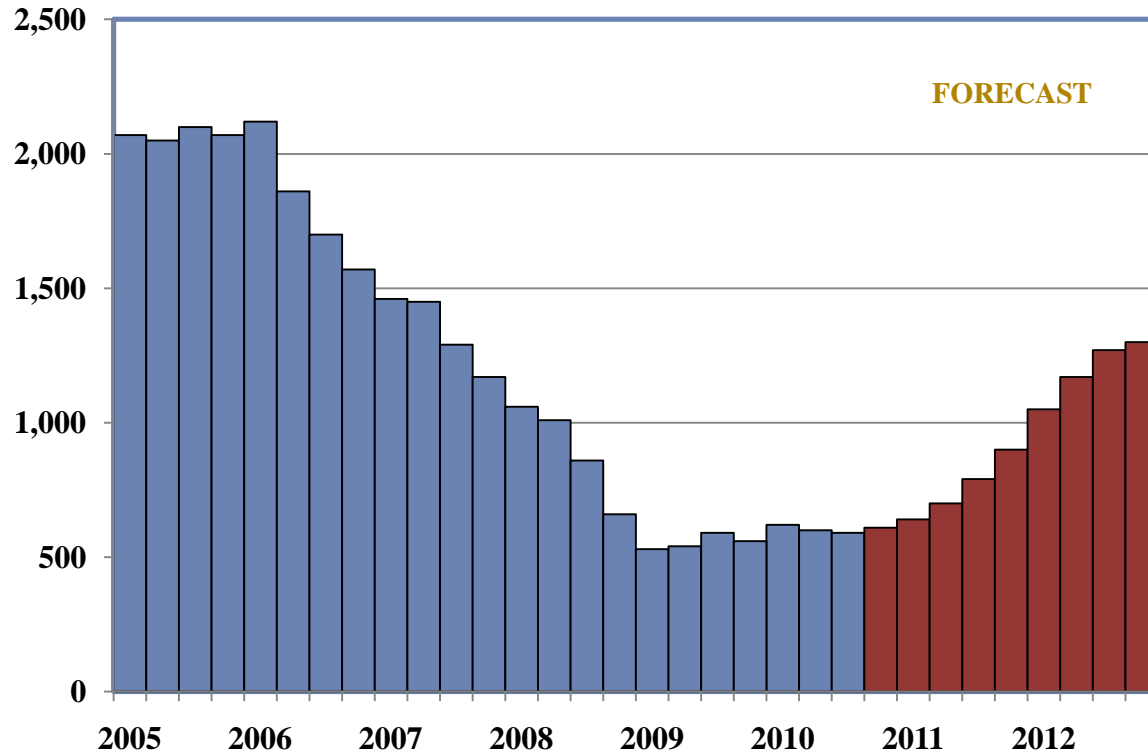


Sources: Dept. of Commerce, UCLA Anderson Forecast

But Housing Begins to Revive

Housing Starts

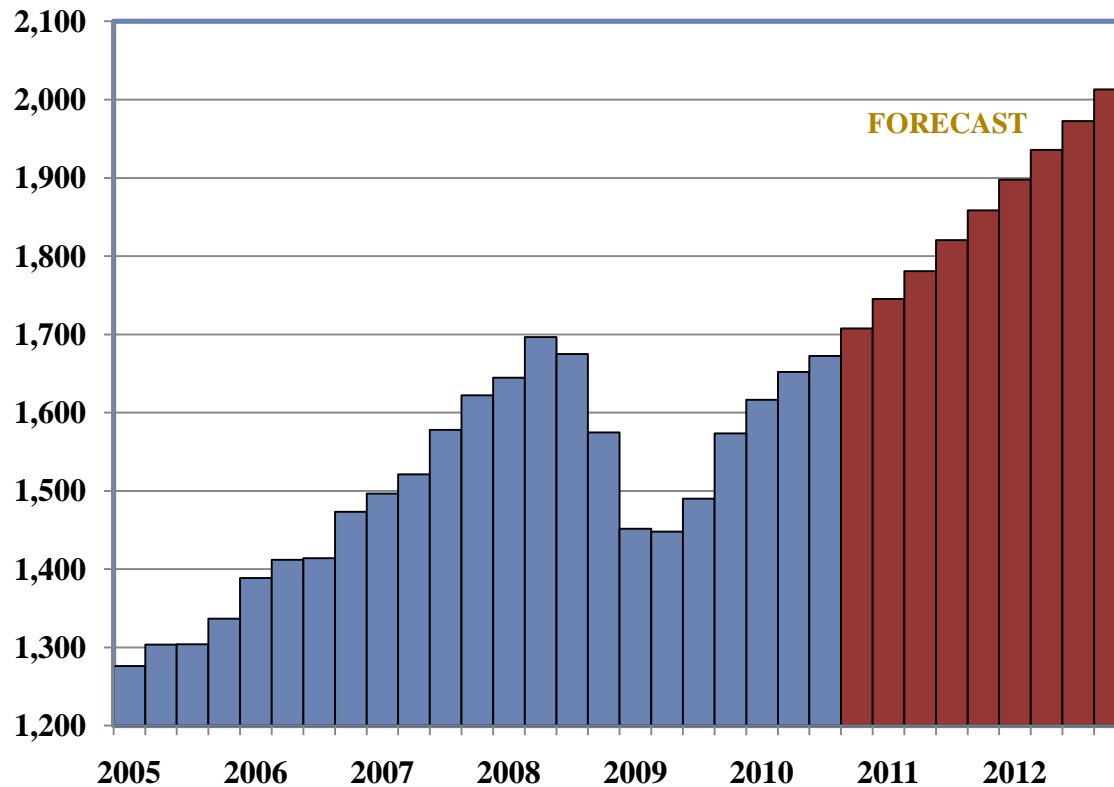
000, SAAR, 2005:Q1 - 2012:Q4



Sources: Dept. of Commerce, UCLA Anderson Forecast

And Exports are growing

Exports
 B\$, SAAR, 2005:Q1 - 2012:Q4



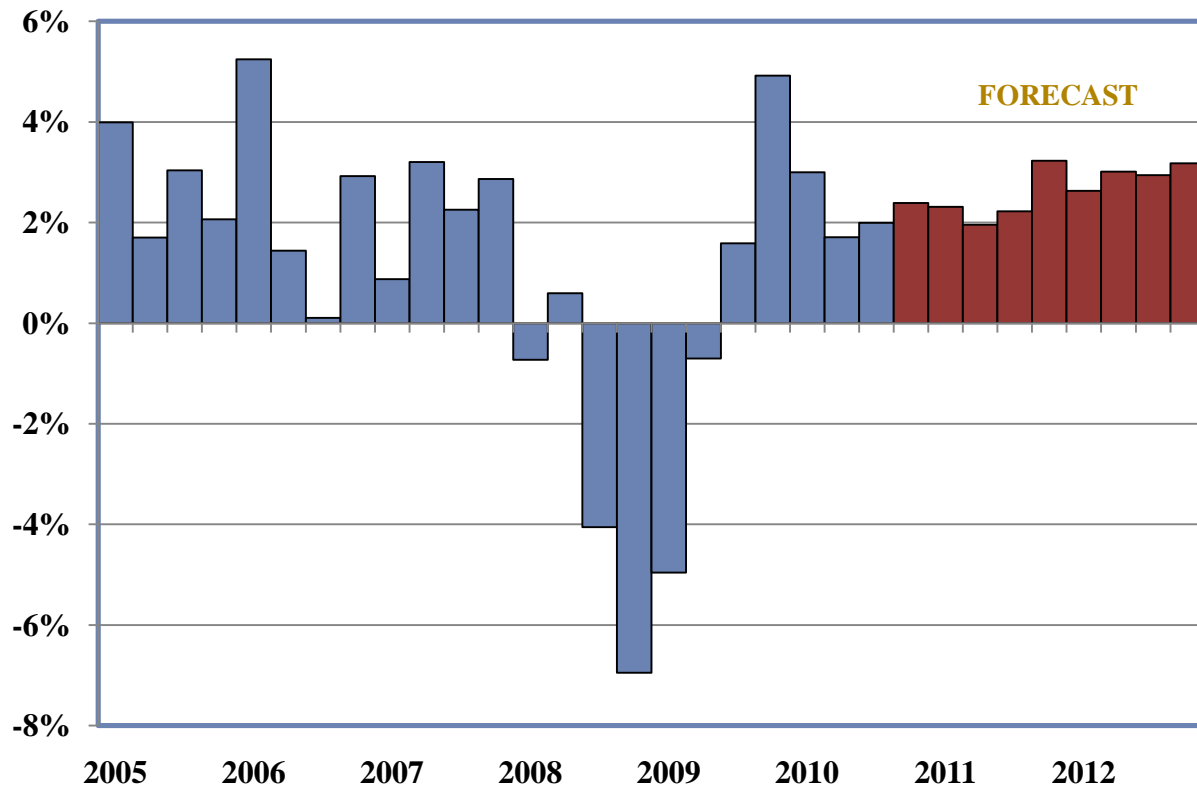
Sources: Dept. of Commerce, UCLA Anderson Forecast

GDP Recovery Well Underway

Real GDP Growth, 2005:Q1 - 2012:Q4F

Real GDP Growth Rate

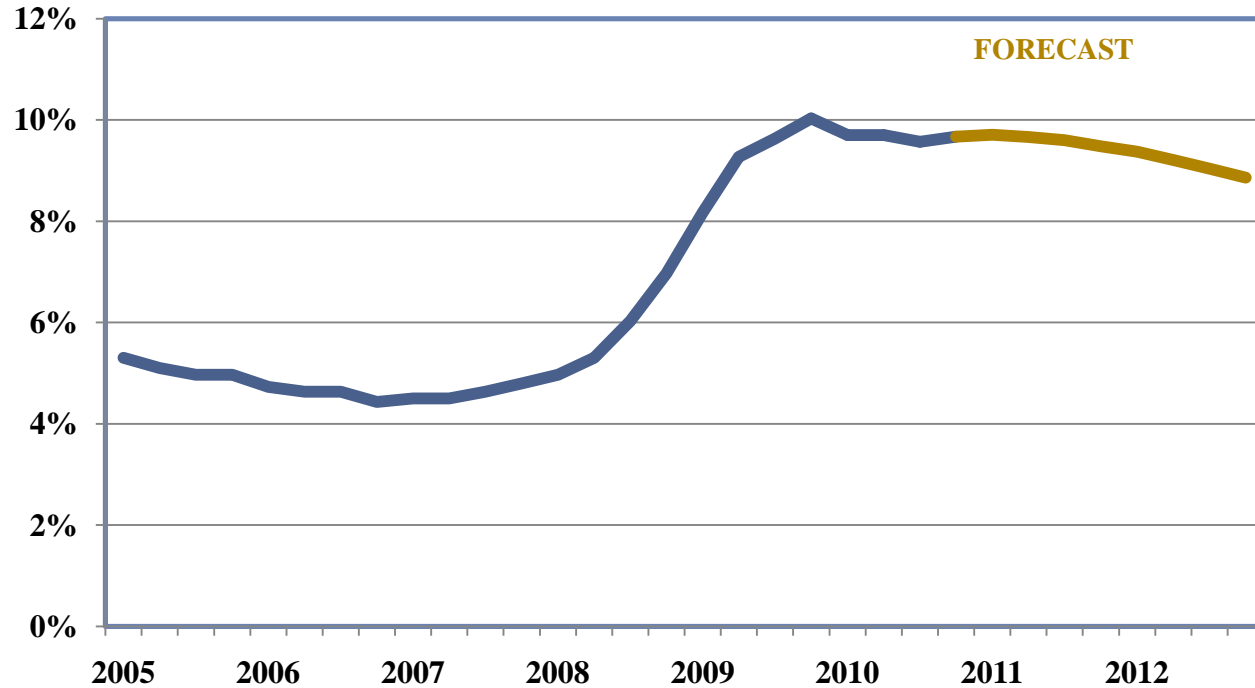
SAAR, 2005:Q1 - 2012:Q4



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

But Unemployment Stays High

Unemployment Rate 2005:Q1 - 2012:Q4



Sources: Bureau of Labor Statistics, UCLA Anderson Forecast

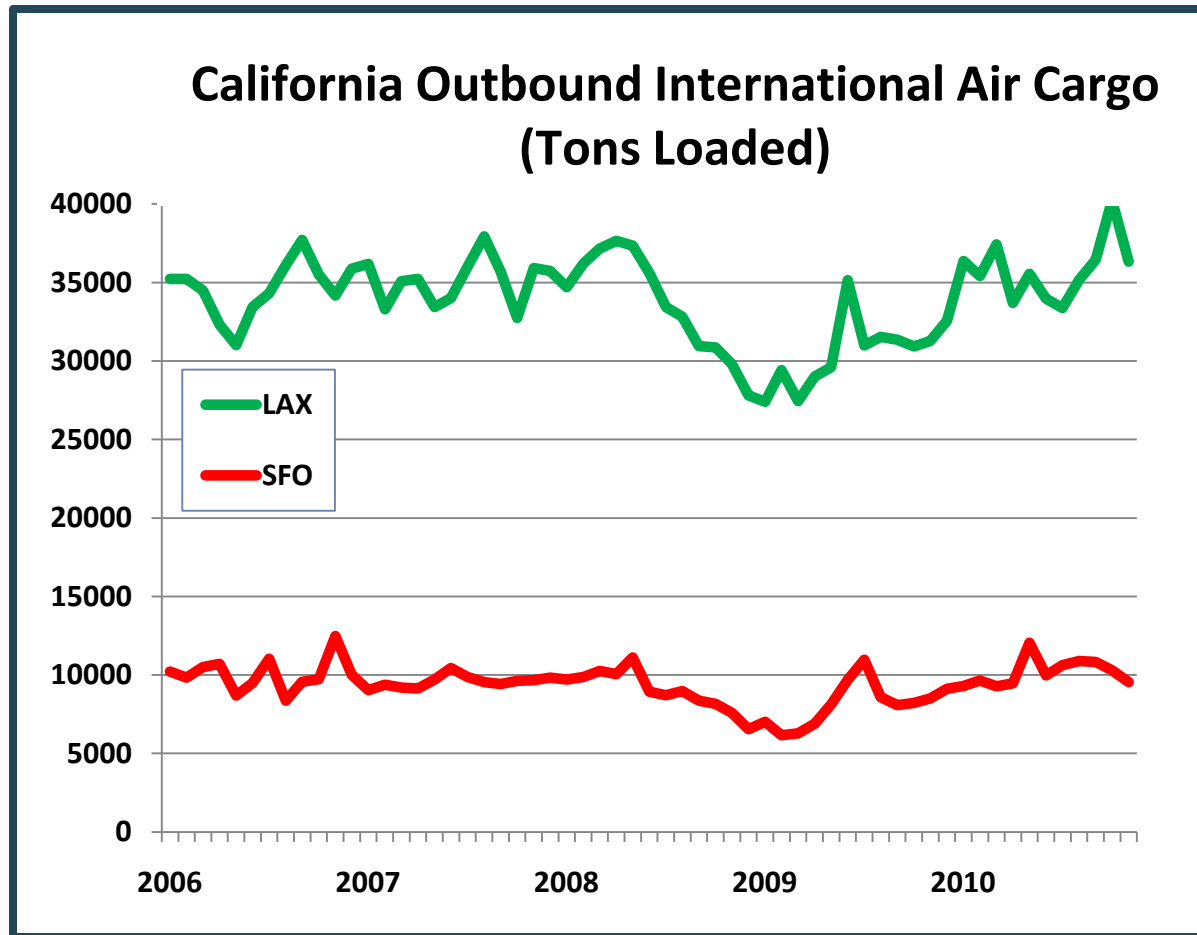
Risks To The Forecast

- Trade Wars
- Slow growth economic policies

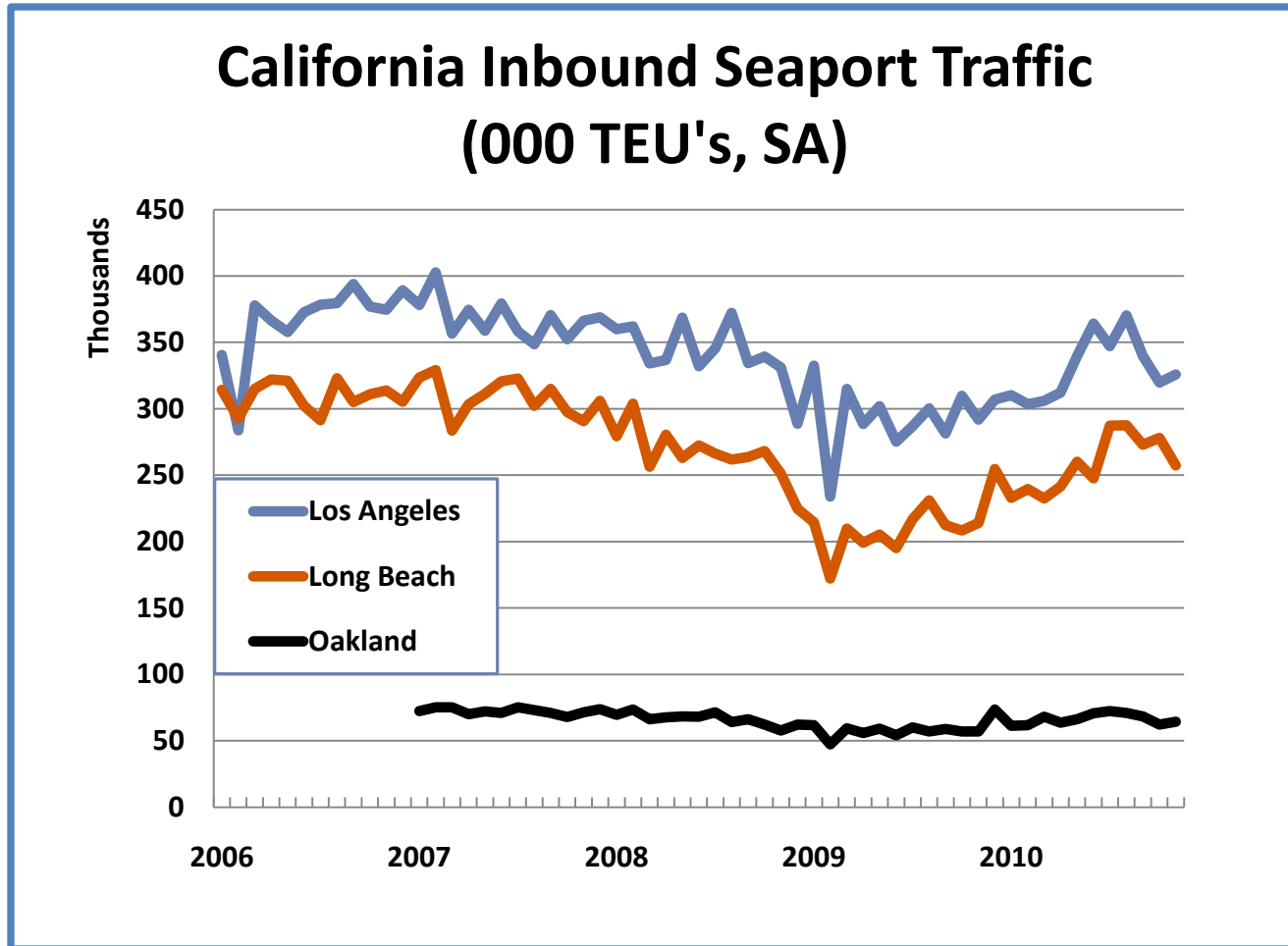
California Outlook 2011/2012

- Growth, but slow growth
- Housing
- Sacramento
- CA Forecast
- Sonoma County Employment

Exports: California's Airports



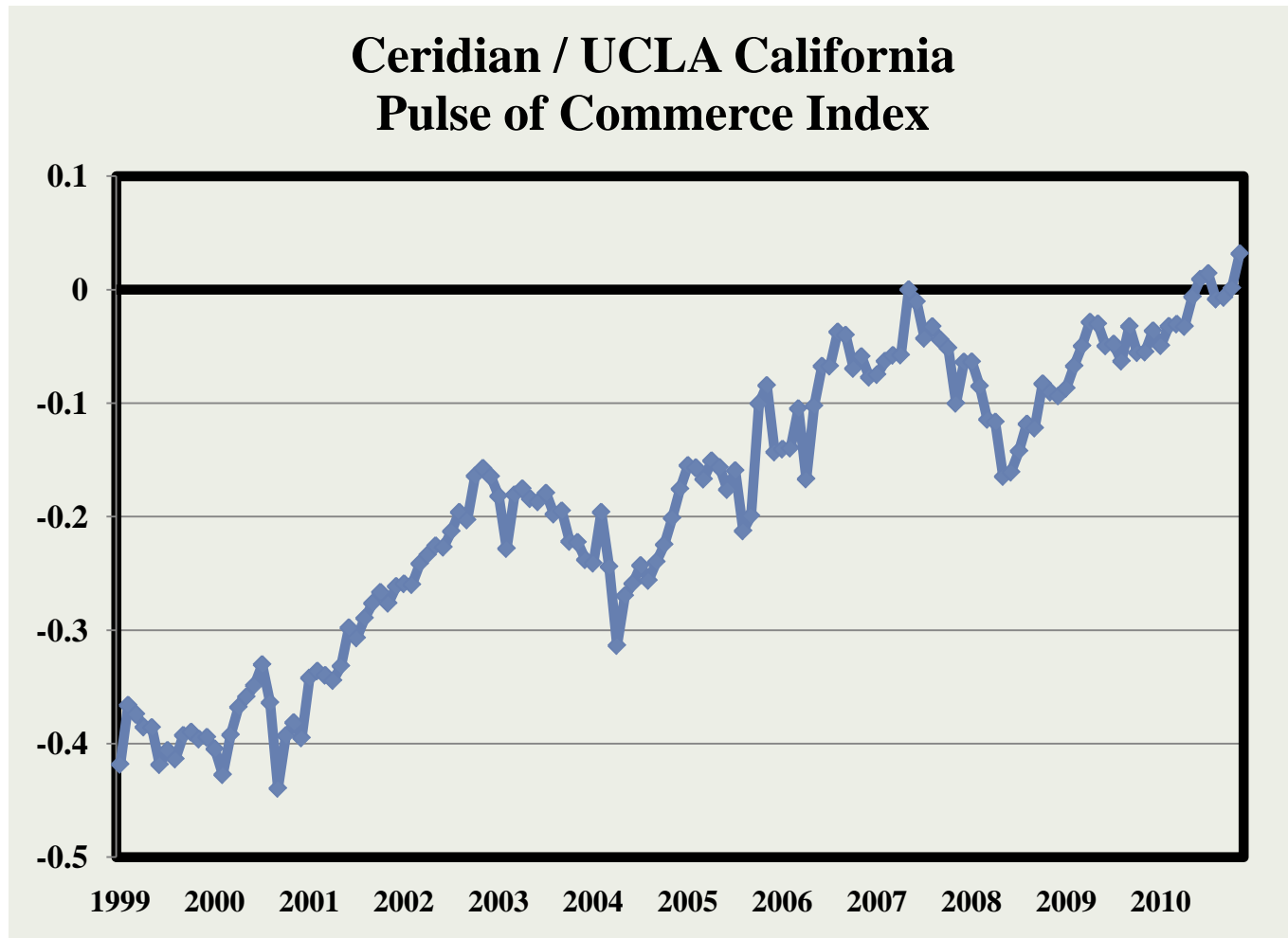
Imports



International Tourism & Business

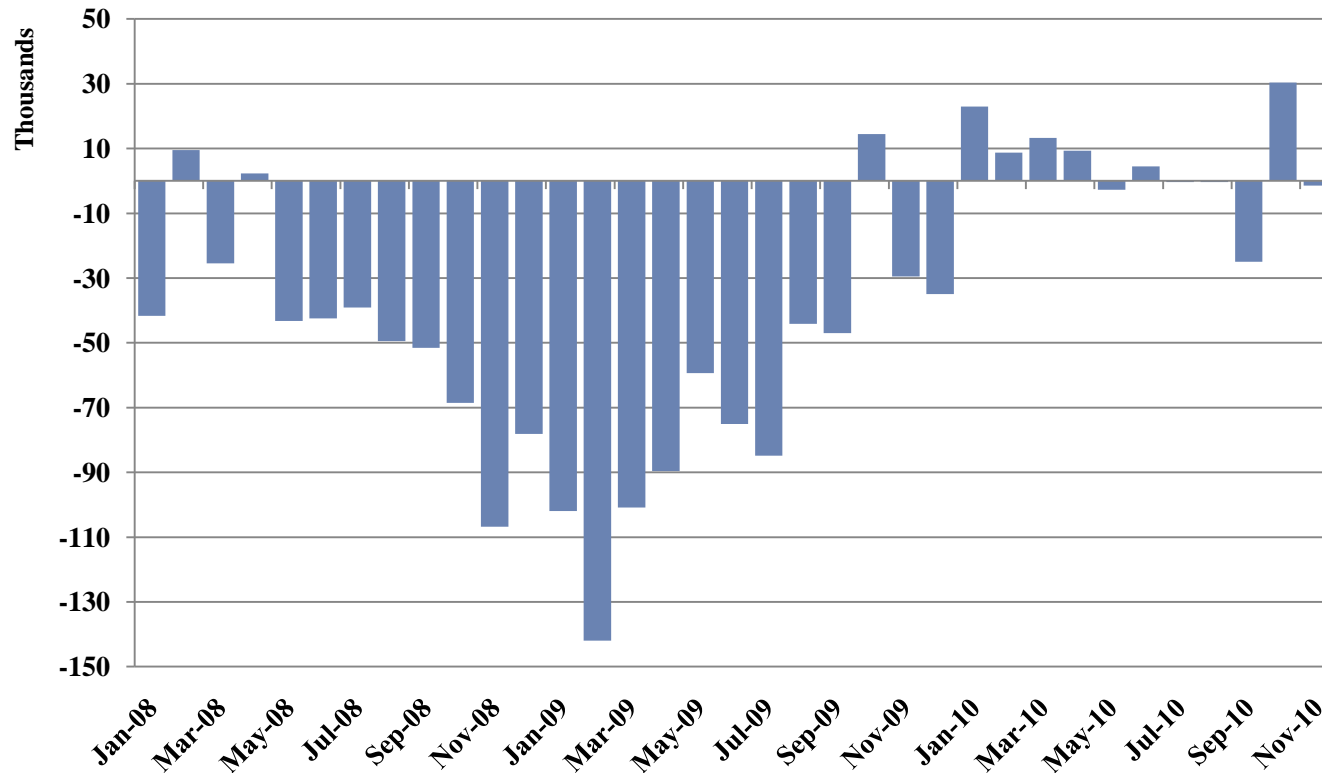


Goods are moving on CA's Highways



Employment Growth: Just a drop in the bucket

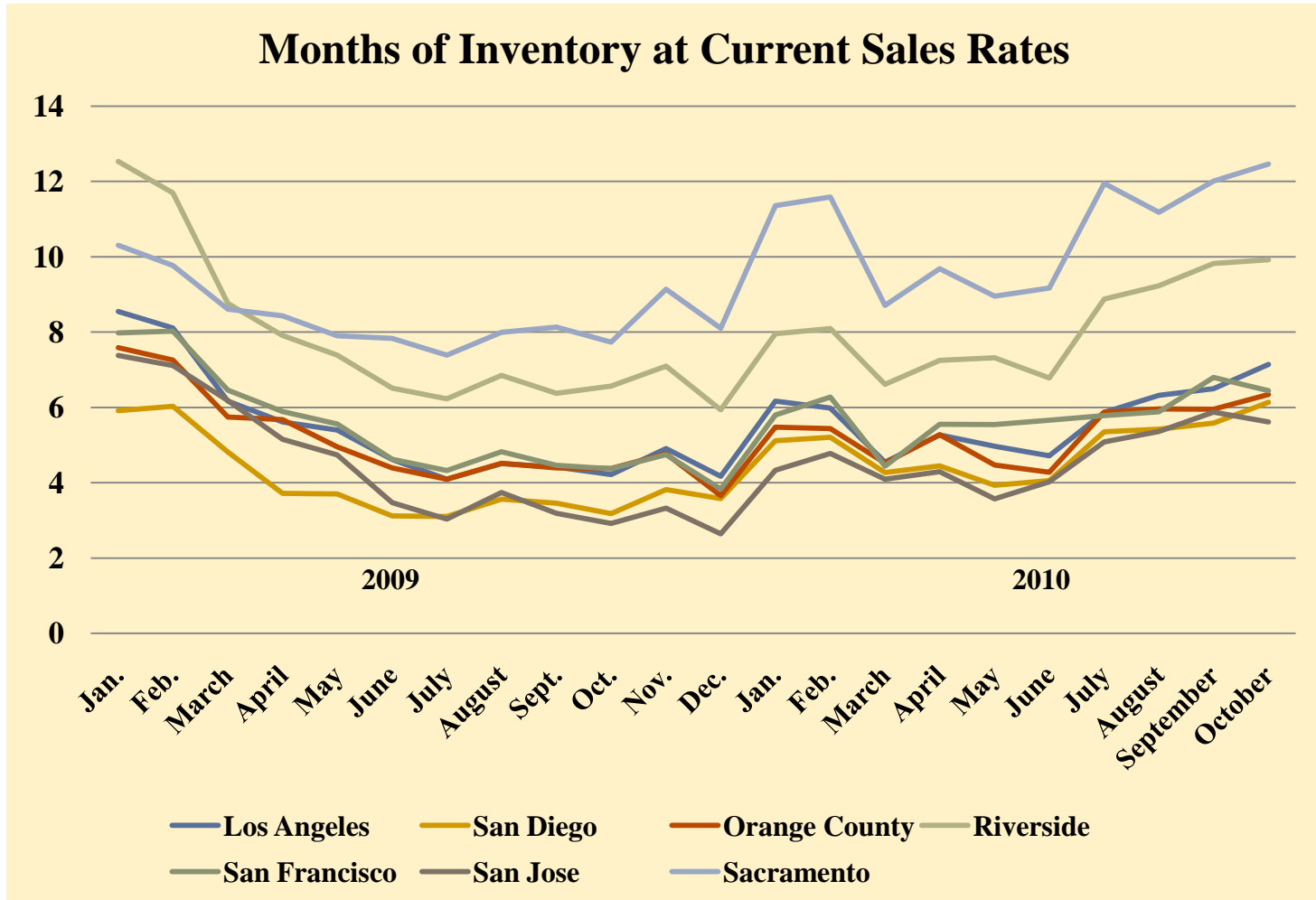
**Change in CA Private Non-Farm Payroll
Employment
(S.A., 000 Jobs)**



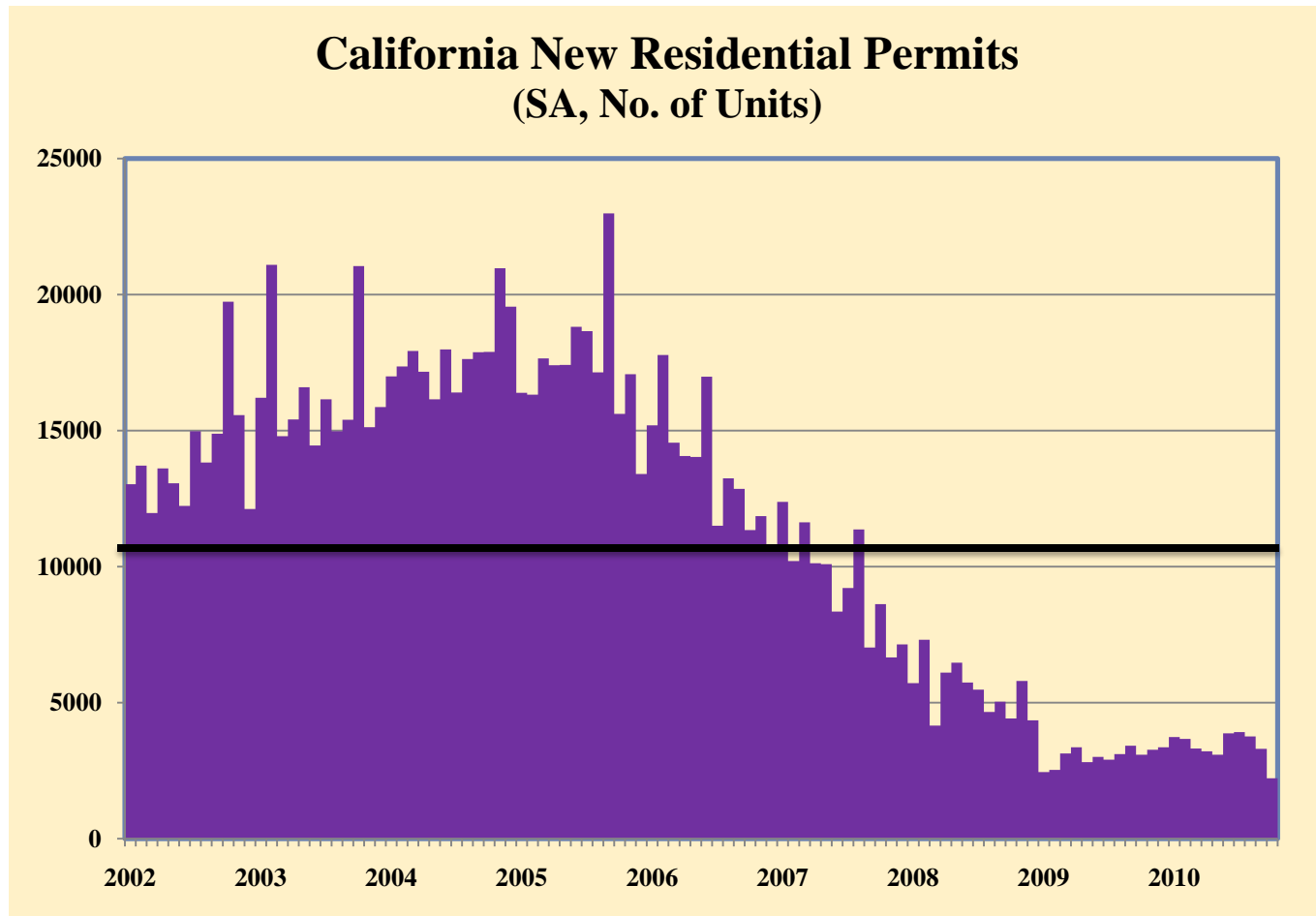


WHY ARE HOUSING MARKETS STAGNANT?

Housing Markets: Coastal MLS Listings remain low

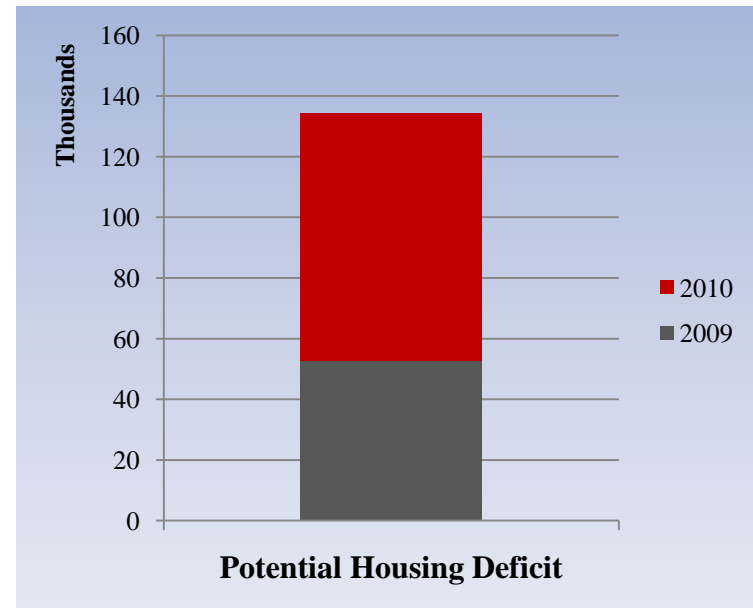
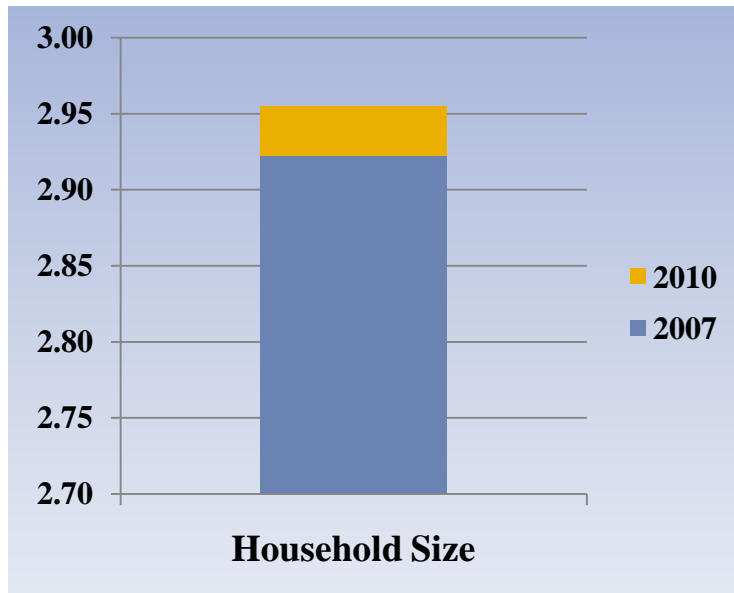


And California is Under-Building



- **Question?**
 - If CA is growing, housing inventories are low, mortgage rates are low, and home values are appreciating, why is there no new construction?
- **Household formation has dried up**
 - Unemployed move in with Mom & Dad or cousin Vinny
 - Or do not move out
- **This is an employment induced temporary phenomenon**

Household Size Has Increased Every Year Since the 2008/2009 Recession Began



Average annual production of housing 1990-2007 = 137,000



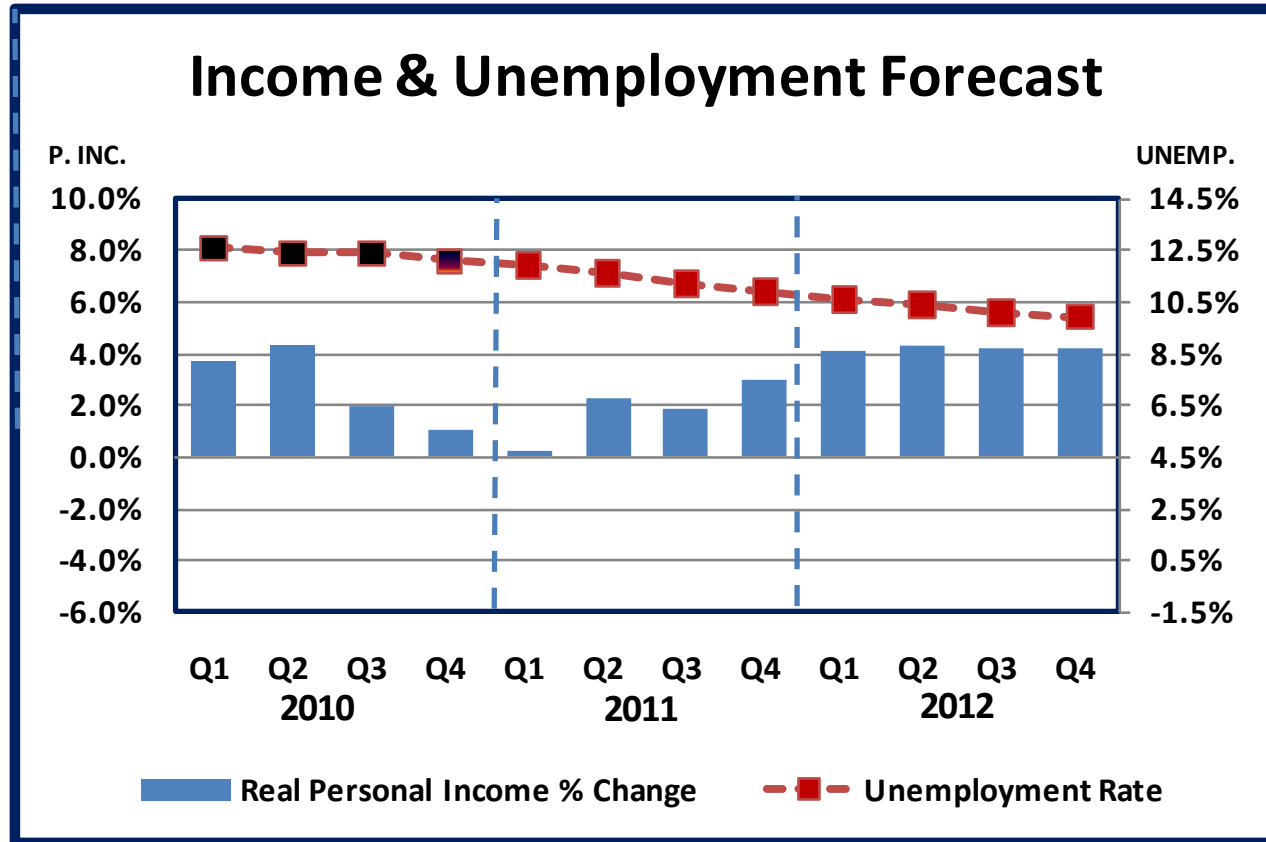
A REAL CHANGE IN SACRAMENTO?

Election 2010

- **No new revenue sources**
 - Prop 21 – no new taxes for parks
 - Prop 22 – restrictions on local gov't funds
 - Prop 24 – no increase in business taxes
 - Prop 26 – fees treated as taxes with 2/3 majority required
- **No budget gridlock excuses**
 - Prop 25 – end of minority veto of budgets
 - Legislative and executive branches controlled by same party
- **Accountability**
 - Prop 20
 - Prop 27
- **Implication: California Government Can Be Functional**

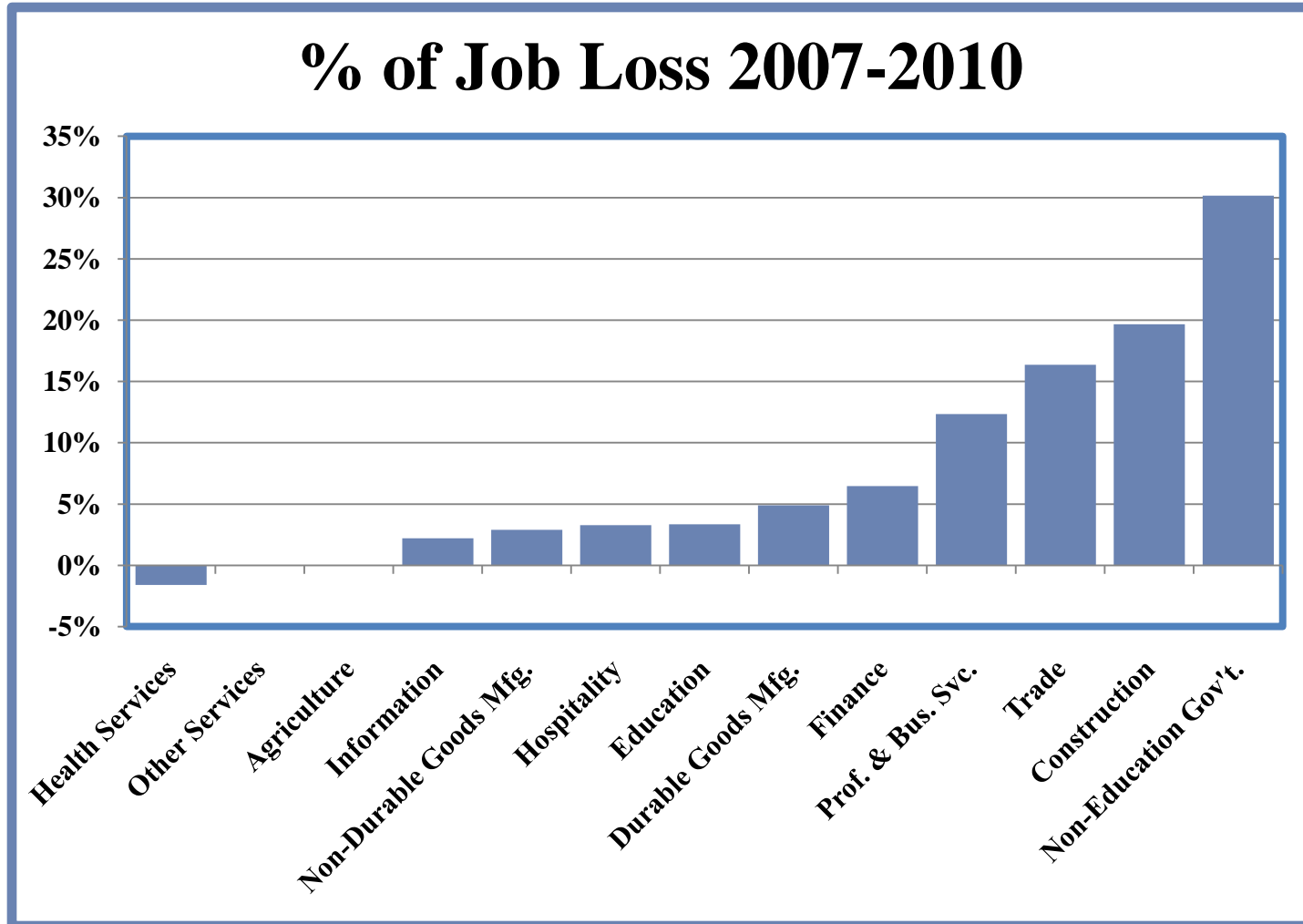
The New Sacramento

- The state **can** create a history of budgets passed on time, in balance & without smoke and mirrors
 - Create confidence in CA government
 - Reduce uncertainty
 - Lower borrowing costs
 - And therefore be a positive force in CA's economy

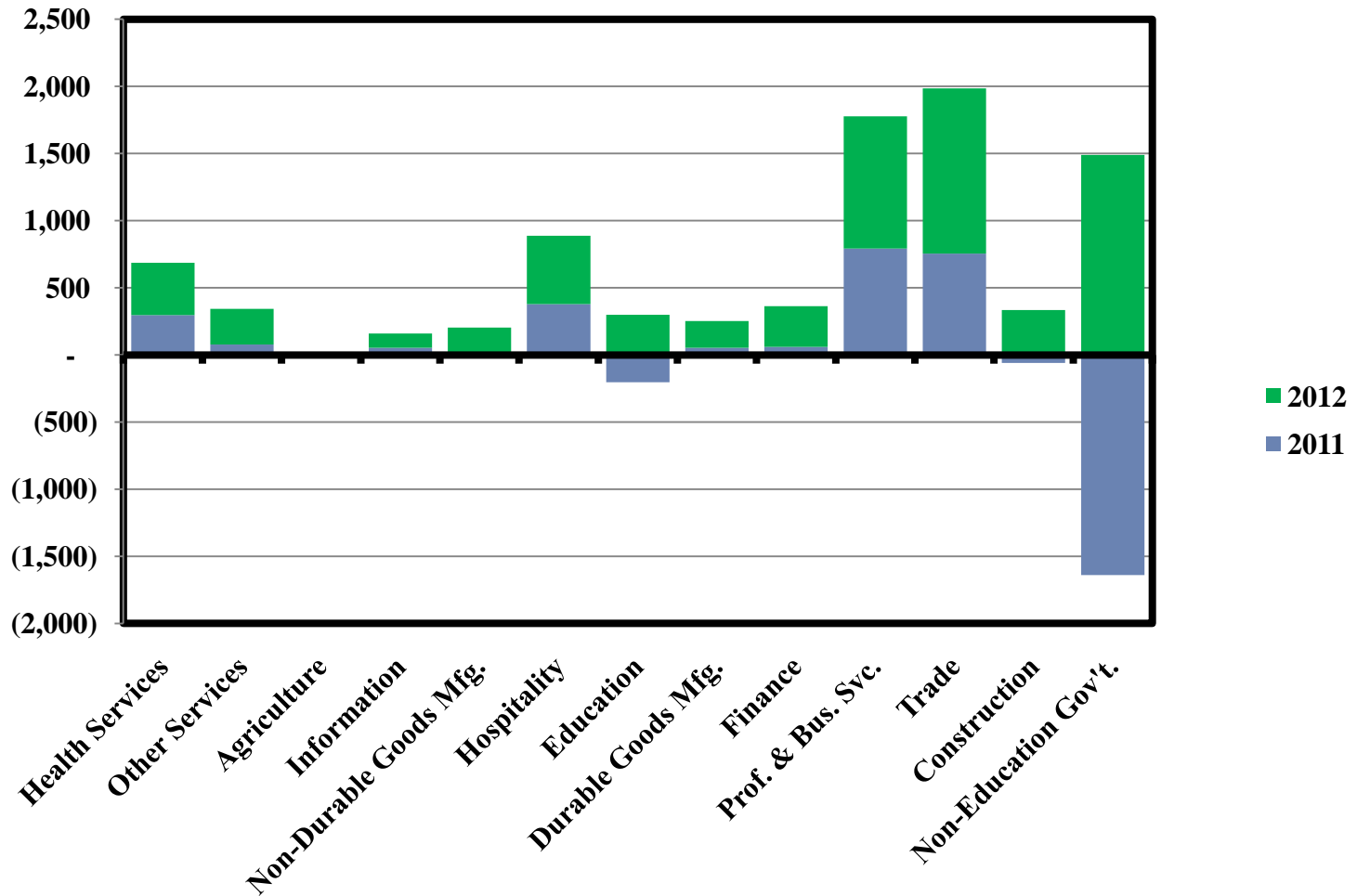


	2011	2012
Employment	1.6%	3.1%
Unemployment	11.4%	10.3%
Personal Income	1.6%	3.6%

SONOMA RECESSION JOB LOSS



EMPLOYMENT FORECAST--SONOMA COUNTY



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*For general information about the UCLA-Anderson Forecast
and upcoming events, please go to*

www.UCLAForecast.com