



BEACONECONOMICS

***The Economic  
Downturn:  
Employment,  
Revenues, and  
Investment in CA***

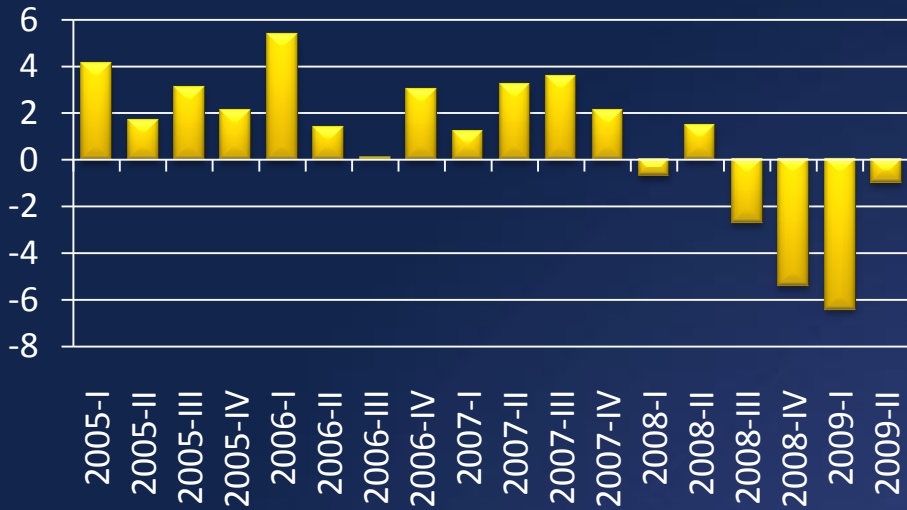


Jon Haveman

*Principal, Beacon Economics*

# GDP Growth

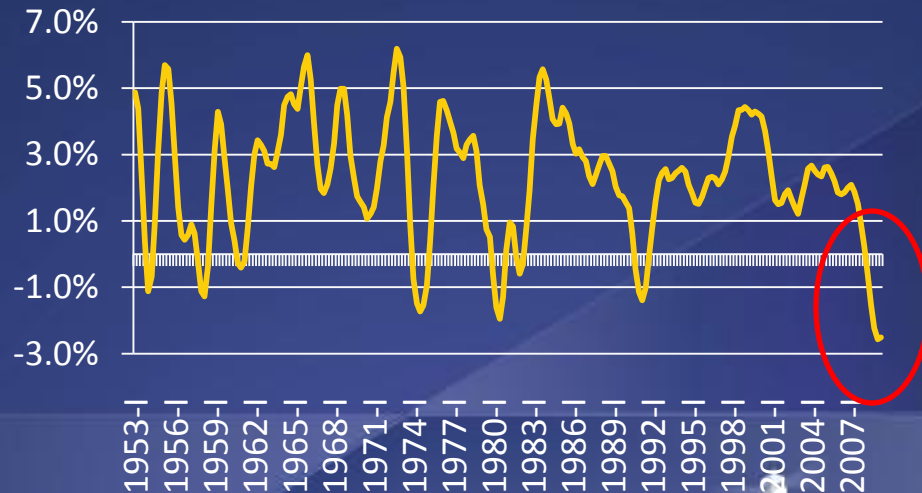
GDP Growth SAAR



Worst 4 quarter performance Post WW-II

Acceleration because of Consumer slowdown

Real Per Cap Spending Growth (YoY)



# *The Anniversary*

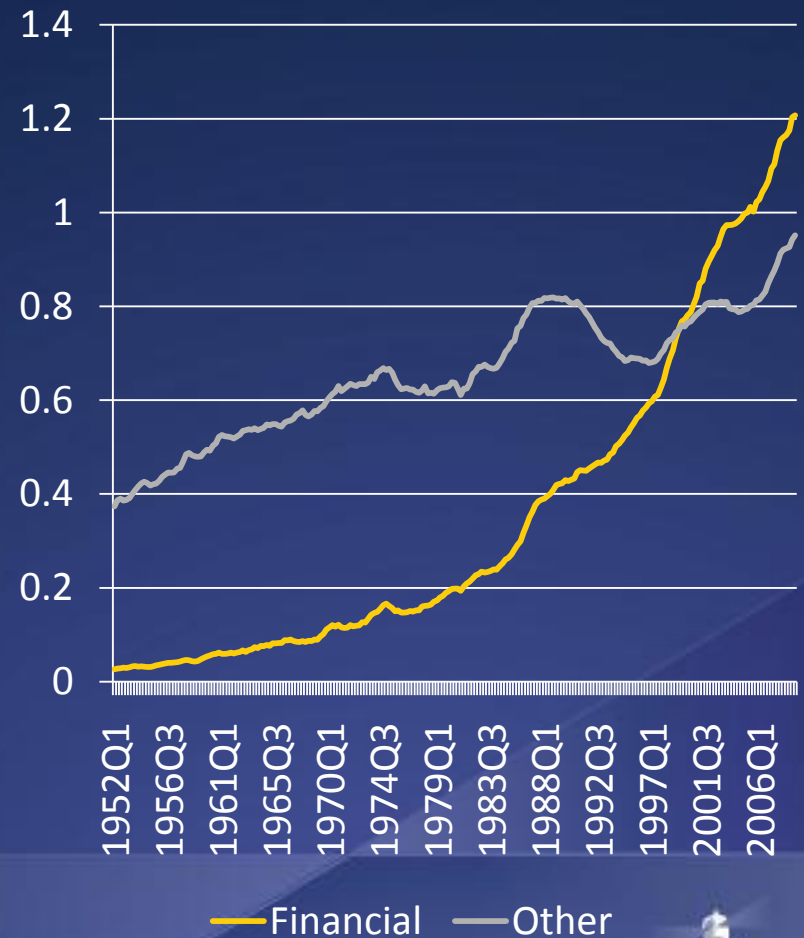
- ✦ A year ago: Lehman, Fannie and Freddie
  - Heard on the street “There are only two positions out there: cash, and fetal”
- ✦ What went wrong
  - The big three imbalances/bubbles:
    - housing, finance, and the consumer
- ✦ Where now?
  - The good news: The big imbalances are settling out, growth is going to return
  - The bad news: we haven’t actually fixed the problems
    - Financial sector remains unregulated
    - consumers need to save more

# The National Bubble

## National PE Ratio (Assets / GDP)

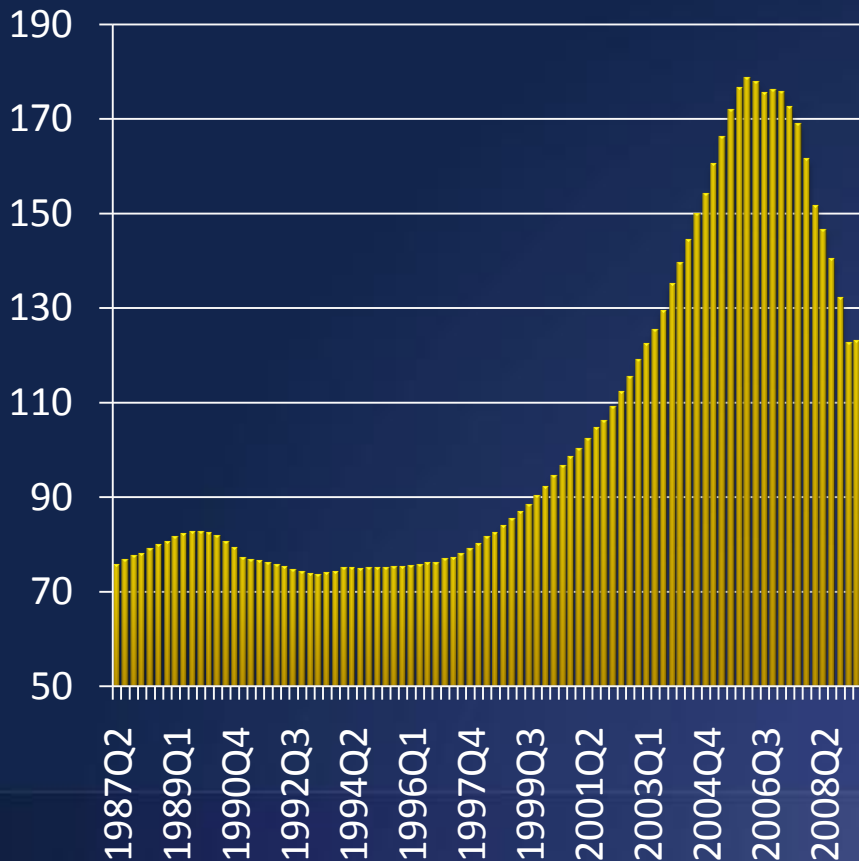


## Debt as Share of GDP

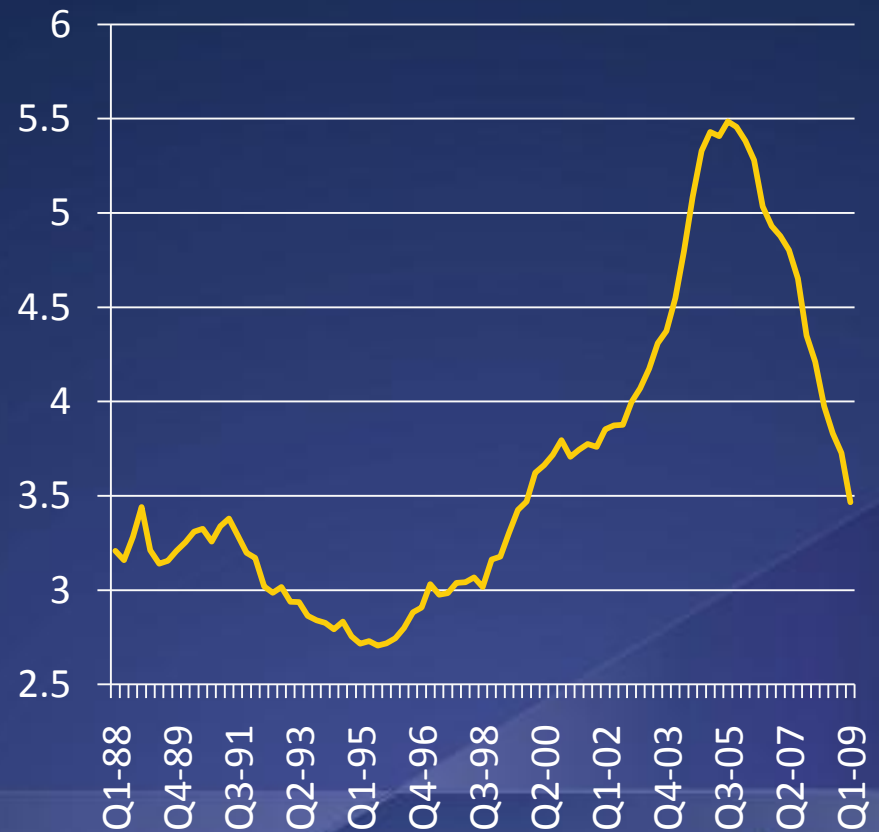


# The Housing Bubble

Case-Shiller National HPI Index  
SA, Inflation Adjusted

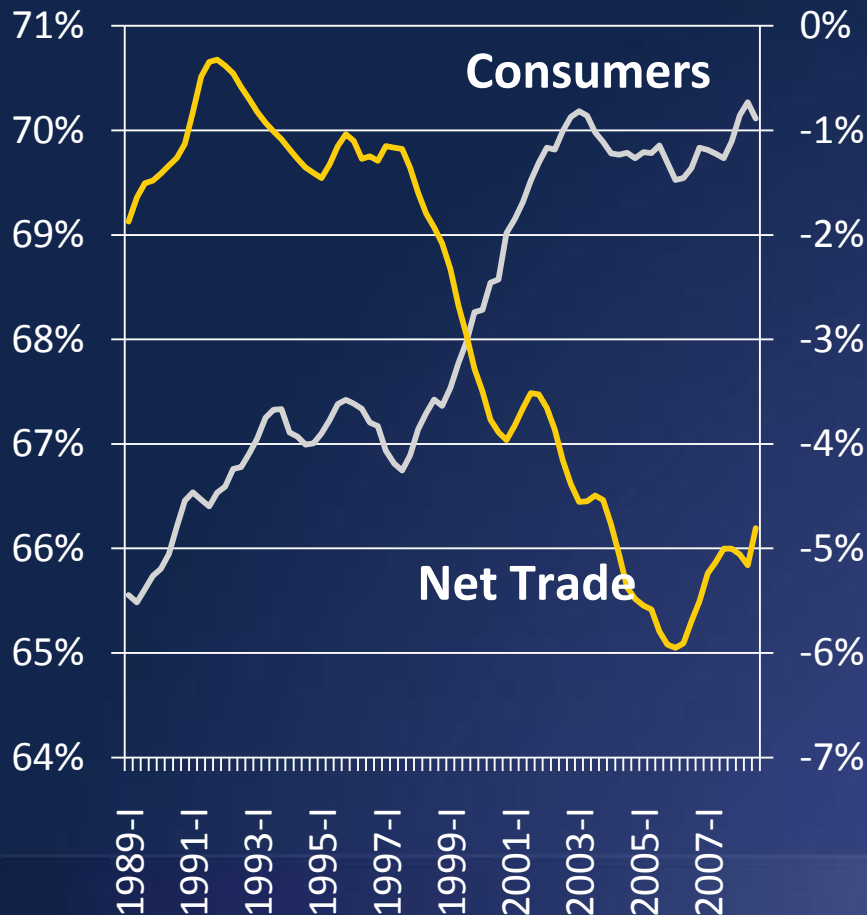


CA Home Price / Median  
Homeowner Income

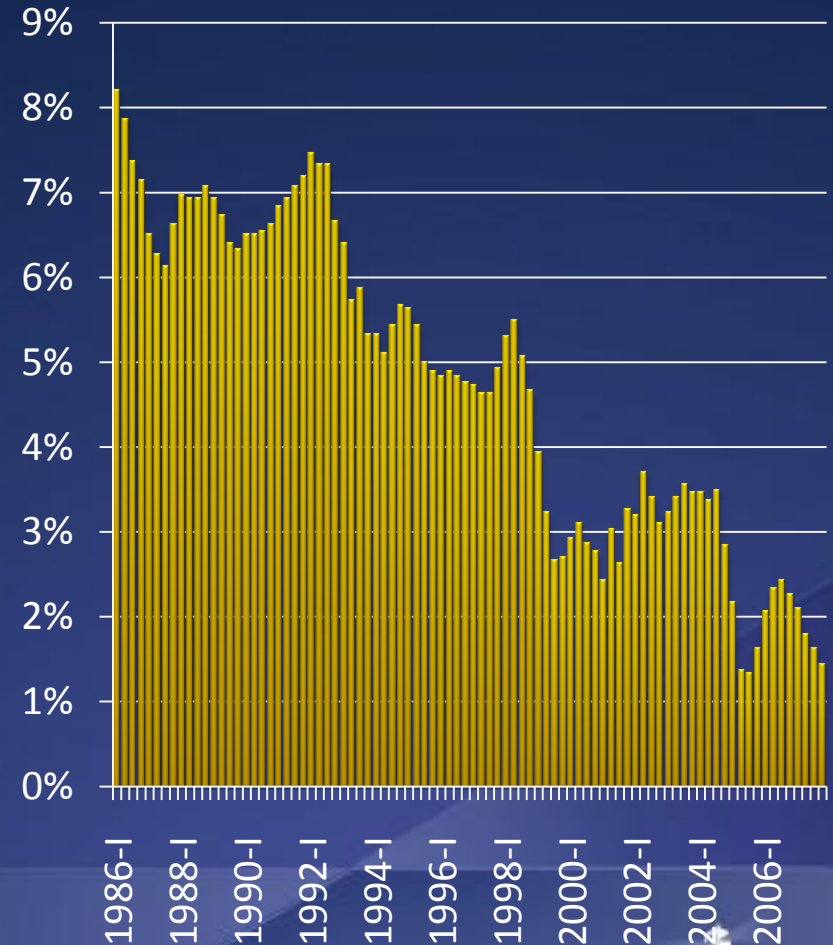


# The Consumer Imbalance

## Share of GDP

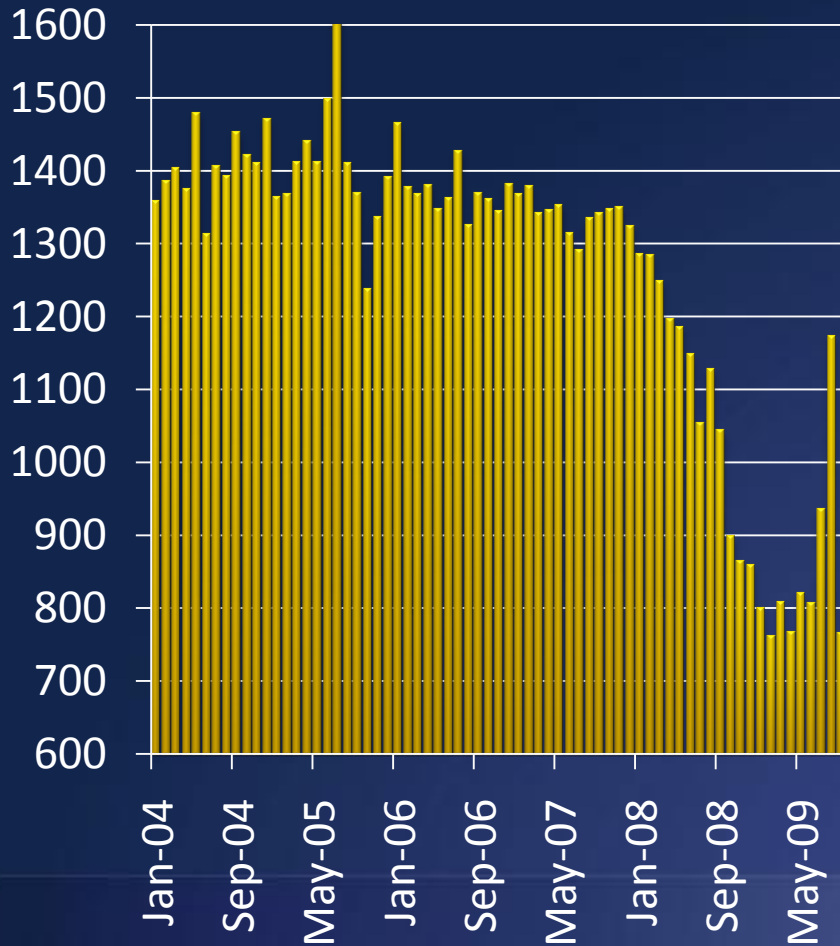


## Savings as Share DPI

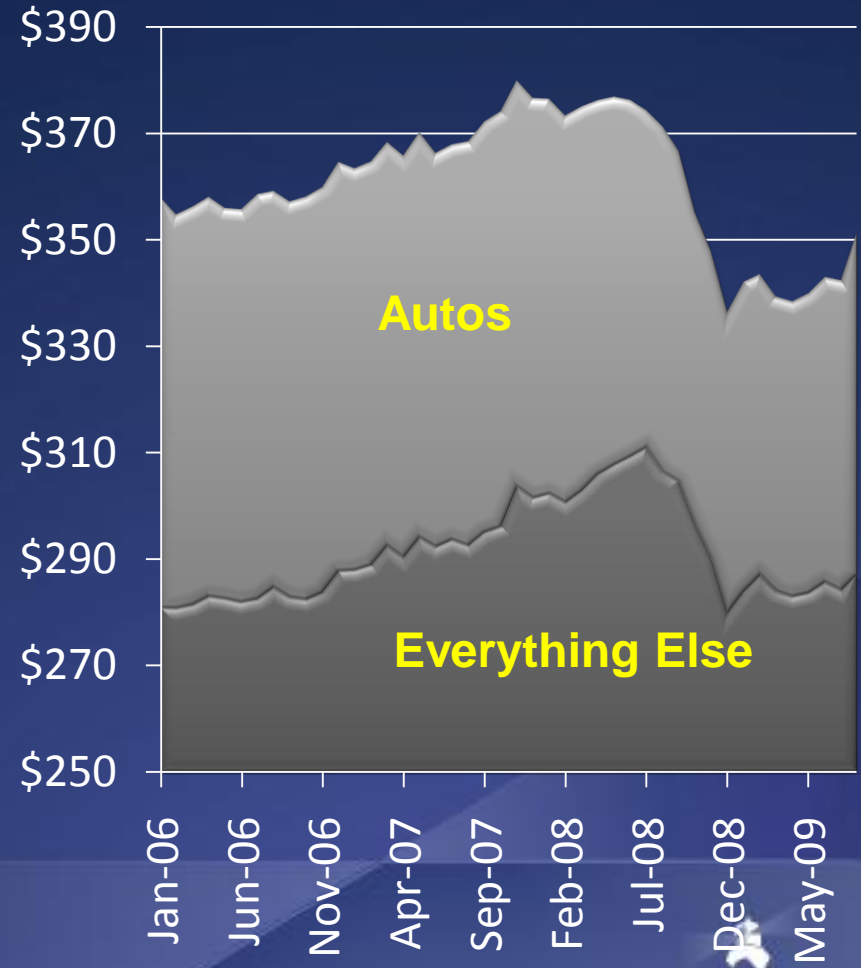


# Recent Evidence: Consumers

## Auto Sales SA to Sept



## Retail Sales (\$Mil, SA)



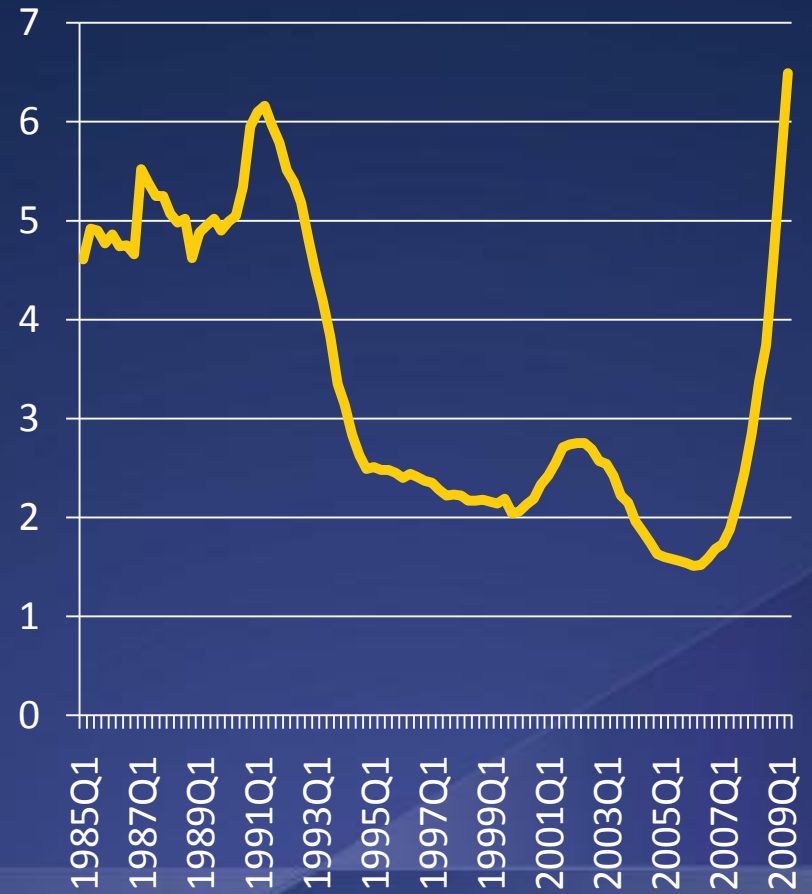


# How about the banks?

## Loan Charge-Offs (%)



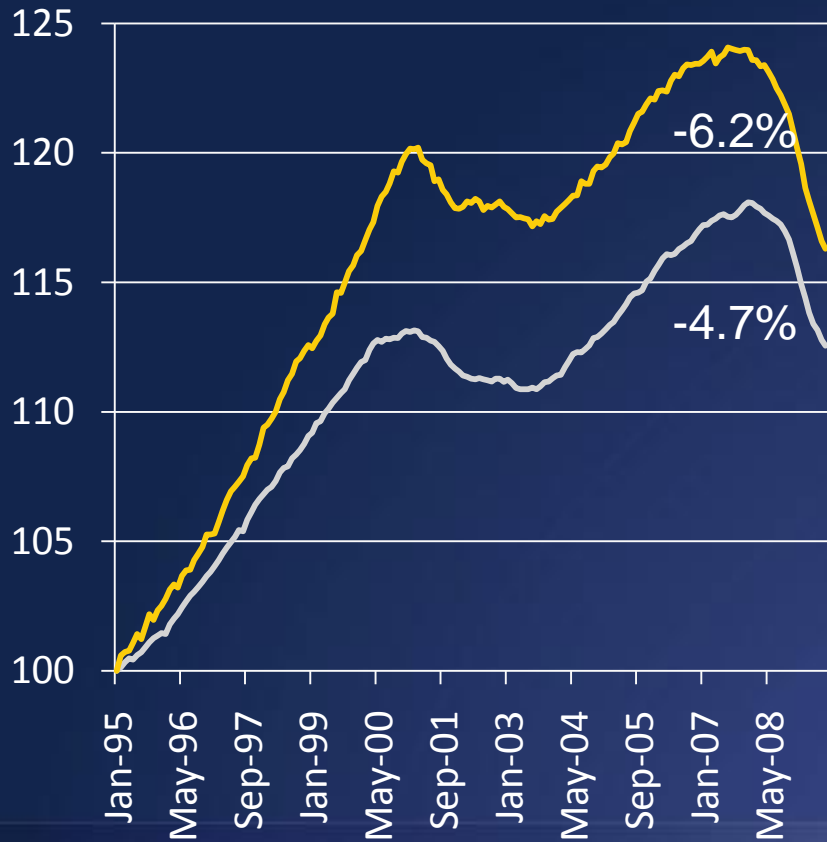
## Loan Delinquencies (%)





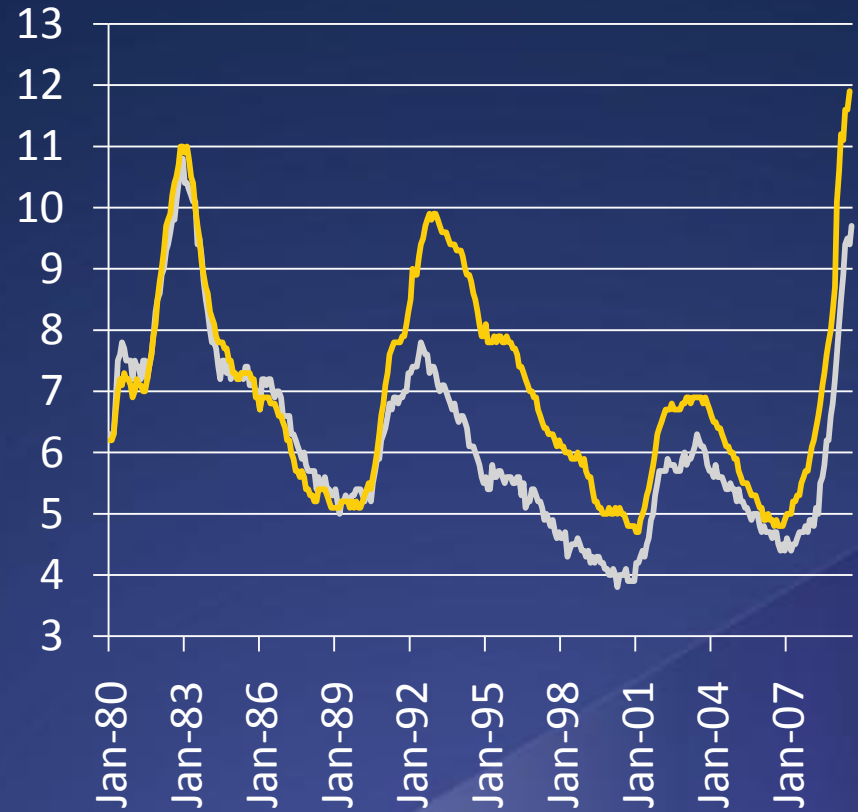
# California vs the US: Worse

**Payroll Employment**  
(Jan 1995 = 100)



— Balance US    — California

**Unemployment Rate**



— United States    — California

# Why the bad downturn?

## ✦ Housing

- Greater price increase / decrease
- Subprime central

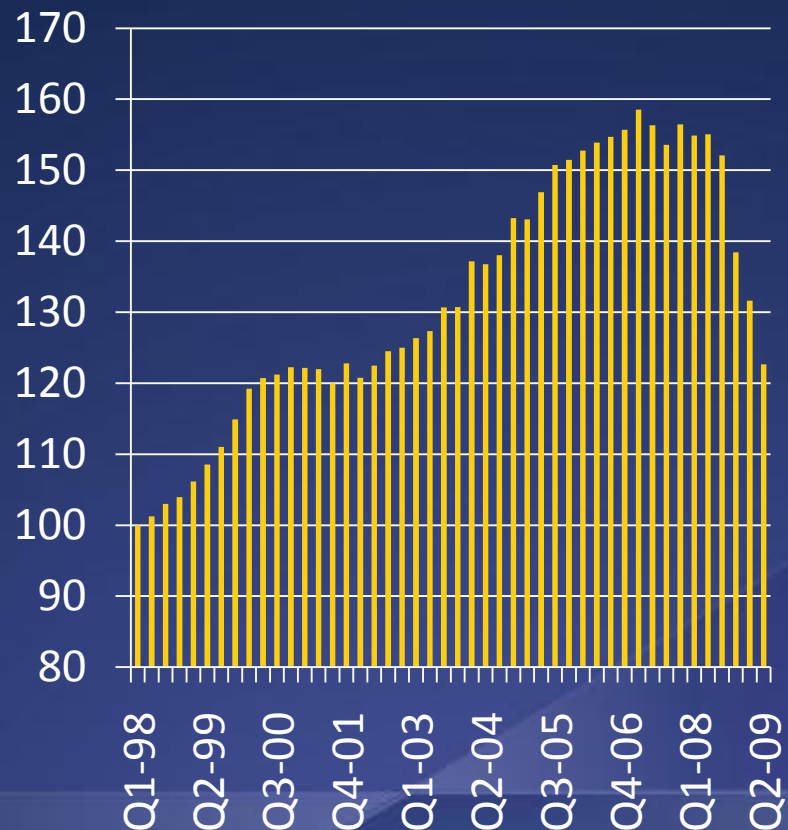
## ✦ Exports

- Goods / tourism / licenses

## ✦ Business Spending

- The IT industry

Los Angeles Taxable Sales Index

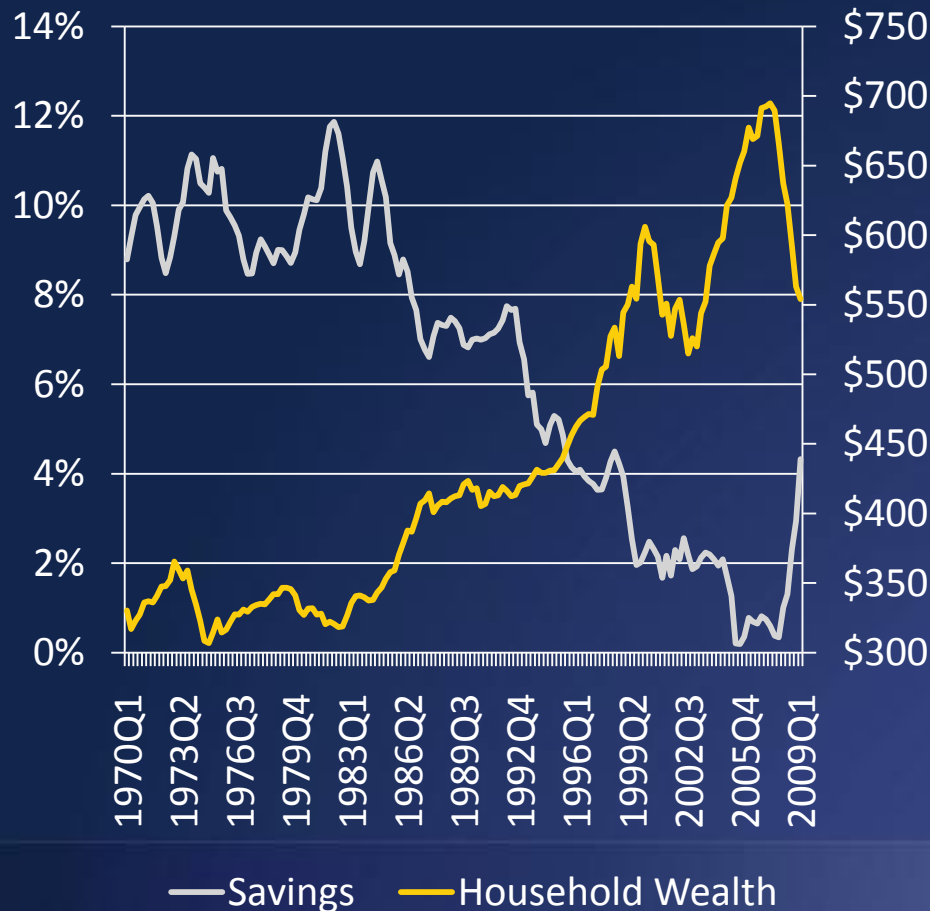


What kind of recovery?

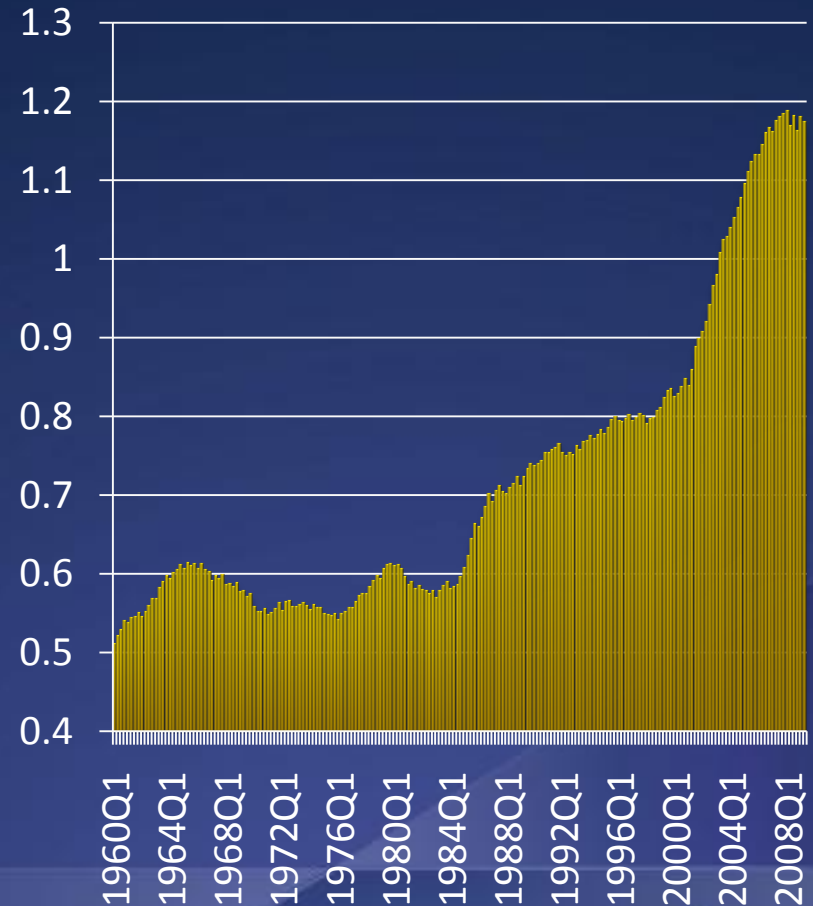
A **S**LOW ?

# Wealth Effects

## Private Savings and Real Household Gross Worth



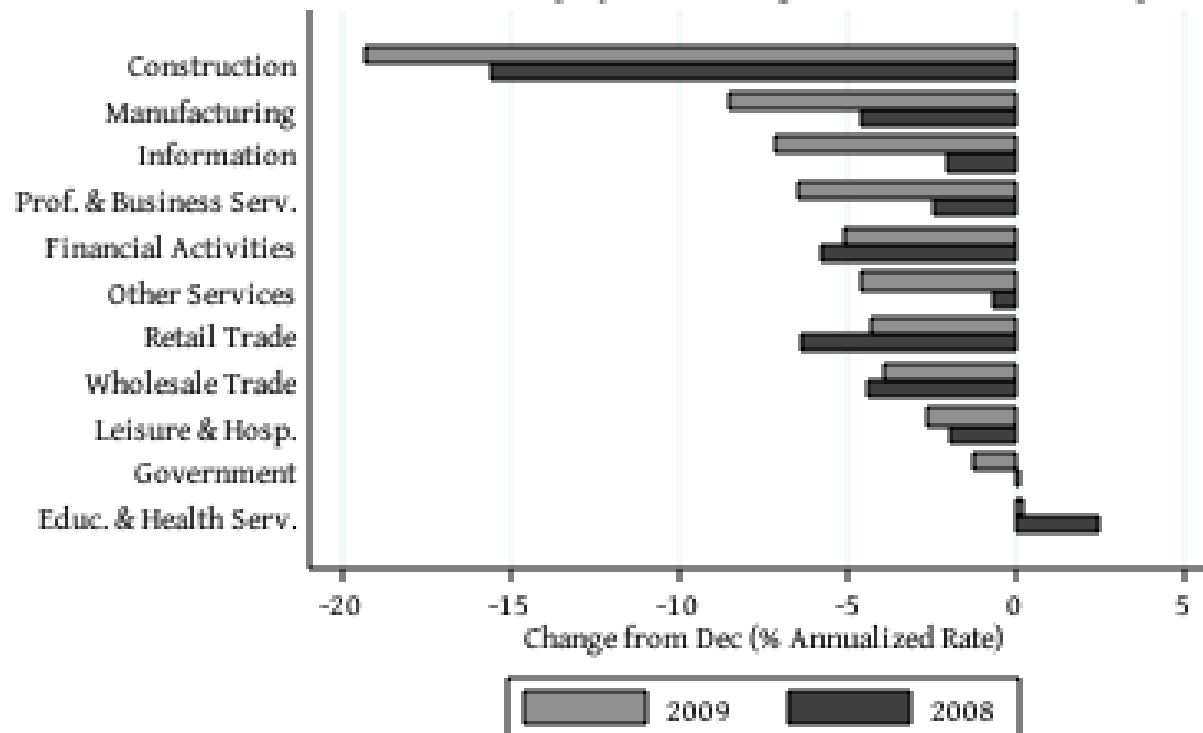
## Debt to Income Ratio



# Employment in CA

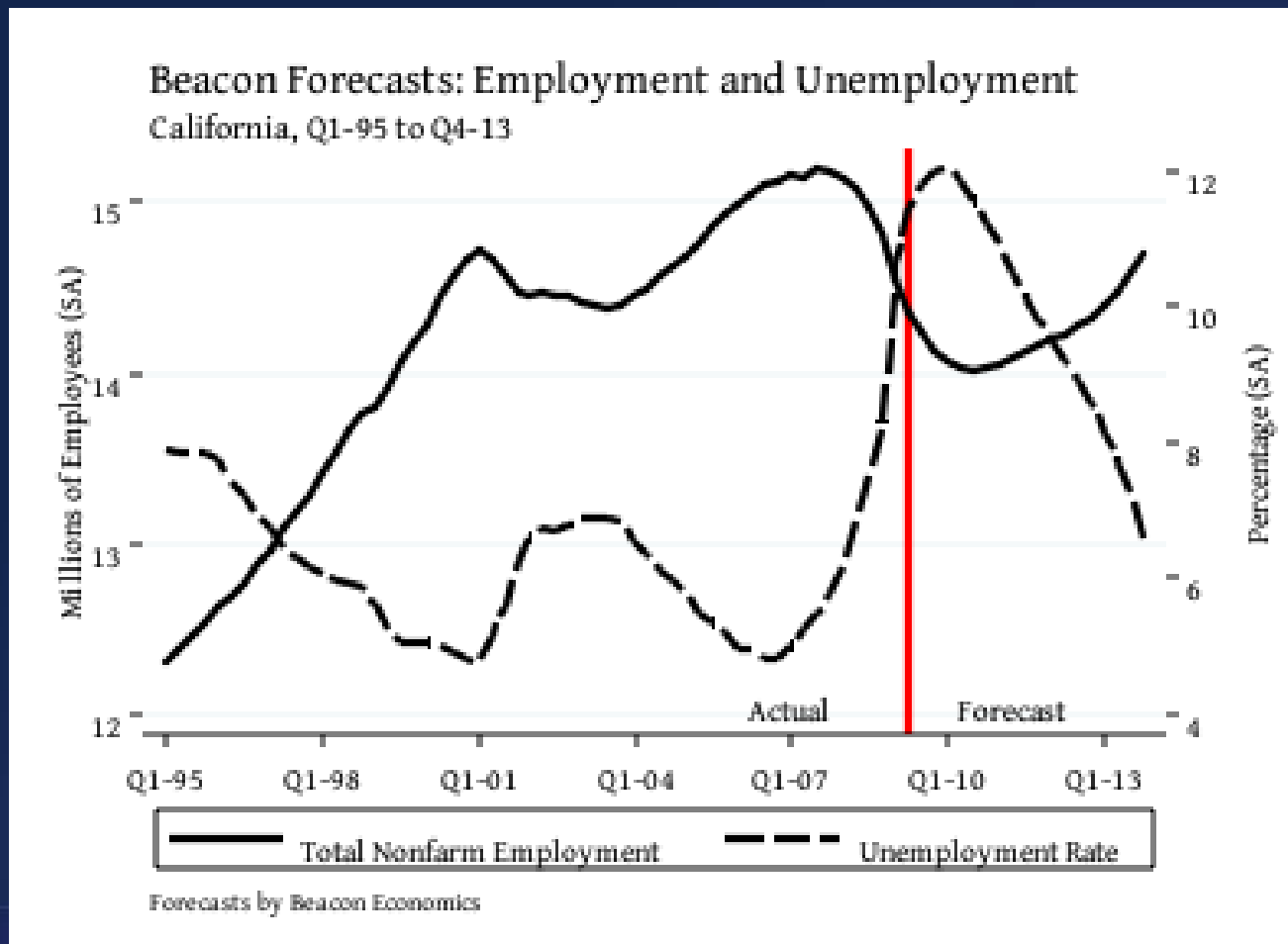
## California Employment by Industry

Year-to-Date Employment Change, 2008 and 2009 (Jan-Sep)



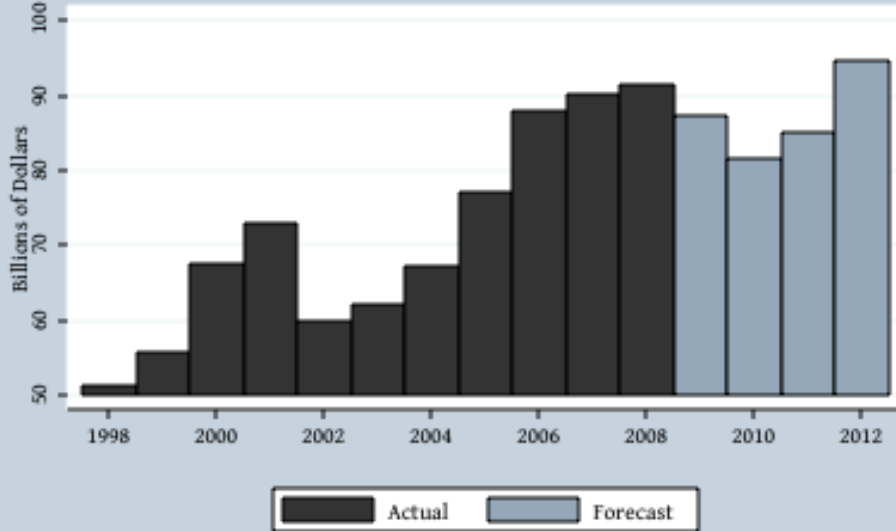
Source: California Employment Development Department

# Employment in CA: Forecast



# The Impact on State Revenues

Total State Revenues from Income, Corporate and Sales Taxes  
Fiscal Years 1997/98 to 2011/12



Source: California DOF, Forecasts by Beacon Economics

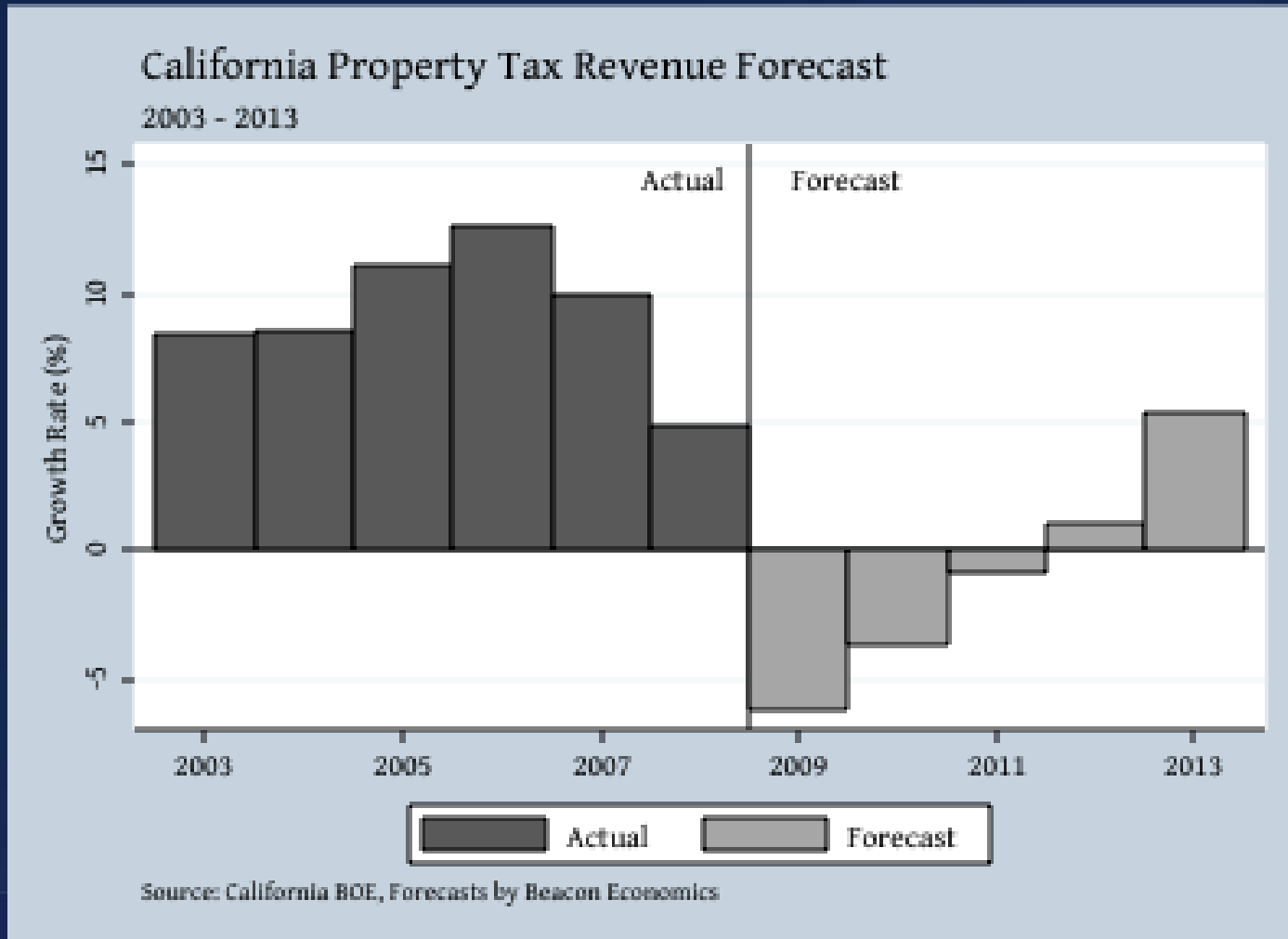
## Forecast of Personal Income, Sales and Corporate Taxes (Billions)

Fiscal Year	Total Tax Revenues	Total Change from Previous Year
2008-09	87.3	-4.0
2009-10	81.6	-5.7
2010-11	85.0	3.3
2011-12	94.6	9.6

\*Forecasts by Beacon Economics



# What About Property Tax Rev?



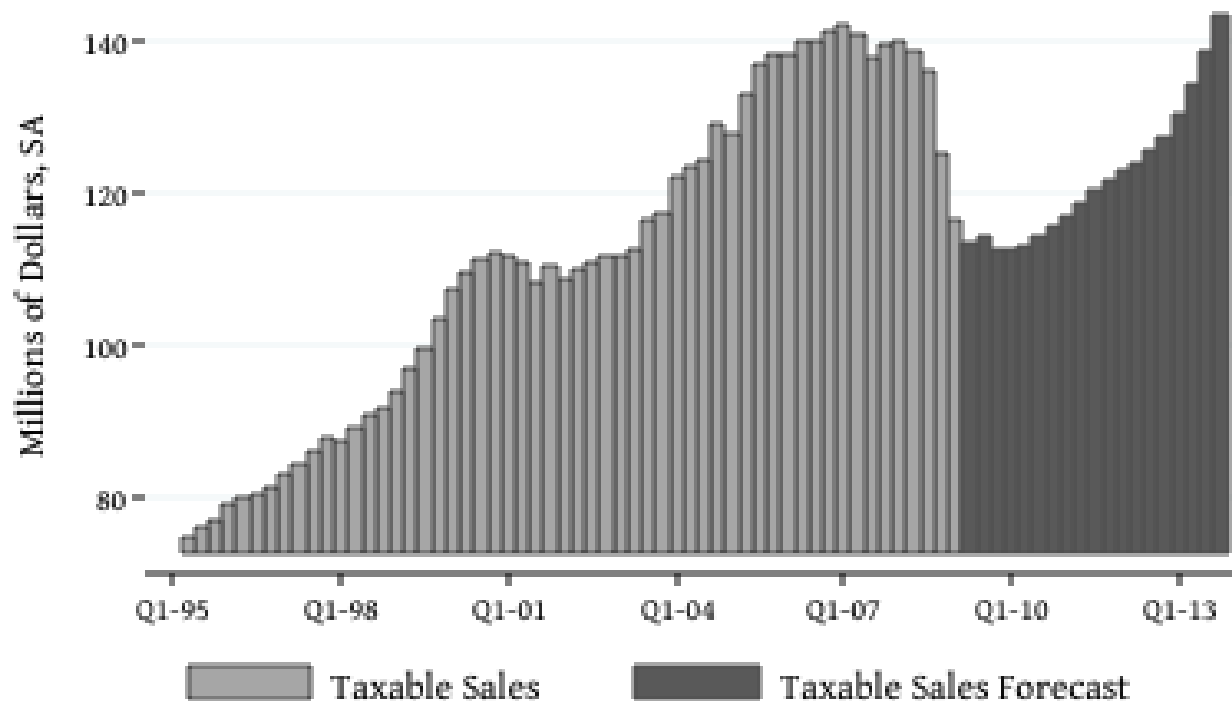
# Taxable Sales

## Beacon Forecasts: Taxable Sales

California, Q1-95 to Q4-13

Actual

Forecast



Forecasts by Beacon Economics

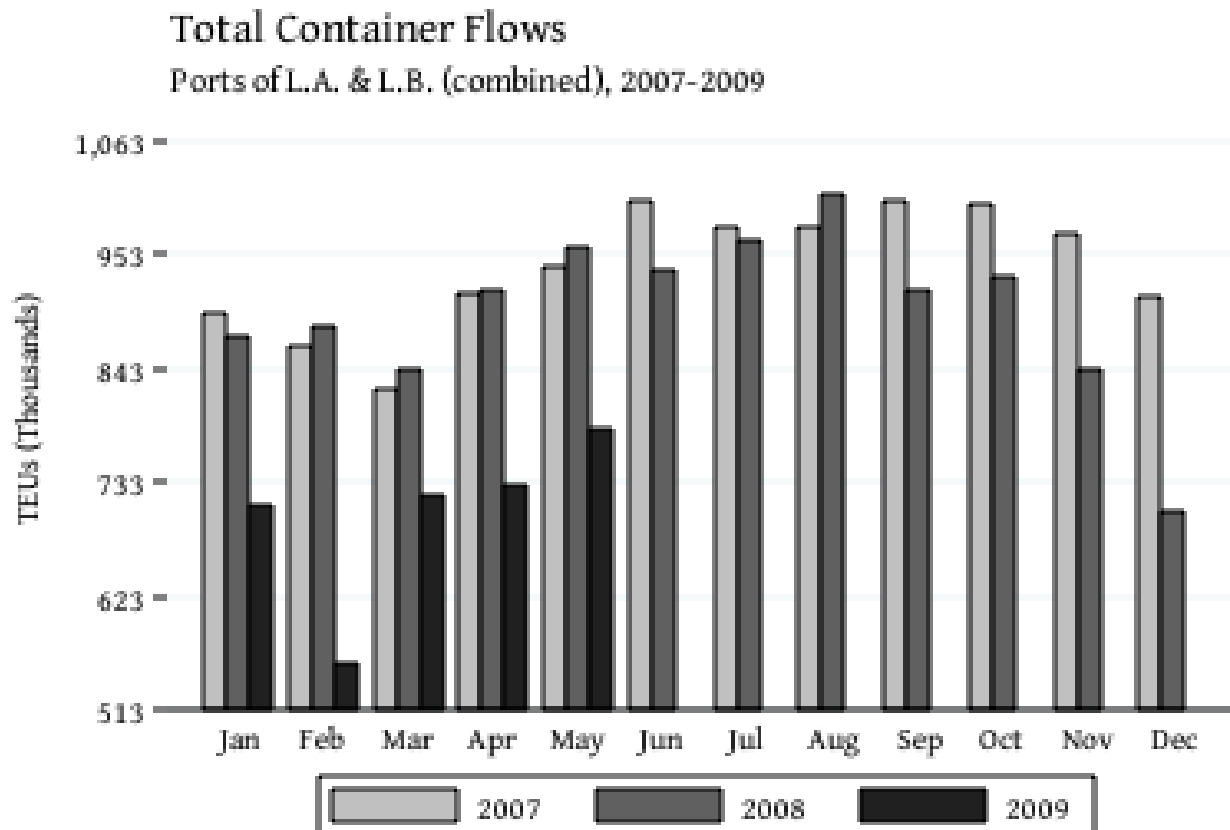
# Investment: Supply Side

Proposition 1B! \$15B available, but...

“[T]his report\* makes clear that further increasing the General Fund’s debt burden, especially in the next **three difficult budgets**, would require **cutting even deeper into crucial services** already reeling from billions of dollars in reductions.”

- State Treasurer: Bill Lockyer

# Investment: Demand Side



Source: Port of Los Angeles website & Port of Long Beach website

# Bullish on CA

## ✦ Long run

- State has grown faster than the US since 1994 in terms of GSP, Income, Employment and Population
- Every sector has grown faster except Admin Support, Mgmt, and Logistics

## ✦ On the back end of the downturn

- A weaker \$US: good for export heavy CA
- Cheaper Homes

## ✦ But don't expect a fast recovery

# Summary

- ★ RECESSION IS COMING TO A CLOSE...
  - Consumer weakness will likely continue
  - Businesses are a wild card
  - Housing close to bottom, but no bounce
  - Banks not out of the woods yet
  - Commercial trouble to continue
  - Significant chance of a double dip
  - Higher Rates coming down the pike
- ★ Its not permanent
  - Its just going to take some time—PATIENCE!!
  - California will be stronger at the back end

# Summary

- **Employment:**
  - Record declines in levels over a broad base
  - Unemployment at Post-war highs
  - Likely to continue for several more quarters
- **Revenues**
  - Very weak at the state level
  - Will likely continue for next 2, maybe 3, budget cycles
- **Investment**
  - Supply side is constrained
  - Demand side is softened
  - Much depends on Stimulus funds





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