

Economic Outlook 2009
Tri County Outlook Conference
January 15, 2009

Robert Eyler, Ph.D.
Chair, Economics Department
Director, Center for Regional Economic Analysis
Sonoma State University
eyler@sonoma.edu



Introduction

- National and state economic situation continues to worsen
 - Consumer confidence continues to stagnate
 - Need supply side change to support long term growth
 - Current problem due to a lack of supply-side movements
 - Deflation issues
- State budget issues cloud both state and local forecasts
 - Taxation and local services likely to change adversely for businesses
 - What choice remains?



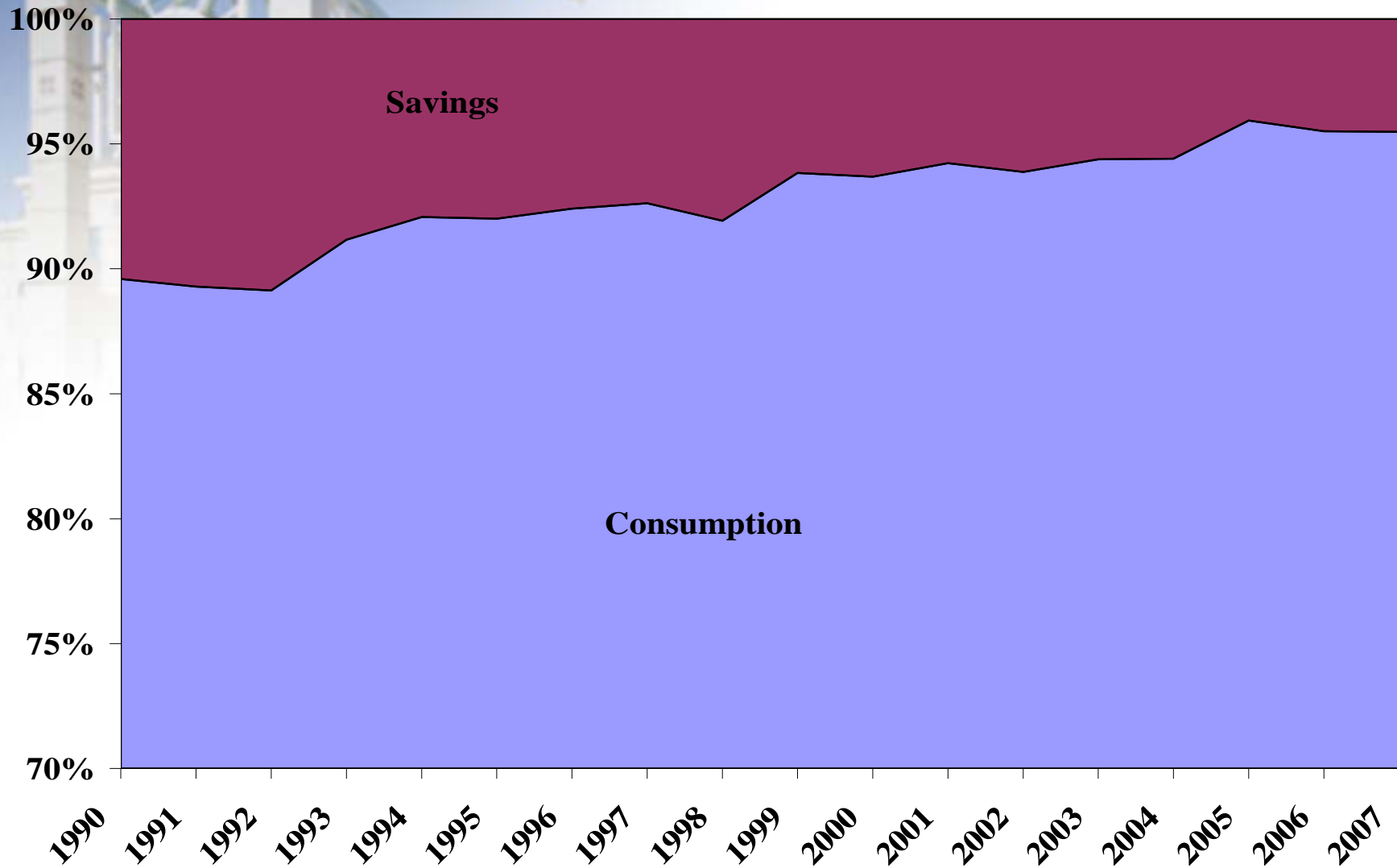
Introduction (cont.)

- Current recession has similarities to 1990-91 recession
 - Should think of current cycle as recession after 15 years of growth
 - Post 9/11 recession relatively minor
 - Consumption-led recession of 1990-91 after 8 years of growth
- North State area feeling these effects
 - Housing just part of problem
 - Need to consider regional model

The Current Economic Situation

- Foreseen in direction, not in magnitude
- Where did it come from
 - Partially greed
 - Bankers should have known better
 - Partially a lack of financial literacy
 - Consumers should have known better
 - Partially cultural
 - Our president told us to spend, right?
 - Partially cyclic
 - What goes up has to come down (at least a little)

US Disposable Income Since 1990



Source: Bureau of Economic Analysis



The Bailout Plan(s)

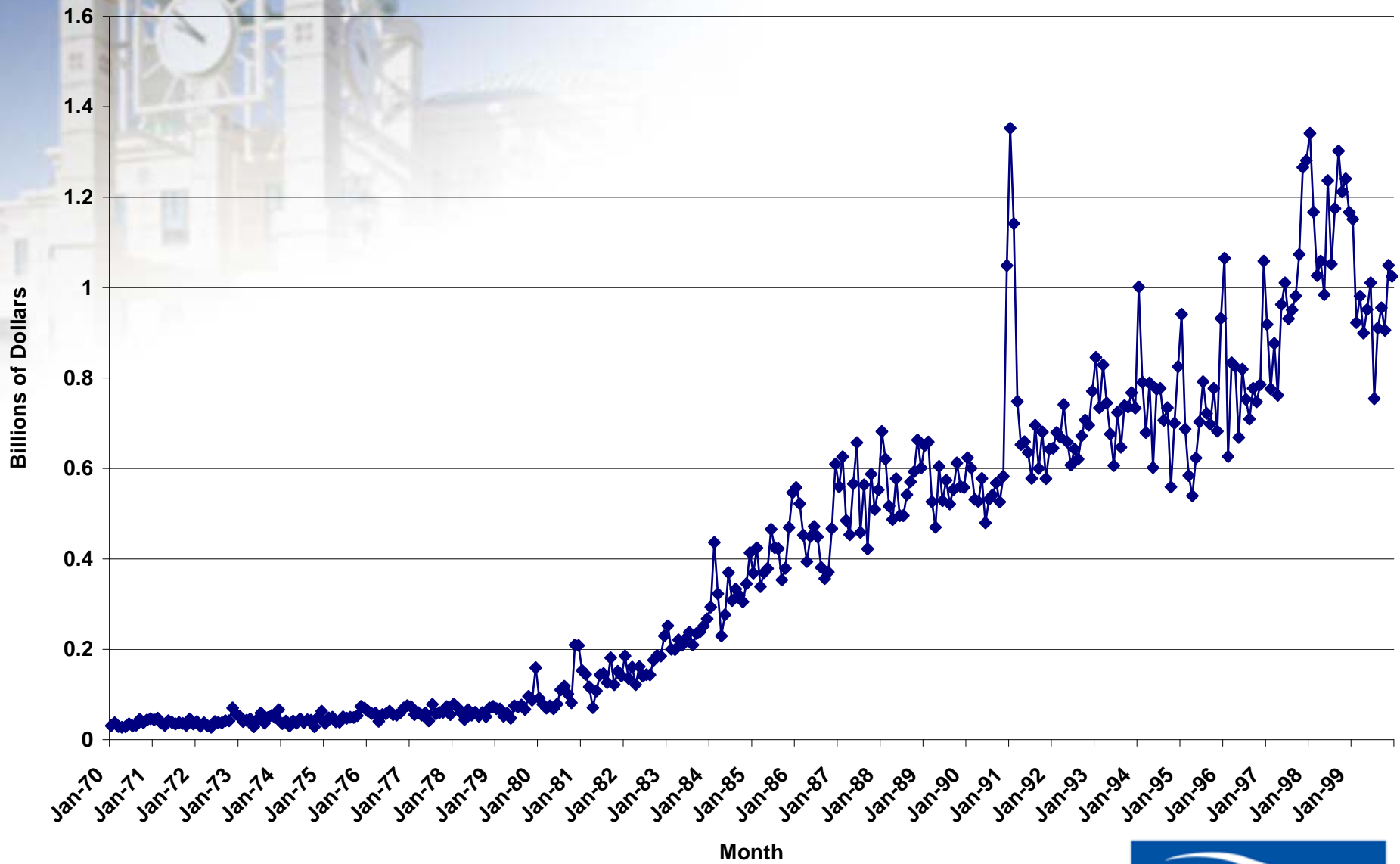
- Basically printing money to facilitate growth
 - Nothing more than repackaged monetary expansion
 - Money printing paying for fiscal stimulus
 - Initially, just financial institutions
 - Now: automakers, school loans, State of California, etc.
 - Treasury has become a hedge fund of sorts
- Inflation not an issue if circle remains unbroken
 - Assets slowly sold off as markets stabilize and rise
 - May be profits in the end(!!)
 - Gas prices falling an anomaly
 - Likely back in \$2.50 range by summer 2009
 - Deflation short-lived, if it happens



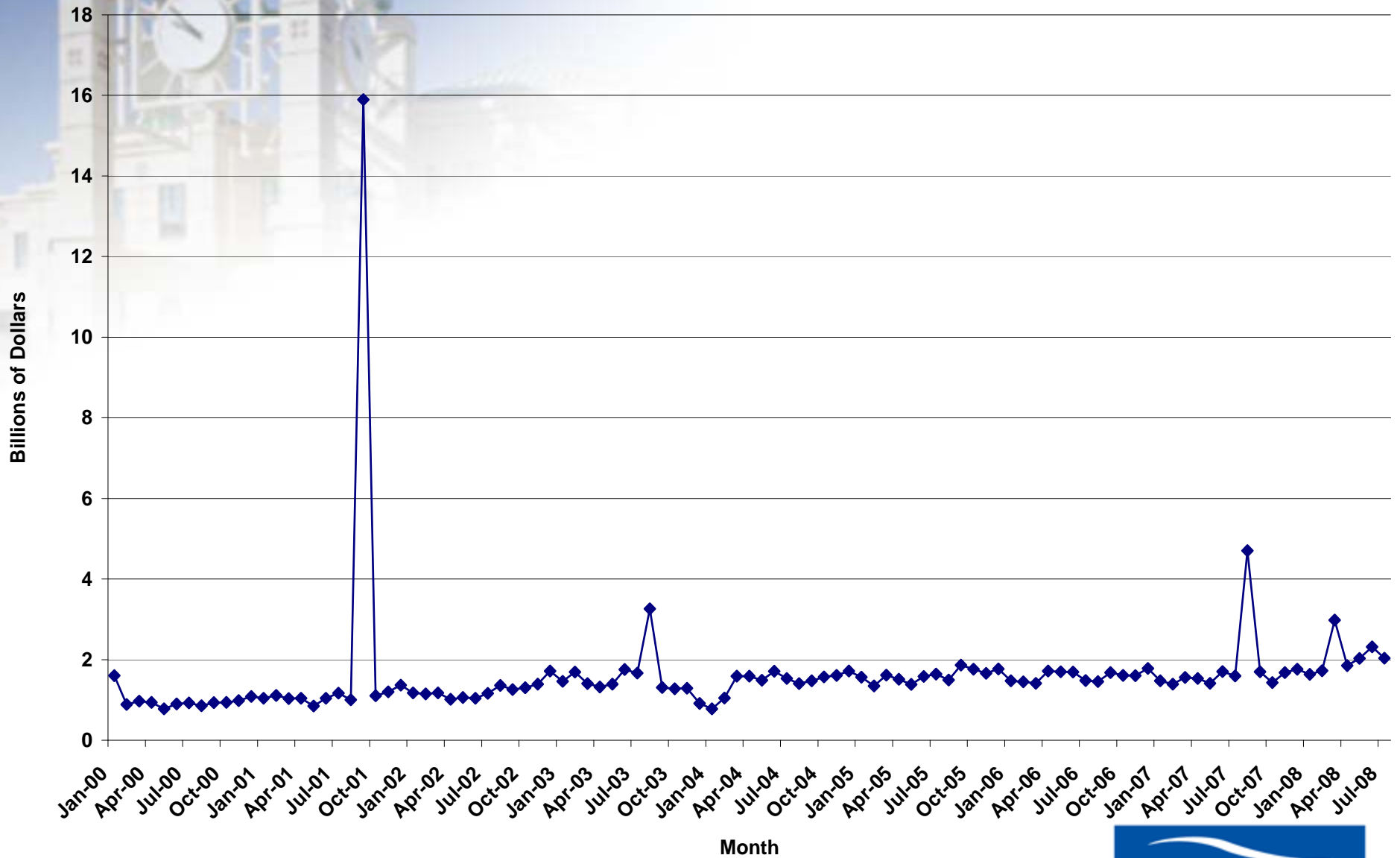
The Role of Banking

- Banking is both culprit and savior here
 - Riskiness drove current issues
 - Securitizing loans allowed this
- Classic model of growth
 - Investment from savings begets economic growth
 - Lending should be for investment, not consumption
 - Housing market became a mix of both
- Now, have decided markets are too risky to lend much at all
- Local banks targets for consolidation, acquisition
 - Also a great place for a boom to start

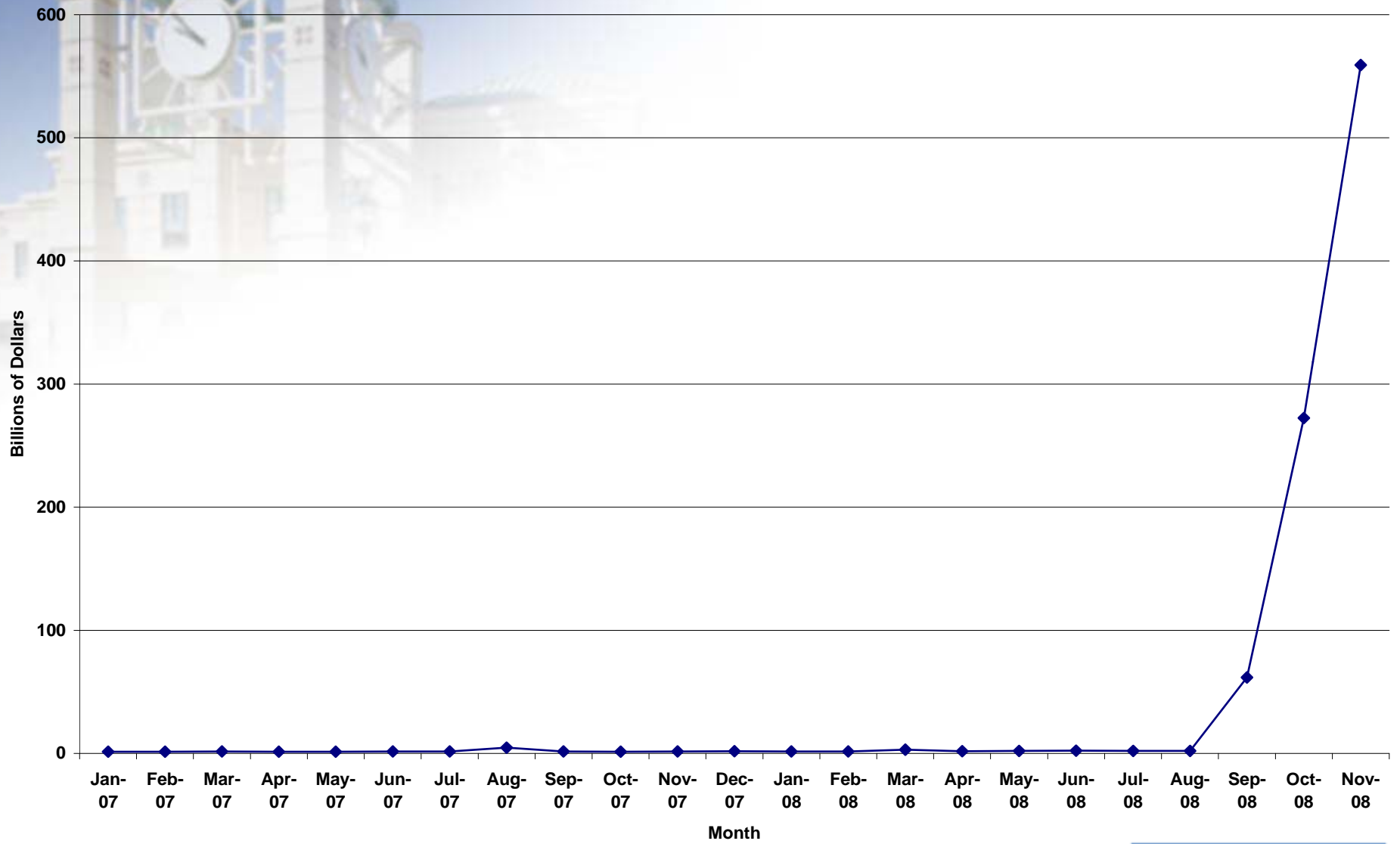
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 1970-1999



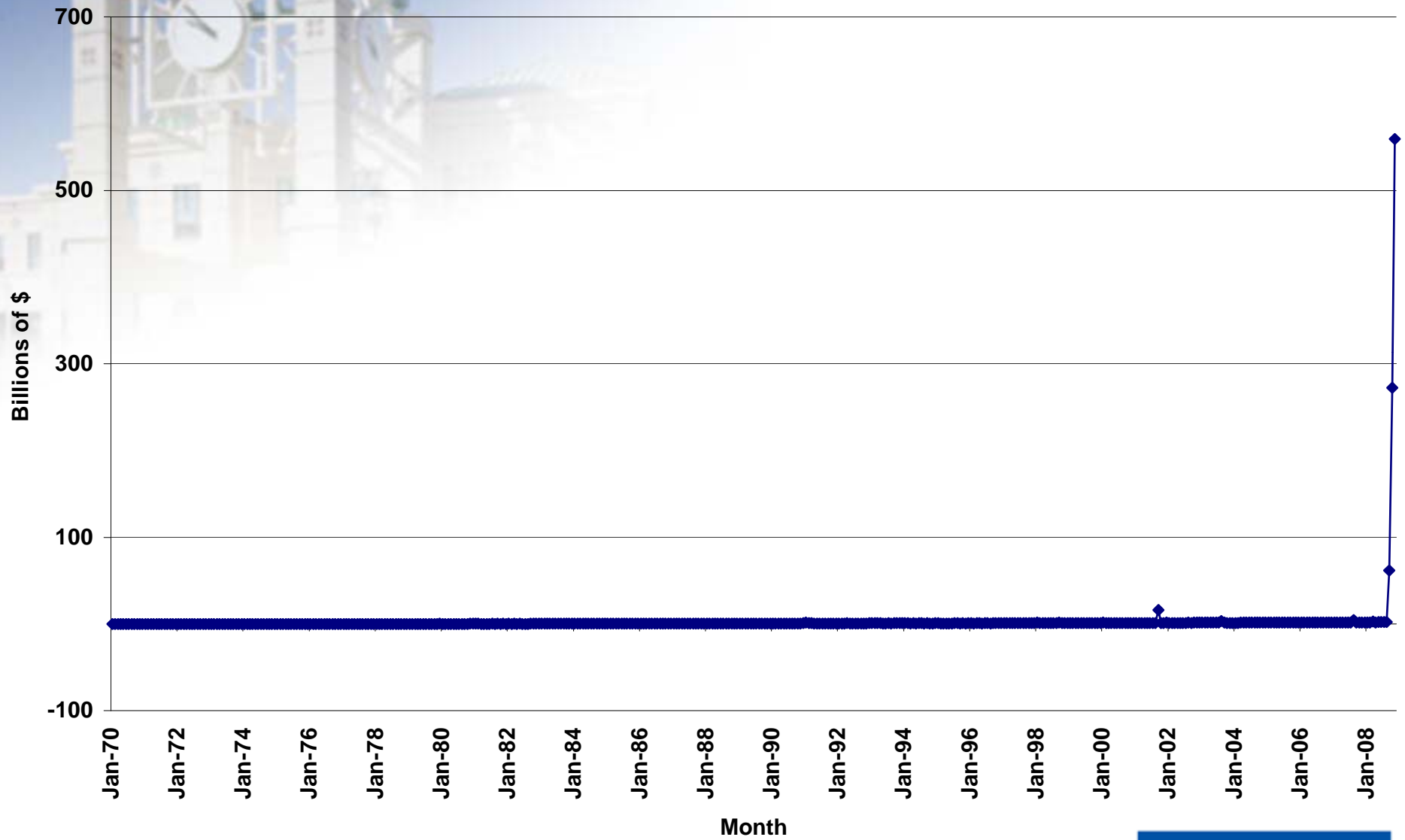
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2000 - 2008



Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2007-2008



Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$
Jan 1970 - Nov 2008



New Stimulus Possibilities

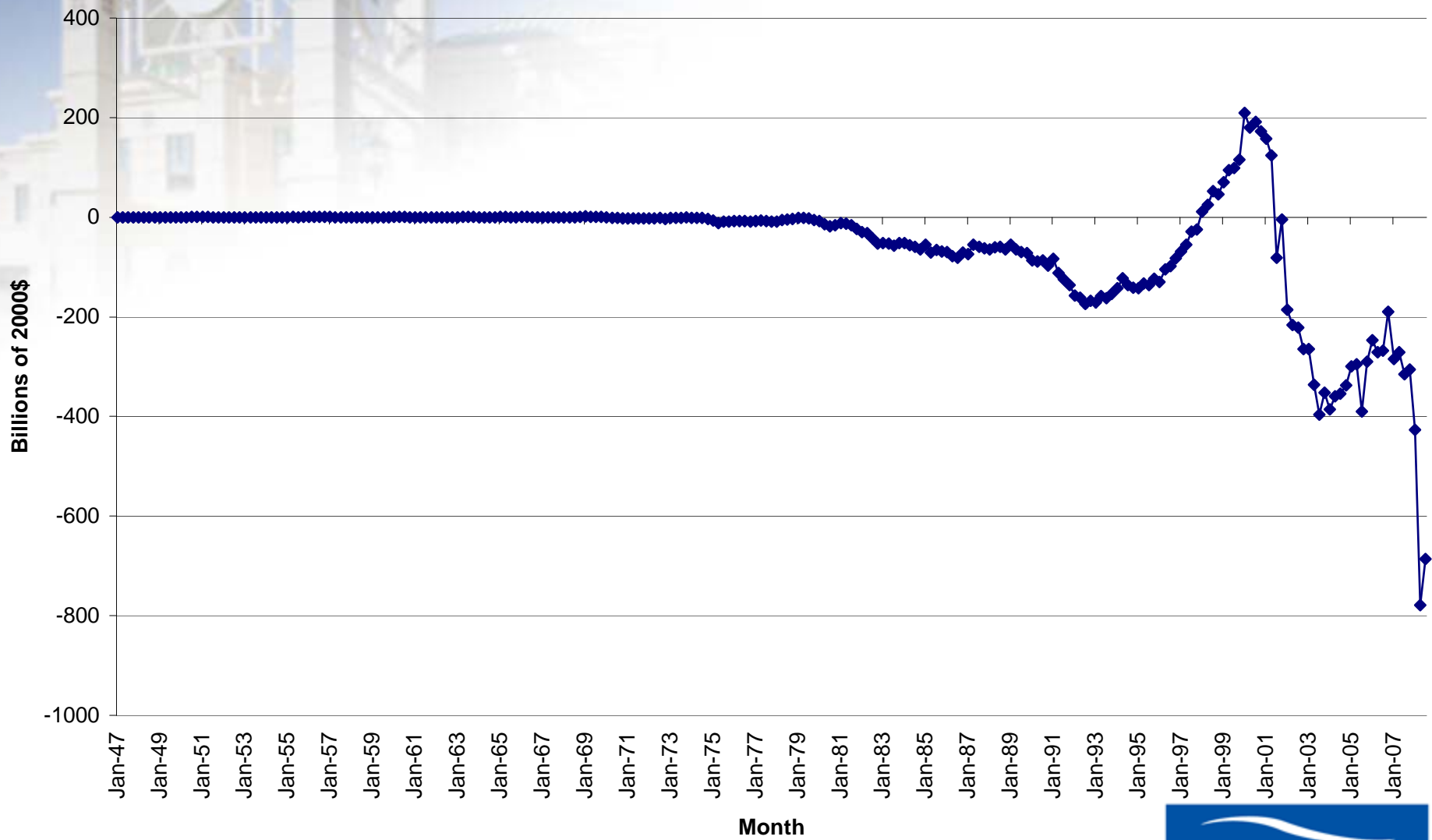
- Obama gave five sectoral targets
 - Energy
 - Education
 - Health Care
 - Social Welfare/Insurance
 - Infrastructure
- Why not defense here?
 - In many ways defense spending must target similar sub-sectors

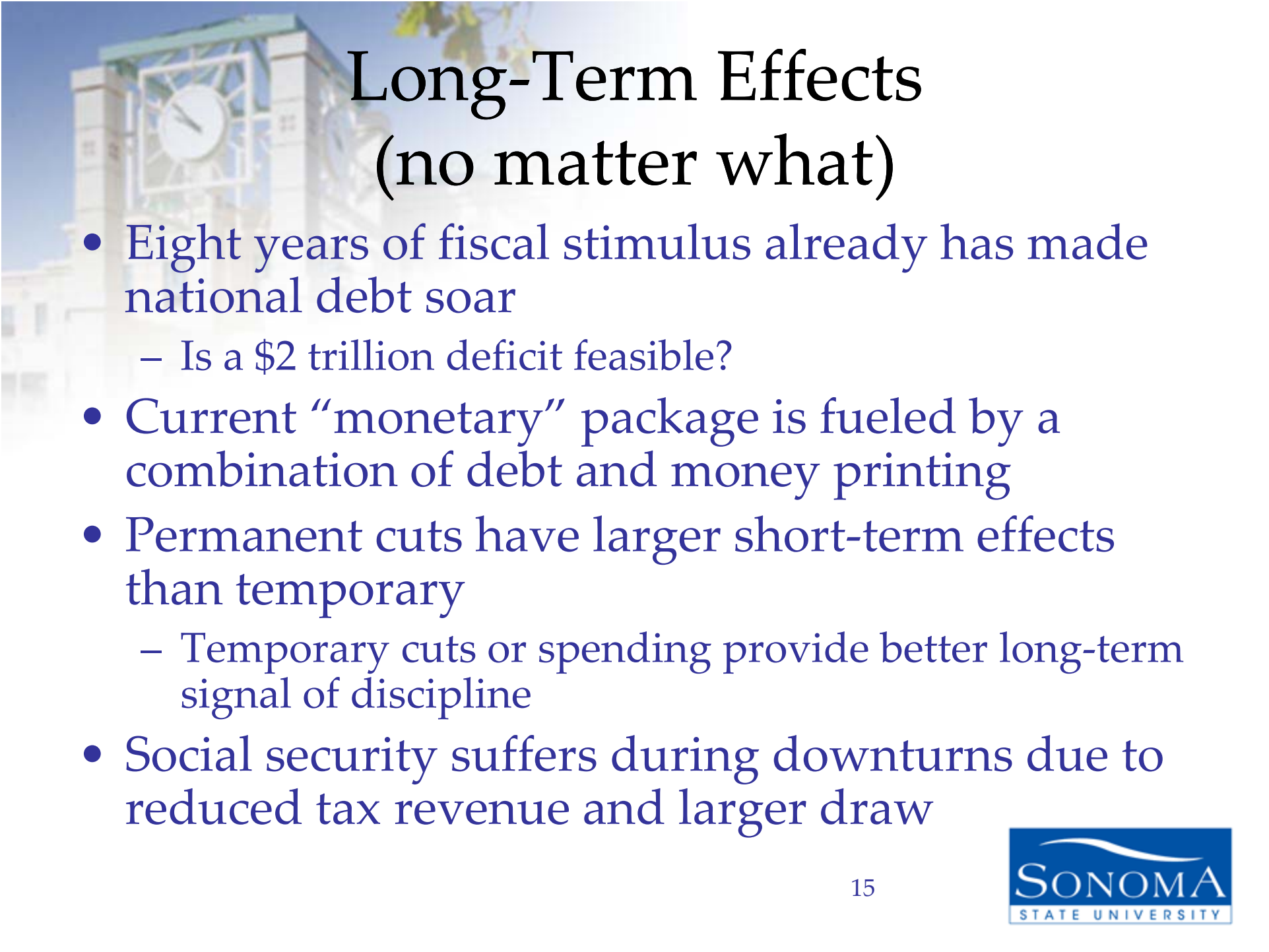


Possibilities (cont.)

- Need to consider supply-side versus demand-side
 - Would providing tax breaks or subsidies for firms innovating energy products provide supply-side stimulus?
 - What about defense spending if trained personnel go back into labor force versus war veterans?
- High social value projects the key here
 - Energy seems like best in short and long terms
 - All of the above have relatively high social value

U.S. Federal Deficit, 1947 - 2008 2000\$





Long-Term Effects (no matter what)

- Eight years of fiscal stimulus already has made national debt soar
 - Is a \$2 trillion deficit feasible?
- Current “monetary” package is fueled by a combination of debt and money printing
- Permanent cuts have larger short-term effects than temporary
 - Temporary cuts or spending provide better long-term signal of discipline
- Social security suffers during downturns due to reduced tax revenue and larger draw



National Conclusions

- Policies are close to an endpoint of possibilities
 - Federal budget continues to grow
 - May be redirected and cut slightly in 2009-10 version
 - Monetary policy aggressive
 - Lowest cost of funds for banks in decades
 - Why are they not lending yet?
 - Consumer confidence continues to fall
 - This is the driver, and is a fickle statistic
- Need a supply-side boost
 - This may come from a “New Deal” style of budget
 - More likely from environmental sciences and tech

California as Microcosm

- 2002 saw use of fiscal surplus from capital gains taxes spent on **permanent** spending
 - We are now paying for that in current deficit of > \$40 billion
 - Federal spending may stimulate state economies
 - Lag structure here between federal and state budgets
 - Sometimes new packages happen in states
 - Infrastructure and education at state level



The State of California

- Wild budget situation
 - Bet on capital gains from stock market and housing speculation (began in 2002)
 - **140,000 households provide 50% of income tax revenue for California**
 - Latest figures: \$42 billion deficit by June 2010, budget of \approx \$145 billion
- Trickle-down economics
 - Cuts hit state, county and city jobs, services



California's Fates

- Assume California will not go bankrupt
 - Raise taxes (sales or cap gains): \$14.3 billion
 - Prop 13 will not be repealed (though likely not a bad time to do it)
 - Cap gains tax hike reduces capital gains seeking
 - Should not assume inelasticity for this revenue
 - Cut spending: \$17.4 billion
 - 2002 programs increased automatic spending
 - Now budget an effort to keep programs rather than balance
 - Borrow (or be bailed out): \$10 billion
 - Most likely the first step, cannot be the only step
 - Will investors trust this debt?
 - Likely a mix, but reform is needed
 - A consumer-led expansion may provide an ephemeral, illusory boost to state coffers

The North State Economy

- Butte, Shasta counties as regional hubs
 - Exposed to state budgets because of Chico State and Butte College
 - Local government programs also exposed
 - Retail and services not the best long-term play here
 - Local colleges are export industries, as is ag.
 - What is left after that?
- Considering economic development
 - A good time to get ready for the next boom
 - Can the Tri-County area use Chico State and its ag industries to become a place where “sustainability” is a focus?



Development

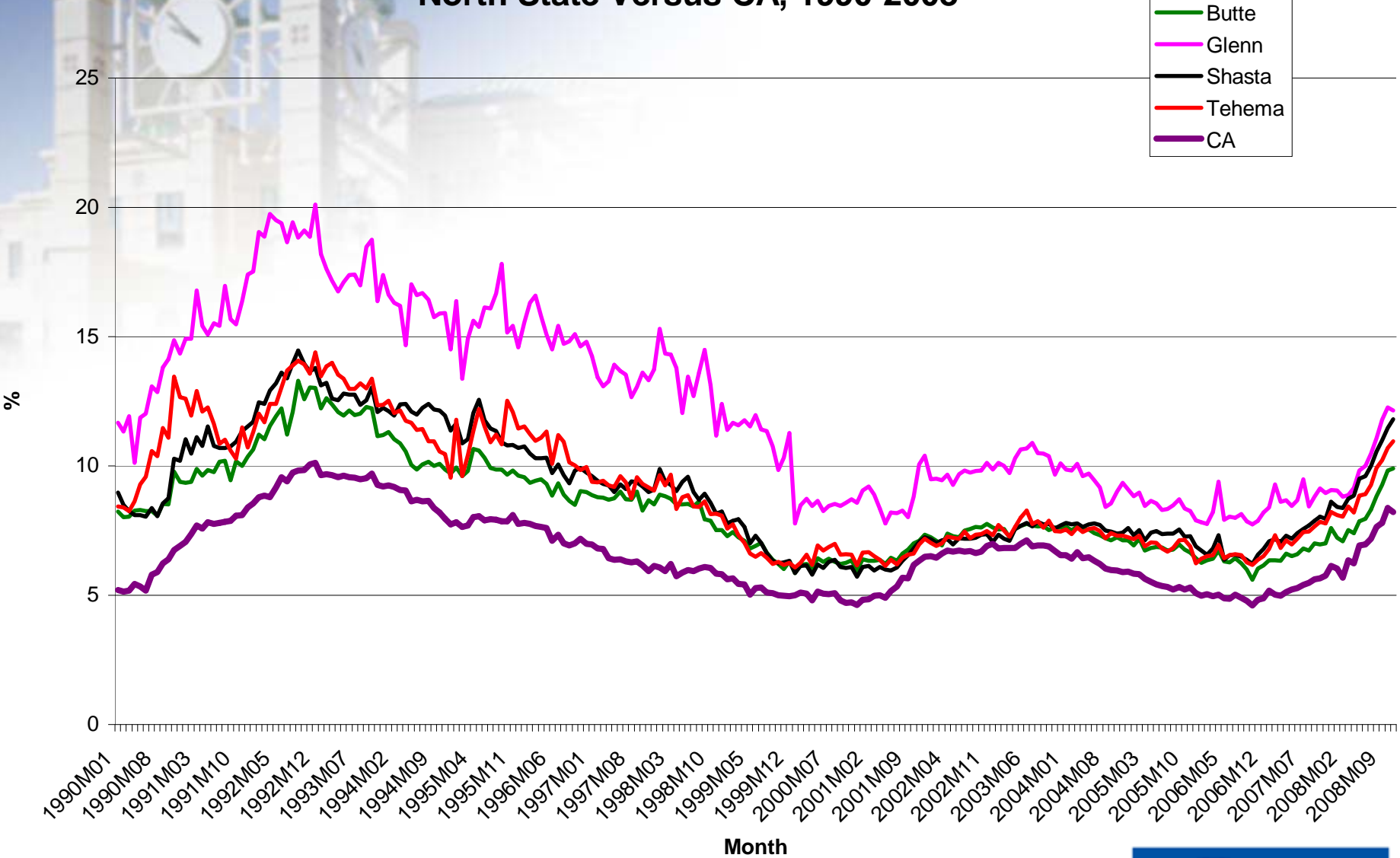
- Important to recognize three issues
 - A balance between three “E’s”
 - Economic Growth
 - Social Equity
 - Environmental Balance
- Interdependence
 - The pursuit of new businesses will happen with competition or cooperation
- Virtuous cycle connect the three E’s



Economic Growth

- Need to foresee supply side growth areas
 - Environmental tech: can companies come and stay here?
 - Agriculture and links to biotech
 - Ag tourism?
 - Services as industries grow
 - Retail and professional services: more needed here?
- Interdependence
 - Need a regional development plan, not county-specific plans
 - Area of interest may be beyond tri-county area
 - How does Sacramento's and Redding's growth affect these counties?

Seasonally Adjusted Unemployment Rate, North State Versus CA, 1990-2008





Social Equity

- Cost of living issues
 - Housing prices provide some relief to cost of living while reducing wealth accumulation
 - Businesses should be marketed to take advantage of this
 - Chico a desirable area for this reason
- Affordable housing and living wages
 - Chico can take advantage of other areas falling victim to high cost of living
 - Must monitor change and growth to shape them
- Working poor females an issue
- How is this area aging?
 - Affects labor supply at some point

Comparison of Male versus Female individuals in poverty, 2007 American Community Survey to 2000 Census

	California	Butte	Glenn	Shasta	Tehama	North State
2007 ACS						
\$20,614	Estimate	Estimate	Estimate	Estimate	Estimate	
% in Poverty	13.0%	17.8%	18.0%	14.5%	20.1%	16.9%
Male %	5.9%	8.2%	9.4%	6.6%	9.3%	7.8%
Female %	7.1%	9.6%	8.6%	7.9%	10.8%	9.1%
2000 Cen						
\$17,604	California	Butte	Glenn	Shasta	Tehama	North State
% in Poverty	14.2%	19.8%	18.1%	15.4%	17.3%	17.8%
Male %	6.6%	9.4%	8.3%	6.7%	8.1%	8.2%
Female %	7.6%	10.4%	9.8%	8.6%	9.2%	9.6%



Environmental Concerns

- AB 32
 - Will hopefully go two ways with this
 - Hire consultancies to figure out how to become more green
 - New technology firms will incubate here to help with transition
 - Both mean potential “clusters” in Tri-County area
- Can an opportunity be seized here?
 - Must think creatively about growth
 - Must be creative to attract and retain innovative firms



Conclusions

- We are in recession
 - To continue through 2009, with some mild pick after May or June
- State budget likely to bring changes to business and residential residents of CA
- Must consider regional interdependence
 - Economic development is regional not county-wide
 - Take advantage of local niche beyond tax borders
- Cannot rest on laurels
 - Opportunities exist for regional strategies
 - Public/Private partnerships



www.sonoma.edu/org/crea/chico011509.ppt