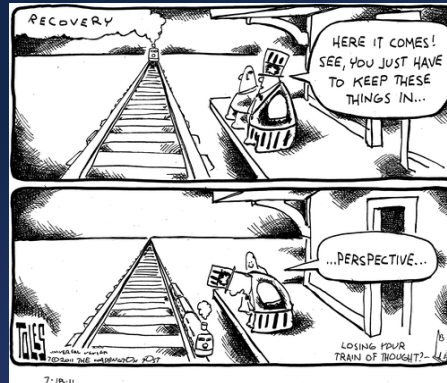


Economic Recovery: Wherefore Art Thou?



Jon Haveman

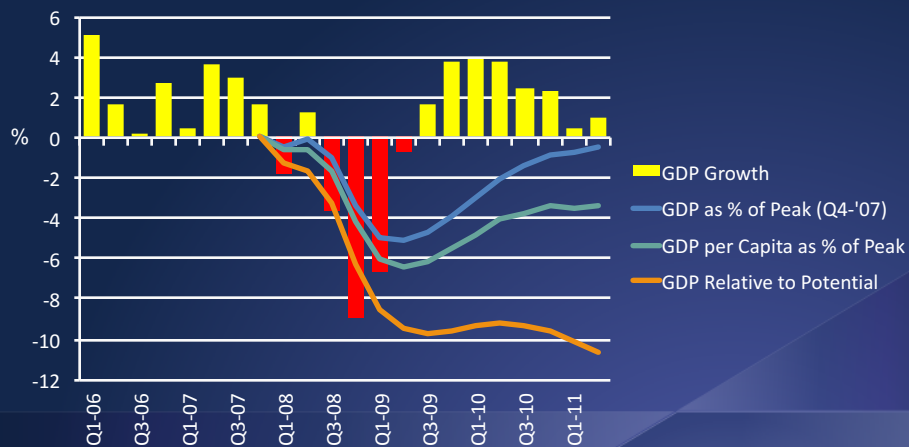
Chief Economist, BAC Economic Institute

October, 2011

The Great Recession

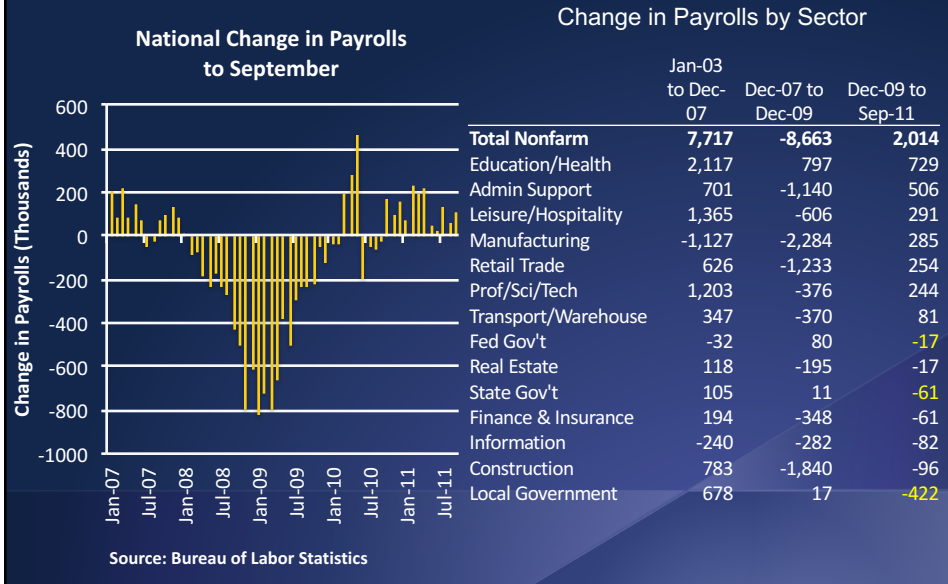
1-2 Punch of Credit Crisis and Consumer Retrenchment

GDP Growth (SAAR) and % of Peak GDP to Q2-2011

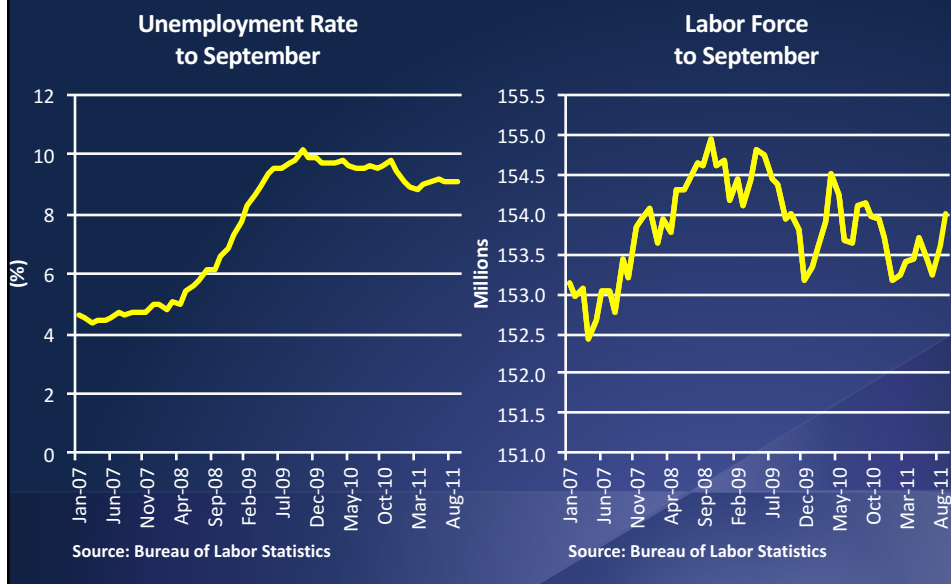


Source: Bureau of Economic Analysis

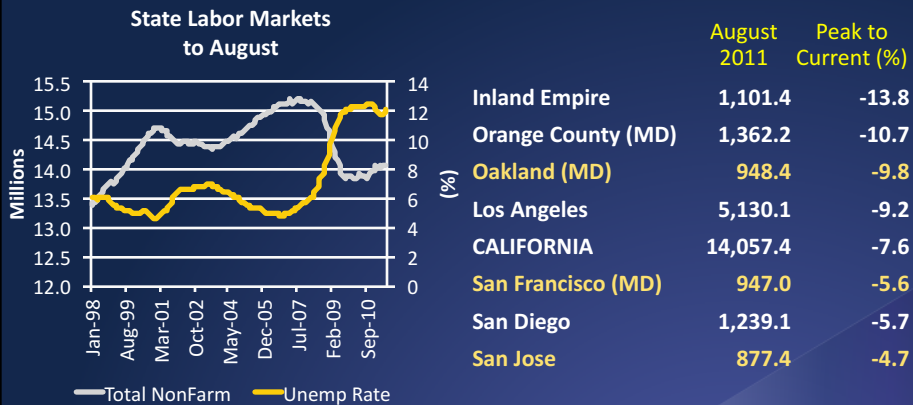
The Jobs Picture



US Unemployment



California: A widespread hit



Source: California Employment Development Department

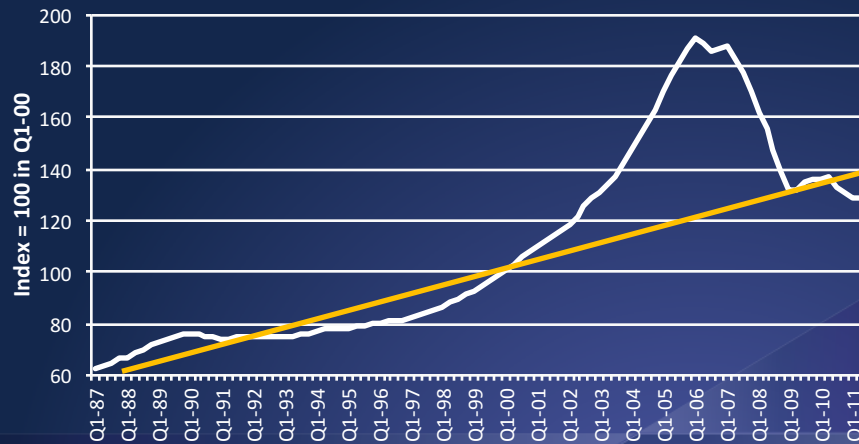
Source: California Employment Development Department

Why did it happen?

- Housing
- Consumers
- Financial Markets

National Housing Markets

Case-Shiller US National Values to Q2-11



Source: Standard and Poor's

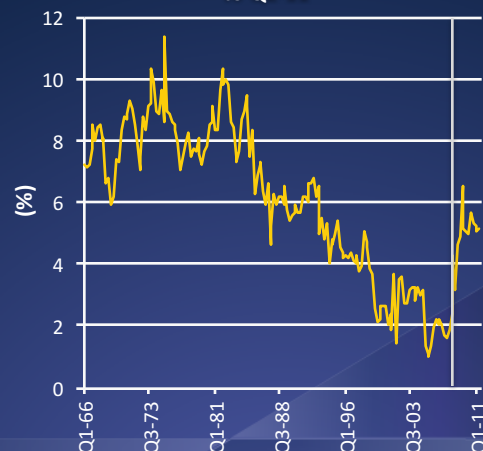
Debt and Savings

Household Debt as % of GDP
Through Q2-11



Source: Federal Reserve Board

Savings as a % of Income
to Q2-11



Source: Bureau of Economic Analysis

Where do we stand now?

- Signs of progress
 - **Consumers** have been solid
 - But showing signs of slowing
 - **Businesses** are doing quite well
 - Cash on hand is off the charts
 - But demand is slowing
- Signs of woe
 - **Employment** growth
 - Trend is positive, but too slow
 - Public sector offsetting private sector
 - Not alleviating long term unemployment problem
 - **Housing?**

How Many Underwater? as of Q2-11

State	# Mortgages Underwater	Negative Equity Share
Nevada	342,459	60.4
Arizona	638,487	48.7
Florida	1,970,756	45.1
Michigan	493,033	35.6
California	2,064,850	30.2
Georgia	489,513	30.2
United States Total	10,881,665	22.5
Local MSAs		
Oakland-Fremont-Hayward	160,220	29.5
San Jose-Sunnyvale-Santa Clara	61,776	17.9
San Francisco-San Mateo-Redwood City	32,187	10.0

Source: First American CoreLogic

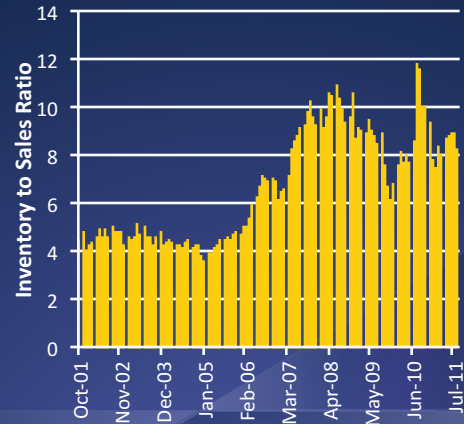
National Housing Markets

Existing Home Sales SAAR
To August



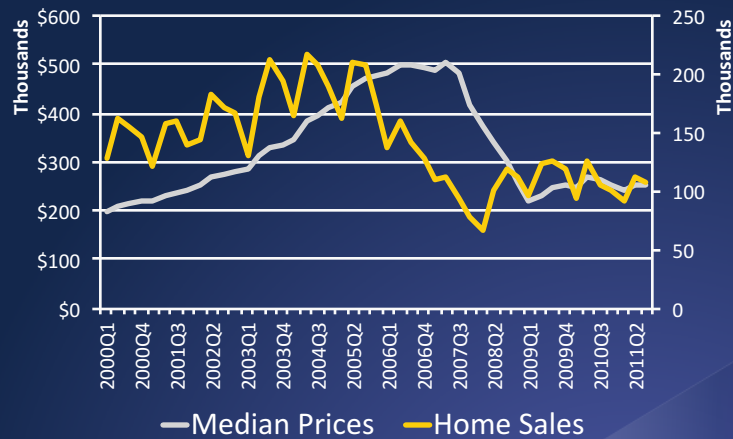
Source: National Association of Realtors
Note: Includes single-family homes and condo coops

Months Supply of Existing Single-Family Homes to August

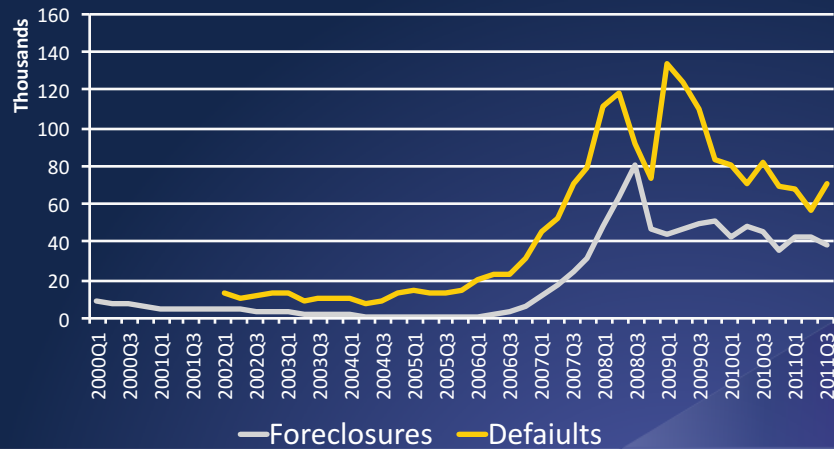


Source: National Association of Realtors

CA Housing Markets

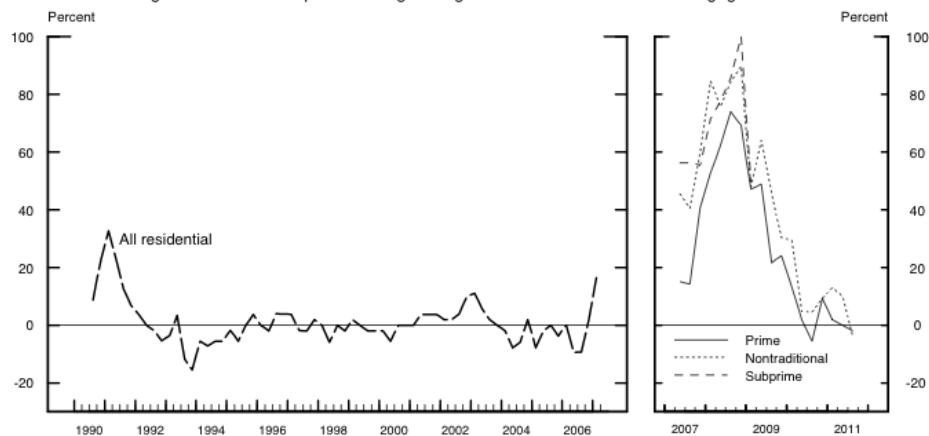


California Housing Woes



Res RE Lending Standards

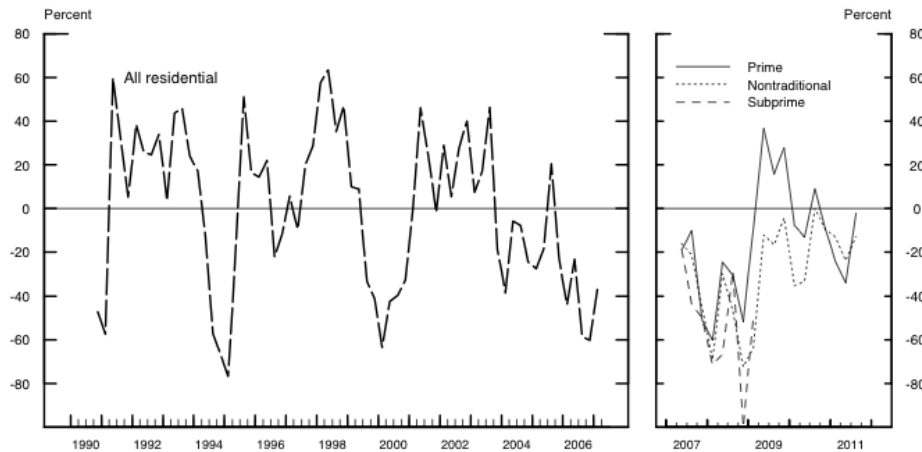
Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans



Note: For data starting in 2007:Q2, changes in standards for prime, nontraditional, and subprime mortgage loans are reported separately. Series are not reported when the number of respondents is three or fewer.

Res RE Borrowing Demand

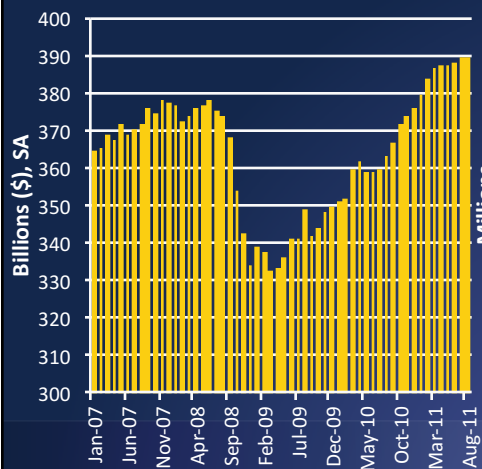
Net Percentage of Domestic Respondents Reporting Stronger Demand for Residential Mortgage Loans



Note: For data starting in 2007:Q2, changes in demand for prime, nontraditional, and subprime mortgage loans are reported separately. Series are not reported when the number of respondents is three or fewer.

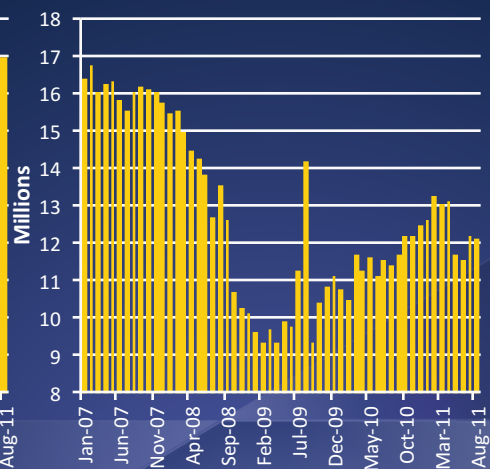
US Consumer Markets

Nominal Retail Sales
to August



Source: Census Bureau

Auto and Light Truck Sales
to August, SAAR



Source: Bureau of Economic Analysis

National Unemployment

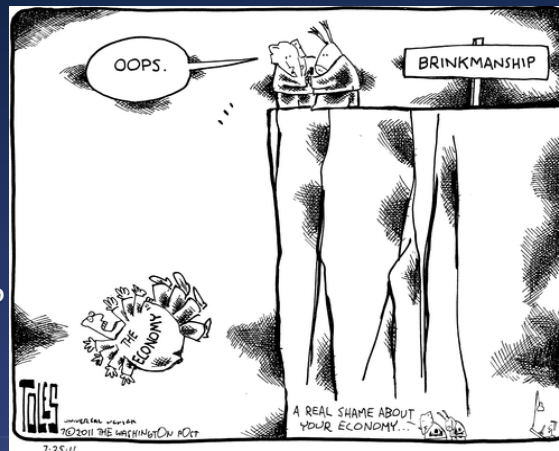
Number of Unemployed Persons by Duration of Unemployment (Thousands)

	Dec-07	Jul-09	Sept-11
Less than 5 weeks	2,716	3,150	2,760
5 to 14 weeks	2,385	3,587	2,726
15 to 26 weeks	1,181	2,895	1,816
27 weeks and over	1,327	4,951	6,217
Total	10,116	22,429	21,553
 Average Duration in Weeks	 16.6	 25.2	 41.0

Source: Bureau of Labor Statistics

What comes next?

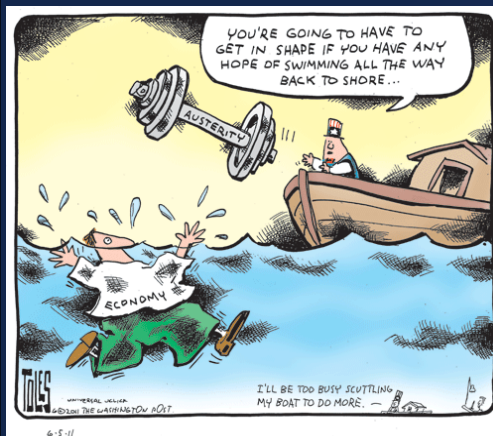
- More Slow Growth?
- Double-Dip?
- Accelerating Recovery?



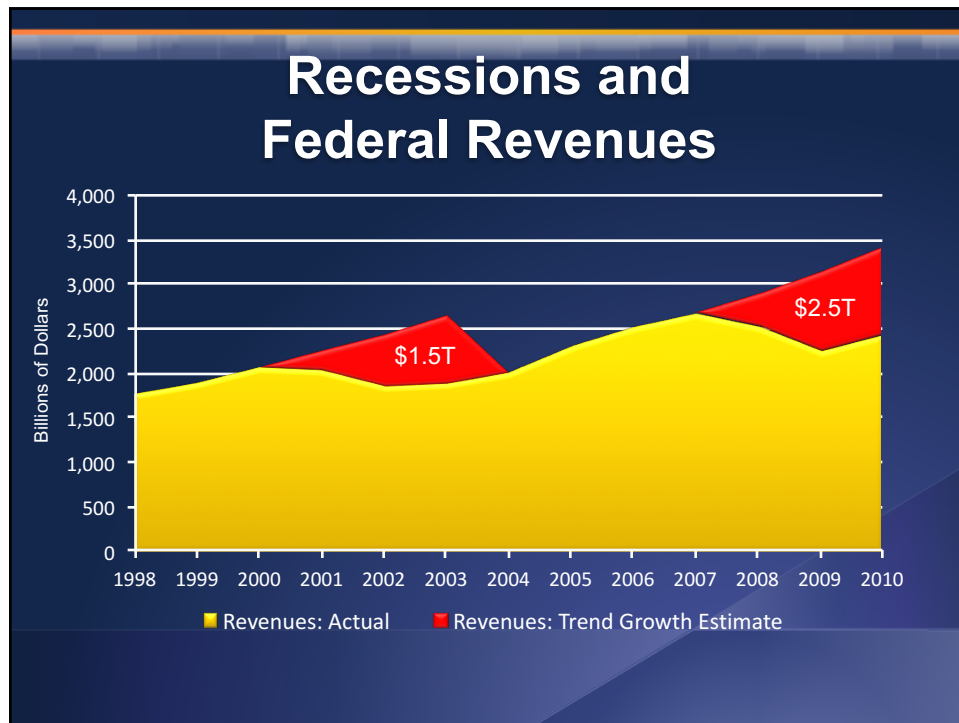
What about a Double-Dip?

- Need a sustained shock to the system
- There is potential (worry scale: 1-10):
 - **Austerity/Deficit/Bond Markets** (8)
 - Europe (5)
 - Housing (3)
 - Consumers (3)
 - Middle East (1)
- The cumulative impact is troubling
 - But more likely to slow recovery than derail it
- Gross negligence on the part of Nat'l policymakers can produce a double-dip
 - Cut too fast, too soon
 - Policy signals deficits over the long term

The Fiscal Austerity Issue



- Austerity:
 - US – cutting spending
 - EU – raising interest rates, Greek prescription
- Now is the time for continued stimulus
- Plenty of time later for austerity
- Remember 1937



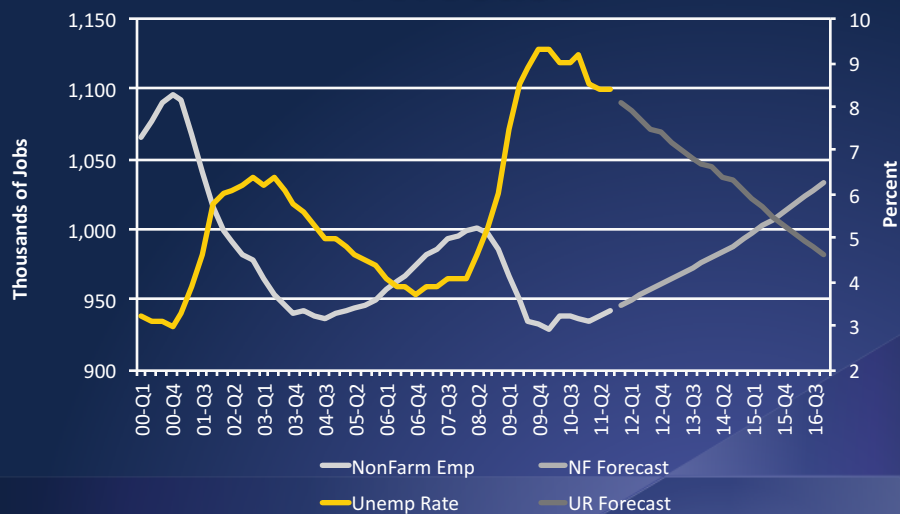
Long Term Implications: Economic Scarring

- Human capital losses
 - Existing and potential
- Opportunity
 - Increased poverty, kids at risk
- Private investment
 - At 2005 levels, permanently lower GDP
- Entrepreneurship and business formation
 - Financing challenges, and economic uncertainty put a dent in activity levels

Summary

- Economy appears to be slowing
 - Consumers have drawn back
 - Businesses are waiting things out
 - Housing markets are still in a state of shock
- Employment growth anemic
 - Long term unemployment will be a problem for some time to come
- Household debt overhang is a continued drag on economy – will be for some time

San Francisco (MD) Employment Forecast

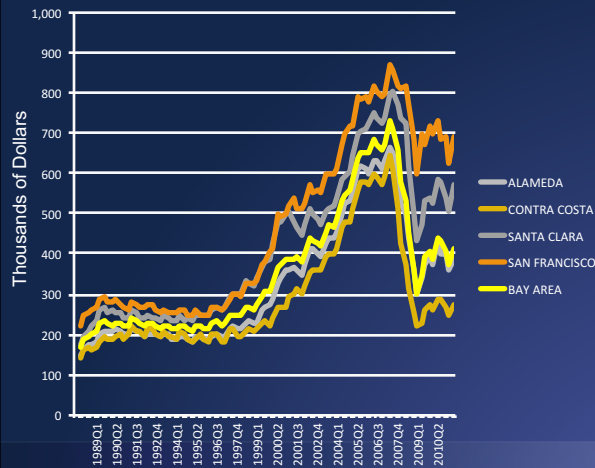


Source: Bureau of Economic Analysis

Forecast by Beacon Economics

Median Home Prices

Through Q2-2011



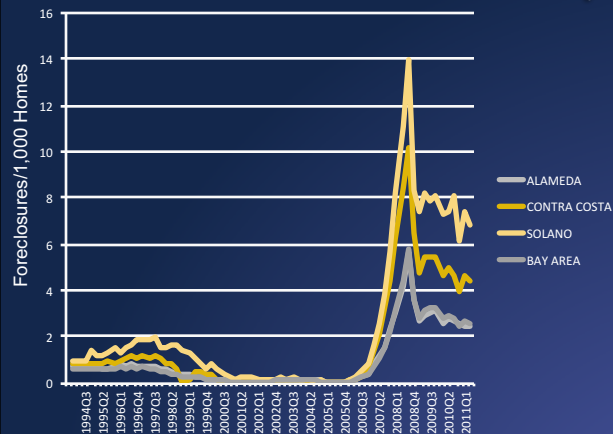
- Price Declines – Peak to Current

– Bay Area:	-38%
– Alameda:	-36%
– Contra Costa:	-47%
– Marin:	-17%
– Napa:	-40%
– Santa Clara:	-25%
– San Francisco:	-16%
– San Mateo:	-21%
– Solano:	-50%
– Sonoma:	-32%

Source: DataQuick

Foreclosures

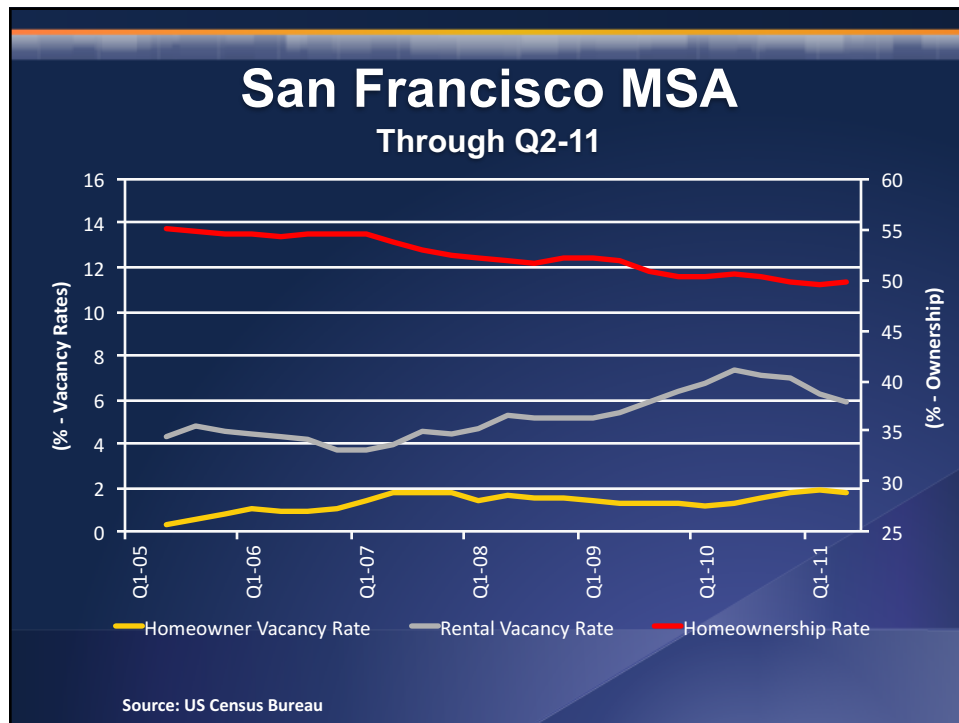
Through Q2-2011



- Current Rates

– Bay Area:	2.5
– Alameda:	2.4
– Contra Costa:	4.4
– Marin:	0.9
– Napa:	4.1
– Santa Clara:	1.3
– San Francisco:	0.6
– San Mateo:	1.2
– Solano:	6.9
– Sonoma:	2.8

Source: DataQuick



Local Housing Markets

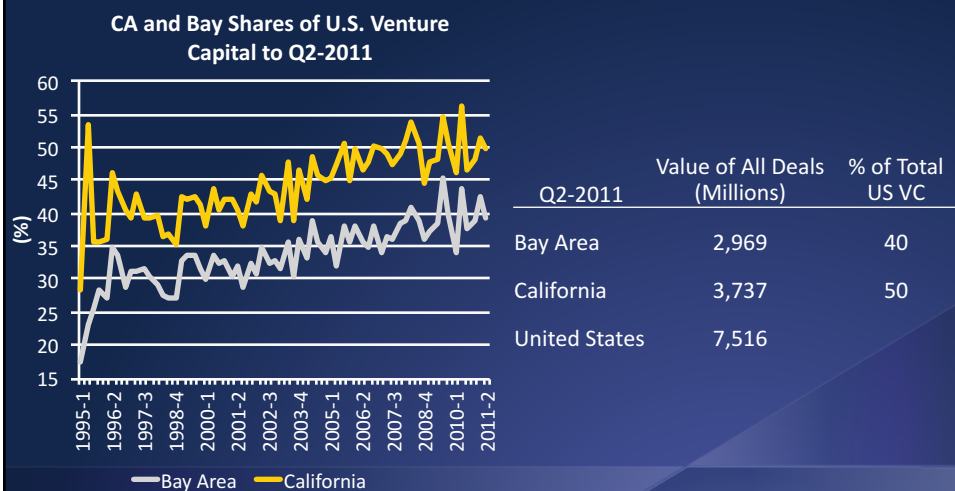
	Sales Volume			Median Price		
	Sep-10	Sep-11	% Chng	Sep-10	Sep-11	% Chng
Santa Clara	1,477	1,560	5.60%	500,000	470,000	-6.00%
Contra Costa	1,323	1,394	5.40%	289,500	252,000	-13.00%
Marin	216	239	10.60%	702,500	628,409	-10.50%
Sonoma	472	472	0.00%	332,000	307,000	-7.50%
Orange	2,524	2,510	-0.60%	445,000	425,000	-4.50%
Alameda	1,226	1,348	10.00%	371,000	348,000	-6.20%
Los Angeles	6,070	6,185	1.90%	340,000	310,000	-8.80%
Solano	543	606	11.60%	205,000	195,000	-4.90%
San Diego	3,069	3,084	0.50%	330,500	315,000	-4.70%
San Mateo	517	607	17.40%	571,500	551,000	-3.60%
Ventura	682	772	13.20%	370,000	349,000	-5.70%
San Francisco	442	399	-9.70%	620,000	613,750	-1.00%
Napa	118	124	5.10%	337,000	315,000	-6.50%

Source: DataQuick

Bay Area

- Recovery is starting to take hold
 - Business investment is slowing, but still growing
 - Housing markets still a drag
 - Technology employment is picking up
- Should strengthen going into 2012
 - East bay and Napa/Sonoma slower than other regions
- Recovery is 4+ years in the offing
- Fundamentals remain intact, but in jeopardy
 - Educational opportunities
 - Infrastructure
- Remains an attractive region for investment

Venture Capital



Source: PriceWaterhouseCoopers MoneyTree

Summary

- Recovery *IS* happening
 - But is slow, uneven, and uncertain
- Bay Area future is, as usual, bright
 - Innovation economies tend to be super-cyclical
- Budget decisions
 - Are being made at all levels of government
 - Starving the beast will jeopardize the future
 - Sacrificing investments and the less well off
 - The NO NEW TAXES fallacy

Bay Area Council Economic Institute

- *Regional Analysis*
- *Business & Market Analysis*
- *Ports & Infrastructure Analysis*
- *Economic Impact Analysis*
- *Public Policy Analysis*

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