

Global, US, California and the The Bay Area Economies



Jon Haveman

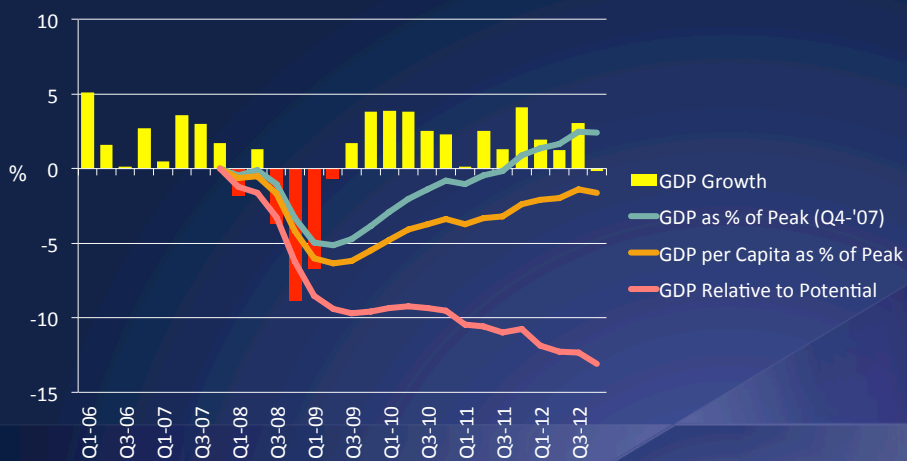
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March, 2013

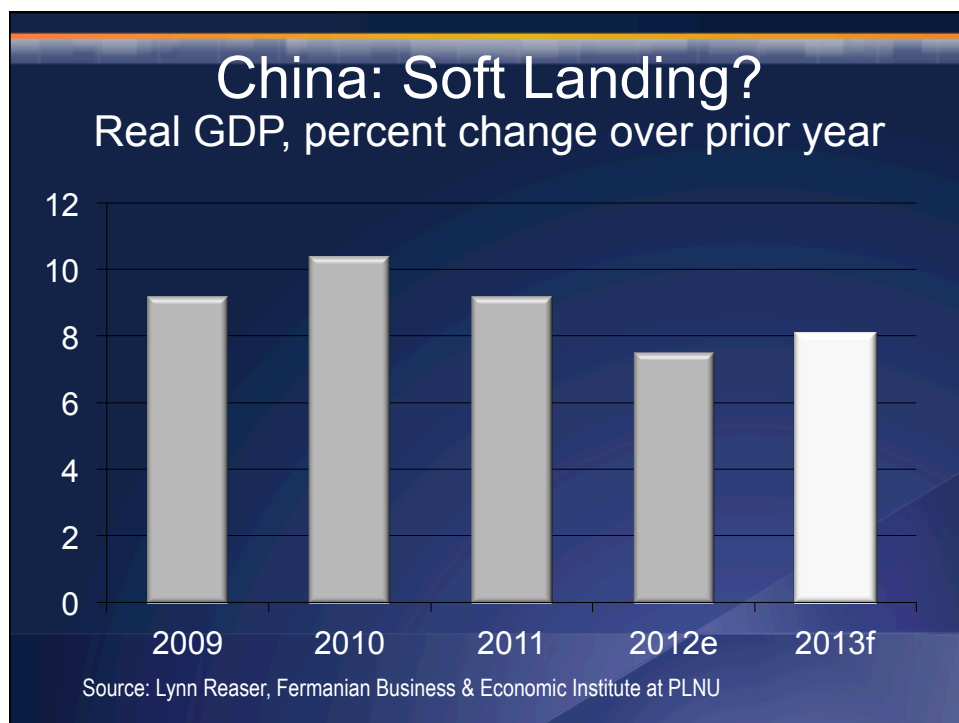
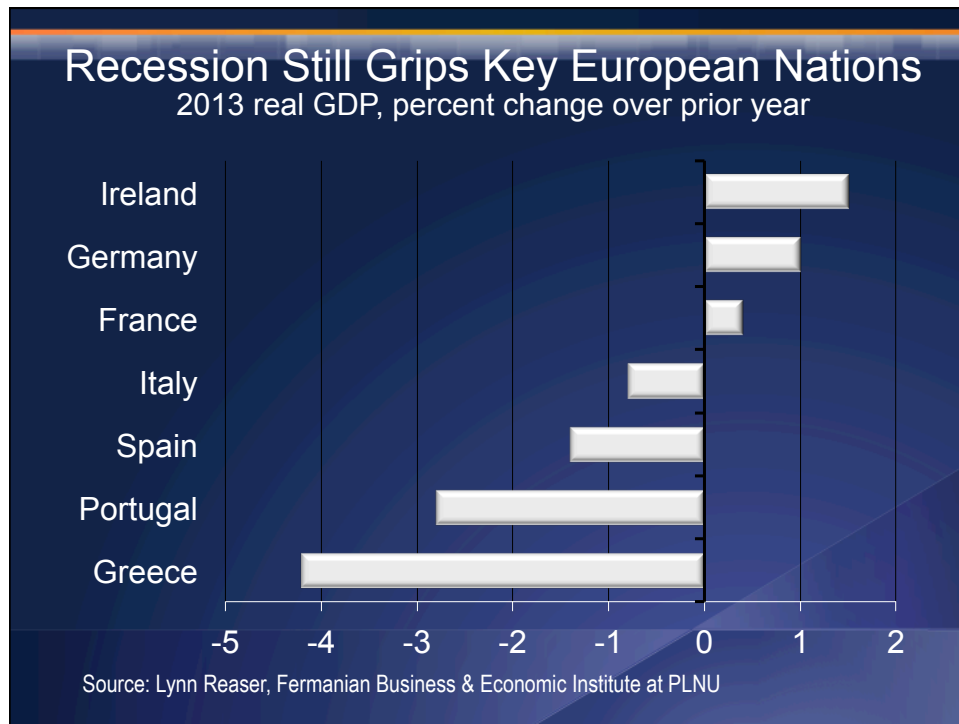
The Great Recession

1-2 Punch of Credit Crisis and Consumer Retrenchment

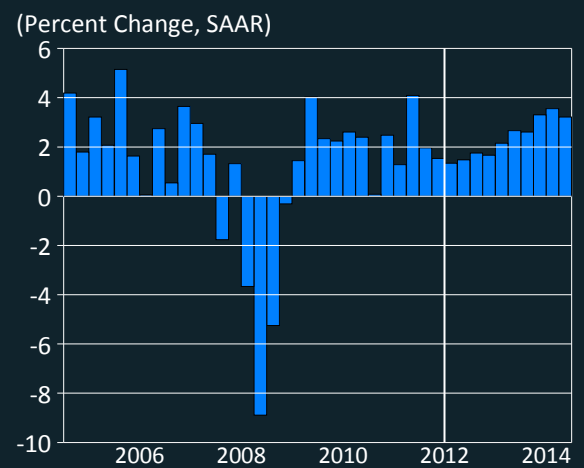
GDP Growth (SAAR) and % of Peak GDP to Q4-2012



Source: Bureau of Economic Analysis

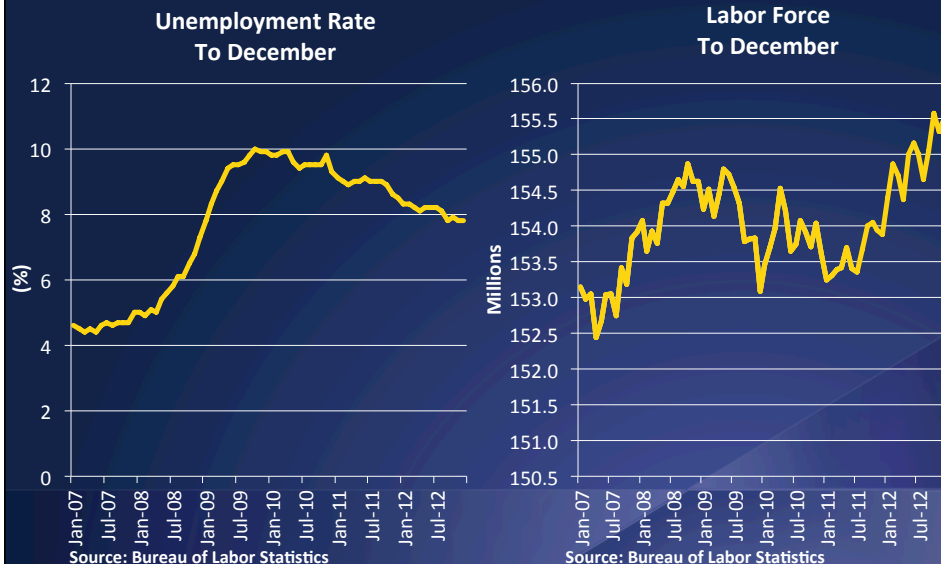


US GDP Growth Remains Sluggish



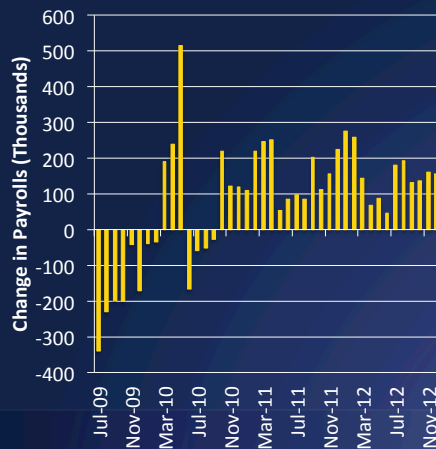
Source: UCLA Anderson Forecast

US Unemployment



Progress on Jobs

National Change in Payrolls
To December



Source: Bureau of Labor Statistics

Change in Payrolls by Sector

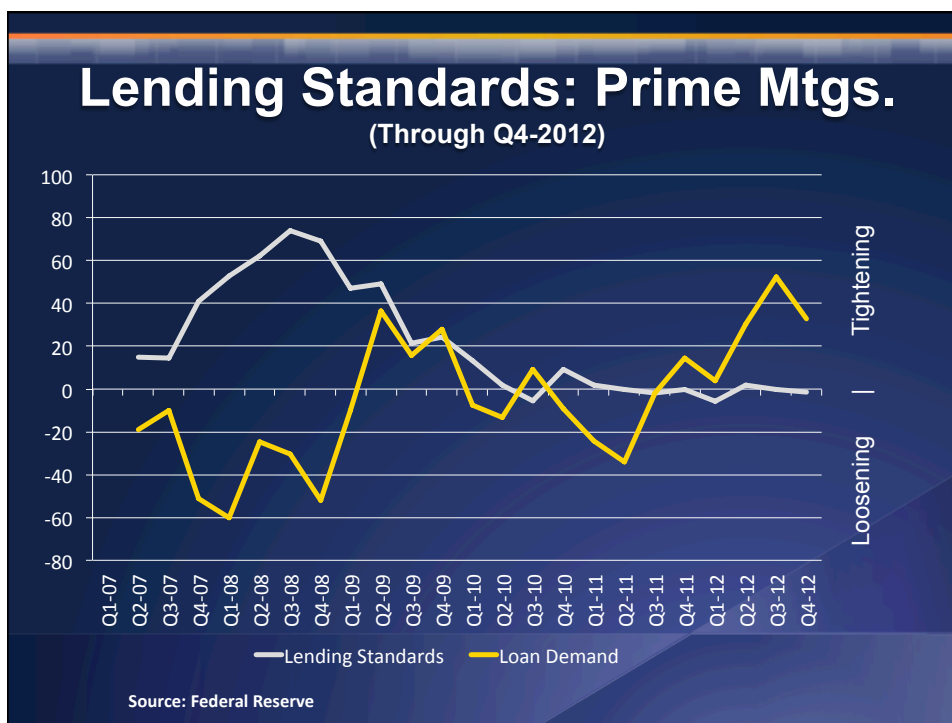
	Jan-03 to Dec-07	Dec-07 to Dec-09	Dec-09 to Present
Total Non-Farm	7,712	-8,663	4,436
Education/Health	2,116	796	1,090
Admin Support	701	-1,151	861
Leisure/Hospitality	1,377	-617	801
Prof/Sci/Tech	1,201	-375	569
Manufacturing	-1,126	-2,277	500
Retail Trade	614	-1,219	480
Transport/Warehouse	339	-369	221
Finance/Insurance	192	-349	82
Real Estate	118	-196	2
Federal Gov't	-33	74	-26
State Gov't	105	9	-63
Information	-240	-283	-115
Construction	786	-1,836	-115
Local Gov't	678	20	-379

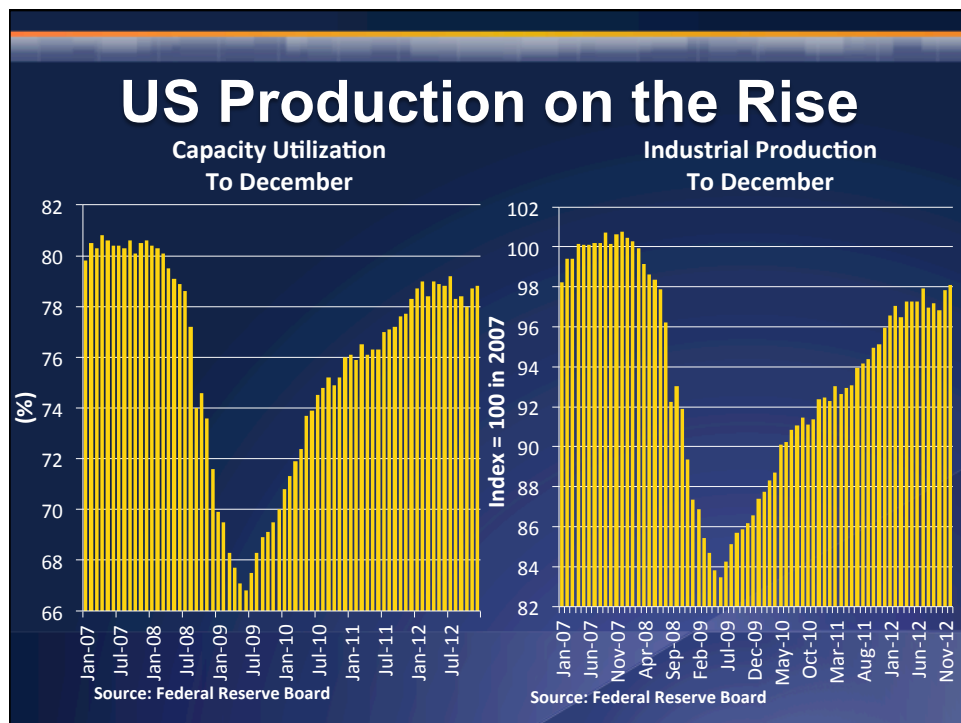
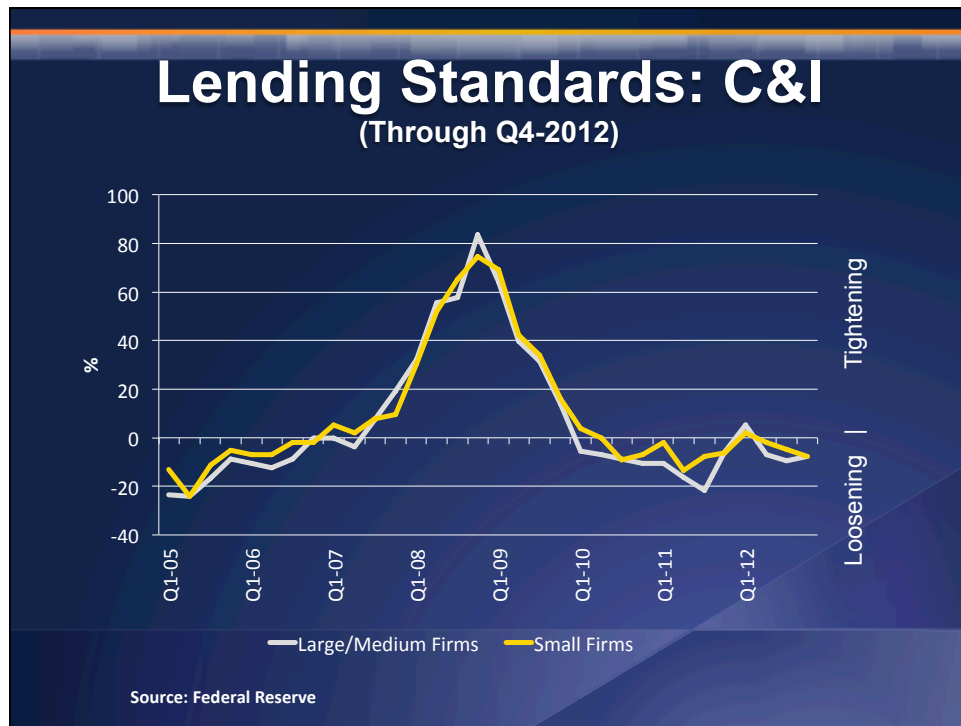
National Unemployment

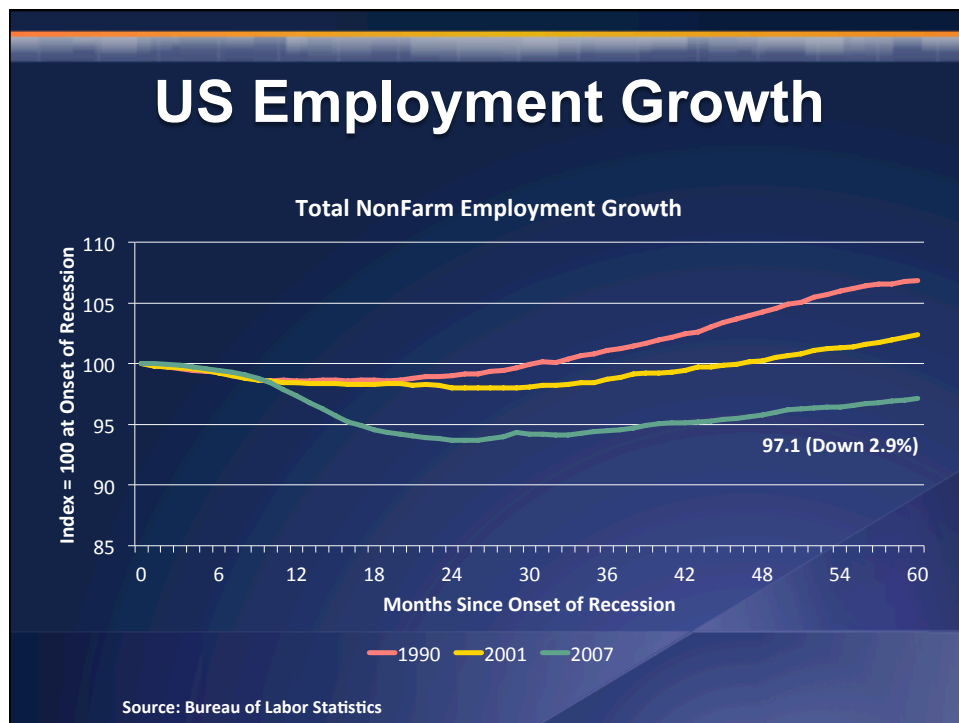
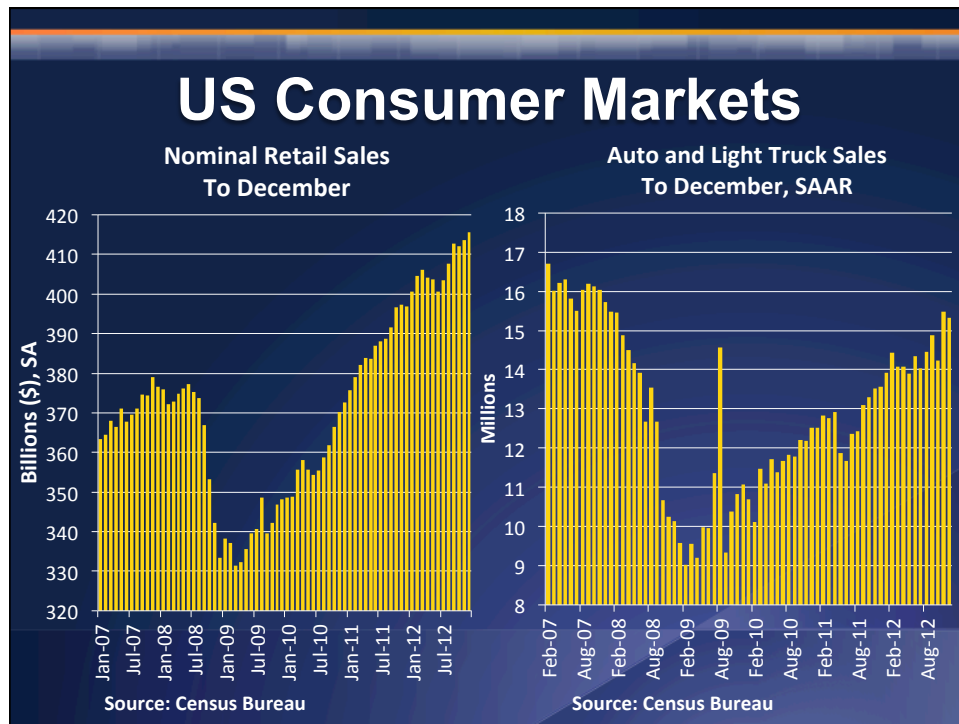
Number of Unemployed Persons by Duration of
Unemployment (Thousands)

	Dec-07	Jul-09	Oct-12
Less than 5 weeks	2,716	3,150	2,632
5 to 14 weeks	2,385	3,587	2,851
15 to 26 weeks	1,181	2,895	1,836
27 weeks and over	1,327	4,951	5,002
Total	7,609	14,583	12,321
Average Duration in Weeks	16.6	25.2	40.2

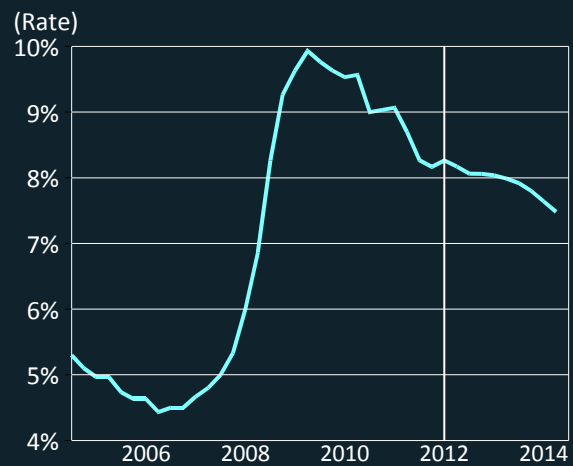
Source: Bureau of Labor Statistics







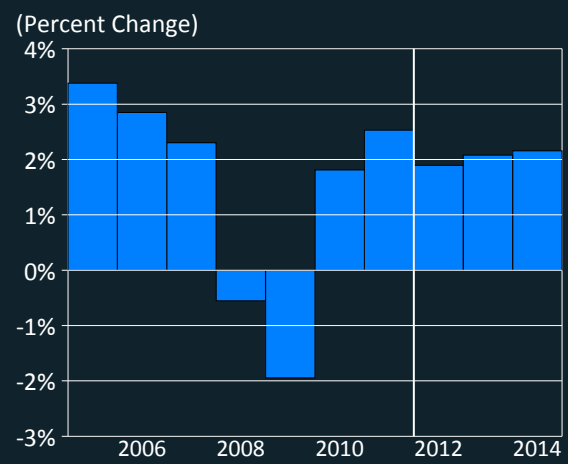
Unemployment Remains Too High



Source: UCLA Anderson Forecast

Consumers NOT coming to the Rescue: 2%

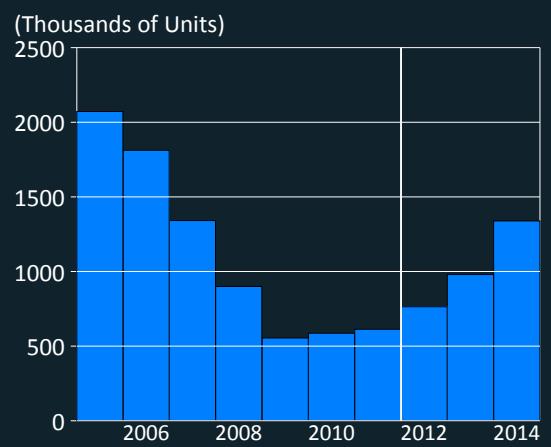
Real Consumer Spending, Annual Data



Source: UCLA Anderson Forecast

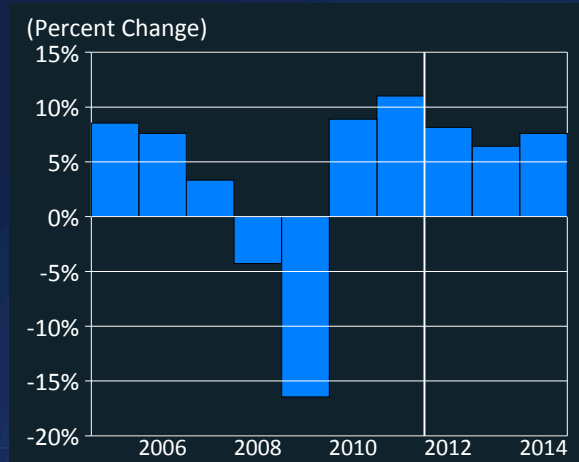
Housing Set to Rebound

Housing Starts, Annual Data



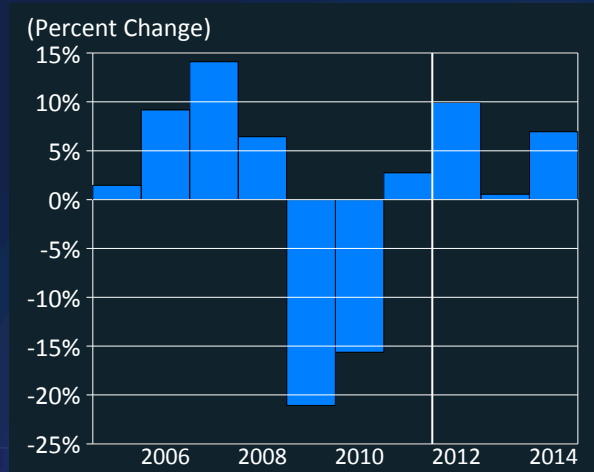
Source: UCLA Anderson Forecast

Equipment And Software Spending: Soft



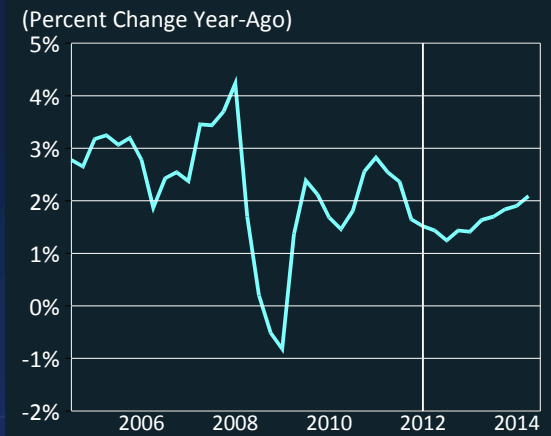
Source: UCLA Anderson Forecast

Investment in Business Structures Uneven



Inflation Stays off the Radar

Price Deflator for Personal Consumption Expenditures



Source: UCLA Anderson Forecast

California Forecast

	2012	2013	2014
Payroll Employment	1.7%	1.5%	2.3%
Unemployment	10.7%	9.8%	8.5%
Personal Income	0.9%	2.2%	3.1%

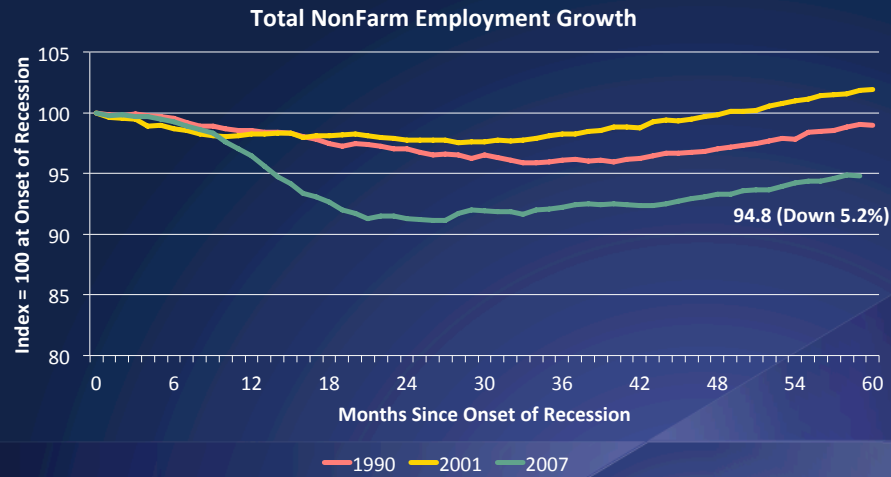
Source: UCLA Anderson Forecast

California: An Uneven Hit



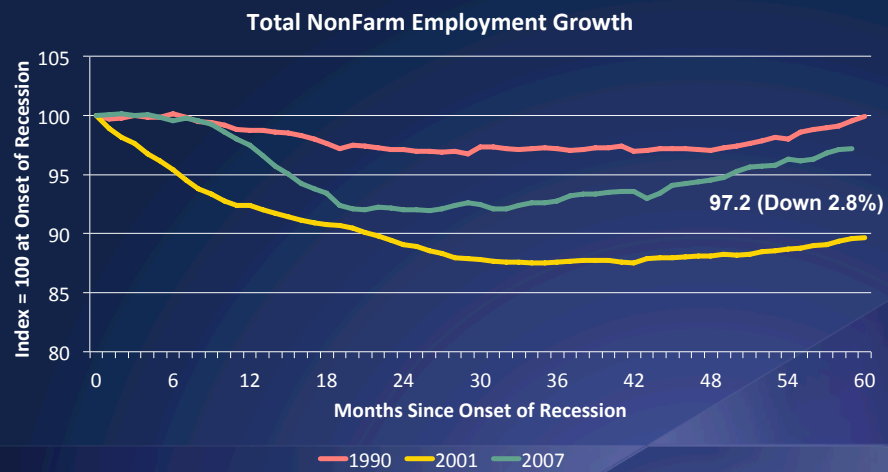
Source: California Employment Development Department

CA Employment Growth



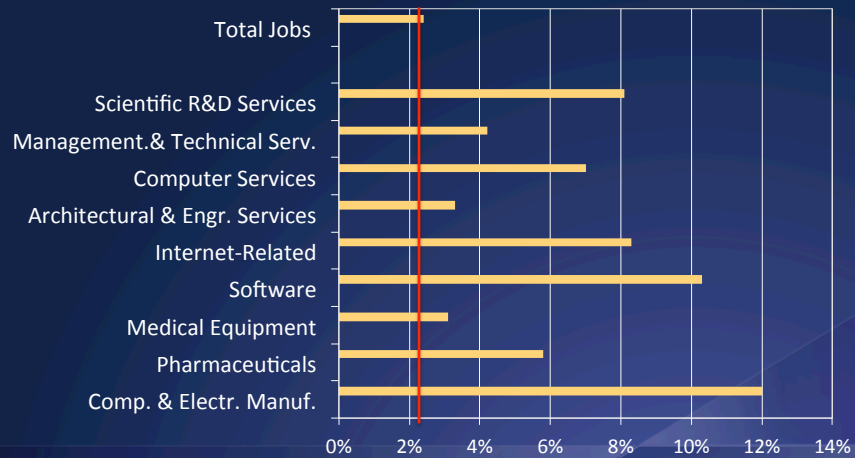
Source: Bureau of Labor Statistics

Bay Employment Growth



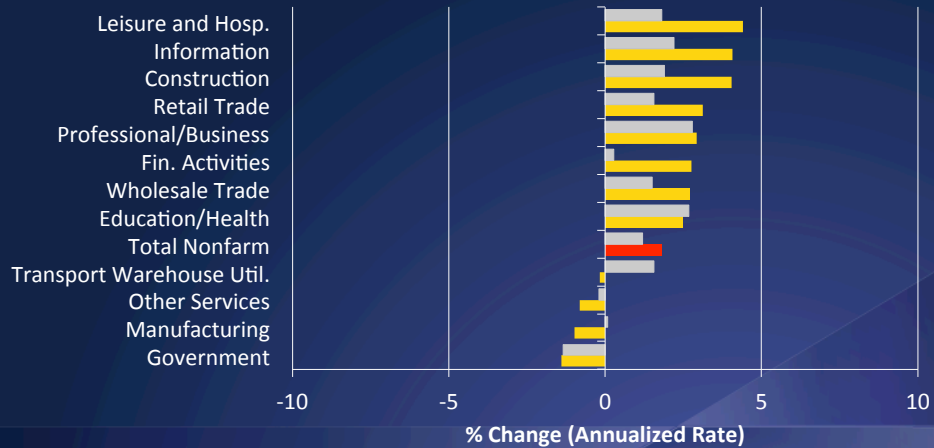
Source: Bureau of Labor Statistics

Bay Area Share of Selected U.S. Tech Jobs in 2010



Employment by Industry

CA Employment by Industry, YTD to Nov. for 2012

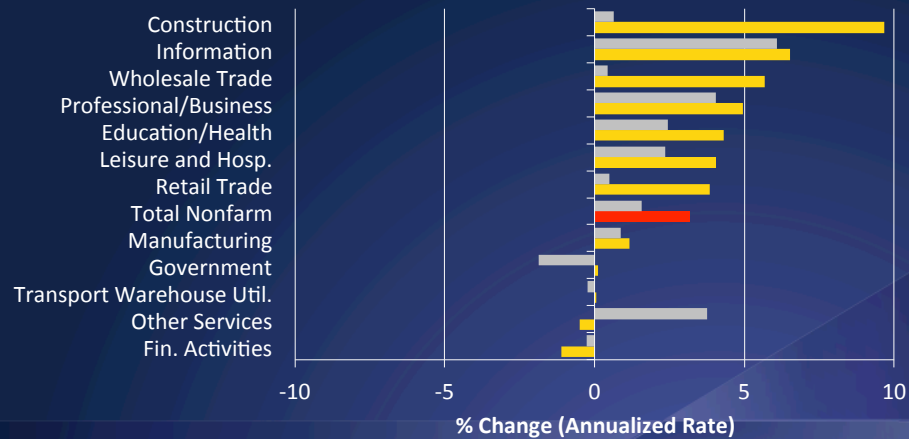


Source: California Employment Development Department

■ 2011 ■ 2012

Employment by Industry

Bay Area Employment by Industry, YTD to Nov. for 2012



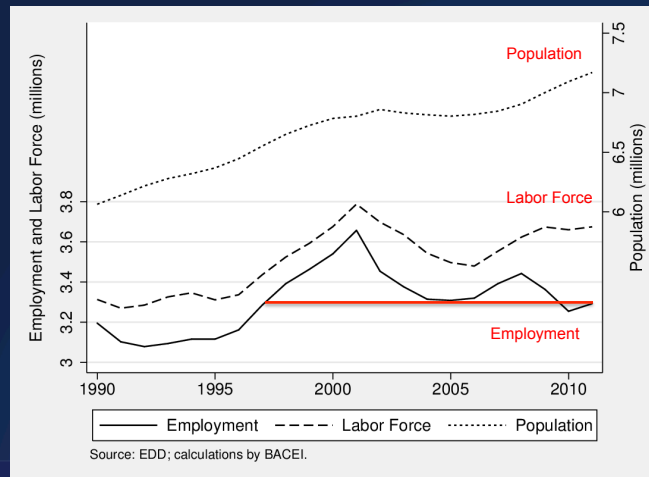
Source: California Employment Development Department

■ 2011 ■ 2012

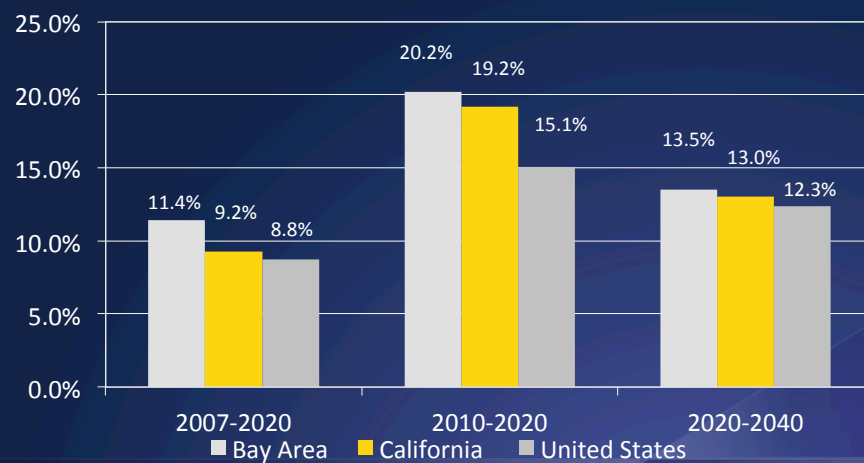
Strengths Relative to CA (12 month % growth to Nov.)

Industry	Bay Area	California
Total NonFarm	3.0	1.9
Construction	9.7	4.8
Manufacturing	1.3	-1.0
Prof, Sci, and Technical	5.5	3.7
Information	6.4	5.9
Health Care	3.8	2.1

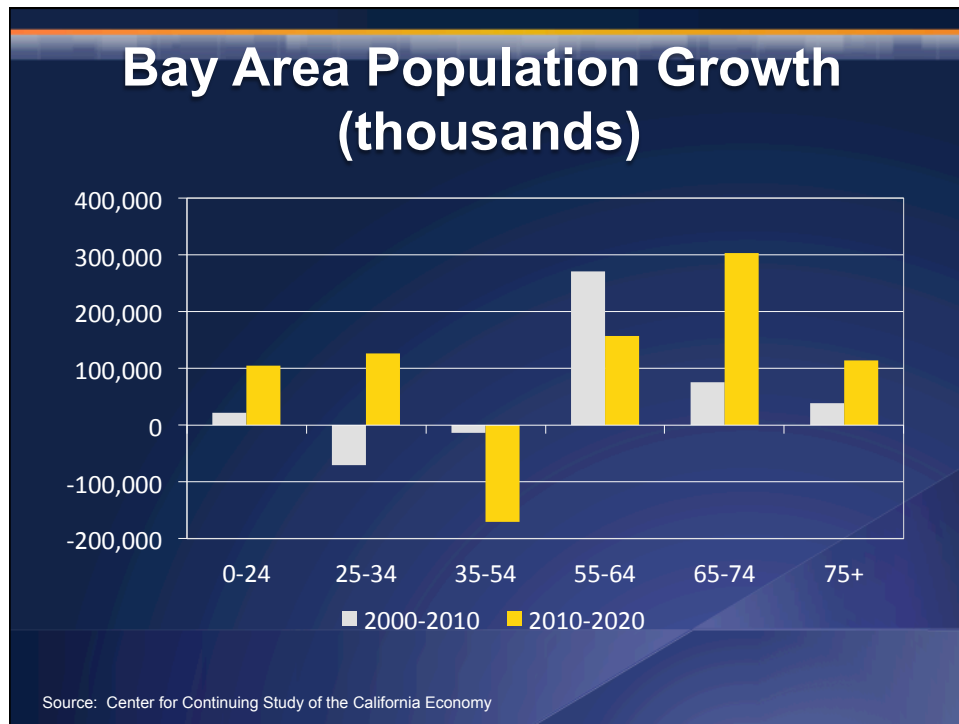
Long Term Employment Growth Has Been Slow



Forecast Growth in Total Jobs



Source: Center for Continuing Study of the California Economy

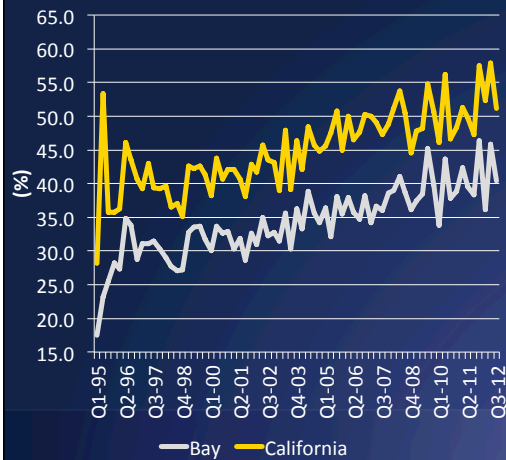


REGIONAL STRENGTHS

- Quality of life
- Highly educated labor force
- Venture capital
- Innovation culture

Venture Capital

CA and Bay Shares of U.S. Venture Capital to Q3-2012



Source: PriceWaterhouseCoopers MoneyTree

Q3-2012	Value of All Deals (Millions)	% of Total US VC
Bay Area	2,619	40
California	3,314	51
United States	6,482	

REGIONAL WEAKNESSES

- Regulations
- Labor force
- Housing

Volume of Job Openings

MSA NAME	RANK	
	Openings rate, 2011	Openings rate, 2011
San Jose MSA	6	3.1%
San Francisco MSA	3	3.4%

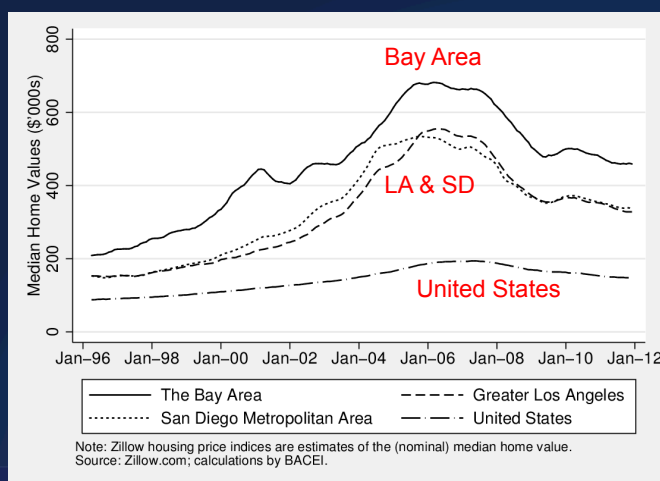
Openings Rate = new job openings as a share of existing jobs

Education Gap?

MSA NAME	RANK	
	Education Gap, 2012	Education Gap, 2012
San Jose MSA	45	4.7%
San Francisco MSA	21	3.5%

Education Gap = ratio of average years of education required in job opening to average years of education in working population

High Housing Prices (Median Home Values Over Time)



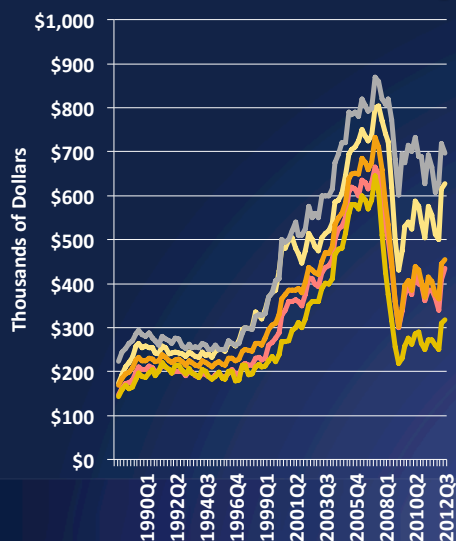
How Many Underwater? as of Q2-12

State	# Mortgages Underwater	Negative Equity Share
Nevada	325,534	58.6
Florida	1,804,276	42.7
Arizona	521,598	39.7
Georgia	579,029	35.8
Michigan	448,447	32.8
California	1,972,012	29.0
United States Total	10,778,556	22.3
Local MSAs (Q4-11)		
Oakland-Fremont-Hayward	157,146	29.0
San Jose-Sunnyvale-Santa Clara	60,382	17.5
San Francisco-San Mateo-Redwood City	33,036	10.2

Source: First American CoreLogic

Median Home Prices

Through Q3-2012

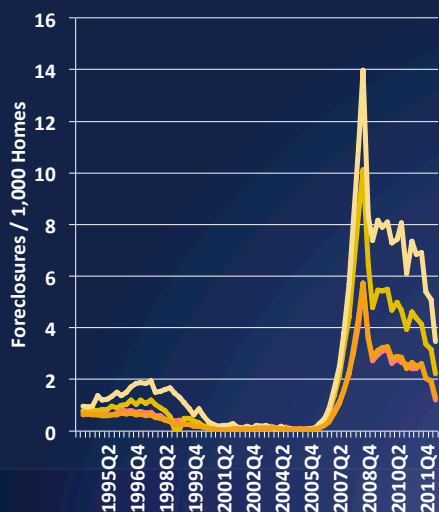


- Price Declines – Peak to Current

– Bay Area:	-31%
– Solano:	-50%
– Contra Costa:	-38%
– Napa:	-36%
– Alameda:	-28%
– Sonoma:	-26%
– Santa Clara:	-19%
– Marin:	-18%
– San Francisco:	-15%
– San Mateo:	-14%

Foreclosures

Through Q3-2012



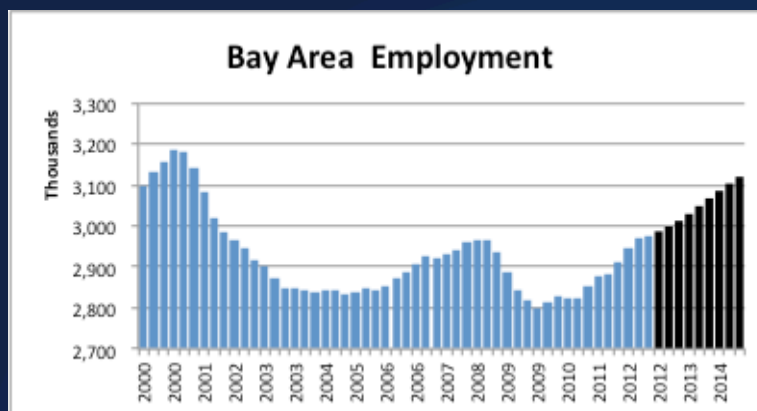
- Current Rates

– Bay Area:	1.4
– Solano:	4.0
– Contra Costa:	2.3
– Napa:	2.0
– Sonoma:	1.8
– Alameda:	1.3
– San Mateo:	0.6
– Marin:	0.5
– Santa Clara:	0.6
– San Francisco:	0.5

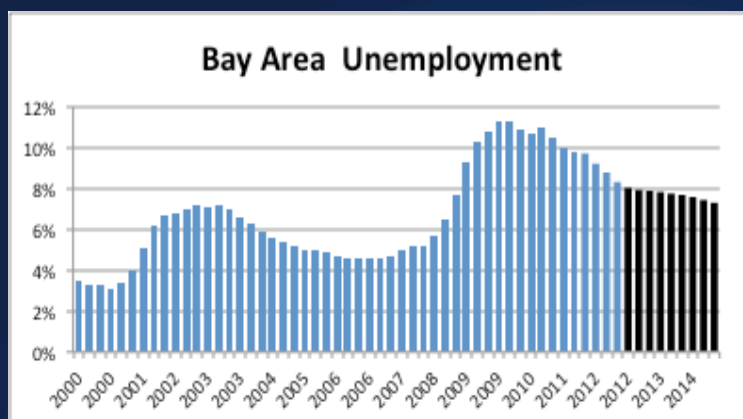
Summary

- Broader US economy still has some trouble spots, but seems to be headed in the right direction
- Bay Area economy, San Jose, in particular, has been a bright spot in the state and nation
- Housing markets seem to be recovering
 - Bubble bursting is over, recovery underway
- Bay Area economy has some broad challenges
- Threats remain to broad based economic recovery

UCLA Bay Area Employment Model

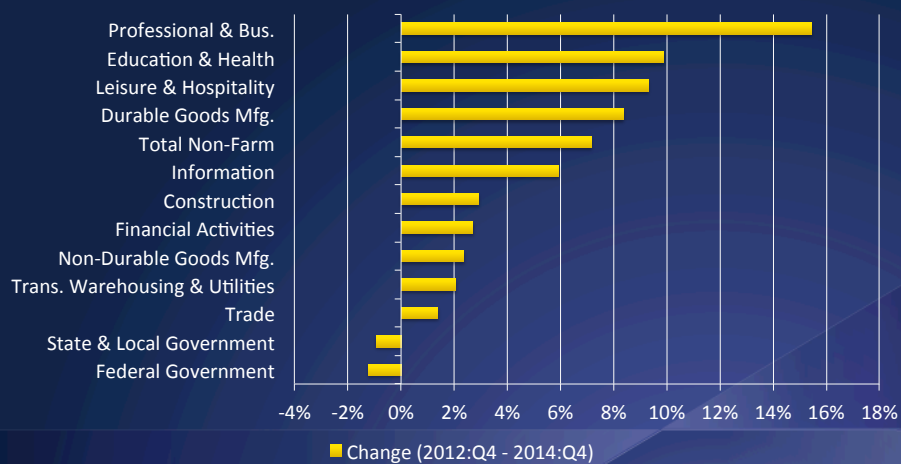


UCLA Bay Area Unemployment Model



Industry Forecast

Employment Growth Forecast by Industry to 2014



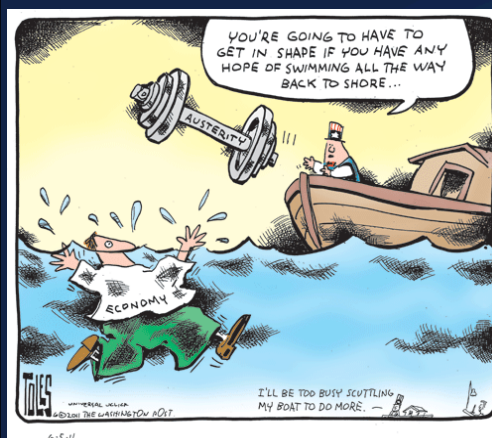
Source: UCLA Anderson, Bay Area Council Economic Institute

Threats to U.S. Recovery and Long Run Prosperity

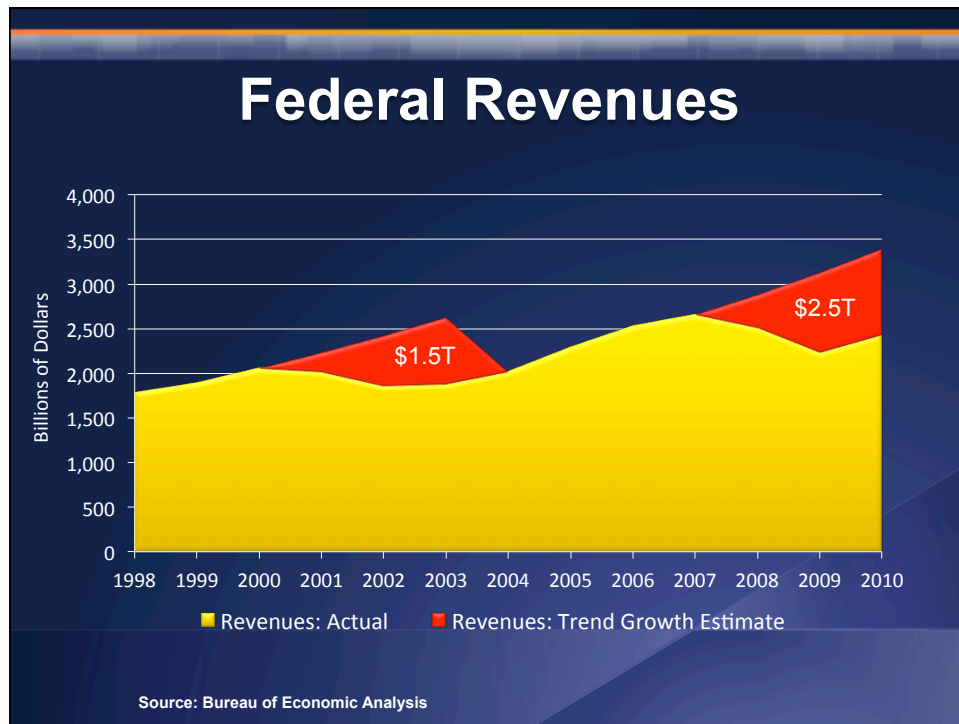
- Abroad:
 - Europe
 - Asia
- At home:
 - Austerity push
 - Income inequality
 - Infrastructure



The Fiscal Austerity Issue



- Austerity:
 - US – cutting spending
 - EU – Greek prescription driving renewed recession
- Continue stimulus until strong growth prevails
- Plenty of time later for austerity
- Remember 1937



Facts on Income Inequality

- Top 1%:
 - Collect 24% of all income
 - Own 40% of all wealth
 - Hold 50% of all stocks, bonds, and mutual funds
 - Received 63% of all income gains in recent years
- Problems:
 - Downward pressure on consumption
 - Reduced income mobility in society
 - Lowers incentives to perform
 - Diminished resources devoted to societal well-being

Facts on Infrastructure

- Global Competitiveness Report
 - US Infrastructure rankings:

• Railroads:	18
• Ports	19
• Roads	20
• Airports	30
• Electricity	33
• Overall	16
- Why?
 - No national planning
 - Underfunded infrastructure investments
- Upshot - traffic
 - 4.8 billion hours in traffic
 - 1.9 billion gallons of fuel wasted
 - \$101 billion total cost

Infrastructure Related Costs

- American Society of Civil Engineers
 - Because of infrastructure gap:
 - US economy expected to lose, by 2020:
 - » \$1 trillion in business sales
 - » 3.5 million jobs

Bottom Line on Risks

- Japan has illustrated that austerity is not a pressing need for the United States
- Europe has illustrated that austerity can diminish growth
- US history has illustrated that excessive inequality can be dangerous
- Infrastructure has proven to be a good investment – we are not making it

Bay Area Council Economic Institute

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

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