



BEACONECONOMICS

Recovery, Wherefore Art Thou?

Jon Haveman

Founding Principal, Beacon Economic

Alameda – Sept. 30, 2010

Outline

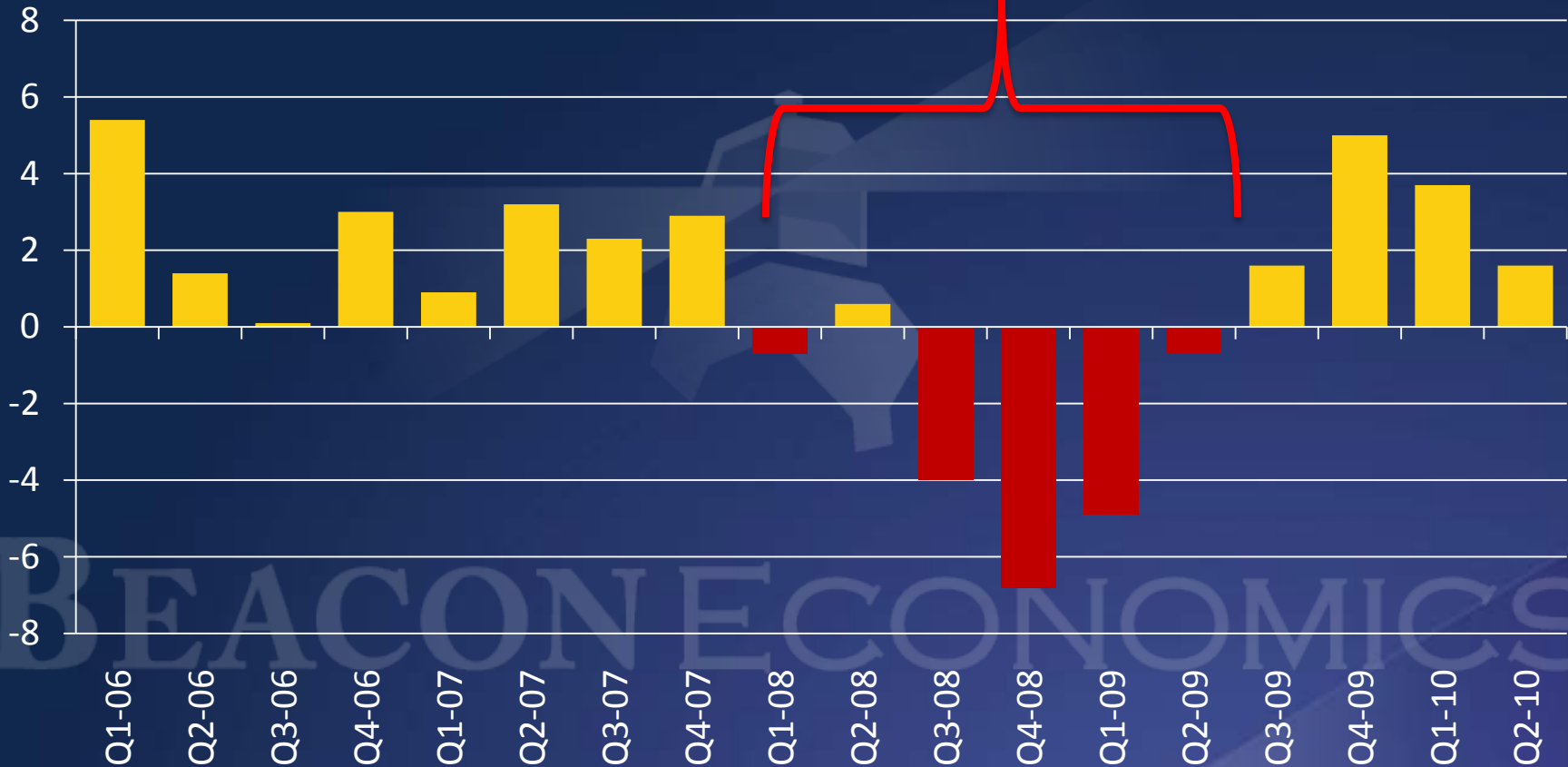
- What just happened?
- Why did it happen?
- Where do we stand now?
- Where do we go from here?

BEACON ECONOMICS

WWW.BEACONECON.COM

The Great Recession

1-2 Punch of Credit Crisis and Consumer Retrenchment



Source: Bureau of Economic Analysis

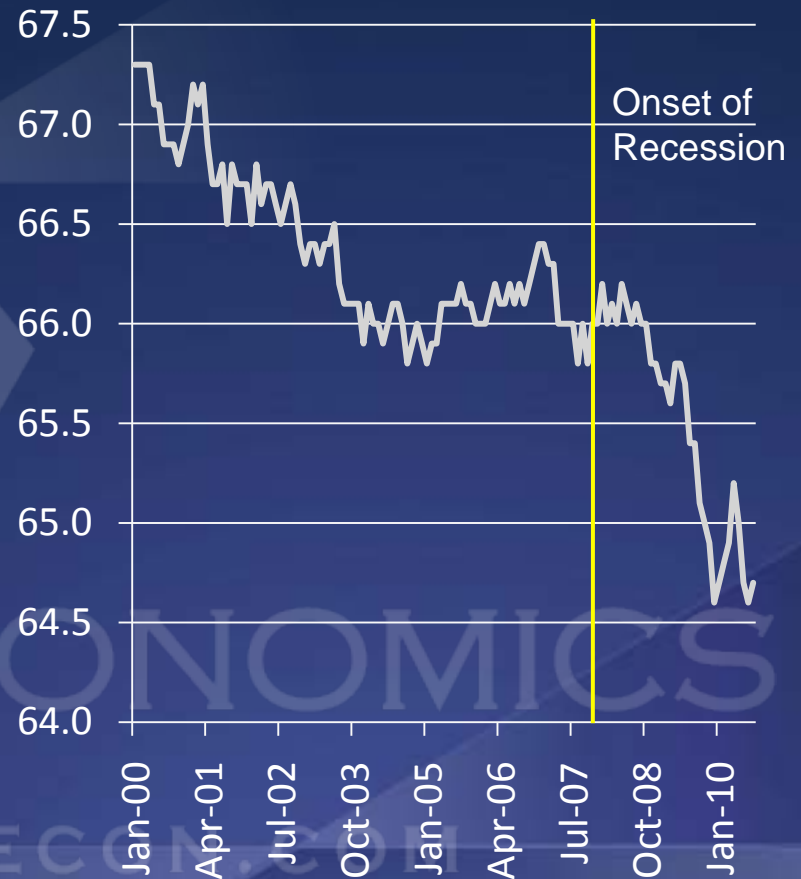
US Unemployment

Unemployment Rate to August



Source: Bureau of Labor Statistics

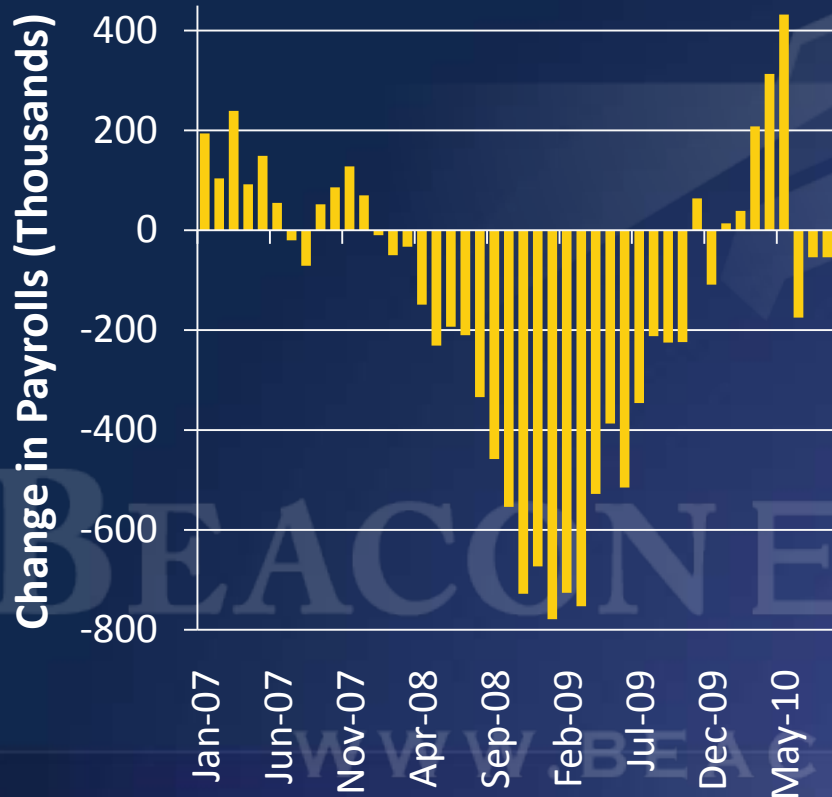
Participation Rate to August



Source: Bureau of Labor Statistics

Jobs, Jobs, Jobs

National Change in Payrolls to August



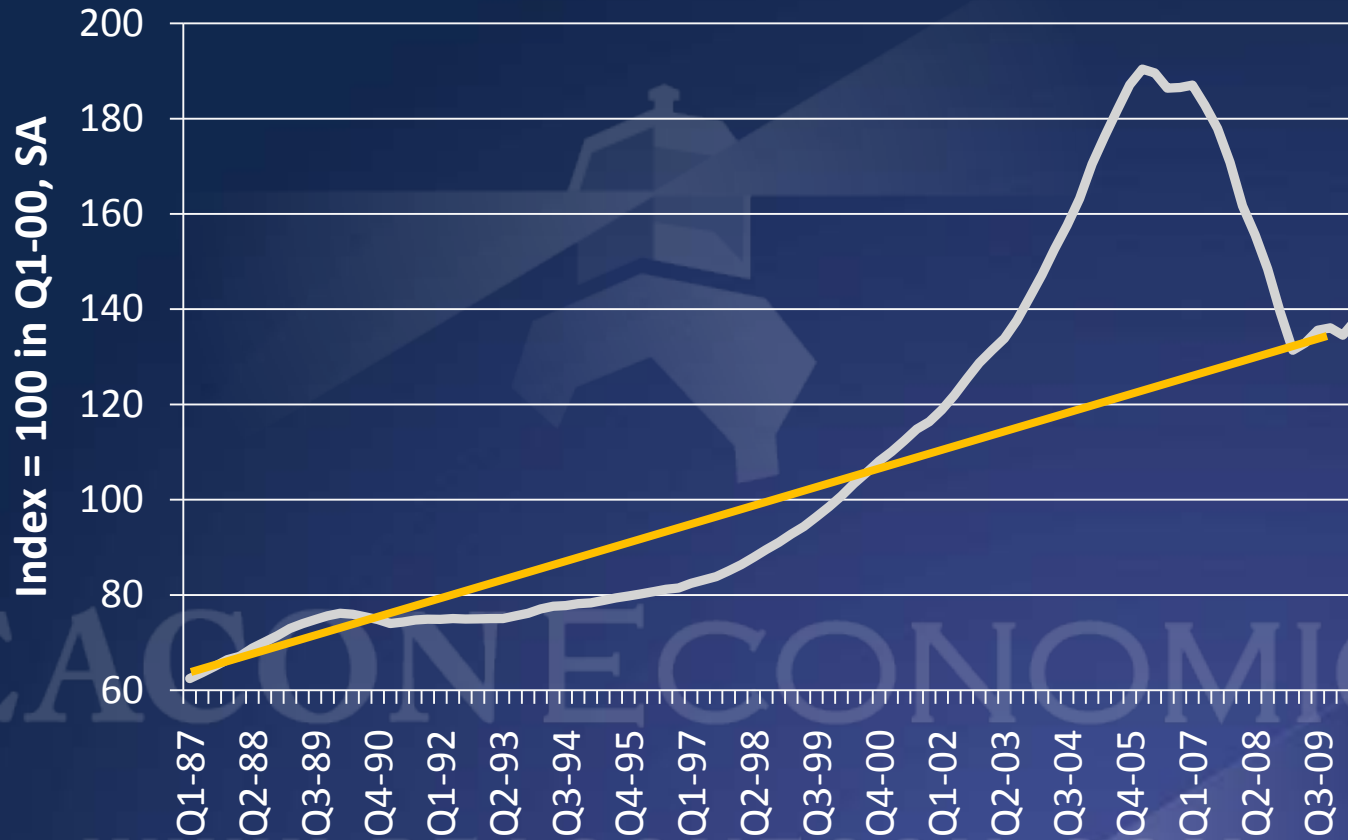
Source: Bureau of Labor Statistics

| Sector | Jan-03 to Dec-07 | Dec-07 to Dec-09 | Jan-10 to Aug-10 |
|-------------------------|------------------|------------------|------------------|
| Total Nonfarm | 7,685 | -8,363 | 723 |
| Education/Health | 2,121 | 791 | 261 |
| Admin Support | 709 | -1,114 | 229 |
| Professional/Business | 2,127 | -1,563 | 226 |
| Health Care | 1,814 | 661 | 213 |
| Manufacturing | -1,141 | -2,192 | 145 |
| Leisure and Hospitality | 1,362 | -544 | 133 |
| Federal Government | -34 | 69 | 95 |
| RETAIL TRADE | 612 | -1,206 | 74 |
| Other Services | 115 | -200 | 29 |
| Wholesale Trade | 406 | -474 | 28 |
| Transport/Warehouse | 340 | -377 | 7 |
| Utilities | -30 | 0 | -5 |
| State Government | 106 | 38 | -18 |
| Information | -241 | -275 | -34 |
| Financial Activities | 314 | -570 | -81 |
| CONSTRUCTION | 787 | -1,795 | -85 |
| Local Government | 679 | -3 | -117 |

Source: Bureau of Labor Statistics

National Housing Markets

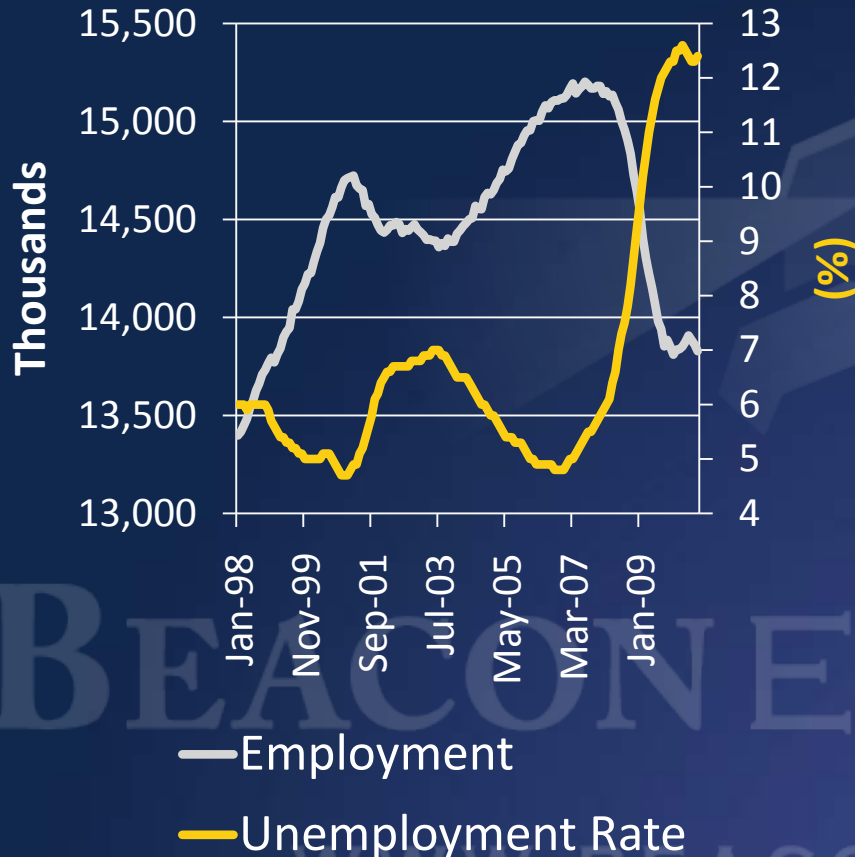
Case-Shiller US National Values to Q2-10



Source: Standard and Poor's

California: A widespread hit

State Labor Markets to August



Source: California Employment Development Department

Location

Aug-10

Peak to Current

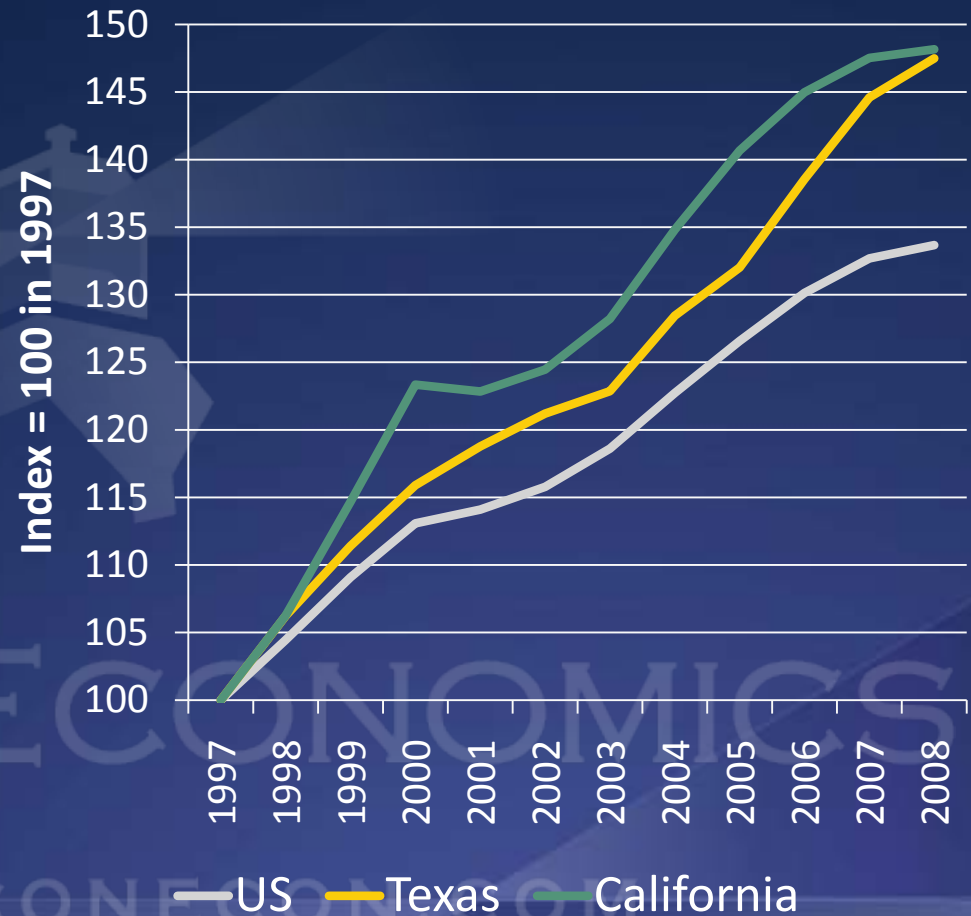
| Location | Aug-10 | Peak to Current |
|---------------------|-----------------|-----------------|
| Inland Empire | 1093.5 | -14.4 |
| Santa Rosa | 167.9 | -12.4 |
| Modesto | 143.2 | -11.2 |
| Oakland (MD) | 934.3 | -11.2 |
| Orange County (MD) | 1358.4 | -11.0 |
| Stockton | 189.8 | -10.5 |
| California | 13,827.9 | -9.0 |
| Los Angeles (MD) | 3743.9 | -9.4 |
| San Francisco (MD) | 913.0 | -8.9 |
| San Jose | 845.2 | -8.3 |
| San Diego | 1210.5 | -7.9 |
| Santa Barbara | 161.6 | -7.3 |
| Bakersfield | 222.6 | -7.2 |
| Salinas | 121.7 | -6.0 |

Source: California Employment Development Department

Why the worse downturn?

Real State GDP to 2008

- Housing
 - Greater price increase / decrease
 - Subprime central
- Exports
 - Goods / tourism / licenses
- Business Spending
 - The IT industry



Source: Bureau of Economic Analysis

Why did it happen?

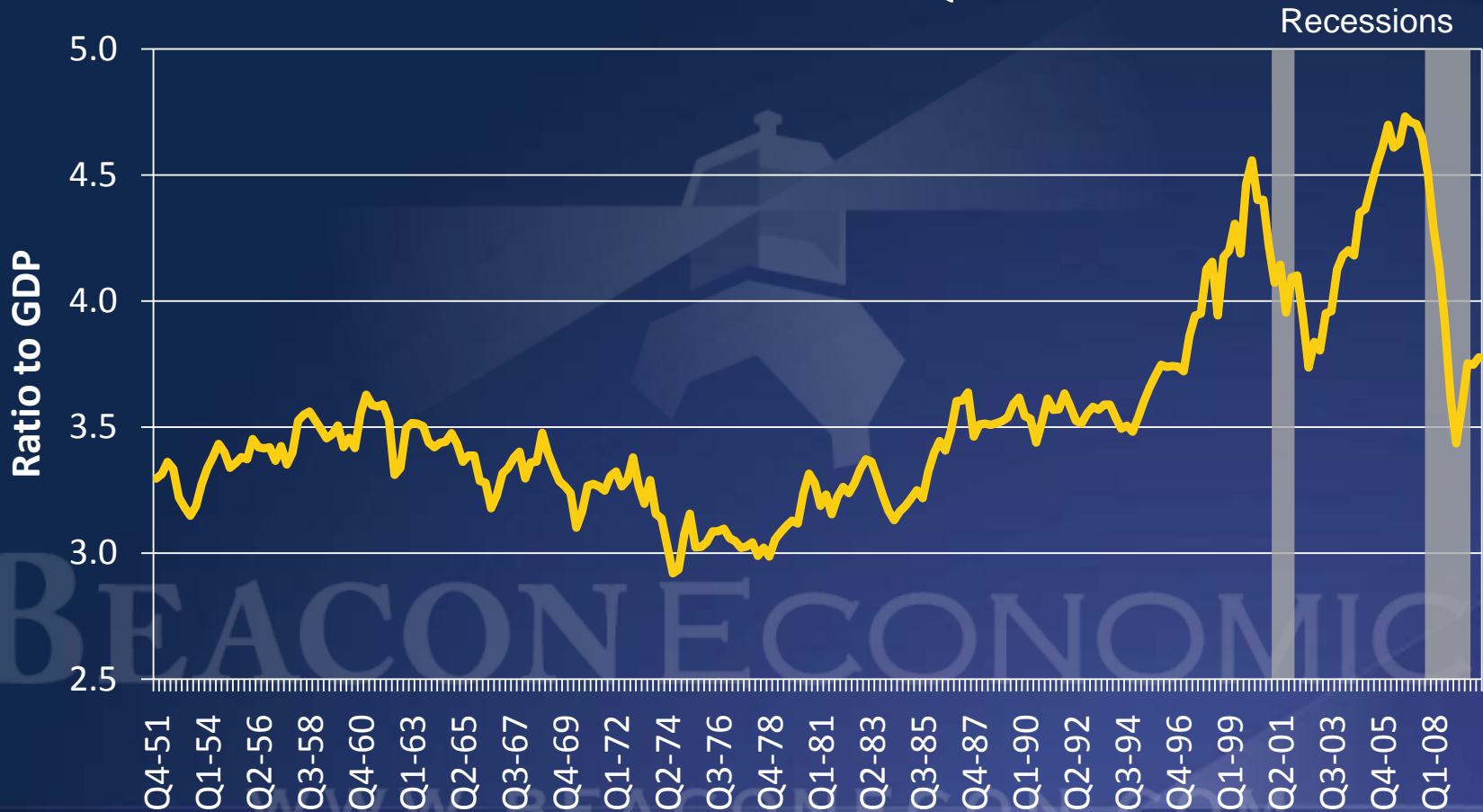
- Housing
- Consumers
- Financial Markets

BEACON ECONOMICS

WWW.BEACONECON.COM

Roots of the Great Recession

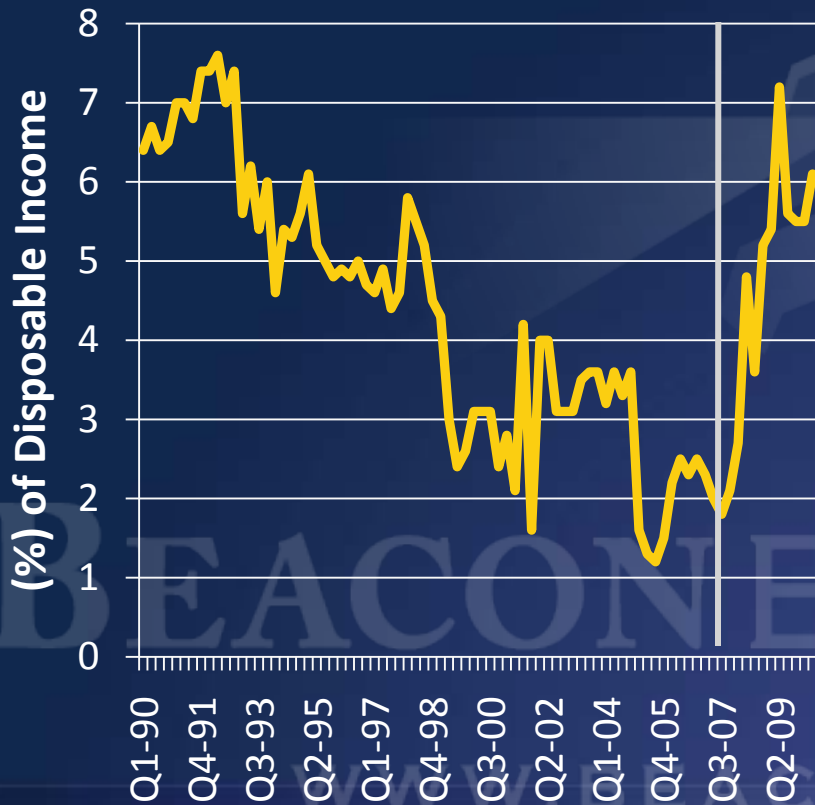
Net Wealth of the US to Q2-10



Source: Federal Reserve Board, Bureau of Economic Analysis

National Consumer Imbalance

**BEA US Personal Saving Rate
to Q2-10**



Source: Bureau of Economic Analysis

**Spending as % of Income
to Q2-10**



Source: Bureau of Economic Analysis

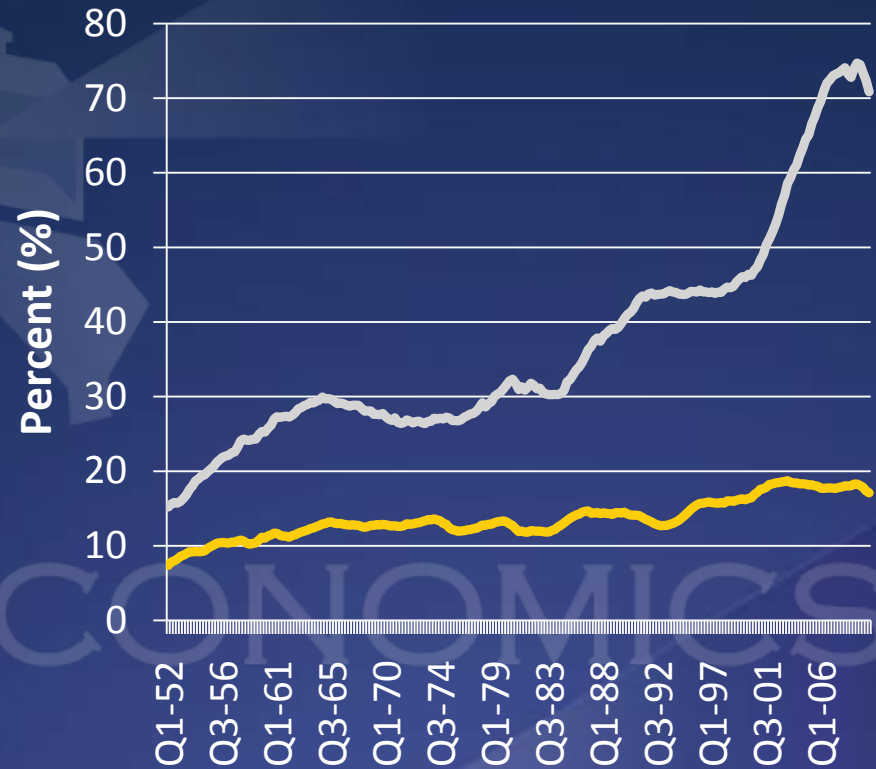
The Credit Bubble

Household Debt as % of Net Worth to Q1-10



Source: Federal Reserve Board

Consumer Debt as % of GDP to Q1-10

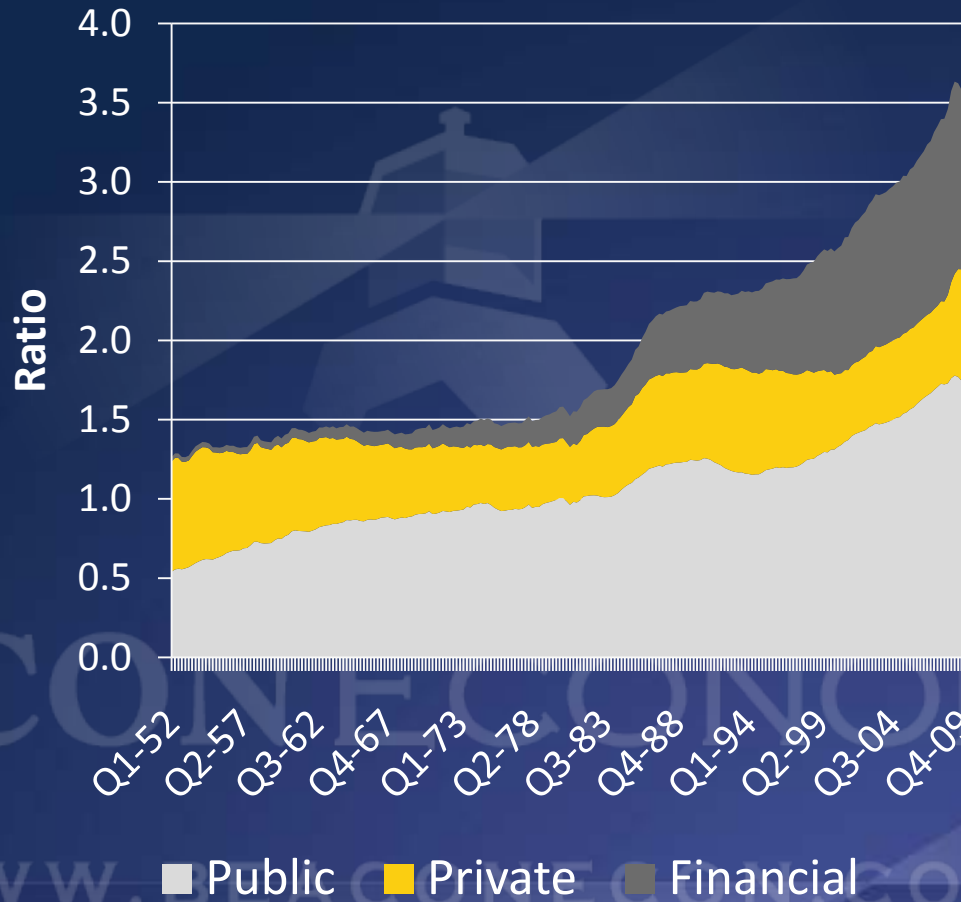


— Mortgage — Other Consumer Credit

Source: Federal Reserve Board

Financial Sector Imbalance

Total Debt/GDP to Q2-10



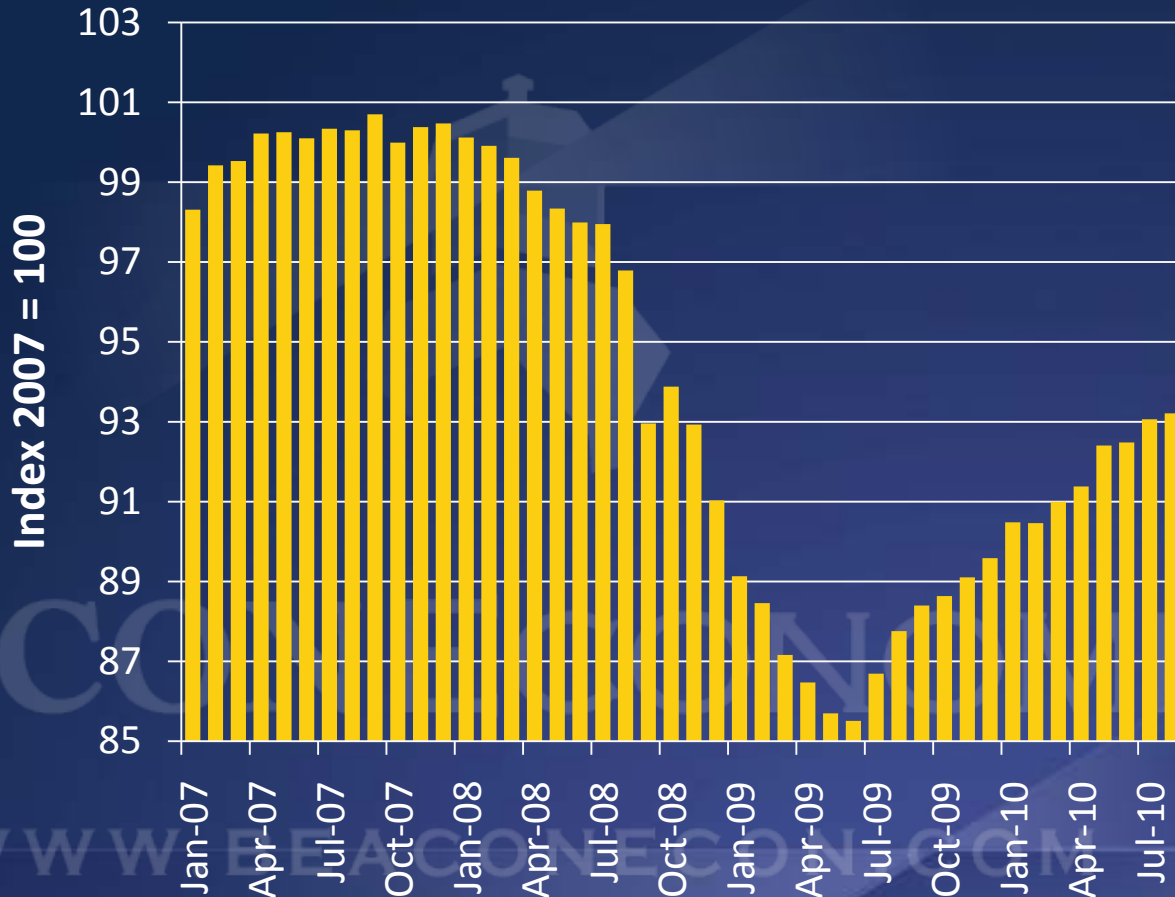
Where do we stand now?

- Signs of improvement
 - Industrial production growing
- Signs that the improvement is tenuous
 - Private sector employment growth slowing

WWW.BEACONECON.COM

US Industrial Production

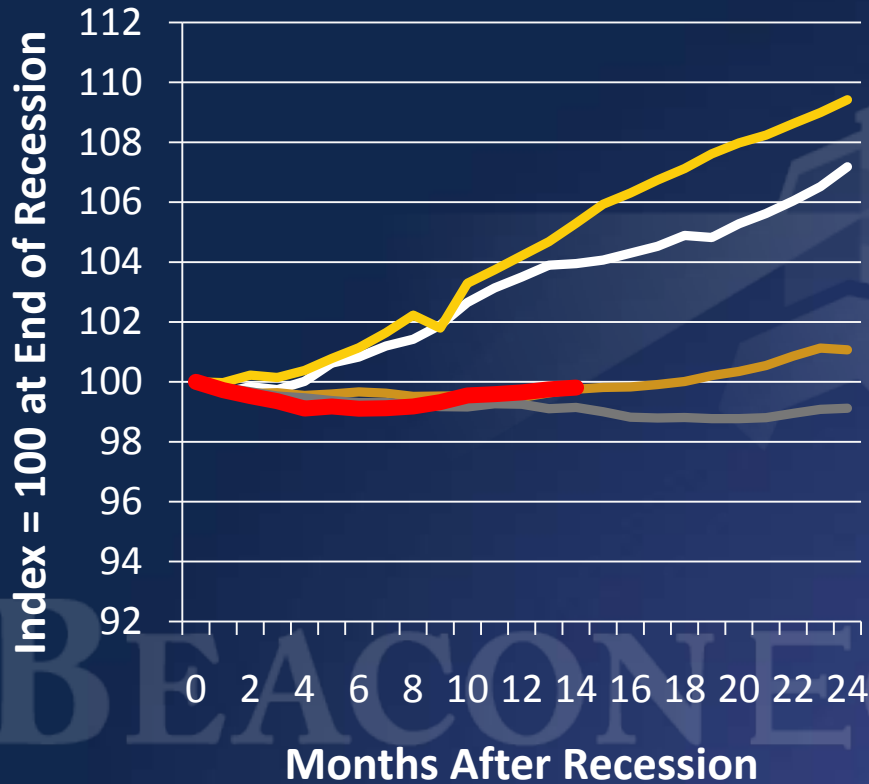
Industrial Production to August



Source: Federal Reserve Board

Private Employment Growth

United States



— 1975 — 1982 — 1991
 — 2001 — 2009

Source: Bureau of Labor Statistics

California



— 1991 — 2001 — 2009

Source: Bureau of Labor Statistics



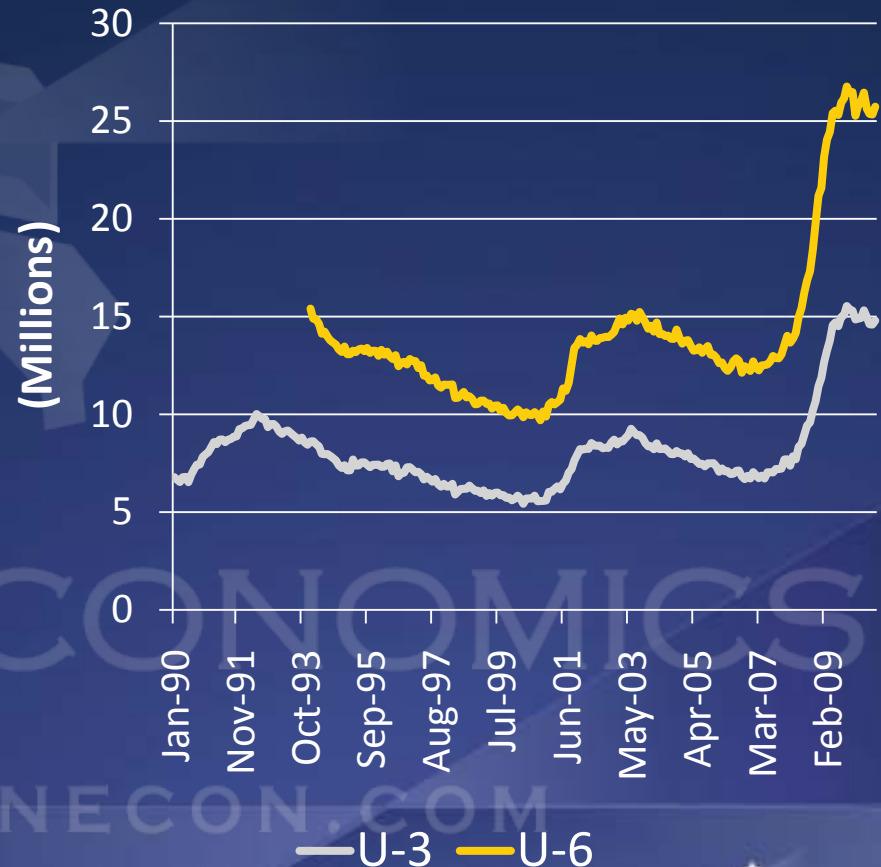
US Unemployment

Unemployment Rates to August



Source: Bureau of Labor Statistics

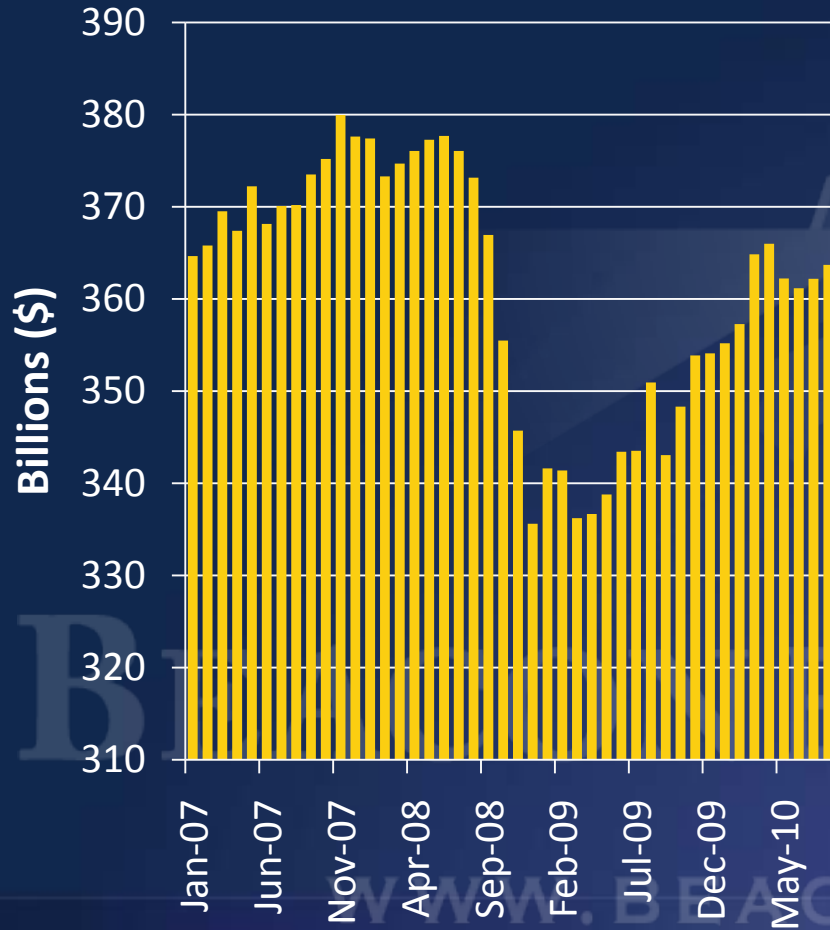
Population Represented by U-3 and U-6 Rates to August



Source: Bureau of Labor Statistics

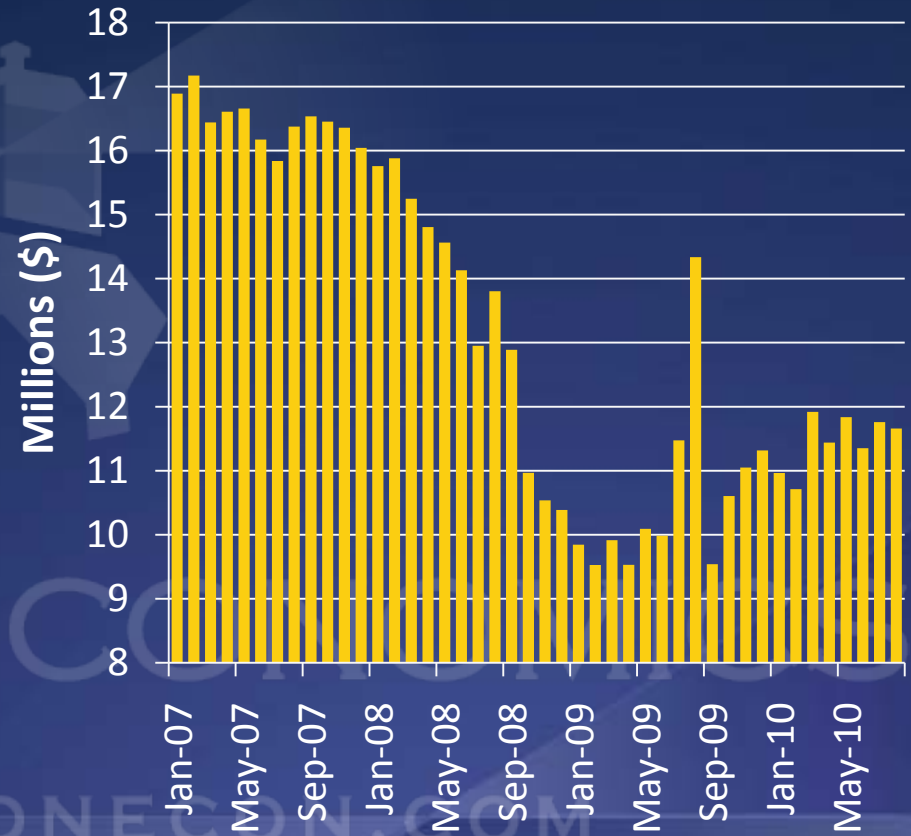
US Consumer Markets

Nominal Retail Sales to August



Source: Census Bureau

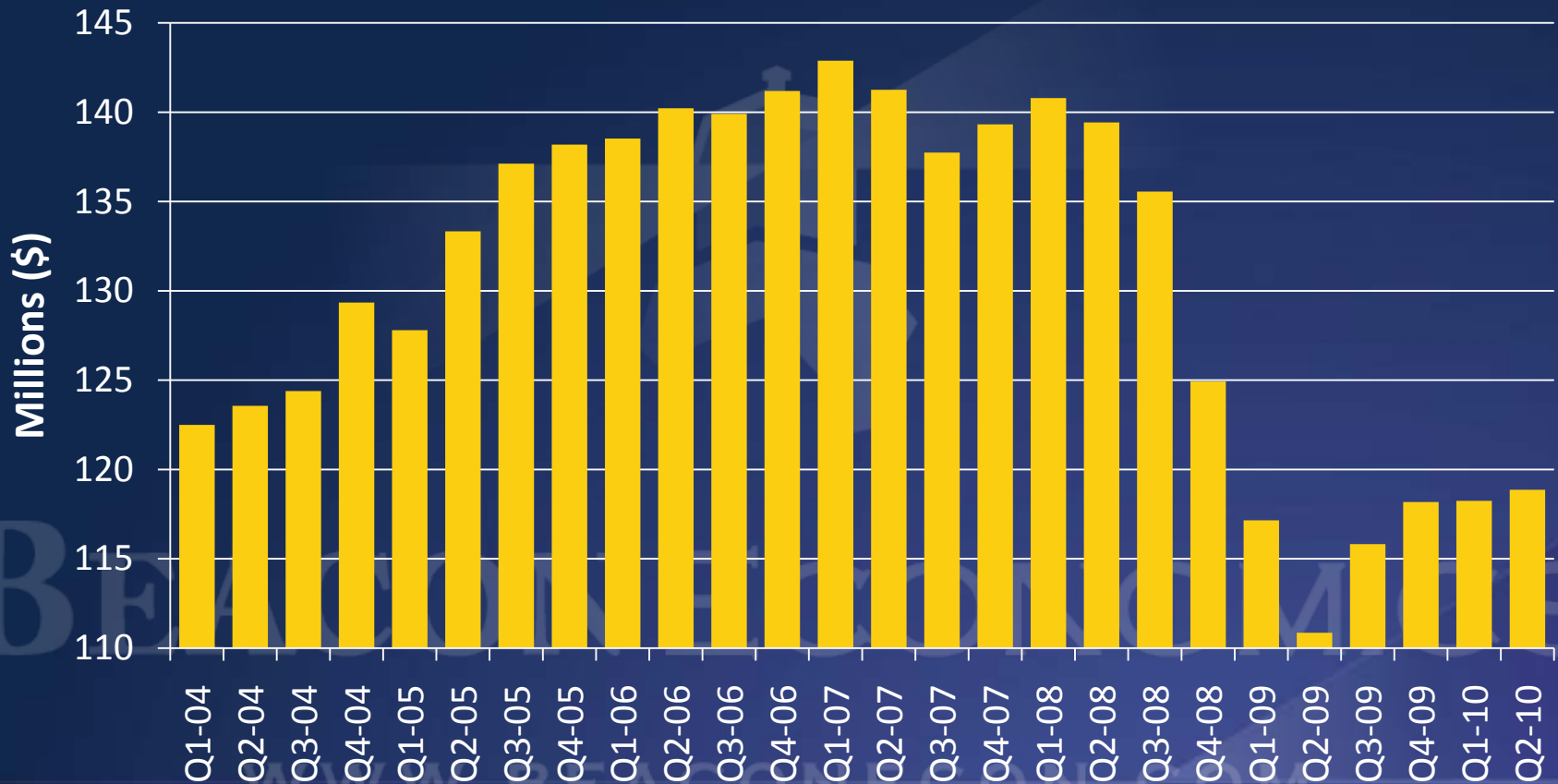
Auto and Light Truck Sales to August, SAAR



Source: Bureau of Economic Analysis

CA: Spending

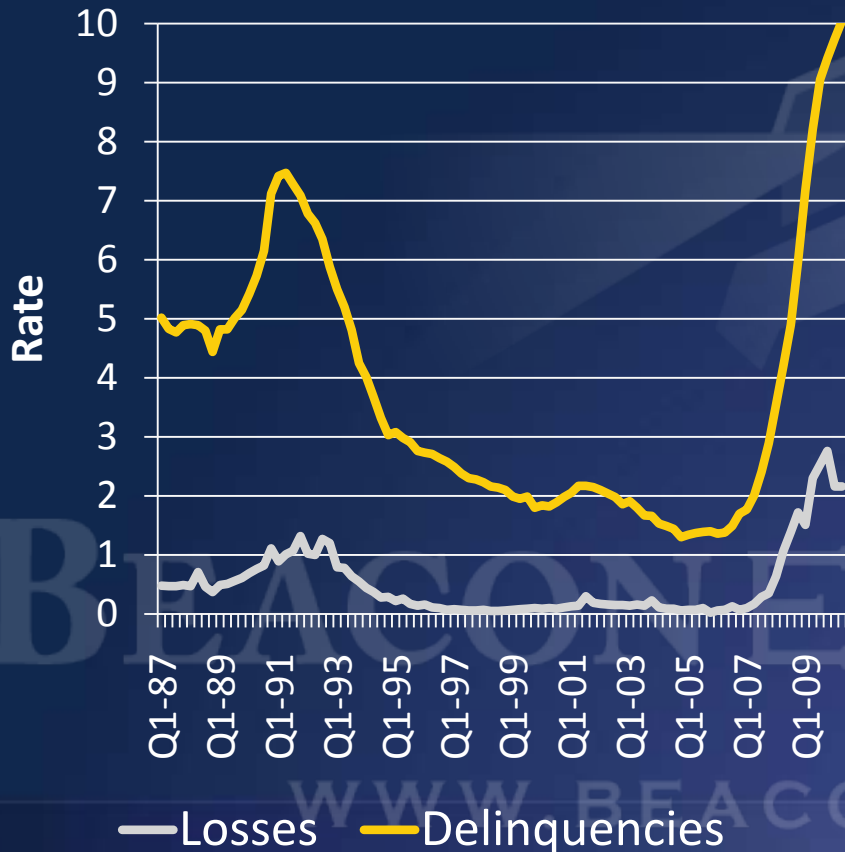
California Taxable Sales to Q2-10



California State Board of Equalization

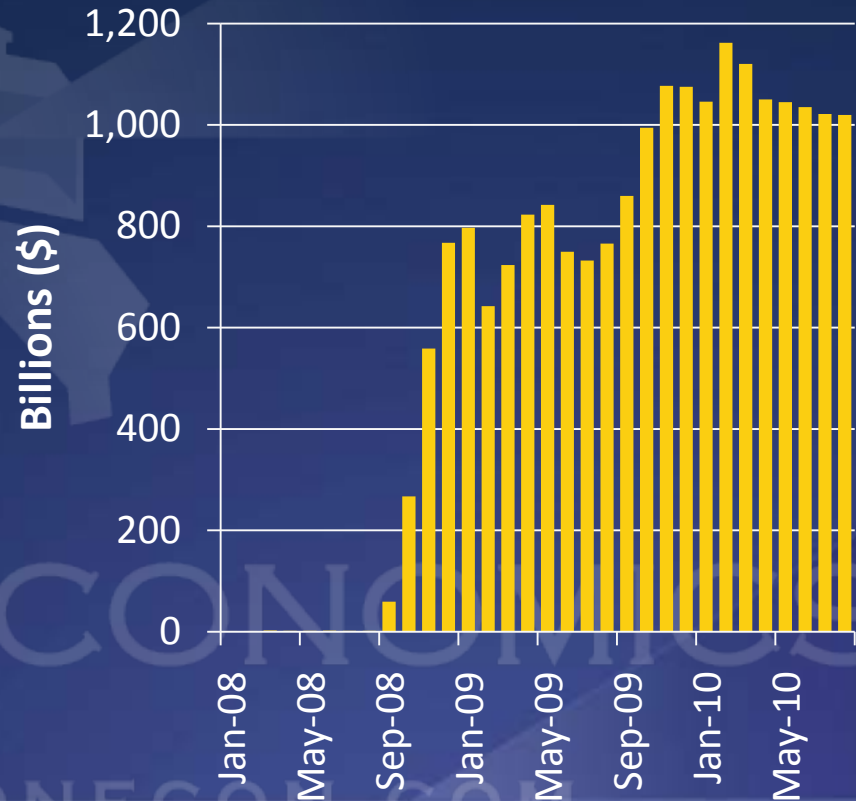
National Credit Markets Cleared?

Bank Portfolio Problems to Q2-10



Source: Federal Reserve Board

US Bank Excess Reserves to August



Source: Federal Reserve Board

US Housing Market

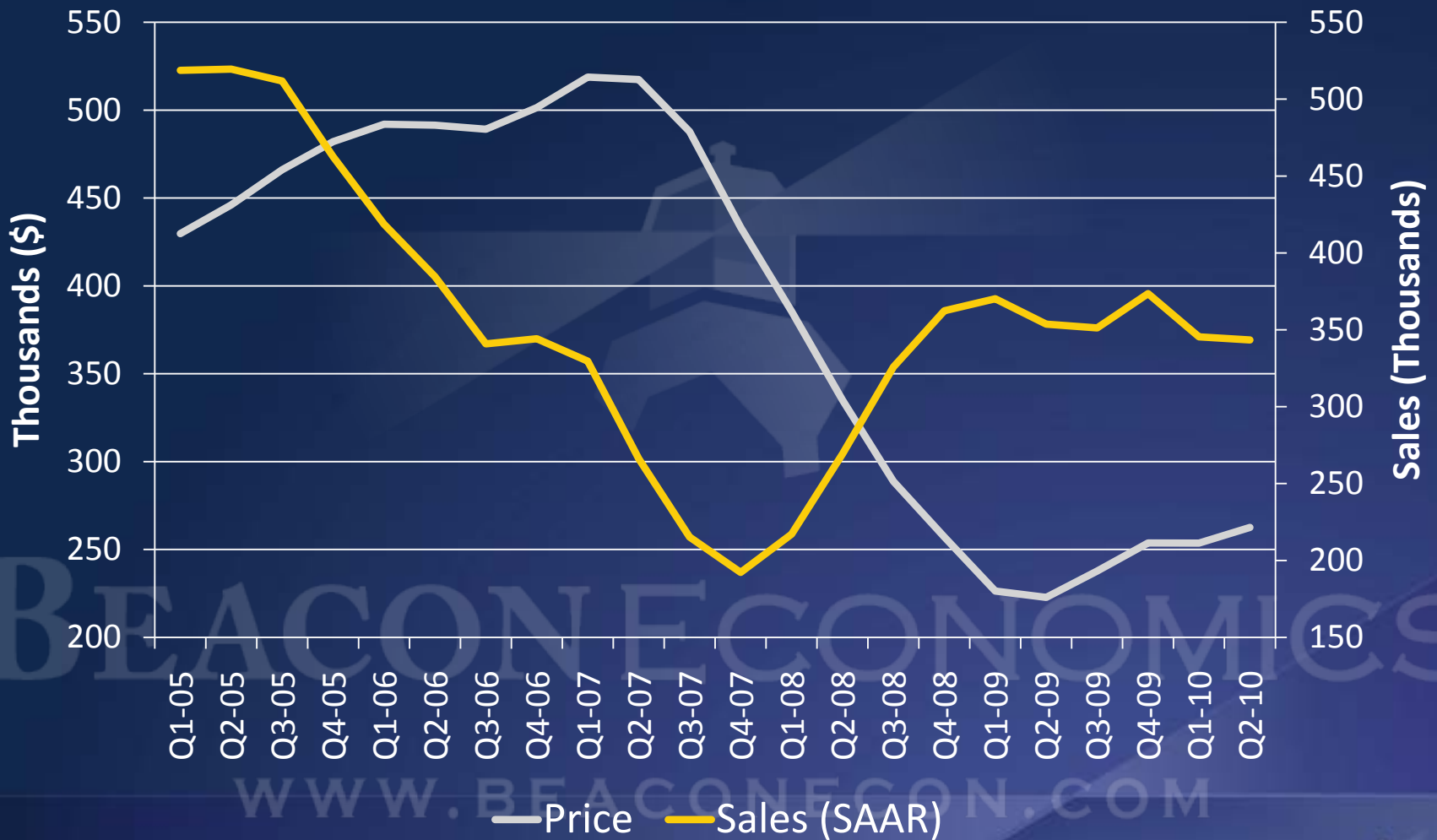
NAR Sales Stats to August



Source: National Association of Realtors

Source: Census Bureau

CA Housing Sales to Q2-10



Source: DataQuick

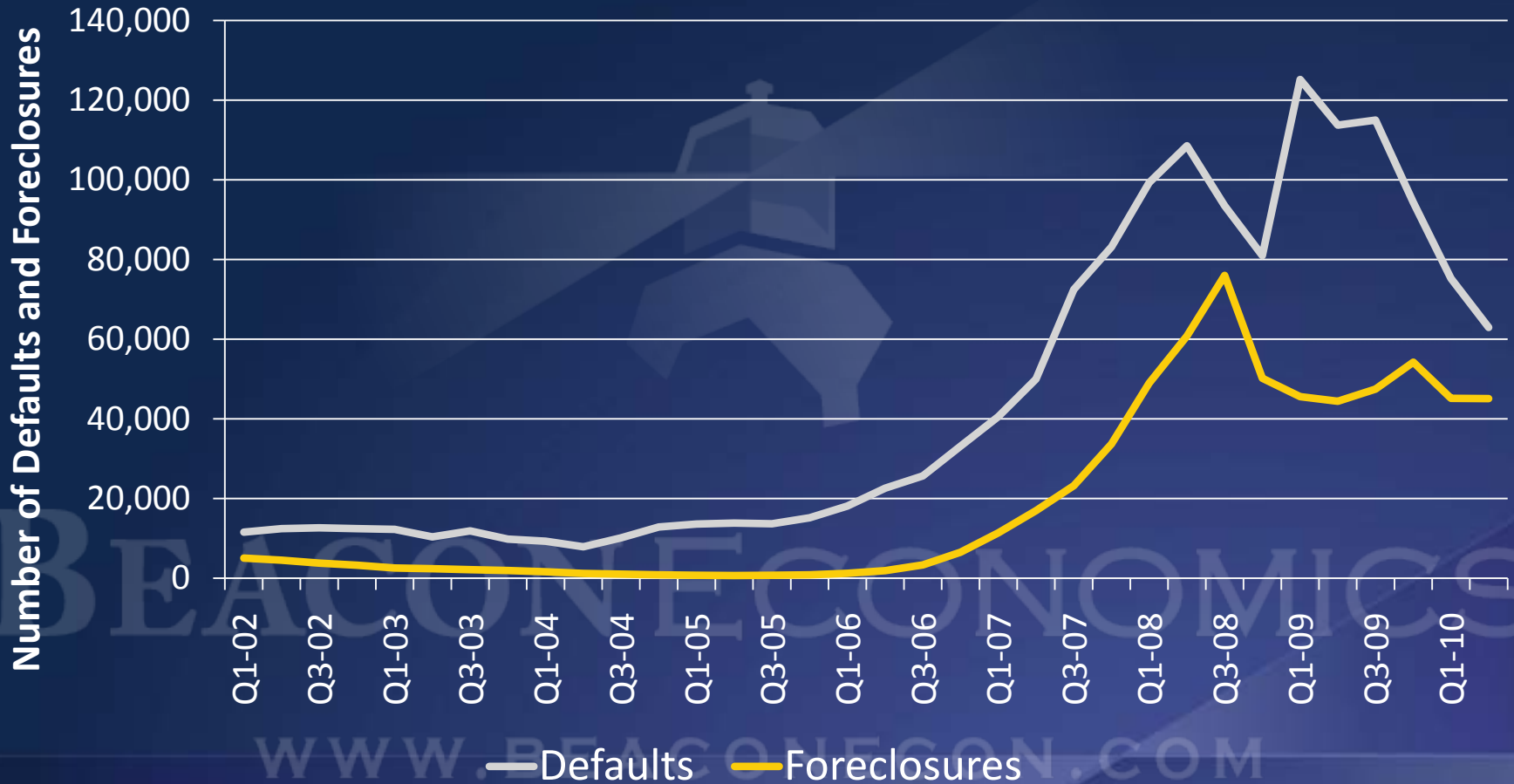
How Many Underwater? as of Q2-10

| CBSA Name | Mortgages | Negative Equity Share |
|--|----------------|-----------------------|
| Las Vegas-Paradise NV | 449,205 | 72.83 |
| Stockton CA | 129,100 | 62.36 |
| Modesto CA | 98,742 | 59.64 |
| Vallejo-Fairfield CA | 92,418 | 57.93 |
| Phoenix-Mesa-Glendale AZ | 966,635 | 56.03 |
| Bakersfield-Delano CA | 153,522 | 52.04 |
| Riverside-San Bernardino-Ontario CA | 861,023 | 51.33 |
| Visalia-Porterville CA | 69,237 | 44.81 |
| Sacramento--Arden-Arcade--Roseville CA | 494,024 | 43.41 |
| Salinas CA | 61,704 | 41.57 |
| Oakland-Fremont-Hayward CA | 547,903 | 32.44 |
| San Diego-Carlsbad-San Marcos CA | 596,029 | 30.47 |

WWW.BEACONECON.COM

CA Real Estate Markets

California Foreclosure Activity to Q2-10



Source: DataQuick

What comes next?

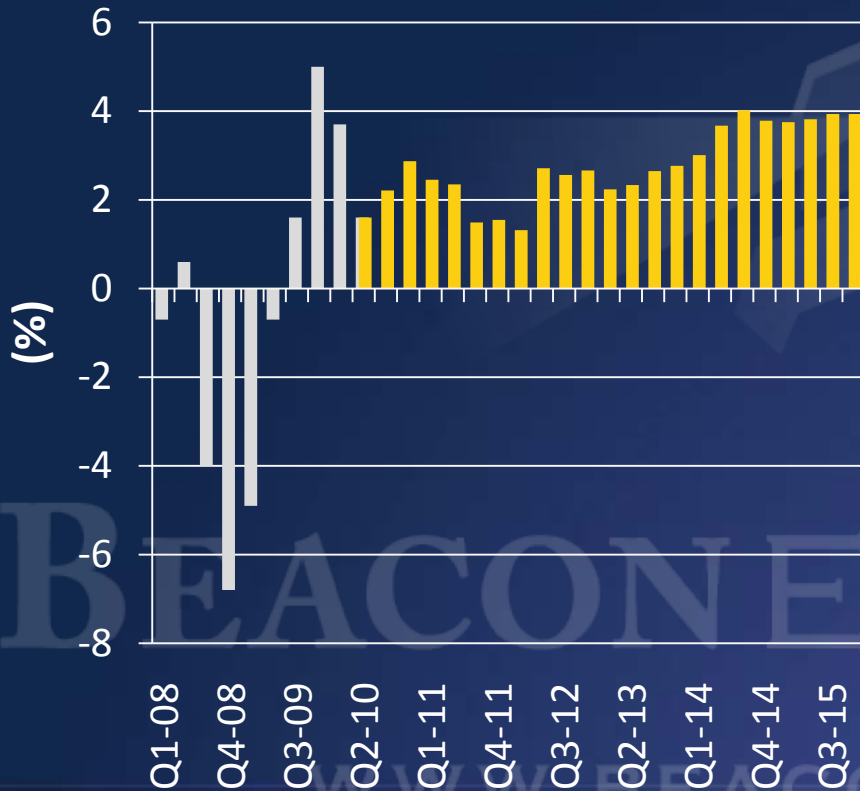
- *Double Dip?*
- *Slow Recovery?*
- *The typical post-recession bounce?*

BEACON ECONOMICS

WWW.BEACONECON.COM

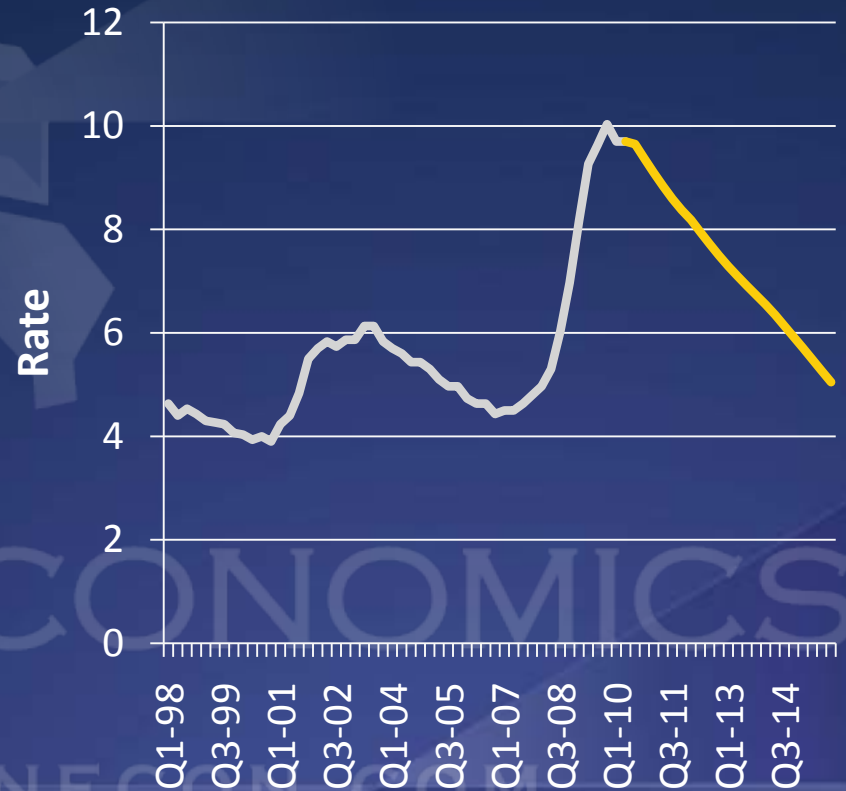
US GDP and Unemployment as of Q2-10

GDP Growth to Q4-15



Source: Bureau of Economic Analysis, Beacon Economics

Unemployment Rate to Q4-15



Source: Bureau of Economic Analysis, Beacon Economics

Stimulus Left in the System

Stimulus Package to May

Direct

- Spent **\$272 billion**
- In process **\$152 billion**
- Left to spend **\$78 billion**

Tax Cuts

- Issued **\$223 billion**
- Remaining **\$65 billion**

Rates to July



WWW.BEACONECONOMICS.COM — Conventional Mortgage — 10 Year Bond

What about a Double-Dip?

- Need some sustained shock to the system
- There is potential (worry scale: 1-10):
 - Housing (2)
 - Consumers (4)
 - Deficit/Bond Markets (5)
- Only through gross negligence on the part of policymakers is this possible
 - Policy signals deficits over the long term
 - Tax cuts expire on Jan 1, 2011

National Housing Bounce

Price Trough to Jul-10
(Case-Shiller)

| | |
|------------------|------|
| CA-San Francisco | 17.5 |
| CA-San Diego | 11.8 |
| MN-Minneapolis | 11.4 |
| DC-Washington | 10.1 |
| CA-Los Angeles | 9.1 |
| OR-Portland | 7.2 |
| OH-Cleveland | 6.3 |
| MA-Boston | 5.1 |
| AZ-Phoenix | 4.7 |
| TX-Dallas | 3.3 |

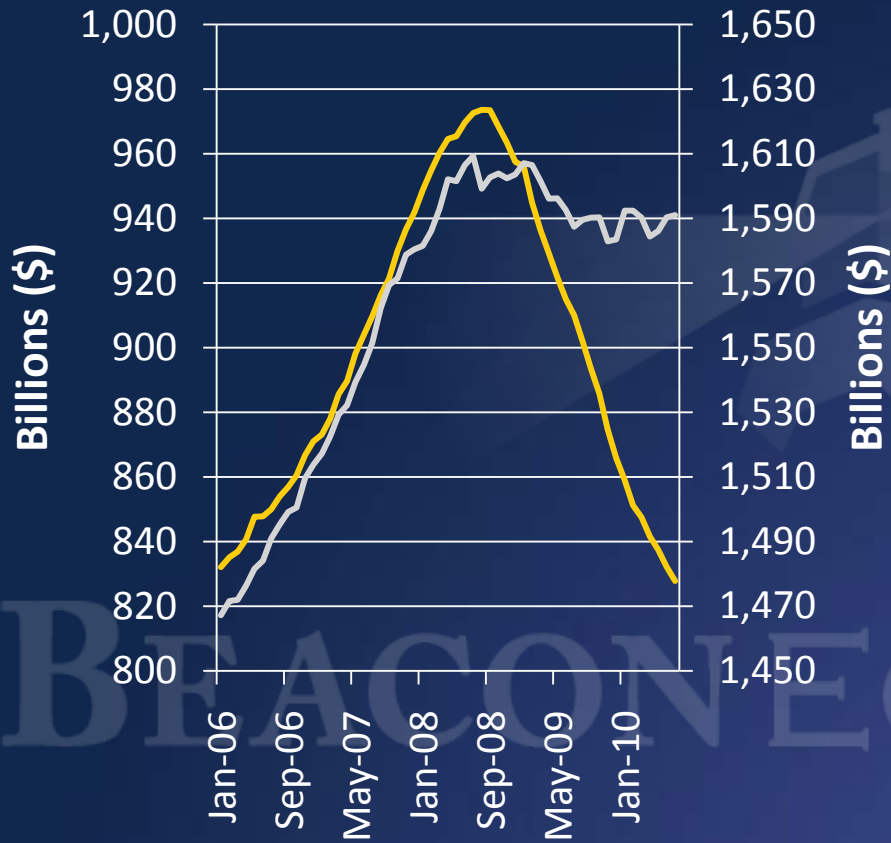
Price Trough to Jul-10
(Case-Shiller)

| | |
|--------------|-----|
| CO-Denver | 3.0 |
| MI-Detroit | 2.9 |
| WA-Seattle | 2.8 |
| IL-Chicago | 2.8 |
| NY-New York | 2.3 |
| GA-Atlanta | 1.9 |
| FL-Miami | 1.5 |
| NC-Charlotte | 0.0 |
| FL-Tampa | 0.0 |
| NV-Las Vegas | 0.0 |

WWW.BEACONECON.COM

National Spending Fumes?

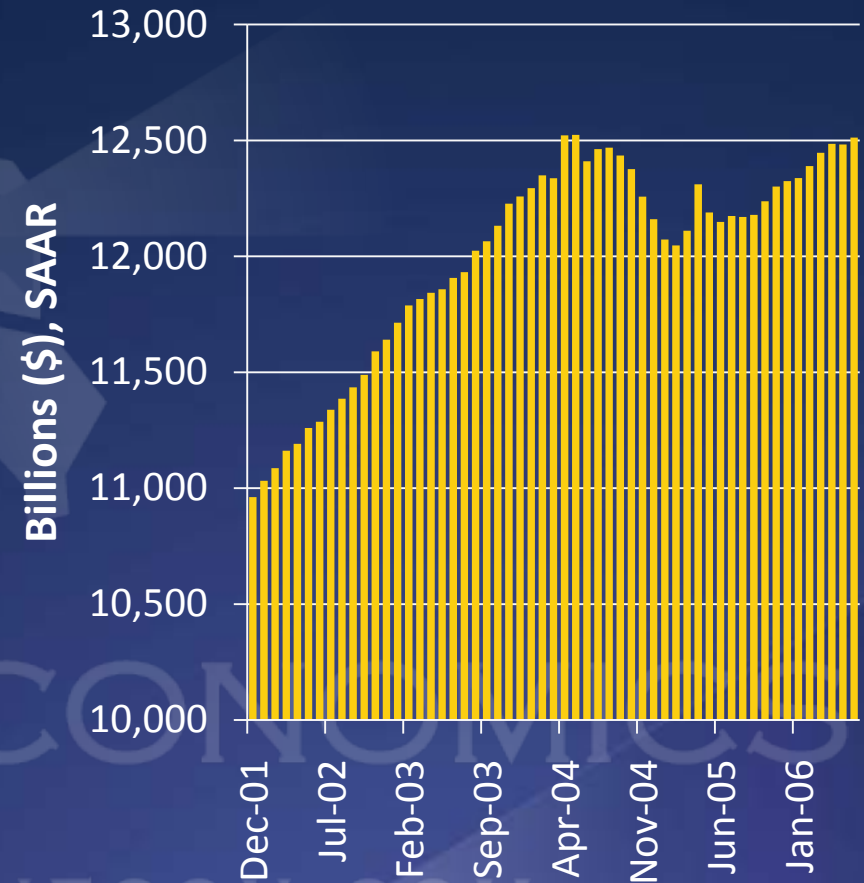
Consumer Credit to July



— Revolving — Non-Revolving

Source: Federal Reserve Board

Personal income to July



Source: Bureau of Economic Analysis

What to do with the Bush tax cuts?

Permanent?

Expire?

Temporary extension?

Top 2%?

BEACONECONOMICS

WWW.BEACONECON.COM

Summary

★ The Recession is Over... but we aren't in the clear yet

- Consumer weakness will likely continue
- Housing bounce is ending
- Higher Rates coming down the pike
- Most likely scenario- slow recovery for two years (+?)
- There are some serious risks...

★ Tax Policy, both short and long run, is crucial

- Short run stimulus, long run danger

★ It's not permanent

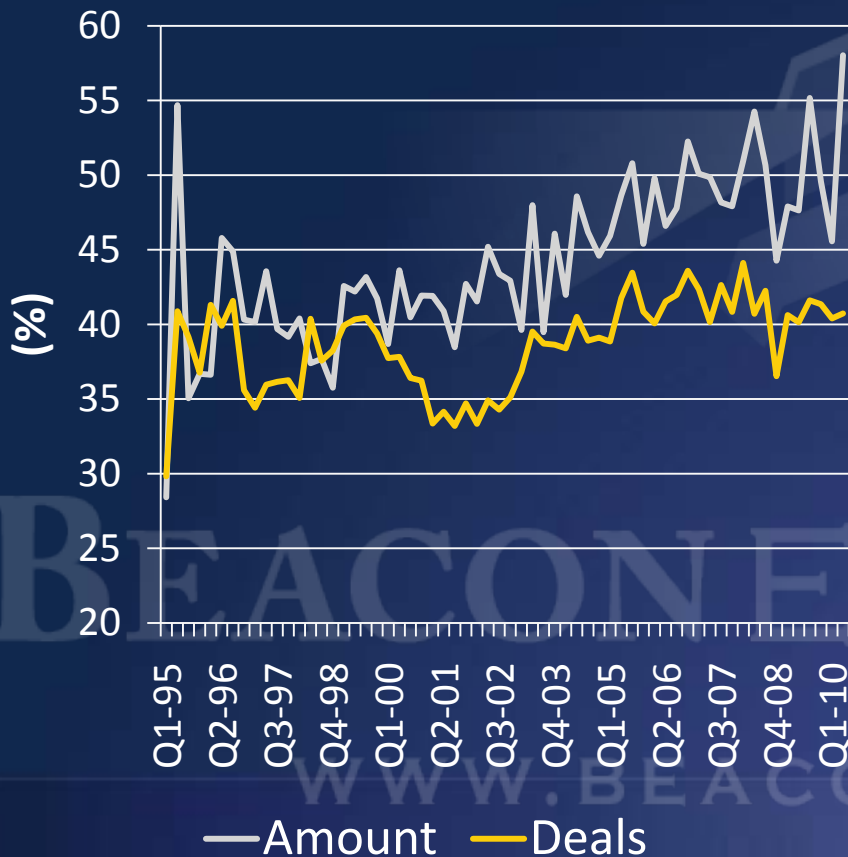
- It's just going to take some time—PATIENCE!!

CA Summary

- ✦ California has been part of the recession's epicenter
 - Housing, housing, housing...
- ✦ Early employment gains have ceased
 - Should resume soon, but may be too slow to affect unemployment in the near term
- ✦ Decisions now will affect economy long term
 - Budget
 - Education, infrastructure, regulatory environment
- ✦ Years before recovery is complete
 - Catching up to potential could be 5+ years

Venture Capital

Venture Capital Proportion of US That Comes to California to Q2-10



| Q2-10 | Value of All Deals (Millions) | Number of Deals |
|---------------|----------------------------------|--------------------|
| California | 3,782 | 369 |
| United States | 6,517 | 906 |

A Hard Time for the East Bay...

Expiring tax credits stifle Bay Area home sales

By Eve Mitchell
Contra Costa Times

Posted: 08/19/2010 10:42:26 AM PDT

Chevron begins East Bay layoffs

By George Avalos
Contra Costa Times

Posted: 09/23/2010 05:00:00 AM PDT

Oakland Tribune editorial: Local governments must plan for revenue decline

MediaNews editorial

Posted: 07/13/2010 12:00:00 AM PDT

Port of Oakland cargo levels rising

By George Avalos
Oakland Tribune

Posted: 08/02/2010 04:01:29 PM PDT

Record fall for home loans continues

From staff and wire reports

Posted: 08/12/2010 03:41:12 PM PDT

State, Bay Area lose more jobs in August

By George Avalos
Contra Costa Times

Posted: 09/17/2010 09:42:34 AM PDT

Unemployment

Oakland (MD) Unemployment Rate to August



Source: California Employment Development Department

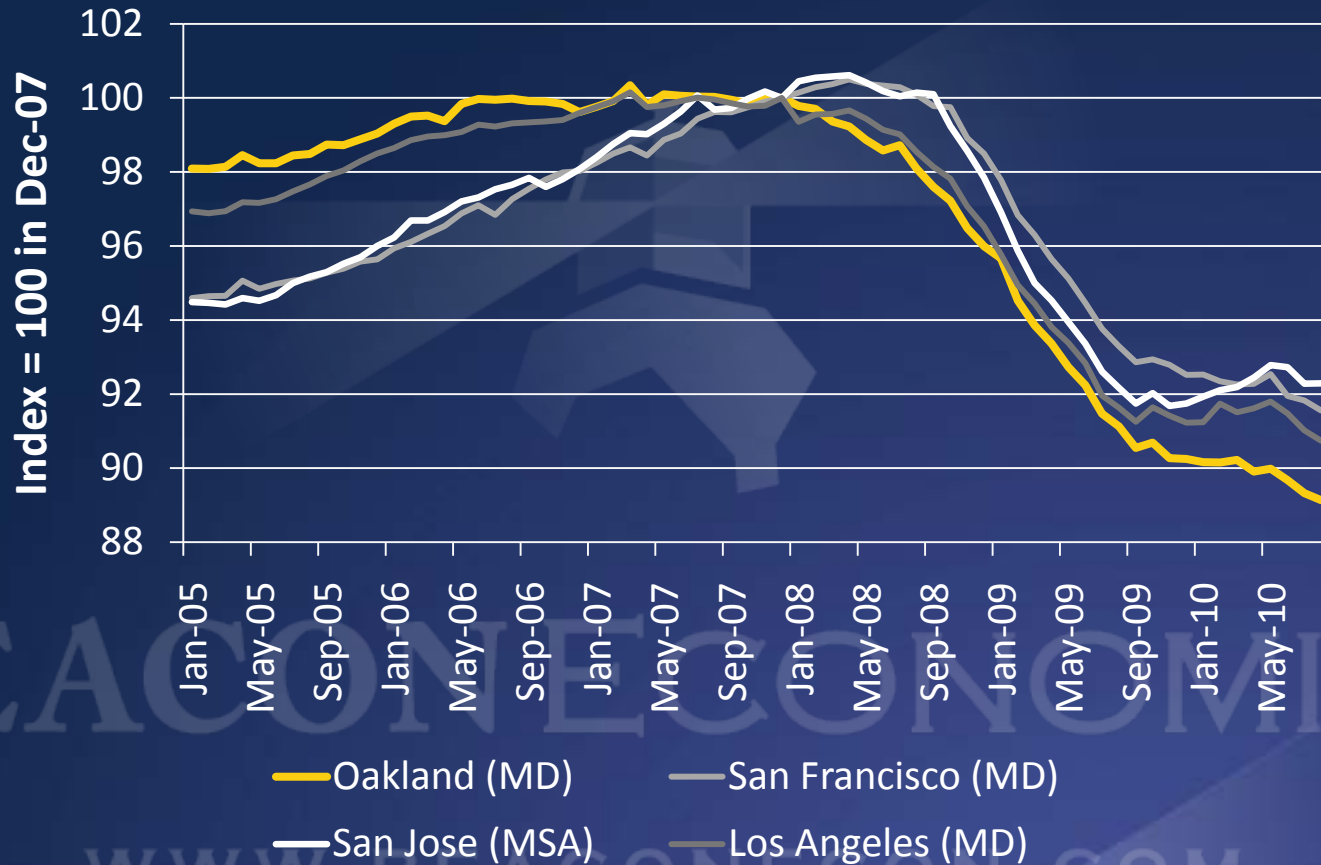
Unemployment (% SA)

| | Aug-10 | Aug-09 | Aug-08 |
|----------------------|--------|--------|--------|
| California | 12.4 | 12.0 | 7.5 |
| <u>Bay Region</u> | | | |
| Oakland (MD) | 11.1 | 10.9 | 6.5 |
| San Francisco (MD) | 8.9 | 9.0 | 5.2 |
| San Jose | 11.0 | 11.6 | 6.4 |
| <u>Other Regions</u> | | | |
| Los Angeles (MD) | 12.6 | 12.1 | 8.0 |
| Inland Empire | 14.0 | 13.4 | 8.7 |
| San Diego | 10.3 | 10.0 | 6.3 |
| Stockton | 17.6 | 16.1 | 10.7 |

Source: California Employment Development Department

Local Employment

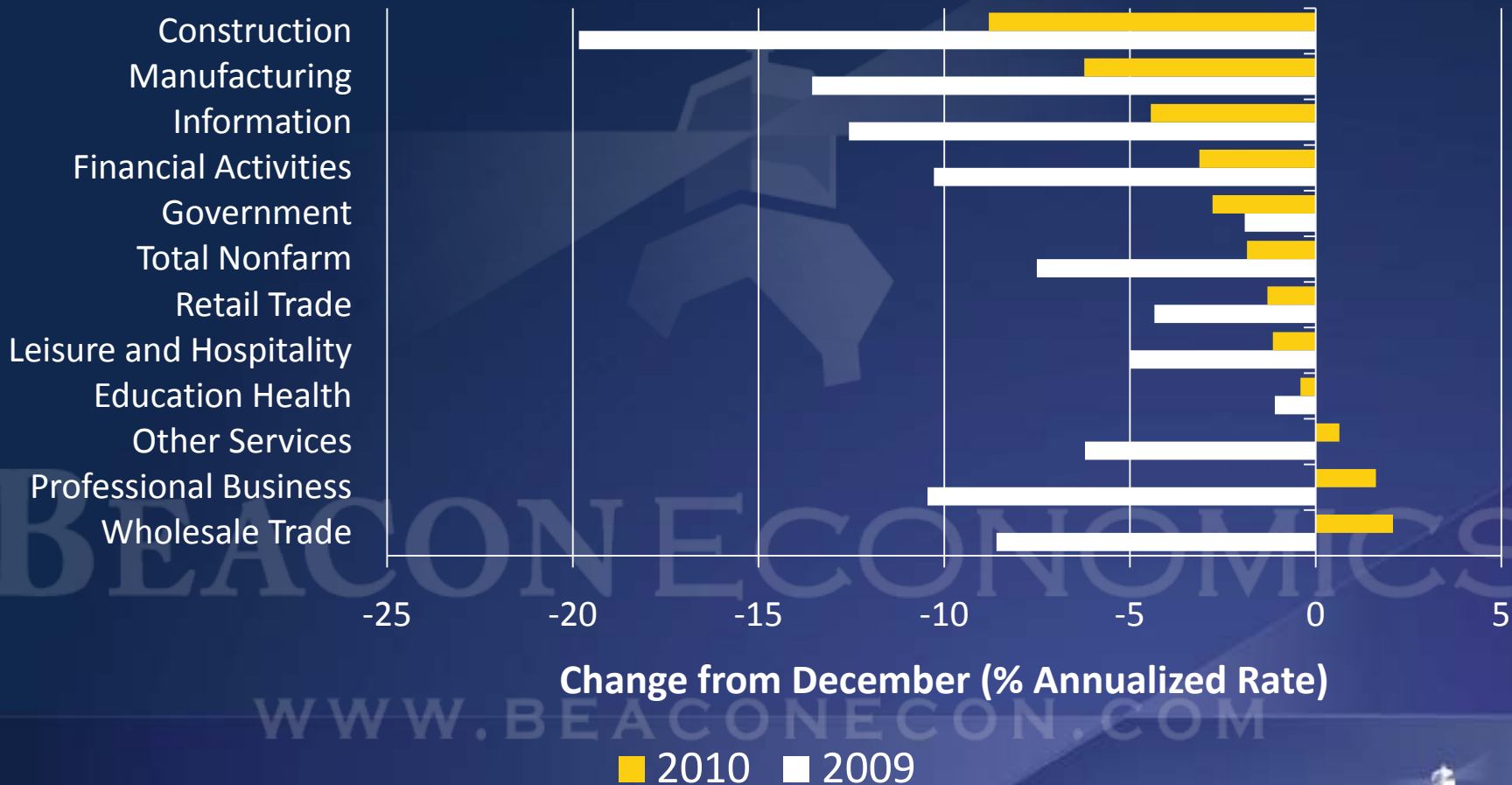
Employment Growth to August



Source: California EDD

Payroll Employment

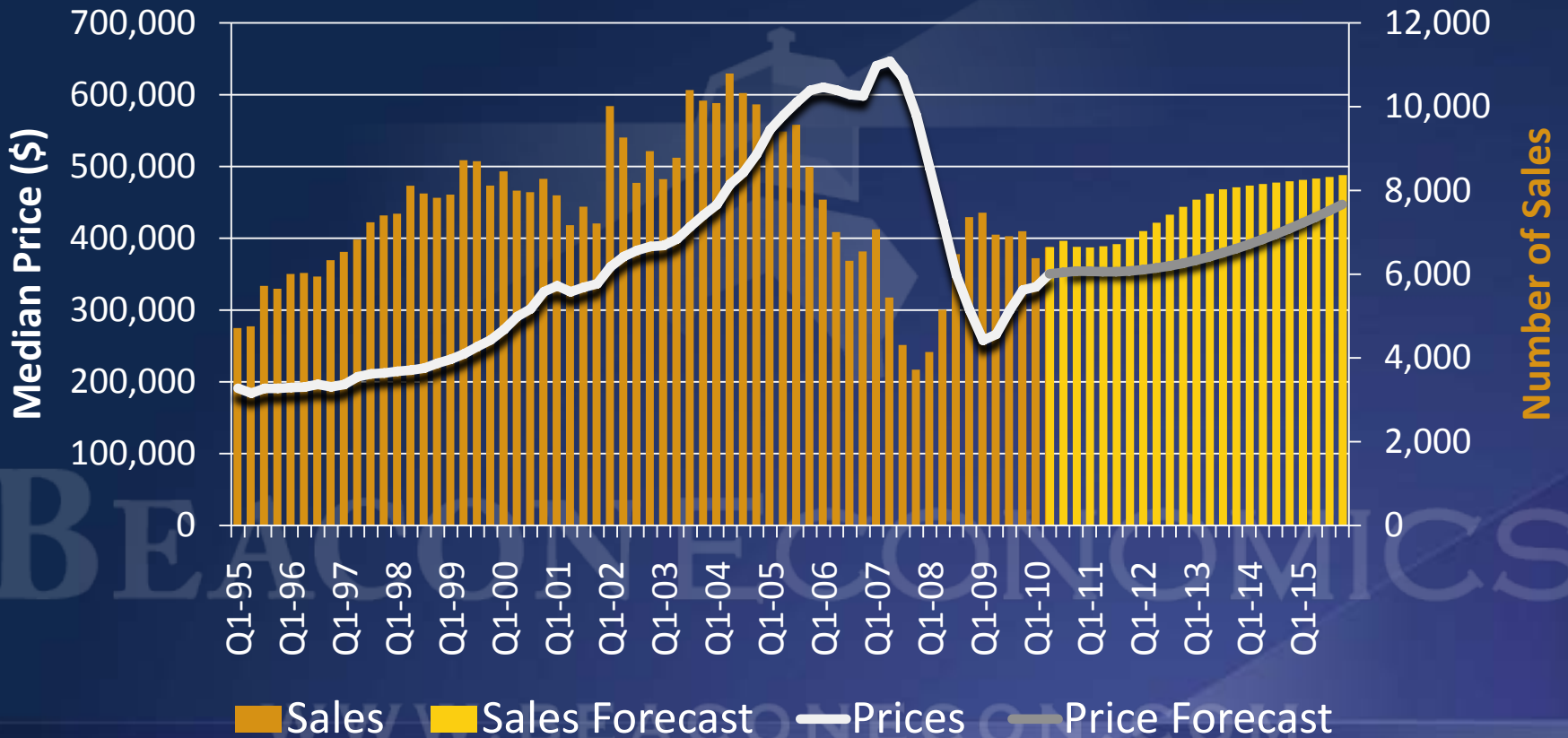
Oakland (MD) Employment by Industry Year-to-Date Employment Change, Jan-Aug



Source: California Employment Development Department

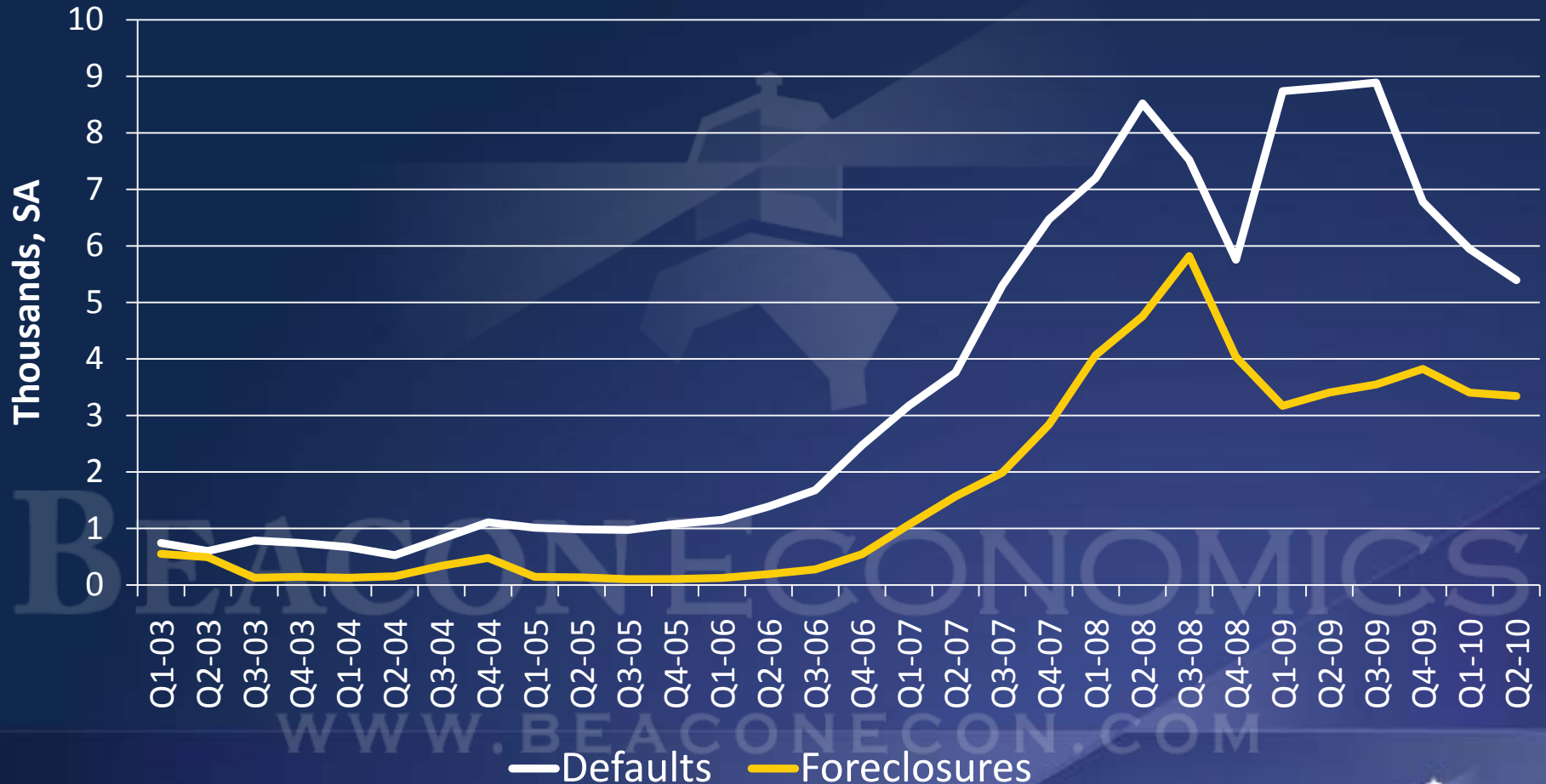
Oakland (MD) Housing Market

Beacon Forecast: Single-Family Median Prices and Sales to Q4-15 as of Q2-10



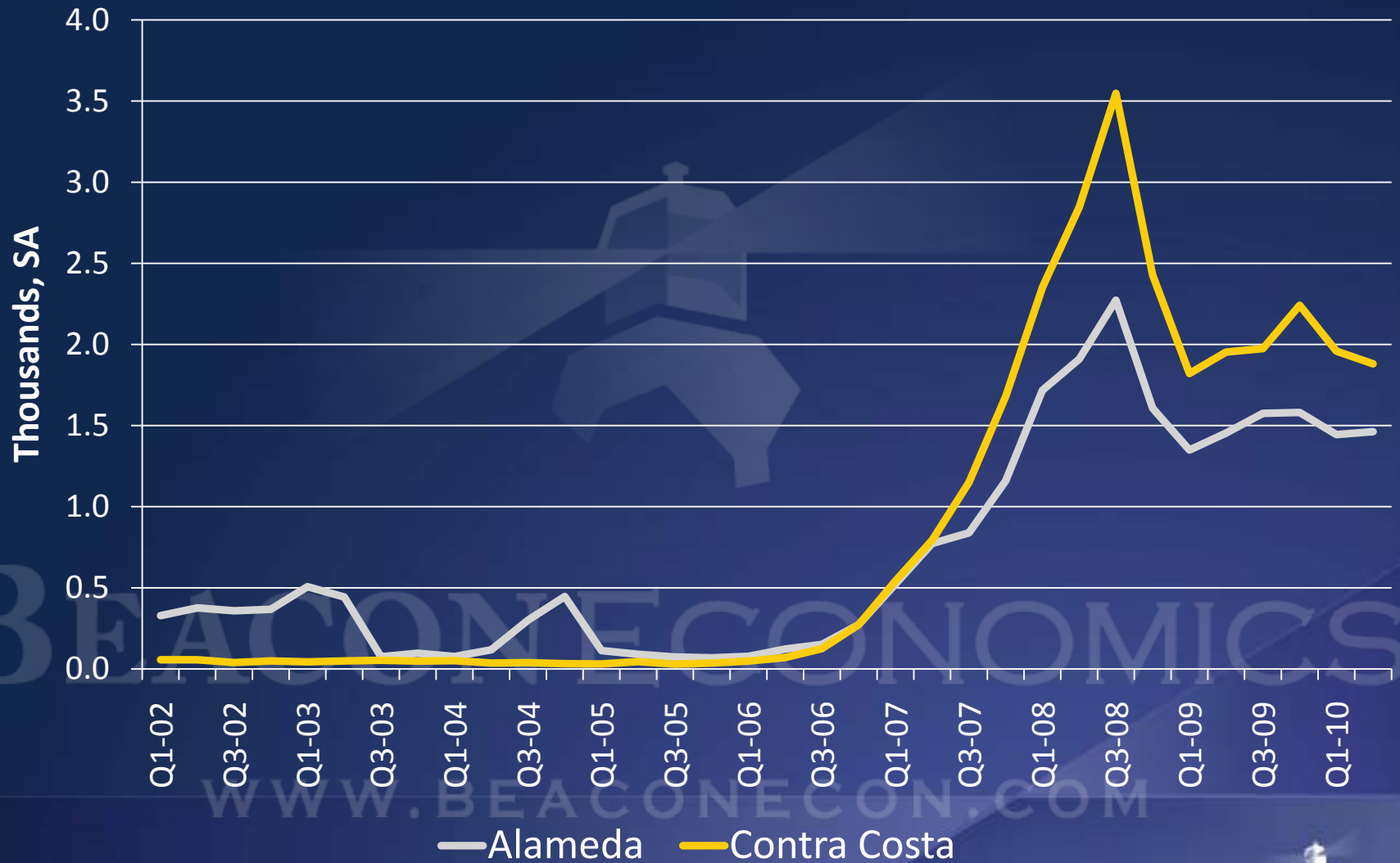
Source: DataQuick,

Oakland (MD) Defaults and Foreclosures to Q2-10



Source: DataQuick

Foreclosures to Q2-10



Source: DataQuick

Big Story: The Consumer

Beacon Forecast: Oakland (MD) Taxable Sales to Q4-15, as of Q2-10

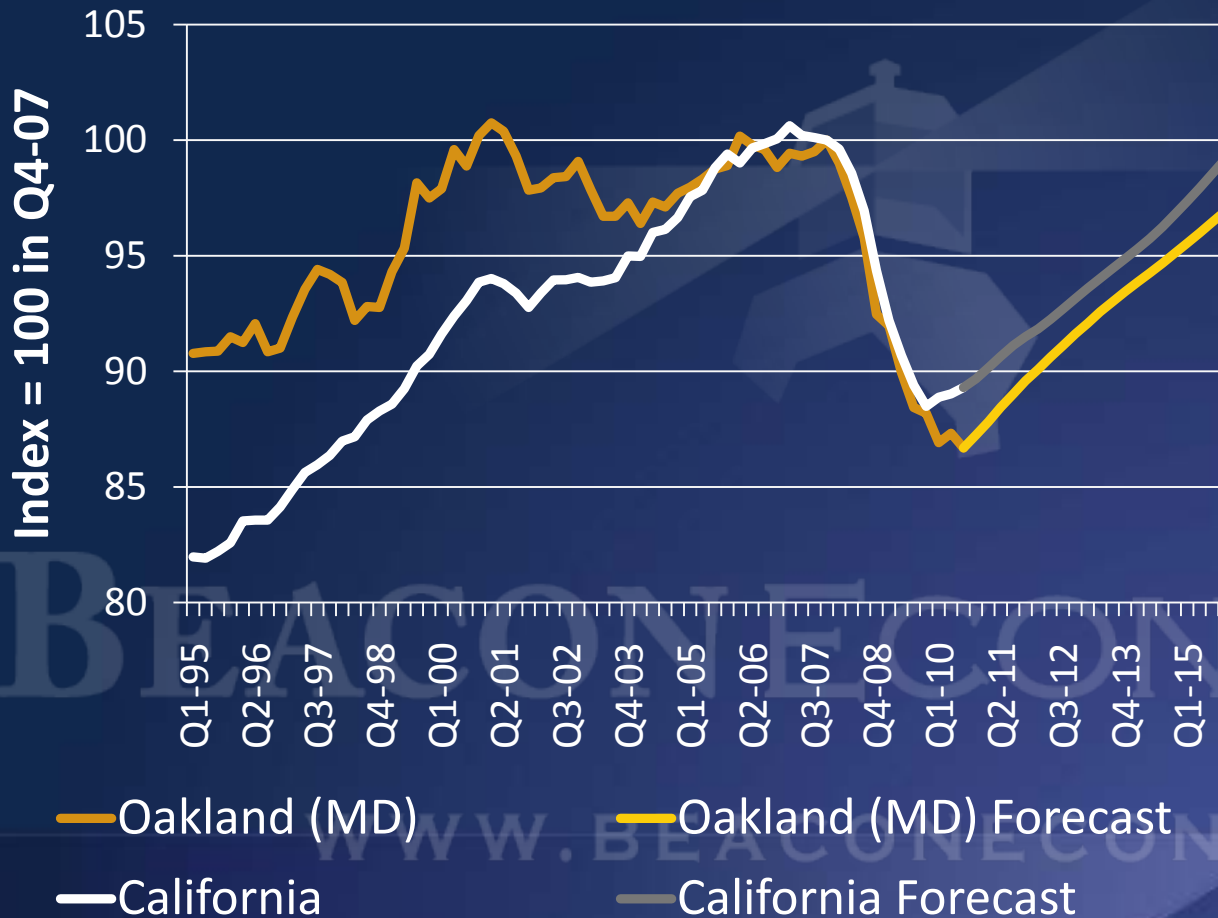


- Biggest driver of the current recession. Will be the key to recovery.
- Down 17.5% to date.
- Up 5.4% above trough
- Result: serious reductions in state and local government revenues

Source: California Board of Equalization

Retail Trade is Suffering

Beacon Forecast: Retail Trade Employment to Q4-15, as of Q3-10

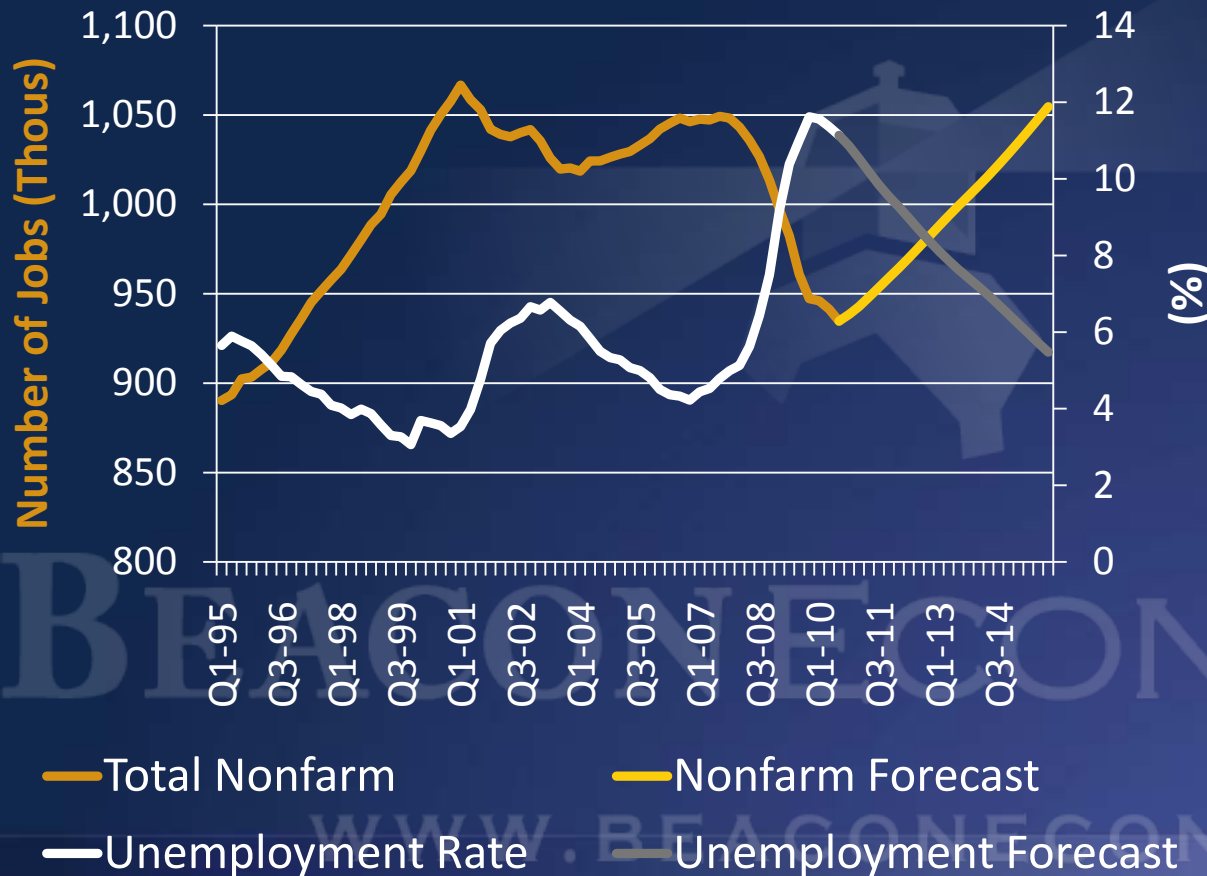


- The East Bay has the largest retail trade sector in the Bay Area
- Down: 16,008 jobs, 14.0% to date
- Currently at Trough

Source: California Employment Development Department

Net Effect on the Labor Market

Beacon Forecast: Oakland (MD) Employment Situation to Q4-15 as of Q3-10



- Unemployment peak:
11.6% in Q4-2009
Trough to Peak: +7.4 percentage points

- Employment trough:
934,728 in Q3-2010

Peak to Trough:
114,510 jobs lost
(11.2%)

Forecast Summary

| | Change from Peak to Current (%) | Change Yet to Come | Bottom Reached in |
|--------------------|------------------------------------|-----------------------|----------------------|
| Home Prices | | | |
| Alameda | -35.3 | Past Trough | Q1-09 |
| Contra Costa | -55.7 | Past Trough | Q2-09 |
| Taxable Sales | | | |
| Alameda | -17.7 | Past Trough | Q2-09 |
| Contra Costa | -17.2 | Past Trough | Q2-09 |
| Personal Income | -2.8 | At Trough | Q4-09 |
| Nonfarm Employment | -11.2 | At Trough | Q3-10 |
| Unemployment Rate | 6.9 | Declining | Q1-10 |

WWW.BEACONECON.COM

Key Takeaway Points

- The Oakland MD got an early start – is struggling to start a recovery
- Housing has bottomed, growth will be slow
- Expect local budgets to be strained for a while
 - Slow growth in tax sales
 - Slow increase in RE transactions
- The region is very adaptable!

Silicon Valley makes big push into solar and smart-grid technologies

By Dana Hull

Tesla gets ready to take over the former NUMMI auto plant in Fremont

By Dana Hull dhull@mercurynews.com
Posted: 09/18/2010 12:00:00 PM PDT

Venture Capital

| | Alameda | | Contra Costa | |
|-------|----------|------|--------------|------|
| | \$ (Mil) | Rank | \$ (Mil) | Rank |
| Q4-09 | 149.6 | 8 | 0.3 | 132 |
| Q1-10 | 227.7 | 6 | 11.2 | 51 |
| Q2-10 | 362.4 | 5 | 23.0 | 37 |

BEACON ECONOMICS

WWW.BEACONECON.COM

Source: PricewaterhouseCoopers



Biggest VC Investments in Q2-10

| Company | City | Amount (\$ Mill) | Industry |
|--------------------------|---------|---------------------|------------------------------|
| BrightSource Energy | Oakland | 150 | Industrial Energy |
| Solaria Corp | Fremont | 45 | Industrial Energy |
| OptiScan Biomedical Corp | Hayward | 32 | Medical Devices and Equip |

Footnote: Alameda County ranked #2 nationwide in Industrial Energy VC Funding

WWW.BEACONECON.COM

Source: PricewaterhouseCoopers



BEACONECONOMICS

Analysis. Answers.

- *Economic Forecasting*
- *Regional Intelligence Reports*
- *Business & Market Analysis*
- *Real Estate Market Analysis*
- *Ports & Infrastructure Analysis*
- *Economic Impact Analysis*
- *Public Policy Analysis*

To view or download this presentation
please visit: www.BeaconEcon.com

Jon@BeaconEcon.com

415-457-6006

WWW.BEACONECON.COM