



BEACONECONOMICS

***Is the
bounce
for real?***



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Will the real economy stand up?

✦ Where are we now?

- The good news: The recession is over
- The bad news: we haven't completely fixed the problems, instead the economy is being driven by government policy

✦ What next?

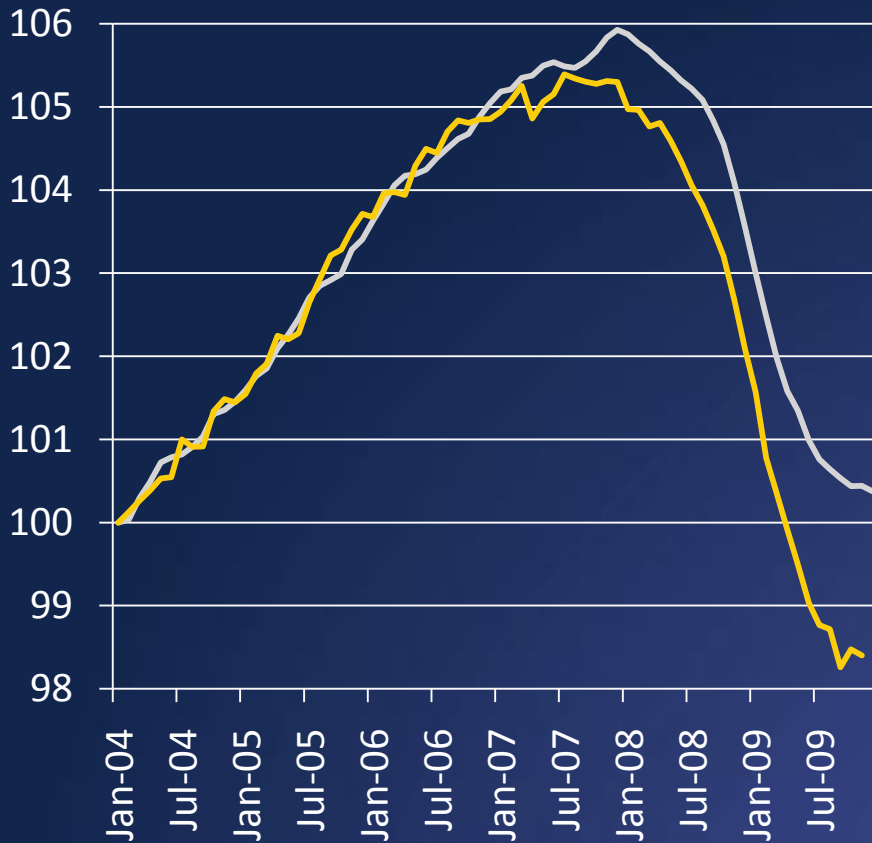
- Fundamentals say weak recovery
- Fiscal issues in the state will continue as a result
- The best advice: enjoy the stability, but be cautious about the future

Taking stock of the last year

	08-II	09-II	Ch	Cont.	Worst 4 Quarter Contractions	
GDP	13415	12901	-3.8%			
Personal consumption	9351	9189	-1.7%	-1.2%		
<i>Durable goods</i>	1175	1071	-8.8%	-0.8%		
<i>Nondurable goods</i>	2081	2025	-2.7%	-0.4%	2009-II	-3.8%
<i>Services</i>	6092	6078	-0.2%	-0.1%	1958-I	-3.0%
Gross investment	2026	1456	-28.1%	-4.2%	1982-III	-2.7%
<i>Structures</i>	493	400	-18.9%	-0.7%	1954-II	-2.5%
<i>Equipment software</i>	1097	876	-20.2%	-1.6%	1975-I	-2.3%
<i>Residential</i>	462	344	-25.6%	-0.9%	1980-III	-1.6%
Net exports	-476	-330		1.1%	1961-I	-1.0%
<i>Exports</i>	1670	1419	-15.0%	-1.9%	1991-I	-1.0%
<i>Imports</i>	2146	1749	-18.5%	-3.0%	1970-IV	-0.2%
Government	2506	2568	2.5%	0.5%		
<i>National defense</i>	645	695	7.7%	0.4%		
<i>Nondefense</i>	315	328	3.9%	0.1%		
<i>State and local</i>	1546	1548	0.1%	0.0%		
Total Inventories	1835.5	1750.2	-4.6%			

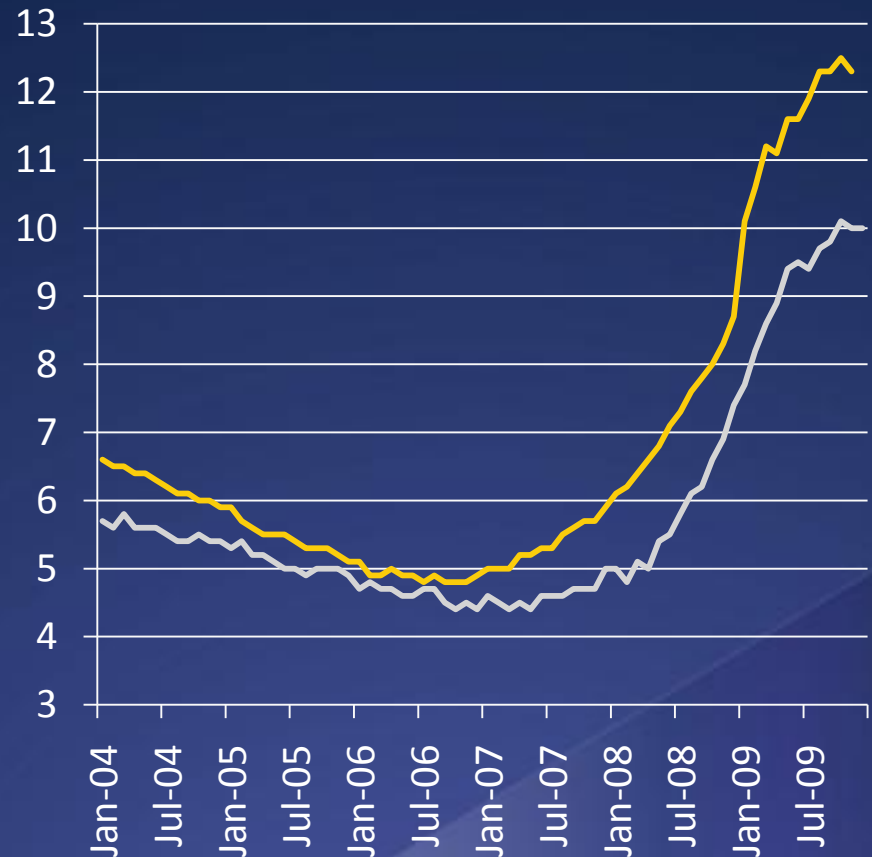
Jobs Jobs Jobs

Index of Payroll Employment



— United States — California

Unemployment Rate



— United States — California

California: A widespread hit

	Jan-08	Sep-09		
Riverside-San Bernardino-Ontario MSA	1,256,600	1,139,700	-9.3%	-116,900
Santa Rosa-Petaluma MSA	190,300	176,400	-7.3%	-13,900
Oxnard-Thousand Oaks-Ventura MSA	294,700	274,500	-6.9%	-20,200
Santa Ana-Anaheim-Irvine Metro Div	1,513,000	1,417,500	-6.3%	-95,500
Oakland-Fremont-Hayward Metro Div	1,046,400	981,500	-6.2%	-64,900
San Francisco-San Mateo-Redwood City Metro Div	998,300	945,100	-5.3%	-53,200
San Jose-Sunnyvale-Santa Clara MSA	919,900	870,900	-5.3%	-49,000
Los Angeles-Long Beach-Glendale Metro Div	4,095,800	3,879,600	-5.3%	-216,200
Stockton MSA	208,500	197,700	-5.2%	-10,800
San Diego-Carlsbad-San Marcos MSA	1,308,400	1,240,900	-5.2%	-67,500
Modesto MSA	159,000	150,800	-5.2%	-8,200
Salinas MSA	128,800	123,000	-4.5%	-5,800
Santa Barbara-Santa Maria-Goleta MSA	174,100	168,400	-3.3%	-5,700
Bakersfield MSA	238,000	231,300	-2.8%	-6,700

Why the worse downturn?

✦ Housing

- Greater price increase / decrease
- Subprime central

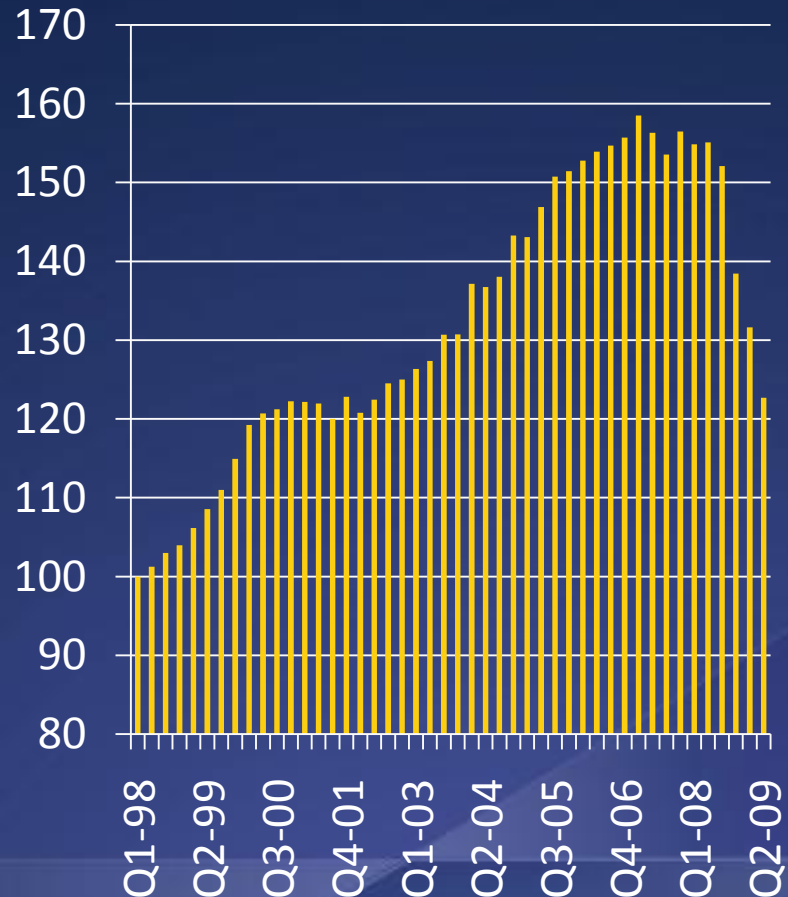
✦ Exports

- Goods / tourism / licenses

✦ Business Spending

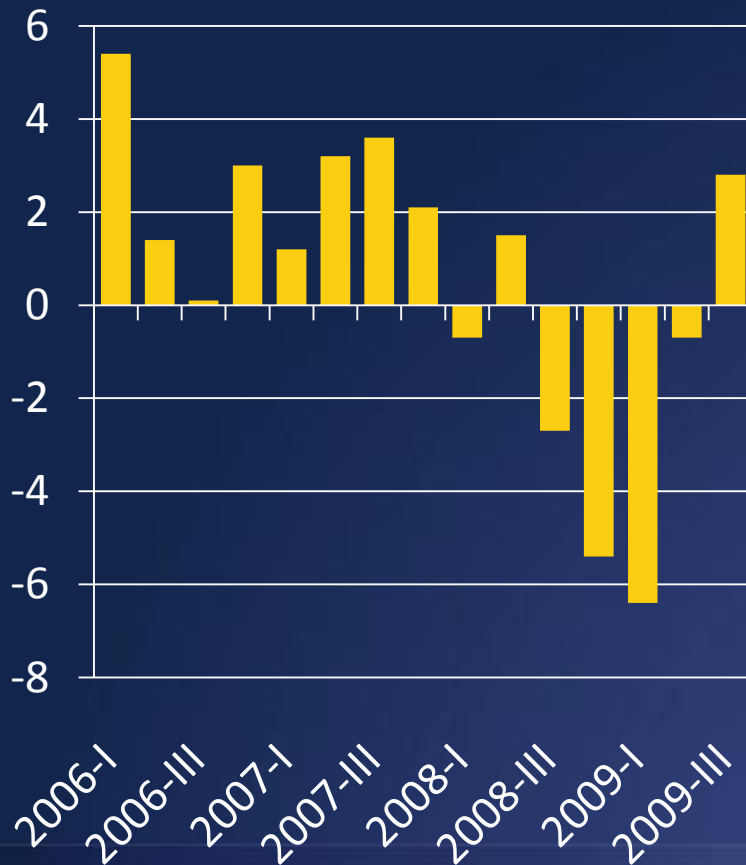
- The IT industry

CA Taxable Sales Index



3rd Quarter GDP Update

GDP Growth



	2009-I	2009-II	2009-III
Percent change at annual rate:			
Gross domestic product	-6.40	-0.70	2.20
Personal consumption expenditures	0.44	-0.62	1.96
Durable goods	0.28	-0.41	1.36
Nondurable goods	0.29	-0.29	0.23
Services	-0.13	0.09	0.37
Gross private domestic investment	-8.98	-3.10	0.54
Structures	-2.28	-0.69	-0.68
Equipment and software	-3.01	-0.32	0.10
Residential	-1.33	-0.67	0.43
Change in private inventories	-2.36	-1.42	0.69
Net exports of goods and services	2.64	1.65	-0.81
Exports	-3.95	-0.45	1.78
Imports	6.58	2.09	-2.59
Government consumption	-0.52	1.33	0.55
National defense	-0.27	0.70	0.45
Nondefense	-0.06	0.15	0.17
State and local	-0.19	0.48	-0.08

So what does it mean?

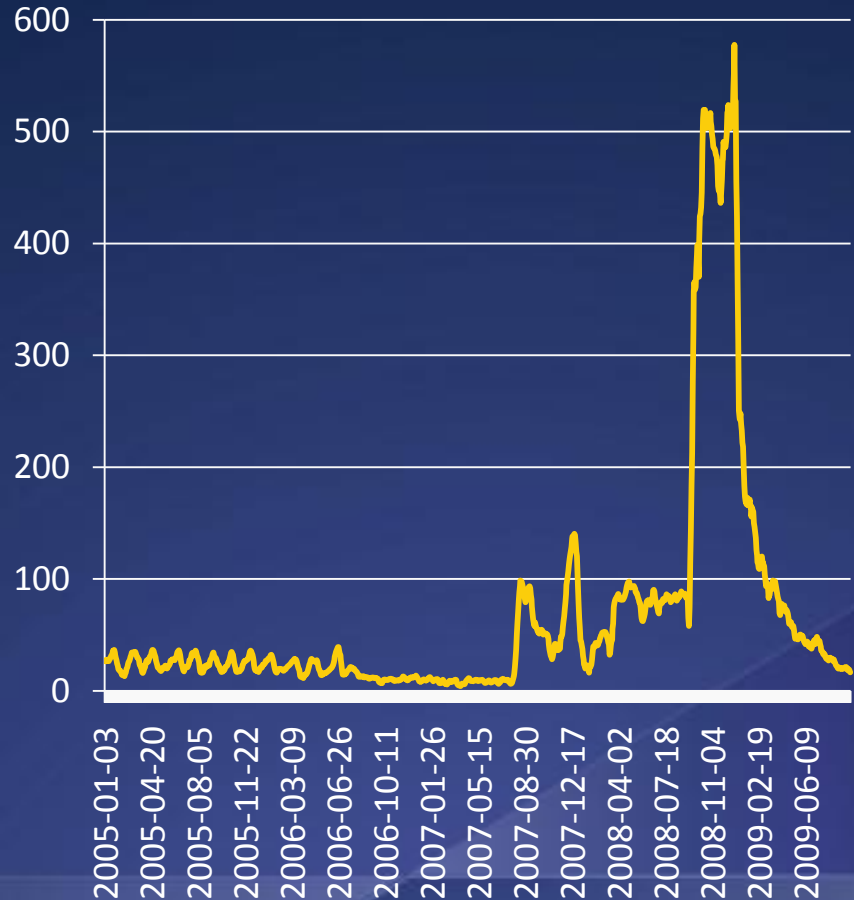


The Financial Markets

US Equity Markets

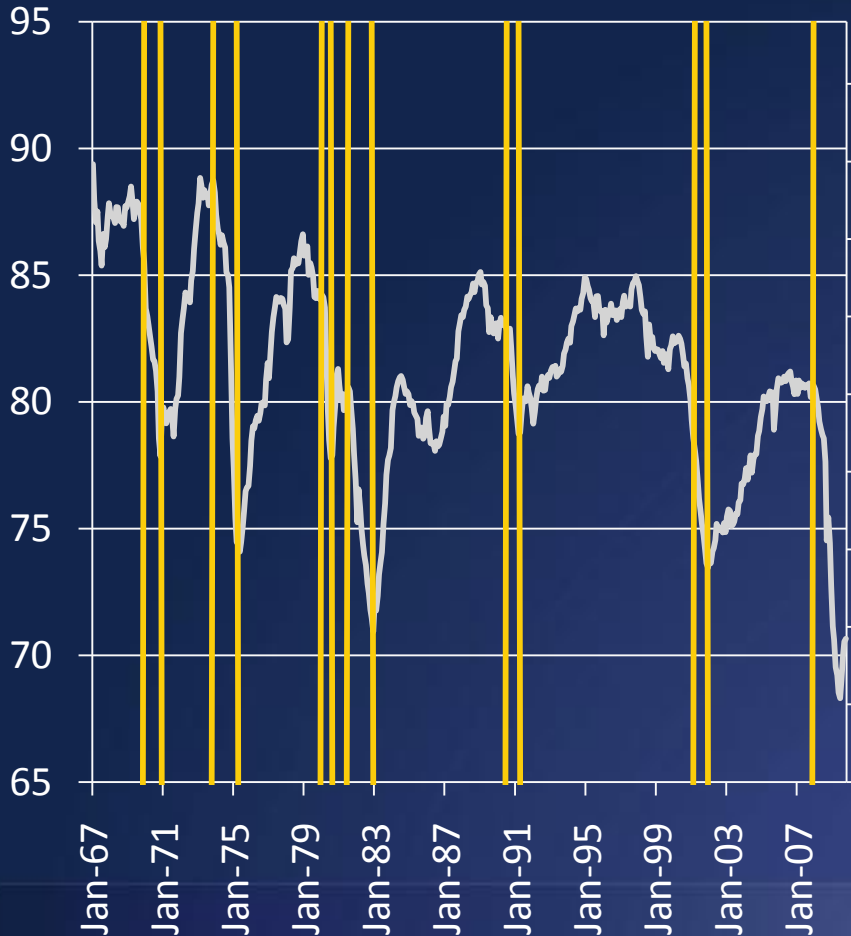


30 Day A2/P2 – Daily AA (BPs)



Industrial Indicators

Capacity Utilization to Oct



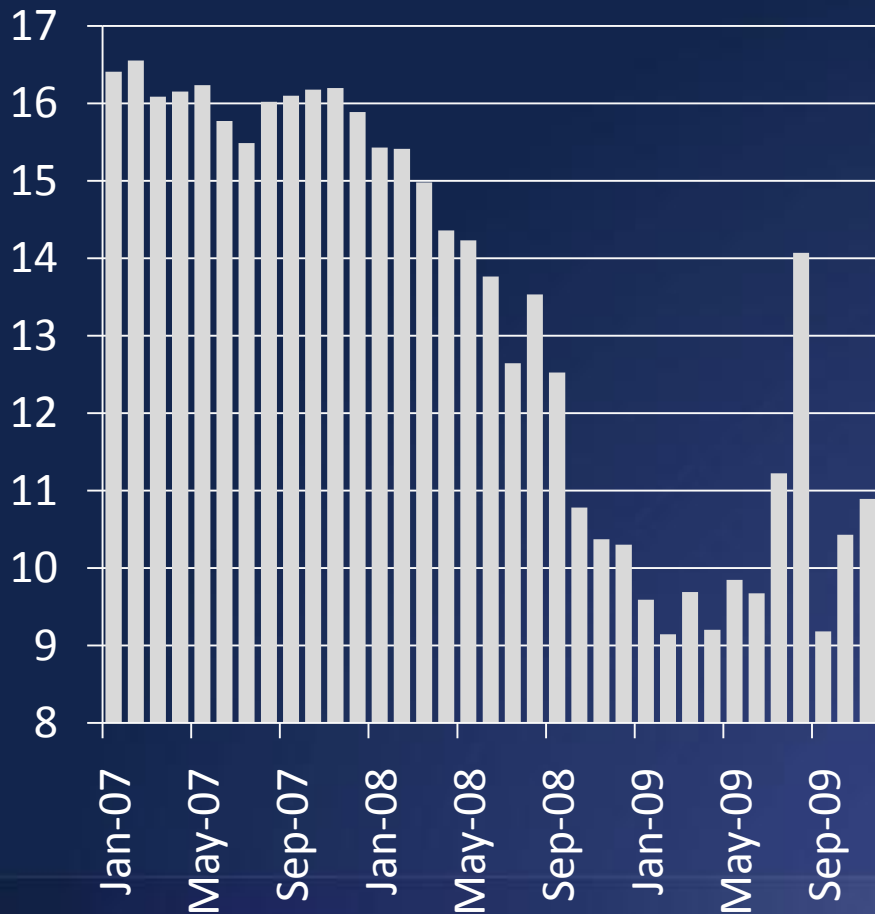
Manufacturing Orders and Inventories to October



— Orders — Inventories

The Consumer

Auto Sales SAAR to Nov



Retail Sales to November

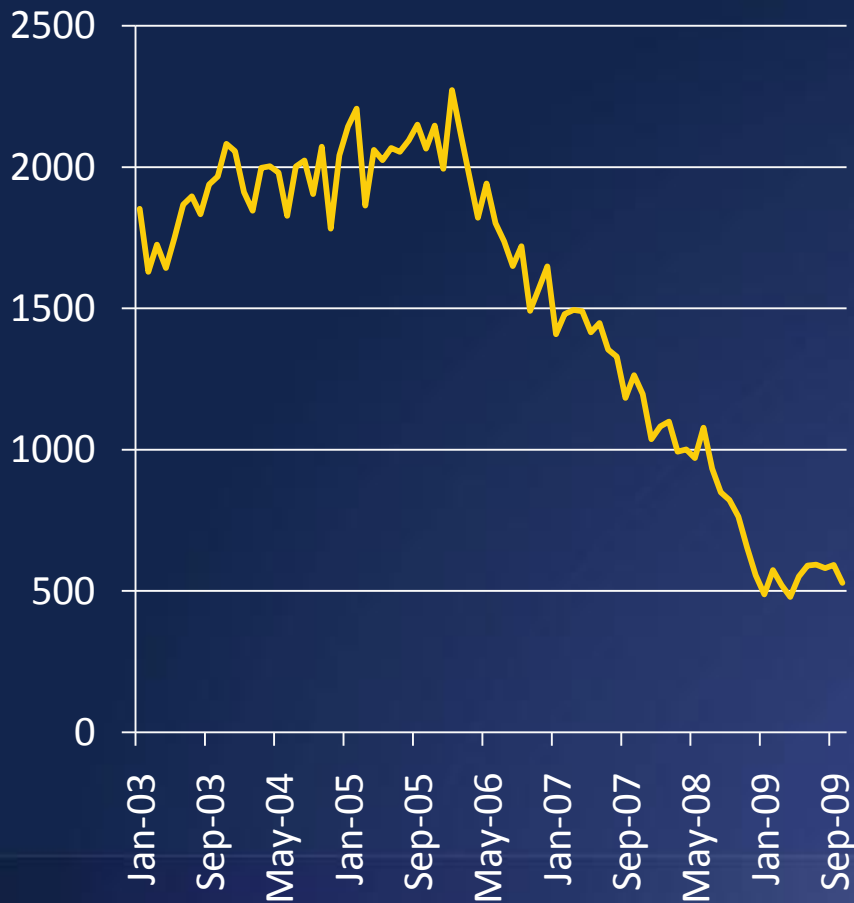


What kind of recovery?

A **S**LOW **?**
slow

Housing Outlook

Housing Starts to Oct

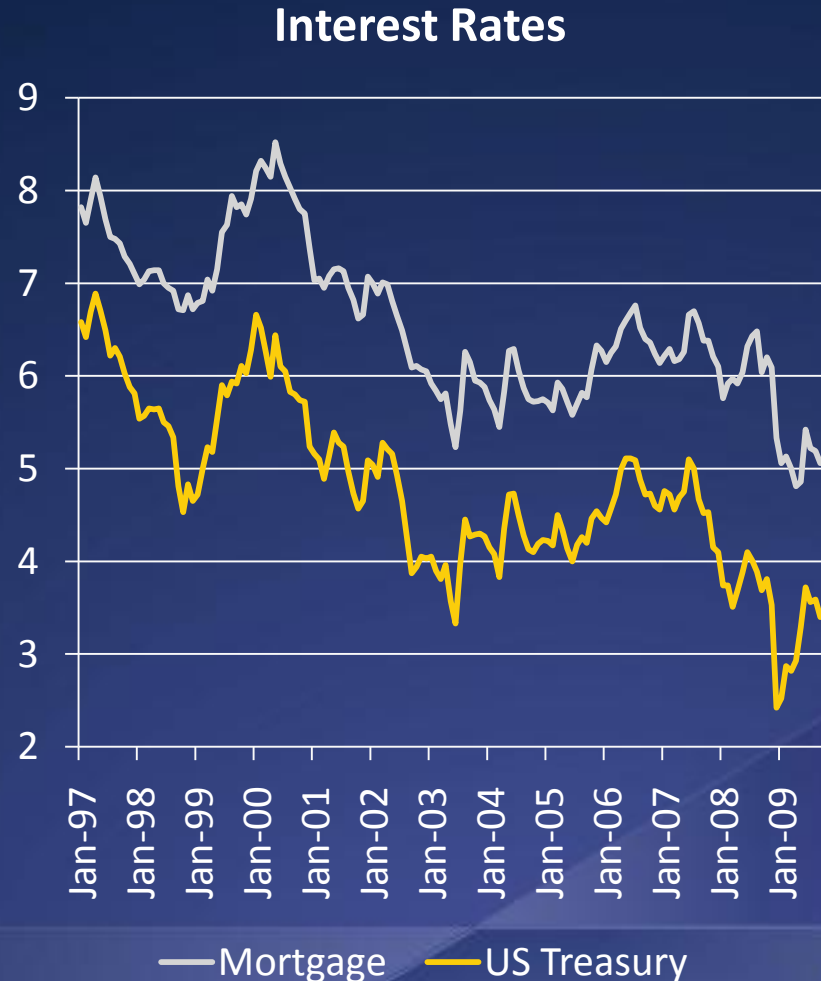


Case Shiller 20 City Index



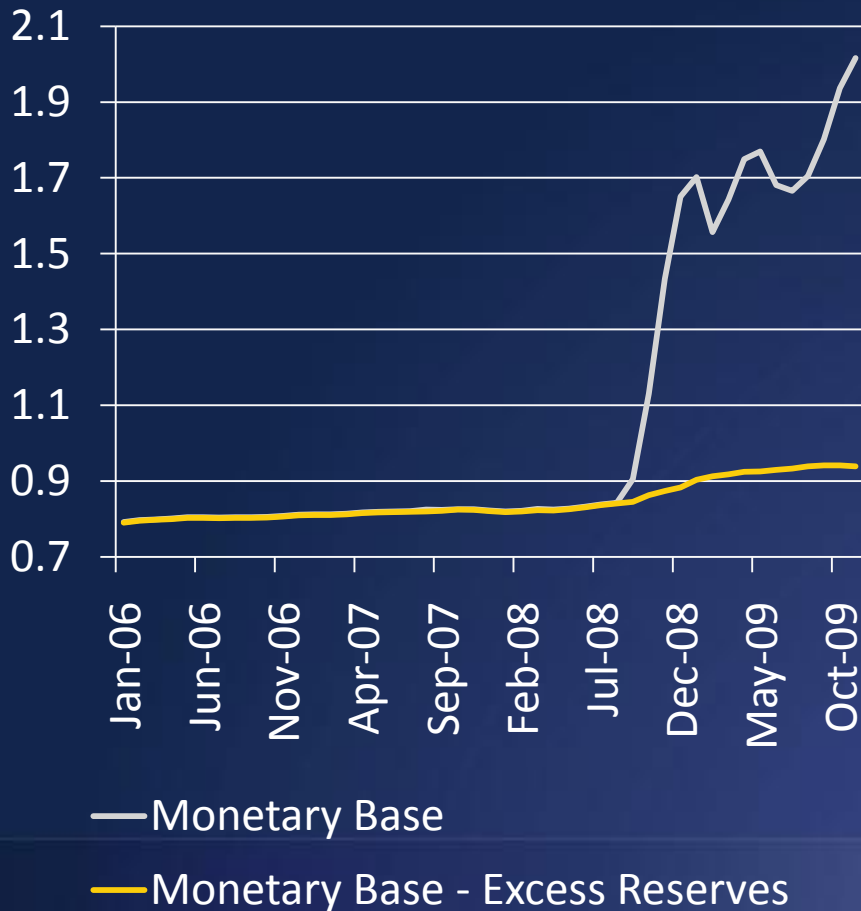
Drivers of Housing Bounce

- Interest Rates
- The FHA
- Hope for Homeowners
- The tax credit

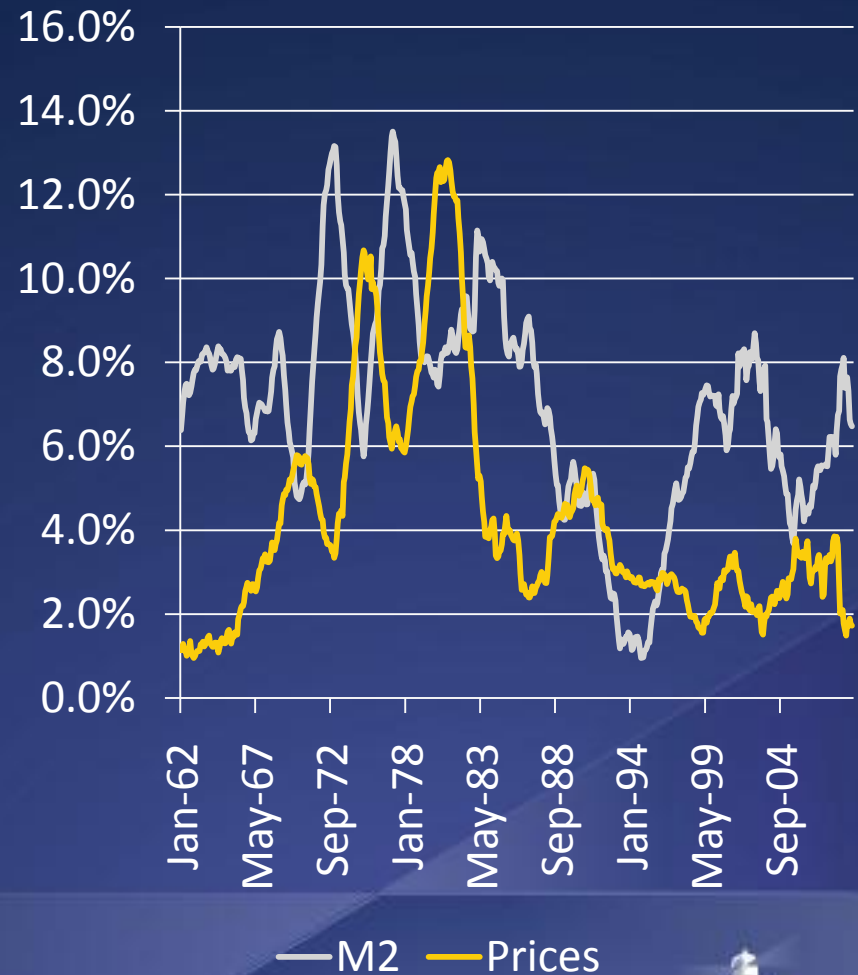


Quantitative Easing

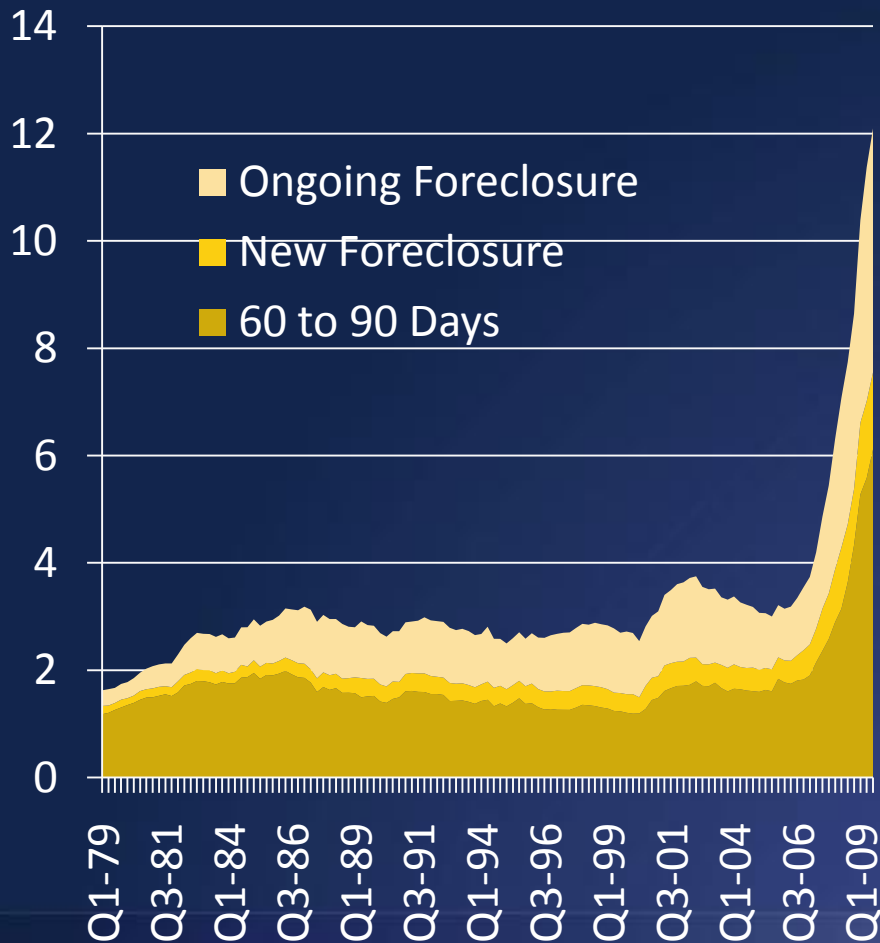
Monetary Base and Excess Reserves



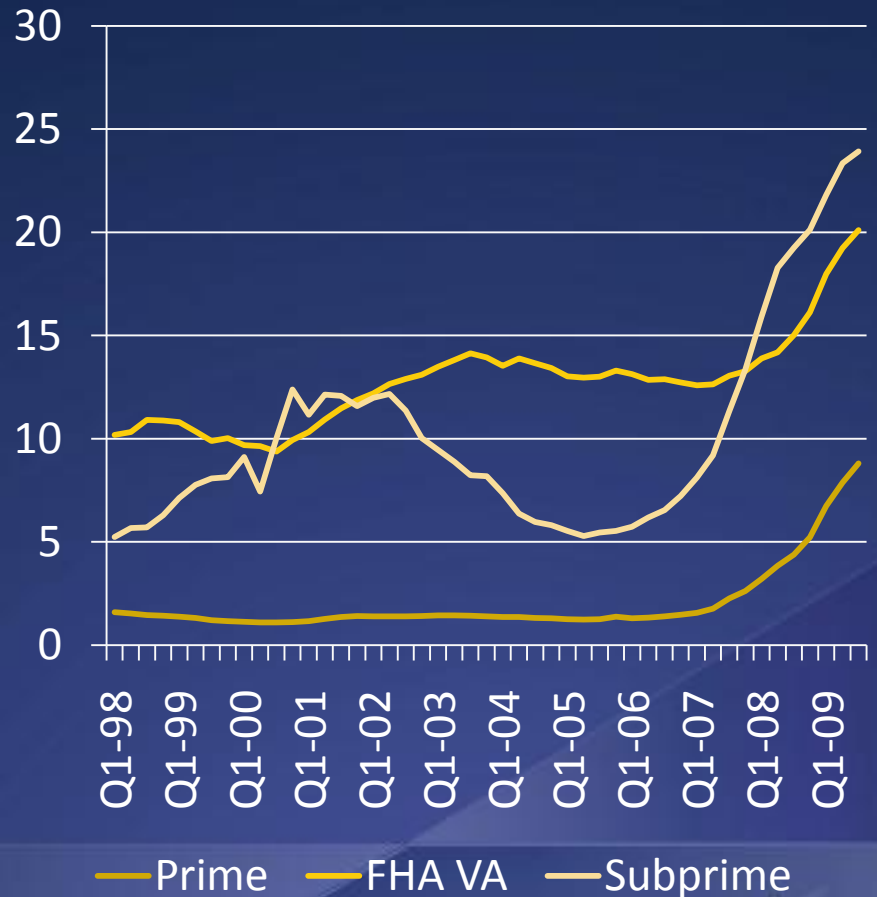
2 Yr Growth to Nov



MBA Q3 Numbers (% of all loans)

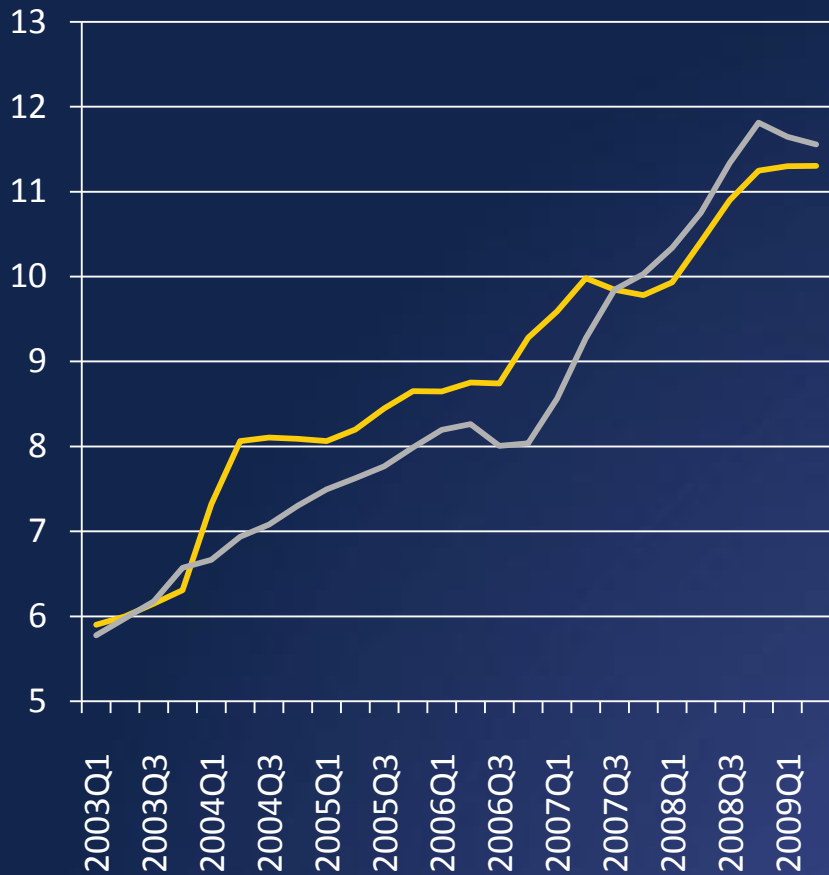


60+ by Type



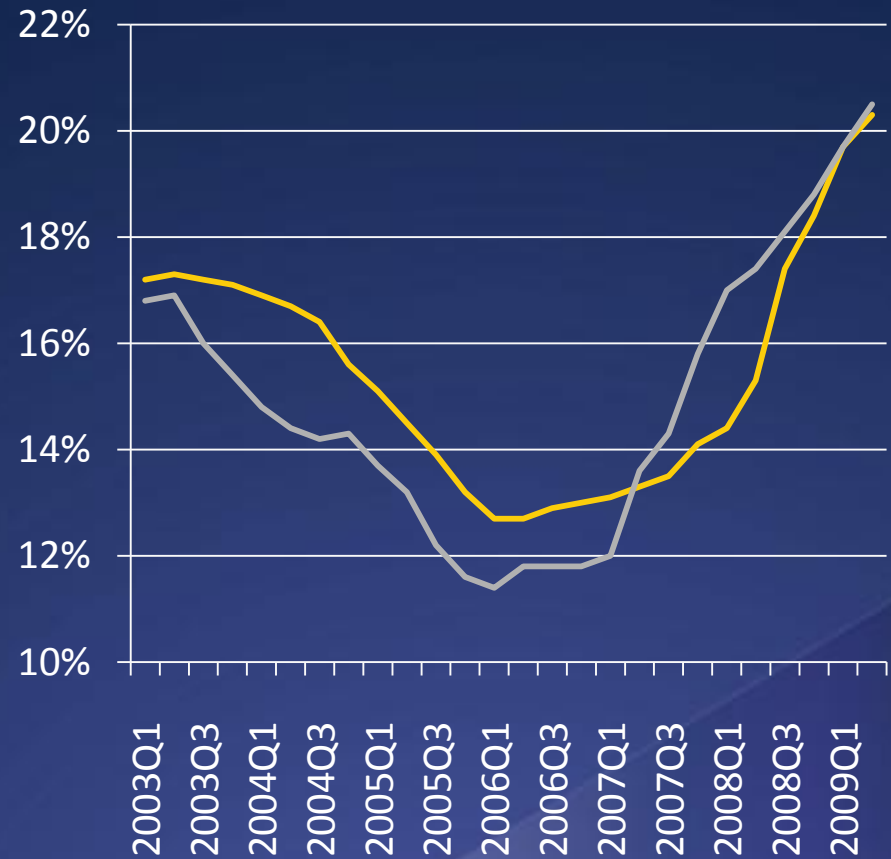
Commercial Crisis

Price / Asking Rent (PSF) Office



— Las Vegas — Orange

Office Vacancies



— Las Vegas — Orange

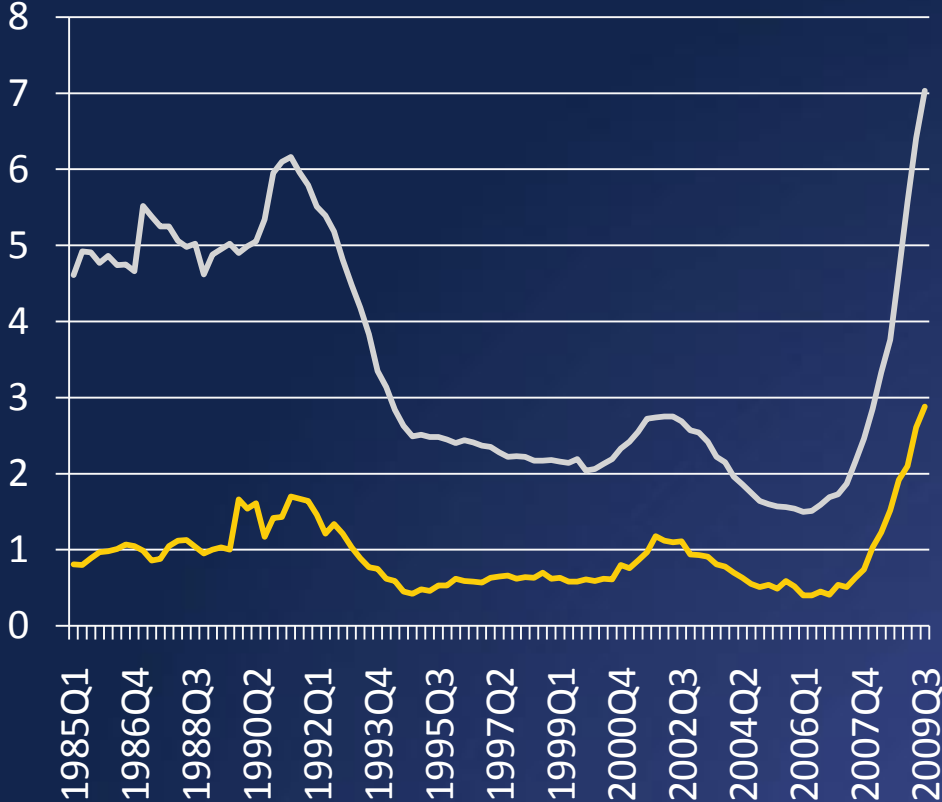
Commercial Troubles

Q3 07 to Q3 09

Apartment	Inland Empire	4.70%	8.00%	\$1,187	\$1,087	-8.4%
	Los Angeles	4.90%	8.00%	\$1,745	\$1,638	-6.1%
	Orange County	3.90%	7.90%	\$1,645	\$1,547	-6.0%
Hotel	Inland Empire	64.30%	52.40%	\$117	\$106	-8.8%
	Los Angeles	74.40%	64.20%	\$159	\$145	-8.8%
	Orange County	72.40%	64.00%	\$170	\$149	-12.6%
Office	Inland Empire	11.30%	26.00%	\$23	\$20	-13.2%
	Los Angeles	11.70%	18.10%	\$31	\$29	-6.2%
	Orange County	14.30%	21.20%	\$30	\$24	-18.6%
Retail	Inland Empire	13.70%	22.00%	\$19	\$17	-11.7%
	Los Angeles	8.30%	13.50%	\$26	\$23	-12.1%
	Orange County	3.50%	10.90%	\$25	\$22	-12.4%
Warehouse	Inland Empire	3.30%	11.70%	\$6	\$5	-22.2%
	Los Angeles	3.80%	7.60%	\$8	\$7	-13.6%
	Orange County	6.00%	11.00%	\$7	\$5	-18.2%

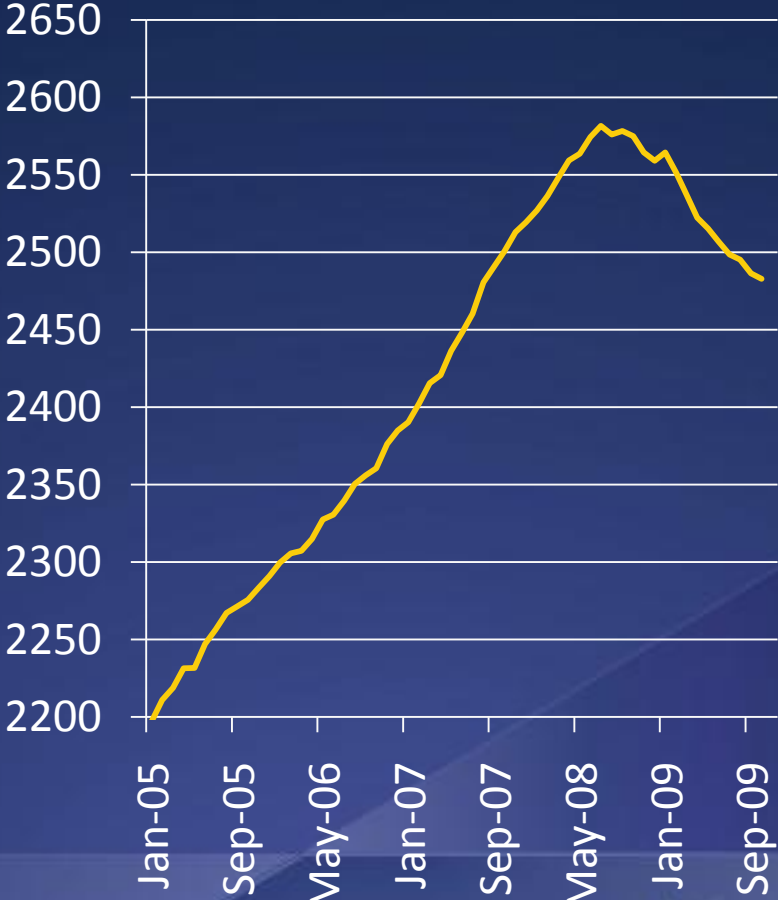
Bank Status

Bank Health



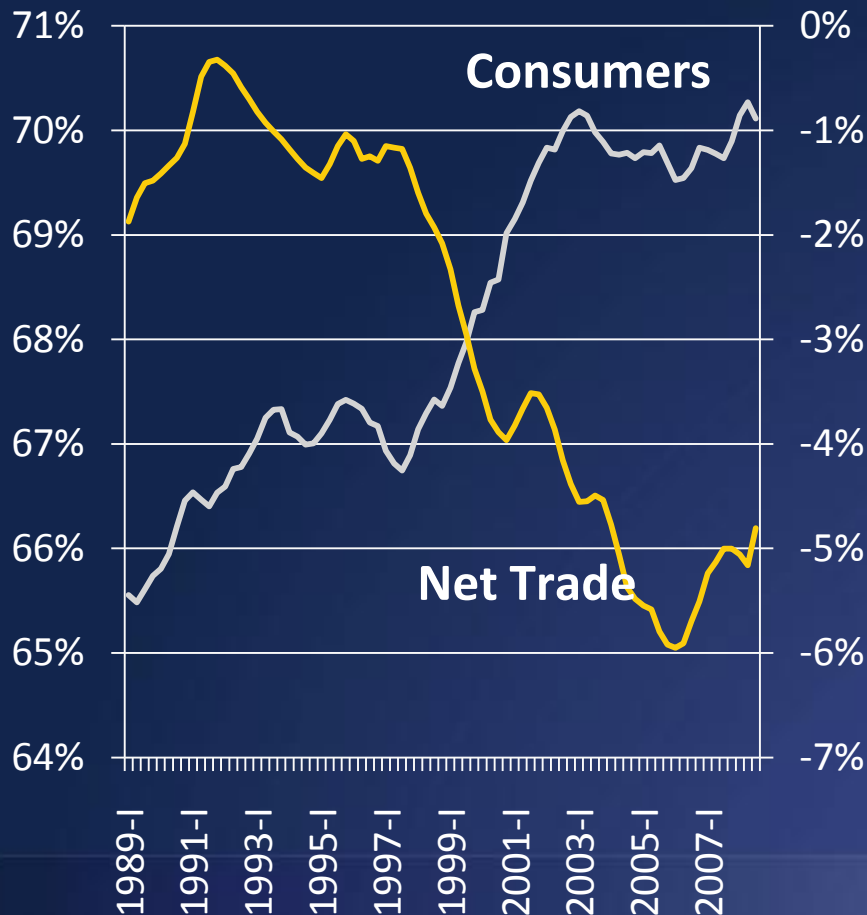
- Delinquency rate on all loans
- Charge-off rate on all loans

Consumer Credit

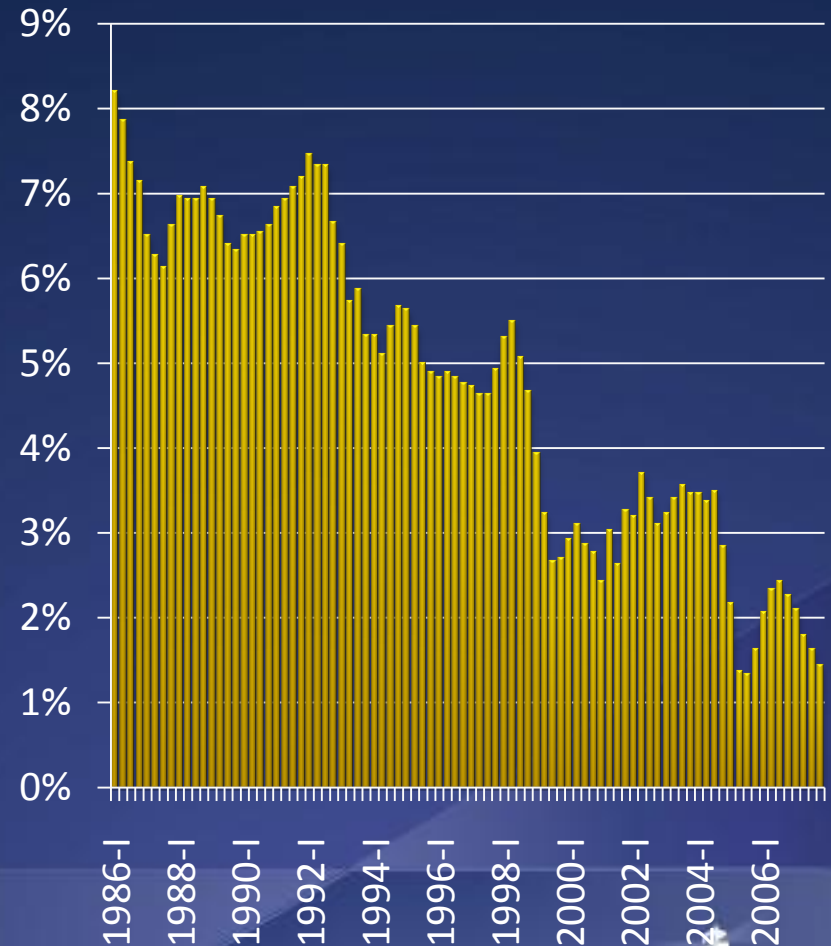


The Consumer Imbalance

Share of GDP

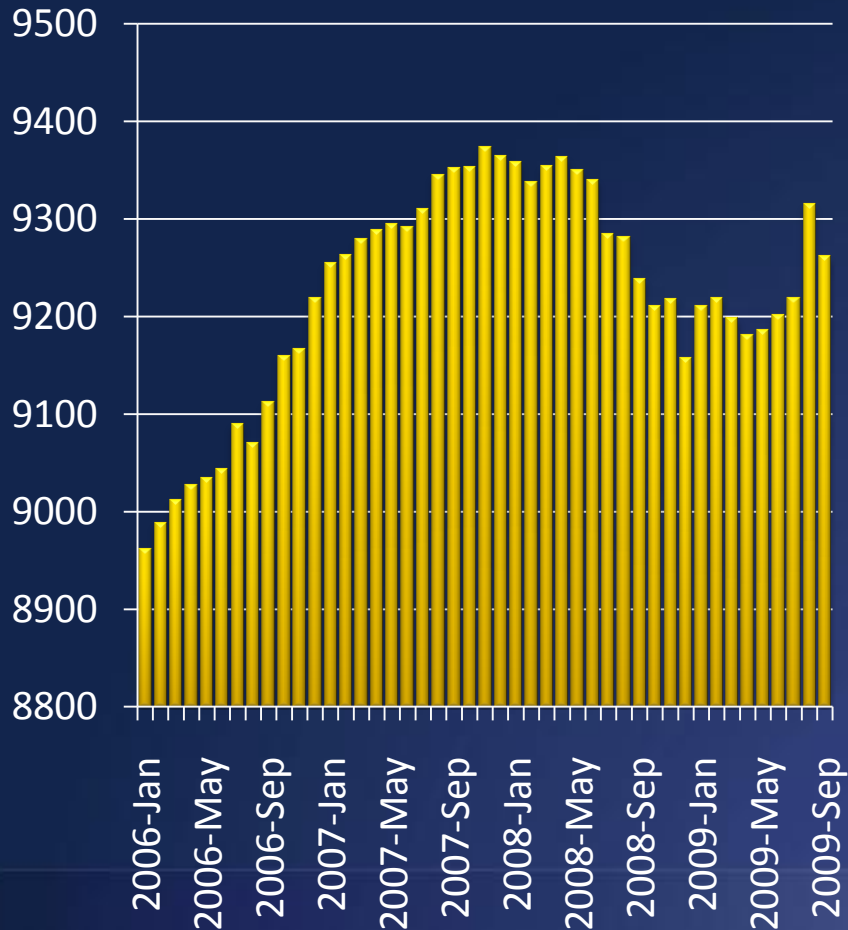


Savings as Share DPI



Consumer Indicators

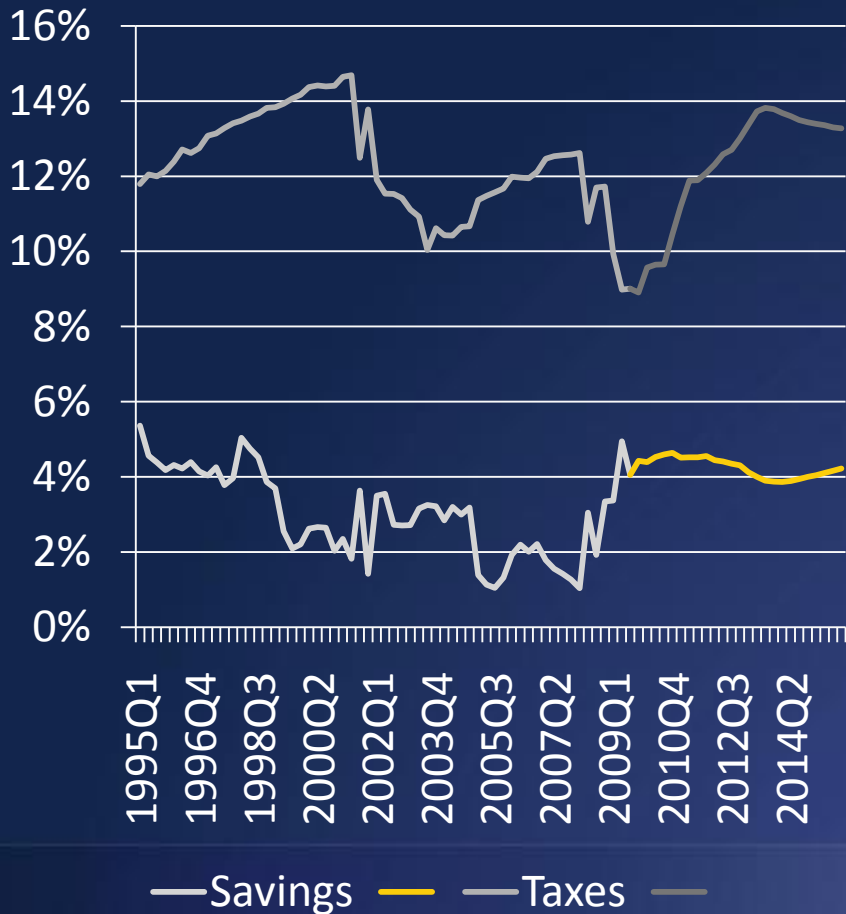
Real Spending



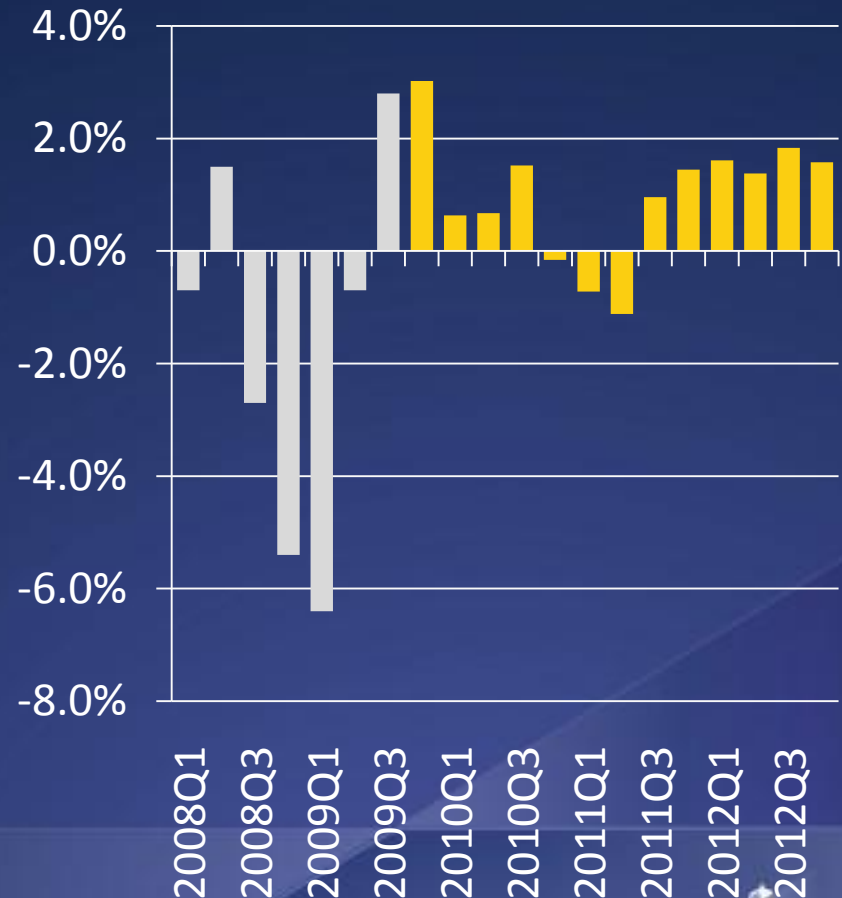
	1993-II	2008-I	2009-III
Real Income	7069	11246	10912
Savings	386		
	5.5%		
Consumption	5671		
	80%		
Taxes	816.9		
	11.6%		

The Forecast

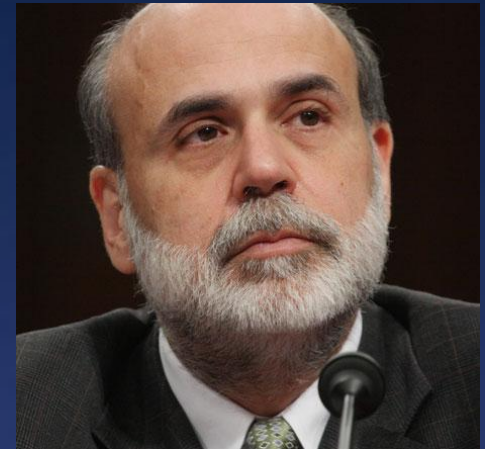
Drivers (% Income)



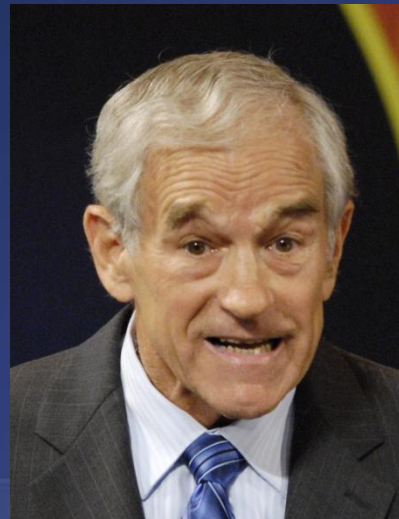
GDP Growth



But... lots of questions.



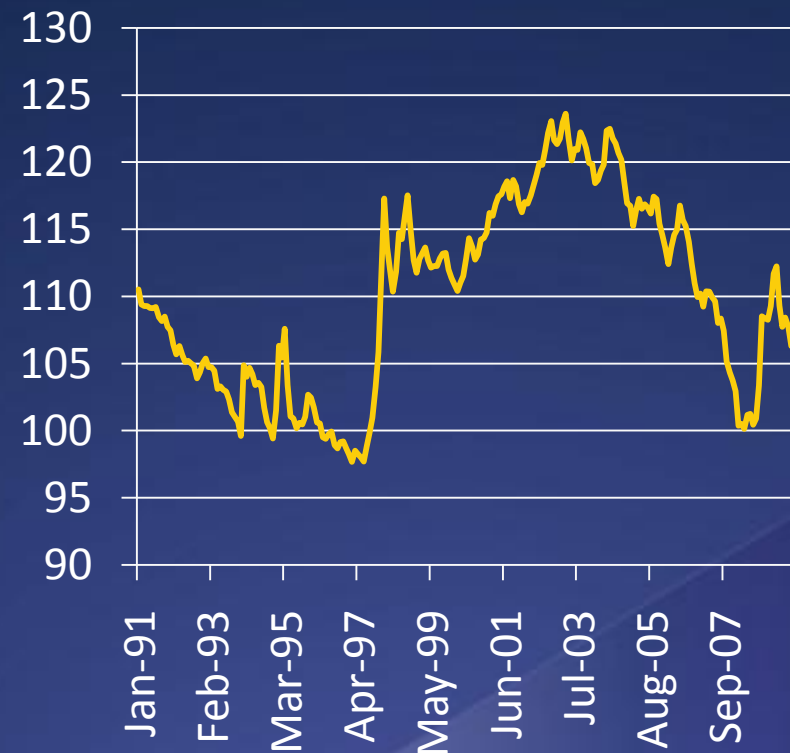
1.1123	1.1601	-	1.18%	↓	0.186		
0.118	1.662	+	0.16%	↑	11.600		
1.121	0.1201	+	0.00%	↑	N/A		
20.232	1.0233	-	1.53%	↓	10.201		
0.186	1.1611	+	1.15%	↑	13.203		
1.1601	0.1802	-	0.87%	↓	20.160		
1.662	0.105	-	0.77%	↓	N/A		
0.1201	1.250	+	0.77%	↑	N/A		
1	1.0233	1.1577	+	1.32%	↑	1.662	1.6
2	1.1611	0.075	+	2.24%	↑	10.201	10.2
01	0.1602	0.1180	-	2.70%	↓	0.873	20
73	0.1602	0.1125	+	1.85%	↑	1.123	20
123	0.105	0.118	+	1.09%	↑	N/A	0
118	31.280	1.121	+	1.12%	↑	N/A	200
118	31.280	1.121	+	1.12%	↑	20.232	800
118	31.280	1.121	+	1.12%	↑	0.288	1.00
118	31.280	1.121	+	1.12%	↑	11.600	0



Big Questions

- ✦ Positive Potential Changes
 - Strong export growth
 - Strong recovery in business spending
- ✦ Potential Policy Changes
 - Extend tax cuts / more stimulus
- ✦ A New Bubble?
 - Savings rates stall at lower level
 - Real double dip?
- ✦ Fed policy
 - Will weak labor markets force the Fed to maintain excessively loose policy?

Real Value \$US OITP



So what does it mean for the California budget?

Good News

- The collapse in state revenues will come to an end this year

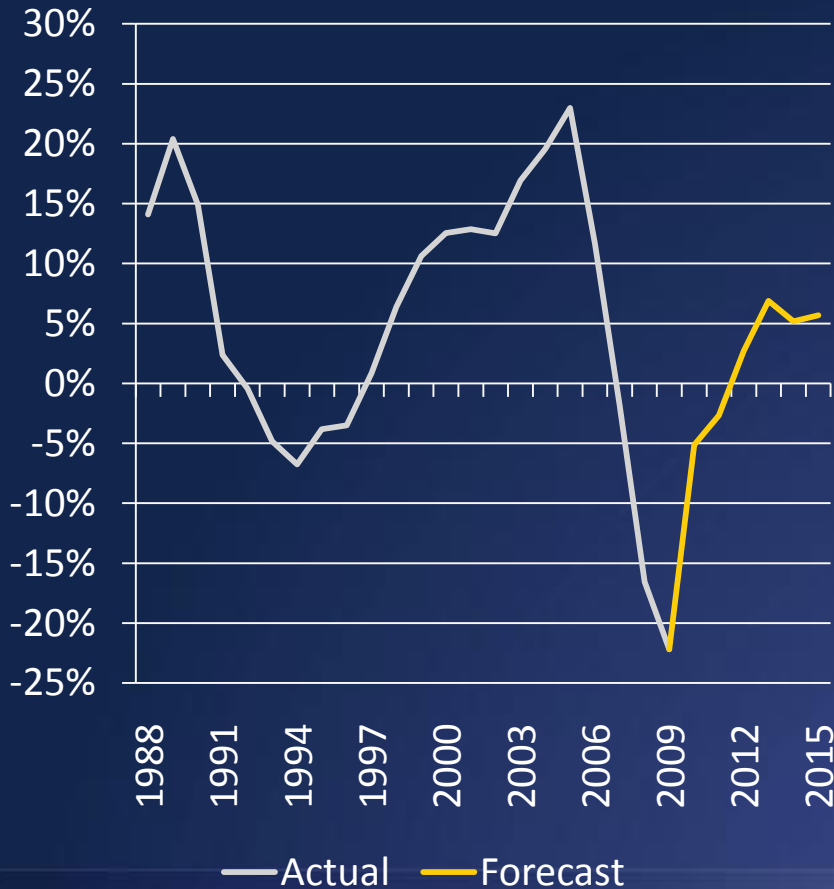
Bad News

- Weak recovery implies a weak bounce in revenues
- Local property taxes, are still due for a big hit

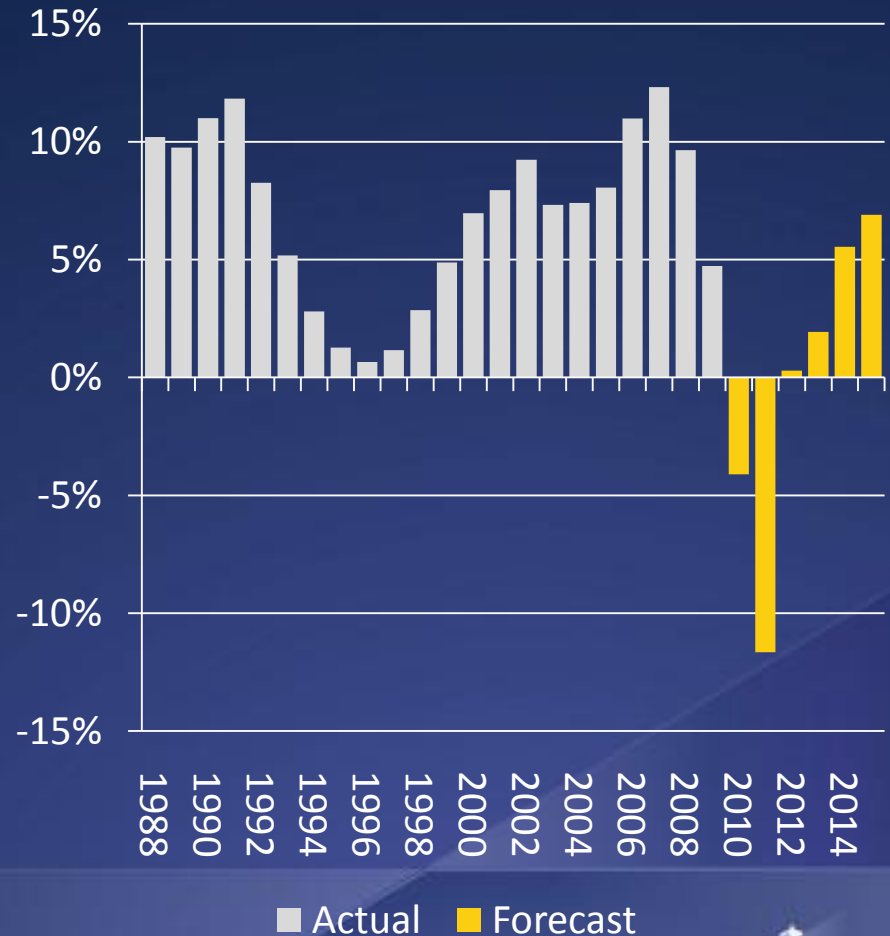
	CORP	PIT	Sales	Total
DOF Forecast: Cash Basis				
FY 09-10	\$9,224	\$46,564	\$26,083	\$89,594
FY 10-11	\$9,828	\$46,675	\$26,101	\$89,385
Beacon Economics: Cash Forecast				
FY 09-10	\$9,235	\$44,007	\$26,625	\$87,589
FY 10-11	\$9,933	\$46,179	\$27,242	\$90,134

The AV Forecast

Median Home Prices



State AV Forecast



Summary

✦ The Recession is Dead... Long Live the Recession?

- Consumer weakness will likely continue
- Businesses are a wild card
- Housing bounce won't last
- 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!!
- But is this another transition for the US Labor force?



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