

# **Economic Outlook 2009**

## **Tri County Economic Forecast Conference**

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# 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?

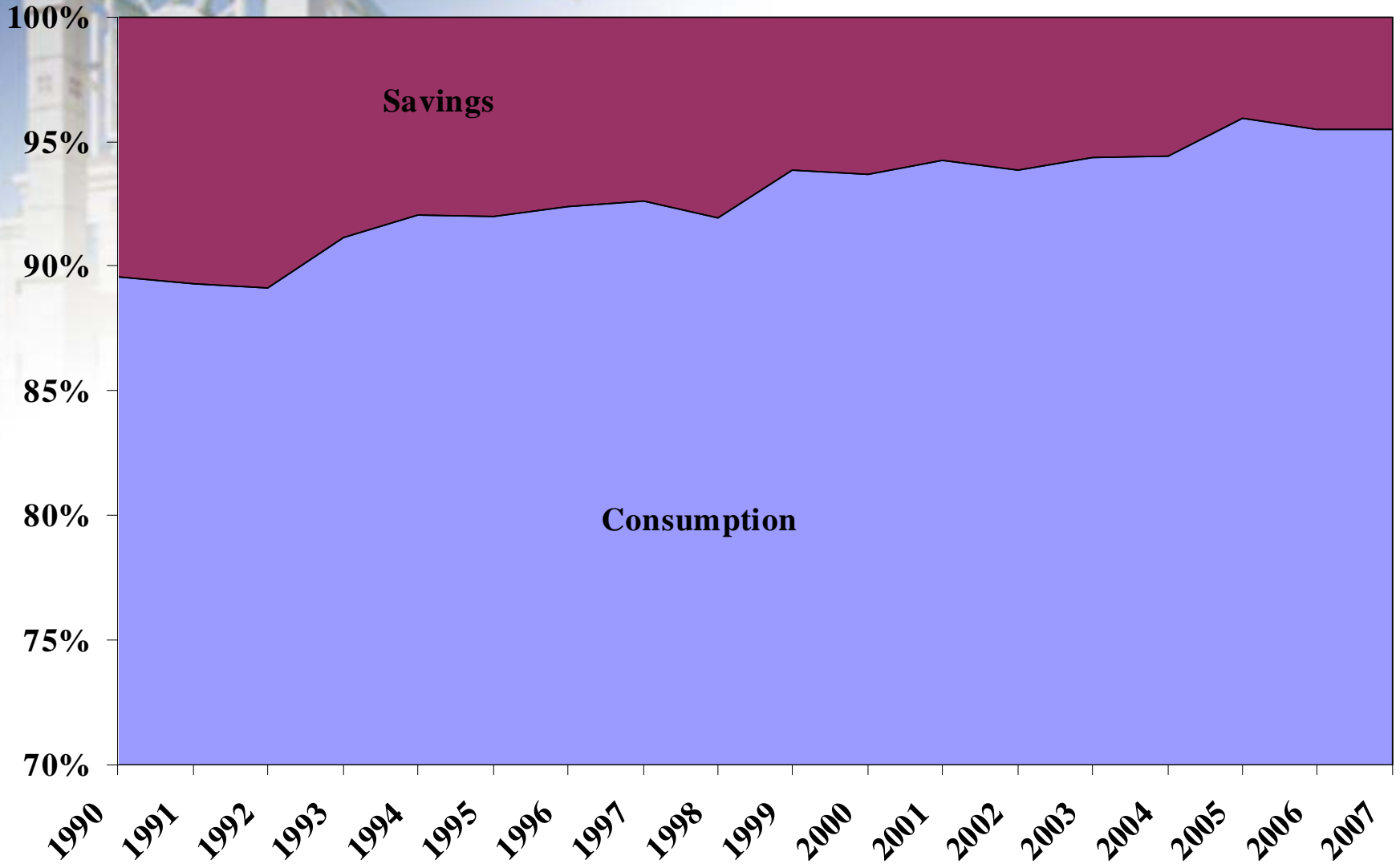
# Introduction (cont.)

- 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

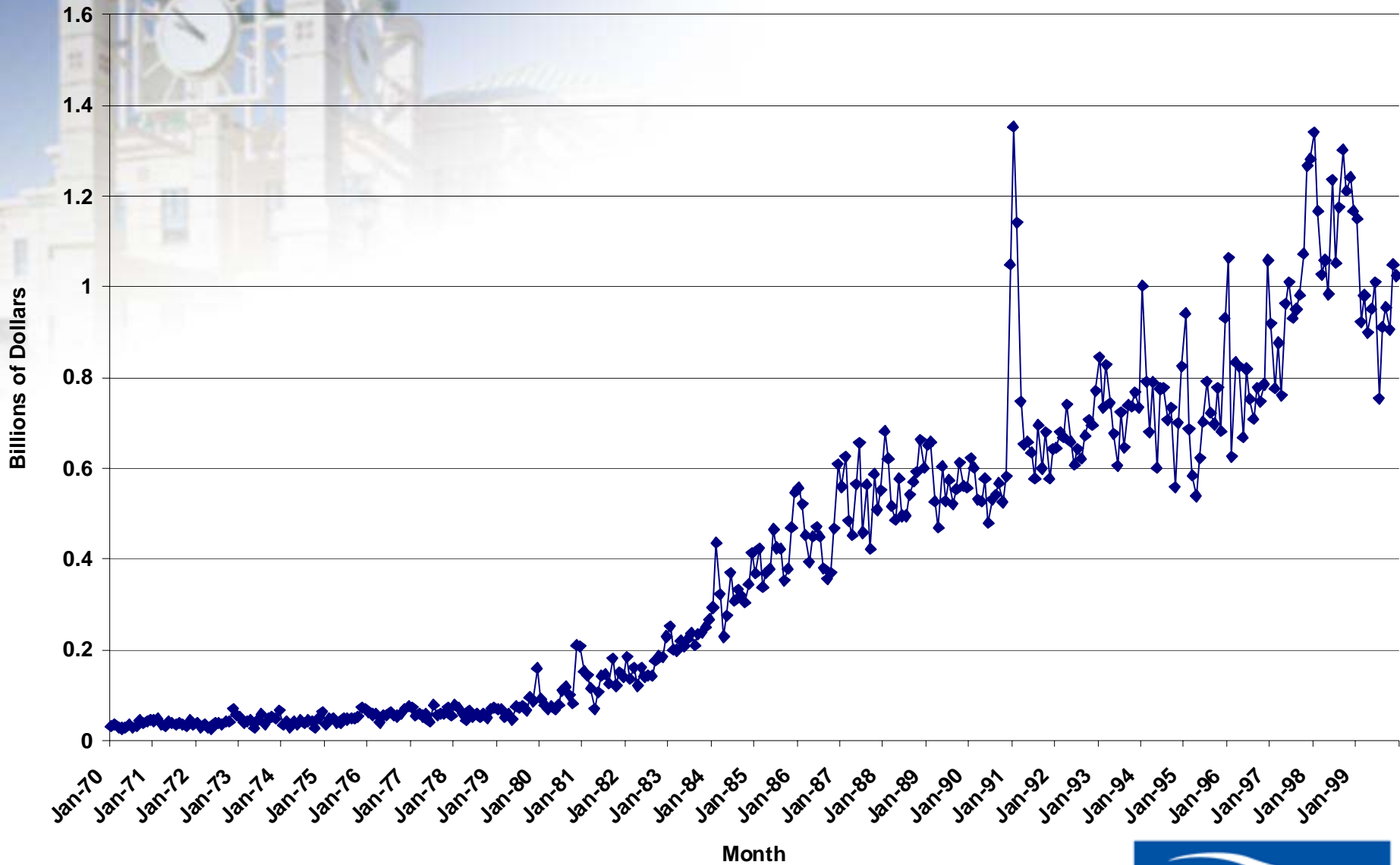
# The Bailout Plan(s)

- 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

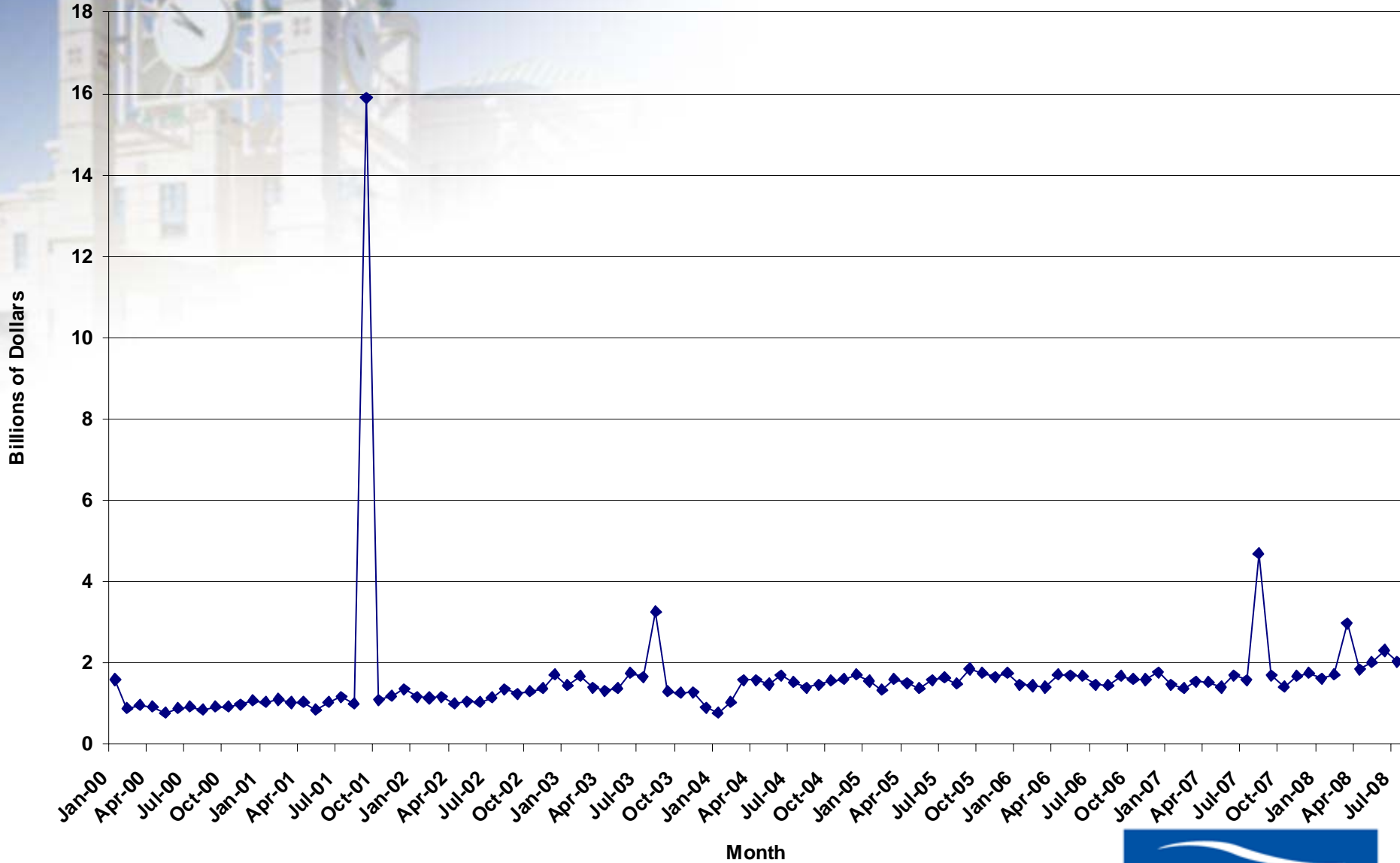
# The Role of Banking

- 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

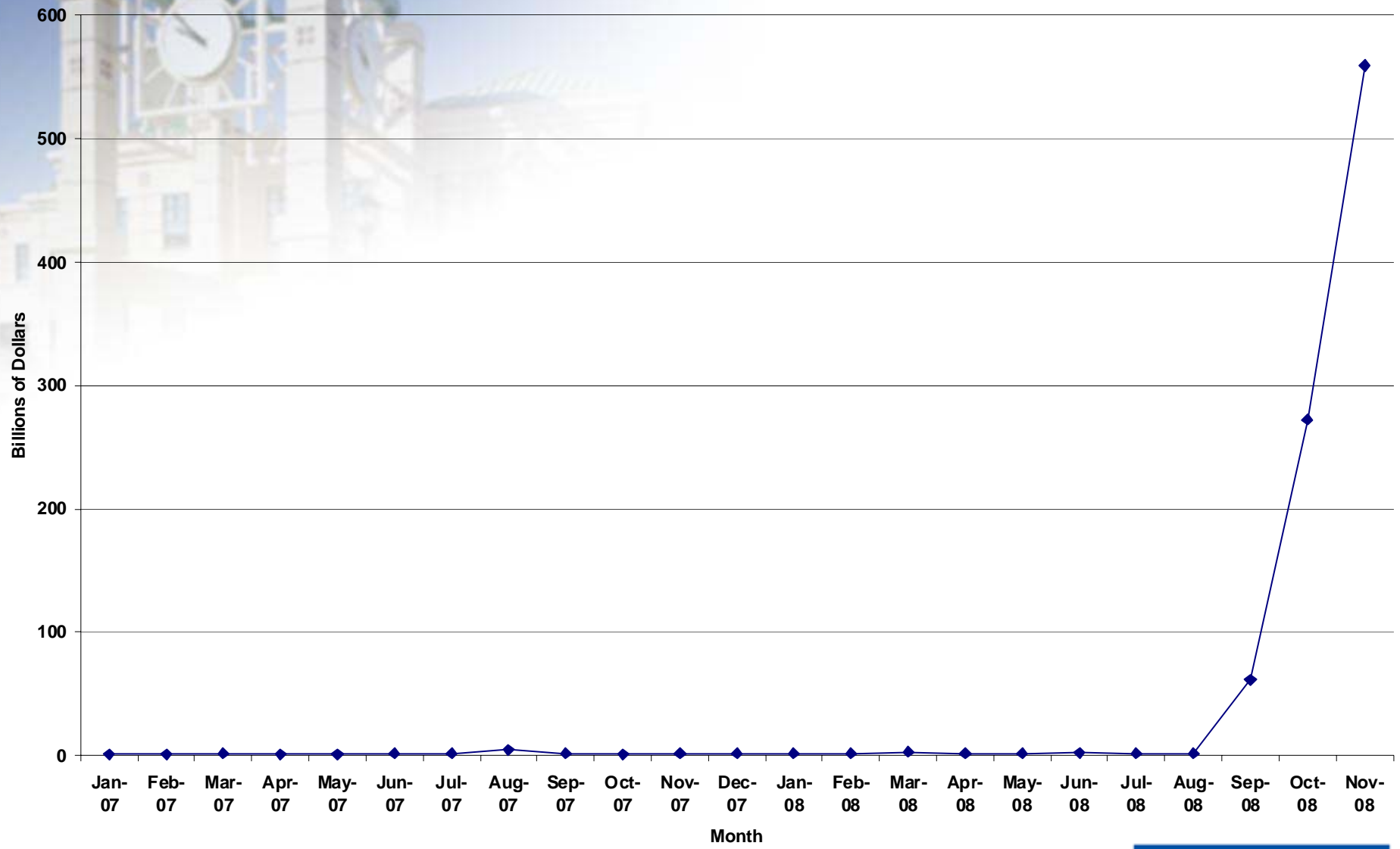
# Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 1970-1999



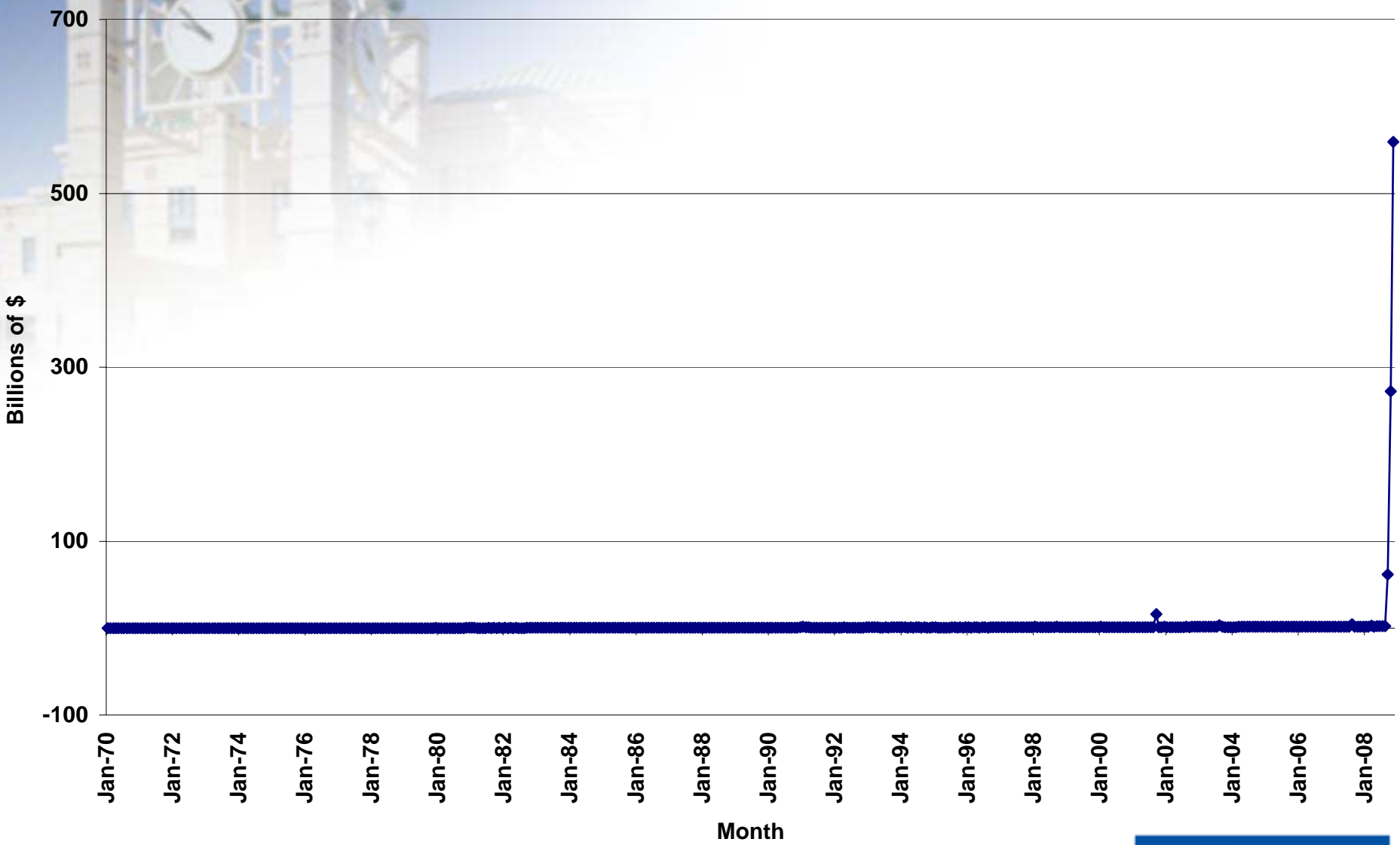
# Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2000 - 2008



# 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

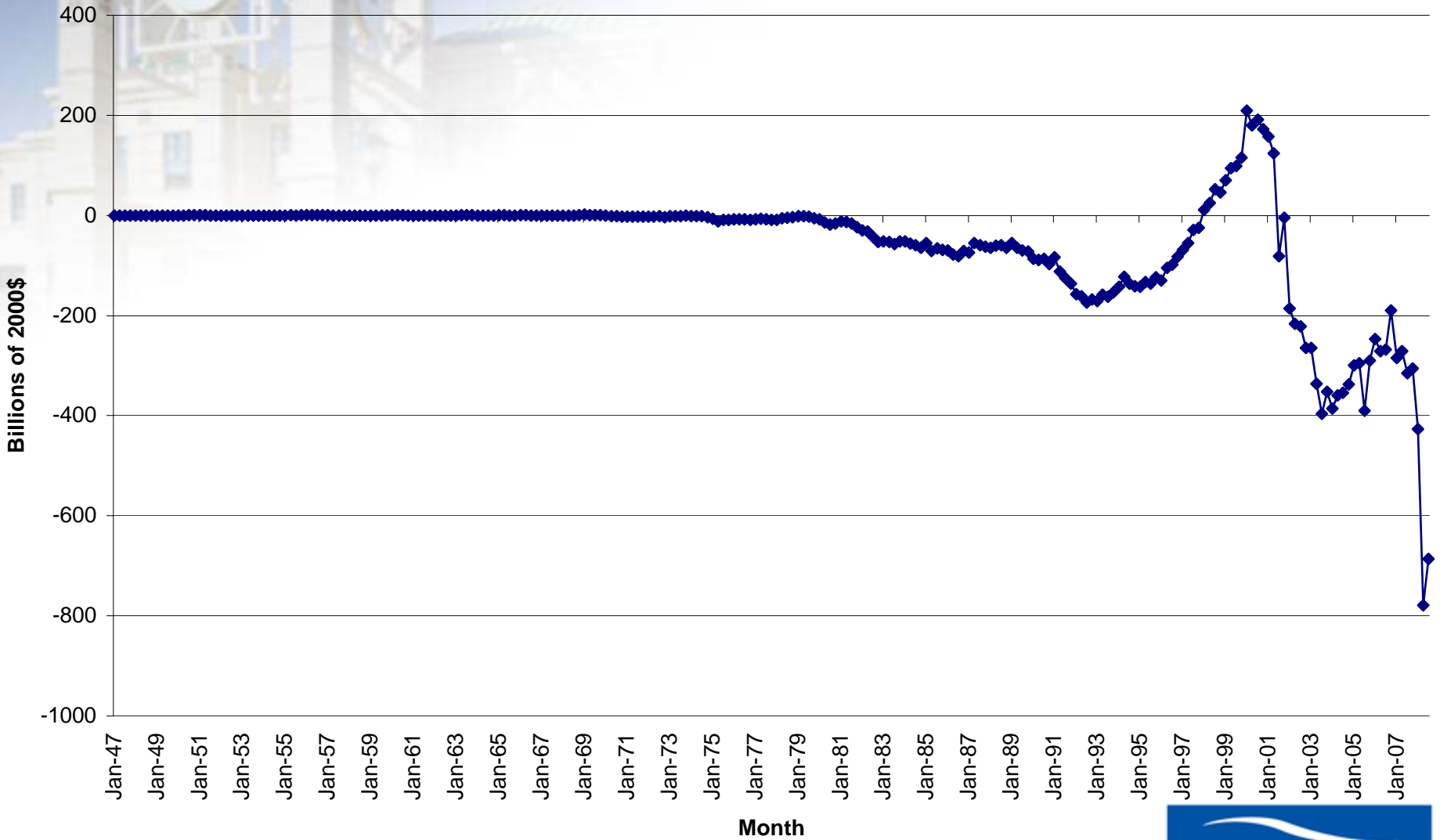
- Obama gave five sectoral targets
  - Energy
  - Education
  - Health Care
  - Social Welfare/Insurance
  - Infrastructure
- Why not defense here?
  - In many ways defense spending must target similar sub-sectors

# 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?

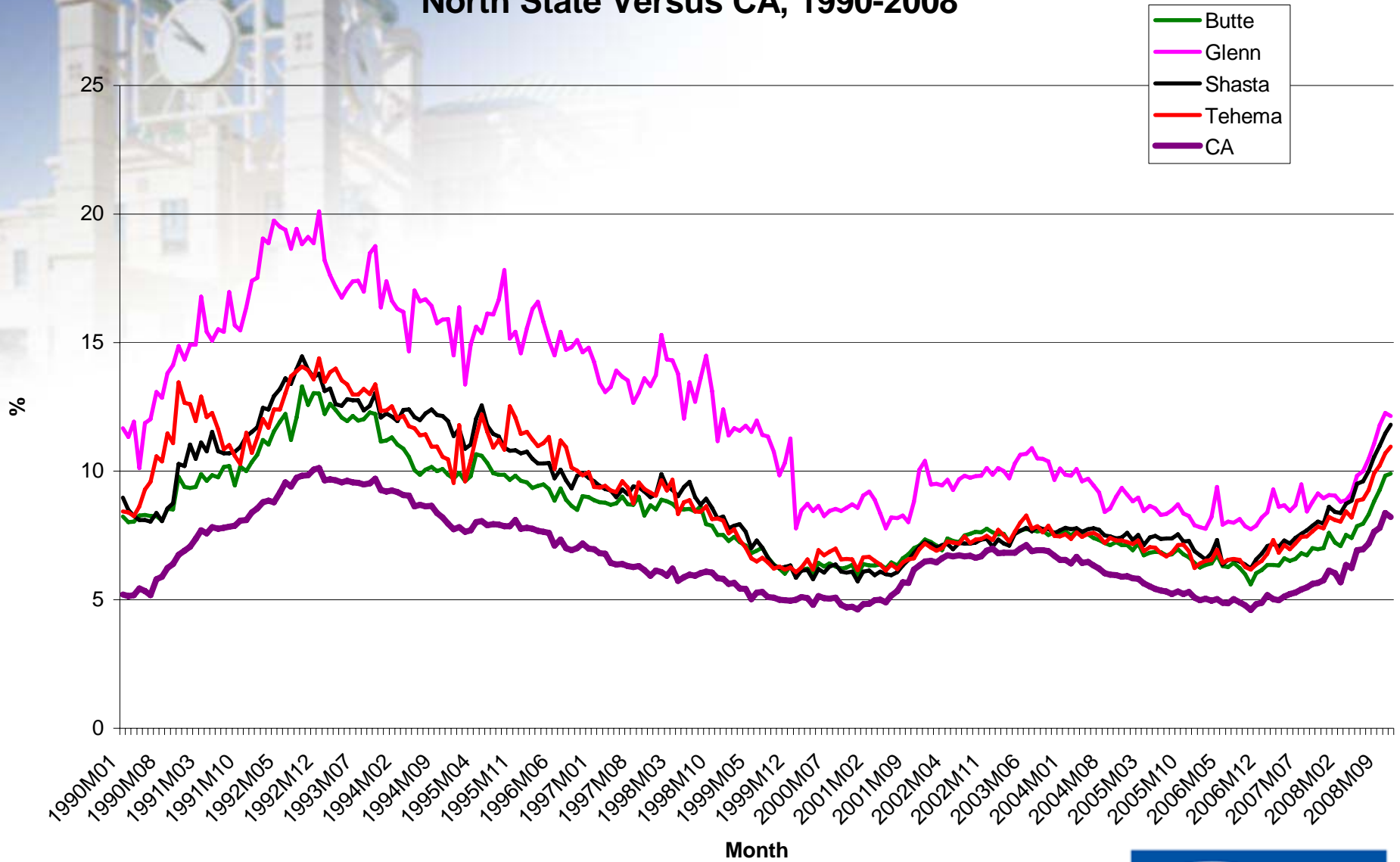
# Development

- 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
<b>2007 ACS</b>						
<b>\$20,614</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	
<b>% in Poverty</b>	<b>13.0%</b>	<b>17.8%</b>	<b>18.0%</b>	<b>14.5%</b>	<b>20.1%</b>	<b>16.9%</b>
<b>Male %</b>	<b>5.9%</b>	<b>8.2%</b>	<b>9.4%</b>	<b>6.6%</b>	<b>9.3%</b>	<b>7.8%</b>
<b>Female %</b>	<b>7.1%</b>	<b>9.6%</b>	<b>8.6%</b>	<b>7.9%</b>	<b>10.8%</b>	<b>9.1%</b>
<b>2000 Cen</b>						
<b>\$17,604</b>	<b>California</b>	<b>Butte</b>	<b>Glenn</b>	<b>Shasta</b>	<b>Tehama</b>	<b>North State</b>
<b>% in Poverty</b>	<b>14.2%</b>	<b>19.8%</b>	<b>18.1%</b>	<b>15.4%</b>	<b>17.3%</b>	<b>17.8%</b>
<b>Male %</b>	<b>6.6%</b>	<b>9.4%</b>	<b>8.3%</b>	<b>6.7%</b>	<b>8.1%</b>	<b>8.2%</b>
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# 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 affect businesses and residents of CA
- Cannot rest on laurels
  - Opportunities exist for regional strategies
  - Public/Private partnerships

# Recommendations

- New fiscal stimulus should be specific to supply-side projects
  - Energy/green tech
  - Infrastructure
  - Education
- State should resist new sales taxes yet
  - Wait until boom and then recognize long-term need
  - Consider slow repeal of Prop 13: phases
- North State must consider regional interdependence
  - Economic development is regional not county-wide
  - Take advantage of local niche beyond tax borders

A faded background image of a university clock tower with a large clock face, set against a bright sky. The tower is made of light-colored stone or concrete.

**[www.sonoma.edu/org/crea/chico011509.ppt](http://www.sonoma.edu/org/crea/chico011509.ppt)**