

# North Bay Economic Outlook: Our Financial Markets' Future

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# Introduction

- Recession now here
  - Need to consider what happened, how to recover
  - Federal Reserve actions attempting to do many things
    - Cannot do much more
  - Fiscal policy to come: will it stop the bleeding?
    - New package of **additional** spending moving quickly to pass

# Introduction (cont.)

- The North Bay Economy
  - 2009 outlook not good, for first half
    - Continuing slowdown
    - Unemployment rising rapidly
  - Time to look at next growth phase
    - Need supply-side innovation
      - Financial innovation in 2000s, consumer-led
  - Will the North Bay be a place for new businesses to begin **and** stay?

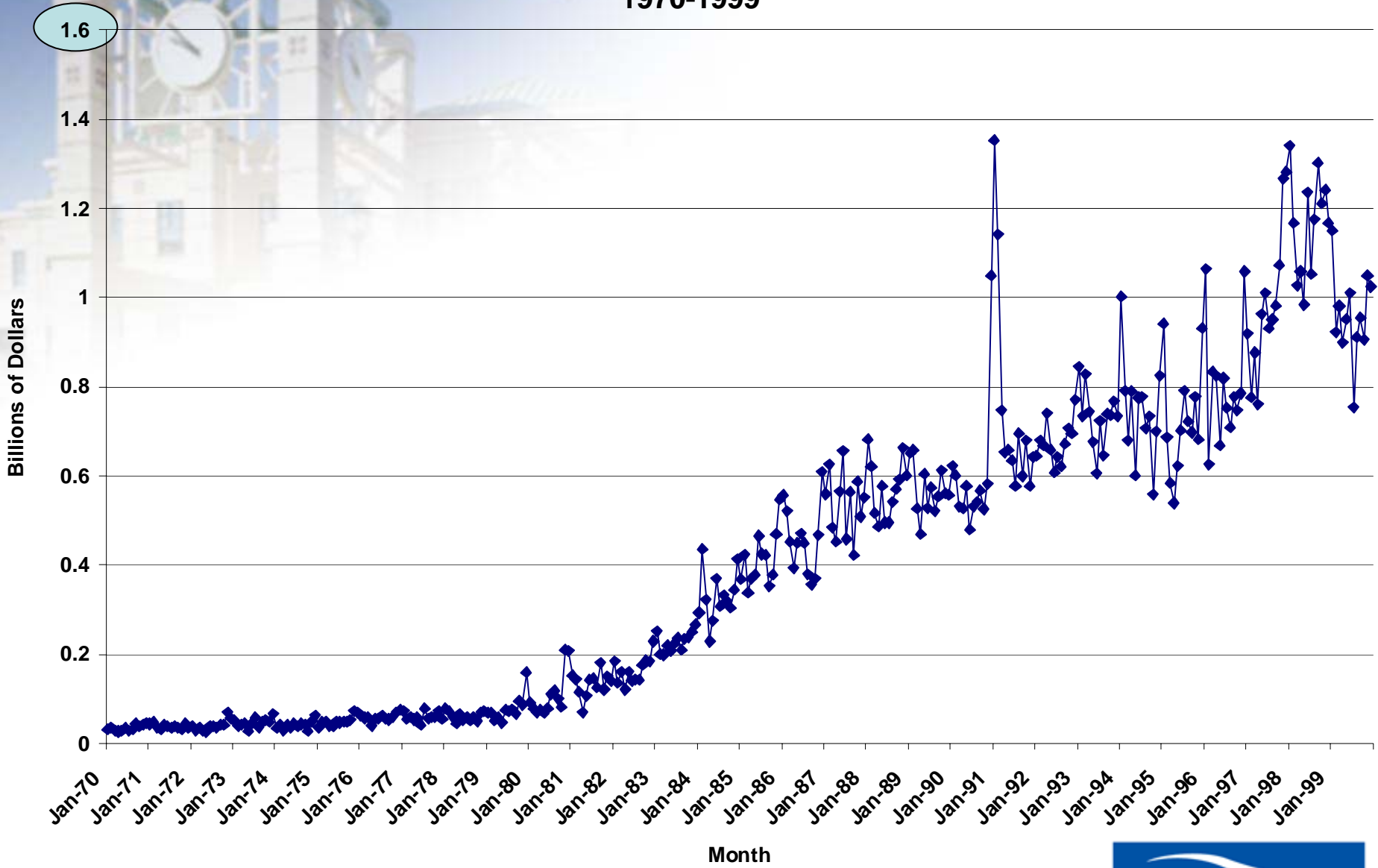
# The Current Economic Situation

- Foreseen in direction, not in magnitude
- Banks used a secondary market to move loans off their balance sheets
- Investors and brokerages purchased these assets
- Consumption unabated throughout this decade
- Banks, consumers and investors all wagered on home prices rising with minor downward cycles

# The Important Role of Banking

- Banking is both culprit and savior here
  - Riskiness drove current issues
- Classic model of growth
  - Investment from savings begets economic growth
  - Lending should be for investment, not consumption
    - Housing market became a mix of both
- Banks have now decided markets are too risky to lend much at all
- Local banks targets for consolidation, acquisition
  - A great place for a boom to start

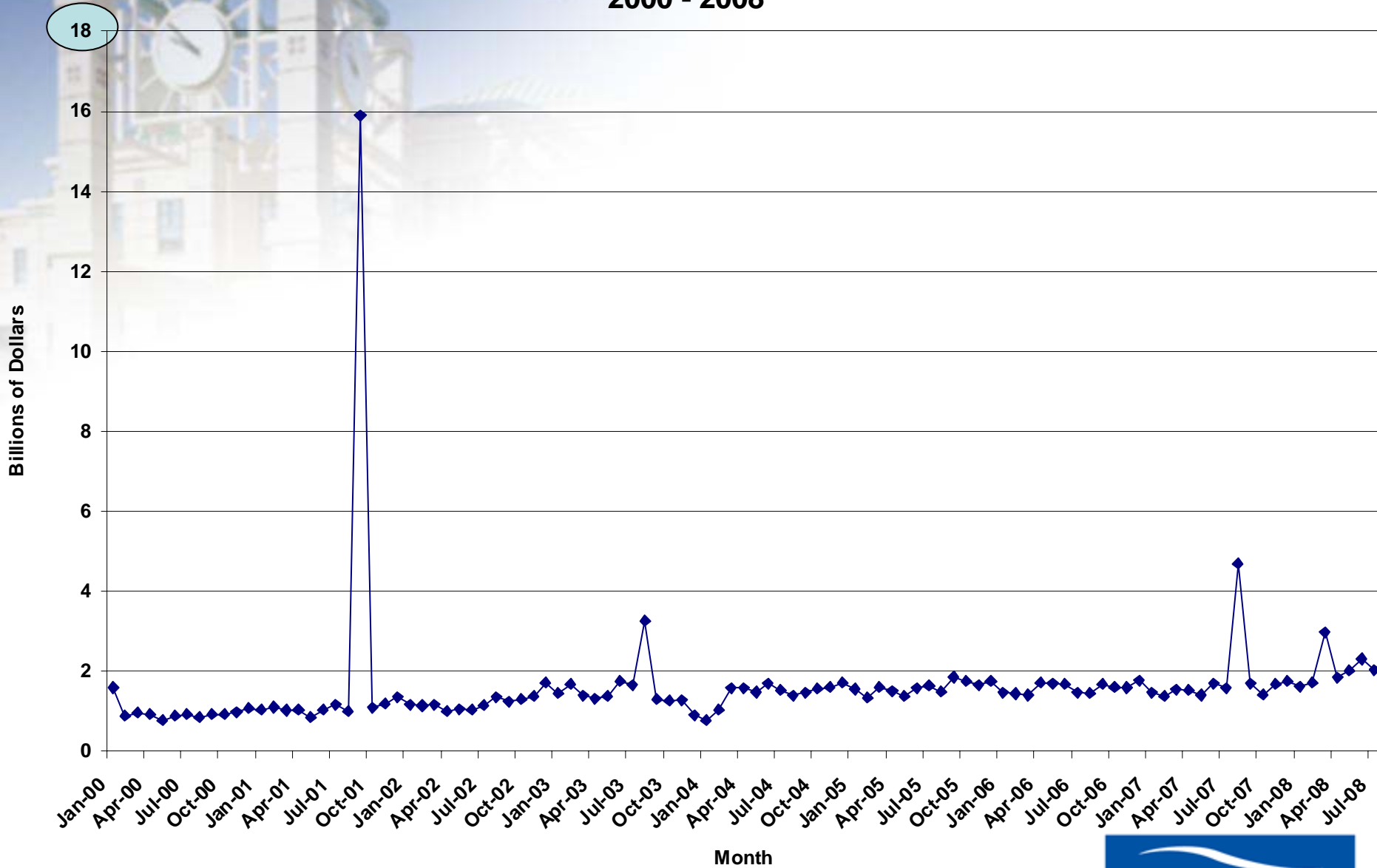
# Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 1970-1999



Source: Federal Reserve Board



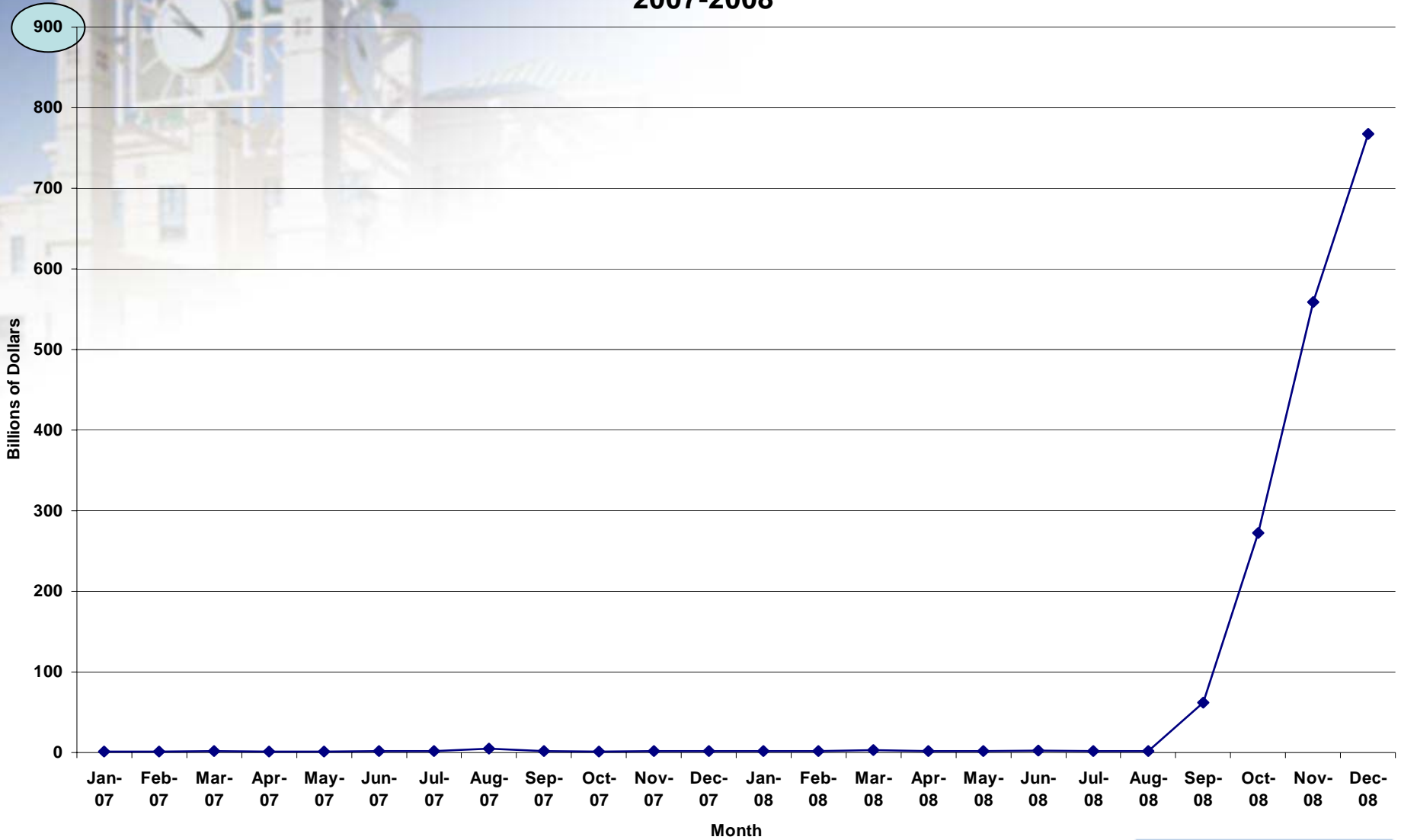
# Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2000 - 2008



Source: Federal Reserve Board



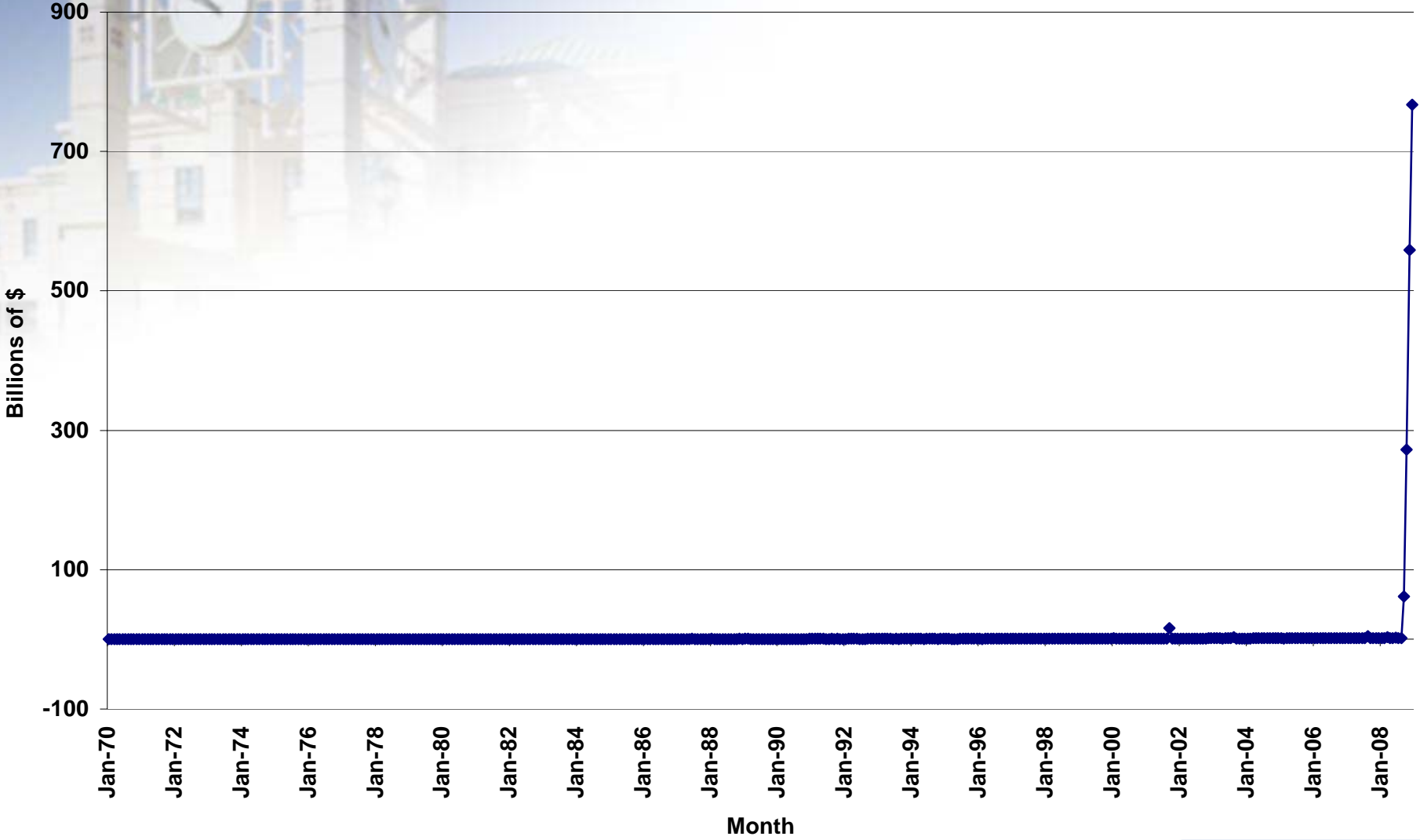
# Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2007-2008



Source: Federal Reserve Board



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



Source: Federal Reserve Board



# Fiscal/Monetary Policies

- Basically printing and borrowing money to facilitate growth on bailout package
- More fiscal stimulus to come
- Obama gave five sectoral targets (so far)
  - Energy
  - Education
  - Health Care
  - Social Insurance
  - Infrastructure

# Policies (cont.)

- Need to consider supply-side versus demand-side as focus
  - Would providing tax breaks or subsidies for firms **innovating** energy products provide supply-side stimulus?
- Policy has now done all it can, after stimulus
  - 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?

# California as Microcosm

- 2002 saw use of fiscal surplus spent on **permanent** spending
  - Current deficit of > \$40 billion by June 2010
  - Federal spending may help state economies
- Bet on capital gains from stock market and housing speculation (began in 2002)
- **1-2% of households in CA provide 50% of general fund income tax revenue**
  - Tax reform is not to tax businesses more heavily

# California's Fates

- Assume California will not go bankrupt
  - Raise taxes (sales or cap gains): approx \$14.3 billion
  - Cut spending: approx \$17.4 billion
  - Borrow (or be bailed out): approx \$10 billion
  - Reform is needed
    - A consumer-led expansion may provide an ephemeral, illusory boost to state coffers

# North Bay Economic Situation

- Short-term
  - Continued stagnation
  - Development efforts need to focus on two issues
    - Putting funding in hands of innovative businesses
    - Regional, not local or county, economic development
- Housing should be seen as follower, not driver
- Opportunities good for long-term growth
  - Environmental Tech
  - Tourism and associated industries
  - Biotech/Health care
  - Wine and agriculture
  - Non-profits

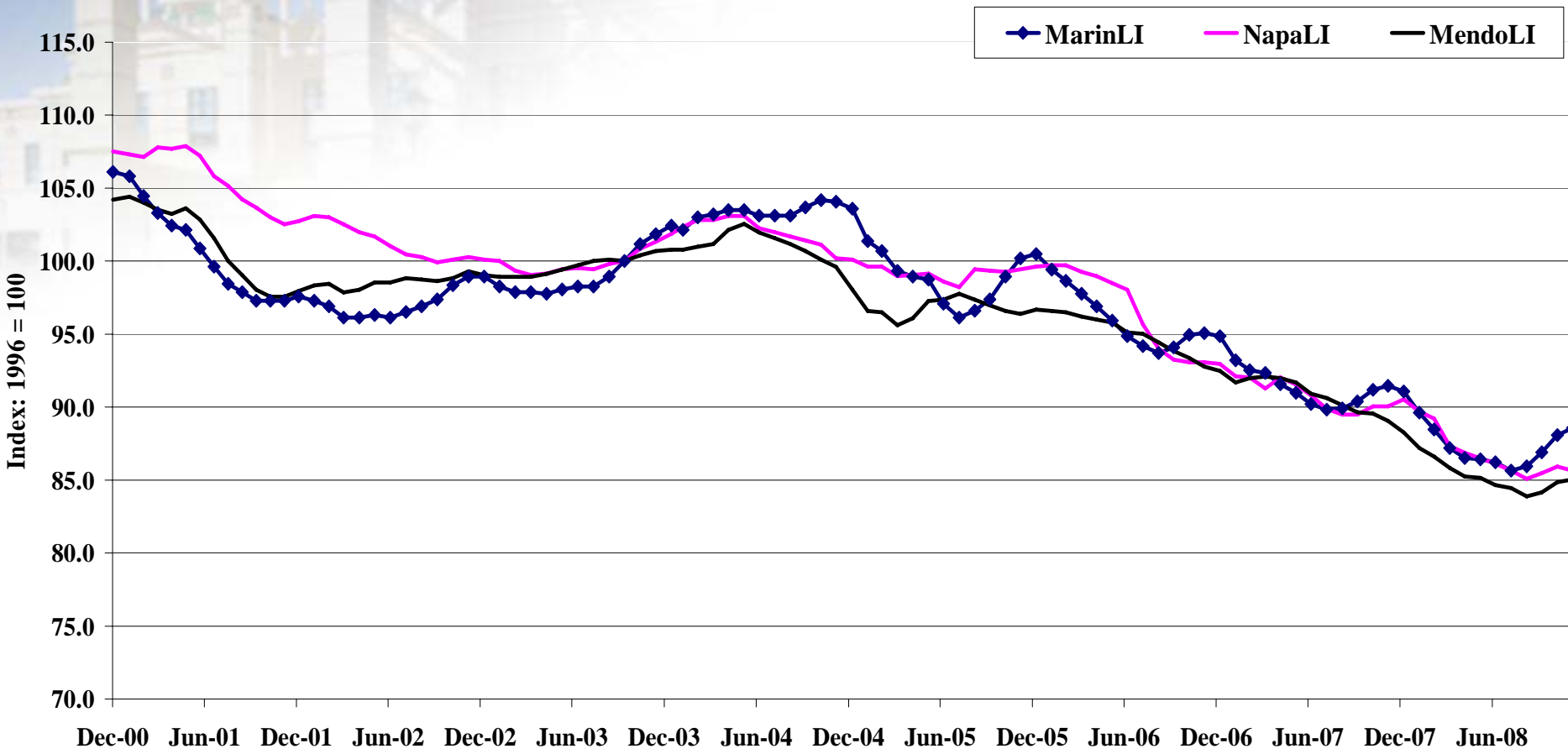
# Toby Tyler North Bay Indicators

- Leading and Coincident Indicator for Marin, Napa and Sonoma counties
  - The leading tells us where we are
  - The coincident tells us where we are going
  - The combination suggests a cyclic shape
- The indicators show recession has been here for some time

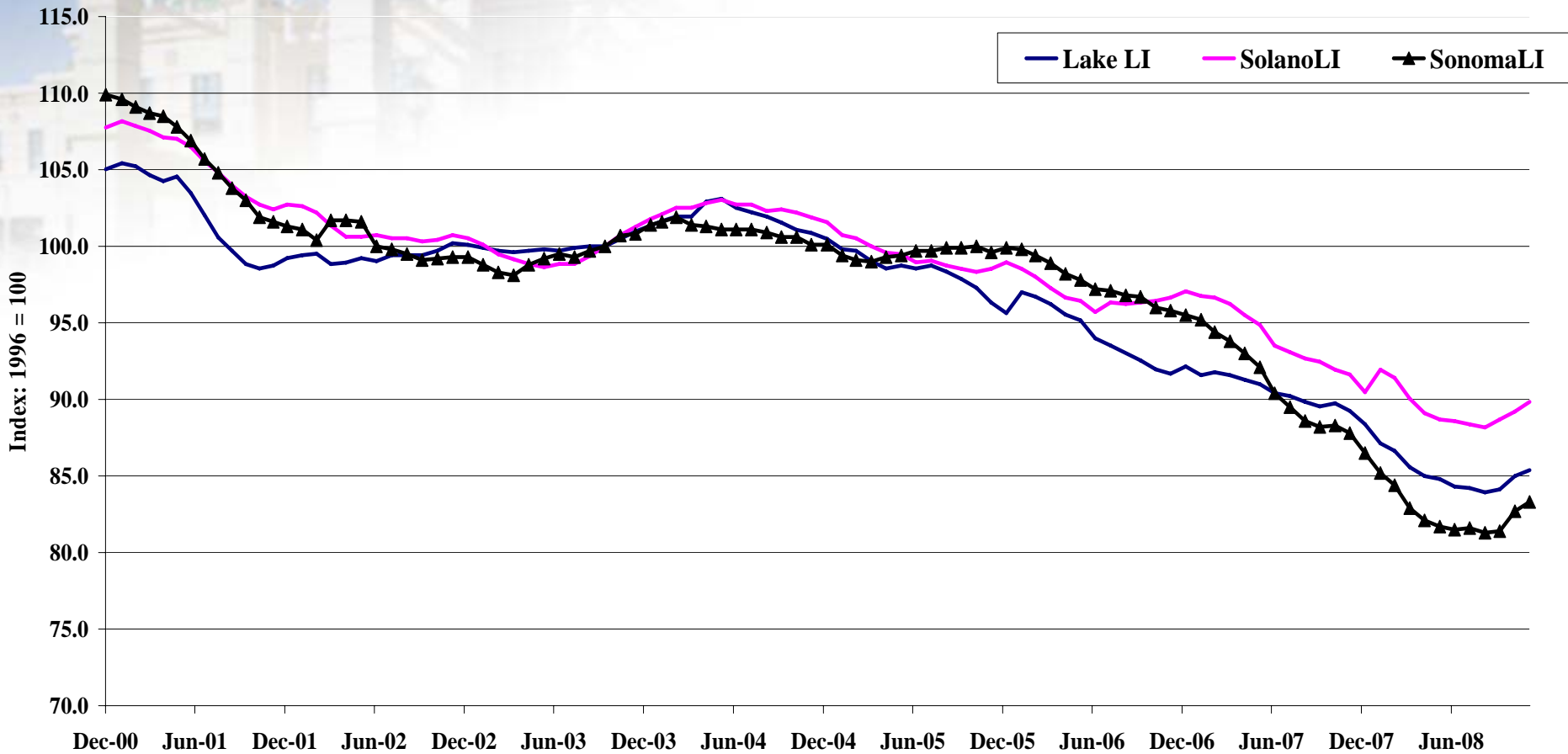
# Leading Indicators

- Tyler Leading Indicators tell us where we are headed:
  - Default Notices (**Inverse**)
  - Building Permits (**Positive**)
  - New UI Claims (**Inverse**)
  - US Leading Index (**Positive**)
  - Help-Wanted Ads (**Positive**)
  - Ag Price Index (**Positive**)\*\*\*\*
- As indicator increases, economy forecasted to move in **bolded** direction.

## Tyler Leading Indicators: Marin, Napa, and Mendocino Counties



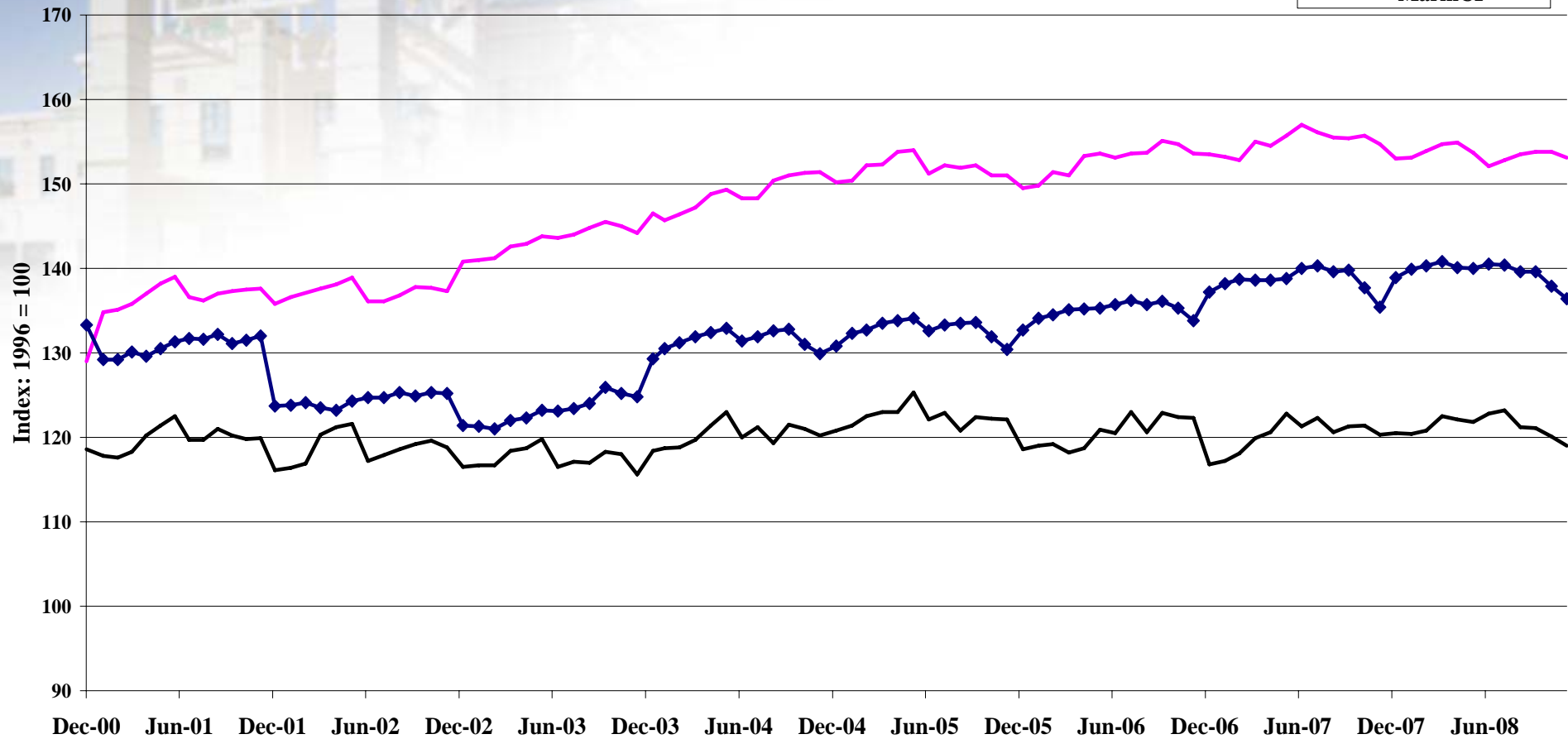
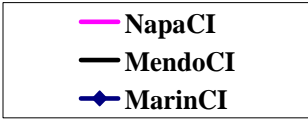
## Tyler Leading Indicators: Lake, Solano and Sonoma Counties



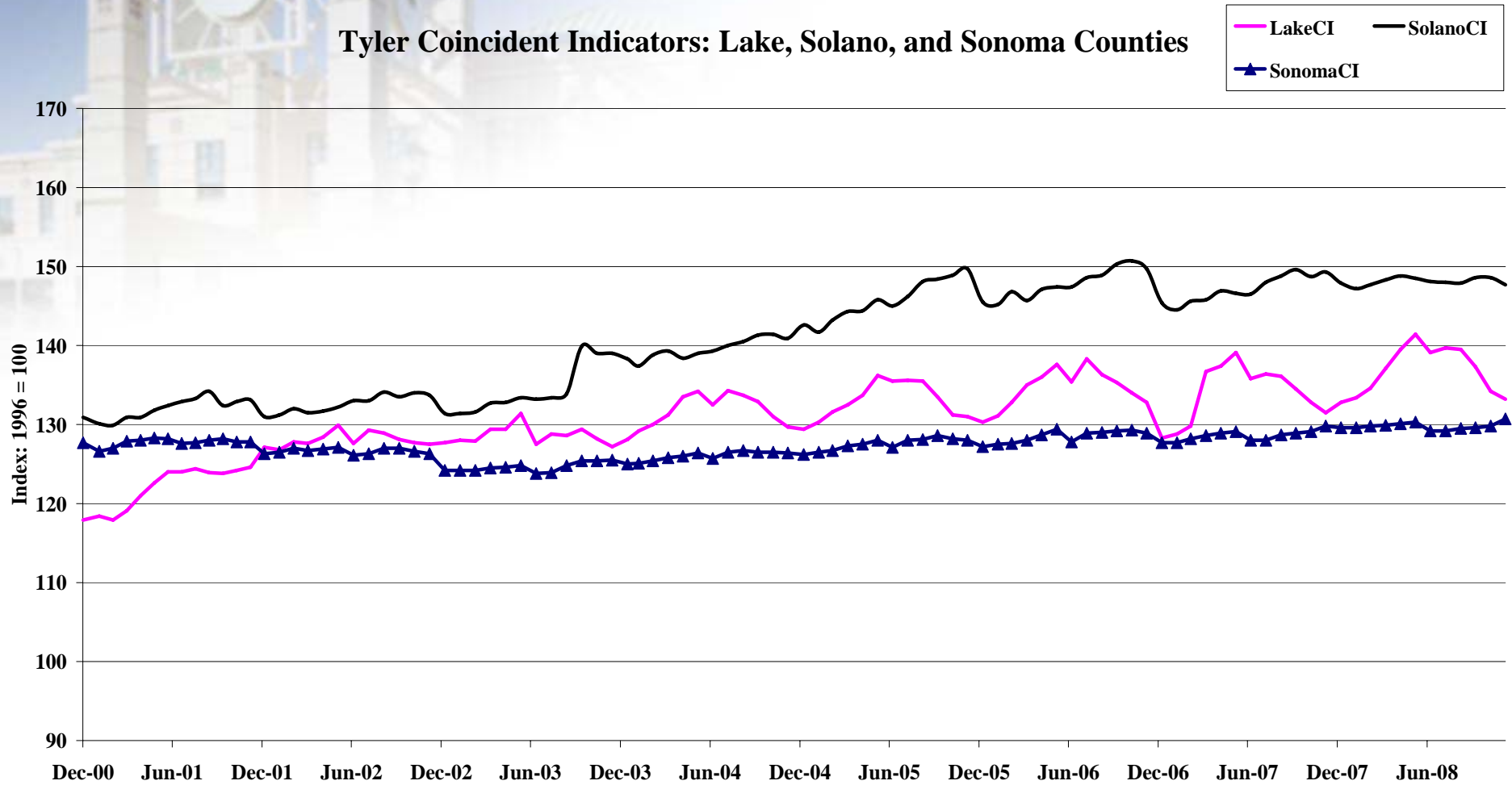
# Coincident Indicators

- Tyler Coincident Indicators tell us where we are:
  - **Non-agricultural employment**
  - **Retail Sales**
  - **Personal Income**
- Coincident a mix of employer and residential spending

# Tyler Coincident Indicators: Marin, Mendocino, and Napa Counties



## Tyler Coincident Indicators: Lake, Solano, and Sonoma Counties



# Local Housing

- The local housing market difficult to gauge concerning transition
  - As of Nov. 2008, Sonoma County prices 33% down from a year ago
    - Median home price (\$462,500 to \$310,000 at the median)
    - Down 46% from peak in Nov. 2005 (Marin down 32% from peak)
- Some regional perspective
  - Sonoma County (Sept. 2005, \$580K)
  - Stockton (Sept. 2005, \$385K, now \$130K)
  - SF (Nov. 2007, \$808K, now \$648K)
- The old model was driven by unemployment
  - Will it return (did it ever go away)?

# Local Real Estate

- Unemployment puts both supply and demand pressures on market
  - Supply: as unemployment rises, number of units rise
  - Demand: as unemployment rises, fear over lost jobs reduces demand
- Interdependence: 96.6% correlation between Sonoma and Marin median home price
  - Regional market for commercial space as well
- Two big questions market has yet to answer
  - Was the old pricing correct?
  - Is the current pricing correct?

# Economic Development

- Tourism
  - Casino growth still happening?
- Biotech already here and growing again
- Health Care connected to biotech slightly
  - Demography a bigger issue
- Environmental (Green) Tech likely a growth area in the future
  - Can companies like ZAP take advantage of this?

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

# Opportunities

- Diverse labor pool
  - Ethnic diversity must be nurtured and opportunities seized
  - Aging demographic does not mean retirees only
- Continued Export Expansion
- In-source jobs: attraction **and** retention, both internal and external
- Stock markets are currently a historic bargain
- Need to consider “correct” growth
  - Living wage referenda coming: G,B&U
  - Where will workers live?
  - Transportation issues

# Conclusions

- **Outlook depends on how you see the aftermath**
  - 2<sup>nd</sup> half of 2009 better than first, 2010 some growth likely
  - Real estate markets likely to continue slow movements
    - Depends on banking and financial markets turning around
- **Consumption and savings must walk together over time**
  - Not equally, but you must save
  - Federal stimulus must stimulate supply-side (savings in a sense)
- **North Bay will come out of this ok**
  - We need to feel a supply-side, not demand-side jolt
- **Economic Development**
  - Think regionally: use all counties to attract and retain businesses
  - Public and private partnerships

# CREA at SSU

To download this presentation, see:

[www.sonoma.edu/org/crea/outlook2009.ppt](http://www.sonoma.edu/org/crea/outlook2009.ppt)