

Northern Trust Bank: The State of Our State and North Bay Counties

Sonoma, CA

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Robert Eyler, Ph.D.
Chair, Economics Department
Director, Center for Regional Economic Analysis
Sonoma State University
eyler@sonoma.edu



School of Business
and Economics

Introduction

- We are in recovery
 - Next boom transitory ephemeral for now
 - Deleveraging continues with ripple effects globally
- Innovation and entrepreneurship
 - Especially needed when next major industry unknown
- California as a place to do business?
- Economic Development
 - Regional thinking a necessity to remain competitive
 - Strengths and weaknesses

Deleveraging

- “Deleveraging” recession
 - Reduction of leverage use \Rightarrow reduction of risk taking?
- Slow recovery a function of
 - Labor market tentativeness (who is hiring en masse?)
 - Financial market uneasiness (where is the safety to juxtapose against risks?)
 - Uncertainty that policies have worked (has the stimulus helped?)
- Local and state governments
 - Prepare for services shift to non-profits and private sector

The effects

- Innovation and entrepreneurship slow
 - Need credit and equity financing to act as drivers
 - No industries have shown consistent growth or future possibilities yet
- Consumption continues to be sluggish
 - Deflation connected to deleveraging
 - Reduced multiplier effects locally
 - Low interest rates and federal stimulus not making much of a difference

California, Elections and Reality

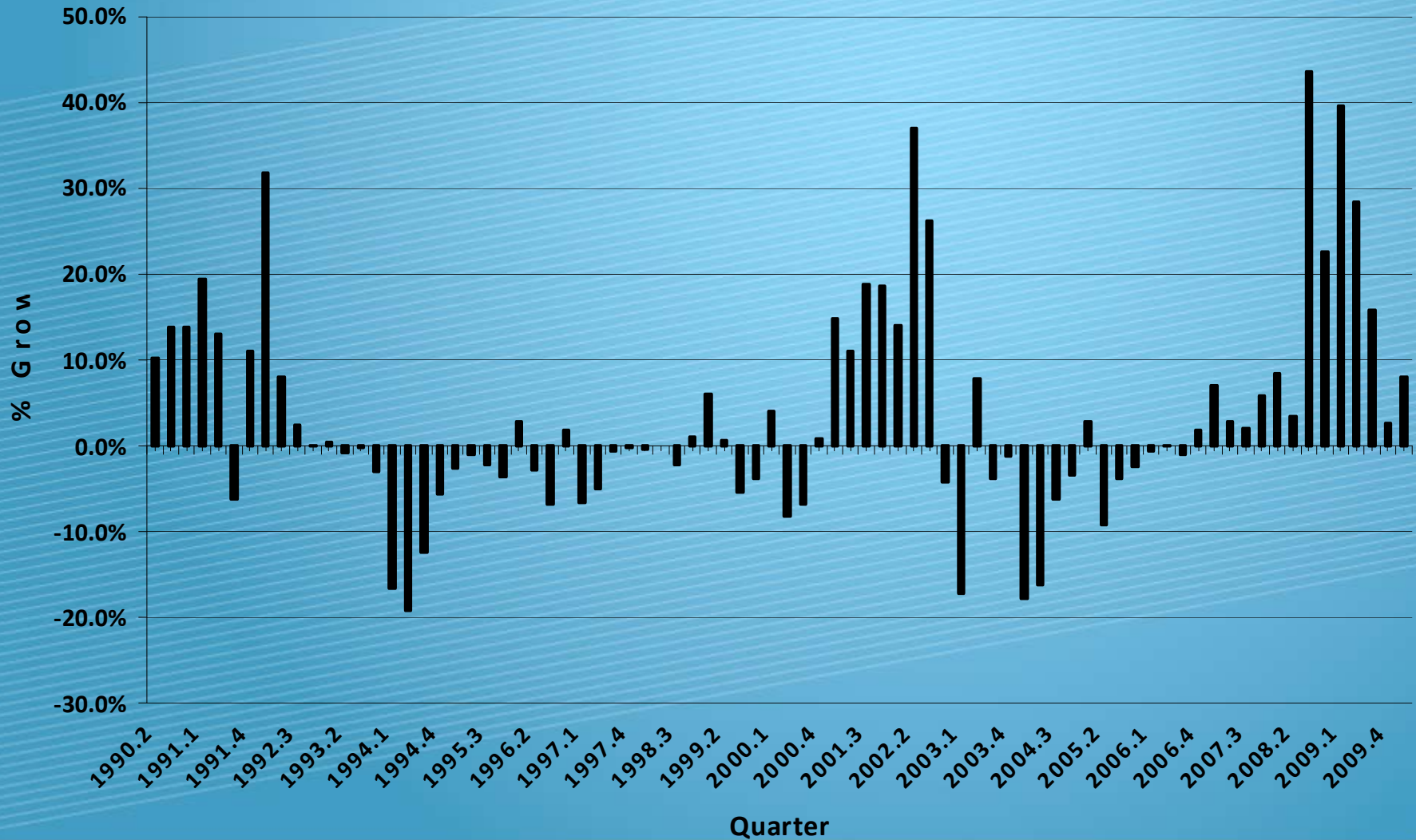
- 2010-11 likely to be worse
 - No change in core budget process or tax code
- Federal spending may stimulate CA economy
 - This is short lived in current form of support
- Labor Markets
 - California to continue to lag national employment
- Elections will do little to change the basics
 - Prisons, education, social services the foci

California Solutions

- Cannot rely on current model
 - Pension systems to be stretched soon
 - Reserves not in place for this: tax up, benefits down or both
- Use of AB 811 to reduce energy/water use
 - Programs rising in use (Sonoma County a good example)
 - Federal government has stopped funding
- Do not expect it, but we need reform
- Current budget soon to be passed
 - According to your local state senator

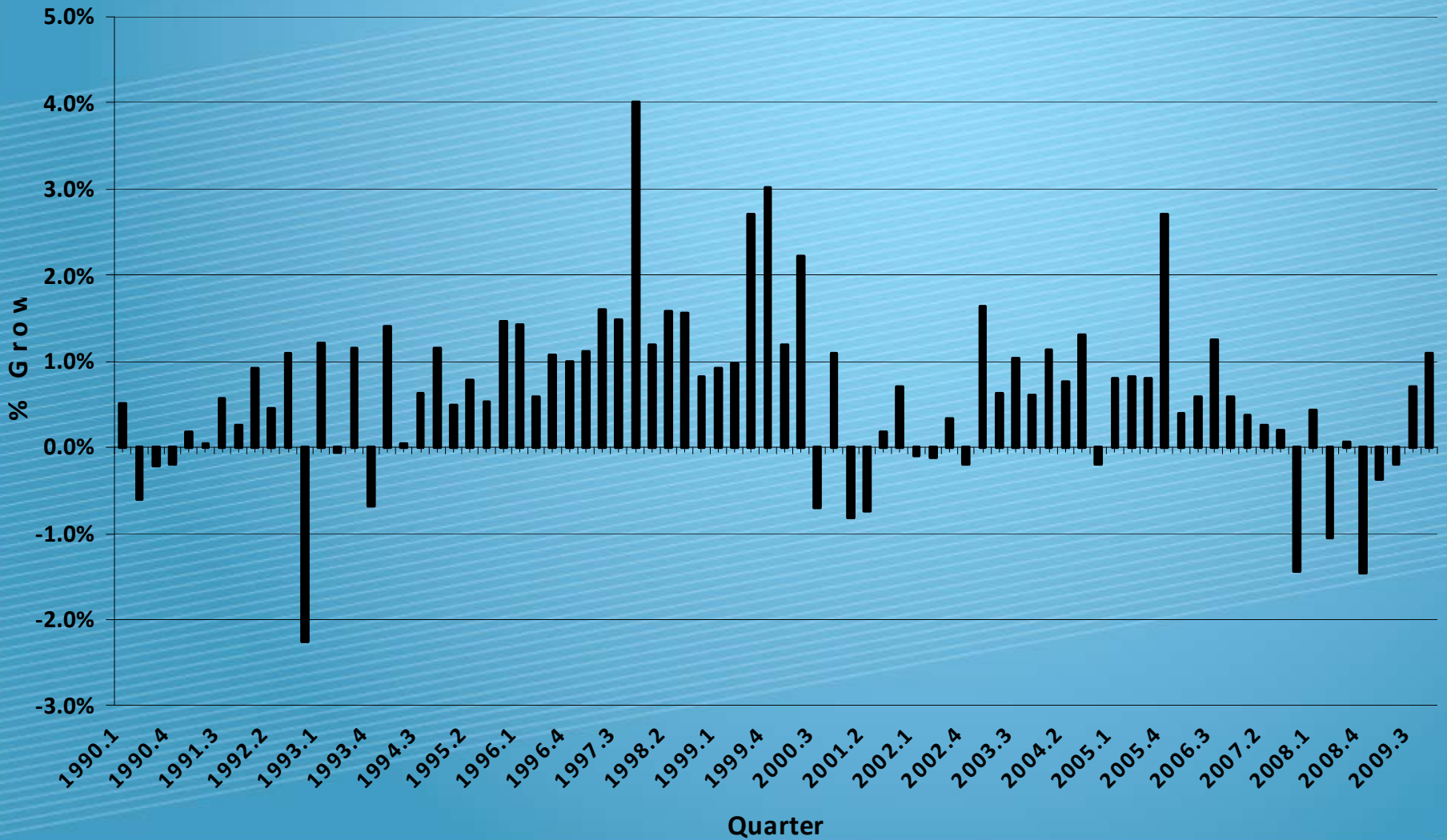
CA Stats to Watch

CA Unemployment Insurance Payments, Real 2003\$



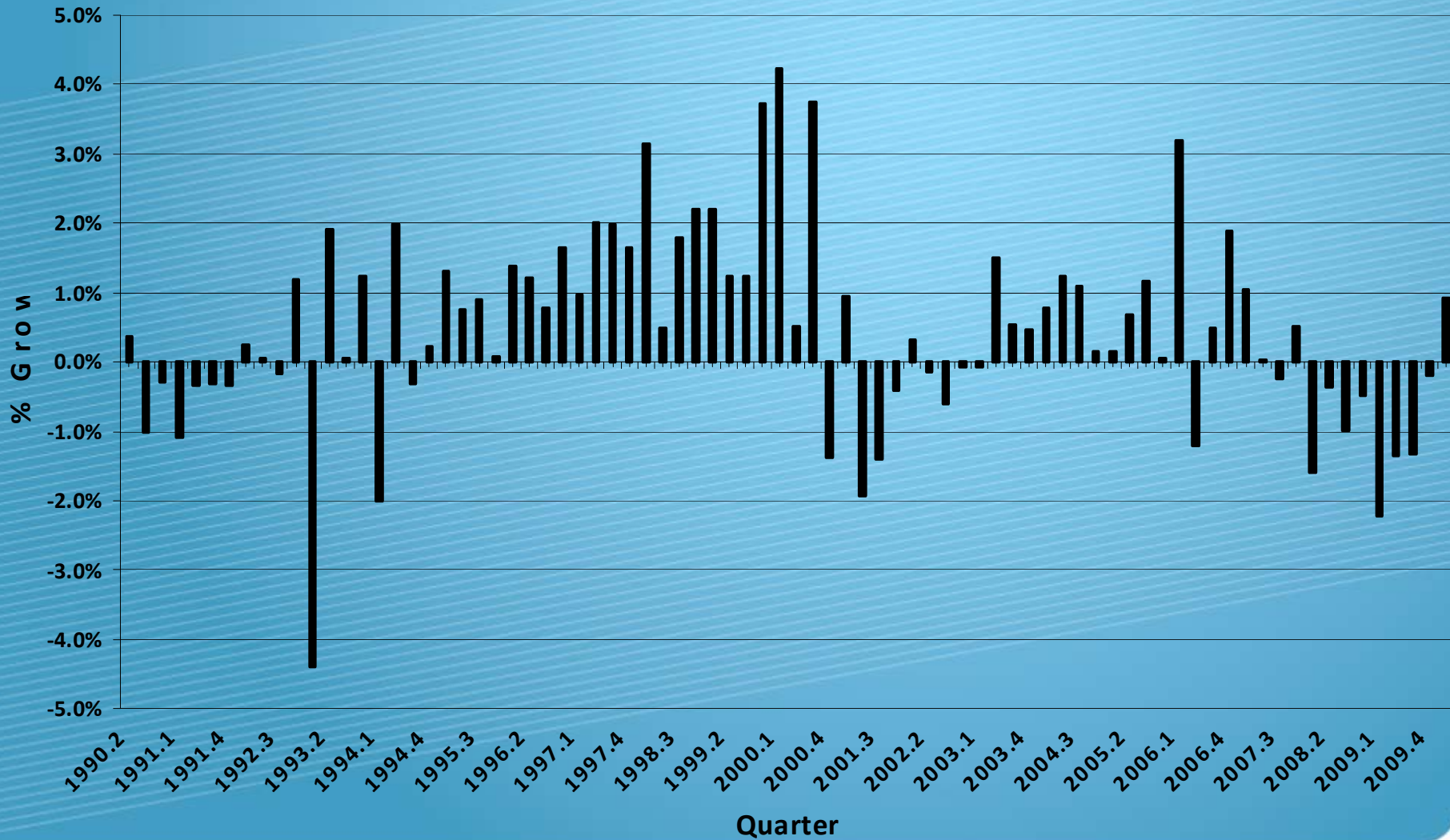
Source: BEA (www.bea.gov)

CA Personal Income Growth, Real 2003\$



Source: BEA (www.bea.gov)

CA Wage and Salary Growth, 1990-2010



Source: BEA (www.bea.gov)

The North Bay Economy

- Sonoma, Marin and Napa the core
 - Tourism a driver in Sonoma and Napa
 - Napa mainly wine and logistics otherwise
 - Sonoma very diverse, almost too diverse
 - Marin similar to a district in SF below Corte Madera
 - Like Sonoma County above Corte Madera
- Biotechnology, health care, environmental tech moving
 - Demography and science driving these trends
 - No tech industry has driven local economy since 2001

The Drivers of Change

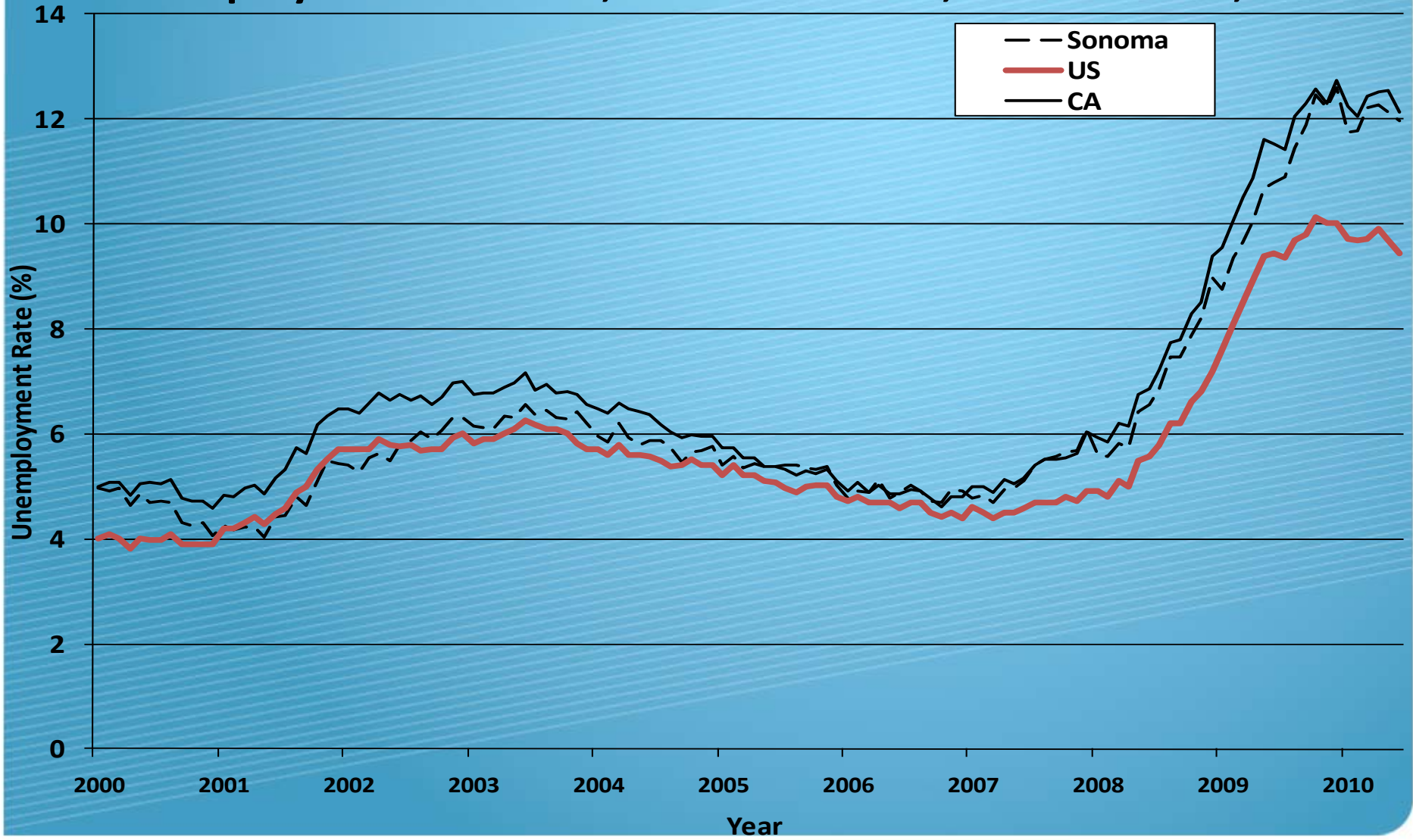
- Job growth + business growth
 - Need there to be opportunities
 - Need to monitor how they affect local economies and living space
- Government cooperation that is overt for business
 - Need to have local government recognize economics as a major factor
 - Marin and Napa challenged here: wealth meets demography meets geography

Real Estate

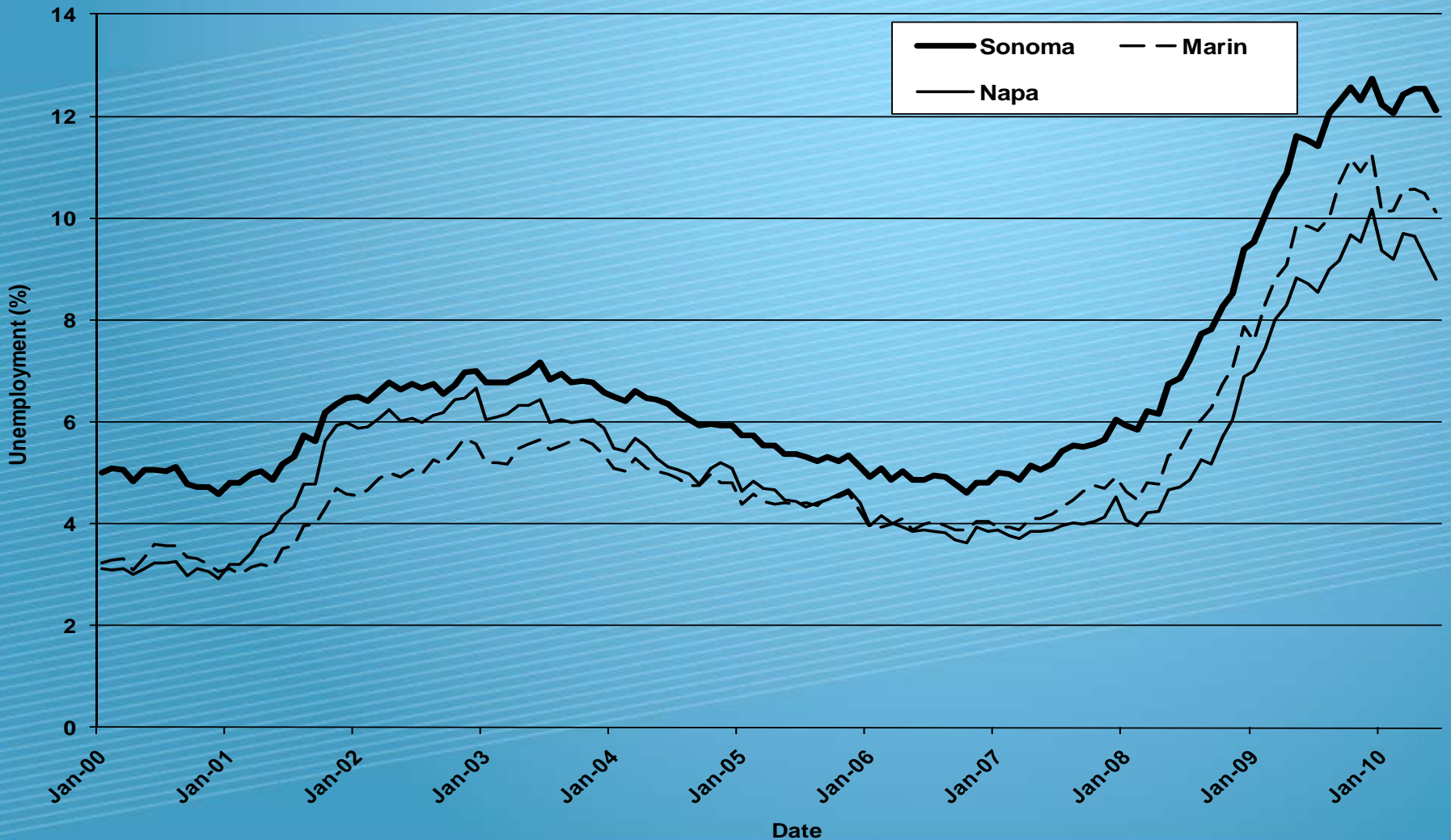
- Regional and slow moving
- Marin County the best long-term residential play
- Commercial
 - Construction of new commercial property likely to be project-specific rather than anticipatory
 - **\$1.4 trillion to face refinance or foreclosure in next 3 years**
- **Economic development must link commercial real estate to business opportunities**
 - **Need to have a regional development plan**
 - **Need to think beyond city and county borders**

Local Stats to Watch (and not to watch)

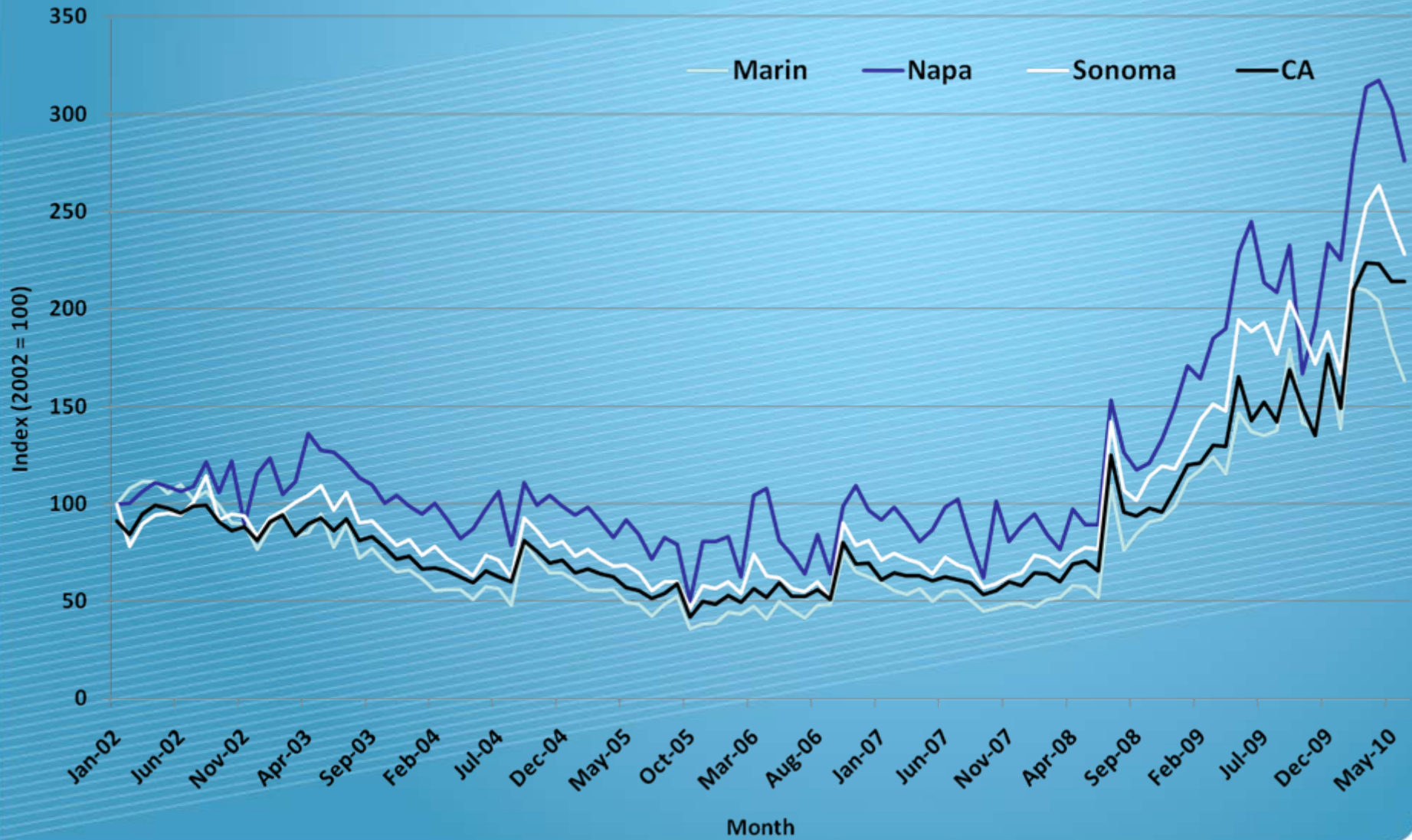
Unemployment Rate: US, CA and Sonoma, 2000-Present, SA



Unemployment Rate: Napa, Marin and Sonoma, 2000-Present, SA



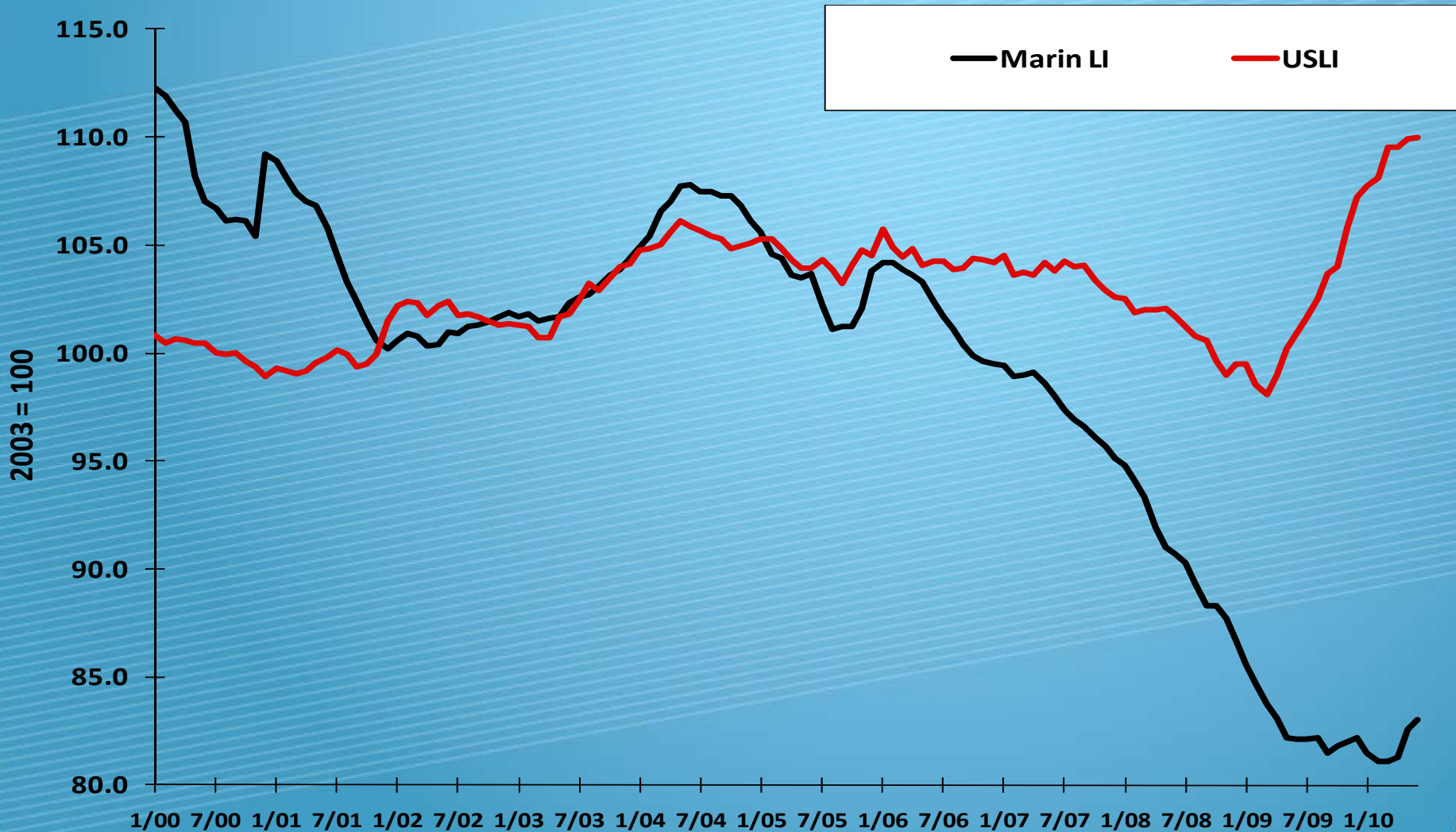
New UI Claims, Seasonally Adj., 2002-2010



Leading Indicator

- Weighted average of macroeconomic variables for all counties (SSU Alum methodology).
- Leading variables tell us where we are headed
 - Default Notices: As defaults ↑, economy ↓
 - Building Permits: As permits ↑, economy ↑
 - New UI Claims: As new claims ↑, economy ↓
 - US Leading Index: As USLI ↑, economy ↑
 - Help-Wanted Ads: As ads ↑, economy ↑
 - Ag Price Index **** : As ag prices ↑, economy ↑
 - Assumes demand not costs causing the price increase

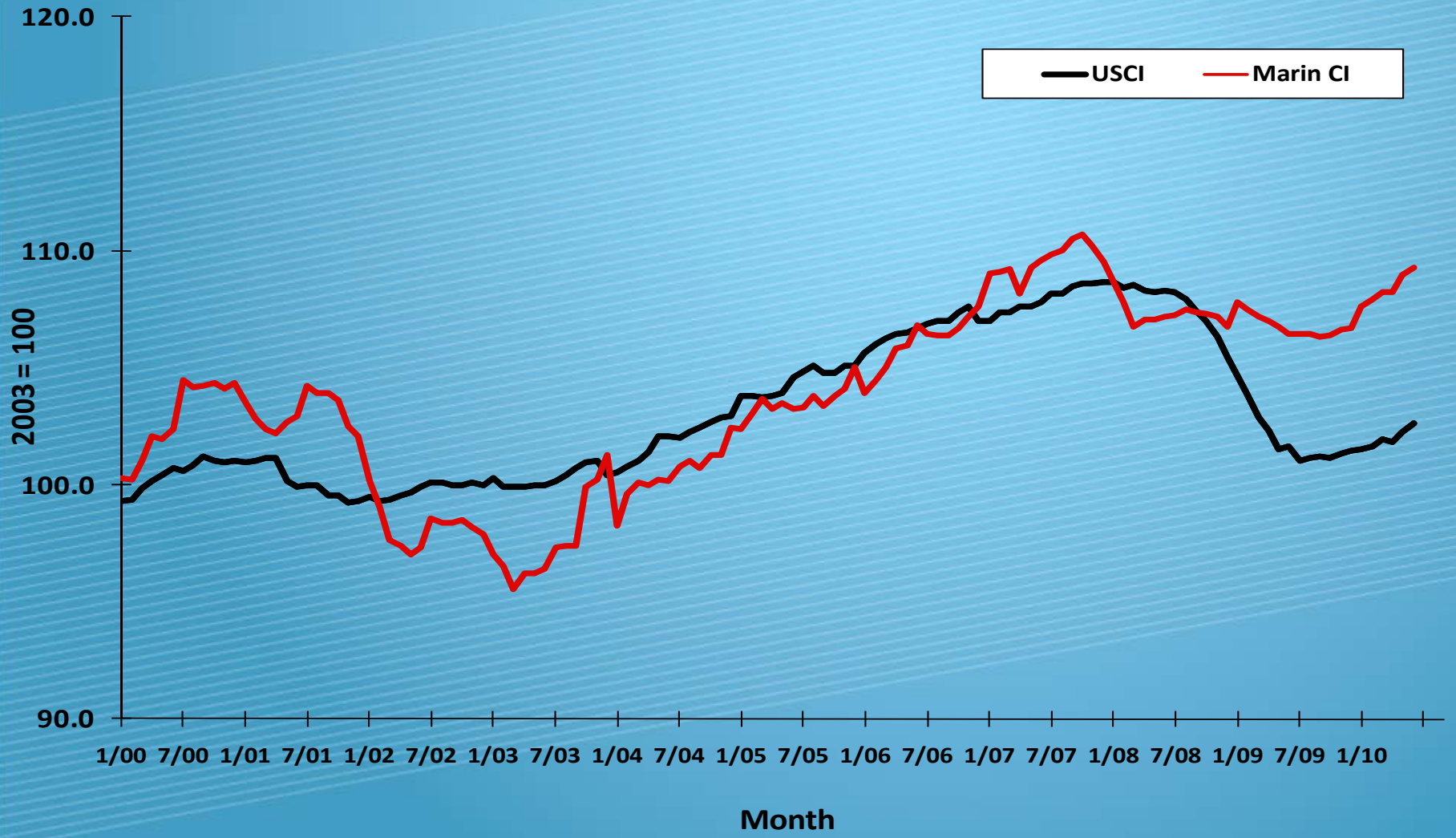
Tyler Leading Economic Indicator, Marin County, 2003 = 100



Coincident Indicator

- Coincident Indicator tell us where we are (all components positively related with economy):
 - **Non-agricultural employment**
 - **Retail Sales**
 - **Personal Income**
- The leading indicator drives the coincident.
 - Outlook showing signs of hitting bottom in 2009
 - 2010 a year of recovery, albeit slow and tentative

Tyler Coincident Economic Indicator, Marin County, 2003 = 100



The Politics of Economic Growth

- Cost of businesses leaving
 - What is a job worth?
- Regulatory streamlining
- Prioritize how any funding is focused
 - Should government “distribute” federal stimulus?
- Must think as investment not cost recovery
 - Must break the old way of looking at how government and business work together
- “Anti-business” stance a troubling, vocal minority

Economic Development

- Economic development must link commercial real estate to business opportunities
- Three “E’s” the current mantra
 - Economic Vitality
 - Social Equity
 - Environmental Balance
- Get involved!
 - Sonoma State starting a regional economic development center soon
 - Need to be a bridge between the politics and action

Where are we headed?

- Recession into mid-2010 concerning labor markets
 - Need to attack in tech and foreign markets before they converge
- State economy will lag
 - Elections will not change the fundamental issues
- Recognize regional connections and economies
 - **Economic development a need now and into the future**
 - **How will incubated firms grow in Sonoma County?**
 - **Is the political will available for economic growth?**
- **Much depends on the macro side: To Paul**