

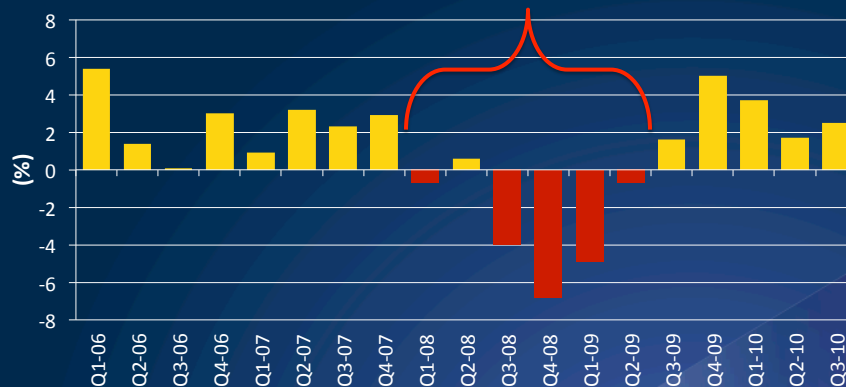
Recovery: Uneven, But Gaining Steam!



Jon Haveman
 Owner, Compass Economics
 SPUR – January 25, 2010

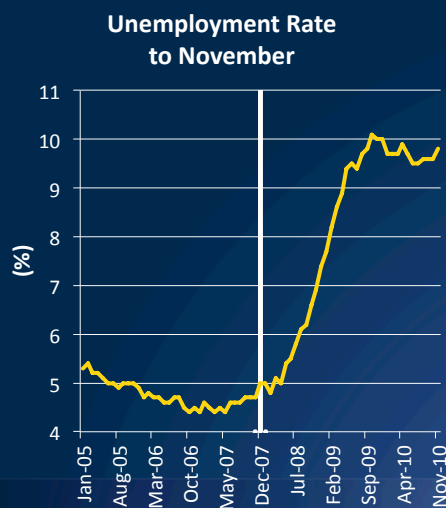
The Great Recession

1-2 Punch of Credit Crisis and Consumer Retrenchment
 GDP Growth (SAAR) to Q3-10

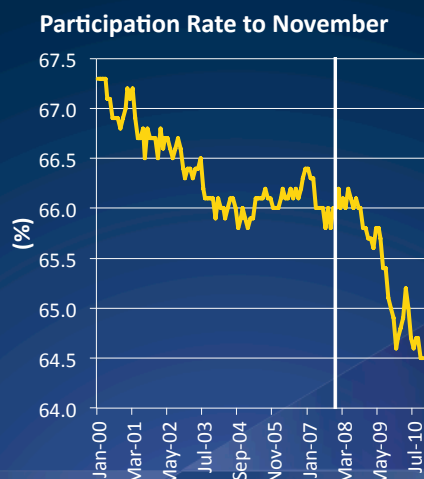


Source: Bureau of Economic Analysis

US Unemployment



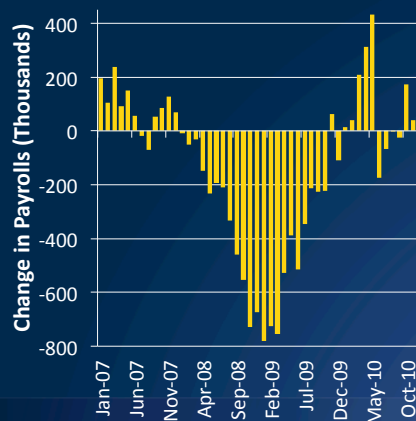
Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

Jobs, Jobs, Jobs

National Change in Payrolls to November



Source: Bureau of Labor Statistics

Change in Payrolls by Sector

	Jan-03 to Dec-07	Dec-07 to Dec-09	2010 Change
Total Nonfarm	7,685	-8,363	951
Prof/Business	2,127	-1,563	373
Education/Health	2,121	791	369
Admin Support	709	-1,114	355
Health Care	1,814	661	299
Leisure/Hospitality	1,362	-544	183
Manufacturing	-1,141	-2,192	114
Other Services	115	-200	88
Retail Trade	612	-1,206	70
Transport/Warehouse	340	-377	45
Wholesale Trade	406	-474	45
Federal Government	-34	69	13
State Government	106	38	5
Utilities	-30	0	-6
Information	-241	-275	-31
Construction	787	-1,795	-81
Financial Activities	314	-570	-84
Local Government	679	-3	-238

Source: Bureau of Labor Statistics

California: A widespread hit



Source: California Employment Development Department

	Nov-10	Peak to Current (%)
Inland Empire	1,096.6	-14.1
Santa Rosa	168.8	-11.9
Oakland (MD)	929.0	-11.7
Stockton	187.8	-11.4
Orange County (MD)	1,362.6	-10.7
Modesto	144.5	-10.4
Ventura	270.4	-9.4
San Francisco (MD)	910.4	-9.2
Los Angeles (MD)	3,756.7	-9.1
San Jose	845.2	-8.3
Salinas	119.2	-8.0
San Diego	1,209.5	-8.0
Bakersfield	222.1	-7.4
Santa Barbara	162.1	-7.1

Source: California Employment Development Department

Why did it happen?

- Housing
- Consumers
- Financial Markets

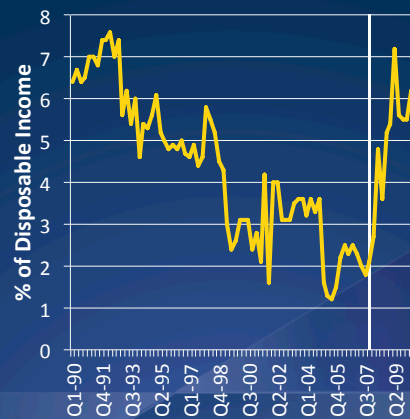
Roots of the Great Recession

Net Wealth of the U.S.
to Q3-10



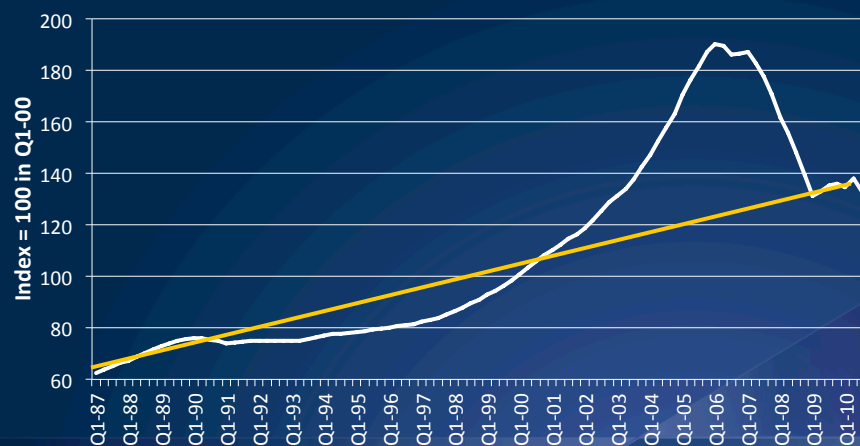
Source: Federal Reserve Board,
Bureau of Economic Analysis

BEA U.S. Personal Savings Rate
to Q3-10



Source: Bureau of Economic Analysis

National Housing Markets Case-Shiller US National Values to Q3-10



Source: Standard and Poor's

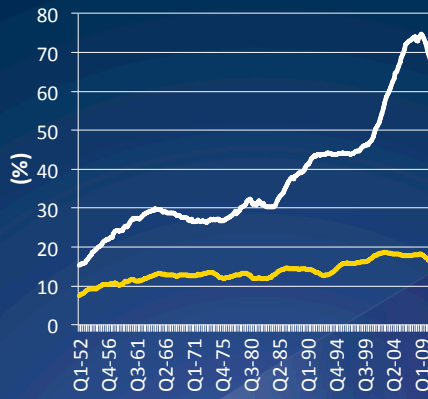
National Credit Bubble

Household Debt as % of Net Worth to Q3-10



Source: Federal Reserve Board

Consumer Debt as % of GDP to Q3-10

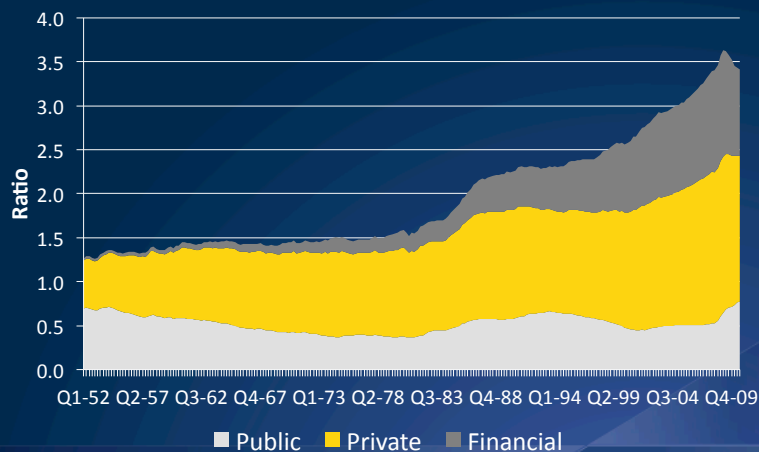


— Mortgage — Other Consumer Credit

Source: Federal Reserve Board

Financial Sector Imbalance

Total Debt/GDP to Q3-10



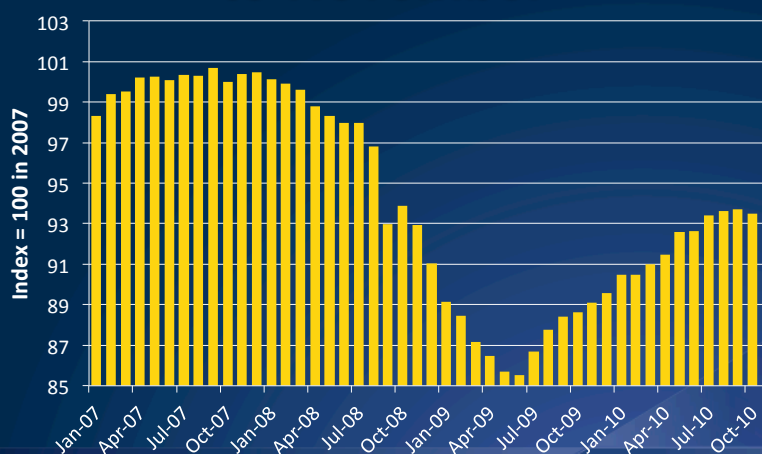
■ Public ■ Private ■ Financial

Source: Federal Reserve Board

Where do we stand now?

- Signs of improvement
 - Industrial production growing!
- Signs that the improvement is tenuous
 - Private sector employment growth slowing
- Consumers are going gangbusters!

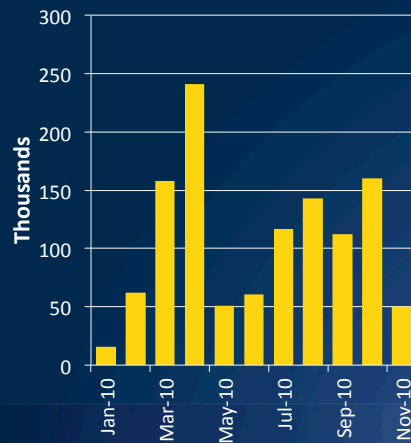
US Industrial Production to November



Source: Federal Reserve Board

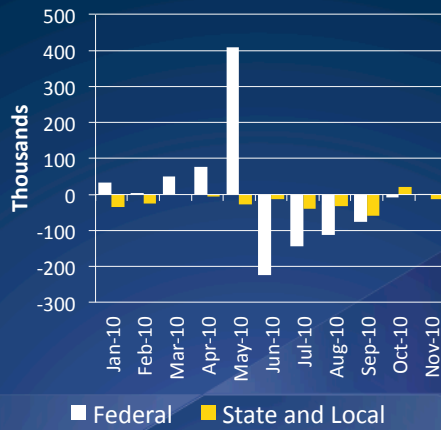
More: Jobs, Jobs, Jobs

Change in Private Nonfarm Payrolls to November



Source: Bureau of Labor Statistics

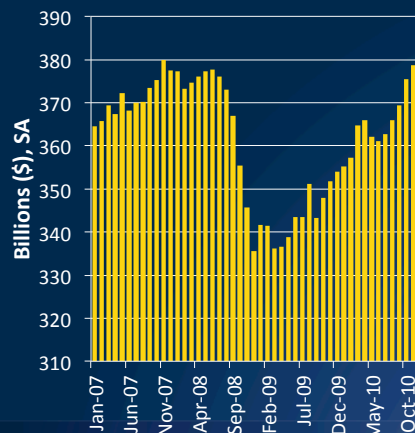
Change in Government Employment to November



Source: Bureau of Labor Statistics

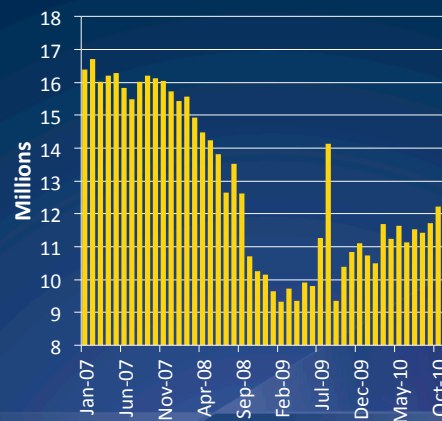
US Consumer Markets

Nominal Retail Sales to November



Source: Census Bureau

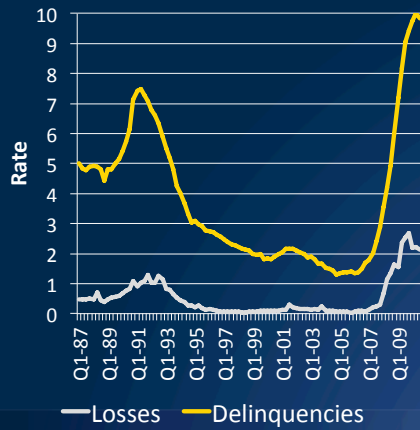
Auto and Light Truck Sales to November, SAAR



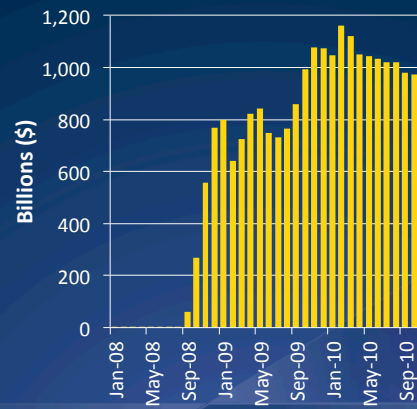
Source: Bureau of Economic Analysis

National Credit Markets Cleared?

Bank Portfolio Problems
to Q3-10



US Bank Excess Reserves
to November



US Housing Market

NAR Sales Stats to October



New Single-Family Homes to
October, SAAR

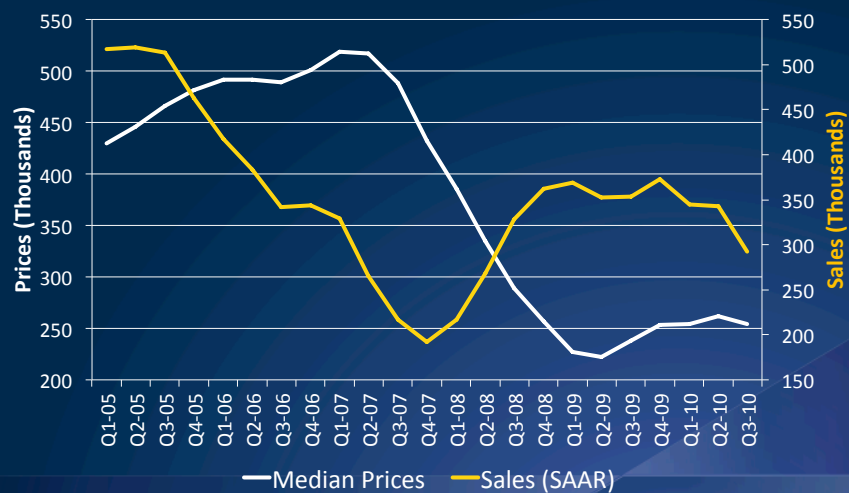


How Many Underwater? as of Q2-10

CBSA Name	# Mortgages	Negative Equity Share
Las Vegas-Paradise NV	449,205	72.83
Stockton CA	129,100	62.36
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
Fresno CA	153,362	46.85
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 Jose-Sunnyvale-Santa Clara CA	347,365	19.79
San Francisco-San Mateo-Redwood City CA	324,164	9.48

Source: First American CoreLogic

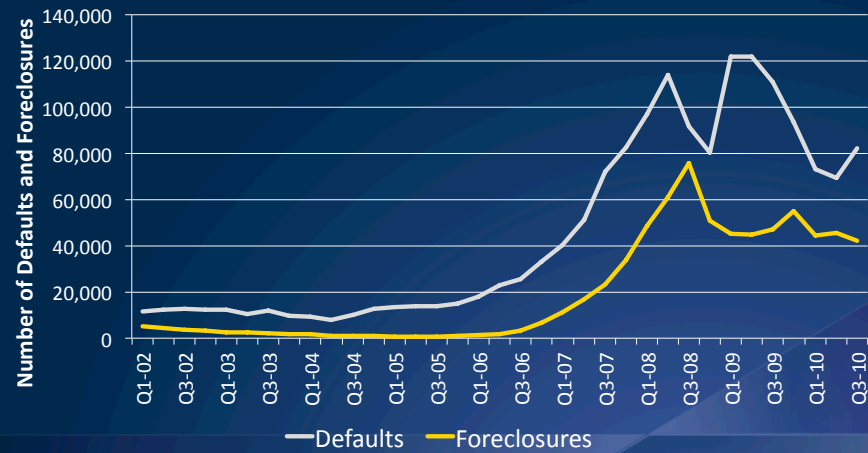
CA Housing Sales to Q3-10



Source: DataQuick

CA Real Estate Markets

California Foreclosure Activity to Q3-10



What comes next?

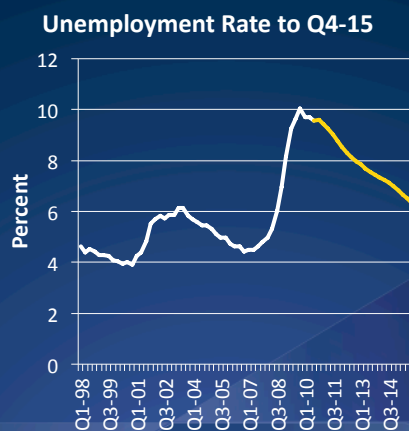
- Continued Slow Growth?
- Double-Dip?
- Accelerating Recovery?



US GDP and Unemployment Forecasts



Source: Bureau of Economic Analysis
Forecast by Beacon Economics



Source: Bureau of Labor Statistics
Forecast by Beacon Economics

What about a Double-Dip?

- Need some sustained shock to the system
- There is potential (worry scale: 1-10):
 - Housing (3)
 - Consumers (3)
 - Deficit/Bond Markets (5)
- Only through gross negligence on the part of policymakers is this possible
 - Policy signals deficits over the long term

National Housing Bounce

Price Trough to Aug-10 (Case-Shiller)		Price Trough to Aug-10 (Case-Shiller)	
CA-San Francisco	16.3	NY-New York	2.3
CA-San Diego	11.0	TX-Dallas	2.1
MN-Minneapolis	10.1	IL-Chicago	2.0
DC-Washington	9.8	CO-Denver	1.8
CA-Los Angeles	8.0	WA-Seattle	1.7
OR-Portland	6.3	GA-Atlanta	0.9
MA-Boston	5.0	FL-Miami	0.6
OH-Cleveland	4.8	FL-Tampa	0.0
AZ-Phoenix	2.5	NC-Charlotte	0.0
MI-Detroit	2.4	NV-Las Vegas	0.0

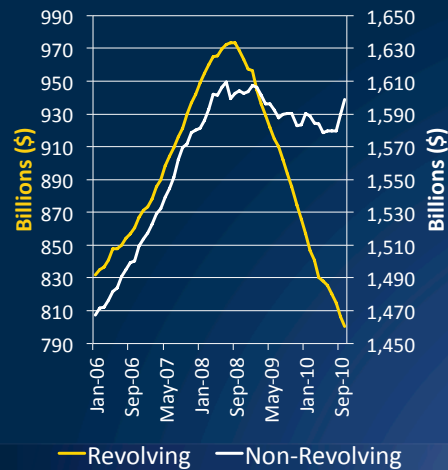
National Housing unBounce

1-yr Change to Nov-10 (Case-Shiller)		1-yr Change to Nov-10 (Case-Shiller)		New Lows
CA-San Francisco	0.4	TX-Dallas	-4.2	
DC-Washington	3.5	IL-Chicago	-7.6	
CA-San Diego	2.6	MI-Detroit	-7.1	
CA-Los Angeles	2.1	FL-Miami	-3.5	
MN-Minneapolis	-4.4	FL-Tampa	-4.0	
MA-Boston	-0.8	GA-Atlanta	-7.9	
OH-Cleveland	-4.4	NC-Charlotte	-4.3	
CO-Denver	-2.5	NV-Las Vegas	-3.5	
NY-New York	-1.7	OR-Portland	-7.0	
AZ-Phoenix	-6.4	WA-Seattle	-4.7	

Source: Standard and Poor's

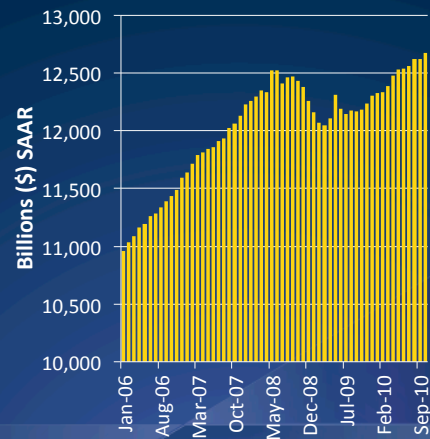
National Spending Fumes?

Consumer Credit to October



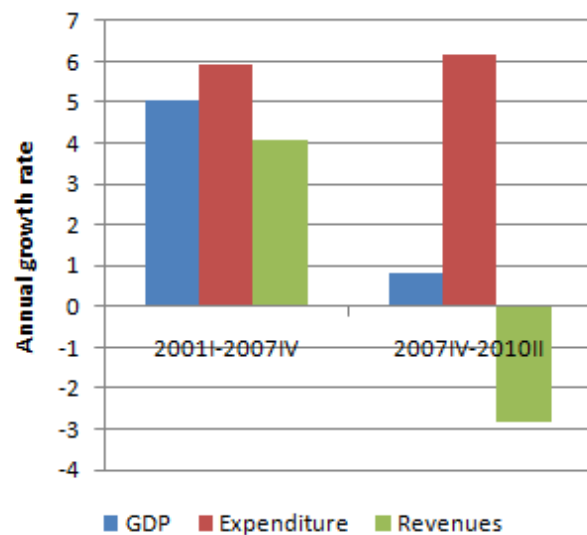
Source: Federal Reserve Board

Personal Income to October



Source: Bureau of Economic Analysis

Attack the Deficit Now?



Summary

- The Recession is Over... Prognosis Improving
 - Consumer weakness is fading
 - Housing bounce is ending
 - Forecast: Robust 2011-12, weakness 2013-14
- Tax Policy, both short and long run, is crucial
 - Short run stimulus, long run danger
 - Must convince bond markets of long run fiscal sanity
- Employment growth accelerates in 2011
- Real estate markets to remain weak

CA Summary

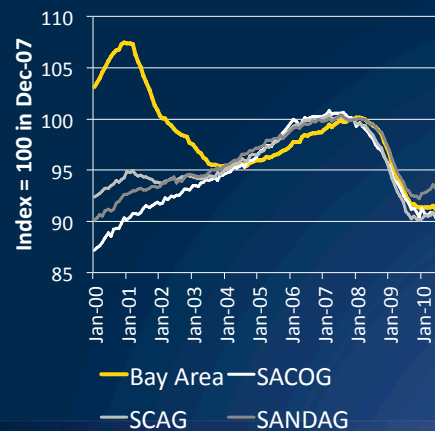
- California has been part of the recession's epicenter
 - Housing, exports, business investment
- Early employment gains have ceased
 - Should resume in 2011, but unemployment will lag
- Decisions now will affect economy long term
 - Budget
 - Education, infrastructure, regulatory environment
- Years before recovery is complete
 - Catching up to potential could be 5+ years

Bay Area Forecast

- Employment
- Taxable Sales
- Forecast

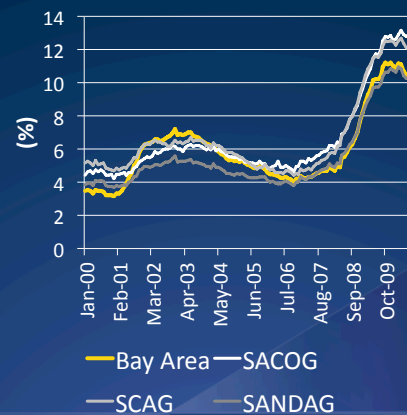
Employment

Total Nonfarm Employment
to August



Source: California Employment
Development Department

Unemployment Rates
to August



Source: California Employment
Development Department

Nonfarm Employment

	Dec-10 Employment	Drop from Peak to Trough (%)	Increase Since Trough (%)
Inland Empire	1,094.4	-15.0	-
Santa Rosa	170.1	-13.3	2.3
Sacramento	795.5	-12.2	-
Vallejo	115.1	-11.7	-
East Bay (MD)	930.3	-11.6	0.1
Fresno	279.9	-10.1	0.9
Los Angeles (MD)	3,759.9	-9.5	0.5
San Francisco (MD)	910.0	-9.2	-
San Jose (MSA)	848.7	-8.9	1.1
San Diego	1,213.5	-8.1	0.5

Source: California Employment Development Department

Unemployment Rate and Labor Force

	Dec-10 Unemployment Rate (%)	Unemployment Rate Low to Peak Change
Inland Empire	14.0	10.2
Fresno	16.8	10.7
Sacramento	12.8	8.5
San Jose	11.4	8.0
Vallejo	12.5	7.9
Los Angeles (MD)	13.0	8.5
Oakland (MD)	11.6	7.6
San Diego	10.5	7.2
Santa Rosa	10.4	7.1
San Francisco (MD)	9.4	6.1

Source: California Employment Development Department

Taxable Sales

Location	Q2-10 (Millions)	Drop from Peak to Trough (%)	Increase since Trough (%)
Bay Area	26,600	-20.5	7.3
SACOG Region	7,155	-23.2	2.6
SCAG Region	55,300	-23.2	4.5
SANDAG Region	10,300	-20.1	7.4
San Francisco (MD)	7,261	-19.0	7.3
San Jose (MSA)	7,572	-22.1	12.1
Oakland (MD)	8,323	-21.8	5.4
Vallejo	1,301	-26.2	2.4
Napa	562	-17.2	3.4
Santa Rosa	1,579	-24.4	2.9

Source: California Board of Equalization

Bay Area Forecast (SF, EB, and SJ)

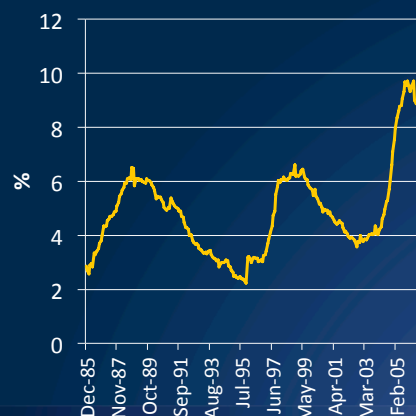
	Current Level (2010 Q2)	Peak Level (Various)	Return to Peak
NF Employment	2,710	2,962	2015 Q4
Taxable Sales	23,155	26,872	2015 Q1
Home Prices			
- San Francisco (MD)	695,093	891,542	90% in 2015 Q4
- East Bay (MD)	350,475	646,658	69% in 2015 Q4
- San Jose MSA	552,695	779,001	98% in 2015 Q4

Bay Area Summary

- Recovery is starting to take hold
- It will strengthen going into 2011 and 2012
 - East bay and Napa/Sonoma slower than other regions
- Fundamentals remain intact, but in jeopardy
 - Educational opportunities
 - Infrastructure
- Remains an attractive region for investment

SF Unemployment – It's Grim

San Francisco (MD)
Unemployment Rate to Dec.



Location	Unemployment (%)		
	Dec-08	Dec-09	Dec-10
California	9.2	12.3	12.5
Bay Regions			
San Francisco (MD)	6.6	9.7	9.5
San Jose	8.2	12.2	11.4
Oakland (MD)	8.1	11.7	11.6
Other Regions			
San Diego	7.8	10.8	10.5
Los Angeles (MD)	9.7	12.3	13.0
Inland Empire	9.0	14.0	14.6

Source: California Employment Development Department

Payroll Employment

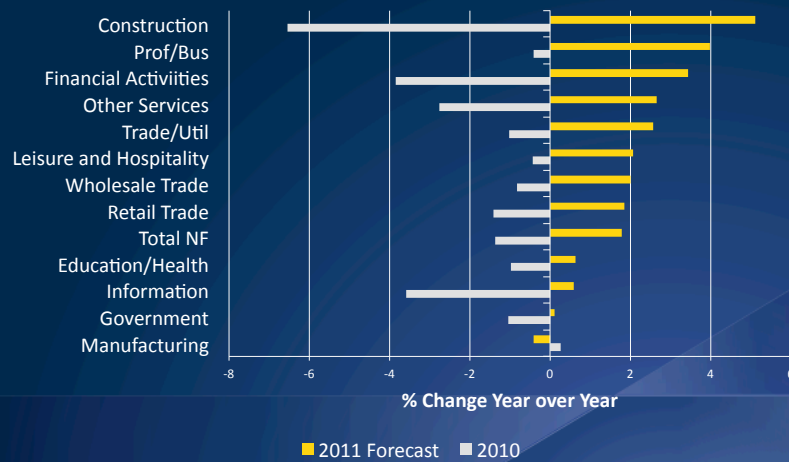
San Francisco (MD) Employment Growth by Sector



Source: California Employment Development Department

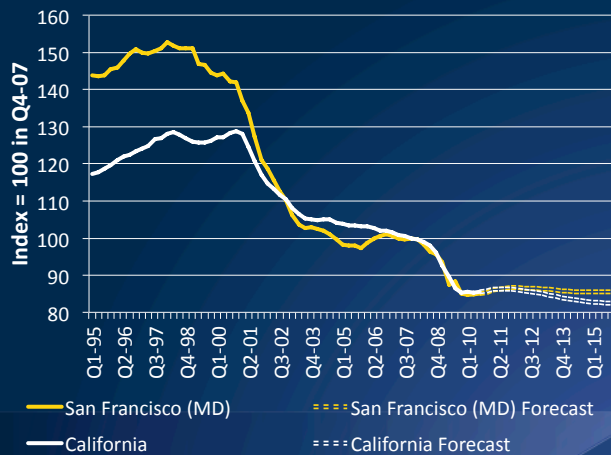
SF(MD) Employment Forecast

San Francisco (MD) Employment Growth by Sector



Manufacturing

Beacon Forecast: Manufacturing Employment
to Q4-15 as of Q3-10



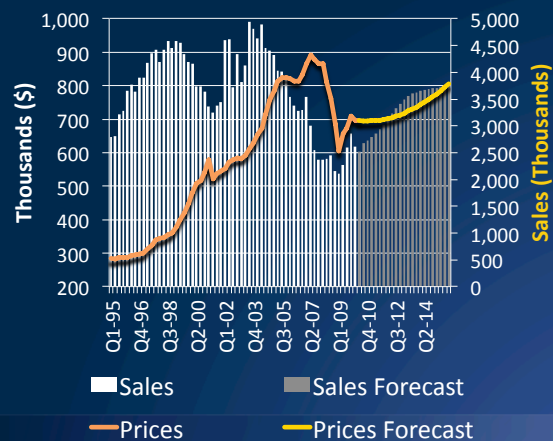
- 9,632 Jobs (-20.7%)
jobs lost from peak to
current.

- No further job losses
are expected.

Source: California Employment Development Department/Beacon Economics

Housing Market

Beacon Forecast: Housing Situation
to Q4-15 as of Q2-10



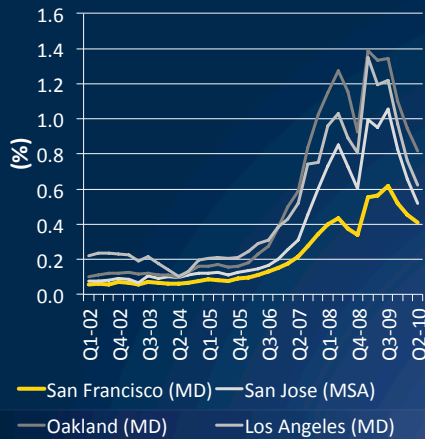
San Francisco MD:

- Currently
Down \$196,449
(-22.0%) from peak in
Q2-2007
- Peak to trough decline:
\$287,599 (-32.3%)
by Q1-2009
- Prices flat to up rising over
the next couple of years

Source: DataQuick/Beacon Economics

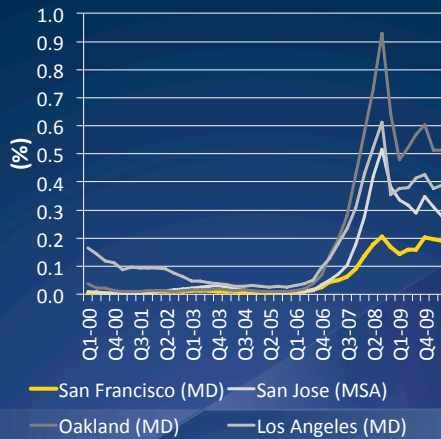
Residential Real Estate

Percentage of Single-Family Housing Units in Default



Source: DataQuick, Department of Finance

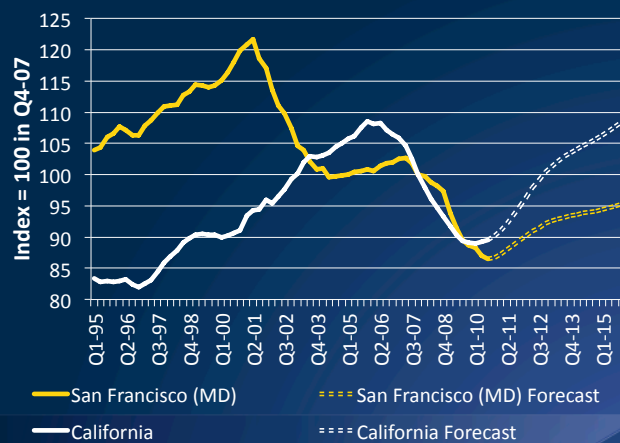
Percentages of Single-Family Housing Units in Foreclosure



Source: DataQuick, Department of Finance

Finance & Insurance

Beacon Forecast: Finance and Insurance
Employment to Q4-15 as of Q3-10

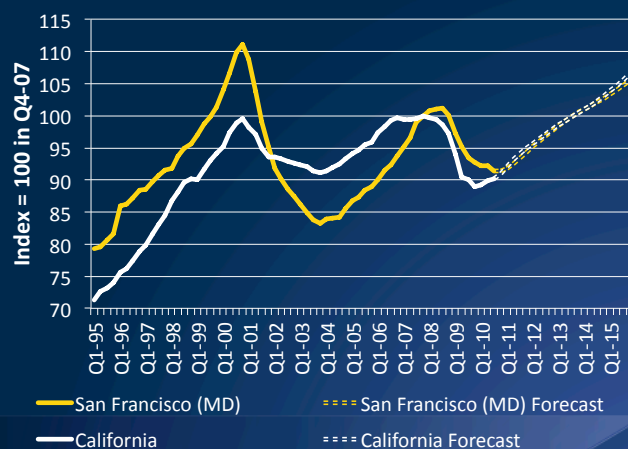


- Late start in SF
- 10,688 jobs (-15.6%) lost to date
- No additional job losses are expected

Source: California Employment Development Department/Beacon Economics

Business & Professional

Beacon Forecast: Professional and Business
Employment to Q4-15 as of Q3-10

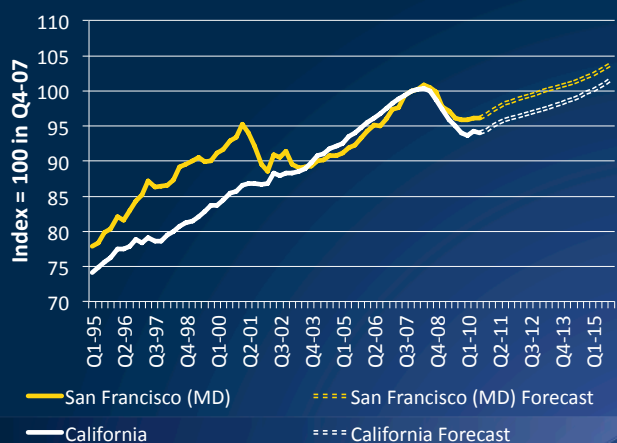


- 20,125 jobs lost (-9.5%) to date
- 9.9% total decline
- Currently at bottom
- Late start, late recovery

Source: California Employment Development Department/Beacon Economics

Leisure & Hospitality

Beacon Forecast: Leisure and Hospitality
Employment to Q4-15 as of Q3-10

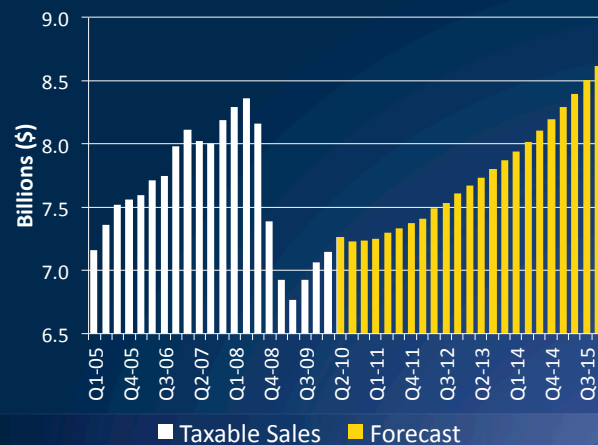


- 7,168 jobs (-5.6%) lost to date
- No additional job losses are expected.

Source: California Employment Development Department/Beacon Economics

The Consumer

San Francisco (MD) Taxable Sales Forecast to Q4-15 as of Q2-10

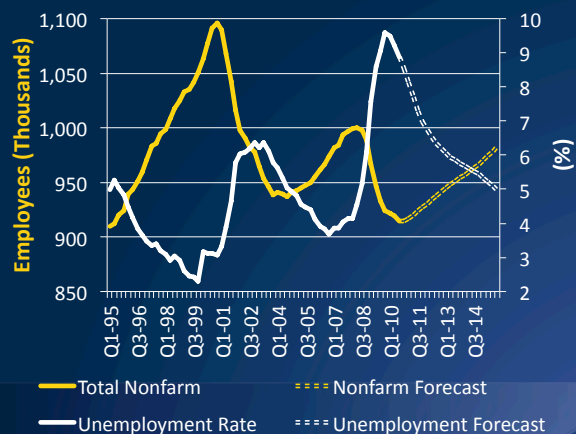


Source: California Board of Equalization/Beacon Economics

- Strong driver of the recession.
- 19.0% decline from peak to trough
- 13.2% decline from peak to current level
- Continued pressure on state and local government budgets.

Net Affect on the Labor Market

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



Source: California Employment Development Department/Beacon Economics

- Unemployment peak:
9.6% in Q4-2009.
Trough to Peak: +5.9 %
pts
- Employment trough:
914,170 in Q4-2010
Peak to Trough:
86,317 jobs lost.

Forecast

	Peak to Current (%)	Bottom Reached In	Recovery Of Peak
Home Prices			
Marin	-23.1	Q1-09	After Q4-15
San Francisco	-15.9	Q1-09	After Q4-15
San Mateo	-22.8	Q1-09	After Q4-15
Taxable Sales			
Marin	-15.8	Q2-09	Q2-15
San Francisco	-12.8	Q2-09	Q2-14
San Mateo	-13.7	Q2-09	After Q4-15
Personal Income	-4.5	Q4-09	Q3-11
Nonfarm Employment	-8.9	Q2-10	After Q4-15
Unemployment Rate	+5.7	Q4-09	After Q4-15

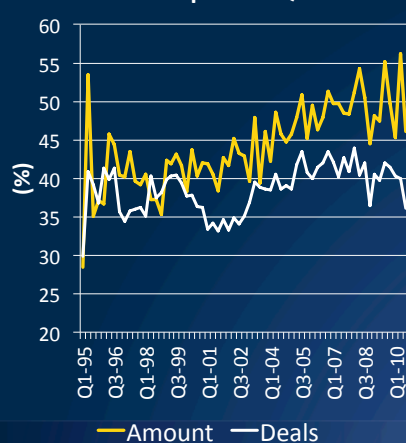
Source: Forecasts by Beacon Economics

Forecast Summary

- Housing has bottomed, but growth will be slow
- Unemployment Rate peaked at 9.7% in Q4-2009
- Employment bottomed out in Q4-2010
- Exports and business investment will be key drivers of recovery
- For most aspects of the economy, recovery is 5+ years off
- Local budgets will be strained for some time
- **Region is adaptable and recovery will be robust!**

Venture Capital

California's Share of U.S.
Venture Capital to Q3-10



Source: PriceWaterhouseCoopers MoneyTree

Q2-10	Value of All Deals (Millions)	% of Total US VC
Bay Area	2,826	41
California	3,902	56
United States	6,943	

Q3-10	Value of All Deals (Millions)	% of Total US VC
Bay Area	1,750	36
California	2,220	46
United States	4,820	

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