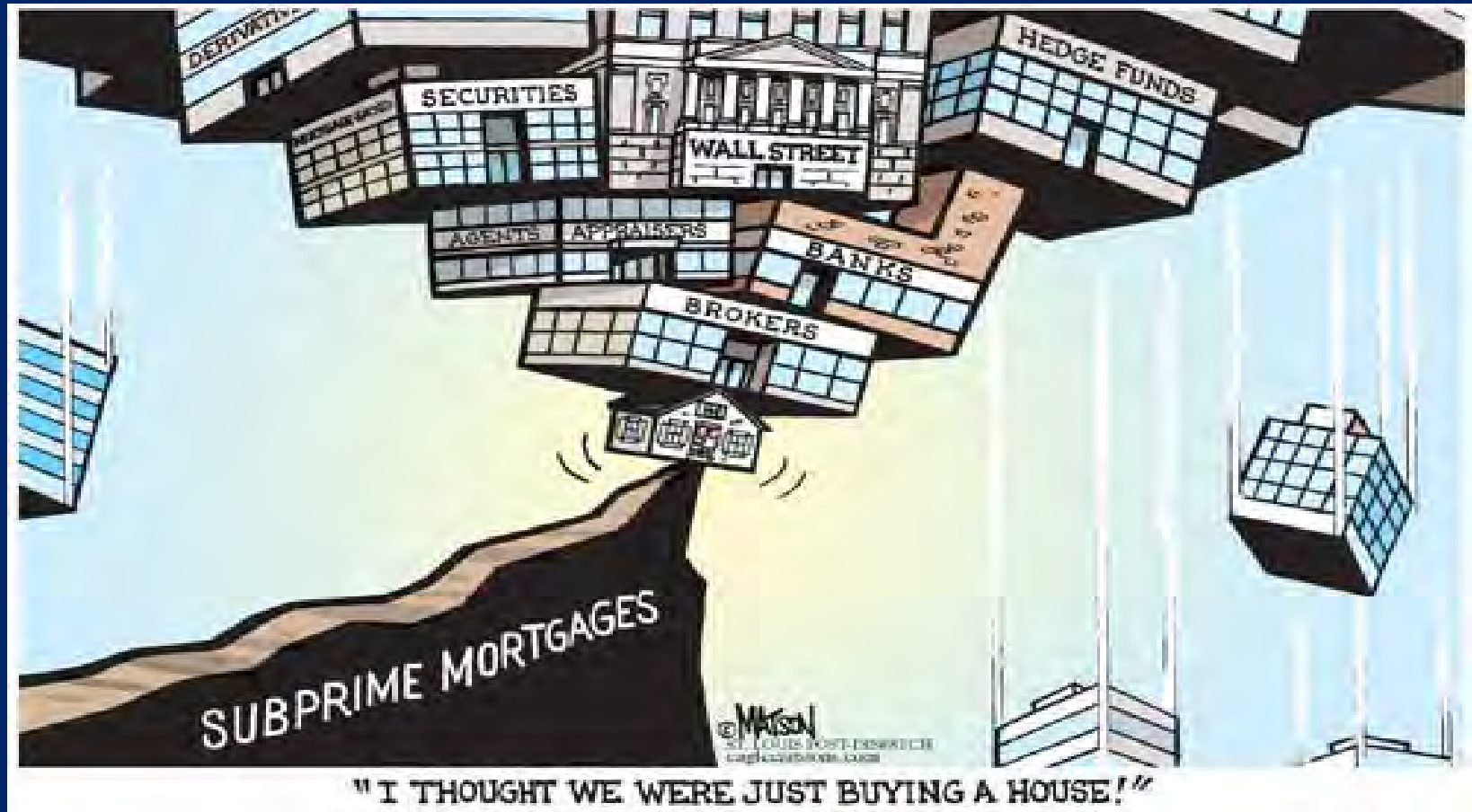


# *The National and State Perspective*



**Ryan Ratcliff, Asst. Professor of Economics**  
**Dec. 9, 2008**

SCHOOL OF BUSINESS  
ADMINISTRATION

## 2 Important Historical Facts

- 1. Problems in Housing have preceded 9 out of 11 recessions since WWII – by an ave. of ~8 mos.*
- 2. Job loss in a recession is a double whammy from Construction & Manufacturing*

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### Since 2006

We've had  
BIG housing  
problems

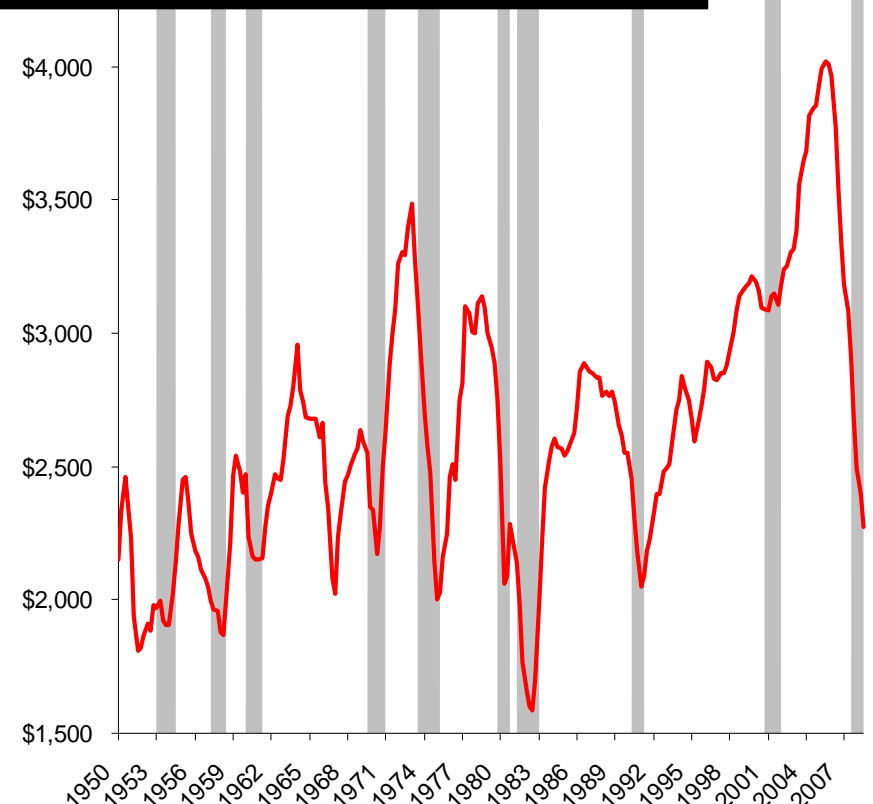
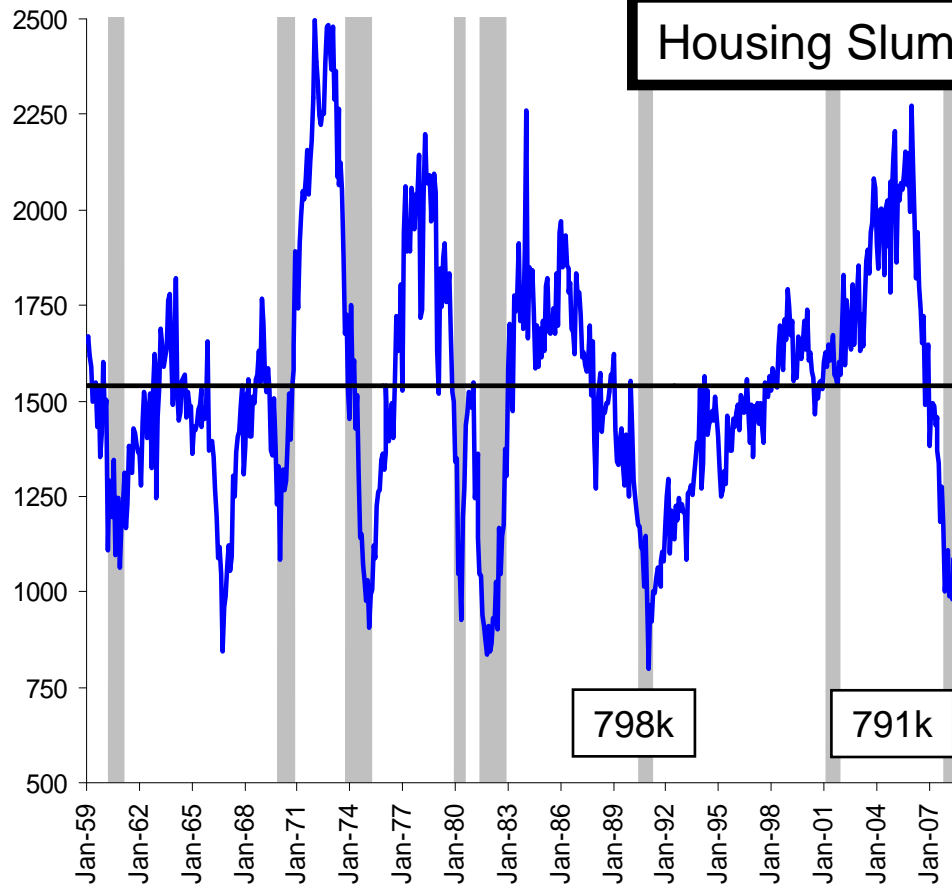


But they took  
much longer to  
slow the overall  
economy  
(peak in Dec. '07)

# #1: Construction Slumps Before Recessions

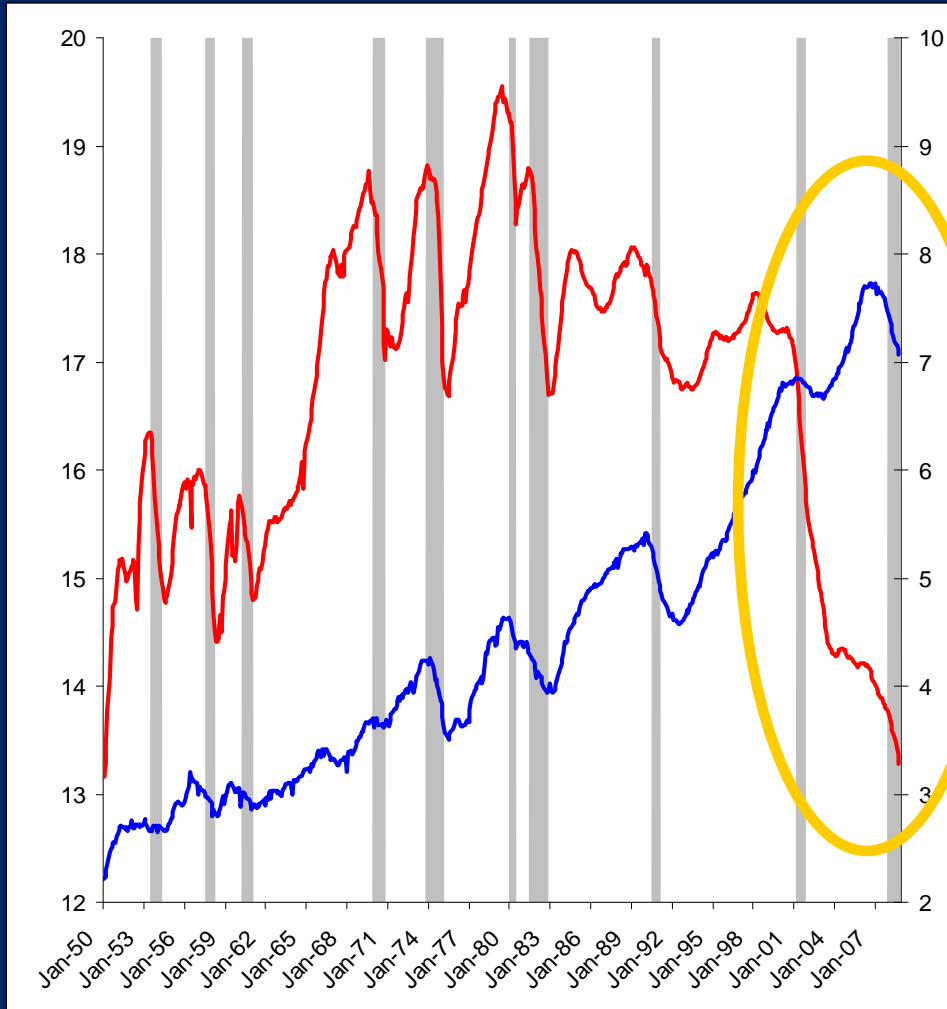
US Housing Starts (000s SAAR)

US Real Residential Fixed Investment / Worker (2000 \$)

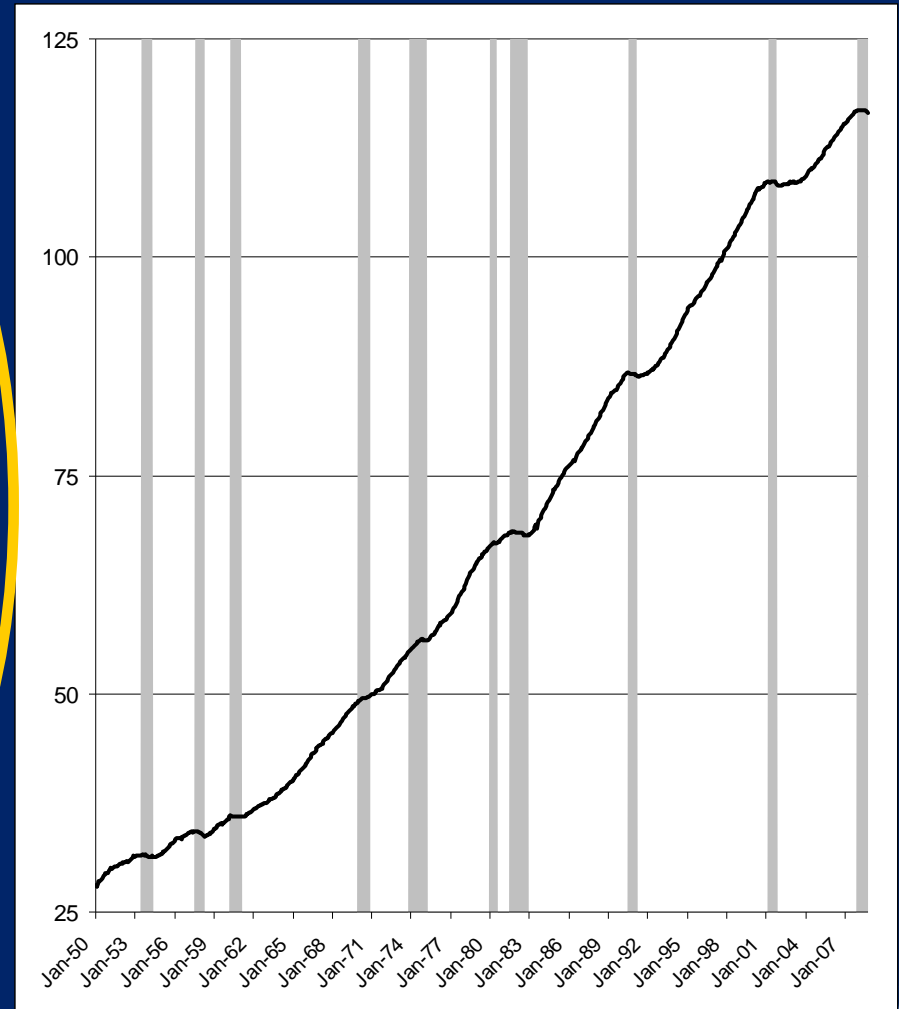


# #2: Recession Casualties are Constr. & Mfg

US Emp. in Mfg (red, left) and Constr. (blue, right) (mil SA)

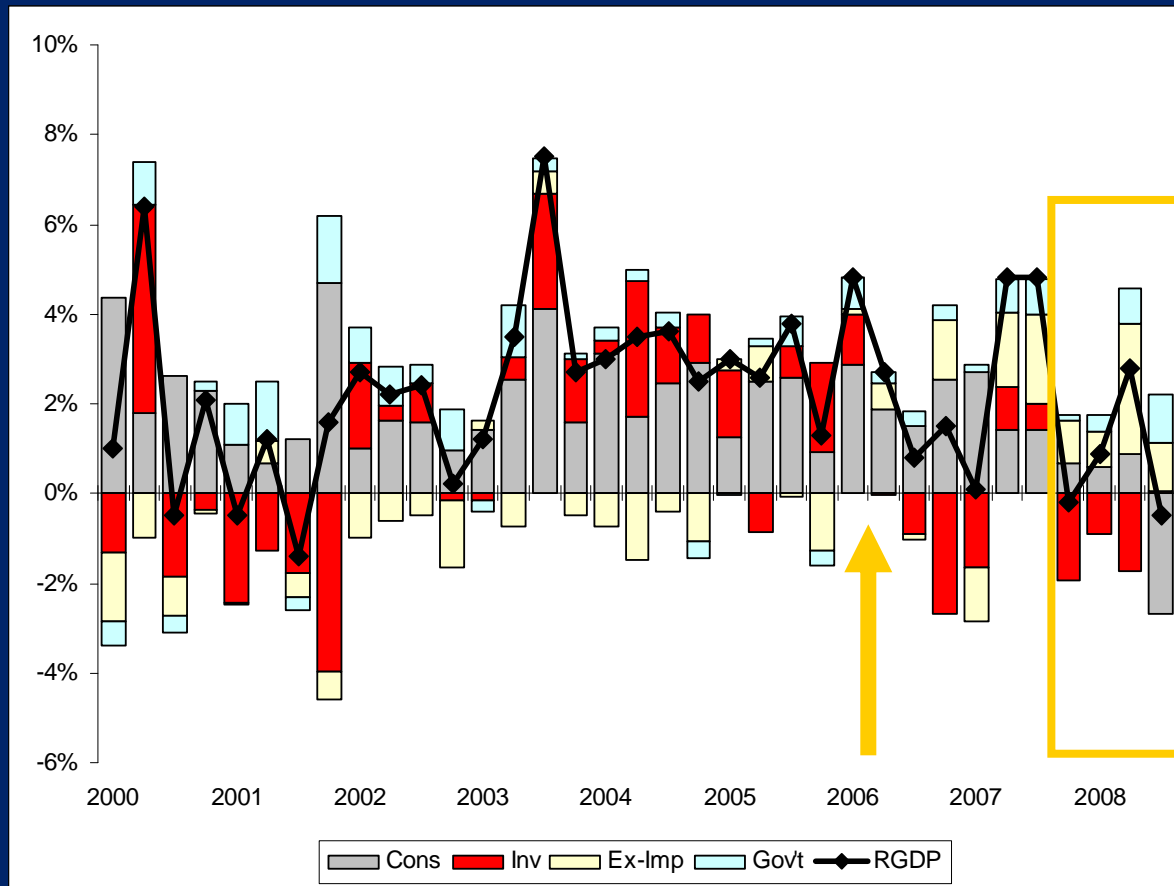


US Emp. outside of Constr. & Mfg (mil SA)



# An Overdue Housing Recession

## US Real GDP Growth (SAAR) by Category



- Housing Construction has been a -1% drag on GDP growth since 2006.
- Usually, recessions start ~2 qtrs after housing peak – late 2006.
- Weak dollar and resilient consumer offset housing weakness in 2006-7.
- The official recession began as both of these factors weakened in 07Q4.

# *Role of the Financial Crisis*

Short Term Credit Spreads:  
3m LIBOR – Fed Funds Rate

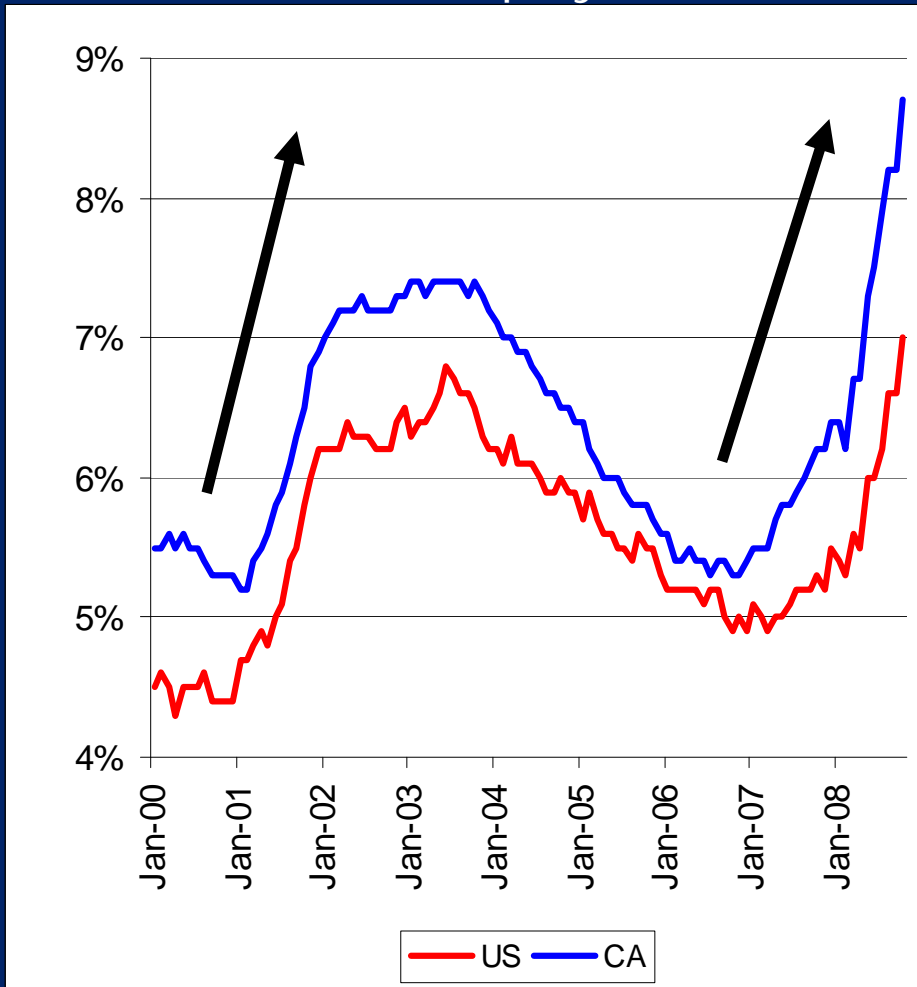


- Foreclosure rates saw an unprecedented spike in mid-2007, leading to unexpectedly high losses on MBS + derivatives.
- The post-subprime credit tightening becomes a liquidity crunch in late 2007 as short-term credit markets shut down.
- Aggressive intervention by Fed and other CBs gives a brief respite in early 2008, but wave of bank failures makes the 2007 credit crunch look tame.
- Directly or indirectly, financial turmoil led to a broad-based consumption slowdown.

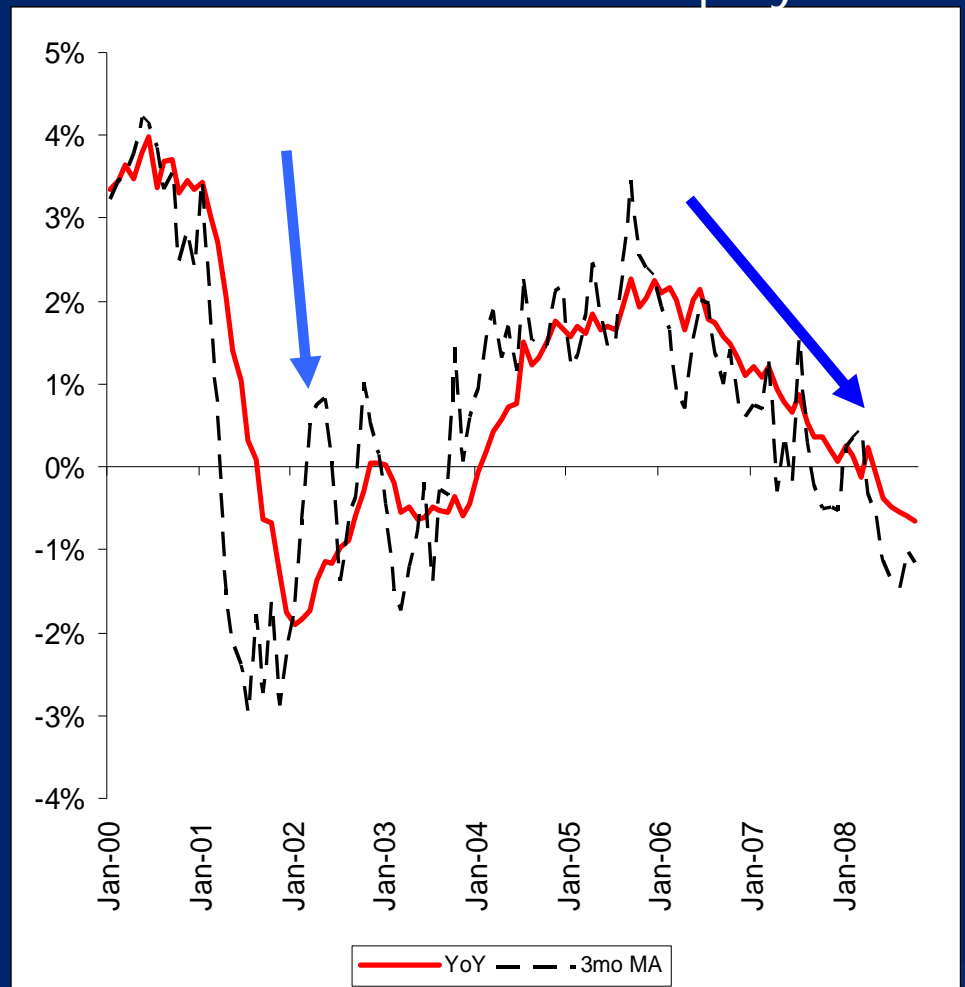
# Here in California...

*CA is over-exposed to the cause of the recession (again)*

CA and US Unemployment Rate

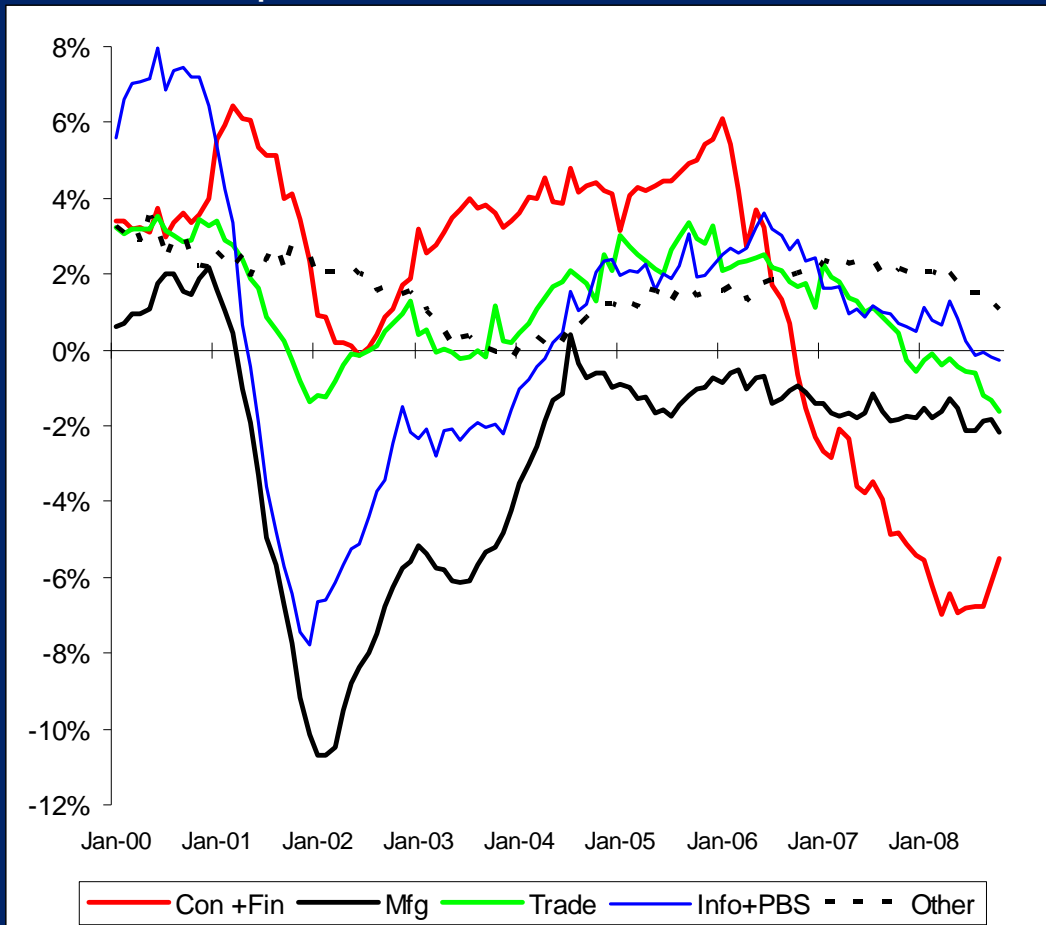


Ann. Growth in CA NFP Employment



# Real Estate Takes a Big Bite in CA...

YoY Emp. Growth in Selected CA Sectors



- Real Estate sensitive sectors (12% total emp. 2004) are the major source of drag starting in 2006.
- Housing related retail slows growth in Trade (16%).
- B2B weakness slows Info. and Prof. Bus. Services (18%) growth in '07.
- Education, Healthcare, and Gov't are the big contributors to steady growth in the Other category (44%).

# *Is this another Great Depression?*



- Fed and Gov't blunders turned a bad recession into the Great Depression:
  - Tariff war kills export sector
  - Gold Standard -> Higher interest rates
  - '29-'33: 40% of US banks fail, Money Supply drops by >30%
- Post-Depression institutions (FDIC) + Fed intervention + Bailout News forestalled a financial collapse, but we haven't solved the bad debt problem. TARP flip-flops muddy the waters.
- Barring some 1930s-style government bungling, our financial crisis should be a painful, but typical recession.
- Bernanke is one of the leading scholars of the economics of the Depression...

# Where Do We Go From Here?

## US Economy

- Bailout heads off a financial collapse, but we still have a major credit crunch.
- Lack of lending makes monetary policy impotent, and tax cuts go under the mattress... A real stimulus needs to be spending-based.
- Combination of continued housing weakness, consumer slowdown, and credit crunch is at least another 12 months of economic weakness.

## CA Economy

- Weakness in private sector + budget deficits = slumping CA economy for the foreseeable future.
- One dim flicker of light at the end of the tunnel: home sales are rising in most counties...

