



Economic Outlook for California: 2012-13

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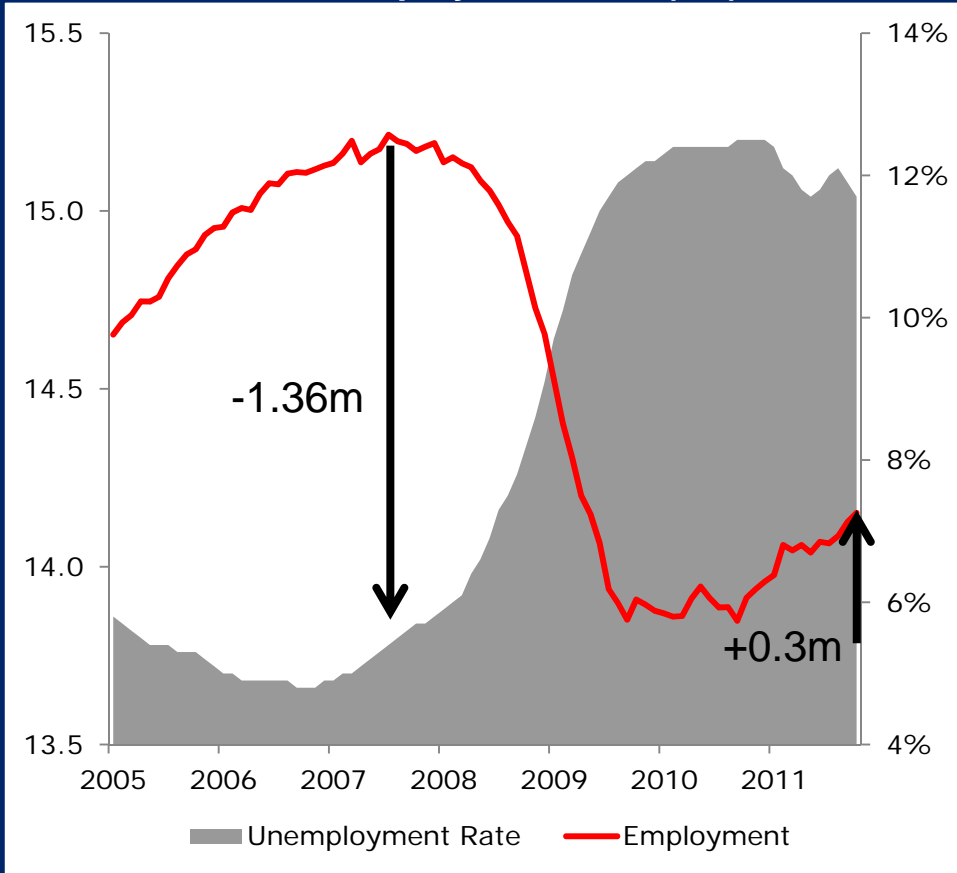
**SCHOOL OF BUSINESS
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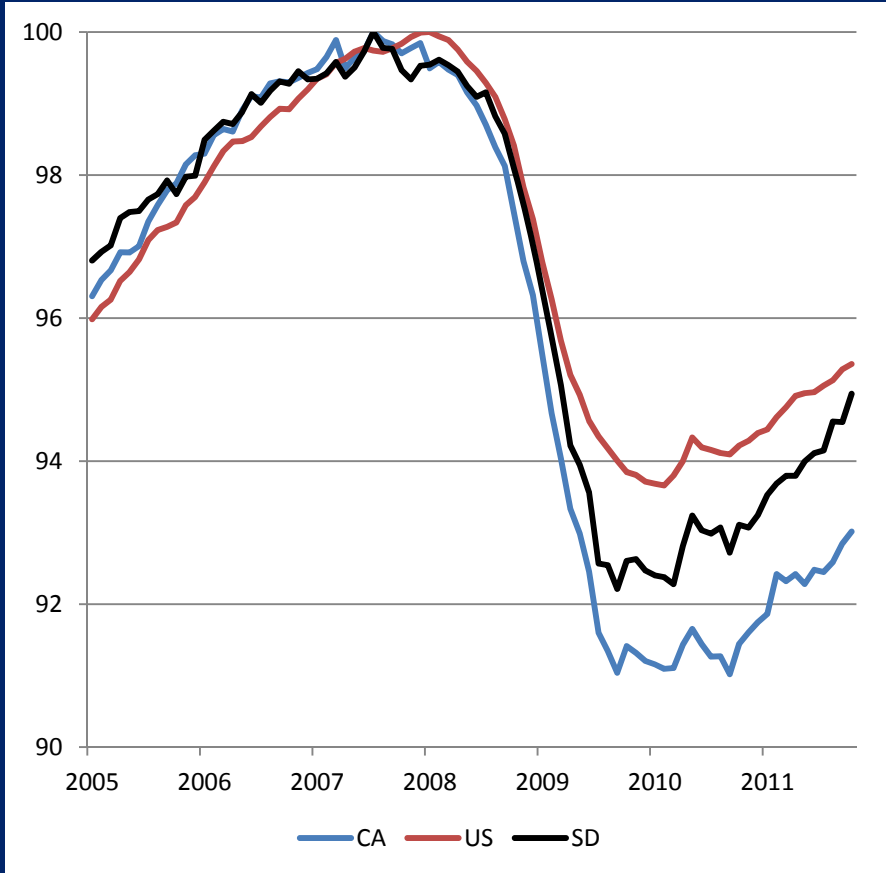
California Job Market

CA slumped earlier and fell further. "Recovery" arrived later, but has been slightly stronger than the US as a whole in recent months.

CA NF Payroll Emp. (mil SA) & CA Unemployment Rate (SA)



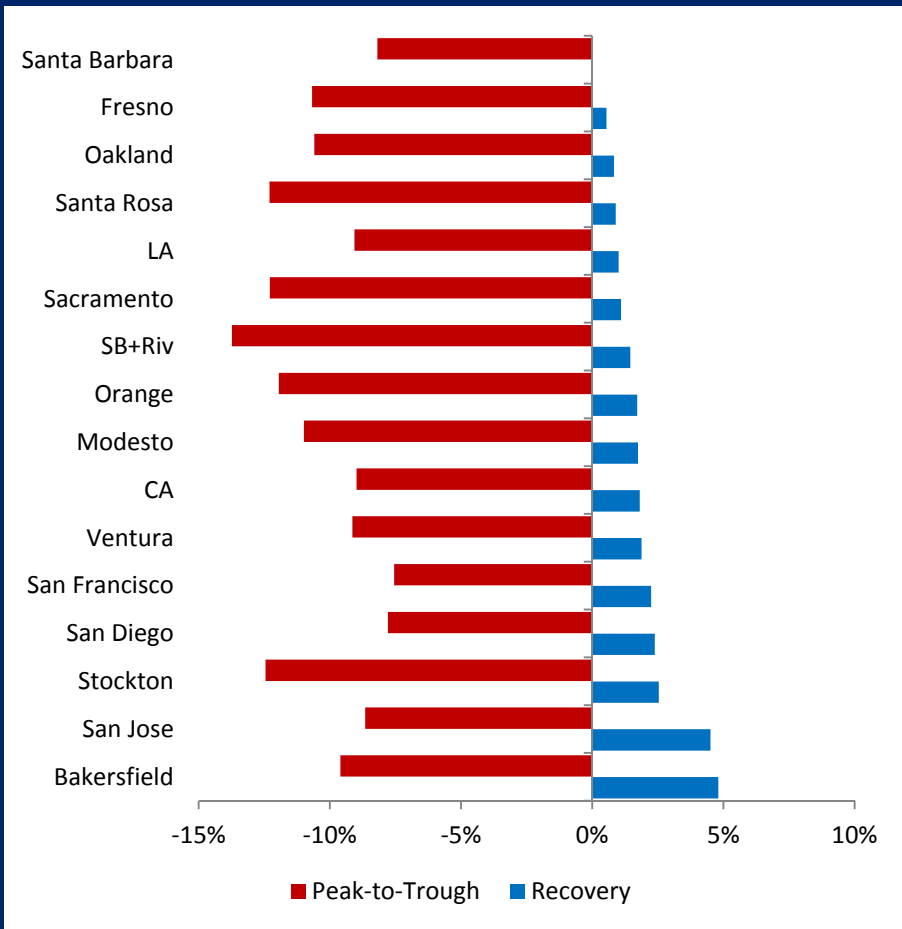
NF Payroll Emp. (Peak = 100)



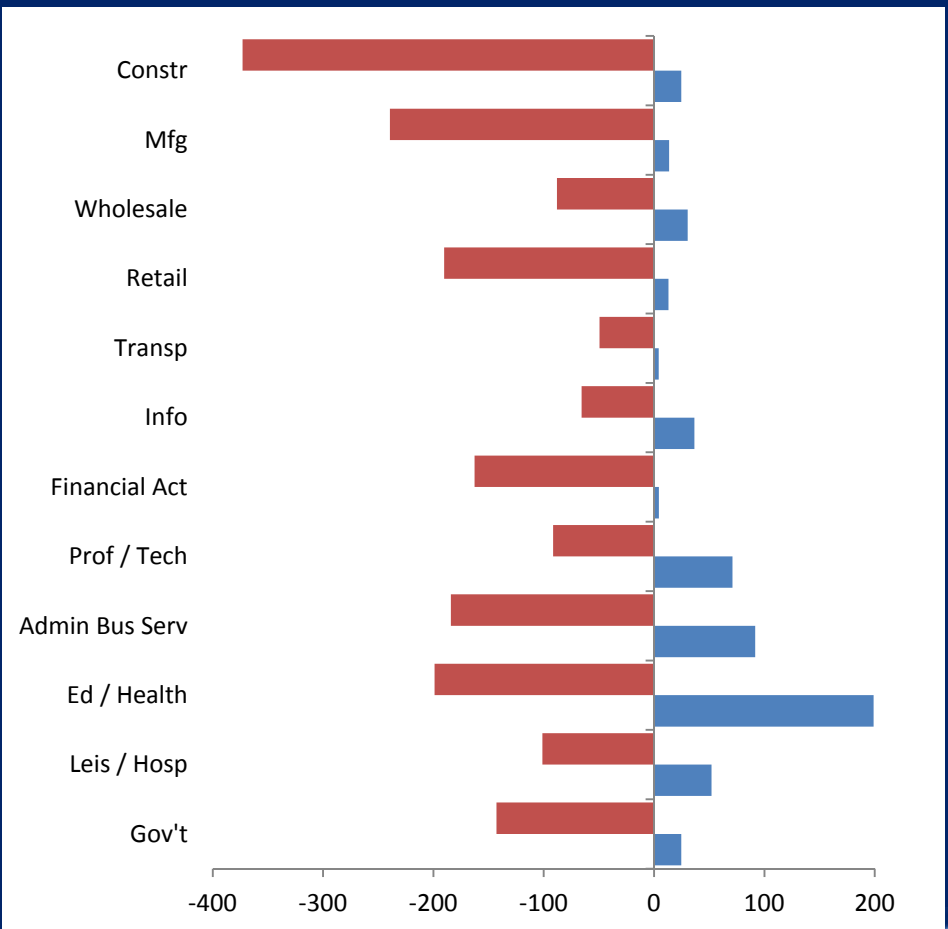
California Job Growth

The "Recovery" has been the Bay Area and SD; LA/OC and Inland lag behind. Bus. Services, Tech, and Ed./Health lead recovery.

NF Payroll Growth by Metro

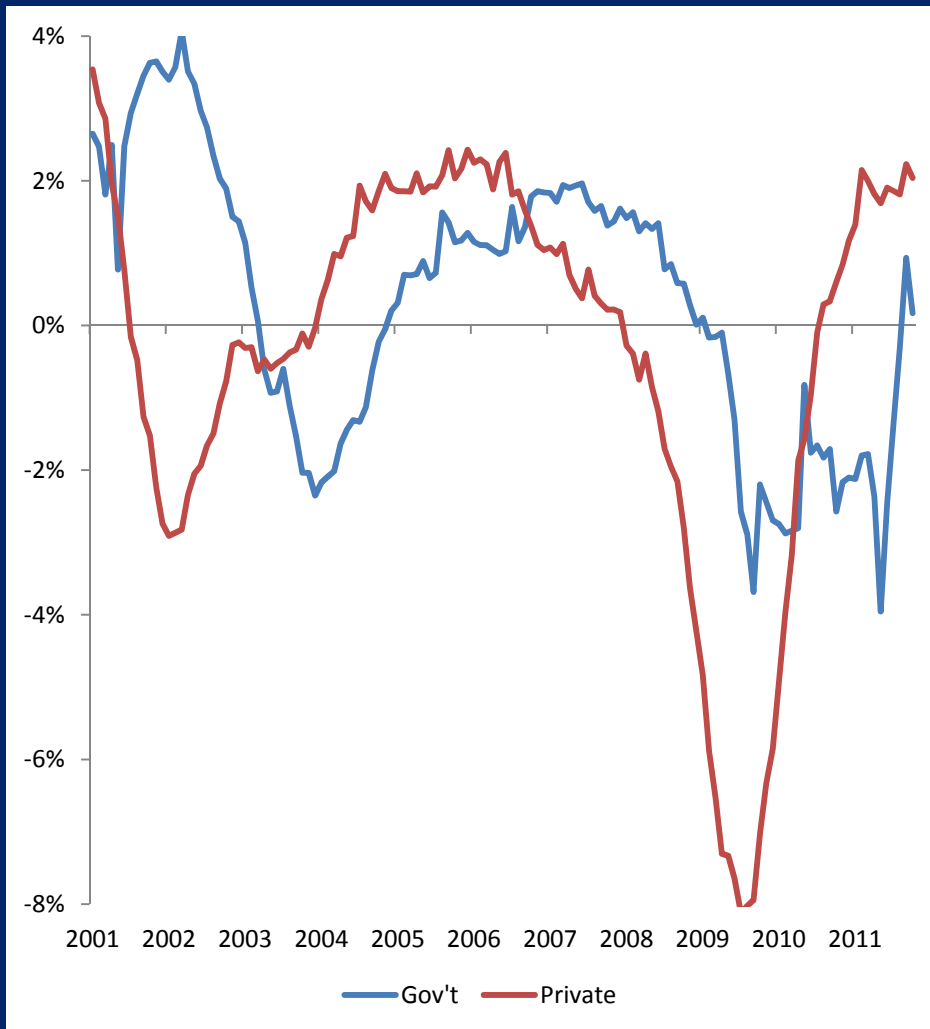


Jobs Lost Peak to Trough; Jobs Added Since (000s)



CA Budget Woes Hinder Growth

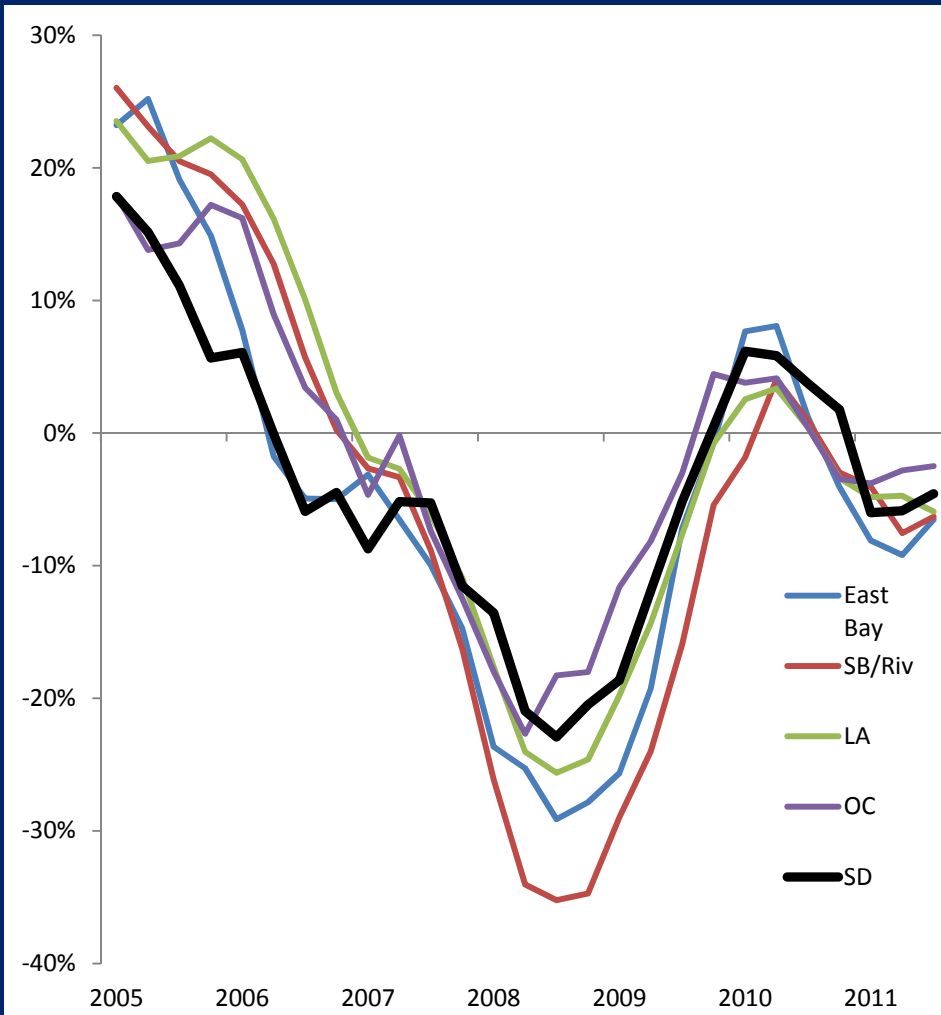
YoY Growth in CA Payroll Emp: Private vs Gov't



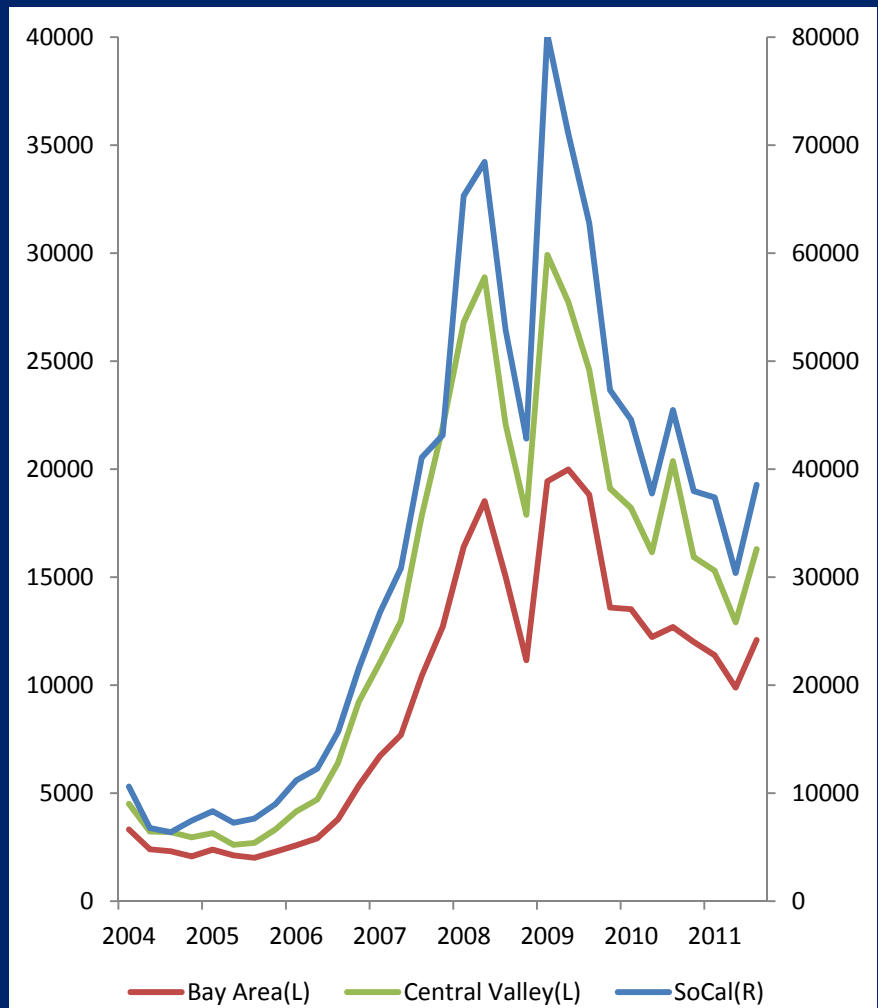
- In 2003-4, state/local government job losses offset private sector gains, hindering recovery.
- This pattern has played out again in 2009-10. 90% of these gov't job cuts (~250k) are in K-12 education.
- 2011-12 budget had optimistic forecasts for revenue growth, based on a robust recovery.
- Last month, LAO estimated revenues are about \$3.4 billion below the assumed level, which will trigger an additional \$2 billion in automatic spending cuts.
- Recent revenue estimates are slightly better...

CA Housing Markets

Home Price Index (FHFA+Dataquick): YoY %



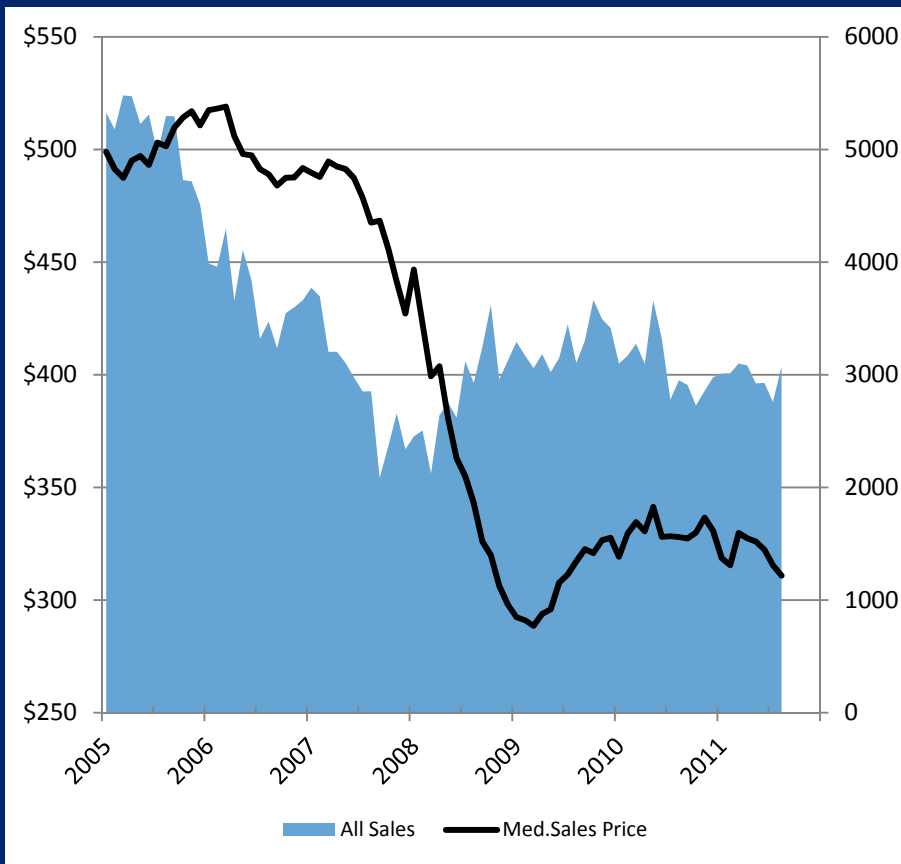
Notices of Default



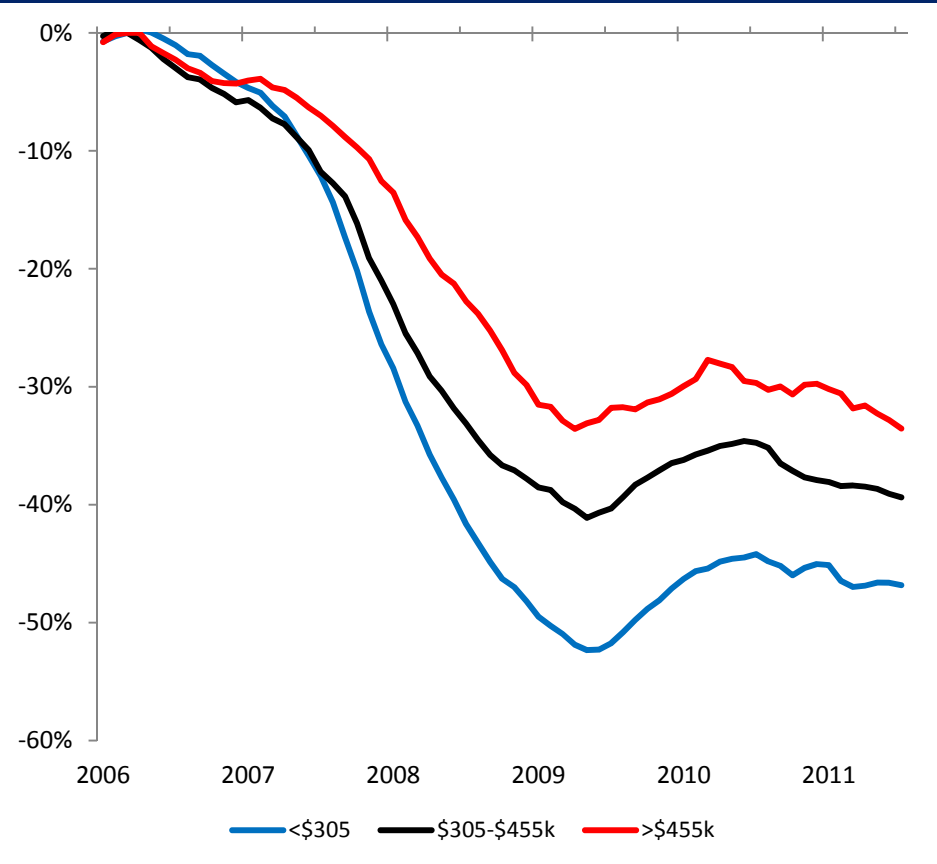
A Sputtering Recovery in SD Housing

**2009-10 saw higher sales and 12-18% price appreciation relative to lows.
2010-11 has given about half those gains back...**

DQ: Med Sales Price(\$1000) & Volume, All Homes



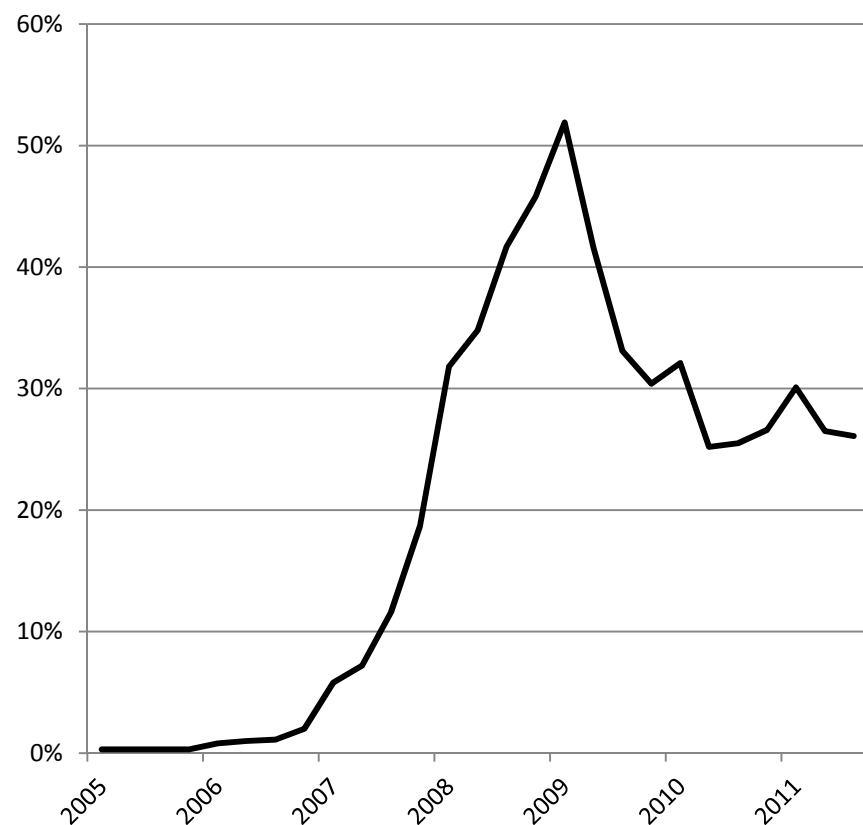
Case-Shiller Repeat Sales Index, Decline fr. Peak



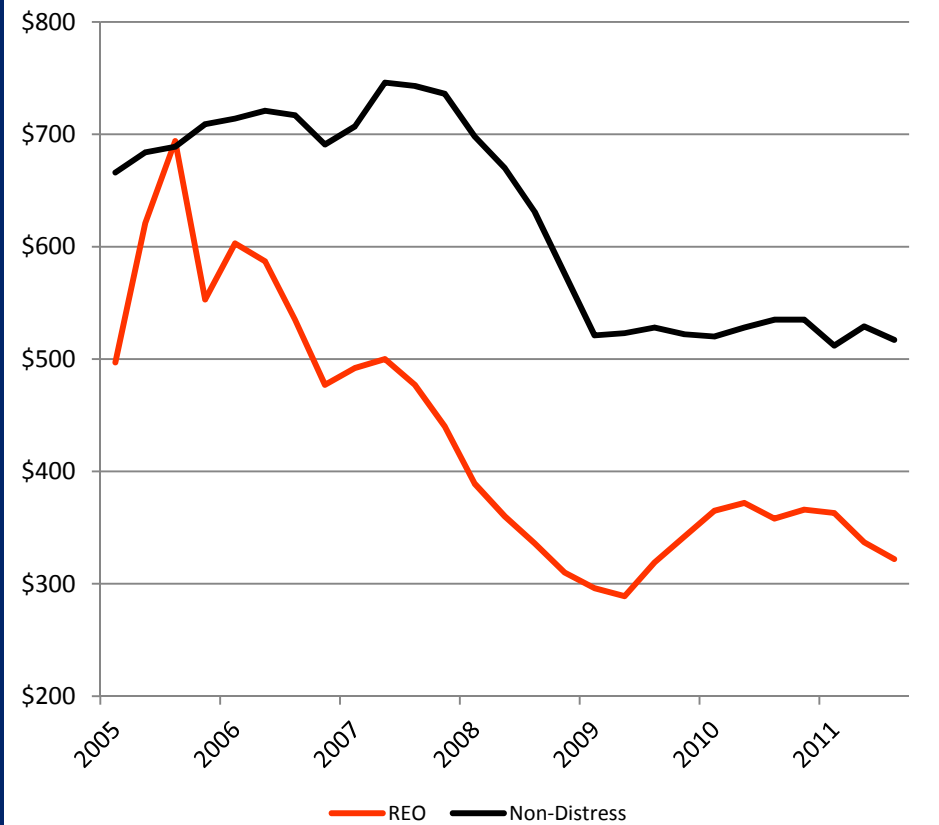
SD: Distress Sales Drive the Market

The uptick in 2009-10 looks like stronger REO prices, combined with an increased share of non-distressed homes...

REO Share of Total SF Sales(Collateral Analytics)



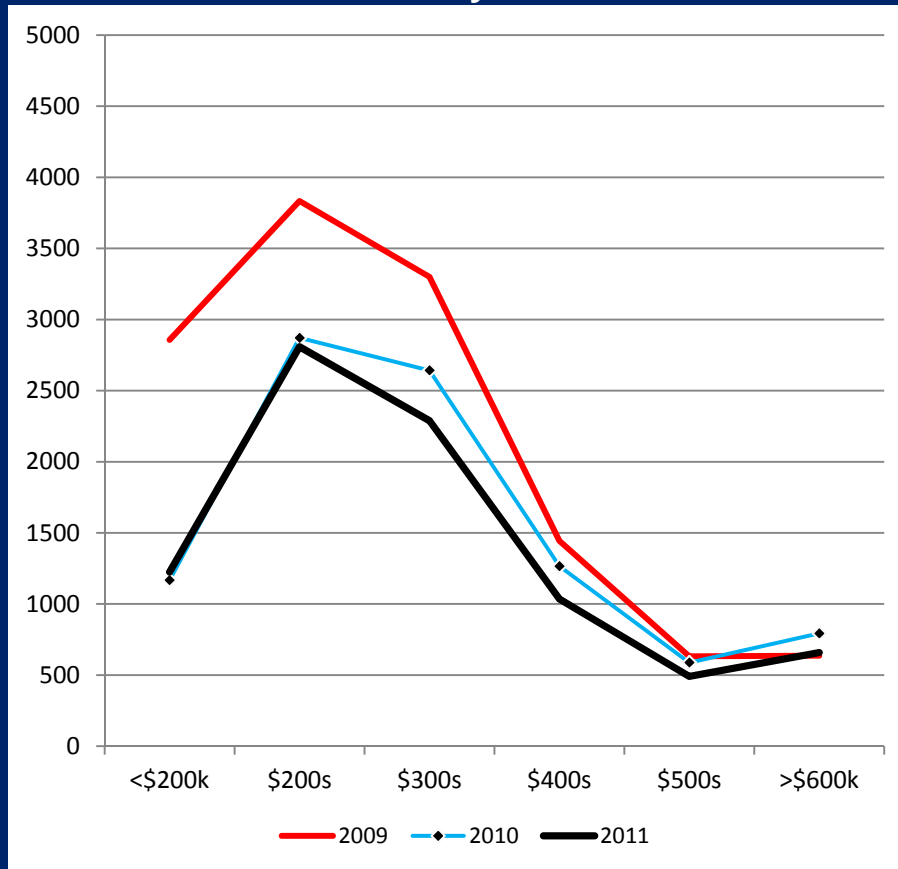
Average SF Sales Price: REO vs. Non-Distressed



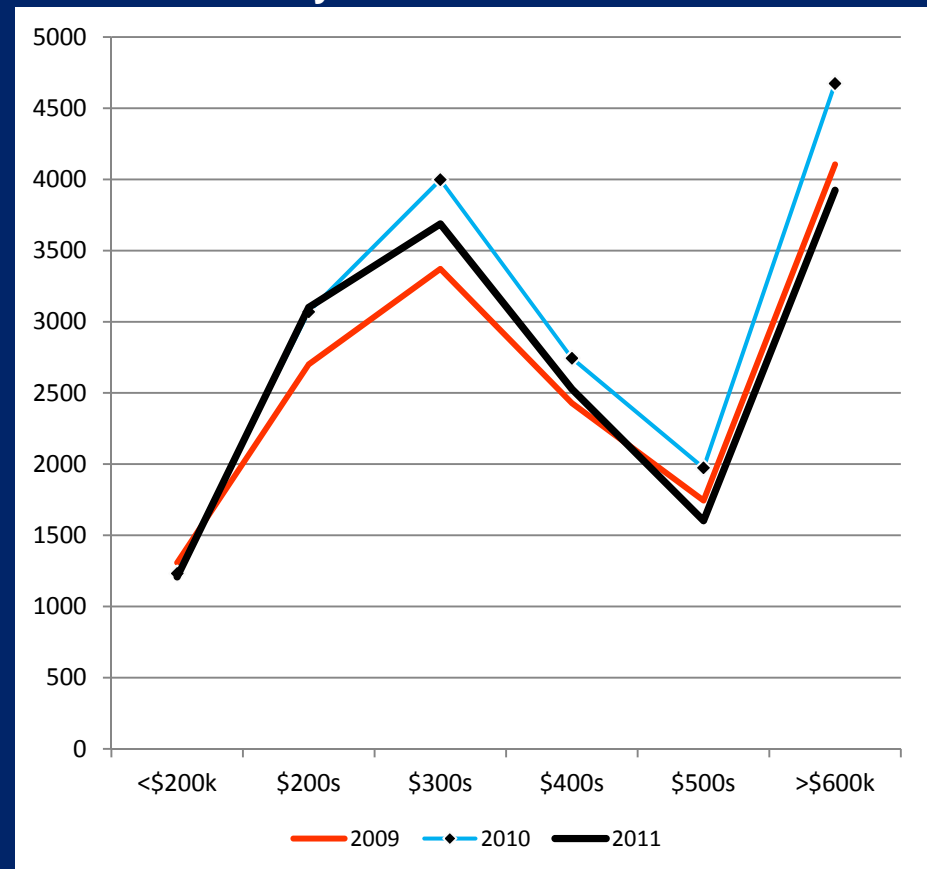
SD: Distress Sales Drive the Market

REO Sales volumes have been declining, but remain concentrated at lower prices. Non-Distress sales have receded since 2010.

Number of Sales by Price Point: REO



of Sale by Price Point: Non-Distressed



Looking Ahead

- Recent signs do show CA and US economy improving, but still not a robust recovery.
- CA will likely see a tepid and uneven recovery through summer 2012 (1-1.5% job growth), and pick up some momentum into 2013.
- SD and Bay Area do better, while other regions lag. High tech and Bus Serv. are the bright spots, but little progress in lower/middle income jobs (Mfg & Construction).
- Weak job market and continued pipeline of distress sales suggest home prices drift sideways, with some pickup next summer.
- Lots of wild cards: Sacramento, Washington, Europe...

