

Tri-County Economic Forecast Conference: Transition Alphabet Soup

Chico, CA

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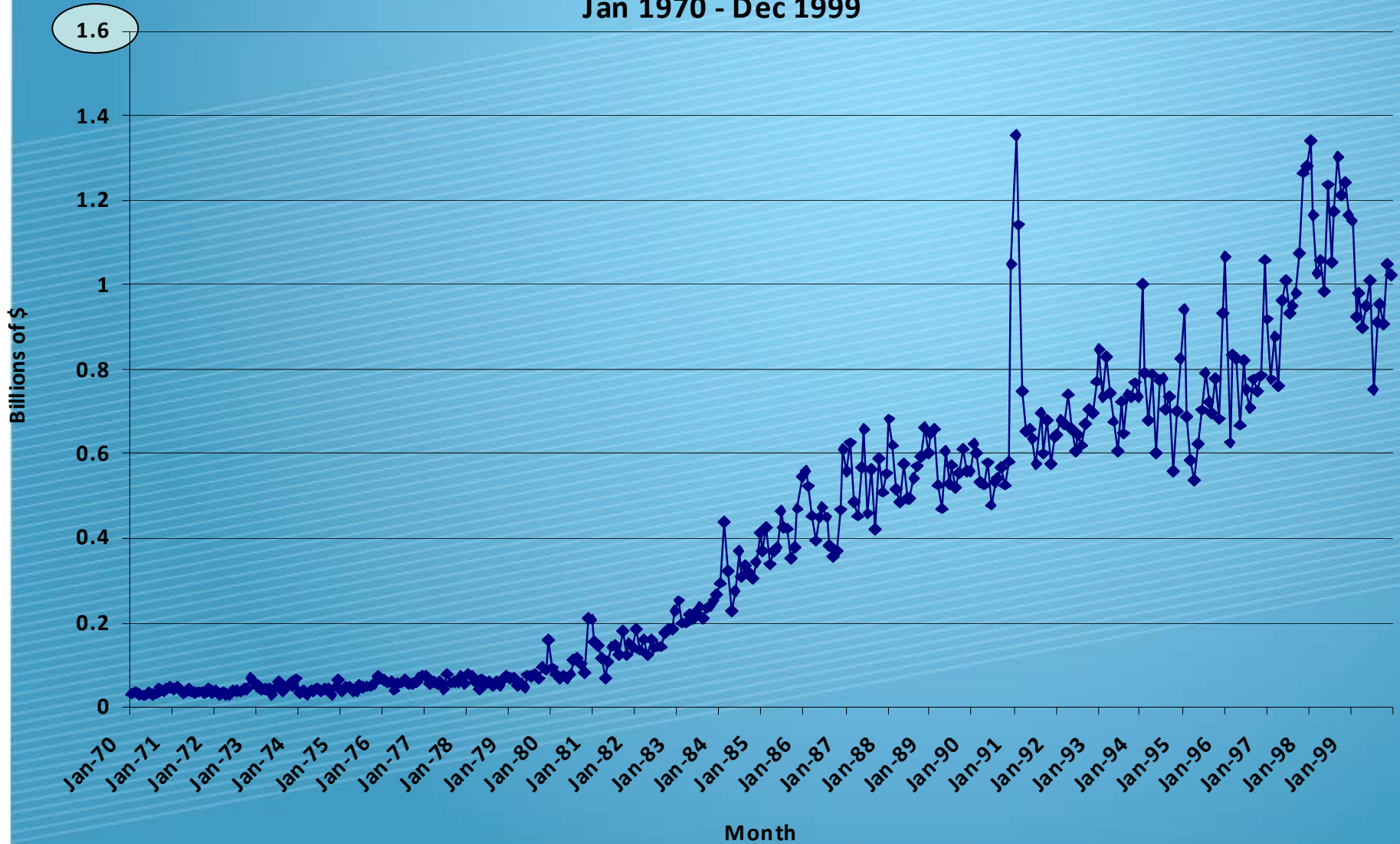
Introduction

- Are we in recovery? Yes, albeit slow
 - V, W, U, J, L?
- Federal and state spending
 - Transitory more than permanent effects
- Need innovation and entrepreneurship to experience permanent change
 - Compare 1980s and 1990s to 2000s booms
- North State has many challenges and opportunities
 - Will lag behind national recovery
 - Need to identify and use natural advantages

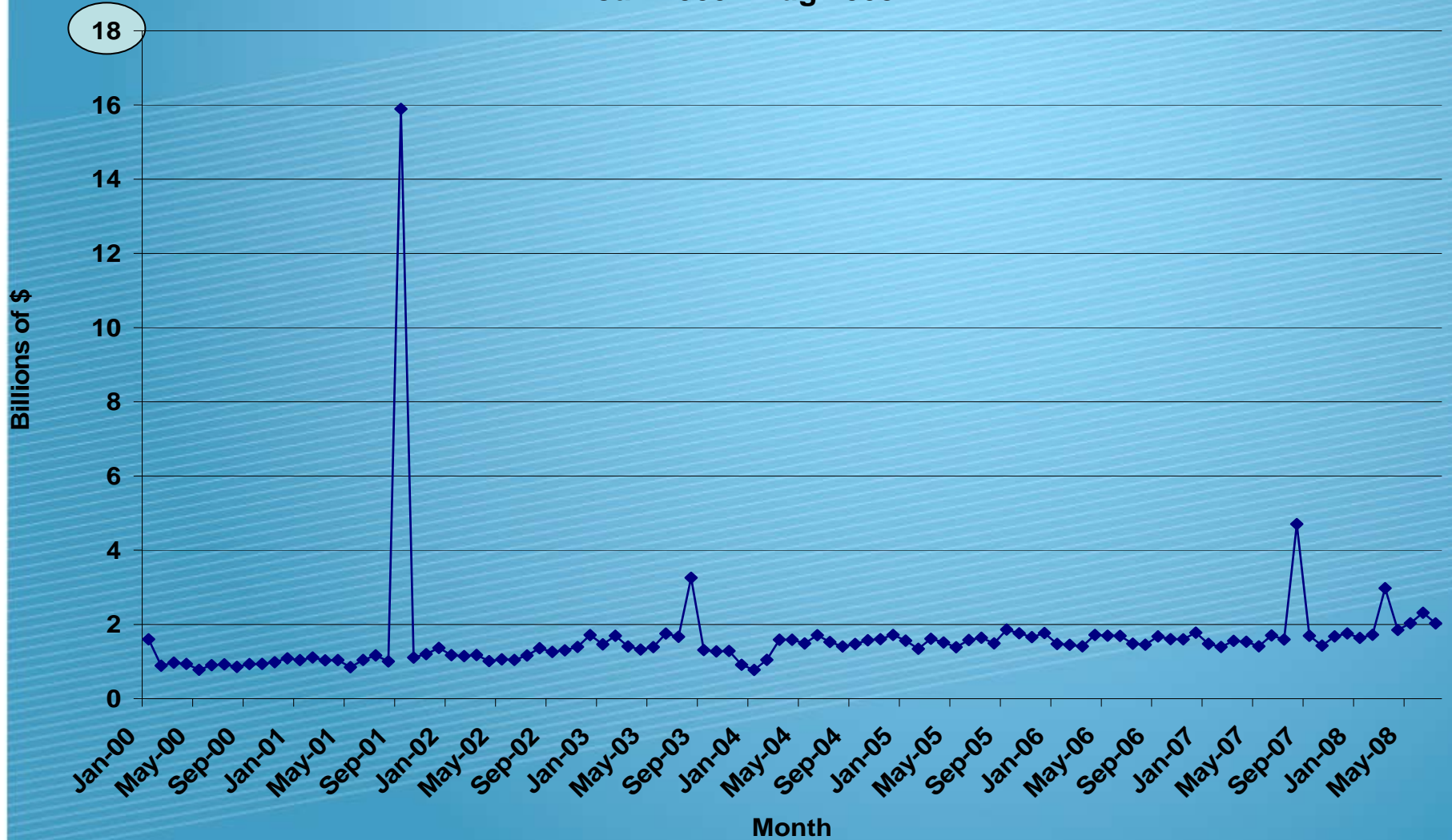
Domestic Macroeconomy

- Continued recession into Winter 2010
 - Technical recession likely to be declared over as of Q3 2009
 - North State will lag behind national economy due to
- Why recession will end in non-technical terms
 - Expanded fiscal stimulus
 - Job creation through innovation, not through consumption
 - Need to be concerned with a double dip before 2013
- Monetary policy at a policy endpoint
 - Why have banks not started lending again?
 - Inflation in wait for these funds to flow

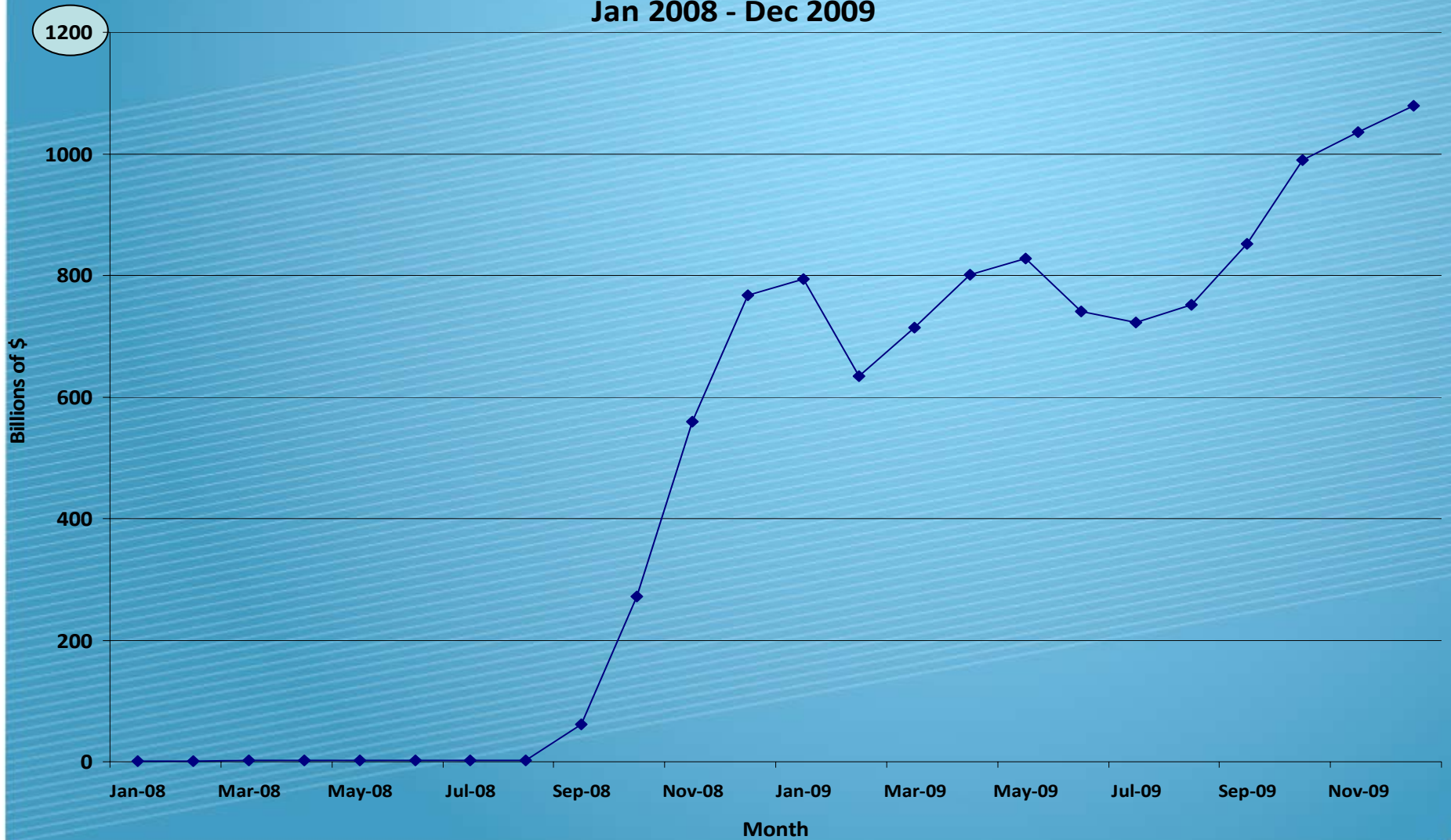
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 1970 - Dec 1999



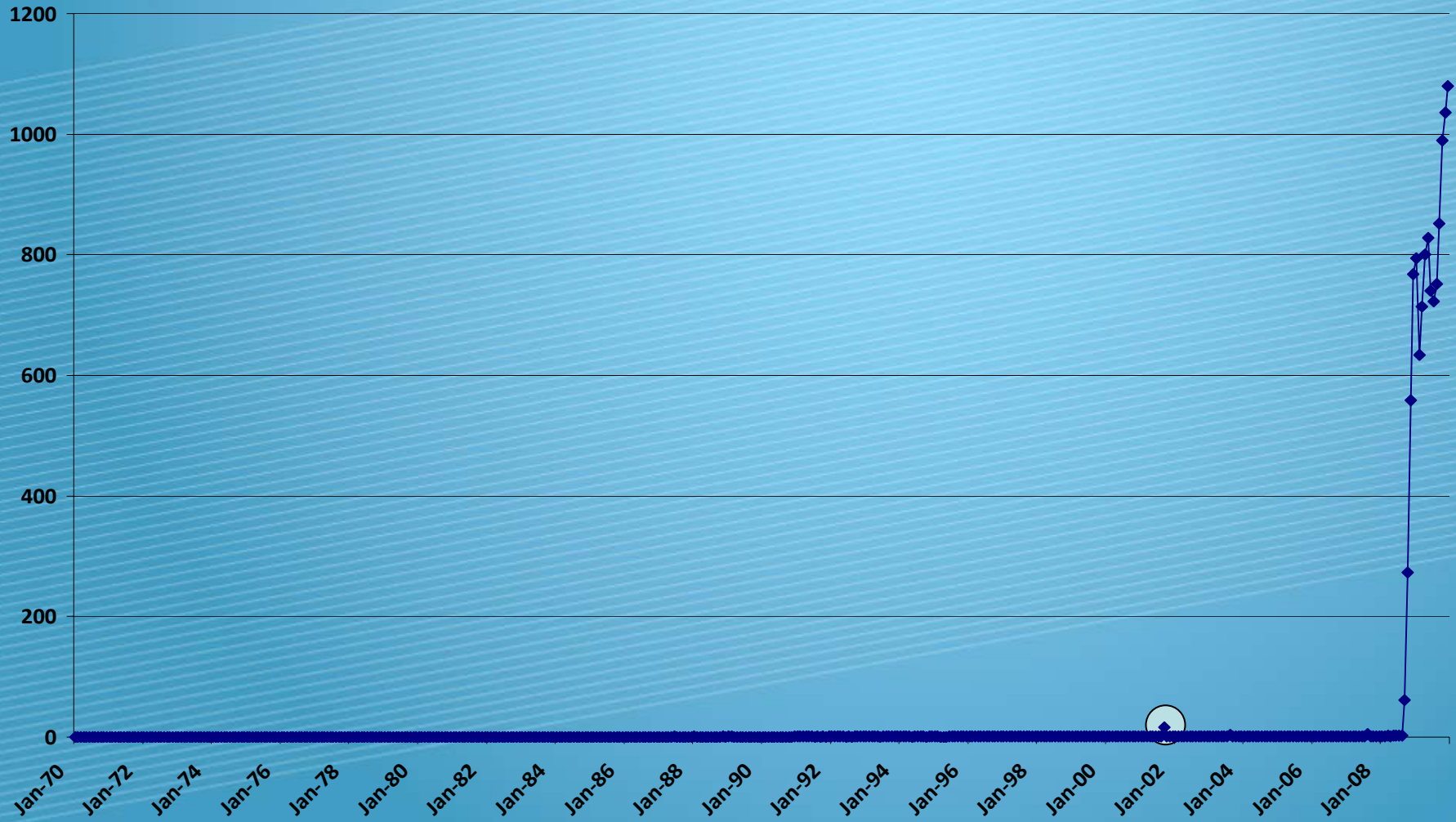
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 2000 - Aug 2008



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Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 1970 - Dec 2009



California's Future (??)

- 2010-11 likely to be worse budget year
 - No change in core budget process or tax code
 - Funding problems now exacerbated by continued recession
- Federal spending may stimulate CA economy
 - This is ephemeral unless focused on businesses
- Cannot rely on current model
 - Pension systems to be stretched soon
 - Reserves not in place: taxes up, benefits down, or both
- **Opportunity: public-private partnerships in education**

State Economy and Tri-County Area

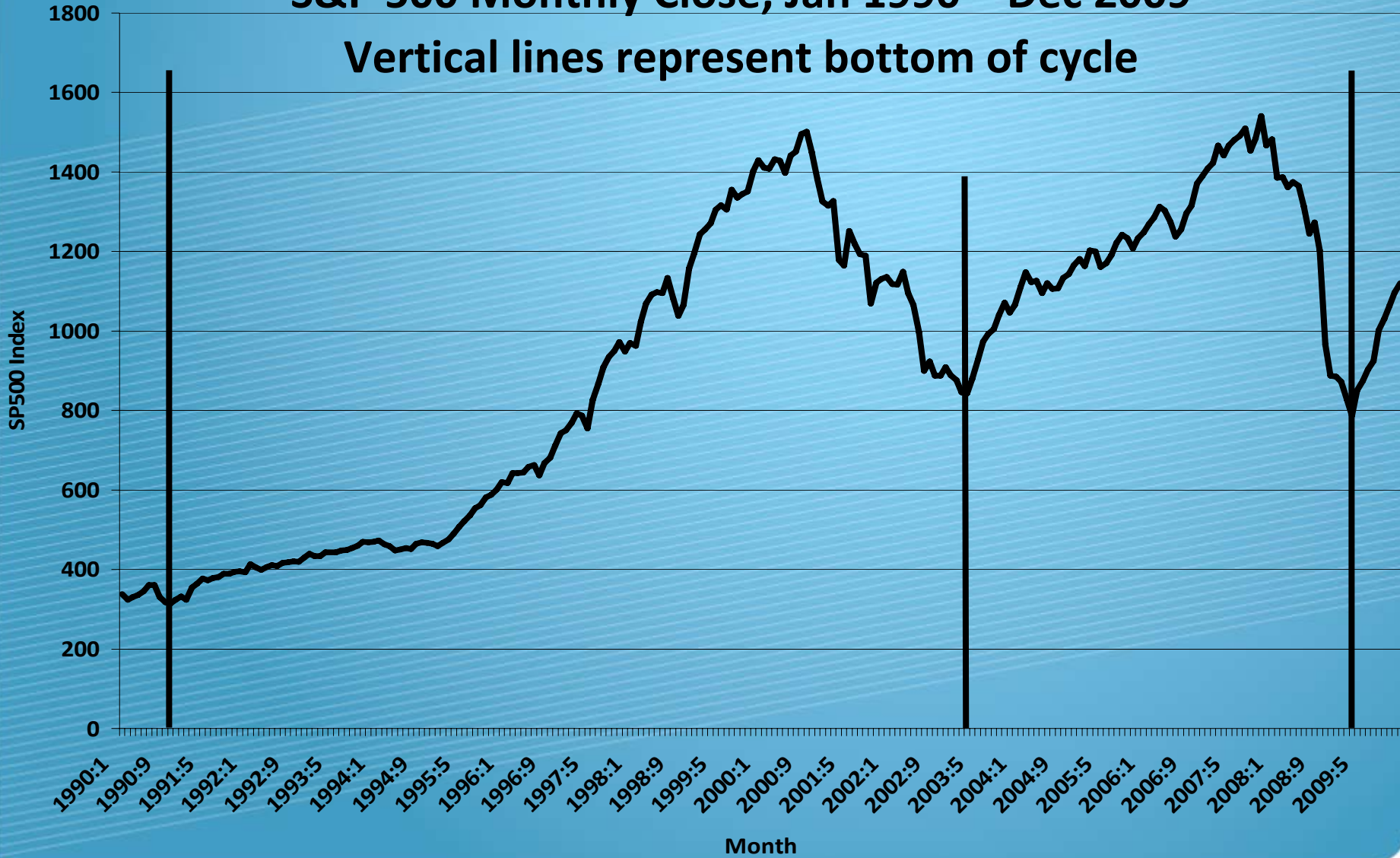
- Short-term
 - Enhanced demand for nonprofit services
 - Identify and prepare those organizations
 - Contraction in services
 - Chico State and Butte College will be two, large examples
- Long-term
 - Defined benefits packages: can they be funded?
 - Health care: will universal health care solve problems?
- Labor Market indicators suggest a slow turnaround is coming
 - Tax code changes are needed, difficult to find political will

Signs of Hope Rather Than Apocalypse

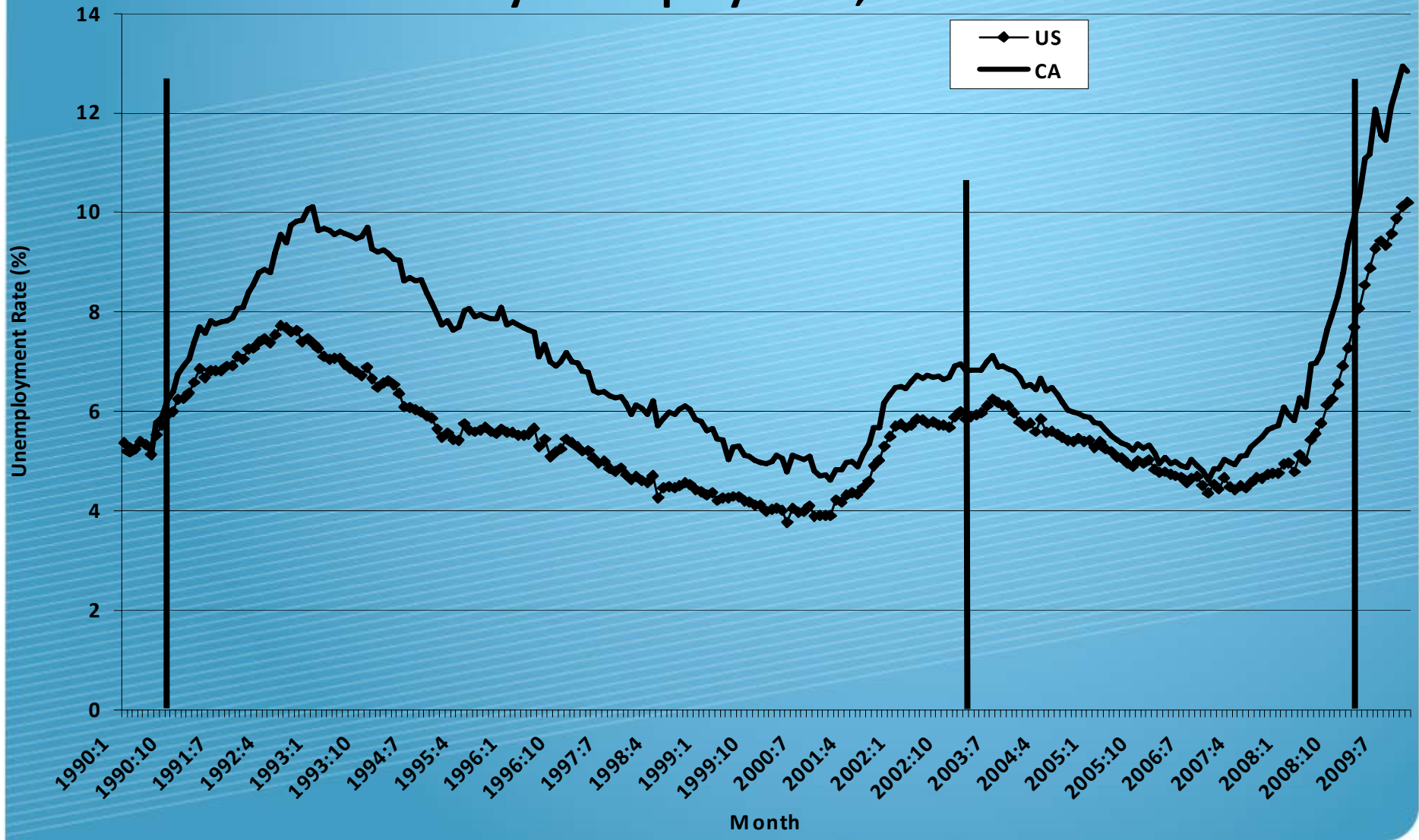
- Link between S&P 500 and labor markets
 - Historically, S&P 500 index and national unemployment linked
 - When S&P 500 hits bottom, 5 – 6 months later is when unemployment peaks on average since 1948
- Federal stimulus and stable interest rates remain as incentives:
 - Need to be seized and directed toward entrepreneurs
- Will this area follow larger trends?
 - If so, why would the trend be followed?

S&P 500 Monthly Close, Jan 1990 – Dec 2009

Vertical lines represent bottom of cycle



US and CA Monthly Unemployment, Jan 1990 – Dec 2009



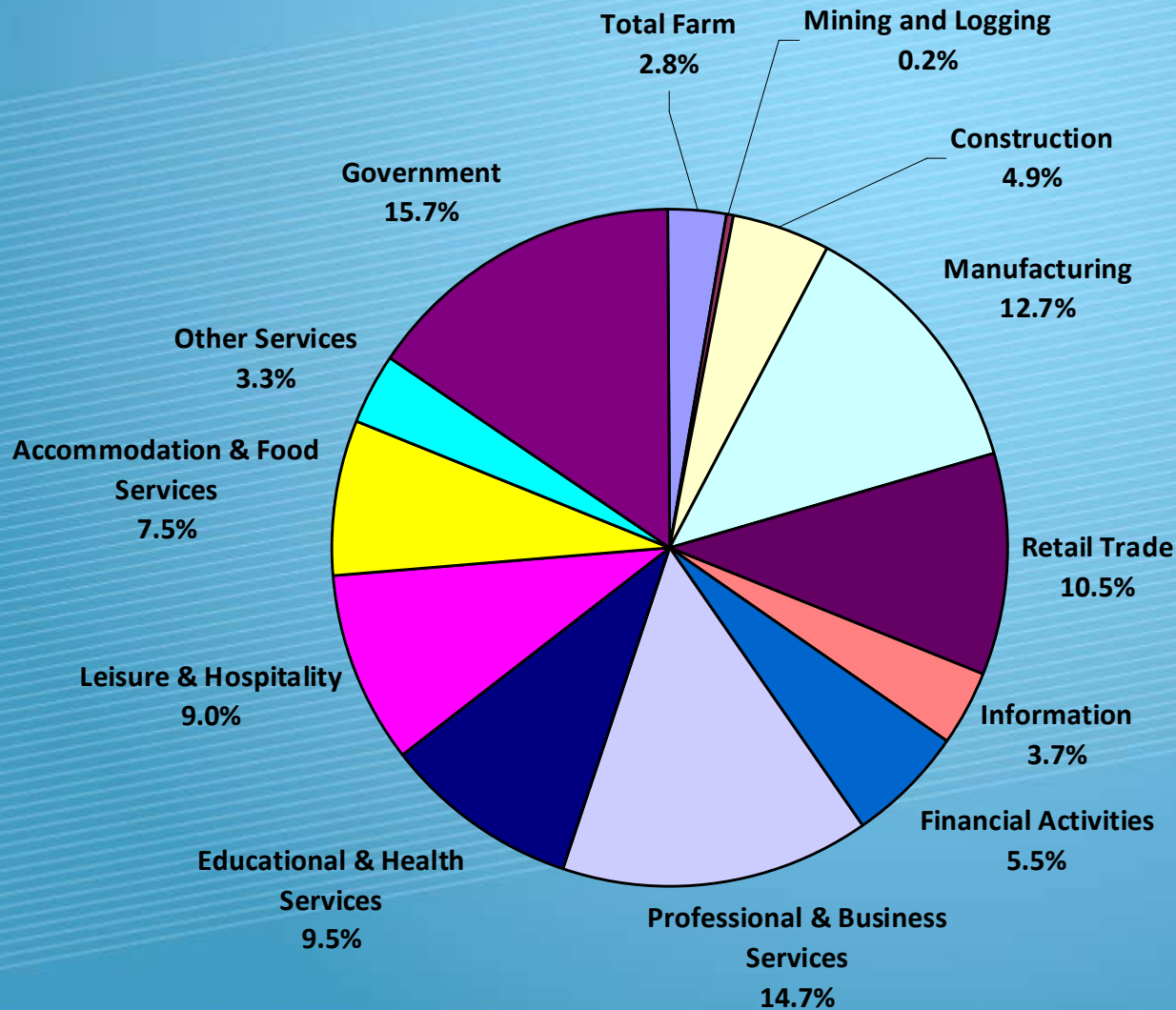
Unemployment for Butte, Glenn and Tehama Counties



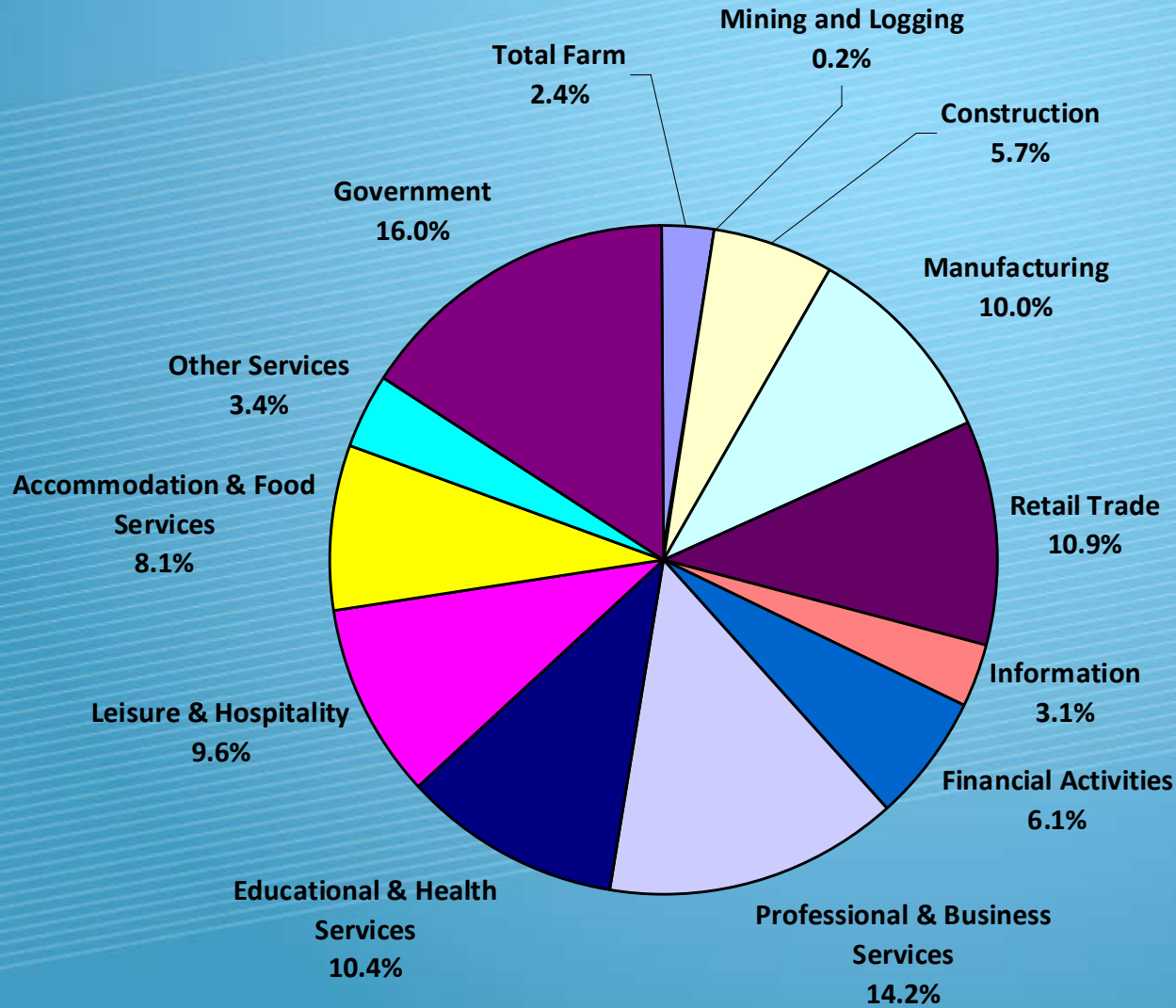
The Tri-County Economy

- Mainly services and government
 - Tehama has some manufacturing base
 - Agriculture is also a “basic” industry
 - Government jobs mainly local (city and county)
- Compared to California
 - Higher unemployment than CA on average: drives gov’t services demand
 - Transition to services
 - Overexposed to local government jobs in all counties
 - Real estate market continues to drag

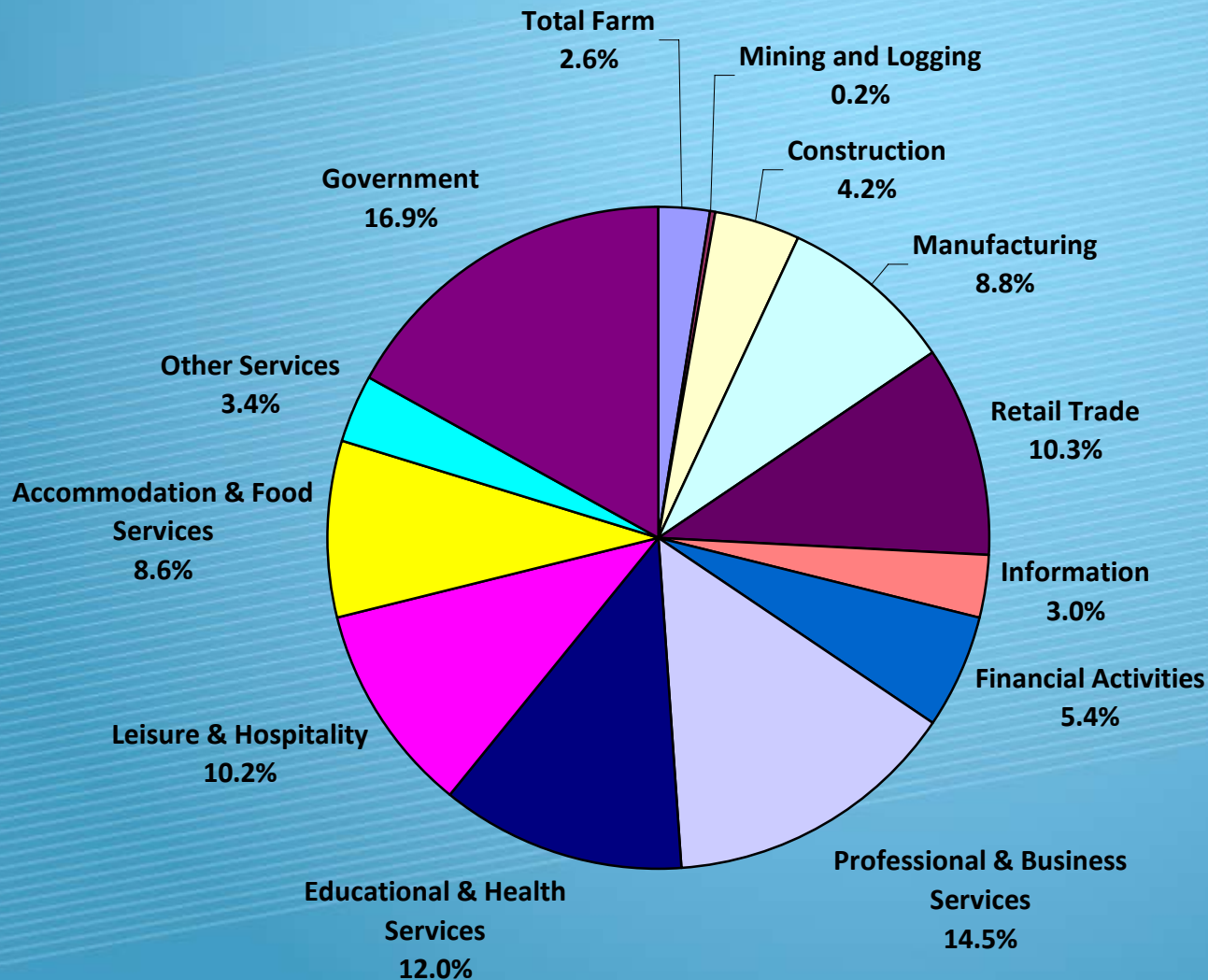
Industry Composition, California, 2000



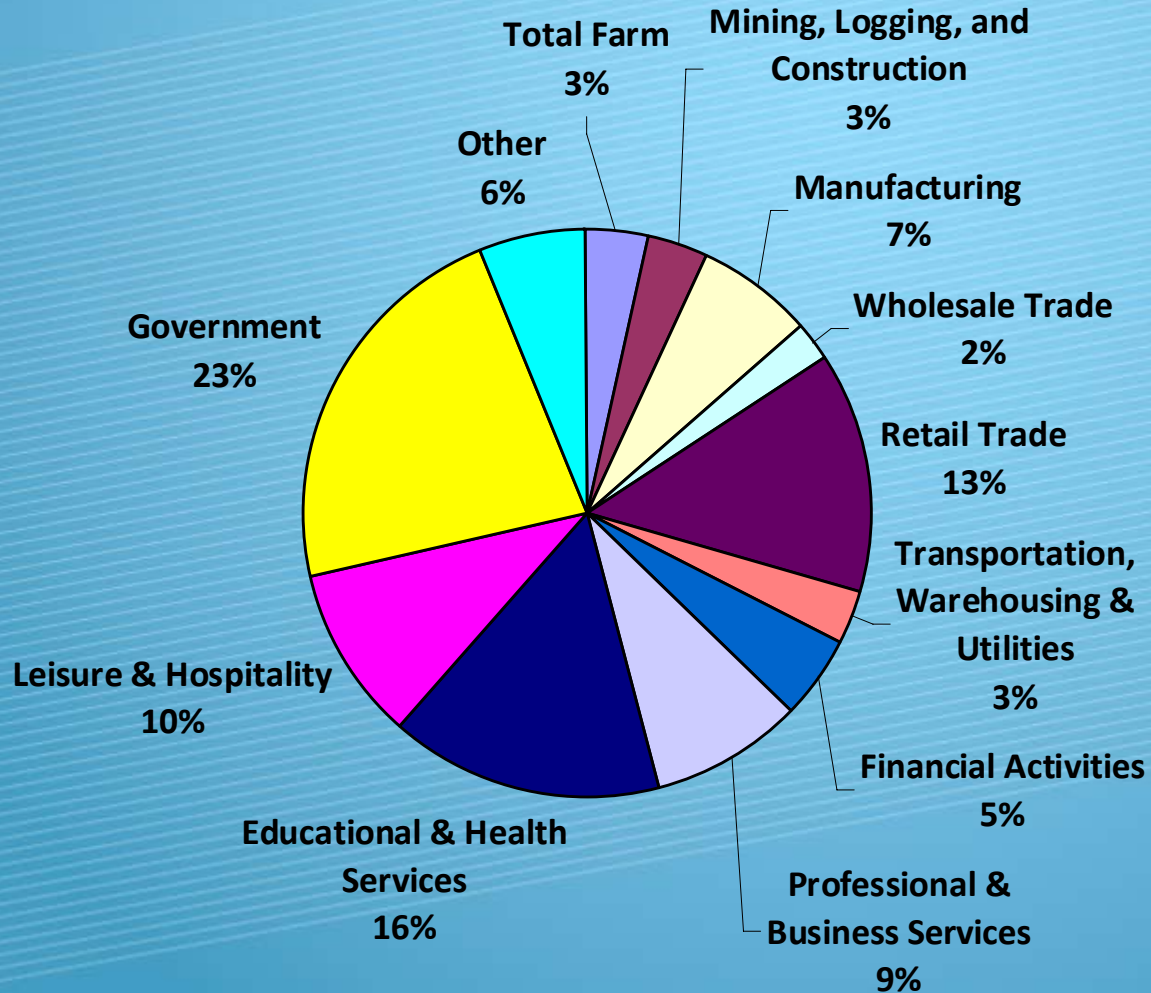
Industry Composition, California, 2005



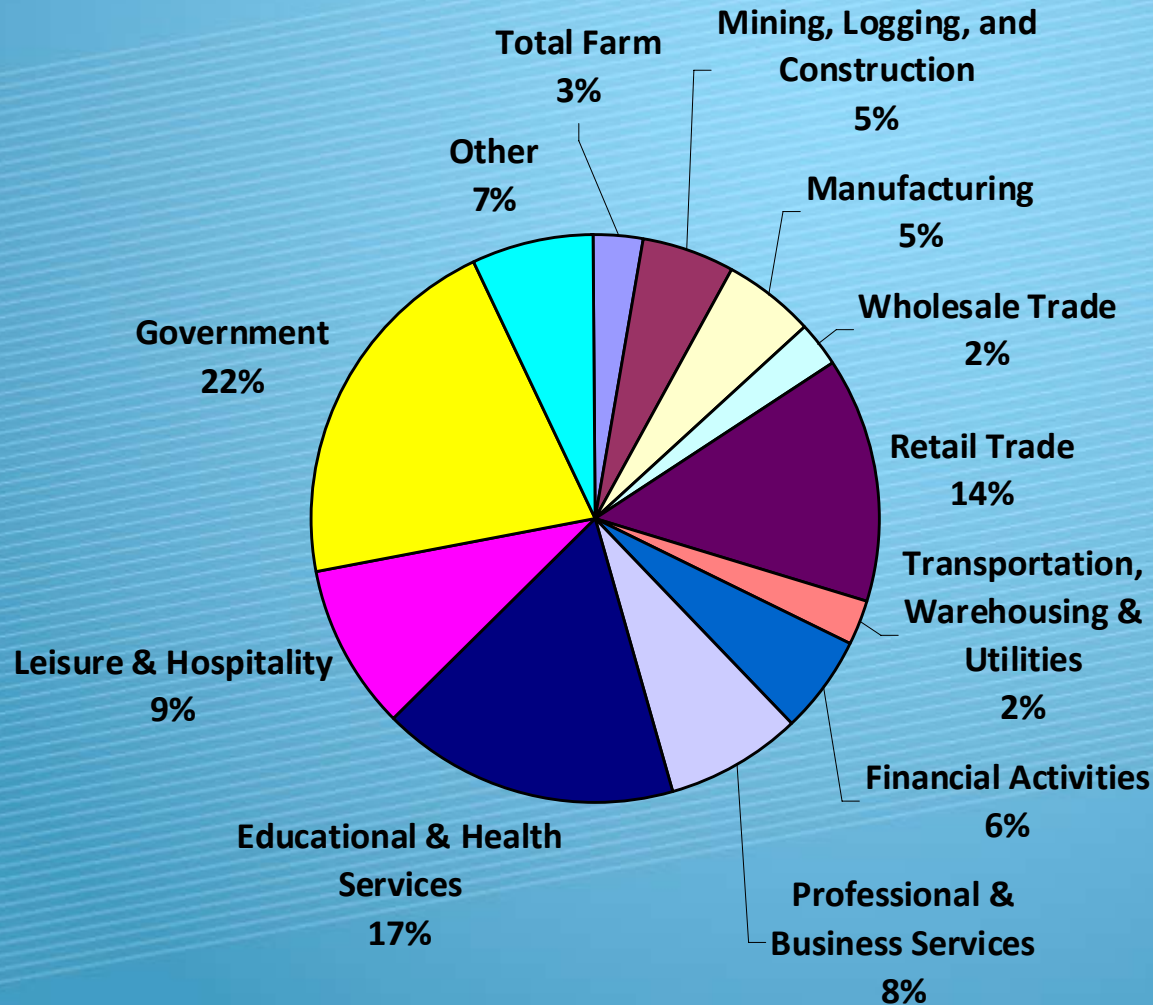
Industry Composition, California, 2010



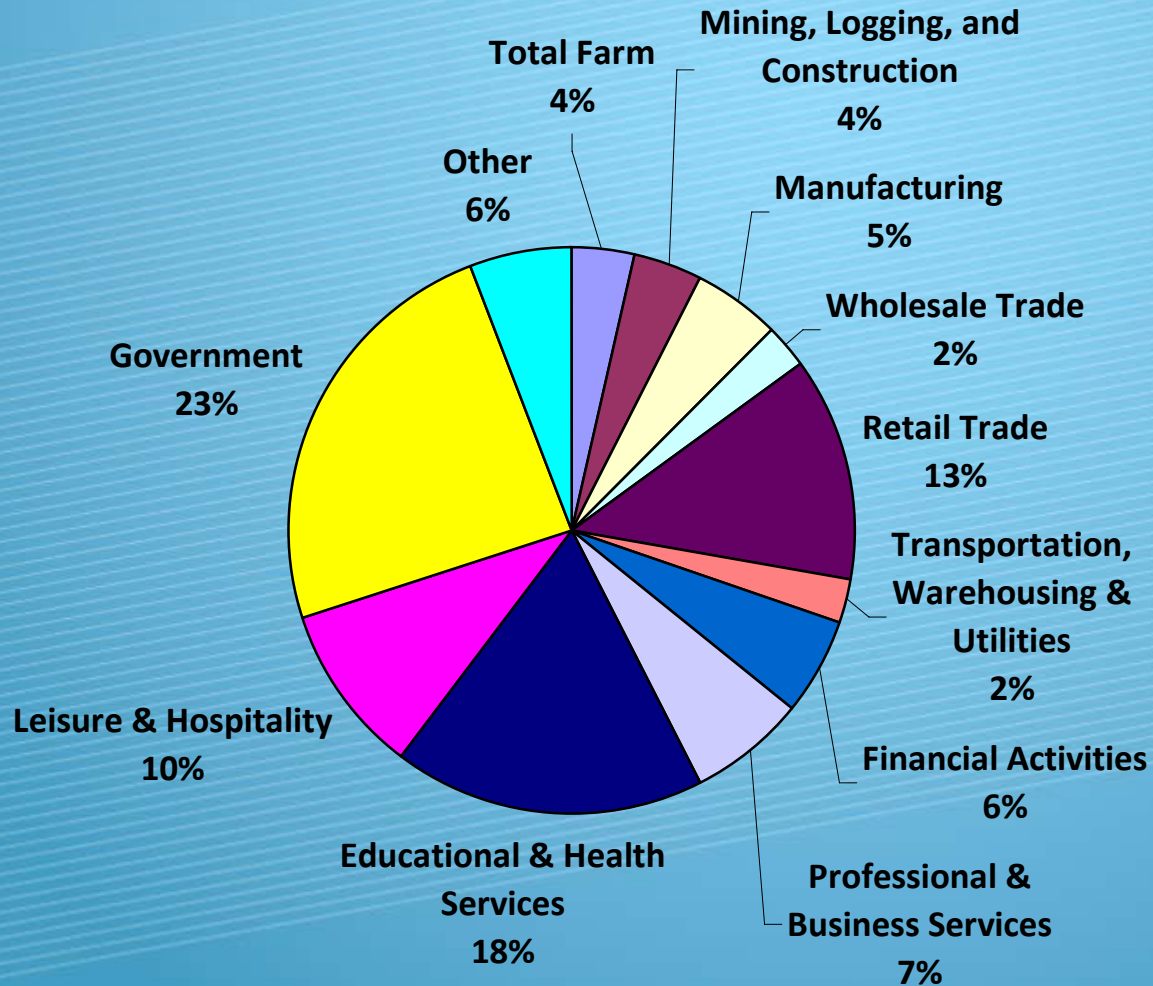
Industry Composition, Butte County, 2000



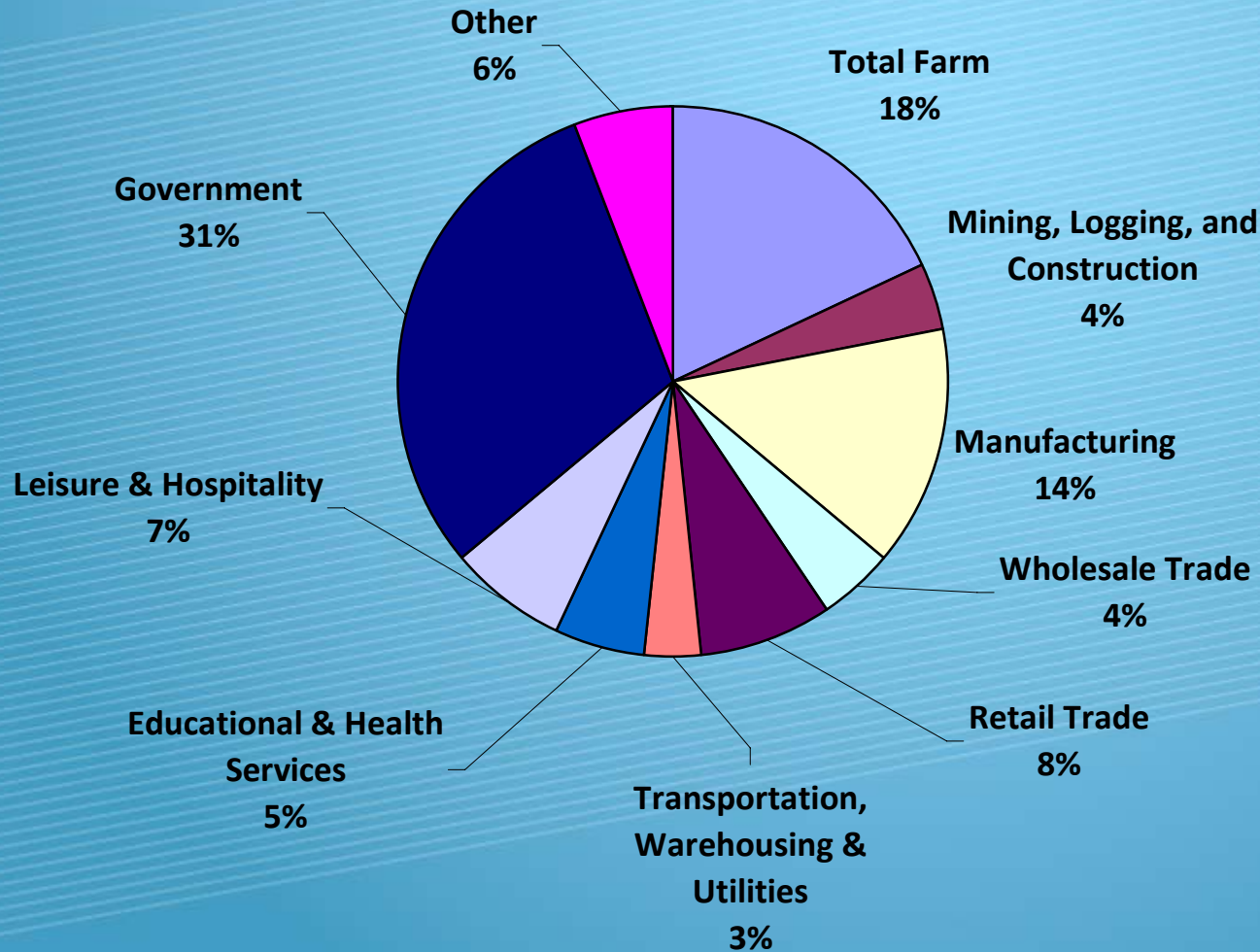
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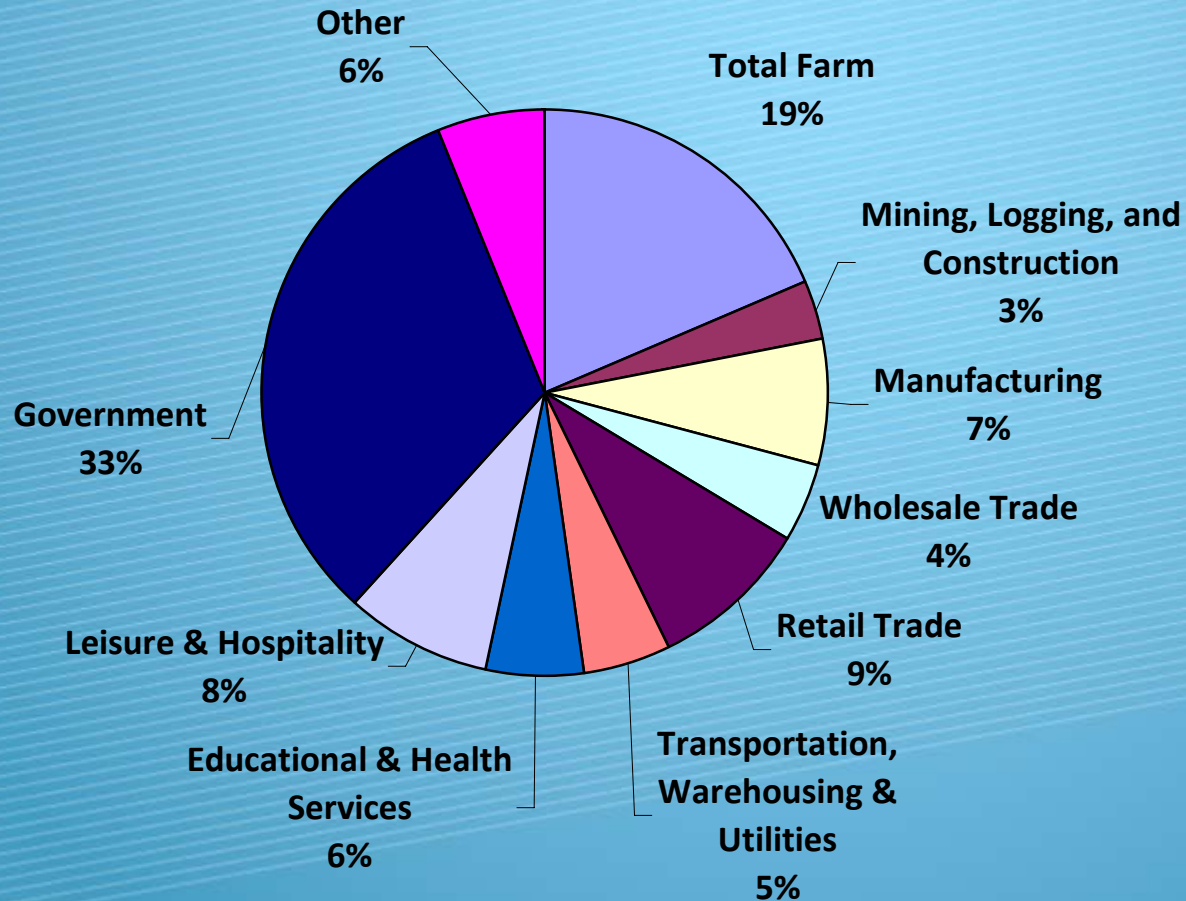
Industry Composition, Butte County, 2010



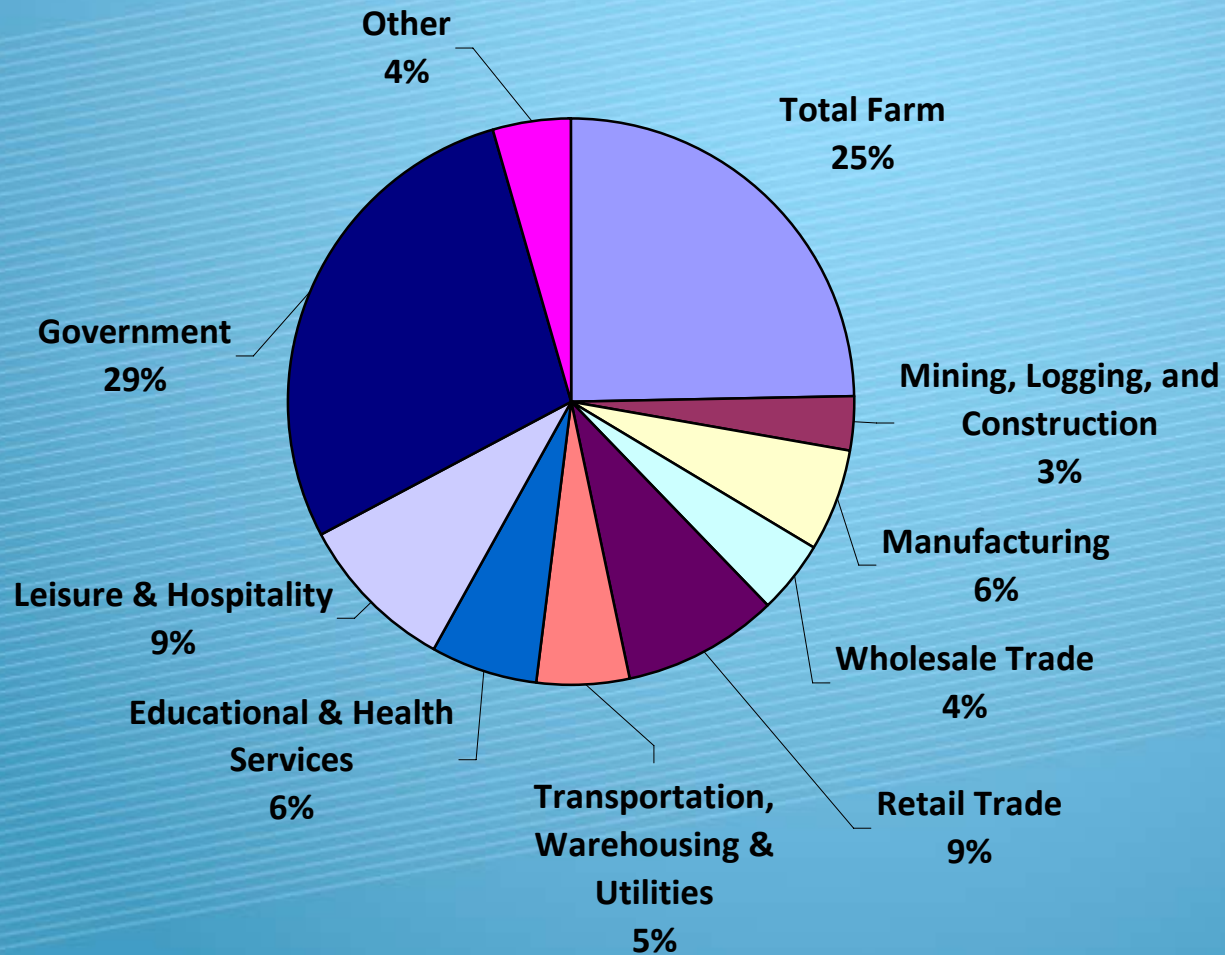
Industry Composition, Glenn County, 2000



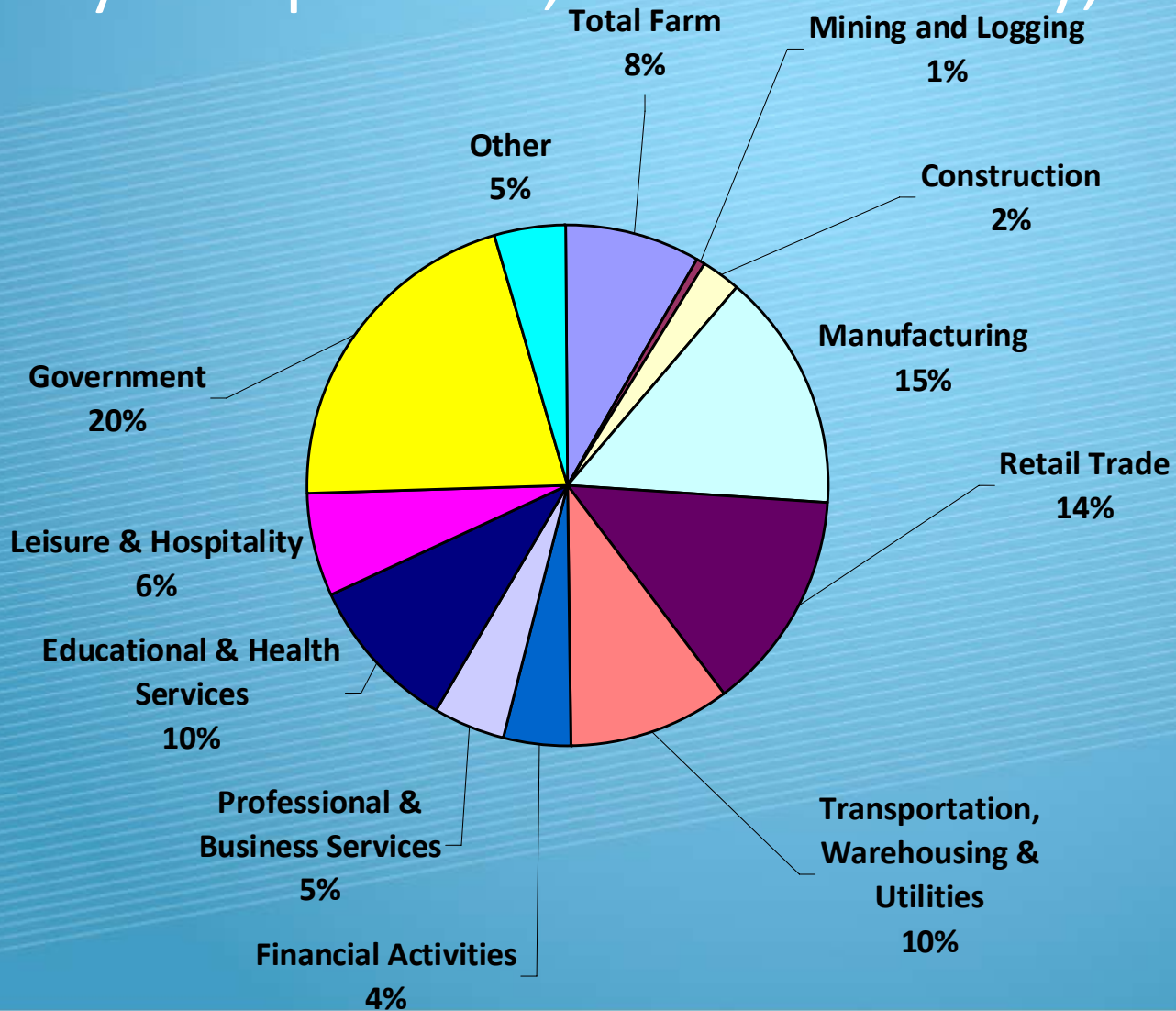
Industry Composition, Glenn County, 2005



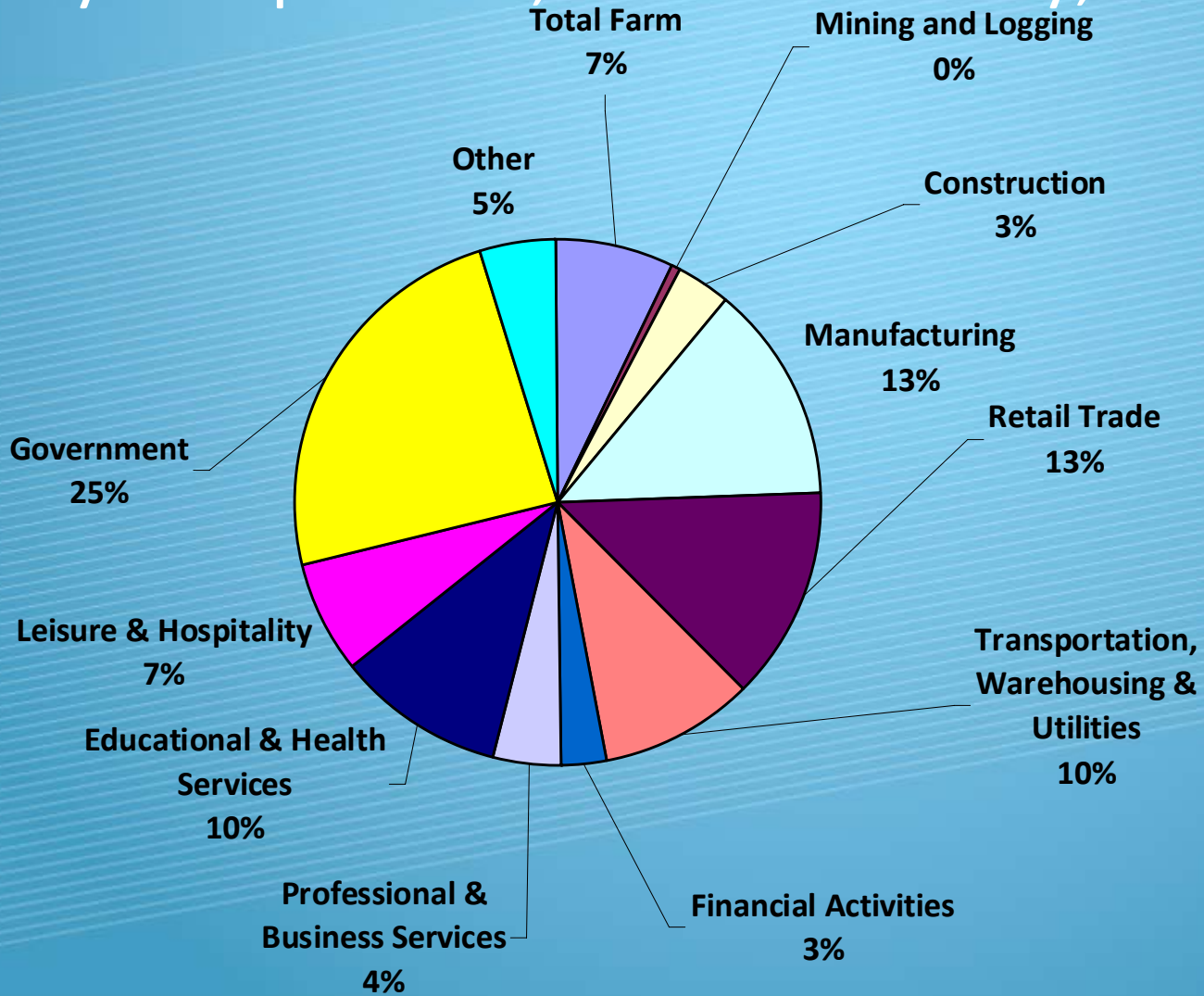
Industry Composition, Glenn County, 2010



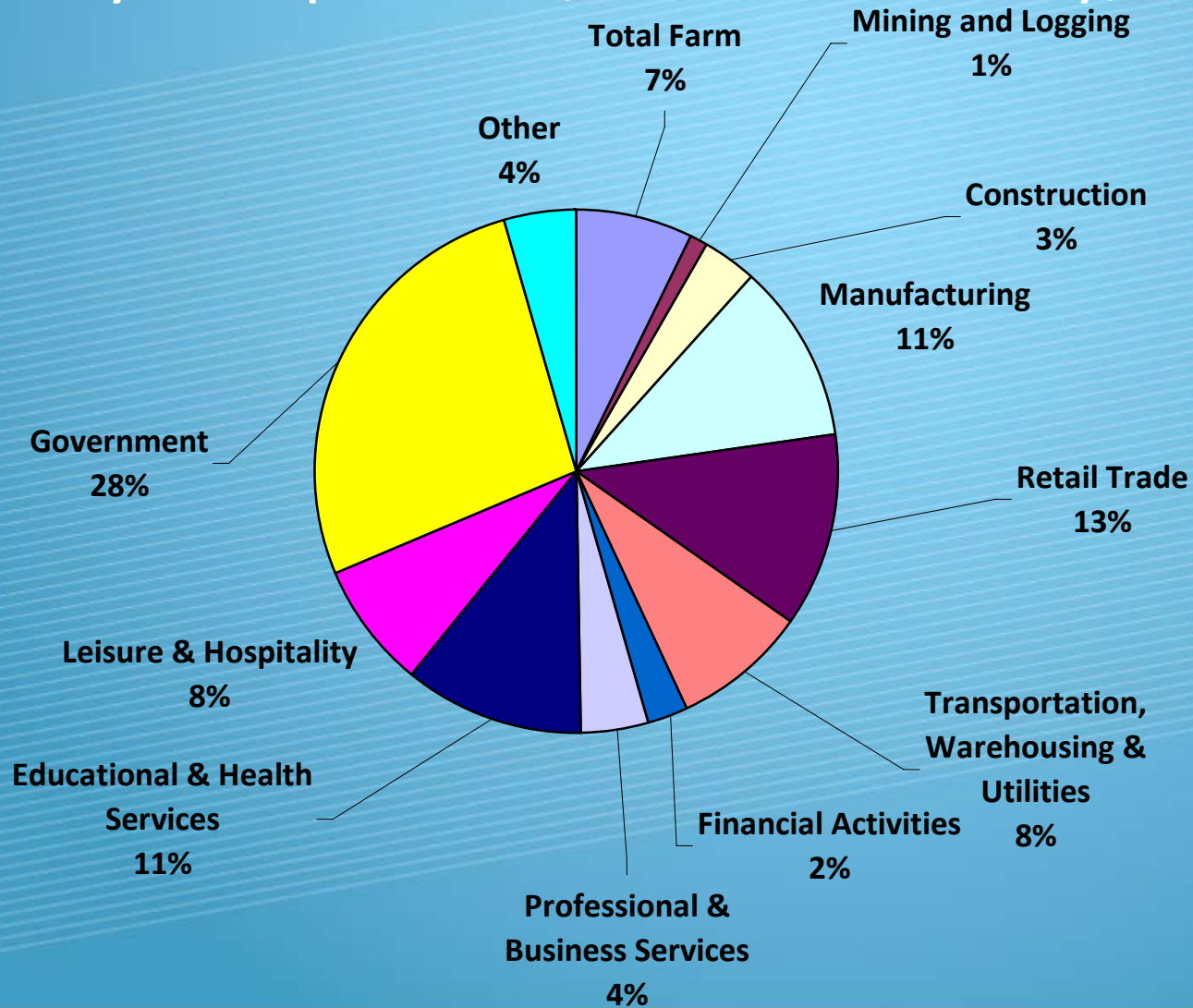
Industry Composition, Tehama County, 2000



Industry Composition, Tehama County, 2005



Industry Composition, Tehama County, 2010



Location Quotients in Brief

- **What does the Tri-County Area do well?**
 - “Economic Base” analysis: % employed locally versus a larger area
 - Compared to California as a whole
- **Butte County**
 - Retail, Health Care, State and Local Government
 - Real Estate before last year: Butte County and Chico the regional hub
- **Glenn County**
 - Farming, Trucking, Government
- **Tehama County**
 - Farming, Mining, Durable Goods manufacture, Trucking, Government

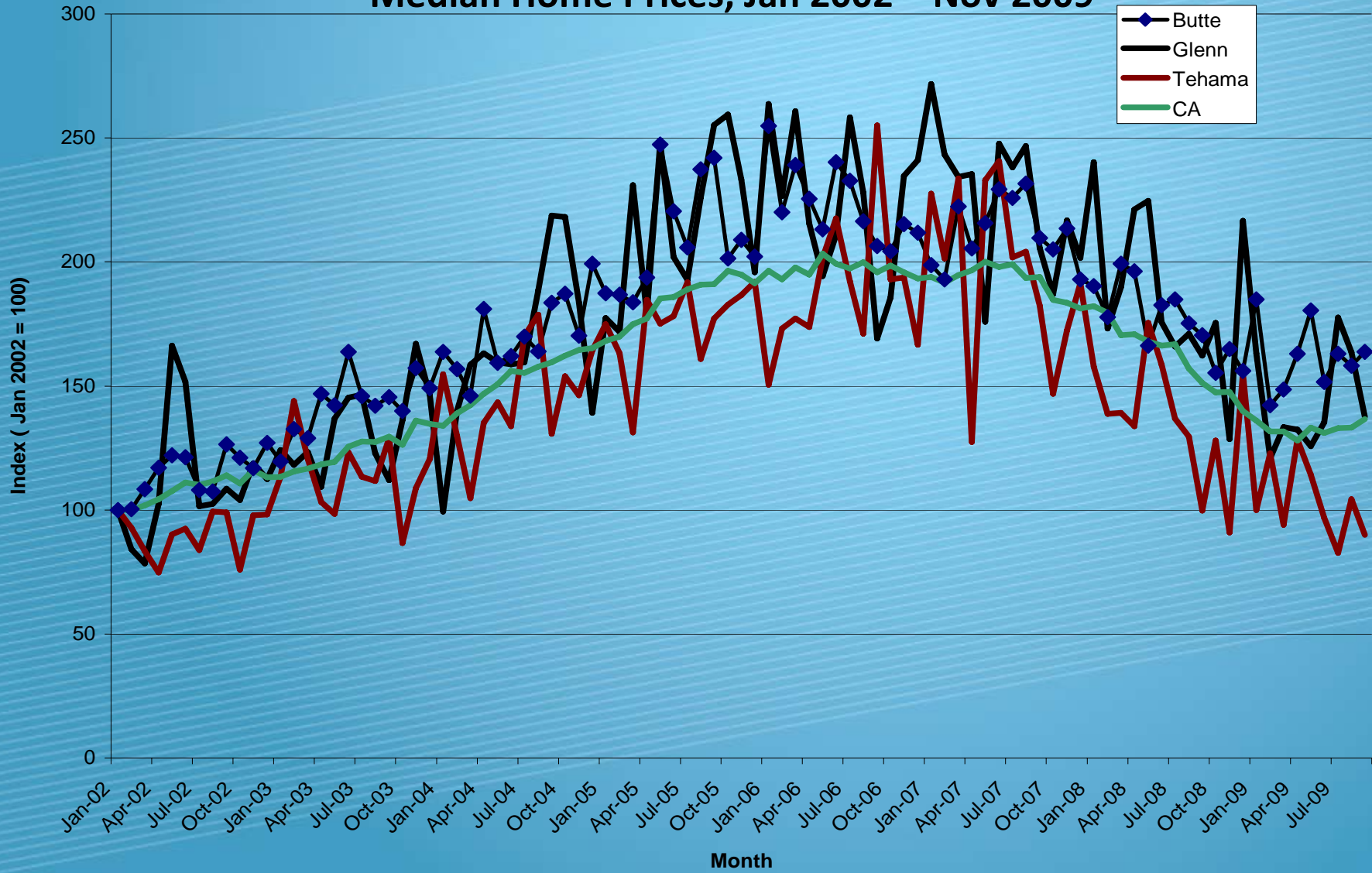
Questions to be answered

- Can industries on the economic frontier be attracted and retained to these counties?
 - If so, in what technologies?
- Brain Drain: can it be stopped?
 - How can local talent from Chico State be better utilized/retained?
 - Faculty and students alike
- What lessons can be learned from the housing market?
 - Will wealth be a long-term factor in housing demand?
- Why would a clean tech business come here?

Residential 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
 - Do other markets in CA affect the Tri-County real estate market?
- Two big questions market has yet to answer
 - Was the old pricing correct?
 - Is the current pricing correct?

Median Home Prices, Jan 2002 – Nov 2009



Commercial Real Estate

- Construction of new commercial property likely to be project-specific rather than anticipatory
- Wave of commercial real estate problems an issue for two main reasons
 - Reduces risk taking by banks, businesses and entrepreneurs
 - Reduces incentives to locate an anchor business where support tenants are less permanent
- **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**

Economic Development

- 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
- Three “E’s” the current mantra
 - Economic Vitality
 - Social Equity
 - Environmental Balance
- Get involved!

Tri-County Economic Outlook

- Recession into mid-2010: Think modified L:
 - Bottom to hit soon: thud heard but not felt for a few months
 - Depends on state economy turnaround in two ways
 - Increased jobs and incomes for state workers (end of furloughs)
 - Focal use of federal stimulus money (short-term)
- Housing should be seen as a follower not leader
- Recognize regional connections
 - All counties are going to scramble for firms
 - Economic development a need now and into the future