inAction

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EFP Update, Alisal Ranch
January 14, 2016
Roadmap for today

- national perspective: FOMC (aka the Fed)
- narrow the focus to California and local areas
- “forecast” the future
Federal Open Market Committee

finally!!!

they raised rates! up 0.25 percentage points
finally!!!

they raised rates! up 0.25 percentage points

the world did not implode!
finally!!!

you raised rates! up 0.25 percentage points

the world did not implode!

why did they raise now?
Effective Federal Funds Rate
Percent

Source: FRB St. Louis
parse the Dec. 16 FOMC statement

“economic activity has been expanding at a moderate pace”
parse the Dec. 16 FOMC statement

“economic activity has been expanding at a moderate pace”

recall:

\[ Y = C + I + G + (X - M) \]
economic activity

\[
Y = C + I + G + (X - M)
\]

\(Y\) = Real GDP, Income, or Expenditures

\(C\) = Real Personal Consumption Expenditures

\(I\) = Investment Expenditures

\(G\) = Real Government Expenditures

\(X - M\) = Exports - Imports
Real GDP
Peak before recession = 1

Source: BEA
Real GDP

Peak before recession = 1

Quarters after peak

Source: BEA
County Income Inequality

- how is income distributed across CA?
Per–Capita Personal Income: 2014
In Thousands

Source: BEA
Percent Change in Per–Capita Personal Income
2007–2009

Source: BEA
Percent Change in Per–Capita Personal Income
2009–2014

Source: BEA
Real Gross Domestic Product (GDP) by Industry
Santa Barbara County

2014 Percent of Total GDP

- Financial Activities: 19.1%
- Government: 16.2%
- Prof. & Bus. Services: 11.5%
- Manufacturing: 8.6%
- Retail trade: 8%
- Educ. & Health Services: 6.6%
- Leisure & Hospitality: 5.1%
- Information: 5%
- Wholesale trade: 4.2%
- Construction: 3.3%
- Other Services: 2.7%
- Trans., Ware. & Util.: 2.5%
- Total Farm: 1.7%
- Mining: -30%
- Transportation: -20%
- Real Goods: -10%
- Other Goods: -10%
- Goods: -10%
- Services: -10%
- Total: -10%
“Household spending and business fixed investment have been increasing at solid rates in recent months…”

\[ Y = C + I + G + (X - M) \]
Real Personal Consumption Expenditures

Peak before recession = 1

Source: BEA

Quarters after peak

1960 cycle
1969 cycle
1973 cycle
1981 cycle
1990 cycle
2001 cycle
Current cycle

Source: BEA
Net Worth as a Percentage of Disposable Income
Percent (%)

Source: Board of Governors, Flow of Funds
Net Wealth and Personal Consumption Expenditures
Annual Growth Rate (%)

Source: Board of Governors and Bureau of Economic Analysis
Note: Most recent value in brackets.
Non-Residential Fixed Investment

Peak before recession = 1

Source: BEA

Quarters after peak

1960 cycle
1969 cycle
1973 cycle
1981 cycle
1990 cycle
2001 cycle
Current cycle

Source: BEA
“and the housing sector has improved further; however, net exports have been soft.”
Zillow Home Value Index (ZHVI)

Index (100 = Pre-Recession Maximum Value)

Source: Zillow Research Data

Note: Current value in brackets.

www.efp.ucsb.edu
can we afford it?

- income
- housing price
Percent Change in Per–Capita Personal Income by Component 2007–2009

Source: BEA

- Dividends, interest, rent
- Net earnings by place of residence
- Personal current transfer receipts

California
Santa Barbara
Percent Change in Per–Capita Personal Income by Component 2009–2014

Source: BEA
CAR Affordability
2015Q2

Source: California Realtors Association
“The pace of job gains slowed and the unemployment rate held steady.”
Unemployed Persons
Millions, SA

Economic Forecast Project

Source: BLS
employment

- large differences within and across counties
Data Seasonally Adjusted

<table>
<thead>
<tr>
<th>County</th>
<th>Employment Current Level</th>
<th>Percent Change Month</th>
<th>Percent Change Year</th>
<th>Unemployment Rate Current Level</th>
<th>Pct. Pt. Change Month</th>
<th>Pct. Pt. Change Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Barbara</td>
<td>211,797</td>
<td>0.2%</td>
<td>2.3%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>-0.8%</td>
<td>-5.1%</td>
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<tr>
<td>Cities</td>
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<tr>
<td>South County</td>
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<tr>
<td>Carpinteria</td>
<td>7,573</td>
<td>0.6%</td>
<td>2.7%</td>
<td>4.3%</td>
<td>0.2%</td>
<td>-0.7%</td>
<td>-4.2%</td>
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<tr>
<td>Goleta</td>
<td>17,258</td>
<td>0.0%</td>
<td>2.4%</td>
<td>2.8%</td>
<td>0.1%</td>
<td>-0.5%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>50,863</td>
<td>0.1%</td>
<td>2.6%</td>
<td>3.9%</td>
<td>0.1%</td>
<td>-0.7%</td>
<td>-3.9%</td>
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<tr>
<td>Cities</td>
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<tr>
<td>North County</td>
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</tr>
<tr>
<td>Buellton</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>3.1%</td>
<td>0.1%</td>
<td>-0.6%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Guadalupe</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>4.6%</td>
<td>0.2%</td>
<td>-0.8%</td>
<td>-4.5%</td>
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<tr>
<td>Lompoc</td>
<td>17,320</td>
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<td>2.3%</td>
<td>6.5%</td>
<td>0.3%</td>
<td>-1.0%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Santa Maria</td>
<td>45,987</td>
<td>0.0%</td>
<td>2.5%</td>
<td>5.9%</td>
<td>0.2%</td>
<td>-1.0%</td>
<td>-5.6%</td>
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<tr>
<td>Solvang</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>6.0%</td>
<td>0.2%</td>
<td>-1.0%</td>
<td>-5.7%</td>
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<tr>
<td>Census Designated Places</td>
<td></td>
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<tr>
<td>North County</td>
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<tr>
<td>Los Alamos</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>6.4%</td>
<td>0.2%</td>
<td>-1.1%</td>
<td>-6.1%</td>
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<tr>
<td>Mission Hills</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>4.9%</td>
<td>0.3%</td>
<td>-0.8%</td>
<td>-4.6%</td>
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<tr>
<td>Orcutt</td>
<td>13,778</td>
<td>-0.2%</td>
<td>2.2%</td>
<td>4.7%</td>
<td>0.2%</td>
<td>-0.8%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Santa Ynez</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>2.9%</td>
<td>0.1%</td>
<td>-0.5%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Vandenberg AFB</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>4.3%</td>
<td>0.1%</td>
<td>-0.9%</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Vandenberg Village</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>5.8%</td>
<td>0.2%</td>
<td>-1.0%</td>
<td>-5.6%</td>
</tr>
</tbody>
</table>

Notes: (NA) values represent locations in which data cannot be seasonally adjusted.
Industry Employment for Santa Barbara County Areas
2013, Employment Shares (%)

- Agri., Forestry, Fishing & Hunting
- Mining
- Construction
- Manufacturing-Durable
- Manufacturing-Nondurable
- Wholesale Trade
- Retail Trade
- Information
- Financial Activities
- Prof. & Business Services
- Educational & Health Services
- Leisure and Hospitality
- Government

City of Santa Barbara
Goleta Valley
Carpinteria
Santa Maria
Santa Ynez Valley
Lompoc

Source: QCEW
California: Employment to Population Ratio
Men (Index: 2002 = 100)

Source: BLS − Local Area Unemployment Statistics
California: Employment to Population Ratio
Women (Index: 2002 = 100)

Source: BLS – Local Area Unemployment Statistics
California: Participation Rate
(Index 2002 = 100)

Source: BLS – Local Area Unemployment Statistics
California: Participation Rate
Men (Index: 2002 = 100)

Source: BLS – Local Area Unemployment Statistics
California: Participation Rate
Women (Index: 2002 = 100)

Source: BLS – Local Area Unemployment Statistics
lingering issues

- current stance of policy
- regulatory pressures
Taylor Rule

\[ FF = 0.5(5.0 - URATE) + 2 + INF + 0.5(INF - 2) \]

Source: BLS, BEA
outlook for the rest of the world
outlook for the rest of the world

still sucks
Real GDP
Index, 2010=1, Quarterly, SA

- US
- UK
- Germany
- France
- Netherlands
- Ireland
- Spain
- Italy
- Portugal
- Greece

Source: OECD
final thoughts

- some good, some bad
82.5 is estimated inflation boom/bust level
Economic Forecast Project

Source: Board of Governors
how to not grow a business

- Waste Connections...Folsom to Dallas:
  - “Then the other part of it was the cost of doing business in California. Highest tax rates in the nation. Until recently very expensive real estate. Tremendous regulation and really a broken legislature. Something thats got a built-in structural deficit thats not going to improve,” explained Mittelstaedt. “The reality is this is just a very difficult place to do business. Its a very expensive place to do business.”
“forecasting”

- where we are: google trends (nowcasting)
- where will we be: Fed forecasts
final thoughts

- lots of weakness out there

- and yes, signs of strength
Real GDP
Log Real Per Capita GDP, 2009$, Seasonally Adjusted

Econsnapshot.com
Source: BEA
thank you!