

2010 ECONOMIC OUTLOOK:

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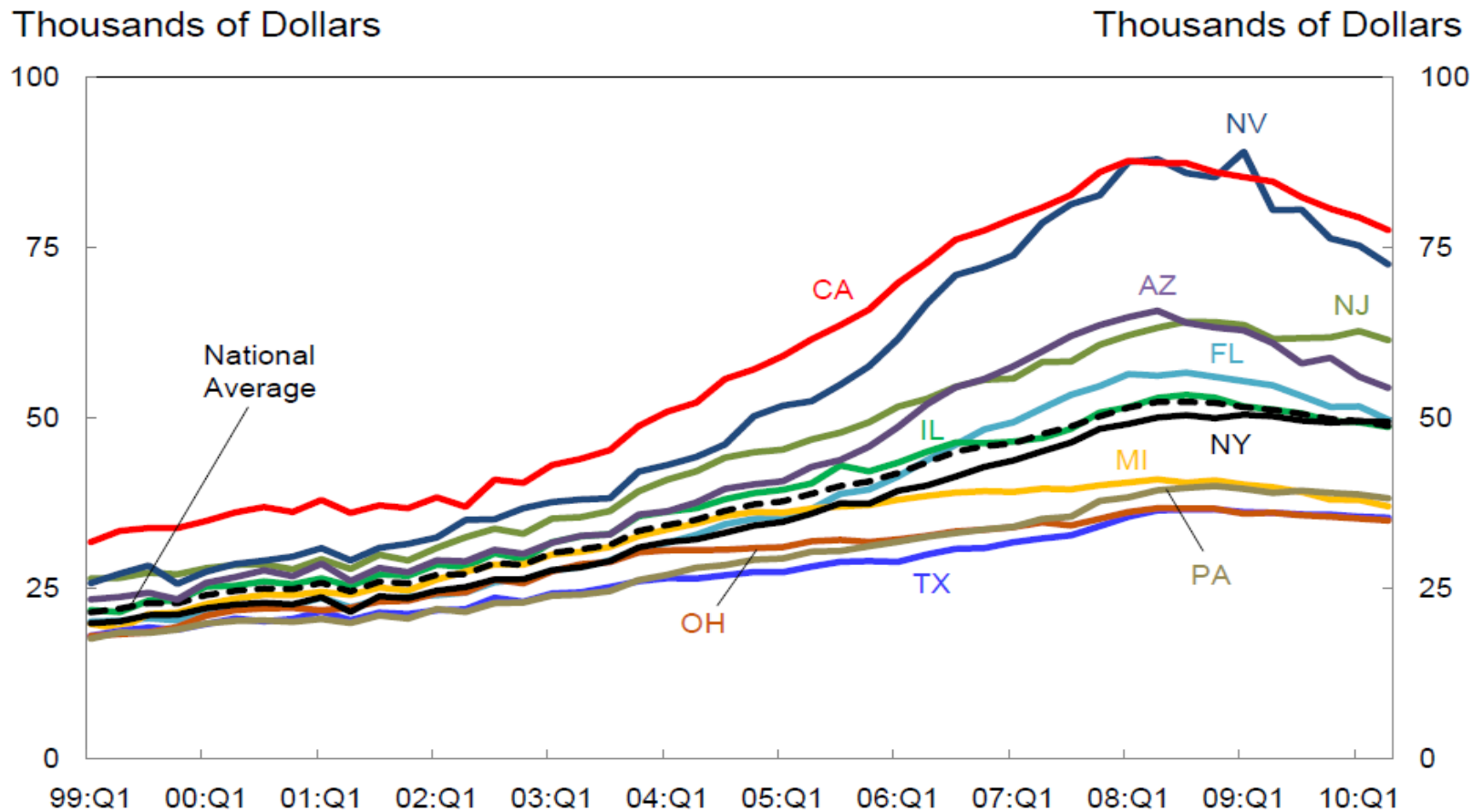
Economics 101:

$$GDP = C + I + G + NX$$

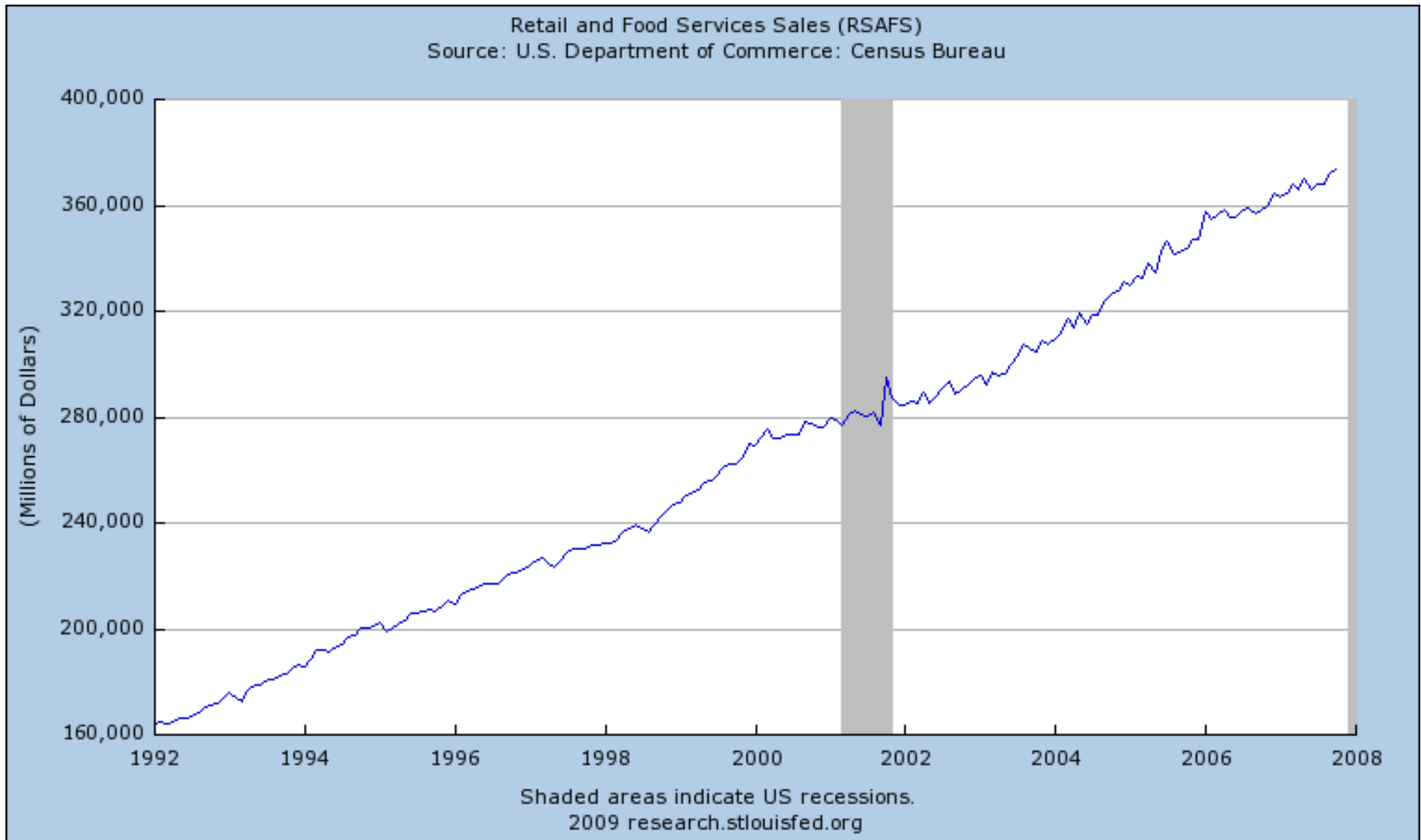
- What will drive the economic recovery?
 1. C = Consumption
 2. I = Investment
 - Residential
 - Non-Residential
 3. G = Government Spending
 4. NX = Net Exports
 - Trade Deficit

Will it be the consumer?

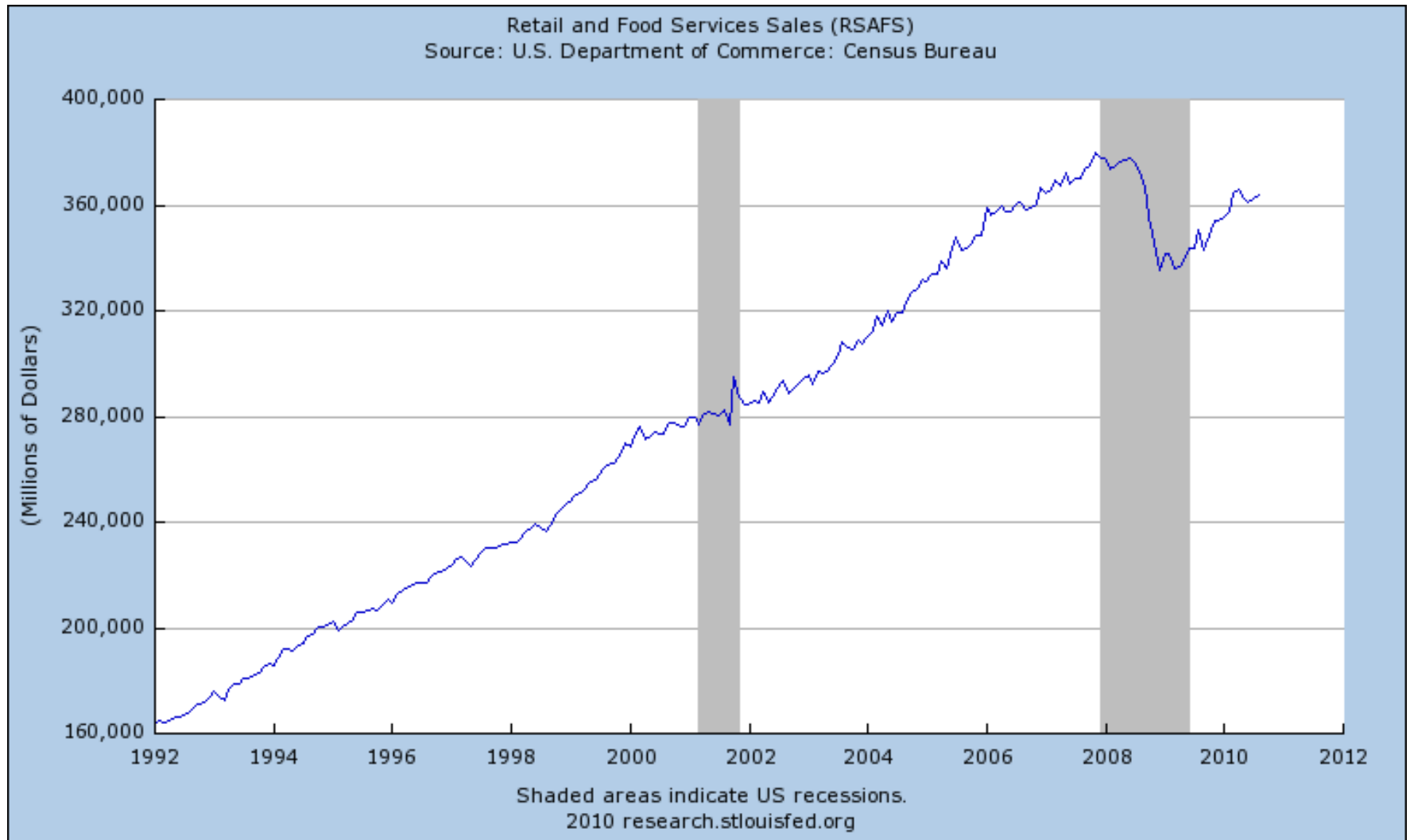
Total Debt Balance per Capita* by State



Retail Sales: 1992 to 2007



Retail Sales: The 10% Drop



If not C, then What?

$$\text{GDP} = C + I + G + \text{NX}$$

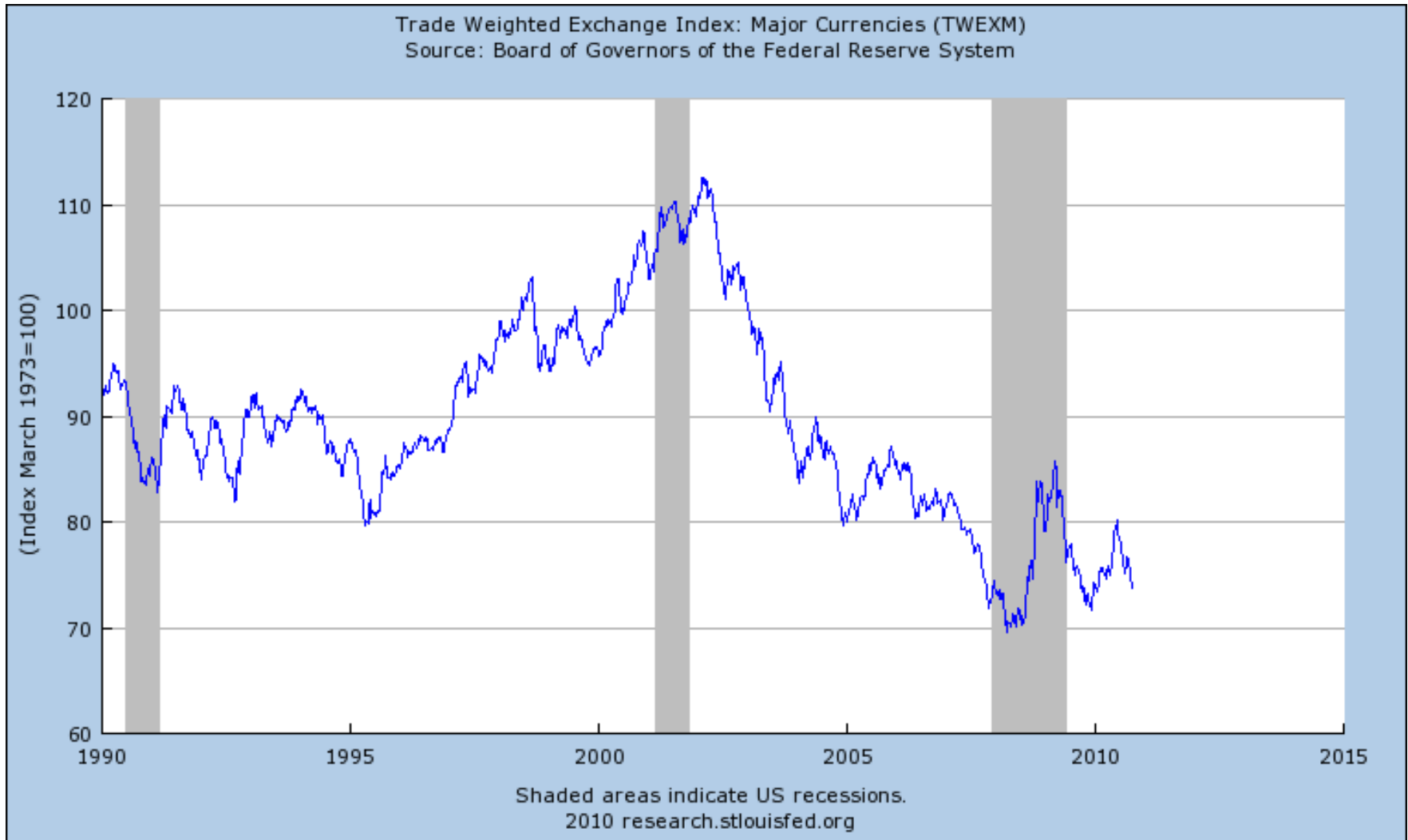
□ Government

- Stimulus has helped, but infrastructure only 10%.
- Fiscal contraction on the horizon from state and federal.
- New state budget proposal isn't really balanced.
 - Another \$4-5 billion in cuts likely needed after election.
- “Quantitative Easing 2”

□ NX = Net Exports?

- Net Exports must increase, but trade deficit is widening again.
- California Imports and Exports up 20% in past 12 months, but both remain below 2008 highs.
- Weaker dollar is long-run trend and will help support

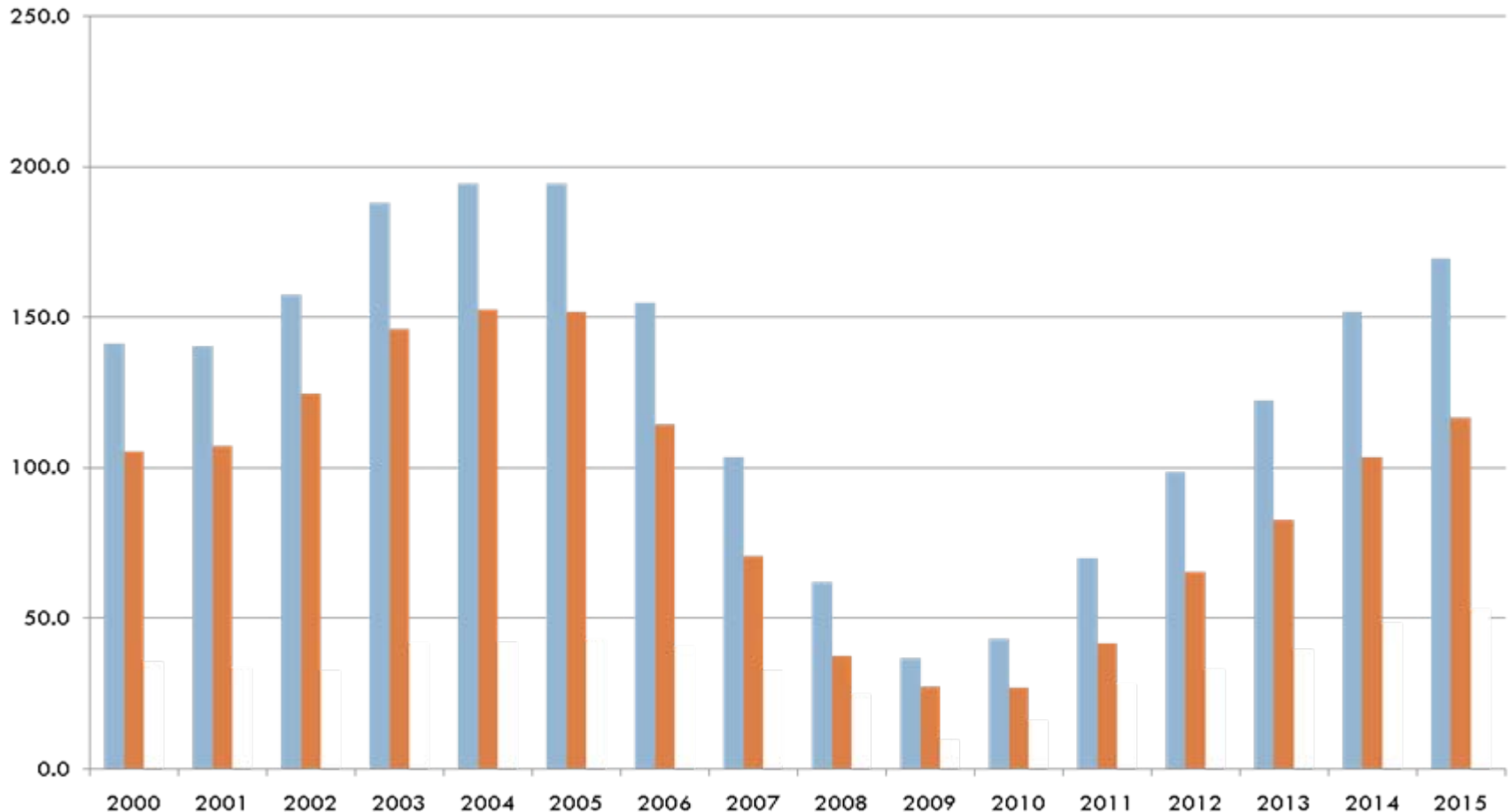
Exchange Rates



That leaves investment

$$GDP = C + I + G + NX$$

□ Residential Investment: California Housing Starts



What about non-residential investment?

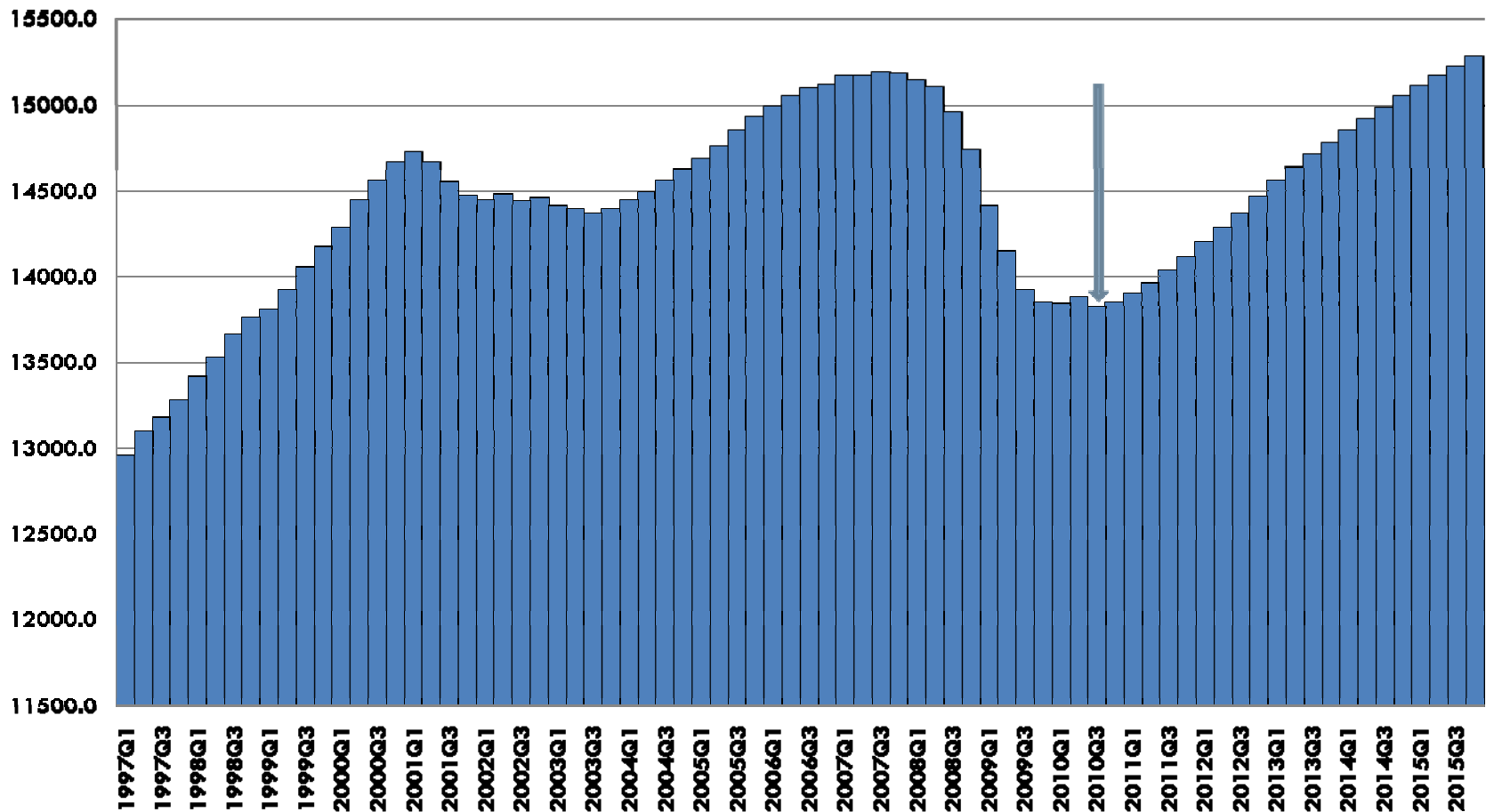
- Commercial Real Estate: more glutted than residential, no growth here.
- Machinery, Equipment, Software
 - ▣ One area showing growth.
 - ▣ A California Strength.
- Human Capital Investment: Education/Training

Bottom Line: Structural Shift to Greater Net Exports and Non-Residential Investment Will Take Time

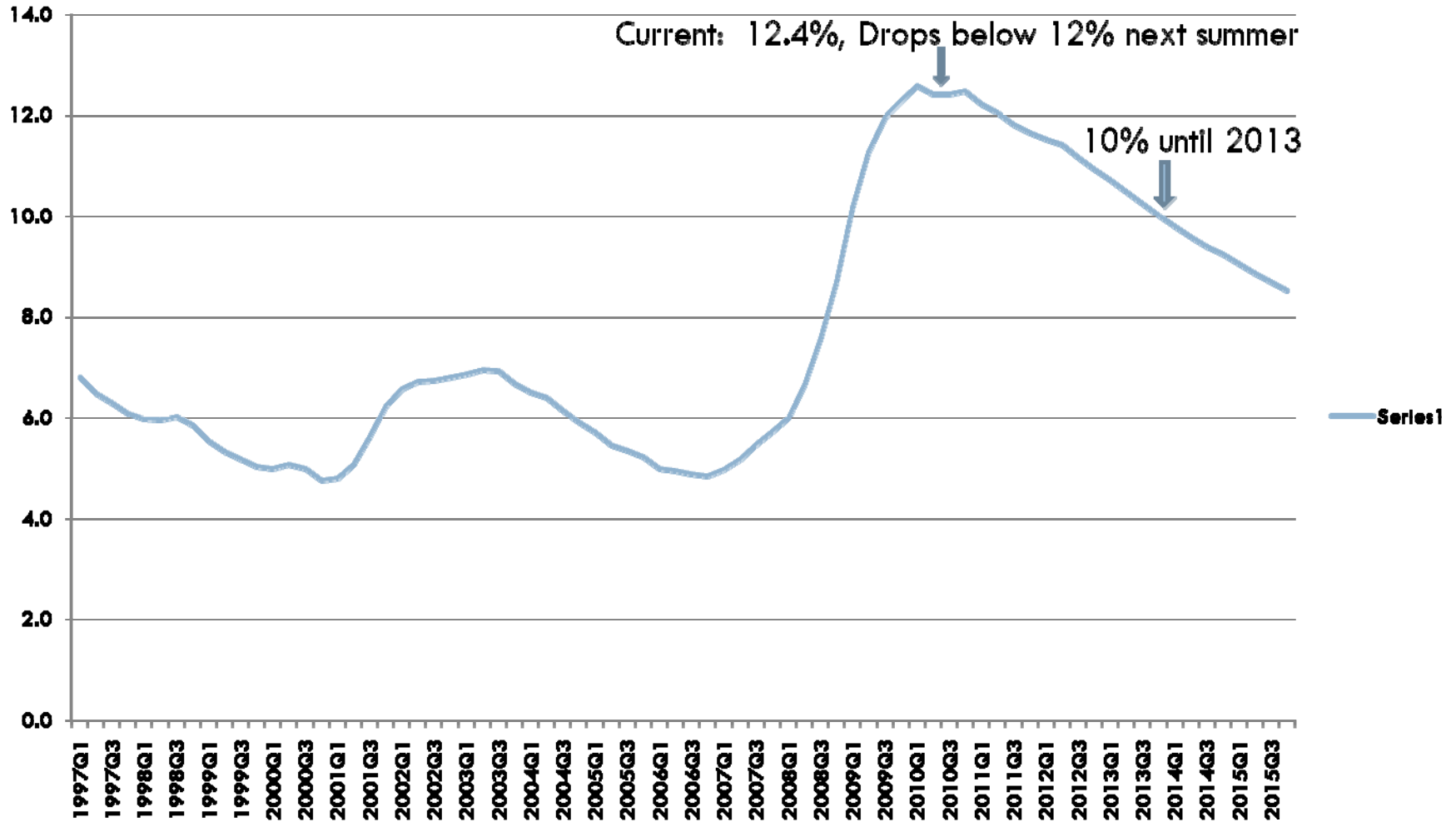
How Long?

Slow Recovery: Jobs Are Unlikely to Reach 2007 Peak Until 2015

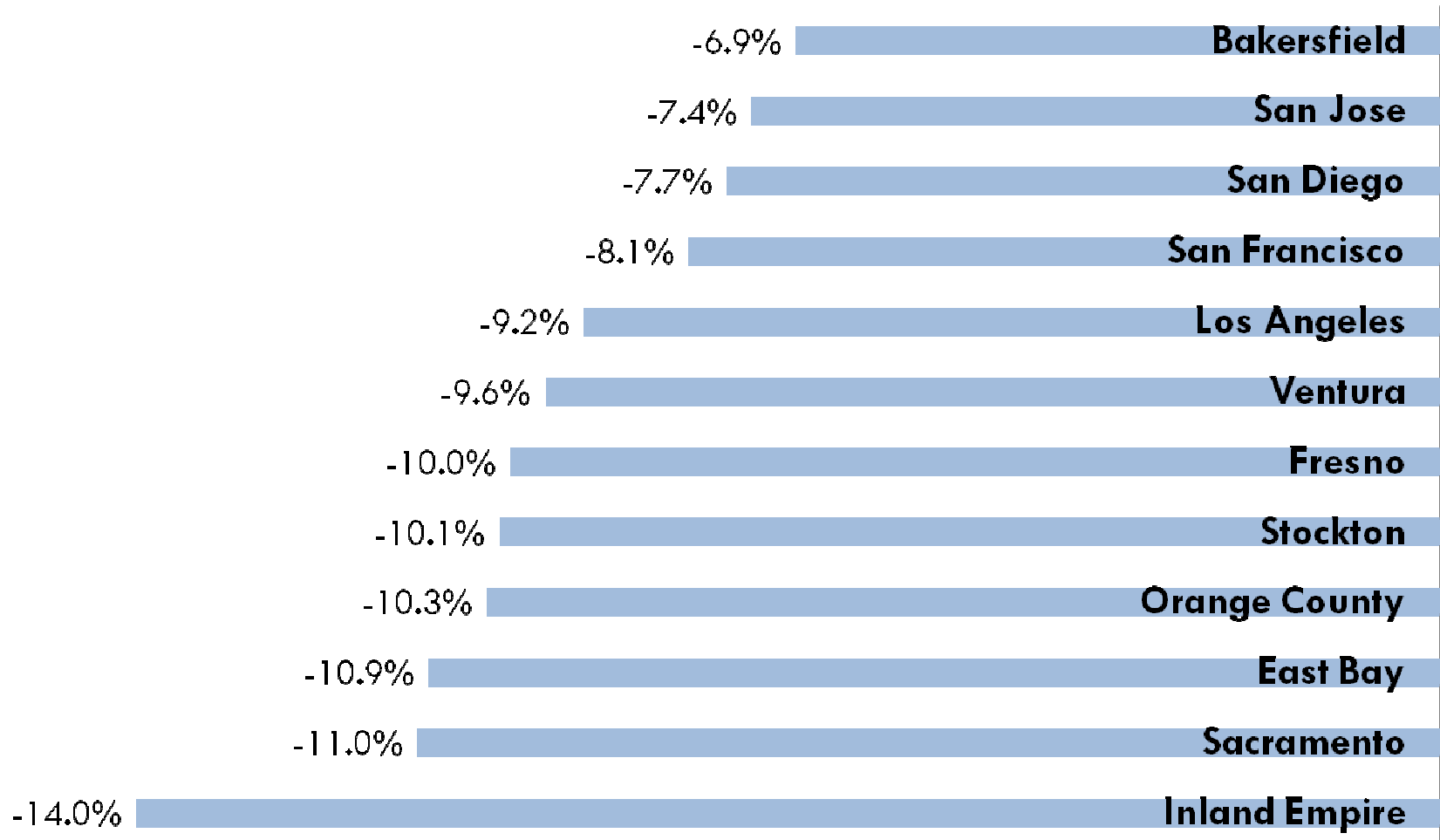
California Payroll Employment



California Unemployment



Aug. 2007- Aug. 2010 job loss: 12 largest CA Metro Areas





Thank you.



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