

THE NEXT YEAR IN THE CALIFORNIA ECONOMY: A PERFECT STORM: THE IMPACT ON YUBA AND SUTTER COUNTIES

Dr. David Gallo
Department of Economics
Center for Economic Development
California State University, Chico
November 2008



The Storm Elements

- ▣ Declining housing values and the impact on retail spending: the wealth effect
- ▣ Decreased construction spending and the effect on economic activity
- ▣ State budget cuts: direct and indirect impacts on disposable income and consumer spending
- ▣ Higher gasoline prices: the effect on other retail spending
- ▣ All impacts are subject to multiplier effects

Impact on the Local Economy: The Housing Market

- ▣ Wealth effect
 - Change in the value of the resident owner-occupied portion of the housing stock
 - By reducing homeowner equity, each \$100 dollar change in housing value reduces annual retail spending by \$6
- ▣ Construction impact
 - The change in construction activity reduces sector income

Reductions in State Government Spending

- ▣ Assumes a 5% reduction in state and local government spending for educational and non-educational programs

Local Impact of Higher Gasoline Prices

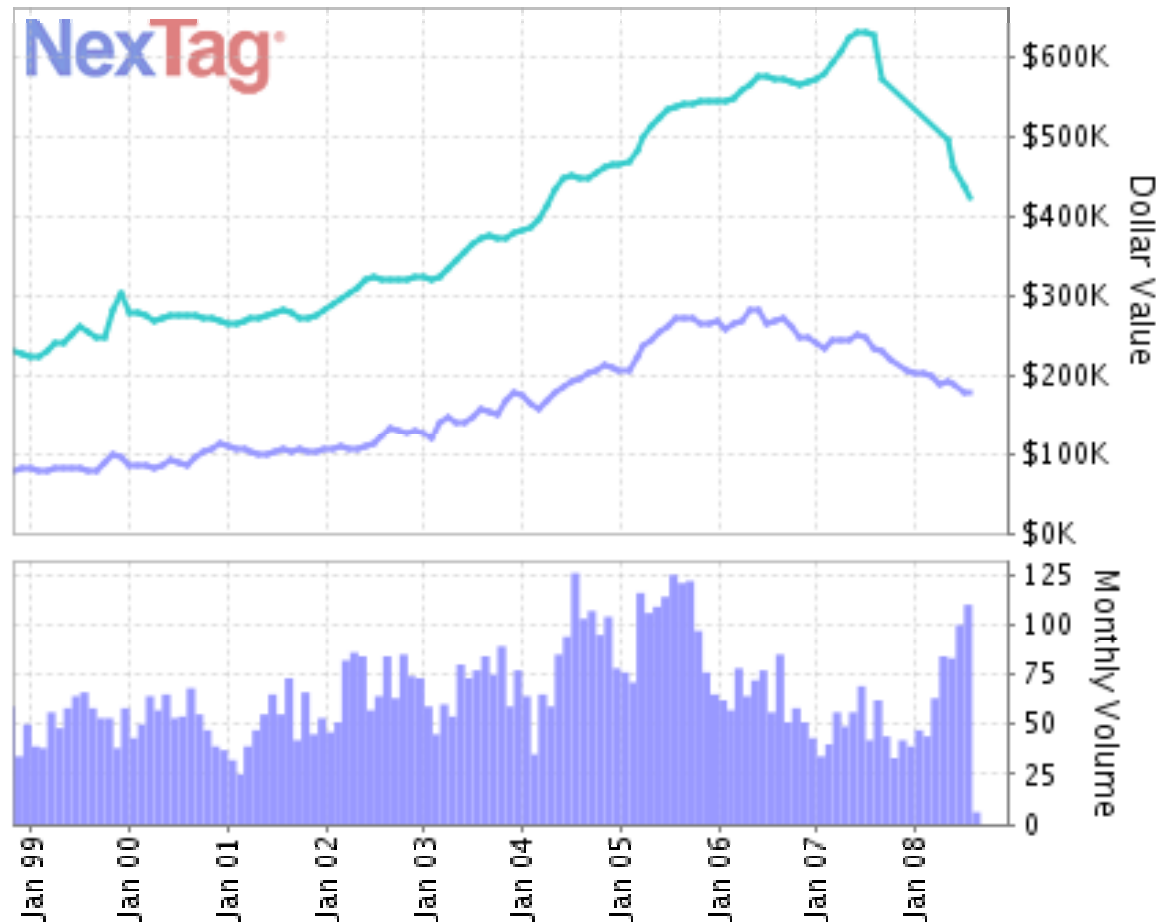
- ▣ An increase in gasoline prices affects the import portion of fuel costs
- ▣ Assumes local wholesale and retail markups are unchanged and that, for the next year, gasoline prices will be 30% higher than they were in 2001-06
- ▣ Effect is a reduction in other retail spending

Yuba and Sutter Counties

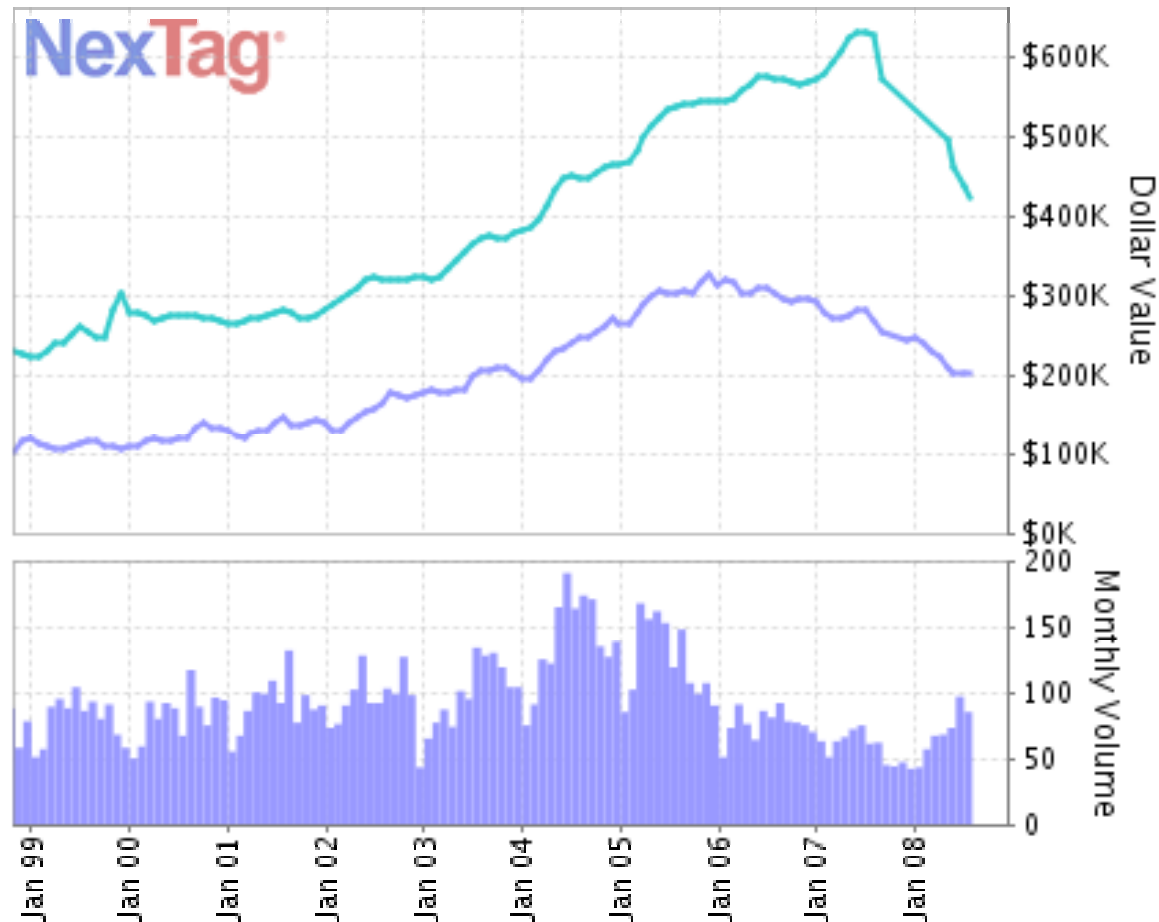
- Median home prices have declined by an estimated 28% from their 2006-07 peak (more from the absolute peak to current prices)
- The value of building permits for new residential units decreased by 67% between 2005 and 2007
- Non-educational government spending constitutes 8.7% of county income



Yuba County Housing Prices and Sales Volume



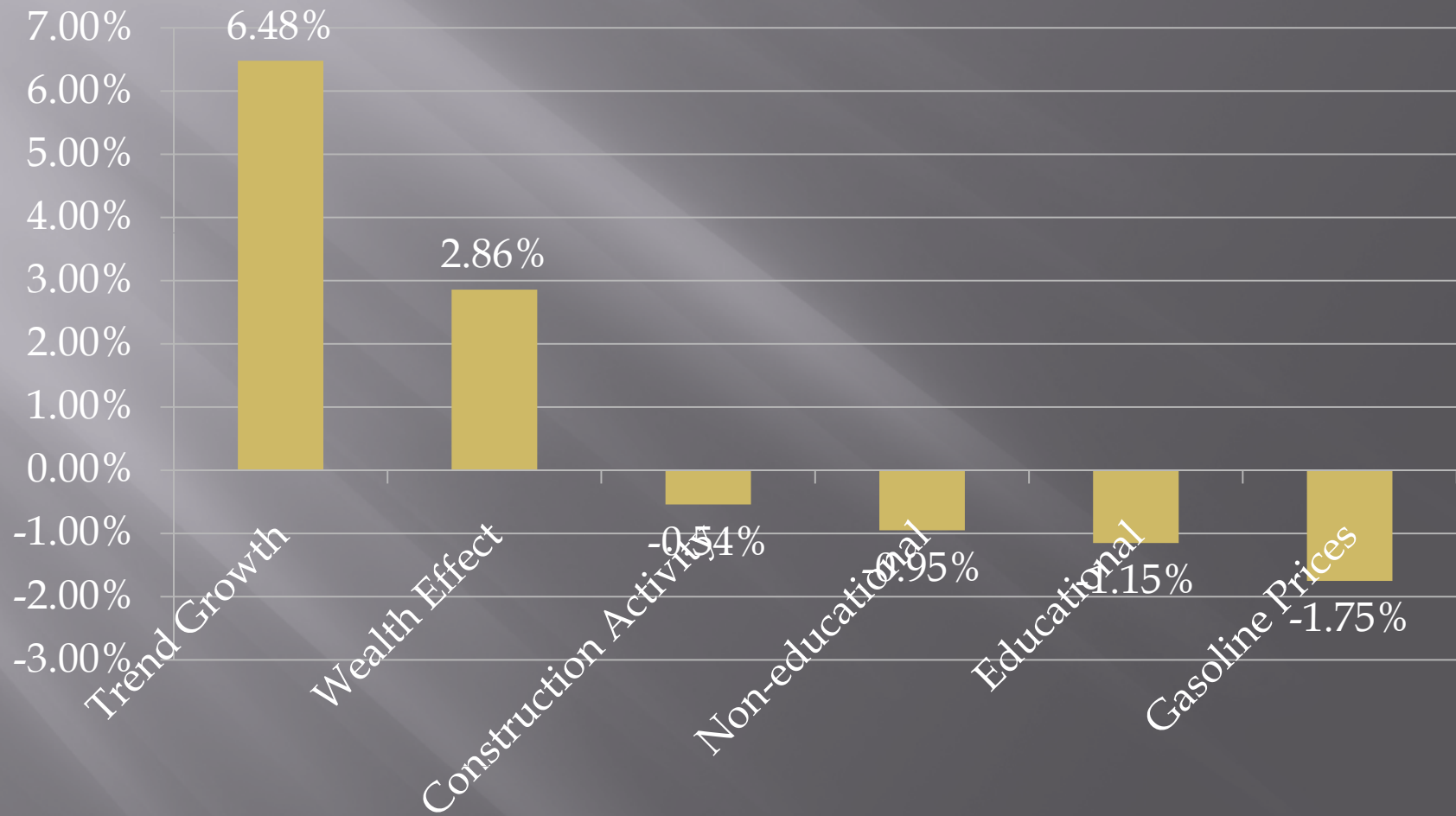
Sutter County Housing Prices and Sales Volume



Impacts on Yuba/Sutter Economic Growth

- ▣ Average 2001-2006 income growth rate of 6.48%
- ▣ Projected growth rate for mid-2008 through mid-2009 equals the assumed trend rate of 6.48% minus:
 - The retail spending impact of the wealth effect (-3.62%)
 - The impact of reduced construction spending (-3.40%)
 - The effect of reduced non-educational state and local government spending (a 5% spending cut) (-0.41%)
 - The effect of reduced state and local educational spending (a 5% cut) (-0.20%)
 - The impact of higher gasoline prices on other retail spending (-0.60%)

Effects on Yuba/Sutter Income Growth



Positive Effects on Income

- ▣ Lower value of the dollar and the effect on export product prices
- ▣ Fiscal and monetary policy measures
 - Reduced interest rates increase spending (offset by the current financial market problems)
 - Federal stimulus package should increase (or has already increased) income by over one percent

Conclusions

- ▣ Housing market problems, state budget cuts, and higher oil prices will have significant impacts on economic growth over the next year
- ▣ Not all counties will be affected equally
- ▣ Yuba/Sutter will experience moderate economic damage (relative to other counties)
- ▣ Even accounting for positive influences, we can expect to see negative economic growth in Yuba/Sutter over the next year

How Long Will the Housing Downturn Last? The 1990's Housing Market Slump

