

Forecast 2011–12

Signs of a National and State Recovery

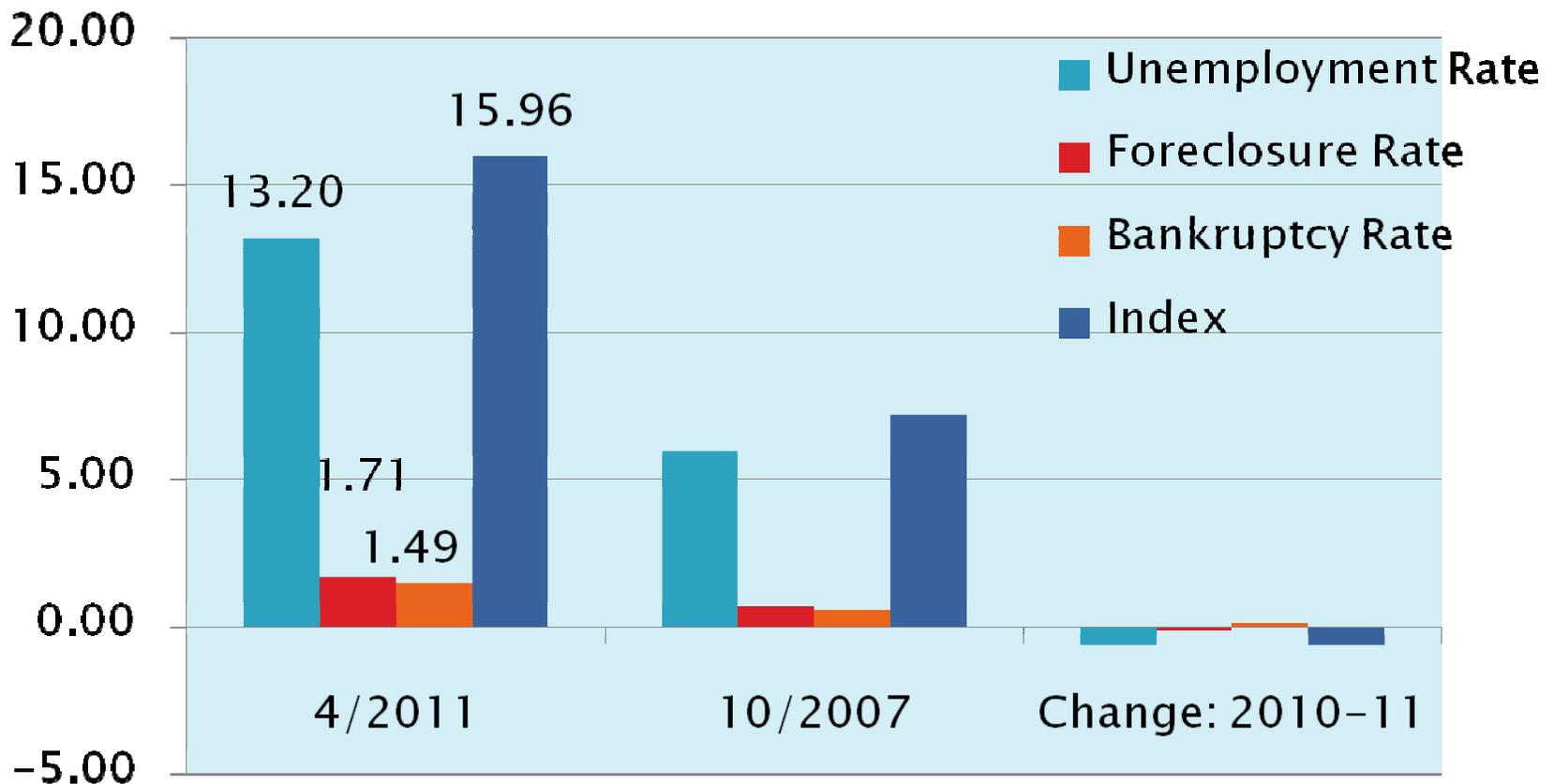
Recent Trends and Long Term Projections: Oroville and Butte County

Household, Labor Force, and Industry Characteristics: Oroville Area

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Butte County & Oroville: Economic forecast: 2011-12

AP Stress Index: Butte County



[Associated Press Interactive: AP Economic Stress Index](#)

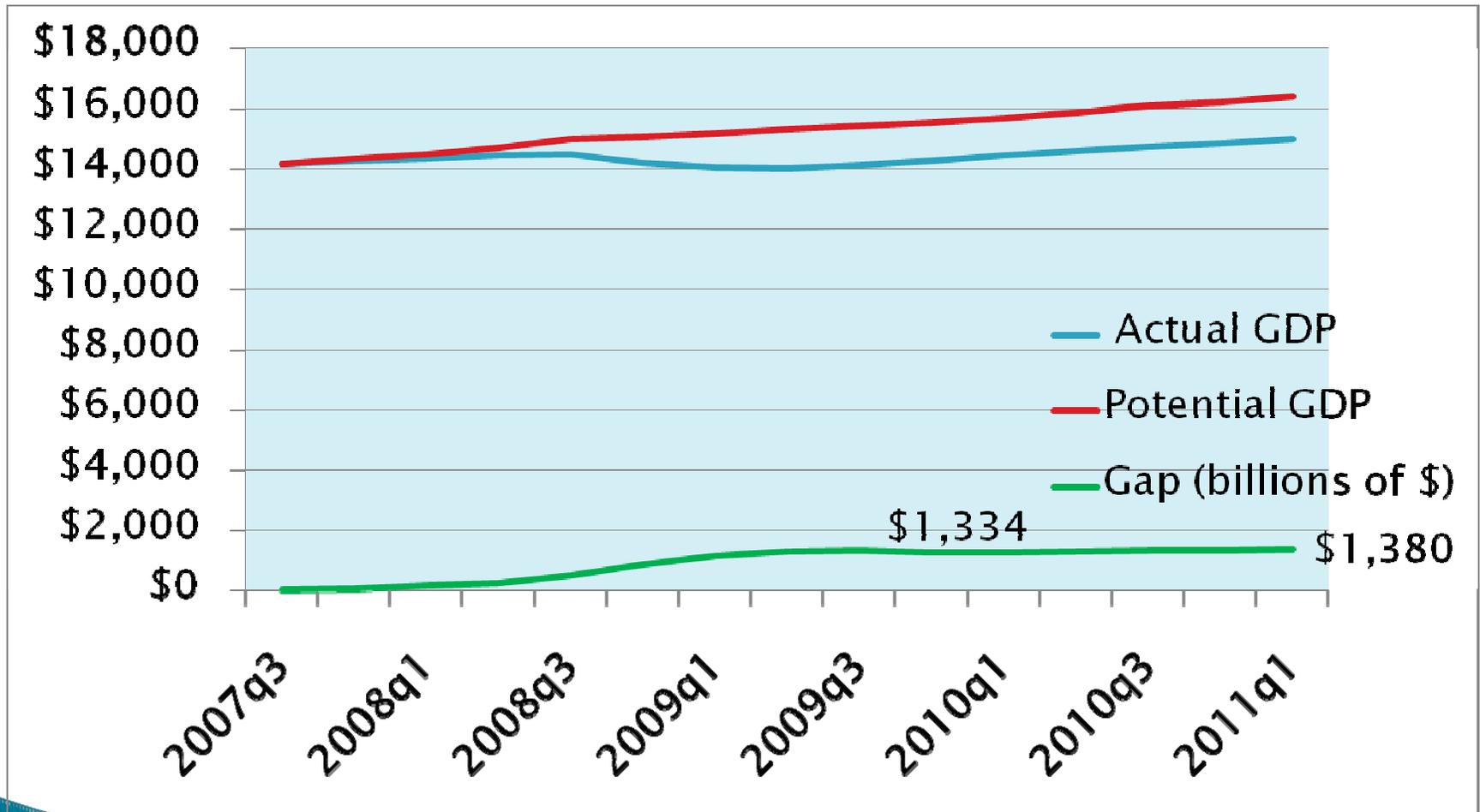
Focus is on National Data

- ▶ The national data is more current (particularly income data—state and local is current only to 2009)
- ▶ Employment data is current, but is a lagging indicator
- ▶ Because of the relative seriousness of California's economic problems, the national, not the state economy, is likely to lead the recovery

How Serious is the Current Recession?

»» Recent Economic Data

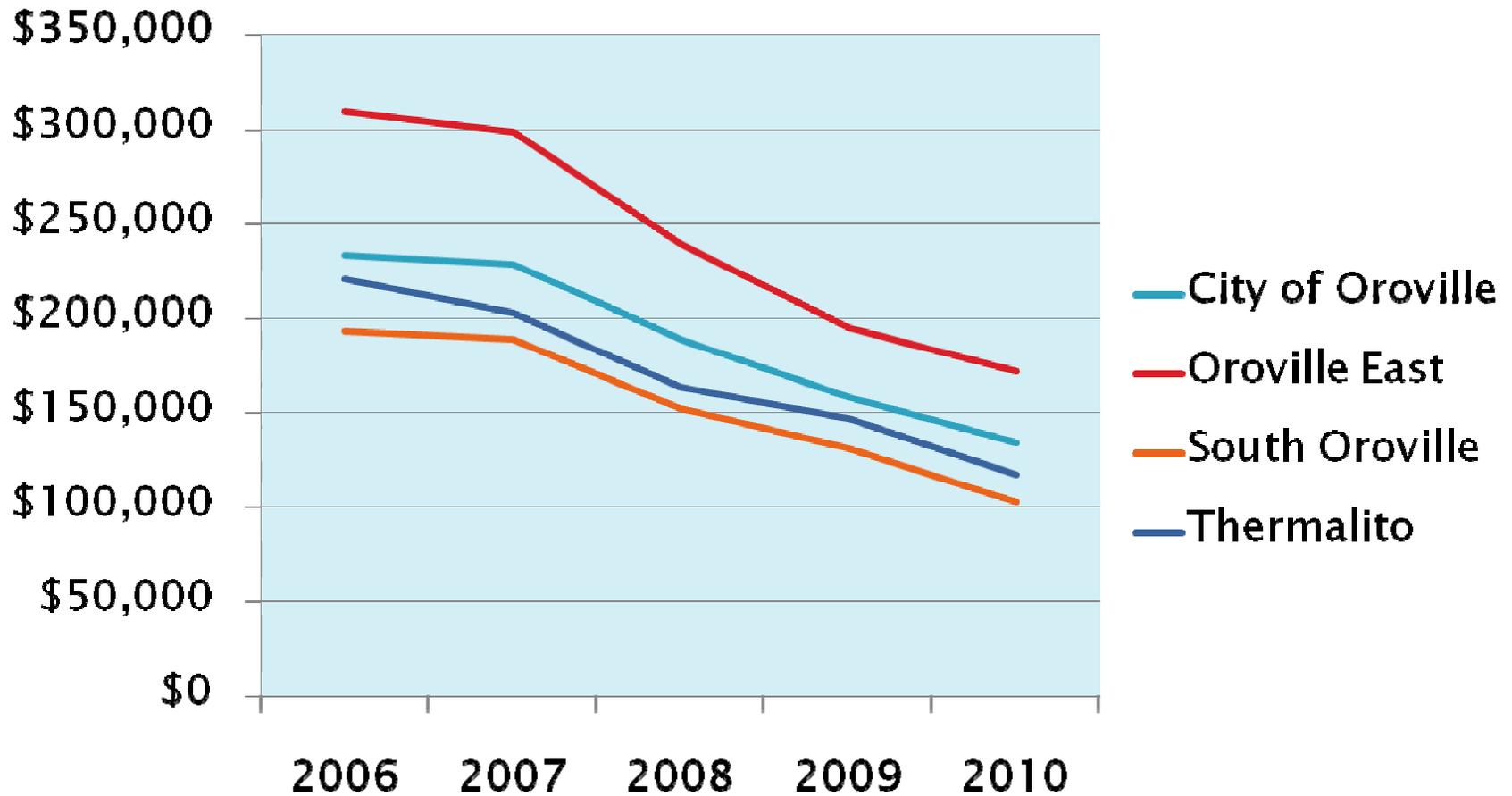
GDP Gap: Current Dollars



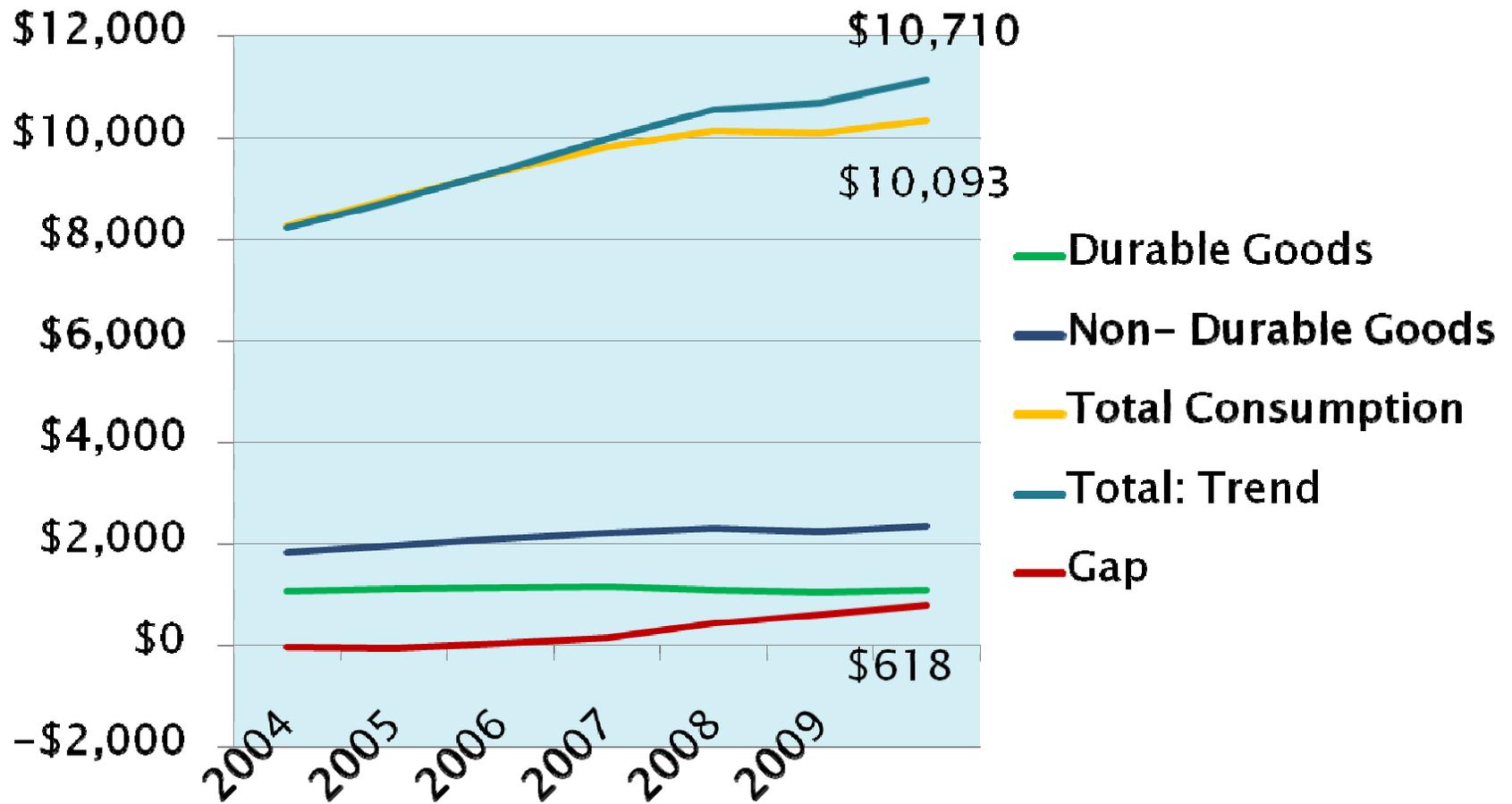
Importance of Real Estate

- ▶ Three mechanisms through which real estate markets affect economic activity
 - Construction and associated financial services directly impact economic activity
 - Changes in real estate values affect—through the wealth effect—retail and wholesale trade
 - Home equity has also been an important source of financing for small business creation and expansion

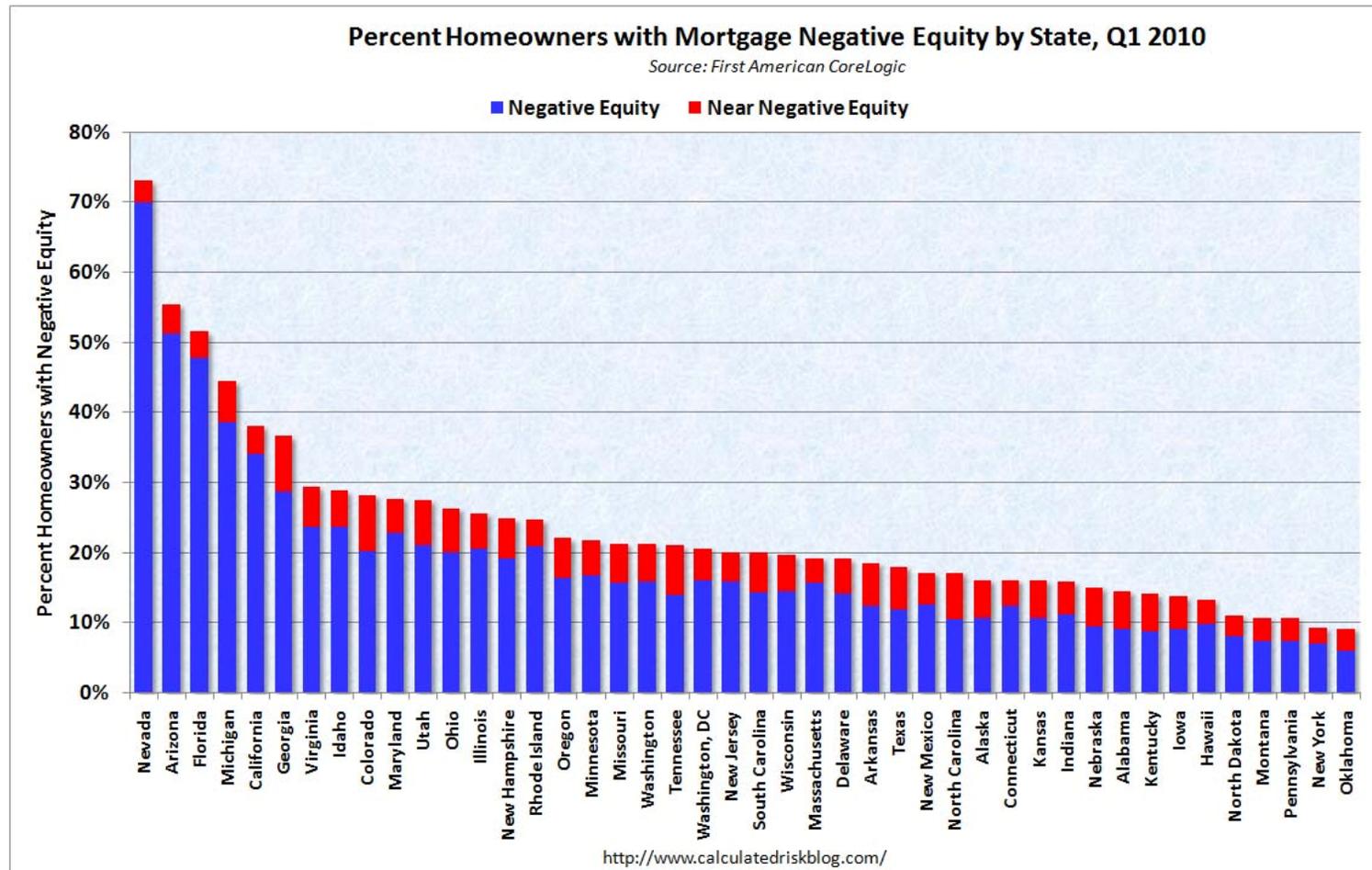
Oroville Area Home Prices



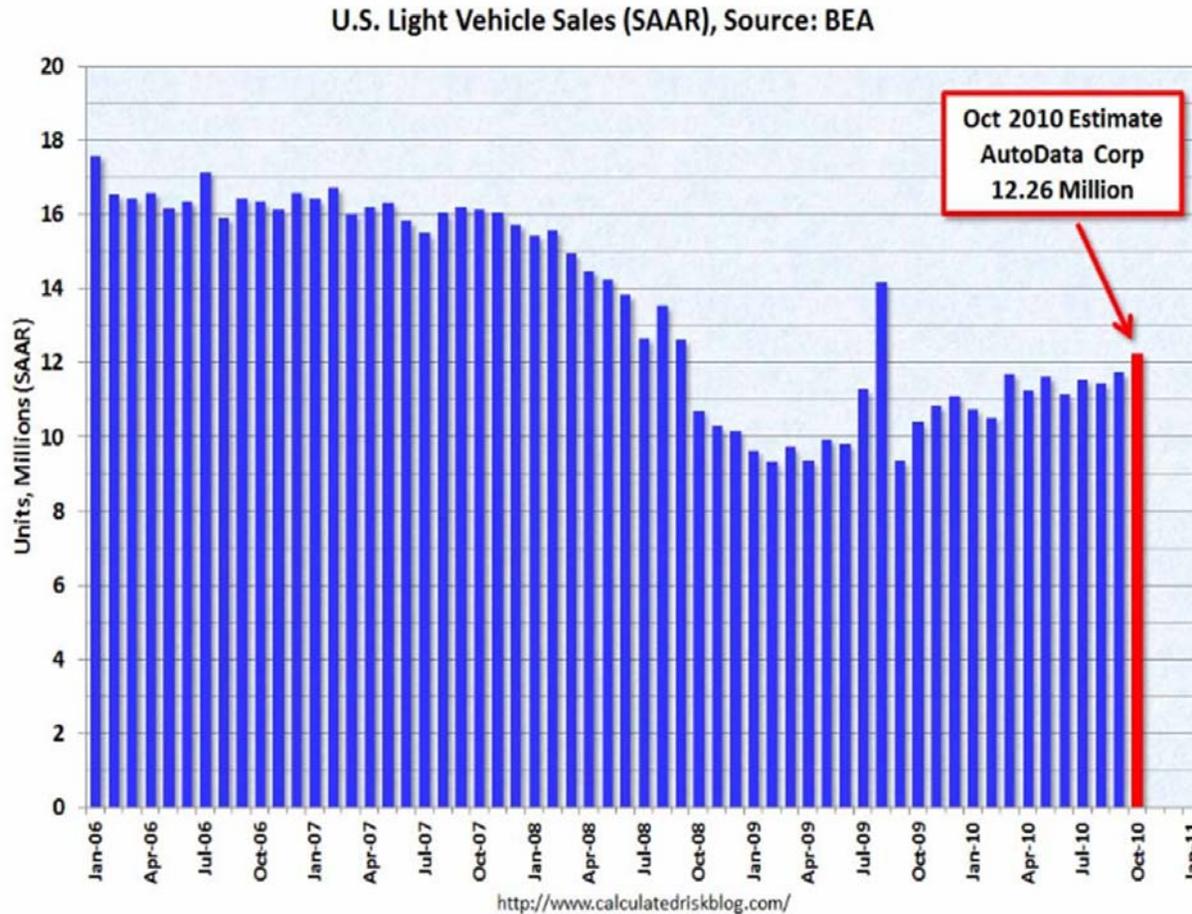
Nationally, Household Consumption was \$618 Billion below Trend by 2009



Housing Equity Losses Have Drastically Decreased Consumer Spending



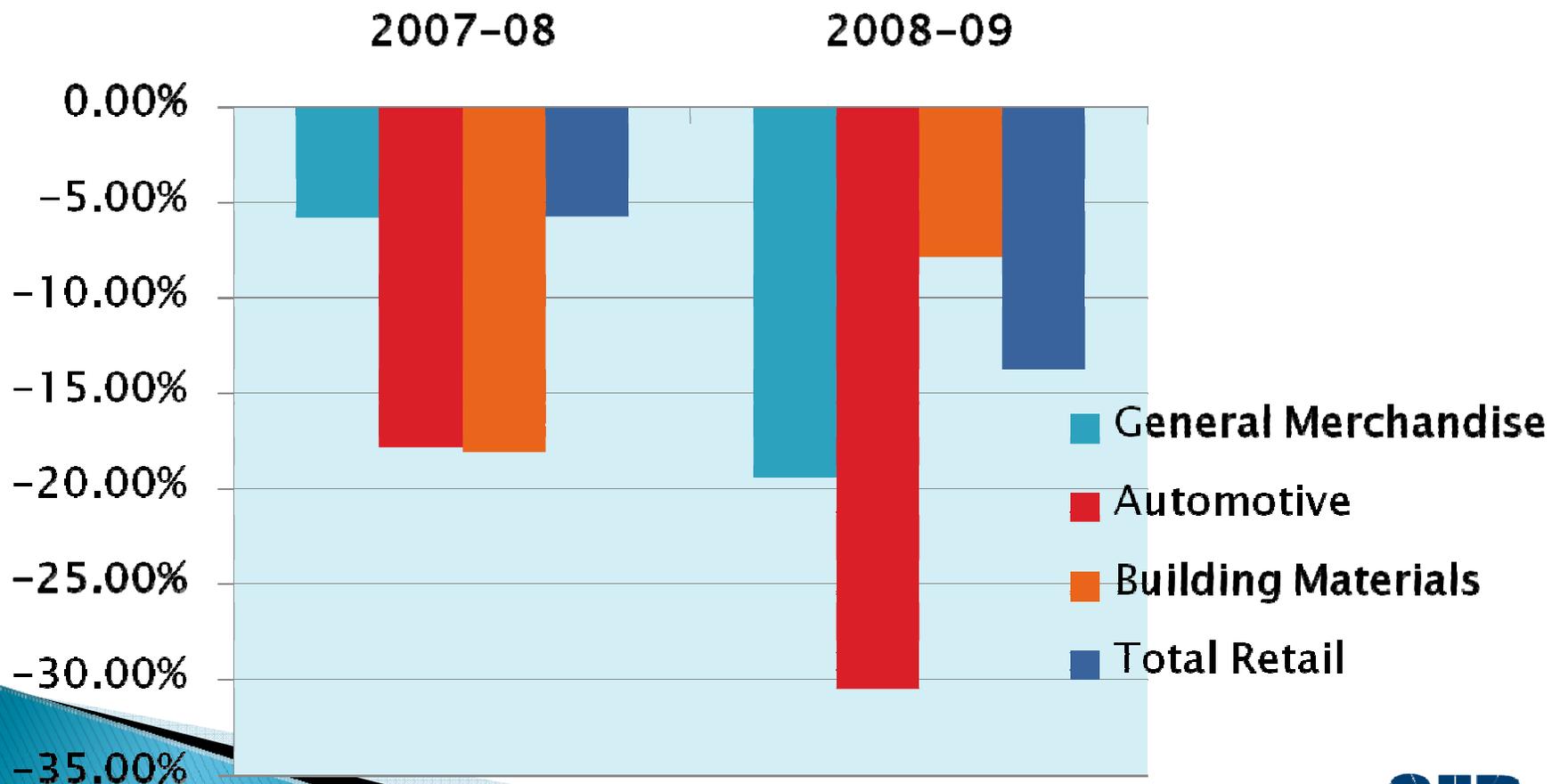
Wealth Effect Particularly Affected Vehicle Sales



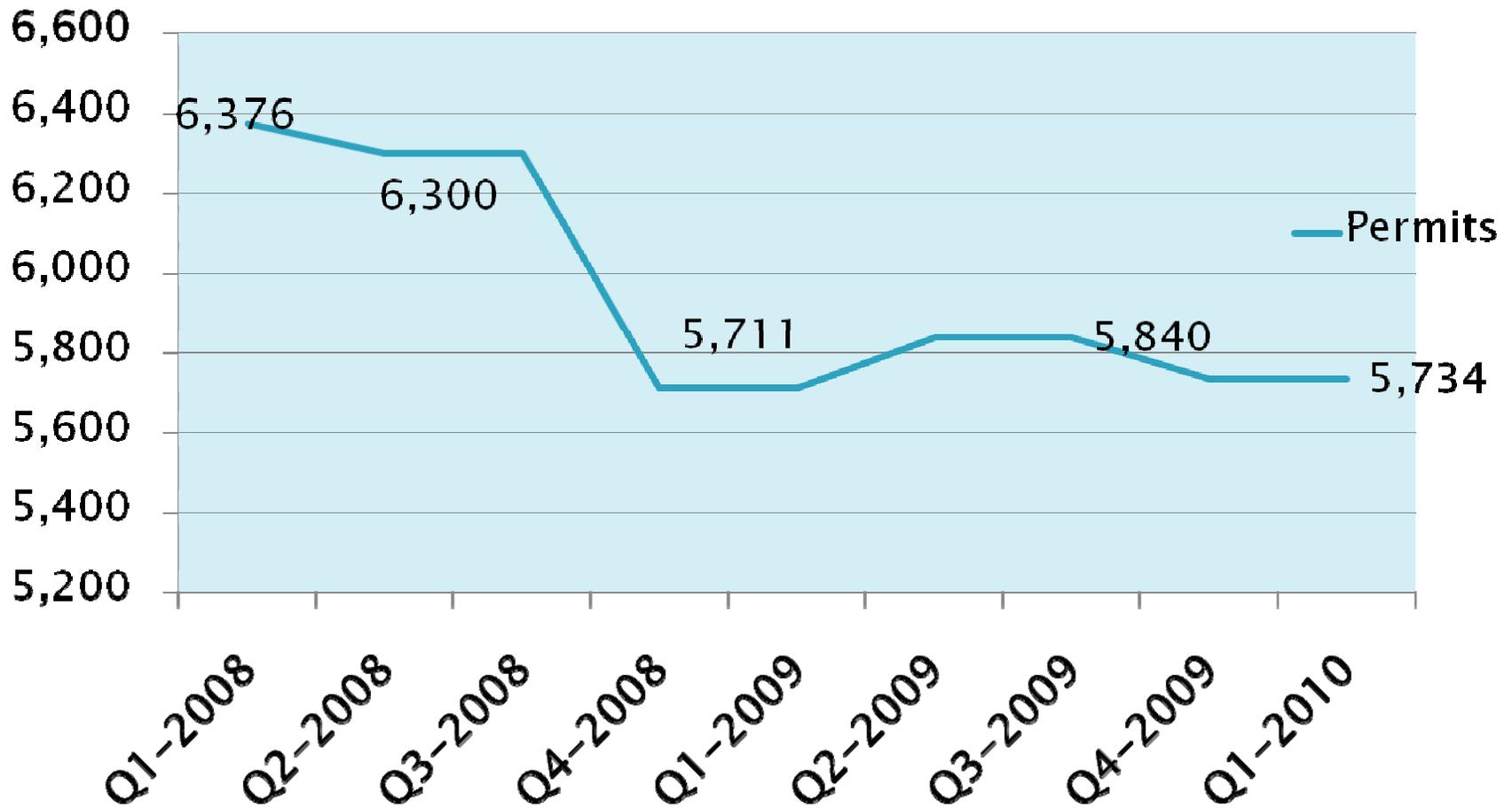
Consumption Impacts: California and Butte County

»» Wealth Effect

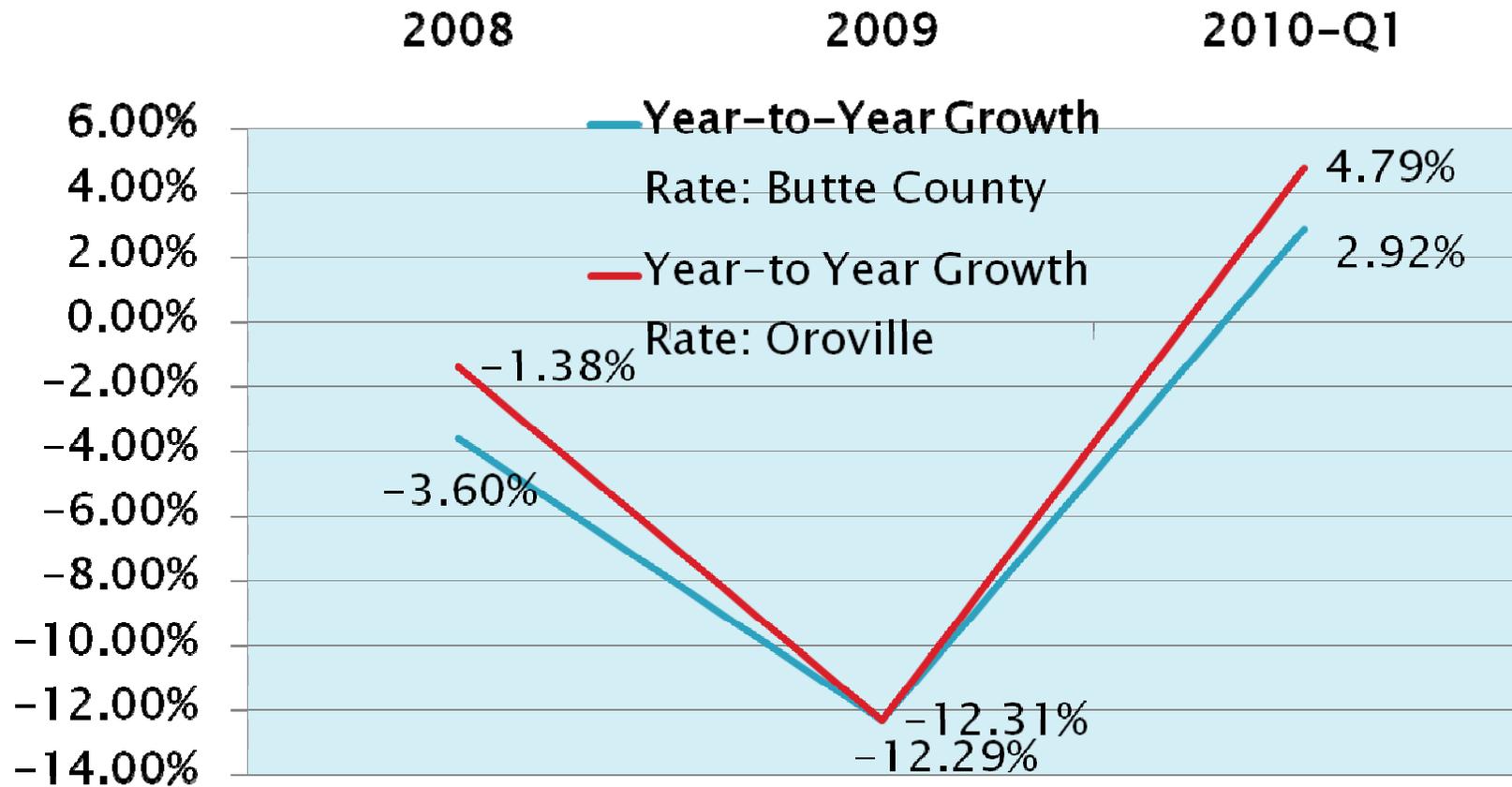
Per Capita Retail Spending Growth by Sector: 2007-09 California Average



Number of Sales Tax Permits for Butte County



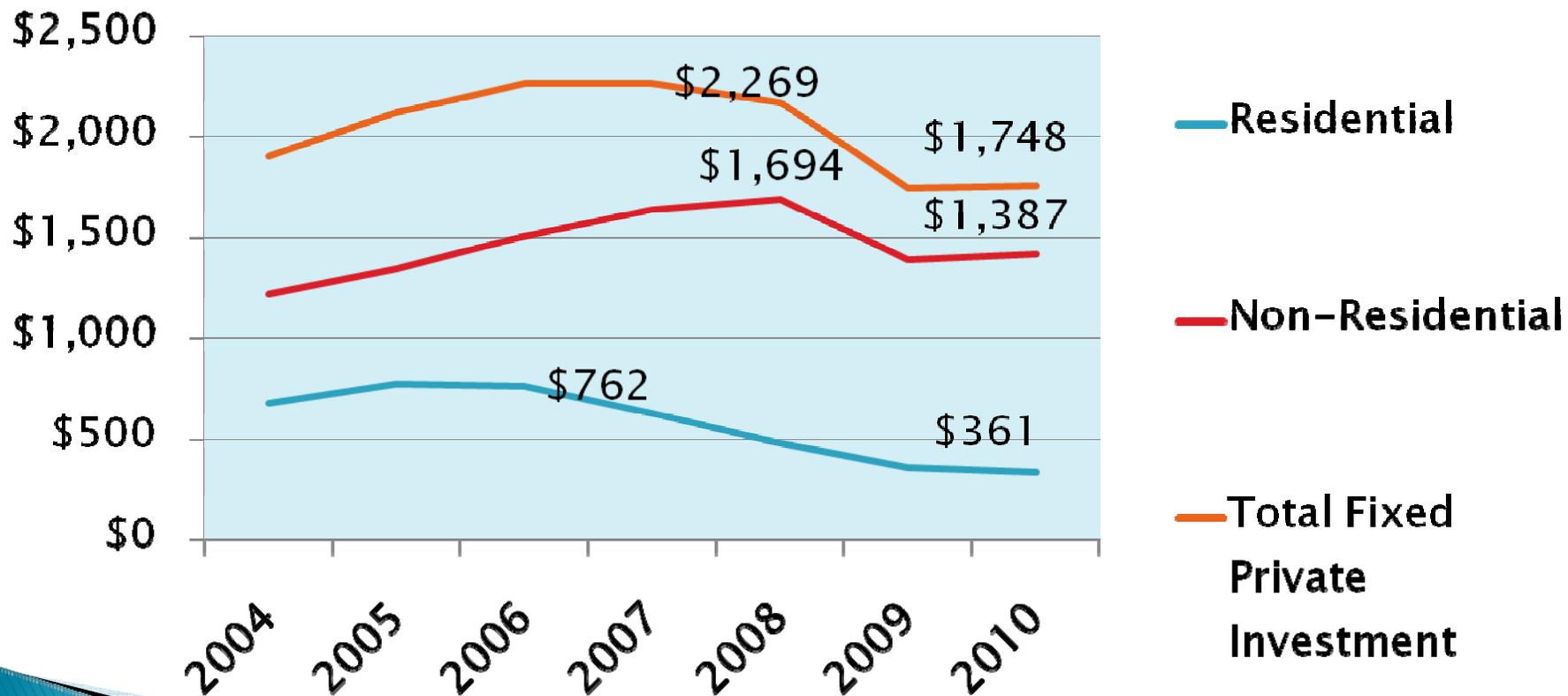
Growth Rate of Butte County Taxable Retail Sales through the Second Quarter of 2009 (Year-to-Year)



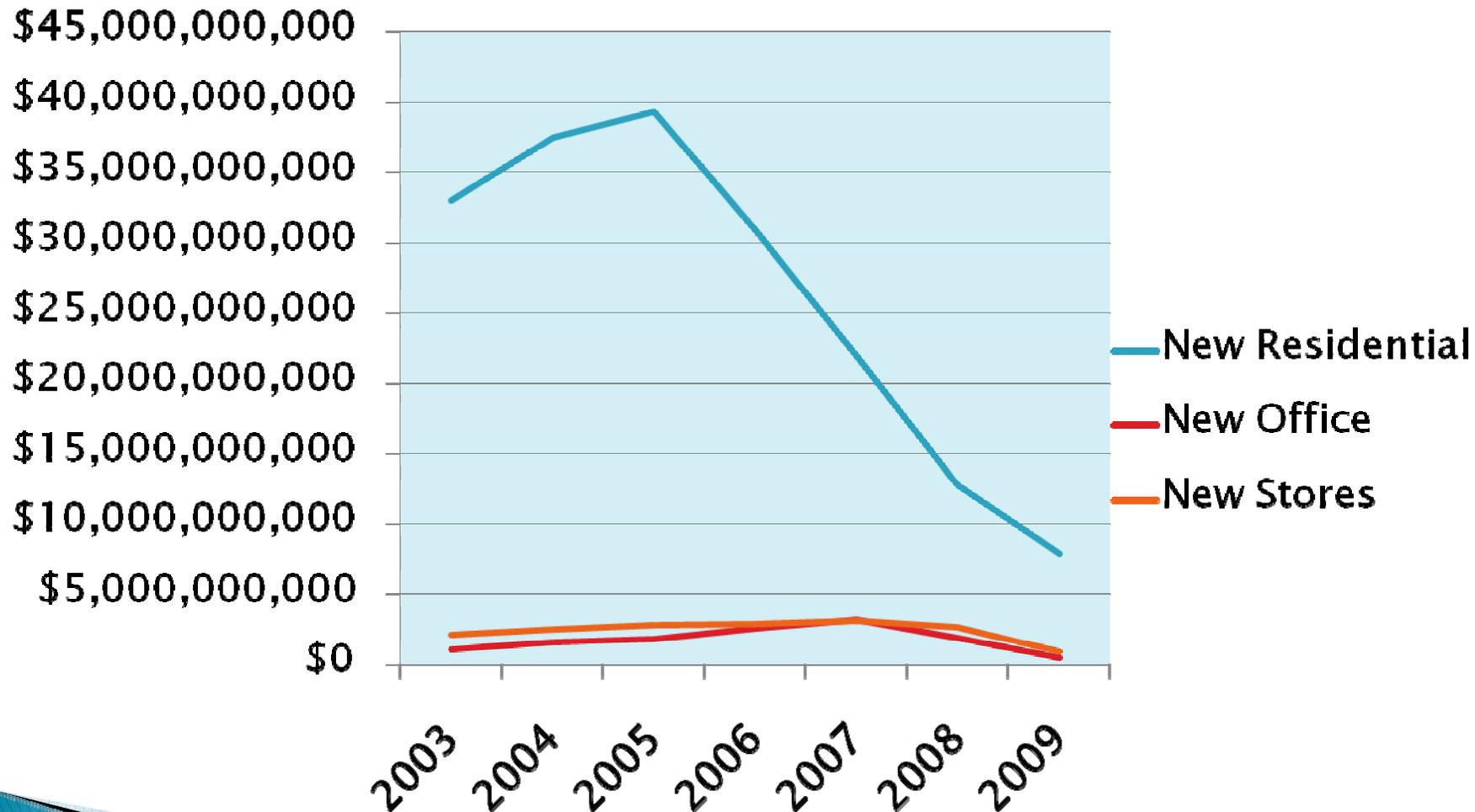
Investment

- » Investment remains well below trend: a depressed construction sector is the biggest factor

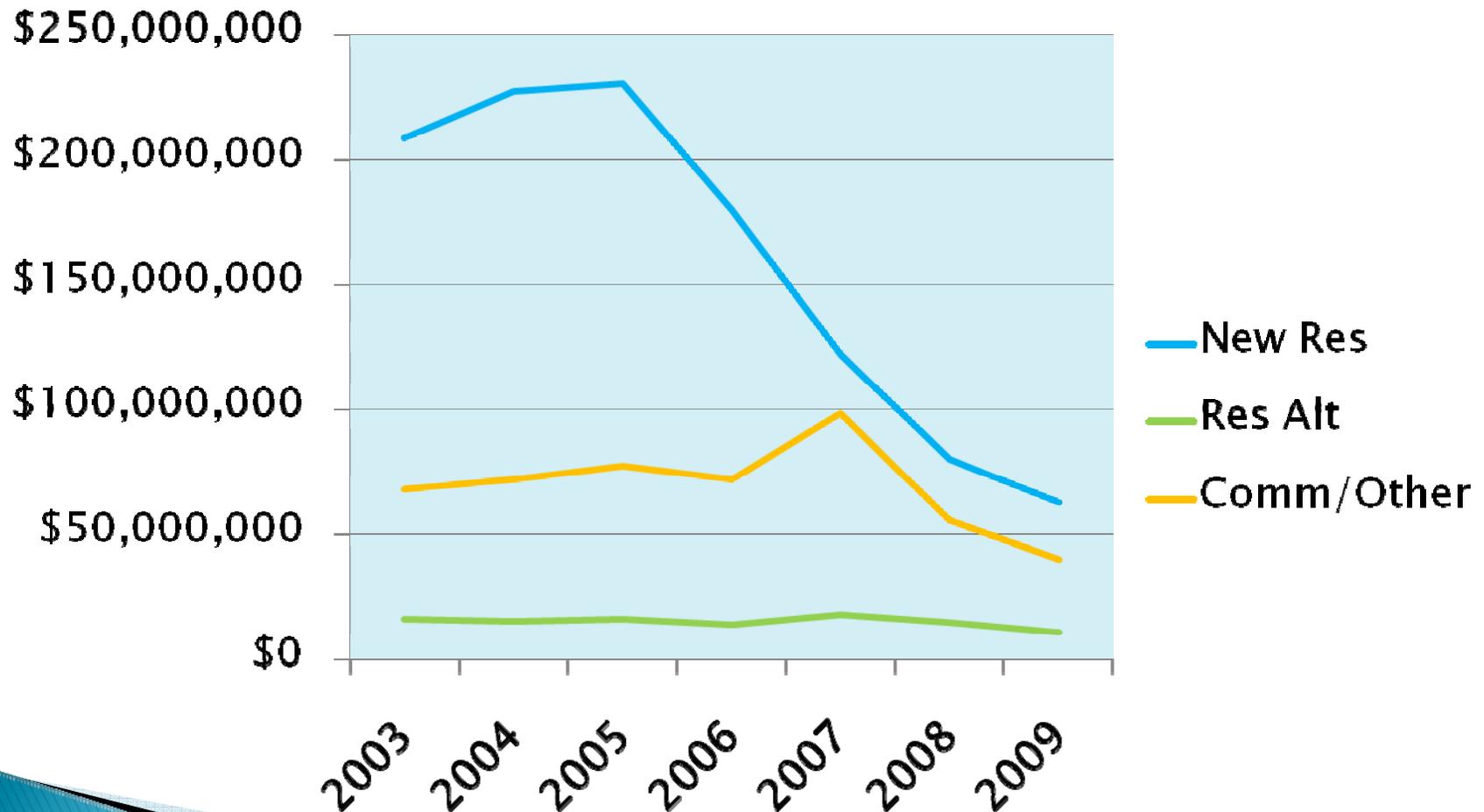
Nationally, Private Fixed Investment Declined by \$520 Billion from the 2007 Peak, and by 2009 was \$600 Billion below Trend



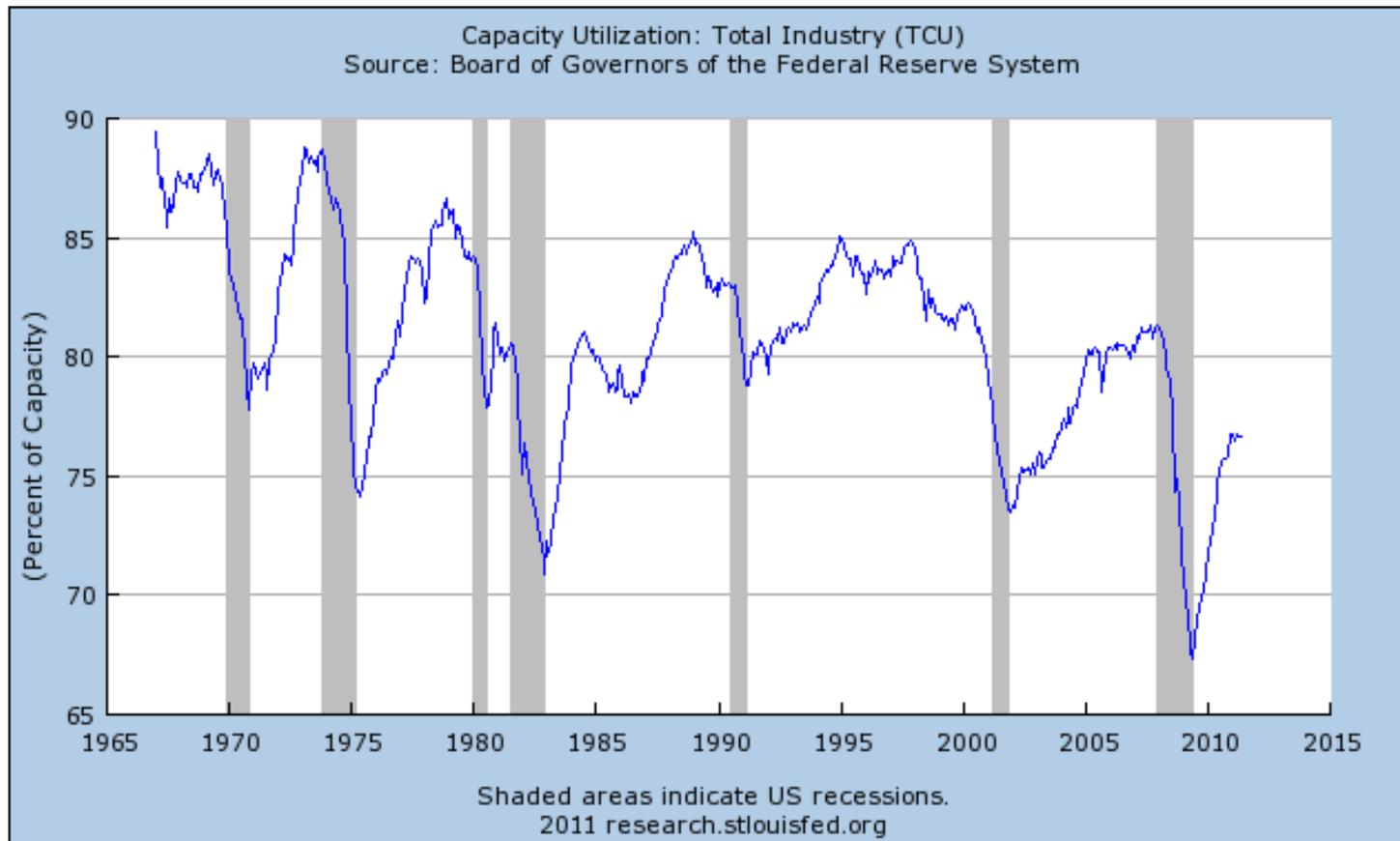
In California Construction Also Led the Decline in Investment



Value of New Construction: Butte County 2003–2009



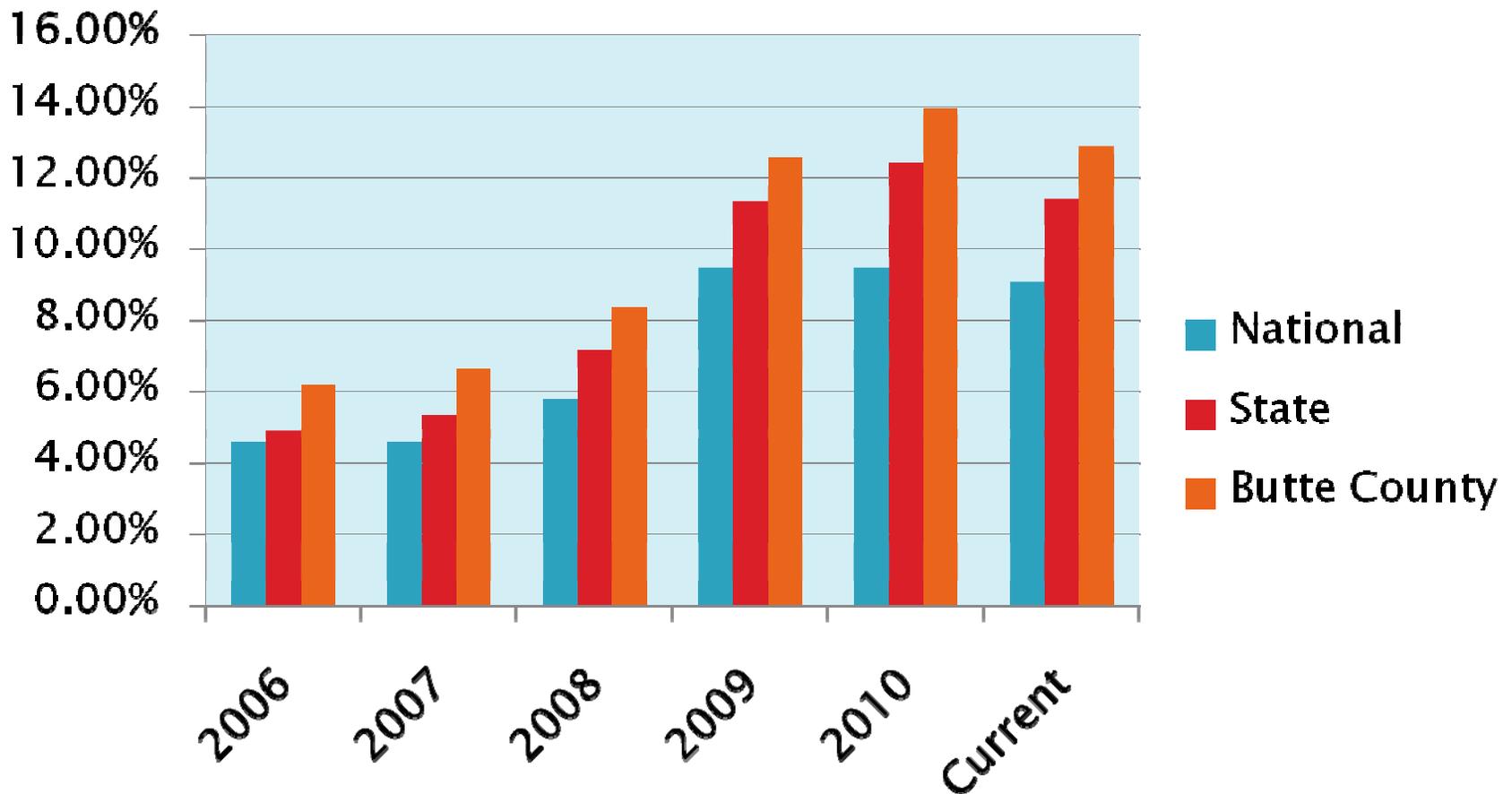
Excess Capacity is Interfering with Recovery of Business Investment



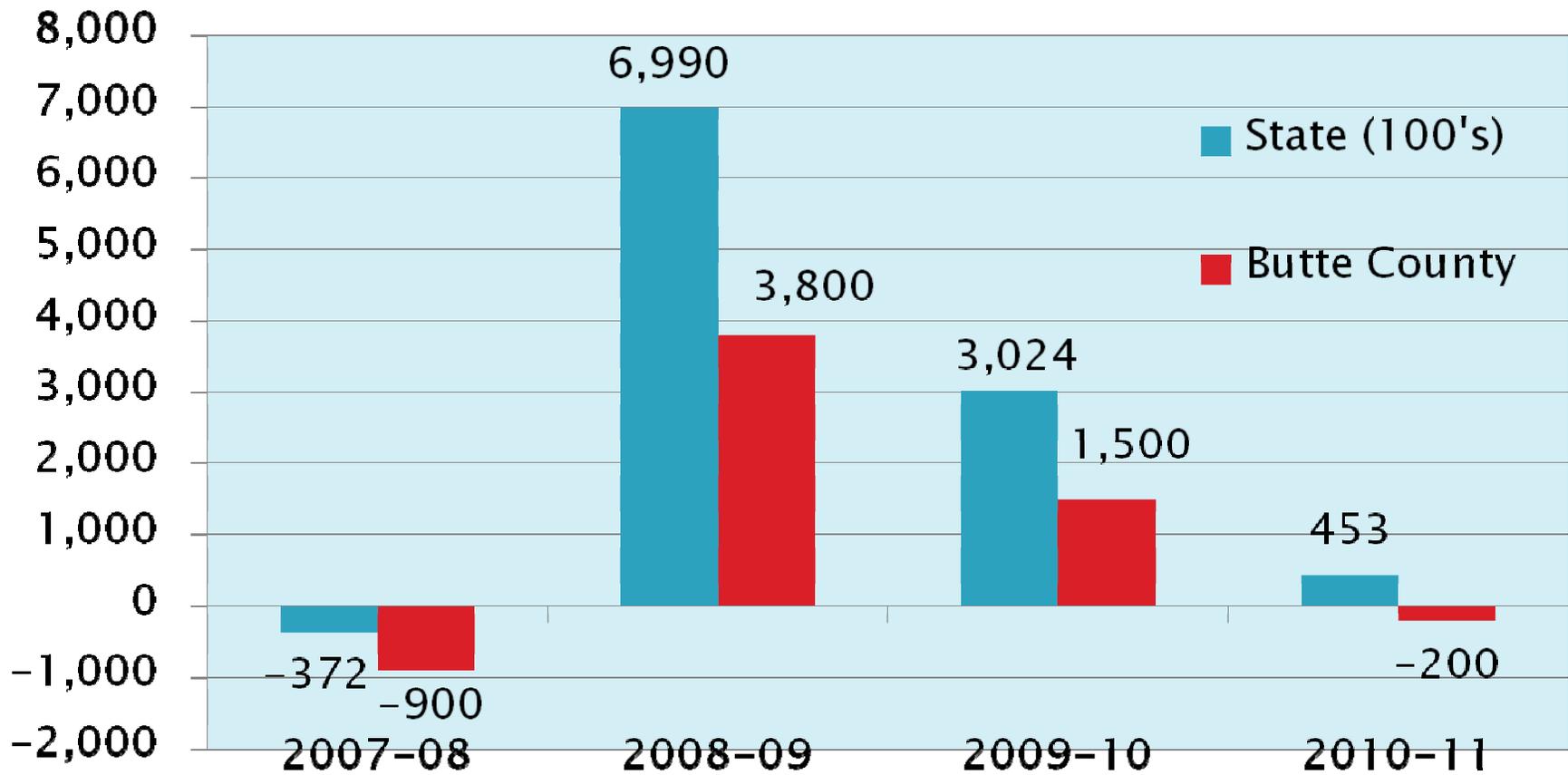
Employment

»» The job market remains weak

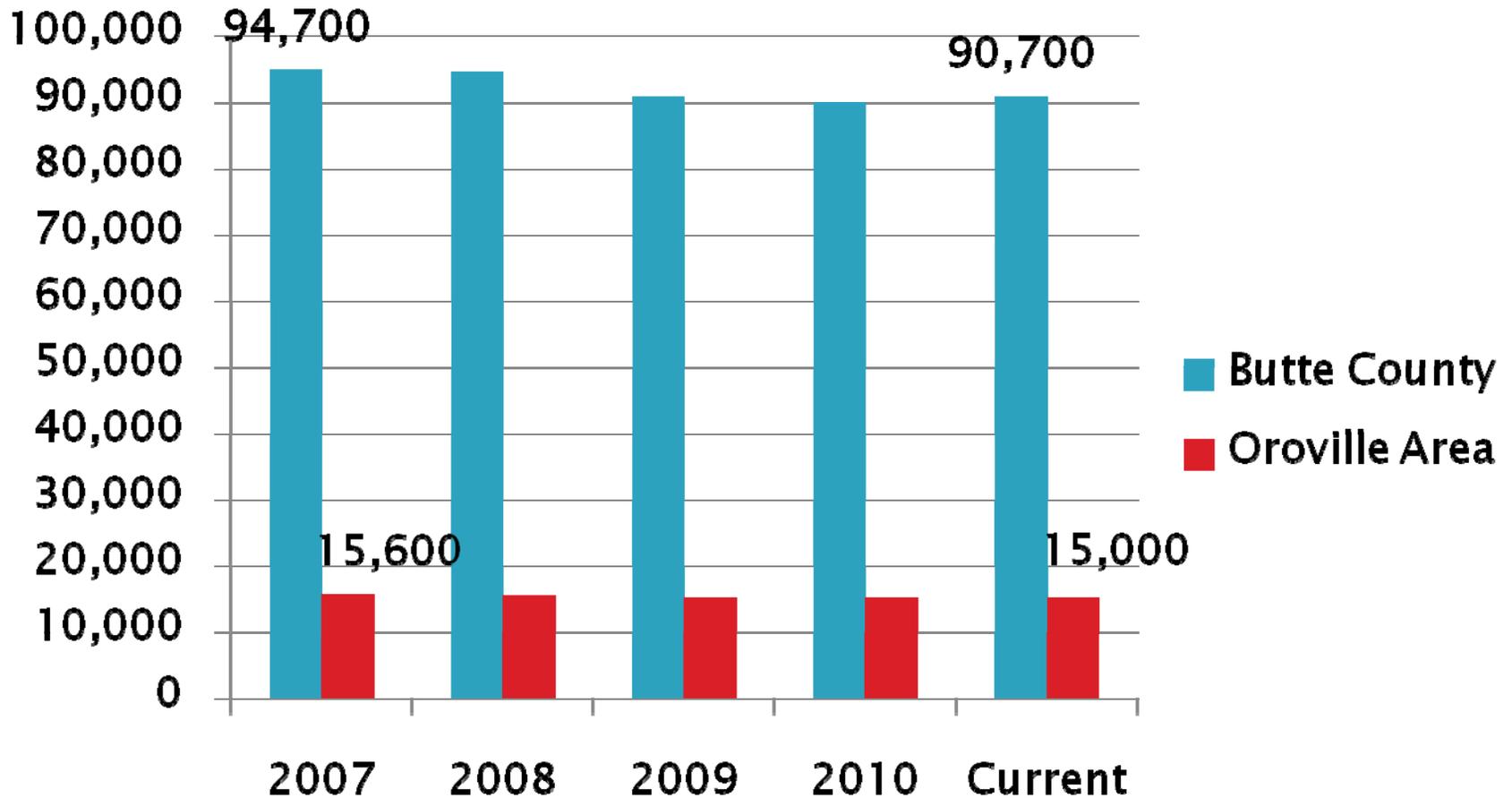
Unemployment Rates Began Rising in 2006



Employment Decreased Sharply after April 2008: (Job losses from April to April)



Employment: Butte County and Oroville



Past Sources of Growth

»» California and Butte County

The Housing Bubble

- ▶ To what extent was the economic growth after 2002 the result of the housing bubble?
- ▶ Was the primary driver for area economic growth construction and the associated financial services sector?
- ▶ How important was the increase in household wealth, due to rising real estate prices, in increasing retail sales?

Past Sources of Butte County Employment Growth

Sector	Average Employment (1992–2001)	Average Employment (2005–2007)	Change: 1992–01 to 2005–07 Averages	Percent of Total Employment Growth
Construction, Finance and Real Estate	5,750	8,200	2,450	15.79%
Retail	9,260	10,467	1,207	7.78%
Non-Retail Private Services	33,380	39,000	5,620	36.23%
State and Local Government	13,810	17,000	3,190	20.56%
Totals	77,920	93,433	15,513	80.36%

Housing Price Increases: The Wealth Effect

- ▶ From 2003 to 2007 housing wealth in
 - Butte County increased by \$5.90 billion
 - Oroville increased by \$1.24 billion
- ▶ It estimated that annual retail spending is increased by between four and six percent of the increase in housing wealth
- ▶ Assuming five percent of housing wealth is converted to retail spending, housing price increases from 2003 through 2007 were responsible for an increase in annual consumer spending of:
 - \$295 million in Butte County
 - \$62 million in Oroville
- ▶ That is equivalent to 66 percent of the increase in county taxable retail sales between 2003 and 2007

Summary: Past Sources of Employment Growth: 1992–01 through 2005–07

- ▶ The combination of construction, real estate, increased state and local government spending (due to higher property and sales tax receipts) and the wealth effect was probably responsible for about one-third of the employment growth during this period.
- ▶ Manufacturing employment actually declined at a 0.6 percent annual rate over this period
- ▶ The remaining employment growth is attributable to service sector growth and its indirect impact on retail spending and state and local government revenues

Other Sectors with Employment Growth: Butte County through 2005–07

Sector	Average Employment: 1992–2001	Average Employment 2005–2007	Change in Average Employment	% change
Professional & Business Services	5,170	5,633	463	8.96%
Educational & Health Services	10,490	12,867	2,377	22.66%
Leisure & Hospitality	6,570	7,667	1,097	16.69%
Percent of Area Employment	28.53%	28.01%	25.38%	

Local Impact of the Recession

- »» Employment decreases by sector: California and Butte County

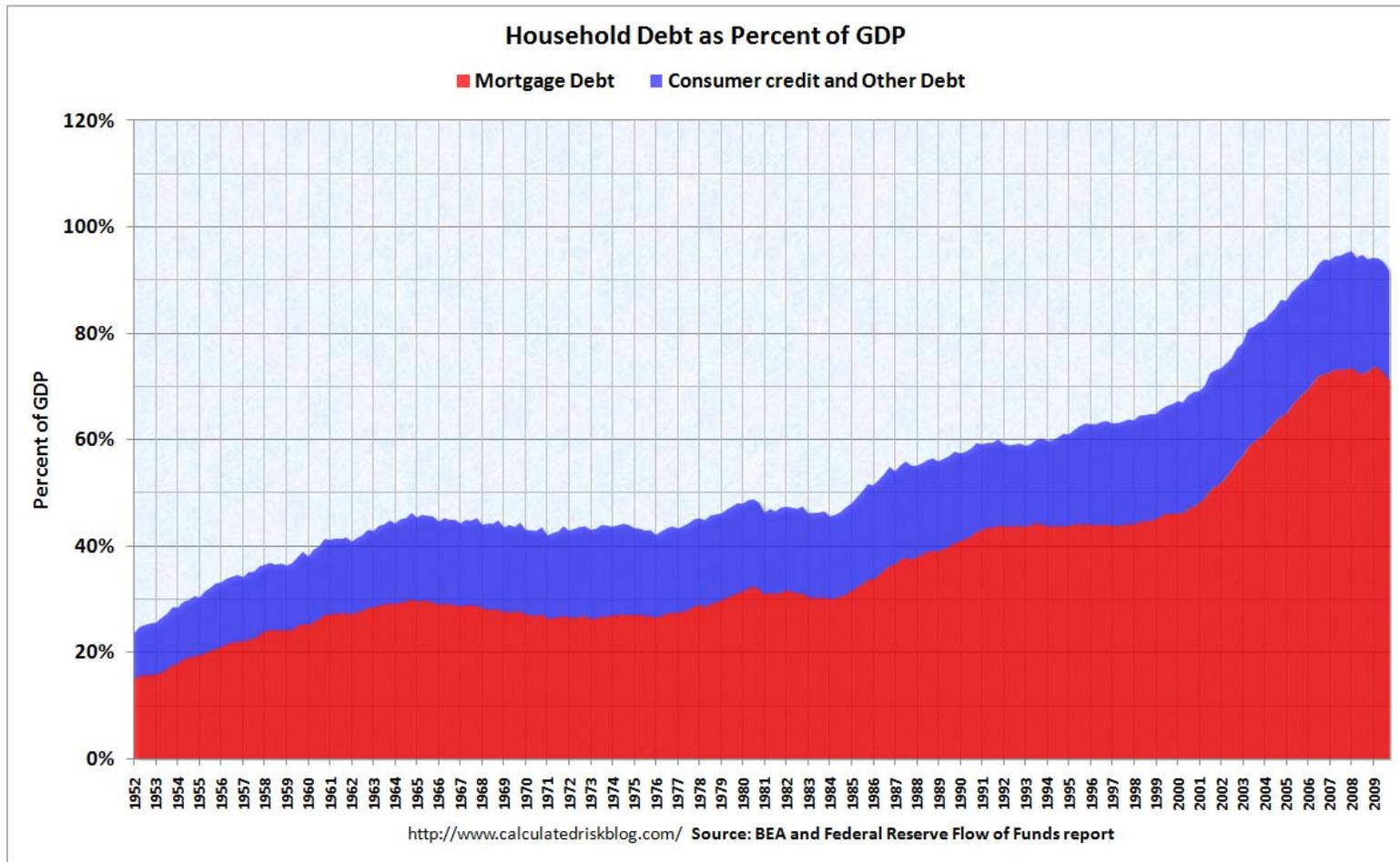
Sectors with the Largest Job Losses: Link to Real Estate

Sector	Job Losses: Butte County 2007-2010	Percent of Total
Construction	-1,400	29.79%
<u>Direct Real Estate</u>	-1,400	29.79%
Retail and Wholesale Trade	-1,100	23.40%
State & Local Government	-1,800	38.30%
<u>Indirect (Part) Real Estate</u>	-4,300	91.49%

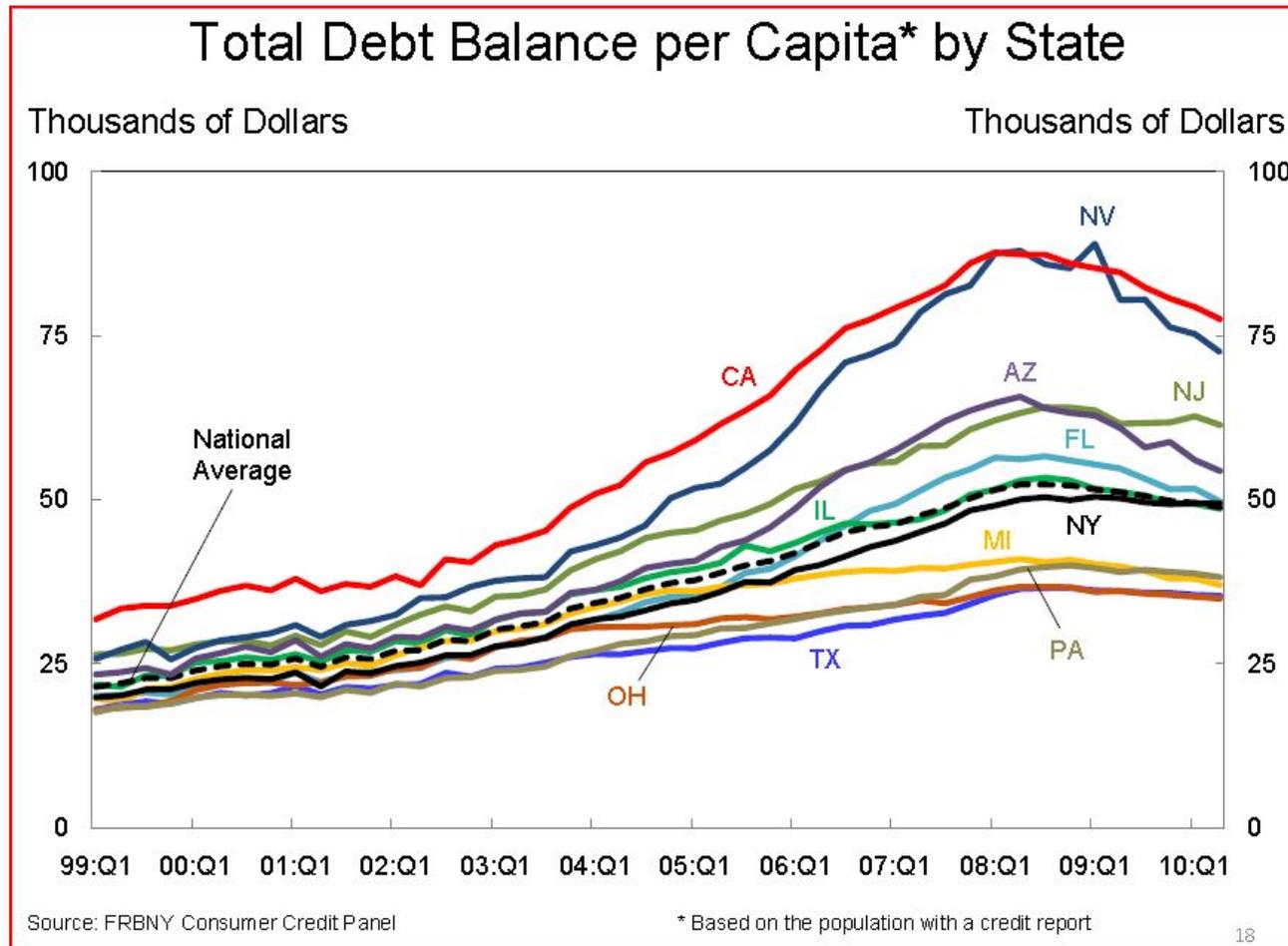
Consumer Debt

- » Household debt burden is impeding the recovery of consumer spending

Consumers are Paying Down Debt but Still High as a Percentage of GDP



California per Capita Debt is far Above the National Average



Economic Recovery: California and Butte County

»» A lagging recovery?

The Decrease in Home Prices Has Been Steeper

- ▶ The wealth effect will have a relatively greater impact on California's consumer spending
- ▶ Many small business owners used their home equity to finance creation or expansion of their businesses, with many using exotic mortgages subject to resets over the next two years
- ▶ Decreasing property tax and other revenues will force further cuts in state and local government employment

Percent Employment Change: State of California: Positive Signs

Sector	% Change: March 2009 – March 2010	% Change: March 2010 – March 2011
Construction	-14.72%	0.31%
Retail Trade	-2.00%	0.55%
Non-Retail Private Services	-2.11%	2.93%
Real Estate & Rental & Leasing	-4.81%	0.41%
Professional, Scientific, and Technical Services	-2.68%	4.05%
State & Local Government	-3.56%	-1.93%
Leisure & Hospitality	-2.09%	2.29%
Educational & Health Services	1.05%	3.45%
Total Employment	-2.19%	-0.54%

Percent Employment Change: Butte County: Positive Signs

Sector	% Change: March 2009 – March 2010	% Change: March 2010 – March 2011
Construction	-16.00%	4.76%
Retail Trade	0.00%	-1.08%
Non-Retail Private Services	-1.06%	0.53%
Financial Services	4.65%	0.00%
Professional, Scientific, and Technical Services	0.00%	2.08%
State & Local Government	-4.57%	1.80%
Leisure & Hospitality	-5.33%	-4.23%
Educational & Health Services	1.50%	4.44%
Total Employment	-1.86%	-0.33%

Forecasts for National Economic Recovery

- ▶ Most forecasters have recently reduced the expected growth rate for the U.S. economy through 2012
- ▶ In part that is due to higher prices for imported oil
- ▶ National Forecasts: Remainder of 2011
 - IMF: 2.8 percent, down from 3.0 percent
 - Conference Board: 2.4 percent
 - Federal Reserve: 3.1 to 3.3 percent, down from 3.4 to 3.9 percent
 - National Association for Business Economics: 2.8 percent, down from its February estimate of 3.3 percent

2012 - 2013

- ▶ Growth is likely to accelerate nationally, statewide, and in Butte County and Oroville
- ▶ Stabilized housing market
- ▶ The construction sector will no longer have a negative impact on employment and income
- ▶ Low housing prices are an advantage to new and expanded businesses
- ▶ Recovery of state revenues and the state budget
- ▶ Expect statewide growth of around three percent in real terms (5.5 percent nominal) by the middle of 2012
- ▶ Economic Growth in Butte County and Oroville should match that of the state as a whole

Conclusion

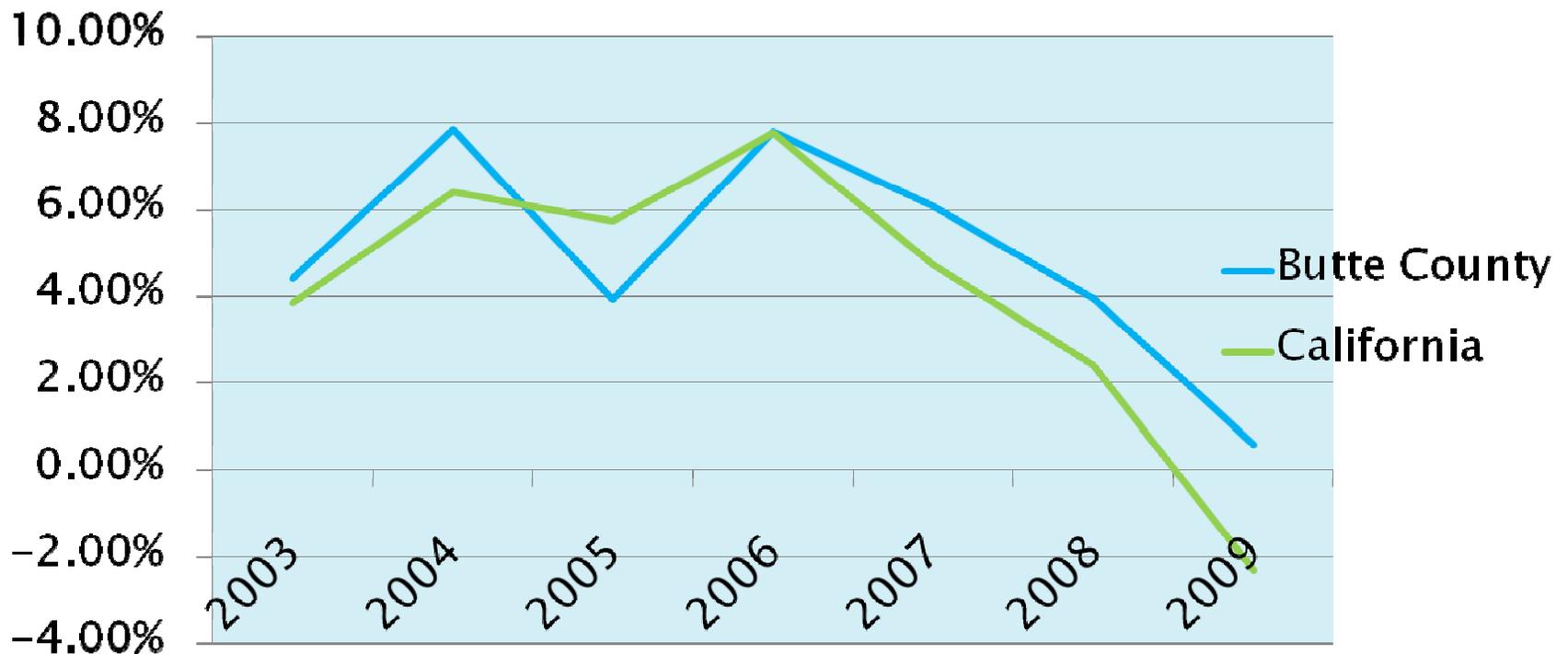
- ▶ Nationally, GDP bottomed out in the third quarter of 2009
- ▶ Job creation just entered positive territory in early 2010
- ▶ Consistent with historical data, California's economic recovery (Real GDP growth) has tracked the national (2.8%) recovery (the state growth rate is about 0.5 percent lower (2.3%), with growth in Butte County and Oroville (2.6%) slightly higher than for California as a whole)
- ▶ The unknowns—factors that could slow or even reverse the recovery—are the European debt crisis, higher gasoline prices, lagging employment growth and the effect on consumer demand, and the crisis with state and local budget deficits (\$140 billion)

Butte County: Trends and Forecasts

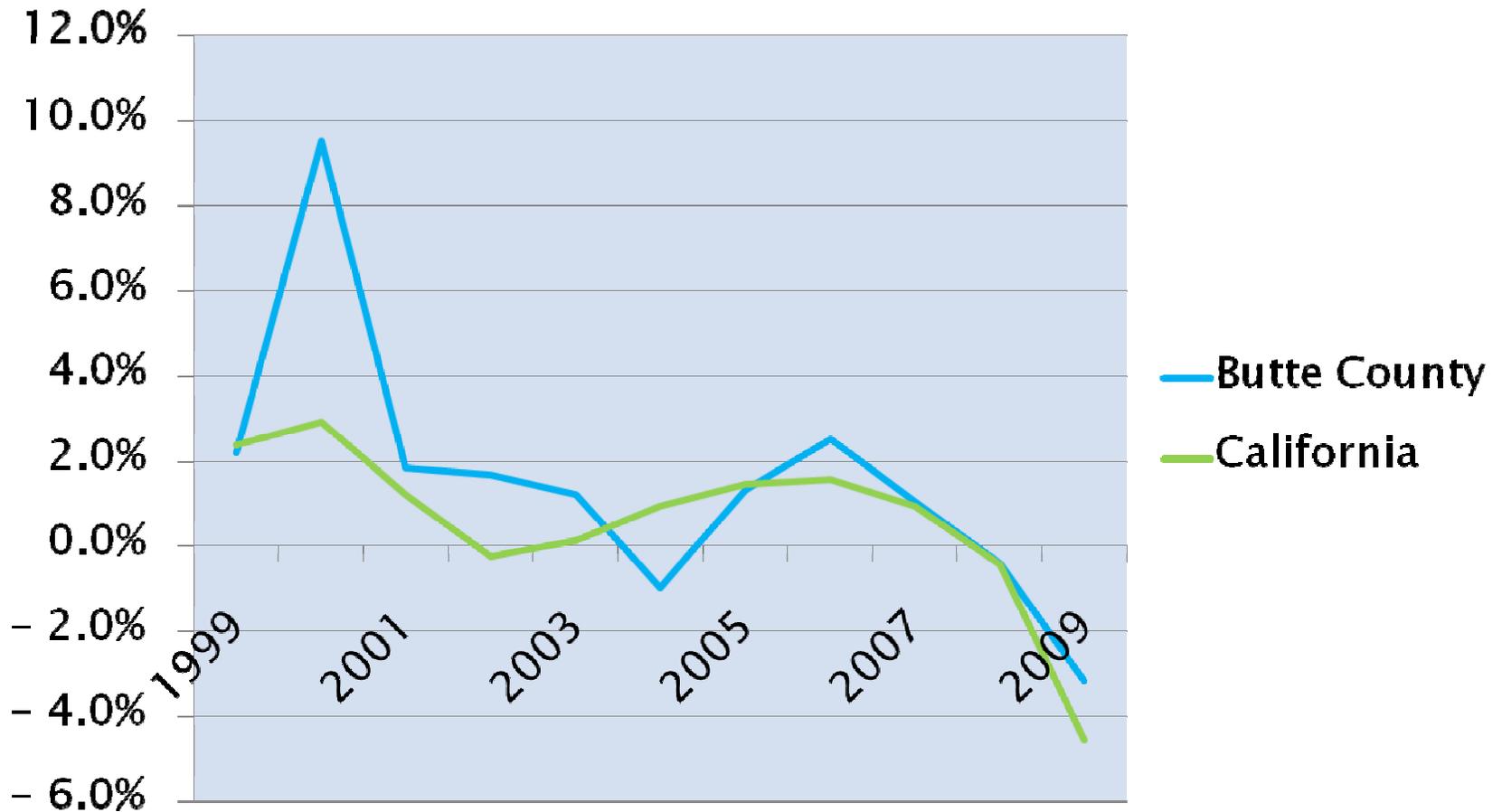
Recent Trends

- ▶ Personal Income
- ▶ Total Employment
- ▶ Industry Employment
- ▶ Total Population Growth
- ▶ Age Distribution of the Population

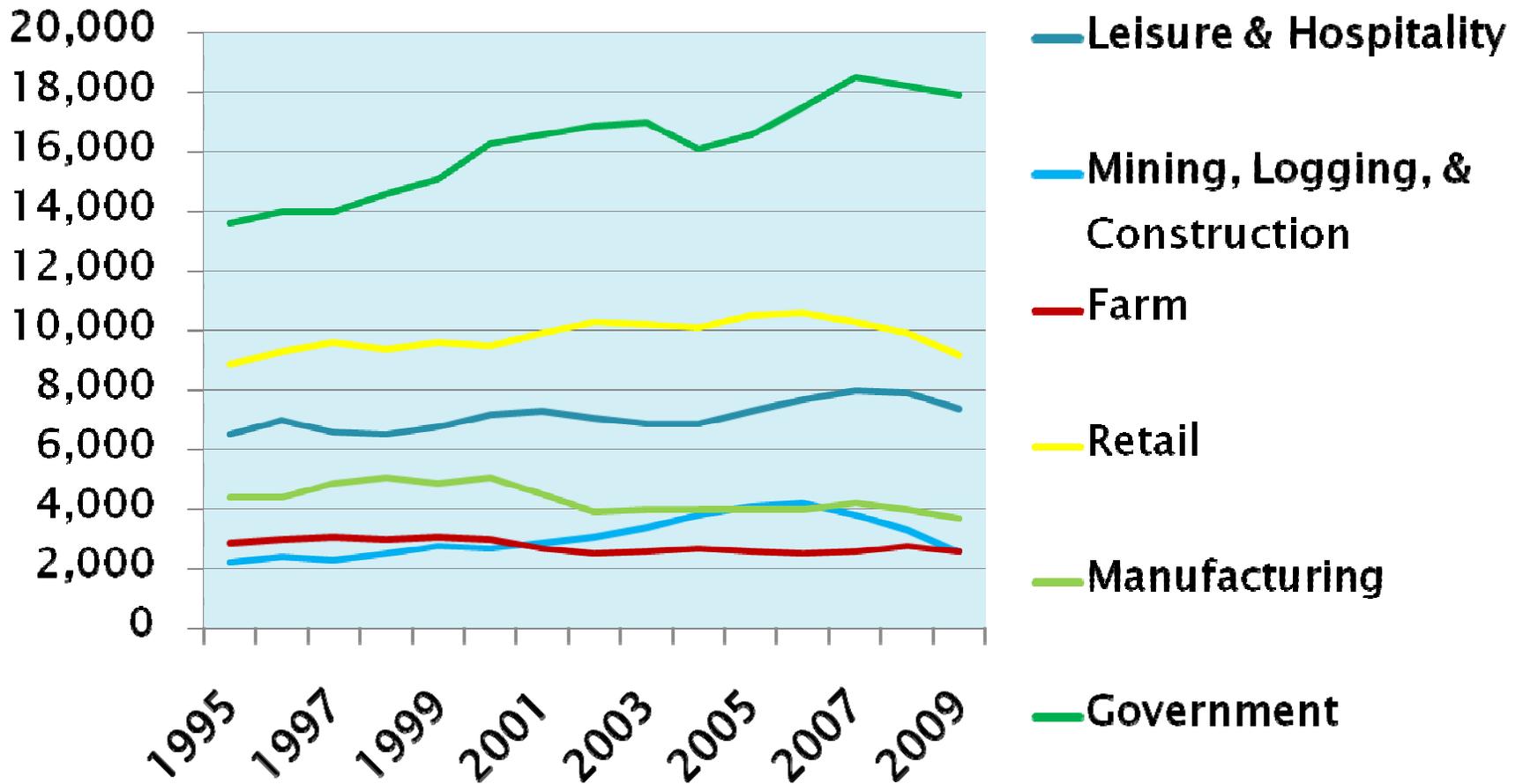
Personal Income Growth Rate: 2003–2008



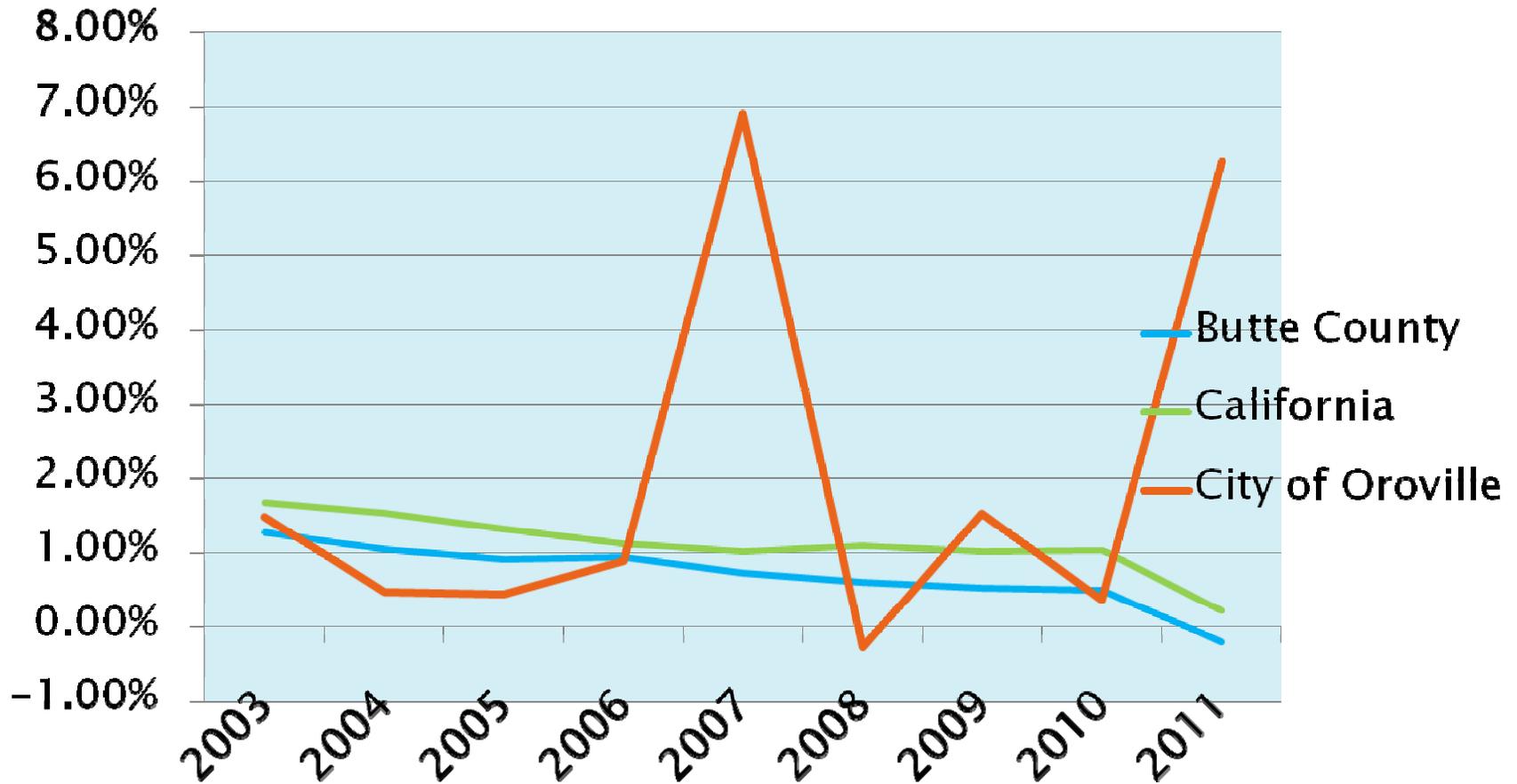
Employment Growth: 1999–2009



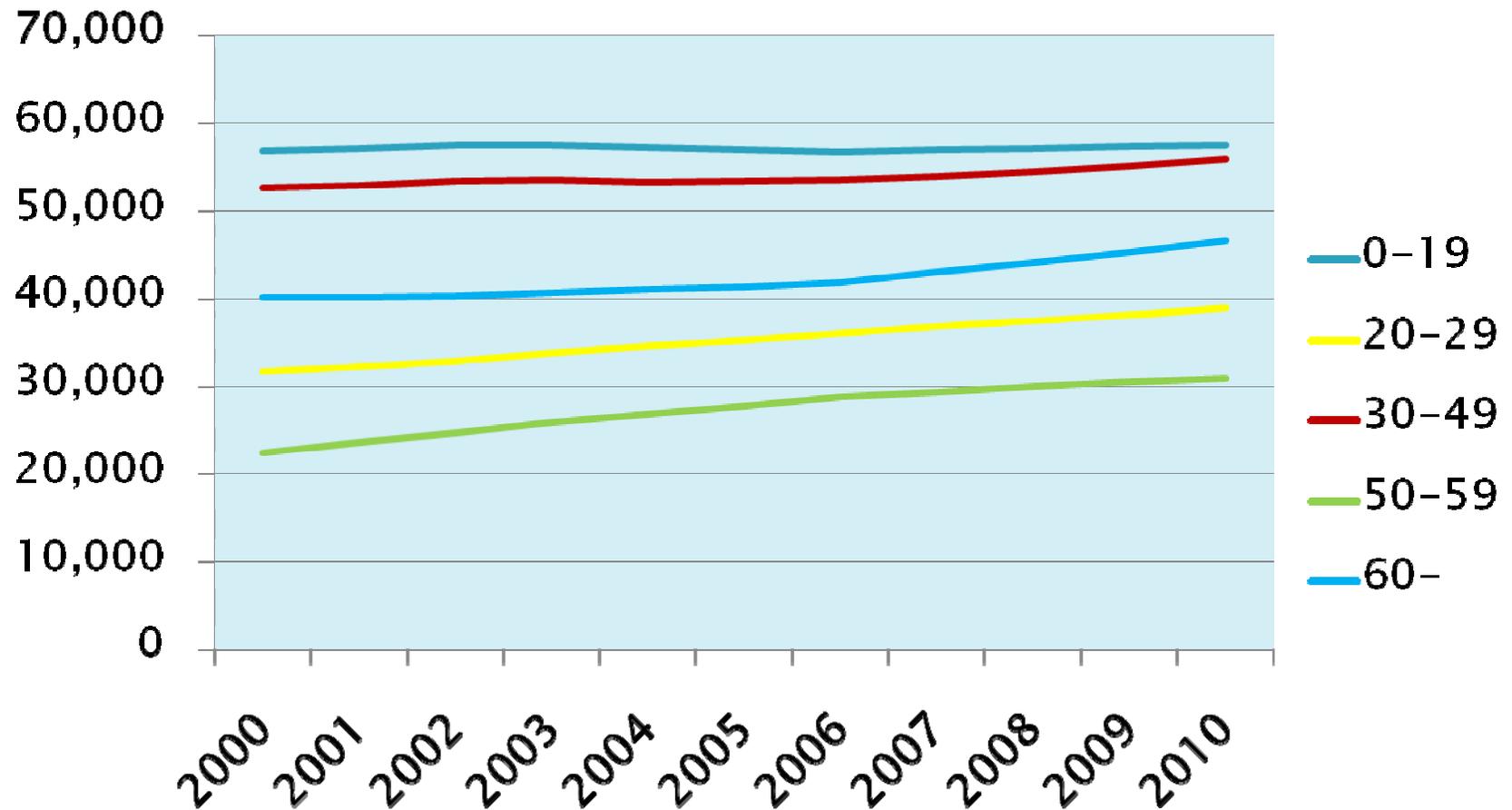
Employment, Butte County: Key Industries



Population Growth: 2003–2010



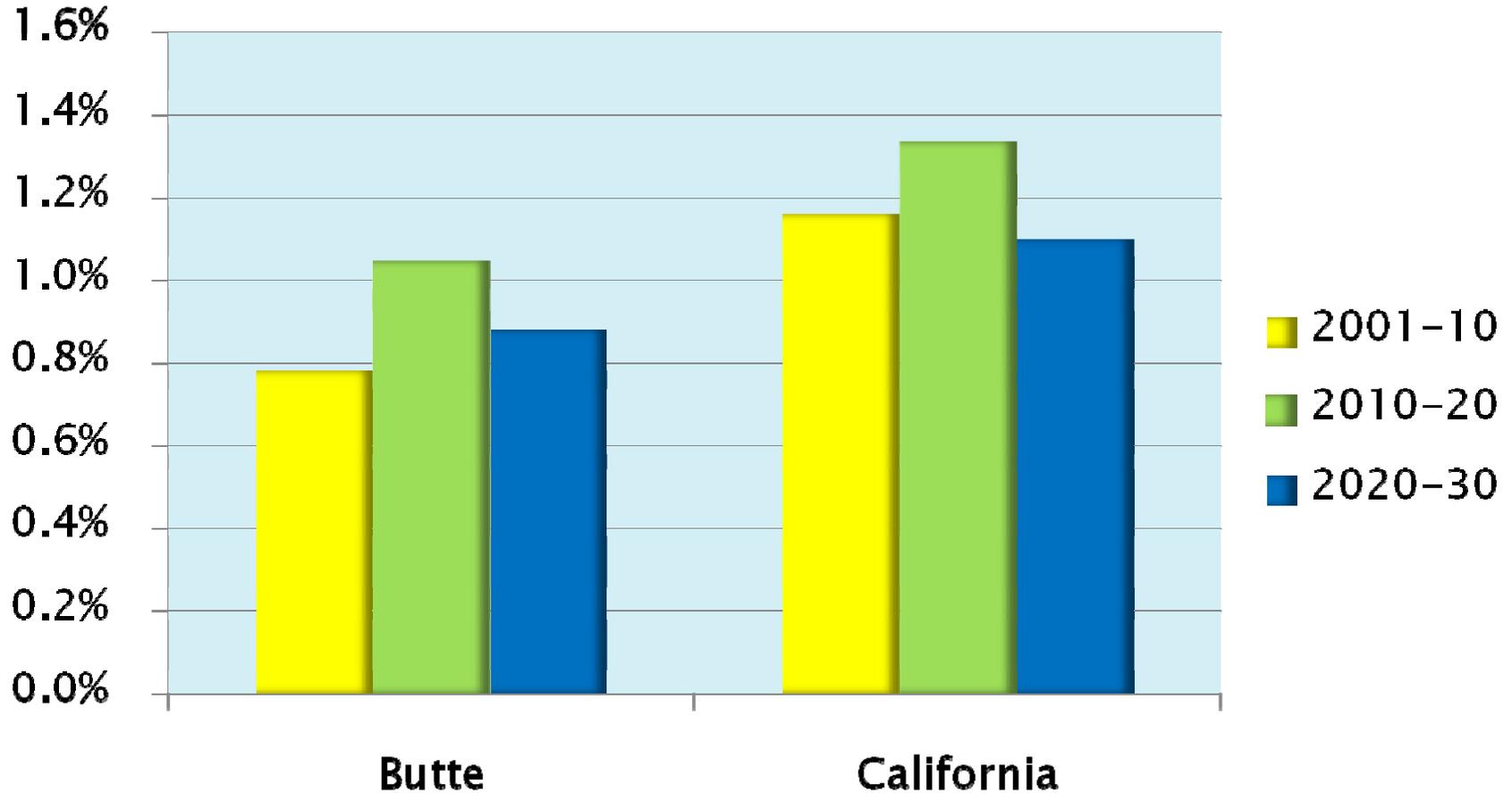
Age Distribution of the County Population



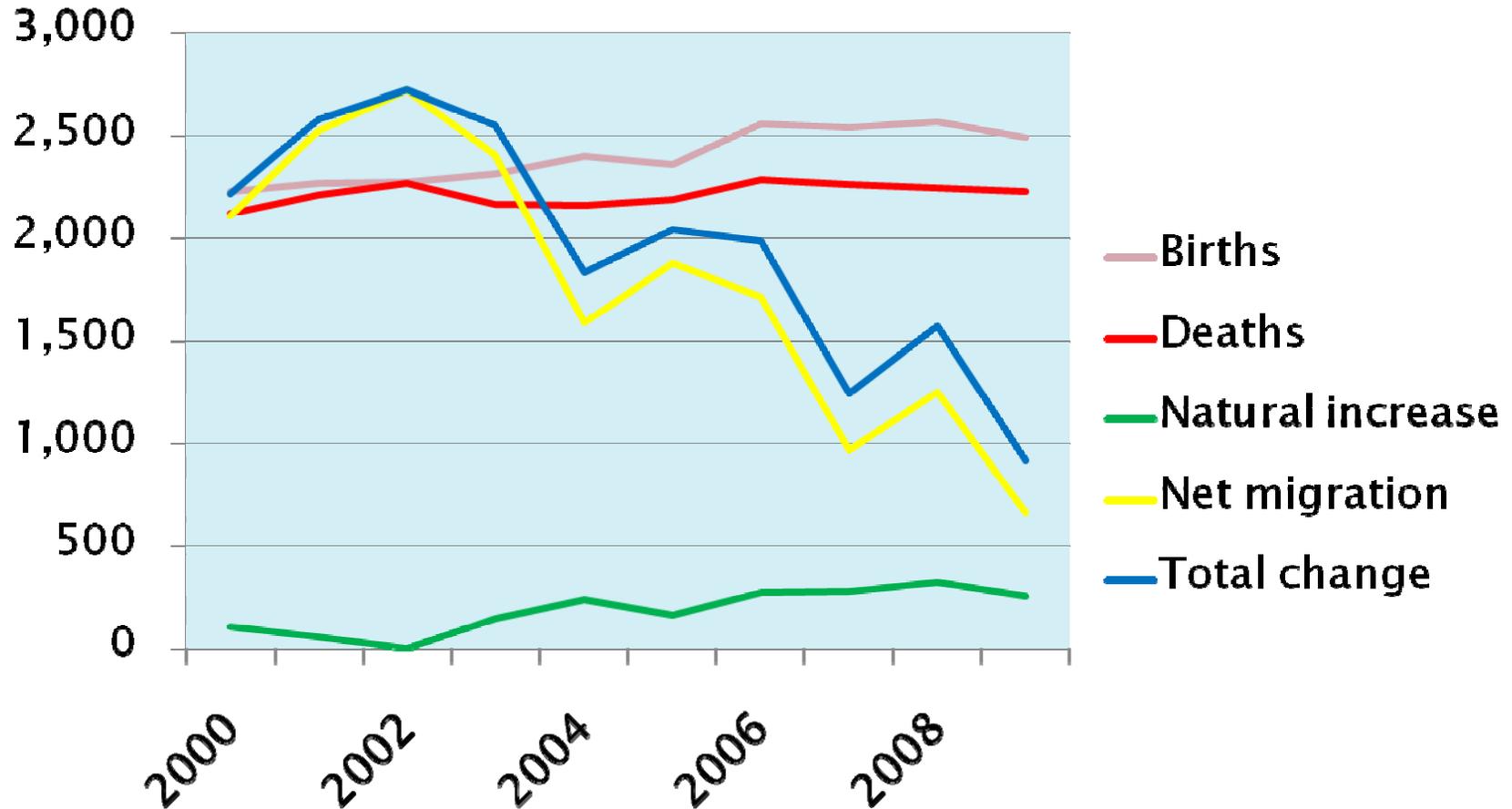
Long Term Forecasts

- ▶ Population growth
- ▶ Effect of net migration (2000–2009)

Forecasted Butte County Population Growth



Butte County Population Growth and Net Migration



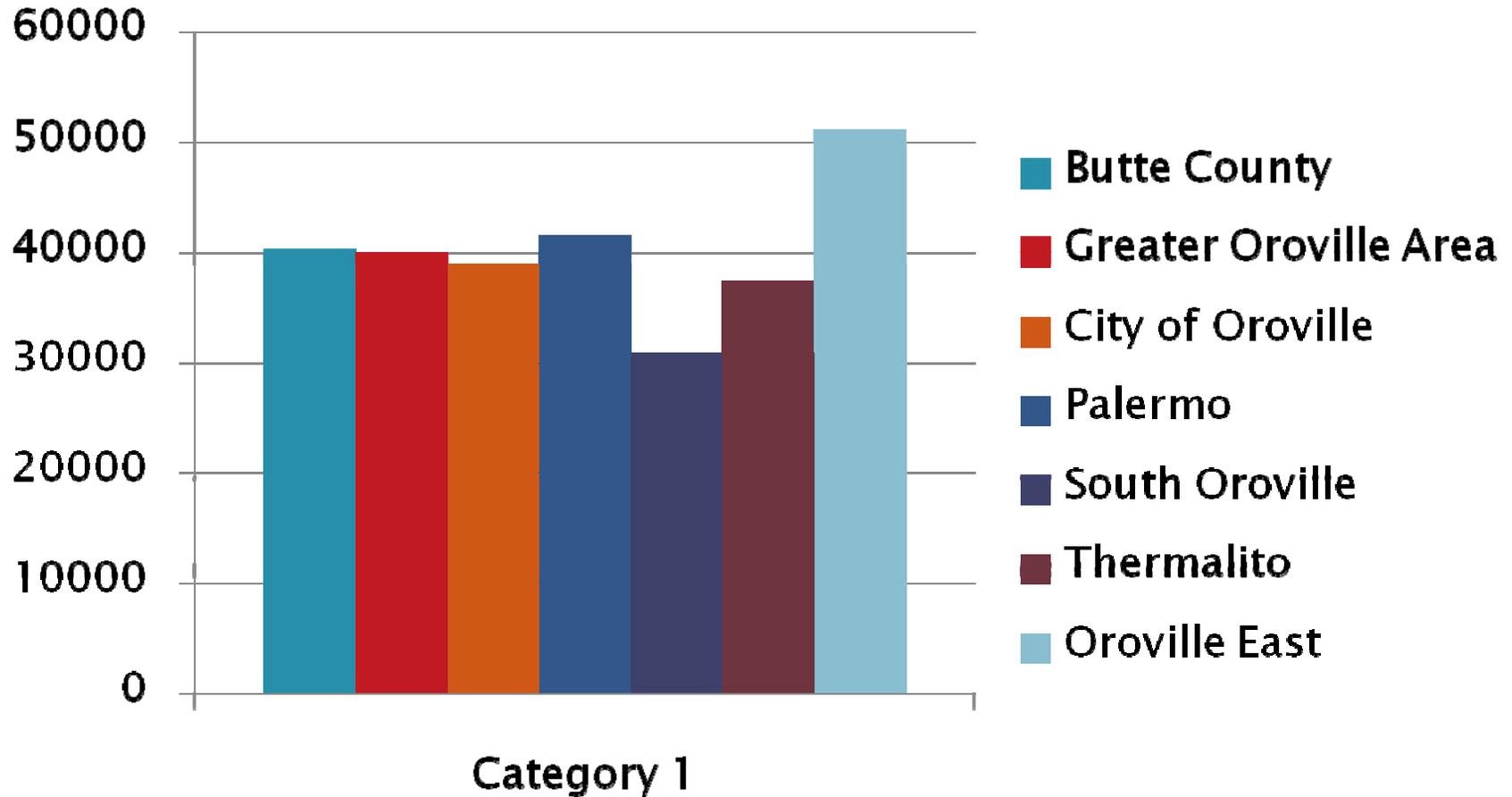
Oroville Market Area Characteristics

- » Households and the labor force

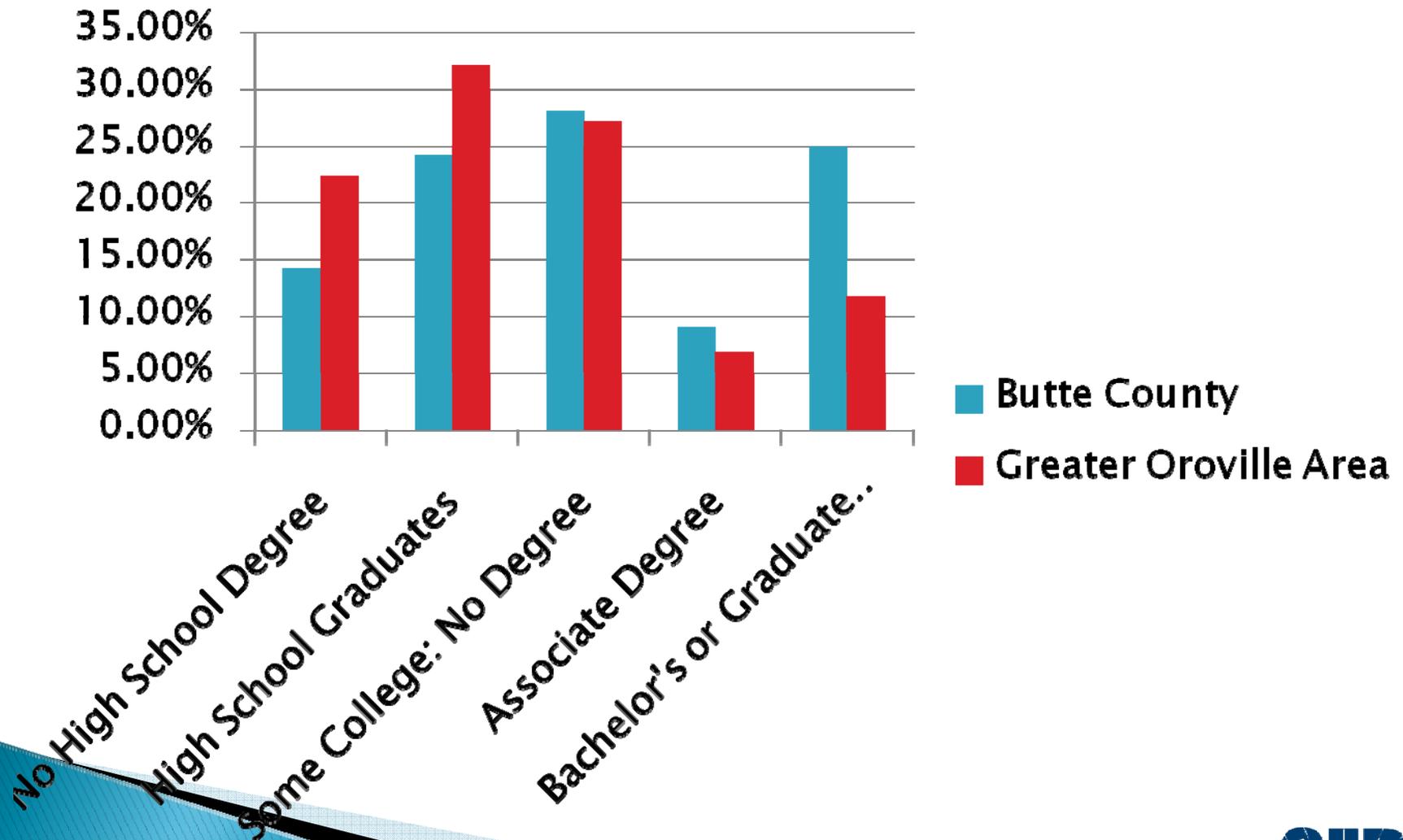
Household Income

Income	10k-20k	20k-40k	40k-60k	60k-100k	100k+
Greater Oroville Area	23.92%	25.32%	20.40%	20.28%	10.08%
City of Oroville	32.39%	17.98%	23.74%	19.82%	6.85%
Palermo	17.51%	30.29%	18.77%	21.24%	12.19%
South Oroville	27.47%	34.60%	17.79%	15.18%	4.97%
Thermalito	19.32%	33.68%	14.04%	24.60%	8.35%
Oroville East	15.78%	21.84%	22.09%	22.30%	17.98%

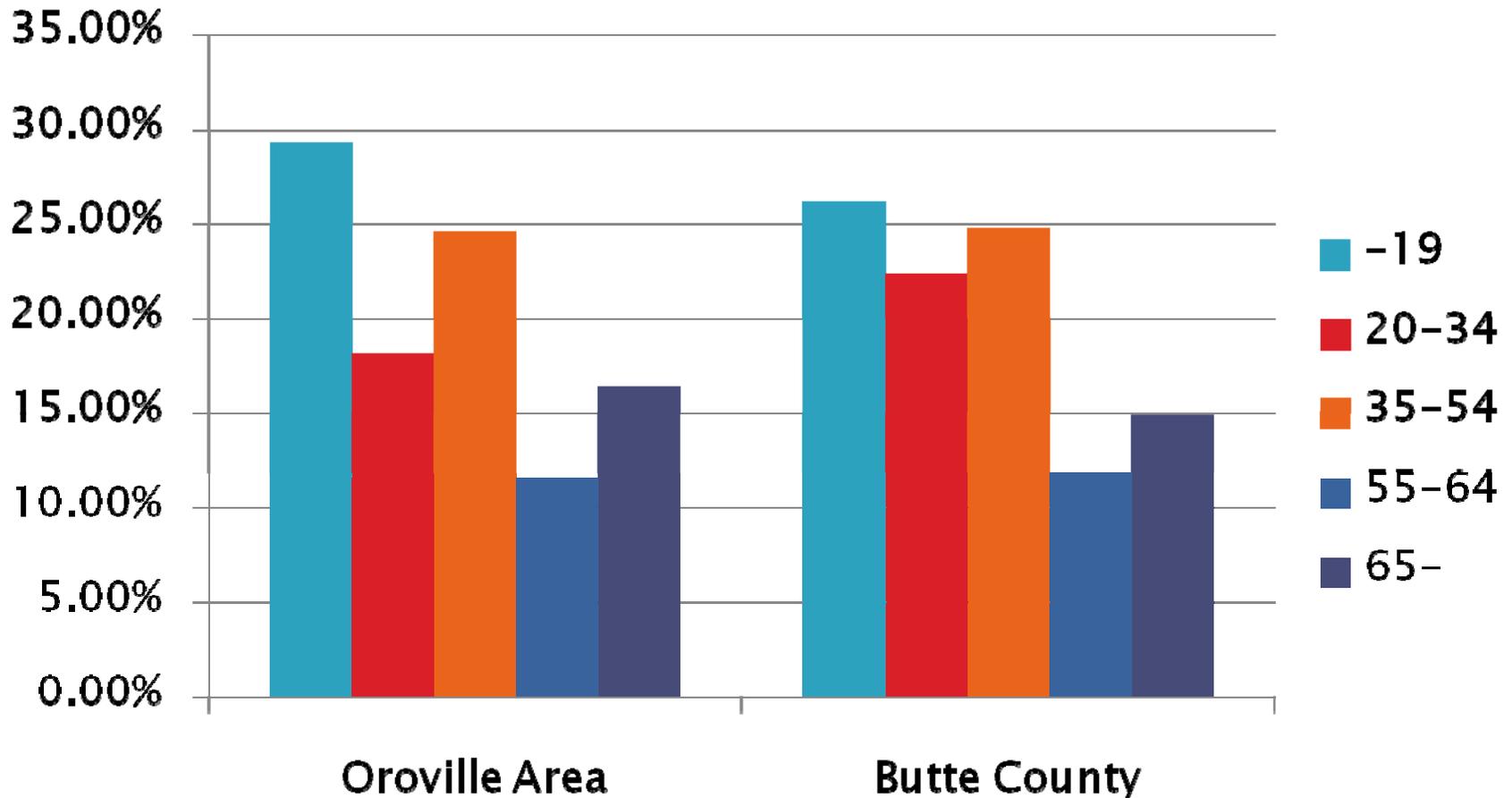
Median Household Income: 2008



Education Level: Percent of Population over 25



Population by Age: Percent of Total: Butte County and the Oroville Area



Labor Force, Unemployment, and the Unemployment Rate by Area: 2009

Area	Average Labor Force	Average Employment	Average Unemployment	UE Rate (%)
City of Oroville	5,500	4,600	1,000	17.5
Palermo	2,700	2,200	500	18.8
South Oroville	2,900	2,300	600	21.6
Thermalito	2,700	2,000	700	24.4
Oroville East	4,200	3,900	300	7.2
Greater Oroville Area	18,000	15,000	3,100	17.9

Taxable Sales by Industry: Percentage Change 2005–09

Type of Business	Permits	Taxable Sales	Change: Sales per Establishment
Clothing and Clothing Accessories Stores	21.05%	2.38%	-15.43%
Food and Beverage Stores	-9.09%	-8.26%	0.91%
Food Service and Drinking Places	2.67%	7.33%	4.54%
Home Furnishings and Appliance Stores	15.38%	-34.33%	-43.08%
Building Material and Garden Equipment and Supplies	53.33%	-15.22%	-44.71%
Motor Vehicle and Parts Dealers	-5.41%	-23.65%	-19.29%
Gasoline Stations	54.55%	29.66%	-16.11%
Other Retail Group	8.06%	-8.18%	-15.04%

Firm Size by Industry: Major Oroville Area Sectors: Under 20 Employees

Sector	1-9 Employees		10-19 Employees	
	Oroville	Butte County	Oroville	Butte County
Manufacturing	88.24%	83.05%	8.40%	10.91%
Wholesale Trade	61.54%	59.81%	11.54%	15.42%
Retail Trade	82.35%	73.08%	5.88%	10.99%
Transportation/Warehousing	71.54%	70.53%	14.63%	14.41%
Finance/Insurance	81.40%	76.80%	13.95%	15.03%
Real Estate/Rental/Leasing	93.94%	89.56%	6.06%	6.43%
Prof/Scientific/Tech Services	87.18%	87.70%	10.26%	7.89%
Health Care/Social Assistance	68.22%	71.61%	16.82%	15.10%
Accommodation/Food Services	54.55%	45.43%	22.73%	22.25%

Firm Size by Industry: Major Oroville Area Sectors: 20–99 Employees

Sector	20–49 Employees		50–99 Employees	
	Oroville	Butte County	Oroville	Butte County
Manufacturing	2.52%	5.37%	0.84%	0.50%
Wholesale Trade	13.46%	14.02%	5.77%	7.01%
Retail Trade	11.76%	10.99%	0.00%	2.75%
Transportation/Warehousing	10.57%	9.65%	0.81%	2.83%
Finance/Insurance	4.65%	5.88%	0.00%	1.31%
Real Estate/Rental/Leasing	0.00%	2.01%	0.00%	2.01%
Prof/Scientific/Tech Services	2.56%	3.71%	0.00%	0.23%
Health Care/Social Assistance	10.28%	8.45%	2.80%	2.08%
Accommodation/Food Services	18.18%	26.46%	1.52%	1.17%