



HAPPY 2010: LOOK FORWARD TO A BETTER DECADE AHEAD

by Mark Schniepp

The Lost Decade

The decade started with the bust of the dot com bubble and a recession that followed. It ended with the fallout from a bursting housing bubble in the form of the Great Recession of 2008-09. The net result was the lost decade of the 2000s.

At the beginning of 2000, there were 131.4 million people working in the U.S., and the unemployment rate was 4.0 percent. In California, there were 14.7 million workers and the unemployment rate was 4.7 percent.

Today (at the beginning of 2010) there are 132.2 million people working in the U.S. and 14.6 million workers with jobs in California. The unemployment rates are 10 and 12 percent respectively.

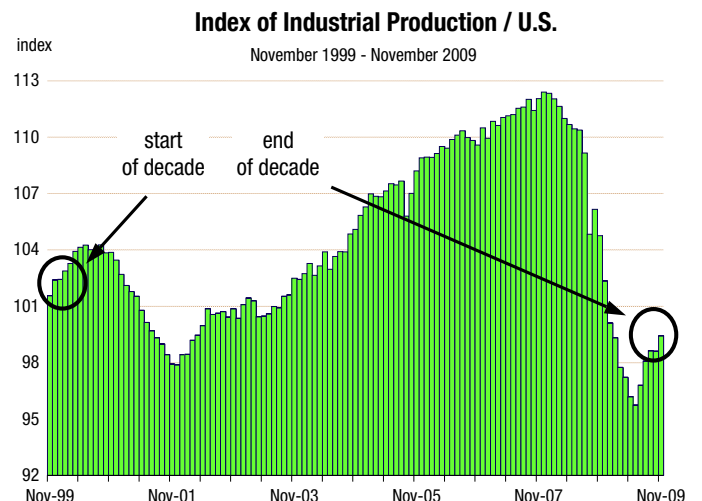
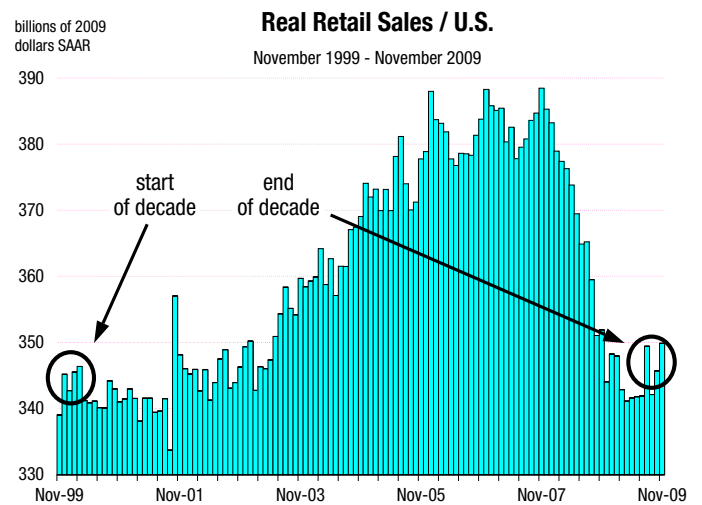
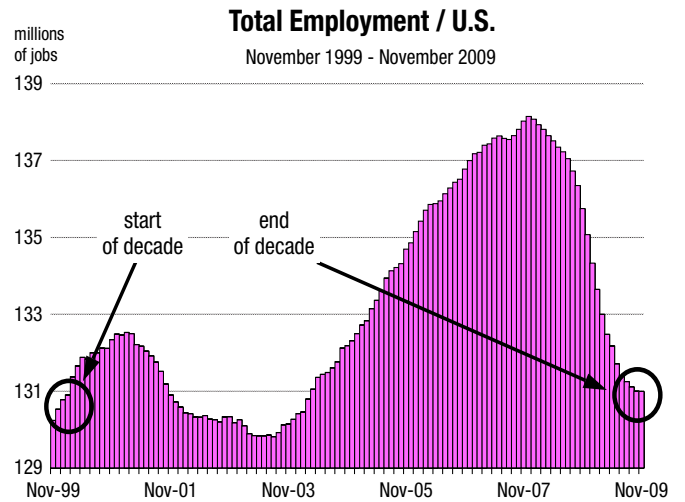
In 10 years, the nation has added just 464,000 jobs and California has lost 70,000 jobs. Yet the population in the U.S. has increased by 34 million people, and in California, by 5.2 million people.

In 10 years, inflation-adjusted spending by consumers in California and the nation has shown no perceptible increase.

U.S. Industrial production is 3 percent lower today than it was in December 1999. The Nasdaq Composite Index is 35 percent lower today than 10 years ago. The Dow Jones Industrial Average is 3 percent lower today than 10 years ago.

In 10 years, the median home selling price in the nation has increased from \$141,000 to \$175,000, a 24 percent increase. But a larger 25 percent decline has occurred from the peak value recorded in July of 2006 (\$234,000) to selling values today.

Crude oil prices started the decade at \$25.60 a barrel. Today the price per barrel is \$82.75. Gasoline was \$1.33/gallon at the end of 1999. It is \$3.03/gallon today. Gold sold for \$280/ounce at the end of 1999. The price of gold today is \$1,135/ounce.

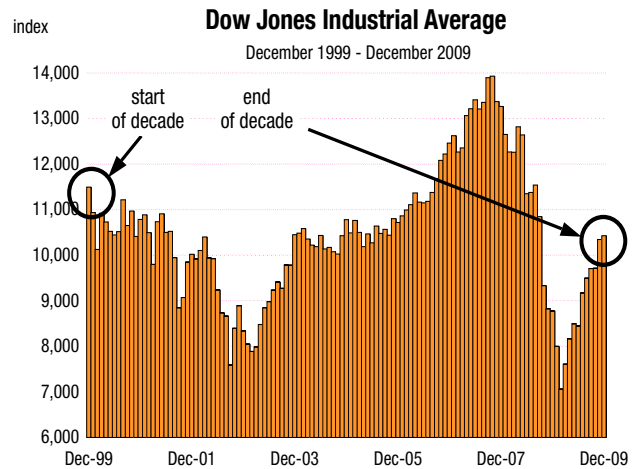


In general, the lost decade of the 2000s has produced no gain in jobs, three times as many unemployed workers, a net loss in the nation's industrial production, a flat or stagnant stock market, less spending on retail goods, much less spending per person, a calamitous housing market, 100 to 300 percent increases in oil, gasoline, and gold prices, and very very low interest rates.

And the decade ends on the downside. Nationwide, more than 8 million jobs have been lost over the last 24 months, with over one million of those occurring in California. It will take 4 or 5 years (or by mid-decade) to recover these jobs and only if the recovery gains traction and a true economic expansion is underway by the end of this year.

Here are some of the more turbulent events that shaped the lost decade:

- 2000: Y2K
The dot com bust
Presidential election tie decided by Supreme Court
- 2001: Recession begins in March
9/11
Onset of the war in Afghanistan
Economic recovery underway in December
- 2002: Initial concerns about the housing bubble
Fannie Mae and Freddie Mac begin to offer subprime mortgages
- 2003: Occupation of Iraq begins in March
Proliferation of subprime mortgages
Record low mortgage rates in May

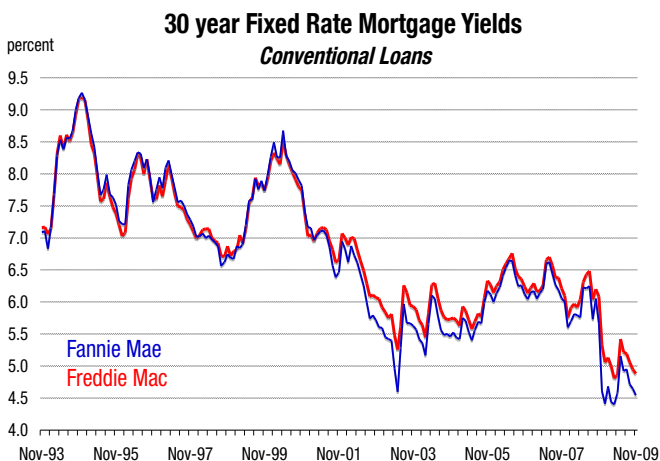


2006: Housing bubble reaches its maximum circumference
Saddam Hussein executed in Baghdad

2007: The credit crunch hits in August/September
Subprime lenders begin to close in Orange County
Housing prices begin a precipitous collapse
The Dow sets a new record high in October

2008: Economic recession begins in January
Crude oil and gasoline prices rise to record levels
Panic and fear grip the nation as:
- Fannie and Freddie are seized
- Lehman Brothers fails
- \$700 billion TARP program passed
- Stock market collapse is catastrophic
10 year Treasury Bond yields at record lows
Bernie Madoff arrested for massive Ponzi scheme

2009: Fannie Mae Mortgage yields fall to record lows
Stock market indices fall to their lowest levels since 1996
Consumer's saving rate reaches highest level since 1998
Massive \$787 billion Federal Stimulus Bill is passed by Congress
Record year for bank failures
Record year for bankruptcies
Number of foreclosed homes in California is more than double the previous record in 1996
Sudden death of Michael Jackson
\$12 trillion federal debt
10 percent unemployment rate, highest since 1983
Tiger Woods unravels



January 2010 Update

The U.S. and California economies are steadily recovering. Real GDP grew by a respectable rate of more than 3% during the second half of 2009, and the job market is finally stabilizing after two years of massive losses.

Recent employment reports are encouraging. Job losses are nearly over nationwide, and some hiring is now occurring in California. Much of it is temporary help which always precedes permanent hiring.

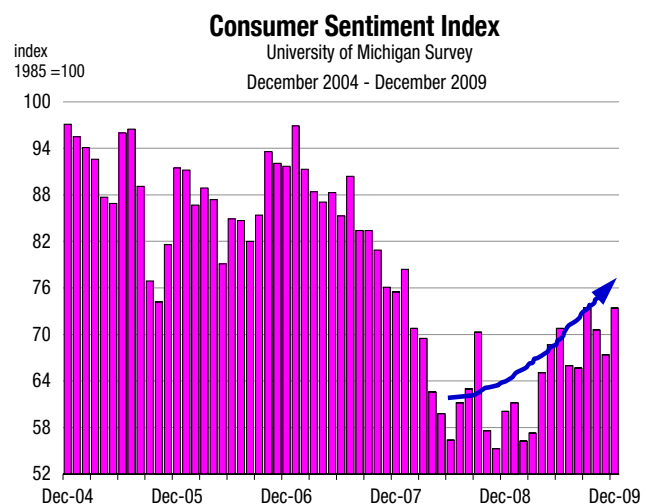
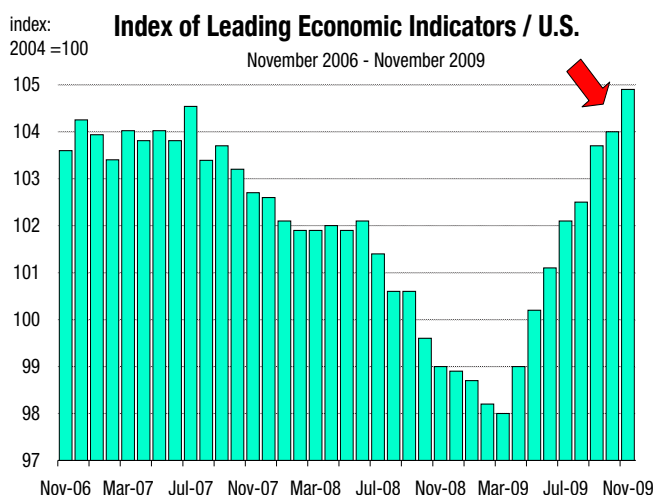
The leading economic indicators are all moving higher now: manufacturing, housing, the stock market, consumer sentiment, and factory utilization.

Job growth is expected to resume by early 2010 and be strong enough by this time next year to bring down unemployment.

The Federal Reserve will provide just enough additional support to ensure that the recovery does not relapse into recession this year and becomes self-sustaining by late 2010. Real GDP is expected to weaken to 2% in the first half of 2010 but accelerate to 2.5% during the second half.

Even stronger growth, of almost 4%, is expected in 2011. This forecast assumes that the wrongs now weighing on the economy will largely be righted by then. Progress is slowly being made: Credit markets are loosening up and households are rapidly deleveraging.

If we can avoid exuberant speculative asset purchases of any kind, and hold consumers to reasonable credit criteria before making loans, there is a fighting chance that the economy will perform much better in the coming decade than it did over the last 10 years.



California Economic Forecast Staff

Mark Schniepp
Principal

Bryant Mogin
Database, Graphics design

Matt Mullens
Economist

For more information call (805) 692 - 2498
or visit www.californiaforecast.com

California Economic Forecast Upcoming Conferences

Ventura County
February 4, 2010
Hyatt Westlake

Santa Barbara County
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TBD

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