

long live(d) economic growth

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beautiful granada theater
may 16, 2019

roadmap for today

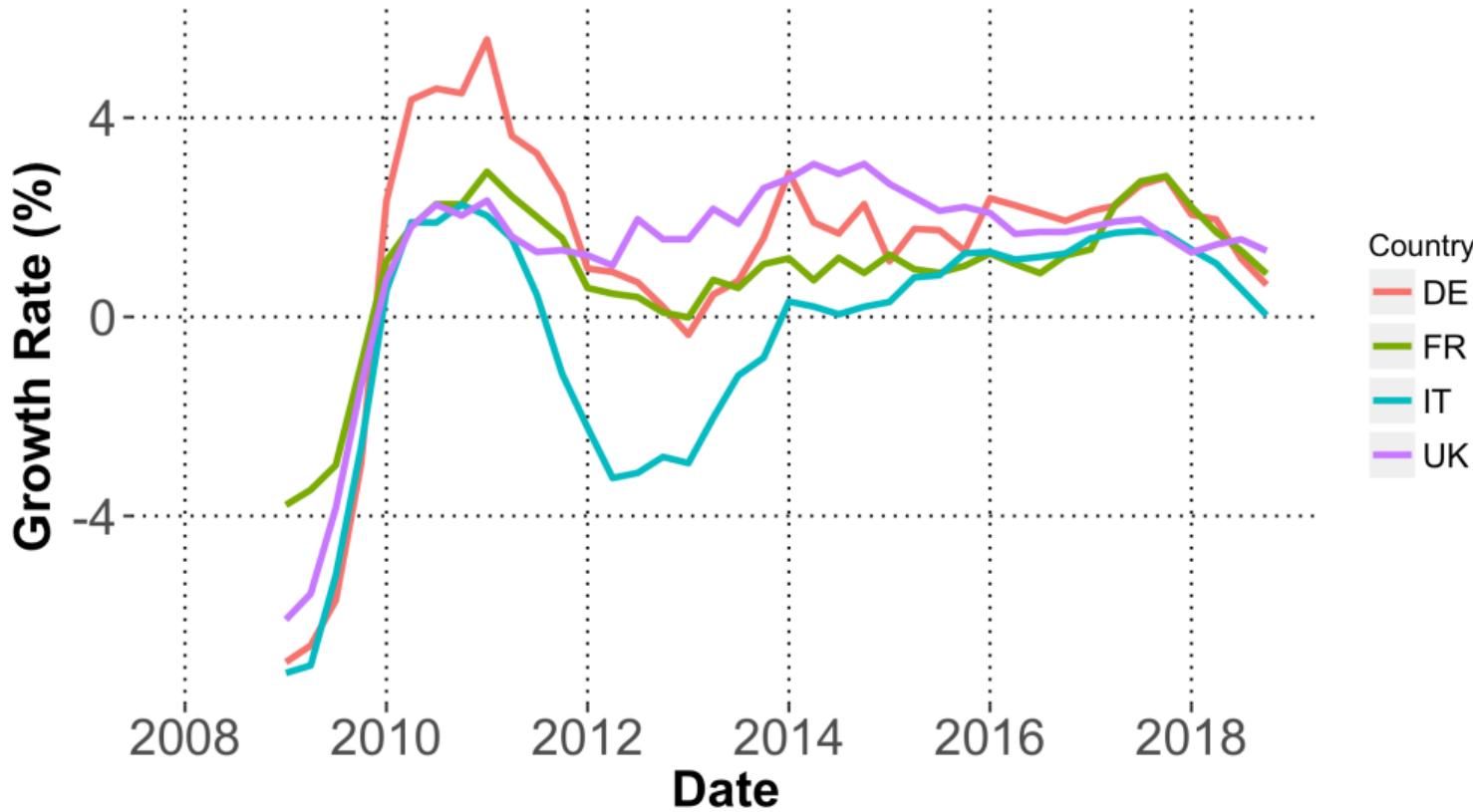
- global and national outlook
- the changing nature of expansions
- recent local trends
- where do we go from here?
 - headwinds and tailwinds

global outlook

global outlook
kinda sucks

Real GDP Growth

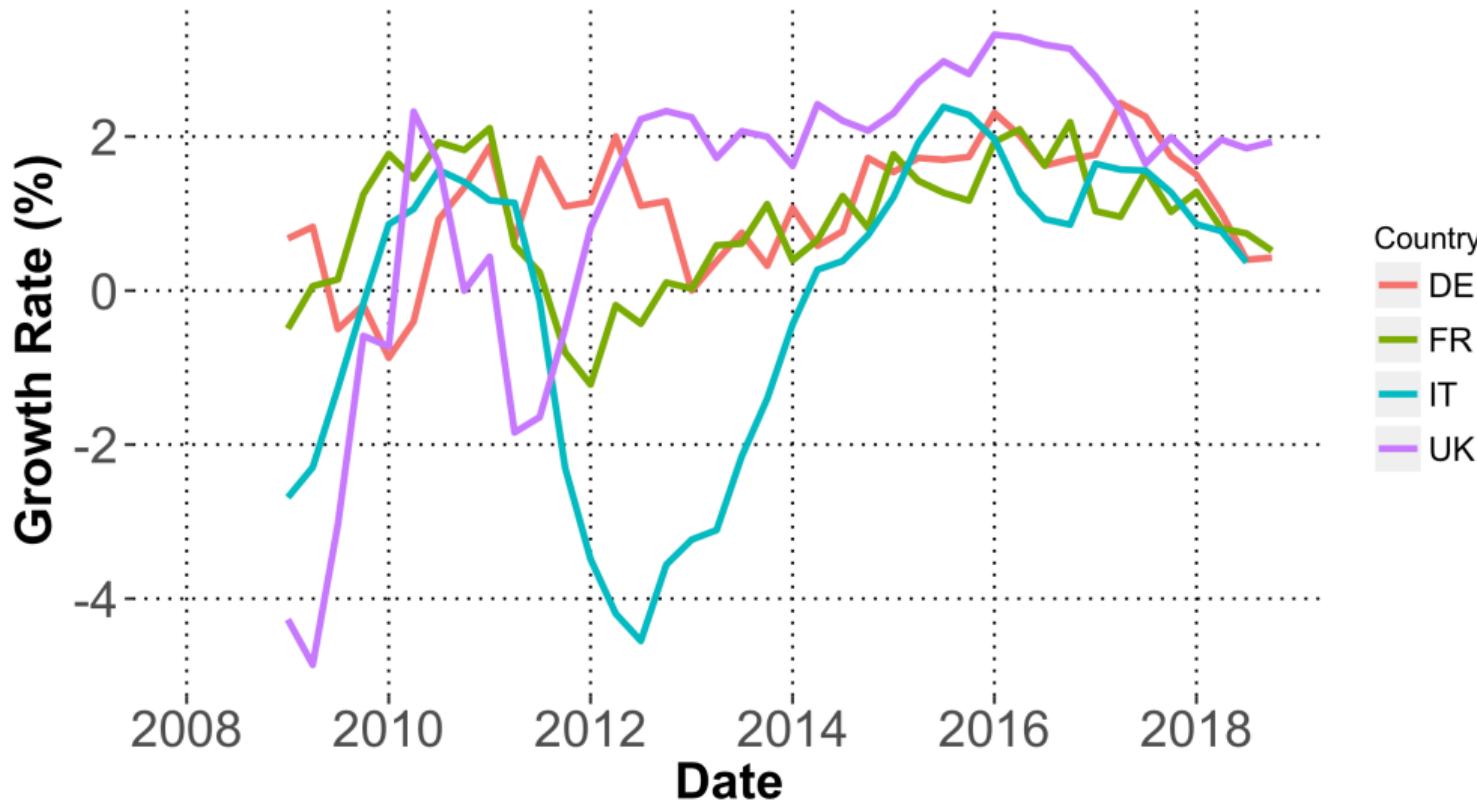
Year-on-Year



Source: Eurostat
EuropeanSnapshot.com

Real Household Consumption Growth

Year-on-Year



Source: Eurostat
EuropeanSnapshot.com

U.S.

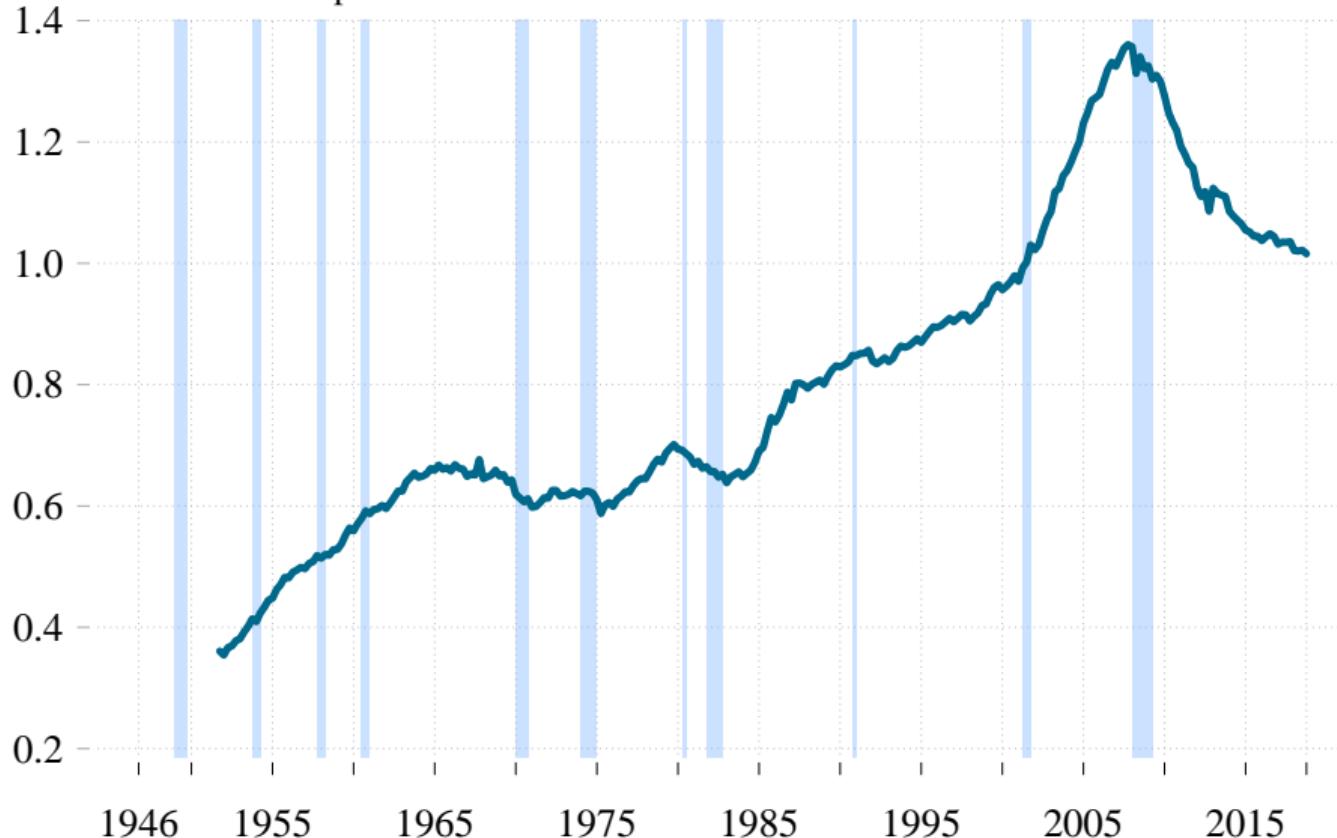
U.S.
doesn't suck

Real GDP



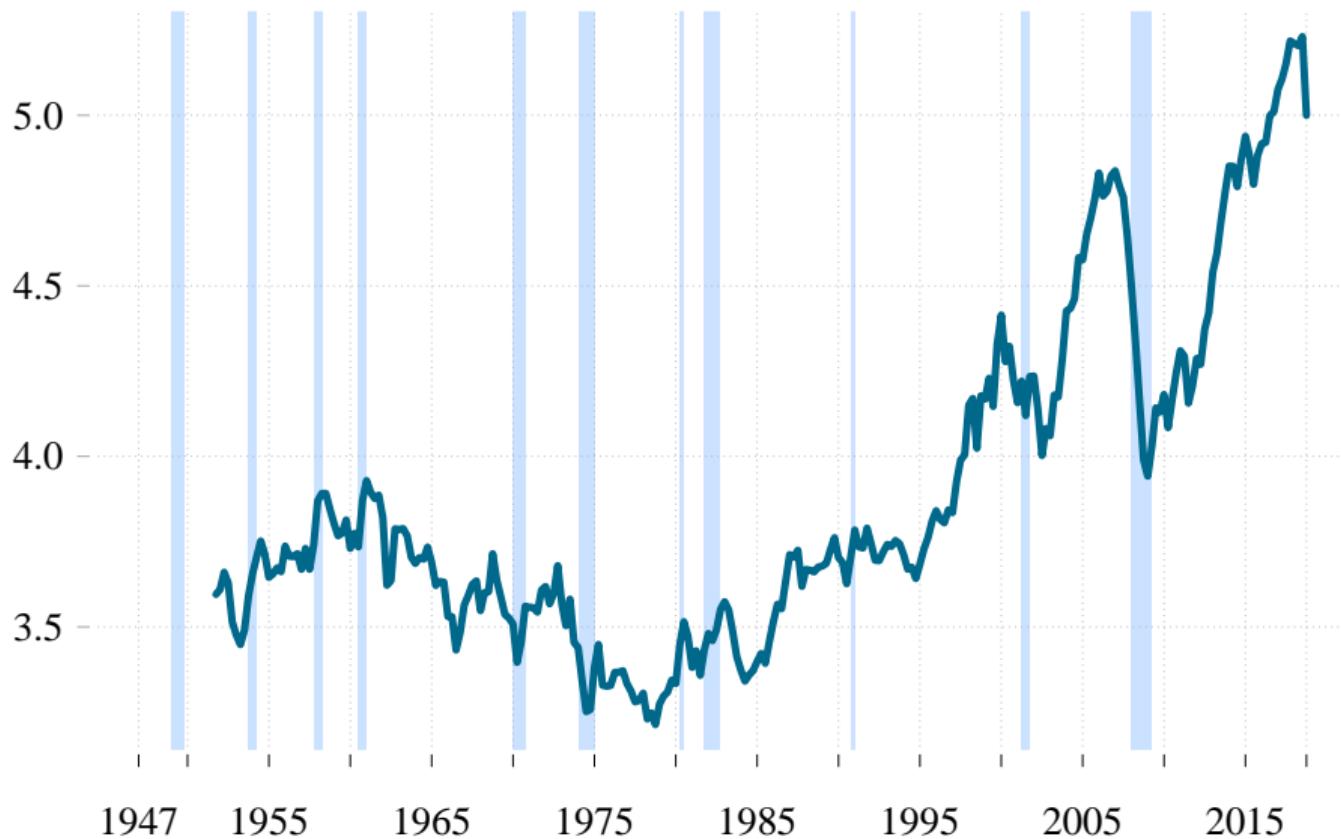
Household Leverage

Liabilities to Disposable Income



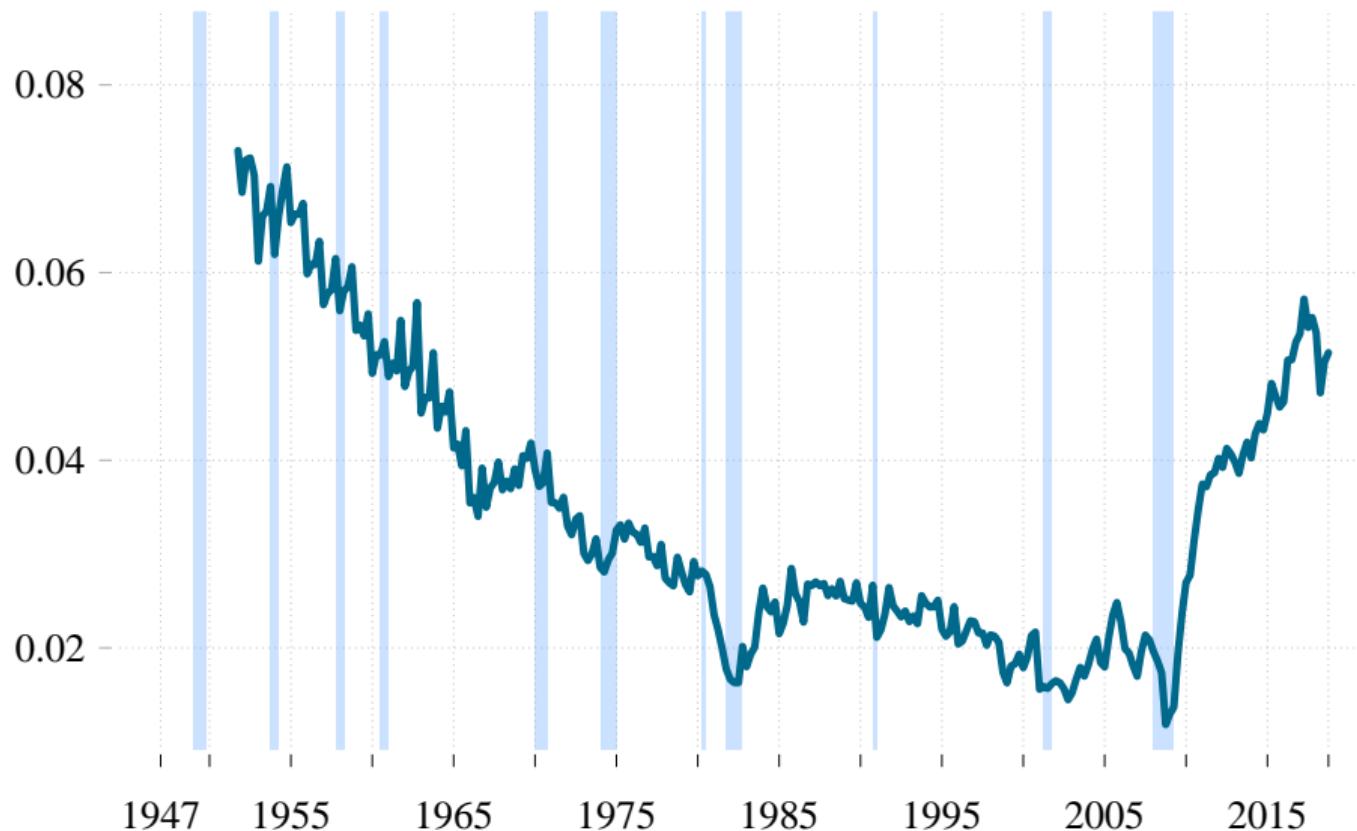
Household Net Worth (Assets–Liabilities)

Ratio to GDP

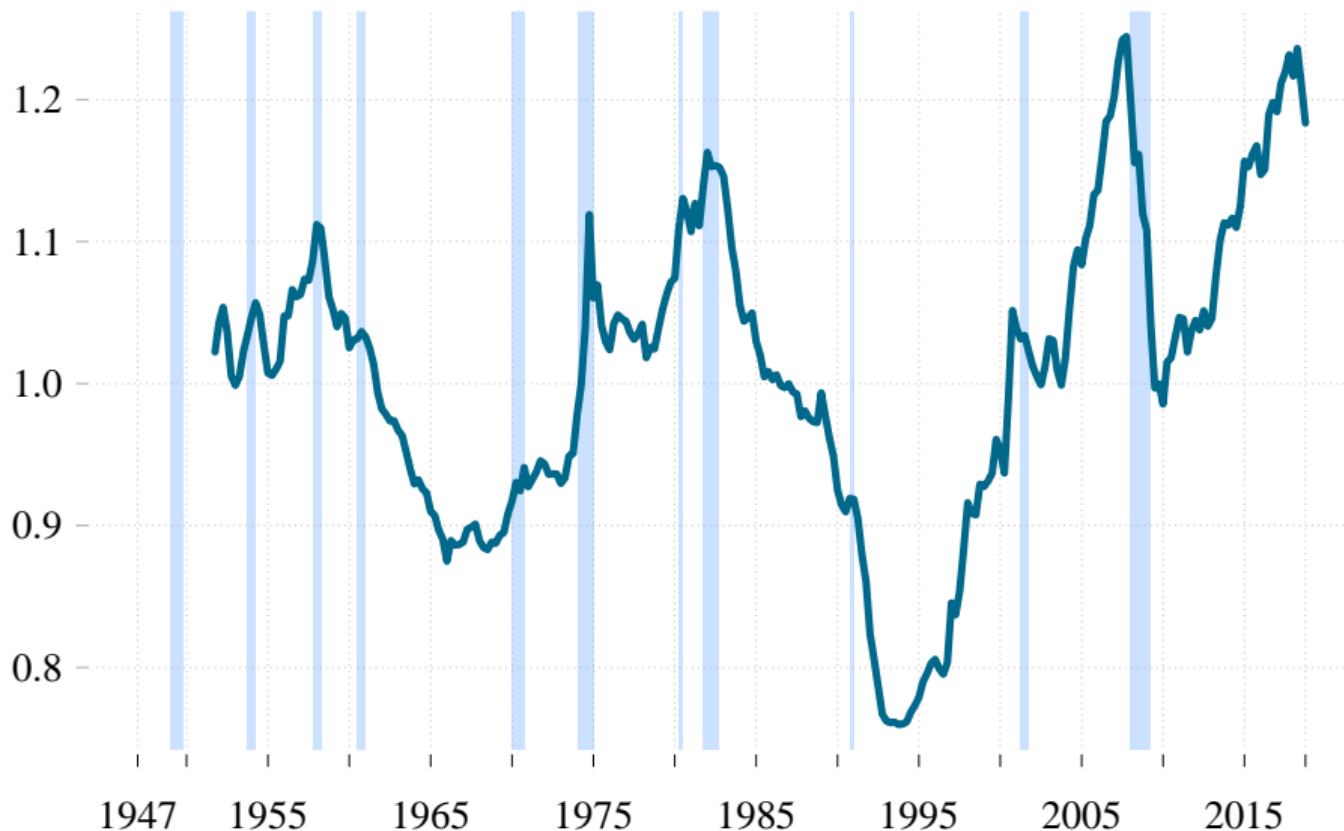


Checkable Deposits and Currency, Nonfinancial Corporate Business

Ratio to GDP

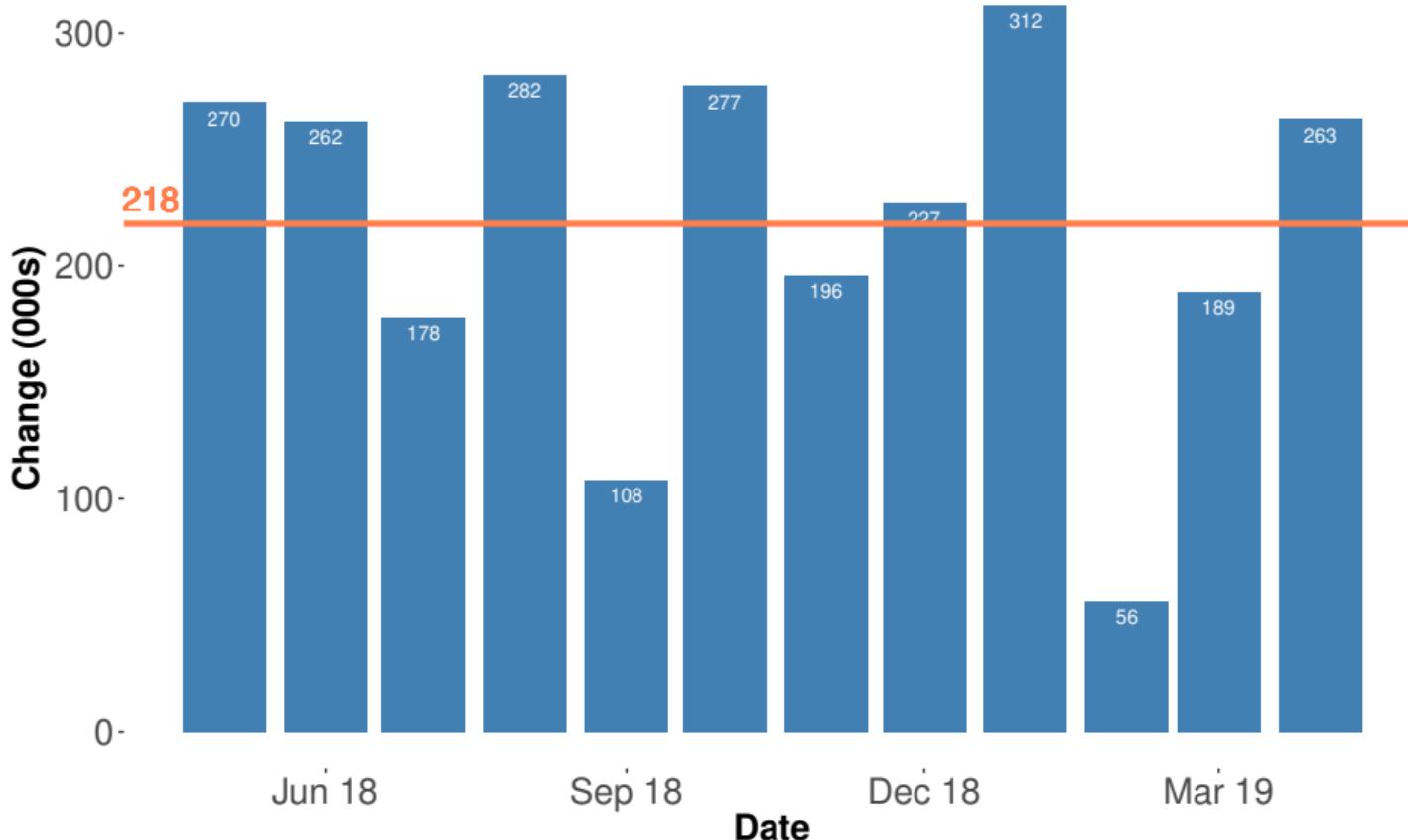


Net Worth, Nonfinancial Corporate Business Ratio to GDP

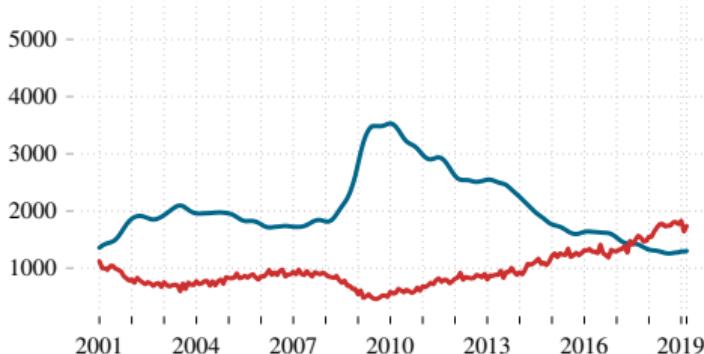


Monthly Employment Change

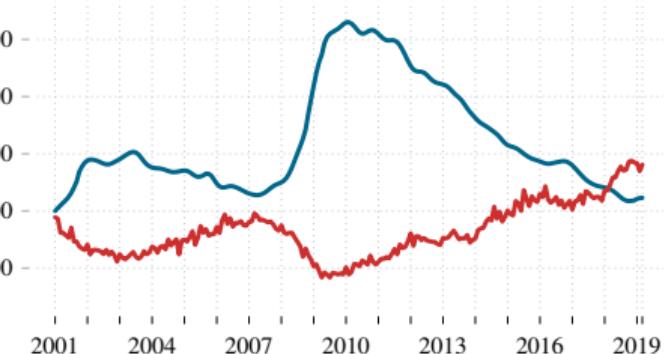
United States



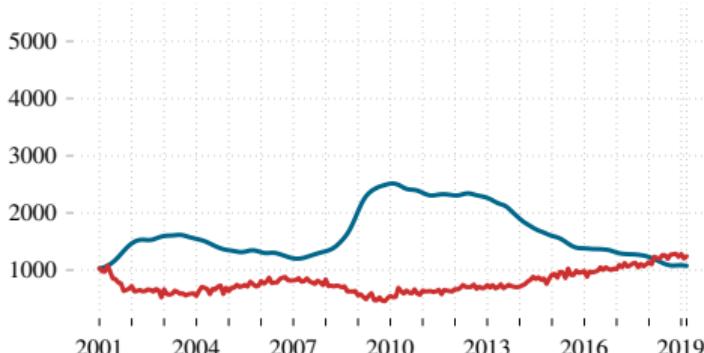
Midwest



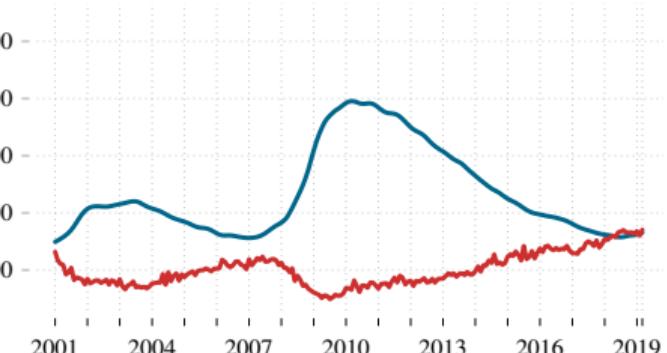
South



Northeast



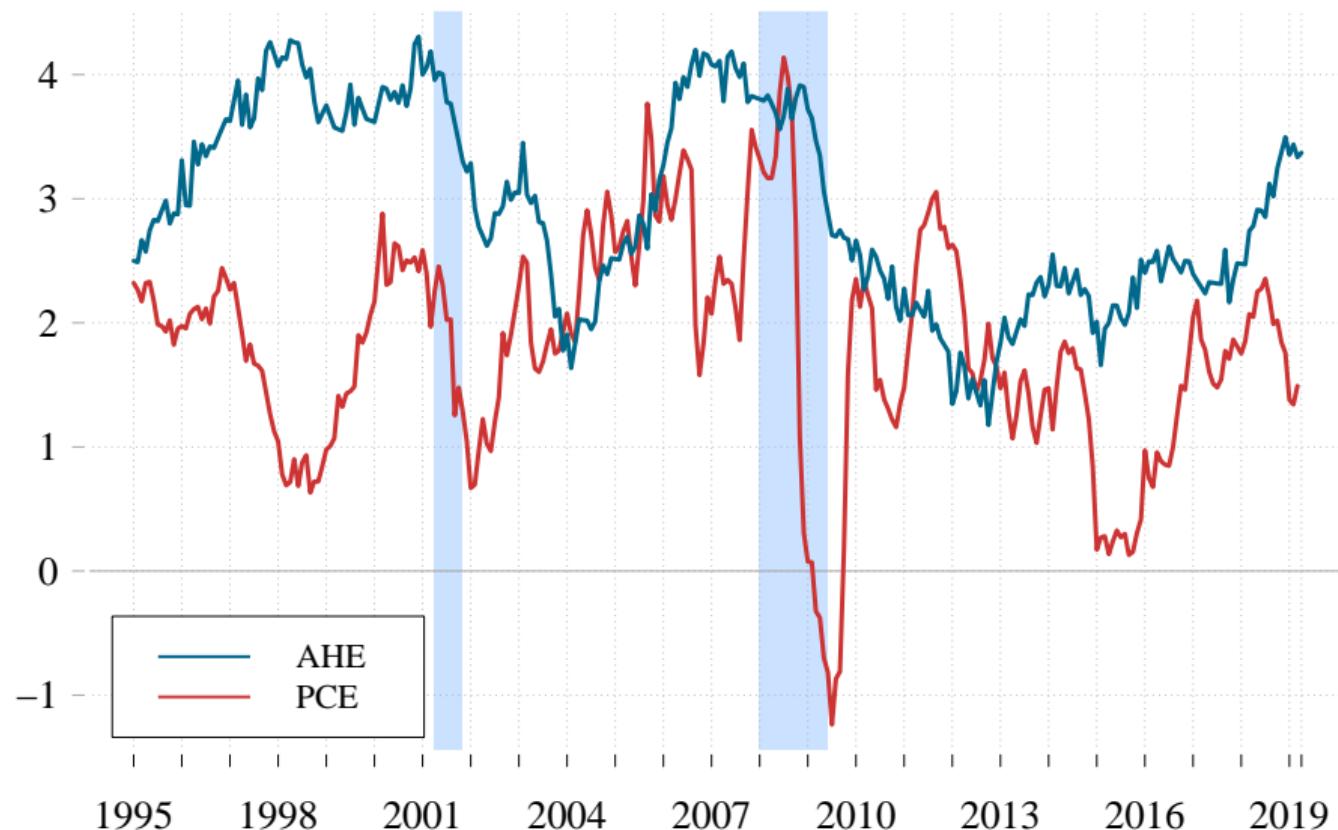
West



— Unemployed Persons (000's) — Vacancies, (000's)

PCE Inflation and Average Hourly Earnings

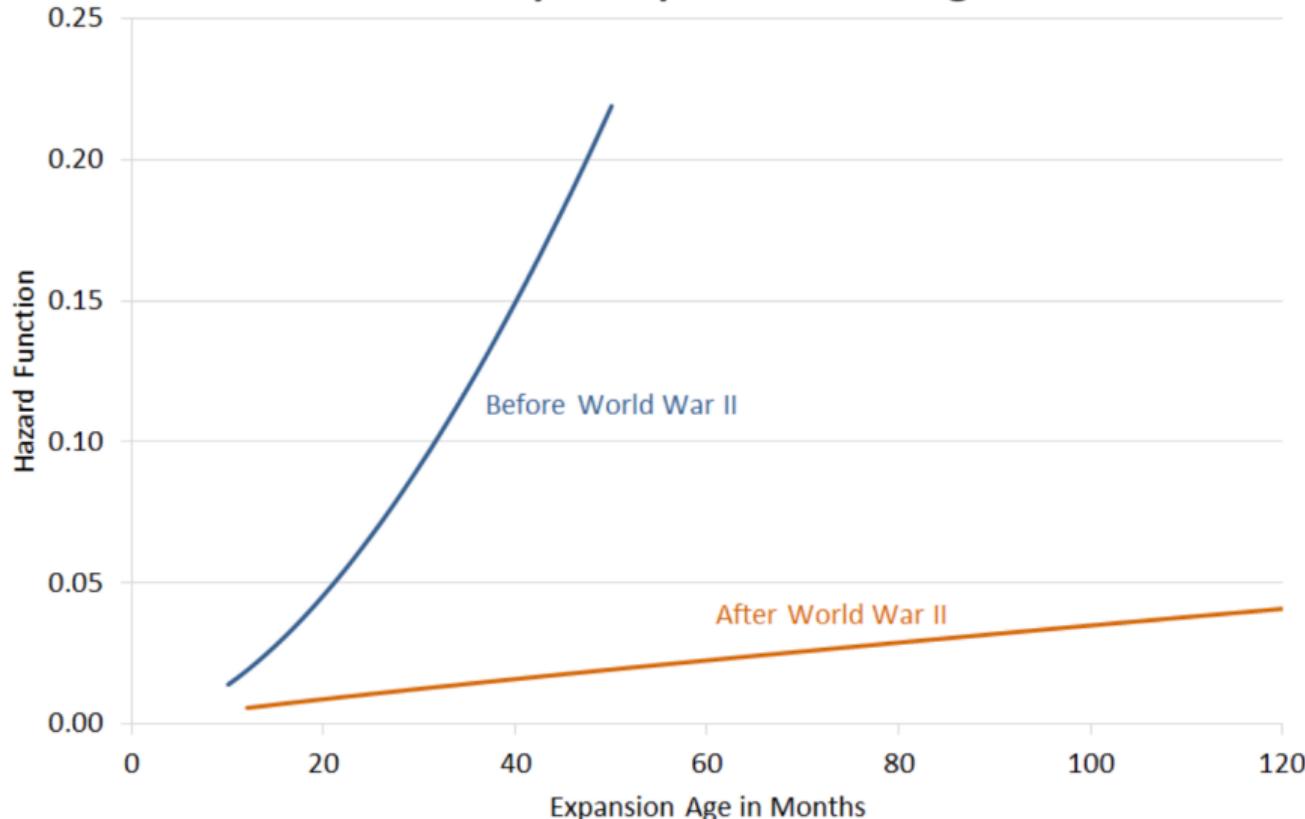
Percent change from a year ago



the recovery

- big question
- when will it end?
- currently the 2nd longest

Probability of Expansions Ending



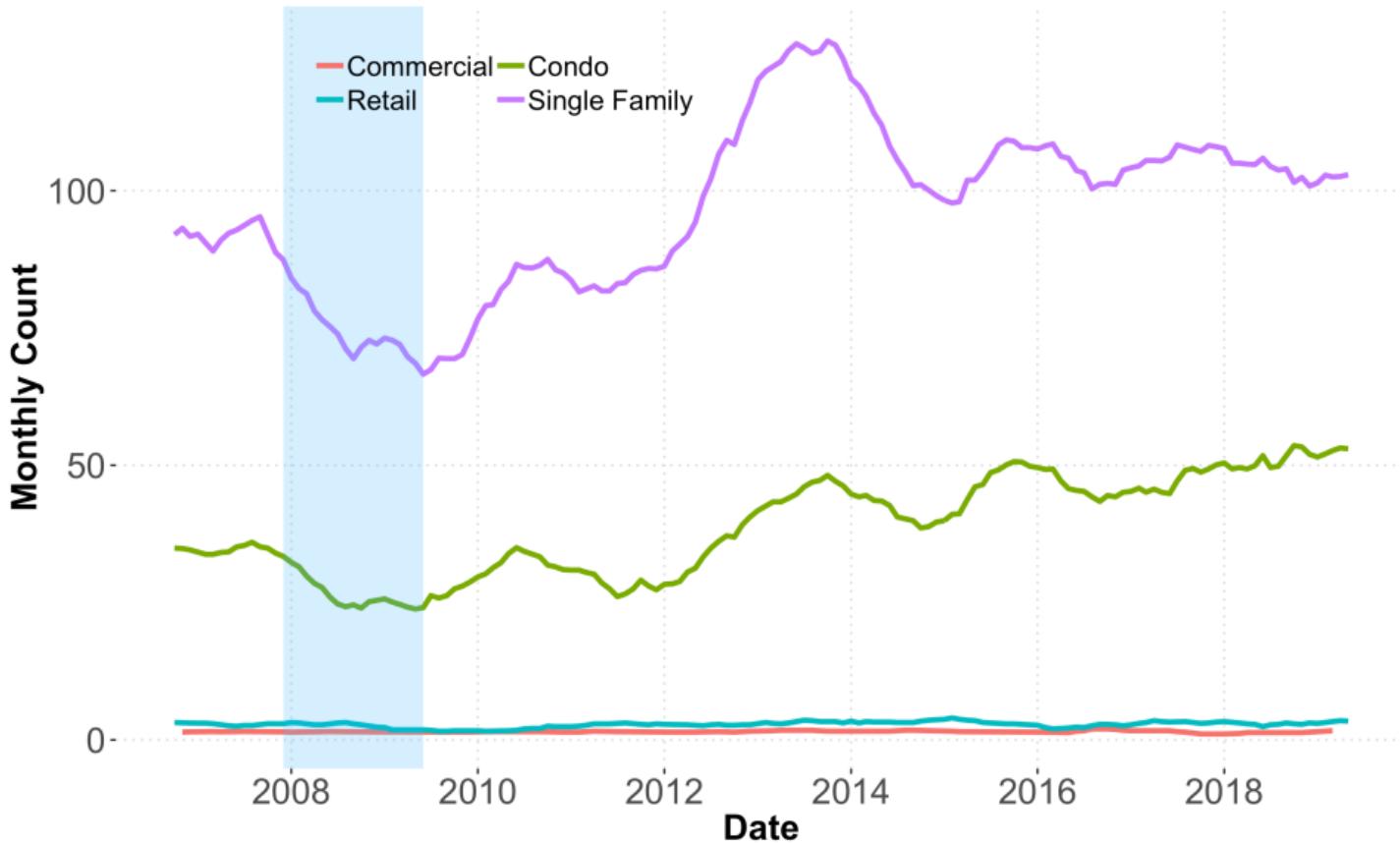
SOURCES: FRED and author's calculations.

FEDERAL RESERVE BANK of ST. LOUIS

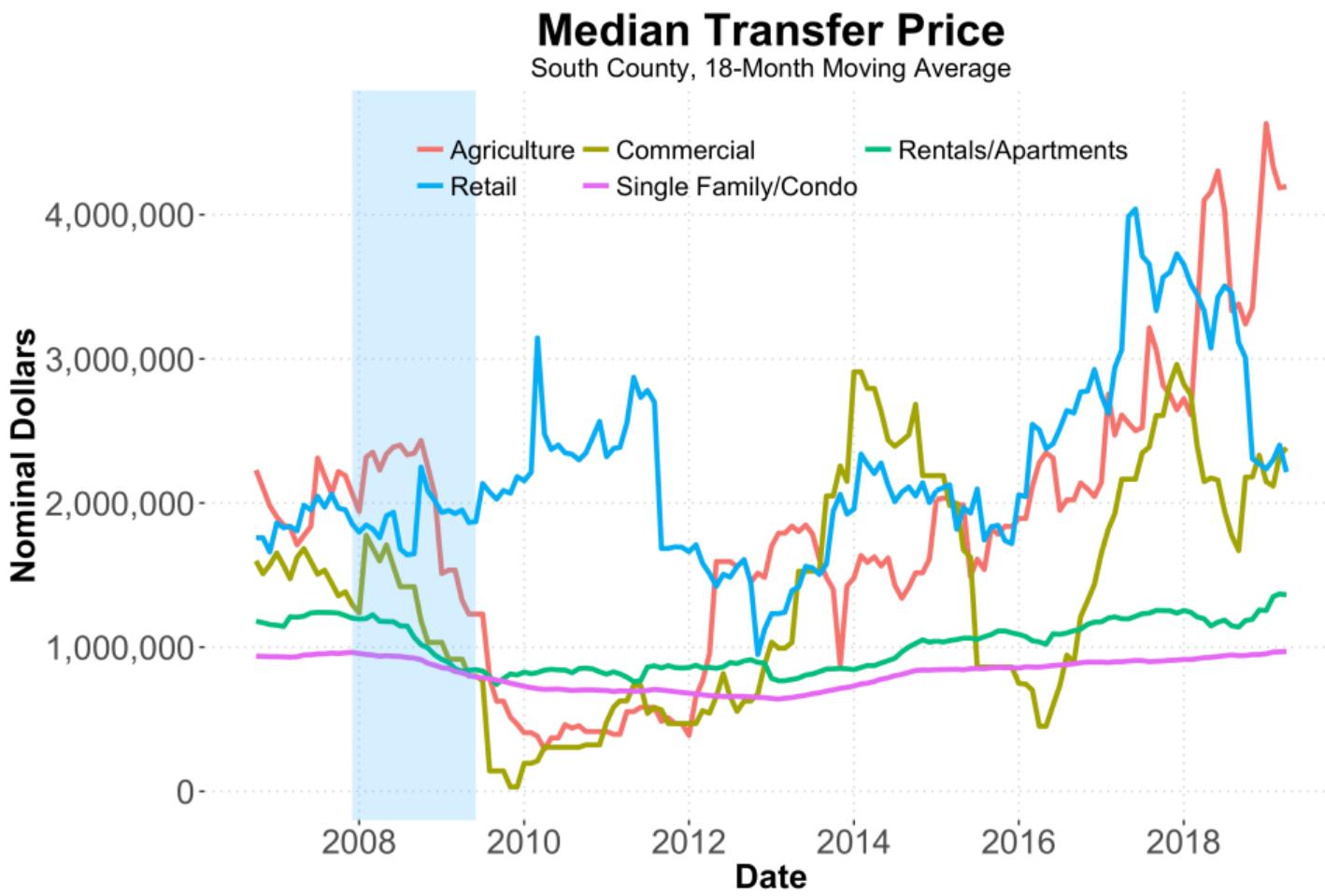
local trends
real estate

Number of Sales

South County, 12-Month Moving Average



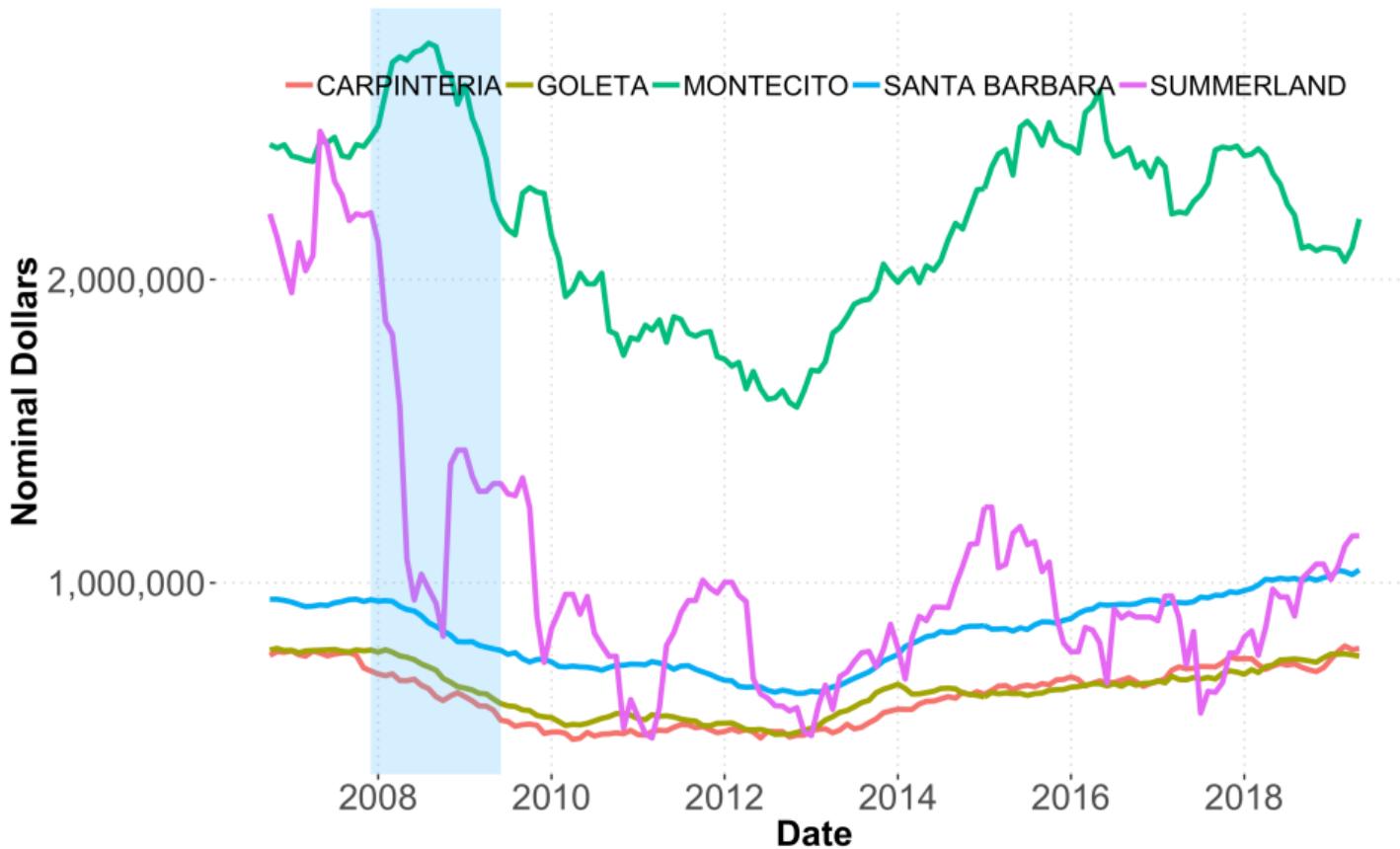
Economic Forecast Project
Source: Santa Barbara County Recorder's Office



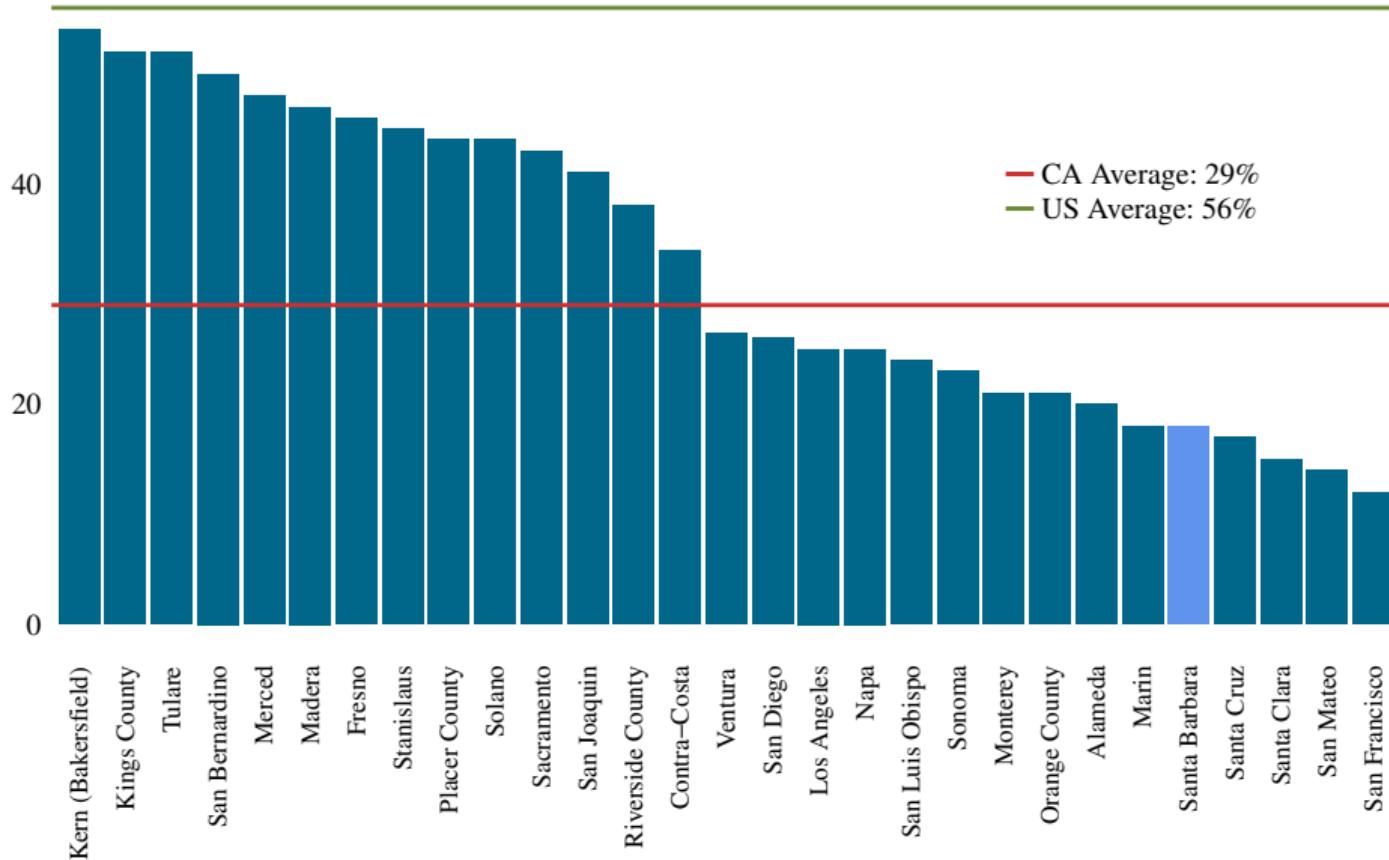
Economic Forecast Project
Source: Santa Barbara County Recorder's Office

Median Transfer Price

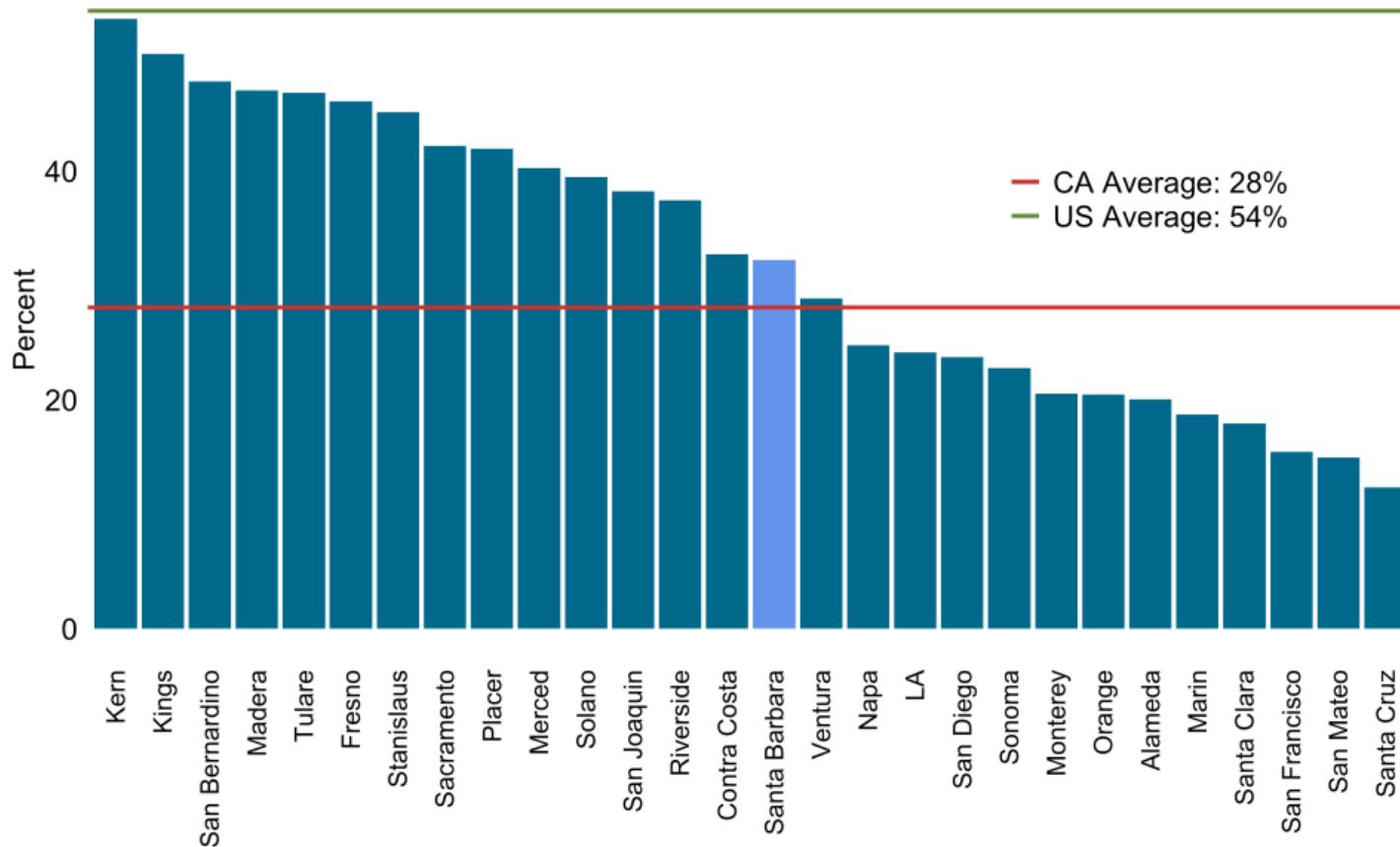
Single Family Residence and Condos, 12-Month Moving Average



Affordability 2017Q4



Affordability by County 2018Q4



local trends

demographics, employment and other stuff

Population and Components of Change: Santa Barbara County

	Population July 1	Population Change	Births	Deaths	Natural Increase	Net Migration	Population Growth Rate
2005	411,683	493	6,301	2,936	3,365	-2,872	0.12
2006	412,853	1,170	6,175	2,860	3,315	-2,145	0.28
2007	416,648	3,795	6,252	2,708	3,544	251	0.92
2008	419,970	3,322	6,327	2,898	3,429	-107	0.80
2009	422,423	2,453	6,180	2,876	3,304	-851	0.58
2010	423,567	1,144	5,970	2,879	3,091	-1,223	0.27
2011	425,354	1,787	5,746	2,881	2,865	-1,078	0.42
2012	430,318	4,964	5,638	2,888	2,750	2,214	1.17
2013	435,329	5,011	5,701	2,990	2,711	2,300	1.16
2014	440,090	4,761	5,758	2,999	2,759	2,002	1.09
2015	444,491	4,401	5,809	3,016	2,793	1,608	1.00
2016	447,309	2,818	5,590	3,140	2,450	368	0.63
2017	450,138	2,907	5,463	3,256	2,207	700	0.65
2018	453,288	3,150	5,544	3,363	2,181	969	0.68
Average per Year	3,071	5,845	2,959	2,887	227	0.73	

Source: CA Department of Finance

Population Distribution

	2017	2018	1-year Growth Rate	5-year Growth Rate
Buellton	5,098	5,291	3.8%	8.7%
Carpinteria	13,697	13,704	0.1%	4.5%
Goleta	31,622	31,949	1.0%	6.5%
Guadalupe	7,341	7,604	3.6%	7.0%
Lompoc	43,881	43,599	-0.6%	1.9%
Santa Barbara	94,244	94,807	0.6%	5.6%
Santa Maria	107,978	108,470	0.5%	8.0%
Solvang	5,653	5,771	2.1%	8.9%
Unincorp Area	140,511	142,262	1.2%	4.4%
SB County	450,025	453,457	0.8%	5.5%
Tri-Counties	1,585,145	1,592,631	0.5%	3.5%

Source: CA Department of Finance

Population and Housing: Santa Barbara County

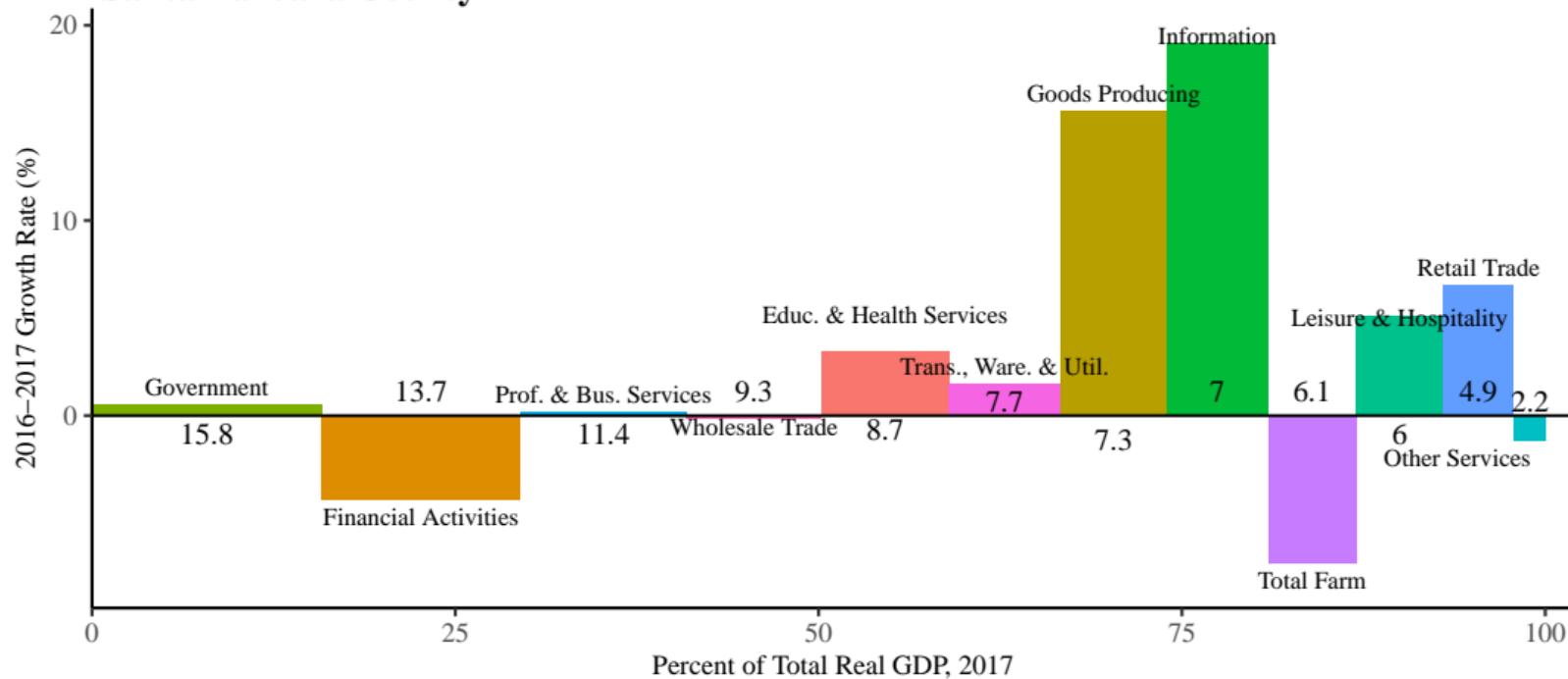
	2012	2013	2014	2015	2016	2017	2018
Population (Jan. 1)	428,194	433,073	438,512	442,987	447,073	450,025	453,457
% change	0.89	1.14	1.26	1.02	0.92	0.66	0.76
Total Housing Units	153,689	154,170	154,733	155,353	156,520	157,578	158,622
% change	0.28	0.31	0.37	0.40	0.75	0.68	0.66
Vacancy Rate	6.70	6.60	6.50	6.20	6.00	6.10	6.20

Source: CA Department of Finance

*All values are January 1 estimates.

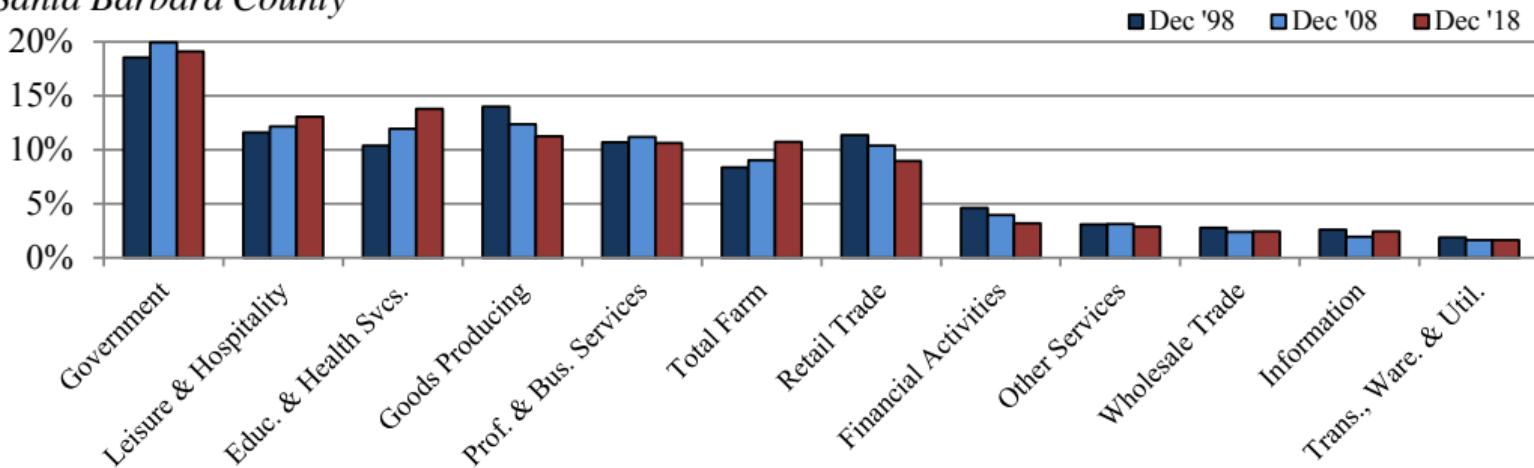
- population is growing faster than housing

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



Percentage of Total Employment, by Industry

Santa Barbara County



Source: CA Employment Development Department, Current Employment Survey (CES)

Annual Employment Growth by Industry

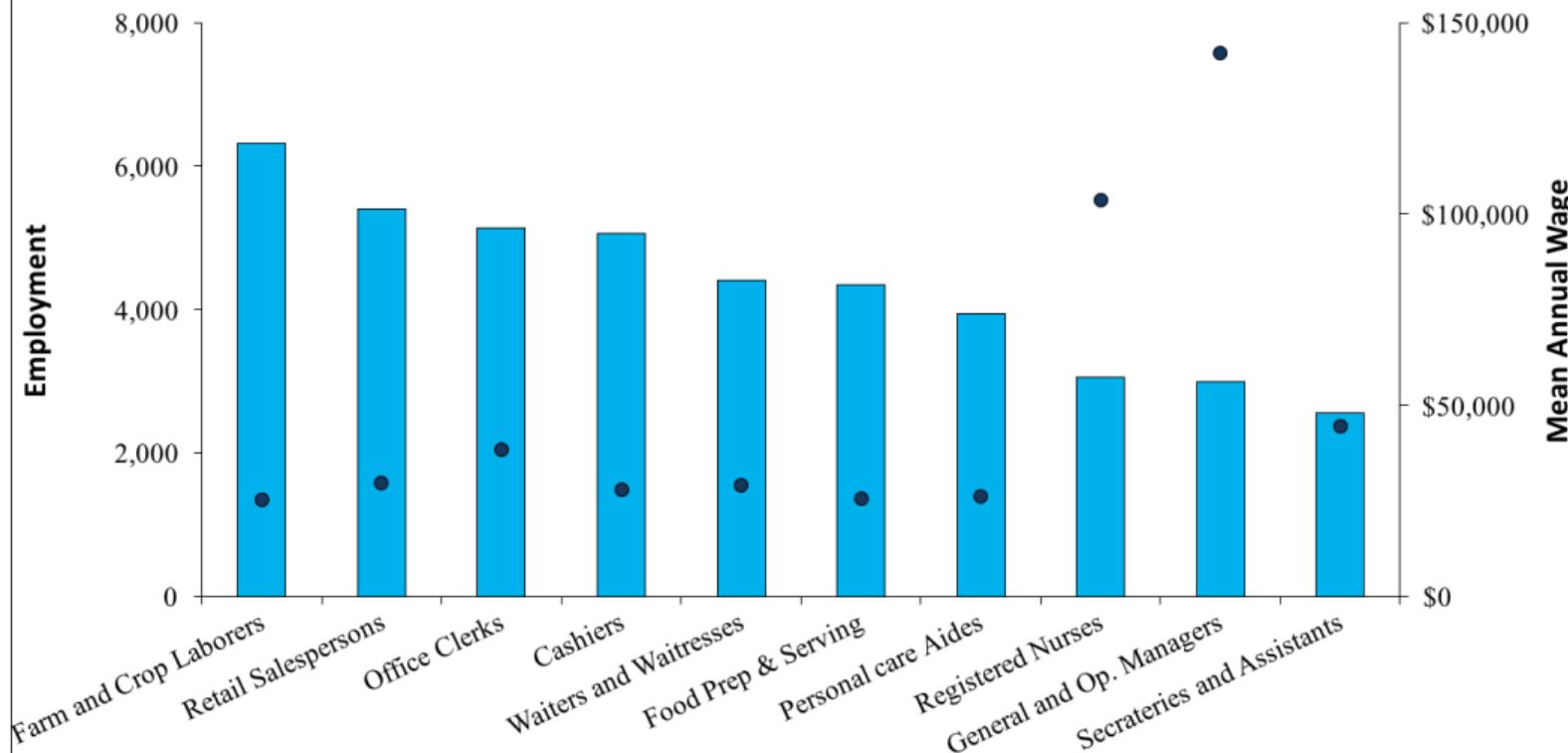
Santa Barbara County



Occupations by Highest Employment

Santa Barbara County, 2018 Q1

■ Employment ● Mean Annual Wage



Source: CA Employment Development Department, Occupational Employment Statistics (OES)

headwind or tailwind?

tariffs

tariffs

headwind

not again

- monday: tariff war
 - US: increase from 10% to 25%
 - China: tariff increase on \$60 billion
- bottom line: makes both parties poorer
- it is not a zero-sum game
- SP 500 and Dow down 2.4% as a result

fed independence

fed independence
tailwind

PAPER MONEY

“Paper money has almost always been a curse on those who produce it.”

Irving Fisher (1867–1947)



Succumbing to the Temptation of Seigniorage



“A wagon load of money will scarcely purchase a wagon load of provisions.”
General George Washington



Yugoslavia, 1993

1000000000000 RESERVE BANK OF ZIMBABWE

I promise to pay
the bearer on demand

A
A
3
9
0
5
4
3
1
ONE HUNDRED
TRILLION
DOLLARS

for the Reserve Bank of Zimbabwe



Dr. G. Gona
Governor

100 000 000 000 000

HARARE 2008



100 000 000 000 000

AA3905431



Zimbabwe, 2008

wtf!?

- this can't happen here!

ROBERT P. BREMNER

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Chairman of the Fed

WILLIAM McCHESNEY MARTIN JR.

and the Creation of the American Financial System

read the book

On 5 December 1965, President Lyndon Johnson was pacing in the office at his ranch in Johnson City, Texas, while he waited for William McChesney Martin Jr., the chairman of the Federal Reserve Board, to visit for what Johnson called “a trip to the woodshed.” Two days before, Martin had led the Fed’s board of governors to an increase in the Federal Reserve discount rate, the first in more than five years of uninterrupted economic growth. Through Henry “Joe” Fowler, his Treasury secretary, and Gardner Ackley, his Council of Economic Advisors (CEA) chairman, Johnson had advised Martin to delay the rate increase, and his instructions had been rejected. Few people ignored Lyndon Johnson’s instructions, and he was furious when he heard of the Fed’s move. He had growled at Fowler over the telephone: “Those marble tower boys. Joe, you find a tough guy to head the Reserve. If Martin resigns, it won’t wreck the country.”¹

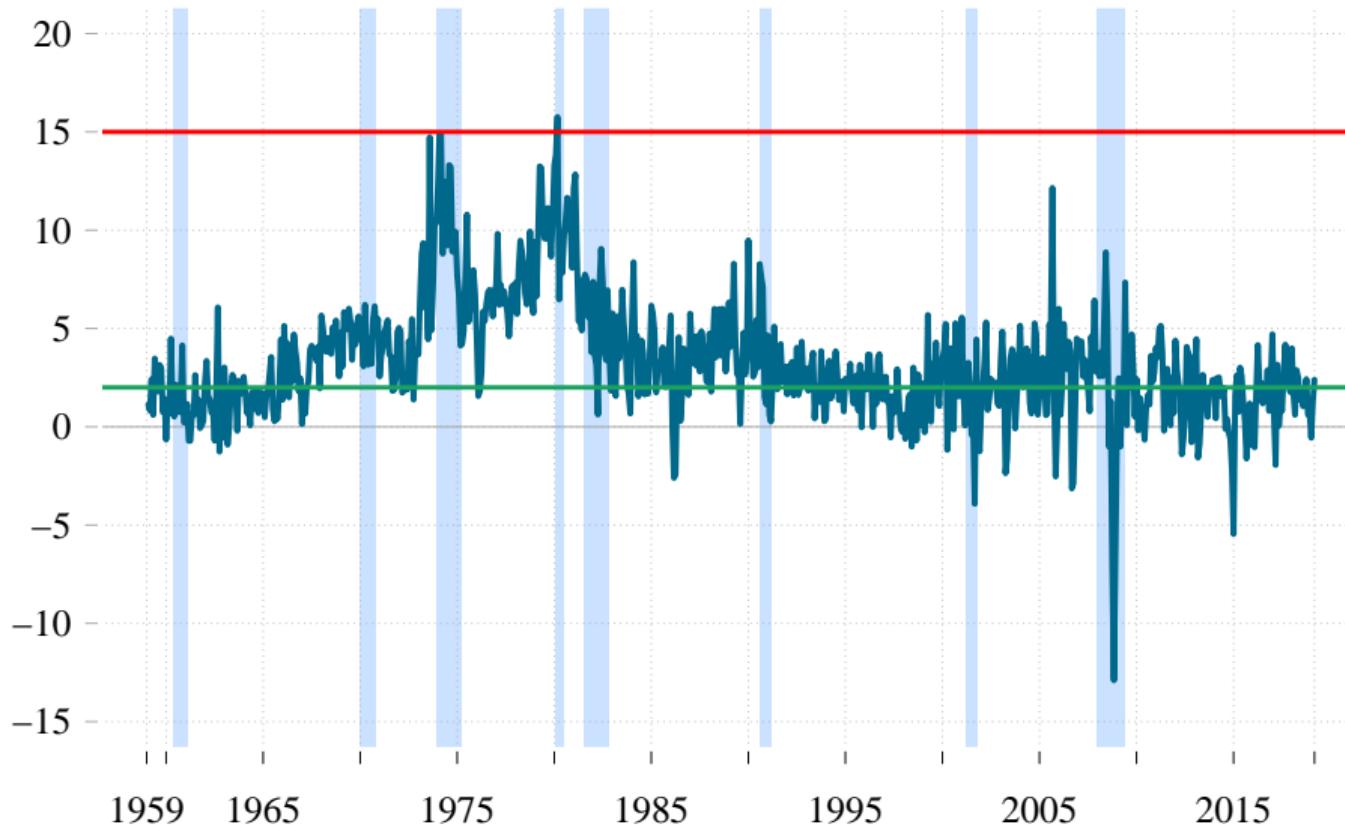
Their meeting was a classic confrontation. Johnson was a powerful and manipulative president who believed that a Fed tightening would jeopardize the economic expansion and the tax revenues he needed to finance the most important goals of his presidency: his war on poverty and continued involvement in the war in Vietnam, whose costs were growing. Martin was com-

more meddling

- fast forward to 1969
- burns and nixon
- what happened next?

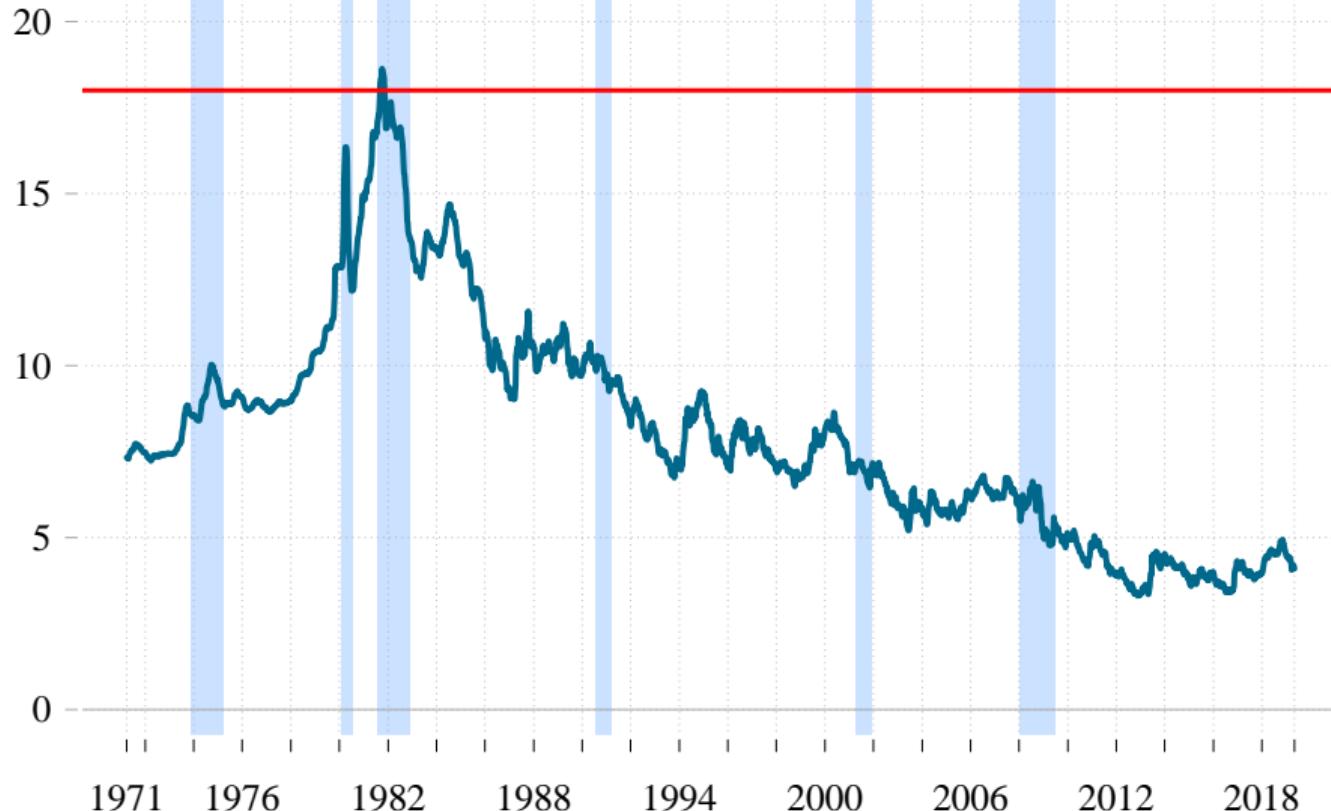
PCE, Chain-type Price Index

Monthly, annualized rate of change



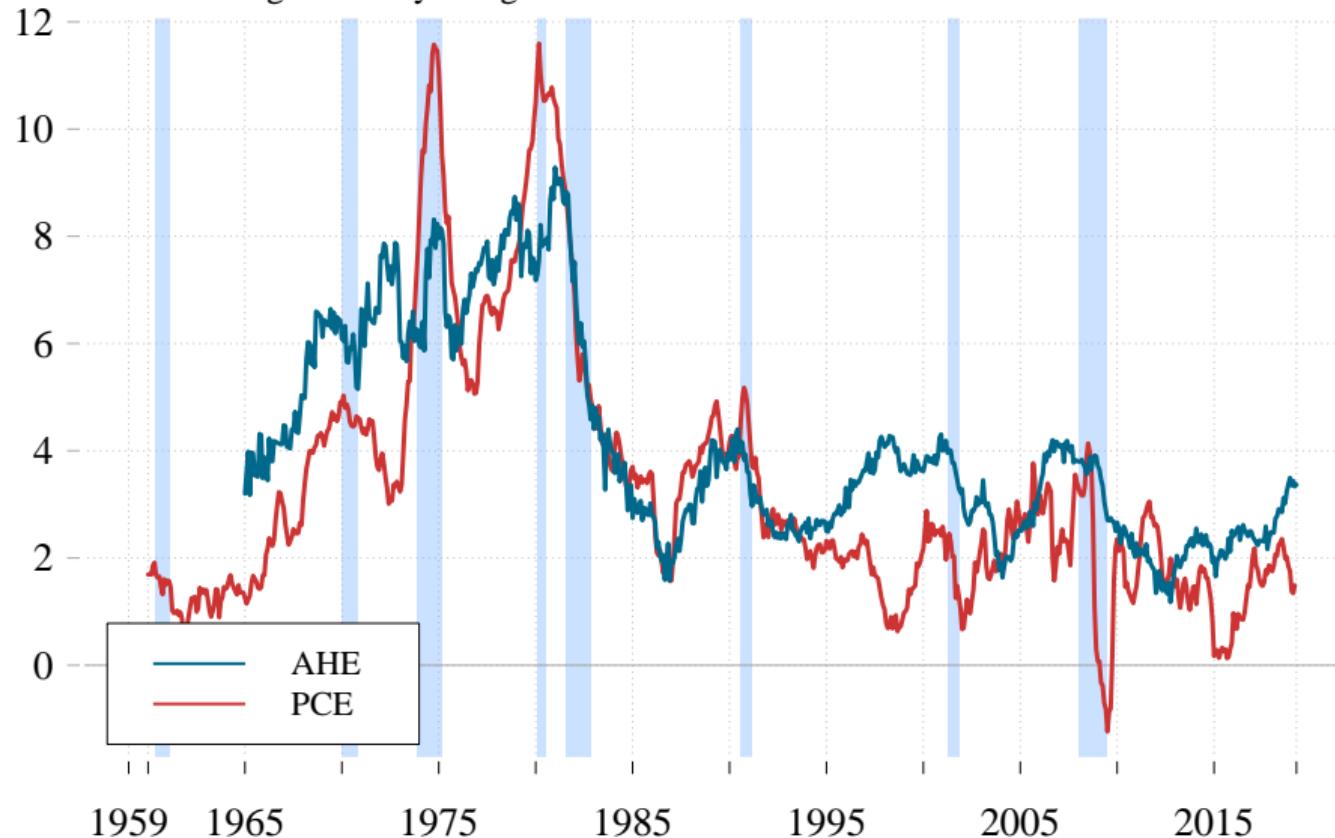
30-Year Fixed Rate Mortgage

Percent



PCE Inflation and Average Hourly Earnings

Percent change from a year ago



unfunded pension liabilities

unfunded pension liabilities
headwind

pensions

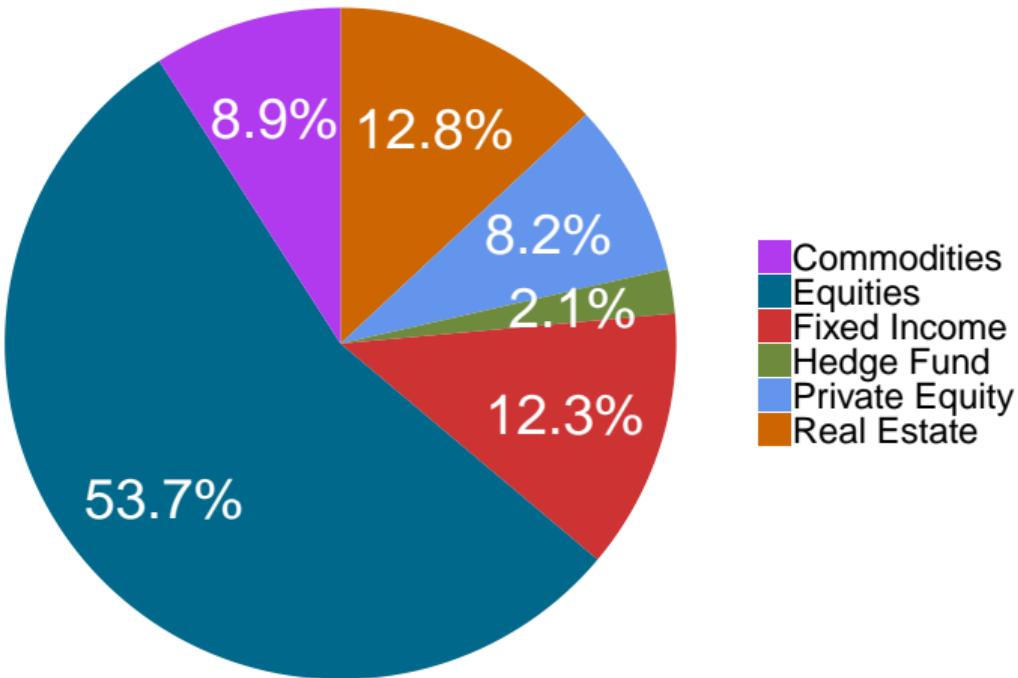
- defined benefit pension liabilities
 - how are we doing?
- we will look at perf, ca teachers and UC
- what is a pension?
 - a **promise** to pay
- so what is the problem?

pensions

- underfunded pensions
- ok, but how much?
 - how to value pension liabilities?
 - it is a debt owed by the government
 - like any other debt (treasuries)?
 - pensions are promises, not risky investments!

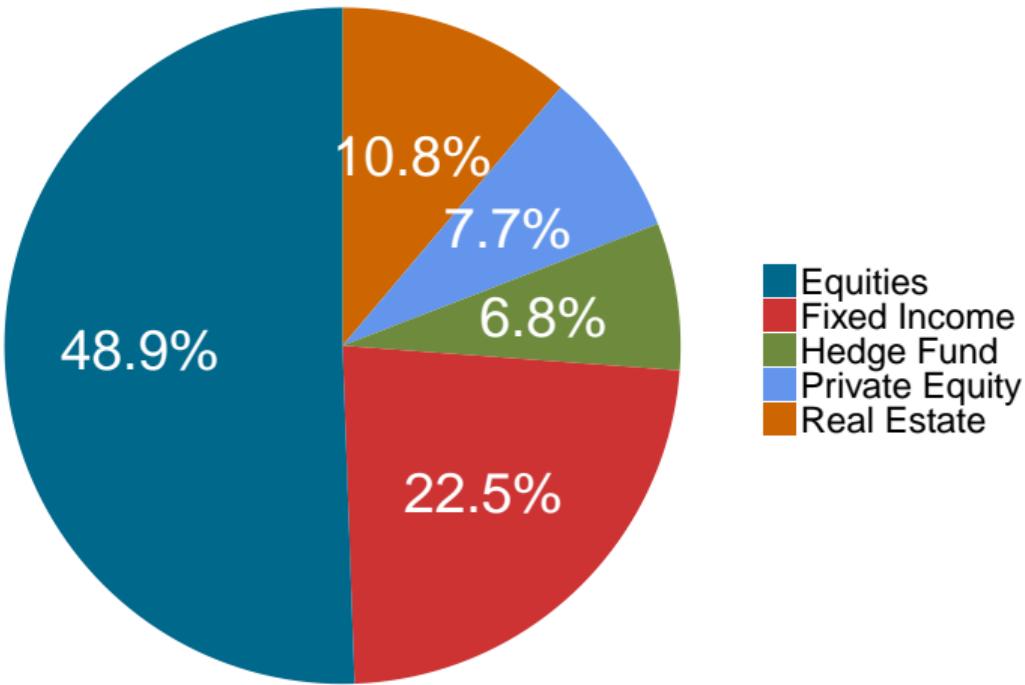
Portfolio Allocation: California Teachers

2018 Fiscal Year End Holdings



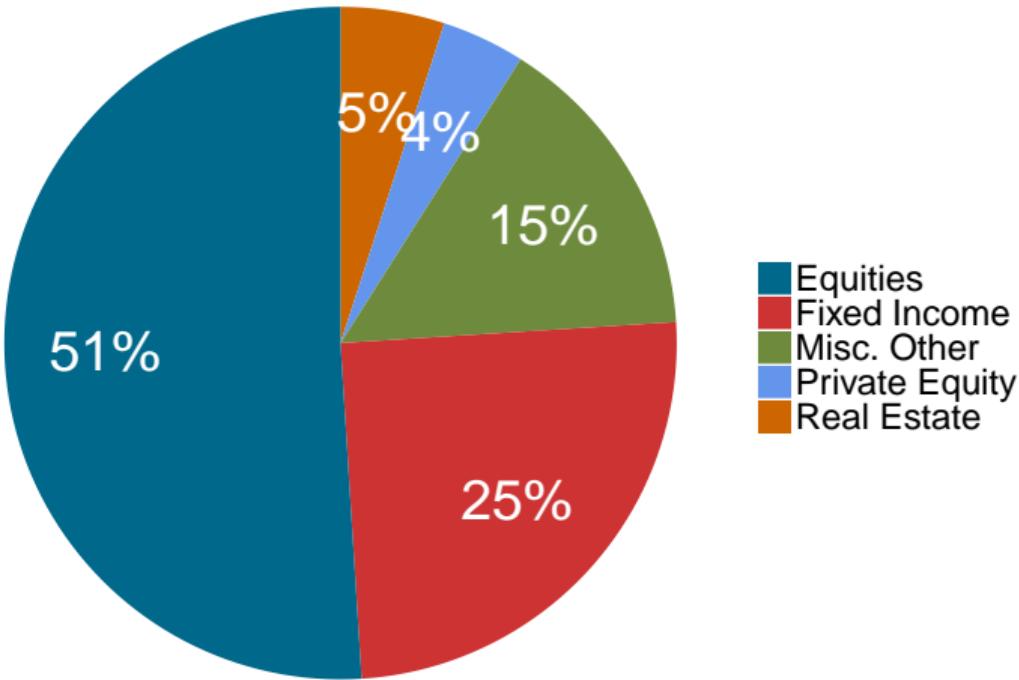
Portfolio Allocation: California PERF

2018 Fiscal Year End Holdings



Portfolio Allocation: University of California

2018 Fiscal Year End Holdings



how to value

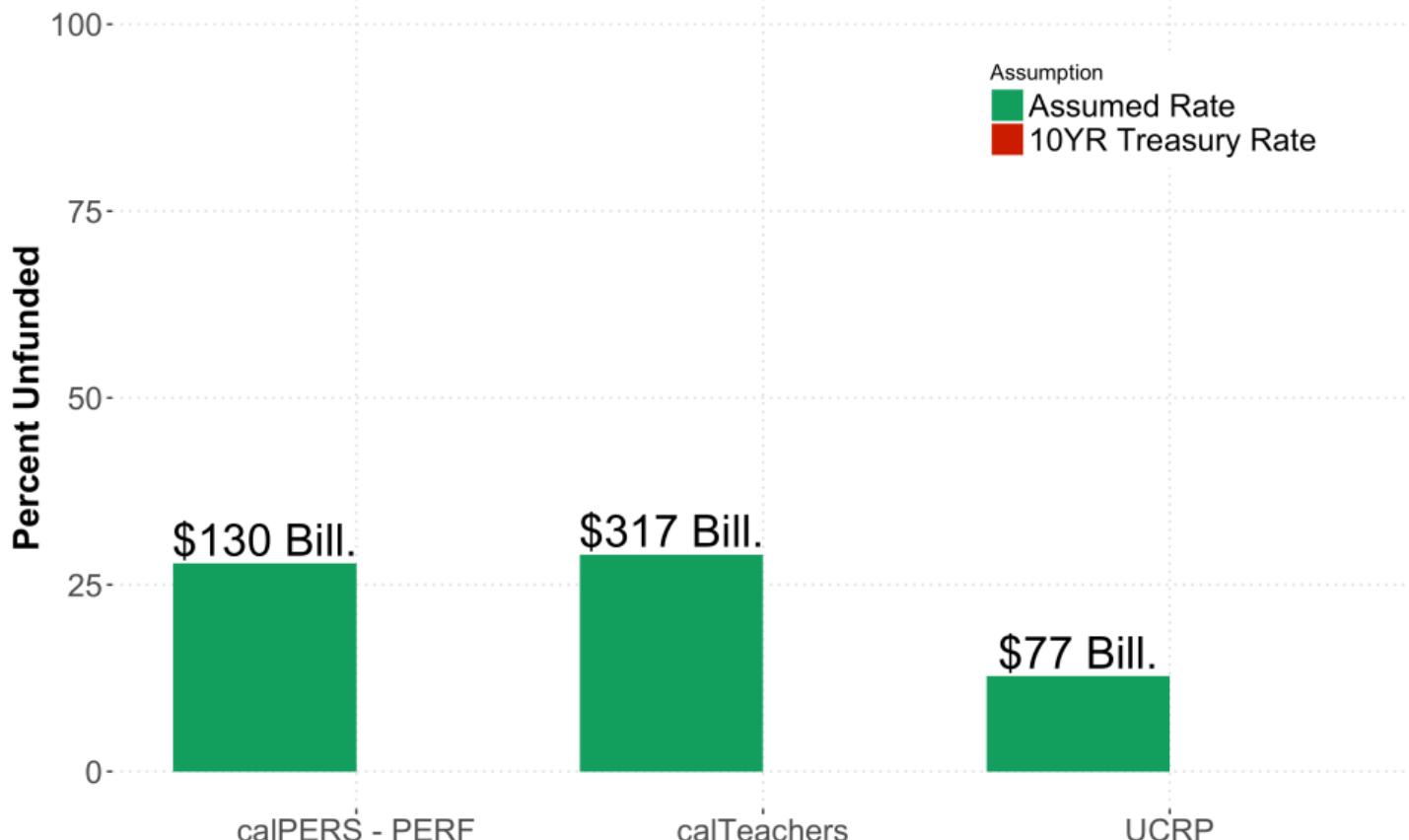
- should use risk-free rate from yield curve
- current practice: 7.3%
 - recall rule of 70
 - doubles in about 9.5 years
- so, if owe \$100k in 10 years
 - then \$50k in assets is “fully funded” (gasb 67)

Table 1: Summary Table

\$ Amounts in Billions			
	State Pensions	Local Pensions	State & Local Pensions
Number of Plans Total	263	386	649
I. Assets and Liabilities			
<i>GASB 67 Standards</i>			
Total Pension Liability (TPL)	\$4,160	\$807	\$4,967
Assets	\$3,034	\$555	\$3,589
Net Pension Liability (NPL)	\$1,126	\$252	\$1,378
Funding Ratio	72.9%	68.8%	72.3%
<i>Market Value Standards</i>			
Accumulated Benefits Obligation (ABO)	\$6,228	\$1,206	\$7,435
Assets	\$3,034	\$555	\$3,589
Unfunded Market Value Liability (UMVL)	\$3,194	\$651	\$3,846
Funding Ratio	48.7%	46.0%	48.3%

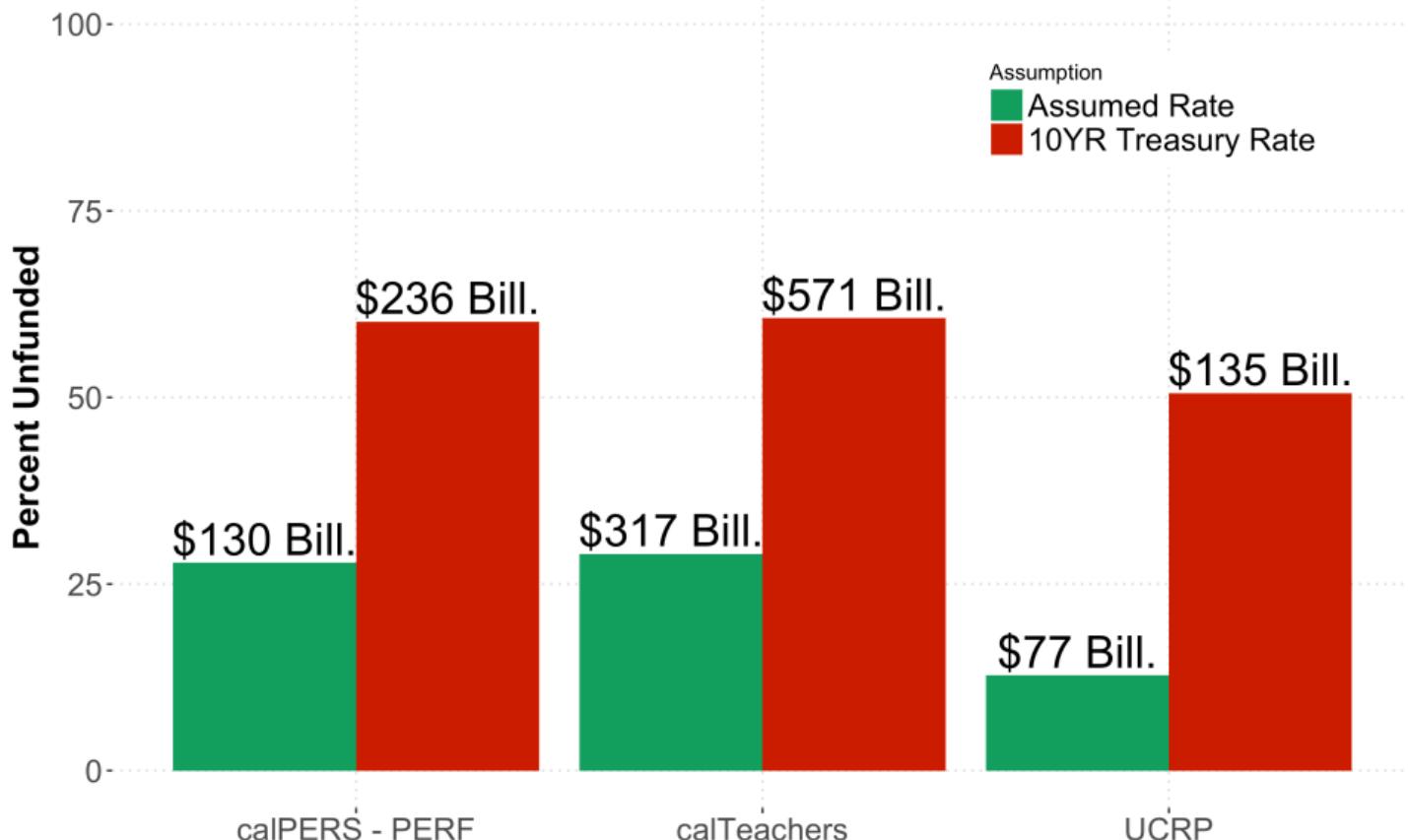
Accrued Pension Liabilities

2017-2018 FY End



Accrued Pension Liabilities

2017-2018 FY End



cannabis

cannabis
tailwind

a burgeoning industry

- uncertain growth
- big potential?

[FOOD](#)[HOME](#)[HEALTH & WELLNESS](#)[STYLE](#)[PARENTS](#)[PARENTS](#)

Girl Scout sells 300 boxes of cookies outside marijuana dispensary in 6 hours

A Girl Scout in San Diego did brisk business tugging a wagon-load of cookies outside a local marijuana dispensary.



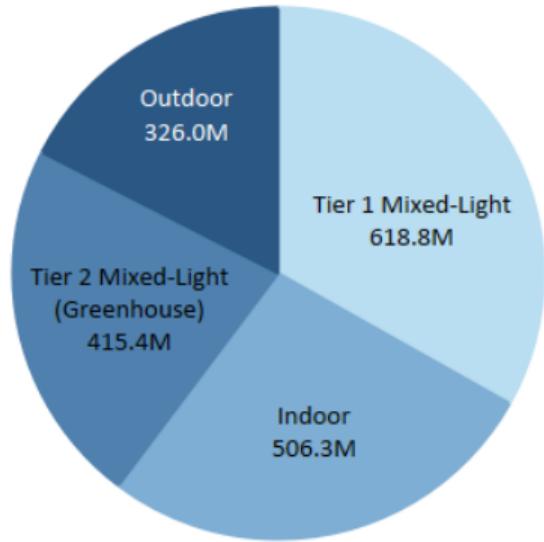


Chart of the Week

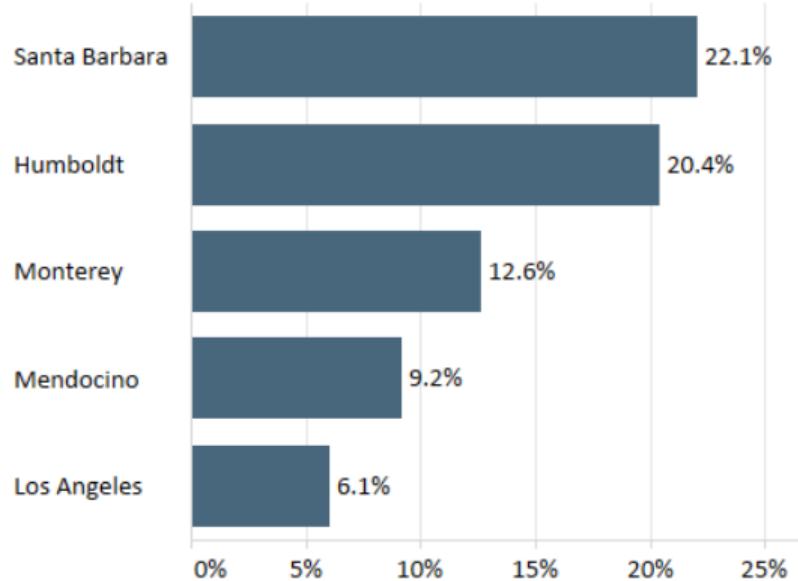
Marijuana Business Daily®

Overview of Licensed Cultivation Capacity in California's Adult-Use Market

Estimated Annual Production Capacity of Current Licensees by Grow Type (grams)



Portion of Estimated Annual Production Capacity by County



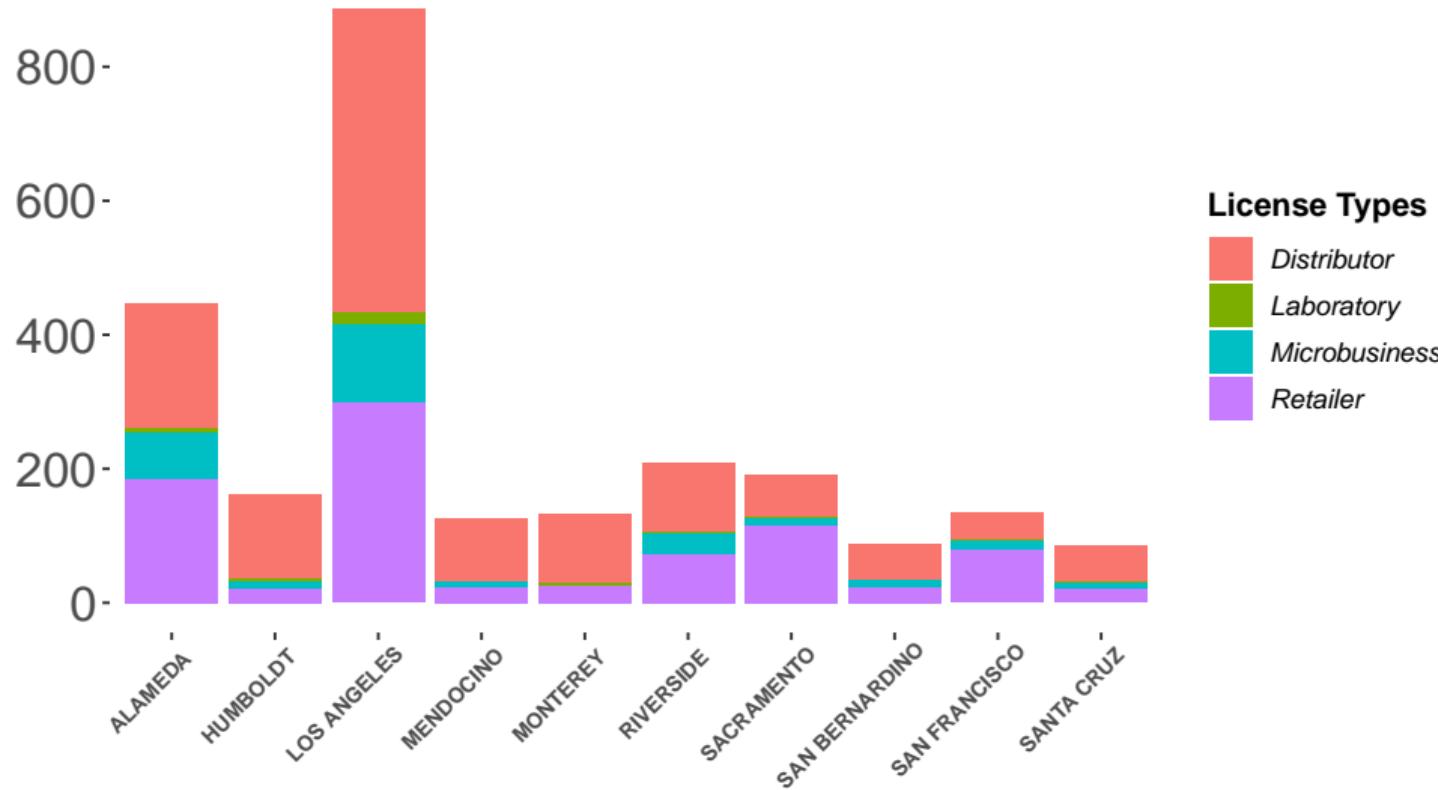
Note: Includes only active licenses, data current as of 11/21/18.

Source: Marijuana Business Daily, California Department of Food & Agriculture

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Marijuana Licenses

Top 10 Counties



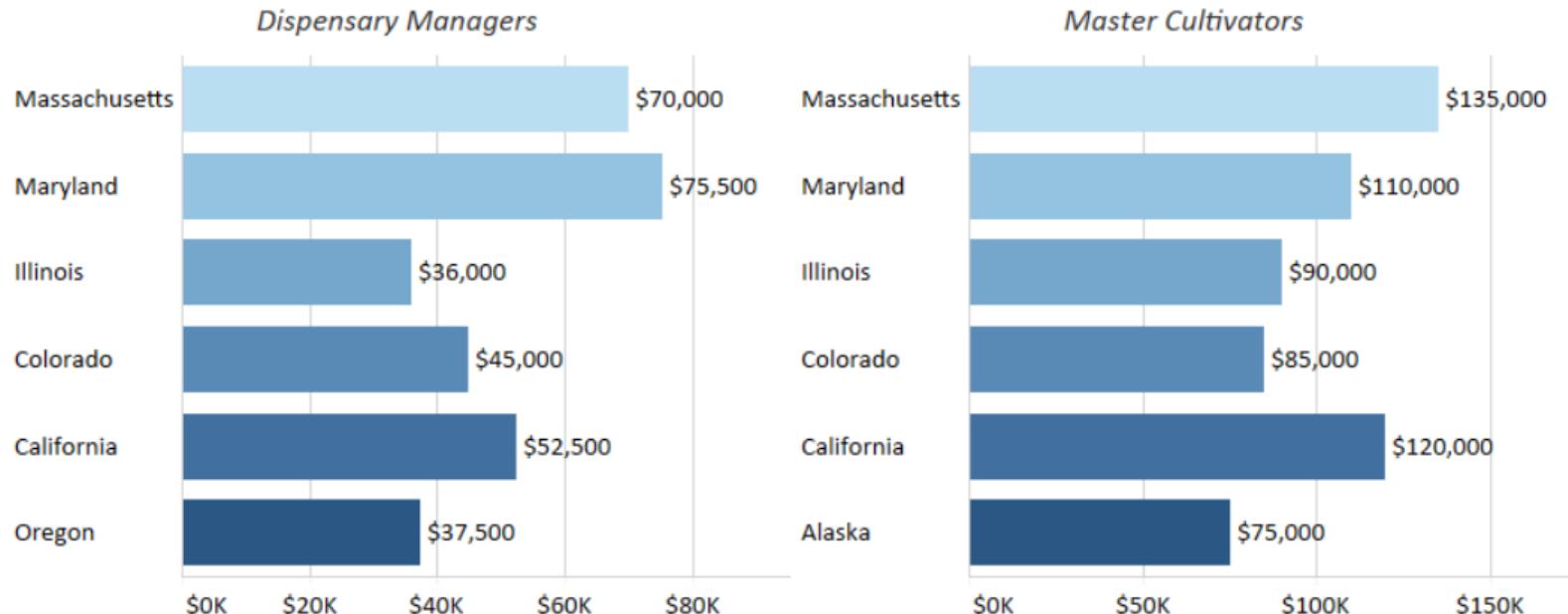
Source: Bureau of Cannabis Control



Chart of the Week

Marijuana Business Daily®

Average Marijuana Employment Salaries

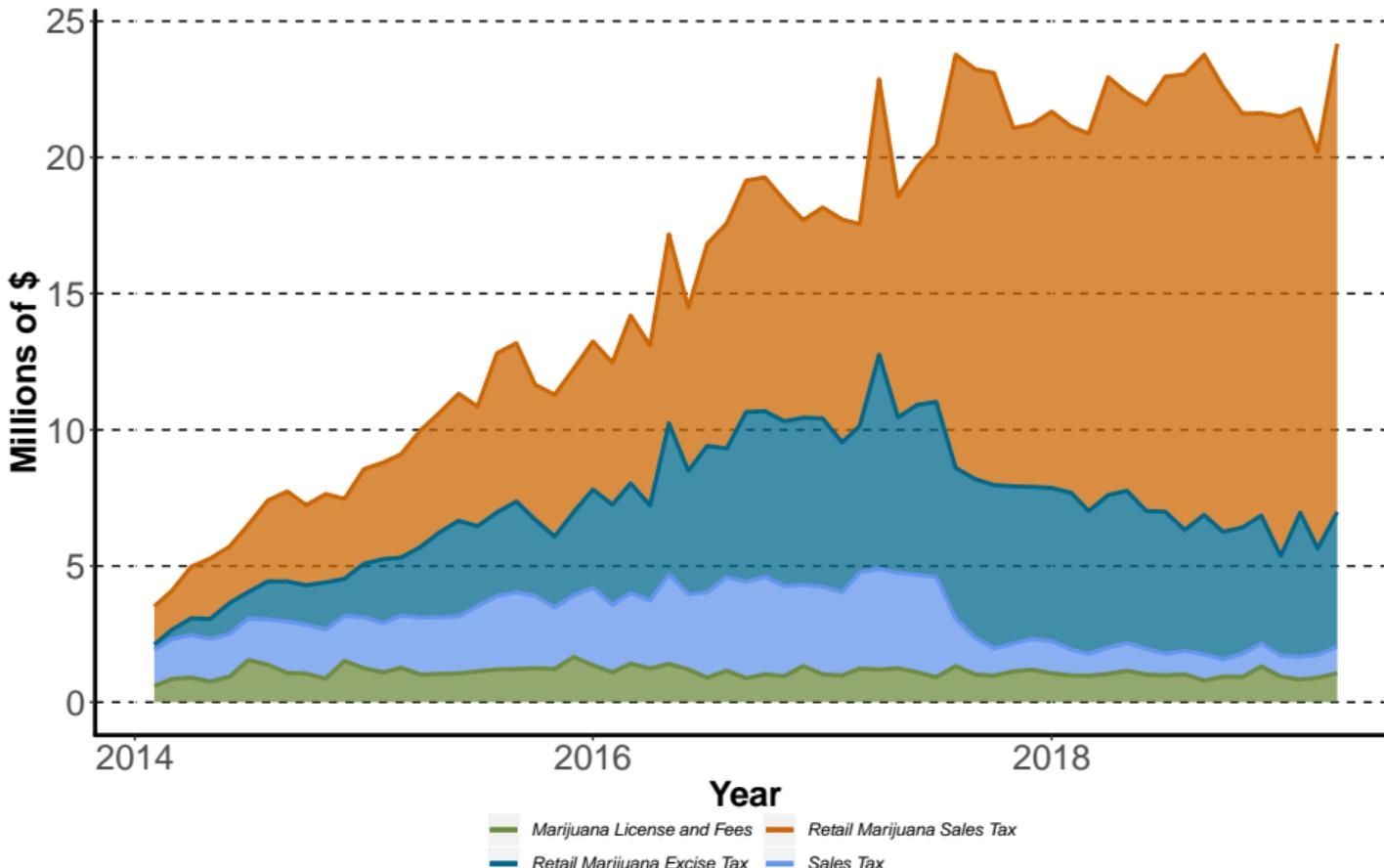


Source: HempStaff, Vangst, Viridian Staffing

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Marijuana Tax Revenue by Source

State of Colorado



Source: Colorado Department of Revenue

minimum wages

minimum wages
headwind

- 30% in CA make < \$12.50/hr
- 16% in bay area
- 38% in Imperial county
- source: [legislative analysts office](#)

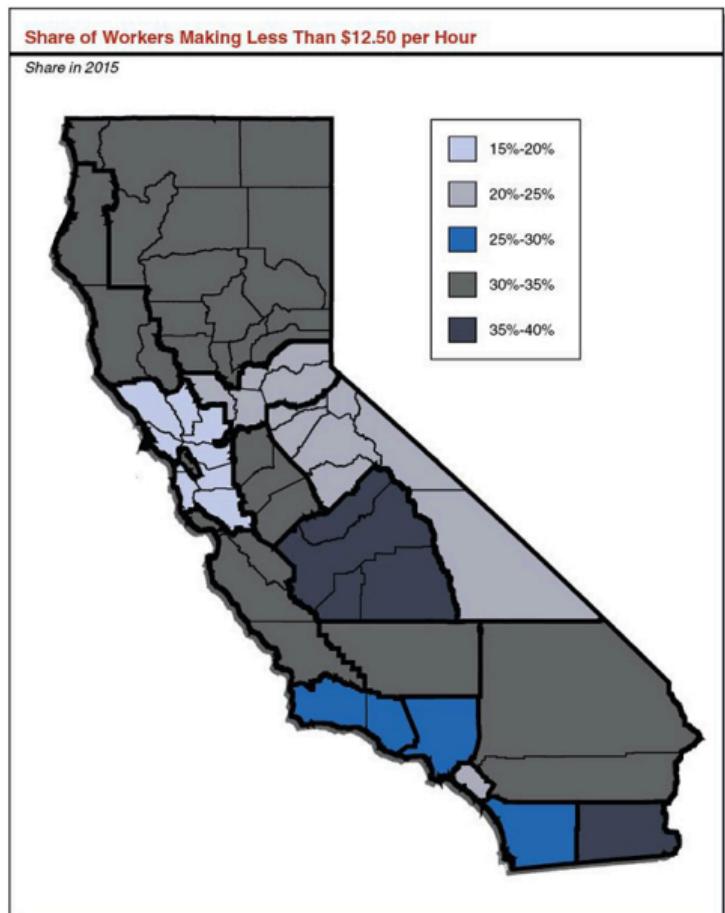


Figure 1

Low-Wage Workers' Occupations

Percent of Total Low-Wage Workers



Sales



Food Preparation
and Service



Administrative
Support



Personal Care
and Services

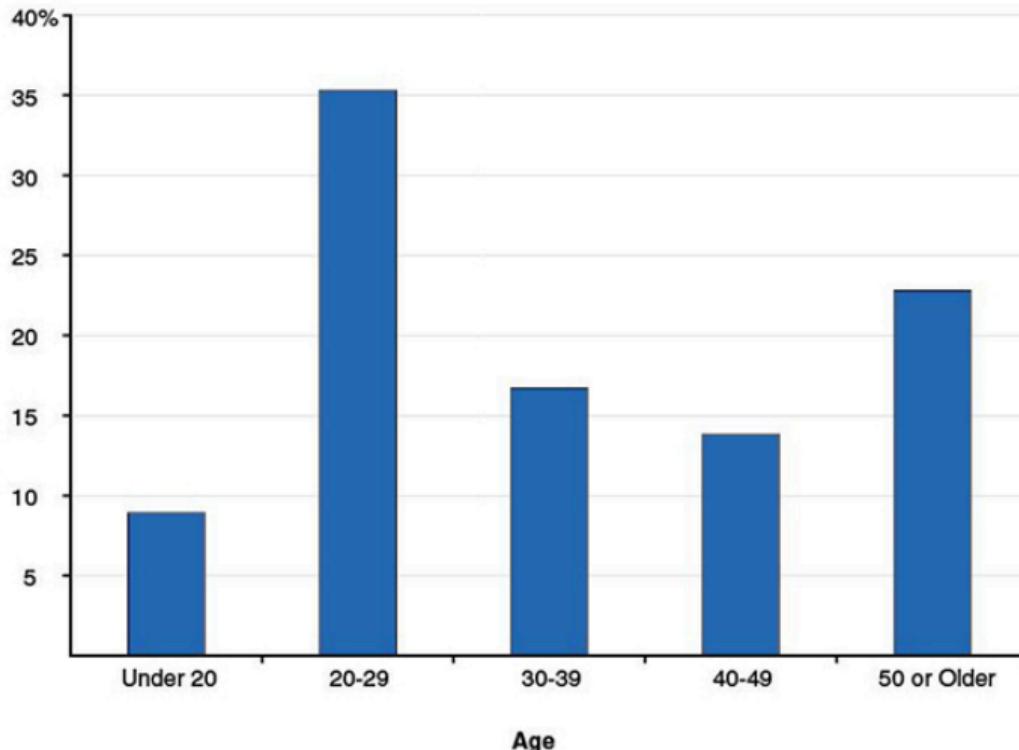


Transportation
and Moving

Figure 2

Low-Wage Workers' Ages

Percent of Total Low-Wage Workers



minimum wages

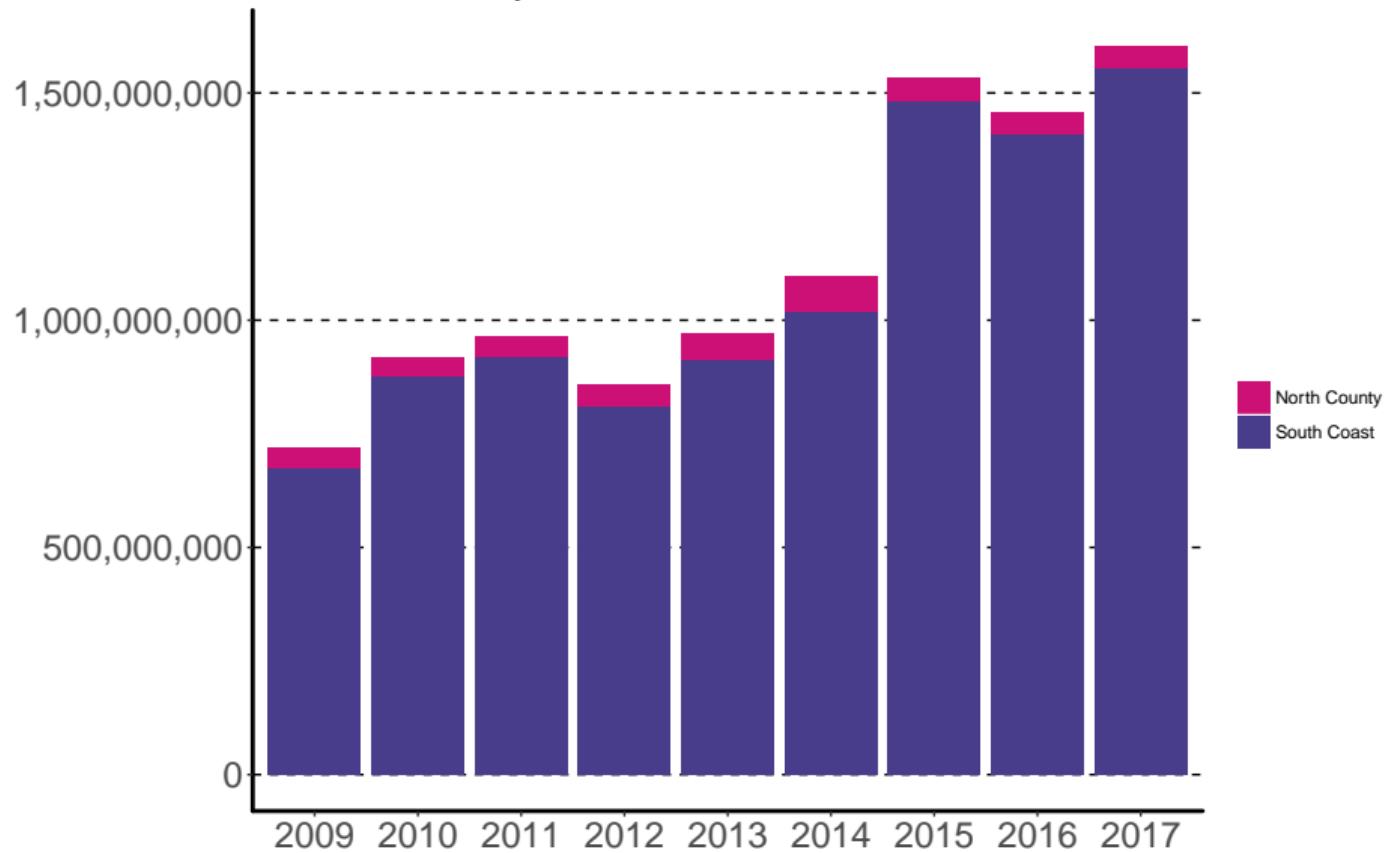
- a better solution
 - earned income tax credit

non-profit sector

non-profit sector
tailwind

Total Contributions to Non-Profits

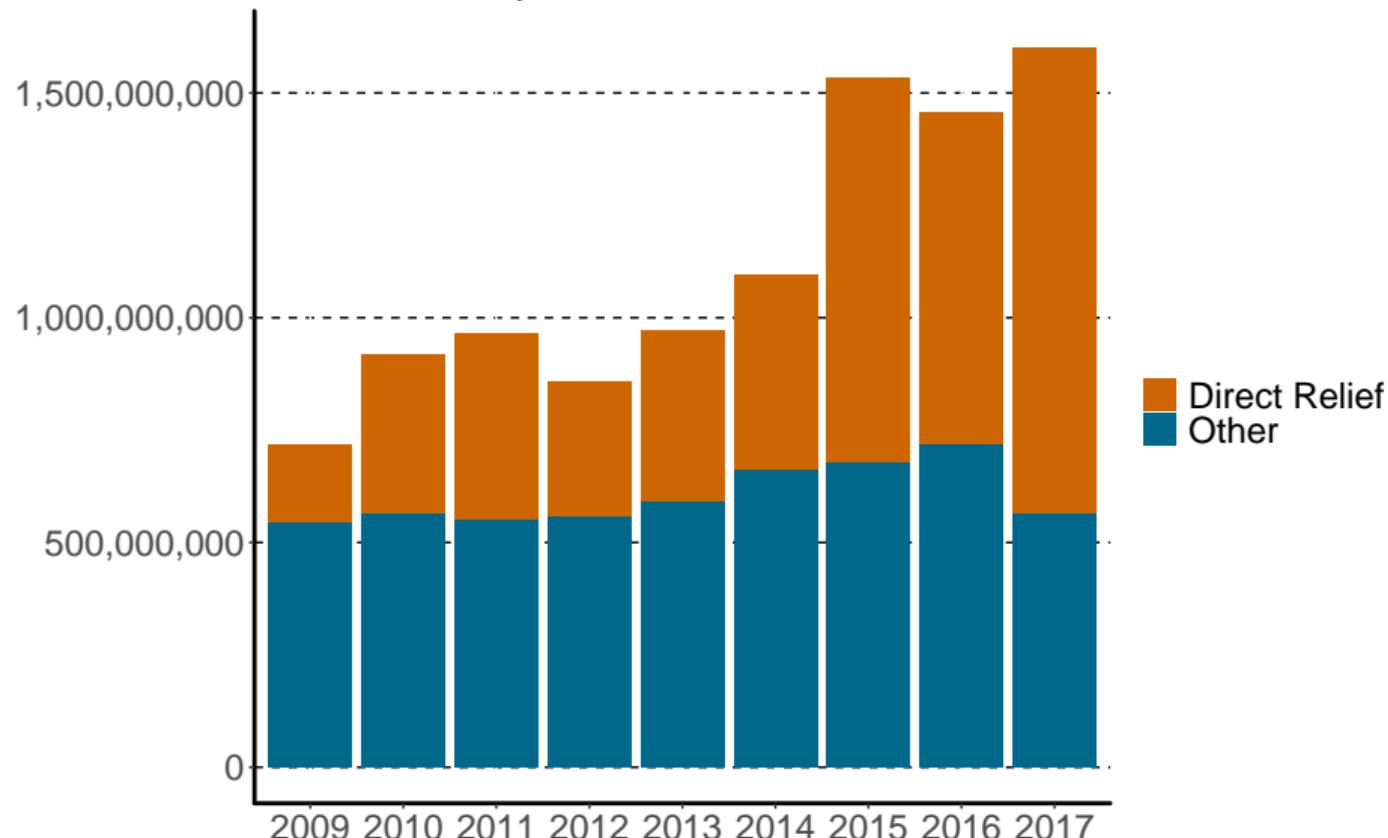
Santa Barbara County



Source: Guidestar.org

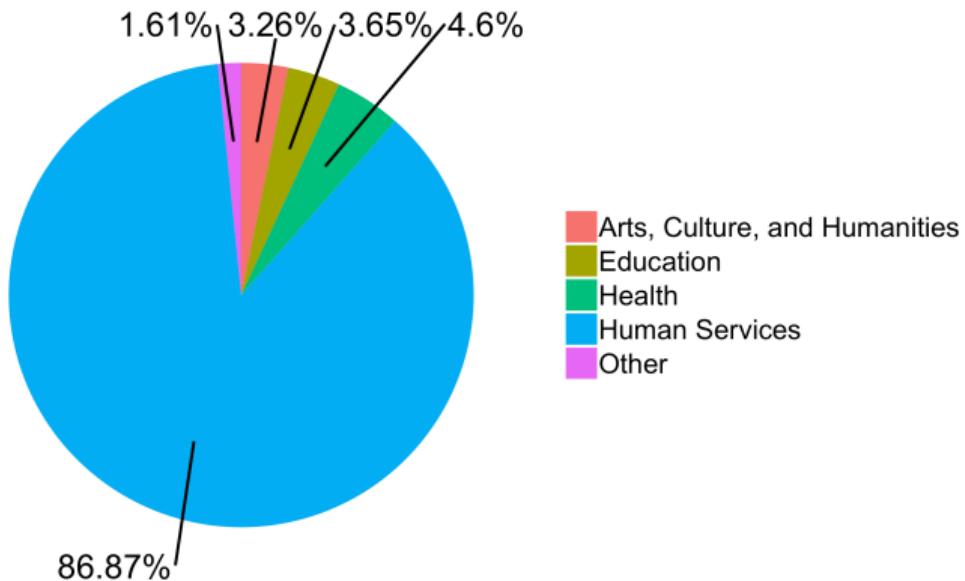
Total Contributions to Non-Profits

Santa Barbara County



Percentage of Contributions by Type of Organization

Santa Barbara County, 2017



Source: Guidestar.org

final remarks

- economy continues strong growth
- signs of slowing?
 - always some signs of slowing
- recession coming? yes

final remarks

- economy continues strong growth
- signs of slowing?
 - always some signs of slowing
- recession coming? yes
 - when? don't know, sorry