Recession Risks Across California
This month marks the end of the first decade without a U.S. recession since the 1850s.

As the cycle has progressed, concerns about an impending recession have grown.

In the past year, trade tensions, a slowdown in manufacturing, a yield curve inversion, and significant stock market correction have been suggested as the immediate cause of the next recession.

Regardless of the timing, part of what matters for California cities is what industries are most hard hit.

The Great Recession of 2007-2010 illustrates how the economic diversity of California shapes how bad a particular recession can be for particular places.
Great Recession: Employment Change, 2007-10

% Change in Employment, 2007-10

- > 10% loss
- 5% - 10% loss
- 2.5% - 5% loss
- 0 to 2.5% loss
- 0 to 1% gain
- 1% to 2% gain

Source: BEA
California County Specialization in Construction, 2007 vs. Overall Employment Change, 2007-2010

Source: BEA
As Well as Retail-Dependent Areas

California County Specialization in Retail Trade, 2007, vs. Overall Employment Change, 2007-2010

Source: BEA
Regional Differences Before the Great Recession...

Per Capita Income as % of State Average
California Counties, 2007

Source: BEA
...Have Generally Gotten Wider This Decade...

Per Capita Income as % of State Average
California Counties, 2018

- < 65%
- 65% - 75%
- 75% - 85%
- 85% - 100%
- 100% - 115%
- > 115%

Source: BEA
As Sectors Have Grown at Different Rates

Average Percentage Point Contribution to California's Real GDP, Selected Industries, 2010-2018

- Agriculture, forestry, fishing and hunting
- Construction
- Manufacturing
- Wholesale trade
- Retail trade
- Transportation and warehousing
- Information
- Finance and insurance
- Real estate and rental and leasing
- Professional, scientific, and technical services
- Administrative and support services
- Educational services
- Health care and social assistance
- Arts, entertainment, recreation, accommodation, and food services
- Government and government enterprises

Source: BEA
Keeping Recession Fears in Context

[Graph showing economic data over time]
A Long-Term View on Interest Rates & Inflation

Shaded areas indicate U.S. recessions

Sources: BEA, Board of Governors

fred.stlouisfed.org
Four Recession Scenarios

- CapEx Slowdown - Manufacturing
- Trade Tensions Continue – Logistics and Transportation
- Tech Bust - Tech
- Retail Armageddon – Retail Trade
Manufacturing Recession Risk

Source: BEA
Logistics Recession Risk

Concentration in Transportation as % of State Average
California Counties, 2018

- < 75%
- 75% - 100%
- 100% - 125%
- > 125%

Source: BEA
Tech Recession Risk

Concentration in Information as % of State Average
California Counties, 2018

- < 75%
- 75% - 100%
- 100% - 125%
- > 125%

Source: BEA
Retail Recession Risk

Concentration in Retailing as % of State Average
California Counties, 2018

Source: BEA
California’s cities and counties face different levels of recession risk, mainly because their economic structures are different.

This should not be over-stated. California’s regions are deeply integrated economically, and it’s hard to imagine a scenario in which one part of the state faces a recession while another avoids it.

Additionally, through their impacts on the State budget, a downturn in one highly-concentrated industry – the tech industry – could have fiscal implications in areas with little to no tech employment.

One of the implications of this view of recession risk is that three of the industries that may “trigger” a recession are in areas of the state that have done less well this decade. The next recession – like the past decade – may continue to strain regional inequality in the state.
California’s Fiscal Outlook

Presented to:
California League of Cities
Municipal Finance Institute

December 11, 2019
Gabriel Petek
Legislative Analyst’s Office

Economic Outlook
National Economy Projected to Experience Slow Growth in Coming Years

After Steady Run Up, Stock Prices Projected to Begin Leveling Off
Growth in Wages and Salaries Projected to Slow

Unemployment Rate Projected to Remain Low
Recent Drops in State Fiscal Health Index Could Be Harbinger of Slowdown

California’s Housing Outlook
Number of California Housing Permits Projected to Tick Up Over Period

Home Prices in California Projected to Grow Slowly Over Period
Growth in Assessed Property Values Projected to Hover at Historical Average

Growth in Assessed Values Varies Significantly Across the State

Estimated Percent Growth From 2019-20 to 2020-21

<table>
<thead>
<tr>
<th>County</th>
<th>Percent Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Joaquin</td>
<td>7.4</td>
</tr>
<tr>
<td>San Francisco</td>
<td>7.1</td>
</tr>
<tr>
<td>San Mateo</td>
<td>6.6</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>6.7</td>
</tr>
<tr>
<td>Sacramento</td>
<td>6.6</td>
</tr>
<tr>
<td>Placer</td>
<td>6.0</td>
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<tr>
<td>Sonoma</td>
<td>5.9</td>
</tr>
<tr>
<td>Nevada</td>
<td>5.8</td>
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<tr>
<td>Contra Costa</td>
<td>5.7</td>
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<tr>
<td><strong>Statewide Average</strong></td>
<td><strong>5.5</strong></td>
</tr>
<tr>
<td>Los Angeles</td>
<td>5.4</td>
</tr>
<tr>
<td>Riverside</td>
<td>5.4</td>
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<tr>
<td>San Bernardino</td>
<td>5.2</td>
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<tr>
<td>Orange</td>
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<td>Santa Barbara</td>
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<td>San Diego</td>
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<td>Fresno</td>
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<td>Marin</td>
<td>4.5</td>
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<tr>
<td>Ventura</td>
<td>4.3</td>
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<td>Kern</td>
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</table>
State Fiscal Outlook

LAO Estimate of Near-Term Budget Condition

<table>
<thead>
<tr>
<th>General Fund (In Millions)</th>
<th>2016-17</th>
<th>2019-20</th>
<th>2020-21</th>
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<tbody>
<tr>
<td>Prior-year fund balance</td>
<td>$11,155</td>
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<td>Revenues and transfers</td>
<td>139,281</td>
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<td>Expenditures</td>
<td>142,688</td>
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<td>Ending fund balance</td>
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<td>$5,375</td>
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<td>Encumbrances</td>
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<td>SFEU balance</td>
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<td>Reserves</td>
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<td>BSA</td>
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<td>SFEU</td>
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<td>Safety net</td>
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<tr>
<td>Total Reserves</td>
<td>$21,399</td>
<td>$21,079</td>
<td>$25,054</td>
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Ongoing Surpluses Around $3 Billion Under Economic Growth Baseline Scenario

Surpluses Decline to Less Than $1 Billion Under Alternative Expenditure Scenario
State Revenue Levels Differ Substantially Under Two Economic Scenarios

Without Significant New Spending, California Could Weather a Typical Recession
Minimum Guarantee Differs by Billions of Dollars Under Two Scenarios

LAO Estimates (In Billions)

lao.ca.gov
two possible social safety nets

- Plan A: means tested transfer
  - $1000 per month to those with $0 income
  - the transfer is phased out: recipients lose 20 cents for every dollar of income
  - financed by a progressive income tax: the government taxes 20% on all income above $60,000 per year
two possible social safety nets

- **Plan A: means tested transfer**
  - $1000 per month to those with $0 income
  - the transfer is phased out: recipients lose 20 cents for every dollar of income
  - financed by a progressive income tax: the government taxes 20% on all income above $60,000 per year

- **Plan B: universal basic income**
  - a transfer of $1000 per month to everyone
  - financed by a 20% flat tax on all income
### Social Safety Nets

<table>
<thead>
<tr>
<th>Income (Income)</th>
<th>Transfers (Transfers)</th>
<th>Taxes (Taxes)</th>
<th>Income (Income)</th>
<th>Transfers (Transfers)</th>
<th>Taxes (Taxes)</th>
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### Social Safety Nets

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<th>Income (A)</th>
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<th>Taxes (B)</th>
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state of the world

- Europe a mixed bag
- US still chugging along
  - despite all the side shows
    - tariffs
    - tweets
    - impeachment
  - life on other planets
- Fed met today: did nothing
Real GDP Change

Annualized quarterly growth

Jan: 2.29
Apr: 2.15
Jul: 3.2
Oct: 3.55
Jan: 2.55
Apr: 3.51
Jul: 2.93
Oct: 1.09
Jan: 3.1
Apr: 2.01
Jul: 2.12

BLS
Unemployment Rates

Source: BLS
The chart shows the trends of Hiring Rate and Quit Rate from 2001 to 2019. The Hiring Rate is represented by a blue line, which generally shows a slight decrease over the years, with notable fluctuations. The Quit Rate, shown in red, follows a pattern of increasing fluctuations, especially post-2009. The shaded areas indicate significant periods: 2001-2003 and 2009-2011.

Source: BLS
people and the market

- how do they view things?

- all in stride it seems
Labor Force Participation

Percent

Source: BLS
recession? 

recession in the offing?
recession? recession in the offing? ALWAYS
Recession Probability


Source: Piger
Probability of Expansions Ending

Hazard Function vs. Expansion Age in Months

Before World War II

After World War II

Sources: FRED and author’s calculations.

Federal Reserve Bank of St. Louis
issues on the horizon

- cannabis
- minimum wages
- rent control
- ecommerce and retail employment
ok, done