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UCSB Economic Forecast Project Issues Revised Forecast for State's Economy

Officials of the Economic Forecast Project at the University of California, Santa Barbara have revised their forecast for the performance of the California economy in 2001.

"As we were preparing a new economic forecast for Ventura County, we saw the need to update our earlier statements about the California economy," said Bill Watkins, executive director of the forecast project and a former research economist in the Monetary Affairs Division of the Federal Reserve in Washington, D.C. "We are seeing a lot of negative incoming data and that, plus the energy situation in California, called for a revision."

Among the indicators on which Watkins and his group have based their revised forecast:

·An increase in corporate layoffs.

·Declining production numbers, especially in the automobile industry and for other durable goods.

·Banks tightening lending standards, despite falling interest rates.

·Lower demand for commercial loans.

"In view of all this, we felt it was important to let the community know - particularly for planning purposes - that we've changed our outlook," said Watkins.

The text of the statement from the UCSB Economic Forecast Project is attached.

The California Economy in 2001: An Update

The University of California, Santa Barbara Economic Forecast Project is a research unit that provides economic data, analysis, and forecasts to the community.

This update is intended to provide the community and policy makers with notice of a significant change in our expectation about the performance of the California economy in the coming year.

Our forecasts for the California economy have been fairly bullish.

While we warned of several economic risks, we expected the California economy to outperform the U.S. economy.

Now, however, we modify that position.

We expect that the energy crisis will constrain the growth of California's economy to be below that of the nation's.

Given the weakness of incoming national economic data, Alan Greenspan's recent comments, and the electrical shortages, the outlook for California is for dramatically decreased economic growth.

Of particular concern are the most recent Industrial Production data and the most recent FED Senior Loan Officer Opinion Survey on Bank Lending Practices.

It is now more likely than not that California will have at least two quarters of no real economic growth in 2001, and negative economic growth for two quarters is a very real possibility.

The severity and duration of California's economic slowdown will depend on the national economy and the State's response to the energy crisis.

Its impact will vary across the counties of the State.

The consensus among economists is still that the U.S. economic growth rate will slow but remain positive in 2001.

How quickly and effectively California deals with the electricity shortage is a result of a political process and thus very difficult to forecast.

California's electrical problems are unique in the United States, but high natural gas prices are a national problem.

These problems will have serious economic impact for the State, both in the short run and in the long run.

The shortage of electricity and the possibility of blackouts impose substantial burdens on businesses, governments, and consumers.

Businesses experience significant losses in the event of electrical interruptions.

Many businesses are paying large amounts for their own emergency generating facilities.

Blackouts can cause disruptions in the supply of oil, natural gas, gasoline, and water; each of these commodities is moved around the state with electrical pumps.

Crops can be destroyed or lose value if they cannot be protected from frost, irrigated, or cooled prior to shipping; each of these are energy intensive processes.

The additional expenses and inconvenience resulting from energy interruptions, and the possibility of energy interruptions, will almost surely result in decreased investment in plant, equipment, and jobs in California.

Businesses cannot be expected to move to or expand in a state with an unreliable source of electricity.

Furthermore, the attractiveness of other states for California firms increases as the crisis is prolonged.

Bill Watkins

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About UC Santa Barbara

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