# Flat

**All forecasts are wrong…**
**Good forecasts are less wrong.**
***Christopher Thornberg, Beacon Economics***
***November 3, 2006***

Because Christopher Thornberg's observation above may be correct--that forecasts (and by extension, forecasters) are invariably wrong--this document will be long on data and commentary from "experts" and short on predictions.

**The Grand View**

One of the experts we've referred to in the past is Thomas L. Friedman, author of *The World is Flat: A Brief History of the Twenty-First Century*. When Friedman says the world is flat, he means that "Several technological and political forces have converged, and that has produced a global, Web-enabled playing field that allows for multiple forms of collaboration without regard to geography or distance—or soon, even language."

Wired Magazine, May 2005

Here at SRJC, we are preparing students to live and work in Friedman's flat world. Reviewing Friedman's book in *The New York Times*, Fared Zakaria notes, "…there's no way to stop the wave. You cannot switch off these forces [globalization, the rising influence of China and India, the rush to capitalism of many developing nations] except at great cost to your own economic well-being. Over the last century, those countries that tried to preserve their systems, jobs, culture or traditions by keeping the rest of the world out all stagnated."

The New York Times, May 1, 2005

Our students and graduates continue to face a rapidly evolving job market and a dynamic economy the resists easy classification. Current characteristics include:

- Stagnant wages and weak job growth, despite a surge in corporate profits over the past five years
- Falling wages for young college graduates
- Projections for decent growth in California's economy yet flat growth in Sonoma County's economy
- Declining number of jobs of all types in Sonoma County (the county lost jobs in September for the fifth straight month—the longest period of job losses since 2001)
- Decreasing unemployment rate in Sonoma County (the county unemployment rate dipped to 3.7 percent in September, possibly indicating that fewer people are looking for work)

> Observers have attributed the stagnant wages and weak job growth throughout the United States to factors such as rising productivity and tight control of expenses. Economists also cite other influences such as global trade, immigration, and the declining power of unions in this country.

San Francisco Chronicle, November 12, 2006

> "There are two economies out there. One has been just white hot, going great guns. Those are the people who have benefited from globalization, technology, greater productivity and higher corporate earnings. And then there's the working stiffs who just don't feel like they're getting ahead despite the fact that they're working very hard."
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> The New York Times, August 28, 2006

Recently, *The New York Times* ran an editorial regarding "…working Americans—non-managers who make up 80 percent of the labor force and whose wages up until now have not reflected their impressive productivity over the past several years." The Times noted that in September and October of this year the wages of these working people had shown real gains, with wages outpacing inflation, which had moderated because of declining energy prices:

> "The gains of September and October were due to declining inflation, not faster wage growth. And with most economists predicting a slower economy through the middle of next year, it's unlikely that American workers will get a sustained pay boost any time soon. In other words, Americans' purchasing power now depends almost entirely on the up and down of energy prices."
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> The New York Times, November 22, 2006

> According to the U.S. Bureau of Labor Statistics, the U.S. economy each quarter destroys nearly 7 percent of existing jobs and creates a roughly equivalent percentage. Yet a report issued recently by UC Davis indicates that during the "past few decades, job stability and job tenure for the typical worker don't seem to have changed much, if at all." Today's workers might have several jobs during their working life, but those jobs might be with the same company. Despite the lack of change in job tenure, the report noted that workers still have plenty of reason to feel anxious: "Job stability isn't the same as job security. The consequences of losing a job are far more severe today than they were in previous generations."
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> The Press Democrat, September 11, 2006

Most folks working at SRJC seem to agree that, in the next few years, two demographic groups in Sonoma County will see population gains, and, therefore, will influence our programs: Latinos and older adults. Although many local businesses and the college have begun to address issues related to the Latino population, the aging adult population is still only dimly perceived by most people. Business leaders and human resource professionals in Sonoma County acknowledge the issue, but few have devised strategies to utilize the boomers' talents and minimize the impact of massive numbers of aging workers either leaving their jobs or remaining in the workforce over the next few years.

According to the U.S. Bureau of Labor Statistics, in the U.S. by 2012:

- Workers over age 55 in the U.S. labor force will increase 50 percent while the number of workers between 35 and 44 will decrease by 6.8 percent
- Women aged 55 to 64 in the labor pool will increase from 41.8 percent in 1982 to 60.6 percent
- Workers aged 65 to 74 will increase in the labor pool from 16.2 percent in 1982 to 23.6 percent

**Why go to college, anyway?**

On November 16, 2006, the *San Francisco Chronicle* featured an eye-catching headline: "Two-year colleges failing mission." The head was supported by the text, which was based on research by the Public Policy Institute of California. After studying all community colleges in the California system, the researchers concluded that:

- Only about one-fourth of students who concentrate on transfer courses eventually move on to four-year institutions
- Only one-tenth of community college students who concentrate on associate degree courses eventually earn those degrees

The study did provide some excuses for those of us in the system:

- Ninety percent of students enter community college unprepared to do college level math
- Seventy-five percent of students are unprepared for writing and English
- The system is not set up to perform the remedial work required for these students

Add this information to a report on *sfgate.com* (January 19, 2006) based on studies from the American Institutes for Research, and you have a bleak picture of college education in this country:

- More than 50 percent of students at four-year-schools and more than 75 percent at two-year colleges lack the skills to perform complex literacy tasks (they could not interpret a table about exercise and blood pressure, understand newspaper editorials, or summarize the results of surveys)
- Almost 20 percent of students pursing four-year degrees had only basic quantitative skills; about 30 percent of two-year students had only basic math skills (these students could not estimate if their car had enough fuel to make it to a service station)

In the good old days, a college education guaranteed better earnings. In today's global economy, the degree is helpful, but it is certainly no guarantee:

> "It turns out that the median earnings of young college grads, adjusted for inflation, fell by an astonishing 3.3% in 2005. That's on top of similar declines in 2004 and 2003. All told, the earnings of young college grads are down by almost 8% since 2002. . . . By young college grads, we mean full-time workers between the ages of 25 and 34 with a B.A. but no advanced degree.
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> "These are people who first entered the workforce during the past 10 to 12 years, some during the boom, some during the early years of the bust. What they've experienced over the past several years is an unrelenting downdraft in wages, probably the first sustained decline for college grads since the 1970s."

BusinessWeekOnline, August 29, 2006

Despite the gloomy BusinessWeekOnline assessment, recent college graduates (those leaving college in 2006 with four-year degrees) have a marginally better outlook:

> "Study after study underscores how much a college degree counts in the workplace. Graduates earn higher salaries, undergo fewer periods of unemployment, and have a broader array of options. . . . As a whole, occupations that employ mostly college graduates are expected to gain new jobs faster than occupations that employ workers who have less education."
>
> San Francisco Chronicle, November 12, 2006

**The Local View**

Economists commenting on the local economy have no idea where it's heading, as this headline in *The Press Democrat* of September 24, 2006, demonstrates: "Puzzling Slump: Analysts, industries wonder what's in store for Sonoma County job growth." The writer notes that, "Job growth has suddenly stalled in Sonoma County, a mysterious trend that has analysts wondering if local employers are firing workers—or are just unable to hire them." The analysts list three potential causes for the slump:

- Employers may have jobs to fill but can't entice potential workers to move here because the cost of living is too high
- The economy is slowing significantly as a result of higher energy costs, a cooling housing market, increased interest rates, stagnant wage growth, and other factors
- The data is wrong

Although the writer can't pinpoint the cause of the slump—or the reasons for the confusion—he concludes that "The cooling housing market is likely playing a significant role in the slowdown."

This conclusion is echoed by economist Steven Cochrane with Moody's Economy.com, who described the slowdown as extraordinary and possibly a result of the elevated cost of living. Cochrane hinted that a recession might be possible, a view advanced recently by Christopher Thornberg, Beacon Economics, who believes we have a 1 in 2 chance for a recession next year, largely driven by the amount of decline in the local housing industry. His assessment: "Overall, the 2007 economic outlook remains very shaky."

*The Press Democrat* has indicted that Sonoma County home sales are down more than 27 percent this year, and the median price has fallen 7.7 percent over last year. What's happening? Thornberg said that the current slump is unusual, particularly in California, because economic signals are generally positive: unemployment is low; income gains top the national average, tourism is strong, commercial leasing has improved, manufacturers are earning record profits, oil prices have fallen, interest rates are relatively low, and the stock market is strong.

We could argue that Sonoma County is finally matching the rest of California and the nation:

> "California workers experienced stagnant wages and weak job growth during the past five years despite a surge in corporate profits. . . . Many California workers are losing purchasing power as inflation outpaces their earnings. . . . The California data mirrors the sluggish growth in wages and jobs in the nation as a whole."
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> San Francisco Chronicle, September 3, 2006

**So, what do we think we know?**

- Nationally, residential real estate is overbuilt and housing values will continue to decline, resulting in a very real possibility of a recession in 2007 (Christopher Thornberg)
- The economies of the state and the nation are producing jobs at a decent, not spectacular, rate
- Many of those new jobs are not great: Salaries are often low and benefits minimal
- Real wages across the nation have declined, so that the average household income is only slightly above where it was in 1973 (The New Yorker, January 16, 2006)
- Job creation in Sonoma County is tepid
- The quality of Sonoma County's jobs is also in decline (58 percent of new jobs in the county between 2003 and 2005 paid wages below the average wage)
- By 2010, Latinos will comprise one-third of the seniors in high schools, but overall, the number of high school graduates will not increase
- Over the next few years, the number of adults in the county age 30 – 59 will decline while the number over 60 will increase dramatically
- SRJC cannot rely on an increase in county population to grow the college into fiscal health: Population growth in the county in 2005 was approximately 0.4 percent (more people moved out than moved in, and only births provided an increase in population; from 2002 to July 2006, county population increased 0.6 percent)

After assessing the conflicting economic data and listening to contradictory forecasts from confused analysts, it might be appropriate to end with a commentary about economists:

> The interviewer calls in the mathematician and asks, "What do two plus two equal?" The mathematician replies, "Four." The interviewer asks, "Four, exactly?" The mathematician looks at the interviewer incredulously and says, "Yes, four, exactly."
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> Then the interviewer calls in the accountant and asks the same question, "What do two plus two equal?" The accountant says, "On average, four—give or take ten percent, but, on average, four."
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> Finally, the interviewer calls in the economist and poses the same question, "What do two plus two equal" The economist gets up, locks the door, closes the shade, sits down next to the interviewer, and whispers, "What number do you want it to equal?"

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