



GIVING COUNCIL: THE ECONOMY, CAPITAL AND THE GIVING MARKET

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Agenda

- Global/US economic outlook and review
- State and regional review in this context
- What is being forecasted?
- Trends in Giving: recent report by California and Marin County
- Considerations about demographic change and millennials
- Capital and the 1% versus the 99%: rhetoric \Rightarrow tax law change
- Pitfalls and possibilities to consider
- Q & A

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Where is the Economy Going?



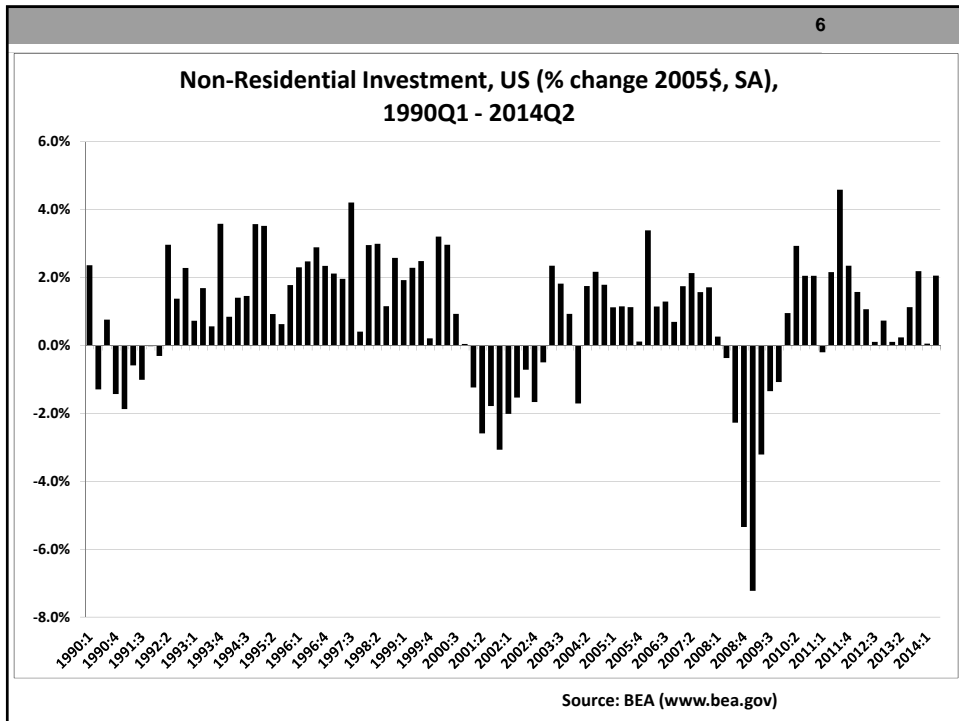
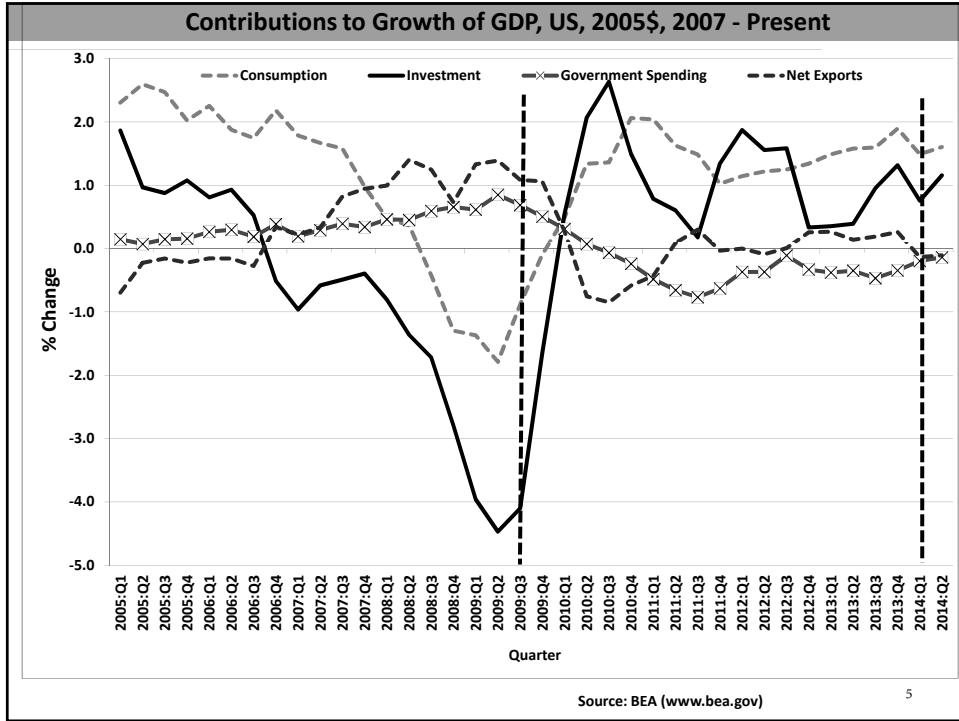
- What to celebrate
 - 5+ years of trended equity market growth
 - 5+ years of trend job gains
 - 5+ years of economic recovery
- Concerns
 - 5+ years of trended equity market growth: correction coming?
 - 5+ years of trend job gains: wages increasing but real slowly
 - 5+ years of economic recovery: interest rates and prices not rising ... yet

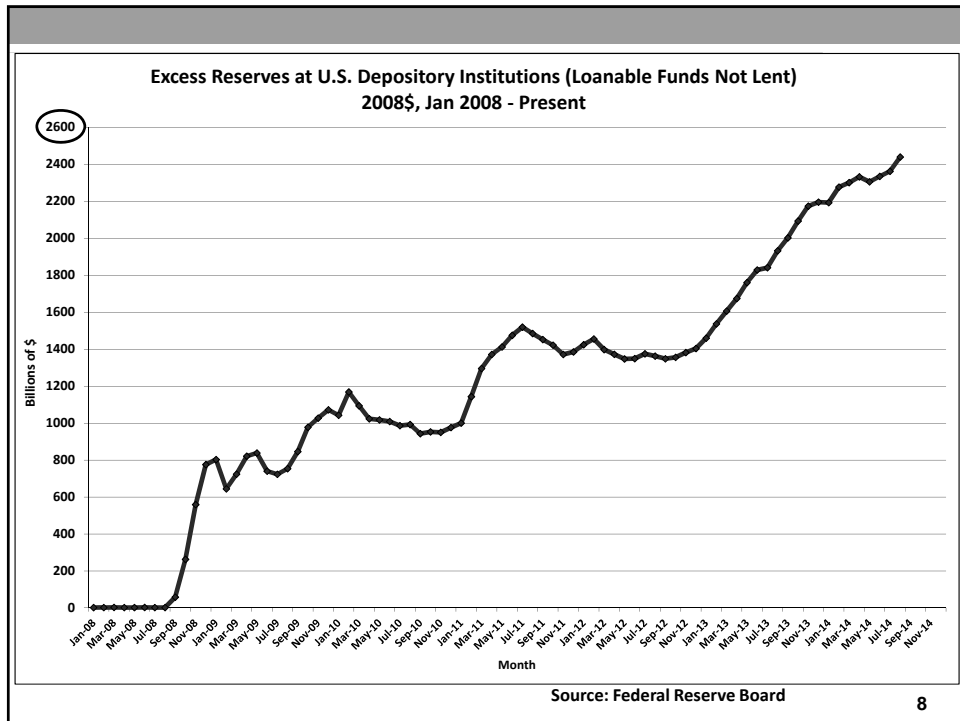
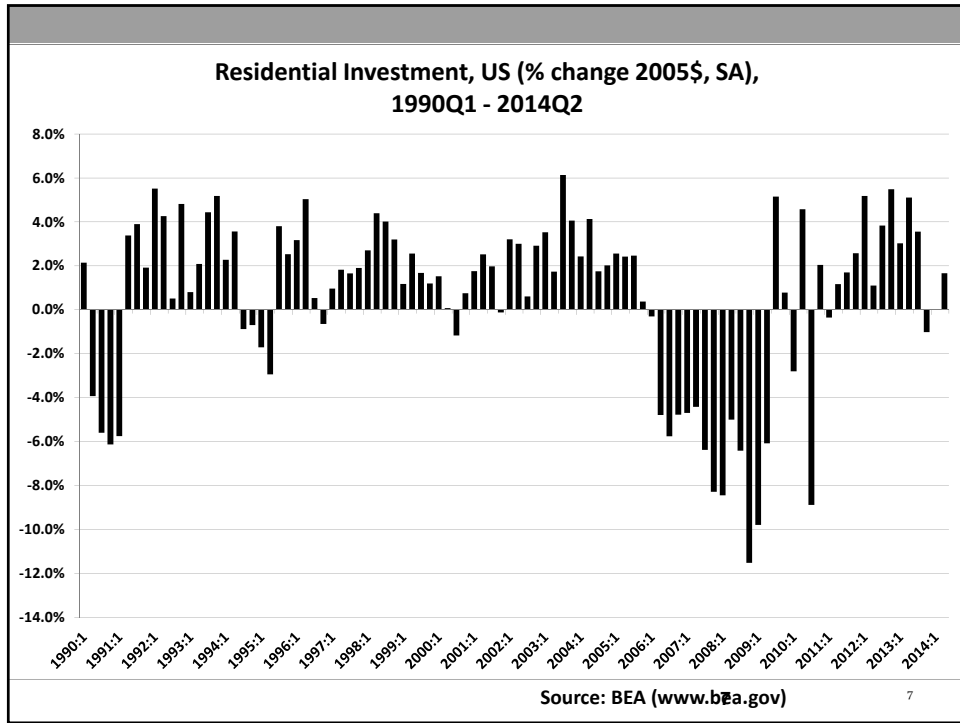
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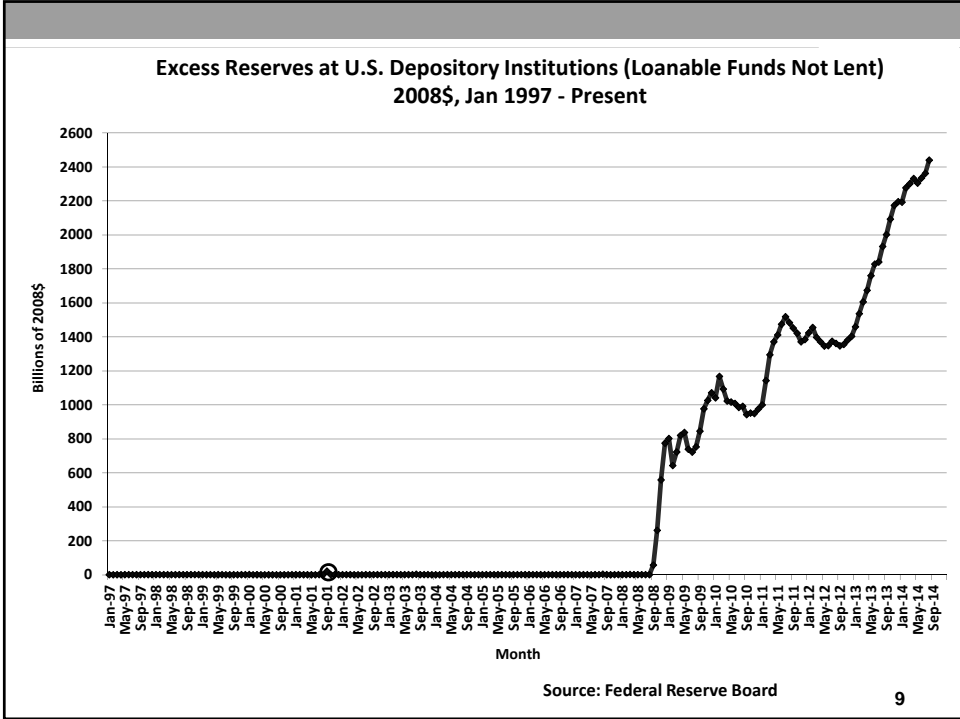
Global Issues as 2014 closes



- Chinese economy showing signs of slowness, still very strong
- Federal Reserve should raise interest rates, even 25 basis points
- Europe may be more like Japanese economy than CA
- Geopolitics making financial markets cautious in fits and starts
- Drought coming to parts of California
- All tied to each other








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Philadelphia FED Forecasts, US Economy

Median Forecasts for Selected Variables in the Current and Previous Surveys						
	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2014:Q3	2.9	3.0	6.3	6.1	204.7	228.6
2014:Q4	3.2	3.1	6.2	6.0	197.9	211.2
2015:Q1	3.1	3.1	6.1	5.8	199.3	208.3
2015:Q2	3.1	3.1	6.0	5.8	204.8	209.2
2015:Q3	N.A.	3.0	N.A.	5.6	N.A.	200.7
<i>Annual data (projections are based on annual-average levels):</i>						
2014	2.4	2.1	6.4	6.3	196.5	204.8
2015	3.1	3.1	5.9	5.7	202.7	214.0
2016	3.1	2.9	5.6	5.4	N.A.	N.A.
2017	2.8	2.8	5.5	5.3	N.A.	N.A.

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California



- Growth continues, forecasted through 2017
- Bifurcated California continues: coastal versus valleys
- Bay Area again the powerhouse in California
 - San Diego emerged more quickly: biotech
 - LA lagged a bit, but moving faster closer to coastline
 - SF absorbing movements from both Silicon Valley and San Mateo County
- State tax revenues buoyed by Bay Area economic activity
 - No real, new discussion of structural change
 - Watch for what happens when there is a stock market correction

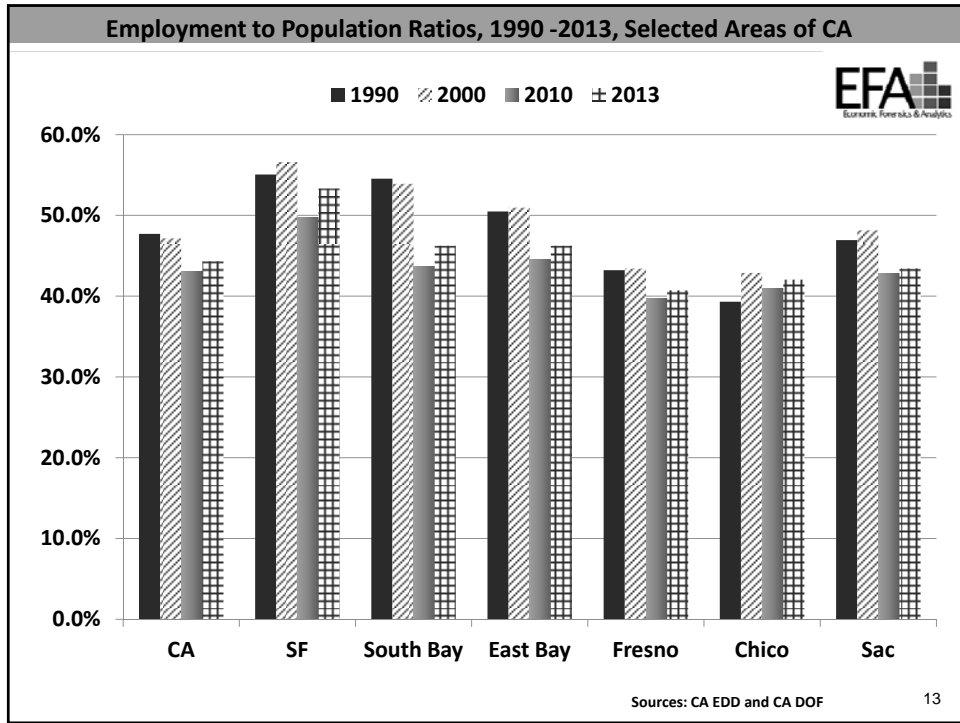
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Inflation and Regionality



Consumer Price Index		San Francisco	Los Angeles	
YTD Average (July)	United States	CMSA	CMSA	California
2013	232.542	244.197	239.185	241.281
2014	236.651	250.509	242.352	245.247
Percent Change	1.8%	2.6%	1.3%	1.6%

Source: CA Dept of Finance 12

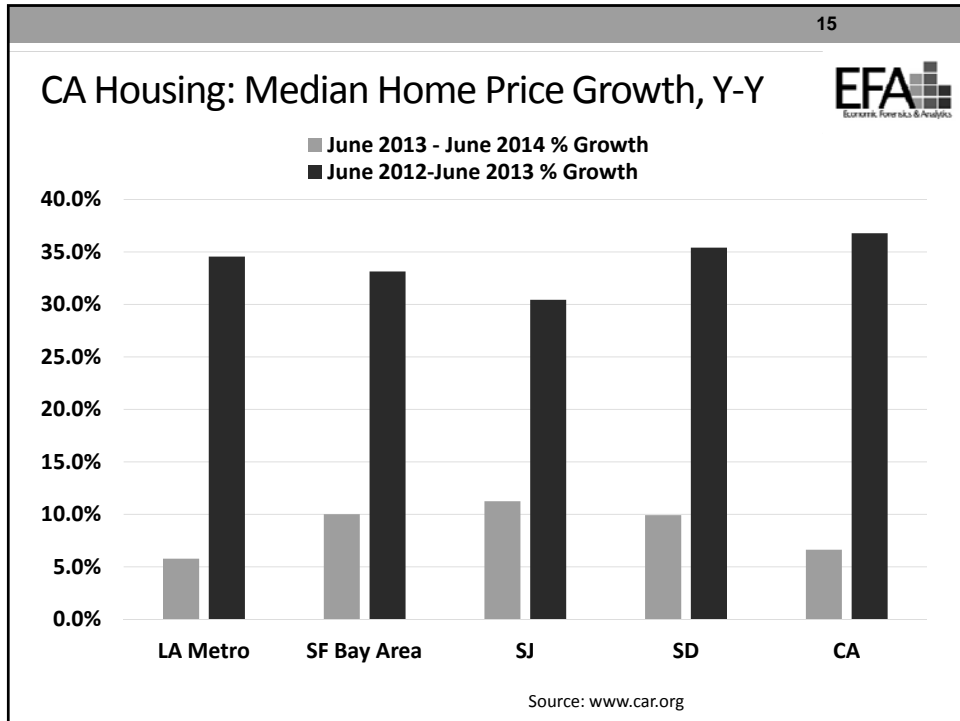


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Housing Markets

- **Basics data and takes**
 - Housing prices moving as predicted for 2014: +8-10%
 - Inventory remains low
 - Rents remain high
- **Considerations for Shifting Wealth**
 - Rent prices will transmit to churn and higher wage demands
 - Are we becoming a society of renters?
 - Are “millennials” that much different in terms of housing and recent recession?

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The giving markets

- Philanthropy tied to economic performance
- Recession slowed down and also redistributed giving
- Recovery had slowly augmented giving again
- Major factors:
 - Stock market returns/interest rates
 - Tax laws, both current and forecasted
 - Amount of financial planning
 - Demographic factors: aging and expected life span

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National Stats



- **1,429,801 tax-exempt organizations**, including:
 - 966,599 public charities
 - 96,584 private foundations
 - 366,618 other types of nonprofit organizations, including chambers of commerce, fraternal organizations and civic leagues.

(Source: [NCCS Core Files 2014](#))

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Stats (cont.)



- In 2012, public charities reported over **\$1.65 trillion in total revenues**:
 - 21% came from contributions, gifts and government grants.
 - 73% came from program service revenues, including government fees and contracts.
 - 6% came from "other" sources including dues, rental income, special event income, and gains or losses from goods sold.

(Source: [NCCS Core Files 2012](#))

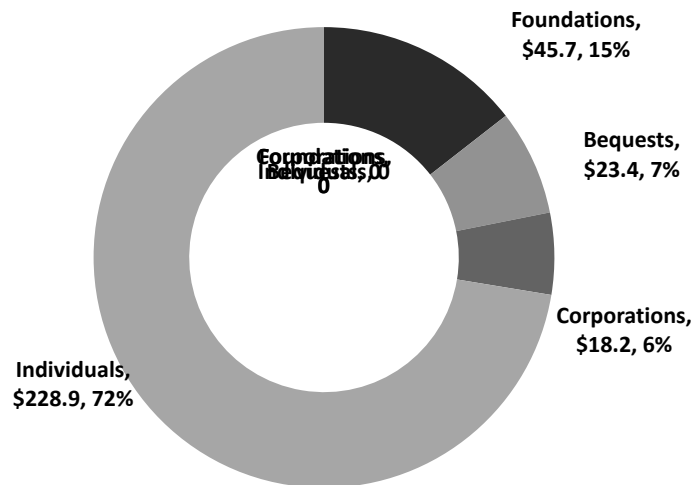
The Giving Side (Supply)



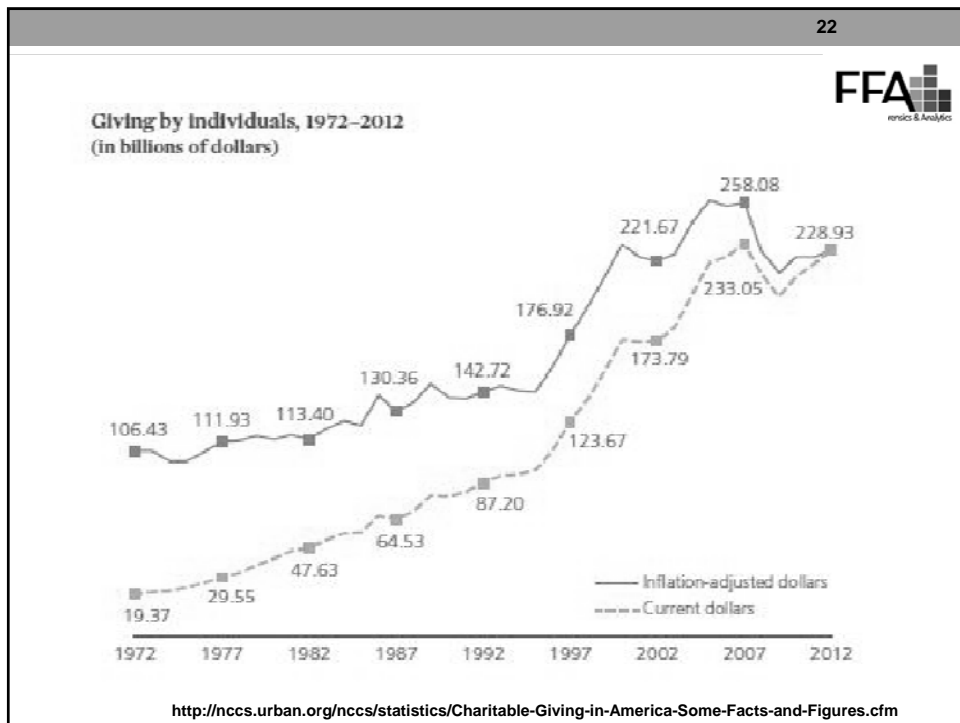
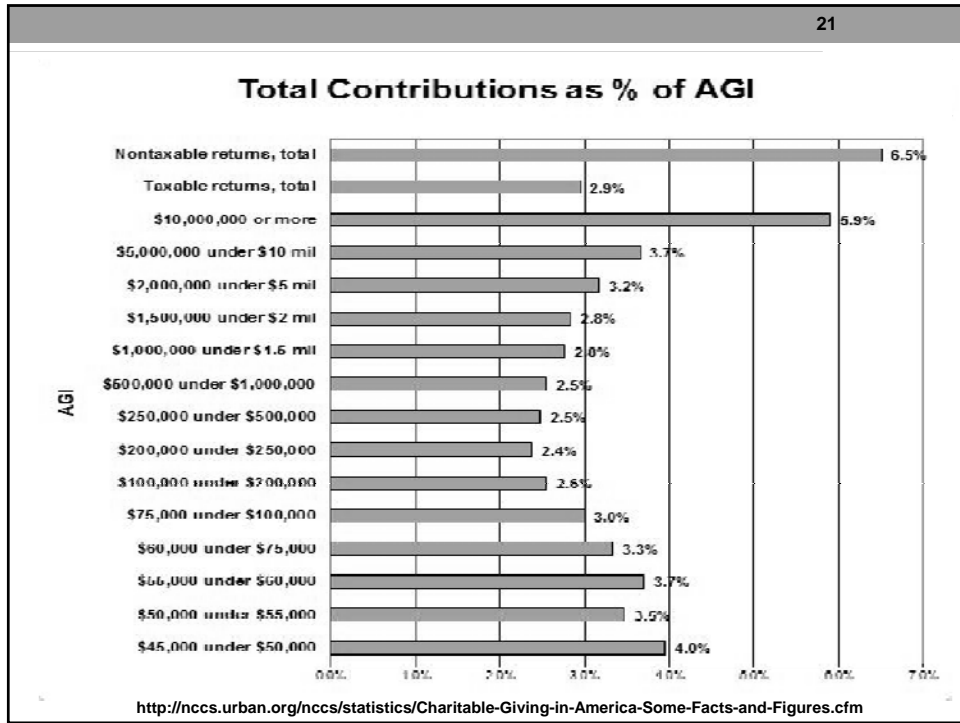
- Approximately **25.4% of Americans** over the age of 16 volunteered through or for an organization between September 2009 and September 2013.
 - This proportion has remained relatively constant since 2003 after a slight increase from 27.4% to 28.8% in 2003.
- **Charitable contributions by individuals, foundations, bequests, and corporations reached \$316.23 billion** in 2012, an increase of 0.6% from the revised 2011 estimates and after adjusting for inflation.

(Source: Current Population Survey, September 2013)

2012 Donations Sources, Billions \$



<http://nccs.urban.org/nccs/statistics/Charitable-Giving-in-America-Some-Facts-and-Figures.cfm>

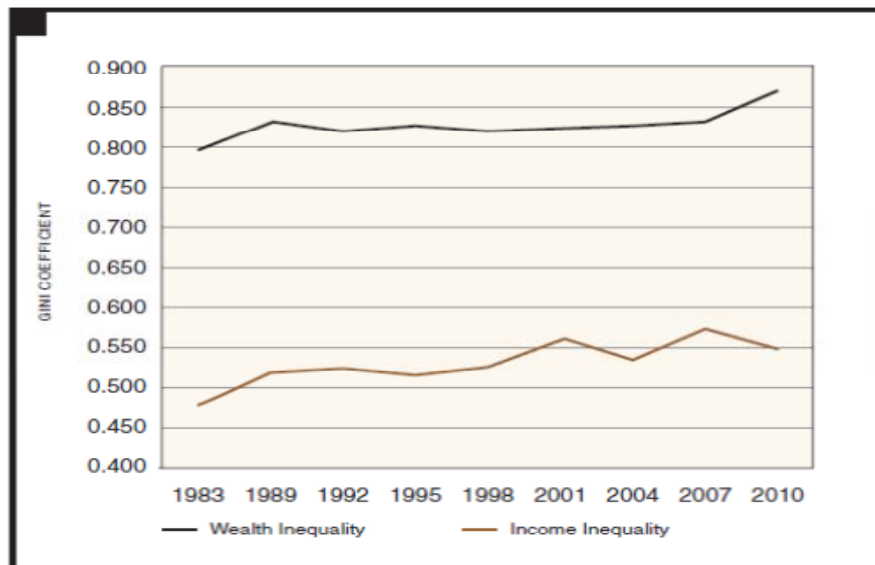


Income Inequality

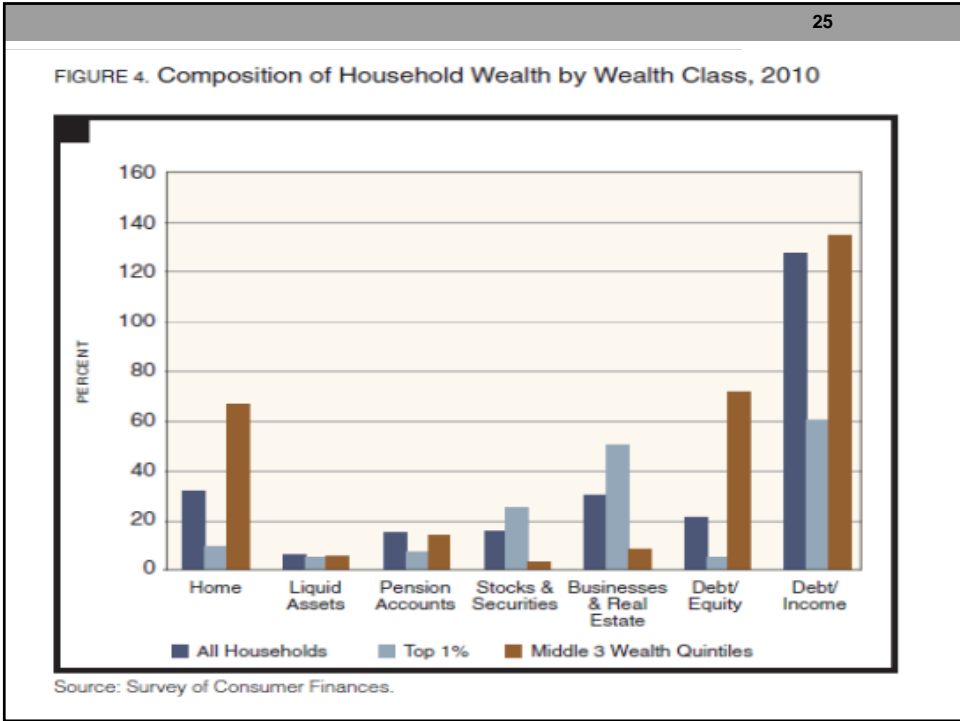


- Ideas around income inequality have become more focal
- What is this idea?
 - Many ways to measure it in economics
 - How much of the total income is accumulated by a small (or equal) part of the population.
- Why we care during recession:
 - Job loss exposes people to wealth loss
 - Ask for more from society, nonprofits or government or both
- Why we care less during booms/recoveries
 - More people working and growing wealth
 - Smaller set of voices

FIGURE 3. Wealth and Income Inequality, 1983-2010 (Gini Coefficients)



Source: Survey of Consumer Finances.



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Thinking about Capital...again

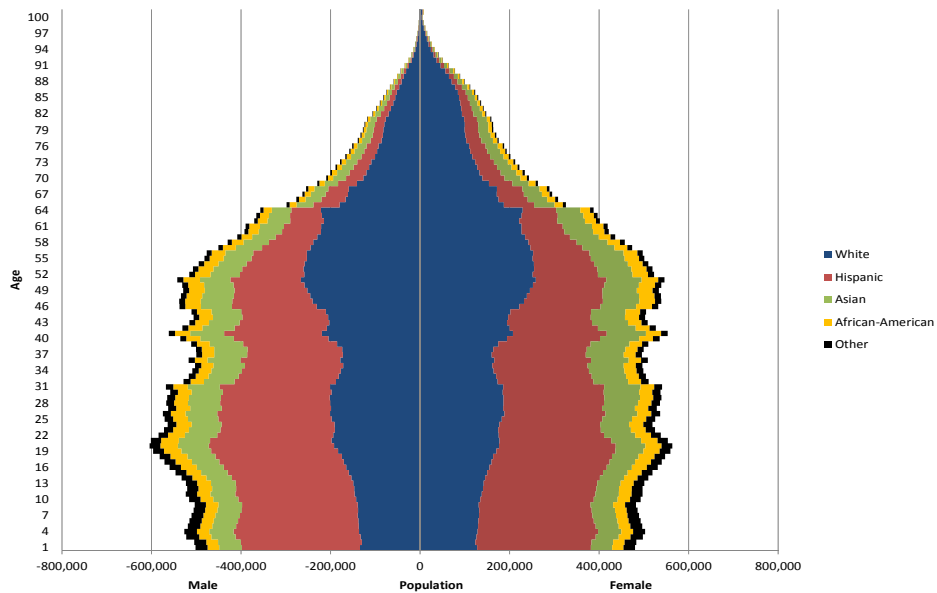
- Thomas Piketty Book on Capital in the 21st Century
 - Not a new Das Kapital, but some similar economic themes (from my dissertation chair at UC Davis, Peter Lindert, NBER 20232)
- Inequality of income, disposable and otherwise
 - Tax laws too loose
 - Inheritance taxes also too allowing
 - Ratio changes in wealth to income not a major factor
 - Rates of return arguments not a big deal either in terms of a predictor of income inequality
 - Share of property income to total income also not a great predictor

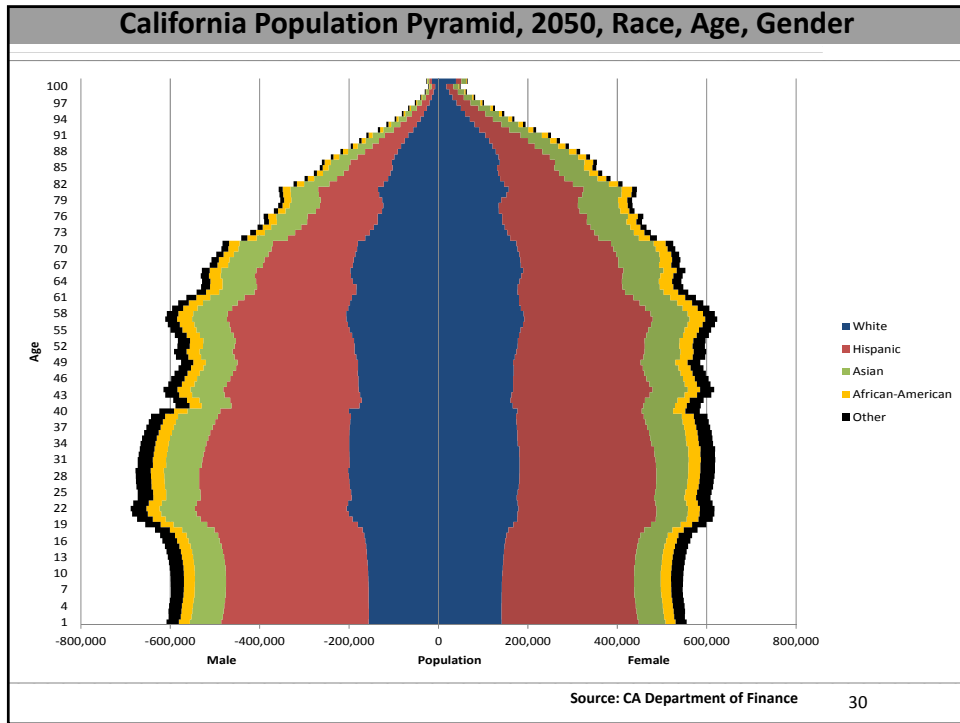
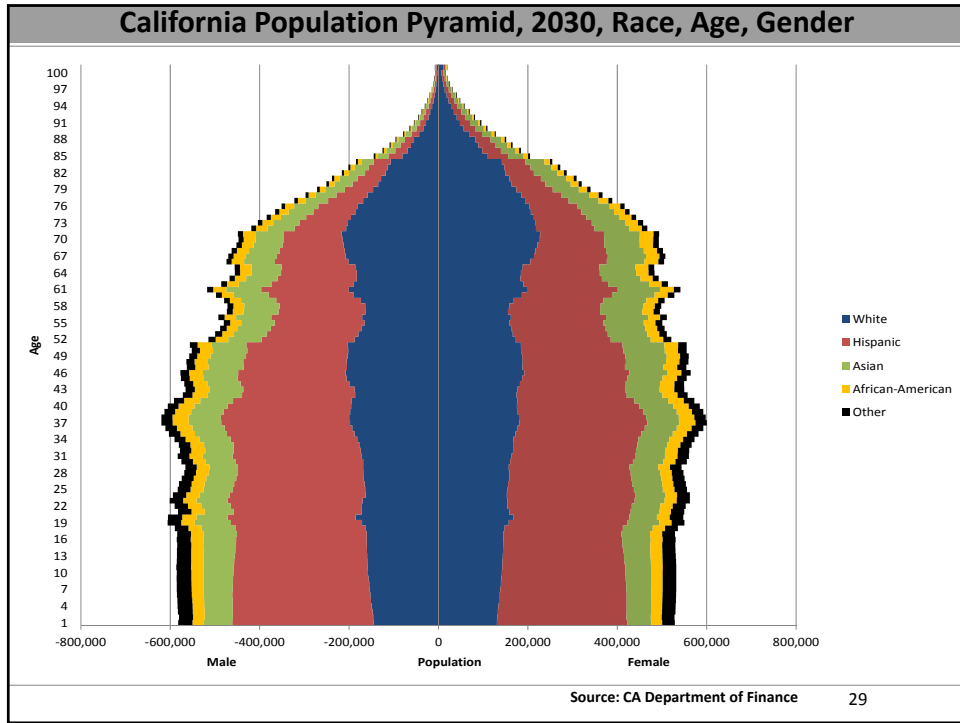
Changing Demography



- US population is aging, regionally aging more quickly
- Will aging cause more of a draw than a gain for charitable orgs?
- More gain: estates will provide more inflows than will draw
- More loss: income inequality will cause more draw than gain because wealth loss over a longer life span will lead to more of a draw on nonprofits and on governments

California Population Pyramid, 2010, Race, Age, Gender



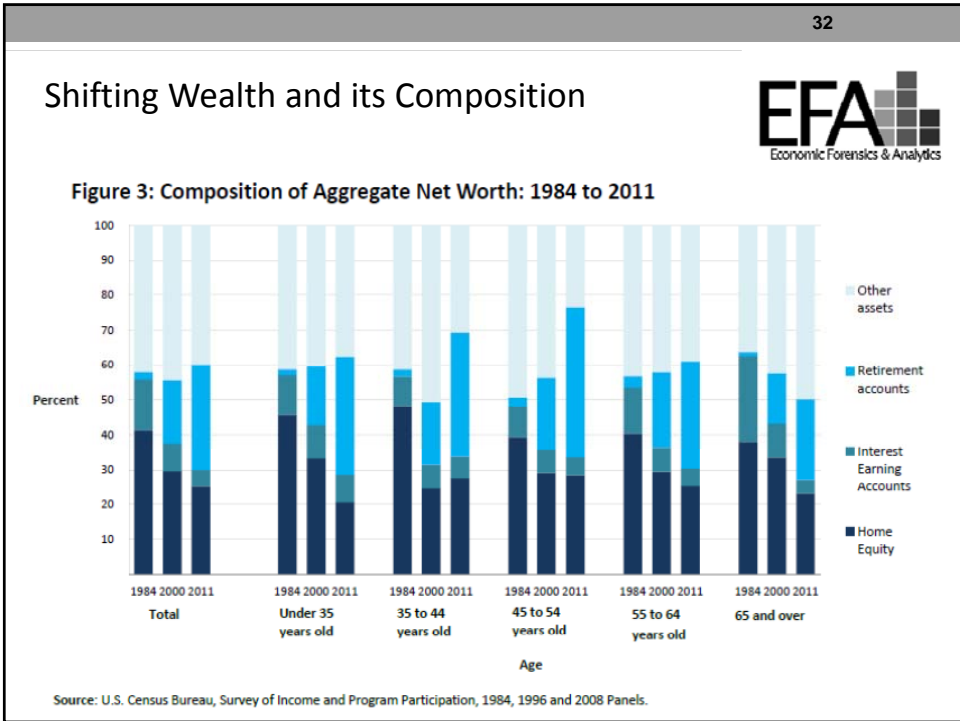


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Shifting Wealth



- Global tensions
 - Geopolitical: Eastern Europe and Middle East
 - Slowing global outlook and economies
 - Europe the main issue
 - China with questions, but with growth
- National
 - Job numbers deemed “insufficient” to declare pressured recovery: prices not rising significantly yet
 - Equity markets providing incentives to diversify



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Linking these concepts



- Labor markets: will people stay at work longer?
- Poverty: is this hunger, income, wealth?
- Safety Net: giving industry, public increased burdens
- Income versus wealth inequality: mobility versus permanent barriers
- Health inequality: access and affordability
- Education: classic mobility tool, will it remain affordable?

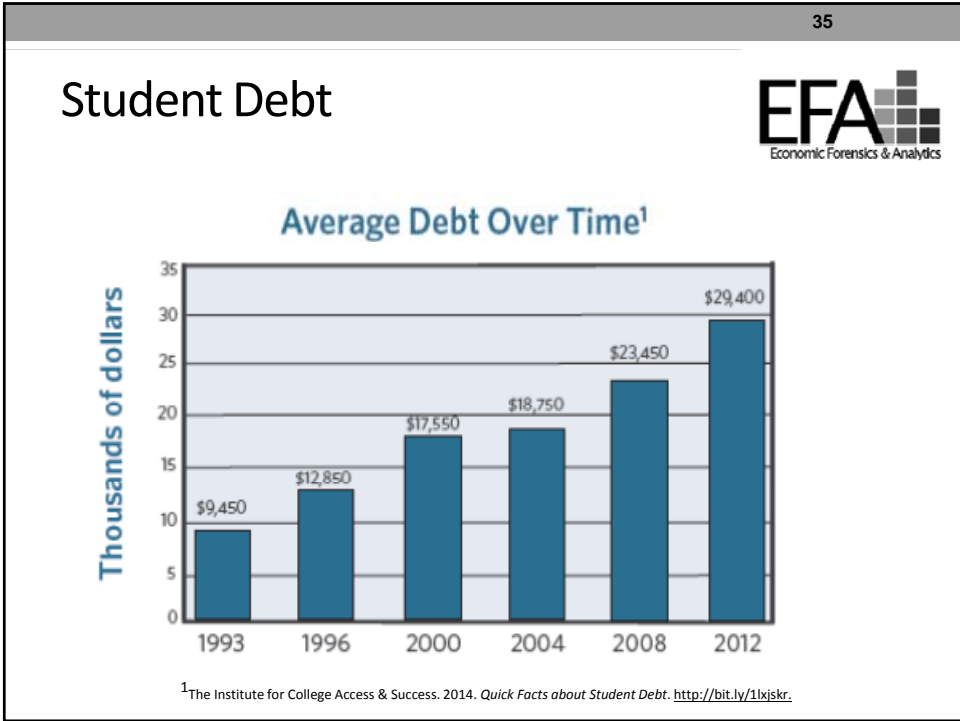
Source: Poverty and Inequality Report, Stanford U., 2014


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Public Sector



- Taxes going to rise
 - How would a repeal of Prop 13 change housing wealth and financial choices for more senior residents?
- Expect at both state and federal levels
 - Corporate taxes the first target
- National Debt and financial markets
 - National debt growth slowing down, not shrinking
 - Depends on foreign investors in primary sense, not completely
- Student debt, Social Security, Fannie Mae/Freddie Mac
 - Government programs all likely to see sweeping changes in the next ten years
 - Should governments subsidize lending markets?



- ## Moving toward 2015 and beyond
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- Economic growth means continued rise for contributions
 - Also a more competitive environment as new foundations and charities bounce back from recession or are born
 - Financial markets giving strange signals, know three things
 - Interest rates need to rise
 - US economy is closing in on inflation pressure, but...
 - Europe is looking like Japan in the 1990s and early 2000s in many ways
 - Challenges
 - Demographic
 - Financial planning
 - Housing choices
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