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Coachella Valley economy likely to continue slide

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The stock market was unimpressed with the $700 billion bailout passed Friday in Congress, a Coachella Valley commentator on the economy said.

“It's almost like a negative catharsis," agreed Bob Marra, president and publisher of Wheeler's Market Intelligence. “Now, it's back to reality, and reality right now is not all that great.”

That view was shared by many local analysts of the economy who predicted the Coachella Valley will remain in its recessionary mode, despite Friday's historic vote.

Nonetheless, most said the bailout needed to pass.

“It's a bitter pill," said Fred Bell, executive officer of the Building Industry Association, Desert Chapter. “This move, hopefully, will return liquidity to the market, but it still remains to be seen. I think we will continue to have turmoil, even with this, in the next 14 to 16 months.”

Esmael Adibi, a Chapman University economist who prepares The Desert Sun's Economic Index, said the American consumer psyche depended on its passage.

“Clearly, the erosion of confidence and lack of availability of funds would have choked off the economy significantly," he said. “Now we have to wait and see how effective it will be."

The big question, Adibi said, is: Once banks are done buying toxic mortgages, will they start lending?

“Banks are extremely wounded," he said.

The question is going to be when and how investors return to the market, Bell said. “And, can you get liquidity back in, so all other types of consumer credit aren't threatened.”

The 263-171 House vote Friday coincided with breaking news that Wachovia Corp. agreed to be acquired by San Francisco-based Wells Fargo & Co. in an all-stock deal. It was a direct lob around Citigroup Inc.'s deal to pay $2.1 billion for Wachovia. That deal required the assistance of the Federal Deposit Insurance Corp.

It had some asking if Congress acted too quickly.

Christopher Thornberg, a principal with Beacon Economics, was one who viewed Wells Fargo's move as a sign that Congress should have stepped back.

“How many different ways can I throw up my hands in disgust” over passage of the $700 billion-plus bailout? he asked.

“The rhetoric has been, ‘wow,' the credit crisis is causing America to go to hell in a handbasket," Thornberg said. “But the truth is, the consumer is overloaded with debt. They've been spending way too much on the basis of falsely inflated values in homes and portfolios.”

“This will not make it all go away," he said.

Stephen Hoffman, president and chief executive of Canyon National Bank, said this action was needed.

“There was extreme tightening of liquidity in the whole marketplace," he said.

Bell agreed, saying: “No other entity had the financial ability to do what the federal government was doing to step in and take control of this bad debt. There's no upside for a private institution to wade into this mess to try to clean it out. Private industry is not set up to do this.”

Hoffman said he's still reviewing the package, but one provision of the bill he supports is the increase in FDIC coverage.

“Having it go from $100,000 to $250,000 is a good thing because the banks pay the premium that cover the FDIC insurance, so that piece should be neutral as an expense, Hoffman said. “It gives businesses the opportunity to insure more than the base $100,000.”

John Soulliere, president of the Coachella Valley Economic Partnership, had a mixed reaction.

“On one hand, it appears this will address the whole liquidity issue," he said. “Liquidity is critical to business expansion and sustainability, so it should bring a breath of fresh air into the market.”

Home sales have risen as well, Soulliere said, but added the view that he's not sure it's due to soaring consumer confidence or buyers who've waited on the sidelines for irresistible deals. “This is not a quick fix," he said, and it may not spur frenzied buying sprees this holiday. “Taxpayers know, inevitably, they will have to pick up.”

Morris Bechloss, a local commentator on the economy, sees a rate cut looming.

The cut could be as much as 50 basis points, he said.

Now that this is a real deal, Bechloss said rate cuts would give banks confidence to lend and thaw frozen financial arteries.

With banks calling in credit lines and debt, the livelihood of businesses are at stake, Bechloss said. “If they can't borrow money to put in inventory, what are they going to do? It'll only accelerate the downward spiral.”

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