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NEWS RELEASE

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BAD MOON RISING... BLEAK NEW ECONOMIC FORECAST RELEASED FOR SAN DIEGO, STATE, NATION

California Already In Recession... Nation Will Follow;
But After A Rough Ride, Economy Will Emerge Healthier

SAN DIEGO February 7, 2008 – A new economic forecast authored by some of California's most well-known prognosticators of the economy is painting one of the most severe pictures to date about what's to come in 2008.

Beacon Economics' *2008 San Diego Economic Forecast* was released today at an event that featured characteristically frank talk from its authors, Beacon's founding principals, economists Christopher Thornberg and Jon Haveman. They stressed that while the debate over whether or not there is a recession may still be valid at the national level, California is already in the midst of one.

Among other predictions, Beacon's forecast estimates that unemployment rates will climb to 8 percent in California and 7 percent in the San Diego region before beginning to recede in 2009. Notably, during the downturn of 2001 San Diego's unemployment rate never hit 5.5 percent. "This is going to be a more painful recession and likely one that San Diego's regional economy will feel more sharply than those of the recent past," says Haveman.

Here are some of the forecast's key calculations:

- California is leading the nation into a serious, but not record-breaking, recession in 2008. The slump will be on par with the economic downturn of 1990.
- The national unemployment rate will spiral upwards, rising above 7 percent.
- Declining real estate prices and home foreclosure rates will pick up speed across the nation, state, and in the San Diego region. Expect the average home price in California to fall another 30 percent from where it stands today.
- The extent of capital market losses are not close to being known yet. Many losses are still hidden because of accounting rules – there is a lot of bad paper out there.

–MORE–



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- The state budget crisis will grow worse, and today's estimated \$14 billion deficit larger, because the state's sources of income are likely to shrink.
- Local governments will be especially strained. Unlike the downturn of 2001 when real estate remained stable, property taxes, real estate transfer taxes, and sales taxes will take a major hit this year, slashing a major source of local government funding. San Diego residents can expect to have a variety of local taxes raised and services reduced.

Is there any good news? For San Diego, the forecast predicts that both foreign tourism and federal funding for the region's large military presence will act as stabilizing influences. Moreover, look for San Diego's growing tech sectors to recover quickly in 2009 and once again propel the local economy forward.

Beacon's forecast also asserts that although the path from here to there will be difficult, the California and U.S. economies will ultimately emerge healthier and well positioned to grow in 2009. "All of this is the creaking and straining of the economy righting itself from the imbalanced and unsustainable position it was in," says Thornberg. Indeed, the forecast emphasizes that unbridled consumer spending over the past decade has been seriously out of balance with income levels and eventually had to be corrected.

"My counsel to anyone would be... be afraid, be very afraid... for now," says Thornberg. "And then be ready to capitalize on the many opportunities that will begin to present themselves in 2009."

California Department of Finance Director Michael C. Genest, State Senator Denise Moreno Ducheny, and Chief Administrative Officer of San Diego County Walter F. Ekard were featured speakers at the event, discussing the role that today's economic conditions will play in the state's still unfolding budget crisis.

Beacon Economics' *2008 San Diego Economic Forecast* was authored by Thornberg, Haveman, and economist Lorna H. Wallace.

Beacon Economics LLC is an economic research and consulting firm with offices in northern and southern California.

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