

State's job problem not going away

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California's jobless rate will remain stuck in double digits through the end of 2011 — and the tarnished housing market is still imperiled by mortgage defaults and wobbly prices — according to a report released today.

Without significant improvement in these two primary problems, California's economic woes will linger, economists with the closely watched UCLA Anderson Forecast said. At best, the state can expect an uneven economic revival.

"This will be an east-west recovery, not the north-south recovery that we usually see," said Jerry Nickelsburg, a senior economist with the Anderson Forecast. "There is an east-west divide to this economy."

The eastern, or inland, portions of California are more likely to suffer longer because of a glut of houses and foreclosures.

Housing is less likely to be overbuilt in regions such as Santa Clara, San Mateo, San Francisco, Marin and Santa Cruz counties and the city of Los Angeles, the report noted.

"Coastal cities will recover more quickly," Nickelsburg said.

But the big problem for the California economy remains the employment picture.

California's average jobless rate for 2010 will remain about 12.1 percent, and in the double digits through the end of 2011, he said.

In May, the most recent report from the Employment Development Department said Santa Clara County's unemployment rate dipped to 11.4 percent in April, from a revised 12 percent in March. San Mateo

County's jobless rate dipped to 9.2 percent, from 9.8 percent in March. Among the positive signs for Silicon Valley was an increase in hiring in the tech manufacturing sector, possibly a sign that companies are beginning to spend money again on computer system upgrades.

Other economists agreed that plenty of pain remains for job seekers in California.

The Stockton-based Business Forecasting Center at the University of the Pacific correctly predicted last year that the California jobless rate would peak at 12.6 percent. Now those economists think the jobless rate will improve only at a stubbornly slow pace, according to Jeffrey Michael, director of the Business Forecasting Center, and not fall below 10 percent until 2012.

Why will the improvement be so sluggish? The downturn was brutal.

"This has been a relentlessly bad recession for the state, the nation and the world," Michael said.

Even worse, a number of headwinds may swirl around the economy that could batter and flatten a recovery just as it emerges, warned Christopher

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Thornberg, a partner and economist with Beacon Economics, which tracks regional economies in California.

"My worries are for 2011, because that is when a lot of the problems that have been hidden under the carpet could come home to roost," he said.

He cited the expiration of the Bush tax cuts, which would erase hundreds of billions in disposable income for American consumers and small businesses; and the federal government's unprecedented spending spree that has piled up mammoth debts that bear an unsettling parallel to the financial crisis in Europe.

"We are on an unsustainable path of deficits, debt and spending," Thornberg said.

Housing could become a renewed headache now that the tax credits have expired, economists warn.

"The bounce in housing is already slowing down," Thornberg said. "Interest rates for home loans could rise, which is a big issue. The tax credits are going away. Foreclosures have to be dealt with still."

Anderson Forecast researchers also foresee ongoing struggles for the housing market in the second half of 2010.

"We will still see downward pressure on home prices," Nickelsburg said. "We will still see an elevated level of defaults."

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UNEVEN RECOVERY

The Anderson Forecast sees a mixed bag for

California's economy. Among the highlights:

- **Unemployment:** The jobless rate will average about 12 percent in 2010 and will remain in double digits through 2011.
- **Jobs:** California will lose 164,000 jobs during 2010 but will add 249,000 in 2011.
- **Recovery leaders:** Santa Clara County, San Mateo County, San Francisco, Marin County and urban Los Angeles will recover first.
- **Recovery laggards:** Inland areas such as the East Bay, Central Valley, High Desert and Inland Empire will recover slowly.
- **Income:** California personal income will increase 1.1 percent in 2010 and 2.9 percent in 2011, adjusted for inflation.
- **Retail:** Taxable sales will fall 0.7 percent in 2010 and rise 3.2 percent in 2011, adjusted for inflation.
- **Housing:** Residential building permits will increase by 31,500 in 2010 and by 58,200 in 2011.

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