

Economy experts say area economy could suffer until 2011

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More job losses, mounting foreclosures and dwindling sales tax revenues keep smashing into the Inland Empire's economy.

How long will it last?

Think 2011 - coupled with a slow, painstaking recovery that might gain full speed by 2013.

That's what was discussed during the 2008 Inland Empire Economic Forecast Conference held at the National Orange Show Events Center in San Bernardino on Wednesday.

Six months ago, experts across Southern California forecasted grim scenarios into the end of 2009, but the financial monster gripping Wall Street is pushing those projections much further into the future.

The bursting real-estate bubble will continue feeding thousands of foreclosures into the Inland Empire's housing market for another two or three years, according to Christopher Thornberg, founder of San Rafael-based Beacon Economics.

"The wealth is disappearing," he said about inflated home prices. "That money was never there in the first place."

Never mind those plunging prices homeowners have suffered since 2006 - Thornberg is predicting residential real-estate owners nationwide will

collectively lose another \$15 trillion over next year.

That's good for home shoppers sitting on the sidelines, says Johannes Moenius, business and economics professor at the University of Redlands.

"But the problem is, (those homes) are going to be in destabilized neighborhoods," he said.

Financially secure bargain hunters are picking up cheap deals on one side of the street, while cash-strapped mortgage borrowers on the other side barely hang on to their homes.

The biggest Inland Empire price drops are happening in lower-income neighborhoods and high-unemployment areas - regions where home prices jumped four times their 1998 values, Moenius said.

He's forecasting home prices will drop through the end of 2008, then somewhat stabilize in 2009, then drop again in 2010.

Thornberg said the nation's largest banks will continue to feel the impact from their massive real-estate losses.

Experts say it's a key factor in why lenders are hoarding the liquidity injected into them from the Treasury Department's \$700 billion bailout package. Thornberg says they have \$65 billion in "excess reserves" right now.

Even if banks immediately put that money into play, the economy is starting its descent into a deep recession, Thornberg said.

"It's not a depression, but a rough ride," he said.

That means dire consequences for California's budget and tax revenue for local cities, according to

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Thornberg's sidekick, Brad Kemp, the director of regional research at Beacon.

At their peaks in 2006 and 2007, property tax revenue jumped 23 percent in Riverside County and 20 percent in San Bernardino County, according to the forecast report.

Nowadays, property tax revenue is expected to grow 5 percent in San Bernardino County and a mere 1.5 percent in Riverside County for the 2008-09 fiscal budget.

Taxable sales are falling, too, the report says. Don't expect them to bottom out until early 2010.

Kemp says he expects more stimulus initiatives by the Federal Reserve or Treasury Department that will ultimately trickle down to the Inland Empire's battered real-estate market.

As the federal government keeps propping up a financial system beleaguered by losses, it's trying to spread out the economic pain over a longer period of time so the entire economy doesn't get hit all at once, Kemp said.

"It's a matter of the fallout being long and shallow versus short and sharp," Kemp said.

It's also a matter of confidence. The federal government is waging a psychological war on consumer pessimism about the economy, which usually means less spending on goods and services.

Given that fact, coupled with the Inland Empire's gloomy economic forecast, the area's fundamentals for economic growth haven't totally disappeared.

"The fundamentals that helped (this area) grow 27 percent over seven years are still here," Kemp said.

"This is the region of expansion for California."

University of Redlands President Stuart Dorsey, who is a former chief economist for the U.S. Senate Committee on Finance, said the government's intervention in the financial markets have a "limited ability" to prop up the system.

Recently, government and business leaders from San Bernardino and Riverside counties decided to keep pursuing a proposal that would open the door for Los Angeles-area investors and Inland Empire cities to buy thousands of troubled mortgages behind the region's economic problems.

"What's going to happen in the next few years is important," Dorsey said about the two-county region. "How we come out of this - how we're steered and in what direction - will determine how we go into the next couple of decades."

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