

Los Angeles Times

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From the Los Angeles Times

Inland Empire economic outlook is grim

Economists say they expect the downturn to continue for two years. Long-term prospects are good, they say.

By David Kelly

4:41 PM PDT, October 29, 2008

A panel of economists today offered grim predictions for the Inland Empire economy, including a rise in unemployment, a slide in manufacturing and a wave of foreclosures likely to continue for another two years.

Some of the numbers were staggering.

"There has been a 3,500% rise in foreclosures in the Inland Empire since 2005," said Brad Kemp, director of regional research for Beacon Economics, a research and consulting firm. "Most people want to think this housing drop is over, but it's going to continue."

A recovery, he said, is not expected until early 2011, the same year he thinks the housing crash will bottom out after home prices fall 28% to 32% more.

Kemp made his presentation during the second annual Inland Empire Economic Forecast Conference in San Bernardino. The gathering was opened by Mayor Pat Morris, who said San Bernardino has 5,282 homes either in foreclosure or close to it.

"This is the worst situation we have seen in our city's history," he said.

None of the panelists said much to alleviate his worries. In fact, University of Redlands business Professor Johannes Moenius said the collapse of the Inland Empire housing bubble played a major role in bringing the global economy to its knees.

"These housing bubbles were very local, and these localized bubbles are what essentially brought down the world economy," he said.

Not that the rest of the state is faring much better.

"California has been in a recession for almost a year now," said Christopher Thornberg, one of the founders of Beacon Economics, which produced the forecast. "This is not only a recession but a deep recession, and it's amazing how many people were denying it even when we were in the middle of it."

He said house prices must fall 40% to 50% to become affordable again. And when they do, it will be a long time before values go up.

"Housing markets don't bounce, they splat," he said. "We will be at the bottom for a while. The peak of foreclosures will be around for the next two to three years."

Recessions, he said, are a good thing because they "work the evil out of the system."

Riverside and San Bernardino counties experienced unprecedented growth followed by a spectacular crash, the report shows.

Between 2000 and 2006, 315,000 jobs were created and 815,000 new residents moved in, according to the report. Home prices jumped 214% in Riverside County and 241% in San Bernardino County.

Many homeowners took out adjustable-rate mortgages that were foreclosed when the rates reset at a higher level. Home prices plummeted 35% in Riverside and 37% in San Bernardino Counties over the last year.

"Most of the downturn . . . will be experienced by the end of 2010, when median home prices are expected to be on order of \$198,000 and \$165,000 in Riverside and San Bernardino Counties respectively," the report said.

The housing crash has been exacerbated by an increase in unemployment. Kemp predicted that joblessness would eventually top 12%. A decrease in new housing construction has hit hard, he said.

Kemp said, however, that there was a silver lining. The downturn won't last forever and increasing housing affordability will once again bring in buyers. The area's manufacturing base also remains reasonably strong.

"This is the region for expansion in California," he said. "When the economy does come back you are going to be strong again. But you have to fall some more first."

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