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ECONOMY: Forecast: Riverside recession poised to linger

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The implosion of the real estate bubble has been obvious for more than a year in the two-county region of Riverside and San Bernardino, but its effects on other industries are still making themselves felt, and a conference on Tuesday produced a number of suggestions for putting the region on firmer economic footing.

The theme of higher education ran through the presentations of several economists who spoke at the event, an annual regional forecasting event at the University of Redlands. The last decade has shown that construction and real estate ---- "dirt," as one economist often puts it ---- are prone to boom and now catastrophic bust. A more diverse economy with higher-technology industries is the best hope for long-term prosperity in the region, the economists suggested.

In the meantime, the Riverside-San Bernardino region is poised to remain for the next year among the nation's weakest local economies, with unemployment soaring to as high as 16 percent and home values dipping to 65 percent below their 2006 peaks, economists said.

They predicted a recovery may begin to form in 2010.

All agreed that real estate development should and probably will remain important for the region, and that its eventual recovery will probably play a role in a broader economic recovery. Ditto for the distribution and warehousing industries, which funnel imported goods from the Los Angeles-Long Beach port complex, the nation's largest.

The downside is that wages are middling in those industries, and lower among the strip malls that dot the region, according to state figures. Local universities, governments, entrepreneurs and residents so far haven't given rise to higher-technology, higher-paying industries, said John Husing, an economist who focuses on the Inland Empire.

"We have all paid lip service that we want to do something about education," Husing said.

Fewer than half of adults in the two-county region have taken even one college class, Husing said.

Brad Kemp, director of regional economic research for Beacon Economics, pointed to statistics showing about 13 percent of Riverside County adults hold a four-year bachelor's degree, versus about 22 percent in San Diego County and much higher proportions in San Francisco and Orange counties.

Husing has often emphasized "dirt" ---- land available for development ---- as one of the region's strengths vis-a-vis urban job centers. But falling prices have resulted in relatively affordable homes near those jobs, he said.

Husing said he expects an "L"-shaped recession in the region, referring to levels of economic activity that declined last year and that he expects to remain stagnant for several years.

Economists say the real estate implosion in Southwest Riverside County was almost certainly a factor in the 11 percent decline in local retail sales in 2008 compared with 2007. Retail sales in north San Diego County fell by about 7 percent. Sales in the city of San Diego fell only marginally. The number of jobs in Riverside and San Bernardino counties shrank by about 3 percent, compared with a loss of 1.4 percent in San Diego County.

Beacon's forecast called for Riverside-San Bernardino's unemployment to reach 15.9 percent next spring, up from the state government's estimate of 12.2 percent for March 2009.

One of the first to point out the risk of a debt-induced crash in 2006 and 2007, Beacon economist Christopher Thornberg said Tuesday that the resulting flood of foreclosures is a painful but healthy step toward recovery.

The cost of homeownership with a traditional mortgage had risen to 70 percent of a middle-class income, hampering California's economic competitiveness, he said. Foreclosures have made it once again reasonable for middle-class workers to buy single-family homes, he said.

"There are bad things going on out there, but they're things we can work through," Thornberg said.

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