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ECONOMIST: IT'S GOING TO GET WORSE - SONOMA COUNTY'S MEDIAN HOME PRICE COULD

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Jobless ranks could hit 10 percent and home prices will continue to fall across California, with Sonoma County feeling its share of the worsening downturn, according to an economic forecast released Friday.

The worst recession to hit the state and nation in more than two decades could extend beyond next year, sapping consumer spending that drives the economy and extending housing's decline, said Chris Thornberg, an economist who studies California.

“It's going to be a bad recession. It's not pretty, but it's not a depression,” Thornberg told 400 business and industry leaders.

In Sonoma County, where two out of three home sales are of distressed properties, the median home price could sink below \$300,000 before finally flattening, Thornberg said. Home prices have already fallen 42 percent from the peak of \$619,000 three years ago, and Thornberg's projection would take off an additional 20 percent or so.

“Do I think prices have farther to fall? Unfortunately, I do,” he said.

“The fact is prices will hit a level where people can afford them.”

California's unemployment rate could peak at about 10 percent in early 2010, near the end of what is shaping up as a more than two-year-long economic slump, Thornberg said. He made no forecast for Sonoma County, which has a lower unemployment rate than the state.

Poor job growth is a drag on any recovery in housing. While sales have

picked up as buyers snap up foreclosed homes, prices likely won't hit bottom for another year with the market dominated by bank-owned homes and short-sales by homeowners bailing out on mortgages they can no longer afford.

The outlook from Thornberg, founding partner of Beacon Economics and formerly with the UCLA Anderson Forecast, worsened from his forecast a year ago. He had predicted the recession now taking hold, but the picture for jobs and housing is bleaker. His annual talk, hosted by the Sonoma County Economic Development Board, was held at the Hyatt Vineyard Creek in Santa Rosa.

Thornberg pegged the economy's widening troubles to corrections from major imbalances in the housing and financial markets and in consumer spending.

Sonoma County housing had an eight-year run of soaring sales and prices leading up to the peak in August 2005. Buyers, lenders and the investors buying up mortgage-backed securities figured the gains here and across the nation would never end.

Helping fuel housing prices were risky subprime and pay-option loans that reduced costs for buying and refinancing homes. Too many buyers purchased homes they couldn't afford, banking on rising property values to refinance into new loans or selling to pay off mortgages.

Thornberg and other economists said the downturn was overdue, and the steep fall reflects how far prices were out of line with incomes.

“We've got a ways to go, but it's getting there,” Thornberg said.

Surging home sales in recent months do not indicate a recovery, but rather demand for discounted properties flooding the market, he said.

“That just reflects the overall stress on the system,” Thornberg said.

Prices should bottom out by the end of 2009, when housing likely reaches a better balance between supply and buyer demand, Thornberg said. But don't expect a subsequent recovery, he said.

“Housing markets don't bounce, they splat,” he said.

Home building likely won't pick up noticeably until 2011, with prices not showing gains until 2012 or 2013, he said.

Financing home purchases, however, will remain tight. Lenders reduced the money supply for mortgages in response to the rising tide of foreclosures, and that won't change with the economy in a recession, Thornberg said. Car loans and other consumer credit also will remain more difficult to obtain.

On an optimistic note, Thornberg said the federal bailout of the nation's financial sector promises to shore up banks and credit in the long term.

But consumer reliance on credit and home equity for spending that sustained economic growth for more than a decade can't be counted on to pull the economy out of recession, Thornberg said.

“We've been partying like madmen,” he said, “and Americans have just woken up from 12 years of partying with the mother of all headaches.”

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economist Chris Thornberg said Friday in Santa Rosa.

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MORTGAGES: In another split from the administration, the FDIC on Friday officially released its \$24 billion plan to help 1.5 million homeowners avoid foreclosure.

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Keywords: ECONOMY HOUSING FINANCE FORECAST YEAR END