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UPDATE 3-California's unemployment rate above 10 percent

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(Adds governor's comments, background)

By Jim Christie

SAN FRANCISCO, Feb 27 (Reuters) - California's unemployment rate rose to 10.1 percent in January, its highest level in a quarter century, as recession tightened its grip on the most populous U.S. state.

Weakness in the housing and consumer sectors helped drive the jobless rate up from a revised 8.7 percent in December and 6.1 percent in January 2008 and to above the national average in January of 7.6 percent, state officials said on Friday.

Economist Jon Haveman of the consulting firm Beacon Economics said he expects California's jobless rate will climb to the mid-10 percent range and settle there for much of this year.

"It's headed north," Haveman said, noting his outlook reflects Friday's report that the U.S. economy in the fourth quarter shrank at a 6.2 percent annual rate, the deepest contraction since early 1982.

"Things are just simply worse out there than anticipated," Haveman said.

Governor Arnold Schwarzenegger said the state's unemployment report was a "sobering reminder that there is nothing more important than getting California's economy back on track."

California officials hope to bolster the state economy with federal stimulus dollars for public works and are rushing to pump state money into infrastructure projects as well.

Consumer spending across California has plunged in the wake of Wall Street's turmoil and payrolls have been thinned at a rapid pace in recent months.

The global economic slowdown has also forced layoffs across California, notably in its Silicon Valley high-technology hub. The world's eighth largest economy is also stuck in a prolonged housing downturn. Parts of California have had some of the highest foreclosure rates in the nation.

"There is continued weakness in housing-related sectors and we're also seeing weakness in consumer-related sectors," said Kevin Callori, a spokesman for the state's Employment Development Department. "The credit crunch is making consumers less confident so that's affecting businesses in wholesale and retail trades."

"Basically about a third of the losses (over the past year) have been in consumer-oriented industries," Callori said. "Another third have been in housing and housing-related industries like construction and financial services."

State officials said California lost 79,300 nonfarm payroll jobs in January from December and a total of 494,000 nonfarm jobs from a year earlier, or 3.3 percent of the state's nonfarm payrolls.

Schwarzenegger last week signed a state budget plan to close a \$42 billion shortfall through July 2010, a first step for the state to resume selling general obligation bonds for financing infrastructure projects, including water projects to help the state contend with droughts.

The state faces its third consecutive year of drought, which may impose \$3 billion in economic losses this year, Schwarzenegger's office said in a statement on Friday.

State Treasurer Bill Lockyer aims to sell general obligation debt as soon as possible. That may also allow the state to resume funding public works projects halted during budget talks that dragged on for more than 100 days.

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