

Report augurs gloom for I.E.

Experts predict 'near recession'

Matt Wrye, Staff Writer

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Economists who accurately predicted the 2001 recession see most of the nation dodging that economic bullet in the next few years, while the Inland Empire will be rocked by a housing downturn at the same time.

The UCLA Anderson School of Management's so-called "Anderson Forecast" describes in a report released today how the nation's economic slowdown in 2007 will continue well into next year.

The experts who wrote the report label the slowdown a "near-recession experience." One former economist with the panel that predicted the 2001 recession said the economic doldrums this time around will actually be worse.

"Every single time we've had a recession, the unemployment rate has gone up 2 to 3 percentage points," said Christopher Thornberg, a former Anderson forecaster and co-owner of Beacon Economics.

"The Inland Empire is already up a full percent and rising rapidly. It looks like the Inland Empire is heading into a recession or in the process of being in one right now. The forecast begs to differ."

According to the UCLA report, unemployment in the Inland Empire will continue to outpace job creation, a trend that has been highlighted by the local mortgage meltdown.

"Job growth has not been efficient enough to keep up with labor force growth," said Jerry Nickelsburg, an economist on the panel.

The economic experts annually take the wraps off their crystal-ball forecast on unemployment, productivity, real estate trends and other big-picture matters.

Compared to Los Angeles and Orange counties, the outlook isn't a rosy one for the Inland Empire.

The housing boom turned south for subprime mortgage borrowers in 2005 and 2006 and isn't expected to hit rock bottom until late 2008 or early 2009, according to the report.

Subprime borrowers, who generally have spotty credit records, got stung by mortgage loans that had an adjustable feature on their teaser interest rates.

Some of these borrowers have lost their homes to foreclosures as their monthly mortgage rates adjusted higher.

San Bernardino County has been hit particularly hard, listed jointly with Riverside County as having the third most foreclosures in the U.S.

While the end of 2007 marks the peak of subprime mortgage resets, mortgage defaults will top out in the first half of 2008, according to the experts.

But it doesn't end there, they said.

The number of job seekers will continue to outpace jobs created in the region, Nickelsburg observed.

The region's unemployment rate is somewhat moving in tandem with the housing market's tide, as home builder and mortgage companies keep dumping hundreds of workers into the job market, Nickelsburg observed.

"We have a slowdown in growth as the housing and financial markets adjust," Nickelsburg said. "That adjustment needs to take place, and it will probably take the next 12 months to do that."

Coastal counties never experienced the onslaught of new housing developments that over the past few years came to Corona, Fontana and other inland cities. Because of that, they aren't getting hit by the subprime undertow as much as San Bernardino and Riverside counties.

The panel's forecast begs the question: What does a full-blown recession look like?

Two fair indicators are industrial production and the unemployment rate, according to Thornberg.

But he says a lack of consumer spending will plunge parts of California into a recession that many thought the housing and financial markets would have accomplished.