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## Building, finance fed growth

### They chipped in 40 percent of region's economic expansion in 2005

**By Dale Kasler - Bee Staff Writer**

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It's no secret that the housing boom was a meal ticket for Sacramento and much of California, one of the leading drivers of economic growth. Statistics released Wednesday show just how true that was.

Construction and finance, which includes mortgage lending, accounted for 40 percent of metropolitan Sacramento's economic growth in 2005, the U.S. Bureau of Economic Analysis said. That was the final year of the housing boom and the latest year for which statistics were available.

Several other California cities came to depend on construction and finance to fuel their economic growth, according to the BEA report. While the U.S. average in 2005 was 27 percent, those two sectors of the economy generated 40 percent of the growth in Los Angeles-Orange County, 50 percent in Merced, 35 percent in San Diego, 53 percent in Vallejo-Fairfield and 41 percent in Stockton. The figure was 81 percent in Yuba City that year.

"That doesn't surprise me a bit," said Chris Thornberg of Beacon Economics, a consulting firm in Los Angeles. Finance in particular "has been contributing a lot to the economy for the last bunch of years."

The numbers are significant because they illustrate the degree to which the state relied on housing to keep the economy percolating. Total economic growth in metro Sacramento actually slowed somewhat in 2005, reflecting meager growth in sectors like government and technology, and would have slowed substantially more if not for the contributions from the housing market.

Now that the housing boom is over, and the state and national economies are

slowing down, some experts believe a recession may be coming.

Layoffs in construction and mortgage lending are driving up unemployment rates, and economists say soft housing prices are eroding consumer confidence and taking a toll on some sectors, like auto sales.

Job cuts in the housing sector alone won't produce a recession, Thornberg said, but a significant downturn in consumer spending will.

The BEA's report was a first-ever accounting of gross domestic product -- the broadest measure of total economic output -- for each of the nation's 363 metro areas. It covered 2001-05.

The statistics show that metro Sacramento, covering Sacramento, Placer, Yolo and El Dorado counties, was among the higher-growing regions in the country. Its annual GDP growth topped the national average each year, even though the region's growth slowed from 6.4 percent in 2003 to 4.7 percent in 2005. Total regional GDP was \$76.38 billion in 2005, as measured in 2001 dollars, the BEA said.

Some regions did fine without much of a housing boom. The San Jose area, after rebounding from the technology slump, had one of the strongest economic growth records in 2005 -- measured at 5.1 percent -- but only a tiny fraction of its growth came from construction and finance. Some 27 percent of its growth came from the information industry, which includes technology.

The report suggested that the housing boom wasn't a cure-all for the Central Valley's chronic economic problems. Although unemployment fell to some of the lowest levels ever recorded, overall economic growth tailed off in successive years. In Fresno, for instance, growth fell from 6.7 percent in 2002 to 2.7 percent in 2005. In Stockton it dropped from 6.2 percent in 2002 to 2.9 percent in 2005.

The numbers illustrate "the urgency of diversifying the economy," said Carol Whiteside of the Great Valley Center, a Modesto think tank that focuses on economic development issues.

For a region needing high-paying jobs, the Valley's housing boom was "necessary but not sufficient," she said. Now that the boom is over, the Valley's "challenge is even greater," she said.

Across the nation, the fastest-growing economy in 2005 was in Palm Coast, Fla., whose GDP grew a resounding 19.4 percent. Financial activities accounted for nearly three-quarters of that growth, reflecting the housing boom, the BEA said.

Not surprisingly, the nation's poorest performer in 2005 was greater New Orleans, where economic output fell 5.4 percent because of Hurricane Katrina.

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