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September 15, 2009

CALIFORNIA FORECAST SUMMARY: 3rd Quarter 2009:

Recovery in California Lags Behind the U.S.

(Stockton, Calif.) September 15, 2009 – California’s two year recession will finally end in the 4th quarter according to the Business Forecasting Center at the University of the Pacific. Most economists agree that the U.S. recession is over and the economy is growing again, albeit slowly, in the 3rd quarter. However, the bottom for the California economy is lagging a few months behind the nation. Key leading indicators such as new claims for unemployment insurance have yet to turn around in California as they have in most other states.

“Although the recession is technically ending, we anticipate a sluggish start to the recovery that will make it feel like a recession in California for another year,” said Jeff Michael, Director of the Business Forecasting Center. “The state’s unemployment rate will stay above 12% for all of 2010.”

The foreclosure crisis and fiscal crisis in state and local government will continue to weigh down the state’s economy for the next year. Housing starts hit bottom in 2009, but will remain near record lows in 2010. After a weak 2010, we expect housing starts to grow rapidly as foreclosures slowly ebb and existing home prices recover.

Highlights from the California forecast are listed below. The complete California and Metro forecast, which includes a comprehensive outlook of nine Northern California metro areas, will be released next week.

The Business Forecasting Center at the University of the Pacific was founded in 2004. Housed in the Eberhardt School of Business, the Center produces quarterly economic forecasts of California and 9 metropolitan areas from Sacramento to Fresno and the San Francisco Bay Area. The Eberhardt School of Business is one of a handful of Business schools producing comprehensive quarterly forecasts of the California economy, and includes several regions in California's Central Valley not covered by other forecasts. In addition to the Quarterly Forecasts, the Center periodically produces in depth studies of regional issues, and offers custom economic research services to public and private sector clients.

Highlights of the September 2009 California Forecast

- Although most economists believe the U.S. recession is over, we continue to forecast that the California economy will not hit bottom until the 4th quarter of 2009.
- California unemployment will reach 12% by the end of 2009 and remain above 12% for all of 2010, peaking at 12.6% in Spring 2010.
- Nonfarm payrolls will decline by an additional 100,000 before reaching a trough in Winter 2010 that is 1,070,000 jobs below the peak in Summer 2007.
- Jobs will recover their pre-recession peak in the first half of 2013. During the 5 ½ year period of zero net job growth, the state's population will have grown by more than 2 million people.
- Manufacturing, Construction, and Retail have experienced the greatest decline over the past year. Each of these sectors has shed over 100,000 jobs across the state.
- Manufacturing will continue to lead declining sectors with a decrease of 80,000 to 90,000 jobs over the next 12 months.
- Construction continues to lead job losses in percentage terms, declining another 12% (78,000) by the middle of 2010.
- Retail jobs are bottoming out, but will remain flat over the next year.
- Professional and Scientific Services did not start losing jobs until the second half of the recession, but these critical, high-paying areas have lost 35,000 jobs in the past year and will remain weak for a few more quarters. We expect strong growth in this area as the recovery gains strength in late 2010 and 2011.
- Healthcare will experience the strongest job growth over the next 12 months, adding nearly 40,000 jobs (2.5%) statewide. Healthcare is the only sector that has not contracted this year, although 1% growth is the slowest growth this decade.
- Real personal income declines 1.5% in 2009 and grows 0.8% in 2010.
- Housing starts bottom in 2009 at a record low 37,500 units. Although housing starts recover to 56,400 units in 2010, this is still the 2nd lowest level in 50 years. By 2013, housing starts will be back to normal levels exceeding 150,000 units as foreclosures finally stop and existing home prices recover to close the gap with construction costs.
- Retail sales have hit bottom, but will not recover their 2007 level until 2011.

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