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**September 23, 2009**

**CALIFORNIA AND METRO FORECAST: 3<sup>rd</sup> Quarter 2009**

**California Recession Ends in 4<sup>th</sup> Quarter**

**NUMMI Shut Down and Continuing Foreclosure Crisis Will Postpone Recovery in the Northern San Joaquin Valley and East Bay.**

**(Stockton, Calif.) September 23, 2009** – California’s two year recession will finally end in the 4<sup>th</sup> 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 3<sup>rd</sup> 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.”

Among Northern California metro areas, the report states that San Francisco and Silicon Valley are most likely to see their economies bounce back quickly. “It is a V shaped recession for the West and South Bay,” said Jeff Michael. “All other metro areas will experience some version of a U shaped recession with the widest U in the Northern San Joaquin Valley.”

The timing of the NUMMI shut-down in March 2010 will postpone recovery in the East Bay, Stockton and Modesto areas. Unemployment in the Stockton and Modesto areas is projected to peak around 18% in the first half of 2010. Elsewhere in the Valley, the next year looks very sluggish in Sacramento with slightly better prospects for Fresno.

The foreclosure crisis, construction depression, and state and local government budget cutbacks continue to be the biggest current problem for the Central Valley economy and remain the largest obstacle for the recovery. Reduced water deliveries to agriculture have had a relatively minor

effect on unemployment that has been exaggerated in many media reports on the Valley economy. The report also warns against an increasing trend of misguided “beggar-thy-neighbor” economic stimulus measures ranging from publically funded auto mall gift cards, local hiring ordinances, and Chinese tire tariffs.

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 produces in depth studies of regional issues, and offers custom economic research services to public and private sector clients.

### Central Valley Metro Forecast Summary

Metro Area	Nonfarm Payroll Employment (% change)				Unemployment Rate (%)			
	2008	2009	2010	2011	2008	2009	2010	2011
Sacramento	-2.3	-5.1	-1.0	2.2	7.1	11.4	12.0	10.8
Stockton	-2.4	-3.6	-1.7	1.6	10.5	15.6	17.4	16.1
Modesto	-2.2	-3.6	-1.4	1.8	11.2	16.2	17.9	16.3
Merced	-2.0	-3.8	-1.2	2.0	12.8	17.7	19.2	18.5
Fresno	-1.1	-3.8	-0.3	2.0	10.6	15.6	17.0	16.0
<i>California</i>	<i>-1.1</i>	<i>-4.6</i>	<i>-0.7</i>	<i>2.2</i>	<i>7.2</i>	<i>11.6</i>	<i>12.4</i>	<i>11.1</i>

Sacramento MSA includes Sacramento, El Dorado, Placer, and Yolo counties. Stockton, Merced, Fresno and Modesto MSAs correspond to San Joaquin, Merced, Fresno and Stanislaus counties.

### Bay Area Metro Forecast Summary

Metro Area	Nonfarm Payroll Employment (% change)				Unemployment Rate (%)			
	2008	2009	2010	2011	2008	2009	2010	2011
San Francisco	0.7	-4.2	-0.1	2.6	5.0	8.8	9.4	8.2
San Jose	0.4	-4.3	-0.7	2.7	6.1	11.3	12.0	10.5
Oakland	-1.7	-4.4	-1.2	2.1	6.2	10.6	11.6	10.7
Vallejo	-2.6	-3.4	-1.2	1.5	6.9	11.0	11.8	10.7
<i>California</i>	<i>-1.1</i>	<i>-4.6</i>	<i>-0.7</i>	<i>2.2</i>	<i>7.2</i>	<i>11.6</i>	<i>12.4</i>	<i>11.1</i>

San Francisco MSA includes San Francisco, Marin and San Mateo counties. Oakland MSA includes Contra Costa and Alameda counties. San Jose MSA includes Santa Clara and San Benito counties. Vallejo MSA is Solano County.

## 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 4<sup>th</sup> 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 2<sup>nd</sup> 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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