

Contact: Director Jeff Michael, Ph.D.

O: 209.946.7385

C: 209.662.5247

jmichael@pacific.edu

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CALIFORNIA AND METRO FORECAST: January 2010

NUMMI Shut Down, Housing Crisis, and State Budget Woes Delay End of Recession Over Much Of Northern California

(Stockton, Calif.) January 6, 2010 – California’s two year recession ended in the 4th quarter of 2009 - lagging several months behind the U.S. - according to the Business Forecasting Center at the University of the Pacific. Southern California will lead the early stages of a sluggish recovery as many areas of Northern California will not emerge from recession until the spring or summer of 2010.

“Although the recession is technically over, it will 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 most of 2010.”

Looming over the recovery in Northern California is the April 1, 2010 closing of the NUMMI plant in Fremont, which manufactures cars and trucks for Toyota. The closure will be the largest mass layoff event of California’s recession so far, and the ripple effects will have large impacts on the Northern San Joaquin Valley in addition to the East Bay. “It’s hard to say the recession is over in this region until NUMMI is closed,” said Jeff Michael.

When NUMMI is combined with foreclosures, the construction depression, and a new round of state budget cuts, the recession will continue through the first half of 2010 for the Northern San Joaquin Valley, Sacramento, and portions of the East Bay. While the entire state faces housing and state and local budget challenges, the impacts are most severe in these regions.

The best near term prospects are in San Francisco, San Jose and Fresno. These three metro areas have fewer problems in the housing market, and lower exposure to the state budget crisis and NUMMI. They should benefit from modest improvements in the technology, agriculture, and tourism sectors compared to 2009. Although these areas will start recovering sooner than their neighbors, they will follow the statewide pattern of modest growth and stubbornly high unemployment.

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 (%)			
	2009	2010	2011	2012	2009	2010	2011	2012
Sacramento	-4.9	-1.1	2.1	3.2	11.6	12.3	10.8	9.8
Stockton	-3.3	-1.4	1.7	2.9	15.9	17.2	15.1	13.5
Modesto	-3.4	-1.3	1.8	2.6	16.5	18.0	15.7	13.8
Merced	-3.3	-0.8	1.5	2.8	18.0	19.2	17.6	16.5
Fresno	-3.5	0.0	2.1	3.0	15.8	16.9	15.3	13.5
<i>California</i>	<i>-4.5</i>	<i>-0.7</i>	<i>2.1</i>	<i>2.7</i>	<i>11.7</i>	<i>12.4</i>	<i>10.8</i>	<i>9.7</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 (%)			
	2009	2010	2011	2012	2009	2010	2011	2012
San Francisco	-4.4	-0.5	2.4	2.7	8.8	9.4	7.9	7.0
San Jose	-4.2	-0.4	2.5	2.8	11.3	12.0	10.1	9.0
Oakland	-4.0	-1.0	2.0	2.8	10.7	11.6	10.0	9.0
Vallejo	-3.4	-1.8	1.4	2.6	11.2	11.9	10.5	9.4
<i>California</i>	<i>-4.5</i>	<i>-0.7</i>	<i>2.1</i>	<i>2.7</i>	<i>11.7</i>	<i>12.4</i>	<i>10.8</i>	<i>9.7</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 January 2010 California Forecast

- The California recession ended this quarter, 3 to 4 months after the end of the U.S. recession. However, the recession is not over in all regions. The recession will extend through the first half of 2010 for the Merced, Modesto, Stockton, Sacramento, and Vallejo metro areas.
- California unemployment will peak at 12.8% in winter 2010, remain above 12% for most of 2010, and remain in double digits through all of 2011.
- Nonfarm payrolls will decline by an additional 69,000 in winter 2009 to a trough that is 1,030,000 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 workforce will have grown by more than 1 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 lose about 11,000 jobs over the next 12 months, with job growth picking up in fourth quarter of 2010.
- Construction leads job losses in 2010, declining another 7.5% (45,000 jobs) by the end of 2010.
- Retail is the only one of these hard hit sectors expected to add jobs in 2010.
- 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 growth will remain weak in early 2010. 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 declined 2.8% in 2009 and grows 1.2% in 2010.
- Housing starts bottom in 2009 at a record low 37,300 units. Although housing starts recover to 51,100 units in 2010, this is still the 2nd lowest level in 50 years. By 2013, housing starts will be back to near normal levels - about 148,000 units - as foreclosures finally ebb 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.