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CALIFORNIA AND METRO FORECAST: July 2010

San Jose Surges and Sacramento Stumbles

(Stockton, Calif.) July 15, 2010 – Gradual improvement in private sector hiring will prevent a double-dip recession in California according to the Business Forecasting Center at the University of the Pacific. While the state will avoid a second round of recession, the recovery is weak and uneven across the state, and the forecast projects it will be a long five years before economic conditions return to normal.

Consistent with its last several forecasts, the Business Forecasting Center finds California unemployment peaked in the mid 12% range this spring but will remain at or above 12% for all of 2010. The state's private sector job growth averaged a disappointing 7,000 per month this spring, but should gradually improve to 15,000 per month in the second half of the year.

With the exception of San Jose, Southern California is leading the early stages of the state recovery. "San Jose is on track for a strong recovery, but it isn't spilling over to neighboring areas," said Jeff Michael, Director of the Business Forecasting Center.

The early stages of recovery will be especially slow in the Central Valley which is disproportionately impacted by continued weakness in construction and state budget cuts. "Housing starts continue to disappoint our already dismal expectations," said Jeff Michael.

Sacramento has the weakest outlook for the next 12 months. Uncertainty is freezing up the Capital economy. "Lawmakers are showing no urgency to resolve the budget, and state workers don't know if their next pay check will be \$1,000 or \$4,000." Despite the state budget woes, Sacramento will gradually increase jobs over the next year, albeit slower than the rest of the state. As a result, Sacramento unemployment will slightly exceed the state average for 2011, the first time this has occurred in over two decades of consistent data.

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 10 metropolitan areas in Northern and Central California. 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 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.

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California Annual Forecast Summary

	2009	2010	2011	2012	2013
Real Gross State Product (% change)	-3.0	3.4	3.0	3.1	2.8
Non-Farm Payroll Employment (% change)	-6.0	-1.2	2.0	2.5	2.3
Unemployment Rate (%)	11.4	12.3	10.9	9.7	9.0

Central Valley Metro Forecast Summary

Metro Area	Nonfarm Payroll Employment (% change)					Unemployment Rate (%)				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Sacramento	-2.3	-5.5	-2.1	1.6	3.1	7.1	11.2	12.3	11.0	9.8
Stockton	-2.7	-5.7	-1.3	1.8	2.9	10.4	15.5	16.9	15.1	13.6
Modesto	-2.3	-6.1	-1.0	1.9	2.7	11.1	16.1	17.0	15.4	14.0
Merced	-1.9	-5.0	-2.2	1.8	2.8	12.6	17.4	18.4	16.8	15.6
Fresno	-1.1	-5.4	-2.0	1.7	2.7	10.5	15.2	16.2	15.0	13.7
<i>California</i>	<i>-1.3</i>	<i>-6.0</i>	<i>-1.2</i>	<i>2.0</i>	<i>2.5</i>	<i>7.2</i>	<i>11.4</i>	<i>12.3</i>	<i>10.9</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 (%)				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
San Francisco	0.8	-5.4	-1.8	2.3	2.4	5.0	8.7	9.3	8.0	7.1
San Jose	0.4	-6.4	-0.6	3.0	2.9	6.1	11.1	11.5	10.0	8.9
Oakland	-1.7	-6.2	-2.1	2.1	2.8	6.2	10.5	11.5	10.3	9.2
Santa Cruz	-2.9	-4.8	-2.1	1.3	2.2	7.4	11.4	12.0	10.6	9.7
Vallejo	-2.2	-4.4	-2.2	1.1	2.6	6.8	10.9	12.1	10.5	9.2
<i>California</i>	<i>-1.3</i>	<i>-6.0</i>	<i>-1.2</i>	<i>2.0</i>	<i>2.5</i>	<i>7.2</i>	<i>11.4</i>	<i>12.3</i>	<i>10.9</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 and Santa Cruz MSAs correspond to Solano and Santa Cruz counties.

Highlights of the July 2010 Forecast

- California remains in the sluggish, early stages of a long, slow five year recovery.
- California unemployment peaked at 12.6% in the first quarter of 2010, and will remain at or above 12% through the end of 2010, and above 10% through all of 2011.
- Payroll jobs bottomed out this winter nearly 1.35 million jobs below their 15.2 million job peak in Summer 2007. Although California will add 250,000 jobs over the next 12 months, this is less than one-fifth the total lost. Jobs will not recover their pre-recession peak until the 1st quarter of 2015.
- After 7.5 years of zero net job growth from 2007 through 2014, the state's population will have grown by over 2.4 million people, keeping unemployment above 8% through most of 2014.
- Growth in real gross state product will average a modest 3.1% over the next four years.
- Construction has lost 390,000 jobs, by far the most battered sector through the recession, and will lose another 10,000 jobs by year-end. This cyclical sector will eventually bounce back, and should experience almost 11% job growth during 2012 and 2013.
- With the NUMMI closure in the past, manufacturing is growing again. Next year could bring the first annual increase in California manufacturing employment in a decade.
- Retail jobs have bottomed out after declining more than 10%, and are projected to rebound by 47,000 jobs (3%) over the next 12 to 18 months.
- Professional and Scientific Service jobs are projected to increase by 55,000 (5.5%) over the next year after a steep decline in 2009.
- State and local governments, including public schools, will drive most remaining job loss and shed 36,000 jobs over the next year.
- Housing starts bottomed in 2009 at a record low 36,000 units. Although housing starts will recover to 45,000 units in 2010, this is still the 2nd lowest level in 50 years. By 2014, housing starts will be back to normal levels exceeding 150,000 units as foreclosures finally ebb and existing home prices recover to close the gap with construction costs.
- Retail sales are growing again, but will not recover their 2007 level until 2011.

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