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INSTITUTE FOR POLICY RESEARCH

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PRESIDENT'S CORNER

Near my neighborhood is one of the many "community serving" strip retail centers that dot San Diego's landscape. Built in 1993 and with more than 500,000 square feet of space, it prospered during the boom of the first half of the decade.

Oh what a difference a recession makes.

The Mervyn's and Circuit City that anchored parts of the center are shuttered. The Sears at one end is a ghost town anytime my family runs in to pick something up. The small, non-chain businesses are hanging on but owners tell me things are extremely tough.

This in one of the City of San Diego's more prosperous communities.

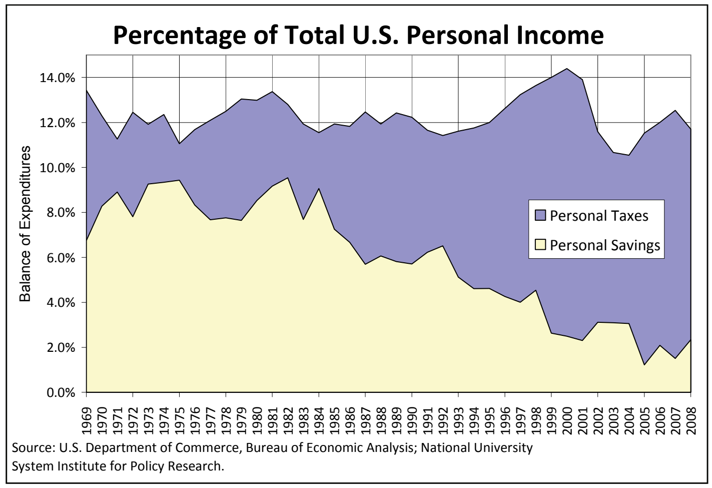
The recession is having a dramatic impact on consumption, personal savings rates, and income growth. As this issue of the NUSIPR reports, personal income in San Diego County has fallen and we are seeing significant shifts in the behavior of San Diego consumers. These changes promise to produce wrenching economic changes in San Diego, altering not only the economic but physical landscape of our community.

Over the long term, the U.S. economy and San Diego are going to benefit from less consumption and increased savings rates. The challenge for both public and private sectors will be navigating this change, embracing and managing through it rather than ignoring it or trying to wish it away.

*— W. Erik Bruvold, President
National University System Institute for Policy Research*

Personal Income and Consumer Spending are Key to Economy

Over the past four decades, a critical driver of U.S. economic growth, as well as economic expansion in San Diego, has been increasing consumer spending. Consumer spending and residential investment rose from 67 percent of GDP in 1980 to 75 percent in 2007. While some of this was a result of wage increases, growth was also fueled by a decline in savings rate and rise of personal debt. Simultaneously, the household savings rate fell from more than 9 percent of personal income prior to the early 1980s to only 1.2 percent by 2005.



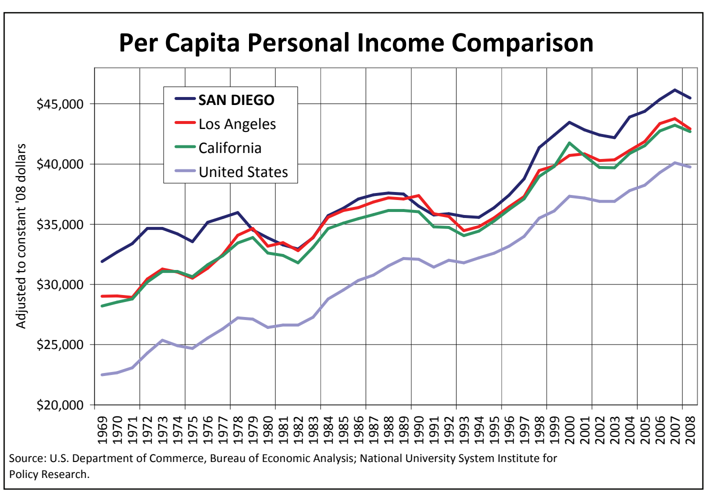
Source: U.S. Department of Commerce, Bureau of Economic Analysis; National University System Institute for Policy Research.

The percentage of total personal income going toward personal taxes, the other component of personal income, has not varied nearly as much, although it has become more volatile in recent years. A high of 14.4 percent was reached in 2000, and a low of 10.4 percent in 2004.

San Diego metropolitan personal income in context

Preliminary data recently released by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) for 2008 metropolitan area personal income[1] reveals a financial weakening across the nation. Total personal income in the San Diego-Carlsbad-San Marcos, CA Metropolitan Area (the federal government's designated title for the San Diego metro area, equivalent to the County of San Diego) was $136.5 billion in 2008, a 3.8 percent increase from 2007.

San Diego's personal income total ranks 16th among 366 Metropolitan Statistical Areas (MSAs) across the nation. The 3.8 percent increase from 2007 to 2008 was among the third or middle quintile of MSA growth. Compared with other California metro areas, and particularly for southern California, San Diego saw stronger increases, outpacing both Los Angeles (2.2 percent) and the Inland Empire (2.0 percent).



Source: U.S. Department of Commerce, Bureau of Economic Analysis; National University System Institute for Policy Research.

On a per capita basis San Diego ranks 28th. The region's 2.4 percent increase of per capita income in 2008 was one of the strongest for California, exceeding San Francisco (1.3 percent), San Jose (-0.9 percent), Los Angeles (1.5 percent), and Riverside-San Bernardino (0.7 percent).

Over the past 40 years, San Diego shows impressive gains in "real" per capita income and has been consistently higher than the rest of the nation. From 1969 to 1990 San Diego's per capita income ranged 6.6 to 12.6 percent above the national average. The region notably lost ground through the mid-90s falling to a low only 2.0 percent above the national average in 1995, before rebounding to a peak 16.6 percent higher in 2005. Subsequently, San Diego's advantage slipped but remains 14.4 percent above the rest of the nation as of 2008.

Importantly, over the past ten years, San Diego's per capita income overtook both California

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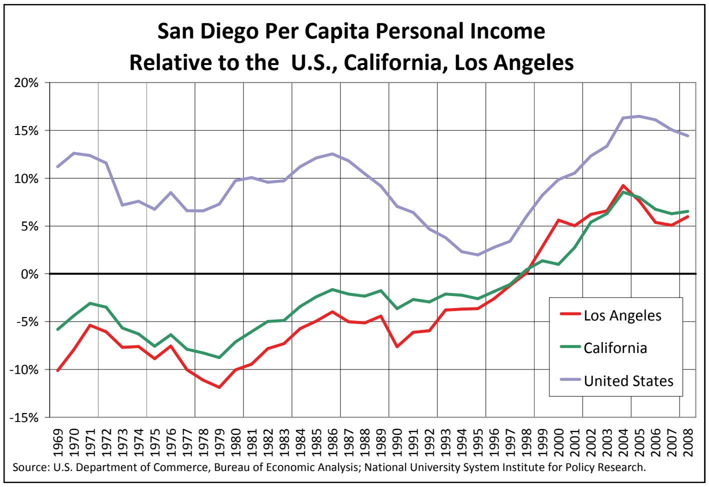
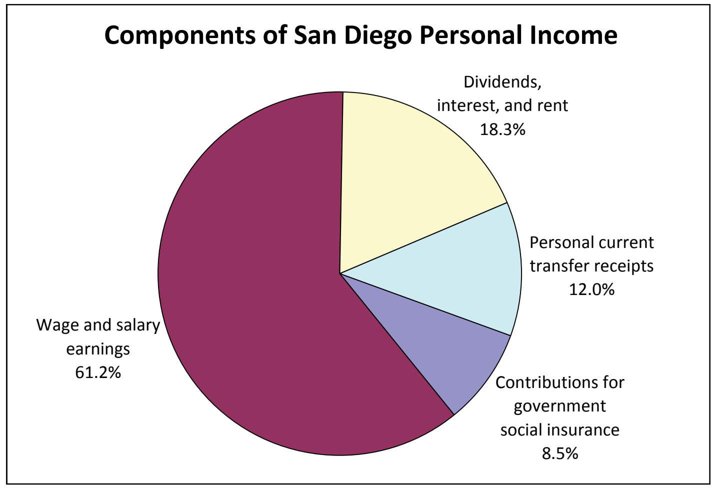




Personal Income and Consumer Spending

(Continued from page 1)

and Los Angeles. While previously 3 to 12 percent lower than either California or the much larger Los Angeles metro area (encompassing Orange County), since 1998 San Diego has overtaken and consistently exceeded both averages reaching a high 7 percent above in 2004. The lead subsequently shrunk somewhat but widened again during the latest year reported.

Disaggregation of San Diego personal income

When adjusted for inflation the outlook is not so bright. In “real” dollars total personal income in San Diego was actually slightly off 0.04 percent in 2008, the first decrease since 1993.

The largest component of San Diego’s personal income is wage and salary earnings disbursed to workers, totaling $106.6 billion in 2008, an all time high. But adjusted for inflation, overall

RANKING* OF PERSONAL INCOME AND PER CAPITA PERSONAL INCOME BY METROPOLITAN AREA

2008 Rank	Metropolitan Statistical Areas	Personal income: Millions of dollars 2007	Personal income: Millions of dollars 2008p	Personal income: Change '08/'07	Personal income: Change Rank	Per capita personal income+: Dollars 2007	Per capita personal income+: Dollars 2008p	Per capita: 2008 Rank	Per capita: Change '08/'07	Per capita: Change Rank
1	New York-Northern New Jersey-Long Island, NY-NJ-PA	$1,000,151	$1,030,585	3.0%	156	$52,855	$54,222	10	2.6%	203
2	*Los Angeles-Long Beach-Santa Ana, CA*	*540,510*	*552,450*	*2.2%*	*323*	*42,278*	*42,916*	*44*	*1.5%*	*301*
3	Chicago-Naperville-Joliet, IL-IN-WI	421,143	433,774	3.0%	141	44,346	45,328	31	2.2%	242
4	Washington-Arlington-Alexandria, DC-VA-MD-WV	291,471	302,789	3.9%	188	54,971	56,510	7	2.8%	184
5	Houston-Sugar Land-Baytown, TX	260,140	276,434	6.3%	19	46,471	48,259	20	3.8%	102
6	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	264,951	274,141	3.5%	227	45,499	46,954	25	3.2%	151
7	Dallas-Fort Worth-Arlington, TX	255,363	267,068	4.6%	86	41,499	42,392	49	2.2%	244
8	*San Francisco-Oakland-Fremont, CA*	*257,111*	*263,941*	*2.7%*	*213*	*60,983*	*61,747*	*3*	*1.3%*	*314*
9	Boston-Cambridge-Quincy, MA-NH	240,085	248,863	3.7%	149	53,443	55,023	9	3.0%	161
10	Miami-Fort Lauderdale-Pompano Beach, FL	232,522	236,676	1.8%	328	43,123	43,709	38	1.4%	309
11	Atlanta-Sandy Springs-Marietta, GA	198,580	202,444	1.9%	257	37,744	37,655	112	-0.2%	350
12	Detroit-Warren-Livonia, MI	173,885	176,146	1.3%	350	39,009	39,806	70	2.0%	257
13	Seattle-Tacoma-Bellevue, WA	162,935	168,815	3.6%	59	49,401	50,471	14	2.2%	251
14	Minneapolis-St. Paul-Bloomington, MN-WI	149,496	154,593	3.4%	144	46,752	47,863	21	2.4%	218
15	Phoenix-Mesa-Scottsdale, AZ	146,578	148,475	1.3%	342	35,185	34,675	175	-1.4%	363
16	***SAN DIEGO-CARLSBAD-SAN MARCOS, CA***	***131,500***	***136,513***	***3.8%***	***238***	***44,430***	***45,488***	***28***	***2.4%***	***218***
17	Baltimore-Towson, MD	122,235	126,242	3.3%	187	45,887	47,333	23	3.2%	145
18	*Riverside-San Bernardino-Ontario, CA*	*117,134*	*119,426*	*2.0%*	*314*	*28,804*	*29,016*	*321*	*0.7%*	*336*
19	Denver-Aurora, CO	114,529	119,090	4.0%	169	46,682	47,510	22	1.8%	278
20	St. Louis, MO-IL	110,192	116,394	5.6%	81	39,278	41,323	56	5.2%	33
21	*San Jose-Sunnyvale-Santa Clara, CA*	*105,999*	*106,973*	*0.9%*	*233*	*59,338*	*58,802*	*5*	*-0.9%*	*359*
22	Tampa-St. Petersburg-Clearwater, FL	99,253	100,924	1.7%	340	36,554	36,918	126	1.0%	327
23	Pittsburgh, PA	97,007	100,675	3.8%	170	41,206	42,819	45	3.9%	94
24	Portland-Vancouver-Beaverton, OR-WA	84,151	87,053	3.4%	155	38,842	39,436	73	1.5%	302
25	Cincinnati-Middletown, OH-KY-IN	80,997	83,546	3.1%	252	37,782	38,766	86	2.6%	198
26	Cleveland-Elyria-Mentor, OH	81,622	83,233	2.0%	318	38,963	39,857	69	2.3%	231
27	*Sacramento-Arden-Arcade-Roseville, CA*	*80,006*	*82,287*	*2.9%*	*297*	*38,424*	*39,002*	*82*	*1.5%*	*303*
28	Kansas City, MO-KS	77,717	80,817	4.0%	171	39,222	40,367	65	2.9%	173
29	Bridgeport-Stamford-Norwalk, CT	72,651	73,631	1.3%	223	81,576	82,266	1	0.8%	332
30	Las Vegas-Paradise, NV	71,622	73,266	2.3%	281	39,188	39,269	79	0.2%	345
	United States	**11,634,322**	**12,035,388**	**3.4%**	**...**	**38,615**	**39,582**	**...**	**2.5%**	**...**
	Metropolitan portion of the United States	**10,213,729**	**10,550,281**	**3.3%**	**...**	**40,544**	**41,455**	**...**	**2.2%**	**...**

*Ranking among 366 metropolitan areas acorss the United State. California areas italicized. p: preliminary

+Per capita personal income was computed using Census Bureau midyear population estimates.

Note. The personal income level shown for the United States is derived as the sum of the metropolitan area estimates and an estimate for the nonmetropolitan portion of the United States. It differs from the estimate of personal income in the national income and product accounts because of differences in coverage, in the methodologies used to prepare the estimates, and in the timing of the availability of source data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis; National University System Institute for Policy Research.

earnings slightly declined 0.7 percent in 2008.

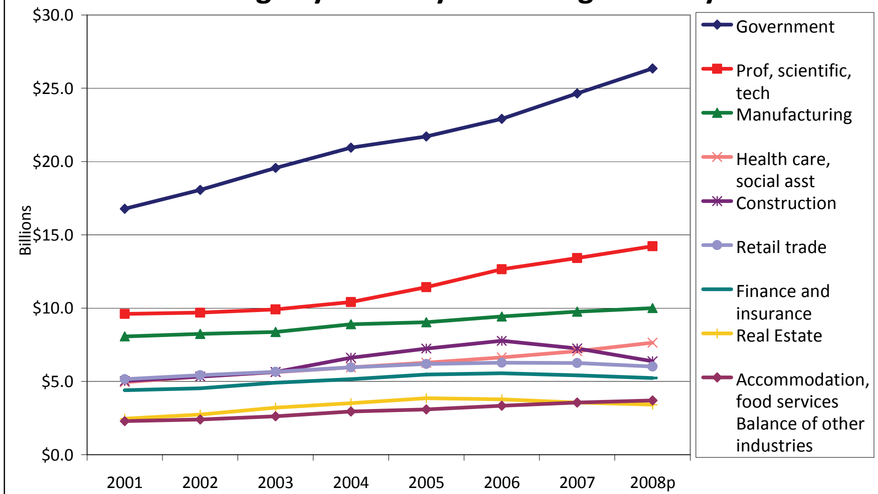
Earnings include wage and salary disbursements, proprietor's income, and employee benefits paid by employers. Total earnings have risen significantly in San Diego since 2001 by 41.6 percent, as wage and salary disbursements increased 38.8 percent. That was far outpaced, however, by "payments" for employee benefits and supplements such as pensions and health insurance, which jumped 70.7 percent. Adjusted for inflation, the "real" gain in earnings was 9.6 percent, but supplements leaped 34.8 percent. Most of the supplemental increase was employer contributions to employee pensions and insurance funds.

On the other hand, proprietors' income (self-employed, sole proprietor, and partnerships), have not kept pace decreasing 4.2 percent adjusted for inflation, dropping 4.0 percent just the past year.

Rising substantially over the years are supplemental compensation for government social insurance, including social security, supplementary medical, unemployment, and other life and disability insurance. From only 10 percent of total earnings in 1969, the value or cost for these benefits average 19 percent as of 2008. The percentage of income derived from government social insurance also has risen over the years from 5 percent of the total forty years ago to 8.5 percent in 2008.

Another noticeable change is rising transfer income payments. Transfer earnings are government payments to individuals in which "no current services are performed". These include retirement and disability insurance benefits, medical payments (mainly Medicare and Medicaid), unemployment insurance and income maintenance benefits, military veterans benefits, and federal grants and loans to students.[2] The percentage of San Diego's total personal income derived from transfer earnings has risen from less than 8.0 percent in 1969 to 12.0 percent in 2008.

Earnings by Industry - San Diego County



Source: U.S. Department of Commerce, Bureau of Economic Analysis; National University Institute for Policy Research.

Among San Diego's earnings by industry data, an interesting trend that jumps out is, despite the decline of manufacturing employment in the County, total income from manufacturing continues to rise. This reflects local manufacturing becoming less labor intensive and much higher value-added production among knowledge based industries.

In addition, the percentage of total personal income derived from government sector earnings in San Diego has substantially diminished from more than 40 percent in the first half of the 1970s to around 23 percent over the past decade. Military payrolls accounted for more than one-half of San Diego's government income earnings until the latter years of the 1980s, when that percentage diminished to about one-third in 2000. While we do not believe it will be a long-term trend, the decline reversed since that year as spending for the conflicts in Iraq and Afghanistan rose, coupled with the economic slowdown of the past year. Since 2001, personal income derived from the military has risen much faster than overall income gains and, as of

SAN DIEGO METROPOLITAN AREA PERSONAL INCOME

	2001	2007	2008p	Change		Inflation adj#		Percent of Total	
		($000s)		08/07	08/01	08/07	08/01	2001	2008
Income by place of residence									
Personal income	$97,009,480	$131,499,657	$136,513,285	3.8%	40.7%	-0.04%	11.1%	100.0%	100.0%
Population (persons)	2,869,630	2,959,734	3,001,072	1.4%	4.6%				
Per capita personal income (dollars)	$33,806	$44,430	$45,488	2.4%	34.6%	-1.4%	6.2%		
Derivation of personal income									
Earnings by place of work	$75,317,745	$103,406,024	$106,619,948	3.1%	41.6%	-0.7%	11.8%	77.6%	78.6%
less: Contributions for government social insurance	8,048,500	11,178,027	11,582,424	3.6%	43.9%	-0.2%	13.6%	8.3%	8.5%
Employee and self-employed contributions for government social insurance	4,130,535	5,556,022	5,768,793	3.8%	39.7%	-0.02%	10.3%	4.3%	4.2%
Employer contributions for govt. social insurance	3,917,965	5,622,005	5,813,631	3.4%	48.4%	-0.4%	17.1%	4.0%	4.3%
plus: Adjustment for residence@	63,566	96,879	29,529	-69.5%	-53.5%	-70.7%	-63.3%	0.1%	0.1%
equals: Net earnings by place of residence	67,332,811	92,324,876	95,067,053	3.0%	41.2%	-0.9%	11.5%	69.4%	70.2%
plus: Dividends, interest, and rent	18,942,490	24,114,924	25,025,973	3.8%	32.1%	-0.1%	4.3%	19.5%	18.3%
plus: Personal current transfer receipts	10,734,179	15,059,857	16,420,259	9.0%	53.0%	5.0%	20.8%	11.1%	11.5%
Components of earnings									
Wage and salary disbursements	$53,537,487	$72,090,481	$74,319,508	3.1%	38.8%	-0.7%	9.6%	55.2%	54.8%
Supplements to wages and salaries	11,889,431	19,279,346	20,300,648	5.3%	70.7%	1.4%	34.8%	12.3%	14.7%
Employer contributions for employee pension and insurance funds	7,971,466	13,657,341	14,487,017	6.1%	81.7%	2.1%	43.5%	8.2%	10.4%
Employer contributions for govt. social insurance	3,917,965	5,622,005	5,813,631	3.4%	48.4%	-0.4%	17.1%	4.0%	4.3%
Proprietors' income+	9,890,827	12,036,197	11,999,792	-0.3%	21.3%	-4.0%	-4.2%	10.2%	9.2%

p: preliminary.

#Adjusted by U.S. Department of Labor, Bureau of Labor Statistics San Diego Consumer Price Index-All Urban Consumers.

@The adjustment for residence is the net inflow of the earnings of interarea commuters. For the United States, it consists of adjustments for border workers: Wage and salary disbursements to U.S. residents commuting to Canada less wage and salary disburse

+Proprietors' income includes the inventory valuation adjustment and capital consumption adjustment.

Source: U.S. Census Bureau, Bureau of Economic Analysis; National University System Institute for Policy Research.

SAN DIEGO METROPOLITAN AREA EARNINGS BY INDUSTRY

Industry	2001	2007	2008p	Change		Inflation adj#		Percent of Total	
	($000s)			08/07	08/01	08/07	08/01	2001	2008
TOTAL earnings by place of work	$75,317,745	$103,406,024	$106,619,948	3.1%	41.6%	-0.7%	11.8%	100.0%	100.0%
Farm earnings	284,137	354,360	273,049	-22.9%	-3.9%	-25.8%	-24.1%	0.4%	0.3%
Nonfarm earnings	75,033,608	103,051,664	106,346,899	3.2%	41.7%	-0.6%	11.9%	99.6%	99.7%
Private earnings	58,261,593	78,400,562	79,999,306	2.0%	37.3%	-1.7%	8.4%	77.4%	75.8%
Forestry, fishing, related activities, and other*	109,375	89,346	92,311	3.3%	-15.6%	-0.5%	-33.4%	0.1%	0.1%
Mining	52,943	83,358	91,313	9.5%	72.5%	5.5%	36.2%	0.1%	0.1%
Utilities	608,369	904,484	1,071,871	18.5%	76.2%	14.1%	39.1%	0.8%	0.9%
Construction	5,026,642	7,248,202	6,367,372	-12.2%	26.7%	-15.4%	0.0%	6.7%	7.0%
Manufacturing	8,066,871	9,766,107	10,002,582	2.4%	24.0%	-1.4%	-2.1%	10.7%	9.4%
Durable goods manufacturing	6,369,421	7,622,876	7,855,207	3.0%	23.3%	-0.8%	-2.6%	8.5%	7.4%
Nondurable goods manufacturing	1,697,450	2,143,231	2,147,375	0.2%	26.5%	-3.5%	-0.1%	2.3%	2.1%
Wholesale trade	2,813,475	4,099,450	4,224,203	3.0%	50.1%	-0.8%	18.5%	3.7%	4.0%
Retail trade	5,154,987	6,258,809	6,012,746	-3.9%	16.6%	-7.5%	-7.9%	6.8%	6.1%
Transportation and warehousing	1,036,287	1,372,781	1,391,144	1.3%	34.2%	-2.4%	6.0%	1.4%	1.3%
Information	4,003,938	4,996,585	5,779,725	15.7%	44.4%	11.4%	14.0%	5.3%	4.8%
Finance and insurance	4,401,135	5,414,584	5,222,833	-3.5%	18.7%	-7.1%	-6.3%	5.8%	5.2%
Real estate and rental and leasing	2,451,885	3,561,301	3,419,321	-4.0%	39.5%	-7.5%	10.1%	3.3%	3.4%
Professional, scientific, and technical services	9,601,175	13,419,098	14,219,407	6.0%	48.1%	2.0%	16.9%	12.7%	13.0%
Management of companies and enterprises	1,288,355	1,351,988	1,249,244	-7.6%	-3.0%	-11.0%	-23.4%	1.7%	1.3%
Administrative and waste services	2,875,093	4,129,714	4,159,266	0.7%	44.7%	-3.0%	14.2%	3.8%	4.0%
Educational services	597,438	1,047,849	1,157,994	10.5%	93.8%	6.4%	53.0%	0.8%	1.0%
Health care and social assistance	4,947,608	7,063,106	7,642,221	8.2%	54.5%	4.2%	21.9%	6.6%	6.8%
Arts, entertainment, and recreation	891,004	1,325,085	1,391,632	5.0%	56.2%	1.1%	23.3%	1.2%	1.3%
Accommodation and food services	2,286,547	3,554,656	3,700,439	4.1%	61.8%	0.2%	27.8%	3.0%	3.4%
Other services, except public administration	2,048,466	2,714,059	2,803,682	3.3%	36.9%	-0.5%	8.1%	2.7%	2.6%
Government and government enterprises	16,772,015	24,651,102	26,347,593	6.9%	57.1%	2.9%	24.0%	22.3%	23.8%
Federal, civilian	3,010,674	4,065,474	4,320,675	6.3%	43.5%	2.3%	13.3%	4.0%	3.9%
Military	5,693,853	8,979,291	9,879,245	10.0%	73.5%	5.9%	37.0%	7.6%	8.7%
State and local	8,067,488	11,606,337	12,147,673	4.7%	50.6%	0.8%	18.9%	10.7%	11.2%

p: preliminary.

#Adjusted by U.S. Department of Labor, Bureau of Labor Statistics San Diego Consumer Price Index-All Urban Consumers.

*Other consists of wage and salary disbursements to U.S. residents employed by international organizations and foreign embassies and consulates in the United States.

Source: U.S. Census Bureau, Bureau of Economic Analysis; National University System Institute for Policy Research.

2008, account for 38 percent of all government payrolls in the region. As reported in our report on the economic impact of the military, San Diego is one of the nation's leading metro areas for military payrolls, rivaled only by the Virginia Beach-Norfolk-Newport News, VA-NC and Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan areas. (See http://www.nusinstitute.org/assets/resources/pageResources/20090701.pdf)

The 48.1 percent increase in total "professional, scientific, and technical services" income helps illustrate how knowledge-based industries are reshaping San Diego. This sector of the local economy is dominated by high-technology driven research and development sectors and comprises establishments requiring a high degree of expertise and training, including engineering, computers, specialized design, consulting and research, and other areas of professional, scientific, and technical services.[3]

Personal income has also increased among industries of information; health care and social assistance; private educational services; arts, entertainment and recreation; accommodations and food services; transportation and warehousing. With the full brunt of recession and loss of jobs hitting in 2009, personal income among these sectors are likely to falter.

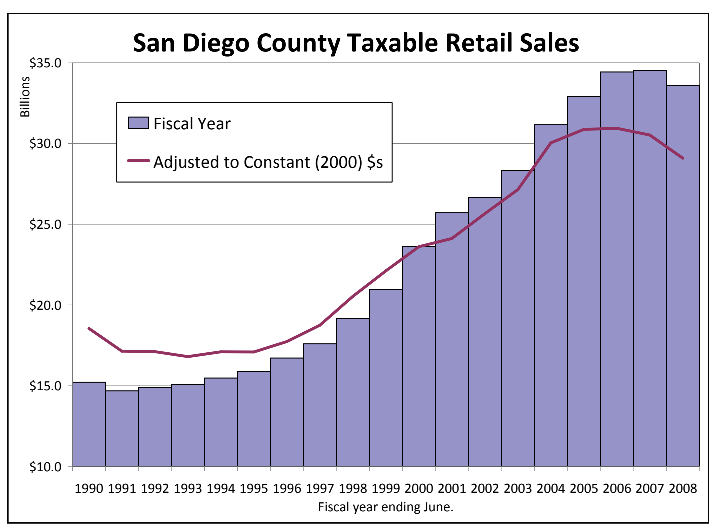
The recession has had its most notable impact in the sectors directly tied to real estate. Total personal income compensation within the construction sector shrunk 18 percent over the past two years, after having risen 38 percent the previous three years. Adjusted for inflation, construction income gains of the past five years have largely been wiped away.

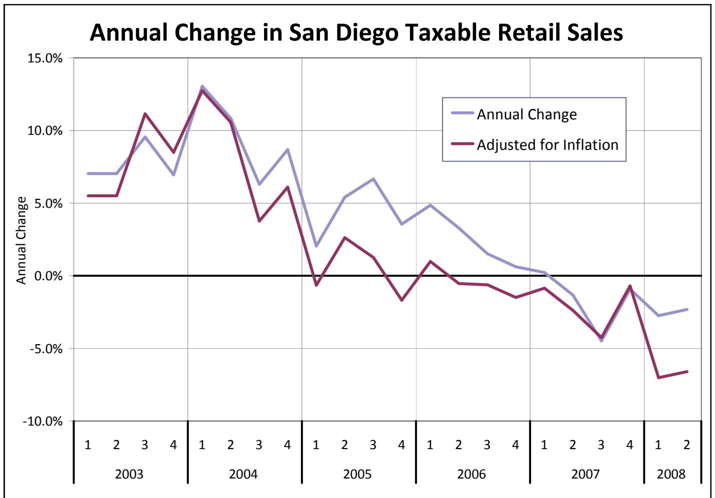
Similarly, total earnings among retail and wholesale trade, finance and insurance, and real estate, rental and leasing service sectors have all diminished the past two years. When adjusted for inflation, the losses exceed 10 percent over the past two years.

Faltering retail sales

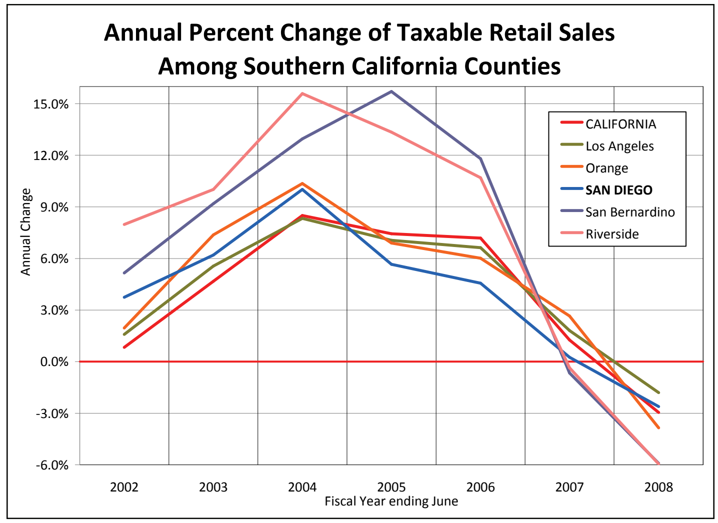
While national figures and estimates for some retail chains are relatively current, aggregated taxable sales figures in San Diego lag by up to a year.[4] With those caveats in mind, according to the California State Board of Equalization (BoE), taxable sales in the County have fallen since peaking in the 4th quarter of 2006. The decline has grown progressively worse. For the year ending in the second quarter of 2008, taxable sales declined 1.8 percent from the previous year. The retail portion shows a 2.6 percent decline. Year-over-year declines have been reported for San Diego for the past five consecutive quarters, and adjusted for inflation, nine of the past ten quarters show losses. Readers should note this was prior to the melt down of the nation's financial crisis hitting in September 2008.

The bust in sales was proceeded





Source: California State Board of Equalization; National University System Institute for Policy Research.

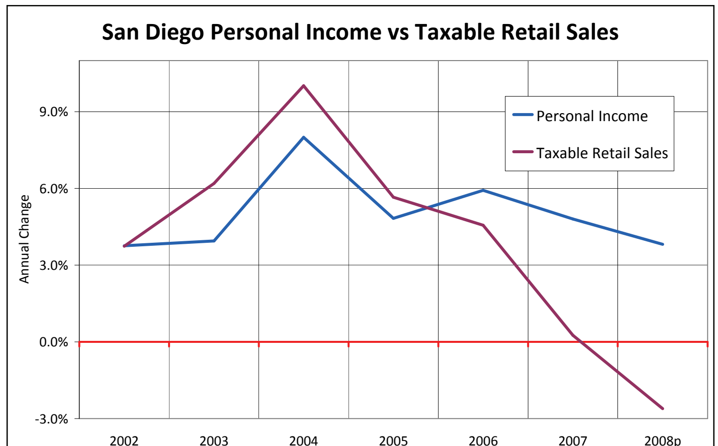


by a consumption boom. San Diego taxable sales saw the greatest jump (10%) in the fiscal year ending 2004. While retail sales usually track income growth, during the early years of this decade sales growth far exceeded income gains. This is indicative of the large effect increases in real estate values and the rise in home equity debt had on spending.

While this same pattern in retail sales is evident throughout California, San Diego seemed to be at least temporarily ahead of the state's other major metro areas. As the chart of southern California county sales shows, the pace of decline was greater in San Diego in 2005 through the first half of 2007. More recently, other southern California counties recorded greater drops, while San Diego's decline appears more moderate.

The recession's broader impact on employment and consumer confidence is also having an effect. While spending on essentials such as food, fuels, and other necessities held generally steady, discretionary spending on non-essentials and durables (purchases of goods that can be put off) have precipitously fallen. New auto dealers in San Diego, the single largest category for dollars sales transactions, reported a 11.4 percent decline over the past year. Home furnishings and appliances fell 9.3 percent, while building materials dropped 17.5 percent. As the chart to the right illustrates, this weakness in durable goods show up as a significant decline in total taxable retail sales, far outpacing the changes in personal income.

We see that non-durable good sales, such as apparel (up 2.2%), general merchandise (0.3%), food (up 5.5%) still show upward, albeit, sluggish gains. Service station sales, largely because of record gas prices at the pumps, were up 13.0 percent in 2008. Given the challenges consumers have to readjust household spending, the increase of gas prices during 2008 likely depressed spending for other categories of retail sales. No wonder, looking at such statistics, there are calls by those wanting to expand government revenue for a broadening of California's sales tax to make up for the decline in durable sales.



Source: U.S. Department of Commerce, Bureau of Economic Analysis; California State Board of Equalization; National University System Institute for Policy Research.

TAXABLE SALES - San Diego County

Year	Qtr	Total Taxable Sales	Annual Change	Retail Sales (000s)	Annual Change	Inflation Adj*
2003	1	$9,279,083	5.1%	$6,632,613	7.0%	5.5%
	2	10,061,870	5.0%	7,213,054	7.0%	5.5%
	3	10,626,888	7.1%	7,710,485	9.6%	11.1%
	4	10,896,137	6.2%	7,964,399	6.9%	8.5%
2004	1	10,287,490	10.9%	7,497,777	13.0%	12.8%
	2	11,070,772	10.0%	7,995,497	10.8%	10.6%
	3	11,232,007	5.7%	8,195,868	6.3%	3.8%
	4	11,880,069	9.0%	8,656,318	8.7%	6.1%
2005	1	10,560,865	2.7%	7,650,955	2.0%	-0.7%
	2	11,812,236	6.7%	8,427,201	5.4%	2.6%
	3	12,019,021	7.0%	8,742,190	6.7%	1.3%
	4	12,287,349	3.4%	8,964,449	3.6%	-1.7%
2006	1	11,092,889	5.0%	8,021,966	4.8%	1.0%
	2	12,068,820	2.2%	8,703,662	3.3%	-0.5%
	3	12,199,800	1.5%	8,873,860	1.5%	-0.6%
	4	12,474,005	1.5%	9,019,579	0.6%	-1.5%
2007	1	11,214,037	1.1%	8,039,646	0.2%	-0.9%
	2	12,069,563	0.0%	8,587,362	-1.3%	-2.4%
	3	11,918,333	-2.3%	8,475,715	-4.5%	-4.3%
	4	12,284,055	-1.5%	8,935,822	-0.9%	-0.7%
2008	1	11,006,966	-1.8%	7,818,456	-2.8%	-7.0%
	2	11,862,623	-1.7%	8,388,103	-2.3%	-6.6%

*Adjusted by "commodities less food" component of the San Diego Consumer Price Index.
Source: California State Board of Equalization; U.S. Department of Labor, Bureau of Labor Statistics; National University System Institute for Policy Research.

Government response to declining sales

Retail sales of nearly $1 billion have disappeared across the County of San Diego the past two fiscal years ending June 2008. This represents a significant loss of consumer economic activity in the region, as well as for state and local government revenues.

With the slump in consumer spending, revenues collected from sales taxes by state, county and municipal governments have fallen significantly. For example, the City of San Diego projects in its fiscal year 2009-2010 budget that sales tax receipts will decline by 5 percent or more than $11 million from the previous year. Carlsbad, with several regional serving retail centers, forecasts an even greater decline, projecting their 2009-10 receipts will fall by some 12.5 percent.

Ironically, instead of encouraging

or stimulating more consumption and sales activity, the state of California implemented a sales tax rate hike that serves to further depress already depressed retail activity. The state sales tax rate increased a full percentage point from 6.25 to 7.25 percent as of April 2009. Combined with local municipal rates of 1.0 percent (or more), California's combined effective sales tax rate of 8.25 percent is one of the highest in the nation. Several local districts have implemented additional tax rates on top of this, such as the County of San Diego's 0.5 percent transportation tax. La Mesa, El Cajon and Vista also put in a 0.5-0.75 percent "preservation transaction and use tax" in an effort to supplement their lost revenues. National City leads the County with an additional 1.0 percent tax rate making their total sales tax rate equal to Los Angeles city rates of 9.75 percent. Only a handful of cities in the state, all within Los Angeles County, have higher sales tax rates of 10.25 and 10.75 percent.

Deflation in San Diego: First time in 55 years

San Diego had a rare decrease in overall cost of living as measured by the U.S. Department of Labor's Bureau of Labor Statistics (BLS) consumer price index (CPI). The index, as of the first half of 2009, shows overall consumer prices in San Diego decreasing 0.6 percent from 2008. This is the first annual decline in San Diego's CPI since 1954.

A 36 percent decrease in price of gas paid at the pumps and 30 percent decrease in natural gas prices used for heating almost entirely accounted for the overall decline in local prices. Commodity prices therefore also show a 5.0 percent annual decline over the past year. An aggregate index measuring "all items less energy" indicates San Diego prices otherwise slightly rose 1.1 percent.

San Diego's 0.6 percent decline in overall cost of living was actually much more moderate than reported for other major metro areas. The average for the nation (U.S. city average) indicated a 2.1 percent decline, and Los Angeles showed a 2.6 decrease, while San Francisco recorded a slight 0.2 percent gain.[5]

Housing cost drag on consumer spending

Spending on housing, either the costs to buy or rent a home, make up the largest portion of most consumer's household spending. According to the latest survey of consumer expenditures in 2006-07 used by the BLS to determine the CPI, the proportion of San Diego spending going for housing was 41.5 percent of total expenditures. This was the highest proportion among the 18 major metropolitan areas examined by the BLS. The average for the U.S. was 33.9 percent, while the average for the western region of the U.S. was 35 percent.

With the higher proportion of spending on housing, less is available for other goods and services. Without commensurate increases in personal income, higher housing expenses leave even less available to purchase other goods and services.

Consumer spending outlook

As incomes have fallen many San Diegans are in a precarious position. As Anthony Mirhaydari of Strategic Advantage considers, "With every 1 in 8 Americans with a mortgage either in arrears or in the foreclosure process; 1 in 4 homeowners 'upside down' on their mortgage; 1 in 6 either unemployment or underemployed; and 1 in every 7 housing units in the United States sitting vacant right now, it will be interesting to see exactly what sort of recovery we end up with."[6]

Modest consumption, government spending, export activity and inventory rebuilding can bring about some economic recovery, but there is a distinction between doing better and doing well. While the economy is going to show some recovery, partly because it was hit so hard, given the current financial circumstances of consumers means that there will likely be a long slog before unemployment starts to decline.

Indeed, any hope for recovery depends upon at least moderate increases in consumer spending. Personal consumption expenditures, however, cannot be expected to rise more than 2 percent in 2010. That is below San Diego's normal growth rates of more than 4 percent over the postwar period and a far cry from average growth rates of 7 percent from 1997 through 2004. Wages remain under pressure, and the enormous slack in the labor market built up from the pervasive job cuts of the past year are likely to keep a lid on wage growth for the foreseeable future. While the economy is likely to be growing again, it is going to take much longer before consumers and employment do much better.

Such constraints are one of the reasons why NUSIPR believes that significant county growth rates will remain low throughout 2010. While economic activity in the region may technically be considered in a recovery, for a large number of San Diegans it is not going to feel like one until much later than 2010.

TAXABLE SALES BY TYPE OF BUSINESS
SAN DIEGO COUNTY - Fiscal Year 2008

Type of business	Permits (Outlets) Jul 08	Annual Change 08/07	Taxable Sales (000s)	Percent Change 08/07
Retail Stores Total	**41,695**	**1,684**	**$33,618,096**	**-2.6%**
Apparel stores group	**4,477**	**465**	**2,030,000**	**2.2%**
Women's apparel	1,462	210	487,871	0.6%
Men's apparel	248	5	102,076	-5.5%
Family apparel	2,324	224	1,218,735	4.4%
Shoes	443	26	221,318	-2.1%
General merchandise group	**1,297**	**116**	**5,656,851**	**0.3%**
General merchandise stores	974	110	5,142,813	0.0%
Drug stores	323	6	514,038	3.3%
Food stores group	**1,823**	**20**	**2,046,872**	**5.5%**
Eating and drinking group	**7,539**	**290**	**4,862,363**	**4.1%**
Home furnishings/appliances	**2,782**	**138**	**1,344,379**	**-9.3%**
Building materials	**919**	**25**	**2,556,483**	**-17.5%**
Automotive group	**2,930**	**178**	**5,855,398**	**-11.4%**
New motor vehicle dealers	295	15	4,484,942	-11.0%
Used motor vehicle dealers	859	83	437,166	-16.1%
Automotive supplies and parts	1,324	76	484,271	-1.8%
RV and all other vehicles	452	4	449,019	-19.5%
Service stations	**762**	**-42**	**4,116,120**	**13.0%**
Other retail stores	**19,166**	**494**	**5,149,630**	**-5.5%**
Gifts, art goods, and novelties	1,251	74	182,365	-3.2%
Sporting goods	851	111	405,913	-1.7%
Florists	804	45	135,751	-2.5%
Musical instruments	370	42	94,514	-20.2%
Stationery and books	1,103	56	276,262	-15.4%
Jewelry	1,064	-51	266,948	-7.9%
Office supplies, computer stores	1,366	-11	1,284,794	-10.4%
Packaged liquor stores	376	31	246,952	14.0%
Second-hand merchandise	1,425	109	80,722	2.8%
Miscellaneous retail	10,093	56	2,175,409	-3.2%
Business, Personal Services	**8,741**	**40**	**$2,336,600**	**2.4%**
All Other Outlets	**36,614**	**-15**	**11,117,281**	**-0.3%**
Totals All Outlets	**87,050**	**1,709**	**$47,071,977**	**-1.8%**

Source: California State Board of Equalization; National University System Inst for Policy Research.

[1]Total personal income is the sum of net earnings of residents from all sources.

[2]Government payments to nonprofit institutions excludes payments by the Federal Government for work under research and development contracts. Business payments to persons consists primarily of liability payments for personal injury and of corporate gifts to nonprofit institutions.

[3]This sector also includes legal, accounting, bookkeeping, and payroll services; architectural services; advertising services; photographic services; translation and interpretation services; veterinary services. This excludes establishments primarily engaged in providing a range of day-to-day office administrative services, such as financial planning, billing and recordkeeping, personnel,

Dashboard Observations—July 2009

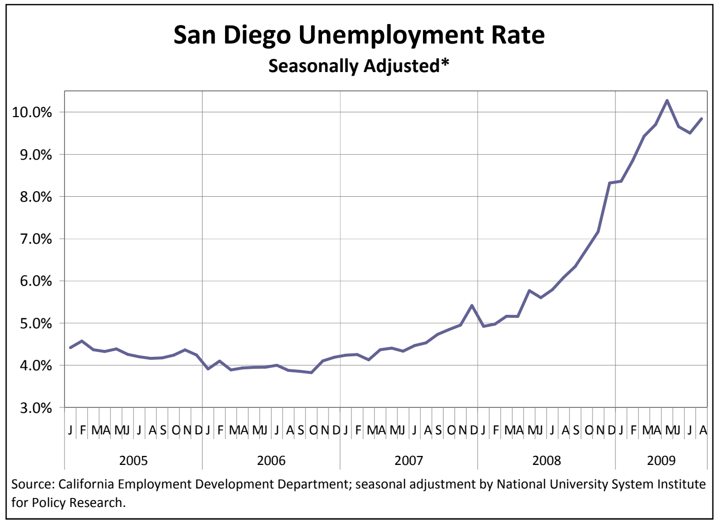
By Kelly Cunningham, Economist, Senior Fellow

San Diego's unemployment rate may have already peaked if seasonal adjustment trends hold true to form. While the local unemployment rate reached a 26-year high of 10.2 percent in June and 10.4 percent in July, the seasonal adjustment indicates a "real" peak may have already been reached in May. Because of variation patterns, the seasonal adjustment accounts for normal month-to-month changes in employment. Both employment numbers and unemployment rates historically increase during summer months. Tourist related businesses ramp up hiring and students enter the labor force. Consequently, the rise in unemployment rate during June and July was not as much as normally occurs in San Diego, and the seasonal adjustment shows lowered rates.

If normal patterns of unemployment occur until the end of the year, the unemployment rate should diminish as school restarts and businesses hire workers through the end of the year holiday shopping season. These are anything but normal times, however, for employment. It is unclear what kind of holiday shopping season San Diegans will experience. If the national economy is actually starting to grow again, as widely reported as of the 3rd quarter of 2009, than job losses should at least also start to taper off. But this is no guarantee San Diego's unemployment rate has not stopped rising, or will come down anytime this year.

Indicator	July 2009	Month Change (Sea. Adj.)	Annual Change
Unemployment Rate[1] San Diego County	10.4%	-0.2% ▲	4.1% ▼
Residential Building[2] Units authorized for construction San Diego County	182	-31.0% ▼	-45.0% ▼
New Business Licenses[3] Issued by City of San Diego	1,230	-1.0% ▼	-26.9% ▼
San Diego Stock Index[4] San Diego based pub. companies 2nd Thursday of month	95.0	-4.4% ▼	-17.5% ▼

[1]California Employment Development Department.
[2]U.S. Bureau of the Census.
[3]Business Tax Program, City of San Diego.
[4]Second Thursday of month, Bloomberg News, San Diego Daily Transcript.



Unbridled optimists should take pause with all other dashboard indicators down as of July 2009. New residential construction continues a five-year slump. The annual number of units authorized for construction has truly reached "Great Depression" levels. The 3,190 housing units approved for construction over the past twelve months are the lowest in the County since the 1930s, when San Diego population was only 1/12th what it is today. As of July the number continues to slide with only 182 units approved, 28.5 percent fewer than in June, and down 45 percent from July 2008.

New business licenses issued by the City of San Diego were also down from the previous month and one year ago. The stock index of publicly traded companies based in San Diego were rebounding from a low point reached in December 2008, but the July 2009 number slightly faltered again from June 2009. Although the index remains 17.5 percent lower than one year ago, the local index, closely tracking national indexes, appears to be on an upward trend again.

(continued from page 6)

and physical distribution and logistics, which are classified in "Administrative and Support and Waste Management and Remediation Services".

[4]Retailers engaged in business in California must register with the BOE and pay the state's sales tax, which applies to all retail sales of goods and merchandise except those sales specifically exempted by law, such as food consumed at home and medicines.

[5]San Diego is one of 13 second-level major metropolitan areas that the BLS reports consumer prices on a semi-annual basis. CPIs are measured for another 11 large metro areas every other month, while the nation's big three metro areas, New York, Chicago, and Los Angeles, are reported each month.

[6]Anthony Mirhaydari, "Where have the shoppers gone?", Strategic Advantage, August 13, 2009.

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National University System Institute for Policy Research (NUSIPR) is a non-partisan organization that formulates and promotes high quality economic, policy, and public-opinion research so as to improve the efficiency and effectiveness of local governments in San Diego County.