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SAN DIEGO
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## PRESIDENT'S CORNER

Unemployment is a trailing economic indicator. When demand weakens, firms in recessions are loath to cut back on their workforce and equally reluctant to gear up when conditions improve. The last recession illustrated the lag, with growth picking up almost 18 months before the employment outlook started to improve.

In this month's NUSIPR Economic Ledger we take a hard look at what has happened to the San Diego workforce since the onset of recession. It is, unfortunately, not good news. The shocks from this recession on the real estate, finance, and retail sectors have been sharp and pronounced.

That poses two challenges. First and foremost it points to the critical importance of workforce retraining. At least in the foreseeable future, certain sectors like retail, construction and real estate related finance are not going to bounce back anywhere near the levels seen in the earlier part of the decade. It is critical that we take all steps possible to help retrain displaced workers in those industries. Second, it means that

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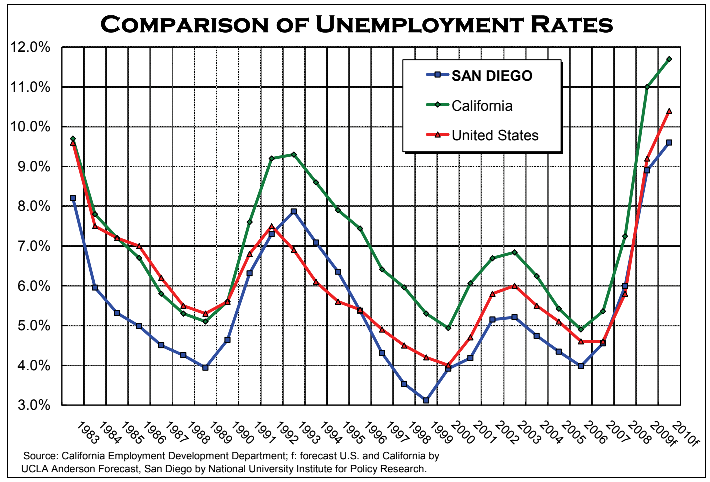
# San Diego 2009 Employment Outlook

The regional outlook for the rest of 2009 promises a very difficult year for employment. The financial crisis and near collapse of residential real estate values have caused significant structural damage to the region's largest economic sectors. The possibility of long-term shifts in consumer behavior could mean that, even after the recovery, there will only be a tepid increase in certain employment categories. Perhaps most ominous, it is difficult to see any economic sector poised to create a significant number of higher-paying jobs as we emerge from the recession. Indeed, the challenge needing to create more middle class jobs may be more pronounced after the recession given long-term changes that the fiscal crisis may create.

The sources of the economic downturn have been well chronicled. Values of certain asset classes far outpaced what could be expected or ever be sustained. As with other banking crises, these high asset values were overly leveraged and risks were underpriced. When the music stopped consumers, terrified by falling asset values, quickly retrenched and hunkered down. Add in defaults, foreclosures and continued depressed home values, and it is no wonder so many see dangers of a deflationary spiral.




### Nationwide labor trends

The job losses in this downturn have been fast and furious. Between July 2008 and March 2009, the national economy shed 4.7 million. While stimulus spending may help, a significant part of the program is navigating uncharted waters. On the demand side, spooked consumers may simply not spend as they once did -- regardless of how much money the government pushes into the economy. In an economy in which consumer spending constitutes two-thirds of GDP such a retrenchment will have significant and negative implications in regards to both the speed of the recovery and the kind of wrenching structural changes that could occur.

As of March 2009, unemployment nationally, according to the U.S. Bureau of Labor Statistics (BLS), reached 8.5 percent. When workers who have ceased looking for employment and those working only part time because they cannot find full time employment are included in the figures, the rate jumps to 15.6 percent. Since the start of the recession in December 2007 more than 5.3 million people have lost their jobs. The 13.2 million Americans currently unemployed are the highest since World War II.

The combination of financial meltdown and rising unemployment are proving disastrous particularly for those new to the job market or nearing retirement. The unemployment rate among those aged 20 to 24 is 14.0 percent as of March 2009, up from 9.4 percent a year ago. Unemployment among workers age 55 and above rose to 6.2 percent, up from only 3.4 percent a year before. Midcareer professionals are not escaping the downturn either. Unemployment among people ages 25 to 34 rose to a 20-year high of 9.0 percent in March, up from 5.3 percent a year earlier. This promises to have long term and profound effects as younger people delay entry into the workforce and older workers face financial hardship just as their retirements begin to loom.

### California's and San Diego's troubling job outlook

Employment conditions are particularly dire for California. As of March 2009, the state

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**MAJOR SAN DIEGO COUNTY JOB SECTOR CHANGES AND ANNUAL AVERAGE WAGES**

| Industry | March 2009 | Change+ Mar 08-Mar 09 | Change+ Jun 07-Mar 09 | Annual Wage Estimate* |
|---|---|---|---|---|
| **Total, All Industries** | **1,270,600** | **-44,500** | **-60,500** | $48,152 |
| Farming, Nat Resources, Mining | 11,300 | 0 | -200 | 28,132 |
| Construction | 66,700 | -11,200 | -24,200 | 50,492 |
| Manufacturing | 96,400 | -6,600 | -5,400 | 62,764 |
| Trade, Transportation, Utilities | 204,100 | -11,800 | -16,700 | 38,324 |
| Utilities | 6,900 | 100 | 500 | 81,120 |
| Information | 37,900 | -200 | 500 | 120,172 |
| Finance, Insurance, Real Estate | 74,100 | -2,500 | -7,500 | 56,420 |
| Professional, Business Services | 210,400 | -7,900 | -7,300 | 57,824 |
| Educational Services | 136,200 | 500 | 7,400 | 44,044 |
| Leisure and Hospitality | 156,700 | -4,400 | -9,000 | 21,060 |
| Federal Government | 42,400 | 1,200 | 1,700 | 72,592 |
| State Government | 42,800 | 400 | 900 | 56,316 |
| Local Government | 143,800 | -1,300 | 700 | 49,868 |

*Weekly wages as of the 2nd quarter of 2008 projected to annual basis.
Source: California Employment Development Department; National University System Institute for Policy Research. +Not seasonally adjusted.

## San Diego 2009 Employment Outlook

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had the nation's fourth highest unemployment rate at 11.2 percent. This is the highest level recorded since 1983.

Extended unemployment measures show marginally attached workers, those working less than full-time for economic reasons, when added to California's unemployment numbers reveals 13.4 percent not working or underemployed, the highest for the nation during 2008.

California areas account for nine of the nation's ten highest unemployment rates for metropolitan areas, led by El Centro which has seen unemployment jump 7.5 percentage points in the recession to now stand at 25.1 percent. At 12.2 percent, Riverside-San Bernardino's 12.9 percent unemployment is second only to Detroit Michigan among metropolitan areas with at least one million residents.

The outlook for employment in San Diego is not much better. As of March 2009, the unemployment rate stood at 9.3 percent, the highest recorded in the County over the past 26 years. San Diego actually has one of the better unemployment rates in California, fifth lowest among the state's 27 metro areas. Among the nation's 373 metro areas, San Diego's unemployment rate is in the middle of the pack at 167th highest.

**RANKING CIVILIAN LABOR UNEMPLOYMENT BY STATE**

| Natl Rank | State | Civilian labor force (000s)* Mar 2008 | Civilian labor force (000s)* Mar 2009p | Unemployed* Number Mar 2008 | Unemployed* Number Mar 2009p | Unemployed* Percent Mar 2008 | Unemployed* Percent Mar 2009p |
|---|---|---|---|---|---|---|---|
| 1 | Michigan | 4,960.9 | 4,841.8 | 376.6 | 609.1 | 7.6 | 12.6 |
| 2 | Oregon | 1,944.5 | 2,002.7 | 106.7 | 241.8 | 5.5 | 12.1 |
| 3 | South Carolina | 2,131.3 | 2,185.5 | 125.7 | 248.6 | 5.9 | 11.4 |
| **4** | **CALIFORNIA** | **18,269.1** | **18,604.0** | **1,167.0** | **2,079.9** | **6.4** | **11.2** |
| 5 | North Carolina | 4,520.5 | 4,553.4 | 244.1 | 492.5 | 5.4 | 10.8 |
| 6 | Rhode Island | 569.0 | 564.5 | 38.7 | 59.5 | 6.8 | 10.5 |
| 7 | Nevada | 1,352.9 | 1,394.1 | 76.2 | 145.4 | 5.6 | 10.4 |
| 8 | Indiana | 3,226.8 | 3,219.4 | 170.9 | 323.1 | 5.3 | 10.0 |
| 9 | Kentucky | 2,031.4 | 2,082.1 | 119.1 | 204.5 | 5.9 | 9.8 |
| 10 | Florida | 9,163.3 | 9,210.1 | 494.5 | 893.4 | 5.4 | 9.7 |
| 10 | Ohio | 5,975.8 | 5,952.3 | 366.7 | 577.5 | 6.1 | 9.7 |

Source: U.S. Department of Labor, Bureau of Labor Statistics. *Seasonally adjusted.

Job losses in Riverside and Orange County are double San Diego's, while Los Angeles reports 3.5 times as many cuts. Northern California did not start losing jobs overall until later in 2008. San Francisco and San Jose are catching up while Oakland already exceeds the losses in San Diego.

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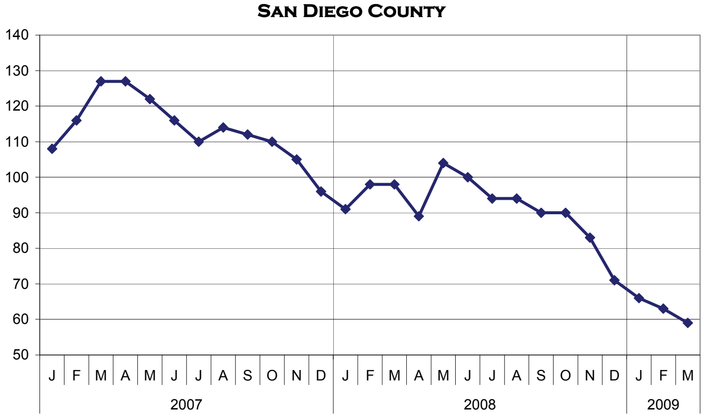
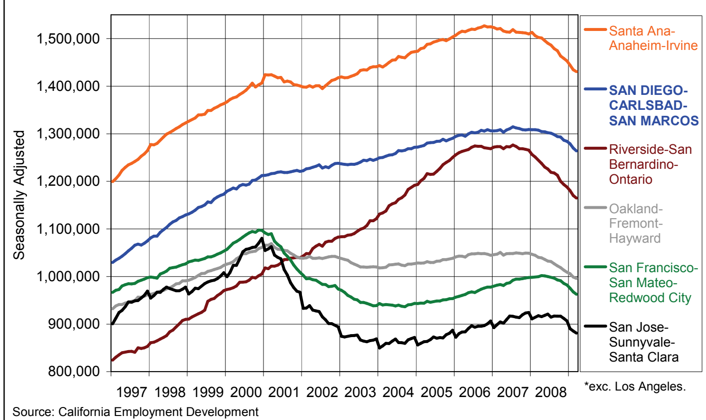
**Monster Employment Index**
**San Diego County**



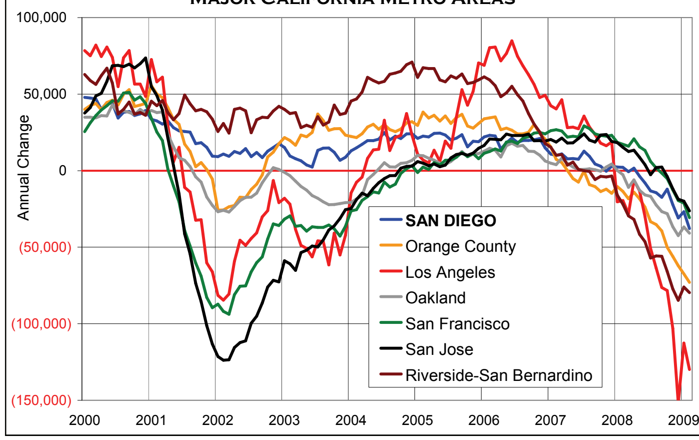

Source: Monsterworldwide.com

**Industry Employment-Total Nonfarm Jobs**
**Major California Metros***




Source: California Employment Development

**Change in Industry Employment**
**Major California Metro Areas**




The outlook for the rest of 2009 is poor. The *UCLA Anderson Forecast* foresees a very weak first three quarters of 2009 for California and virtually no growth in the fourth quarter. Only in late 2010 do the forecasters at Anderson expect growth to pick up and for it to be, at best, tepid.

We agree. The over extended California homeowner and devastated new housing market is likely to act as a drag on the state's economic recovery for at least the next 18 months, exacerbated by how much consumer confidence has been negatively impacted by falling asset values.

Particularly troubling is the pace and depth of the job losses. During the initial stages of the downturn in early 2008 San Diego saw job losses largely confined to construction, real estate and finance based sectors. As the year ended, however, losses accelerated to other sectors throughout the regional economy. Total job losses for 2008 totaled 44,500 jobs.

These workers face a particularly bleak jobs market. The Monster.com monthly employment index, based on a large representative selection of online corporate career sites and job boards, peaked in early 2007.

The decline of payroll employment does not tell the whole story. Civilian labor force numbers, which also include thousands of self-employed San Diegans, indicate unemployment rising by more than 84,000 over the past two years.

From a June 2007 peak of 1,331,300 payroll jobs in San Diego, the highest ever recorded in the region, the number has fallen by 60,500 as of March 2009. Even adjusting for seasonal variations, the number is down 3.8 percent.

Construction continues to lead all job sector losses with 23,000 fewer jobs since the June 2007 peak. Real estate and associated finance sectors also show significant losses as well.

One bit of good news is the year-over-year losses in all three sec-

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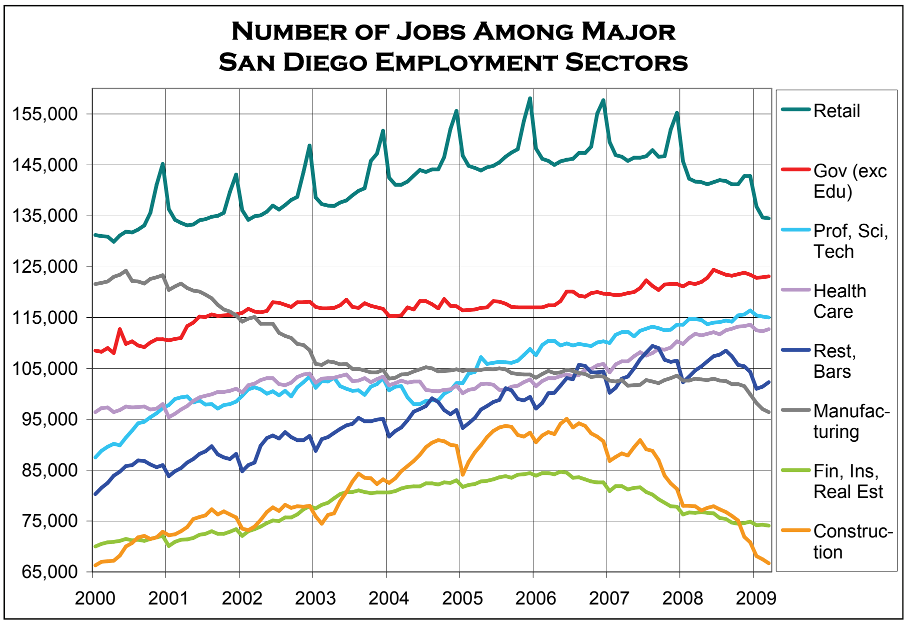
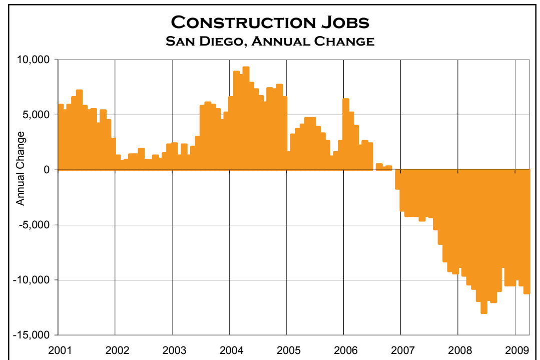
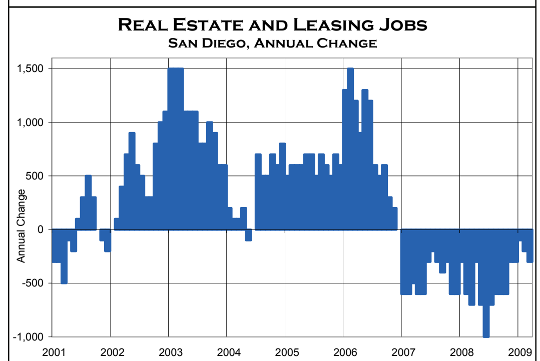
tors appear to be starting to ease. Job losses subsided somewhat from 13,000 construction jobs being cut on an annual basis in mid-2008 to around 11,000 so far in 2009. Finance and insurance losses decelerated from more than 5,000 cuts earlier in 2008 to 2,500 in the first few months of 2009. Real estate and leasing job cuts reached 1,000 in mid-2008, but show only 300 losses over the year as of March 2009. (These real estate job numbers do not reflect the thousands of independent real estate agents working for themselves with significant diminishment in sales and commissions.)

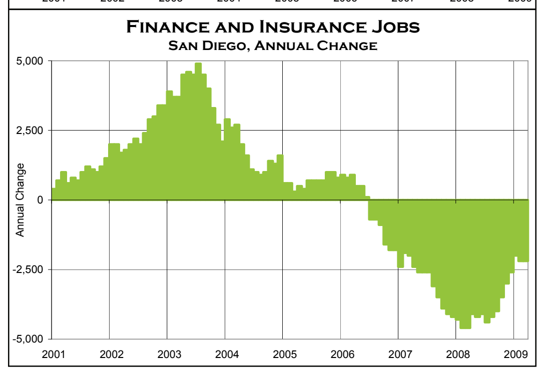
Consistent with the observation that as goes real estate so goes shopping at the malls, retail trade shows the second highest number of job cuts. Employment among retail stores is usually highly seasonal as retailers increase temporary staffing to accommodate holiday shopping. However, 2008 saw something very different, with only a slight bump in retail employment. This is unprecedented for the region. Even during the severe '90s recession, retailers added temporary workers over the holiday season. Retail employment through March 2009 has already far surpassed all the job cuts recorded in this sector during the previous recession. Given the liquidation by national retailers with significant presence in San Diego it is likely that more cuts are yet to come.

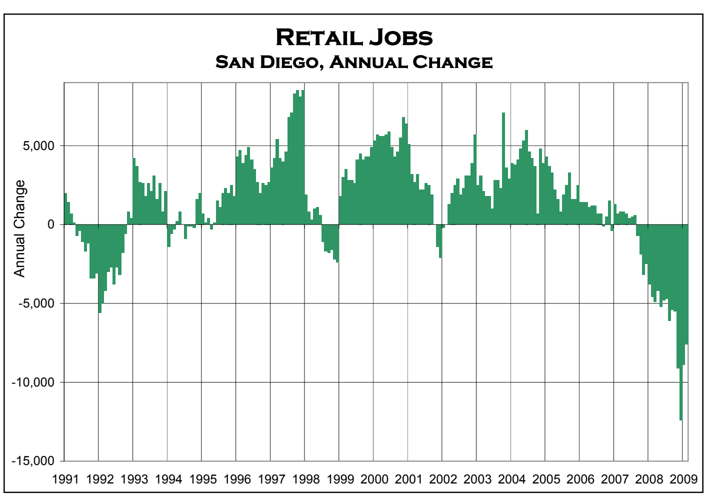
Manufacturing continues decades-long struggles in San Diego from eroding business activity locally and dwindling job numbers. Because of having already largely transitioned away from labor intensive processes in "light" manufacturing to more technically precise and efficiently higher "heavy" production, manufacturing job losses for San Diego have not been as substantial as other local sectors or compared with many other areas of the country. Indeed, some local manufacturing sectors show job numbers have held relatively steady, including aerospace, shipbuilding, computers and electronics.




After several years of significant growth and expansion locally, hotels and other accommodations are starting to absorb job cuts as visitor travel softens. Restaurants and bars are starting to record significant job cuts as well, as consumers cut back on spending. From the summer time peak of 109,400 in August 2007, the sector was only slightly off from that record number in August 2008, but has since recorded year-over-year changes with some 2,300 jobs shed.

There are a few bright signs. As of March 2009, health care and social assistance, professional-scientific-technical, private education, government, information and utilities all show more jobs than in June 2008. All of these sectors, however, are showing much slower job growth. State and local government and private education sectors more recently have started reporting cuts as well.

## Structural adjustments and job outlook

Perhaps most worrisome are the signs pointing to a slow recovery on the jobs front. Even if the recession were to end soon, the loss of asset value and the unwinding of excessive leveraging are likely to stifle job growth for some time to come. It is simply unclear where local consumer demand can come from to ease the plight of a regional retail sector that has shrunk by some 14,000 jobs over the past two years.

In addition, there are likely to be much fewer jobs in the construction and finance sectors for some period of time. All told, when the economy recovers it is very likely that the mix of jobs in

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## President's Corner

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local governments especially reliant on sales tax dollars to pay for their operations are going to be in for a bleak time as consumers retrench and shore up their personal balance sheets. An improved savings rate is going to be good for the United States in the long term but in the short term that restructuring promises to be difficult and challenging.

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

## San Diego 2009 Employment Outlook

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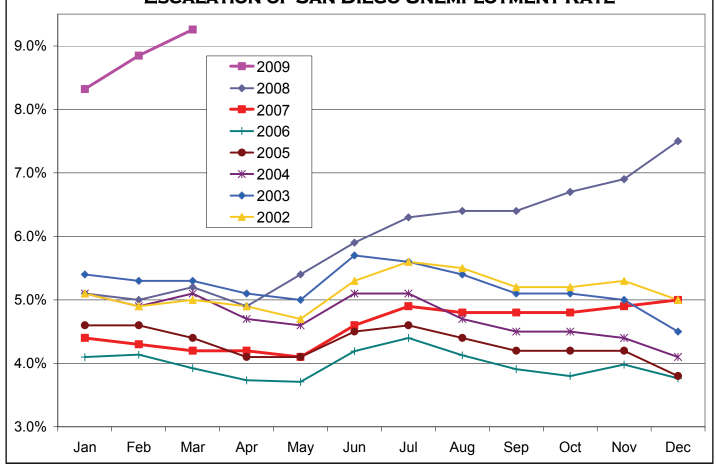
the region's economy will have significantly changed and thousands of San Diegans will require different sets of skills. For those reasons, educating and retraining workers will be especially critical to move out of the recession.

Also critical will be entrepreneurship and research and development activities. Since the early 90s recession, there has been a considerable increase in the number of diversified technology driven businesses in the region. San Diego has garnered a well deserved international reputation as a region which has competitive advantages for turning discoveries into profitable products. Perhaps the most pressing regional challenge will be rapidly increasing the quantity and quality of workforce training efforts so as to put tools into the hands of workers who formerly worked in economic sectors which are going to be smaller.

# Dashboard Observations—February 2009

*By Kelly Cunningham, Economist, Senior Fellow*

San Diego's unemployment rate has a seasonal aspect or pattern. The rate usually declines towards the end of the year as retailers hire seasonal workers for the holidays and rises in January as the temporary workers are let go. The rate tends to ease back down from that point until the summer when it jumps upward as students enter the labor force - either because they graduate or seek employment for their summer break. Maximum unemployment over the year is reached during the summertime and thereafter declines until the end of the year. This pattern is quite consistent, with gradual rises or declines of the overall annual average.




Escalation of San Diego Unemployment Rate

This pattern was broken in 2008. Unemployment started rising earlier in April and by a much brisker pace than normal. Instead of reaching a maximum for the year during the summer, the rate never eased and continued rising throughout the fall and winter. This is unprecedented for the region as shown by the available employment records since 1983, even during San Diego's deep recession in the early 90s the seasonal patterns were followed. The steep one-year 3.8 percent increase of unemployment rate is also historic. The continued escalation of unemployment in San Diego is testament to the severity of the recession impacting not only the local region, but California and the rest of the U.S.

Along with the escalation in unemployment rate, each other San Diego Dashboard economic indicator shows not only decreases over the year, but significant double-digit rates of drops. Although the number of housing units authorized for construction in February 2009 was slightly up from January, the annual change is down 80 percent from an already diminished number in February 2008. Residential building permits issued in the first two months of 2009 are the lowest on record since before World War II and point out how devastated construction activity is in the County.

Similarly, the San Diego stock index was slightly up from January, but remains down nearly 28 percent over the past year. New business permits issued by the City of San Diego are down 29 percent over the year as well.

| Indicator | Feb 2009 | Month Change (Sea. Adj.) | Annual Change |
|---|---|---|---|
| **Unemployment Rate**[1]<br>San Diego County | 8.8% | 0.4% ▲ | 3.8% ▲ |
| **Residential Building**[2]<br>Units authorized for construction<br>San Diego County | 89 | 1.8% ▲ | -77.9% ▼ |
| **New Business Licenses**[3]<br>Issued by City of San Diego | 1,167 | -9.7% ▼ | -29.0% ▼ |
| **San Diego Stock Index**[4]<br>San Diego based pub. companies<br>2nd Thursday of month | 87.7 | 0.9% ▲ | -27.8% ▼ |

[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.

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