



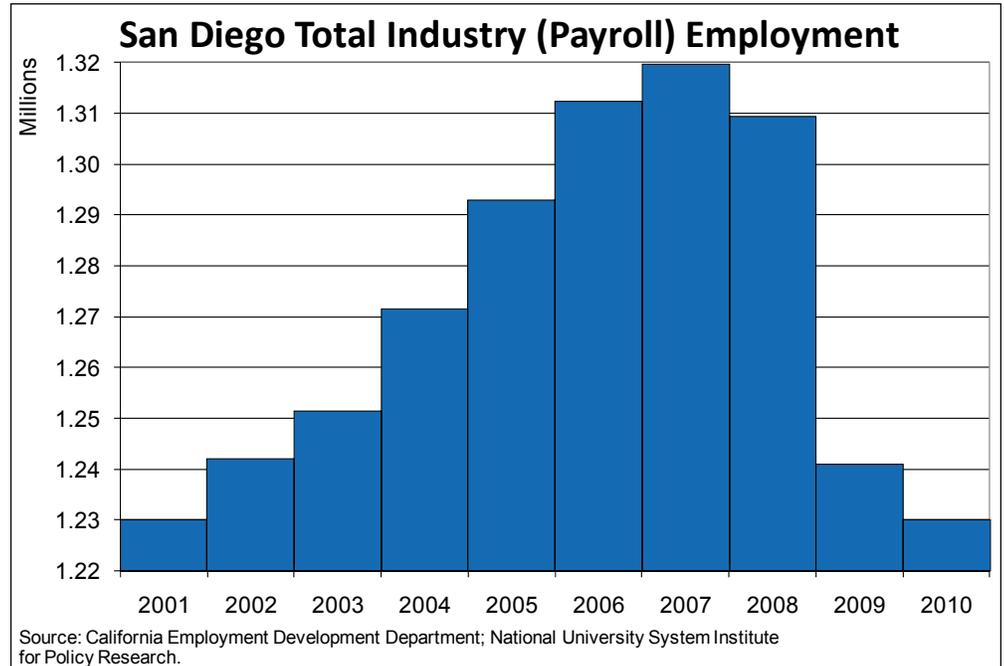
## PRESIDENT'S CORNER

It may be trite to say but in many ways the past two years in San Diego have been the tale of two recessions. In one San Diego, the downturn has been modest. Growth largely stagnated but employment has not markedly declined. Firms in the professional, scientific, and technical sector have seen employment increase between 2001 and 2010. At present, 74 percent of workers with college degrees have jobs, in contrast to only 54.6 percent of high school grads. NUSIPR has completed soon to be released research showing employment in life sciences, clean tech and wireless communications all showing substantial gains. While the recession undoubtedly has been painful for some workers in these industries, overall the situation has been one of mild economic discomfort.

But for the other San Diego, times are about as bad as they have ever been. As detailed in this Ledger one-third of the construction jobs seen in the 2007 peak disappeared. Employment in San Diego

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## A Lost Decade of Employment Gains in San Diego



After three consecutive years of job losses, San Diego employment in 2010 stood at the same level as it was in 2001 – truly a lost decade for employment growth. However, that does not tell the whole story as throughout the decade

the mix of jobs in the region significantly changed.

According to recently updated and revised data from the California Employment Development Department (EDD), in 2010 the average annual number of payroll jobs in San Diego was 1.23 million, essentially the same number as in 2001. A net 89,700 jobs were added between 2001 and 2007, before subsequently being wiped away as employment declined by 89,900 jobs to 2010.

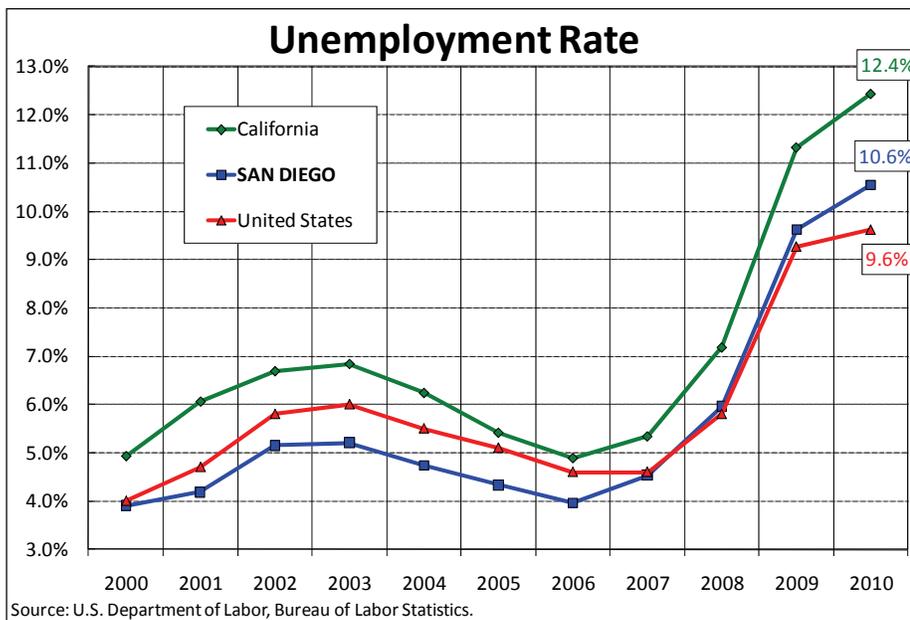
### Elevated unemployment

San Diego's civilian labor force expanded by 148,000 between 2001 and 2010. At the end of the decade, the county's workforce numbered 1,557,500, the largest ever recorded.

Employment, however, after increasing to a high of 1,472,400 in 2008, fell back to 1,393,200 by 2010. Although 3.1 percent higher than in 2001, the 42,500 additional "workers" are primarily self-employed or independent contractors and

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## Unemployment Rate



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not directly counted among employer payroll data.<sup>1</sup>

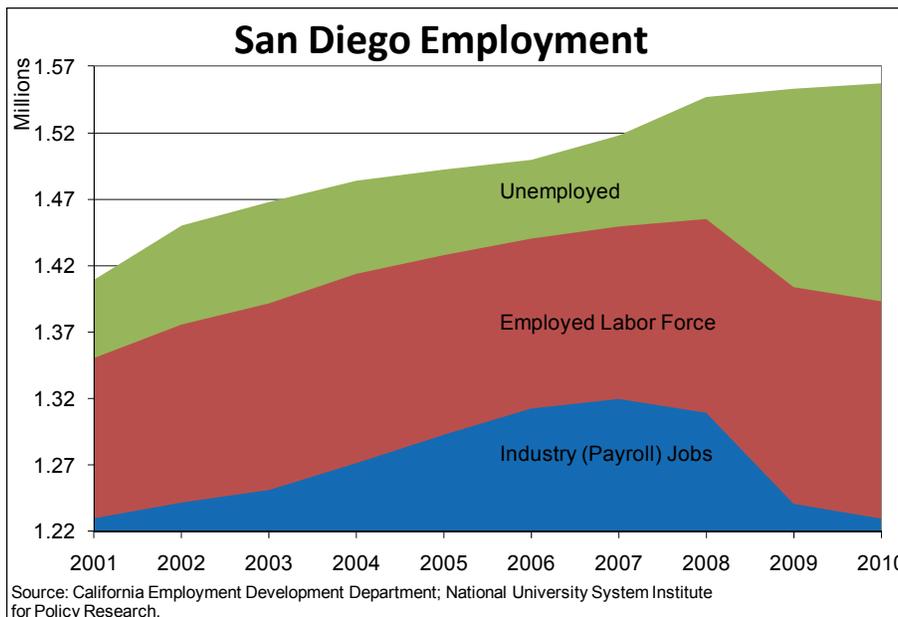
With 1.56 million workers chasing diminishing employment opportunities, unemployment inevitably spiked. Whereas in 2001 59,000 were unemployed, by 2010 the number nearly tripled to 164,000.

The unemployment rate grew from only 4.2 percent in 2001 to 10.6 percent by

2010. Significantly lower than California's overall unemployment rate of 12.4 percent, San Diego remains higher than the rest of the nation at 9.6 percent. The local unemployment rate has exceeded the rest of the nation since 2007.

Even these bleak numbers underestimate the economic destruction done during the downturn. By definition, to be counted unemployed a person must be actively seeking employment. The U.S. Bureau of Labor Statistics (BLS) additionally measures "labor force underutilization" by including those who stop looking for work, and "underemployment" (only working part-time because they cannot find full-time work). Total U.S. labor force underutilization therefore is closer to 18 percent. An equivalent measurement is not generally reported for metro areas such as San Diego. The equivalent measurement of labor underutilization in the state of California during 2010 was 22.1 percent, and in Los Angeles County 24.3 percent (one of only two sub-state areas reported, the other is New York City). Considering San Diego's relative rate of unemployment reported, the extended measurement of labor underutilization is undoubtedly marginally higher as well. We estimate nearly one in five San Diegans wanting and willing to work full-time are either unemployed or underemployed.

During San Diego's 1990-91 recession, total payroll employment fell by 34,000 (-3.4 percent decline). It took 52 months (nearly 4½ years) before jobs totaled the previous peak. San Diego skirted through the nation's 2000 recession without prolonged or significant net job



Source: California Employment Development Department; National University System Institute for Policy Research.

losses. With the onset of the national recession in 2007, San Diego lost 105,000 jobs (-7.9 percent total decline). After four years, although adding some jobs over the past year, employment remains far below the previous peak and years away from recovering total lost jobs. At the current pace of job growth, it will take another five years to reach the former total high for jobs.

**Only under the most optimistic scenario will San Diego return to full-employment by 2020.** San Diego needs to add 224,000 jobs in the next decade to bring unemployment back to 5.0 percent. This number is needed for putting both current unemployed workers back to work and to accommodate expected population growth.<sup>2</sup>

### Economic growth and employment diverging

Though the region has the same civilian payroll employment as it did in 2001, San Diego's gross domestic product (GDP), estimated to be \$177 billion in 2010, was 26 percent larger than in 2001 after adjusting for inflation. Per capita GDP (with inflation adjustment) is nearly 20 percent larger.

The rise of GDP is explained by two factors. First, military payrolls and compensation dramatically increased during this time. According to the U.S. Department of Commerce Bureau of Economic Analysis, active duty military based in San Diego only rose from 109,800 in 2001 to 112,000 in 2009 (the latest year available by this source). Compensation of military personnel based in San Diego, however, rose 97 percent over

the same period, 53 percent adjusted for inflation. The increase in military payrolls far above the increase of employment contributed a significant portion of regional GDP gains.

Second, economic gains in the region were driven by continued increases in productivity through finding ways to make more products and provide services with fewer workers. In addition to working employees apparently harder and

longer, productivity improved by shifting industrial activities to higher value-add fabrications and services. Normally, productivity gains translate into higher economic output and incomes, and as a result spur additional employment. At this point in the recovery, however, employment continues to lag and wages have essentially stagnated.

Two powerful drivers of the economy account for the higher efficiency capacity among various industrial sectors. Technological advances greatly transformed manufacturing, and now even white-collar professions cause significantly greater efficiency through computer programs and communications systems allowing much more capability than ever before.

The second force is globalization. Global labor markets are transforming the world marketplace as many goods and services formerly performed in America are made for a tenth of the price elsewhere. This leaves whatever work is conducted having higher value to continue being locally performed. Therefore economic gains recently are not creating as many jobs as in the past and are not likely to grow in the future by adding nearly as many workers.

### Employment industry changes

It is also important to add that while the overall number of jobs fell back to 2001 levels, the composition of the region's economy fundamentally changed.

Manufacturing showed the greatest decline of jobs as losses occurred nearly

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every year. The losses in local manufacturing mirror declines across California and elsewhere in the U.S. for this important driver of the economy. Technological advances, as previously cited, also mean fewer manufacturing jobs produce the same level of output.

San Diego's construction sector reports the next highest decrease in jobs. Between 2001 and 2006 construction employment rose significantly each year, adding 17,600 jobs from 2001 levels. The downturn, however, has been dramatic, with the sector shedding 35,300 jobs over the course of the past 4 years. By 2010, nearly 1 out of 3 construction jobs once existing in San Diego at the peak disappeared.

The aggregated sector of retail/wholesale trade, transportation, and utilities also rose significantly over the first half of the decade. Retail trade accounted for the greatest share of both increase and ensuing decrease of those jobs, as employment among utilities slightly rose throughout the decade.

Information, comprising publishing (newspapers, periodicals, books, software programs), broadcasting, and telecommunications, also lost ground. Employment diminished with considerable turbulence caused by internet, cell and smart phone usage.

Employment among business services, including management, administrative, and support services, and finance, insurance, and real estate (FIRE) all increased before faltering in later years.

Natural resources (farming and mining) continued to slowly decrease throughout the decade.

The highest increase of jobs in San Diego, on the other hand, was reported by leisure and hospitality sectors. Although down from a 2008 peak of 164,000, employment in this sector still showed the highest gain since 2001.

Health services added jobs throughout the decade despite the recession's onset. The aging population largely contributes to greater need for workers in these fields.

Professional, science, and technical positions require specific education and skill levels, and on average pay much higher wages. Although reporting some

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### SAN DIEGO EMPLOYMENT BY INDUSTRY SECTORS

Category	2001	2007	2010	Number Change			Percent of Total		
				01-07	07-10	01-10	2001	2010	Change
Civilian Labor Force	1,409,700	1,518,300	1,557,500	108,600	39,200	147,800	100.0%	100.0%	100.0%
Employment	1,350,700	1,449,500	1,393,200	98,800	-56,300	42,500	95.8%	95.5%	89.5%
Unemployment	59,000	68,900	164,300	9,900	95,400	105,300	4.2%	4.5%	10.5%
Unemployment Rate	4.2%	4.5%	10.6%	0.4%	6.0%	6.4%			
Total, All Industries	1,230,000	1,319,700	1,229,800	89,700	-89,900	-200	100.0%	100.0%	-0.2%
Goods Producing	194,400	189,800	148,300	-4,600	-41,500	-46,100	15.8%	12.1%	-3.7%
Services Providing	1,024,200	1,119,000	1,071,900	94,800	-47,100	47,700	83.3%	87.2%	3.9%
Private	1,004,900	1,086,500	994,100	81,600	-92,400	-10,800	81.7%	80.8%	-0.9%
Natural Resources (Farm, Mining)	11,700	11,300	10,100	-400	-1,200	-1,600	1.0%	0.8%	-0.1%
Construction	75,100	87,000	55,500	11,900	-31,500	-19,600	6.1%	4.5%	-1.6%
Manufacturing	119,000	102,500	92,400	-16,500	-10,100	-26,600	9.7%	7.5%	-2.2%
Trade, Transportation, Utilities	209,000	222,300	196,700	13,300	-25,600	-12,300	17.0%	16.0%	-1.0%
Wholesale Trade	41,500	45,500	39,200	4,000	-6,300	-2,300	3.4%	3.2%	-0.2%
Retail Trade	135,600	148,100	130,000	12,500	-18,100	-5,600	11.0%	10.6%	-0.5%
Utilities	6,900	6,600	7,300	-300	700	400	0.6%	0.6%	0.0%
Transportation, Warehousing	25,000	22,200	20,200	-2,800	-2,000	-4,800	2.0%	1.6%	-0.4%
Information	35,500	31,300	25,200	-4,200	-6,100	-10,300	2.9%	2.0%	-0.8%
Financial Activities	72,000	80,300	67,100	8,300	-13,200	-4,900	5.9%	5.5%	-0.4%
Finance, Insurance	44,900	50,200	41,400	5,300	-8,800	-3,500	3.7%	3.4%	-0.3%
Real Estate, Rental, Leasing	27,200	30,100	25,700	2,900	-4,400	-1,500	2.2%	2.1%	-0.1%
Professional & Business Services	201,500	223,200	208,000	21,700	-15,200	6,500	16.4%	16.9%	0.5%
Prof, Scientific, Tech Services	101,700	118,600	117,900	16,900	-700	16,200	8.3%	9.6%	1.3%
Management of Companies	18,600	16,100	16,900	-2,500	800	-1,700	1.5%	1.4%	-0.1%
Admin, Support, Waste Services	81,300	88,400	73,200	7,100	-15,200	-8,100	6.6%	6.0%	-0.7%
Educational Services	17,200	22,000	26,600	4,800	4,600	9,400	1.4%	2.2%	0.8%
Health Services	98,800	107,600	120,600	8,800	13,000	21,800	8.0%	9.8%	1.8%
Leisure & Hospitality	131,400	161,800	154,600	30,400	-7,200	23,200	10.7%	12.6%	1.9%
Arts, Entertainment, Recreation	17,500	24,500	24,200	7,000	-300	6,700	1.4%	2.0%	0.5%
Accommodations, Food Services	113,800	137,300	130,300	23,500	-7,000	16,500	9.3%	10.6%	1.3%
Other Services	44,900	48,300	47,200	3,400	-1,100	2,300	3.7%	3.8%	0.2%
Government	213,800	222,400	226,000	8,600	3,600	12,200	17.4%	18.4%	1.0%
Federal Government	40,200	40,900	46,900	700	6,000	6,700	3.3%	3.8%	0.5%
State & Local Government	173,600	181,500	179,100	7,900	-2,400	5,500	14.1%	14.6%	0.4%

Source: California Employment Development Department; National University System Institute for Policy Research.

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losses in more recent years, scientific research and development, engineering, architectural, and legal professions still show strong gains over the decade.

Government employment at federal, state and local levels largely increased because of rising demands for services to accommodate the expanding population base. As tax revenue shortfalls occurred during the recession, relatively minor cutbacks were reported for total state and local jobs.

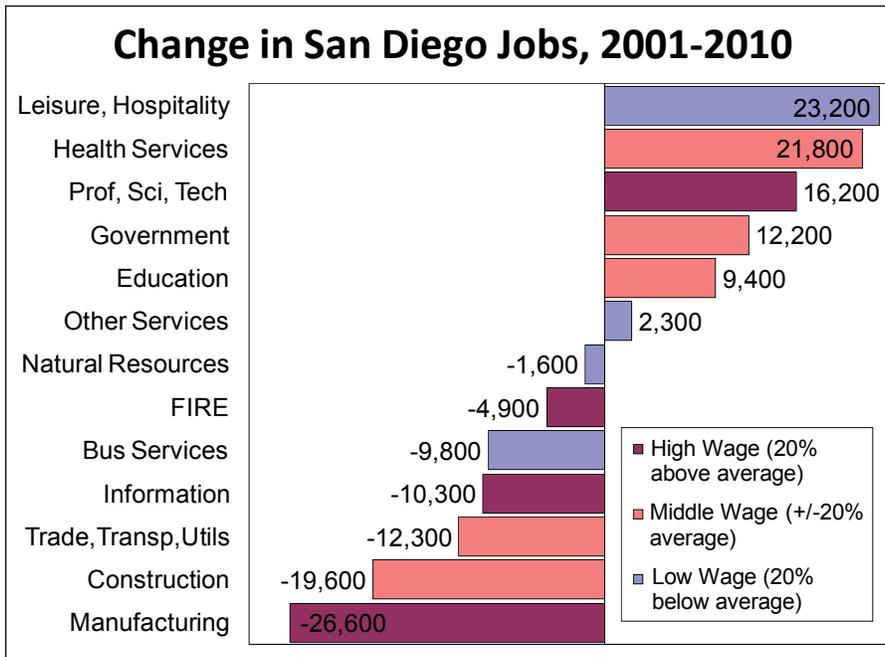
Public education accounts for the largest portion of government jobs. Although public education reported some cutbacks, private education services have not only been maintained but added staffing.

### Wage ranges by industry

The average annual wage of jobs in San Diego rose from \$38,148 in 2001 to \$48,802 by 2010, an increase of 28 percent. Adjusted for inflation, however, the average actually decreased over the past decade by 0.4 percent. The loss is directly tied to the Great Recession, as “real” wages rose between 2001 and 2007 before three successive years of decline. Both recessionary pressures and shifts in employment patterns contributed to these declines.

The bars in the graph for job changes over the past decade illustrate average wages by industry. The *middle range* includes industry averages 20 percent above or below the 2010 average of \$48,800. “High wage” industries average 20 percent or more above the middle, and “low wage” are 20 percent or more below.

**Over the decade, jobs among “high-wage” industries decreased 2.1 percent, while jobs among “low-wage” industries increased 1.2 percent, and in the “middle range” rose 0.9 percent.** Job losses among relatively high paying manufacturing, information, and FIRE industries more than offset gains in professional, scientific and technical sec-



tors. With the greatest increase of jobs occurring among lower paying leisure and hospitality industries, all other employment gains occurred in middle to lower wage sectors.

According to the BLS, the pay gap between college-graduates and non-grads is near an all-time high. Part of the reason is non-skilled workers – typically people without college degrees – are increasingly in competition with cheaper foreign labor or from machines, driving wages downward. That is not happening to the same extent for skilled, college-educated workers.

Nationally, for those with college degrees, the employment situation is slightly improving: 74 percent had jobs in May, slightly up from 73.2 percent in January. Among those without the degree, it is a much different story. Those who went to college but didn't graduate, 64.1 percent had a job in May, down from 64.6 percent in January. Only 54.6 percent of high school grads not attending college had a job, while only 38.5 percent of high school dropouts were employed, down from 38.7 percent in January.

Those changes may seem relatively minor, but exacerbate what was already a massive disparity in employment across the nation.

### Near term employment outlook in San Diego

In 2011 there is evidence of job growth continuing or returning for several San

Diego employment sectors, including health care, hospitality, technical, finance, and real estate services. Losses among all others at least appear to be tapering off. In 2011 private sector jobs are rising again after three years of devastating losses, while government employment continues to stall.

Service sector employment is now growing, while goods producing sectors continue to shed jobs, although losses

are noticeably diminishing. Hospitality and leisure related industries and health services continue to exhibit the strongest job growth. Technical and professional positions also show some gains, which should lead to growth for other service sectors. Retail/wholesale trade, transportation, and utilities, and finance, insurance and real estate report some gains so far in 2011

After losing 11,500 jobs over the past four years, manufacturing has added 500 jobs in 2011. Construction lost 37,200 over the past four years, but only 1,700 in the past year (as of May 2011).

***The trend of diverging job growth among some highly paid, skilled workers and among lower paying service sectors, as middle income levels are increasingly squeezed, is likely to continue for San Diego's immediate future.***

<sup>1</sup>NOTE: Industry payroll numbers count “jobs” by place of work, while labor force counts “people” by where they live. Significant differences in these two types of employment measurement and job count include workers living in a different county from where the job is located, and some workers have more than one job. The biggest difference is payroll job counts do not include self-employed workers who are not directly on a company's payroll.

<sup>2</sup>Full employment is considered to be less than 5.0 percent unemployment. We do not take a view on what the natural rate of unemployment will be in the future.

manufacturing industry continues to shrink. The fastest growing sectors as measured by total employment changes pay lower median wages than the sectors that have shrunk.

The great challenge for the region moving forward is to manage through this divergence and find cooperative, positive-sum policies that improve the economic conditions of San Diegans. We must do something as a region to deal with the dramatic downturn in construction. We have to find a sustainable way to repurpose the overabundance of the region's inventory of retail space. We have to, as a region, have a long hard discussion about how to ensure that growth in our region's technology industries works to benefit San Diegans that may not possess advanced college degrees in science, technology, engineering and math.

This is an extraordinary challenge. There are no easy answers. But solving it is imperative for the region's long-term economic health.

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

# Dashboard Observations—April 2011

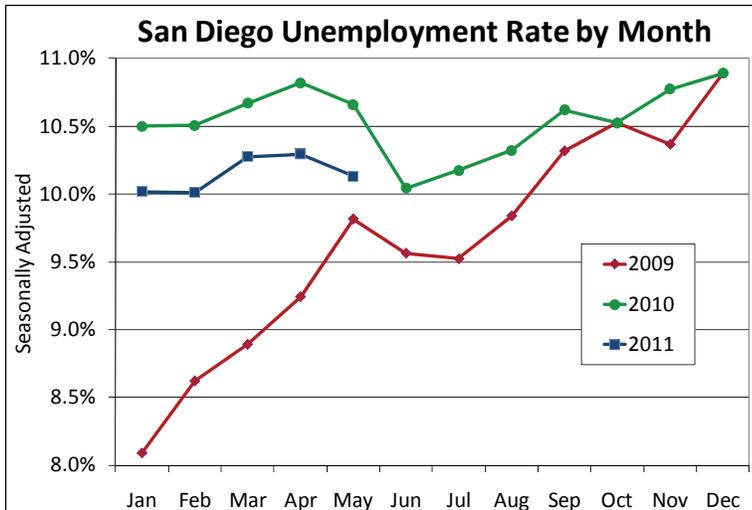
By Kelly Cunningham, Economist, Senior Fellow

Dashboard indicators of San Diego's economic activity in April 2011 were mostly positive. Although the unadjusted unemployment rate fell to a nearly two year low of 9.8 percent, the seasonal adjustment reveals it to be the highest of the year so far in 2011. Nevertheless, the rate shows some improvement over the same period in 2010.

Housing construction as of April appears to be vastly improving. The number of units authorized for construction so far in 2011 is nearly double the pace set over the same period the past two years. The increase compares against two very bleak years of housing construction. Any increase, however, is good news from the decimated level of building.

New business licenses issued by the City of San Diego fell considerably over the past three years. The number appears to at last be trending slightly upward in 2011 with 1,217 certified in April, up 2.9 percent from March, and 6.2 percent higher than a year ago.

San Diego's stock index continues to improve



Indicator	Apr 2011	Month Change (Sea. Adj.)	Annual Change
<b>Unemployment Rate<sup>1</sup></b> San Diego County	9.8%	0.1% ▼	-0.6% ▲
<b>Residential Building<sup>2</sup></b> Units authorized for construction San Diego County	853	165.2% ▲	192.1% ▲
<b>New Business Licenses<sup>3</sup></b> Issued by City of San Diego	1,217	-14.3% ▼	10.4% ▲
<b>San Diego Stock Index<sup>4</sup></b> San Diego based companies 2nd Thursday of month	128.9	2.9% ▲	6.2% ▲

<sup>1</sup>California Employment Development Department.

<sup>2</sup>U.S. Bureau of the Census.

<sup>3</sup>Business Tax Program, City of San Diego.

<sup>4</sup>Second Thursday of month, Bloomberg News, San Diego Daily Transcript.

since bottoming at the end of 2008 and early 2009. In April the index of publically traded San Diego companies reached the highest point in the past three years and appears to be trending upward.



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