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Outlook for San Diego's 2010-11 Economic Recovery

By traditional measures for dating the beginning and end of recessions, the worst downturn since the Great Depression was over by the third quarter of 2009. With the start of 2010 San Diego is beginning to see month-to-month gains in employment and other indicators of economic growth. Labeling the economy in recovery or rebounding, however, may be somewhat premature.

The reality is San Diego's economic recovery has been, at best, tepid. While statistical measures may show some upturn, the outlook for the rest of 2010 and into 2011 is troubling. Although we are not necessarily predicting a "double dip" recession with more economic contraction, the danger exists that growth will be slow, and the economic restructuring taking place in the state and nation will be so profound that the San Diego's recovery will likely continue to be painful and difficult for a number of years.

The collapse of the housing market, financial turmoil, and consumer spending retrenchment, all combined in 2009 to pull San Diego, state, and national economies into what is now termed the "Great Recession". Economic indicators show San Diego not only led California, but the rest of the nation into recession as employment, taxable sales, and the housing market locally started to falter before the rest of the nation. Moreover, the impacts on California, including San Diego, have been deeper and longer than the nation overall, which leads to our outlook for the recovery to be sluggish and drawn-out.

The relative good news in 2010 is that San Diego continues to outpace the rest of California in respect to economic momentum, job growth, increases in home prices, and construction activity. San Diego may well lead California out of the recession, but gains are slow and weak at this point compared with other post-recession recoveries.

Recession Definition

According to the National Bureau of Economic Research (NBER), the U.S. fell into recession in December 2007 and ended in June 2009. This has been the nation's longest recession since the 1930s as "real" or inflation adjusted GDP fell 3.7 percent from the 4th quarter of 2007 to the 2nd quarter of 2009,

(Continued on page 2)

San Diego Employment Turmoil

An all-time peak for non-farm payroll employment in San Diego, adjusted for typical seasonal variations, was reached in July 2007. Thereafter job numbers trailed off before falling into a steep descent in 2008 and 2009. Employment losses appear to have at least bottomed by December 2009 as the number of jobs had

(Continued on page 3)

SELECTED SAN DIEGO COUNTY ECONOMIC INDICATORS

Indicator	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Estimate 2010	Forecast 2011	Annual Percent Change '07/'06	'08/'07	'09/'08e	'10/'09e	'11/'10f
Gross Metropolitan Product											
(billions)	$155.5	$162.1	$169.3	$168.8	$174.8	$182.1	4.3%	4.4%	-0.3%	3.6%	4.2%
"Real" Change+							1.7%	2.6%	-1.3%	2.8%	2.5%
Population*	3,097,000	3,141,700	3,185,500	3,224,400	3,255,900	3,286,700	1.4%	1.4%	1.2%	1.0%	0.9%
Change	31,700	44,700	43,800	38,900	31,500	30,800	41.0%	-2.0%	-11.2%	-19.0%	-2.2%
Net Domestic Migration	-7,400	200	-5,500	-2,400	-9,000	-11,000					
Net International Migration	12,100	16,500	21,600	14,900	14,000	15,000					
Natural Increase	27,000	28,000	27,700	26,400	26,500	26,800					
Employment											
Unemployment Rate	4.0%	4.5%	6.0%	9.7%	10.4%	10.0%	0.6%	1.4%	3.7%	0.7%	-0.4%
Industry Payroll Employment	1,312,500	1,319,700	1,309,300	1,239,300	1,247,300	1,253,500	0.5%	-0.8%	-5.3%	0.6%	0.5%
Change	18,200	11,000	-10,400	-70,000	8,000	6,200					
Construction											
Housing Units	9,191	7,435	5,357	2,946	3,500	5,500	-19.1%	-27.9%	-45.0%	18.8%	57.1%
Retail Taxable Sales (billions)	$34.62	$34.04	$31.72	$27.63	$28.32	$29.17	-1.7%	-6.8%	-12.9%	2.5%	3.0%
Inflation Adjusted Change							-2.1%	-9.5%	-8.7%	0.8%	1.5%
Per Capita	$11,178	$10,834	$9,956	$8,568	$8,700	$8,900	-3.1%	-8.1%	-13.9%	1.5%	2.3%
Inflation Adjusted Change							-3.5%	-10.8%	-9.8%	-0.1%	0.8%
Inflation Rate											
San Diego Consumer Price Index (CPI-U: 1982-84 = 100)	228.2	233.3	242.3	242.3	248.7	256.1	2.2%	3.9%	0.0%	2.7%	3.0%

+Adjusted for inflation by Implicit Price Deflator for California. #Adjusted by "Commodities less food" component of San Diego CPI-U. *Population as of the end of the year.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; California Department of Finance; California Employment Development Department; U.S. Census Bureau; California Board of Equalization; U.S. Department of Labor, Bureau of Labor Statistics. Estimate and forecast by National University System Institute for Policy Research.

Recession Definition

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deeper than any other decline in the U.S. since the end of World War II.

Defining a recession simply as two or more consecutive quarters of declining Gross Domestic Product (GDP) is only one data point used to date the beginning and end of recessions. Some prefer a 1.5 percent rise in unemployment within a 12 month period as a definition. The NBER designates recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."[1] Contractions or recessions start at the peak of a business cycle and end at a trough or bottom.

Indeed, in April 2010 NBER announced that it was premature to declare the end of the recession. Although most indicators are trending upward, data remains somewhat preliminary and subject to revision. Moreover, the growth seen over the past 12 months has been weak. A failure to return to levels of economic activity seen at the peak in December 2007 before the next downturn, the NBER notes, might lead to the conclusion we are in a period of prolonged contraction which was only temporarily interrupted by a short period of partial recovery.[2]

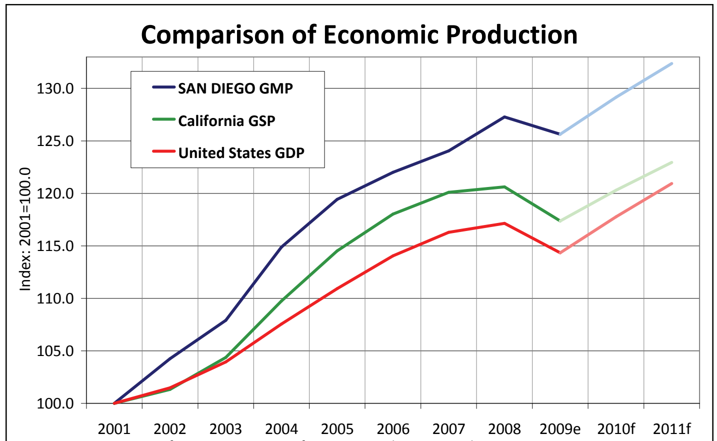
Such trepidation suggests what has now become painfully obvious, that the recovery we are experiencing is sluggish and significant headwinds exist which are serving to hamper the economic recovery.

Regional economic production

A regional economy such as San Diego may differ significantly from the nation overall as to both timing and depth of the recession. While estimates of the nation's GDP are released quarterly by the U.S. *Department of Commerce*'s Bureau of Economic Analysis (BEA) soon after the quarter ends, estimates for gross metropolitan product (GMP) are only available on an annual basis and may lag up to two years. Other measurements of local economic activity are used to estimate when recession and growth occurs, including monthly employment, quarterly taxable retail sales, population and housing changes. These serve to give us a measure for the precise length and depth of the recession and to estimate current and future San Diego GMP figures.

Comparing GDP growth rates among San Diego, California and the nation suggests the local economy began to slow sooner than the national economy. While San Diego's Gross Metropolitan Product (GMP) increased at a faster pace than the rest of California and the U.S. from 2000 to 2004, between 2005 and 2007 local regional growth lagged state and national measures. A surprising acceleration of San Diego production in 2008 was for the most part a result of the significant buildup in military and defense spending in the region, while state and national production further languished.[3]

Based upon currently available economic indicators, NUSIPR estimates San Diego's economy contracted 1.3 percent (adjusted for inflation) in 2009. This was the first decline of San Diego's overall economic output since 1993. California's economy in 2009 is estimated to have fallen by a greater 2.7 percent, while the rest of the nation fell 2.4 percent.



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

Economic indications since the beginning of 2010 appear to show San Diego's economy stopped falling, reached a trough, and has since exhibited some growth.

We project San Diego's "real" or inflation adjusted 2010 economy will show 2.8 percent growth by the end of the year, before weakening in 2011 to 2.5 percent. The caveat is these projections are predicated upon modest growth in state and national economies. San Diego's economic momentum should continue to outpace California in 2010 and 2011, but slightly lag the recovery in the rest of the U.S.

Deep recessions normally lead to strong recoveries

The U.S. economy, after contracting 2.4 percent in 2009, is projected to grow 3.0 percent in 2010 and 2.7 percent in 2011.

A pattern of sluggish recovery is typical in financial crises and seems distressingly similar to that experienced by Japan during the 1990s. There was a triple whammy of an unsustainable asset boom, an aging population, and trillions of balance sheet losses translated into a decade long retrenchment among both Japanese consumers and firms. Perhaps most troubling is that the Japanese recovery was extended because both firms and interest groups tenaciously fought to use political power to avoid for as long as possible inevitable and essential readjustments. Billions of losses were socialized, banks propped up and firms, which would have been liquidated without government subsidies, limped along with few prospects for actually growing and creating economic activity.

It seems that past for an inability to recover fully from an asset bubble

(Continued on page 3)

SAN DIEGO GROSS DOMESTIC PRODUCT

	San Diego			Annual Percent Change					
	GDP	Percentage of:		Current Dollars			Constant Dollars*		
Year	(Billions)	Calif.	U.S.	S.D.	Cal.	U.S.	S.D.	Cal.	U.S.
2001	$112.435	8.64%	1.12%	3.0%	1.1%	3.2%	1.4%	-0.4%	0.9%
2002	$120.165	8.96%	1.16%	6.9%	3.0%	3.4%	4.3%	1.3%	1.5%
2003	$126.838	9.02%	1.17%	5.6%	4.9%	4.7%	3.5%	3.0%	2.4%
2004	$138.630	9.12%	1.19%	9.3%	8.0%	6.6%	6.5%	5.2%	3.5%
2005	$147.733	9.07%	1.20%	6.6%	7.2%	6.3%	4.0%	4.3%	3.1%
2006	$155.458	9.00%	1.19%	5.2%	6.1%	6.1%	2.2%	3.1%	2.8%
2007	$162.118	9.00%	1.18%	4.3%	4.3%	4.8%	1.7%	1.8%	2.0%
2008	$169.325	9.17%	1.20%	4.4%	2.5%	3.3%	2.6%	0.4%	0.7%
2009e	$168.770	9.30%	1.21%	-0.3%	-1.7%	-1.3%	-1.3%	-2.7%	-2.4%
2010f	$174.810	9.33%	1.20%	3.6%	3.3%	4.0%	2.8%	2.5%	3.0%
2011f	$182.105	9.35%	1.20%	4.2%	3.9%	4.9%	2.5%	2.2%	2.7%

*Adjusted by GDP implicit price deflator. e: estimate f: forecast

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

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may be our prologue. While deep recessions usually lead to strong recoveries, financial crises tend to produce weak recoveries. Whatever rebound is currently occurring appears to be slow and fragile, and any number of things can cause a relapse into another downturn as government stimulus efforts end and extensive debt and budget deficits loom, or more accurately, continue to accrue.

In their report titled, "The Bipolar Economy," the *UCLA Anderson Forecast* suggests Washington's economic stimulus packages may have unintentionally caused economic schizophrenia. The duality of a national economy, in which GDP is growing while job creation remains scarce — with the unemployment rate predicted to remain scarce until 2012.[4]

When spending is curtailed during a recession, pent-up demand for homes and other goods and services build. Businesses slash production, payrolls, and investments to levels below "normally" required conditions. When the economy stabilizes and starts to grow again, the deeper the downturn, the more powerful the reversal of those effects tends to be. The U.S. economy shrinking 3.7 percent over the course of the 2008-09 recession, ought to grow by as much as 7.5 percent in the first year of recovery. The unemployment rate above 10 percent in 2010 should also drop to about 8 percent during the recovery.

However, this is not going to happen. *IHS Global Insights* notes, "Strong tailwinds (policy stimulus, improved financial conditions, and pent-up demand) are being partially neutralized by equally strong headwinds (rising unemployment rates, lingering hangovers from housing bubbles and the financial crisis, and the likely winding down of fiscal stimulus)."[5]

Without a self-sustaining cycle of private spending and personal income growth, the momentum for economic growth will not be sustained past 2010. Through mid-2009 households lost $12 trillion, or 19 percent of their wealth, due to the collapse of housing and stock prices. Purchasing power was significantly reduced and pushed many to save more. Consumer spending (about 70 percent of GDP) will grow more slowly than income, after decades in which it grew more quickly. High unemployment will hold back wage gains as cuts became more common.

The economic recovery already appears troubled as of mid-2010. A *U.S. News and World Report* recently concluded, "The economic souring is, of course, being spearheaded by a familiar cast of characters: An anemic labor market, a skeptical consumer base, a weak housing market, and a global debt crisis that threatens to overwhelm national governments, just to name a few. Further deterioration in even one of these arenas could be enough to trigger a double-dip, which is loosely defined as a period during which a recovery is interrupted by economic contraction, usually in the form of negative GDP growth."[6]

Business confidence and consumer spending struggles

While the economy does not lack for factors creating drags, one of the most important is the lack of confidence among businesses that the green shoots of 2010 are actually real. Negative news on the job front is also likely to keep consumer confidence low and, in turn, constrain consumer spending.

> *"Deep recessions usually lead to strong recoveries, financial crises tend to produce weak recoveries."*

UCLA Anderson Forecast Director Edward Leamer writes that if we are to see significant growth, "consumers will need to express their optimism in the way that really counts – buying homes and cars. And that is not going to happen if businesses continue to express their pessimism in the way that really counts – by not hiring workers".[7] Such pessimism is not unjustified, "tax cuts and spending programs, coupled with a non-sustainable zero interest policy spur growth, but businesses do not make long-term hiring decisions based on temporary government policies."[8]

Moreover, with the Bush tax cuts due to expire, which effectively will be a tax increase, both Washington and Sacramento remain deeply in debt and bitterly divided. There is huge uncertainty over the tax burden that businesses and investors face.

The sluggish growth has consequences. For the unemployment rate to be reduced, real GDP growth needs to be in the 5 to 6 percent range, according to Leamer. "Normal GDP growth is 3 percent, enough to sustain unemployment levels, but not strong enough to put Americans back to work. As a consequence, consumers concerned about their employment status are reluctant to spend and businesses concerned about growth are reluctant to hire."[9] The nation's unemployment rate will remain elevated through the rest of 2010 and then decline slowly, only reaching the "low-to-mid 9's" by the end of 2011.

Faced with such headwinds, our forecast for the second half of 2010 and 2011 are less optimistic. Even if a double dip does not occur, it is becoming increasingly clear the recovery is losing momentum. The recession wiped out 8.4 million jobs across the U.S. and the persistent lackluster labor market in 2010 remains the biggest obstacle to sustainable economic recovery. The rate of growth remains too slow and without robust job creation the weak labor market could very well drag the economy into double-dip recession.

Since California confronts these issues to an even greater degree, economic recovery across the state is likely to be weaker than in the rest of the country. San Diego is also unlikely to escape the state's continued malaise as the local economy struggles to recover.

Employment Turmoil

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fallen to the same level existing in November 2000. During this time, the net loss of jobs totaled 106,800, according to *California Employment Development Department* data, 8.1 percent existing at the peak in 2007.

San Diego's unemployment rate rose from less than 4.0 percent by the end of 2006 to a high of 11.1 percent in January 2010. This was the highest rate of unemployment reported for San Diego over the past 50 years. The near tripling of unemployment in just four years was also unprecedented according to modern employment records.

The rise of San Diego's unemployment mirrors a much greater four-year increase across the state of California reaching a high of 13.2 percent by the end of 2009. In 2010 California reports the nation's 3rd highest unemployment rate for U.S. states, exceeded only by Michigan and Nevada.

In January 2010, payroll numbers in San Diego began to recover and have risen impressively through May. While some recent job gains were temporary Census workers, analysis shows several thousand permanent jobs were also created during this period. This trend will need to continue if the economic recovery is truly to take hold. Employment numbers are

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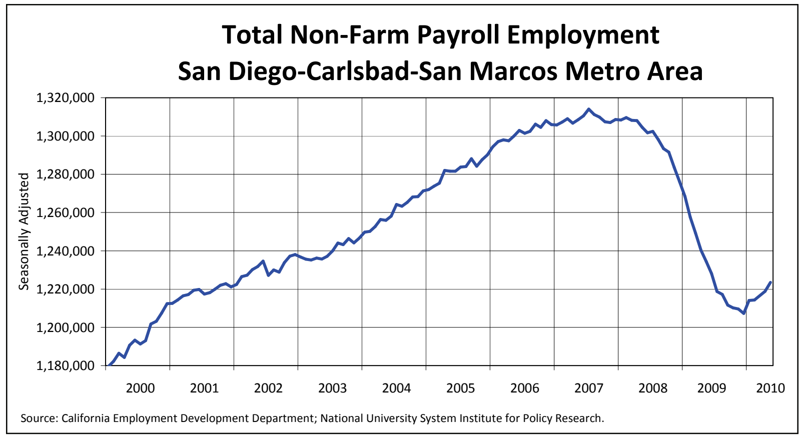
a lagging indicator of economic activity, but an important measure of real growth and play a critical factor in shaping how consumers feel about the economy.

This is not to say that the recession will not change the face of San Diego's labor market. Many of the jobs lost among certain sectors are not likely to return anytime soon. The most prominent local job sectors impacted are construction, retail, manufacturing, finance, and real estate services. These sectors are not anticipated to return to pre-recessionary levels in the near future. Thus the critical question at this point is what replaces those important job sectors?

San Diego's usually dependable and stalwart military and defense based industries continue to provide a stimulative boost to the local economy and undoubtedly prevented an even greater collapse in current economic fortunes. But it is inevitable this double-edged sword will eventually slow as the federal government brings down the deficit. The danger for our local economy is as that adjustment is made the region will undergo another painful readjustment and retrenchment.

Also cushioning the recession's impact has been San Diego's well diversified technology base. These industries also have the greatest potential for revamping job growth that, in turn, will stimulate demand for other job sectors dependent upon the income and spending they generate.

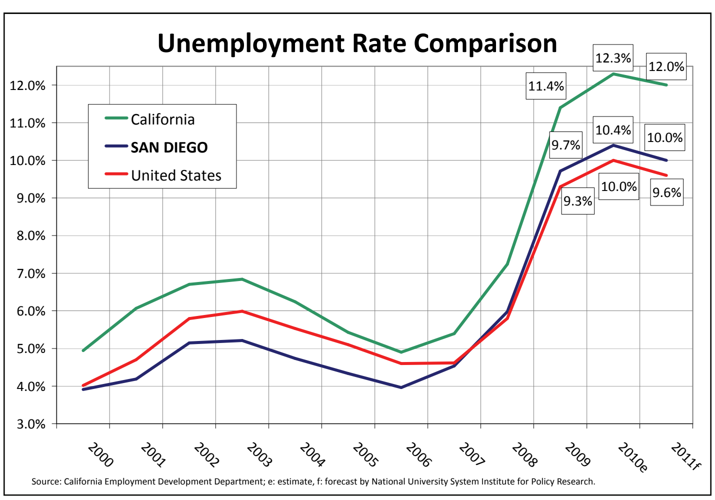


Labor market exit

Because of the methodology in calculating the unemployment rate, those not actively seeking employment are not counted or included with numbers considered to be unemployed. Including those who stopped looking because they were unable to find work and those working only part-time because they are unable to find full-time work raises the effective unemployment rate in San Diego above 18 percent.

There have been some hopeful signs. A consistent increase in business services employment since the end of 2009 is largely due to temporary service workers being hired by businesses in anticipation of expected growth before taking on more employees. This is a noteworthy signal for pending future job growth as firms eventually feel confident enough to invest and hire more permanent workers.

Several measures for pending employment demand are evident in rising help wanted postings and trending upward consumer confidence. The *USD Index of Leading Economic Indicators* shows the index for online help wanted advertising tracked locally by *Monster.com* has steadily risen since the end of 2009. The consumer confidence index of San Diego residents tracked by the *San Diego Union-Tribune* was also rising significantly since mid 2009, although more recently has faltered.



Population growth wavers

With jobs diminishing, San Diego's former vigorous population growth also moderated. All components of population change diminished as the economy and employment faltered.

International migration to San Diego tapered off considerably with lower available job opportunities. Construction, retail and other sectors dependent upon consumer spending that tend to employ migrants were hardest hit in the recession, consequently the prospects for work by foreign migrants fell. Natural increase, net births less deaths of residents, also slightly diminished partly because of fewer immigrants, who tend to have more babies, and residents not having as many as well.

Domestic migration out of San Diego to other areas in the country has started to exceed those moving in the past few years. High housing costs were formerly compelling residents elsewhere to seek affordable housing when the economy and job market were still strong. The downturn of local housing prices considerably improved San Diego's affordability, but job losses drove many to seek better job prospects elsewhere.

With employment opportunities remaining sluggish, the continued out-migration of residents continues in 2010 and 2011, although international migration and natural increase should slightly increase. While San Diego's annual population gains have diminished from more than 50,000 annually in recent years, growth will still remain above 30,000 over the next few years.

Consumer spending plunge

Consumer spending is the largest component of the U.S. economy and key to the economic outlook. The employment decline and home value drop at the onset of the recession put households under considerable stress.

Taxable retail sales in San Diego reported by the California State Board of Equalization (BOE), another measure of the local economy, are available on a quarterly basis. When adjusted for inflation, retail sales began faltering in San Diego as early as 2005. Starting with the 2nd quarter of 2006, sales continuously dropped on a year-over-year basis 13 consecutive quarters, so far, as of the 2nd quarter of 2009 (the latest quarter currently available by the BOE).

The 4th quarter of 2008 and 1st and 2nd quarters of 2009 show taxable sales in San Diego respectively dropped 15.4, 17.1, and 18.8 percent annually, the sharpest year-over-year declines since the BOE first began reporting county sales data in 1934. With relatively rare

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commodity price “deflation” in 2009, the “real” or inflation adjustment shows a slightly lower level of decline.

Sales are estimated to have continued falling in the 3rd and 4th quarters of 2009 but the drop tapered off. Sales for all of 2009 are estimated to show an annual decline of 13 percent.

Sales are forecast to slightly rise in 2010 as employment rises and the economy begins to recover. Sales are not projected to rebound significantly, however, as normally occurs following such a deep recession. Purchases of goods and services, particularly more expensive, durable items such as autos, appliances, and electronic goods tend to fall by even greater margins during an economic downturn. Since purchases of these items have been postponed, their sales tend to jump coming out of the recession. But lingering debt and credit problems will hamper what would normally be a rebound in sales activity. Sales are anticipated to increase only 2.5 percent in 2010 and 3.0 percent in 2011.

The adjustment for inflation shows only a 0.8 percent rise during 2010 and 1.5 percent in 2011. On a per capita basis, sales in 2010 will remain slightly off, but in 2011 will barely rise again, for the first time in seven years, by 0.8 percent.

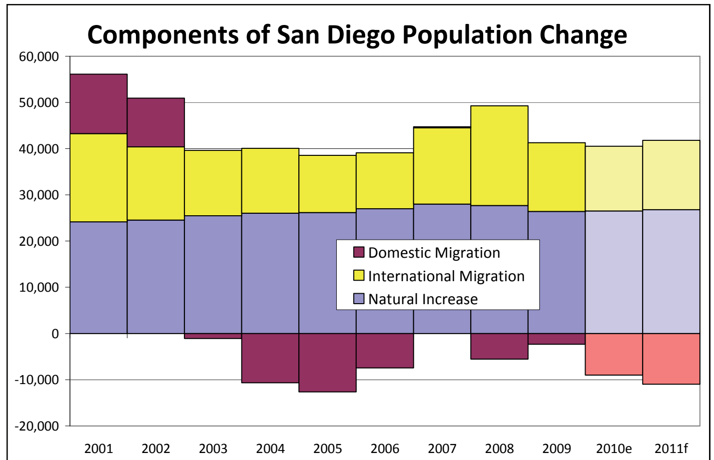
Reviving housing prices and construction

San Diego housing prices, as in the entire nation, plummeted from the mortgage meltdown. During the housing price boom, or more apt term “bubble”, San Diego initially led the nation in price increases. San Diego was also among the first to show prices leveling off and starting to plummet. According to the *S&P Case-Shiller* indices of home values, San Diego prices peaked in March 2006 before falling 42.1 percent to a low in May 2009. Since that time, housing prices locally have steadily risen 12.1 percent as of April 2010. San Diego is noted as the only major metro area recording 12 consecutive months of positive increases.[10]

While the local housing market is in better shape now than last year, we do not see the strong upward swing of prices continuing at the same pace of increase. The federal government’s $8,000 tax incentive ended in April 2010. The tax credit was never intended to be a permanent driver of housing activity and simply shifted sales forward as many of those who bought homes would have done so with or without the tax credit. The bigger impact on the recent volume of home sales was the relatively lower prices, low interest rates, and the Federal Housing Administration ramping up lending.

The record of the federal government’s attempt to deal with the foreclosure crisis shows little lasting impact. A shadow inventory of foreclosed homes remains on the books and are yet to fully hit the market. Many severely delinquent homeowners who have not yet entered foreclosure are likely to eventually get there as mortgage modification terms lapse and continue on into default. According to the *Associated Press*, more than one-third of the 1.2 million borrowers enrolled in the main mortgage modification plan dropped out.[11] Foreclosures are projected to peak later this year, and remain elevated for a while. Rick Sharga, senior vice president of *RealtyTrac*, an online marketplace for foreclosure properties, said he doesn't envision foreclosure activity stabilizing until late 2011.[12]

As the nation’s mortgage system collapsed, housing construction also plummeted. The number of housing units authorized for construction by municipalities across San Diego County fell to a record low 2,946 in 2009. This was the smallest amount since before World War II, according to historical records kept by the *San Diego Regional Chamber of Commerce*. The previous low over the past 70 years was



Source: California Department of Finance. e: estimate, f: forecast by National University System Institute for Policy Research.

5,600 in 1993.

Although housing construction in San Diego is forecast to increase the next two years, and percentage increases may seem large, the gains are compared against 2009 record lows. Even with increased building in 2010 and 2011, numbers will remain at recessionary levels. This does not portend well for much of a recouping of the 36,000 construction jobs lost over the past three years, 38 percent of the number existing in 2006.

Moderate inflation for now...

San Diego’s cost of living or general change in consumer prices was flat in 2009. Commodity and energy prices, including gas, actually declined over the year, while shelter, food, and apparel prices were essentially flat.

Prices are rising in 2010, led by striking jumps in gas and other household energy costs. Shelter costs on the other hand, the biggest component for most consumer budgets are still slightly down, while household furnishing prices also declined. For all of 2010, San Diego’s inflation rate is projected to reach 2.7 percent, and creep upward to 3.0 percent by 2011.

Conclusion

While it may be premature to label the economy rebounding, San Diego is showing signs of recovery. San Diego is likely to lead California out of the Great Recession, but the outlook for recovery is sluggish and protracted. Not exactly a boom coming out of the recession, San Diego’s projected GDP growth of 2.8 percent in 2010 is the strongest of the past five years. While a strong rebound should emerge from such a deep setback, the projection for slower increase of 2.2 percent in 2011 is a sign economic momentum will continue to struggle.

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[1] “Business Cycle Expansions and Contractions,” *National Bureau of Economic Research*, http://www.nber.org/cycles.html

[2] “NBER Committee Confers: No Trough Announced,” *National Bureau of Economic Research*, April 10, 2010, http://www.nber.com/cycles/april2010.html

[3] Our report analyzing the latest BEA estimates of San Diego’s Metropolitan GDP through 2008 is available in the November 2009 issue of the *San Diego Economic Ledger* at http://www.nusinstitute.org/Economic-Ledger/Issues.html.

[4] “GDP growth, high unemployment make for 'bipolar' economy,” *UCLA Anderson Forecast*, March 24, 2010, http://newsroom.ucla.edu/portal/ucla/ucla-anderson-forecast-growing-155811.aspx

[5] Nariman Behravesh, “Top-10 Economic Predictions for 2010”, *IHS Global Insight*, http://www.ihsglobalinsight.com/Highlight/HighlightDetail1495.htm

[6] Ben Baden and Rob Silverblatt, “8 Problems That Could Trigger a Double-Dip Recession”, *U.S. News and World Report*, July 1, 2010.

[7] “National Economic Recovery Will Be a Long Slow Climb”, *UCLA Anderson Forecast*, June 15, 2010, http://www.uclaforecast.com/conents/archive/2010/media_61510_1.Asp

[8] “GDP growth, high unemployment make for 'bipolar' economy,” *UCLA*

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Anderson Forecast, March 24, 2010, http://newsroom.ucla.edu/portal/ucla/ucla-anderson-forecast-growing-155811.aspx

[9]"National Economic Recovery Will Be a Long Slow Climb", *UCLA Anderson Forecast*, June 15, 2010, http://www.uclaforecast.com/conents/archive/

2010/media_61510_1.asp

[10]"While Most Markets Improved in april 2010, Home Prices Do Not Yet Show Signs of Sustained Recovery According to the S&P/Case-Shiller Home Price Indices," *Standard & Poors*, http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexed=spusa-cashpidff--p-us----

[11]Jennifer Davies, "Q&A: What does all that housing data mean?", *San Diego Union-Tribune*, June 23, 2010.

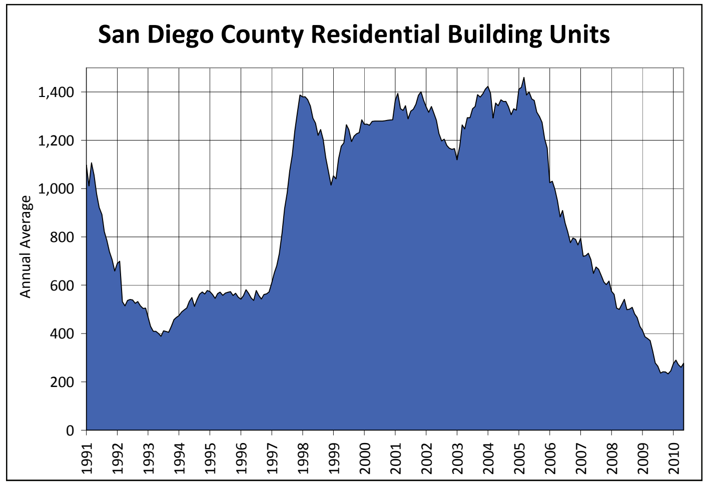
[12]Amy Hoak, "The Housing-Market Recession Is Not Over," *MarketWatch*, June 19, 2010.

Dashboard Observations—May 2010

By Kelly Cunningham, Economist, Senior Fellow

As previously noted in this Ledger posting, San Diego's unemployment rate improved to 10.0 in May, dropping from 11.0 percent in March and the 50-year record high 11.1 percent in January. The seasonal adjustment also shows a 0.3 percent change from April.

Some employment improvement was due to temporary government workers hired to conduct the 2010 Census. The unemployment rate typically rises in the summer as students (16 years and over) enter the labor force during the break. The rate will also rise because job seekers that were not actively seeking employment re-enter the job hunt on news that job numbers are rising and more employment opportunities are apparently available.



After a five year slump in residential construction, the number of housing units authorized for construction appears to be slowly increasing. The large percentage increases compare with recent extremely low levels.

The City of San Diego certified 1,038 new businesses licenses in May. This was slightly down 0.5 percent from the previous month, and compared to a year ago in May was down 23.1 percent. For all of 2009, new business licenses totaled 14,086, which fell nearly 26 percent from 2008, and the lowest annual number since 2002.

The May stock index of San Diego based companies improved significantly from a year ago up 27 percent, but, similar to national indices, struggled more recently slipping 2.6 percent from April.

Indicator	May 2010	Month Change (Sea. Adj.)	Annual Change
Unemployment Rate[1] San Diego County	10.0%	-0.3% ▼	0.7% ▲
Residential Building[2] Units authorized for construction San Diego County	412	35.0% ▲	88.1% ▲
New Business Licenses[3] Issued by City of San Diego	1,038	-0.5% ▼	-23.1% ▼
San Diego Stock Index[4] San Diego based companies 2nd Thursday of month	118.2	-2.6% ▼	26.6% ▲

[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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