

Slow-Motion Recovery Sets Economic Pace

FINANCE: Housing Woes Offset Gains In the Workplace

By **MIKE ALLEN**

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Job creation is on the rise, unemployment is declining, and the area's diverse economy should once again generate higher gross revenue for the county's businesses, local economists say. But for those who aren't so optimistic, it'll be just another small step in a long slog back to recovery from the Great Recession.

"This has been a very stagnant recovery," says Kelly Cunningham, economist for National University System Institute for Policy Research. "We'll be slightly better than 2011, but this will be the best growth we have seen in the last six years. But lower than 2 percent annual growth is still pretty stagnant." Cunningham predicts this year's gross regional product, the value of all the goods and services produced here, to rise 1.8 percent. That's only four-tenths of 1 percent above what the region did in 2011, but hey, it's positive, and most will take it instead of contracting.

"We will see improvement in 2012, and that's because the national economy will pick up a little steam," said Dan Seiver, a finance professor at San Diego State University. "We could get a little job growth in housing and construction but it's more likely to come from biotech/medical devices and tourism."

On the housing side, it would be difficult to find bleaker times. In fact, Cunningham said last year's new residential units approved was the third worst on record going back to the Great Depression with just under 5,000 units. The two worst years were in 2009 and 2010. Housing Malaise Continues The local and state housing malaise continued last year as demand softened to near the trough year of 2009. About the only new construction here was in apartments or condos, a much safer bet than single-family homes, Cunningham said. This housing market still has a lot of overhang from all the foreclosures," he said.

Alan Gin, an economics professor at the University of San Diego, says San Diego's job picture brightened at the end of last year when the state reported the county gained a net 26,600 jobs through November. That was the highest year-over-year job gain since May 2001, he said. For the entire year, the region should finish with an average gain of some 18,000 jobs, enough to reduce the jobless rate below 10 percent, Gin said. Based on the data he's seen, Gin forecast an average increase of about 20,000 jobs for 2012, which should push the jobless rate below 9 percent. If the momentum builds later, the rate may drop to the mid-8 percent range, Gin said. Offsetting this news is the fact that many of the new jobs don't pay very much, Gin said. "It used to be if you didn't have a good education that you could make a pretty good living in either manufacturing or construction, but we're still losing those jobs," he said.

From 2007 to 2009, the San Diego area sustained a net loss of 102,400 jobs, according to Cunningham. The three sectors sustaining the heaviest losses were construction, manufacturing and information, a group that includes telecommunications and newspapers, Cautious About Expansion

Though in a technical recovery since 2009, local employers remain cautious about expanding their payrolls, Cunningham said. "If they don't see greater business activity, they're reluctant to take on more workers," he

said. As they did this year, most of the new jobs will likely come from the same sectors that were creating jobs in recent years: health care and education; professional business services (which includes temporary staffing); technical and scientific, health care; and hospitality/tourism.

Cunningham echoed Gin's observation on the dearth of "middle skilled" jobs that are in the mix. "A lot of the (new) jobs are those that can't be done by machines or can't be sent overseas like home nurses, landscapers and maintenance work." On the plus side, the high-technology jobs carry enhanced benefits. An October study by the National University System Institute found that the region's 138,800 high-tech jobs generate another 224,232 indirect employment, bringing the total impact to nearly 363,000 jobs. The total impact on local payrolls is about \$28 billion, or nearly 45 percent of the region's total labor income, the report said. Pending cuts to the national defense budget could be a wild card factor this year, most economic analysts said. "We have to face the fact that there will be some cutbacks here," Cunningham said.

Seiver said the cuts probably won't be as significant here. "The outlook for the next three to five years is that defense spending will be weaker. The Navy may not be able to get some of the ships they want, but we'll still have to deal with China, and China is building up its navy."