



San Diego 2012 Economic Outlook: A Year to Muddle Through

Highlights of 2012 Forecast:

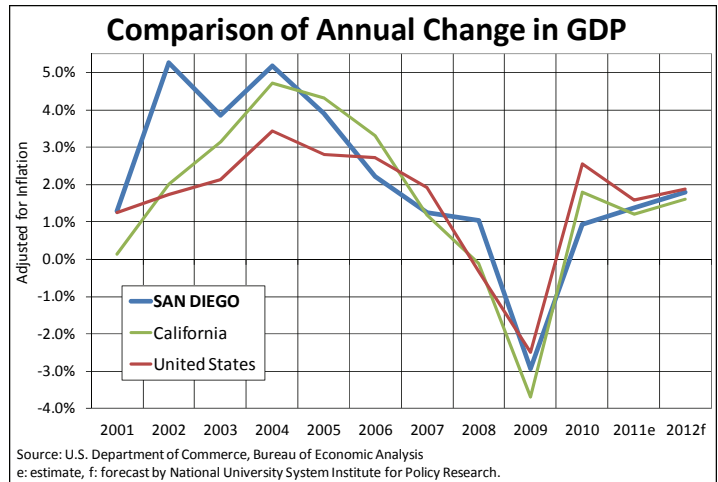
- San Diego's overall economy to increase 1.8 percent, the strongest growth in six years.
- Population to increase 0.9 percent to 3.17 million.
- Employment to increase by 21,000 payroll industry jobs.
- Unemployment rate to only slightly decline to 9.8 percent.
- Housing construction to increase 15 percent with still low levels of building.
- Taxable sales to modestly increase by an inflation ad-

justed 1.4 percent.

- Inflation rises to 3.5 percent
- San Diego economy modestly growing**

San Diego's 2011 gross domestic product (GDP) is estimated to have improved 1.4 percent to \$177.5 billion. This is the nation's 16th largest metro economy, exceeding the GDP of nearly one-half (24) of U.S. States.

NUSIPR forecasts San Diego's still sluggish economy to grow in 2012. We estimate growth for the year will be 1.8 percent, while California increases 1.6



percent. Both continue to trail of 1.9 percent. While the national economy was estimated

SELECTED SAN DIEGO COUNTY ECONOMIC INDICATORS

| Indicator | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Estimate 2011 | Forecast 2012 | Annual Percent Change | | | | |
|---|-------------|-------------|-------------|-------------|---------------|---------------|-----------------------|---------|---------|----------|----------|
| | | | | | | | '08/'07 | '09/'08 | '10/'09 | '11/'10e | '12/'11f |
| Gross Metropolitan Product (billions) | \$166.4 | \$171.2 | \$169.0 | \$171.6 | \$177.5 | \$184.5 | 2.9% | -1.3% | 1.5% | 3.4% | 3.9% |
| Inflation Adjusted Change+ | | | | | | | 1.0% | -2.9% | 0.9% | 1.4% | 1.8% |
| Population* | 3,032,700 | 3,064,400 | 3,091,600 | 3,118,900 | 3,146,400 | 3,174,400 | 1.05% | 0.89% | 0.88% | 0.88% | 0.89% |
| Change | 22,000 | 31,700 | 27,200 | 27,300 | 27,500 | 28,000 | 44.1% | -14.2% | 0.4% | 0.7% | 1.8% |
| Net Domestic Migration | -21,700 | -11,000 | -10,600 | -9,004 | -9,100 | -8,800 | -49.3% | -3.6% | -15.1% | 1.1% | -3.3% |
| Net International Migration | 15,400 | 15,100 | 11,900 | 10,500 | 11,000 | 11,400 | -1.9% | -21.2% | -11.8% | 4.8% | 3.6% |
| Natural Increase | 28,300 | 27,600 | 25,900 | 25,804 | 25,600 | 25,400 | -2.5% | -6.2% | -0.4% | -0.8% | -0.8% |
| Employment | | | | | | | | | | | |
| Labor Force | 1,518,400 | 1,547,400 | 1,554,100 | 1,558,200 | 1,572,500 | 1,596,900 | 1.9% | 0.4% | 0.3% | 0.9% | 1.6% |
| Employed | 1,449,500 | 1,455,100 | 1,404,500 | 1,393,900 | 1,415,900 | 1,440,900 | 0.4% | -3.5% | -0.8% | 1.6% | 1.8% |
| Unemployed | 68,900 | 92,300 | 149,600 | 164,300 | 156,600 | 156,000 | 34.0% | 62.1% | 9.8% | -4.7% | -0.4% |
| Unemployment Rate | 4.5% | 6.0% | 9.6% | 10.5% | 10.0% | 9.8% | 1.4% | 3.7% | 0.9% | -0.6% | -0.2% |
| Payroll Industry Employment | 1,319,700 | 1,309,300 | 1,240,900 | 1,229,800 | 1,248,500 | 1,269,500 | -0.8% | -5.2% | -0.9% | 1.5% | 1.7% |
| Change | 11,000 | -10,400 | -68,400 | -11,100 | 18,700 | 21,000 | | | | | |
| Construction | | | | | | | | | | | |
| Residential Units | 7,435 | 5,357 | 2,946 | 3,494 | 4,950 | 5,700 | -27.9% | -45.0% | 18.6% | 41.7% | 15.2% |
| Taxable Sales (billions) | \$47.486 | \$45.329 | \$39.729 | \$41.731 | \$44.322 | \$46.538 | -4.5% | -12.4% | 5.0% | 6.2% | 5.0% |
| Inflation Adjusted Change | | | | | | | -8.1% | -12.3% | 3.7% | 2.8% | 1.4% |
| Per Capita | \$15,658 | \$14,792 | \$12,851 | \$13,400 | \$14,100 | \$14,700 | -5.5% | -13.1% | 4.3% | 5.2% | 4.3% |
| Inflation Adjusted Change | | | | | | | -9.0% | -13.1% | 2.9% | 1.9% | 0.7% |
| Inflation Rate | | | | | | | | | | | |
| San Diego Consumer Price Index (CPI-U: 1982-84=100) | 233.32 | 242.31 | 242.27 | 245.46 | 253.5 | 262.4 | 3.9% | -0.02% | 1.3% | 3.3% | 3.5% |

+Adjusted for inflation by Implicit Price Deflator for California. *Population as of January 1 of following year.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; California Department of Finance; California Employment Development Department; U.S. Bureau of Census; California Board of Equalization; U.S. Department of Labor, Bureau of Labor Statistics.

e: estimate, f: forecast by National University System Institute for Policy Research.

to have recovered in the 3rd quarter of 2011, San Diego and California GDPs will not reach pre-recession peaks until 2012.¹

Employment outlook slowly improving

Despite recovering economic production, employment in San Diego, as in the rest of the nation, remains far below pre-recession peaks. From 2007 to 2009 San Diego lost 102,400 payroll jobs. Since that time, approximately 36,000 jobs were added in 2010 and 2011. Another 21,000 are forecast to be added in 2012, reaching just over the half-way mark to full recovery in job numbers.

NUSIPR's forecast for employment gains in 2012 will only lower the annual rate to 9.8 percent. Real GDP needs to grow more than three percent to absorb all new labor entrants and "re-entrants" to more significantly bring the unemployment rate down.

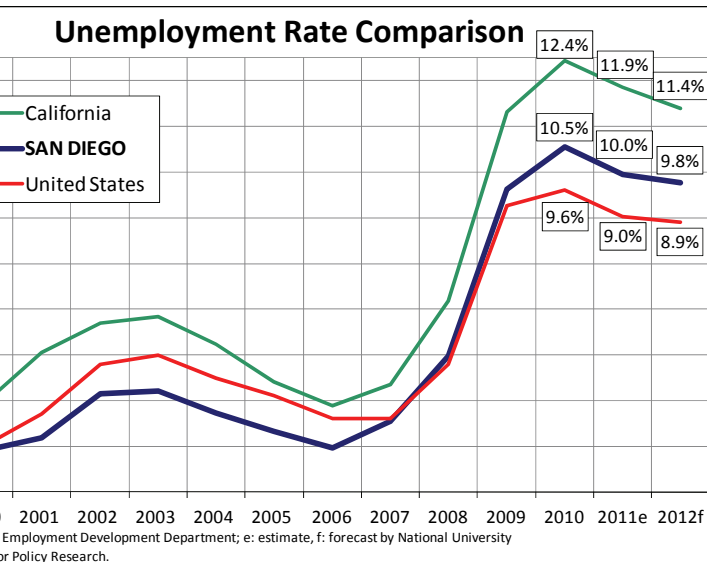
The high unemployment rate actually understates the County's labor market woes and the hole we continue to face in the employment market. Government surveys determine the unemployment rate calculate the number working by total estimated civilian labor force. Changes in employment are counterbalanced by people entering or leaving the labor force due to age, moving, or actively seeking work. The combination of more people working and/or leaving the labor force reduces the unemployment rate, while conversely when more people enter the labor market than employment increases prevents the unemployment rate from dropping. In a truly healthy

¹For more details of San Diego's GDP, see November 2011 issue of the San Diego Economic Ledger, <http://www.nusinstitute.org/assets/resources/pageResources/EconomicLedger-GDPNov2011.pdf>.

labor market, both the number of people working and the labor force should be growing.

Growth in the local labor force slowed significantly the past two years as many unable to find work stopped actively searching. Migration was also negative as residents moved away to seek job opportunities elsewhere. With the local job market improving, labor force numbers will also increase as formerly discouraged workers actively start (re)seeking employment. Unemployment rates will continue to be elevated as job increases are nearly matched by total labor force increases.

Additional to unemployment rates, the U.S. Bureau of Labor Statistics measures labor force "underutilization". The U-6 measurement includes those that are "underemployed" (only working part-time because they are unable to find full-time work) and marginally attached persons who stop actively seeking jobs and drop off labor force rolls. This extended measure of labor underutilization, in addition to 9.0 percent unemployment, shows fully 16



percent of the nation's labor force unable to obtain full-time work.

The equivalent measurement for California shows the state's unemployment rate of 11.9 percent in 2011 had total labor force underutilization of 21.6 percent. Nearby Los Angeles' officially reported unemployment of 12.4 percent indicates full labor underutilization rate to be 23.5 percent.² NUSIPR estimates San Diego's 2011 labor underutilization rate to be near 20 percent, meaning one in five working age adults in the County are unable to find full-time employment.

Local Industry Bright Spots

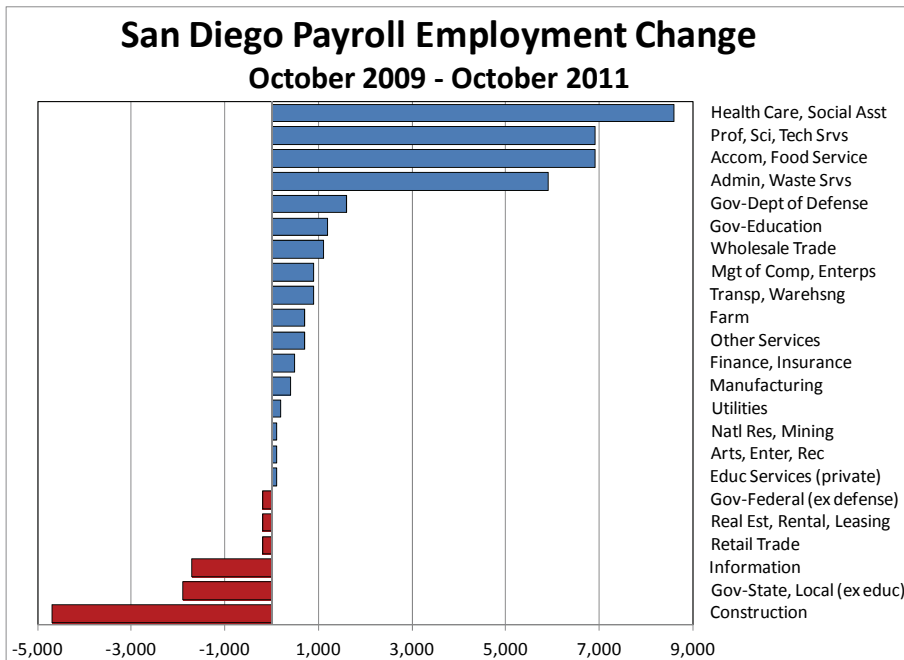
Overall, job losses in San Diego

bottomed in the fall of 2009. Since that time professional and business services led payroll employment increases, followed by health care and hospitality industries. Wholesale trade jobs (but not retail) have also risen. Transportation, warehousing, and utilities, and even some manufacturing added workers by lower paces.

Other than the Department of Defense adding both active duty military and civilian personnel and public education, government employment at all levels - federal, state, and local - continues to falter. Construction shows the greatest losses, followed by the information sector. Retail trade and real estate also remain slightly negative.

NUSIPR sees these trends continuing in 2012 as more job growth occurs among research and development and business services. Employment gains will also continue in health care and hospitality sectors, with slower growth among wholesale trade and

²Los Angeles and New York are only sub-state areas the BLS reports labor underutilization. For more information on the Bureau of Labor Statistics "Alternative Measures of Labor Underutilization for States," see <http://www.bls.gov/lau/stalt.htm>.



financial service sectors.

San Diego will continue to see challenges in the kinds of jobs being created and the wages that San Diegans receive. Middle-skilled jobs that once formed the broad-base of the middle class are disappearing. According to London-based *Financial Times* analysis of America's job market, "They are being supplanted by relatively low-skilled (and low-paid) jobs that cannot be replaced either by new technology or by offshoring—such as home nursing and landscape gardening. Jobs are also being created for the highly skilled, notably in science, engineering and management."³

This is particularly true for high-cost areas of California, such as San Diego, where job growth prospects are also limited by the state's onerous taxes and draconian regulatory environment.

Government employment overall in San Diego will start to be negative in 2012 as uniformed military numbers will not be growing and instead start to decline. Jobs losses among real estate, construction, and information sectors should start to taper off in 2012.

Slower levels of population growth

Revised estimates based on the 2010 Census show San Diego County population as of January 1, 2011 was 3,118,900. Although the County added 281,480 residents over the past decade, the average increase of 1.0 percent per year was the lowest in more than a century.

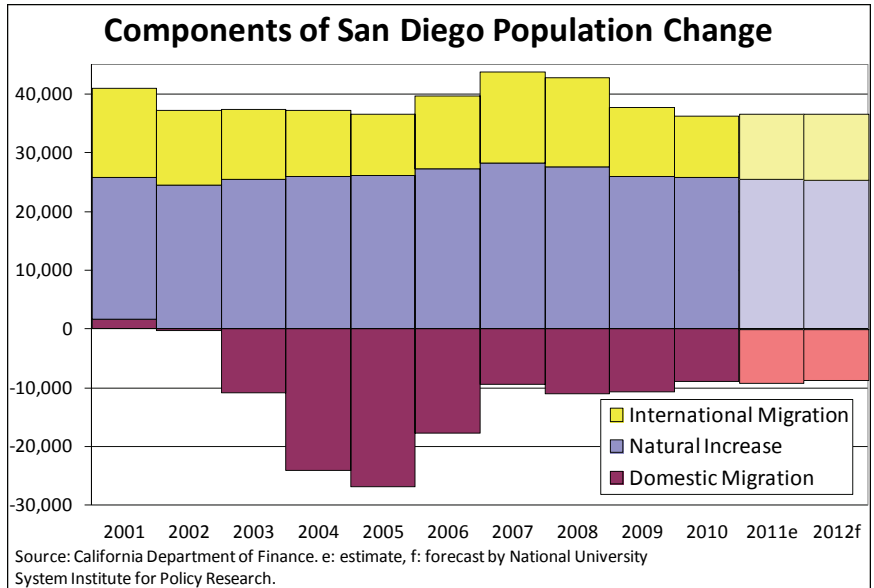
Population growth had previously slowed in San Diego prior to the onset of the 2008-09 recession.

³Edward Luce, "Can America regain most dynamic labour market mantle?", *Financial Times*, December 11, 2011, <http://www.ft.com/intl/cms/s/0/6327a7f4-21bb-11e1-8b09-00144ffabdc0.html#axzz1g4Lq4In9j>

tion. The key culprit seems to have been prohibitively high housing and other living costs. Some residents relocated to live in nearby surrounding areas, such as Riverside County and Tijuana and Baja California.

Domestic migration was negative in San Diego for most of the past decade. The recession actually slowed out-migration, as markets such as Phoenix and Las Vegas – traditional magnets for San Diego migrants – saw unemployment spike. Further slowing out-migration was many San Diegans that wanted to move away were unable to sell their homes.

The number of births as a percentage of the population continues multi-decade long declines, a trend anticipated to continue in the future. According to California Department of Finance records, the local birth rate as a percentage of the population fell to the lowest level in more than 80 years. With only 1 birth for every 70 San Diego residents in 2010,



this was the lowest since the Great Depression.

As the recession and fewer work opportunities set in, international migration also dwindled. Foreign migration to San Diego continues, however, with about 11,000 annually added in recent years.

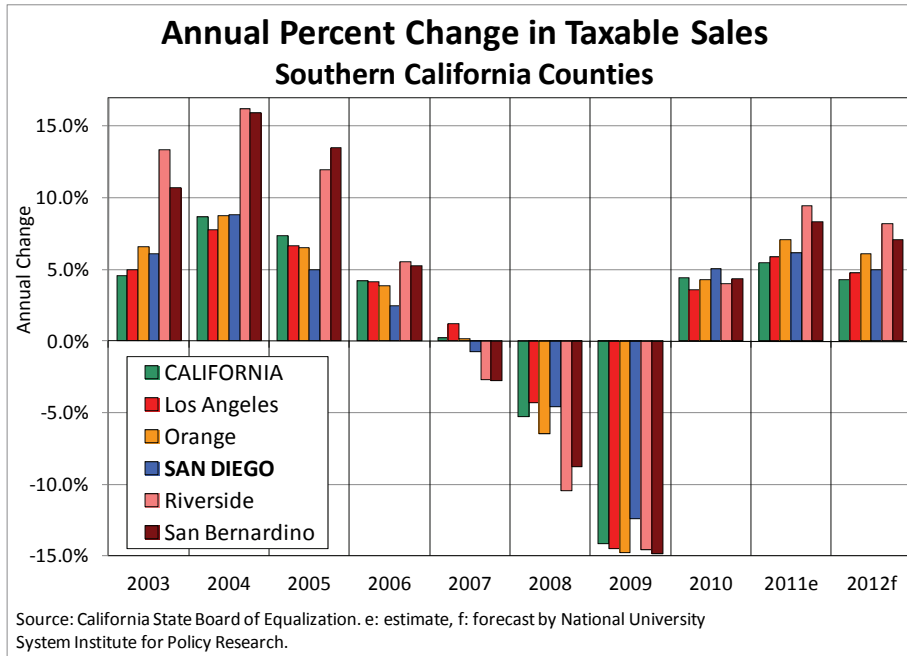
The lowered levels of population growth have significant implications on San Diego's job market, housing, sales, business activity, and overall economy as the region readjusts to more modest levels of growth. The types of growth are also causing significant changes in population identity and demographic characteristics as well.

Housing construction remains low

Despite the seemingly significant increases of housing units approved for construction in 2010 and 2011, the level of activity remains at depression-era levels. The number of units approved in 2009 and 2010 were the two lowest years on record in San Diego since the Great Depression. The 42 percent increase estimated in 2011 of 4,950 units is the third lowest level on record. NUSIPR's forecast calls for more recovery, but with only 5,700 units to be built in 2012, construction employment will continue to be very soft.

We also see San Diego's housing market continuing to lag, as year-over-year decreases in home prices reflects the large inventory of foreclosures and low consumer confidence continuing to act as a drag on the residential market.

San Diego's housing vacancy rate rose to 6.7 percent in 2010 and 2011, up from 4.4 percent for most of the past decade. The overhang of housing foreclosures continues to loom over the housing market,



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while the spectacle of little new housing construction in the pipeline leaves relatively little housing being added to accommodate San Diego's slow but still growing population.

Improving consumer spending shown in taxable sales

Consumer spending in San Diego, as measured by taxable sales, fell 17.4 percent between 2006 and 2009, the steepest decline recorded in more than 70 years. Adjusted for inflation, this represented \$12.1 billion in lost annual sales activity within the region. During this time, one in seven San Diego business outlets also closed.

The good news is declines bottomed in 2009 and rose in 2010 as sales activity increased and more business outlets opened. The trend continues in 2011, although the outlook for 2012 is slowing but still positive growth.

San Diego led the rebound in 2010 of taxable sales among southern California counties. Riverside, San Bernardino, and Orange County, after plunging deeper in 2009, overtook San Diego's rate of increase by 2011. Los Angeles and California overall also increased with slightly lower rates. The pace of increase is anticipated to moderate in 2012.

Many factors influence spending — consumer confidence levels, credit availability, inflation, and most importantly, employ-

Dashboard Observations—October 2011

By Kelly Cunningham, Economist, Senior Fellow

Two San Diego "Dashboard" indicators declined in October 2011, although over the year all continue to show improvement.

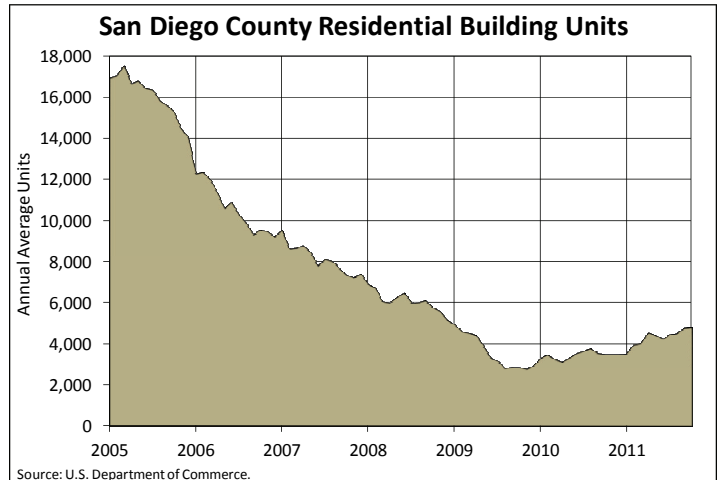
The October 2011 unemployment rate remained at 9.7 percent, slightly down from revised 9.8 percent in September. There is also a noteworthy improvement over the year from 10.4 percent reported for October 2010.

The number of residential units authorized for construction dropped significantly from the previous month. The pace over the year nevertheless remains 19.3 percent higher. As noted in our previous 2012 forecast report, the improvement compares with the worst two years for housing authorizations in San Diego since the Great Depression.

New business licenses issued by the City of San Diego jumped nearly 19 percent in October. The number also continues to be slightly above the number last year at this point.

The stock index of publically-traded companies in San Diego slightly declined during Octo-

ber, which given the market's recent turbulence could be considered relatively positive. Barely 0.2 percent higher than the same month last year could also be seen as positive.



| Indicator | Oct 2011 | Month Change (Sea. Adj.) | Annual Change |
|--|----------|--------------------------|---------------|
| Unemployment Rate ¹ San Diego County | 9.7% | -0.10% ▲ | -0.7% ▲ |
| Residential Building ² Units authorized for construction San Diego County | 173 | -61.9% ▼ | 19.3% ▲ |
| New Business Licenses ³ Issued by City of San Diego | 1,130 | 18.8% ▲ | 1.7% ▲ |
| San Diego Stock Index ⁴ San Diego based companies | 114.2 | -0.7% ▼ | 0.2% ▲ |

¹California Employment Development Department.

²U.S. Bureau of the Census.

³Business Tax Program, City of San Diego.

⁴Second Thursday of month, Bloomberg News, San Diego Daily Transcript.

Rising inflation also limits more spending, particularly as fuel and energy prices significantly soar. San Diego's cost of living or inflation rate accelerated from only 1.3 percent in 2010 to 3.3 percent in 2011, and is forecast to rise another 3.5

percent in 2012. Commodity prices are rising by nearly twice that amount. This is the result of the combination of federal policy actions dealing with budget deficits, and worldwide increases in commodity, food, and energy prices.



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