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ECONOMY: Recession nearly certain in Riverside

By ZACH FOX - Staff Writer

Riverside County appears to have tipped into an economic recession, as homeowners have lost \$71 billion in equity, thousands have lost their jobs and fewer out-of-towners are visiting.

While an official recession designation approaches consensus among economists, consumers have felt the pinch of rising costs and lagging employment. And just one sector ---- housing ---- has spectacularly weakened the entire county's economy.

A sharp decline in home values is starting to cut into consumer spending, which in turn has led to fewer jobs in virtually every sector.

Riverside-San Bernardino counties' unemployment rate hit 7.6 percent in May, up more than two percentage points in a year, according to the state's Employment Development Department.

It was the highest unemployment rate in a decade.

"You can only do one of two things when you look at those numbers. Either you believe we're in a recession, or you don't believe in the numbers," said Christopher Thornberg, an economist with Beacon Economics in Los Angeles.

Riverside County's job recession has wrought an unfamiliar pain. The county has not suffered a loss of jobs since the early 1990s.

While the nation lost jobs in its eight-month recession of 2000, Riverside County added more than 5,000 jobs, or 1 percent of the labor market.

Today's jobs contraction has put people such as Gary Huber, of Corona, in an unexpected place: the unemployment office. A mortgage underwriter for 25 years, he was laid off in August 2006 and has been struggling to find work.

Since losing his job, Huber has exhausted his savings, sold his car and worked toward landing a job with the city government, even if it pays less, he said.

"It'd still be a tremendous pay cut, but it'd be enough where we could make ends meet," Huber said.

Now, he is relearning how to search for jobs effectively, going to resume workshops and networking seminars led by EDD.

Also looking for work is Patricia Hunter, of San Marcos, who lost her job as a real estate appraiser last December. She is struggling to make ends meet, cutting necessities such as health insurance.

"When I was laid off, they offered a (health insurance) plan," she said. "They were talking about \$400 a month. I can't even make my house payment, much less \$400 a month."

Vanishing housing wealth

Though real estate job losses were the first wave, some economists say the housing meltdown will bring about a general recession by causing a drop in consumer spending.

In all, \$71 billion in home value across the county has disappeared from the 2006 peak, according to an estimate based on data from DataQuick Information Systems and the American Community Survey, put out by the U.S. Census.

The county's median home price reached a high in December 2006 at \$432,000 and had tumbled 33 percent to \$290,000 by May, according to DataQuick.

Massive losses in home values have translated to billions of dollars less in consumer spending, as people typically feel comfortable spending 6 cents for each dollar in home price appreciation, said Marney Cox, an economist for the San Diego

Association of Governments.

"We were disproportionately benefitting from the construction industry and the mortgage industry. And obviously the demise of these two sectors has not only slowed jobs, but the trickle down is hitting other sectors of the economy," said Esmael Adibi, an economist at Chapman University who has declared a recession in Riverside County. "Not every sector is losing jobs, but the drag is so significant from those two sectors that it's slowing down the whole job market."

Consumer spending has been so tight that the county's job losses are reaching beyond construction and real estate, which have been hammered by the housing recession with 16,600 jobs lost in the Inland Empire, which includes Riverside and San Bernardino counties, according to data from EDD.

There were 4,000 fewer retail jobs in May than the same month a year earlier, and the total number of jobs was 22,000 below last year.

Cause for pessimism

Unlike other Southern California economies, practically all job sectors have posted losses in Riverside and San Bernardino. Of the 10 sectors determined by the state department, seven posted year-over-year losses in May. The only job sectors to grow were education/health, government and the small "other services" designation.

While most economists are predicting any recession to be mild, Thornberg has been more pessimistic.

"The glass is one-third full," he said. "And we've got a mess in front of us here. ... At some point in time, we're all going to wake up and realize this is not a small thing."

With a different view, UCLA's Anderson Forecast, which Thornberg used to work for, has stood firm with a no-recession prediction for the state and the nation, based largely on the fact that the economy has not shed a large number of jobs.

If Riverside County is in a recession, the housing turmoil is to blame. Probably the most significant hit by housing has come in consumer spending, which has rippled through the retail sector.

But direct losses from the real estate recession are large, as well. Building permits, considered a leading indicator of housing, have dived 60 percent from a year ago, according to the Construction Industry Research Board, a research firm in Burbank.

Fewer permits means builders will spend \$848 million less than the same time last year. Also, the \$1.2 billion expected to be spent by builders on new projects filed from January through May is \$2.1 billion below a peak in 2005.

Further, sluggish home sales have slashed income for real estate professionals. Real estate agents and mortgage brokers brought in about \$170 million less this year through May than last, according to an estimate of commissions based on data from DataQuick.

In total, the housing market has sucked more than \$1 billion out of employee paychecks and companies' bottom lines over the last year ---- without counting the \$71 billion lost in equity by county homeowners during that time.

Tourism weakening, too

Those towering numbers are similar in San Diego County, where some economists have considered tourism to act as a bulwark against a recession.

Though tourism is not as much of an economic engine in Riverside County, it still carries a significant contribution. In Southwest County, tourists spent \$605 million in 2007, according to a report released by the Temecula Valley Visitor and Conference Bureau.

It appears 2008 might be slower as \$4-per-gallon gas strangles wallets. Both San Diego County and Southwest County have seen fewer visitors so far this year, officials said.

With San Diego County and Orange County struggling economically, the visitors bureau expects fewer tourists to fly cross-country and more to vacation closer to home, said Carrie Penny, operations director for the bureau.

"As far as nearby economies go, a lot of them are not doing real hot. They're in a real downturn," Penny said. "We're definitely seeing occupancy down 5 (percent) to 8 percent. ... But we anticipate we'll still get a good draw of people because they will want to stay a little closer to home."

Spending by tourists was still up from a year ago, she said.

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