

UCLA forecast sees no California recession

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Is the housing bust taking the California economy down?

Not necessarily, says an influential forecasting group. In a report set for release today, economists at the UCLA Anderson Forecast predict that damage from the collapse of housing will be contained and that the state's feeble economy will avoid a headlong dive into negative territory.

"Real estate weakness will remain a significant drag on the economy, leaving us treading water in 2008, but not slipping under the waves into recession," the report concludes.

Jobs outside the farm sector will dip just 0.1 percent in 2008, while the unemployment rate will top at 6.3 percent at year's end, up from the current 5.9 percent, according to the forecast. And that projected performance doesn't meet the definition of a recession as a decline lasting more than a few months affecting employment, income, production and sales.

Still, economists at the UCLA Anderson Forecast caution that their outlook hinges on consumers holding up their end of the bargain by keeping their spending from falling hard. If Californians hold their consumption of goods and services steady or cut back just a bit, that could prevent a sharp downturn in the retail sector and save the state's economy from a sustained contraction.

UCLA forecasters expect California retail sales to edge up this year by a tiny 0.4 percent after adjusting for inflation. But they acknowledge it's hard to predict how the housing bust will affect consumers, in both their wallets and their psyches. And they note there's a significant risk that consumer spending will come in weaker than predicted.

"One of the sectors I'm going to be watching very closely to determine which way this breaks would be retail," said Ryan Ratcliff, co-author of the forecast's California report.

Some other experts say UCLA has missed the boat.

"What we have in California is a recession. We have it right now," said Los Angeles economist Christopher Thornberg, a principal at Beacon Economics and a former UCLA Anderson Forecast staff member. "Jobs are falling. Taxable sales are falling. This is a recession."

UCLA economists stress that the current slump is the first since World War II in which housing led the way down.

All the others were prompted by a sharp manufacturing downturn.

And there's the rub, according to UCLA forecasters: California's job losses have been heavily concentrated in construction and finance, the two sectors most closely linked to housing. There simply aren't enough jobs in California building homes and making mortgages to create a recession without other areas of the economy crumbling too, UCLA analysts insist.

"The size of job losses from these two sectors still doesn't look like anywhere near enough to create the 1-2 percent contraction in overall employment that has been the signature of past recessions," the report argues.

That position is based on the view that the spillover from housing will be limited. Other experts argue that ripple effects from housing will be profound, especially when they're combined with the clampdown on credit that is making loans harder to get for both consumers and businesses.

"UCLA seems to have the view that housing cannot sink the economy, and that's wrong," Thornberg said.

In past downturns, foreclosures and falling home prices generally occurred after the economy was already weakening and joblessness was rising. This time, housing has been leading the economy, not following it.

That presents a conundrum, UCLA forecasters say.

"The current economy is hard to place," the report notes. "We're in uncharted territory."

Is California in a recession?

-- UCLA forecasters say the housing collapse won't cause a California recession because the sector is too small to cause the state's overall economy to contract.

-- Other economists argue that the housing woes are prompting consumers to cut back and making credit harder to get, putting the brakes on broader economic activity. Many say a recession is already at hand.

-- UCLA says retail sales figures and employment trends will show whether its no-recession call is on the mark.

Source: UCLA Anderson Forecast, Chronicle research

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