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Economists employ 'R' word on jobs data

By Dean Calbreath

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The slumping housing market led to thousands of job losses throughout California last month, prompting fears that the state and local economies are lurching into a recession.

California lost 15,800 jobs and San Diego County lost 1,700 in October, according to seasonally adjusted data released yesterday by the state Economic Development Department.

Payrolls at nine of the 11 major industries in the state fell last month, led by construction, which lost 4,200 jobs. The only industries to gain workers were professional and business services and educational and health services.

In San Diego County, the job losses included a 1,000-worker decline in construction employment, which was counterbalanced by growth in professional and business services, which grew largely thanks to the hiring of 600 temporary workers.

“I think we're headed into a recession,” said Esmael Adibi, director of the Anderson Center for Economic Research at Chapman University in Orange.

“The direction that job creation has taken is making everybody nervous,” Adibi said. “The main factor is job losses in construction and the mortgage industry. And the worst is not behind us. The job losses have intensified and will probably continue well into 2008.”

Adibi said that at the beginning of the year, the state was adding jobs at an annualized rate of 1.6 percent. Now, that has been chopped to 0.7 percent. The state has added 109,000 jobs over the past year – the slowest growth since May 1994.

The weakness in construction and real estate has spread to retail businesses, since fewer people

are using home-equity loans to buy cars, furniture and appliances.

Statewide, retailers shed 1,700 workers last month, led by 900 layoffs at building-material and garden-equipment stores, which are most susceptible to the real estate downturn. In San Diego County, total retail employment grew by 1,800 jobs during the month, but there were 100 layoffs at gardening and building stores.

Even government, which has been a solid pillar for employment, shed 700 workers throughout the state last month. Adibi predicted that more cutbacks will come, because state and local government agencies are getting less money from real estate and sales taxes.

“The whole thing is getting worse,” said Christopher Thornberg, economist at Beacon Economics in Los Angeles. “Housing prices are falling at a pretty solid pace. Foreclosures are mounting. Defaults are skyrocketing, and a large number of them will turn into foreclosures.

“Can we use the 'R' word? Sure. I think this whole thing is going into recession,” Thornberg said.

He has long predicted that problems in the housing market would lead to a nationwide recession. Thornberg said that while some states continue to grow, led by Oregon, Washington, Wyoming and Texas – with the latter two states benefiting from the rise in oil prices – others, such as Florida and Nevada, are “a mess.”

In California, the unemployment rate remained unchanged last month at 5.6 percent, compared with 4.8 percent last year. Thornberg said the annualized jump hints that there's worse to come.

“When you jump by 1 percent or more in a year, that usually means that it will turn into a jump of 2.5 percent or 3 percent,” Thornberg said. “I'm not sure I can think of an example where that didn't happen.”

In San Diego County, unemployment was at 4.8 percent for the third month in a row, compared with 3.8 percent a year ago, not adjusted for seasonal fluctuations.

October was also the third month in a row that the county's unemployment rate was ahead of the national average, which is currently at 4.4 percent unadjusted for seasonal hiring patterns, or 4.7 percent after adjustments.

Kelly Cunningham, economist at the San Diego Institute for Policy Research, said that other than a brief blip in 2000, this is the first time in 10 years that the county's unemployment rate has been higher than the national rate.

“The economy is getting a little weaker than I previously expected,” Cunningham said. “Whether or not we're going into a recession, it will definitely feel like a recession. We're probably already experiencing that. There's sometimes a lag between what we're feeling and what the economic statistics show.”

Cunningham said he is troubled by the decline in payroll employment, which measures jobs of salaried workers getting a regular paycheck. But he is more troubled by last month's 1,200-worker decline in the county's civilian labor force, which is a relatively volatile measurement of self-employed workers as well as salaried employees.

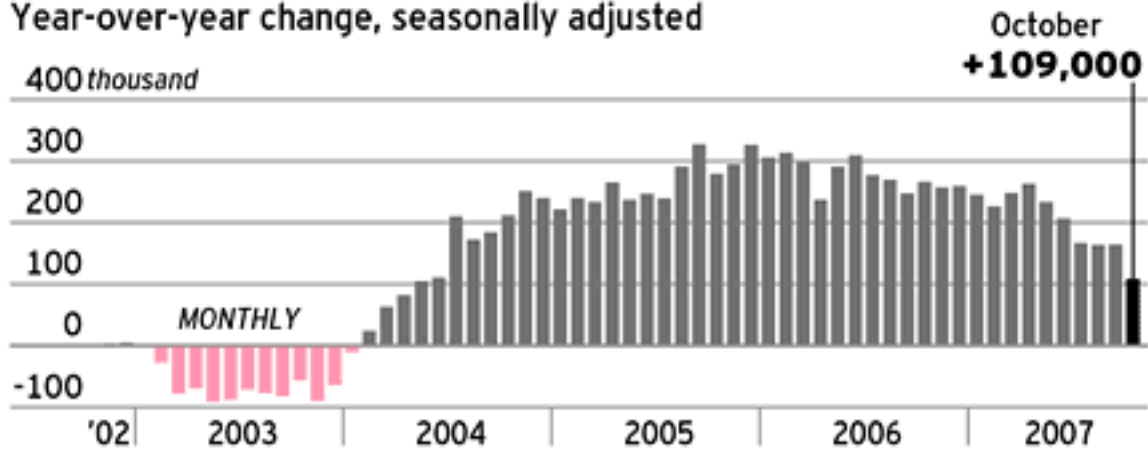
“The civilian labor force includes people like self-employed real estate agents who haven't sold anything for many months, but are getting by on credit cards or with the help of their families,” Cunningham said.

Cunningham said the dip in the labor force means that some self-employed workers – including real estate agents, mortgage brokers and construction contractors – are no longer working and may soon show up on the unemployment rolls.

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California employment growth

Year-over-year change, seasonally adjusted

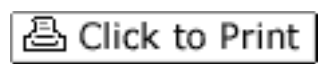


SOURCE: California Employment Development Department

AARON STECKELBERG / Union-Tribune

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