

East Bay Economic Development Alliance Quarterly

JULY 2010

SERVING THE EAST BAY, THE BRIGHT SIDE OF THE SAN FRANCISCO BAY
 INTRO | BAY AREA EMPLOYMENT | EAST BAY EMPLOYMENT | HOME SALES
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EAST BAY QUARTERLY UPDATE

JULY 2010 EDITION

INTRODUCTION

East Bay EDA is pleased to provide the East Bay Quarterly Update, authored by Jerry Nickelsburg, Senior Economist with the UCLA Anderson Forecast.

To view the Bay Area "by the numbers", download the [Quarterly Indicators Sheet for Q2 2010](#). This one-page summary includes GDP, CPI, employment, housing, construction permit, hotel, airline passenger, and foreign trade data.

PDF Versions of this report and UCLA Update Summaries

 [July 2010 East Bay Quarterly Update](#)

 [UCLA California Forecast Update](#)

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The East Bay Economic Outlook: "Got Them Goin' Nowhere Blues"

Jerry Nickelsburg
 Senior Economist and Lecturer
 UCLA Anderson Forecast

"In the corner of the barroom Lives the ghost of Langston Hughes

He's takin' notes and smokin' cigarettes Sippin' slowly on his booze

Got them goin' nowhere blues" ... Robert Earl Keen

Export growth through the Port of Oakland has slowed, residential and non-residential permits remain at historically low levels, home sales have been holding at about 3,000 for the past three months, and importantly the East Bay, unlike California in general or more pointedly San Francisco and Silicon Valley has over the first five months of the year, lost payroll jobs. Like the ghost of Langston Hughes, the East Bay is watching an economic recovery unfolding, but seems to have the "going nowhere blues" itself. This quarterly update on the East Bay economy could be a repeat of the previous one as there are no substantive changes evident in the aggregate data since that time, but beneath the surface we find that "going nowhere" is not synonymous with "never going anywhere." Indeed, the explanation for this sideways move in the East Bay holds some encouraging signs for the future growth and development of the region.

On top of the of 105,000 payroll jobs lost in this recession; December 2009 to May 2010 added a loss of 3,360 more payroll jobs in the region. Breaking it down by sector we find that the continued weakening of the East Bay job market was led by manufacturing with a reduction of 2,900 payroll jobs. Only the trade sector (wholesale, retail, and transportation and warehousing) and the professional and business services and federal government sectors showed any job growth at all. What is curious is that this is an export and manufacturing led recovery and the East Bay should be participating in a substantial way. Across the Bay, Silicon Valley added over 900 manufacturing jobs and San Francisco added another 158 during the same period of time.

But the devil is in the details, and the detail in this case is NUMMI. If one removes the direct impact of the 4,300 NUMMI jobs lost in April, the East Bay added about 1,000 manufacturing jobs and the rate of growth of employment in manufacturing was the highest in the Bay Area. While the closure of this large employer has to have an impact two observations stand out. First, the data suggests that the demise of NUMMI has not as yet had a noticeable ripple effect through the rest of the East Bay, and second, the announcement of a new, 21st century automobile assembly plant on the same site in a partnership between Tesla and Toyota will replace at least some of the jobs lost when the plant was closed by Toyota in April.

Number two in the job loss column is construction. The East Bay sits at the divide between the coastal California and inland California housing markets. In the eastern part of the region the overhang of inventory, continued high foreclosure rate, and more affordable housing close to large centers of employment continues to put downward pressure on housing prices. To the west, real estate markets, though not residential construction, have stabilized and normal price appreciation, even after adjusting for the impact of the federal and state incentive programs has begun. So a turnaround in East Bay residential construction ought to migrate from San Francisco and Silicon Valley to the western part of the region first. As yet, there is no turn in Bay Area construction, but the signs are favorable for the first hiring to occur before the end of the year.

Commercial construction also shows the first signs of a turn-around. Typically a recovery in commercial construction lags a recession by at least 2 years. New commercial construction begins with a business plan, land assemblage, entitlements, engineering, EIR's and other preparatory items which often take several years to complete. That means for substantial new commercial construction to begin in 2013, plans have to already be underway. Much of this initial activity occurs out of the view of typical construction data as these plans may not involve pulling permits or announcements of the intention to build. Indeed, very often developers want to stay under the radar in the early stages of planning, particularly when markets are as bad as they are today. But the Allen Matkins UCLA Anderson Forecast Commercial Real Estate Survey shows optimism on the part of developers with respect to East Bay office and industrial space markets in 2013. This does not mean they have the land or the financing or the entitlements yet, but it does mean that they are now able to put together development plans to pencil and the rest ought to follow.

Finally, the lack of growth in payroll jobs in the East Bay, while important, is not the whole story for the East Bay economy. The East Bay is also a bedroom community for people employed in San Francisco and Silicon Valley. So job growth in the East Bay is not the same thing as an increase in employment for the East Bay. In fact, the data weakly suggest that employment among East Bay residents has been increasing even though East Bay domiciled business has not added any net payroll jobs this year. The evidence comes from the two surveys taken on employment. The first is the Current Employment Survey (CES) which is a survey that utilizes employer reporting data. It measures employment by sector, and is based upon the location of the workplace. The second, the Current Population Survey (CPS) is a smaller sample of households and measures employment and unemployment based on the domicile of the employee. The CPS shows an increase in the number of employed residents of the East Bay this year. That is, we see a growth in employment, a growth in the labor force and a small reduction in unemployment. So where are the jobs that the CPS is reporting? Perhaps that they are self employed individuals or people working in unpaid positions in family businesses. But the CPS would also include those who are employed in San Francisco and Silicon Valley and who live in the East Bay. The difference between the two surveys, which is can be an indicator of this, grew by 10% since the beginning of the year.

So, while the lack of participation thus far in the tepid U.S. economic expansion of 2010 has the East Bay singing the "Going Nowhere Blues", the data do not suggest that the East Bay is stuck for an extended period of time in a no growth situation. Rather as end of the song suggests, the two sectors most responsible for the sideways movement in the East Bay, construction and manufacturing are about to 'leave these going nowhere blues' behind.

[NEXT SECTION: BAY AREA EMPLOYMENT](#)

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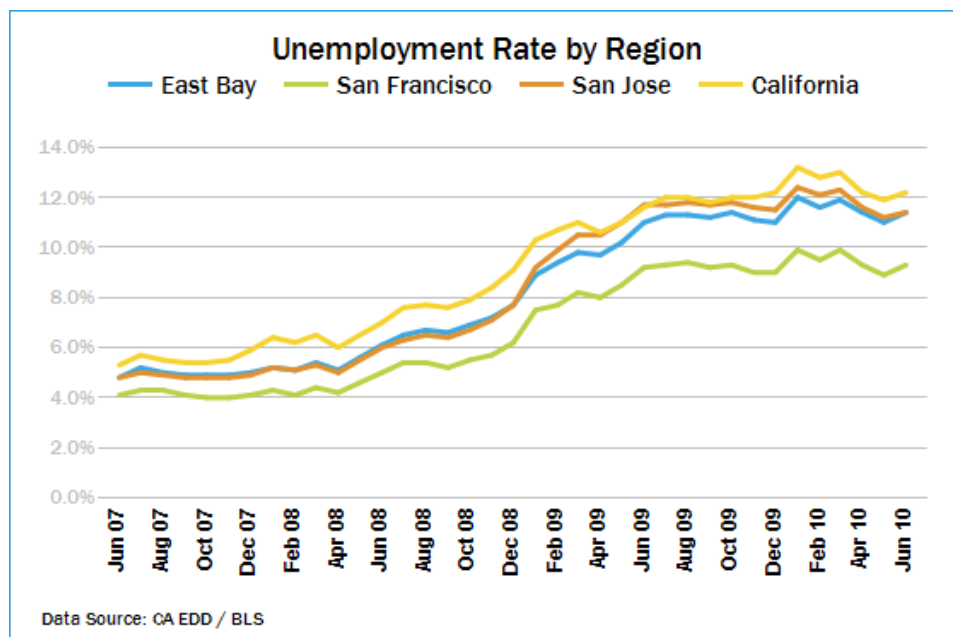
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BAY AREA EMPLOYMENT

BAY AREA UNEMPLOYMENT

The unemployment rate in the East Bay was 11.4 percent in June 2010, up from a revised 11.0 percent in May 2010, and above the year-ago estimate of 11.0 percent. This compares with an unadjusted unemployment rate of 12.2 percent for California and 9.6 percent for the nation during the same period. The unemployment rate was 11.5 percent in Alameda County, and 11.3 percent in Contra Costa County.

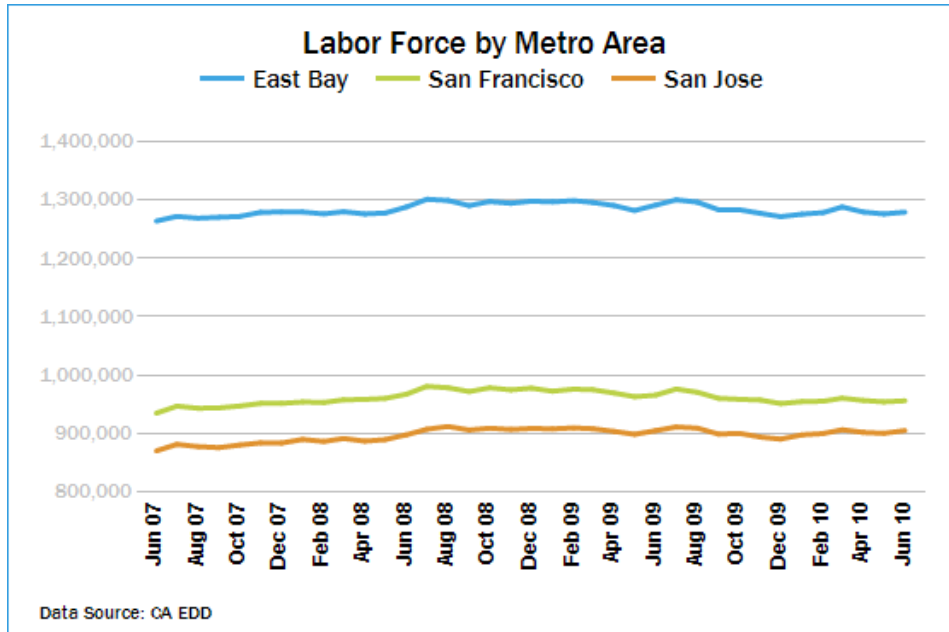
San Francisco's unemployment rate was 9.3 percent in June – up from 8.9 percent in May, and higher than the June 2009 estimate of 9.2 percent. The unemployment rate in San Jose was 11.4 percent in June, up from a revised 11.2 percent in May, but below 11.7 percent in the June 2009 estimate.



BAY AREA LABOR FORCE

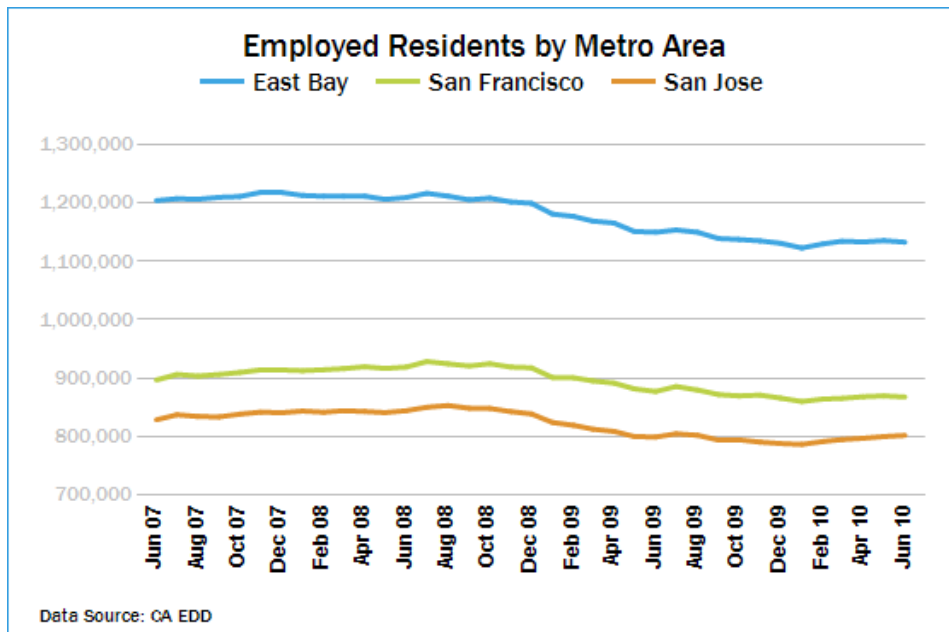
In a month-over-month comparison, the East Bay's labor force (number of individuals currently employed or actively seeking employment) increased by 3,100 workers, increasing to 1,278,800 in June 2010. San Francisco's labor force increased by 1,900 workers, increasing to 955,800 and in San Jose the number of workers increased 4,800, to 904,900 in June. Except for San Jose,

in a year-over-year comparison, each of the Bay Area regions saw a decline in the number of workers. The East Bay had 12,100 fewer workers in June 2010 than in June 2009, San Francisco lost 9,600 workers, but San Jose added 300 workers.



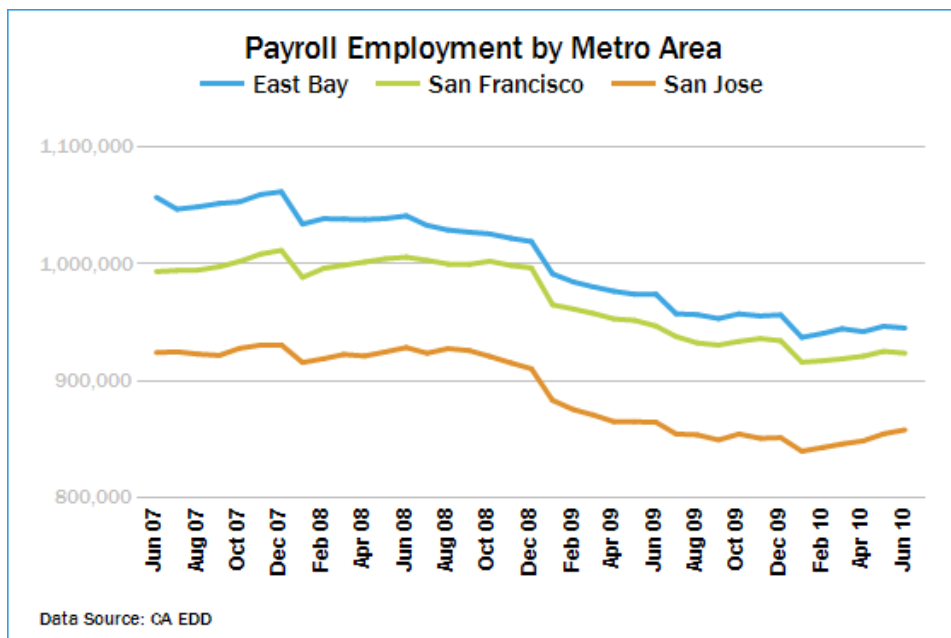
BAY AREA EMPLOYED RESIDENTS

Between May 2010 and June 2010, the number of employed residents (employed persons who reside within the region) decreased 2,600 in the East Bay, decreased 2,100 in San Francisco, and increased 2,100 in San Jose. When compared to June 2009, a year-over-year comparison showed the East Bay with 17,000 fewer employed residents, San Francisco with 9,500 fewer and San Jose with 2,800 more.



BAY AREA PAYROLL EMPLOYMENT

Between May 2010 and June 2010, the East Bay lost 1,500 payroll jobs (number of jobs located in the specified region, not including those who are self-employed), while San Francisco lost 1,600 and San Jose added 3,300. Since June 2009, the East Bay has lost 29,100 jobs, San Francisco has lost 23,300 and San Jose has lost 6,700. A detailed description of East Bay payroll employment by sector follows in the next section.



NEXT SECTION: EAST BAY PAYROLL EMPLOYMENT

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EAST BAY PAYROLL EMPLOYMENT

MONTHLY COMPARISON

According to the California Employment Development Department's Labor Market report, between May 2010 and June 2010, the total number of jobs in the East Bay decreased 1,500 jobs to reach 944,900.

- Government decreased 1,700 jobs, led the month-over job losses. Federal government lost 1,200 jobs, while state public schools lost 1,000 jobs. Local government rose by 500 jobs.
- Educational and health services decreased by 1,500 jobs. Private schools accounted for most of the decline with a decrease of 1,100 jobs.
- Professional and business services, manufacturing, and construction each increased by 300 jobs, well below their usual seasonal gains. Leisure and hospitality also increased 700 jobs seasonally.

ANNUAL COMPARISON

Between June 2009 and June 2010, the total number of jobs in the East Bay decreased by 29,100 or 3.0 percent.

- Construction decreased 5,900 jobs, marking its 38th consecutive month of job losses on a year-over basis. The majority of the decrease occurred in specialty trade contractors with a decrease of 3,700 jobs.
- Manufacturing lost 5,500 jobs, mostly in durable goods, while trade, transportation, and utilities lost 5,500 jobs as well.
- Government decreased 4,200 jobs, as state and local public schools saw 5,200 jobs lost. Federal government with an increase of 2,100 jobs offset some of the decline.
- Other major industries with decreases of at least 1,000 jobs each included professional and business services, financial activities, other services, and information.

	Jun-10	1 Month Change	12 Month Change	12 Month % Change	24 Month Change	24 Month % Change
Educational and Health Services	128,800	-1,500	-800	-0.60%	1,500	1.20%
Information	24,000	0	-1,000	-4.00%	-3,900	-14.00%
Other Services	34,100	-100	-1,100	-3.10%	-2,800	-7.60%
Trans, Warehousing & Utilities	31,800	0	-1,200	-3.60%	-3,500	-9.90%
Wholesale Trade	42,800	-100	-1,200	-2.70%	-5,100	-10.60%
Financial Activities	51,000	100	-1,800	-3.40%	-6,800	-11.80%
Leisure and Hospitality	85,700	700	-900	-1.00%	-6,000	-6.50%
Government	175,400	-1,700	-4,200	-2.30%	-5,500	-3.00%
Manufacturing	76,500	300	-5,500	-6.70%	-17,300	-18.40%
Retail Trade	97,900	0	-3,100	-3.10%	-11,700	-10.70%

Construction	47,900	300	-5,900	-11.00%	-18,100	-27.40%
Professional and Business Services	145,800	300	-2,600	-1.80%	-17,000	-10.40%
Total, All Industries	944,900	-1,500	-29,100	-3.00%	-95,900	-9.20%

INDUSTRY EMPLOYMENT DATA SOURCE: California Employment Development Department

EAST BAY CONSTRUCTION EMPLOYMENT

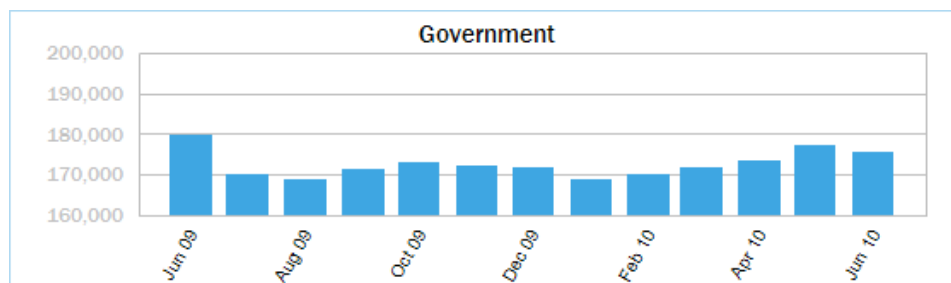
All subsectors of the East Bay's construction sector posted losses in the year-over-year comparison - adding up to a loss of 5,900 jobs between June 2009 and June 2010.

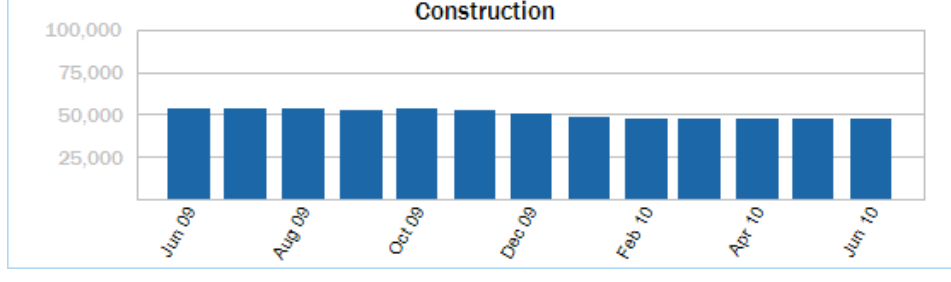
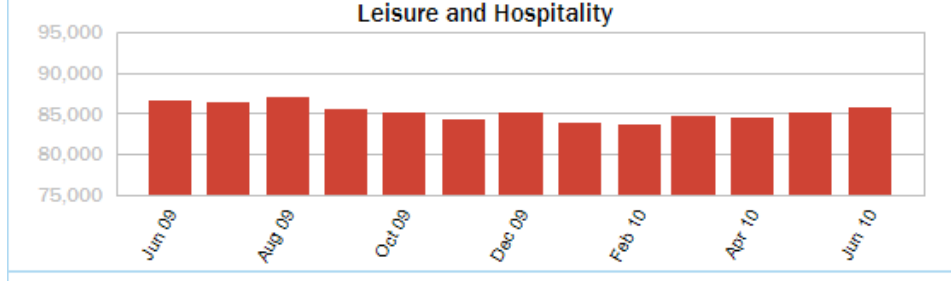
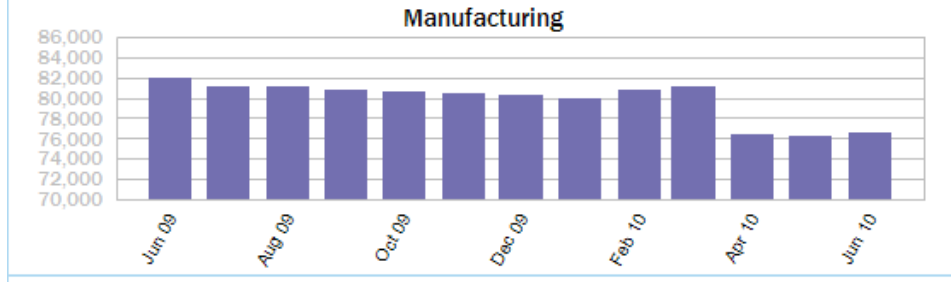
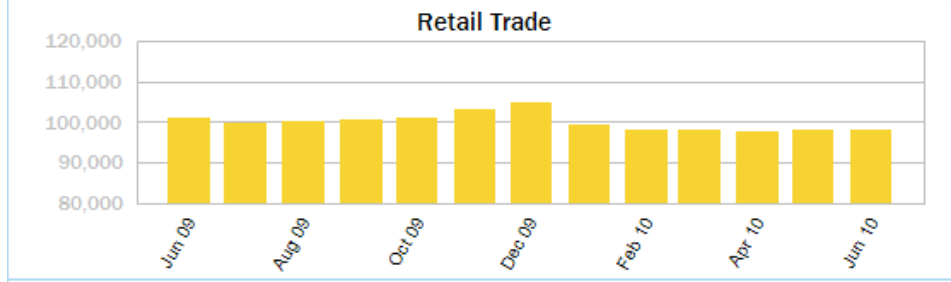
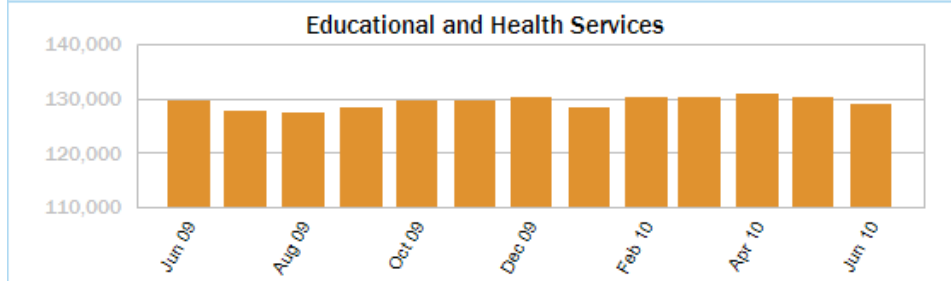
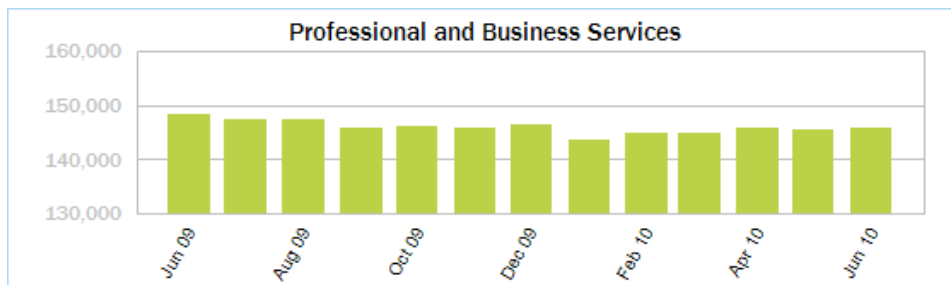
	Jun-10	1 Month Change	12 Month Change	12 Month % Change	24 Month Change	24 Month % Change
Nonresidential Building Construction	4,400	0	-400	-8.30%	-1,400	-24.10%
Building Foundation and Exterior Contractors	7,100	100	-100	-1.40%	-2,300	-24.50%
Building Equipment Contractors	12,600	100	-1,200	-8.70%	-2,400	-16.00%
Residential Building Construction	6,100	100	-1,200	-16.40%	-3,400	-35.80%
Specialty Trade Contractors - Residual	11,800	-100	-2,400	-16.90%	-6,800	-36.60%
Heavy and Civil Engineering Construction	5,900	100	-600	-9.20%	-1,900	-24.40%
Construction of Buildings	10,500	100	-1,600	-13.20%	-4,700	-30.90%
Specialty Trade Contractors	31,500	100	-3,700	-10.50%	-11,500	-26.70%
Construction	47,900	300	-5,900	-11.00%	-18,100	-27.40%

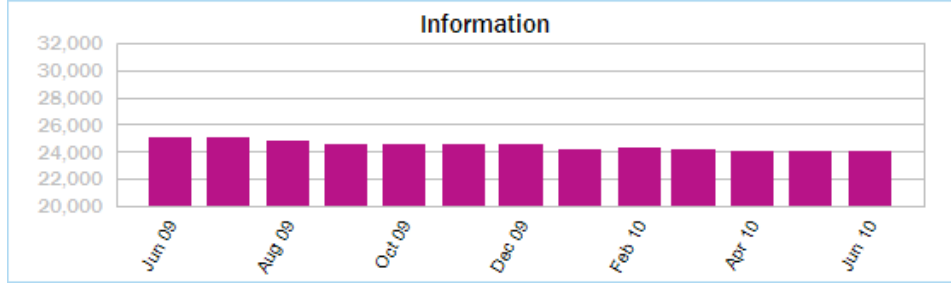
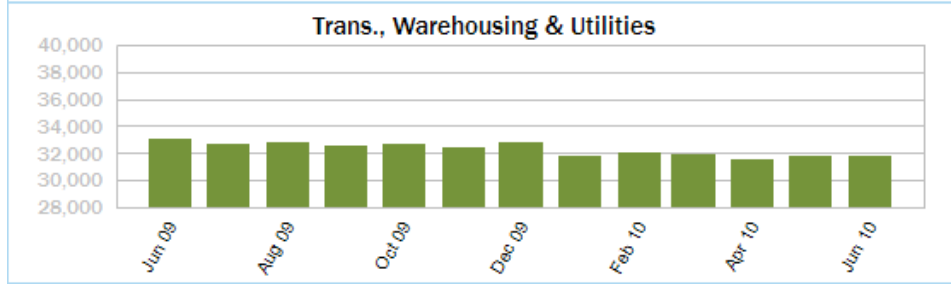
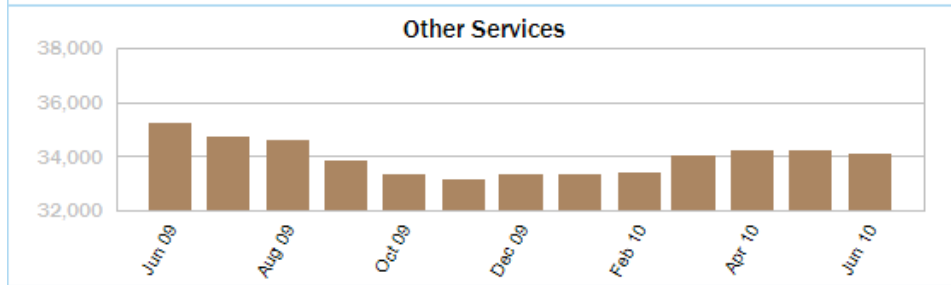
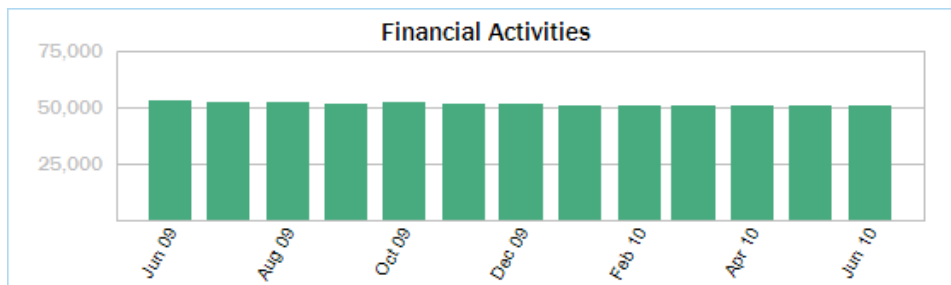
EAST BAY MANUFACTURING PAYROLL EMPLOYMENT

The East Bay's manufacturing sector showed an overall loss of 5,500 jobs between June 2009 and June 2010.

	Jun-10	1 Month Change	12 Month Change	12 Month % Change	24 Month Change	24 Month % Change
Petroleum and Coal Products Manufacturing	8,100	100	0	0.00%	100	1.30%
Transportation Equipment Manufacturing	2,400	0	-4,500	-65.20%	-5,300	-68.80%
Chemical Manufacturing	6,200	100	-200	-3.10%	-700	-10.10%
Nondurable Goods - Residual	17,700	0	-600	-3.30%	-2,400	-11.90%
Computer and Electronic Product Manufacturing	16,200	100	-600	-3.60%	-3,600	-18.20%
Durable Goods - Residual	25,900	0	400	1.60%	-5,400	-17.30%
Nondurable Goods	32,000	200	-800	-2.40%	-3,000	-8.60%
Durable Goods	44,500	100	-4,700	-9.60%	-14,300	-24.30%
Manufacturing	76,500	300	-5,500	-6.70%	-17,300	-18.40%







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BAY AREA HOME SALES

BAY AREA HOME SALES

According to MDA DataQuick, the number of Bay Area homes sold in June was above the month ago level in May, but below the year ago level. This was due to the fading impact of the federal home buyer tax credits. In a year-over-year basis, the median sale price increased for the ninth consecutive month due to fewer low-cost foreclosures being sold and more higher-end homes being turned over this year. A total of 8,373 new and resale houses and condos closed escrow in the nine-county Bay Area in June. That was up 1.3 percent from 7,264 sales in May, but down 3.1 percent from 8,644 sales in June 2009.

In the East Bay, Alameda County's median value was \$400,000 in June 2010 – a 2.6 percent increase from May and a 19.4 percent increase when compared to June 2009. In Contra Costa County the median home value was \$283,500 – a 3.5 percent decrease from May and a 13.4 percent increase when compared to June 2009.

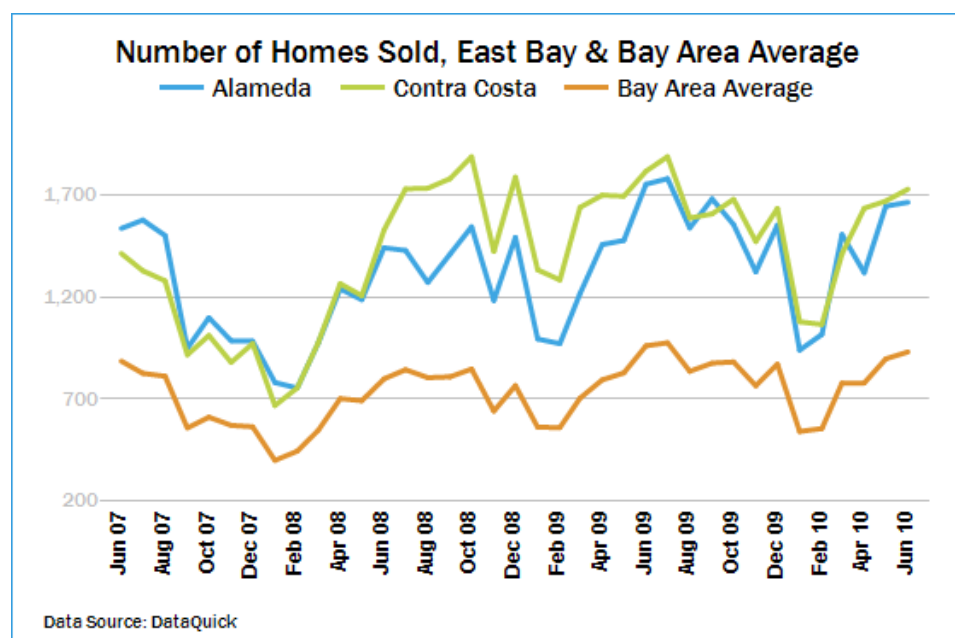
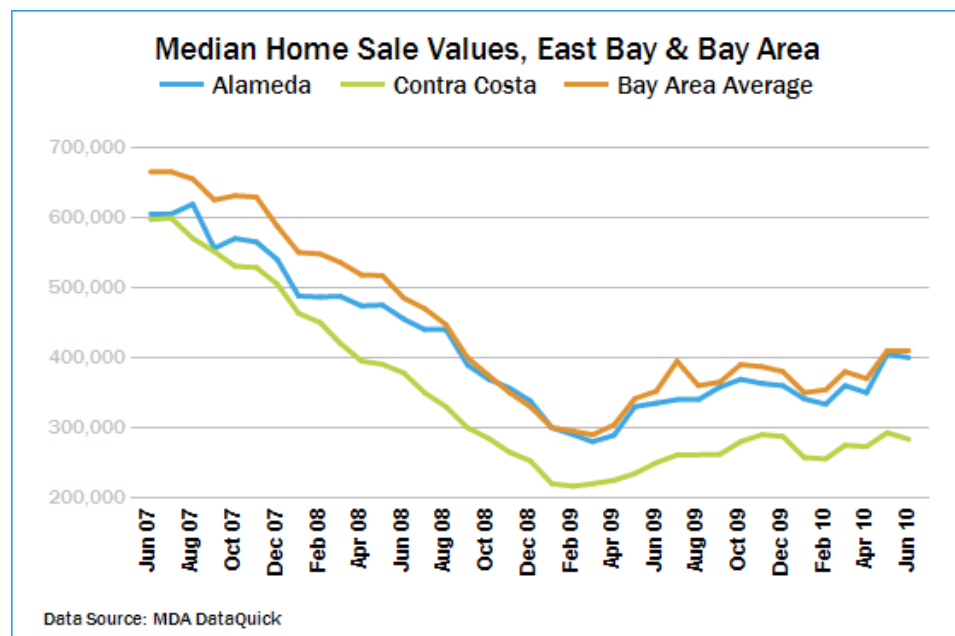
The median price paid for a Bay Area home was \$410,000 in June 2010. That was the same for the month of May, and up 16.5 percent from \$352,000 for June 2009. However, it was still 38.3 percent below the \$665,000 peak in June 2007. June's total sales tally was 17.9 percent below the June average of 10,198 sales since 1988. It was also the third-lowest number of homes sold for the month of June – behind 2008 and 2007 since June 1995.

Foreclosure resales – homes that had been foreclosed on in the prior 12 months – decreased to 26.7 percent of the Bay Area's resale market in June. This was the lowest percentage since April 2008 and considerably less than the February 2009 peak of 52 percent. The historical percentage of foreclosure resales in the past 15 years is 7.9 percent.

All Homes by County	Number Sold Jun 2010	Sales Annual Pct. Change	Median Jun 2010	Median Annual Pct. Change
Alameda	1,664	-5.10%	\$400,000	19.40%
Contra Costa	1,729	-4.80%	\$283,500	13.40%
Marin	289	6.60%	\$698,000	-1.70%
Napa	143	32.40%	\$367,500	3.50%
San Francisco	573	2.10%	\$663,500	18.50%

San Mateo	696	11.90%	\$600,000	4.50%
Santa Clara	1,929	-7.70%	\$527,500	6.10%
Solano	763	-10.30%	\$210,000	13.50%
Sonoma	587	2.80%	\$322,000	7.30%
Bay Area	8,373	-3.10%	\$410,000	16.50%

Source: MDA DataQuick



EAST BAY HOME SALES

County/City/Area	# Sold	Jun-10	Jun-09	% Change
ALAMEDA COUNTY	1,680	\$405,000	\$335,000	20.90%
ALAMEDA	51	\$549,000	\$555,000	-1.08%
ALBANY	17	\$560,000	\$532,500	5.16%
BERKELEY	74	\$650,000	\$557,500	16.59%
CASTRO VALLEY	70	\$489,000	\$425,000	15.06%
DUBLIN	85	\$577,500	\$535,250	7.89%
EMERYVILLE	42	\$313,000	\$250,000	25.20%
FREMONT	278	\$488,500	\$440,000	11.02%
HAYWARD	193	\$275,000	\$233,000	18.03%
LIVERMORE	156	\$419,500	\$405,000	3.58%
NEWARK	45	\$395,000	\$315,000	25.40%
OAKLAND	359	\$290,000	\$200,000	45.00%
PLEASANTON	118	\$704,000	\$580,000	21.38%
SAN LEANDRO	99	\$315,000	\$295,000	6.78%
SAN LORENZO	16	\$302,500	\$300,000	0.83%
UNION CITY	76	\$405,000	\$365,000	10.96%
CONTRA COSTA COUNTY	1,684	\$281,000	\$250,000	12.40%
ALAMO	17	\$995,250	\$1,255,500	-20.70%
ANTIOCH	179	\$190,000	\$190,000	0.00%
BRENTWOOD	136	\$312,500	\$314,000	-0.48%
CLAYTON	7	\$655,000	\$520,000	25.96%
CONCORD	164	\$250,000	\$261,000	-4.21%
DANVILLE	107	\$808,000	\$805,000	0.37%

DISCOVERY BAY	40	\$300,000	\$330,000	-9.09%
EL CERRITO	22	\$541,000	\$512,500	5.56%
EL SOBRANTE	35	\$330,000	\$217,500	51.72%
HERCULES	41	\$333,000	\$280,500	18.72%
LAFAYETTE	34	\$946,250	\$1,025,000	-7.68%
MARTINEZ	65	\$325,000	\$300,500	8.15%
MORAGA	11	\$850,000	\$906,000	-6.18%
OAKLEY	93	\$252,000	\$245,000	2.86%
ORINDA	17	\$1,055,000	\$933,750	12.99%
PINOLE	30	\$280,000	\$264,750	5.76%
PITTSBURG	190	\$160,500	\$140,500	14.23%
PLEASANT HILL	41	\$438,000	\$377,000	16.18%
RICHMOND	110	\$155,000	\$102,000	51.96%
RODEO	7	\$200,000	205,000	-2.44%
SAN PABLO	81	\$174,250	\$126,500	37.75%
SAN RAMON	127	\$610,000	\$628,500	-2.94%
WALNUT CREEK	110	\$428,250	\$530,000	-19.20%

Source: SF Chronicle/ MDA DataQuick

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BAY AREA CONSTRUCTION PERMITS

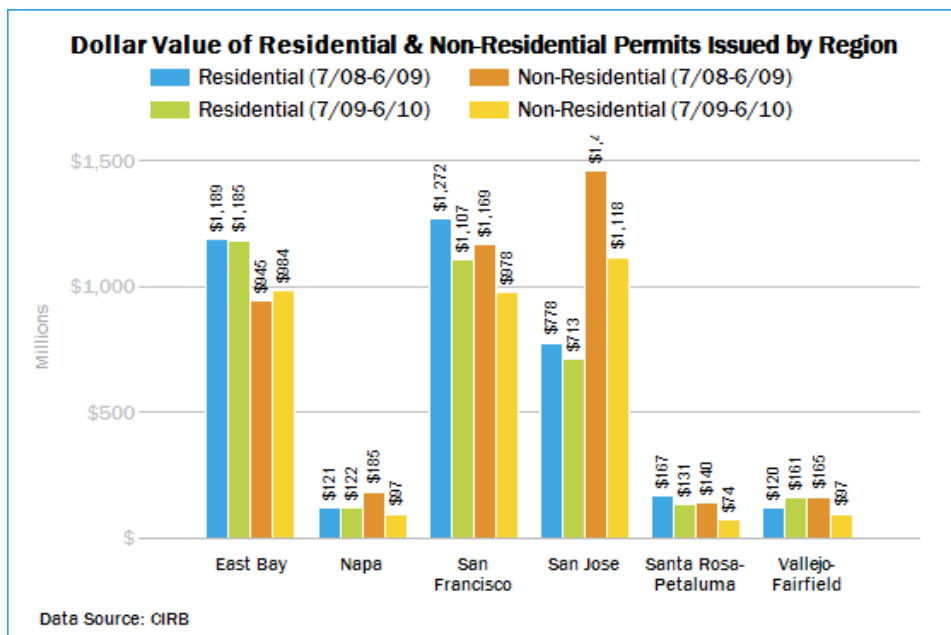
Region	Total Value of Construction Permits 7/09 – 6/10	Annual Change in Total Value of Construction Permits 7/08-6/09 vs. 7/09-6/10	Annual Percent Change
East Bay	\$2,169,022,730	\$35,388,703	1.7%
Napa	\$218,685,255	-\$87,751,523	-28.6%
San Francisco	\$2,084,967,586	-\$356,656,599	-14.6%
San Jose	\$1,831,237,842	-\$409,817,970	-18.3%
Vallejo-Fairfield	\$463,378,518	-\$129,008,661	-21.8%

The following tables and graphs compare the 12-month periods of July 2008 to June 2009 and July 2009 to June 2010.

In a comparison of these two 12-month periods, the East Bay showed an increase in construction permit values, increasing 1.7 percent from the previous period. All other Bay Area regions posted losses during this period, with Napa showing the sharpest decrease of over 28.6 percent over the previous 12-month period.

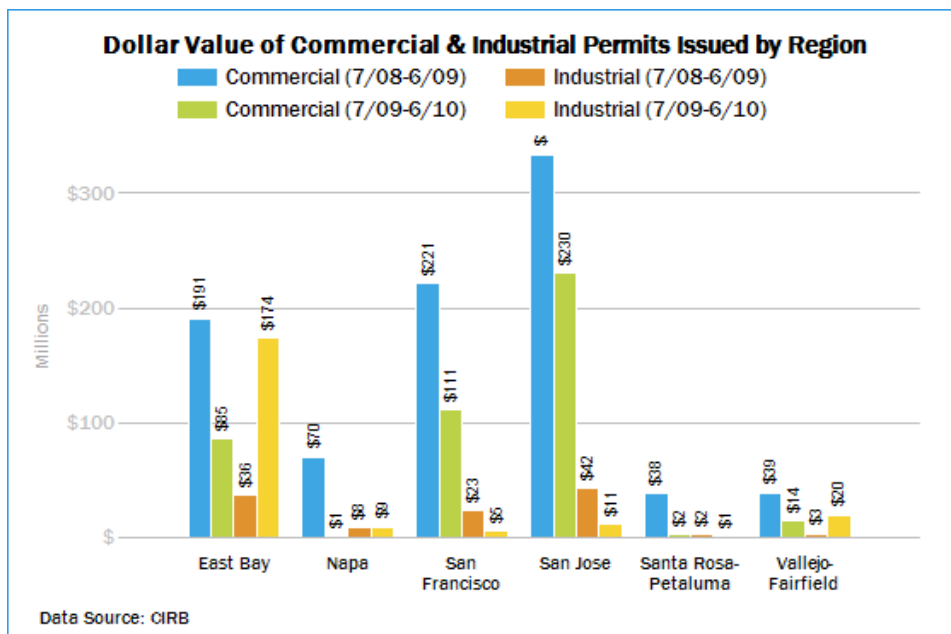
RESIDENTIAL & NON-RESIDENTIAL PERMITS

When comparing the two previous 12-month periods of July 2008 to June 2009 and July 2009 to June 2010, residential permit values fell throughout the Bay Area with the steepest declines occurring in the San Francisco (down 13.0 percent) and San Jose (down 8.4 percent) regions. In the East Bay, residential construction fell 0.3 percent. Non-residential construction permit values also declined overall in the Bay Area regions during this period, falling over 47.6 percent in Napa, but the East Bay saw a 4.1 percent increase.



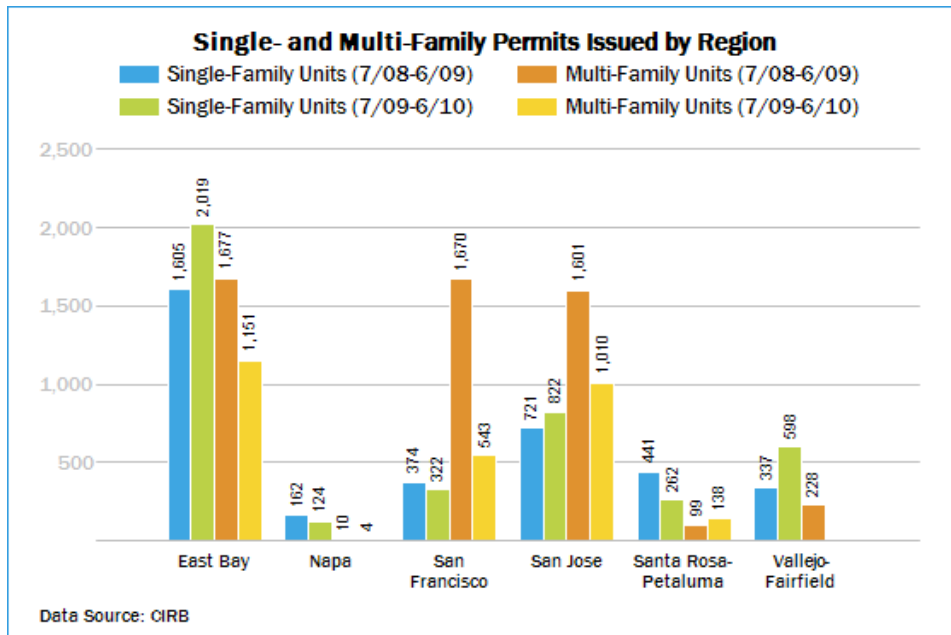
COMMERCIAL & INDUSTRIAL PERMITS

In a comparison of commercial and industrial construction permits issued during the same two 12-month periods, the dollar value of commercial permits issued in the East Bay fell 55.2 percent when compared with the previous period. Commercial building permit values declined throughout the Bay Area during this period, falling most sharply in the Napa region (down 98.2 percent). Overall industrial permit values were actually up during this period in the Bay Area, due to the East Bay and Vallejo-Fairfield, which experienced significant 378.8 percent and 310.4 percent increases. All other Bay Area regions suffered from declines in the same period.



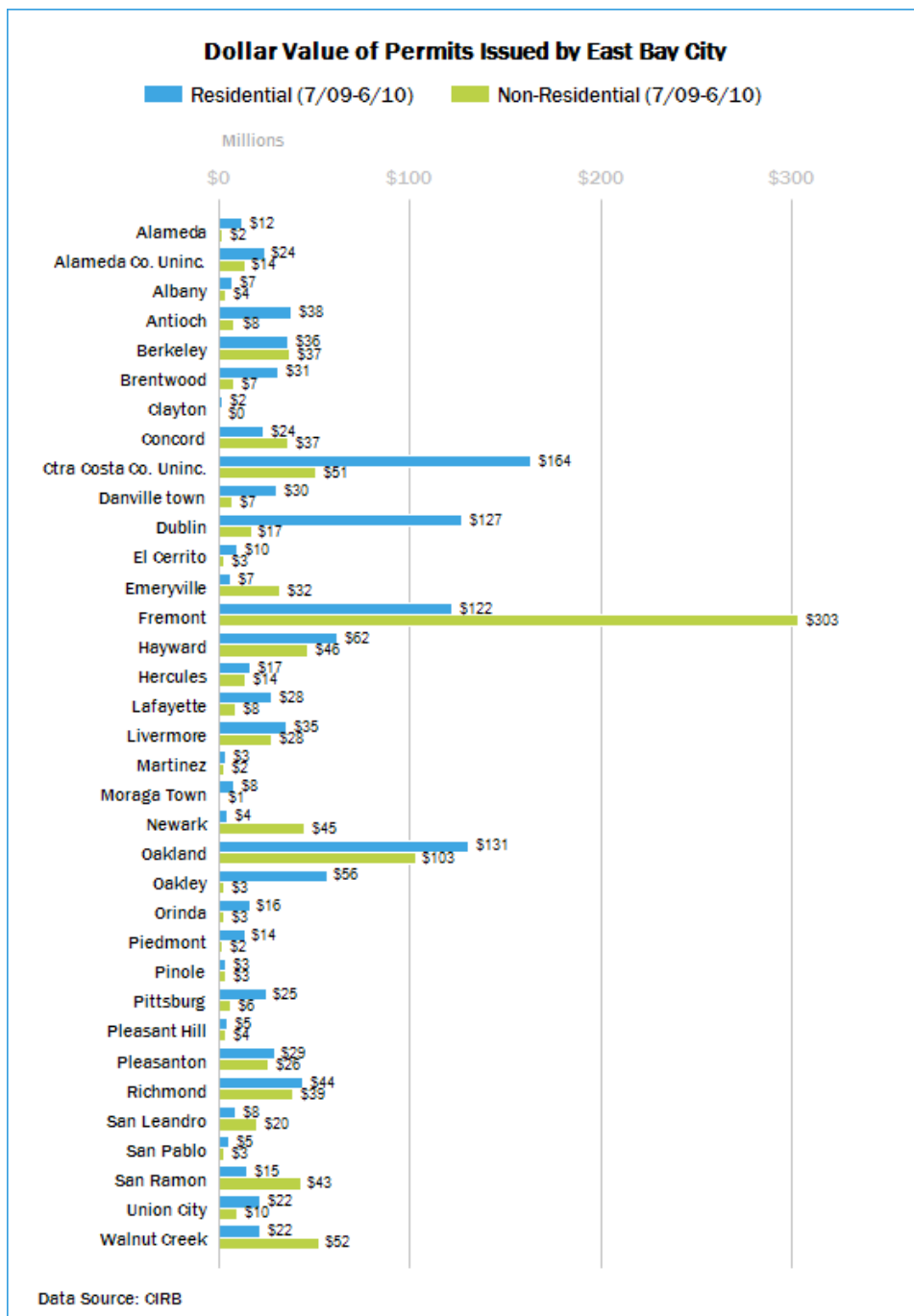
SINGLE AND MULTI-FAMILY PERMITS

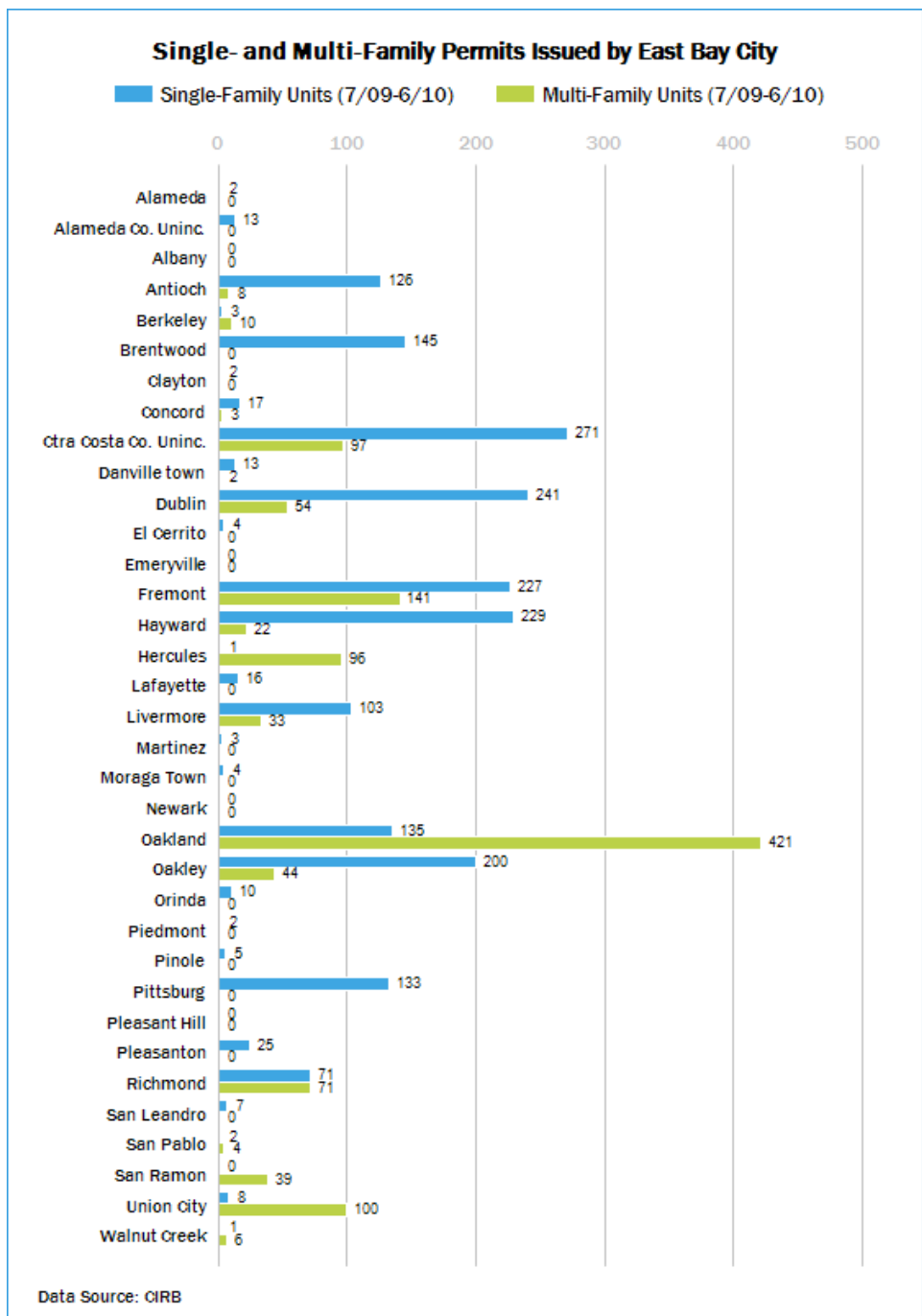
The Bay Area regions saw overall residential construction increases when compared with the previous 12-month period in single-family units, with the East Bay increasing 25.8 percent. However, the Bay Area regions saw overall residential construction decreases when compared with the previous 12-month period in multi-family units, with the East Bay decreasing at 31.4 percent.



EAST BAY CONSTRUCTION

The following charts show the number and value of single, multi-family, residential and non-residential construction permits issued in East Bay cities for the twelve-month period ending June 2010.





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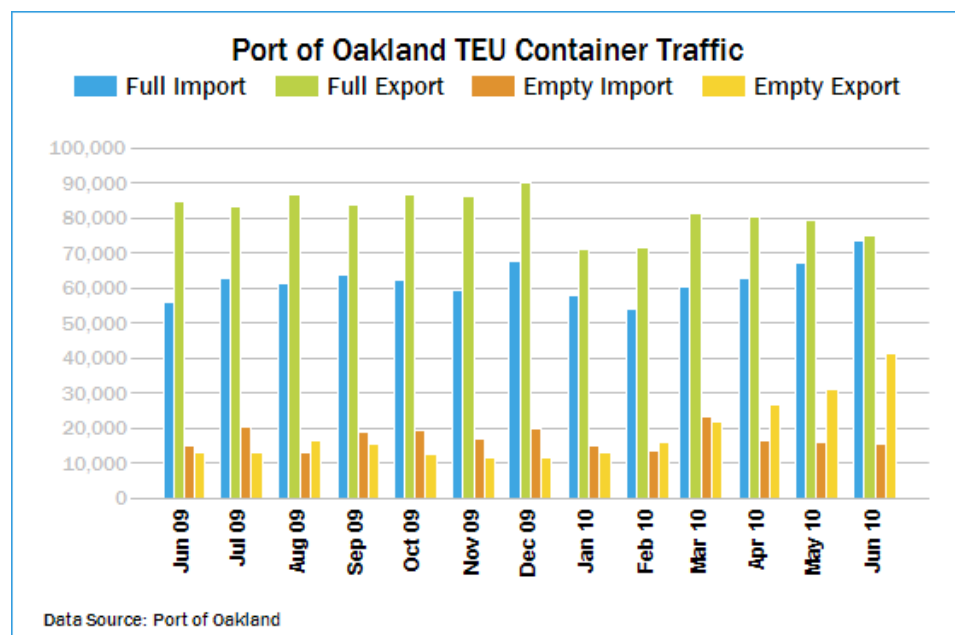
JULY 2010

SERVING THE EAST BAY, THE BRIGHT SIDE OF THE SAN FRANCISCO BAY

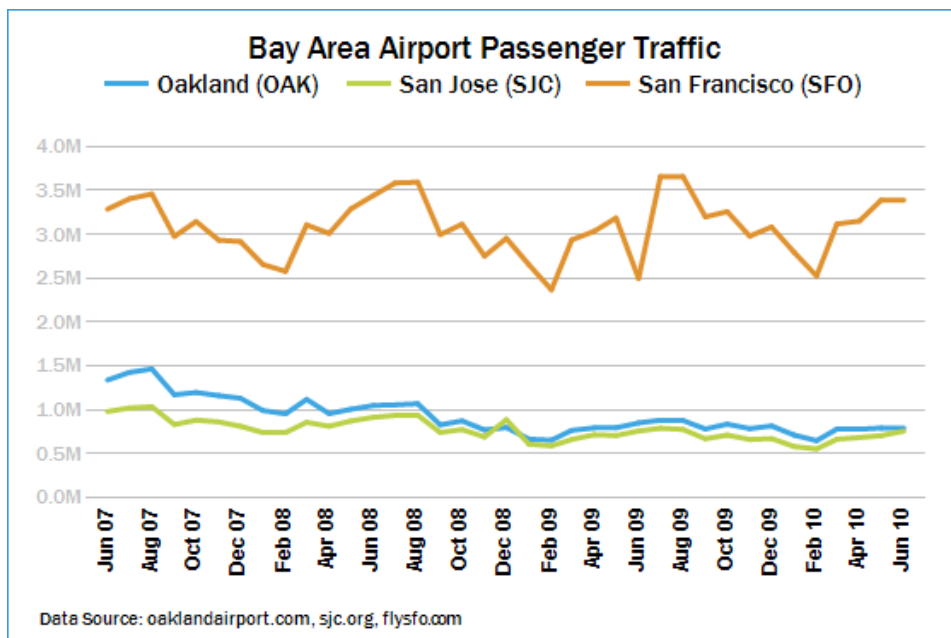
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TRADE & TRAVEL



Traffic of full import containers traveling through the Port of Oakland increased at 30.8 percent between June 2009 and June 2010, while full exports decreased 11.5 percent. Empty container imports increased at 0.2 percent and empty exports increased 209.9 percent.



At Oakland International Airport, ridership increased 1.7 percent between June 2009 and June 2010. Traffic through San Francisco International increased 45.3 percent annually, and at San Jose Mineta Airport traffic decreased 0.3 percent during the same period.

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CALIFORNIA: A BIFURCATED RECOVERY

Jerry Nickelsburg
 Senior Economist
 UCLA Anderson Forecast
 July 2010

It has been three months since the last California report and California is growing again. But the landscape of the California economy is virtually unchanged. Employment is growing, albeit at very low rates, housing markets are continuing to stabilize, and exports through California's seaports and exports are continuing to grow. The state government remains embroiled in a budget crisis while state and local governments are continuing to shrink. The only significant event affecting the California economy over the last three months is the weakening growth in California's export economies.

Specifically, California will grow slower than the U.S. and a slow recovery in jobs will leave unemployment at 12.1% for the year. The latter of our forecast calls for the health care, professional and business services, export, construction and technology-related manufacturing sectors to generate a bit more robust growth in California. Even though the state will grow more rapidly in the following two years, job creation will not be fast enough to push the unemployment rate below double digits until 2012. Unlike other deep recessions, the rapidity of the recovery, at least on the employment front, will be muted.

Housing Markets and the East West Divide

The experience in California's housing markets from December 2008 to June 2009 was one of excess supply. Supply to the market was dominated by foreclosed properties and sales levels were over 50% higher by mid-year. In all coastal and inland markets home prices were falling. As more houses were foreclosed on inland, the intensity of housing market stress continued to be greater away from the coast, but this was a matter of degree rather than kind. In the summer of 2009, three-and-a-half years after inflation-adjusted home prices began to fall, market conditions changed. In the coastal markets housing prices begin to rise. Even after one accounts for the subsidies driving demand in late 2009 and early 2010, the prices paid by new homeowners exceeded those paid the previous month. In addition, year-over-year increases in home sales occurred in all of the coastal markets except San Francisco. Thus, the market found a bottom, shifted from a supply-driven to a demand driven market.

For the inland cities, no such change occurred. Though some of the price data show an appreciation in a few inland cities, the appreciation is less than would be expected with the state and federal incentive programs. As the number of NOD's in the inland markets is still higher than those experienced in the coastal markets prior to those markets improving, there is no evidence that inland housing markets will find their bottom and change to a demand-driven markets anytime soon.

The implication of this analysis is straightforward. At a minimum, there is no reason for further contraction in residential construction on the coast. Indeed, new or restarted projects are being discussed up and down coastal California. Once they begin construction, the recovery in residential construction jobs will begin. Inland, the implosion continues and will remain a drag on the inland economy through 2010.

Private Sector Labor Markets: Where are the Jobs?

The past three months have confirmed our March analysis of California labor markets. There has been a steady net growth in jobs in 2010, but the increase has been quite small. From December 2009 to April 2010, California has added 63,900 private sector payroll jobs. While this is good news, it pales compared to the 1,349,000 private sector payroll jobs lost in the recession.

Importantly, some of the recession job losses are permanent and will have to be replaced by the creation of different kinds of jobs. The 250,000 excess jobs in construction and 60,000 sub-prime mortgage processing jobs arrived as part of the housing bubble and have left with it. The geography of job increase mirrors somewhat the geography of the housing bubble. Manufacturing, health care and education have begun to grow along the coast at a rate that offsets weakness elsewhere in these regions. But the improved labor market conditions inland have not begun to generate net job gains.

Public Sector Employment: More Pain on the Way

One aspect of the California economy that has not changed in the past quarter is the budget shortfall, or more importantly the imbalance between government employment and the revenues which support it. Three years of revenue shortfalls imply a correction on the order of a reduction in public service employment of 130,000 jobs. Since the beginning of fiscal '08, state and local employment has contracted by 62,000 jobs and there are many more "full-time equivalent" jobs hiding in the government furloughs of the last year. The budget negotiations are currently being conducted in Sacramento and where the cuts will ultimately be made is still difficult to ascertain. With impending expiration of the temporary tax hikes designed to close part of the gap in fiscal '08 and '09, these cuts will need to be long lived. .

The California Forecast

The current forecast differs from the previous one in as much as the demand for California goods from Europe is apt to be a bit less than before, and because the fall in the value of the Euro and the projected slower growth in Asia will impact California's exports to Asia. However, the impact of these recent events, while measurable, is not large. The net effect is a forecast which is not qualitatively different from our last two forecasts. Overall, the outlook for the balance of the year is for little to no growth. The economy will begin to pick up slightly in the beginning of 2011 and by the middle of 2011 begin to grow at more normal levels.

The recovery from this recession will be driven by education, health care, exports and technology and to some extent by growth in residential construction. The first four are more heavily centered in coastal California and are currently generating net job growth for these sub-regions. The latter will begin to generate jobs along the coast in the near term, but there will be little new activity inland until the housing markets turn. Thus, economic growth in California will be bifurcated with an early recovery along the coast coexisting with continued economic doldrums to the east.

On an annual basis our expectation is that total employment in California will contract by -1.1% in 2010. Once employment growth returns in 2011 employment will begin to grow faster than the labor force at a 2.0% rate and the unemployment rate will begin to fall. Real personal income growth is forecast to be 1.1% in 2010 and 2.9% and 4.1% in 2011 and 2012 respectively.

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A HOMELESS RECOVERY

Edward Learner
 Director
 UCLA Anderson Forecast
 July 2010

Historically, U.S. recoveries with exceptional growth and very favorable job markets have been driven by an expansive consumer buying homes and cars after sitting on the sidelines for a year or more. That is unlikely this time. Our forecast is for a frugal consumer powering tepid growth, especially symbolized by steady but slow improvement in the housing market. Thus it is only somewhat inaccurate to use the rhetoric: A homeless recovery.

Though GDP began growing in the third quarter of 2009, the labor market produced relentlessly bad news until January 2010 when a paltry increase of 16,000 private sector jobs was a great relief. The 16,000 was followed by four months of ever better news, culminating with a 218,000 private sector job gain in April 2010. But in May, we are back to disappointment: only 41,000 private sector jobs.

What's going on? Where are the jobs? Will the recovery be strong enough to put Americans back to work and drive down that unemployment rate which is now at 9.7, compared with 4.5 before all of our troubles began? Or will we have normal growth of 3%, strong enough to maintain the unemployment rate about where it is, but not strong enough to drive it down substantially. To answer the question, we first need to study carefully the past. The following section discusses our attempt to do just that with the resulting data shown in Table 1 and highlights of some of the key details following.

A Frugal Consumer, not an Expansive Consumer

Although we call it a business cycle, it usually has been a consumer cycle with sharp declines in consumer spending on homes and cars driving us into our recessions, followed by delayed and reluctant declines in business spending first on equipment and software and last the long-lived business assets: offices and factories. If the next year is going to bring exceptional growth, consumers will need to express their optimism in the way that really counts – buying homes and cars. And that is not going to happen if businesses continue to express their pessimism in the way that really counts – by not hiring workers.

What now makes the future hard to see is that we are experiencing a structural adjustment layered on top of a long-delayed consumer downturn. If it were just a consumer downturn, the growth prospects would be exceptional. The structural adjustment will hold us back in ways hard to predict.

One might think that since consumer durables spending and residential investment, two very volatile components of GDP have fallen from their normal shares of GDP to all-time lows that a return to normal would mean we are poised for some exceptional growth. Not likely. Consumption overall, which is often said to be 2/3 of GDP, was 2/3 in the early 1990s but has elevated relentlessly to its all-time high of 71% of GDP in the third quarter of 2009, more than offsetting the recent decline in consumer durables. As we move that consumption share down to a level appropriate to an aging America, the consumer will not be the driver of a recovery like she has been.

Expect the recovery to march relentlessly forward, at a good pace, but not a really great one.

Summary Table

Table 1 summarizes the prospects for growth ahead and the experience so far in the recovery since the third quarter of 2009. This table decomposes total GDP growth into contributions from each of the GDP components.

Table 1. Gap Between Current and Trend, Difference Between Recovery So Far and Normal Recoveries

	Normal (1)	Gap (2)	Gap Order	Recovery (3)	Comment
GDP	3.08	-9.42		-2.25	
Imports	-0.94	5.26	13	-1.07	
Residential Investment	0.14	-3.01	2	-0.92	Likely to remain troubled
Consumer Services	1.27	-2.46	4	-0.67	
State and Local	0.31	-1.73	5	-0.52	Likely to remain troubled
Business Structures	0.09	-0.60	8	-0.46	Likely to remain troubled
Consumer Durables	0.61	-2.69	3	-0.26	
Consumer Nondurables	0.47	-1.36	7	-0.18	
Federal Nondefense	0.05	0.10	10	-0.12	
Net Exports	-0.29	3.57	12	0.15	
Federal Defense	0.11	0.33	11	0.17	
Equipment and Software	0.61	-3.49	1	0.17	
Inventories	0.03	-0.45	9	0.39	Likely to get weaker
Exports	0.65	-1.69	6	1.22	

(1) Normal Contribution to GDP Growth, SAAR (2) Gap is the 2010Q1 cumulate minus the normal cumulative

(3) Recovery is the 2010q1 three-quarter cumulative contribution minus the recovery normal

The first column of Table 1 reports the normal contribution to GDP growth over the period from 1947Q2 to 2007Q4. The biggest contributor to normal growth is consumer services which has a normal contribution of 1.27. Residential investment makes a tiny normal contribution of only 0.14.

The second column of Table 1 records the gap between the cumulative actual contribution and the cumulative normal, thus indicating how much above or below the normal trend is each of the components. The third column records the order of these gaps. GDP is now 9.42 percent below normal trend. We need 9.42 excess growth to get us back to the GDP trend in addition to the 3% per year normal. If we were to get it all back in 5 years, that would require GDP growth of almost 5%, 2% above the normal 3% for five years.

The data indicate that GDP overall has been growing in this recovery 2.25 percent points less than a normal recovery of 5%. The biggest contributor to that negative is imports, which properly interpreted is a symptom of strength of consumer spending. The real weakness is in residential investment, and consumer services, and state and local government and business structures. The strength is in inventories, and equipment and software. The inventory gap which was large has shrunk considerably, which means there is little more that this component can do. Setting that back to normal we lose 0.39 of exceptional growth. That is enough to offset some of the likely improvement in consumer services, but the rest is likely to remain pretty much the same, with continued weakness in residential investment, state and local government, and business structures. That adds up to GDP growth that is about 2% slower than a normal recovery, thus 3%, not 5%.

Bottom Line Here

We see the year ahead producing continuing economic growth approximately 3% which is the long-run growth rate but substantially smaller than the historical recoveries averaging 5%. Our forecast is similar to the sluggish recoveries from the 1990 and 2001 recessions. With this weak economic growth comes a weak labor market and unemployment slowly declines to 8.6% by 2012. Tepid growth leaves plenty of excess capacity, subdued pricing power and very little inflation. This will allow the Federal Reserve to postpone interest rate increases that the forecast expects to come late this year or early next, as the sustainability of a modest recovery becomes clear and as the need for preemptive action against future inflation begins to dominate monetary policy decisions.

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