

## No "R-Word" for Valley

FORECASTS SAY AREA'S ECONOMY WILL DO BETTER THAN 'SLUGGISH' STATE, U.S. IN '08

BY PETE CAREY

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California will manage to avoid sliding into a recession even as the credit crunch and housing meltdown take their toll on jobs and growth.

A number of economists and studies predict the state will squeak by with sluggish growth and revive toward the end of 2009, while the nation's economy endures what one forecast called a "near-recession experience."

At the same time, Silicon Valley and the Bay Area are performing better than the state or nation because of rising global demand for high-tech products.

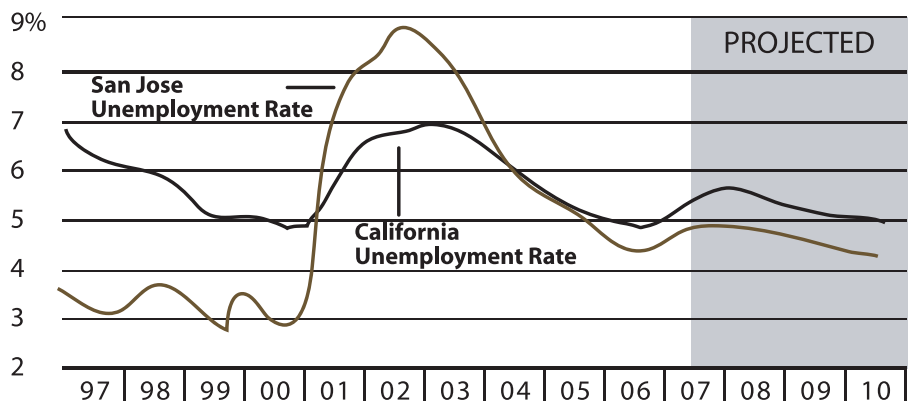
"The Bay Area economy is actually the bright spot in California," said Ryan Ratcliff, an economist with the University of California-Los Angeles Anderson Forecast, which released a report today.

The collapse of the subprime loan market unfolded with dizzying speed over the summer. Mortgage defaults and foreclosures soared as borrowers found themselves unable to make payments on adjustable-rate loans, major lenders announced layoffs and stopped making many loans, and the housing industry experienced a decline in sales and in prices in some markets.

The question has been whether increasing mortgage-interest rates will shrink consumer spending and slow the economy even further.

### Unemployment rate on the mend

Silicon Valley is doing better than the state, as this unemployment chart illustrates. It should continue to do well on the strong demand for its high-tech products



So far, the impact has been relatively small, according to the UCLA forecast and one released by the University of the Pacific Business Forecasting Center.

"The consumer continues to spend," said Sean M. Snaith, who helped prepare the University of the Pacific's California and Metro report, which foresees a decline in housing prices through 2008 that "will not remotely resemble a bursting bubble."

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UCLA's Anderson Forecast on the California economy also found "little evidence that mortgage defaults have led to wider financial distress for consumers."

Defaults on home loans will peak in the first half of next year, the UCLA study said. Real estate markets will continue to be a drag on California growth for at least a year to come. But the economy should return to more or less normal levels of growth in 2009.

UCLA's economists are predicting "sluggish" growth but "no recession" in California, though they added that "the difference between the two is getting smaller all the time."

Nationally, UCLA foresees 1 percent growth in the national economy for the next two quarters, with spending on consumer goods shrinking some.

Silicon Valley and the Bay Area are outperforming the state and nation in terms of job growth, said Stephen Levy of the Center for Continuing Study of the California

Economy. The growth of newer Internet industries and the potential for growth in green technology are fortifying the economic base, he said.

“No question about it, we’re slowing a little,” Levy said. But the valley’s economy is “carried by the world, so the U.S. recession will hurt us, but will not take away the luster.”

Northern California is experiencing strong job creation, confirmed Ken Rosen, chairman of the Fisher Real Estate Center at the University of California-Berkeley, while other parts of the state like Orange County and the Central Valley are in or near recession.

“It’s a role reversal,” Rosen said. “Northern California is the strong part and Southern California, where the mortgage business is centered, is weakening.”

The short-term outlook for the San Jose area isn’t too bad, according to the University of the Pacific’s forecast. It said the region should see slowing job growth through the rest of this year and next, shedding about 6,500 jobs in the manufacturing, construction and information sectors before posting gains in these sectors in 2010.

Those losses will be more than balanced by hiring in the rest of the economy, giving the region a “solid” job growth of 1.1 percent between 2008 and 2010, UOP said, while the San Jose region’s unemployment remains below 5 percent.

“By and large the soft landing is still the story,” the UOP’s Snaith said. “It’s been a more turbulent landing that we would have liked, and it’s going to be little longer before we take off again.”

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