

# SANTA BARBARA NEWS-PRESS



## South Coast economy resolute, expert says : Forecast: Santa Barbara's situation "boringly steady"

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Economic momentum on the South Coast may not be strong in the year ahead, but it will be steady. As for home values -- the single largest economic asset of many county residents -- any kind of rebound in prices and sales activity may still be a year away.

Those were two of the predictions delivered by Bill Watkins, executive director of the UCSB Economic Forecast Project, who presented his annual report and forecast for the 28th year running before an estimated 600 people at the Lobero Theatre on Thursday.

"Things look boringly steady on the South Coast," thanks largely to Santa Barbara's tourism industry, which he said is doing well and generating job growth, albeit not high-wage positions. "It'll be a very good (tourism) year driven by a weak dollar."

Mr. Watkins predicted that a large number of international visitors will fuel the tourism industry as they capitalize on the stronger currencies in Europe and Asia.

A declining dollar also enhances exports, such as wine and other commodities from Santa Barbara County, he said.

Retail-wise, Mr. Watkins predicts that the South Coast will remain a desirable market for purveyors of speciality merchandise, especially along the State Street corridor.

North County, normally the area's economic engine, has lost jobs in each of the past two years.

Because of the decline in home construction and softening retail sales, which are affected by the housing market, North County faces a challenging economic environment, Mr. Watkins said, adding that 85 percent of the foreclosures were in North County communities, negatively impacting property tax collections and sales tax receipts.

Mr. Watkins' data, which is compiled in a 500-page report, does note some positive trends for the North County in 2008, one of which will be at Vandenberg Air Force Base, which he said is adding missions; improved wine sales due to bad weather in other winegrowing regions around the world, such as Australia; and the revival of a number of abandoned oil fields due to the spike in crude oil prices.

The county's job growth during the past two years has mainly occurred in the Santa Ynez Valley, thanks in part to expansion at Chumash Casino, according to the report.

Kirk Lesh, a real estate economist who participated in the forum, addressed trends in the residential real estate segment. In terms of the single-family home forecast, the real median price countywide will decline by 11.1 percent in 2008; sales countywide will also decline 9.1 percent, he said. On the South Coast, the real median price will decline by 3.5 percent and the number of sales is predicted to decline 2.5 percent, said Mr. Lesh, whose data were drawn from surveys by the California Association of Realtors and the Multiple Listing Service.

Since the turn of the century, 50 percent of the new jobs in California were created by the real estate sector, said Mr. Lesh, who cited the demand for construction workers and mortgage industry professionals. In the fourth quarter of

2007, the median price of existing single-family homes in California fell nearly 16 percent from the fourth quarter of 2006, the largest single decline in 24 years. Sales of existing homes in the fourth quarter plunged 36.5 percent from the year earlier.

Data compiled by the UCSB forecasters indicates a potential turnaround in 2009 countywide, with 4.3 percent sales growth and 1.3 percent price growth.

Santa Barbara County's strong sectors for jobs in 2007 have been "other" services (1,442 new jobs), the public sector (942 new jobs) and agriculture (442 new jobs). Mining for oil and natural gas has shown a high growth rate, but this reflects a very small base, according to the report. Transportation, warehousing and the utilities sector also showed small gains in 2007.

Every other sector lost jobs in 2007. The weakest were the finance, insurance and real estate sector and the durable manufacturing sector, with job losses of 492 and 250, respectively.

Public-sector employment is relatively large, with 19 percent of county jobs, compared with a 16 percent average statewide. This sector's job growth will not continue in 2008 or 2009, said Mr. Watkins. The county's large government sector puts it at particular risk due to the looming California budget crisis, he said.

Indeed, the state's volatile economy will result in more job losses in the year ahead; Mr. Watkins predicts an unemployment rate above 6 percent in 2008, higher than the estimated 4.8 jobless rate forecast for Santa Barbara County.

"California's budget situation -- a \$14.5 billion deficit is projected -- is another reason that its economy will be weaker than the United States'," said Mr. Watkins, who once worked for the Federal Reserve in Washington, D.C. He predicts a relatively mild recession for the Golden State through most of 2008.

There will be another impact from California's budget woes, said Mr. Watkins.

"At the present time we don't know who will pay for the deficit. Will users of government services see these services cuts? Will consumers face higher tax rates? Will businesses see higher tax rates? The fact is that at this point, no one knows."

The upshot of all this uncertainty is that it will restrain business investment in the state, further weakening the economy, concluded Mr. Watkins.

Nationwide, he said that if the U.S. does fall into a recession, it will be a short and mild one. The forecast notes very slow economic growth nationwide in 2008's first quarter, zero growth in the second quarter, and then a slow acceleration.

"In any event, it will feel like a recession to most," said Mr. Watkins.

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