



THE TIMING OF RECOVERY IN SOUTHERN CALIFORNIA

by Mark Schniepp

The U.S. economy is currently in recovery. California should show some semblance of economic growth in the 4th quarter of this year and surely by March of 2010.

There is going to be a lag due to the unique problems facing California, resulting from the lack of (1) restraint on public spending and (2) a rainy day fund. Recently the state legislature has made tens of billions of dollars of budget cuts that will impact public sector employment and services.

The public sector aside, no net gain in private sector employment is forecast for the coastal economies for the next 9 months. Job creation actually resumes in the late spring of 2010, appears more convincing in 2011 and is more "regular" in 2012. A normal labor market is necessary for a more normal housing market to occur.

The housing sector needs to rebound because it represents a large engine of economic activity in California. As housing expands so will the general economy.

If history is our guide and repeats itself, the pace of home sales in Southern California will increase, and sharply over the next 2 to 3 years.

If History is our Guide

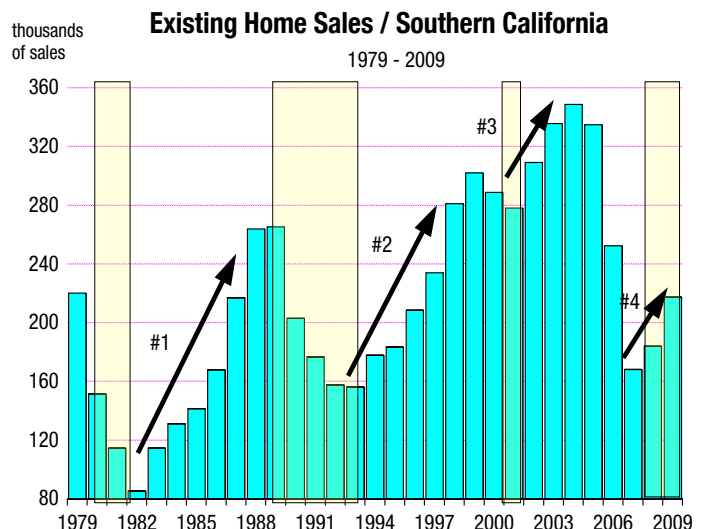
The housing market always expands immediately following recessions. The chart of home sales for Southern California indicates by the yellow shaded areas the last 4 recessions (since 1980). Following the 1980-82 recession, volume was up sharply (see arrow #1). Following the 1990-91 recession, sales did not rise because the recession did not end in Southern California. When it did, sales rose slowly at first and then sharply between 1993 and 1998 (arrow #2). The housing recovery strengthened as labor markets began to create jobs from 1996 to 1999.

Following the 2001 recession, sales also increased between 2001 and 2004 (arrow #3). Top-heavy selling values

and rising interest rates produced a difficult environment for home purchases throughout California after 2004. A very weak housing market led the economy into recession in 2008. We are seeing more volume this year (arrow #4), implying that the beginning of a stronger recovery is just starting.

Expected Timeline for Recovery: Southern California

- Home prices are stabilizing as foreclosures decline this year.
- Selling values will begin rising again, no less than one year following the end point (month) of the general recession in California.
- The general economic recovery in California will lag the nation by one quarter. Consequently, recovery occurs no later than the winter of 2010, with more convincing evidence by the spring of 2010.
- Home sales are rising now in Southern Santa Barbara County for condominiums and for lower priced single family homes. In the Santa Maria Valley, sales are soaring, largely due to fire-sale priced distressed



homes. This is also true in the Inland Empire, the Antelope Valley, and Northern Orange County.

- More broad-based participation by all price ranges of the housing market will occur in 2010, providing mortgage rates and credit market conditions remain favorable.
- The likelihood that mortgage rates will remain competitive into 2010 is high. The Federal Reserve will unlikely increase rates over the next 9 months, to insure that the recovery evolves into a firm expansion of economic activity.
- The likelihood that credit market conditions will continue to ease is very high. They are already easing now. Mortgage rate spreads have narrowed and bank lending standards are no longer tightening. Consumers are saving. There is less leverage in the economy.
- The likelihood that the economic stimulus will be impacting the economy is very high by the end of 2010.
- The likelihood that the trauma in labor markets is over by early 2010 appears highly probable, and job creation is forecast to be positive in California during calendar 2010.
- Between now and the end of 2010, our forecast for Ventura, Santa Barbara, Orange, and San Diego County housing markets is as follows:

- Selling values will have stabilized at current (or slightly higher levels by the end of this year. Stability of selling values applies to all areas even the hardest hit housing markets.
- Selling value reversals produce higher prices going into 2010 but values remain well below the record high reached in 2005 and re-tested in the Spring of 2007.
- We forecast 20 percent more sales during the second quarter of 2010 than during the second quarter of 2009. Sales continue to expand in 2011.

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Los Angeles Times, September 16, 2009, front page
Already there are hopeful signs in the Southern California economy with a recovery in housing and a rebound in export traffic at the Ports of Los Angeles and Long Beach. The recession is no longer intensifying and private sector labor markets are stabilizing.

- The gradual increase in selling values in the aftermath of the 2008-2009 recession is consistent with the 1990-95 recession that severely impacted California and prolonged the recovery in home values.
- Prices bounce up because distressed sales no longer dominate the mix of sales and therefore the median selling price after 2009.
- More conventional sales move prices higher, though not excessively. By mid-2012, selling values return to 2004 levels, a gain of approximately 30 percent from the lowest levels recorded earlier this year.

California Economic Forecast Upcoming Conferences

Orange County
October 29, 2009
Hyatt Costa Mesa

Northern SB County
November 17, 2009
Santa Maria Fairpark - Wagering Center

Northern LA County
(Santa Clarita Valley)
November 20, 2009
TBD