

EastBay

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2010



ECONOMIC OUTLOOK



**Created for the
East Bay Economic Development Alliance**

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The East Bay Economic Outlook: “Got Them Goin’ Nowhere Blues”

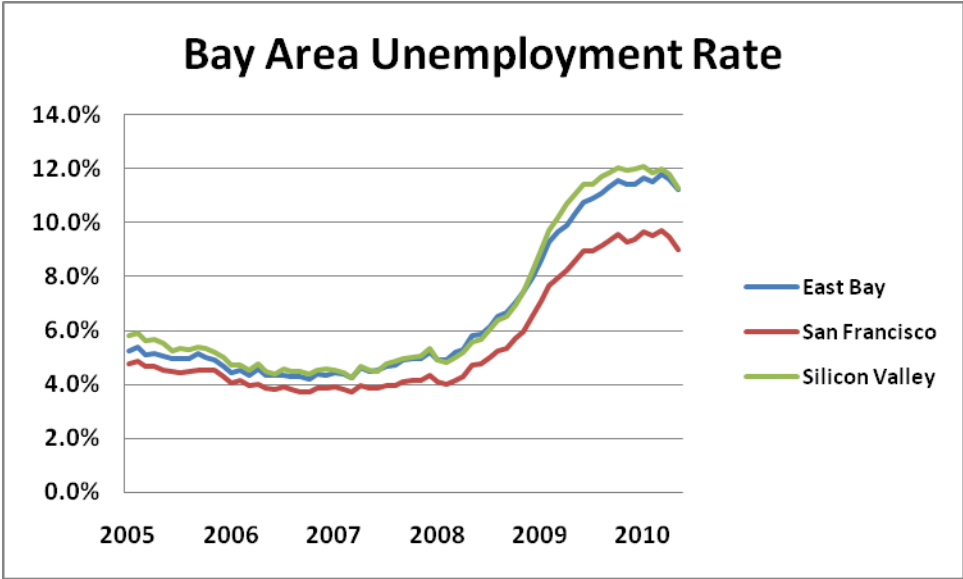
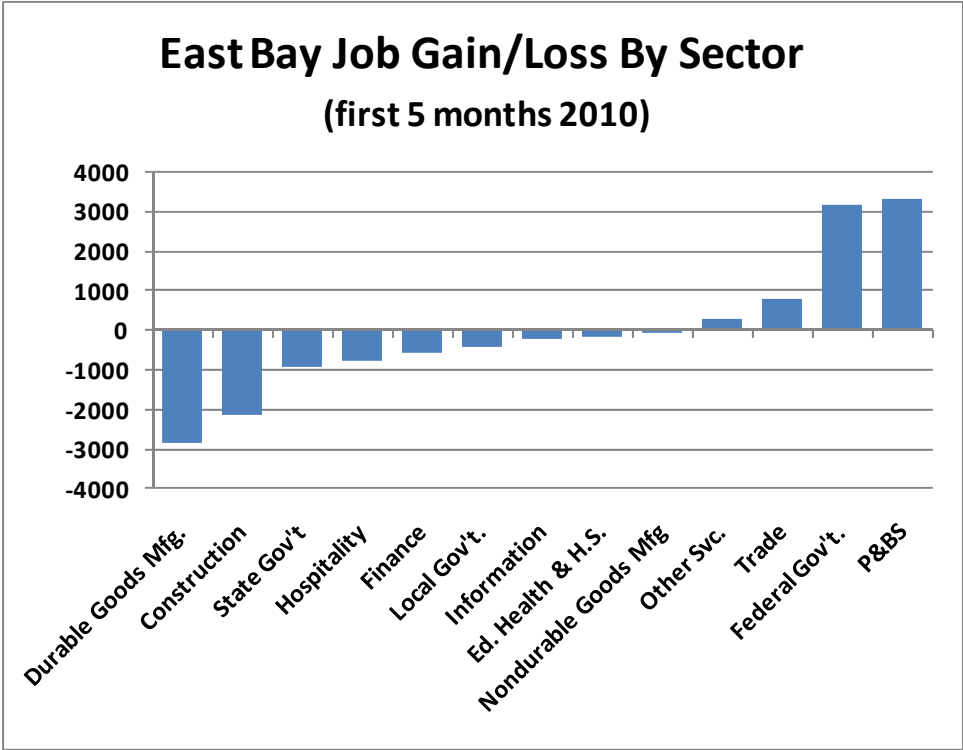
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“In the corner of the barroom Lives the ghost of Langston Hughes
He's takin' notes and smokin' cigarettes Sippin' slowly on his booze
Got them goin' nowhere blues¹” ... Robert Earl Keen

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.

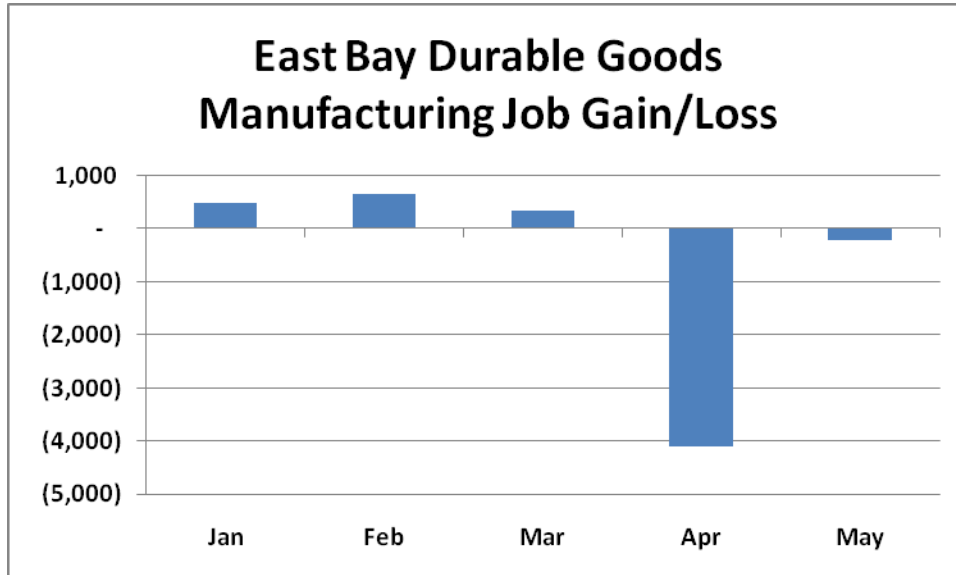
On top of the of 105,000 payroll jobs lost in this recession; December 2009 to May 2010 added a loss of 3,360 more payroll jobs in the region. Breaking it down by sector we find that the continued weakening of the East Bay job market was led by manufacturing with a reduction of 2,900 payroll jobs. Only 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.

¹ Robert Earl Keen, “Going Nowhere Blues,” Gravitational Forces, Lost Highway Label 2001.



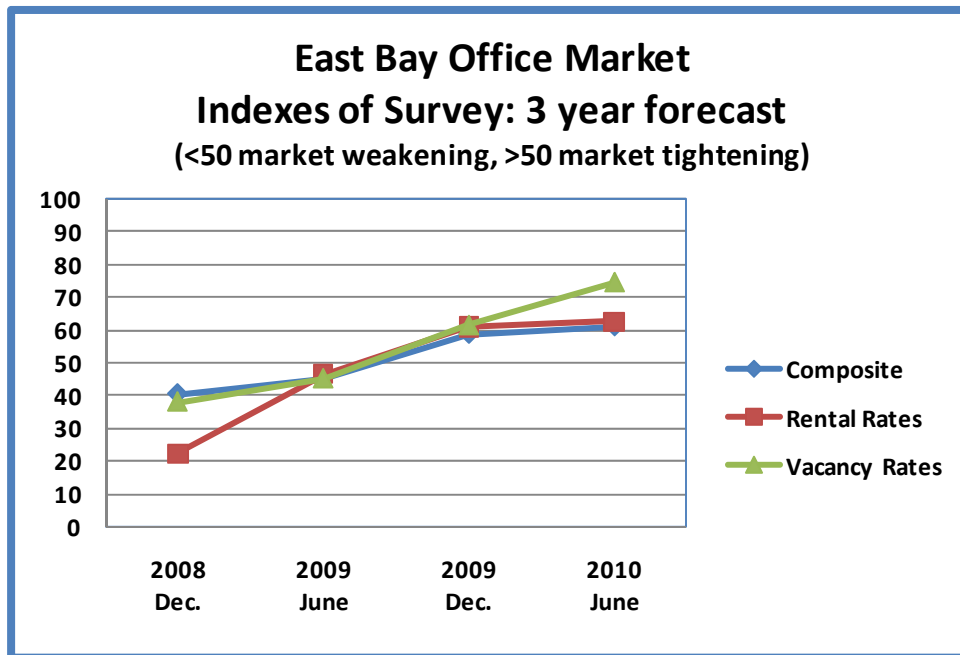
But the devil is in the details, and the detail in this case is NUMMI. If one removes the direct impact of the 4,300 NUMMI jobs lost in April, the East Bay added about 1,000 manufacturing jobs and the rate of growth of employment in manufacturing was the highest in the Bay Area. While the closure of 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.