San Diego Economy

Supplement to: THE DAILY TRANSCRIPT®
SAN DIEGO'S BUSINESS DAILY

sddt.com/sdeconomy10

Friday, May 21, 2010 / Vol. 125, No. 101

Unemployment picture improving, but job market remains competitive

By REBECCA GO
The Daily Transcript

The outlook on San Diego unemployment is much brighter than it has been in months, with one caveat — any decline in the unemployment rate will be at a crawl.

"We'll still see double-digit unemployment rates for the rest of the year," said Gary Moss, labor market analyst for the San Diego Workforce Partnership. "And that's only half the problem ... there are 160,000 chasing those jobs. It's a real competitive job market."

Historically — and barring a recession — monthly unemployment rates for the county hit their annual highs early in the year and during the summer: Holiday employment ends at the beginning of the year, and in the summer, most teachers are off and the labor force swells with students looking for jobs.

Still, most experts are hopeful that the 11 percent unemployment rate the county saw in March is the peak for San Diego. Unemployment data for April is scheduled for release today.

Silver linings abound, experts say. For instance, most agree the unemployment rate edged upward in March because more people returned to the labor force to look for jobs, suggesting a renewed optimism.

Also, job creation turned positive in February; industries are adding jobs rather than shedding them. The county added more than 6,000 jobs in March, the most in two years. And while jobs added remains less than half a percent of the employed in San Diego, "at least it's positive," Moss said.

Local online recruitment activity has also increased, according to **Monster**'s San Diego Employment Index, which increased by 6 percent in March.

Temporary staffing agency **Manpower San Diego** (NYSE: MAN) has also seen increased demand for its employees. Companies that were hiring maybe one to two workers at a time are now hiring between five and 10, said Phil Blair, president and co-owner of Manpower San Diego.

"The temporary help industry is

See **Job market** on 4

San Diego business outlook

By JENNY ROSS
The Daily Transcript

The San Diego economy is no longer contracting and is now on a slow path toward recovery, according to a *Daily Transcript* survey sampling business leaders in San Diego County.

The survey revealed that expectations are more optimistic, with 96.7 percent of respondents saying general business conditions will be better than or equal to the previous six months.

Compared to a *Daily Transcript* survey in October, expectations for an increase in companies' capital spending rose to 35.6 percent from 23 percent. Only 16.7 percent of business leaders expect a decline in capital spending, compared to 33.3 percent in October of last year, while 47.8 percent expect capital spending to remain constant over the next six months.

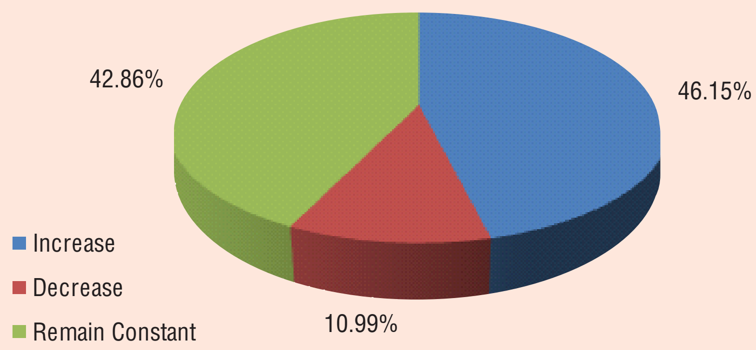
Adjusting for seasonal variations, the survey showed 47.3 percent of San Diego business leaders expect net earnings after tax to increase in the next six months, 14.3 percent expect to see a decline and 38.5 percent expect net earnings after tax to remain constant.

According to business leaders, prices will be stable over the next six months. The majority of business leaders, 74.4 percent, plan to make no change to the average price of their goods and/or services. Inflationary pressure should be moderate, with only 19.8 percent of business leaders expecting to increase prices, and the county should see a minimal drop in prices

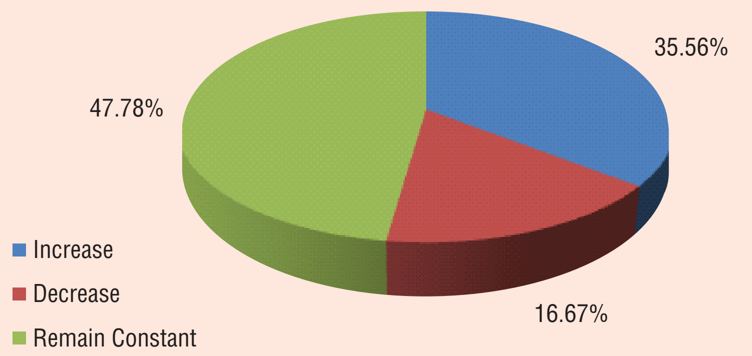
See **Outlook** on 6

San Diego Business Survey

Do you expect your company's employment level to increase, decrease or remain constant in the next six months?



Do you expect your company's amount of capital spending to increase, decrease or remain constant in the next six months?



Real estate unlikely to pull region out of deep recession

But experts 'cautiously optimistic' about housing stability, uptick in some markets

By JILL ESTERBROOKS
Special to the Daily Transcript

Real estate is unlikely to pull the region out of its deep economic funk, but some local experts are "cautiously optimistic" about housing supply and pricing stability as well as a slight uptick in other key commercial and industrial market indicators.

Depending on how you read them, a slew of recent industry reports may indicate the San Diego real estate meltdown of recent years is showing signs of softening.

For instance, county home values are rising and sales are picking up speed, according to the latest figures compiled by San Diego-based **MDA DataQuick**.

Commercial real estate loan defaults haven't hit the roof as predicted, and local banks and thrifts aren't shuttering their doors by the barrel-full, reports **CoStar**.

To boot, there's a $3 billion construction boom now under way at Camp Pendleton and other military bases around the county as more armed forces move from the East Coast to the West Coast, notes regional planning agency San Diego Association of Governments (SANDAG).

'Shot in the arm'

Despite these glimmers of hope, real estate isn't likely to lead San Diego's sluggish economy out of this current recession anytime soon, says Marney Cox, chief economist at SANDAG.

"We're seeing a really slow turnaround in part because real estate isn't playing its typical role of reviving the economy," he said. "The turbulence is starting to subside on the residential side but there's still more shakeout to come in commercial and industrial."

Instead of real estate revving up the economy as in the past, he sees "international trade and government spending driving us down the road to recovery."

Other than the platoon of military projects — ranging from hospitals and housing to training facilities and communications headquarters — there's not much new construction happening in the region.

"This one-time big shot in the arm from defense spending comes along at a really good time," Cox said. "For each new military construction job, 1.5 additional jobs are created."

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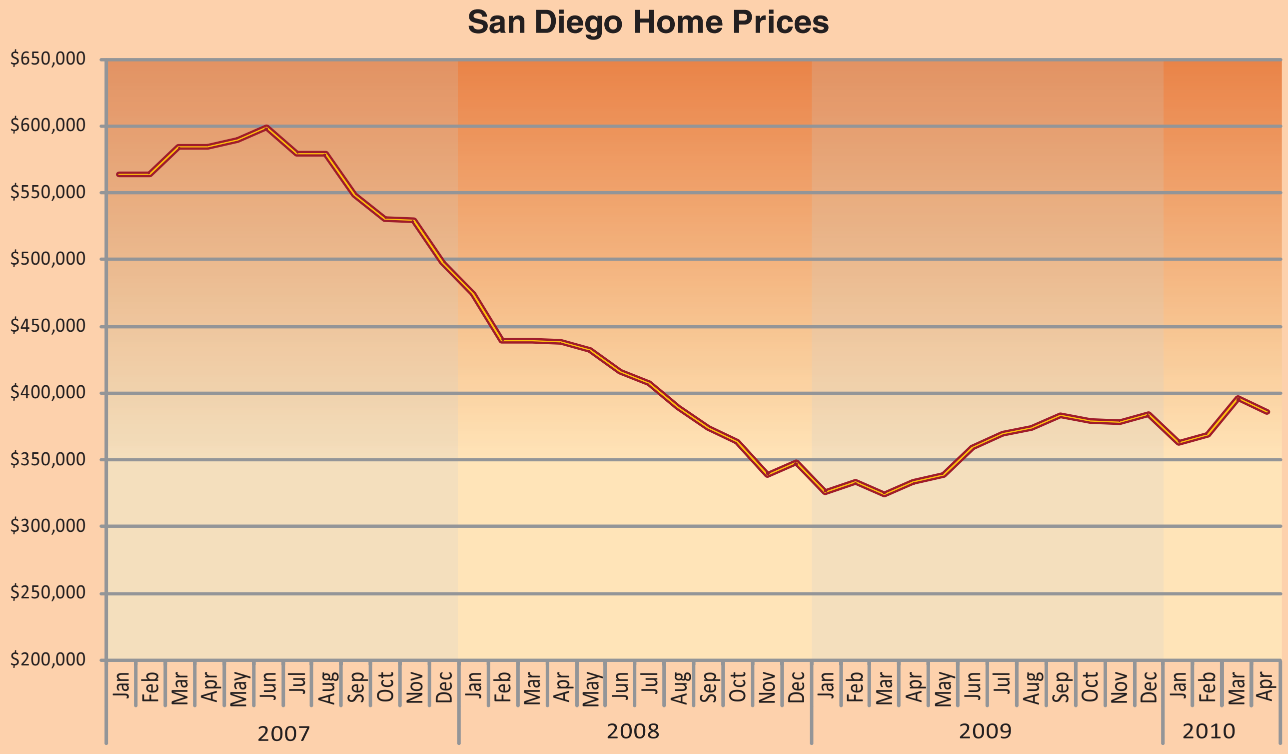
San Diego Home Prices



The median price of a detached home in San Diego County decreased 2.5% to $387,000 in April, pushing prices 15.5% higher than one year ago. There were 1,681 detached homes sold in April. Home prices have been fluctuating slightly month to month, and the dip from March to April is not cause to think the market is taking another slide. The decline in home sales is temporarily due to buyers wanting to double up on the first-time homebuyer tax credits offered by the federal government and California, according to SDAR President Mark Marquez.

Source: San Diego Association of Realtors

Consumer spending, leading economic indicators point to slow recovery

By GEORGE CHAMBERLIN
Executive Editor

You really have to give American consumers a lot of credit.

With Europe in turmoil, housing still a question, the job market struggling to make up lost ground, and major Wall Street firms under investigation, you would think they'd be hunkering down.

But shoppers here in San Diego and across the country seem to have emerged from two years of hibernation and are anxious to lead the economy in recovery.

Take, for instance, **Lowe's** (NYSE: LOW), the home improvement store chain that operates 1,694 stores nationwide and seven in San Diego County. It reported on Monday sales in the first quarter of 2010 rose 4.7 percent, to $12.4 billion.

"Consumers are showing signs of re-engagement in home improvement, including discretionary projects and purchases of bigger ticket products, which had taken a back seat during the worst of the economic downturn," said CEO Robert Niblock, who also gave credit to the government economic stimulus efforts and good weather in March and April.

Lowe's and other housing-related retailers like **Home Depot** (NYSE: HD), suffered severely during the recession as home prices plunged and foreclosures soared. Households were unlikely to pour money into their homes if they were at risk of losing the property.

While there are still areas of concern, at least one local economist believes we may have turned a corner.

"If the local economy did not bottom out at the end of 2009, it likely did in the first part of 2010," said Alan Gin, a professor at the University of San Diego who releases a monthly report on leading economic indicators for the San Diego region.

The index has now advanced for 12 months in a row, an impressive performance considering that it had been down for 35 of the 36 preceding months, a signal back then that the economy was headed for some very difficult times.

A key component in Gin's Index of Leading Economic Indicators for the San Diego region is a corresponding index for the nation compiled by the Conference Board. Its most recent reading confirms that the economy is picking up steam, albeit at a modest pace.

"The indicators point to a slow recovery that should continue over the next few months. Improvement in employment and income will be the key factors in whether consumers push the recovery on a strong path," said economist Ken Goldstein, commenting on the report that showed a 1.4 percent increase in the LEI in March, taking the index to an all-time high.

If all of this enthusiasm for future growth were a lone indicator of better things to come it would be worrisome. But, the emergence of the consumer is a confirming sign.

For instance, the National Retail Federation reported recently that sales in the past two months have increased 5.6 percent as consumers shopped for an early Easter and the arrival of spring.

"The slow road to recovery is turning into a sprint as retailers experienced a nice bounce in April. Spring shopping and seasonal weather helped boost sales last month. Spending on discretionary items had fallen by the wayside these last few years, and we are encouraged to see consumers dipping into the pot once again," said the federation's CEO, Matt Shay.

But what do all of these indicators say about the San Diego economy? Thanks to changes that have taken place over the years, the local region is now well diversified, making it easier to ride out cycles.

"We have a very healthy mix of several industries including technology, health care, biotechnology, defense and tourism," said Ken Stern, a money manager based in San Diego.

In addition, Stern countered the

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Local experts say Europe's debt crisis to have minimal effect on San Diego

By REBECCA GO
The Daily Transcript

Fallout from Europe's debt troubles will touch the United States and the San Diego economy, but its effects will be minimal, most economists and local business professionals agreed.

"It could ripple back to us," said Bella Heule, president and chief executive of the San Diego World Trade Center. "That's what globalization has done."

For most, the primary concern is how a more subdued recovery in Europe will affect the United States' economic trajectory. The $1 trillion aid package pledged by the European Union and the International Monetary Fund has not completely allayed fears that tighter budgets in Greece, Spain and Portugal — in addition to eurozone banks' exposure to their sovereign debt — will weigh heavily on both European and global growth.

According to the U.S. Department of Commerce, the European Union is collectively the United States' largest trading partner, and less growth will mean less demand for U.S. exports. Indeed, San Diego exporters count Western Europe among their top five markets.

Earlier this year, President Barack Obama signed an executive order committing to doubling U.S. exports in the next five years. Less demand in Europe as well as the currently strengthening dollar could impede this goal, at least for this year.

Investors' worries have caused them to flee to so-called "safe havens" in the financial market. This has included gold, which hit a record high of $1,238.93 an ounce earlier this month, and U.S. Treasuries, which has seen yields on 10-year bonds fall.

The U.S. dollar has thus strengthened against the euro, which sank below $1.24 earlier this month to levels not seen since October 2008. Most economists polled by Bloomberg expect the dollar to continue to appreciate in 2010, with some expecting the euro to end the year as low as $1.08 before rising against the dollar in subsequent years.

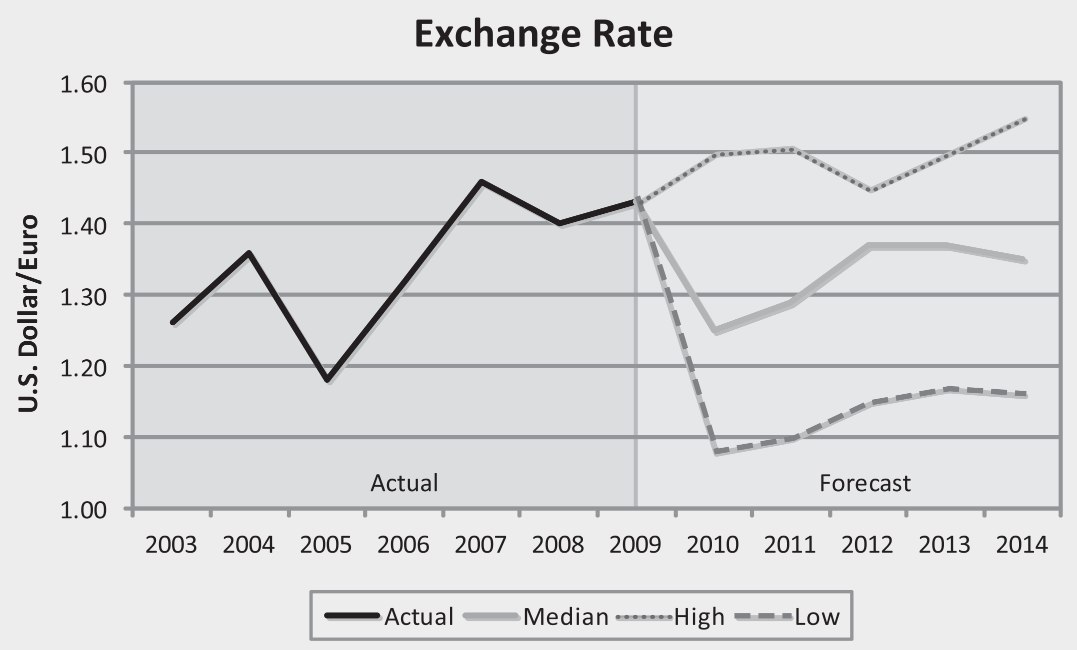
"That's actually not helpful for us," said James Hamilton, an economist who teaches at the University of California, San Diego. "We have a real problem with the trade deficit and an expensive dollar is not the policy that we want to see."

Those in the San Diego export trade community agree: A strong dollar means their products will be more expensive and lose their edge in a competitive global market.

David Schultz, the chief financial officer of scientific instrument distributor **Quantum Design Inc.**, further explained how the company's international subsidiaries buy the products in U.S. dollars and then sell them in the local currency. This can create as much as a six-month gap between when the price is fixed in local currency to when Quantum Design gets paid in dollars.

"A change in exchange rates can cause a significant difference in the profit or loss of the transaction," Schultz said in an e-mail. "Events completely unrelated to our products can have a significant impact on our profitability."

Exporters typically deal with currency fluctuations by diversifying their target markets and by hedging, or buying currency before it rises in value, said Kim Benson, vice president at export management company **Cange International**. Still, movements in currency remain notoriously difficult to forecast.



A Bloomberg composite forecast predicts the U.S. dollar (USD) will appreciate against the euro between now and 2014. Median forecasts estimate a stronger USD appreciation within the next two years to a low of $1.25, followed by a period of euro recovery and stabilization around $1.37 starting in 2012.

Source: Bloomberg

In San Diego, international trade contributes $48 billion in products and services, making it the second-largest contributor to the San Diego economy, the World Trade Center's Heule said.

An estimated 3,000 companies in San Diego conduct business internationally, employing approximately 125,000 in the county.

Economists are mixed on whether troubles in Europe would go so far as to quell a recovery here at home.

"It's bad news, but it's not going to derail the recovery," said Allan Timmermann, a finance economist who teaches at the University of

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Roundtable participants

Christopher Thornberg

Christopher Thornberg is a founding principal of **Beacon Economics** and an expert in economic forecasting, regional development, real estate dynamics and labor markets. In 2008 he was appointed chief economist to the Office of California State Controller John Chiang, and later was appointed chair of the Controller's Council of Economic Advisors. He also serves on the advisory board of hedge fund **Paulson & Co. Inc.**, and on the editorial board of Pepperdine University's Graziadio School of Business and Management's *Graziadio Business Report* — quarterly peer-reviewed publication.

Thornberg regularly presents to leading business, government and nonprofit organizations, including REOMAC, the California State Association of Counties, and the California and Nevada Credit Union League, among many others. Recently, he testified before the U.S. Congress House Committee on Financial Services on municipal debt issues. He has been involved in special studies measuring the economic impact of the NAFTA treaty, the California electricity crisis, port security, California's water transfer programs and the terrorist attacks of Sept. 11, 2001.

Prior to launching Beacon, Thornberg was an economist with UCLA's Anderson Forecast, where he regularly authored economic outlooks for California, Los Angeles and the East Bay. He also developed specialized forecasts for various regions and industries. He has taught in the MBA program at UC San Diego's Rady School of Business, at Thammasat University in Bangkok, Thailand, and has held a faculty position in the economics department at Clemson University.

Thornberg holds a Ph.D. in business economics from The Anderson School at UCLA, and a B.S. in business administration from the State University of New York at Buffalo.

Information from beaconeconomics.com.

Lynn Reaser

Lynn Reaser is chief economist at the Fermanian Business and Economic Institute at Point Loma Nazarene University and the current president of the National Association for Business Economics. She is skilled at analyzing economic data, modeling and forecasting and joined PLNU to provide economic analysis and forecasting to help San Diego business constituents understand and prepare for both the near-term and long-term economic outlook. Reaser works collaboratively with San Diego organizations such as the San Diego Zoo and the San Diego Military Advisory Council.

From 1999 to 2009, Reaser served as the chief economist for **Bank of America Investment Strategies Group** and provided the global and U.S. economic framework for investment strategy for high net-worth, institutional and brokerage clients, encompassing more than $500 billion under management. She delivered approximately 100 client presentations per year using highly developed quantitative models to analyze data, forecast various economic series and project the relative performance of various sectors to maximize investment performance.

She previously served as chief economist for Barnett Bank and First Interstate Bank (**Wells Fargo Corp.**). Additionally, Reaser has served on the Governor's Council of Economic Advisors for the state of California; Leadership Florida; was a fiscal adviser to the cities of Los Angeles and San Francisco; California's Economic Strategy Panel; chairwoman of the Board of Economic Advisors to the Los Angeles Area Chamber of Commerce; president of the Economic Roundtable of Jacksonville; president of the Los Angeles Chapter of the National Association for Business Economics; and a member of the Editorial Advisory Board, Contemporary Economic Policy.

Reaser holds a B.A., M.A. and Ph.D. in Economics, all from the University of California, Los Angeles.

Information from theusetoneconomicsclub.org.

Alan Gin

Alan Gin is an associate professor of economics at the University of San Diego and one of the affiliated faculty members of USD's Burnham-Moores Center for Real Estate. His research interests include local public finance, urban transportation and the economy of San Diego. He is best known for developing and publishing USD's Index of Leading Economic Indicators for San Diego County, and was named to the *San Diego Business Journal*'s "Who's Who" list for his work on forecasting the local economy.

In addition to the local economy, Gin has an interest in the business environment of Asia, particularly China. He is currently a member of the Advisory Board of the Asian Business Association of San Diego and sits on the board of directors of the Hong Kong Association of Southern California, San Diego Chapter. He was named as the Asian Business Association's Member of the Year in 2006 and its Business Leader of Year in 2007. He was also selected as the Asian Heritage Award Winner in Business Enterprise in 2006. He taught in USD's Study Abroad Programs in Hong Kong and Beijing/Shanghai.

Prior to joining USD, Gin worked with the Community Development Department of the county of Fresno and the Public Works Department of the city of Oxnard, and he previously taught graduate and undergraduate economics courses at Loyola Marymount University and the University of California, Santa Barbara. In 2001, he was awarded the USD Parents' Association Award of Excellence and was voted "Professor of the Year" by the graduate business students at USD for the 2002-03 academic year.

Gin received a B.S. in economics from California Polytechnic State University at San Luis Obispo, and his M.A. and Ph.D. degrees in economics from the University of California at Santa Barbara.

Information from home.sandiego.edu.

Robert Brown

Robert Brown joined the faculty at California State University San Marcos in August 1997. He currently serves as a professor in the Department of Economics and teaches microeconomics, public finance, tax policy, resource economics as well as specialized courses in the economics of the arts and sports industries.

His previous academic experience includes research and teaching positions at the University of North Texas and the University of California, Santa Barbara, where he earned a doctorate in economics. He received his bachelor's and master's degrees in economics from Saint Mary's College of California and California State University Long Beach, respectively.

Brown's research has appeared in more than 40 scholarly publications, seminars and other programs. Some of his topics have included regional land use, valuing environmental resources, urban economics, college sports and health economics. He developed the North San Diego County Housing Affordability Index on behalf of the North San Diego County Association of Realtors and now serves as its principal investigator. Most recently, he has served as principal investigator of the National Visitor Use Monitoring Program, a cooperative project with the U.S. Forest Service - Department of Agriculture.

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The Daily Transcript®

Founded April 3, 1886
www.sddt.com
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July 31, 1910 - May 6, 2009

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Roundtable discussion

Economists say regaining lost jobs still several years away

By REBECCA GO
The Daily Transcript

The unemployment picture is not a pretty one, despite recent job growth, a group of economists said at a roundtable earlier this week at *The Daily Transcript* offices.

"There are still fewer jobs in California today than there were at the beginning of the year 2000," said Patrick O'Keefe, director of economic research for accounting firm **J.H. Cohn**. "The hole is so deep."

According to data from the state Employment Development Department, fewer than 15.94 million California civilians were employed in March. Just more than 15.89 million were employed in January 2000, when the state unemployment rate was only 5 percent.

State and local labor market data for April is scheduled for release today.

The six economists on the Tuesday panel agreed it would take several years to regain prerecession employment levels, perhaps at the earliest 2013 or 2015, said Lynn Reaser, chief economist at Point Loma Nazarene University.

Even a three-year timeline to recoup lost jobs may be an overly optimistic scenario that assumes zero population growth and the addition of 500,000 jobs a month on the national level, said O'Keefe, who served as deputy assistant secretary in the U.S. Department of Labor several years ago.

O'Keefe noted that the national employment-population ratio, which measures the percentage of those 16 and older who have jobs, is at 58.8 percent as of April — more than 4 percent below the monthly ratio before the recession officially began in December 2007.

Still, participating economists were mixed on how much a high unemployment rate would affect a U.S. economic recovery.

James Hamilton, who teaches at the University of California, San Diego, said it would strain the economy because it would mean consumers would buy fewer goods.

Beacon Economics principal and founder Christopher Thornberg disagreed, saying that the unemployment rate reflected more of a "social crisis" than a drag on gross domestic product.

He noted that a significant number of people who are unemployed are considered low-skilled or low output, and are not primary contributors to GDP or GDP growth.

"We can have (economic) expansion and have this social crisis go on at the same time," Thornberg said. "There are a lot of folks out there who are going to have a tough time readapting to this economy over the next decade."

Furthermore, unemployment for skilled workers is likely to return more quickly, with future job growth expected in technology-related sectors. For example, San Diego leaders are targeting defense, communications, medical and biotechnology, and green technology, said Alan Gin, who teaches at the University of San Diego and compiles the USD Index of Leading Economic Indicators for San Diego County.

Particularly with California's influx of immigrant labor, the result will be a widening income and education gap between the middle class and the lower class. Outside of Texas, California has the most workers in its labor force without a high school degree, Thornberg said.

This "structural unemployment" has serious ramifications when one considers the global market as well, O'Keefe said. Low-skilled U.S. workers have to deal with international as well as domestic competition and may be getting "priced out" because of U.S. minimum wage requirements.

"This will not only be a social problem; this will become another economic problem," O'Keefe said.

Still, economists agreed the U.S. labor market has "turned a corner," as Reaser put it.

National payrolls have added jobs for four consecutive months now, California has added jobs for two consecutive months and San Diego posted its first jobs gain in March.

The growth has been across various industries, said Reaser, who is optimistic that service sectors like retail will bring back more jobs for lower-skilled workers.

Thornberg was unsure, citing a lack of the consumer spending that drives such sectors.

Economists at the roundtable agreed a recovery is under way, but most expressed worries that growth is not sustainable long term, being primarily driven by federal stimulus dollars that will eventually be withdrawn.

Thornberg noted that the U.S. personal saving rate has already begun to drop after peaking in the second quarter of 2009, the U.S. trade deficit is widening once again and stock markets have continued to be volatile.

"The problem is we're recovering in the wrong direction," Thornberg said. "I would argue that the problem the U.S. faces is that we're not going back to 1994, we're going back to 2006."

Economists agreed housing and the public sector will be a drag on the economy. A large inventory of distressed properties and still-tight credit will mean "bumpy" growth in San Diego for the future, said Robert Brown, who teaches at California State University, San Marcos.

Also, the burden of both state and federal debt means more taxes and less spending are imminent and could mean a particularly rocky recovery ahead for California, Hamilton said.

The roundtable was sponsored by J.H. Cohn.

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All photos by J. Kat Woronowicz

Christopher Thornberg (left) is a founding principal of Beacon Economics. James Hamilton is a professor of economics at the University of California, San Diego.

Patrick O'Keefe is director of economic research for accounting firm J.H. Cohn.

Alan Gin is an associate professor of economics at the University of San Diego and compiles the USD Index of Leading Economic Indicators for San Diego County.

Lynn Reaser is chief economist at the Fermanian Business and Economic Institute at Point Loma Nazarene University.

Robert Brown is a professor in the Department of Economics at California State University San Marcos.

Participants

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James Hamilton

James Hamilton received his Ph.D. in economics from the University of California at Berkeley in 1983. He has been a professor at the University of California, San Diego since 1992 and served as chair of the Economics Department from 1999 to 2002. He is a fellow of the Econometric Society and a research associate with the National Bureau of Economic Research, and has been a visiting scholar at the Federal Reserve Board as well as the Federal Reserve Banks of Atlanta, New York and Richmond. His book, "Time Series Analysis," is the leading graduate text on economic forecasting. His research interests include business cycles, monetary policy and oil shocks.

Patrick J. O'Keefe

Patrick J. O'Keefe is director of economic research at **J.H. Cohn** and serves as a strategic adviser to the firm's chief executive officer and management committee. O'Keefe has extensive executive experience in the not-for-profit sector. He has served as deputy assistant secretary in the U.S. Department of Labor, administering federal programs for worker training, employment-related insurance and labor market services. He was the deputy director of the National Commission for Employment Policy and has worked as a consultant with the Urban Institute. A veteran of the U.S. Army, O'Keefe holds a bachelor's degree in economics from the University of Scranton and a master's from the University of Utah.

Economists at the roundtable agreed a recovery is under way, but expressed concerns that growth is not sustainable, being primarily driven by federal stimulus dollars that will eventually be withdrawn.

Retailers prepare for consumer comeback

By ANNE D'INNOCENZIO
The Associated Press

NEW YORK — Retailers are priming for a consumer comeback.

Shoppers have started to show they're willing and able to spend more, and stores are tweaking their merchandise to accommodate them. Cashmere is making a comeback and sellers of everything from wine to toys are seeing shoppers move away from the very lowest price ranges.

The moves signal optimism that the recovery from the Great Recession is picking up steam, but there's a downside for shoppers: the return of higher prices.

The changes, which have started to crop up this spring, range from bringing back lavish cookware sets that were dumped during the Great Recession to once again stocking big wedges of gourmet cheese instead of cutting them into smaller chunks that cost less.

Toys R Us, which carved out a section in the store to sell toys under $3 during the downturn, is now throwing in $5 toys. Home-improvement chain **Lowe's Cos.** (NYSE: LOW) has tweaked its spring advertising to focus less on low prices and more on the experience of its salespeople.

Meanwhile, **HSN Inc.** (Nasdaq: HSNI) is back to showcasing $250 Wolfgang Puck cookware sets and pushing more gold jewelry instead of silver.

On the high end, luxury stores are prominently displaying $1,500 python skin shoes instead of the $700 patent leather highlighted during the recession, said Robert Burke, a New York-based luxury consultant.

The steps are moderate because retail decision-makers emphasize they still think consumers will keep many frugal habits amid high unemployment. But stores don't want to get caught flat-footed in the recovery, either.

Last week's batch of first-quarter earnings reports from **Macy's Inc.** (NYSE: M), **Nordstrom Inc.** (NYSE: JWN), **J.C. Penney** and **Kohl's Corp.** (NYSE: KSS) all showed consumers' willingness to spend more on a variety of items, but spending is still well below what it was before the Great Recession and shoppers remain pragmatic.

"Retailers are testing the waters with more aspirational items and prices to gauge consumer appetites — and there is some early evidence that consumers are responding well," said John Long, retail strategist at **Kurt Salmon Associates**. But he pointed out that stores, including luxury merchants, are sprinkling in higher-priced items while continuing to expand store-label offerings, which are less expensive.

For 18 months, stores cut prices and slashed inventory as nervous shoppers focused on bare necessities. But since January, consumers have been more willing to spend on nonessentials such as denim leggings, and more people are willing to pay full price.

Coach Inc. (NYSE: COH), whose handbag prices are now 12 percent lower than a year ago, told investors last month it might raise prices this year as sales of purses priced above $300 recover. However, Coach CEO Lew Frankfort told The Associated Press that its typical shopper is still "not spending at levels she did in 2007, at least not yet."

Stew Leonard Jr., president and CEO of New York and Connecticut grocery chain **Stew Leonard**, said he could "feel things pop around Easter." Customers are tentatively spending more, gravitating toward $30 wine bottles instead of $10 to $15 wines, but not the $50 versions yet, Leonard said.

That's why he's making small adjustments. Among them: Stocking and packaging big wedges of Reggiano Parmesan cheese, which sells for $13.95 per pound. Leonard noted that in late 2008, customers had sticker shock and no longer wanted to pay more than $10 for a block, so the store started to cut wedges smaller to shrink the price to about $9.

In recent weeks, **Mohan's Custom Tailors** began restocking its shelves with the most luxurious fabrics like cashmere as well as the highest-grade materials from designers Ermenegildo Zegna and Loro Piana, which also create their own fabric as well.

The New York shop turned to ordering fabrics mostly from generic mills when clients, who include investment bankers and hedge-fund managers, were no longer willing to shell out $1,200 or more for a suit, and were sticking to $700 price tags, according to K.J. Singh, sales manager.

But since late February, Singh has seen an increase in customers willing to splurge after Wall Street bonuses made a comeback.

"We're feeling OK," said Singh. "But it's still too early."

Source Code: 20100521crl

Debt crisis

Continued from Page 2

California, San Diego.

Dan North, chief economist of credit insurance provider **Euler Hermes**, isn't so sure. Outside of the effect on U.S. trade, the mere feeling of fear and discomfort can go a long way in prompting consumers to rein in spending, he said.

UCSD economist Hamilton is more worried about the effects on the banking system and global credit markets. U.S. banks may have less exposure to Greek sovereign debt than some of their European counterparts, but uncertainty about where the exposure lies could hamper banks' ability to secure short-term funding and thus their willingness to lend to the American borrower.

It sounds like a replay of the subprime crisis and the subsequent credit crunch worldwide, but Hamilton doesn't think Europe carries quite the same global economic sway as the United States.

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Source Code: 20100521crb

Job market

Continued from Page 1

what we euphemistically call an economic leading indicator. When companies slow down, the first thing they change is they let all the temporaries go," he said. "Now, companies that we have not heard from in a long time are starting to bring temporaries back."

John DeWitt, a vice president and consultant with **Lee Hecht Harrison**, has seen a similar trend in recent months. DeWitt specializes in outplacement services, which some companies offer as part of an employee's severance package.

These services can include access to a consultant, office space, databases and Web resources — often with the additional benefit of generating goodwill and reducing the company's payroll tax if the former employee is able to find another job faster.

DeWitt said he has sensed a dramatic change since the beginning of the year: Of his individual clients, fewer have been in transition and more have seen job offers or opportunities emerging. There has also been a pickup in senior-level hiring, and more companies have indicated they are willing to do some on-the-job training, DeWitt added.

MarketPointe Realty Advisors Director of Economic Research Alan Nevin believes the local employment situation is even better than the government numbers would suggest.

He noted that the unemployment figures only take into account the civilian population, when San Diego has a sizable, fully employed military presence. Nevin also argues that the household phone survey ignores those that live across the border but are employed here, and a younger segment of the population that have only cell phones rather than landlines.

State labor market analyst Joe Briceno said those conducting the surveys do call cell phones. The labor force figures only take into account those who live in the county; however, local payrolls would track those who travel from outside the county, he said.

Nevin added that federal and state government is conducting "virtually all" of the nonresidential real estate construction in the county — and employing workers in the process.

"We're in better shape than most places," Nevin said. Still, he admits, "we're going nowhere slow."

Christopher Lussier, president of local recruiting firm **HireTech**, would agree. Ever since 2008, he has not heard from local employers looking for the engineers, computer professionals and technicians his firm supplies.

Furthermore, the glut of unemployed in the labor market means companies don't need to offer highly competitive salaries or hurry to snap up job candidates.

"From my perspective, I'm not seeing a recovery," said Lussier, who has since expanded his services to other geographic areas in the last few years.

Lee Hecht Harrison's DeWitt agrees things are "uneven" in terms of the number of jobs becoming available in each industry. Even within biotech, most chemistry jobs are gone, while jobs in sequencing and biologics are more plentiful as companies move from small molecules and mixing things in beaker to large molecules and genetic modification.

Experts agree that San Diego's strongest sectors will remain technology and defense, including defense-related contracting and construction. Workforce Partnership's Moss sees leisure and hospitality growing as consumers choose to vacation closer to home. The financial services will benefit as more and more baby boomers retire, he added.

Still, "the only meaningful employment rate is, do I have a job or not?" DeWitt said. "It's zero percent or 100 percent."

San Diego's weak sectors will remain manufacturing and construction, experts also agreed. An overbuilt and underfinanced construction sector will continue to struggle, although an uptick in the residential resale market has helped bring back some jobs, Nevin noted.

The cuts in state funding will further dampen job growth in the government and public education sector. The University of California, San Diego — the third-largest employer in the county after the federal and state government — is facing an $84 million budget shortfall because of state budget cuts.

Employee furloughs, salary reductions and a student fee increase throughout the UC system have addressed some of the cuts. UCSD has laid off 310 employees and eliminated or frozen roughly 800 faculty and staff positions. The school will also admit 550 fewer freshmen, a spokeswoman said in a statement.

The county government, the fourth-largest employer, has cut 774 jobs for the fiscal year, less than 5 percent of total staff.

San Diego State University, which saw $55 million in state funding cut, decided to not renew a number of temporary employees and cut back substantially on new hires, a spokeswoman said.

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Source Code: 20100521crc

Top 50 Local Publicly Traded Companies

Listed by Market Capitalization as of May 18, 2010

	Company URL	Ticker	Exchange	Market Cap as of 05/18/2010
1	**Qualcomm Inc.** www.qualcomm.com	QCOM	NASDAQ GS	$60,218,080,000
2	**Sempra Energy** www.sempra.com	SRE	New York	$11,708,590,000
3	**Life Technologies Corp.** www.lifetechnologies.com	LIFE	NASDAQ GS	$9,362,313,000
4	**Carefusion Corp.** www.carefusion.com	CFN	New York	$5,642,086,000
5	**Resmed Inc.** www.resmed.com	RMD	New York	$5,037,750,000
6	**Illumina Inc.** www.illumina.com	ILMN	NASDAQ GS	$5,034,933,000
7	**Realty Income Corp.** www.realtyincome.com	O	New York	$3,263,855,000
8	**Amylin Pharmaceuticals Inc.** www.amylin.com	AMLN	NASDAQ GS	$2,402,857,000
9	**Gen-Probe Inc.** www.gen-probe.com	GPRO	NASDAQ GS	$2,221,534,000
10	**Biomed Realty Trust Inc.** www.biomedrealty.com	BMR	New York	$1,938,008,000
11	**Nuvasive Inc.** www.nuvasive.com	NUVA	NASDAQ GS	$1,678,543,000
12	**Viasat Inc.** www.viasat.com	VSAT	NASDAQ GS	$1,358,565,000
13	**Leap Wireless International Inc.** www.leapwireless.com	LEAP	NASDAQ GS	$1,357,055,000
14	**Bridgepoint Education Inc.** www.bridgepointeducation.com	BPI	New York	$1,312,904,000
15	**Jack in the Box Inc.** www.jackinthebox.com	JACK	NASDAQ GS	$1,266,435,000
16	**Cubic Corp.** www.cubic.com	CUB	New York	$1,037,373,000
17	**Cymer Inc.** www.cymer.com	CYMI	NASDAQ GS	$978,716,300
18	**Isis Pharmaceuticals Inc.** www.isispharm.com	ISIS	NASDAQ GS	$958,182,500
19	**Websense Inc.** www.websense.com	WBSN	NASDAQ GS	$948,401,200
20	**Pacwest Bancorp** n/a	PACW	NASDAQ GS	$774,265,700
21	**Pico Holdings Inc.** www.picoholdings.com	PICO	NASDAQ GM	$754,695,700
22	**Pricesmart Inc.** www.pricesmart.com	PSMT	NASDAQ GS	$752,114,800
23	**Halozyme Therapeutics Inc.** www.halozyme.com	HALO	NASDAQ GM	$656,096,700
24	**Dexcom Inc.** www.dexcom.com	DXCM	NASDAQ GM	$613,441,500
25	**WD-40 Co.** www.wd40.com	WDFC	NASDAQ GS	$585,450,300
26	**Callaway Golf Co.** www.callawaygolf.com	ELY	New York	$564,710,000
27	**Ardea Biosciences Inc.** www.ardeabio.com	RDEA	NASDAQ GM	$530,760,400
28	**Genoptix Inc.** www.genoptix.com	GXDX	NASDAQ GS	$510,629,200
29	**Sorrento Therapeutics Inc.** www.sorrentotherapeutics.com	SRNE	OTC BB	$506,439,300
30	**Maxlinear Inc.** www.maxlinear.com	MXL	New York	$502,048,000
31	**Alphatec Holdings Inc.** www.alphatecspine.com	ATEC	NASDAQ GM	$494,898,000
32	**Encore Capital Group Inc.** www.mcmcg.com	ECPG	NASDAQ GS	$484,918,600
33	**Cadence Pharmaceuticals Inc.** www.cadencepharm.com	CADX	NASDAQ GM	$439,532,100
34	**Optimer Pharmaceuticals Inc.** www.optimerpharma.com	OPTR	NASDAQ GM	$432,891,100
35	**Sequenom Inc.** www.sequenom.com	SQNM	NASDAQ GM	$378,650,100
36	**Quidel Corp.** www.quidel.com	QDEL	NASDAQ GS	$370,845,300
37	**Entropic Communications Inc.** www.entropic.com	ENTR	NASDAQ GM	$363,973,600
38	**Cohu Inc.** www.cohu.com	COHU	NASDAQ GS	$354,352,400
39	**Maxwell Technologies Inc.** www.maxwell.com	MXWL	NASDAQ GM	$335,764,600
40	**Arena Pharmaceuticals Inc.** www.arenapharm.com	ARNA	NASDAQ GM	$320,889,300
41	**Orexigen Therapeutics Inc.** www.orexigen.com	OREX	NASDAQ GM	$299,354,400
42	**AMN Healthcare Services Inc.** www.amnhealthcare.com	AHS	New York	$293,028,500
43	**DivX Inc.** www.divx.com	DIVX	NASDAQ GS	$238,119,200
44	**Cytori Therapeutics Inc.** www.cytoritx.com	CYTX	NASDAQ GM	$227,133,900
45	**Somaxon Pharmaceuticals Inc.** www.somaxon.com	SOMX	NASDAQ CM	$213,379,700
46	**Accelrys Inc.** www.accelrys.com	ACCL	NASDAQ GM	$202,148,700
47	**Kratos Defense & Security Solutions Inc.** www.kratosdefense.com	KTOS	NASDAQ GS	$199,993,200
48	**Homefed Corp.** n/a	HOFD	OTC BB	$196,987,500
49	**Vical Inc.** www.vical.com	VICL	NASDAQ GM	$191,030,000
50	**Novatel Wireless Inc.** www.novatelwireless.com	NVTL	NASDAQ GS	$190,666,400

Data Source: Bloomberg. Listed by Market Capitalization as of May 18, 2010. This is a partial list; a more complete listing can be found at sourcebook.sddt.com. N/A: Not Applicable, n/a: not available, wnd: would not disclose. It is not the intent of this list to endorse its participants, nor to imply that a company's size or numerical rank indicates its quality or service. We reserve the right to edit listings or to exclude a listing due to insufficient information. Last updated 5/2010.

Loan demand rising as businesses take advantage of low interest rates, incentives

By REBECCA GO
The Daily Transcript

Most San Diego lenders agree that loan demand has picked up since the beginning of the year, although some say it's not entirely due to economic recovery reasons.

"It's not running wild yet," said Alan Lane, president and chief executive officer of La Jolla-based **Silvergate Bank**. "But folks out there are starting to explore opportunities."

Demand for commercial and industrial loans, known in the industry as C&I loans, appears to be stronger, a few business bankers agreed — a sign that businesses that were once hunkering down are starting to feel confident enough to go into debt again.

Ken Rosenthal, a loan officer with CDC Small Business Finance, described the movement as businesses "getting off the fence." Businesses with capital are taking advantage of the low interest rates, low property values and government incentives, Rosenthal said. For example, the Small Business Administration is currently waiving all loan fees and offering extended guarantees on certain programs.

CDC Small Business Finance, which specializes in SBA-504 loans used to finance purchases of commercial real estate or large equipment, saw financing increase by 42 percent in the first quarter of 2010 from the first quarter of 2009.

Still, the bankers who are lending say that much of the increased demand stems from there being fewer competitors in the market. A handful of banks have disappeared from the San Diego landscape completely, while some banks have simply stopped lending because of portfolio problems or limited capacity — presenting opportunities for growth for banks with high capital ratios and stable portfolios.

This has been especially true in the commercial real estate loan arena, as federal regulators worried about property values encourage community banks to reduce their concentrations in commercial real estate.

However, San Diego businesses have historically wanted to own their own property, which means that commercial real estate often makes up two-thirds of many local bank balance sheets, said Dan Yates, president and CEO of **Regents Bank**.

As a result, efforts to placate regulators have driven borrowers to banks like Regents and others that do have a little room to grow.

"Commercial real estate is one of the primary drivers of bank loan growth," Yates said, noting that although Regents is making commercial real estate loans, it too has limited capacity.

"When we started Regents, it was never my strategic plan to have a significant concentration of commercial real estate loans, but that's where the demand has always been," he said.

This connection between commercial real estate and small business is part of what has kept demand and credit quality weak locally, Yates said, adding that his conversations with other regional lenders indicate that many are seeing a greater increase in demand from areas outside San Diego.

Indeed, many lenders agree that credit quality remains uneven in San Diego; it all depends on an individual's business and/or industry. Most builders — or businesses that supply any service or product to the construction industry — are struggling, while other sectors, such as the medical device industry, remain somewhat strong.

Interesting opportunities abound, however, for well-positioned banks. Many companies are looking to hire bankers to expand their footprints.

Silvergate Bank's Lane, for example, says his bank is actually seeing some activity in the construction space. The bank recently provided financing that allowed a stalled residential development to come out of foreclosure and resume construction, Lane said, adding that other developers are now approaching the bank.

"I'm seeing quite a bit of these little opportunities," he said. "Compared to four years ago, I would say that it wouldn't be overstating the case to say construction is 'dead.' But compared to 12 months ago, you're absolutely seeing signs of life."

Silvergate is also seeing strength in its warehouse lending business. A warehouse loan is a line of credit extended to a loan originator or mortgage broker that lasts until the loan is sold off on the secondary market, whether it's to a bank, an insurance company, etc.

Silvergate had $30 million in warehouse loans outstanding by the end of March but had actually processed $78 million.

"It's a way to reuse our capital," said Lane, who describes the product as a business/consumer loan "hybrid." "It's kind of like financing a factory line, except instead of our client producing widgets, they're producing loans."

Loan demand from venture-backed startups has also increased significantly, said Steve Stuckey, **Comerica Bank**'s regional managing director for its technology and life sciences division.

Banks providing startup financing usually rely heavily on their relationships with venture capitalists, as startups normally don't have the type of collateral that banks use to assess risk.

Stuckey describes a "significant uptick" in loan demand over the last two to three months after a soft 2009 — the number of deals in Comerica's pipeline has tripled or quadrupled since then as venture capitalists start looking to do more deals, he said.

The increase has been driven by some improvements in the venture capital environment and money coming off the sidelines as investors try to time the bottom, said Chris Woolley, president of **Square 1 Bank**'s life sciences division.

"I'm becoming ever more bullish," Stuckey said. "I think 2010 is going to be better than anyone thought it was."

Woolley agreed. Square 1 Bank was able to grow its loan portfolio during the downturn and is now looking to expand its product offering from very early stage financing to mid- to late-stage financing and work with more private equity firms, he said.

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Source Code: 20100521crf

New home construction rises, wholesale prices dip

By ALAN ZIBEL
The Associated Press

WASHINGTON — Construction of homes surged in April to the highest level in 18 months, fueled by buyers capitalizing on an expiring tax credit. Permits for new construction sank, signaling the rebound could fade.

Low mortgage rates and two tax credits — up to $8,000 for new buyers and $6,500 for current owners who buy and move into another home — have boosted home sales this year. To receive a tax credit, borrowers had to have a signed offer by April 30 and must close the deal by the end of June.

The rate of home building has now risen more than 40 percent from the bottom in April 2009, though it's still down 70 percent from the decade's peak in January 2006.

Without the tax credit, analysts say home sales will slow in the second half of this year. High unemployment and tight lending standards will likely help keep many buyers away.

The report last week from the Commerce Department said the rate of construction of single-family homes and apartment buildings rose 5.8 percent last month to a seasonally adjusted annual rate of 672,000. That was up from an upwardly revised March level of 635,000. The rate, the highest since October 2008, was driven by a 10 percent increase in single-family home building.

A separate report last Tuesday showed wholesale inflation remains tame. Prices fell 0.1 percent in April, the second drop in three months. Core inflation, which excludes volatile energy and food prices, rose 0.2 percent, the Labor Department said. But over the past year, core prices are up just 1 percent.

The absence of inflation pressures means the Federal Reserve can keep interest rates at record lows to bolster the economic recovery.

Encouraging signals on the economy had minimal impact on the stock market. Analysts say investors are balancing signs of a strengthening U.S. recovery with concerns that the European debt crisis will spread and undermine the global economic rebound.

In the Commerce report, the government said building permits, a gauge of future activity, sank 11.5 percent to an annual rate of 606,000. That's the lowest point since October 2009.

Still, a survey last Monday showed homebuilders are feeling more optimistic. The National Association of Home Builders said its housing market index, which tracks industry confidence, rose three points this month to 22, the highest reading since August 2007. Readings below 50 indicate negative sentiment.

In March, sales of new homes rose 27 percent in March. That was the biggest monthly increase in 47 years.

A four-decade low stockpile of new single-family homes, combined with low interest rates and prices, has made home buying affordable, said Sal Guatieri, an economist with **BMO Capital Markets**. That means that even without the tax credits, housing starts should rise modestly.

"Until the foreclosure wave ebbs and the overhang of unsold existing homes abates, the recovery in homebuilding will be subdued, Guatieri said.

For April, food costs dipped by 0.2 percent. It was the first decline in nine months. And it came after a 2.4 percent surge during the previous month — the largest gain in 26 years. The March increase reflected the impact of a winter freeze in Florida that damaged citrus and vegetable crops.

Energy prices fell 0.8 percent in April with gasoline prices down 2.7 percent.

The rise in core inflation followed two straight months of 0.1 percent gains. Household appliances posted a 1.9 percent jump, the largest since October 1974. Passenger car prices rose 0.6 percent. It was the biggest such increase since June.

The recession has banished inflation for now. The more than 8 million jobs lost over the past two years has left workers without the bargaining power to boost wages.

In addition, companies, facing slack demand and idle plant capacity, have lacked the ability to raise prices.

The absence of inflation has allowed the Fed to keep its benchmark federal funds rate at a record low of zero to 0.25 percent since December 2008. The Fed has sought to invigorate economic growth.

Some Fed officials have argued that the greater threat now is the risk of deflation, or a debilitating drop in prices. That is something the United States has not suffered since the Great Depression.

Source Code: 20100521crk

California Bank & Trust stays active in lending market

There is little question that 2009 was one of the most difficult years in recent memory for both businesses and consumers alike. With 2009 now in the proverbial "rear-view mirror" and the first half of 2010 nearly gone, the economic outlook for San Diego is beginning to look more promising. Consumer confidence is improving and home prices are stabilizing. The difficult part of this economic recovery, however, remains the high unemployment rate. This too is stabilizing and should show signs of improvement later this year as recovery continues.

In 2009, **California Bank & Trust** (CB&T) approved more than $365 million in new credit to local San Diego businesses. The newly approved loans were primarily for commercial real estate, working capital lines of credit and term financing for small- to mid-sized businesses. As we move further into 2010, what we, and banks of all sizes, are seeing is that demand for loans has dropped significantly. To grow the balance sheet, banks must work with their current clients to offer financial solutions to support their plans for both growth and long-term financial health and stability. At CB&T we actively manage our existing relationships while continuing to reach out to new clients with our community-based brand of banking.

Community banks like us are very connected to their clients and to their community. This enables us to understand the economic conditions in the local marketplace in a way that larger, national institutions cannot. Decision-making and lending authority is also kept at the local level. This is critical in being able to actively meet the financial and credit needs of small to mid-sized businesses in the San Diego market.

Expanding new areas of business, such as our mortgage and multi-family lending, is also of interest and important in meeting the needs of the communities we serve. In addition, CB&T continues to have a strong presence in SBA lending, and we will continue to stay active in that market.

Overall, our goal at CB&T is to create and deliver the best financial solutions possible to meet the financial needs of the San Diego marketplace.

Submitted by Tory Nixon, executive vice president of California Bank & Trust

Oil prices to remain low in near-term, but higher prices at pump 'inevitable'

By REBECCA GO
The Daily Transcript

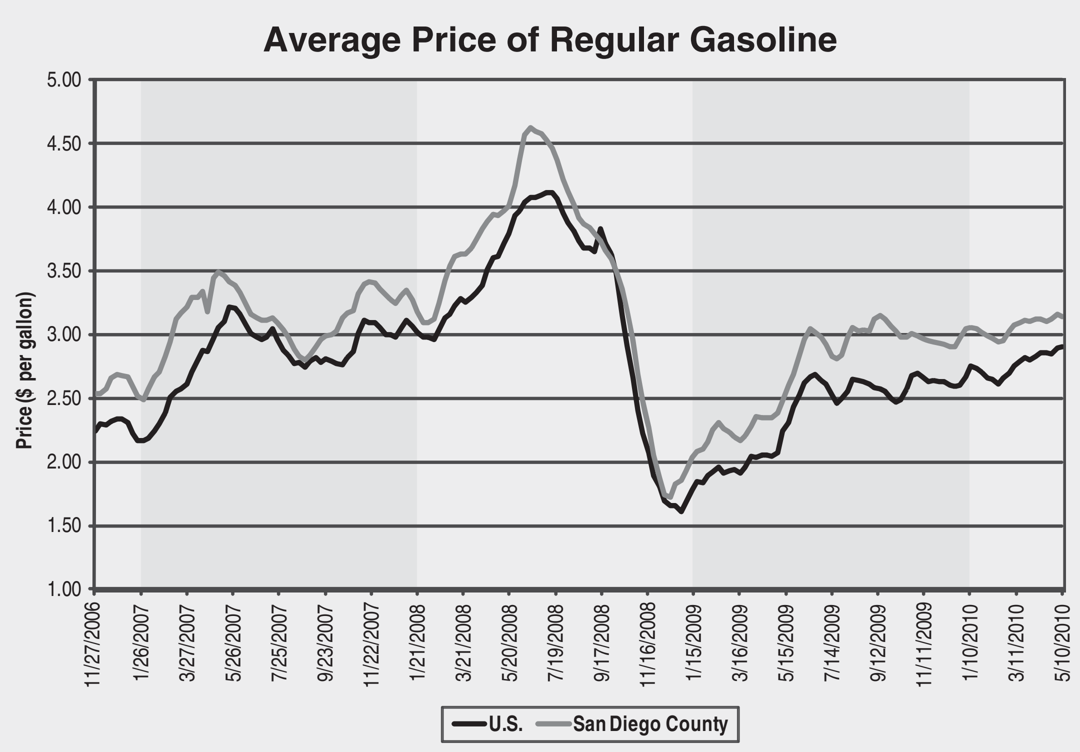
A gas price spike is unlikely in the near term thanks to Europe's debt troubles, but higher gas and oil prices are "inevitable" in the next few years as global demand grows, experts say.

"Don't get fooled by oil going down to $70 when it was $80 a couple weeks ago," said Kelley Wright, chief investment officer for Carlsbad-based **Investment Quality Trends**. "That's a market dislocation. Don't think the fundamentals have changed, because they really haven't."

Worries that Greece's debt problems could spread and dampen global economic growth — and thus demand for oil — have sent oil prices down over the last few weeks. Earlier this month, oil prices fell below $70 for the first time since February.

The global crude market had already been relatively weak due to the recession and changes in consumption habits, even as growth in China puts upward pressure on prices, said James Hamilton, an economist whose research interests include oil price shocks.

According to the U.S. Energy Information Administration, total world consumption of petroleum fell in 2008 and 2009 from a peak of 86.1 million barrels a day in 2007.



The average price of regular gasoline in San Diego County increased 0.67% to $3.14 per gallon over the past four weeks ending May 13. Compared to one year ago, the average price of regular gasoline increased 26.65%. "Prices have climbed gradually — we are about 70 cents higher than the same time last year — but we haven't seen the typical springtime spike," said Auto Club spokesman Jeffrey Spring. Aside from a brief moment in September 2008, prices in San Diego County have consistently exceeded the national average.

Source: Automotive Club Southern California, U.S. Energy Information Administration

State consumption has also been falling. According to the state Board of Equalization, which tracks taxable gallons of gasoline, the number of gallons used has been declining steadily since 2004. Net taxable gasoline gallons totaled more than 14.8 million in 2009, almost a 7 percent drop from 2004.

The softer demand, coupled with the fact that prices barely budged from last year's highs, explains why local gas prices have not risen more sharply this spring, experts say. California law requires refiners to switch to a more expensive, springtime blend that evaporates less quickly in the heat, thus usually pushing local gas prices upward, said Auto Club spokesman Jeffrey Spring.

Some say gas prices have peaked for this year; the Energy Information Administration, however, estimates the national average gas price will continue to rise, peaking in August at $2.99 a gallon. The national average gas price was $2.84 a gallon in April.

Regardless, experts agree that Europe's troubles and their effect on oil prices will keep a lid on domestic retail gas prices, and low gas prices are good for the American consumer — although economists disagree as to how helpful it will be.

Historically, fluctuations in oil and gas prices have had little effect on consumption. In a presentation at the University of California, San Diego in 2008, Hamilton showed that even when oil prices jumped by as much as 67 percent in 2005, consumption fell by only 1 percent.

The present downturn has been the exception, said Hamilton, who believes the price spike in the summer of 2008 precipitated the recession.

Low oil and gas prices will help debt-laden consumers by increasing their ability to buy goods and services, said **Wells Fargo Securities** economist Scott Anderson.

"Oil and gas often acts as a tax on consumption," Anderson said. "A lower price is almost like a tax reduction."

The widespread purchase of U.S. bonds will help keep interest rates down and thus make it cheaper to borrow money, while the subsequent strengthening of the U.S. dollar will keep imports and thus other domestic products cheap, he added.

However, experts agree low oil and gas prices won't last for long as supplies wane and worldwide demand increases, particularly from China and other emerging markets. Investment Quality Trends' Wright called the current relatively low prices a "knee-jerk reaction" to the threat of Greek debt contagion and predicted that oil prices would "eclipse" the $140 mark within a couple of years.

Indeed, the Energy Information Administration expects total world petroleum consumption to increase this year and hit a 20-year high of 87.2 million barrels a day in 2011. Total world consumption is projected to continue its climb to 106.6 million barrels a day in 2030.

"The inevitable direction (for prices) is up," said Dan North, chief economist for credit insurance provider **Euler Hermes**.

California adds another layer: The state is one of the top producers of crude oil in the nation, accounts for more than one-tenth of total U.S. production and ranks third in the nation for petroleum refining capacity, according to the Energy Information Administration's Web site.

However, the lack of demand has forced a number of refiners to close doors, said Charles Langley, gasoline project manager for nonprofit Utility Consumers' Action Network.

"That will likely create tight supplies," he said. "Even if oil prices drop, ultimately, we'll pay a premium in a noncompetitive gasoline market."

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Source Code: 20100521crg

Outlook

*Continued from **Page 1***

with only 5.8 percent of business leaders planning a price reduction.

Wages will also remain sticky over the next six months — 65.9 percent of business leaders expect average employee compensation to remain constant. While 30.8 percent of business leaders foresee increasing wages at their businesses, only 3.3 percent plan on reducing employee compensation.

The survey showed 46.2 percent of business leaders in San Diego expect to increase their number of employees in the next six months, 42.9 percent expect their company's employment level to remain constant, and only 11 percent expect a decline. During the past six months, 38.2 percent of businesses surveyed actually increased their number of employees, 25.8 percent decreased their employment level and 36 percent showed no change.

Survey participants were members of recent *Daily Transcript* executive roundtables.

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Source Code: 20100521crq

Consumer inflation vanishes, a boon for borrowers

WASHINGTON (AP) — Consumer prices fell in April for the first time in 13 months, giving the Federal Reserve more room to keep interest rates at historic lows to aid the economy. That's good news for borrowers, but not for savers.

Record-low rates help borrowers who qualify for loans and want to take on more debt. The prime lending rate, used to set rates on some credit cards and consumer loans, is at its lowest point in decades.

But low rates hurt savers. They're especially hard for people on fixed incomes who earn scant returns on their savings.

The 0.1 percent decrease in overall prices last month was pulled down by gas prices, which are expected to drop further this summer.

Core inflation, which excludes volatile food and energy prices, was flat in April, according to the Labor Department report Wednesday. Over the past 12 months, core inflation has risen just 0.9 percent — the smallest increase in 44 years.

The recession in 2007 and 2008 has kept inflation so low that some economists worry about the possibility of deflation — a destabilizing period of falling prices and wages.

"With the unemployment rate so close to 10 percent, it is entirely understandable that the Fed wants to stick with its commitment to leave rates at near-zero," said Paul Ashworth, senior U.S. economist at **Capital Economics**.

Ashworth said he thinks the Fed won't start raising rates until late next year — and possibly not until 2012.

Economists had expected overall prices and core prices to edge up 0.1 percent in April. The drop in overall prices was the first decline since a similar dip in March 2009.

Energy prices fell 1.4 percent, the biggest one-month decline since March 2009. Gasoline prices dropped 2.4 percent. Analysts said they expect further declines in coming months as crude oil prices are down nearly 20 percent since April.

Food costs rose 0.2 percent, the same modest increase posted in March. Economists had expected a bigger increase because of a winter freeze on Florida vegetable and citrus crops.

Clothing costs dropped by 0.7 percent in April. The cost of new vehicles was unchanged last month. Airline tickets rose by 2.2 percent, one of the few areas to show price pressures last month.

Joel Naroff, president of **Naroff Economic Advisors**, said stable prices have allowed consumers to spend more freely despite slow growth in income and high unemployment. He said most businesses are "dealing with a sluggish economy and that means they have very little pricing power."

Inflation at such low levels raises concerns of deflation. But most economists believe that threat remains remote. The overall economy has begun growing again and hiring is starting to pick up. The United States has not had to battle deflation since the 1930s.

Source Code: 20100521cro

Recovery

*Continued from **Page 1***

often repeated suggestion that the region's businesses cannot attract top talent because of the cost of living.

"This is ridiculous. First, we have an incredible number of colleges and universities as a percentage of our population. Once people get the America's Finest City buy, they want to stay. Our housing affordability index is much higher than it was three years ago and our pay is higher than national averages as well," added Stern.

Stern also sees San Diego companies in certain sectors as winners coming out of the recession — many of them in industries that didn't exist here during previous economic downturns. But he also offers some cautions.

"I look for valuation. Currently I think valuation in the areas of defense, health care, biotechnology and technology are very interesting and worth further research. Although I think real estate has come down, arguably the value should come down further."

Perhaps the most important thing working in favor of the local and national economies is the history of cycles. After reaching extremes to the upside in 2007, the economy went into a tailspin. And, as is the case of every cycle, the pendulum has started to swing in the other direction. It appears that at long last gravity may be pulling things back from the brink.

Source Code: 20100521crd

Out of the woods, but still in the swamp

Economic recovery broadened in April as consumer spending and industrial activity both continued to increase. Yet as the turmoil in Europe reminds us, the economy may be out of the woods, but financial conditions remain swampy.

Retail sales rose for the seventh consecutive month in April, although less robustly than in March. Americans opened their wallets widest to spruce up their houses (+6.9 percent), pamper themselves (+0.9 percent), and drive (+0.5 percent), but cut spending on most other consumables. Retailers recorded their best year-on-year (+9.6 percent) gain since March 2000, but that comparison was boosted by auto sales well above last year's depressed levels and a 38 percent rise in gasoline prices since last April. Net of those components, merchant sales rose 5.6 percent over the year. While modest in comparison to previous recoveries, what explains the willingness of households to increase spending at all given the recovery's modest job growth?

Perhaps it is because consumers see a more upbeat jobs picture. The Bureau of Labor

Patrick O'Keefe

Statistics (BLS) produces two estimates of employment each month. The most widely touted number is derived from a survey of employers, the other from a survey of households. Where the former indicates a net gain of 573,000 jobs so far in 2010, households report a rise almost three times as fast (+1.7 million). While differences between the surveys are expected, the perceptions of households determine consumer spending. And, according to what they are telling BLS, their perception is that job growth is accelerating — hence their increased spending.

Industrial output increased in April, the 10th increase in the 11 months since it bottomed and the largest year-on-year gain in almost nine years. All components rose except utility output, which fell due to above-normal temperatures. The manufacturing sector is expanding production to meet accelerating orders and restore its depleted inventories and those of merchants.

Global growth is adding to demand for American manufacturers as well, although the nation's trade deficit widened in April as imports rose faster than exports — due largely to the increasing demand for and price of oil (both a function of improving economic conditions). Global growth is unevenly distributed, however. It is most robust among emerging economies and resource exporters, modest but sustainable in the United States, and tepid and tenuous among the other advanced economies.

Yet risks remain, including most immediately the deterioration of public sector finances (here and abroad) and household indebtedness. Both were present, but preemptively unattended, during the serial crises of 2007-2009.

Now, with a self-sustaining recovery at hand, the economy is out of the woods — but still swamped by debt.

Submitted by Patrick O'Keefe, director of economic research for J.H. Cohn

Home building gain likely to fade with tax credit

WASHINGTON (AP) — Home construction rebounded last month to the highest level in 18 months as buyers capitalized on tax incentives. But now that those tax credits have expired, builders are scaling back.

That means the homebuilding industry isn't likely to contribute as much to the economic recovery. Analysts expect sales to fall this summer as the effect of the tax credits fades.

Mortgage rates have remained near record-low levels. But high unemployment and tight lending standards, combined with the end of the tax credits, will keep a lid on home construction, analysts say.

"Potential homebuyers are a little rattled by the state of the economy and what has happened in housing over the past two to three years," said **Wells Fargo** (NYSE: WFC) economist Tim Quinlan.

The rate of construction of single-family homes and apartment buildings rose 5.8 percent last month to a seasonally adjusted annual rate of 672,000, the Commerce Department said Tuesday.

That's the highest level since October 2008. It was driven by a 10 percent increase in single-family home building. The rate of homebuilding remains 70 percent below the decade's peak in January 2006. Still, it's climbed more than 40 percent above the April 2009 bottom.

Adding to evidence that the pace of construction will slow was the latest reading on applications for new building permits, a gauge of future activity: Applications sank 11.5 percent in April to an annual rate of 606,000. That's the lowest point since October 2009.

A separate report Tuesday showed wholesale inflation remains tame. Prices fell 0.1 percent in April. Core inflation, which excludes volatile energy and food prices, rose 0.2 percent, the Labor Department said. But over the past year, core prices have risen just 1 percent.

The absence of inflation pressures means the Federal Reserve can keep interest rates at record lows to bolster the economic recovery. Some Fed officials think the bigger risk now is deflation — a destabilizing period of falling prices and wages. The United States hasn't suffered from deflation since the Great Depression. Still, most economists think the risk of deflation remains remote.

The results of the Commerce report show that builders ramped up to meet demand from buyers seeking to take advantage of the two tax credits: One was up to $8,000 for new buyers. The other was $6,500 for current owners who buy and move into another home.

To receive either tax credit, borrowers had to have a signed offer by April 30 and must close the deal by the end of June.

About 2.2 million households have used those credits at a cost of $16 billion through late March, according to the Internal Revenue Service. There's been no push in Congress to extend them.

Still, builders are feeling hopeful. The nationwide supply of unsold new homes has declined and now stands at the lowest level in 40 years. And many builders are buying up failed projects or undeveloped lots that fell into foreclosure and are restarting development projects, said Brad Hunter, chief economist with **Metrostudy**, a real estate consulting firm.

"Those builders that are still alive are actually finding themselves with projects that are in demand and in good locations," he said.

The National Association of Home Builders' housing market index, which tracks industry confidence, rose three points this month to the highest reading since August 2007.

Nevertheless, Hunter predicts it won't be until 2012 before home construction returns to healthy levels.

In the meantime, the still-sluggish pace of the economic recovery is holding back price increases.

For April, wholesale food costs dipped 0.2 percent. It was the first decline in nine months. And it came after a 2.4 percent surge during the previous month — the largest gain in 26 years. The March increase reflected the impact of a winter freeze in Florida that damaged citrus and vegetable crops.

Energy prices fell in April with gasoline down 2.7 percent.

The rise in core inflation followed two straight months of 0.1 percent gains. Household appliances posted a 1.9 percent jump, the largest since October 1974. Passenger car prices rose 0.6 percent. It was the biggest such increase since June.

The recession has banished inflation for now. In part, that's because the loss of more than 8 million jobs over the past two years has left workers without the bargaining power to boost wages.

Source Code: 20100521crn

Real estate

*Continued from **Page 1***

Of all the industries, he said construction and real estate have been hit extremely hard, with some estimates claiming as much as an 80 percent work force reduction since its heyday in 2005.

It's the lack of jobs here and across the board as well as lackluster consumer spending that is plummeting sales volumes for stores and restaurants and escalating higher retail vacancy rates throughout the San Diego County market.

"Consumers won't be coming back at the same spending levels," Cox said. "So instead of product-driven tenants such as tennis shoe stores, there will be more small entrepreneurial service providers like yoga studios. But that's not coming real soon, and when it does, it won't be at the same lease values as before."

Vacancies will be outpacing leases in the retail sector for another one and a half to two years before there's a full recovery, he predicted.

Moreover, with the overall jobless rate in the county still holding steady in double digits, "we're not out of the woods, yet, not by any means," he said.

Opportunistic investors

Mitch Siegler agreed. "This isn't your father's or grandfather's recession."

"It's a new and different beast," said Siegler, senior managing director of San Diego-based **Pathfinders Partners** real estate investment group. "We look at thousands of projects to make just a few dozen deals happen."

He did, however, offer a ray of hope that the problems with commercial loans may be working themselves out.

For months now, banking experts, economists and commercial real estate gurus have been predicting a grand disaster looming on the horizon as a result of the $3.4 trillion in commercial real estate loans that will be coming due over the next couple of years.

A majority of troubled loan assets appear to be systematically moving through the books, noted Siegler, as banks offer more flexibility with older construction loans on commercial developments and owner-occupied properties in shifting around loan terms.

Furthermore, he said banks are reporting that the inflow of new non-performing commercial real estate loans also is showing signs of slowing.

"If we continue to follow this path and distressed assets bleed slowly into the market over time, then healthy lenders may have enough capacity to meet low transaction volumes, especially with the current depressed pricing," he said.

On the other hand, if external factors — such as major interest rate increases or changes in regulator behavior — push more distress into the marketplace, "this could create significant opportunities for opportunistic investors, especially in prime markets like San Diego," Siegler said.

"Well capitalized REITs will be able to acquire high-quality assets at very good prices," said Siegler, who estimated that real estate-investment trusts have raised more than $40 billion and are looking to lock in big gains for 2010.

San Diego is front and center in this real estate drama, he said, "with investors tripping over themselves and paying shocking prices due to very low cap rates."

This year, he said REITs also are expected to start close to $1 billion in new multifamily projects. To be sure, there are risks. Given the multiyear construction window, companies have to start now to be ready in time. If the economy weakens further and recovery is delayed, landlords may be forced to keep rents low or offer incentives to get leases signed.

Siegler said "San Diego's economy is faring and will continue to fare better than most due to its diversified economy, educated work force, world-class academic and research institutions — not to mention its weather."

The biggest negative is affordability — especially housing affordability for the younger work force. "Housing has never been affordable here, but for those who fled San Diego in search for cheaper housing in Las Vegas or Phoenix, they are in an even deeper crisis," Siegler said.

Stabilizing housing supply

Kelly Cunningham, an economist at National University's Institute for Policy Research in San Diego, said the local housing market may have finally stabilized.

"After a long downturn of housing values and prices, it does seem like we've hit bottom and are starting to see some increases," Cunningham said. "Prices are unlikely to drop further, and now might be a good time to consider buying."

MDA DataQuick reports that San Diego's March overall median price for home sales was up 15.8 percent from the same month last year to $330,000.

Belinda Austin, president of the San Diego Chapter of the California Association of Mortgage Professionals, said that due to job losses and troubled loans, the San Diego market will still be impacted by short sales and foreclosures for the next 12 to 24 months, thus "preventing a true stabilization of homes prices."

However, the loan officer for **Ranch & Coast Mortgage Groups** said her company is seeing "a healthy upswing of purchase transactions and hardly any issues with appraised values. This means that for the most part, properties are being purchased for a fair price to motivated buyers, which indicate true signs of recovery."

MarketPointe Realty Advisors President Russ Valone said the residential side of the real estate market is "delicately improving."

He reported that San Diego County's supply of new homes has now normalized as buyers scooped up reduced-priced properties in the first quarter of the year and took advantage of just-ended state and federal homebuyer tax credits.

"Sales of new homes are on the upswing," Valone said. "Buyers opened escrow on 645 new homes, condos and townhouses in 116 projects in San Diego County San Diego during the first three months of the year, up from 442 in the first quarter of last year."

That's a fraction of what sales were during the peak of the region's housing boom. In the first quarter of 2006, builders sold 17,324 new homes in Southern California.

Still, the large, publicly traded companies that have long dominated the housing market have plenty of cash and are well positioned to ramp up production when demand picks up.

Homebuilder Steve Doyle has three or four residential projects on the books and ready to go, but said he's holding off for further signs of economic recovery.

"Right now we're looking at 18 to 24 months before we start building again," says Doyle, president of **Brookfield Home**'s San Diego division.

As the economy improves, jobs come back and housing demand grows, construction should increase.

"Demand is driven by job growth," said Doyle. "Unless we have meaningful job growth, it'll be status quo for the next few years."

Esterbrooks is a San Diego-based freelance writer.

Source Code: 20100521cre

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Submitted by San Diego County Credit Union

Millions of jobs that were cut won't likely return

By CHRISTOPHER S. RUGABER
The Associated Press

WASHINGTON — Fewer construction workers will be needed. Don't expect as many interior designers or advertising copywriters, either. Retailers will get by with leaner staffs.

The economy is strengthening. But millions of jobs lost in the recession could be gone for good.

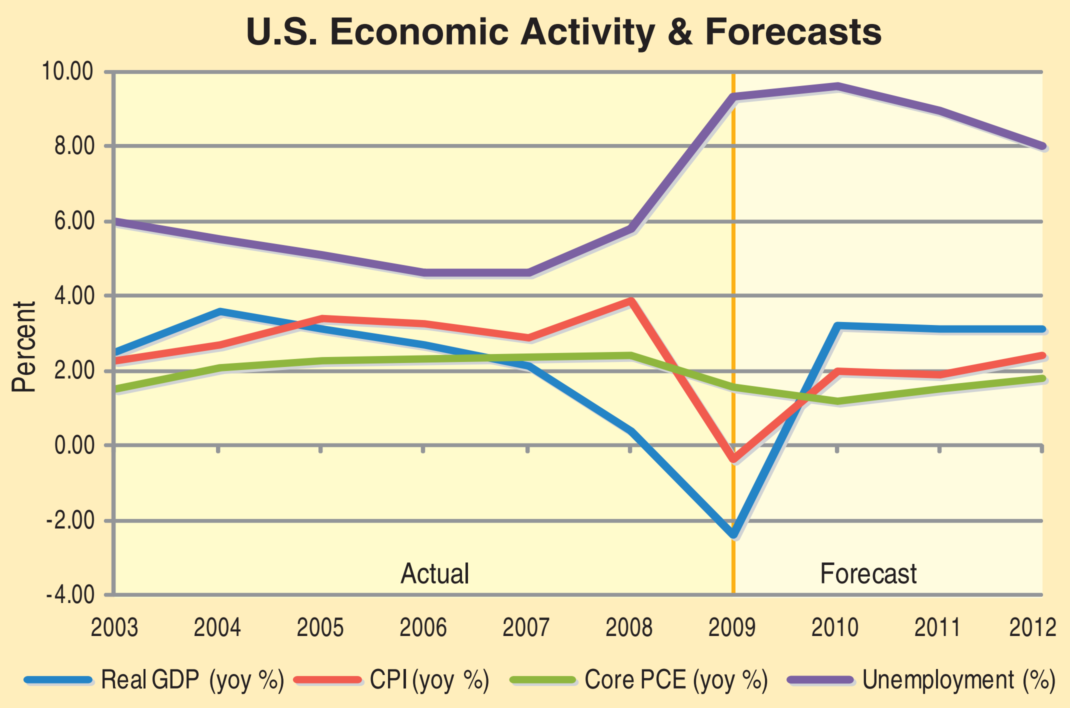
And unlike in past recessions, jobs in the beleaguered manufacturing sector aren't the only ones likely lost forever. What sets the Great Recession apart is the variety of jobs that may not return.

That helps explain why economists think it will take at least five years for the economy to regain the 8.2 million jobs wiped out by the recession — longer than in any other recovery since World War II.

It means that even as the economy strengthens, more Americans could face years out of work. Already, the percentage of the labor force unemployed for six months or longer is 4.3 percent. That's the highest rate on records dating to 1948.

Behind the trend are the cutbacks businesses made in the recession to make up for a loss of customers. To sustain earnings, they became more productive: They found ways to produce the same level of goods or services with fewer workers. Automation, global competition and technological efficiencies helped solidify the trend.

Diminished home equity and investment accounts have made shoppers more cautious, too. And their frugality could endure well into the recovery. That's why fewer retail workers, among others, will likely be needed.



Bloomberg composite forecasts for real gross domestic product (GDP), consumer price index (CPI), core personal consumption expenditure (CPE) and unemployment indicate the U.S. economy will continue its anemic recovery. Median forecasts predict real GDP will stabilize just above 3%, and core PCE and CPI show subdued inflationary pressure. Unemployment is forecast to decrease to 8% by 2012 — a rate the United States has not seen since 1984 — but is also expected to adjust toward a higher level of natural unemployment. Natural unemployment is the unemployment rate when the labor market is in equilibrium.

Source: Bloomberg

Among those whose former jobs may be gone for good are:

• Julie Weber of Milwaukee, who designed office cubicles for nearly seven years. She lost her job about a year ago. Since then, she's been able to find only part-time work outside her field. Interior design was hammered by the real estate downturn. "My hope for getting back into the industry is not very high," said Weber, 29.

• Erik Proulx, 38, a former advertising copywriter in Boston, who finds more companies are turning to social media and viral marketing and are less drawn to agencies that focus on traditional TV and print ad campaigns. Proulx was laid off in October 2008 — the third time an employer had cut his position or had closed. He no longer wants to rejoin the industry. Proulx has started a blog to help other unemployed ad professionals network.

• Louis DiFilippo, 30, who decided to study information technology after losing his job managing a gourmet food store in Washington, D.C. After six months of unemployment, he embraced a career with more stability. He now works on computer network security for the Navy. "I'm much happier now," he said.

More than one-third of chief financial officers at 620 big companies surveyed in March by Duke University and *CFO* magazine said they didn't expect to restore their payrolls to pre-recession levels for at least three years. Nearly all cited higher productivity and tepid consumer spending.

"Companies have just figured out, 'We didn't want to fire people ... but now that they're gone, we've realized that we can get by without them,'" said John Graham, a Duke finance professor who directed the survey.

Productivity grew at an annual rate of 6.3 percent in the year ending in March, the Labor Department said this month. It was the largest increase in 48 years, though most economists think that pace isn't sustainable.

In the long run, more productive workers raise standards of living: Companies can pay more without inflating prices. But in the short run, high productivity delays hiring.

U.S. employers did add 290,000 jobs in April. The unemployment rate rose to 9.9 percent, though, because 805,000 people without jobs poured into the labor force to seek work.

Three industries, in particular, where many jobs may not be coming back are retailing, manufacturing and advertising.

Retailers have lost 1.2 million, or 7.5 percent, of jobs that existed before the recession, according to Labor Department data. Circuit City and Linens & Things have collapsed. **Starbucks** (Nasdaq: SBUX) closed nearly 800 U.S. stores. Robert Yerex, an economist at **Kronos**, a work force management company, estimates 20 percent of those jobs are never coming back.

Manufacturing has shed 2.1 million jobs, or 16 percent of its total, since the recession began. **Goodyear Tire & Rubber** (NYSE: GT) and **Boeing Co.** (NYSE: BA) laid off a combined 15,700 people during the recession. **General Motors** eliminated 65,000 through buyouts and layoffs. And as Americans buy fewer cars and homes, more than 1 million jobs in the auto, steel, furniture and other manufacturing industries won't return, according to estimates by **Moody's Analytics**.

Advertising and PR agencies have lost 65,000 jobs, or about 14 percent of the pre-recession total. Moody's Analytics estimates those industries will lose even more within five years.

In addition, a consolidated airline industry has shed layers of jobs that won't likely return. **Delta Air Lines** (NYSE: DAL) earlier this year spread out departure times for flights from its Cincinnati hub, rather than bunching them at peak travel times. That way, it could operate from one concourse rather than two, said Kent Landers, a spokesman. The change allowed a Delta subsidiary, **Regional Elite Airline Services**, to cut more than 700 baggage handling and other ground services jobs.

More than half the 15.3 million people out of work in April said they regard their layoff as permanent, the Labor Department said. That's the highest proportion on records dating to 1967. In previous recessions, workers often endured only temporary layoffs: Their employers would recall them once business picked up.

Caterpillar Inc. (NYSE: CAT) has resumed hiring after laying off 19,000 full-time workers during the recession, thanks to rising demand for its construction and mining equipment. But most of the new jobs will be overseas. Of the 9,000 hires CEO Jim Owens said Caterpillar plans to make this year, only 3,000 will be in the United States.

Many economists say eventually, companies won't be able to squeeze any more work out of their employees. That would force employers to step up hiring.

But Janet Yellen, president of the Federal Reserve Bank of San Francisco, cautions that this won't happen anytime soon. She believes corporate America remains in the early stages of a drive for greater efficiencies.

"We may be in store for ... high productivity growth for some time," she said in a speech this year. "If so, the rate of job creation will be frustratingly slow."

Source Code: 20100521crm