



SAN DIEGO'S ROAD TO ECONOMIC RECOVERY

Like all American cities, San Diego suffered from the 2008 financial crisis and ensuing recession. Gradual and positive trends in unemployment, real estate, tourism and production indicate that the worst may be over.

June 2012

I. EXECUTIVE SUMMARY

San Diego - America's Finest City. With sun-kissed beaches, limitless outdoor activities, and compelling attractions ranging from Seaworld to Legoland, tourism has long been a mainstay of the local economy. Thriving biotech, clean tech, and medical research sectors make San Diego a hub for cutting edge technology innovation, compelling Forbes Magazine to rank San Diego as the third best city for tech jobs in late May 2012¹. A strong defense industry also helps the economy stay vibrant and robust.

Like all American cities, San Diego suffered from the 2008 financial crisis and ensuing recession. Unemployment rates increased, the real estate market fell, and output declined. Fortunately, recent trends indicate that the worst of it is over and most recent economic indicators from the first quarter of 2012 reveal mostly positive trends. These improvements are gradual, and a full recovery is still several years away, yet the San Diego economy appears to be heading in the right direction.



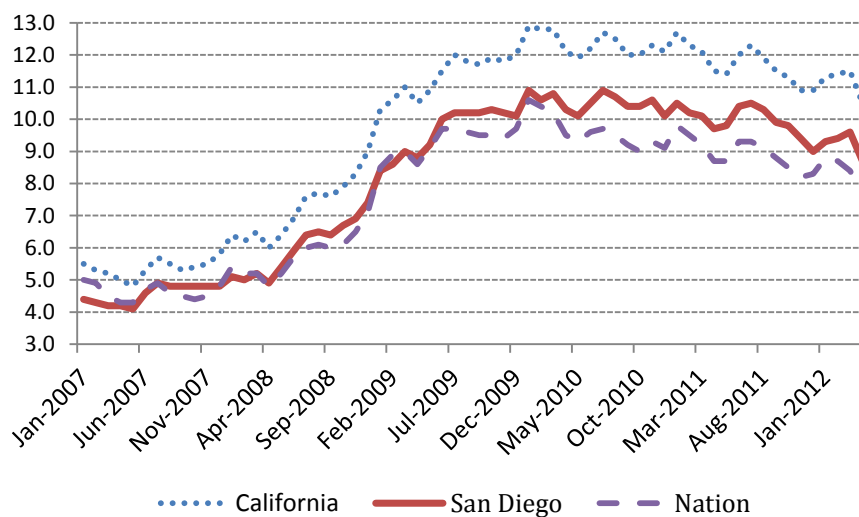
This report discusses economic trends in several areas relevant to San Diego: unemployment, real estate, tourism, and production. These trends are examined from both a long-term perspective spanning periods pre and post-crisis, as well as recent quarterly activity. The data reveals an economy that, much like the state and national economies, is still struggling to fully recover from the recession though making relatively positive strides.

¹ "The Best Cities For Tech Jobs", <http://www.forbes.com/sites/joelkotkin/2012/05/17/the-best-cities-for-tech-jobs/>

II. UNEMPLOYMENT

As Figure 1 below shows, unemployment levels jumped significantly during the recession, as they did in the state and the nation. San Diego's unemployment rate was lower than the nation's rate pre-crisis, although it has experienced a higher unemployment rate than the national average since. When compared to California's unemployment rate, San Diego has remained lower both pre and post crisis. In fact, San Diego's unemployment rate was on average 0.95 percentage points below California's before September 2008, and 1.75 percentage points below since September 2008.

Figure 1: Unemployment Rates: San Diego, California, & National²
(Not Seasonally adjusted)



The San Diego unemployment rate has fallen from its peak of 10.9% in July 2010, yet at 9.6% in March 2012, remains well above pre-crisis levels of 4.5-5%. It does reveal an encouraging trend, however, as every month since January 2011 has seen an unemployment rate lower than that of the same month in the preceding year. While a decrease in year-over-year unemployment rates for 15 consecutive months is certainly

² US Bureau of Labor Statistics: <http://www.bls.gov/data/#unemployment>

positive news, it still indicates that it will take several years for San Diego to have an unemployment rate similar to that of pre-crisis levels.

A number of sectors have made gains in employment since July 2010 while others have witnessed further cuts. Figure 2 displays which sectors have been responsible for job creation in San Diego, and which industries have been suffering. The biggest gains over the past few months have been in leisure and hospitality (as to be expected as tourism season begins), as well as in state and local government and health services. Key happenings over the next few months, such as resolution to President Obama's Health Care Bill and further layoffs within San Diego's Unified School District, are likely to have a strong impact on the San Diego's job market.

Figure 2: Change in Employment: July 2010 (peak of Unemployment) to April 2012³

Industries	Jul-2010	Jan-2012	Apr-2012	Jan 2012 - Apr 2012 Diff
Leisure and Hospitality	159,900	153,700	156,800	3,100
State and Local Government	178,100	182,800	185,200	2,400
Health Services	119,300	123,800	125,800	2,000
Educational Services	23,400	26,600	28,300	1,700
Financial Activities	67,300	66,600	67,800	1,200
Construction	56,200	52,900	54,000	1,100
Professional and Business Services	209,200	214,500	214,800	300
Trade, Transportation and Utilities	196,800	199,600	199,900	300
Information	25,100	23,700	23,300	(400)
Manufacturing	92,800	91,400	90,600	(800)
Federal Government	47,400	46,500	45,500	(1,000)
Total	1,175,500	1,182,100	1,192,000	9,900

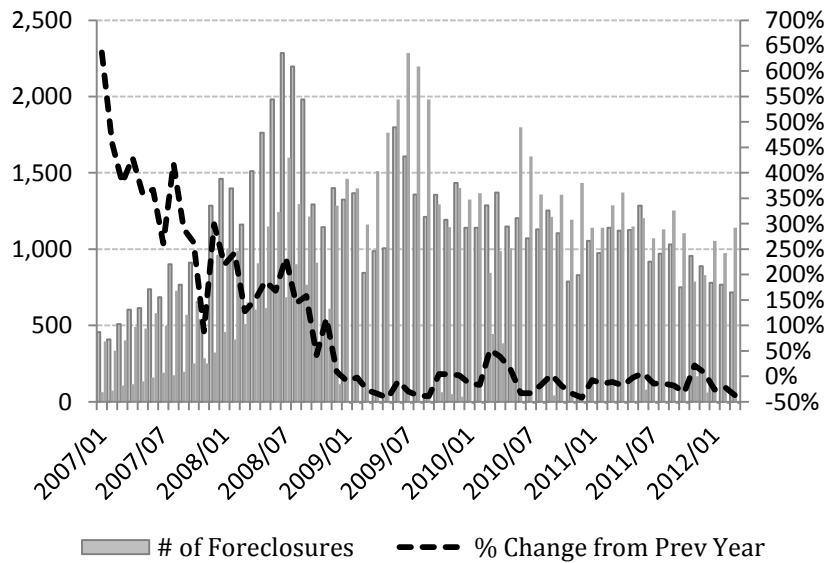
III. REAL ESTATE

The U.S. real estate market collapse in 2006 took a severe toll nationwide, while hitting California especially hard. As illustrated in Figure 3, the number of foreclosures began to climb severely in San Diego in 2006, hitting their maximum monthly level in July 2008 at 2,285. Year-over-year monthly increases continued

³ State of California Employee Development Department Database:
<http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tablename=labforce>

until January 2009 when the trend finally slowed and reversed. Since then, the number of monthly foreclosures has gradually decreased, though the rate of decline has been relatively slow and volatile with some months again showing year-over-year increases. The data from the first quarter of 2012 are some of the most encouraging seen in years with an average monthly decrease in foreclosures of 28% compared to the previous year.

Figure 3: San Diego Foreclosures (Left Axis) & % Change in Foreclosures from Previous Year (Right Axis)⁴



Home prices also dropped precipitously following the real estate market collapse. San Diego’s real estate market was impacted more dramatically than the entire country as a whole, yet prices did not fall as drastically as they did on average in California. From their lowest point in March 2009, San Diego home prices saw a modest recovery up until mid-2010 at which point another slip in prices was observed, albeit far more modest than that which occurred in the midst of the crisis. This downward home price trend has slowed in recent months with the most recent data from February 2012 showing the first year-over-year increase in median home price seen in over a year.

⁴ San Diego County Regional Economic Indicators

Figure 4: Median Home Prices: San Diego, California, & National (in \$'000)⁵

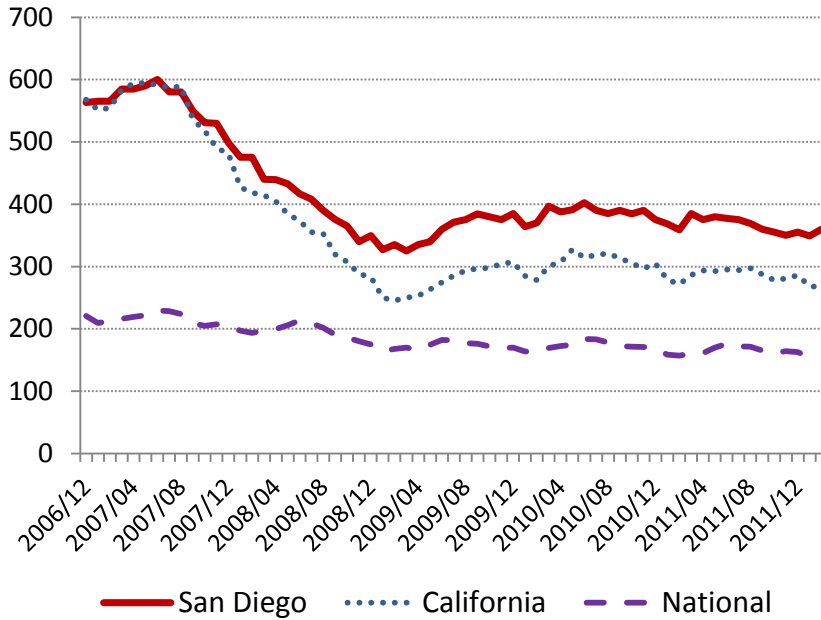
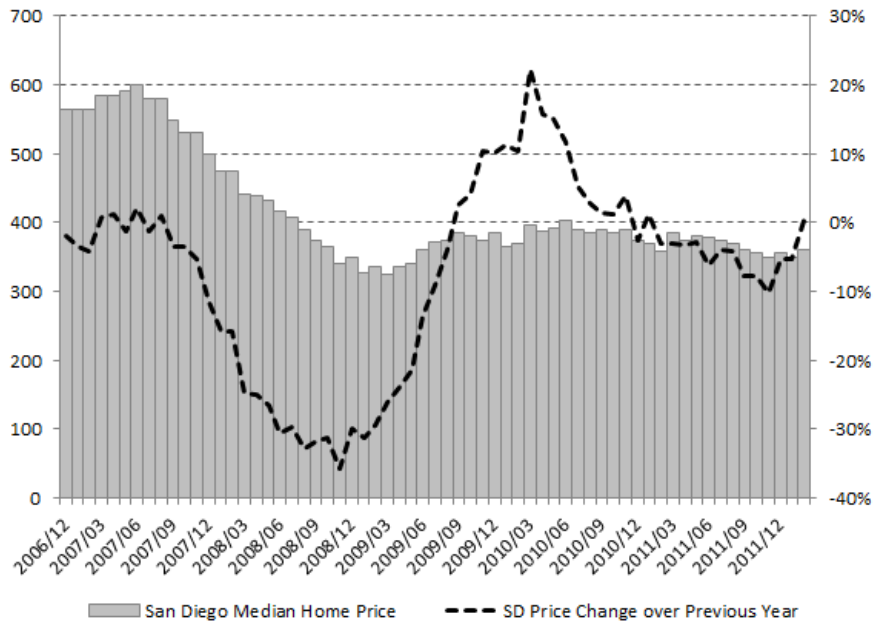


Figure 5: San Diego Median Home Price in \$'000 (Left Axis) & % Change in Price from Previous Year (Right Axis)⁵



⁵ San Diego County Regional Economic Indicators

IV. TOURISM

Ranked 14th in New York Times' list of the top 45 places in the world to visit in 2012⁶, tourism is an important industry for San Diego. It is the third largest industry in San Diego employing more than 152,000 San Diegans⁷. As a central component of the local economy, the tourism industry was significantly affected during the recession. The first quarter of 2012, however, shows that the industry is recovered and thriving.



The health of the industry was measured by examining hotel/motel occupancy rates and the percent changes from 2006 to 2012.

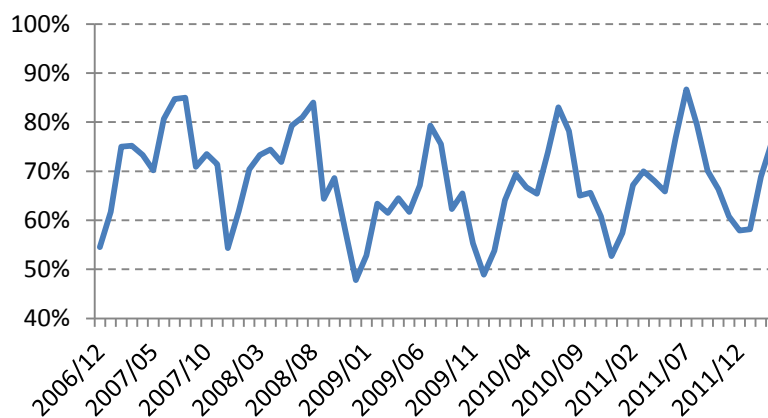
During the worst months of the crisis, occupancy rates dropped as much as 19% as compared to previous years. The

recovery was quick, however, and since

November 2009 year-over-year occupancy

rates have been steadily increasing. The first quarter of 2012 saw an average monthly increase in occupancy rates of 4% from the year before. March 2012 occupancy rates were higher than those of March 2007 – a sign of recovery.

Figure 6: San Diego Hotel / Motel Occupancy Rate (Not Seasonally Adjusted)⁵



⁶ <http://travel.nytimes.com/2012/01/08/travel/45-places-to-go-in-2012.html?pagewanted=all>

⁷ <http://www.sandiego.org/nav/Travel/ResearchAndReports>

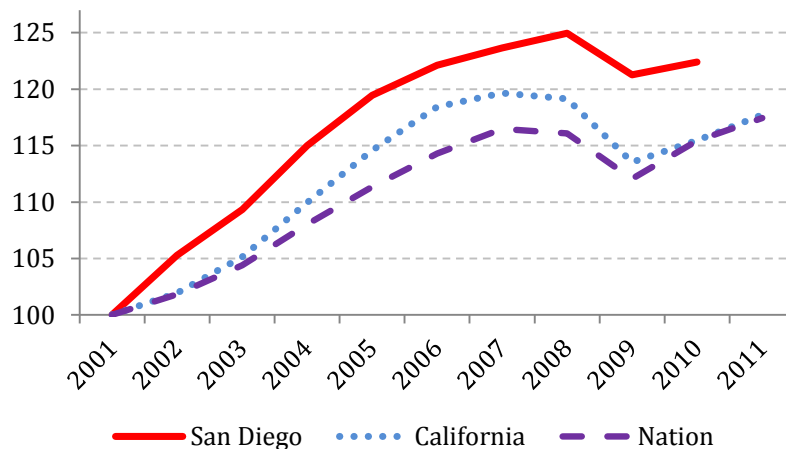
Other recent indicators have also been positive in 2012. For 13 consecutive months, the number of total visitors to San Diego has increased steadily. In March 2012 the number of total visitors increased by 2.3% as compared to the previous year and total visitor spending increased by 9.9%⁸. At this rate the tourism industry can be expected to add to the existing 152,000+ employees in its workforce and help to increase the overall size of San Diego's travel and tourism economy.

V. PRODUCTION

As seen in Figure 7, San Diego's economy has performed more favorably since 2001 than both California and the national economy. The shrinking of the economy during the recession is clearly visible in Figure 8, as well as the subsequent beginning of the recovery. While the economy grew in both 2010 and 2011, projections for 2012 suggests that pre-crisis levels can be reached this year and perhaps even continue to climb. This is significant and positive news for San Diego.



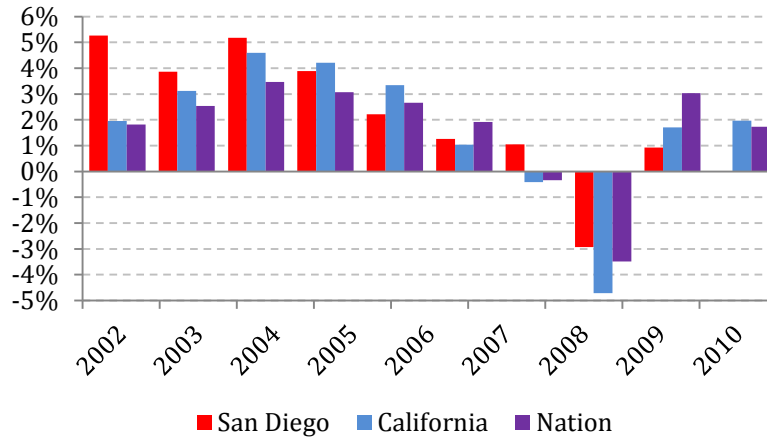
Figure 7: Comparison of GDP Growth : San Diego, California, & National⁹



⁸ San Diego Convention and Visitors Bureau, Monthly Tourism Industry Report, May 2012

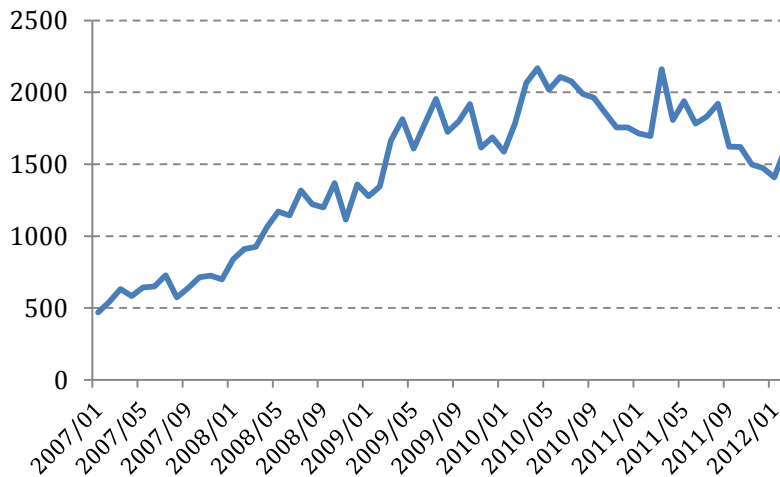
⁹ US BEA Regional Database, US BEA National Database, 2011 GDP data not yet available for San Diego

Figure 8: Comparison of Annual Change in GDP: San Diego, California, & National¹⁰



Moreover, bankruptcies now appear to be firmly declining. From the onset of the crisis, the number of bankruptcies in San Diego continued to grow year-over-year through April 2011, when a critical turning point was reached. At this point, year-over-year numbers began to steadily decrease at a growing rate. While bankruptcies were well above pre-crisis levels in the first quarter of 2012, those numbers are now steadily declining with March 2012 seeing a 46% decrease from the previous year.

Figure 9: San Diego Bankruptcies⁵



¹⁰ US BEA Regional Database, US BEA National Database, National University Economic Ledger

VI. CONCLUSIONS & CHALLENGES

Across a range of indicators, San Diego's economy appears to be moving in the right direction. From unemployment to foreclosures and tourism, the worst of the recession appears to be over. While a full return to pre-crisis levels may remain some years away, persistent positive strides are certainly being made.



Optimism should be tempered with caution, however. The inextricable links that bind our local economy with the state, nation, and globe have been a phenomenal source of growth and advancement for San Diego. At the same time, ripples from troubles throughout the world can also be clearly felt. China's recent economic slowdown and continued economic malaise in Europe pose challenges that could greatly impact San Diego. Conversely, new growth in the U.S., or the rest of the world, could speed up an already advancing recovery. Despite these external components, both positive and negative, there is reason to highlight San Diego's economic progress made in the first quarter of 2012.

This is a joint project of the County of San Diego and the San Diego Regional Chamber of Commerce.

Report compiled by [Export Access Global Consulting](#).

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