

UC SANTA BARBARA

# THE *Current*

March 27, 2008

Jane Donnellan

## **RECESSION IN CALIFORNIA 'ALMOST INEVITABLE'**

The California economy is headed toward a recession and the state's economy "will be worse than that of the United States," according to the Economic Forecast Project at UC Santa Barbara.

Speaking this morning at an economic forecast presentation in San Diego, the project's director, Bill Watkins, a former research economist at the Federal Reserve in Washington, said that California has an economy that is much more volatile than the nation's. Its current weaknesses include the state's budget crisis and the reduced availability of initial-stage venture capital. "These weaknesses, along with a decimated residential real estate sector, imply that, once again, Californians will suffer more difficult economic times than will most Americans," Watkins said. "Even if the United States manages to avoid a recession, California likely will not."

The UC Santa Barbara Economic Forecast Project is a research unit that provides regional, statewide, and national economic data, analysis, and forecasts to the public. According to research by the project's economists, California will lose jobs in the coming months, the tech sector will be weak, and unemployment will climb more rapidly than in the rest of the nation. In addition, domestic migration out of the state will accelerate and California's state budget, already in crisis will get worse. "Local governments will see serious fiscal challenges," Watkins said.

Noting how the state's economy typically outperforms the rest of the country in good times, Watkins said it does quite poorly when the U.S. economy is weak. A chief reason why, he said, is the scarcity of funds to support the early incubation of innovative new ventures. "While secondary and later capital funding rounds are still available, initial-stage venture funding is becoming increasingly scarce," Watkins explained. "This is because the individuals who provide these funds have seen large wealth decreases due to the collapse of the mortgage-backed securities markets, and the market volatility that the collapse has generated."

"This represents a direct hit on California's most dynamic sector," Watkins added. "On top of the stagnant U.S. economic sector and the devastated real estate and support sectors, a weak technology sector is enough to push California into its own recession."

"Our forecast," Watkins concluded, "is for a relatively mild California recession, while we expect the United States to narrowly avoid a recession."

---

## **About UC Santa Barbara**

The University of California, Santa Barbara is a leading research institution that also provides a comprehensive liberal arts learning experience. Our academic community of faculty, students, and staff is characterized by a culture of interdisciplinary collaboration that is responsive to the needs of our multicultural and global society. All of this takes place within a living and learning environment like no other, as we draw inspiration from the beauty and resources of our extraordinary location at the edge of the Pacific Ocean.