



Reuters

## Double digit unemployment in California until 2012

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UNITED STATES -By Jim Christie

SAN FRANCISCO (Reuters) - Double-digit unemployment in California will peak this quarter and grip the state until 2012, slowing its economic recovery and threatening the state government's already fragile budget, a UCLA Anderson Forecast report said Wednesday.

The forecasting unit said the jobless rate of the most populous U.S. state, which would be the world's eighth-largest economy were it a nation, will reach a high of 12.7 percent this quarter and average 11.7 percent this year.

Nearly all of the state's major industries, led by construction and manufacturing, will have slashed jobs this year and most will cut deeper into payrolls next year while California's labor force grows.

That points to the state's unemployment rate averaging 12.0 percent next year and remaining in double-digits even after growth resumes in the following year, the report said.

"The stalled California economy is simply not producing the jobs required for the new entrants to the labor force over the next couple of years to prevent these elevated levels of unemployment to persist once the job lay-offs cease," the report said.

California's job losses from the combined effects of the recession, housing slump, mortgage crisis, credit crunch and sharp pull-back in consumer spending will worsen over the near term as cash-strapped governments cut payrolls, the report said.

It predicted California's total employment would shrink by 4.3 percent this year, by 0.7 percent next year and grow by 1.7 percent in 2011.

A larger-than-expected drop in public spending will also be a drag on the state's economic recovery.

"As these cuts take place, California will grow a little slower than it might have," said Jerry Nickelsburg, a senior economist with the UCLA Anderson unit, noting the severity of the state government's financial troubles.

Spending cuts in the state capital of Sacramento likely will be substantial as officials brace to plug yet another massive state budget deficit.

Governor Arnold Schwarzenegger and lawmakers balanced the state's books in July with a deal full of spending cuts to close a budget shortfall of more than \$24 billion.

Now they must close a deficit of \$20.7 billion, which includes a \$6.3 billion current fiscal year gap and a projected shortfall of \$14.4 billion for the state's next fiscal year, according to the state's budget watchdog agency.

"Addressing this large shortfall will require painful choices -- on top of the difficult choices the Legislature made earlier this year," the Legislative Analyst's Office said in a recent assessment of the state government's financial outlook.

The UCLA Anderson Forecast report noted that "Changes to state spending of this magnitude are always problematic for economic growth."

The report said the keys to California's economic rebound will be upswings in demand for exports of its manufactured and agricultural goods and a recovery in U.S. consumer spending. That would increase demand for products made in California and for Asian imports transported through its ports.

Additionally, increased public works construction and investment in business equipment and software are critical to the state's recovery, the report said. (Editing by Dan Grebler)

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