

We'll grow—but it will be slow

By **BOB SMITH**

California, like the rest of the nation, should begin moving out of the recession in 1981.

But Santa Cruz County will experience a slower-than-average economic recovery compared to the rest of the state.

United California Bank economists believe that the county unlike the surrounding economic regions, will have a year of "slower" than normal growth.

The county's major economic indicators are equal to or greater than the statewide 1981 projections in every area except two — population and housing.

The bank over the last 18 years, has build an impressive record of accurately forecasting economic conditions in the state.

It is believed there will be substantial economic growth in Santa Clara County, fueled primarily by the electronics industry, and moderately good growth in Monterey County.

The Santa Cruz County forecasts, says Bank economist George Kroon, are based on the below-average population and housing growth rates.

Santa Cruz's population growth, Kroon said, will be equal to the state average of 1.7 per cent this year, due in part to the growth management policies in force in the city of Santa

Cruz and the unincorporated areas of the county.

The population growth restrictions also account partly for the poor showing expected by the bank forecaster in the county's housing industry.

"Even though there is a healthy 21.4 percent increase," Kroon says, referring to the county's unanticipated 1981 housing starts over the 1980 level, "it isn't what you find in the rest of the state."

Statewide, even with record high interest rates and a shortage of money, the housing industry is expected to post some 185,000 new housing starts in 1981, a 27.6 percent increase over the 1980 recession year.

Santa Cruz County will see approximately 1,700 of those starts in 1981, a 300-unit increase over 1980.

By contrast, Monterey County is showing a 41.7 percent increase over last year's figures and the San Jose area is expecting a 32.3 percent increase.

Interest rates have soared since the UCB forecast was issued, and have now reached the highest point in the nation's financial history.

But with the anticipation of a reviving economy in 1981, a possible drop in money interest rates, and perhaps new ways found to finance home purchases, Kroon believes the bank's forecast is generally valid for 1981.

Nationally, the housing projections are holding up,

but the California building industry continues to lag behind the rest of the country in coming out of the recessionary slump

Automobile sales have also been hit hard by the spiraling cost of money, and the bank economist now suggests that these two indicators be reassessed in terms of their validity as general indicators of the state's economic health.

"What I'm suggesting is that these common indicators don't reflect the economy now because interest rates are so high," Kroon says.

"But there is a lot of underlying strength in the economy and we are predicting a mild rebound," he adds.

Other forecasters, he notes, believe the economy is headed back into a recession.

The housing industry will be the weakest sector of the county's economy.

The other major indicators are all above state average and the average for the metropolitan areas — of which Santa Cruz is the smallest.

Non-agricultural employment will jump from 56,000 in 1981 to 58,000 in 1981, an increase of 3.6 percent.

Median family income for the county will increase from 1980's \$20,100 to 22,300 in 1981.

And total personal income for the county will increase from \$1,706,000,000 to \$1,938,000,000, a 13.6 percent increase.

Per capita income will probably jump from \$9,485 to \$10,595, an 11.7 percent increase.

And retail sales will jump from \$823 million to \$949 million, a whopping 15.3 percent increase. The jump in retail sales is the largest percentage change forecast for any of the 17 metropolitan areas.

Statewide, UCB Chief Economist Raymond Jallow forecasts California continuing to lead the United States as a whole, but not meeting the rapid growth rates of 1976-1978.

The state's gross state product will reach \$352 billion in 1981, ranking it as the ninth largest producer of goods and services in the world today if it were a separate nation.

"Taking away the effects of inflation, the state is expected to achieve real growth of 4.5 percent in 1981," Jallow said. "This will be more than twice the growth rate for the U.S., as California outpaces the nation for the eighth year in a row.

"The strength in the state's economy will be spurred by increases in defense contracts, expanding demand for computers and electronics, a recovery in consumer spending, and continued growth in exports," he added.

Those that can expect substantial improvement in 1981 or continue to do well include those involved in

energy development, high technology, publishing and broadcasting, and business services.

In contrast to 1980, when manufacturing and construction employment declined, all major industry groups are expected to be expanding their payrolls in 1981.

"The state's economic recovery," Jallow said, "should generate 330,000 new jobs next year, and reduce the unemployment rate to an average of 6.5 percent."

He believes the statewide jobless rate will gradually decline during 1981 and remain below the national average.

"The will extend the trend which began this year, but be in contrast to the pattern of the past 13 years in which California's unemployment rate was considerably higher than the national rate," Jallow added.

The service industries — ranging from health care to engineering will generate 90,000 new jobs in 1981.

Large employment gains will also occur in manufacturing (80,000 new jobs), wholesale and retail trade (65,000) and construction (37,000).

The state will pay for some of its prosperity, however, with a higher-than-average inflation rate of 11 percent compared to 10 percent nationwide, and home prices — up 134 percent since 1975 in California — will go up another 15 percent in 1981.