

Summary of the Economic Impacts of New Housing Construction in California

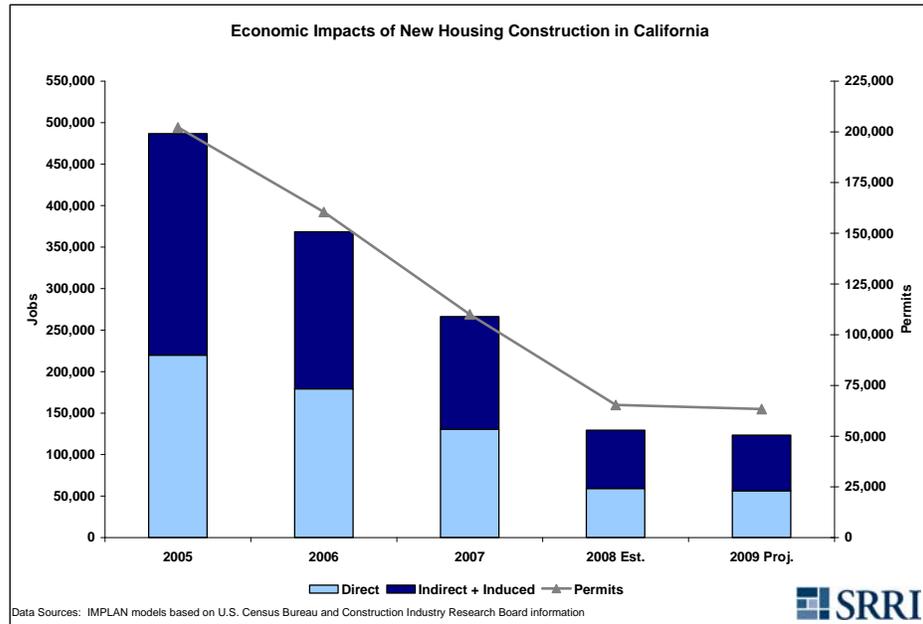
The ongoing economic downturn and housing market slump have perpetuated a significant decline in new housing construction’s contribution to the California economy. The considerable decrease in residential building permit activity has had a dramatic effect on those activities directly related to building new housing units. However, the impacts of new housing construction on the state’s economy do not end with the losses in the construction sector – residential building produces a ripple effect in California as a result of the linkages that occur between construction activities, suppliers of goods and services, and consumer spending. All in all, new housing construction is one of the most visible and widely dispersed industries in California.

Taking into account the full range of economic impacts, there has been a 73 percent decline in the jobs supported by new home construction in the state between 2005 and 2008. In this three-year period, the total employment impacts of new residential construction (including direct, indirect, and induced effects) have plummeted from nearly 487,000 jobs to about 130,000 jobs. Decreases in economic output over this same period are close to 66 percent, falling from \$68 billion in 2005 to around \$23 billion in 2008. Projections for 2009 demonstrate a continued decline of nearly 5 percent below the 2008

employment and output levels.

Overall, the declines in new housing construction’s contribution to the state’s economy are staggering.

As residential permit levels drop, a direct response is seen in the single- and



multi-family housing construction sectors. Directly, new housing construction provided about 220,000 jobs and \$37 billion of output in 2005 – in 2008, this residential construction activity equates to 59,000 jobs and \$13 billion of output while 2009 projections show 56,000 jobs and \$12 billion of output. The ripple effect associated with building new housing creates an impact even greater than that seen in just the direct construction activities. Linked activities (indirect and induced effects) in California supported nearly 267,000 jobs in 2005, falling to 70,000 jobs in 2008 and expected to come in at 67,000 jobs in 2009. The indirect and induced effects on output resulted in

NEW HOUSING CONSTRUCTION IMPACTS

almost \$31 billion of output statewide in 2005 and are estimated at around \$10 billion in both 2008 and 2009. All things considered, the declines in new housing construction reach well beyond the residential construction sector, affecting a wide range of linked sectors and creating an even greater impact on the economy.

ECONOMIC IMPACTS OF NEW HOUSING CONSTRUCTION IN CALIFORNIA					
Year/Impact	Direct	Indirect	Induced	Total	Yr. % Change
Projected 2009 Employment	56,411	37,808	29,241	123,460	-4.7%
Projected 2009 Output	\$12,490,000	\$5,541,807	\$4,213,565	\$22,245,373	-4.7%
Estimated 2008 Employment	59,175	39,660	30,674	129,510	-51.4%
Estimated 2008 Output	\$13,102,000	\$5,813,351	\$4,420,027	\$23,335,378	-41.2%
2007 Employment	130,556	63,084	72,588	266,228	-27.7%
2007 Output	\$21,335,308	\$8,537,544	\$9,845,384	\$39,718,236	-28.1%
2006 Employment	179,294	88,717	100,348	368,359	-24.3%
2006 Output	\$29,614,392	\$11,992,084	\$13,610,057	\$55,216,532	-18.5%
2005 Employment	219,884	129,360	137,510	486,754	3.0%
2005 Output	\$37,158,906	\$15,115,100	\$15,475,289	\$67,749,296	3.0%

Data Sources: IMPLAN models based on U.S. Census Bureau and Construction Industry Research Board information



The California Homebuilding Foundation (CHF) commissioned the Sacramento Regional Research Institute (SRRI) to summarize information from its bi-annual updates to *The Economic Impacts of Housing in California* reports and analyze estimates for 2008 and projections for 2009 using similar methodologies as the more comprehensive studies. This analysis is based on annual U.S. Census Bureau permit and valuation data for new privately-owned housing units for the 2005-2007 period and Construction Industry Research Board (CIRB) preliminary 2008 and 2009 forecast data (from the January 22, 2009 edition of the *California Construction Review* report). SRRI measured the full range of economic impacts using the IMPLAN input-output model calibrated for each year of analysis using the most up-to-date coefficients (including 2003, 2006, and 2007). The economic impact analysis accounts for the direct residential construction activities as well as the related demand on suppliers of goods and services (indirect effect) and consumption activities of those employed directly and indirectly through new home construction (induced effect).

SRRI is an independent economic research and consulting group affiliated with the Sacramento Area Commerce and Trade Organization (SACTO). The Institute provides a full range of economic and demographic research services to businesses, government entities, educational institutions, and non-profit organizations.