



Budget revise draws mixed views

Governor's housing outlook is debated.

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Gov. Arnold Schwarzenegger's revised budget forecast reflects his belief that the state's economy has largely withstood the ravages of the housing slump.

At least one prominent California economist says Schwarzenegger is being overly optimistic. But other analysts said the new forecasts are in the ballpark.

The governor's annual May revision, released Monday, suggests a slight slowdown in tax revenue in the upcoming fiscal year when compared with his original proposal in January.

But the revised \$103.8 billion budget still predicts growth in tax revenue over the current fiscal year, which ends June 30. "California's economy continues to be very sound," Schwarzenegger said at an afternoon news conference.

The revision subtracts about \$500 million in personal income tax revenue and about \$300 million in sales tax from the January forecast.

It also increases by nearly \$250 million the projected revenue from corporate taxes.

The housing market is "pulling our numbers down slightly," said Michael Genest, the governor's finance director.

He said forecasters have been taking the housing slump into account since last spring.

The new projections reflect that the downturn "is just getting a little deeper and lasting a little longer than we thought," he said.

Yet Chris Thornberg of Beacon Economics, a private consulting firm in Los Angeles, said the revision didn't go far enough.

He said the effects of the housing slump are just beginning to ripple through the rest of the economy, noting, for example, the sharp decline in U.S. automobile sales last month.

"In the midst of what's clearly a cooling economy, this isn't realistic -- this is not a realistic budget," he said.

Others disagreed. Chief economist Alan Nevin of the California Building Industry Association said the governor's projections are actually pessimistic when it comes to the housing market.

The governor predicts 132,800 housing starts in calendar 2007, a 19 percent drop. Nevin predicts 150,000 to 155,000 starts. At the peak of the housing boom in 2004, housing starts in the state totaled 213,000.

However, Nevin acknowledged the market has been weaker than he originally believed, and "it would not be wrong for the governor to use a lower number."

G.U. Krueger, an economist with housing investment firm IHP Capital Partners in Irvine, called Schwarzenegger's forecast "very reasonable" but added that things could worsen.

Housing "will very much depend on the national economy holding up, and consumers continuing to spend," he said. "If the consumer gets cranky, it can get dangerous."

But Mark Schneipp, a private economist in Santa Barbara, said the housing market's woes aren't seeping into the general economy as some had feared.

"I don't see a major slowdown under way," said Schneipp, head of the California Economic Forecast consulting firm.

"Yes, consumers are starting to fade a little bit, but they're still spending," he said.
