

2007-2008 Economic Forecast and Industry Outlook Mid-Year Update



Los Angeles County Economic Development Corporation

Special Feature:

Economic performance by area in Los Angeles and Orange counties
and the Riverside-San Bernardino Area

The Headlines

- Slow but decent growth in 2007, better in 2008
- The housing markets continue to act as a brake
- A strike threat in Hollywood -- and maybe the ports
- Best growth prospects in professional business services, tourism & health services

July 2007



The LAEDC thanks the following Business Leaders for their generous support:



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***2007-2008 Economic Forecast
and Industry Outlook***
*for California & Southern California
including the National & International Setting*
Mid-Year Update

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July 2007



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The LAEDC, the region's premiere business leadership organization, is a private, non-profit 501(c)3 organization established in 1981.

Our mission is to attract, retain, and grow business and jobs in Los Angeles County.

From 1996 through May of 2007, the LAEDC has helped retain, attract, or expand more than 133,704 jobs, providing \$5.5 billion in direct economic impact and \$95 million in local tax revenue contributions.

:: Regional Leadership ::

The members of the LAEDC Board of Directors are civic leaders and ranking executives of the region's leading public and private organizations. Through financial support and direct participation in the mission, programs and public policy initiatives of the LAEDC, the board is committed to playing a decisive role in shaping the region's economic future.

:: Business Services ::

The LAEDC's Business Development and Assistance Program provides essential services to local businesses at no cost, including coordinating site searches, securing incentives and permits, identifying traditional and non-traditional financing including industrial development bonds. LAEDC also works with workforce training, transportation and utility providers.

:: Economic Information ::

Through our public information and for-fee research, LAEDC provides critical economic analysis to business decision-makers, media and government. We publish a wide variety of industry-focused and regional analyses, and our Economic Forecast has been ranked #1 by the Wall Street Journal. All our reports are available at <http://laedc.org/reports>.

:: Economic Consulting ::

The LAEDC consulting practice offers thoughtful, highly regarded economic and policy expertise to private- and public-sector clients. The LAEDC takes a flexible approach to problem solving, supplementing its in-house staff when needed with outside firms and consultants. Depending on our clients' needs, the LAEDC will assemble and lead teams for complex, long-term projects; contribute to other teams as a subcontractor; or act as sole consultant.

:: Global Connections ::

The mission of the World Trade Center Association LA-Long Beach (WTCA LA-LB) is to support the international business development of Southern California companies. WTCA LA-LB is the leading trade association and international clearinghouse for the Los Angeles region. WTCA membership includes nearly 300 sister WTCs in 100 countries. Over 750,000 companies are affiliated with WTCA members worldwide. The WTCA LA-Long Beach is a subsidiary of the Los Angeles County Economic Development Corporation. For more information, please visit www.wtcanet.org.

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LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

July 18, 2007

Good Morning Ladies & Gentlemen:

The Los Angeles County Economic Development Corporation is proud to present the *Mid-Year Update: 2007-2008 Economic Forecast & Industry Outlook for Southern California*. The **LAEDC Economic Forecast** is Southern California's premier source for in-depth economic information and analysis on Los Angeles County and the surrounding areas. LAEDC's Economic Research reports are used by the media, government and private industry organizations, and have been ranked #1 by the Wall Street Journal. The forecast report you will hear this morning was produced by the Economic Information Department of the LAEDC under the leadership of Jack Kyser, Senior Vice President and Chief Economist.

The LAEDC releases an economic forecast each year in February followed by an updated forecast in July. Each forecast release is accompanied by an event featuring the insights of leading figures from the business, economic, and financial sectors. The forecast publications and events are highly regarded locally, nationally, and internationally.

Today's event features an expert panel of speakers who will present on topics related to our region's various industries, including presentations about our housing, office and industrial markets and the overall health of our regional and national economy.

I believe that the information you will find in the *LAEDC Mid-Year Update* will be invaluable to you whether you are a business person, policymaker, or an individual seeking information on the Los Angeles-area economy. We provide the forecast and other Economic Information products as part of our mission to attract, retain and grow business and jobs for the regions of Los Angeles County, as well as to identify trends and affect positive change for the local economy.

I thank you for your support of the *Mid-Year Update: 2007-2008 Economic Forecast & Industry Outlook for Southern California*, and for your continued support of the LAEDC.

Sincerely,

A handwritten signature in black ink that reads "Bill Allen". The signature is written in a cursive, flowing style.

Bill Allen
President & CEO
Los Angeles County Economic Development Corporation

I. OVERVIEW OF THE LAEDC MID-2007 ECONOMIC FORECAST

The U.S. Economy

GDP - Slower growth but no recession:	2007: 2.2%	2008: 3.1%
Inflation – moderating:	2007: 2.7%	2008: 2.6%

Leaders

Exports
Government spending
Business investments

Laggards

Housing
Automotive

The California Economy

Industry Leaders

2007	Leisure & hospitality services
	Professional, scientific, & technical services
	Government
2008	Professional, scientific, & technical services
	Leisure & hospitality services
	Government

Industry Laggards

Construction (residential)
Management of companies
Durable goods manufacturing
Management of companies
Information
Durable goods manufacturing

Employment Growth among Metropolitan Areas in Southern California

Leaders

2007	Riverside-San Bernardino area	+2.9%
	Ventura County	+1.4%
2008	Riverside-San Bernardino area	+2.8%
	Los Angeles County	+1.5%

Laggards

Orange County	+0.5%
San Diego County	+0.6%
Orange County	+1.0%
Ventura County	+1.0%

Employment Growth among Industry Sectors in Southern California

Industry Leaders

2007	Professional, scientific, & technical services
	Health services
	Leisure & hospitality services
2008	Professional, scientific, & technical services
	Health services
	Leisure & hospitality services

Industry Laggards

Construction (residential)
Durable goods manufacturing
Finance & insurance
Construction (residential)
Durable goods manufacturing
Information (Los Angeles County)

Employment Growth among Regions in Metropolitan Areas

Leaders

Los Angeles County

Antelope Valley
East San Fernando Valley

Orange County

South County

Riverside-San Bernardino area

I-15 Corridor
High Desert

Laggards

South Los Angeles

Moreno Valley

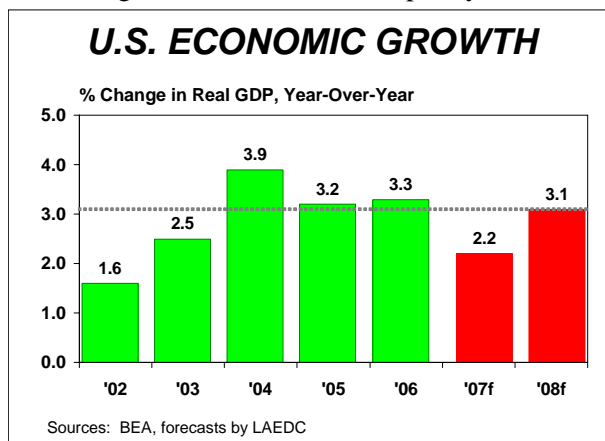
II. OUTLOOK FOR THE U.S. ECONOMY

Overview: Moderate Economic Growth

For three years, the economy enjoyed a nice healthy economic expansion. Gross domestic product (GDP) grew by 3.5% on average between 2003 and 2006. Some 6.2 million new jobs were created, while the unemployment rate declined from 6.0% to 4.6%.

The expansion will continue through 2007 and 2008. However, the boom has matured, and the pace of economic growth is moderating. GDP growth will be about 2.2% in 2007, down from 3.3% in 2006, and will return to 3.0% or so in 2008. This pace should be sufficient for employment to continue rising. However, unemployment will stabilize at about 4.5% in 2007 and climb a bit in 2008.

The ongoing downturn in housing activity, an inventory adjustment in the automotive sector, and somewhat slower growth in business investment spending will be the primary factors restraining the economy for the rest of 2007. These will gradually moderate, which points to a better year in 2008. Steady consumer spending for nondurable goods and services, an improvement in net exports, and government spending will act as offsets. Inflation has been running a bit faster than desired, especially energy and food, but this too looks to moderate over time. The improvement in inflation means short-term interest rates will be stable during the forecast period, while long-term rates will move up only a little.



Household spending to taper down a bit

Consumer spending is the largest sector of the U.S. economy. While the troubles of a few have garnered considerable media attention, most U.S. households are in good economic and financial shape. Employment is growing moderately and will continue to rise through the forecast period. The nation's unemployment rate will stabilize near its currently low rate (4.5%) for the rest of 2007 and then move up to 4.9% by year end 2008.

Most types of household incomes are rising nicely. Wages and salaries were up by 5.5% in the first five months of 2007 compared with the year ago period. Other sources of income also did well. Dividend income rose by 12.8% and interest income by 5.3%. Profits of independent, unincorporated businesses were up by 3.1%. Even the government helped out: government social benefits (Social Security and the like) rose by 7.3%. The bottom line: disposable personal income (net of personal taxes) has grown by a solid 5.5% so far in 2007, more than enough to outweigh consumer inflation, which was up by 2.5%.

In addition to rising incomes, household balance sheets continue to improve. Most of the improvement has come through growth in assets, which rose by an estimated \$3.9 trillion in the year to March 31, 2007 (latest data available). The value of homeowners' equity increased as well as holdings of financial securities. Consumers' debts also rose, but "only" by \$1.0 trillion. As a result, U.S. households' net worth (total assets minus total liabilities) expanded by \$2.9 trillion over the year to March 2007, or by 4.4%.

If household economic fundamentals are so good, why is consumer spending going to taper down? Demand for two types of products will weaken. Purchases of housing related goods, which were strong last year, will follow the declining trend in home sales through the rest of 2007 and well into 2008. And with gasoline prices elevated, consumer purchases of cars and light trucks will be stable at best, with large gas guzzlers losing market share to more fuel-efficient vehicles. More bad news for Detroit.

Table 1: U.S. Economic Indicators

(Annual % change except where noted)	2001	2002	2003	2004	2005	2006	2007f	2008f
Real GDP	0.8	1.6	2.5	3.9	3.2	3.3	2.2	3.1
Nonfarm Employment	0.0	-1.1	-0.3	1.1	1.7	1.9	1.3	0.9
Unemployment Rate (%)	4.8	5.8	6.0	5.5	5.1	4.6	4.5	4.8
Consumer Price Index	2.8	1.5	2.3	2.7	3.4	3.2	2.7	2.6
Federal Budget Balance (FY, \$ bil.)	+\$127	-\$158	-\$377	-\$413	-\$319	-\$248	-\$160	-\$200

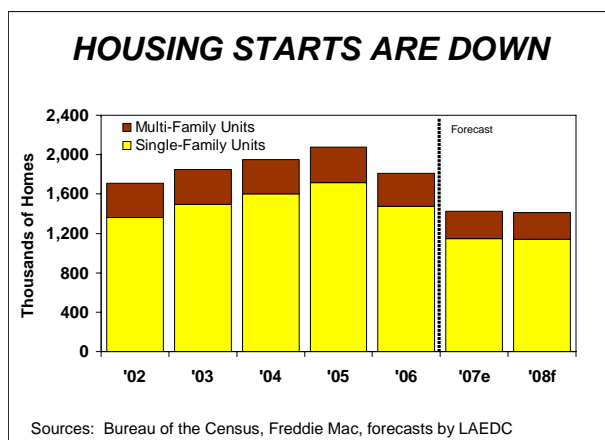
Sources: BEA, BLS, and OMB; estimates & forecasts by LAEDC

Spending for most other types of consumer goods and services should continue to be reasonably healthy. And purchases of discretionary items, including recreation and tourism, will grow nicely. Overall consumer spending (inflation adjusted) is forecast to grow by 3.3% in 2007, the same pace as in 2006, before slowing to 2.6% in 2008.

The housing sector is on a definite downtrend. New housing starts peaked in 2005 at 2.07 million units (annual rate), the highest level since 1972. However, net orders for new homes declined throughout 2006 and fell below the 1.5 million unit level in early 2007. How much more will housing activity decline? We expect activity to drop to around 1.4 million units by summer 2007 and level off until the latter half of 2008.

Mortgage credit is still available to finance most "prime" homebuyers (those with strong, well documented credit and income histories). However, rates are higher and terms are stricter for nontraditional mortgages, and credit for subprime borrowers is much more difficult to secure. As of June 2007, mortgage commitment rates ranged from 5.58% for the average one-year adjustable rate mortgage to 6.66% for a 30-year fixed rate. While rates were little changed from June 2006, lenders now must comply with newly issued, stricter guidelines required by financial institution regulators.

Mortgage rates are not expected to change much more in 2007 but will drift higher in 2008; the thirty-year fixed rate could approach 7.0% by year end, though the timing is uncertain. The increased cost of acquiring a new home will dampen housing demand. Net-net, total housing starts are forecast to decline from 1.8 million units in 2006 to approximately 1.4 million units in 2007/2008.



Business Investment Spending Continues to Grow

Business profits and cash flows have grown much faster than the economy for five years. However, growth has slowed markedly. Adjusted corporate profits during the first quarter of 2007 were up by 6.5% compared to first-quarter 2006. Adjusted corporate cash flow increased by only 3.2% over the same period. This pace represented a sharp slowdown from 2006, when profits were up by 21.4% and cash flow by 12.5%.

In 2006, businesses used their cash to purchase more equipment and software. However, equipment spending actually declined late in the year and turned up only moderately in early 2007. Demand for construction machinery dropped off--as might be expected, given the decline in residential activity. Heavy truck sales have declined as well, due to tightened engine emissions requirements. However, we expect continued strong demand in several sectors: oilfield equipment, agricultural equipment, commercial aircraft, and high tech computers and communications equipment and software.

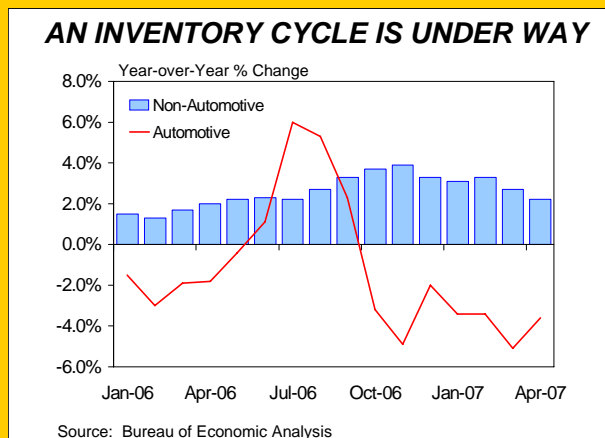
Business investment in nonresidential structures has been growing strongly. More improvement is expected for the rest of the forecast period, though the rate of growth will fade. Spending for new lodging, offices, ethanol plants, and communications and power facilities will likely lead the way. Also, we expect continued growth in energy drilling activity.

Profitability is expected to continue growing through the rest of 2007 and 2008, though at a markedly slower pace than recently. Internal cash flow will continue at a high level and provide much of the wherewithal for businesses to purchase new plant and equipment. Business spending for equipment and software is forecast to grow by 2.6% in 2007, reflecting the lackluster performance seen early in the year, and pick up to 6.1% in 2008. Meanwhile, spending for nonresidential structures will increase by 6.3% in 2007 and taper off to 3.5% in 2008.

An inventory cycle is under way

Inventories are mostly invisible outside the manufacturing and distribution sectors. But sometimes they matter a lot to the economy. Business attempts to reduce stocks of materials, components, parts, and finished products pulled down the economy during the fourth quarter of 2006 and the first quarter of 2007. Indeed, the drag from cutting business inventories was just as important as the decline in housing construction.

Normally, inventories grow along with the economy, as businesses increase stocks to support higher levels of production and sales. Sometimes, however, sales fall below expectations, and unwanted inventories build up. The only solution is to reduce production until stocks are back in balance. That adjustment is taking place now, primarily in the automotive sector but also among manufacturers of goods tied to housing construction and sales.



As seen in the chart above, inventories at U.S. vehicle and parts manufacturers, wholesalers, and retailers declined in the latter part of 2006 and early 2007. Meanwhile, non-automotive inventories have grown relatively steadily. The automotive drawdown is particularly noticeable among domestic vehicle manufacturers and their suppliers on the one hand and car/truck dealers on the other. Geographically, the major impact is primarily in the Midwest automotive centers--especially Michigan, Ohio, and Indiana--and wherever domestic make cars, light and heavy trucks are produced.

Government spending -- still rising

The current forecast anticipates more growth in federal purchases of goods and services through the rest of 2007 and 2008. Together, the wars in Afghanistan and Iraq are costing over \$150 billion this year, and Medicare spending is rising at double-digit rates, partially due to the new drug program. On the other hand, spending for hurricane relief and reconstruction has dropped sharply. As a result, real (inflation adjusted) federal purchases of goods and services will increase by only 0.8% in 2007 before returning to the 3.0% range in 2008.

While state and local government purchases of goods and services will continue to expand, growth likely will slow in line with revenues. Most states experienced stable financial conditions through midyear 2007. The only discussions were whether to increase spending or reduce taxes. However, a growing number of states are concerned about slowing revenue growth, which will constrain spending in the future. [For example, total revenues in California increased by 9.2% in fiscal year 2005-2006 (ending June 30, 2006) but grew by only 2.5% in fiscal year 2006-2007 just ended.] The LAEDC forecast that state/local purchases (inflation-adjusted) will grow by 2.9% in calendar year 2007, edging down to 2.5% in 2008.

Net Exports -- Foreign Trade Growth to Continue

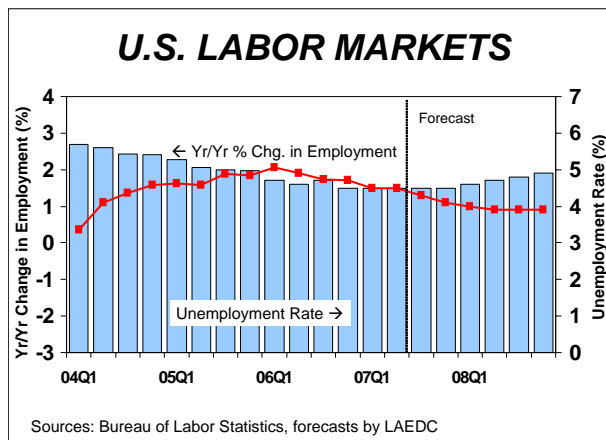
Exports--foreign purchases of U.S. products--are growing rapidly. Inflation adjusted exports of goods and services increased by 8.9% in 2006 and were up by 6.0% in early 2007. Exports of U.S. made capital goods are leading the parade, especially high tech equipment and aircraft & parts, and exports of U.S. consumer goods also are growing at double-digit rates. Mostly, this performance reflects healthy economic growth in the rest of the world, which is expected to continue during the rest of the forecast period. Also, the value of the U.S. dollar on foreign exchange markets will continue to decline, which makes U.S.-made products even more competitive on world markets. We expect continued good growth in exports -- at least 5+% per year -- in both 2007 and 2008.

Meanwhile, U.S. businesses and households also are purchasing more abroad as well as buying domestically produced products. Measured in constant dollars, U.S. imports grew by 5.8% in 2006. Imports grew by only 2.4% in early 2007, reflecting U.S.

businesses' attempts to reduce inventories and sluggish automotive sales. U.S. purchases of foreign-made goods and services are forecast to increase by only 2.8% in 2007 and revive to a 3.7% pace in 2008.

Labor market conditions

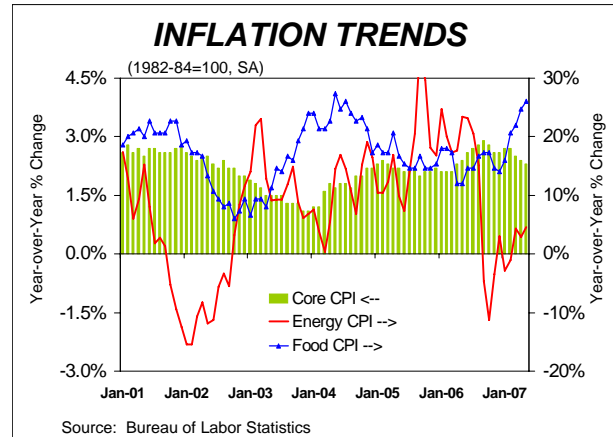
Despite the slowdown in economic growth, U.S. labor market trends continue to be very favorable. The U.S. unemployment rate, which hit a cyclical high of 6.3% in June 2003, dropped back to 4.5% late in 2006 and stayed near there through June 2007. This rate is below the economy's generally accepted "sustainable full employment" unemployment rate. Because economic growth is forecast to slow to the 2%-plus range in 2007 and then pick up moderately, the nation's jobless rate could rise a little, though no big increase is expected. Meanwhile, nonfarm payroll employment continues to rise at a reasonably healthy pace. U.S. employers hired 2.0 million more workers in the year to June 2007, an increase of 1.5% over that period. Employment will continue to grow throughout the forecast period, rising by about 1.3% in 2007 and by 0.9% in 2008.



Employee compensation increased by 2.8% in year ended March 2007, despite the low level of slack in the nation's labor market. Wages and salaries paid to civilian employees increased by 2.7% during that period, while benefit costs grew at a 3.4% rate. Looking forward, the firm tone of U.S. labor markets suggests that wage increases should accelerate a bit. On the benefits side, employers have shifted an ever larger proportion of health insurance burdens onto their workers in order to contain rising costs. It's not clear whether this trend can continue. Thus, we expect overall employee compensation costs to escalate at a somewhat quicker pace during the forecast period--by about 3.1% during 2007 and perhaps 3.3% in 2008. Many businesses will have to boost labor productivity and/or to raise prices to offset their rising labor costs.

Inflation

Inflation was uncomfortably high in 2005/2006, but appears to be decelerating in 2007. This statement might be difficult to accept for most consumers, coming as it does on the heels of yet another surge in gasoline prices. But aside from food and energy, price increases for "core" consumer goods and services (neither food nor energy) seem to be relatively well behaved. During the first five months of 2007, core CPI prices were about 2.5% above the year-ago level, compared to a 2.2% increase in 2006 over 2005.



Going forward, we assume that gasoline prices will remain high--still too high for comfort--and will rise and fall seasonably (up in the summer, down a bit in the fall) during the rest of 2007. If that happens, and prices of other goods and services follow current trends, then total CPI ("headline inflation" in the U.S.) will rise by an average rate of 2.7% during 2007 and 2.6% in 2008.

Crude oil prices have been on a wild ride in 2006-2007. The price of oil ended 2005 at about \$59 per barrel (using the West Texas Intermediate spot price) and then soared above \$74 per barrel in July 2006. From the peak, WTI prices went downhill, reaching \$54 per barrel in January 2007. Then up again: prices averaged about \$67 per barrel in June 2007. As of this writing (July 2007), the WTI price is again north of \$70 per barrel.

Most of the factors driving crude oil prices in 2007--strong global economic growth--outside the U.S. at least--and a seemingly endless list of risks to refinery capacity and global oil supply on the other--seem unlikely to change much over the next two years. Most industry observers expect oil prices to stabilize in the \$62/barrel to \$65/barrel range this year and a little more (\$64/bbl. to \$66/bbl.) in 2008. There will continue to be considerable volatility whenever supply issues move to the forefront.

Meanwhile, natural gas prices finished 2005 on a high note--about \$13 per thousand cubic feet--but then dropped back to the \$6/mcf to \$8/mcf range and have remained there ever since. For natural gas prices, weather is the real question mark. Cold winter weather increases demand and prices and vice versa. Ironically, hot summer weather has the same effect, because many of the newer electric power plants are fueled by natural gas.

Going forward, if weather patterns across the nation are "normal," industry observers forecast that natural gas prices (delivered to Henry Hub, LA) will average about \$8/thousand cubic feet in 2007 and somewhat higher in 2008, up a little from an average \$6.93/mcf in 2006.

Monetary Policy and Interest Rates

The Federal Reserve set the target federal funds rate at 5.25% at its June, 2006 Federal Open Market Committee meeting and has made no changes since then. Such a long period of inactivity is unusual but not unheard of. A long quiet period occurred between March 1997 and September 1998 (a total of 18 months) and, before that, an even longer pause between July 1992 and March 1994 (almost 21 months).

Still, the Fed has had a surprising amount to say about why it's not doing anything. Currently, monetary policy is attempting to reduce the rate of inflation without bringing on an economic recession. Economic growth is slowing, mostly because housing sector activity turned down and the automotive sector is weak. Consumer inflation has subsided a bit, though it is not yet where the Fed would like it to be. However, the economy is placing demands on productive resources. In particular, the nation's unemployment rate, at 4.5% in June 2007, is well below the 5% "full employment unemployment rate." And the industrial capacity utilization rate exceeds 80%. This is enough to keep policymakers on high alert until/unless the inflation rate drops more than currently expected.

As the FOMC itself stated, the Federal Reserve is now in "data dependent" mode, watching to see if inflation will break out of its current range--on the upside or down. From an economic policy perspective, the core headline inflation rate (which excludes food and energy) has been hovering just above its "comfort zone." The Fed is also closely watching labor market trends, especially the unemployment rate and wages, which account for over 70% of U.S. nonfinancial corporations' costs.

This situation has interesting implications. If the incoming data appear to calm down--the housing industry reaches bottom and inflation behaves, as we expect --the Fed will choose to stand pat. On the other hand, if the indicators seem to suggest economic growth is rising and inflation is worsening, the Fed may well raise the fed funds rate more than once between now and the end of 2008. [Unless the unemployment rate turns up sharply, it seems unlikely the Fed will cut rates any time soon.]

After several years at unusually low levels, long rates finally turned up during the first half of 2006, only to relapse again later in the year. There was a repeat performance in the second quarter of 2007. The 10-year Treasury note yield rose from 4.5% in December 2005 to 5.1% at midyear 2006, then dropped back to 4.6% in December 2006, and was back up to 5.1% by June 2007. Over the same period, the 30-year fixed mortgage rate increased from 6.3% to 6.7%, retreated to 6.1%, and then rose to 6.7% again.

The outlook for long-term interest rates is uncertain, and recent history certainly doesn't provide many clues. Dollar depreciation and rising interest rates abroad may well push long rates up in the U.S. However, there will be downward pressure on rates if inflation abates. It seems prudent to expect long-term rates to rise a little more--but not much more--during the forecast period. Expect the 10-year note yield to rise to 5.2% by the end of 2007 and to 5.4% by year end 2008, while the fixed mortgage rate goes up to 6.7% and 6.9% over the same periods of time.

Fiscal policy

U.S. fiscal policy is a neutral influence on the economy. The federal budget deficit will drop to perhaps \$160 billion in fiscal year 2007 (ended September 30, 2007), a 35% decline from \$248 billion in fiscal 2006. The improved deficit picture reflects rapid increases (+11% each) in personal and corporate income tax revenues. Meanwhile, despite huge bills for the wars in Afghanistan and Iraq, federal spending is growing somewhat more slowly, as relief and rebuilding efforts wind down in hurricane-ravaged areas along the Gulf Coast. If the LAEDC forecast holds, slower economic growth in 2008 will moderate the pace of revenue growth. Already growth in corporate income tax receipts has fallen to the low single digits. Without reductions in spending, the federal budget deficit could well increase in fiscal year 2008, back up to the \$200 billion range.

Table 2: U.S. Interest Rates

(4 th quarter averages, %)	2000	2001	2002	2003	2004	2005	2006	2007f	2008f
Fed Funds Rate	6.5	2.1	1.4	1.0	2.0	4.0	5.3	5.3	5.3
Bank Prime Rate	9.5	5.2	4.5	4.0	4.9	7.0	8.3	8.3	8.3
10-Year Treasury Note Yield	5.6	4.8	4.0	4.3	4.2	4.5	4.6	5.2	5.4
30-Year Fixed Mortgage Rate	7.6	6.8	6.1	5.9	5.7	6.2	6.3	6.7	6.9

Sources: Federal Reserve Board; estimates & forecasts by LAEDC

Alternatives to the Forecast

The baseline forecast calls for the U.S. economy to grow at a 2%-plus pace in 2007 and about 3% during 2008. Consumer spending will be relatively good, except for automotive and housing related items. Exports and government spending will continue growing at a more-than-comfortable pace. This will offset the current moderation in business investment spending and the outright decline in housing activity. Inflation appears to have stabilized, though energy prices are expected to remain volatile and relatively high during the forecast period.

A number of uncertainties make forecasting the U.S. economy difficult at this time. We have made several assumptions in the LAEDC forecast that might not come to pass. The most important of these include the following:

1. The length/depth of the housing downturn. The housing and real estate industries have their own inventory problem: a large and growing stock of unsold new and existing homes. How low must new home construction fall to clear them out? What will the absence of subprime buyers--who are having trouble finding willing lenders with terms they can afford--mean to future home sales? A related question: foreclosed homes also must be sold; how many will there be? And [how much] will home prices decline?

Optimistic industry observers expect the construction downturn to bottom out "soon," i.e., before the end of the year. Pessimists don't expect the industry to bottom out until 2009. We're pretty optimistic [but we have our fingers crossed.]

2. The length/depth of auto industry restructuring. The current inventory cycle is exacerbated by the "Detroit Three's" long-term loss of U.S. sales and market share to foreign-owned makes. This means the required adjustments in productive capacity as well as rates of output are concentrated in the traditional automotive states--especially Michigan, Ohio, and Indiana--while the rest of the industry is stable or growing. The adjustment is complicated as the U.S. domestic companies need to work with the auto union to find the least painful way to shrink their side of the industry (more job cuts will be needed but where and when?). Longer adjustment plans may be less problematic for the economy in the near-term but will hinder economic redevelopment in the areas affected.
3. Crude oil prices. This uncertainty is due to two unpredictable factors: the weather and U.S. refinery operations. On the upside, we could have just a few Gulf hurricanes in 2007/2008 with little or no damage to production facilities. Separately, the U.S. refineries currently offline for maintenance and repairs might [finally!] get fixed, come on-stream, and run smoothly. Energy prices might even decline. On the downside, we could have another round of damaging Gulf hurricanes that destroy production facilities, pushing prices up sharply as in 2005.
4. Global economic growth. Most forecasters have been surprised by the strength--and breadth--of the global economy this year, outside the U.S. Forecasts are being revised upwards. Growing exports are a major upside factor in the U.S. economic outlook. There are both upside and downside risks here.

We simply do not know the answers to these questions. Only time will tell.

The Subprime loan mess

What are subprime loans? These loans are made to subprime borrowers, who have lower household incomes (perhaps not well documented), patchy credit histories (like late bill payments), and often carry a lot of non-mortgage debt. The number of subprime loans has grown rapidly in recent years. About one in seven (13.7%) of all mortgage loans outstanding in the U.S. is a subprime loan, either fixed-rate (FRM) or adjustable-rate (ARM).

Why are they a problem? Who is affected? Subprime mortgages are a problem mainly for mortgage lenders, borrowers, and investors in mortgage-backed securities. According to the Mortgage Bankers Association, 13.8% of subprime loans were delinquent (more than 30 days late in payments or in foreclosure) as of March 2007. By comparison, only 2.6% of prime mortgages were delinquent. Not surprisingly, lenders are raising standards for granting subprime loans, which will make them more difficult to obtain in the future.

The lenders' problems will get worse over the forecast period. Subprime loans accounted for more than 20% of mortgage originations (new mortgage loans) in 2005-2006. And some 5/6s of the recent subprime loans were ARMs. The majority were "2/28s" and "3/27s," with a fixed rate for the first two/three years and then due to reset at the current market rate. Thus, the 2/28s issued in 2005 are resetting in 2007. And in 2008, the 2/28s from 2006 and the 3/27s from 2005 will reset.

Unfortunately for the 2005/2006 borrowers, market interest rates have risen over this time period; so their ARMs will reset to a higher rate. The majority of borrowers will see their monthly payments rise by more than 25%, meaning increases of over \$400/month. While it may be a struggle, many subprime borrowers will manage the problem by renegotiating or refinancing

their mortgages (assuming they still have enough equity). Inevitably, some borrowers won't be able to make the higher payments; their loans go delinquent and then into foreclosure. About 1.3% of all mortgage loans were in the foreclosure process as of March 2007. This figure is expected to increase.

Who owns the problem mortgages? Many mortgages are not held by the direct lenders. Instead, they are "packaged" (into RMBS, or residential mortgage backed securities) and sold to investors in the secondary mortgage market. This procedure provides the lenders with new funds to make still more loans and gives RMBS buyers an interest-bearing asset tied to residential real estate. Ownership of RMBS is widely distributed and includes financial institutions, pension funds, mutual funds, and hedge funds in the U.S. and abroad.

Problem: if some of the mortgage loans in a package go into default or foreclosure, that package is no longer as valuable as when it was purchased. The owners will have to write down the value of their asset and take a loss. Needless to say, demand for the most risky mortgage securities has shriveled up. Some hedge funds have had to shut down because they couldn't sell their holdings. And dozens of subprime lenders have closed because they lost their financial backers.

So far, the subprime disease has not spread to other types of risky debt. However, interest rates for less-than-prime business and household borrowers have increased. And the capital markets get "twitchy" whenever there is news of another subprime casualty.

The biggest problem, so far unrealized, would arise if the contagion were to spread from the subprime mortgage sector to borrowers with good credit. The resulting credit crunch would affect the whole economy.

III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

Select Country Overviews

The Americas

Latin America and the Caribbean will grow by or slightly less than 5.0% in 2007 down from 5.5% in 2006. Demand for the region's primary commodities remains strong and high interest rates are attracting investment from abroad. Stock markets in **Brazil, Chile, and Mexico** recorded strong performances in the first six months of 2007 (up 19.9%, 29.0%, and 16.8% respectively). Brazil and **Colombia** saw their currencies appreciate sharply against the U.S. dollar in the first six months of 2007 (up 10.1% and 12.9% respectively). Analysts are split as to whether global liquidity and recent macroeconomic reforms undertaken by area governments will have long-lasting positive impacts in terms of sustained growth and poverty reduction should the global economy worsen.

The **Canadian** economy will grow by 2.2% or slightly faster in 2007 after expanding by 2.7% in 2006. The U.S. economic slowdown is affecting Canadian exports of manufactured products and home building materials. The strengthening of the Canadian dollar against the U.S. dollar (9.3% during the first half of 2007) has also increased demand for imports in Canada. The federal budget surplus is expected to decrease through the end of 2008. Prime Minister Stephan Harper, leader of the minority Conservative government, will likely call for parliamentary elections by the end of 2007.

The **Brazilian** economy is expected to grow by 4.0% in 2007 after 3.7% growth in 2006. Lower inflation and interest rates will help fuel consumer spending (including housing for lower middle income families). However, demand for imports will likely increase. President Luiz Inacio Lula da Silva will maintain the prudent macroeconomic stewardship demonstrated during his first four years in office during his second term, which began in January. Only a year or two exists for badly needed reforms in public investment spending and tax policy to be adopted before political attention will begin to drift towards the 2010 presidential election. Infrastructure bottlenecks and high taxes continue to limit growth and job creation in Brazil.

After growing by 4.8 percent in 2006, the **Mexican** economy will slow to a rate of 3.5% or less in 2007 as a result of the slowdown in exports to the United States. A decline in oil prices would reduce growth even further. In June, the Mexican Supreme Court invalidated anti-competitive provisions of a 2006 media law. This action boosted Mexican President Felipe Calderon's efforts to breakup the monopolies and duopolies that control many of the country's key economic sectors. Also in June, President Calderon announced a plan to increase government revenues by imposing new taxes, closing corporate loopholes, and increasing tax collection from the informal economy. Critics of the proposed reforms warned that the changes could end up increasing taxes for businesses and discourage the hiring of skilled labor. Growth in remittances is expected to slow in 2007 as Mexicans working in the U.S. construction industry are impacted by the drop-off in home construction activity.

Argentina's economy will grow by 7.6% in 2007 down from 8.5% in 2006. The economy continues to benefit from strong demand for the country's primary commodities. The Argentine Central Bank will continue to issue Argentine pesos in order to keep the value of the peso low. This intervention has boosted exports and helped fuel economic growth; however, it has also led to increasing inflationary pressures. Bottlenecks and scarcity of financing will likely cause GDP growth to decrease substantially beginning in 2008. Argentina's electricity sector remains vulnerable to blackouts due to a lack of investment. Tax, banking, and provincial-federal fiscal reforms are unlikely to occur ahead of the scheduled presidential elections in October 2008. Facing growing unpopularity with rising inflation and energy cuts, President Nestor Kirchner announced in late June 2007 that he would not seek reelection but instead will support the presidential candidacy of his wife, Senator Cristina Fernandez.

Asia

China's GDP growth, as reported by the Chinese government, continues to stun many observers. For 2006, China's GDP growth was 10.7%, while inflation was just 1.5%. Its current account surplus rose from 1.7% of GDP in 2000 to 7.2% in 2005.

China is now the fourth largest economy in the world and may overtake Germany in a year or two. However, the huge income disparity between coastal and inland provinces is worsening, and this has become a source of social instability.

Investing in the stock market has become the new national pastime in China. Regulation and transparency in Chinese stock markets lag behind Western standards. In recent months, Chinese equity prices have plunged several times when the government announced efforts to "cool" the stock market (e.g., increasing taxes on trading). People pour their savings into the domestic stock market partly because of a lack of alternative investment vehicles.

There are also signs of real estate market bubbles deflating in some cities like Shanghai. Many luxury apartments and villas were built for sale to foreigners. Vacancy rates for Shanghai's apartments and villas are in the double-digits, and many units were bought by foreigners are unoccupied. Property values have started to fall again after a slight recovery last year, and the average rent has continued a decline that started in 2005. On the other hand, office rents have been rising rapidly thanks to the influx of foreign companies doing business in China.

The 2008 Beijing Olympics will be China's chance to showcase to the world that it has become a modern society. Massive redevelopment efforts are transforming Beijing and its residents. In order to reduce air pollution in Beijing, factories have been forced to shut down or relocate, and its subway system will be enlarged by over 100%.

Recent discoveries of improper use of chemicals in food and other products have led to concerns over imports from China. Even though only a small portion of Chinese exports are affected, the perception affects the image of all Chinese products.

China is the largest trading partner with Southern California, and its growth and problems are of serious concern to the local economy. Southern California is a major transit hub for goods coming from and/or going to China, and thousands of jobs depend on trade-related activities. China's environmental problems and the Olympics buildup are also opportunities for Southland's engineering

firms. The large local Chinese population also serves as a bridge between China and U.S. firms.

China may see slightly slower growth in 2007 and 2008 because of higher raw material prices and a weaker economy in the U.S., its largest export market. Inflation is starting to pick up, mainly because of higher food prices caused by diseases and the diversion of corn into ethanol production, which raised the cost of animal feed (sound familiar?).

Japan has seen a strong economic recovery in the past few years under the leadership of former Prime Minister Koizumi. Its GDP growth of 2.1% in 2006 will be followed by slightly stronger rates of growth in 2007 and 2008. Koizumi's successor, Prime Minister Abe, has continued the fiscal reforms but his administration has been plagued by scandals. The Liberal Democratic Party (LDP) will likely lose some seats in the upper house of parliament in the July election, where it currently has a slight majority. LDP may lose the majority control of the upper house if it loses significant ground. But the overall trend of further reform may not be derailed even with a change in government. Most Japanese citizens have witnessed the economic revitalization and are supportive of reforms. That's a big change for this normally conservative society. This change in attitude may be the most important legacy of the former prime minister.

Japan is the second largest trading partner with Southern California. The Los Angeles region is home to North American headquarters of many Japanese multinational firms, including Toyota and Honda. Their growth is our gain.

This year marks the tenth anniversary of the 1997 Asian Financial Crisis, but for **South Korea** those dark days seem a distant memory. Its GDP growth of 5.0% in 2006 will be followed by slightly slower growth in 2007 and 2008. In the years since the Asian Financial Crisis, new regulations have been implemented to strengthen South Korea's financial markets and its banking industry. Its budget surplus also allows the government more leeway to fine-tune the economy.

Korean mobile phones and LCD/plasma TVs are some of the hottest gadgets around, and Korean cars are making significant inroads into the U.S. market. In fact, "magnetic & radio recording &

playback devices," which include TV sets and video cameras, were the largest product category of Korean exports to the Los Angeles customs district, accounting for over 14% of all exports. South Korea is also a leader in online gaming, which has much higher penetration in East Asia than in the U.S.

The U.S.-Korea Free Trade Agreement (KORUS FTA), if approved, will further promote bilateral trade, which means more business for the most important gateway between U.S. and Korea -- LAX and the twin ports. The KORUS FTA would be the largest trade agreement negotiated with the U.S. since the signing of the North American Free Trade Agreement (with Canada and Mexico) in 1993. However, the possibility exists that the agreement along with other pending trade deals may be held up indefinitely in the U.S. Congress as the 2008 election approaches.

India is the emerging giant of South Asia, and not just in terms of population. It has been experiencing strong economic growth, thanks to economic reforms by the economist-led government of Prime Minister Manmohan Singh. India is now a major player in IT-enabled services ranging from software development and network monitoring to loan application processing and customer service (e.g., call centers). "Service sector jobs" once thought to be safe in the U.S. are no longer so safe, thanks to advancements in information technology.

India's real GDP growth was 9.2% in 2006, though slower growth is forecasted in 2007 and 2008. Inflation, running between 5% and 7%, is a serious concern in India. However, the government is reluctant to tighten its monetary policies because it needs to create jobs for the growing population. Its budget deficit also means limited options for the government to use expansionary fiscal policies to offset the effects of a monetary policy tightening.

India's real bottlenecks to economic growth may be its horrific bureaucratic red tape and poor infrastructure such as roads and electricity generation & distribution.

Without adequate opportunities in the homeland, many top Indian graduates go overseas for careers in science, engineering, and medicine. This brain drain is another deterrent to broad-based economic growth in India. At the same time, the lack of

basic education for a large portion of the rural population means a less productive workforce in the coming years. India will need to support its manufacturing sector in order to absorb the growing workforce. Its export-oriented service sector simply cannot generate enough employment opportunities for the nation's poorly-educated workers. In addition, rising salaries for Indian tech employees are beginning to force foreign companies to consider other countries for offshoring options.

Europe

The 13-country **Euro area** economy will grow by at least 2.5% or slightly more in 2007 after growing by 2.3% in 2006. Weaknesses in the area's major economies will be less pronounced than expected, especially in the case of Germany. The unemployment rate in the area reached a historical low in May 2007 (7.1%). Inflation is a concern for the European Central Bank (ECB), making further increases in the Euro area's interest rates likely before the end of 2007. Since December 2004, the ECB's key interest rate has doubled. Leaders at the European Union Summit in June 2007 failed to include meaningful economic reforms in the proposed treaty that will replace the unimplemented 2004 EU constitution.

The impact of the increased value-added tax on **Germany's** economic performance in 2007 has been less than expected. The economy will grow at the same rate as in 2006 (2.8%) or slightly less. Increased investments, exports, and government spending will combine to offset decreases in private consumption. Slowing growth in developed economies (including the United States) threatens to reduce demand for German exports. Reform of business taxation remains a top goal of Chancellor Angele Merkel.

The **United Kingdom's** economy will grow by 2.6% in 2007, down from 2.8% last year. In early July 2007, the Bank of England (BOE) increased its key interest rate to 5.75%, the fifth increase of the year. While inflation has subsided from the 3.1% rate in the year ending in March 2007 to 2.5% for the 12-month period ending in May, the rate still exceeds the BOE's annual target of 2.0%. Other signals exist that suggest that the economy is running at capacity (e.g., increased business investment). Further interest rate increases could

diminish consumer spending and trigger a decrease in home prices. Gordon Brown replaced Tony Blair as Prime Minister at the end of June. As *Chancellor of the Exchequer*, Brown oversaw the macroeconomic policies that resulted in continuous growth and low inflation during Blair's decade-long period as Prime Minister.

France's economy will grow by 2.0% in 2007 down from 2.2% in 2006 as the country's trade deficit increases. Newly elected President Nicolas Sarkozy has made conversion of the French economy into a more business friendly environment with increased labor market flexibility a top priority. Sarkozy is expected to cut taxes but without decreasing government expenditures. France's fiscal deficit is now one of the largest in the Euro-zone area. The popularity of generous worker protections and public services will make implementation of significant reforms difficult.

Despite modest economic reforms, the **Italian** economy will grow at the same rate in 2007 as in 2006 (1.9%). Prime Minister Romano Prodi has targeted tax evasion (estimated to be equal to nearly 30% of Italy's GDP) in order to increase revenues. The government's deficit is expected to fall below the Euro-area Growth and Stability Pact's 3% requirement. Prodi is also expected to scale back or make significant concessions in the government's plans to reform public services, energy, and public pensions. Stronger than expected growth in Germany (Italy's top export market) is boosting demand for Italian goods.

Spain's economy will grow by 3.5% or slightly less in 2007, after expanding by 3.9% in 2006. After strong growth in the first quarter of this year, increasing debt levels and interest rates will weigh down spending by consumers and businesses. A sharp drop in home prices and construction activity could cause the economy to slow even more. Prime Minister José Luis Rodríguez Zapatero will likely not pursue economic reforms beyond the reduction of the tax burden for individuals and businesses.

High oil prices and increased foreign direct investment will help **Russia's** economy to grow by 6.5% in 2007, down from 6.7% in 2006. Capacity constraints and appreciation of the ruble will act as a drag on growth over the next year and beyond. The government budget surplus is forecasted to

disappear over the next couple of years as spending increases ahead of the 2008 elections. Russia's aggressive campaign to increase its control of shipments of Central Asian gas and oil to import-dependent Europe raises the possibilities of regional supply cutoffs in the future. President Vladimir Putin has increased state control of key economic sectors in particular the energy industry. Economic reforms ahead of Russia's entry into the World Trade Organization have stalled in some areas.

Foreign Exchange Rates

The gradual depreciation of the U.S. dollar has caused serious disruptions to business planning for many foreign companies. U.S. current account deficits and the potential diversification of foreign exchange reserves by other governments may lead to further depreciation of the greenback in the coming years.

European businesses have probably been hit the hardest by the decline in the U.S. dollar. The **euro** has appreciated by over 60% since its low in mid-2001 (from US\$0.827/€ on 10/25/2000 to US\$1.352/€ on 6/30/2007). While this has greatly benefited European tourists and reduced inflationary pressure in Europe, many exporters are crying the blues. On the other hand, European companies have used the declining US\$ to increase their investments in U.S. companies.

"Dollar parity" used to be phrase describing the euro and US\$, but now it's more like a phrase describing the **Canadian dollar** and US\$. The C\$ has risen by 45% in value against the US\$ over the past five years and now it is around C\$1=US\$0.94. With the U.S. taking in 80% of Canadian exports, the fall of the US\$ has caused significant pain for Canadian exporters of non-energy products. Just to be fair, the Canadian dollar is also rising on the wave of growing Canadian energy exports (e.g., oil and natural gas), which rose from US\$31.4 billion in 2002 to US\$76.5 billion in 2006. Much of that growth has come from increased crude oil output. High world oil prices have made oil extraction from Canadian oil sands economically feasible.

The **Japanese yen** has actually depreciated against the US\$ since 2005, despite the economic recovery and large current account surpluses. While some believe these are signs of currency manipulation by

the Japanese government, others point to factors that may have pushed yen to such low levels. One is the attempt by the central bank to combat deflation by pushing short-term interest rates in Japan to nearly zero. The yen carry trade exploded. Investors borrow from Japanese institutions in yen and buy foreign currencies to purchase higher-yielding foreign securities. They profit from the interest rate differential (as long as the yen does not appreciate unexpectedly). Individual Japanese savers are also induced to invest overseas to earn higher returns. These developments will likely self-correct as the central bank raises the interest rates further. However, these developments also could cause an overshooting of the Japanese currency if something causes the carry traders to unwind their positions quickly. (As they sell foreign securities to purchase and repay the yen they borrowed, the yen will appreciate even further.)

Chinese renminbi (RMB) has appreciated by 8.7% (as of 6/30/07) against the US\$ since July 2005. The controlled appreciation is not progressing as fast as some U.S. politicians and businesses would like to see, but it seems to be sufficient to prevent retaliatory efforts from the U.S. Congress.

What concerns the U.S. more is China's plan for its foreign reserves of over US\$1.2 trillion. China has indicated a desire to diversify its foreign reserves instead of concentrating on US\$-denominated assets. As the largest holder of U.S. Treasuries, China plans to launch an investment agency later

this year to try to earn better returns for its foreign reserves. Already, it invested US\$3 billion in the Blackstone Group, a highly successful investment firm.

China's diversification of its foreign reserves is hardly unique. Many countries have announced similar plans, including Kuwait and UAE. (Six Persian Gulf states have a combined \$1.6 trillion in foreign reserves!) Kuwait abandoned its currency peg to the US\$ in May. It needs the monetary policy flexibility to combat inflation. Others may follow soon.

None of the big players are too eager to pull back on their US\$-denominated holdings. Doing so might drive down the value of the US\$ and thus the value of their holdings, however. In recent months, some countries have chosen to increase their investment in US\$-denominated assets other than U.S. Treasuries. We should expect a gradual diversification instead of a dramatic exodus.

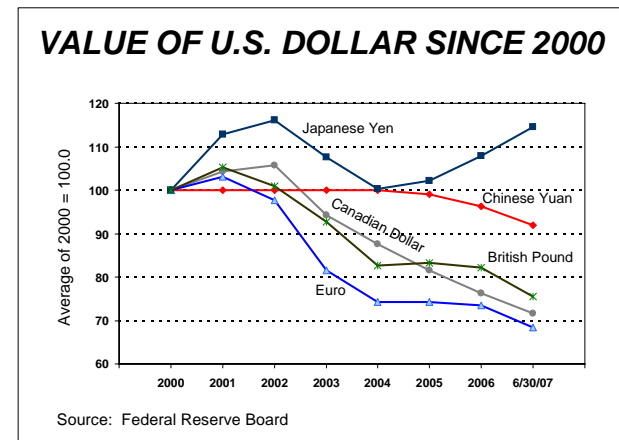


Table 3: Year-over-year % Change of the Value of US\$ Relative to Key Currencies
(Depreciations in **bold typeface**)

Country (currency unit)	2005	2006	6/30/07 vs. 12/31/06	6/30/07 vs. 6/30/06
Broad currency basket (index)	-2.6%	-2.0%	-2.8%	-4.0%
Canada (C\$)	-6.9%	-6.4%	-8.7%	-4.6%
China (yuan)	-1.0%	-2.7%	-2.5%	-4.8%
Euro Zone (€)	-0.1%	-0.9%	-2.4%	-5.5%
India (RP)	-2.8%	2.7%	-8.0%	-11.5%
Japan (¥)	1.8%	5.6%	3.7%	7.8%
Mexico (peso)	-3.5%	0.1%	-0.1%	-4.4%
South Korea (₩)	-10.6%	-6.8%	-0.8%	-2.7%
U.K. (£)	0.7%	-1.2%	-2.4%	-7.8%

Source: Federal Reserve, G.5A release

Alternative energy & pollution control -- issues & impacts

In recent years, high fossil fuel prices have induced a rush to develop alternative fuels for both consumer and industrial uses. The same solutions can reduce both the use of fossil fuel and greenhouse gas (GHG) emissions.

Alternative fuels and power systems for transportation uses are the focus of much R&D because they likely offer consumers the greatest amount of economic gains from technological improvements. Transportation accounts for roughly 28% of the energy usage in the U.S. and causes roughly 31% of the GHG emissions. Buyers also hope that new technologies will drive down their transportation bills. On the issue of national security, everyone agrees that the U.S. should reduce its dependence on foreign oil or at least diversify the sources of its supplies.

Some alternative fuels and power systems are already in the market today, and they cut both gasoline usage and pollution. Automotive use of gasoline-electric hybrid technology has shown the world what is possible. More advances are on the way. Both the gas-electric hybrid and natural gas technologies still rely on fossil fuels, and the carbon they release is not recycled. Therefore, they're considered to be interim solutions.

Some current vehicles can use non-fossil fuels with little modification. Biofuels are made from recently living biomass. In the U.S., the most common biofuel is corn-derived ethanol, which is

already used as a gasoline additive to cut emissions. However, most gasoline engines in the U.S. will require some modifications to burn ethanol at higher concentrations.

The problem with most biofuel (including biodiesel) is the method of creation and its impact on the environment. Corn, the crop most commonly used to make biofuel in the U.S., is an extremely inefficient source. Switching from gasoline to corn-derived ethanol incurs great environmental and financial costs but does little to reduce the release of GHGs. In the long run, the technology that offers the lowest point-source emissions and independence from petroleum may be hydrogen fuel-cells, but significant technological challenges remain.

Many activists have criticized the U.S. and Australia for not signing the Kyoto Protocol, which sets limits on GHG emissions in developed countries. Most developing countries (e.g., China and India) have ratified the treaty, mainly because they are not required to reduce their GHG emissions! The non-participation of China is one of the key objections to Kyoto Protocol by the U.S. government. Without China's participation, the overall global GHG emissions target cannot be met, even if all developed countries achieve their obligations.

Meanwhile, consumers are left to fend for themselves. Unable to make any significant impact on prices, they can cut demand in a variety of ways to limit the damage. That helps to reduce GHG emissions as well!

IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

The main drama for California in 2007 was supposed to be the downturn in the housing industry, but some other issues have muscled their way on stage, including drought, labor negotiations in some key industries, a possible state-mandated health care plan, and an intense focus on the environment. Moreover, the housing situation has spilled into the financial arena, with concerns over high levels of foreclosures on sub-prime loans as well as job losses at California based lenders.

Growth in California in 2007 will slow, with a 1.6% increase in nonfarm employment compared to a 1.9% gain in 2006. Still, a recession should be avoided. The most notable pain in 2007 will be felt in industries closely tied to housing, especially the new home building and resale housing sectors.

In 2008, economic growth in the state will pick up a little speed despite on going problems in housing. A modest acceleration is expected in 2009.

Positive forces for the balance of 2007 and for 2008

Several important industries will continue to post good growth over the forecast time frame, including international trade; professional, scientific & technical services; technology and tourism. Nonresidential construction and public works construction will also provide considerable support. Around the state, some major projects stand out, including a 1,000 room hotel in San Diego, a sports arena in Ontario, and the LA Live project in downtown Los Angeles. Also, rail transit projects are underway in both Los Angeles and San Francisco.

California's bio-medical industry got a boost from the resolution of legal issues for its research bonds. Grants are currently being distributed to entities around the state.

Some negative forces

The number of new housing permits issued in the state will slide by 27.2% in 2007 to 119,400 units, followed by a further decline of 4.5% in 2008. One question on people's minds is how many foreclosed homes will hit the market, and where will they be concentrated? Another is will there be further negative impacts on residential lenders?

Finally, the big question is when will the state's housing market rebound, and what type of a recovery will it be? The market should start to show more life by early 2009, but the recovery won't be vigorous.

Another negative for the state in 2007 has been high gas and diesel prices. While there has been some recent relief, energy costs will continue to act as a brake on consumer spending.

Another worry is labor contracts in key industries like entertainment and foreign trade. 2008 will be particularly intense with the directors and screen actors guild contracts and the longshoremen's contracts all up for renewal at mid-year.

Other items to consider

There was high interest in the state regarding Federal immigration reform. The agricultural industry has been struggling with labor shortages for several years, and was hoping for some relief. Thus, there was disappointment (and continued uncertainty) over the legislation's failure.

Land costs in the San Francisco and Los Angeles areas have moved to new high levels (some observers wonder if they can be maintained). These costs are having impacts on industry location decisions. In retailing, some operations are closing as a result of steep lease rate hikes.

"Green" is also high on the state's agenda, with both AB 32 (the green house gas legislation) and the push for stricter vehicle mileage standards. Several industries will be on the firing line, including agriculture, construction, transportation services of all types, and international trade.

Trends in major industries

Agriculture: As noted, labor availability has been a challenge for several years. The ag industry has also been impacted by air quality issues in the Central Valley. Energy and feed grain costs have been added to the "headache" roster, as has water availability. Forecasts for a hot summer in 2007 have not been good news, as this will drive operating costs higher.

Every so often, the state's agriculture industry faces the threat of a pest (remember the Mediterranean fruit fly?), and the latest is the "light brown apple moth." It has a hearty appetite for all kinds of fruits and vegetables, and efforts are being made to control it.

However, the decline in the value of the U.S. dollar has been good news, with exports of agricultural products on the rise. California has also caught "ethanol" fever, with an increase in corn planting. Finally, the housing slump has stemmed the rush to buy cropland in the northern part of the San Joaquin Valley for development.

Farm employment in the state has been moving in a narrow range, with a modest gain of 3,000 jobs estimated for 2007, moving the annual average to 380,000 workers.

International trade: Environmental and security issues continue to bedevil this industry. For example, there is still no firm date for implementation of the long-anticipated TWIC (Transportation Worker Identification Credential). And, there is still debate over its impact on the availability of port truck drivers (a significant number are thought to be undocumented). A state senator has proposed (again) a container fee at the ports of Los Angeles, Long Beach and Oakland, with the money dedicated to congestion relief and

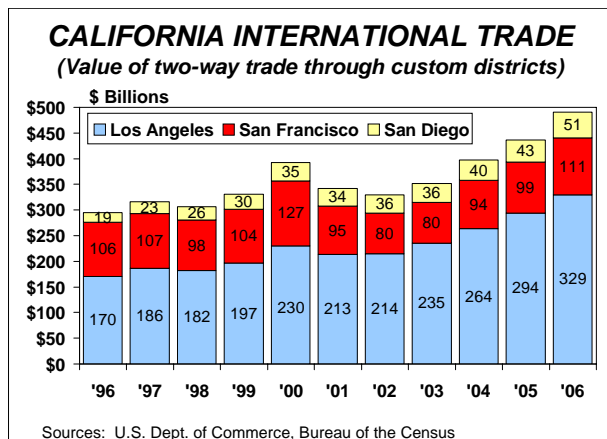
environmental clean-up. However, the legislation is very controversial, and is being opposed by both the agriculture industry and retailers. Also controversial is a proposal by the ports of L.A. and Long Beach to subsidized replacement of old trucks, as well as change the employment status of the independent drivers. And looming in mid-2008 is the ILWU contract, although negotiations will start early. This is important, as some shippers are already diverting business from the West Coast to avoid possible problems.

On the business front, 2007 got off to a somewhat unusual start, with soft trends in import activity and vigorous export business. For 2007, a modest 6.1% increase in two-way trade value is estimated for the state's three customs districts, to a total of \$522.6 billion. While the Los Angeles and San Diego district's will both move to new high levels of activity, the San Francisco district will still be below its 2000 high.

Tourism: So far in 2007, there has been good news (a weak U.S. dollar) and bad news (high gas prices) for the state's tourism industry. Hotel occupancy rates in the four major travel markets have held at high levels, while operators have been able to push up average daily room rates. One result is that hotels have become hot real estate commodities, with lots of sales of existing properties (indeed entire chains), as well as construction of new facilities. The two most notable among the latter are a 1,000 room hotel next to San Diego's convention center, and the long awaited (about 20 years more or less) convention center hotel in downtown Los Angeles, which will be part of the LA Live complex.

Anaheim hosted "Pow Wow" in April (a major national and international tourism and travel show). The rule of thumb is that the host area (which could be considered all of Southern California) sees a bump in business in the next few years. The cheap U.S. dollar is also a help, although the travel industry is grouching about the difficulty foreign travelers are having in getting visas. Another potential clinker is the deterioration of airline service, both domestically and internationally.

Indian gaming is another aspect to the state's tourism industry, with lots of new and/or expanded projects proposed. The positive trends for tourism should hold in 2008.



Trends around the state

All the larger metro areas in the state will grow in 2007, with the laurels going to Bakersfield (a 4.7% increase in nonfarm employment from 2006 – it is benefiting from a spill-over from the Los Angeles area), and the Riverside-San Bernardino area (a 4.0% gain) despite the slowdown in homebuilding.

The three Bay Area metro areas are back on a solid growth track, with nonfarm employment expanding by 2.4% from 2006 to 2007 in both the San Francisco and San Jose areas. Oakland will come in with a 1.4% increase. The latter area's actual employment count will hit a new high level in 2007, of 1,061,000 jobs. However, both San Francisco and San Jose have a way to go. The employment high for San Francisco of 1,082,100 jobs was attained in 2000, with the 2007 forecast at 984,000 jobs. Similarly, San Jose hit a peak of 1,044,300 jobs in 2000. Its 2007 employment forecast is for 913,000 jobs.

Net results

Nonfarm employment in California will grow by 1.6% or 240,400 jobs in 2007, and by 1.7% or 259,800 jobs in 2008. This should be characterized as "decent" growth. The strongest sectors will be: leisure & hospitality services (+45,500 jobs in 2007); government and professional, scientific & technical services, with 45,000 new jobs each. Construction will lose 12,000 jobs during the year. The state's unemployment rate will average 5.3% in 2007 and 5.4% in 2008.

Total personal income will increase by 5.6% in 2007 and by 5.8% in 2008. There is no Consumer Price Index (CPI) for the state as a whole, but the Los Angeles area's CPI should rise by 3.1% in 2007, while the San Francisco area's index should increase by 3.5%. With consumers feeling price pressures and the slowdown in the housing market, taxable retail sales should grow by 4.6% in 2007.

The big news is the sharp decline in new home construction in the state. After sliding by 21.5% in 2006, the number of permits issued is estimated to drop by another 27.2% in 2007. A further slippage of 4.5% is forecast for 2008. The state's housing market will stabilize in early 2009, and the rebound will be moderate.

Some what of an off-set will come from nonresidential construction, where a 15.5% increase in permit valuations is expected in 2007. Public sector construction will also provide support.

Risks

The housing downturn could be deeper than expected, with a larger-than- expected supply of foreclosed units hitting the market. The risk is greatest in the inland areas of the state, where there were high levels of new construction. Foreclosures in these locations are rising sharply. The state's budget situation has gotten a little strained. The slowdown in housing has curbed gains in property and sales tax flows, as well as causing some consumers to be more cautious in their overall spending. The cost of doing business in the state could become more onerous. The biggest concerns are the proposed health care plan coming out of Sacramento, the impact of the greenhouse gas legislation, and a possible change in Workmen's Compensation Insurance. Lurking are state and local government's obligations for providing health care to retirees. There are hefty dollar amounts involved.

Gross Product

People always ask about the state's gross product ranking among the nations of the world. They also ask about where the Los Angeles five-county area would rank. When they get this information, they promptly get confused, often attributing the state's ranking to Southern California. To help keep things straight, call it the "rule of 8 . . . 15 . . . and 17." The state ranks 8th, the five-county area places 15th while just Los Angeles County ranks 17th (based on what can be measured) among the nations of the world.

The State's and L.A. regions' rankings did not change in 2006. In recent years, rankings have changed quite dramatically because of foreign exchange rate fluctuations (i.e., US\$ vs. €). Looking forward, the three areas' rankings for 2007 are also unlikely to change, unless there is drastic fluctuation in certain foreign exchange rates. Overseas, China will most likely surpass Germany as the third largest economy on earth.

As to growth in gross product, in 2006 the U.S. recorded a 6.3% gain (not adjusted for inflation), while California recorded a 6.9% increase, helped along by stronger growth in the five-county area, up by 7.9%. Southern California's inflation-adjusted gross product will increase by 2.1% in 2007, while the state will see 2.0% growth. These can be compared with the nation's estimated 1.8% gain in GDP.

Table 4: Gross Product Comparisons, 2006

All nations with gross product over US\$200 billion
(In billions of US\$; based on 2006 avg. exchange rate)

Rank	Country/Economy	GDP	'05-'06 chg.
1	United States	\$13,244.6	6.3%
2	Japan	4,367.5	-4.4%
3	Germany	2,897.0	3.8%
4	China	2,630.1	17.7%
5	United Kingdom	2,373.7	6.5%
6	France	2,231.6	4.9%
7	Italy	1,852.6	4.9%
	California	1,727.4	6.9%
8	Canada	1,269.1	12.1%
9	Spain	1,225.8	8.8%
10	Brazil	1,067.7	34.2%
11	Russia	979.0	28.3%
12	Korea	888.3	12.8%
13	India	886.9	14.9%
14	Mexico	840.0	9.3%
	Los Angeles 5-co. area	793.1	7.9%
15	Australia	754.8	6.5%
16	Netherlands	663.1	5.3%
	Los Angeles County	446.8	8.6%
17	Belgium	393.6	5.9%
18	Turkey	392.4	8.3%
19	Sweden	385.3	7.4%
20	Switzerland	377.2	2.6%
21	Indonesia	364.2	29.5%
22	Taiwan	355.7	2.8%
23	Saudi Arabia	348.6	12.5%
24	Poland	338.7	11.7%
25	Norway	335.3	13.4%
26	Austria	321.9	5.4%
27	Greece	307.7	36.4%
28	Denmark	276.6	6.5%
29	South Africa	255.2	6.6%
30	Ireland	222.1	10.6%
31	Argentina	212.7	17.2%
32	Iran, Islamic Republic of	212.5	10.5%
33	Finland	210.8	7.5%
34	Thailand	206.3	19.1%

Note: Most of the changes in ranking came from exchange rate fluctuations.

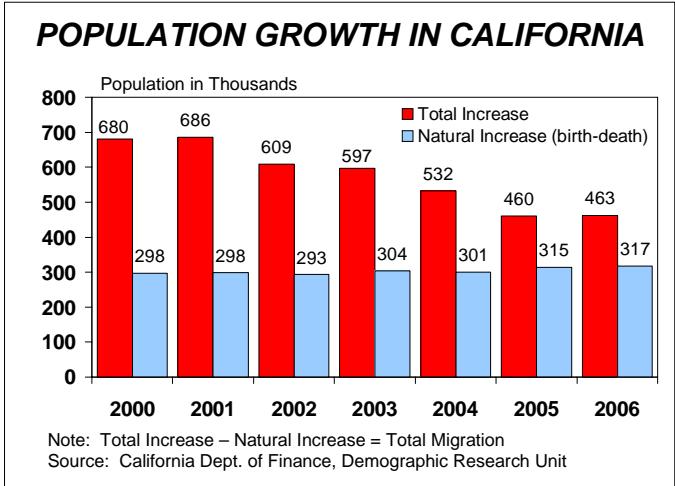
Sources: IMF and LAEDC estimates

Table 5: California Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ billions)	Value of Two-way Trade (\$ billions)	Housing Unit Permits Issued	Nonres. Building Permits (\$ millions)
2000	34,098.7	14,488.2	4.9	1,103.842	32,372	287.068	392.1	148,540	18,625
2001	34,784.4	14,602.0	5.4	1,135.304	32,638	293.957	341.2	148,757	16,753
2002	35,393.0	14,457.8	6.7	1,147.716	32,428	301.612	329.8	167,761	14,529
2003	35,990.1	14,392.3	6.7	1,187.000	32,981	320.217	350.3	195,682	13,915
2004	36,522.0	14,530.4	6.2	1,268.000	34,719	350.173	397.2	212,960	15,689
2005	36,981.9	14,797.7	5.4	1,335.400	36,110	375.808	436.3	208,972	18,266
2006	37,444.4	15,072.8	4.9	1,421.000	37,950	393.847	492.4	164,044	21,101
2007e	37,904.4	15,313.2	5.3	1,500.600	39,589	411.964	522.6	119,400	23,740
2008f	38,366.4	15,573.0	5.4	1,587.600	41,380	433.386	574.9	114,000	25,760
2009f	38,831.4	15,857.7	5.2	1,681.300	43,297	459.823	633.5	122,000	28,100

% Change

'01/'00	2.01%	0.79%		2.85%	0.82%	2.40%	-12.98%	0.15%	-10.05%
'02/'01	1.75%	-0.99%		1.09%	-0.65%	2.60%	-3.34%	12.78%	-13.28%
'03/'02	1.69%	-0.45%		3.42%	1.71%	6.17%	6.22%	16.64%	-4.23%
'04/'03	1.48%	0.96%		6.82%	5.27%	9.35%	13.39%	8.83%	12.75%
'05/'04	1.26%	1.84%		5.32%	4.01%	7.32%	9.84%	-1.87%	16.43%
'06/'05	1.25%	1.86%		6.41%	5.10%	4.80%	12.86%	-21.50%	15.52%
'07/'06	1.23%	1.59%		5.60%	4.32%	4.60%	6.13%	-27.21%	15.49%
'08/'07	1.22%	1.70%		5.80%	4.52%	5.20%	10.01%	-4.52%	12.00%
'09/'08	1.21%	1.83%		5.90%	4.63%	6.10%	10.19%	7.02%	12.00%



Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept. of Commerce; Construction Industry Research Board; all estimates and forecasts by the LAEDC

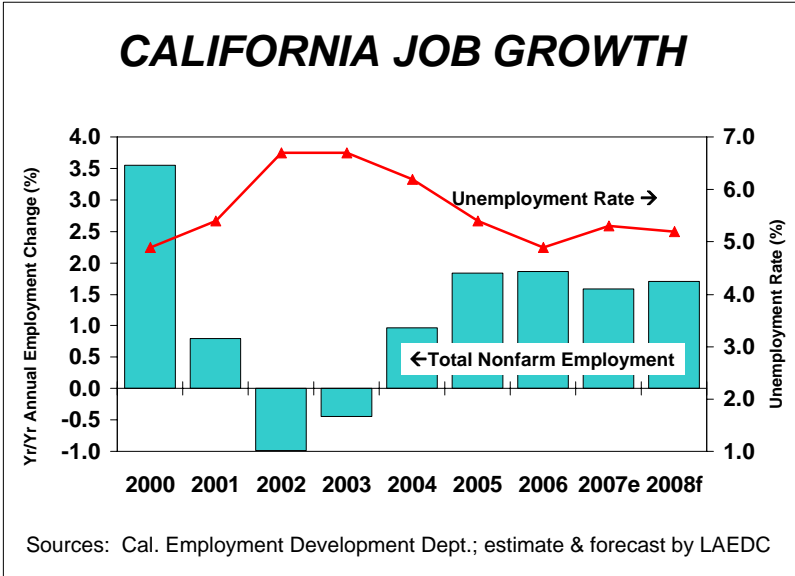
Table 6: California Nonfarm Employment

(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Non-durable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	14,488.2	26.5	733.4	1,864.0	1,217.2	646.8	646.2	1,563.4	518.3	576.7
2001	14,602.0	25.6	780.4	1,791.1	1,173.9	617.2	658.9	1,575.9	514.1	551.9
2002	14,457.8	23.1	774.4	1,644.5	1,059.6	584.9	652.1	1,582.2	491.0	497.3
2003	14,392.3	22.2	796.8	1,554.5	988.5	566.0	649.5	1,588.4	480.6	476.1
2004	14,530.4	22.8	850.4	1,533.1	975.6	557.4	655.1	1,617.8	482.8	482.4
2005	14,797.7	23.6	905.3	1,514.4	968.7	545.7	675.8	1,659.3	487.1	473.6
2006	15,072.8	25.1	939.4	1,504.5	960.3	544.2	700.8	1,677.5	495.5	472.8
2007e	15,313.2	25.9	927.4	1,502.0	955.3	546.7	718.8	1,690.0	507.0	475.8
2008f	15,573.0	26.6	925.4	1,503.0	952.8	550.2	737.8	1,708.0	519.5	472.3
2009f	15,857.7	27.8	930.4	1,506.0	951.8	554.2	758.8	1,728.0	532.5	474.3

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svcs.	Mgmt. of Enterprises	Admin. & Support Svcs.
2000	544.3	262.6	922.7	290.6	997.2
2001	568.9	267.2	936.9	279.9	957.1
2002	584.8	268.2	905.0	262.1	939.3
2003	613.5	272.2	898.1	243.2	931.0
2004	625.8	276.4	910.6	226.8	947.8
2005	643.5	283.6	961.5	218.2	968.3
2006	651.4	289.3	1,017.2	209.3	998.6
2007e	647.9	290.3	1,062.2	203.8	1,022.6
2008f	649.7	292.8	1,109.7	199.8	1,048.6
2009f	651.7	296.3	1,157.7	195.8	1,076.1

	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	229.7	1,171.3	1,335.6	487.7	2,318.1
2001	237.3	1,210.7	1,365.1	499.2	2,382.1
2002	245.5	1,253.4	1,382.4	505.7	2,447.1
2003	258.2	1,278.1	1,400.1	504.3	2,425.5
2004	262.9	1,297.1	1,439.4	503.9	2,395.5
2005	272.2	1,314.3	1,475.2	505.5	2,416.5
2006	280.3	1,338.0	1,519.4	506.5	2,447.3
2007e	290.3	1,376.0	1,564.9	516.0	2,492.3
2008f	300.6	1,413.0	1,609.4	526.0	2,530.8
2009f	311.1	1,450.5	1,654.4	536.5	2,569.8



Source: California Employment Development Department, Labor Market Information Division; all estimates by LAEDC

Table 7: California Regional Nonfarm Employment

(Annual averages for major metropolitan areas; in thousands; March 2006 benchmark)

\ MSA Year \	State of California	Northern California			Central California					Southern California				
		Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside- San Bern.	San Diego	Ventura
1990	12,499.8	879.2	947.3	824.3	170.7	224.5	117.5	618.5	152.7	4,135.7	1,172.4	712.6	966.6	230.3
1991	12,358.9	879.7	939.5	815.4	177.3	227.3	117.8	630.9	155.2	3,982.7	1,143.7	718.9	962.6	230.4
1992	12,153.5	870.2	914.4	801.7	173.3	230.2	120.0	623.2	154.8	3,804.5	1,126.0	729.6	947.7	226.6
1993	12,045.4	873.5	908.3	806.7	169.9	233.6	121.6	626.0	156.2	3,707.6	1,115.4	733.9	947.0	227.0
1994	12,159.5	877.4	903.6	810.3	170.8	237.2	122.2	643.8	157.3	3,701.9	1,126.8	751.3	955.3	233.3
1995	12,422.0	897.5	916.5	842.9	172.8	243.5	124.0	662.8	160.3	3,746.6	1,151.7	779.9	978.5	237.3
1996	12,743.4	916.4	948.2	891.9	174.9	246.8	127.8	681.5	163.5	3,788.5	1,184.3	803.5	1,006.2	237.9
1997	13,129.7	947.8	983.5	939.7	179.2	249.8	131.7	702.0	167.4	3,865.0	1,233.8	841.5	1,054.3	242.7
1998	13,596.1	976.2	1,012.2	969.7	184.3	253.5	137.2	731.4	171.5	3,943.5	1,299.1	882.2	1,105.5	252.3
1999	13,991.8	1,008.0	1,040.0	985.2	188.8	262.0	141.7	770.5	178.7	4,002.9	1,345.2	939.0	1,152.9	263.6
2000	14,488.2	1,044.6	1,082.1	1,044.4	194.1	270.6	144.2	797.1	185.8	4,072.1	1,388.9	988.4	1,193.8	275.0
2001	14,602.0	1,054.8	1,053.9	1,017.9	202.2	275.9	149.7	818.9	191.1	4,073.6	1,413.7	1,029.7	1,218.4	279.9
2002	14,457.8	1,039.8	987.1	917.2	205.1	282.0	150.7	832.2	194.5	4,026.8	1,403.7	1,064.5	1,230.7	281.8
2003	14,392.3	1,025.6	950.1	870.3	207.1	282.7	152.3	846.0	198.1	3,982.9	1,429.0	1,099.2	1,240.1	284.2
2004	14,530.4	1,023.7	937.1	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1,160.0	1,260.3	286.2
2005	14,797.7	1,032.0	942.0	870.0	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1,222.0	1,282.1	291.2
2006	15,072.8	1,046.0	961.0	892.0	232.6	301.8	159.5	900.3	208.6	4,092.5	1,520.1	1,271.2	1,299.9	297.9
2007e	15,313.2	1,061.0	984.0	913.0	239.1	306.6	159.5	918.3	210.6	4,142.6	1,527.1	1,307.9	1,307.8	302.2
2008f	15,573.0	1,073.0	1,004.0	932.0	245.9	310.8	161.0	934.8	213.2	4,203.9	1,542.4	1,344.7	1,324.7	305.1

Sources: California Employment Development Department, Labor Market Information Division; all estimates and forecasts by LAEDC

Table 8: Total Nonfarm Employment in Southern California**Actual Data & Forecasts** (Annual averages in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
1990	4,135.7	1,172.4	712.6	230.3	6,251.0	966.6	12,499.8
1991	3,982.7	1,143.7	718.9	230.4	6,075.7	962.6	12,358.9
1992	3,804.5	1,126.0	729.6	226.6	5,886.7	947.7	12,153.5
1993	3,707.6	1,115.4	733.9	227.0	5,783.9	947.0	12,045.4
1994	3,701.9	1,126.8	751.3	233.3	5,813.3	955.3	12,159.5
1995	3,746.6	1,151.7	779.9	237.3	5,915.5	978.5	12,422.0
1996	3,788.5	1,184.3	803.5	237.9	6,014.2	1,006.2	12,743.4
1997	3,865.0	1,233.8	841.5	242.7	6,183.0	1,054.3	13,129.7
1998	3,943.5	1,299.1	882.2	252.3	6,377.1	1,105.5	13,596.1
1999	4,002.9	1,345.2	939.0	263.6	6,550.7	1,152.9	13,991.8
2000	4,072.1	1,388.9	988.4	275.0	6,724.4	1,193.8	14,488.2
2001	4,073.6	1,413.7	1,029.7	279.9	6,796.9	1,218.4	14,602.0
2002	4,026.8	1,403.7	1,064.5	281.8	6,776.8	1,230.7	14,457.8
2003	3,982.9	1,429.0	1,099.2	284.2	6,795.3	1,240.1	14,392.3
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,530.4
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,797.7
2006	4,092.5	1,520.1	1,271.2	297.9	7,181.7	1,299.9	15,072.8
2007e	4,142.6	1,527.1	1,307.9	301.2	7,278.8	1,307.8	15,313.2
2008f	4,203.9	1,542.4	1,344.7	305.1	7,396.1	1,324.7	15,573.0
2009f	4,276.4	1,567.1	1,386.2	309.8	7,539.5	1,347.3	15,857.7

Numerical Change from Prior Year (in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
1991	-153.0	-28.7	6.3	0.1	-175.3	-4.0	-140.9
1992	-178.2	-17.7	10.7	-3.8	-189.0	-14.9	-205.4
1993	-96.9	-10.6	4.3	0.4	-102.8	-0.7	-108.1
1994	-5.7	11.4	17.4	6.3	29.4	8.3	114.1
1995	44.7	24.9	28.6	4.0	102.2	23.2	262.5
1996	41.9	32.6	23.6	0.6	98.7	27.7	321.4
1997	76.5	49.5	38.0	4.8	168.8	48.1	386.3
1998	78.5	65.3	40.7	9.6	194.1	51.2	466.4
1999	59.4	46.1	56.8	11.3	173.6	47.4	395.7
2000	69.2	43.7	49.4	11.4	173.7	40.9	496.4
2001	1.5	24.8	41.3	4.9	72.5	24.6	113.8
2002	-46.8	-10.0	34.8	1.9	-20.1	12.3	-144.2
2003	-43.9	25.3	34.7	2.4	18.5	9.4	-65.5
2004	13.6	27.7	60.8	2.0	104.1	20.2	138.1
2005	27.7	34.3	62.0	5.0	129.0	21.8	267.3
2006	68.3	29.1	49.2	6.7	153.3	17.8	275.1
2007e	50.1	7.0	36.7	3.3	97.1	7.9	240.4
2008f	61.3	15.3	36.8	3.9	117.3	16.9	259.8
2009f	72.5	24.7	41.5	4.7	143.4	22.6	284.7

% Change from Prior Year

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
1991	-3.70%	-2.45%	0.88%	0.04%	-2.80%	-0.41%	-1.13%
1992	-4.47%	-1.55%	1.49%	-1.65%	-3.11%	-1.55%	-1.66%
1993	-2.55%	-0.94%	0.59%	0.18%	-1.75%	-0.07%	-0.89%
1994	-0.15%	1.02%	2.37%	2.78%	0.51%	0.88%	0.95%
1995	1.21%	2.21%	3.81%	1.71%	1.76%	2.43%	2.16%
1996	1.12%	2.83%	3.03%	0.25%	1.67%	2.83%	2.59%
1997	2.02%	4.18%	4.73%	2.02%	2.81%	4.78%	3.03%
1998	2.03%	5.29%	4.84%	3.96%	3.14%	4.86%	3.55%
1999	1.51%	3.55%	6.44%	4.48%	2.72%	4.29%	2.91%
2000	1.73%	3.25%	5.26%	4.32%	2.65%	3.55%	3.55%
2001	0.04%	1.79%	4.18%	1.78%	1.08%	2.06%	0.79%
2002	-1.15%	-0.71%	3.38%	0.68%	-0.30%	1.01%	-0.99%
2003	-1.09%	1.80%	3.26%	0.85%	0.27%	0.76%	-0.45%
2004	0.34%	1.94%	5.53%	0.70%	1.53%	1.63%	0.96%
2005	0.69%	2.35%	5.34%	1.75%	1.87%	1.73%	1.84%
2006	1.70%	1.95%	4.03%	2.30%	2.18%	1.39%	1.86%
2007e	1.22%	0.46%	2.89%	1.11%	1.35%	0.61%	1.59%
2008f	1.48%	1.00%	2.81%	1.29%	1.61%	1.29%	1.70%
2009f	1.72%	1.60%	3.09%	1.54%	1.94%	1.71%	1.83%

Sources: 1990-2006 data from California Employment Development Department; all estimates & forecasts by LAEDC

Table 9: California Technology Employment

(Average annual employment in 000s, 2006 benchmark, based on NAICS)

	Manufacturing				Services					
	Total Technology Employment	Computer & Electronic Product Manufacturing	Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	Internet Services, Data Processing	Computer Systems Design & Rel. Services	Management, Scientific, & Technical Consulting	Scientific R&D Services	Electrical & Electronic Goods Wholesalers
2000	1,081.5	433.0	90.7	38.0	48.2	82.0	205.2	95.1	89.3	55.5
2001	1,068.5	422.2	86.3	39.2	52.6	73.7	202.9	99.1	92.5	58.8
2002	958.6	366.3	79.6	39.5	48.8	52.8	175.6	102.1	93.9	51.2
2003	910.2	333.0	73.6	39.1	44.7	47.8	167.4	109.7	94.9	47.8
2004	909.9	325.1	73.7	40.6	42.6	47.3	167.0	119.0	94.6	46.4
2005	936.6	322.6	73.4	42.0	41.6	50.1	174.0	135.4	97.5	47.7
2006	974.3	320.4	72.8	44.9	41.0	54.7	186.1	154.5	99.9	49.8
2007e	1,009.6	321.9	71.5	47.7	42.6	56.9	195.1	170.6	103.3	50.3
2008f	1,046.4	323.6	70.5	50.7	44.3	59.2	204.5	186.8	106.8	50.7
2009f	1,084.3	325.4	69.7	53.9	46.2	61.6	214.1	203.1	110.3	51.2

Sources: California Employment Development Department, Labor Market Information Division; all estimates and forecasts by LAEDC

Table 10: California Motion Picture/TV Production Employment

(In thousands, 2006 benchmark, based on NAICS)

	Motion Picture & Video Industries *	Sound Recording Industries	Broadcasting (Radio, TV & Cable)	Magnetic Media Manufacturing & Reproducing	Independent Artists, Writers, & Performers
2000	160.2	10.0	46.3	16.0	14.4
2001	145.5	8.5	45.9	13.8	14.1
2002	139.0	6.8	45.0	10.9	15.4
2003	139.2	5.7	45.2	11.5	15.9
2004	152.5	4.9	46.8	10.7	14.8
2005	146.7	4.9	47.3	9.4	15.7
2006	147.3	4.8	47.7	8.0	17.6
2007e	150.3	5.0	47.9	7.2	19.5
2008f	147.8	4.9	48.0	6.5	20.0
2009f	149.3	5.1	48.2	5.9	21.5

* Includes motion picture & video production, broadcasting, and some other activities

Sources: California Employment Development Department, Labor Market Information Division; all estimates and forecasts by LAEDC

Table 11: Population Trends in California and the Los Angeles Five-County Area**Data from Decennial Census**

Population estimates as of April 1, in thousands

	Los Angeles County		Orange County		San Bern. & Riverside Area		Ventura County		Total L.A. 5-Co. Area		State of California	
	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg
1900	170		20		46		14		250		1,485	
1910	504	196%	34	70%	93	104%	18	28%	650	160%	2,378	60%
1920	936	86%	61	79%	124	32%	29	57%	1,149	77%	3,427	44%
1930	2,208	136%	119	95%	215	74%	55	91%	2,597	126%	5,677	66%
1940	2,786	26%	131	10%	267	24%	70	27%	3,253	25%	6,907	22%
1950	4,152	49%	216	65%	452	69%	115	65%	4,934	52%	10,586	53%
1960	6,039	45%	704	226%	810	79%	199	74%	7,752	57%	15,717	48%
1970	7,032	16%	1,420	102%	1,143	41%	376	89%	9,972	29%	19,953	27%
1980	7,478	6%	1,933	36%	1,558	36%	529	41%	11,498	15%	23,668	19%
1990	8,863	19%	2,411	25%	2,589	66%	669	26%	14,532	26%	29,760	26%
2000	9,519	7%	2,846	18%	3,255	26%	753	13%	16,374	13%	33,872	14%

Source: U.S. Dept. of Commerce, Bureau of the Census

Data from Demographic Research Unit, California Department of Finance

Population estimates as of July 1, in thousands -- adjusted for 2000 Census undercount, revised using Census 2000

	Los Angeles County		Orange County		San Bern. & Riverside Area		Ventura County		Total of L.A. 5-Co. Area		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1980	7,500 \		1,945 \		1,572 \		532 \		1,873 \		23,782 \	
		18.1%		24.0%		66.7%		25.7%		33.7%		25.4%
1990	8,860 /		2,412 /		2,620 /		669 /		2,505 /		29,828 /	
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	677	1.2%	2,555	2.0%	30,458	2.1%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686	1.4%	2,590	1.4%	30,987	1.7%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	694	1.1%	2,598	0.3%	31,314	1.1%
1994	9,107	0.3%	2,576	1.0%	2,920	1.2%	701	1.0%	2,611	0.5%	31,523	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.4%	705	0.6%	2,615	0.2%	31,711	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	711	0.8%	2,627	0.5%	31,962	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.6%	2,680	2.0%	32,452	1.5%
1998	9,266	0.9%	2,750	1.8%	3,117	1.8%	729	1.0%	2,726	1.7%	32,862	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	2,776	1.9%	33,419	1.7%
2000	9,579	2.0%	2,864	2.2%	3,281	2.6%	759	2.1%	2,836	2.2%	34,099	2.0%
2001	9,748	1.8%	2,919	1.9%	3,393	3.4%	774	2.1%	2,893	2.0%	34,784	2.0%
2002	9,912	1.7%	2,963	1.5%	3,502	3.2%	788	1.8%	2,950	2.0%	35,393	1.7%
2003	10,049	1.4%	3,005	1.4%	3,637	3.9%	800	1.5%	2,996	1.5%	35,990	1.7%
2004	10,156	1.1%	3,038	1.1%	3,769	3.6%	809	1.1%	3,032	1.2%	36,522	1.5%
2005	10,229	0.7%	3,062	0.8%	3,899	3.4%	814	0.7%	3,058	0.9%	36,982	1.3%
2006	10,293	0.6%	3,084	0.7%	4,021	3.1%	822	0.9%	3,085	0.9%	37,444	1.3%

Sources: California Dept. of Finance, Demographic Research Unit; all estimates and forecasts by LAEDC

Table 12: Components of Population Change -- California & Southern California Counties

Figures in thousands, July 1 data compared with July 1 data of previous year; revised with Census 2000 data

<u>Los Angeles County</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	169.1	155.1	59.4	95.8	73.4	104.4	-31.0
2002	164.0	151.6	59.9	91.8	72.2	95.4	-23.1
2003	137.1	152.4	59.4	93.0	44.1	83.4	-39.3
2004	106.6	151.3	61.2	90.1	16.4	81.6	-65.2
2005	73.4	151.4	59.4	92.0	-18.5	73.2	-91.7
2006	63.5	150.7	60.1	90.6	-27.1	75.8	-103.0
<u>Orange County</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	55.1	46.1	16.7	29.4	25.6	26.6	-0.9
2002	44.6	45.0	16.6	28.3	16.3	22.6	-6.3
2003	41.6	45.2	16.9	28.3	13.3	20.6	-7.3
2004	32.9	45.0	17.5	27.5	5.4	20.2	-14.7
2005	24.3	44.7	17.0	27.7	-3.4	17.3	-20.6
2006	21.6	44.1	17.2	26.9	-5.3	18.0	-23.3
<u>Riverside County</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	62.9	25.0	12.4	12.6	50.3	9.4	40.9
2002	64.2	25.7	12.9	12.8	51.5	8.0	43.4
2003	80.8	27.7	12.9	14.7	66.1	7.4	58.7
2004	78.7	28.5	13.6	14.9	63.8	7.8	56.0
2005	79.4	30.4	13.2	17.2	62.1	7.4	54.7
2006	79.7	32.4	13.4	19.0	60.7	7.6	53.1
<u>San Bernardino County</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	48.8	28.9	11.3	17.6	31.2	8.3	23.0
2002	44.2	29.3	11.5	17.8	26.4	7.8	18.6
2003	54.1	30.5	11.7	18.8	35.3	6.7	28.5
2004	53.9	31.1	12.3	18.8	35.1	7.2	27.9
2005	50.6	32.4	11.9	20.5	30.1	6.3	23.8
2006	42.1	33.7	12.1	21.6	20.5	6.5	14.0
<u>Ventura County</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	15.6	11.6	4.8	6.8	8.8	5.8	2.9
2002	13.6	11.4	4.8	6.6	7.0	4.1	2.9
2003	11.9	11.9	4.8	7.0	4.9	4.4	0.4
2004	8.9	11.9	5.2	6.8	2.1	4.5	-2.4
2005	5.6	12.0	5.0	7.0	-1.4	3.6	-5.0
2006	7.4	12.2	5.1	7.2	0.3	3.8	-3.5
<u>San Diego County</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	56.4	44.0	19.7	24.3	32.2	21.1	11.1
2002	57.3	43.7	19.5	24.2	33.1	17.9	15.2
2003	45.7	44.9	19.3	25.6	20.1	16.2	3.9
2004	36.1	45.2	20.4	24.7	11.4	16.1	-4.7
2005	26.3	46.0	19.8	26.2	0.2	14.4	-14.2
2006	26.6	46.0	20.1	25.9	0.7	14.9	-14.3
<u>State of California</u>							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domes. Migration
2001	685.6	529.4	231.7	297.7	388.0	290.8	97.2
2002	608.6	526.3	232.9	293.3	315.2	249.7	65.6
2003	597.1	537.4	233.3	304.1	293.0	227.4	65.6
2004	531.9	539.9	239.3	300.5	231.4	227.3	4.1
2005	459.9	547.1	232.4	314.7	145.2	204.8	-59.6
2006	462.5	551.9	235.0	316.9	145.6	212.9	-67.3

Source: California Department of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

Revised data reveal that 2006 was a good year for Los Angeles County. Nonfarm employment grew by 68,300 jobs, the best performance since 2000, and records were set in both international trade and tourism.

So far in 2007, the County's economy has been cruising along at a moderate pace, but there are potholes aplenty. New homebuilding has slumped. There could be sub-prime loan problems in the Antelope Valley and in some of the older, close-in cities that have attracted first time buyers. There is also unease over the boom in condo/loft development. The ports of Los Angeles and Long Beach need to expand, but are caught up in environmental issues that have delayed new facilities. In the meantime, the expiration of the Writers Guild contract in October is leading to a stockpiling of filmed content. Will we see another "de facto" strike situation?

One major piece of good news for the County's economy was the ground breaking for the convention center hotel at LA Live in downtown Los Angeles. This 1,000 room facility, scheduled for completion in 2010, will put Los Angeles back in the game of attracting major business shows. LA Live will also include the 7,100 seat Nokia Theater, which will open in October. It will host a variety of awards shows, which will give downtown a nice patina of glamour. Elsewhere, construction continues on the Gold Line light rail extension and the first phase of the Exposition Boulevard light rail line. Finally, it looks like Boeing will receive orders for 10 more C-17 military cargo planes, which will keep their Long Beach plant (with its 5,000 jobs) open to 2009. The latter is more good news.

In the meantime, office and industrial vacancy rates in the County continue to move lower. However, only a modest amount of new space is under construction, especially in the industrial sector because of a lack of sites. With industrial vacancy rates in the County running at extremely low levels, lease costs and purchase prices have gone up, not good news for space users already worrying about other cost pressures. A debate over land use in the County is slowly emerging, spiced up by some record prices being paid for both existing buildings and development sites.

Large amounts of money have poured into the County's real estate market, but many investors are becoming disenchanted with the cap rates.

On the retail front, there is great anticipation of Tesco's move into the region with their "Fresh & Easy" grocery store concept. The first locations will open late in 2007.

Net results

Nonfarm employment in the County will expand by 1.2% (or 50,100 jobs) in 2007, pushing the annual average to 4,142,600 jobs, a new record level. Setting the pace will be professional, scientific & technical services, health services, and leisure & hospitality services. Acting as a brake will be job losses in durable goods manufacturing and construction. Employment growth in 2008 will pick up to 1.5% even if there is a labor disruption in the entertainment industry. The County's unemployment rate will continue to run at low levels during 2007, about 4.8%, before moving up to 5.0% in 2008.

Total personal income should grow by 5.7% in 2007, with per capita personal income moving up by 4.9% to \$37,051. It should be noted that total population in the County, as tracked by the California Department of Finance, is clicking along at 0.7%. The L.A. area Consumer Price Index is expected to rise by 3.1% in 2007, while retail sales will move ahead by 4.8%. Given all the new entrants into the local retail market, competitive pressures will remain intense, compounded by the cost of real estate.

Los Angeles County went against the grain in 2006, with a 2.9% increase in the number of housing units permitted. However, in 2007 reality will return with a 22.7% decline to an estimated 20,400 units. A further slide of 5.4% is forecast for 2008. Nonresidential construction will provide somewhat of an offset, with a 9.1% increase in permit values forecasted.

The County's tourism industry should see a 0.4% increase in the number of overnight visitors in 2007, moving the count to 25.5 million people. International trade will also chip in with a 7.9% increase in the value of two-way trade.

Hot spots

Downtown Los Angeles continues to have a lot of construction cranes on its skyline, although some of the residential projects that were previously announced have quietly been put on hold. The eagerly anticipated Ralph's market will open by the end of July, while the Nokia Theater will open by year-end. Construction is moving along on the convention center hotel, a combo of a Marriott Marquis and a Ritz Carlton. Two other "five-star" hotels have been announced for the Downtown area, a Mandarin Oriental and a mystery operation at "Park Fifth", an ambitious 76-floor residential project. Work on the Grand Avenue Project is supposed to get underway by the third quarter.

Areas to the north of Downtown are also active, including Chinatown, Echo Park and Eagle Rock. The lure is character and reasonable real estate prices. Action in Hollywood has shifted to the east end of the boulevard, with a W Hotel and a residential/retail project underway at Hollywood and Vine. Long Beach continues to see residential and retail development. Office space users are moving south into Playa Vista from the Westside. Space in the latter area is tight, lease rates are high, and not much space is under construction.

Risks

The housing market is obvious, with people watching how many foreclosed sub-prime units come on the market. The for-sale condo market is sluggish, with "for rent" signs expected to be hung out on many projects. The major risk to the County's economy over the next twelve months is the labor situation in the entertainment industry, with stern statements being issued by both sides. The risk of a "de facto" strike is also growing. The labor negotiations at the ports also need to be monitored. The logistics industry remembers all too well the 2002 lock out as well as past congestion problems at the ports.

Table 13: Major Projects in Los Angeles County

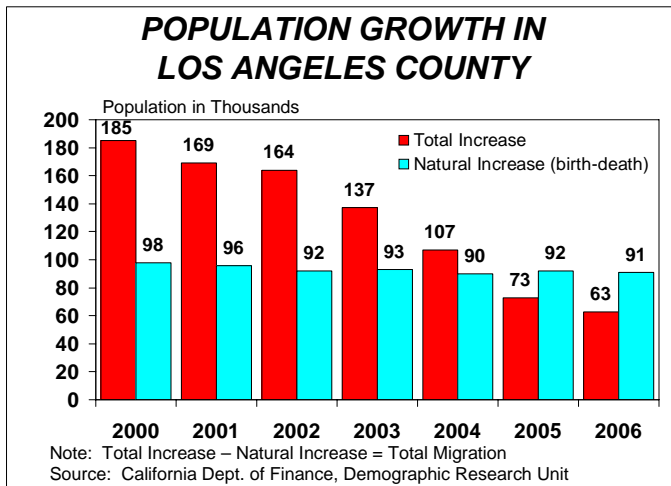
	Value (millions)	Comp. Date
<u>Port expansions/environmental enhancements</u>		
Ports of Long Beach and Los Angeles	\$ 1,000+	Ongoing
<u>Transportation</u>		
Gold Line light rail (Downtown LA to East LA)	\$ 898	2009
Exposition Blvd. light rail (DTLA-Culver City)	640	2010
State Route 47 (port access expressway)	400	--
LAX (TBIT, south runway, security)	1,300	--
Union Pacific ICTF expansion	300	--
<u>Hospitals</u>		
UCLA Medical Center replacement	\$ 1,500	--
County/USC Hospital replacement	818	2007
Kaiser Permanente hospital replacements:		
Downey	500	2008
Los Angeles Medical Center	260	2008
Panorama City	267	2007
South Bay	89	--
West Los Angeles	173	--
LAUSD school program	\$ 18,800	Ongoing
Los Angeles Community College District	2,200	Ongoing
Colburn School of Music expansion	120	2007
"LA Live" retail/entertainment/hotel in DTLA	1,300	2008
Los Angeles City sewer upgrades	420	Ongoing
Veterans Home, West Los Angeles	183	2010
Tesoro refinery upgrade, Wilmington	1,000	Ongoing

Table 14: Los Angeles County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ bil.)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ bil.)	Value of Two-way Trade (\$ bil.)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresid. Building Permits (\$ millions)
2000	9,579.0	4,072.1	5.4	279.050	29,131	70.321	230.0	24.2	17,071	3,296
2001	9,748.2	4,073.6	5.7	294.508	30,212	71.835	212.5	22.8	18,253	3,539
2002	9,912.2	4,026.8	6.8	301.003	30,367	74.548	214.3	22.1	19,364	2,920
2003	10,049.2	3,982.9	7.0	309.800	30,828	79.427	235.0	23.3	21,313	2,932
2004	10,155.8	3,996.5	6.5	327.400	32,238	86.497	264.2	24.3	26,935	3,174
2005	10,229.2	4,024.2	5.3	342.200	33,453	92.271	293.9	25.0	25,647	3,824
2006	10,292.7	4,092.5	4.7	363.400	35,307	96.608	329.4	25.4	26,395	3,895
2007e	10,366.7	4,142.6	4.8	384.100	37,051	101.245	355.4	25.5	20,400	4,250
2008f	10,446.7	4,203.9	5.0	406.800	38,941	107.016	387.3	25.6	19,300	4,700
2009f	10,527.7	4,276.4	4.9	431.600	40,997	113.437	424.2	25.7	21,300	5,200

% Change

'01/'00	1.77%	0.04%		5.54%	3.71%	2.15%	-7.61%	-5.79%	6.92%	7.37%
'02/'01	1.68%	-1.15%		2.21%	0.51%	3.78%	0.85%	-3.07%	6.09%	-17.49%
'03/'02	1.38%	-1.09%		2.92%	1.52%	6.54%	9.66%	5.43%	10.07%	0.41%
'04/'03	1.06%	0.34%		5.68%	4.57%	8.90%	12.43%	4.29%	26.38%	8.25%
'05/'04	0.72%	0.69%		4.52%	3.77%	6.68%	11.24%	2.88%	-4.78%	20.48%
'06/'05	0.62%	1.70%		6.20%	5.54%	4.70%	12.08%	1.60%	2.92%	1.86%
'07/'06	0.72%	1.22%		5.70%	4.94%	4.80%	7.89%	0.39%	-22.71%	9.11%
'08/'07	0.77%	1.48%		5.91%	5.10%	5.70%	8.98%	0.39%	-5.39%	10.59%
'09/'08	0.78%	1.72%		6.10%	5.28%	6.00%	9.53%	0.39%	10.36%	10.64%



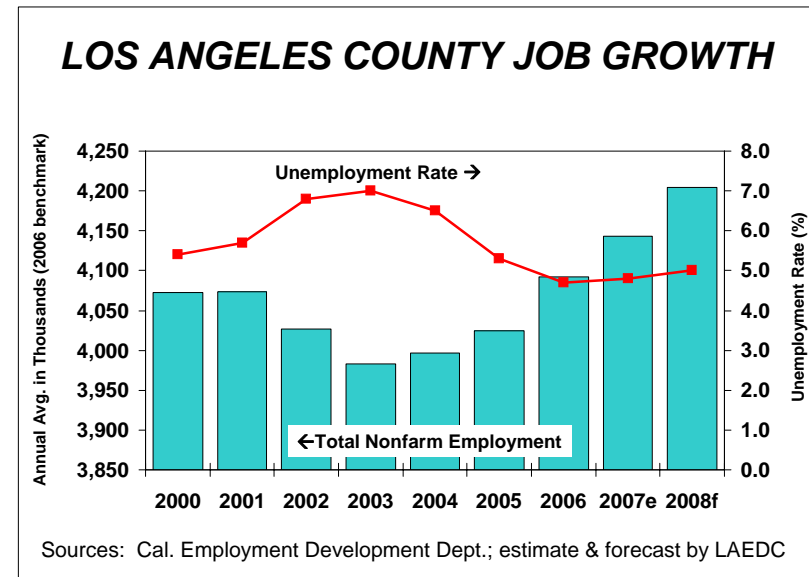
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept. of Commerce; Bureau of Labor Statistics; Construction Industry Research Board; all estimates and forecasts by the LAEDC

Table 15: Los Angeles County Nonfarm Employment
(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	4,072.1	3.4	131.7	612.2	342.3	269.9	219.4	392.0	174.6	243.7
2001	4,073.6	3.8	136.8	577.9	325.4	252.5	219.4	394.8	175.6	226.3
2002	4,026.8	3.7	134.5	534.8	299.3	235.5	217.3	398.2	167.2	207.3
2003	3,982.9	3.8	134.6	500.0	276.2	223.8	214.1	399.3	161.5	202.3
2004	3,996.5	3.8	140.2	483.6	267.8	215.8	215.1	405.4	161.1	211.9
2005	4,024.2	3.7	148.7	471.7	263.4	208.3	219.3	414.4	161.7	207.6
2006	4,092.5	4.0	156.7	462.3	257.8	204.4	225.2	423.2	165.7	209.7
2007e	4,142.6	3.9	152.7	454.5	252.6	201.9	228.2	426.2	169.9	214.7
2008f	4,203.9	3.9	155.7	453.5	252.1	201.4	231.5	430.7	174.2	211.7
2009f	4,276.4	3.9	159.2	452.0	250.6	201.4	235.5	435.7	178.2	217.7

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svcs.	Mgmt. of Enterprises	Admin. & Support Svcs.
2000	150.8	73.8	227.7	85.6	274.6
2001	156.2	72.7	233.6	84.4	270.0
2002	159.8	72.8	231.6	82.5	261.0
2003	165.0	74.8	233.5	77.4	249.1
2004	165.0	76.7	237.7	71.2	253.6
2005	166.2	77.8	250.9	67.6	257.7
2006	169.0	79.0	262.8	63.2	268.7
2007e	167.5	79.5	273.8	61.4	274.7
2008f	169.5	80.0	285.3	59.9	282.2
2009f	172.0	81.5	297.3	58.6	289.7

	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	86.2	330.7	344.7	140.0	581.3
2001	88.6	343.6	348.5	143.2	598.3
2002	93.0	357.4	354.2	145.6	606.1
2003	94.8	365.6	362.6	145.5	599.3
2004	95.4	371.6	372.8	144.7	587.1
2005	97.4	373.9	377.8	144.3	583.7
2006	101.1	380.2	387.5	145.7	588.6
2007e	108.1	390.2	394.5	148.2	594.6
2008f	114.0	399.7	401.3	150.7	600.1
2009f	120.0	409.2	407.9	153.7	604.3



Sources: California Employment Development Department, Labor Market Information Division; all estimates and forecasts by LAEDC

VI. OUTLOOK FOR ORANGE COUNTY

There has been some good news for Orange County so far in 2007, like the re-opening of the fabled submarine ride at Disneyland. There has also been bad news, for instance the implosion of the sub-prime lending industry which had a significant concentration in the County. Because of bankruptcies and significant employment cuts in the industry, the County's 2007 employment forecast calls for a loss of 5,500 jobs in finance & insurance during 2007, with another 3,500 at risk in 2008.

Allied to this is the condition of the County's office market. The vacancy rate is low, 8.2%, but the space give-backs from sub-prime lenders along with a significant amount of new construction -- about 7 million square feet -- is making people a little nervous.

Another worry is some over capacity in the chip market, since the County has a number of producers. Still another is the fate of Ford's Premier Auto Group or "PAG," which is headquartered in Irvine. The operation is being shopped around the global automotive industry. Would the new owners keep the headquarters in the County? A move would have a big ripple impact on the local advertising industry.

In the meantime, in more good news for Orange County, tourism is doing well, and the bio-med industry should get a boost from the settlement of legal issues surrounding the state's bio-med research bonds. Finally, the Orange County Transportation Authority is undertaking a major expansion of Metrolink commuter rail service through the County, which will boost construction jobs.

Net results

Employment growth in Orange County will slow dramatically in 2007, with an increase of just 0.5% or 7,000 jobs. This would be the worst performance since 2002 when the County lost 10,000 jobs. As noted above, finance & insurance and construction will act as a brake on growth. Supporting growth will be government, and health services. In 2008, the County will pick up a little speed, with a 1.0% or 15,300 job gain. The

County's unemployment rate will average 3.6% in 2007, moving up to 3.7% in 2008.

Total personal income in the County should grow by 4.2%, with per capita personal income up by 3.3% to \$47,043. The latter is the highest in Southern California. Taxable retail sales will increase in 2007 by a comparatively modest 4.6%.

Orange County also saw an increase in housing unit permits in 2006, despite the emerging problems in the residential real estate sector. Payback will come in 2007 with a decline of 16.9% in units permitted, followed by slippage of 11.3% in 2008. Condo fever also emerged in Orange County, with a lot of high-rise developments proposed, often in unusual locations, but many of the projects have faded away.

Hot spots

There are still ambitious mixed use plans in Anaheim, in both the old downtown and the Platinum Triangle area. Add Huntington Beach to the list, with projects underway along its coastline south of the City's downtown area. The Legacy, a mixed-use project in Tustin, ex. the Marine Corps. Air Station, is moving forward, despite the housing situation. There is new office development in Irvine, which as noted is making some people nervous. Garden Grove continues to search for a major project along Harbor Boulevard south of Disneyland that will stick.

Risks

The question is how much further fall-out there will be from the sub-prime lending mess. If there is more, this will have negative implications for the office market.

Table 16: Major Projects in Orange County

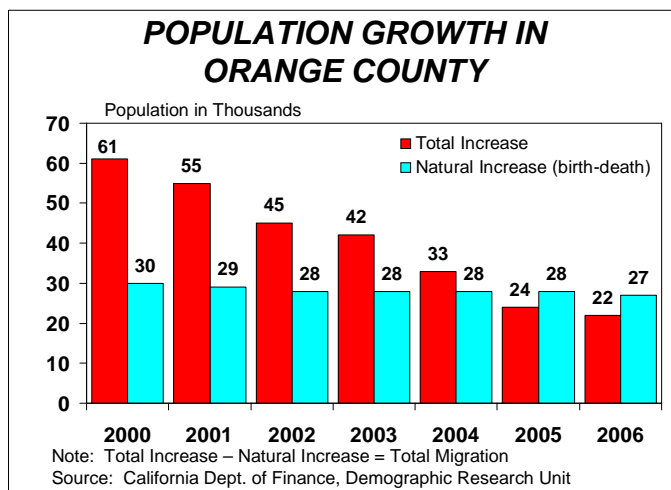
	Value (millions)	Comp. Date
UC Irvine hospital replacement	\$ 370	2008
St. Joseph Hospital, Orange	--	
St. Jude Hospital, Fullerton	160	--
Mission Hospital Medical Ctr., Mission Viejo	610	--
Kaiser Permanente, Irvine	350	--

Table 17: Orange County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ bil.)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ bil.)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Total Nonresid. Bldg. Perm. (\$ millions)
2000	2,863.7	1,388.9	3.5	106.004	37,016	27.485	40.2	12,367	1,762
2001	2,918.8	1,413.7	4.0	109.010	37,348	28.519	40.9	8,646	1,350
2002	2,963.4	1,403.7	5.0	111.750	37,710	29.647	41.7	12,020	1,209
2003	3,005.0	1,429.0	4.8	117.700	39,168	32.288	42.7	9,311	1,006
2004	3,037.9	1,456.7	4.3	125.700	41,377	35.442	43.5	9,322	1,133
2005	3,062.3	1,491.0	3.8	133.000	43,431	37.673	44.7	7,206	1,495
2006	3,083.9	1,520.1	3.4	140.400	45,527	39.481	44.9	8,339	2,401
2007e	3,109.9	1,527.1	3.6	146.300	47,043	41.297	45.1	6,930	2,460
2008f	3,136.9	1,542.4	3.7	153.000	48,774	43.321	45.1	6,150	2,490
2009f	3,165.9	1,567.1	3.5	160.000	50,539	45.964	45.2	6,700	2,575

% Change

'01/'00	1.92%	1.79%		2.84%	0.89%	3.76%		-30.09%	-23.38%
'02/'01	1.53%	-0.71%		2.51%	0.97%	3.96%	1.96%	39.02%	-10.44%
'03/'02	1.40%	1.80%		5.32%	3.87%	8.91%	2.40%	-22.54%	-16.79%
'04/'03	1.09%	1.94%		6.80%	5.64%	9.77%	1.87%	0.12%	12.62%
'05/'04	0.80%	2.35%		5.81%	4.96%	6.29%	2.76%	-22.70%	31.95%
'06/'05	0.71%	1.95%		5.56%	4.82%	4.80%	0.45%	15.72%	60.60%
'07/'06	0.84%	0.46%		4.20%	3.33%	4.60%	0.45%	-16.90%	2.46%
'08/'07	0.87%	1.00%		4.58%	3.68%	4.90%	0.00%	-11.26%	1.22%
'09/'08	0.92%	1.60%		4.58%	3.62%	6.10%	0.22%	8.94%	3.41%



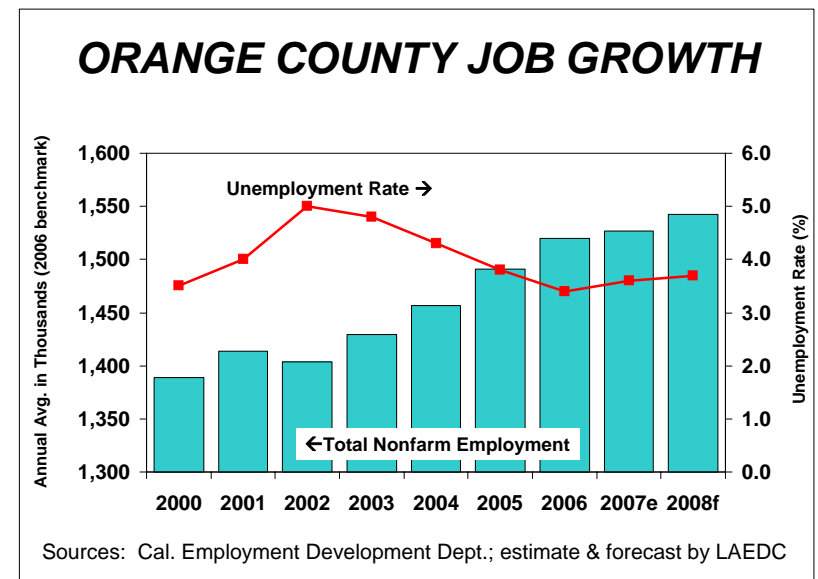
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; Construction Industry Research Board; all estimates and forecasts by the LAEDC

Table 18: Orange County Nonfarm Employment
(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,388.9	0.6	76.6	215.5	152.5	63.0	80.8	147.0	30.3	41.2
2001	1,413.7	0.6	80.8	209.0	148.2	60.8	81.4	150.5	30.5	40.3
2002	1,403.7	0.6	79.2	190.8	133.6	57.2	82.4	151.4	28.7	36.8
2003	1,429.0	0.5	83.7	183.9	127.2	56.7	83.2	152.8	29.0	35.2
2004	1,456.7	0.6	92.2	183.5	127.1	56.4	82.4	153.2	29.2	33.8
2005	1,491.0	0.7	99.9	182.9	128.3	54.6	83.0	158.1	28.7	32.8
2006	1,520.1	0.6	107.0	183.4	128.2	55.2	82.9	159.5	28.4	31.7
2007e	1,527.1	0.6	104.5	183.8	127.6	56.2	83.0	158.7	28.6	31.0
2008f	1,542.4	0.6	103.0	184.9	127.4	57.5	83.2	160.2	29.0	30.9
2009f	1,567.1	0.6	105.0	186.3	127.4	58.9	83.4	161.8	29.4	30.9

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svcs.	Mgmt. of Enterprises	Admin. & Support Svcs.
2000	70.0	30.9	91.2	38.6	117.7
2001	74.0	32.1	94.5	39.8	114.7
2002	77.4	32.7	95.1	35.8	118.0
2003	88.0	34.2	96.4	32.9	123.3
2004	96.0	36.3	97.6	30.6	126.7
2005	100.9	37.5	103.2	30.0	131.1
2006	99.5	39.4	109.2	28.5	137.1
2007e	94.0	38.9	112.2	27.9	138.1
2008f	90.5	39.1	115.7	27.6	139.6
2009f	91.5	39.7	119.4	27.4	141.3

	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	17.7	94.4	145.9	43.9	146.6
2001	16.0	98.8	154.6	45.3	150.9
2002	15.9	102.5	155.4	45.9	155.1
2003	18.9	107.5	158.6	46.7	154.2
2004	19.2	111.8	162.9	47.4	153.4
2005	19.8	113.7	165.0	48.4	155.3
2006	21.2	117.7	169.5	47.9	156.5
2007e	21.8	123.7	172.5	48.3	159.5
2008f	22.4	129.6	175.6	48.6	161.9
2009f	23.1	135.4	178.6	48.9	164.4



Sources: California Employment Development Department, Labor Market Information Division; all estimates and forecasts by LAEDC

VII. OUTLOOK FOR RIVERSIDE-SAN BERNARDINO AREA

After years of impressive growth, the Inland Empire's population will grow more moderately with an estimated increase of 79,000 persons or 2.4% from 2006. The flow of first-time home buyers to the area is beginning to slow.

Despite the slowing growth, statisticians will struggle to keep up to date their counts of new businesses and jobs. The two-county area will lead Southern California in job growth.

The region's transportation infrastructure (including dedicated cargo airports) continues to attract new logistic facilities, increasingly in the interior and High Desert areas. Companies are taking advantage of the region's proximity to the large Los Angeles-area market and access to ocean port and rail lines.

New home construction activity and construction employment will be the weakest performers in the region over the balance of 2007 and in 2008. The sectors are being affected by the slowdown in new home construction and more stringent lending requirements.

Net Results

Nonfarm employment in the area should grow by 2.9% in 2007 or by 36,700 jobs, with growth easing slightly to 2.8% or 36,800 jobs in 2008. The increases for 2007 and 2008 will be the smallest in over a decade.

By industry sector, in 2007 the largest employment gains will come in leisure and hospitality (+6,500), government (+6,500), retail trade (+5,200), administrative and support services (+4,500), and health care and social assistance (+4,500). Construction will shed the most jobs in 2007 (-3,000), followed by management of enterprises (-300) and natural resources (-100). The unemployment rate for the area should average 5.2% in 2007 (the highest level since 2005), inching up to 5.4% in 2008.

Total personal income in the two-county area is estimated to grow by 4.8% in 2007, the smallest increase since 2002. Per capita personal income should move up by 2.3%, also the smallest increase since 2002. (The estimated per capita personal

income amount for 2007, at \$28,461, is the lowest in Southern California.) Growth of taxable retail sales will continue to slow in 2007 with an increase 6.3%.

The number of housing construction permits will decrease markedly in 2007 with an estimated drop of 45.0% to 21,550 homes. On the nonresidential construction front, the news for 2007 will be better, with an estimated increase of 23.5% in permit values.

Hot Spots

Construction of office projects will support growth in Corona, Murrieta, Rancho Cucamonga, Redlands, Riverside, and other area cities. Industrial development continues to spread out from Corona to the City of San Bernardino and beyond including Barstow and Coachella. Distribution centers remain in strong demand near the region's logistic hubs in Victorville and San Bernardino in addition to Perris. Tesco, the U.K.-based grocer, is developing its distribution center in Riverside, which will service its planned stores in California, Arizona, and Nevada. Ground was broken in March for the 11,000-seat Citizens Business Bank Arena in Ontario, the centerpiece of the Piemonte at Ontario Center mixed-use development with completion set for late 2008. Construction of truck lanes on the SR-60 freeway should offer a little relief from the area's traffic problems. The Coachella Valley continues to see lots of new hotel projects.

Risks

A sustained housing slump could spread into the retail and other sectors. The office market in the Coachella Valley is becoming overbuilt with vacancy rates rising to 20%.

Table 19: Major Projects in Riv.-San Bern'do

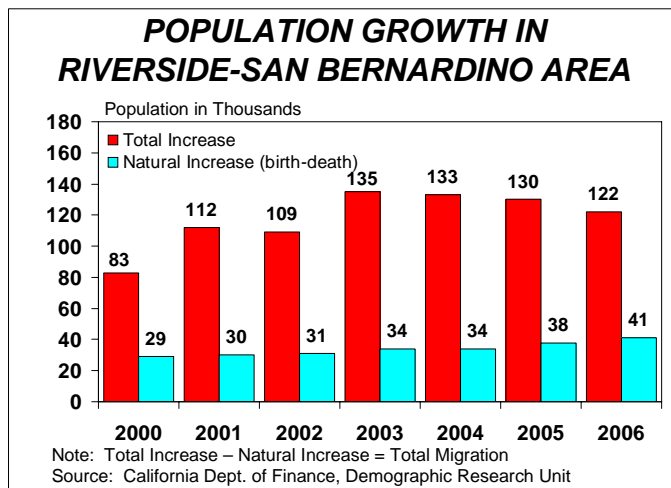
	Value (millions)	Comp. Date
Ontario Vineyard Hospital	\$ 266	--
Kaiser Permanente, Fontana replacement	595	--
UC Riverside Science Building	66	--
Piemonte mixed-use	900	--

Table 20: Riverside-San Bernardino Area Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ bil.)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ bil.)	Housing Unit Permits Issued	Total Nonresid. Bldg. Perm. (\$ millions)
2000	3,281.4	988.4	5.3	74.787	22,791	24.992	21,990	1,536
2001	3,393.2	1,029.7	5.5	80.406	23,696	26.699	27,541	1,423
2002	3,501.6	1,064.5	6.6	84.151	24,032	28.570	33,280	1,473
2003	3,636.5	1,099.2	6.7	89.500	24,612	31.936	43,001	1,720
2004	3,769.1	1,160.0	6.1	97.300	25,815	37.194	52,696	2,485
2005	3,899.1	1,222.0	5.3	104.100	26,698	41.960	50,818	2,394
2006	4,020.9	1,271.2	4.9	111.900	27,830	45.820	39,156	2,852
2007e	4,117.9	1,307.9	5.2	117.200	28,461	48.707	21,550	3,035
2008f	4,196.9	1,344.7	5.4	122.500	29,188	51.629	19,900	3,215
2009f	4,282.9	1,386.2	5.1	129.100	30,143	55.088	22,100	3,360

% Change

'01/'00	3.41%	4.18%		7.51%	3.97%	6.83%	25.24%	-7.36%
'02/'01	3.19%	3.38%		4.66%	1.42%	7.01%	20.84%	3.51%
'03/'02	3.85%	3.26%		6.36%	2.41%	11.78%	29.21%	16.77%
'04/'03	3.65%	5.53%		8.72%	4.89%	16.46%	22.55%	44.48%
'05/'04	3.45%	5.34%		6.99%	3.42%	12.81%	-3.56%	-3.66%
'06/'05	3.12%	4.03%		7.49%	4.24%	9.20%	-22.95%	19.13%
'07/'06	2.41%	2.89%		4.74%	2.27%	6.30%	-44.96%	23.51%
'08/'07	1.92%	2.81%		4.52%	2.55%	6.00%	-7.66%	20.00%
'09/'08	2.05%	3.09%		5.39%	3.27%	6.70%	11.06%	20.00%



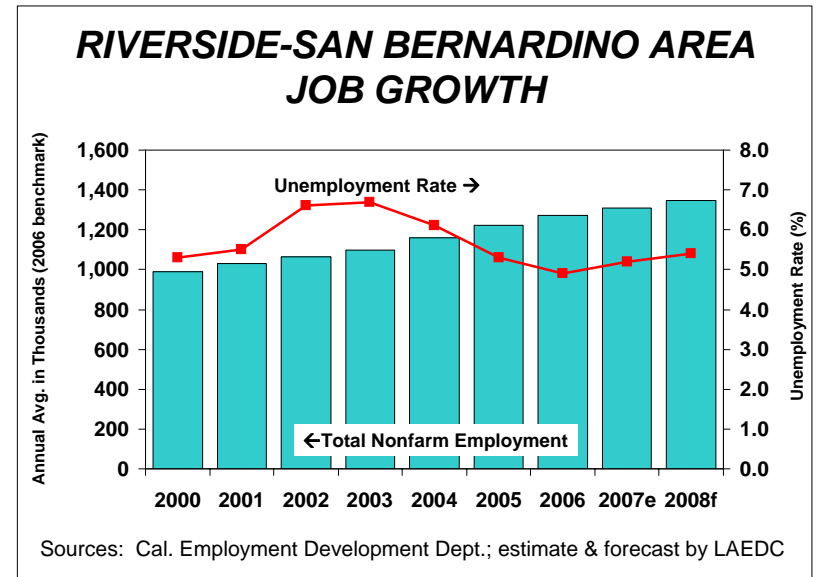
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; Construction Industry Research Board; all estimates and forecasts by the LAEDC

Table 21: Riverside-San Bernardino Area Nonfarm Employment
(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	988.4	1.3	79.9	119.7	85.3	34.4	38.2	127.0	46.3	14.3
2001	1,029.7	1.2	88.5	118.7	84.2	34.4	41.6	132.5	45.7	14.6
2002	1,064.5	1.2	90.9	115.4	82.0	33.4	41.9	137.5	46.8	14.1
2003	1,099.2	1.2	99.0	116.1	82.4	33.7	43.5	142.7	50.1	13.9
2004	1,160.0	1.2	111.8	120.1	85.5	34.6	45.6	153.8	55.5	14.0
2005	1,222.0	1.4	123.3	121.0	86.1	35.0	49.9	165.7	60.2	14.5
2006	1,271.2	1.4	129.5	124.0	87.6	36.4	53.8	171.5	63.8	15.2
2007e	1,307.9	1.3	126.5	124.3	87.0	37.3	56.1	176.7	67.0	15.9
2008f	1,344.7	1.2	125.5	124.9	86.8	38.1	58.5	181.6	70.4	16.5
2009f	1,386.2	1.2	127.0	125.8	86.8	39.0	61.1	186.7	74.0	17.1

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svcs.	Mgmt. of Enterprises	Admin. & Support Svcs.
2000	21.5	14.2	22.1	10.3	64.4
2001	22.0	15.3	24.6	10.6	66.6
2002	23.5	15.9	27.1	11.3	68.4
2003	25.7	16.9	28.7	11.0	75.7
2004	28.0	17.7	31.0	11.6	82.9
2005	30.1	18.9	35.0	12.0	86.2
2006	31.9	20.0	40.8	11.2	90.1
2007e	32.3	20.2	43.9	10.9	94.6
2008f	32.5	19.9	46.9	10.7	98.8
2009f	32.9	20.0	50.1	10.7	103.1

	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	11.1	90.7	100.6	34.8	192.1
2001	11.8	94.3	104.5	37.1	200.2
2002	12.6	99.8	107.2	38.1	212.7
2003	13.2	102.7	109.0	38.4	211.6
2004	13.4	104.9	116.7	39.3	212.5
2005	13.6	106.3	122.6	40.8	220.4
2006	14.1	108.6	128.7	42.6	224.2
2007e	14.5	113.1	135.2	44.7	230.7
2008f	14.8	117.5	141.6	46.7	236.6
2009f	15.1	122.1	148.4	48.8	242.1



Source: California Employment Development Department, Labor Market Information Division; all estimates by LAEDC

VIII. OUTLOOK FOR VENTURA COUNTY

Ventura County's population will grow at a slightly greater pace than in the previous two years. Growth in 2007 will be an estimated 1.0% followed by 1.1% growth in 2008.

While the home construction and related industries are being affected by the housing downturn, other sectors of the Ventura County economy will experience moderate growth in 2007. The area is still attracting proposals for new commercial and residential investments. Calabasas-based Countrywide Financial Corp. has emerged relatively unscathed from the fallout in sub-prime lending so far with layoffs of only approximately 100 employees in early 2007. The company subsequently announced new hiring activity in the second quarter of 2007.

Proposed power plants in the County continue to face intense scrutiny. Oxnard city planners declined to endorse Edison's proposed \$50 million plant in June 2007. Despite dedicated green space, agricultural production faces threats from urbanization and regulation. In May, state officials proposed new restrictions on fumigants which would adversely impact the region's strawberry farmers already hurt by last winter's severe freeze.

Net Results

Total nonfarm employment should increase by 1.4% or by 4,300 jobs in 2007, easing down to a 1.0% or 2,900 job gain in 2008. By industry sector, the largest gains in 2007 will come in manufacturing (+1,500); retail (+900); administrative and support services (+800); health care and social assistance (+600); and professional, scientific, and technical services (+600). Construction will shed the most jobs in 2007 (-1,200), followed by finance and insurance (-200)

and real estate, rental and leasing (-100). The County's unemployment rate should average 4.6% in 2007, bumping up to 4.7% in 2007.

Total personal income in the County in 2007 should increase by 5.0%, while per capita personal income should move up by 4.0% to \$43,138, the second highest level in Southern California. Growth in taxable retail sales will continue to slow, with an estimated increase of 3.7% in 2007.

The drop-off in new home construction permits will continue in 2007 with an estimated decrease of 29.2% in 2007, followed by a slight increase in 2008. Nonresidential permit values will rebound from a decrease in 2006, with an estimated increase of 2.3% in 2007.

Hot Spots

Office condominiums are in high demand in the Conejo Valley as businesses seek to avoid high office rental rates in Los Angeles County. New hotels, retail, and apartments are planned for Oxnard's Channel Island Harbor. The City of Camarillo is proposing to attract new development, including housing, to reinvigorate the Camarillo Commons commercial district. The completion of the much anticipated U.S. 101 bridge over the Santa Clara River in the summer of 2007 will offer relief to one of the area's worst traffic bottlenecks.

Risks

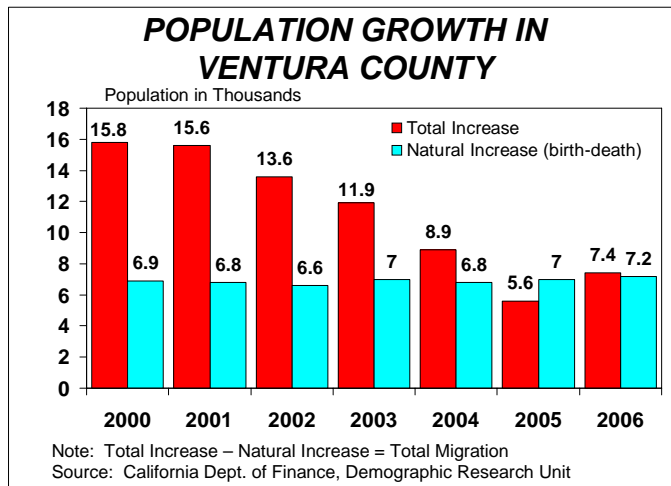
A deeper housing slump could increase the pain currently being felt in construction and related industries. Ventura and other coastal counties will continue to feel pressure from companies considering whether to relocate to more affordable inland locations (following their workers in many cases).

Table 22: Ventura County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ bil.)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ bil.)	Housing Unit Permits Issued	Total Nonresid. Bldg. Perm. (\$ millions)
2000	758.7	275.0	4.5	25.364	33,431	6.504	3,971	282
2001	774.3	279.9	4.9	25.964	33,532	6.848	3,446	309
2002	787.9	281.8	5.8	26.648	33,822	7.153	2,507	289
2003	799.8	284.2	5.8	28.100	35,134	7.717	3,635	379
2004	808.7	286.2	5.4	30.500	37,715	8.317	2,603	353
2005	814.3	291.2	4.8	32.100	39,420	8.782	4,516	372
2006	821.7	297.9	4.3	34.100	41,499	9.133	2,402	323
2007e	829.9	301.2	4.6	35.800	43,138	9.471	1,700	405
2008f	838.8	305.1	4.7	37.700	44,945	9.954	1,770	454
2009f	847.9	309.8	4.4	39.800	46,939	10.541	1,970	465

% Change

'01/'00	2.06%	1.78%		2.36%	0.30%	5.29%	-13.22%	9.57%
'02/'01	1.76%	0.68%		2.63%	0.86%	4.45%	-27.25%	-6.47%
'03/'02	1.51%	0.85%		5.45%	3.88%	7.88%	44.99%	31.14%
'04/'03	1.11%	0.70%		8.54%	7.35%	7.78%	-28.39%	-6.86%
'05/'04	0.69%	1.75%		5.25%	4.52%	5.59%	73.49%	5.38%
'06/'05	0.91%	2.30%		6.23%	5.27%	4.00%	-46.81%	-13.17%
'07/'06	1.00%	1.11%		4.99%	3.95%	3.70%	-29.23%	2.34%
'08/'07	1.07%	1.29%		5.31%	4.19%	5.10%	4.12%	1.31%
'09/'08	1.08%	1.54%		5.57%	4.44%	5.90%	11.30%	1.31%



Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; Construction Industry Research Board; all estimates and forecasts by the LAEDC

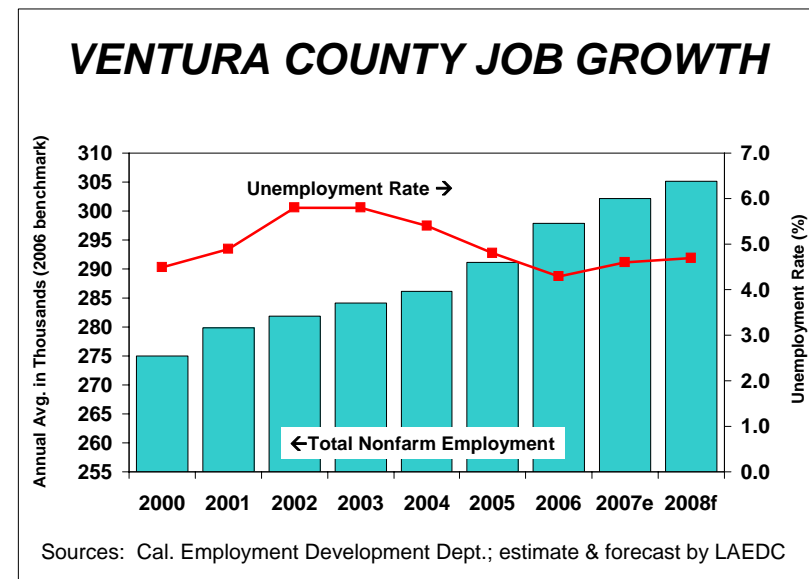
Table 23: Ventura County Nonfarm Employment

(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	275.0	0.7	15.4	41.2	27.7	13.4	10.3	33.6	5.6	7.9
2001	279.9	0.6	16.1	40.5	26.6	13.9	11.0	34.0	5.9	8.4
2002	281.8	0.7	15.7	38.0	24.9	13.1	11.7	34.2	5.8	8.1
2003	284.2	0.6	16.6	37.1	24.0	13.0	11.8	34.5	5.6	7.2
2004	286.2	0.7	16.9	38.3	24.2	14.1	12.2	35.3	5.7	6.8
2005	291.2	0.8	18.8	37.7	23.9	13.9	12.5	36.5	5.8	6.2
2006	297.9	1.0	20.7	38.0	23.5	14.5	12.6	37.0	6.2	6.1
2007e	301.2	1.1	19.5	38.5	22.8	15.7	12.6	37.9	6.4	6.0
2008f	305.1	1.1	19.4	39.5	22.6	16.9	12.6	38.9	6.5	6.0
2009f	309.8	1.2	19.6	40.8	22.6	18.2	12.7	39.6	6.6	6.1

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.
2000	13.8	4.0	13.2	3.7	22.6
2001	15.5	4.2	13.8	3.4	20.0
2002	17.7	4.6	13.7	3.3	19.6
2003	19.2	4.3	13.6	3.9	19.4
2004	19.8	4.4	14.2	3.6	19.5
2005	20.0	4.4	15.1	3.5	19.8
2006	20.6	4.4	16.2	3.4	20.0
2007e	20.4	4.3	16.8	3.3	20.8
2008f	20.3	4.3	17.3	3.2	21.1
2009f	20.3	4.3	17.8	3.1	21.5

	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	6.5	17.6	25.1	9.7	44.3
2001	6.8	18.5	26.6	9.6	45.1
2002	7.4	18.9	27.2	10.2	45.3
2003	7.8	19.9	27.6	10.4	44.8
2004	7.6	19.9	28.5	10.3	42.5
2005	7.8	20.5	29.2	10.4	42.2
2006	7.9	21.0	30.2	10.3	42.5
2007e	8.2	21.6	30.4	10.4	43.0
2008f	8.4	22.1	30.6	10.5	43.3
2009f	8.6	22.6	30.9	10.6	43.5



Source: California Employment Development Department, Labor Market Information Division; all estimates by LAEDC

IX. OUTLOOK FOR SAN DIEGO COUNTY

The County's housing industry has been struggling for some time, with year-to-year declines in the number of permits issued starting back in 2004. 2006 saw a decline of 29.4% in units permitted, while the forecast for 2007 is for another drop of 15.6%. Much of the problem has been in downtown San Diego, where a number of high-rises are still under construction. Surrounding buildings often have for sale or for rent signs in the window.

The office market is also generating a little nervousness. The vacancy rate is 11.7%, not that high, but some new product is either under construction or has been proposed. Some major projects have been proposed along the downtown San Diego water front, but there has not been much movement.

However, the news hasn't been all bad for the County. Its tourism industry continues to operate at a healthy pace, and a third large hotel, which will fly the Hilton flag, is under construction next to the convention center. With three hotels adjacent, this will allow more intense usage of the center. The County's bio-med industry will benefit from the end of legal challenges to the state's bio-med research bond.

Defense and technology are also holding steady. The big news is that a third aircraft carrier will be home ported in San Diego by 2010, which will provide a nice boost to the economy.

San Diego is sort of at a dead end on their airport, with no new plans currently being discussed. And a little heartburn is being caused by plans for a large hotel and convention center in National City south of the city of San Diego.

Net results

Nonfarm employment will turn in a weak performance in 2007, with an increase of just 0.6% or 7,900 jobs. Acting as a brake will be construction with a loss of 7,000 jobs, while real estate will lose 2,200 jobs. The strongest sectors in 2007 will be leisure & hospitality services, professional, scientific & technical services, and government. The County's unemployment rate will average 4.3% during the year, compared with 2006's 4.0% average.

Total personal income will increase by 4.1% during 2007, while per capita personal income will move up by 2.9% to \$41,782. Taxable retail sales in the County should grow by a modest 3.7% in 2007.

As noted above, the County's home building sector has been in somewhat of a prolonged slump. And another decline in units permitted, of 10.8%, is forecast for 2008. A large volume of nonresidential projects were permitted in 2006, and only a modest 2.0% increase in permit values is forecast for 2007.

Hot spots

The North County area continues to see lots of development, both along the I-15 corridor and along the 101. Oceanside is re-inventing itself as a resort destination, which will be helped along by the start of service on the "Sprinter" rail line east to Escondido. A lot of development is still planned in downtown San Diego, despite the problems in the residential sector. Besides the Hilton, a lot of boutique hotels are under development. Activity is also picking up in the University Town Center.

Risks

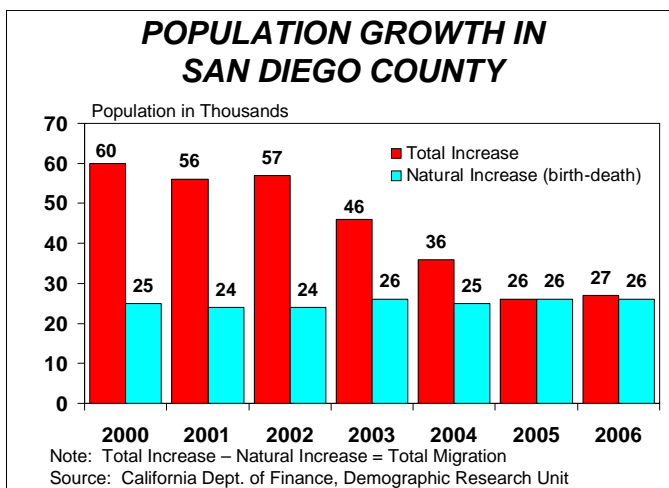
The obvious one is a worsening in the housing sector. San Diego city's finances are also still fragile.

Table 24: Major Projects in San Diego County

	Value (millions)	Comp. Date
Pacific Beacon bachelor quarters	\$ 215	11/08
Caltrans District 11 HQ	66	Ongoing
UC San Diego music building	45	12/08
Sprinter LR btwn. Escondido & Oceanside	440	2007

Table 25: San Diego County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ bil.)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ bil.)	Value of Two-way Trade (\$ bil.)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Total Nonresid. Bldg. Perm. (\$ millions)
2000	2,836.2	1,193.8	3.9	92.654	32,668	24.953	34.9	15.2	15,927	1,391
2001	2,892.6	1,218.4	4.2	97.009	33,537	26.263	33.6	14.8	15,638	1,194
2002	2,949.9	1,230.7	5.1	100.656	34,122	27.422	35.9	15.0	15,738	1,169
2003	2,995.6	1,240.1	5.2	104.600	34,918	29.521	35.7	15.4	18,314	1,169
2004	3,031.7	1,260.3	4.7	113.100	37,306	32.345	39.6	15.7	17,306	1,288
2005	3,058.0	1,282.1	4.3	119.100	38,947	33.785	43.4	15.9	15,258	1,382
2006	3,084.6	1,299.9	4.0	125.200	40,589	35.170	50.8	15.8	10,765	1,622
2007e	3,118.6	1,307.8	4.3	130.300	41,782	36.471	56.0	15.8	9,080	1,654
2008f	3,153.6	1,324.7	4.4	136.200	43,189	37.930	63.7	15.9	8,100	1,705
2009f	3,191.6	1,347.3	4.1	142.600	44,680	39.561	73.9	16.0	8,200	1,765
% Change										
'01/'00	1.99%	2.06%		4.70%	2.66%	5.25%	-3.72%	-2.63%	-1.81%	-14.16%
'02/'01	1.98%	1.01%		3.76%	1.74%	4.41%	6.85%	1.35%	0.64%	-2.09%
'03/'02	1.55%	0.76%		3.92%	2.33%	7.65%	-0.56%	2.67%	16.37%	0.00%
'04/'03	1.21%	1.63%		8.13%	6.84%	9.57%	10.92%	1.95%	-5.50%	10.18%
'05/'04	0.87%	1.73%		5.31%	4.40%	4.45%	9.60%	1.27%	-11.83%	7.30%
'06/'05	0.87%	1.39%		5.12%	4.22%	4.10%	17.05%	-0.63%	-29.45%	17.37%
'07/'06	1.10%	0.61%		4.07%	2.94%	3.70%	10.24%	0.00%	-15.65%	1.97%
'08/'07	1.12%	1.29%		4.53%	3.37%	4.00%	13.75%	0.63%	-10.79%	3.08%
'09/'08	1.20%	1.71%		4.70%	3.45%	4.30%	16.01%	0.63%	1.23%	3.52%



Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept. of Commerce; Construction Industry Research Board; all estimates and forecasts by the LAEDC

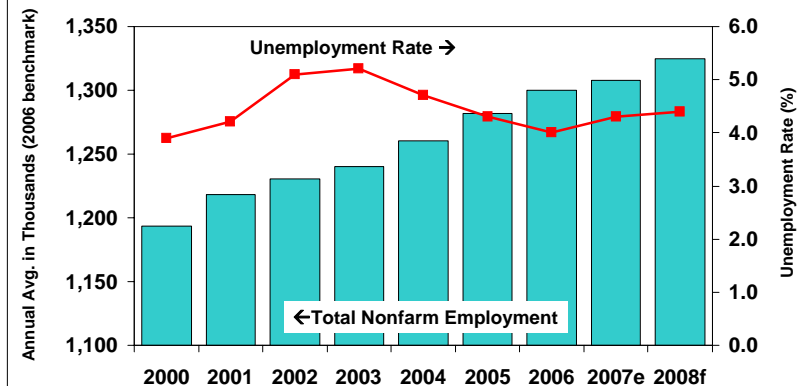
Table 26: San Diego County Nonfarm Employment
(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,193.8	0.3	69.7	122.6	92.2	30.4	39.1	133.8	29.8	39.2
2001	1,218.4	0.3	75.1	119.0	89.3	29.8	41.5	135.6	32.0	38.8
2002	1,230.7	0.3	76.4	112.3	84.7	27.7	41.3	138.0	29.3	37.7
2003	1,240.1	0.3	80.2	105.3	78.8	26.5	41.6	140.8	27.3	36.9
2004	1,260.3	0.4	87.7	104.3	78.1	26.2	41.9	144.9	28.4	36.6
2005	1,282.1	0.4	90.8	104.5	79.1	25.4	43.6	147.4	28.4	37.4
2006	1,299.9	0.5	92.6	103.6	78.1	25.6	45.1	147.6	28.3	37.2
2007e	1,307.8	0.6	85.6	102.6	77.2	25.4	45.6	147.1	28.4	37.7
2008f	1,324.7	0.6	83.1	102.4	77.0	25.4	46.0	148.6	28.6	38.1
2009f	1,347.3	0.6	81.1	102.5	77.0	25.5	47.2	150.3	28.9	38.5

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.
2000	44.0	27.2	92.3	18.7	84.2
2001	44.9	27.2	98.3	18.6	81.3
2002	47.3	27.7	100.8	19.9	81.0
2003	51.2	28.8	101.6	19.1	80.5
2004	52.8	29.1	99.8	18.2	86.6
2005	53.5	29.7	105.9	17.4	87.2
2006	53.3	30.4	110.6	16.9	86.3
2007e	51.9	28.2	115.7	16.2	85.8
2008f	51.4	27.2	120.7	15.7	85.7
2009f	51.6	26.7	125.9	15.4	87.2

	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	18.2	97.2	129.0	42.2	206.6
2001	17.2	98.8	131.4	44.9	213.8
2002	17.2	102.5	133.8	45.6	219.7
2003	18.8	103.0	140.7	46.8	217.3
2004	20.1	101.6	145.7	47.9	214.3
2005	21.1	101.4	149.6	48.8	215.1
2006	21.1	103.7	156.2	48.9	217.7
2007e	20.4	107.0	163.1	50.1	221.8
2008f	20.3	110.2	169.8	51.0	225.3
2009f	20.3	113.5	177.0	52.3	228.3

SAN DIEGO COUNTY JOB GROWTH



Sources: Cal. Employment Development Dept.; estimate & forecast by LAEDC

Source: California Employment Development Department, Labor Market Information Division; all estimates by LAEDC

X. OUTLOOK FOR SUB-COUNTY ECONOMIC AREAS

The LAEDC frequently receives requests for information about sub-regions of the five local metropolitan areas. In the Mid-year Economic Forecast, employment data will be provided for 13 areas in Los Angeles County, two areas in Orange County, and four areas in the Riverside-San Bernardino area. As much as possible, these are natural market areas, defined by city limits, freeways, and geographic features. As such, there can be quite a disparity in size among them.

The main indicator for all of these regions is employment, which has been obtained from the California EDD's ES 202 data set. It should be noted that this data does not include independent contractors, which are a significant factor in Los Angeles and Riverside counties. Moreover, some industry detail is lacking as employment numbers sometimes cannot be allocated by industry by sub-area.

Los Angeles County

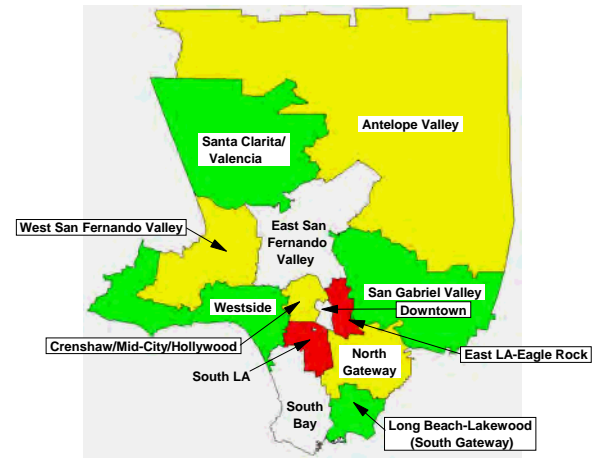
West San Fernando Valley: Job growth of 1.3% is estimated for this area in 2007, moving the annual average employment total to 294,000 jobs, a new record level. Driving growth will be professional & business services (which include scientific R&D), education & health services, and retail trade. The latter has gotten a boost from the expansion of Topanga Plaza. Manufacturing employment in the area continues its slow decline. The average wage in 2006 was \$46,721, good for a fifth place ranking in the County. Office vacancy rates have dropped down to 8%, and there is a shortage of industrial space (which is used by other industries besides manufacturing). Some entertainment industry suppliers are in the area, and they could be impacted by labor problems over the next twelve months. An extension of the highly successful Orange Line bus way is under construction.

Table 27: Job Growth by Sub-county Areas

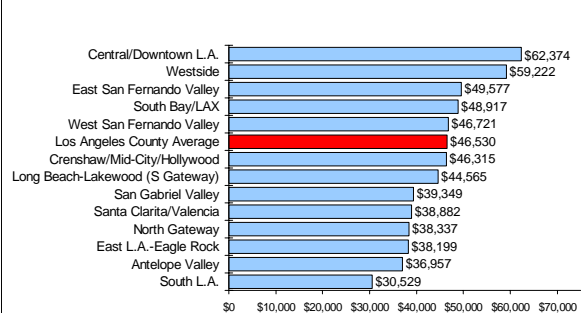
Los Angeles County	'03-'04	'04-'05	'05-'06	06-'07
West San Fernando Valley	1.3%	1.0%	0.9%	1.4%
East San Fernando Valley	2.7%	-2.4%	2.6%	3.0%
Santa Clarita/Valencia	7.5%	4.4%	3.8%	2.4%
Antelope Valley	-0.5%	5.8%	6.8%	4.1%
San Gabriel Valley	1.2%	1.4%	1.8%	1.1%
East L.A.-Eagle Rock	3.5%	1.7%	1.2%	1.0%
Westside	0.9%	3.1%	2.5%	2.1%
South Bay/LAX	1.0%	1.6%	1.4%	0.8%
Long Beach-Lakewood	2.4%	2.6%	-2.9%	-1.0%
North Gateway	0.0%	0.3%	3.4%	1.0%
South Los Angeles	-1.2%	-2.8%	1.3%	0.0%
Crenshaw/Mid-City/H'wd	4.1%	0.2%	3.0%	3.9%
Central/Downtown L.A.	-1.3%	-0.3%	0.2%	0.2%
Orange County	'03-'04	'04-'05	'05-'06	06-'07
North Orange County	1.9%	0.8%	1.1%	0.6%
South Orange County	5.6%	4.4%	2.4%	0.8%
Riverside-San Bernardino	'03-'04	'04-'05	'05-'06	06-'07
Inland Empire	5.7%	5.2%	3.7%	2.4%
Coachella Valley Area	5.4%	4.7%	2.3%	1.4%
High Desert	5.3%	6.3%	4.8%	2.7%
SE Riverside/I-15 Corridor	15.6%	12.6%	10.6%	4.1%

Sources: Cal. EDD, ES202 data; estimates & by LAEDC

Los Angeles County Economic Areas



AVERAGE WAGE BY REGION, 2006Q3

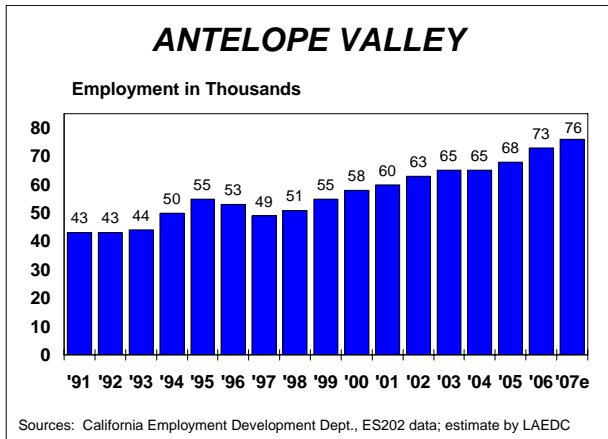
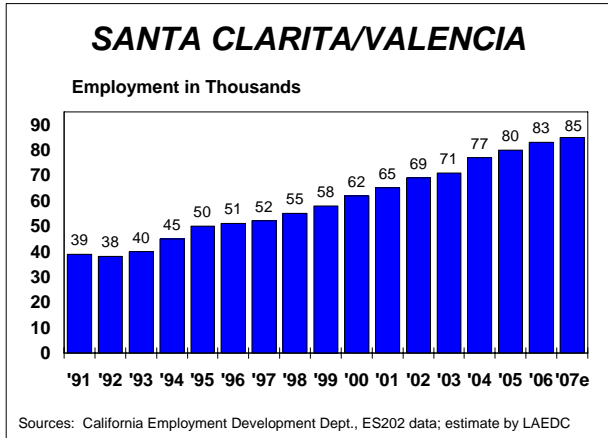
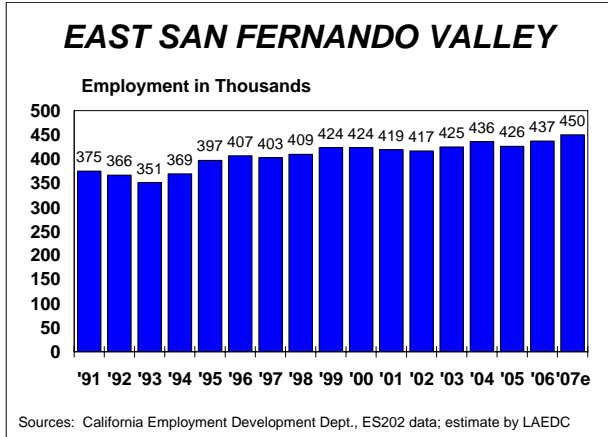
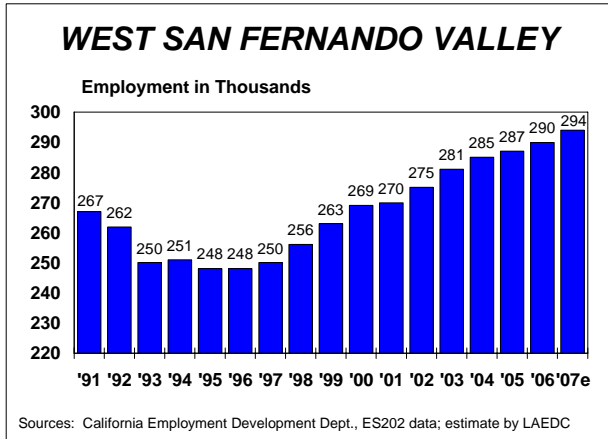


Sources: California Employment Development Dept., Labor Market Information Division, ES202 data

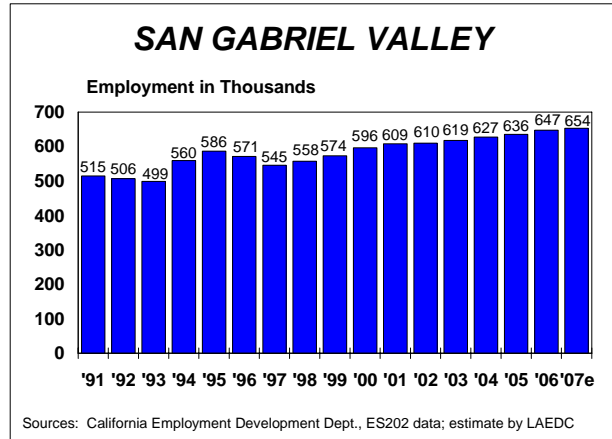
East San Fernando Valley: Employment in this area has bounced around in recent year, but in 2007 should record rather robust growth of 3.0% to an annual total of 450,000 jobs. The area's largest employment sector is "information," which includes the motion picture industry. Thus, there is the risk of a slump in employment in 2008 if the labor situation becomes dicey. Other large employment sectors in the area are business/professional services, and education & health services. There is also a sizable manufacturing sector which seems to be holding its own job wise. The average annual wage in the area was \$49,557 in 2006, good for third place in the County. Office vacancy rates in the area are extremely low, 2.9%, which has sparked some new construction.

Santa Clarita/Valencia: This area will see a 2.4% increase in total employment in 2007, moving the annual average to 85,000 jobs, a new record level. The largest employment sectors are professional/business services, leisure & hospitality services, and manufacturing. Good news for the travel sector was the decision to keep Magic Mountain in operation, and new marketing strategies seem to be paying off. There is a small but slowly growing manufacturing sector, and the key here is the availability of quality space. There is also film production in the area, so labor issues need to be watched. The average annual wage in Santa Clarita was \$38,882 in 2006. The office vacancy rate was 8.1%, while the industrial rate was 4.7%.

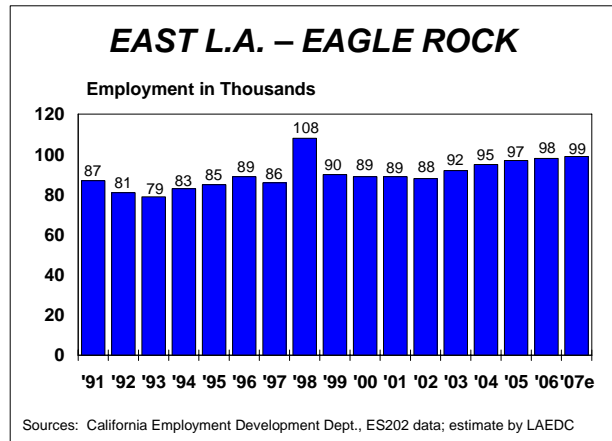
Antelope Valley: This area should see total employment growth of 4.1% (on a small base) in 2007, moving total employment to 76,000 jobs, another new record level. The largest employment sectors are government, retail and manufacturing, which might seem a little unusual. However, the area has a major concentration of aerospace R&D activity, and there are a lot of cutting-edge programs being developed at local facilities of Boeing, Lockheed-Martin, and Northrop Grumman. The average annual wage in 2006 was \$36,957, which was up over the year by a stout 10.2%. The big news for the Valley was the start of airline service from the Palmdale Airport to San Francisco International Airport. And the valley still has a lot of low cost land.



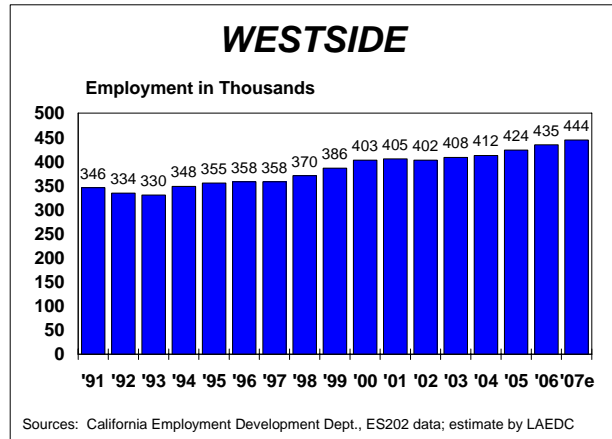
San Gabriel Valley: Despite ongoing job losses in its still large manufacturing sector, this area should see total employment grow by 1.1% in 2007 to a new high level of 654,000 jobs. The largest employment sectors are professional/business services, education & health services, and retail. In education, the standard bearers are Art Center, Cal Tech, and Cal Poly Pomona. International trade has a huge presence in the Valley, and traffic congestion is a long standing concern. The average annual wage was \$39,349 in 2006. The office vacancy rate was 7.4%, while the industrial vacancy rate was 1.2%. The challenge for the area is the growing shortage of large blocks of developable land.



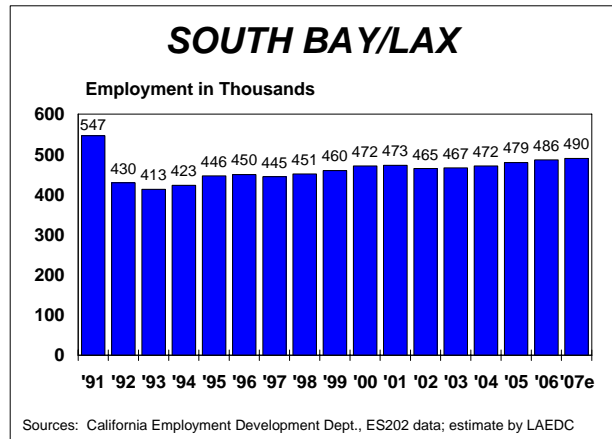
East Los Angeles/Eagle Rock: This area will see another modest increase in total employment in 2007, a gain of 1.0% to an annual average of 99,000 jobs. The largest employment sectors are manufacturing (which is declining which has to be a concern for local leaders), government, and education & health services. The latter reflects the campus of Cal State LA, and of course County/USC Medical Center and the USC School of Medicine. The average annual wage in the region in 2006 was \$38,199. Eagle Rock is a "hot" location, and the area does have some land that could be taken to "higher and better uses." The Gold line light rail is being extended from Downtown through the area, which could spark some new development.



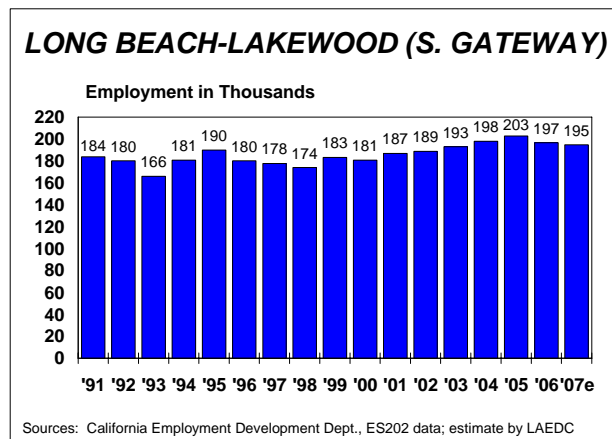
Westside: Employment in the area should grow by 2.1% in 2007 to a new record level of 444,000. This area has to be nervous about possible labor unrest in the motion picture/TV production industry. The largest employment sectors are professional/business services (which does a lot of work in entertainment), leisure & hospitality services, government, and retail. The average wage in the area was in 2006 \$59,222, good for a number two ranking in the County. The area has 6.4% office vacancy rate, and lease rates are skyrocketing. New projects have been proposed, but all are being met with fierce community opposition due to congestion problems. A little good news is the start of construction on the Exposition light rail out of Downtown Los Angeles. Phase one will get as far west as Culver City.



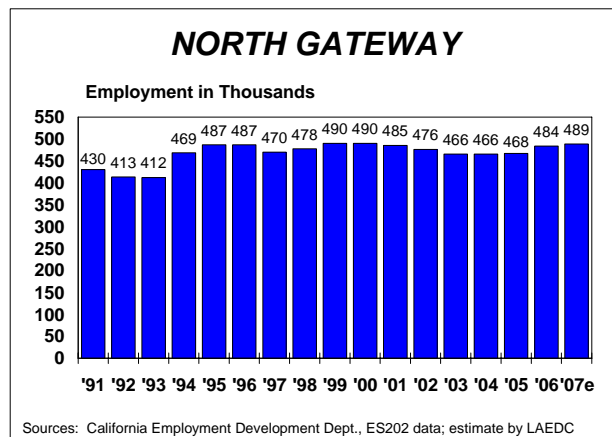
South Bay/LAX: This area should see a 0.8% increase in total employment, with the 2007 annual average at 490,000 jobs. While the recent employment trend has been positive, the 2007 number is still somewhat below the peak job count reached back in 1991. The area has a diverse business base, with the largest sectors being manufacturing (which seems to be holding steady thanks to its high-tech orientation), professional/business services (which includes lots of R&D), leisure & hospitality services, and retail. The international trade industry also has a large influence on the South Bay due to proximity to both ports and LAX. The average annual wage in 2006 was \$48,917. The office vacancy rate was 14.5%, but this is skewed by the Century Boulevard and 190th Street corridors. The Nissan headquarters campus (they moved to Nashville) is being recycled. The industrial vacancy rate was 1.9%, with little new space under construction.



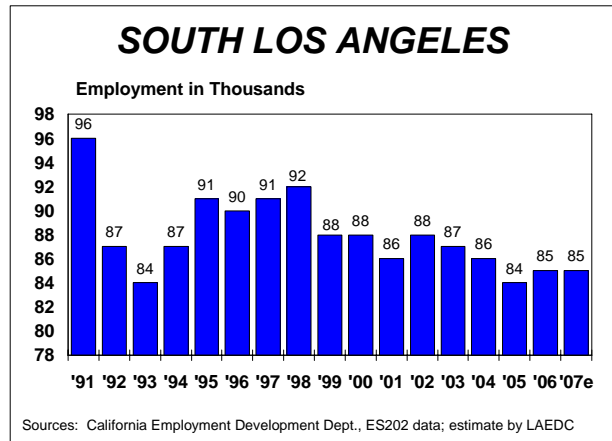
Long Beach/Lakewood: This area will go against trend, with a 1.0% decline in total annual employment in 2007. This reflects some unusual trends in the transportation employment numbers. Taking these out of the employment total yields modest job gains over the year. The 2007 average annual employment is estimated at 195,000 jobs. The largest industries in the area are professional/business services, education & health services, government, and leisure & hospitality services. The average annual wage in the area in 2006 was \$44,565. The office vacancy rate for the area was around 9%, while data from Cushman & Wakefield indicates that little industrial space is available. Trends at the ports are important to the area (growth albeit at a slower pace in 2007). Also, there is some good news in that orders for 10 more C-17 military cargo planes are expected, which will keep Boeing's Long Beach plant open through 2009.



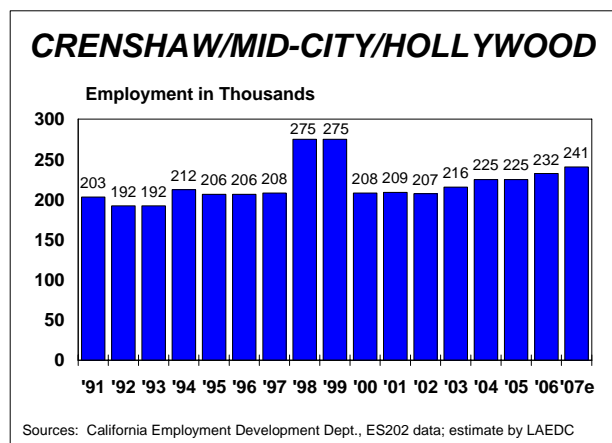
North Gateway: This area will see employment growth of 1.0% in 2007, moving the annual average to 489,000 jobs. This is not too far below previous highs. The major industries in the area are manufacturing (it has the largest concentration of factory jobs in the County, and employment seems to be leveling off), professional/business services (which has seen a burst of growth), wholesale trade (international trade has an impact here), and retailing. Like other areas in the County, there is a shortage of large blocks of developable land, while the industrial vacancy rate is between 1% and 2%. The average annual wage was \$38,337 in 2006.



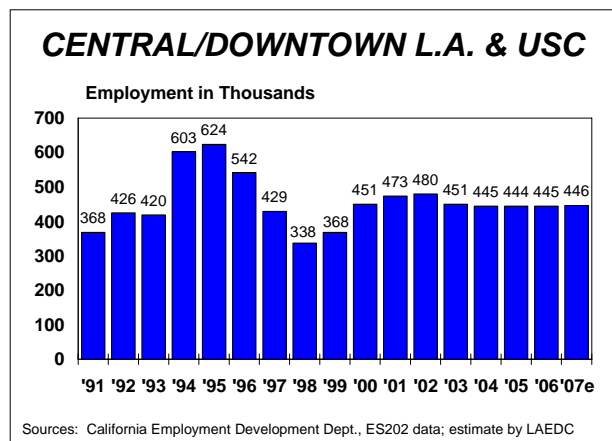
South Los Angeles: The area will see total employment hold steady from 2006 to 2007 at an annual average of 85,000 jobs. It is nowhere near its past employment highs, and in recent years has been essentially moving sideways. The largest industries in the area are manufacturing (dangerous given the indifference to this activity on the part of local leaders), education & health services, and retailing. A major issue for the area is the fate of the King Drew Medical Center. Another major challenge is that the area is built-out, so finding sites for new development is extremely difficult, and what land is available is quite expensive. The average wage was \$30,529 in 2006, the lowest of Los Angeles County's 13 areas.



Crenshaw/Mid-cities/Hollywood: This area will see employment growth of 3.9% in 2007, moving the annual average to 241,000. This is the highest level since 1999. The business base is diversified, with the largest sectors being education & health services, professional/business services, leisure & hospitality services (Hollywood – the community is "hot"), and information (which includes entertainment). With Hollywood on the north and Downtown Los Angeles to the immediate east, the area is strategically located. "Korea Town" is rapidly expanding. A mixed –use development including a W Hotel is being built at Hollywood and Vine, while the Exposition Boulevard light rail will skim along the southern boundary. Office vacancy rates are low, 8.0% in the Wilshire Corridor, and 4.9% in Hollywood/West Hollywood. A problem for Hollywood is the conversion of older office buildings to residential uses with little new construction. The average annual wage was \$46,315 in 2006.



Central/Downtown/USC: This area will see modest employment growth in 2007, up by 0.2% to an annual average of 446,000 jobs. While rather small physically, the area has seen wide swings in its job numbers, the result of being a center for government (Federal, state, county, city and local agencies). Many government jobs are attributed to Downtown regardless of their actual location. The major Downtown industries are government, professional/business services, education & health services, and finance. Downtown has been a hotbed of construction, and this will continue despite the waning of the residential boom (although a lot of condos/lofts are still under construction). The big news for Downtown is the start of construction on the convention center hotel, and the October opening of the 7,100 seat Nokia Theater can't be overlooked. The



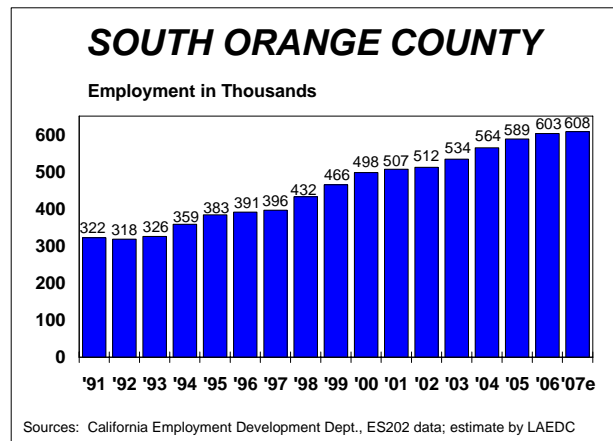
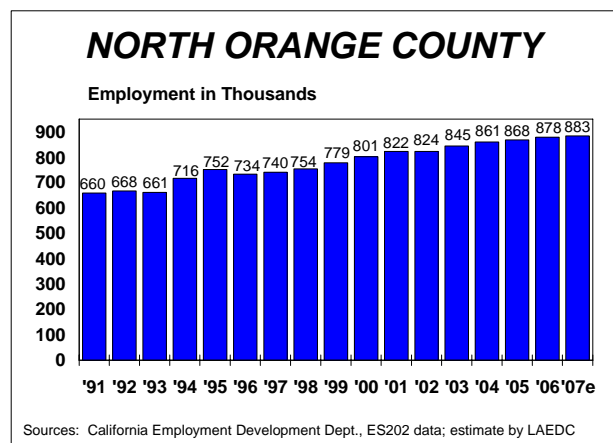
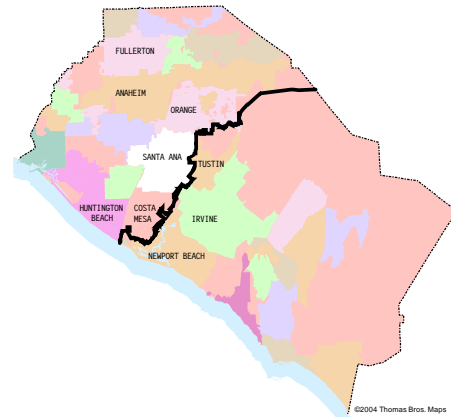
latter will be after any major awards show that is not nailed down. And these shows will give Downtown a patina of glamour. Also important for Downtown are the Gold line extension and the start of work on the Exposition Boulevard light rail. And lurking on the horizon is the start of construction on the Grand Avenue project. The office vacancy rate was 14.1%, while the industrial vacancy rate was an incredible 0.9%. The average annual wage in 2006 was \$62,374, the highest of any area in the County.

Orange County

North County: This area should see employment growth of 0.6% in 2007, moving the annual average to 883,000 jobs, a new high. The major industries are professional/business services, manufacturing (still in a slow slide down not helped by the loss of 900 jobs at a Boeing facility), leisure & hospitality services (Disneyland and Knott's Berry Farm), and retailing (South Coast Plaza). What about financial services, in light of the sub-prime lending industry? There were about 59,000 jobs in North County at last count, and the trend is down. The office vacancy rate was around 7% while the industrial rate was around 2% , according to Grubb & Ellis. There had been a push to build condos in industrial areas, but this seems to have faded due to the housing downturn. The average annual wage in the area in 2006 was \$42,246.

South Orange County: This area will see growth of 0.8% in 2007, moving the employment average for the year to 608,000 jobs, also a new record level. The major industries are professional/business services, leisure & hospitality services, manufacturing (holding its own thanks to bio-med), and education/health services. There is also a large financial services segment, which is seeing employment slippage. There are two major development projects in the area, the old Tustin Marine Corp station (in Tustin), and the "Great Park" in Irvine (ex. El Toro Marine Corp. Air Field), with the former well along in the re-use process. The office vacancy rate was around 10% while the industrial vacancy rate was 5% according to Grubb & Ellis. The average annual wage in the area in 2006 was \$52,895, with a big boost coming from financial services (those sub-prime lenders).

Orange County Economic Areas



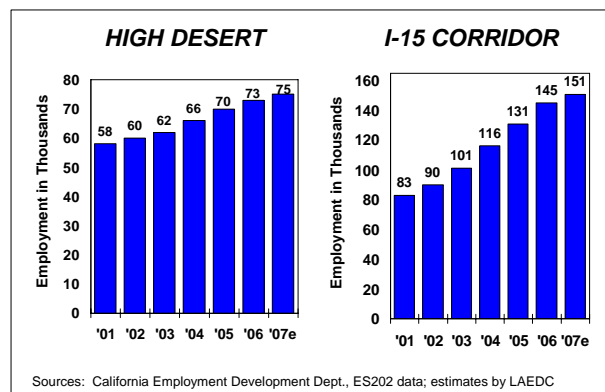
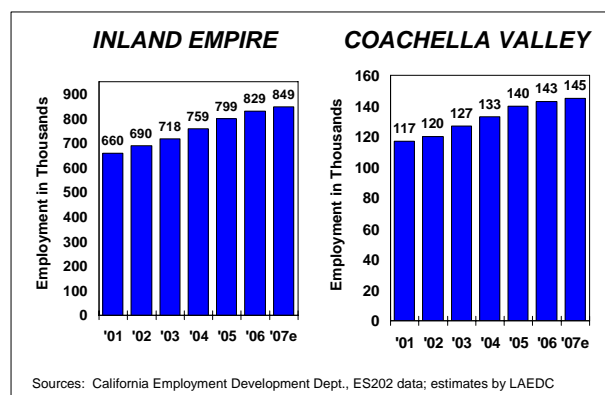
Riverside-San Bernardino Area

Inland Empire: This name is generally applied to the entire two county area, but it is more accurate to call the western end of the two counties the "Inland Empire" The sub-region should see employment growth of 2.4% on a large employment base in 2007. This will move the annual employment count to 849,000 jobs, needless to say, a record level. The largest activities in the area are government (it includes both county seats), professional/ business services, retailing, and construction. The prognosis for the latter is not favorable over the next two years, due to the housing slowdown. Major development is going on in Ontario, including a sports arena. There continues to be a concerted effort to drive traffic to Los Angeles/Ontario International Airport. This area has been a favored location for major distribution centers, but like other areas in the region, large blocks of developable land are very hard to find. According to Grubb & Ellis, the office vacancy rate ranged from 5% to 7%, while the industrial vacancy rate ranged from 2% to 7%.. The average annual salary was \$37,905 in 2006.

Coachella Valley: This area should see employment growth of 1.4% in 2007. This will move the annual average to 145,000 jobs, a new record. However, the homebuilding slump will act as a brake over the next few years. The major industries are leisure & hospitality services, retailing (the area will get a Nordstrom's in a couple of years), government, and construction. In the travel sector, Palm Springs International Airport continues to attract new services, while hotels and Indian casinos are being expanded. The average annual wage was \$32,186 in 2006, although surveys indicate that the Valley has a large number of high wealth individuals.

High Desert: This is the area up over the Cajon Pass (everybody else in Southern California is "down the mountain"). Growth continues to be driven by affordable housing and large blocks of raw land. The Southern California Logistics Airport continues to attract new business. The major industries in the High Desert are retailing, government, leisure & hospitality services, and education & health services. The office vacancy rate was 2% while the industrial rate was around 1%, according to Grubb & Ellis. The average annual wage was \$31,993 in 2006.

Riverside-San Bernardino Economic Areas



Southeastern Riverside County – I-15 Corridor: This area will see employment growth of 4.1% in 2007, moving the annual average to 151,000 jobs, a new record. A driver of growth is affordable housing and available land. Since it is "developing," the major industries are government, retailing, construction (which is taking a hit), leisure & hospitality services (Indian gaming), and professional business services. Traffic congestion is a major concern for the area. The average annual wage was \$32,798 in 2006.

XI. OUTLOOK FOR MAJOR "EXPORT" INDUSTRIES

The concept of an "export" industry is that it sells a significant portion of its goods and services outside of the region, thus bringing new money into Southern California's economy. The region is fortunate in having 11 significant export industries, and there are new ones bubbling up.

The latest growth forecast for the region's larger export industries is presented in this section, using a scale ranging from "A" to "D-", with the former obviously being the strongest (based on growth of sales and shipments, not profitability).

While the overall economy of the region is growing at a slower pace, five of the export industries still have an A rating, while there are two B+s. However, in the January 2007 Forecast, there were only three export industries facing significant risk. At mid-year 2007, the risk count is up to 11, with the most notable being the motion picture/TV production industry.

Table 28: Performance Ratings of Major Export Industries

Industry	7/2006	2/2007	7/2007	Risks
Aerospace: defense	B	B+	B+	Y
Aerospace: commercial	A	A	A	
Apparel design & manufacturing	C+	C+	C+	Y
Business & prof. mgmt. services	A	A+	A+	
Financial services	B	B-	B-	Y
Health services: hospitals	D	D	D	Y
Health services: ambulatory care	C	C	C	Y
Bio-medicine	A-	A-	A-	
International trade	A	A	B+	Y
Motion picture/TV production	B-	C	C	Y
Technology	A-	A-	A-	
Tourism & travel	A-	A-	A	

Table 29: The Economic Base of the Los Angeles Five-County Area (2006)

The "Export" Industries

(Annual average employment in 000s)	Los Angeles	Orange	Riv.-San Bern.	Ventura	5-Co. Total	San Diego
Tourism	267.4	123.5	96.6	20.3	507.8	110.2
Direct international trade ¹	315.1	---	---	---	485.1	47.0
Technology ²	225.5	106.2	17.8	11.7	361.2	73.1
Financial services ³	196.5	104.6	29.5	10.5	341.1	50.6
Wholesale trade/logistics ⁴	170.1	67.2	34.4	9.0	280.7	6.2
Business & professional services	178.1	63.4	24.1	9.2	274.8	30.4
Motion picture/TV production	254.3	5.0	3.0	0.9	263.2	36.3
Health services/bio-medicine	125.3	51.5	39.2	14.1	230.1	16.1
Agric./food products manufacturing	63.9	14.8	19.5	20.9	119.1	4.1
Fabricated metal products	58.9	27.5	19.1	5.6	111.1	58.4
Apparel/textiles design, mfg. & wholesaling	94.5	12.8	1.9	0.8	110.0	8.7
Furniture manufacturing & wholesaling	65.6	9.6	10.1	1.1	86.4	4.6
Higher education ⁵	42.8	10.0	7.5	0.0	60.3	16.0
Auto parts manufacturing & wholesaling	23.7	9.6	10.4	1.1	44.8	2.3
U.S. Department of Defense	3.1	1.0	5.7	4.7	14.5	12.0
Jewelry manufacturing & wholesaling	11.9	0.7	0.2	0.1	12.9	18.7
Indian gaming	0.0	0.0	8.9	0.0	8.9	1.0
Petroleum production & refining	5.9	0.6	0.0	0.8	7.3	0.4
Toy manufacturing & wholesaling	5.8	0.7	0.1	0.0	6.6	0.2

Industry-specific notes:

- (1) Includes activities related to moving commodities in and out of the customs district. Does not include any manufacturing activities.
- (2) Includes computer & electronics manufacturing; aerospace products manufacturing; software publishing; Internet services; computer system design; wholesale electronic markets, agents, and brokers; and scientific and technical consulting
- (3) Include law, accounting, architecture & engineering, specialized design services, and management consulting
- (4) Exclude apparel, auto, food, furniture, jewelry, toys, and electronics
- (5) Includes colleges & universities that attract both international students and students from elsewhere in the U.S.

Sources: LAEDC based on data from California Employment Development Department and Bureau of the Census

Aerospace

This industry continues to have somewhat of a split personality. In the commercial sector, orders for new airplanes were robust in 2006 (Airbus had 824, while Boeing tallied 1,044 orders) and to date in 2007 bookings continue to roll in. While complete airliners are no longer built in the region, there is still a large subcontracting business. For example, the main body section of the 747 is produced in Hawthorne, a major supplier of fasteners (currently in quite short supply) is based in Carson, and Goodrich in the Inland Empire does a lot of work on Boeing's 787.

Most of the recent commercial aircraft orders have come from international airlines, or low cost carriers. People are watching the domestic carriers, who have aging, and thus expensive to operate, fleets that will soon need to be refreshed. Only Continental and Northwest have made any significant commitments.

On the space side of aerospace, NASA continues to develop its replacement for the shuttle (which will go out of service in 2010), a process that is proving to be slower than expected. In addition the agency still faces significant budget constraints.

On the military side of the business, trends continue to be in flux. The conflicts in Afghanistan and Iraq have been quite expensive and are also wearing out equipment at a rapid pace. The DOD budget has not yet shrunk (in FY 2008 it is roughly \$507 billion), and will probably continue to run at high levels over the next few years.

There are a variety of major defense programs underway in Southern California. One of the most

Industry Score Card	
Defense Aerospace	
B+ → B+	
2/2007	7/2007
Commercial Aerospace	
A → A	
2/2007	7/2007

visible is the C-17 military cargo plane produced by Boeing in Long Beach. This program has had a "Perils of Pauline" existence, with the threat of a shutdown hanging over its head during the last two years. However, it looks like 10 more planes will be ordered in the 2008 defense budget, with the possibility of more orders to come as the Air Force sorts out its heavy lift requirements and capabilities. The Future combat System (Boeing in Huntington Beach) also has encountered some rough going, due to both delays and cost increases for the program. Work is also done on three fighters in the region, the F/A-18, the F-22, and the F-35 or Joint Strike Fighter. Funding for all three looks good. And research work is being done in the Antelope Valley on a variety of unmanned aircraft (UAVs).

Aerospace employment in the region (which does not include electronics – they are in computer & electronics products and not broken out on a timely basis) will continue to ease down in 2007, except in San Diego County where there will be a modest increase.

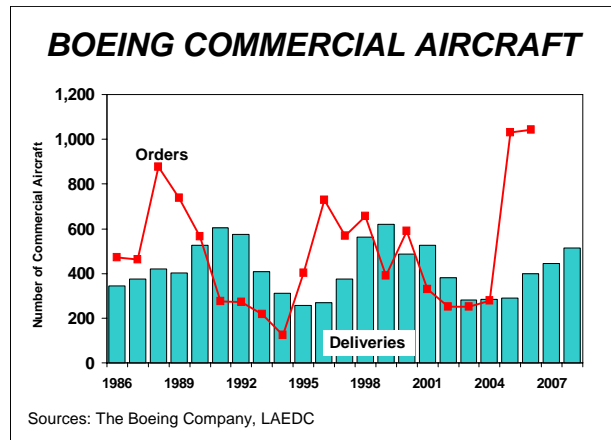


Table 30: Aerospace Employment

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
Los Angeles County	39,000	38,400	37,000	35,900	-1.5%	-3.6%	-3.0%
Orange County	11,300	11,300	11,300	11,400	0.0%	0.0%	0.9%
San Diego County	5,500	5,600	5,900	6,200	1.8%	5.4%	5.1%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

Apparel & Textiles

This industry is in the midst of major change. Denim has been a major local product category for quite some time, but it is no longer the hot fashion item. What's back in are dresses. Southern California's garment businesses should be able to make the switch, although it will be painful for some smaller firms.

The other major force is what is called the change in retail "distribution channels." There is still fallout from the Macy's/May department store merger (they are still trying to determine their strategy – up market or promotional), while many of the larger retail chains are focusing more on private label business. This presents a big challenge to smaller garment producers in the region.

However, it's not all bad news. Southern California is quite strong in both juniors and contemporary. Moreover, with the increasing focus on "fast" fashion, anybody seeking a quick turn on an order may want to look at a local source.

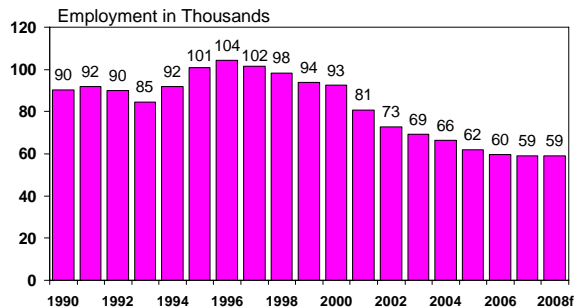
Industry Score Card	
Apparel/Textiles	
C+	→ C+
2/2007	7/2007

Finally, the local garment industry is getting more attention, with more national and international buyers at the "market" weeks. Retailers have found that Los Angeles can provide them with the cutting-edge merchandise they need to attract customers.

The "Fashion District" just to the southeast of Downtown Los Angeles continues to see lots of development, both residential and "condo" show rooms. One important note here: just a short distance to the west is LA Live and its hotels and restaurants, which should be attractive to buyers.

Total apparel industry employment in Southern California (including textiles and wholesaling) should continue to slide down in 2007 and 2008, although the rate of decline seems to be moderating.

APPAREL MANUFACTURING EMPLOYMENT IN LOS ANGELES COUNTY



Sources: Cal. Employment Development Dept.; estimate & forecast by LAEDC

Apparel & textiles firm distribution

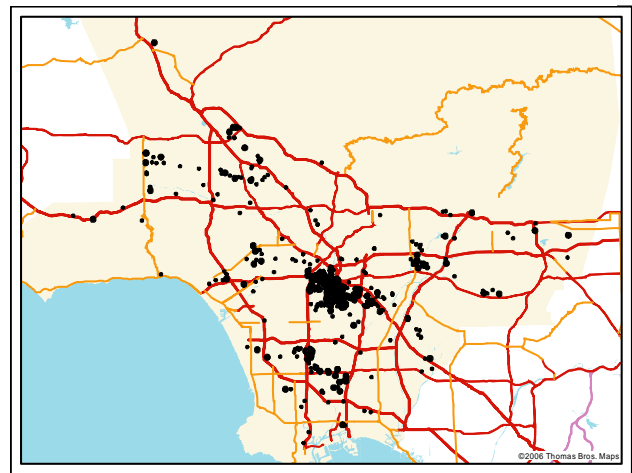


Table 31: Apparel & Textiles Employment

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
Los Angeles County	100,300	97,500	96,300	95,800	-2.8%	-1.2%	-0.5%
Textiles mills	10,900	10,300	10,200	10,100	-5.5%	-1.0%	-1.0%
Textile product mills	9,200	8,800	8,500	8,300	-4.3%	-3.4%	-2.4%
Apparel manufacturing	61,800	59,800	59,200	59,000	-3.2%	-1.0%	-0.3%
Apparel & piece goods wholesaling	18,400	19,000	18,400	18,400	3.3%	-3.2%	0.0%
Riverside-San Bernardino Area							
Textile mills	14,200	14,300	14,300	14,200	0.7%	0.0%	-0.7%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

Business & Professional Management Services

This sector has been on a tear employment-wise and the outlook for 2007 and 2008 remains favorable. For the accounting and legal sectors, there is still Sarbanes Oxley, and while business from AB 32 (the greenhouse gas legislation) has been slow to develop, it will happen. In the tech sector, there is a nice stream of IPO's, which also helps. Architecture & engineering should continue to see a steady flow of nonresidential and infrastructure work. In the meantime, the area's many engineering firms have a significant expertise in environmental technology, which should be a growth area. Management of scientific and technical consulting should also see business roll in at a steady rate.

<u>Industry Score Card</u>	
Business & Professional Management Services	
A+ → A+	
2/2007	7/2007

The segment where prospects continued to be less favorable is advertising. There will be slower growth in overall national spending by business in 2007. Moreover, internet advertising continues to present a challenge: how effective is it and at what cost? California's outlook for advertising in 2008 is a little brighter, however, due to the early presidential primaries. One given – there will also be some controversial state initiatives on upcoming ballots which will generate advertising work.

Table 32: Business & Professional Management Services Employment

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
Los Angeles County	183,700	194,200	203,000	211,900	5.7%	4.5%	4.4%
Legal services	49,900	49,200	49,300	49,400	-1.4%	0.2%	0.2%
Accounting services	41,500	44,300	48,300	52,100	6.7%	9.0%	7.9%
Architecture & engineering	33,500	36,800	38,600	40,100	9.9%	4.9%	3.9%
Mgmt., sci. & tech. consulting	35,600	39,900	43,400	47,000	12.1%	8.8%	8.3%
Advertising	23,200	24,000	23,400	23,300	3.4%	-2.5%	-0.4%
Orange County	64,500	68,800	71,500	73,400	6.7%	3.9%	2.7%
Legal services	14,700	14,400	14,700	14,900	-2.0%	2.1%	1.4%
Accounting services	11,000	11,800	12,400	12,500	7.3%	5.1%	0.8%
Architecture & engineering	22,000	23,400	23,700	24,000	6.4%	1.3%	1.3%
Mgmt., sci. & tech. consulting	16,800	19,200	20,700	22,000	14.3%	7.8%	6.3%
San Diego County	34,200	35,200	37,300	38,300	2.9%	6.0%	2.7%
Legal services	12,000	12,400	12,700	12,900	3.3%	2.4%	1.6%
Architecture & engineering	22,200	23,800	24,600	25,400	7.2%	3.4%	3.3%

Note: Includes computer software development

Sources: California Employment Development Department, estimates & forecasts by LAEDC

Financial Services

Still another split personality situation. The Hyde part is sub-prime lending, where the crash has resulted in dramatic employment cuts and firm closures. Orange County was ground zero here. This sector was a shooting star, and due to looming strict regulation won't go back to the boom days any time soon if ever. For investment firms, there is a wait to see how bad the fall out will be from sub-prime loans going bad.

<p><u>Industry Score Card</u> Financial Services B- → B- 2/2007 7/2007</p>

On the more traditional banking side of the business, it's Dr. Jekyll time as the situation is still good. There continues to be bank start-ups, as well as acquisitions of smaller banks by the larger players. Credit unions continue their aggressive push for customers.

As to industry employment, Los Angeles County will see continued job gains in 2007, but Orange County will take a major hit to its 2007 financial services job count.

Table 33: Financial Services Employment -- Credit Intermediation & Related Services

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
Los Angeles County	82,900	84,800	85,600	86,000	2.3%	0.9%	0.5%
Orange County	54,000	52,300	48,300	47,800	-3.1%	-7.6%	-1.0%
Riverside-San Bernardino Area	18,100	19,000	19,400	19,200	5.0%	2.1%	-1.0%
Ventura County	27,300	26,400	25,600	25,300	-3.3%	-3.0%	-1.2%
San Diego County	11,400	11,900	11,700	11,600	4.4%	-1.7%	-0.9%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

Health Services/Bio-medicine

There continues to be a high level of hospital construction in the region, most of which is needed to meet state seismic requirements, though some is being done to accommodate growth. A continuing challenge for hospitals is a shortage of nurses, although some new training programs are being started.

For health care, there are two major issues to watch. In Los Angeles County, it's the fate of the King/Drew Medical Center. A closure would ripple throughout the County's hospital industry. The other issue is the design of the state's health care program, and what the costs

<p align="center">Industry Score Card</p> <p align="center">Health Services</p> <p align="center">D → D</p> <p align="center">2/2007 7/2007</p> <p align="center">Ambulatory Care</p> <p align="center">C → C</p> <p align="center">2/2007 7/2007</p> <p align="center">Bio-medicine</p> <p align="center">A- → A-</p> <p align="center">2/2007 7/2007</p>

could be to hospitals and other health care providers.

On the bio-medical side, the big news was the resolution of legal challenges to the state's bio-medical research bond. Research grants are already flowing. Another bit of good news is that venture capital firms have "discovered" Southern California, especially Los Angeles County, so there is more money flowing in. Also, IPO activity is rather good.

The 2007 and 2008 forecast for jobs in the sector is good throughout Southern California, although hospitals will continue to see a profit squeeze.

Table 34: Health Services Employment

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
<u>Los Angeles County</u>	320,900	325,400	332,500	340,000	1.4%	2.2%	2.3%
Ambulatory health care services	154,300	156,800	161,800	167,000	1.6%	3.2%	3.2%
Hospitals	106,000	107,600	108,300	109,300	1.5%	0.7%	0.9%
Nursing care facilities	60,600	61,000	62,400	63,700	0.7%	2.3%	2.1%
<u>Orange County</u>	100,900	103,000	110,700	115,900	2.1%	7.5%	4.7%
Ambulatory health care services	54,100	56,700	60,000	62,900	4.8%	5.8%	4.8%
Hospitals	29,100	29,500	31,000	32,400	1.4%	5.1%	4.5%
Nursing care facilities	17,700	18,700	19,700	20,600	5.6%	5.3%	4.6%
<u>Riverside-San Bernardino Area</u>	93,100	95,100	99,500	103,600	2.1%	4.6%	4.1%
Ambulatory health care services	44,800	47,100	50,000	53,000	5.1%	6.2%	6.0%
Hospitals	28,800	28,800	29,300	29,800	0.0%	1.7%	1.7%
Nursing care facilities	19,500	19,600	20,200	20,800	0.5%	3.1%	3.0%
<u>Ventura County *</u>	20,500	21,000	21,600	22,300	2.4%	2.9%	3.2%
<u>San Diego County</u>	84,700	86,400	89,300	92,200	2.0%	3.4%	3.2%
Ambulatory health care services	43,500	44,800	46,500	48,100	3.0%	3.8%	3.4%
Hospitals	23,900	24,100	24,500	25,000	0.8%	1.7%	2.0%
Nursing care facilities	17,300	17,600	18,300	19,100	1.7%	4.0%	4.4%

Table 35: Bio-medicine Employment

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
<u>Los Angeles County</u>							
Pharmaceutical & Medicine mfg.	5,400	5,600	6,200	6,900	3.7%	10.7%	11.3%
Scientific R&D services (part)	18,800	18,500	18,800	19,200	-1.6%	1.6%	2.1%
<u>San Diego County</u>							
Scientific R&D services (part)	25,300	24,800	26,200	27,700	-2.0%	5.6%	5.7%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

International Trade

Two of the major issues facing the region's international trade sector in 2007 and 2008 are capacity constraints and financing of infrastructure improvements. Container yards near the ports and rail facilities are beginning to approach their intended capacity. Several proposals have been announced to expand existing rail facilities including Union Pacific's Intermodal Container Transfer Facility north of the Port of Long Beach. Despite efforts to include environmental mitigation steps such as the use of electric cranes, the projects will face tough scrutiny from neighboring communities and environmental interests.

The Ports of Long Beach and Los Angeles' \$2 billion Clean Air Action Plan (CAAP) was announced in fall 2006. Questions have been raised as to how the components of the ambitious plan will be financed. One of the most controversial elements is the proposal to replace older polluting diesel trucks currently serving the port with newer clean trucks. The cost of the five-year truck replacement program has been estimated to be as high as \$1 billion. The CAAP includes a proposed container fee which will raise revenue for infrastructure improvements.

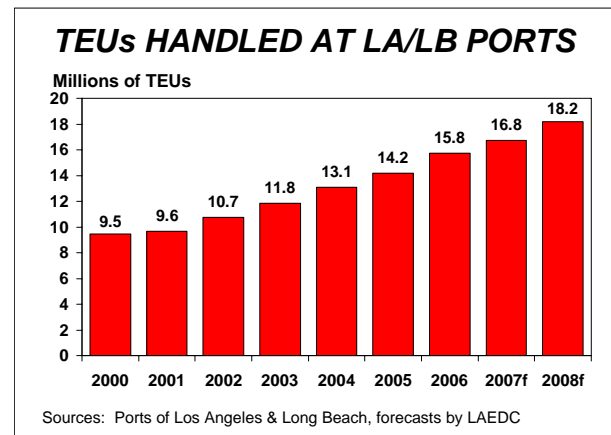
The idea of an ocean container fee plan reappeared in Sacramento in form of a bill (S.B. 974) in early 2007. The new proposal drops provisions for port security that were included in the bill vetoed by Governor Schwarzenegger in September 2006. However, the new bill extends to containers traveling through the Port of Oakland in addition to the Ports of Long Beach and Los Angeles. Importers and business groups have lined up against the bill, citing the increased costs that will result, the potential for a loss of jobs, and questions regarding the constitutionality of the container fees.

Shippers face the possibility of a labor action in 2008 when the contract between the Pacific Maritime Association and the International Longshore and Warehouse Union (ILWU) expires. Both groups announced in the first half of 2007

<p align="center">Industry Score Card</p> <p align="center">International Trade</p> <p align="center">A → B+</p> <p align="center">2/2007 7/2007</p>

that they were open to early negotiations in order to minimize risks and uncertainties for shippers. Some shippers aren't taking chances and have begun booking shipments on all-water routes to the East Coast in order to increase their likelihood of securing space in case of a strike or lockout in 2008. A separate contract between ILWU clerical workers and shipping lines and terminal operators expired at the end of June. Negotiations were continuing at the beginning of July with the threat of a labor action looming.

The total number of containers handled at the combined Ports of Long Beach and Los Angeles in 2007 should increase by 6.3% to 16.75 twenty-foot container equivalent units (TEUs). The increase will be the smallest since 2001. Year-to-date for the first five months of the 2007, container traffic at the combined ports had increased 2.1% from a year earlier, with year-over-year decreases recorded in March, April, and May.



The weaker-than-expected performance in 2007 tracks closely with similar weaknesses in the U.S. economy including declining inventories, declining rail and truck traffic, and soft retail sales activity. A slowdown in demand for consumer and industrial goods would have an impact at the local ports given the fact that 44% of all U.S. import containers pass through them.

Motion Picture/TV Production

While there are many issues facing this industry, front and center is the labor situation. The contract with the Writers Guild (WGA) expires in October, and the dialogue between the parties (the Guild and the AMPTP – the negotiating arm for the studios) has been rather harsh. The WGA is also touting the fact that they have a \$9.2 million strike fund.

As a result, there is stockpiling of product for both feature films and TV. This could result in a "de facto" strike situation, where activity slumps as the inventory is worked off. Worse yet, in June 2008, the Screen Actors and Directors guild contracts both expire. The main issue in all three contracts is compensation for new ways of delivering content (although no real revenue streams have yet emerged). This is important to the studios as sales of DVDs have leveled off, and there has been no boost as yet from the advanced DVDs (Blue-Ray, etc.)

In the meantime, run-away production continues to nibble away at production activity in Southern California, especially feature film. Some states are quite serious, with New Mexico looking to build a significant production capability (sound stages, post production facilities and crews). There is again movement in Sacramento on an incentive package, but it could get lost in all the other drama in the state capitol. Why do the other states offer the incentives? It's jobs and tax revenue, a message that Sacramento has not yet received.

The major TV networks (4 1/2 entities) continue to struggle to maintain audiences and with the rise of TIVO, how to accurately measure them. The cable networks continue to produce edgy fare, but their ratings have leveled off.

Industry Score Card

Motion Pic./TV Prod.

C → C

2/2007 7/2007

And last but not least is piracy. The industry (and others as well) are making a major push but with few visible results to date. This is important, as international box office has become quite sizable. Some films are even being released off-shore before they open in the states.

On the good news side, both domestic and international box office receipts so far in 2007 are ahead of last year. Domestically, they are running 5% ahead of last year. International appears to be even stronger, although no hard data is available.

The LAEDC employment forecast for 2007 is for an increase in jobs in motion picture and sound recording industries in Los Angeles County, followed by a decline in 2008. The thing to remember here is that government data for the industry understate the job counts. Also, the wage rates in this industry are high.

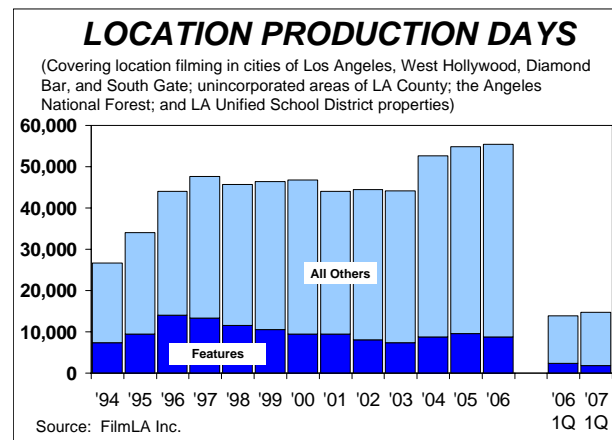


Table 36: Motion Picture/TV Production Employment in Los Angeles County

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
Los Angeles County	157,200	163,000	164,500	161,300	3.7%	0.9%	-1.9%
Motion picture & sound industries	128,400	129,900	133,900	130,900	1.2%	3.1%	-2.2%
Indep. artists, writers, & performers	19,100	19,300	19,500	19,400	1.0%	1.0%	-0.5%
Broadcasting (radio, TV, & cable)	9,700	10,600	11,100	11,000	9.3%	4.7%	-0.9%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

Technology

There are mixed trends in this activity. In the chip market, there is some over capacity, especially in memory chips, and sales have slowed. However, demand in cell phones and other consumer electronic devices is quite robust. In the meantime, digital technology is merging with entertainment to create as whole new set of capabilities in the region. Digital effects in movies and video games are where a lot of the interface is, but there is no way to track the latter sector (some of the jobs are in computer systems design, which is growing nicely, while others are in toys).

Industry Score Card

Technology

A- → A-
2/2007 7/2007

In the meantime, venture capitalists are paying a little more attention to Southern California. In 2006, \$1.9 billion in funding went to Los Angeles and Orange counties, while San Diego County garnered another \$1.2 billion.

Technology employment in the region will be up in both 2007 and 2008.

Table 37: Technology Employment (Including Aerospace & Bio-medicine)

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
<u>Los Angeles County</u>	214,300	215,000	241,100	247,700	0.3%	12.1%	2.7%
Computer & electronic products mfg.	60,700	60,000	59,500	59,400	-1.2%	-0.8%	-0.2%
Aerospace products & parts mfg.	39,000	38,400	37,000	35,900	-1.5%	-3.6%	-3.0%
Pharmaceutical & Medicine mfg.	5,400	5,600	6,200	6,900	3.7%	10.7%	11.3%
Software publishers	5,200	5,900	6,400	7,000	13.5%	8.5%	9.4%
Internet & data processing services	11,200	12,000	12,400	12,700	7.1%	3.3%	2.4%
Computer systems design & services	25,600	26,200	26,900	27,700	2.3%	2.7%	3.0%
Mgmt., scientific, & technical	35,600	39,900	43,400	47,000	12.1%	8.8%	8.3%
Scientific R&D services	18,800	18,500	18,800	19,200	-1.6%	1.6%	2.1%
Electrical & electronic goods	12,800	12,700	30,500	31,900	-0.8%	140.2%	4.6%
<u>Orange County</u>	86,400	89,500	91,200	92,700	3.6%	1.9%	1.6%
Computer & electronic products mfg.	42,500	42,100	41,800	41,700	-0.9%	-0.7%	-0.2%
Aerospace products & parts mfg.	11,300	11,300	11,300	11,400	0.0%	0.0%	0.9%
Computer systems design & services	15,800	16,900	17,400	17,600	7.0%	3.0%	1.1%
Mgmt., scientific, & technical	16,800	19,200	20,700	22,000	14.3%	7.8%	6.3%
<u>Ventura County</u>							
Computer & electronic products mfg.	8,700	8,100	7,500	7,400	-6.9%	-7.4%	-1.3%
<u>San Diego County</u>	61,800	60,800	64,400	66,300	-1.6%	5.9%	3.0%
Computer & electronic products mfg.	27,000	26,600	25,500	25,400	-1.5%	-4.1%	-0.4%
Aerospace products & parts mfg.	5,500	5,600	5,900	6,200	1.8%	5.4%	5.1%
Software publishers	4,000	3,800	6,800	7,000	-5.0%	78.9%	2.9%
Scientific R&D services	25,300	24,800	26,200	27,700	-2.0%	5.6%	5.7%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

Travel & Tourism

This industry has had a lot to grouse about – high gas prices, the troubles of foreign travelers in obtaining visas, and deteriorating airline service. A more local concern has been the condition of LAX, which is the international airport for all of Southern California.

Industry Score Card
Tourism & Travel
A- → A
2/2007 7/2007

The results for this sector so far in 2007 have been strong. In Los Angeles County, the occupancy rate has been running at 77%, while the average daily room rate (ADR) has risen by 7.7%. In Orange County, the occupancy rate is at 75%, while the ADR has climbed by 9.4%. In San Diego County, the occupancy rate is also 75%, with the ADR ahead by 6.6%.

But there has also been a lot of good news so far in 2007, with the decline in the value of the U.S. dollar (a boon for international travel) and more money for the state's travel promotion budget. As noted earlier, Anaheim hosted Pow Wow, a major travel and tourism promotion show, with the rule of thumb that the host area sees a nice bump in business in the out years. Also, the submarines have returned to Disneyland, while other local theme parks spruce up.

The results for the industry will continue to look good, with forecast gain in hotel employment in both 2007 and 2008. In Los Angeles County, the number of overnight visitors should increase by 0.4% in 2007 to 25.5 million. Orange County should see a 0.5% gain to 45.1 million visitors, but San Diego County should see no gain, holding at 15.8 million overnight visitors.

The hotel business has become hot, with sales of various properties at hefty sums, and new hotels being constructed. Of note here is the 1,000 room Hilton just south of the San Diego Convention Center. This will be the third large property adjacent to the facility, and the feeling is that this will enable the Convention Center to handle more shows. In Beverly Hills, a Montage is under construction, while in Hollywood at the western end of the Boulevard, a W will be part of a mixed use development. And in Downtown Los Angeles next to the Convention Center, work is underway on a 1,000 room facility that will contain both a Marriott Marquis and a Ritz Carleton.

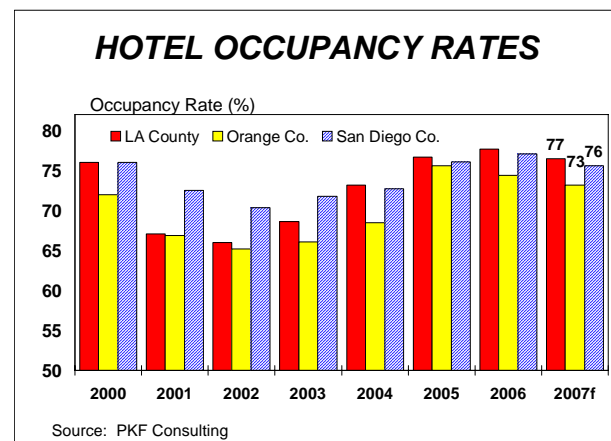


Table 38: Tourism-centric Industries Employment

	2005	2006	2007e	2008f	%chg. '06/'05	%chg. '07/'06	%chg. '08/'07
<u>Los Angeles County</u>	55,200	54,800	55,300	55,800	-0.7%	0.9%	0.9%
Amusement parks & arcade	4,500	4,500	4,400	4,400	0.0%	-2.2%	0.0%
Accommodation	38,500	38,600	38,800	39,000	0.3%	0.5%	0.5%
Travel arrangement & reservations	12,200	11,700	12,100	12,400	-4.1%	3.4%	2.5%
<u>Orange County</u>							
Accommodation	21,400	22,400	23,700	24,800	4.7%	5.8%	4.6%
<u>Riverside-San Bernardino Area</u>							
Accommodation	17,900	18,000	18,700	19,300	0.6%	3.9%	3.2%
<u>Ventura County</u>							
Accommodation	2,600	2,600	2,500	2,600	0.0%	-3.8%	4.0%
<u>San Diego County</u>							
Accommodation	29,200	30,000	30,700	31,300	2.7%	2.3%	2.0%

Sources: California Employment Development Department, estimates & forecasts by LAEDC

XII. OUTLOOK FOR CONSTRUCTION & RETAILING

Residential Real Estate

New Homebuilding

The downturn in Southern California's housing market continued during the first half of 2007, painfully searching for a bottom. After peaking in Fall 2005, signs of cooling in housing have multiplied beginning with seventeen hikes in short term interest rates by the Federal Reserve (the Fed Funds rate presently stands at 5.25%) that chased investors (speculators) out of the market. However, favorable underlying economic fundamentals support Southern California's housing market, given the region's continued low unemployment rate, and good employment growth. These trends are expected to persist through the balance of 2007 and in 2008. Much of the growth has been in high paying jobs in the service-providing industries.

Total homebuilding permits in the Los Angeles five-county region have been declining for the past couple of years. During the first five months of 2007, total new home construction was down by 32.1% compared to the same period in 2006, with 25,030 total permits issued for new single and multi-family units. The Inland Empire accounted for most of the permits issued, 44.2% of all housing units. Most of these, 84.3%, were for single-family units. Construction in Los Angeles County was down to 9,560 units, with the majority of the units permitted (70%) being multi-family (apartments and condos).

There is less land available for housing development in Los Angeles County except in the Antelope and Santa Clarita valleys. Land availability is also getting low in Orange County, where only 3,374 permits were issued during the five-month period. Compared to the rest of the region, not much construction has happened in Ventura County, largely because of lengthy permitting processes and constraints on land available for residential development. A total of 1,024 permits were issued in the county so far in 2007, a 30% drop from a year ago. Of the limited housing permits issued, 52% were multi-family units.

<u>Industry Score Card</u>	
Residential Construction	
C- → D	
2/2007	7/2007
Nonresidential Construction	
A → A	
2/2007	7/2007

Table 39: Performance Ratings of Construction and Retailing

Industry	7/2006	2/2007	7/2007	Risks
New homebuilding	C	C-	D	Y
Resale housing	n/r	n/r	D	Y
Nonresidential construction	A-	A	A	Y
Value retailing	B+	B	B	
Other retailing	C	C	C	Y

* n/r = not rated

Table 40: Housing Permits Issued

	L.A.	Orange	Riv-SB	Ventura
'04Q1	2,716	1,597	10,380	288
'04Q2	3,147	1,400	13,066	458
'04Q3	2,891	642	10,836	401
'04Q4	2,998	756	9,187	574
'05Q1	2,723	919	10,218	650
'05Q2	3,325	1,397	13,789	950
'05Q3	3,376	752	12,706	637
'05Q4	2,487	990	8,586	356
'06Q1	2,626	972	9,644	416
'06Q2	3,221	1,332	12,208	693
'06Q3	2,373	450	6,541	259
'06Q4	1,900	390	4,971	219
'07Q1	2,221	628	5,307	251

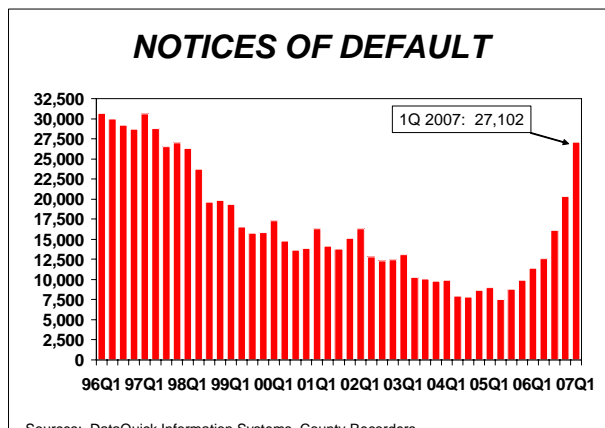
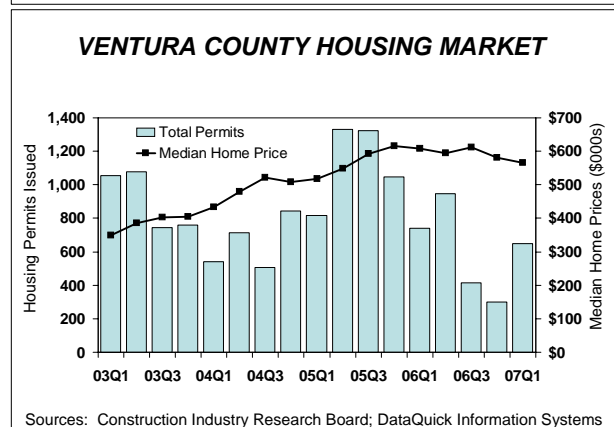
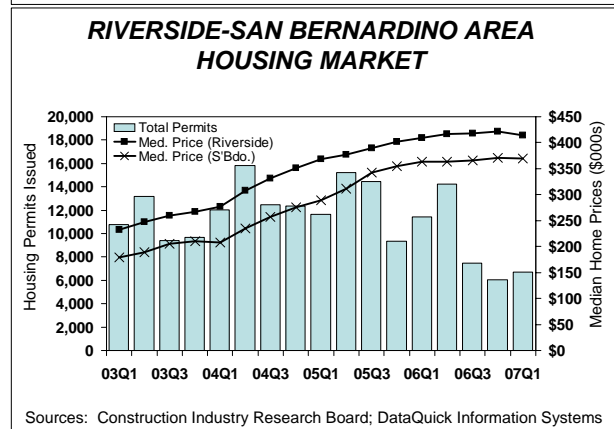
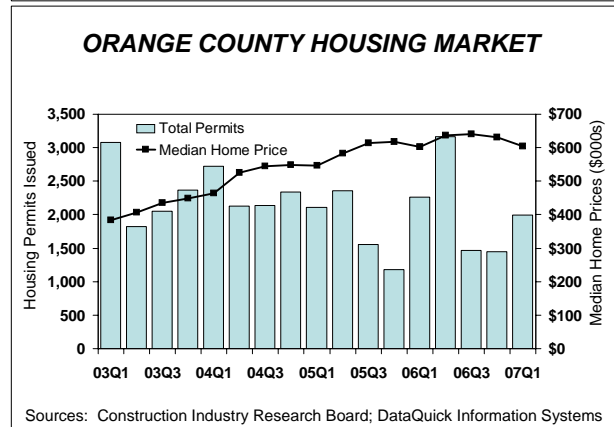
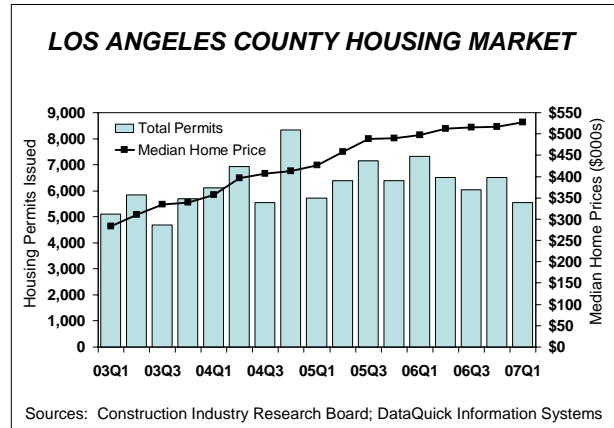
% Being Multi-family Units

	L.A.	Orange	Riv-SB	Ventura
'04Q1	44.5%	58.7%	86.1%	53.4%
'04Q2	45.4%	65.8%	82.7%	64.1%
'04Q3	52.2%	30.0%	86.9%	78.9%
'04Q4	35.9%	32.4%	74.3%	68.2%
'05Q1	47.6%	43.6%	87.9%	79.7%
'05Q2	52.0%	59.1%	90.5%	71.4%
'05Q3	47.2%	48.3%	87.9%	48.1%
'05Q4	39.0%	84.0%	91.9%	34.0%
'06Q1	35.8%	42.9%	84.2%	56.3%
'06Q2	49.5%	42.1%	85.9%	73.1%
'06Q3	39.3%	30.7%	87.7%	62.4%
'06Q4	29.2%	27.0%	82.2%	73.0%
'07Q1	40.1%	31.4%	78.9%	38.7%

Source: Construction Industry Research Board

Older office buildings are being redeveloped as condos or apartments, especially in Downtown Los Angeles, the Mid-Wilshire district, Hollywood, Pasadena, and Downtown Long Beach. New high-rise condos are being built even in Orange County, long considered a bastion of single-family houses. However, in some of these markets, units are being rented out as demand for expensive condos has dwindled.

Although mortgage rates have risen, historically they are still considered low (a 30-year fixed rate was 6.7% in 6/2007). However, rates on adjustable mortgages have increased sharply. A variety of attractive new adjustable home loan packages drove sales to record levels in recent years. The concern is over homebuyers who took one of the variable-hybrid-type loans and may not have been really qualified for the mortgage in the first place. As their mortgages "reset" at higher rates, the borrowers are at risk of defaulting on their mortgage payments. DataQuick has compiled data from the counties' Recorder offices which reveals that the number of notices of default recorded during the first quarter of 2007 in the Los Angeles five-county region has risen to 27,102, (up by 138.1% over the comparable 2006 period). A notice of default is recorded when the borrower has missed one to three monthly mortgage payments, then the foreclosure process begins. Consequently, 19% of these notices of default, 5,159 in total, ended in foreclosures. That's a 519% increase from a year ago (but on a small base). This trend is likely to continue as more hybrid adjustable mortgages reset at higher rates. Interestingly, the Inland Empire, where housing is the most "affordable" in the L.A. five-county region, had the biggest share of the foreclosures recorded -- 54%. A lot of the problem loans are in the Coachella and Moreno Valley areas.



Another sector at risk is small developers who buy older homes in Los Angeles and Orange counties, do a tear-down and build much larger and more expensive homes. Many of these will take some time to sell.

Resale housing

Resale home inventories have climbed significantly, and will continue to grow with the addition of foreclosed homes in the market. The unsold inventory currently represents a 10 months supply. It takes longer to sell a home compared to a year ago. This new situation has slowed the big increases in home prices seen in 2005, with some markets actually seeing declines.

The resale housing market in Southern California has gone from "red hot" to a buyer's market. A comparison of median existing single-family home prices in May 2007 with May 2006, by the California Association of Realtors revealed that the Los Angeles County median home price had appreciated by a mere 2.0%, Ventura County by 1.6%, Riverside-San Bernardino by 0.7%, while Orange County was down by 1.4%. With more foreclosures expected to flood the market, the period of double digit home price appreciation has ended, even in the Inland Empire market. Ironically, affordability in the region remains a big concern. For the remainder of 2007 through mid-2008, median resale home prices in Southern California will soften, with prices down 3% - 5% for the year.

Table 41: Median Home Prices

	L.A. Co.	Orange	Riv-SB	Ventura
2001	\$241,370	\$355,620	\$156,690	\$322,560
2002	290,030	412,650	176,460	372,400
2003	355,340	487,020	220,940	462,520
2004	446,380	627,270	296,350	599,280
2005	529,010	691,940	365,395	668,140
2006	584,820	709,000	390,050	685,960
5/'07	580,040	714,130	398,490	699,480

Annual % Change

	L.A. Co.	Orange	Riv-SB	Ventura
2001	11.8%	12.5%	13.1%	9.3%
2002	20.2%	16.0%	12.6%	15.5%
2003	22.5%	18.0%	25.2%	24.2%
2004	25.6%	28.8%	34.1%	29.6%
2005	18.5%	10.3%	23.3%	11.5%
2006	10.5%	2.5%	6.7%	2.7%
5/'07*	2.0%	-1.4%	0.7%	1.6%

* May '07 vs. May '06

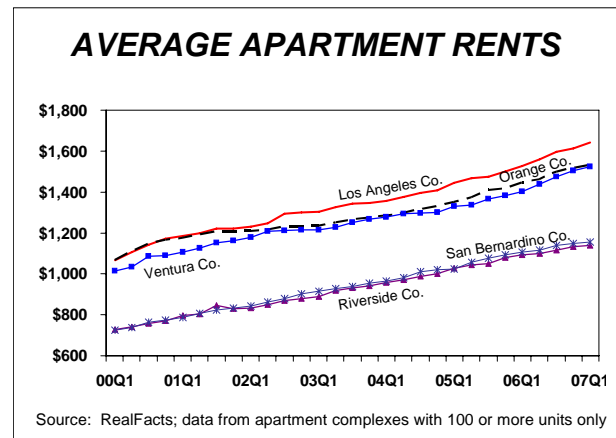
Source: California Association of Realtors

Apartments

As the housing market fizzles out, the apartment market, on the other hand, is experiencing modest gains. Apartment rents have been rising steadily in the Los Angeles five-county region. A comparison of the apartment rents in the first quarter of 2007 versus the same period in 2006 reveals that rents in Ventura County increased by 8.9% over the year, Los Angeles County by 7.5%, Orange County by 6.0%, San Bernardino County by 4.4%, and Riverside County by 4.1%. The gap between mortgage payments (for a small house) and monthly apartment rents has narrowed considerably in recent years, while qualifying for a mortgage has become more difficult (no more "low or no doc" loans).

Demand for apartment units will continue to increase as more people are priced out of the housing market and foreclosure rates go up. This in turn will keep vacancies down across the five-county region. At the end of the first quarter of 2007, apartment vacancy rates in Los Angeles County declined to 4.1%. Apartment vacancy rates in Orange County, Ventura County, and San Bernardino County were low as well, at 5.0%, 5.7%, and 5.9% respectively. Apartment vacancy rates in Riverside County, on the other hand, rose to 10.3% during the first quarter of 2007 as a surge of new apartments entered the market.

Apartment properties should experience a continued decrease in vacancy rates, while rents should stay at current levels, as potential home buyers stay on the sidelines and assess where the housing market is heading. Rental properties in the meantime continue to be attractive investments.



Housing forecast

A total of 50,580 new units are forecast to be permitted in the five-county area during 2007, a decline of 33.7% from 2006. However, as long as mortgage interest rates remain relatively low, employment and population both continue to grow (important underlying fundamentals), the region's housing market should move in to a "recovery" by late 2008 or early 2009. What will the recovery look like? There will be modest increases in single-family home construction, while prices in the resale market should record very humble gains.

Ironically, the Los Angeles region still has a housing shortage. The reasons for insufficient new homebuilding remain the same as in the past: local government resistance (housing is seen as a net tax "user," not a revenue generator); neighborhood resistance to higher-density complexes because of concerns over traffic congestion; lengthy permitting process; impact fees and other burdensome regulations on new construction. The rising costs of land and development mean that many developers choose to build more expensive units (high-end homes and "luxury" apartments) instead of the more urgently needed, affordable housing. Competition between residential and commercial land uses is also a factor.

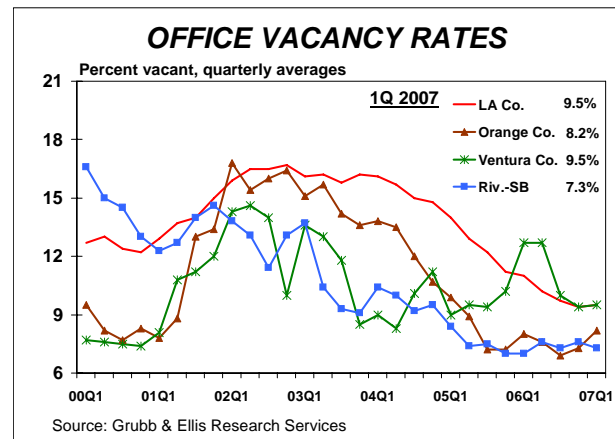
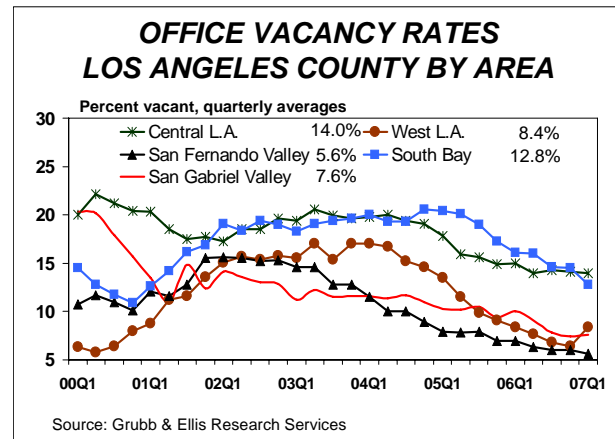
Nonresidential: Office

As a result of the strength and diversity of the economy of Southern California, businesses increased their hiring, especially in office-space using industries in recent years. The Los Angeles five-county region has strong economic fundamentals with good employment growth and low unemployment rates. The region is forecast to add 98,000 nonfarm jobs in 2007 from the previous year. Many firms have expanded and/or relocated to bigger spaces to accommodate their continued growth (and lock in low lease rates) as well as to improve productivity. The result has been declining office vacancy rates across the five-county region.

Los Angeles County's average office vacancy rate at the end of the first quarter of 2007 had fallen to 9.5% and is now below what is considered a "balanced" market (10%). Within L.A. County, the San Fernando, San Gabriel, and Santa Clarita Valleys, had the lowest office vacancy rates, at

5.6%, 7.6%, and 7.6% respectively. The Hollywood/West Hollywood market is one of the tightest markets with low vacancy rate, falling from 11.0% to 5.0% in one year. Consequently, average asking rent rates for Class A and Class B properties have increased, with the West Los Angeles market posting the highest rate at an average of more than \$3.60 per sq. ft. for Class A properties and an average of more than \$3.10 for Class B properties.

In Orange County, the average office vacancy rate inched up a bit with an 8.2% vacancy rate at the end of the first quarter of 2007. A number of subprime lending companies either closed up shop or consolidated, increasing the office space inventory in the market in addition to some new construction. Average asking rent during the first quarter of 2007 for Class A properties increased to an average of \$3.00 per sq. ft. The growth in service-providing industries, other than finance and management (headquarters), and the continued increase in asking rents especially from the new developments prompted businesses to renew leases early to lock in favorable rental rates or look for better space early while they could still afford it.



This behavior makes the Orange County office market fairly tight and competitive, but there is concern about the situation over the next 12 months.

The Inland Empire's average office vacancy rates were low as well, 7.3% at the end of the first quarter of 2007. This region, especially Riverside County, continues to attract more companies to provide services to its growing population and business base. There are currently aggressive development plans in this region, with close to \$134 million in new office permit as of the end of May 2007. With low vacancy rates and robust pre-leasing activity at new projects, the Inland Empire has become an established business center in Southern California. Some firms from Orange County have been relocating or setting up office branches in Inland Empire cities like Corona, Rancho Cucamonga, Redlands, and Ontario, where they can lease more space at lower cost.

The cost of borrowing is still considered to be cheap with the continued period of low interest rates and this has encouraged some business firms to purchase property instead of leasing. This trend likely will continue through 2008. Even so, leasing activity in Southern California should remain robust. As the market tightens even more, landlords will be offering minimal tenant improvements (if any) in markets such as Los Angeles and Orange Counties. One risk for tenants: there have been several sales of high-profile office portfolios, and the new owners are aggressively seeking higher rental rates.

During first quarter of 2007, office building permits valued at \$450 million were issued in the five-county area. Los Angeles County led the region with a 52% share of office building permit valuation, followed by Orange County with a 33% share, Riverside and Ventura County each with 6%, and San Bernardino County with 4% share. The scarcity of developable land for commercial use is a challenge, especially in Los Angeles County. Commercial developers not only face fierce competition for land from residential developers, they also have to struggle to get permits and zoning valuations from local governments. The high cost of building materials and rising "impact" fees are additional factors that have constrained new office construction in the region.

Table 42: Office Building Permits Issued
(In millions of dollars)

	L.A.	Orange	Riv-SB	Ventura
'03Q1	33	15	44	12
'03Q2	74	51	28	0
'03Q3	19	16	30	0
'03Q4	55	36	44	28
'04Q1	53	48	65	4
'04Q2	77	32	84	8
'04Q3	115	36	24	5
'04Q4	62	17	37	1
'05Q1	31	27	31	0
'05Q2	53	35	43	4
'05Q3	99	100	96	2
'05Q4	51	151	62	17
'06Q1	54	148	50	11
'06Q2	48	186	91	21
'06Q3	50	183	98	12
'06Q4	89	63	69	8
'07Q1	232	150	43	25

% Share of Five-County Area Total

	L.A.	Orange	Riv-SB	Ventura
'03Q1	32%	14%	42%	12%
'03Q2	48%	33%	18%	0%
'03Q3	29%	25%	46%	0%
'03Q4	34%	22%	27%	17%
'04Q1	31%	28%	38%	2%
'04Q2	38%	16%	42%	4%
'04Q3	64%	20%	13%	3%
'04Q4	53%	15%	32%	1%
'05Q1	35%	30%	35%	0%
'05Q2	39%	26%	32%	3%
'05Q3	33%	34%	32%	1%
'05Q4	18%	54%	22%	6%
'06Q1	21%	56%	19%	4%
'06Q2	14%	54%	26%	6%
'06Q3	15%	53%	29%	3%
'06Q4	39%	28%	30%	3%
'07Q1	52%	33%	10%	6%

Source: Construction Industry Research Board

Nonresidential: Industrial

Southern California is a major center for manufacturing, international trade and logistics. The demand for new industrial space remains extremely strong. Los Angeles County has been the tightest U.S. industrial market for the past two years, with just a 1.8% industrial vacancy rate at the end of the first quarter of 2007. This trend is expected to continue through the balance of 2007 and into 2008, sustained by strong economic fundamentals in the region. Due to a shortage of developable land, Los Angeles County cannot accommodate much of the demand except for areas such as the Santa Clarita and Antelope Valleys, and to a lesser extent some parts of the San Gabriel Valley (City of Industry and Irwindale).

The industrial vacancy rate for Central Los Angeles during the first quarter of 2007 was just 1.2%. Its supply of warehouse buildings is threatened, because of a push to convert the space (often still occupied by industrial users) to apartments, condos, and retail uses. The San Gabriel Valley and South Bay areas' industrial markets were also tight, both having a 1.8% vacancy rate. It's the same story in the San Fernando Valley industrial market, with a 2.4%

vacancy rate. Logistics and distribution companies value and understand the significance of being close to the Ports of Los Angeles and Long Beach, as well as LAX.

Orange County's industrial market has also performed well, dropping to a 3.6% industrial vacancy rate at the end of the first quarter of 2007, compared to 4.3% a year ago. This is also clearly a landlord's market. New construction during the past couple of years has run at low levels. Businesses have bought properties instead of leasing to take advantage of low interest rates. Competition will be strong for the handful of existing and new development space available. Asking rent rates will continue to inch upwards with no concessions on the table.

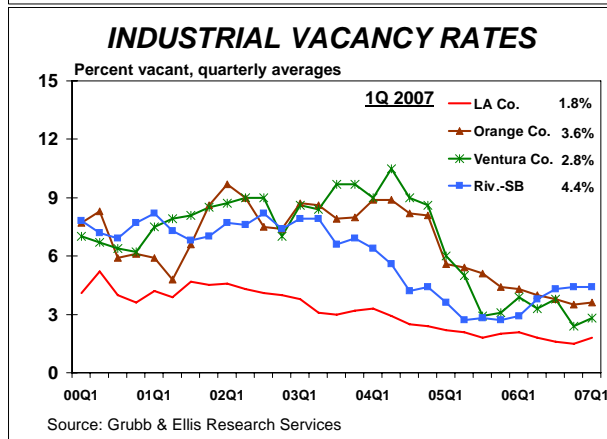
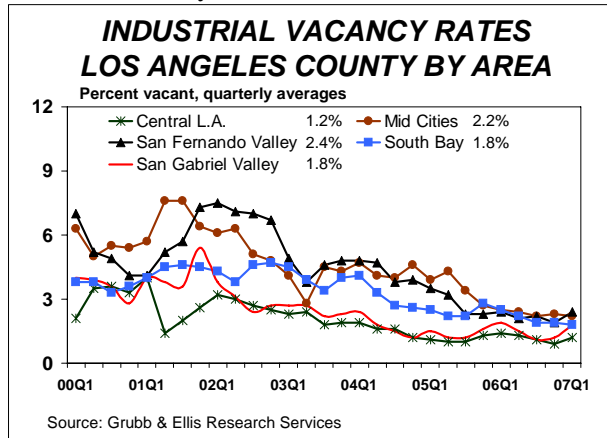


Table 43: Industrial Building Permits Issued

(\$mil.)	L.A.	Orange	Riv-SB	Ventura
'03Q1	74	9	71	4
'03Q2	87	22	112	16
'03Q3	68	31	97	11
'03Q4	47	5	77	16
'04Q1	16	7	74	8
'04Q2	109	14	178	14
'04Q3	13	1	155	15
'04Q4	40	5	232	9
'05Q1	70	13	40	0
'05Q2	81	6	113	6
'05Q3	36	6	142	6
'05Q4	91	2	147	11
'06Q1	67	32	159	2
'06Q2	30	2	288	9
'06Q3	25	32	99	4
'06Q4	60	25	114	6
'07Q1	34	15	98	9

% Share of Five-County Area Total

	L.A.	Orange	Riv-SB	Ventura
'03Q1	47%	6%	45%	3%
'03Q2	37%	9%	47%	7%
'03Q3	33%	15%	47%	5%
'03Q4	32%	3%	53%	11%
'04Q1	15%	7%	70%	8%
'04Q2	35%	4%	57%	4%
'04Q3	7%	1%	84%	8%
'04Q4	14%	2%	81%	3%
'05Q1	57%	11%	33%	0%
'05Q2	39%	3%	55%	3%
'05Q3	19%	3%	75%	3%
'05Q4	36%	1%	59%	4%
'06Q1	26%	12%	61%	1%
'06Q2	9%	1%	88%	3%
'06Q3	16%	20%	62%	3%
'06Q4	29%	12%	56%	3%
'07Q1	22%	10%	63%	6%

Source: Construction Industry Research Board

As industrial space dwindled in Los Angeles and Orange Counties, more and more companies requiring large blocks of space looked towards the east -- to the Inland Empire. The large influx of distribution businesses into the Inland Empire makes this one of the tightest industrial markets in the nation as well. Some good news is the high level of new construction. The Inland Empire had an industrial vacancy rate of 4.4% during the first quarter of 2007, compared with 2.8% a year ago.

What are some key trends in the Riverside-San Bernardino area? Industrial construction is moving east, along the I-10, with large building going up in anticipation of increased cargo volumes at the ports (one million-plus square foot buildings). During the first five months of 2007, industrial building permits valued at \$247 million were issued in the Riverside-San Bernardino area. With DHL's hub in the Moreno Valley in addition to UPS' hub in Ontario, the demand for distribution and warehouse space in the area will remain strong. Average asking rents are slowly inching upwards. The competition between residential, retail, and commercial development for land in this region is also a challenge.

During the first quarter of 2007, industrial building permits valued at \$331 million were issued in the five-county region. The Inland Empire accounted for a 75% share of industrial building permits valuation issued, compared to 67% a year ago. Los Angeles County held a 15% share, down from 22% a year ago. Orange County held only an 8% share. Lastly, Ventura County accounted for a 3% share.

With interest rates at record lows during the past few years, demand for smaller industrial buildings for sale has increased. Many firms would rather own their facilities instead of renting. This trend should continue as interest rates remain relatively low and owning industrial property in the region with limited supply is a good investment. As expected, lease rates will continue to increase.

Forecast for private nonresidential construction

Total private nonresidential construction in the five-county region will continue strong in 2007 with a forecast building permit value of more than \$10.2 billion, a 7.2% increase from 2006. The strongest gain will be in the Riverside- San Bernardino area where total nonresidential building permit values will increase by 23.5% in 2007. Private nonresidential building permit values in Los Angeles County will increase by a modest 9.1%, Orange County will increase by 2.5%, and activity in Ventura County will increase by 2.3%. Continued rising costs for building materials pose risks and may delay some construction activity. We will also see continued competition between residential, retail, and commercial use for limited supply of prime land in the five-county region.

For the most part, office space development will be restrained in all five counties of Southern California region. With a good economic outlook ahead, office vacancy rates in the region should continue to decline and average rents will continue to move upward into 2008.

The outlook also looks good for industrial space development, even in the tight markets of Los Angeles and Orange counties. International trade continues to dominate the region's economy and will require more distribution and warehouse space. The Inland Empire will see most of the new construction activity, but space is starting to get scarce in the western end of the region as well.

Retailing

Change is the order of the day. Southern California is under threat of another grocery strike, after a painful 4.5-month walkout in 2003. In the meantime, Tesco is getting ready to enter the fray, with their "Fresh & Easy Neighborhood Markets." This will be a serious effort, with a large number of stores opening throughout the region. Other retailers are expanding in the region such as H & M, Zara, and Famima (a Japanese convenience store known as FamilyMart in much of Asia).

In the meantime, there is still fall-out from the Macy's/May merger, with Kohl's and Penney's fighting for the disaffected Robinsons-May customers. Some previously hot specialty chains are struggling.

There is also a lot of action at the malls, oftentimes the result of the Macy's/May merger (some regional malls now have two Macy's). Good examples are the expansion at Topanga Plaza in the west San Fernando Valley, the major renovation and re-tenanting at the Oaks in Thousand Oaks, while several large new malls are under construction in the Inland Empire (such as Dos Lagos). Of interest are two upcoming lifestyle malls being built by Caruso Development, one in Glendale and the other in Arcadia. Bloomingdale's has also expanded in the region, taking over two former Rob-May stores, one in Costa Mesa at the iconic South Coast Plaza and the other in San Diego at the equally iconic Fashion Valley.

Industry Score Card

Retailing

Value Retailing: B → B
2/2007 7/2007

Other Retailing: C → C
2/2007 7/2007

A lot of capacity has been added to Southern California's retail industry in the last few years, with \$1.5 billion in retail permits issued in L.A. County since 2003 and \$1.8 billion in the Inland Empire. In fact, there is too much retail capacity

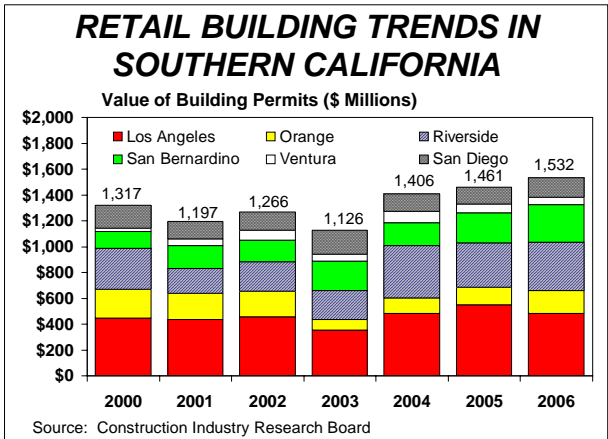
in the region. The main culprits are strip retail and small, older malls that are often under-maintained and have a high turnover in tenants. Even so, many cities continue to chase new retail development. The problem here is that there is generally no "strategy," which results in a lot of "me-too" tenants and a high turnover.

Despite the slump in housing, retailers are still scouting for new locations, especially in the Riverside-San Bernardino area. The feeling is that eventually housing will rebound, and that good locations are hard to find.

Another interesting aspect to retail development in the region is that chains are looking at smaller facilities if they want to get into a market. Also, there is a little more multi-level development.

Where are the hot new retail streets? Check out Third Street (in Los Angeles between the Grove and the Beverly Center), the somewhat notorious Robertson (where starlets shop and crash), Melrose, Abbot Kinney in Venice, and even Sunset Boulevard in the Silver Lake district of Los Angeles city. One challenge here is that as an area becomes popular, landlords rapidly hike the lease rates. Another challenge is that the big chains try to muscle in, to the dismay of everybody.

Taxable retail sales in the region will grow at a slower pace in 2007. Los Angeles County should see a 4.8% increase to \$101.2 billion, while Orange County should move ahead by 4.6% to \$41.3 billion. The normally high-flying Riverside-San Bernardino area will see retail sales increase by 6.3% to \$48.7 billion, while San Diego and Ventura counties should each post a 3.7% gain from 2006 to 2007. The dollar volumes are \$36.5 billion and \$9.5 billion, respectively. Add them all up and it comes to \$237.2 billion. This is a tasty sum and the real reason that Southern California is still an attractive area for retailers.



XIII. WRAPPING IT UP

To date in 2007, the California and Southern California economies are expanding, despite the sizable drag of the housing industry decline. Growth will continue into 2008, but it won't be easy for the business community.

There is the looming state health care plan with unknown costs, possible tweaks to workmen's compensation insurance, and ambitious plans on the environmental front, including AB 32, the greenhouse gas legislation. Costs to business will go up. In the meantime, other states keep up their relentless business prospecting in California, and the messages can be tempting.

However, business isn't the only entity that has to worry. Government has to have a few cares as well. The slowdown in housing will hit two-ways. There will be little or no growth in residential property taxes, while construction related sales and use taxes will decline. In addition, there are those obligations for public-sector retiree health care benefits. These have been estimated at \$48 billion over a 30 year period for the state of California, and at \$20 billion for Los Angeles County.

All government agencies will need a healthy and growing economy to generate the required tax revenues. And yet, little thought is generally given to an economic development strategy at the state, county or city level.

As if all this isn't enough to be concerned about, the State Department of Finance recently delivered a "good news/bad news" set of population projections. By 2050, the state's population is expected to be 59.5 million people. In Southern California, Los Angeles County should have nearly 13.1 million residents; Orange County should be at not quite 4 million people; Riverside County's population is projected at 4.7 million people; San Diego County is at 4.5 million people; while Ventura County's projected population in 2050 rises to 1.2 million.

This growth represents a huge market opportunity, but also significant challenges. Southern California is already well behind in dealing with traffic congestion and delivering affordable housing. It's time to think strategically about developing the region's business base to provide quality jobs for its growing population and to provide the badly needed tax revenue.

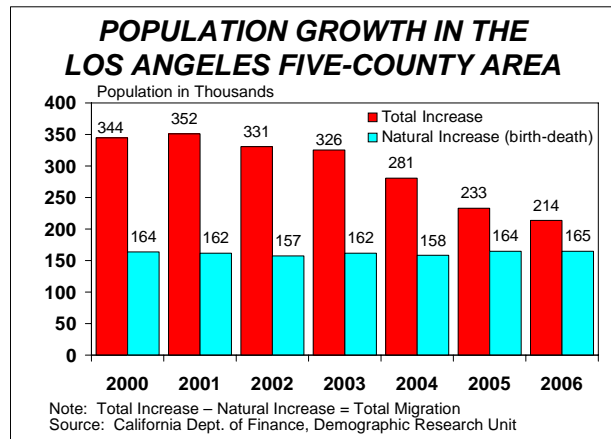


Table 44: Competitive Situation of Southern California's Economic Base

Industry	Structural Change	Intense Competition
Tourism	X	X
Direct International Trade	X	X
Technology	X	X
Professional Business Services	X	X
Wholesale Trade		
Health Services	X	X
Motion Picture/TV Production	X	X
Financial Services	X	X
Agricultural/Food Products		X
Apparel	X	X
Fabricated Metals		X
College/Universities		X
Furniture		X
Auto	X	X
Jewelry		X
Petroleum	X	
Toys		X

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