2008-2009 ECONOMIC FORECAST AND INDUSTRY OUTLOOK

FEBRUARY 2008

LAEDC

LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION
THE KYSER CENTER FOR ECONOMIC RESEARCH

2008-2009 Economic Forecast and Industry Outlook

for California & Southern California
including the National & International Setting

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February 2008

The Headlines

- On recession "watch" as we enter 2008
- A risk-averse financial sector causes problems
- The housing markets continue to act as a brake
- Strikes in Hollywood -- the costs and fall-out
- Best growth prospects: Tourism, Technology, Professional & Business Services, and Health Services
- Troubled industries -- Residential and Financial Services

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The LAEDC, the region's premier 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.

Since 1996, the LAEDC has helped retain, attract, or expand more than 132,600 jobs, providing $5.6 billion in direct economic impact and $95 million in local tax revenue contributions.

:: Regional Leadership ::

The members of the LAEDC Board of Governors 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.

:: The Kyser Center for Economic Research ::

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://www.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 World Trade Center Association Los Angeles–Long Beach works to support the development of international trade and business opportunities for Southern California companies as the leading international trade association, trade service organization and trade resource in Los Angeles County. The WTCA LA-LB also promotes the Los Angeles region as a destination for foreign investment and is a subsidiary of the Los Angeles County Economic Development Corporation. For more information, please visit www.wtca-lalb.org.

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LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

February 20, 2008

Good Morning Ladies & Gentlemen:

The Los Angeles County Economic Development Corporation is proud to present the *2008-2009 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 is produced by the Kyser Center for Economic Research at the LAEDC, under the leadership of our Senior Vice President and Chief Economist, Jack Kyser.

The LAEDC releases an economic forecast each year in February followed by an updated forecast in July. Each forecast release is accompanied by a major public 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 is presented by Wachovia and features an expert panel of economists 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. In addition, we will hear from a distinguished panel of business leaders whose firms will be investing literally billions of dollars in Los Angeles County in the coming years.

I believe that the information you will find in the *LAEDC Economic Forecast* 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 *LAEDC 2008-2009 Economic Forecast & Industry Outlook for Southern California,* and for your continued support of the LAEDC.

Sincerely,

Bill Allen

Bill Allen
President & CEO
Los Angeles County Economic Development Corporation

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I. OVERVIEW OF THE LAEDC 2008-2009 ECONOMIC FORECAST

The U.S. Economy

		2008	2009
Real GDP	Slower growth	1.7%	2.5%
Inflation	Moderating eventually	2.9%	2.0%
Fed Funds Rate	Easing in 2008	2.0%	3.0%
Leading Sectors	Exports, Government Spending		
Laggards	Housing, Finance, and Automotive		

The California Economy

	2008	2009
Nonfarm Employment "Spot" recessions around the State	+0.5%	+1.0%
Industry Leaders	Leisure & Hospitality Services Health Services Government	Professional, Scientific, Tech Svcs. Leisure & Hospitality Services Health Services
Industry Laggards	Construction Manufacturing Finance	Construction Manufacturing Finance

Job Growth among Counties in Southern California

	2008		2009	
Leaders	Riverside-San Bernardino area	+1.4%	Riverside-San Bernardino area	+2.3%
	San Diego County	+1.0%	Los Angeles County	+1.2%
Laggards	Orange County	+0.2%	Ventura County	+1.0%
	Ventura County	+0.3%	Orange County	+0.8%

Job Growth among Industries in Southern California

	2008		2009	
Leaders	Health Services	+18,700	Health Services	+19,800
	Leisure & Hospitality Services	+15,200	Professional, Scientific, Tech Svcs.	+16,600
	Professional, Scientific, Tech Svcs.	+12,600	Leisure & Hospitality Services	+15,900
Laggards	Construction	-9,900	Construction	-2,500
	Finance	-7,600	Durable Goods Manufacturing	-1,200
	Durable Goods Manufacturing	-3,900	Finance	-800

Things to Watch

Retail restructuring
Immigration raids / I-9 audits of local companies
Work stoppages / Strikes

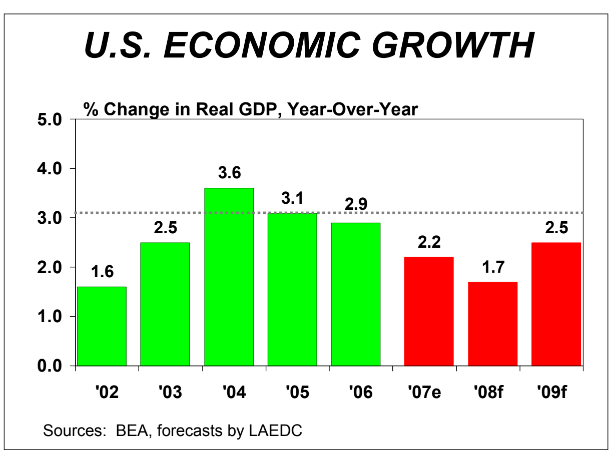
II. OUTLOOK FOR THE U.S. ECONOMY

Overview: Slow Economic Growth

Between 2004 and 2006, the U.S. enjoyed a nice healthy economic expansion, with the economy growing by 3.2% on average. Some 6.2 million new jobs were created, and the nation's unemployment rate declined from 6.0% to 4.6%. Growth slowed abruptly late in 2007, ending the easy going. Now the economy is operating on two different tracks. Going backward on Track One are the housing industry, manufacturers and distributors tied to housing, residential real estate, and housing finance. The housing related sectors are joined by the domestic U.S. automotive and textile/apparel industries, which are each undergoing a painful, long-term industry re-structuring. The rest of the economy is moving forward on Track Two.

For 2008 and 2009, the key forecasting issues are (1) how much worse will the troubled industries' problems get, and (2) will the distressed industries' troubles spread to other sectors of the economy. At this writing, it looks like the Track Two industries still outweigh the troubled sectors on Track One and will continue to do so in 2008 and 2009, but it's a close call. The margin, while positive, has narrowed recently, and reasonable economists are projecting continued deterioration, especially in early 2008.

Overall, the LAEDC projects the U.S. economy will grow by 1.7% during 2008 and by 2.5% in 2009. Inflation has been running somewhat faster than desired, especially energy and food, but this is expected to moderate over time. The coming improvement in inflation gives economic policymakers in Washington room to reduce short-term interest rates and income taxes during 2008 to boost the economy. Meanwhile, long-term rates will not move much. Below we review the outlook for the key sectors in some detail.



Household Spending Growth to Slow

Consumer spending is the largest sector of the U.S. economy and holds the key to the forecast. While the troubles of a few have garnered considerable media attention, most U.S. households are in good economic and financial shape. Employment is still growing and should continue to rise through the forecast period, though slowly. The nation's unemployment rate, currently 5.0%, will rise through the rest of 2008 and into 2009 peaking in the "high 5's."

Most types of household incomes are rising nicely. Wages and salaries were up by 5.0% in the fourth quarter 2007 compared with the year-ago period. Other sources of income also did well. Dividend income rose by 12.6% and interest income by 6.4%. Profits of independent, unincorporated businesses were up by 4.7%. Even the government helped out: government social benefits (Social Security and the like) rose by 6.8% over the past year. Bottom line: disposable personal income (net of personal taxes) grew by a solid 5.8% over the four quarters of 2007, more than enough to outweigh consumer inflation, which was up by 3.4%.

In addition to rising incomes, household balance sheets are improving. Most of the improvement has come through growth in assets, which rose by an estimated $5.0 trillion in the year to September 30, 2007 (latest data available). The value of homeowners' equity declined slightly (by -0.5% over the year to September) as the growth of mortgage debt (including home equity loans and letters of credit) exceeded the increase in the value of homes. Nonetheless, consumers' holdings of financial securities increased by $3.9 trillion, while total household liabilities rose by "only" $1.0 trillion. Net-net, U.S. households' net worth (total assets minus total liabilities) expanded by $4.0 trillion over the year to September 2007, or by 7.3%. [Of course, the prices of homes and equities have both fallen since September. A back-of-the-envelope calculation suggests that together these declines have erased perhaps half of the $4.0 trillion gain in net worth, leaving a $2.0 trillion improvement since September 2006.]

If household economic fundamentals are good, why is consumer spending slowing down? Demand for two types of products is weakening. Purchases of housing related goods are following the declining trend in home sales. This will continue into 2008.

IS IT A RECESSION?

Q: How will we know if the U.S. economy is in a recession or not?

A: The Committee decides!

More informatively, the Business Cycle Dating Committee, hosted by the nonprofit National Bureau of Economic Research, maintains the official monthly chronology of U.S. business cycles. It decides when recessions begin (the peak month) and when they end (the trough month).

To quote the Committee, a recession is:

- "…a significant decline in economic activity
- Spread across the economy,
- Lasting more than a few months,
- Normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."

The economy is expanding if it isn't in recession. "*Expansion is the normal state of the economy*."

The Committee follows a standardized process to determine whether (or not) a recession has begun (or ended). Specifically, it focuses on several general, economy-wide measures of economic activity. The most important of these are the level of nonfarm employment and real (inflation adjusted) personal income less transfer payments. Two others are measures of goods related activity: industrial production and wholesale-retail sales. Other indicators also are reviewed.

These data are subject to considerable revision. However, the Committee prefers not to change its date decisions after they've been announced. As a result, unless the economy's descent into recession is fast and deep, the Dating Committee allows enough time for the most important revisions to occur before officially settling on the peak (or trough) month. For the 2001 recession, the Committee announced in November that the peak month in which the recession began was March 2001. On the other hand, the recovery coming out of that recession was very slow; so the Committee didn't officially settle on November 2001 as the trough month until July 2003!

What do the monthly indicators say now?

- Employment reached a high point in December and edged down in January (maybe, employment data revisions are notorious).
- Real personal income peaked in September, dropped off in October, but recovered most of the loss in November-December.
- Industrial production also peaked in September, declined a bit in October, and came back in November-December.
- Business sales reached a peak in October and dropped in November; data for December is not yet available.

Our conclusion: it's not a recession right now.

- The decline in economic activity is not significant (and might be revised away).
- The declines are not spread across the economy; a number of industries are still growing on Track Two.
- The decline, if it's really there, hasn't lasted long enough to be a recession (the shortest one was six months in 1980).

In other words, yes the data are weak but not conclusively falling into recession territory.

When will we know? If the economy takes a marked turn for the worse and the data don't get revised upward, the Dating Committee might meet as soon as this autumn and announce that a peak has occurred and the economy is in recession. Otherwise, they're likely to wait to see if a clear downtrend still exists after the next round of major data revisions is completed -- some time next year.

Table 1: U.S. Economic Indicators

(Annual % change except where noted)	2002	2003	2004	2005	2006	2007	2008f	2009f
Real GDP	1.6	2.5	3.6	3.1	2.9	2.2	1.7	2.5
Nonfarm Employment	-1.1	-0.3	1.1	1.7	1.8	1.1	0.4	0.2
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.6	4.6	5.3	5.9
Consumer Price Index	1.5	2.3	2.7	3.4	3.2	2.8	2.9	2.0
Federal Budget Balance (FY, $ billions)	-$158	-$378	-$413	-$318	-$248	-$162	-$400	-$350

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

Also, consumer purchases of cars and light trucks will be lackluster, with large gas guzzlers losing market share to more fuel-efficient vehicles. (More bad news for Detroit!) Finally, the real purchasing power of consumers' incomes is undermined by persistently high prices for energy, including gasoline, heating oil and natural gas.

Spending for most other types of consumer goods and services should be especially slow early in 2008, but return to a moderate growth trend by year end. And purchases of luxury, discretionary items, including recreation and tourism, will grow better than other types of products. Overall consumer spending (inflation adjusted) is forecast to grow by just 1.5% in 2008, below the 2.9% pace of 2007, before picking up to 2.4% in 2009.

The housing sector is on a steep downtrend. New housing starts peaked in 2005 at 2.07 million units (annual rate), the highest level since 1972. However, home construction activity declined throughout 2006/2007 and fell to the 1.0 million unit mark in December 2007, the lowest level since 1991. The housing decline still has more to go. We expect starts activity to drop below the 1.0 million mark during 2008 and then gradually move up above 1.0 million units in 2009.

Mortgage credit is hard to get but still available to finance "prime" homebuyers (those with well-documented, strong credit and income histories), though terms are stricter for most mortgages. However, credit for subprime borrowers is extremely difficult to secure, as many banks have eliminated that product line. For those who can get them, mortgage rates have fallen since last summer. As of January 2008, mortgage commitment rates ranged from 5.23% for the average one-year adjustable rate mortgage to 5.76% for a 30-year fixed rate. In July 2007, the same rates were 5.7% and 6.7% respectively.

Mortgage rates are not expected to change much during 2008, though there probably will be considerable volatility till year end. The difficulty of getting affordable financing for a home will continue to dampen new housing demand, especially among first-time buyers and those with irregular incomes. Net-net, total housing starts are forecast to decline from 1.3 million units in 2007 to just below 1.0 million units in 2007 and then edge up to just above 1.0 million units in 2009.

Business Investment Spending Continues to Grow

Business profits and cash flows have decelerated sharply, especially in the distressed industries. Adjusted total pre-tax corporate profits during third quarter 2007 (latest data available) were up by just 1.8% compared to third-quarter 2006. Profits-by-sector data show the impact of the two-track economy. Domestic industry profits were down by -4.6%, pulled down by problems in nonfinancial industries, especially construction and manufacturing. On the other hand, net profits earned from the rest of the world surged by 36.5%. Adjusted total corporate cash flow declined by -3.1% over the year ago period. This pace represented a sharp slowdown from 2006, when profits were up by 13.2% and cash flow rose by 4.5%.

Businesses typically invest their cash in new equipment and software. Overall, equipment spending was growing moderately at the close of 2007. Demand was particularly strong for information processing equipment and software—which accounted for 60% of total business investment spending—and also for commercial aircraft, agricultural machinery, and oilfield machinery.

Not unexpectedly, demand for construction machinery dropped by 26% in fourth quarter 2007. Purchases of heavy trucks, trailers, and railroad rolling stock also dropped sharply, reflecting tightened engine emissions requirements and reduced goods movement activity. Going forward, we expect continued strong demand in the sectors that are currently doing well: commercial aircraft, agricultural equipment, oilfield equipment, and high tech equipment and software but a moderation in spending for other types of equipment purchases.

Business investment in nonresidential structures has been growing strongly, providing a partial offset to the plunging residential sector. Some improvement is expected during 2008/2009, though the rate of growth will slow markedly. Spending for new lodging, ethanol plants, communications, and power facilities will likely lead the way. Also, we expect continued growth in energy drilling activity.

The deteriorating profit picture gives reason for a cautious outlook, at least for 2008. Profitability is expected to turn up again with the improving economy of 2009. Business spending for equipment and software is forecast to grow by 3.7% in 2008 and by 3.5% in 2009. This will be better than the lackluster 1.4% performance of 2007, but not much. Meanwhile, spending for nonresidential structures will decelerate from 13.2% pace of 2007 to 7.1% in 2008 and to just 2.0% in 2009.

Government Spending -- Still Rising

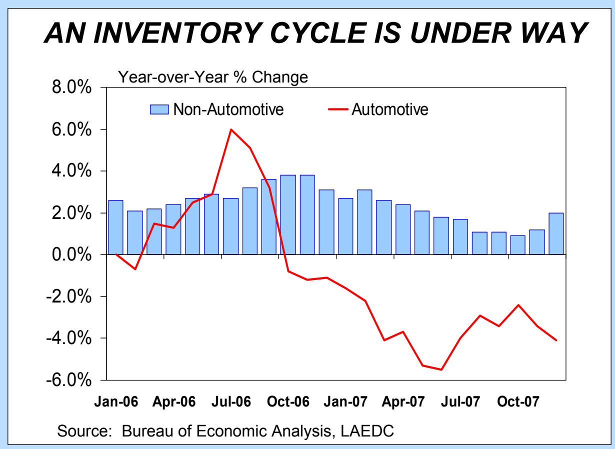
The current forecast anticipates continued growth in federal purchases of goods and services during 2008 and 2009. Together, the wars in Afghanistan and Iraq are costing well over $150 billion this year. Defense and Medicaid purchases are rising at near double-digit rates. We expect that total (inflation adjusted) federal purchases of goods and services will increase by 3.0% in 2008 and grow by about 2.5% in 2009.

While state and local government purchases of goods and services will continue to expand, growth likely will slow in line with revenues. A majority of states experienced weaker revenue growth in late 2007/early 2008. This has generated discussions across the nation about whether to decrease spending or increase taxes. Slowing revenue growth will constrain spending in the near future. The LAEDC forecast anticipates that state/local purchases (inflation adjusted) will grow by 2.5% in calendar year 2008 and taper down to 2.0% in 2009.

The Inventory Cycle Continues

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 last year, subtracting 0.3 percentage points from the economy's growth rate. During fourth quarter 2007, the economic 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 during most of 2006/2007. Meanwhile, non-automotive inventories grew relatively steadily, with year-year increases in the 2%-4% range. The automotive drawdown is particularly noticeable at retail car/truck dealers. Geographically, the major economic impact is primarily in the Midwest automotive centers of Michigan, Ohio, and Indiana, and wherever domestic make cars, light and heavy trucks are produced.

It's not clear how long the inventory adjustment will take. One good sign: retail light vehicle stocks were about normal at year end 2007. And auto manufacturers plan to reduce U.S. production by 6%-7% in the first half of 2008. However, we expect vehicle sales to be down in 2008. Only time will tell if the production cuts are enough.

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 8.6% in the year to fourth quarter 2007. Exports of U.S. made capital goods are leading the parade, especially high tech equipment and aircraft & parts, but most categories of goods and services are also growing at healthy rates. Mostly, this performance reflects continued good 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 has declined, which makes U.S.-made products more competitive on world markets. We expect continued good growth in exports—6.2% in 2008 and 5.0% in 2009.

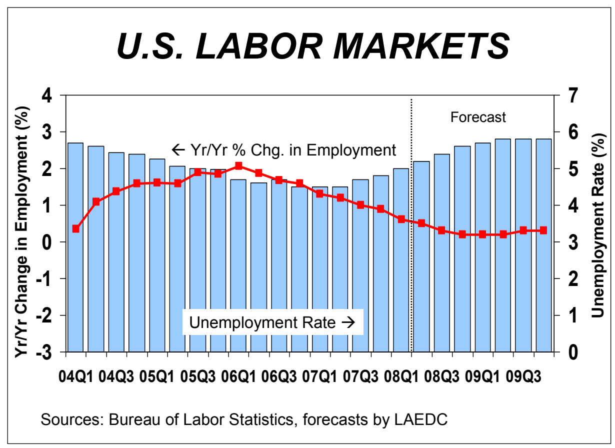
While U.S. businesses and households are purchasing more abroad, the growth rate of goods and services imports fell to 1.5% in the four quarters ended 4q2007 from 3.2% during the previous four quarters. The slowdown reflected U.S. businesses' attempts to reduce inventories and sluggish automotive sales. U.S. purchases of foreign-made goods and services are forecast to increase by only 1.6% in 2008 and revive to a 3.6% pace in 2009.

For the U.S. economy, what matters are net exports (equals gross exports minus gross imports). Indeed, net exports added 0.6 percentage points to the U.S. economic growth rate during 2007 and is expected to contribute another 0.5 percentage points in 2008. The net export balance (in constant dollars) was in deficit during 2006, to the tune of -$624 billion, and then improved to -$560 billion in 2007. LAEDC forecasts another significant improvement in 2008, to -$505 billion, then stabilization in 2009 as imports return to a more normal trend.

Labor Market Conditions

U. S. labor markets are reflecting the two-track economy. Business firms in the distressed industries are reducing headcounts rapidly; they sliced 500,000 workers from their payrolls during the year to January 2008. Firms on Track Two continue to hire but at a reduced rate. During the forecast period, we expect employment growth to slow further, which will create considerable angst in the media and in the halls of government. However, as long as the economy stays out of recession, employment should continue to increase, just more slowly. U.S. employers hired almost 1.0 million more workers in the year to January 2008, an increase of 0.7% over that period. During the forecast period, employment will grow by just 0.4% in 2008 and 0.2% in 2009.

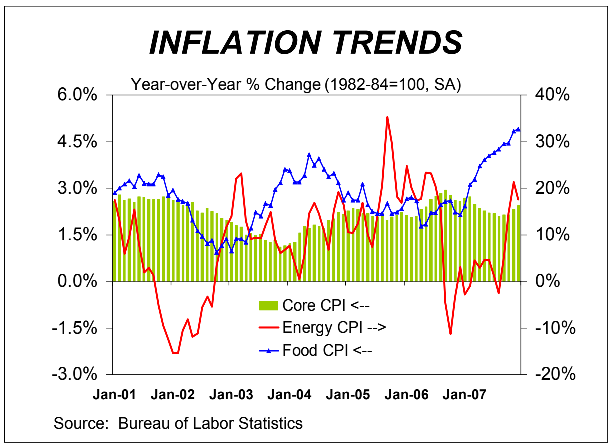
The U.S. unemployment rate, which hit a cyclical high of 6.3% in June 2003, dropped back to 4.5% late in 2006 and stayed near there through June 2007. Joblessness then increased during the second half of 2007, reaching 5.0% in December. This rate is just above the economy's generally accepted "sustainable full employment" unemployment rate. The nation's jobless rate will continue to rise because economic growth is forecast to slow to the 1.5%-plus range in 2008 and then pick up only moderately. We expect the nation's jobless rate to average 5.3% in 2008 and 5.9% in 2009.



Employee compensation of civilian employees increased by 3.3% in year ended December 2007. Wages and salaries increased by 3.4% during that period, while benefit costs grew at a 3.2% rate. Looking forward, the weaker tone of U.S. labor markets suggests that wage increases should decelerate. On the benefits side, employers have shifted an ever larger proportion of health insurance burdens onto their workers in order to contain rising costs. This strategy has met with some success and is likely to continue. Thus, we expect overall employee compensation costs to escalate at a somewhat slower pace during the forecast period —rising by about 3.1% during 2008 and perhaps 3.0% in 2009. Many businesses will have to boost labor productivity and/or to raise prices to offset their rising labor costs.

Inflation

Consumer inflation was higher than economic policymakers wanted during 2007. Measured by the Consumer Price Index, energy prices soared by 17.4% over the year to December 2007, and food prices—which had been relatively well behaved for several years—rose by 4.9%. But aside from food and energy, price increases for "core" consumer goods and services were running at 2.4%, down a tad from the 2.6% registered during the year to December 2006.



Going forward, we assume that gasoline prices will remain too high for comfort during the first half of 2008 and then will drift slowly downwards—rising and falling seasonably (up in the summer, down a bit in the fall)—during the rest of 2008 and 2009. If that happens, and prices of other goods and services follow current trends, then total CPI ("headline inflation" in the U.S.) will rise at an average rate of 2.9% during 2008—similar to the 2007 performance—and increase by just 2.0% in 2009.

Crude oil prices were on an upward track during 2007. The price of oil ended 2006 at $62 per barrel (using the West Texas Intermediate spot price) and then soared to $92 per barrel in December 2007. Factors driving crude oil prices upward in 2007 included strong global economic growth—outside the U.S. at least—and a seemingly endless list of risks to refinery capacity and global oil supply. The endless list of supply risks is still there coming into 2008. However, global economic growth and oil demand both seem likely to moderate this year and several new oil production facilities will soon come online. Industry observers expect oil prices to remain near $90/barrel in the early part of 2008 and then drift south—to perhaps $80/bbl.—on average in 2009. Prices will not move smoothly; there will continue to be considerable volatility whenever supply issues move to the forefront.

Natural gas prices started 2008 on a high note—nearly $8 per thousand cubic feet—reflecting the colder-than-normal winter the U.S. is experiencing. Weather is the real question mark for natural gas prices. 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 return to "normal this summer," industry observers forecast that natural gas prices (delivered to Henry Hub, LA) will average about $7.75/thousand cubic feet in 2008 and somewhat lower in 2009. This would be up a bit from an average $7.17/mcf in 2007.

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 kept it there until September 2007, when subprime problems threatened to severely destabilize the nation's capital markets. Rate cuts have come thick and fast since then, with the FOMC announcing four more reductions during the next four months. The fed funds rate had fallen by 225 basis points to 3.0% by January 31, 2008.

In addition to cutting short-term interest rates, the Fed has poured buckets of "liquidity" into capital markets by making collateralized loans to U.S. banks through a temporary, special purpose, 28-day "term auction facility" (TAF). A total of $60 billion was lent to participating banks (mostly in New York) between mid-December and mid-February, with the promise of more if necessary.

Why has the Federal Reserve acted so strongly (if a little late)? The Fed has two primary goals: to minimize inflation and keep the economy growing close to its potential. Usually, the Fed focuses on inflation, and consumer inflation is not yet where the Fed would like it to be. However, U.S. economic growth has slowed markedly, and problems in the financial sector threaten to tip the economy into recession.

This threat is enough to keep policymakers on high alert unless the inflation rate increases way more than currently expected. Expect the Fed to reduce the target fed funds rate again during 2008, especially if the capital markets seize up. By year end 2008, the target rate should be in the 2.0% to 2.5% range. What happens in 2009 depends on how fast the economy recovers from its current malaise. Short-term rates could well be higher at year end 2009 than they are in February 2008.

Long-term rates turned up during spring/summer 2007, only to relapse later in the year during the capital markets' troubled period. The 10-year Treasury note yield stood at 5.1% in June 2007 and then dropped back to 3.7% in January 2008. Over the same period, the 30-year fixed mortgage rate peaked at 6.7% in July 2007 and fell to 5.8% by January.

The outlook for long-term interest rates is uncertain, and recent history certainly doesn't provide many clues. Dollar depreciation and rising inflation could push long rates up in the U.S. However, there will be downward pressure if the economy slows further and inflation abates. A compromise forecast anticipates that long-term rates stabilize in 2008 and could turn up in 2009. This would put the 10-year note yield at about 3.7% toward year end 2008 and perhaps 4.3% by year end 2009. Meanwhile, the fixed mortgage rate is in the 5.5% range at the end of 2008 and about 6.0% at year end 2009.

Fiscal Policy

U.S. fiscal policy is about to increase its influence on the economy. The federal budget deficit was $163 billion in fiscal year 2007 (ended September 30, 2007), a 35% decline from fiscal 2006, which reflected double-digit increases in personal and corporate income tax revenues. However, that fortunate situation is changing: corporate taxes are falling, and the growth in personal taxes has slowed. Along with huge bills for the wars in Afghanistan and Iraq, federal spending is growing somewhat faster, led by defense and Medicaid.

Congress and the Administration have enacted a fiscal stimulus bill that features $107 billion of personal tax rebates and $44 billion in temporary extra depreciation for business firms that invest in new plant or equipment. The rebate checks will probably go out in June or July. Even if not fully spent, they should have a noticeable impact on consumer spending during the third and perhaps fourth quarter. The stimulus package is expected to drive the fiscal year 2008 deficit up to the $400 billion range. The deficit should drop back if the economy recovers in 2009, to perhaps $325 billion.

Table 2: U.S. Interest Rates

(4^{th} quarter averages, %)	2000	2001	2002	2003	2004	2005	2006	2007	2008f	2009f
Fed Funds Rate	6.5	2.1	1.4	1.0	2.0	4.0	5.3	4.5	2.0	3.0
Bank Prime Rate	9.5	5.2	4.5	4.0	4.9	7.0	8.3	7.5	5.0	6.0
10-Year Treasury Note Yield	5.6	4.8	4.0	4.3	4.2	4.5	4.6	4.3	3.7	4.3
30-Year Fixed Mortgage Rate	7.6	6.8	6.1	5.9	5.7	6.2	6.3	6.2	5.5	6.0

Sources: Federal Reserve Board; forecasts by LAEDC

Risks to the Forecast

The baseline forecast calls for the U.S. economy to grow slowly in 2008—by less than 2%--and by about 2.5% during 2009. Consumer spending will follow a similar pattern, except for automotive and housing related purchases which will be weaker. Exports and government spending will continue growing at a reasonably good pace, which will help to offset the expected moderation in business investment spending and the problems of the housing sector. Inflation appears to have stabilized and may well improve during the forecast period, though energy and food prices both remain areas of concern.

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 turn out to be worse than expected. 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 a lot of 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 2010. We're pretty optimistic [but we have our fingers crossed.]

2. **Bank lending.** Commercial banks and thrift institutions operate a key transmission gateway between the troubled housing/mortgage sectors and the rest of the economy. Already, U.S. banks have taken big hits due to *direct* losses on mortgage loans (that had to be foreclosed because the borrowers couldn't/wouldn't make the payments). Also, the value of banks' *indirect or secondary* mortgage holdings has declined along with the capital markets' waning interest in those products. It's no wonder banks have raised credit standards and require extensive documentation for would-be home borrowers.

For the forecast, the issue is not whether bankers' stingier approach to mortgage lending will be applied to their other business and consumer customers; it already has. The real question is how much bankers' rediscovery of traditional credit analysis (which focuses on the borrower's potential risk) will affect business and household borrowing *and spending* for big-ticket purchases.

3. **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. 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 how many, 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.

4. **Crude oil prices.** The primary forecast issue here is whether energy prices will stay high longer than expected and cut even more deeply into consumers' discretionary spending.

5. **"Fear."** Franklin D. Roosevelt said it best: "The only thing we have to fear is fear itself." American consumers and businesspeople are being inundated with media accounts of the economy's troubles and reports that we're already in a recession. [Stories about the good things happening among the Track Two sectors are either buried on page 10 or non-existent.] Surveys indicate the number of recession "believers" who say they're worried is growing. The economy will feel the impact if consumers and business leaders act as warily as they talk.

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

III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

The world economy in 2007 slowed to an estimated growth rate of 4.9%, down from 5.0% in 2006. Global growth will slow further in 2008, by as much as 0.5 percentage points or more, as developed countries experience slower growth.

The sagging performance of the U.S. economy is the major reason for the downturn in global economic growth. For example, as demand for home furnishings and other products have dropped in the United States, countries have seen their U.S. bound exports decline.

Most regions of the world will experience slowing growth in 2008. The Middle East will buck the trend as it benefits from high oil prices as will Africa as it continues to grow from low levels of development.

- Asian economies will continue to contribute to world growth in 2008 but at a slightly slower rate. China and India are estimated to have contributed more than half of global growth in 2007.

- European exporters are diversifying their markets from the lagging U.S. markets. They are being boosted by stronger than expected growth in major European economies such as Germany and still-strong demand from China and other developing countries for European made durable goods. However, Europe too will experience slower growth in 2008 as the euro continues to increase in value against the U.S. dollar and interest rates continue to rise in the euro area.

- Economies in the Americas will continue to grow but at a slower rate in 2008 than in 2007. A number of countries will continue to benefit from high commodity prices. However, lower business activity in the United States will reduce demand for the region's number one export market.

Major Regions

Asia

Growth of the **Japanese** economy will decline by a half a percentage point in 2008 after an estimated growth rate of 2.1% in 2007. Further strengthening of the yen against both the dollar and the euro will reduce exports of Japanese manufactured goods. Possible declines in capital investment and private residential investment along with risings costs present significant risks. The possibility of parliamentary elections as soon as 2008 will force new Prime Minister Yasaou Fakudo to choose between policies that boost economic growth or reduce Japan's government deficit.

China's economic growth rate will continue to impress observers despite the World Bank's recent 40% reduction in its estimate of the level of Chinese GDP. A slowing external environment will reduce export growth somewhat this year (to a still high level of almost 15% real growth) resulting in a drop in economic growth in from an estimated 11.4% in 2007 to 10.0% or lower in 2008. Chinese central bank authorities repeatedly raised interest rates and reserve requirements in 2007, to curb potentially runaway investment spending and inflation. In addition to preparing for the 2008 Olympic Games in Beijing, President Hu Jintao faces the more daunting challenge of promoting development in rural areas and interior provinces and stemming increasing income inequality.

India's GDP growth in 2008 is expected to decrease slightly from the estimated growth of 7.8% in 2007. Information technology-related sectors are likely to experience strong growth in 2008. However the sector face dangers presented by the increasing value of the rupee (12.0% versus the U.S. dollar from the beginning to the end of 2007), increasing competition from other areas of the world such as Central Europe, and a possible slowdown in IT spending in the United States. Monetary tightening will act as another drag on growth in 2008. In addition to improving rural living standards, Prime Minster Manmohan Singh will attempt to lift restrictions on the ability of foreign companies to setup retail chains and acquire stakes in finance and insurance companies. Infrastructure remains a pressing need throughout the country.

Increasing exports to China will offset expected declines in **South Korean** exports to the United States in 2008. Growth of the South Korean economy is predicted to slow slightly lower in 2008 from the estimated rate of 4.9% in 2007 to 4.8%. President-elect Lee Myung-bak campaigned on the promise of corporate tax cuts. He will be assisted by South Korea's budget surplus as he implements an aggressive economic growth agenda.

After sixteen years of continuous growth, the **Australian** economy will continue to grow in 2008, albeit by half a percentage point less than the estimated rate of 3.9% in 2007. Rising domestic demand will help to offset weakening farm exports and reduced competitiveness due to the increasing value of the Australian dollar. Capacity constraints have hindered the export of natural resources. Newly elected Prime Minister Kevin Rudd will face rising inflation and possible declines in home prices as negative risks to the Australian economy in 2008.

Europe

After expanding an estimated 2.5% in 2007, the **German** economy will grow by a half percentage point less in 2008. A slowing external environment will cause export growth to decrease from an estimated rate of 8.0% pace in 2007 to less than 5.0% in 2009. Personal consumption is expected to increase as a percentage of GDP through at least 2009. Chancellor Angela Merkel's coalition government has benefited from a three percentage point decline in the unemployment rate since coming to power in November 2005. Additional reforms beyond a cut in corporation and investment taxes are unlikely before national elections in 2009.

Weakness in housing, finance, and public sector spending will combine to reduce the growth of the **United Kingdom** economy by a full percentage point or more in 2008 from the estimated 3.2% in 2007. Commercial property valuations and office rents in the City of London both experienced sizable annual gains (over 15 and 20% respectively) in the last year but are now beginning to fall. A sustained drop in commercial and residential property prices present a significant downside risk for the U.K. economy. Prime Minister Gordon Brown's government faces criticism for the Bank of England's slow response to the problems of Northern Rock, the U.K.'s fifth largest mortgage lender.

The **French** economy is expected to decrease slightly in 2008 from the estimated growth of 1.8% in 2007. Lower taxes will help stimulate domestic demand, but French exporters face reduced demand in the United States due to the rising value of the euro. Tax cuts were not accompanied by reductions in public expenditures so government budget deficits will persist. French President Nicolas Sarkozy will likely have to face protests by workers as he attempts to reform pension benefits and labor laws.

The **Italian** economy will slow by half a percentage point in 2008 from the estimated 1.8% in 2007. An increase in taxation (through more effective collection), monetary tightening, and external uncertainty are among the factors that will slow growth. Prime Minister Romano Prodi resigned in January after losing a no-confidence vote, throwing into doubt proposed economic reforms designed to open currently protected economic sectors.

Rising interest rates in 2007 have put the brakes on one of Europe's fastest growing economies in recent years, **Spain**. Economic growth will decline by a full percentage point or more in 2008 from the estimated 3.4% in 2007. Shrinking homebuilding activity and falling home prices have the potential to reduce investment and consumption spending. Adjustable rate mortgages originated during the recent housing boom also present a downside risk if homeowners begin to default on their loans. Prime Minister José Luis Rodriguez Zapatero faces a general election in March.

The Americas

After growing by an estimated 2.0% in 2007, **Canadian** economic growth will decrease by half a percentage point in 2008. The U.S. housing slowdown has reduced demand for Canadian lumber. The strengthening Canadian dollar (up by

17.9% from the beginning to the end of 2007) is decreasing export demand for Canadian manufactured goods and increasing the price of imports. The Canadian current account is expected to slip into a deficit despite still-strong external demand for Canadian minerals. Prime Minister Stephan Harper, the leader of a minority government, is facing calls to assist provinces with sizable manufacturing bases affected by the increase in the value of the Canadian dollar.

In 2008, the **Brazilian** economy will grow by slightly less than the estimated 2007 rate of 5.1%. Domestic and foreign demand for Brazilian manufactured goods (including airplanes) and technical services is increasing. Demand for Brazilian agricultural products and mineral resources also continue to grow. Lower interest rates and increased access to credit financing has increased consumer spending and increased demand for imports of consumer goods. President Luiz Inacio Da Silva has shown no signs of deviating from his macroeconomic policy of lowering Brazil's debt and inflation targeting. Restraining government spending and increasing much needed investments in the country's strained infrastructure will remain challenges for the Brazilian government.

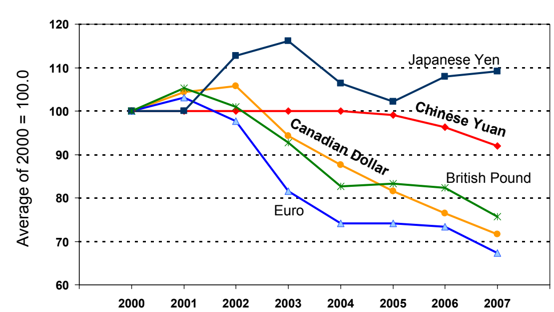
The slowing U.S. economy will cause the **Mexican** economy to slow slightly in 2008, after growing by an estimated 3.1% in 2007. Slumping housing construction and increased immigration enforcement in the United States may discourage some Mexicans from migrating north. Remittances to Mexico decreased in the second quarter of 2007 from a year earlier, the first drop in over a decade. A sustained drop in remittances could result in slower if not decreased consumer spending. President Felipe Calderon has made controlling inflation, fiscal reforms, and the dismantling the telecommunication monopoly his top economic priorities. However, long overdue reforms to increase much needed investments in the state oil company will most likely remain unachievable at least in the short term. Continued attacks on oil pipelines by armed insurgents groups would provide an additional obstacle to the government's efforts to increase oil production.

Foreign Exchange Rates

The depreciating value of the U.S. dollar against other major currencies was one of the top financial stories of 2007. The decline of the dollar versus the **Canadian dollar** last year (-15.2% from the beginning of January 2007 to the end of December 2007) was felt by manufacturers and consumers on both sides of the U.S.-Canadian border. In September, the value of the U.S. dollar even dipped below the value of the Canadian dollar for the first time since the 1970's. Canadian retailers have been forced to revise their practice of printing lower U.S. dollar/higher Canadian dollar price tags. As a hedge, Canadian consumers are increasingly shopping on U.S. retailers' web sites in search of deals.

The **European Monetary Unit (euro)** continued its seven-year climb in value against the dollar, increasing by 9.9% from the beginning of January 2007 to the end of December 2007. European manufacturers experienced reduced demand from the United States while European consumers flocked to East Coast and other U.S. cities on shopping vacations.

VALUE OF U.S. DOLLAR SINCE 2000



Source: Federal Reserve Board

The **Chinese yuan** increased in value against the U.S. dollar by 7.0% from the beginning to the end of 2007. Chinese authorities have allowed the yuan to appreciate in value as concerns grow about rising inflation and the growing level of foreign investment. The rising value of the yuan has resulted in some labor-intensive assembly operations migrating from China to neighboring countries with even cheaper labor costs, such as Vietnam. Calls from U.S. politicians to pressure Chinese authorities to allow the yuan to appreciate even more against the U.S. dollar will likely mount as economic issues take greater importance in the run up to the 2008 U.S. presidential elections.

The U.S. dollar decreased in value against the **Japanese yen** by 6.0% from the beginning to the end of 2007. However, in the last six months of 2007, the dollar dropped in value against the yen by 9.5% as the Japanese economy recovered from weak growth in the second quarter of the year. With manufacturing operations throughout the United States, Japanese companies are well positioned to take advantage of further declines in the value of the U.S. dollar.

Despite a run-up of 2.2% against the U.S. dollar in the first half of 2007, the **U.K. pound** appreciated by only 0.5% from the beginning to the end of 2007. Falling interest rates and a growing current account deficit (similar to the United States) are keeping downward pressure on the pound relative to the euro. A falling pound would be welcomed by U.K. exporters but could also trigger inflation as the cost of imports increase.

Table 3: Year-over-year % Change of the US $ Relative to Key Currencies
(Annual Average)

Country (currency unit)	2005	2006	2007
Broad currency basket (index)	-2.57%	-1.98%	-4.72%
Canada (C$)	-6.93%	-6.40%	-5.34%
China (yuan)	-1.01%	-2.70%	-4.60%
Euro Zone (€)	-0.09%	-0.91%	-8.37%
India (RP)	-2.78%	2.70%	-8.87%
Japan (¥)	1.81%	5.63%	1.25%
Mexico (peso)	-3.51%	0.11%	0.20%
South Korea (₩)	-10.61%	-6.78%	-2.66%
U.K. (£)	0.69%	-1.25%	-7.92%

Source: Federal Reserve Board

IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

Forecasts for the nation in 2008 range from slow growth to an outright recession. What about California? Some analysts say it is already in a downturn. Right now, the LAEDC sees a two-track economy, with housing, finance and related industries declining, while the other major segments are growing moderately. The impacts from the Federal government's stimulus package look to be positive later in the year.

However, lots of economic hurdles could trip up the state over the course of the year. The list includes:

- The housing industry will continue to struggle, and the pain will stretch into 2009. For some areas in the state, it could be 2010 before the situation stabilizes.
- High oil prices (and gasoline and diesel prices) will hurt both the consumer and business sectors.
- With a small-to-medium sized business base, the current credit squeeze could starve the state's economy of needed capital.
- The state budget deficit is currently estimated at $14 billion and likely to go higher. A fiscal "emergency" has been declared, and the pain of funding cuts will trickle down to local governments.
- The contract of the International Longshoremen Worker's Union expires in June 2008 (up and down the Pacific Coast). While the negotiations are not expected to be contentious, shippers are nervous remembering the 2002 lock-out.
- The drought situation (even with normal rain, water supplies in the state will still be tight) will hurt industries such as agriculture and food processing. (Imagine, an economist forecasting the weather.)

The news media will continue to focus on the "housing crisis," causing continued volatility in consumer sentiment and hesitancy to buy a home. The bottom line – things may turn out to be OK. But keep a painkiller handy just in case.

Employment growth in California in 2008 will run at 0.5% (or a meager 83,000 new jobs), after a 0.7% increase in 2007 (or 107,600 nonfarm jobs). At this pace, some metro areas in the state will be in an "employment recession" during the first half of 2008. The most notable pain will continue to be felt in housing and financial services, but manufacturing and retail also will take some hits.

In 2009, the state's growth will accelerate somewhat, with an increase in employment of 1.0%, or 159,300 jobs.

Positive Forces for 2008

Agriculture, despite higher energy costs, labor supply issues and water supply problems, will continue to see slow steady growth. Export markets will continue to be strong in 2008, thanks to the weak dollar and good growth of destination economies.

International trade will grow a little faster than in 2007, with exports still robust. The state's three major ports will be coping with environmental challenges to expansion projects, but the growth pipeline does seem to be flowing once more.

Technology will continue to grow at a steady pace, but demand in business and consumer markets will be somewhat slower than in 2007.

Tourism will be a relative bright spot. The weak dollar will continue to bring in international visitors, while lots of events during 2008 will draw travelers to the state.

Nonresidential (slowing in 2008/09) and public sector (accelerating in 2008/09) construction projects will also provide some support.

Some Negative Forces

As if the previous list of economic hurdles wasn't daunting enough, some additional items should be factored into the 2008 outlook for California.

County and municipal government budgets will not only be squeezed by the state's financial problem but also requests from homeowners for downward assessment of taxes on their residences. Some county tax assessors are already gearing up for this. In the meantime, auto and other retail sales will remain lackluster at best, limiting sales tax revenue growth. These financial pressures will result in a flattening out of job growth in government, which has been robust in recent years.

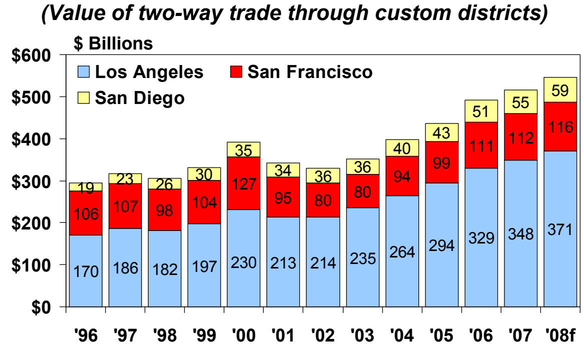
There will be continued focus on the environment, which could have some unexpected economic fallout. The full impact of AB 32 (the greenhouse gas legislation) is yet to come as the regulations are still being written.

More stringent regulation of diesel powered equipment will increase operating costs and could force some smaller firms out of business (construction will feel the pain first).

California has little in the way of incentives to offer business, and other states are very aggressive in trying to lure firms away. The high-wage motion picture and technology industries are the most visible targets. In a high-cost state, this situation is extremely dangerous.

CALIFORNIA INTERNATIONAL TRADE

(Value of two-way trade through custom districts)



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

Trends in Major Industries

Agriculture: With the growing concerns over undocumented immigration, labor availability could be an issue in 2008, although the state's ag industry got through 2007 with no significant problems (due to shifts in harvest times caused by the weather). Energy costs will remain a headache. Livestock production has been hurt by rising feed costs. Of more concern are potential cuts in water supply due to drought conditions and the Delta smelt problem. A number of growers are shifting to higher-value crops, even if it means pulling out tree stock.

The October 2007 wild fires also had an impact, with San Diego County losing 20,000 acres of avocado trees. These might not be replaced due to the water situation.

The continued weakness in the value of the U.S. dollar is helping exports of specialty crops, as is growing demand in Asia for higher quality food products. The housing crash has clipped the rush to convert crop land to residential uses in the northern San Joaquin Valley.

Farm income should continue to inch up in 2008 to well over $34 billion. Farm employment in the state had been moving in a narrow range, but there was a loss of 29,000 jobs in 2007. In 2008, there could be another decline.

International trade: Environmental problems continue to bedevil the ports of Los Angeles and Long Beach, and they are a growing concern at Oakland and San Diego. Container fees have been imposed by Los Angeles and Long Beach to help pay for the replacement of older, polluting trucks, as well as to fund infrastructure projects. These will no doubt encounter legal challenges. Port expansion projects continue to be delayed by legal challenges over environmental concerns. The long awaited TWIC (Transportation Worker Identification Credential) is being implemented at California's major ports at last, but there remains concern that requiring use of the card to enter steamship terminals could crimp the supply of port truckers (many could be undocumented immigrants). We should know by the end of the first quarter.

In June 2008, the coast-wide contract with the Longshoremen's union expires, and shippers are concerned there could be some disruptions. In the meantime, the costs of moving goods through Los Angeles/Long Beach have gone up (especially rail intermodal rates). So more shippers are sending containers through the Panama Canal to east coast ports.

There is an urban myth about the Los Angeles/Long Beach port complex, which is they are always "congested." Not so, especially in 2007, when there was a small decline in the number of import containers as well as declines in the number of empties handled. A similar trend was in evidence at the port of Oakland.

In 2007, there was a moderate 4.7% increase in the value of two-way international trade handled at the state's three customs districts. In 2008, growth should pick up a tad to 6.3%, moving the total to $546.9 million. All three districts should post gains in 2008, with Los Angeles and San Diego moving to new record levels. However, at $116.2 billion in 2008, the San Francisco district will still be below its all time record of $127.2 billion reached in 2000.

Technology: This sector will see slow growth, with the best prospects in components for consumer electronics and federal government projects (defense and intelligence gathering). More modest growth should be posted in business IT spending. This sector also includes "green tech," which is the business of the moment in Silicon Valley.

Tourism: This industry should be a growth leader around the state in 2008, despite the weak domestic economy and high gasoline prices. The U.S. dollar should continue to slip in value against both the Euro and the Yen, while a lot of events will keep California destinations in the news in 2008. The hotel room rate assessment to fund state tourism promotion was retained for 2008.

Another significant event was the easing of restrictions on travel between China and the U.S. late in 2007. "Packaged" tours will now be allowed, doing away with "study" groups. This should be an important new source of visitors for the state.

High gasoline prices could hurt travel to more remote locations in the state. In addition, airline fares should continue to rise, reflecting high jet fuel prices. Business travel should flatten out as firms focus on cost control in an uncertain environment.

The hotel industry was quite active in 2007, with several new properties starting construction (a 1,000 room hotel next to the San Diego Convention Center and the convention center hotel in downtown Los Angeles), as well as re-brandings and renovations of existing facilities. The industry did well in 2007, with high occupancy rates and rising room rates. Occupancy rates around the state will post modest declines in 2008, but given that convention bookings look good and international travel should stay strong, room rates should climb.

Another aspect to tourism in the state is Indian gaming. Lots of expansions are planned at casinos around the state, especially in the Riverside-San Bernardino area and San Diego County.

Trends Around the State

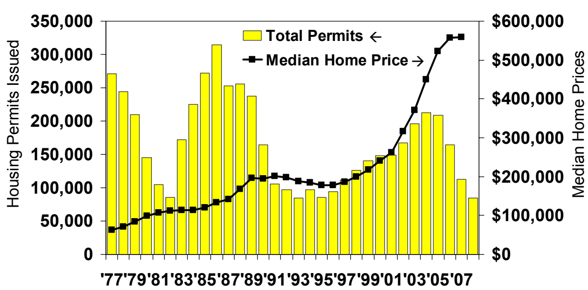
The outlook will be mixed for larger metropolitan areas in the state during 2008, with some in "spot" recessions. Orange County should continue to see year-to-year employment declines in the first months of 2008, while the Modesto and Stockton areas (where there was a frenzy of entry-level homebuilding) should see nonfarm employment declines for the year as a whole.

There should be modest job gains in the three major Bay Area metro areas (with Oakland tiptoeing around employment losses). In Southern California, the best performances in 2008 will come in Los Angeles County (up by 29,900 jobs) and San Diego County (up by 12,700 jobs). A close watch has to be kept on the Riverside-San Bernardino area, where employment had been growing vigorously with a lot of the thrust provided by new homebuilding. However, annual revisions to the state's nonfarm employment numbers could yield a different result.

Net Results

Complicating forecasting for 2008 are evident problems in the official nonfarm employment numbers for the state. According to the "Current Employment Statistics" (which is what we see each month), nonfarm employment in California increased by 186,500 jobs in 2007. However, the "Interim Employment" series (which is based on ES-202 administrative records) points to growth of just 107,600 jobs during the year. Our forecast for the state is based on the interim series. Unfortunately, it isn't possible to adjust the official employment information for metropolitan areas.

CALIFORNIA HOUSING MARKET



Sources: California Association of Realtors, Construction Industry Research Board, LAEDC

Nonfarm employment in the state should increase by a lackluster 0.5% in 2008 or 83,000 jobs, compared with 2007's growth of 0.7% or 107,600 jobs. The largest gains will come in: leisure & hospitality services (+39,000 jobs), health services (+38,000 jobs), government (+32,000 jobs), and professional, scientific & technical services (+28,000 jobs). The largest losses during 2008 will come in the housing-related activities, including: construction (-34,500 jobs), finance & insurance (-17,000 jobs), and real estate (-7,500 jobs). The state's manufacturers will see the loss of 18,000 jobs. California's unemployment rate will average 5.9% in 2008, compared with the recent low of 4.9% in 2006.

Total personal income in California should move up by 4.9% in 2008. There is no consumer price index for the state as a whole, but the Los Angeles five-county area's CPI should rise by 3.1% in 2008 while the San Francisco area's price index should move up at the same rate. California's retailers will encounter another difficult year in 2008, with taxable sales down by 1.2% after 2007's 0.5% decline. Many of the inputs for the housing sector generate sales tax revenue. More bad news for local governments.

New homebuilding should continue to slide in 2008, falling by 24.8% to just 84,500 units. This would be the lowest level of new housing construction since 1996's level of 74,923 new units. Large inventories of both new and resale units plus difficulties in obtaining mortgage loans will be the brakes.

On the nonresidential side, there should be a modest -0.9% decline in permit valuations during 2008, reflecting support from some major projects around the state.

By 2009, most of the housing decline will be over, and growth in California should pick up somewhat. Nonfarm employment should rise by 1.0% or by 148,600 jobs, while the unemployment rate slips down to 5.3%. However, this cannot be considered a stunning performance.

Risks

The state's budget situation could become more strained, with draconian cuts in programs. A shock in the financial markets could cause the financial market freeze to continue. Given the tenor of the national presidential election campaigns, there could be some harsh actions proposed regarding undocumented immigration, which could further disrupt business confidence in the state during 2008.

All in all, 2007 was not great, and as we look ahead, the 2008-2009 period will bring more difficult times for California's economy.

Gross Product

People always ask about the state's gross domestic product (GDP) ranking among the nations of the world. They also ask about where the Los Angeles five-county area would rank if it were a sovereign country. When they read or hear this information, they can get confused; often attributing the state's ranking to the five-county area. Or they will attribute an earlier and higher ranking to the area several years later.

To help keep things straight (for at least 2008), call it the "rule of 8…16…18." In 2007, the state ranked 8th, the five-county area placed 16th, while Los Angeles County on its own ranked 18th (based on what can be measured) among the nations of the world.

In 2007, rankings dropped for both the five-county area (from 15th to 16th) and for Los Angeles County (from 17th to 18th) as the Australian and Turkish economies grew substantially in terms of nominal GDP (though not as much when adjusted for inflation). California's 8th place ranking (behind Italy and ahead of Spain) was unchanged from 2006. The depreciation of the U.S. dollar is forecast to continue through at least 2008. Combined with an expected slowdown in U.S. GDP growth, the rankings for the five-county area and Los Angeles County could both slide further in 2008 as a result.

In nominal GDP growth terms, the United States, California, Los Angeles five-county area, and Los Angeles County were outpaced by growth of most foreign countries on the list in 2007. The depreciation of the U.S. dollar against major currencies (-8.37% against the euro in 2007) and the emergence of inflation outside the United States were major contributing factors to the diverging performance. When compared in real GDP terms (adjusted for inflation), major foreign countries also posted higher growth rates but by not as much.

Table 4: Gross Product Comparisons, 2007

All nations with gross product over US$150 billion
(In billions of US$; based on IMF exchange rate estimates)

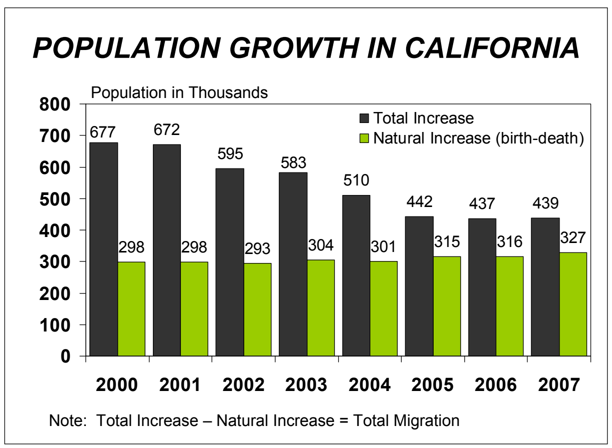
Rank	Country/Economy	Nominal GDP 2007	Nominal GDP '06-'07 % Chg	Real GDP '06-'07 % Chg
1	United States	$13,794.2	4.5%	1.9%
2	Japan	4,345.9	-0.5%	2.0%
3	Germany	3,259.2	11.8%	2.4%
4	China	3,248.5	22.8%	11.5%
5	United Kingdom	2,755.9	14.9%	3.1%
6	France	2,515.2	11.7%	1.9%
7	Italy	2,067.7	11.6%	1.7%
	California	**1,798.3**	3.1%	1.8%
8	Spain	1,414.6	14.9%	3.7%
9	Canada	1,406.4	10.3%	2.5%
10	Brazil	1,295.4	21.3%	4.4%
11	Russia	1,223.7	24.2%	7.0%
12	India	1,089.9	24.8%	8.9%
13	Korea	949.7	6.9%	4.8%
14	Australia	889.7	17.7%	4.4%
15	Mexico	886.4	5.5%	2.9%
	Los Angeles 5-co. area	**814.3**	2.9%	1.6%
16	Netherlands	754.9	12.5%	2.6%
17	Turkey	482.0	20.0%	5.0%
	Los Angeles County	**460.9**	4.5%	2.1%
18	Belgium	442.8	12.2%	2.6%
19	Sweden	431.6	12.3%	3.6%
20	Switzerland	413.9	6.7%	2.4%
21	Poland	413.3	21.2%	6.6%
22	Indonesia	410.3	12.7%	6.2%
23	Taiwan	375.6	3.0%	4.1%
24	Saudi Arabia	374.5	7.3%	4.1%
25	Norway	369.3	9.9%	3.5%
26	Austria	366.7	13.2%	3.3%
27	Greece	356.3	15.4%	3.9%
28	Denmark	310.7	12.4%	1.9%
29	Iran	278.1	25.1%	6.0%
30	South Africa	274.5	7.5%	4.7%
31	Ireland	253.3	15.5%	4.6%
32	Argentina	248.3	16.8%	7.5%
33	Finland	236.1	12.6%	4.3%
34	Venezuela	226.9	25.0%	8.0%
35	Thailand	225.8	9.4%	4.0%
36	Portugal	219.5	12.7%	1.8%
37	Hong Kong	203.0	6.9%	5.7%
38	United Arab Emirates	189.6	16.1%	7.7%
39	Colombia	171.7	26.4%	6.6%
40	Czech Republic	168.1	18.0%	5.6%
41	Malaysia	165.0	10.8%	5.8%
42	Chile	160.8	10.2%	5.9%
43	Romania	158.5	30.0%	6.3%
44	Israel	154.3	8.5%	5.1%
45	Singapore	153.5	16.1%	7.5%

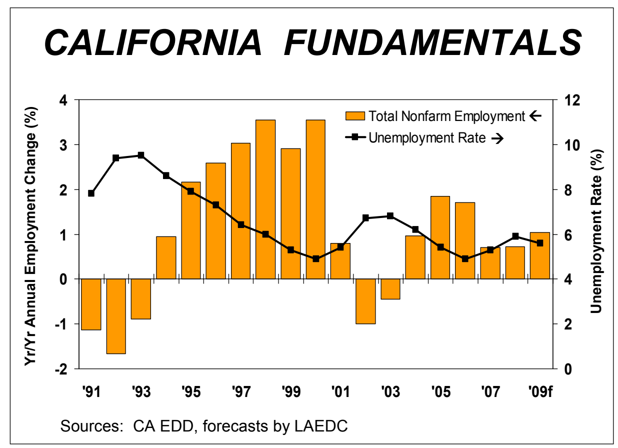
Note: Nominal GDP figures are not adjusted for inflation.

Sources: IMF and LAEDC estimates

Table 5: California Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	34,095.2	14,488.2	4.9	1,103.842	32,372	287.068	392.1	148,540	18,625
2001	34,766.7	14,602.0	5.4	1,135.304	32,638	293.957	341.2	148,757	16,753
2002	35,361.2	14,457.8	6.7	1,147.716	32,428	301.612	329.8	167,761	14,529
2003	35,944.2	14,392.3	6.8	1,187.000	32,981	320.217	350.3	195,682	13,915
2004	36,454.5	14,530.4	6.2	1,265.700	34,719	350.173	397.2	212,960	15,689
2005	36,896.2	14,797.7	5.4	1,347.900	36,110	375.808	436.3	208,972	18,266
2006	37,333.0	15,050.6	4.9	1,434.900	37,950	389.067	491.4	164,280	21,109
2007	37,771.4	15,158.2	5.3	1,519.600	39,589	387.121	514.3	112,300	22,415
2008f	38,196.4	15,267.7	5.9	1,594.100	41,380	380.927	546.9	84,500	22,215
2009f	38,626.4	15,427.0	5.6	1,677.000	43,297	387.022	582.5	87,400	22,505
<u>% Change</u>									
'01/'00	1.97%	0.79%		2.85%	0.82%	2.40%	-12.98%	0.15%	-10.05%
'02/'01	1.71%	-0.99%		1.09%	-0.64%	2.60%	-3.34%	12.78%	-13.28%
'03/'02	1.65%	-0.45%		3.42%	1.71%	6.17%	6.22%	16.64%	-4.23%
'04/'03	1.42%	0.96%		6.63%	5.27%	9.35%	13.39%	8.83%	12.75%
'05/'04	1.21%	1.84%		6.49%	4.01%	7.32%	9.84%	-1.87%	16.43%
'06/'05	1.18%	1.71%		6.45%	5.10%	3.53%	12.63%	-21.39%	15.56%
'07/'06	1.17%	0.71%		5.90%	4.32%	-0.50%	4.66%	-31.64%	6.19%
'08/'07	1.13%	0.72%		4.90%	4.52%	-1.60%	6.34%	-24.76%	-0.89%
'09/'08	1.13%	1.04%		5.20%	4.63%	1.60%	6.51%	3.43%	1.31%





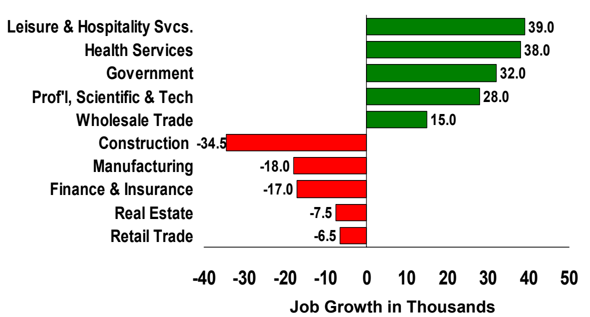
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept. of Commerce; Construction Industry Research Board; forecasts by the LAEDC

Table 6: California Nonfarm Employment
(Annual averages, in thousands, 2006 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	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	1,533.0	*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	15,050.6	25.0	931.6	1,500.0	*957.8*	*542.2*	700.8	1,679.9	492.4	472.0
2007	15,158.2	25.9	901.5	1,468.2	*931.0*	*537.2*	715.4	1,686.8	500.1	470.5
2008f	15,241.2	26.4	867.0	1,450.2	*915.5*	*534.7*	730.4	1,680.3	508.1	466.5
2009f	15,389.8	26.9	849.0	1,440.2	*907.0*	*533.2*	746.4	1,685.3	516.6	468.5

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	544.3	262.6	922.7	290.6	997.2	229.7	1,171.3	1,335.6	487.7	2,318.1
2001	568.9	267.2	936.9	279.9	957.1	237.3	1,210.7	1,365.1	499.2	2,382.1
2002	584.8	268.2	905.0	262.1	939.3	245.5	1,253.4	1,382.4	505.7	2,447.1
2003	613.5	272.2	898.1	243.2	931.0	258.2	1,278.1	1,400.1	504.3	2,425.5
2004	625.8	276.4	910.6	226.8	947.8	262.9	1,297.1	1,439.4	503.9	2,395.5
2005	643.5	283.6	961.5	218.2	968.3	272.2	1,314.3	1,475.2	505.5	2,416.5
2006	646.8	290.4	1,020.3	211.4	993.7	277.7	1,337.1	1,517.8	506.4	2,447.3
2007	627.2	284.5	1,053.0	206.9	994.5	291.2	1,378.0	1,558.6	510.3	2,485.6
2008f	610.2	277.0	1,081.0	200.4	995.5	303.2	1,416.0	1,597.6	513.8	2,517.6
2009f	606.2	274.0	1,111.0	195.4	998.0	315.5	1,455.0	1,637.1	517.8	2,546.1

INDUSTRY WINNERS & LOSERS IN CALIFORNIA FOR 2008



Sources: California Employment Development Department, Labor Market Information Division; forecasts by LAEDC.

Table 7: California Regional Nonfarm Employment
(Annual averages for major metropolitan areas; in thousands; March 2006 benchmark)

		Northern California			Central California					Southern California				
\ MSA Year \	State of 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	194.0	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	197.3	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	961.1	892.4	232.6	301.8	159.5	900.3	208.6	4,092.5	1,520.1	1,271.2	1,299.9	297.9
2007	15,268.8	1,058.5	982.1	910.9	238.1	306.8	160.2	914.5	218.8	4,123.1	1,521.3	1,303.9	1,308.5	301.2
2008f	15,393.8	1061.5	990.6	919.9	240.1	309.8	159.0	922.5	205.8	4,153.0	1,536.9	1,351.6	1,321.7	304.1

* Based on Current Employment Series

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) (* Based on "Interim Employment Series", ES202 data)

	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	15,050.6
2007	4,123.1	1,521.3	1,303.9	300.3	7,249.6	1,308.5	15,158.2
2008f	4,153.0	1,524.5	1,321.9	301.2	7,300.6	1,321.7	15,241.2
2009f	4,204.5	1,536.9	1,351.6	304.1	7,397.1	1,341.5	15,389.8

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	252.9
2007	30.6	1.2	32.7	3.4	67.9	8.6	107.6
2008f	29.9	3.2	18.0	-0.1	51.0	13.2	83.0
2009f	51.5	12.4	29.7	2.9	96.5	19.8	148.6

% 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%	1.71%
2007	0.75%	0.08%	2.57%	1.14%	0.95%	0.66%	0.71%
2008f	0.73%	0.21%	1.38%	-0.03%	0.70%	1.01%	0.55%
2009f	1.24%	0.81%	2.25%	0.96%	1.32%	1.50%	0.97%

Sources: California Employment Development Department; 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
2000	1,081.5	433.0	90.7	38.0	48.2	82.0	205.2	95.1	89.3
2001	1,068.5	422.2	86.3	39.2	52.6	73.7	202.9	99.1	92.5
2002	958.6	366.3	79.6	39.5	48.8	52.8	175.6	102.1	93.9
2003	910.2	333.0	73.6	39.1	44.7	47.8	167.4	109.7	94.9
2004	909.9	325.1	73.7	40.6	42.6	47.3	167.0	119.0	94.6
2005	936.6	322.6	73.4	42.0	41.6	50.1	174.0	135.4	97.5
2006	973.9	319.6	72.9	44.2	40.7	55.2	185.4	155.9	100.5
2007	982.3	303.6	72.6	44.2	42.6	55.6	196.8	160.2	106.7
2008f	995.3	298.6	72.5	44.7	43.9	55.4	203.3	164.2	112.7
2009f	1,014.0	296.6	72.4	45.3	45.3	56.0	210.5	168.7	119.2

Sources: California Employment Development Department, Labor Market Information Division; 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	146.6	4.8	47.3	8.0	17.5
2007	146.0	6.3	48.6	7.5	16.9
2008f	144.4	8.3	50.6	7.3	17.5
2009f	145.5	8.8	51.1	6.9	18.2

* 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	102%	18	29%	650	160%	2,378	60%
1920	936	86%	61	79%	124	33%	29	61%	1,149	77%	3,427	44%
1930	2,208	136%	119	95%	215	73%	55	90%	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	64%	4,934	52%	10,586	53%
1960	6,039	45%	704	226%	810	79%	199	73%	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 7/1/07, in thousands -- adjusted for 2000 Census undercount

	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 \		11,549 \		23,782 \	
		18.1%		24.0%		66.7%		25.8%		26.1%		25.4%
1990	8,860 /		2,412 /		2,620 /		669 /		14,561 /		29,828 /	
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	677	1.2%	14,842	1.9%	30,458	2.1%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686	1.3%	15,091	1.7%	30,987	1.7%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	694	1.2%	15,213	0.8%	31,314	1.1%
1994	9,107	0.3%	2,576	1.0%	2,920	1.2%	701	1.0%	15,304	0.6%	31,523	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.3%	705	0.6%	15,370	0.4%	31,711	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	711	0.9%	15,471	0.7%	31,962	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.5%	15,670	1.3%	32,452	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	15,862	1.2%	32,862	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	16,138	1.7%	33,419	1.7%
2000	9,576	1.9%	2,863	2.1%	3,281	2.6%	759	2.2%	16,479	2.1%	34,095	2.0%
2001	9,737	1.7%	2,917	1.9%	3,392	3.4%	773	1.8%	16,819	2.1%	34,767	2.0%
2002	9,896	1.6%	2,960	1.5%	3,498	3.1%	787	1.8%	17,141	1.9%	35,361	1.7%
2003	10,027	1.3%	3,001	1.4%	3,631	3.8%	798	1.4%	17,457	1.8%	35,944	1.6%
2004	10,127	1.0%	3,033	1.1%	3,762	3.6%	807	1.1%	17,729	1.6%	36,454	1.4%
2005	10,197	0.7%	3,057	0.8%	3,893	3.5%	812	0.6%	17,959	1.3%	36,896	1.2%
2006	10,248	0.5%	3,075	0.6%	4,016	3.2%	819	0.9%	18,158	1.1%	37,333	1.2%
2007	10,294	0.4%	3,098	0.7%	4,110	2.3%	827	1.0%	18,329	0.9%	37,771	1.2%

Sources: California Dept. of Finance, Demographic Research Unit

Table 12: Components of Population Change -- California & Southern California Counties
Figures in thousands, July 1 data compared with July 1 data the previous year

	Los Angeles County			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	158.5	151.6	59.9	91.7	66.7	85.5	-18.8
2003	131.2	152.4	59.4	93.0	38.2	73.6	-35.4
2004	100.6	151.3	61.2	90.1	10.5	71.8	-61.3
2005	69.8	151.4	58.6	92.8	-23.0	63.4	-86.4
2006	50.4	150.1	60.1	90.0	-39.1	65.3	-104.4
2007	46.6	152.5	60.8	91.7	-45.1	69.6	-114.6
	Orange County			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	43.2	45.0	16.6	28.4	14.9	20.8	-5.9
2003	40.8	45.2	16.9	28.3	12.5	18.9	-6.4
2004	31.9	45.0	17.5	27.5	4.4	18.4	-14.0
2005	23.8	44.7	16.5	28.2	-4.4	15.5	-19.9
2006	18.5	44.1	17.3	26.8	-8.2	16.3	-24.5
2007	22.8	44.6	17.4	27.2	-4.4	17.6	-21.9
	Riverside County			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	63.1	25.7	12.9	12.8	50.3	7.3	43.0
2003	79.9	27.7	12.9	14.8	65.2	6.7	58.5
2004	77.6	28.5	13.6	14.9	62.7	7.1	55.6
2005	80.5	30.4	13.6	16.8	63.7	6.7	57.0
2006	82.0	32.4	13.5	18.9	63.0	7.5	55.5
2007	66.1	35.1	13.5	21.6	44.5	7.9	36.6
	San Bernardino County			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	42.3	29.3	11.5	17.8	24.5	7.2	17.3
2003	52.8	30.5	11.7	18.8	34.0	6.1	27.9
2004	54.3	31.1	12.3	18.8	35.5	6.6	28.9
2005	49.9	32.4	11.9	20.5	29.3	5.7	23.6
2006	40.9	33.8	12.2	21.6	19.3	6.6	12.7
2007	28.1	35.4	12.2	23.1	4.9	6.9	-2.0
	Ventura County			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	13.4	11.4	4.8	6.6	6.7	3.7	3.0
2003	11.4	11.9	4.8	7.1	4.3	4.0	0.3
2004	8.6	11.9	5.2	6.7	1.8	4.1	-2.3
2005	5.4	12.0	4.6	7.4	-2.0	3.2	-5.2
2006	6.7	12.4	5.1	7.3	-0.5	3.3	-3.8
2007	7.7	12.4	5.1	7.3	0.4	3.6	-3.2
	San Diego County			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	57.7	43.7	19.5	24.2	33.5	16.6	16.9
2003	46.9	44.9	19.3	25.6	21.3	15.0	6.3
2004	28.9	45.2	20.4	24.8	4.2	14.9	-10.7
2005	23.7	46.0	19.0	27.0	-3.2	13.2	-16.4
2006	26.7	46.2	20.2	26.0	0.8	12.0	-11.2
2007	42.2	46.5	20.3	26.2	16.0	13.1	2.9
	State of California			Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2002	594.5	526.3	232.9	293.4	301.1	229.8	71.3
2003	583.0	537.4	233.3	304.1	278.9	207.6	71.3
2004	510.3	539.9	239.3	300.6	209.7	207.4	2.3
2005	441.7	547.1	232.3	314.8	126.9	185.1	-58.2
2006	436.8	553.0	237.0	316.0	120.7	186.6	-65.9
2007	438.5	565.2	237.9	327.3	111.2	199.9	-88.7

Source: California Department of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

The year 2007 ended on a sour note for Los Angeles County when the Writer's Guild went out on strike. The hostility between the Guild and the industry was unsettling, given that two other entertainment industry contracts were scheduled to be negotiated in 2008. While the County did not see the homebuilding boom that other metro areas did, there could be foreclosure problems in the Antelope Valley, as well as areas in the urban core. Moreover, the condo/loft boom in some of the County's downtowns could turn into a painful bust.

Positive Forces for 2008

Tourism should do well, with the opening of the Grammy Museum at LA Live, the opening of the Broad Contemporary Art Museum at the L.A. County Museum of Art, and the new Simpson's Ride at Universal Studios Hollywood. The weak U.S. dollar will continue to provide support, while the change in travel policy by China could provide a significant boost. Los Angeles is already the most popular U.S. destination for travelers from China.

International trade should grow a little more rapidly in 2008, with the total value of two-way trade up by 6.7% compared with the 5.7% gain in 2007. The contract with the Longshoremen's union expires in June, but expectations are the negotiations should not be overly contentious.

Technology should creep forward. There are high levels of subcontracting on commercial jets in the County, plus lots of work on satellites and communications equipment (the Department of Defense budget is still running at high levels). There is evidently significant work on "black" or classified programs going on at the County's R & D facilities.

The apparel business will grow sales-wise, but should still see modest job losses. Cautious retailers could benefit local producers who can handle small orders or "quick-turns."

Support will come from nonresidential construction projects (such as "LA Live" and "Grand Avenue"), as well as public sector projects, like the Gold and Exposition Blvd. light rail lines.

Negative Forces

There will be continued declines in new homebuilding and in the resale housing market. Expect more bad news on foreclosures in 2008, with attention focused on the Antelope Valley. One hurdle to recovery in the County's housing markets is high rates on "jumbo" residential mortgage loans, as a significant percent of home sales in the county require them. The Federal government's stimulus package should help here.

The strained labor situation in the motion picture/TV production industry. There was the WGA strike, as well as contentious statements by the Screen Actor's Guild. The pain from the WGA walk-out leaked into the broader economy. Ironically, domestic and international box office receipts in 2007 both moved to new high levels and should grow in 2008.

Production on the C-17 military cargo jet could end in 2009 if no new orders are received soon. This places 5,500 high-wage jobs at Boeing's Long Beach facility at risk. However, it looks like Congress will include more planes in a supplemental budget appropriation.

A shortage of industrial land in the County. At year end 2007, the industrial vacancy rate was just 1.6%, but little new space was under construction. There aren't many large parcels of land on which to develop modern industrial buildings. This is forcing industrial users to move east to the Inland Empire – they are "industrial space refugees." Worse yet, there is still a push to let industrial land go for construction of new housing (evidently a lot of developers haven't gotten the call about the problems in the residential sector).

Net Results

Nonfarm employment should rise by a modest 0.7% or 29,900 jobs. This comes on the heels of a wan performance in 2007, a gain of 0.8% or 30,600 jobs. The largest gains should come in health services (+9,500 jobs), professional, scientific & technical services (+8,000 jobs), leisure & hospitality services (+7,000 jobs), private education services (+6,000 jobs), and government

(+5,000 jobs). Employment losses in 2008 will come in manufacturing (-5,000 jobs), information services (-3,000 jobs -- this is where motion picture/TV production is located), construction industry (-2,500 jobs), real estate (-2,000 jobs), and finance & insurance (-2,000 jobs). The County's unemployment rate should move up to 5.3%, compared with its recent low of 4.7% in 2006.

A disappointment in the current economic situation is that the County's nonfarm employment average for 2007 did not move as expected past the previous high of 4,135,700 jobs recorded long ago in 1990. Hopefully, that will record will be topped this year.

Total personal income in the County should rise by 5.6% in 2008. The consumer price index for the County (actually the 5-county region) should move ahead by 3.1% during the year. The retail environment in the County will continue to be difficult in 2008, with taxable sales declining by 1.1%, after a 0.6% slippage in 2007.

The number of housing units permitted in the County should fall by 4.6% to a total of 19,300 units during 2008, with the most visible weakness in the multi-family segment. The recent high was reached back in 2004, when a total of 26,935 units were permitted. Nonresidential permit values should remain essentially flat in 2008 at $4.7 billion. This reflects support from some key projects such as LA Live in the downtown area and a major development at Hollywood and Vine.

The number of overnight visitors to the County should increase by 1.9% in 2008 to 26.3 million persons. The total value of international trade passing through the Los Angeles customs district should move up by 6.7% to $371.3 billion, a new record level.

Hot Spots

In a slow economy, it is a little hard to think of development hot spots, but there are some. Downtown Los Angeles will continue to have a lot of construction cranes on its skyline, thanks to both LA Live and the Grand Avenue project. However, its once hot residential market has gone flat. The area hit a couple of home runs in 2007 with the opening of the Ralph's Fresh Fare store and the Nokia Theater. The east end of the community of Hollywood will be another hot spot, with development of a hotel, residential and retail around the storied intersection of Hollywood and Vine (which also has a Metrorail stop).

Risks

- A larger-than-expected foreclosure problem in the Antelope Valley, as well as in some inner-County areas.
- Labor problems at the ports.
- A longer-than-expected stretch of labor problems in the entertainment industry.

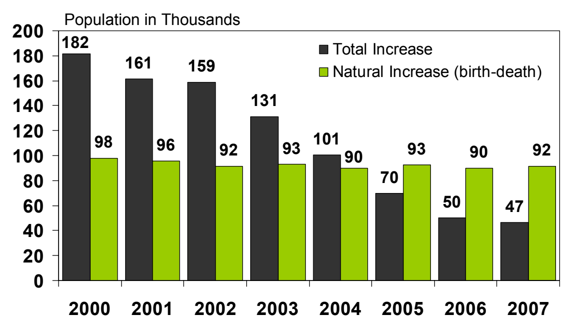
Table 13: Major Projects in Los Angeles County

	Value ($ millions)	Compl. Date
Port expansions/environmental enhancements		
Ports of Long Beach and Los Angeles	$ 1,000+	Ongoing
Transportation		
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	--
Hospitals		
UCLA Medical Center replacement	$ 1,500	2008
County/USC Hospital replacement	818	2008
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
Grand Avenue	2,000	Ongoing
"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
UCLA Life Sciences Building	121	Ongoing

Table 14: Los Angeles County Economic Indicators

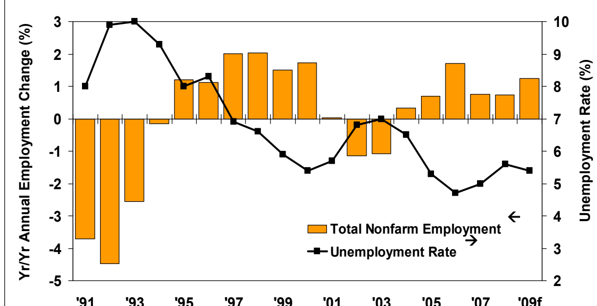
	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)	Chg. in CPI (%)
2000	9,576.0	4,072.1	5.4	279.050	29,141	70.321	230.0	24.2	17,071	3,296	3.3
2001	9,737.2	4,073.6	5.7	294.508	30,246	71.835	212.5	22.8	18,253	3,539	3.6
2002	9,895.7	4,026.8	6.8	301.003	30,418	74.548	214.3	22.1	19,364	2,920	2.7
2003	10,026.9	3,982.9	7.0	309.800	30,897	79.427	235.0	23.3	21,313	2,932	2.7
2004	10,127.4	3,996.5	6.5	327.400	32,328	86.497	264.2	24.3	26,935	3,174	3.3
2005	10,197.2	4,024.2	5.3	342.200	33,558	92.271	293.9	25.0	25,647	3,824	4.5
2006	10,247.7	4,092.5	4.7	362.800	35,403	95.544	329.4	25.4	26,348	3,896	4.4
2007	10,294.3	4,123.1	5.0	383.500	37,254	94.981	348.1	25.8	20,228	4,678	3.2
2008f	10,339.3	4,153.0	5.6	405.000	39,171	94.411	371.3	26.3	19,300	4,675	3.1
2009f	10,394.3	4,204.5	5.4	429.700	41,340	96.016	395.6	26.7	19,400	4,775	2.8
% Change											
'01/'00	1.68%	0.04%		5.54%	3.79%	2.15%	-7.61%	-5.79%	6.92%	7.37%	
'02/'01	1.63%	-1.15%		2.21%	0.57%	3.78%	0.85%	-3.07%	6.09%	-17.49%	
'03/'02	1.33%	-1.09%		2.92%	1.57%	6.54%	9.66%	5.43%	10.07%	0.41%	
'04/'03	1.00%	0.34%		5.68%	4.63%	8.90%	12.43%	4.29%	26.38%	8.25%	
'05/'04	0.69%	0.69%		4.52%	3.80%	6.68%	11.24%	2.88%	-4.78%	20.48%	
'06/'05	0.50%	1.70%		6.02%	5.50%	3.55%	12.08%	1.60%	2.73%	1.88%	
'07/'06	0.45%	0.75%		5.71%	5.23%	-0.59%	5.68%	1.57%	-23.23%	20.07%	
'08/'07	0.44%	0.73%		5.61%	5.15%	-0.60%	6.66%	1.94%	-4.59%	-0.06%	
'09/'08	0.53%	1.24%		6.10%	5.54%	1.70%	6.54%	1.52%	0.52%	2.14%	

POPULATION GROWTH IN LOS ANGELES COUNTY



Note: Total Increase – Natural Increase = Total Migration

LOS ANGELES COUNTY FUNDAMENTALS



Sources: CA EDD, forecasts by LAEDC

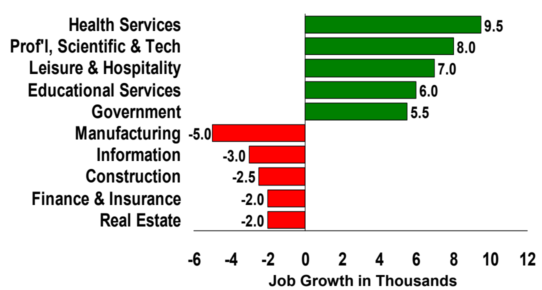
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept. of Commerce; Construction Industry Research Board; forecasts by the LAEDC

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

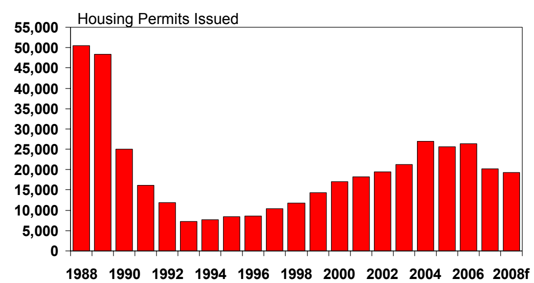
	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	4,072.1	3.4	131.7	612.2	*342.3*	*269.9*	219.4	392.0	174.6	243.7
2001	4,073.6	3.8	136.8	577.9	*325.4*	*252.5*	219.4	394.8	175.6	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	462.2	*257.8*	*204.4*	225.2	423.2	165.7	209.7
2007	4,123.1	3.9	151.7	453.3	*251.8*	*201.5*	226.5	423.7	167.7	210.7
2008f	4,153.0	3.8	149.2	448.3	*249.3*	*199.0*	228.0	424.4	170.7	207.7
2009f	4,204.5	3.8	150.7	446.8	*248.8*	*198.0*	230.5	425.3	174.2	210.2

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	150.8	73.8	227.7	85.6	274.6	86.2	330.7	344.7	140.0	581.3
2001	156.2	72.7	233.6	84.4	270.0	88.6	343.6	348.5	143.2	598.3
2002	159.8	72.8	231.6	82.5	261.0	93.0	357.4	354.2	145.6	606.1
2003	165.0	74.8	233.5	77.4	249.1	94.8	365.6	362.6	145.5	599.3
2004	165.0	76.7	237.7	71.2	253.6	95.4	371.6	372.8	144.7	587.1
2005	166.2	77.8	250.9	67.6	257.7	97.4	373.9	377.8	144.3	583.7
2006	169.0	79.0	262.8	63.2	268.7	101.1	380.2	387.5	145.7	588.6
2007	166.0	77.5	271.5	61.2	271.7	108.0	390.5	395.3	148.2	595.7
2008f	164.0	75.5	279.5	59.2	274.7	114.0	400.0	402.3	150.5	601.2
2009f	164.0	75.0	290.0	57.7	278.2	120.5	410.0	409.8	152.9	604.7

INDUSTRY WINNERS & LOSERS IN LOS ANGELES COUNTY FOR 2008



LOS ANGELES COUNTY TOTAL HOUSING PERMITS



Sources: Construction Industry Research Board, forecast by LAEDC

Sources: California Employment Development Department, Labor Market Information Division; forecasts by LAEDC.

VI. OUTLOOK FOR ORANGE COUNTY

The year 2007 was quite rough for Orange County, and 2008 will not be much better. The problems were in homebuilding and of course subprime lending. The latter industry was heavily concentrated in the OC. It has suffered as several corporate headquarters faded away.

Positive Forces

There will be some good news for the County during 2008, including:

- Tourism should perform well, with support provided by the weak U.S. dollar, a new ride at Knott's Berry Farm, and the opening of Garden Walk in Anaheim. The big news is the coming $1.1 billion makeover of Disney's California Adventure, with some work starting in late 2008. The number of overnight visitors should increase by 0.2% in 2008 to 45.2 million persons.
- There should be slow growth in the technology sector.
- The Orange County Transportation Authority will be spending large amounts of money to increase Metrolink commuter rail service in the County.

Negative Forces

Continued declines in both new homebuilding (residential elements at both the "District" and the "Great Park" have been pushed back) and the resale housing market High home prices in the County mean that jumbo mortgage loans often have to be used and they could remain hard to find.

Continued job losses in mortgage lending, though they should be smaller than in 2007.

Some problems in the office market, reflecting the "give-back" of office space by subprime lenders, as well as some new construction.

A shortage of industrial space – the County has a 3.6% industrial vacancy rate. Again, this is creating more industrial refugees, which often have to move to the Inland Empire.

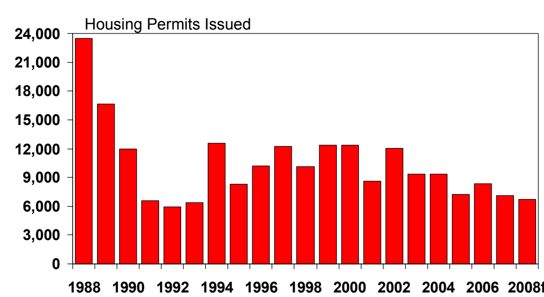
Net Results

Orange County ended 2007 in an employment downturn and will continue to see lackluster job trends in early 2008. In 2007, nonfarm employment in the County grew by just 0.1% or 1,200 jobs. In 2008, there should be a 0.2% increase or 3,200 jobs. Employment gains will come in health services (+4,300 jobs), government (+1,900 jobs), and professional, scientific & technical services (+1,800 jobs). In the minus column during 2008, will be finance & insurance (-4,000 jobs), and construction (-2,000 jobs). There also will be modest losses in information, durable goods manufacturing and real estate. The County's unemployment rate should average, for it, a lofty 5.0% compared with the recent low of 3.4% in 2006.

Total personal income in the County should grow by 3.5% in 2008, compared with that 3.1% gain in the region's cost of living. Retail sales in the County will struggle, with a 0.9% decline in 2008 after a 0.2% slippage in 2007. Ironically, a lot of new retail capacity has recently been thrown into the market.

New homebuilding in the County will continue to run at low levels with just 6,700 units being permitted in 2008. This would represent a decline of 5.1% from the 2007 permit total. There had been a rush to build high-rise condos in the County, but this has cooled. Evidently, a lot of expressions of interest came from investors rather than real buyers. Nonresidential construction should fall in 2008, with a 12.0% decline in permit valuations. The County's office vacancy rate at year-end 2007 was 11.5%, with a lot of new construction under way which will drive this rate higher.

ORANGE COUNTY TOTAL HOUSING PERMITS



Sources: Construction Industry Research Board, forecast by LAEDC

Hot Spots

This list is getting smaller. Anaheim still is on the roster, with projects in and around the Disneyland Resort area. There had been a lot of big plans for the Platinum Triangle area, but the weak housing situation has curbed this enthusiasm. Huntington Beach (now officially "Surf City USA") is also still on the "hot" list, with a lot of new development around the downtown area.

Risks

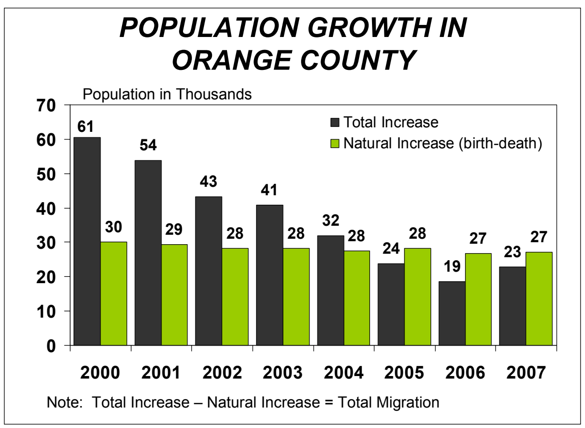
- Larger-than-expected problems in the County's office market.
- Downward revisions to the 2007 nonfarm employment numbers by the State Employment Development Department yield an even weaker employment situation than currently being reported.

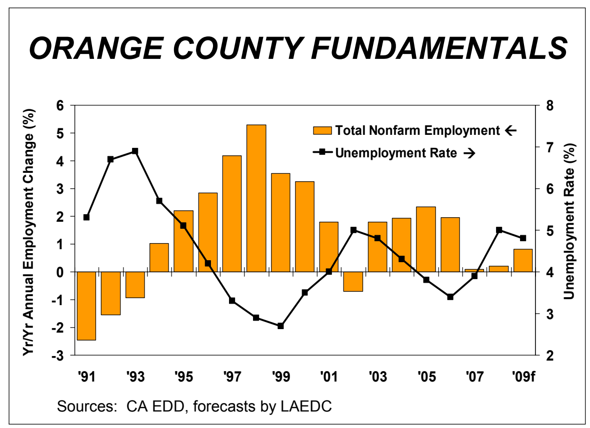
Table 16: Major Projects in Orange County

	Value ($ millions)	Compl. Date
UC Irvine Medical Center replacement	$ 427	2008
St. Joseph Hospital, Orange	--	--
St. Jude Medical Center, Fullerton	122	2008
Mission Hospital Medical Ctr., Mission Viejo	610	--
Kaiser Permanente, Irvine	350	--
John Wayne Airport terminal expansion	249	--
OCTA service improvements on Metrolink lines	382	2010
Kaiser Permanente Anaheim Hospital replacement	326	2012
Mission Hospital, Mission Viejo	60	2010

Table 17: Orange County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)
2000	2,863.4	1,388.9	3.5	106.004	37,020	27.485	40.2	12,367	1,762
2001	2,917.2	1,413.7	4.0	109.010	37,368	28.519	40.9	8,646	1,350
2002	2,960.4	1,403.7	5.0	111.750	37,748	29.647	41.7	12,020	1,209
2003	3,001.2	1,429.0	4.8	117.700	39,218	32.288	42.7	9,311	1,006
2004	3,033.0	1,456.7	4.3	125.700	41,444	35.442	43.5	9,322	1,133
2005	3,056.8	1,491.0	3.8	133.000	43,510	37.673	44.7	7,206	1,495
2006	3,075.3	1,520.1	3.4	142.400	46,304	39.074	44.9	8,371	2,401
2007	3,098.2	1,521.3	3.9	146.400	47,253	38.996	45.1	7,070	1,984
2008f	3,119.7	1,524.5	5.0	151.500	48,562	38.645	45.2	6,700	1,745
2009f	3,142.2	1,536.9	4.8	159.400	50,729	39.031	45.4	7,100	1,720
<u>% Change</u>									
'01/'00	1.88%	1.79%		2.84%	0.94%	3.76%	1.74%	-30.09%	-23.38%
'02/'01	1.48%	-0.71%		2.51%	1.02%	3.96%	1.96%	39.02%	-10.44%
'03/'02	1.38%	1.80%		5.32%	3.89%	8.91%	2.40%	-22.54%	-16.79%
'04/'03	1.06%	1.94%		6.80%	5.68%	9.77%	1.87%	0.12%	12.62%
'05/'04	0.78%	2.35%		5.81%	4.99%	6.29%	2.76%	-22.70%	31.95%
'06/'05	0.61%	1.95%		7.07%	6.42%	3.72%	0.45%	16.17%	60.60%
'07/'06	0.74%	0.08%		2.81%	2.05%	-0.20%	0.45%	-15.54%	-17.37%
'08/'07	0.69%	0.21%		3.48%	2.77%	-0.90%	0.22%	-5.23%	-12.05%
'09/'08	0.72%	0.81%		5.21%	4.46%	1.00%	0.44%	5.97%	-1.43%





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

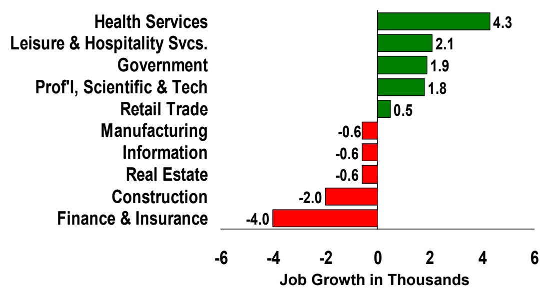
Table 18: Orange County Nonfarm Employment

(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
2007	1,521.3	0.6	104.5	182.4	*126.7*	*55.7*	83.2	158.9	28.0	31.3
2008f	1,524.5	0.6	102.5	181.8	*125.7*	*56.1*	83.4	159.4	28.1	30.7
2009f	1,536.9	0.6	102.0	181.5	*124.9*	*56.6*	83.7	160.4	28.3	30.7

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	70.0	30.9	91.2	38.6	117.7	17.7	94.4	145.9	43.9	146.6
2001	74.0	32.1	94.5	39.8	114.7	16.0	98.8	154.6	45.3	150.9
2002	77.4	32.7	95.1	35.8	118.0	15.9	102.5	155.4	45.9	155.1
2003	88.0	34.2	96.4	32.9	123.3	18.9	107.5	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	126.7	19.2	111.8	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	131.1	19.8	113.7	165.0	48.4	155.3
2006	99.5	39.4	109.2	28.5	137.1	21.2	117.7	169.5	47.9	156.5
2007	93.5	39.8	111.2	28.0	137.0	21.5	122.5	171.5	48.2	159.2
2008f	89.5	39.2	113.0	27.5	137.5	21.5	126.8	173.6	48.3	161.1
2009f	89.2	38.9	115.5	27.3	138.5	21.8	131.5	175.9	48.5	162.6

INDUSTRY WINNERS & LOSERS IN ORANGE COUNTY FOR 2008



Sources: California Employment Development Department, Labor Market Information Division; forecasts by LAEDC.

VII. OUTLOOK FOR RIVERSIDE-SAN BERNARDINO AREA

The Inland Empire has been Southern California's growth leader for several years. However, problems in the housing and other sectors point to a more difficult environment in 2008.

Job creation in the region will slow down in 2008, and unemployment will inch up. Instead of upward revisions in job counts as in past years, state statisticians will most likely revise down 2007 area employment totals once final data are released.

Riverside and San Bernardino counties enjoyed a strong housing market from 2002 to 2006 in terms of increasing construction, sales, and median price. First-time home buyers flocked to the area assisted by affordable financial products such as adjustable rate and subprime mortgages.

In 2007, the Inland Empire housing market was severely impacted by rising foreclosures and defaults on subprime mortgages, as interest rates increased. The area was home to 14 of the top 100 U.S. ZIP Codes existing in terms of foreclosure filings in 2007. Median home prices fell by 20.9% from December 2006 to December 2007. The numbers for 2008 should be even worse.

Net Results

Nonfarm employment in the area should grow by 1.4% in 2008 or by 18,000 jobs, with growth increasing to 2.2% or 29,700 jobs in 2009. The increases for 2008 and 2009 will be the smallest in over a decade.

By industry sector, the largest employment gains in 2008 will come in leisure and hospitality services (+5,900), government (+4,500), health care and social assistance (+4,400), and transportation and utilities (+3,400). Construction will shed the most jobs in 2008 (-5,000); followed by durable manufacturing (-2,800); then by finance and insurance (-1,500). The unemployment rate for the area should average 6.2% in 2008 (the highest level since 2002), dropping down to 5.8% in 2009.

Total personal income in the two-county area is estimated to grow by 3.7% in 2008, marking a second year of decelerating income growth. Per capita personal income should move up by 1.6%, the smallest increase since 2001. (At $28,798, the estimated per capita personal income amount for 2008 is the lowest in Southern California.) Taxable retail sales will drop for a second consecutive year with a -2.5% decrease in 2008, reflecting distress in the housing industry.

The number of housing permits will decrease in 2008 for the fourth consecutive year, with an estimated decline of -26.5% to just 15,100 permits, the lowest level since 1996. The value of nonresidential construction permits will drop a second consecutive year (-2.5%) in 2008 before increasing by 1.1% in 2009.

The Inland Empire's population will continue to grow at more moderate rates in 2008 and 2009 (2.1% and 2.0% respectively) after previous periods of growth in excess of 3.0%.

Hot Spots

- Ontario is rolling out major mixed-use projects such as the Piemonte at the Ontario Center (including the 9,500 seat Citizens Business Bank Arena) and the New Model Colony.
- Commercial and business parks are under development or planned for Lake Elsinore, Ontario, Rialto, Riverside, and San Bernardino.
- Despite slowing ocean import container traffic, logistics and distribution centers continue to be built in several areas as a result of low costs and available land in large parcels.
- Mixed-use developments are planned for Calimesa and Rancho Cucamonga.

Risks

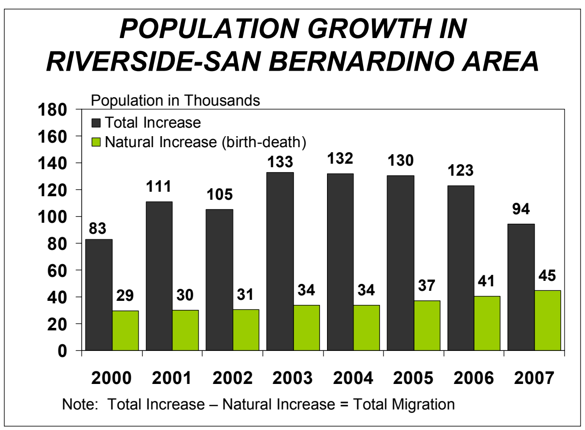
- A prolonged slump in home prices and rising inventories of unsold homes will further delay the region's recovery from the housing crisis.
- Water supply issues threaten to derail current and future industrial and commercial projects in Western Riverside County.

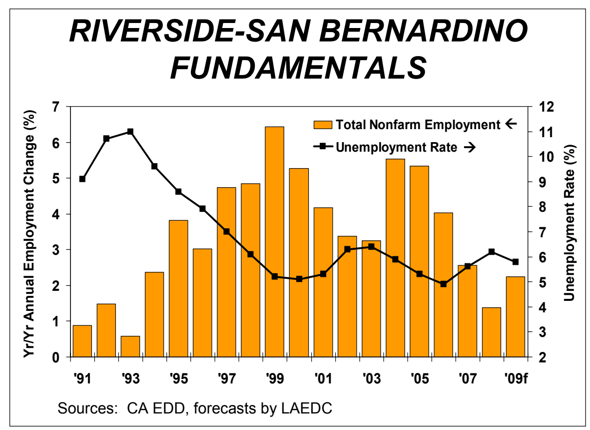
Table 19: Major Projects in Riv.-San Bern'do

	Value ($ millions)	Compl. Date
Ontario Vineyard Hospital	$ 266	--
Kaiser Permanente, Fontana replacement	595	--
UC Riverside Science Building	66	--
Piemonte mixed-use	900	--
Annenberg Pavilion at Eisenhower Medical Center, Rancho Mirage	212	2009
Preliminary work on New Model Colony development	96	--

Table 20: Riverside-San Bernardino Area Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)
2000	3,281.3	988.4	5.1	74.787	22,792	24.992	21,990	1,536
2001	3,392.5	1,029.7	5.3	80.406	23,701	26.699	27,541	1,423
2002	3,497.8	1,064.5	6.3	84.151	24,058	28.570	33,280	1,473
2003	3,630.5	1,099.2	6.4	89.500	24,652	31.936	43,001	1,720
2004	3,762.3	1,160.0	5.9	97.300	25,862	37.194	52,696	2,485
2005	3,892.7	1,222.0	5.3	104.100	26,742	41.960	50,818	2,394
2006	4,015.6	1,271.2	4.9	111.900	27,866	43.973	39,083	2,852
2007	4,109.8	1,303.9	5.6	116.500	28,347	43.489	20,543	2,832
2008f	4,194.8	1,321.9	6.2	120.800	28,798	42.402	15,100	2,760
2009f	4,276.8	1,351.6	5.8	125.900	29,438	42.826	14,600	2,790
% Change								
'01/'00	3.39%	4.18%		7.51%	3.99%	6.83%	25.24%	-7.36%
'02/'01	3.10%	3.38%		4.66%	1.51%	7.01%	20.84%	3.51%
'03/'02	3.79%	3.26%		6.36%	2.47%	11.78%	29.21%	16.77%
'04/'03	3.63%	5.53%		8.72%	4.91%	16.46%	22.55%	44.48%
'05/'04	3.47%	5.34%		6.99%	3.40%	12.81%	-3.56%	-3.66%
'06/'05	3.16%	4.03%		7.49%	4.20%	4.80%	-23.09%	19.13%
'07/'06	2.35%	2.57%		4.11%	1.73%	-1.10%	-47.44%	-0.70%
'08/'07	2.07%	1.38%		3.69%	1.59%	-2.50%	-26.50%	-2.54%
'09/'08	1.95%	2.25%		4.22%	2.22%	1.00%	-3.31%	1.09%



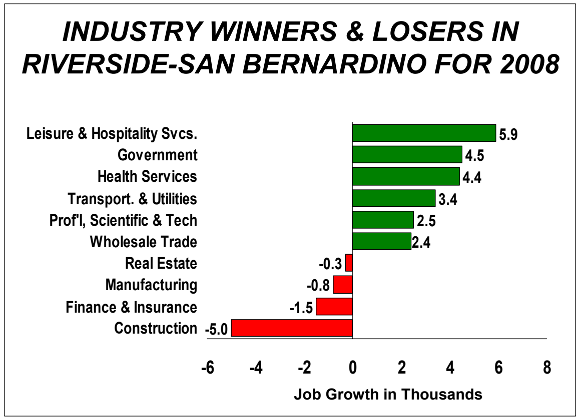


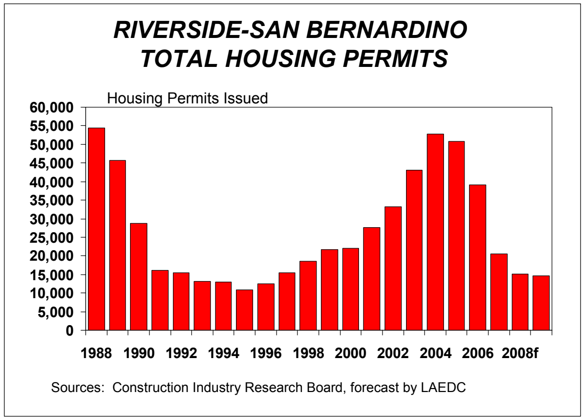
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; Construction Industry Research Board; forecasts by the LAEDC.

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	118.6	*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	121.1	*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
2007	1,303.9	1.3	123.0	125.2	*87.9*	*37.3*	56.3	175.5	67.3	15.7
2008f	1,321.9	1.2	118.0	124.4	*85.1*	*38.3*	58.7	176.8	70.7	16.1
2009f	1,351.6	1.1	114.5	127.7	*88.4*	*39.3*	61.3	177.9	74.3	16.6

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	21.5	14.2	22.1	10.3	64.4	11.1	90.7	100.6	34.8	192.1
2001	22.0	15.3	24.6	10.6	66.6	11.8	94.3	104.5	37.1	200.2
2002	23.5	15.9	27.1	11.3	68.4	12.6	99.8	107.2	38.1	212.7
2003	25.7	16.9	28.7	11.0	75.7	13.2	102.7	109.0	38.4	211.6
2004	28.0	17.7	31.0	11.6	82.9	13.4	104.9	116.7	39.3	212.5
2005	30.1	18.9	35.0	12.0	86.2	13.6	106.3	122.6	40.8	220.4
2006	31.9	20.0	40.8	11.2	90.1	14.1	108.6	128.7	42.6	224.2
2007	32.8	20.7	43.5	11.1	94.1	14.2	113.4	135.0	44.8	230.0
2008f	31.3	20.4	46.0	10.9	95.6	14.3	117.8	140.9	46.1	234.5
2009f	30.8	20.5	49.2	10.9	97.6	14.5	122.4	146.7	47.3	238.3





Sources: California Employment Development Department, Labor Market Information Division; forecasts by LAEDC.

VIII. OUTLOOK FOR VENTURA COUNTY

Ventura County was not immune to the growing economic malaise felt throughout Southern California in 2007. The County's leading employers, Amgen and Countrywide Financial, both laid off hundreds of workers during the year. Housing construction activity slowed and the median value of existing homes in the County fell by nearly 10% from December 2006 to December 2007.

Increasing environmental and immigration regulations and rising costs for land, fuel, and water have put additional pressure on the County's still sizable agricultural sector. Many producers will switch to more value-added products (e.g., organic and specialty crops) in search of higher profit margins.

Despite the widening of U.S. Route 101 between Ventura and Oxnard and the construction of new freeway lanes in Moorpark, Simi Valley, and Thousand Oaks, traffic congestion remains a nagging problem for the area.

Net Results

Total nonfarm employment should increase by 0.3% or by 900 jobs in 2008, increasing to 1.0% or 2,900 job gain in 2009. By industry sector, the largest gains in 2008 will come in retail (+600); health care and social assistance (+500); professional, scientific, and technical services (+300). Durable manufacturing will shed the most jobs in 2008 (-600), followed by construction industry (-400), information (-300), and real estate, rental and leasing (-200). The County's unemployment rate should average 5.3% in 2008, edging down to 5.2% in 2009.

Total personal income in the County in 2008 should increase by 5.6%, while per capita personal income should move up by 4.7% to $45,204, the second highest level in Southern California. Taxable retail sales will decrease, with an estimated drop of 1.1% in 2008.

The drop-off in new home construction will continue in 2008 with a forecast decline of -21.9% in units permitted, followed by an increase of 6.9% in 2009. Nonresidential permit values will drop by -2.3% in 2008, followed by a slight increase in 2009.

Feeling the effects of slower economic growth and home prices that are still high relative to the region, Ventura County's population will grow at a slower pace in 2008 than in 2007. Population growth in 2008 will be an estimated 0.9% followed by a slight increase in growth in 2009.

Hot Spots

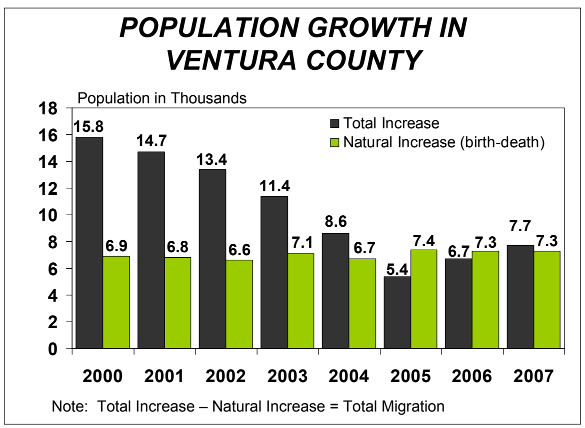
- Over a million square feet of office space will be under construction by the end of 2008 in the Conejo Valley. The County's chronic shortage of developable lands will keep commercial property rents stable despite an expected slowdown in office activity.
- The City of Ventura is moving forward with its Victoria Avenue Corridor Plan that encourages more first class office space and makes the central area of the city more pedestrian and transit friendly.
- New office and retail developments are planned or underway in Camarillo, Fillmore, Moorpark, Oxnard, Simi Valley, Thousand Oaks, and Ventura.

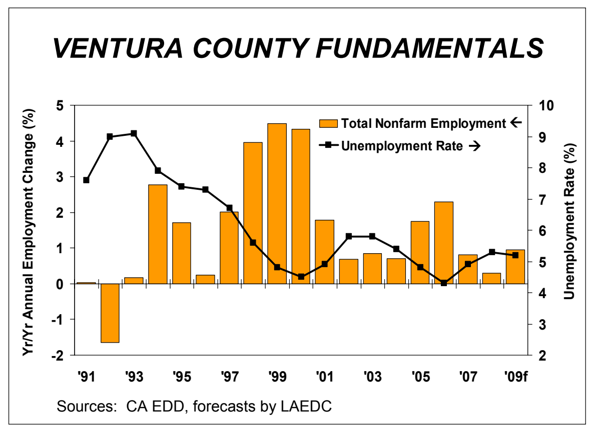
Risks

Bank of America's announced purchase of Countrywide Financial in January 2008 will result in some layoffs at Ventura County-located facilities. An extended housing slump and a deeper-than-expected downturn in the regional economy could extend the weakness in housing-related industries well into 2009. Deteriorating financing conditions for investors and decreasing property values have halted some condominium projects in the middle of construction.

Table 22: Ventura County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)
2000	758.6	275.0	4.5	25.364	33,435	6.504	3,971	282
2001	773.3	279.9	4.9	25.964	33,576	6.848	3,446	309
2002	786.7	281.8	5.8	26.648	33,873	7.153	2,507	289
2003	798.0	284.2	5.8	28.100	35,213	7.717	3,635	379
2004	806.6	286.2	5.4	30.500	37,813	8.317	2,603	353
2005	812.1	291.2	4.8	32.100	39,527	8.782	4,516	372
2006	818.8	297.9	4.3	33.900	41,402	8.902	2,461	326
2007	826.5	300.3	4.9	35.700	43,194	8.848	1,856	342
2008f	834.0	301.2	5.3	37.700	45,204	8.751	1,450	334
2009f	842.0	304.1	5.2	39.800	47,268	8.926	1,550	335
% Change								
'01/'00	1.94%	1.78%		2.37%	0.42%	5.29%	-13.22%	9.57%
'02/'01	1.73%	0.68%		2.63%	0.88%	4.45%	-27.25%	-6.47%
'03/'02	1.44%	0.85%		5.45%	3.96%	7.88%	44.99%	31.14%
'04/'03	1.08%	0.70%		8.54%	7.38%	7.78%	-28.39%	-6.86%
'05/'04	0.68%	1.75%		5.25%	4.53%	5.59%	73.49%	5.38%
'06/'05	0.83%	2.30%		5.61%	4.74%	1.37%	-45.50%	-12.37%
'07/'06	0.94%	0.81%		5.31%	4.33%	-0.61%	-24.58%	4.91%
'08/'07	0.91%	0.30%		5.60%	4.65%	-1.10%	-21.88%	-2.34%
'09/'08	0.96%	0.96%		5.57%	4.57%	2.00%	6.90%	0.30%





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

Table 23: Ventura County Nonfarm Employment

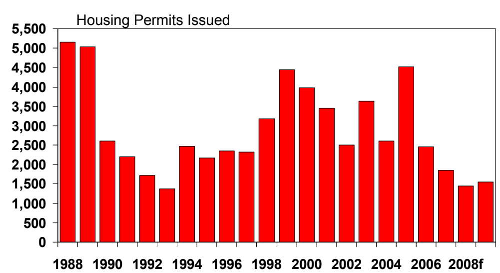
(Annual averages, in thousands, 2006 benchmark)

	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	41.1	*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	37.0	*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	37.8	*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
2007	300.3	1.1	19.9	37.8	*22.7*	*15.1*	12.7	37.9	6.3	5.9
2008f	301.2	1.1	19.5	37.4	*22.1*	*15.3*	12.8	38.5	6.4	5.6
2009f	304.1	1.2	19.5	37.4	*21.9*	*15.5*	13.0	39.2	6.6	5.5

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	13.8	4.0	13.2	3.7	22.6	6.5	17.6	25.1	9.7	44.3
2001	15.5	4.2	13.8	3.4	20.0	6.8	18.5	26.6	9.6	45.1
2002	17.7	4.6	13.7	3.3	19.6	7.4	18.9	27.2	10.2	45.3
2003	19.2	4.3	13.6	3.9	19.4	7.8	19.9	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	7.6	19.9	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	7.8	20.5	29.2	10.4	42.2
2006	20.6	4.4	16.2	3.4	20.0	7.9	21.0	30.2	10.3	42.5
2007	20.4	4.3	16.6	3.3	20.3	8.3	21.7	30.8	10.1	42.9
2008f	20.3	4.1	16.9	3.2	20.5	8.6	22.2	31.0	10.0	43.1
2009f	20.3	4.1	17.3	3.1	20.7	8.9	22.7	31.3	10.1	43.2

INDUSTRY WINNERS & LOSERS IN VENTURA COUNTY FOR 2008

VENTURA COUNTY TOTAL HOUSING PERMITS



Sources: Construction Industry Research Board, forecast by LAEDC

Sources: California Employment Development Department, Labor Market Information Division; forecasts by LAEDC.

IX. OUTLOOK FOR SAN DIEGO COUNTY

Housing problems continue to bedevil the County, while 2007 closed on a nasty note with the October wild fires causing loss of both lives and over 2,000 housing units. Also, the agricultural sector got whacked with 20,000 acres of avocado tree stock being lost. The fires also hurt the County's travel industry for a time. However, the year 2008 started on a positive note, with service beginning on the "Sprinter" light rail line from Escondido to Oceanside where it connects with Coaster and Amtrak service.

In the some-things-never-change category, the Chargers are still looking for a new home, while plans are being devised to expand capacity at already severely constrained San Diego International Airport.

Positive Forces

Rebuilding after the fires will give a little boost to both the construction and retail sectors. This will stretch into 2009.

Tourism should hold at good levels. The San Diego Convention Center has solid bookings for 2008, while the recently established San Diego Tourism Marketing District will provide more money for promotion.

Technology, including bio-medical and aerospace, should record slow, steady growth. The Predator UAV is produced in the County.

The military also will provide support, with another aircraft carrier soon to be based in San Diego.

Indian gaming also will make a contribution (the County has 10 casinos), with more expansions being planned.

Negative Forces

Housing will continue to be a drag on the County's economy, with much of the pain still in the Downtown condo market. However, the County was "first in" to the housing problem, so it could be "first out."

Office vacancy rates are moving higher, and there is fear of oversupply.

The city of San Diego will continue to struggle with its finances.

There could be impacts on the County's still large agricultural sector from water supply reductions. For example, will the avocado trees lost to the fire get replanted?

Net Results

Nonfarm employment in the County should grow by 1.0% or by 12,700 jobs in 2008, an improvement from 2007's gain of 0.7%. The largest employment increases during 2008 will come in leisure & hospitality services (+5,900 jobs), professional, scientific & technical services (+4,200 jobs), government and health services (+3,000 jobs each). The largest losses will come in construction (-3,800 jobs), retailing (-1,100 jobs), and real estate (-1,000 jobs). The County's unemployment rate should average 4.7% compared with the recent low of 4.0% in 2006.

Total personal income in the County should increase by 4.1% in 2008, while the local cost of living should rise by 2.5%. Taxable retail sales should decline by 1.1%, after a 0.6% drop in 2007.

The value of two-way international trade at the San Diego Customs District should rise by 8.8% to a record $59.4 billion in 2008. The number of overnight visitors to the County should increase by 1.3% to 15.4 million overnight visitors. However, the hotel occupancy rate should slide a bit from 2007's 75.0%. This reflects new supply coming on-stream, especially the 1,000 room Hilton next to the Convention Center.

The number of housing units permitted in the County should decline by -7.9% to 6,850 units in 2008. The value of nonresidential construction will slip by -11.9% to $1.2 billion. Both the office and industrial vacancy rates in the County have been creeping up.

Hot spots

Downtown San Diego continues to see lots of development, with some significant projects in the pipeline. North County also continues to see lots of action, along both the 101 and I-15 corridors.

Risks

The most obvious is that the County's housing market continues to struggle. Also, flattening government revenues could cause more headaches for the already financially strapped city of San Diego.

Table 24: Major Projects in San Diego County

	Value ($ millions)	Compl. Date
Pacific Beacon bachelor quarters	$ 215	11/08
Caltrans District 11 HQ	66	Ongoing
UC San Diego music building	45	12/08
UC San Diego Cardiovascular Center	171	---
Rady Children's Hospital & Health Center	260	2010
Viejas Casino expansion	800	--

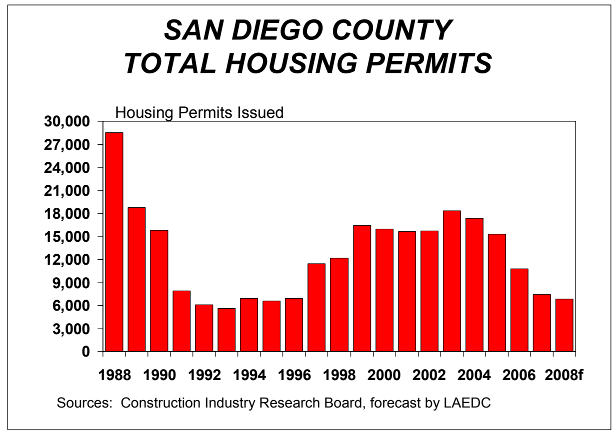
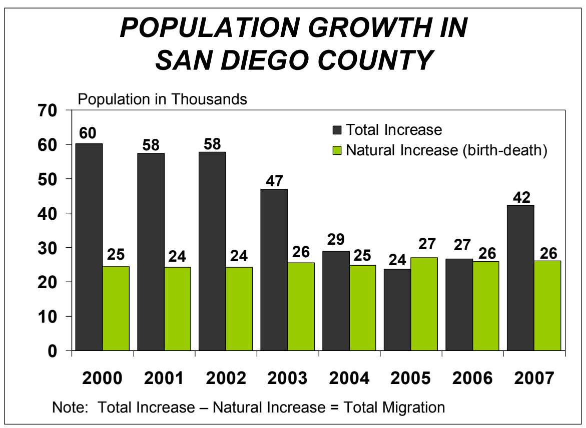
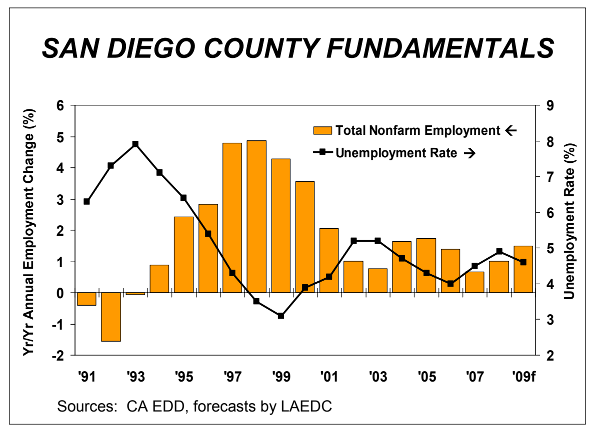


Table 25: San Diego County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)	Chg. in CPI (%)
2000	2,836.5	1,193.8	3.9	92.654	32,665	24.953	34.9	15.2	15,927	1,391	5.8
2001	2,894.0	1,218.4	4.2	97.009	33,522	26.263	33.6	14.8	15,638	1,194	4.6
2002	2,951.6	1,230.7	5.2	100.656	34,102	27.422	35.9	15.0	15,738	1,169	3.5
2003	2,998.5	1,240.1	5.2	104.600	34,884	29.521	35.7	15.4	18,314	1,169	3.7
2004	3,027.4	1,260.3	4.7	113.100	37,359	32.345	39.6	15.7	17,306	1,288	3.7
2005	3,051.2	1,282.1	4.3	119.100	39,034	33.785	43.4	15.9	15,258	1,382	3.7
2006	3,077.9	1,299.9	4.0	125.900	40,905	34.619	50.8	15.8	10,777	1,622	3.4
2007	3,120.1	1,308.5	4.5	130.600	41,858	34.411	54.6	15.2	7,436	1,416	2.4
2008f	3,150.1	1,321.7	4.9	136.000	43,173	34.033	59.4	15.4	6,850	1,248	2.5
2009f	3,184.1	1,341.5	4.6	143.600	45,099	34.713	65.5	15.5	7,300	1,267	2.4
% Change											
'01/'00	2.03%	2.06%		4.70%	2.62%	5.25%	-3.72%	-2.63%	-1.81%	-14.16%	
'02/'01	1.99%	1.01%		3.76%	1.73%	4.41%	6.85%	1.35%	0.64%	-2.09%	
'03/'02	1.59%	0.76%		3.92%	2.29%	7.65%	-0.56%	2.67%	16.37%	0.00%	
'04/'03	0.96%	1.63%		8.13%	7.09%	9.57%	10.92%	1.95%	-5.50%	10.18%	
'05/'04	0.79%	1.73%		5.31%	4.48%	4.45%	9.60%	1.27%	-11.83%	7.30%	
'06/'05	0.88%	1.39%		5.71%	4.79%	2.47%	17.05%	-0.63%	-29.37%	17.37%	
'07/'06	1.37%	0.66%		3.73%	2.33%	-0.60%	7.48%	-3.80%	-31.00%	-12.70%	
'08/'07	0.96%	1.01%		4.13%	3.14%	-1.10%	8.79%	1.32%	-7.88%	-11.86%	
'09/'08	1.08%	1.50%		5.59%	4.46%	2.00%	10.27%	0.65%	6.57%	1.52%	





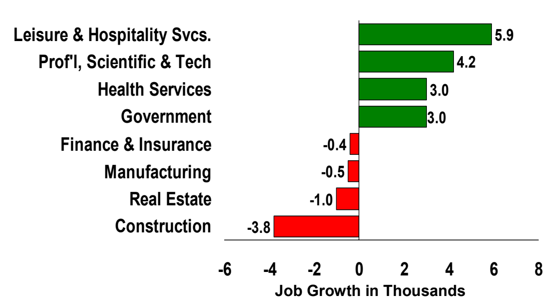
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept. of Commerce; Construction Industry Research Board; forecasts by the LAEDC.

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	119.1	*89.3*	*29.8*	41.5	135.6	32.0	38.8
2002	1,230.7	0.3	76.4	112.4	*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	103.7	*78.1*	*25.6*	45.1	147.6	28.3	37.2
2007	1,308.5	0.6	86.8	102.7	*77.4*	*25.3*	45.6	146.5	28.6	37.7
2008f	1,321.7	0.7	83.0	102.2	*77.1*	*25.1*	46.0	147.7	28.8	38.1
2009f	1,341.5	0.7	81.5	102.3	*77.1*	*25.2*	46.9	149.2	29.1	38.5

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	44.0	27.2	92.3	18.7	84.2	18.2	97.2	129.0	42.2	206.6
2001	44.9	27.2	98.3	18.6	81.3	17.2	98.8	131.4	44.9	213.8
2002	47.3	27.7	100.8	19.9	81.0	17.2	102.5	133.8	45.6	219.7
2003	51.2	28.8	101.6	19.1	80.5	18.8	103.0	140.7	46.8	217.3
2004	52.8	29.1	99.8	18.2	86.6	20.1	101.6	145.7	47.9	214.3
2005	53.5	29.7	105.9	17.4	87.2	21.1	101.4	149.6	48.8	215.1
2006	53.3	30.4	110.6	16.9	86.3	21.1	103.7	156.2	48.9	217.7
2007	52.3	28.7	115.2	16.3	85.4	20.7	107.0	162.3	50.4	221.7
2008f	51.9	27.7	119.4	15.8	85.1	20.6	110.0	168.2	51.3	224.7
2009f	52.1	27.2	124.0	15.5	85.3	21.4	113.3	174.2	52.6	227.7

INDUSTRY WINNERS & LOSERS IN SAN DIEGO COUNTY FOR 2008



Sources: California Employment Development Department, Labor Market Information Division; forecasts by LAEDC.

X. OUTLOOK FOR MAJOR ECONOMIC DRIVERS OF THE SOUTHERN CALIFORNIA ECONOMY

The concept of an "economic driver" is that the industry or sector 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 drivers, and new ones are bubbling up. For example, Los Angeles is becoming a digital media hub. This is the combination of technology+media content development+finance.

The February 2008 growth forecast for the region's larger drivers 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 or shipments, not profitability).

While the region's economy is in a holding pattern, five of the drivers still have an A rating. However, there are also a C- and a D-. Two of the drivers, entertainment and international trade, also face important labor contract negotiations during 2008.

Table 27: Performance Ratings of Major Export Industries

Industry	Date of Rating 2/2007	7/2007	2/2008
Aerospace: defense	B+	B+	B+
Aerospace: commercial	A	A	A
Apparel design & manufacturing	C+	C+	C
Business & prof'l. mgmt. services	A+	A+	A+
Financial services	B-	B-	C
Health services: hospitals	D	D	D-
Health services: ambulatory care	C	C	C
Bio-medicine	A-	A-	A-
International trade	A	B+	B+
Motion picture/TV production	C	C	C-
Technology	A-	A-	A-
Tourism & travel	A-	A	A-

Table 28: 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	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 [3]	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) Includes law, accounting, architecture & engineering, specialized design services, and management consulting
(4) Excludes 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

There is a lot of nervousness in this sector. On the commercial aircraft side, 2007 was another record year for orders signed by Airbus and Boeing (1,341 and 1,413 planes, respectively). However, airlines are under pressure (rising fuel costs and a sluggish economy), so orders are expected to slow in 2008 with the potential for some cancellations. In the meantime, the election of a Democratic president could mean a change in both defense and space policy and spending trends.

Industry Score Card

Defense Aerospace

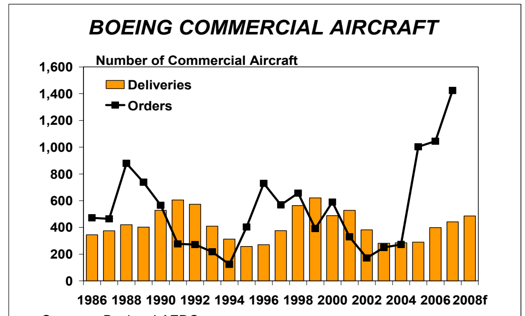
B+ → B+

7/2007 2/2008

Commercial Aerospace

A → A

7/2007 2/2008



Sources: Boeing, LAEDC

Positive Forces

- The budgets of DoD and other government agencies involved in intelligence gathering and missile defense will run at high levels over the next few years due to the unstable geo-political situation. A lot of this work should come to Southern California.
- Evidently, a lot of "black" or classified programs are underway at the region's many R & D facilities, including work on unmanned aerial combat vehicles (UCAVs). One hint: new construction at the USAF Groom Lake facility in Nevada, where prototypes can be tested away from prying eyes.
- New satellite contracts have been signed by Boeing.
- Subcontracting on several military fighter programs continues at local plants (FA-18, F-22, and the F-35).
- Strong subcontracting business on commercial aircraft, with work from both Airbus and Boeing. While analysts think that 2007 will be the peak for new orders, both firms have huge multi-year backlogs.

Negative Forces

- NASA continues to struggle with its budget, as it moves to develop new space vehicles -- the Shuttle retires in 2010. The replacements – Orion and Ares – launch with a crew in 2013. With the change of administrations in early 2009, there is talk in Washington D.C. about a possible shift away from a manned moon base (very expensive) to manned missions to asteroids, and a renewed emphasis on earth-oriented space craft. The latter could benefit JPL.
- California is a high-cost location, so lots of production work is at risk of moving out (other states offer incentives to attract high-tech firms, as well as lower operating costs).
- Older, skilled workers are retiring, and technology firms are worried about finding properly trained replacements.
- The fate of the C-17 military cargo plane produced by Boeing in Long Beach is still in doubt. Enough orders are in hand to keep production going through 2009. However, Boeing is spending its own money to purchase long-lead-time components, in anticipation of additional orders from DoD. There are 5,500 high-wage jobs at its Long Beach plant.

The net result? Look for modest employment gains in this sector over the next two years.

Table 29: Aerospace Employment

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	38,400	37,600	37,200	37,200	-2.1%	-1.1%	0.0%
Orange County	11,300	11,600	12,000	12,200	2.7%	3.4%	1.7%
San Diego County	5,600	5,900	6,200	6,400	5.4%	5.1%	3.2%

Sources: California Employment Development Department, forecasts by LAEDC

Apparel & Textiles

More attention is being focused on this still-sizable industry, but it will face a lot of hurdles in 2008.

Industry Score Card	
Apparel/Textiles	
C+ → C	
7/2007	2/2008

Positive Forces

- Contemporary and action/surf wear are still selling well at retail. Both are strong suits for Los Angeles.
- There is an effort to make the fashion shows during "market weeks" both more professional and higher profile.
- The weak dollar will help apparel exports to those nations that don't have trade barriers.
- "Boutique" contractors are emerging in the area to handle quick turn orders, low minimum orders and "one of a kind" garments. With cautious retailers trying to minimize inventories, this could be a competitive advantage for L.A.

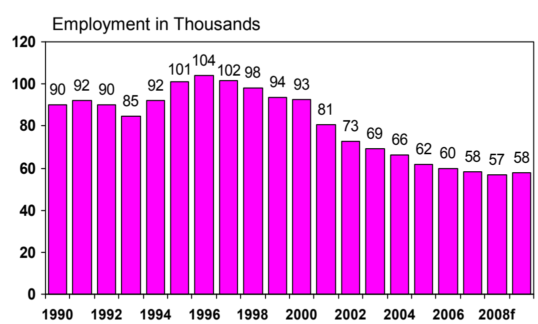
Negative Forces

- The weak U.S. economy could curb apparel sales somewhat. In any event, the nation may well see a major shakeout in the retail sector.
- The latter is bad news as there is still fallout from recent retail mergers (a lament from local apparel firms: "there's a lack of stores to sell to").
- There is controversy in the apparel industry over a copyright law proposed in Congress.
- The INS might step up its checks of Social Security numbers at the larger producers, which could drive firms out of the area.
- Hot local apparel firms often get snapped up by large, east coast firms. Sometimes, much of the operations are moved out of the area.
- At the end of 2008, 34 measures to limit imports of garments made in China will expire. What might happen? Comparable EU limits expired at the end of 2007, and EU actions may provide a clue.

In the meantime, there is still a lot of new construction in the Fashion District in Downtown Los Angeles, including condo show rooms. The attractiveness of the District will be further enhanced as LA Live, which is just to the west, takes shape.

Employment in the apparel industry should level off during 2008 in L.A. County, but record modest increases in the Riverside-San Bernardino area. The state Employment Development Department no longer reports monthly on apparel production in Orange County (a hot spot for surf/action wear), but the ES202 report indicates that over 9,000 people work in the industry.

APPAREL MANUFACTURING EMPLOYMENT IN LOS ANGELES COUNTY



Sources: Cal. Employment Development Dept.; forecasts by LAEDC

Table 30: Apparel & Textiles Employment

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	97,500	95,400	93,600	94,300	-2.6%	-1.9%	0.7%
Textiles mills	10,300	9,900	9,600	9,400	-3.9%	-3.0%	-2.1%
Textile product mills	8,800	8,500	8,300	8,100	-3.4%	-2.4%	-2.4%
Apparel manufacturing	59,800	58,300	56,800	57,800	-2.5%	-2.6%	1.8%
Apparel & piece goods wholesaling	19,000	18,700	18,900	19,000	-1.6%	1.1%	0.5%
Riverside-San Bernardino Area							
Textile mills	14,300	14,500	14,700	14,800	1.4%	1.4%	0.7%

Sources: California Employment Development Department, forecasts by LAEDC

Business & Professional Management Services

This sector has been posting solid job growth, but the 2008 outlook for its components are all over the map.

Industry Score Card
Business & Professional Management Services
A+ → A+
7/2007 2/2008

Positive Forces

- Sarbanes-Oxley is still generating a lot of business for both accounting and law firms.
- The sub-prime lending mess promises to generate a host of lawsuits over the next few years -- more work for lawyers!
- The advertising industry will benefit from elections in 2008. However, the impact on advertising of the 2008 Olympics in China is uncertain, due to the time differential.
- A high level of public-sector construction and the intense focus on green activities will support the engineering sector.
- Research & development work should continue at good levels.

Negative Forces

- The slowdown in new home building will hurt architecture and other related activities.
- The economic slowdown will crimp advertising in the traditional media, which is still struggling with the shift to on-line marketing.

Most sectors will see job growth in 2008, with the exception of advertising.

Table 31: Business & Professional Management Services Employment

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	194,200	200,700	205,000	209,200	3.3%	2.1%	2.0%
Legal services	49,200	49,100	49,000	49,200	-0.2%	-0.2%	0.4%
Accounting services	44,300	47,000	48,200	48,500	6.1%	2.6%	0.6%
Architecture & engineering	36,800	38,700	40,300	41,500	5.2%	4.1%	3.0%
Mgmt., sci. & tech. consulting	39,900	42,700	45,200	48,200	7.0%	5.9%	6.6%
Advertising	24,000	23,200	22,300	21,800	-3.3%	-3.9%	-2.2%
Orange County	68,800	71,000	73,400	75,300	3.2%	3.4%	2.6%
Legal services	14,400	14,700	15,100	15,300	2.1%	2.7%	1.3%
Accounting services	11,800	11,900	12,100	12,300	0.8%	1.7%	1.7%
Architecture & engineering	23,400	23,700	23,900	24,000	1.3%	0.8%	0.4%
Mgmt., sci. & tech. consulting	19,200	20,700	22,300	23,700	7.8%	7.7%	6.3%
San Diego County	36,200	37,800	39,100	40,400	4.4%	3.4%	3.3%
Legal services	12,400	12,800	13,100	13,500	3.2%	2.3%	3.1%
Architecture & engineering	23,800	25,000	26,000	26,900	5.0%	4.0%	3.5%

Note: Includes computer software development

Sources: California Employment Development Department, forecasts by LAEDC

Financial Services

This sector was hammered in 2007, as sub-prime lenders in the region closed down or laid off staff. At the start of 2008, Los Angeles-based Countrywide was acquired by Bank of America, which will bring layoffs in 2009 when the transaction is completed. There will be a ripple impact from this merger on industries supplying "headquarters" services such as advertising, accounting and law. Other troubled sub-prime lenders in the region also could see major changes -- a buy-out or a major down-sizing.

Industry Score Card
Financial Services
B- → C
7/2007 2/2008

Positive Forces

- Southern California's large small-to-medium sized business base still represents a lot of opportunity for banks. However, lenders have become shy about making loans except to firms with good credit.
- There are still bank start-ups, but the pace has slowed somewhat.

Negative Forces

- For banks, there is a heated competition to build their deposit base.
- For large and small banks, there is growing exposure to problematic residential and commercial loans.
- Banks are also watching their credit card and auto loan portfolios for possible credit problems.
- Credit unions continue their push for business.
- The insurance industry will be facing rising costs for disaster insurance. There is a state proposal that could put a premium on insuring property in high risk areas.

As measured by employment, 2008 will see continued job losses, though not of 2007's magnitude.

Table 32: Financial Services Employment -- Credit Intermediation & Related Services

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	84,800	84,400	81,900	81,000	-0.5%	-3.0%	-1.1%
Orange County	52,300	47,800	40,800	40,500	-8.6%	-14.6%	-0.7%
Riverside-San Bernardino Area	19,000	19,300	18,700	18,100	1.6%	-3.1%	-3.2%
San Diego County	26,400	26,000	25,500	25,300	-1.5%	-1.9%	-0.8%
Ventura County	11,900	11,700	11,400	11,100	-1.7%	-2.6%	-2.6%

Sources: California Employment Development Department, forecasts by LAEDC

Health Services/Bio-medicine

The year 2007 saw continued financial pressures on the region's hospitals. The King-Drew Hospital in south Los Angeles closed, which generated huge ripple impacts on hospitals in adjacent communities, especially those with ERs. In fact, the financial health of many local hospitals continues to be rather frail. Finally, 2008 will bring the opening of the replacement for County-USC Medical Center. The big question is what happens to the old facility?

Industry Score Card

Health Services

D → D-

7/2007 2/2008

Ambulatory Care

C → C

7/2007 2/2008

Bio-medicine

A- → A-

7/2007 2/2008

The news was better for the bio-medical industry, as venture capital funding continues to flow, while more VCs are recognizing the significant promise of the local industry.

Positive Forces

- There has been some relief for hospitals in meeting seismic safety standards.
- As baby boomers age, there is still growing demand for health care.
- For the bio-med industry, there is more VC money available.

Negative Forces

- The L.A. County hospital network remains under extreme stress (though there is talk of re-opening King-Drew with a new operator).
- Rising costs for health insurance are causing many smaller firms to pare back their employees' coverage.
- There is still a shortage of nurses, as well as imaging technicians and pharmacists.

Despite all these issues, the sector will continue to record robust employment growth as baby boomers age and the region's population continues to grow.

Table 33: Health Services Employment

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	325,400	332,700	340,100	347,500	2.2%	2.2%	2.2%
Ambulatory health care services	156,800	161,700	166,500	171,500	3.1%	3.0%	3.0%
Hospitals	107,600	109,100	111,100	112,900	1.4%	1.8%	1.6%
Nursing care facilities	61,000	61,900	62,500	63,100	1.5%	1.0%	1.0%
Orange County	104,900	109,200	110,800	113,400	4.1%	1.5%	2.3%
Ambulatory health care services	56,700	58,800	59,300	59,900	3.7%	0.9%	1.0%
Hospitals	29,500	31,000	31,600	33,100	5.1%	1.9%	4.7%
Nursing care facilities	18,700	19,400	19,900	20,400	3.7%	2.6%	2.5%
Riverside-San Bernardino Area	95,500	99,800	104,400	109,500	4.5%	4.6%	4.9%
Ambulatory health care services	47,100	49,900	52,700	55,700	5.9%	5.6%	5.7%
Hospitals	28,800	29,900	31,500	33,300	3.8%	5.4%	5.7%
Nursing care facilities	19,600	20,000	20,200	20,500	2.0%	1.0%	1.5%
Ventura County	21,000	21,700	22,400	23,100	3.3%	3.2%	3.1%
San Diego County	86,500	89,300	92,300	95,200	3.2%	3.4%	3.1%
Ambulatory health care services	44,800	46,600	48,400	50,000	4.0%	3.9%	3.3%
Hospitals	24,100	24,400	24,800	25,300	1.2%	1.6%	2.0%
Nursing care facilities	17,600	18,300	19,100	19,900	4.0%	4.4%	4.2%

Table 34: Bio-medicine Employment

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	24,100	24,800	25,300	25,800	2.9%	2.0%	2.0%
Pharmaceutical & Medicine mfg.	5,600	6,000	6,200	6,400	7.1%	3.3%	3.2%
Scientific R&D services (part)	18,500	18,800	19,100	19,400	1.6%	1.6%	1.6%
San Diego County							
Scientific R&D services (part)	24,800	26,000	26,800	27,300	4.8%	3.1%	1.9%

Sources: California Employment Development Department, forecasts by LAEDC

International Trade

Industry Score Card

International Trade

B+ → B+

7/2007 2/2008

There were several unusual trends in this industry during 2007, with the biggest surprise being a decline, -0.6%, in the total number of containers handled at the ports of Los Angeles/Long Beach. (The port of Oakland also recorded a decline in TEUs handled of -0.2%) There was weakness in movement of both import containers and empty containers. However, there was good news too, as export activity boomed at all three ports.

There were several reasons for the poor performance of this normally fast-growing industry, including:

- Retailers cut their orders from Asia due to a slowing sales environment.
- The housing slump resulted in reduced imports of furniture and household items (much of this traffic goes through Los Angeles/Long Beach).
- Lower imports of auto parts, due to decline in vehicle sales.
- High truck and rail rates (for the latter, ironically to fund increases in capacity) out of Los Angeles/Long Beach caused shippers to move more cargo through the Panama Canal to east coast ports. A key question here -- is the shift permanent?

Positive Forces

- The weak U.S. dollar and decent growth in the global economy mean continued growth of exports out of California.
- Some success in building badly needed transportation improvements.

Negative Forces

- The June 30th expiration of the ILWU contract (coast-wide). Negotiations should start early and are expected to be smooth. However, efforts to increase throughput of containers could generate some unexpected sparks.
- The continued slowdown in housing will crimp imports of furniture and household items in 2008.
- Retailers will focus closely on their supply chains, and more all-water services to the U.S. east coast (longer but cheaper) could be utilized.
- Implementation of a new security procedure in 2008, the "10 + 2," could be difficult and expensive for shippers.
- The TWIC (Transportation Worker Identification Credential) will also be implemented during 2008, and there is concern that in combination with the move to low polluting trucks, the supply of port truck drivers will fall short.
- There will be more challenges to expansion projects at the ports of Los Angeles and Long Beach. Even transportation congestion relief projects could be delayed. Environmental groups are threatening Long Beach with a Federal lawsuit. The intent is to speed up environmental clean-up, but this action could actually delay progress.
- The image in the national media that the Southern California ports are always "congested." This joins the "we all work in the movie industry" myth. Neither is true.
- The feeling in the shipping industry that the Southern California ports are too focused on environmental issues and seem disinterested in growing the business. In the meantime, east coast ports assiduously court new shippers. There are now 28 weekly all-water services from Asia to the east coast.

Other Issues

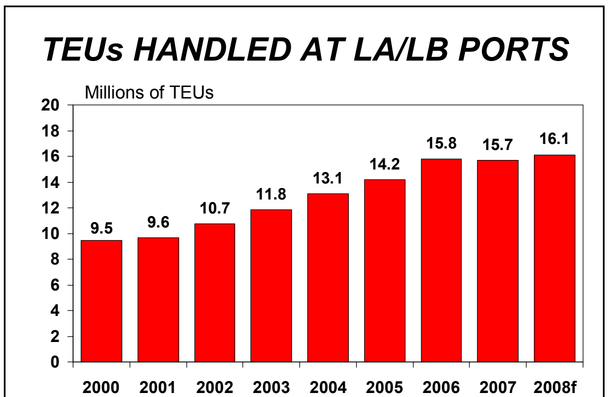
Charging fees on containers handled at the ports has long been viewed as poison, but there seems to be a shift in attitude. While the Los Angeles/Long Beach ports are going to begin charging fees, a national fee is being discussed, and other ports could join the parade. Locally, a fee of $35 per 20-ft. container has been introduced to eliminate polluting diesel trucks at the ports. Also, a separate fee of $15 per loaded 20-ft. container will be charged (effective January 1, 2009) to raise $1.4 billion for port infrastructure projects (when that amount is reached, the fee will go away). However, there is always fear that the money could be diverted to other government purposes.

Still to be determined is the impact of the long-delayed implementation of the TWIC program (transportation worker identification credential). While the program will improve security at the ports, there is concern it could result in a shortage of port truck drivers. The latter could be exacerbated by the shift to more expensive low-polluting trucks

Net Results

There should be a modest uptick in container volumes at the Southern California ports in 2008, up by 2.8% to 16.1 million TEUs. However, the competition for port business will continue. People are watching the recently-opened Prince Rupert facility in B.C. In the future, an expansion of the Panama Canal is underway (a 2013 completion date), and there is still talk of more ports in Mexico.

With all this competition, future growth at Los Angeles and Long Beach beyond 2008 may not revert to previous double-digit TEU gains.



Sources: Ports of Los Angeles & Long Beach, forecast by LAEDC

Motion Picture/TV Production

Industry Score Card

Motion Pic./TV Prod.

C → C-

7/2007 2/2008

Labor issues will take center stage in this signature industry. The Writer's Guild (WGA) strike, that started November 5th, 2007 and settled in early February 2008 caused all sorts of anxiety. Production of scripted TV series was pretty well shut down by January 2008, jobs and wages were lost, and the Golden Globe awards show was cancelled (the latter generates about $60 million for the Los Angeles economy). However, the Director's Guild (DGA) negotiated a contract by January 17th, well ahead of the June 30th expiration – and this could provide a template for the Screen Actor's Guild (SAG), which has a June 30th contract expiration. The big issue in all three contracts was how to compensate talent for new ways of delivering content, such as over the internet.

If the DGA contract does set the template for other unions, the reported employment impact of the WGA strike could be modest. However, the dollar losses from the strike were significant, about $2.5 billion as of this writing.

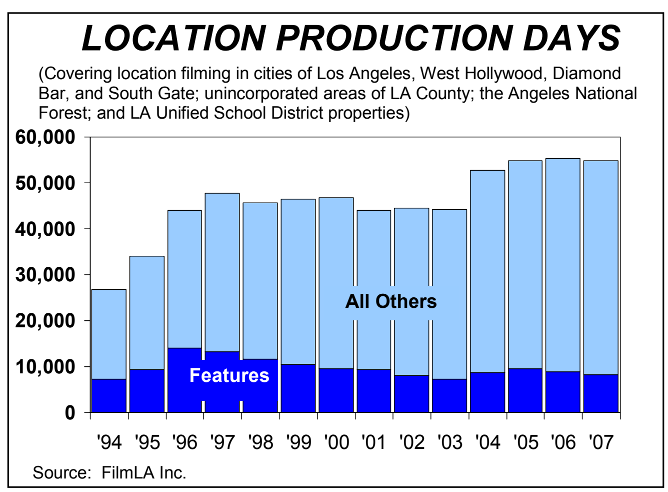
In the meantime, there are other issues the industry must face.

Positive Forces

- There were strong gains in both domestic (+4.1% to $9.68 billion) and international box office receipts in 2007 (no hard numbers yet, but evidently good). In fact, the latter market has become extremely important for the industry, with many films earning more money abroad than they do at home.
- The industry has learned how to use the internet to market product, much to the discomfort of the newspapers that used to carry the lion's share of the industry's advertising.
- Cable networks continue to produce more products with much success. In fact, some cable shows were "re-purposed" for use on broadcast networks due to the WGA strike.
- The weak U.S. dollar, especially versus the Canadian dollar, has slowed the flow of run-away production to foreign locations.

Negative Forces

- The WGA strike, which had a big impact on scripted television and cost the local economy over $2.5 billion. Even with its settlement, there will be pain. Some new TV shows will be cancelled, and others will not resume full production until the fall season.
- SAG's leaders are "talking tough." So there is growing concern that they will go on strike despite settlements by the two other guilds.
- DVD sales have leveled off (sales in 2007 declined by 3.4% to $16.0 billion), though there is hope that the new Blu-ray format will stimulate business.
- California grants no incentives for low-budget productions, and with the state budget deficit soaring, none can be expected any time soon. On the other hand, New Mexico has become quite aggressive, developing sound stages and building their skilled production crew base. (Note that four films made in New Mexico are 2008 Oscar nominees.)
- Piracy -- there is both a national and local effort to focus attention on the problem, but how successful will it be?
- Money is coming into the industry from private equity, etc., and causing a glut of smaller films. No let-up yet despite so-so results.



Other Items

While the motion picture industry is the signature industry of Los Angeles, the glitz gets in the way of noticing important new trends. One is that the industry is now a global activity, with international movie grosses often outstripping domestic results. Some studios are also producing customized product in key international markets; i.e., an Indian version of "High School Musical." Also, the industry has become a heavy user of technology, much of which is developed in its L.A. backyard. The video game industry, despite earnings disappointment at some firms, also did well in 2007, with sales of software up by a stout 34% from 2006 to $8.64 billion. The crossover between feature films and games continues to grow.

Domestic box office should increase by 5% in 2008, while international receipts should be somewhat stronger.

As to employment, modest declines are forecast for 2008. This factors disruptions due to the WGA strike early in the year and assumes some further disruptions from SAG.

Table 35: Motion Picture/TV Production Employment in Los Angeles County

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	159,800	162,200	163,300	164,400	1.5%	0.7%	0.7%
Motion picture & sound industries	129,900	131,700	132,500	133,100	1.4%	0.6%	0.5%
Broadcasting (radio, TV, & cable)	19,300	19,400	19,500	19,600	0.5%	0.5%	0.5%
Indep. artists, writers, & performers	10,600	11,100	11,300	11,700	4.7%	1.8%	3.5%

Sources: California Employment Development Department, forecasts by LAEDC

Technology

Industry Score Card	
Technology	
A- → **A-**	
7/2007	2/2008

There is a mixed outlook for this industry in 2008. If the customer is the federal government, the outlook is fairly good given the focus on national and business security and intelligence gathering. However, business IT budgets could see just a modest increase, due to the stressed economy. On the consumer side of the business, demand will be driven by cell phones, PDAs, digital TVs and flashdrives.

Venture capital continues to flow into the sector, but VCs are less interested in first stage investments and the semiconductor industry. The latter has had some overcapacity problems. The most VC money is going to information services, which includes internet services, and medical devices.

The global semiconductor industry saw sales rise by 3.2% in 2007, but there will be slower growth in 2008.

Table 36: Technology Employment (Including Aerospace & Bio-medicine)

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	206,500	210,500	214,800	219,000	1.9%	2.0%	2.0%
Computer & electronic products mfg.	60,000	59,900	60,300	60,500	-0.2%	0.7%	0.3%
Aerospace products & parts mfg.	38,400	37,300	37,100	37,000	-2.9%	-0.5%	-0.3%
Pharmaceutical & Medicine mfg.	5,600	6,000	6,200	6,400	7.1%	3.3%	3.2%
Software publishers	5,900	6,300	6,500	6,600	6.8%	3.2%	1.5%
Internet & data processing services	12,000	12,400	12,500	12,600	3.3%	0.8%	0.8%
Computer systems design & services	26,200	27,100	28,200	29,200	3.4%	4.1%	3.5%
Mgmt., scientific, & technical consulting	39,900	42,700	44,900	47,300	7.0%	5.2%	5.3%
Scientific R&D services	18,500	18,800	19,100	19,400	1.6%	1.6%	1.6%
Orange County	89,500	90,500	91,300	92,100	1.1%	0.9%	0.9%
Computer & electronic products mfg.	42,100	41,500	40,800	40,200	-1.4%	-1.7%	-1.5%
Aerospace products & parts mfg.	11,300	11,600	12,000	12,300	2.7%	3.4%	2.5%
Computer systems design & services	16,900	16,700	16,500	16,500	-1.2%	-1.2%	0.0%
Mgmt., scientific, & technical consulting	19,200	20,700	22,000	23,100	7.8%	6.3%	5.0%
Ventura County							
Computer & electronic products mfg.	8,100	7,600	7,400	7,200	-6.2%	-2.6%	-2.7%
San Diego County	60,800	61,700	62,900	63,800	1.5%	1.9%	1.4%
Computer & electronic products mfg.	26,600	26,100	26,500	26,700	-1.9%	1.5%	0.8%
Aerospace products & parts mfg.	5,600	5,900	6,200	6,500	5.4%	5.1%	4.8%
Software publishers	3,800	3,700	3,400	3,300	-2.6%	-8.1%	-2.9%
Scientific R&D services	24,800	26,000	26,800	27,300	4.8%	3.1%	1.9%

Sources: California Employment Development Department, forecasts by LAEDC

Travel & Tourism

Industry Score Card

Tourism & Travel

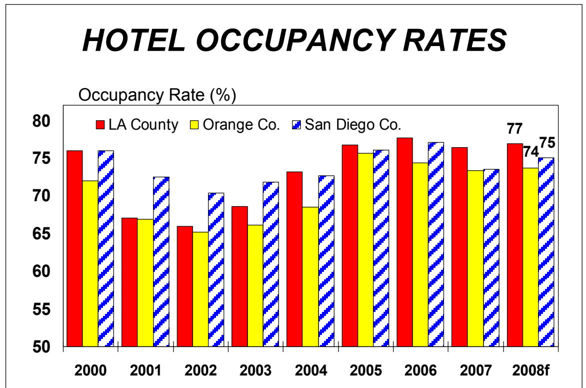
A → A-

7/2007 2/2008

After a somewhat tentative start to 2007, the tourism industry had a very good year. Using the hotel industry as one measure, the visitor industry did quite well. Los Angeles County had an average hotel occupancy rate of 76.9% while the 2007 average daily room rate rose by 7.2% to $163.32. Orange County saw its occupancy rate hit 75.7%, while the average daily room rate grew by 8.7% to $150.86. San Francisco enjoyed an occupancy rate of 78.8% in 2007 while its room rate increased by 5.2% to $176.74. San Diego County saw its 2007 occupancy rate soften to 75.0%, but its room rates rose by 7.8% to $173.96. Prospects for 2008 look fairly good, despite the uncertain economy and high energy costs.

Positive Forces

- More state promotional funding.
- The weak U.S. dollar will continue to drive international travel to the state.
- Changes in regulations that will allow more “casual” Chinese travelers to come to the U.S.
- Major investments in tourism/travel facilities, including: a redesign of Disney’s California Adventure (work will start late in 2008); an expansion at Legoland; the new Simpsons ride at Universal Studios Hollywood; and large new convention center hotels in both Los Angeles and San Diego.
- Major “happenings” in the Los Angeles area, including: opening of the Broad Contemporary Art Museum at the Los Angeles County Museum of Art; opening of the Grammy Museum at LA Live (its Nokia Theater opened late in 2007 and has a heavy schedule of shows); reopening of the mansion at the Huntington Library and Gardens as well as the Chinese garden; and lots of anniversary celebrations such as the 5th anniversary of the opening of the Walt Disney Concert Hall.



Source: PKF Consulting, forecasts by LAEDC

Negative Forces

- Both business and consumers could cut back on travel in 2008 due to concerns over the economy.
- High energy prices will impact both driving and the airline industry.
- Negative perceptions of LAX, which is the international airport for all of Southern California.

Hotel occupancy rates should soften a little in 2008, but operators should be able to push room rates up. The number of overnight visitors should climb by 1.9% in L.A. County, by 0.2% in Orange County, and by 1.3% in San Diego County. Employment in the sector should continue to expand in 2008.

Table 37: Tourism-centric Industries Employment

	2006	2007	2008f	2009f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08
Los Angeles County	54,800	55,200	55,900	57,400	0.7%	1.3%	2.7%
Amusement parks & arcade	4,500	4,500	4,800	5,000	0.0%	6.7%	4.2%
Accommodation	38,600	38,700	38,900	40,100	0.3%	0.5%	3.1%
Travel arrangement & reservations	11,700	12,000	12,200	12,300	2.6%	1.7%	0.8%
Orange County							
Accommodation	22,400	23,200	23,800	24,500	3.6%	2.6%	2.9%
Riverside-San Bernardino Area							
Accommodation	18,000	18,700	19,400	20,200	3.9%	3.7%	4.1%
Ventura County							
Accommodation	2,600	2,500	2,500	2,600	-3.8%	0.0%	4.0%
San Diego County							
Accommodation	30,000	31,000	32,200	34,000	3.3%	3.9%	5.6%

Sources: California Employment Development Department, forecasts by LAEDC

Update: 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 grew 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). Subprime loans accounted for more than 20% of mortgage originations (new mortgage loans) in 2005-2006. And some 5/6s of the newer subprime loans were ARMs.

Why are they a problem? Who is affected? Subprime mortgages are a problem mainly for mortgage lenders, borrowers, and investors in mortgage-backed securities. The lenders' problems have grown and will get worse over the forecast period. Many of these loans are due to reset at higher rates in 2008.

Though mortgage rates have come down a bit in recent months, lenders have become much more wary about making any subprime and other nontraditional mortgage loans. Would-be borrowers are faced with stricter credit standards and must provide verifiable documents to secure a loan. As their mortgages "reset" at higher rates, the borrowers are at risk of defaulting on their mortgage payments. Inevitably, some borrowers have found they can't make the higher payments; their loans are going delinquent and then into foreclosure.

What's the local situation?
Notices of Default sent to homeowners in the Los Angeles five-county region rose significantly in 2007, with more than 130,400 notices sent (+116% over the previous year). Normally a notice of default is recorded when the borrower has missed one to three monthly mortgage payments; it is the first step in the foreclosure process. Consequently, foreclosure rates also increased in the region adding to the growing inventory of unsold homes.

RealtyTrac, which tracks foreclosures nationwide, reported that in 2007, 3.8% of households in the Riverside-San Bernardino area entered some stage of foreclosure. Interestingly, the Inland Empire is where housing is the most "affordable" in the Los Angeles five-county region. A lot of the problem loans are in the Coachella and Moreno Valley areas. The 2007 foreclosure rate in Ventura County was 1.6%; Los Angeles County was at 1.4%, and Orange County at 1.2%. The Southern California counties were among the worst 100 metro areas ranked by foreclosure rate. Unfortunately, this trend is likely to continue through 2008 and 2009.

Who owns the problem mortgages? Many mortgages are not held by the original direct lenders. Instead, they were "packaged" (into RMBS, or residential mortgage backed securities) and sold to investors in the secondary mortgage market. This procedure provided the lenders with new funds to make more loans and gave 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.

There's another 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 have to write down the value of their asset and take a loss. Needless to say, demand for the more risky mortgage securities has shriveled up. Some hedge funds have had to shut down because they couldn't sell their holdings. And the biggest banks have taken billions of dollars in write-offs. Locally, dozens of subprime lenders have closed because they lost their financial backers.

Worse yet: Investor attitudes towards subprime mortgages – "they're toxic" – have spread to other types of riskier debt and to the companies that insure the bondholders against losses on that debt. As a result, the capital markets get "twitchy" whenever there is news of another subprime casualty.

Policy makers react: The Federal Reserve and other central banks have responded to each severe outbreak of nerves by flooding their markets with liquidity and reducing short-term interest rates. However, today only prime borrowers with good credit records are able to secure the credit they need at reasonable rates.

The outcome: still in doubt.

XI. OUTLOOK FOR CONSTRUCTION & RETAILING

Residential Real Estate

New Homebuilding

The spiraling downward trend of Southern California's housing market for the past couple of years might see a bottom in late 2008, but the whole experience will be painful. Unsold Inventory is high, and the correction in home prices will continue. The downturn's severity is being felt in different magnitudes across the region. Some counties are worse off than others, and it all comes down to the underlying fundamentals. One key fundamental is slower job growth in the region for 2008, with "spot" recessions in Orange County and perhaps Ventura County as well. Much of the job growth has been and will continue to be in high-paying jobs in the service-providing industries.

Total homebuilding permits in the Los Angeles five-county region have been declining ever since the 2004 peak of 91,556 total units. During 2007, a total of 49,697 new residential construction permits were issued (53% of which were single-family homes), a decline of -35% compared with the 2006 level and down by -46% from the peak year. Los Angeles County and the Inland Empire accounted for most of the permits issued, about 41% each of all housing units. The difference between the two counties is that most of the permits issued in Los Angeles County (63%) were for multi-family units (there is less open land available for housing development in Los Angeles County except in the Antelope and Santa Clarita valleys). The Inland Empire market is just the opposite, as new home developments permitted were mostly for single-family units (78%). In 2007, total residential construction in Los Angeles County dropped to 20,228 new units, a decline of more than 23% from the prior year and down by -25% from the 2004 peak. Similarly, total residential construction in the Inland Empire was down by 20,543 units, a decline of -47% from the 2006 level and -61% from its peak in 2004.

In Orange County, a total of 7,070 residential permits were issued in 2007, a decline of -16% compared with the 2006 level and down by -43% from the peak in 2000. A further reduction is expected as the County works its way through existing and growing home inventory due to the addition of foreclosed homes. Land availability is getting low in Orange County, and most of the residential construction permits issued in 2007 were for multi-family housing units (69%). This trend started in 2004; before that

Industry Score Card

Residential Construction

D → D-

7/2007 2/2008

Nonresidential Construction

A → B

7/2007 2/2008

Table 38: Performance Ratings of Construction and Retailing

Industry	Date of Rating 2/2007	7/2007	2/2008
New homebuilding	C-	D	D-
Resale housing	n/r	D	D-
Nonresidential construction	A	A	B
Value retailing	B	B	B-
Other retailing	C	C	C-

n/r = not rated

Table 39: Total Housing Permits

	L.A.	Orange	Riv-SB	Ventura	LA-5
1988	50,498	23,455	54,429	5,154	**133,536**
1989	48,341	16,637	45,653	5,026	115,657
1990	25,045	11,979	28,840	2,612	68,476
1991	16,195	6,569	16,191	2,194	41,149
1992	11,907	5,943	15,444	1,720	35,014
1993	7,259	6,410	13,151	1,372	**28,192**
1994	7,621	12,544	13,016	2,464	35,645
1995	8,405	8,300	10,899	2,166	29,770
1996	8,607	10,207	12,513	2,353	33,680
1997	10,424	12,251	15,377	2,316	40,368
1998	11,692	10,101	18,606	3,182	43,581
1999	14,383	12,348	21,651	4,442	52,824
2000	17,071	12,367	21,990	3,971	55,399
2001	18,253	8,646	27,541	3,446	57,886
2002	19,364	12,020	33,280	2,507	67,171
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	**91,556**
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,228	7,070	20,543	1,856	49,697
2008f	19,300	6,700	15,100	1,450	**42,550**
2009f	19,400	7,100	14,600	1,550	42,650

Sources: Construction Industry Research Board, forecasts by LAEDC

Orange County was considered a bastion of single-family development. Compared to the rest of the region, not much construction occurs in Ventura County, largely because of the lengthy permitting process and constraints on land available for residential development. A total of 1,856 residential permits were issued in the county in 2007, a decline of more than -24% from the previous year and down by -59% from its peak in 2005. Of the housing permits issued in 2007, 63% were for multi-family units.

Resale Housing

Resale home inventories have climbed significantly, and will continue to rise with the growth of foreclosed homes in the market. According to the California Association of Realtors, the unsold inventory in California currently represents a 14.5 months supply at current sales rates, compared with 5.9 months a year ago. This situation of excess supply has reversed the big increases in home prices seen in the state and Southern California during 2005, with some markets posting huge declines depending on the area. Note that a growing number of foreclosed homes in a neighborhood tend to pull down surrounding homes' values.

The resale housing market in Southern California has gone from "red hot" to a buyer's market (if you qualify and pass the high standards set up by your no-longer-so-friendly financial institution). A comparison of median existing single-family home prices in 2007 with 2006 by the California Association of Realtors revealed that the Los Angeles County median home price in 2007 was $589,150, up by only +0.7% year-over-year. Los Angeles County is a big county with very distinct and unique cities. Some cities are doing okay and still experiencing price gains and some are not. On the other hand, Orange County's median home price in 2007 was $699,590, a decline of -1.3% from 2006. Ventura County had a median home price of $673,940 in 2007, a drop of -1.8% from a year ago. The Riverside-San Bernardino market had the toughest year, with a median home price of $381,390, down by -4.8% from 2006. With more foreclosures expected to flood the market, especially in the Inland Empire market, median home prices in Southern California are expected to decline further, with 2008 prices down by -10% to -15% (year-over-year).

Table 40: Median Existing Single-Family Home Prices

	L.A. Co.	Orange	Riv-SB	Ventura
1997	$176,517	$229,840	$114,340	$219,300
1998	191,700	261,700	121,500	233,770
1999	198,980	280,900	128,670	254,950
2000	215,900	316,240	138,560	295,080
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	400,660	685,960
2007	589,150	699,590	381,390	673,940

Annual % Change

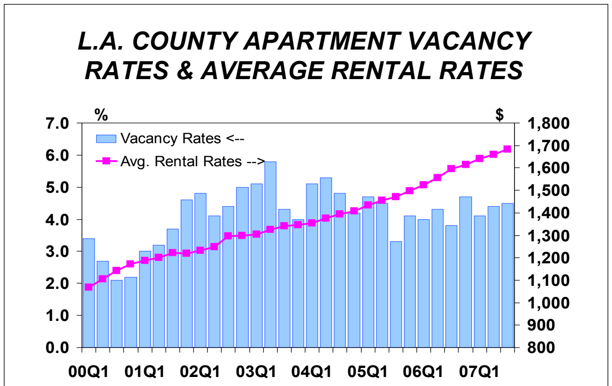
	L.A. Co.	Orange	Riv-SB	Ventura
1997	2.1%	7.7%	-0.8%	6.6%
1998	8.6%	13.9%	6.3%	6.6%
1999	3.8%	7.3%	5.9%	9.1%
2000	8.5%	12.6%	7.7%	15.7%
2001	11.8%	12.5%	13.1%	9.3%
2002	20.2%	16.0%	12.6%	15.5%
2003	22.5%	18.0%	25.2%	24.2%
2004	25.6%	28.8%	34.1%	29.6%
2005	18.5%	10.3%	23.3%	11.5%
2006	10.5%	2.5%	9.7%	2.7%
2007	0.7%	-1.3%	-4.8%	-1.8%
'07/'97	233.8%	204.4%	233.6%	207.3%

Source: California Association of Realtors

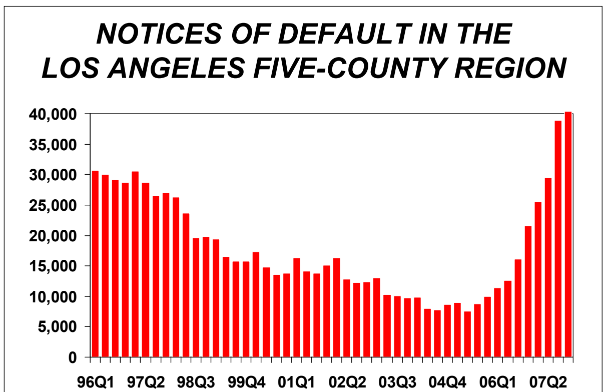
Apartments

As the housing market continues to fizzle out, the apartment market, on the other hand, is experiencing modest gains which should continue through 2008. Apartment rents have been rising steadily in the Los Angeles five-county region. A comparison of rents in the third quarter of 2007 versus the same period in 2006 reveals that rents in Los Angeles County increased by 5.5% over the year, Orange and Ventura Counties both increased by 5.1%, San Bernardino County's average rents increased by 3.0%, and Riverside County was up by 2.5%.

Demand for apartment units will continue to increase as more people are priced out of the housing market, or find it harder to qualify for mortgage loans, and foreclosure rates rise. Good demand in turn will keep vacancies down across the five-county region even as newly completed developments, many originally for sale but converted to rental apartments, come on the market (there will even be completion from investor-owned single-family homes). At the end of the third quarter of 2007, the average apartment vacancy rate in Los Angeles County was flat at 4.5%. Apartment vacancy rates in Orange County were 4.3%, San Bernardino County and Ventura County were low as well, at 5.5% and 6.0%, respectively. A surge of new apartments entered the Riverside County market in late 2006, pushing vacancy rates up to 10.3% in the first quarter of 2007. But they have come down a bit to 8.9% by the end of the third quarter of 2007.



Note: For apartments w/ more than 100 units
Source: RealFacts



Sources: DataQuick Information Systems, County Recorders

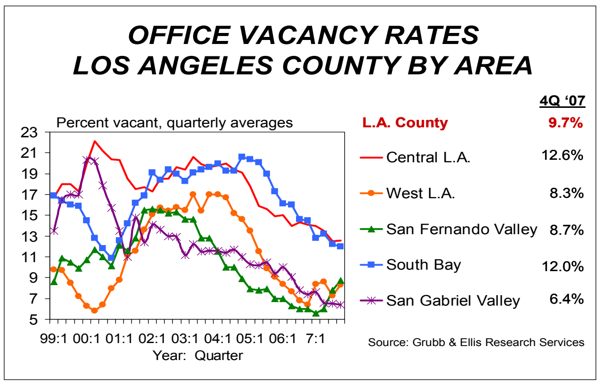
Housing Forecast

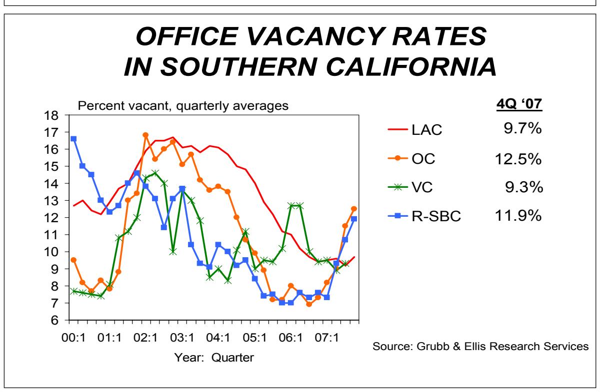
Residential construction will bottom out in 2008. The LAEDC forecasts that a total of 42,550 new housing units will be permitted in the five-county region, a decline of 14% from 2007 and a 54% drop from the 2004 peak of 91,556 units. With more adjustable mortgage loans expected to reset in 2008, foreclosure rates will continue to rise adding to the existing housing inventory. Though interest rates are lower, it is much harder to get home mortgage loans or to refinance existing ones due to declining prices and the severe tightening of credit standards by major mortgage lenders. Even so, both employment and population continue to grow (important underlying fundamentals) in the region, and its housing market should move into a "recovery" by 2009 (in the Riverside-San Bernardino area it could be 2010). 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

Southern California's job growth, particularly in the professional and business services sector, has been strong for several years. As a result, many businesses needed more space to expand as well as to improve productivity. The result has been declining office vacancy rates across the five-county region. However, with the subprime fall-out, the region is facing a new reality. A number of mortgage-related companies have laid off employees and closed up shop, dumping office space back on the market on top of new projects just coming out of the pipeline. As a result, office vacancy rates across the region have increased; some more than others depending on the exposure to problem industries.





Another trend was that a number of large office buildings have changed hands. Many investors saw the regional office market as a good investment, with its low vacancy rates and lack of development sites. The new owners are aggressively seeking higher rental rates with minimal tenant improvements (if any) in markets such as West Los Angeles. As a result, more and more companies are looking elsewhere for new space to grow.

Los Angeles County's average office vacancy rate at the end of 2007 increased a bit to 9.7% but is still below what is considered a "balanced" market (10%). Within L.A. County, the San Gabriel Valley and the Westside markets had the lowest office vacancy rates, at 6.4% and 8.3% respectively. Though the overall Westside market office vacancy rate is low, it has increased from 6.4% the same period a year ago. The biggest drop in vacancy rate year over year was in the South Bay market, down by two and a half percentage points to a 12.0% vacancy rate at the end of 2007. Carson saw its office vacancy rate fall from 17.3% to 4.9% in one year as the former Nissan Headquarters reopened and is now occupied by several firms, including Tireco Inc. and Fang Fashion Inc.

The County's tight office market pushed average asking rent rates for Class A and Class B properties to new highs, with the West Los Angeles market posting the highest rate at an average of more than $4.92 per sq. ft. for Class A properties (a 41% increase over the year) and an average of more than $3.72 for Class B properties (a 20% increase over the year), according to Grubb & Ellis Research Services.

In Orange County, the average office vacancy rate soared to a 12.5% vacancy rate at the end of 2007 from just 7.3% a year ago. Year-over-year job growth in the county has slumped since last fall, as numerous financial companies either closed up shop or consolidated due to the subprime mortgage fall-out. This increased the available office space inventory in the market in addition to some new construction. Average asking rent was flat in 2007 and will likely fall in 2008.

The Inland Empire's average office vacancy rates increased as well, to 11.9% at the end of 2007 compared with 7.6% a year ago. The increase in vacancy rates was due to newly completed projects as well as some space given up by mortgage financing companies (though the amount was not nearly as high as it was in Orange County). This region, especially Riverside County, continues to attract companies to provide services to its growing population and business base. The Inland Empire has become an established business center in Southern California. Companies from Orange and Los Angeles counties have been relocating or setting up satellite offices and even regional headquarters in Inland Empire cities like Corona, Rancho Cucamonga, Redlands, and Ontario, where they can lease more space at lower cost and take advantage of lower salaried workers who have migrated to the area.

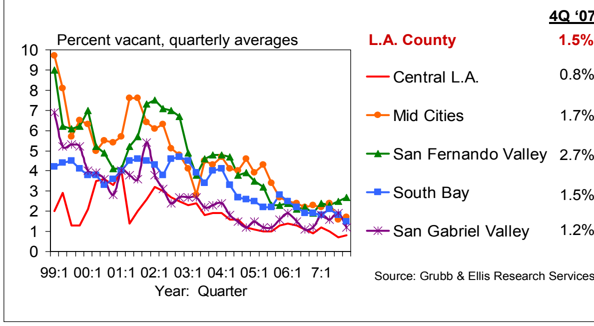
The credit crunch has definitely stalled new office construction in Southern California, as the cost of borrowing has gone up and risk-averse lenders are tightening credit standards. The uncertainty of the economy has resulted in many developments being put on hold. Even so, leasing activity in Southern California should remain stable with the region's continued moderate job growth in industries needing office space.

During 2007, office building permits valued at $1.4 billion were issued in the five-county area. Los Angeles County led the region with a 51% share of office building permit valuation, followed by Orange County with a 20% share; Riverside County with a 16% share, San Bernardino with an 8% share, and Ventura County with a 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 County.

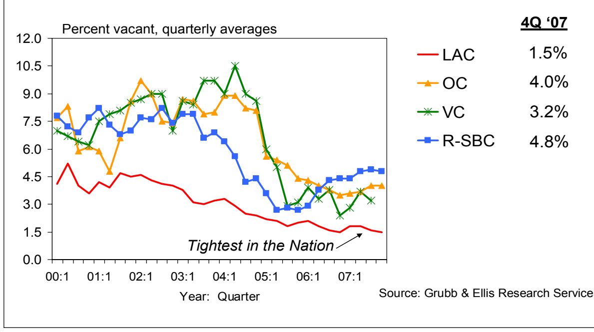
Nonresidential: Industrial

Southern California is a major center for manufacturing, international trade and logistics, and of course movie production. The demand for new industrial space from these industries remains extremely strong. Los Angeles County has been the tightest U.S. industrial market for the past two years, with just a 1.5% industrial vacancy rate at the end of 2007. This trend is expected to continue through the balance of 2008, sustained by good 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).

INDUSTRIALVACANCY RATES LOS ANGELES COUNTY BY AREA



INDUSTRIAL VACANCY RATES IN SOUTHERN CALIFORNIA



The industrial vacancy rate for Central Los Angeles at the end of 2007 was just 0.8%. Its supply of industrial buildings is threatened by a push to convert the space to apartments, condos, entertainment, and retail uses. The San Gabriel Valley and South Bay areas' industrial markets were also very tight, with 1.2% and 1.5% vacancy rate, respectively. It's the same story in the San Fernando Valley industrial market, with a 2.7% 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, with a 4.0% industrial vacancy rate at the end of 2007, up a bit from 3.5% a year ago. New construction during the past couple of years has run at low levels. Competition will be strong for the handful of existing and new development properties available. Asking rental rates will continue to inch upwards with no concessions on the table.

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 a tight industrial market as well. Some good news is the high level of new construction. The Inland Empire had an industrial vacancy rate of 4.8% during 2007, compared with 4.4% in 2006.

What are some key trends in the Riverside-San Bernardino area? Industrial construction is moving east, along the I-215, with distribution companies seeking space no less than 100,000 square feet. During 2007, industrial building permits valued at $503 million were issued in the Riverside-San Bernardino area. With exports rising, helped by the presence of DHL's hub in the Moreno Valley and UPS' hub in Ontario, the demand for distribution and warehouse space in the area should remain strong. Average asking rents are slowly inching upwards. The competition between retail and commercial development for land in this region is also a challenge. One threat – water supply concerns have stalled some new development.

During 2007, industrial building permits valued at $692 million were issued in the five-county region. The Inland Empire accounted for 73% of industrial building permits valuation issued, compared with 69% a year ago. Los Angeles County held a 16% share, down from 19% a year ago. Orange County held only an 8% share. Lastly, Ventura County accounted for a 4% 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. However, this trend will slow as bankers have tightened credit standards and lending terms on all types of financing. But strong leasing activity should continue and lease rates will inch upward.

Table 41: Office Building Permits Issued
(In millions of dollars)

	L.A.	Orange	Riv-SB	Ventura
1990	623	236	135	31
1991	386	118	84	33
1992	121	27	56	28
1993	144	51	58	6
1994	108	41	34	4
1995	88	29	42	9
1996	133	45	31	4
1997	161	129	34	6
1998	284	270	31	25
1999	393	289	40	13
2000	268	354	46	32
2001	547	174	63	30
2002	209	150	66	5
2003	182	118	146	40
2004	307	133	211	18
2005	233	313	233	23
2006	241	578	307	52
2007	716	282	343	55

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

	L.A.	Orange	Riv-SB	Ventura
1990	309	59	302	43
1991	141	39	155	35
1992	92	22	59	37
1993	55	18	72	23
1994	71	11	90	32
1995	74	34	101	20
1996	124	84	138	64
1997	109	123	287	56
1998	308	234	327	82
1999	361	123	443	58
2000	359	87	504	42
2001	202	90	406	76
2002	225	62	324	31
2003	276	68	358	47
2004	178	26	639	45
2005	277	27	442	23
2006	182	91	661	21
2007	109	52	503	28

Source: Construction Industry Research Board

Forecast for Private Nonresidential Construction

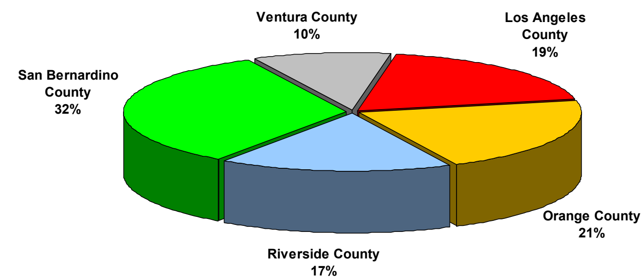
Looking ahead, total private nonresidential construction in the five-county region peaked in 2007 at $9.8 billion, and will decline a bit in 2008 with a forecast building permit value of $9.5 billion, a 3.3% decrease. The decrease is due to the credit crunch and a flattening in port activity. Private nonresidential building permit values in Los Angeles County will be flat in 2008, but will increase a bit in 2009. Orange County's total construction activity value will drop by about 12% in 2008, as the county experience a mild economic downturn. But it too should see an improvement in 2009. The Riverside-San Bernardino area's total nonresidential building permit values will decrease by 3% in 2008 but will improve in 2009 as more distribution and warehousing companies continue to look inland for bigger, more affordable space. Ventura County's total nonresidential construction permit values will see a decrease of about 2% in 2008, after rising by 5% in 2007.

For the most part, office space development will be restrained in all five counties of Southern California region. Companies will delay or limit hiring due to the cautious economic outlook for 2008. With some new projects just coming on the market, office vacancy rates around the region will increase. Average rents will soften a bit with some concessions coming back, especially in Orange County. Companies looking to expand will look at other markets to obtain more competitive lease rates (i.e. the "lower Westside" in Los Angeles County).

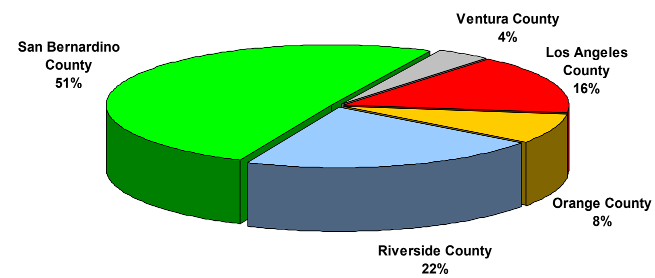
The outlook looks brightest for industrial space development, even in the tight markets of Los Angeles and Orange counties. International trade continues to dominate the region's economy and will require more distribution and warehouse space. The Inland Empire will see most of the new industrial construction activity, but land is getting scarce in the western end of the region as well. Development activity will continue to push east along I-10, or go north over the Cajon Pass to the "High Desert".

NEW INDUSTRIAL BUILDINGS IN SOUTHERN CALIFORNIA

1997



2007



Retailing

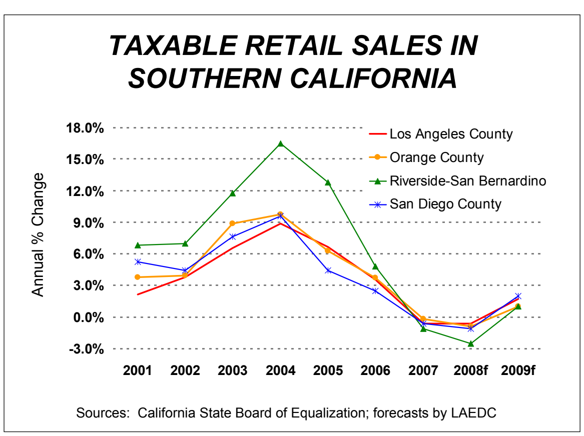
The retail industry had a difficult time in 2007, and 2008 will bring more turbulence. There is over-capacity. Some retailers have already started to pare unprofitable stores or operations (Macy's and Starbucks). Other retail chains are closing down (Levitz, Bombay Company, Talbot's for Kids). These lists will grow especially in areas where retailers chased new homebuilding. Small chains or the number three retailer in an industry segment are also vulnerable.

Specific retail categories that are struggling include: building materials, furniture & appliances, auto dealers (the Detroit three want to trim their dealer ranks), mid-range department stores, and near-luxury retailers.

Besides over-capacity, there are too many "me-too" stores. Retailers have also become somewhat risk averse, and over Christmas 2007 we heard complaints that there was nothing new in the stores.

This all has real estate implications, from strip retail to regional malls. Some of the latter still have gaps as a result of the Macy's/May Co. merger. Yet, there continues to be development of new retail centers and renovations of existing malls to keep up. While retail vacancy rates seem to be low, there is a lot of vacant strip retail and lackluster sales at older, smaller malls. Worse, many property owners have been raising lease rates aggressively.

In 2007, the value of retail building permits in Southern California rose by 8.4% to $1.66 billion. Setting the pace were Orange County, with a 66.3% gain to $296 million, and San Bernardino County, up by 18.4% to $348 million. Retail permit values could hold level in 2008 despite the softness in retail sales, as a lot of projects are too far down the development pipeline to stop.



<u>Industry Score Card</u>

Retailing

Value Retailing: B → B-
7/2007 2/2008

Other Retailing: C → C-
7/2007 2/2008

Even though there is retail over-capacity, new malls are being developed in Southern California, such as The American on Brand in Glendale, the "Commons" and "Dos Lagos," both in Chino. Existing malls are getting upgrades (i.e. the Buena Park Mall and Main Place Santa Ana). Add to this University Town Center and Horton Plaza in San Diego County. In L.A. County, Santa Monica Place is seeing a major renovation, while Topanga Plaza is adding new anchors.

There is still interest in mixed-use development with retail on the ground floor and residential above. Much of the lower-level space could stand vacant for quite some time, given the retail turmoil. Developers don't understand that leasing retail space, you need a strategy. A one-size fits-all approach doesn't work.

Beyond the regional malls, there are always "hot" streets for retail. This roster changes frequently, often due to an effort by chain stores to move in or to rent hikes by landlords that drive out small, unique stores or both. The "LA streets" are 3rd Street (in Los Angeles – not Santa Monica), Melrose Heights, and Silver Lake. In Orange County, some locations in Costa Mesa have developed retail buzz.

New retailers are moving into Southern California, despite the turmoil. Currently the most discussed example is U.K. retailer Tesco and their "Fresh & Easy" small food store concept. On the apparel side are H & M, Zara and Mango.

Is there any good news out there for retailing? Well, yes. The region's huge population is still growing, homes are still being sold, and the outlook for tourism is good.

<u>Regional results</u>

Taxable retail sales in Southern California fell in 2007, and a further decline is forecast for 2008. The once roaring Riverside-San Bernardino area will see sales drop by -2.5% in 2008. Los Angeles and San Diego counties will each see a -1.1% sales decline. Orange County's retail sales will slide by -0.9%, while Ventura County should see a -0.5% slippage. In 2009, all areas in Southern California should return to a growth mode.

The sluggish 2008 retail sales outlook will put further pressure on local government finance, especially if a city loses a car dealership. For retailers and retail property owners, the key during the year to come is execution.

XII. WRAPPING IT UP

It's obvious that the 2008-2009 period will be difficult for both California and Southern California. Whether or not these years get tagged with the "recession" label, in some metro areas it will feel like one. Some businesses, consumers and government will experience pain. For the latter, the pain may well stretch into 2010.

There will be additional fallout from the subprime lending debacle, beyond falling home prices. Lenders will focus on risk, which will set higher hurdles for construction and mortgage lending. There will also be careful scrutiny of appraisals, which could chill development in "odd" locations. No doubt there will be a blizzard of lawsuits from the subprime mess, which means that law firms will be quite busy for many years to come.

Overlaying these broad trends are some very critical needs that will shape future growth in Southern California. The list includes:

- Congestion relief for both residents and goods means more than just planning projects. They need funding as well.
- K-12 education still is a problem despite many "reform" plans. An educated workforce will be critical to developing good paying jobs in the region.
- Land use – few people have remarked that land has become quite scarce in the urban core of Southern California. Poor land use decisions have been made in the past, and there is the threat that more will be made in the future.
- Water supply, a problem which is starting to impact development trends.

Finally, a number of significant economic development plans are being put together for various areas around Southern California. There are four challenges for such activities. One is the lack of good data for the region. For example, the top three industries – tourism, international trade and entertainment – are all poorly reported by government statistical agencies. The second challenge is trying to keep up with the rapidly evolving economy of the region. The third challenge is not falling prey to the desires of special interests. The fourth challenge is actually following through on the plan after it's written.

Life is never dull in Southern California.

Table 43: 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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