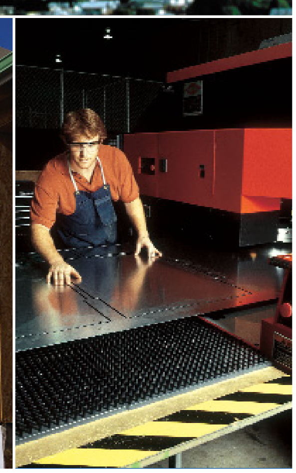
LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION THE KYSER CENTER FOR ECONOMIC RESEARCH

2009-2010

ECONOMIC FORECAST

AND INDUSTRY OUTLOOK

FEBRUARY 2009



2009-2010 Economic Forecast and Industry Outlook

for California & Southern California including the National & International Setting

The Headlines

Recession is here

Continued drag from housing, retail and financial services

Gradual recovery in 2010

February 2009

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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.

As Southern California's premier business leadership organization, the mission of the LAEDC is to attract, retain, and grow businesses and jobs for the regions of Los Angeles County.

Since 1996, the LAEDC has helped retain or attract more than 144,000 jobs, providing $6.1 billion in direct economic impact from salaries and more than $104 million in tax revenue benefit to local governments and education in Los Angeles County.

Regional Leadership

The members of the LAEDC 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 members are 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 L.A. County businesses at no cost, including coordinating site searches, securing incentives and permits, and identifying traditional and nontraditional financing including industrial development bonds. The LAEDC also works with workforce training, transportation, and utility providers.

Economic Information

Through our public information and for-fee research, the LAEDC provides critical economic analysis to business decision makers, education, media, and government. We publish a wide variety of industry focused and regional analysis, and our Economic Forecast report, produced by the **Kyser Center for Economic Research**, has been ranked #1 by the Wall Street Journal.

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.

Leveraging our Leadership

The LAEDC operates several subsidiary enterprises, including the World Trade Center Association Los Angeles-Long Beach (WTCA LA-LB), which facilitates trade expansion and foreign investment, the California Transportation and Logistics Institute, which enhances the quantity and quality of workforce training for the logistics industry, and L.A. PLAN, which assists major public land owners in developing real estate through the LAEDC network. In addition, the LAEDC's Center for Economic Development partners with the Southern California Leadership Council to help enable public sector officials, policy makers, and other civic leaders to address and solve public policy issues critical to the region's economic vitality and quality of life.

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. It also promotes the Los Angeles region as a destination for foreign investment. The WTCA LA-LB is a subsidiary of the Los Angeles County Economic Development Corporation. For more information, please visit www.wtca-lalb.org

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I. OVERVIEW OF THE LAEDC 2009-2010 ECONOMIC FORECAST

The U.S. Economy

		2009	2010
Real GDP	Recession, then recovery	-2.9%	1.5%
Inflation	Not a problem	-1.4%	1.3%
Fed Funds Rate	Very low until 2010	0.1%	1.2%
Leading Sectors	Government spending		
Laggards	Consumer & business spending		

The California Economy

	2009	2010
Nonfarm Employment	-3.0%	-1.0%
Industry Leaders	Health Services (Pvt) Education Services	Health Services (Pvt) Education Services Information
Industry Laggards	Construction Manufacturing Finance Retail Trade	Retail Trade Finance Manufacturing

Job Growth among Counties in Southern California

	2009		2010	
Leaders	San Diego County	-1/8%	San Diego County	-0.5%
	Los Angeles County	-2.2%	Orange County	-0.9%
Laggards	Riverside-San Bernardino Area	-3.2%	Los Angeles County	-1.6%
	Ventura County	-3.3%	Ventura County	-1.8%

Job Growth among Industries in Southern California

	2009	Jobs	2010	Jobs
Leaders	Health Services	+15,700	Health Services	+16,000
	Private Education Services	+4,300	(Pvt) Education Services	+4,600
Laggards	Construction	-50,700	Construction	-35,700
	Manufacturing	-50,200	Retail Trade	-26,300
	Manufacturing	-33,900	Manufacturing	-14,000
	Finance	-27,200	Finance	-13,800

II. OUTLOOK FOR THE U.S. ECONOMY

Overview: Recession is Here

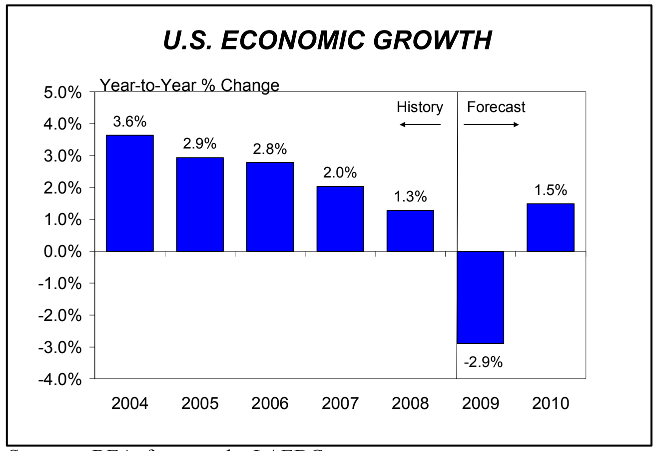
Observers of the U.S. economy are singing the blues and no wonder. After considerable weakness through summer last year, the economy took a sudden turn for the worse in the fall. GDP grew by only +0.8% in the first three quarters and then plunged by -3.8% (annual rate) in the fourth. Employment fell throughout 2008. However, the monthly declines averaged just -137,000 jobs during the first eight months and then exploded to a -587,000 average pace in the last two months.

The sudden deterioration in the economy's performance reflected the spreading of troubles from the housing, financial and automotive related sectors to the rest of the U.S. economy and around the world. These misfortunes were aggravated by a sudden, deep financial crisis in the nation's capital markets, an inability to obtain bank financing due to the worsening credit crunch, and growing dismay at government officials' seeming inability to agree on how to resolve the situation.

The economic outlook has worsened markedly as a result. How bad will things get? It's difficult to say. Right now, the economic environment is getting worse so fast, it appears the nation could experience the worst recession in at least 25 years. On the other hand, we might get lucky, and the recession could end sooner. Because the situation looks so serious, the LAEDC forecasts in this volume are conservative.

For the rest of 2009 and 2010, the key forecasting issues involve the recession's duration and depth. For now, we think the economy might reach bottom by this summer. The recession officially began in December 2007; so that would make it some 19-21 months long, the longest since World War II. As to depth, we are tentatively forecasting a drop of -3.1% in real GDP from 4th quarter 2007 to 3rd quarter 2009, which would rank the current downturn with the two deepest postwar declines—the 1957-58 and the 1973-75 recessions.

Overall, the LAEDC projects the U.S. economy will shrink by -2.9% during 2009 and grow modestly—by +1.5%--in 2010. Inflation is unlikely to be a problem in the near term, largely due to low energy prices, but may accelerate by the turn of the decade. Monetary policymakers acknowledge the inflation risk they are creating by their actions, but are focused on restoration of the financial sector's health. Thus, they have pushed short-term rates to extremely low levels. The outlook for long-term rates is more uncertain. Given the Fed's activist policies they may well decline in 2009 and seem unlikely to rise much in 2010. Below we review the outlook for the key sectors in some detail.



Sources: BEA, forecasts by LAEDC

Household Spending Under Stress

Consumer spending is the largest sector of the U.S. economy and holds one of the keys to the outlook. Several factors have put U.S. households under considerable stress. Employment weakened in the first nine months of 2008 and then plunged late in the year. Job losses likely will continue until mid 2010. The nation's unemployment rate, currently 7.2%, will rise through the rest of 2009 and reach the "mid 9's" by midyear 2010.

The Economic Stimulus Act of 2008 sent out about $107 billion of personal income tax rebates in the 2nd quarter. Economists estimate that about 20% of those rebates were spent on consumer goods and services last year. The remainder was saved or used to repay debts. More tax cuts are coming in 2009 as part of the Administration's fiscal stimulus plan. This time the cuts will show up as reduced withholding, which should boost the amounts that enter the spending stream.

Most types of household incomes have been growing slowly or not at all in recent months. Wages and salaries were up by just +1.4% in fourth quarter 2008 compared with the year-ago period. Most other sources of income were down. Dividend income fell by -1.1% and interest income by -2.6% due to lower interest rates. Profits of independent, unincorporated businesses were down by -1.2% over the year. The government helped out some: personal transfer payments (mostly Social Security, welfare benefits, etc. and some rebates) were up by just +1.7%. Bottom line: disposable personal income (net of personal taxes) grew by a modest +2.6% over the four-quarter period up to October-December 2008. That increase was barely enough to outweigh consumer inflation. After inflation and taxes, real disposable income grew by only +0.1% in 2008.

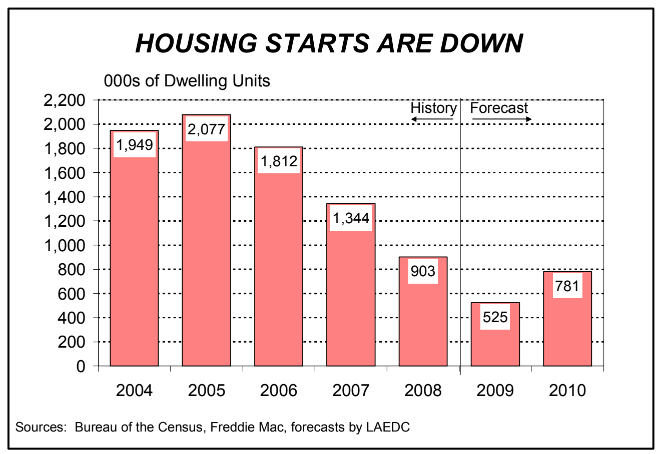
While income growth has slowed, household balance sheets were weakening. Total household assets fell by -8.6% (or by $6.67 trillion) in the year to September 30, 2008 (latest data available). The value of household real estate assets declined by -9.8%. Home mortgage debt (including home equity loans and lines of credit) grew by +1.5%. Thus, homeowners' equity declined by -20.8% over the year to September. Meanwhile, consumers' holdings of financial assets declined by -9.6%, mostly because of falling stock prices. Total household liabilities rose by $424 billion. The bottom line: U.S. households' net worth (total assets minus total liabilities) shrank by -$7.09 trillion over the year to September 2008 (-11.1%).

Consumer spending has slowed, reflecting weaker household economic fundamentals. Soaring energy prices absorbed a greater share of consumers' spending budgets during the first half of 2008, though the timing of the 2008 tax rebates was helpful. Declining employment and slower income growth were important dampening factors in the second half.

Reflecting all of these factors, demand for motor vehicles plunged last year. About 16.1 million light vehicles (cars and light trucks) were sold during 2007. However, sales dropped to 13.1 million units during 2008. Much of the decline occurred in light trucks with higher fuel consumption rates, though car sales also fell. Demand for fuel-efficient vehicles was extremely strong when gasoline prices moved north of $3.00/gallon. However, buyers lost interest when gasoline prices retreated later in the year. The LAEDC assumes gasoline and diesel fuel prices will remain well below 2008 levels. However, dealer lots are currently bursting with unsold inventory. As a result, vehicle production will remain near current low levels until inventories can be cleared out. About 10.4 million light vehicles will be sold in 2009. As the economic recovery gains steam, sales are expected to increase to 12.3 million vehicles in 2010.

The LAEDC expects spending for most other types of consumer goods and services to be slow early in 2009 and to turn up in the latter part of the year—bolstered by the early acting provisions of the new federal stimulus plan. Overall consumer spending (inflation adjusted) is forecast to decline by -1.8% in 2009 and grow moderately, by +1.8%, in 2010.

The housing sector has been on a steep downtrend for three years now. New housing starts peaked in 2005 at 2.07 million units, the highest level since 1972. However, home construction activity declined throughout 2008, finishing the year at just 550 thousand units (annual rate), the lowest level since before 1959 (when records began). The housing crash still has some more to go. We expect starts activity to fall below 500,000 units by early in 2009 and then rise to 900+ thousand units by the end of 2010.



Mortgage credit has become difficult to get for all but "prime" homebuyers (those with well-documented, strong credit and income histories). Lending terms have become stricter for all borrowers, though rates have declined, which will help. For borrowers who can get them, mortgage rates have fallen since last summer. As of December 2008, mortgage commitment rates ranged from 4.97% for the average one-year adjustable rate mortgage to 5.29% for a 30-year fixed rate. In June 2008, the same rates were 5.15% and 6.32% respectively.

Table 1: U.S. Economic Indicators

(Annual % change except where noted)	2003	2004	2005	2006	2007	2008	2009f	2010f
Real GDP	2.5	3.6	3.1	2.9	2.2	1.3	-2.9	1.5
Nonfarm Employment	-0.3	1.1	1.7	1.8	1.1	-0.3	-3.2	-0.9
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	5.8	8.7	9.5
Consumer Price Index	2.3	2.7	3.4	3.2	2.9	3.8	-1.4	1.3
Federal Budget Balance (FY, $billions)	-$378	-$413	-$318	-$248	-$162	-$455	-$1,600	-$1,200

Sources: BEA, BLS and OMB; forecasts by LAEDC

Table 2: U.S. Interest Rates

(4th quarter averages, %)	2003	2004	2005	2006	2007	2008	2009f	2010f
Fed Funds Rate	1.0	2.0	4.0	5.3	4.5	0.5	0.1	1.2
Bank Prime Rate	4.0	4.9	7.0	8.3	7.5	4.1	3.3	4.5
10-Year Treasury Note	4.3	4.2	4.5	4.6	4.3	3.3	2.7	3.8
30-Year Fixed Mortgage	5.9	5.7	6.2	6.3	6.2	5.9	5.2	6.0

Sources: Federal Reserve Board; forecasts by LAEDC

Mortgage rates are not expected to change much during the rest of 2009, at least for prime borrowers. And lenders' terms for non-prime borrowers are likely to remain strict. However, new home prices are dropping as builders attempt to sell out their standing inventory of unsold homes. First-time buyers who can qualify for mortgage loans will have more choices in 2009-2010 than in earlier years. Overall, LAEDC expects total housing starts to decline from about 903,000 units in 2008 to 525,000 units in 2009 and then rise to 781,000 units in 2010.

Business Investment Spending Slows

Business profits and cash flows have deteriorated, in many industries. Adjusted total pre-tax corporate profits during third quarter 2008 (latest data available) were down by -9.2% compared to third-quarter 2007. Profits-by-sector data reflected the spreading economic weakness. Domestic industry profits declined by -18.9% over the year, pulled down by problems in the financial, retail, manufacturing, transportation and other industries. On the other hand, net profits earned from the rest of the world rose by +6.2%. Adjusted total corporate cash flow declined by -3.8% over the year ago period.

Businesses typically invest their cash in new equipment and software. Total equipment spending weakened throughout 2008. Demand was best for information processing equipment and software, which increased by 5.1% last year.

However, business purchases of transportation equipment are declining sharply. Going forward, we expect continued lower demand for commercial aircraft, as commercial airlines are struggling with lower traffic. Fleet purchases of new vehicles also will decline, as stretching out lease terms is a good cost-saving measure. Demand for heavy trucks and railroad equipment also will continue weak until goods movement activity turns up.

Business investment in nonresidential structures actually grew by 11.8% in 2008. However, this industry was hard hit by the credit crunch, and few new projects are able to obtain adequate financing. Thus, nonresidential construction activity will wind down during 2009/2010 as projects that are currently under way get completed. We expect a similar pattern of activity in energy drilling, only this time the primary cause will be lower cash flow due to recent declines in energy prices.

The deteriorating profit picture gives reason for a cautious outlook on business spending. Pre-tax adjusted profits are expected to fall by -14% in 2009 following 2008's decline of -8%. Profitability is expected to edge up some in 2010 as the economy turns around. Business spending for equipment and software is forecast to shrink by nearly -15% in 2009 and to flatten out in 2010. Meanwhile, spending for nonresidential structures will decline by -7% in 2009 and by -14% in 2010.

Government Spending -- Still Rising

The current forecast anticipates continued growth in federal purchases of goods and services during 2009 and 2010. Together, the wars in Afghanistan and Iraq are costing well over $150 billion per year. Defense, veterans' health programs, unemployment and welfare benefits all are growing rapidly. We expect total (inflation adjusted) federal purchases of goods and services will increase by 5.7% in 2009 and by 3.4% in 2010. Though we don't know the exact dimensions yet, the upcoming federal stimulus plan will surely push federal government purchases higher.

State and local government purchases of goods and services are another matter. All states are experiencing weak or declining revenue growth, and many are cutting spending and/or increasing taxes. No matter what the federal stimulus plan includes, revenue growth constraints mean that state/local spending will be flat *at best* in the near future. The LAEDC forecast anticipates that state/local purchases (inflation adjusted) will edge down by -0.1% in calendar year 2009 and rise by only +0.8% in 2010.

Net Exports – Improvement to Continue

Exports (foreign purchases of U.S. products) are shrinking after brisk growth in prior years. Inflation adjusted, total exports of goods and services increased by +6.5% during 2008. However, exports were down sharply in the fourth quarter, as the U.S. was part of a worldwide decline in foreign trade.

Last year's export growth was led by industrial supplies, consumer goods, and capital goods. Slowdowns in the same categories plus automotive products accounted for the fourth quarter's sharp decline. U.S. exports typically reflect the economic situation of the rest of the world, which is reason enough for concern about the forecast period. The value of the U.S. dollar rose on foreign exchange markets during the second half of 2008 and seems unlikely to change much in 2009. This means U.S.-made products will be somewhat less competitive on world markets. Going forward, we expect exports to decline by -6.9% in 2009 and edge up by +0.6% in 2010.

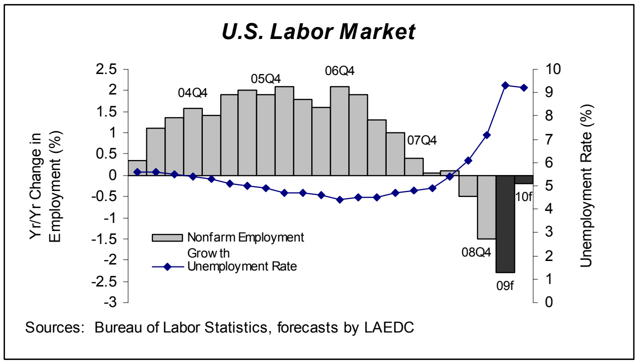
U.S. purchases abroad declined throughout 2008. Imports of goods and services fell by -3.3% compared to an increase of 2.2% during 2007. The slowdown reflected U.S. businesses' attempts to reduce inventories of industrial supplies (as sales growth slowed) plus sluggish automotive sales. These factors are expected to continue well into 2009. U.S. purchases of foreign-made goods and services are forecast to further decline by -7.3% in 2009 and grow by just +1.8% in 2010.

For the U.S. economy, net exports are what matters most (equals gross exports minus gross imports). Net exports contributed +1.4 percentage points to the U.S. economic growth rate during 2008, but that contribution will drop to just +0.3 percentage points in 2009. The net export balance (in constant dollars) reached at a low point in 2006, at -$617 billion, and then improved to -$388 billion in 2009. LAEDC forecasts further significant improvements in 2009, to -$354 billion, before a drop back to -$378 billion in 2010.

Labor Market Conditions

U. S. labor markets reflected the spreading deterioration in the economy during 2008. Total nonfarm employment payrolls shrank by -1,099,000 jobs in the first eight months of the year. Losses were primarily related to the distressed industries—housing, finance, and automotive. By December, a total of -2.97 million jobs had disappeared, with less than 30% of the losses in the distressed industries. Employment will continue to shrink during most of the forecast period, which will create considerable angst in the media and in the halls of government. The year-over rate of decline is expected to worsen from -1.4% in 4q2008 to -2.3% in 4q2009 and then improve to -0.2% by 4q2009.

The U.S. unemployment rate hit a cyclical low of 4.5% late in 2006 and stayed near there through June 2007. Joblessness then increased throughout 2008, reaching 7.2% in December. The nation's unemployment rate will continue to rise as long as economic growth is sluggish, certainly through the rest of 2009 and into 2010. We expect the nation's jobless rate to average 9.3% by 4q2009, peak early at about 9.5% during the first half of 2010 and end the year closer to 9.2%.

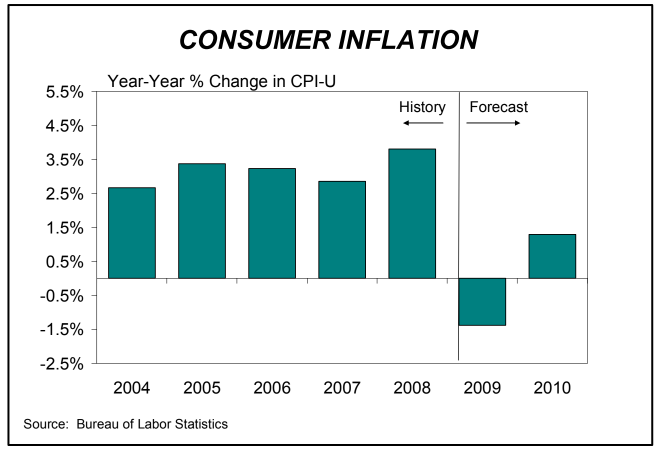


Total compensation of civilian employees increased by 2.9% in the year ended September 2008. Wages and salaries increased by 3.1% during that period, while benefit costs grew at a 2.6% rate. Looking forward, many businesses will have to boost labor productivity to offset declining sales and increases in their other costs. Further, the very weakness 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 2.3% during 2009 and perhaps 1.9% in 2010.

Inflation

Consumer inflation was higher than economic policymakers wanted in the first three quarters of 2008 but dropped sharply in the final quarter. Measured by the Consumer Price Index, energy prices soared by 18.6% between December 2007 and September 2008, while food prices—which had been relatively well behaved—rose by 5.3%. However, energy prices have collapsed since then—falling by -33.7% between September and December 2008. As a result, prices of all consumer goods and services rose by only 0.1% in the year to December 2008, remarkably low under the circumstances.

Going forward, we assume that gasoline prices will remain moderate, drifting slowly upwards during the rest of 2009 and 2010. If that happens, and prices of other goods and services follow current trends, then total CPI ("headline inflation" in the U.S.) will decrease by an average rate of -1.8% during 2009 and increase by 1.3% in 2010—both well below the 3.8% increase registered in 2008.



Crude oil prices climbed a mountain in the first half of 2008 and then plunged down the other side in the last half. Using the West Texas Intermediate spot price, (WTI), oil prices soared from an average $92 per barrel in December 2007 to $134 per barrel in June 2008. By year end 2008, the price was back down to $41 per barrel, the lowest since mid 2004. The main factors propelling crude oil prices downward included the recognition of spreading economic weakness around the globe and increasing inventories in the OECD nations. Going forward, crude oil consumption is expected to decline through most of 2009 and turn up modestly in 2010. On the supply side, production capacity is expected to increase in OPEC and several non-OPEC nations. Thus, industry observers expect oil prices to remain low-to-moderate, averaging $43/barrel in 2009 and drifting north in 2009 to perhaps $55/bbl.

Natural gas prices ended 2007 at $7.15 per thousand cubic feet. By June, the Henry Hub price was up to $12.70/thousand cubic feet. And by December, it was back down to $5.80/thousand cubic feet. Going forward, if weather patterns across the nation remain "normal," industry observers forecast that natural gas prices (delivered to Henry Hub, LA) will average about $5.80/mcf in 2009 and $6.60/mcf in 2010.

Monetary Policy and Interest Rates

The Federal Reserve has reduced its target federal funds rate ten times between September, 2007—when subprime problems first threatened to severely destabilize the nation's capital markets—and

December 2008. By the time it was all over, the fed funds rate had fallen by 500 basis points to a range of 0% to 0.25%.

But cutting rates hasn't solved the Fed's problems. Global capital markets "seized up" several times during this period, as nervous financial institutions shied away from making loans—even to each other—and tried to build their own reserves. To loosen up this credit crunch, the Fed has poured buckets of "liquidity" into capital markets using traditional and, increasingly, non-traditional means. A veritable alphabet soup of programs has been developed with the promise of more to come if necessary. For starters, the Fed makes collateralized loans to U.S. banks under a temporary, special purpose, 28-day "term auction facility" (TAF). As of early February 2009, $413 billion has been lent to participating banks (mostly in New York). Also, the Fed is supporting the commercial paper market with two programs (the CPF—Commercial Paper Facility—and the awkwardly named ABCP MMMF LF—Asset Backed Commercial Paper Money Market Mutual Fund Lending Facility), with another $276 billion outstanding. The Fed's primary dealers—including investment banks, a novel approach—have borrowed $30 billion under the PDCF (Primary Dealer Credit Facility). The Fed has put up nearly $111 billion (collateralized of course) as its part of the rescue of Bear Stearns and AIG. And finally, the Fed has just begun to make outright purchases of longer-term bonds in order to support other types of credit. So far, the Fed owns about $7 billion of mortgage-backed securities, but intends to buy other types of asset backed bonds to support consumer credit and perhaps commercial real estate. The total tab so far is $1.2 trillion, with more on the way.

Is all this activity really necessary? Government policymakers certainly think so. To put it simply, the economy needs borrowed money in order to grow. Consumers need credit to purchase homes, furniture, appliances, cars and trucks. Business firms need to finance their inventories and purchases of new plant and equipment. State and local governments often borrow to pay for infrastructure projects. When the capital markets seize up, financial institutions become reluctant to take risks, especially lending risks. Thus, the credit crunch has the potential to deepen and extend the current economic recession.

The Fed's target fed funds rate cannot really go down any more. With few inflation concerns on the near horizon, the Fed is unlikely to raise rates until the economic recovery takes hold. In turn, this suggests short-term interest rates will stay put at current levels until the latter part of 2010. After that point, the Fed will want to return rates to more normal levels as soon as possible.

Long-term rates traced an irregular path through 2008 with sharp moves—up and down—during and after particularly intense "seizures." The 10-year Treasury note yield stood at 4.1% in December 2007 and remained in a range of 3.5% to 4.1% through August 2008. Rates slid during the last four months of the year, with December 2009 averaging just 2.4%. During the same period, the 30-year fixed mortgage rate started at 6.1% in December 2007 and then drifted up to 6.5% in August 2008 before ending the year at 5.3%.

The outlook for long-term interest rates is highly uncertain, and recent history certainly does not offer many clues. Dollar depreciation and concerns about swelling government deficits could push long-term rates up. However, the slowing economy and lower inflation should put downward pressure on rates. A tentative compromise forecast anticipates that long-term rates stabilize during the rest of 2009, turning up as signals of recovery become more apparent. This would put the 10-year note yield at about 2.7% toward year end 2009 and perhaps 3.8% by year end 2010. Meanwhile, the fixed mortgage rate would be in the 5.2% range at the end of 2009 and about 6.3% at year end 2010.

Fiscal Policy

Timely fiscal policy can make a real difference to the U.S. economy. The first stimulus plan—the Economic Stabilization Act of 2008—doesn't get much acknowledgement these days. But the tax rebate checks arrived just as gasoline prices were shooting up, mitigating consumers' loss of purchasing power. The new administration is working with Congress to enact a new stimulus plan for 2009-2010. The details have not been fully published at this writing, but the plan will include a variety of tax cuts and spending programs totaling $789 billion.

Separately, the Bush administration and Congress enacted last year the Troubled Asset Relief Plan (TARP), and authorized $700 billion to be spent helping commercial banks by relieving them of their "bad" assets. The first tranche of the TARP, pegged at $350 billion, has been used to inject capital to support bank balance sheets and provide special assistance to the U.S. auto industry. The Obama administration has sketched out some plans for the second $350 billion and possibly more. Stay tuned.

However the final stimulus and TARP programs turn out, the federal budget deficit is set to soar to previously unheard of dimensions, perhaps $1.5 trillion in fiscal year 2009 before dropping back to perhaps $1.2 trillion in fiscal year 2010.

Risks to the Forecast

The baseline forecast calls for the U.S. economy to decline into the third quarter of 2009 before entering a modest recovery through 2010. Consumer spending will follow a similar pattern. Automotive and housing related purchases will likely lead the recovery just as they have led the downturn. Government spending will grow at a healthy pace, which will help to offset the expected declines in business investment spending, exports and the housing sector. Employment will decline and unemployment will increase in both 2009 and 2010. Inflation looks like it will be a non-problem during the forecast period.

A number of uncertainties make forecasting the U.S. economy especially difficult. 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 a serious inventory problem: a large stock of unsold new and existing homes. Lender-owned foreclosed homes are growing in many regions and also must be sold. How low must new home construction fall to clear the market? And how much will home prices have to decline to entice enough buyers back into the market (assuming they can get a mortgage)?

   Optimistic industry observers expect the construction downturn to bottom out by the end of 2009. Pessimists don't expect the industry to bottom out until late in 2010. We are 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' demonstrated lack of interest in those products. Banks have raised credit standards and required more documentation for all types of borrowers. For homebuyers, most banks offer only conforming mortgages that can be sold to the government housing agencies (FNMA, Freddie Mac, and the FHA).

   For the forecast, the issue is how much—and how much longer—bankers' rediscovery of traditional credit analysis (which focuses on the borrower's potential risk—i.e., ability to repay the loan) will dampen business and household borrowing *and spending* for big-ticket purchases.

3. **The length/depth of auto industry restructuring.** The current economic recession is exacerbated by the "Detroit Three's" long-term loss of U.S. sales and market share to foreign-owned makes. While the federal government may provide some support, there are strings tied to the aid package. GM and Chrysler (Ford has declined the aid offer so far) must work with their stakeholders (the auto union, bond and debt-holders) to reduce their financial risk and shrink their operations enough to satisfy the government, a difficult task.

4. **"Fear."** American consumers and businesspeople are being inundated with media accounts of the economy's troubles and government policymakers arguing about solutions. The economy has certainly felt the impact of this exposure to grim reality, as consumers and business leaders both are acting extremely warily. This cautious attitude must be changed before the economy can begin to recover.

III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

The world economy grew by only 2.2% in 2008, down from 3.8% in 2007. Global growth will slow further in 2009 to a mere 0.5%, the lowest rate since WWII. Global output and trade plummeted in the last months of 2008 as the contagion set off by the U.S. financial crisis spread from the developed world to emerging economies.

Pervasive uncertainty surrounding the financial sector led to a fall in asset values including home prices. Consequently, household wealth declined and consumer demand went down with it. Worldwide, disruptions in the provision of credit placed a major constraint on household spending and business investment.

The collapse in demand also had a negative impact on commodity prices. In spite of cutbacks in production, oil prices have tumbled by 60% since their July peak with additional declines anticipated in 2009. Food and metals prices have also fallen, which translates to lower income for commodity exporting countries. Contrary to last year's worries, inflationary pressures are subsiding. Inflation is expected to remain low for the coming year, and possibly even negative in some advanced economies.

As 2009 progresses, stabilization in the U.S. housing market should help anchor a very gradual worldwide recovery. A revival of economic activity will require a coordinated and comprehensive policy response: restructuring of the financial system to reduce uncertainty, measures to restore the efficient flow of credit, and expansionary monetary and fiscal policies.

Major Regions

Asia

With the notable exception of Japan, a handful of Asian economies will continue to grow in 2009 although at a strikingly slower pace. As the global economic downturn intensifies, demand for Asia's export goods will continue to ebb. The ongoing credit crunch will also make it more difficult to obtain trade finance. In addition, tighter lending standards, volatile capital flows, depressed equity prices and wavering consumer confidence will contribute to lower growth. Trade within Asia has dropped by even more than the region's exports to Europe or America. In a sharp reversal of last year's concerns about inflation (though still above target rates in several countries), policy makers in Asia will be concentrating on maintaining financial stability and supporting domestic growth. Central banks in the region are focused on maintaining orderly credit conditions. They must also design monetary policies that balance inflation concerns with ensuring adequate liquidity for the efficient functioning of capital markets, and where conditions limit the effectiveness of monetary policy, fiscal stimulus as well.

Now firmly entrenched in recession territory, **Japan's** economy is forecast to shrink by -2.6% in 2009 with anemic growth of +0.6% possible in 2010. Japan's ongoing dependence on exports is the primary culprit. As the worldwide credit crunch pinched off external demand, exports of goods and services plunged by -35% in December from the previous year. Industrial output fell by -9.6% in December following an -8.5% drop in November. Industries hit particularly hard are transport (including automotive), machinery and electrical equipment manufacturing. Since August, the government has presented two stimulus packages; the most recent (mid-December) is worth US$240bn. Political wrangling has left implementation of any stimulus plan in limbo, although with public debt at approximately 170% of GDP, any fiscal stimulus would put additional pressure on an already weak economy. High fuel and food prices (which make up a larger proportion of household spending in Asia than in most other regions) coupled with weakening wage expectations led to dwindling consumer confidence and a decline in consumer spending. Consumer price inflation (core) fell to 0.2% in December while household consumption declined for the tenth straight month. Lower profit expectations have likewise prompted corporations to scale back on investment plans. Japan finished 2008 with an unemployment rate of 4.4%. The Bank of Japan has cut its main policy interest rate to 0.1% and is expected to leave it there until the economy moves out of recession.

China's economic growth rate will moderate significantly in 2009. GDP growth fell to 6.8% in the fourth quarter of 2008, down from 9% in the third quarter. Growth is forecast to chug along at 6.7% in 2009. While this appears positively robust compared to the rest of the world, it is half the strong 13% rate China achieved in 2007 and is the lowest growth rate in 20 years. Exports to the west have slowed, but a number of other factors have contributed to China's economic deceleration. The housing construction industry has come to a virtual standstill resulting from the government's efforts to deflate a potential real estate bubble. This in turn has reduced domestic demand for building materials. Industrial production slowed sharply, growing by 5.7% during the 12 months ended December compared with 18% over the previous year. One bright spot is consumer spending, up by 18% over the year, though this is likely to moderate in response to job losses and smaller wage increases. The Chinese government has introduced a number of fiscal stimulus measures: transportation investment to expand by 70% in 2009, additional healthcare and public housing spending, and rebates on purchases of consumer goods. Largely insulated from the credit crunch crippling most advanced economies, bank lending increased by 19% over the year. The inflation rate fell by -2.4% over the year reflecting a slowdown in food and consumer goods prices offsetting higher utility costs. China's current account surplus will remain substantial but is likely to fall to 7.5% of GDP in 2009 and 5.8% in 2010.

South Korea's economy is expected contract by -4.0% in 2009, down from a 4.1% gain in 2008. In the fourth quarter, South Korea's GDP shrank by -3.4% compared to the year before. The story here is the same as elsewhere in Asia: a collapse in exports and a sell off of inventories have caused steep declines in industrial output. At the end of year 2008, South Korea's CPI stood at 4.8%, falling from a mid-year high of 5.9% as the Bank of Korea hiked rates to counter inflation risk. In 2009, the CPI is expected to drop to 4.0% as increases to food and fuel prices moderate. In response to weak domestic demand, the central bank reversed its monetary policy stance and lowered the base interest rate over the fourth quarter from a high of 5.25% to finish the year at 3.0%. The Korean won weakened dramatically in 2008 as the current account balance posted a deficit of -1.3% of GDP although the gap should narrow somewhat in 2009 to -0.7% of GDP. The Korean banking system was strongly impacted by the global credit crunch. Having borrowed heavily to finance a surge in domestic spending, firms are now having a hard time financing new investment.

India's economy is expected to slow in 2009. After tumbling from a growth rate of 9.3% in 2007 to 7.3% in 2008, the coming year is expected to post gains of only 5.1%. India continues to face inflationary pressures from high resource utilization and strong credit growth. The CPI jumped to 8% in August. The Reserve Bank of India responded by raising interest rates and tightening reserve requirements. The CPI is expected to moderate in 2009 to 6.7% as increases in commodity prices decline. A major policy dilemma for India will be how to balance inflation risk with weaker growth. In an abrupt about face, the central bank cut the interest rate by 100 basis points in October. Corporate profits have fallen off and consumer spending on durable goods has also declined. India's current account balance stood at -2.8% of GDP in 2008 and is expected to worsen in 2009 to -3.1% of GDP. The government has intervened to support the rupee and is considering liberalizing restrictions on foreign direct investment. India has been hit hard by the global financial crisis. In an attempt to boost liquidity, the government has eased restrictions on lending in the property sector and increased the availability of export credit finance

Europe

The economies of the Euro zone are now in a deep recession, the worst in three decades. Just a year ago, when the financial crisis was surging through the United States and Britain, the Euro-zone was enjoying comparatively faster growth and lower unemployment. That all changed in late 2008. Already weakened by high energy prices and an overvalued currency, the credit crunch stormed Europe's shores just when businesses and consumers needed access to credit to tide them over tough times. Additionally, with much of the world in recession, demand from the Euro zone's trading partners has fallen off sharply. The decline in confidence has particularly hurt Europe's exporters of capital goods as businesses around the world postpone investment plans. The European Central Bank (ECB) has taken a more conservative approach to dealing with the crisis than its counterparts in the United States and Britain. This is due in large part to political considerations stemming from the Euro-zone's unique structure. However, the ECB has acted to supply large amounts of liquidity to banks, and at its February meeting, the ECB held its main interest rate at 2%. A further cut to 1.5% in March is widely expected. Growth in the Euro area is forecast to contract by -2.0% over 2009 with a meager up tick of +0.2% in 2009.

After expanding by an estimated 1.3% in 2008, the **German** economy will decline by -2.5% in 2009. This will be the first full year contraction of the German economy since 2002. Heavily reliant on exports, German firms have responded to weak demand abroad by cutting back on planned investment. Consumer confidence is wavering as well. In January, the German government introduced a fiscal stimulus package that featured extra spending of US$67bn. The additional expenditure along with reduced tax revenues will erase the 2008 budget surplus (+0.3% of GDP) and turn it into a deficit of -1.0% in 2009. Consumer price inflation is expected to fall from its 2008 level of 2.8% to just 0.6% in 2009. Germany may experience the beginnings of a fragile turnaround in 2010 (+0.1%), but will largely depend upon the pace of global recovery.

The economy of the **United Kingdom** has also slumped into a serious recession. After stalling out in 2008 with a growth rate of +0.7%, the economy is expected to contract in 2009 by -2.8%. In the last quarter of 2008, the economy shrank by -1.5%, the worst quarterly decline 30 years. Hit particularly hard by the financial crisis, 2008 saw the effective nationalization of two major British banks: Royal Bank of Scotland and Lloyds. Squeezed by the credit crunch and falling consumer demand, businesses have shed inventories, halted investment and reduced staff. Consumer spending has been bolstered by falling energy prices and declining mortgage rates. However, rising unemployment and an increase in precautionary savings will exert downward pressure on household expenditure. Inflation stood at 3.6% in December but will fall to an average of 1.2% over the course of 2009. The Bank of England cut its main interest rate to 1.0% in early February and has indicated further cuts are in the offing if deflationary pressures continue to mount.

The **French** economy is expected to decelerate in 2009, falling from a growth rate of +0.8% in 2008 to -1.9%. GDP shrank by -0.8% in the fourth quarter, its largest drop since 1993. Both the industrial and consumer sectors are showing signs of increasing weakness. The French government plans to alleviate the impact of the slowdown through stimulus in the form of higher public investment, shoring up corporate liquidity and support of unemployed and low paid workers. In the meantime, French president Nicholas Sarkozy will have to counter the risk of political instability as he attempts to implement his plans for structural reforms within the economy, particularly in the labor markets. As is the case elsewhere in Europe, a gradual recovery is expected to take root in 2010, but again, it will depend on the stabilization of financial markets, and a resurgence of global activity.

The **Italian** economy will dip further into negative territory in 2009. Having already fallen by -0.6% in 2007, growth will decline again in 2010, to -2.1%. In October, as the global financial crisis worsened, the government adopted measures to boost confidence in the nation's banks, but it is not clear if the government's actions have had any effect. With high levels of taxation, a public debt/GDP ratio above 100% and resistance to fiscal reform, the outlook for the Italian economy is uncertain. Reforms that should help the business sector have been introduced in recent years, but they remain partial. With a political structure characterized by instability, further progress is doubtful in the short term. Helped by a strong euro and weak domestic demand, inflation peaked in August at 4.1% and is expected to decline to an average of 2.5% in 2009. Lagging behind the major European economies, Italy is not expected to experience positive growth in GDP until 2011.

Toppling from its position as one of Europe's fastest growing economies, **Spain's** economic growth rate will decline in 2009 from +1.2% (2008) to -1.7%. Triggered by a collapse of the construction industry, Spain has the highest unemployment rate in Europe and worse is yet to come. The government expects unemployment to rise from 13% to 16% over the coming year. Competition for scarce jobs is adding to tensions between the native born population and Spain's five million immigrants (an eightfold increase over the past decade). Increased spending and tax cuts to counter the effects of the economic downturn will increase the fiscal deficit from 1.6% of GDP in 2008 to 2.9% in 2009. The government has also announced measures to mitigate the effects of the fall-off in the construction industry. The objective is to prevent further bankruptcies and the attendant disruption within the banking industry. A drop in domestic demand should help improve Spain's external balance, narrowing the current account deficit from -9.4% of GDP in 2007 to -7.8% in 2009.

The Americas

The economies of the nations of the Americas will grow at low to negative rates in 2009, reflecting the global downturn that started in late 2008. A number of countries have been negatively impacted by tightening credit and falling commodity prices. Slow business activity in the United States and Europe will reduce demand for exports from the region. Demand from emerging markets in Asia, especially China, had supplemented growth earlier, but by the end of 2008 that source of demand dried up as well. With little upside, the countries of the Americas are shifting their focus from inflationary concerns to fighting recession. Stimulative fiscal and monetary actions have been put into effect in an attempt to moderate the repercussions of the global financial crisis and the economic downturn.

Canada's economy has suffered recently from its interconnectedness with the United States. The U.S. buys approximately 80 percent of Canada's exports. Lagging U.S. demand and falling commodity prices (dropping from record highs earlier in 2008) have cast shadows on the 2009 economic outlook. The Canadian economy is forecasted to contract by -0.8% in 2009, down from growth of 1.4% experienced in 2008.

All parts of Canada will feel the effects of the national downturn. The impact will be most severe in the central portion, where most of the nation's manufacturing, including the auto industry, is located. Western Canada is feeling the effects of falling oil prices, causing the cancellation or delay of marginal oil sands projects. The western region is also feeling the effects of tighter lending standards and declining confidence in the housing market, leading to reduced construction. British Columbia's home prices have displayed the sharpest decline in nearly 30 years. Canada's eastern provinces, the Atlantic region, will feel mixed effects resulting from an increase in domestic demand, stemming from capital investment projects, set against the strong effects of the US recession. This pretty much guarantees the region's growth rate will remain relatively close to zero in 2009.

Due to the current state of the economy, new spending and tax breaks equaling C$40 billion are to be infused into the 2009 budget. These measures include large scale spending on infrastructure plus the addition of C$50billion to a fund (already C$75billion) to purchase asset-backed securities from Canadian banks in an attempt to increase lending. Because of these measures, Canada will have its first budget deficit since 1996, estimated to total C$34 billion at the start of this fiscal year, and cumulating to as much as C$85 billion before government spending and the resulting deficit return to normal (in an estimated four years).

Canada's economy had grown consistently from 1997 to 2007. This growth was cut short starting in September of 2008, when the American financial crisis hit. The value of the Canadian dollar dropped; the Bank of Canada cut rates; and the newly adopted fiscal policies have helped reduce the severity of Canada's recession. The good news is that positive growth is expected for 2010 (just in time for the winter Olympics in Vancouver). Also, the lower currency value could mean increases demand for exports including Canadian lumber and manufactured goods exports, while decreasing imports from the U.S.

Canada

	2007	2008e	2009f
Total Population (millions)	32.98	33.21	33.54
Population Growth (annual %)	1.0%	1.0%	1.0%
GDP (billions of current US$)	1,271.59	1,288.78	1,279.19
GDP Growth (annual %)	2.7%	1.4%	-0.8%
Inflation, GDP deflator (annual %)	-3.8%	2.4%	0.5%
Value of the C$ (versus US$)	$1.07	$1.07	$1.22

Mexico's economy has also suffered recently from its close relationship with the United States. The U.S. is responsible for 25% of Mexico's GDP. The U.S. is Mexico's largest trading partner, taking 82% of exports and supplying 50% of imports.

Lagging U.S. demand and falling commodity prices have darkened Mexico's economic outlook for 2009. Heavily dependent upon oil revenues and trade, the Mexican economy is forecast to contract by as much as -1.8% this year, down from the positive growth of 2.0% experienced in 2008.

Mexico's main economic focus as of late has been inflation, which has not been helped by the peso's decline of 21% in 2008. The current inflation rate (of 6.5 %) is well above Mexico's target range of 2% to 4%: so Mexico's central bank has been reluctant to cut rates due to the risk of more inflationary pressure. But as Mexico's recession concerns deepen, their short-term inflationary concerns will have less priority. In January 2009, the Mexican Central Bank cut the key overnight rate (by 50bp) for the first time since April 2006, and it is expected the overnight rate will have dropped to 6 percent by mid 2009.

The slowing economy is expected to cause employment losses totaling between -160,000 and -340,000 jobs in 2009. Worse yet, the annual $20 billion sent home to Mexico by migrant workers in the U.S. has already been affected. The country's trade deficit is expected to widen as U.S. import demand declines further.

To combat these negative pulls on the economy, a stimulus package has been created that includes reduced prices for gas, increased infrastructure spending, temporary social security benefits for the unemployed, and lower electricity prices for small business. In addition, Mexico plans to encourage more foreign direct investment (FDI) from other parts of the world. In 2008, 40 percent of total FDI originated from Europe totaling close to $25 billion.

The North American Free Trade Agreement (NAFTA) has tripled the amount of trade that Mexico carries on with the U.S. and Canada. While Mexico welcomed the election of Barack Obama, his links to labor unions have given rise to fears the new U.S. president will open the NAFTA agreement to renegotiation.

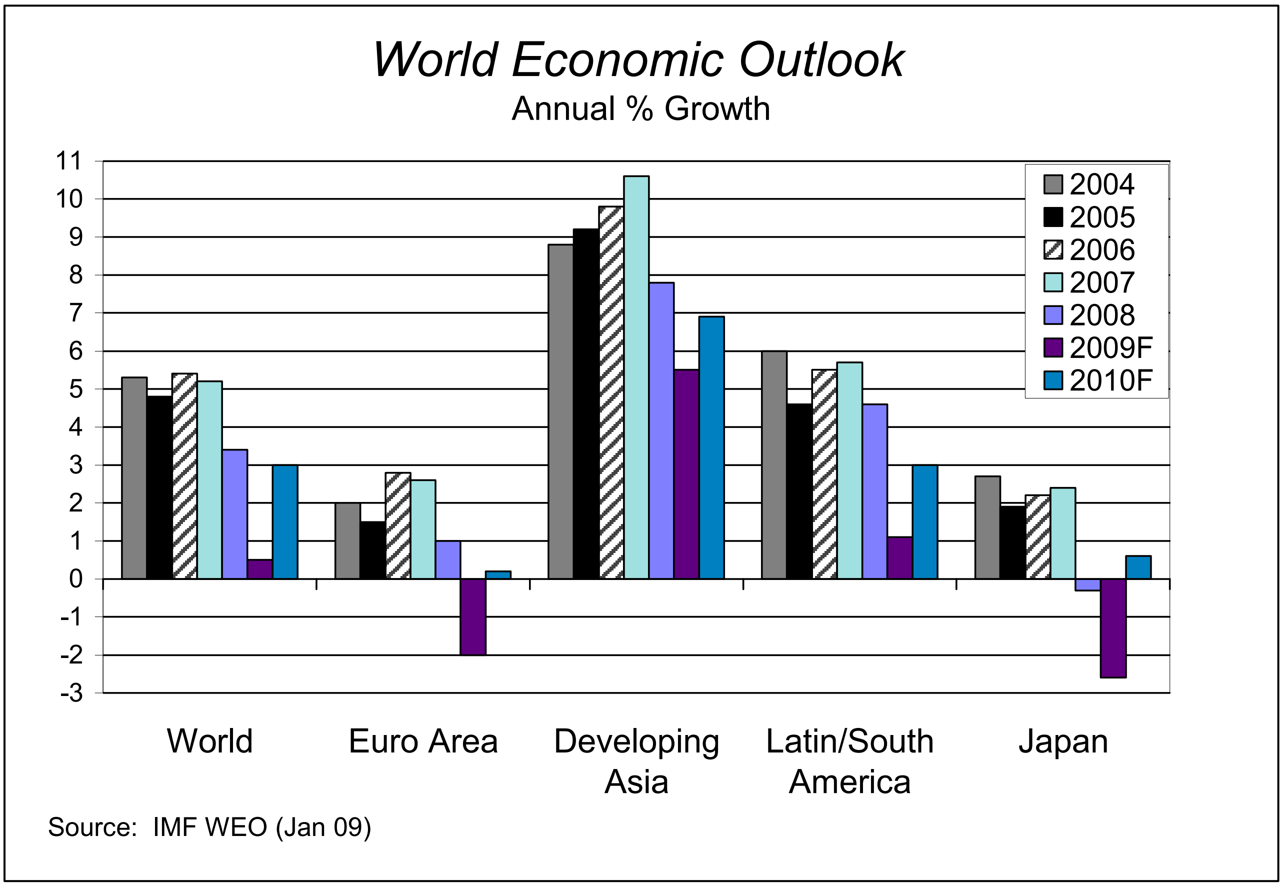
There are some things in Mexico's favor at this time. The small size of Mexico's banking industry has helped to insulate them from the financial crisis. And the high price of oil earlier in 2008 left them with a budget reserve of approximately $10 billion to use in expanding the 2009 budget.

Mexico

	2007	2008e	2009f
Total Population (millions)	105.28	109.96	111.06
Population Growth (annual %)	1.0%	1.1%	1.0%
GDP Growth (annual %)	3.3%	2.0%	-0.0% to -1.8%
Inflation, GDP deflator (annual %)	3.2%	6.2%	2% to 4%
Value of the Peso (versus US$)	10.800	11.016	***
Commercial Bank Prime Lending Rate	7.56%	7.75%	5.25%

Brazil's economy is forecast to decline significantly in 2009, compared with the 5.2 percent growth pace of 2008. The fourth quarter of 2008 displayed the steepest output decline seen since 2001. Car production was down by -54% over the year in December 2008, and heavy vehicle traffic and business confidence had the worst declines on record. Energy consumption was down to the second lowest level, outdone only by the 2001 energy crisis. Brazil's stock market (Bovespa) fell -41% from September 2008 to December 2008. The value of Brazil's currency, the real, plummeted in October 2008 stemming from flawed derivative contracts in the private sector. An estimated 40% of financial wealth was lost in Latin America last fall, due to drops in the stock and other asset markets and currency depreciation, which will affect next year's growth. The fourth quarter of 2008 also marked a decline in commodity prices and demand, resulting in reduced exports and a current account deficit for Brazil. Retail sales growth has slowed from 10.4% (1Q through 3Q 2008) to 5% (4Q 2008) growth, the lowest growth rate in two years. Further weakening of the labor market coupled with tight credit will dampen consumer confidence and retail sales.

All of these recessionary pressures pushed the Banco Central do Brasil to reluctantly cut rates in January 2009 to 13.25%, the first cut since September of 2007. The central bank is forecasting an additional cut of 50bp in 2009, but if a sharp downturn in growth continues the rate may be cut by up to 100bp. The unemployment rate averaged at 8 percent in 2008 and is predicted to rise to 10 percent in 2009. Brazil has been increasing its role in the region, competing with Venezuela for the vacant position of chief advisor of Latin American affairs; a position that the U.S. left open as it turned its attention to the Middle East. Venezuela's oil wealth gave them the means to push an anti-American agenda but with the fall in the commodity price of oil and restricted economic growth, conditional programs (that propagate anti-American sentiment through foreign aid programs) are being cut, and Brazil is stepping in trying to build its prominence in the region to the point that it can obtain a United Nations Security Council seat.



Foreign Exchange Rates

The U.S. dollar, which had been gradually declining against other major currencies since 2002, posted modest gains during the third quarter of 2008. Data from the U.S Treasury indicate this was at least partially attributable to short-term inflows of funds from abroad as global fears grew about financial system instability. A sustainable strengthening of the dollar is unlikely, however, until the U.S. economy begins to recover. Long-term inflows are currently negative as low yields in the US provide little support for the dollar.

The **European Monetary Unit (euro)** fell by 4.9% against the dollar in 2008. Reaching record heights mid year, the euro lost much of the ground it gained against the dollar in 2007. The euro derives much of its strength from the relative weakness of the dollar, but feeble demand from abroad for EU exports has worked to moderate relative values between the two currencies.

The **Chinese yuan** increased in value against the U.S. dollar by 6.5% from the beginning to the end of 2008. Prompted by concerns last year of growing inflation, and in response to critics of Chinese trade policy, the Chinese government allowed the yuan to appreciate against the US dollar. Such concerns have largely dissipated as China faces the challenges presented by a drastic decline in demand for exports and a collapse in its domestic housing construction. Nevertheless, Chinese authorities will continue to hold the yuan in a managed exchange rate system, allowing it to appreciate gradually against the US dollar.

The U.S. dollar decreased by 23% in value against the **Japanese yen** from the beginning to the end of 2008. The strong yen and a plunge in demand for its exports pushed Japan into recession in the second quarter of 2008. Conversely, with manufacturing operations throughout the United States, Japanese companies are well positioned to take advantage of anticipated declines in the value of the U.S. dollar.

After appreciating by only +0.5% from the beginning to the end of 2007, the **U.K pound** took a nose dive in 2008, losing 26% of its value relative to the USD in 2008. While a falling pound would normally be welcomed by U.K exporters, no one is buying. British banks are also in deep crisis. Scared off by securitized debt, or anything else in British pounds, investors have fled the UK market further driving down the value of the currency.

Table 3: Foreign Exchange Rates of Major U.S. Trading Partners*

Country (Currency)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Broad Currency Basket (index)**	122.10	127.90	124.20	113.20	108.10	111.60	106.80	98.80	99.83
Canada (C$/US$)	1.500	1.593	1.580	1.292	1.203	1.166	1.165	0.988	1.224
China (yuan/US$)	8.28	8.28	8.28	8.28	8.28	8.07	7.80	7.30	6.82
Euro Zone (US$/ C)	0.939	0.890	1.049	1.260	1.354	1.184	1.320	1.460	1.392
Japan (Y/US$)	114.4	131.0	118.8	107.1	102.7	117.9	119.0	111.7	90.8
Mexico (peso/US$)	9.62	9.16	10.43	11.24	11.15	10.63	10.80	10.92	13.83
South Korea (W/US$)	1267	1314	1186	1192	1035	1010	930	936	1262
United Kingdom (US$/£)	1.496	1.454	1.610	1.784	1.916	1.719	1.959	1.984	1.462

Year-over-year % change of the value of US$ relative to toher currencies

Country (Currency)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Broad currency basket (index)**	6.30%	4.53%	-2.98%	-9.72%	-4.72%	3.14%	-4.49%	-8.10%	1.03%
Canada (C$)	3.70%	5.84%	-0.82%	-22.29%	-7.40%	-3.17%	-0.09%	-17.91%	19.28%
China (yuan)	0.00%	0.00%	0.04%	-0.04%	0.00%	-2.57%	-3.41%	-6.98%	-6.92%
Euro Zone* (c)	6.80%	-5.51%	15.16%	16.75%	6.94%	-14.36%	10.30%	9.59%	-4.89%
Japan (Y)	10.70%	12.67%	-10.27%	-10.92%	-4.28%	12.89%	0.92%	-6.54%	-23.03%
Mexico (peso)	1.40%	-5.05%	12.17%	7.27%	-0.79%	-4.95%	1.59%	1.07%	21.07%
South Korea (W)	10.30%	3.58%	-10.79%	0.50%	-15.17%	-2.48%	-8.60%	0.64%	25.83%
United Kingdom (£)	7.40%	-2.89%	9.69%	9.75%	6.89%	-11.46%	12.25%	1.26%	-35.70%

***Annual Foreign exchange values as of December 31st**
**** Broad Currency Basket**
Source: Federal Reserve Board

IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

The California economy weakened throughout 2008. Problems that originated in housing and mortgage finance spread to the rest of the economy, leaving few industries unscathed. More bad news arrived in the form of soaring gasoline and diesel prices, which caused considerable pain for both business and consumers in the middle of the year. By the time fuel prices began to recede, the damage had been done. A number of prominent retail chains shrank or disappeared altogether, due to their inability to obtain enough financing to purchase inventories for the all-important holiday season. The state's auto dealers suffered greatly from the combined impact of high fuel prices and the credit crunch.

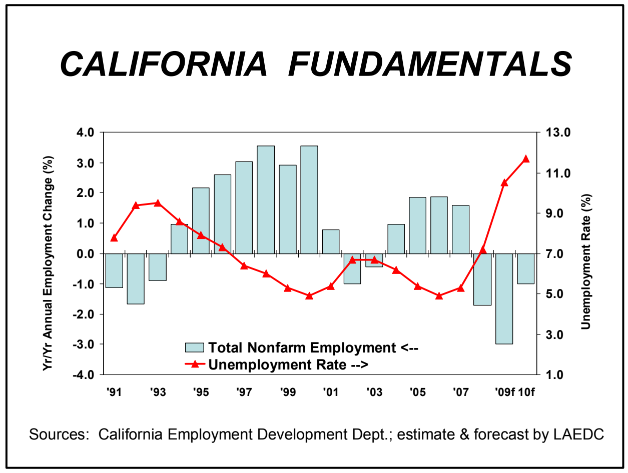
As 2009 begins, California is in the throes of a serious recession. Employment is declining in most areas of the state. Only a few industries are growing. The economic news in California will be mostly bad during 2009, especially in the first half of the year

There are worries in addition to the recession

- One is water. California's water supply likely will be short in 2009. The water level in the state's reservoirs is well below average, due to less-than-normal precipitation the past few years. Worse, environmental rulings threaten much of the state's agriculture industry and all urban areas that rely on water traversing the Sacramento-Bay Delta, which faces innumerable environmental problems.
- Another worry is the state government's budget deficit problem, which has gone from bad to worse to horrific. The result has been delayed payments to vendors, unpaid furloughs for state employees, and even delayed refunds for the state's taxpayers. The state is also reducing and delaying payments to counties, cities and school districts, impacting their operations. What a mess!

The economic outlook is downbeat

During 2009, employment will fall by -3.0% in California, or by -447,500 jobs. The unemployment rate will ratchet up into double digits, averaging a painful 10.5% this year. The economic downturn should hit bottom before the end of 2009. When it finally resumes, growth will be moderate at best. As a result, the state's labor markets will weaken further in 2010, with nonfarm employment declining by -1.0% or by -150,100 jobs. Unemployment will remain uncomfortably high, averaging 11.7% next year.



Positive Forces for 2009 and 2010

Health care: This industry seems to grow in fair economic weather and foul. Demand is driven by the growing population, especially those over 60 years of age, who use medical services intensively.

Private education: This industry runs the gamut from private universities to private K-12 schools to technical and career training schools. Demand is driven by the need for more education, training and re-training to make headway in today's modern economy.

Information: This industry will see muted growth, as some sectors (like gaming software, the internet, and perhaps entertainment) are growing while others (newspaper publishing, traditional telephony) are shrinking.

Some Negative Forces

Housing and its related activities: New home construction is in a state of depression right now, and the pain will continue in the near future, especially in the inland areas of the state. The market for existing homes is giving off mixed, but-intriguing signals. These represent a bit of progress in the current environment of rising foreclosures and falling home prices.

Retail and autos: It's no longer just the housing related industries that are struggling. In California, consumer spending is dropping as well. Retail stores of all types are closing down and jobs are disappearing rapidly. The state's automotive dealers have been especially hard hit.

Environmental regulations: Efforts to "green" the state's ports, as well the looming implementation of AB 32 (the greenhouse gas legislation) are bringing uncertainty and higher costs to many industries. The recession will make it harder to pay for the required investments.

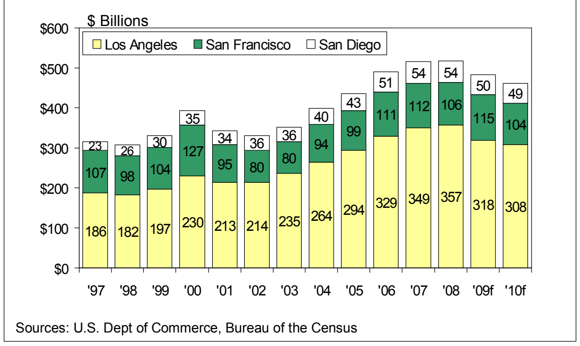
Trends in Major Industries

Agriculture: On the surface, 2008 looked like a pretty strong year for the state's farms, with revenues boosted by healthy exports of California grown products. Also, farm labor shortages did not materialize as had been feared. However, the state's farmers were faced with significant cost increases in the form of higher prices for feed and fuels, which hurt their bottom line. In addition, water supply has become a serious concern due to the continuing drought and environmental issues.

Farm statistics are released with a lag. The latest information indicates California farms received $39.6 billion in gross cash income in 2007, up by 13% from the previous three years. Net farm income was $12.7 billion in 2007, a substantial increase from the $9.66 billion average of 2004-2006. In 2008, an estimated 390,300 workers were employed by California farms and nurseries. While this was up by only 1.0% from 2007, last year's employment was the highest since 2000. Also, exports of California grown farm and processed food products grew by an estimated 15% in 2008.

2009 will be a challenge for California's farmers. Prices of several important California products dropped dramatically in late 2008, which will hurt even though fuel costs have collapsed too. Further, California farm and food exports may well decline this year, due to lower demand from nations hit hard by the global recession. A final factor to consider: water shortages are likely in 2009. We don't know yet how big the cutbacks will be, but estimates range from "bad" to "worse."

International trade: Imports through California's three customs districts weakened through much of 2008, with a pronounced decline at year end. Exports held up better early in the year, but also turned down late in the year as the global financial and economic downturn spread to key markets in Asia. Exports and imports both will continue to worsen through much of 2009. Imports will bottom and begin to improve once U.S. retailers start to increase orders from their foreign suppliers later in the year. Exports will not improve until global financial and economic conditions begin to mend.



California International Trade
(Value of two-way trade through custom districts)

With fuel costs high and declining demand for their services, freight transportation firms and their customers are evaluating the costs of their distribution and logistics chains. California ports are at risk because shipping lines and/or the major customers might switch to an all-water route from Asia to the U.S. East Coast. West Coast ports have been losing market share to Gulf and East Coast ports due to concern about congestion at Los Angeles/Long Beach (not true). Looming in the future is the expansion of the Panama Canal, which will be able to handle the largest container ships that mostly call at Los Angeles/Long Beach.

The state's three customs districts will record a collective decline of -10% in two-way trade value during 2009. Two-way trade value will bottom during 2010, recording a smaller decline of -3%.

Technology (including aerospace): The different components of California's tech sector have widely different outlooks. Business demand for technology products is likely to be weak, especially in the first half of 2009 when businesses are reducing costs to survive the recession. Sales could hold up a bit better on the consumer side. Demand for high-end consumer electronics is sagging, but gaming software (and machines) will do better, a benefit to the California firms involved in that sector of the industry.

In the aerospace sector, a number of major government-sponsored projects are underway in the state, including satellites and unmanned aerial vehicles. Significant sub-contracting also takes place on Air Force fighter planes. The new administration seems likely to maintain current programs in the near future. However, the Defense Department's upcoming quadrennial review, set to be released late in 2009, could lead to changes in priorities.

As to commercial aerospace, Airbus and Boeing are scrambling to adjust their production schedules due to labor problems (Boeing), delays in bringing new aircraft to the market (Boeing's 787 Dreamliner and the Airbus 380), and the global recession. Both manufacturers have hefty backlogs, but their cash-pinched airline customers are delaying deliveries and even canceling orders. California subcontractors to Airbus and Boeing are understandably on edge, and some may experience holes in their own production schedules after the dust has settled.

Tourism: 2008 was a period of transition for California's tourism industry. The year started out fairly well, but conditions deteriorated markedly in the last four months. The state's hotels reported mild declines (under -5%) in occupancy rates early in the year but these worsened to the high-single digits by year end. Similarly, hotel room rates were up by 5+% in January but down by about -2% in December. Preliminary results from Smith Travel Research indicate the statewide occupancy rate declined by -4.5% in 2008 to 66.0%, while the average daily room rate increased by 2.8%. A number of new hotel properties opened in California during 2008 and existing hotels While job counts are falling in most metro areas, those in the best (or least bad) shape include Bakersfield (with employment gain of just +0.3% over the year to December 2008), San Francisco (down by -0.9%) and Los Angeles (-1.0%). Troubled metro areas with large job losses over the year include: Alameda-Contra Costa (-3.0%); Riverside-San Bernardino (-3.0%); Ventura County (-2.8%); Orange County and Stockton (each with -2.7%); and Sacramento metro (-2.6%). Common themes in the losses are housing, finance and related industries.

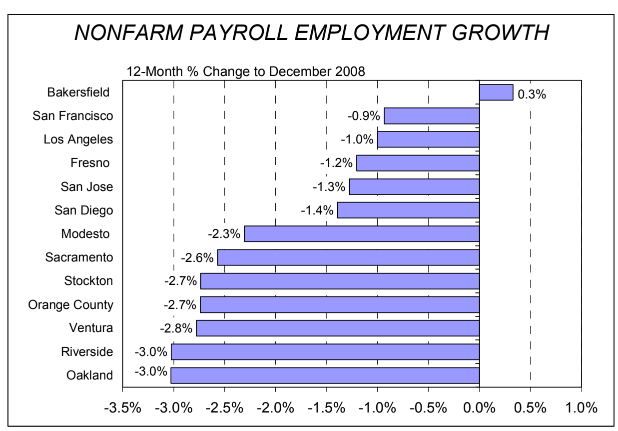
expanded. As a result, total hotel room revenues last year were almost even with 2007 (down by just -0.1%). San Francisco held up better than the other major destinations, with room revenues up by +6.6%. Revenues in Los Angeles and San Diego were about even with 2007 (L.A. up a little and San Diego down a bit), while Orange County revenues fell by -3.6%.

International travel experienced similar patterns. The number of international visitors flying into California airports increased during the first nine months of 2008. However, the global recession dampened travel demand during the fourth quarter. Net-net, overseas travel to California airports increased by about 5% in 2008. Travel from China, the Middle East and Europe grew at double digit rates. However, visitation from Central America, Mexico, Japan, Taiwan, South Korea and Australia declined. International airline flights to California are being reduced as a result.

Going forward, business travel to California destinations will almost certainly decline in 2009, which will impact airlines, hotels and the state's convention centers. Long-distance international and domestic travel also will shrink as consumers economize on discretionary purchases. Intra-state travel would seem to have the best prospects. In total, tourism industry revenues likely will decline in 2009. Travelers of every type will choose the lowest-cost options, whether airfares, rental cars, or hotel rooms.

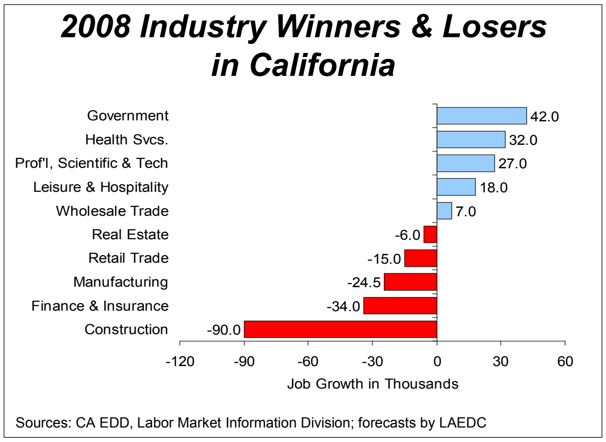
Trends Around the State

California is in the midst of a recession, and some of its larger metropolitan areas have been there since mid-2007. The downturn likely will continue through much of 2009, with most areas reaching bottom by year end.



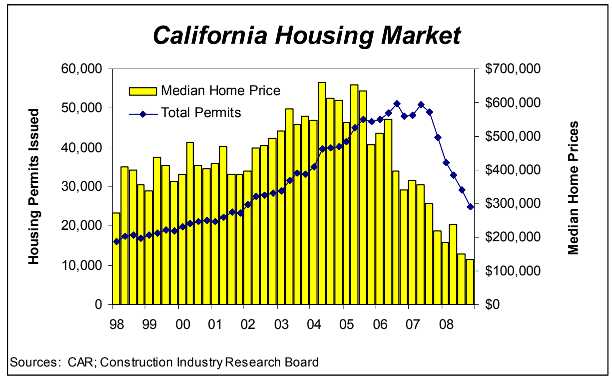
Net Results

Employment losses in California have spread from housing and finance to retail trade, manufacturing, business services, and goods movement. The largest job losses during 2009 will come in manufacturing (-94,000 jobs), retail trade (-92,000 jobs) and construction (-90,000 jobs). The largest gains during 2009 will be in health services (+32,000 jobs) and private education services (+12,000 jobs).



The state's unemployment rate will soar into double digits, averaging 10.5% during 2009, compared with 7.2% in 2008. Unfortunately, the jobless rate will continue up in 2010, averaging 11.7%.

Total personal income will decline by -2.0% in 2009 to $1.52 billion. Rough times for California's retailers will continue this year, with a -6.0% decline in taxable retail sales. In 2010, personal income will edge up by +1.0%, while taxable retail sales will register a +3.1% gain.



The new home construction industry will struggle in 2009, with just 52,300 units permitted, down by "only" -20% from 2008 but a whopping -75.4% plunge from the 2004 peak year when 212,960 units were permitted. Nonresidential construction also will take it on the chin this year, with the value of new permits dropping by 32.1% to $13.0 billion.

Risks

The state's budget problems have become horrendous. The Governor's budget documents estimated the General Fund could run -$14.8 billion in the red during the current fiscal year (FY2008-2009). If no solution is forthcoming for this year, the cumulative deficit could swell to as much as -$40 billion by the end of FY2009-2010.

Negotiations are under way in Sacramento to find a solution that will be acceptable to enough members of the state's divided legislature. However, the task is extremely difficult. Either spending must be reduced below projected levels (which, by the way, look to be higher than the current spending rate) or taxes must be increased or both. Any solution will likely dampen economic activity in California.

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. In 2008 the state ranked 8th and the five-county area placed 17th, while Los Angeles County on its own, ranked 24th (based on what can be measured) among the nations of the world.

In 2008, rankings dropped for both the five-county area (from 16th to 17th) and for Los Angeles County (from 18th to 24th) as the economies of the Netherlands, Belgium and Saudi Arabia, Sweden, Indonesia and Switzerland 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 Russia) was unchanged from 2007. The depreciation of the U.S. dollar is forecast to continue through at least 2009. 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 2009 as a result.

In nominal GDP growth terms, the growth rates of California and the Los Angeles five-county area were outpaced by most foreign countries on the list in 2008. Los Angeles, on the other hand, enjoyed a notably higher growth rate compared to the state and regional economies. A major contributing factor to the divergence between the local and foreign economies listed on ***Table 1*** stems from the position of the United States as the epicenter of the present global economic slowdown. In addition, the battered real estate market, high unemployment and disintegrating consumer demand for local goods and services have hit the region hard.

Table 4: Gross Product Comparisons, 2008

(In billions of US$) Top 40 nations with GDP over US$150 billion

Rank	Country/Economy	Nominal GDP 2008	Nominal GDP '07-'08 % Chg	Real GDP '07-'08 % Chg
1	United States	$14,334.03	3.6%	1.6%
2	Japan	4,844.36	9.5%	0.7%
3	China	4,222.42	22.3%	9.7%
4	Germany	3,818.47	13.0%	1.8%
5	France	2,978.12	12.9%	0.8%
6	United Kingdom	2,787.37	-0.6%	1.0%
7	Italy	2,399.29	12.3%	-0.1%
	California	**1,881.00**	**4.4%**	**3.9%**
8	Russia	1,778.69	27.5%	7.0%
9	Spain	1,683.23	14.4%	1.4%
10	Brazil	1,664.66	21.1%	5.2%
11	Canada	1,564.08	8.2%	0.7%
12	India	1,237.45	11.1%	7.9%
13	Mexico	1142.63	10.5%	2.1%
14	Australia	1069.34	15.0%	2.5%
15	Korea	953.49	-1.7%	4.1%
16	Netherlands	909.46	14.5%	2.3%
	Los Angeles 5-co. area	**830.66**	**2.5%**	**2.1%**
17	Turkey	798.86	17.5%	3.5%
18	Poland	567.41	25.6%	5.2%
19	Belgium	530.61	14.4%	1.4%
20	Saudi Arabia	528.32	27.7%	5.9%
21	Sweden	512.89	11.3%	1.2%
22	Indonesia	496.83	12.9%	6.1%
23	Switzerland	492.55	13.3%	1.7%
	Los Angeles County	**491.33**	**5.8%**	**5.4%**
24	Norway	481.15	19.1%	2.5%
25	Austria	432.40	14.2%	2.0%
26	Taiwan	424.06	9.6%	3.8%
27	Iran	382.33	25.4%	5.5%
28	Greece	373.52	16.0%	3.2%
29	Denmark	369.58	15.6%	1.0%
30	Argentina	338.72	23.2%	6.5%
31	Venezuela	331.77	31.4%	6.0%
32	South Africa	300.40	5.8%	3.8%
33	Finland	287.62	14.3%	2.5%
34	Ireland	285.02	8.3%	-1.8%
35	Thailand	272.14	9.8%	4.7%
36	United Arab Emirates	269.96	29.3%	7.0%
37	Portugal	255.48	12.5%	0.6%
38	Colombia	249.77	18.9%	7.0%
39	Hong Kong SAR	223.76	7.4%	4.1%

Note: Nominal GDP figures are not adjusted for inflation.

Sources: IMF WEO, October 2008 LAEDC estimates

Table 5: California Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	34,095.2	14,488.2	4.9	1,103.8	32,375	287.1	404.7	148,540	26,178
2001	34,766.7	14,602.0	5.4	1,135.3	32,655	293.9	353.0	148,757	23,002
2002	35,361.2	14,457.8	6.7	1,147.7	32,457	301.6	342.5	167,761	19,457
2003	35,944.2	14,392.3	6.8	1,187.0	33,025	320.2	362.8	195,682	18,279
2004	36,454.5	14,532.6	6.2	1,265.9	34,727	350.2	411.2	212,960	19,363
2005	38,899.4	14,801.3	5.4	1,348.2	34,660	375.8	451.3	208,972	21,068
2006	37,298.4	15,060.3	4.9	1,436.4	38,512	389.1	507.3	164,280	22,866
2007	37,712.6	15,163.2	5.4	1,519.5	40,293	387.0	531.6	113,034	23,293
2008e	38,148.5	15,098.3	7.2	1,557.0	40,814	377.5	513.7	65,380	19,143
2009f	38,590.0	14,650.8	10.5	1,525.8	39,539	355.0	462.3	52,300	13,000
2010f	39,030.0	14,500.7	11.7	1,541.1	39,485	366.0	448.4	69,400	11,700
% Change									
'01/'00	2.0%	0.8%		2.9%	0.9%	2.4%	-12.8%	0.1%	-12.1%
'02/'01	1.7%	-1.0%		1.1%	-0.6%	2.6%	-3.0%	12.8%	-15.4%
'03/'02	1.6%	-0.5%		3.4%	1.7%	6.2%	5.9%	16.6%	-6.1%
'04/'03	1.4%	1.0%		6.6%	5.2%	9.4%	13.3%	8.8%	5.9%
'05/'04	6.7%	1.8%		6.5%	-0.2%	7.3%	9.7%	-1.9%	8.8%
'06/'05	-4.1%	1.7%		6.5%	11.1%	3.5%	12.4%	-21.4%	8.5%
'07/'06	1.1%	0.7%		5.8%	4.6%	-0.5%	4.8%	-31.2%	1.9%
'08/'07	1.2%	-0.4%		2.5%	1.3%	-2.5%	-3.4%	-42.2%	-17.8%
'09/'08	1.2%	-3.0%		-2.0%	-3.1%	-6.0%	-10.0%	-20.0%	-32.1%
'10/'09	1.1%	-1.0%		1.0%	-0.1%	3.1%	-3.0%	32.7%	-10.0%

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

Table 6: California Nonfarm Employment
(Annual averages, in thousands, 2007 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	1,852.7	1,205.9	646.8	646.2	1,563.4	518.3	576.7
2001	14,602.0	25.6	780.4	1,778.6	1,161.4	617.2	658.9	1,575.9	514.1	551.9
2002	14,457.8	23.1	774.4	1,631.8	1,047.0	584.9	652.1	1,582.2	491.0	497.3
2003	14,392.3	22.2	796.8	1,542.4	976.4	566.0	649.5	1,588.4	480.6	476.1
2004	14,532.6	22.8	850.4	1,521.3	963.9	557.4	655.1	1,617.8	482.8	482.4
2005	14,801.3	23.6	905.3	1,502.6	956.9	545.7	675.8	1,659.3	487.1	473.6
2006	15,060.3	22.8	933.7	1,488.0	945.4	542.6	702.5	1,680.1	496.1	466.0
2007	15,163.2	23.6	892.3	1,463.2	927.8	535.4	716.9	1,688.8	505.2	472.8
2008e	15,098.3	24.4	810.5	1,434.1	909.0	525.2	717.8	1,661.6	507.9	467.3
2009f	14,650.8	23.0	700.0	1,340.0	850.0	490.0	695.0	1,570.0	498.0	460.0
2010f	14,500.7	21.0	700.0	1,295.0	825.0	470.0	680.0	1,500.0	500.0	465.0

	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	930.6	294.0	997.2	229.7	1,171.3	1,335.6	487.7	2,318.1
2001	568.9	267.2	945.6	283.6	957.1	237.3	1,210.7	1,365.1	499.2	2,382.1
2002	584.8	268.2	913.8	265.9	939.3	245.5	1,253.4	1,382.4	505.7	2,447.1
2003	613.5	272.2	906.6	246.8	931.0	258.2	1,278.1	1,400.1	504.3	2,426.1
2004	625.8	276.4	918.9	230.3	947.8	262.9	1,297.1	1,439.4	503.9	2,397.7
2005	643.5	283.6	970.2	221.2	968.3	272.2	1,314.3	1,475.2	505.5	2,420.2
2006	646.7	288.5	1,026.5	211.6	1003.3	277.6	1,336.4	1,519.0	507.1	2,452.3
2007	623.5	283.1	1,058.5	205.4	999.5	288.5	1,375.7	1,553.1	513.6	2,497.4
2008e	592.5	279.4	1,078.3	201.9	995.3	303.2	1,412.7	1,561.5	515.5	2,532.1
2009f	560.0	270.0	1,055.0	195.0	950.0	315.0	1,445.0	1,525.0	517.0	2,532.0
2010f	550.0	265.0	1,050.0	190.0	940.0	320.0	1,475.0	1,500.0	517.0	2,532.0

Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC.

Table 7: California Regional Nonfarm Employment
(Annual averages for major metropolitan areas; in thousands; March 2007 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	12,499.0	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	12,358.0	879.7	939.5	815.4	177.3	227.3	117.8	630.9	155.2	3,982.0	1,143.70	718.9	962.6	230.4
1992	12,153.0	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	12,045.0	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	227.0
1994	12,159.0	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	12,743.0	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	13,129.0	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	13,596.0	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	13,991.0	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	14,488.0	1,044.6	1,082.1	1,044.3	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	14,457.0	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	14,392.0	1,025.6	950.7	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	14,532.0	1,023.7	939.3	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	14,801.0	1,032.2	945.8	869.9	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	15,050.0	1,046.9	964.4	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1,267.7	1,301.6	297.9
2007	15,163.0	1,047.6	986.8	908.1	238.8	306.0	160.0	904.0	211.8	4,115.8	1,513.0	1,268.8	1,308.2	295.8
2008	15,098.3	1,032.2	996.9	910.4	241.8	306.0	158.7	897.4	212.2	4,098.0	1,483.7	1,245.5	1,303.0	289.4
2009f	14,650.8	992.2	978.9	888.4	238.8	299.5	150.7	862.4	201.2	4,009.0	1,440.5	1,206.1	1,280.2	280.0

* Based on Current Employment Series

Sources: California Employment Development Department, Labor Market Information Division; 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	R-SB	Ventura	LA 5-Co.	San Diego	California*
2000	4,072.1	1,388.9	988.0	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	14,392.8
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,532.6
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,801.3
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,060.3
2007	4,115.8	1,513.0	1,268.8	295.8	7,193.4	1,308.2	15,163.2
2008	4,098.0	1,483.7	1,245.5	289.4	7,116.6	1,303.0	15,098.3
2009f	4,009.0	1,440.5	1,206.1	280.0	6,935.6	1,280.2	14,650.8

Numerical Change from Prior Year (in thousands)

	Los Angeles	Orange	R-SB	Ventura	LA 5-Co.	San Diego	California
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	139.8
2005	27.7	34.3	62.0	5.0	129	21.8	268.7
2006	68.3	27.9	45.7	6.5	148.4	19.5	259
2007	23.3	-5.9	1.1	-1.9	16.6	6.6	102.9
2008	-17.8	-29.3	-23.3	-6.4	-76.8	-5.2	-64.9
2009f	-89.0	-43.2	-39.4	-9.4	-181.0	-22.8	-447.5

% Change from Prior Year

	Los Angeles	Orange	R-SB	Ventura	LA 5-Co.	San Diego	California
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%	0.97%
2005	0.69%	2.35%	5.34%	1.75%	1.87%	1.73%	1.85%
2006	1.70%	1.87%	3.74%	2.23%	2.11%	1.52%	1.75%
2007	0.57%	-0.39%	0.09%	-0.64%	0.23%	0.51%	0.68%
2008	-0.43%	-1.94%	-1.84%	-2.16%	-1.07%	-0.40%	-0.43%
2009f	0.61%	0.13%	0.13%	0.31%	0.41%	0.96%	0.57%

Table 9: California Technology Employment
(Average annual employment in 000s, March 2007 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	1,020.5	421.8	90.7	38.0	48.2	24.9	206.6	95.1	95.2
2001	1,013.4	409.7	86.3	39.2	52.6	23.0	204.4	99.1	99.1
2002	921.4	353.7	79.6	39.5	48.8	20.1	177.1	102.1	100.5
2003	879.3	320.9	73.6	39.1	44.7	21.3	168.8	109.7	101.2
2004	878.9	313.4	73.7	40.6	42.6	20.3	168.5	119.0	100.8
2005	903.4	310.8	73.4	42.0	41.6	20.4	175.6	135.4	104.2
2006	932.2	308.2	73.0	44.0	41.3	20.9	187.3	151.3	106.2
2007	952.6	306.4	72.3	44.3	43.1	21.4	198.2	161.2	105.7
2008	965.9	304.7	71.2	45.3	43.4	20.9	202.7	169.7	108.0

Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC

Table 10: California Motion Picture/TV Production Employment
(In thousands, March 2007 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	143.4	4.6	47.7	8.2	17.2
2007	145.3	5.9	49.6	7.5	16.9
2008	140.6	6.1	51.2	6.6	17.0

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

Sources: California Employment Development Department, LMID; 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 Angles 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	10,276	0.3%	3,090	0.5%	4,061	1.1%	823	0.5%	18,250	0.5%	37,559	0.6%
2008	10,364	0.9%	3,121	1.0%	4,144	2.0%	832	1.1%	18,461	1.2%	38,049	1.3%

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

Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
	Los Angeles County			Natu130.1			
2003	130.1	152.4	59.4	93.0	37.2	71.9	-34.8
2004	100.8	151.3	61.2	90.1	10.7	70.2	-59.5
2005	66.4	151.4	58.6	92.8	-26.4	61.7	-88.1
2006	42.1	150.1	60.1	90.0	-47.4	67.4	114.8
2007	40.6	151.4	61.0	90.4	-49.8	76.7	-126.5
2008	74.3	154.2	61.3	92.8	-18.5	81.9	-100.4
	Orange County						
2003	40.5	45.2	16.9	28.3	12.2	18.6	-6.3
2004	32.1	44.9	17.5	27.5	4.7	18.1	-13.5
2005	24.2	44.7	16.5	28.2	-4.0	15.2	-19.2
2006	14.2	44.1	17.1	27.0	-12.8	17.1	-30.0
2007	24.1	43.8	17.2	26.7	-2.5	19.9	-22.4
2008	30.9	44.6	17.3	27.3	-3.6	21.3	-17.8
	Riverside County						
2003	80.0	27.7	12.9	14.7	65.3	6.5	58.8
2004	79.6	28.5	13.6	14.9	67.7	6.9	57.8
2005	79.5	30.4	13.5	16.9	62.6	6.5	56.1
2006	78.2	32.4	14.2	18.2	60.0	7.9	52.1
2007	60.5	34.2	14.3	19.9	40.6	8.9	31.7
2008	44.2	35.5	14.4	21.2	23.0	9.4	13.7
	San Bernardino County						
2003	53.0	30.5	11.7	18.8	34.2	6.0	28.2
2004	53.9	31.1	12.3	18.8	35.1	6.5	28.6
2005	51.2	32.4	11.8	20.6	30.6	5.6	25.0
2006	38.0	33.8	12.6	21.2	16.8	6.9	9.9
2007	28.6	35.2	12.7	22.5	6.1	7.8	-1.7
2008	22.4	35.6	12.7	22.8	-0.4	8.3	-8.8
	Ventura County						
2003	11.4	11.9	4.8	7.0	4.3	4.0	0.4
2004	8.3	11.9	5.2	6.8	1.6	4.1	-2.5
2005	5.5	12.0	4.6	7.4	-1.9	3.2	-5.0
2006	6.3	12.4	4.9	7.4	-1.2	3.5	-4.6
2007	5.8	12.4	5.0	7.4	-1.5	4.0	-5.6
2008	6.3	12.2	5.0	7.2	-9.0	4.3	-5.2
	San Diego County						
2003	46.5	44.9	19.3	25.6	20.9	14.8	6.1
2004	25.9	45.2	20.4	24.7	1.2	14.7	-13.5
2005	27.3	46.0	19.0	27.0	0.3	13.0	-12.7
2006	24.3	46.7	19.8	26.3	-2.0	12.7	-14.7
2007	38.8	47.2	19.9	27.3	11.5	14.9	-3.4
2008	46.6	47.6	20.1	27.5	19.1	16.1	3.0
	State of California						
2003	583	537.4	233.3	304.1	278.9	204.2	74.7
2004	510.3	539.9	239.3	300.5	209.7	204.1	5.60
2005	444.9	547.1	231.1	316.1	128.8	181.7	-52.9
2006	399.00	553.00	239.00	314.00	85.00	195.8	-110.8
2007	414.2	564.6	240.5	324.1	91.1	225.9	-135.8
2008	435.9	571.2	241.9	329.3	106.6	241.8	-135.7

Source: California Department of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

The year 2008 was difficult for Los Angeles County's economy, especially during the fourth quarter. The outlook for 2009 calls for more intense pain. Several of the County's major industries face some significant challenges in 2009, some of which will carry into 2010.

Positive forces

While a lot of gloom is in the air, there will be bits of positive news for the County's economy during 2009.

- The **aerospace** sector should hold fairly steady, measured by jobs, during the year (some more orders for the C-17 military cargo plane are expected). It will be 2010 before the Obama administration can turn its full attention to the defense and space budget.
- **Major public and private construction projects** will also provide support, with a significant boost likely by year-end 2009 from the federal government's infrastructure program. In the meantime, the nearly $15 billion in bonds passed by local school districts and community colleges in November 2008 might also start to boost construction activity.
- The County's voters approved **measure R** in November 2008, with the increased sales tax revenue going to transportation projects.
- The **motion picture/TV production** sector will be on the fence in 2009. However, threats of a strike by the Screen Actors Guild seem to be fading, while the major studios plan to increase production of feature films.
- Despite the unsettled economic situation, companies are still signing major **leases** for industrial space.

By 2010, business and residents of Los Angeles County will be feeling a little more confident about their prospects, but the economic landscape will have changed for several industries.

Negative forces

- **International trade** activity will continue weak, with a very modest recovery expected by 2010.
- **Tourism** will slide in 2009, an unpleasant situation after several years of robust growth that sparked the development of several new hotels.
- **Manufacturing** employment will continue to decline, reflecting reduced consumer spending and the problems in construction and housing.
- The number of new **housing permits** will decline again in 2009.
- The **nonresidential real estate sector** will also struggle, with new construction down sharply and developers coping with rising vacancy rates, and flat or declining lease rates. Some commercial properties could go into foreclosure.
- **Local government finance** will also be a concern (the decline in home values, the slump in retail sales, and the state's budget problems have hurt municipal and county budgets), with staff layoffs and service cuts looming.

Net results

Total nonfarm employment in the County should decline by -2.2% or -89,000 jobs in 2009, after a drop of -0.4% or -17,800 jobs in 2008. Numerically, the largest employment losses during 2009 will come in: retailing (-25,000 jobs); manufacturing (-21,000 jobs); and construction (-18,000 jobs). Budget problems will result in government entities shedding -5,000 jobs during 2009. The "old reliables," education and health services will add jobs during 2009 (+2,000 and +8,300 jobs respectively). There will also be modest job gains in information (which includes the movie industry), and professional business services. In 2010, average nonfarm employment in the County should decline by -0.9% or by -34,900 jobs.

Unemployment rates will run at high levels during the Forecast period. In 2008, the average was 7.1% (although it was well over 8% in the second half of the year). In 2009, the County's unemployment rate should average 9.8% (during the second half of the year the rate will be at 10% and above). In comparison, in 1992, the County's unemployment rate averaged 9.9%, with a high of 10.9% in July. In 2010, the unemployment rate should average 10.6%, as business will be cautious in rehiring.

Total personal income will decline by -2.3% in 2009, before regaining a little momentum in 2010 (+0.9%). Per capita personal income should average $37,104, down by -3.6% from the previous year. Providing some offset will be an easing of inflation, with the local Consumer Price Index (for the five-county area) up by just 0.5% in 2009. Taxable retail sales should decline by -5.9%, on the heels of a -2.1% decline in 2008. This weakness is bad news for retail landlords as well as local governments. A real challenge will be recycling of the vacant retail space, especially auto dealers.

While Los Angeles County did not see the boom in new home construction that other areas in Southern California did, there still has been a dramatic decline in permits issued. In 2009, 11,500 new units should get started, compared with the recent peak of 26,348 units permitted in 2006. Besides the problems with foreclosed single family homes, the County will be dealing with a bit of an apartment glut. The value of nonresidential building permits issued during 2009 should fall by -28.5%. The problem sectors are office and retail. The County's office vacancy rate at the end of 2008 was 12.2% and climbing. There is no comprehensive retail vacancy rate for the County, but problems are becoming more visible in both shopping malls and in strip retail.

After a solid performance in 2008, the number of overnight visitors to Los Angeles should ease to 24.9 million in 2009. In 2010, there should be a modest up tick in the visitor count despite a still fragile economy. This reflects the opening of the convention center hotel in downtown Los Angeles.

Hot spots

In previous forecasts, areas where there was significant development activity were highlighted. But this exercise seems moot given the distressed economic situation. However, there are some major projects under construction that will have a transformative impact on their locations. One is "LA Live" in Downtown Los Angeles, with the opening of the convention center hotel in early 2010 expected to give a significant boost to the travel industry. The other is the hotel/condominium development at the intersection of Hollywood and Vine. This will provide an anchor for the eastern end of Hollywood Blvd, as well as providing more hotel rooms for the revitalized community of Hollywood (its occupancy rate has been running at 80%).

Risks

- While declining, there is still the risk of a Screen Actors Guild strike, which would be extremely bad news for the County's economy.
- While the housing sector should be stabilizing towards the end of 2009, there could be a larger-then-expected problem with foreclosures of multifamily buildings.
- There is also the threat of water rationing, which could delay development projects in outlying areas.
- Some smaller cities could encounter severe financial problems in 2009 into 2010.

Table 13: 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	309.827	30,900	79.427	235.0	23.3	21,313	2,932	2.7
2004	10,127.4	3,996.5	6.5	326.402	32,230	86.497	264.2	24.3	26,935	3,174	3.3
2005	10,197.2	4,024.2	5.3	346.423	33,972	92.271	293.9	25.0	25,647	3,824	4.5
2006	10,247.7	4,092.5	4.7	369.174	36,025	95.544	329.4	25.4	26,348	3,896	4.4
2007	10,294.3	4,115.8	5.0	391.400	38,021	96.552	349.4	25.8	20,331	4,739	3.7
2008	10,347.4	4,098.0	7.2	398.100	38,473	94.078	357.3	26.0	13,886	4,489	3.5
2009f	10,419.4	4,009.0	9.8	386.600	37,104	88.527	318.3	24.9	13,500	3,210	0.5
2010f	10,489.4	3,944.1	10.6	390.100	37,190	90.917	307.7	25.1	13,100	3,050	1.4
% 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%		2.93%	1.58%	6.54%	9.66%	5.43%	10.07%	0.41%	
'04/'03	1.00%	0.34%		5.35%	4.30%	8.90%	12.43%	4.29%	26.38%	8.25%	
'05/'04	0.69%	0.69%		6.13%	5.41%	6.68%	11.24%	2.88%	-4.78%	20.48%	
'06/'05	0.50%	1.70%		6.57%	6.04%	3.55%	12.08%	1.60%	2.73%	1.88%	
'07/'06	0.45%	0.57%		6.02%	5.54%	1.06%	6.07%	1.57%	-22.84%	21.64%	
'08/'07	0.73%	0.06%		5.01%	4.25%	-1.10%	5.04%	0.78%	-31.63%	5.40%	
'09/'08	0.70%	-2.17%		-2.89%	-3.56%	-5.90%	-10.92%	-4.23%	-2.78%	-28.49%	
‘10/'09	0.67%	-1.62%		0.91%	0.23%	2.70%	-3.33%	0.80%	-2.96%	-4.98%	

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

Table 14: Los Angeles County Nonfarm Employment
(Annual averages, in thousands, March 2007 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	157.5	462.2	*257.3*	*204.4*	225.7	423.3	165.2	205.6
2007	4,115.8	4.4	157.2	447.1	*248.4*	*198.8*	229.6	423.6	166.4	209.2
2008	4,098.0	4.4	147.9	438.9	*242.4*	*196.5*	227.9	414.4	165.8	205.1
2009f	4,009.0	4.3	129.9	418.1	*227.4*	*190.7*	223.9	389.4	161.8	207.1
2010f	3,974.1	4.3	115.4	410.9	*222.4*	*188.5*	225.4	373.4	162.1	210.1

	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	79.8	264.0	63.0	71.9	99.4	379.3	388.6	145.2	589.4
2007	165.5	79.5	273.1	59.1	273.5	101.9	386.4	397.4	147.1	594.8
2008	158.5	78.9	275.8	58.0	271.4	104.9	395.0	401.8	149.0	600.4
2009f	148.0	76.4	278.0	56.0	263.4	106.9	403.3	398.8	48.6	595.4
2010f	140.5	74.4	282.5	54.5	257.4	109.0	412.0	401.0	148.4	592.9

Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC.

VI. OUTLOOK FOR ORANGE COUNTY

The normally robust Orange County economy has taken some major hits in recent years, most notably the meltdown of the subprime lending industry, which had a significant ripple impact. From December 2005 to November 2008, the County lost -22,200 jobs in "credit intermediation." Unfortunately, the County's economic fortunes will not improve in 2009

Positive Forces

- The County will benefit from the federal government's infrastructure program, and there are other **major projects** underway. The Orange County Transportation Authority is upgrading Metrolink rail commuter services, and $400 million in bonds were passed in late 2008 by local school districts.
- Over the course of the year, the large job losses in financial services should be winding down (the County got a boost when the FDIC opened an office to help work through the subprime mess).
- **Disney** will be continuing with their major makeover of the California Adventure.

Negative forces

- **Tourism** activity will be down.
- **Manufacturing** employment will continue to slide (the County ranks eighth in the nation in number of factory jobs).
- **Nonresidential construction** will decline, reflecting a glut of office space (one ripple from the subprime lending industry crash).
- While there was no boom in **new home construction** in the County in recent years, the number of permits issued during 2009 will decline.

Net Results

Nonfarm employment in the County during 2009 should decline by -2.9% or -43,200 jobs. This comes on the heels of a -1.9% job loss in 2008 and a -0.4% decline in 2007. In 2009, the largest employment losses will come in: finance & insurance (-9,500 jobs); construction (-7,500 jobs); and retail (-6,500 jobs). In addition, the government sector is expected to shed -1,500 jobs during 2009. In 2010, employment losses in the County should ease down to – 0.9% or -12,400 jobs.

Orange County's unemployment rate averaged 5.3% in 2008, and in 2009 the rate should move up to 7.3%. This would be the highest rate for the County in the current data series which starts in 1990. There will be little relief in 2010, with the unemployment rate expected to average 7.5%.

Total personal income in the County should decline by -2.1% in 2009, with a slight rebound of +0.8% in 2010. Per capita personal income should average $47,039 during 2009, down by -3.0% from the previous year. As noted earlier, the regional inflation rate will also move down, to an average of 0.5% in 2009. Retailing in Orange County has taken a beating, with a decline in taxable sales of – 0.2% in 2007, followed by a drop of -2.8% in 2008. For 2009, another decline is expected, down by -5.5%.

New homebuilding in Orange County did not participate in the recent boom. However, the forecast for 2009 calls for another decline in the number of units permitted to a meager 2,605 units. Nonresidential permit values fell by -28.3% in 2008, and a further tumble of -36.0% is expected in 2009. At year-end 2008, the County's office vacancy rate was 17.5% and climbing, thanks to a lot of space coming back on the market due to the collapse of subprime lenders. The industrial vacancy rate was a more manageable 4.6%.

The number of overnight tourists to the County should ease down by -0.7% to 43.9 million in 2009. A piece of good news is the renovation of Disney's California Adventure. The latter was met with somewhat of a yawn when it first opened. Besides the work at the California Adventure, Anaheim also has "Garden Walk" opposite Disneyland (hotels, retail, etc.). The latter is having a slow roll-out.

Risks

- Larger then expected problems in housing.
- Local government financial problems could be more severe than expected

Table 15: 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	117.722	39,225	32.288	42.7	9,311	1,006
2004	3,033.0	1,456.7	4.3	125.798	41,476	35.442	43.5	9,322	1,133
2005	3,056.8	1,491.0	3.8	135.588	44,356	37.673	44.7	7,206	1,495
2006	3,075.3	1,518.9	3.4	143.949	46,808	39.074	44.9	8,371	2,401
2007	3,098.2	1,513.0	3.9	147.500	47,608	39.676	44.4	7,070	2,005
2008	3125.8	1483.7	5.4	151.600	48,500	37.896	44.2	3,156	1,438
2009f	3,154.2	1,440.5	7.3	148.400	47,039	35,660	43.9	2,605	920
2010f	3,184.3	1,428.1	7.5	149.600	46,980	36.623	44.0	2,750	875
% Change									
'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%		5.34%	3.91%	8.91%	2.40%	-22.54%	-16.79%
'04/'03	1.06%	1.94%		6.86%	5.74%	9.77%	1.87%	0.12%	12.62%
'05/'04	0.78%	2.35%		7.78%	6.94%	6.29%	2.76%	-22.70%	31.95%
'06/'05	0.61%	1.87%		6.17%	5.53%	3.72%	0.45%	16.17%	60.60%
'07/'06	0.74%	-0.39%		2.47%	1.71%	1.54%	-1.11%	-15.54%	-16.49%
'08/'07	0.94%	-0.83%		2.17%	1.22%	-1.58%	-0.45%	-40.59%	-30.01%
'09/'08	0.91%	-2.91%		-2.11%	-3.01%	-5.90%	-0.68%	-17.46%	-36.02%
‘10/’09	0.95%	-0.86%		0.81%	-0.13%	2.70%	0.23%	5.57%	-4.89%

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 16: Orange County Nonfarm Employment
(Annual averages, in thousands, March 2007 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	*147.8*	*60.7*	83.9	150.1	30.4	40.4
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	1,518.9	0.6	106.1	183.4	*128.0*	*54.7*	83.7	160.8	28.2	31.9
2007	1,513.0	0.6	103.7	180.3	*126.1*	*54.2*	87.1	160.7	28.7	31.3
2008	1,483.7	0.6	98.6	176.0	*123.4*	*52.6*	86.7	159.0	28.6	29.9
2009f	1,440.5	0.6	91.1	171.4	*120.4*	*51.0*	86.0	152.5	27.9	28.9
2010f	1,428.1	0.7	88.6	170.4	*119.9*	*50.5*	85.8	150.0	26.9	28.4

	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	73.8	32.1	94.3	39.7	114.5	16.0	98.8	154.3	45.2	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	99.0	39.1	109.3	28.9	136.4	20.3	117.0	169.6	47.7	156.7
2007	89.6	38.9	112.1	28.0	132.1	21.4	120.2	171.6	47.6	159.2
2008	77.4	37.6	111.3	26.8	127.9	21.8	121.8	170.3	47.6	161.8
2009f	67.9	35.4	110.3	25.3	122.7	22.5	123.4	167.3	47.1	160.3
2010f	63.9	34.4	110.8	24.3	121.0	23.1	125.0	166.2	46.9	161.3

Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC.

VII. OUTLOOK FOR RIVERSIDE-SAN BERNARDINO AREA

The economic pain will continue in evidence in the Riverside-San Bernardino area during 2009. The housing supply bubble in the area is still being worked through, while there will be further declines in international trade activity. Adding to the trouble is the retail meltdown. Stores chased rooftops, which suddenly had no residents under them.

Positive forces

This is a pretty paltry list, with about the only substantive item being a boost from the federal government's infrastructure stimulus package.

Negative forces

- **Housing** will continue to be a drag on the area's economy. The foreclosure problem could continue into 2010, while new home construction will continue to tumble.
- **International trade** activity will record another decline in 2009, and this slump has caused problems in the industrial real estate sector.
- **Tourism** will also slip during 2009, at both traditional hot spots like the Coachella Valley and at Indian casinos.
- **Nonresidential construction** will continue to decline. Both office and industrial vacancy rates are climbing.
- There is the possibility of **financial problems for local governments**.

Net Results

The area squeaked through 2007 with a +0.1% increase in nonfarm employment. However, in 2008 this measure fell by -1.8%, and the forecast for 2009 is a -3.2% decline or a loss of -39,400 jobs. There will be only a modest improvement in 2010, with another employment decline of -1.6%. The biggest job loss in 2009 will come once again in construction, down by -13,000 jobs. Somewhat further back will be retailing (-8,500 jobs) and manufacturing with a loss of -6,000 jobs. The area has a lot of motor home and travel trailer producers which have seen their markets collapse. Government should also chalk up a loss of -1,500 jobs, as small cities struggle with the loss of auto dealers. The most notable employment gain in 2009 will come in health services, with an increase of 3,500 jobs.

The area's unemployment rate should average 11.1% in 2009, which would top the previous high of 11.0% recorded in 1993. There will be no relief in this measure in 2010, with an average of 11.3%.

The dismal economic situation will evidence itself with a -3.3% decline in personal income in the area during 2009. Per capita personal income for the year should come in at $26,798, down by -4.7% from the previous year.

The outlook for retailing in the area remains unfavorable. Taxable retail sales started recording year-to-year declines in 2007 (-3.2%), which intensified in 2008 (-4.4%). The forecast for 2009 looks for a -6.2% drop in taxable retail sales volume. This is causing problems for developers of shopping malls, and some could go into foreclosure in 2009.

The Riverside-San Bernardino area saw a "bubble" in new home supply in recent years – land was cheap and a lot of people were able to get mortgage loans. The peak year for new development was 2004, when 52,696 housing units were permitted. In 2009, the forecast calls for just 6,300 units to be permitted. Nonresidential construction will also continue to slide, with a -58.0% drop in permit values. Vacancy rates in the area have spiked, with office at 20.6% at year-end 2008 and over 1.3 million square feet of new space under construction. The industrial vacancy rate was 9.9%, with just over 8.0 million square feet of new space under construction. Developers didn't expect the residential development and international trade music to stop.

The housing market crash has slowed population growth in the two-county area. From 2007 to 2008, the increase was 66,553 persons, compared with the 2006 to 2007 gain of 89,067 people. For 2008 to 2009, the increase should slow to 61,000 persons.

It could possibly take until 2011 for the Riverside-San Bernardino area's economy to get firmly back on track.

Hot spots

Hot spots that are simmering down include the Ontario area and downtown Riverside city.

Risks

- The housing problem takes longer then expected to work out.
- Water supply – with the possibility of water rationing. This would further crimp development in the area.
- Local government financial problems could be challenging.

It could possibly take until 2011 for the Riverside-San Bernardino area's economy to get firmly back on track.

Table 17: 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	89.476	24,646	31.936	43,001	1,720
2004	3,762.3	1,160.0	5.9	96.756	25,717	37.194	52,696	2,485
2005	3,892.7	1,222.0	5.3	104.067	26,734	41.960	50,818	2,394
2006	4,015.6	1,267.7	4.9	111.596	27,791	43.973	39,083	2,852
2007	4,109.8	1,268.8	5.9	116.200	28,274	42.614	20,457	2,824
2008	4,167.1	1,245.5	8.3	117.200	28,125	40.705	9,180	1,776
2009f	4,228.0	1,206.1	11.1	113.300	26,793	38.181	6,300	1,030
2010f	4,286.0	1,186.9	11.5	111.600	26,038	37.608	6,270	875
% 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%		6.33%	2.44%	11.78%	29.21%	16.77%
'04/'03	3.63%	5.53%		8.14%	4.35%	16.46%	22.55%	44.48%
'05/'04	3.47%	5.34%		7.56%	3.95%	12.81%	-3.56%	-3.66%
'06/'05	3.16%	3.74%		7.23%	3.95%	4.80%	-23.09%	19.13%
'07/'06	2.35%	0.09%		4.13%	1.74%	-3.09%	-47.66%	-0.98%
'08/'07	1.97%	-1.62%		2.50%	0.51%	-3.75%	-50.14%	-28.90%
'09/'08	1.46%	-3.16%		-3.33%	-4.74%	-6.20%	-31.37%	-42.00%
‘10/’09	1.37%	-1.59%		-1.50%	-2.82%	-1.50%	-0.48%	-15.05%

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

Table 18: Riverside-San Bernardino Area Nonfarm Employment
(Annual averages, in thousands, March 2007 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	1,267.7	1.4	127.5	123.4	*86.9*	*36.5*	54.2	173.2	63.8	15.3
2007	1,268.8	1.4	112.8	118.9	*82.5*	*36.4*	56.4	175.4	66.7	15.2
2008	1,245.5	1.4	97.2	112.0	*77.2*	*34.8*	55.9	170.3	67.6	14.8
2009f	1,206.1	1.4	84.2	106.0	*73.2*	*32.8*	54.4	161.8	66.1	14.6
2010f	1,186.9	1.5	72.7	101.7	*69.7*	*32.0*	54.9	156.8	66.9	14.6

	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	31.7	19.9	39.9	10.8	91.7	14.1	108.0	128.1	42.5	222.2
2007	30.9	19.2	40.7	9.7	95.1	14.9	111.4	131.7	42.6	225.7
2008	29.0	18.4	41.0	9.6	94.1	15.5	115.1	131.0	42.6	230.1
2009f	26.0	15.9	41.2	8.1	91.8	16.1	118.6	129.0	41.8	229.1
2010f	24.5	15.7	42.2	8.0	90.8	16.6	122.3	129.2	41.6	227.1

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

VIII. OUTLOOK FOR VENTURA COUNTY

This area has also struggled in recent years, due to a variety of forces. These include the housing slump as well as layoffs at some major local employers. Unfortunately, 2009 won't bring much relief for the Ventura County economy.

Positive forces

- The County's **agricultural sector** should hold up during the forecast period, although there are concerns about crop pests combined with limits on pesticide use.
- There could also be impacts from the federal infrastructure stimulus package, with the 101 freeway an obvious target for work.

Negative forces

- **International trade** activity at Port Hueneme should continue to decline.
- There could be more **layoffs** at Countrywide Financial as it is integrated into Bank of America.
- Over 900,000 square feet of new office space is under construction, while the County's **office vacancy rate** has moved up to 13.8%.
- Water supply is an issue for the County's agricultural industry.

Net results

Nonfarm employment in the County should fall by -3.2% in 2009 or by -9,400 jobs. This comes on the heels of a -2.2% decline in 2008, and a –0.6% slippage in 2007. The biggest employment losses in 2009 should be in: construction (-2,000 jobs); retail (-1,700 jobs); and finance (-1,200 jobs). The only notable increase will be in health services, up by 500 jobs.

The County's unemployment rate should average 8.0% in 2009, inching up to 8.2% in 2010. In the current data series, the annual high 9.1% in 1993, with a peak of 10.4% in July 1992.

Total personal income should decline by -2.7% in 2009, following a -0.3% slippage in 2008. Per capita personal income should decline by -3.3% to $39,818. Taxable retail sales in Ventura County should remain disappointing, with a decline of –2.3% in 2009, after declines of -2.4% in 2008 and -0.9% in 2007. This comes despite the addition of some new or expanded shopping venues.

Just 800 housing unit permits are expected to be issued in the County during 2009. This can be compared with a recent high of 4,516 units permitted in 2005. Nonresidential construction activity will decline by -10.5%, reflecting high vacancy rates (office at that disturbing rate of13.8% while industrial is 8.9%).

Risks

- As with most areas in Southern California, the housing sector could yield an unpleasant surprise.
- With its large agricultural sector, water supply will be a question mark for the County.

Table 19: 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	4.8	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	28.057	35,159	7.717	3,635	379
2004	806.6	286.2	5.4	30.438	37,736	8.317	2,603	353
2005	812.1	291.2	4.8	32.303	39,777	8.782	4,516	372
2006	818.8	297.7	4.3	33.940	41,451	8.902	2,461	326
2007	826.6	295.8	5.0	34.600	41,858	8.956	1,844	346
2008	830.3	289.4	6.5	34.200	41,188	8.611	845	345
2009f	836.3	280.0	8.0	33.300	39,918	8.051	800	210
2010f	842.2	275.1	8.2	33.400	39,658	8.252	925	205
% 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%	0.89%	4.45%	-27.25%	-6.47%
'03/'02	1.44%	0.85%		5.29%	3.80%	7.88%	44.99%	31.14%
'04/'03	1.08%	0.70%		8.49%	7.33%	7.78%	-28.39%	-6.86%
'05/'04	0.68%	1.75%		6.13%	5.41%	5.59%	73.49%	5.38%
'06/'05	0.83%	2.23%		5.07%	4.21%	1.37%	-45.50%	-12.37%
'07/'06	0.95%	-0.64%		1.94%	0.98%	0.61%	-25.07%	6.13%
'08/'07	0.98%	-1.62%		2.02%	1.03%	-2.00%	-47.40%	-9.54%
'09/'08	0.72%	-3.25%		-2.63%	-3.33%	-6.50%	-5.33%	-39.13%
‘10/’09	0.71%	-1.75%		0.30%	-0.40%	2.50%	15.63%	-2.38%

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

Table 20: Ventura County Nonfarm Employment
(Annual averages, in thousands, March 2007 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	297.7	1.1	20.5	38.4	*24.1*	*14.3*	12.6	37.6	6.1	6.0
2007	295.8	1.1	18.6	37.9	*23.8*	*14.1*	13.1	37.4	6.1	5.9
2008	289.4	1.1	16.9	36.4	*23.4*	*13.0*	13.0	36.3	6.5	5.6
2009f	280.0	1.1	14.9	34.9	*22.9*	*12.0*	12.9	34.6	6.7	5.3
2010f	275.1	1.1	13.2	33.9	*22.6*	*11.3*	13.0	33.3	6.8	5.2

	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	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	19.6	4.5	16.0	3.3	20.1	7.9	21.0	30.5	10.2	42.5
2007	18.8	4.7	16.1	3.2	19.0	8.6	21.6	31.9	9.9	42.9
2008	17.4	4.4	15.9	3.2	18.0	8.7	22.1	31.3	9.9	42.7
2009f	16.2	4.0	15.8	3.1	16.9	8.6	22.6	30.2	9.7	42.3
2010f	16.9	3.8	16.0	3.0	16.1	8.8	23.2	30.3	9.6	42.1

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

IX. OUTLOOK FOR SAN DIEGO COUNTY

San Diego County has had a mix of good and bad economic news, and this trend should continue in 2009.

Positive Forces

- Support from **defense and aerospace**. While there have been some layoffs in the sector, General Atomics (Predators) and NASSCO (Navy supply ships) have some nice contracts.
- While the number of overnight visitors is expected to decline in 2009, there are some bits of good news for **tourism**. A "tourism management district" will start operation in July, which will generate more promotional funding. In addition, the Convention Center has a busy schedule of events in 2009, and there is serious discussion of another expansion of the facility.
- **Major projects** will also help, with $2.8 billion in educational bonds passed at the end of 2008. The County should also benefit from the federal government's infrastructure stimulus package.

Negative Forces

- **New homebuilding** will continue to move down.
- **Nonresidential construction** will decline (high office vacancy rates again).
- **Tourism** activity will also ease, along with sluggishness in the previously strong Indian casino market.
- The County's **agricultural** industry is fighting an outbreak of pests and also looking at water supply issues.

Net results

Nonfarm employment in San Diego County should fall by -1.8% or -22,900 jobs in 2009, after a -0.4% drop in 2008. In 2010, the County should see further weakness in the employment situation, a decline of -0.5%. The biggest employment loss in 2009 will come in construction (-9,000 jobs), followed by retail (-7,000 jobs). Moderate employment gains should be recorded in private education (+1,100 jobs) and health services (+1,800 jobs).

The County's unemployment rate should average 8.0% in 2009, compared with the high (in the current data set) of 7.9% recorded in 1993. In 2010, the unemployment rate is expected to average 8.5%.

Personal income in San Diego County will ease down by -1.8% during 2009. Per capita personal income should average $41,122, down by -3.2% from 2008. Like other areas in Southern California, inflation should simmer down to a 0.5% increase. The retail situation has been somewhat difficult, with a -1.7% drop in taxable sales in 2007, followed by a -2.9% decline in 2008. In 2009, another drop in sales volume of -5.9% is expected. Still, owners are looking at sprucing up existing shopping centers, such as Horton Plaza in downtown San Diego and the UTC Center near UC San Diego.

San Diego County's housing market has been subjected to intense scrutiny, as this was where the housing problem first showed up (the downtown condo development surge and bust). The number of housing units permitted peaked (in this cycle) back in 2003 at 18,314 units. In 2009, just 4,400 units should be permitted. Nonresidential construction will also decline, dropping by -28.0%. Office vacancy rates in the County have moved up to 15.8%, with over 700,000 square feet of new space under construction.

The number of overnight visitors to the County should slide down in 2009 by -2.9% to 13.6 million visitors. This has been a little unnerving to the travel and tourism industry, after a string of years with 15 million or more overnight visitors. The value of two-way international trade will also ease, down by -8.1% to $50 billion.

Hot spots

Again, this is a list that has shrunk in recent months. There is still some development being discussed in downtown San Diego (the Lane Field project is supposed to get started by year-end 2009), as well as up the coast around Oceanside.

Risks

The potential for water rationing would not be good for the County's still large agricultural industry.

Table 21: 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	2,893.9	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	104.630	34,894	29.521	35.7	15.4	18,314	1,169	3.7
2004	3,027.4	1,260.3	4.7	113.003	37,327	32.345	39.6	15.7	17,306	1,288	3.7
2005	3,051.2	1,282.1	4.3	118.793	38,933	33.785	43.4	15.9	15,258	1,382	3.7
2006	3,077.9	1,301.6	4.0	126.194	41,000	34.619	50.8	15.8	10,777	1,622	3.4
2007	3,120.1	1,308.2	4.6	130.900	41,954	34.315	54.2	15.4	7,445	1,417	2.3
2008	3161.5	1303.1	6.1	134.300	42,480	33.052	54.0	14.9	5,133	1,062	2.5
2009f	3,207.5	1,280.2	8.0	131.900	41,122	31.102	49.6	13.6	4,400	765	0.5
2010f	3,252.5	1,274.0	8.5	133.600	41,076	32.097	48.6	13.7	4,700	730	0.6
% Change											
'01/'00	2.02%	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%		3.95%	2.32%	7.65%	-0.56%	2.67%	16.37%	0.00%	
'04/'03	0.96%	1.63%		8.00%	6.97%	9.57%	10.92%	1.95%	-5.50%	10.18%	
'05/'04	0.79%	1.73%		5.12%	4.30%	4.45%	9.60%	1.27%	-11.83%	7.30%	
'06/'05	0.88%	1.52%		6.23%	5.31%	2.47%	17.05%	-0.63%	-29.37%	17.37%	
'07/'06	1.37%	0.51%		3.73%	2.33%	-0.88%	6.69%	-2.53%	-30.92%	-12.64%	
'08/'07	1.47%	0.09%		3.51%	2.01%	-0.50%	6.09%	-0.65%	-43.05%	-8.26%	
'09/'08	1.46%	-1.76%		-1.79%	-3.20%	-5.90%	-8.15%	-8.72%	-14.28%	-27.97%	
'10/'09	1.40%	-0.48%		1.29%	-0.11%	3.20%	-2.02%	0.74%	6.82%	-4.58%	

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

Table 22: San Diego County Nonfarm Employment
(Annual averages, in thousands, March 2007 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	1,301.6	0.5	92.7	103.9	*78.4*	*25.5*	45.1	148.3	28.7	37.3
2007	1,308.2	0.4	87.2	102.1	*77.1*	*25.0*	45.5	148.7	28.8	38.0
2008	1,303.1	0.4	79.8	101.5	*77.7*	*23.8*	45.9	145.9	29.2	38.4
2009f	1,280.2	0.4	70.8	100.5	*78.2*	*22.3*	46.1	136.9	28.2	38.8
2010f	1,274.0	0.5	65.3	100.0	*78.7*	*21.3*	46.5	135.4	28.7	39.2

	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	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	53.2	30.5	109.7	16.9	87.1	21.3	103.8	156.5	48.4	217.9
2007	50.5	30.0	112.4	16.3	87.8	21.7	107.1	160.9	48.8	221.1
2008	47.7	28.0	114.8	15.7	86.9	22.9	109.0	164.0	48.9	224.2
2009f	44.7	25.8	117.0	14.9	84.7	24.0	110.8	164.5	48.0	221.7
2010f	43.2	24.8	119.6	14.2	83.7	25.2	112.9	166.0	47.9	221.5

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization;
Construction Industry Research Board; estimates and forecasts by the 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 or services outside of the region, thus bringing new money into the Southern California economy. While the region is fortunate in having an array of drivers, most have been impacted by the recession. In some cases, business models are being changed. The best example is apparel production, where the number of customers (retail stores) is declining.

In each Forecast, performance ratings of the region's largest drivers are presented using a scale ranging from "A" to "D." This scale is based on overall prospects, and is not based on job growth or profitability.

Table 23: Performance Ratings of Major Industries

Industry	Grade	Comments
Aerospace: defense	B+	Steady activity in 2009 into late 2010 before possible changes in DoD/NASA programs
Aerospace: commercial	C+	Large backlogs at Airbus & Boeing, but order cancellations are a threat
Apparel design & manufacturing	D+	Cautious consumers & fewer retail stores; higher share for Wal-Mart, etc.
Business & professional mgmt. services	B+ to C	Best prospects: architecture, engineering & R&D
Financial services	C-	Restructuring in banking; investment management seeing lower fees
Health services	D+	Demand for services, but more financial problems for providers
Health services: Bio-medical	C+	VCs cautious & cost pressures
International trade	C-	Another decline in activity in 2009
Motion picture/TV production	B-	Assumes a SAG contract; run-away filming a threat
Technology	B-	Weak business demand; consumer only fair demand; VCs cautious
Tourism & travel	C+	Business & international travel down. Leisure travel fair at best. Room rates, fares down. Best prospects are intra-state visitors

Aerospace

Industry Score Card

Defense Aerospace

B+ → B+

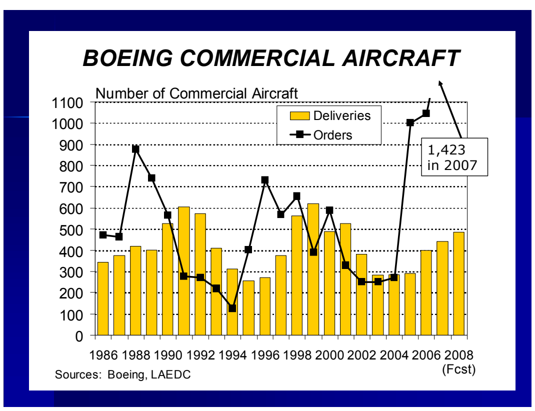
7/2008 2/2009

Commercial Aerospace

A → C+

Change is the word of the day for this sector. The Obama administration will have its priorities for defense programs, but won't be able to focus on them immediately because of the economic crisis. What is making the aerospace industry nervous is the competition for funding from the TARP. The DoD budget should peak in FY 2009, with declines in spending expected in the out years. There should be few changes to DoD programs in 2009 and early 2010, but some programs with California content will be at risk later in 2010.

In the meantime, the outlook for the airline industry is mixed, with concern over order cancellations from foreign low-cost carriers. NASA continues to struggle, with the replacement for the space shuttle falling behind schedule (2014 is now the expected service date), and the concern over the agency's leadership. The Obama administration might also set some new priorities for NASA.



Positive forces

- More orders are expected in a defense supplemental bill for the C-17 military cargo plane produced by Boeing in Long Beach.
- There evidently are several classified programs underway at various R & D facilities around the region.
- Boeing and Airbus have large order backlogs, which is good news for their local subcontractors.
- SpaceX of Hawthorne recently obtained a $3.1 billion contract for rockets for the space shuttle replacement (but the contract award has been challenged).
- Torrance-based Robinson Helicopter (commercial craft) seems to be doing well.

Negative forces

- The aerospace industry's workforce is aging and there is concern that skilled replacements won't be available.
- The fate of the F-22 stealth fighter is being hotly debated in Washington DC. Significant subcontracting work is performed on the program in Southern California.
- The airline industry is struggling and financing for commercial airplanes is felt to be at risk.

The aerospace industry in Southern California should continue to see very modest declines in employment over the course of 2009, with the annual average dropping by just 100 jobs to 55,100 workers.

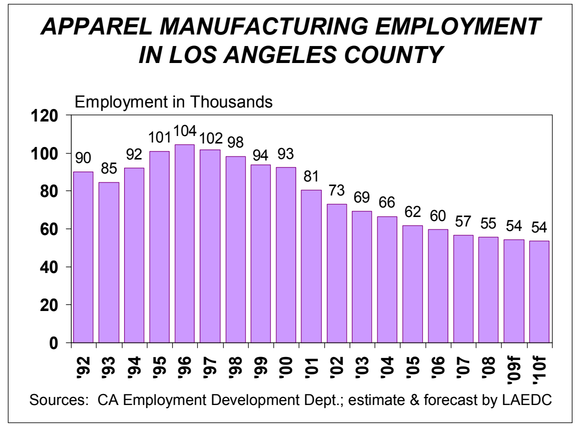
Table 24: Aerospace Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	38,700	38,000	37,800	37,700	37,600	-1.8%	-0.5%	-0.3%	-0.3%
Orange County	11,300	11,000	11,000	11,000	10,900	-2.7%	0.0%	0.0%	-0.9%
San Diego County	5,900	6,300	6,400	6,400	6,500	6.8%	1.6%	0.0%	1.6%

Apparel & Textiles

Industry Score Card
Apparel/Textiles
C → D+
7/2008 2/2009

This industry is facing a much changed business environment in 2009.



Positive Forces

A short list.

- Retailers will be looking for unique items and quick turns on merchandise – something that the local apparel industry can do quite well.
- New wholesale facilities continue to be developed in the Fashion District

It's never been easy for the local apparel industry, and 2009 will bring more frustration. The industry is also contemplating whether there has been a major change in the way the luxury retail market operates due to Saks' aggressive discounting at the end of 2008. This was a retail segment where there had been major expansion. Employment in apparel manufacturing will decline again in 2009, dow n by -1,100 jobs.

Negative Forces

- The chaos in retailing has reduced the number of stores, which means fewer customers for the local apparel industry. Worse, more retail closings are expected in 2009.
- Retailers cut prices aggressively in 2008, and this has generated a dispute with apparel manufacturers over "markdown money."
- There is concern that the remaining apparel stores will prune their roster of resources (less risk, but this could result in boring merchandise).
- Fewer new retail concepts are expected to be introduced over the next year.
- Quotas on Chinese made goods expired at the end of 2008, which could cause problems for some local firms later in 2009.
- More regulations on apparel, with the latest example being flammability and lead content requirements on children's apparel.

Table 25: Apparel & Textiles Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	97,800	94,200	92,600	90,600	90,100	-3.7%	-1.7%	-2.2%	-0.6%
Textiles mills	10,300	9,500	9,200	8,900	8,700	-7.8%	-3.2%	-3.3%	-2.2%
Textile product mills	8,800	8,600	8,700	8,700	8,800	-2.3%	1.2%	0.0%	1.1%
Apparel manufacturing	59,600	56,500	55,400	54,300	53,500	-5.2%	-1.9%	-2.0%	-1.5%
Apparel & piece goods wholesaling	19,100	19,600	19,300	18,700	19,100	2.6%	-1.5%	-3.1%	2.1%
Riverside-San Bernardino Area									
Textile mills	14,200	13,800	13,200	12,200	11,400	-2.8%	-4.3%	-7.6%	-6.6%

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

Business & Professional Management Services

This sector has a very mixed outlook for 2009.

- Legal: M & A activity has ground to a halt, while IPO's are now few and far between. However, there will be lawsuits out of the subprime lending debacle as well as an increase in bankruptcies and "workouts." There is also churn in the industry, with firms going out of business or partners jumping to other law firms.
- Accounting" should see modest growth, but can look forward to interpreting the expected new regulations on the financial services industry.
- Architecture & engineering: the former should continue to see sluggish business, but towards the end of 2009 could see new business in recycling buildings. The latter
- segment could get a boost from both the federal infrastructure program as well as the growing focus on "green" industry.

Industry Score Card
Business & Professional Management Services
B- → B+ to **C**
7/2008 2/2009

- Management of scientific & technical services: modest growth over the forecast period.
- Advertising: a down market. National forecasts for 2009 for ad spending call for a 2-6% decline. Many companies, especially the auto companies, want to conserve cash, and also are looking at the most effective ways of delivery their message.

Employment trends in the industry will be mixed during 2009, with declines in law and accounting.

Table 26: Business & Professional Management Services Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	195,400	203,500	205,400	207,900	188,623	4.1%	0.9%	1.2%	-9.3%
Legal services	49,200	49,500	49,100	48,600	48,800	0.6%	-0.8%	-1.0%	0.4%
Accounting services	46,400	49,600	49,600	51,300	52,800	6.9%	0.0%	3.4%	2.9%
Architecture & engineering	36,800	39,900	41,000	41,300	41,800	8.4%	2.8%	0.7%	1.2%
Mgmt., sci. & tech. consulting	39,000	40,400	41,800	43,200	45,200	3.6%	3.5%	3.3%	4.6%
Advertising	24,000	24,100	23,900	23,500	23	0.4%	-0.8%	-1.7%	-99.9%
Orange County	68,900	70,900	70,900	69,400	69,000	2.9%	0.0%	-2.1%	-0.6%
Legal services	14,300	14,300	14,200	14,200	14,100	0.0%	-0.7%	0.0%	-0.7%
Accounting services	12,100	12,100	12,100	12,000	12,100	0.0%	0.0%	-0.8%	0.8%
Architecture & engineering	23,300	24,100	23,900	22,900	22,300	3.4%	-0.8%	-4.2%	-2.6%
Mgmt., sci. & tech. consulting	19,200	20,400	20,700	20,300	20,500	6.3%	1.5%	-1.9%	1.0%
San Diego County	35,800	36,600	37,700	38,000	38,600	2.2%	3.0%	0.8%	1.6%
Legal services	12,400	12,600	12,900	13,200	13,600	1.6%	2.4%	2.3%	3.0%
Architecture & engineering	23,400	24,000	24,800	24,800	25,000	2.6%	3.3%	0.0%	0.8%

Note: Includes computer software development

Sources: California Employment Development Department, forecasts by LAEDC

Financial Services

2009 will be a year of major change:

- Many commercial banks will continue to struggle, more government support may well be required.
- There is concern that severe delinquency problems will develop in auto and credit card portfolios.
- There will eventually be more government regulation, due to the subprime mess and problems in the nonbank financial markets.
- There will also be lawsuits from subprime lending.
- Mergers and acquisitions are reshaping the commercial banking scene in California/Southern California. Chase Bank is now a major player (having taken over WaMu), while Wells Fargo is integrating the local activities of Wachovia Bank. U.S. Bank has taken over both Downey Savings and PFF Bank. Expect more mergers/takeovers in the region over the course of 2009.
- Loan quality will also be a threat, especially for smaller banks that were active in commercial real estate.
- For stock market related business (including money managers), 2009 will be another rollercoaster year for stocks. It will be a difficult environment in which to make money. Asset management fees are set to decline.

Employment in credit intermediation in all five local metropolitan areas will decline during 2009.

Industry Score Card
Financial Services
C → C-
7/2008 2/2009

Table 27: Financial Services Employment -- Credit Intermediation & Related Services

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	84,900	82,000	76,300	72,900	70,900	-3.4%	-7.0%	-4.5%	-2.7%
Orange County	52,000	44,900	34,500	30,000	28,000	-13.7%	-23.2%	-13.0%	-6.7%
Riverside-San Bernardino Area	19,000	18,100	16,600	15,200	14,400	-4.7%	-8.3%	-8.4%	-5.3%
San Diego County	26,600	24,700	22,400	21,200	20,400	-7.1%	-9.3%	-5.4%	-3.8%
Ventura County	11,100	9,900	9,500	9,100	8,800	-10.8%	-4.0%	-4.2%	-3.3%

Sources: California Employment Development Department, forecasts by LAEDC

Health Services/Bio-medicine

While discussed in the 2008 presidential election, there will be little action in 2009, as the federal government focuses on the economy**.**

Positive forces

This is a short list.

- Despite the recession there is growing demand for health services as baby boomers age.
- There is discussion of reopening Martin Luther King Hospital, which would take pressure off hospitals in the southern part of Los Angeles County.
- There is interest in reformulated drugs to eliminate adverse side effects.

Despite the rather negative financial situation, employment in health services in the region will continue to grow in 2009. With the exception of drug manufacturing jobs in Los Angeles County, there is no up-to-date tracking of bio-medical employment trends. Los Angeles County had 6,000 people at work in drug manufacturing in 2008, with a modest increase of 700 jobs expected in 2009. At mid-2008, the County also had 8,500 people at work in production of medical equipment and supplies. Orange County had 5,000 people working in drug manufacturing and 12,700 working in production of medical equipment and supplies at mid-2008

Negative forces

- Hospitals in Southern California will continue to struggle financially, with the situation exacerbated by an increase in uninsured patients. This could result in some job cuts.
- Health insurers are also under profit pressure, with rates for coverage going up.
- There are still shortages of skilled personnel, especially nurses.
- Hospitals are slowing development of new facilities, and will probably curb their purchases of expensive equipment.
- Bio-medical firms are seeing venture capital firms pull back on funding.
- Some smaller bio-techs are reported to be running short of cash

Industry Score Card

Health Services

D → D+

7/2008 2/2009

Bio-medicine

A- → C+

7/2008 2/2009

Table 28: Health Services Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. '10/'09
Los Angeles County	324,800	329,300	335,200	340,000	344,800	1.4%	1.8%	1.4%	1.4%
Ambulatory health care services	156,300	159,100	160,700	161,200	161,700	1.8%	1.0%	0.3%	0.3%
Hospitals	106,900	107,400	111,000	114,100	117,300	0.5%	3.4%	2.8%	2.8%
Nursing care facilities	61,600	62,800	63,500	64,700	65,800	1.9%	1.1%	1.9%	1.7%
Orange County	104,000	107,200	108,900	110,500	112,600	3.1%	1.6%	1.5%	1.9%
Ambulatory health care services	56,100	57,200	57,500	57,600	57,800	2.0%	0.5%	0.2%	0.3%
Hospitals	29,500	31,000	32,000	33,100	34,100	5.1%	3.2%	3.4%	3.0%
Nursing care facilities	18,400	19,000	19,400	19,800	20,700	3.3%	2.1%	2.1%	4.5%
Riverside-San Bernardino Area	94,700	97,600	101,000	103,900	107,000	3.1%	3.5%	2.9%	3.0%
Ambulatory health care services	46,400	47,100	47,900	48,500	49,200	1.5%	1.7%	1.3%	1.4%
Hospitals	28,700	30,100	32,300	34,100	36,000	4.9%	7.3%	5.6%	5.6%
Nursing care facilities	19,600	20,400	20,800	21,300	21,800	4.1%	2.0%	2.4%	2.3%
Ventura County	21,000	21,600	22,100	22,600	23,100	2.9%	2.3%	2.3%	2.2%
San Diego County	86,700	89,400	91,000	92,400	94,100	3.1%	1.8%	1.5%	1.8%
Ambulatory health care services	44,800	45,900	46,200	46,400	46,700	2.5%	0.7%	0.4%	0.6%
Hospitals	24,000	24,500	25,100	25,800	26,600	2.1%	2.4%	2.8%	3.1%
Nursing care facilities	17,900	19,000	19,700	20,200	20,800	6.1%	3.7%	2.5%	3.0%

Sources: California Employment Development Department, forecasts by LAEDC

International Trade

Industry Score Card

International Trade

B- → C-

7/2008 2/2009

International trade activity, as measured by containers moved at the ports of Los Angeles and Long Beach, reached a peak back in 2006 (15.76 million total TEUs handled), then eased down in 2007 (- 0.6% to 15.67 million TEUs handled). In 2008, the downturn accelerated with a decline of -8.5% to 14.34 million TEUs. In 2009 further significant declines are expected (-13.3% to 12.4 million TEUs), reflecting weak consumer spending and the on going woes of the housing market (lots of furniture and other household items come through the local ports). International air freight tonnage handled at LAX also dropped in 2008, falling by -12.0%

The pain from this slowdown has rippled out to longshoremen (fewer hours worked), truck drivers to industrial real estate (too much warehouse space built in the Riverside-San Bernardino area), and to port finance (all three major California ports are cutting expenses).

Negative forces

- The recession, which has hit the auto and housing sectors hard (auto parts and furniture and other household items).
- Exports had been a bright spot, but have slumped reflecting recessions or slowdowns among major trading partners of the Los Angeles Customs District.
- Problems in arranging trade finance (this could hit smaller firms quite hard).
- Shipping industry overcapacity (ships have been "laid up," while more large new container ships are scheduled to be delivered over the next two years).
- Fuel costs (the price of oil has dropped, but is expected to rise when the global economy recovers).
- While Los Angeles and Long Beach have tried to implement a "green truck" program, it has gotten tied up in legal challenges.

- Old myths die hard, and many people still think that the Los Angeles/Long Beach port complex has congestion problems.

Some people fret that the "container fees" charged at the Los Angeles/Long Beach port complex are making them less competitive with other major U.S. ports. As to fees for environmental clean up, sooner or later all large U.S. ports will have to address this issue.

Positive forces

Like other industries, it is a very short list.

- Expansion projects at the ports are slowly starting to move, with Long Beach working on EIRs for both Pier S and the Middle Harbor.
- Punta Colonet, a proposed port in Mexico has been postponed, due to financial considerations.

In 2010, both imports and exports should be growing again. However, job growth in the industry will be modest.

Total two-way trade value at the Los Angeles Customs District will $318,267 in 2009. The San Francisco District will see $106,307, while San Diego should record $49,610.

Motion Picture/TV Production

Industry Score Card
Motion Picture Production
C- → B+
7/2008 2/2009

This industry has been bedeviled by long running labor problems. 2008 got off to a rocky start due to the 100 day Writer's Guild (WGA) strike (which ended in February 2008), which really hit the TV sector. In fact broadcast TV is still feeling the impacts. At mid-2008, the major studios had concluded contracts with all the major unions, except the Screen Actor's Guild (SAG). Negotiations here continued, and as of this writing there is still no contract. The threat of a strike vote ebbs and flows, and SAG is dealing with very bitter internal political struggles.

Positive Forces

- Both domestic and international box office receipts were up in 2008 (by 2.3% and 0.4% respectively), and the feature film slate for 2009 looks strong.
- Many theaters are installing 3-D capability, which is felt to be a powerful draw for audiences (at least the ticket prices are higher).
- Cable TV networks are stepping up their production of scripted series, and are drawing sizable audiences.

While the potential of a SAG strike caught the media's attention, the possibility of a strike is felt to be low.

Employment in motion picture & sound recording industries in Los Angeles County should move up by a modest 1,000 workers in 2009 (assuming no SAG walkout). Domestic box office receipts should also increase (2009 has gotten off to a very strong start – maybe movie going is recession proof).

Negative Forces

- The industry's on-going labor problems.
- The recession, which is having a major impact on advertising (important to the broadcast networks).
- The studios have cut back their specialty production operations.
- The media conglomerates have made job cuts, and more could come.
- The flow of money to the industry has slowed due to the financial crisis. This is not considered a "bad" thing by many in the industry, as there were a lot of films competing for the audience.
- Still no California incentives for filming, and little production of major feature films takes place in the state any more. What is saving the production bacon is TV, especially of reality shows.

(Given the financial problems of most states, these incentives are starting to generate criticism, and some states – such as Michigan – may have to cut back on the incentives.)

- TV production companies are watching NBC's move of Jay Leno into the 10:00 pm time slot M-F. This means a reduction in the number of scripted series produced for the network (and fewer jobs). If the move is a success there is fear that other broadcast networks will follow.
- The DVD market has weakened, with a sales decline of -8.5% in 2008. There is concern that this market segment has topped out, not good news for studios' bottom lines.
- There is growing concern over digital piracy of feature films

Table 29: Motion Picture/TV Production Employment in Los Angeles County

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	155,600	157,800	154,000	153,600	155,600	1.4%	-2.4%	-0.3%	1.3%
Motion picture & sound industries	126,000	128,200	125,000	126,000	128,000	1.7%	-2.5%	0.8%	1.6%
Broadcasting (radio, TV, & cable)	19,100	19,600	19,700	19,000	18,900	2.6%	0.5%	-3.6%	-0.5%
Indep. artists, writers, & performers	10,500	10,000	9,300	8,600	8,700	-4.8%	-7.0%	-7.5%	1.2%

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

Technology

It's difficult going for this industry, as both business and consumers have cut back on their spending, even for computers and cell phones. In Orange County, smaller contract semi-conductor manufacturers are being acquired by larger players. The larger chip makers are reducing their spending due to the current over capacity in the industry. Their sales are expected to be down in 2009 by nearly -6%.

This industry is also feeling the pull back by the venture capital firms, especially for first round funding.

If the federal recovery package does include more spending for research & development, this would be good news for the local technology industry.

After several good years, this industry is falling back to earth.

Industry Score Card

Technology

A_ → B-

7/2008 2/2009

Table 30: Technology Employment (Including Aerospace & Bio-medicine)

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. '10/'09
Los Angeles County	192,800	191,300	191,800	192,200	195,100	-0.8%	0.3%	0.2%	1.5%
Computer & electronic products mfg.	59,400	55,900	55,000	54,000	53,700	-5.9%	-1.6%	-1.8%	-0.6%
Aerospace products & parts mfg.	38,700	38,000	37,800	37,700	37,600	-1.8%	-0.5%	-0.3%	-0.3%
Software publishers	5,900	6,800	6,800	6,500	6,900	15.3%	0.0%	-4.4%	6.2%
Internet & data processing services	5,600	5,800	5,500	5,300	5,200	3.6%	-5.2%	-3.6%	-1.9%
Computer systems design & services	26,300	27,300	27,500	27,600	27,800	3.8%	0.7%	0.4%	0.7%
Mgmt., scientific, & technical onsulting	39,000	40,400	41,800	43,200	45,200	3.6%	3.5%	3.3%	4.6%
Scientific R&D services	17,900	17,100	17,400	17,900	18,700	-4.5%	1.8%	2.9%	4.5%
Orange County	89,500	89,800	88,400	75,900	84,700	0.3%	-1.6%	-14.1%	11.6%
Computer & electronic products mfg.	42,100	40,700	39,000	37,200	36,200	-3.3%	-4.2%	-4.6%	-2.7%
Aerospace products & parts mfg.	11,300	11,000	11,000	1,100	10,900	-2.7%	0.0%	-90.0%	890.9%
Computer systems design & services	16,900	17,700	17,700	17,300	17,100	4.7%	0.0%	-2.3%	-1.2%
Mgmt., scientific, & technical consulting	19,200	20,400	20,700	20,300	20,500	6.3%	1.5%	-1.9%	1.0%
Ventura County									
Computer & electronic products mfg.	8,400	8,400	8,000	7,700	7,600	0.0%	-4.8%	-3.8%	-1.3%
San Diego County	60,500	61,500	63,600	64,800	66,300	1.7%	3.4%	1.9%	2.3%
Computer & electronic products mfg.	26,700	26,000	26,200	26,500	26,800	-2.6%	0.8%	1.1%	1.1%
Aerospace products & parts mfg.	5,900	6,300	6,400	6,400	6,500	6.8%	1.6%	0.0%	1.6%
Software publishers	3,900	4,200	4,200	4,100	4,100	7.7%	0.0%	-2.4%	0.0%
Scientific R&D services	24,000	25,000	26,800	27,800	28,900	4.2%	7.2%	3.7%	4.0%

Sources: California Employment Development Department, forecasts by LAEDC

Travel & Tourism

After several good years, this industry is falling back to earth.

Industry Score Card
Tourism & Travel
A- → C+
7/2008 2/2009

Positive Forces

- The first phases of LA Live have opened in Downtown Los Angeles (including the Grammy Museum), and in early 2010 the convention center hotel at the venue will open. LA Inc., the visitors and convention bureau, has reported an upswing in business meeting bookings as a result, which would be good news for the County's travel industry.
- Disney is working on the renovation of the California Adventure, which should yield positive results in the out years.
- All the local theme parks are being very promotional.
- San Diego now has a "tourism marketing district" that will be generating revenue for more promotion of the destination.

While international and business travel will be down in 2009, the better prospect look to be "intra-state" tourism.

According to PKF Consulting, hotel occupancy rates as well as average daily room rates around Southern California should ease down in 2009. Los Angeles County should see an occupancy rate of 73.2% compared with 74.9% in 2008. The hotel occupancy rate in Orange County should drop to 69.9% compared with 71.2% in 2008. San Diego County's occupancy rate should drop down to 69.9% in 2009, compared with 72.7% in the previous year.

Negative Forces

- International travel will be down (although there is hope that the visa waiver program could stimulate some business, especially from South Korea).
- Business travel will also be down, and some fret about the "AIG" effect (meetings could be perceived as too lavish).
- Lots of new hotel rooms have come on the market, especially at the luxury end of the market (and the new properties are having to be more promotional than expected).
- The health of the airline industry will be an on going concern (more service reductions at local airports?).

Table 31: Tourism-centric Industries Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. '10/'09
Los Angeles County	88,500	91,000	91,800	55,800	56,500	2.8%	0.9%	-39.2%	1.3%
Amusement parks & arcade	37,900	38,800	39,700	4,800	4,900	2.4%	2.3%	-87.9%	2.1%
Accommodation	39,100	40,400	40,400	39,300	39,800	3.3%	0.0%	-2.7%	1.3%
Travel arrangement & reservations	11,500	11,800	11,700	11,700	11,800	2.6%	-0.8%	0.0%	0.9%
Orange County									
Accommodation	22,400	23,100	22,700	21,800	21,900	3.1%	-1.7%	-4.0%	0.5%
Riverside-San Bernardino Area									
Accommodation	17,800	17,700	17,200	16,700	16,800	-0.6%	-2.8%	-2.9%	0.6%
Ventura County									
Accommodation	2,700	2,800	2,800	2,600	2,600	3.7%	0.0%	-7.1%	0.0%
San Diego County									
Accommodation	30,500	31,500	31,800	31,200	31,300	3.3%	1.0%	-1.9%	0.3%

Sources: California Employment Development Department, forecasts by LAEDC

XII. OUTLOOK FOR CONSTRUCTION & RETAILING

Residential Real Estate

New Homebuilding

In the last half of 2008, Southern California's housing market failed to gain the traction necessary to arrest the downward slide that has characterized it since the onset of the sub-prime crisis in 2007. Earlier predictions of possibly hitting bottom late last year proved overly optimistic. Unsold inventories are falling, but home price deflation shows no sign of leveling off as a large number distressed sales continue to work through the system. While the magnitude of the downturn varies by region, no area has been immune to its effects. Initially triggered by the sub-prime debacle, foreclosures of "prime" borrowers are on the up tick as job losses mount and hours of work are cut back. Plunging consumer confidence and uncertainty pertaining to length and severity of the recession have convinced many potential buyers that it might be best to wait on a new home purchase until the smoke clears.

Total homebuilding permits in the Los Angeles five-county region have been declining ever since the 2004 peak of 91,556 total units. During 2008, a total of 27,067 new residential construction permits were issued (41% of which were single-family homes), a decline of -45.6% compared with 2007 and down by -70% from the peak year. Los Angeles County and the Inland Empire accounted for most of the permits issued, about 85% combined. The difference between the two counties is that most of the permits issued in Los Angeles County (75%) 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 homes permitted were mostly for single-family units (64%). In 2008, total residential construction in Los Angeles County dropped to 13,886 units, a decline of -32% from the prior year and down by -48% from the 2004 peak. Total residential construction in the Inland Empire was down by -55% from 2007 to 9,180 units and a staggering -83% from its peak in 2004.

Industry Score Card

Residential Construction

D- → D-

7/2008 2/2009

Nonresidential Construction

B → C-/D+

7/2008 2/2009

Table 32: Performance Ratings of Construction and Retailing

Industry	Date of Rating 7/2007	2/2008	2/2009
New homebuilding	D	D-	D-
Resale housing	D	D-	C-
Nonresidential construction	A	B	C-
Value retailing	B	B-	B-
Automotive Retail	n/r	n/r	D+/C-
Other retailing	C	C-	C-

n/r = not rated

Table 33: Total Housing Permits

	L.A.	Orange	Riv-SB	Ventura	LA-5
1988	50,498	23,455	54,429	5,154	13,3536
1989	48,341	16,637	45,653	5,026	11,5657
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	2461	76,263
2007	20,363	7,072	20,457	1,847	49,739
2008	13,886	3,156	9,180	845	27,067
2009**F**	11,500	2,605	6,300	800	21,205
2010**F**	13,100	2.750	6,270	925	23,045

Sources: Construction Industry Research Board, forecasts by LAEDC

In Orange County, a total of 3,156 residential permits were issued in 2008, a decline of -55% compared with the 2007 level and down by -74% from the peak in 2000. Land availability is low in Orange County, and multi-family units accounted for the majority of residential construction permits issued in 2008 (59%). This trend started in 2004; prior to that, Orange County was considered a stronghold 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 845 residential permits were issued during 2008, a decline of -54% from the previous year and down by -81% from its peak in 2005. Of the housing permits issued in 2008, 60% were for multi-family units.

On the upside, levels of unsold new housing have fallen significantly over the past year in all five counties. Inventories in the third quarter fell (year on year) -15.3% in Los Angeles, -39.9% in Orange County, -49.7% in Riverside, -56% in San Bernardino and -23.4% in Ventura.

Resale Housing

Resale home inventories have also fallen dramatically over the year. According to the California Association of Realtors, the unsold inventory in California currently represents a 5.6 months supply at current sales rates, compared with 13.4 months a year ago. Although existing home sales in California increased by +84.9% in December over a year ago, the median price fell by -41.5% over the same period. This was due in large part to the increasing share of homes purchased out of foreclosure. In Southern California, sales of repossessed homes accounted for approximately half of all re-sales during the last quarter of 2008. At 70%, Riverside County had the highest proportion of foreclosed home sales and was closely followed by San Bernardino at 68%. It should also be noted, that an increase in the number of foreclosed homes in an area tends to pull down the value of neighboring homes.

The resale housing market in Southern California has radically shifted in favor of the buyer (assuming the ability to qualify for a loan under the more stringent lending standards now imposed by nervous financial institutions). A comparison of median existing single-family home prices in 2008 with 2007 by the California Association of Realtors revealed that the Los Angeles County median home price in 2008 was $402,100, down by -31.7% year-over-year. Orange County's median home price in 2008 was $533,200, a decline of -23.8% from a year earlier. Ventura County had a median home price of $463,560 in 2008, a drop of -31.2% from a year ago. The Riverside-San Bernardino market had the toughest year, with a median home price of $234,220 down by -38.6% from 2007. With more foreclosures expected to flood the market, especially in the Inland Empire, median home prices in Southern California are expected to decline further with 2009.

Table 34: Median Existing Single-Family Home Prices

	LA	Orange	Riv-SB	Ventura
1996	$172,886	$213,370	$115,240	$205,720
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
2008	402,110	533,200	234,220	463,560

Annual % Change

	LA	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%
2008	-31.7%	-23.8%	-38.6%	-31.2%

Source: California Association of Realtors

Apartments

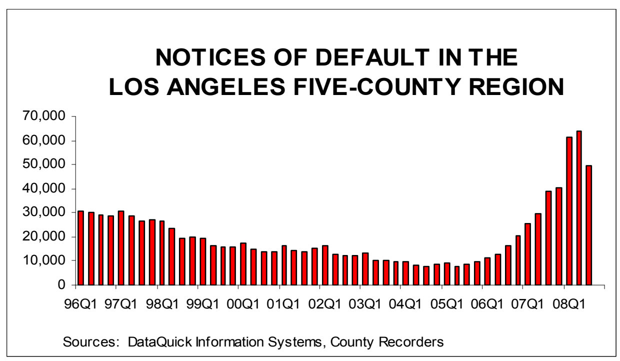
The apartment market experienced modest gains during the first half of the year but stalled as 2008 drew to a close. Apartment rents which had been rising steadily in the Los Angeles five-county region posted a slight decline (-0.2%). A comparison of rents in the third quarter of 2008 versus the same period in 2007 reveals that rents in Los Angeles and Orange Counties increased by 2.0% and 1.8%, respectively, but rents over the same period fell for Riverside County (-0.3%), San Bernardino County (-0.2%) and Ventura County (-0.3%).

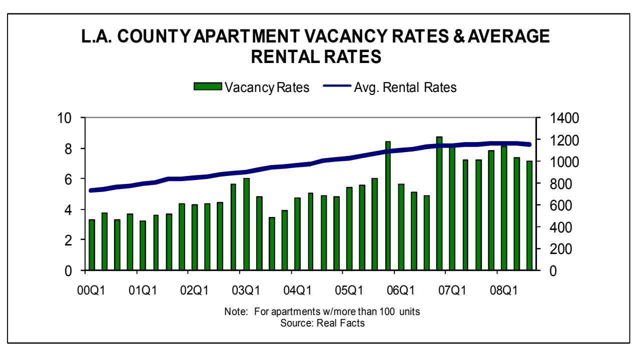
At the end of the third quarter of 2008, the average apartment vacancy rate in Los Angeles County was up slightly, to 6.1% compared to 4.7% a year ago. Apartment vacancy rates in Orange County averaged 5.8%. Riverside County and San Bernardino County rates were up somewhat, but at 8.3% and 6.8% respectively. Ventura County remained flat at 6.1%.

While fundamentals for apartment rentals remain relatively healthy compared to the detached for-sale housing market, mounting job losses are exerting pressure on rental and vacancy rates. With the foreclosure crisis continuing to unravel, one would expect to see an increasing number of former homeowners moving back into apartments. This has not happened to the extent expected, however. In some cases, stressed homeowners, unable to sell, are renting out their properties. This has been especially prevalent in the eastern portion of the Inland Empire where a heavy concentration of entry-level (i.e. subprime) homes are now serving as bargain priced rentals. Demand for apartment units has also been affected by the increasing affordability of homes as median prices drop and align more closely with incomes. On the other hand, the difficulty of qualifying for a home loan will lessen this effect, and in areas where there is still a significant gap between owning and renting, there will be room for gains in rental rates over the coming year.

Housing Forecast

Contrary to previous expectations, residential construction did not hit bottom in 2008. The presence of two extenuating factors: rising unemployment rates and more foreclosures, make it likely the market will not reach a nadir until mid to late 2009. The LAEDC forecast that a total of 21,205 new housing units will be permitted in the five-county region, a decline of -21.7% from 2008 and a -76.8% drop from the 2004 peak of 91,556 units. As jobless claims rise, foreclosure rates will continue to depress home prices. Although credit conditions remain tight, interest rates are lower and existing home inventories are falling as bargain hunters snap up distressed properties. Prices will continue to fall until the ratio between housing prices and income reaches a sustainable level. Moreover, recovery will require a renewed willingness on the part of mortgage lenders to make loans to qualified buyers and substantial improvement in the jobs market. These three factors are self-reinforcing and until they all come together, it is difficult to predict what a recovery will look like as the market moves through 2009 and into 2010. It could be years before house prices start to rise again.

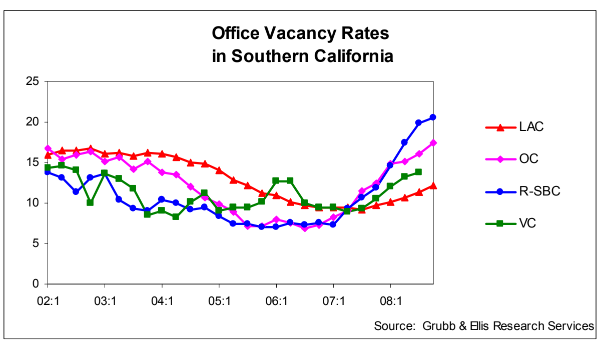




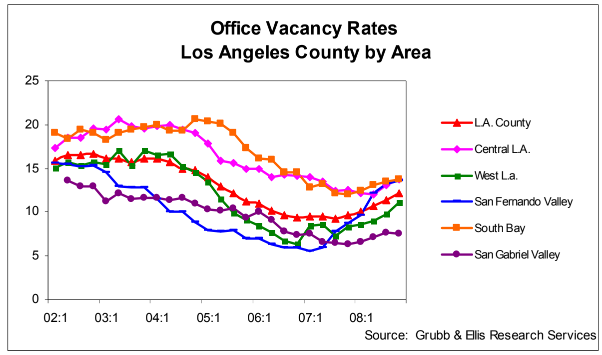
Nonresidential: Office

Southern California's job growth came to a grinding halt in 2008 and ended the year with the highest level of unemployment in 14 years. As fallout from the dysfunctional financial system hit the real economy, unemployment spread across the board. Subsequently, office vacancy rates throughout the region increased as companies closed or contracted. Some areas have fared better than others depending on their exposure to problem industries and the volume of new construction, but none remained unscathed.

Los Angeles County's average office vacancy rate at the end of 2008 increased to 12.2% (compared to 9.7% a year ago) and is now above 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 7.6% and 11.1% respectively. The biggest increase in an area vacancy rate, year over year, occurred in the San Fernando Valley, up by almost 5 percentage points to 13.6% at the end of 2008. County wide tenant losses were heavily weighted toward the financial services industry. AIG, Countrywide Financial and Washington Mutual, are dumping millions of square feet of office space.



Increasing vacancy rates have not uniformly affected the Class A asking rents among L.A County's various communities. Over the year, Westside asking rates dropped to $4.53 (-7.9%), San Gabriel rates declined to $2.70 (-1.1%) and the San Fernando Valley closed 2008 at $2.74 (-2.8%). On the other hand, downtown rates rose +9.3% to $3.28 and in the South Bay, rates increased to $2.45 (+2.5%). On average, the County's soft market for office space pushed Class A asking rents down to $3.41 per square foot in the fourth quarter, a -2.3% decline for the year. While this does not appear to be a precipitous drop, it was an abrupt reversal of last 2007 gains. Industry analysts expect additional declines as the year progresses.



In Orange County, the average office vacancy rate jumped to 17.5% at the end of 2008 from a rate of 12.5% just one year ago. Year over year employment growth in the county slumped as job losses spread from the financial services sector to real estate and the wider economy. New construction came to a virtual standstill over the course of 2008, but available office space inventory will increase as more companies contract or close their doors. Average asking rents fell in 2008 and will likely fall again in 2009.

The Inland Empire's average office vacancy rates soared to 20.6% at the end of 2008 compared with 11.9% a year ago. The increase in vacancy rates was due primarily to job losses in industries related to finance and real estate. Market saturation from new construction projects in progress prior to the real estate bust was also a contributing factor. With an abundance of available office space, tenants are in a position to demand concessions from landlords in the form of free rents, lower rents, and higher improvement allowances. Such incentives appear to be working. New activity was driven by insurers, credit unions, medical, law and government offices that moved in over the course of the year to meet the needs of the region's underserved population of 4.2 million. Riverside and Ontario are expected to recover first, helped by their role as the region's central business districts and the availability of newer amenities.

The credit crunch and economic slowdown has definitely stalled new office construction in Southern California, as the cost of borrowing has gone up and risk-averse lenders maintain a tight grip on credit. Soaring unemployment from businesses scaling back or closing has resulted in a shift in emphasis from new development to filling existing office space. In spite of a fair level of activity in the first three quarters of 2008, the fourth quarter ushered in a distinct drop in office construction activity that is likely carry over into 2009.

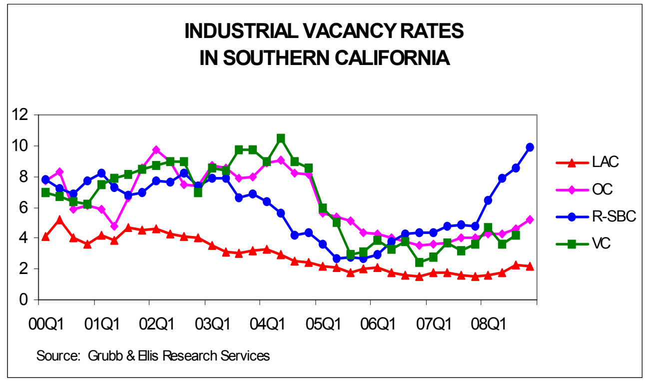
Table 35: Office Building Permits Issued
(In millions of dollars)

	LA	OC	R	SB	V
1990	623	236	68	67	31
1991	386	118	50	34	33
1992	121	27	34	22	28
1993	144	51	41	17	6
1994	108	41	12	22	4
1995	88	29	10	32	9
1996	133	45	22	9	4
1997	161	129	22	12	6
1998	284	270	9	22	25
1999	393	289	24	16	13
2000	268	354	31	15	32
2001	547	174	43	20	30
2002	209	150	36	30	5
2003	182	118	85	61	40
2004	307	133	127	84	18
2005	233	313	148	85	23
2006	241	578	192	115	52
2007	716	282	224	118	55
2008	446	114	118	33	26

Source: Construction Industry Research Board

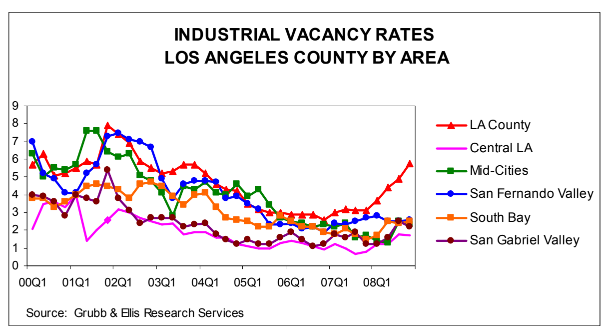
Nonresidential: Industrial

Southern California is a major center for manufacturing, international trade and logistics and, of course, entertainment. Los Angeles County remains the nation's largest manufacturing center and is home to its biggest port complex. Two years ago, the energetic flow of international trade goods ensured the region's warehouses were filled to bursting. Lackluster consumer demand has slowed port traffic, but all things considered, the market for industrial property has done pretty well. Los Angeles County posted a 2.2% industrial vacancy rate at the end of 2008. Although this was up from the 2007 rate of 1.5%, vacancy rates in Los Angeles County are still the lowest in the country.



Declining trade volumes at the port and weak consumer demand will inflict a measure of discomfort on the Los Angeles County industrial real estate market in 2009, the county will face it from a position of relative strength. Due to a shortage of land available for development, Los Angeles did not go through the cycle of overbuilding that occurred in neighboring counties. This lack of space has kept vacancy rates low and rents fairly stable.

The industrial vacancy rate for Central Los Angeles at the end of 2008 was just 1.7%. However, weak consumer spending could trim garment, toy and produce industry demand for warehouse space. The industrial markets elsewhere in the county also remained tight with vacancy rates in at 2.2% in the San Gabriel Valley, 2.3% in the mid-cities area, 2.5% in the South Bay and 2.6% in North Los Angeles.



Orange County's industrial real estate market fared less well; ending the year with a 5.2% vacancy rate, up from 4.0% from a year ago. Construction levels are at their lowest in years, thereby fixing the supply of available space. This will help stabilize vacancy rates until the excess space is absorbed. Businesses are taking a "wait and see" attitude about expanding or relocating to the area. Asking prices, which remained reasonably stable over the past year, will begin to inch down in 2009.

As industrial space dwindled in Los Angeles and Orange counties, more and more companies, searching for abundant land, lower costs and proximity to the San Pedro Bay ports migrated east to the Inland Empire. Up until 2007, the large influx of distribution businesses into the Inland Empire competed for space with rapidly spreading low-cost housing developments, creating a tight regional industrial real estate market. Conditions have deteriorated markedly, however, with the year end 2008 vacancy rate standing at 9.9% compared with 4.8% a year ago.

What are some key trends in the Riverside-San Bernardino area? As a defensive measure against the recession, several established businesses are seeking cost savings by consolidating along the I-215 corridor. This is causing localized variation in vacancy rates and asking rents. Vacancy rates are also climbing at warehouse and distribution centers for retail chains; casualties ensuing from the demise of several big retailers and waning consumer demand. The Inland Empire also serves as a conduit for goods moving between the ports to the rest of the nation. The area is home to a substantial logistics industry. High growth rates in international trade and goods movement encouraged builders to engage in extensive speculative construction. However, a decrease of -7.6% in imports flowing from the Ports of Long Beach and Los Angeles in 2008 has contributed to the increase in industrial vacancy rates. As a result, total construction dropped by -65% over the year as builders called a halt to speculative projects.

During 2008, industrial building permits valued at $327 million were issued in the five-county region. The Inland Empire accounted for 50% by valuation of industrial building permits issued in the five-county area compared with 73% a year ago. Los Angeles accounted for a 41% share, up from 16% a year ago. This represented a remarkable gain in valuation over the year in 2008 (the only county in the five county area that did not post a steep decline). Ventura held a 5% share, slightly edging out Orange County which only accounted for 4%.

Table 36: Industrial Building Permits Issued
(In millions of dollars)

	LA	O	R	SB	V
1990	309	59	120	182	43
1991	141	39	38	117	35
1992	92	22	21	38	37
1993	55	18	13	59	23
1994	71	11	14	76	32
1995	74	34	32	69	20
1996	124	84	51	87	64
1997	109	123	98	189	56
1998	308	234	118	209	82
1999	361	123	112	331	58
2000	359	87	99	405	42
2001	202	90	75	331	76
2002	225	62	81	243	31
2003	276	68	113	245	47
2004	178	26	203	436	45
2005	277	27	120	322	23
2006	182	91	288	373	21
2007	109	52	185	351	29
2008	135	14	70	92	16

Source: Construction Industry Research Board

Forecast for Private Nonresidential Construction

Looking ahead, total private nonresidential construction in the five-county region declined in 2008 to $8.0 billion and will decline a bit more in 2009 with a forecast building permit value of nearly $5.4 billion, a -33.3% decrease. The decrease is due to the credit crunch, a fall off in port activity and a steep decline in consumer spending. Private nonresidential building permit values in Los Angeles County will decline in 2009, and remain flat through 2010. Orange County's total construction activity value will drop by about -36% in 2009, as the county labors through what is shaping up to be a severe economic downturn, but it should also see an improvement mid to late 2009. The Riverside-San Bernardino area's total nonresidential building permit values will decrease by -42% in 2009 but will improve as the recession abates. Increased port activity will encourage more distribution and warehousing companies to look inland for sizeable properties at more affordable prices. Ventura County's total nonresidential construction permit values will see a further decrease of about -39% in 2009.

For the most part, office space development will be restrained in all five counties of the Southern California region. Companies will be shedding employees or delaying hiring due to the uncertain economic outlook for 2009. With some new projects just coming on the market, office vacancy rates around the region will increase. Average rents will soften with a greater demand for concessions, especially in Orange County and the Inland Empire. The few companies considering expansion will look at other markets to obtain more competitive lease rates.

The outlook is somewhat brighter for industrial space development, especially in the tight markets of Los Angeles and Orange counties. International trade continues to lead the region's economy and will eventually require more distribution and warehouse space as the nation and its major trading partners recover. 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 spread east again along I-10 or go north over the Cajon Pass to the High Desert.

Retailing

Industry Score Card

Retailing

B- → B

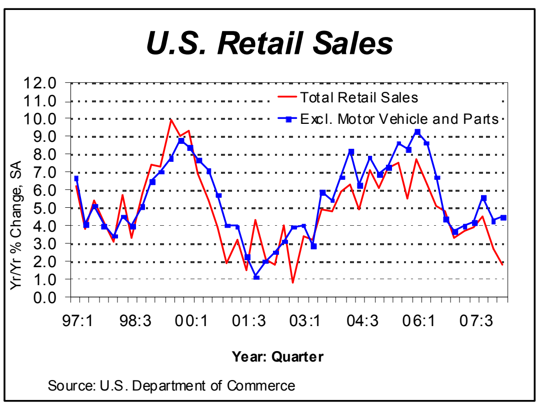
7/2008 2/2009

Other

C → C-/D+

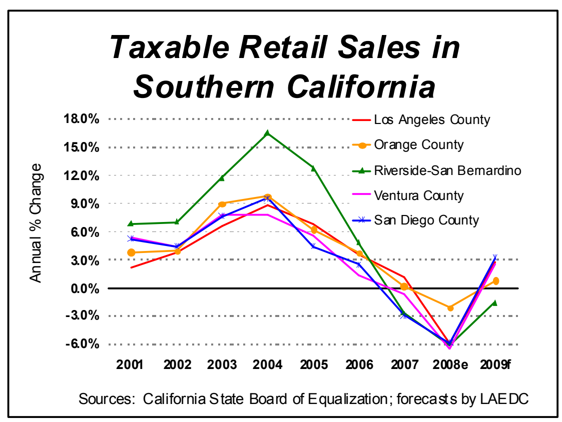
7/2008 2/2009

It was a bleak year for retailing, with consumer confidence down, sale receipts taking a plunge, and retailers and their locations going empty. Late 2007 marked the beginning of the end, as sales volumes started their decline, and by early 2008 the first wave of store closings took place. These involved retailers such as Starbucks and Ann Taylor, who had pursued massive expansion plans and now found themselves overextended. Sales volumes deepened their descent in 2008, reaching end-of-year sales declines not seen for decades. The list of retailers who did not survive 2008 and the list of retailers putting locations on the chopping block for self preservation was substantial (a sampling follows). Filing for bankruptcy used to be a chance at a reorganization or a buyout (such as Macy's in 1992 & K-Mart in 2002), but in today's environment filing for protection seems to be a death toll that even large retailers cannot escape.



As retailers close and pare down their operations, more and more retail space is left vacant in an already struggling real estate market. Large vacant square footage is harder to fill (commercial real estate is predicted to be the next victim of this recession). Shopping centers stand to lose tenant income, suppliers stand to lose orders as retailers scale down their inventories, and newspapers stand to see further declines in their ad revenues. Employees from the closed operations are thrust into a tight job market that continues to constrict as the remaining operations trim away their fat in order to survive. With the economic downturn continuing through much of 2009, it is expected that many more retailers will be added to the casualty list.

2008 was a hostile environment for retailers facing shrinking lines of credit (Mervyns), huge amounts of debt (Circuit City) and devalued stock (Claire's); and 2009 is only looking worse. With rising unemployment and low consumer confidence, many large retailers, such as Walgreens and Best Buy, are limiting their new store openings and revising their forecasts to reflect lower growth. From the first through the third quarter of 2008, 15 major retailer chains had filed for bankruptcy and announced the closure of 4,623 stores. By the end of 2008, the number of retailer closures totaled 175,000. Closure estimates for 2009 total 75,000. Competitors of failed retailers stand to benefit from an increase in market share, and of course liquidation operations stand to benefit from an increase in closure activity. Shareholders and unsecured creditors (usually inventory suppliers) stand to lose the most. They will lose their dividends and will have to wait in line behind secured creditors (such as banks) for their payments.



The severe downturn in the retailing industry has left it open for major structural changes to take place, but this will be a painful process. There are estimates that in 2009, approximately 10% of retailers will restructure, file or liquidate. Some analysts believe that the retail downturn will span three years…Everything must go!

Sales Trends

Southern California retail sales have been dropping, and no county has been spared. 2009 will have more of the same with the declines in sales volumes ranging from -2.1 percent in Orange County to -6.5 percent in Ventura County. Riverside-San Bernardino is expected to see a drop of -6.2 percent in retail sales while sales in both Los Angeles County and San Diego County are expected to decline by -5.9 percent. In 2010, the situation is expected to improve, but only moderately.

A Sample of 2008 Retailer Pain & Casualties

Company	*Status*
Circuit City	Bankruptcy - Liquidation (567 Stores & 40,000 Employees)
Mervyns	Bankruptcy - Liquidation
Krispy Kreme	Possible Closings Of A "Significant" Amount Of Stores
Sarah Lee	Outsourcing Away From Local Contractors
Costco	7% International Decline In Sales
KB Toys	Bankruptcy - Liquidation (400+ Stores)
Office Depot	Scaling Back Operations (Cutting 126 Stores)
Linens n Things	Bankruptcy - Liquidation (589 Stores)
Whitehall Jewelers Holdings	Bankruptcy - Liquidation
Walgreens	Limiting New Store Openings
BTWW Retail	Bankruptcy - Liquidation (95 Stores)
H&M (Hennes & Mauritz AB)	Sales Are Down
Bulgari SpA	Sales Decline Of 10% 4th Quarter 2007
Swatch Group AG	Sales Decline Of 6% 4th Quarter 2008
Saks Inc.	Steep Decline In Sales
Neiman Marcus Group	Steep Decline In Sales
Best Buy Co.	Limiting New Store Openings & Offering Buyouts To 4,000 HQ Employees
Shoe Pavilion	Bankruptcy - Liquidation
Goody's Family Clothing Inc.	Bankruptcy - Liquidation (287 Stores)
Rock & Republic	Issuing A Recession Collection At Half The Cost
Against All Odds	Bankruptcy (64 Stores)
Home Depot	Closing Expo Home Division
Starbucks	Scaling Back Operations And 2009 Pay Freezes
Ann Taylor	Scaling Back Operations

XIII. WRAPPING IT UP

The Southern California economy will be severely tested during 2009. Unfortunately, a lot of businesses will close or downsize and jobs will be lost. For workers, finding good employment could be difficult as the recovery in 2010 will be slow.

The federal stimulus program will provide support, but the impacts will not be felt until late in 2009. The infrastructure programs will be especially helpful. The jobs involved have a significant ripple impact, and the transportation projects will help the state remain competitive.

While the financial problems of California's government have been well documented, county and city government budgets will also be under severe strain. Some hard decisions on staffing and services will have to be made.

California is in a drought, and curbs on water use will likely be implemented for both business and consumers. The state's vital agricultural industry (and its suppliers) could suffer.

Are there any prescriptions for survival in this environment?

- For **business,** keeping costs under control will be critical. Remember, however, there will be new business opportunities in the economic turmoil there will be new business opportunities. An example: lots of retail space is vacant and recycling this space could prove lucrative. A major challenge is shuttered auto dealerships, which often are on sizable pieces of land.

- For **government**, understand that budgets will under pressure for several more years. A knee-jerk response is to develop more retail. That model is no longer viable as the retail sector is restructuring. There is no comprehensive retail vacancy survey, but if one were conducted the results would be hair-raising.

- For **consumers,** there will be chronic worrying about employment. Watch the economy, but take a measured view of the headlines. On a more positive note, there will continue to be bargains at retail. Want to buy a house? Mortgage rates will remain low during the forecast period and some attractive properties will be on the market.

For **every one** – business, consumer and government – more attention needs to be paid to the value adding sectors of the state's economy. Other states are gearing up for more aggressive business recruiting efforts aimed at California. We can no longer be passive. Much of our aerospace base disappeared in the early 1990s, while the motion picture industry is currently being wooed vigorously by other states. If we want to keep these good jobs, it will take work and some changed attitudes.

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INDEX OF STATISTICAL TABLES