

# 2011-2012 ECONOMIC FORECAST AND INDUSTRY OUTLOOK

FEBRUARY 2011



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# **2011-2012 Economic Forecast and Industry Outlook**

California & Southern California  
Including the National & International Setting

**Prepared by:**  
Nancy D. Sidhu, Ph.D.  
Kimberly Ritter  
Ferdinando Guerra

February 2011

Los Angeles County Economic Development Corporation  
The Kyser Center for Economic Research  
444 S. Flower St., 34<sup>th</sup> Floor, Los Angeles, CA 90071  
Tel: 213-622-4300 or 888-4-LAEDC-1      Fax: 213-622-7100  
Web: <http://laedc.org>      E-mail: [research@laedc.org](mailto:research@laedc.org)

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 163,500 jobs, providing \$8.0 billion in direct economic impact from salaries and more than \$136 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 the World Trade Center Association Los Angeles-Long Beach (WTCA LA-LB), which facilitates trade expansion and foreign investment, and the LAEDC 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](http://www.wtca-lalb.org)

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**Nancy D. Sidhu, Ph.D.**

Chief Economist  
U.S. and California Economies  
Los Angeles & Ventura County Economies

**Kimberly Ritter**

Associate Economist  
Monetary & Fiscal Policy  
Orange & San Diego County Economies  
Construction & Retailing

**Ferdinando Guerra**

Associate Economist  
International Economies & Foreign Exchange  
Riverside-San Bernardino Economies,  
International Trade/Goods Movement



**LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION**

February 16, 2011

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's *2011-2012 Annual Economic Forecast* event.

The **LAEDC's Economic Forecast** is Southern California's premier source for in-depth economic information and analysis on Los Angeles County and the surrounding areas. The LAEDC economic forecast reports are used by the media, government, and private industry organizations, and have been ranked #1 by the Wall Street Journal. Each forecast release is accompanied by a major public event featuring the insights of influential economists and public or private sector leaders. The forecast publications and events are highly regarded locally, nationally and internationally. The forecast report is produced by the **Kyser Center for Economic Research** at the LAEDC under the leadership of our Chief Economist, Dr. Nancy Sidhu.

Today's event is presented by the Japan Business Association, which is celebrating their 50<sup>th</sup> anniversary. Our event sponsors also include Loyola Marymount University, Manpower, NBC Universal and Union Bank. In our second in a series of key country reports, we are pleased to unveil our "Growing Together – Japan and Los Angeles County" report that highlights the strong ties between Japan and L.A. County including economic and investment ties, trade, and personal and cultural ties. Our distinguished panel of speakers includes representatives from some of Japan's most recognizable companies, Honda Motors, Union Bank and Yakult, makers of probiotic beverages.

On our economic outlook panel, we are pleased to feature Dr. Sidhu who will discuss the state and local economic outlook, Dr. Berson, chief economist and strategist for the PMI Group who will discuss the national outlook and the mortgage and housing markets, and CA State Controller John Chiang who will discuss the state's budget.

We are also delighted to inform you that we have completed the first year of implementation of the L.A. County Strategic Plan for Economic Development, and will be releasing an Annual Report detailing the outcomes and progress toward each of the plan's goals in March 2011. As we begin the second year of the plan's implementation, we once again ask for your continued support and leadership to ensure that our shared vision of a strong, diverse and sustainable economy for L.A. County's residents and communities is realized.

If your organization has not already done so, we ask that your organization consider expressing its formal commitment to the plan and our shared vision by completing the endorsement form that is on your table, which can also be downloaded from our website at [LACountyStrategicPlan.com](http://LACountyStrategicPlan.com). Your organization will be joining a growing number of entities that are joining the movement to take responsibility for the health and vibrancy of our communities.

As we celebrate our 30<sup>th</sup> anniversary, we thank you for your support of the *2011-2012 Annual Economic Forecast* and for your continued support of the LAEDC and our mission to attract, retain and grow jobs for Los Angeles County.

Sincerely,

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

Bill Allen, President and CEO



## I. OVERVIEW OF THE LAEDC 2011-2012 ECONOMIC FORECAST

### The U.S. Economy

	2011	2012
<b>Real GDP</b>	+3.1%	+3.4%
<b>Inflation</b>	+2.5%	+2.5%
<b>Fed Funds Rate</b>	0.25%	2.5%
<b>Mortgage Interest Rates</b>	4.9%	5.5%
<b>Leading Sectors</b>	Consumer Spending Exports Business Equipment Spending	
<b>Trailing Sectors</b>	Nonresidential Construction State/Local Government Spending	

### The California Economy

	2011	2012
<b>Nonfarm Employment</b>	+0.8%	+1.8%
<b>Industry Leaders</b>	International Trade High-Tech Tourism	
<b>Industry Laggards</b>	Construction State/Local Government Spending	

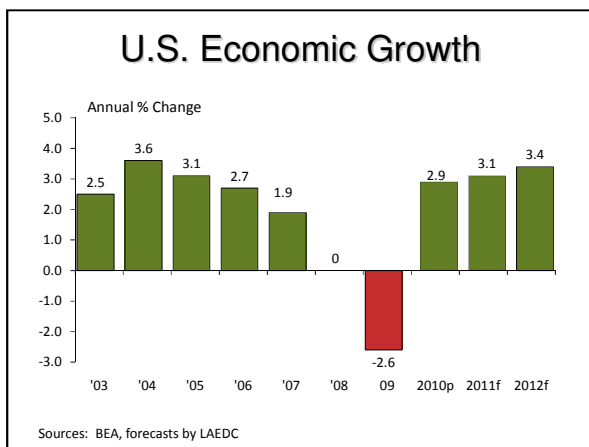
### The Southern California Economy

<b>Leaders</b>	International Trade High-Tech Entertainment Tourism
<b>Laggards</b>	Construction State/Local Government Spending

## II. OUTLOOK FOR THE U.S. ECONOMY

### Overview: The Recovery is Complete; Now What?

The U.S. economy plunged into a deep recession combined with a severe financial crisis in 2008 and early 2009. Employment declined throughout this period, and jobless rates soared across the nation. The economy reached bottom in June 2009, ending the recession. The ensuing upturn continued through 2010—six quarters in all. By fourth quarter 2010, Gross Domestic Product (GDP), the best measure of economic output, had regained all of the territory lost during the recession.



However, the economic recovery has been quite unbalanced. Comparing fourth quarter 2010 GDP with fourth quarter 2007, it's clear the recovery was led by three sectors, while the others registered declines. Federal government spending has increased the most, in both dollar and percentage terms, growing by +19% on net during this period. Exports, which plunged during the recession, bounced back and were 6% higher during the fourth quarter 2010 than late in 2007. Consumer spending was the third sector to register net gains over the past three years. The gain was small, just +1%, but is really important

for the economy because consumer spending is so large.

Housing has been the weakest performer by far. Despite a modest rise in fourth quarter 2010, residential investment was still a whopping -38% below the fourth quarter 2007 pace. Business investment spending (for structures, equipment and software) lagged by -12%, mostly due to plunging nonresidential building activity. And spending by state and local governments was down by -2% from the late 2007 level.

Employment fell precipitously in 2008 and 2009, but job losses were replaced by job gains in 2010. Still, the damage was considerable. Some 8.4 million jobs disappeared during 2008 and 2009. Only 1.1 million were added back during 2010, and nearly one in ten workers was unemployed and looking for work. Labor markets will not recover completely for several years.

For 2011 and 2012, the key forecasting issues involve government budgets and spending and housing. Home sales are up from the bottom in most locations, and new construction has stabilized, though at very low levels. However, recent housing activity has been relatively weak, reflecting issues on both supply (re-sales of foreclosed homes) and demand (lackluster since government support programs ended). We are optimistic for the medium term but cautious about 2011.

Government budget and deficit problems continue to fester. Spending by many state/local governments continues to be constrained by lack

of revenue. While the economic recovery has generated higher tax revenues, federal stimulus funding is on the decline. Boosting tax rates or cutting spending further seem to be the only solutions, but both will dampen economic activity.

Still, it is important not to lose sight of the underlying fundamentals. As time passes, the economy will gather still more strength and upward momentum will spread. For now, we continue to be conservative in our forecasting posture.

Overall, the LAEDC projects the U.S. economy will grow by +3.1% in 2011 and by +3.4% in 2012 after increasing by +2.9% during 2010. Inflation is unlikely to be a problem in the near term, though higher energy prices are always cause for concern. Monetary policymakers acknowledge the inflation risk they are creating by their actions, but continue to be focused on restoring the health of the nation's economy and the financial sector. Thus, short-term rates are likely to remain at current extremely low levels for a while longer. The outlook for long-term rates is a bit more uncertain. Given the Fed's current activist policy stance, rates are unlikely to rise much until 2012. Below we review the outlook for the key sectors in more detail.

## Household Spending On the Rise

*Consumer spending* is the largest sector of the U.S. economy and holds one of the keys to the economic outlook. U.S. households came under considerable stress during the recession, as employment declined sharply and joblessness increased. The nation's unemployment rate, currently 9.4%, will decline only slowly, reaching

the 9% range by the end of 2011 and the "low eights" by year end 2012.

Most types of household incomes rose in 2010. Wages and salaries were up by +3.4% in the fourth quarter 2010 period compared with the year-ago period. Most other sources of income were up as well. Dividend income rose by +6.0% over the year. Profits of independent, unincorporated businesses also were up by +6.0%. However, interest income fell by -1.6% due to lower interest rates. The government helped out too: personal transfer payments (mostly Social Security, welfare and unemployment benefits) were up by +6.6%. Bottom line: disposable personal income (net of personal taxes) grew by a moderate +3.5% over the year to fourth quarter 2010. That increase was enough to outweigh consumer inflation. After inflation and taxes, real disposable income grew by +2.4%.

While incomes are rising for many people, household balance sheets still show the mixed after-effects engendered by the housing crisis. On the one hand, a recovery is under way in financial markets. By September 2010, total household financial assets had grown by +4.3% (or by +\$1.9 trillion) compared with a year earlier (latest data available). However, the value of household real estate assets was down by -2.1%, reflecting foreclosures and lower prices. Home mortgage debt (including home equity loans and lines of credit) edged down by -2.6% over the year, but homeowners' equity still decreased by -1.5% over the year to September 2010.

Meanwhile, total household liabilities slipped by -\$166 billion in the year to September. The bottom line: U.S. households' net worth (total

assets minus total liabilities) increased by +3.3% (or +\$1.7 trillion) over the year to March 2010.

With incomes and household wealth growing and employment finally starting to rise, consumer confidence has improved somewhat. Consumer spending increased nicely during 2010. Almost all types of retail spending improved last year despite rising gasoline prices.

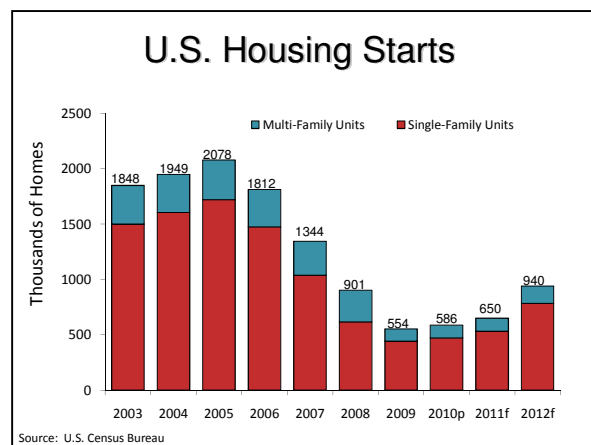
In particular, automotive sales have been rising at a steady pace. Demand for cars and light trucks plunged from 16+ million vehicles (annual rate) at the peak to just 9.5 million units at the bottom in the first half of 2009. Since then, sales have moved irregularly north to 12.3 million vehicles (annual rate) by fourth quarter 2010. This too was encouraging, though domestic makers' results were boosted by sales to fleet (non-retail business) buyers. The LAEDC assumes sales will continue to rise through 2011, finishing the year above 13 million vehicles. As the economic expansion gains steam, and more people find new jobs, sales are expected to increase to 14.3 million vehicles in 2012.

Overall consumer spending (inflation adjusted) is forecast to grow by +3.1% in 2011 and by +3.0% in 2012 after rising by +2.9% in 2010.

**The housing sector** may have stabilized after a steep four-year downtrend. New housing starts peaked in 2005 at 2.1 million units, the highest level since 1972. However, home construction activity declined to 554,000 units in 2009, the lowest level since before 1959 (when records began). Actually, housing starts hit bottom in the first quarter of 2009, trended irregularly upward through early 2010, and then dropped back through the rest of the year. The expiration of government tax incentives in mid 2010 clearly

pulled many purchase transactions forward in time.

The 2010 annual total was disappointing--just 587,600 units. All of the 2010 improvement came in single-family starts activity. Multi-family construction has continued weak in most areas, pressured by high apartment vacancies and high inventories of unsold condominiums on the one hand, and the lack of ready bank financing for new projects on the other.



The outlook for housing construction is uncertain. Prices are low and mortgage rates remain attractive. As of December 2010, mortgage commitment rates ranged from 3.31% for the average one-year adjustable rate mortgage to 4.71% for a 30-year fixed rate. Six months earlier, these rates were quoted at 3.86% and 4.74%, respectively.

However, would-be homebuyers face several obstacles. Mortgage credit is still difficult to obtain for all but "prime" buyers (those with jobs and strong, well-documented credit and income histories). Worse yet, many homebuyers are already homeowners, and their current mortgages are "under water;" i.e., the balance they owe on their current mortgage exceeds the

home's market price. Before these homeowners can buy a new home, they must sell the current home and pay off their current lender in full, adding an extra cost to the expense of moving.

Home prices themselves are the third major problem. In most areas, prices are under downward pressure caused by lenders' sales of foreclosed homes, often below normal market prices. Price stability in housing markets will not be assured until lenders and servicers work through the bulk of the distressed loans on their books. Industry observers are unsure how many homes are involved (this is the issue of "shadow supply") and how long it will take to work through them.

It is no surprise, then, that many buyers lack the confidence to purchase a new home. Some are concerned about job security. Others expect home prices to fall further and want to "wait for a better deal." Purchasing a home is the ultimate act of self-confidence. Buyers need to believe their jobs are safe and that home prices have stopped falling. How long will it take to develop such confidence? A growing economy will bring gradual improvement, but no one knows with any precision how long this will take.

Fixed mortgage rates are expected to hover between 4.5% and 5.5% over the rest of 2011, at least for prime borrowers. Lenders' terms for non-prime borrowers are likely to remain strict. The forecast assumes the mortgage and pricing situations will normalize as we move through 2011. And as future employment rolls grow, more families will gain the confidence to make the plunge. Under these circumstances, LAEDC expects total housing starts to rise from just 587,600 units in 2010 to 650,000 units in 2011 and 940,000 units in 2012.

## **Business Investment Spending Better but Still Mixed**

**Business profits** and cash flows have improved greatly since the recession ended. Adjusted total pre-tax corporate profits during third quarter 2010 (latest data available) were up by +26% compared to third-quarter 2009. Profits-by-sector data reflected the spreading economic recovery. Domestic industry profits were up by +35% over the year, with the financial industries recording an increase of +29% and non-financial industries up by a very-respectable +37%. Higher profits were reported for manufacturing (+77%, with automotive returning to the black and high tech rebounding strongly), transportation & warehousing, utilities and information among others. Net profits earned from the rest of the world grew by +5.0%. Adjusted total corporate cash flow exceeded \$1.5 trillion in third quarter 2010. This represented an increase of +7.4% over the year-earlier quarter.

Businesses typically invest their cash in new equipment and software. Indeed, equipment spending rose at a solid +15.1% pace in calendar year 2010. By fourth quarter 2010, equipment spending was just -3% below the pre-recession peak (in first quarter 2008). Business purchases of high technology equipment and software declined the least during the recession and have been growing briskly ever since. By fourth quarter 2010, high tech related spending was +17% *above* the previous peak. Other types of equipment spending have improved but still remained appreciably *below* pre-recession levels at year end 2010.

Purchases of transportation equipment have surged by a whopping +55% during the past four quarters, though they remained -37% below the

pre-recession peak. Much of the recent improvement reflects the resumption of “fleet” purchases of new vehicles, which especially benefit domestic producers. Commercial aircraft deliveries are expected to rise in 2011, reflecting airlines' recent return to profitability. Similarly, orders for heavy trucks and railroad equipment have turned up along with rising goods movement activity, boosting prospects during the forecast period. Demand for several types of machinery--agricultural, construction, and industrial equipment--also has turned up in the past four quarters.

Business investment in nonresidential structures may finally have hit bottom in the second half of 2010 after peaking in mid 2008. Total structures spending had plunged by -33% by fourth quarter 2010. Declines were especially steep in lodging, retail, restaurant and office projects. The nonresidential construction industry was hard hit by the credit crunch and, with vacancy rates high and property values falling, most would-be developers of new commercial projects are still unable to obtain adequate outside financing. However, few new projects were initiated during the past two years; so nonresidential building activity has shrunk dramatically.

These considerations suggest a moderately optimistic outlook for business spending during the forecast period. Pre-tax adjusted profits are expected to continue growing briskly in 2011 and 2012, in the low double digit range, as the economy gathers strength. Real business spending for equipment and software is forecast to grow by +9.5% in 2011 and by +8.2% in 2012, with improvement spread over more types of equipment. Meanwhile, spending for nonresidential structures will edge up by +0.9% in 2011 and rise by +4.6% in 2012.

## Government Spending Soars

The current forecast anticipates continued growth in federal purchases of goods and services during 2011 and 2012, though at a decelerating pace as stimulus spending and the conflicts in Iraq, Afghanistan, and Pakistan wind down. Spending has been growing rapidly in many spending categories, especially workforce training and education, unemployment compensation, and various healthcare programs. Inflation adjusted, federal purchases of goods and services are expected to increase by +3.3% in 2011 and by +2.5% in 2012 after rising by +4.8% in 2010.

State and local government purchases of goods and services are another matter. Most states continue to experience weak revenue growth. Many are cutting spending and/or increasing taxes. And federal stimulus payments, which supported many state/local jobs last year, are easing down in 2011-2012. These budgetary constraints mean that state/local government spending—even for infrastructure—will be flat *at best* in the near future. The LAEDC forecast anticipates that state/local purchases (inflation adjusted) will be roughly flat in calendar year 2011 (edging up by just +0.2%) and will rise by only +0.9% in 2012.

## Foreign Trade Flows to Moderate

Exports (foreign purchases of U.S. goods and services) plunged by -15% (inflation adjusted) between the second quarter 2008 peak and second quarter 2009 but turned up briskly in the second half of 2009. By fourth quarter 2010, total exports of goods and services had made up most of the shortfall created during the downturn. The export surge reflected strong growth among the economies of major U.S.

trading partners, especially in Asia. Exports of capital goods (excluding transportation) turned up most strongly in 2010, followed by automotive, consumer durable goods, industrial supplies and foodstuffs.

The value of the U.S. dollar rose in the first half of 2010 and reversed direction in the second half, ending up a bit below its year-earlier level. The pattern mostly reflected the waxing and waning of concerns about Europe's financial risks. As long as Europe's challenges appear to be contained, the dollar seems unlikely to change much in value during the rest of 2011 and 2012. In that case, international macroeconomic fundamentals, which incorporate continued economic recovery spreading around the globe by the end of 2012, should drive the export forecast. Exports will increase by inflation adjusted +6.2% in 2011 and by +5.1% in 2012.

U.S. purchases abroad peaked during the third quarter 2007 and declined by -20% through the second quarter of 2009 before turning around. As of fourth quarter 2010, growth in total imports of goods and services made up fully 70% of the previous decline. The turnaround reflected not only the upturn in the U.S. economy but also manufacturers' and distributors' needs to replenish inventories to accommodate the increase in business. As with exports, imports of capital goods, motor vehicles and parts, consumer goods and industrial supplies recorded the largest increases in 2010. Most firms likely have reached their inventory re-stocking targets; so imports should grow at a more moderate pace during the forecast period. Overall U.S. purchases of foreign-made goods and services are forecast to increase by +4.0% in 2011 and by +6.5% in 2012.

For the U.S. economy, net exports (equals gross exports minus gross imports) are what matters most. Net exports contributed +1.1 percentage points to the U.S. economic growth rate during 2009. However, the positive contributions turned negative (to -0.5 percentage points) in 2010. Imports will grow a bit slower than exports in 2011, but the pattern will turn negative again in 2012. The net export balance (in constant dollars) reached a low point in 2006, at -\$729 billion, and then improved to -\$363 billion in 2009 before falling back to -\$421 billion in 2010. LAEDC forecasts the deficit will edge up to -\$402 billion in 2011, as imports catch their breath, followed by further deterioration--to -\$452 billion--in 2012.

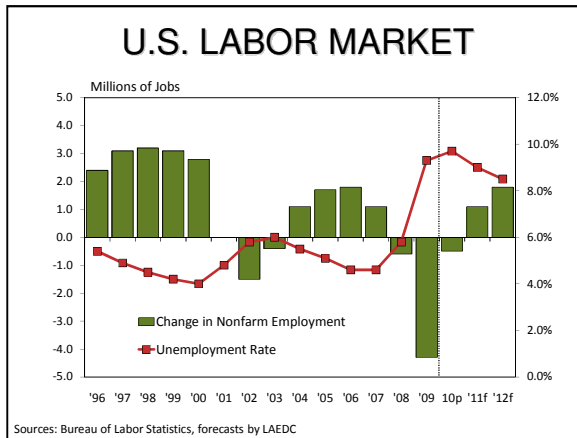
### **Labor Market Conditions**

Labor market conditions deteriorated markedly during the 2008-2009 recession. Total nonfarm employment payrolls stopped shrinking in December 2009, but the damage was considerable: about -8.4 million jobs had disappeared over the previous two years. Nonfarm job counts grew through most of 2010, gaining about +1.1 million new jobs through December 2010. Gains were biggest in education & healthcare, business & professional services, tourism, manufacturing and retail trade. Job growth is expected to continue during the forecast period, spreading to more industry sectors and strengthening through 2012. Average employment will grow by +1.1% in 2011 and by +1.8% in 2012. These rates mean that more than 4.5 million nonfarm jobs will be added in the next two years.

Unemployment is proving more difficult to turn around. Joblessness in the U.S. worsened from

mid 2007 until December 2009, when the unemployment rate peaked at 10.0%.

Joblessness slowly drifted down during 2010, but only reached 9.4% by December. The nation's unemployment rate will continue unacceptably high through most of the forecast period. This recession has been very severe, and many business firms expect to delay hiring permanent employees until they are sure the current upturn in their business will continue. Even then, they likely will bring their laid off and part-time workers back to full-time status before any new workers are hired. In the meantime, current



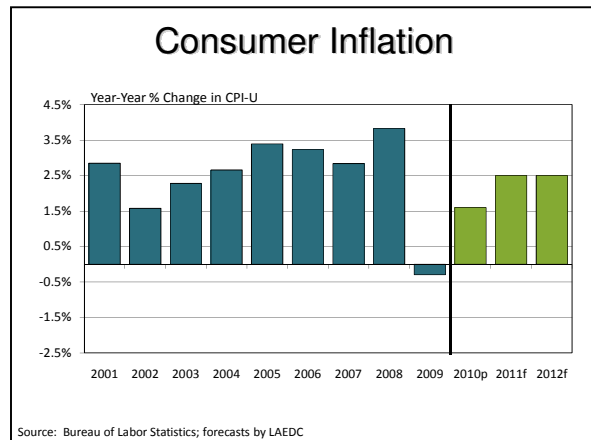
workers are being asked to work longer hours and more temporary employees are being hired. We expect the nation's jobless rate to average 9.0% in 4q2011. Unemployment may not break through the 8.0% mark until early 2013.

Total employee compensation increased by 2.0% in the year ended December 2010. Wages and salaries increased by +1.5% during that period, while benefit costs grew at a +2.8% rate. These figures are well below the 3% range of pre-recession years. Many businesses reduced labor costs during the recession and have not restored the cuts. 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 (at least until health care reform kicks in). We expect overall employee compensation costs to continue escalating at a moderate pace during the forecast period—rising by about +2.2% during 2011 and perhaps +2.4% in 2012.

### Inflation

Measured by the Consumer Price Index, annual consumer inflation decelerated from 2.8% in December 2010 to 1.4% in December 2010. Energy prices increased (by +8%) during the last year, while food price inflation matched the overall trend. Excluding these two categories, prices of all other consumer goods and services increased by just +0.6% in the year to December 2010, below the previous year's +1.8% pace.



Going forward, we assume that gasoline and food prices will increase during the rest of 2011 and 2012. If that happens, and prices of other goods and services follow current trends, then total CPI ("headline inflation" in the U.S.) is expected to increase by an average rate of +2.5% in 2011 and 2012 after rising by +1.6% in 2010.



Crude oil prices have been on the rise in recent months. Using the West Texas Intermediate spot price, (WTI), oil prices bottomed in February 2009 at \$39 per barrel and then rose steadily until April 2010, when the price was above \$84 per barrel. The WTI price hovered in the mid \$70 range through the summer and then track upward to \$89 in December 2010. The main factors propelling crude oil prices upward were global economic recovery and falling inventories in the OECD nations. Crude oil consumption will continue to rise in 2011 and 2012.

On the supply side, OPEC production of crude oil will take up most of the increase in demand. Even so, substantial excess production capacity will continue to exist in the OPEC nations, especially Saudi Arabia. Industry observers expect oil prices to rise during the forecast period, averaging between \$90/barrel and \$100/barrel in 2011 and drifting north to perhaps \$95/barrel to \$105/barrel in 2012.

Natural gas prices reached bottom in September 2009, averaging just \$3.00/thousand cubic feet (using the Henry Hub spot price). The spot price was back up to \$5.80/thousand cubic feet in January 2010 and then eased back into the \$3.50-\$4.80 range in the second half of the year. Going forward, and assuming weather patterns across the nation remain “normal,” industry observers expect electric power and industrial usage of natural gas to rise as the economy gathers strength. Natural gas prices (delivered to Henry Hub, LA) will average about \$4.25/mcf in 2011 and \$4.75/mcf in 2012.

## Monetary Policy and Interest Rates

When will the Federal Reserve raise short term interest rates? That is a question on a lot of people’s minds these days. The Fed has acknowledged concerns that its policies may be

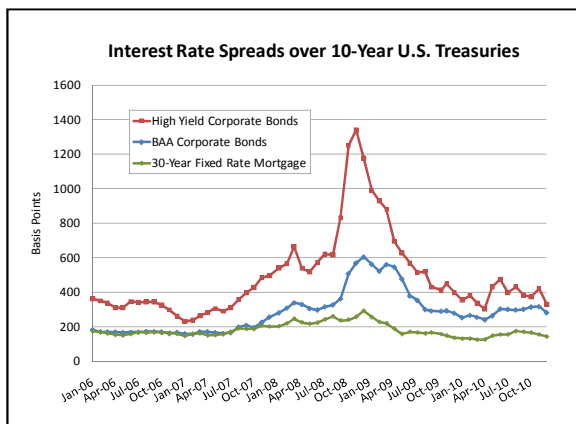
stoking future inflation, but says core inflation (excludes food and energy prices) is currently too low and unemployment remains too high to begin raising interest rates.

The Federal Reserve has held the target federal funds rate (the rate banks charge each other for overnight loans) at nearly zero since late 2008. The target federal funds rate is normally the Fed’s most powerful monetary policy instrument, but in the wake of the financial crisis, cutting the rate to almost zero proved insufficient to persuade financial institutions to return to the capital markets. The Fed’s next course of action was to devise a number of new “facilities” that channeled necessary liquidity directly to borrowers and investors in key credit markets. At its maximum (in December 2008), the Fed’s balance sheet swelled by more than \$1.5 trillion – an extraordinary number when one considers the output of the entire U.S. economy is \$14 trillion. The capital markets gradually became unstuck, and by the first quarter of 2010, almost all of the crisis-driven facilities were allowed to lapse because they were no longer needed.

In addition, to support the ailing housing market and mortgage lending, the Fed began buying mortgage backed securities (MBS) from Fannie Mae, Freddie Mac and Ginnie Mae. This effort was designed to increase mortgage credit availability and keep mortgage interest rates low. Currently, the Fed is holding \$965 billion in MBS, down from a high of \$1.1 trillion. The Fed ceased its MBS purchases last summer and as these securities mature, the Fed is using the proceeds to purchase long-term U.S. Treasuries.

In spite of all these extraordinary measures, the slow pace of the economic recovery in 2010 prompted the Federal Reserve to respond with another round of expansionary policy last

November. This time, the Federal Reserve committed to the purchase of \$600 billion of Treasury securities in order to reduce long-term interest rates. The U.S. Treasuries purchased using the proceeds from maturing mortgage backed securities are also part of this second round of quantitative easing, commonly referred to as QE II. The result is that although the composition of the Fed's balance sheet has changed, it is still holding nearly \$2.5 trillion in assets.



**Interest Rate Spreads**

Another way of looking at interest rates is to compare them in terms of interest rate “spreads”. The spread between two interest rates is measured in basis points and is a good indicator of the relative risk between different financial instruments. The chart above shows the spreads between investment grade corporate bonds, 30-year fixed rate mortgages and high yield (junk) bonds over the 10-year U.S. Treasury note. In 2008, when the financial crisis worsened, spreads widened considerably as investors fled from riskier assets to the safety of U.S. treasuries. Then the economy stabilized and investor confidence returned so spreads narrowed.

Much of the money created by the expansion of the Fed's balance sheet resides in commercial bank reserve accounts at the Federal Reserve. Banks' excess reserves (\$1.0 trillion as of December 2010) earn 0.25% in interest per year. Most banks do not need those reserves at the

moment because demand for bank loans is still relatively weak and more stringent underwriting requirements mean fewer buyers would qualify anyway. A trillion dollars of excess reserves would pose an inflationary risk if banks suddenly decided to drain their reserve accounts and increase lending to businesses and households. However, this is unlikely, at least in the near term.

In the longer term, the Fed will have to tighten monetary policy to neutralize this risk. Fed officials are considering several new tools to accomplish this task, including raising the interest rate paid on excess bank reserves. Other options include selling off agency debt and MBS outright or simply letting these securities run off as they mature.

Although Federal Reserve Chairman Ben Bernake has gone to great lengths to publically defend Fed policies, criticisms of the Fed's continuing expansionary stance are starting to spread. Still, it is expected the Fed will stay the course and implement the full \$600 billion in extra Treasury purchases by mid-2011. Since the Fed began purchasing long-term U.S. Treasuries, long-term interest rates have actually been rising. Although unease regarding future inflation is growing, the recent increase in bond yields reflects greater optimism about the economy. But the effect is the same -- rising interest rates are overwhelming downward pressure from the Fed's quantitative easing.

In the short-term inflation is not a problem. The Fed maintains that until the economy is on a more solid footing, short-term interest rates will stay where they are this year. After that, the Fed will want to return rates to more normal levels as soon as possible for two reasons. First, the Fed

needs to signal its intent to keep a lid on inflation. Second, with the federal funds rate already near zero, the Fed cannot use its most effective monetary policy tool should the economy stumble.

Long-term interest rates traced different paths between the fourth quarter of 2008 and late 2010 as the financial markets first seized up and then gradually eased. The 10-year Treasury note yield stood at 3.25% late in 2008, dropped below 3% early in 2009 and then rose to 3.3% in December 2010. During the same period, the 30-year fixed mortgage rate averaged 6.0%, drifted down to the 5% range and was fairly stable over the course of 2009. After reaching near record lows in 2010 (4.23% in October), mortgage interest rates are starting to edge back up again – rising to 4.7% in December.

Currently, the Fed is in a wait-and-see mode but any further rounds of quantitative easing are unlikely. Market jitters are creating a lot of noise which obscures the fundamental outlook for long-term rates. Still, some clues exist. By itself, the economic recovery will put some upward pressure on rates. Further pressure will come when the Federal Reserve starts to boost short-term rates in 2012. Assuming inflation behaves, market expectations of such a move could put the 10-year note yield at about 3.5% toward the end of 2011 and move it up to 4.0% by year end 2012. Meanwhile, the 30-year fixed rate mortgage should remain below 5% (4.9% perhaps) through the end of 2011 and then move up to 5.5% during 2012.

## Fiscal Policy

The U.S. government relied heavily on fiscal policy throughout the recession. During the second quarter of 2008, the first stimulus plan

(Economic Stabilization Act of 2008) put tax rebate checks in the hands of consumers and later that year, the Bush Administration and Congress enacted the Troubled Asset Relief Plan (TARP). Under this program, up to \$700 billion was authorized to support commercial banks' balance sheets and to provide special assistance to the U.S. auto industry. In all, 707 U.S. banks received a total of \$205 billion in 2008 and 2009 with an additional \$331 billion used to bail out the auto industry and to expand the rescues of Citigroup Inc., Bank of America Corp. and AIG.

As the capital markets began to recover in 2009, a number of banks regained their footing and were strong enough to raise new capital and return the TARP money they had received. As of February 2011, the U.S. Treasury reported that of the \$245 billion in TARP funds doled out to troubled banks, \$243 billion has been repaid.

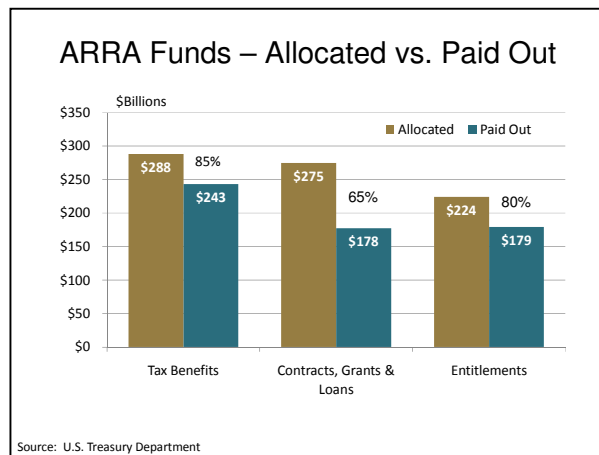
In 2009, Congress and the Obama Administration enacted a huge stimulus bill, the American Recovery and Reinvestment Act (ARRA), authorizing \$787 billion in personal and corporate tax cuts plus increased federal aid to state and local governments and direct federal spending. As of January 2011, a total of \$600.4 billion had been distributed in tax benefits (\$243.4 billion), contracts, grants and loans (\$177.7 billion) and entitlements (\$179.3 billion).

In the third quarter of 2010, the Congressional Budget Office (CBO) estimated that as a result of the ARRA program:

- The level of real GDP was higher (by between 1.4% and 4.1%)
- The unemployment rate was reduced (by 0.8 to 2.0 percentage points)
- Employment has higher (by 1.4 to 3.6 million jobs)

The CBO forecasts that the effects of ARRA on output and employment will wind down in 2011 and fade away by 2012. Additional fiscal stimulus will come from the recently enacted extension of the Bush tax cuts for two years, the two percentage point cut in the employee payroll tax rate for 2011, and a two-year extension of depreciation incentives for business investment.

In fiscal 2010 (the federal fiscal year runs from October 1 through September 30), the federal budget deficit narrowed slightly to \$1.3 trillion from \$1.4 trillion in FY2009. In FY2011, the CBO is forecasting the shortfall will be \$1.5 trillion. Normally, the budget imbalance would improve on its own as unemployment falls in the wake of economic recovery. Growth in the number of individuals returning to work results in an increase in personal income tax revenues, while expenditures for certain income support programs like unemployment benefits decline. However, revenue growth will be constrained by the modest pace of recovery and the 2010 Tax Act.



Additionally, outlays for many programs are projected to continue to grow and will more than offset decreases in spending yielded by improving economic conditions (e.g. unemployment benefits). The \$1.5 trillion deficit projected by

the CBO for FY2011 will equal 9.8% of GDP, which is nearly one percentage point higher than the shortfall recorded last year and almost equal to the deficit recorded in FY2009 when the deficit was 10% of GDP – the highest in nearly 65 years.

The ARRA stimulus package, financial bailout costs and the recession have taken their toll on the federal budget. In spite of growing concern regarding the sustainability of the federal debt, immediate fiscal contraction might have the effect of nipping the recovery in the bud. Looking beyond the recession, Congress and the Administration will face difficult choices about spending priorities.

### Risks to the Forecast

The baseline forecast calls for the U.S. economy to continue on a moderate recovery/expansion path through 2012. Consumer spending seems likely to follow this pattern. Automotive purchases will continue rising in the forecast period, but will remain well below pre-recession levels. Business investment in new equipment will continue healthy as long as the level of economic activity improves. Foreign trade volumes will grow, though more slowly than in 2010 now that global inventory pipelines have been re-filled. As the various stimulus plans come to a close and military spending winds down, federal government purchases will grow at a decelerating pace. Housing and nonresidential construction activity seems likely to increase, but from a very low base. State/local governments will continue to struggle. Labor markets will improve but continue to lag the economy throughout the forecast period. Employment growth will pick up moderately. Unemployment will decline but remain high in both 2011 and 2012. Inflation looks ready to accelerate but

should not be too much of a problem as long as energy and food prices behave.

Though the U.S. economy is expanding, a number of uncertainties exist. The LAEDC forecast contains several assumptions that might turn out worse than expected—or better. The most important of these include the following:

**Financial market fragility**—still a threat. U.S. capital markets improved greatly in 2010 and stock prices advanced. Still, the financial system carries undeniable risks, especially in global capital markets. In particular, the largest European banks hold unknown amounts of debt exposure to banks and governments in the weaker peripheral economies (examples: Greece, Portugal, Ireland, Italy and Spain). These issues have not been resolved. Recent popular revolts in Tunisia and Egypt are reminders of potential instability in that part of the world. Want more to worry about? How about the weakening financial positions of state and local governments in the U.S? Any of these risks could re-ignite problems in global capital markets that might reverberate through the large U.S. banks to the rest of the domestic economy.

**Credit crunch**—easing but. . . Commercial banks and thrift institutions operate a key gateway between the financial sector and the rest of the economy. As loan losses worsened during the recession, banks raised credit standards, required more documentation, and boosted fees for all types of borrowers. Many of these restraints are still in operation, though they are starting to ease. Consumer and business loan delinquencies continue high at many institutions, dampening profitability and capital adequacy of the banks involved and increasing their reluctance to lend.

Large commercial banks appear to be healing. However, many small community banks are in weaker positions due to their high exposure to ailing commercial real estate ventures in their local areas.

For the forecast, a key issue is how much longer it will be before bankers begin to loosen up. A growing economy requires more credit to finance business and household spending for big-ticket purchases. Recent surveys suggest that big banks have stopped tightening but are not making it much easier for their customers to borrow. Only time will tell if bank lending grows adequately.

**The housing conundrum** -- Government support programs propped up U.S. housing markets during 2009 and early 2010. However, activity weakened in second half 2010 after much of the support system was removed. Clearly, the programs caused some transactions to occur earlier than they might have otherwise, as sales of new and existing homes slumped immediately—we assume temporarily. In fact, we simply do not know how long the current dry spell will last, nor when lenders and servicers will have worked through most of their bad loans, nor when home prices will stop falling.

**Higher oil & gasoline prices**—a potential problem. Sudden, sustained increases in oil and gasoline prices hold the potential to slow down the rate of economic recovery, and the bigger the increase in price, the bigger the economic impact. The reason is straightforward. When they drive up to the gas pump, consumers and businesspeople simply *must* pay the higher price in the short run, even though it means they have less income or cash flow available to purchase

other things. The economic impact of higher prices is biggest at the start and then gradually ebbs, as incomes and profits grow and drivers purchase more fuel-efficient vehicles. Gasoline prices have risen sharply in early 2011, bringing this risk to the forefront.

**“Optimism”** -- There is an upside risk to the LAEDC forecast. Americans--consumers and businesses alike—have been inundated with media reports of the economy’s troubles and policymakers arguing about solutions and who’s to blame. No wonder confidence has been volatile.

And yet the economy *is* undeniably moving up. Retail sales reached a new high in 2010, and exports rebounded. Industrial production and imports have turned up as well.

Business attitudes are improving along with revenues, and investment in new equipment and software is on the rise. Now consumers need to adopt the same attitudes. Holiday sales in 2010 were a sign this attitudinal change could be under way. Cross your fingers!

**Table 1: U.S. Economic Indicators**

(Annual % change except where noted)	2005	2006	2007	2008	2009	2010	2011f	2012f
Real GDP	3.1	2.7	1.9	0.0	-2.6	2.9	3.1	3.4
Nonfarm Employment	1.7	1.8	1.1	-0.6	-4.3	-0.5	1.1	1.8
Unemployment Rate (%)	5.1	4.6	4.6	5.8	9.3	9.7	9.0	8.5
Consumer Price Index	3.4	3.2	2.8	3.8	-0.3	1.6	2.5	2.5
Federal Budget Balance (FY, \$billions)	-\$319	-\$248	-\$162	-\$455	-\$1,415	-\$1,294	-\$1,500	-\$1,100

Sources: BEA, BLS and OMB; forecasts by LAEDC

**Table 2: U.S. Interest Rates**

(4th quarter averages, %)	2005	2006	2007	2008	2009	2010	2011f	2012f
Fed Funds Rate	3.2	5.0	5.0	1.9	0.16	0.18	0.25	2.5
Bank Prime Rate	6.2	8.0	8.1	5.1	3.3	3.3	3.3	5.5
10-Yr Treasury Note	4.3	4.8	4.6	3.7	3.3	3.2	3.5	4.0
30-Year Fixed Mortgage	5.9	6.4	6.3	6.0	5.0	4.7	4.9	5.5

Sources: Federal Reserve Board; forecasts by LAEDC

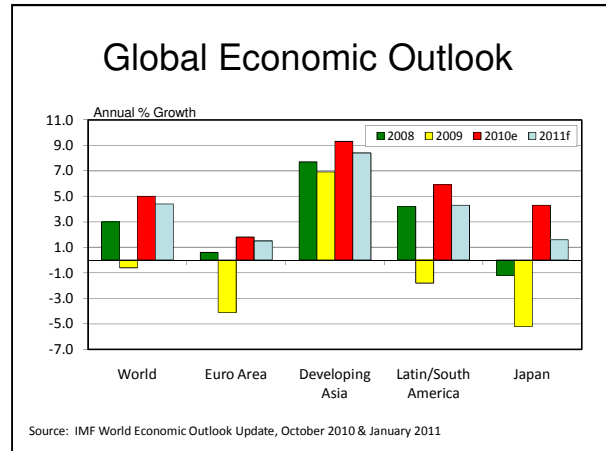
### III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

#### Global Economy

The world economy experienced a stimulus-driven two speed recovery in 2010. The advanced economies witnessed moderate growth over the course of last year, while the emerging and developing economies experienced very robust growth. In fact, upon closer inspection, the economic recovery was even inconsistent within the advanced economies, as most of the Euro Zone (with the exception of Germany) struggled to achieve the growth that took place in Japan and the U.S. On the other hand, the emerging markets, particularly China, India, and Brazil were the most outstanding performers. In addition, the newly industrialized Asian economies (includes South Korea, Taiwan, Hong Kong, and Singapore) and the Association of Southeast Asian Nations (ASEAN-5, includes Indonesia, Thailand, Vietnam, Malaysia, and the Philippines) were the other key economies that propelled the global recovery to 5% real GDP growth in 2010 after contracting by -0.6% in 2009.

Overall, the global recovery primarily reflected two factors. The first was the enactment of large fiscal and monetary stimulus policies by governments throughout the world. Government intervention played a critical role in the 2010 global recovery, particularly in China, Japan and the U.S. Second, the recovery was a result of the inventory restocking that took place around the world. This translated into world trade leading the recovery. Export-led economies were the main beneficiaries of this rebound as witnessed by China, Japan, Germany, and South Korea.

The biggest single new development that took place in the world economy during 2010 was the



debt crisis in the Euro Zone. Both Greece and Ireland had to be rescued by the IMF and European Union. As a result, many nations in Europe came to the realization that they had to move away from government spending (stimulus) and towards taking austerity measures. That is indeed what happened in 2010. In other parts of the world, the stimulus measures that were implemented to ignite the world recovery are winding down; the withdrawal of government support will be a key development in 2011. Then, the big question becomes: will the private sector be able to answer the call and continue the global recovery this year?

Many issues still remain for the advanced economies to overcome in 2011 including deficit and debt issues, unemployment, housing, financial stability and private sector demand. Emerging and developing economies also face multiple issues this coming year including an influx of capital inflows, potential overheating, asset bubbles, inflation (including food, oil and other commodities), and currency questions. Overall, the world economy has its own concerns involving improved governance, potential

protectionism, oil prices, and the impact of geopolitical events (such as the crisis in Egypt) on global markets.

The Asian developing nations are expected to lead the way once again in 2011. However, developing Asia as well as other emerging and developing economies are expected to see a slower pace of growth this year, mainly due to the removal of government support. The expectations for 2011 are for China and India to once again be the strongest performers with Indonesia (along with the rest of the ASEAN-5), Brazil, Taiwan and South Korea also performing well. Asia (excluding Japan) will once again be the region that leads the global recovery. The laggards will be the advanced economies beginning with the Euro Zone, the U.K., and Japan. Most likely, the Euro Zone (particularly Spain) will be the worst performer amongst the advanced economies in 2011. Led by the emerging and developing economies, the global economy will grow by about +4.5% in 2011 after experiencing growth of +5.0% in 2010.

Most of the Los Angeles Customs District's top trading partners (with the exception of Japan) should once again witness robust economic growth in the forecast period. These nations include China, South Korea, Taiwan, Thailand, Vietnam, Malaysia, Australia, Singapore, and Indonesia.

In this post crisis environment, the world economy is taking on a new shape. The emerging and developing economies face the opposite set of issues that the advanced economies are addressing. The emerging markets are experiencing strong economic growth, potential overheating, inflation, contractionary monetary policy, and sound finances while the advanced economies attempt to overcome high

unemployment, below-normal output levels, loose monetary policy, and fiscal deficits. The global economy is truly a different landscape since the financial crisis ended.

*The following section provides an overview of the major regions of the international economy and also includes details on the top five trading partners of the Los Angeles Customs District (LACD) – China, Japan, South Korea, Taiwan and Thailand – as well as the top five sources of foreign direct investment in Los Angeles County – Japan, the United Kingdom, France, Germany and Canada.*

## Major Regions

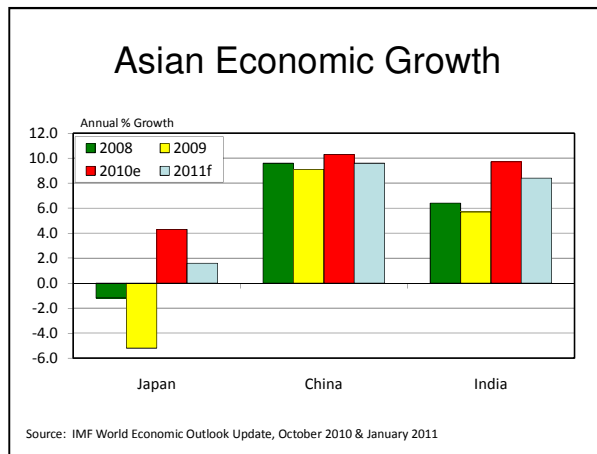
### Asia

Overview: Emerging Asia has been leading the global recovery and will continue to do so, albeit at a slightly slower pace in 2011. China and India will continue to lead the way, while Japan will be the laggard. South Korea and Taiwan also will experience strong economic growth in 2011 and beyond. Asia was the first region to tighten monetary policy in 2010 as inflation superseded economic growth as the top concern. To date, resurgence in domestic demand and exports have been the keys to success. In addition, many Asian economies (including South Korea, Thailand, and Indonesia) have implemented capital controls in order to relieve upward pressure on their currencies.

China (#1 LACD Trading Partner): The Chinese economy performed exceptionally well in 2010, as GDP climbed by +10.3%. A revival of external demand along with healthy domestic demand and strong real estate investment led to a surge in economic growth that has propelled the global economic recovery. Some indications of a slowdown began to appear in the second half of



2010, as government-led investment weakened along with bank lending and industrial production. However, fourth quarter economic growth outperformed the third quarter results, causing some concern among Chinese officials as the government had made efforts to slow economic growth in order to negate inflation concerns. Export figures rebounded very strongly in 2010, particularly over the first half, and then reached record highs at the end of the year.



In 2010, the People's Bank of China announced that they would allow the country's currency (the Yuan or Renminbi) to fluctuate again as it did from 2005 until the beginning of the crisis in 2008. The main reason the government made this move was to focus on the issue of inflation. In fact, inflation exceeded the 3% government target in 2010, which makes it easier to explain why the government decided to let the Yuan fluctuate albeit at a very gradual rate. The expectation for 2011 is that the government will speed up the pace of appreciation, as inflation has become the number one threat to the Chinese economy.

The global recovery definitely helped Chinese exports, but the biggest story in 2010 was the consistency of Chinese domestic demand. Retail

sales experienced double digit growth rates in 2010. Over the course of 2010, the government directed banks to slow down the pace of credit creation. The majority of those new loans were in construction and real estate. As a result, the make-up of Chinese economic growth has become more broad-based, with consumption leading the way. In particular, sales of cars and housing have been strong. The most significant concerns for 2011 are related to the economy potentially overheating, inflation and whether or not asset bubbles have emerged in the real estate and equity markets.

Although economic growth in 2011 is not expected to be as strong as in 2010 (mainly due to the withdrawal of government stimulus and the disappearance of the one-time jump in exports due to the restocking of inventories), the outlook for 2011 remains very bright for China. Exports, especially to other developing Asian nations, and domestic demand are expected to have considerable momentum over the next year. The Chinese economy is projected to expand by +9.5% in 2011.

*Japan (#1 source of FDI in LA County and #2 LACD Trading Partner):* The Japanese economy experienced a substantial recovery in 2010 mainly due to significant fiscal and monetary stimulus. In fact, the government and the Bank of Japan implemented additional stimulus measures as the year went along to prevent the economy from stalling and falling into a double-dip recession. Strong demand from the emerging Asian countries helped revive exports and further expand the domestic recovery in 2010. Japan's economy grew by +4.0% in 2010 based on unofficial estimates. Exports rose very strongly growing by over 24% in 2010. The majority of this demand has come from China (Japan's largest market) and the rest of Asia.

Renewed demand from the U.S. made a difference as well.

In 2010, a new Prime Minister was elected. Naoto Kan replaced Yukio Hatoyama as the leader of the Democratic Party of Japan, which came into power in 2009. Mr. Kan, the former finance minister has placed a greater emphasis on reducing Japan's soaring national debt. To make the case going forward, Prime Minister Kan appointed a fiscal hawk as the new economics minister. The recent downgrade of Japanese debt by Standard & Poor's also reinforces the change in attitude. As a result, the island nation expects growth to slow over the short-to-medium term.

Many key obstacles lie ahead for Japan in 2011 and beyond. The economy faces big question marks related to its public indebtedness, deflation and a rising currency. Expansionary fiscal policy will not be an option in 2011 and over the short term. In fact, the island nation will have to depend even more on external demand and business investment. Monetary policy is expected to remain loose in order to stimulate the weak domestic recovery and to counter the deflationary environment. Many observers believe the Japanese economic recovery could be particularly unstable as the nation attempts to address its structural economic problems. The pace of recovery in 2011 will depend on the strength of exports on the one hand, and on consumer spending and business investment on the other. The Japanese economy is projected to grow at a moderate rate of +1.5% to +2.0% in 2011.

*India:* China and India led the global recovery in 2010 and will lead the world once again in 2011, as both nations have experienced outstanding economic growth. The Indian economy was the second best performer in 2010 (among the

largest economies), with domestic demand and manufacturing leading the way. India's GDP expanded by +9.7% in 2010. Industrial production was very strong in 2010. In addition, retail sales, and exports and imports registered large gains last year. Indian exports surged in 2010 and ended the year growing by nearly +40%, the largest gain in almost three years.

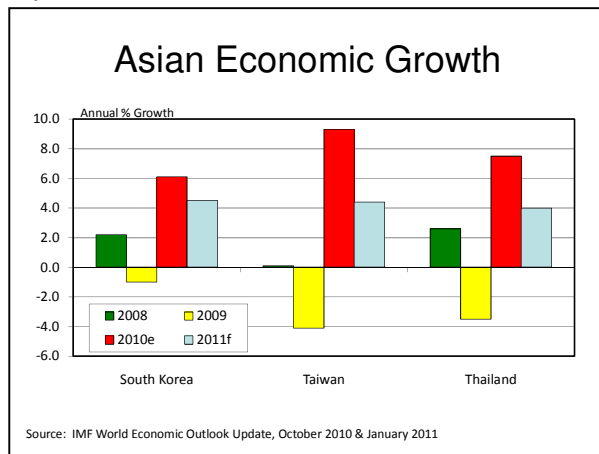
After utilizing both fiscal and monetary policy to stimulate the economy last year, the Reserve Bank of India (RBI), the central bank, began to tighten monetary policy in early 2010 as economic growth became less of a concern and inflation fears rose. Going forward, the RBI is expected to continue raising interest rates from historic lows, as inflation remains a real concern.

In 2009 the country suffered a very abnormal monsoon season which heavily impacted agricultural output. The agricultural industry makes up about 18% of GDP and roughly 60% of employment. Last year the opposite was true as floods instead of drought negatively impacted the agriculture industry.

The Indian economy is forecasted to grow by roughly +8.5% in 2011. Domestic consumption should be a key growth driver in 2011 as well as spending on public infrastructure. The outlook for 2011 remains encouraging. Exports and foreign direct investment will strengthen, private demand will grow, and agriculture should improve.

There are some key downside risks. Another disappointing monsoon season and efforts to curtail high budget deficits could lead to lower-than-expected growth rates. Inflationary risks (food prices are a big concern) should lead the Reserve Bank of India to raise interest rates further in 2011. The Indian currency, the rupee,

should gain strength due to the rise in interest rates, stronger economic growth and an influx of capital inflows.



**South Korea (#3 LACD Trading Partner):** South Korea's economy (Asia's fourth largest) has been another stellar performer among the Asian economies. The nation has been one of the leaders of the global recovery and a main beneficiary of China's performance. Although not as robust as the Chinese or Indian economies, the South Korean economy has performed well over the past year. South Korea's GDP in 2010 expanded by +6.1%, with exports and industrial production continuing their strong renewal. Exports surged last year, rising by nearly 30%. The key has been the consistent strength of demand from Korea's Asian neighbors. In particular, demand from China, which takes 33% of South Korean exports, has been instrumental in propelling this growth. Electronics, autos and shipbuilding have been the most heavily demanded products.

2011 should see the rebound in growth continue, as both consumption and exports come back strongly. Improving labor market conditions also should lead to an increase in consumer spending. Unemployment has reached two-year lows. The very strong recovery in the Asian economies

bodes well for South Korean exports. All of this equates to an attractive environment for investment in 2011 and beyond. The Bank of Korea tightened monetary policy in the second half of 2010 (following the lead of Malaysia, India and Taiwan) as inflation became and remains a big concern. The South Korean economy is projected to grow by +4.5% to +5.0% in 2011.

**Taiwan (#4 LACD Trading Partner):** The Taiwanese economy relies very heavily on trade, as merchandise exports equal almost 66% of total GDP. As a result, any economic expansion is contingent upon a rebound in exports. Taiwanese exports surged by over 35% in 2010. The key to the growth in exports has been the strong recovery in China and other areas throughout Asia. Exports to China and Hong Kong comprised 42% of all Taiwanese exports. Nearly 80% of all Taiwanese exports go to Asia. In addition, industrial production and public infrastructure spending also added to the economic recovery in Taiwan in 2010. Taiwan's GDP in 2010 expanded by +9.3%.

The economic recovery in Taiwan is expected to continue in 2011, as exports and domestic consumption make a formidable return. Exports will grow (albeit at a slower pace than in 2010) because demand from China and other emerging economies should remain strong. In addition, the economic recoveries in the U.S. and Japan will support additional foreign demand. The other positive factor should be the stabilization of domestic consumption, as domestic employment and household wealth improve. Another factor that will positively contribute to economic growth in Taiwan is growth in fixed capital investment stemming from the upswing in merchandise exports.

The overall outlook for 2011 calls for Taiwanese GDP to expand by +4.5% to +5.0%. Economic growth could end up being even stronger. Taiwan and China have signed a breakthrough trade deal known as the Economic Cooperation Framework Agreement (ECFA), which will begin to reduce tariffs early this year.

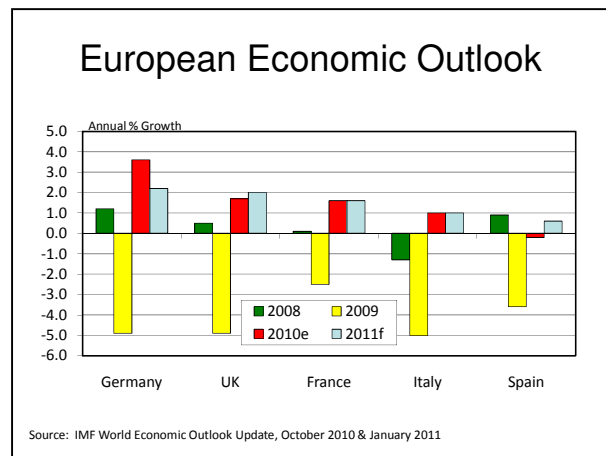
Thailand (#5 LACD Trading Partner): Despite political unrest in the first half of 2010, the Thai economy proved to be resilient, as exports rebounded strongly. Exports account for roughly 70% of Thai GDP and performed exceptionally well in 2010, growing by +28%. As a result, Thailand’s GDP expanded by +7.5% in 2010, the largest annual expansion in years. Still the political tensions had a negative impact on tourism and some other key industries, which would have improved the annual results.

Exports are one key to growth in the Thai economy for 2011. How well Thailand can attract foreign direct investment is another. Naturally, the global recovery, particularly in Asia, will go a long way in determining how strong exports will be in 2011. Export growth will ultimately boost manufacturing production, employment and investment. In addition, political stability will be absolutely critical in order for Thailand to regain consumer confidence and tourism dollars. Oil prices are another concern as the country is Asia’s largest net importer of petroleum relative to GDP. Thailand’s GDP is projected to increase by roughly +4.0% to +4.5% in 2011 depending upon the political situation and strength of investment and external demand from Asia.

**Europe**

Overview: The debt crisis has evolved into the number one concern for the European economy

along with the effects of austerity measures on economic growth. As a result, the overall economic recovery in Europe will be anemic in 2011. Also, fears generated by the debt crisis have led to a sharp depreciation of the Euro (by over -8%) over the past year. In addition, the crisis has caused a reversal of fiscal policies across the continent, as Greece, Portugal, Spain, Italy, France, the UK and Germany all have adopted fiscal austerity plans. Germany in particular benefitted greatly from the decline of the Euro as German exports became more competitive. This should continue to aid the German economy this year.



Germany (#4 source of FDI in LA County): The German economy had to overcome many obstacles in 2009 and that was the case again in 2010. A harsh winter, the worst in 14 years, suppressed economic activity in the first half of the year and then the European debt crisis caused even more havoc. However, the German economy managed to grow by +3.6% in 2010 as exports and capital investment rebounded strongly. Similar to the Japanese and Taiwanese economies, the German economy is heavily reliant on exports, albeit different types of products and so the German economy has actually received one benefit from the European

debt crisis, the depreciation of the Euro made German exports cheaper in foreign markets. In 2010, exports rose by +17%. Demand from emerging markets grew very strongly, particularly from Brazil, China and Turkey. German exports should continue to grow in 2011, as emerging market demand continues (although lower relative to last year) and the Euro remains weaker vis-à-vis the Yen, Dollar and Yuan.

The key to the strength of the German recovery will undoubtedly be the strength of its world trade volumes in 2011. Another key factor will be how strong a comeback the labor market can make, in order to revive private consumption. This will be necessary to offset the coming decline in public expenditures. Germany's economy should also be aided by low interest rates.

The Germany economy is forecasted to expand by +2.0% this year depending on global demand, private consumption, and what transpires with the European government debt crisis.

*France (#3 source of FDI in LA County):* As was the case in Germany, exports helped lead the economic recovery in France in 2010. The drop in the Euro also benefitted French exports. Indeed, they are more price sensitive than German exports. France's GDP grew by +1.5% in 2010, mainly on the strength of exports. The other key factor which drove the economic recovery last year was private consumption. It rebounded well even though unemployment remained a problem. However, unemployment did stabilize in 2010. The good news is that the French economy has now grown for six straight quarters. The hope is for export growth to continue and for investment to make a comeback in 2011.

Strength in domestic demand is expected to continue this year. However, exports should slow down substantially when compared to 2010. The austerity measures that go into effect this year will hamper the overall recovery as well as the weakness in the banking sector. The employment situation, industrial production and exports will go a long way in determining how strong the French recovery will be in 2011. Unemployment will remain a big issue in 2011. The consensus forecasts call for France to grow by +1.5% to +2.0% in 2011.

*United Kingdom (UK) (#2 source of FDI in LA County):* Of all the European countries, the UK economy suffered the worst contraction resulting from the financial and economic crisis. The economy actually declined for six consecutive quarters. The good news is that the UK economy returned to growth in 2010 with exception of the fourth quarter. The recovery has been extremely slow. Both consumer and capital spending remained weak at the end of the year. The 2011 increase in the British valued added tax (VAT) will only exacerbate the situation. Similar to the U.S., high unemployment plagued the British economy in 2010, making it difficult for weak consumer spending to reverse its course. High unemployment will continue to be an issue in 2011. Consumer spending accounts for the largest percentage of economic output in the UK. The UK economy most likely grew by roughly +1.5% in 2010 based on the most recent fourth quarter 2010 decline.

In June of last year, the British government announced its emergency budget for 2010 through 2011, which includes draconian spending cuts across the board. The big concern going forward will be how these drastic measures will impact the economic recovery as the UK struggles to produce substantial growth. On the other

hand, the goal is to renew confidence in the capital markets, keep interest rates low and revive private investment in order to restore real economic growth.

The UK economy faces an uphill battle in 2011, as it will have to overcome continuing high unemployment, lower incomes, cuts in public spending and a constrained supply of credit. The risk of a double-dip recession is very real for 2011, as the draconian cuts in government spending will make it extremely difficult to produce growth. Overall, the UK economy is forecasted to grow by no more than +1.5% in 2011. However, there are risks, particularly due to spending cuts and in financial markets that could weaken any type of recovery.

*Italy:* The Italian economy has gradually come out of recession. Over the past year the turnaround in the inventory cycle helped GDP expand due to a rebound in exports. Italian exports rose by nearly +13% in 2010. Major concerns linger in the Italian economy as domestic demand and private investment remain fragile. Industrial production grew considerably due to a spike in exports. Exports increased as the Euro depreciated. All of this led to a very modest recovery last year. Overall economic output expanded by over +1% in 2010.

Italy's fiscal house has been in great disorder for many years, and the Greek debt crisis finally brought Italy's real fiscal situation into the limelight. As a result, the Italian government last year announced fierce budget cuts in order to begin to address its fiscal problems.

The Italian economy faces a long road ahead as a rigid labor market, weak consumer spending and private investment, along with a very fragile government, remain big problems in 2011. The

potential bright spot for the Italian economy could be exports. The value of the Euro will go a long way in determining how competitive Italian goods will be in world markets. Italian competitiveness has long been a major concern.

For 2011 the outlook is muted, as the existing weaknesses along with an unstable coalition government are likely to hamper the recovery, suggesting growth of +1.0% to +1.5% driven by rising exports. One of the most critical developments facing the Italian economy in 2011 will be what transpires in Italian politics.

*Spain:* The first quarter of 2010 saw Spain finally edge out of recession. Spain's economy has significant problems and the situation is a concern for all of Europe. Spain has the Euro Zone's highest unemployment rate at around 20% and has had the most difficulty reversing its economic decline since the 2008 financial crisis. The nation's housing industry debacle has led to Spain having an extremely high level per capita of unsold properties. As a result, Spanish banks still face a very long road ahead. In 2010, the government passed the deepest budget cuts in 30 years in order to address its own fiscal crisis. The IMF seems to be confident in the steps taken thus far by the Spanish government. However, many concerns remain, as the budget needs to be approved and the current government has a very weak coalition that could lead to elections in 2011. Fitch and S&P both downgraded Spain's credit rating in 2010, which increases the cost of financing its overall debt.

Unemployment and the continued severe downturn in the housing and construction sectors produced stagnant growth in 2010. Spain was the only major Euro area nation not to experience a recovery in 2010. The only positive for the Spanish economy in 2010 was exports. Spain also

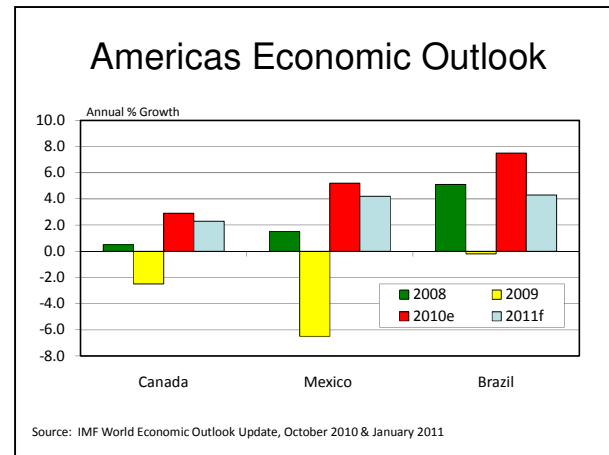
received a small boost in consumer spending in the immediate aftermath of its World Cup victory. Spain's GDP contracted by -0.2% in 2010. The Spanish economy can only hope that in 2011 the situation will improve enough to provide some sort of recovery, no matter how small.

The big question mark going forward for Spain will be whether or not the country faces its own Greek tragedy. The consequences of a Spanish debt crisis would be very problematic for the Euro Zone, as the Spanish economy is more than four times the size of the Greek economy. The Spanish fiscal situation will be one of the key stories of 2011, not only for Spain and the Euro Zone but for the entire global economy.

### ***The Americas***

***Overview:*** South America has followed Emerging Asia's direction in the global economic recovery process. Brazil was the stellar performer in 2010 and will continue to be this year. Canada's economy performed well in 2010 as the labor market rebounded strongly while exports have also led the way. Mexico's economy has also done well and is projected to continue its recovery in 2011, mainly due to the recovery in the U.S. economy.

***Brazil:*** The Brazilian economy experienced a "V" shaped recovery in 2010. Brazil trailed only China and India for the strongest economic performance of the year, as GDP expanded by +7.5%. Brazil was one of the last countries to go into the global crisis, and was one of the first to come out. The reforms put in place over the past ten years have truly made a great difference as the country used to be greatly impacted by financial crises and now is a model for Latin America and other nations.



Domestic demand was the key economic driver in 2010. As a result, imports surged. In addition, industrial production and the manufacturing sector both experienced robust expansions last year. Economic growth was particularly strong in the first half of 2010, as industrial production rose by double digits while manufacturing climbed strongly on a year-to-year basis. The economic recovery was so substantial that the Brazilian central bank raised interest rates multiple times in 2010. Higher investment spending and productivity also led the resurgence in economic growth. The Brazilian government also implemented capital controls as the economy has become more and more attractive to global investors. The capital controls have been necessary in order to relieve the upward pressure on the Brazilian Real.

The world economic recovery also helped. Brazilian exports made a nice comeback last year as demand from Asia really picked up. Consumer spending accounts for 60% of Brazilian GDP, so the economy in 2011 should perform well since domestic demand has remained strong. Still, domestic demand should slow down somewhat as fiscal stimulus ends and tax reductions and subsidies dissipate. Also, look for fiscal policy to

take center stage as the new Brazilian government led by Brazil's first ever female president Dilma Rousseff will attempt to lower the budget deficit. Strong capital investment (World Cup in 2014 and Olympics in 2016) along with foreign direct investment over the next few years will continue to generate significant growth in Brazil. On the downside, a legitimate concern for the near future will be how the European fiscal crisis plays out, particularly in Spain and Portugal. The Brazilian banking sector is heavily exposed to both these nations. The outlook for the Brazilian economy is bright over the next few years as the emerging middle class propels domestic demand. A strong currency will also go a long way in supporting the growth in imports and alleviating inflationary concerns. The Brazilian economy is forecasted to expand by +5.0% in 2011.

Canada (#5 source of FDI in Los Angeles County): The Canadian economy expanded by +3.0% in 2010. All contributors to GDP performed well, as exports, consumer spending, inventories, capital investment and government spending all increased. The key to the Canadian turnaround was the revival of the domestic labor market and exports. The U.S. recovery had a big impact on exports, as 80% of Canadian exports go to the U.S. Nearly all of the 417,000 jobs lost during the recession have been restored during the recovery. Employment figures have improved over recent months. The most recent Canadian unemployment rate was 7.8%.

One of the main reasons the economy was able to recover in 2010 is that the banking sector in Canada was very healthy before the economic and financial crisis and came through the crisis unscathed. Due to tight regulation, Canadian banks were not able to take on the risks that accumulated on the balance sheets of the

advanced economies. Canada became the first G-8 nation to raise interest rates in 2010.

The outlook for 2011 will mainly depend upon how well the U.S. economy performs. Still, the outlook for Canada is positive as consumer spending and capital investment should remain strong. Because Canada produces many commodity products, commodity prices (particularly oil) will impact economic performance in 2011, which should be a major plus. The Canadian economy is expected to expand by +2.5% to +3.0% in 2011.

Mexico: The Mexican economy recovered well in 2010 after experiencing a severe recession in 2009. Latin America's second largest economy suffered its worst economic environment in 2009 since 1932. Mexico's GDP grew by +5.2% in 2010, the best turnaround of any major economy in 2010. The stark improvement was a direct result of the upturn in the U.S. economy, as a strong rebound in American manufacturing increased demand for Mexican exports. U.S. demand is absolutely critical to the Mexican economy as the U.S. receives over 80% of Mexico's manufactured exports.

The economic rebound would have been even more impressive last year if it not for the drug war in Mexico, which had a negative impact on economic growth. Experts estimate that drug violence subtracted at least one percentage point from the nation's economic growth. The drug war depletes multiple resources and diverts crucial expenditures from the federal and local budgets. In addition, inbound foreign direct investment would be higher in the absence of violence. Even with the drug war, foreign direct investment reached close to \$20 billion last year. Meanwhile, tourism actually performed quite well in light of



the situation. Tourism is Mexico's third largest source of dollar inflows after oil and remittances. Relatively strong oil prices last year increased revenues for the Mexican government and should provide even more support this year. Manufacturing grew and industrial production increased by substantial rates in 2010. Mexico's enduring unemployment problem will hamper consumer spending in 2011, especially with fiscal stimulus spending on the wane.

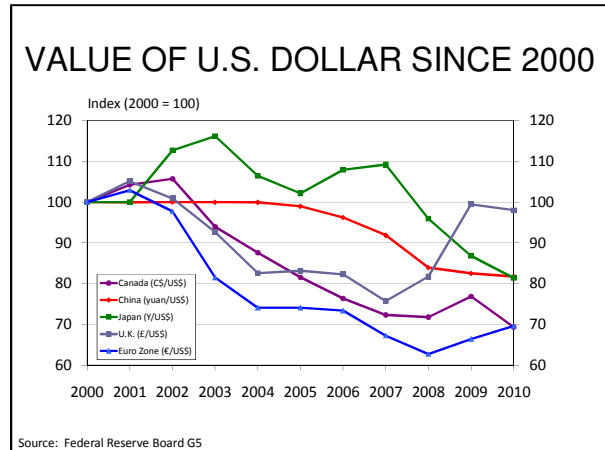
The Mexican economy is forecasted to grow by +4.0% to +4.5% in 2011, with improvements in exports, tourism, remittances and oil revenues. If the U.S. economy performs better than expected, the Mexican economy will no doubt reap the benefits. On the other hand, any significant slowdown in the U.S. economy would surely reduce growth. Note that a fiscal crisis in Spain, if it occurs, could negatively affect the banking sector. Many Mexican banks are exposed to Spain and Spanish foreign direct investment would be reduced.

## Foreign Exchange Rates

### Major World Currencies vis-à-vis the U.S. Dollar

The big foreign exchange story in 2010 was the European debt crisis and its impact on the Euro. Two other key developments were the Chinese government announcing that it would once again allow the Yuan/Renminbi to appreciate and the Federal Reserve implementing a second round of quantitative easing.

In addition, another important development in 2010 was the strong economic recovery in the emerging market nations and the effect on international capital flows. Last year saw global investors become less risk averse as the global economy rebounded. As a result, the U.S. Dollar



depreciated vis-à-vis most other key currencies except the Euro and the British Pound. In particular, the U.S. Dollar lost value relative to emerging market currencies that were leading the global recovery. Also, with interest rates at rock bottom levels, the U.S. Dollar was increasingly used as a carry-trade-funding currency. [Investors borrowed in U.S. Dollars and then bought higher yielding assets in other currencies, adding to the weakness of the U.S. Dollar.]

The U.S. Dollar appreciated vis-à-vis the Euro and other European currencies in 2010 as the Euro Zone debt crisis unfolded first in Greece and then in Ireland. Also, the U.S. economic recovery was stronger than in Europe, which also led to the strengthening of the U.S. Dollar. Similarly, the slow recovery in the UK also led to the U.S. Dollar strengthening versus the British Pound.

If the European debt situation worsens, the U.S. Dollar would likely gain strength. Likewise, the U.S. Dollar could strengthen if the crisis in the Middle East worsens. In both cases, investors will seek a safe haven once again in world financial markets. On the other hand, the U.S. Dollar would feel downward pressure if the emerging markets continue to grow strongly. The Fed's continuation of monetary easing will put

downward pressure on the greenback until the middle of 2011.

The other significant development in 2010 was related to emerging and newly industrialized economies such as South Korea, Brazil, Indonesia and Taiwan implementing capital controls in order to subdue the amount of capital flowing into their economies. In fact, these export-led economies were fearful that their respective currencies would appreciate rapidly, causing their exports to become more expensive. More emerging market nations are expected to introduce capital controls for similar reasons in 2011.

### **Los Angeles Customs District's Top Five Trading Partners Currencies**

**Chinese Renminbi/Yuan:** The Yuan remained pegged at or very near 6.85 Renminbi/Yuan per U.S. Dollar during the first half of 2010, as the Chinese government attempted to ensure that the Chinese economy was recovering strongly. As the year progressed, the government became more concerned about inflation and the need to create more domestic demand to address global imbalances. As a result, the Chinese central bank announced in late June that it would again allow the currency to fluctuate as it did from 2005 to 2008. Over the last 6 months of 2010, the Renminbi/Yuan appreciated by +3.5% vis-à-vis the U.S. Dollar, moving to near 6.60 Renminbi/Yuan per U.S. Dollar. The expectations are for the Renminbi/Yuan to continue to strengthen in 2011 as China continues to focus on controlling inflation.

**Japanese Yen:** The Yen strengthened versus the U.S. Dollar in 2010 as the Japanese economy improved and the European debt crisis drew

## Major Developments in the International Economy

investors to the Japanese currency as a safe haven. The Yen reached a 15-year high in September 2010, which led to the Japanese government taking action as it devalued the Yen for the first time since 2004. Overall, the Yen appreciated vis-à-vis the U.S. Dollar by nearly +12% in 2010. However, the Yen is expected to lose strength in 2011 as the Japanese economy struggles to expand.

**South Korean Won:** Similar to the Yen, the Won strengthened in 2010, as the economy grew strongly and capital moved into South Korea. The Won appreciated by nearly +4% versus the U.S. dollar in 2010. The South Korean Won is expected to strengthen further against the U.S. Dollar, as the South Korean economy grows strongly.

**Taiwanese Dollar:** The Taiwanese Dollar strengthened slightly versus the U.S. dollar until the Euro crisis and then lost those gains soon after. However, in the second half of the year the Taiwanese Dollar rebounded and for the year the Taiwanese Dollar gained over +9% versus the U.S. Dollar.

**Thai Baht:** The Thai Baht strengthened vis-à-vis the U.S. Dollar in the first half of 2010 even with the political turmoil of April and May. The currency strengthened further in the second half of the year and it ended the year over +10% stronger, moving to 30 Thai Baht per U.S. Dollar.

### **Other Key Currencies**

**Canadian Dollar:** The Canadian Dollar took the same course as most other major currencies did in 2010. The year began with the Canadian Dollar gaining strength versus the U.S. Dollar and then the Canadian Dollar gave back all of its gains by

the middle of the year. The second half of the strength versus the U.S. Dollar. Overall, the Canadian Dollar appreciated by nearly +5% vis-à-vis the U.S. Dollar in 2010. The short term outlook is for the Canadian Dollar to remain close to parity with the U.S. Dollar.

**Mexican Peso:** The Peso performed well in the first half of 2010 versus the U.S. dollar until the European debt crisis came into play last May then the Peso weakened vis-à-vis the U.S. Dollar, as most currencies did, due to global risk concerns. However, the Mexican Peso appreciated versus the U.S. Dollar over the second half of 2010. In 2010, the Mexican Peso gained +5.4% vis-à-vis the U.S. Dollar.

**Euro:** The European debt crisis triggered by the Greek fiscal situation led to a dramatic decline in the Euro in May 2010. The Euro had already been weakening vis-à-vis the U.S. Dollar at the end of 2009 as the U.S. economic recovery overshadowed the European performance. The Euro actually deteriorated by over -17% versus the U.S. Dollar from the beginning of 2010 until the Greek crisis struck. Over the second half of the year, the Euro stabilized as many Euro zone countries made significant movements towards

year witnessed the Canadian Dollar regain fiscal austerity while the European Central Bank and IMF implemented huge measures to revive confidence in the currency. Then, the Euro rebounded strongly up until the Irish bailout. The Euro ended the year down by over -8% versus the U.S. Dollar. The outlook is for the continued weakening of the Euro in the short-to-medium-term, as the debt crisis continues to unfold and some European economies face anemic growth.

**British Pound:** The Pound witnessed a similar trajectory, weakening alongside the Euro. The British Pound lost nearly -12% of its value over the first half of 2010. The new British coalition government led by David Cameron announced its own draconian spending cuts last summer as it looks to place its fiscal house in order. The announcement helped the Pound reverse its downward spiral versus the U.S. Dollar, ending the year with a -4.3% depreciation. The outlook is most likely for the British Pound to weaken. The economy will at best experience very sluggish growth as the austerity measures begin to take effect.

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

Country (Currency)*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Broad Currency Basket (index)	119.45	125.93	126.66	119.09	113.63	110.71	108.52	103.40	99.83	105.87	101.97
Canada (US\$/C\$)	1.486	1.549	1.570	1.401	1.302	1.212	1.134	1.073	1.066	1.141	1.030
China (US\$/yuan)	8.28	8.28	8.28	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77
Euro Zone (US\$/€)**	0.923	0.895	0.945	1.132	1.244	1.245	1.256	1.371	1.473	1.393	1.326
Japan (US\$/¥)	107.8	121.6	125.2	115.9	108.2	110.1	116.3	117.8	103.7	93.7	87.8
Mexico (US\$/peso)	9.46	9.34	9.66	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62
South Korea (US\$/₩)	1131	1292	1250	1192	1145	1024	954	929	1099	1275	1156
United Kingdom (US\$/£)**	1.516	1.440	1.503	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545

Percent Change ***	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Broad currency basket (index)	6.3%	5.4%	0.6%	-6.0%	-4.6%	-2.6%	-2.0%	-4.7%	-3.5%	6.1%	-3.7%
Canada (C\$)	3.7%	4.3%	1.4%	-10.8%	-7.1%	-6.9%	-6.4%	-5.3%	-0.7%	7.0%	-9.7%
China (yuan)	0.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%
Euro Zone (€)	6.8%	3.0%	-5.6%	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%
Japan (¥)	10.7%	12.8%	3.0%	-7.4%	-6.7%	1.8%	5.6%	1.2%	-11.9%	-9.6%	-6.3%
Mexico (peso)	1.4%	-1.3%	3.5%	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.2%	-6.5%
South Korea (₩)	10.3%	14.2%	-3.2%	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.4%
United Kingdom (£)	7.4%	5.0%	-4.4%	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%

Source: Federal Reserve Statistical Release G.5A; Annual Averages

**Notes:**

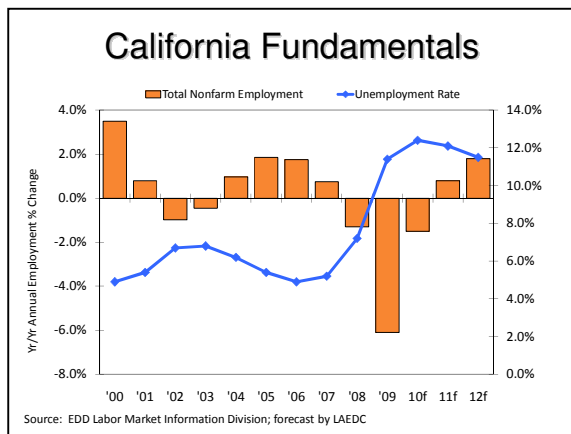
\*Foreign currency units per U.S. dollar

\*\*The value in U.S. dollars versus the foreign currency

\*\*\*Performance of U.S. dollar versus the foreign currency

## IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

California economic performance was mixed in 2010, with some sectors growing again while others continued to weaken. Retail sales regained some of the losses incurred in 2009, while tourism was up across the board. Most manufacturing sectors continued weak, though residential took tentative steps upward. Nonresidential and public works construction activity remained at low levels, despite increased federal funding. State and local government revenues turned up in line with renewed growth in incomes and sales. However, property values continued to fall. Government spending plans—and jobs—remain at considerable risk.



Early in 2011, California’s economy appears to be moving up again. While unemployment is still extremely high, employment has stabilized and begun to grow again. Quite a few industries are growing at present, and just a few are still shedding workers. The economic news in California will get better as we move through 2011. More improvement is expected in 2012.

### What worries us?

- The state budget situation continues to be a major concern. General Fund revenues increased by 10% during the first six months of fiscal year 2011 (which ends June 30,

2011), primarily due to higher personal income and sales tax and revenues (corporate profits tax receipts declined over the prior year). Meanwhile, General Fund expenditures increased by +5.2%. While below the officially budgeted amount, the Department of Finance expects the state to run a deficit of -\$8.2 billion in FY 2011.

- Going forward, the Governor estimates the General Fund will run another deficit (-\$17.2 billion) during FY 2012. The state legislature and the Governor must agree on how to deal with both years’ shortfalls. Also, they must figure out how to pay for the functions and personnel that were federally funded in FY 2010 and FY 2011.
- Wrestling with these problems—currently estimated at \$25.4 billion—reveals one salient fact: Whatever the “solutions” turn out to be, they will weaken the state’s economic recovery. On one hand, government spending and public employment could be reduced. On the other, taxes or fees could be increased. The choice affects the distribution of the deficit burden across California’s regions and industries, but the burden remains \$25.4 billion.
- Water is another worry. Despite December’s heavy rains, California’s water supply continues in short supply, though last year’s precipitation turned out to be pretty good overall. However, many areas in the state are still facing restrictions on water use, because water levels in the state’s reservoirs fell so far in earlier years. Complicating matters further, environmental rulings have the potential to place at risk not only the state’s premier agriculture industry but also urban

areas that rely on water traversing the Sacramento-Bay Delta.

### **A moderate economic recovery**

California's economy is beginning to recover from the steep 2008-2009 recession. However, the labor market statistics for 2010 did not show much improvement. Nonfarm employment fell by -1.5% in California during 2010, or by -212,600 jobs. Just as distressing, the state's unemployment rate averaged a painful 12.4%.

As the recovery finally gathers strength, growth will be moderate at best in 2011. Badly burned during the recession, many business firms will be reluctant to hire until they are certain that better times will be long-lasting. As a result, the state's labor markets will improve only slowly in 2011, with nonfarm employment growing by +0.8% or by +111,800 jobs. Unemployment will remain stubbornly high, averaging 12.1% this year. Economic conditions will improve more noticeably in 2012. Nonfarm employment will grow by +1.8%, and the jobless rate will come down to 11.5%.

### **Positive Forces Through 2012**

**Retail and autos:** Spending by consumers turned up in 2010 after dropping sharply in 2009. Retail sales fell by -12.9% in 2009 but rose by an estimated +6.6% in 2010. More increases are expected in 2011 and 2012. Many of the state's automotive dealers, who were hard hit during the downturn, also are experiencing moderately better sales, including those selling products made by the "Detroit 3."

**International Trade:** Activity at the state's ports increased dramatically in 2010. Growth will continue through 2001 and 2012. Port workers,

truckers, railroads and distribution companies are not the only beneficiaries. California's manufacturers and producers of agricultural products realize increased export sales as well.

**Entertainment:** Activity in this industry began to turn up in late 2009 and continued to grow throughout 2010.

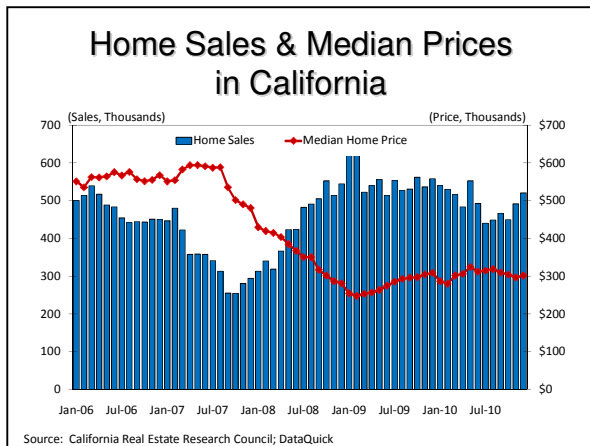
**Tourism:** The tourism indicators for California are improving and expected to gain strength throughout the forecast period.

**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 rapidly changing economy.

**Health care:** This industry grows no matter what the economic weather. Demand is driven by the state's ever-increasing population, especially those over 60 years of age, who use medical services intensively.

### **Some Negative Forces**

**Housing and related activities:** Though activity picked up in 2010, new home construction continues in a near-depression state. Though activity picked up briefly this past winter and again in the spring, new home construction relapsed after federal tax credits expired. The market for existing homes looks somewhat better, as unit sales returned to reasonably healthy levels early in the year and prices have stabilized in many locations. Still, the timing and strength of any upturn in housing is uncertain. The main risk continues to be a large round of foreclosures that come onto the market in a short period of time.



**Environmental regulations:** The recession and its aftereffects have filled the headlines. Less noticed are efforts to “green” the state and its ports, as well as the looming implementation of AB 32 (the greenhouse gas legislation). A large number of new requirements for state businesses are in the regulatory hoppers, with final rules due before 2012. At minimum, this process raises uncertainty in today’s adverse business climate. California residents and many businesses will face higher energy costs in the not-so-distant future. Paying for the required investments in new vehicles, equipment and buildings also could be an issue.

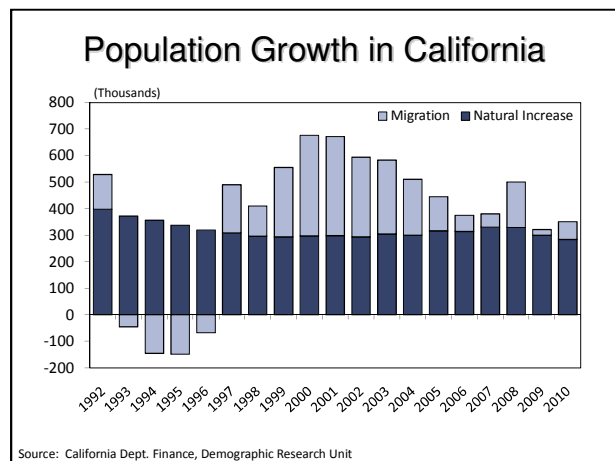
**Demographic Trends**

The California economy does have one big thing going for it: a large and growing population. The state’s populace numbered 38.7 million persons as of July 1, 2010. That total is expected to swell by about 350,000 persons annually. By mid 2012, the state will have 39.5 million residents.

Population growth has slowed since the early 2000s, primarily because the state has experienced negative net domestic migration;

i.e., the number of Californians moving out-of-state is greater than the number of out-of-state residents moving here. Most of the state’s population growth comes from natural increase (i.e., births minus deaths), with the remainder from international immigration.

A growing population benefits the California economy. For starters, growth ensures a firm, underlying demand for housing, furniture and appliances (at least during normal, non-recessionary periods). This demand is not being met now but will boost residential construction and the associated retail sales whenever credit conditions loosen and the economic picture brightens.



Furthermore, growth in the population supports growth in the state’s health care and education sectors. Finally, the enormous size of the consumer market in California represents a huge opportunity for retailers and other consumer-serving industries who find the market simply too big—and attractive—to ignore.

**Trends in Major Industries**

**Agriculture:** All in all, 2010 was a better year for many of the state’s farms, with revenues

boosted by higher prices and increased exports of California-grown products. However, increased costs remained a concern, especially fuel, energy and feed.

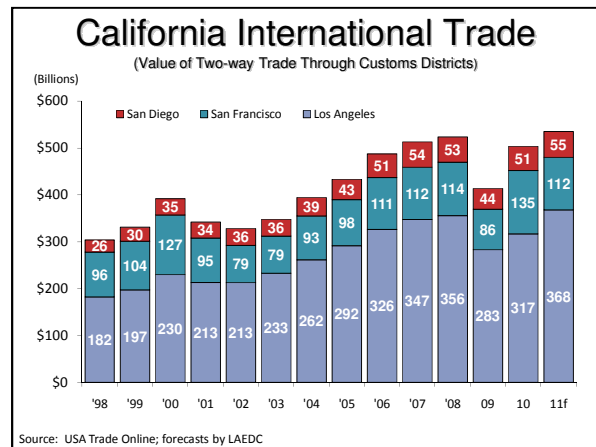
The situation looks better as of early 2011. Some product prices are rising, and water supplies seem likely to stabilize for the moment, at least. Still, uncertainties remain, particularly for farmers south of the Bay Delta.

Farm statistics are released with a long lag, but here's the information currently available:

- Total gross farm receipts in California declined by -9.6% in 2009, primarily due to plunging prices of dairy products and livestock. However, gross receipts were up by +5.9% in the first 11 months of 2010, mostly due to higher livestock prices.
- Exports of California-grown and -bottled products increased by +18.6% during the first 11 months of 2010 after declining by -4.8% in 2009. 2010 exports could set a new record.
- During 2010, an average 372,300 workers were employed by California's farms and nurseries, down slightly from the same period in 2009.
- Assuming the weather cooperates and court mandated water restrictions are not too severe (both rather large assumptions), 2011 could be a better year for California's farmers than 2010. However, feed and fuel costs are rising, cutting into profitability.

**International trade:** Imports and exports through California's three customs districts surged in 2010 after plunging in 2009. Exports

and imports both increased sharply, reflecting the brisk economic recovery occurring in key Asian markets and the need to refill inventory pipelines in the U.S. During the first 11 months of 2010, the value of exports through the state's customs districts soared by +23.5%, while imports grew by +21.9%.

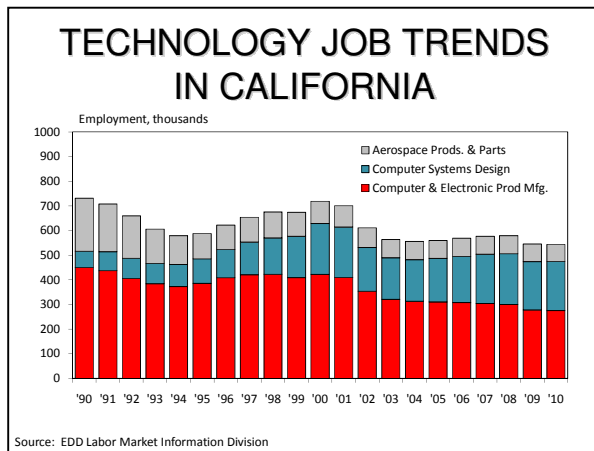


Exports started to improve early (turning up late in 2009) and grew strongly throughout 2010. Demand was boosted by the early economic recoveries in the Asian emerging nations led by China. Imports followed suit in early 2010, also increasing by double-digit rates. Rising sales of retailers, distributors and manufacturers—signs of economic recovery in the U.S.—forced these firms to increase orders from their foreign suppliers. Trade flows through California will increase further in 2011 and 2012 but at a slower pace, reflecting that most firms' supply pipelines have been replenished.

**Technology (including aerospace):** The various components of California's tech sector have somewhat disparate outlooks. Business demand for technology products strengthened during 2010, and seems likely to continue rising at a healthy pace. Sales of consumer technology products did even better. Purchases of



consumer products like computers, e-readers and cell phones, increased in 2010 and should grow nicely in 2010. There's always demand for well-designed personal gadgets like iPods, iPads and smart cell phones. California's high tech manufacturers—especially makers of semiconductors and other electronic components—have benefited from the strong upturn in sales and raised employment levels throughout 2010.

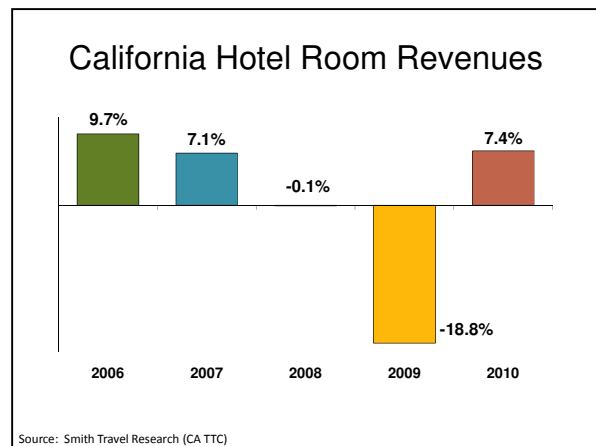


In the defense aerospace sector, a number of major government-sponsored defense projects are underway in California, including satellites and unmanned aerial vehicles. Significant sub-contracting also takes place on Air Force fighter planes. The administration is again proposed key defense cutbacks that could hurt the state, on net, beginning in 2012. Also, the Defense Department is changing its defense posture to emphasize flexibility and the ability to respond swiftly to new situations. The new defense posture will be implemented beginning in 2012. Beyond that, it's unclear how the state will make out.

Commercial aerospace presents a less uncertain picture. After shrinking deliveries in 2010, Airbus and Boeing are now adjusting production

schedules upward to accommodate their suddenly busier airline customers. However, delays in bringing new aircraft to the market (Boeing's 787 Dreamliner in particular) are a nagging issue. Boeing is racing to complete testing and hopes 787 deliveries might begin late in 2011 (originally scheduled for 2008). Both manufacturers have hefty backlogs and are beginning to ramp up production rates of more popular models. California's commercial aerospace sub-contractors are expecting new orders.

**Tourism:** 2010 was an encouraging year for California's tourism industry after a very difficult 2009. According to Smith Travel Research, the state's hotels reported increases in occupancy rates last year (averaging +6.1%) along with roughly even room rates. This combination caused total hotel room revenues to grow by a welcome +7.4% and begin to retrieve some of the losses in 2009.



All major markets reported higher room revenues in 2010, except for a few smaller cities where room rates were weak. San Jose/Santa Cruz recorded a +14.8% increase in room revenues in 2010, driven mostly by higher occupancy. Los Angeles ranked #2, with +10.2% growth in annual room revenues (higher

occupancies plus new capacity), followed by Orange County and San Francisco/San Mateo, both up by +7.4%, and Oakland (+6.9%). Annual increases in room revenues at other major locations were smaller, ranging from +5.5% in Sacramento to +2.7% in Riverside-San Bernardino.

Going forward, tourism industry revenues should continue on the upswing in 2011. The pace of business and leisure travel is quickening. Intra-state travel also is likely to show steady improvement. In addition, tourist industry operators will attempt to increase fares and room rates, despite travelers' new-found stingy attitudes.

**Construction:** And then there is the state's troubled construction industry. New home construction activity hit bottom in 2009, as just 36,421 units were permitted. Activity increased in 2010, to 44,601 permits issued. Still, 2010 was down by a huge -79% from the 2004 peak year (when 212,960 units were permitted). Nonresidential construction also is depressed, with the value of new permits in 2010 reaching \$11.0 billion, up by just 0.3% from 2009's rock-bottom low of \$10.9 billion.

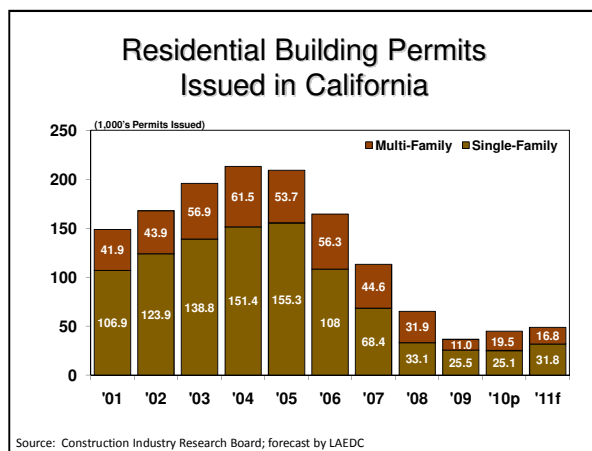
Residential permits are expected to grow by +9% in 2011. Much of the increase will come in the single-family sector, as external financing for new condominiums and apartment projects remains hard to get. Nonresidential construction activity is projected to grow by +7.2% in 2011.

What about public works? Partly reflecting the impact of federal stimulus spending, publicly funded construction activity increased in 2010, after 2009 cutbacks caused local governments and school districts to prune spending. Spending for public buildings rose by +16.6%, while heavy construction (roads and bridges, etc.) increased by +6.2%. Public works construction activity might increase in 2011, but at a modest rate as federal spending tapers down.

### Trends around the State

California has finally begun to emerge from a serious recession. As of December 2010, however, only four of thirteen large metropolitan areas saw significant employment growth during 2010. One of these was Modesto in the San Joaquin Valley, which recorded job growth of +0.4% in the year to December 2010. Two other Valley metro areas were in the "less worse" category, including Bakersfield (with a nonfarm employment loss of just -0.1% over the year), and Fresno (-0.8%). Still, a central location did not guarantee success; the Stockton area recorded a year-over employment decline of -1.5% while the Sacramento area a dropped by -2.2%, lowest in the metro area job growth ranking.

Southern California's metro areas also were spread across the rankings. The area in the worst shape was Ventura County (down by -1.4%



over the year to December 2010). Meanwhile, Riverside-San Bernardino (-0.5%) and Los Angeles (-0.01%) ranked near the middle of the list (# 7 and #5 respectively), while San Diego (at +0.5%) and Orange County (+1.6% over the year) placed #3 and #1.

The three major Bay Area metros were spread out as well. Oakland had the worst results, with December 2010 employment down by -1.7% compared with a year earlier. San Francisco turned in a -1.1% performance, while the San Jose area recorded year-over growth of +1.0%.

The state’s unemployment rate has moved well into double-digit territory, and will remain there during 2011-2012, averaging 12.1% in 2011 and 11.5% in 2012.



Total personal income grew by an estimated +2.7% in 2010 to \$1.61 billion, following a rare decline of -2.4% in 2009. And 2010 saw the beginnings of recovery for California’s retailers, who saw +6.6% growth in 2010 taxable retail sales after a -12.9% plunge the previous year. In 2011, personal income will grow by +4.6%, while taxable retail sales will register a gain of +6.5%.

### Net Results

Recessionary employment losses are diminishing in breadth and in number. Job losses will gradually turn into job gains in 2011, as firms gain more confidence that the business recovery is sustainable. The largest gains this year are expected to occur in leisure & hospitality (+30,900 jobs), administrative & support services (+19,200 jobs), professional, scientific & technical services (+15,300 jobs), transportation & utilities (+14,900 jobs), wholesale trade (+12,800 jobs), and health services (+11,000 jobs). Just two industry sectors will lose employees in 2011: management of enterprises (-300 jobs) and government (-35,000 jobs).

### Bottom Line

The near-term outlook for the California economy is definitely better, but there are still problems. Because the recession was so deep, 2011 won’t *feel* especially good despite improvements in most industries. However, the state’s economy *is* moving in the right direction. The economic environment will seem even better by 2012.

## Gross Product

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

To help keep things straight (at least for estimating 2010), call it the "rule of 9...16...20." In 2010, the state ranked 9<sup>th</sup>, the five-county area placed 16<sup>th</sup>, while Los Angeles County on its own ranked 20<sup>th</sup> (based on what can be measured) among the nations of the world.

Based on estimates for 2010, California fell from 8<sup>th</sup> place to 9<sup>th</sup> place in the rankings behind Italy and now behind Brazil as well as Brazil experienced very strong growth in 2010. Meanwhile, the ranking for the five-county area remained at 16<sup>th</sup>. Finally, the Los Angeles County ranking moved down from 19<sup>th</sup> to 20<sup>th</sup>. It is now behind Switzerland instead of Indonesia and still ahead of Belgium.

The 2010 estimated results reinforce the notion that the most substantial increases in GDP were in the emerging economies. They led the global economic recovery and were the big winners (most heavily reliant upon exports) as world trade rebounded strongly in 2010.

California, the five-county area and Los Angeles County also experienced growth in 2010 albeit moderate, as consumer spending, high technology, tourism, and trade all rebounded. However, high unemployment and a weak housing market were still big problems in 2010. The state and Southern California were not able to perform as well as the emerging and

developing economies and so lost some of their standing last year.

In nominal (not adjusted for inflation) GDP growth terms, the overall increases in the U.S., California, Los Angeles five-county area and Los Angeles County for 2010 were not nearly as high as in the emerging and developing economies like Indonesia and Brazil (both almost reached 29% growth in nominal terms). China was the only economy that experienced double-digit economic growth in both nominal and real (adjusted for inflation) terms in 2010.

When compared in real GDP terms, the emerging and developing economies also posted faster growth than the California and Southern California economies. China, India, and Taiwan experienced the largest GDP gains boosted by government spending, exports and consumer spending led the overall recovery. Other notable performances in real terms during 2010 included the economies of Turkey, Brazil, South Korea and Indonesia. The worst performances of the year occurred in the Euro Zone economies. They faced a severe debt crisis in 2010 and the lingering impacts of the financial crisis.

In July 2011, we will publish the final 2010 country results; these figures are all just estimates for now. In January 2012, we will publish the estimates for 2011 and we expect to see the largest 2011 GDP increases amongst the Asian nations (excluding Japan) and the weakest performances in Europe. The key question will be how well the California and local economies recover in 2011.

**Table 4: Gross Product Comparisons, 2010**

(In billions of US\$, estimates)

Rank	Country/Economy	2010e	Nominal GDP	Real GDP
			'09-'10 % Chg	'09-'10 % Chg
1	United States	\$14,624.18	3.6%	2.6%
2	China	5,745.13	15.3%	10.3%
3	Japan	5,390.90	6.4%	4.0%
4	Germany	3,305.90	-1.0%	3.6%
5	France	2,555.44	-3.8%	1.5%
6	United Kingdom	2,258.57	3.7%	1.5%
7	Italy	2,036.69	-3.9%	1.0%
8	Brazil	2,023.53	28.6%	7.5%
	<b>California</b>	<b>1,930.00</b>	<b>2.0%</b>	<b>1.5%</b>
9	Canada	1,563.66	17.0%	3.0%
10	Russia	1,476.91	19.9%	4.0%
11	India	1,430.02	15.6%	9.7%
12	Spain	1,374.78	-6.3%	-0.2%
13	Australia	1,219.72	22.7%	3.0%
14	Mexico	1,004.04	14.8%	5.2%
15	South Korea	986.26	18.5%	6.1%
	<b>Los Angeles 5-co. area</b>	<b>835.00</b>	<b>1.4%</b>	<b>1.0%</b>
16	Netherlands	770.31	-3.3%	1.8%
17	Turkey	729.05	18.6%	7.8%
18	Indonesia	695.06	28.9%	6.0%
19	Switzerland	522.44	6.2%	2.9%
	<b>Los Angeles County</b>	<b>505.00</b>	<b>1.0%</b>	<b>0.5%</b>
20	Belgium	461.33	-2.3%	1.6%
21	Sweden	444.59	9.5%	4.4%
22	Poland	438.88	1.9%	3.4%
23	Saudi Arabia	434.44	15.5%	3.4%
24	Taiwan	426.98	12.8%	9.3%
25	Norway	413.51	9.2%	0.6%

Note: Nominal GDP figures are not adjusted for inflation.

Sources: IMF World Economic Outlook, Oct 2010 &amp; January 2011 Update; 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	1,135.3	33,299	287.1	392.0	148,540	26,700
2001	34,766.7	14,602.0	5.4	1,168.7	33,616	294.0	340.7	148,757	23,455
2002	35,361.2	14,457.8	6.7	1,187.4	33,578	301.6	328.1	167,761	19,835
2003	35,944.2	14,392.8	6.8	1,233.0	34,303	320.2	348.0	195,682	18,628
2004	36,454.5	14,532.6	6.2	1,312.2	35,997	350.2	394.8	212,960	19,718
2005	36,899.4	14,801.3	5.4	1,387.7	37,607	375.8	433.8	208,972	21,469
2006	37,274.6	15,060.3	4.9	1,495.5	40,123	389.1	488.0	164,280	23,298
2007	37,655.2	15,173.5	5.2	1,568.3	41,648	387.0	513.4	113,034	23,733
2008	38,155.5	14,981.4	7.2	1,610.9	42,220	357.3	523.3	64,962	19,588
2009	38,476.7	14,079.3	11.4	1,572.7	40,873	311.2	413.3	36,421	10,970
2010e	38,826.9	13,866.7	12.4	1,615.4	41,604	331.8	503.4	44,601	11,007
2011f	39,176.3	13,978.5	12.1	1,690.0	43,138	353.5	535.0	48,600	11,800
2012f	39,528.9	14,224.0	11.5	1,780.0	45,030	379.0	560.0	76,650	14,000

% Change	'01/'00	'02/'01	'03/'02	'04/'03	'05/'04	'06/'05	'07/'06	'08/'07	'09/'08	'10/'09	11/'10	12/'11
	2.0%	1.7%	1.6%	1.4%	1.2%	1.0%	1.0%	1.3%	0.8%	0.9%	0.9%	0.9%
	0.8%	-1.0%	-0.4%	1.0%	1.8%	1.7%	0.8%	-1.3%	-6.0%	-1.5%	0.8%	1.8%
	2.9%	1.6%	3.8%	6.4%	5.7%	7.8%	4.9%	2.7%	-2.4%	2.7%	4.6%	5.3%
	1.0%	-0.1%	2.2%	4.9%	4.5%	6.7%	3.8%	1.4%	-3.2%	1.8%	3.7%	4.4%
	2.4%	2.6%	6.2%	9.4%	7.3%	3.5%	-0.5%	-7.7%	-12.9%	6.6%	6.5%	7.2%
	-13.1%	-3.7%	6.1%	13.4%	9.9%	12.5%	5.2%	1.9%	-21.0%	21.8%	6.3%	4.7%
	0.1%	12.8%	16.6%	8.8%	-1.9%	-21.4%	-31.2%	-42.5%	-43.9%	22.5%	9.0%	57.7%
	-12.2%	-15.4%	-6.1%	5.9%	8.9%	8.5%	1.9%	-17.5%	-44.0%	0.3%	7.2%	18.6%

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, thousands; March 2010 benchmark)

	Total		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Nonfarm	Nonfarm				Durable	NonDurable				
2000	14,487.8	26.5	733.4	1,864.1	1,217.2	646.9	646.2	1,563.2	518.3	576.7	
2001	14,602.6	25.6	780.4	1,791.3	1,173.9	617.4	658.9	1,576.1	514.1	551.9	
2002	14,457.9	23.1	774.4	1,644.5	1,059.6	584.9	652.1	1,582.1	491.0	497.3	
2003	14,393.1	22.2	796.8	1,542.5	976.4	566.1	649.5	1,588.3	480.6	476.1	
2004	14,532.1	22.8	850.4	1,523.4	966.0	557.4	653.0	1,617.6	482.7	482.4	
2005	14,800.7	23.6	905.3	1,504.7	959.0	545.7	673.6	1,659.3	487.1	473.6	
2006	15,059.8	25.1	933.7	1,490.2	947.6	542.6	700.2	1,680.1	496.1	466.0	
2007	15,173.5	26.7	892.6	1,464.3	927.9	536.4	715.3	1,689.9	507.6	470.8	
2008	14,981.4	28.7	787.7	1,425.4	899.8	525.6	703.5	1,640.9	504.6	475.5	
2009	14,079.3	25.7	620.1	1,280.9	798.2	482.7	644.2	1,518.1	474.1	446.8	
2010e	13,866.7	25.0	547.1	1,239.7	773.4	466.3	617.2	1,499.3	461.1	447.0	
2011f	13,978.5	25.5	555.5	1,240.0	775.0	465.0	630.0	1,509.0	476.0	450.0	
2012f	14,224.0	26.5	573.0	1,225.0	760.0	465.0	665.0	1,535.0	491.0	460.0	

	Finance & Insurance	Real Estate, Rental & Services	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	568.9	267.2	936.9	283.6	657.6	237.1	1,210.6	1,365.1	499.2	2,382.1
2002	584.8	268.2	905.0	265.9	939.5	245.4	1,253.3	1,382.3	505.7	2,447.0
2003	613.4	272.3	906.6	246.8	931.2	258.2	1,278.1	1,400.1	504.3	2,426.0
2004	625.8	276.4	918.9	230.3	947.8	262.9	1,297.1	1,439.4	503.8	2,397.7
2005	643.6	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	207.1	2,452.3
2007	621.1	283.5	1,060.4	206.1	997.9	289.3	1,381.0	1,560.4	512.2	2,494.6
2008	574.5	275.9	1,079.6	206.0	951.6	300.6	1,424.1	1,572.6	511.3	2,518.9
2009	542.5	254.5	1,016.2	194.6	840.8	302.9	1,437.3	1,499.0	484.3	2,497.3
2010e	537.9	242.9	1,006.7	187.3	858.3	319.3	1,445.5	1,484.6	475.5	2,472.5
2011f	540.0	245.0	1,022.0	187.0	880.0	326.0	1,456.5	1,515.5	483.0	2,437.5
2012f	548.0	252.0	1,050.0	186.0	912.5	336.0	1,472.0	1,565.0	502.0	2,425.0

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

**Table 7: California Regional Nonfarm Employment**

(Annual averages for major metropolitan areas; March 2010 benchmark)

\MSA	State of California*	Northern California				Central California					Southern California				
		Oakland	San Francisco	San Jose	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside-San Bernardino	San Diego	Ventura
1990	12,499.8	879.2	947.3	824.2	170.7	224.5	117.5	618.5	152.7	4,135.7	1,172.4	712.6	966.6	230.3	
1991	12,358.9	879.7	939.5	815.4	177.3	227.3	117.8	630.9	155.2	3,982.7	1,143.7	718.9	962.6	230.4	
1992	12,153.5	870.2	914.4	801.7	173.3	230.2	120.0	623.2	154.8	3,804.5	1,126.0	729.6	947.7	226.6	
1993	12,045.4	873.5	908.3	806.7	169.9	233.6	121.6	626.0	156.2	3,707.6	1,115.4	733.9	947.0	227.0	
1994	12,159.5	877.4	903.6	810.3	170.8	237.2	122.2	643.8	157.3	3,701.9	1,126.8	751.3	955.3	233.3	
1995	12,422.0	897.5	916.5	842.8	172.8	243.5	124.0	662.8	160.3	3,746.6	1,151.7	779.9	978.5	237.3	
1996	12,743.4	916.4	948.2	891.9	174.9	246.8	127.8	681.5	163.5	3,788.5	1,184.3	803.5	1,006.2	237.9	
1997	13,129.7	947.8	983.5	939.7	179.2	249.8	131.7	702.0	167.4	3,865.0	1,233.8	841.5	1,054.3	242.7	
1998	13,596.1	976.2	1,012.2	969.7	184.3	253.5	137.2	731.4	171.5	3,943.5	1,299.1	882.2	1,105.5	252.3	
1999	13,991.8	1,008.0	1,040.0	985.1	188.8	262.0	141.7	770.5	178.7	4,002.9	1,345.2	939.0	1,152.9	263.6	
2000	14,488.2	1,044.6	1,082.1	1,044.3	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	1029.7	1,218.4	279.9	
2002	14,457.8	1,039.8	987.1	917.2	205.1	282.0	150.7	832.2	194.0	4,026.8	1,403.7	1064.5	1,230.7	281.8	
2003	14,392.8	1,025.6	950.7	870.3	207.1	282.7	152.3	846.0	197.3	3,982.9	1,429.0	1099.2	1,240.1	284.2	
2004	14,532.6	1,023.7	939.3	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1160.0	1,260.3	286.2	
2005	14,801.3	1,032.2	945.8	869.9	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1222.0	1,282.1	291.2	
2006	15,060.3	1,045.4	964.4	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1267.7	1,301.6	297.7	
2007	15,173.5	1,048.2	989.1	911.2	238.7	306.4	160.1	903.0	211.5	4,122.1	1,515.5	1270.9	1,308.8	296.8	
2008	14,981.4	1,030.4	996.7	914.9	238.0	303.0	156.4	882.1	205.7	4,070.7	1,481.6	1223.8	1,298.7	291.3	
2009	14,079.3	966.4	942.3	855.6	227.9	286.6	146.8	833.4	193.6	3,829.4	1,371.4	1,131.9	1,229.6	275.0	
2010e	13,866.7	937.2	916.4	846.1	223.6	279.6	144.6	808.9	150.3	3,765.9	1,360.7	1100.0	1,214.9	269.9	

Sources: California EDD, Labor Market Division, Current Employment Series; forecasts by LAEDC



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

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2002	4,026.8	1,403.7	1,064.5	281.8	6,776.8	1,230.7	14,457.9
2003	3,982.9	1,429.0	1,099.2	284.2	6,795.3	1,240.1	14,393.1
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,532.1
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,800.7
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,059.8
2007	4,122.1	1,515.5	1,270.9	296.8	7,205.3	1,308.8	15,173.5
2008	4,070.7	1,481.6	1,223.8	291.3	7,067.4	1,298.7	14,981.4
2009	3,829.4	1,371.4	1,131.9	275.0	6,607.7	1,229.6	14,079.3
2010e	3,765.9	1,360.7	1,100.0	269.9	6,496.5	1,215.0	13,866.7
2011f	3,790.1	1,376.3	1,099.6	272.0	6,538.0	1,221.8	13,978.5
2012f	3,859.6	1,405.0	1,116.2	277.0	6,657.8	1,244.9	14,224.0

***Numerical Change from Prior Year*** (in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2002	-46.8	-10.0	34.8	1.8	-20.2	12.3	-144.7
2003	-43.9	25.3	34.7	2.4	18.5	9.4	-64.8
2004	13.6	27.7	60.8	2.0	104.1	20.2	139.0
2005	27.7	34.3	62.0	5.0	129.0	21.8	268.6
2006	68.3	27.9	45.7	6.5	148.4	19.5	259.1
2007	29.6	-3.4	3.2	-0.9	28.5	7.2	113.7
2008	-51.4	-33.9	-47.1	-5.5	-137.9	-10.1	-192.1
2009	-241.3	-110.2	-91.9	-16.3	-459.7	-69.1	-902.1
2010e	-63.5	-10.7	-31.9	-5.1	-111.2	-14.6	-212.6
2011f	24.2	15.6	-0.4	2.1	41.5	6.8	111.8
2012f	69.5	28.7	16.6	5.0	119.8	23.1	245.5

***% Change from Prior Year***

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2002	-1.1%	-0.7%	3.4%	0.6%	-0.3%	1.0%	-1.0%
2003	-1.1%	1.8%	3.3%	0.9%	0.3%	0.8%	-0.4%
2004	0.3%	1.9%	5.5%	0.7%	1.5%	1.6%	1.0%
2005	0.7%	2.4%	5.3%	1.7%	1.9%	1.7%	1.8%
2006	1.7%	1.9%	3.7%	2.2%	2.1%	1.5%	1.8%
2007	0.7%	-0.2%	0.3%	-0.3%	0.4%	0.6%	0.8%
2008	-1.2%	-2.2%	-3.7%	-1.9%	-1.9%	-0.8%	-1.3%
2009	-5.9%	-7.4%	-7.5%	-5.6%	-6.5%	-5.3%	-6.0%
2010e	-1.7%	-0.8%	-2.8%	-1.9%	-1.7%	-1.2%	-1.5%
2011f	0.6%	1.1%	0.0%	0.8%	0.6%	0.6%	0.8%
2012f	1.8%	2.1%	1.5%	1.8%	1.8%	1.9%	1.8%

Sources: EDD, Labor Market Information Division; all estimates &amp; forecasts by LAEDC

**Table 9: California Technology Employment**

(In thousands, 2010 benchmark, based on NAICS)

Year	Computer & Electronic Product Manufacturing		Aerospace Product & Parts Manufacturing		Pharmaceutical & Medicine Manufacturing		Software Publishers		ISPs, Web Portals, Data Processing		Services		
	Total Technology Employment	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Rel. Services	Consulting	Management, Scientific, & Technical	R&D	Services
2000	1,027.7	421.8	90.7	38.0	48.2	32.1	206.6	95.1	95.2				
2001	1,019.2	409.7	86.3	39.2	50.7	28.8	204.4	99.1	99.1				
2002	922.0	353.7	79.6	39.5	48.8	20.7	177.1	102.1	100.5				
2003	876.7	320.9	73.6	39.1	44.7	18.7	168.8	109.7	101.2				
2004	877.1	313.4	73.7	40.6	42.6	18.5	168.5	119.0	100.8				
2005	902.6	310.8	73.4	42.0	41.6	19.6	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	950.6	304.1	72.8	44.2	43.0	20.7	199.2	159.0	107.6				
2008	971.3	300.0	73.7	43.6	44.9	20.4	205.8	166.8	116.1				
2009	923.5	278.1	71.2	43.7	44.4	19.3	195.6	159.0	112.2				
2010e	916.8	275.9	68.8	44.0	43.0	19.5	198.7	154.4	112.5				

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

**Table 10: Population Trends in California and the Los Angeles Five-County Area**  
(Population estimates as of 7/1/10, in thousands)

	Los Angeles County		Orange County		Riverside & San Bernardino		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%	31,524	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.3%	705	0.6%	15,370	0.4%	31,712	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	710	0.7%	15,470	0.7%	31,963	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.7%	15,670	1.3%	32,453	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	15,862	1.2%	32,863	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%	2,864	2.2%	3,281	2.6%	759	2.2%	16,480	2.1%	34,095	2.0%
2001	9,736	1.7%	2,917	1.9%	3,393	3.4%	773	1.8%	16,819	2.1%	34,767	2.0%
2002	9,893	1.6%	2,960	1.5%	3,499	3.1%	787	1.8%	17,139	1.9%	35,361	1.7%
2003	10,022	1.3%	3,000	1.4%	3,632	3.8%	798	1.4%	17,452	1.8%	35,944	1.6%
2004	10,120	1.0%	3,032	1.1%	3,765	3.7%	806	1.0%	17,723	1.6%	36,454	1.4%
2005	10,186	0.7%	3,056	0.8%	3,896	3.5%	812	0.7%	17,950	1.3%	36,899	1.2%
2006	10,217	0.3%	3,067	0.4%	4,010	2.9%	818	0.7%	18,112	0.9%	37,275	1.0%
2007	10,245	0.3%	3,088	0.7%	4,095	2.1%	823	0.6%	18,251	0.8%	37,655	1.0%
2008	10,342	0.9%	3,125	1.2%	4,155	1.5%	833	1.2%	18,455	1.1%	38,156	1.3%
2009	10,399	0.6%	3,155	1.0%	4,192	0.9%	841	1.0%	18,587	0.7%	38,476	0.8%
2010	10,474	0.7%	3,182	0.9%	4,246	1.3%	848	1.0%	18,750	0.9%	38,827	0.9%

Source: California Dept. of Finance, Demographic Research Unit

**Table 11: Components of Population Change – California & Southern California Counties**

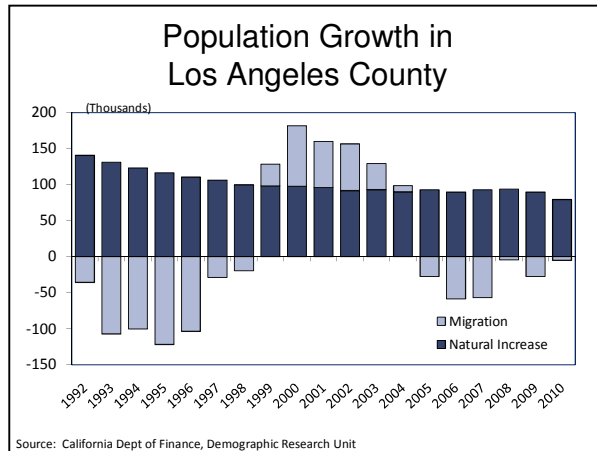
Figures in thousands, July 1 data compared with July 1 data the previous year

<b>Los Angeles County</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	30.9	150.1	60.6	89.5	-58.5	48.6	-107.1	
2007	28.3	151.4	58.7	92.7	-64.3	57.1	-121.5	
2008	97.2	151.9	59.1	92.9	4.3	67.4	-63.1	
2009	56.9	143.9	59.6	84.3	-27.4	41.2	-68.6	
2010	74.1	139.3	60.0	79.3	-5.1	42.4	-47.6	
<b>Orange County</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	11.7	44.1	17.1	27.0	-15.2	13.8	-29.0	
2007	20.7	43.8	16.9	26.9	-6.2	16.4	-22.6	
2008	37.4	44.2	17.4	26.8	10.5	20.7	-10.1	
2009	28.6	41.1	17.5	23.6	5.0	11.9	-6.9	
2010	28.2	40.1	17.7	22.4	5.7	12.2	-6.5	
<b>Riverside County</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	77.7	32.4	14.2	18.2	59.5	5.9	53.6	
2007	58.1	34.2	13.9	20.3	38.6	7.7	30.1	
2008	39.7	34.3	14	20.3	19.4	9.7	9.7	
2009	28.6	32	14.2	17.8	10.6	5.4	5.3	
2010	31.8	31.8	14.3	17.5	16.1	5.6	10.5	
<b>San Bernardino County</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	36.9	33.8	12.6	21.2	15.7	5.3	10.4	
2007	26.8	35.2	12.3	22.8	4	6.4	-2.5	
2008	20.8	34.8	12.2	22.6	-1.9	8.3	-10.3	
2009	8.2	32.7	12.1	20.5	-12.4	4.8	-17.2	
2010	19.9	32	12.2	19.8	0.054	5	-4.9	
<b>San Diego County</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	24.2	46.2	19.8	26.4	-2.1	10.7	-12.8	
2007	39.4	47.2	19.3	27.9	11.5	14.9	-3.5	
2008	55.4	47.5	19.3	28.3	27.1	19.1	8.0	
2009	36.6	45.9	19.4	26.4	10.1	11.2	-1.1	
2010	30.5	44.7	19.6	25.1	5.4	11.6	-6.1	
<b>Ventura County</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	5.9	12.4	4.9	7.4	-1.5	2.8	-4.3	
2007	5.4	12.4	4.8	7.6	-2.2	3.5	-5.7	
2008	9.5	12.2	5.0	7.2	2.3	4.3	-1.9	
2009	7.9	12.0	5.0	6.8	1.1	2.4	-1.3	
2010	7.7	11.2	5.1	6.1	1.7	2.5	-0.8	
<b>State of California</b>					Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration	
2006	375.2	553.0	239.0	314.0	61.2	155.8	-94.6	
2007	380.6	564.6	234.7	330.0	50.7	185.9	-135.2	
2008	500.3	565.7	236.8	328.9	171.4	226.8	-55.4	
2009	321.2	547	238.8	299.3	21.9	134.8	-112.8	
2010	350.2	524.5	240.7	283.8	66.4	138.9	-72.5	

Source: California Department of Finance, Demographic Research Unit

## V. OUTLOOK FOR LOS ANGELES COUNTY

Los Angeles County's economy will experience a gradual economic improvement during 2011 and 2012. Even so, some of the County's major industries will continue to be challenged.



### Positive Forces through 2011 and 2012

The Los Angeles economy appears to be past the bottom of the recession and is starting up the recovery path. Though activity is still at relatively low levels in some industries, others are primed for growth. Thus, there are quite a few positives to report for the county's economy in the coming two years.

- **International trade** activity turned up strongly in 2010 after plunging the previous year. A healthy increase in activity is expected in 2011 with more coming in 2012. Job counts will rise accordingly.
- The **entertainment industry** experienced a rebound in activity during 2010, with more motion pictures, television pilots and shows, and commercials being filmed. Industry employment rebounded as well.
- **Tourism** also turned up in 2010 after sliding in 2009. New hotels downtown and in

Hollywood drew more business visitors as well as leisure travelers to the county. The improvement will continue in 2011 and 2012.

- **Private education** is one sector that can grow even in difficult economic times. Led by the county's topnotch universities, this sector includes private K-12 schools and job training institutions that attract workers and the unemployed seeking training for better jobs.
- The **healthcare services** sector should continue to hold its own. Good hospitals attract excellent physicians, and L.A. County has some of the best. Though healthcare reform could be an issue in the future, right now this industry reliably generates jobs year in and year out.
- **Retail sales** turned up in 2010 after being hit hard by the 2008-2009 recession. Businesses and residents of Los Angeles County are feeling more confident about their prospects, and tourism is on the rise. All these will have a positive impact on retail sales.
- **Major construction projects** will provide more support this year. Partly funded by the federal government, the two ports, LAX and Metro all have significant construction programs underway. In downtown Los Angeles, building the new Civic Park and the Broad Art Museum are bringing construction activity back to the Grand Avenue area.

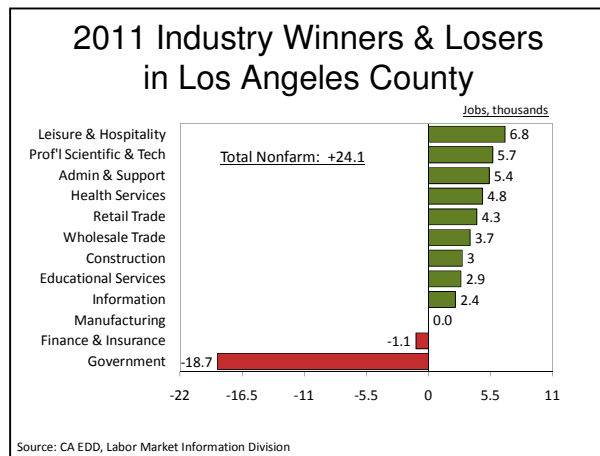
### Negative Forces through 2011 and 2012

- **Local government finance** will be a big concern, as the decline in home values, the slump in retail sales, and the state's chronic budget problems all have hurt municipal and county budgets. More staff layoffs and service cuts are coming in 2011 and 2012.

- The **nonresidential real estate sector** will continue to struggle with high vacancies, declining lease rates and falling property values in 2011. Nonresidential construction activity fell to minimal levels in 2009-2010 and seems likely to stay there in 2011.

**A Note of Uncertainty**

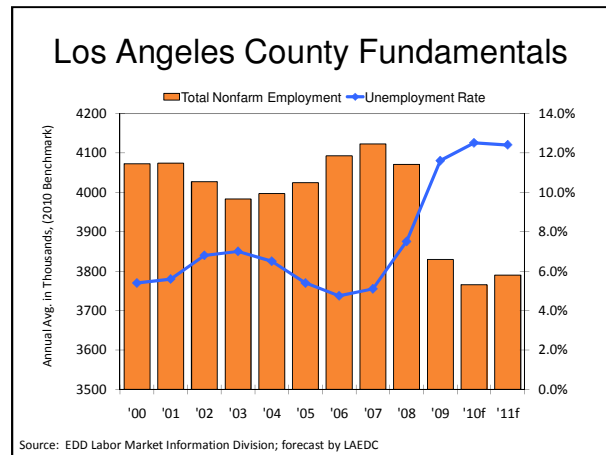
The county’s aerospace/defense industry is operating in an unpredictable environment caused by changing priorities at the Defense Department and NASA compounded by the federal government’s drive to reduce defense budgets. Several programs of interest to Los Angeles will be impacted. Some local firms will receive more orders while other operations are cut back or even eliminated. We expect to learn more during 2011 and 2012.



**Net Results**

Total nonfarm employment in the County should grow by +0.6% or +24,100 jobs in 2011, after a drop of -1.7% or -63,500 jobs in 2010. Numerically, the largest employment gains during 2011 will come in: leisure & hospitality (+6,800 jobs); professional, scientific & technical services (+5,700 jobs); administration & support services (+5,400 jobs); health services (+4,800 jobs); and.

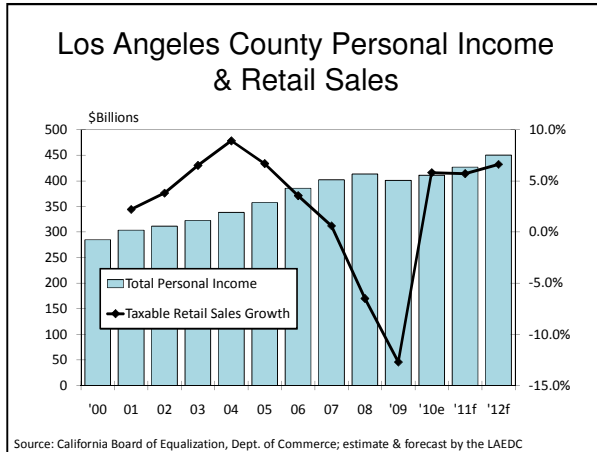
retail trade (+4,300) jobs. Growing budget problems will force local government entities to continue shedding jobs (-18,700 jobs during 2011). Employment in finance & insurance will decline by -1,100 jobs. In 2012, total nonfarm employment in the County is expected to increase by +1.8% or by +70,000 jobs as the economic recovery takes hold.



Unemployment rates will continue at painfully high levels during the forecast period, though they will gradually decline. Business firms initially will be cautious in rehiring until they believe the recovery in their own sales and profits is well established. The County’s unemployment rate averaged 12.5% during 2010. In 2011, the jobless rate is expected to edge down to 12.4%. In 2012, the unemployment rate will fall to 11.7%.

Total personal income in the county grew by an estimated +2.5% in 2010, after falling by -3.0% in 2009. Income growth is expected to regain momentum in 2011 (+3.9%) and 2012 (+5.4%).

Taxable retail sales turned up in 2010, growing by +5.8% following a horrific decline (-12.7%) the previous year. Retail sales are expected to grow by 5.7% and +6.6% in 2012, making the latter the third best year ever (after 2006 and 2007).

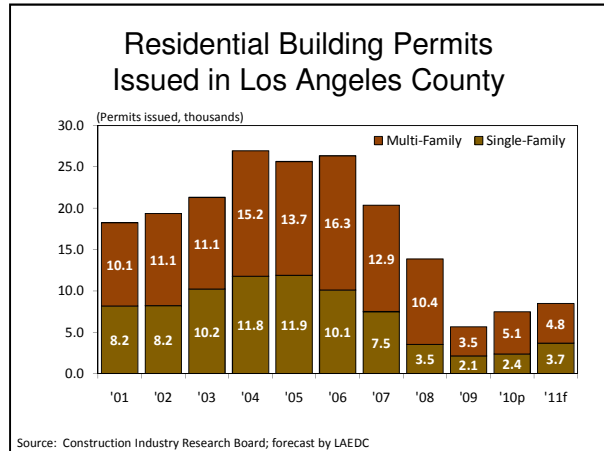


The value of international trade flowing through the Los Angeles Customs District surged by +22.7% during 2010. This performance nearly made up the -20.5% drop that occurred in 2009. Healthy increases of +6.0% and +5.2% are forecast for 2011 and 2012.

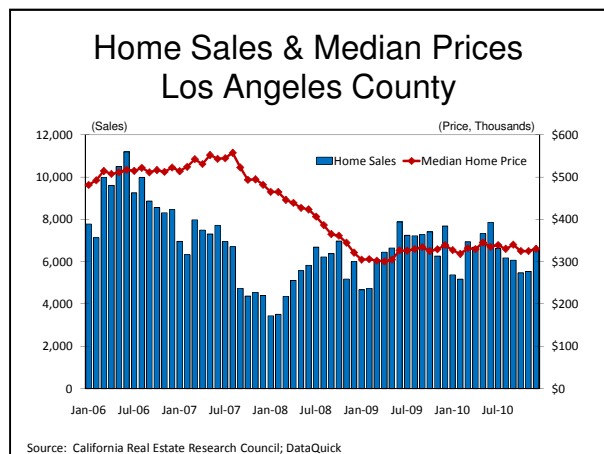
About 25.7 million overnight visitors came to Los Angeles County in 2010, a nice recovery after the 2009 drop to 23.8 million visitors. The year 2011 should see another uptick in the visitor count to as many as 26.3 million visitors. This increase reflects the higher number of large meetings scheduled for 2011 and 2012 at the LA Convention Center, which was made possible by the opening of the convention center hotel in downtown Los Angeles and the W Hotel in Hollywood. The hotels and LACC are already attracting more business visitors. The number of vacationers also will increase, especially from Asia.

Los Angeles County experienced an uptick in new home construction during 2010, after a rather dramatic drop in new permits issued during 2009. About 7,465 new units got permitted in 2010, a welcome increase of +32.1% from the 5,610 new units permitted in 2009.

The County has a large oversupply of apartments and condos to deal with before any significant recovery in homebuilding can get started. We expect 8,490 units in total will be permitted during 2011, rising to 13,055 units in 2012.



The value of nonresidential building permits issued in the County edged down by -3.0% during 2010 after plunging by -40.5% during 2009. The worst problems continue to be in the office sector, while industrial is beginning to turn around. Nonresidential building activity should register a modest decline of +4.1% in 2011 before recording an +18.4% gain during 2012.



**Table 12: Los Angeles County 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)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)	Chg. in CPI (%)
2000	9,576.2	4,072.1	5.4	284,985	29,760	70,321	230.0	24.2	17,071	3,296	3.3
2001	9,735.9	4,073.6	5.6	303,445	31,168	71,835	212.2	22.8	18,253	3,539	3.3
2002	9,892.5	4,026.8	6.8	311,367	31,475	74,548	212.8	22.1	19,364	2,920	2.8
2003	10,021.9	3,982.9	7.0	322,272	32,157	79,427	232.9	23.3	21,313	2,932	2.6
2004	10,120.4	3,996.5	6.5	338,210	33,418	86,497	261.7	24.3	26,935	3,174	3.3
2005	10,185.9	4,024.2	5.4	357,194	35,067	92,271	291.6	25.0	25,647	3,824	4.5
2006	10,216.9	4,092.5	4.8	385,733	37,754	95,544	326.4	25.4	26,348	3,896	4.3
2007	10,245.2	4,122.1	5.1	402,108	39,248	96,096	347.3	25.8	20,363	4,739	3.3
2008	10,342.4	4,070.7	7.5	413,317	39,963	89,810	355.8	25.6	13,704	4,491	3.5
2009	10,399.4	3,829.4	11.6	400,840	38,544	78,444	282.9	23.8	5,653	2,674	-0.8
2010e	10,473.5	3,765.9	12.5	411,000	39,242	83,000	316.7	25.7	7,465	2,593	1.2
2011f	10,557.3	3,790.0	12.4	427,000	40,446	87,750	368.0	26.3	8,490	2,700	2.0
2012f	10,652.3	3,860.0	11.7	450,000	42,244	93,500	387.0	26.8	13,055	3,198	2.5

**% Change**

'01/'00	1.7%	0.0%		6.5%	4.7%	2.2%	-7.8%	-5.8%	6.9%	7.4%	
'02/'01	1.6%	-1.1%		2.6%	1.0%	3.8%	0.3%	-3.1%	6.1%	-17.5%	
'03/'02	1.3%	-1.1%		3.5%	2.2%	6.5%	9.5%	5.4%	10.1%	0.4%	
'04/'03	1.0%	0.3%		4.9%	3.9%	8.9%	12.4%	4.3%	26.4%	8.3%	
'05/'04	0.6%	0.7%		5.6%	4.9%	6.7%	11.4%	2.9%	-4.8%	20.5%	
'06/'05	0.3%	1.7%		8.0%	7.7%	3.5%	11.9%	1.6%	2.7%	1.9%	
'07/'06	0.3%	0.7%		4.2%	4.0%	0.6%	6.4%	1.6%	-22.7%	21.6%	
'08/'07	0.9%	-1.2%		2.8%	1.8%	-6.5%	2.5%	-0.8%	-32.7%	-5.2%	
'09/'08	0.6%	-5.9%		-3.0%	-3.6%	-12.7%	-20.5%	-7.0%	-58.7%	-40.5%	
'10/'09	0.7%	-1.7%		2.5%	1.8%	5.8%	11.9%	8.0%	32.1%	-3.0%	
11/'10	0.8%	0.6%		3.9%	3.1%	5.7%	16.2%	2.1%	13.7%	4.1%	
12/'11	0.9%	1.8%		5.4%	4.4%	6.6%	5.2%	1.9%	53.8%	18.4%	

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 13: Los Angeles County Nonfarm Employment**

(Annual averages in thousands, March 2010 benchmark)

	Total Nonfarm		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Payroll	Resources				Durable	Nondurable				
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	461.7	257.3	204.4	225.7	423.3	165.2	205.6	
2007	4,122.1	4.4	157.6	449.7	250.9	198.8	227.0	426.0	165.6	209.8	
2008	4,070.7	4.4	145.2	434.4	243.2	191.2	223.7	416.5	163.1	210.3	
2009	3,829.4	4.1	116.5	389.1	217.1	172.0	204.1	386.6	151.7	193.7	
2010e	3,765.9	4.1	101.6	370.2	206.1	164.1	196.3	381.4	148.3	213.6	
2011f	3,790.0	4.1	104.6	370.2	207.1	163.1	200.0	385.6	152.0	216.0	
2012f	3,860.0	4.1	111.0	364.0	203.0	161.0	208.0	395.0	158.0	221.0	

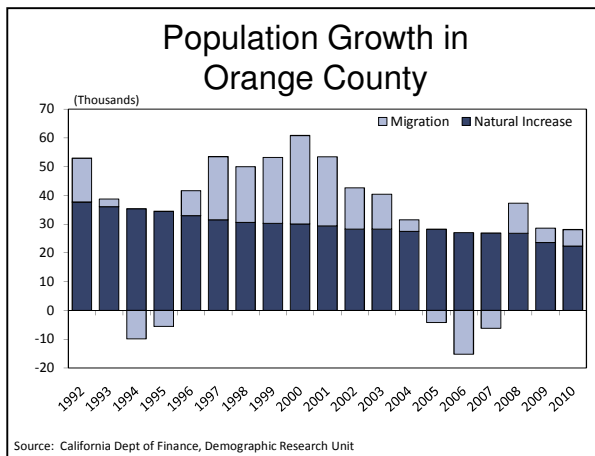
  

	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Svcs	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	156.2	72.7	233.6	84.4	270.0	88.6	343.6	348.5	143.2	598.3
2002	159.8	72.8	231.6	82.5	261.0	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	271.9	99.4	379.3	388.6	145.2	589.4
2007	165.8	80.3	273.9	58.8	272.7	102.9	387.5	397.9	147.1	595.7
2008	156.3	79.4	269.6	56.7	256.4	105.1	398.3	401.6	146.1	603.7
2009	145.9	74.3	250.3	52.4	225.4	111.5	402.4	383.9	137.9	599.5
2010e	143.1	73.0	245.3	47.4	222.1	116.2	404.2	384.2	134.4	580.7
2011f	142.0	73.0	251.0	46.5	227.5	119.0	409.0	391.0	136.5	562.0
2012f	144.0	73.5	261.0	46.0	238.0	125.0	415.0	403.0	140.4	553.0

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

## VI. OUTLOOK FOR ORANGE COUNTY

In September, Orange County became the first metropolitan area in the state to add jobs over the year. The county also had the lowest unemployment rate in Southern California, 8.9% in December. The progress of the county's economic recovery will be measured by gains in employment. Job growth will be slow, but almost all sectors will add jobs this year. Many of the attributes that historically supported Orange County's economic strength, namely its tourist attractions, universities and high tech industries, remained intact through the recession.



### Positive Forces through 2011 and 2012

- In 2010, Orange County received \$49.5 million in American Recovery and Reinvestment Act funds earmarked for **infrastructure projects**. Workers broke ground in November on a long anticipated project (\$59.5 million) that will add a lane to the 91 Freeway between Anaheim and Corona. The West County Connector Project is also underway and will provide congestion relief at the interchange of the 405, 605 and 22 Freeways. At the John Wayne Airport, construction is underway to expand capacity and upgrade existing facilities.
- The **Health Services** industry was one of the few that added jobs through the recession. Hoag Memorial Hospital opened its newly renovated facility in Irvine last summer and Kaiser Permanente is continuing work on an \$850 million healthcare complex in Anaheim. Set to be completed in 2013, the complex will include a hospital, two medical office buildings, a central utility plant and a parking structure.
- The county's **life science and medical instrument makers** are also a source of growth. Several firms based in the county are moving ahead with new product trials or are awaiting FDA approval for new devices.
- The **high tech** industry is doing quite well. Both consumer electronics and business spending on technology products are expected to grow moderately this year. Businesses will spend more on software, data storage and computer hardware. A large percentage of the county's high tech goods are exported and strong demand from emerging markets will provide a boost to the industry this year.
- **Tourism** is on the rebound. The county's hotels will see a rise in occupancy rates and room rates as visitors return to the region – especially the area around the Disneyland Resort and the upscale coastal areas of Newport and Laguna Beach. Tourists will be a bit more free-spending and business travelers will return.
- **Manufacturing** employment will inch up this year (the county ranks tenth in the nation in the number of factory jobs), and will see modest additional growth in 2012. Expansion

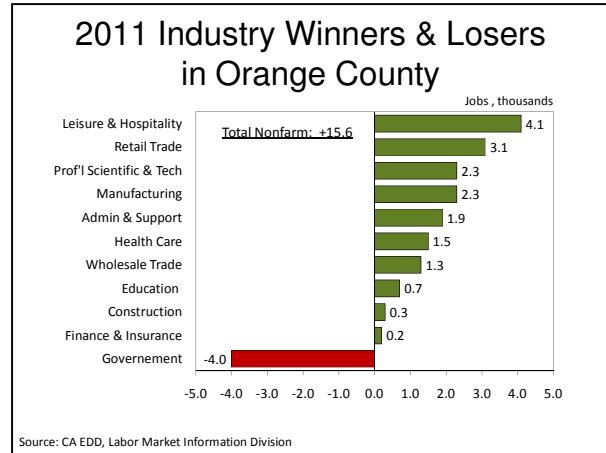
will come from rising export demand in Asia and increased domestic demand for the county's computer products, medical devices, industrial goods and apparel. Orange County's high tech and clean-tech industries will do especially well. Defense related industries are in a watch mode to see how much defense spending is cut next year and which programs will be targeted. Manufacturing growth could also be held in check by rising prices for energy and other commodities used in manufacturing.

**Negative forces through 2011 and 2012**

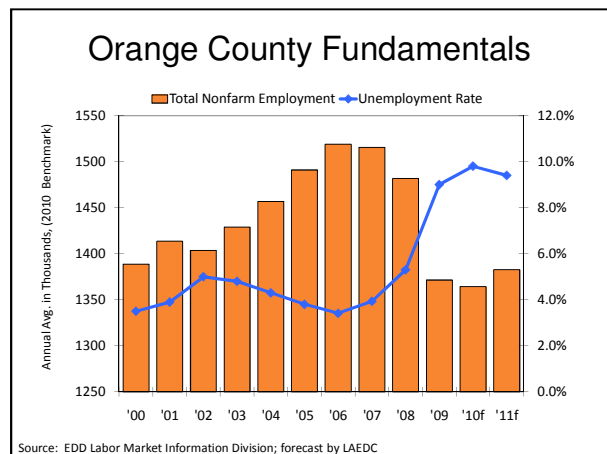
- Job losses in the **financial services** industry hit bottom in 2009, but problems remain. Banks and other lenders are facing new federal regulations such as more stringent capital requirements. Banks are also looking to cut costs after new regulations trimmed revenue sources and may do so by cutting employees. While the worst is over, more bank failures are possible and credit remains tight. Some community banks have reduced the number of problem commercial real estate loans on their books, but others are still struggling.
- **Residential real estate** will lag in 2011 with fewer home sales. Much will depend on improvement in the labor market and a return of consumer confidence. The number of distressed properties in Orange County is still near a historic high, and another wave of foreclosures is possible this year. Falling prices are blocking new home construction because builders cannot compete profitably with existing home prices.

**Net Results**

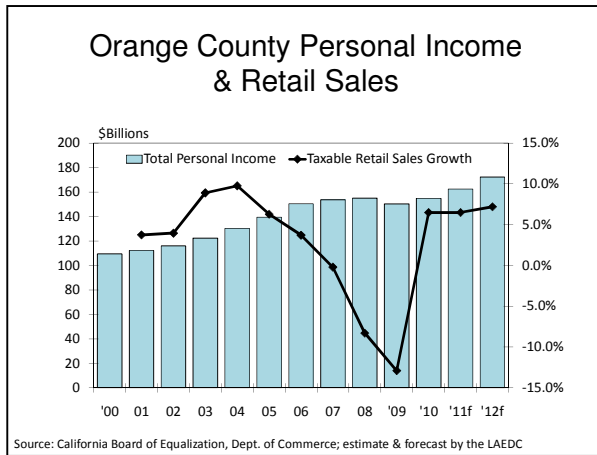
Nonfarm employment in the county is expected to increase by +1.1% or +15,600 jobs during 2011. This follows a -0.8% job loss in 2010 and a -7.4%



decline in 2009. Employment gains will be widespread with the exception of state and local government jobs. The industries that will create the largest numbers of jobs are: Leisure & Hospitality (+4,100 jobs); Retail Trade (+3,100 jobs); Professional Scientific & Technical services (+2,300 jobs); Manufacturing (+2,300 jobs) and Administrative & Support Services (+1,900 jobs). In 2012, employment in the county should climb by +2.1%, posting a more robust increase of +28,700 jobs.

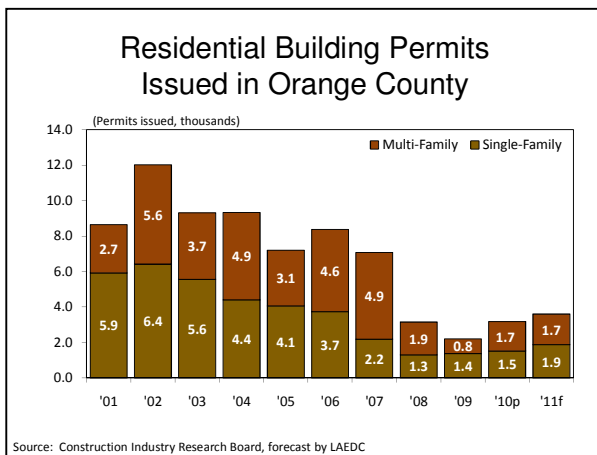
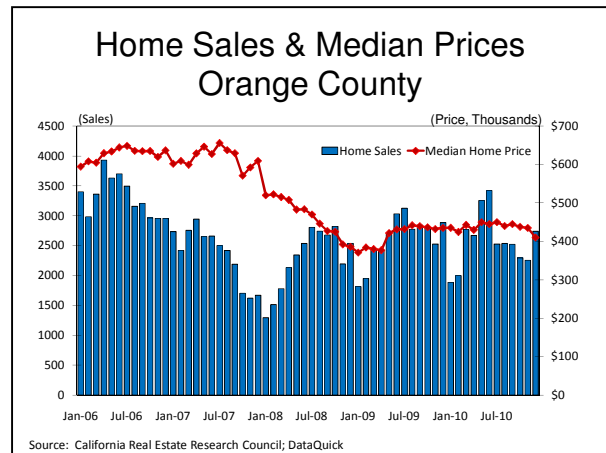


Orange County's unemployment rate averaged 9.6% in 2010. In 2011 the rate should fall back to 9.2% as the economic recovery gains momentum. By 2012 stronger growth will drive the unemployment rate down to 8.6% - still high, but a welcome improvement after three years above 9%.



Total personal income in the county should rebound by +5.0% in 2011, with even larger gains coming in 2012 (+6.0%). Per capita personal income should average \$50,649 in 2011, up by 4.1% from the previous year. Retailing in Orange County took a beating during the recession but is coming back with an estimated increase in taxable sales of +6.5% in 2010, followed by a stronger rebound in 2012 (+7.2%).

by -40% in 2009, increased by +20% in 2010 and are expected to gain by +14% in 2011. At the end of 2010, the county's office vacancy rate was 20%, but appears to be stabilizing and should start to come down in 2011 as the employment outlook improves. The industrial vacancy rate was a more manageable 6.3% and is trending down.



New homebuilding in Orange County bottomed out in 2009 and turned up in 2010 (increasing by +44.5% from 2009's extremely low level). Residential construction will continue to improve in 2011 with the forecast calling for 3,600 units to be permitted (still a very low number). Nonresidential permit values, which plummeted

The number of overnight tourists to the county should increase again this year, edging up by +0.9% to 43.4 million in 2011. In 2012, the number of overnight visitors is expected to increase by +1.8% to 44.2 million visitors. Demand for hotel rooms and room rates will increase in 2011. Luxury hotels along the coast will see the most significant improvements. The weaker dollar will bring back foreign travelers, and the trend in the U.S. toward shorter trips, closer to home will draw more regional visitors. Business travelers are returning (as the "AIG effect" has faded) and meetings and convention bookings are up.

**Table 14: Orange County 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)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)
2000	2,863.6	1,388.9	3.5	109,490	38,235	27.5	40.2	12,367	1,762
2001	2,917.0	1,413.7	3.9	112,245	38,479	28.5	40.9	8,646	1,350
2002	2,959.7	1,403.7	5.0	116,003	39,194	29.6	41.7	12,020	1,209
2003	3,000.1	1,429.0	4.8	122,426	40,807	32.3	42.7	9,311	1,006
2004	3,031.6	1,456.7	4.3	130,320	42,987	35.4	43.5	9,322	1,133
2005	3,055.6	1,491.0	3.8	139,408	45,624	37.7	44.7	7,206	1,495
2006	3,067.3	1,518.9	3.4	150,598	49,097	39.1	44.9	8,371	2,401
2007	3,088.1	1,515.5	3.9	153,839	49,817	39.0	44.4	7,072	2,005
2008	3,125.4	1,481.6	5.3	155,118	49,631	35.8	43.1	3,159	1,439
2009	3,154.0	1,371.4	9.0	150,435	47,697	31.2	42.7	2,200	952
2010e	3,182.2	1,360.7	9.6	154,875	48,670	33.2	43.0	3,180	1,141
2011f	3,210.8	1,376.3	9.2	162,625	50,649	35.4	43.4	3,600	1,300
2012f	3,239.7	1,405.0	8.6	172,350	53,199	37.9	44.2	5,600	1,575
<b>% Change</b>									
01/00	1.9%	1.8%		2.5%	0.6%	3.8%	1.7%	-30.1%	-23.4%
02/01	1.5%	-0.7%		3.3%	1.9%	4.0%	2.0%	39.0%	-10.4%
03/02	1.4%	1.8%		5.5%	4.1%	8.9%	2.4%	-22.5%	-16.8%
04/03	1.0%	1.9%		6.4%	5.3%	9.8%	1.9%	0.1%	12.6%
05/04	0.8%	2.4%		7.0%	6.1%	6.3%	2.8%	-22.7%	32.0%
06/05	0.4%	1.9%		8.0%	7.6%	3.7%	0.4%	16.2%	60.6%
07/06	0.7%	-0.2%		2.2%	1.5%	-0.2%	-1.1%	-15.5%	-16.5%
08/07	1.2%	-2.2%		0.8%	-0.4%	-8.3%	-2.9%	-55.3%	-28.2%
09/08	0.9%	-7.4%		-3.0%	-3.9%	-12.9%	-0.9%	-30.4%	-33.8%
10/09	0.9%	-0.8%		3.0%	2.0%	6.5%	0.7%	44.5%	19.9%
10/11	0.9%	1.1%		5.0%	4.1%	6.5%	0.9%	13.2%	13.9%
11/12	0.9%	2.1%		6.0%	5.0%	7.2%	1.8%	55.6%	21.2%

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 15: Orange County Nonfarm Employment**

(Annual averages in thousands, March 2010 benchmark)

	Total Nonfarm		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Payroll	Resources				Durable	Mfg. -- Nondurable				
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	80.7	208.5	147.8	60.7	83.9	150.1	30.4	40.2	
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	106.6	182.7	128.0	54.7	83.7	160.8	28.2	31.9	
2007	1,515.5	0.6	103.1	180.4	126.2	54.2	86.9	161.2	28.9	31.2	
2008	1,481.6	0.6	91.2	174.0	122.5	51.5	86.7	155.6	29.3	30.1	
2009	1,371.4	0.5	73.6	154.5	108.9	45.6	80.1	141.9	27.9	27.4	
2010e	1,360.7	0.6	64.1	151.3	105.2	46.1	78.6	142.0	27.7	25.0	
2011f	1,376.3	0.6	64.4	153.6	106.7	46.9	79.9	145.0	27.9	25.7	
2012f	1,405.0	0.6	65.5	155.4	107.6	47.8	81.7	148.5	28.7	26.9	

	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Svcs	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	73.8	32.1	94.3	39.7	114.5	16.0	98.6	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	20.8	117.0	169.6	47.7	156.7
2007	89.1	38.6	113.5	27.9	132.0	21.6	121.1	172.9	47.4	159.4
2008	76.1	37.0	116.1	26.1	124.5	23.6	127.1	176.4	46.5	160.8
2009	71.6	34.1	108.2	24.2	106.6	23.6	127.5	169.7	42.8	157.3
2010e	72.6	32.6	108.9	23.5	108.9	24.2	128.7	176.4	42.5	153.1
2011f	72.8	32.7	111.2	23.9	110.8	24.9	130.2	180.5	43.1	149.1
2012f	75.1	33.5	114.3	24.5	113.5	25.8	133.4	186.0	44.1	147.5

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

## VII. OUTLOOK FOR THE RIVERSIDE-SAN BERNARDINO AREA

The outlook for the Riverside-San Bernardino (Inland Empire) area remains partly cloudy in 2011, particularly with regards to the housing market and the construction industry. The Inland Empire has experienced a long and deep recession. A surge in the number of foreclosures along with plummeting home values in construction and soaring joblessness resulted in the worst ever economic crisis for the Inland Empire.

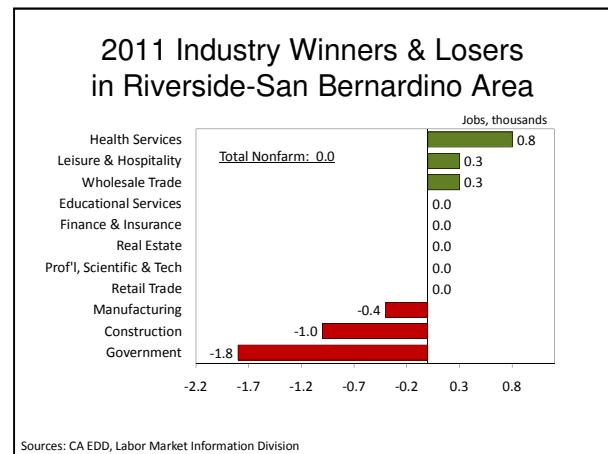
However, the region began to recover along with the rest of Southern California in 2010. The recovery will be slower for the Inland Empire, as it has more ground to make up due to its exposure to the housing collapse and the dramatic decline in foreign trade volumes in 2009. The construction, manufacturing and trade related sectors are the key drivers of the Inland Empire economy. The good news is that they all began to pick up last year. The better news is that this year the area should begin to see job gains.

The recovery in the Inland Empire will not progress strongly until the housing market recovers and that is not expected for at least a year or so. The Inland Empire registered more defaults and foreclosures per capita during the economic downturn than any other area of Southern California. However, median housing prices appreciated by +10% in 2010 compared with 2009. Note that the median price of an Inland Empire home is still significantly below where it was before the crisis. In fact, median home prices in the area have dropped to their 2001 price levels.

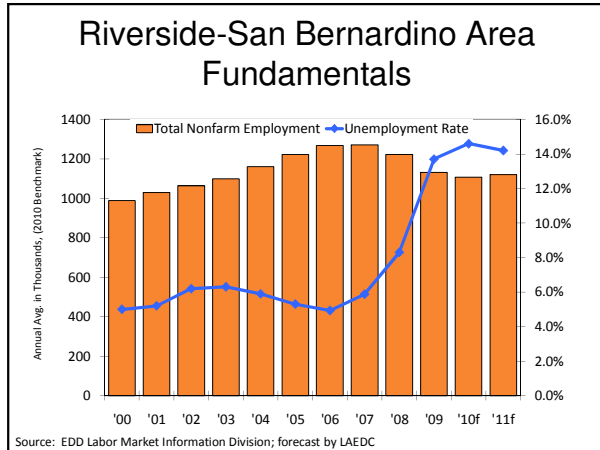
The region’s construction industry has been hit the hardest and the results show in the

employment figures. Construction employment in 2010 dropped by -14.8% from 2009, and was - 57% below the peak levels of June 2006. New industrial and office construction permits declined dramatically during the recession but 2010 saw slightly better activity. Nonresidential construction should continue to improve in 2011, but will remain well below peak levels reached prior to the recession.

Total nonfarm employment dropped by -31,900 jobs in 2010. After construction, the sectors that suffered the biggest job losses in the Inland Empire were wholesale and retail trade, state & local government, and manufacturing. All were impacted by the severe decline in employment, consumer spending, and the housing market.



The unemployment rate in the Inland Empire reached 14.5% in 2010 and is expected to drop to 14.1% by the end of this year. Persistently high unemployment has been really difficult for the Inland Empire to overcome and the results can be clearly seen, as retail sales have suffered. However, retail sales are expected to improve throughout 2012 as unemployment declines and personal income increases.

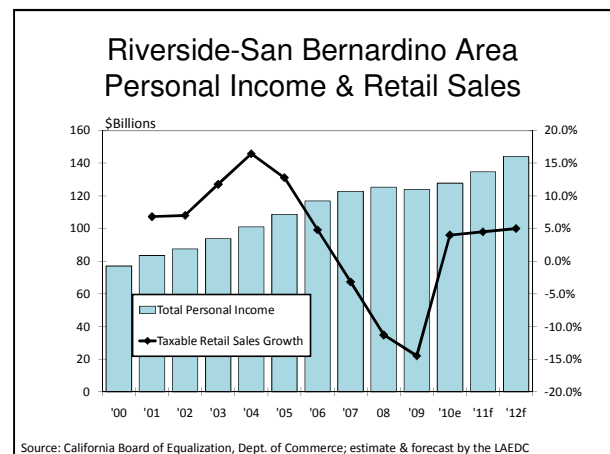


It is important to point out that the recovery in the Inland Empire will lag other parts of California and the U.S. as the area is attempting to come up out of a very deep hole. The good news is the dramatic declines seen in 2009 have ended and the area has begun the process of recovery. Still, the recovery in the Inland Empire will seem slow as unemployment and housing remain significant issues during the forecast period. Nonfarm employment is expected to remain stable in 2011 and then increase by +1.5% in 2012.

The stellar recovery at the twin ports had positive results for the Inland Empire’s transportation and wholesale trade sectors in 2010, particularly in the latter half of the year. The area will begin to see even more positive results in the coming months. The Inland Empire plays a pivotal role as a distribution center for many of the goods flowing through the ports of Long Beach and Los Angeles. World trade volumes rose by +16% in 2010 and are projected to increase by +6% to +7% in 2011. In fact, imports from Asia to the U.S. are expected to rise by nearly +8% in 2011. It is important to remember that over 40% of the U.S.’s imported containers come through the ports of LA and Long Beach and roughly 50% of these imports are bound for Southern California.

All of this will translate into positive results for the transportation and logistics sector in the Inland Empire.

The severe downturn of the Inland Empire economy brought migration into the area to a halt. Again, what formerly was a part of the Inland Empire’s competitive advantage has become a detriment to recovery. Rapid population growth, particularly from 1998-2008 was one of the key economic drivers for the area. However, the economic recovery in 2011 should end the declines in migration, leading demand for housing, retail and services to grow again albeit very slowly.



Eventually, the region’s competitive advantages will lead to a resurgence in economic activity. The availability of abundant undeveloped land had been the major economic driver propelling the area’s economic growth. The recession reversed that advantage as the downturn negatively impacted the industries that most rely on cheap land. However, the Inland Empire will recover strongly when new home construction, manufacturing, industrial development and logistics make a comeback. In the short-term, however, the only sector that will witness any real improvement is logistics and warehousing as



trade volumes continue to make a robust comeback.

Note also that the Inland Empire economy will undoubtedly perform well in the long run due to its position as the central hub for logistics related to international trade and as the area where the most significant population growth is expected. Then, the key advantages for the Inland Empire will once again be the affordability of housing, population growth and available low-cost land for additional warehouse construction. For the Inland Empire it is just a matter of time and patience, as the region is not expected to see the pre-recession glory days for at least three to four years.

### Positive Forces through 2011 and 2012

- **Housing affordability:** Although home prices have rebounded slightly, housing affordability is much greater than before the recession. Going forward, we expect housing in the area to remain extremely affordable relative to earlier years and to the rest of Southern California.
- **Goods Movement:** Trade volumes at the local ports have experienced an outstanding recovery. They are expected to grow again this year (albeit not as strongly) and into 2012. The projected levels will not match the records set in 2006 and 2007. However, the increase in activity will positively impact the Inland Empire warehouse and distribution system network.
- **Transportation projects:** Federal stimulus funds will boost infrastructure construction in the area and help create new jobs in the region's long suffering construction industry.

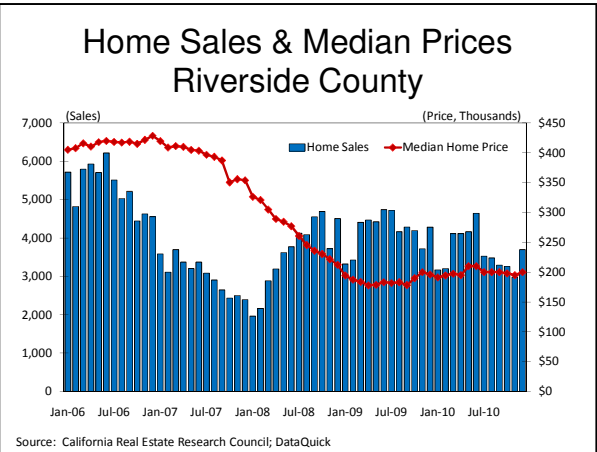
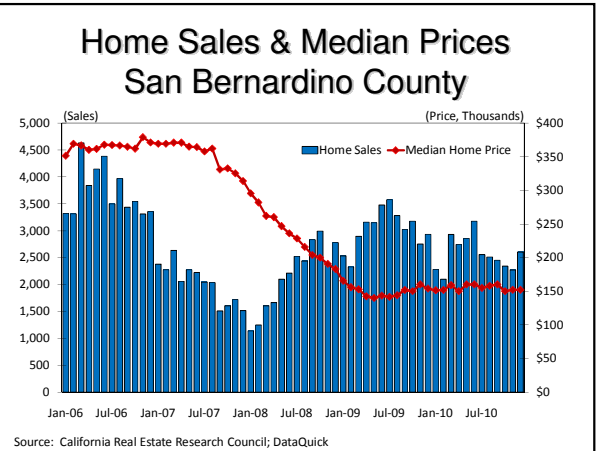
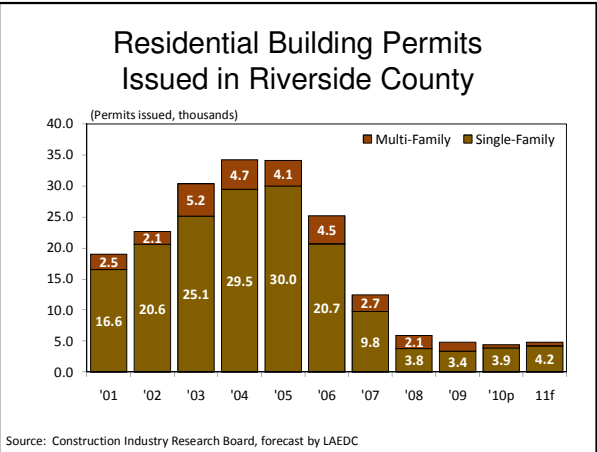
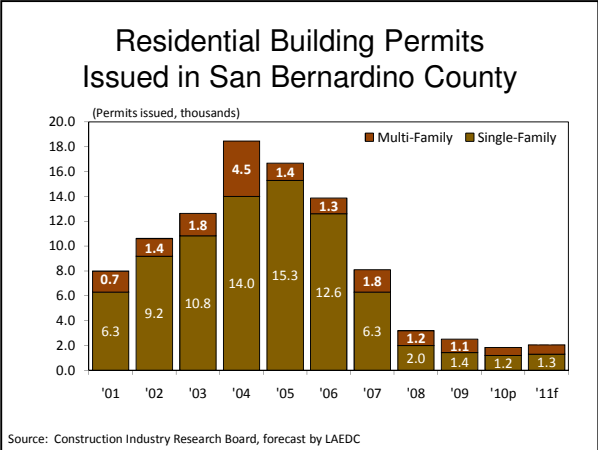
- **Healthcare and education sectors:** These were the only two areas that grew in 2009 and they experienced growth in 2010 as well. Expectations are for this trend to continue in 2011.
- **Tourism:** The leisure & hospitality sector lost -3,300 jobs in 2010. Tourism should begin to see a comeback this year as consumer spending and personal income increase.
- **Industrial Real Estate:** Skechers will complete a 1.8 million square-foot facility in Moreno Valley and Castle & Cook will move into its new 520,000 square-foot center in Riverside this year. Meanwhile, WinCo Foods is planning on building a two million-square foot facility in Beaumont. Also, the industrial vacancy rate in the Inland Empire, while high, did improve from 12.4% in 2009 to 10.0% in 2010.

### Negative Forces through 2011 and 2012

- **Housing:** High rates of defaults and foreclosures will still pressure home values this year. However, foreclosures may finally begin to slow down. The housing recovery is expected to continue in 2011 and 2012.
- **Unemployment:** The Inland Empire still has one of the nation's highest unemployment rates among urban areas. However, joblessness is expected to lessen somewhat in the coming months and in 2012.
- **State and Local Government sector:** Local governments will continue to face significant financial issues over the next few years as property and sales tax revenues decline. State and local government employment

declined in 2010 and should decline this year as well due to revenue constraints.

- **Problems in commercial real estate:** Office vacancy rates are still very high and will continue to be a concern this year and into 2012.
- **Water supply:** This remains a very critical long-term issue for the area.



**Table 16: Riverside-San Bernardino Area 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)	Housing Unit Permits Issued	Nonresidential Building Permits
2000	3,281.5	988.4	5.0	77,108	23,498	24,992	21,990	1,536
2001	3,392.6	1,029.7	5.2	83,538	24,624	26,699	27,541	1,423
2002	3,498.0	1,064.5	6.2	87,560	25,031	28,570	33,280	1,473
2003	3,631.0	1,099.2	6.3	93,702	25,806	31,936	43,001	1,720
2004	3,764.5	1,160.0	5.9	101,117	26,860	37,194	52,696	2,485
2005	3,895.3	1,222.0	5.3	108,599	27,880	41,960	50,818	2,394
2006	4,011.4	1,267.7	4.9	116,926	29,148	43,973	39,083	2,852
2007	4,100.5	1,270.9	5.9	122,811	29,950	42,578	20,457	2,824
2008	4,167.1	1,222.5	8.3	125,379	30,088	37,755	9,101	1,781
2009	4,191.9	1,131.9	13.7	124,004	29,582	32,281	6,685	710
2010e	4,245.7	1,100.0	14.5	127,724	30,083	33,572	6,269	782
2011f	4,300.9	1,100.0	14.1	134,749	31,331	35,083	6,900	838
2012f	4,356.8	1,116.5	13.4	144,181	33,094	36,834	11,025	1,000
<b>% Change</b>								
'01/'00	3.4%	4.2%		8.3%	4.8%	6.8%	25.2%	-7.4%
'02/'01	3.1%	3.4%		4.8%	1.7%	7.0%	20.8%	3.5%
'03/'02	3.8%	3.3%		7.0%	3.1%	11.8%	29.2%	16.8%
'04/'03	3.7%	5.5%		7.9%	4.1%	16.5%	22.5%	44.5%
'05/'04	3.5%	5.3%		7.4%	3.8%	12.8%	-3.6%	-3.7%
'06/'05	3.0%	3.7%		7.7%	4.5%	4.8%	-23.1%	19.1%
'07/'06	2.2%	0.3%		5.0%	2.8%	-3.2%	-47.7%	-1.0%
'08/'07	1.6%	-3.8%		2.1%	0.5%	-11.3%	-55.5%	-37.0%
'09/'08	0.6%	-7.4%		-1.6%	-1.7%	-14.5%	-26.5%	-60.1%
'10/'09	1.3%	-2.8%		3.0%	1.7%	4.0%	-6.2%	10.1%
'11/'10	1.3%	0.0%		5.5%	4.1%	4.5%	10.1%	7.2%
'12/'11	1.3%	1.5%		7.0%	5.6%	5.0%	59.8%	19.3%

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 17: Riverside-San Bernardino Area Nonfarm Employment**

(Annual average in thousands, March 2010 benchmark)

	Total Nonfarm		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade & Utilities	Transport.
	Payroll	Resources				Durable	Nondurable			
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	1,270.9	1.3	112.5	118.6	82.1	36.5	56.8	175.6	69.5	15.4
2008	1,222.5	1.2	90.5	107.0	72.6	34.4	55.1	168.0	70.2	14.8
2009	1,131.9	1.1	67.4	88.5	58.1	30.4	51.9	154.8	66.6	13.5
2010e	1,100.0	1.1	57.4	84.2	55.6	28.6	46.7	151.2	66.3	14.3
2011f	1,100.0	1.1	56.4	83.8	55.4	28.4	47.0	151.2	67.4	14.3
2012f	1,116.5	1.1	58.2	85.1	56.7	28.4	48.5	152.9	70.2	14.9

	Finance & Insurance	Rental & Leasing	Prof, Sci & Tech Svs	Mgmt. of Enterprises	Admin. & Support Svs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
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	222.5
2007	30.7	19.5	40.5	9.8	94.7	15.0	112.1	132.6	41.2	225.3
2008	27.8	18.5	40.1	9.9	86.7	15.8	115.9	130.1	40.9	230.0
2009	27.0	16.5	38.2	8.8	77.7	16.4	116.2	123.0	36.6	227.3
2010e	26.6	15.5	36.1	8.5	78.1	16.3	116.7	119.7	35.9	222.8
2011f	26.6	15.5	36.1	8.5	78.6	16.3	117.5	120.0	36.2	221.0
2012f	27.5	16.0	37.5	9.0	79.5	17.1	119.0	121.0	37.5	220.5

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

## VIII. OUTLOOK FOR VENTURA COUNTY

Ventura County’s economy was hit hard and early by the 2008-2009 recession, as employment declined between 2007 and 2010. In addition to the recession, several special ills afflicted the county including downsizings in the bio-medical sector, the fallout from financial industry mergers, and a slowdown in activity at Port Hueneme. However, the clouds have begun to lift. Ventura County is poised for a moderate recovery in 2011 and 2012.

### Positive forces through 2011 and 2012

- The county’s productive agriculture industry should continue to record good results, assuming the weather and water availability both cooperate.
- While there were problems in the bio-medical industry, overall employment in health care and social services continues to grow.
- The military presence at Port Hueneme, which includes a Navy Seabee operation and the Point Mugu Naval Air Station, lends stability to the area’s employment. Local vendors are also beneficiaries.
- Trends are improving at the Port of Hueneme, due to strong sales of Hyundai and Kia vehicles. Both brands are imported through the facility.

### Negative forces through 2011 into 2012

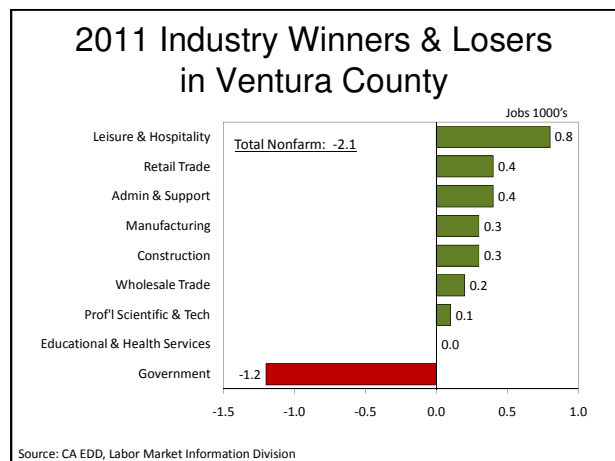
- New homebuilding has fallen to very low levels, with just 404 units permitted in 2009 and 592 more in 2010. The recent peak was 4,516 units in 2005. Improvement is expected

in coming years; still, the pain for the county’s construction contractors is quite real.

- Commercial real estate markets in the county have also been hammered, with the office vacancy rate in third quarter 2010 at 16.5%. This rate has exceeded 10% since the fourth quarter of 2007. These high vacancy rates primarily reflect the merger of Countrywide Financial into Bank of America. Industrial vacancy rates were also relatively high, 8.6% in the third quarter of 2010.

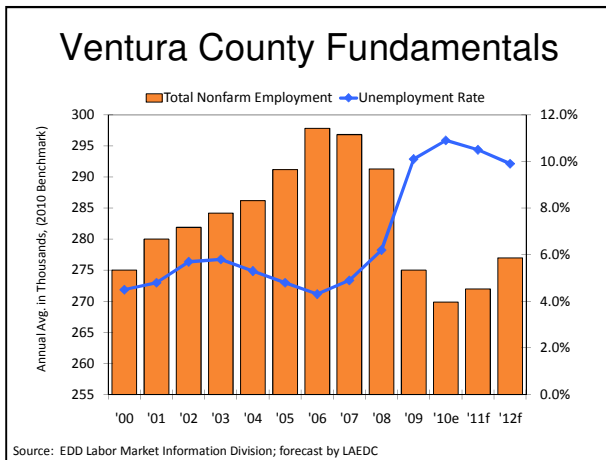
### Net results

Nonfarm employment in the county declined by -1.9% or by -5,100 jobs in 2010, the fourth consecutive annual decline in this important indicator. Employment will turn up in 2011, rising by +0.8% or +2,100 jobs. Leisure & hospitality will lead the way, adding +800 jobs, followed by retail trade, administrative & support services, and other services (each growing by +400 jobs). The largest employment losses during 2011 will come in government (-1,200 jobs), information and management of enterprises (-100 jobs each). Nonfarm employment in the County will move

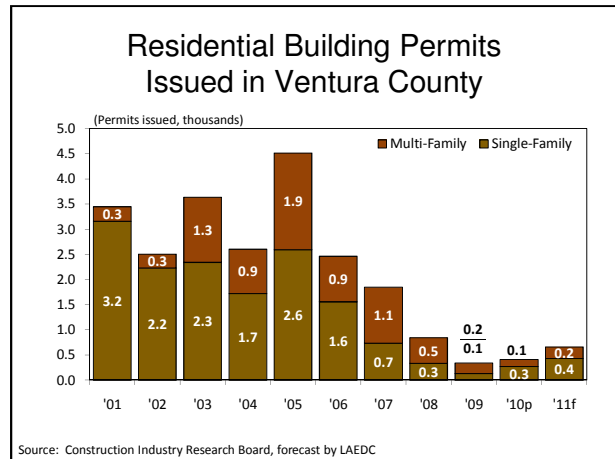


further into growth territory in 2012, rising by +1.9% or by +5,000 jobs. The largest increases during the year will come in retail trade (+1,700 jobs), construction (+1,000 jobs), and leisure & hospitality services (also +1,000 jobs). However, government and manufacturing will be in the negative column, losing -1,200 jobs and -500 jobs respectively.

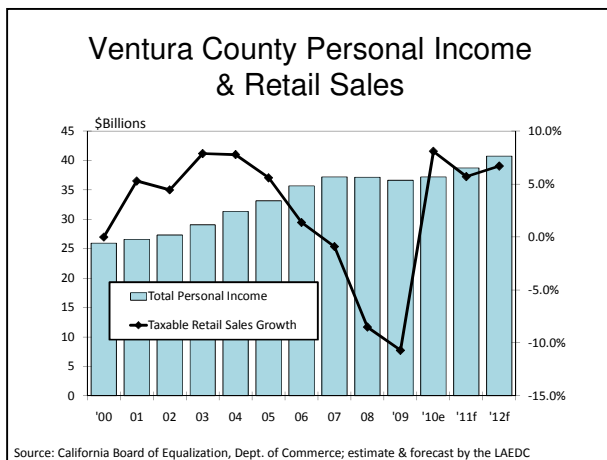
Retailing in the county also turned up in 2010, rising by +8.1% after three difficult years. Times will be better for area retailers in 2011 and 2012, with forecast increases of +5.7% and +6.7% respectively.



The county's unemployment rate has been running at very high levels, averaging 10.9% in 2010. For 2011, the rate will move down to average 10.5% and then ease down to an average of 9.9% in 2012.

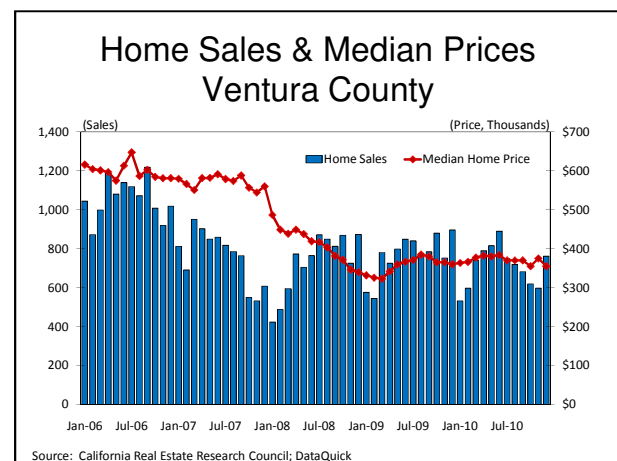


New homebuilding in the county started to recover (finally!) in 2010, with an increase of +46.5% in the number of units permitted. This figure certainly looks good, but the total was still low at 592 units. Growth will continue in 2011, to 660 units, and in 2012 (to 1,000 units). Times will remain difficult for construction related activities.



Personal income in Ventura County declined by -1.4% in 2009 before turning up by +1.5% in 2010. Income growth will accelerate in 2011, with an increase of +4.2%, and again in 2012 (+5.2%).

Nonresidential building permit values rose by +4.6% in 2010 after plunging by a horrific -55.7% decline in 2009. Improvement will continue, though slowly, in 2011 (+6.3%) and 2012 (+8.8%).



**Table 18: Ventura County 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)	Housing Unit Permits Issued	Nonresidential Building Permits
2000	758.7	275.0	4.5	25,945	34,196	6,504	3,971	282
2001	772.4	280.0	4.8	26,624	34,470	6,848	3,446	309
2002	787.0	281.8	5.7	27,345	34,745	7,153	2,507	289
2003	798.4	284.2	5.8	29,068	36,407	7,717	3,635	379
2004	806.4	286.2	5.4	31,334	38,857	8,317	2,603	353
2005	811.9	291.2	4.8	33,151	40,832	8,782	4,516	372
2006	817.8	297.7	4.3	35,706	43,662	8,902	2,461	326
2007	823.2	296.8	4.9	37,192	43,943	8,823	1,847	346
2008	832.7	291.3	6.2	37,185	44,657	8,076	842	345
2009	840.6	275.0	10.1	36,651	43,602	7,214	404	153
2010e	848.3	269.9	10.9	37,200	43,851	7,795	592	160
2011f	857.0	272.0	10.5	38,750	45,216	8,237	660	170
2012f	866.0	277.0	9.9	40,750	47,055	8,789	1,000	185

% Change								
'01/'00	1.8%	1.8%	0.8%	2.6%	0.8%	5.3%	-13.2%	9.6%
'02/'01	1.9%	0.7%	0.8%	2.7%	0.8%	4.5%	-27.2%	-6.5%
'03/'02	1.4%	0.9%	4.8%	6.3%	4.8%	7.9%	45.0%	31.1%
'04/'03	1.0%	0.7%	6.7%	7.8%	6.7%	7.8%	-28.4%	-6.9%
'05/'04	0.7%	1.7%	5.1%	5.8%	5.1%	5.6%	73.5%	5.4%
'06/'05	0.7%	2.3%	6.9%	7.7%	6.9%	1.4%	-45.5%	-12.4%
'07/'06	0.7%	-0.3%	0.6%	4.2%	0.6%	-0.9%	-24.9%	6.1%
'08/'07	1.2%	-1.9%	1.6%	0.0%	1.6%	-8.5%	-54.4%	-0.3%
'09/'08	1.0%	-5.6%	-2.4%	-1.4%	-2.4%	-10.7%	-52.0%	-55.7%
'10/'09	0.9%	-1.9%	0.6%	1.5%	0.6%	8.1%	46.5%	4.6%
'10/'11	1.0%	0.8%	3.1%	4.2%	3.1%	5.7%	11.5%	6.3%
'11/'12	1.1%	1.9%	4.1%	5.2%	4.1%	6.7%	51.5%	8.8%

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 19: Ventura County Nonfarm Employment**

(Annual averages in thousands, March 2010 benchmark)

	Total		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Nonfarm	275.0				Durable	Nondurable				
2000	275.0	0.7	15.4	41.1	27.7	13.4	10.3	33.6	5.6	7.9	
2001	280.0	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	296.8	1.1	18.8	38.0	23.9	14.1	13.0	37.6	6.1	5.8	
2008	291.3	1.2	16.7	35.9	23.2	12.7	12.8	37.3	6.0	5.6	
2009	275.0	1.2	13.3	32.6	20.5	12.2	12.1	34.7	5.3	5.2	
2010e	269.9	1.2	11.7	31.5	19.7	11.9	11.6	33.9	5.3	5.0	
2011f	272.0	1.2	12.0	31.8	19.8	12.0	11.8	34.3	5.6	4.9	
2012f	277.0	1.2	13.0	31.3	19.5	11.8	12.5	36.0	6.0	4.9	

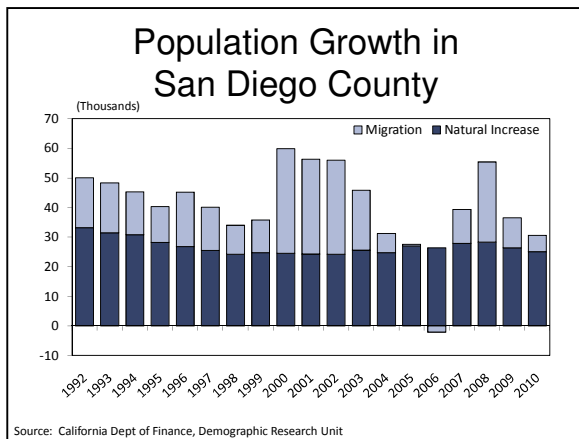
	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2001	15.5	4.2	13.8	3.4	20.0	7.1	18.2	26.6	9.6	45.1
2002	17.7	4.6	13.7	3.3	19.6	7.5	18.8	27.2	10.2	45.3
2003	19.2	4.3	13.6	3.9	19.4	7.8	19.8	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	7.8	19.7	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	7.9	20.4	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	17.9	4.8	16.2	3.2	18.9	8.9	21.6	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.6	9.3	22.5	31.5	10.0	43.1
2009	16.1	4.3	16.2	2.9	17.0	9.1	23.1	29.5	9.4	42.9
2010e	16.2	4.2	15.9	2.7	17.1	9.3	23.4	28.7	9.5	42.7
2011f	16.3	4.2	16.0	2.6	17.5	9.3	23.7	29.5	9.8	41.5
2012f	16.4	4.2	16.5	2.6	18.3	9.4	24.0	30.5	10.0	40.3

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



## IX. OUTLOOK FOR SAN DIEGO COUNTY

The outlook for San Diego County is a little brighter these days – the worst appears to be over. Employment is improving (if slowly), tourists are coming back and many of the county’s biggest industries are on the mend. San Diego County certainly shared the pain of the recession along with the rest of Southern California. Some sectors will continue to lag but the county’s core strengths - its diverse economy, desirable location and demographic profile – place San Diego on a solid footing for recovery.



### Positive Forces Through 2011-2012

Last fall, the Pentagon announced an initiative to cut back on **defense** spending, but until a new budget is passed, it’s hard to guess what the effect will be on the San Diego’s economy. Fortunately, the region is home to significant military commands and training centers. Defense dollars should continue to flow into the county.

General Dynamics NASSCO (the county’s major shipyard) plans to launch two navy cargo and ammunition ships (numbers 12 and 13 in the

series) this year and will begin work on number 14. Lockheed Martin Corp. announced plans to add jobs locally in 2011, and makers of unmanned aircraft, Northrop Grumman and General Atomics Aeronautical Systems Inc., are still working under multimillion-dollar government contracts. The Space and Naval Warfare Systems Command will also continue to hand out contracts to computer and electronics firms. Small specialty companies make up an important part of San Diego’s defense industry, especially in growth areas like cyber-warfare and information protection (i.e. systems that protect intelligence from hackers).

San Diego will feel the loss of the USS Nimitz this year. The county still has two other carriers and is slated to get a third in or after 2016. The Navy also has plans to increase its fleet of smaller ships in San Diego.

San Diego had a mini-building boom in 2010, thanks to the military (and Federal stimulus funds), which embarked on several base modernization projects. In 2011, work will commence on a \$451 million, 500,000 square-foot hospital planned for Camp Pendleton. Additional projects are in the works for other Marine Corps and Navy facilities, pending the passage of the new federal budget.

The **Manufacturing** sector will be adding jobs this year. San Diego County has the benefit of several innovative manufacturing clusters including communications, bio-fuels, genomics, energy storage, cyber-security and clean-tech (in the last five years, San Diego has attracted \$445 million in venture capital for clean tech). Navy cargo ships and drone aircraft are made in San Diego as well as electronic products for the

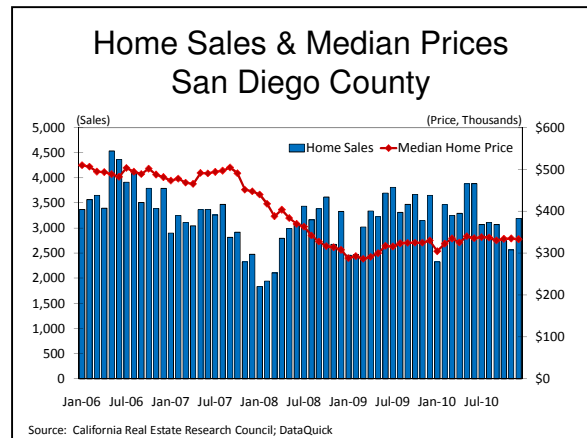
military, aviation and space. While no one sector dominates San Diego’s manufacturing landscape, the region is known for its technology base. Benefiting from an educated workforce (40% of San Diego’s adult population has a bachelor’s degree or higher), San Diego is a hub of research and innovation in biotechnology, communications and software development.

**Major Projects:** San Diego still has some significant projects in the works. The \$900 million Palomar Pomerado Health PMC West (hospital) project is scheduled for completion in 2012. Scripps Memorial Hospital in Encinitas is working on a \$200 million expansion project, while a new \$430 million cardiovascular institute (scheduled for completion in 2015) is part of a \$700 million renovation of the Scripps La Jolla campus. Several health care companies also have expansion or renovation projects planned for the near term. The industry is anticipating the release of pent up demand (delayed medical services) as employment improves, and additional demand from newly insured patients as a result of healthcare reform. Largest of all, the San Diego International Airport is working on a \$1 billion expansion and improvement project.

**Negative Forces Through 2011-2012**

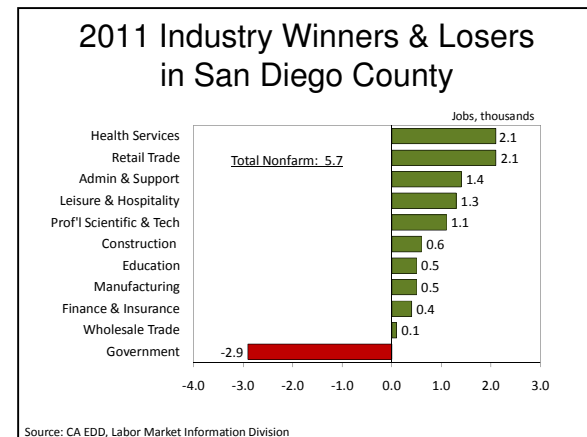
The **Financial Services** sector has improved but recovery has been unsteady and several local banks with a large number of commercial loans on their books are struggling. Bank consolidations resulting in job losses are possible. Two banks failed last year: La Jolla Banks (\$3.6 billion in assets) and 1<sup>st</sup> Pacific Bank of California (\$300 million in assets), bringing the total number of failed banks in San Diego County since the start of the recession to five.

**Residential real estate** appeared to be on the path of recovery during the first half of 2010, but the expected turnaround last year lost steam after the expiration of the government tax incentive program. Potential home buyers, anticipating falling prices are waiting it out – who wants to say they paid too much? Residential construction will remain at very low levels for this year as well.



**Net Results**

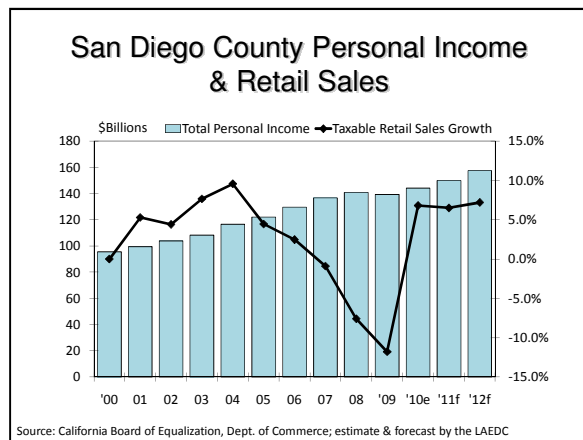
San Diego, along with the rest of Southern California will add jobs this year. Nonfarm employment in San Diego County is expected to increase by +0.5% or +5,700 jobs in 2011 after a -1.2% drop in 2010. In 2012, the employment



situation will improve further, though still at a moderate pace, with job counts increasing by +1.9%. The largest employment gains in 2011 will come from Health Care (+2,100 jobs), Retail (+2,100 jobs), Administrative & Support Services (+1,400 jobs), Leisure & Hospitality (+1,300 jobs) and Professional, Technical & Scientific Services (+1,100 jobs). The only sector that will not experience employment growth is state and local government, which could shed as many as -2,900 jobs this year.

The county's unemployment rate should average 10.3% in 2011 compared with the 2010 average of 10.6%. In 2012, the unemployment rate is expected to average 9.7%.

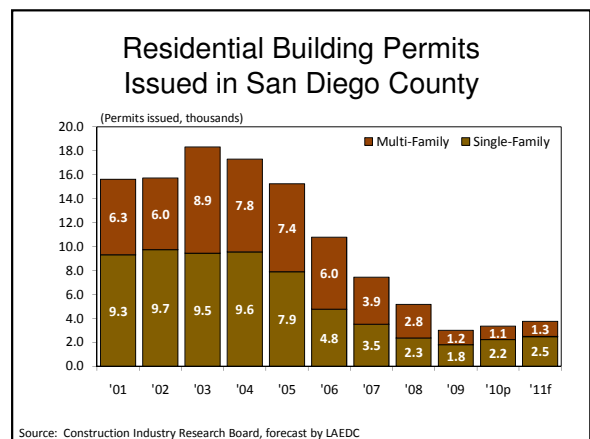
Personal income in San Diego County will increase by +4.0% in 2011. Per capita personal income should average \$45,810, up by +3.0% from 2010. The retail situation improved markedly in 2010, with taxable retail sales rising by an estimated +6.8%. In 2011, retail will continue to improve, climbing by +6.5% and in 2012 by 7.2%.



San Diego County's housing market continues to struggle, but we should see incremental gains this year. The number of housing units

permitted peaked back in 2003 at 18,315 units. In 2010, just 3,342 units were permitted. In 2011, residential construction should see an improvement, with 3,750 permits issued. Stronger growth will arrive in 2012 with a forecast of 5,675 new housing permits.

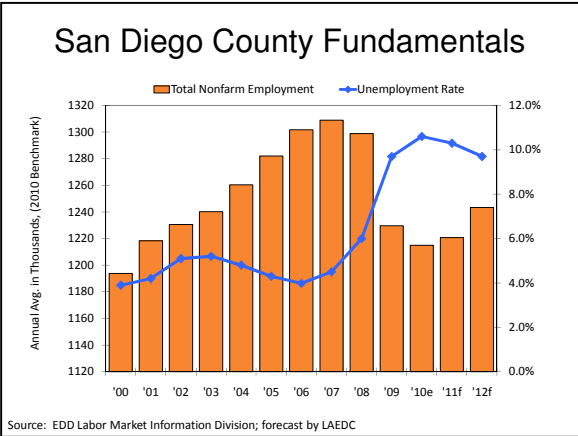
Even nonresidential construction is starting to look a little better. After tanking in 2009 when the value of new construction fell by -64% from the prerecession peak in 2006, nonresidential construction rose in 2010 by +12.8% to \$659 million in new permits and should move up by +8.5% in 2011 to \$715 million. Although office tenants are renewing leases, they are looking for ways to reduce their space requirements. Office vacancy rates in the County edged down to 19.4% during the fourth quarter of 2010. Tight credit conditions also continue to be a problem. Industrial space was less affected, but the vacancy rate in the fourth quarter of 2010 was still quite high at 11.9%.



The number of overnight visitors to the county will increase just a bit in 2011, rising by +2.6% to 15.5 million visitors. This compares with a recent high of 15.8 million in 2006. More visitors will help fill up hotel rooms, which in turn, will exert upward pressure on average

daily room rates. More conventions are being booked as well – 72 so far for 2011 versus 63 in 2010.

Two-way trade through the San Diego Customs District expanded rapidly in 2010 – increasing over the prior year by +16.7%. While international trade will continue to grow in 2011, the rate of growth will be less due to slower economic growth in many of San Diego’s major trading partners. In 2011, two-way trade should expand by +6.3% to \$54.6 billion.



**Table 20: San Diego County 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)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)	Chg. in CPI (%)
2000	2836.3	1193.8	3.9	95,507	33,673	25.0	35.0	15.2	15,927	1,391	5.8
2001	2892.5	1218.4	4.2	99,445	34,380	26.3	33.6	14.8	15,638	1,194	4.6
2002	2948.6	1230.7	5.1	103,817	35,209	27.4	35.7	15.0	15,738	1,169	3.5
2003	2994.3	1240.1	5.2	108,298	36,168	29.5	35.6	15.4	18,314	1,169	3.7
2004	3025.6	1260.3	4.8	116,646	38,554	32.3	39.4	15.7	17,306	1,288	3.7
2005	3053.2	1282.1	4.3	122,033	39,969	33.8	43.2	15.7	15,258	1,382	3.7
2006	3077.4	1301.6	4.0	129,585	42,109	34.6	50.5	15.8	10,777	1,622	3.4
2007	3116.8	1308.8	4.5	136,616	43,833	34.3	53.9	15.4	7,445	1,417	2.3
2008	3172.1	1298.7	6.0	140,847	44,401	31.7	53.4	15.2	5,154	1,062	3.9
2009	3208.7	1229.6	9.7	139,345	43,427	28.0	44.0	14.4	2,990	584	0.0
2010e	3239.2	1215.0	10.6	144,083	44,481	29.9	51.3	15.1	3,342	659	1.3
2011f	3272.2	1220.7	10.3	149,900	45,810	31.8	54.6	15.5	3,750	715	1.5
2012f	3304.9	1243.4	9.7	157,400	47,626	34.1	57.1	15.7	5,675	838	1.7

**% Change**

01/00	2.0%	2.1%	4.1%	2.1%	5.3%	-4.0%	-2.6%	-1.8%	-14.2%
02/01	1.9%	1.0%	4.4%	2.4%	4.4%	6.3%	1.4%	0.6%	-2.1%
03/02	1.6%	0.8%	4.3%	2.7%	7.7%	-0.5%	2.7%	16.4%	0.0%
04/03	1.0%	1.6%	7.7%	6.6%	9.6%	10.7%	1.9%	-5.5%	10.2%
05/04	0.9%	1.7%	4.6%	3.7%	4.4%	9.6%	0.0%	-11.8%	7.3%
06/05	0.8%	1.5%	6.2%	5.4%	2.5%	17.0%	0.6%	-29.4%	17.4%
07/06	1.3%	0.6%	5.4%	4.1%	-0.9%	6.7%	-2.5%	-30.9%	-12.6%
08/07	1.8%	-0.8%	3.1%	1.3%	-7.6%	-0.8%	-1.3%	-30.8%	-25.1%
09/08	1.2%	-5.3%	-1.1%	-2.2%	-11.8%	-17.7%	-5.3%	-42.0%	-45.0%
10/09	1.0%	-1.2%	3.4%	2.4%	6.8%	16.7%	4.9%	11.8%	12.8%
11/10	1.0%	0.5%	4.0%	3.0%	6.5%	6.3%	2.6%	12.2%	8.5%
12/11	1.0%	1.9%	5.0%	4.0%	7.2%	4.7%	1.3%	51.3%	17.2%

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

**Table 21: San Diego County Nonfarm Employment**

(Annual averages in thousands, March 2010 benchmark)

	Total Nonfarm		Construction	Manufacturing	Mfg. --		Retail Trade	Wholesale Trade	Transport. & Utilities	Information
	Payroll	Natural Resources			Durable	Mfg. -- Nondurable				
2000	1,193.8	0.3	69.7	122.6	92.2	30.4	133.8	39.1	29.8	39.2
2001	1,218.4	0.3	75.1	119.1	89.3	29.8	135.6	41.5	32.0	38.8
2002	1,230.7	0.3	76.4	112.4	84.7	27.7	138.0	41.3	29.3	37.7
2003	1,240.1	0.3	80.2	105.3	78.8	26.5	140.8	41.6	27.3	36.9
2004	1,260.3	0.4	87.7	104.3	78.1	26.2	144.9	41.9	28.4	36.6
2005	1,282.1	0.4	90.8	104.5	79.1	25.4	147.4	43.6	28.4	37.4
2006	1,301.6	0.5	92.7	103.9	78.4	25.5	148.3	45.1	28.7	37.3
2007	1,308.8	0.4	87.0	102.5	77.3	25.2	148.1	45.5	28.8	37.6
2008	1,298.7	0.4	76.1	102.8	78.1	24.7	142.0	44.9	29.0	38.5
2009	1,229.6	0.4	61.1	95.4	73.2	22.2	130.5	40.7	27.1	37.0
2010e	1,215.0	0.3	54.4	91.1	69.6	21.5	128.2	40.7	26.5	35.8
2011f	1,220.7	0.3	55.0	91.6	69.9	21.7	130.3	40.8	26.8	36.3
2012f	1,243.4	0.3	56.7	93.9	70.7	23.2	134.1	41.9	27.4	37.3

	Real Estate,			Admin. & Support			Health Care & Social Asst			Leisure & Hospitality			Other Services			Government
	Finance & Insurance	Rental & Leasing	Prof, Sci & Tech Svcs	Mgmt. of Enterprises	Srvs	Educational Services	Health Care & Social Asst	Hospitality	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	206.6					
2001	44.9	27.2	98.3	18.6	81.3	17.2	98.8	131.4	44.9	213.8	213.8					
2002	47.3	27.7	100.8	19.9	81.0	17.2	102.5	133.8	45.6	219.7	219.7					
2003	51.2	28.8	101.6	19.1	80.5	18.8	103.0	140.7	46.8	217.3	217.3					
2004	52.8	29.1	99.8	18.2	86.6	20.1	101.6	145.7	47.9	214.3	214.3					
2005	53.5	29.7	105.9	17.4	87.2	21.1	101.4	149.6	48.8	215.1	215.1					
2006	53.2	30.5	109.7	16.9	87.1	21.3	103.8	156.5	48.4	217.9	217.9					
2007	50.2	30.1	112.3	16.1	88.4	22.0	107.6	161.8	48.3	222.4	222.4					
2008	46.1	29.2	113.3	15.9	85.9	24.4	112.9	164.0	48.4	225.1	225.1					
2009	43.8	26.5	108.1	15.3	74.0	26.1	116.9	155.2	47.0	224.7	224.7					
2010e	42.8	25.4	106.7	15.0	76.0	26.4	119.4	153.6	46.9	222.8	222.8					
2011f	43.2	25.6	107.8	15.2	77.4	26.9	121.5	154.9	47.2	219.9	219.9					
2012f	44.1	26.2	110.2	15.6	79.0	27.7	125.3	158.5	48.2	216.9	216.9					

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

## X. MAJOR ECONOMIC DRIVERS OF THE SOUTHERN CALIFORNIA ECONOMY

An “economic driver” is an industry or sector that sells a significant portion of its goods or services outside the region, thus bringing new money into the Southern California economy. The region has a diverse array of drivers, and most were impacted by the great recession. Going forward, the pace of recovery among them will be quite uneven.

Performance ratings of the region’s largest drivers are presented in each LAEDC Forecast using a scale ranging from “A” to “D.” The scale is based on overall industry prospects and is not based on job growth or profitability.

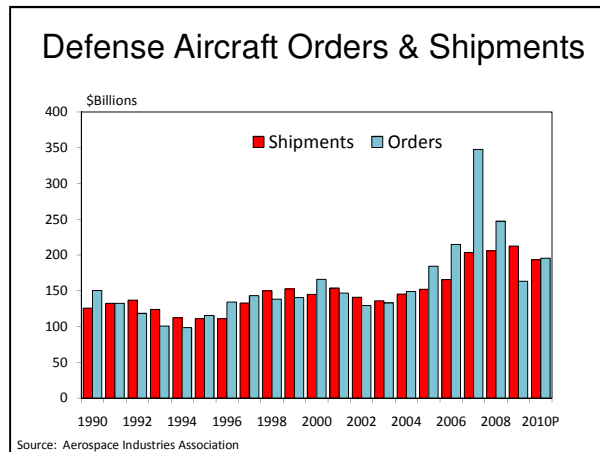
**Table 22: Performance Ratings of Major Industries**

Industry	Grade	Comments
Aerospace: defense	C	Defense Department & NASA are shifting priorities, watching costs. Some local programs under scrutiny; others may benefit.
Aerospace: commercial	B	Airline orders are up. Boeing & Airbus are ramping up production and orders to local subcontractors.
Apparel design & manufacturing	C-	More retail closures expected; consumers shopping a little more but still focused on value.
Business & professional mgmt. services	B/C-	Best prospects for advertising, M&A activity and regulatory experts (financial & health care)
Financial services	B+/C-	Fortunes of different financial sectors vary widely. Real estate problems linger. Business lending just starting to turn up. Investment related sectors strongest.
Goods Movement/International Trade	B+	Activity returns to near normal with prospects for more growth. Capacity expansions underway.
Health care services/Bio-med	C+	Growth continues; Southern California fundamentals are strong. Federal healthcare reform will have benefits, but also costs. Biomed funding is starting to grow again.
Motion picture/TV production	B	Industry is busy again - more filming in L.A.; tax credit is helping; big issue is how to earn revenues in the digital age
Technology	B	Business technology spending is on the rise; many new consumer products are a run-away hit
Tourism & travel	B+	Downtown convention center hotel opens; some new attractions at local theme parks; business and consumer travelers still cautious

## Aerospace

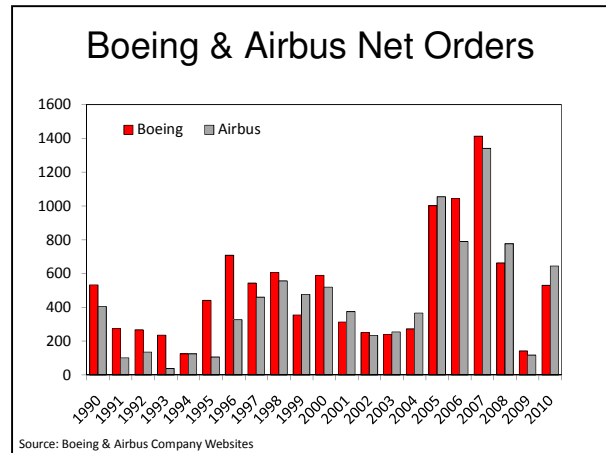
A change in defense priorities has created much uncertainty in the industry. The Defense Department (DoD) now wants the capability to fight simultaneously a number of smaller contingencies in different parts of the world (vs. two larger wars). The shift places a premium on flexibility and will impact the types and numbers of equipment to be procured.

Budget constraints add another layer of complexity. DoD spending is expected to grow only modestly in the future. The initial effort focuses on eliminating waste throughout the department's operations. Also, contractors have been put on notice the DoD simply will not accept equipment that performs below specification and costs too much.



Several programs of interest to Southern California are caught up in the uncertainty.

- DoD has stopped ordering more C-17 military air lifters, built by Boeing in Long Beach. Now that the build rate has been reduced, existing Air Force and foreign orders should keep the production line running into 2013.
- The F-35 fighter program has encountered significant budget over-runs and is on



notice to resolve these issues ASAP. A large amount of F-35 subcontracting takes place in Southern California.

- The F/A-18 has received more new orders due to the F-35 delays. The huge Northrop Grumman plant in El Segundo is a key subcontractor, assembling F-18 fuselages.
- Also on the plus side, interest is growing rapidly in unmanned aerial vehicles (UAVs). Several of these are being developed and produced in the region.

The Obama administration's decision to eliminate the space shuttle program in favor of using commercially built space vehicles has roiled NASA and key Congressional space program backers. Locally based SpaceX is an entrant in the commercial competition and has successfully tested a launch rocket to eventually take crews and cargo to the International Space Station.

A large amount of advanced R & D work is carried out in Southern California. Some of this activity is visible when, for example, tests are conducted at Edwards AFB but much is "black."

Many aerospace subcontractors in the region supplement their defense contracts with commercial work. Production was cut back when



airlines slashed orders during the recession. However, passenger and freight traffic is coming back, airlines are profitable, and new orders are once again coming in. Boeing and Airbus plan to produce and deliver more planes in 2011 and

likely will raise build rates of narrow-body models. Local subcontractors will get another boost in the form of bigger orders when Boeing finally wins approval to deliver its new 787 Dreamliner, now expected in late 2011.

**Table 23: Aerospace Employment**

County	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	38,100	38,300	37,400	35,400	-1.6%	0.5%	-2.3%	-5.3%
Orange County	10,900	11,400	10,600	9,800	-3.5%	4.6%	-7.0%	-7.5%
San Diego County	6,300	6,400	5,900	5,700	6.8%	1.6%	-7.8%	-3.4%

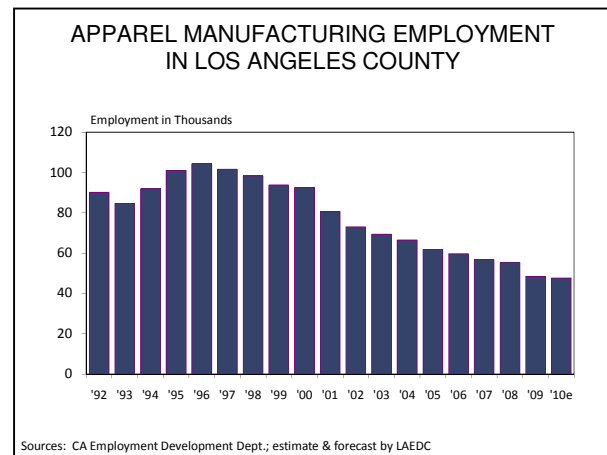
Sources: California Employment Development Department

## Apparel Design & Manufacturing

In spite of operating in a difficult environment, apparel design and manufacturing remains an important industry in Southern California (primarily Los Angeles and Orange counties) in terms of both revenues generated and the number of persons employed in the industry.

The Los Angeles apparel sector consists mostly of local firms employing designers to create cutting edge fashion, which is then produced in Asia or Central America and shipped back to the U.S. through the San Pedro Bay ports. Often, additional processing such as quality inspections and affixing labels takes place locally. There is also a substantial local manufacturing business in “Fast-Fashion” apparel – cutting edge looks that go from design studio to factory to store shelves in as little as four weeks.

There are several challenges for the local apparel industry, which is mainly small-to-medium sized



firms. First, there is the issue of undocumented workers. Immigrants occupy a large number of production positions (e.g. cut and sew jobs) in this industry. However, the immigration service has adopted a much harder stance regarding undocumented workers, which has impacted the workforce of some larger apparel manufacturers in the region. Another headache is that the U.S. Customs Service is checking the classification of

imported textiles more closely, which can bring unexpected costs and delays in shipments. What is considered to be “in style” changes so rapidly, apparel companies have to continually cycle new product through their supply chains, and delays can put a big dent in the bottom line.

Additionally, China, already an established powerhouse in apparel production, is developing a base of recognized designers offering a broad array of textiles which could present another challenge to the local industry.

On the retail side, things are looking up. Attendance at the various apparel markets held

in Los Angeles is growing, especially among international buyers. Shoppers have returned to the malls and retail sales at apparel shops have increased. However, rising cotton prices are a looming threat. Consumers remain price sensitive and may not yet be willing to accept higher prices for cotton apparel.

Employment in the major segments of this industry (manufacturing and wholesale) in Los Angeles County will continue to decline in both 2011 and 2012 as more production shifts overseas while design work, which employs a relatively small number of people, will increase.

**Table 24: Apparel & Textiles Employment**

Los Angeles County	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%Chg. '10/'09
Textiles Mills	9,600	9,100	7,700	6,900	-6.8%	-5.2%	-15.4%	-10.4%
Apparel Manufacturing	56,700	55,300	48,400	47,600	-4.9%	-2.5%	-12.5%	-1.7%
Apparel & Piece Goods Wholesaling	19,800	21,000	19,900	19,600	3.7%	6.1%	-5.2%	-1.5%
<b>Total</b>	<b>86,100</b>	<b>85,400</b>	<b>76,000</b>	<b>74,100</b>	<b>-3.30%</b>	<b>-0.8%</b>	<b>-11.0%</b>	<b>-2.5%</b>

Sources: California Employment Development Department

## Business & Professional Management Services

The outlook for this diverse sector ranges from good to getting better.

The advertising industry has perhaps the best prospects for growth in this sector in 2011. The recovery in advertising gained momentum during the second half of 2010 and is expected to pick up speed over the coming year. All together, ad spending rose by +6.4% nationwide during the first three quarters of 2010 compared with the same period in 2009. Television enjoyed the biggest jump in ad spending, posting an increase of +10.5%. While TV pulled ahead early, other media followed: internet display ads (+7.7%),

outdoor ads, (+7.3%) and free-standing inserts (+6.7%). Even magazine ads were up (+2.6%), but newspapers continued to lag behind (-2.9%). Looking at ad spending by product category, automobiles jumped by +23.7% (a lot of automobile commercials are filmed in Los Angeles!), while telecommunications, financial services and food also posted significant gains. Noteworthy for the local economy, four of the top ten advertisers by dollar volume own movie studios with facilities in the area: News Corporation, Time Warner, G.E. and Disney.

Mergers and acquisitions activity is growing alongside the economic recovery. As confidence returned, deal makers pulled out their check books in 2010. Companies reaping higher profits in the wake of the recession, make attractive targets. Many companies also managed to rake in piles of cash which makes more acquisitions feasible. Deal making has also been helped by gains in the U.S. stock market and cheap credit. The increase in M&A activity benefits everyone needed to complete a deal: accountants, lawyers, investment bankers, advisors and consultants (strategic, valuation, etc.). Last year marked the first annual gain in worldwide M&A activity since the financial crisis. Global dollar volume rose by +23.1% to \$2.4 trillion and in the U.S., merger volume rose by +14.2% to \$822 billion.<sup>1</sup> M&A activity is still well below the peak level reached in 2007, but there is a lot of activity in the pipeline and prospects for further growth are good.

As a result of the fall-out from the financial crisis, expect to see an increase in regulatory activity in Washington D.C. Financial reform and healthcare reform will keep flocks of lawyers, government agencies, public relations firms and more consultants busy while all the details surrounding these contentious issues are hammered out. Closer to home, figuring out how to implement AB32 (California's climate change bill), will keep their west coast counterparts active as well.

Commercial real estate is finally beginning to improve. New construction is moribund, but buying/selling activity is turning up and that benefits agents, brokers, lawyers, title companies – anyone involved in the mechanics of property transfer. Additionally, there is still a substantial amount of work to be done by firms handling property workouts or foreclosures.

Business conditions at architectural firms are also showing signs of improvement. Business was impacted by the downturns in housing and commercial real estate, but firms have reported increased billings for two consecutive months (November-December 2010) for the first time in three years. State, county and city work remain depressed, but there has been an uptick in university related projects (e.g. student housing) and requests for quotations are rising. Activity levels will remain volatile during 2011, but cautious optimism is making its way back into architectural firms' outlook.

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<sup>1</sup> Thomson Reuters

**Table 25: Business & Professional Management Services Employment**

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%Chg. '10/'09
<b>Los Angeles County</b>	163,400	157,500	145,400	142,184	4.5%	-3.6%	-7.7%	-2.2%
Legal Services	49,400	49,100	46,800	46,992	0.4%	-0.6%	-4.7%	0.4%
Accounting Services	49,600	41,500	38,400	37,717	6.9%	-16.3%	-7.5%	-1.8%
Architecture & Engineering	39,900	41,500	37,000	34,275	8.4%	4.0%	-10.8%	-7.4%
Advertising	24,500	25,400	23,200	23,200	2.1%	3.7%	-8.7%	0.0%
<b>Orange County</b>	51,200	51,500	48,100	46,450	3.0%	0.6%	-6.6%	-3.4%
Legal Services	14,400	14,300	15,100	15,325	0.7%	-0.7%	5.6%	1.5%
Accounting Services	12,600	13,200	12,500	12,067	4.1%	4.8%	-5.3%	-3.5%
Architecture & Engineering	24,200	24,000	20,500	19,058	3.9%	-0.8%	-14.6%	-7.0%
<b>San Diego county</b>	36,800	36,600	34,000	33,442	2.8%	-0.5%	-7.1%	-1.6%
Legal Services	12,700	12,500	12,200	11,925	2.4%	-1.6%	-2.4%	-2.3%
Architecture & Engineering	24,100	24,100	21,800	21,517	3.0%	0.0%	-9.5%	-1.3%

Sources: California Employment Development Department

## Financial Services

While 2010 was a year of recovery for some firms in the financial services industry, others are still feeling the sting of the 2008-2009 recession. Here's a rundown on the key Southern California sectors.

Community banks—and others with large real estate exposure—are still wrestling with high loan delinquency and foreclosure rates. They will need at least another year to work out these problems. In the meantime, few new loans are being made.

Delinquencies may have peaked at larger commercial banks, though they are not yet down to normal levels. Lending standards for new loans are stricter than they were before the recession. However, the volume of business lending is starting to rise again as banks search for new profit opportunities.

After drastic cutbacks in previous years, there could be some improvement in housing related financial services—mortgage banking, title companies, etc.—as housing industry activity expands.

Investment banking firms are gearing up again. Many financial and nonfinancial companies with access to the capital markets are taking advantage of currently favorable conditions to re-structure their financial positions. They are issuing new debt to lock in low rates for longer terms. New equity issues (IPOs) are showing up in greater numbers as stock prices rise.

Higher stock prices and still-low interest rates also have boosted the values of many investment portfolios. Investment managers in Southern California are enjoying higher fees.

A major uncertainty is how financial industry re-regulation will affect the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July,

2010, specified that a huge set of new rules be developed, which will affect many sectors of the industry. This process is just beginning. Stay tuned.

**Table 26: Financial Services Employment – Credit Intermediation & Related Services**

County	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	82,200	74,200	69,100	68,300	-3.2%	-9.7%	-6.9%	-1.2%
Orange County	44,900	34,000	32,300	32,500	-13.7%	-24.3%	-5.0%	0.6%
Riverside-San Bernardino Area	18,100	16,400	15,500	15,600	-4.7%	-9.4%	-5.5%	0.6%
San Diego County	24,600	20,700	19,500	18,900	-7.5%	-15.9%	-5.8%	-3.1%
Ventura County	9,800	8,600	8,400	8,300	-11.7%	-12.2%	-2.3%	-1.2%

Sources: California Employment Development Department

### Health Services/Bio-medical

Health care should continue to enjoy steady growth in the months ahead. Certainly the fundamentals look good. The Southern California population is growing, especially those over 65 years of age. This group consumes many more healthcare products—goods and services—than the rest of the population

Southern California hospitals have some significant construction programs underway, partly due to the state’s stricter seismic rules. Several are also increasing capacity to handle expected growth in the population. Carrying out such large programs can be a financial struggle, especially for smaller nonprofit hospitals.

How much health care reform (the Patient Protection and Affordable Care Act, enacted March 2010) will help the hospital industry is not certain. On the one hand, the coming expansion of the insured population suggests

that hospitals will have to cover less “uncompensated care,” especially for emergency room treatment. On the other hand, federal reimbursement rates are set to decline. Also, the new regulations, which have yet to be written, could boost costs or reduce revenues in other ways.

Beyond hospital walls, other health care providers continue to grapple with growth pains (and rising piles of paperwork). They too are sorting through the health care reform bill, trying to determine what it will mean to them.

On the bio-medical front, local pharmaceutical, biotech and medical device firms are focusing on drugs and vaccines to treat a variety of infections and diseases. However, this is not an industry for the impatient or the faint of heart. The time required to carry out the necessary research and testing and gain government approval to

market new drugs or devices is long, and many hurdles must be cleared. The FDA lately has insisted on more—and more complex—testing, delaying approvals even more.

Venture capital funding is finally beginning to loosen up after a long dry spell. However, VC's are most interested in placing funds with their existing companies and firms near the end of the R&D process. Startups must still seek out their own sources of “patient capital.”

Here too, the impact of healthcare reform is uncertain. A larger patient population will be beneficial to the area's biomed firms. However, a new manufacturers' excise tax (of 2.3%) will be imposed on most medical devices beginning in 2013.

Some major biomed firms are expanding in Orange County to take advantage of the local talent pool as well as to have quick access to LAX. An on-going challenge for Southern California's bio-med industry is that many of the area's innovative start-ups get taken over by larger companies and operations are often relocated.

**Table 27: Health Services Employment**

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%Chg. '10/'09
<b>Los Angeles County</b>	336,700	346,700	350,100	353,000	3.7%	3.0%	1.0%	0.8%
Ambulatory Health Care Services	160,400	165,800	166,100	168,400	2.6%	3.4%	0.2%	1.4%
Hospitals	107,200	110,100	112,600	113,100	0.3%	2.7%	2.3%	0.4%
Nursing Care Facilities	63,200	64,500	65,000	65,100	2.6%	2.1%	0.8%	0.2%
Pharmaceutical & Medicine Mfg.	5,900	6,300	6,400	6,500	---	6.8%	1.6%	1.6%
<b>Orange County</b>	107,700	112,600	113,100	114,300	3.6%	4.5%	0.4%	1.1%
Ambulatory Health Care Services	57,700	60,500	61,400	62,200	2.9%	4.9%	1.5%	1.3%
Hospitals	31,200	31,800	30,700	30,100	5.8%	1.9%	-3.5%	-2.0%
Nursing Care Facilities	18,800	20,300	21,000	21,300	2.2%	8.0%	3.4%	1.4%
<b>Riverside-San Bernardino Area</b>	97,800	101,400	102,000	103,000	3.3%	3.7%	0.6%	1.0%
Ambulatory Health Care Services	47,100	49,000	49,500	50,000	1.5%	4.0%	1.0%	1.0%
Hospitals	30,200	31,800	32,300	32,700	5.2%	5.3%	1.6%	1.2%
Nursing Care Facilities	20,500	20,600	20,200	20,300	4.6%	0.5%	-1.9%	0.5%
<b>San Diego County</b>	90,000	95,000	98,200	100,600	3.8%	5.6%	3.4%	2.4%
Ambulatory Health Care Services	46,200	48,200	48,900	50,800	3.1%	4.3%	1.5%	3.9%
Hospitals	24,500	25,400	26,300	26,500	2.1%	3.7%	3.5%	0.8%
Nursing Care Facilities	19,300	21,400	23,000	23,400	7.8%	10.9%	7.5%	1.7%

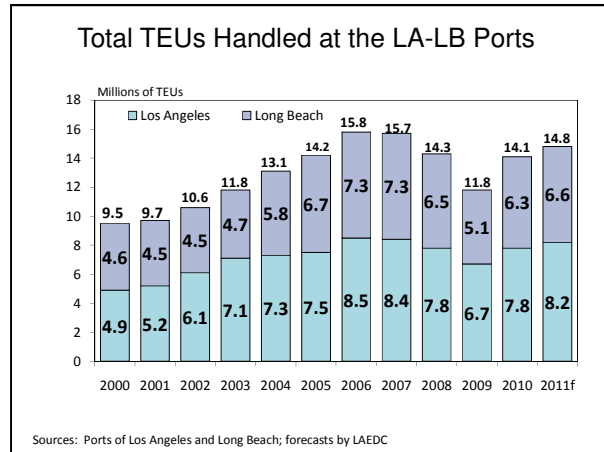
Sources: California Employment Development Department

## Goods Movement/International Trade

International trade is a key driver of goods movement in Southern California. The main components of this industry cluster include general freight trucking, marine cargo handling, air freight, shipping agents and logistics firms.

The 2010 trade figures for the Port of Los Angeles (POLA) and the Port of Long Beach (POLB) were outstanding for both imports and exports. As expected, rising imports contributed to the recovery in trade as U.S. manufacturers and retailers restocked inventories. In 2010, the two ports witnessed total containers climb by +19.3%, moving from 11.8 million containers in 2009 to 14.1 million containers in 2010. At the Port of Long Beach, import container volume (excluding empties) increased by +23.4%, while export volume (excluding empties) climbed by +15.6%. At the Port of Los Angeles, the figures were also impressive -- imports (including empties) grew by +14.4% and exports (including empties) by +17.9%.

Both local ports experienced record years in 2010. The Port of Long Beach had the largest single increase in total TEUs of any major port in the U.S. Total containerized cargo improved by +1.2 million TEUs in 2010. In total, the Port of Long Beach had a total of 6.3 million TEUs in 2010, a +25% jump when compared to 2009. This was the largest yearly gain in the Port of Long Beach's history. Meanwhile, the Port of Los Angeles witnessed the highest level of exports in its history during 2010. Exports totaled 1.84 million TEUs, surpassing the previous record of 1.78 million TEUs in 2008. Together the local ports had their biggest single-year increase in cargo in 25 years. To say that 2010 was a



remarkable year for both ports would not be an overstatement.

The POLA and POLB maintained their top two rankings in the U.S. measured by the number of containers handled during 2010. The Los Angeles Customs District (LACD) held on to its number one position in the U.S. in 2010 with two-way trade valued at \$317 billion (through November). The POLA remained the top port in the nation last year measured by total two-way trade (at \$218 billion through November), while the POLB maintained its top ten ranking with a value of \$80 billion.

The primary reasons for the strong rebound in trade last year were the rapid growth of many Asian economies and the turnaround in U.S. domestic demand. Over 40% of the nation's containerized imports come through the ports of Los Angeles and Long Beach. The outlook for 2011 is positive although global trade will expand at a slower pace. The Asian economies are once again expected to exhibit robust growth, which bodes well for trade volumes at the local ports. However, the Asian economies are not projected to see the growth rates they experienced last year as government stimulus programs end; still,

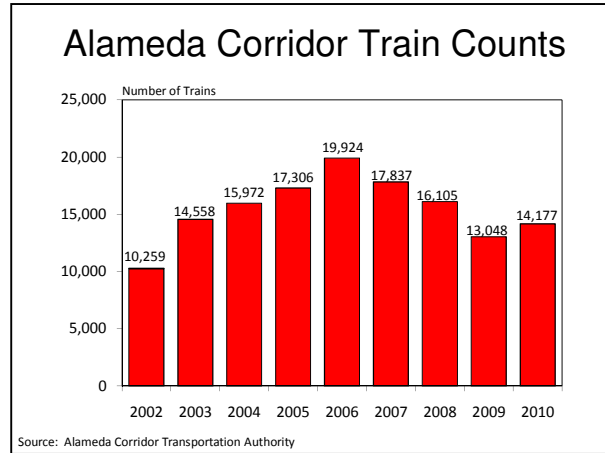
the LACD's top five trading partners are all projected to post growth rates higher than +4% with the exception of Japan.

The LAEDC forecast projects a deceleration in trade growth (particularly regarding U.S. imports) in 2011. The U.S. Dollar faces downward pressure and manufacturing and distribution inventory pipelines have been mostly refilled. However, U.S. exports could very well continue to strengthen particularly to emerging market nations.

The forecast for 2011 calls for a moderate increase in total trade volumes for both local ports. Total container traffic at the Port of Los Angeles and the Port of Long Beach is projected to expand in 2011 to 14.8 million TEUs, a rise of +5.0%. Both imports and exports should improve this year with exports possibly outperforming imports. The expected improvement in trade will positively impact both ports as well as all the other goods movement industry players, from the longshoremen's union to the independent truck drivers to the railroads.

**Alameda Corridor**

In recent years, the 20-mile rail cargo line that connects both ports to the main railroad yards near downtown Los Angeles experienced a downturn in activity. The number of trains running on the Alameda Corridor plunged by -34.5% between 2006 and 2009. In 2010, the number of trains increased by +8.6%. That figure should rise over this year and into 2012. The Alameda Corridor Transportation Authority (ACTA) did receive some discouraging news at the end of 2010 as Moody's Investors Services downgraded certain bonds at the same time the ACTA is attempting to refinance its debt.



**Major Projects**

Both ports are actively pursuing expansion projects. The Port of Los Angeles signed a memorandum of understanding in mid-2009 to deepen its main channel to 53 feet so the port can accommodate the larger container ships coming into the global shipping fleet. The project will create thousands of construction jobs in the near-term and more port jobs when the new ships start using the port.

The Middle Harbor at the Port of Long Beach: This 10-year project will upgrade terminals and more than double cargo capacity. It will generate as many as 1,000 construction jobs per year and an additional 14,000 jobs in the goods movement industry region wide. The project is also expected to cut air pollution by 50%.

A \$1.1 billion Gerald Desmond Bridge replacement project was approved by the California Transportation Commission in late November 2010 and is expected to take five years to complete.



The Port of Long Beach and the U.S. Army Corps of Engineers have begun work on a \$40 million project to deepen the Main Channel to allow for safer transit for the largest ships.

Federal economic stimulus funding for Southern California ports, highways and bridges is still working its way into the system and will further help alleviate capacity constraints.

### **The Big Questions**

For the goods movement sector, the two main questions going forward are: How well will the global economy perform in 2011? When will we see levels of trade return to the peak volume years of 2006-2007?

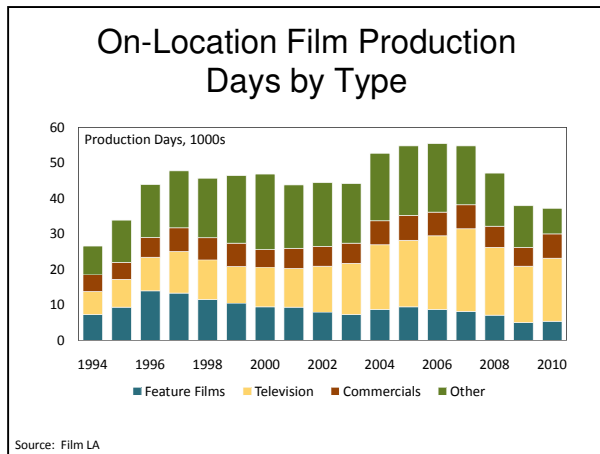
The pace of global economic recovery will slow somewhat in 2011. The recovery will continue to reflect two different economic stories. The developing economies (especially in Emerging Asia) will lead the global recovery, while the advanced economies will see modest improvements in GDP growth. The growth in Emerging Asia bodes well for trade volumes at the local ports. Overall, the results for 2011 should be quite healthy though below the growth that was experienced in 2010.

As to the second question that everyone wants answered, we did see an amazing improvement in trade volumes last year, which is a very encouraging development. Still, trade volume levels are not projected to return to the glory days of 2006 & 2007 until 2012/2013.

## Motion Picture/TV Production

Last year was a bit of a roller coaster ride for this industry. On-location film permits jumped by +16% in 2010 after declining by -23% the previous year. This was great news for motion picture and TV production which was hit hard during the recession by cut-backs in advertising, film production flight and studio belt-tightening. Feature film production permits rose by +8%, while TV show permits climbed by +12% and commercials shot up by +28%.

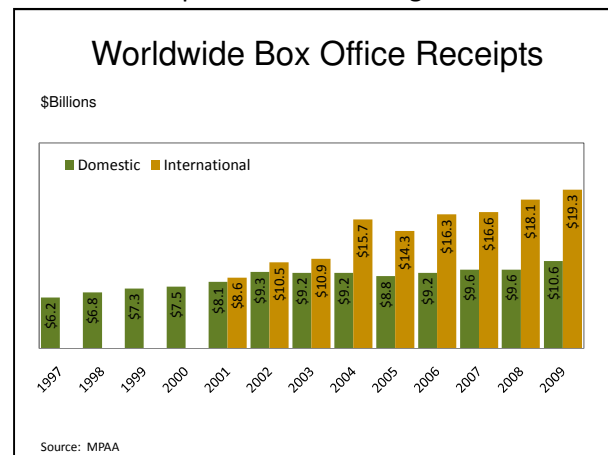
Employment in the industry started to rebound at the end of 2009 and in 2010, the motion picture and TV production sector added nearly 16,500 employees (+13.4%), making entertainment one of the county's fastest growing segments, in terms of employment.



The outward migration of film production was slowed by the state's program of film tax credits, which took effect in 2009. The state awarded \$300 million in tax credits to more than 100 projects during 2009/2010. The program provides a 20% to 25% tax credit on qualified production expenses that can be used to offset state income or sales tax liabilities. A number of cash-strapped states with film tax credit programs have been questioning the cost

effectiveness of these programs and some are scrapping them, which might reduce competition for local production.

Domestic box office receipts last year were nearly even with 2009's record \$10.6 billion, but that was only because of higher priced tickets for 3D movies (\$4 to \$5 or more per ticket). Movie theater attendance was actually down by -5% in 2010 and is expected to decline again in 2011.



Piracy is a growing threat to the industry. File sharing remains the primary source for pilfered content, but media companies have had some success cracking down on file sharing outfits. Advances in video on demand (VOD) technology are making it easier and faster to distribute pirated movies, TV shows and music. Streaming and downloading video to cyberlockers in particular, has led to an explosion in illicit websites offering black market content. Some of these sites are so sophisticated they appear to be legitimate to many users. Financial losses are hard to quantify, but it's safe to say foregone revenues are substantial. Piracy experts employed by the media companies and law enforcement officials will have their work cut out for them.

The entertainment industry also continued to see DVD sales decline. This is a major concern, as DVD sales were an important revenue source for the studios. With the rise of VOD, people are less inclined to purchase movies and are electing instead to rent or watch movies for free utilizing a variety of technologies. The issue of how much people are willing pay and how to charge for content is a contentious one, but no one has the answers yet. One thing is clear – entertainment companies are not immune from the same forces that have disrupted the music industry and newspaper publishing. The industry is scrambling to find a solution.

The slow pace of the economic recovery also had a profound impact on the entertainment industry. Last summer, for the first time, the number of pay-TV customers declined. While

one segment of the population can still afford to go out and buy the latest technology for content delivery, an increasing number of cost conscious individuals are making the choice to cut cable TV. Movie rental services like Red-Box and Netflix are making it easier and cheaper to rent movies. As a consequence, even though the number of transactions is growing, the revenues received by movie studios for rentals is falling. Additionally, as the use of Internet-connected TVs and portable devices becomes even more widespread, there could be a permanent shift in consumer behavior, with people preferring to stay home and watch movies. On the other hand, each new wave of technology has brought with it a lot of hand-wringing and forecasts of doom for the industry. Eventually, the industry adapts – stay tuned.

**Table 28: Motion Picture/TV Production Employment**

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%Chg. '10/'09
Los Angeles County	148,700	149,400	138,800	154,900	2.5%	0.5%	-7.1%	11.6%
Motion Picture & Sound Industries	129,200	130,000	120,500	136,983	2.5%	0.6%	-7.3%	13.7%
Broadcasting (radio, TV & cable)	19,500	19,400	18,300	17,917	2.1%	-0.5%	-5.7%	-2.1%

Sources: California Employment Development Department

## Technology

Business spending on technology made a strong come-back in 2010. Shipments for all three major types of PCs – desktops, notebooks and entry-level servers – were up over the previous year. Firms are still in a cost-cautious mood, but are willing to write a check for equipment that will improve efficiency. Network upgrades and data storage also have good prospects. Semiconductor sales were well up over the year and micro-chips are finding their way into products once considered decidedly low tech: football helmets with microprocessors that alert doctors if a player suffers an injury, athletic shoes that adjust cushioning to the wearer’s weight and running style, and pens with voice recorders for note-takers who cannot read their own writing.

Consumer markets are on the upswing as well. Even in tough times, people still have to have the latest and greatest gadget, whether it is the next generation smartphone, tablet computer, e-reader or Internet enabled TV. In the video gaming world, gaming consoles are losing popularity while online social gaming and the phenomenon of paying real money for virtual products is on the rise. Then, there are “apps”. It is estimated that 17 billion mobile applications will be downloaded worldwide from online stores this year, more than twice as many as in 2010. In the U.S., revenue from apps will jump to an estimated \$15.2 billion this year, almost triple last year’s figure.<sup>2</sup>

**Table 29: Technology Employment**

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%Chg. '10/'09
<b>Los Angeles County</b>	146,400	147,100	138,900	135,566	-1.2%	0.5%	-5.6%	-2.4%
Computer & Electronic Products Mfg.	55,700	54,400	51,200	49,842	-6.2%	-2.3%	-5.9%	-2.7%
Internet & Data Processing Services	5,600	5,700	5,200	5,283	0.0%	1.8%	-8.8%	1.6%
Computer Systems Design & Services	27,800	28,600	26,800	26,808	5.7%	2.9%	-6.3%	0.0%
Mgmt, Scientific & Technical Consulting	40,200	40,800	37,900	35,925	3.1%	1.5%	-7.1%	-5.2%
Scientific R&D Services	17,100	17,600	17,800	17,708	-4.5%	2.9%	1.1%	-0.5%
<b>Orange County</b>	79,000	76,700	70,600	69,584	1.0%	-2.9%	-8.0%	-1.4%
Computer & Electronic Products Mfg.	40,600	37,400	33,700	32,642	-3.6%	-7.9%	-9.9%	-3.1%
Computer Systems Design & Services	18,000	18,500	17,500	17,600	6.5%	2.8%	-5.4%	0.6%
Mgmt, Scientific & Technical Consulting	20,400	20,800	19,400	19,342	6.3%	2.0%	-6.7%	-0.3%
<b>San Diego County</b>	50,500	51,400	49,500	48,683	-0.4%	1.8%	-3.7%	-1.7%
Computer & Electronic Products Mfg.	26,000	26,800	26,200	25,083	-2.6%	3.1%	-2.2%	-4.3%
Scientific R&D Services	24,500	24,600	23,300	23,600	2.1%	0.4%	-5.3%	1.3%

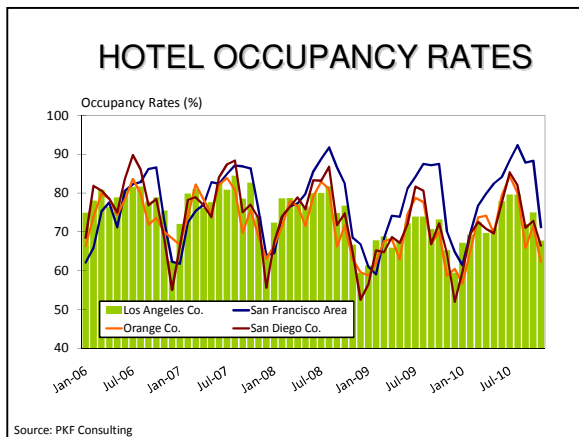
Sources: California Employment Development Department

<sup>2</sup> Gartner, Inc.

## Travel & Tourism

Tourism bounced back in 2010 providing a significant boost to the local economy. Travel and tourism is L.A.'s largest industry, employing thousands of people and generating billions of dollars in economic activity. Los Angeles County hosted a total of 25.7 million overnight visitors in 2010, which was up by +8.0% compared with 2009, and is close to 2007's peak of 25.9 million overnight visitors. Tourists and business travelers spent \$13.1 billion last year, an increase of +10.4% over 2009.

The ranks of international visitors surged by +20.7% to 5.5 million visitors in 2010, while spending by foreigners rose by +23.2% to \$4.6 billion. Australia topped the list of overseas visitors (who in total, account for 21% of total visits to Los Angeles County and one third of the spending), although Mexico and Canada beat out the overseas market. China and South Korea also saw significant growth in the number of tourists coming to Los Angeles.



Regarding the area's hotel industry, even the modest economic recovery helped raised occupancy rates in 2010. As employers' travel budget restraints were loosened, the number of business travelers increased. Also, more people decided to take vacations. Attendance at conventions was up in L.A. during 2010. Over the

next two years, we will see more conventions coming to the Los Angeles Convention Center. Hotel profitability measures are also gaining momentum. Revenue per available room (RevPAR) is on the rise and average daily room rates are beginning to inch up.

The outlook for the region's large tourist industry is looking brighter, but there are still concerns. One is the economic problems in Europe and the Euro's sharp decline in value against the U.S. dollar. This could hurt travel to Southern California from such key markets as Germany, the UK and France. Concerns over drug-related violence in Mexico has reduced demand for cruises to the "Mexican Riviera," prompting two cruise lines to remove ships from the Port of Los Angeles. Disney recently relocated a ship to Los Angeles, which will make up some of the shortfall.

Another concern is that hotels are still struggling financially, with more properties at risk despite growth in the number of visitors. Travelers are still focused on "deals," and continue to demand lower room rates, which is not good news for higher end properties. Mobile devices and social networks allow consumers to constantly receive targeted offers and siphon pricing power away from airlines and hotels. And, of course, there is always competition from other travel destinations like Hawaii, Florida and Las Vegas.

Countering these concerns are regional efforts to maintain L.A.'s position as a premier travel destination. The Tom Bradley International Terminal at LAX is undergoing a major face lift, that will make it more attractive and user-friendly for travelers. Local theme parks opened several new attractions last year including: "The World of Color" at Disney's California Adventure; King Kong in 3-D at Universal Studios Hollywood; a water park at Lego Land in San Diego; a new light show

at Knott’s Berry Farm; and a new family style roller coaster at Six Flags Magic Mountain. Coming this summer is the Cirque du Soleil show at the Kodak Theater in Hollywood, and Disney is

carrying out a major renovation of the Disneyland Hotel.

**Table 30: Tourism-centric Industries Employment**

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%Chg. '10/'09
<u>Los Angeles County</u>	52,300	52,600	48,000	47,625	7.4%	0.6%	-8.7%	-0.8%
Accommodation	40,300	41,200	38,600	38,592	3.1%	2.2%	-6.3%	0.0%
Travel Arrangement & Reservations	12,000	11,400	9,400	9,033	4.3%	-5.0%	-17.5%	-3.9%
<u>Orange County</u>								
Accommodation	23,100	23,700	22,900	23,925	3.1%	2.6%	-3.4%	4.5%
<u>Riverside-San Bernardino Area</u>								
Accommodation	17,400	16,400	14,700	14,008	-2.2%	-5.7%	-10.4%	-4.7%
<u>San Diego County</u>								
Accommodation	31,900	32,700	30,050	30,100	4.6%	2.5%	-8.1%	0.2%
<u>Ventura County</u>								
Accommodation	2,900	2,900	2,400	2,000	7.4%	0.0%	-17.2%	-16.7%

Sources: California Employment Development Department

# XI. OUTLOOK FOR CONSTRUCTION AND RETAILING

## Residential Real Estate

### New Home Building

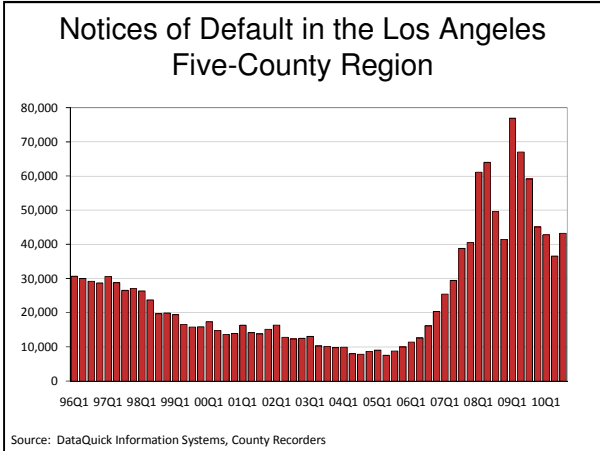
During the opening months of 2010, it looked as if the nation and California were finally on the verge of shrugging off the housing crisis. Builders’ unsold inventories were falling, and home price deflation showed signs of leveling off. Most industry watchers agreed the market had finally bottomed out, but the answer to the question, “How long will it take to climb back out?” remained anyone’s guess.

New home sales received a significant boost from the first-time home buyers’ tax credit. When the tax credit expired, the prompt drop-off in sales activity during May-June indicated the primary effect of the incentive was to pull sales forward – people who were already planning to purchase a home simply bought sooner to take advantage of the tax credit. What government incentives failed to do, was create new demand. Home prices rose early in 2010 as buyers rushed to take advantage of the tax incentive, but when sales fell back in line with market fundamentals, gains in median price slowed and ended the year barely above where they had been in 2009.

A big turn-around in 2010 was not on anyone’s radar screen, but there were hopes for a modest recovery by year end. That turned out not to be the case. While 2011 will bring some improvement, residential construction in Southern California is facing another difficult year.

The housing market continues to confront significant challenges on the demand side: a weak labor market, tighter bank underwriting

standards, conservative appraisals (likely to become even more so), and a run-up in mortgage interest rates. As if all that were not enough, foreclosure activity continues to push back the recovery horizon. Builders cannot compete with bargain-priced existing homes, many of which are foreclosures or short sales.



California had the third highest foreclosure rate in the nation (behind Nevada – 54% and Arizona – 47%) during the third quarter of 2010 (latest data available)<sup>3</sup>. Foreclosure re-sales, which had been falling in the state since hitting a high of 56.7%<sup>4</sup> of total home sales in February 2009, were stuck at nearly 35% for most of 2010. While fewer people appear to be entering foreclosure, banks are stepping up home repossessions.

At the height of the housing crisis lenders were overwhelmed by the number of borrowers who fell behind on their loans. Then, late last year issues with foreclosure documentation slowed

<sup>3</sup> RealtyTrac, Inc.

<sup>4</sup> DataQuick Information Systems

the process again. Although those issues have not been completely resolved, lenders are picking up the pace and with the low success rate of permanent mortgage modification programs, another wave of foreclosure sales is expected to wash across the region during the first half of 2011. At the same time, lenders will have to carefully manage their inventories of foreclosed homes to keep from flooding the market with too much supply and driving down prices even further.

**Table 31: Total Housing Permits**

	Los Angeles County	Orange County	Inland Empire	Ventura County	LA-5
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	<b>7,259</b>	6,410	13,151	1,372	<b>28,192</b>
1994	7,621	12,544	13,016	2,464	35,645
1995	8,405	8,300	10,899	2,166	29,770
1996	8,607	10,207	12,513	2,353	33,680
1997	10,424	12,251	15,377	2,316	40,368
1998	11,692	10,101	18,606	3,182	43,581
1999	14,383	12,348	21,651	4,442	52,824
2000	17,071	12,367	21,990	3,971	55,399
2001	18,253	8,646	27,541	3,446	57,886
2002	19,364	12,020	33,280	2,507	67,171
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	91,556
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,363	7,072	20,457	1,847	49,739
2008	13,704	3,159	9,101	842	26,806
2009	5,653	2,200	6,685	404	14,942
2010e	7,465	3,180	6,269	592	17,506
2011f	8,490	3,600	6,900	660	19,650
2012f	13,055	5,600	11,025	1,000	30,680

Sources: Construction Industry Research Board,  
Forecasts by LAEDC

The total number of home building permits in the Los Angeles five-county region has fallen steadily since 2004 (when 91,556 total units were permitted). During 2010, a total of 17,506 new residential construction permits were issued, an

increase of +17.2% compared with 2009, but a decline of -81% from 2004.

In Los Angeles County, total residential construction permits increased by +32.1% to 7,465 units in 2010. The latest cycle peak for new home construction in Los Angeles County was in 2004, when 26,935 units were permitted. Multi-family homes accounted for 68% of the permits issued last year, with single-family homes making up the remaining 32%. This mix of housing types has become the norm for Los Angeles County as the availability of open land for housing development has diminished.

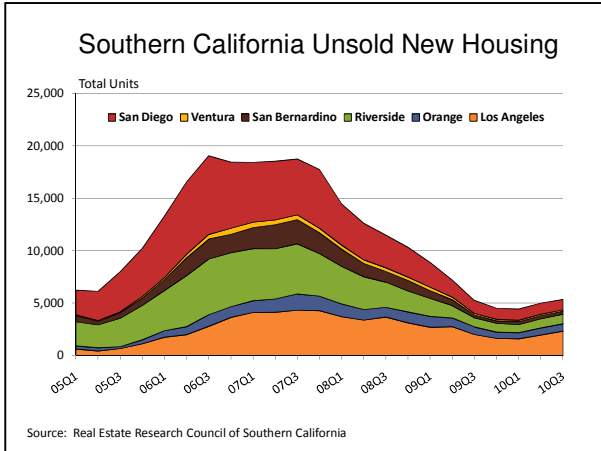
In Orange County, a total of 3,180 residential permits were issued in 2010, which was up by +44.5% compared with 2009, but was still down by -66% from prerecession peak levels (2004). Land availability is relatively low in Orange County and since 2004, multi-family units have accounted for the majority of residential construction permits issued in the county. Prior to 2004, it was primarily single-family homes that swept over the hills and valleys of Orange County. Last year, however, new home construction was nearly even between single- and multi-family housing. A large number of high rise condominiums and apartment buildings were constructed just prior to the collapse of the housing market and subsequently proved difficult to fill.

Alone among the regions of the Los Angeles five-county area, the Inland Empire posted a decline in new home permits in 2010, falling by -6.2% to 6,685 units last year and by a dismal -88% from the region's new homebuilding peak in 2004. However, San Bernardino County was responsible for the entire decline. Last year, only 1,844 new housing units were permitted in the county, which was down by -27% compared with 2009.



Riverside County, on the other hand, actually saw permits for new home construction increase by +5.6% to 4,425 units. Taken as a whole, single-family permits dominated in the Inland Empire, making up 76% of the total number of new housing units.

Compared with the rest of the region, less construction occurs in Ventura County. The lengthy permitting process and constraints on land available for residential development act as barriers to new construction. The lack of demand for homes at higher price points might also be affecting Ventura’s residential construction industry (median prices are relatively high compared with the rest of the Los Angeles five-county area). A total of 592 residential permits were issued during 2010, an increase of +46.5% from the previous year. Of the housing permits issued in 2010, 67% were for multi-family residences.



Less encouraging, builders’ levels of unsold new housing started to inch back up in the third quarter of 2010 (latest data available). Inventories in the third quarter of 2010 rose by +16.0% over the year in Los Angeles County, but edged down by -2.8% in Orange County (after

declining by double digit values in every quarter since 2q08). In Riverside County, the inventory of new unsold homes ticked up by +2.9% but in San Bernardino County, the number of unsold new homes jumped by +12.0%. In Ventura County, builders’ unsold inventories fell by -12.8%.

Taking the longer view, if we compare recent unsold new home inventories with their peak levels, things look far better. Los Angeles County inventories were down by -46.3% from peak (3q07); Orange County was down by -54.7% (3q07); Riverside County by -81.0% (3q06); San Bernardino County by -87.9% (3q07); and Ventura County by -70.5% (4q06).

**Resale Housing**

The California resale housing market began 2010 on a strong footing. Spurred by home buyer tax incentives, sales volumes and median prices posted healthy gains over the first half of the year. The second half of the year was a different story entirely. With the expiration of the tax credits, the housing market was forced to wean itself off government aid. The result was a decline in sales and smaller increases in median price. In 2010, existing home sales in California declined by -9.5% over the year, while the median price rose by +10.2%.

A comparison of median prices for existing single-family homes (2010 versus 2009) by county revealed that the median home price in Los Angeles County was \$346,840, up by +3.9% over the year. In Orange County, the median home price rose by +3.8% to \$495,210. Ventura County had a median price of \$442,820, an increase of +6.3% from a year ago. The Riverside-San Bernardino market posted the strongest gain

with the median price rising by +10.2% to \$187,000<sup>5</sup>.

**Table 32: Median Existing Single-Family Home Prices**

	LA	Orange	Riv-SB	Ventura
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
2009	333,920	477,240	169,680	416,770
2010	346,840	495,210	187,000	442,820

Annual % Change				
	LA	Orange	Riv-SB	Ventura
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%
2009	-17.0%	-10.5%	-27.6%	-10.1%
2010	3.9%	3.8%	10.2%	6.3%

Source: California Association of Realtors

Sales of foreclosed homes continue to make up a large percentage of home sales, especially in Southern California’s more affordable inland areas. Foreclosure activity has declined significantly from its peak in 2009, but remains at historically high levels and is largely responsible (along with the lack of financing for higher priced homes) for concentrating sales at the low end of the market. Still, sales of homes priced \$500,000

and above are starting to inch up. In December, sales of higher-end homes made up 21.1% of the total number of transactions for the month. In January 2009, only 13.7% of sales reached the \$500,000 price point<sup>6</sup>. The housing market will need to return to a more normal distribution of sales across all price points to restore it to a balanced condition.

Unsold inventories of resale homes, which had fallen dramatically in 2009 and during the first half of 2010, started to climb again. According to the California Association of Realtors, the unsold inventory in California represented a 5.0 month supply at December’s sales rates. This was up from 3.8 months in December 2009. While six months inventory is considered a balanced market and the region is still below peak levels in 2007/2006, this is not an indicator we want to see reverse direction.

In spite of rising prices, the resale housing market in Southern California is still a buyers’ market. However, that presupposes a potential first-time buyer possess a down payment, good credit, low debt levels and the confidence to buy a home. People that already own a home may likewise be prevented from moving up because they are not prepared to accept low prices from buyers expecting a discount or they are upside down on their current mortgage and cannot sell.

To date, rock bottom mortgage interest rates and good affordability have not been enough to entice buyers back to the market. Falling prices, a reflection of weak demand, and tight credit conditions reduce the number of potential buyers. What happens in 2011 will depend on how fast lenders work through their foreclosure files. Also needed are improvements in the labor

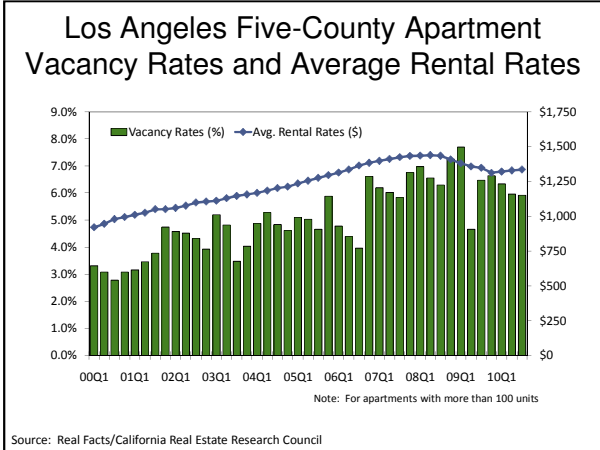
<sup>5</sup> California Association of Realtors

<sup>6</sup> DataQuick Information Systems

market and greater confidence on the part of potential buyers that the housing market, including prices, has stabilized.

**Apartments**

The apartment market made modest headway in 2010 in terms of lower vacancy rates (although improvement varied by region). Rental rates were down in the third quarter of 2010 compared with the same period in 2009, but made steady progress upward over the intervening four quarters.



The apartment vacancy rate in Los Angeles County was 6.1% compared to 5.6% a year ago. Apartment vacancy rates in Orange County averaged 5.3% (down from 6.6%). Riverside County also experienced a decline in vacancy rates for the year, from 7.4% to 7.1%. In San Bernardino, the rate declined to 5.6% (from 7.2%) and in Ventura County it dipped to 5.5% (from 5.6%).

Over the year to 3q2010, the average rental rate in the Los Angeles five-county region fell by just -0.9%. Rental rates in Los Angeles and Orange counties decreased by -0.4% and -2.0% respectively. Over the year, rents also fell in Riverside county (-2.3%) and San Bernardino

County (-1.9%), while in Ventura County the average apartment rent ticked up by +1.3%. The good news is the rate of decline slowed significantly in many areas. We can soon expect the other counties to follow Ventura’s lead.

Apartment fundamentals remained relatively healthy during the recession compared with the detached for-sale housing market, but demand for apartment units was affected by the affordability of detached housing and super low mortgage interest rates. Nonetheless, it is also the case that troubles in the labor market have culled the number of renters who can qualify for a mortgage loan and muster the necessary down payment. Moreover, the allure of owning a home has diminished over the past two years and, for many, renting appears to be the safer option.

Demand for apartment housing was also dampened by lenders, unable to sell foreclosed homes, renting them out, sometimes to former owners. Additionally, during the recession, we saw more young people continuing to live with their parents (or returning to their parent’s home), instead of striking out on their own. The high level of unemployment also had an impact on apartment demand, as tenants chose to double up to save money.

Multi-family construction has increased over the year. However, new construction is still at low levels, so when the labor market turns around, the apartment owners who managed to hang on through the recession will be in a good position. When vacancy rates were on the rise, apartment owners offered incentives to fill vacant units, creating still more competition and placing additional pressure on rents. Now that vacancy rates are starting to fall, apartment owners are beginning to scale back concessions.

Future demand is also driven by population growth. The next five years will see a large cohort of 25-30 year olds establishing new households. Renting is an attractive option for young people who often prefer to remain mobile and, having faced an unusually difficult job market during the recession, remain wary of taking on the burden of a mortgage.

Additionally, some people are also beginning to reevaluate the choice between purchasing a single-family home in a distant area for the sake of affordability versus long commutes to work. This shift in values, if it holds, will facilitate a move toward high density housing (i.e. multi-family housing) in centralized, transit friendly urban locations

### **Housing Forecast**

In 2010, the housing market continued to lag behind the rest of the economy. In spite of affordability returning to levels last seen before the pre-recession run-up in prices, and low mortgage interest rates, potential buyers have been unable to take advantage of what should be a favorable market. The hurdles buyers are facing include: negative equity on existing homes, higher down payment requirements, tougher underwriting standards and more stringent appraisals.

Government tax incentives helped to prop up the market for a time, but the decline in sales and prices after support was withdrawn served to demonstrate that tax incentives merely pulled demand forward and did not cure the housing market's fundamental problems.

Foreclosures will continue to be a major driver of sales in Southern California's distressed areas in

2011. Until that process plays out, the market outlook will remain uncertain. Job growth is essential to reducing foreclosures and delinquencies which, in turn will help stabilize prices – a necessary condition to lure discretionary buyers back to the market.

The LAEDC forecasts that a total of 19,650 new housing units will be permitted during 2011 in the five-county region, an increase of +17.2% from 2010, but still down by -81% from the 2004 level of 91,556 units.

Right now, the biggest risk to the housing market is if the pace of job growth fails to accelerate. Housing activity will improve in 2011, but will remain at low levels throughout the year. Demand for homes is weak and prices are falling again. Despite all of this, we are still expecting a modest rise in home sales and new home construction in 2011. We will have to wait for 2012 to see a more robust turn-around. Gains in 2011 will stem from improvements in the rest of the economy, particularly stronger job and income growth, increased household formation and better housing affordability.

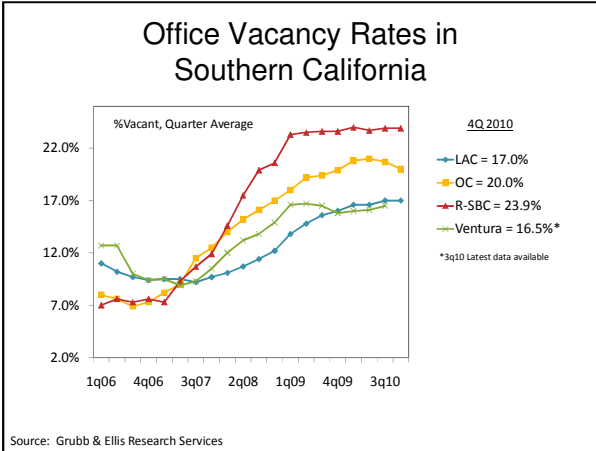
## **Nonresidential Real Estate**

### **Office Space**

The commercial real estate market was a mixed bag in 2010, but fundamentals for the major property types, including office space, showed signs of stabilizing. The good news is that leasing activity and sales are picking up. Demand for office space is up slightly (reflecting the modest uptick in hiring), but most of the activity is lease renewals, which often involve less space. While some firms remain cautious, signing short term leases to maintain flexibility, firms with stronger balance sheets are taking advantage of lower

rents and concessions to lock in longer term back in the market, but are looking mostly for prime quality, undervalued properties.

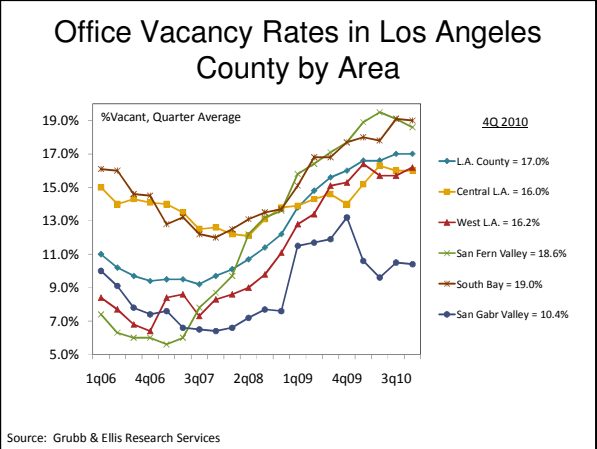
The market for office space in Los Angeles County was initially hit hard by the subprime crisis, and tenant losses were heavily weighted toward the financial services industry. Millions of square feet of office space were dumped onto the market by failed financial firms. As the financial crisis morphed into recession, other sectors of the economy experienced a drop in demand and gave up significant amounts of office space as they downsized or closed their doors altogether.



After six quarters of economic growth, Southern California’s office market appears to have hit bottom, but it remains very weak. Los Angeles County’s average office vacancy rate was 17.0% in the fourth quarter of 2010 compared with 16.0% during the fourth quarter of 2009 and was the highest office vacancy rate Los Angeles County has experienced since the end of 1996.

The San Gabriel Valley was the region’s best performer - it had the lowest office vacancy rate at the end of 2010, declining to 10.4% in the fourth quarter from 13.2% during the same period in 2009. The highest office vacancy rate occurred in the South Bay, which saw an increase

deals. Looking at sales, traditional buyers are from 17.7% at the end of 2009 to 19.0% at the close of 2010. Part of the area’s woes stem from Boeing having vacated nearly 300,000 square feet of office space in El Segundo last year.



The remaining sub-markets in Los Angeles County performed better, but just marginally. In the San Fernando Valley, the office vacancy rate was 18.6% in 4q10, up from 17.7% a year ago. On the Westside, the office vacancy rate was 16.2%, which was up from 15.3% in 4q09. The Central L.A. sub-region fared a bit bitter, posting a vacancy rate of 16.0% in 4q10, but that was up from 14.0% in the fourth quarter of 2009.

During the last quarter of 2010, Los Angeles County experienced its first quarter of positive net absorption (the net change in physically occupied space) since 2007. Still, it was not enough to end the year in positive territory. The county’s office market gave up 1.6 million more square feet space than was newly leased last year. The volume of new space under construction was 526,000 square feet, mainly in West Los Angeles.

On average, the county’s soft market for office space pushed Class A asking rents down slightly -

to \$2.99/SF in the fourth quarter compared with \$3.02/SF during the same period in 2009. Vacancy rates will remain elevated this year due to weak job growth and new speculative construction scheduled to be delivered in 2011. As a result, asking rents may touch bottom in 2011, but will not improve significantly over the year.

Increasing vacancy rates have not uniformly affected the rents among Los Angeles County's various communities. San Fernando Valley Class A asking rents dropped to \$2.39/SF in the fourth quarter of 2010, declining by -3.6% from a year ago, while South Bay rents rose to \$2.26/SF from \$2.21/SF (+2.3% over the year). In spite of losing some large tenants last year, the South Bay region (which includes Long Beach) is heavily dependent on port related activity and has benefited from last year's bounceback in international trade.

San Gabriel Valley asking rents declined by -2.0% to \$2.43/SF in the fourth quarter. Downtown rates fell to \$3.16/sf from \$3.21/sf (-1.6% over the year). Westside Class A asking rents dropped to \$3.68/SF in the fourth quarter, declining by -0.8% from a year ago.

One thing to note about asking rents is that while vacancy rates were climbing, many tenants sought concessions from landlords who were generally willing to go to great lengths to retain a tenant. As a result, effective rents are considerably lower than the published asking rates.

In Orange County, the average office vacancy rate was nearly unchanged from a year ago (edging up to 20.0% in 4q10 versus 19.9% in 4q09). More encouraging, the final quarter of 2010 was the second consecutive quarter in which the office

vacancy rate fell after rising in each the previous fifteen quarters.

There was no new office construction in Orange County in 2010 and although the county posted negative net absorption for the year, in the fourth quarter absorption turned positive – another hopeful sign of a market trough.

Orange County fared relatively well compared to its neighboring counties in terms of job losses. The unemployment rate is the lowest in the region and in September, Orange County began adding jobs – the first metro area in the state to begin doing so. Nonetheless, problem spots remain. Financial service firms are facing slower revenue growth and are starting to cut costs – primarily by cutting jobs. The county's mortgage lending industry is constrained by tighter lending standards and a frail housing market, and a large number of troubled commercial real estate loans are coming due.

As a consequence, while total employment may be on the rise, the kinds of white collar jobs that fill up office space will grow more slowly. The result is weak demand for office space and downward pressure on rents. By the end of 2010, Class A asking rents in Orange County declined by -7.6% over the year to \$2.19/SF. Tenants also received significant concessions from landlords in the form of free rent, tenant improvements, etc. that do not factor into the asking rate.

A modest upturn may be in store for the Orange County office market in late 2011, helped by the fact that no new space came on line last year. The LAEDC is also forecasting growth in white collar jobs, although it will take some time for companies to fill up existing empty cubicles before they start thinking about expanding.

In the Inland Empire, in the fourth quarter of 2010, the vacancy rate was 23.9%, up just slightly from the same period in 2009 (23.6%). Rental rates fell by -5.2% to \$2.02/SF in the fourth quarter of 2010 compared with \$2.13 during the same period in 2009. Over the year in 2010, total net absorption was negative 52,741 square feet.

Most leasing activity was generated by industries linked to population growth – law firms, medical-related, and for-profit education. Still, many firms continue to operate with minimal staff and even though the employment situation will improve in 2011, there will be a lag between job growth and office space demand.

Though no new construction is in the pipeline, the market remains saturated from speculative projects started prior to the real estate bust. Companies wishing to locate in the Inland Empire have their choice of Class A properties to choose from at discounted rental rates. Even assuming the economy is running at full employment, it has been estimated the Inland Empire has a seven-year supply of office space on hand.<sup>7</sup>

Across Southern California, leasing activity is expected to remain rather flat and rents soft through much of 2011. By year end, we can expect to see more signs of recovery taking hold in areas with stronger job growth. Genuine recovery in the office market will depend on a sustained upswing in the economy to convince firms to start hiring again. Companies will start slow – filling up existing space and exhausting ways to fit more workers into less space – before they look to expand.

For the time being, the office market is tilted in favor of tenants – high rates of space availability

encourage renters to trade up or to demand greater concessions from landlords who desperately want to keep buildings occupied.

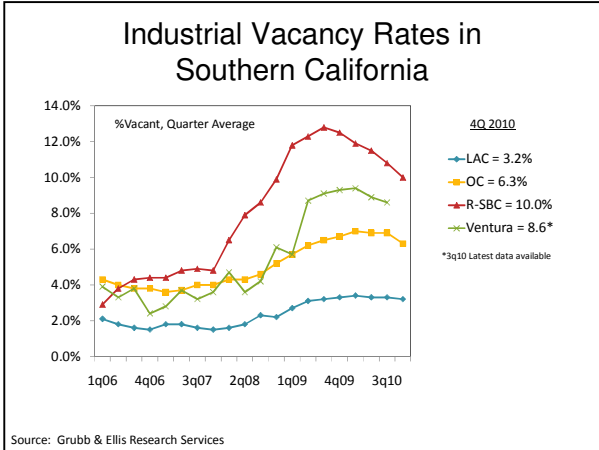
During 2010, office building permits valued at \$223 million were issued in the five-county region. The value of new office construction dropped by -6.3% from 2009's already low levels, which were off by -67.7% from 2008. Los Angeles accounted for 32% by valuation of office building permits issued in the five-county region last year, compared with 81% during 2009. Orange County accounted for a 44% share, up from 2% in 2009. The Inland Empire's share was 22% and Ventura County held a 2% share.

### Industrial Space

Southern California is a major center for manufacturing, international trade and logistics, and entertainment (think of sound stages!). Los Angeles County is the nation's largest manufacturing center and is home to its biggest port complex. When the recession hit, however, manufacturing employment and trade volumes were decimated. As consumer demand evaporated, and companies were left with unwanted product on the shelf, orders to overseas suppliers dried up and trade plummeted. As economic recovery began to take hold (especially in developing Asia) in late 2009, companies rushed to restock inventories that had been allowed to run down during the recession. Exports picked up in response to more robust growth overseas, and as the recovery at home gained traction, domestic demand perked up, leading to an unexpectedly large bounceback in international trade.

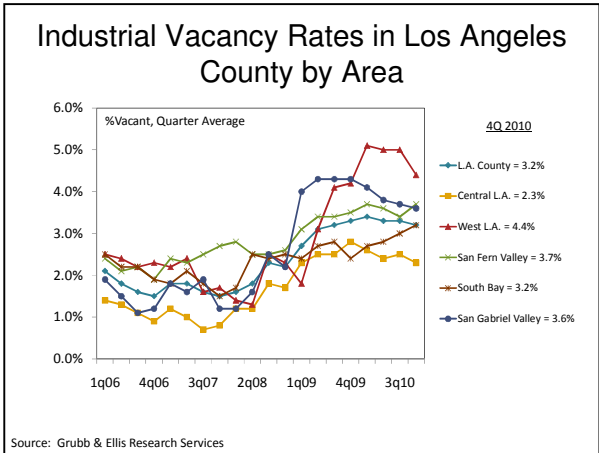
The area's manufacturing and logistics industries, both of which are major users of industrial space, improved much quicker than expected. All things

<sup>7</sup> 2011 Forecast: Southern California, Grubb & Ellis (2010)



considered, the market for industrial property in Los Angeles held up remarkably well. At the close of 2010, the Los Angeles County average industrial vacancy rate was 3.2% (the lowest industrial vacancy rate in the nation); down from 3.3% a year ago.

Although depressed trade volumes at the port and weak consumer demand have contributed to declining industrial property values and lower asking rents, the county has been able to meet the challenge from a position of relative strength. Due to a shortage of land available for new development, Los Angeles did not go through the cycle of overbuilding that occurred in neighboring counties. Demand for industrial space increased over the year in 2010, and net absorption for the year was positive.



Increased leasing activity has helped stabilize vacancy rates, but there is still downward pressure on asking rents. Prospective tenants have become more aggressive in their lease negotiations, and leases are taking longer to close. Landlords have been forced to concentrate on maintaining occupancy rates as opposed to holding out for higher rents. Over the year, the average asking rent for industrial space in Los Angeles County fell by -7.4% to \$0.54/sf.

Industrial vacancies in Los Angeles County ended 2010 at relatively low levels, but the extent and depth of the recession hurt commercial real estate markets badly. Long one of the tightest submarkets in the region, Central Los Angeles experienced a significant decline in its average industrial vacancy rate during the last quarter of 2010. It fell to 2.3% compared with 2.8% a year ago. Central Los Angeles has the benefit of a diversified tenant base, including small manufacturing firms and wholesale merchandise warehouses. Industrial markets elsewhere in the county also remained tight during 4q10:

- The Mid-Cities submarket had the highest vacancy rate at 4.4% versus 4.2% a year ago.
- In the San Fernando Valley, supply constraints and a healthy mix of unique small scale manufacturing and warehousing firms helped the area maintain a low vacancy rate (3.7% in 4q10 versus 3.5% in 4q09).
- The San Gabriel Valley saw its industrial vacancy rate decline to 3.6% during last quarter of 2010 from 4.3% a year earlier.
- The South Bay submarket has strong ties to the San Pedro Bay ports and is a prime location for logistics companies. While the



vacancy rate in the fourth quarter of 2010 (3.2%) was a six-year high, the South Bay submarket remains one of the strongest in the nation.

Orange County's industrial real estate market also showed signs of improvement, ending the year with a 6.3% vacancy rate, down from 6.7% a year ago and down from a peak of 7.0% during the first quarter of 2010. No new space is currently under construction (although about 121,000 square feet was delivered earlier in 2010). Led by activity in warehousing and distribution, net absorption turned positive in 2010. There is a general feeling that we are seeing the bottom of this market.

Still, demand for industrial space has not yet caught up with supply and asking rents have declined accordingly. Recovery in Orange County, as elsewhere, will depend on job growth (particularly in the county's technology and bio-medical sectors) and stronger consumer demand.

As industrial space dwindled in Los Angeles and Orange Counties during the first half of the decade, an increasing number of 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 deteriorated markedly during the recession as the housing crisis unfolded, unemployment soared and trade related activity declined. The market was flooded with new space built by speculators just as businesses were downsizing or closing up altogether.

The latest numbers show the Inland Empire Market may be turning around. The fourth

quarter vacancy rate was 10.0%, which was high compared to pre-recession levels, but down from 12.5% during the same period last year. Net absorption was positive and new construction is build-to-suit only.

Last year, two trends were prevalent in the Inland Empire's industrial real estate market. One was companies seeking to streamline operating costs and consolidating rather than expanding. Second, several firms moved into the area to take advantage of low rents and the availability of big-box space. During 2010, 87 direct leases or user-sale transactions occurred for space in excess of 100,000 square feet – five of those leases were for space in excess of 500,000 square feet.<sup>8</sup> In all of 2009, there were only 55 transactions for space in excess of 100,000 square feet.

The rebound in international trade and strong growth in retail sales have pushed the Inland Empire industrial real estate market out of the trough. Asking rents are at record lows (\$0.31/SF versus \$0.33/SF a year ago), but are expected to stabilize in mid-2011 and slowly begin to improve, especially as the supply of buildings in excess of 100,000 square feet tapers off.

During 2010, industrial building permits valued at just \$110 million were issued in the five-county region. The value of industrial permits slid by -1.8% compared with 2009 (which at \$112 million was hardly a banner year). Los Angeles accounted for 45% of 2010 permits by valuation; the Inland Empire had a 26% share; Orange County had 21% and Ventura County held a 7% share.

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<sup>8</sup>Industrial Trends Report: Inland Empire, Grubb & Ellis (4Q10)

## Forecast for Private Nonresidential Construction

Total private nonresidential construction in the five-county region increased to \$4.7 billion in 2010, up by +4.2% compared with 2009. Activity will continue to grow in 2011, with a forecast total permit value of \$5.0 billion (+7.1%). Contributing to expected growth in 2011, will be improvements in the labor market and a coincident rise in consumer confidence, stronger retail sales and robust growth in international trade.

Positive growth factors aside, the regional commercial real estate market still has a long way to go to regain ground lost during the recession. Businesses are reluctant to commit to new construction while the economic outlook remains uncertain. Real estate lenders and investors are just as leery. Thus, credit markets remain tight and it is not yet clear when funds will begin to flow more freely.

Many projects have been delayed or cancelled outright. With high vacancy rates and depressed property prices, and given the slow rate of economic recovery, some developers could face difficulties rolling over existing loans. Large regional and small community banks alike have built up large concentrations of commercial real estate loans, and delinquencies are high. An outgrowth of this trend is builders looking to private equity to finance new projects.

Private nonresidential building permit values in Los Angeles County declined by -3% in 2010 (a marked improvement over 2009's -41% decline) but will turn the corner in 2011, rising by +4.1%.

Orange County's total construction activity value increased by nearly +20% in 2010 and is forecast to expand by +14% in 2011. The Riverside-San Bernardino area's total nonresidential building permit values climbed by +10% in 2010 and will rise again in 2011 by +7%. Ventura County's total nonresidential construction permit values increased by +4% in 2010 and are forecast to grow by +6% in 2011.

For the most part, office space development will be restrained in all five counties of the Southern California region. Most companies have ceased shedding employees but they are still in a wait-and-see stance regarding new hires. Office vacancy rates around the region should be stable in 2011 and begin to decline in some areas as the employment situation improves. Average rents will continue to soften in response to the oversupply of space and tenant demand for concessions, especially in Orange County and the Inland Empire. Companies considering expansion will have plenty of prime Class A space to choose from and favorable asking rents.

The outlook for industrial space development, especially in the tight markets of Los Angeles and Orange counties, is much improved. International trade and to a lesser extent, manufacturing, continue to lead the region's economic recovery and will eventually require more industrial space as the nation and its major trading partners recover. When the construction recovery finally comes, the Inland Empire will again see most of the new industrial construction activity, but land is getting scarce in the western end of the region. Development activity will spread east along I-10 or go north over the Cajon Pass to the High Desert.

**Table 33: Office Building Permits Issued**  
(In millions of dollars)

	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
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
2009	192	5	27	8	6
2010p	72	98	41	7	5

**Table 34: Industrial Permits Issued**  
(In millions of dollars)

	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
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	57
2009	40	0	12	34	26
2010p	50	23	7	22	8

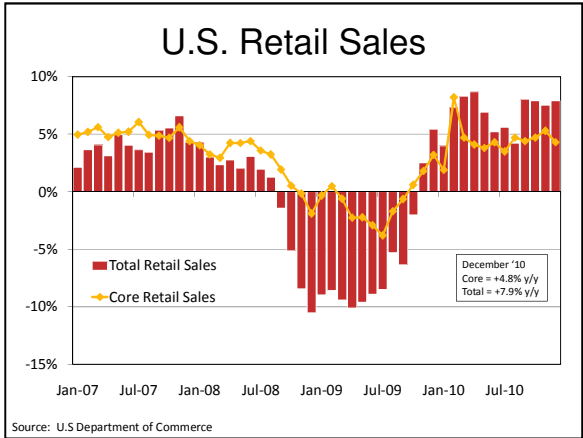
**Table 35: Retail Building Permits Issued**  
(In millions of dollars)

	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
1995	209	101	113	149	57
1996	322	136	101	100	43
1997	272	210	203	109	31
1998	368	155	175	158	49
1999	408	217	170	181	101
2000	447	223	316	132	23
2001	434	207	191	178	48
2002	459	194	231	163	81
2003	356	78	231	225	55
2004	484	118	406	176	90
2005	552	133	345	232	69
2006	482	178	372	294	54
2007	493	319	388	351	50
2008	469	132	317	243	63
2009	222	65	56	34	16
2010p	263	54	126	27	35

Source: Construction Industry Resource Board

### Retailing

U.S. retail sales reached a significant milestone in 2010. December retail sales climbed above the prerecession peak reached in November 2007. It seems the retail sector has recovered, at least at the national level.



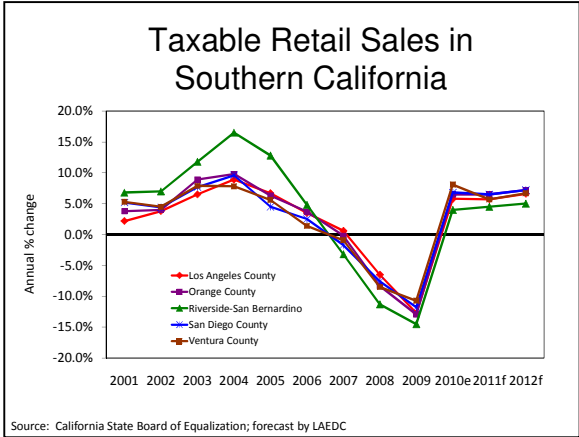
In recessions past, consumer spending could be relied upon to kick start recovery early on – this time, things were different. The financial crisis brought with it a severe contraction in credit availability and decimated household retirement savings accounts. The bursting of the housing market bubble sent home values plummeting, wiping out equity and a handy source of cash. High unemployment and a stagnant labor market left millions of households with severely reduced incomes. Debt-burdened consumers set to work repairing household balance sheets, and by 2009, the nation’s personal saving rate jumped to 5.9%. Although the saving rate slipped a bit in 2010 (to 5.8%), it was still high by recent historical standards.

The result was a swift and steep decline in retail sales beginning in late 2008 and lasting through the third quarter of 2009. During that time, total personal income fell by -2.3%. During the

third quarter of 2009, personal income reversed course, and in 2010, personal income increased by +3.0. Consumer spending started to ramp up and retail sales followed suit, posting a year-over-year gain in October 2009 for the first time after fourteen consecutive monthly declines.

As 2010 progressed, even though the unemployment rate remained elevated, people who still had jobs started to feel more secure about hanging on to them. American consumers decided maybe it was okay to go out and replace an aging appliance, upgrade a computer or to treat themselves to some trendy new clothes. They were enticed back to malls and shops by retailers offering deep discounts (although this put the squeeze on retailer profits and hurt share prices). Newly cost-conscious consumers flocked to discount retailers, many of which not only weathered the downturn, but thrived and are now expanding. Even department stores and teen chains, two retail sectors among the hardest hit during the recession, are growing again.

Retailers are also adapting to the post-recession environment where consumers, at least in the short term, will remain focused on necessary rather than discretionary purchases. Pop-up stores proved to be a big success during the holiday season with their focus on value and region-specific product selection. Large discounters like Target and Wal-Mart turned their attention to urban consumers, expanding into densely populated city centers and opening smaller stores. After standing empty for a year or two, empty big box spaces are filling up. Last year saw multiple bids for the huge spaces vacated by Mervyn’s and Circuit City. Retail chains like Kohl’s, Forever 21 and TJ Maxx that



appeal to bargain conscious shoppers have taken over much of that empty space. Health clubs have also taken advantage of the prime locations and low lease rates offered for these spaces.

Mirroring the rebound in other commercial property sectors, leasing and occupancy of malls and shopping centers is improving. As the economy improves and adds jobs in 2011, more consumers will open their wallets and demand for retail space will increase. In Los Angeles County, the retail vacancy rate in 2010 was 6.2% versus 6.3% in 2009. The Orange County retail vacancy rate was 6.6% in 2010, up from 6.3% the previous year, and in the Inland Empire it was 11.7%, down marginally from 11.8% in 2009. Permits for new retail construction in the five-county region totaled \$505 million in 2010, which was up by +28% over 2009, but down by -69% compared with 2008. The bankruptcies and store closings of 2009 have largely subsided. Surviving retailers are taking advantage of discounted asking rental rates and/or moving into more desirable space vacated by retailers unable to weather the storm. In 2011, retailers will continue to focus on tailoring store offerings to regional demand, streamlining inventory orders and maximizing store-space efficiency.

**Sales Trends**

Southern California retail sales resumed growing through 2010 after precipitous declines in 2009. While high unemployment is weighing heavily on consumer confidence, jobs are beginning to return, albeit at a slow pace. Retail sales in most areas bottomed out in the spring or summer of 2009 and rebounded in 2010. As unemployment rates begin to fall later this year and through 2012, consumer confidence will bounce back, and the retail industry will enjoy healthy gains.

The local retail scene demonstrated its expectations for a rosier future over the past year. Combined, the 25 largest shopping centers in Los Angeles County house a total of 4,000 stores and 29 million square feet of leasable space. Malls are bustling again – nearly 52% of retail spending still takes place in shopping centers. Several of the region’s large shopping centers embarked on a series of renovations to lure shoppers back in greater numbers. Los Cerritos Center opened a larger Nordstrom’s store and 36,400 square feet of new stores. In January, the mall also opened an 86,000 square foot Forever 21 that took over a former Mervyn’s spot. The Culver City Mall got a \$180 million renovation and last summer the “new” Santa Monica Place opened with a total estimated project cost of \$265 million. Local retail development reflects a growing trend toward renovation and redevelopment as opposed to new building, with a focus on creating a space that functions as a modern-day town square.

The LAEDC is forecasting moderate increases in taxable retail sales that will range from +6.5% in Orange and San Diego counties to 4.5% in The Inland Empire. Los Angeles and Ventura

counties are both expected to see an increase of +5.7% in retail sales in 2011. The key risk to the forecast is higher prices for food and energy (particularly gasoline) in 2011. Food and

gasoline demand is relatively inelastic - people have to fill up their tanks to get to work and put food on the table. Discretionary retail purchases could suffer as a result.

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## XII. WRAPPING IT UP

The economic recovery is underway:

- At many businesses, sales are growing again though not for all. While many industries are back in the black, some still have problems, construction and commercial real estate, for example.
- Employment is rising in some areas. Others will follow later in 2011.
- Unemployment rates will begin their descent from current lofty levels in 2011.
- Budget problems of state and local governments will constrain the recovery. Spending cuts hurt vendors as well as employees. Raising taxes merely shifts the burden to taxpayers in general. Even here, though, sales tax and income tax revenues are growing, which is certainly better than the alternative.

As recovery spreads in Southern California, expect economic news to shift from “mixed” to “good” and sometimes “better”. More areas will see employment rise – currently, only Orange and San Diego counties have posted employment gains. More industries will be hiring – right now the sectors adding the most jobs are international trade and goods movement, entertainment and tourism. Unemployment rates will also start to decline –

we are already seeing it happening in Orange County.

It is time to turn our attention back toward improving the economic landscape. The Los Angeles County Strategic Plan for Economic Development lays out five goals to ensure the region’s economy will prosper after the recovery is completed:

- Prepare an educated workforce
- Create a business-friendly environment
- Enhance our quality of life
- Implement smart land use
- Build 21<sup>st</sup> century infrastructure

We must recognize that economic development requires a comprehensive plan and long term planning. It is more than attracting a new retail development for the sales tax revenue. Manufacturing and wholesale trade/logistics generate a lot of sales tax revenue as well as creating good jobs. Land must be set aside for job creation and workers must be trained.

All local cities and counties need to work together more effectively to grow the region’s economic base. Southern California has the tools and resources necessary to create a bright future, but we need to be more strategic in our thinking and work together.



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