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

2008-2009 MID-YEAR UPDATE
ECONOMIC FORECAST
AND INDUSTRY OUTLOOK

JULY 2008

LAEDC

2008-2009 Economic Forecast and Industry Outlook: Mid-Year Update

for California & Southern California
including the National & International Setting

The Headlines

- California economy on the brink
- Continued drag from housing and financial services
- Slo-o-o-w recovery into 2009

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July 2008

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

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

Since 1996, the LAEDC has helped retain or attract more than 145,646 jobs, providing $6.3 billion in direct economic impact from salaries and more than $105 million in tax revenue benefit to local governments and education in Los Angeles County.

Regional Leadership

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

Business Services

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

Economic Information

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

Economic Consulting

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

Leveraging our Leadership

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

Global Connections

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

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LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

July 16, 2008

Good Morning Ladies & Gentlemen:

The Los Angeles County Economic Development Corporation is proud to present the *2008-2009 Economic Forecast and Industry Outlook for Southern California: Mid-Year Update*. The **LAEDC Economic Forecast** is Southern California's premier source for in-depth economic information and analysis on Los Angeles County and the surrounding areas. LAEDC's economic research reports are used by the media, government, and private industry organizations, and have been ranked #1 by the Wall Street Journal. The forecast report is produced by the **Kyser Center for Economic Research** at the LAEDC, under the leadership of our Senior Vice President and Chief Economist, Jack Kyser.

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

Today's event is presented by Bank of America and features an expert panel of economists who will present on topics related to our region's various industries, including presentations about our housing and financial markets along with remarks from Jack Kyser about the overall health of our regional and national economy. In addition, we will hear from a distinguished panel of business leaders and our senior economist Dr. Nancy Sidhu on the broad economic impact of foreign investments in Los Angeles County.

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

I thank you for your support of the *2008-2009 Economic Forecast and Industry Outlook for Southern California: Mid-Year Update* and for your continued support of the LAEDC.

Sincerely,

Bill Allen

Bill Allen
President & CEO
Los Angeles County Economic Development Corporation

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I. OVERVIEW OF THE LAEDC 2008-2009 ECONOMIC FORECAST

The U.S. Economy

		2008	2009
Real GDP	Slower Growth	1.7%	1.7%
Inflation	Moderating eventually	4.4%	3.6%
Unemployment Rate	Increasing	5.4%	6.0%
Fed Funds Rate	Steady	2.0%	2.0%
Leading Sectors	Exports, Government Spending		
Laggards	Housing, Finance, and Automotive		

The California Economy

	2008		2009	
Nonfarm Employment	-0.2%		+0.6%	
		Jobs		**Jobs**
Industry Leaders	Government	+42,000	Health Services	+35,000
	Health Services	+32,000	Prof'l, Sci. & Tech Svcs	+35,000
	Prof'l, Sci. & Tech Svcs	+27,000	Government	+25,000
Industry Laggards	Construction	-90,000	Construction	-35,000
	Finance	-34,000	Finance	-10,000
	Manufacturing	-24,000	Manufacturing	-8,000

Job Growth among Southern California Counties

	2008		2009	
		Jobs		**Jobs**
Leaders	San Diego County	+0.1%	San Diego County	+1.0%
	Los Angeles County	+0.1%	Los Angeles County	+0.6%
Laggards	Riverside-San Bernardino Counties	-1.6%	Orange County	+0.1%
	Ventura County	-1.6%	Riverside-San Bernardino Counties	+0.1%

Job Growth among Southern California Sub-Regions

	2007	
		Jobs
Leaders	South L.A.	+3.5%
	Santa Clarita	+2.6%
	Antelope Valley	+2.2%
Laggards	San Gabriel Valley	-2.2%
	East L.A.	-1.9%
	San Fernando Valley	+0.6%

II. OUTLOOK FOR THE U.S. ECONOMY

Overview: Gloom Spreads

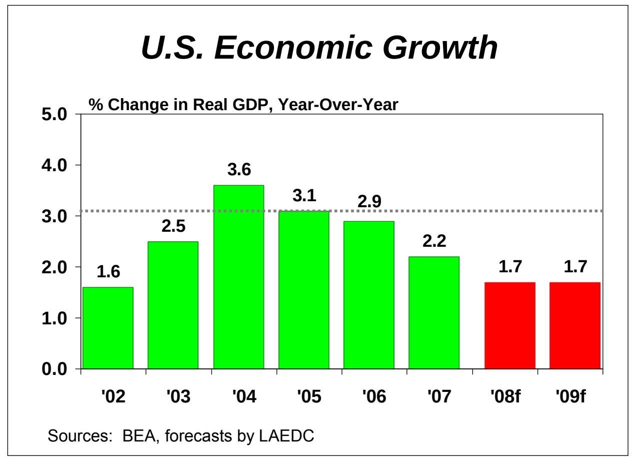
Observers of the U.S. economy are singing the blues and no wonder. The general measures of economic activity have lost considerable momentum. GDP growth slowed from 2.9% in 2006 to 2.2% in 2007 to just 1.0% (estimated annual rate) in the first half of 2008. Over the same period, job growth slowed from 1.8% in 2006 to 1.1% in 2007 and declined by -0.2% from December 2007 to June 2008.

The deterioration in economic performance hasn't changed our view of the economy, which essentially divides U.S. industries into two groups running on decidedly different tracks. Going backward on Track One are the housing industry, manufacturers and distributors of products tied to housing, residential real estate, housing finance, and commercial and investment banking. These sectors have joined the domestic U.S. automotive and textile/apparel industries, which are each undergoing a painful, long-term industry re-structuring. The rest of the economy is moving forward—albeit slowly—on Track Two.

What has changed in the economic outlook? The dramatic upsurge in crude oil and other energy prices has adversely affected operating conditions on both tracks. On Track One, the high price of gasoline has slammed demand for light vehicles and will probably hasten the domestic industry's restructuring. On Track Two, the outlook for travel and tourism is dimming to reflect changes in the relative travel costs to different destinations. Everywhere, spending more for necessary transportation (commuting, delivery trips, etc.) is pushing consumers and business firms to cut back on spending for other purposes.

For the rest of 2008 and 2009, the key forecasting issues are (1) how much worse will the troubled industries' problems get, and (2) how much will high energy prices reduce activity in the other sectors of the economy. At this writing, it looks like the earlier problems of the Track One industries plus the new problems caused by high energy and commodity prices probably will be more than enough to tip the economy into an officially declared recession.

Overall, the LAEDC projects the U.S. economy will grow by 1.7% during 2008 and 2009. Inflation has been running a good deal faster than desired, especially energy and food prices, but is expected to moderate over time. Monetary policymakers acknowledge the inflation risk, but hope to remain on the sidelines so as not to hinder the unwinding of the credit crunch in financial markets and retard the economic recovery. Meanwhile, long-term rates—which have moved up to reflect higher expected inflation, will not change much from here. Below we review the outlook for the key sectors in some detail.



Household Spending Under Stress

Consumer spending is the largest sector of the U.S. economy and holds the key. A number of factors have put U.S. households under stress. Employment declined in the first six months of 2008 and likely will continue to ebb until mid 2009. The nation's unemployment rate, currently 5.5%, will rise through the rest of 2008 and reach the "low 6's" by year end 2009.

Some timely fiscal action by Congress and the Administration has improved consumers' situation, at least temporarily. The Economic Stimulus Act of 2008 sent about $107 billion of personal income tax rebates to qualifying individuals between late April and mid July. The rebate checks boosted consumer spending considerably in the second quarter with more coming in the third.

Most types of household incomes have been growing more slowly than in 2007. Wages and salaries were up by 4.5% in April-May 2008 compared with the year-ago period. Other sources of income were mixed. Dividend income rose by 10.0% but interest income by only 0.4% due to lower interest rates in 2008. Profits of independent, unincorporated businesses were up by just 2.0% over the year. The government has helped out: government social benefits (Social Security, etc. and some rebates) were up by 12.1% over the past year. Bottom line: disposable personal income (net of personal taxes) grew by a solid 7.9% over the twelve-month period up to April-May 2008. Even without the rebates, disposable income would have been up by 5.1% over the year. Both figures were more than enough to outweigh consumer inflation, which was up by 4.0%.

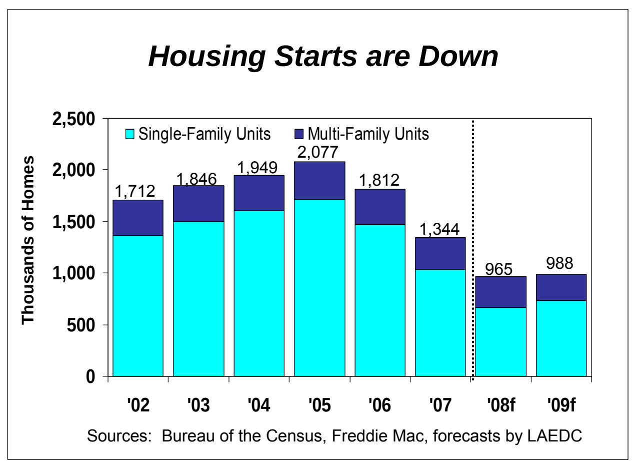
While income growth was slowing, household balance sheets were weakening. Total household assets rose by only 0.4% (by just $300 billion) in the year to March 31, 2008 (latest data available). The value of household real estate assets declined by -1.6%. As home mortgage debt (including home equity loans and letters of credit) grew by 5.5%, homeowners' equity declined by -8.8% over the year to March. Meanwhile, consumers' holdings of financial assets rose by only 0.5%, because of falling stock prices. Total household liabilities rose by nearly $900 billion. Net-net, U.S. households' net worth (total assets minus total liabilities) shrank by -$600 billion over the year to March 2008, or by -1.0%.

With household economic fundamentals softening, it's no wonder that consumer spending slowed down—at least until the tax rebates arrived. The primary problem: soaring energy prices have absorbed a greater share of consumers' spending budgets. During the first quarter of 2008, 6.6% of total consumer spending went for purchases of energy goods and services, up by about 1.0 percentage point from a year earlier. Most of this increase was spent at gasoline pumps, but home electricity and heating bills also have increased.

As a consequence, demand for motor vehicles has fallen sharply. Sales of light vehicles (cars and light trucks) were 16.1 million during 2007. However, with surging fuel prices, sales dropped to a 15.2 million unit annual rate during the first quarter of 2008 and to 14.1 million units (!) in the second quarter. Most of the decline occurred in light trucks with higher fuel consumption rates. On the other hand, demand for fuel-efficient vehicles is extremely strong. However, manufacturers can't convert their facilities as quickly as the market has changed. Assuming gasoline and diesel fuel prices stay high, the LAEDC expects vehicle sales will remain near current low levels until production lines can be re-jiggered appropriately, some time in 2009.

Despite the temporary relief offered by tax rebates in the second quarter, the LAEDC expects spending for most other types of consumer goods and services to be slow in 2008 and 2009—to make room for higher energy and food prices. Overall consumer spending (inflation adjusted) is forecast to grow by just 1.4% in 2008 and 1.2% in 2009, well below the 2.9% pace of 2007.

The housing sector has been on a steep downtrend for over two years now. New housing starts peaked in 2005 at 2.07 million units, the highest level since 1972. However, home construction activity declined throughout 2007 and plunged below the 1.0 million units (annual rate) in the spring of 2008, the lowest level since 1991. The housing crash still has more to go. We expect starts activity to fall to about 900,000 units by year end 2008 and then return to only 1.0 million units by the end of 2009.



Mortgage credit is very hard to get. While still available to finance "prime" homebuyers (those with well-documented, strong credit and income histories), lending terms have become stricter for all borrowers. However, many banks have eliminated subprime and low-documentation loans from their product offerings. For borrowers who can get them, mortgage rates have fallen since last summer. As of June 2008, mortgage commitment rates ranged from 5.15% for the average one-year adjustable rate mortgage to 6.32% for a 30-year fixed rate. In June 2007, the same rates were 5.7% and 6.7% respectively.

IS IT A RECESSION?

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

A: The Committee decides!

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

To quote the Committee, a recession is:

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

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

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

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

What do the indicators say now?

- Real GDP grew, though slowly, in the first two quarters of 2008.
- Employment reached a high point in December and was down by -0.3% in June (maybe; employment data revisions are notorious).
- Real personal income may have peaked in April, excluding tax rebates, but revisions are even more problematic than the job numbers.
- Industrial production peaked in January and had declined by -1.5% through May.
- Business sales reached a peak in October and were down by -1.5% in April (May is not yet available)

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

- The decline in economic activity appears to be real but is not (yet) significant.
- The slowdown is not widely spread across the economy, though the number of industries still growing on Track Two is admittedly shrinking.

In other words, yes the data look weak but not yet conclusively in recession territory.

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

Table 1: U.S. Economic Indicators

(Annual % change except where noted)	2002	2003	2004	2005	2006	2007	2008f	2009f
Real GDP	1.6	2.5	3.6	3.1	2.9	2.2	1.7	1.7
Nonfarm Employment	-1.1	-0.3	1.1	1.7	1.8	1.1	0.0	-0.2
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.6	4.6	5.4	6.0
Consumer Price Index	1.5	2.3	2.7	3.4	3.2	2.9	4.4	3.6
Federal Budget Balance (FY, $ billions)	-$158	-$378	-$413	-$318	-$248	-$162	-$425	-$425

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

Table 2: U.S. Interest Rates

(4th quarter averages, %)	2002	2003	2004	2005	2006	2007	2008f	2009f
Fed Funds Rate	1.4	1.0	2.0	4.0	5.3	4.5	2.0	2.0
Bank Prime Rate	4.5	4.0	4.9	7.0	8.3	7.5	5.0	5.0
10-Year Treasury Note	4.0	4.3	4.2	4.5	4.6	4.3	4.1	4.3
30-Year Fixed Mortgage	6.1	5.9	5.7	6.2	6.3	6.2	6.3	6.5

Sources: Federal Reserve Board; forecasts by LAEDC

Mortgage rates are not expected to change much during the rest of 2008, though there probably will be considerable volatility. The difficulty of obtaining affordable financing for a home will continue to dampen new housing demand, especially among first-time buyers and those with irregular incomes. Net-net, total housing starts are forecast to decline from 1.34 million units in 2007 to about 960,000 units in 2008 and then edge up to 990,000 units in 2009.

Business Investment Spending Slows

Business profits and cash flows have deteriorated, especially in the distressed industries. Adjusted total pre-tax corporate profits during first quarter 2008 (latest data available) were up by just 1.0% compared to first-quarter 2007. Profits-by-sector data reflect the two-track economy. Domestic industry profits declined by -4.8% over the year, pulled down by problems in the financial, manufacturing, transportation and wholesale trade industries. On the other hand, net profits earned from the rest of the world surged by 25.5%. Adjusted total corporate cash flow declined by -1.9% over the year ago period.

Businesses typically invest their cash in new equipment and software. Overall, equipment spending was barely growing in early 2008. Demand was strongest for information processing equipment and software—which accounted for 63% of total business investment spending—and also for agricultural machinery and service industry machinery.

Business purchases of heavy trucks, trailers, and railroad rolling stock have dropped sharply, reflecting reduced goods movement activity and lower profits. Going forward, we also expect lower demand for commercial aircraft, as commercial airlines are struggling with soaring jet fuel costs. Going forward, we expect healthy demand for agricultural equipment and high tech equipment and moderate growth in spending for other types of equipment.

Business investment in nonresidential structures has been growing but at a decelerating rate. Little improvement is expected during 2008/2009. Spending for new lodging and power facilities will likely lead the way. Also, we expect continued growth in energy drilling activity.

The deteriorating profit picture gives reason for a cautious outlook, as pre-tax adjusted profits are expected to fall by 1%-2% in 2008. Profitability is expected to edge up some in 2009. Business spending for equipment and software is forecast to grow by 2.4% in 2008 and by 1.7% in 2009. This will be better than the lackluster 1.3% performance of 2007, but not much. Meanwhile, spending for nonresidential structures will decelerate from the 12.9% pace seen in 2007 to 6.3% in 2008 and to just 1.0% in 2009.

Government Spending -- Still Rising

The current forecast anticipates continued growth in federal purchases of goods and services during 2008 and 2009. Together, the wars in Afghanistan and Iraq are costing well over $150 billion this year. Defense, veterans' health programs, and unemployment benefits all are rising at double-digit rates. We expect total (inflation adjusted) federal purchases of goods and services will increase by 3.9% in 2008 and by 3.2% in 2009.

While state and local government purchases of goods and services will continue to expand, growth likely will slow in line with revenues. All states experienced weaker revenue growth in the latest fiscal year, leading to heated discussions across the nation about whether to decrease spending or increase taxes. Whatever the outcome, slowing revenue growth will constrain state/local spending in the near future. The LAEDC forecast anticipates that state/local purchases (inflation adjusted) will grow by just 1.5% in calendar year 2008 and by 1.2% in 2009.

Net Exports – Improvement to Continue

Exports--foreign purchases of U.S. products—are growing briskly. Inflation adjusted, total exports of goods and services increased by 9.5% in the year to first quarter 2008. Exports of U.S. grown foodstuffs are leading the parade, followed by industrial supplies and capital goods, but most categories of goods and services are growing at healthy rates. Mostly, this performance reflects continued good economic growth in the rest of the world, which is expected to continue during the rest of the forecast period. Also, the value of the U.S. dollar on foreign exchange markets has declined, which means U.S.-made products are more competitive on world markets. Going forward, we expect continued good growth in exports—7.4% in 2008 and 5.2% in 2009.

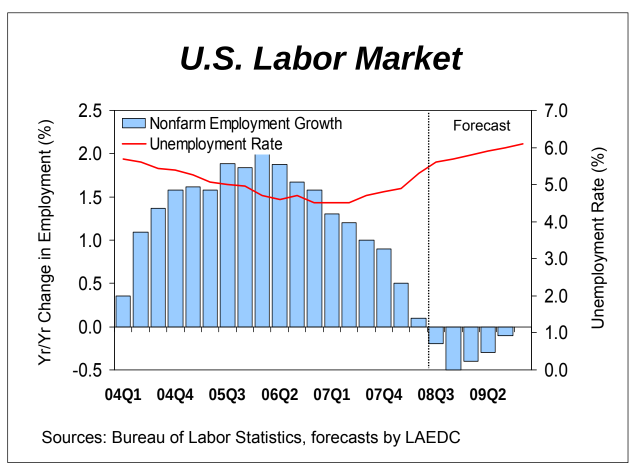
Given the uncertainties in the domestic economy, U.S. purchases abroad have flattened out. Imports of goods and services edged down by -0.1% in the four quarters ended 1q2008 compared to an increase of 2.9% during the previous four quarters. The slowdown reflected U.S. businesses' attempts to reduce inventories as sales growth slowed and, more specifically, sluggish automotive sales. U.S. purchases of foreign-made goods and services are forecast to further edge down by -0.2% in 2008 and grow by just 1.8% in 2009.

For the U.S. economy, net exports are what matters most (equals gross exports minus gross imports). Net exports contributed 0.6 percentage points to the U.S. economic growth rate during 2007 and is expected to contribute 0.9 percentage points in 2008 (offsetting the drag from housing). The net export balance (in constant dollars) was at a low point in 2006, at -$624 billion, and then improved to -$555 billion in 2007. LAEDC forecasts further significant improvements in 2008, to -$445 billion, and then to -$395 billion in 2009.

Labor Market Conditions

U. S. labor markets reflect the uncertainties related to the two-track economy. Total nonfarm employment payrolls shrank by -438,000 jobs in the first half of 2008. Business firms in the distressed industries reduced headcounts rapidly, slicing -325,000 workers from their payrolls during that period. Firms on Track Two also cut back, eliminating -113,000 positions. Employment will continue to shrink during most of the forecast period, which will create considerable angst in the media and in the halls of government. The year-over rate of decline is expected to be -0.5% in 4q2008 but show no change by 4q2009.

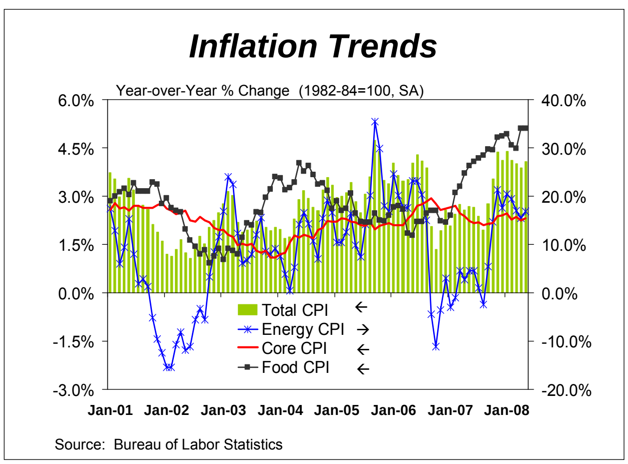
The U.S. unemployment rate hit a cyclical high of 6.3% in June 2003, dropped down to 4.5% late in 2006, and stayed near there through June 2007. Joblessness then increased though the first half of 2008, reaching 5.5% in May-June. The nation's jobless rate is above the economy's generally accepted "sustainable full employment" unemployment rate and will continue to rise as long as economic growth is sluggish, certainly through the rest of 2008 and 2009. We expect the nation's jobless rate to average 5.7% by 4q2008 and 6.1% by 4q2009.



Employee compensation of civilian employees increased by 3.3% in year ended March 2008. Wages and salaries increased by 3.2% during that period, while benefit costs grew at a 3.5% rate. Looking forward, many businesses will have to boost labor productivity to offset increases in their other costs. Further, the weaker tone of U.S. labor markets suggests that wage increases should decelerate. On the benefits side, employers have shifted an ever larger proportion of health insurance burdens onto their workers in order to contain rising costs. This strategy has met with some success and is likely to continue. Thus, we expect overall employee compensation costs to escalate at a somewhat slower pace during the forecast period —rising by about 3.2% during 2008 and perhaps 3.0% in 2009.

Inflation

Consumer inflation has been higher than economic policymakers wanted in 2007 and early 2008. Measured by the Consumer Price Index, energy prices soared by 17.4% over the year to May 2008, and food prices—which had been relatively well behaved—rose by 5.1%. But aside from food and energy, price increases for "core" consumer goods and services were running at 2.3% in the year to May 2008, relatively low under the circumstances.



Going forward, we assume that gasoline prices will remain too high for comfort during the rest of 2008 and then will drift slowly downwards—rising and falling seasonably (up in the summer, down a bit in the fall)—during the rest of 2008 and 2009. If that happens, and prices of other goods and services follow current trends, then total CPI ("headline inflation" in the U.S.) will rise at an average rate of 4.4% during 2008 and increase by 3.6% in 2009—both worse than the 2.9% increase registered in 2007.

Crude oil prices have been on a tear. In January 2007, the price of oil was $54 per barrel (using the West Texas Intermediate spot price). By December 2007, the WTI price was $92 per barrel and then soared to $134 per barrel in June 2008. Factors driving crude oil prices upward included strong global economic growth—outside the U.S. at least—and a seemingly endless list of risks to refinery capacity and global oil supply. Most items on the endless list are still there and still shake up the oil market whenever they threaten. However, economic growth and oil demand are moderating this year—at least in the advanced industrial nations—and several new oil production facilities will soon come online. Even so, industry observers expect oil prices to remain high, above $130/barrel in the second half of 2008 and then drift south in 2009—to perhaps $110-$120/bbl. Readers should expect continued volatility whenever supply issues move to the forefront.

Natural gas prices started 2008 on a high note—nearly $8 per thousand cubic feet—and never looked back. By June, the Henry Hub price was up to $12.70/thousand cubic feet. Going forward, if weather patterns across the nation remain "normal," industry observers forecast that natural gas prices (delivered to Henry Hub, LA) will average more than $11.00/thousand cubic feet in 2008 and about the same in 2009, well above the average $7.17/mcf of 2007.

Monetary Policy and Interest Rates

The Federal Reserve reduced its target federal funds rate seven times between September, 2007—when subprime problems threatened to severely destabilize the nation's capital markets—and April 2008. When it was all over, the fed funds rate had fallen by 325 basis points to 2.0%.

But cutting rates didn't solve all of the Fed's problems. Global capital markets "seized up" during this period, as nervous financial institutions shied away from making loans—even to each other—and tried to build their own reserves. To loosen up this credit crunch, the Fed has poured buckets of "liquidity" into capital markets using traditional and non-traditional means. A veritable alphabet soup of programs was developed. The Fed makes collateralized loans to U.S. banks under a temporary, special purpose, 28-day "term auction facility" (TAF). So far, $150 billion has been lent to participating banks (mostly in New York), with the promise of more if necessary. Also, the Fed has lent the banks about $105 billion of super-safe Treasury securities in exchange for other types of securities offered as collateral under its "term securities lending facility" (TSLF). The Fed's primary dealers—including investment banks, a novel approach—also can borrow securities under the "primary dealer credit facility" (PDCF). And finally, the Fed put up nearly $30 billion (collateralized of course) as its part of the rescue of Bear Stearns by JP Morgan Chase.

Why this sudden burst of activity? To put it simply, the economy needs borrowed money in order to grow. Consumers need credit to purchase homes, furniture, appliances, cars and trucks. Business firms need to finance their inventories and purchases of new plant and equipment. Governments borrow to pay for infrastructure projects. When the capital markets seize up, financial institutions become reluctant to take risks, especially lending risks. Thus, a credit crunch has the potential to turn an economic slowdown into a full-fledged recession.

Currently, the Fed is balancing the threat of recession against the growing risk of inflation, which it expects to retreat soon. No further interest rate actions are expected in 2008 unless the inflation rate increases way more than currently expected or the capital markets seize up again. What happens in 2009 depends on whether and how fast the economy recovers from its current malaise. With any sort of good luck, short-term rates could well be higher at year end 2009 than in December 2008.

Long-term rates fell through March 2008, but turned up in second quarter 2008. The 10-year Treasury note yield stood at 5.1% in June 2007 and dropped to 3.5% in March 2008 before returning to 4.1% in June 2008. Over the same period, the 30-year fixed mortgage rate went from 6.7% in June 2007 to 5.9% in March before rising to 6.3% in June 2008.

The outlook for long-term interest rates is uncertain, and recent history certainly doesn't offer many clues. Dollar depreciation and rising inflation could push long-term rates up. However, there will be downward pressure if the economy slows further and inflation abates. A compromise forecast anticipates that long-term rates stabilize during the second half of 2008 and could turn up in 2009. This would put the 10-year note yield at about 4.1% toward year end 2008 and perhaps 4.3% by year end 2009. Meanwhile, the fixed mortgage rate would be in the 6.3% range at the end of 2008 and about 6.5% at year end 2009.

Fiscal Policy

Timely fiscal policy can make a real difference to the U.S. economy. The Economic Stabilization Act of 2008 is putting more than $150 billion into the hands of U.S. consumers and businesses with instructions to spend it. As a result, the federal budget deficit, which was $163 billion in fiscal year 2007 (ended September 30, 2007), is expected to soar to $425 billion in fiscal 2008. Federal government revenues tend to lag the economy. Thus, the federal deficit won't improve much in fiscal year 2009.

Risks to the Forecast

The baseline forecast calls for the U.S. economy to grow very slowly—by less than 2% during 2008 and 2009. Consumer spending will follow a similar pattern, except for automotive and housing related purchases which will decline in both years. Exports and government spending should continue growing at a reasonably good pace, which will help to offset the expected moderation in business investment spending and the problems of the housing sector. With the economy in a slow-growth mode, employment will decline and unemployment will increase. Inflation has accelerated but so far is mostly a problem of rising energy and food prices.

A number of uncertainties make forecasting the U.S. economy especially difficult. We have made several assumptions in the LAEDC forecast that might turn out to be worse than expected. The most important of these include the following:

1. **The length/depth of the housing downturn.** The housing and real estate industries have a serious inventory problem: a large stock of unsold new and existing homes. Lender-owned foreclosed homes are growing in many regions and also must be sold. How low must new home construction fall to clear the market? And how much will home prices have to decline to entice enough buyers back into the market (assuming they can get a mortgage)?

   Optimistic industry observers expect the construction downturn to bottom out by the end of 2008. Pessimists don't expect the industry to bottom out until 2010. We're pretty optimistic (but we have our fingers crossed).

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

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

3. **The length/depth of auto industry restructuring.** The current economic slowdown is exacerbated by the short-term impact of soaring gasoline prices on vehicle demand compounded by the "Detroit Three's" long-term loss of U.S. sales and market share to foreign-owned makes. The domestic industry's adjustment will be difficult, as the they work with the auto union to find the least painful way to shrink their side of the industry (more job cuts will be needed but how many, where and when?). Longer adjustment plans may be less problematic for the economy in the near-term but will hinder economic redevelopment in the areas affected.

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

5. **"Fear."** American consumers and businesspeople are being inundated with media accounts of the economy's troubles and alarmist reports of recession or worse. Surveys indicate that big majorities of business executives and the population at large say they're worried about recession. The economy will feel the impact if consumers and business leaders act as warily as they talk.

All of these issues can affect the economy for good or for ill. Only time will tell.

III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

The world economy grew by 4.9% in 2007, down a bit from 5.0% in 2006. Global growth will slow further in 2008, by at least 1.0 percentage point, reflecting slowdowns in the advanced industrial economies.

The sagging performance of the U.S. economy is one reason for the downturn in global economic growth. However, other countries also are impacted by the U.S. slowdown. Their U.S.-bound exports have ebbed as demand for housing-related products and big-ticket items such as auto sagged in the United States.

Persistent inflationary pressures due to rising oil and food prices have become a major concern across the globe. The challenge of anchoring inflation expectations while limiting the downside risk of slower economic growth is shared by central banks everywhere, not just the U.S. Federal Reserve Bank anymore.

Major Regions

Asia

The Asian economies contribute much to world growth in 2008 but at a somewhat slower rate. Though U.S.- and Europe-bound exports are slowing, trade has picked up within the region and to other emerging markets in Latin America. Rising inflationary pressures from high oil and food prices will curb both consumer and business spending. Central banks in the region are more concerned about the upside inflation risk than any downside economic growth risk. In addition, governments subsidizing oil have been forced to increase domestic fuel prices to curb demand and reduce the strain on their budgets.

Japan's economy is forecast to grow by about 1.5% in 2008, a decline from the 2.1% growth in 2007. The second largest economy in the world is facing several challenges at home and abroad. On the home front, the labor market is contracting with the unemployment rate up to 4.0% in May 2008. Japanese consumer sentiment is extremely low, and household expenditures are shrinking. Consumer spending was down by 3.2% in May 2008 from a year ago. Inflation, though low compared to most economies, has picked up a bit with core CPI rising at an annual rate of 1.5% in May 2008. The biggest increase in a decade, the uptick was mostly due to higher oil and raw material prices. The increase in costs in turn is dampening corporate profits, which could result in lower business investment. Exports to the U.S. and European nations – especially automotive – have slowed due to high oil prices and the economic slowdown in those regions. For example, Toyota's U.S. export sales declined by 21% in June 2008 compared to a year ago, the biggest drop since 1998. On the upside, exports are growing to China and other emerging economies in the region. The Bank of Japan sees the downside risk to economic growth as a more pressing concern than the upside risk of inflation and will most likely leave its target overnight call rate unchanged at 0.50%.

China's economic growth rate will moderate a bit in 2008 to 9.8%, slightly lower than the strong 11.9% in 2007. Exports to the west have slowed, but exports to other Asian countries and strong domestic consumption have picked up the slack. China is facing high inflationary pressures from the persistent rise in food, oil and commodity prices. The consumer price index in May 2008 was up by 7.7% over the year. The tight labor market has pushed wages higher as well, adding pressure to manufacturing costs. The Chinese government controls fuel prices, which has become expensive. To curb demand, the government cut its subsidy and raised diesel prices by 18% in June 2008. Still, foreign investment remains high. The renminbi will continue to appreciate against the dollar. To curb inflation and manage liquidity, the People's Bank of China has raised the reserve requirement ratio for banks 16 times so far, from 9.0% in January 2007 to 17.5% at the end of June 2008.

South Korea's economy is expected to post moderate growth of 4.6% in 2008, slightly lower than the 5.0% gain in 2007. Exports to the U.S. will remain sluggish throughout the year but will continue strong within the Asian region, especially to China. Domestic demand and business investment remain relatively healthy but have started to cool, especially in construction. The Bank of

Korea lifted its key interest rate by a total of 1.75 basis points between October 2005 and August 2007 to help cool the housing market. The continued run-up in global oil prices has exacerbated inflationary pressures. South Korea's CPI has been above the 2.5%-3.5% target range for six consecutive months, with the May 2008 reading at 4.9% over the year. The Bank of Korea is likely to hold its key interest rate steady at 5.0% but has stated a tightening bias, fearing the upside inflation risk more than a downside risk to economic growth.

India's economy is expected to lose some steam in 2008, with an estimated growth rate of 7.5%-8.0%, compared with earlier 9.0%-plus growth rates since 2005. High consumer demand has caused imports to increase and the trade deficit to widen. However, foreign investment remains strong. The nation faces a major inflationary problem, with pressure coming from soaring oil and commodity prices (especially metals). The closely watched wholesale price inflation reached a 13-year high of 11.4% in mid-June. Rising costs are dampening corporate profits and could potentially curtail foreign investment, especially from the west. To ease price pressures and anchor inflation expectations, the Reserve Bank of India increased the repo rate to 8.5% in June 2008, and raised the bank cash reserve ratio requirement to 8.75%. Additional increases in interest rates and reserve requirements are expected through the rest of the year. The government debt has been increasing – moving closer to 10% of GDP – due to price subsidies for fuel and fertilizers. Though the government raised domestic fuel prices in June 2008, continued subsidization of these high-cost commodities is unsustainable and will create more problems for the government's budget.

Europe

Similar to the U.S., the **Euro Area** economic growth is slowing markedly. Eurozone GDP rose by a healthy 3.5% in 2007, but current forecasts anticipate only 1.7% growth in 2008 and just 1.3% in 2009. Several factors are causing the slowdown. European banks got caught up in the global financial crisis, and their scramble for additional resources to offset growing loan write-offs limited their interest in lending to European business firms and consumers. Housing activity is flat to down in most European nations and has crashed in some (the U.K., Ireland, Spain). The rising value of the Euro in foreign exchange markets makes European exporters less competitive in global markets. And the global energy price shock hurts Europeans too. Though prices have increased less than in nations with currencies tied to the U.S. dollar, the pain is nonetheless real. To mitigate the financial crisis, the European Central Bank has injected hundreds of billions of new reserves into the monetary system. The ECB's monetary policy targets only inflation. Thus despite slowing economic conditions, the central bank was forced to raise its overnight rate in July because inflation was accelerating. We don't expect any more rate increases if economic growth continues to weaken as expected.

Germany is the largest economy in Europe and accounts for about 28% of Eurozone GDP. The economy grew by 2.6% in 2007, but expectations are that growth will slow to 1.9% in 2008 and 1.1% in 2009. Consumer spending is propping up the economy in 2008, bolstered by the lowest unemployment in decades. Indeed, there is concern German labor unions may be able to obtain outsized wage increases in the upcoming round of negotiations, which would push labor costs and inflation higher. In other sectors of the economy, activity is either decelerating (exports, business investment and government spending) or declining outright, as in the housing industry. The government reduced corporate tax rates in 2008. Further action is unlikely.

France is the second largest nation in the Eurozone but ranks third (behind the U.K.) in Europe as a whole. The French economy has held up better than Germany against the downward forces acting on the economy, but here too growth is ebbing. The economy grew by 2.5% in 2007, but growth is projected to slow to 1.6% in 2008 and 1.5% in 2009. Soaring energy prices have cut into real incomes. The French government would like to help, but the public deficit-to-GDP ratio is high, which limits the government's room to maneuver.

Britain's economy is slowing fast, and recession is a real threat. While the economy grew by 3.1% in 2007, recent forecasts for 2008 are below 1.5% and falling, with growth in 2009 expected to be lower still. The housing bubble and ensuing bust were both steeper in the U.K. than elsewhere, and home prices are falling at least as much as in the U.S.

Britain's financial sector has been hit hard by the global financial crisis. Several housing loan companies have failed, and the ranks of London's bankers are thinning. The resulting credit crunch limits borrowing by British consumers and business firms and their spending has slowed. Monetary policymakers at the Bank of England would like to reduce interest rates, but rising inflation prevents their doing so in the near term.

The Americas

The economies of most nations in the Americas will grow at a slower pace in 2008 than in 2007. A number of countries are benefiting from high commodity prices. However, slower business activity in the United States will reduce demand from the region's number one export market. On the upside, demand from emerging markets in Asia, especially China, has picked up the slack and will continue to grow. With high food and oil prices – in addition to the increased availability of consumer credit financing, – inflation is a major concern in the region as well. A prolonged slowdown of U.S. economy is a risk.

Canada's economy has cooled and is forecast to grow by 1.4% in 2008, down from 2.7% in 2007. Canada caught some of the economic slump of its southern neighbor. The U.S. housing slowdown and credit crunch have directly affected the nation. Consumer spending has softened a bit and business investment moderated as Canadian firms wait on the sidelines for the U.S. economy to get better. High commodity prices have benefited the mineral-rich nation, with most of the demand coming from emerging markets. Unlike many countries, inflation is not a big problem (so far) in Canada, with the CPI hovering just a little above 2.0% in May 2008. The Canadian dollar continues to appreciate against the U.S. dollar, which reduces export demand for Canadian lumber and manufactured goods, while increasing imports from the U.S. The Bank of Canada has an accommodative policy and will likely leave its key interest rate steady at 3.0%. Even so, it has stated that the balance of risks has shifted slightly to the upside risk of inflation.

Mexico's economy is forecast to grow by a moderate 2.3% in 2008, down from 3.3% in 2007. The slowing economy of its number one trading partner up north has directly impacted the nation, but Mexico is holding up fairly well due to strong domestic demand. Consumer spending remains quite strong with ample credit financing available. The Mexican peso continues to appreciate against the dollar. As an oil-producing country, Mexico has benefited from the historically high global oil prices. However, the country's trade deficit is expected to widen as U.S. import demand falters. Another consequence of the U.S. economic slowdown – in addition to increased immigration enforcement – is a decline in remittances to Mexico, down by 2.6% in the first five months of 2008 compared to a year ago. With rising global food prices, inflation has become a growing concern. Mexico's CPI increased at an annual rate of 4.95% in May 2008, clearly beyond the inflation target rate of 3.0%. Consequently, Banco de Mexico (the central bank) raised its key interest rate to 7.75% in June 2008, after keeping it on hold for seven months. The central bank is poised for more rate hikes if inflationary pressure persists, but a continued slowdown in U.S. economy pose downside growth risks as well.

Brazil's economy is forecast to soften a bit, growing by 4.8% in 2008, compared with the 5.4% growth rate of 2007. Growth is fueled by strong domestic demand – abundant credit, increasing government spending, and rising incomes. This has more than offset the stagnation in exports, which fell by 2.1%, the first quarterly decline in two years. The Brazilian real is strong. Even so, demand for Brazilian agricultural products and mineral resources continues to grow from emerging markets, especially China. The labor market is tight, with the unemployment rate at 7.9% in May 2008, the second lowest level in six years and wages are pushing higher. The global rise in food prices has affected price stability in Brazil. Inflation is running very high and is forecast to increase to an annual growth rate of 6.0% or more by year-end, well beyond the 4.5% target rate. The Copom, the monetary policy committee of Banco Central do Brasil, raised its key interest rate to 12.25% in May 2008. The central bank understands that inflation is a major problem for Brazil and will lift interest rate further as needed.

Foreign Exchange Rates

The U.S. dollar continued to depreciate against most other major currencies during the first six months of 2008. The Broad Currency Index declined by -3.0% during this period. The index has fallen by –23% since year end 2002.

The **Canadian dollar** was an exception, as the U.S. dollar actually rose versus its Canadian cousin during the recent period (+3.0% from the end of December 2007 to the end of June 2008). However, as the U.S. dollar has lost a total of –55% in value since year end 2002, the increase was not much noticed by manufacturers and consumers on both sides of the border. Most believe the strong "loonie" is here to stay.

The **European Monetary Unit (euro)** continued its multi-year climb in value against the dollar in early 2008. The dollar fell by -7.9% from year end 2007 to the end of June 2008. Since year end 2002, the dollar has declined by –50%. European manufacturers have experienced reduced demand from the United States while European consumers flock to the U.S. cities on shopping vacations.

The **Chinese yuan** continued to rise in value in early 2008. The U.S. dollar fell by -6.4% from year end 2007 to June 30, 2008. The dollar has depreciated by –18% since year end 2005. Chinese authorities have allowed the yuan to appreciate in value to help in their battle against rising inflation. The rising value of the yuan has resulted in some labor-intensive assembly operations migrating from China to neighboring countries with even cheaper labor costs, such as Vietnam.

The U.S. dollar declined by -5.2% in value against the **Japanese yen** from the end of 2007 to the end of June, 2008, and was down by -11% compared with year end 2006. With a growing number of manufacturing operations throughout the United States, Japanese companies are well positioned to take advantage of further declines in the value of the U.S. dollar.

Recently, the U.S. dollar has changed little versus the **U.K. pound**, depreciating by only -0.4% during the first half of 2008. Compared with year end 2002, the U.S. dollar was down by -24%. Growing economic problems and a rising current account deficit (similar to the United States) are keeping downward pressure on the pound relative to the euro. A falling pound would be welcomed by U.K. exporters but could also exacerbate inflation as the cost of imports increase.

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

Country (Currency)	2000	2001	2002	2003	2004	2005	2006	2007	6/30/08
U.S. index**	122.1	127.9	124.2	113.2	108.1	111.6	106.8	98.8	95.8
Canada (C$/US$)	1.500	1.593	1.580	1.292	1.203	1.166	1.165	0.988	1.019
China (yuan/US$)	8.277	8.277	8.280	8.277	8.277	8.070	7.804	7.295	6.859
Euro Zone (US$/€)	0.939	0.890	1.049	1.260	1.354	1.184	1.320	1.460	1.575
Japan (¥/US$)	114.4	131.0	118.8	107.1	102.7	117.9	119.0	111.7	106.2
Mexico (peso/US$)	9.618	9.156	10.425	11.242	11.154	10.628	10.800	10.917	10.304
South Korea (₩/US$)	1,267	1,314	1,186	1,192	1,035	1,010	930	936	1,047
United Kingdom (US$/£)	1.496	1.454	1.610	1.784	1.916	1.719	1.959	1.984	1.991

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

Country (Currency)	2000	2001	2002	2003	2004	2005	2006	2007	6/30/08 vs. 12/31/07
U.S. index**	6.3%	4.8%	-2.9%	-8.9%	-4.5%	3.2%	-4.3%	-7.5%	-3.0%
Canada (C$)	3.7%	5.8%	-0.8%	-22.3%	-7.4%	-3.2%	-0.1%	-17.9%	3.0%
China (yuan)	0.0%	0.0%	0.0%	0.0%	0.0%	-2.6%	-3.4%	-7.0%	-6.4%
Euro Zone (€)	6.8%	5.2%	-17.8%	-20.1%	-7.5%	12.5%	-11.4%	-10.7%	-7.8%
Japan (¥)	10.7%	12.7%	-10.3%	-10.9%	-4.3%	12.9%	0.9%	-6.5%	-5.2%
Mexico (peso)	1.4%	-5.0%	12.2%	7.3%	-0.8%	-4.9%	1.6%	1.1%	-5.9%
South Korea (₩)	10.3%	3.6%	-10.8%	0.5%	-15.2%	-2.5%	-8.6%	0.6%	10.6%
United Kingdom (£)	7.4%	2.8%	-10.7%	-10.8%	-7.4%	10.3%	-14.0%	-1.3%	-0.4%

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

Commodity Prices – Another Conundrum

Prices of many industrial and agricultural commodities have risen sharply in recent years, and are expected to increase more in 2008. WHY? The most important factors are related to supply and demand. Details vary by commodity, but the story lines are remarkably similar.

Demand is strong. While economic growth in the industrial nations is slowing, the emerging market economies are growing rapidly and consuming more metals, oil, and other industrial commodities as well. With rising incomes, their expanding middle classes can afford a better diet including more meat, which requires more grains. The BRIC countries (Brazil, Russia, India and China) are usually cited as examples of this phenomenon, but a number of developing nations in Asia and elsewhere—think Vietnam—also fit the description. The developing nations' growing appetite for oil is expected to outweigh the decline in oil consumption in the U.S. and Europe.

Many financial buyers are long. Financial buyers are a growing presence in commodities markets. Pension funds, hedge funds, etc., are adding commodities to their portfolios, often in hopes of reaping outsized investment returns from higher prices. Whether financial buyers are more important than market fundamentals in explaining rising prices is an open question. However, their presence certainly adds volatility to the market. Key for this discussion, many of their holdings are "long," (i.e., purchases); so financial buyers as a group are pushing commodity prices upward.

Supply growth is limited. For most commodities, significant investment—and time—will be required to expand production to meet growing demand. Farmers can plant more corn or wheat if prices go up, but not until the next crop year. However, a new copper mine or steel mill or oil refinery requires billions of dollars and years of planning and construction. Mining companies are investing the sums required, but prices will remain high until the new facilities are completed.

PRICES OF INDUSTRIAL COMMODITIES

	2006	2007	2Q 2008
Steel Prices ($/cwt):			
HR Sheet	580	527	974
Rebar #6	506	568	848
Structurals	628	731	978
Steel Scrap (#1HM, $/gt)	222	256	491
Iron Ore (¢/dmtu)	77.35	84.70	140.60
Copper ($/lb)	3.05	3.23	3.83
Aluminum ($/lb)	1.17	1.20	1.33
Nickel ($/lb)	11.00	16.89	11.65
Lumber ($/Mil Bd Ft)	295	250	232
Corn (Omaha Spot, $/Bushel)	2.25	3.54	5.91
Diesel No.2 ($/Gallon)	2.71	2.89	4.40
Crude Oil (WTI, $/Barrel)	66.04	72.28	123.85
Natural Gas (HH, $/Mcf)	6.72	6.98	11.35

Sources: Energy Information Agency, USDA-Nebraska, World Bank

Other factors boosting prices: (1) There is a huge global boom under way in building infrastructure (roads, bridges, dams, power plants, etc.) in the emerging nations. This activity is extremely material-intensive and adds to demands for many types of industrial commodities. (2) A number of developing nations subsidize the local prices of critical foodstuffs and fuels. Demand is higher in these countries than it would be at market prices. (3) The growing production of biofuels is absorbing an ever-larger share of global grain crops. (4) The dollar is weak. Commodities producers usually can earn more profit selling in strong-currency markets than in the U.S.

There is one bearish factor . . . With prices so high, industrial commodity demands have already fallen off in the industrial nations. A deeper recession would reduce production activity—and commodity demands—still further. But would the cure be worse than the disease? We may just have to hang in there until the new production capacity comes online.

IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

The first half of 2008 was a turbulent time for the California economy. There was the on-going housing market crash, with several areas in the state singled out as severely troubled. There were problems in the financial sector, sparked by the sub-prime lending mess. Then, more bad news rolled in, specifically soaring gasoline and diesel prices. This caused pain for both business and consumers. Finally, there was the fallout in the retail sector, where a number of firms without solid financials or a strong market position crashed and burned.

At mid-2008, California is on the edge of falling into a recession. Some areas are comparatively unruffled by all this turmoil, like San Francisco and San Jose. And there are industries where demand remains rather strong such as exports, international tourism and technology. The balance of 2008 and much of 2009 will see a mixture of good and bad news in California, with the outcome looking more and more precarious.

What factors might tip the balance?

- One is housing. When will the recovery begin and how strong might it be? This recovery will be a very muted affair and could come as late as 2010 for some areas in the state.
- Another factor will be the prices of gasoline and diesel fuel. Continued high prices may well change the way business and development gets done.
- Water supplies are another concern, as the state is officially in a drought. This surely will impact agriculture as well as future development patterns.
- Government finance will also be important, starting with the state (and its $17 billion budget deficit), down to the county, city and school district level. This is important to the economy as government had been generating rather strong job growth.

The news media will remain focused on the "housing crisis" as well as the pain at the gas pump, which will keep consumer confidence at low levels over the balance of 2008.

Employment in California during 2008 will slip by -0.2% or by 29,600 jobs. The unemployment rate will move up to a painful 6.4%. Growth, albeit muted, will reappear in 2009, with nonfarm employment increasing by 0.6% or by 85,600 jobs. Unemployment will continue to be a worry, with a rate of 6.5%.

Positive Forces for the Balance of 2008 into 2009

Agriculture: Despite high energy costs and water supply problems, the state's farm sector will turn in a decent performance thanks to robust export markets and relatively high product prices.

Technology: Technology should provide support to California's overall economy, but there will be lots of gears shifting among its various components.

Tourism: International tourism should provide a bit of a boost, as the U.S. dollar is expected to remain at low levels. In the second half of 2008, there might also start to be visible results from changes in China's overseas travel policy for its residents.

International trade: A mixed picture. Export activity will remain strong into 2009, while import volume could be growing again by year-end 2008.

Some Negative Forces

Housing and its related activities: These have been in a depression for quite some time and the pain will continue into the near future, especially in the inland areas of the state.

Government budgets: It's not just the state of California that is struggling. County and city governments are also facing shortfalls caused by both the housing crash and the slump in retail sales. Programs will be cut back and job growth will be clipped.

Environmental regulations: Efforts to "green" the state's ports, as well the looming implementation of AB 32 (the greenhouse gas legislation) will bring both uncertainty and higher costs of doing business to many industries.

Trends in Major Industries

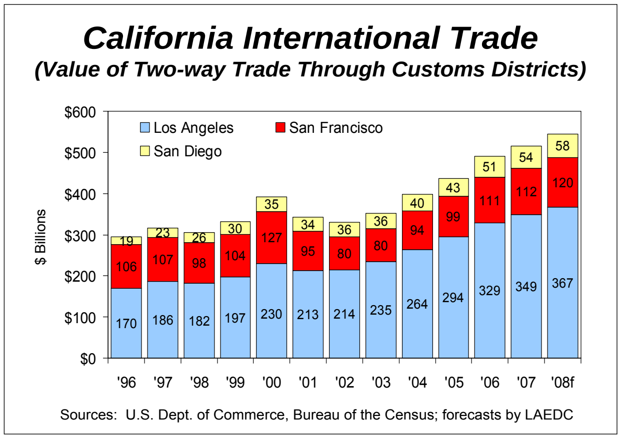
Agriculture: While there are higher energy costs, water supply issues, ongoing labor supply headaches, and some health scares (tomatoes), the state's farm industry seems to be holding up quite well. The big boost will continue to come from export markets and high selling prices for many California products.

Farm income in the state has been moving in a narrow band, though the data lags. The best real-time measure of trends in agriculture is farm employment, which had also been moving in a narrow range in recent years. However, the state's agricultural employment count moved up by 11,200 jobs in 2007, and is on track for a gain of 9,500 workers in 2008.

Moving forward, both water supply and energy costs could start to reshape the state's agriculture industry.

International trade: California's trade industry should continue to be a "two-track" affair over the balance of 2008 – imports weak and exports strong. There was some nervousness about the ILWU contract (a June 30th expiration), but this was settled without any fireworks. At the ports of Los Angeles/Long Beach, environmental issues were front and center. While there is movement again on steamship terminal expansions, cleaning up the port trucks remains a contentious issue.

Worse, West Coast ports have been losing market share to Gulf and East Coast ports, due to concern about congestion at Los Angeles/Long Beach (not true), as well as higher rail intermodal rates. With higher diesel costs, shippers are balancing transit times versus costs. Some feel that the advantage goes to all-water movement of goods. Looming in the future is the expansion of the Panama Canal, which will be able to handle the largest container ships that currently call at Los Angeles/Long Beach.



Sources: U.S. Dept. of Commerce, Bureau of the Census; forecasts by LAEDC

At Los Angeles/Long Beach, truck clean-up efforts involve container fees, which is another cost issue. There will continue to be a lot on the plate of the state's international trade industry.

In 2008, all three of the state's customs districts will record modest growth in two-way trade value. San Francisco will set the pace with a 6.9% increase to a total of $119.9 billion. The San Diego Customs District should see growth of 6.1%, moving its two-way trade total to $57.5 billion. The Los Angeles Customs District should record a moderate 5.0% increase, pushing its 2008 two-way trade total to $367.0 billion.

Technology (including aerospace): There will be varied outlooks for the different components of California's tech sector into 2009. While business demand for technology products could be somewhat soft, the consumer side should hold up better than expected. Global demand for high-end consumer electronics will benefit California firms that make chips, software and other parts. In the meantime, cell phones are becoming more complex, driven by Apple's iPhone.

On the aerospace side of the industry, some major government projects are underway in the state, including satellites and unmanned aerial vehicles. Significant sub-contracting is also taking place on air force fighter planes. However, a new administration in Washington DC in January 2009 could mean some shifts in spending priorities. California subcontractors to Airbus and Boeing are on edge, as the financial situation of the airlines deteriorates. While both manufacturers have hefty backlogs, there are estimates that 30% of these orders could be cancelled.

Tourism: One of the latest words to enter the American vernacular is "staycation." What does it mean? With the weak U.S. dollar, high airline fares and lofty gasoline prices, consumers will vacation in and around their home town. In Southern California, some new theme park rides should help the local travel industry. In addition, the state tourism agency still has funding to promote travel to California.

Thanks to the weak dollar, international travel is expected to be a bright spot over the balance of 2008. In addition, the change in China's overseas travel policy for its citizens should bring in more visitors. A significant concern is the weak financial situation of the airline industry. Flights are being cut back, and service to some destinations is being ended. This could be quite painful for smaller destinations in California.

The state's hotel industry did well in 2007, but results should moderate in 2008. Looking at the larger markets, Los Angeles County enjoyed a 77.4% occupancy rate in 2007, but this eased to 76.7% during the first half of 2008. Orange County's hotel occupancy rate was 74.2% in 2007, but slipped to 73.1% during the first half of 2008. San Diego County recorded a 75.8% hotel occupancy rate in 2007, which eased to 74.6% during the first half of 2008. In San Francisco (the city), the 2007 hotel occupancy rate was 77.9%, while during the first half of 2008 it ran at 73.0%. A lot of new hotel properties are under development around the state, so besides a sluggish economy the hotel industry will be coping with new competition.

Trends Around the State

California is tiptoeing along the edge of a recession, while some of its larger metropolitan areas have been in one since mid-2007. However, some areas in the state will rumble forward in 2008 and into 2009 with only minor discomfort. Examples of the latter are San Francisco and San Jose.

Troubled metro areas (job losses over the year) include: Oakland (-11,000 jobs in 2008); Modesto (-1,000 jobs in 2008); Sacramento (-1,600 jobs in 2008); Orange County (-12,600 jobs in 2008); Riverside-San Bernardino (-20,500 jobs in 2008); and Ventura County (4,800 jobs in 2008). A common theme in the losses would be housing and its related industries. Unfortunately, for many of these areas the pain will carry into 2009.

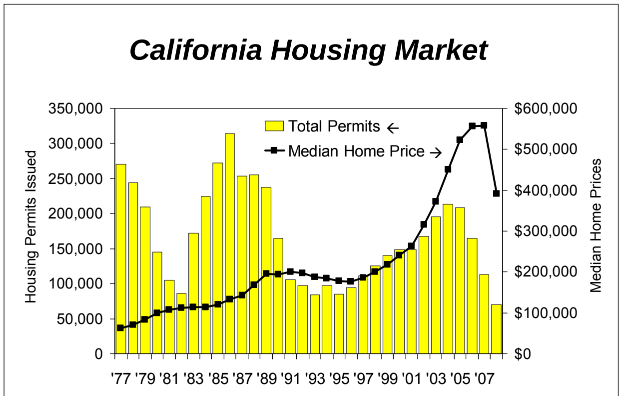
Net Results

The housing-related sectors (construction and finance) really hobbled employment in the state in 2007, and this drag will continue in 2008. The largest job losses during the year will come in construction (-90,000 jobs), financial services (with -34,000 jobs), and manufacturing (-24,000 jobs). The largest gains during 2008 will come in government (+42,000 jobs), health services (+32,000 jobs) and professional business services (+27,000 jobs).

The state's unemployment rate will average 6.4% during 2008, compared with 5.4% in 2007. Unfortunately, the unemployment rate won't ease at all in 2009, averaging 6.5%.

Total personal income will increase by 4.5% in 2008 to $1.59 billion. There is no overall consumer price index (CPI) for the state. In the Los Angeles five-county area, the local CPI will increase by 3.8%, while residents of the Bay Area will get somewhat of a break with a 2.9% gain. The rough times for California's retailers will continue in 2008, with a 1.2% decline in taxable retail sales. There will be a rebound in 2009, but it will be lackluster, only a 1.8% gain in sales volume.

The state's new homebuilding industry will continue to suffer in 2008, with just 70,600 units permitted, down by 37.4% from the previous year. The pain can be measured by looking at the number of permits issued during the recent high, 212,960 units in 2004.



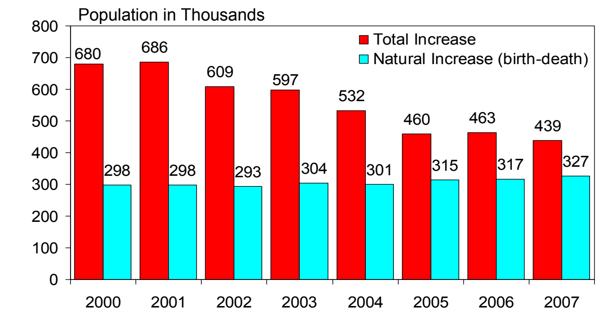
Sources: California Association of Realtors; Construction Industry Research Board; forecasts by LAEDC

Risks

The state's budget deficit, currently at $17 billion, could worsen. While there have been pledges in Sacramento to find solutions, one has to be skeptical. In addition, some cities could face unexpected budget woes. Remember, Vallejo has filed for bankruptcy.

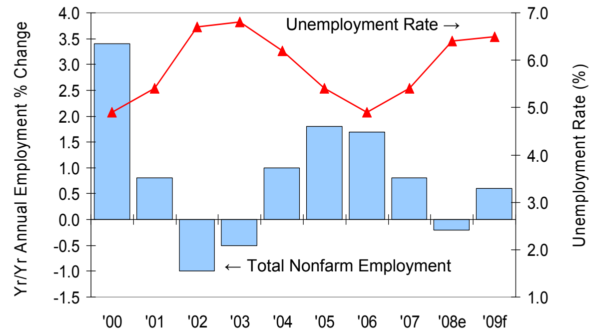
The housing industry could turn in a worse performance than forecast, which would not be good news for a wide swath of the California economy.

Population Growth in California



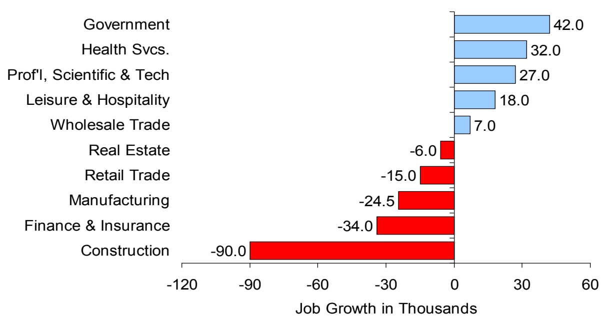
Note: Total Increase – Natural Increase = Total Migration
Source: California Dept. of Finance, Demographic Research Unit

California Fundamentals



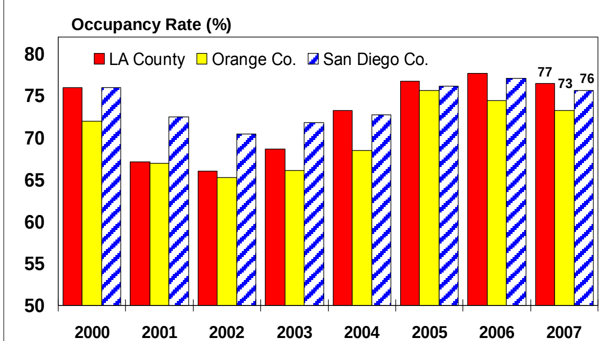
Sources: Cal. Employment Development Dept.; estimate & forecast by LAEDC

2008 Industry Winners & Losers in California



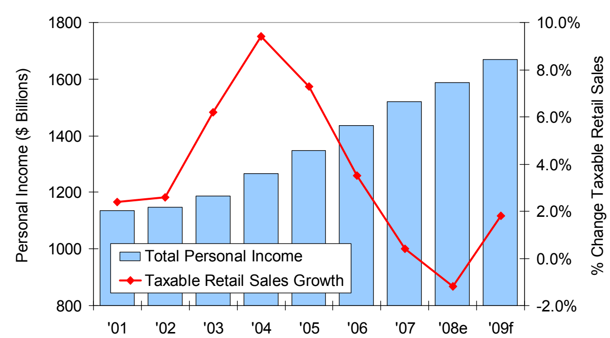
Sources: CA EDD, Labor Market Information Division; forecasts by LAEDC

HOTEL OCCUPANCY RATES



Source: PKF Consulting

California Personal Income & Taxable Retail Sales



Sources: State of California: Board of Equalization; estimate and forecast by the LAEDC

Gross Product

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

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

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

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

Table 4: Gross Product Comparisons, 2007

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

Rank	Country/Economy	Nominal GDP 2007	Nominal GDP '06-'07 % Chg	Real GDP '06-'07 % Chg
1	United States	$13,843.8	4.9%	2.2%
2	Japan	4,383.8	0.2%	2.1%
3	Germany	3,322.2	13.9%	2.5%
4	China	3,250.8	22.9%	11.4%
5	United Kingdom	2,772.6	15.4%	3.1%
6	France	2,560.3	13.7%	1.9%
7	Italy	2,104.7	13.3%	1.5%
	California	**1,802.9**	**4.5%**	**1.8%**
8	Spain	1,439.0	16.8%	3.8%
9	Canada	1,432.1	12.3%	2.7%
10	Brazil	1,313.6	22.5%	5.4%
11	Russia	1,289.6	30.4%	8.1%
12	India	1,099.0	25.3%	9.2%
13	Korea	957.1	7.7%	5.0%
14	Australia	908.8	20.2%	3.9%
15	Mexico	893.4	6.4%	3.3%
	Los Angeles 5-co. area	**810.4**	**3.4%**	**1.5%**
16	Netherlands	768.7	14.6%	3.5%
17	Turkey	663.4	25.5%	5.0%
	Los Angeles County	**464.4**	**4.7%**	**2.0%**
18	Sweden	455.3	15.7%	2.6%
19	Belgium	453.6	13.9%	2.7%
20	Indonesia	432.9	18.8%	6.3%
21	Switzerland	423.9	9.3%	3.1%
22	Poland	420.3	23.0%	6.5%
23	Norway	391.5	16.0%	3.5%
24	Taiwan	383.3	4.9%	5.7%
25	Saudi Arabia	376.0	7.7%	4.1%
26	Austria	373.9	15.5%	3.4%
27	Greece	314.6	17.1%	4.0%
28	Denmark	311.9	12.9%	1.8%
29	Iran	294.1	32.4%	5.8%
30	South Africa	282.6	9.9%	5.1%
31	Argentina	260.0	22.2%	8.7%
32	Ireland	258.6	17.9%	5.3%
33	Thailand	245.7	18.8%	4.8%
34	Finland	245.0	16.8%	4.4%
35	Venezuela	236.4	28.3%	8.4%
36	Portugal	223.3	14.5%	1.9%
37	Hong Kong SAR	206.7	8.8%	6.3%
38	United Arab Emirates	192.6	17.9%	7.4%
39	Malaysia	186.5	19.5%	6.3%
40	Czech Republic	175.3	22.6%	6.5%
41	Colombia	171.6	26.1%	7.0%
42	Nigeria	166.8	13.5%	6.4%
43	Romania	166.0	35.3%	6.0%
44	Chile	163.8	12.3%	5.0%
45	Israel	161.9	13.8%	5.3%
46	Singapore	161.3	18.1%	7.7%

Note: Nominal GDP figures are not adjusted for inflation.
Sources: IMF World Economic Outlook, April '08; LAEDC estimates

Table 5: California Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	34,095.2	14,488.2	4.9	1,103.842	32,375	287.068	392.1	148,540	18,625
2001	34,766.7	14,602.0	5.4	1,135.304	32,655	293.957	341.2	148,757	16,753
2002	35,361.2	14,457.8	6.7	1,147.716	32,457	301.612	329.8	167,761	14,529
2003	35,944.2	14,392.3	6.8	1,187.040	33,025	320.217	350.3	195,682	13,915
2004	36,454.5	14,532.6	6.2	1,265.970	34,727	350.173	397.2	212,960	15,689
2005	36,896.2	14,801.3	5.4	1,348.255	36,542	375.808	436.3	208,972	18,266
2006	37,333.0	15,050.3	4.9	1,436.446	38,477	389.067	491.4	164,280	21,109
2007	37,771.4	15,163.2	5.4	1,519.547	40,230	390.550	515.8	112,778	22,534
2008e	38,221.4	15,133.6	6.4	1,587.900	41,545	385.860	544.4	70,600	21,070
2009f	38,681.4	15,219.2	6.5	1,670.500	43,186	392.805	579.9	67,700	20,120
% Change									
'01/'00	1.97%	0.79%		2.85%	0.86%	2.40%	-12.98%	0.15%	-10.05%
'02/'01	1.71%	-0.99%		1.09%	-0.61%	2.60%	-3.34%	12.78%	-13.28%
'03/'02	1.65%	-0.45%		3.43%	1.75%	6.17%	6.22%	16.64%	-4.23%
'04/'03	1.42%	0.97%		6.65%	5.16%	9.35%	13.39%	8.83%	12.75%
'05/'04	1.21%	1.85%		6.50%	5.22%	7.32%	9.84%	-1.87%	16.43%
'06/'05	1.18%	1.68%		6.54%	5.29%	3.53%	12.63%	-21.39%	15.56%
'07/'06	1.17%	0.75%		5.79%	4.56%	0.38%	4.97%	-31.35%	6.75%
'08/'07	1.19%	-0.20%		4.50%	3.27%	-1.20%	5.54%	-37.40%	-6.50%
'09/'08	1.20%	0.57%		5.20%	3.95%	1.80%	6.52%	-4.11%	-4.51%

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

Table 6: California Nonfarm Employment
(Annual averages, in thousands, 2007 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	14,488.2	26.5	733.4	1,852.7	*1,205.9*	*646.8*	646.2	1,563.4	518.3	576.7
2001	14,602.0	25.6	780.4	1,778.6	*1,161.4*	*617.2*	658.9	1,575.9	514.1	551.9
2002	14,457.8	23.1	774.4	1,631.8	*1,047.0*	*584.9*	652.1	1,582.2	491.0	497.3
2003	14,392.3	22.2	796.8	1,542.4	*976.4*	*566.0*	649.5	1,588.4	480.6	476.1
2004	14,532.6	22.8	850.4	1,521.3	*963.9*	*557.4*	655.1	1,617.8	482.8	482.4
2005	14,801.3	23.6	905.3	1,510.2	*956.9*	*545.7*	675.8	1,659.3	487.1	473.6
2006	15,060.3	25.1	933.7	1,488.0	*945.4*	*542.6*	702.5	1,680.1	496.1	466.0
2007	15,163.2	25.9	892.3	1,463.2	*927.8*	*535.4*	716.9	1,688.8	505.2	472.8
2008e	15,133.6	26.3	802.3	1,438.7	*912.3*	*526.4*	723.9	1,673.8	513.2	468.8
2009f	15,219.2	26.9	767.3	1,431.2	*907.8*	*523.4*	733.9	1,668.8	523.2	469.8

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health & Soc.	Leisure & Hospitality	Other Services	Government
2000	544.3	262.6	930.6	294.0	997.2	229.7	1,171.3	1,335.6	487.7	2,318.1
2001	568.9	267.2	945.6	283.6	957.1	237.3	1,210.7	1,365.1	499.2	2,382.1
2002	584.8	268.2	913.8	265.9	939.3	245.5	1,253.4	1,382.4	505.7	2,447.1
2003	613.5	272.2	906.6	246.8	931.0	258.2	1,278.1	1,400.1	504.3	2,426.1
2004	625.8	276.4	918.9	230.3	947.8	262.9	1,297.1	1,439.4	503.9	2,397.7
2005	643.5	283.6	970.2	221.2	968.3	272.2	1,314.3	1,475.2	505.5	2,420.2
2006	646.7	288.5	1,026.5	211.6	1003.3	277.6	1,336.4	1,519.0	507.1	2,452.3
2007	623.5	283.1	1,058.5	205.4	999.5	288.5	1,375.7	1,553.1	513.6	2,497.4
2008e	589.5	277.1	1,085.5	202.4	994.5	298.5	1,407.7	1,571.1	518.6	2,539.4
2009f	579.5	275.1	1,120.5	200.4	993.5	308.5	1,442.7	1,590.1	521.6	2,564.4

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

Table 7: California Regional Nonfarm Employment

(Annual averages for major metropolitan areas; in thousands; March 2007 benchmark)

		Northern California			Central California					Southern California				
\ MSA Year \	State of California*	Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside-San Bern.	San Diego	Ventura
1990	12,499.8	879.2	947.3	824.3	170.7	224.5	117.5	618.5	152.7	4,135.7	1,172.4	712.6	966.6	230.3
1991	12,358.9	879.7	939.5	815.4	177.3	227.3	117.8	630.9	155.2	3,982.7	1,143.7	718.9	962.6	230.4
1992	12,153.5	870.2	914.4	801.7	173.3	230.2	120.0	623.2	154.8	3,804.5	1,126.0	729.6	947.7	226.6
1993	12,045.4	873.5	908.3	806.7	169.9	233.6	121.6	626.0	156.2	3,707.6	1,115.4	733.9	947.0	227.0
1994	12,159.5	877.4	903.6	810.3	170.8	237.2	122.2	643.8	157.3	3,701.9	1,126.8	751.3	955.3	233.3
1995	12,422.0	897.5	916.5	842.9	172.8	243.5	124.0	662.8	160.3	3,746.6	1,151.7	779.9	978.5	237.3
1996	12,743.4	916.4	948.2	891.9	174.9	246.8	127.8	681.5	163.5	3,788.5	1,184.3	803.5	1,006.2	237.9
1997	13,129.7	947.8	983.5	939.7	179.2	249.8	131.7	702.0	167.4	3,865.0	1,233.8	841.5	1,054.3	242.7
1998	13,596.1	976.2	1,012.2	969.7	184.3	253.5	137.2	731.4	171.5	3,943.5	1,299.1	882.2	1,105.5	252.3
1999	13,991.8	1,008.0	1,040.0	985.2	188.8	262.0	141.7	770.5	178.7	4,002.9	1,345.2	939.0	1,152.9	263.6
2000	14,488.2	1,044.6	1,082.1	1,044.3	194.1	270.6	144.2	797.1	185.8	4,072.1	1,388.9	988.4	1,193.8	275.0
2001	14,602.0	1,054.8	1,053.9	1,017.9	202.2	275.9	149.7	818.9	191.1	4,073.6	1,413.7	1,029.7	1,218.4	279.9
2002	14,457.8	1,039.8	987.1	917.2	205.1	282.0	150.7	832.2	194.0	4,026.8	1,403.7	1,064.5	1,230.7	281.8
2003	14,392.3	1,025.6	950.7	870.3	207.1	282.7	152.3	846.0	197.3	3,982.9	1,429.0	1,099.2	1,240.1	284.2
2004	14,532.6	1,023.7	939.3	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1,160.0	1,260.3	286.2
2005	14,801.3	1,032.2	945.8	869.9	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1,222.0	1,282.1	291.2
2006	15,050.3	1,046.9	964.4	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1,267.7	1,301.6	297.9
2007	15,163.2	1,049.1	986.8	908.1	238.8	306.0	160.0	904.0	211.8	4,115.8	1,513.0	1,268.8	1,308.2	295.8
2008f	15,133.6	1,038.1	1,005.3	915.6	241.4	308.2	159.0	902.4	213.9	4,118.1	1,500.4	1,248.3	1,309.4	291.0

* Based on Current Employment Series

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

Table 8: Total Nonfarm Employment in Southern California

Actual Data & Forecasts (Annual averages in thousands) (* Based on "Interim Employment Series", ES202 data)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California*
2000	4,072.1	1,388.9	988.4	275.0	6,724.4	1,193.8	14,488.2
2001	4,073.6	1,413.7	1,029.7	279.9	6,796.9	1,218.4	14,602.0
2002	4,026.8	1,403.7	1,064.5	281.8	6,776.8	1,230.7	14,457.8
2003	3,982.9	1,429.0	1,099.2	284.2	6,795.3	1,240.1	14,392.8
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,532.6
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,801.3
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,060.3
2007	4,115.8	1,513.0	1,268.8	295.8	7,193.4	1,308.2	15,163.2
2008e	4,118.1	1,500.4	1,248.3	291.0	7,157.8	1,309.4	15,133.6
2009f	4,143.3	1,502.3	1,249.9	291.9	7,187.4	1,322.0	15,219.2

Numerical Change from Prior Year (in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2000	69.2	43.7	49.4	11.4	173.7	40.9	496.4
2001	1.5	24.8	41.3	4.9	72.5	24.6	113.8
2002	-46.8	-10.0	34.8	1.9	-20.1	12.3	-144.2
2003	-43.9	25.3	34.7	2.4	18.5	9.4	-65.5
2004	13.6	27.7	60.8	2.0	104.1	20.2	139.8
2005	27.7	34.3	62.0	5.0	129.0	21.8	268.7
2006	68.3	27.9	45.7	6.5	148.4	19.5	259.0
2007	23.3	-5.9	1.1	-1.9	16.6	6.6	102.9
2008e	2.3	-12.6	-20.5	-4.8	-35.6	1.2	-29.6
2009f	25.2	1.9	1.6	0.9	29.6	12.6	85.6

% Change from Prior Year

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2000	1.73%	3.25%	5.26%	4.32%	2.65%	3.55%	3.55%
2001	0.04%	1.79%	4.18%	1.78%	1.08%	2.06%	0.79%
2002	-1.15%	-0.71%	3.38%	0.68%	-0.30%	1.01%	-0.99%
2003	-1.09%	1.80%	3.26%	0.85%	0.27%	0.76%	-0.45%
2004	0.34%	1.94%	5.53%	0.70%	1.53%	1.63%	0.97%
2005	0.69%	2.35%	5.34%	1.75%	1.87%	1.73%	1.85%
2006	1.70%	1.87%	3.74%	2.23%	2.11%	1.52%	1.75%
2007	0.57%	-0.39%	0.09%	-0.64%	0.23%	0.51%	0.68%
2008e	0.06%	-0.83%	-1.62%	-1.62%	-0.49%	0.09%	-0.20%
2009f	0.61%	0.13%	0.13%	0.31%	0.41%	0.96%	0.57%

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

Table 9: California Technology Employment
(Average annual employment in 000s, March 2007 benchmark, based on NAICS)

		Manufacturing			Services				
	Total Technology Employment	Computer & Electronic Product Manufacturing	Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	Internet Services, Data Processing	Computer Systems Design & Rel. Services	Management, Scientific, & Technical Consulting	Scientific R&D Services
2000	1,020.5	421.8	90.7	38.0	48.2	24.9	206.6	95.1	95.2
2001	1,013.4	409.7	86.3	39.2	52.6	23.0	204.4	99.1	99.1
2002	921.4	353.7	79.6	39.5	48.8	20.1	177.1	102.1	100.5
2003	879.3	320.9	73.6	39.1	44.7	21.3	168.8	109.7	101.2
2004	878.9	313.4	73.7	40.6	42.6	20.3	168.5	119.0	100.8
2005	903.4	310.8	73.4	42.0	41.6	20.4	175.6	135.4	104.2
2006	932.2	308.2	73.0	44.0	41.3	20.9	187.3	151.3	106.2
2007	1,031.2	332.0	78.4	48.0	46.7	23.2	214.5	174.1	114.3
2008e	1,005.9	305.4	105.0	45.9	44.2	21.2	205.1	171.2	107.9
2009f'	1,026.6	304.6	104.5	47.6	45.2	21.1	211.9	181.7	110.0

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

Table 10: California Motion Picture/TV Production Employment
(In thousands, March 2007 benchmark, based on NAICS)

	Motion Picture & Video Industries *	Sound Recording Industries	Broadcasting (Radio, TV & Cable)	Magnetic Media Manufacturing & Reproducing	Independent Artists, Writers, & Performers
2000	160.2	10.0	46.3	16.0	14.4
2001	145.5	8.5	45.9	13.8	14.1
2002	139.0	6.8	45.0	10.9	15.4
2003	139.2	5.7	45.2	11.5	15.9
2004	152.5	4.9	46.8	10.7	14.8
2005	146.7	4.9	47.3	9.4	15.7
2006	143.4	4.6	47.7	8.2	17.2
2007	157.3	6.4	53.7	8.1	18.3
2008e	141.6	6.6	52.1	6.6	17.4
2009f'	144.6	7.1	54.7	5.9	17.7

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

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

Table 11: Population Trends in California and the Los Angeles Five-County Area

Data from Decennial Census
Population estimates as of April 1, in thousands

	Los Angeles County		Orange County		San Bern. & Riverside Area		Ventura County		Total L.A. 5-Co. Area		State of California	
	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg
1900	170		20		46		14		250		1,485	
1910	504	196%	34	70%	93	102%	18	29%	650	160%	2,378	60%
1920	936	86%	61	79%	124	33%	29	61%	1,149	77%	3,427	44%
1930	2,208	136%	119	95%	215	73%	55	90%	2,597	126%	5,677	66%
1940	2,786	26%	131	10%	267	24%	70	27%	3,253	25%	6,907	22%
1950	4,152	49%	216	65%	452	69%	115	64%	4,934	52%	10,586	53%
1960	6,039	45%	704	226%	810	79%	199	73%	7,752	57%	15,717	48%
1970	7,032	16%	1,420	102%	1,143	41%	376	89%	9,972	29%	19,953	27%
1980	7,478	6%	1,933	36%	1,558	36%	529	41%	11,498	15%	23,668	19%
1990	8,863	19%	2,411	25%	2,589	66%	669	26%	14,532	26%	29,760	26%
2000	9,519	7%	2,846	18%	3,255	26%	753	13%	16,374	13%	33,872	14%

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

Data from Demographic Research Unit, California Department of Finance
Population estimates as of 7/1/07, in thousands -- adjusted for 2000 Census undercount

	Los Angeles County		Orange County		San Bern. & Riverside Area		Ventura County		Total of L.A. 5-Co. Area		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1980	7,500 \		1,945 \		1,572 \		532 \		11,549 \		23,782 \	
		18.1%		24.0%		66.7%		25.8%		26.1%		25.4%
1990	8,860 /		2,412 /		2,620 /		669 /		14,561 /		29,828 /	
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	677	1.2%	14,842	1.9%	30,458	2.1%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686	1.3%	15,091	1.7%	30,987	1.7%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	694	1.2%	15,213	0.8%	31,314	1.1%
1994	9,107	0.3%	2,576	1.0%	2,920	1.2%	701	1.0%	15,304	0.6%	31,523	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.3%	705	0.6%	15,370	0.4%	31,711	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	711	0.9%	15,471	0.7%	31,962	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.5%	15,670	1.3%	32,452	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	15,862	1.2%	32,862	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	16,138	1.7%	33,419	1.7%
2000	9,576	1.9%	2,863	2.1%	3,281	2.6%	759	2.2%	16,479	2.1%	34,095	2.0%
2001	9,737	1.7%	2,917	1.9%	3,392	3.4%	773	1.8%	16,819	2.1%	34,767	2.0%
2002	9,896	1.6%	2,960	1.5%	3,498	3.1%	787	1.8%	17,141	1.9%	35,361	1.7%
2003	10,027	1.3%	3,001	1.4%	3,631	3.8%	798	1.4%	17,457	1.8%	35,944	1.6%
2004	10,127	1.0%	3,033	1.1%	3,762	3.6%	807	1.1%	17,729	1.6%	36,454	1.4%
2005	10,197	0.7%	3,057	0.8%	3,893	3.5%	812	0.6%	17,959	1.3%	36,896	1.2%
2006	10,248	0.5%	3,075	0.6%	4,016	3.2%	819	0.9%	18,158	1.1%	37,333	1.2%
2007	10,294	0.4%	3,098	0.7%	4,110	2.3%	827	1.0%	18,329	0.9%	37,771	1.2%

Sources: California Dept. of Finance, Demographic Research Unit

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

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

Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
	Los Angeles County						
2002	158.4	151.6	59.9	91.7	66.7	85.5	-18.8
2003	131.2	152.4	59.4	93.0	38.2	73.6	-35.4
2004	100.6	151.3	61.2	90.1	10.5	71.8	-61.3
2005	69.1	151.4	59.4	92.0	-22.9	63.4	-86.3
2006	51.5	150.7	60.1	90.6	-39.1	65.3	-104.4
2007	46.6	152.5	60.8	91.7	-45.0	69.6	-114.6
	Orange County						
2002	43.2	45.0	16.6	28.4	14.8	20.8	-6.0
2003	40.8	45.2	16.9	28.3	12.5	18.9	-6.4
2004	31.9	45.0	17.5	27.5	4.4	18.4	-14.0
2005	23.4	44.7	17.0	27.7	-4.3	15.5	-19.8
2006	18.6	44.1	17.2	26.9	-8.3	16.3	-24.6
2007	22.8	44.6	17.4	27.2	-4.3	17.6	-21.9
	Riverside County						
2002	63.1	25.7	12.9	12.8	50.3	7.3	43.0
2003	80.0	27.7	12.9	14.8	65.2	6.7	58.5
2004	77.6	28.5	13.6	14.9	62.7	7.1	55.6
2005	80.9	30.4	13.2	17.2	63.7	6.7	57.0
2006	82.0	32.4	13.4	19.0	63.0	7.5	55.5
2007	66.1	35.1	13.5	21.6	44.5	7.9	36.6
	San Bernardino County						
2002	42.3	29.3	11.5	17.8	24.5	7.2	17.3
2003	52.8	30.5	11.7	18.8	34.0	6.1	27.9
2004	54.3	31.1	12.3	18.8	35.5	6.6	28.9
2005	49.8	32.4	11.9	20.5	29.3	5.7	23.6
2006	40.9	33.7	12.1	21.6	19.3	6.6	12.7
2007	28.1	35.4	12.2	23.2	4.9	6.9	-2.0
	Ventura County						
2002	13.3	11.4	4.8	6.6	6.7	3.7	3.0
2003	11.4	11.9	4.8	7.1	4.3	4.0	0.3
2004	8.5	11.9	5.2	6.7	1.8	4.1	-2.3
2005	5.0	12.0	5.0	7.0	-2.0	3.2	-5.2
2006	6.6	12.2	5.1	7.1	-0.5	3.3	-3.8
2007	7.7	12.4	5.1	7.3	0.4	3.6	-3.2
	San Diego County						
2002	57.6	43.7	19.5	24.2	33.4	16.6	16.8
2003	47.0	44.9	19.3	25.6	21.4	15.0	6.4
2004	29.0	45.2	20.4	24.8	4.2	14.9	-10.7
2005	23.0	46.0	19.8	26.2	-3.2	13.2	-16.4
2006	26.6	46.0	20.1	25.9	0.7	12.0	-11.3
2007	42.2	46.5	20.3	26.2	16.1	13.1	3.0
	State of California						
2002	594.5	526.3	232.9	293.4	301.1	229.8	71.3
2003	583.0	537.4	233.3	304.1	278.9	207.6	71.3
2004	510.3	539.9	239.3	300.6	209.7	207.4	2.3
2005	441.7	547.1	232.4	314.7	127.0	185.1	-58.1
2006	437.6	551.9	235.0	316.9	120.7	186.6	-65.9
2007	438.5	565.2	237.9	327.3	111.1	199.9	-88.8

Source: California Department of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

The year 2008 started on an unpleasant note for the County, with the strike by the Writer's Guild. While this ended in early February, the strike had an estimated economic impact of $2.5 billion on the county's economy over its 100- day duration. Worse, the entertainment industry never really got back to normal as the potential for a Screen Actor's Guild strike quickly reared its ugly head. At mid-year, feature film production by the major studios had slowed to a crawl.

In the meantime, international trade activity continued to run flat. The County also has some exposure to the foreclosure problem. While the Antelope Valley in the north part of the County is experiencing the most visible pain, foreclosures will become more bothersome in the urban core, especially in areas where there had been a burst of condo/loft development.

Total nonfarm employment in the County should inch up by 0.1% or by 2,300 jobs in 2008, while the unemployment rate will hit 6.2%. In 2009, the economic pace will pick up moderately, with an increase of 0.6% or 25,200 nonfarm jobs. However, unemployment will average 6.3%.

Positive Forces for 2008 into 2009

International trade: Export activity should remain robust, while by year-end 2008 import volume should start to pick up.

Technology: This sector will continue to creep forward, with much of the strength in the government sector. One piece of extremely good news – in mid-2008, orders were received for 15 more C-17 military cargo planes produced in Long Beach. Moreover, several "black" or top secret military programs are underway in the County.

Tourism: International travel as well as more visitors from China should keep this sector in the growth column. Also helping will be some new attractions. The "Simpson's" ride opened at Universal Studios Hollywood during the 2nd quarter 2008, while the Grammy Museum at LA Live will throw open its doors at year-end.

Major projects: Improvements are underway at the International Terminal at LAX. Several other major transportation projects are underway (the Gold Line extension to East Los Angeles, and the Exposition Blvd. light rail from Downtown Los Angeles to Culver City). More transportation projects are on the horizon. There is even discussion of an increase in the County's sales tax rate to fund still more transit projects. Also, there are several important private-sector projects. This list includes LA Live with the Convention Center hotel in Downtown Los Angeles, and the W Hotel project in Hollywood.

Negative Forces

Housing: While not of the magnitude of surrounding counties, there are foreclosure problems and some overbuilding scattered around the County.

Entertainment industry labor problems: The Screen Actor's Guild contract issue has not been settled as of this writing. Whatever the outcome, all the industry labor woes have had a huge ripple impact on areas where film and TV production is concentrated.

Congestion: Traffic congestion has become a real sore point, and efforts are underway to find funding for more rail projects (such as the "subway to the sea").

Local government finance: The city of Los Angeles is facing major budget problems, but so are some smaller cities around the County.

Net Results

Nonfarm employment in the County will turn in a modest performance in 2008, with a slight pickup in 2009. The largest job losses in 2008 will be found in construction (-10,000 jobs), finance & insurance (-5,000 jobs), and manufacturing (also a loss of -5,000 jobs). The biggest employment gains during 2008 will come in health services (+8,500 jobs), government (+6,000 jobs), and professional, scientific & technical services (+5,000 jobs).

The employment situation should improve a tad in 2009, with an increase of 0.6% or +25,200 jobs. This will push the nonfarm employment annual average to 4,143,300 jobs, which should finally move the County past its previous employment high recorded all the way back in 1990. Losses will continue during the year in construction (-5,000 jobs) and manufacturing (-2,500 jobs). The best gains in 2009 will come in health services (+8,600 jobs), professional, scientific & technical services

(+7,000 jobs), and leisure & hospitality services (+6,500 jobs).

Total personal income in the County should rise by 5.0% in 2008, compared with the 3.8% increase in the consumer price index for the area. Per capita personal income in 2008 should be $39,636, which ranks fourth in the region. The retail environment will remain difficult, with a -1.1% decline in sales volume in 2008, returning to positive growth (+2.1%) in 2009.

New homebuilding activity should remain quite lackluster, with the number of permits declining by -31.6% in 2008, before staging a very modest turnaround in 2009. Nonresidential construction valuations should increase by 5.4% in 2008. The outcome for 2009 depends on some major projects being able to obtain financing.

The number of overnight visitors to the County should ease slightly in 2008, falling by -0.8% to 25.6 million persons. International trade activity, as measured by two-way trade value, should increase by a modest 5.0% in 2008 to $367.0 billion. This will be a new record level. Rising energy costs present a challenge to this once reliable growth engine for the County, as shippers balance transit times versus costs of moving goods.

Hot Spots

It may seem incongruous to talk about hot spots in a lackluster economic environment, but there are some.

Downtown Los Angeles is anxiously awaiting the completion of more of LA Live, including the Grammy Museum. Downtown supporters are also waiting to see if construction gets underway in early 2009 on “The Grand” (aka The Grand Avenue Plan). The project has been stalled by difficulties in finding financing.

In **Hollywood**, work is well along on a project at Hollywood Blvd. and Vine that will include a W Hotel as well as retail and condominiums.

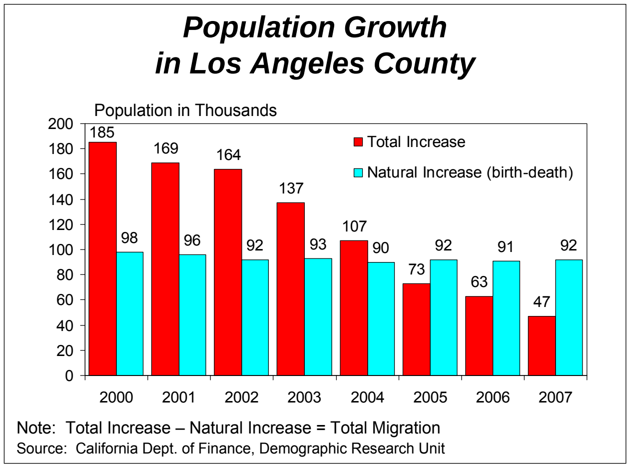
Risks

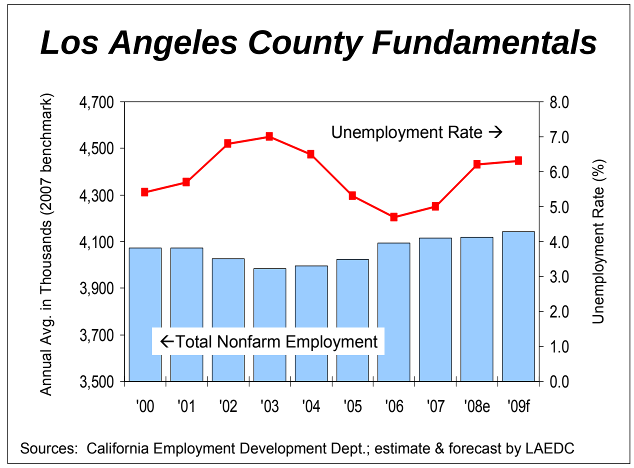
- There would be a big impact on the County’s jobs numbers if the labor situation in the entertainment industry spirals out of control, leading to a significant disruption of film and TV production.

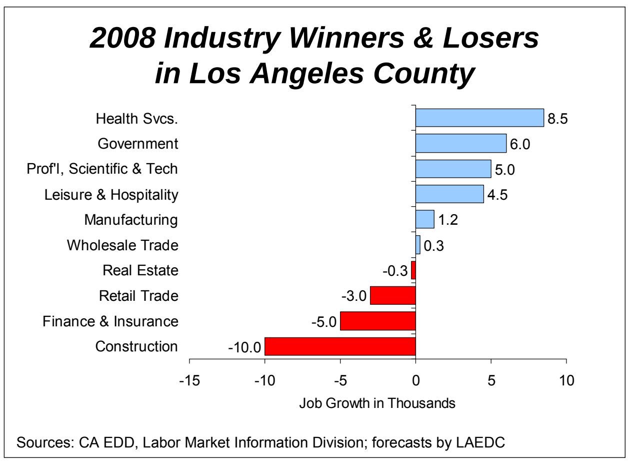
- A larger-than-expected problem with foreclosures.

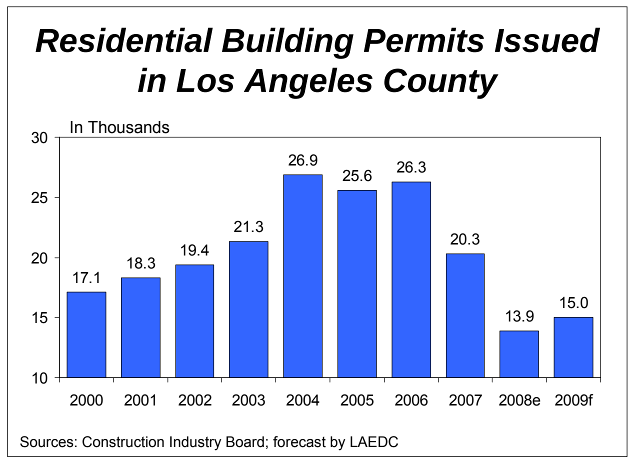
Table 13: Major Projects in Los Angeles County

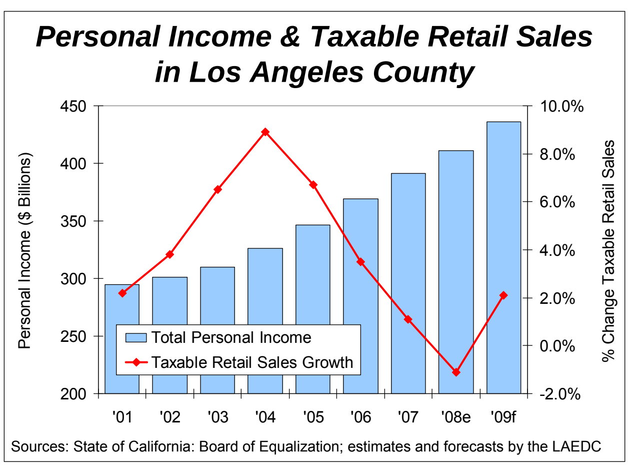
	Value ($ millions)	Compl. Date
Port expansions/environmental enhancements		
Ports of Long Beach and Los Angeles	$ 1,000+	Ongoing
Transportation		
Gold Line light rail (Downtown LA to East LA)	$ 898	2009
Exposition Blvd. light rail (DTLA-Culver City)	640	2010
State Route 47 (port access expressway)	400	--
LAX (TBIT, south runway, security)	1,300	--
Union Pacific ICTF expansion	300	--
Hospitals		
County/USC Hospital replacement	$818	2008
Kaiser Permanente hospital replacements:		
Downey	500	2008
Los Angeles Medical Center	260	2008
Panorama City	267	2007
South Bay	89	--
West Los Angeles	173	--
LAUSD school program	$ 18,800	Ongoing
Los Angeles Community College District	2,200	Ongoing
Grand Avenue	2,000	Ongoing
“LA Live” retail/entertainment/hotel in DTLA	1,300	Ongoing
Los Angeles City sewer upgrades	420	Ongoing
Veterans Home, West Los Angeles	183	2010
Tesoro refinery upgrade, Wilmington	1,000	Ongoing
UCLA Life Sciences Building	121	Ongoing


Population Growth
in Los Angeles County
Population in Thousands
Total Increase
Natural Increase (birth-death)
200
180
160
140
120
100
80
60
40
20
0
185
98
169
96
164
92
137
93
107
90
73
92
63
91
47
92
2000
2001
2002
2003
2004
2005
2006
2007
Note: Total Increase – Natural Increase = Total Migration
Source: California Dept. of Finance, Demographic Research Unit


Los Angeles County Fundamentals
Annual Avg. in Thousands (2007 benchmark)
4,700
4,500
4,300
4,100
3,900
3,700
3,500
Unemployment Rate →
←Total Nonfarm Employment
Unemployment Rate (%)
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
'00
'01
'02
'03
'04
'05
'06
'07
'08e
'09f
Sources: California Employment Development Dept.; estimate & forecast by LAEDC


2008 Industry Winners & Losers
in Los Angeles County
Health Svcs.
8.5
Government
6.0
Prof'l, Scientific & Tech
5.0
Leisure & Hospitality
4.5
Manufacturing
1.2
Wholesale Trade
0.3
Real Estate
-0.3
Retail Trade
-3.0
Finance & Insurance
-5.0
Construction
-10.0
-15
-10
-5
0
5
10
Job Growth in Thousands
Sources: CA EDD, Labor Market Information Division; forecasts by LAEDC


Residential Building Permits Issued
in Los Angeles County
In Thousands
30
25
20
15
10
17.1
18.3
19.4
21.3
26.9
25.6
26.3
20.3
13.9
15.0
2000
2001
2002
2003
2004
2005
2006
2007
2008e
2009f
Sources: Construction Industry Board; forecast by LAEDC


Personal Income & Taxable Retail Sales
in Los Angeles County
Personal Income ($ Billions)
450
400
350
300
250
200
% Change Taxable Retail Sales
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
Total Personal Income
Taxable Retail Sales Growth
'01
'02
'03
'04
'05
'06
'07
'08e
'09f
Sources: State of California: Board of Equalization; estimates and forecasts by the LAEDC

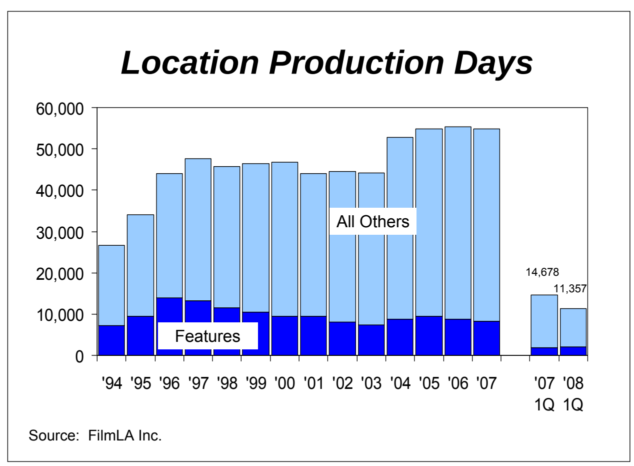

Location Production Days
60,000
50,000
40,000
30,000
20,000
10,000
0
All Others
Features
14,678
11,357
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
'04
'05
'06
'07
'07 1Q
'08 1Q
Source: FilmLA Inc.

Table 14: Los Angeles County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)	Chg. in CPI (%)
2000	9,576.0	4,072.1	5.4	279.050	29,141	70.321	230.0	24.2	17,071	3,296	3.3
2001	9,737.2	4,073.6	5.7	294.508	30,246	71.835	212.5	22.8	18,253	3,539	3.6
2002	9,895.7	4,026.8	6.8	301.003	30,418	74.548	214.3	22.1	19,364	2,920	2.7
2003	10,026.9	3,982.9	7.0	309.827	30,900	79.427	235.0	23.3	21,313	2,932	2.7
2004	10,127.4	3,996.5	6.5	326.402	32,230	86.497	264.2	24.3	26,935	3,174	3.3
2005	10,197.2	4,024.2	5.3	346.423	33,972	92.271	293.9	25.0	25,647	3,824	4.5
2006	10,247.7	4,092.5	4.7	369.174	36,025	95.544	329.4	25.4	26,348	3,896	4.4
2007	10,294.3	4,115.8	5.0	391.400	38,021	96.552	349.4	25.8	20,331	4,739	3.7
2008e	10,369.3	4,118.1	6.2	411.000	39,636	95.490	367.0	25.6	13,900	4,995	3.8
2009f	10,445.3	4,143.3	6.3	436.100	41,751	97.495	391.1	25.7	14,950	5,100	3.5
% Change											
'01/'00	1.68%	0.04%		5.54%	3.79%	2.15%	-7.61%	-5.79%	6.92%	7.37%	
'02/'01	1.63%	-1.15%		2.21%	0.57%	3.78%	0.85%	-3.07%	6.09%	-17.49%	
'03/'02	1.33%	-1.09%		2.93%	1.58%	6.54%	9.66%	5.43%	10.07%	0.41%	
'04/'03	1.00%	0.34%		5.35%	4.30%	8.90%	12.43%	4.29%	26.38%	8.25%	
'05/'04	0.69%	0.69%		6.13%	5.41%	6.68%	11.24%	2.88%	-4.78%	20.48%	
'06/'05	0.50%	1.70%		6.57%	6.04%	3.55%	12.08%	1.60%	2.73%	1.88%	
'07/'06	0.45%	0.57%		6.02%	5.54%	1.06%	6.07%	1.57%	-22.84%	21.64%	
'08/'07	0.73%	0.06%		5.01%	4.25%	-1.10%	5.04%	-0.78%	-31.63%	5.40%	
'09/'08	0.73%	0.61%		6.11%	5.34%	2.10%	6.57%	0.39%	7.55%	2.10%	

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: Los Angeles County Nonfarm Employment
(Annual averages, in thousands, March 2007 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	4,072.1	3.4	131.7	612.2	*342.3*	*269.9*	219.4	392.0	174.6	243.7
2001	4,073.6	3.8	136.8	577.9	*325.4*	*252.5*	219.4	394.8	175.6	226.3
2002	4,026.8	3.7	134.5	534.8	*299.3*	*235.5*	217.3	398.2	167.2	207.3
2003	3,982.9	3.8	134.6	500.0	*276.2*	*223.8*	214.1	399.3	161.5	202.3
2004	3,996.5	3.8	140.2	483.6	*267.8*	*215.8*	215.1	405.4	161.1	211.9
2005	4,024.2	3.7	148.7	471.7	*263.4*	*208.3*	219.3	414.4	161.7	207.6
2006	4,092.5	4.0	157.5	462.2	*257.3*	*204.4*	225.7	423.3	165.2	205.6
2007	4,115.8	4.4	157.2	447.1	*248.4*	*198.8*	229.6	423.6	166.4	209.2
2008e	4,118.1	4.5	147.2	448.3	*244.8*	*192.8*	229.9	420.6	167.4	207.2
2009f	4,143.4	4.6	142.2	446.8	*242.8*	*197.3*	230.5	419.1	168.9	210.2

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	150.8	73.8	227.7	85.6	274.6	86.2	330.7	344.7	140.0	581.3
2001	156.2	72.7	233.6	84.4	270.0	88.6	343.6	348.5	143.2	598.3
2002	159.8	72.8	231.6	82.5	261.0	93.0	357.4	354.2	145.6	606.1
2003	165.0	74.8	233.5	77.4	249.1	94.8	365.6	362.6	145.5	599.3
2004	165.0	76.7	237.7	71.2	253.6	95.4	371.6	372.8	144.7	587.1
2005	166.2	77.8	250.9	67.6	257.7	97.4	373.9	377.8	144.3	583.7
2006	169.0	79.8	264.0	63.0	71.9	99.4	379.3	388.6	145.2	589.4
2007	165.5	79.5	273.1	59.1	273.5	101.9	386.4	397.4	147.1	594.8
2008e	160.5	79.2	278.1	58.1	272.0	104.6	394.9	401.9	149.1	600.8
2009f	159.5	79.2	285.1	57.1	272.2	107.2	403.5	408.4	151.2	602.0

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

VI. OUTLOOK FOR ORANGE COUNTY

Orange County started to record year-to-year job losses in May 2007, and the situation has continued to deteriorate. Much of the pain was caused by the collapse of the many subprime lenders headquartered in the County. New homebuilding has also been rather lackluster. Fallout from the subprime collapse has included a large amount of office space given back to building owners. Unfortunately, significant amounts of new space were under construction, about 6 million square feet in 2007 and 2008. As a result, the County's office vacancy rate has spiked to worrisome levels.

Yet, there are still bits of good news. There is a $652 million expansion at John Wayne/Orange County Airport. In addition, the County's Transportation Commission is spending $2.5 billion over the next 30 years to improve Metrolink (rail commuter) service in the County. Also, the renovations of Disney's California Adventure continue, while the "Garden Walk" development has opened opposite Disneyland.

The County lost -5,900 nonfarm jobs in 2007, and the forecast for 2008 calls for an additional -18,600 jobs to disappear. With this magnitude of employment loss, the County is really on the edge of a recession. In 2009, the County should move back into a job growth mode.

Positive Forces through 2008 into 2009

Technology: This sector is holding up rather well, with support coming from both consumer and government markets.

Tourism: This sector should see a modest decline in the number of overnight visitors in 2008. Providing support will be major new rides at Disneyland and Knott's Berry Farm.

Major projects: There are several major projects, such as the Metrolink service enhancements, while $2 billion will be spent over the next few years to upgrade the County's freeways.

Negative Forces through 2008 into 2009

Subprime lending: While the worst of the employment cuts should be over by the end of 2008, the County has lost over 26,000 high-wage jobs in financial services.

Delayed developments: The housing problem has delayed development at two high profile locations in the County – the "Great Park" and the "District," both ex-military facilities.

High office vacancy rates: The large amounts of new and "give-back" space will keep a lid on new office construction over the next few years.

Net Results

In 2008, the largest job losses in the County will come in the housing related sectors. Financial services will lose -15,000 jobs, while construction will shed -4,500 jobs. Manufacturing will also have a difficult year, with -3,900 jobs lost. There will be industries adding workers in 2008, but the roster is pretty thin. The County's government sector will add 2,400 jobs, followed by health services with 2,200 new jobs. Adding 1,600 new jobs each in 2008 will be retail, and professional, scientific and technical services (national law firms are reported to be moving in to the County to take advantage of expected litigation from the subprime mess). As could be expected, Orange County's unemployment rate will move up rather dramatically. In 2007, it averaged 3.9%. The average will be 5.1% in both 2008 and 2009.

Total personal income should move ahead by 2.2% in 2008 to $150.7 billion. The County's per capita personal income in 2008 will reach $48,190, the highest level in all of southern California. The retail sales outlook will be rather dismal, with taxable sales volume declining by -1.6% in 2008, followed by a wan +0.3% gain in 2009.

New homebuilding in the County will be weak in 2008, with just 4,200 units permitted. Nonresidential construction activity will also be disappointing, reflecting high vacancy rates in both the office and industrial sectors.

Hot Spots

This list is little changed from the last Forecast. There is a lot of development in **Anaheim**, reflecting upgrades at the California Adventure, as well as further work on Garden Walk. And beach front development at **Huntington Beach** is still evidently on track. There is also re-use of older industrial sites in both Anaheim and Seal Beach.

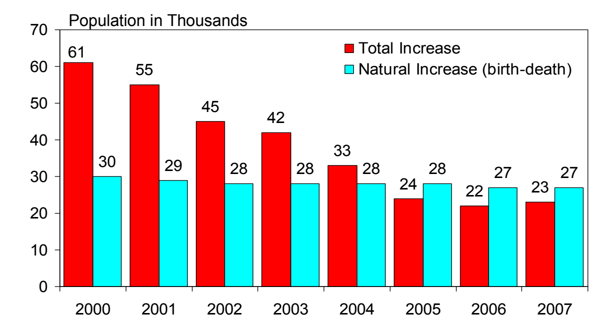
Risks

- Bigger-than-expected problems in the housing sector.

Table 16: Major Projects in Orange County

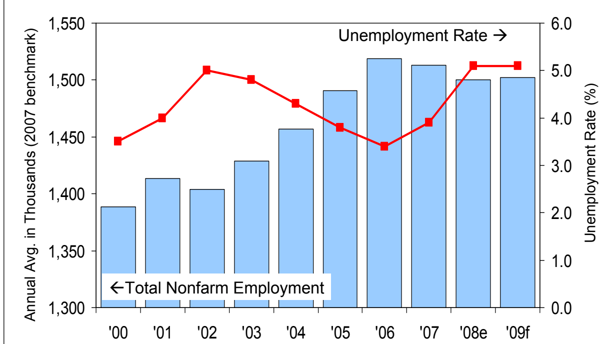
	Value ($ millions)	Compl. Date
UC Irvine Medical Center replacement	$ 427	2008
St. Joseph Hospital, Orange	--	--
St. Jude Medical Center, Fullerton	122	2008
Mission Hospital Medical Ctr., Mission Viejo	610	--
Kaiser Permanente, Irvine	350	--
John Wayne Airport terminal expansion	249	--
OCTA service improvements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

Population Growth in Orange County



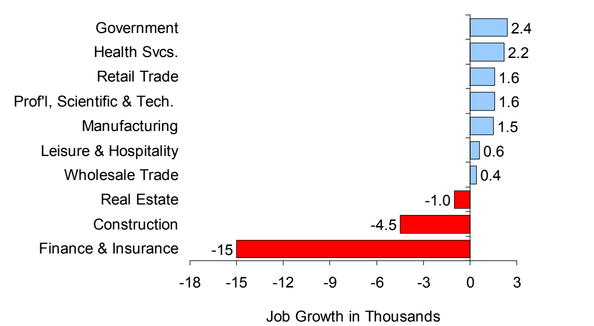
Note: Total Increase – Natural Increase = Total Migration
Source: California Dept. of Finance, Demographic Research Unit

Orange County Fundamentals



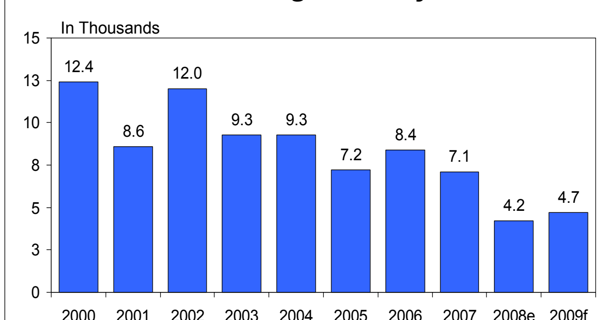
Sources: California Employment Development Dept.; estimate & forecast by LAEDC

2008 Industry Winners & Losers in Orange County



Sources: CA EDD, Labor Market Information Division; forecasts by LAEDC

Residential Building Permits Issued in Orange County



Sources: Construction Industry Board, forecast by LAEDC

Table 17: Orange County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)
2000	2,863.4	1,388.9	3.5	106.004	37,020	27.485	40.2	12,367	1,762
2001	2,917.2	1,413.7	4.0	109.010	37,368	28.519	40.9	8,646	1,350
2002	2,960.4	1,403.7	5.0	111.750	37,748	29.647	41.7	12,020	1,209
2003	3,001.2	1,429.0	4.8	117.722	39,225	32.288	42.7	9,311	1,006
2004	3,033.0	1,456.7	4.3	125.798	41,476	35.442	43.5	9,322	1,133
2005	3,056.8	1,491.0	3.8	135.588	44,356	37.673	44.7	7,206	1,495
2006	3,075.3	1,518.9	3.4	143.949	46,808	39.074	44.9	8,371	2,401
2007	3,098.2	1,513.0	3.9	147.500	47,608	39.676	44.4	7,070	2,005
2008e	3,127.2	1,500.4	5.1	150.700	48,190	39.050	44.2	4,200	1,303
2009f	3,158.2	1,502.3	5.1	156.000	49,395	39.158	44.3	4,700	1,040
% Change									
'01/'00	1.88%	1.79%		2.84%	0.94%	3.76%	1.74%	-30.09%	-23.38%
'02/'01	1.48%	-0.71%		2.51%	1.02%	3.96%	1.96%	39.02%	-10.44%
'03/'02	1.38%	1.80%		5.34%	3.91%	8.91%	2.40%	-22.54%	-16.79%
'04/'03	1.06%	1.94%		6.86%	5.74%	9.77%	1.87%	0.12%	12.62%
'05/'04	0.78%	2.35%		7.78%	6.94%	6.29%	2.76%	-22.70%	31.95%
'06/'05	0.61%	1.87%		6.17%	5.53%	3.72%	0.45%	16.17%	60.60%
'07/'06	0.74%	-0.39%		2.47%	1.71%	1.54%	-1.11%	-15.54%	-16.49%
'08/'07	0.94%	-0.83%		2.17%	1.22%	-1.58%	-0.45%	-40.59%	-30.01%
'09/'08	0.99%	0.13%		3.52%	2.50%	0.28%	0.23%	11.90%	-20.18%

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

Table 18: Orange County Nonfarm Employment

(Annual averages, in thousands, March 2007 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,388.9	0.6	76.6	215.5	*152.5*	*63.0*	80.8	147.0	30.3	41.2
2001	1,413.7	0.6	80.8	209.0	*147.8*	*60.7*	83.9	150.1	30.4	40.4
2002	1,403.7	0.6	79.2	190.8	*133.6*	*57.2*	82.4	151.4	28.7	36.8
2003	1,429.0	0.5	83.7	183.9	*127.2*	*56.7*	83.2	152.8	29.0	35.2
2004	1,456.7	0.6	92.2	183.5	*127.1*	*56.4*	82.4	153.2	29.2	33.8
2005	1,491.0	0.7	99.9	182.9	*128.3*	*54.6*	83.0	158.1	28.7	32.8
2006	1,518.9	0.6	106.1	183.4	*128.0*	*54.7*	83.7	160.8	28.2	31.9
2007	1,513.0	0.6	103.7	180.3	*126.1*	*54.2*	87.1	160.7	28.7	31.3
2008e	1,500.4	0.6	99.2	181.8	*123.6*	*58.2*	87.5	62.3	29.4	29.8
2009f	1,502.3	0.6	97.2	181.5	*122.1*	*59.4*	88.1	164.2	30.2	28.8

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	70.0	30.9	91.2	38.6	117.7	17.7	94.4	145.9	43.9	146.6
2001	73.8	32.1	94.3	39.7	114.5	16.0	98.8	154.3	45.2	150.9
2002	77.4	32.7	95.1	35.8	118.0	15.9	102.5	155.4	45.9	155.1
2003	88.0	34.2	96.4	32.9	123.3	18.9	107.5	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	126.7	19.2	111.8	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	131.1	19.8	113.7	165.0	48.4	155.3
2006	99.0	39.1	109.3	28.9	136.4	20.3	117.0	169.6	47.7	156.7
2007	89.6	38.9	112.1	28.0	132.1	21.4	120.2	171.6	47.6	159.2
2008e	74.6	37.9	113.7	26.8	129.6	22.0	122.4	172.2	48.3	161.6
2009f	71.6	37.4	115.6	25.8	129.1	22.7	125.0	173.2	49.0	163.5

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

VII. OUTLOOK FOR THE RIVERSIDE-SAN BERNARDINO AREA

Thanks to the housing boom and robust activity in international trade, this area had been chalking up region-leading economic growth for several years. The housing crash and the flattening of international trade in 2007 have changed the dynamic. Nonfarm employment growth went negative year-over-year in mid-2007, and job losses in the area have been accelerating.

However, some major projects in and around Ontario have remained on track, while $2 billion will be spent on freeway upgrades over the next few years.

Several factors will impact the two-county area's future growth. One obviously is the end of the housing downturn. The recovery might not start until 2010. Another is water supply. Some projects have been held up because the local water agency cannot guarantee an adequate supply. Another worry is possible shifts in international trade flows caused by high energy costs.

In 2008, nonfarm employment in the Riverside-San Bernardino area should decline by -1.6% or 20,500 jobs, while the unemployment rate will spike to 7.9%. The two-county area is in recession. A modest recovery should get underway in 2009, with employment up by 0.1% or just 1,600 jobs.

Positive Forces for the Remainder of 2008 and into 2009

International trade: By year-end 2008, import activity should move onto a modest growth track.

Transportation projects: Like other areas in Southern California, there will be an increase in spending on critical highway/freeway projects.

Housing affordability: While the decline in home prices has been painful for owners and financial institutions, housing in the area is now much more affordable.

Negative Forces for the Remainder of 2008 and into 2009

The housing crash: This has resulted in a wide path of destruction, including not just builders, but financial institutions and retailers. Worse, the drop in home values will cause financial problems for local governments in the months ahead.

Problems in the office market: Much like neighboring Orange County, a large of amount of office space has hit the market driven by activities related to home building.

Softness in tourism: The region is exposed in two ways. The winter travel season in the Coachella Valley in '07/'08 was weak. There is concern that airlines will cut service to Palm Springs International Airport, hurting future winter travel. Also, there is heavy competition for business at the Indian casinos (a drive market), and the travel decision would be impacted by gasoline prices.

Water supply: As noted earlier water agencies are being cautious about allowing new development in light of the drought situation.

Net Results

Like the rest of Southern California, the Riverside-San Bernardino area will continue to see a big drag on employment from housing related activities. In 2008, construction employment should fall by -16,000 jobs (finance and real estate will chip in with a loss of another -3,300 jobs). The area's manufacturing sector should lose -6,100 jobs, reflecting its exposure to housing related products as well as motor homes. Retail should see a decline of -3,200 jobs. As to sectors adding jobs in 2008, it will be pretty thin gruel. Government should add 5,000 jobs, health services should see 4,200 new jobs in 2008, while transportation & warehousing should add 1,800 jobs.

Total personal income in the two-county area should increase by a modest 2.5% in 2008. Per capita personal income should grow by just 0.5% to $28,419, which is the lowest level in the region. Taxable retail sales in the area declined by -3.1% in 2007, and a -3.7% decline is forecast for 2008. There will be a little relief in 2009, when sales should decline by "just" -1.0%. Retailers rushed to the area, attracted by the strong population growth and all the new "roof tops." The fall-out has been rather brutal, especially in the furniture and building supplies segments.

New homebuilding in the Riverside-San Bernardino area reached a recent peak in 2004, when 52,696 units were permitted. For 2008, the forecast is for just 10,200 units to start construction, with activity remaining flat in 2009. Nonresidential construction, which also had been robust, will decline by -28.9% in 2008, with a further drop expected for 2010.

One un-noticed impact of the area's housing slowdown is a slight slowing in population growth. From July 1, 2006 to July 1, 2007, the two-county area added 94,200 residents. From 2007 to 2008, the increase was 81,000 residents.

Hot Spots

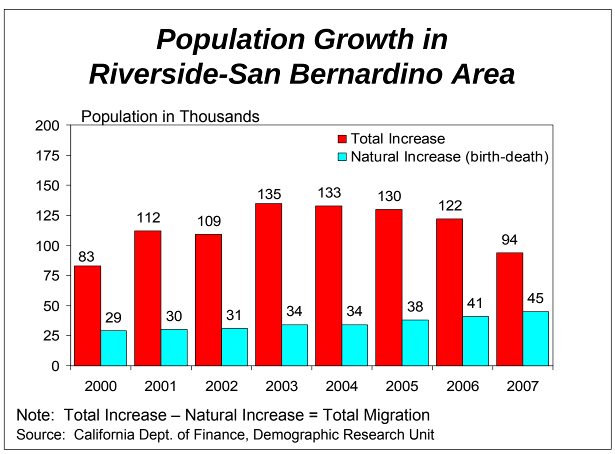
Right now, the most development is occurring in the **Ontario** area. However, several ambitious projects are on the drawing boards for the city of **Riverside**.

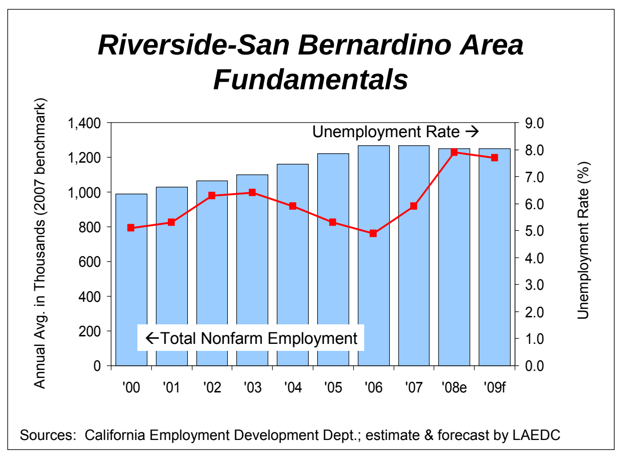
Risks

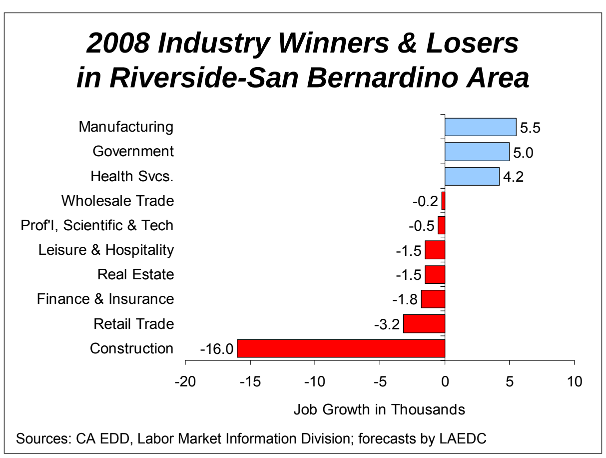
- A slower-than-expected recovery for the area's housing industry.
- A swing to more all-water international trade service to the U.S. east coast, driven by fuel cost considerations, which would impact the area's large warehousing/distribution sector.

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

	Value ($ millions)	Compl. Date
Ontario Vineyard Hospital	$ 266	--
Kaiser Permanente, Fontana replacement	700	2010
UC Riverside Science Building	66	--
Piemonte mixed-use	900	--
Annenberg Pavilion at Eisenhower Medical Center, Rancho Mirage	212	2009
Preliminary work on New Model Colony development	96	--







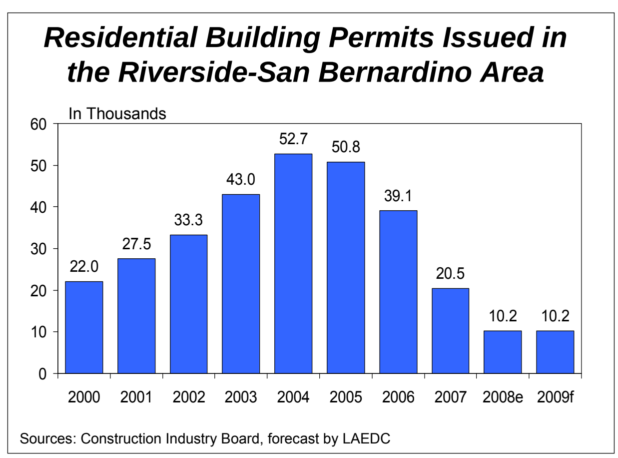


Table 20: Riverside-San Bernardino Area Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)
2000	3,281.3	988.4	5.1	74.787	22,792	24.992	21,990	1,536
2001	3,392.5	1,029.7	5.3	80.406	23,701	26.699	27,541	1,423
2002	3,497.8	1,064.5	6.3	84.151	24,058	28.570	33,280	1,473
2003	3,630.5	1,099.2	6.4	89.476	24,646	31.936	43,001	1,720
2004	3,762.3	1,160.0	5.9	96.756	25,717	37.194	52,696	2,485
2005	3,892.7	1,222.0	5.3	104.067	26,734	41.960	50,818	2,394
2006	4,015.6	1,267.7	4.9	111.596	27,791	43.973	39,083	2,852
2007	4,109.8	1,268.8	5.9	116.200	28,274	42.614	20,457	2,824
2008e	4,190.8	1,248.3	7.9	119.100	28,419	41.018	10,200	2,008
2009f	4,272.8	1,249.9	7.7	122.800	28,740	40.617	10,150	1,516
<u>% Change</u>								
'01/'00	3.39%	4.18%		7.51%	3.99%	6.83%	25.24%	-7.36%
'02/'01	3.10%	3.38%		4.66%	1.51%	7.01%	20.84%	3.51%
'03/'02	3.79%	3.26%		6.33%	2.44%	11.78%	29.21%	16.77%
'04/'03	3.63%	5.53%		8.14%	4.35%	16.46%	22.55%	44.48%
'05/'04	3.47%	5.34%		7.56%	3.95%	12.81%	-3.56%	-3.66%
'06/'05	3.16%	3.74%		7.23%	3.95%	4.80%	-23.09%	19.13%
'07/'06	2.35%	0.09%		4.13%	1.74%	-3.09%	-47.66%	-0.98%
'08/'07	1.97%	-1.62%		2.50%	0.51%	-3.75%	-50.14%	-28.90%
'09/'08	1.96%	0.13%		3.11%	1.13%	-0.98%	-0.49%	-24.50%

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

Table 21: Riverside-San Bernardino Area Nonfarm Employment
(Annual averages, in thousands, March 2007 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	988.4	1.3	79.9	119.7	*85.3*	*34.4*	38.2	127.0	46.3	14.3
2001	1,029.7	1.2	88.5	118.6	*84.2*	*34.4*	41.6	132.5	45.7	14.6
2002	1,064.5	1.2	90.9	115.4	*82.0*	*33.4*	41.9	137.5	46.8	14.1
2003	1,099.2	1.2	99.0	116.1	*82.4*	*33.7*	43.5	142.7	50.1	13.9
2004	1,160.0	1.2	111.8	120.1	*85.5*	*34.6*	45.6	153.8	55.5	14.0
2005	1,222.0	1.4	123.3	121.1	*86.1*	*35.0*	49.9	165.7	60.2	14.5
2006	1,267.7	1.4	127.5	123.4	*86.9*	*36.5*	54.2	173.2	63.8	15.3
2007	1,268.8	1.4	112.8	118.9	*82.5*	*36.4*	56.4	175.4	66.7	15.2
2008e	1,248.3	1.4	96.8	124.4	*77.9*	*34.9*	56.2	172.2	68.5	14.7
2009f	1,249.9	1.5	91.8	127.7	*75.4*	*33.9*	56.7	171.7	70.8	14.5

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	21.5	14.2	22.1	10.3	64.4	11.1	90.7	100.6	34.8	192.1
2001	22.0	15.3	24.6	10.6	66.6	11.8	94.3	104.5	37.1	200.2
2002	23.5	15.9	27.1	11.3	68.4	12.6	99.8	107.2	38.1	212.7
2003	25.7	16.9	28.7	11.0	75.7	13.2	102.7	109.0	38.4	211.6
2004	28.0	17.7	31.0	11.6	82.9	13.4	104.9	116.7	39.3	212.5
2005	30.1	18.9	35.0	12.0	86.2	13.6	106.3	122.6	40.8	220.4
2006	31.7	19.9	39.9	10.8	91.7	14.1	108.0	128.1	42.5	222.2
2007	30.9	19.2	40.7	9.7	95.1	14.9	111.4	131.7	42.6	225.7
2008e	29.1	17.7	40.2	9.5	94.1	15.6	115.8	130.2	42.9	230.7
2009f	28.6	17.0	40.4	9.3	94.3	16.5	119.8	131.1	43.0	233.7

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

VIII. OUTLOOK FOR VENTURA COUNTY

The last year has been quite difficult for Ventura County. Its housing industry encountered very rough going. Amgen announced job cuts, which were very painful. Finally, Countrywide Home Finance has been acquired by Bank of America. There will be job losses, though no hard numbers have been released. However, a drive along the 101 freeway through Thousand Oaks reveals a lot of office buildings with the Countrywide name on top.

Other concerns include the proposed prohibition of certain pesticides, which would not be good news for the County's strawberry growers. And there is still debate over land use restrictions in the County.

On a positive note, California State University Channel Islands is rapidly developing. County leaders are trying to build their bio-med industry, using displaced Amgen workers. Finally, renovation and expansion continues at the Oaks regional mall in Thousand Oaks.

Employment trends in the County have been unpleasant. In 2007, there was a decline of -0.6% or -1,900 jobs. In 2008, the forecast is for a further loss of -1.6% or -4,800 jobs. There should be a modest recovery in 2009, with an increase of 0.2% or 700 jobs. The unemployment rate will spike in 2008 to 6.1%, and hold at that level in 2009.

Positive Forces for the Balance of 2008 and into 2009

There is still some nonresidential development, but financing issues have been a challenge.

Negative Forces for the Balance of 2008 and into 2009

Housing: This will act as a brake on the County's economy into 2009.

Job losses: While people focus on the direct job losses announced (i.e., Amgen and Countrywide), one shouldn't forget the ripple impact.

Net Results

Housing related activities will act a major brake on the County's economy in 2008. Construction employment will slip by -1,700 jobs, while financial services and real estate will add a combined -700 more. Manufacturing losses have also hurt the County, with a forecasted decline of -1,800 jobs. The plus industries for the County in 2008 are a small group. Education services and health services will each add 400 jobs, while leisure & hospitality services will see a gain of 300 jobs.

Total personal income should increase by a modest 2.0% in 2008, while per capita personal income should grow by just 1.0% to $42,291. This is the third highest reading in the Southern California area. Taxable retail sales in the County crept ahead by 0.6% in 2007, but in 2008 volume is forecast to decline by -2.0%.

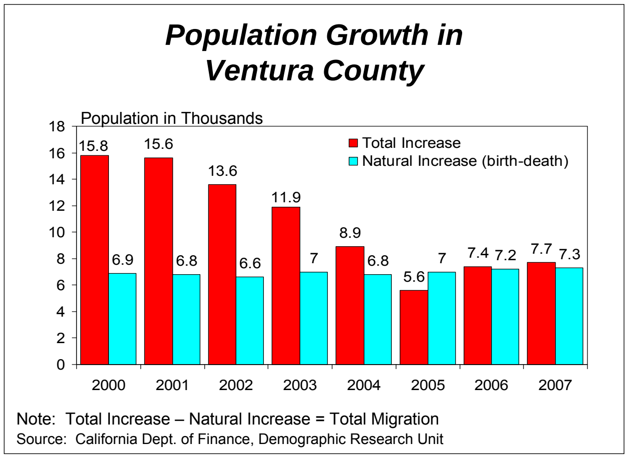
New homebuilding in the County will run at very low levels over the forecast period. In 2008, 970 permits should be issued, while 990 units should be permitted in 2009. Contrast this with the recent high of 4,516 permits issued in 2005.

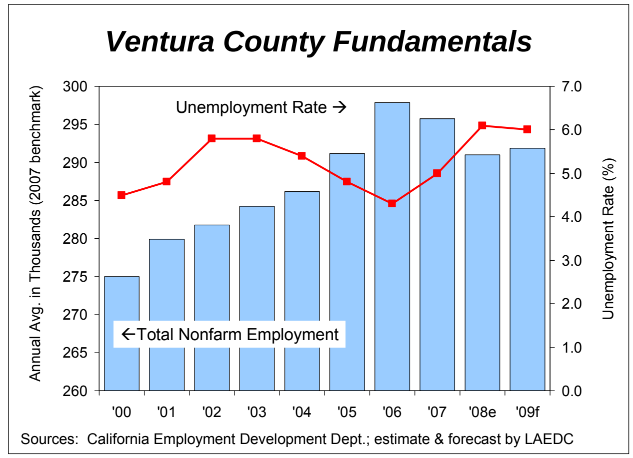
Hot Spots

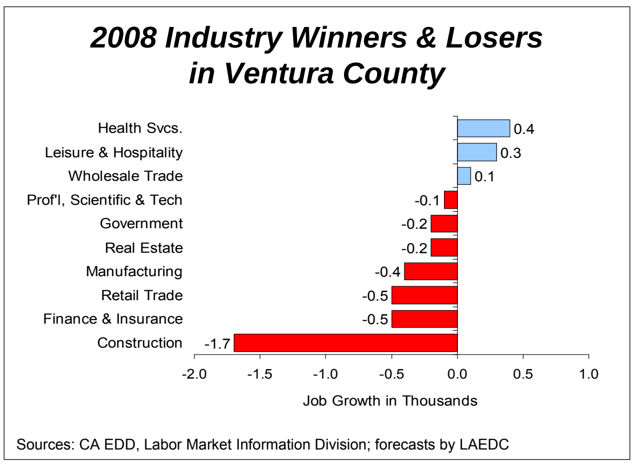
Work on a variety of projects is underway all around the County, but currently there are no major game-changers.

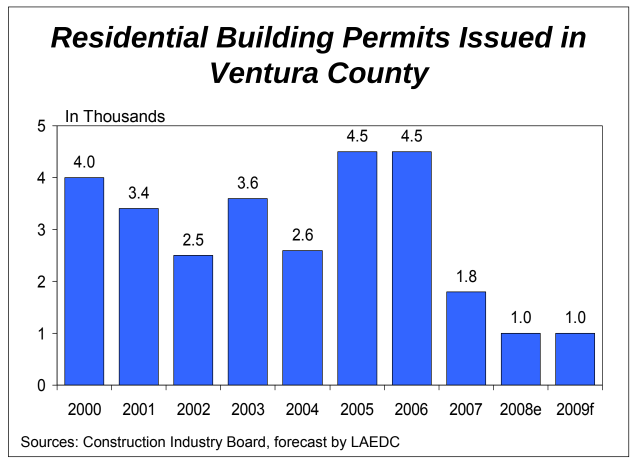
Risks

- Housing
- Water supply also has to be monitored, as the County is still a major agricultural producer


Population Growth in Ventura County
Population in Thousands
Total Increase
Natural Increase (birth-death)
15.8 6.9 15.6 6.8 13.6 6.6 11.9 7 8.9 6.8 5.6 7 7.4 7.2 7.7 7.3
0 2 4 6 8 10 12 14 16 18
2000 2001 2002 2003 2004 2005 2006 2007
Note: Total Increase – Natural Increase = Total Migration
Source: California Dept. of Finance, Demographic Research Unit


Ventura County Fundamentals
Annual Avg. in Thousands (2007 benchmark)
Unemployment Rate (%)
Unemployment Rate →
←Total Nonfarm Employment
260 265 270 275 280 285 290 295 300
0.0 1.0 2.0 3.0 4.0 5.0 6.0 7.0
'00 '01 '02 '03 '04 '05 '06 '07 '08e '09f
Sources: California Employment Development Dept.; estimate & forecast by LAEDC


2008 Industry Winners & Losers in Ventura County
Health Svcs. 0.4
Leisure & Hospitality 0.3
Wholesale Trade 0.1
Prof'l, Scientific & Tech -0.1
Government -0.2
Real Estate -0.2
Manufacturing -0.4
Retail Trade -0.5
Finance & Insurance -0.5
Construction -1.7
-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0
Job Growth in Thousands
Sources: CA EDD, Labor Market Information Division; forecasts by LAEDC


Residential Building Permits Issued in Ventura County
In Thousands
4.0 3.4 2.5 3.6 2.6 4.5 4.5 1.8 1.0 1.0
0 1 2 3 4 5
2000 2001 2002 2003 2004 2005 2006 2007 2008e 2009f
Sources: Construction Industry Board, forecast by LAEDC

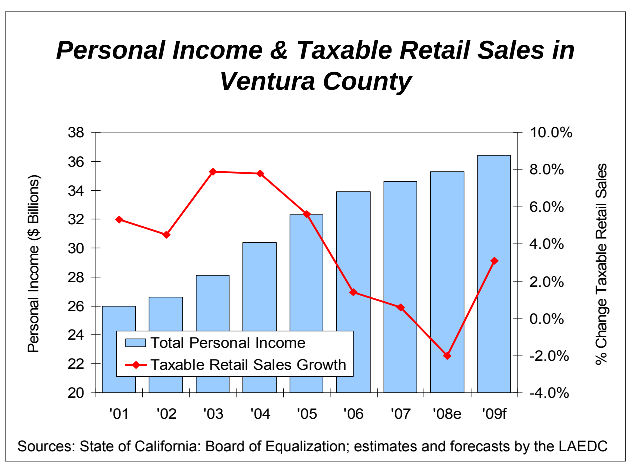

Personal Income & Taxable Retail Sales in Ventura County
Personal Income ($ Billions)
% Change Taxable Retail Sales
20 22 24 26 28 30 32 34 36 38
-4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0% 10.0%
Total Personal Income
Taxable Retail Sales Growth
'01 '02 '03 '04 '05 '06 '07 '08e '09f
Sources: State of California: Board of Equalization; estimates and forecasts by the LAEDC

Table 22: Ventura County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)
2000	758.6	275.0	4.5	25.364	33,435	6.504	3,971	282
2001	773.3	279.9	4.8	25.964	33,576	6.848	3,446	309
2002	786.7	281.8	5.8	26.648	33,873	7.153	2,507	289
2003	798.0	284.2	5.8	28.057	35,159	7.717	3,635	379
2004	806.6	286.2	5.4	30.438	37,736	8.317	2,603	353
2005	812.1	291.2	4.8	32.303	39,777	8.782	4,516	372
2006	818.8	297.7	4.3	33.940	41,451	8.902	2,461	326
2007	826.6	295.8	5.0	34.600	41,858	8.956	1,844	346
2008f	834.7	291.0	6.1	35.300	42,291	8.777	970	313
2009f	843.2	291.7	6.0	36.400	43,169	8.795	990	302
% Change								
'01/'00	1.94%	1.78%		2.37%	0.42%	5.29%	-13.22%	9.57%
'02/'01	1.73%	0.68%		2.63%	0.89%	4.45%	-27.25%	-6.47%
'03/'02	1.44%	0.85%		5.29%	3.80%	7.88%	44.99%	31.14%
'04/'03	1.08%	0.70%		8.49%	7.33%	7.78%	-28.39%	-6.86%
'05/'04	0.68%	1.75%		6.13%	5.41%	5.59%	73.49%	5.38%
'06/'05	0.83%	2.23%		5.07%	4.21%	1.37%	-45.50%	-12.37%
'07/'06	0.95%	-0.64%		1.94%	0.98%	0.61%	-25.07%	6.13%
'08/'07	0.98%	-1.62%		2.02%	1.03%	-2.00%	-47.40%	-9.54%
'09/'08	1.02%	0.24%		3.12%	2.08%	0.21%	2.06%	-3.51%

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

Table 23: Ventura County Nonfarm Employment
(Annual averages, in thousands, March 2007 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	275.0	0.7	15.4	41.1	*27.7*	*13.4*	10.3	33.6	5.6	7.9
2001	279.9	0.6	16.1	40.5	*26.6*	*13.9*	11.0	34.0	5.9	8.4
2002	281.8	0.7	15.7	38.0	*24.9*	*13.1*	11.7	34.2	5.8	8.1
2003	284.2	0.6	16.6	37.0	*24.0*	*13.0*	11.8	34.5	5.6	7.2
2004	286.2	0.7	16.9	38.3	*24.2*	*14.1*	12.2	35.3	5.7	6.8
2005	291.2	0.8	18.8	37.8	*23.9*	*13.9*	12.5	36.5	5.8	6.2
2006	297.7	1.1	20.5	38.4	*24.1*	*14.3*	12.6	37.6	6.1	6.0
2007	295.8	1.1	18.6	37.9	*23.8*	*14.1*	13.1	37.4	6.1	5.9
2008e	291.0	1.0	16.9	36.1	*23.2*	*12.9*	13.2	36.9	6.4	5.6
2009f	291.7	1.0	16.4	35.6	*23.0*	*12.6*	13.4	37.2	6.7	5.5

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	13.8	4.0	13.2	3.7	22.6	6.5	17.6	25.1	9.7	44.3
2001	15.5	4.2	13.8	3.4	20.0	6.8	18.5	26.6	9.6	45.1
2002	17.7	4.6	13.7	3.3	19.6	7.4	18.9	27.2	10.2	45.3
2003	19.2	4.3	13.6	3.9	19.4	7.8	19.9	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	7.6	19.9	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	7.8	20.5	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	7.9	21.0	30.5	10.2	42.5
2007	18.8	4.7	16.1	3.2	19.0	8.6	21.6	31.9	9.9	42.9
2008e	18.3	4.5	16.0	3.1	18.0	9.0	22.0	32.2	10.1	42.7
2009f	18.2	4.3	16.2	3.0	17.8	9.4	22.6	32.5	10.2	42.9

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

IX. OUTLOOK FOR SAN DIEGO COUNTY

Economists have focused on San Diego County for several years, as this was where the housing problems first surfaced. There was the condo/loft development craze in downtown San Diego, as well as a rush to convert better apartments to condos. The feeling was that this would drag down the County's economy.

However, the economy got support from several other business sectors. Tourism continued to perform well, and a third 1,000 room+ hotel is under construction next to the Convention Center. The bio-medical industry also moved forward. In mid-2008, the city hosted the "Bio" convention, while the San Diego Consortium for Regenerative Medicine is building a $115 million research facility (a benefit of the state's bio-med bond issue). And there was the old reliable, the military. Northrop Grumman recently received a $1.16 billion contract to build unmanned surveillance aircraft for the Navy: a significant amount of work will be done in San Diego County.

After several efforts to find a new site for an airport, the County's leaders are moving ahead with a $650 million improvement and expansion at the existing downtown airport.

Employment growth in the County will slow to a crawl in 2008, up by just 0.1% or by 1,200 jobs. In 2009, activity will accelerate, with a gain of 1.0% or 12,600 jobs gain.

Positive Forces for the Balance of 2008 and into 2009

Tourism: This activity should see a slight drop in the number of overnight visitors, but will still be operating at a high level of activity, helped along by new attractions at local theme parks.

Bio-medical: This sector will continue to record slow steady growth.

Defense & military: Again, a solid level of support.

Downtown enhancement: Several cities in north county are sprucing up their downtown areas.

Negative Forces for the Balance of 2008 and into 2009

Housing: This sector will continue weak over the next 12 months.

Water supply: Water supply issues (shortages and costs) are starting to impact the County's still-large agricultural sector.

Local government finance: The city of San Diego is still digging out of its financial woes. Other cities in the County could encounter some budget challenges.

Net Results

Again, housing related activities will act as a brake on the local economy. In San Diego in 2008, the largest employment losses will come in construction (-8,000 jobs), while financial and real estate services will chip in with declines of -3,100 jobs and -2,000 jobs respectively. In the plus column will be leisure & hospitality services (+4,300 jobs), government (+3,000 jobs), and professional, scientific & technical services (+2,600 jobs). The County's unemployment rate should average 5.7% in 2008, and 5.8% in 2009.

Total personal income should grow by 3.5% in 2008, while the County's per capita personal income should hit $42,797, the second highest level in Southern California. Taxable retail sales in the County eased by -0.9% in 2007, and a modest slippage (-0.5%) is forecast for 2008. The consumer price index for San Diego should rise by a rather modest 2.5% in 2008.

The value of two-way international trade in the San Diego Customs District should increase by 6.1% in 2008 to $57.5 billion, a new record level. The number of overnight visitors in 2008 will fall, down by -0.6% to 15.3 million people.

The homebuilding industry should continue weak in 2008. The recent high for new homebuilding in the County was 18,314 units back in 2003. In 2008, just 4,240 permits should be issued.

Hot spots

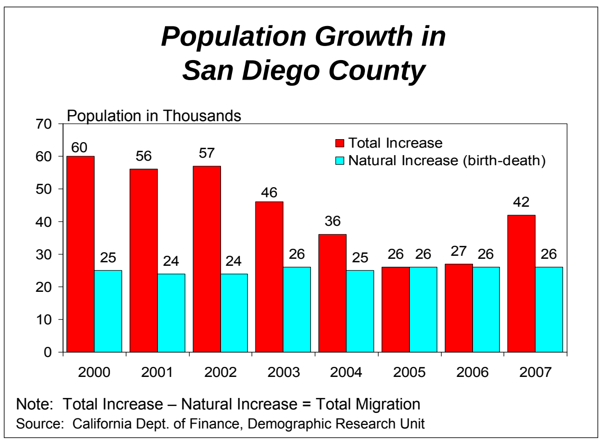
A lot of development is underway in and around the **downtown San Diego** area. Some projects have run into community opposition, especially those along the waterfront. And as noted earlier, a lot of cities in north county are improving their downtowns.

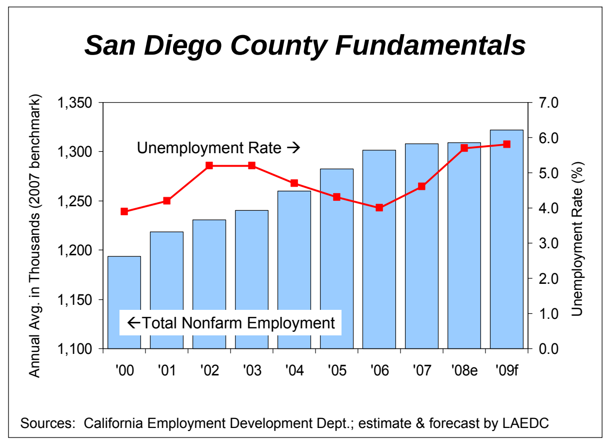
Risks

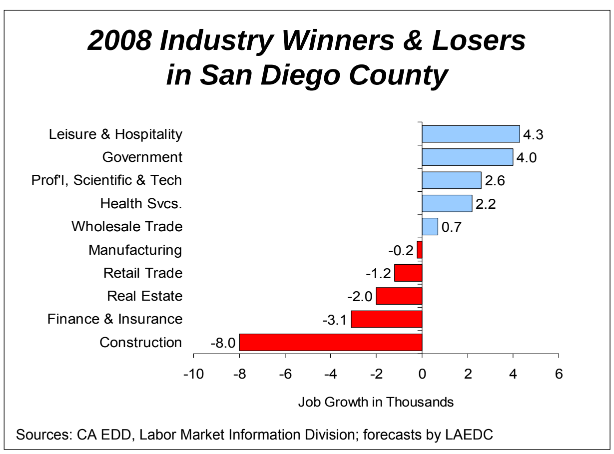
- Larger-than-expected problems in the housing sector.

Table 24: Major Projects in San Diego County

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







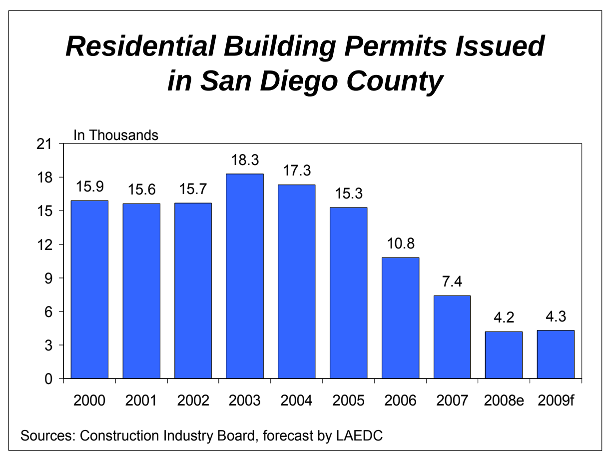


Table 25: San Diego County Economic Indicators

	Population as of 7/1/07 (000s)	Nonfarm Employment (avg., 000s)	Unemployment Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Total Nonresidential Bldg. Perm. ($ millions)	Chg. in CPI (%)
2000	2,836.5	1,193.8	3.9	92.654	32,665	24.953	34.9	15.2	15,927	1,391	5.8
2001	2,893.9	1,218.4	4.2	97.009	33,522	26.263	33.6	14.8	15,638	1,194	4.6
2002	2,951.6	1,230.7	5.2	100.656	34,102	27.422	35.9	15.0	15,738	1,169	3.5
2003	2,998.5	1,240.1	5.2	104.630	34,894	29.521	35.7	15.4	18,314	1,169	3.7
2004	3,027.4	1,260.3	4.7	113.003	37,327	32.345	39.6	15.7	17,306	1,288	3.7
2005	3,051.2	1,282.1	4.3	118.793	38,933	33.785	43.4	15.9	15,258	1,382	3.7
2006	3,077.9	1,301.6	4.0	126.194	41,000	34.619	50.8	15.8	10,777	1,622	3.4
2007	3,120.1	1,308.2	4.6	130.900	41,954	34.315	54.2	15.4	7,445	1,417	2.3
2008e	3,166.1	1,309.4	5.7	135.500	42,797	34.143	57.5	15.3	4,240	1,300	2.5
2009f	3,211.1	1,322.0	5.8	140.600	43,786	34.211	61.4	15.4	4,250	1,202	2.4
% Change											
'01/'00	2.02%	2.06%		4.70%	2.62%	5.25%	-3.72%	-2.63%	-1.81%	-14.16%	
'02/'01	1.99%	1.01%		3.76%	1.73%	4.41%	6.85%	1.35%	0.64%	-2.09%	
'03/'02	1.59%	0.76%		3.95%	2.32%	7.65%	-0.56%	2.67%	16.37%	0.00%	
'04/'03	0.96%	1.63%		8.00%	6.97%	9.57%	10.92%	1.95%	-5.50%	10.18%	
'05/'04	0.79%	1.73%		5.12%	4.30%	4.45%	9.60%	1.27%	-11.83%	7.30%	
'06/'05	0.88%	1.52%		6.23%	5.31%	2.47%	17.05%	-0.63%	-29.37%	17.37%	
'07/'06	1.37%	0.51%		3.73%	2.33%	-0.88%	6.69%	-2.53%	-30.92%	-12.64%	
'08/'07	1.47%	0.09%		3.51%	2.01%	-0.50%	6.09%	-0.65%	-43.05%	-8.26%	
'09/'08	1.42%	0.96%		3.76%	2.31%	0.20%	6.78%	0.65%	0.24%	-7.54%	

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 26: San Diego County Nonfarm Employment
(Annual averages, in thousands, March 2007 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,193.8	0.3	69.7	122.6	*92.2*	*30.4*	39.1	133.8	29.8	39.2
2001	1,218.4	0.3	75.1	119.1	*89.3*	*29.8*	41.5	135.6	32.0	38.8
2002	1,230.7	0.3	76.4	112.4	*84.7*	*27.7*	41.3	138.0	29.3	37.7
2003	1,240.1	0.3	80.2	105.3	*78.8*	*26.5*	41.6	140.8	27.3	36.9
2004	1,260.3	0.4	87.7	104.3	*78.1*	*26.2*	41.9	144.9	28.4	36.6
2005	1,282.1	0.4	90.8	104.5	*79.1*	*25.4*	43.6	147.4	28.4	37.4
2006	1,301.6	0.5	92.7	103.9	*78.4*	*25.5*	45.1	148.3	28.7	37.3
2007	1,308.2	0.4	87.2	102.1	*77.1*	*25.0*	45.5	148.7	28.8	38.0
2008e	1,309.4	0.4	79.2	101.9	*77.6*	*24.3*	46.2	147.5	29.9	38.9
2009f	1,322.0	0.5	76.7	102.3	*78.3*	*24.0*	47.0	148.0	30.9	39.6

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	44.0	27.2	92.3	18.7	84.2	18.2	97.2	129.0	42.2	206.6
2001	44.9	27.2	98.3	18.6	81.3	17.2	98.8	131.4	44.9	213.8
2002	47.3	27.7	100.8	19.9	81.0	17.2	102.5	133.8	45.6	219.7
2003	51.2	28.8	101.6	19.1	80.5	18.8	103.0	140.7	46.8	217.3
2004	52.8	29.1	99.8	18.2	86.6	20.1	101.6	145.7	47.9	214.3
2005	53.5	29.7	105.9	17.4	87.2	21.1	101.4	149.6	48.8	215.1
2006	53.2	30.5	109.7	16.9	87.1	21.3	103.8	156.5	48.4	217.9
2007	50.5	30.0	112.4	16.3	87.8	21.7	107.1	160.9	48.8	221.1
2008e	47.4	28.0	115.0	16.2	86.6	22.8	109.3	165.2	49.9	225.1
2009f	46.4	27.8	117.8	16.1	86.8	23.7	111.6	170.2	50.9	226.6

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

X. OUTLOOK FOR SUB-COUNTY ECONOMIC AREAS

The LAEDC frequently receives requests for information about sub-regions of the five local metropolitan areas. A special feature of the Mid-year Forecast provides employment data for 12 areas in Los Angeles County, two areas in Orange County, and two areas in the Riverside-San Bernardino area. As much as possible, these are natural market areas, defined by city limits, freeways and geographic features. As such, there can be quite a disparity in size among them.

The indicator for all of these regions is employment, which has been obtained from the California EDD's ES 202 data set. It should be noted that this data does not include independent contractors, which are a significant factors especially in Los Angeles and Riverside Counties. Moreover, some industry detail is lacking to preserve employer's privacy. In addition, employment numbers sometimes can not be allocated by area.

Table 27: Job Growth by Sub-County Areas

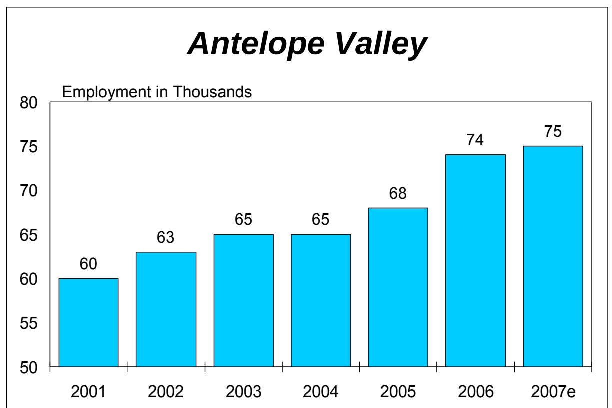
Los Angeles County	2006 (000s)	2007 (000s)	No. Chg. (000s)	% Chg
Antelope Valley	73.6	75.2	1.6	2.2%
Central/Downtown L.A./USC	445.2	449.3	4.1	0.9%
Crenshaw/Mid-Cities/H'wd	232.4	234.1	1.7	0.7%
East L.A./Eagle Rock	97.7	95.8	-1.9	-
San Pedro-LB-Lakewood	221.2	225.0	3.8	1.7%
North Gateway	484.6	488.7	4.1	0.8%
San Gabriel Valley	646.6	632.3	-14.3	-
Santa Clarita/Valencia	82.8	85.0	2.2	2.7%
South Bay/LAX	461.8	465.2	3.4	0.7%
South Los Angeles	84.9	87.8	2.9	3.4%
San Fernando Valley	725.0	729.0	4.0	0.6%
Westside	435.7	443.5	7.8	1.8%
Orange County				
North Orange County	879.6	871.9	-7.7	-
South Orange County	604.6	609.7	5.1	0.8%
Riverside-San Bernardino				
Inland Empire	827.1	829.2	2.1	0.3%
Coachella Valley Area	142.1	143.1	1.0	0.7%

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

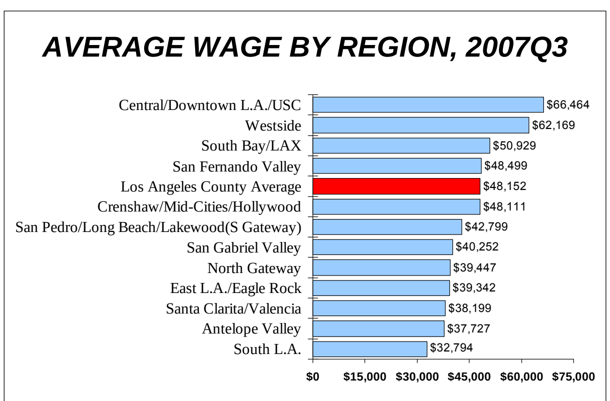
Los Angeles County

Antelope Valley: The Valley recorded employment growth of 2.2% or 1,600 jobs in 2007. Providing the thrust were government (+830 jobs), and education & health services (+515 jobs). Construction recorded the largest loss in 2007 (-640 jobs).

The housing crash was and will continue to be a problem, as the area was an entry-level housing area. Water supply questions are also being raised. Advanced aerospace R & D is bed rock of the Valley's economy. There is work on several unmanned aerial vehicles, and also some "black" or classified programs seem to be underway.



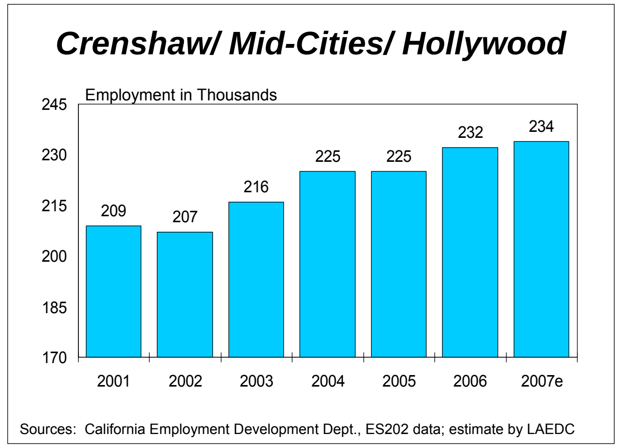
Sources: California Employment Development Dept., ES202 data; estimate by LAEDC



Sources: CA EDD, Labor Market Information Division, ES202 data

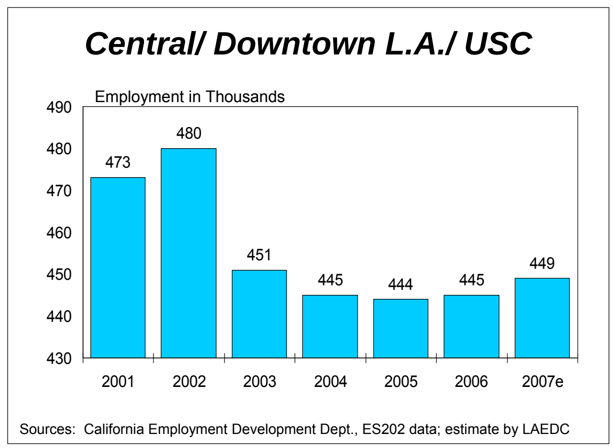
Crenshaw/Mid-cities/Hollywood: This area recorded a 0.7% or 1,670 job gain in employment in 2007. The biggest increases were in professional & business services (+3,821 jobs – a reflection of the resurgence of the Mid-Wilshire area) and leisure & hospitality services (the community of Hollywood is quite popular).

The area has encountered some housing problems. In addition, the labor problems in entertainment could cause some weakness in 2008. More entertainment industry firms have moved into the area due to its central location for the industry. Another boost came from the opening of the Broad Contemporary Art Museum in early 2008.



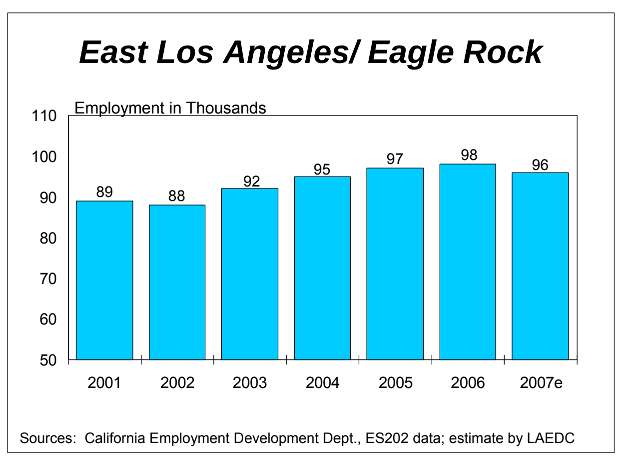
Central/Downtown Los Angeles/USC: This area saw a 0.9% or 4,100 job increase in employment in 2007. Providing the thrust were government (+5,450 jobs – the area has the largest concentration of government jobs west of the Mississippi), education & health services (+2,615 jobs), and retail (+1,145 jobs). Unfortunately the area's manufacturing work force declined by -1,740 jobs, which was partially offset by a gain of 370 jobs in wholesaling.

The area's housing market has slowed, especially the for sale segment. Moreover, a flood of new product is hitting the market. LA Live continues to spring out of the ground, with the Grammy Museum opening at the end of 2008. The Convention Center hotel should be done in early 2010. These will change the dynamic of Downtown. Some high profile projects have been delayed, awaiting for financing, including the "Grand" and Park Fifth.

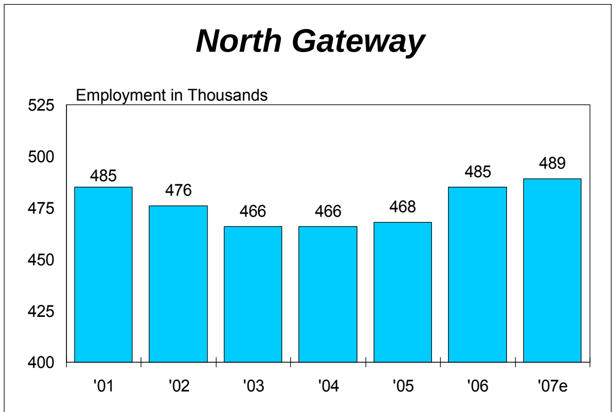


East Los Angeles/Eagle Rock: This is a "seam" area – it's not downtown and it's not the San Gabriel Valley, but in the seam between them. The area saw a -1.9% or -1,880 job decline in 2007. The biggest positive contributor was government (+770 jobs). Losses came across a wide range of business sectors, with the largest declines in business & professional services (-775 jobs), education & health services (-680 jobs), and transportation & utilities (-645 jobs).

A lot is going on here in 2008, with the anticipated opening of the new County/USC Hospital. Also, work continues on the Gold Line light rail extension into East Los Angeles, which is starting to spark new development along its route.



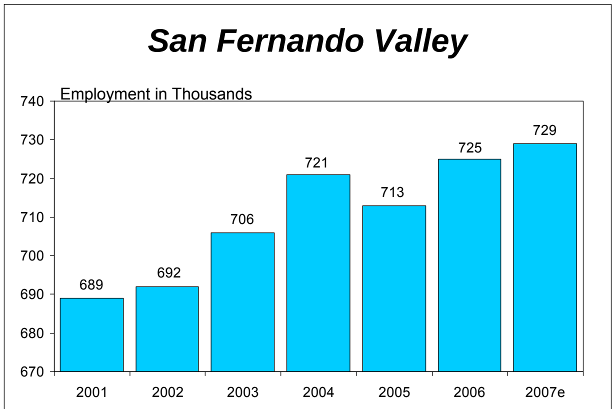
North Gateway: Employment growth crept ahead in 2007 rising by 0.8% or by 4,100 jobs in 2007. A disappointment was the loss of -3,550 factory jobs (the region has the County's largest concentration of manufacturing jobs – 100,540 in total). Sectors providing support were leisure & hospitality services (+1,885 jobs), education & health services (+1,745 jobs), professional & business services (+1,435 jobs), and construction (+ 1,080 jobs).



Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

The two main brakes on this area's economy were/are the slowdown in international trade, and the on-going slump in manufacturing. Construction could get a boost late in 2008 from work on transportation projects.

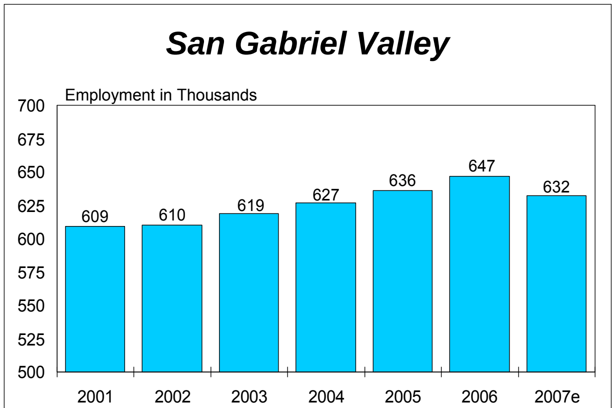
San Fernando Valley: The Valley saw employment growth of 0.6% or 4,005 jobs in 2007, which will be hard to match in 2008 due to the labor situation in the entertainment industry. Driving last year's gains were information (which includes motion picture/TV production - +3,500 jobs), and leisure & hospitality services and government, with 1,800 new jobs each. The most significant job losses in 2007 came in financial services, down by -2,000 jobs.



Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

The 2008 results will reflect the on-going labor problems in the entertainment industry, which started late in 2007 and carried well past mid-2008. Additional downward pressures will be exerted by the financial sector, with job losses at Countrywide Finance, which was taken over by Bank of America. On the good news front, the Valley now has two major retail anchors – Topanga Plaza in the west and the Americana at Brand in the east. Work is underway on a performing arts center at Cal State Northridge, while an extension of the successful Orange Line busway is planned.

San Gabriel Valley: The employment situation in the Valley was disappointing in 2007, with a decline of -2.2% or 14,386 jobs. The major drivers of growth were education & health services (+3,800 jobs), and wholesale trade/distribution (+1625 jobs). An array of industries held things back, including professional & business services (-4,350 jobs), finance (-3,080 jobs), and manufacturing (-2,110 jobs).

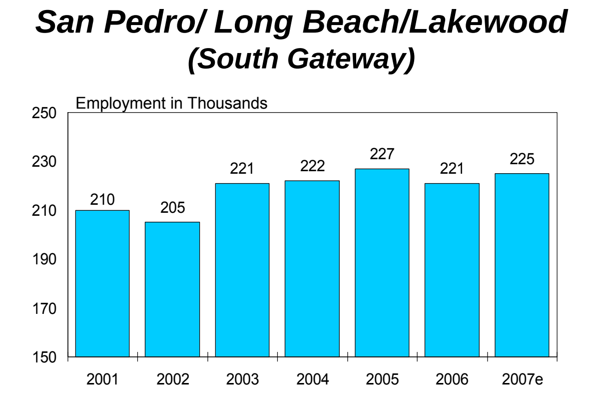


Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

The slowdown in international trade will remain in evidence through 2008, as well as weakness in manufacturing (the San Gabriel Valley has the County's fourth largest concentration of factory jobs). There is also a shortage of industrial space, with just a 1.2% vacancy rate and only 587,000 square feet of new space under construction.

San Pedro/Long Beach/Lakewood: This area saw employment rise by 1.7% or by 3,830 jobs in 2007. Providing the push were government (+5,050 jobs) and leisure & hospitality services (+1,100 jobs). The area's manufacturing sector held steady, while transportation & utilities lost -600 jobs, evidence of the slowdown in international trade.

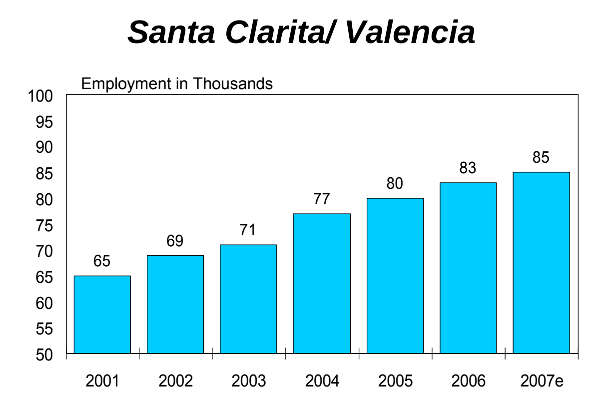
The slowdown in international trade will continue to be somewhat of a damper on growth in the area in 2008. However, work is about to start on steamship terminal expansions at the two local ports. One piece of really good news is the recent contract for production of 15 more C-17 military cargo planes at Boeing's Long Beach plant. Long Beach is also seeing lot of hotel development.



Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

Santa Clarita/Valencia: This area saw employment growth of 2.6% or 2,144 jobs in 2007, with the main drivers being government (+670 jobs), and education & health services (+545 jobs). However, construction lost -535 jobs, reflecting the area's substantial exposure to new housing development.

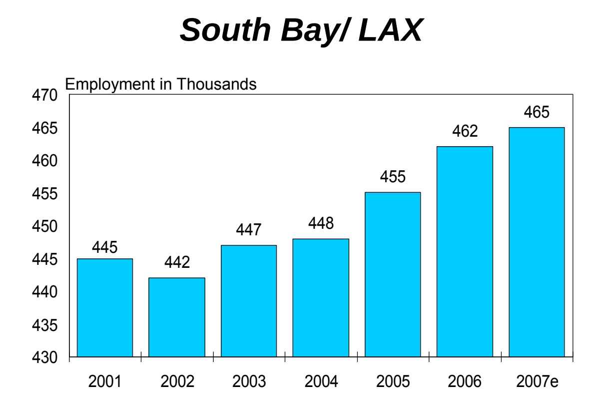
The lackluster housing market will act as a brake on the area in 2008. It will also feel pain from the unsettled labor situation in the motion picture/TV production industry. However, other business sectors such as high-tech should provide some momentum.



Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

South Bay/LAX: This area saw employment growth of 0.7% or 3,400 jobs in 2007. The largest contributors were professional & business services (+3,170 jobs), leisure & hospitality services (+1,480 jobs), and construction (+1,890 jobs). The largest drag came from the area's still-large manufacturing base (-4,210 jobs).

The area will continue to fell the pinch from the slowdown of international trade in 2008. On the upside, technology is still robust, despite a recent Boeing contract loss. The upgrades at LAX are also positive. However, there is nervousness about the impacts of looming airline service cuts.



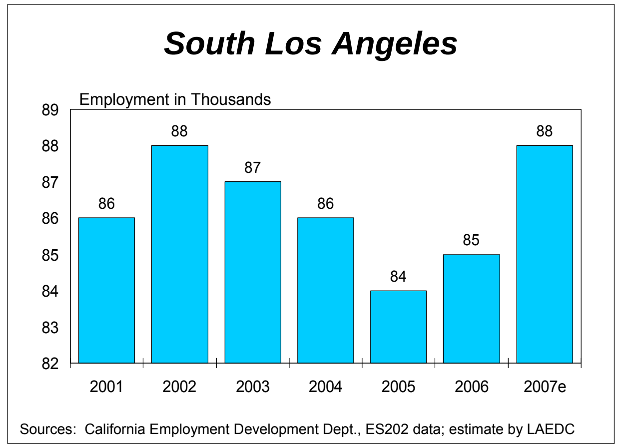
Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

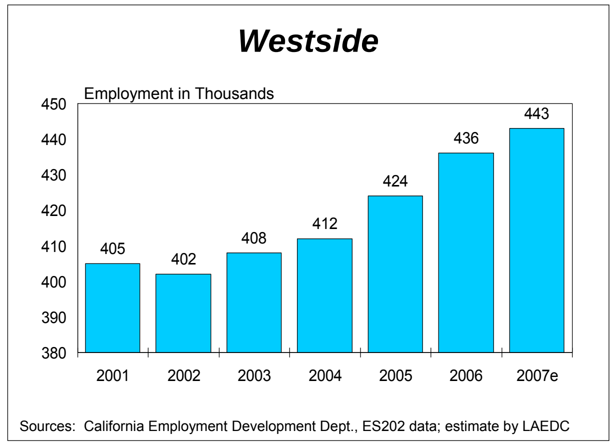
South Los Angeles: This area recorded a surprising 3.5% increase in employment in 2007, or 2,930 jobs. Usually, it is a laggard. The thrust came from a surprising jump in government employment. Manufacturing continued to slip (-690 jobs).

The area is still hobbled by a lack of land for new development, either commercial or industrial.

Westside: This area saw employment growth of 1.8% or 7,790 jobs in 2007. Setting the pace were government (+3,250 jobs), professional & business services (+1,780 jobs), and leisure & hospitality services (+1,420 jobs). There were modest job losses in some other sectors.

The entertainment industry's labor troubles in 2008 will take a toll on employment in the information sector. Another bother is the area's tight and pricey office market. New development is taking place in the "lower Westside" -- Culver City/Marina del Rey area. Congestion is a perennial hot button, but there is some hope with the Exposition Blvd. light rail building out to Culver City. Two local malls are seeing major expansion and renovations: Fox Hills and Santa Monica Place.

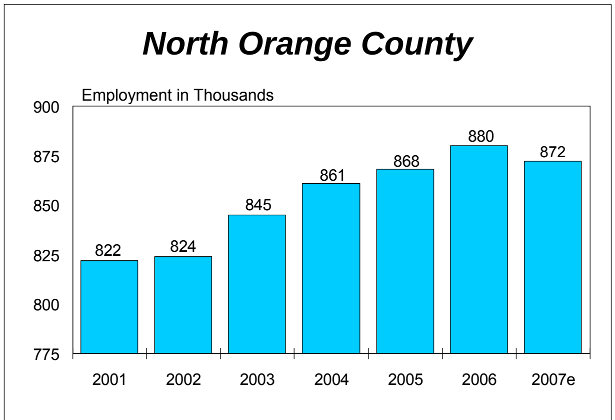




Orange County

North County: While the overall numbers for Orange County looked somewhat grim in 2007, there was a big disparity between North County and South County. In 2007, the North saw employment decline by -0.9% or by -7,364 jobs. Major employment losers included manufacturing (-4,500 jobs), professional & business services (-3,845 jobs), finance (-3,005 jobs), construction (-2,735 jobs), and retailing (-2,130 jobs). The only good news came in government (+6,170 jobs), leisure & hospitality services (+2,240 jobs), and wholesaling (+2,000 jobs).

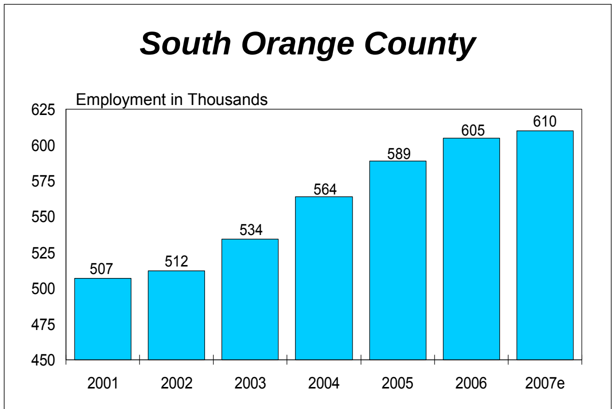
The outlook for 2008 calls for further employment losses in financial services and construction. However, there is some good news, including the expansion of the John Wayne Orange County Airport, the upgrades at the Disney Resort, and several significant transportation projects. By the end of 2009, North County should be taking baby steps forward.



Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

South County: It was a different picture in South County in 2007, with a surprising gain of 0.8% or 5,075 jobs. Yes, there was a loss of -6,315 jobs in finance (larger than in the North), as well as a tumble of -1,125 jobs in construction. Offsetting these were an increase of +4,915 jobs in wholesaling, an increase of +2,590 jobs in professional & business services, of +2,255 jobs in retailing, and of +2,145 jobs in education & health services.

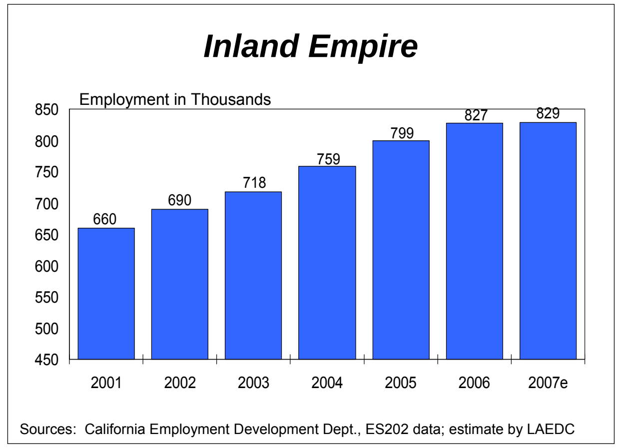
South County should see employment growth ease down to near zero, due to its exposure to both finance and nonresidential construction. Providing some support will be transportation projects.



Sources: California Employment Development Dept., ES202 data; estimate by LAEDC

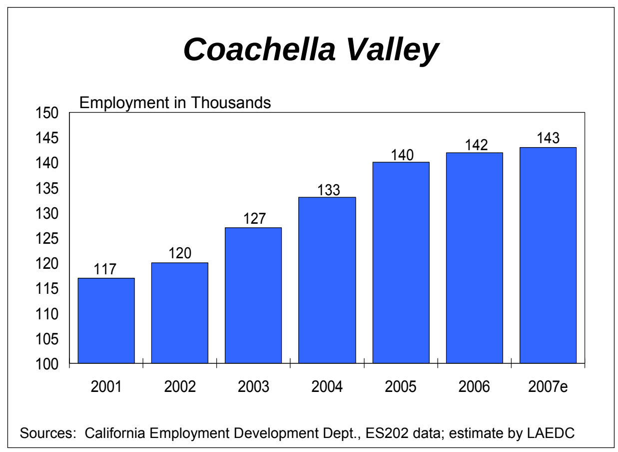
Riverside-San Bernardino Area

Inland Empire: The western end of the Riverside-San Bernardino area saw modest growth of 0.3% or 2,975 jobs in 2007. This came despite substantial losses in construction (-9,420 jobs), manufacturing (-3,650 jobs), and finance (-1,035 jobs). Government (+5,240 jobs), education & health services (+3,250 jobs), and leisure & hospitality services (+2,975 jobs) provided much of the offset.



The area's outlook for 2008 is not that encouraging, with the continued slump in homebuilding and sluggish trends in international trade. However, there are some major transportation projects planned, while work continues on Piemonte in Ontario. Kaiser Permanente recently announced plans for a new hospital in Fontana valued at $700 million.

Coachella Valley: This area was basically dead in the water during 2007, with an employment increase of 0.3% or 398 jobs. Construction was the brake, with a loss of -3,225 jobs. The most notable gains came from education & health services (+2,520 jobs) and retailing (+2,225 jobs).



There will be little change in trend during 2008, with homebuilding still sliding. Also, there is concern about the Valley's key visitor industry. High gasoline prices could keep casual travelers away, while there might be airline service cuts at Palm Springs International. On the upside, expansions are still underway at Indian casinos in the area.

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

The concept of an "economic driver" is that the industry or sector sells a significant portion of its goods and services outside of the region, thus bringing new money into Southern California's economy. The region is fortunate in having 11 significant drivers. Leaders are looking at potential new drivers, such as bio-med or "green" industries.

In each Forecast, performance ratings of the region's larger drivers are presented, using a scale ranging from "A" to "D", with the former obviously being the strongest (based on growth of sales or shipments, not profitability).

In the February 2008 forecast, there were five "A" ratings, but at mid-year only two sectors manage an "A", and they are both "A-." A lot has changed in a few short months. Labor issues are still there, in both the entertainment and international trade industries. One new factor is energy and its cost, which could have significant impacts on international trade and tourism. The other is water supply, which could start to reshape development trends.

Which sectors had the lowest ratings at mid-2008, besides health services/hospitals which is a perennial "D-?" Financial services and entertainment have both been assigned "C-."

Table 28: Performance Ratings of Major Export Industries

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

Table 29: The Economic Base of the Los Angeles Five-County Area (2007)
The "Export" Industries

(Annual average employment in 000s)	Los Angeles	Orange	Riv.-San Bern.	Ventura	5-Co. Total	San Diego
Direct international trade [1]	280.9	---	---	---	501.6	45.2
Tourism	254.6	132.3	130.0	21.1	538.0	107.9
Motion picture/TV production	241.0	3.8	2.3	0.8	247.9	6.3
Business & professional services [3]	227.3	83.9	31.1	11.0	353.3	65.9
Wholesale trade/logistics [4]	182.6	78.9	54.3	11.1	326.9	40.6
Financial services	112.3	54.5	19.9	9.9	196.6	33.2
Apparel/textiles design, mfg. & wholesaling	92.1	13.0	1.5	0.7	107.3	4.2
Agric./food products manufacturing	69.5	12.1	10.2	25.8	117.6	19.1
Technology [2]	153.4	54.3	9.3	6.4	223.4	77.7
Health services/bio-medicine	40.7	25.1	2.8	9.9	78.5	19.6
Fabricated metal products	61.0	30.7	11.5	5.5	108.7	8.3
Furniture manufacturing & wholesaling	37.4	9.7	8.3	1.3	56.7	4.8
Higher education [5]	42.8	10.0	7.5	0.0	60.3	16.0
Auto parts manufacturing & wholesaling	24.7	8.9	7.7	1.0	42.3	3.0
U.S. Department of Defense	3.0	1.0	8.7	3.6	16.3	18.6
Jewelry manufacturing & wholesaling	6.5	0.7	0.1	0.0	7.3	1.0
Indian gaming	0.0	0.0	9.8	0.0	9.8	11.8
Petroleum production & refining	6.4	0.7	0.1	0.8	8.0	0.0
Toy manufacturing & wholesaling	6.0	0.6	0.3	0.0	6.9	0.4

Industry-specific notes:

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

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

Aerospace

Industry Score Card

Defense Aerospace

B+ → B+

2/2008 7/2008

Commercial Aerospace

A → B-

2/2008 7/2008

This important sector is looking at a major change in its business environment over the next 12 months. The financial problems of the airlines are growing more ominous, and new orders have slowed to a trickle. Airbus and Boeing will both see order cancellations, even from international carriers. This would not be good news for local subcontractors.

On the defense and space front, a new administration comes to Washington DC in January 2009, which will bring a new approach on everything from Afghanistan and Iraq, to equipment needs. One on-going hot potato is the Air Force tanker contract. The DoD budget for FY '09 is around $515.4 billion, which many observers feel will be the high-water mark, so some hard decisions will have to be made on depleted forces and equipment, and on (too many) cost-overruns on major programs.

Positive Forces for the Balance of 2008 into 2009

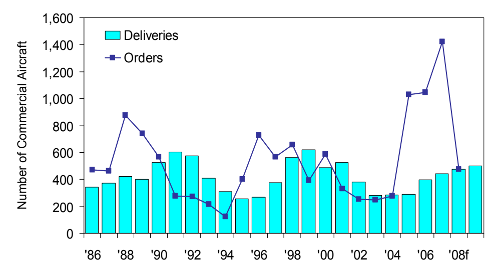
- First up, 15 more C-17 military cargo planes have been ordered, with production by Boeing in Long Beach. This will keep the assembly line going well into 2010. There are also potential foreign sales.
- Given the change in administration, there is talk about boosting the NASA budget, which has barely kept up with inflation. This would be good news for local entities such as JPL.
- There is a growing focus on space awareness and satellites. The latter are getting more sophisticated but also facing more threats (jamming, lasers, and anti-satellite attacks). Satellite work is a strong suit for Southern California, especially in the Redondo Beach-El Segundo corridor.
- There are several unmanned vehicles being produced in the region, and the list of possible applications for them is growing.
- Evidently, there are several highly classified (black) programs underway at the various R & D facilities around the region.

While there are challenges, Southern California has a lot of opportunity in the next 12 months. Employment in "aerospace products and parts" should record modest declines in 2008 and 2009.

Negative Forces for the Balance of 2008 into 2009

- The region's work force is aging. Local firms fear that skilled replacements will not be available despite Los Angeles County's eight engineering schools.
- There will be battles over how many different fighter models the Air Force really needs. Five different planes are currently in production. Major subcontracting on three (the F-A 18, the F-22, and the F-35) takes place in the region.
- California is a high-cost state in which to operate. R & D work can be performed here, but lengthy production runs are often moved to lower-cost locations.

Boeing Commercial Aircraft



Sources: The Boeing Company, forecasts by LAEDC

Table 30: Aerospace Employment

	2006	2007	2008e	2009f	% Change '07/'06	'08/'07	'09/'08
Los Angeles County	38,700	38,000	37,800	37,700	-1.8%	-0.4%	-0.3%
Orange County	11,300	11,000	10,800	10,800	-2.8%	-1.7%	0.0%
San Diego County	5,900	6,300	6,500	6,900	6.5%	3.2%	6.2%

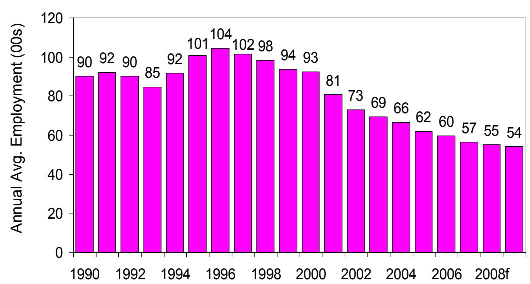
Sources: California Employment Development Department, estimates and forecasts by LAEDC

Apparel & Textiles

This sector has gotten cuffed around over the last 12 months, and the rest of 2008 could be just as difficult. There have been store closings, sometimes just selected locations – at other times the whole chain has gone out of business. Consumers confronted with rising costs for both food and gasoline curbed their spending at the mall.

Positive Forces for the Balance of 2008 into 2009

- Retailers are still coming to Los Angeles to buy, but are placing smaller orders.
- The local base of smaller firms does have the ability to do small orders/quick turn of orders.
- The Los Angeles area has strength in juniors, contemporary and action/sports fashion.
- There are two textile shows coming to Los Angeles, a vote of confidence, but a situation that could cause confusion.



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

Negative Forces for the Balance of 2008 into 2009

- Consumers will continue to be squeezed by inflation and will be selective in their shopping. Even higher-end stores have felt the pinch.
- More retail competition is coming into the Southern California market, from H & M to locally-based Forever 21.
- Manufacturers are fretting about the rising costs of producing garments overseas. Costs of doing business in China are going up, as well the charges for shipping goods to the U.S.
- There is nervousness about immigration enforcement, with some larger apparel manufacturers receiving the dreaded "I-9" audit letter (because some employees do not have valid social security numbers). The fear is that this could be followed by disruptive raids by ICE.
- Renewal of the Fashion District Business Improvement District in downtown Los Angeles has run into opposition, with the potential for two BIDS in the area.

The rest of 2008 will be frustrating for the local apparel/textiles industry, with Christmas 2008 another nail-bitter. Employment will continue to ease lower. As for apparel manufacturing returning to the U.S., the return is more likely to be to Mexico or Central America rather than Los Angeles due to cost and regulation issues in the state.

Table 31: Apparel & Textiles Employment

					% Change		
	2006	2007	2008e	2009f	'07/'06	'08/'07	'09/'08
Los Angeles County	97,700	94,200	92,100	91,100	-3.6%	-2.2%	-1.1%
Textiles mills	10,300	9,500	9,200	9,100	-7.4%	-3.3%	-1.1%
Textile product mills	8,800	8,600	8,700	8,800	-2.7%	1.7%	1.1%
Apparel manufacturing	59,600	56,500	55,200	54,100	-5.2%	-2.3%	-2.0%
Apparel & piece goods wholesaling	19,000	19,600	19,000	19,100	-2.8%	-3.0%	0.5%
Riverside-San Bernardino Area							
Textile mills	14,200	13,800	13,600	13,100	-2.6%	-1.5%	-3.7%

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

Business & Professional Management Services

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

Job growth in this sector has been slowing so far in 2008, reflecting the divergent outlooks for its components.

Legal Services: Merger & acquisition activity as well as IPO's have slowed, and law firms have been trimming their workforce. Looking ahead, an upswing in bankruptcies, both business and consumer, is expected. Also, the subprime lending situation could generate a significant amount of business (a lot of the former lenders were headquartered in the region).

Accounting: It's steady as she goes, although there could be a rush of business at year-end 2008 to take advantage of expiring tax credits.

Architecture & Engineering: Architectural billings are down, reflecting both the upswing in office and industrial vacancy rates, as well as difficulty in obtaining financing for new projects. On the engineering side, a lot of transportation projects will be getting underway in the next few years.

Management of Scientific & Technical Consulting: This sector should continue to record steady growth, as significant amounts of money are flowing on both the business and government side.

Advertising: This sector has been struggling, not only due to the slow economy but also shifts in reaching consumers (i.e., the internet). However, there could be a burst of business in the second half of 2008, due to the presidential campaign but also a host of controversial state ballot initiatives including gay marriage. And one can't forget the Olympics.

Overall employment should creep up in 2008, with more of an improvement in 2009.

Table 32: Business & Professional Management Services Employment

	2006	2007	2008e	2009f	% Change '07/'06	'08/'07	'09/'08
Los Angeles County	195,400	203,500	203,500	205,900	4.2%	0.0%	1.2%
Legal services	49,200	49,500	49,200	49,300	0.6%	-0.6%	0.2%
Accounting services	46,400	49,600	47,900	49,000	7.1%	-3.5%	2.3%
Architecture & engineering	36,800	39,900	40,400	40,100	8.4%	1.4%	-0.7%
Mgmt., sci. & tech. consulting	39,000	40,400	42,100	43,900	3.4%	4.3%	4.3%
Advertising	24,000	24,100	23,900	23,600	0.4%	-1.0%	-1.3%
Orange County	68,900	70,800	72,200	73,500	2.8%	1.9%	1.8%
Legal services	14,300	14,300	14,200	14,300	-0.6%	-0.4%	0.7%
Accounting services	12,000	12,100	12,300	12,500	0.5%	1.6%	1.6%
Architecture & engineering	23,300	24,100	24,600	25,000	3.3%	2.3%	1.6%
Mgmt., sci. & tech. consulting	19,200	20,400	21,100	21,700	6.1%	3.3%	2.8%
San Diego County	35,800	37,100	37,900	39,100	3.8%	2.0%	3.2%
Legal services	12,400	12,600	12,900	13,300	1.8%	2.0%	3.1%
Architecture & engineering	23,400	24,500	25,000	25,800	4.9%	2.0%	3.2%

Note: Includes computer software development

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

Financial Services

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

The subprime lending mess that emerged in the second half of 2007 quickly spilled in to the larger financial system, leading to a credit "freeze." Efforts by government agencies to stabilize the situation have met with some success, but there are still fears about credit problems that may be lurking on the books of investment houses and major banks.

In Southern California, the credit freeze stopped lots of real estate development projects, and also created hardship for the region's small-to-medium sized business base, who are big users of bank services.

Orange County was especially hard hit by the collapse of several large subprime lenders, which not only resulted in significant job losses but a lot of office space being dumped on the market. Los Angeles County also took its lumps. The mid-2008 acquisition of Countrywide Finance by Bank of America means some sizable job losses.

Still more woe came from smaller banks in Southern California, who got caught up in the real estate frenzy, making risky residential loans to both consumers and builders. Regulators are trying to stabilize this situation, but many of these smaller banks will disappear, with attendant job losses. Ironically, there are efforts to start some new banks in San Diego County.

In the meantime, the stock market moved into bear market territory, which was not pleasant for the many money managers in Los Angeles County.

There were significant job losses in 2007, even more in 2008, and it could be 2009 before this sector stabilizes.

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

					% Change		
	2006	2007	2008e	2009f	'07/'06	'08/'07	'09/'08
Los Angeles County	84,900	82,000	74,500	81,700	-3.4%	-9.1%	9.7%
Orange County	52,000	44,900	32,900	39,900	-13.5%	-26.8%	21.3%
Riverside-San Bernardino Area	19,000	18,000	16,100	16,700	-4.7%	-10.9%	3.7%
San Diego County	26,600	24,700	22,000	23,700	-7.2%	-10.9%	7.7%
Ventura County	11,100	9,900	9,000	8,800	-11.3%	-8.7%	-2.2%

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

Health Services/Bio-medicine

The hospital industry continued under pressure in 2008, with several smaller facilities for sale. Shortages of skilled staff (nurses and other technical skills) continued. There were also talks about re-opening King-Drew Medical Center in south Los Angeles, but there are no easy answers on this subject. Also, health service providers continued to fret over slow payments by insurance companies.

On the bio-medical side, grants from the state's stem cell bond are now flowing, and new facilities are being built by recipients. While there is a lot of excitement over the potential of the bio-med industry, there are a lot of risks too. In Ventura County, leaders are trying to develop a bio-med corridor building on staff laid off at Amgen.

Despite all this, health services should continue to be a reliable generator of jobs for Southern California.

Industry Score Card

Health Services

D- → D

2/2008 7/2008

Ambulatory Care

C → C

2/2008 7/2008

Bio-medicine

A- → A-

2/2008 7/2008

Table 34: Health Services Employment

	2006	2007	2008e	2009f	% Change '07/'06	% Change '08/'07	% Change '09/'08
Los Angeles County	324,800	329,300	335,200	341,100	1.4%	1.8%	1.8%
Ambulatory health care services	156,300	159,100	161,600	164,000	1.8%	1.5%	1.5%
Hospitals	106,900	107,400	110,400	113,500	0.5%	2.8%	2.8%
Nursing care facilities	61,600	62,800	63,200	63,600	2.0%	0.6%	0.6%
Orange County	104,000	107,100	109,500	111,900	3.0%	2.2%	2.2%
Ambulatory health care services	56,100	57,200	58,000	58,800	1.9%	1.4%	1.4%
Hospitals	29,500	31,000	31,700	32,500	4.9%	2.3%	2.5%
Nursing care facilities	18,400	19,000	19,800	20,600	3.3%	4.4%	4.0%
Riverside-San Bernardino Area	94,700	97,500	101,400	104,500	3.1%	4.0%	3.1%
Ambulatory health care services	46,400	47,100	48,100	48,800	1.7%	2.1%	1.5%
Hospitals	28,700	30,100	32,400	34,400	4.7%	7.8%	6.2%
Nursing care facilities	19,600	20,400	20,900	21,300	3.9%	2.7%	1.9%
Ventura County	21,000	21,600	22,000	22,400	2.7%	2.1%	1.8%
San Diego County	86,700	89,500	91,200	93,100	3.3%	1.9%	2.1%
Ambulatory health care services	44,800	45,900	46,300	46,800	2.5%	0.8%	1.1%
Hospitals	24,000	24,500	24,800	25,100	2.1%	1.1%	1.2%
Nursing care facilities	17,900	19,000	20,100	21,200	6.6%	5.7%	5.5%

Table 35: Bio-medicine Employment

	2006	2007	2008e	2009f	% Change '07/'06	% Change '08/'07	% Change '09/'08
Los Angeles County	23,500	22,900	23,400	23,800	-2.3%	2.0%	1.7%
Pharmaceutical & Medicine mfg.	5,600	5,800	6,000	6,100	4.2%	2.7%	1.7%
Scientific R&D services (part)	17,900	17,100	17,400	17,700	-4.3%	1.8%	1.7%
San Diego County							
Scientific R&D services (part)	24,000	25,000	27,300	29,700	3.8%	9.4%	8.8%

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

International Trade

International trade activity in Southern California has been quite soft since early 2007, reflecting the slowing economy. The number of import containers handled at the ports of Los Angeles and Long Beach during the year eased down by -0.2% in 2007. However, export activity boomed, thanks to the weak U.S. dollar, with the export container count up by 17.2%. Year-to-date in 2008, import container volume has gotten weaker (down over the year by -8.2%), while export volume has continued to grow vigorously (+24.9%). By year-end 2008, import container activity could be growing again, but that will not be enough to prevent another down year in container volume at the two local ports. The current forecast for 2008 looks for a -4.5% decline to not quite 15.0 million TEUs.

Positive Forces for the Balance of 2008 into 2009

Both ports have reached agreements with the environmental community that will allow expansion of steamship terminals. Los Angeles is working on China Shipping Container Lines, while Long Beach is working on the "Middle Harbor" project.

Negative Forces for the Balance of 2008 into 2009

- West coast ports will continue to lose market share to Gulf and East Coast ports. Reasons include concern over congestion at Los Angeles/Long Beach (not true, but a misconception pushed by all the international trade media), concern over the ILWU contract not being signed, higher costs at Los Angeles/Long Beach, and increased capacity to Gulf and East Coast ports. Shippers were more than a little upset when the Western railroads boosted intermodal rates. Along with fuel surcharges, this is pushing more shippers to use all-water service from Asia to the U.S. East Coast through the Panama Canal.
- Slow implementation of the TWIC card (the Transportation Workers Identification Credential, which will be necessary to go unaccompanied into steamship terminals).
- Problems in implementing the clean truck program at the two local ports. Los Angeles wants drivers to be employees of a firm (and thus able to be unionized), while Long Beach wants to retain the independent worker status. In addition, there will be a $35 per container fee to help buy new truckers, another extra cost item for the local ports.

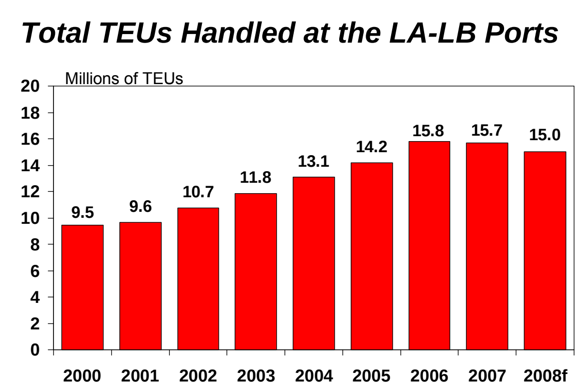
Industry Score Card
International Trade
B+ → B-
2/2008 7/2008

- Fights over near-dock rail yards. BNSF wants to build a new facility adjacent to UP's ICTF, which the latter would like to expand. While these projects would take a lot of trucks off local roads, groups who live near the sites are opposed to any expansion.
- More aggressive competition for container business. The fairly new Prince Rupert facility in British Columbia is up and running smoothly, while Vancouver BC is working on a major (3 million TEUs) expansion.

The Big Question

With higher diesel costs, shippers are looking at speed and responsiveness (rail intermodal service) versus cost of moving goods and time requirements. Air freight is becoming a luxury. Many observers give all-water services the cost advantage. This has significant implications for the international trade industry in Southern California.

In 2008, employment in direct international trade should move down by -1,100 workers after a -2,800 jobs loss in 2007.



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

Motion Picture/TV Production

Industry Score Card
Motion Pic./TV Prod.
C- → C-
2/2008 7/2008

Labor contracts have been the dominant feature of Southern California's entertainment industry in 2008. There were four major agreements to negotiate, and 2008 got off to a difficult start due to the 100 day strike by the Writer's Guild (WGA). This ended in early February, but was a painful affair costing the region $2.5 billion. The strike mainly impacted TV (producers of scripted series worked until they ran out of scripts), while production of feature films was generally uninterrupted. Even more painful was the disruption of the TV pilot season. Production of many series did not immediately resume after the contract was settled (networks decided to wait until the traditional start of the production season -- July and August). And the broadcast TV networks saw yet another drop in viewership

Subsequently, the major studios were able to get agreements with the Director's Guild and AFTRA, but negotiations with the Screen Actor's Guild (SAG) were problematic. At this writing, the contract has expired but no strike vote has been called by the guild. And the studios have made their "last and best offer."

While the entertainment industry labor issues dominated the news media (they practically swooned when the Golden Globe Awards were cancelled), other important things were going on.

Positive Forces for the Balance of 2008 into 2009

- Box office revenues both domestic and international are up year-to-date.
- International box office receipts are now larger than domestic; so studios are crafting both films and release schedules to take advantage.
- Less outside money (hedge funds and off-shore investors) is coming into the industry, which means fewer films will be produced thus lowering the level of competition for major studio films.

Negative Forces for the Balance of 2008 into 2009

- California still has no incentive program to offer, and other states have gotten very aggressive, especially New Mexico. New York was able to lure back the "Ugly Betty" TV series using its incentives. The local loss of jobs was painful.
- The industry's business model is changing, with a leveling off of DVD revenue. However, no major new digital revenue streams have emerged.
- There have been major cuts in "specialty" film units of the major studios.
- The old reliable – piracy – is still a threat.

So 2008 will be a tumultuous year for the entertainment industry. While most news stories have focused on the guild at hand, the impact of the uncertainty on below-the-line production workers and all the industry suppliers has been overlooked.

One interesting sidebar. Despite all the uncertainty in the industry, there has been a boom in office construction especially in Burbank. Demand for this space is growing, as the ratio of support staff to people who perform in and produce TV shows is growing. Due to technology, editing and rough cutting can now be done on studio lots.

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

					% Change		
	2006	2007	2008e	2009f	'07/'06	'08/'07	'09/'08
Los Angeles County	155,600	157,800	151,800	159,700	1.4%	-3.8%	5.2%
Motion picture & sound industries	126,000	128,200	122,700	129,200	1.7%	-4.3%	5.3%
Broadcasting (radio, TV, & cable)	19,000	19,600	19,900	20,300	2.8%	1.6%	2.0%
Indep. artists, writers, & performers	10,500	10,000	9,200	10,200	-4.7%	-8.4%	10.9%

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

Technology

While demand from business has eased, the consumer sector has been doing rather well. Global demand for high-end consumer electronics is benefiting Southern California firms that make chips, software and other parts. More complex cell phones will also drive demand for chips. Demand for storage remains strong.

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

The flow of venture capital into Southern California has eased, with VCs still very cautious about first stage investments. They are interested in internet firms, especially consumer applications.

Software publishing and computer systems design are both recording moderate growth in jobs. The latter includes video game design where there is a growing cross-over with feature films.

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

	2006	2007	2008e	2009f	% Change '07/'06	% Change '08/'07	% Change '09/'08
Los Angeles County	198,400	197,000	198,500	200,600	-0.7%	0.8%	1.1%
Computer & electronic products mfg.	59,400	55,900	55,200	54,900	-5.9%	-1.2%	-0.5%
Aerospace products & parts mfg.	38,700	38,000	37,800	37,700	-1.8%	-0.4%	-0.3%
Pharmaceutical & Medicine mfg.	5,600	5,800	6,000	6,100	4.2%	2.7%	1.7%
Software publishers	5,900	6,800	6,900	7,100	14.3%	1.6%	2.9%
Internet & data processing services	5,600	5,800	5,500	5,300	2.5%	-4.6%	-3.6%
Computer systems design & services	26,300	27,300	27,600	27,900	3.6%	1.2%	1.1%
Mgmt., scientific, & technical consulting	39,000	40,400	42,100	43,900	3.4%	4.3%	4.3%
Scientific R&D services	17,900	17,100	17,400	17,700	-4.3%	1.8%	1.7%
Orange County	89,500	89,900	89,100	89,000	0.4%	-0.8%	-0.1%
Computer & electronic products mfg.	42,100	40,700	39,000	37,900	-3.3%	-4.2%	-2.8%
Aerospace products & parts mfg.	11,300	11,000	10,800	10,800	-2.8%	-1.7%	0.0%
Computer systems design & services	16,900	17,700	18,200	18,600	5.2%	2.6%	2.2%
Mgmt., scientific, & technical consulting	19,200	20,400	21,100	21,700	6.1%	3.3%	2.8%
Ventura County							
Computer & electronic products mfg.	8,400	8,400	7,900	7,600	-0.9%	-5.6%	-3.8%
San Diego County	60,600	61,400	63,800	66,600	1.3%	4.0%	4.4%
Computer & electronic products mfg.	26,700	26,000	25,700	25,600	-2.9%	-1.0%	-0.4%
Aerospace products & parts mfg.	5,900	6,300	6,500	6,900	6.5%	3.2%	6.2%
Software publishers	3,900	4,200	4,300	4,400	6.6%	3.0%	2.3%
Scientific R&D services	24,000	25,000	27,300	29,700	3.8%	9.4%	8.8%

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

Travel & Tourism

This industry has had a lot to worry about, but has also had some good news.

Industry Score Card
Tourism & Travel
A- → B-
2/2008 7/2008

Positive Forces for the Balance of 2008 into 2009

- The weakness of the U.S. dollar has attracted foreign travelers to the region, although there are still complaints about difficulties in getting visas.
- The change in China's overseas travel policy for its citizens will benefit Los Angeles, as it is the largest U.S. point of entry for Chinese travelers.
- The California Supreme Court's ruling allowing same-sex marriage has attracted people from other states. Convention bureaus in several California destinations have made a concerted effort to attract this market.
- New attractions. 2008 is an unusual year as all the region's theme parks seem to have new rides. From north to south, the list includes Six Flags Magic Mountain, Universal Studios Hollywood, Knott's Berry Farm, Disneyland, Lego Land and Sea World. These attract visits from local residents as well as international travelers.
- In December 2008, the Grammy Museum will open at LA Live in downtown Los Angeles. It is expected to attract 300,000 visitors a year.

Negative Forces for the Balance of 2008 into 2009

- High gasoline prices will be a challenge for more remote drive markets in the region.
- Other cost pressures on consumers could change their tourism consumptions patterns (Motel 6 versus a Ritz).
- Problems in the airline industry, with rapidly rising fares, cuts in flights to some markets (wait until September for the full fall-out on this), and ongoing complaints about poor service.

There is a lot of hotel development going on in Southern California. In San Diego, a 1,000 room Hilton is about to open adjacent to the Convention Center. In Downtown Los Angeles a 1,000 room combo hotel (Marriott Marquis on the lower floors and a Ritz Carlton on the top) is aiming for an early 2010 opening. A W hotel is under construction in Hollywood, and a host of other hotels are on the drawing boards.

There will be modest declines in the number of overnight visitors to Southern California in 2008, but they won't be disastrous. In Los Angeles County, the number should ease to 25.6 million compared with 25.8 million in 2007. In Orange County, the count should slip to 44.2 million compared with 44.4 million in 2007, while San Diego County should see 15.3 million overnight visitors in 2008 compared with 15.4 million in 2007.

One piece of good news. Over 21 million people live in Southern California. While they may put off a trip to Europe, they have lots of local options to explore. Tourism should chalk up modest employment gains in 2008.

Table 38: Tourism-centric Industries Employment

	2006	2007	2008e	2009f	% Change '07/'06	'08/'07	'09/'08
Los Angeles County	55,100	56,400	58,100	58,700	2.4%	2.9%	1.0%
Amusement parks & arcade	4,600	4,300	4,900	5,000	-5.5%	13.7%	2.0%
Accommodation	39,100	40,400	41,400	42,000	3.3%	2.6%	1.4%
Travel arrangement & reservations	11,500	11,800	11,800	11,700	2.5%	0.2%	-0.8%
Orange County							
Accommodation	22,400	23,100	23,300	23,400	3.2%	1.0%	0.4%
Riverside-San Bernardino Area							
Accommodation	17,800	17,700	17,100	16,600	-0.6%	-3.5%	-2.9%
Ventura County							
Accommodation	2,700	2,800	2,900	3,000	5.9%	2.7%	3.4%
San Diego County							
Accommodation	30,500	31,500	32,200	32,900	3.1%	2.2%	2.2%

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

Update: The Subprime Loan Mess

What are subprime loans? These loans are made to subprime borrowers, who have lower household incomes (perhaps not well documented), patchy credit histories (like late bill payments), and often carry a lot of non-mortgage debt. The number of subprime loans grew rapidly in recent years. About one in seven (13.7%) of all mortgage loans outstanding in the U.S. is a subprime loan, either fixed-rate (FRM) or adjustable-rate (ARM). Subprime loans accounted for more than 20% of mortgage originations (new mortgage loans) in 2005-2006. And some 5/6s of the newer subprime loans were ARMs.

Why are they a problem? Who is affected? Subprime mortgages are a problem mainly for mortgage lenders, borrowers, and investors in mortgage-backed securities. The lenders' problems have grown and will get worse over the forecast period. Many of these loans are due to reset at higher rates in 2008 and 2009.

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

What's the local situation?
Notices of Default sent to homeowners in the Los Angeles five-county region rose significantly in the first quarter of 2008, with more than 61,129 notices sent (+140% over the previous year). Normally a notice of default is recorded when the borrower has missed one to three monthly mortgage payments; it is the first step in the foreclosure process. Consequently, foreclosure rates also increased in the region adding to the growing inventory of unsold homes.

Records from the County Recorders for the first quarter of 2008 showed that the foreclosure rate in Ventura County was up by 290%; Los Angeles County was up by 307%, Orange County was up by 289%, and the Riverside-San Bernardino area's foreclosure rate was up by 335% from the comparable period of 2007. The Southern California counties were among the worst 100 metro areas ranked by foreclosure rate. Unfortunately, this trend is likely to continue through 2008 and 2009.

Who owns the problem mortgages? Many mortgages are not held by the original direct lenders. Instead, they were "packaged" (into RMBS, or <u>r</u>esidential <u>m</u>ortgage <u>b</u>acked <u>s</u>ecurities) and sold to investors in the secondary mortgage market. This procedure provided the lenders with new funds to make more loans and gave RMBS buyers an interest-bearing asset tied to residential real estate. Ownership of RMBS is widely distributed and includes financial institutions, pension funds, mutual funds, and hedge funds in the U.S. and abroad.

There's another problem: If some of the mortgage loans in a package go into default or foreclosure, that package is no longer as valuable as when it was purchased. The owners have to write down the value of their asset and take a loss. Needless to say, demand for the more risky mortgage securities has shriveled up. Some hedge funds have had to shut down because they couldn't sell their holdings. And the biggest banks have taken billions of dollars in write-offs. Locally, dozens of subprime lenders have closed because they lost their financial backers.

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

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

Fannie Mae and Freddie Mac: As of this printing, there is much concern that these two entities, created by Congress and also publicly traded, are at risk. Together, Fannie and Freddie own or guarantee more than $5 trillion worth of mortgages. As foreclosure rates rise and home values continue to decline, investors have started to lose faith with the two entities. Since the beginning of 2008, Fannie's and Freddie's stock values plunged by -65% and by -75% respectively.

The outcome: Still in doubt.

XII. OUTLOOK FOR CONSTRUCTION & RETAILING

Residential Real Estate

New Homebuilding

Southern California's housing market continues to face strong headwinds. The tightening of credit standards and low availability of financing has made it difficult for would-be homebuyers. Increasing energy and food prices have only exacerbated the situation and have pushed a lot of Southern Californians into a tight financial corner. Consequently, the number of notices of defaults and foreclosure rates has skyrocketed to an all-time high in the Los Angeles five-county region. In turn, this has pushed unsold inventories higher and home prices lower. The downturn's severity varies across the region. Some counties are much worse off than others.

Total housing permits in the Los Angeles five-county region have been declining ever since the 2004 peak of 91,556 total units. In 2007, a total of 49,702 new residential permits were issued (53% of which were single-family homes), a decline of -35% compared with the 2006 level and down by -46% from the peak year. During the first five-months of 2008, total new residential construction in the five-county region was down by -49%, with 12,887 total permits issued for new single and multi-family units. Los Angeles County, issued the largest number of permits, at 6,106 units in the first five-months of 2008. This was a decline of -37% over the year and was down by -77% from the peak in 2004. More than 71% of the Los Angeles County permits were for multi-family (apartments and condos).

In Orange County, a total of 1,957 residential permits were issued in the first five-months of 2008, a decline of -43% compared with the same period in 2007 level and down by -84% from the peak in 2000. A further reduction is expected as the County works its way through a growing home inventory, due to the addition of foreclosed homes. Most of the residential construction permits issued were for multi-family housing units (65%). This trend started in 2004; before that Orange County was considered a bastion of single-family development.

Industry Score Card

Residential Construction

D- → D-

2/2008 7/2008

Nonresidential Construction

B → B

2/2008 7/2008

Table 39: Performance Ratings of Construction and Retailing

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

n/r = not rated

Table 40: Total Housing Permits

	L.A.	Orange	Riv-SB	Ventura	LA-5
1988	50,498	23,455	54,429	5,154	**133,536**
1989	48,341	16,637	45,653	5,026	115,657
1990	25,045	11,979	28,840	2,612	68,476
1991	16,195	6,569	16,191	2,194	41,149
1992	11,907	5,943	15,444	1,720	35,014
1993	7,259	6,410	13,151	1,372	**28,192**
1994	7,621	12,544	13,016	2,464	35,645
1995	8,405	8,300	10,899	2,166	29,770
1996	8,607	10,207	12,513	2,353	33,680
1997	10,424	12,251	15,377	2,316	40,368
1998	11,692	10,101	18,606	3,182	43,581
1999	14,383	12,348	21,651	4,442	52,824
2000	17,071	12,367	21,990	3,971	55,399
2001	18,253	8,646	27,541	3,446	57,886
2002	19,364	12,020	33,280	2,507	67,171
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	**91,556**
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,331	7,070	20,457	1,844	49,702
2008f	13,900	4,200	10,200	970	**29,270**
2009f	14,950	4,700	10,150	990	30,790

Sources: Construction Industry Research Board, forecasts by LAEDC

Total residential construction in the Inland Empire was down to 4,262 units in the first five-months of 2008, a decline of -62% from the comparable 2007 period and down by -92% from the peak in 2004.

Most of the new homes permitted were single-family units (63%). The Inland Empire's foreclosure rate has soared and is one of the highest in the nation. Much of the area is saturated with empty homes, and home prices have collapsed. Construction in the region will be decidedly curtailed through 2009.

Compared to the rest of the region, not much construction occurs in Ventura County, largely because of the lengthy permitting process and constraints on the land available for residential development. A total of 562 residential permits were issued in the county in the first five-months of 2008, a decline of more than -48% from the previous year and down by -78% from the peak in 2005. Of the housing permits issued, 67% were for multi-family units.

Resale Housing

Resale home inventories have climbed significantly, and will continue to run at high levels as more foreclosed homes hit the market. According to the California Association of Realtors, the unsold inventory in California during May 2008 represented an 8.4 months supply at current sales rates, compared with 10.7 months the same period a year ago. This situation of excess supply has reversed the big increases in home prices seen in the state and Southern California in recent years. Some markets have posted huge declines. A growing number of foreclosed homes in a neighborhood tends to pull down the value of surrounding homes. Increasingly, the homes that do sell are foreclosed homes or "short sales."

The resale housing market in Southern California is a buyer's market (if you qualify and pass the high standards set by your no-longer-so-friendly financial institution). Median home prices in the region have been on a steady decline. A comparison of median existing single-family home prices in May 2008 with May 2007 by the California Association of Realtors revealed that the Los Angeles County median home price was well below $500,000 at $422,160, down by -29% year-over-year. Los Angeles County is a big county with very distinct and unique sub-markets. Some are doing relatively well and still experiencing price gains, but most are not.

Orange County's median home price in May 2008 was $523,890, a decline of -27% from the same period a year ago. Ventura County had a May median home price of $487,790, a drop of -30% from a year ago. The Riverside-San Bernardino market has had the toughest year, with a median home price of $257,660, down by -35% from May 2007. With more foreclosures expected to hit the market, especially in the Inland Empire, median home prices in Southern California are expected to decline further, with 2008 prices down by -25% to -30% (year-over-year).

Table 41: Median Existing Single-Family Home Prices

	L.A. Co.	Orange	Riv-SB	Ventura
1997	$176,517	$229,840	$114,340	$219,300
1998	191,700	261,700	121,500	233,770
1999	198,980	280,900	128,670	254,950
2000	215,900	316,240	138,560	295,080
2001	241,370	355,620	156,690	322,560
2002	290,030	412,650	176,460	372,400
2003	355,340	487,020	220,940	462,520
2004	446,380	627,270	296,350	599,280
2005	529,010	691,940	365,395	668,140
2006	584,820	709,000	400,660	685,960
2007	589,150	699,590	381,390	673,940
May '07	596,690	714,130	396,010	699,480
May '08	422,160	523,890	257,660	487,790

Annual % Change

	L.A. Co.	Orange	Riv-SB	Ventura
1997	2.1%	7.7%	-0.8%	6.6%
1998	8.6%	13.9%	6.3%	6.6%
1999	3.8%	7.3%	5.9%	9.1%
2000	8.5%	12.6%	7.7%	15.7%
2001	11.8%	12.5%	13.1%	9.3%
2002	20.2%	16.0%	12.6%	15.5%
2003	22.5%	18.0%	25.2%	24.2%
2004	25.6%	28.8%	34.1%	29.6%
2005	18.5%	10.3%	23.3%	11.5%
2006	10.5%	2.5%	9.7%	2.7%
2007	0.7%	-1.3%	-4.8%	-1.8%
May '08	-29.2%	-26.6%	-34.9%	-30.3%

Source: California Association of Realtors

Apartments

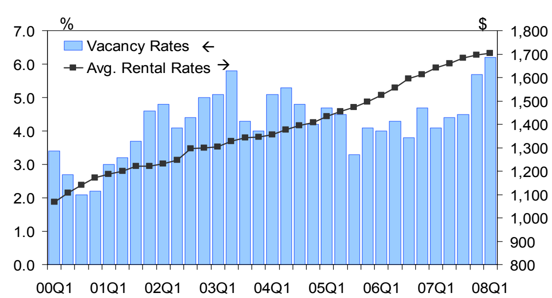
As the region's housing market continues to fizzle, the apartment market is experiencing modest gains that should continue through 2008. Apartment rents have been rising steadily in the Los Angeles five-county region. A comparison of rents in the first quarter of 2008 versus the same period in 2007 reveals that average rents in both Los Angeles and Orange counties increased by 4% over the year; San Bernardino and Ventura counties' average rents both increased by 2%; Riverside County was up by 1%.

Demand for apartment units will continue to increase as more people lose their homes through foreclosures, or find it harder to qualify for mortgage loans. Good demand in turn will keep vacancies down across the five-county region even as newly completed multi-family developments – many originally for sale but converted to rental apartments – come on the market (there will even be competition from investor-owned single-family homes). At the end of the first quarter of 2008, the average apartment vacancy rate in Los Angeles County was 6.2%. Apartment vacancy rates in Orange County were 6.6%. Ventura County's vacancy rates were low as well, at 5.8%. However, a surge of new apartments entered the Riverside and San Bernardino markets in the past year, pushing vacancy rates up to 8.8% and 7.5% respectively in the first quarter of 2008.

Housing Forecast

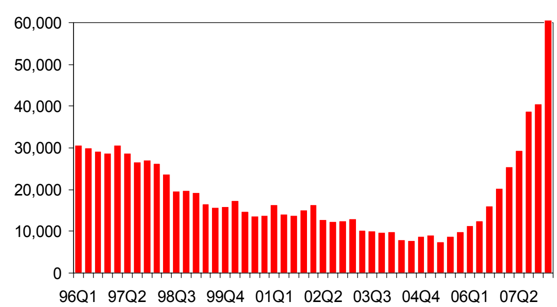
Residential construction will bottom out for most Southern California counties in late 2008 except for the Inland Empire, where the bottom should occur in 2009. The LAEDC forecasts that a total of 29,270 new housing units will be permitted in the five-county region in 2008, a decline of -41% from 2007 and a -46% drop from the 2004 peak of 91,556 units. With more adjustable mortgage loans expected to reset and the unemployment rate increasing in 2008, foreclosure rates will continue to rise adding to the existing housing inventory. Though interest rates are comparatively low, it is much harder to get a home mortgage loan or to refinance existing ones due to declining prices and the severe tightening of credit standards by major mortgage lenders. Even so, the region's population continues to grow at a modest pace (another important underlying fundamental), and the housing market should move into a "recovery" by late 2009 (in the Riverside-San Bernardino area it could be 2010). What will the recovery look like? Readers should expect very modest increases in single-family home construction, while prices in the resale market should record very humble gains.

L.A. County Apartment Vacancy Rates and Average Rental Rates



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

Notices of Default in the Los Angeles Five-County Region

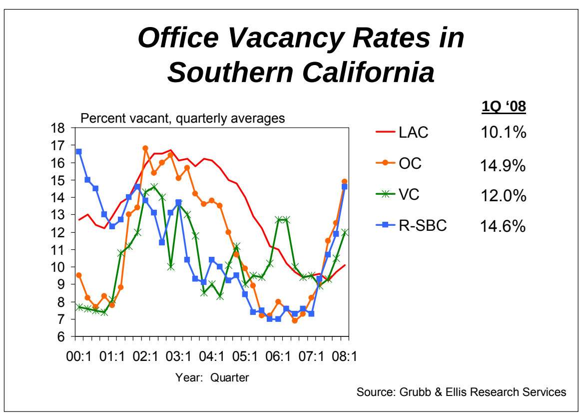


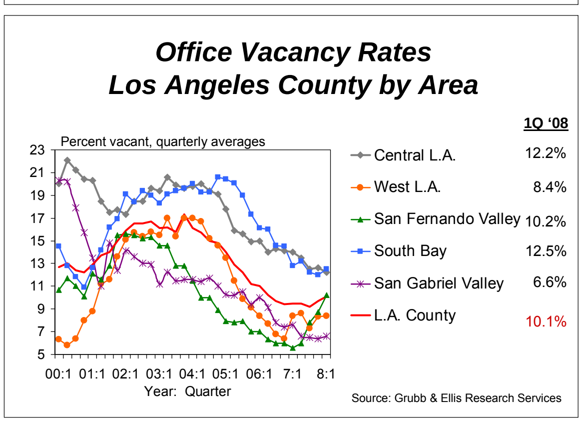
Sources: Real Estate Research Council of Southern California, County Recorders

Nonresidential: Office

Southern California's job growth has been sub-par in the past six months, even in the once strong professional and business services sector. With a dim economic outlook, businesses are very reluctant to hire and spend money. The subprime mess stung a number of mortgage-related companies resulting in mass layoffs, dumping office space back on the market on top of new projects just coming out of the pipeline. Consequently, office vacancy rates have increased across the region; more in some areas than others depending on the exposure to problem industries.

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





Los Angeles County's average office vacancy rate at the end of the first quarter of 2008 was back to double digits at 10.1% but is considered a "balanced" market (10%). Within L.A. County, the San Gabriel Valley and the Westside markets had the lowest office vacancy rates, at 6.6% and 8.6% respectively. Though the overall Westside market office vacancy rate is low, the Santa Monica market saw its vacancy rate increase to 11.2% from 5.9% the same period a year ago. (The Santa Monica market has the most expensive average rental rates in the County, so a lot of firms have looked elsewhere within the Westside and beyond for a more reasonable space).

The County's tight office market pushed average asking rent rates for Class A properties to new highs, with the West Los Angeles market posting the highest rate at an average $4.93 per sq. ft. for Class A properties (a 32% increase over the year) in the first quarter of 2008, according to Grubb & Ellis Research Services. The Santa Monica market, though a very attractive market, has pushed some firms to rethink their space needs as the area's average rental rates have gone over $6.10 per square foot. The current economic uncertainty has made companies more conservative in their spending.

In Orange County, the average office vacancy rate soared to 14.9% at the end of the first quarter 2008 from just 8.2% a year ago. Job growth in the county has slumped since last fall. The subprime fiasco hit Orange County the hardest among the five-counties in the region, as numerous subprime lenders either closed up shop or consolidated. This increased the available office space inventory in the market. The situation was further exacerbated by some new construction. The credit crunch has hit the market as well, as landlords increasingly seek tenants with good credit ratings. Average asking rent was flat in 2007 and will likely fall through the rest of 2008. Orange County remains an attractive location, so a business with good credit that wants to grow should find plenty of opportunities.

The Inland Empire's average office vacancy rates doubled to 14.6% at the end of the first quarter 2008 from the same period a year ago. The increase in vacancy rates was due to badly-timed new construction as well as some space given up by mortgage financing companies (though the amounts were not nearly as high as it was in Orange County). The area is flooded with vacant space. Not too long ago this region, especially Riverside County, attracted a number of companies to provide services to its surging population and business base. Indeed, the Inland Empire became an established business center in Southern California. However, the same industry that propelled its growth has become the source of its current misery. With diminished growth prospects, landlords are ready to make concessions for businesses that are looking to expand.

The credit crunch has definitely stalled new office construction in Southern California, as the cost of borrowing has gone up and risk-averse lenders are tightening credit standards. The uncertain economy has resulted in many developments being put on hold. Even so, leasing activity in Southern California should remain flat at best. In 2009, moderate job growth should take place.

During the first five-months of 2008, office building permits valued at $303 million were issued in the five-county region, down by -55% from a year ago. Los Angeles County led the region with a 49% share of office building permit valuation, followed by Riverside County with a 26% share; Orange County with a 16% share, San Bernardino with a 6% share, and Ventura County with a 3% share. Office construction activity will be limited going forward as the region works through the excess supply. Worst, the high cost of building materials (especially steel), on-going struggles in obtaining permits and zoning variations from local governments, and rising "impact" fees are additional factors constraining new office construction in the region.

Nonresidential: Industrial

Southern California is a major center for manufacturing, international trade and logistics, and of course movie production. The demand for new industrial space from these industries remains strong. Los Angeles County has been the tightest industrial market in the U.S. for the past two years, with just a 1.6% industrial vacancy rate at the end of the first quarter of 2008. This trend is expected to continue through the balance of 2008, sustained by the weak U.S. dollar driving export demand from the emerging economies in the East.

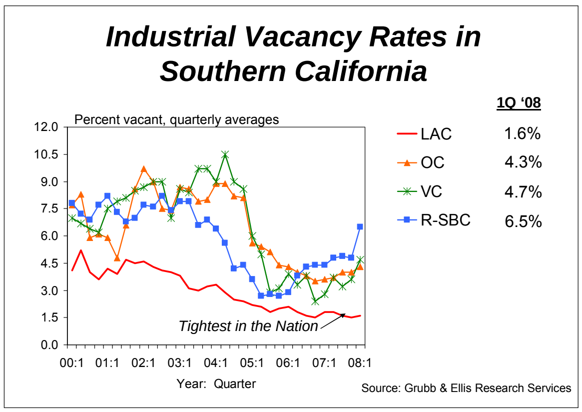
The industrial vacancy rate for Central Los Angeles was just 1.2% at the end of the first quarter of 2008. Its supply of industrial buildings is threatened by a push to convert the space to apartments, condos, entertainment, and retail uses. The San Gabriel Valley and South Bay areas' industrial markets also were very tight, with 1.2% and 1.7% vacancy rates, respectively. It's the same story in the San Fernando Valley industrial market, with a 2.8% vacancy rate. Logistics and distribution companies value and understand the significance of being close to the Ports of Los Angeles and Long Beach, as well as LAX, given higher energy costs.

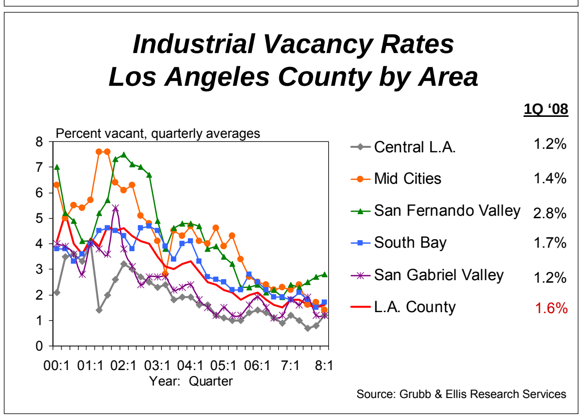
Orange County's industrial market has also performed well, with a 4.3% industrial vacancy rate at the end of the first quarter of 2008, up a bit from 3.6% a year ago. New construction during the past couple of years has run at low levels. Competition will be strong for the handful of existing and new development properties available. Asking rental rates will continue to inch upwards with no concessions on the table.

As industrial space dwindled in Los Angeles and Orange Counties, more and more companies requiring large blocks of space looked towards the east – to the Inland Empire – with distribution companies seeking large blocks of space. The large influx of distribution businesses into the Inland Empire has made this a tight industrial market as well. The Inland Empire had an industrial vacancy rate of 6.5% during the first quarter of 2008, compared with 4.4% the same period in 2007. However, the competition between retail and commercial development for land in this region is a challenge. Moreover, the shifts going on in international trade and high energy costs may reduce the area's competitive advantage. Another threat – water supply concerns have stalled some new development.

During the first five months of 2008, industrial building permits valued at $192 million were issued in the five-county region, down by -43% from the same period a year ago. The Inland Empire accounted for 56% of industrial building permits valuation issued. Los Angeles County held a 39% share; Orange County held only a 5% share; lastly, Ventura County recorded no activity at all.

With interest rates at record lows during the past few years, demand has increased for smaller industrial for-sale buildings. Many firms would rather own their facilities instead of renting. However, this trend is slowing as bankers have tightened credit standards and lending terms on all types of financing. BUT, international firms from emerging economies – with loads of cash and no financing requirements – are finding good opportunities. Strong leasing activity should continue and lease rates will inch upward.





Forecast for Private Nonresidential Construction

Looking ahead, total private nonresidential construction in the five-county region peaked in 2007 at $9.9 billion, and will decline in 2008 with a forecast building permit value of $8.6 billion, a -13% decrease. The decrease reflects the credit crunch and a flattening in port activity due to lower import demand. Total private nonresidential building permit values in Los Angeles County will record slower growth due to some major projects. Orange County's total construction activity value will drop by about -35% in 2008, as the county experience a mild economic downturn that will persist through 2009. The Riverside-San Bernardino area's total nonresidential building permit values will decrease by -29% in 2008 and will remain low through 2009 as the Inland Empire works through the excess supply of office space. On the upside, distribution and warehousing companies will continue to look inland for bigger and more affordable space. Ventura County's total nonresidential construction permit values will see a decrease of about -10% in 2008, after rising by 6% in 2007.

For the most part, office space development will be restrained in all five counties of Southern California region. Companies will delay or limit hiring due to the cautious economic outlook for 2008 and through 2009. With some new projects just coming on the market, office vacancy rates will increase around the region. Average rents will soften a bit with some concessions coming back, especially in Orange County and the Inland Empire area. Companies looking to expand will look at more than one sub-market to obtain the most competitive lease rates (i.e. the "lower Westside" in Los Angeles County).

Prospects are brightest for industrial space development, even in the tight markets of Los Angeles and Orange counties. International trade continues to dominate the region's economy and will require more distribution and warehouse space. The Inland Empire will see most of the new industrial construction activity, but large blocks of land are getting harder to find in the western end of the region.

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

	L.A.	Orange	Riv-SB	Ventura
1990	623	236	135	31
1991	386	118	84	33
1992	121	27	56	28
1993	144	51	58	6
1994	108	41	34	4
1995	88	29	42	9
1996	133	45	31	4
1997	161	129	34	6
1998	284	270	31	25
1999	393	289	40	13
2000	268	354	46	32
2001	547	174	63	30
2002	209	150	66	5
2003	182	118	146	40
2004	307	133	211	18
2005	233	313	233	23
2006	241	578	307	52
2007	716	282	343	55
5-mos ‘07	325	182	134	37
5-mos ‘08	148	50	96	9

Table 43: Industrial Building Permits Issued
(In millions of dollars)

	L.A.	Orange	Riv-SB	Ventura
1990	309	59	302	43
1991	141	39	155	35
1992	92	22	59	37
1993	55	18	72	23
1994	71	11	90	32
1995	74	34	101	20
1996	124	84	138	64
1997	109	123	287	56
1998	308	234	327	82
1999	361	123	443	58
2000	359	87	504	42
2001	202	90	406	76
2002	225	62	324	31
2003	276	68	358	47
2004	178	26	639	45
2005	277	27	442	23
2006	182	91	661	21
2007	109	52	503	28
5-mos ‘07	49	26	252	9
5-mos ‘08	75	10	107	0

Source: Construction Industry Research Board

Retailing

The last few years have been challenging for retailing in Southern California. There are still empty buildings at regional malls, fall out from the 2005 merger between May and Federated department stores that hit the region rather hard. As sales volume slowed in late 2007, a range of retailers announced store closings, or an outright shutdown of the whole operation (furniture retailers were quite prominent here). There is speculation that more chains will close their doors by year end 2008. Auto dealers have also struggled, with the "Detroit three" actively encouraging smaller dealers to close.

Since 2000, a huge amount of retail capacity has been developed in Southern California. In Los Angeles County, retail building permit values through 2008 (estimated) totaled $4.2 billion. In the Riverside-San Bernardino area, the retail permit value was $4.9 billion. Developers and real estate brokers shrug, noting that retail vacancy rates in the region are "low," around 4 to 5%. However, these surveys only include larger developments, overlooking the second and third tier malls, as well as all the street front strip retail. Despite a glut of space, landlords are still aggressively raising lease rates for smaller retailers, which often times results in a decision to close.

Notable retail projects in the region include the recently opened Americana at Brand in Glendale, the expansion/redevelopment at Topanga Plaza in the West San Fernando Valley, the major redevelopment of Santa Monica Place, a major renovation at Fox Hills Mall, and the retail element at LA Live in Downtown Los Angeles. To the south in San Diego County, there is a major expansion at University Town Center, while to the north the Oaks in Thousand Oaks, Ventura County is undergoing a major redevelopment (at one time it had all four local department stores, now merged down to just one). A lot of projects had been announced for the Riverside-San Bernardino area, but many of these are now moving slowly.

Industry Score Card

Retailing

Value Retailing: B- → B
2/2008 7/2008

Other Retailing: C → C-
2/2008 7/2008

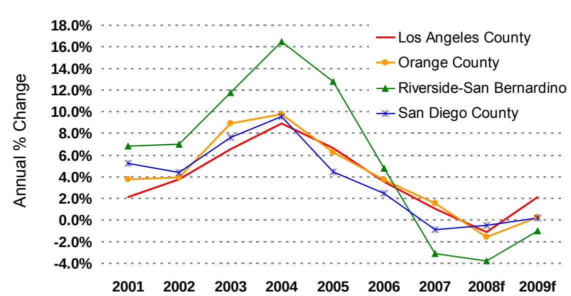
As to hot retail streets in the region, there is a lot of turmoil. Robertson in West Hollywood has been invaded by major high-end retailers, so retailers who can't afford the eye-popping rents are migrating toward Melrose Place. People are watching Larchmont Blvd. in Hancock Park. A charming low key retail area, it has seen outside investors come in and buy up retail space. Several local stores have moved out.

Retailers are still expanding in the region, despite all the turmoil. Notable are H & M, and Forever 21. Tesco with their Fresh & Easy markets had taken a breather to tweak their operation, but once again are announcing new store locations.

Sales Trends

The year 2008 will be difficult for retailing in Southern California. There will be declines in sales volume in all five local metro areas, ranging from -0.5% in San Diego County to -3.7% in the Riverside-San Bernardino area. The latter area also had a difficult time in 2007, with a -3.1% decline in sales. In 2009, the situation will improve, with the exception of the Riverside-San Bernardino, where a -1.0% drop in volume is forecast.

Taxable Retail Sales in Southern California



Sources: California State Board of Equalization; forecasts by LAEDC

XIII. WRAPPING IT UP

The period 2007 through 2009 is proving to be quite challenging for Southern California. The region as a whole is flirting with recession, and some metro areas already are in recession. To be blunt, housing is in a depression, with recovery a year or more away. Normal growth probably won't return until 2010.

Local governments will be struggling with their budgets, and job cuts rather than hiring will be the order of the day. Several key local industries will be struggling with high energy costs. The most notable are tourism and international trade. The latter was once a reliable engine of job growth, but shifting transportation cost equations and increasing competition seem to have altered its prospects.

Given all these challenges, are there any opportunities? Los Angeles has a large and diverse population and business base. It is also a magnet for new investment from elsewhere in the U.S. and also from foreign countries.

We should be building on these assets, yet there is no economic growth or development strategy for the region. However, at the LAEDC, we have several programs underway, including:

- Preparation of an economic development strategic plan for Los Angeles County.
- The World Trade Center Los Angeles/Long Beach is actively seeking more foreign investment into the area.
- The California Transportation & Logistics Institute (an LAEDC affiliate) is pursuing programs to make sure that there is a trained workforce for the international trade industry.
- LAPLAN (also an LAEDC affiliate) is working to identify excess public lands and put them to higher and better use.

Business and government leaders will have their hands full, managing through difficult economic times, but we all will have to get involved with developing a strategy for the future.

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

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

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