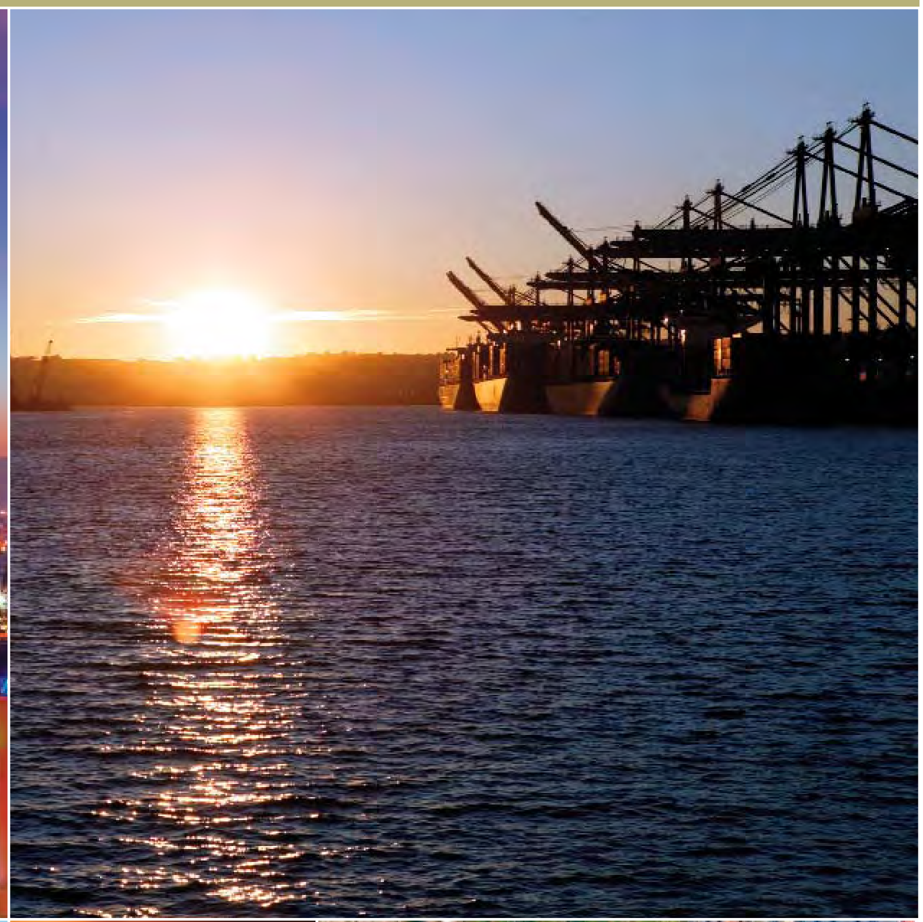
LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION **THE KYSER CENTER FOR ECONOMIC RESEARCH**

2010-2011
ECONOMIC FORECAST
AND INDUSTRY OUTLOOK

FEBRUARY 2010

LAEDC



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For information about LAEDC membership, contact Gina Barro at 213-236-4815.

2010-2011 Economic Forecast and Industry Outlook

for California & Southern California
Including the National & International Setting

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February 2010

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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 157,000 jobs, providing $7.5 billion in direct economic impact from salaries and more than $134 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

February 17, 2010

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's *2010-2011 Economic Forecast & Industry Outlook* event.

The **LAEDC's Economic Forecast** is Southern California's premier source for in-depth economic information and analysis on Los Angeles County and the surrounding areas. The LAEDC economic forecast reports are used by the media, government, and private industry organizations, and have been ranked #1 by the Wall Street Journal. The forecast report is produced by the **Kyser Center for Economic Research** at the LAEDC under the leadership of our Founding Economist, Jack Kyser, and our Chief Economist Dr. Nancy Sidhu. We provide the forecast and other Economic Information products as part of our mission to attract, retain and grow businesses and jobs for the regions of Los Angeles County, as well as to identify trends and effect positive change for the local economy.

Today's event is presented by Manpower and Union Bank, and sponsored by Accenture, Housing Authority of Los Angeles, Time Warner Cable and Woodbury University. The Economic Forecast features two expert panels of economists and elected leaders who will discuss important issues pertaining to our government finance crisis along with presentations on our local housing industry as well as the outlook for the Los Angeles five-county area and the national economic picture.

We are also proud to announce that we have just completed the first-ever consensus strategic plan for economic development for Los Angeles County that was unanimously adopted by the Los Angeles County Board of Supervisors on December 22nd. This strategic plan, which was created with the input of more than 1,000 stakeholders, identifies five over-arching goals (Prepare an Educated Workforce, Create a Business-Friendly Environment, Enhance our Quality of Life, Implement Smart Land Use and Build 21st Century Infrastructure) and 52 specific strategies that will ensure a strong, diverse and sustainable economy for L.A. County's residents and communities for years to come. We have recently begun the implementation phase of the plan and there is a role for everyone to play. I encourage you to take a few moments to read the comprehensive plan, express your formal endorsement, and play a role in its implementation. You will be joining an exciting team of civic entrepreneurs building a brighter future for our region. Please visit *www.LACountyStrategicPlan.com*.

We thank you for your support of the *2010-2011 Economic Forecast & Industry Outlook* and for your continued support of the LAEDC.

Sincerely,

Bill Allen

Bill Allen

I. OVERVIEW OF THE LAEDC 2010-2011 ECONOMIC FORECAST

The U.S. Economy

		2010	2011
Real GDP	A measured recovery	+2.6%	+3.1%
Inflation	Not a problem	+2.5%	+2.5%
Fed Funds Rate	Very low now, rising later	0.8%	2.8%
Leading Sectors	Consumer spending		
Laggards	Nonresidential construction; state/local government spending		

The California Economy

	2010	2011
Nonfarm Employment	-0.8%	+1.0%
Industry Leaders	Health Care Services Information Private education	Construction Retail trade Profession, scientific & tech services
Industry Laggards	Construction Manufacturing Retail Trade Leisure & Hospitality	Manufacturing

Job Growth among Southern California Counties

	2010	Jobs	2011	Jobs
Leaders	Los Angeles County	-0.5%	Riverside-San Bernardino Counties	+1.2%
	Orange County	-0.6%	Orange County	+1.1%
	Ventura County	-0.6%	Los Angeles County	+1.0%
	San Diego County	-0.7%	Ventura County	+1.0%
Laggards	Riverside-San Bernardino Counties	-1.1%	San Diego County	+0.8%

II. OUTLOOK FOR THE U.S. ECONOMY

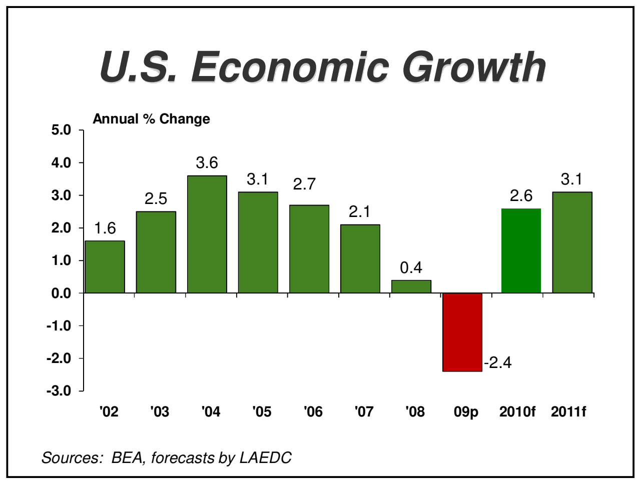
Overview: The Recession is Over

The U.S. economy suffered through a very deep recession in 2008 and the first half of 2009. It now appears the downturn ended about the middle of last year. The recession officially began in December 2007; so that would make it some 18-20 months long, the longest since the 1930s. As to depth, real GDP dropped by -3.7% between 4th quarter 2007 and 2nd quarter 2009, which means the downturn was also deeper than the other postwar declines. Employment has been falling for more than two years now. Some 8.4 million nonfarm jobs have disappeared, a new record. And the nation's unemployment rate rose to 10% in late 2009, matching the previous highs of early 1983, following the previous deep recession.

The signs of an economic recovery are spreading. The stock market turned up last spring (it almost always leads an upturn). Retail sales have been moving up. Single-family existing home sales are up, and new construction has stabilized, though at a pitifully low level. Exports are growing, reflecting economic recovery elsewhere in the world, especially China. Even business investment in equipment and software turned up toward year end. A few sectors remain weak. State and local government spending is constrained by reduced tax revenues, while commercial real estate and nonresidential building activity are withering due to lack of financing.

For 2010 and 2011, the key forecasting issues involve the shape and speed of the recovery. This forecast takes as given that the recovery is "for real," that is, it will proceed upwards and not relapse. Progress will seem slow at first, but the economy will gather strength and momentum as it moves forward. For now, we are being deliberately conservative in our forecasting because the recession was so serious.

Overall, the LAEDC projects the U.S. economy will grow by +2.6% in 2010 and by +3.1% in 2011 after plunging by -2.4% during 2009. Inflation is unlikely to be a problem in the near term, though the potential for higher energy prices is always cause for concern. Monetary policymakers acknowledge the inflation risk they are creating by their actions, but continue to be focused on restoring the health of the nation's economy and the financial sector. Thus, short-term rates are likely to remain at current extremely low levels for a while longer. The outlook for long-term rates is more uncertain. Given the Fed's current activist policy stance, they are unlikely to rise much until later in 2010. Below we review the outlook for the key sectors in some detail.



Household Spending Turns Up

Consumer spending is the largest sector of the U.S. economy and holds one of the keys to the economic outlook. Several factors have put U.S. households under considerable stress. Employment has declined sharply in the two years since the recession began in December 2007; some 8.4 million jobs have disappeared. Job losses likely will end before mid 2010. The nation's unemployment rate, currently 9.7%, will remain elevated through the rest of 2010 and then decline slowly, reaching the "low-to-mid 9's" by the end of 2011.

Most types of household incomes shrank in 2009. Wages and salaries were down by -2.7% in fourth quarter 2009 compared with the year-ago period. Most other private-sector sources of income declined as well. Dividend income fell by -16.4% and interest income by -5.0% due to dividend reductions and lower interest rates. Profits of independent, unincorporated businesses were down by -1.7% over the year. The government helped out: personal transfer payments (mostly Social Security, welfare benefits, etc. and some rebates) were up by +14.2%, while current taxes fell by -25.1%. Bottom line: disposable personal income (net of personal taxes) grew by +3.1% during 2009. That increase was just enough to outweigh consumer inflation. After inflation and taxes, real disposable income grew by +1.8%.

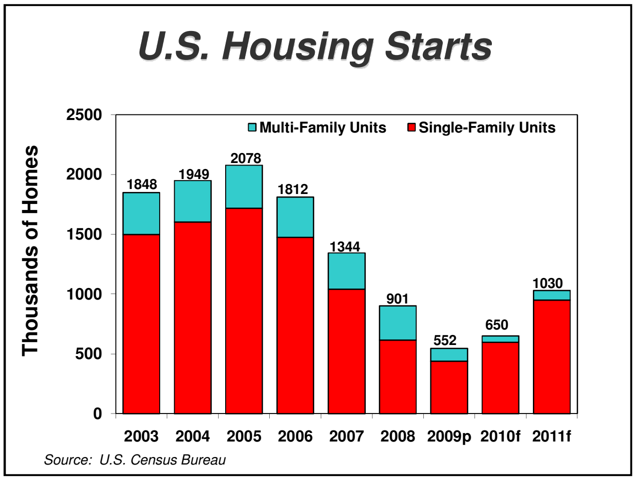
Not only have incomes stopped growing much, but household balance sheets continue to reflect the effects of the housing and financial markets crises of last year. Though recovery is under way in financial markets, total household assets were still down by -5.4% (or by -$3.8 trillion) on September 30, 2009 compared with a year earlier (latest data available). The value of household real estate assets was off by -9.0%. Home mortgage debt (including home equity loans and lines of credit) edged down by -1.8%. Thus, homeowners' equity declined by -18.8% over the year to September.

Meanwhile, consumers' holdings of financial assets were off by -3.8% over the year to September (though they were up by +10.5% over the March 2009 lows). Stock prices were a major factor in both cases, plunging between September 2008 and March 2009 and then rising since then. Total household liabilities fell by just $460 billion in the year to September. The bottom line: U.S. households' net worth (total assets minus total liabilities) shrank by -$3.4 trillion over the year to September 2009 (-6.0%).

With incomes and household wealth growing modestly at best and job losses continuing, consumer confidence has been lackluster. Even so spending increased in the 3rd and 4th quarters of 2009 at respectable rates. Substantial government automotive purchase incentives kick-started the spending during the summer, but retail spending continued to improve through the rest of the year.

Demand for motor vehicles plunged during the 2008-2009 recession. About 16.1 million light vehicles (cars and light trucks) were sold during 2007. However, sales dropped to 10.3 million units in 2009. Much of the decline occurred in sales of light trucks, whose higher fuel consumption rates hurt the pocketbooks of their owners when gasoline prices soared. Car sales also dropped as joblessness grew, financing became harder to find, and buyers became more cautious. Demand for fuel-efficient vehicles tended to be strong when gasoline prices moved north of $3.00/gallon, but buyers lost interest whenever gasoline prices retreated. The LAEDC assumes gasoline and diesel fuel prices will be volatile during the forecast period, but will remain below 2008 peaks. Nonetheless, about 11.3 million light vehicles will be sold in 2010, though consumers are edgy and lack the confidence to purchase big ticket items like vehicles. In the current economic environment, good deals and ready financing will be needed to entice consumers onto dealer lots. As the economic recovery gains steam, and more people find jobs, sales are expected to increase to 13.3 million vehicles in 2011.

The LAEDC expects spending for most other types of consumer goods and services to increase gradually but steadily throughout the forecast period. Spending will be bolstered by the provisions of the new federal stimulus plan. The American Recovery and Reinvestment Act of 2009 (ARRA) involves some $787 billion of federal spending and tax relief over the next five years, with the bulk of the spending planned for 2010 and 2011. About one-third of the total was specifically targeted at personal income tax reductions and increased payments for extended unemployment payments, food stamps, etc. The latter will be extended as long as needed. In addition, the Administration and Congress both have proposals to further increase stimulus spending. These amounts will support consumer spending going forward.



Overall consumer spending (inflation adjusted) is forecast to grow by +1.9% in 2010 and by +2.7%, in 2011 after falling by -0.6% in 2009.

The housing sector has been on a steep downtrend for more than four years now. New housing starts peaked in 2005 at 2.1 million units, the highest level since 1972. However, home construction activity declined into first quarter 2009, averaging around 528,000 units (annual rate), the lowest level since before 1959 (when records began). Today it appears the housing crash is nearly ended. Though still at low levels, single-family starts activity increased in the latter part of 2009. However, multi-family construction continues to decline, pressured by rising apartment vacancies and inventories of unsold condominiums on the one hand and the lack of developer financing on the other.

Mortgage credit is still difficult to obtain for all but "prime" homebuyers (those with well-documented, strong credit and income histories). While loan modification programs are available for distressed homeowners, lending terms for would-be borrowers remain strict. Still, rates have been relatively stable, which helps borrowers who can get them. As of January 2010, mortgage commitment rates ranged from 4.33% for the average one-year adjustable rate mortgage to 5.03% for a 30-year fixed rate. Six months earlier, these rates were quoted at 4.82% and 5.22%, respectively.

Fixed mortgage rates are expected to hover between 5.0% and 5.5% over the rest of 2010, at least for prime borrowers. And lenders' terms for non-prime borrowers are likely to remain strict, despite the availability of various mortgage workout programs. However, prices of new and existing homes have dropped markedly. Better yet, federal purchase incentives will be available through April 2010. Buyers who can qualify for mortgage loans will have many more choices in 2010-2011 than they had in earlier years. Assuming the mortgage credit crunch begins to ease, LAEDC expects total housing starts to rise from just 552,000 units in 2009 to 650,000 units in 2010 and over one million units in 2011.

Table 1

U.S. Interest Rates

(4th quarter averages, %)	2004	2005	2006	2007	2008	2009e	2010f	2011f
Fed Funds Rate	2.0	4.0	5.3	4.5	1.1	0.1	0.8	2.8
Bank Prime Rate	4.9	7.0	8.3	7.5	4.1	3.3	3.8	5.8
10-Yr Treasury Note	4.2	4.5	4.6	4.3	3.3	3.5	4.0	4.5
30-Year Fixed Mortgage	5.7	6.2	6.3	6.2	5.9	4.9	5.5	6.0

Sources: Federal Reserve Board; forecasts by LAEDC

Table 2

U.S. Economic Indicators

(Annual % change except where noted)	2004	2005	2006	2007	2008	2009e	2010f	2011f
Real GDP	3.6	3.1	2.7	2.1	0.4	-2.4	2.6	3.1
Nonfarm Employment	1.1	1.7	1.8	1.1	-0.6	-4.3	-0.9	1.0
Unemployment Rate (%)	5.5	5.1	4.6	4.6	5.8	9.2	9.9	9.4
Consumer Price Index	2.7	3.4	3.2	2.9	3.8	-0.3	2.5	2.5
Federal Budge Balance (FY, $billions)	-$413	-$318	-$248	-$162	-$455	-$1,414	-$1,500	-$1,300

Sources: BEA, BLS and OMB; forecasts by LAEDC

Business Investment Spending Mixed

Business profits and cash flows deteriorated in many industries during the recession and are only just now beginning to improve. Adjusted total pre-tax corporate profits during third quarter 2009 (latest data available) were down by -6.6% compared to third-quarter 2008. Profits-by-sector data reflected the widespread economic weakness. Domestic industry profits were down by just -2.1% over the year, as the recovery in the financial industries was offset by continued problems in the manufacturing, trade and other nonfinancial industries. Net profits earned from the rest of the world, however, fell by -18.6%. Bolstered by increasing depreciation, adjusted total corporate cash flow increased by +3.1% over the year ago period.

Businesses typically invest their cash in new equipment and software, but equipment spending tumbled by -21.3% during 2008 and the first half of 2009. Equipment purchases turned up modestly in the third and fourth quarters. However, there's still a long way to go: equipment spending in the 4th quarter 2009 was still down by -18.5% from the pre-recession level two years earlier.

Business purchases of high technology equipment and software declined the least over the six-quarter recession period--by -7% in inflation adjusted terms--and accounted for a good part of the second-half 2009 upswing. Spending on these products is expected to recover sooner than other types of equipment.

At the other end of the spectrum, purchases of transportation equipment plunged by a whopping -63% during the downturn and at year end 2009 were still down by -53% from the pre-recession level. Much of the decline reflected firms' decisions to temporarily reduce spending on cars and light trucks until the economy--and their order books--show definite signs of improvement. Going forward, fleet purchases of new vehicles will grow but modestly during the forecast period. Similarly, we expect constrained demand for commercial aircraft, as airlines struggle to regain profitability during the recovery. Demand for heavy trucks and railroad equipment will recover more slowly as goods movement activity is just beginning to turn around.

Business investment in nonresidential structures was still falling as 2009 came to a close. Structures spending peaked in the 2nd quarter of 2008 but had dropped by -26.1% by the 4th quarter of 2009. Declines were especially steep in energy activities and lodging, commercial and office projects. The former dropped abruptly in 2009 after oil prices collapsed late in 2008. As to the latter, the nonresidential construction industry has been hard hit by the credit crunch and, with vacancy rates rising, almost no new commercial projects are able to obtain adequate financing. With few new projects being initiated, nonresidential building activity is winding down as projects that are currently under way get completed.

The economic picture gives some reason for a cautious outlook on business spending. Pre-tax adjusted profits fell by an estimated -5.5% in 2009, the third year of decline. Profitability is expected to turn up in 2010, perhaps by +10% or so, as the recovery gathers strength. Real business spending for equipment and software is forecast to grow by +4.5% in 2010 and by +6.3% in 2011. Meanwhile, spending for nonresidential structures will decline by -12.5% in 2010 and flatten out in 2011.

Government Spending Soars

The current forecast anticipates continued growth in federal purchases of goods and services during 2010 and 2011. The conflicts in Iraq, Afghanistan, and Pakistan currently cost about $160 billion per year. Aside from defense, spending is growing rapidly in all categories, especially unemployment compensation, Social Security, welfare and Medicaid. Looking ahead, inflation adjusted, federal purchases of goods and services (excluding loan programs) will increase by +3.5% in 2010 and by +2.6% in 2011 after rising by +5.2% in 2009.

State and local government purchases of goods and services are another matter. All states are experiencing weak or declining revenue growth. Many are cutting spending and/or increasing taxes. Despite the federal stimulus plan, revenue growth constraints mean that state/local spending will be flat *at best* in the near future. The LAEDC forecast anticipates that state/local purchases (inflation adjusted) will barely increase by just +0.2% in calendar year 2010 and rise by only +0.9% in 2011.

Net Exports – Improvement to Continue

Exports (foreign purchases of U.S. goods and services) plunged by -15% (inflation adjusted) between the 2nd quarter 2008 peak and 2nd quarter 2009 but turned up briskly in the second half of 2009. By year end, total exports of goods and services grew had made up nearly half the shortfall created during the previous four quarters, as the economies of major U.S. trading partners in Asia turned up strongly. Exports of automotive products plunged in the 2008-2009 along with industrial supplies and capital goods. All three groups turned up between June and December 2009.

The value of the U.S. dollar rose sharply on foreign exchange markets during the global financial crisis, increasing by 12% on a trade weighted basis between September 2008 and March 2009. Half that gain was retraced in the second quarter, and the dollar continued to drift downward in the second half. Looking ahead, the dollar seems unlikely to change much in value during 2010 and 2011; so the international macroeconomic fundamentals--which anticipate the economic recovery will spread around the globe by the end of 2011--should drive the export forecast. Exports will increase by +7.0% in 2010 and by +4.1% in 2011.

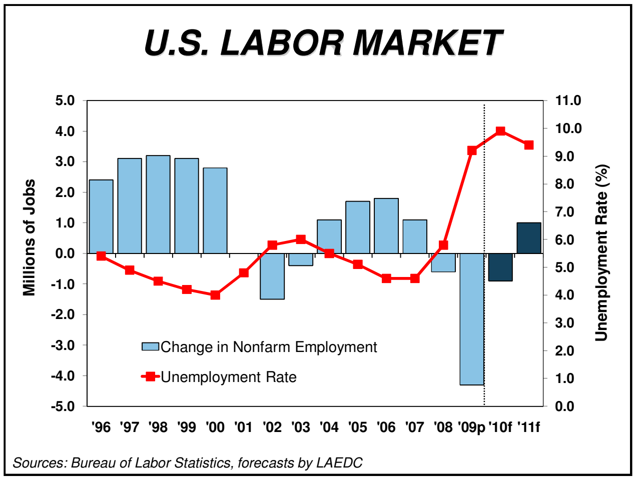
U.S. purchases abroad peaked during the 3rd quarter 2007 and declined throughout 2008 and the first two quarters of 2009. Inflation adjusted imports of goods and services fell by -20.8% during this period. Imports of industrial supplies, capital goods, and motor vehicles and parts accounted for most of this decline. The auto industry's problems aside, U.S. businesses' attempts to reduce fixed investment and inventories of industrial supplies were the main factor pulling down imports.

Imports have grown modestly in the second half of 2009, particular in the automotive sector, consumer goods and capital goods. LAEDC expects the upturn in imports of industrial supplies to lag the other three groups during 2010 and perhaps 2011. U.S. purchases of foreign-made goods and services are forecast to increase by +5.9% in both 2010 and 2011.

For the U.S. economy, net exports (equals gross exports minus gross imports) are what matters most. Net exports contributed +1.2 percentage points to the U.S. economic growth rate during 2008 and +1.1 percentage points in 2009. However, the positive contributions will fall to zero in 2010 and become negative in 2011 as imports begin to grow again. The net export balance (in constant dollars) reached a low point in 2006, at -$729 billion, and then improved to -$354 billion in 2009. LAEDC forecasts a little backing off in 2010, to about -$357 billion, followed by further deterioration--to -$407 billion--in 2011.

Labor Market Conditions

U. S. labor markets reflected the growing deterioration of the economy during 2008 and 2009. Total nonfarm employment payrolls have shrunk by -8.4 million jobs since the economy peaked in December 2007. Losses were heaviest in manufacturing and construction. However, damage spread to other sectors as the recession grew longer and deeper. Over the past two years, significant numbers of workers lost jobs in business & professional services, retail and wholesale trade, tourism, finance and transportation sectors. LAEDC believes the decline in nonfarm employment is almost over. Payrolls will shrink a little more in early 2010, but seem likely to hit bottom in the spring. Thereafter, payrolls are expected to grow--slowly at first but gradually increasing in number as the pace of the recovery accelerates.

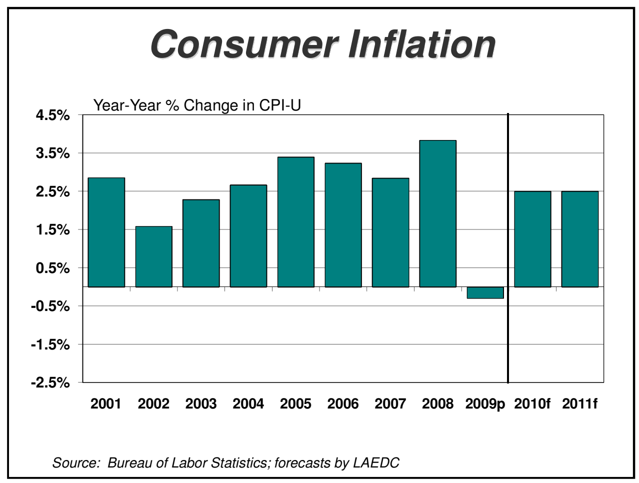


Joblessness in the U.S. has been increasing since mid 2007, reaching 10.0% in December 2009 before ticking down to 9.7% in January 2010. The nation's unemployment rate will continue high for a while longer. This recession has been so severe that many business firms will delay hiring until they are quite certain the upturn in their sales will persist. However, attitudes are changing as sales turn up in more and more industries. Current workers are being asked to work longer hours, laid-off employees are being re-called, and more temporary employees are being hired. We expect the nation's jobless rate to average 9.7% in 4q2010 and end 2011 at around 9.2%.

Total employee compensation increased by 1.5% in the year ended December 2009. Wages and salaries increased by 1.5% during that period, while benefit costs grew at a 1.6% rate. These figures are well below the 3% plus/minus of pre-recession years. Many businesses needed to cut labor costs to offset declining sales. 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 continue escalating at a rather modest pace during the forecast period—rising by about 1.8% during 2010 and perhaps 2.0% in 2011.

Inflation

Measured by the Consumer Price Index, annual consumer inflation was negative during much of 2009, but jumped above the 2.0% rate in November-December. Energy prices accounted for much of the apparent volatility, increasing by more than +18% between December 2008 and December 2009. Meanwhile, food prices continued to be well behaved, falling by -0.5% over the year. Excluding these two categories, prices of all other consumer goods and services increased by +1.8%, about the same as the previous year's pace.



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

Crude oil prices have been volatile in recent years. Using the West Texas Intermediate spot price, (WTI), oil prices peaked in July 2008 at nearly $134 per barrel and then plunged to $39 per barrel in February 2009. By January 2010, the price was back up to $78 per barrel. The main factors propelling crude oil prices downward included global economic weakness and increasing inventories in the OECD nations. While the current fundamentals haven't changed much, oil demand is expected to grow as the global economy recovers. Crude oil consumption is expected to turn up modestly in 2010. On the supply side, substantial excess production capacity currently exists in the OPEC nations, especially Saudi Arabia, but excess crude inventories are gradually shrinking. Thus, industry observers expect oil prices to remain near current levels, averaging around $75/barrel in 2010 and drifting north to perhaps $80/barrel in 2011.

Natural gas prices peaked in June 2008 at $12.70/ thousand cubic feet (using the Henry Hub spot price). Prices reached bottom in September 2009, averaging just $3.00/thousand cubic feet. By January 2010, it was back up to $5.80/thousand cubic feet. Going forward, assuming weather patterns across the nation remain "normal," industry observers expect industrial and electric power usage of natural gas to rise as the economy recovers. Natural gas prices (delivered to Henry Hub, LA) will average about $5.35/mcf in 2010 and $6.00/mcf in 2011.

Monetary Policy and Interest Rates

A bit of recent history first: As the financial crisis deepened in late 2008, the Federal Reserve reduced its target federal funds rate to near zero—actually, a range of 0% to 0.25%. However, this rate did not persuade financial institutions to come back into the capital markets. They preferred instead to build up their own cash reserves in case too many loans went into default. To loosen up the spreading credit crunch, the Fed devised a variety of new "facilities" that directed necessary liquidity toward the capital-starved institutions needing it. At its maximum (in December 2008), the total tab for these special crisis programs was about $1.5 trillion, give or take. Together with similar actions by other central banks around the world, the capital markets gradually did come unstuck.

Currently, many of the crisis-driven facilities are being allowed to disappear because they are no longer needed. However, the Fed is on course to purchase about $1.25 trillion of mortgage backed securities in a separate effort to keep mortgage rates low and to support housing and mortgage lending.

As a result of all its activist strategies, the Fed's balance sheet has swelled dramatically. Much of the money (about $1.2 trillion as of February 10, 2010) resides in commercial bank reserve accounts at the Federal Reserve. Banks' "excess" reserves (a cool $1.1 trillion) earn 0.25% per year. Most banks don't need those reserves at the moment because the demand for bank loans is quite weak. However, a trillion dollars of excess reserves would pose an inflationary risk if banks should suddenly decide to drain the accounts and increase lending to businesses and households.

Sooner or later, the Fed will have to tighten its monetary policy in order to neutralize this risk. Fed officials plan to utilize several new tools to accomplish this task, including raising the rate it pays on excess bank reserves and perhaps offering banks higher rates on term deposit accounts.

With few inflation concerns on the near horizon, the Fed does not expect to tighten soon and believes it can keep rates low until the economy recovers further. If things work out, short-term interest rates should stay put at current levels until the latter part of 2010. Once the Fed decides the time to move is at hand, however, it will want to return rates to more normal levels as soon as possible. Be prepared.

Long-term rates traced different paths between 4th quarter 2008 and late 2009 as the financial markets first seized up and then gradually eased. The 10-year Treasury note yield stood at 3.25% late in 2008, dropped below 3% early in 2009 and then rose to 3.5% in 4th quarter. During the same period, the 30-year fixed mortgage rate averaged 5.9% in 4th quarter 2008 and then drifted down to the 5% range and stabilized later in 2009. Just as interesting, corporate bond yields soared in late 2008 and have gradually retreated in 2009. The

Moody's BAA yield averaged 8.8% in 4th quarter 2008 and then fell all the way back to 6.3% by 4th quarter 2009. Corporate bond issuance, which collapsed during the fall, has increased correspondingly.

The outlook for long-term interest rates is uncertain, but some clues exist. By itself, the economic recovery will put some upward pressure on rates. Further pressure will come when the Federal Reserve starts to boost short-term rates. Assuming inflation behaves, this would put the 10-year note yield at about 4.0% toward year end 2010 and perhaps 4.5% by year end 2011. Meanwhile, the fixed mortgage rate would be in the 5.5% range at the end of 2010 and about 6.0% at year end 2011.

Fiscal Policy

The U.S. government has relied heavily on fiscal policy during this recession. Under the first stimulus plan—the Economic Stabilization Act of 2008—tax rebate checks arrived in the second quarter of 2008, just as gasoline prices were shooting up, mitigating consumers' loss of purchasing power.

Later in 2008, the Bush administration and Congress enacted the Troubled Asset Relief Plan (TARP). Under this program, up to $700 billion was to be spent mostly in support of commercial banks' balance sheets but also to provide special assistance to the U.S. auto industry. Now that capital markets are loosening up, a number of large banks felt strong enough to return $75 billion of TARP funds to the government in 2009, which can be re-used for other purposes, including a proposed small business lending program. Stay tuned.

In 2009, Congress and the Obama administration enacted a huge stimulus bill, the American Recovery and Reinvestment Act (ARRA), authorizing $787 billion in personal and corporate tax cuts plus increased federal aid to state and local governments and direct federal spending. While the entire program could take ten years, about 3/4s of the tax cuts, aid and spending were to take place in the first two years. The Congressional Budget Office estimated that $185 billion of stimulus would occur in fiscal year 2009 (FY 2009 ended September 30, 2009), followed by $399 billion more in FY 2010.

President Obama's 2010 budget proposed extending several ARRA programs that are scheduled to expire soon. Many members of Congress also have new stimulus proposals for the FY 2010 and FY 2011 years. Thus, it appears that federal spending is set to increase more in coming years.

Meanwhile, federal revenues have been falling due to the recession and ARRA tax cuts. As a result, the federal budget deficit has surged to previously unheard of levels, reaching $1.4 trillion in fiscal year 2009. With revenues still weak, the FY 2010 deficit is currently estimated at about $1.5 trillion. Tax revenues should be rising again by FY 2011, reflecting growth in business profits, rising employment and incomes, and possibly higher taxes (as Bush era and ARRA tax cuts are allowed to expire). Thus, the federal deficit should decline that year, depending on how much federal spending increases.

Risks to the Forecast

The baseline forecast calls for the U.S. economy to continue on a moderate recovery path through 2011. Consumer spending will follow a similar pattern. Automotive and housing related purchases will turn up in the recovery, though both will remain at historically low levels. Business investment will gradually accelerate as the level of economic activity improves. Foreign trade volumes also will grow. Boosted by the various stimulus plans, federal government spending will grow at a healthy pace, helping to offset the expected weakness in state/local spending. Labor markets will lag the economy. Employment will be growing by year end 2010 but sluggishly. Unemployment will remain high in both 2010 and 2011. Inflation looks like it will not be a problem during the forecast period.

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

1. **Financial fragility.** While capital markets have eased and stock prices have advanced, the financial system still carries risks. Consumer and business loan delinquencies continue to rise, dampening the profitability and capital adequacy of the banks involved. Already, U.S. banks have taken big hits due to *direct* losses on loans (that had to be foreclosed or written off because the borrowers couldn't or wouldn't make the payments). In addition, the value of banks' holdings of *indirect or secondary* mortgages and other packaged loans has declined, further impairing their capital positions.

2. **Credit crunch.** Commercial banks and thrift institutions operate a key gateway between the financial sector and the rest of the economy. As the recession—and prospective loan losses—worsened, banks raised credit standards, required more documentation, and boosted fees for all types of borrowers.

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

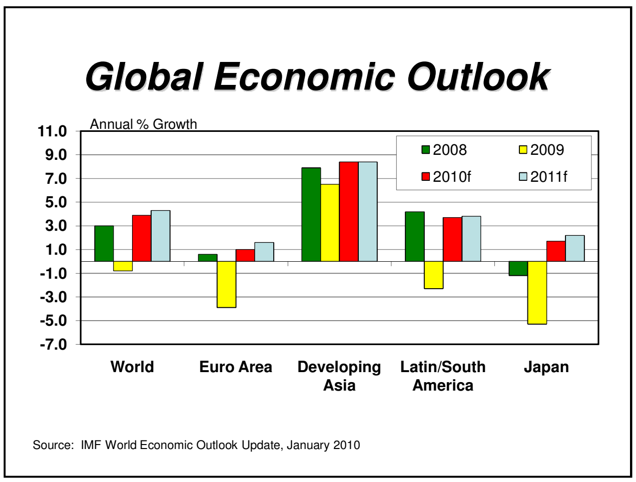
3. **Can the housing sector fly solo?** The housing and real estate industries are being supported by several federal government programs. Homebuyers currently are eligible for federal tax credits on homes they purchase. The Federal Reserve's huge program to acquire mortgage backed securities is designed to keep mortgage rates low. Indeed, the issuers of those securities, FNMA and Freddie Mac, are now owned by the government, which prevented their collapse during the financial crisis. But the Fed's buying program is scheduled to end in March, 2010 and the tax credits will expire after April. Mortgage rates could well increase then, and home sales relapse temporarily in the following months. We simply don't know if the industry will be strong enough to weather such a downturn.

4. **"Optimism."** There is an upside risk to the LAEDC forecast. Americans--consumers and businesses alike—have been inundated with media reports of the economy's troubles and policymakers arguing about solutions and who's to blame. And yet the economy *is* stirring. Retail sales have improved, and so have exports. Industrial production has turned up as businesses discovered they'd reduced their inventories too much and needed more to support the (slight) increase in their sales. And attitudes are improving right along with revenues. Economic recoveries often begin this way. And sometimes they run faster than we economists project. In compiling this forecast, the LAEDC has been deliberately conservative. We'd be delighted if we were wrong!

III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

Global Economy

The "Great Recession" of late 2008 and early 2009 was the worst global economic environment since the 1930s. By the end of 2009 the Great Recession had more or less ended. Countries around the world began to register GDP growth in the third or fourth quarters of last year. Both industrial production and trade flows had halted their respective downward trends in the second half of 2009, leading to a global economic recovery. The main factors leading to the recovery were unprecedented government stimuli, restocking of inventories and spending (both consumer and business).



The recovery is still unbalanced across the globe. The developing countries are leading the overall global recovery, but the recovery is uneven within the developing economies. In particular, emerging Asia is leading the global recovery. China and India witnessed remarkable growth amidst the difficult economic conditions of 2009. China's economy was by far the strongest, as GDP expanded by +8.7% in 2009.

In 2010, the developing world is expected to grow strongly especially in China, India, Brazil and South Korea – while the advanced economies will manage only sluggish growth rates. The economic recovery will remain fragile. Big question marks remain pertaining to high unemployment, strength of private demand, access to credit and – for policymakers – when to withdraw stimulus programs.

Among the advanced economies, the recovery in Japan and Europe will be substantially slower than in the developing world. On the other hand, the Canadian economy is projected to perform relatively strongly. Spain is the only nation forecasted to continue its downward spiral in 2010, as the country was hit especially hard by the financial and economic crisis. Other European nations such as Greece, Portugal and Ireland face significant public debt problems in 2010. One thing is clear: 2010 will most definitely be another very intriguing year for the global economy.

Regional Headlines

Asia:

- Asian exports plummeted in 2009, but Developing/Emerging Asia found ways to persevere
- Fiscal stimulus policies should continue in 2010, while monetary policies will begin to tighten
- Rising domestic demand along with a recovery in exports will be the recipes for success in 2010
- Developing/Emerging Asia will lead the global economic recovery in 2010. Japan will see the slowest recovery in Asia
- China and India will once again be stellar performers in 2010. South Korea and Taiwan also will demonstrate strong growth

Europe:

- In 2009 Europe experienced its worst economic performance since World War II. Export-reliant Germany was hit very hard by the sharp drop in world trade volumes

- The global financial crisis was devastating to the UK economy, as they suffered the longest recession of the major European economies

- France fared better than the others as it is less dependent on exports and has a substantial public sector

- Italy and Spain witnessed deep declines in overall output. The two nations already had big issues before the crisis, including a lack of fiscal discipline, that will hold back their economic recoveries

Americas:

- The Americas faced really rough economic times in 2009 as these economies are heavily dependent upon commodity prices and exports, which both collapsed

- Mexico faced its worst economic situation in over a quarter century. The plunge in exports to the U.S., the impact on tourism of swine flu and the drug war, and the severe drop in oil prices were simply too much for the economy to handle

- Canada fared somewhat better as it really only had to deal with the deterioration of exports to the U.S. Canada's financial sector proved to be in excellent condition throughout the financial crisis, and its housing market recovered quickly

- Brazil also had a very different experience in 2009 as its economy proved to be very resilient. The big advantages the large South American nation had during the financial and economic crisis was that it is not very dependent upon exports; it has a large domestic market, and its economy was fundamentally strong going into the crisis

The following sections include details on the top five trading partners of the Los Angeles Customs District including China, Japan, South Korea, Taiwan and Thailand. In addition, the analysis includes information on the economies of Los Angeles County's top five sources of foreign direct investment – Japan, the United Kingdom, France, Germany and Canada.

Major Regions

Asia

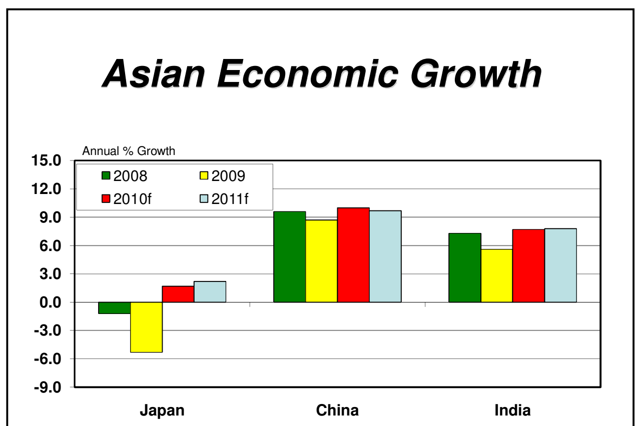
Japan: The Japanese economy suffered its worst recession in 2008-2009 since World War II. The island nation came out of the recession in the second quarter of 2009 as a result of a massive stimulus package. Japan was one of the largest casualties of the global financial and economic crisis as its economy is heavily dependent upon exports. The Japanese economy experienced record unemployment, falling real wages, a sharp drop in industrial production and a deterioration of business investment beginning in late 2008 and into 2009. Reflecting these conditions, 2009 was a very historic year for Japan, as the main opposition party, the Democratic Party of Japan (DPJ) came to power for the first time since after World War II. The DPJ has tried to focus on boosting consumer spending as well as implementing an additional stimulus package as recently as December. Overall, the multiple stimulus packages along with near zero interest rates for most of 2009 led to a very modest recovery in the second half of 2009. In addition, strong demand from the emerging Asian countries helped revive exports and further expanded the modest recovery. Japan's GDP dropped by -5.3% in 2009.

Key obstacles still lie ahead for Japan in 2010 and into 2011. The economy faces big issues related to its public indebtedness, deflation and a rising currency. Fiscal policy will be constrained by the already high budget deficits and will become less of a growth factor by the second half of 2010. Monetary policy is expected to remain loose in order to further stimulate the weak recovery and to counter the deflationary environment. Most observers agree that the Japanese economic recovery will be particularly unstable, as the nation attempts to address structural problems within the economy related to the labor market and domestic consumption. Thus, the recovery in 2010 will be highly dependent upon how strongly external demand returns and whether or not consumer spending and business investment revive. The Japanese economy is projected to witness a very sluggish growth rate of about +1.0% to +1.5% in 2010.

China: The resiliency of the Chinese economy was by far the top story of the past year and will continue to be in 2010. This past year China became the largest exporter in the world surpassing Germany. Also, China moved ahead of the U.S. as the biggest auto market. China's GDP expanded by +8.7% in 2009. In fact, the Chinese economy is so strong that many are fearful that the economy will overheat in 2010. The Chinese government passed the largest economic stimulus package in the world relative to the size of the economy. Meanwhile, China's banks launched huge financial lending programs. Combined, these two policies offset the losses from diminished exports and ultimately led to a surge in domestic demand. Government infrastructure investment soared, and consumer spending increased especially for appliances, consumer electronics and automobiles.

The outlook for China in 2010 is bright. The economic policies devised in 2008-2009 are expected to continue, albeit at a more moderate pace. The government has begun to recognize some of the red flags that can result from such expansionary policies. Inflation is one big concern. Another is whether or not asset bubbles are emerging within the real estate and equity markets. Nonetheless, this year's top global economic performer is expected to be China, as GDP is forecasted to grow by +10.0%.

India: The Indian economy was also quite resilient over the past year. Private investment and consumption were instrumental in propelling the strong growth seen in 2009. Also, the Indian government effectively utilized both fiscal and monetary policy to stimulate the economy. In addition, India is not too reliant on foreign trade; exports are roughly 20% of GDP. Even so, growth slowed in 2009 due to the reduction in capital inflows. Finally, the Indian economy not only had to deal with the consequences of the global recession, but also had to manage the impact of a weak monsoon season. Agriculture makes up about 18% of GDP and roughly 60% of employment. The deficient summer monsoon season of 2009 slowed economic growth. Overall, India's GDP is estimated to have grown by roughly +6.5% in 2009.



Source: IMF World Economic Outlook Update, January 2010

Public expenditures on infrastructure will be a key growth driver in 2010, as well as continued domestic consumption growth. The global economic recovery in 2010 means more exports and more foreign direct investment for India.

The key downside risk is inflation, which should lead the Reserve Bank of India (India's Central Bank) to be one of the first countries to raise interest rates in the first half of 2010. The Indian economy is forecasted to grow by roughly +8% over the next two years approaching the government's targeted rate of +9% and the rates of the previous three years.

South Korea: The South Korean economy surprised many observers in 2009. Most did not foresee the economy actually growing in the midst of the global financial and economic crisis, because South Korea is heavily dependent upon exports. The first half of 2009 saw the South Korean economy rescued by a massive fiscal stimulus package. The big story in the second half of 2009 was consumer spending. Private demand and a comeback in exports (mainly stemming from Chinese demand) over the second half of 2009 led to a positive GDP growth rate of nearly +0.5% for 2009.

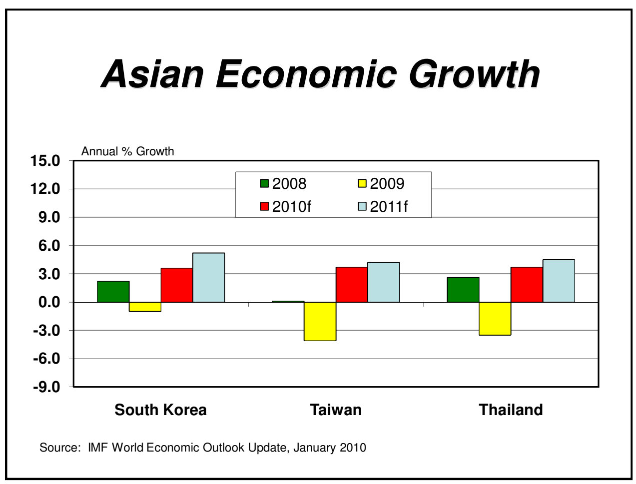
The year ahead should see a significant rebound in growth, as both consumer spending and exports are positioned to comeback strongly. The very strong recovery in the other Asian economies along with a modest recovery in the U.S. and Europe also bodes well for South Korean exports. All of this equates to an attractive environment for business investment in 2010 and beyond. Monetary policy likely will begin to tighten in the second half of 2010. The South Korean economy is projected to grow by roughly +5% to +6% in 2010.

Taiwan: The Taiwanese economy was not as fortunate in 2009. The financial and economic crisis proved to be too much for the export-led economy to handle. Taiwan's exports were down by more than -20% in 2009, ultimately halting any chance of economic growth.

However, the economic recovery in Taiwan is expected to be fairly strong, as exports and domestic consumption are set to increase. Export demand from China and other emerging economies will rise. Finally, the outlook for both industrial production and fixed investment spending is positive. Consensus forecasts are calling for +5% to +6% GDP growth in 2010.

Thailand: The Thai economy was hit very hard by the lack of external demand in 2009. Thailand's exports represent nearly 70% of its GDP, and the collapse in world trade that resulted from the global downturn was devastating. In response, the Thai government implemented strong fiscal stimulus policies to counter the loss of demand from the U.S., Japan and Europe. The stimulus prevented the Thai economy from experiencing a deep recession in 2009 and will provide the impetus needed for recovery in 2010. Overall, the Thai economy bottomed out in the second quarter of 2009 and began to stabilize in the second half of 2009.

A major concern for Thailand's economy in 2010 will be political unrest. The Thai economy badly needs the private and foreign direct investment that would come with political stability. Another critical issue for the Thai economy will be how exports recover. The prospects are encouraging, as a surge of Chinese demand was very helpful to the economy in 2009. Thailand will benefit greatly from this new source of demand. Higher oil prices are a huge concern in Thailand, Asia's largest net importer of petroleum (relative to GDP). Assuming higher exports and sustained fiscal injections in 2010, Thailand's GDP is projected to increase by +3.0% to +4.0% after declining by -3.5% in 2009.



Europe

Germany: The German economy was hit very hard by the global recession, as world demand for German exports collapsed. Declines in business investment and domestic consumption also contributed to the nation's severe economic slump. Substantial fiscal and monetary policies rescued the German economy from the economic doldrums in 2009. Germany witnessed a slight recovery in the second half of 2009. Germany's economy shrank by nearly -5% in 2009.

The German economy is heavily reliant on exports. The collapse in world trade was severely damaging to the German economy, a tremendous blow that setback the entire Euro area. Large tax cuts and increased government fixed investment will boost the economic recovery early in 2010, and an uptick in exports from the rest of Europe and the U.S. will help. The strength of the German recovery will undoubtedly be dependent upon how fast world trade volumes rebound in 2010. The Germany economy is forecasted to expand by roughly +2% in 2010.

France: The French economy was not as badly damaged by the financial and economic crisis as its GDP relies less upon exports and its large public sector is insulated from economic storms. However, Europe's second largest economy was still impacted by the economic downturn, particularly within its large industrial base. Industrial production, business investment and consumer spending worsened into early 2009. Also, unemployment rose substantially, constraining private demand and the labor market continues to be a big concern in 2010. The French economy contracted by -2.3% in 2009, making the French economy the best performer in the Euro area.

Prospects for the French economy in 2010 are uncertain as private internal and external demand will have to replace the lack of stimulus in the coming year. The employment situation, industrial production and exports will be important determinants of how strong the French recovery will be in 2010. The consensus forecasts call for France to grow by +1.0% to +2.0% in 2010.

United Kingdom (UK): The UK experienced the worst recession in its recorded history in 2008-2009 as a direct result of the global financial and economic crisis. The British recession lasted from the second quarter of 2008 until the fourth quarter of 2009, a full six quarters. The economy shrank by -4.8% overall in 2009. Britain was the last G7 nation to emerge from the Great Recession. The decline in housing prices and the weakness of the nation's banking industry played critical roles in the 2009 economic downturn. Other key contributing factors were a drop in exports and an increase in unemployment.

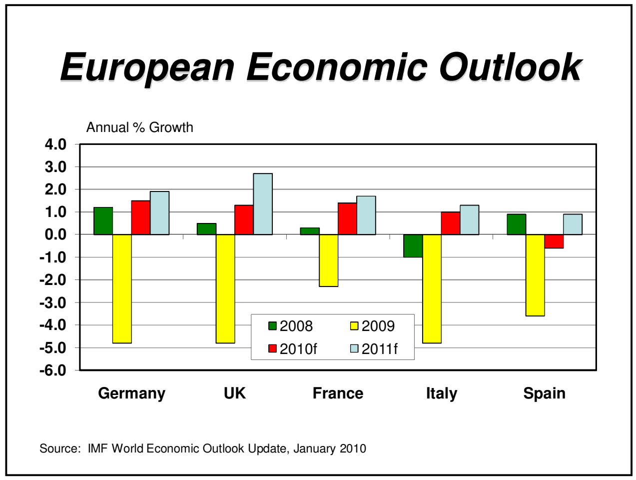
The British government implemented large stimulus measures. Both fiscal and monetary policies were loosened in order to ensure that the economy did not altogether collapse. The UK economy will face an uphill battle in 2010 as it will have to overcome continuing high unemployment, lower incomes, cuts in public spending and a constrained supply of credit. High unemployment will hamper recovery in consumer spending in 2010. As in the U.S., consumer spending accounts for the largest percentage of economic output in the UK. On the positive side, the UK economy will likely benefit from a rise in exports as well as an increase in manufacturing and business investment. The U.K. economy is projected to grow by +1.3% in 2010.

Italy: The Italian economy did not emerge from recession until the third quarter of 2009. Indeed, Europe's fourth largest economy was already weak before the global financial and economic crisis hit. However, Italy was not as severely impacted by the financial crisis, as most of its financial institutions were not overleveraged. In addition, the Italian economy was not as heavily dependent upon exports.

Italy's recession lasted a long time mainly because the Italian government did not have the fiscal capacity to implement any type of stimulus program. The nation simply could not afford to incur additional public debt. As a result, the Italian economy could not make-up for the lack of private demand by increasing government spending. In total, the Italian economy contracted by nearly -5% in 2009. The outlook for 2010 is not very optimistic. Existing weaknesses are likely to hamper the recovery and at best suggest a slight increase of +1% growth.

Spain: The financial and economic crisis inflicted a blistering blow to the Spanish economy. The Spanish economy was very exposed to the housing industry debacle, and its financial institutions were overleveraged with bad assets. The government tried to minimize the damage by passing its own stimulus package. However, business investment and consumer spending deteriorated sharply over the course of the year. The construction industry was hammered due to the housing collapse, and unemployment reached as high as 20%. Europe's fifth largest economy suffered the highest rates of unemployment in the Euro area. Spain's recession in 2009 was one of the worst economic performances in decades as Spain's GDP fell by -3.6% in 2009.

Spain's economy should improve somewhat in 2010. However, high unemployment and the severe downturn in the housing and construction sectors suggest 2010 will be another year of negative growth. Most likely, Spain will be the only major Euro area nation that will not experience a recovery in 2010. GDP is expected to contract by about -1% in 2010. The crisis was too damaging to the real economy and to the banking industry for Spain's economy to grow over the next year. Hopefully, the situation will have improved enough by 2011 to provide some sort of recovery.



The Americas

Canada: The Canadian economy climbed out of recession in the third quarter of 2009 (same quarter as the U.S.). The key drivers were growth in government spending (resulting from the stimulus package), housing and business investment. The Canadian economy did not suffer greatly because of the financial crisis. Canada's banking sector was very healthy before the crisis and came through it unscathed. This was absolutely critical in minimizing the overall effects of the global crisis. In addition, Canada's housing market rebounded quicker than in the U.S., a benefit in the coming years. The Canadian economy fell by -2.6% in 2009.

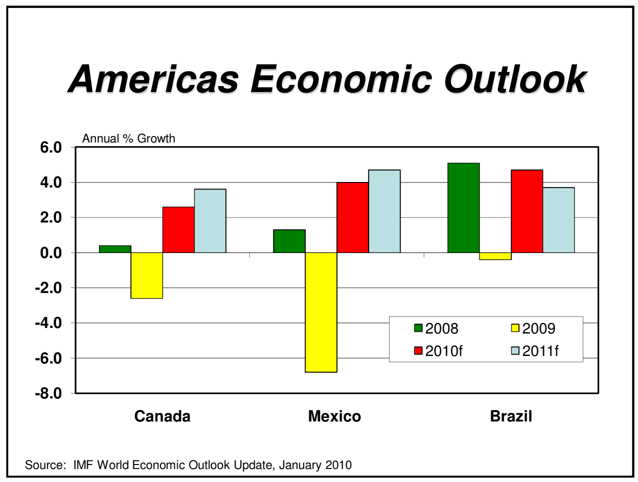
The big question mark for the Canadian recovery in 2010 is the strength of the U.S. economy, as nearly 80% of all Canadian exports go to the U.S. The Canadian economy is expected to perform well in the first half of 2010 as the labor and housing markets improve and exports to the U.S. grow. The other economic growth driver should be an increase in business investment. Commodity prices (oil, natural gas, etc.) also will impact the recovery in 2010. Overall, the Canadian economy is projected to expand by roughly +3.0% in 2010.

Mexico: The Mexican economy experienced its worst recession in more than 25 years in 2009, as the collapse of U.S. imports was simply too much for the Mexican economy to handle. The U.S. receives about 80% of Mexico's manufactured exports. Not only did trade with the U.S. suffer, Mexico experienced a major decline in remittances. Other very important developments also negatively affected the Mexican economy in 2009. The tourism industry was delivered a severe blow due to the swine flu outbreak that began in April. Oil prices took a nose-dive going from nearly $150/barrel to $30/barrel, which dramatically reduced oil revenues. The continuing drug war depleted government resources and diverted crucial expenditures from the federal and local budgets, not to mention the impact on tourism. As a result, the Mexican economy contracted by nearly -7% in 2009.

The year ahead should prove to be a breath of fresh air for the Mexican economy as the economic recovery has begun. The recovery's speed will depend on consumer's demand for Mexican goods. If the U.S. economy performs better than expected, the Mexican economy will no doubt reap the benefits. Mexican GDP is forecasted to recover by +3% in 2010, as the U.S. economy launches a comeback along with improvements in tourism, remittances and oil revenues.

Brazil: The Brazilian economy did not experience an economic slump in 2009. The main reasons the Brazilian economy proved to be so resilient were its limited export exposure, large domestic market and its sound financial system. The economic structural reforms put in place over the past ten years have truly made a difference, as the country used to be significantly impacted by financial crises and other external shocks.

The government implemented both fiscal and monetary stimulus policies in 2009 in order to lessen the effects of the global financial and economic meltdowns. Monetary policy is expected to tighten by the second half of 2010. On the other hand, the Brazilian government seems likely to continue its loose fiscal policies until at least the presidential election in October 2010. In addition, higher investment spending should lead to GDP growing by nearly +5% in 2010.



Foreign Exchange Rates
(Major World Currencies vis-à-vis the U.S. Dollar)

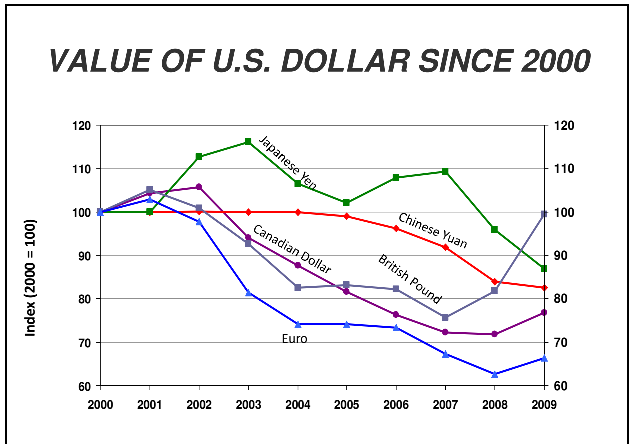
The U.S. dollar appreciated vis-à-vis most other currencies between September 2008, when the financial crisis began, and March 2009. As world investors became risk averse, U.S. Treasury securities appeared to be the safest investment. In March the global financial and economic crisis began to subside and changed from one where investors sought out safety to one in which investors became less risk averse.

Also, with interest rates at rock bottom levels, the U.S. dollar increasingly was used as a carry-trade-funding currency. Investors borrowed in U.S. dollars and then bought higher yielding assets in other currencies. Periodic outbreaks of sovereign risk fears (in Dubai and most recently in Greece) have been the only occasions when the overall downward trend in the dollar was upset.

The U.S. dollar is projected to gain some strength vis-à-vis some currencies in the coming months, if the Fed tightens monetary policy before other advanced economies. On the other hand, the U.S. dollar should most likely drift further downward.

Chinese Renminbi Yuan: The collapse of world trade toward the end of 2008 led the Chinese central bank to hold the Chinese currency stable in order to aid the struggling export sector. In 2009, the Renminbi remained pegged at or near 6.85 Renminbi Yuan per U.S. dollar. The Renminbi Yuan slightly appreciated in the second half of 2009 as the government attempted to minimize inflation. The big question mark going forward is whether or not the Chinese government will allow the currency to appreciate significantly in order to avoid inflation and resolve global imbalances.

Japanese Yen: The Japanese Yen weakened by -7.5% from the onset of the financial crisis until April 2009 as the Japanese economy faced its worst economic environment since World War II. However, the Yen recovered from April 2009 to December 2009 appreciating by +9.2%. From September 2008 to December 2009, the Yen appreciated by nearly +18%.



Source: Federal Reserve Board G5

South Korean Won: The South Korean Won fluctuated greatly in 2009 due to the effects of the financial crisis and the global economic recession. The Won collapsed after the financial crisis, plunging by over -30% until it rebounded beginning in March 2009. Over the rest of 2009, the Won strengthened by over +22%. Overall, the Won depreciated against the Dollar by -1.3% from the onset of the financial crisis in September 2008 until the end of 2009.

Canadian Dollar: Like the other major currencies the Canadian Dollar depreciated vis-à-vis the U.S. Dollar from September 2008 until March 2009 (by nearly -23%). As the U.S. economy started to show signs of life in March the trend reversed and the U.S. Dollar weakened against the Canadian Dollar until late November as the Canadian Dollar appreciated by +20%. Overall, from the fall of 2008 until the end of 2009, the Canadian dollar appreciated by roughly +2%.

Mexican Peso: Our southern neighbor experienced a much worse drop in its currency from September 2008 until March 2009 as the economic landscape deteriorated rapidly. The Peso plummeted by almost -49% over this time period. From March 2009 to December 2009, the Mexican Peso gained ground appreciating by over +16%. Overall, from the September 2008 low to the end of last year, the Mexican Peso depreciated by nearly -24%.

Euro: The European Monetary Unit (the Euro) deteriorated from September 2008 until March 2009 losing more than -13%, as investors saw no relief in sight for the world economy. Attitudes became less negative in March and the Euro appreciated over the rest of the year by approximately +21%. From the time Lehman Brothers collapsed until the end of 2009, the Euro has appreciated by about +5%.

British Pound: The British Pound lost -23% of its value vis-à-vis the U.S. Dollar from September 2008 to the low point in March 2009. From that point until the end of 2009, the Pound has strengthened versus the U.S. Dollar by appreciating over +21%. However, from the September 2008 low until the end of last year the Pound had depreciated by nearly -7% due to the overall weakness of the British economy. The Pound has significantly fallen since its record high a few years back.

Table 3

Foreign Exchange Rates of Major U.S. Trading Partners

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

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

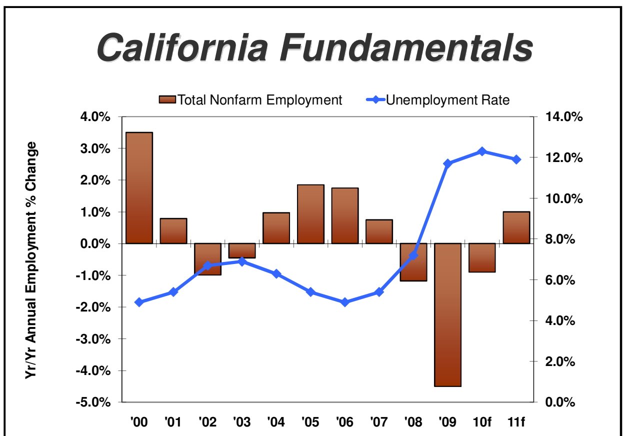
Source: Federal Reserve Statistical Release G.5A; Annual Averages

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

IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

The California economy continued to weaken in 2009. Problems that originated in housing and mortgage finance during 2007-2008 spread to the rest of the economy last year, leaving only a few industries untouched. Retail sales deteriorated sharply over the winter and spring, especially at the state's auto and furniture dealers. Tourism was down across the state, and the manufacturing and transportation sectors were hard hit. Nonresidential and public works construction also declined, despite increased federal funding. State and local government revenues fell in line with declining incomes, sales, and property values, pressuring government spending plans for the next few years.

Early in 2010, California's economy appears to be moving up from the depths of the recession. However, unemployment is still very high, and employment continues to decline across the state. Only a few industries are growing at present. The economic news in California will get better during 2010 but slowly. Further improvement is likely in 2011.



Source: EDD Labor Market Information Division; forecast by LAEDC

There are worries in addition to the recession

- One is water. California's water supply continues in very short supply, though a rainy January was helpful. Many areas in the state are facing restrictions on water use, as water levels in the state's reservoirs have fallen well below average. Worse yet, environmental rulings have the potential to place at risk the state's premier agriculture industry and all urban areas that rely on water traversing the Sacramento-Bay Delta.
- Another concern is the state budget situation. As revenues continue to shrink, the state government's deficit problem simply refuses to go away. Wrestling with the current problems reveals one salient fact: whatever the solutions turn out to be, they will damage the state's economic recovery. Government spending and public employment at all levels will have to come down in 2010-2011. Any tax or fee increases will simply shift the spending and employment reductions to the private sector.

A measured economic outlook

Employment fell by –4.5% in California during 2009, or by -668,800 jobs. The unemployment rate surged into double digits, averaging a painful 11.7%. As the recovery finally gets going, growth will be moderate at best in 2010. Business firms will be reluctant to hire until they are certain that better times will be long-lasting. As a result, the state's labor markets will continue weak in 2010, with nonfarm employment declining by -0.8% or by -120,000 jobs. Unemployment will remain stubbornly high, averaging 12.4% this year. Economic conditions will improve more noticeably in 2011. Employment will grow by +1.0%, and the jobless rate will edge down to 12.0%.

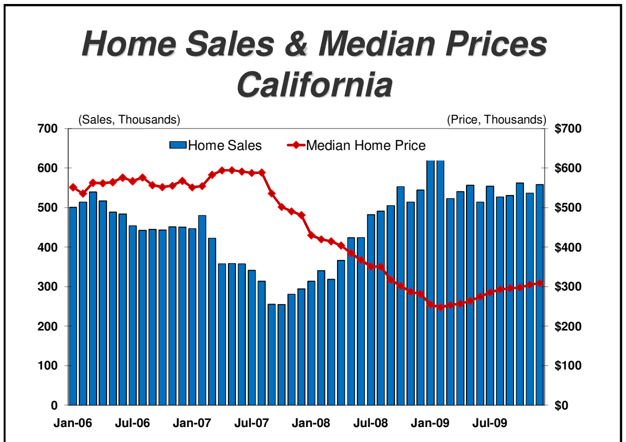
A Few Positive Forces Through 2011

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

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

Some Negative Forces

Housing and related activities: New home construction is in a depressed state right now, and the pain will continue through much of 2010. However, the market for existing homes looks better, as unit sales have risen while prices may be off the bottom. Still, the strength of any upturn is uncertain. The main risk would be a large round of sudden foreclosures that subsequently come onto the market in a short period of time.



Source: California Real Estate Research Council; DataQuick

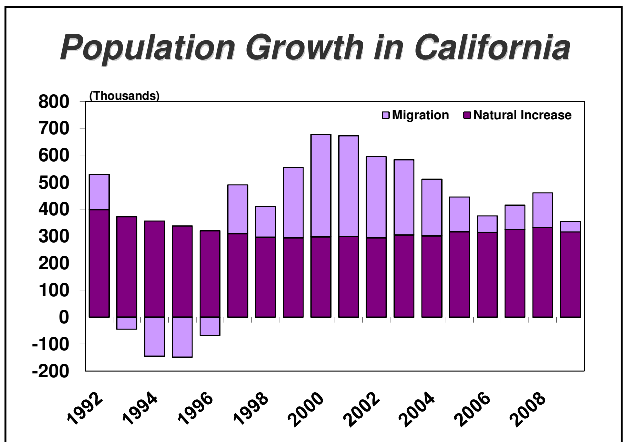
Retail and autos: With job counts falling across the state, spending by consumers has dropped sharply. Retail sales fell by -7.7% in 2008 and by an estimated -16% in 2009. Retail stores of all types have shut their doors and jobs have disappeared as well. The state's automotive dealers have been hard hit, especially those selling products made by the "Detroit 3."

Environmental regulations: The recession and its impacts fill the headlines. Less noticed are efforts to "green" the state and its ports, as well as the looming implementation of AB 32 (the greenhouse gas legislation). A large number of new requirements for state businesses are in the regulatory hoppers, with final rules due before 2012. At minimum, this process raises uncertainty in today's adverse business climate. California residents and many businesses will face higher energy costs in the future. Paying for the required investments in new vehicles, equipment and buildings also could be an issue.

Demographic Trends

The California economy does have one big thing going for it: a large and growing population. The state's populace numbered 38.49 million persons as of midyear 2009. That total is expected to swell by about 355,000-360,000 persons in each of the next two years. By 2011, the state will have 39.2 million residents.

Population growth has slowed since the early 2000s, primarily because the state has experienced negative net domestic migration; i.e., the number of Californians moving out-of-state is greater than the number of out-of-state residents moving here. Most of the state's population growth comes from natural increase (i.e., births minus deaths), with the remainder from international immigration.



Source: California Dept. Finance, Demographic Research Unit

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

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

Trends in Major Industries

Agriculture: All in all, 2009 was not an easy year for many of the state's farms, with revenues reduced by lower prices and reduced exports of California-grown products. Prices of several important product groups declined severely. In addition, water supply has become an extremely serious concern. California farmers cut production to survive in 2009. The situation in 2010 doesn't look appreciably better. [Pray for rain?]

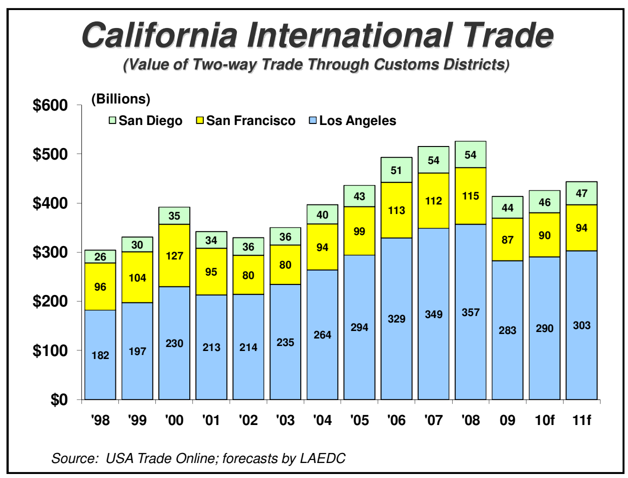
Farm statistics are released with a long lag, but here's the information currently available.

- The U.S. government estimates that California farms received $38.4 billion in gross cash income during 2008, up by just +1.0% from 2007.
- Net farm income was $7.9 billion, down by -45.8% from $11.2 billion in 2007.
- Returns for the first nine months of 2009 were sobering. Total gross receipts were down by -13.0%, primarily due to plunging prices of dairy products and livestock.
- Exports of California-grown and -bottled products decreased by -7.7% during the first eleven months of 2009 compared with the same 2008 period.
- Also during 2009, an estimated 389,200 workers were employed by California's farms and nurseries, down by -0.4% from 2008.

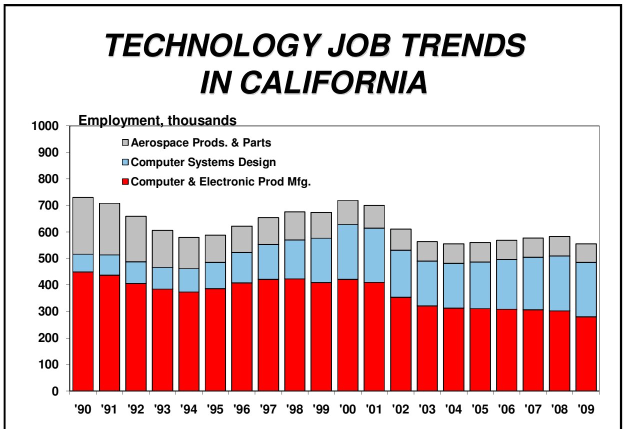
2010 will be a challenge for California's farmers. Product prices will continue to be weak, especially for dairy and meat products. The water situation could be even worse than last year. However, California farm and food exports to key Asian markets may well increase this year, due to higher demand from nations recovering early from the global recession.

International trade: Imports and exports through California's three customs districts plunged through much of 2009, with the rate of decline easing at year end, as the global financial and economic recovery took hold in key Asian markets. For 2009 as a whole, the value of imports through the state's ports dropped by -21.7%, while exports decreased by -19.4%.

Both import and export flows will turn around in 2010, with imports expected to rise by +2.3% and exports by +4.3%. Exports are already beginning to improve, boosted by demand from Asian emerging nations led by China. Imports also will start to grow as rising U.S. retail sales force retailers to increase orders from their foreign suppliers. Trade flows through California will increase further in 2011.



Technology (including aerospace): The various components of California's tech sector have disparate outlooks. Business demand for technology products was very weak in the first three quarters of 2009, when businesses were reducing costs drastically in order to survive the recession. However, demand picked up noticeably during the fourth quarter. Sales of technology products held up better on the consumer side. Purchases of consumer products like computers, flat televisions, and cell phones, increased in 2009 despite the recession and will continue to grow in 2010. There's always demand for well-designed personal gadgets like iPods and smart cell phones with media players. California's high tech manufacturers—especially makers of semiconductors and other electronic components—remarked on the late 2009 upturn in sales. However, it's not yet clear how fast their production in California will ramp up.



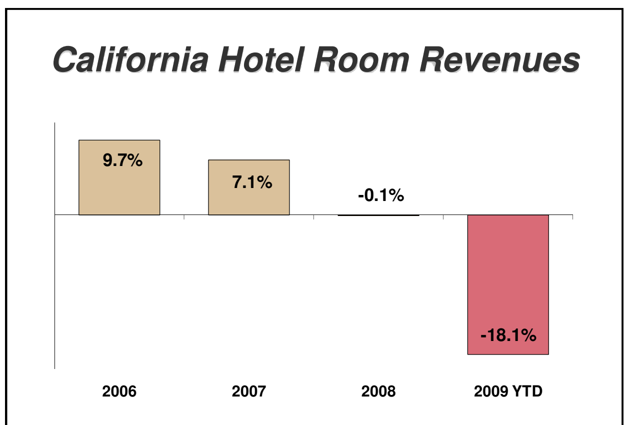
Source: EDD Labor Market Information Division

In the aerospace sector, a number of major government-sponsored defense projects are underway in California, including satellites and unmanned aerial vehicles. Significant sub-contracting also takes place on Air Force fighter planes. The administration is again proposing key defense cutbacks that could hurt the state, on net, beginning in 2011. Also, the Defense Department just released its latest quadrennial review, which could lead to further changes in priorities.

Commercial aerospace also presents an uncertain picture. Airbus and Boeing are adjusting their production schedules downward to accommodate their cash-strapped airline customers. However, delays in bringing new aircraft to the market (Boeing's 787 Dreamliner in particular) may be coming to a close; Boeing has said that 787 deliveries might begin late in the year. Both manufacturers have hefty backlogs, but they continue to shrink as production rates still exceed new orders. Boeing plans to build up its parts inventories during 2010 in advance of boosting 787 production. Nonetheless, California aerospace sub-contractors are understandably on edge.

Tourism: 2009 was a difficult year for California's tourism industry. Conditions deteriorated through most of the year. According to Smith Travel Research, the state's hotels reported declines in occupancy rates last year (averaging -8.8%) along with lower room rates (down by -10.9% on average). This combination caused total hotel room revenues to shrink by an unwelcome -18.8%.

All major markets reported double-digit declines in 2009 room revenues. Riverside-San Bernardino and Orange County were the "least bad" of the major destinations, with room revenues down by -15.3% and -15.6% respectively compared with 2008. Elsewhere in Southern California, Ventura County and Los Angeles saw revenues decline by -17.8% and -17.9% respectively, while San Diego was down by -20.5%. Revenues in the Bay Area also were lower than in 2008, with San Francisco off by -18.5%, Oakland by -21.0%, and San Jose down by -24.5%.

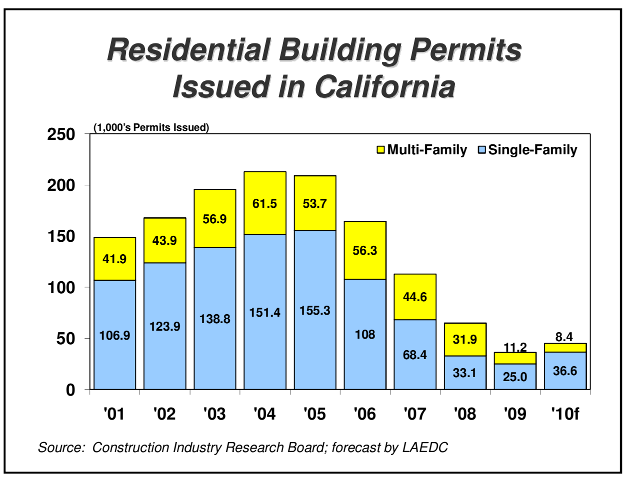


Source: Smith Travel Research (CA TTC)

International travel experienced similar pains. After growing by +5% in 2008, the number of international visitors flying into California airports decreased by -9.4% during the first eleven months of 2009. The global recession dampened travel demand from most nations. The number of travelers from Europe, Japan, and much of Asia—all good sources of visitors to California—fell at double digit rates. However, travel from Australia increased by +18%, reflecting higher airline capacity between that country and California.

Going forward, tourism industry revenues could edge up in 2010, though business and leisure travel to California destinations likely will continue to struggle a while longer. Troubles are not yet over for business-oriented airlines and hotels and the state's convention centers. Intra-state travel is likely to show the most improvement, though it may be limited. Travelers of every type will continue to choose the lowest-cost options, whether airfares, rental cars, or hotel rooms.

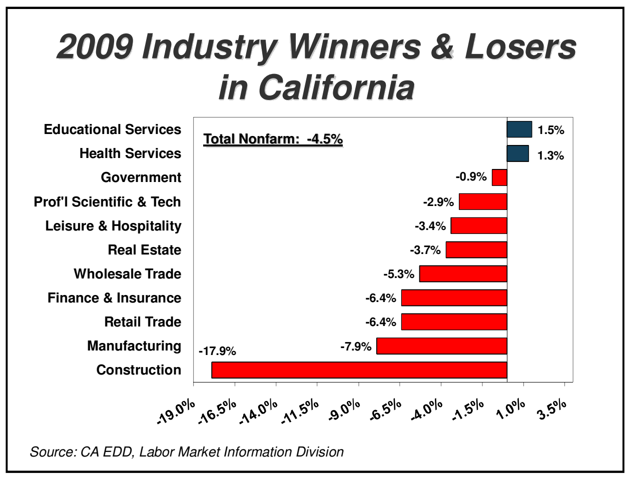
Construction: And then there is the state's troubled construction industry. New home construction struggled in 2009, with just 36,209 units permitted, down by -44% from 2008 and a huge -83% plunge from the 2004 peak year (when 212,960 units were permitted). Nonresidential construction also is depressed, with the value of new permits in 2009 dropping by -43.6% to $10.8 billion. Residential permits are expected to grow by +24% in 2010. However, all of the increase will come in the single-family sector, as permits for new condominiums and apartments continue to dwindle. Nonresidential construction activity is projected to decline by -12.4% in 2010.



What about public works? Revenue constraints caused most local governments and school districts to prune spending last year, especially for buildings, where new projects decreased by about -24%. Federal stimulus funds kept the decline in heavy construction—particularly roadwork—to -10%. While the impact of the stimulus program was relatively small in 2009, public works construction activity should improve in 2010 and 2011 as work on more contracts gets under way.

Trends Around the State

California is just beginning to emerge from a serious recession, and all thirteen large metropolitan areas have seen significant employment declines. The four metro areas in the San Joaquin Valley are in the "less worse" category, including Bakersfield (with an employment loss of -2.4% over the year to December 2009), Fresno (at -2.5%), Stockton (-3.3%), and Modesto (-3.6% over the year). Still, a central location did not guarantee success; the Sacramento area placed at the bottom of the list, with a year-over decline of -4.7%.



Southern California's metro areas are spread across the rankings. The two areas in the worst shape are Riverside-San Bernardino (down by -4.3% over the year to December 2009) and Ventura County (-4.0%). Los Angeles (-2.9%) ranked near the top of the list (#3), while Orange County and San Diego (both at -3.3% over the year) placed fifth from the top.

The three Bay Area metros also were spread out. Oakland had the least bad results, with December, 2009 employment down by -3.1% compared with a year earlier. However, San Jose and San Francisco turned in similar performances, with year-over declines of -4.0% and -4.6% respectively.

Net Results

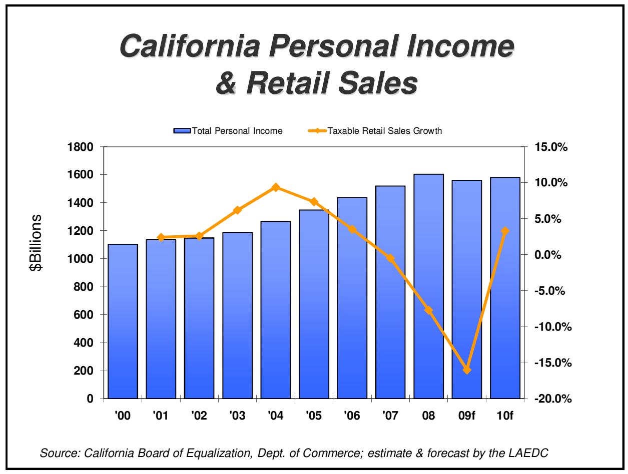
Employment losses in California were focused on housing and finance in 2008 but spread across the industry spectrum to manufacturing, retail trade, business services, and goods movement in 2009.

Job losses will gradually diminish in 2010, as business firms gain more confidence that the recovery is sustainable. The largest losses this year are expected to occur in manufacturing (-52,900 jobs), retail trade (-21,600 jobs), leisure and hospitality (-17,600 jobs), and construction (-10,700 jobs). Three industry sectors will add employees in 2010: health services (+22,500 jobs), information (+4,700 jobs), and private education services (+3,600 jobs).

The state's unemployment rate has moved well into double-digit territory, and will remain there during 20010-2011, averaging 12.3% in 2010 and 11.9% in 2011.

Total personal income dropped by -2.9% in 2009 to $1.56 billion, the first annual decline since 1938. And 2009 meant rough times for California's retailers, who saw a -16.0% decline in 2009 taxable retail sales.

In 2010, personal income will grow by only +1.3%, while taxable retail sales will register a gain of +3.3%.



<u>Bottom Line</u>

The near-term outlook for the California economy is not especially pretty. Because the recession was so deep, 2010 won't *feel* very good. However, the state's economy will be moving in the right direction. The economic environment will seem more like a true recovery-expansion by 2011.

Gross Product

People always ask how the state's gross domestic product (GDP) ranks among the nations of the world. They also ask about where the Los Angeles five-county area would rank if it were a sovereign country. When they read or hear this information, they can 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 (at least for 2008), call it the "rule of 8…17…19." In 2008, the state ranked 8th, the five-county area placed 17th, while Los Angeles County on its own ranked 19th (based on what can be measured) among the nations of the world.

In 2008, rankings dropped for both the five-county area (from 16th to 17th) and for Los Angeles County (from 18th to 19th) as the Dutch and Polish 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 Russia) was unchanged from 2007.

In July 2010, when we update this table with the 2009 figures, we will witness a substantial decline in the level of GDP for many nations, especially those that are dependent upon exports and commodities such as oil. The rankings for the five-county area and Los Angeles County could also slide as a result of the severe economic recession in the region. The battered real estate market, high unemployment and dwindling consumer spending hit the Southern California region really hard in 2009. However, Southern California might fare better than those countries that experienced a severe downturn in exports and a collapse in oil revenues. Stay tuned.

In nominal GDP growth terms, the United States, California, the Los Angeles five-county area, and Los Angeles County were outpaced by 2008 growth in most of the countries on the list (with the exception of the United Kingdom, South Korea and South Africa). When compared in real GDP terms (adjusted for inflation), the major foreign countries also posted higher growth rates but not by as much. Oil producing nations experienced the largest GDP growth rates as oil prices reached all-time highs in July 2008. The emergence of inflation outside the United States (particularly higher food and oil prices) was a major contributing factor to the diverging performances seen in 2008.

Table 4
Gross Product Comparisons
Final 2008 IMF Figures (in billions of $US)

Rank	Country/Economy	Nominal GDP 2008	Nominal GDP '07-'08 % Chg	Real GDP '07-'08 % Chg
1	United States	$14,441.44	2.5%	0.4%
2	Japan	4,910.69	10.8%	-0.7%
3	China	4,327.45	21.8%	9.0%
4	Germany	3,673.11	9.4%	1.2%
5	France	2,866.95	9.4%	0.3%
6	United Kingdom	2,680.00	-4.5%	0.7%
7	Italy	2,313.89	8.5%	-1.0%
	California	**1,846.80**	**1.9%**	**0.4%**
8	Russia	1,676.59	22.8%	5.6%
9	Spain	1,601.96	9.9%	0.9%
10	Brazil	1,572.84	15.2%	5.1%
11	Canada	1,499.55	4.8%	0.4%
12	India	1,206.68	8.8%	7.3%
13	Mexico	1,088.13	5.8%	1.3%
14	Australia	1,013.46	10.2%	2.4%
15	South Korea	929.12	-12.9%	2.2%
16	Netherlands	876.97	11.1%	2.0%
	Los Angeles 5-co. area	**859.42**	**0.9%**	**0.5%**
17	Turkey	729.98	11.1%	0.9%
18	Poland	527.87	19.4%	4.9%
	Los Angeles County	**513.60**	**1.1%**	**0.7%**
19	Indonesia	511.77	15.6%	6.1%
20	Belgium	506.18	9.3%	1.0%
21	Switzerland	500.26	13.2%	1.8%
22	Sweden	478.96	5.4%	-0.2%
23	Saudi Arabia	469.43	18.1%	4.4%
24	Norway	451.83	14.0%	2.1%
25	Austria	414.83	10.5%	2.0%
26	Taiwan	391.35	1.7%	0.1%
27	Greece	357.55	12.5%	2.9%
28	Denmark	340.03	8.8%	-1.2%
29	Iran	335.23	14.7%	2.5%
30	Argentina	324.77	19.8%	6.8%
31	Venezuela	319.44	28.7%	4.8%
32	South Africa	276.76	-2.4%	3.1%
33	Thailand	273.31	10.0%	2.6%
34	Finland	271.87	9.4%	1.0%
35	Ireland	267.58	2.8%	-3.0%
36	United Arab Emirates	262.15	31.3%	7.4%
37	Portugal	244.64	8.6%	0.0%
38	Colombia	240.83	13.6%	2.5%
39	Malaysia	221.61	16.0%	4.6%
40	Czech Republic	216.35	19.5%	2.7%

Note: Nominal GDP figures are not adjusted for inflation.
Sources: IMF World Economic Outlook, Oct 2009; LAEDC estimates

Table 5

California Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($billions)	Value of Two-way Trade ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	34,095.2	14,487.8	4.9	1,135.3	33,299	287.1	392.0	148,540	18,625
2001	34,766.7	14,602.6	5.4	1,168.7	33,616	294.0	340.7	148,757	16,753
2002	35,361.2	14,457.9	6.7	1,187.4	33,578	301.6	328.1	167,761	14,529
2003	35,944.2	14,393.1	6.9	1,233.0	34,303	320.2	348.0	195,682	13,915
2004	36,454.5	14,532.1	6.3	1,312.2	35,997	350.2	394.8	212,960	15,689
2005	36,899.4	14,800.7	5.4	1,387.7	37,607	375.8	433.8	208,972	18,266
2006	37,274.6	15,059.8	4.9	1,495.6	40,123	389.1	488.0	164,280	21,109
2007	37,674.4	15,173.5	5.4	1,572.3	41,733	387.0	513.4	113,034	22,542
2008	38,134.5	14,994.1	7.2	1,604.1	42,065	357.3	523.3	64,962	19,212
2009p	38,487.9	14,325.3	11.7	1,560.0	40,532	300.0	413.5	36,209	10,844
2010f	38,844.6	14,205.0	12.3	1,580.0	40,675	310.0	425.7	45,000	9,500
2011f	39,204.5	14,350.0	12.0	1,645.0	41,960	330.0	444.4	75,000	10,000
<u>% Change</u>									
'01/'00	2.0%	0.8%		2.9%	1.0%	2.4%	-13.1%	0.1%	-10.1%
'02/'01	1.7%	-1.0%		1.6%	-0.1%	2.6%	-3.7%	12.8%	-13.3%
'03/'02	1.6%	-0.4%		3.8%	2.2%	6.2%	6.1%	16.6%	-4.2%
'04/'03	1.4%	1.0%		6.4%	4.9%	9.4%	13.4%	8.8%	12.7%
'05/'04	1.2%	1.8%		5.7%	4.5%	7.3%	9.9%	-1.9%	16.4%
'06/'05	1.0%	1.8%		7.8%	6.7%	3.5%	12.5%	-21.4%	15.6%
'07/'06	1.1%	0.8%		5.1%	4.0%	-0.5%	5.2%	-31.2%	6.8%
'08/'07	1.2%	-1.2%		2.0%	0.8%	-7.7%	1.9%	-42.5%	-14.8%
'09/'08	0.9%	-4.5%		-2.7%	-3.6%	-16.0%	-21.0%	-44.3%	-43.6%
'10/'09	0.9%	-0.8%		1.3%	0.4%	3.3%	3.0%	24.3%	-12.4%
11/'10	0.9%	1.0%		4.1%	3.2%	6.5%	4.4%	66.7%	5.3%

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

Table 6

California Nonfarm Employment

(Annual averages, in thousands, 2008 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	14,487.8	26.5	733.4	1,864.1	*1,217.2*	*646.9*	646.2	1,563.2	518.3	576.7
2001	14,602.6	25.6	780.4	1,791.3	*1,173.9*	*617.4*	658.9	1,576.1	514.1	551.9
2002	14,457.9	23.1	774.4	1,644.5	*1.059.6*	*584.9*	652.1	1,582.1	491.0	497.3
2003	14,393.1	22.2	796.8	1,542.5	*976.4*	*566.1*	649.5	1,588.3	480.6	476.1
2004	14,532.1	22.8	850.4	1,523.5	*966.0*	*557.4*	653.0	1,617.6	482.7	482.4
2005	14,800.7	23.6	905.3	1,504.8	*959.0*	*545.7*	673.6	1,659.3	487.1	473.6
2006	15,059.8	25.1	933.7	1,490.2	*947.6*	*542.6*	700.2	1,680.1	496.1	466.0
2007	15,173.5	26.7	892.6	1,464.4	*927.9*	*536.4*	715.3	1,689.9	507.6	470.8
2008	14,994.1	28.5	785.8	1,425.4	*901.1*	*524.3*	706.6	1,642.3	505.8	474.7
2009p	14,325.3	27.3	645.7	*1,312.9*	*819.5*	493.4	669.4	1,536.6	482.4	448.3
2010f	14,205.0	26.0	635.0	*1,260.0*	*785.0*	475.0	665.0	1,515.0	480.0	453.0
2011f	14,350.0	26.0	660.0	*1,255.0*	*795.0*	460.0	675.0	1,540.0	490.0	453.0

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	544.3	262.6	922.7	294.0	997.2	229.7	1,171.3	1,335.5	487.7	2,318.0
2001	568.9	267.2	936.9	283.6	657.6	237.1	1,210.6	1,365.1	499.2	2,382.1
2002	584.8	268.2	905.0	265.9	939.5	245.4	1,253.3	1,382.3	505.7	2,447.0
2003	613.4	272.3	906.6	246.8	931.2	258.2	1,278.1	1,400.1	504.3	2,426.0
2004	625.8	276.4	918.9	230.3	947.8	262.9	1,297.1	1,439.4	503.8	2,397.7
2005	643.6	283.6	970.2	221.2	968.3	272.2	1,314.3	1,475.2	505.5	2,420.2
2006	646.7	288.5	1,026.5	211.6	1003.3	277.6	1,336.4	1,519.0	207.1	2,452.3
2007	621.1	283.5	1,060.4	206.1	997.9	289.3	1,381.0	1,560.4	512.2	2,494.6
2008	573.6	276.4	1,083.5	204.2	956.7	302.0	1,423.3	1,570.6	515.4	2,519.3
2009p	539.1	266.3	1,052.5	191.9	889.1	306.4	1,442.5	1,517.6	500.4	2,496.9
2010f	535.0	263.0	1,045.0	188.0	885.0	310.0	1,465.0	1,500.0	495.0	2,485.0
2011f	535.0	266.0	1,065.0	185.0	905.0	314.0	1,485.0	1,516.0	495.0	2,485.0

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

Table 7

California Regional Nonfarm Employment

(Annual averages for major metropolitan areas; March 2008 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	Riv-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	1,152.9	263.6
2000	14,487.8	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	14,602.6	1,054.8	1,053.9	1,017.9	202.2	275.9	149.7	818.9	191.1	4,073.6	1,413.7	1029.7	1,218.4	280.0
2002	14,457.9	1,039.8	987.1	917.2	205.1	282.0	150.7	832.2	194.0	4,026.8	1,403.7	1064.5	1,230.7	281.8
2003	14,393.1	1,025.6	950.7	870.3	207.1	282.7	152.3	846.0	197.3	3,982.9	1,429.0	1099.2	1,240.1	284.2
2004	14,532.1	1,023.7	939.3	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1160.0	1,260.3	286.2
2005	14,800.7	1,032.2	945.8	869.9	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1222.0	1,282.1	291.2
2006	15,059.8	1,046.9	964.4	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1267.7	1,301.6	297.7
2007	15,173.4	1,048.2	989.1	911.2	238.4	306.4	160.1	903.0	211.5	4,122.1	1,515.5	1270.9	1,308.8	296.8
2008	14,999.3	1,029.8	995.1	915.1	238.4	302.8	156.6	881.8	206.1	4,069.3	1,484.7	1222.5	1,299.2	289.4
2009p	14,325.3	988.7	952.3	876.2	233.1	293.0	151.3	838.6	200.1	3,914.9	1,419.9	1,151.0	1,251.0	275.7

*Based on Current Employment Series

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

Table 8

Total Nonfarm Employment in Southern California

Actual Data & Forecasts (Annual averages in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2000	4,072.1	1,388.9	988.4	275.0	6,724.4	1,193.8	14,487.8
2001	4,073.6	1,413.7	1,029.7	280.0	6,797.0	1,218.4	14,602.6
2002	4,026.8	1,403.7	1,064.5	281.8	6,776.8	1,230.7	14,457.9
2003	3,982.9	1,429.0	1,099.2	284.2	6,795.3	1,240.1	14,393.1
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,532.1
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,800.7
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,059.8
2007	4,122.1	1,515.5	1,270.9	296.8	7,205.3	1,308.8	15,173.5
2008	4,069.3	1,484.7	1,222.5	289.4	7,065.9	1,299.2	14,994.1
2009p	3,914.9	1,419.9	1,151.0	275.7	6,761.5	1,251.7	14,325.3
2010f	3,895.0	1,410.7	1,138.0	274.0	6,717.7	1,242.6	14,205.0
2011f	3,935.0	1,425.6	1,152.2	276.7	6,789.5	1,252.6	14,350.0

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	496.0
2001	1.5	24.8	41.3	5.0	72.6	24.6	114.8
2002	-46.8	-10.0	34.8	1.8	-20.2	12.3	-144.7
2003	-43.9	25.3	34.7	2.4	18.5	9.4	-64.8
2004	13.6	27.7	60.8	2.0	104.1	20.2	139.0
2005	27.7	34.3	62.0	5.0	129.0	21.8	268.6
2006	68.3	27.9	45.7	6.5	148.4	19.5	259.1
2007	29.6	-3.4	3.2	-0.9	28.5	7.2	113.7
2008	-52.8	-30.8	-48.4	-7.4	-139.4	-9.6	-179.4
2009p	-154.4	-64.8	-71.5	-13.7	-304.4	-47.5	-668.8
2010f	-19.9	-9.2	-13.0	-1.7	-43.8	-9.1	-120.3
2011f	40.0	14.9	14.2	2.7	71.8	10.0	145.0

% Change from Prior Year

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
1991	-3.7%	-2.4%	0.9%	0.0%	-2.8%	-0.4%	-1.1%
2000	1.7%	3.2%	5.3%	4.3%	2.7%	3.5%	3.5%
2001	0.0%	1.8%	4.2%	1.8%	1.1%	2.1%	0.8%
2002	-1.1%	-0.7%	3.4%	0.6%	-0.3%	1.0%	-1.0%
2003	-1.1%	1.8%	3.3%	0.9%	0.3%	0.8%	-0.4%
2004	0.3%	1.9%	5.5%	0.7%	1.5%	1.6%	1.0%
2005	0.7%	2.4%	5.3%	1.7%	1.9%	1.7%	1.8%
2006	1.7%	1.9%	3.7%	2.2%	2.1%	1.5%	1.8%
2007	0.7%	-0.2%	0.3%	-0.3%	0.4%	0.6%	0.8%
2008	-1.3%	-2.0%	-3.8%	-2.5%	-1.9%	-0.7%	-1.2%
2009p	-3.8%	-4.4%	-5.8%	-4.7%	-4.3%	-3.7%	-4.5%
2010f	-0.5%	-0.6%	-1.1%	-0.6%	-0.6%	-0.7%	-0.8%
2011f	1.0%	1.1%	1.2%	1.0%	1.1%	0.8%	1.0%

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

Table 9

California Technology Employment

(Average annual employment in 000s, 2008 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	1,011.5	409.7	86.3	39.2	50.7	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	950.6	304.1	72.8	44.2	43.0	20.7	199.2	159.0	107.6
2008	975.3	302.1	73.5	43.0	43.8	20.3	206.6	169.9	116.1
2009p	944.1	281.0	71.0	42.0	42.9	18.8	204.7	167.2	116.5

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

Table 10

California Motion Picture/TV Production Employment

(In thousands, 2008 benchmark, based on NAICS)

	Motion Picture & Related Industries	Motion Picture & Video Industries	Sound Recording Industries	Broadcasting (Radio, TV & Cable)	Magnetic Media Manufacturing & Reproduction	Independent Artists, Writers, & Performers
2000	246.9	160.2	10.0	46.3	16.0	14.4
2001	223.7	142.2	7.6	45.4	13.8	14.7
2002	218.6	139.0	6.8	45.0	12.4	15.4
2003	217.5	139.2	5.7	45.2	11.5	15.9
2004	229.7	152.5	4.9	46.8	10.7	14.8
2005	224.0	146.7	4.9	47.3	9.4	15.7
2006	221.1	143.4	4.6	47.7	8.2	17.2
2007	224.1	146.0	5.1	48.5	7.4	17.1
2008	228.5	152.0	4.2	48.3	6.9	17.1
2009p	217.1	144.5	3.7	45.9	6.3	16.7

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

Table 11

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

Population estimates as of 7/1/09, in thousands

	Los Angeles County		Orange County		Riverside & San Bern. 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%	31,524	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.3%	705	0.6%	15,370	0.4%	31,712	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	710	0.7%	15,470	0.7%	31,963	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.7%	15,670	1.3%	32,453	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	15,862	1.2%	32,863	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	16,138	1.7%	33,419	1.7%
2000	9,576	1.9%	2,864	2.2%	3,281	2.6%	759	2.2%	16,480	2.1%	34,095	2.0%
2001	9,736	1.7%	2,917	1.9%	3,393	3.4%	773	1.8%	16,819	2.1%	34,767	2.0%
2002	9,893	1.6%	2,960	1.5%	3,499	3.1%	787	1.8%	17,139	1.9%	35,361	1.7%
2003	10,022	1.3%	3,000	1.4%	3,632	3.8%	798	1.4%	17,452	1.8%	35,944	1.6%
2004	10,120	1.0%	3,032	1.1%	3,765	3.7%	806	1.0%	17,723	1.6%	36,454	1.4%
2005	10,186	0.7%	3,056	0.8%	3,896	3.5%	812	0.7%	17,950	1.3%	36,899	1.2%
2006	10,217	0.3%	3,067	0.4%	4,010	2.9%	818	0.7%	18,112	0.9%	37,275	1.0%
2007	10,252	0.3%	3,090	0.7%	4,097	2.2%	824	0.7%	18,263	0.8%	37,674	1.1%
2008	10,341	0.9%	3,124	1.1%	4,152	1.3%	832	1.0%	18,449	1.0%	38,134	1.2%
2009	10,409	0.7%	3,155	1.0%	4,192	1.0%	841	1.1%	18,597	0.8%	38,488	0.9%

Source: California Dept. of Finance, Demographic Research Unit

Table 12

Components of Population Change - California & Southern California Counties

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

Los Angeles County				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	98.5	151.3	61.2	90.1	8.4	65.2	-56.8
2005	65.4	151.4	58.6	92.8	-27.3	56.8	-84.1
2006	30.9	150.1	60.6	89.5	-58.6	62.4	-121.0
2007	35.5	151.4	58.7	92.7	-57.1	71.3	-128.4
2008	89.2	151.9	58.4	83.6	-104.4	81.4	-185.8
2009	67.6	147.3	58.0	89.4	-21.8	59.4	-81.2

Orange County				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	31.5	45.0	17.5	27.5	4.0	17.2	-13.2
2005	23.9	44.7	16.5	28.2	-4.3	14.3	-18.6
2006	11.7	44.1	17.1	27.0	-15.2	16.3	-31.5
2007	22.4	43.8	16.9	26.9	-4.5	18.9	-23.4
2008	34.4	44.2	16.8	27.4	7.1	23.5	-16.4
2009	31.2	41.7	16.7	25.0	6.2	16.4	-10.3

Riverside County				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	79.5	28.5	13.6	14.9	64.6	6.6	58.0
2005	79.6	30.4	13.5	16.9	62.7	6.2	56.5
2006	77.7	32.4	14.2	18.2	59.5	7.5	52.0
2007	58.9	34.2	13.9	20.3	38.6	9.1	29.5
2008	37.2	34.4	13.8	20.5	16.7	11.4	5.3
2009	30.2	32.9	13.8	19.1	11.1	7.9	3.2

San Bernardino County				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	53.5	31.1	12.3	18.8	34.7	6.2	28.5
2005	51.3	32.4	11.8	20.6	30.7	5.3	25.4
2006	36.9	33.8	12.6	21.2	15.7	6.6	9.1
2007	27.6	35.2	12.3	22.8	4.7	7.6	-2.9
2008	18.1	34.8	12.2	22.6	-4.5	9.6	-14.1
2009	10.0	33.6	12.2	21.5	-11.5	6.6	-18.1

San Diego County				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	31.2	45.2	20.4	24.7	6.5	14.0	-7.6
2005	27.6	46.0	19.0	27.0	0.6	12.4	-11.8
2006	24.2	46.2	19.8	26.3	-2.1	12.1	-14.2
2007	40.6	47.2	19.3	27.9	12.7	16.5	-3.8
2008	51.5	47.5	19.1	28.4	23.1	21.6	1.5
2009	39.0	46.4	19.0	27.3	11.6	14.9	-3.3

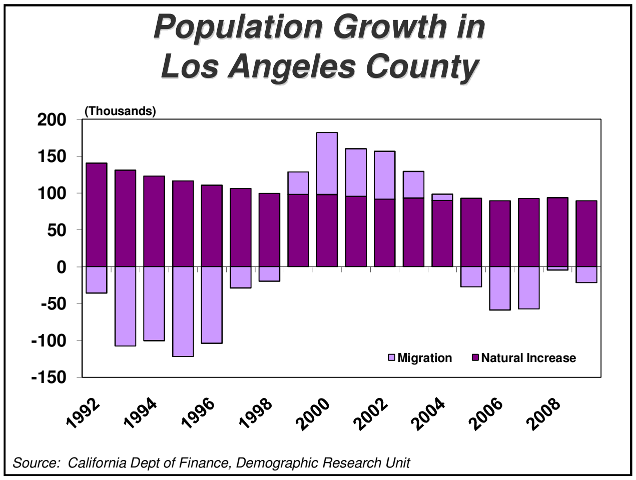
Ventura County				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	8.0	11.9	5.2	6.8	1.2	3.9	-2.7
2005	5.5	12.0	4.6	7.4	-1.9	3.0	-4.9
2006	5.9	12.4	4.9	7.4	-1.5	3.3	-4.8
2007	5.8	12.4	4.8	7.6	-1.8	4.1	-5.8
2008	8.8	12.2	4.8	7.4	1.4	4.8	-3.5
2009	8.7	12.0	4.7	7.2	1.5	3.4	-1.9

State of California				Natural Incr.	Net Total	Net Int'l	Net Domestic
Year	Pop. Chg.	Births	Deaths	(Birth-Death)	Migration	Migration	Migration
2004	510.3	539.9	239.3	300.5	209.7	194.1	15.60
2005	444.9	547.1	231.1	316.1	128.8	171.7	-42.9
2006	375.2	553.0	239.0	314.0	61.2	185.8	-124.6
2007	399.8	564.6	234.7	330.0	69.9	215.9	-146.0
2008	460.1	565.7	233.1	332.0	127.4	256.8	-129.4
2009	353.4	547.3	231.2	315.8	37.6	179.5	-141.9

Source: California Department of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

The year 2009 turned out to be quite difficult for Los Angeles County's economy, which spent much of the year in a steep downtrend. The forecast calls for a gradual economic improvement during 2010 and 2011. Even so, a number of the County's major industries will continue to be challenged.



Positive Forces Through 2010 and 2011

A lot of gloom is in the air because economic activity is at such low levels. Still, there are a few more positives for the County's economy in the coming year.

- The **healthcare services** sector should hold its own this year. The new 600-bed L.A. County-USC hospital is finally open for patients. Other area hospitals are engaged in building programs to meet stricter earthquake standards and to accommodate new patient handling techniques. Good hospitals attract excellent physicians, and L.A. County has some of the best. This industry reliably generates jobs year in and year out.

- **Private education** is another sector that grows even in difficult economic times. Led by topnotch universities, this sector also includes private K-12 schools and job training institutions that attract workers and the unemployed seeking training for better jobs.

- **Major construction projects** will provide more support this year, with a significant boost coming from the federal government's infrastructure program. In addition, several terminal expansion projects are under way at the two ports, along with the Bradley International Terminal expansion at LAX, plus highway and transit projects funded in whole or in part by Measure R, the County's new half-cent sales tax.

- **International trade** activity is turning up after a sharp decline. A modest recovery in activity is expected in 2010 with more coming in 2011.

- **Tourism** also will turn around in 2010 after sliding in 2009. Again, improvement will be more noticeable in 2011.

- **Retail sales** were hit hard by the 2008-2009 recession. Businesses and residents of Los Angeles County should feel more confident about their prospects later in 2010, which would have a positive impact on retail sales.

Negative Forces Through 2010 and 2011

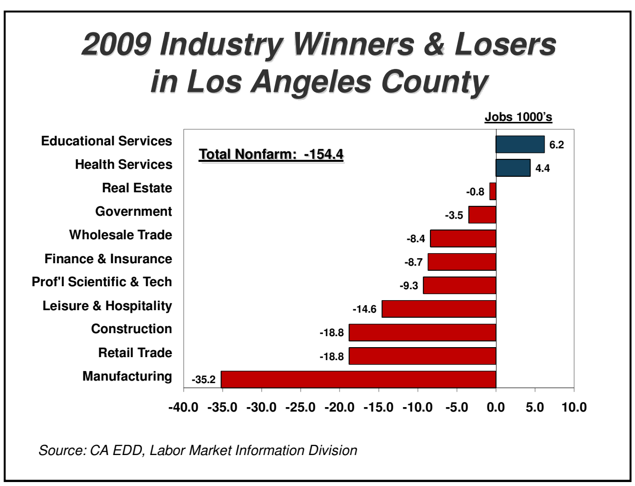
- The **nonresidential real estate sector** will continue to struggle with rising vacancies, declining lease rates and falling property values in 2010. With very little new project finance available, nonresidential construction activity will come close to stalling out. More commercial properties could go into foreclosure.

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

- Construction of **Apartments and condominiums** will decline in 2010, reflecting higher rental vacancies and a lack of funding.
- **Manufacturing** employment will continue to decline, mostly reflecting the problems in construction and housing.

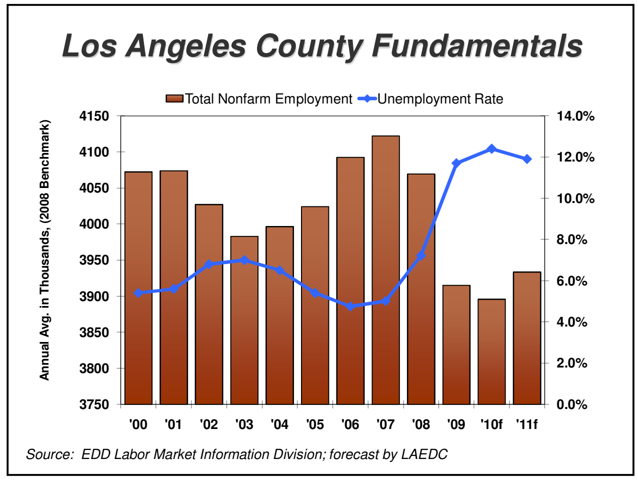
Net Results

Total nonfarm employment in the County should edge down by -0.5% or -20,000 jobs in 2010, after a drop of -3.8% or -154,400 jobs in 2009. Numerically, the largest employment losses during 2010 will come in: retail trade (-16,600 jobs); manufacturing (-14,700 jobs); and construction (-8,300 jobs). The information sector (which includes the movie industry), health services, administration & support services, and (private) education and will add jobs during 2010 (+4,600, +4,300, +4,200, and +3,700 jobs respectively). Growing budget problems will force local government entities to shed jobs during 2010, but the federal employment rolls will swell with Census workers, causing government employment to rise by an estimated 7,800 jobs. In 2011, total nonfarm employment in the County is expected to increase by +1.0% or by +40,000 jobs as the economic recovery takes hold.



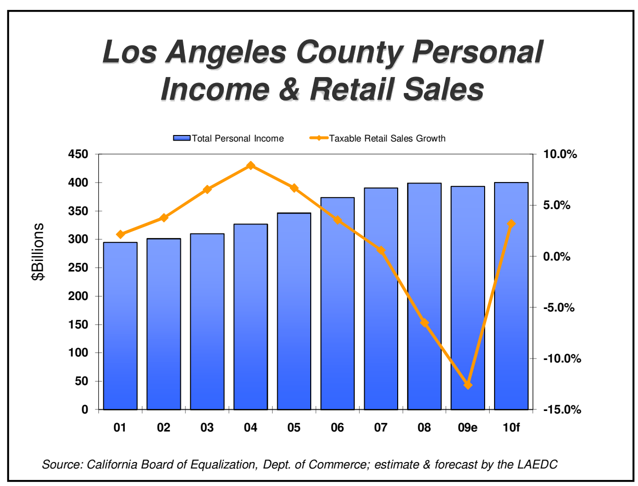
Source: CA EDD, Labor Market Information Division

Unemployment rates will continue at painfully high levels during the forecast period, though they will gradually decline. Business firms initially will be cautious in rehiring until they believe the recovery in their own sales and profits is well established. The County's unemployment rate averaged 11.7% during 2009. In 2010, the jobless rate is expected to remain near its peak level of 12.4%. By 2011, the unemployment rate should edge down to 12.0%.



Source: EDD Labor Market Information Division; forecast by LAEDC

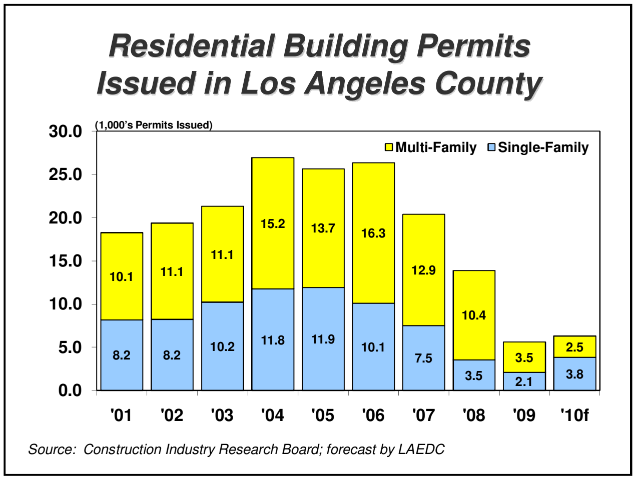
Total personal income declined by an estimated -1.5% in 2009, but is expected to regain a little momentum in 2010 (+1.8%) and 2011 (+3.8%). Per capita personal income should average $38,178 in 2010, up by +1.1% over last year.



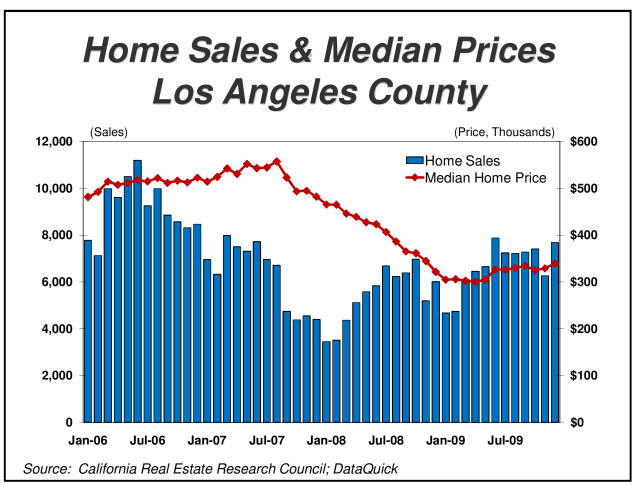
Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

Taxable retail sales dropped at a double-digit rate in 2009, on the heels of a -6.5% decline in 2008. Retail sales are expected to increase in 2010-2011, but they will not return to pre-recession levels during the forecast period. This weakness is bad news for retail store owners and their landlords and local governments. Recycling vacant retail space will be a real challenge in 2010, especially auto dealers.

While Los Angeles County did not experience the huge boom in new home construction that other areas in Southern California did, the drop in new permits issued was still rather dramatic. Only 5,610 new units got started in 2009, a -79% decline from the 2006 peak of 26,348 units.



The County has a large oversupply of apartments and condos to deal with before any significant recovery in homebuilding can get started. We expect only 6,305 units will be permitted during 2010, rising to 9,845 in 2011.



The value of nonresidential building permits issued in the County plunged by -41% during 2009 to \$2.65 billion. The problem sectors were—and continue to be—office and retail. The County's office vacancy rate was 16.0% in December, 2009 and climbing. Comprehensive retail vacancy rates for the County are lacking, but the problems are quite visible in many shopping malls and in local strip retail. Nonresidential building activity should hit bottom during 2010, with permit values falling by -10.5% to \$2.37 billion.

After solid performances in 2007-2008, the number of overnight visitors to Los Angeles eased down to 24.9 million in 2009. The year 2010 should see a small uptick in the visitor count to perhaps 25.1 million visitors despite a still fragile economy. This increase reflects the opening of the convention center hotel in downtown Los Angeles, which will attract more business visitors, as well as some new attractions at local theme parks.

The value of international trade at the Los Angeles Customs District declined by -20.4% in 2009. An increase of +2.6% is forecast for 2010, with activity increasing throughout the year.

Hot Spots

This section usually highlights areas with significant development activity. In fact, there are some major projects under construction that will have a transformative impact on their locations despite the distressing economic situation.

- One such project is "LA Live" in Downtown Los Angeles. The convention center hotel's opening in early 2010 is expected to give a significant boost to the convention center and the local travel industry.
- The other is the W Hotel and condominium development at the intersection of Hollywood and Vine. Just opened in January, this project provides an anchor for the eastern end of Hollywood Blvd as well as more hotel rooms for the revitalized community of Hollywood (while down in 2009, the area's occupancy and

room rates have been running above the county average).

Risks

While the full impact would probably not be felt until 2011-2012, the biggest single risk for the County is the Defense Department's potential stoppage of Boeing's C-17 program. Some 5,000 employees assemble or support this plane in Long Beach. In turn, they are supported by thousands more workers among the County's subcontractor base.

Table 13

Los Angeles County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)	Chg. in CPI (%)
2000	9,576.1	4,072.1	5.4%	279.050	29,140	70.321	230.0	24.2	17,071	3,296	3.3
2001	9,735.9	4,073.6	5.6%	294.508	30,250	71.835	212.2	22.8	18,253	3,539	3.6
2002	9,892.5	4,026.8	6.8%	301.003	30,427	74.548	212.8	22.1	19,364	2,920	2.7
2003	10,021.8	3,982.9	7.0%	309.827	30,915	79.427	232.9	23.3	21,313	2,932	2.7
2004	10,120.3	3,996.5	6.5%	326.402	32,252	86.497	261.7	24.3	26,935	3,174	3.3
2005	10,185.8	4,024.2	5.4%	346.053	33,974	92.271	291.6	25.0	25,647	3,824	4.5
2006	10,216.7	4,092.5	4.8%	373.322	36,540	95.544	326.4	25.4	26,348	3,896	4.4
2007	10,252.2	4,122.1	5.1%	390.296	38,069	96.096	347.3	25.8	20,363	4,739	3.7
2008	10,341.4	4,069.3	7.5%	399.000	38,583	89.810	355.8	25.6	13,704	4,491	3.5
2009p	10,409.0	3,914.9	11.7%	393.000	37,756	78.500	283.0	24.9	5,610	2,649	-0.8
2010f	10,477.1	3,895.0	12.4%	400.000	38,178	81.000	290.4	25.1	6,308	2,370	2.0
2011f	10,535.1	3,935.0	12.0%	415.000	39,392	85.500	302.9	25.5	9,845	2,500	2.5
% Change											
'01/'00	1.7%	0.0%		5.5%	3.8%	2.2%	-7.8%	-5.8%	6.9%	7.4%	
'02/'01	1.6%	-1.1%		2.2%	0.6%	3.8%	0.3%	-3.1%	6.1%	-17.5%	
'03/'02	1.3%	-1.1%		2.9%	1.6%	6.5%	9.5%	5.4%	10.1%	0.4%	
'04/'03	1.0%	0.3%		5.3%	4.3%	8.9%	12.4%	4.3%	26.4%	8.3%	
'05/'04	0.6%	0.7%		6.0%	5.3%	6.7%	11.4%	2.9%	-4.8%	20.5%	
'06/'05	0.3%	1.7%		7.9%	7.6%	3.5%	11.9%	1.6%	2.7%	1.9%	
'07/'06	0.3%	0.7%		4.5%	4.2%	0.6%	6.4%	1.6%	-22.7%	21.6%	
'08/'07	0.9%	-1.3%		2.2%	1.3%	-6.5%	2.5%	-0.8%	-32.7%	-5.2%	
'09/'08	0.7%	-3.8%		-1.5%	-2.1%	-12.6%	-20.5%	-2.7%	-59.1%	-41.0%	
'10/'09	0.7%	-0.5%		1.8%	1.1%	3.2%	2.6%	0.8%	12.4%	-10.5%	
11/'10	0.6%	1.0%		3.8%	3.2%	5.6%	4.3%	1.6%	56.1%	5.5%	

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

Table 14
Los Angeles County Nonfarm Employment
(Annual averages, in thousands, March 2008 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	461.7	*257.3*	*204.4*	225.7	423.3	165.2	205.6
2007	4,122.1	4.4	157.6	449.7	*250.9*	*198.8*	227.0	426.0	165.6	209.8
2008	4,069.3	4.4	145.1	433.8	*242.9*	*191.0*	224.5	417.4	162.0	211.3
2009p	3,914.9	4.3	126.3	398.7	*222.3*	*176.4*	216.1	398.6	152.7	198.4
2010f	3,895.0	4.3	118.0	384.0	*213.0*	*171.0*	214.0	382.0	154.7	203.0
2011f	3,935.0	4.3	122.0	383.0	*213.0*	*170.0*	218.0	385.0	157.9	205.0

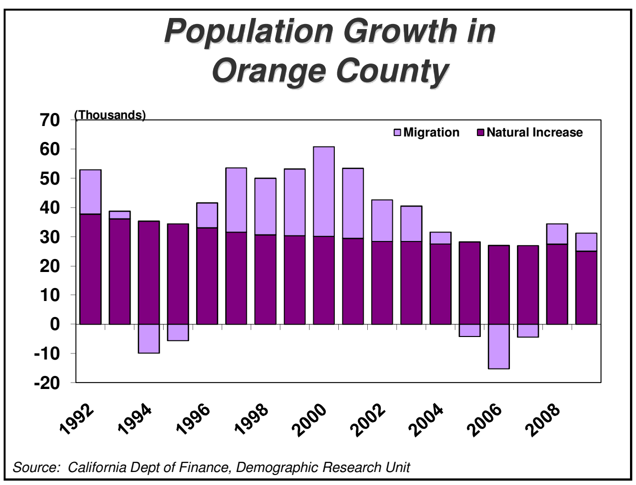
	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	150.8	73.8	227.7	85.6	274.6	86.2	330.7	344.7	140.0	581.3
2001	156.2	72.7	233.6	84.4	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	271.9	99.4	379.3	388.6	145.2	589.4
2007	165.8	80.3	273.9	58.8	272.7	102.9	387.5	397.9	147.1	595.7
2008	156.2	79.2	270.4	56.6	257.1	105.1	396.3	399.5	146.5	603.7
2009p	147.5	77.5	261.1	53.9	240.8	111.3	400.7	384.9	141.9	600.2
2010f	146.0	77.5	258.0	52.5	245.0	115.0	405.0	386.0	142.0	608.0
2011f	145.0	77.8	260.0	51.0	253.0	118.0	417.0	390.0	143.0	605.0

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

VI. OUTLOOK FOR ORANGE COUNTY

Orange County absorbed some tremendous hits during the recession. In the run up to the financial crisis, the County's economic fortunes were closely tied to the two sectors that lay at the heart of the economic downturn: the financial services industry and construction. On the other hand, the County's unemployment rate (9.1% as of December) remains among the lowest in Southern California.

The progress of the economic recovery will be measured by gains in employment. Job growth likely will be uneven and slow through most of 2010 – several troubled sectors will continue to struggle - but is expected gain traction as the year progresses. Apart from financial services and construction, most other components of the county's pre-recession success (demographics, universities, location, and high tech industries) remain intact.



Positive Forces for 2010 and into 2011

- The County should benefit from federal government stimulus funds earmarked for **infrastructure projects**. For some local developers, the government is the only source of sustained revenue these days. Coming down the pipeline are projects to widen the 91 freeway and to expand capacity at the John Wayne Airport. The Orange County Transportation Authority is also upgrading Metrolink rail commuter services. A series of construction projects to expand service are slated to begin this summer and continue through 2011.

- The **Health Services** industry is one of the few that will be adding jobs this year and next. Hoag Memorial Hospital plans to open its newly renovated facility ($85 million) in Irvine this summer, and Kaiser Permanente will continue working on its $850 million healthcare complex in Anaheim. This is the largest building project currently underway in Orange County. Set to be completed in 2013, the complex will include a hospital, two medical office buildings, a central utility plant and a parking structure.

- The County's life **science and medical instrument makers** are, for the most part, holding up well.

- The **High Tech** industry is also doing relatively well. Both consumer electronics and business spending on technology products are expected to grow moderately this year. New products like electronic book readers and net books are expected to drive growth. Lower prices on flat screen TVs and Blu-ray DVD should also spur growth in Orange County. On the business side, the introduction of Microsoft Corp.'s Windows 7 operating system will prompt some corporate spending.

- **Disney** will be continuing their major $1.1 billion makeover of the California Adventure theme park.

Negative forces for 2010 and into 2011

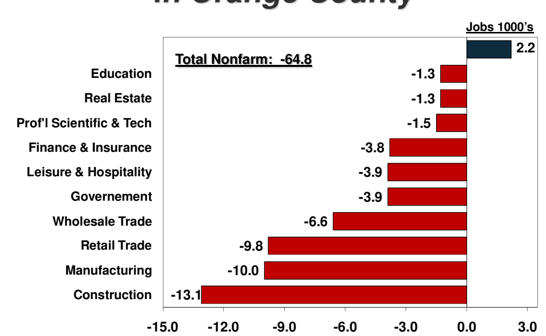
- Job losses in the **financial services** industry will slow in 2010 – shedding a little over one percent of its remaining workforce before edging up in 2011. Local banks are bracing for a new round of problem commercial real estate loans. Declining rental incomes and depressed property values will make it hard to renew loans. Many lenders are attempting to forestall a crisis by adapting a strategy of "extend and pretend," but this can only go on for so long. The fall-out from commercial real estate loan defaults could be substantial in Orange County.

- **Retail** has also been a drain on the region's economy. Vacancy rates are on the rise as stores close due to bankruptcies or simply scale back operations in response to weak consumer demand.

- **Tourism** activity will be mostly flat but should begin to improve by the end of the year. The area around Disneyland will be one of the primary beneficiaries. There are 42 citywide conventions booked in Anaheim for 2010 compared with 43 in 2009. The region is also expecting a boost from hosting Major League Baseball's 2010 All-Star Game in July.

- **Manufacturing** employment will continue to slide this year (the County ranks eighth in the nation in the number of factory jobs), but will see some growth in 2011. Expansion will come from export demand in Asia, as those economies continue to improve, plus increased domestic demand. Additionally, a shift in Pentagon spending from big ticket goods (fighter planes) to computers and unmanned aircraft, could provide some lift for local manufacturers.

2009 Industry Winners & Losers in Orange County

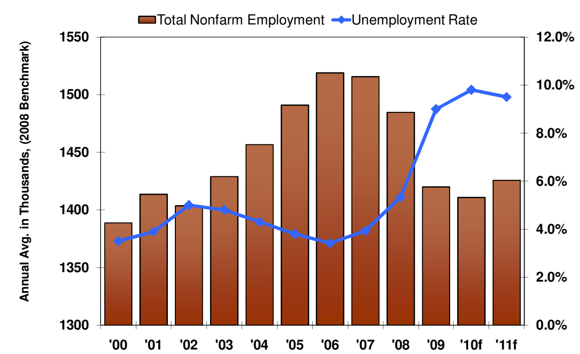


Sources: CA EDD, Labor Market Information Division; forecasts by LAEDC

Net Results

Nonfarm employment in the County is expected to decline by -0.6% or -9,200 jobs during 2010. This follows a -4.4% job loss in 2009 and a -2.0% decline in 2008. Several industries will continue to struggle, with the largest employment losses in: construction (-5,600 jobs); retail trade (-4,600 jobs); manufacturing (-2,900 jobs); management of companies (-1,100 jobs), and finance & insurance (-900 jobs). In 2011, employment in the County should turn up by +1.1%, posting a moderate increase of +14,900 jobs.

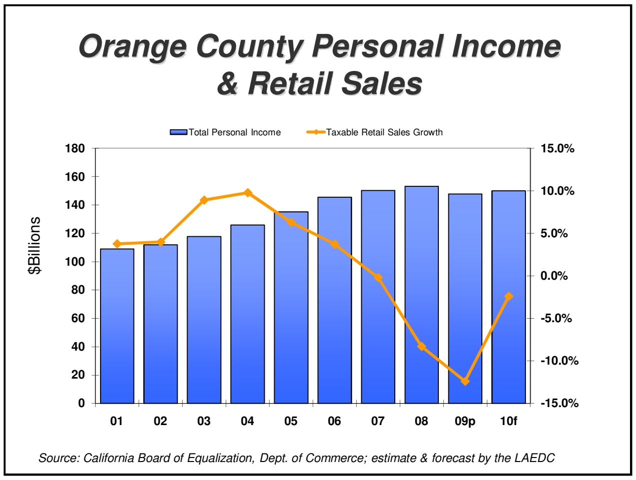
Orange County Fundamentals



Source: EDD Labor Market Information Division; forecast by LAEDC

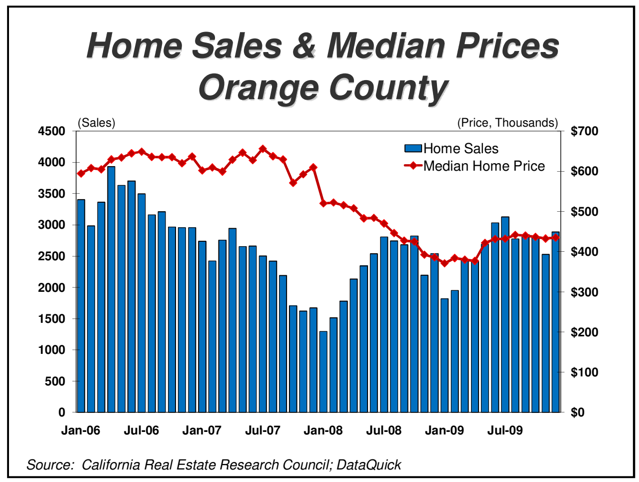
Orange County's unemployment rate averaged 9.0% in 2009 and in 2010 the rate could move up to 9.8% before recessionary forces finally begin to ease their grip. This would be the highest rate for the County in the current data series which starts in 1990. Mild relief will come in 2011, when the unemployment rate is expected to inch down to 9.5%.

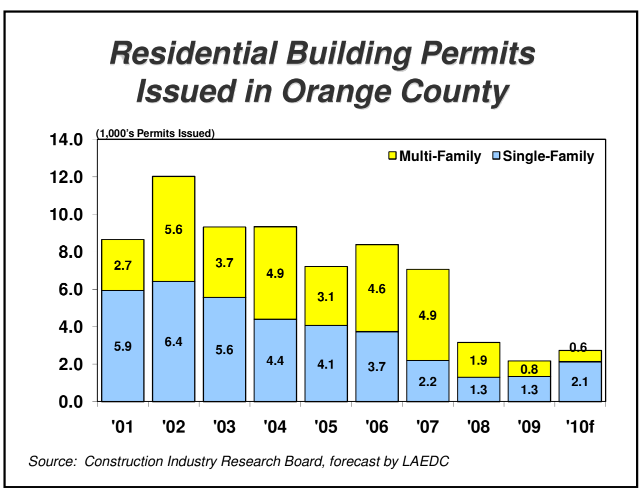
Total personal income in the County should edge up by +1.5% in 2010, with stronger growth coming in 2011 (+4.4%). Per capita personal income should average $47,143 during 2010, up by +0.7% from the previous year. Retailing in Orange County has taken a beating, with a decline in taxable sales of -8.3% in 2008, followed by an estimated drop of -12.4% in 2009. For 2010 another (but more moderate) decline is expected (-2.4%) before rebounding by +7.0% in 2011.



The number of overnight tourists to the County should improve a bit this year, edging up by +1.0% to 41.9 million in 2010. In 2011, the number of overnight visitors is expected to increase by +4.3% to 43.7 million visitors. The tourist infrastructure surrounding Disneyland will begin to recover first. Upscale resorts and hotels will feel the pain longer as economically battered travelers trade down to less expensive hotels and corporate travel planners seek concessions or shun "resorts" altogether to avoid the "AIG Effect".

New homebuilding in Orange County appears to have bottomed out in 2009 and will improve this year with the forecast for 2010 calling for 2,725 units to be permitted. Nonresidential permit values plummeted by -33.9% in 2009, and a further drop of -8.6% is expected in 2010. At the end of the fourth quarter of 2009, the County's office vacancy rate was 19.9% and is expected to continue climbing until employment reverses its downward trajectory. The industrial vacancy rate was a more manageable 6.7% but is also trending higher.





Risks

The major risks to Orange County's outlook will come from the financial services sector, if and as commercial real estate problems arise. Retail sales will continue at low levels (though they should improve) putting local government tax revenues at risk. There is also uncertainty surrounding the State's budget crisis and how it will affect the County's economy.

Table 15
Orange County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	2,863.4	1,388.9	3.5%	106.004	37,021	27.485	40.2	12,367	1,762
2001	2,916.8	1,413.7	3.9%	109.010	37,373	28.519	40.9	8,646	1,350
2002	2,959.7	1,403.7	5.0%	111.750	37,757	29.647	41.7	12,020	1,209
2003	3,000.2	1,429.0	4.8%	117.722	39,238	32.288	42.7	9,311	1,006
2004	3,032.4	1,456.7	4.3%	125.798	41,485	35.442	43.5	9,322	1,133
2005	3,056.5	1,491.0	3.8%	135.070	44,191	37.673	44.7	7,206	1,495
2006	3,070.7	1,518.9	3.4%	145.436	47,363	39.074	44.9	8,371	2,401
2007	3,094.9	1,515.5	3.9%	150.214	48,536	38.988	44.4	7,072	2,005
2008	3,125.8	1,484.7	5.4%	153.087	48,976	35.769	43.1	3,159	1,439
2009p	3,155.4	1,419.9	9.0%	147.729	46,818	31.350	41.5	2,177	951
2010f	3,180.6	1,410.7	9.8%	149.944	47,143	30.604	41.9	2,725	869
2011f	3,202.9	1,425.6	9.5%	156.543	48,875	32.750	43.7	4,570	935
% Change									
'01/'00	1.9%	1.8%		2.8%	1.0%	3.8%	1.7%	-30.1%	-23.4%
'02/'01	1.5%	-0.7%		2.5%	1.0%	4.0%	2.0%	39.0%	-10.4%
'03/'02	1.4%	1.8%		5.3%	3.9%	8.9%	2.4%	-22.5%	-16.8%
'04/'03	1.1%	1.9%		6.9%	5.7%	9.8%	1.9%	0.1%	12.6%
'05/'04	0.8%	2.4%		7.4%	6.5%	6.3%	2.8%	-22.7%	32.0%
'06/'05	0.5%	1.9%		7.7%	7.2%	3.7%	0.4%	16.2%	60.6%
'07/'06	0.8%	-0.2%		3.3%	2.5%	-0.2%	-1.1%	-15.5%	-16.5%
'08/'07	1.0%	-2.0%		1.9%	0.9%	-8.3%	-2.9%	-55.3%	-28.2%
'09/'08	0.9%	-4.4%		-3.5%	-4.4%	-12.4%	-3.7%	-31.1%	-33.9%
'10/'09	0.8%	-0.6%		1.5%	0.7%	-2.4%	1.0%	25.2%	-8.6%
'10/'11	0.7%	1.1%		4.4%	3.7%	7.0%	4.3%	67.7%	7.6%

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

Table 16

Orange County Nonfarm Employment

(Annual averages, in thousands, March 2008 benchmark)

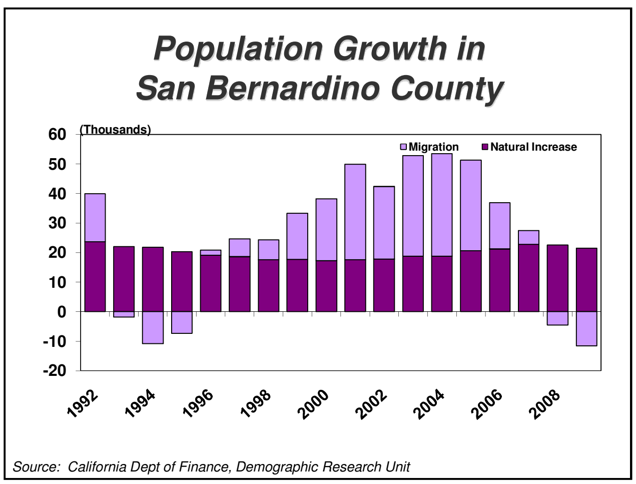
	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,388.9	0.6	76.6	215.5	*152.5*	*63.0*	80.8	147.0	30.3	41.2
2001	1,413.7	0.6	80.7	208.5	*147.8*	*60.7*	83.9	150.1	30.4	40.2
2002	1,403.7	0.6	79.2	190.8	*133.6*	*57.2*	82.4	151.4	28.7	36.8
2003	1,429.0	0.5	83.7	183.9	*127.2*	*56.7*	83.2	152.8	29.0	35.2
2004	1,456.7	0.6	92.2	183.5	*127.1*	*56.4*	82.4	153.2	29.2	33.8
2005	1,491.0	0.7	99.9	182.9	*128.3*	*54.6*	83.0	158.1	28.7	32.8
2006	1,518.9	0.6	106.6	182.7	*128.0*	*54.7*	83.7	160.8	28.2	31.9
2007	1,515.5	0.6	103.1	180.4	*126.2*	*54.2*	86.9	161.2	28.9	31.2
2008	1,484.7	0.6	91.2	173.8	*122.3*	*51.5*	85.9	155.7	29.4	30.1
2009p	1,419.9	0.6	78.1	163.8	*115.4*	*48.4*	79.3	145.9	28.6	27.8
2010f	1,410.7	0.6	72.5	160.9	*113.2*	*47.7*	77.2	141.3	28.1	28.6
2011f	1,425.6	0.6	73.9	161.8	*114.0*	*47.8*	78.0	142.0	28.5	29.3

	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	98.6	154.3	45.2	150.9
2002	77.4	32.7	95.1	35.8	118.0	15.9	102.5	155.4	45.9	155.1
2003	88.0	34.2	96.4	32.9	123.3	18.9	107.5	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	126.7	19.2	111.8	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	131.1	19.8	113.7	165.0	48.4	155.3
2006	99.0	39.1	109.3	28.9	136.4	20.8	117.0	169.6	47.7	156.7
2007	89.1	38.6	113.5	28.0	132.0	21.6	121.1	172.9	47.4	159.4
2008	76.3	37.4	116.2	25.8	125.9	22.7	126.9	176.8	48.0	162.0
2009	72.5	36.1	114.7	23.6	115.8	21.4	129.1	172.9	47.5	158.1
2010f	71.6	35.6	117.9	22.5	116.1	21.0	133.7	173.5	47.9	158.5
2011f	72.0	35.7	119.9	23.0	118.0	21.5	136.0	174.0	49.5	159.9

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

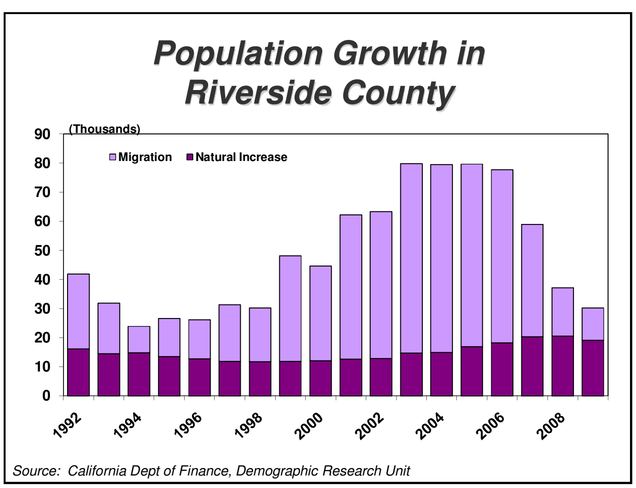
II. OUTLOOK FOR THE RIVERSIDE-SAN BERNARDINO AREA

The outlook for the Riverside-San Bernardino (Inland Empire) area remains overcast this year, particularly with regards to the labor market. The Inland Empire will take longer to recover than the rest of Southern California. In 2009, the steep rise in the number of foreclosures along with plummeting home values and world trade volumes resulted in the worst ever economic crisis for the Inland Empire. The region will not recover fully until the housing market and world trade volumes recover. Housing prices are projected to stabilize in most areas of the Inland Empire this year. In some areas prices have reached levels not seen in twenty years. Riverside and San Bernardino counties have registered more defaults and foreclosures per capita during the economic downturn than any other Southern California county.



Population Growth in San Bernardino County

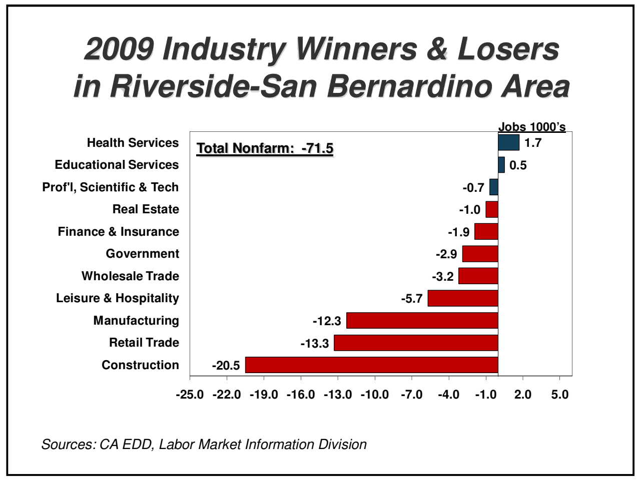
Source: California Dept of Finance, Demographic Research Unit



Population Growth in Riverside County

Source: California Dept of Finance, Demographic Research Unit

The region's construction industry has suffered mightily, and the results show in the employment figures. Construction employment dropped by -20,200 jobs in 2009 over 2008, a -22.3% decline. The average unemployment rate in the Inland Empire was 13.7% in 2009 (one of the highest in the nation), compared to 8.2% in 2008. Unemployment is forecasted to reach 15.0% in 2010 and then slightly drop to 14.8% in 2011.



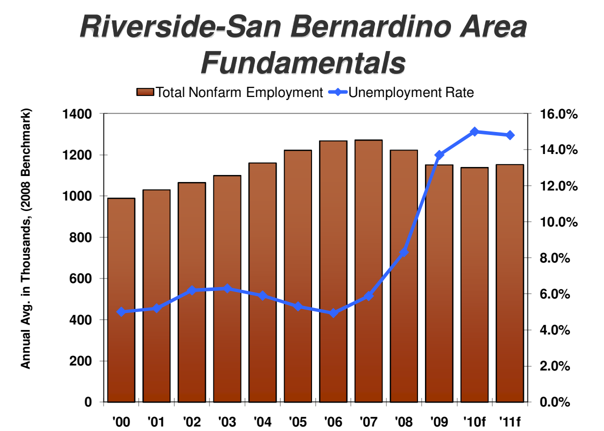
2009 Industry Winners & Losers in Riverside-San Bernardino Area

Sources: CA EDD, Labor Market Information Division

Total nonfarm employment dropped by -71,500 jobs from 2008 to 2009. The other sectors in the Inland Empire most affected by this recession have been manufacturing, trade and transportation. All were directly impacted by the severe collapse in international trade volumes through the local ports. The Inland Empire plays a pivotal role as a distribution center for approximately 80% of the goods flowing through the ports of Long Beach and Los Angeles. Although the worst is over in international trade, the damage in 2009 was severe as world trade volumes decline by over -10%. The good news for 2010 is that world trade volumes are projected to increase by +5% and by nearly +6% over the next few years. However, current world trade volumes are far lower than the highs reached in 2006 and 2007 and are not expected to return to these levels over the short term.

The combination of a depressed housing market along with the plunge in world trade devastated the Inland Empire economy. Ironically, the region's competitive advantage became its worst enemy. The availability of abundant undeveloped land had been the major economic driver propelling its economic growth. The economic recession reversed that advantage as the downturn negatively impacted the very industries that rely on cheap land the most. Home construction, manufacturing, industrial development and logistics all collapsed. However, all four areas should see some improvements this year from last year as world trade picks up some momentum.

Overall, economic conditions in the Inland Empire are projected to improve slightly over the course of 2010 and into 2011. A small recovery began in the second half of 2009 as one of the Inland Empire's key competitive advantages, housing affordability, began to resurface once again and world trade volumes began to recover. In addition, the labor market appeared to stabilize in the third and fourth quarters of 2009. We expect the economy will ultimately rebound due to its position as the central hub for logistics related to international trade.



Source: EDD Labor Market Information Division; forecast by LAEDC

Positive Forces for 2010 and into 2011

- **Housing affordability**: The housing market bottomed towards the end of the second quarter of 2009 and housing affordability reached record highs in 2009. While demand is expected to slightly outpace supply this year; housing will remain extremely affordable relative to where it was in earlier years.

- **Goods Movement**: Trade volumes at local ports experienced record lows in 2009 but are expected to improve in 2010. Of course, the projected levels will be nowhere near the record levels of 2006 and 2007. However, the return to growth will positively impact the Inland Empire warehouse and distribution system network.

- **Transportation projects**: The federal stimulus package will increase infrastructure construction and help create new jobs in the region's construction industry.

- **Healthcare and education sectors**: These were the only two areas that grew throughout the economic recession. Expectations are for this trend to continue in 2010 and into 2011.

- **Government sector:** This sector is expected to grow in 2010. However, only federal government employment will increase. State and local government employment is uncertain in 2010 and 2011 due to revenue constraints.

Negative Forces for 2010 and into 2011

- **Housing crash**: Builders, financial institutions, construction employment and retailers all were hammered over the past year. The continuation of defaults and foreclosures will pressure home values this year and into 2011. Local governments continue to face significant financial issues over the next few years as property and sales taxes decline.

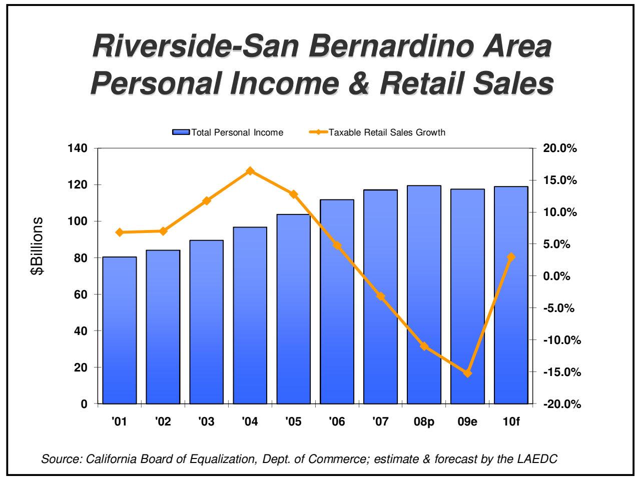
- **Unemployment**: The Inland Empire has the nation's second highest unemployment rate among urban areas. Joblessness is forecasted to escalate this year before improving in 2011.

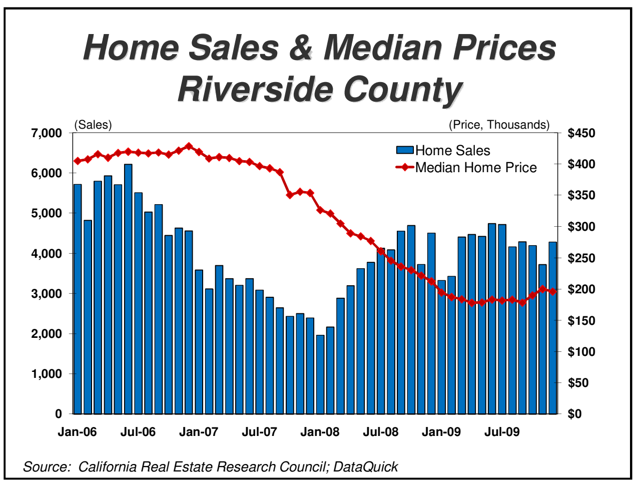
- **Problems in commercial real estate**: Net absorption rates are negative. Foreclosures in the commercial real estate market skyrocketed in 2009. A two-year oversupply exists in industrial space (12.5% industrial vacancy rate) and office space (23.6% office vacancy rate). Hotel foreclosures (17) and defaults (51) were the highest in the state.

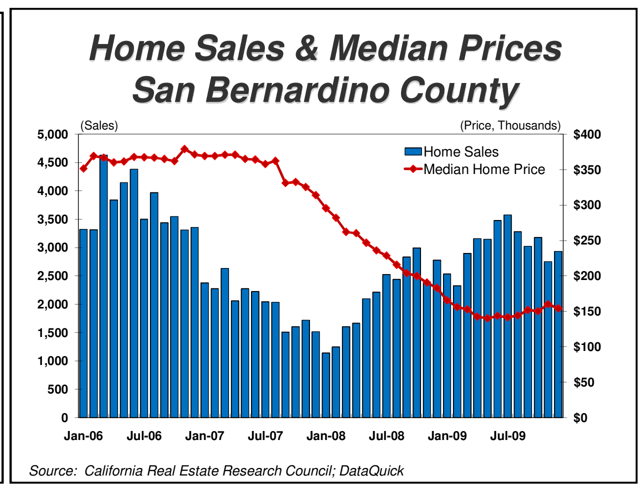
- **Weakness in tourism**: Travel to the Inland Empire has fallen significantly, and the leisure and hospitality industry is projected to lose -2,500 jobs in 2010.

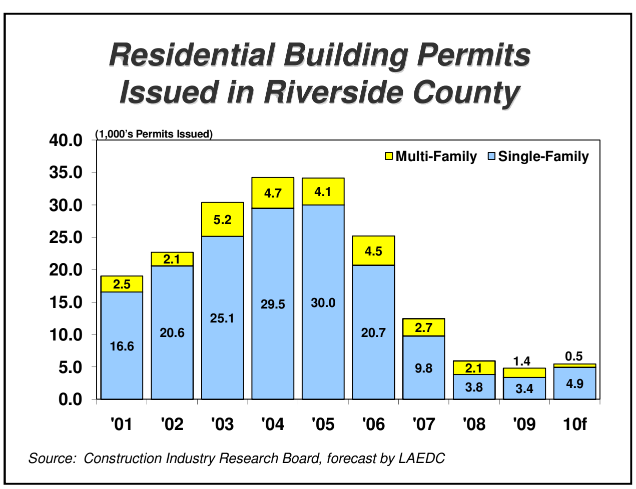
- **Loss of auto dealerships**: Many dealerships have closed over the past year as the region has seen some of the largest auto sales declines in California.

- **Water supply**: This remains a very critical long-term issue for the area, as drought conditions add to the dismal development environment.









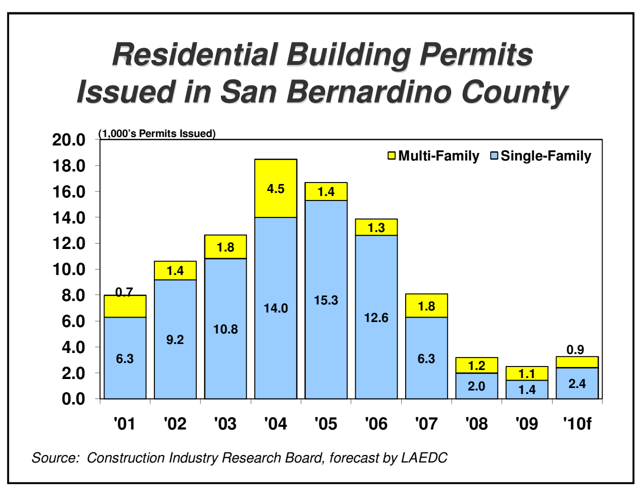


Table 17
Riverside-San Bernardino Area Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	3,281.5	988.4	5.0%	74.787	22,791	24.992	21,990	1,536
2001	3,392.6	1,029.7	5.2%	80.406	23,701	26.699	27,541	1,423
2002	3,498.0	1,064.5	6.2%	84.151	24,057	28.570	33,280	1,473
2003	3,631.0	1,099.2	6.3%	89.476	24,642	31.936	43,001	1,720
2004	3,764.5	1,160.0	5.9%	96.756	25,702	37.194	52,696	2,485
2005	3,895.3	1,222.0	5.3%	103.716	26,626	41.960	50,818	2,394
2006	4,011.4	1,267.7	4.9%	111.762	27,861	43.973	39,083	2,852
2007	4,100.5	1,270.9	5.9%	117.134	28,566	42.578	20,457	2,824
2008	4,167.1	1,222.5	8.3%	119.426	28,660	38.746	9,101	1,781
2009p	4,191.9	1,151.0	13.7%	117,515	28,033	32.002	6,681	709
2010f	4,246.5	1,138.0	15.0%	118,925	28,005	32.952	8,700	575
2011f	4,331.4	1,152.2	14.8%	122,500	28,282	34.500	15,400	565
% Change								
'01/'00	3.4%	4.2%		7.5%	4.0%	6.8%	25.2%	-7.4%
'02/'01	3.1%	3.4%		4.7%	1.5%	7.0%	20.8%	3.5%
'03/'02	3.8%	3.3%		6.3%	2.4%	11.8%	29.2%	16.8%
'04/'03	3.7%	5.5%		8.1%	4.3%	16.5%	22.5%	44.5%
'05/'04	3.5%	5.3%		7.2%	3.6%	12.8%	-3.6%	-3.7%
'06/'05	3.0%	3.7%		7.8%	4.6%	4.8%	-23.1%	19.1%
'07/'06	2.2%	0.3%		4.8%	2.5%	-3.2%	-47.7%	-1.0%
'08/'07	1.6%	-3.8%		2.0%	0.3%	-9.0%	-55.5%	-36.9%
'09/'08	-99.9%	-5.8%		-1.6%	-2.2%	-17.4%	-26.6%	-60.2%
'10/'09	1.3%	-1.1%		1.2%	-0.1%	3.0%	30.2%	-18.9%
'10/'11	2.0%	1.2%		3.0%	1.0%	4.7%	77.0%	-1.7%

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 18

Riverside-San Bernardino Area Nonfarm Employment

(Annual averages, in thousands, March 2008 benchmark)

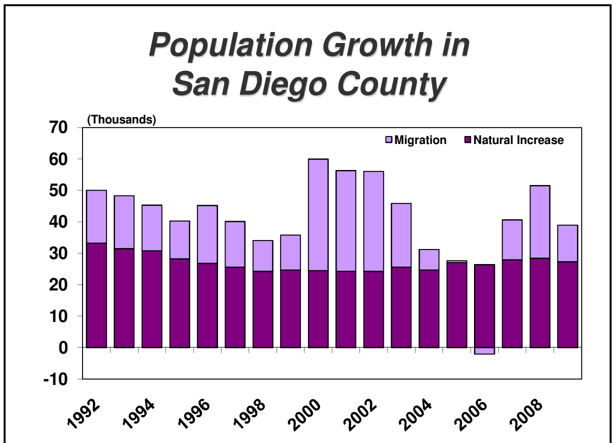
	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg. -- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	988.4	1.3	79.9	119.7	*85.3*	*34.4*	38.2	127.0	46.3	14.3
2001	1,029.7	1.2	88.5	118.6	*84.2*	*34.4*	41.6	132.5	45.7	14.6
2002	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	1,270.9	1.3	112.5	118.6	*82.1*	*36.5*	56.8	175.6	69.5	15.4
2008	1,222.5	1.2	90.5	107.0	*72.6*	*34.4*	55.1	168.0	70.2	14.8
2009p	1,151.0	0.9	70.3	94.7	*63.0*	*31.7*	51.9	154.8	66.6	13.5
2010f	1,138.0	0.8	65.1	90.8	*61.7*	*29.1*	53.6	150.3	68.7	13.7
2011f	1,152.2	0.9	66.0	91.4	*62.2*	*29.2*	54.4	152.8	70.0	13.8

	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	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	222.5
2007	30.7	19.5	40.5	9.8	94.7	15.0	112.1	132.6	41.2	225.3
2008	27.8	18.5	40.1	9.9	86.7	15.8	115.9	130.1	40.9	230.0
2009p	25.9	17.5	39.5	9.2	78.0	16.3	117.5	124.4	39.6	227.1
2010f	25.0	16.7	39.3	9.1	76.3	17.2	120.4	121.9	39.4	229.2
2011f	25.4	16.9	40.5	9.2	77.4	17.4	122.8	124.0	39.6	229.9

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

VIII. OUTLOOK FOR SAN DIEGO COUNTY

San Diego County certainly shared the pain with the rest of Southern California in 2009 – construction, real estate, manufacturing and retail trade all suffered large employment declines. Still, the County's core strengths – its diverse economy, desirable location and demographic profile – place San Diego County on solid footing to retake the ground it lost during the recession.



Source: California Dept of Finance, Demographic Research Unit

Positive Forces for 2010 and into 2011

- While there have been some layoffs in the **Defense and Aerospace Industry,** employment has been fairly stable. Congress recently finalized the 2010 Pentagon spending plan and billions of dollars are expected to flow into the San Diego region. General Dynamics Nassco (the County's major shipyard) will get funding to produce the final two USN cargo vessels out of a total order of 14 (total construction value estimated at $5.2 billion). The new spending plan also will restore funding for five Global Hawk aircraft (robotic spy planes) built by Northrop Grumman, thereby saving 500-600 jobs in Rancho Bernardo. Another drone plane (BAMS) also built by Northrop will get $441.8 million, employing 172 people in their San Diego R&D facility. Various other defense programs are also on the slate for the County's defense and aerospace industry.

- Flush with Federal stimulus money, the military is also embarking on a number of sizable **construction** projects. The USMC Air Station at Miramar awarded a $19.5 million contract to a local builder to modify an existing hanger to accommodate new types of aircraft. On a larger scale, the Navy expects to oversee $2.3 billion for capital improvement expenditures in Southern California – much of it going to San Diego. Camp Pendleton is planning to build a $563 million hospital (contract to be awarded September 2010) with another $1.41 billion allocated for other improvements to the base. These projects will provide employment for about 3,200 construction workers. Military initiatives have been instrumental in slowing the decline of construction job losses in the county.

- **Private nonresidential construction** has fallen precipitously, but there are still some significant projects in the works. The $600 million Palomar Pomerado Health PMC West (hospital) project is scheduled for completion in 2011. Scripps Memorial Hospital in Encinitas is working on a $350 million expansion project, while a new $430 million cardiovascular institute (scheduled completion 2015) is part of a $700 million renovation of the Scripps La Jolla campus. Poseidon Resources has been approved to start construction of a $300 million desalination plant in Carlsbad. When finished (2011), it will be the largest desalination plant in the world.

  The Port of San Diego has embarked on a $28 million project to add a second cruise ship pier and to renovate the existing terminal. Work on the project is expected to be completed by October 2010.

Negative Forces for 2010 and into 2011

- **Tourism** has long been a positive mainstay of San Diego County's economy, but it will continue to struggle this year as families cut back on vacation expenses. Hotel occupancy rates are declining and foreclosures of hotel properties are on the rise. The industry is expected to turn up in 2010 but full recovery will take several years. The region will benefit from the "drive" trade (nearby visitors coming from Los Angeles or Arizona) and by local companies booking meetings, especially firms in the bio-medical, high tech and healthcare industries.

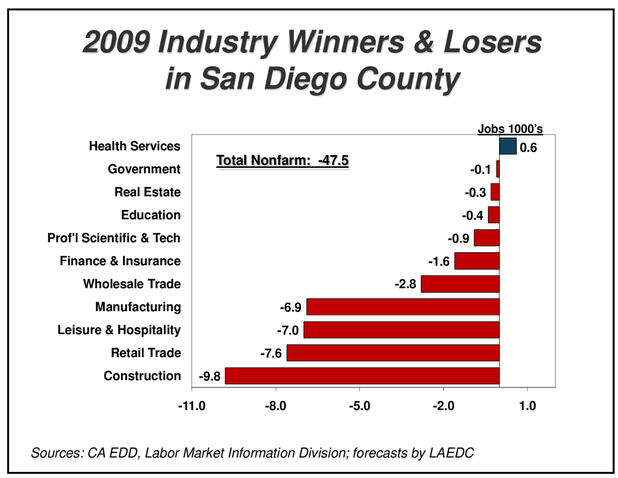
- **Retail Trade**: The area economy will not get much of a boost from consumer spending this year. Depressed home prices have withered equity lines of credit, and uncertainty in the job market has led to higher rates of saving. In addition to weak demand, the trend towards self check out and higher volume stores that employ fewer people are also contributing to job losses in the retail sector.

- Delays at the **San Ysidro border crossing** are a given, but recent enhanced efforts by the US and Mexico to check the flow of illegal drugs, guns, cash and stolen cars into Mexico have increased congestion. This could have a negative effect on San Diego businesses as longer transit times increase costs.

- During better times, the **Biotechnology** industry (comprised of 600 businesses) annually contributed $9 billion dollars to the area economy. San Diego is home to the third largest cluster of biotechnology companies in the nation. For the most part, the biotech sector has performed better than the overall economy, though early 2009 saw extensive layoffs as the flow of research capital dried up. There is concern that the State of California's budget crisis could lead to funding cuts that will siphon talent and resources to competing states or prompt foreign born scientists to return to their home countries. Additional worries include, intellectual property protections, lack of funding for start-ups and the slow FDA approval process.

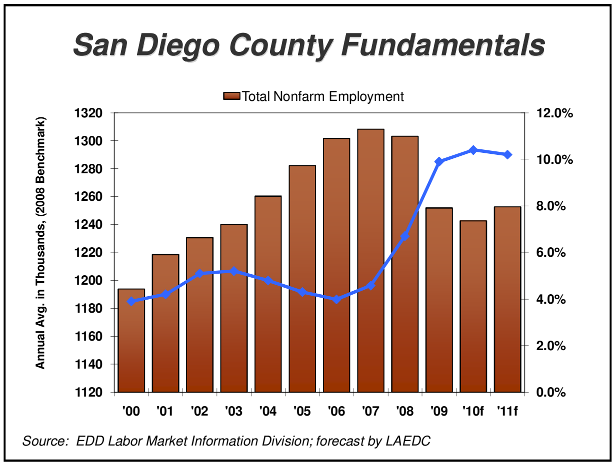
Net Results

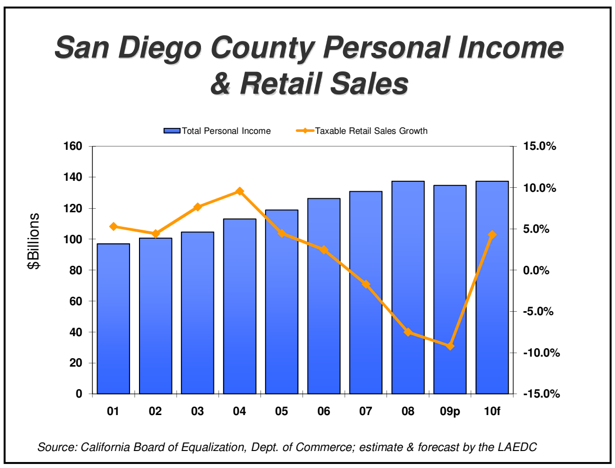
San Diego, along with the rest of Southern California will continue to lose jobs this year. Nonfarm employment in San Diego County is likely to fall by -0.7% or -9,100 jobs in 2010, after a -3.7% drop in 2008. In 2011, the employment situation will begin to improve, but at a fairly moderate pace, increasing by +0.8%. The biggest employment losses in 2010 will come from construction (-5,600 jobs) and retail (-3,100 jobs). Small employment gains should be recorded in scientific & technical consulting (+2,100); health care (+1,800 jobs) and information (+1,100 jobs). Government employment will benefit from the addition of 2010 Census workers.



The County's unemployment rate should average 10.4% in 2010 compared with the 2009 average of 9.9%. In 2011, the unemployment rate is expected to average 10.2%.

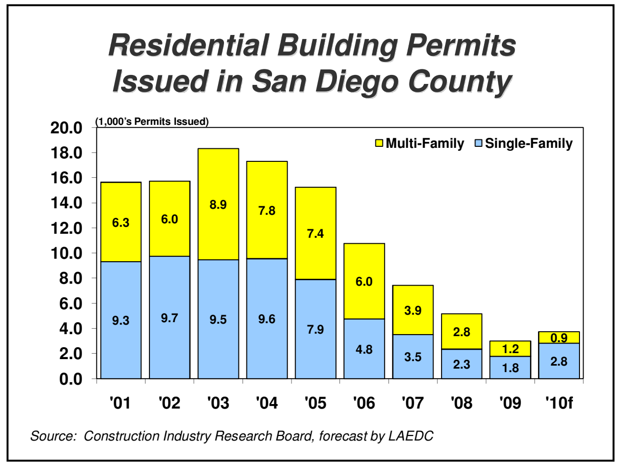
Personal income in San Diego County will increase by +2.1% in 2010. Per capita personal income should average $42,607, up by +1.5% from 2009. The retail situation has been dismal, with taxable retail sales dropping by -9.2% in 2009. In 2010, retail will reverse course and increase by +4.3% and in 2011 post a stronger gain of +7.4%.

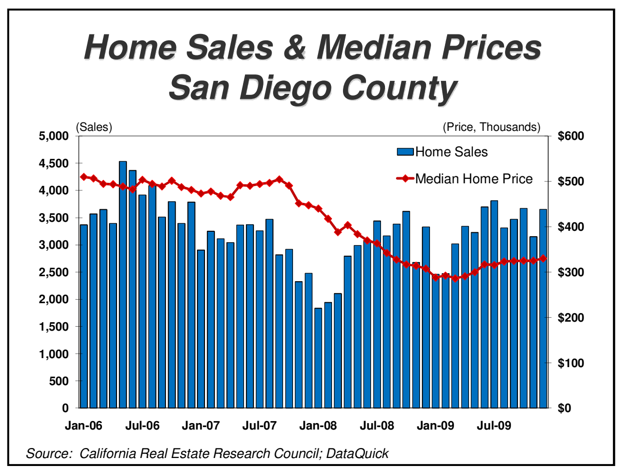




San Diego County's housing market has been subjected to intense scrutiny, as problems in the housing industry first showed up here (the downtown condo development surge and bust). The number of housing units permitted peaked back in 2003 at 18,314 units. In 2009, just 2,989 units were permitted. In 2010, residential construction should see an improvement with 3,730 permits issued.

Nonresidential construction, however, will continue to decline, dropping by -45% in 2010. Although office tenants are renewing leases, they are looking for ways to reduce their space requirements. In the near term, there may be some growth in government tenants, but office vacancy rates in the County shot up to 21.1% during the fourth quarter of 2009, with 344,807 square feet of new space still under construction (down from 700,000 square feet at the end of 2008). Tight credit conditions also continue to be a problem. San Diego's lack of a major commercial port or a gateway airport has impaired the market for office (and retail) space. Industrial space was less affected but the vacancy rate in the fourth quarter of 2009 was still quite high at 12.7%.





The number of overnight visitors to the County will increase just a bit in 2010 - by +1.5% to 13.5 million visitors. This compares with a recent high of 15.9 million in 2005. Fewer visitors equate to declining hotel occupancy rates, which in turn exert downward pressure on hotel revenues. In 2009, San Diego County had a disproportionately high number of hotels in foreclosure compared with the rest of the state. This has been a little unnerving for the travel and tourism industry (one of San Diego's top job creators), after a string of years with 15 million or more overnight visitors. On the other hand, 2010 already has a steady flow of meetings and conventions booked, which are estimated to support 12,500 jobs county-wide and to generate $542 million in spending and $18.7 million in tax revenue

Two-way trade through the San Diego Customs District will improve in 2010, rising by +1.8% to $45.5 billion.

Hot Spots

This list is still pretty sparse, but increased military spending, and some large construction projects (hospitals, highways, military facilities) provide a bit of optimism. San Diego is also home to 850 communications companies. Local technology companies employ more than 300,000 people and benefit from the proximity of Department of Defense laboratories. The convergence of San Diego's vibrant information, energy and biotech sectors will be important growth drivers for the economy.

Risks

Continued uncertainty about the local economy and high rates of unemployment through 2010 and 2011 will result in sluggish personal income growth and restrained consumer demand and business investment. Water shortages are an ongoing problem, especially for the County's agricultural sector.

Table 19

San Diego County Economic Indicators

	Population on July 1 of	Nonfarm Employment	Unemp. Rate	Total Personal Income	Per Capita Personal Income	Taxable Retail Sales	Value of Two-way Trade	Total Overnight Visitors	Housing Unit Permits	Nonresidential Building Permits	Chg. in CPI
	(000s)	(avg., 000s)	(avg., %)	($ billions)	($)	($billions)	($ billions)	(millions)	Issued	($ millions)	(%)
2000	2836.5	1193.8	3.9%	92.654	32,665	24.953	35.0	15.2	15,927	1,391	5.8
2001	2894.4	1218.4	4.2%	97.009	33,517	26.263	33.6	14.8	15,638	1,194	4.6
2002	2952.1	1230.7	5.1%	100.656	34,096	27.422	35.9	15.0	15,738	1,169	3.5
2003	2998.6	1240.1	5.2%	104.630	34,893	29.521	35.7	15.4	18,314	1,169	3.7
2004	3024.5	1260.3	4.8%	113.003	37,363	32.345	39.5	15.7	17,306	1,288	3.7
2005	3051.8	1282.1	4.3%	118.793	38,926	33.785	43.4	15.9	15,258	1,382	3.7
2006	3076.1	1301.6	4.0%	126.194	41,024	34.619	50.8	15.8	10,777	1,622	3.4
2007	3114.8	1308.2	4.6%	130.900	42,025	34.039	54.2	15.3	7,445	1,417	2.3
2008	3161.5	1303.1	6.1%	137.445	43,475	31.500	53.4	15.2	5,155	1,062	3.9
2009p	3208.5	1251.8	9.9%	134.696	41,981	28.588	44.0	13.3	3,160	584	-0.6
2010f	3227.8	1242.6	10.4%	137.525	42,607	29.818	45.5	13.5	3,730	510	2.1
2011f	3253.6	1252.6	10.2%	144.264	44,340	32.025	47.2	14.2	6,216	530	2.1
% Change											
'01/'00	2.0%	2.1%		4.7%	2.6%	5.2%	-4.0%	-2.6%	-1.8%	-14.2%	
'02/'01	2.0%	1.0%		3.8%	1.7%	4.4%	6.8%	1.4%	0.6%	-2.1%	
'03/'02	1.6%	0.8%		3.9%	2.3%	7.7%	-0.6%	2.7%	16.4%	0.0%	
'04/'03	0.9%	1.6%		8.0%	7.1%	9.6%	10.6%	1.9%	-5.5%	10.2%	
'05/'04	0.9%	1.7%		5.1%	4.2%	4.5%	9.9%	1.3%	-11.8%	7.3%	
'06/'05	0.8%	1.5%		6.2%	5.4%	2.5%	17.1%	-0.6%	-29.4%	17.4%	
'07/'06	1.3%	0.5%		3.7%	2.4%	-1.7%	6.7%	-3.2%	-30.9%	-12.6%	
'08/'07	1.5%	-0.4%		5.0%	3.5%	-7.5%	-1.5%	-0.7%	-30.8%	-25.1%	
'09/'08	1.5%	-3.9%		-2.0%	-3.4%	-9.2%	-17.6%	-12.5%	-38.7%	-45.0%	
'10/'09	0.6%	-0.7%		2.1%	1.5%	4.3%	1.8%	1.5%	18.0%	-12.7%	
11/'10	0.8%	0.8%		4.9%	4.1%	7.4%	3.8%	5.2%	66.6%	3.9%	

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 20

San Diego County Nonfarm Employment

(Annual averages, in thousands, March 2008 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	37.6
2007	1,308.2	0.4	87.0	102.5	*77.3*	*25.2*	45.5	148.1	28.8	38.7
2008	1,299.2	0.3	76.2	102.3	*77.8*	*24.5*	44.5	142.2	29.3	38.0
2009p	1,251.7	0.3	66.4	95.4	*73.1*	*22.3*	41.7	134.6	28.1	37.7
2010f	1,242.6	0.3	60.8	93.0	*72.5*	*20.5*	41.9	131.5	28.7	38.8
2011f	1,252.6	0.3	61.5	93.9	*73.0*	*21.0*	42.0	131.8	29.0	39.5

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	44.0	27.2	92.3	18.7	84.2	18.2	97.2	129.0	42.2	206.6
2001	44.9	27.2	98.3	18.6	81.3	17.2	98.8	131.4	44.9	213.8
2002	47.3	27.7	100.8	19.9	81.0	17.2	102.5	133.8	45.6	219.7
2003	51.2	28.8	101.6	19.1	80.5	18.8	103.0	140.7	46.8	217.3
2004	52.8	29.1	99.8	18.2	86.6	20.1	101.6	147.7	47.9	214.3
2005	53.5	29.7	105.9	17.4	87.2	21.1	101.4	149.9	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	112.3	16.1	88.4	22.0	107.6	161.8	48.3	222.4
2008	46.3	29.5	114.6	16.2	86.2	23.4	112.1	163.6	48.8	225.2
2009p	44.7	29.2	113.7	15.6	75.7	23.0	112.7	156.9	48.0	225.3
2010f	45.1	29.8	115.8	15.0	72.7	23.3	114.5	154.2	48.3	226.0
2011f	45.6	30.3	117.9	15.2	73.5	23.5	116.9	155.0	48.5	226.0

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

IX. OUTLOOK FOR VENTURA COUNTY

This area has struggled in recent years, with more than its share of problems in key industries. These include the housing and automotive slumps as well as layoffs at some major local employers. Relief for the Ventura County economy will start to arrive later in 2010.

Positive Forces Through 2009 into 2010

- The County has a well-developed set of **health care** related industries, running the gamut from biotech R&D to biomedical manufacturing to hospitals to health insurance.
- The County's **agricultural sector** should hold up well during the forecast period, assuming the weather cooperates. The area is quite versatile producing a wide variety of crops. The most important are strawberries, nursery stock (including Christmas trees), lemons, and celery.
- There is a significant **military** presence in the County at Port Hueneme, the West Coast homeport of the Navy's Seabees, and Point Mugu Naval Air Station. These two provide a stabilizing—if noisy—influence amid the economic storms.
- A number of **infrastructure projects** are in the works, to be funded by Proposition 1B and the federal government stimulus plan.
- **International trade** activity at Port Hueneme plunged in 2009, with the value of two-way trade down by -29%. Most of the decline was caused by a precipitous drop in imports of automotive vehicles and parts during the first nine months of the year. Import volumes surged in the 4th quarter and are expected to continue at higher levels in 2010.

Negative Forces Through 2010 and 2011

- The effects of **large layoffs** at some of the County's major employers—especially Amgen and Countrywide Financial—will linger on through 2010 at least, impacting the eastern end of the County.
- The **commercial real estate** sector is under growing stress, especially in the east County. The average office vacancy rate moved up to 16.5% in the third quarter of 2009 (latest data available). It was 13.8% only a year earlier.
- Privately financed **construction** continues to shrink. The number of new housing permits issued in 2009 was down by nearly -60%. The value of nonresidential permits was down by -57% last year.

Net results

Nonfarm employment in the County fell by -4.7% in 2009, or by -13,700 jobs. 2009 was the third year of decline, coming after a -2.5% drop in 2008 and a –0.3% slippage in 2007. Total employment will decline by just -0.6% in 2010, or -1,700 jobs. The biggest employment losses during 2010 should be in construction and manufacturing (both down by -700 jobs). The only notable increase will be in health services, up by +500 jobs.

Total nonfarm employment will grow a bit more in 2011, increasing by +2,700 jobs or +1.0%. Retail trade will add the most workers (+1,000) followed by another increase of +500 jobs in the health care sector.

Ventura County's unemployment rate averaged 10.3% in 2009, and is forecast to rise to 11.2% in 2010 before dropping back to 10.9% in 2011.

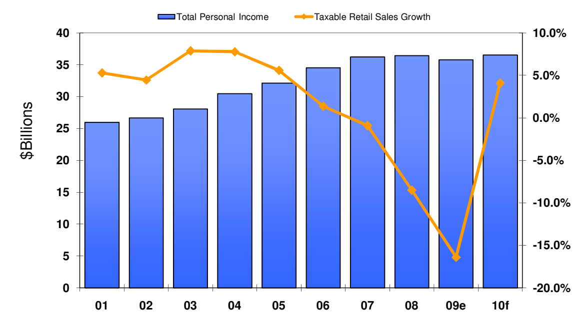
Total personal income in Ventura County declined by -1.8% in 2009, following a +0.6% increase in 2008. Taxable retail sales continued to disappoint, plunging by an estimated -16% in 2009, after declines of -8.5% in 2008 and -0.9% in 2007.

Personal income is expected to resume growing during the forecast period, rising by +2.1% in 2010 and by +4.1% in 2011. Retail sales also should turn up, increasing by 4.1% in 2010 and by +6.0% in 2011.

Housing construction will remain in the doldrums through the forecast period. Only 375 housing unit permits are expected to be issued in the County during 2010 and 560 units in 2011. Those are higher than the 2009 pace but not much.

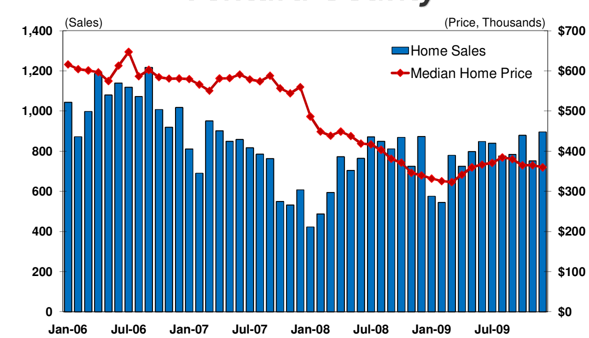
Nonresidential construction activity will fall by nearly -10% in 2010, reflecting high and rising commercial vacancy rates and lenders' and investors' risk intolerance. Nonresidential permit values will rise by +7.4% in 2011, still a very low level of activity.

Ventura County Personal Income & Retail Sales



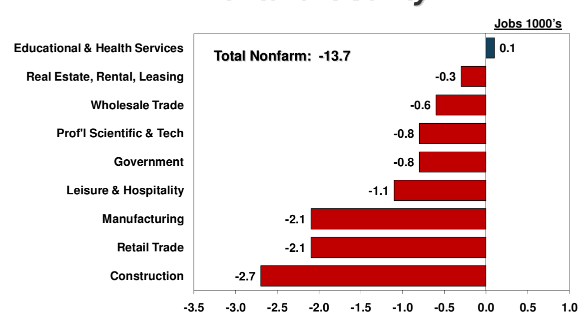
Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

Home Sales & Median Prices Ventura County



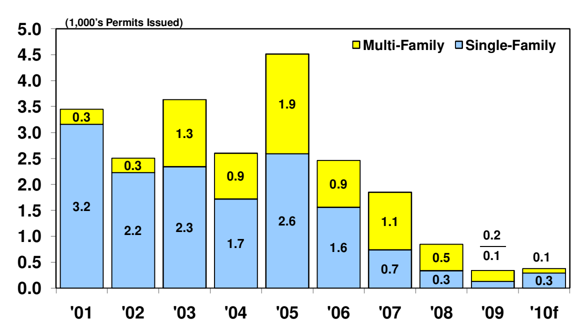
Source: California Real Estate Research Council; DataQuick

2009 Industry Winners & Losers in Ventura County



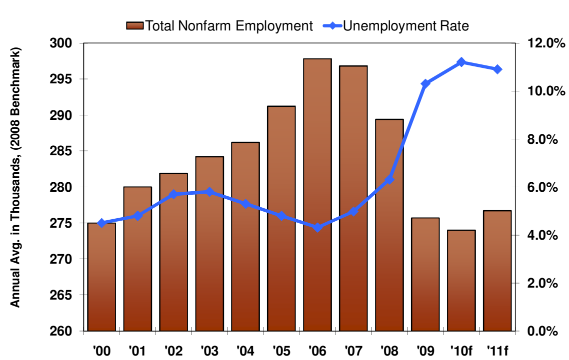
Source: CA EDD, Labor Market Information Division

Residential Building Permits Issued in Ventura County



Source: Construction Industry Research Board, forecast by LAEDC

Ventura County Fundamentals



Source: EDD Labor Market Information Division; forecast by LAEDC

Table 21

Ventura County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	758.7	275.0	4.5%	25.364	33,431	6.504	3,971	282
2001	772.4	280.0	4.8%	25.964	33,616	6.848	3,446	309
2002	787.0	281.8	5.7%	26.648	33,860	7.153	2,507	289
2003	798.4	284.2	5.8%	28.057	35,142	7.717	3,635	379
2004	806.4	286.2	5.4%	30.438	37,747	8.317	2,603	353
2005	811.9	291.2	4.8%	32.127	39,571	8.782	4,516	372
2006	817.8	297.7	4.3%	34.505	42,194	8.902	2,461	326
2007	823.5	296.8	5.0%	36.210	43,943	8.823	1,847	346
2008	832.3	289.4	6.3%	36.421	43,760	8.076	842	345
2009p	841.0	275.7	10.3%	35.750	42,509	6.750	341	150
2010f	849.8	274.0	11.2%	36.500	42,951	7.025	375	135
2010f	857.8	276.7	10.9%	38.000	44,297	7.450	560	145
% Change								
'01/'00	1.8%	1.8%		2.4%	0.6%	5.3%	-13.2%	9.6%
'02/'01	1.9%	0.7%		2.6%	0.7%	4.5%	-27.2%	-6.5%
'03/'02	1.4%	0.9%		5.3%	3.8%	7.9%	45.0%	31.1%
'04/'03	1.0%	0.7%		8.5%	7.4%	7.8%	-28.4%	-6.9%
'05/'04	0.7%	1.7%		5.5%	4.8%	5.6%	73.5%	5.4%
'06/'05	0.7%	2.3%		7.4%	6.6%	1.4%	-45.5%	-12.4%
'07/'06	0.7%	-0.3%		4.9%	4.1%	-0.9%	-24.9%	6.1%
'08/'07	1.1%	-2.5%		0.6%	-0.4%	-8.5%	-54.4%	-0.3%
'09/'08	1.0%	-99.9%		-1.8%	-2.9%	-16.4%	-59.5%	-56.6%
'10/'09	1.0%	-0.6%		2.1%	1.0%	4.1%	10.0%	-9.8%
'10/'11	0.9%	1.0%		4.1%	3.1%	6.0%	49.3%	7.4%

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

Table 22
Ventura County Nonfarm Employment

(Annual averages, in thousands, March 2008 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	280.0	0.6	16.1	40.5	*26.6*	*13.9*	11.0	34.0	5.9	8.4
2002	281.8	0.7	15.7	38.0	*24.9*	*13.1*	11.7	34.2	5.8	8.1
2003	284.2	0.6	16.6	37.0	*24.0*	*13.0*	11.8	34.5	5.6	7.2
2004	286.2	0.7	16.9	38.3	*24.2*	*14.1*	12.2	35.3	5.7	6.8
2005	291.2	0.8	18.8	37.8	*23.9*	*13.9*	12.5	36.5	5.8	6.2
2006	297.7	1.1	20.5	38.4	*24.1*	*14.3*	12.6	37.6	6.1	6.0
2007	296.8	1.1	18.6	38.0	*23.9*	*14.1*	13.0	37.6	6.1	5.8
2008	289.4	1.1	16.5	35.6	*23.2*	*12.4*	12.6	36.9	6.4	5.6
2009p	275.7	1.1	13.8	33.5	*21.4*	*12.1*	12.0	34.8	6.2	5.3
2010f	274.0	1.1	13.1	32.8	*21.0*	*11.8*	12.0	34.7	6.2	5.3
2011f	276.7	1.1	13.4	33.0	*21.2*	*11.8*	12.0	35.7	6.3	5.3

	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	17.9	4.8	16.2	3.2	18.9	8.7	21.7	32.0	9.9	43.0
2008	16.4	4.7	16.0	3.0	18.3	9.2	22.4	31.8	10.1	42.9
2009p	15.4	4.4	15.2	2.4	17.4	9.2	22.5	30.7	9.7	42.1
2010f	15.3	4.3	15.3	2.3	17.1	9.2	23.0	30.5	9.6	42.2
2011f	15.2	4.4	15.5	2.2	17.4	9.2	23.5	30.8	9.7	42.0

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

X. MAJOR ECONOMIC DRIVERS OF THE SOUTHERN CALIFORNIA ECONOMY

The concept of an "economic driver" is that the industry or sector sells a significant portion of its goods or services outside the region, thus bringing new money into the Southern California economy. While the region is fortunate in having an array of drivers, most were heavily impacted by the recent recession. In several cases, business models have been significantly changed. Some of the drivers will see recovery in 2010, while others will face continued challenges.

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

Table 23

Performance Ratings of Major Industries

Industry	Grade	Comments
Aerospace: defense	C	More orders for C-17 in 2010 DoD budget but none in 2011; defense spending will be trending down, but still some major new programs are being discussed.
Aerospace: commercial	C-	Orders down dramatically in 2009; have airlines made it through the recession?
Apparel design & manufacturing	C-	More retail closures expected; consumers shopping a little more but still focused on value.
Business & professional mgmt. services	B to C-	Best prospects for engineering and R&D; things looking up for accounting and law.
Financial services	C-	More smaller banks will fail; more government regulations; problems with commercial real estate loans
Goods movement	C+	Modest pick-up in activity; new terminal projects underway; environmental challenges persist
Health care services	C/C-	What will health care reform mean? Hospitals and providers still under financial stress.
Health services: bio-medical	C+	Venture capital firms a little more active
Motion picture/TV production	B	Box office prospects look good; run-away production still a worry despite state incentives; business model changing
Technology	C+	Sector reviving; lots of new products in consumer markets
Tourism & travel	B-	Downtown convention center hotel opens; some new attractions at local theme parks; business and consumer travelers still cautious

Aerospace

This still-important industry faces uncertainty in all three segments, and observers are sorting out the near-term direction. While only two plants build complete planes in Southern California (Boeing's C-17 facility in Long Beach and Robinson Helicopter in Torrance), there are still a lot of aerospace firms here, performing some key sub-contracting work.

However, 2010 got off to a sour start with Northrop Grumman's announcement that they will be moving their corporate headquarters from Los Angeles to the Washington DC area, to be near their major customer, the Pentagon. Much of the media coverage implied that this was the end of aerospace in Southern California. Overlooked was the fact that Northrop will still have over 21,000 workers in Los Angeles County.

Defense: The FY 2011 Department of Defense (DoD) budget is pegged at $708 billion, up by +2%. It calls for cuts or curtailment of more major programs. However, some important new programs could be started, including the next generation bomber (it had been "postponed" and its parameters are not yet defined), and a Space-Based Surveillance Constellation (a satellite system to gather intelligence on satellites). In addition, the Federal government is establishing cyber warfare offices to cope with increasing hacking attacks on critical U.S. web sites.

The latest Quadrennial Defense Review has also been released. It calls for a shift away from being able to fight two major wars at once to dealing with a variety of threats including "smaller" conflicts. There will be a continued focus on unmanned aerial vehicles, which is a strong suit for Southern California.

There is also growing concern about maintaining the aerospace "industrial base," which is part of the discussion on the future of the C-17 military airlifter. The outlook for this plane has been uncertain, but 10 more were added to the 2010 budget over DoD objections. Additional foreign sales are pending that could keep production going in to 2013. However, the FY 2011 defense budget proposes to end the program, with the threat of a presidential veto if Congress adds it back. If this happens, the U.S. would have no facility capable of building a large airlifter.

Industry Score Card

Defense - Aerospace

C	C
7/2009	2/2010

Commercial Aerospace

C+	C-
7/2009	2/2010

The drama on the replacement tanker plane continues. Both bidders are complaining about the current competition. Work on the remains of the Future Combat System (Boeing in Orange County) is still underway, but spending on this program has been cutback dramatically.

As noted earlier, a lot of subcontracting work is done in the region, with some important contracts for the FA/18 fighter plane and the new F-35 fighter. Northrop Grumman is doing on-going modification work on the B-2 Stealth Bomber. The company also does work on its Global Hawk in the Antelope Valley. Work continues to be performed on a variety of other unmanned aerial vehicles at advanced research facilities in the Antelope Valley. Recently, it was revealed that Lockheed Martin's Skunk Works had developed a stealthy UAV (the RQ 170 Sentinel) that has been effectively used in Afghanistan.

Southern California has a lot of military test facilities, which are evidently quite busy. These include: China Lake Naval Air Warfare Center (northern San Bernardino County), NAS Pt.

Mugu (Ventura County), Ft. Irwin – Army (San Bernardino County), Camp Pendleton (San Diego County), and Edwards AFB (Los Angeles County). Creech AFB in Nevada could be added to this list. These facilities are all in close proximity, and have large and remote land areas on which to test the latest technology.

Space: NASA is moving in a new direction with the proposed cancellation of the Constellation project, which would have been the replacement for the Space Shuttle. The latter will be retired at the end of 2010. Constellation was having both technical and budgetary problems. Most of the work was being done outside of California.

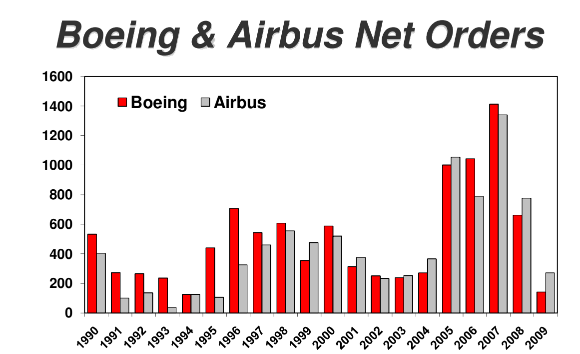
NASA will cut back its development of spacecraft, and rely more on commercially developed equipment. For example, an unmanned commercial cargo spacecraft is well along in development by Space X in Hawthorne. This is important as the International Space Station's life has been extended to 2020.

NASA's proposed budget for FY 2011 is $19 billion, large but not enough to fund meaningful human exploration beyond low Earth orbit.

A bit of good news is that satellite production in the near-term is expected to be steady, with work on new or replacement voice, data and broadcast satellites. Boeing is developing a smaller satellite "bus" at its El Segundo facility.

Commercial aviation: Airlines seem to have gotten through the worst of the economic downturn, and the air travel business is gradually improving. However, 2010 could bring some unpleasant surprises. For example, the International Air Transport Association is forecasting another loss for the world's air carriers. Worse, the underlying problem of too much airline capacity hasn't gone away. The December terrorist incident in Detroit also added uncertainty to international travel.

New aircraft orders for both Airbus and Boeing were down sharply in 2009, with the wide-body sector hurt the most. There have also been expensive delays in development of the A 380 (although it is flying, production is quite slow), 787 (though deliveries might start by year-end 2010) and the 747-8. Both companies do a lot of sub-contracting in Southern California. For example, Vought builds the main body section for the 747 at its plant in Hawthorne.



Source: Boeing & Airbus Company Websites

Some new competitors for Airbus and Boeing are emerging at the low end of the narrow body aircraft market. This list includes Embraer (Brazil) and Comac (China).

Results: Expect continued modest aerospace employment declines in Los Angeles, Orange and San Diego counties, with the combined job count slipping by -2,200 jobs in 2010 to an employment total of 51,700. Note that this figure does not include another 42,300 workers in search, detection & navigation instruments production, who are not reported on a monthly basis.

Table 24

Aerospace Employment

	2007	2008	2009	2010f	2011f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09	%chg. 11/'10
Los Angeles County	37,600	38,200	36,900	35,700	34,600	-2.8%	1.6%	-3.4%	-3.3%	-3.1%
Orange County	10,900	11,400	11,000	10,500	10,200	-3.5%	4.6%	-3.5%	-4.5%	-2.9%
San Diego County	6,300	6,400	6,000	5,500	5,200	6.8%	1.6%	-6.3%	-8.3%	-5.5%

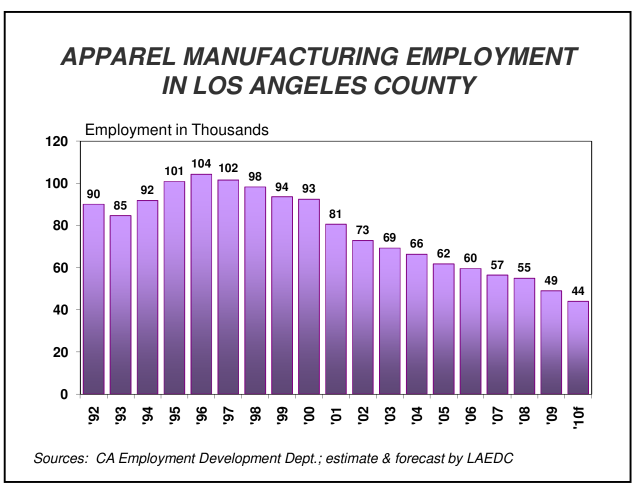
Sources: California Employment Development Department, estimates & forecasts by LAEDC

APPAREL & TEXTILES DESIGN AND PRODUCTION

This is another industry where near-term trends are a touch hazy. 2009 was a very difficult year for Southern California's garment industry, as consumers shopped less and moved down market. The impact rippled back from retailers to manufacturers and wholesalers. Key questions are: will consumers open up their wallets a little wider in 2010; will they show more interest in designer merchandise; and how many more retailers will shut their doors in 2010?

Retailers, especially department stores, want lower prices from suppliers. Stores also continue to keep their inventories lean, and are interested in small orders that can be filled quickly. This is still a competitive advantage for local manufacturers.

The internet has had a growing impact on the apparel industry, and retailers and designers are both getting better at using it, especially for clothing. Another trend is "pop-up" stores. Both designers and established retailers are utilizing these as a way to gain exposure and some additional sales.



Industry Score Card

Apparel/Textiles

D+	C-
7/2009	2/2010

The local denim business has softened, and makers are cutting prices. Producers of junior apparel were hurt by cut-backs at department stores, but have been finding opportunity at specialty stores as the latter try to differentiate themselves. There is also interest in young contemporary lines from Los Angeles.

Local garment makers are also bracing for more store closings early in 2010, further winnowing the customer pool. Some national retailers are stepping back from a one-size fits all merchandising strategy, and are doing more tailoring of their inventories to appeal to local tastes.

The apparel industry seems to have dodged a bullet from the problems of CIT, who's factoring arm is a huge player in the business. There was a quick bankruptcy, while other firms stepped in to snag some business from CIT. However, there are other challenges for the garment industry. The Consumer Products Safety Act requires makers to submit garments to testing labs, which is costly and time consuming. The U.S. Customs Service is also looking more closely at apparel and textile imports from Asia to see if they are undervalued or misclassified. Finally, local apparel makers are waiting to see if more warnings come from the Immigration Department about workers with invalid social security numbers. American Apparel received such a notification in 2009, and laid off 1,400 workers rather than face legal actions.

Finally, intellectual property issues are an on-going annoyance. Apparel industry leaders are still trying to piece together "shows" during market weeks, and continue to seek the magic bullet. Also, the owners of the California Market Center have cut back on their promotion and marketing efforts for this critical facility.

Results: This still significant industry will continue to see employment levels slide, but at a more moderate pace than in 2009. Los Angeles County should shed 5,600 jobs in apparel and textiles manufacturing, but see a slight gain in wholesaling.

Table 25
Apparel & Textiles Employment

	2007	2008	2009	2010f	2011f	%chg. 07/'06	%chg. 08/'07	%chg. 09/'08	%chg. 10/'09	%chg. 11/'10
Los Angeles County	85,700	84,800	78,400	72,900	70,800	-3.7%	-1.1%	-7.5%	-7.0%	-2.9%
Textiles mills	9,500	9,100	8,500	7,900	7,600	-7.8%	-4.2%	-6.6%	-7.1%	-3.8%
Apparel manufacturing	56,500	55,000	49,000	44,000	42,000	-5.2%	-2.7%	-10.9%	-10.2%	-4.5%
Apparel & piece goods wholesaling	19,700	20,700	20,900	21,000	21,200	3.1%	5.1%	1.0%	0.5%	1.0%

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

Business & Professional Management Services

The outlook for this multi-dimensional sector is still mixed, but there will be a few more positives in the 2010-2011 outlook.

Accounting: This industry has been doing a lot of advisory, audit and risk management services. Business should improve in 2010, as a little life is emerging in mergers & acquisitions, while health care reform compliance and financial industry regulation could generate some new work. The Big 4 accounting firms are now looking at middle-market firms (in the past, they focused on large firms). There could also be opportunity from real estate workouts and liquidation of some CMBS loans.

Industry Score Card

Business & Professional Management Services

B/C-	B/C-
7/2009	2/2010

Advertising: This sector will continue under some stress, with ad budgets expected to continue somewhat soft in 2010. However, there will be some opportunities from the winter Olympics, the mid-term congressional elections, and the California governor's race. Also, there will be a batch of initiatives on the November 2010 state ballot, and some could be controversial. Media around the state would benefit from the advertising blitzes.

Architecture & Engineering: This sector will have a split personality in the next few years. Architecture will find business slow, as few major new private sector projects will be started. However, there will be work on public sector projects funded by bonds. Engineering firms will find work on several fronts, especially infrastructure projects funded by Los Angeles County's Measure R as well as federal funding. A lot of significant projects are underway around the region, including work on airports in San Diego, Orange County and at LAX.

Law: The last few years have been bumpy for the legal profession. There have been layoffs at some larger firms, and they are also billing more "flat fees." Like accounting, local law firms are now looking at the region's huge middle market. Some new law firms have moved into the Southern California market. Work will come from a variety of sources: health care reform compliance, financial industry regulation, and commercial real estate work outs. Finally, there will be a growing amount of plain old bankruptcy work, a lagged impact of the downturn.

Scientific research & development: This sector should benefit from federal stimulus funding, as well continued interest in "green" business. Surveys indicate that R & D spending will increase modestly in 2010.

Results: Total employment in the sector will post mixed trends in 2010, with losses still the order of the day.

Table 26

Business & Professional Management Services Employment

	2007	2008	2009	2010f	2011f	%chg. 07/'06	%chg. 08/'08	%chg. 09/'10	%chg. 10/'09	%chg. 11/'10
Los Angeles County	163,400	157,400	151,800	148,100	147,800	4.5%	-3.7%	-3.6%	-2.4%	-0.2%
Legal services	49,500	49,200	48,500	48,000	48,200	0.6%	-0.6%	-1.4%	-1.0%	0.4%
Accounting services	49,700	41,500	40,800	42,100	44,100	7.1%	-16.5%	-1.7%	3.2%	4.8%
Architecture & engineering	39,900	41,500	38,500	35,000	33,000	8.4%	4.0%	-7.2%	-9.1%	-5.7%
Advertising	24,300	25,200	24,000	23,000	22,500	1.3%	3.7%	-4.8%	-4.2%	-2.2%
Orange County	50,500	52,200	51,200	50,500	50,600	1.6%	3.4%	-1.9%	-1.4%	0.2%
Legal services	14,200	14,800	14,900	15,000	15,200	-0.7%	4.2%	0.7%	0.7%	1.3%
Accounting services	12,300	13,300	13,000	12,900	13,100	1.7%	8.1%	-2.3%	-0.8%	1.6%
Architecture & engineering	24,000	24,100	23,300	22,600	22,300	3.0%	0.4%	-3.3%	-3.0%	-1.3%
San Diego County	36,700	36,800	36,100	34,900	34,300	2.5%	0.3%	-1.9%	-3.3%	-1.7%
Legal services	12,600	12,500	12,300	12,100	12,000	1.6%	-0.8%	-1.6%	-1.6%	-0.8%
Architecture & engineering	24,100	24,300	23,800	22,800	22,300	3.0%	0.8%	-2.1%	-4.2%	-2.2%

Note: Includes computer software development

Sources: California Employment Development Department, forecasts by LAEDC

Financial Services

2010 will not bring much relief to the region's banking and finance industry. Sadly, there will be more bank failures as commercial real estate woes continue to take their toll on smaller institutions. Failures have dramatically redrawn the face of commercial banking in the region, with some banks rather quickly becoming major players. Banks will make a continued effort to build up capital levels. Credit quality will also continue to a focus, so lending activity will continue moderate. Banks also will be dealing with new federal regulation of the industry.

On the financial services side, stock markets will continue to be volatile, causing headaches for both brokerage and money managers. Smaller investment banks have found opportunity in restructurings, private financing, secondary offerings, while there could be more IPO's in 2010

Venture capital firms will find the business environment a little less difficult in 2010. Exit strategies will continue to be constrained, but interest in investing in VCs is picking up. "Vulture" funds have also been organized, but to date they haven't found much opportunity.

Industry Score Card

Financial Services

C-	C-
7/2009	2/2010

A problem for the financial services industry is serving the region's large small-to-medium sized business base. Throughout 2009, these firms complained about their inability to get loans, while banks fretted about deterioration in credit quality.

Results: About -5,300 jobs will be lost in the sector during 2010, though this will be a welcome improvement from the large losses recorded in 2006 and 2007.

Table 27

Financial Services Employment -- Credit Intermediation & Related Services

	2007	2008	2009	2010f	2011f	%chg. 07/'06	%chg. 08/'07	%chg. 09/'08	%chg. 10/'09	%chg. 11/'10
Los Angeles County	81,800	74,400	68,900	66,900	65,400	-3.7%	-9.0%	-7.4%	-2.9%	-2.2%
Orange County	44,700	33,900	31,200	29,500	28,500	-14.0%	-24.2%	-8.0%	-5.4%	-3.4%
Riverside-San Bernardino Area	18,000	16,300	14,900	14,100	13,900	-5.3%	-9.4%	-8.6%	-5.4%	-1.4%
San Diego County	24,500	20,800	19,300	18,800	18,700	-7.9%	-15.1%	-7.2%	-2.6%	-0.5%
Ventura County	8,600	7,400	6,800	6,500	6,400	-22.5%	-14.0%	-8.1%	-4.4%	-1.5%

Sources: California Employment Development Department, forecasts by LAEDC

Goods Movement

International trade is a key driver of goods movement in Southern California. Because it plays an important role in the Southern California economy, the LAEDC has recently established goods movement as a separate cluster within the economic base of Southern California. The goods movement cluster includes mostly industry activities classified within the transportation sector. The main components of our newly defined industry cluster include general freight trucking, marine cargo handling, air freight shipping agents and logistics firms.

World trade flows collapsed near the end of 2008 and then weakened further over the first half of 2009 due to a plunge in global demand. The Los Angeles/Long Beach ports were severely impacted by this deterioration in global commerce. The number of loaded import containers handled at the local ports plummeted by -17.6% in 2009, this was the third consecutive year of decline. Loaded export containers tumbled by -14.8% after rising by +9% in 2008.

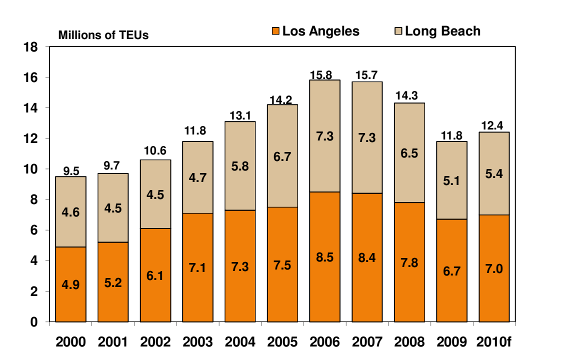
The 2009 figures for the Port of Los Angeles and the Port of Long Beach were similarly discouraging. In 2009, import container volume (excluding empties) at the Port of Long Beach fell by -20.5%, while export volume (excluding empties) dropped by -19.9%. At the Port of Los Angeles, the figures were a little less worse as imports (including empties) declined by -15.3% and exports (including empties) decreased by -12.5%.

The ports of Los Angeles and Long Beach maintained their top two rankings during 2009 measured by the number of containers handled. The port of Los Angeles also remained the top port in the nation in 2009, with regards to total two-way trade valued at $197.2 billion, while the port of Long Beach was still ranked #9 with a value of $68.6 billion.

The outlook for 2010 looks better, as global trade will help lead the global economic recovery. In particular, the developing nations of Asia will lead the overall recovery and will see the largest export and import growth. The advanced economies also will contribute to the overall recovery in trade as manufacturers and retailers restock inventories, which will lead to a renewal of Asian exports. This is a key concern for the Los Angeles Customs District (LACD) in 2010.

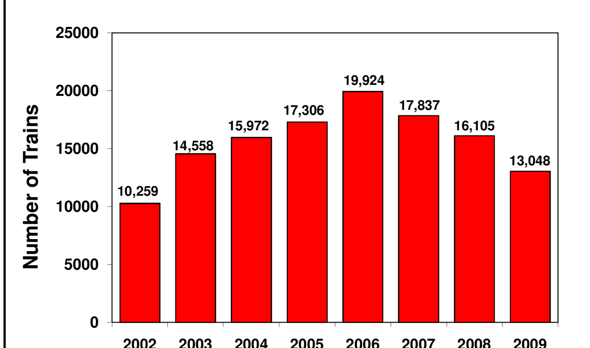
Total container traffic at the LA and LB ports is projected to increase in 2010 to 12.4 million TEUs, a rise of +5.0%. The expected improvement in trade will positively impact both ports as well as all the other industry players, from the longshoremen's union to the independent truck drivers to the railroads.

Total TEUs Handled at the LA-LB Ports



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

Alameda Corridor Train Counts



Source: Alameda Corridor Transportation Authority

Alameda Corridor: In recent years, the 20-mile rail cargo line that connects both ports to the main railroad yards near downtown Los Angeles experienced a downward trend in the number of trains running. Since 2006, the number of trains running on the Alameda Corridor has plunged by -34.5%. Over the past year, the number of trains running dropped by -18.9%, falling from 16,105 trains in 2008 to 13,048 in 2009. The average number of trains per day has seen similar declines. Since the height of trade

volumes in 2006, the average number per day has weakened by -34.5%. In 2009, the average number per day was 36 compared with 55 in 2006. This year should see an increase in the number of trains as trade volumes at both the Ports of Los Angeles and Long Beach are expected to grow.

Positive Forces for 2010 and into 2011

- The port of LA signed a memorandum of understanding in mid-2009 to deepen its main channel to 53 feet so the port can accommodate the larger container ships that operate in the global shipping fleet. The project will create thousands of construction jobs in the near-term.

- The Middle Harbor at the Port of Long Beach: This 10-year project will upgrade terminals, more than double cargo capacity; add 14,000 new jobs and nearly 1,000 construction jobs annually. The project is also expected to cut air pollution by 50%.

- The Federal economic stimulus package includes funding for Southern California ports, highways and bridges, which will help alleviate capacity constraints.

- The local ports have become more competitive over the past year by launching new intermodal discounts and rail cargo incentive programs.

- Implementation of the TWIC card (Transportation Worker Identification Credential) was a success in 2009. However, the number of port truck drivers who obtained these cards was less than what will be needed once volumes recover. The ports of LA and LB are still the two most highly rated ports in the U.S. – the ports continue to have strong financial situations and competitive market positions relative to other key ports in the U.S.

Negative Forces for 2010 and into 2011

- The LA and LB ports might lose market share due to aggressive competition from Gulf and East Coast ports along with some from the Northwest ports (Seattle, Prince Rupert, British Columbia and Vancouver). West coast ports had begun to lose some market share to the Gulf and East Coast ports before the economic crisis.

- The Clean Truck programs at the local ports have increased costs for shippers.

- Western railroads are still charging high intermodal rates, although they are becoming more competitive.

- International Longshore and Warehouse Union (ILWU) pension costs are rising rapidly.

- The City of Riverside is suing the local ports. They are concerned about the increased traffic thru the City that will be generated by the expansion of the local ports.

- The global recession has weakened the financial position of many steamship companies. A key concern for 2010 and beyond will be whether or not some will go out of business. Several companies have implemented a slow steaming approach, which reduces fuel, consumption but at the same time increases transit times.

Port Projects

Port of Los Angeles

- Trac Pac Container Terminal Expansion
- China Shipping Terminal Expansion
- North Gaffey Beutification Project
- Wilmington Buffer Project
- Port Police Headquarters
- Cabrillo Way Marina Phase II
- World Cruise Center
- Harry Bridges Boulevard Roadway Improvements

Port of Long Beach

- Pier G and Pier J Long-Term Construction Projects
- Middle Harbor Project Ground Breaking Later this Year
- Construction Continues on Terminal One Shore-Power Berths
- Two New Projects this Year: Gerald Desmond Bridge and Pier S
- Major Dredging Project, with the U.S. Army Corps of Engineers (Supported by Stimulus Funding)

Industry Score Card

Goods Movement

C	**C+**
7/2009	2/2010

The Big Questions

The two main questions everyone wants answers to are: how strong will the economic recovery be in the U.S. and around the world, and when will we get back to 2006-2007 trade volume levels. The general consensus seems to be that the global economy will reflect a tale of two recoveries in 2010. The advanced economies will see modest improvements in GDP growth, while the developing economies will experience stronger growth, especially in Emerging Asia. All of this bodes well for world trade volumes at the local ports. Overall, the results for 2010 will be a breath of fresh air when compared to the very depressing container figures of 2009. With regards to the other pressing question, the story is not as encouraging as trade volume levels are not projected to return to the glory days of 2006 & 2007 for several years.

Based on the most recent available data, goods movement employment in the Los Angeles 5-County area during 2008 totaled nearly 200,000 workers. San Diego County added about 83,000 more, bringing the grand total for Southern California to nearly 285,000 in the year 2008. Preliminary estimates for 2009 suggest a significant loss in goods movement employment last year. However, the outlook for the next couple of years is encouraging as world trade and port activity recovers.

Health Services/Bio-Medicine

Industry Score Card

Health Care Services

C/C-	C-
7/2009	2/2010

Bio-medicine

C+	C+
7/2009	2/2010

The headlines of the year will be dealing with pending federal health care legislation. All sectors of the industry will be sifting through the fine print, to determine how they will be impacted. Reform means more people will be covered, but how to cover all the costs is an important question.

For hospitals, 2010 will be another difficult year. They will be cautious in hiring, are buying only essential equipment, and are looking to cut costs. Worse, they are looking ahead to 2013-2015 when seismic retrofits will be required. Hospitals have been having trouble financing these in the current financial environment. They will also be assessing how health care reform impacts their bottom lines. One point of light is the potential re-opening of what was called the Martin Luther King Hospital. This could take some of the pressure off hospitals in the south-southeast area of Los Angeles County.

The region's bio-medical industry also will have a lot on their plates in 2010. Venture capital remains scarce, especially for start-ups. Investors have been cautious about investing in this sector. Contributing to their caution is a rather dry market for IPO's, but interest could pick up over 2010 if the IPO environment brightens. There has also been the slow pace of big pharma buy-outs of start-ups. Another issue for the bio-med industry is how long a firm can sell a drug before it faces generic competition. More generic biotech drugs could be allowed in 2011.

Three big drug makers have announced that they will be moving into Orange County, drawn by the good quality workforce, and access to airports. The County was strong in surgical device manufacturing, so the newcomers will diversify its bio-med base.

Results: This sector will continue to record positive employment trends in 2010 and 2011.

Table 28

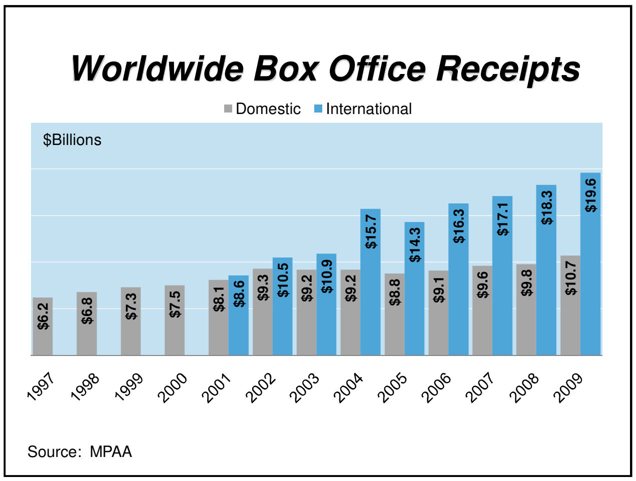
Health Services Employment

	2007	2008	2009	2010f	2011f	%chg. 07/06	%chg. 08/07	%chg. 09/'08	%chg. 10/'09	%chg. 11/'10
Los Angeles County	337,400	344,200	349,100	354,300	359,700	3.9%	2.0%	1.4%	1.5%	1.5%
Ambulatory health care services	161,200	166,000	167,200	168,500	170,000	3.1%	3.0%	0.7%	0.8%	0.9%
Hospitals	107,200	107,600	109,600	111,600	113,800	0.3%	0.4%	1.9%	1.8%	2.0%
Nursing care facilities	63,100	64,300	66,000	67,800	69,300	2.4%	1.9%	2.6%	2.7%	2.2%
Pharmaceutical & medicine mfg.	5,900	6,300	6,300	6,400	6,600	---	6.8%	0.0%	1.6%	3.1%
Orange County	108,000	112,600	115,700	118,000	120,300	3.8%	4.3%	2.8%	2.0%	1.9%
Ambulatory health care services	57,700	63,300	64,500	64,900	65,200	2.9%	9.7%	1.9%	0.6%	0.5%
Hospitals	31,500	29,100	30,200	31,600	32,900	6.8%	-7.6%	3.8%	4.6%	4.1%
Nursing care facilities	18,800	20,200	21,000	21,500	22,200	2.2%	7.4%	4.0%	2.4%	3.3%
Riverside-San Bernardino Area	98,700	101,400	103,000	104,400	106,100	4.2%	2.7%	1.6%	1.4%	1.6%
Ambulatory health care services	47,900	48,700	48,800	48,500	48,600	3.2%	1.7%	0.2%	-0.6%	0.2%
Hospitals	30,500	32,000	33,300	34,700	36,100	6.3%	4.9%	4.1%	4.2%	4.0%
Nursing care facilities	20,300	20,700	20,900	21,200	21,400	3.6%	2.0%	1.0%	1.4%	0.9%
San Diego County	89,900	94,400	94,700	95,200	96,100	3.7%	5.0%	0.3%	0.5%	0.9%
Ambulatory health care services	46,300	48,100	47,700	47,400	47,500	3.3%	3.9%	-0.8%	-0.6%	0.2%
Hospitals	24,600	25,500	25,900	26,300	26,800	2.5%	3.7%	1.6%	1.5%	1.9%
Nursing care facilities	19,000	20,800	21,100	21,500	21,800	6.1%	9.5%	1.4%	1.9%	1.4%

Sources: California Employment Development Department, forecasts by LAEDC

Motion Picture/TV Production

This industry has had a wild ride over the past few years, but the portents for 2010 are more favorable. There should be no labor issues, California has its film incentive program up and running, domestic and international box office receipts were at record levels in 2009 (domestic receipts were up +9.2% to $10.7 billion, while international jumped by +10.3% to $16.0 billion). The fortunes of the broadcast TV networks improved in the second half of 2009, and they celebrated in early 2010 by going on a pilot buying binge.



However, the list of challenges facing this key industry keeps getting longer, and now includes:

1.) Rapidly changing technology, which includes production, distribution and marketing.

2.) Piracy, which just won't go away.

3.) The on-going slide in DVD sales.

4.) Run-away production, which is still a threat despite the introduction of the state's incentive program.

5.) A change in the industry's business model, which includes a sharp focus on costs.

6.) Financing: This ebbs and flows, and right now seems to be flowing again.

7.) Dealing with a multitude of unions (guilds).

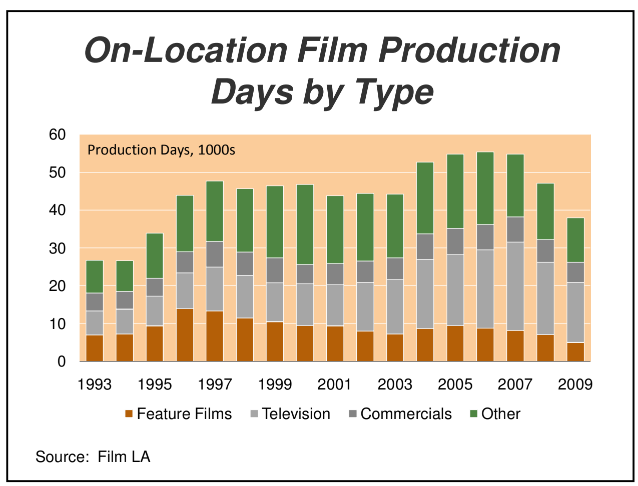
Industry Score Card

Motion Picture Production

B-	**B**
7/2009	2/2010

After a rough patch in which the Writer's Guild went on strike, and the Screen Actor's Guild had no signed contract for several months, things seem to have cooled down. More moderate leadership is now in place at the WGA and SAG, but all the major contracts expire in mid-2011.

Data on location production activity (off studio lot) from FilmL.A. is always useful in tracking industry activity. In 2009, total location production days declined by -19.4% from the previous year. By major category, the biggest slippage was in feature films, down by -29.9% due to run-away production. TV production days fell by -16.6% from 2008 to 2009, while commercials declined by -12.0%. FilmL.A. noted a positive impact on feature production toward year end from the state's incentive program, as well as a bump in commercial production.



Domestic box office receipts hit a new record level of $10.7 billion in 2009, and another gain looks likely in 2010 based on release schedules. Better yet, the international box office was robust in 2009, and continued strong growth is likely.

<u>Results:</u> After a -9,000 job decline in 2009, employment in the industry should post modest gains in 2010 of 3,000 to 4,000 jobs.

TECHNOLOGY

2009 was a difficult year for this industry with spending for tech products down sharply, but 2010 looks a little more hopeful. Global chip sales are forecast to increase in 2010, as the glut of chips is winding down. There are signs of more life in consumer spending on flat screen TVs, Blu-ray DVD players, and notebooks. More consumer communications devices will be introduced in 2010, with 3-D a potential lure. Apple's iPad could also provide a boost. Business spending for software should move up in 2010, with some impetus provided by Windows 7. Demand for specialized printed circuit boards is looking better.

Venture capital firms will continue to be cautious in early stage funding, and will continue to look for good business plans. A lot of web sites are struggling to make money, despite the perceived glamour of the activity.

<u>Results:</u> Employment in this high-wage activity will continue to decline in 2010 in Los Angeles, Orange and San Diego counties, with the latter recording the smallest decline (-600 jobs).

<u>Industry Score Card</u>

Technology

C+	C+
7/2009	2/2010

Table 29

Technology Employment

	2007	2008	2009	2010f	2011f	%chg. 07/'06	%chg. 08/'07	%chg. 09/'08	%chg. 10/'09	%chg. 11/'10
<u>Los Angeles County</u>	153,700	154,300	148,700	144,800	143,600	-0.3%	0.4%	-3.6%	-2.6%	-0.8%
Computer & electronic products mfg.	56,000	54,100	51,400	48,900	47,400	-5.7%	-3.4%	-5.0%	-4.9%	-3.1%
Software publishers	6,800	5,400	5,300	5,500	5,700	15.3%	-20.6%	-1.9%	3.8%	3.6%
Internet & data processing services	5,700	6,700	6,200	5,800	5,600	1.8%	17.5%	-7.5%	-6.5%	-3.4%
Computer systems design & services	27,300	28,800	28,100	27,700	27,600	3.8%	5.5%	-2.4%	-1.4%	-0.4%
Mgmt., scientific, & technical consulting	40,800	41,700	40,600	40,100	40,200	4.6%	2.2%	-2.6%	-1.2%	0.2%
Scientific R&D services	17,100	17,600	17,100	16,800	17,100	-4.5%	2.9%	-2.8%	-1.8%	1.8%
<u>Orange County</u>	77,300	76,400	73,200	71,900	71,100	-1.2%	-1.2%	-4.2%	-1.8%	-1.1%
Computer & electronic products mfg.	39,800	37,200	34,300	32,800	31,700	-5.5%	-6.5%	-7.8%	-4.4%	-3.4%
Computer systems design & services	17,700	18,300	18,200	18,300	18,500	4.7%	3.4%	-0.5%	0.5%	1.1%
Mgmt., scientific, & technical consulting	19,800	20,900	20,700	20,800	20,900	3.1%	5.6%	-1.0%	0.5%	0.5%
<u>San Diego County</u>	54,700	55,300	54,900	54,300	54,200	0.2%	1.1%	-0.7%	-1.1%	-0.2%
Computer & electronic products mfg.	26,300	26,200	25,100	24,000	23,300	-1.5%	-0.4%	-4.2%	-4.4%	-2.9%
Software publishers	4,100	4,100	4,200	4,300	4,400	5.1%	0.0%	2.4%	2.4%	2.3%
Scientific R&D services	24,300	25,000	25,600	26,000	26,500	1.3%	2.9%	2.4%	1.6%	1.9%

Sources: California Employment Development Department, forecasts by LAEDC

TRAVEL & TOURISM

This sector got started with a bang in 2010. Pasadena hosted a Rose Bowl with no local team playing, and a few days later the Bowl Championship Series (BCS). Both events brought a lot of visitors to the region. In February, the "convention center" hotel opened at LA Live in Downtown Los Angeles, and LA Inc. (the convention & visitors bureau) has been very successful in selling more business shows into the city. In July 2010, Anaheim will host the Baseball All Star game.

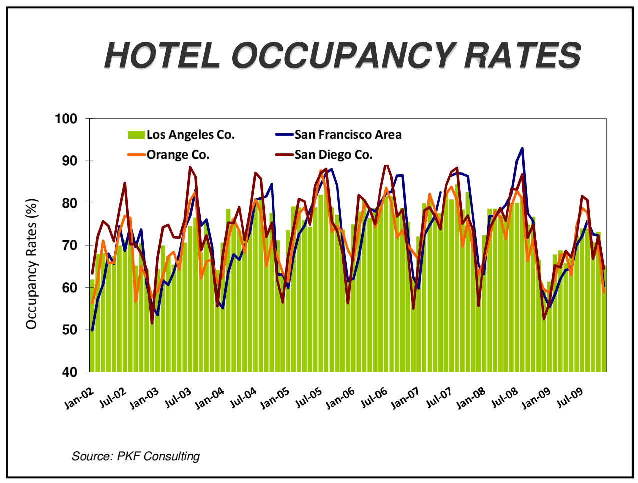
In the meantime, Orange County has 43 major conventions on its books in 2010, on par with 2009. Attendance at these events, however, has been down. In addition, the renovation of California Adventure at the Disneyland Resort continues, while Disneyland will bring back the Michael Jackson "Captain EO" attraction. Universal Studios Hollywood has re-opened the King Kong attraction (the original was destroyed in a fire). And Six Flags Magic Mountain will add its 17th coaster (count them!). Out in the Inland Empire, several new hotels have opened, despite the slow pace of business.

But 2010-2011 will be no walk in the park for Southern California's travel & tourism industry. Travelers have gotten very savvy, and are not hesitant to demand a better bargain. Industry experts fear that after cutting room rates aggressively, it will be hard for hotels to push them back up. Also, businesses have been doing more one-day meetings, versus multi-day events.

Upscale hotels have been hit quite hard, as ostentation in business travel is out. Some hotels have actually been shut down due to the slow pace of business. Worse, Las Vegas has been "poaching" business shows from both Los Angeles and Anaheim. Hotels there are offering low rates and will pay cancellation fees.

A number of hotels around the region are in foreclosure, and more will fall in 2010. However, no major bargain sales of properties have yet been announced. In Anaheim, the tourist-oriented Shops at the GardenWalk development fell into foreclosure (besides retail, it was supposed to have two hotels).

While attention has been focused on the convention center hotel in Downtown Los Angeles, a new "W" hotel and condos has opened in Hollywood, which will bring welcomed capacity to this popular destination. Back in Downtown Los Angeles, a Holiday Inn directly east of LA Live is being renovated and rebranded into a more upscale property. And the fabled Bel Air Hotel has closed for a two-year renovation and expansion (the swans will return).



The weak U.S. dollar should help the region's tourism business in 2010. Also, "tourism marketing districts are being formed in major area destinations. One is up and running in San Diego. The latter area is also talking about expanding its convention center, but financing is a major hurdle. The industry is waiting to see if more stringent safety procedures put a damper on international air travel to the U.S. Another concern is the March 20th requirement that travelers from Japan, Germany, the U.K. and 32 other countries need to register with the Department of Homeland Security before traveling to the U.S.

Results as measured by hotel occupancies will hold fairly steady from 2009 into 2010. In Los Angeles County, the 2009 occupancy rate was about 70%. Orange County's hotel occupancy rate was about 69%, while San Diego County recorded a 70% occupancy rate. However, average daily room rates are expected to slip a little lower in 2010, not good news for cities transit occupancy tax flows.

The number of overnight visitors to Los Angeles County should grow by +0.8% to 25.1 million people. This will be a welcome development after declines in both 2008 and 2009. Orange County will see a similar trend, with a 2001 increase of +1.0% to 41.9 million overnight visitors. San Diego County will record a somewhat better gain of +1.5% in 2010 to a total of 13.5 million overnight visitors. This too will be a nice change after four consecutive annual declines in visitor counts.

Results: Overall employment in this industry will continue to decline in 2010, as cost pressures will continue.

Table 30

Tourism-centric Industries Employment

	2007	2008	2009	2010f	2011f	%chg. 07/'06	%chg. 08/'09	%chg. 09/'10	%chg. 10/'09	%chg. 11/'10
Los Angeles County	56,400	57,500	52,300	49,900	49,400	0	2.0%	-9.0%	-4.6%	-1.0%
Amusement parks & arcades	4,300	4,600	4,200	4,100	4,200	13.5%	7.0%	-8.7%	-2.4%	2.4%
Accommodation	40,200	41,000	36,900	34,900	34,400	2.8%	2.0%	-10.0%	-5.4%	-1.4%
Travel arrangement & reservations	11,900	11,900	11,200	10,900	10,800	3.5%	0.0%	-5.9%	-2.7%	-0.9%
Orange County										
Accommodation	23,200	23,600	23,000	22,500	22,300	3.6%	1.7%	-2.5%	-2.2%	-0.9%
Riverside-San Bernardino Area										
Accommodation	17,500	16,500	14,600	13,400	12,700	-1.7%	-5.7%	-11.5%	-8.2%	-5.2%
San Diego County										
Accommodation	30,500	31,300	29,100	27,400	26,300	0.0%	2.6%	-7.0%	-5.8%	-4.0%
Ventura County										
Accommodation	2,900	2,900	2,400	2,000	1,900	7.4%	0.0%	-17.2%	-16.7%	-5.0%

Sources: California Employment Development Department, forecasts by LAEDC

XI. OUTLOOK FOR CONSTRUCTION & RETAILING

Residential Real Estate

New Homebuilding

In the first half of 2009, the story of Southern California's housing market was one of continuing deterioration as the fallout from the 2007 sub-prime crisis gave way to the 2008-2009 financial crisis and the worst recession since the Great Depression. After months of unmitigated bad news, a breath of change was in the air as 2009 drew to a close: home sales had increased for 18 consecutive months, the ratio of foreclosures to total home sales had fallen, builders' unsold inventories were down substantially, and median prices have begun to edge up.

Nonetheless, keep in mind that hitting bottom is not the same as climbing back out. Substantial obstacles to full recovery continue to hinder the region's troubled housing market.

Although the ratio of foreclosures in the home sales mix has been falling, another round of interest rate resets on adjustable rate mortgages (ARMs) will occur in 2010-2011 which might set off a third wave of foreclosures. This would have a dampening effect on new residential construction as builders would again be competing with low priced distressed home sales.

Persistent high rates of unemployment in the five-county region also will continue to be a drag on new residential construction and sales of higher priced homes. After reaching record levels, the jobless rate is expected to see only modest improvement over the course of 2010. Just as the effects of the foreclosure crisis and high unemployment were uneven across Southern California, we can expect to see uneven improvement within the construction sector and across the region.

Industry Score Card

Residential Construction

D-	***D***
7/2009	2/2010

Nonresidential Construction

D-	***D-***
7/2009	2/2010

Table 31

Total Housing Permits

	L.A.	Orange	Riv-SB	Ventura	LA-5
1990	25,045	11,979	28,840	2,612	68,476
1991	16,195	6,569	16,191	2,194	41,149
1992	11,907	5,943	15,444	1,720	35,014
1993	**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	20,363	7,072	20,457	1,847	49,739
2008	13,704	3,159	9,101	842	26,806
2009	5,610	2,177	6,681	341	14,809
2010f	6,305	2,725	8,700	375	18,105
2011f	9,845	4,570	15,400	560	30,375

Sources: Construction Industry Research Board, forecasts by LAEDC

Total homebuilding permits in the Los Angles five-county region have been declining ever since 2004 (91,556 total units). In 2009, residential construction sank to a record low. A total of only 14,809 new residential construction permits were issued in the region, a decline of -45% compared with 2008 and down by a distressing -84% from 2004.

Los Angeles County and the Inland Empire accounted for most of the permits issued in 2009, about 83% combined. The difference between the two counties was that most of the permits issued in Los Angeles County (63%) were for multi-family units (there is less open land available for detached housing development in Los Angeles County except in the Antelope and Santa Clarita valleys). The Inland Empire market is just the opposite, as most of the new homes permits were for single-family units (72%).

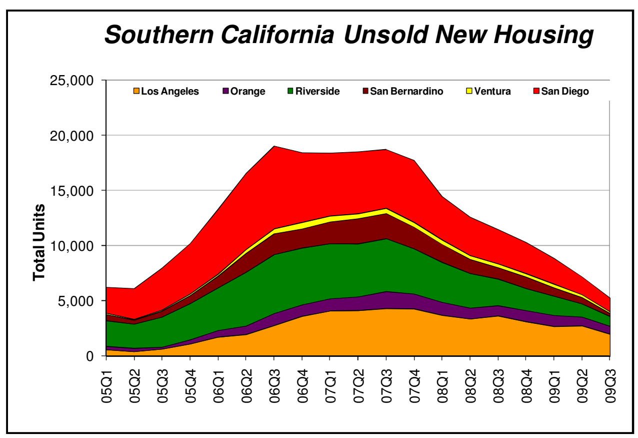
In Los Angeles County, total residential construction dropped to 5,610 units in 2009, a decline of -59% from the prior year and down by -79% from 2004. Total residential construction in the Inland Empire was down by -27% from 2008 to 6,681 units and by a staggering -87% from 2004.

In Orange County a total of 2,177 residential permits were issued in 2009, a decline of -31% compared with the 2008 level and down by -82% since 2000 (homebuilding peaked earlier in Orange County). Land availability is relatively limited in Orange County and in the years leading up to the recession, residential building tilted heavily to multi-family structures (70% in 2007). This trend started in 2004 and ended when a number of high rise structures built in formerly industrial areas proved unpopular with home buyers (a clear example of if you build it, they won't necessarily come). Prior to that, Orange County was considered a stronghold of single-family development.

During 2009, new construction in Orange County tilted firmly back to single-family homes. Multi-family permits plunged by -55% to 842 units (39% of total housing permits) compared with an increase in single family permits of +3.1% to 1,335 units. This increase made Orange County one of the best performing metropolitan areas in California in terms of single-family homebuilding in the state.

Compared with the rest of the region, less construction occurs in Ventura County. The permitting process is lengthy and there are constraints on land available for residential development. A total of 341 residential permits were issued during 2009, a decline of -60% from the previous year and down by -92% from its peak in 2005. Of the housing permits issued last year, 61% were for single-family residences.

On the upside, builders' levels of unsold new housing have fallen significantly over the past year in all five counties. By the third quarter of 2009, inventories fell by -45.4% over the year in Los Angeles County, -22.6% in Orange County, -63.4% in Riverside County, -75.3% in San Bernardino County and by -55.8% in Ventura County. Even more telling is to compare recent unsold new home inventories with their peak levels: Los Angeles -53.7% (3q07), Orange County -53.5% (3q07), Riverside County -83.4% (3q06), San Bernardino County -89.2% (3q07) and Ventura County -73.1% (4q06).



Resale Housing

Unsold inventories of resale homes also have fallen dramatically over the year. According to the California Association of Realtors, the unsold inventory in California represented a 3.8 month supply at the December 2009 sales rate, compared with a year earlier. Existing home sales in California increased by +1.7% in December over the year and the median price rose by +8.4% over the same period. This was the second consecutive year-over-year price increase (November prices rose by +4.7% for the first time since August 2007).

Increasing sales of higher-end homes are providing lift for the upward push in median prices. By the end of 2009, the percentage of higher priced homes sold (above $500,000) increased to 20.2% of all transactions, up from 16.5% a year earlier, and the highest since the 23.6% share in August 2008. Mid to high-end communities like Beverly Hills, Santa Monica and Newport Beach realized year-over-year sales gains while more affordable inland areas such as Moreno Valley and Lake Elsinore recorded year-over declines in December as the supply of foreclosed inventory began to taper off late in the year. The increase in the number of higher priced homes reflects a more normal distribution of sales across all price categories and is an encouraging sign that the housing market may be starting to regain a semblance of balance.

Foreclosures are still a major force in the market, however. While currently well below peak levels, foreclosures accounted for 39.6% of re-sales in December, compared with February's high of 56.7%. Foreclosure activity, along with the lack of financing for higher priced homes is responsible for concentrating sales at the low end of the market. A recovery in the market for jumbo loans (mortgages over $417,000) is necessary to increase sales in pricier areas. These larger loans accounted for 16.7% of home purchases in December. Before the credit crunch, jumbo loans had financed 40% of all home purchases in the region.

The resale housing market in Southern California has radically shifted in favor of buyers (assuming they are able to qualify for a loan under the more stringent lending standards now imposed by wary financial institutions). A comparison of median existing single-family home prices for 2009 with 2008 by the California Association of Realtors revealed that the Los Angeles County median home price was $333,920, down by -17.0% year-over-year. Orange County's median home price was $477,240, down by -10.5% from a year earlier. Ventura County had a median home price of $416,770 in 2009, a drop of -10.1% from a year ago. The Riverside-San Bernardino market had the toughest year, with a median home price of $169,680 in 2009, down by -27.6% 2008. By the close of 2009, median home prices appeared to have leveled off through much of the five-county region, and may even be on the upswing.

Table 32

Median Existing Single-Family Home Prices

	LA	Orange	Riv-SB	Ventura
1996	$172,886	$213,370	$115,240	$205,720
1997	176,517	229,840	114,340	219,300
1998	191,700	261,700	121,500	233,770
1999	198,980	280,900	128,670	254,950
2000	215,900	316,240	138,560	295,080
2001	241,370	355,620	156,690	322,560
2002	290,030	412,650	176,460	372,400
2003	355,340	487,020	220,940	462,520
2004	446,380	627,270	296,350	599,280
2005	529,010	691,940	365,395	668,140
2006	584,820	709,000	400,660	685,960
2007	589,150	699,590	381,390	673,940
2008	402,110	533,200	234,220	463,560
2009	333,920	477,240	169,880	416,770

Annual % Change

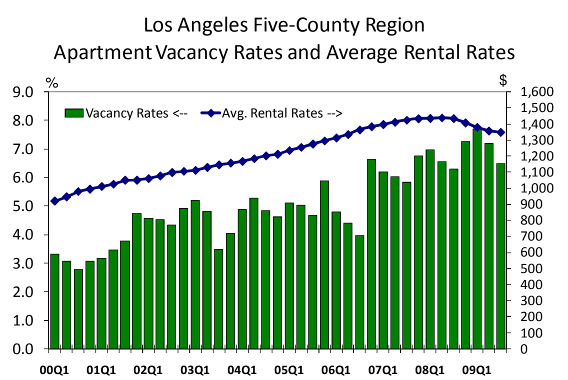
	LA	Orange	Riv-SB	Ventura
1997	2.1%	7.7%	-0.8%	6.6%
1998	8.6%	13.9%	6.3%	6.6%
1999	3.8%	7.3%	5.9%	9.1%
2000	8.5%	12.6%	7.7%	15.7%
2001	11.8%	12.5%	13.1%	9.3%
2002	20.2%	16.0%	12.6%	15.5%
2003	22.5%	18.0%	25.2%	24.2%
2004	25.6%	28.8%	34.1%	29.6%
2005	18.5%	10.3%	23.3%	11.5%
2006	10.5%	2.5%	9.7%	2.7%
2007	0.7%	-1.3%	-4.8%	-1.8%
2008	-31.7%	-23.8%	-38.6%	-31.2%
2008	-17.0%	-10.5%	-27.5%	-10.1%

Source: California Association of Realtors

While these are encouraging signs, serious risks remain and recovery stands on shaky ground. More foreclosures may hit the region's distressed (inland) markets in 2010 while leaving other areas relatively unscathed. In September 2009, of the top 50 regions in the nation for negative equity (closely tied to increases in pre-foreclosure activity) by share of mortgages, four Southern California regions were in the top half: Orange County (#23) with a 20.9% share of its mortgages posting negative net equity, the Los Angeles-Long Beach area (#16) with 27.0%, San Diego County (#14) with 32.9%, and Riverside-San Bernardino (#2) with 54.4%[1]

Apartments

The apartment market continued to deteriorate through 2009. Apartment rents in the Los Angeles five-county region fell steadily over the year through 3q09 (latest available), posting a decline of -6.0% compared with the same period in 2008. Rents in Los Angeles and Orange counties decreased by -6.1% and -5.0% respectively. Over the year, rents also fell for Riverside County (-5.8%), San Bernardino County (-5.3%) and Ventura County (-7.4%).



Note: For apartments with more than 100 units
Source: Real Facts/California Real Estate Research Council

At the end of the third of 2009, the average apartment vacancy rate in Los Angeles County was 5.6%, a little stronger than the 5.5% rate a year ago. Apartment vacancy rates in Orange County averaged 6.6% (up from 5.3%). Riverside County experienced a slight decline in vacancy rates over the year, falling from 7.9% to 7.4%. In San Bernardino, the rate rose to 7.2% (from 6.4%) and in Ventura it fell to 5.6% (from 6.4%).

While fundamentals for apartment rentals remain relatively healthy compared to the detached for-sale housing market, that is not saying a great deal. The depressed labor market is exerting downward pressure on both rents and vacancy rates. With the foreclosure crisis continuing to unravel, one might expect to see an increasing number of former homeowners moving back into apartments. This has not happened as much as expected, however. In some cases, lenders, unable to sell their newly foreclosed units, are renting them instead, sometimes to the former owners. Demand for apartment units has also been affected by the increasing affordability of detached housing as rents and median prices aligned more closely with incomes.

Housing Forecast

In 2009, home affordability (the ratio of income to home prices) fell back in line with historic averages seen prior to the run up and collapse of the housing bubble in 2007. Sales of existing homes have been brisk as buyers benefited from an advantageous confluence of favorable prices, historically low mortgage rates and various buyer tax credits. The sales gains realized over the past year are diminishing however, as the supply of bargain-priced homes at the low to mid-end of the market is snapped up.

In California, the median home price hovered around the $250,000 for the first half of the year, but closed out 2009 just under $275,000. This could be an indication home prices are stabilizing. However, until sales in the region return to a more normal distribution across all price ranges, we may see further declines in some areas even as prices in others begin to edge up. Foreclosures continue to be a major driver of sales in Southern California's distressed areas and until that process plays out, the market outlook will remain uncertain.

[1] The MarketPulse, First American CoreLogic (September 2009)

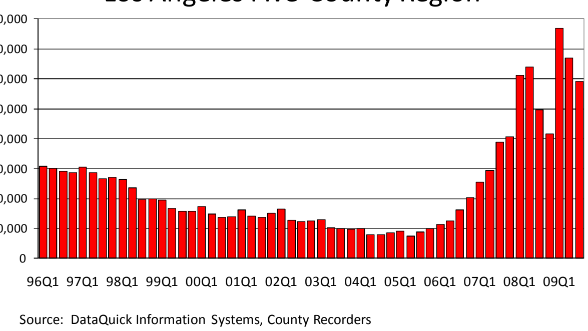
The LAEDC forecasts that a total of 18,105 new housing units will be permitted in the five-county region, an increase of +22% from 2009 but still down by -80% from the 2004 level of 91,556 units. As the number of unemployed workers begins to stabilize and then decline, foreclosure rates should drop off and allow home prices to appreciate (although that will depend on what happens when the next round of ARMs resets). An additional risk to recovery lurks in the "shadow" market. The shadow inventory includes homes in foreclosure that have not been put up for sale in the open market by banks or other lenders. This market is difficult to quantify, and is also affected by state and federal programs designed to reduce the number/rate of foreclosures. To the extent that lenders dole out properties slowly to obtain the best possible price, it could prolong recovery of the housing market.

Although credit conditions remain tight, mortgage interest rates are extremely low and existing home inventories are falling as bargain hunters snap up distressed properties. Federal government home buyer tax incentives have also helped, but it is still too early to tell if this support has actually helped to turn the tide or only created an illusion of stability. It is telling to note that sales and new construction faltered when the initial first-time buyer credit was set to expire last November. The current program is set to expire in April. This is a key source of uncertainty in the forecast for 2010.

In any event, recovery will require a renewed willingness on the part of mortgage lenders to make loans to qualified buyers, especially at the high end of the market, and on substantial improvement in the jobs outlook. There are just too many distressed households to permit a strong housing recovery to take hold.

Housing activity will continue at low levels until these factors come together. There were encouraging signs over the summer and fall of 2009 that the residential real estate market hit bottom and was beginning the long climb back towards the light. However, any nascent revival in 2010 could well be an uneven scramble, coming in fits and starts as home prices, sales and construction seek to settle on a new equilibrium.

Notices of Default in the Los Angeles Five-County Region



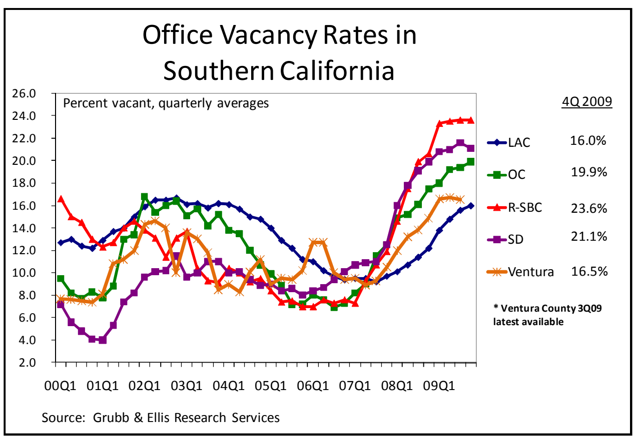
Sources: Real Estate Research Council of Southern California, County Recorders

onresidential Real Estate

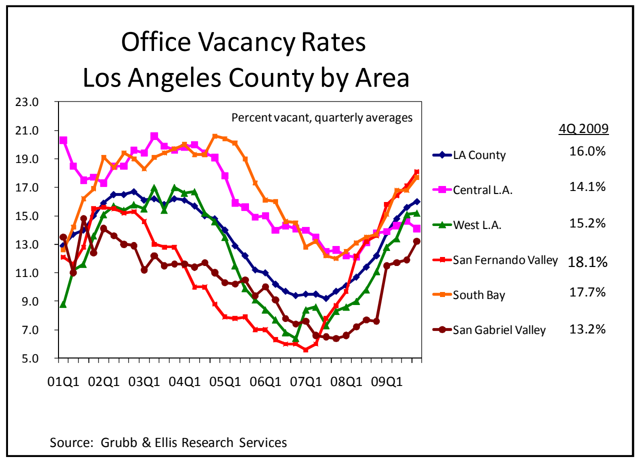
Office Space

Southern California's job growth came to a grinding halt in 2008 and shifted into reverse in 2009. As 2009 came and went, the monthly litany of falling employment numbers became the touchstone by which the severity of the recession was measured. Office vacancy rates throughout the region increased as companies closed or downsized. Areas within the region have fared better or worse depending on their exposure to problem industries and the volume of new construction, but none remained unaffected.

Los Angeles County's average office vacancy rate increased to 16.0% during the fourth quarter of 2009 (compared with 12.2% a year ago) and was the highest the county has experienced in nearly five years. The Downtown and San Gabriel Valley submarkets had the lowest office vacancy rates at the end of the fourth quarter, 14.1% and 13.2% respectively. Still, that did not keep the San Gabriel Valley from posting the largest year-over increase in vacancies (rising by 5.6 percentage points since 4q08).



The highest office vacancy rate occurred in the San Fernando Valley - up by 4.5 percentage points from a year ago to 18.1% at the end of the fourth quarter 2009. The South Bay also fared poorly during the fourth quarter, jumping to a 17.7% rate by the end of the year compared with 13.7% during the same period in 2008. Across the county, effects of the subprime fiasco and financial crisis linger, as tenant losses were heavily weighted toward the financial services industry. AIG, Countrywide Financial, Indymac and Washington Mutual dumped millions of square feet of office space onto the market. Media and advertising companies also fared badly during the recession and gave up a significant amount of space. At the end of 2009, Los Angeles County had -4.9 million square feet of net absorption (the net change in physically occupied space) and over 1.1 million square feet of new space under construction, mainly on the Westside.



On average, the County's soft market for office space pushed Class A asking rents down to $3.02 per square foot (a decline of -11.4% y/y) in the fourth quarter. While the drop was fairly modest, the rate of decline has accelerated. That's worrisome, especially since industry analysts expect additional 5% - 7% decline as the year progresses.

Increasing vacancy rates have not uniformly affected the rents among Los Angeles County's various communities. Westside class A asking rates dropped to $3.71/sf in the fourth quarter, declining by -14.9% y/y, while downtown rates fell to $3.21/sf from $3.30/sf (-2.7% over the year). The Westside tenant base, with its heavy concentration of financial services firms, was among the hardest hit in the county by the recession, while the downtown area and its more diversified base was less affected.

San Gabriel Valley asking rates declined by -8.1% y/y to $2.48/sf in the fourth quarter. The San Fernando Valley also ended the quarter at $2.48/sf (down by -9.8%). South Bay rents were pulled down by rising vacancy rates during 2009, declining by -9.8% (y/y) to $2.21/sf. Tenants originally drawn by the South Bay's relatively cheaper rates migrated to the Westside as asking rents in that area became more attractive.

In Orange County, the average office vacancy rate edged up for the ninth consecutive quarter, increasing to 19.9% in the fourth quarter of 2009 from 17.5% a year earlier. Although Orange County has fared better than several of its neighbors in terms of job losses, the unemployment rate is still high and unlikely to improve appreciably in 2010. Losses are mounting at banks (and loom larger with a substantial number of commercial real estate loans coming due this year) and credit remains tight, a problem for the county's mortgage industry.

New office construction in Orange County came to a complete standstill over the course of 2009, but with almost two million square feet of negative net absorption last year, supply greatly exceeded demand and is exerted downward pressure on rental rates. Current leasing activity is comprised mainly of renewals, many of which are short term (one to two years) as tenants and landlords grapple with uncertainty about the economy. Additionally, there is a large supply of "shadow space." This is space that is technically leased but actually empty and will return to the market when the lease term expires. On average, Class A rents have fallen by –15.0% over the year to $2.43/sf. On the plus side, although leasing rates are expected to decline further in 2010, downward momentum has slowed considerably, an indication the bottom may be near.

The Inland Empire's average office vacancy rate rose to 23.6% (the highest in Southern California) at the end of the fourth quarter compared with 20.6% one year earlier. The increase in vacancy rates was due primarily to job losses in industries related to finance, real estate and professional/business services. Market saturation from speculative construction projects in progress prior to the real estate bust was also a contributing factor. With an abundance of available space, office tenants are in a position to demand concessions from landlords in the form of free rents, lower rents, and higher tenant improvement allowances.

Rental rates edged up by +0.7% (to $25.80/sf in the fourth quarter of 2009 compared to $25.61/sf during the same period in 2008), as new construction commanded higher rates than older product. Over the year, total net absorption was -8,791 square feet and new construction was just 128,374 square feet.

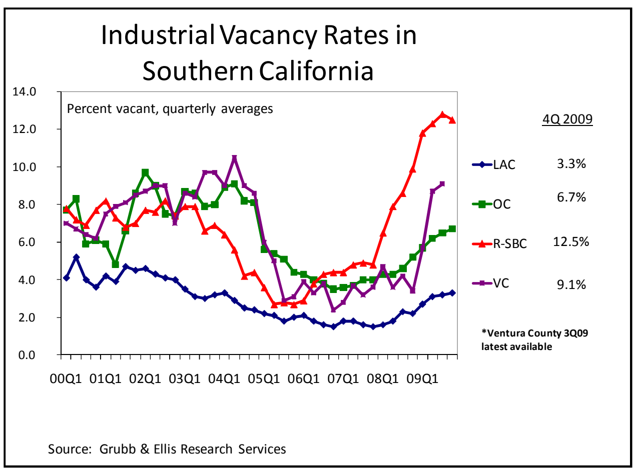
Soaring unemployment from businesses scaling back or closing has resulted in a shift of emphasis from new development to filling existing office space. Even so, leasing activity is expected to remain rather flat and rents soft through the remainder of 2010, perhaps bottoming out at midyear. Recovery in the office market will depend on a sustained upswing in the economy to convince firms to start hiring again. Until then, it will remain a tenant's market - high rates of space availability will encourage renters to move to heretofore unattainable premium properties or to demand greater concessions from landlords in the form of higher improvement allowances, free rents and reduced parking fees.

During 2009, office building permits valued at $233 million were issued in the five-county region. Over the year, the value of industrial permits plummeted by -68% compared with 2008. Los Angeles County accounted for 80% by valuation of office building permits issued in the five-county area in 2009, compared with 60% in

2008. The Inland Empire accounted for a 15% share last year, down from 20% during 2008. Ventura held a 3% share, while Orange County recorded a 2% share.

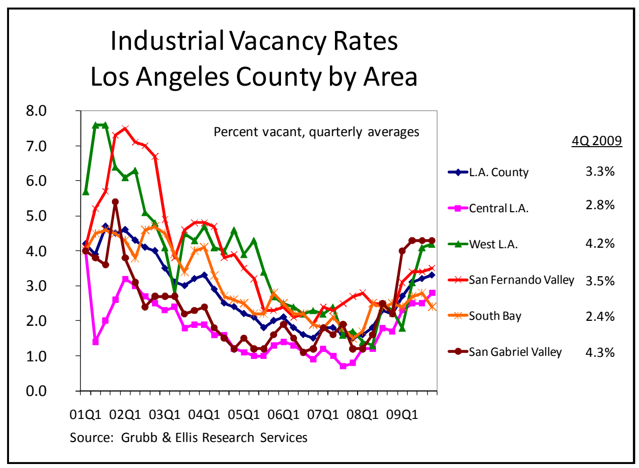
Industrial Space

Southern California is a major center for manufacturing, international trade and logistics and, of course, entertainment (sound stages are industrial space). Los Angeles County remains the nation's largest manufacturing center and is home to its biggest port complex. Prior to the recession, brisk flows of international trade goods ensured the region's warehouses were filled to bursting. Since the economic downturn, however, declining global demand for U.S exports and a steep drop in domestic demand for imported goods led to a sharp slowdown in port activity. The area's manufacturing and logistics industries, both of which are major users of industrial space, suffered as a result. However, as recovery began to take hold in other countries, local trade activity, particularly exports, started to show signs of life in late 2009.



All things considered, the market for industrial property in Los Angeles has shown remarkable resiliency. In spite of an increase in vacancy rates to 3.3% during the fourth quarter of 2009 from 2.2% at the end of 2008 and up from 1.6% a year earlier, the industrial vacancy rate in Los Angeles County is still the lowest in the nation.

Although declining trade volumes at the port and weak consumer demand through almost all of 2009 inflicted a measure of discomfort on the Los Angeles County industrial real estate market, the county was able to meet the challenge from a position of relative strength. Due to a shortage of land available for development, Los Angeles did not go through the cycle of overbuilding that occurred in neighboring counties. This lack of space has kept vacancy rates low but not so low that there has not been considerable downward pressure on asking rents. Prospective tenants have become much more aggressive in their lease negotiations, and leases are taking longer to close. Landlords have been forced to concentrate on maintaining occupancy as opposed to holding out for higher rents.



Industrial vacancies ended 2009 at relatively low levels, but the extent and depth of the recession took a toll. The industrial vacancy rate in Central Los Angeles was 2.8% at the end of the fourth quarter 2009. Long one of the tightest submarkets in the region, Central L.A. fell to second place (behind the South Bay). Persistently weak consumer spending could further trim garment and toy industry demand for warehouse space. Industrial markets elsewhere in the county also remained tight: Mid-cities (4.2%), San Fernando Valley (3.5%), and the San Gabriel Valley (4.3%). In the South Bay, the vacancy rate actually fell from 2.5% in 4q08 to stand at just 2.4% by the end of 2009. This was especially good news considering the high concentration of logistics-related firms in the area that were hurt by the slowdown at the ports.

The San Gabriel Valley suffered the biggest increase in industrial vacancy rates over the fourth quarter, rising to 4.3% from 2.2% a year ago, and surpassed the San Fernando Valley to post the highest vacancy rate in the region. At 3.5%, the San Fernando Valley is coping with highest industrial vacancy rate it has seen in nearly five years.

Orange County's industrial real estate market fared less well, ending the year with a 6.7% vacancy rate, up from 5.7% a year ago. Construction levels are at their lowest in years, as no new space was built in 2009. However, weak consumer demand and sluggish business investment reduced the demand for industrial space. With supply far in excess of demand, asking rates have declined accordingly. Businesses are taking a "wait and see" attitude about expanding or relocating to the area. Recovery in Orange County, as elsewhere, will depend on an improvement in the local economy (particularly in its technology and bio-medical sectors) and a revitalization of consumer demand.

As industrial space dwindled in Los Angeles and Orange counties in the first half of the decade, an increasing number of companies searching for abundant land, lower costs and proximity to the San Pedro Bay ports, migrated east to the Inland Empire. Up until 2007, the large influx of distribution businesses into the Inland Empire competed for space with rapidly spreading low-cost housing developments, creating a tight regional industrial real estate market. Conditions have deteriorated markedly since then, however, with the fourth quarter industrial vacancy rate in Riverside-San Bernardino standing at 12.5% compared with 9.9% a year ago (and a low of 2.7% in 2005).

Vacancy rates shot up at warehouse and distribution centers for retail chains in 2009; casualties of the demise of several big retailers and plummeting imports of consumer goods, but the largest losses appear to be behind us as retail sales began to stabilize last year.

The Inland Empire also serves as a conduit for goods moving between the ports to the rest of the nation. The area is home to a substantial logistics industry. High growth rates in international trade and goods movement encouraged builders to engage in extensive speculative construction. Since 2008, 30.4 million square feet of speculative new construction has flooded the market. A simultaneous decrease in container traffic at the Ports of Long Beach and Los Angeles since 2006 severely hurt the logistics industry, contributing to a substantial rise in industrial vacancy rates. The deluge of new space finally began to ebb in 2009 with just 1.3 million feet coming on line.

The industrial property sector resisted recessionary pressures longer than office or retail and appears to be coming back faster. In the Inland Empire, several established businesses reacted quickly to the downturn. Seeking cost savings, there was a push to relocate along the I-215 corridor. This has caused localized variation in vacancy rates and asking rents, but allowed the industrial real estate sector to start 2010 on firmer ground.

Tenant and landlord rental rate expectations are in better alignment and transaction volume has picked up. There were 55 transactions for space in excess of 100,000 square feet last year, 34 of which occurred in the second half of 2009. Asking rent for warehouse space was $0.32/sf, down by -22% from 2008. Additionally, sales prices have dropped to 2004 levels, enticing firms from other areas to purchase first-generation buildings instead of renting space in older facilities.

During 2009, industrial building permits valued at just $102 million were issued in the five-county region. Over the year, the value of industrial permits tumbled by -69% compared with 2008 (which was not exactly a banner year either). The Inland Empire accounted for 44% by valuation of industrial building permits issued in the five-county area in 2009, compared with 50% in 2008. Los Angeles accounted for a 39% share last year, up from 17% during 2008. Ventura held a 17% share, while Orange County recorded no industrial permit activity for the entire year.

Forecast for Nonresidential Construction

Total private nonresidential construction in the five-county region declined to $4.5 billion in 2009 – just over half of the $8.1 billion recorded in 2008. Activity will fall again in 2010, with a forecast total permit value of only $3.9 billion for the region, a -13% drop. Contributing to expected declines in 2010 are soft but improving trade flows through the ports, stubbornly high unemployment rates and a lack of confidence on the part of consumers and firms exhausted by the recession. Demand for commercial property is sensitive to trends in the labor market, and the disappearance of businesses and employment over the last two years has slashed demand for office, industrial and retail space.

Businesses are reluctant to commit to new construction while the economic outlook remains uncertain. Real estate lenders and investors are just as leery. Thus, credit markets remain tight and it is not yet clear when they will begin to function normally again. Many projects have been delayed or cancelled outright. With vacancy rates rising and property prices falling across Southern California, and given the slow (and uncertain) rate of economic recovery, some developers likely will face difficulties rolling over their loans. Large regional and small community banks alike have built up large concentrations of commercial real estate (CRE) loans, and delinquencies are rising. An outgrowth of this trend is builders looking to private equity to finance new projects. If a large number of CRE loans go into default, the pressure on an already weakened financial system could be grave and will remain an acute risk through the coming year.

Private nonresidential building permit values in Los Angeles County declined by -70% in 2009 and will drop again in 2010 but at a slower rate (-9%). Orange County's total construction activity value dropped by about -34% in 2009 and will fall by a further -8.5% in 2010. The Riverside-San Bernardino area's total nonresidential building permit values plunged by -28% in 2009 and will decline again in 2010 by just under -7%. Ventura County's total nonresidential construction permit values contracted by -56.5% in 2009.

As the economy recovers, increased port activity will encourage more distribution and warehousing companies to look inland for sizeable properties at more affordable prices. Demand for commercial property is sensitive to the labor market, so until the employment outlook improves, a turn-around in the commercial real estate will remain elusive.

For the most part, office space development will be restrained in all five counties of the Southern California region. Many companies have ceased shedding employees but they are still in a wait and see stance regarding new hires due to the uncertain business outlook. With some new projects just coming on the market, office vacancy rates around the region will increase in 2010. Average rents will continue to soften with a greater demand for concessions, especially in Orange County and the Inland Empire. The few companies considering expansion will look at several different markets to obtain more competitive lease rates.

The outlook for industrial space development, especially in the tight markets of Los Angeles and Orange counties, while not bright, is at least somewhat less terrible. International trade continues to lead the region's economy and will eventually require more distribution and warehouse space as the nation and its major trading partners recover. When the construction industry rebound finally comes, the Inland Empire will again see most of the new industrial construction activity.

Table 33

Office Building Permits Issued

(In millions of dollars)

	LA	O	R	SB	V
1990	623	236	68	67	31
1991	386	118	50	34	33
1992	121	27	34	22	28
1993	144	51	41	17	6
1994	108	41	12	22	4
1995	88	29	10	32	9
1996	133	45	22	9	4
1997	161	129	22	12	6
1998	284	270	9	22	25
1999	393	289	24	16	13
2000	268	354	31	15	32
2001	547	174	43	20	30
2002	209	150	36	30	5
2003	182	118	85	61	40
2004	307	133	127	84	18
2005	233	313	148	85	23
2006	241	578	192	115	52
2007	716	282	224	118	55
2008	446	114	118	33	26
2009	187	5	27	8	6

Table 34

Retail Building Permits Issued

(In millions of dollars)

	LA	O	R	SB	V
1990	509	222	174	201	46
1991	351	110	172	147	16
1992	244	91	216	87	7
1993	249	73	87	71	52
1994	265	144	77	97	16
1995	209	101	113	149	57
1996	322	136	101	100	43
1997	272	210	203	109	31
1998	368	155	175	158	49
1999	408	217	170	181	101
2000	447	223	316	132	23
2001	434	207	191	178	48
2002	459	194	231	163	81
2003	356	78	231	225	55
2004	484	118	406	176	90
2005	552	133	345	232	69
2006	482	178	372	294	54
2007	493	319	388	351	50
2008	469	132	317	243	63
2009	222	65	56	34	15

Table 35

(In millions of dollars)

	LA	O	R	SB	V
1990	309	59	120	182	43
1991	141	39	38	117	35
1992	92	22	21	38	37
1993	55	18	13	59	23
1994	71	11	14	76	32
1995	74	34	32	69	20
1996	124	84	51	87	64
1997	109	123	98	189	56
1998	308	234	118	209	82
1999	361	123	112	331	58
2000	359	87	99	405	42
2001	202	90	75	331	76
2002	225	62	81	243	31
2003	276	68	113	245	47
2004	178	26	203	436	45
2005	277	27	120	322	23
2006	182	91	288	373	21
2007	109	52	185	351	29
2008	135	14	70	92	16
2009	40	0	12	33	17

Source: Construction Industry Resource Board

Retailing

Industry Score Card

Retailing-Value

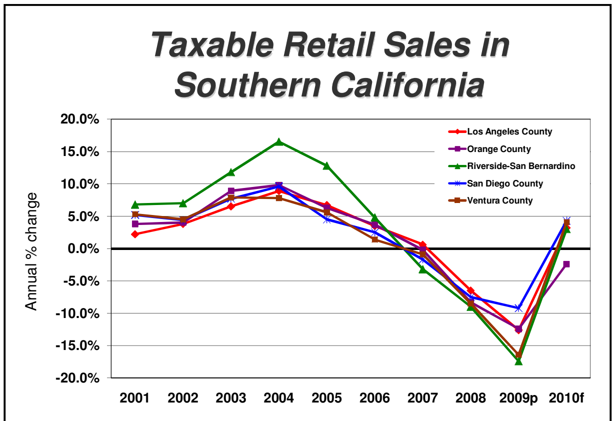
C	C
7/2009	2/2010

Other

C-	C-
7/2009	2/2010

Retailing had a bleak year in 2008 and the first half of 2009 was downright dismal. What makes this recession different from others in recent history is the collapse of credit availability. Consumers lacking access to home equity lines and other forms of credit have been reluctant to spend freely. Consumer credit has plunged, on average by -$8.5 billion per month over the past 12 months for a total drop of over $102 billion in 2009 (-4.2%).

Falling personal income and the deep slump in consumer confidence have also persuaded individuals to add more to personal savings rather than maintain their usual level of consumption. Personal savings as a percentage of disposable personal income jumped to 4.6% in the fourth quarter of 2009 (compared with 3.8% during the same period in 2008) - a high rate by recent historical standards. Retail sales have also been severely affected by record levels of unemployment. Many employees who managed to keep their jobs are working fewer hours. All this instability makes people feel insecure, so they save their money rather than spend it.



Source: California State Board of Equalization; forecast by LAEDC

Deep discounts offered by retailers and Federal stimulus programs have so far failed to entice American consumers to shop their way out of this recession, which is bad news for the industry.

Retail sales volumes began to slow in late 2007. The first wave in a series of store closings washed over the retail landscape in 2008. Conditions deteriorated through the year, reaching a nadir in December 2008 when total U.S. retail sales fell by -10.5% over the year. The industry limped along through April 2009, posting year-over declines from -8.6% to -10.1%. Finally, in late spring retail sales began to stabilize. By November total retail sales posted the first year-over gain in 14 months and in December, finished the year up by +5.4% compared with December 2008.

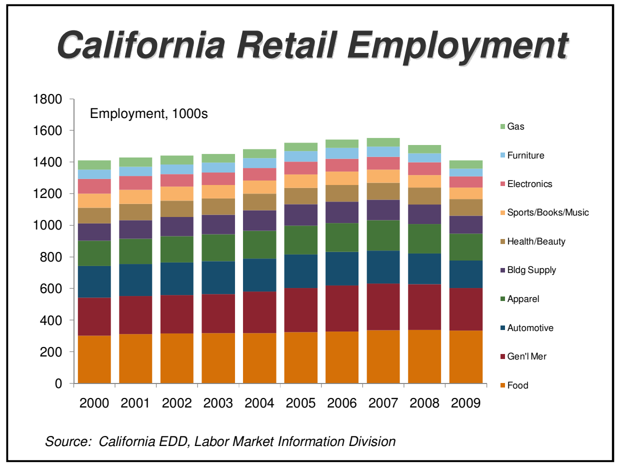
To say the business climate for most retailers remains difficult understates the magnitude of the challenges they are facing. The 2009 list of retailers who did not survive and those who were forced to close stores and scale back operations in the name of self preservation was substantial. Many retail organizations that are hanging on are facing huge levels of debt and plummeting share prices.

Additionally, retail real estate has recently been rocked by a string of foreclosures involving major shopping centers with problems ranging from unfinished properties stopped short by the credit crunch to distressed properties with high numbers of vacancies. Many of the loans used to finance the recent construction of retail space will be coming due in 2010 and 2011. Facing huge declines in property values and revenues, foreclosures may increase even as lenders and borrowers struggle to find ways to extend these loans.

As retailers downsize or close their doors altogether, retail space vacancy rates are skyrocketing. By January 2010, the number of retail centers in the U.S. in distress (i.e. vacancy rates 60% or higher) reached 10,400 up by +7.3% in just three months.[2] While there are no comprehensive retail vacancy surveys, strip retail development has been hammered as well. There is also the issue of what to do with empty big box locations (e.g. Circuit City, Mervyn's). Malls are left with large spaces vacated by former anchors that are not easy to fill, especially given the uncertainty clouding the recovery. On the other hand, these spaces provide an opportunity for chains that are doing relatively well to secure prime mall space at favorable terms. Retail chains like Kohl's and Forever 21 that appeal to bargain conscious shoppers are starting to take over some of that empty space.

A similar problem was raised by last year's closing of hundreds of General Motors and Chrysler dealerships across the nation. Reuse of these sites may be very difficult. In addition to the direct job losses resulting from retail closures, jobs may be lost among the firms that supply them and the media that rely heavily on their retail advertising revenues. City coffers also will feel the effect in reduced sales and property tax revenues.

There are some bright spots amidst the gloom, however. Newly cost-conscious consumers have created opportunities for discount retailers, which have not only weathered the downturn, but managed to grow. Sales at chains like Ross Stores and Dollar General Corp. have jumped. The latter announced in January that it leased 63,000 square feet at six locations in Southern California. Retailers that



survive the recession will benefit from increased market share as weaker competitors fall away.

Also encouraging, industry analysts believe there will be a substantial increase in imports by retailers in the first half of 2010. This would not only be a boon to the Ports of Los Angeles and Long Beach, but would indicate retailers are expecting to move more merchandize this year.

Sales Trends

Southern California retail sales have been in a steady decline until very recently. While no county has been spared, retail sales and more specifically, core retail sales (retail sales less gas stations, automobiles and home building supply) began to stabilize in mid 2009 and have recently started to edge back up.

Jobs will begin to return in 2010, as the credit markets stabilize and businesses regain confidence. As unemployment begins to abate and consumer confidence gains traction, the retail sector will also start to improve.

The LAEDC is forecasting moderate increases in taxable retail sales that will range from -2.4% in Orange County to +4.3% in San Diego County. Ventura County is expected to see an increase of +4.1% in retail sales while sales in Los Angeles County and the Inland Empire are expected to rise by +3.2% and +3.0% respectively.

[2] CoStar Group (January 6, 2010)

XII. WRAPPING IT UP

The "Great Recession" is over. The question now is how great will the recovery be? Some still fret about the possibility of a double-dip scenario. We are not among them, but the risk is greater than zero.

This downturn has battered residents, business and government across California and Southern California, and all are wondering how far they might venture out of their foxholes. Several factors cloud the outlook:

- For business it is still difficult to get a bank loan (the credit crunch), and many wonder what cost impacts federal health care reform might have.
- Residents wonder if they will lose their job, and are also having a hard time qualifying for loans.
- Governments are experiencing the lagged impact of the great recession, with lackluster retail sales (sales tax revenue), and declining property assessments for both residential and commercial property.
- Business recruiters from other states and areas are busy wooing California business, whispering sweet nothings (no fees, no regulations, business-friendly).

Worse, California's government seems unable to craft a viable budget. 2010 will bring an election for governor, and the November ballot will no doubt have many contentious initiatives on it. Good news for the advertising industry but perhaps bad news for rational governance. Leaders in Washington DC now understand that their focus should be on generating jobs, and some cities and counties now get it.

Los Angeles County now has its first ever economic development strategy[3]. However, the state and other local governments are still wandering in the wilderness.

As long time observers of the California and Southern California economies, we acknowledge today's distress, but still see the glass as half-full. The state and region have powerful resources that have never been fully utilized. In particular, we are still on the leading edge of both technology and creativity ("Avatar" is a telling example).

The challenge as we move forward in 2010 will be to better utilize our existing resources and to create new business and employment opportunities for every one to share.

To sum up the economic outlook, 2010 will bring a <u>measured</u> economic recovery.

- The recovery will be uneven by metro area and by industry.
- There may be some big bumps along the way.
- In this environment, there will be many interesting opportunities.
- And in December 2010, you can pat yourself on the back and say, "I survived."

[3] http://www.lacountystrategicplan.com/

INDEX OF STATISTICAL TABLES