THE KYSER CENTER FOR ECONOMIC RESEARCH

2012-2013 ECONOMIC FORECAST AND INDUSTRY OUTLOOK

EMERGING OPPORTUNITIES AND NEW CHALLENGES IN 2012 AND BEYOND




LAEDC
LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

THE LAEDC THANKS THE FOLLOWING BUSINESS LEADERS FOR THEIR GENEROUS SUPPORT:

For information about LAEDC membership, contact Justin Goodkind (213) 236-4813.

Reports printed by Graphics & Beyond - (213) 625-8283 - www.graphicsandbeyond.com

THE 2012-2013 ECONOMIC FORECAST & INDUSTRY OUTLOOK EVENT IS SPONSORED BY:

EVENT SPONSORS:

Studley

LA THE PORT OF LOS ANGELES

UnionBank

Deloitte.

LMU | LA Centennial Year

Manpower

AGF MEDIA SERVICES providing LIVE audiovisual technology

Insperity Inspiring Business Performance™

Chevron

Mercedes-Benz Driving Academy

Walmart

MEDIA SPONSORS:

Daily News www.dailynews.com

KNX 1070 NEWSRADIO

Business Life THE LIFESTYLE MAGAZINE

LOS ANGELES DOWNTOWN NEWS

SAN GABRIEL VALLEY EDITION of the San Marino Tribune
Pasadena • San Gabriel • Alhambra • Arcadia • South Pasadena • San Marino

Kyser Center for Economic Research 2012-2013 Economic Forecast and Industry Outlook

California & Southern California
Including the National & International Setting

Prepared by:
Robert Kleinhenz, Ph.D.
Kimberly Ritter-Martinez
Ferdinando Guerra
Rafael De Anda

February 2012

Los Angeles County Economic Development Corporation
The Kyser Center for Economic Research
444 S. Flower St., 37th Floor, Los Angeles, CA 90071
Tel: 213-622-4300 or 888-4-LAEDC-1 Fax: 213-622-7100
Web: http://laedc.org

30 YEARS Celebrating Economic Development Leadership

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 171,300 jobs, providing $8.4 billion in direct economic impact from salaries and more than $144 million in tax revenue benefit to local governments and education in Los Angeles County (numbers last updated on March 31, 2011).

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 and Policy Analysis Group
The LAEDC Economic and Policy Analysis Group 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 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*

Special acknowledgement and thanks to
Kiana Perez, Economic Research Intern

444 S. Flower Street, 37th Fl., Los Angeles, CA 90071 E: *research@laedc.org* T: 213.622.4300 F: 213.622.7100

Table of Contents

Robert Kleinhenz Ph.D
Chief Economist
National & California Outlook
Los Angeles County Outlook
Industry Profiles

Kimberly Ritter-Martinez
Associate Economist
Monetary & Fiscal Policy
Construction, Real Estate & Retailing
Orange & San Diego County Outlooks
Industry Profiles

Ferdinando Guerra
Associate Economist
International Outlook & Foreign Exchange
Gross Product Comparisons
Inland Empire Outlook
Industry Profiles

Rafael De Anda
Research Assistant
Ventura County Outlook
Industry Profiles

LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

February 15, 2012

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's 2012-2013 Annual Forecast.

The LAEDC's Economic Forecast is Southern California's premier source for in-depth economic information and analysis on our global, national, state and regional economies. Each forecast release is accompanied by a public event featuring the insights of influential economists and leaders from both the public and private sectors. The forecast report is produced by the LAEDC's Kyser Center for Economic Research, led by its new Chief Economist, **Dr. Robert Kleinhenz**.

A panel of expert economists has joined Dr. Kleinhenz today in his debut forecast for the LAEDC to provide a comprehensive and in-depth analysis of our local, state, national, and global economies. The panel includes: **Kevin Klowden**, Director of the California Center at the Milken Institute; **Dr. Edward E. Leamer**, the Chauncey J. Medberry Professor of Management, Professor of Economics and Professor of Statistics at UCLA; and **Dr. Sung Won Sohn**, Smith Professor of Economics California State University Channel Islands and Vice Chairman of multi-national retailer Forever 21. In addition, **Dr. Christine Cooper**, Vice President of the LAEDC's Economic and Policy Analysis Group, will provide a fresh outlook for the region's top traded and population-serving clusters. Repeating his role as Master of Ceremonies, **Frank Mottek** reports on the regional business and economic news for KNX 1070 NewsRadio where he is the host of the KNX Business Hour, the number one business radio show in Southern California.

This morning's event has been made possible by a number of generous sponsors, including AGF Media Services, Chevron, Deloitte, Insperity, Loyola Marymount University, Manpower, Mercedes-Benz Driving Academy, the Port of Los Angeles, Studley, Union Bank, and Wal-Mart.

We are also pleased to announce the completion of the second year of implementation for the five-year Los Angeles County Strategic Plan for Economic Development. Year two's many successes have been catalogued and will be delivered to the public in a Year Two Progress Report in the coming weeks. As we begin the third year of the plan's implementation, we thank all of you who have turned this consensus plan – comprised of five aspirational goals, 12 objectives, and 52 individual strategies – into an "on-the-ground" program of action.

Due in large part to our shared commitment to implementation, we have seen the Strategic Plan serve as the impetus and model for many other planning efforts going on throughout California. Your ongoing support continues to show California and the nation just what can be achieved when public and private sector leaders come together with environment, education, labor, and community stakeholders to solve difficult problems facing our economy.

If you have not already done so, we would encourage you to find out more about the Strategic Plan at lacountystrategicplan.com and consider an endorsement of the Plan's aspirational goals. Stand with the LAEDC and many other organizations, cities, and public officials who are committed to promoting a sustainable, thriving, and competitive 21st Century economy in Los Angeles County.

Thank you for your continued support of the LAEDC and our mission to attract, retain, and grow businesses and jobs for the people of Los Angeles County.

Sincerely,

Bill Allen

Bill Allen
President and CEO

I. 2012-2013 Forecast at a Glance

The U.S. Economy

- Below par growth and slow improvement in labor market
- Consumer sector key to improvement, potential drag from slower global growth
- Oil prices a perennial concern

	2011	2012	2013
Real GDP (% Change)	**+1.7%**	**+1.9%**	**+2.3%**
Nonfarm Jobs (% Change)	**+1.1%**	**+1.1%**	**+1.4%**
Unemployment Rate	**9.0%**	**8.5%**	**8.3%**
Consumer Price Index (% Change)	**+3.2%**	**+1.8%**	**+1.9%**

Leading Sectors: Consumer Spending, Exports, Business Equipment Spending
Trailing Sectors: Construction, State/Local Government Spending

The California Economy

- State improvement tied to nation and trading partners
- Private sector job gains, public sector job losses, unemployment rate improves slowly
- Working through housing sector problems, but signs of improvement

	2011	2012	2013
Unemployment Rate	**11.8%**	**11.1%**	**10.3%**
Nonfarm Jobs (% Change)	**+1.4%**	**+1.5%**	**+1.8%**
Population Growth (% Change)	**+0.7%**	**+0.9%**	**+0.9%**

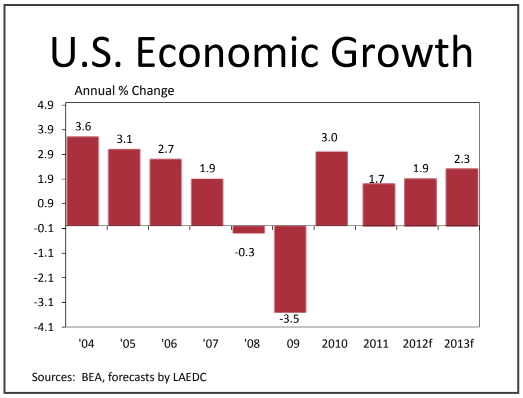
Leading Sectors: High-Tech, Tourism, International Trade
Trailing Sectors: Construction, State/Local Government Spending

Southern California Economy

- Economic gains tied to nation
- Orange County leading region in recovery and expansion
- Recovery proceeds despite concerns about housing and state/local fiscal problems

Leading Sectors: High-Tech, Tourism, International Trade, Entertainment
Trailing Sectors: Construction, State/Local Government Spending

II. Outlook for the U.S. Economy



Most economic data suggest that the economy improved over the past year. Gross Domestic Product (GDP) grew, inflation remained near the historic average, total employment and nonfarm employment both improved, and even the unemployment rate fell.

Economists divide the post-recession part of an economic cycle into two parts: recovery and expansion. Recovery refers to growth in GDP that occurs after the economy hits bottom (the trough), and gives way to expansion when the level of GDP surpasses the previous peak. Based on that definition, the economy entered the expansion phase of the economic cycle in the third quarter of 2011 and has continued to grow since then.

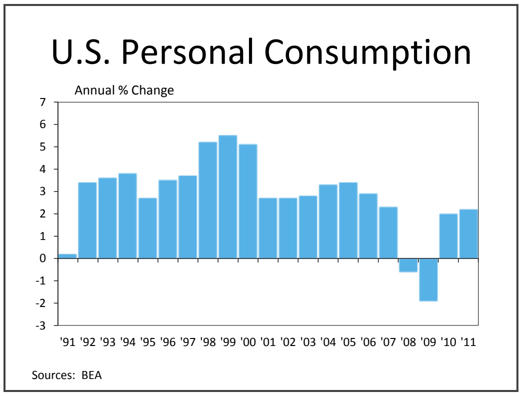
So why do businesses and consumers still "feel" that the recession has ***not*** ended, and that the economy has ***not*** recovered, much less moved into expansion? There are complicated answers to this question, but a few simple observations make the point.

First, the economy is growing but the growth trajectory is lower than is typical of this point in an economic cycle. GDP has grown by an average of 2.8% since 1970, but in post-recession years, the growth rate typically ramps up to rates exceeding 4.0%. Not so this time. GDP grew just 3.0% in 2010 and a meager 1.7% last year.

Second, weak economic growth has spurred anemic gains in the labor market. Yes, the unemployment rate fell last year, but a decline from 9.1% in January of last year to 8.3% in January of this year still leaves the unemployment rate considerably higher than the long-run "normal" unemployment rate, which is probably somewhere around 6.0%.

Third, with uncertainty about their jobs, declines in the value of their assets (both real estate and financial), and tight credit, households have spent tentatively. This is a problem because the consumer sector makes up 70% of economic activity, meaning that households sit in the economy's driver seat. If they step hesitantly on the accelerator, the economy will continue on its slow growth trajectory and improvement in the labor market and elsewhere in the economy will remain painfully slow.

What role will fiscal and monetary policy play in 2012? Significant changes in federal fiscal policy tools, such as changes in government spending and changes in tax policy, probably will be stymied by



concerns with the budget deficit in this election year. Meanwhile, the monetary policy tools at the disposal of the Federal Reserve Bank can work only indirectly through the still fragile and recovering financial system, and will likely do little to accelerate growth. In short, the private sector part of the economy will have to make its way through the year on its own with little help from economic policy.

As we move through 2012, the economic road ahead may look a lot like the road we just traveled in 2011. It may seem as though we are not going anywhere at times, but when we look back in December, we will observe that progress has been made. We're just not going fast enough.

Key Sectors

Consumers: The consumer sector will be front and center in 2012. Consumer spending contracted through the recession, but turned around in the past two years with meager annual gains of 2.0% in 2010 and 2.2% last year. Accounting for 70% of economic activity, even a slight change in consumer expenditures has the potential to create significant ripple effects throughout the economy. For this to happen, a few things must change.

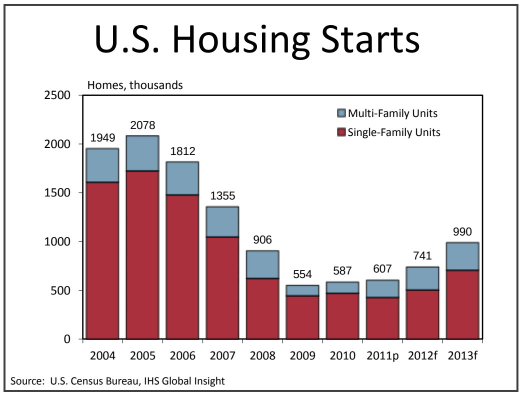
The consumer sector makes up 70% of economic activity, meaning that households sit in the economy's driver seat.

The pace of hiring must accelerate. Up to this point, businesses have maintained lean payrolls while meeting stronger demand for goods and services. GDP has surpassed its pre-recession level but employment clearly has not. Up to this point, businesses have been able to ramp up production by relying on their workers to put in more overtime and by hiring temporary workers. Technology has also helped to keep business payrolls from growing as fast as GDP but that cannot last forever. At some point, expanded production will require more hiring. The declining trends in labor productivity over the past several quarters suggests that firms will soon have to increase hiring.

The declining trends in labor productivity over the past several quarter s suggests that firms will soon have to increase hiring.

With increased hiring, consumers will feel better about their own economic situation so consumer confidence will improve. This can only help. If people are uncertain about their economic situation (fear), inaction is the result. Job growth should lend greater certainty to the consumer outlook, prompting households to switch from inaction to action. As households spend more, additional jobs will be created and a positive feedback loop takes off.

Two other variables figure into the situation as well, both in terms of the consumer outlook and consumer behavior. These are household wealth and access to credit. Households suffered a tremendous loss in



wealth during the recession. Household net worth fell 24% between the fourth quarter of 2007 and the first quarter of 2009. Despite improvements over the past two years, household net worth was still 14% shy of the 2007 peak. As of this writing, the Dow had exceeded the 12,000 threshold, recovering much of the loss that was sustained in 2008 and 2009, but still below the 14,000 mark of late 2007. In contrast, real estate related net worth was still lower than the peak by about half.

Meanwhile, households have deleveraged. Total outstanding debt has fallen from a peak of $13.9 trillion in the second quarter of 2008 to $13.2 trillion in the third quarter of 2011, based on the Federal Reserve Bank's Flow of Funds report. Most of the decrease was due to the housing situation. The decline in outstanding non-mortgage consumer credit during the recession bottomed out in late 2010 and has grown modestly over the past year, but remains short of the pre-recession peak. However, the increased appetite for consumer credit continues to bump into supply constraints as evidenced by results from the Federal Reserve Bank Senior Loan Officer Survey that indicate continued hesitation in lending to households.

Consumer incomes rose for the second consecutive year in 2011 and are expected to rise further in 2012. Personal income overall rose 4.7% in 2011 before inflation. Wages and salaries grew by 3.4% in 2011, nonfarm proprietor's income grew by 6.0%, and dividend income rose 10.5%. Of course, net interest fell 0.6% due to low interest rates. For 2012, personal income should grow by 3.5%, and disposable (after tax) personal income should increase 0.9% after an increase of 1.8% last year.

New residential construction has historically been responsible for over 20% of the annual change in GDP, so recovery in housing is essential to faster economic growth.

The housing sector continues to weigh down the economy even as healing in this sector slowly takes place. New residential construction has historically been responsible for over 20% of the annual change in GDP, so recovery in housing is essential to faster economic growth. Housing construction has been a drag on GDP for five years running, but there are signs that the sector is turning around. National housing starts, which hit historically low levels in 2009, have increased in each of the last two years and are expected to rise further in 2012. Although construction levels will fall well below long run averages, the expected increase can only help construction-related employment, which was hit as hard as any segment of the labor market through the recession and its aftermath.

As for the existing home segment, the national housing market has struggled despite historically low mortgage rates, because of large numbers of underwater households and distressed properties, and tight underwriting standards that may be constraining the demand side of the market and contributing to weakness in home prices. Still, there have been improvements: The percentage of underwater households has edged down over the last several quarters while the percentage of non-distressed properties in the market has grown. The market is headed in the right direction, but is proceeding very slowly and full recovery is probably at least two years away. Meanwhile, demographic trends point to pent-up demand for housing that will be unleashed on the market as the economy gathers momentum.

Businesses: Businesses have been poised to grow for at least two years. They pared payrolls and other expenses during the recession, and stand ready to expand production if demand accelerates. To be sure, businesses are spending. Business spending on equipment and software turned around in 2010 with a 14.6% increase and rose again in 2011 by 10.3%. Given the overall state of the real estate market, nonresidential structures took longer to recover, but registered a 4.1% increase last year.

Firms are expected to increase their spending on both categories of business spending in 2012, contributing to expansion in the overall economy. Significantly, more spending should occur across a wide swath of the economy, with increased outlays on computers and peripherals, industrial equipment, transportation equipment, and structures in health care, manufacturing, utilities, and mining. This is yet another sign that more sectors of the economy are headed in the right direction.

Government: Federal, state, and local government will continue to face challenges in 2012 and beyond, with consequences for the labor market, the financial markets, and the overall economy. At the federal level, the budget deficit hit $1.3 trillion in each of the last two years. While down from a $1.4 trillion deficit in 2009, trillion dollar multi-year deficits are a painful reminder of the depth of the recession.

During the recession and recovery period, the U.S. government made extensive use of expansionary fiscal policy:

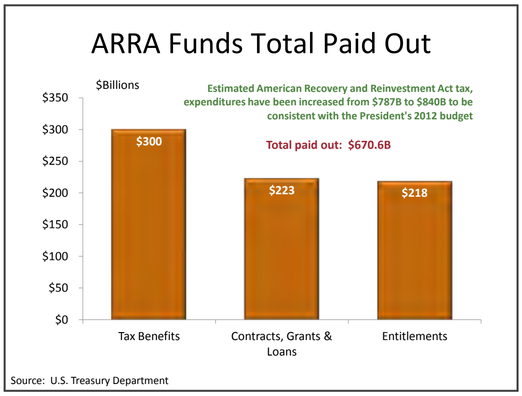
Economic Stabilization Act (2008)

Troubled Asset Relief Plan (2008)

American Recovery Reinvestment Act (2009)

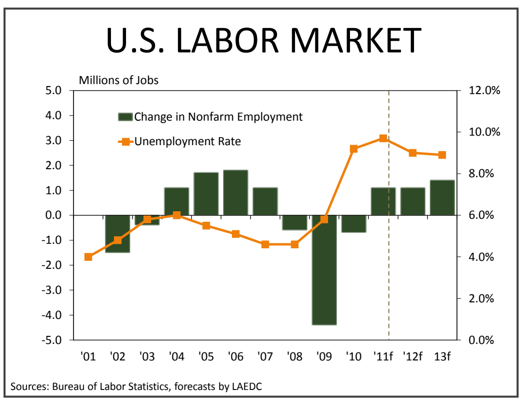
Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act (2010)

High deficits should be a concern for all. But a large portion of the deficit over the past three years was due to the recession, which triggered a decline in federal receipts that has not yet returned to pre-recession levels, and gave rise to elevated outlays. Among these outlays, automatic stabilizers such as unemployment benefits and government health insurance should diminish as the economy improves. Indeed, things are moving in the right direction. The deficit should fall to an even $1 trillion this year, and drop in the coming years as the economy gathers momentum.



Below the federal level, the need to balance budgets has wreaked havoc on state and local government finances and programs. Funds from the 2009 federal American Reinvestment and Recovery Act (ARRA) preserved or created numerous state and local jobs in education, transportation, construction, and health care. But ARRA funding has been winding down and the impact on jobs as of the fourth quarter of 2011 was a third of the impact in the fourth quarter of 2009. As federal assistance has decreased, state and local governments have had to reduce services provided to residents and implement job cuts. Indeed, while 2.9 million total nonfarm jobs were added in theU.S. from January 2010 to December 2011, there was a net decline in the government sector totaling 492,000 jobs, of which 81,000 were lost at the state level and 381,000 were lost at the local level.

Beyond the near term concerns about the fiscal situation for state and local government that have been brought on by the recession and its aftermath, one has to be concerned about long term harm to important parts of the economy such as public infrastructure and education, where catching up will take several years.



Labor: Recovery in the labor market has been painfully slow. As recently as last August, the national unemployment rate was 9.1%. Since then, the unemployment rate has fallen for five consecutive months and stood at 8.3% in January 2012.

A quick look at nonfarm jobs -- another important labor market gauge – shows that progress has surely been over the past year, and more importantly, since the recession ended in mid-2009. Nonfarm jobs grew by 1.2% for all of 2011 over 2010, a gain of 1.5 million jobs. The economy has added nearly 2.9 million jobs from the beginning of 2010 through January 2012, representing a significant recovery of the 8.7 million jobs that were lost from the start of the recession through the end of 2009. Of course, that still leaves a hefty number of unemployed individuals, hence the stubbornly high unemployment rate.

Indeed, this has been accurately dubbed the Great Recession. Just over 1.6 million jobs were lost during the 1990 recession, and the first post-recession job gains occurred just three months after the official end to the recession. During the 2001 recession, 2.2 million jobs were lost, and the first post-recession job gains occurred in the seventh month after the official end to the recession. By contrast, the first job gains in the current post-recession period were 10 months out, but were not sustained (23,000 in first 24 months).

The economy has added nearly 2.9 million jobs from the beginning of 2010 through January 2012, representing a significant recovery of the 8.7 million jobs that were lost from the start of the recession through the end of 2009.

While this is a welcome development, the rate is well above most estimates of the long-run normal rate of unemployment. This long-run rate, known as the natural rate of unemployment, is thought to range between about 5 and 7%. If one splits the difference and assumes that the natural rate is 6%, there is a 2.3% gap between the January 2012 rate of 8.3% and the natural rate. That gap adds up to over 3.5 million unemployed workers.

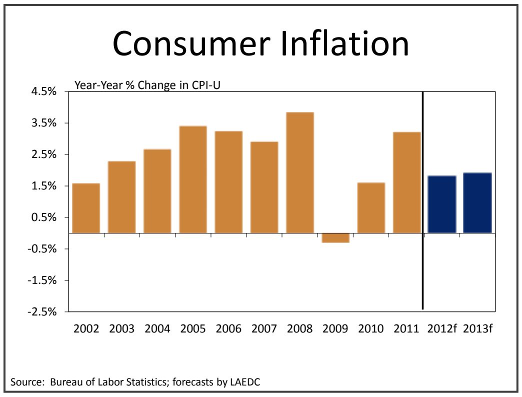
Approximately 200,000 nonfarm jobs were created in the economy each month over the last three months. At this rate of job growth, it would take about four years to get to a 6.0% unemployment rate. Why? Roughly 130,000 individuals enter the labor force each month, so the economy must generate at least that number of jobs just to keep the unemployment rate from increasing. If 200,000 jobs are actually created, approximately 70,000 unemployed individuals will find employment each month. Doing the math (3.5 million divided by 70,000), it would take 49.4 months to bring the unemployment rate back to normal.

Since the recession officially ended nearly three years ago in the second quarter of 2009, this implies a seven year timeline to a fully recovered labor market. However, if job gains ramped up to 300,000 per month – with 170,000 unemployed put back to work each month instead of just 70,000 -- it would take less than two years to get to a 6.0% rate. Which is the more likely scenario?

The labor market lags the economy in recovery. Based on the 1990 and 2001 recession, job growth was very weak over the first 24 months following the end of a recession, averaging 13,000 jobs per month. History also shows that the labor market picked up during the second 24 month period, but still fell short of the 300,000 threshold with an average of 230,000 jobs per month. If the economy averaged that rate of job growth over the foreseeable future, it would take close to three years to close the gap.

This somewhat tedious mathematical exercise lends substance to what so many economists have said about the labor market: all signs point to improvement, but at an uncomfortably slow pace that is measured in years, not in months.

A little bit of optimism can be added to this analysis. The nonfarm job counts used in the preceding calculations include only wage and salary jobs (who generally receive a W-2 form at tax time). It does not include self-employed individuals, contract workers, workers on straight commission and similar types of employment situations. Self-employed numbers typically grow more quickly as the economy



accelerates out of a recession, so the job counts mentioned above may be viewed as conservative, and the economy may actually perform better than expected in the coming year.

Inflation: In addition to slack in the labor market, other measures of slack in the economy show that the economy still has a great deal of room to grow before bumping into resource constraints that would drive up prices. For example, capacity utilization, which measures the share of the nation's industrial production in use, stood at 78.1% in December 2011, well below the 83 to 85% range at which industrial capacity is fully utilized. In general, there is little chance of inflation flaring up from these sources.

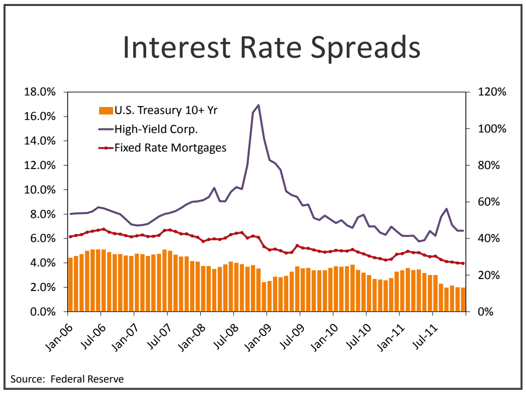
However, commodity prices in general and the price of oil in particular always cause concern as a potential source of inflation. The global economy is expected to grow more slowly in 2012 than was previously anticipated, so that should temper upward pressure on commodity prices. But the price of oil may stay above $100/bbl in 2012 and cause concerns about higher gasoline and energy costs for consumers and businesses throughout the year.

Overall, the rate of inflation as measured by the Consumer Price Index should hold below 2% this year and next.

Monetary Policy and Interest Rates

Target Fed Funds Rate: The Federal Reserve Bank (the Fed)has held the target federal funds rate (the rate banks charge each other for overnight loans) at nearly zero since late 2008. In January, the Fed announced that given the moderate pace of economic growth, it was *likely* the federal funds rate would be held at this level through late 2014. The Fed also released its Economic Projections from the January Federal Open Market Committee (FOMC) meeting, which for the first time, included FOMC participants' projections of the appropriate path for the FOMC's target federal funds rate. The purpose of publishing Federal Reserve officials' own Fed funds rate forecasts is to manage expectations about an increase in the benchmark rate. The theory behind this new openness is that enhanced transparency regarding the future track of monetary policy will boost business and household confidence thus encouraging investment.

Money Supply: It has been more than three years since the worst days of the financial crisis. Since that time, special lending facilities to stablize the financial markets and subsequent "quantitative easing"



Interest Rate Spreads

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

actions to tackle other problem areas in the economy resulted in thevalue of the Federal Reserve's asset holdings increasing by three-fold to $2.9 trillion. The consequence of these actions was a corresponding expansion of the money supply. Most of the programs implemented by the Fed during the financial crisis were allowed to expire as the credit markets regained their footing.

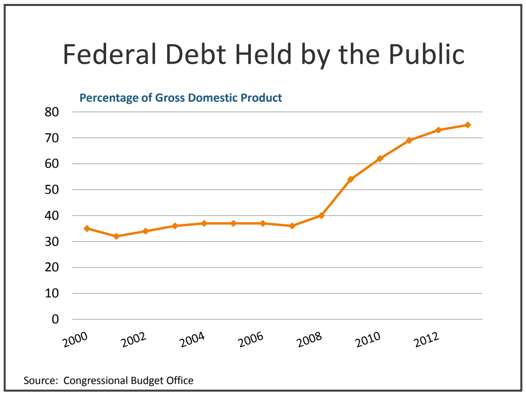
However, as the economy moved from recession to recovery, new challenges arose. The housing market remained in a slump and economic growth failed to gain momentum. The response from the Fed was "quantitative easing". This is a policy used to increase the supply of money when short-term real interest rates are at or near zero. This is accomplished by the Fed creating money (*ex nihilo* i.e. out of nothing), which it then uses to purchase financial assets. The goal is to push down longer-term interest rates and thus stimulate the economy.

To support the ailing housing market and mortgage lending, the Fed began buying mortgage-backed securities (MBS) from Fannie Mae, Freddie Mac and Ginnie Mae in January 2009. This first round of quantitative easing was designed to increase mortgage credit availability and keep interest rates low. As of January 2012, the Fed was holding $853 billion in MBS, down from a high of $1.1 trillion.

In May 2010, the recovery hit a soft patch. The Fed felt that the slow rate of growth was inadequate to bring down the unemployment rate. This fueled fears of deflation at the Fed and led to the second round of quantitative easing. During the period from September 2010 through the following June, the Fed purchased $600 billion in U.S. Treasury securities in an effort to reduce long-term interest rates and jump start economic growth. This program was commonly known as "QEII". The Fed continues to hold approximately $1.6 trillion in U.S. Treasury securities.

The Fed took action again in September 2011, when the FOMC decided to extend the average maturity of its securities holdings by purchasing $400 billion of Treasury securities with remaining maturities of six years to 30 years, and to sell an equal amount with remaining maturities of three years of less. This program, branded Operation Twist changed the composition but not the size of the Fed's balance sheet and is meant to exert additional downward pressure on longer-term interest rates. It is scheduled to run through June 2012.

Much of the money created by the expansion of the Fed's balance sheet resides in commercial bank reserve accounts at the Federal Reserve. Banks' excess reserves ($1.5 trillion as of December 2011)



What is Public Debt?

The debt held by the public is all federal debt held by individuals, corporations, state or local governments, foreign governments and other entities outside the United States Government less Federal Financing Bank securities.

Types of securities held by the public include but are not limited to, Treasury Bills, Notes, Bonds, TIPS, U.S. Savings Bonds, and State and Local Government Series Securities.

earn 0.25% in interest per year. Most banks do not need these reserves at the moment. Demand for bank loans is still relatively weak, and more stringent underwriting requirements mean fewer borrowers would qualify anyway. A $1.5 trillion dollar holding of excess reserves would pose an inflationary risk if banks suddenly decided to drain their reserve accounts and increase lending to businesses and households. However, this is unlikely, at least in the near term.

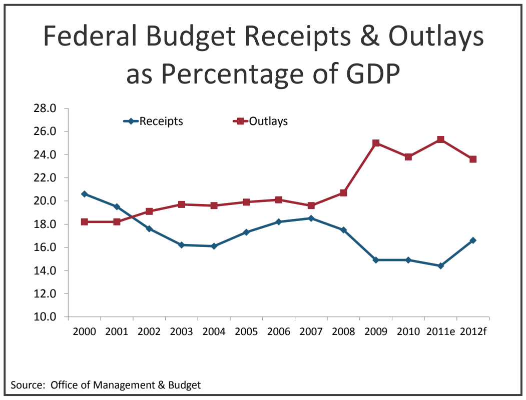
In the longer term, as economic expansion accelerates, the Fed will have to tighten monetary policy to neutralize this risk. Fed officials are considering several new tools to accomplish this task, including raising the interest rate paid on excess bank reserves. Other options include selling off agency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

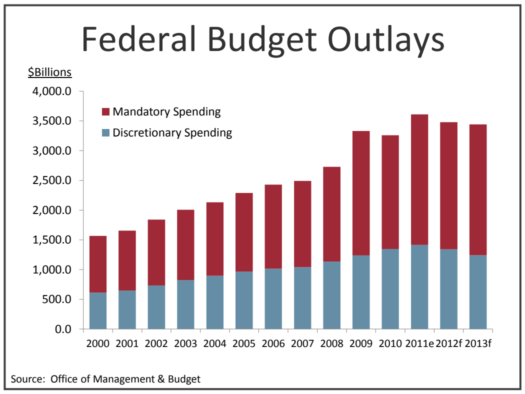
The Fed has purchased more than $2 trillion of securities since the recession began in an effort to reduce unemployment by encouraging investment, spending and economic growth. Results are mixed – interest rates are low, but credit conditions remain tight for most borrowers. There is some indication of underwriting standards easing for the most qualified borrowers and there has been a small uptick in loan demand. Yet, unemployment remains stubbornly high. There is speculation the Fed may consider additional bond purchases sometime in 2012 (perhaps targeting the housing market), but the general attitude appears to be one of wait-and-see how the economy performs in the coming months.

Fiscal Policy

The Congressional Budget Office (CBO) estimates that for 2011, the U.S. federal budget deficit will be $1.3 trillion, which is equal to 8.5% of gross domestic product (GDP). This estimate is much lower than the CBO originally projected ($1.5 trillion or 9.8% of GDP) back in March, but is still far higher than the annual average of 2.8% experienced over the past 40 years. The shortfall projected for 2011 will be the third largest in the past 65 years.

The high deficits of the past three years have pushed public debt from 40% of GDP at the end of 2008 to approximately 67% at the end of 2011. Recent deficits reflect a difference between lower than average revenues and higher than average expenditures. The CBO estimates that for 2011, revenues will be 15.3% of GDP (compared with the 40 year average of 18.0%) and outlays will be 23.8% of GDP (compared with 20.8% on average). The gap between revenues and expenditures





is the result of an imbalance that predates the recession, a decline in revenues and an increase in expenditures associated with the recession, and the cost of federal fiscal stimulus policies that were implemented to combat the recession.

In 2008, as the recession deepened and unemployment rates shot up, the federal government implemented a number of expansionary policies aimed at supporting both businesses and households. During the recovery period, however, focus has shifted to reducing the deficit and federal fiscal policy is tightening in response. The effects of fiscal stimulus began to fade in 2011 and federal support for state and local government spending is winding down. State and local administrations are now relying on budget cuts rather than tax increases to close the gap.

Deficit reduction measures totaling $1.2 trillion required under the **Budget Control Act** are currently slated to be implemented over the 2012-2021 period. Automatic spending cuts (a result of the failure of the super committee) and the expiration of the Bush era tax cuts will kick in beginning in early 2013. Under current laws governing federal spending, the CBO estimates that the deficit will fall to 3.2% of GDP by 2013 and will range from 1.0% to 1.6% over the following several years. The growth path of the federal deficit and debt will depend also on economic growth and improvement in the labor markets. As more people return to work, tax revenues will improve and unemployment benefits as well as other kinds of emergency support will decline, automatically reducing the deficit.

In spite of the attention currently focused on the deficit, there is a great deal of uncertainty surrounding what will actually take place in the near-term. The LAEDC 2012-2013 forecast assumes Congress and the administration will reach an agreement to extend the payroll tax cut and emergency unemployment insurance benefits for all of 2012. Cutting those benefits now would result in an estimated 0.5 percentage point drag on economic growth. The cloudy outlook for domestic policy coupled with 2012 being an election year, is damaging business and consumer willingness to spend and invest. The dilemma faced by the federal government is to find a policy mix that promotes job growth in the near-term and provides a credible long-term plan for achieving fiscal sustainability.

Fortunately, the U.S. government is not having a problem financing its debt. Long-term interest rates have been flat or falling and U.S. government securities continue to be a safe haven for investors around the globe. Private lending demand remains muted. Households and businesses are not competing for available funds and thus driving up interest rates. But, once a widespread pick-up in private lending builds to a sufficient degree, this may or may not remain the case.

U.S. Forecast & Risks

The economy should continue along its 2011 growth trajectory with GDP growth in 2012 and 2013 in the 2.0% range. The labor market will respond with modest gains in nonfarm jobs and slight improvement in the unemployment rate, personal income will rise, and inflation will stay in check. This is a conservative forecast. If consumers genuinely sense that the economy is doing better – that their own circumstances are improving – the economy and labor market could exceed the forecast. On the other hand, there are risks that could slow down the economy.

The initial situation was marked by sovereign debt problems in individual countries like Greece, Italy, Spain, and elsewhere, but the euro zone as a whole must grapple with the consequences and come to a solution. Meanwhile, both the debt problems and the austerity programs in reaction to the problems will likely force at least two European countries (Italy and Spain) and possibly more into recession in 2012. In brief, the situation in Europe has the potential to slow growth in the U.S. economy, but is unlikely to bring on a recession.

- A slowdown in fast-growing Asian economies, especially China, is also a concern. As with the euro zone situation, the likely impact is to slow growth in the U.S., but not cause recession.

- An oil price spike perennially makes any list of economic risks, whether spurred by political instability in oil-exporting parts of the world or by other natural or man-made occurrences that might disrupt the global supply of oil.

- Fiscal austerity efforts to significantly rein in the budget deficit and take action on the national debt seem unlikely in this election year, but the actions of Congress on this matter are difficult to predict.

Table 1: U.S. Economic Indicators

(Annual % change except where noted)	2006	2007	2008	2009	2010	2011	2012f	2013f
Real GDP	2.7	1.9	-0.3	-3.5	3.0	1.7	1.9	2.3
Nonfarm Employment	1.8	1.1	-0.6	-4.4	-0.7	1.1	1.1	1.4
Unemployment Rate (%)	4.6	4.6	5.8	9.2	9.7	9.0	8.5	8.3
Consumer Price Index	3.2	2.8	3.8	-0.3	1.6	3.2	1.8	1.9
Federal Budget Balance (FY, $billions)	-$248	-$162	-$455	-$1,415	-$1,293	-$1,316	-$1,025	-$789

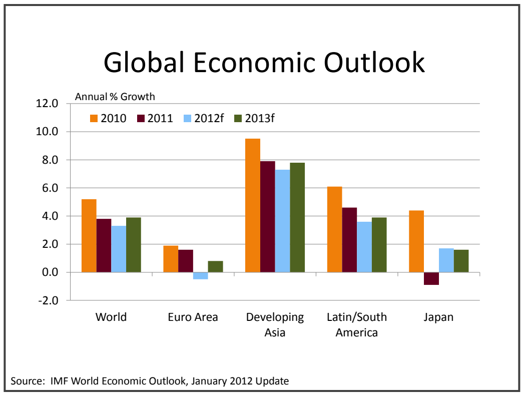
Sources: BEA, BLS and OMB; forecasts by LAEDC

Table 2: U.S. Interest Rates

(Annual Average, %)	2006	2007	2008	2009	2010	2011	2012f	2013f
Fed Funds Rate	4.97	5.02	1.92	0.16	0.18	0.10	0.10	0.10
Bank Prime Rate	7.96	8.05	5.09	3.25	3.25	3.25	3.25	3.25
10-Yr Treasury Note	4.80	4.63	3.66	3.26	3.22	2.78	2.20	2.70
30-Year Fixed Mortgage	6.41	6.34	6.04	5.04	4.69	4.46	4.10	4.50

Sources: Federal Reserve Board; forecasts by LAEDC

III. Outlook for the International Economy



Once again, China and India were the most stellar performers in the global economic arena, while the rest of the emerging and developing economies (especially Indonesia) were among the top performers of 2011. In fact, over the past five years, the emerging and developing economies have completely dominated the global economic growth stage.

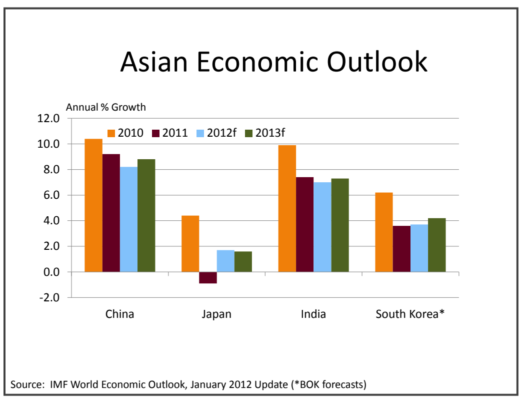
In this post crisis environment, the global economy has taken on a new shape over the past two years. The emerging and developing economies face the opposite set of issues that the advanced economies are addressing. In a strange twist of events, emerging markets are experiencing strong economic growth, inflation, and sound finances that one would have historically associated with advanced economies, while the advanced economies attempt to overcome high unemployment, below-normal output levels (and in Europe a recession), and fiscal deficits, which had historically been problems associated with developing economies. Overall, the global economy has its own concerns involving improved governance, potential protectionism, oil prices, and the impact of geopolitical events (such as the crisis in the Middle East) on global markets. We should all acknowledge this new reality and attempt to understand the implications, particularly for our globally connected regional economy.

All eyes should be focused on the euro zone this year as the European sovereign debt crisis poses the greatest threat to the global economy. The continued failure on the part of European policymakers to resolve this crisis could lead to a global recession and a depression in Europe. Some progress has been made lately as EU leaders agreed in principle to some significant goals including a critical “fiscal compact”. However, there are many unanswered questions regarding these potential new rules, making the outcome highly unpredictable. In fact, a whole new treaty would have to be approved and then the individual nations would have to ratify the new agreement.

This entire international economic outlook is predicated on the euro zone surviving in its current form. For purposes of our outlook we expect the euro zone to not fall apart this year. Even if the worst case scenario does not occur, our outlook for the euro zone is bleak. We project that the euro zone will fall into a mild recession in 2012 due to the debt crisis and the impacts of austerity. The other advanced economies should continue to experience moderate growth over 2012 and avoid recession as they attempt to increase domestic demand in order to overcome the reduction in external demand from Europe, China, and other emerging economies. Meanwhile, the emerging and developing economies will witness a deceleration in growth due to a reduction in external demand from the advanced economies (particularly Europe) and a moderate decline in domestic demand. Developing Asia (led by China) will remain the world's fastest growing region in 2012 and beyond. This will of course bode very well for the Los Angeles Customs District (LACD) and our regional economy.

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

MAJOR REGIONS



Asia Overview: The greatest threat to Asian economies in 2011 was overheating and inflation. In response to the threat, most Asian economies raised interest rates and introduced other tightening monetary measures. Many nations began to reverse this trend in the latter part of last year as external demand began to recede and commodity prices began to subside. Beginning in the second half of last year, the strong recovery in world trade that began in 2010 came to an end. As a result, Asian exports began to falter substantially since last September mainly due to the crisis in Europe. Exports have dropped in China, South Korea, Taiwan, the Philippines, and Thailand over recent months. This is particularly concerning for those economies that are heavily dependent upon exports and manufacturing for economic growth. Thailand, Taiwan, and South Korea have the most to lose from sluggish global demand, especially from Europe.

In addition, credit conditions in Asia have deteriorated as Europe's banks have reduced foreign lending. These tighter external financing conditions are only exacerbating the economic environment for Asian economies. All of this translates into slower growth for Asia in 2012 when compared to the last few years. Some policymakers across Asia have already begun to shift their attention back to stimulating their economies as sustaining growth supersedes inflationary concerns. Others are likely to follow suit in the coming months as inflation begins to become a secondary concern. Depending upon the severity of the situation in Europe, policy makers across Asia may engage in expansionary fiscal policy to keep their economies from faltering.

Asia will remain the fastest-growing and strongest region in the world in 2012 and beyond. Fundamentally, there are two main reasons along with other factors why Asia is so strong and will maintain its position going forward. First, Asia's key economic fundamentals are in very good shape, especially when compared to Europe and the U.S. Second, Asia now has its own economic superpower (China) that it can rely upon for regional growth. This is extremely important to Asia as it can depend more and more upon Chinese demand (both resources and goods) and markets.

Key Asian Economies – Based on Los Angeles Customs District's (LACD's) Top Trading Partners

**Note that the Los Angeles regional economy is deeply connected to East Asia (China, Japan, South Korea and Taiwan) and Southeast Asia (particularly the ASEAN-5, which includes Thailand, Vietnam, Indonesia, Malaysia, and the Philippines).*

Will China experience a hard or soft landing in 2012? The LAEDC projects a soft landing with some potential turbulence along the way.

China *(LACD's #1 Trading Partner)*: Once again, the Chinese economy performed exceptionally well in 2011, expanding by 9.2%. This growth rate surpassed the usual 8.0% target rate established by the Chinese government and was noteworthy for the first year of a new five year plan (twelfth 5-Year Plan) that began in 2011 and runs through 2015. However, China's economy did decelerate starting from the first quarter of 2011 through the end of 2011 after growing by 10.4% in 2010. Economic growth in the fourth quarter of 2011 was 8.9% when compared to a year earlier, which was the slowest growth rate since the second quarter of 2009. In fact, China's economy will continue to experience a deceleration throughout 2012 and into 2013. The main factors that have led to this slow down include a concentrated effort by policymakers to prevent the economy from overheating, avoiding a real estate bubble, and uncontrollable external events.

The People's Bank of China (China's Central Bank) pursued a contractionary monetary policy (monetary tightening) in 2011 as reducing inflationary pressures was the top priority. Also, the government wanted to ensure that the property market cooled off by reining in credit expansion. The Chinese government has attempted to avoid its own real estate bubble by utilizing aggressive monetary policy such as increasing reserve requirements. Real estate transactions and prices declined in coastal cities such as Shanghai throughout the second half of 2011. Also, the shortage of credit began to negatively impact private-sector firms in the second half of last year. This past October, the level of total loans outstanding experienced its lowest rate of growth since 2008, while the money supply (M2) fell to its weakest growth rate in a decade.

The Chinese economy also began to feel the impact of a reduction in demand from Europe. Key economic indicators such as industrial production and exports began to deteriorate in the third quarter of 2011, both as a direct result of the European situation and the overall global slowdown. The key manufacturing index (PMI) for China actually fell below 50 for the first time in three years in November 2011, which is the level distinguishing expansion from contraction. Exports to Europe have been particularly impacted by the weakening of the euro zone economies. This trend was clearly witnessed in the third and fourth quarters of last year.

Inflation in China has become less of a concern, but remains a serious issue for this year. Price pressures did start to subside in the latter part of 2011 as commodity prices declined and, most importantly, food prices began to recede. A poor harvest and a shortage of pork created a big headache for the Chinese economy. However, policymakers will still have to be very cautious when determining monetary policy as inflation could worsen quickly and it is absolutely essential to keep inflation in check in order to prevent social unrest. Monitoring inflation will be particularly important this year as China undergoes its most significant leadership transition (November 2012) in the past decade. With that in mind, maintaining strong economic growth and maintaining social stability will be the new leadership’s top priority.

Over the short term China will undoubtedly produce slower rates of economic growth as domestic and external demand diminish when compared to the past couple of years. Avoiding a real estate bubble and non-performing loans will be critical for the Chinese economy this year and next. One of the other key concerns going forward will ultimately be the outcome of the European debt crisis and how deep the European recession becomes.

In addition, China’s dependence upon investment for economic growth represents another unsustainable issue for Chinese policymakers. Investment currently contributes nearly 50% to China’s GDP, which has reached an unprecedented level in the economic development of China. According to most experts, this level of dependency on investment for economic growth presents a very dire situation as this leads to wasteful and unproductive assets. In fact, this problem is already occurring in many parts of China. Another significant problem that the current five-year plan will attempt to address is the disparity and inequality between the eastern provinces and the central and western provinces. There has been some improvement in this respect as inland provinces outperformed the coastal provinces in 2011.

Also, China's economy must reduce its reliance upon exports (particularly to the advanced economies) as Europe and the U.S. face debt and low growth in the coming years. Undeniably, China will have to move away from the investment and export-led model that has served it so well towards a more consumer based model in order to avoid the dreaded "hard landing' everyone fears. This will be a very difficult challenge for China and will definitely take time.

China will most likely avoid a "hard landing" this year and ultimately experience a "soft landing" with some potential turbulence along the way such as renewed domestic inflation, a spike in oil prices, asset bubbles, and a more severe drop in exports to Europe. It is critical to understand that Chinese policymakers still have the means (though somewhat diminished due to the 2008 stimulus) to prevent a hard landing from happening. This is already taking place with monetary policy. As a result, China's economy to projected to grow by close to 8.5% in 2012 as both investment and exports decline relative to the last two years.

Japan *(LA County's #1 Source of FDI and the LACD's #2 Trading Partner)*: Japan's economy recovered strongly from the triple disasters – the earthquake, the subsequent Tsunami, and the nuclear fallout - in the third quarter of 2011. It recorded 1.4% GDP growth in the third quarter when compared to the second quarter. This was after experiencing no growth or negative growth for three consecutive quarters. There were some significant economic issues even before the disasters. Japan has demonstrated amazing resiliency since the disasters. Its recovery is an example for all of us. The economy was able to rebound strongly in a very short period of time. Things began to significantly turn around in June just three months after the tragic disasters.

The key point to keep in mind is that the disasters impacted Japan's energy supply – nuclear power plants provide roughly 25% of electricity – and the outcome of this story will go a long way in determining the short and medium term outlooks. Japan's fourth quarter 2011 economic performance was not as strong as expected due to a slowdown in exports and the impact of flooding in Thailand on supply chains. The economic recovery began to stall in the fourth quarter due to the drop in demand from Europe and a rising Yen. The outlook for 2012 is bright particularly over the first half of this year as the rebuilding process continues and acts as a stimulus due to the increase in government spending and investment. As a result, we project GDP to increase by 1.5% to 2.0% this year.

Why won't growth be stronger in 2012? There are three key challenges ahead for Japan. From the supply-side, they include electricity shortages and damaged factories, which would impact production and supply chains. The speed with which the factories come back on line after the flooding in Thailand will also impact supply chains. From the demand-side, a drop in external demand from China (Japan's top export market), Europe (third largest export market and its ties to China will hurt Japan), and other Asian economies (particularly South Korea and Thailand). Domestic demand (which comprises roughly 60% of GDP) is not as strong as it needs to be in order for Japan to really experience any type of robust growth. Real wages have been going down and deflation continues to plague the Japanese economy. Domestic demand will be the key determinant of growth in the medium to long term. Finally, the strength of the Yen poses a challenge in 2012 and into 2013, leading to an increase in investment abroad and erosion of corporate profits due to higher costs.

The Korea-US Free Trade Agreement (KORUS FTA) was approved and is expected to go into effect in 2012.

South Korea *(LACD's #3 Trading Partner)*: Asia's fourth largest economy performed well over the first six months of 2011. The nation continued to be one of the leaders of the global recovery as it benefitted from China's persistent expansion. South Korea's GDP in the first quarter of 2011 expanded by 4.2% and by 3.5% in the second quarter when compared to a year earlier, with exports continuing their strong performance. Exports, which represent about 50% of total economic output, rose by nearly 24% in May 2011 compared to a year earlier. The key was the consistent strength of demand from Korea's Asian neighbors. In particular, demand from China, which takes 33% of South Korean exports, has been instrumental in propelling this growth. Electronics, autos, and shipbuilding have been the most heavily demanded products. However, Korean exports began to face a more difficult environment beginning at the end of the second quarter as external demand from China, the U.S., Europe, and Japan decelerated.

Economic growth in the second half of 2011 decelerated as the global slowdown began to have a real impact by the fourth quarter. Due to its overall exposure to the world economy, the Korean economy has experienced a slowdown in recent months as global demand has deteriorated. The debt crisis in Europe along with the slowdown in China has real repercussions for South Korea. As previously mentioned, exports contribute almost 50% to overall GDP. Its reliance upon exports has been one of the key ingredients to success over the past forty years, but it can also become a major liability during times of global crisis as witnessed during the 2008 financial crisis.

Quarter-to-quarter growth consistently weakened throughout 2011 and the economy in the fourth quarter grew at its lowest level in two years. GDP only expanded by 0.4% on a quarter-to-quarter basis. The overall weakness was attributable to the decline in exports to Europe and to China. Both Japan and South Korea have been indirectly impacted by the events in Europe. When China's exports to Europe decline it inevitably leads to a decline in Japanese and Korean exports as both nations export many of the inputs or intermediate goods that make their way into the final assembled goods that China exports. South Korean exports, investment and consumption dropped every month in the fourth quarter (the first time in two years). The South Korean economy grew by 3.6% in 2011 after expanding by 6.2% in 2010.

The Korean economic outlook for 2012 will depend upon the global economic environment. First, developments in China will have the largest impact on South Korea as China is by far South Korea's largest export market. Second, the situation in Europe will also largely influence the South Korean economy as the global financial system could be greatly impacted by a financial contagion in Europe. A European recession will undoubtedly decrease Korean exports. In addition, the recent slowdown in domestic consumer demand in South Korea poses another significant threat. South Korea will have parliamentary and presidential elections this year, which will definitely have an impact on fiscal, monetary and trade policy. Finally, Korean policymakers will be paying very close attention to what is happening in North Korea over the coming months.

The Bank of Korea has raised interest rates five times since the middle of 2010 in order to counter the inflationary environment. However, monetary policy is expected to reverse course in 2012 as growth concerns begin to supersede inflation concerns. Also, South Korea could possibly conduct some expansionary fiscal policy as well depending on what transpires over the next few months. We expect the South Korean economy to grow at a rate of around 3.5% in 2012.

Taiwan *(LACD's #4 Trading Partner)*: Taiwan's economy relies very heavily on trade, as exports equal nearly 70% of total GDP. As a result, any economic expansion is contingent upon growth in exports. The key to growth in exports has been strong demand from China and the ASEAN economies. A growing percentage of growth in export orders came from members of the ASEAN in 2011 as intra-region trade continues to expand as these economies develop. China (including

Hong Kong), demands over 40% of total Taiwanese exports. Nearly 80% of all Taiwanese exports go to Asia.

Taiwan's economy struggled at the end of the year as exports declined. In fact, exports grew at the slowest pace in over two years in December. Taiwan's GDP grew by 1.9% in the fourth quarter of 2011 when compared to a year earlier. On an annual basis, Taiwan's GDP expanded by 4.0% in 2011. However, the Taiwanese economy officially entered into recession in the fourth quarter of 2011 as the economy contracted for the second consecutive quarter on a quarter-to-quarter basis. This will most likely be the trend going into 2012 as exports are still a big concern. Ultimately, the Taiwanese economy's performance will be dependent upon how strong exports are in 2012. Taiwan's GDP grow in the 3.0% range in 2012. Economic growth could be even stronger if the Chinese economy does not lose too much steam in the coming months.

Thailand *(LACD's #5 Trading Partner)*: Thailand's economy experienced solid growth over the first six months of 2011. However, this past July everything dramatically changed for the Thai people and economy, when Thailand suffered its worst flooding in nearly 70 years. The damage from the floods cost the Thai economy over one trillion baht or the equivalent of 10% of GDP (this includes the cost of lost output as well as damage to infrastructure and factories). The devastation from the flooding greatly impacted both the supply-side and the demand-side of the Thai economy.

The big story was the impact of the flooding on fourth quarter growth, which contributed an estimated 1.0% decline to the overall GDP contraction of 2.8%. Exports declined by 12.4% in November, the worst showing in two years. Officials from the Thai government do not expect a return to normalcy until at least March or April 2012, which does not bode well for economic growth in the first quarter and for trade with the LACD. The rebound is expected in the second quarter or later but will be largely determined by domestic policy decisions and the global economy. Export growth will ultimately boost manufacturing production, employment and investment. Thailand's GDP is projected to grow by nearly 5.0% in 2012 as it recovers from the natural disaster.

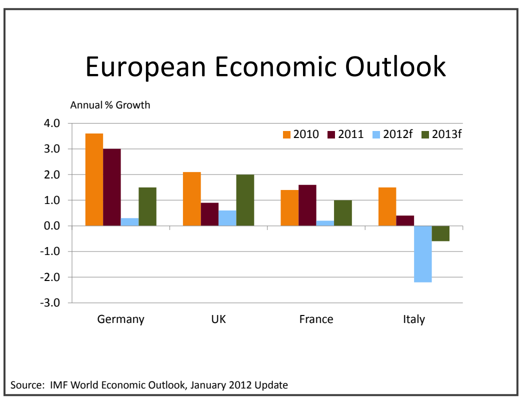
India: India (Asia's third largest economy) continued to lead the global expansion in 2011 and along with China, will lead the world economy once again in 2012. The Indian economy was the second best performer in 2011 (among the largest economies), with domestic demand and manufacturing leading the way. However, India's economic engine did slow down in 2011 as GDP expanded by 7.4% in

2011 after growing by 9.9% in 2010. Manufacturing, personal consumption, government spending and infrastructure investment all decelerated when compared to 2010.

High inflation continues to plague India. The Reserve Bank of India (RBI), the central bank, tightened monetary policy in the first half of 2011. The RBI raised rates ten times in a fifteen month time period from 2010 to the middle of 2011. These actions did begin to have an impact as inflation declined over the second half of 2011. Going forward, the RBI will most likely not make any moves over the beginning of this year.

In the short term, India still faces difficult obstacles to growth such as high inflation and fiscal problems. The budget deficit, along with the decline of the rupee, were the other key issues the Indian economy has had to deal with over the past year. These problems will continue this year and as a result, the Indian economy is forecast to expand by roughly 7.5%.

Europe Overview



The fourth quarter of 2011 saw the euro zone crisis intensify to the point where the collapse of the euro became a serious possibility and contingency plans were introduced. Recent summits produced some progress including an agreement to draft a fiscal compact and to launch the European Stability Mechanism in mid-2012 instead of 2013. In addition, the euro zone members considered more significant cooperation with the IMF and decided that bondholders would not be asked to bear any future losses due to debt restructuring. The events at the end of last year demonstrate that the only real solution to this crisis will come in the form of fiscal consolidation or a fiscal union in order to create a sustainable and viable European Union, which will take a significant amount of resolve on the part of all parties.

The European sovereign debt crisis remains the number one concern for 2012, along with the effects of austerity measures on economic growth. As a result, Europe *will* experience a mild recession in 2012. The future of the euro zone will most likely depend on what happens in Italy.

Germany (*LA County's #4 Source of FDI*): Europe's largest economy began 2011 strongly and then began to taper off over the second half of the year as the euro crisis intensified and as external demand deteriorated. Germany's GDP grew by 3.0% in 2011 when compared to a year earlier, after expanding by 3.6% in 2010. Solid domestic demand helped last year to offset the drop in exports. The German

Only 17 of the 27 members of the European Union are part of the euro zone including Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. The UK is not part of the euro zone.

economy is heavily reliant on exports as they comprise roughly 35% of GDP.

Germany's economy contracted in the fourth quarter of 2011 as business confidence and exports plunged due to the worsening of the debt crisis. New export orders and overall industrial production subsided and is expected to continue this trajectory into the first half of this year. The Germany economy could very well experience a recession in the first quarter of this year, but should regain some of its strength in the second half of the year. Ultimately, the outcome of the euro zone debt crisis along with external demand will determine the performance of the German economy in 2012. Germany's economy will face some very difficult obstacles this year and just barely grow by 0.25% to 0.50%.

France (*LA County's #3 Source of FDI*): The French economy witnessed a relatively strong performance at the beginning of 2011. This condition drastically changed as the year went on and the euro zone debt crisis worsened. The euro zone's second largest economy, France saw investment and manufacturing weaken over the second half of 2011. Unfortunately, this was after manufacturing production had experienced its strongest growth in thirty years over the first three months of 2011. By the second half of the year, government austerity measures began to be implemented which hampered consumer spending, negatively impacted investment, and added pain to a situation that was already marked by high unemployment.

France's economic performance really deteriorated in the fourth quarter of 2011. After nine straight quarters of growth, the French economy contracted in the final three months of the year falling by 0.2%. This weakness is expected to continue over the first quarter of this year leading to a technical recession. As if this was not bad enough news for the French economy, the ratings agency Standard & Poor's took away France's AAA rating in January. Also, the country will have presidential and legislative elections later this year and the performance of the economy along with the deficit environment will play a large role in the outcome. After growing by 1.6% in 2011, expect the French economy to slightly expand by roughly 0.2% in 2012.

United Kingdom (*LA County's #2 Source of FDI*): As expected, the performance of the UK economy has been much weaker than that of Germany and weaker than that of France in 2011. The UK economy grew by 0.9% in 2011 on a year-to-year basis. This slight increase in GDP was mainly due to a climb in exports. In fact, both consumer spending and business investment dropped throughout the year. The draconian government spending cuts greatly impacted private and public spending. In addition, the increase in the British value added tax (VAT) only exacerbated the situation. Consumer spending accounts for the largest percentage of economic output in the UK and the outlook continues to look bleak for 2012. The British economy will also have to contend with headwinds in the form of high unemployment, inflation, slower external demand, and the ongoing debt crisis.

British policymakers will try and boost confidence in the capital markets, keep interest rates low and revive private investment in order to restore real economic growth in the coming months. The UK economy is forecast to barely grow by 0.5% to 0.8% in 2012.

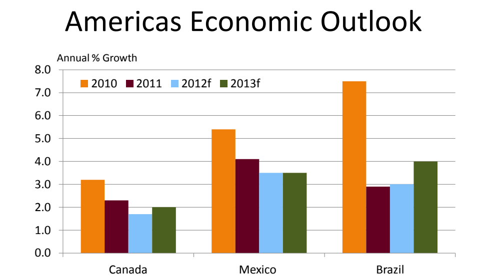
Italy: The euro zone's third largest economy entered into recession after the fourth quarter of 2011 as the lack of economic growth continues to plague Italy. This was the fifth recession since 2001 and many would argue that Italy will never overcome its debt situation until it can resolve the difficult issue of economic stagnation. Poor economic fundamentals have caused a decade of lackluster growth. Industrial production, consumer spending and investment all declined over the course of 2011 as the debt crisis worsened and earlier austerity measures were implemented. Things will further deteriorate over the first half of this year due to draconian austerity measures and a weakening global economy.

Italy was on the precipice of financial and economic disaster by the end of 2011 as market confidence collapsed and its borrowing costs skyrocketed to unsustainable levels. Italy was on the verge of defaulting and potentially destroying the viability of the euro. Italy represented a very different kind of problem relative to Greece, Ireland or Portugal. Unlike Greece, Ireland, or Portugal, Italy was considered to be too big to fail and too big to save as Italy is the third largest economy in the euro zone.

Italy needed to desperately change political, economic, and financial environments and it was able to do so as former Prime Minister Silvio Berlusconi resigned and it welcomed a new technocratic government led by Mario Monti. As a result of the severe spending cuts, tax increases and a decline in exports the Italian economy is projected to contract by nearly 2.0% this year. This means that Italy would be the worst performer of all the advanced economies.

Americas Overview

The Americas have followed Emerging Asia's direction in the global economic recovery process. Mexico was the strongest performer in 2011, followed by Brazil, both of which have acted to prevent their economies from overheating and addressed inflation. Based on initial



Source: IMF World Economic Outlook, January 2012 Update

estimates Brazil became the sixth largest economy in the world this past year, surpassing both Italy and the UK in just the past two years. Canada's economy also performed relatively well in 2011 as the labor market rebounded strongly and commodity exports performed well (particularly in the first half of 2011).

Brazil: The Brazilian economy experienced two very different economic results in 2011. The first half of the year was a continuation of the strong growth seen in 2010, while the second half was marked by policies to slow the pace of activity and prevent overheating.

With inflation hitting double digits, Brazilian policymakers deliberately applied the brakes by raising interest rates through the first half of 2011. After witnessing 7.5% growth in 2010 and growing by over 4.0% in the first three months of 2011, Brazil had to focus on preventing any further overheating. In addition, domestic demand began to slow down in the middle of 2011 as tax reductions and government subsidies dissipated.

Policy tightening constrained economic growth and it began to effectively lower inflation. At the same time, commodity prices began to fall and the global economy weakened leading to a deceleration in growth. Policymakers began to switch gears once again as the environment had now changed and exports began to decline due to the slowdown in China and Europe. In an about face, the Banco Central do Brasil (Brazil's Central Bank) began a series of interest rate cuts starting last August (which was surprisingly early and the first emerging market to start monetary easing), in an effort to re-kindle growth.

On the downside, a legitimate concern for the near future will be how the European fiscal crisis plays out, particularly in Spain and Portugal. The Brazilian banking sector is heavily exposed to both nations. The Brazilian economy is projected to expand by 3.0% to 3.5% this year due to expansionary monetary policy and capital investment.

Canada (*LA County's #5 Source of FDI*): The economic fundamentals of Canada are strong as the financial sector and government finances are in solid shape. Unlike its southern neighbor, Canada's fiscal house is in order. The Canadian economy expanded by 2.3% in 2011 compared to a year earlier. Most contributors to GDP performed well, as exports, inventories, capital investment and government spending all increased. The Canadian economy will continue to rely on business investment and exports this year in order to make up for the lack of consumer spending.

The continued strength of exports will depend upon the U.S. economic recovery in 2012, as 80% of Canadian exports go to the U.S. Employment figures did improve in 2011 and they should remain relatively strong in 2012. The overall outlook for 2012 is positive. Capital investment should remain strong. Because Canada is a large commodity exporter, it must be very attentive to the prices of oil and other commodities. The price of oil should hold up, but non-oil commodity prices are expected to weaken in 2012 as global demand declines. Another concern in Canada has become averting a housing crisis as housing purchases and prices have surged over the past couple of years. The Canadian economy should continue to expand by roughly 2% in 2012.

Mexico: Mexico's economy witnessed stronger growth than both Brazil and Canada in 2011 as it expanded by 4.1%. It also has a much lower inflation rate than the other nations in Latin America, including Brazil, and its currency has not strengthened as much as the Brazilian Real and the Chilean Peso. Both of these put Mexico at an advantage relative to other countries.

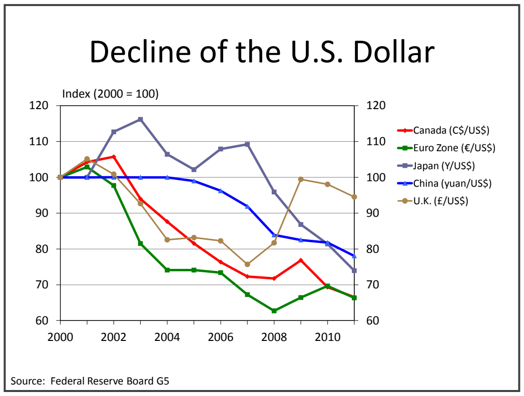
Latin America's second largest economy has directly benefitted from the upturn in the U.S. economy over the last two years, as a strong rebound in American manufacturing increased demand for Mexican exports. Similar to the Canadian economy, U.S. demand is absolutely critical to the Mexican economy as the U.S. receives over 80% of Mexico's manufactured exports.

Strong oil prices this year have increased revenues for the Mexican government and could provide even more support over 2012 as oil prices continue to rise due to increased tensions in the Middle East. Mexico's enduring unemployment problem has improved and this helped consumer spending over the latter part of last year.

Note that a worsening debt crisis in Spain, if it occurs, could negatively affect the banking sector. Many Mexican banks are exposed to Spain and Spanish foreign direct investment would be reduced. For 2012, Mexico's economy should grow by a respectable 3.5%.

FOREIGN EXCHANGE RATES

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



The big foreign exchange story over 2011 was really two stories, as the first half of the year was the exact opposite of the second half. The first half of 2011 saw the rise of currencies in the emerging and developing economies due to capital inflows. These economies had experienced robust economic growth and high inflation because of sharp increases in commodity prices. In response, economic policy mainly focused on controlling inflationary pressures and preventing overheating, as central banks increased interest rates over most of the first half of 2011.

However, all of this moved in the opposite direction in the second half of 2011. All of the major world and emerging economies currencies (with the exception of the yen and yuan) weakened over the past six months of last year as these economies moved away from eased monetary policy in reaction to the global economic slowdown. Also, the euro zone crisis worsened in the fourth quarter leading to a more risk averse environment, which generally leads to U.S. dollar appreciation.

Other key developments in foreign exchange markets included the continued appreciation of the Chinese renminbi/yuan, and the waxing and waning of the European debt crisis (most recently at the end of last year with the Italian debt crisis). Both of these issues impacted the global economy and currency markets over 2011.

The U.S. dollar should remain strong versus the euro at the beginning of this year as the euro zone debt crisis remains in the spotlight. The U.S. dollar will definitely gain further strength if the European debt situation worsens this year. Overall, the U.S. dollar is expected to strengthen over the first half of this year vis-à-vis most currencies and then depreciate over the second half of this year.

Los Angeles Customs District's Top Five Trading Partners Currencies

Chinese Renminbi/Yuan: From January to December 2011, the renminbi/yuan appreciated (strengthened) by 3.6% vis-à-vis the U.S. dollar moving to 6.34 renminbi/yuan per U.S. Dollar. The expectations are for the renminbi/yuan to continue to strengthen in 2012, though at a slower pace as they need to minimize the impact on exports and as profit margins become a bigger concern for Chinese manufacturers.

The strength of the Yen presents an excellent opportunity for Japanese investors to invest in the U.S. and in LA County.

Japanese Yen: The yen has reached 15-year highs over the past two years, which has led the Japanese government to devalue the yen multiple times. In addition, the G-7 nations decided to intervene in order to prevent the yen from gaining any additional strength after the disasters, which would have negatively impacted Japanese exports and any hope for economic recovery. These moves only provided temporary relief. In fact, since April of last year the yen appreciated vis-à-vis the U.S. dollar by almost 12% moving back to 75 yen per U.S. dollar, following a similar 12% appreciation in 2010. The demand for safe-haven currencies will continue this year and should keep the demand for the yen strong.

South Korean Won: Similar to most currencies, the won strengthened over the first half of 2011 and then depreciated over the second half. At the beginning of 2011, capital moved into South Korea as the economy grew. All that changed after July as the won depreciated and ultimately weakened by nearly 3.0% versus the U.S. dollar for the year. The won is expected to depreciate further in 2012. The U.S. dollar-won exchange rate will play a bigger role in determining two-way trade flows between South Korea and the LACD once the KORUS FTA goes into effect.

Taiwanese Dollar: In 2011, the Taiwanese dollar depreciated by 3.0% versus the U.S. Dollar. The Taiwanese Dollar started the year by slightly appreciating versus the U.S. dollar. However, that trend did not continue as the Taiwanese dollar weakened at the same time the other emerging currencies lost steam and actually depreciated by more than 4.0%. The Taiwanese dollar should also continue to weaken, particularly over the first half of 2012.

Thai Baht: The Thai baht weakened by over 2% vis-à-vis the U.S. dollar in 2011 after appreciating by over 10% in 2010. The Thai baht is projected to weaken over the first half of 2012 due to the floods and the weaker global environment. However, the recovery process will likely have a positive impact on the baht over the second half of the year.

Other Key Currencies Linked to our Local Economy

Canadian Dollar: The year began with the Canadian dollar gaining strength versus the U.S. dollar and then the Canadian dollar gave back all of its gains and more by the end of the year. Overall, the Canadian dollar depreciated by 3.0% vis-à-vis the U.S. Dollar in 2011. The short term outlook is for the Canadian dollar to remain slightly weaker than the U.S. dollar.

Mexican Peso: Over the past year, the peso has weakened by 13.2% versus the U.S. dollar after strengthening by over 5.0% vis-à-vis the U.S. dollar in 2010. The outlook for 2012 is for the peso to gain strength as the economy outperforms its neighbors and demand should be relatively strong due to higher interest rates in Mexico.

Euro: The euro ended 2010 down by 8% versus the U.S. dollar. The euro continued to perform well over the first half of 2011 as countries continued to implement fiscal reforms. However, when the situation in Greece deteriorated again in June the euro was never able to regain its strength and weakened over the last few months of 2011. As the situation in Italy deteriorated, the euro was on the verge of collapse. Overall, the euro depreciated vis-à-vis the U.S. dollar by 15% last year. The short-term outlook for the euro is to weaken as Europe faces a recession and some big decisions.

British Pound: Similar to the euro, the pound strengthened versus the dollar over the first part of 2011. In fact, the pound appreciated by nearly 4.0% from January to August before it began to weaken. From August to December the pound lost all of its strength and depreciated by nearly 5.0%. Over the year, the pound only depreciated by 1.0% versus the U.S dollar. The outlook is most likely for the British pound to weaken as the economy will at best experience very sluggish growth due to the austerity measures that were put into place in the middle of 2010.

TABLE 3: FOREIGN EXCHANGE RATES OF MAJOR U.S. TRADING PARTNERS

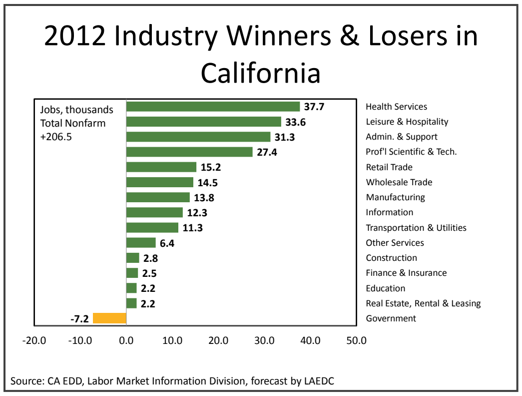
Country (Currency)*	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Broad Currency Basket (index)	125.93	126.66	119.09	113.63	110.71	108.52	103.40	99.90	105.69	101.85	97.17
Canada (US$/C$)	1.549	1.570	1.401	1.302	1.212	1.134	1.073	1.066	1.141	1.030	0.989
China (US$/yuan)	8.28	8.28	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77	6.46
Euro Zone (US$/€)**	0.895	0.945	1.132	1.244	1.245	1.256	1.371	1.473	1.393	1.326	1.393
Japan (US$/¥)	121.6	125.2	115.9	108.2	110.1	116.3	117.8	103.7	93.7	87.8	79.7
Mexico (US$/peso)	9.34	9.66	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62	12.42
South Korea (US$/₩)	1292	1250	1192	1145	1024	954	929	1099	1275	1156	1107
United Kingdom (US$/£)**	1.440	1.503	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545	1.604

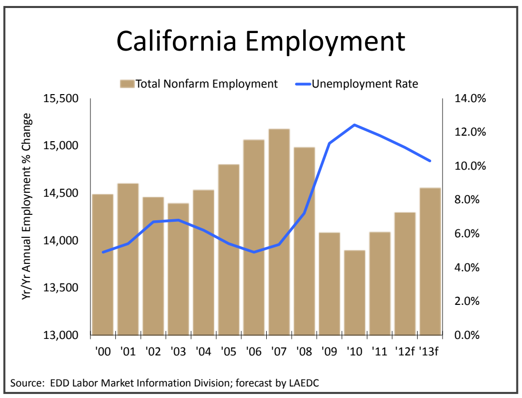
Percent Change***	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Broad currency basket (index)	5.4%	0.6%	-6.0%	-4.6%	-2.6%	-2.0%	-4.7%	-3.4%	5.8%	-3.6%	-4.6%
Canada (C$)	4.3%	1.4%	-10.8%	-7.1%	-6.9%	-6.4%	-5.3%	-0.7%	7.0%	-9.7%	-4.0%
China (yuan)	0.0%	0.0%	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%	-4.5%
Euro Zone (€)	3.0%	-5.6%	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%	-5.1%
Japan (¥)	12.8%	3.0%	-7.4%	-6.7%	1.8%	5.6%	1.2%	-11.9%	-9.6%	-6.3%	-9.2%
Mexico (peso)	-1.3%	3.5%	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.2%	-6.5%	-1.6%
South Korea (₩)	14.2%	-3.2%	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.4%	-4.2%
United Kingdom (£)	5.0%	-4.4%	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%	-3.8%

Source: Federal Reserve Statistical Release G.5A; Average Rates

Notes:
*Foreign currency units per U.S. dollar
**The value in U.S. dollars versus the foreign currency
***Performance of U.S. dollar versus the foreign currency

IV. Outlook for the California Economy





Like the U.S., California's labor market registered gains for all of 2011, albeit at an uneven pace during the course of the year. On an annual basis, the state unemployment rate fell modestly from 12.4% in 2010 to 11.8% in 2011. After languishing around 12% for over two and a half years, the monthly unemployment rate fell from 12.1% in August to 11.1% by December. Clearly, the labor market was beginning to improve as 2011 drew to a close.

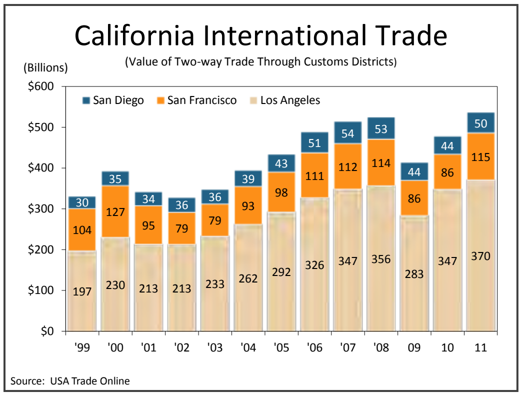
Similarly, California's 193,900 annual gain in nonfarm jobs from 2010 to 2011 was a welcome turn around in the market after three successive years of job losses totaling 1.3 million jobs. In a rare instance of California outperforming the nation, the state's 1.4% annual gain edged out the national labor market's 1.2% gain.

Across the major industries of the state, 2011 brought some much needed relief after years of job losses. Most, but not all, industries in the state registered gains, with the largest percentage increases coming in Information, Education, and Administrative and Support Services. However, Real Estate and Leasing, Government, and Management of Enterprises, and Other Services saw continued job losses, but on a smaller scale than in previous years.

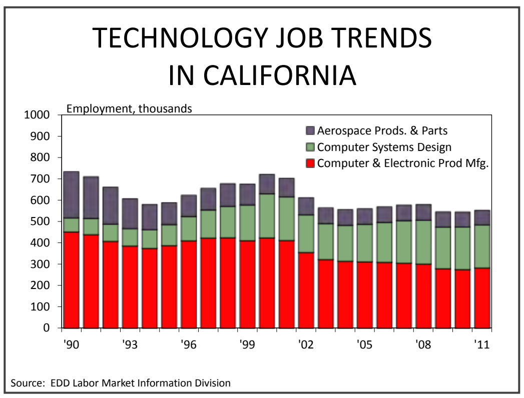
Trends in Major Industries

Agriculture: After falling to a low of 371,800 jobs during the recession of 2009, employment in this sector came back over the last two years. Farm related jobs totaled 379,700 in 2011, which was down from 381,600 jobs in 2010, but was roughly on a par with the 10-year average of 379,400 jobs. After a recession-induced 6.7% decline in 2009, farm receipts experienced back-to-back increases over the past two years, with an 8.6% gain in 2010 and a 9.7% year-to-date gain through November 2011. Livestock receipts were by far the most volatile with a 26.0% decline in receipts in 2009, followed by gains of 25.2% in 2010 and 24.9% (year-to-date through November) in 2011. Exports of California-grown and -bottled products increased by 17.4% during the first 11 months of 2011 after increasing by 17.1% in 2010.

International trade: International trade plays an important role in driving the California economy. Although imports and exports through California's three customs districts surged 21.6% in 2010 and recovered



most of trade activity that was lost the previous year during the Great Recession. Expansion occurred at a more moderate pace in 2011 with an 11.9% increase in the value of two-way trade (year-to-date for based on available data for January through November). The value of two-way trade for 2011 is expected to surpass the previous peak by year end. During the same period, imports grew by 11.0%, while the value of exports through the state's customs districts rose by 13.8%. Although exports account for just less than a third of two-way trade, exports suffered a smaller decline through the recession and have come back more strongly than imports, as economic activity among key Asian trading partners held somewhat better through the recession, and demand in these economies grew quickly during its aftermath. Imports lagged in recovery because of the slow pace of growth in the U.S., but should exceed pre-recession peak levels when the final numbers are in for 2011. Trade flows through California will increase at a moderate pace in 2012 and 2013.

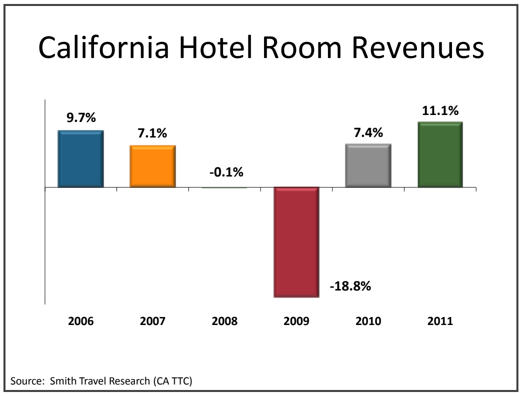


Technology and Aerospace: The various components of California's technology sector have somewhat disparate outlooks. Business demand for technology products has been strong in the past two years, and is expected to rise at a healthy pace over the next two years. Sales of consumer technology products have also done well in the post-recession years. Innovation moves quickly with consumer technology, and many households are eager to have the latest in computers, tablets, smart phones and other personal mobile devices. This is reflected in employment trends, with jobs in these industries stabilizing in 2011 after both trend and cyclical decreases in the last decade.

The industries with the largest percentage increases were seen in Information, Education, and Administrative and Support Services.

California's aerospace sector continues to hold its own but has struggled to maintain aerospace-related employment numbers. Overall, Airbus shipped 534 planes last year and Boeing delivered 477. Commercial aircraft orders have come back after sharp decreases during the recession. Commercial satellites and even commercial space vehicles are in various stages of planning and production.

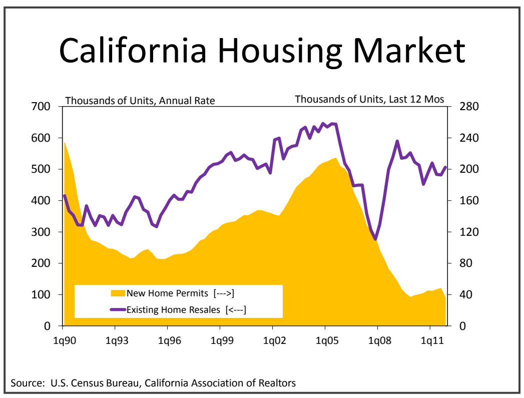
In the defense aerospace sector, a number of major government-sponsored defense projects are underway. Boeing expects to continue production of the C-17 over the next few years by supplementing production for US military needs with production destined for customers elsewhere in the world, such as India and the United Kingdom. Military satellite and communications orders with Boeing and Northrop Grumman were also announced in 2011. It remains to be seen how anticipated cuts in federal defense spending will affect programs in the state.



Tourism: California's tourism industry continued to rebound from the 2009 recession, with improvement in nearly every part of the state. According to Smith Travel Research, the state's hotels reported a 5.4% increase in occupancy rates from 64.1% in 2010 (January through November) to 67.5% over the same time period in 2011. Room rates rose 5.5% for the same time period in 2011 compared to a year earlier, resulting in an 11.1% rise in room revenue statewide.

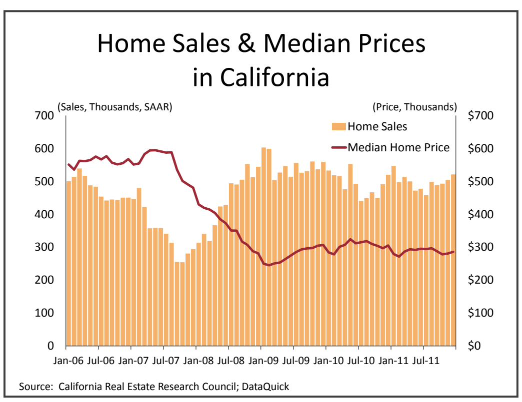
All major markets reported improved occupancy rates and room rates, driving room revenues up in 2011, led by a 20.1% jump in the San Francisco/San Mateo market, a 12.3% increase in Los Angeles, and a 10.0% gain in Anaheim/Santa Ana.

Tourism industry revenues should rise modestly in 2012, as the general economy improves and the pace of business and leisure travel quickens. Intra-state travel also is likely to show steady improvement.



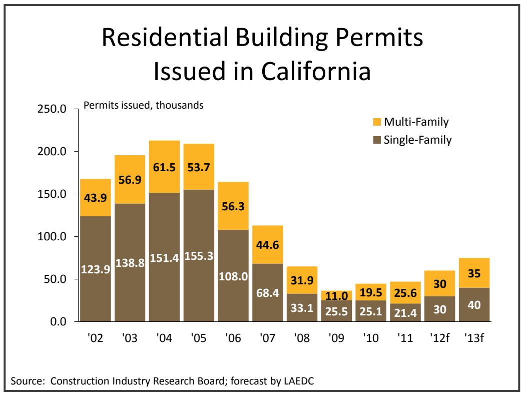
Housing: While it will be at least two years before the housing market fully recovers, 2012 will mark a transition point on the road to recovery. For most households, the price of existing homes is what counts. However, it is the new home market where the potential for large job gains resides.

Existing home prices fell across much of the state in year-to-year terms throughout 2011, but held steady in month-to-month comparisons through much of the year. The mix of sales has already tilted away from distressed sales (bank-owned REO sales and short sales) in favor of non-distressed sales, a trend that should continue in 2012.



Existing home prices in many parts of the state could firm up with genuine improvement in the economy, mainly through heightened demand for homes. But this also depends on the flow of properties through the foreclosure pipeline, which has been fairly steady for over two years, the availability of mortgage money, and some easing in qualifying standards. While no one wants to go back to the "if you can fog a mirror" days of qualifying for a mortgage, there is evidence that qualifying standards are high. The National Association of Realtors reported that the typical FICO score for approved Fannie Mae and Freddie Mac loans was about 760, about 40 points higher than normal. A differential of 40 points is equivalent to 15 to 20% of the population, which has clear implications for the number of available buyers.

Before leaving this side of the housing market, it is worth noting that existing home sales have been at respectable levels the last two years. A normal housing market should be able to sustain statewide home sales



of roughly 500,000 to 550,000 homes annually. In both 2010 and 2011, home sales fell just shy of the lower bound with sales in the low 490,000 range. So the market is functioning despite the woes it has faced in recent years.

As for new homes, one could say that it is difficult to justify building new homes when recently built homes that are short sales or REO sales are selling at a fraction of the cost of new construction. Indeed there is some veracity to this statement. New home prices continue to struggle, and new home construction has languished at very low levels for years. Total housing permits have declined from just shy of 213,000 at the peak of the most recent cycle to 47,016 in 2011. Significantly, the mix of permits has shifted in favor of multifamily, a fact that should not be entirely surprising when one considers that the distressed properties seem to be most prominent among single family homes, *and* when one observes that multifamily, especially rentals, have historically been undersupplied to the state's housing market.

Beyond these near-term market considerations, weakness in new home construction will likely collide with demographic trends in the long run. Population gains in California continued throughout the recession, driven mainly by internal dynamics, i.e. births minus deaths, but that demographic trend still resulted in population gains of 282,000 in 2011, with similar population gains expected in the coming years.

California should experience modest improvement in economic conditions over the forecast period, growing by 1.5% and adding over 200,000 jobs. For 2012, the unemployment rate will average 11.1%.

Having a more direct connection to housing, the number of households increased by 300,000 over the past five years and will grow by another 850,000 over the next five years. The number of new homes constructed over that time period will undoubtedly fall short of that total, which sets the state up for a housing shortage at some point in the second half of the decade.

Nonresidential Construction: Nonresidential construction appears to be slightly ahead of the curve in making a comeback when compared with residential construction. Nonresidential construction permits fell by more than half from the 2007 peak levels of $27.3 billion to a recession low of $10.9 billion in 2009. Following a small 3.1% turnaround in 2010, nonresidential permits surged by 16.3% to $13.0 billion last year. Modest gains are expected this year and next, with a 7.5% gain slated for 2012 and a 9.3% increase expected the following year. The state will continue to receive American Reinvestment and Recovery Act (ARRA) funds for a number of construction projects, but that support should provide less of a stimulus as ARRA winds down further in 2012.

State of California Budget: When the proposed fiscal year (FY) 2012-13 California State Budget was submitted in January, the updated budget for the current FY 2011-12 (which ends June 30, 2012) showed a 9.0% decline in general fund revenues, primarily because of large declines in sales and use taxes, and corporate taxes. With the expiration of the temporary 1% sales tax increase, sales and use tax receipts fell by 26.4% from June through December 2011 compared with the same period in 2010.

Over the same time period, disbursements fell by 3.5%, with universities and the legislative/executive/judicial operations experiencing the largest state program cuts at 22.7% and 11.5% respectively. Total local assistance fell by 10.9%, with K-12 education absorbing an 11.9% cut.

The proposed FY 2012-13 budget includes an anticipated 7.7% gain in general fund revenues and a 7.0% increase in outlays. Several areas are slated for increased funding, including K-12 schools, corrections, and legislative/judicial/executive operations, partially restoring funds that have been cut in recent years. The state legislature managed to pass the FY 2011-12 budget on time last year. Time will tell whether they will deliver a repeat performance.

California Forecast: California should experience modest improvement in economic conditions over the forecast period, growing by 1.5% and adding over 200,000 jobs this year, with a 1.8% next year, which is equivalent to nearly 260,000 jobs. For 2012, the unemployment rate will average 11.1%, with further improvement to 10.3% in 2013. As mentioned throughout this report, the economy will continue to heal but the process is uncomfortably long.

GROSS PRODUCT[1]

Los Angeles County has the 19th largest economy in the world.

Which are the world's largest economies? People frequently ask how California's gross domestic product (GDP) ranks among the nations of the world. They also ask about where the Los Angeles five-county area and Los Angeles County would rank if they were sovereign countries.

Based on the final results for 2010[2], California fell from eighth to ninth place in the rankings behind Brazil and Italy, whereas the five-county area retained its 16th place ranking. Los Angeles County moved up one slot to 19th place. Los Angeles County is now just behind the Netherlands, Turkey, and Indonesia, and ahead of Switzerland, Poland and Belgium, Sweden, Saudi Arabia, Taiwan and Norway.

In *nominal* terms (not adjusted for inflation and based on market exchange rates), GDP growth rates in 2010 for the U.S., California, the Los Angeles five-county region and Los Angeles County were not nearly as high as in most emerging and developing nations. Taiwan, India, and China were the only economies that experienced double-digit growth rates in both nominal and real (adjusted for inflation and constant prices) terms in 2010.

China surpassed Japan to become the second largest economy in the world in 2010 (on a nominal basis). Other notable developments include Spain falling from 9th to 12th place, while Canada, India and Russia all moved up one spot in the rankings.

When compared in *real* GDP terms, the emerging and developing economies also posted much stronger growth than the California and Southern California economies. Taiwan, India, and China experienced the largest GDP gains, boosted by government spending, exports, and consumer spending. Other notable performances in real terms during 2010 included the economies of Turkey, Brazil, South Korea, and Indonesia. The worst performances of the year occurred in some of the euro zone economies.

---

[1] This list is based on market exchange rates (nominal method) and not adjusted for purchasing power parity (PPP) utilizing PPP exchange rates.

[2] International gross domestic product figures (IMF) and domestic regional figures (BEA) are published in the third quarter following the previous year end. Thus, the figures reported in Table 4 lag by one year.

Table 4: Gross Product Comparisons
($Billions, 2010 figures)

Rank	Country/State/Region	2010	Nominal GDP '09-'10 % Chg	Real GDP '09-'10 % Chg
1	United States	$14,526.55	4.2%	3.0%
2	China	5,878.26	17.8%	10.3%
3	Japan	5,458.80	8.5%	4.0%
4	Germany	3,286.45	-0.6%	3.6%
5	France	2,562.74	-2.6%	1.4%
6	United Kingdom	2,250.21	3.1%	1.4%
7	Brazil	2,090.31	30.6%	7.5%
8	Italy	2,055.11	-2.9%	1.3%
	California	**1,901.09**	**2.9%**	**1.8%**
9	India	1,631.97	29.0%	10.1%
10	Canada	1,577.04	17.9%	3.2%
11	Russia	1,479.83	21.1%	4.0%
12	Spain	1,409.95	-3.9%	-0.1%
13	Australia	1,237.36	25.2%	2.7%
14	Mexico	1,034.31	17.6%	5.4%
15	South Korea	1,014.48	21.6%	6.2%
	Los Angeles 5-co. area	**881.30**	**2.3%**	**1.2%**
16	Netherlands	780.67	-1.9%	1.6%
17	Turkey	735.49	19.7%	8.9%
18	Indonesia	706.75	31.3%	6.1%
	Los Angeles County	**543.74**	**8.8%**	**0.3%**
19	Switzerland	527.92	7.2%	2.7%
20	Poland	469.40	9.0%	3.8%
21	Belgium	467.78	-0.9%	2.1%
22	Sweden	458.73	13.7%	5.7%
23	Saudi Arabia	448.36	18.9%	4.1%
24	Taiwan	429.85	13.9%	10.9%
25	Norway	412.99	11.4%	0.3%

Note: Based on market exchange rates and not on purchasing power parity exchange rates
Note: Nominal GDP figures are not adjusted for inflation
Sources: IMF WEO -- September 2011, BEA -- September 2011, and LAEDC estimates

TABLE 5: CALIFORNIA ECONOMIC INDICATORS

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemploy-ment Rate (ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($Billions)	Value of Two-way Trade ($Billions)	Housing Unit Permits Issued	Nonresidential Buidling Permist
2001	34,481.8	14,602.0	5.4	1168.7	33,893	294.0	340.7	148,757	23,455
2002	34,867.8	14,457.8	6.7	1187.3	34,051	301.6	328.1	167,761	19,835
2003	35,236.6	14,392.8	6.8	1233.0	34,992	320.2	348.0	195,682	18,628
2004	35,538.3	14,532.6	6.2	1312.2	36,924	350.2	394.8	212,960	19,718
2005	35,770.7	14,801.3	5.4	1387.7	38,794	375.8	433.8	208,972	21,469
2006	35,947.5	15,060.3	4.9	1495.5	41,602	389.1	487.6	164,280	23,298
2007	36,185.9	15,173.5	5.2	1566.4	43,289	387.0	512.9	113,034	23,733
2008	36,538.0	14,981.4	7.2	1604.2	43,905	357.3	523.3	64,962	19,588
2009	36,887.6	14,084.7	11.3	1567.0	42,480	311.2	413.3	36,421	10,866
2010	37,318.5	13,896.4	12.4	1590.3	42,614	327.9	502.6	44,762	11,200
2011e	37,578.6	14,090.3	11.8	1681.9	44,757	354.5	559.7	47,015	13,029
2012f	37,916.8	14,296.8	11.1	1737.6	45,827	367.4	578.3	60,000	14,000
2013f	38,258.1	14,554.1	10.3	1804.5	47,167	380.6	606.0	75,000	15,300
% Change									
01/00	1.4%	0.8%		2.9%	1.5%	2.4%	-13.1%	0.1%	-12.2%
02/01	1.1%	-1.0%		1.6%	0.5%	2.6%	-3.7%	12.8%	-15.4%
03/02	1.1%	-0.4%		3.8%	2.8%	6.2%	6.1%	16.6%	-6.1%
04/03	0.9%	1.0%		6.4%	5.5%	9.4%	13.4%	8.8%	5.9%
05/04	0.7%	1.8%		5.8%	5.1%	7.3%	9.9%	-1.9%	8.9%
06/05	0.5%	1.7%		7.8%	7.2%	3.5%	12.4%	-21.4%	8.5%
07/06	0.7%	0.8%		4.7%	4.1%	-0.5%	5.2%	-31.2%	1.9%
08/07	1.0%	-1.3%		2.4%	1.4%	-7.7%	2.0%	-42.5%	-17.5%
09/08	1.0%	-6.0%		-2.3%	-3.2%	-12.9%	-21.0%	-43.9%	-44.5%
10/09	1.2%	-1.3%		1.5%	0.3%	5.4%	21.6%	22.9%	3.1%
11/10	0.7%	1.4%		5.8%	5.0%	8.1%	11.4%	5.0%	16.3%
12/11	0.9%	1.5%		3.3%	2.4%	3.6%	3.3%	27.6%	7.5%
13/12	0.9%	1.8%		3.9%	2.9%	3.6%	4.8%	25.0%	9.3%

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, thousands; March 2010 benchmark

Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2001	14,602.0	25.6	780.4	1,778.6	1,161.4	617.2	658.9	1,575.9	514.1	551.9
2002	14,457.8	23.1	774.4	1,631.8	1,047.0	584.9	652.1	1,582.2	491.0	497.3
2003	14,392.8	22.2	796.8	1,542.4	976.4	566.0	649.5	1,588.4	480.6	476.1
2004	14,532.6	22.8	850.4	1,521.3	963.9	557.4	655.1	1,617.8	482.8	482.4
2005	14,801.3	23.6	905.3	1,502.6	956.9	545.7	675.8	1,659.3	487.1	473.6
2006	15,060.3	25.1	933.7	1,488.0	945.4	542.6	702.5	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	14,981.4	28.7	787.7	1,425.3	899.8	525.6	703.5	1,640.9	504.6	475.5
2009	14,084.7	26.1	623.1	1,281.9	798.9	483.0	645.3	1,523.0	474.0	440.4
2010	13,896.4	26.8	559.8	1,242.4	770.1	472.3	643.2	1,508.8	464.9	429.0
2011e	14,090.3	27.4	567.9	1,251.3	778.8	472.6	660.7	1,518.6	468.8	453.3
2012f	14,296.8	27.4	570.7	1,265.1	787.3	477.8	675.2	1,533.8	480.1	465.6
2013f	14,554.1	27.4	577.8	1,289.1	804.6	484.5	690.7	1,550.7	495.5	480.5

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	562.6	267.2	945.6	284.5	957.1	237.3	1,216.9	1,365.1	499.2	2,382.1
2002	578.5	268.2	913.8	266.8	939.3	245.5	1,259.7	1,382.4	505.7	2,447.1
2003	606.6	272.2	906.6	247.7	931.0	258.2	1,285.0	1,400.1	504.3	2,426.1
2004	618.8	276.4	918.9	231.3	947.8	262.9	1,304.1	1,439.4	503.9	2,397.7
2005	636.6	283.6	970.2	222.1	968.3	272.2	1,321.2	1,475.2	505.5	2,420.2
2006	639.3	288.5	1,026.5	212.6	1,003.3	277.6	1,343.8	1,519.0	507.1	2,452.3
2007	613.1	283.5	1,060.4	207.2	997.9	289.3	1,388.9	1,560.4	512.2	2,494.6
2008	566.0	275.9	1,079.6	207.2	951.6	300.6	1,432.6	1,572.6	511.3	2,518.9
2009	528.1	254.9	1,014.5	197.3	847.4	304.3	1,455.7	1,503.1	486.1	2,479.6
2010	511.9	247.9	1,020.6	190.5	858.3	307.9	1,479.0	1,493.7	484.7	2,427.1
2011e	511.7	245.0	1,054.7	189.3	895.2	325.6	1,508.7	1,527.6	482.7	2,401.9
2012f	514.2	247.2	1,082.1	189.7	926.5	327.8	1,546.4	1,561.2	489.1	2,394.7
2013f	516.8	249.4	1,111.3	190.3	980.2	329.4	1,583.5	1,589.3	495.1	2,397.1

TABLE 7: CALIFORNIA REGIONAL NONFARM EMPLOYMENT

Annual averages for major metropolitan areas, thousands; March 2010 benchmark

		Northern California				Central California					Southern California			
\ MSA Year \	State of California	Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside-San Bernardino	San Diego	Ventura
1990	12,499.8	879.2	947.3	824.2	170.7	224.5	117.5	618.5	152.7	4,135.7	1,172.4	712.6	966.6	230.3
1991	12,358.9	879.7	939.5	815.4	177.3	227.3	117.8	630.9	155.2	3,982.7	1,143.7	718.9	962.6	230.4
1992	12,153.5	870.2	914.4	801.7	173.3	230.2	120.0	623.2	154.8	3,804.5	1,126.0	729.6	947.7	226.6
1993	12,045.4	873.5	908.3	806.7	169.9	233.6	121.6	626.0	156.2	3,707.6	1,115.4	733.9	947.2	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	955.5	233.3
1995	12,422.0	897.5	916.5	842.8	172.8	243.5	124.0	662.8	160.3	3,746.6	1,151.7	779.9	978.7	237.3
1996	12,743.4	915.4	948.2	891.9	174.9	246.8	127.8	681.5	163.5	3,788.5	1,184.3	803.5	1,006.4	237.9
1997	13,129.7	948.6	983.5	939.7	179.2	249.8	131.7	702.0	167.4	3,865.0	1,233.8	841.5	1,054.6	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	1,105.8	252.3
1999	13,991.8	1,008.4	1,040.0	985.1	188.8	262.0	141.7	770.5	178.7	4,002.9	1,345.2	939.0	1,153.4	263.6
2000	14,488.2	1,046.7	1,082.1	1,044.3	194.1	270.6	144.2	797.1	185.8	4,072.1	1,388.9	988.4	1,194.3	275.0
2001	14,602.0	1,054.5	1,053.9	1,017.9	202.2	275.9	149.7	818.9	191.1	4,073.6	1,413.7	1,029.7	1,218.6	279.9
2002	14,457.8	1,039.0	987.1	917.2	205.1	282.0	150.7	832.2	194.0	4,026.8	1,403.7	1,064.5	1,230.8	281.8
2003	14,392.8	1,024.8	950.7	870.3	207.1	282.7	152.3	846.0	197.3	3,982.9	1,429.0	1,099.2	1,240.1	284.2
2004	14,532.6	1,022.9	939.3	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1,160.0	1,260.3	286.2
2005	14,801.3	1,031.4	945.8	869.9	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1,222.0	1,282.1	291.2
2006	15,060.3	1,044.6	964.4	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1,267.7	1,301.6	297.7
2007	15,173.5	1,048.2	989.1	911.2	238.7	306.4	160.1	903.0	211.5	4,122.1	1,515.5	1,270.9	1,308.8	296.8
2008	14,981.4	1,030.4	996.7	914.9	238.0	303.0	156.4	882.1	205.7	4,070.7	1,481.6	1,223.8	1,298.7	291.3
2009	14,084.7	968.0	945.3	856.4	227.1	286.4	146.7	831.5	193.8	3,824.1	1,372.1	1,134.8	1,231.4	275.6
2010	13,896.4	948.4	935.2	852.4	224.3	279.8	145.3	807.9	188.0	3,769.0	1,352.9	1,111.2	1,220.2	272.5
2011e	14,090.3	946.4	942.4	874.2	227.3	279.6	145.0	802.1	187.9	3,785.4	1,367.2	1,113.8	1,239.6	274.8
2012f	14,296.8	960.6	953.7	889.1	229.8	280.7	146.6	811.7	189.2	3,808.1	1,389.1	1,130.1	1,260.7	279.5
2013f	14,554.1	976.0	966.1	903.3	233.5	284.9	148.9	825.5	192.1	3,853.8	1,414.1	1,150.5	1,283.4	284.2

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

Table 8: Total Nonfarm Employment in Southern California

Actual Data & Forecasts (Annual averages in thousands)

Year	Los Angeles	Orange	RC-SBC	Ventura	LA 5-Co.	San Diego	California
2002	4,026.8	1,403.7	1,064.5	281.8	6,776.8	1,230.8	14,457.8
2003	3,982.9	1,429.0	1,099.2	284.2	6,795.3	1,240.1	14,392.8
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,532.6
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,801.3
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,060.3
2007	4,122.1	1,515.5	1,270.9	296.8	7,205.3	1,308.8	15,173.5
2008	4,070.7	1,481.6	1,223.8	291.3	7,067.4	1,298.7	14,981.4
2009	3,824.1	1,372.1	1,134.8	275.6	6,606.6	1,231.4	14,084.7
2010	3,769.0	1,352.9	1,111.2	272.5	6,505.6	1,220.2	13,896.4
2011e	3,784.6	1,367.2	1,113.8	274.8	6,540.5	1,239.6	14,090.3
2012f	3,808.1	1,389.1	1,130.1	279.5	6,606.8	1,260.7	14,296.8
2013f	3,853.8	1,414.1	1,150.5	284.2	6,702.6	1,283.4	14,554.1

Numerical Change from Prior Year (in thousands)

Year	Los Angeles	Orange	RC-SBC	Ventura	LA 5-Co.	San Diego	California
2002	-46.8	-10.0	34.8	1.8	-20.2	12.4	-144.8
2003	-43.9	25.3	34.7	2.4	18.5	9.3	-65.0
2004	13.6	27.7	60.8	2.0	104.1	20.2	139.8
2005	27.7	34.3	62.0	5.0	129.0	21.8	268.7
2006	68.3	27.9	45.7	6.5	148.4	19.5	259.0
2007	29.6	-3.4	3.2	-0.9	28.5	7.2	113.2
2008	-51.4	-33.9	-47.1	-5.5	-137.9	-10.1	-192.1
2009	-246.6	-109.5	-89.0	-15.7	-460.8	-67.3	-896.7
2010	-55.1	-19.2	-23.6	-3.1	-101.0	-11.2	-188.3
2011e	15.6	14.3	2.6	2.3	34.9	19.4	193.9
2012f	23.5	21.9	16.3	4.7	66.3	21.1	206.5
2013f	45.7	25.0	20.4	4.7	95.8	22.7	257.3

% Change from Prior Year

Year	Los Angeles	Orange	RC-SBC	Ventura	LA 5-Co.	San Diego	California
2002	-1.1%	-0.7%	3.4%	0.6%	-0.3%	1.0%	-1.0%
2003	-1.1%	1.8%	3.3%	0.9%	0.3%	0.8%	-0.4%
2004	0.3%	1.9%	5.5%	0.7%	1.5%	1.6%	1.0%
2005	0.7%	2.4%	5.3%	1.7%	1.9%	1.7%	1.8%
2006	1.7%	1.9%	3.7%	2.2%	2.1%	1.5%	1.7%
2007	0.7%	-0.2%	0.3%	-0.3%	0.4%	0.6%	0.8%
2008	-1.2%	-2.2%	-3.7%	-1.9%	-1.9%	-0.8%	-1.3%
2009	-6.1%	-7.4%	-7.3%	-5.4%	-6.5%	-5.2%	-6.0%
2010	-1.4%	-1.4%	-2.1%	-1.1%	-1.5%	-0.9%	-1.3%
2011e	0.4%	1.1%	0.2%	0.9%	0.5%	1.6%	1.4%
2012f	0.6%	1.6%	1.5%	1.7%	1.0%	1.7%	1.5%
2013f	1.2%	1.8%	1.8%	1.7%	1.5%	1.8%	1.8%

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

Table 9: California Technology Employment

Annual averages, thousands, March 2010 benchmark , based on NAICS

		Manufacturing			Services				
Year	Total Technology Employment	Electronic Product Manufacturing	Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	ISPs, Web Portals, Data Processing	Computer Systems Design & Rel. Services	Management, Scientific & Technical Consulting	Scientific R&D Services
2001	1,019.0	409.7	86.3	39.2	52.6	28.8	204.4	99.1	99.1
2002	922.0	353.7	79.6	39.5	48.8	20.7	177.1	102.1	100.5
2003	876.8	320.9	73.6	39.1	44.7	18.7	168.8	109.7	101.2
2004	876.9	313.4	73.7	40.6	42.6	18.5	168.5	119.0	100.8
2005	902.6	310.8	73.4	42.0	41.6	19.6	175.6	135.4	104.2
2006	932.2	308.2	73.0	44.0	41.3	20.9	187.3	151.3	106.2
2007	950.4	304.1	72.8	44.2	43.0	20.7	199.2	159.0	107.6
2008	971.2	300.0	73.7	43.6	44.9	20.4	205.8	166.8	116.1
2009	924.0	278.6	71.3	43.5	45.0	19.3	195.5	156.1	114.9
2010	933.9	274.6	69.0	43.5	44.8	19.3	200.4	164.2	118.3
2011e	959.8	281.9	67.9	44.6	46.2	19.6	202.4	175.1	122.1

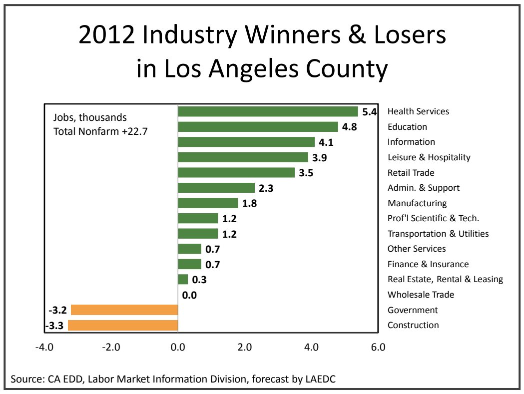
Sources: California Employment Development Department, Labor Market Information Division; estimates by LAEDC

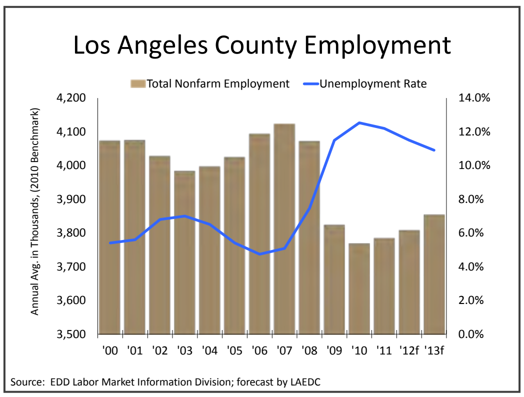
Table 10: Population Trends in California & the Los Angeles 5-County Area

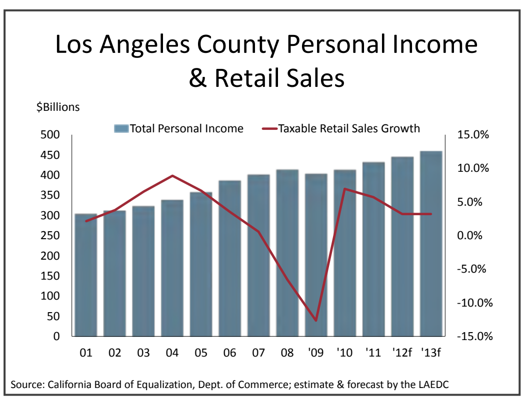
Year	Los Angeles County		Orange County		Inland Empire		Ventura County		San Diego County		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1980	7,500	\	1,945	\	1,572	\	532	\	1,873	\	23,782	\
		18.1%		24.0%		66.7%		25.7%		33.7%		25.4%
1990	8,860	/	2,412	/	2,620	/	669	/	2,505	/	29,828	/
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	677	1.2%	2,555	2.0%	30,459	2.1%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686	1.4%	2,590	1.4%	30,987	1.7%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	694	1.1%	2,598	0.3%	31,314	1.1%
1994	9,106	0.3%	2,576	1.0%	2,920	1.2%	701	1.0%	2,611	0.5%	31,524	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,960	1.4%	705	0.6%	2,615	0.2%	31,712	0.6%
1996	9,108	0.1%	2,646	1.6%	3,007	1.6%	710	0.8%	2,627	0.5%	31,963	0.8%
1997	9,186	0.9%	2,700	2.0%	3,063	1.9%	722	1.6%	2,680	2.0%	32,453	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	2,726	1.7%	32,863	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	2,776	1.9%	33,419	1.7%
2000	9,544	1.6%	2,854	1.8%	3,276	2.4%	757	1.9%	2,828	1.9%	34,001	1.7%
2001	9,634	0.9%	2,890	1.3%	3,376	3.0%	765	1.1%	2,870	1.5%	34,482	1.4%
2002	9,718	0.9%	2,914	0.8%	3,483	3.2%	776	1.5%	2,910	1.4%	34,868	1.1%
2003	9,782	0.7%	2,940	0.9%	3,610	3.7%	783	0.9%	2,944	1.2%	35,237	1.1%
2004	9,808	0.3%	2,957	0.6%	3,743	3.7%	787	0.5%	2,963	0.7%	35,538	0.9%
2005	9,802	-0.1%	2,957	0.0%	3,859	3.1%	786	-0.2%	2,970	0.2%	35,771	0.7%
2006	9,756	-0.5%	2,955	-0.1%	3,965	2.8%	787	0.2%	2,983	0.4%	35,948	0.5%
2007	9,728	-0.3%	2,966	0.4%	4,044	2.0%	789	0.2%	3,014	1.1%	36,186	0.7%
2008	9,772	0.4%	2,983	0.6%	4,089	1.1%	794	0.6%	3,051	1.2%	36,538	1.0%
2009	9,832	0.6%	2,999	0.5%	4,181	2.3%	801	0.9%	3,078	0.9%	36,888	1.0%
2010	9,881	0.5%	3,017	0.6%	4,231	1.2%	810	1.2%	3,105	0.9%	37,319	1.2%
2011	9,920	0.4%	3,044	0.9%	4,286	1.3%	821	1.3%	3,131	0.9%	37,579	0.7%

Source: California Dept. of Finance, Demographic Research Unit

V. Outlook for Los Angeles County







Los Angeles County, one of California's original 27 counties, was established Feb. 18, 1850. It is one of the nation's largest counties with 4,084 square miles and 88 cities. With nearly 10 million residents, it has the largest population of any county in the nation, and accounts for 27% of California’s total population.

Los Angeles was hit hard by the Great Recession. Over 350,000 jobs were lost and the unemployment rate rose to 13%. Nevertheless, the county saw job gains in both the important education sector and the health services sector throughout the recession. Los Angeles County has participated somewhat unevenly in the economic gains of the past two years, but recovery is lagging the state as a whole.

Industry Outlook

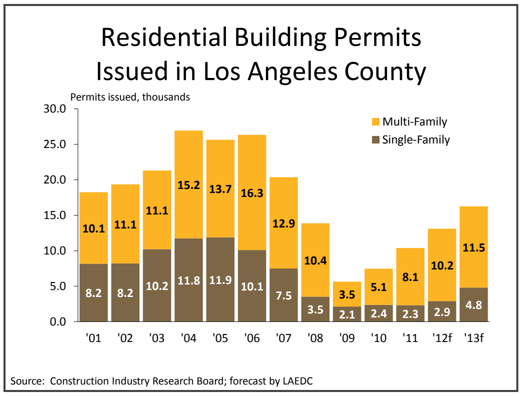
The Los Angeles economy eked out a slight improvement of 0.4% in nonfarm jobs last year, but several industries are poised for growth over the forecast period as the national economy continues to expand and recovery takes a firmer hold in the state economy.

International trade activity finished 2011 just behind the prior year, but only because of a strong finish in December. With gradual improvement in the national economy, trade gains are in store for the year ahead as are increases in jobs. However, there are concerns about the impact of slower global economic growth on trade coming through the ports and the airports.

Entertainment industry activity has increased as well, with overall film production rising modestly last year after a large rebound in 2010. More motion pictures and commercials were filmed locally in 2011, but television pilots and shows declined slightly.

Tourism also has turned up with new hotels downtown and in Hollywood drawing more business and leisure travelers. Occupancy rates averaged better than 70% last year, room rates rose 5.6% over 2010, and room revenue rose 12% over 2010. The sector should see more gains in 2012 and 2013.

Private education jobs grew throughout the recession, and the sector is poised for continued growth over the forecast period. A number of local universities have national, if not global, recognition that can play an important role in attracting the region’s next generation of highly



trained workers. This sector also includes private K-12 schools and job training institutions that attract workers and those seeking training for better jobs.

Healthcare services also added jobs during the course of the recession, and should see job gains continue this year and next. While many medical professionals serve the local population, university/teaching hospitals also attract patients from out of the area. Good hospitals attract excellent physicians, and L.A. County has some of the best. Healthcare reform has lent uncertainty to this sector's future.

Retail sales will respond to improving conditions for households, with a marginal uptick in retail sales and employment in 2011 giving way to somewhat faster growth in 2012 and 2013.

Major construction projects will support the Los Angeles economy this year. Partly funded by the federal government, LAX, Metro, and the two ports all have significant construction programs underway. Other projects are in progress elsewhere in the county, notably the new courthouse building in Long Beach. Overall, nonresidential activity will be a bright spot in an otherwise hard-hit sector with increases in valuations last year as well as the next two years. Residential permits will register sizable percentage increases, but this part of housing is coming off a very low base and will take years to recover. Construction activity will take time to recover but even a modest rise in job counts will be welcome.

Local Government Finance will remain a big concern as it has during the recession and in the years since. The state's chronic budget problems have hurt school district, city and county budgets. More layoffs and service cuts are expected in 2012, but jobs should turn slightly positive in 2013.

The largest employment gains during 2012 will come in health services, education, information, and leisure & hospitality.

Summing up: The unemployment rate will edge down over the next two years, but at a painfully slow pace. Total nonfarm employment in the county added 15,600 jobs in 2011 and should see an additional 22,700 jobs this year, but it will take years for the county to return to the four million nonfarm job threshold that marked most of the last decade. Still, progress will be made with this year's 0.6% increase in employment to be followed by a stronger 1.2% performance in 2013.

Numerically, the largest employment gains during 2012 will come in: health services (+5,400 jobs), education (+4,800 jobs), information (+4,100 jobs), and leisure & hospitality (+3,900 jobs). Budget problem will force government entities to shed more jobs (-3,200 jobs) and private-sector job cuts will come in construction (-3,300 jobs).

Total personal income in the county grew by an estimated 4.6% in 2011, and is expected to grow by approximately 3.0% this year and next.

Los Angeles County's Largest Industry Clusters by Employment (2010)

Leading Traded Clusters
(Traded clusters drive wealth creation in a region)

1. Entertainment	159,900
2. Trade (transportation, logistics, distribution)	157,200
3. Business Services	143,200
4. Knowledge Creation	89,900
5. Fashion	68,500

TABLE 11: LOS ANGELES COUNTY ECONOMIC INDICATORS

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemploy-ment Rate (Ave., %)	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 (%)
2001	9,633.7	4,073.6	5.7	303.4	31,498	71.8	212.2	22.8	18,253	3,539	3.3
2002	9,717.8	4,026.8	6.8	311.4	32,041	74.5	212.8	22.1	19,364	2,920	2.8
2003	9,781.8	3,982.9	7.0	322.3	32,946	79.4	232.9	23.3	21,313	2,932	2.6
2004	9,808.4	3,996.5	6.5	338.2	34,482	86.5	261.7	24.3	26,935	3,174	3.3
2005	9,802.3	4,024.2	5.4	357.2	36,439	92.3	291.6	25.0	25,647	3,824	4.5
2006	9,755.9	4,092.5	4.8	385.7	39,537	95.5	326.4	25.4	26,348	3,896	4.3
2007	9,728.0	4,122.1	5.1	400.4	41,156	96.1	347.3	25.9	20,363	4,739	3.3
2008	9,771.5	4,070.7	7.5	412.6	42,229	89.8	355.8	25.6	13,704	4,491	3.5
2009	9,831.9	3,824.1	11.5	402.5	40,934	78.4	282.9	23.8	5,653	2,674	-0.8
2010	9,880.6	3,769.0	12.6	412.2	41,722	83.9	346.9	25.8	7,468	2,677	1.2
2011e	9,920.1	3,785.4	12.2	431.1	43,459	88.7	388.1	26.5	10,380	3,129	2.7
2012f	9,959.8	3,808.1	11.5	444.2	44,602	91.5	401.0	26.8	13,100	3,525	1.5
2013f	10,009.6	3,853.8	10.9	458.0	45,754	94.5	420.8	26.9	16,250	4,000	2.5

% Change										
01/00	1.0%	0.0%		6.5%	5.5%	2.2%	-7.8%	-5.8%	6.9%	7.4%
02/01	0.9%	-1.1%		2.6%	1.7%	3.8%	0.3%	-3.1%	6.1%	-17.5%
03/02	0.7%	-1.1%		3.5%	2.8%	6.5%	9.5%	5.4%	10.1%	0.4%
04/03	0.3%	0.3%		4.9%	4.7%	8.9%	12.4%	4.3%	26.4%	8.3%
05/04	-0.1%	0.7%		5.6%	5.7%	6.7%	11.4%	2.9%	-4.8%	20.5%
06/05	-0.5%	1.7%		8.0%	8.5%	3.5%	11.9%	1.6%	2.7%	1.9%
07/06	-0.3%	0.7%		3.8%	4.1%	0.6%	6.4%	2.0%	-22.7%	21.6%
08/07	0.4%	-1.2%		3.1%	2.6%	-6.5%	2.5%	-1.2%	-32.7%	-5.2%
09/08	0.6%	-6.1%		-2.5%	-3.1%	-12.7%	-20.5%	-7.0%	-58.7%	-40.5%
10/09	0.5%	-1.4%		2.4%	1.9%	7.0%	22.6%	8.4%	32.1%	0.1%
11/10	0.4%	0.4%		4.6%	4.2%	5.7%	11.9%	2.7%	39.0%	16.9%
12/11	0.4%	0.6%		3.0%	2.6%	3.2%	3.3%	0.9%	26.2%	12.7%
13/12	0.5%	1.2%		3.1%	2.6%	3.2%	4.9%	0.6%	24.0%	13.5%

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

Table 12: Los Angeles County Nonfarm Employment

Annual averages, thousands; March 2010 benchmark

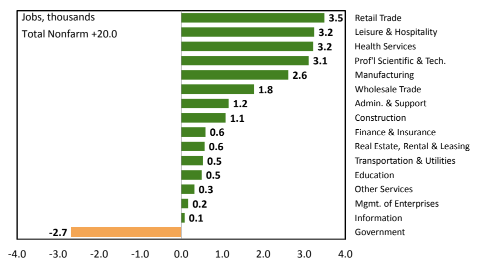
Year	Total Nonfarm	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2001	4,073.6	3.8	136.8	577.9	*325.4*	*252.5*	219.4	394.8	175.6	226.3
2002	4,026.8	3.7	134.5	534.8	*299.3*	*235.5*	217.3	398.2	167.2	207.3
2003	3,982.9	3.8	134.6	500.0	*276.2*	*223.8*	214.1	399.2	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	449.2	*250.9*	*198.3*	227.0	426.0	165.6	209.8
2008	4,070.7	4.4	145.2	434.5	*243.2*	*191.2*	223.7	416.5	163.1	210.3
2009	3,829.4	4.1	117.3	389.2	*217.5*	*171.6*	204.5	387.0	151.2	191.2
2010	3,769.0	4.2	104.3	374.2	*207.2*	*166.9*	202.9	385.2	150.3	192.4
2011e	3,785.4	4.1	100.1	373.4	*206.0*	*167.4*	201.4	386.8	148.3	205.0
2012f	3,808.1	4.1	96.8	375.2	*206.8*	*168.4*	201.4	390.3	149.5	209.1
2013f	3,853.8	4.1	100.8	378.5	*208.2*	*170.3*	203.2	395.0	151.0	215.4

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	154.5	72.7	233.6	84.4	270.0	88.6	345.3	348.5	143.2	598.3
2002	158.0	72.8	231.6	82.5	261.0	93.0	359.2	354.2	145.6	606.1
2003	163.1	74.8	233.5	77.4	249.1	94.8	367.5	362.6	145.5	599.3
2004	163.0	76.7	237.7	71.2	253.6	95.4	373.6	372.8	144.7	587.1
2005	164.3	77.8	250.9	67.6	257.7	97.4	375.8	377.8	144.3	583.7
2006	166.9	79.8	264.0	63.0	271.9	99.4	381.4	388.6	145.2	589.4
2007	163.6	80.3	273.9	58.8	272.7	102.9	389.7	397.9	147.1	595.7
2008	153.9	79.4	269.6	56.7	256.4	105.1	400.7	401.6	146.1	603.7
2009	142.3	73.8	250.2	54.4	225.3	110.1	404.6	385.6	137.9	595.8
2010	137.8	71.4	245.7	52.1	228.3	112.2	410.5	384.6	136.3	576.6
2011e	135.7	71.1	247.0	51.8	231.8	117.7	417.2	390.7	135.0	567.5
2012f	136.4	71.4	248.2	51.9	234.1	122.5	422.6	394.6	135.7	564.3
2013f	137.5	71.8	250.4	52.0	237.4	126.9	428.5	399.0	135.7	566.6

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

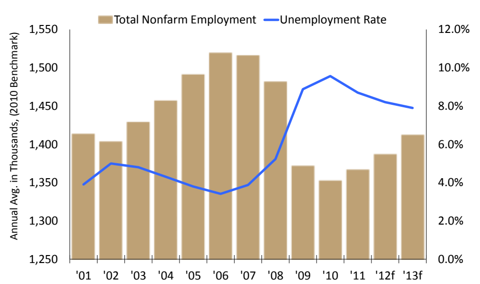
VI. Outlook for Orange County

2012 Industry Winners & Losers in Orange County



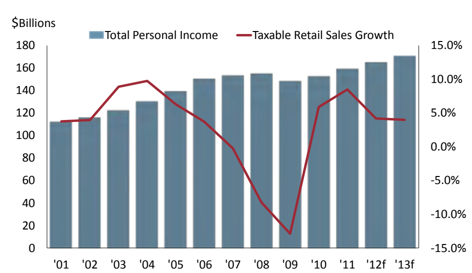
Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Orange County Employment



Source: EDD Labor Market Information Division; forecast by LAEDC

Orange County Personal Income & Retail Sales



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

Orange County was created by the California State Legislature in 1869. Initially a part of Los Angeles, population growth in the region led to its formation as a separate county. Now the third most populous county in California, Orange County has transformed itself from a rural bedroom community to a prosperous hub for the high-tech, aerospace, manufacturing and tourism industries.

In September 2010, as the economy began to recover, Orange County became the first metropolitan area in the state to post positive year-over-year job growth. The county currently has the lowest unemployment rate in Southern California, 7.8% in December. Orange County's economy will continue to expand in 2012 with all major private industry sectors adding jobs. However, the pace of job growth will be slow. Many of the attributes that have historically supported Orange County's economic strength, namely its tourist attractions, universities and high tech industries, remained intact through the recession and are growing again.

Industry Outlook

The **Health Services** industry is one of the leading segments of the Orange County economy. There are several large hospital expansions in progress that will enable Orange County to meet growing demand for health care in the region. Kaiser Permanente is close to completing a 400,000 square foot hospital in Anaheim. This $461 million facility is part of a planned $800 million campus that includes two medical office buildings, a support building, and a parking structure. St. Jude Medical Center in Fullerton is planning a 200,000 square foot, $285 million expansion that is scheduled to be completed during the summer of 2014. Children's Hospital of Orange County (CHOC) is near completing a 425,500 square foot patient tower that is at the heart of a $562 million expansion.

The county's **life science and medical instrument makers** are also a source of economic growth. This industry sector includes both medical device manufacturing and pharmaceuticals. Several firms have announced expansion plans. New products are in the approval pipeline and others will be hitting the market this year.

Orange County's **high tech** industries are thriving. The county's largest computer products makers are adding jobs. Business tech spending will be key to growth in the region, but demand for consumer

Big Data is a general term used describe the huge amounts of unstructured and semi-structured data a company creates – data that would take too much time and cost too much money to load into a regular data base. Big Data is not another word for a lot of data. It is large files of data that need to be manipulated so a firm can analyze it to unlock some business value. For example, the data Amazon accumulates from its customers' purchases to recommend other items to buy.

electronics is also on the rise. Information technology will be the big winner as spending increases for smartphones, tablet computers, mobile networks, social networking and big data analytics (see side bar). Moderate growth for 2012 is expected for the county's computer chip makers after a record year in 2011. One exception is the county's telecommunications companies. Consolidation and restructuring within the industry has resulted in the fifth straight year of jobs cuts. A large percentage of the county's high tech products are exported. Slower growth abroad in 2012 will have some impact on sales but even so, demand from overseas will continue to provide a boost to the local economy.

Travel and tourism in Orange County rebounded last year and will expand further in 2012 as more leisure and business travelers take to the road. The Anaheim Convention Center will see an increase in the number of meetings and conventions held this year. The convention center is moving forward with plans for a $17 million expansion that will add 100,000 square feet of outdoor event space that is scheduled to be completed before the end of next year. The county's lodging sector is also doing quite well. Occupancy rates are up and average daily room rates are expected to increase in 2012 after two years of declines. In addition to a number of extensive hotel and resort renovations, new hotel construction is making a cautious comeback.

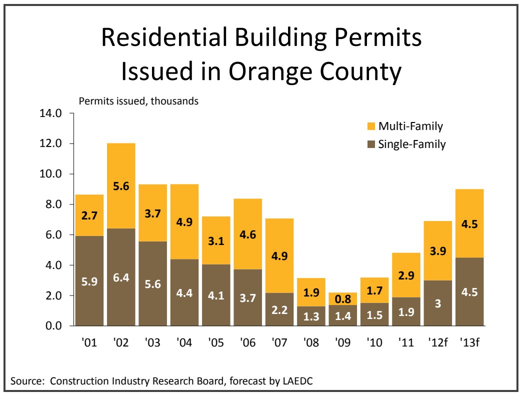
The number of *patents awarded* to Orange County firms rose by 14% in 2011 to 2,709. Orange County accounted for 1% of total number of patents issued in the United States last year. The largest number of new patents in the county were awarded to makers of computer chips, pharmaceuticals and disk drives.

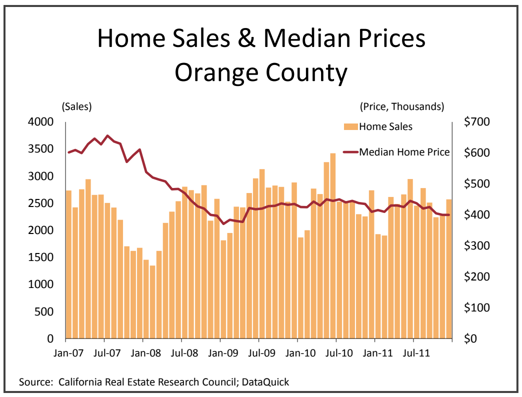
Orange County's tourist attractions are expanding as well. Disneyland's new Cars Land at its California Adventure Park is scheduled to open later this year and Knott's Berry Farm debuted its new Windseeker ride this past summer. Orange County's Great Park (located on the former El Toro Marine base) is slated for a $70 million expansion plan.

The John Wayne International Airport opened its new Terminal C in November, the last major element of a $543 million expansion and renovation project. Expected to begin mid-year 2012, new nonstop service from John Wayne to Mexico City and Cabo San Lucas will provide a lift for the local tourism industry by making it more convenient for tourists from Mexico to visit Orange county.

Orange County ranks as the 10th largest county in the nation in terms of *manufacturing* employment.

Manufacturing employment will continue to make small gains in 2012. Manufacturing establishments make up about 22% of all business firms in Orange County. Expansion is being fueled by both domestic demand and export demand (principally from Asia) for the county's computer products, medical devices, industrial goods and apparel. Growth in defense related activities will be flat this year due to Federal budget cuts and military downsizing. Boeing has trimmed hundreds of jobs at various Orange County operations, but remains one of the





area's largest local employers. The major risks for manufacturing over the course of 2011, a resurgence of energy prices and rising prices for commodities, will be less of a factor this year, while concerns about slower economic growth abroad move to the forefront.

The **finance** sector is stirring again. Orange County Banks hired more workers last year and are reporting modest loan growth for commercial and industrial loans. Still, businesses remain very cautious about capital spending. Banks are competing for well qualified customers, which is pushing down interest rates and fees. On the consumer side, loan demand is flat. Lending standards are still generally restrictive but many banks are reporting improved credit quality. Loan growth will improve as economic activity picks up speed. Risks to the industry include low interest rates that reduce investment returns, market volatility that inhibits risk taking, and tighter regulations that increase costs.

This year may prove to be pivotal for **residential real estate** in Orange County. Much will depend on improvement in the labor markets and an easing of mortgage lending standards. The year 2011 closed with median home prices below year-ago levels. Falling home prices not only block new home construction, but can lead to more conservative appraisals of existing homes. Sales in Orange County are strongest for homes priced less than $300,000 (particularly condos) while tight lending standards and lower loan limits for loans guaranteed by Fannie Mae and Freddie Mac constrain sales at the upper end of the market. New home construction was up over the year in 2011 (albeit from very low levels) and is expected to post additional gains in 2012. New apartment construction will do better than new single-family home construction. Recovery may be just over the horizon - expect 2012 to be a transitional year for Orange County's housing sector with prices bottoming out and a small upswing in sales and new home construction.

Commercial real estate is showing signs of recovery. Industrial vacancy rates, while high by pre-recession norms, are starting to fall. Office vacancy rates are improving but remain stubbornly high. Industrial lease rates have ticked up in recent months, but office lease rates are still declining, making office space a bargain for Orange County renters. Investors are seeing increases in the sales price of prime commercial properties. New commercial construction was up in 2011 compared with 2010. Gains were made in new retail and hotel space but new industrial and office construction remained well below the low levels of 2010. Again, improvement here as elsewhere in the economy reverts back to progress in the labor markets. As firms pick up the pace of hiring, demand for Orange County commercial space will increase, eventually sparking a turnaround in nonresidential construction.

Summing up: Orange County's economy is moving beyond "recovery" and into expansion. Growth will accelerate as the year progresses with the local economy adding jobs at a slow but steady rate. Orange County has several attributes that have historically supported strong economic growth, namely its, universities, high tech industries and the pull of its tourist attractions. Going forward these core strengths will provide a firm base for continuing expansion.

Orange County's Largest Industry Clusters by Employment (2010)

Leading Traded Clusters (Traded clusters drive wealth creation in a region)

1. Business Services	73,500
2. Trade (transportation, logistics, distribution)	44,500
3. Hospitality and Tourism	37,800
4. Financial Services	24,400
5. Information Technology	23,600

TABLE 13: ORANGE COUNTY ECONOMIC INDICATORS

Year	Population as of July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($Billions)	Total Overnight Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2001	2,889.9	1,413.7	3.9	112.2	38,841	28.5	18.2	8,646	1,350
2002	2,914.4	1,403.7	5.0	116.0	39,804	29.6	18.3	12,020	1,209
2003	2,939.7	1,429.0	4.8	122.4	41,646	32.3	19.1	9,311	1,006
2004	2,956.5	1,456.7	4.3	130.3	44,080	35.4	19.8	9,322	1,133
2005	2,957.2	1,491.0	3.8	139.4	47,143	37.7	20.2	7,206	1,495
2006	2,955.4	1,518.9	3.4	150.6	50,956	39.1	20.0	8,371	2,401
2007	2,965.8	1,515.5	3.9	153.4	51,738	39.0	19.7	7,072	2,005
2008	2,982.8	1,481.6	5.2	155.1	51,988	35.8	18.9	3,159	1,439
2009	2,998.8	1,372.1	8.9	148.4	49,477	31.2	18.0	2,200	952
2010	3,017.1	1,352.9	9.6	152.6	50,573	33.0	18.7	3,091	1,152
2011e	3,044.0	1,367.2	8.7	159.3	52,340	35.8	19.3	4,818	1,299
2012f	3,062.2	1,387.2	8.2	165.1	53,902	37.3	19.8	6,900	1,400
2013f	3,080.6	1,412.2	7.9	170.8	55,439	38.8	20.1	9,000	1,525
% Change									
01/00	1.2%	1.8%		2.5%	1.3%	3.8%	-2.2%	-30.1%	-23.4%
02/01	0.8%	-0.7%		3.3%	2.5%	4.0%	0.5%	39.0%	-10.4%
03/02	0.9%	1.8%		5.5%	4.6%	8.9%	4.4%	-22.5%	-16.8%
04/03	0.6%	1.9%		6.4%	5.8%	9.8%	3.7%	0.1%	12.6%
05/04	0.0%	2.4%		7.0%	6.9%	6.3%	2.0%	-22.7%	32.0%
06/05	-0.1%	1.9%		8.0%	8.1%	3.7%	-1.0%	16.2%	60.6%
07/06	0.4%	-0.2%		1.9%	1.5%	-0.2%	-1.5%	-15.5%	-16.5%
08/07	0.6%	-2.2%		1.1%	0.5%	-8.3%	-4.1%	-55.3%	-28.2%
09/08	0.5%	-7.4%		-4.3%	-4.8%	-12.9%	-4.8%	-30.4%	-33.8%
10/09	0.6%	-1.4%		2.8%	2.2%	5.9%	3.9%	40.5%	21.0%
10/11	0.9%	1.1%		4.4%	3.5%	8.5%	3.2%	55.9%	12.8%
11/12	0.6%	1.5%		3.6%	3.0%	4.2%	2.6%	43.2%	7.8%
13/12	0.6%	1.8%		3.5%	2.9%	4.0%	1.5%	30.4%	8.9%

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

TABLE 14: ORANGE COUNTY NONFARM EMPLOYMENT

Annual averages, Thousands, March 2010 benchmark

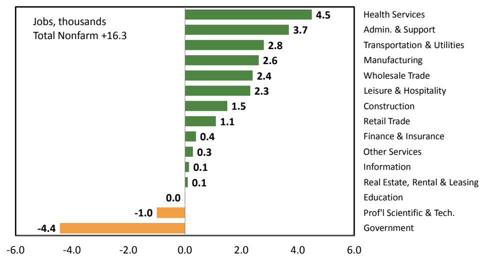
Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2001	1,413.7	0.6	80.7	208.5	*147.8*	*60.7*	83.9	150.1	30.4	40.2
2002	1,403.7	0.6	79.2	190.8	*133.6*	*57.2*	82.4	151.4	28.7	36.8
2003	1,429.0	0.5	83.7	183.9	*127.2*	*56.7*	83.2	152.8	29.0	35.2
2004	1,456.7	0.6	92.2	183.5	*127.1*	*56.4*	82.4	153.2	29.2	33.8
2005	1,491.0	0.7	99.9	182.9	*128.3*	*54.6*	83.0	158.1	28.7	32.8
2006	1,518.9	0.6	106.6	182.7	*128.0*	*54.7*	83.7	160.8	28.2	31.9
2007	1,515.5	0.6	103.1	180.4	*126.2*	*54.2*	86.9	161.2	28.9	31.2
2008	1,481.6	0.6	91.2	174.0	*122.5*	*51.5*	86.7	155.6	29.3	30.1
2009	1,372.1	0.5	74.2	154.8	*109.1*	*45.7*	79.4	142.3	27.8	27.3
2010	1,352.9	0.5	67.1	150.3	*106.2*	*44.1*	77.4	140.1	26.7	25.0
2011e	1,367.2	0.4	67.8	150.7	*106.8*	*43.9*	77.7	139.3	27.0	26.6
2012f	1,387.2	0.4	68.9	153.3	*108.9*	*44.4*	79.5	142.8	27.5	26.7
2013f	1,412.2	0.4	72.3	155.8	*110.9*	*44.9*	81.2	145.9	28.1	26.9

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	73.8	32.1	94.3	39.7	114.5	16.0	98.6	154.3	45.2	150.9
2002	77.4	32.7	95.1	35.8	118.0	15.9	102.5	155.4	45.9	155.1
2003	88.0	34.2	96.4	32.9	123.3	18.9	107.5	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	126.7	19.2	111.8	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	131.1	19.8	113.7	165.0	48.4	155.3
2006	99.0	39.1	109.3	28.9	136.4	20.8	117.0	169.6	47.7	156.7
2007	89.1	38.6	113.5	27.9	132.0	21.6	121.1	172.9	47.4	159.4
2008	76.1	37.0	116.1	26.1	124.5	23.6	127.1	176.4	46.5	160.8
2009	70.6	34.5	107.3	24.3	108.7	23.4	128.8	169.1	42.6	156.6
2010	69.1	34.5	105.7	22.7	114.4	23.8	132.2	168.7	42.4	152.5
2011e	69.2	34.6	107.9	22.1	113.5	25.0	134.7	176.3	41.5	151.0
2012f	69.8	35.2	111.0	22.3	114.7	25.5	137.9	179.5	41.8	148.3
2013f	70.8	36.1	115.0	22.6	116.0	26.1	141.6	181.0	42.5	147.0

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

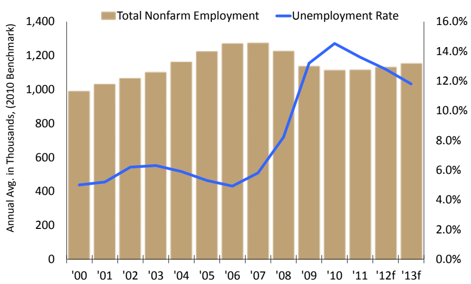
VII. Outlook for Riverside and San Bernardino Counties (Inland Empire)

2012 Industry Winners & Losers in Riverside-San Bernardino Area



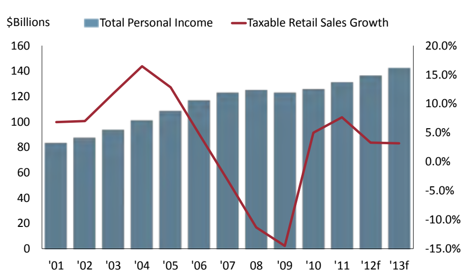
Sources: CA EDD, Labor Market Information Division, forecast by LAEDC

Riverside-San Bernardino Area Employment



Source: EDD Labor Market Information Division; forecast by LAEDC

Riverside-San Bernardino Area Personal Income & Retail Sales



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

The outlook for the Inland Empire area has begun to brighten in 2012 as the employment situation improves. Even the outlook for housing and the construction industry has improved somewhat for 2012. The Inland Empire experienced encouraging growth over the last four months of 2011. The region has taken a long time to recover after suffering a long and deep recession marked by a surge in the number of foreclosures along with plummeting home values and soaring joblessness.

The region began to turn around in 2010 along with the rest of Southern California, but the recovery has been extremely slow and, unfortunately it has more ground to make up due to its exposure to the housing collapse. The construction, manufacturing and trade related sectors are the key drivers of the Inland Empire economy. The construction and manufacturing sectors continued to struggle in 2011, while the trade related sectors have performed the best as trade volumes held up last year. Although the employment situation deteriorated somewhat in the first half of last year, the second half of 2011 produced higher than expected job gains which translated into a surprising net gain for the year.

The economy of the Inland Empire will not advance strongly until the housing market recovers and that is not expected for at least a few years. The Inland Empire registered more defaults and foreclosures per capita during the economic downturn than any other area of Southern California. However, median housing prices have appreciated by nearly 11.0% when compared with the lows of 2009, although the median price of an Inland Empire home is still significantly below where it was before the crisis (from the $390,000s to the $170,000s).

Total nonfarm employment increased by 16,300 jobs in 2011 when compared to a year earlier. The biggest industry winners in the Inland Empire were healthcare, transportation, wholesale trade and administrative services. However, the big losers continue to be construction, along with professional, scientific and technical services, private educational services, and government.

The region's construction industry has been hit the hardest and the results show in the employment figures. Construction employment in 2011 dropped by 3.5% from 2010, and was 55% below the peak level of June 2006. New industrial and office construction permits declined

The largest employment gains during 2012 will come in health services, administrative and support services, wholesale trade, and transportation.

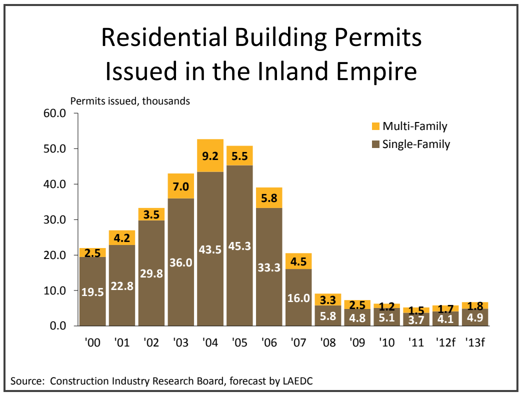
dramatically during the recession but 2011 saw slightly better activity. Nonresidential construction should continue to improve slightly in 2012, but will remain well below peak levels reached prior to the recession.

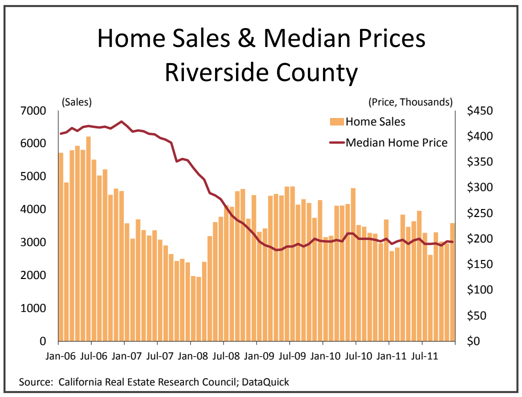
The unemployment rate in the Inland Empire fell to 13.6% in 2011 after reaching a high of 14.5% in 2010 and is expected to come down to 12.8% by the end of 2012. Persistently high unemployment has been very difficult for the Inland Empire to overcome and the results can be clearly seen, as retail sales also have suffered. Taxable retail sales improved last year as unemployment declined and are again expected to improve this year and next as unemployment falls and personal income increases.

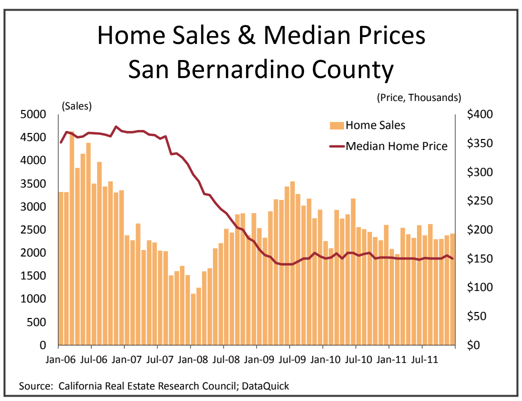
Recovery in the Inland Empire will still lag other parts of California and the U.S. as the area is climbing out of a very deep hole. The good news is the dramatic declines seen in 2009 have ended and the area beat expectations last year. Still, the recovery in the Inland Empire will seem slow as unemployment and housing remain significant issues during the forecast period. Nonfarm employment is expected to increase by 1.5% in 2011 and to increase further by 1.8% in 2013.

The continued strength in two-way trade flows at the twin ports had positive results once again for the Inland Empire's transportation and wholesale trade sectors in 2011. The area should see even more positive results in the coming months. The Inland Empire plays a pivotal role as a distribution center for many of the goods flowing through the ports of Long Beach and Los Angeles. World trade volumes rose by roughly 6.5% in 2011 after increasing by 16.0% in 2010. World trade volumes are projected to increase by about 4.0% this year. Imports from Asia to the U.S. rose by roughly 8.0% in 2011. It is important to remember that over 40% of the U.S.'s imported containers come through the ports of L.A. and Long Beach and roughly 20% to 30% of these imports are bound for Southern California. The improvement in trade activity will translate into positive results for the transportation and logistics sector in the Inland Empire for 2012 and into 2013.

The severe downturn of the Inland Empire economy brought migration into the area to a halt. Again, what formerly was a part of the Inland Empire's competitive advantage has become a detriment to recovery. Rapid population growth, particularly from 1998 to 2008 was the one of the key economic drivers for the area. However, with the economy stabilizing, the decline in migration has abated, leading demand for housing, retail and services to grow again, but very slowly through 2013.







Eventually, the region's competitive advantages will lead to a resurgence in economic activity. The availability of abundant undeveloped land had been the major economic driver propelling the area's economic growth. The recession reversed that advantage as the downturn negatively impacted the industries that most rely on cheap land. However, the Inland Empire will recover strongly when new home construction and manufacturing make a comeback. These areas should finally witness improvements this year and next.

The Inland Empire economy continues to show great potential in the long run due to its position as the central hub for logistics related to international trade and as the area where the most significant population growth is expected. The key advantages for the Inland Empire will once again be the affordability of housing, population growth and available low-cost land for additional warehouse construction. For the Inland Empire patience will continue to be the watchword, as the region is not expected to see the pre-recession glory days for at least two to three years.

Industry Outlook

Housing: High rates of defaults and foreclosures will still pressure home values this year. However, foreclosures have finally begun to slow down. Housing affordability is much greater than just before the recession. Going forward, housing in the area will remain extremely affordable relative to earlier years and to the rest of Southern California. Although construction employment is expected to slightly improve, it will still be nowhere near its 2006 peak.

Goods Movement: Trade volumes at the local ports did increase in 2011 (when considering loaded containers). They are expected to grow again in 2012 and in 2013. The increase in activity will positively impact the Inland Empire warehouse and distribution system network.

Healthcare and Social Assistance: This is the only large sector that grew in 2009 and 2010. It continued that trend in 2011. Expectations are for this to continue in 2012 and in 2013.

Industrial Real Estate: In 2011, Skechers opened a 1.8 million square-foot facility in Moreno Valley and Castle & Cook moved into its new 520,000 square-foot center in Riverside. Also, the industrial vacancy rate in the Inland Empire has improved substantially over the past couple of years – falling from 12.4% in 2009 to 10.0% in 2010 to just over 6.0% in 2011.

Commercial Real Estate: Office vacancy rates are still very high (over 23% in 2011) and will continue to be a concern in 2012 and beyond.

State and Local Government sector: Local governments will continue to face significant financial issues over the next few years as property revenues decline. State and local government employment declined over 2011 and should decline next year as well due to revenue constraints.

Inland Empire's Largest Industry Clusters by Employment (2010)

Leading Traded Clusters
(Traded clusters drive wealth creation in a region)

1. Trade (transportation, logistics, distribution)	35,000
2. Business Services	27,400
3. Tourism	17,800
4. Financial Services	8,600
5. Heavy Construction Services	8,000

Table 15: Riverside-San Bernardino Area Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billons)	Per Capita Personal Income ($)	Taxable Retail Sales ($Billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2001	3,375.7	1,029.7	5.3	83.5	24,747	26.7	27,541	1,423
2002	3,482.5	1,064.5	6.3	87.6	25,143	28.6	33,280	1,473
2003	3,609.8	1,099.2	6.4	93.7	25,958	31.9	43,001	1,720
2004	3,743.0	1,160.0	5.9	101.1	27,015	37.2	52,696	2,485
2005	3,858.5	1,222.0	5.3	108.6	28,145	42.0	50,818	2,394
2006	3,965.0	1,267.7	4.9	116.9	29,489	44.0	39,083	2,852
2007	4,044.1	1,270.9	5.8	123.0	30,426	42.6	20,457	2,824
2008	4,088.6	1,223.8	8.2	125.0	30,579	37.8	9,101	1,781
2009	4,180.7	1,134.8	13.2	123.0	29,413	32.3	6,685	710
2010	4,230.6	1,111.2	14.5	125.8	29,730	33.9	6,404	792
2011e	4,286.2	1,113.8	13.6	131.1	30,587	36.5	5,214	921
2012f	4,346.2	1,130.1	12.8	136.4	31,377	37.7	5,800	975
2013f	4,407.0	1,150.5	11.8	142.2	32,275	38.9	6,700	1,050
% Change								
01/00	3.0%	4.2%		8.3%	5.2%	6.8%	25.2%	-7.4%
02/01	3.2%	3.4%		4.8%	1.6%	7.0%	20.8%	3.5%
03/02	3.7%	3.3%		7.0%	3.2%	11.8%	29.2%	16.8%
04/03	3.7%	5.5%		7.9%	4.1%	16.5%	22.5%	44.5%
05/04	3.1%	5.3%		7.4%	4.2%	12.8%	-3.6%	-3.7%
06/05	2.8%	3.7%		7.7%	4.8%	4.8%	-23.1%	19.1%
07/06	2.0%	0.3%		5.2%	3.2%	-3.2%	-47.7%	-1.0%
08/07	1.1%	-3.7%		1.6%	0.5%	-11.3%	-55.5%	-37.0%
09/08	2.3%	-7.3%		-1.6%	-3.8%	-14.5%	-26.5%	-60.1%
10/09	1.2%	-2.1%		2.3%	1.1%	5.0%	-4.2%	11.5%
11/10	1.3%	0.2%		4.2%	2.9%	7.7%	-18.6%	16.3%
12/11	1.4%	1.5%		4.0%	2.6%	3.3%	11.2%	5.9%
13/12	1.4%	1.8%		4.3%	2.9%	3.2%	15.5%	7.7%

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 16: RIVERSIDE-SAN BERNARDINO AREA NONFARM EMPLOYMENT

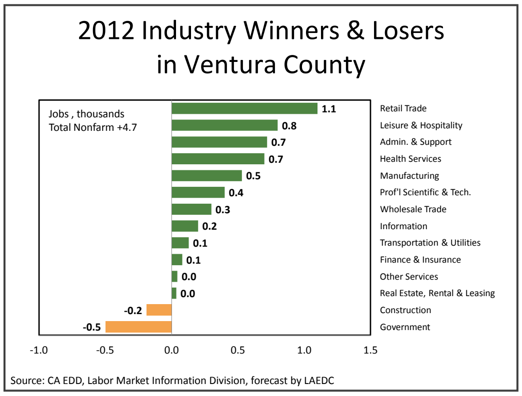
Annual averages, Thousands, March 2010 benchmark

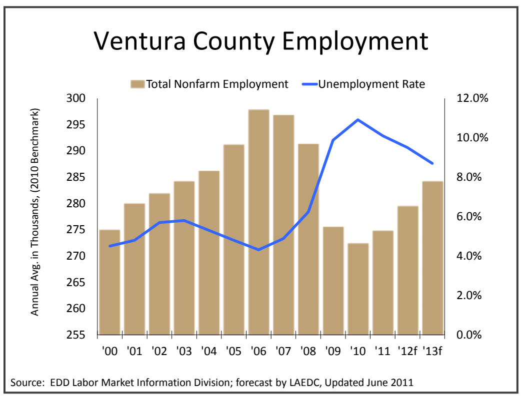
Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2001	1,029.7	1.2	88.5	118.7	84.2	34.4	41.6	132.5	45.7	14.6
2002	1,064.5	1.2	90.9	115.4	82.0	33.4	41.9	137.5	46.8	14.1
2003	1,099.2	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	121.0	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	118.5	82.1	36.5	56.8	175.6	69.5	15.4
2008	1,223.8	1.2	90.7	106.9	72.5	34.3	54.1	168.6	70.2	14.8
2009	1,134.8	1.1	67.9	88.8	58.1	30.6	48.9	156.2	66.8	13.5
2010	1,111.2	1.0	59.5	84.6	55.0	29.6	48.8	154.6	66.5	15.9
2011e	1,113.8	1.0	57.4	84.4	55.2	29.2	50.8	155.1	68.9	16.2
2012f	1,130.1	1.0	58.9	87.0	56.7	30.3	53.2	156.4	71.7	16.4
2013f	1,150.5	1.1	62.1	89.2	58.1	31.1	55.6	157.5	73.8	16.6

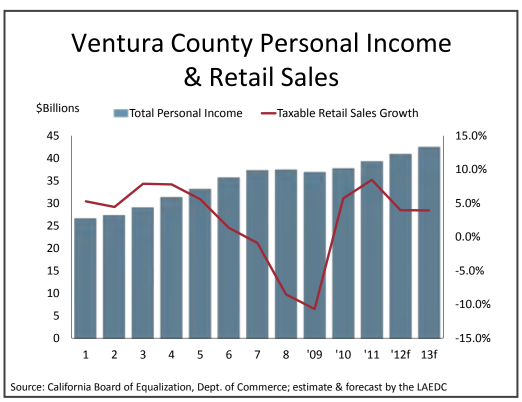
Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	22.0	15.3	24.6	10.6	66.6	11.8	94.3	104.5	37.1	200.2
2002	23.5	15.9	27.1	11.3	68.4	12.6	99.8	107.2	38.1	212.7
2003	25.7	16.9	28.7	11.0	75.7	13.2	102.7	109.0	38.4	211.6
2004	28.0	17.7	31.0	11.6	82.9	13.4	104.9	116.7	39.3	212.5
2005	30.1	18.9	35.0	12.0	86.2	13.6	106.3	122.6	40.8	220.4
2006	31.6	19.9	39.9	10.8	91.7	14.1	108.1	128.1	42.5	222.5
2007	30.3	19.5	40.5	9.8	94.9	15.0	112.2	132.6	41.2	225.3
2008	27.4	18.7	40.5	9.7	87.5	15.7	116.0	131.0	40.8	230.0
2009	26.0	16.6	37.8	8.9	77.6	16.3	117.3	123.8	37.3	227.3
2010	25.5	15.5	35.2	8.6	77.7	16.1	117.8	122.1	37.5	224.3
2011e	26.2	14.8	33.1	8.3	80.0	15.1	121.6	121.9	37.5	221.5
2012f	26.6	14.9	32.1	8.1	83.7	15.1	126.1	124.2	37.8	217.1
2013f	27.0	15.0	31.6	8.0	86.9	15.2	128.8	125.9	38.2	217.9

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

VIII. Outlook for Ventura County







Ventura County encompasses a population of 821,000 people. Much of the county's population resides in Simi Valley, Oxnard, Thousand Oaks, and Ventura. Port Hueneme, the only deep-water port between Los Angeles and Oakland, is a major gateway for automobiles and food.

Ventura County has a significant concentration of high tech firms, a thriving agriculture industry, and important military facilities. Like residents of the Riverside and San Bernardino counties, many living in Ventura County commute to work in Los Angeles.

Ventura County continues to grapple with symptoms of a fragile economic recovery. The unemployment rate has come down but is still high at 10.1%. Per capita income rose in 2011 and stood at $47,800 in 2011. Consumer spending remains subpar – taxable retail sales in 2011 were 6.7% below their peak level of $8.9 billion reached in 2006.

The median home price in Ventura County is generally higher than median prices throughout the rest of the five-county region. Many cities were originally established with *master plans* and adopted *SOAR* initiatives *(see side bar, next page)*. As occurred up and down the state in 2011, home prices fell as a result of the ongoing problems in the housing sector.

There were industry winners and losers in 2011, and the same can be expected in 2012 and 2013. The unemployment rate is expected to hover near 9.5% in 2012 and sink to 8.7% in 2013. In doing so, Ventura County will add 4,700 nonfarm jobs each year and per capita income is expected to rise to $49,200 in 2012 and $50,500 in 2013. Retail sales are expected to increase 4.0% per year in 2012 and 2013.

Industry Outlook

Agriculture is a large industry in the county and makes up 8% of the county's employment, more than any other county in Southern California. Cash receipts for crops and livestock improved throughout California in 2011. Agriculture in Ventura County, which mostly produces fruit (strawberries) and nut crops and vegetable crops (celery), has benefited from rising food prices around the world. Meanwhile, production of nursery stock in Ventura County, the next largest cash crop, has been cut by roughly one third since 2008.

Nursery stock relies heavily on new home building, still a depressed industry throughout the Southern California region.
Farm employment decreased by 3.3% in 2011, but is still much larger than in the 1990s and early 2000s. Expect farms to re-hire workers in 2012 and 2013 as the new U.S. free trade agreements boost demand for Ventura County's agriculture products.

Many cities in Ventura County originally established with a master plan to set apart land and prohibit any future development. *SOAR* (Save Open Air and Agricultural Resources) prevents changes in specified land use categories of the general plan without approval by a majority of voters. *SOAR* was approved by the Ventura County in 1998.

The **construction** sector will continue to struggle for at least two more years. Construction jobs, which make up 3.5% of Ventura County jobs, decreased to 10,600 in 2011 from 11,300 jobs in 2010. This was the fifth consecutive year that construction jobs declined.

Home sales edged down. There were 8,400 homes[3] sold in 2011, compared with 8,500 homes in 2010 and 9,200 homes sold in 2009. It will be difficult for construction employment to recover without a corresponding recovery in the housing market. Construction-related employment is expected to fall to 10,400 workers this year, but the county should see construction industry begin to add jobs again in 2013.

There are roughly 930 **manufacturing** establishments in Ventura County, a number that has remained consistent since the recession, even as jobs disappeared. The 32,500 manufacturing jobs in 2011 make up 11% of all Ventura County employment.

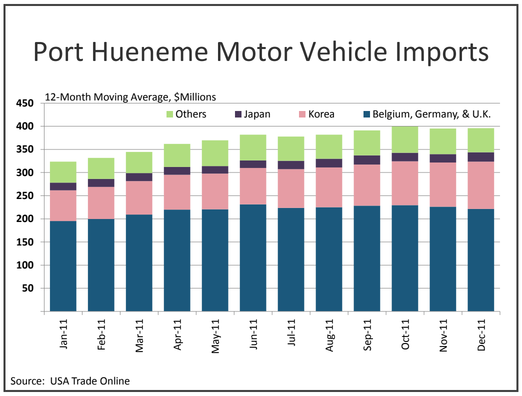
AMGEN is the only Fortune 500 company headquartered in Ventura County (Thousand Oaks). With revenues of $15.6 billion in 2011, *AMGEN* employs 17,000 throughout the world, including approximately 6,200 in Ventura County.

Durable goods manufacturing in Ventura County is comprised primarily of fabricated metal products, machine shops, machinery, and semiconductors. Many **high-tech** companies have been outsourcing manufacturing jobs while retaining local research and development units. Recent reports suggest some manufacturing jobs may be returning to the state. High tech manufacturing is likely to be one of the first sectors to see an increase in manufacturing employment. Ventura County has a well-educated labor force and many of today's hi-tech manufacturing jobs require advanced training. For example, Ventura based Solarsilicon recently moved to a larger facility in order to expand their local manufacturing operations.

Manufacturing of chemical goods and pharmaceuticals struggled in 2011. Amgen, the county's largest biotech manufacturer, restructured its research operations and reduced its workforce. Other nondurable goods manufacturers picked up the slack.

Ventura County manufacturing employment is expected to increase by 500 jobs in 2012, and by an additional 700 jobs in 2013.

[3] New and resale single-family homes and condos (DataQuick)

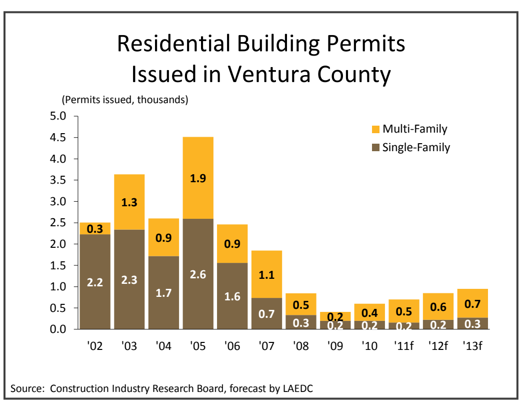


Trade, transportation, and utilities in Ventura County is a key industry sector centered at Port Hueneme. Trade at Port Hueneme, unlike the Ports of Los Angeles and Long Beach, is focused on two products: automobiles and food.

BMW, Hyundai, and Kia increased exports to the U.S. to compensate for a shortfall from Japanese automakers due to the catastrophes in Japan and Thailand in 2011. Since the port handles a relatively small volume of Japanese cars, the local trade, transportation, and utilities industries have benefited mainly from the increase in European and South Korean motor vehicle imports.

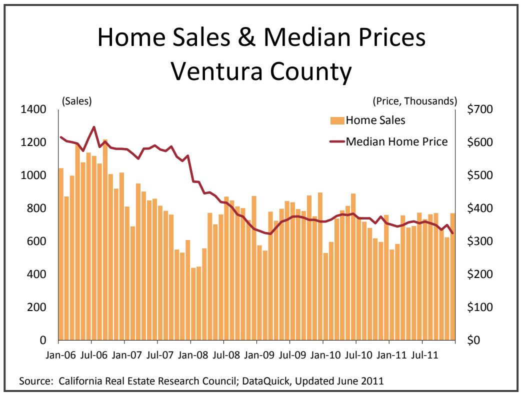
Trade, transportation, and utilities make up 17.5% of Ventura County jobs. In 2011, there were 12,200 wholesale trade jobs, 34,900 retail trade jobs, and 5,400 jobs in transportation & utilities. Wholesale trade employment is expected to increase by 300 jobs each year this year and next. Retail trade employment is expected to increase by 1,100 jobs this year and by 700 jobs in 2013. Transportation and utilities employment is expected to increase by 100 jobs in 2012, by an additional 200 jobs next year. If these expectations are met, aggregate employment in trade, transportation, and utilities would rise to 55,200 jobs by 2013, up 5.3% from 52,500 jobs in 2011.

Travel and tourism activity in Ventura County held its ground in 2011, after experiencing a bounce-back year in 2010. Ventura County benefits from the local "drive" market, providing a quick weekend get-away for residents of neighboring counties and further afield. Hotel occupancy rates were mostly flat in 2011 but are expected to improve in 2012. The *Ventura County Lodging Association* has undertaken a campaign to encourage vacationers to visit Ventura County, particularly the coastal communities in the western portion of the county.



Reflecting recent trends in travel and tourism, the number of jobs in leisure & hospitality services for 2012 is expected to surpass pre-recession levels increasing to 32,200 jobs.

As a result of the state's budget woes**,** Medi-Cal funding has declined, hurting the Ventura County **health services** industry. Local facilities cut 400 jobs in 2011, bringing health services employment down to 28,000 jobs. Health service jobs make up 9.4% of all Ventura County jobs, a smaller percent than the Los Angeles, San Diego, Orange, and Inland Empire counties, but still an important component of the local economy. A $250 million renovation project will begin at the Ventura County Medical Center this year.



The California Association of Realtors reports that the median existing home price in Ventura County was $418,270, down by 5.5% from a year ago.

Ventura County's Largest Industry Clusters by Employment (2010)

Leading Traded Clusters (Traded clusters drive wealth creation in a region)

1. Business Services	9,500
2. Agricultural Products	7,800
3. Trade (transportation, logistics, distribution)	7,500
4 Financial Services	4,900
5. Education and Knowledge Creation	4,000

In 2012, health services employment is projected to be 28,700 and is expected to increase 29,400 in 2013.

Finance and insurance jobs in Ventura County edged up throughout 2011 and ended the year on a high note. Since the financial crisis, many local banks have merged or been acquired by larger and more stable banks. The County Commerce Bank, Santa Clara Valley Bank, and Ojai Community Bank, each headquartered in Ventura County, experienced positive earnings in each of the first three quarters of 2011.

The 16,500 jobs in finance and insurance in Ventura County were the highest recorded since before the financial crisis. Growth in the industry is uncertain as worries of a euro zone recession loom. In 2012, an increase of 100 jobs in finance and insurance are expected, but no additional growth is forecast for 2013.

Residential real estate prices declined in 2011. The median price of existing single-family homes decreased by 5.5% to $418,270. New housing permits rose to 702 in 2011, but remain severely below the recent peak of 4,516 residential building permits issued in 2005. In 2012, the number of building permits issued is expected to rise to 850, and to 950 in 2013. A return to peak levels is still many years away.

Commercial real estate was a mixed bag last year as evidenced by the relatively high vacancy rates for office space and low vacancy rates for industrial space. In the third quarter of 2011, 20.3% of office space was vacant in Ventura County, the highest office vacancy rate in the county since 1993. On the other end, the 5.1% industrial vacancy rate recorded in the third quarter of 2011 was the lowest in three years. The value of nonresidential building permits decreased by 8.1% to $147 million in 2011. Nonresidential building permits are expected to increase to $150 million in 2012 and to $155 million in 2013 – good news, but still far below the $350 million level seen in the mid 2000s.

Summing up: Ventura County's economy is recovering at a slower pace than the rest of the state. Ventura County benefits from a well-educated labor force that can find ways to innovate and create new technologies. Look for retail sales, personal income, and jobs numbers to gain ground in 2012 and 2013.

TABLE 17: VENTURA COUNTY ECONOMIC INDICATORS

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($Billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2001	765.2	279.9	4.8	26.6	34,793	6.8	3,446	309
2002	776.4	281.8	5.8	27.3	35,224	7.2	2,507	289
2003	783.3	284.2	5.8	29.1	37,113	7.7	3,635	379
2004	787.3	286.2	5.4	31.3	39,802	8.3	2,603	353
2005	785.5	291.2	4.8	33.2	42,205	8.8	4,516	372
2006	787.3	297.7	4.3	35.7	45,355	8.9	2,461	326
2007	788.7	296.8	4.9	37.3	47,299	8.8	1,847	346
2008	793.7	291.3	6.2	37.5	47,191	8.1	842	345
2009	801.1	275.6	9.9	36.9	46,018	7.2	404	153
2010	810.4	272.5	10.8	37.7	46,549	7.6	592	160
2011e	820.9	274.8	10.1	39.3	47,834	8.3	702	147
2012f	830.7	279.5	9.5	40.9	49,219	8.6	850	150
2013f	839.9	284.2	8.7	42.4	50,530	8.9	950	155
% Change								
01/00	1.2%	1.8%		2.6%	1.4%	5.3%	-13.2%	9.6%
02/01	1.5%	0.7%		2.7%	1.2%	4.5%	-27.2%	-6.5%
03/02	0.9%	0.9%		6.3%	5.4%	7.9%	45.0%	31.1%
04/03	0.5%	0.7%		7.8%	7.2%	7.8%	-28.4%	-6.9%
05/04	-0.2%	1.7%		5.8%	6.0%	5.6%	73.5%	5.4%
06/05	0.2%	2.2%		7.7%	7.5%	1.4%	-45.5%	-12.4%
07/06	0.2%	-0.3%		4.5%	4.3%	-0.9%	-24.9%	6.1%
08/07	0.6%	-1.9%		0.4%	-0.2%	-8.5%	-54.4%	-0.3%
09/08	0.9%	-5.4%		-1.6%	-2.5%	-10.7%	-52.0%	-55.7%
10/09	1.2%	-1.1%		2.3%	1.2%	5.7%	46.5%	4.6%
11/10	1.3%	0.9%		4.1%	2.8%	8.5%	18.6%	-8.1%
12/11	1.2%	1.7%		4.1%	2.9%	4.0%	21.1%	2.0%
13/12	1.1%	1.7%		3.8%	2.7%	4.0%	11.8%	3.3%

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 18: Ventura County Nonfarm Employment

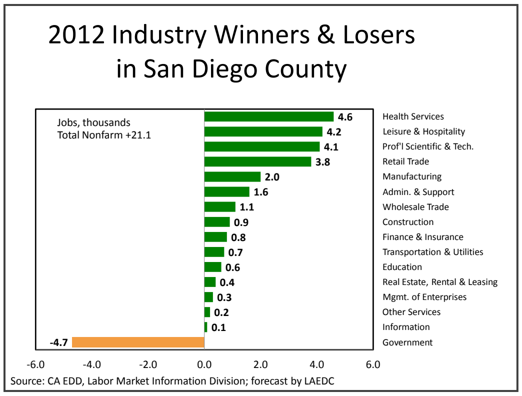
Annual averages in thousands, March 2010 Benchmark

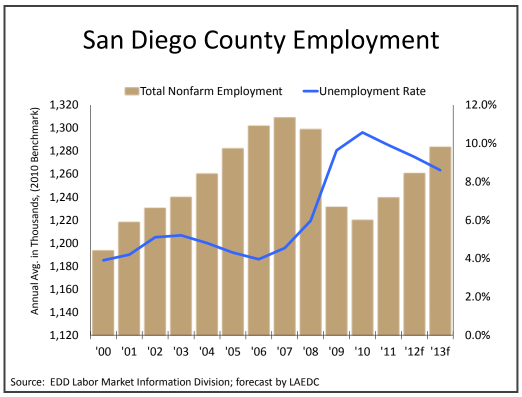
Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2001	279.9	0.6	16.1	40.5	*26.6*	*13.9*	11.0	34.0	5.9	8.4
2002	281.8	0.7	15.7	38.0	*24.9*	*13.1*	11.7	34.2	5.8	8.1
2003	284.2	0.6	16.6	37.1	*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	37.7	*23.9*	*13.9*	12.5	36.5	5.8	6.2
2006	297.7	1.1	20.5	38.4	*24.1*	*14.3*	12.6	37.6	6.1	6.0
2007	296.8	1.1	18.8	38.0	*23.9*	*14.1*	13.0	37.6	6.1	5.8
2008	291.3	1.2	16.7	35.9	*23.2*	*12.7*	12.8	37.3	6.0	5.6
2009	275.6	1.2	13.2	32.6	*20.4*	*12.2*	12.0	35.1	5.4	5.3
2010	272.5	1.2	11.3	31.6	*19.6*	*12.0*	12.3	35.2	5.4	5.2
2011e	274.8	1.3	10.6	32.5	*19.8*	*12.7*	12.2	34.9	5.4	5.3
2012f	279.5	1.3	10.4	33.0	*20.0*	*13.0*	12.5	36.0	5.5	5.5
2013f	284.2	1.3	10.7	33.7	*20.3*	*13.3*	12.8	36.7	5.7	5.6

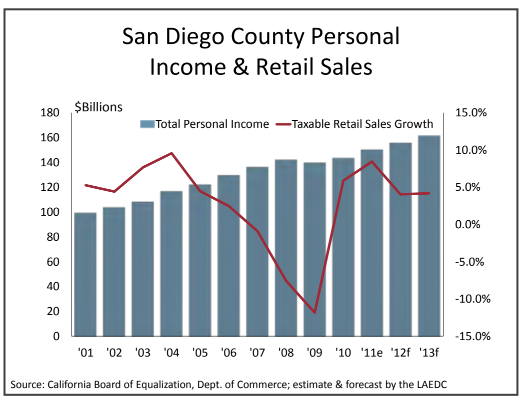
Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	15.5	4.2	13.8	3.4	20.0	2.8	22.6	26.6	9.6	45.1
2002	17.7	4.6	13.7	3.3	19.6	2.9	23.4	27.2	10.2	45.3
2003	19.2	4.3	13.6	3.9	19.4	3.3	24.4	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	3.5	24.0	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	3.5	24.8	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	3.5	25.4	30.5	10.2	42.5
2007	17.9	4.8	16.2	3.2	18.9	4.0	26.5	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.6	4.4	27.4	31.5	10.0	43.1
2009	16.1	4.3	16.2	2.9	17.0	4.4	27.9	29.8	9.3	42.9
2010	16.2	4.0	15.5	2.7	17.3	4.4	28.4	30.3	8.9	42.6
2011e	16.5	4.0	15.6	2.6	18.5	4.4	28.0	31.4	8.7	43.1
2012f	16.6	4.0	16.0	2.6	19.2	4.4	28.7	32.2	8.7	42.6
2013f	16.6	4.0	16.5	2.7	20.3	4.4	29.4	32.7	8.8	42.1

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

IX. Outlook for San Diego County







San Diego County has a long history in California. Created in 1850 as one of California's original 27 counties, San Diego County is home to 3.1 million people, making it the second largest county by population in California.

San Diego County's economy is diverse. The region is a thriving hub for the biotech and telecommunications industries. San Diego is also an important manufacturing center and a popular travel destination. Since the end of the Cold War, the military's presence has diminished but remains an important driver of the region's economy.

The outlook for San Diego County in 2012 is for expanding, but moderate economic growth. Employment is improving (if slowly), tourists are coming back and many of the county's key industries are growing again. Some important sectors continue to lag. Housing and new construction are getting better but have not yet turned the corner. Still, the region's diverse economy, highly educated workforce and desirable location place San Diego County on a solid footing for accelerating growth over the next two years.

Industry Outlook

The region's **health care** industry will continue to grow. The San Diego area attracts a significant number of retirees, a demographic group that requires a larger share of health care services. Medical office vacancy rates are falling and new construction for health care facilities is on the rise. Several of the region's major health care providers have expansion plans underway or have announced future projects: Sharp Healthcare, Scripps Health and Kaiser Permanente. Risks to the health care industry in San Diego stem primarily from health care reform. The Affordable Health Care Act has prompted providers to focus on driving down costs and increasing efficiency. Many practitioners will delay long-term investment decisions until the scope of Medicare and other reforms are known.

Federal government and Pentagon initiatives to cut back on **defense** spending will have a significant impact on San Diego's economy. According to the San Diego Military Advisory Council's 2011 annual report, the military currently supports 385,000 direct and indirect jobs in the region and contributes an estimated $35.7 million to the local economy. Fortunately, the region is home to significant military commands and training centers. Additionally, the Department of Defense is shifting its focus to the Pacific and deploying more forces in

San Diego. As a result, defense dollars should continue to flow into the county.

Although defense related firms are rightly concerned about Federal budget cuts, a large proportion of the work being done by local contractors is related to the development of unmanned aerial vehicles (UAVs) and cyber security systems. The last major shipyard on the west coast (General Dynamics Nassco) is also located in San Diego. Through the third quarter of 2011, military contracts awarded to firms in the region totaled nearly $2.3 billion.[4] Nassco received a $744 million contract (62% benefiting San Diego County) for the design and construction of two Navy ships, with the first scheduled to be delivered by spring 2013 and the second by early 2014. The USAF awarded $247 million (100% to San Diego) to Northrop Grumman for logistics support for the Global Hawk UAV which will support 290 jobs in San Diego County. The Army awarded a $300 million contract (100% to San Diego) to General Atomics Aeronautical Systems for the purchase of system hardware for the Army's Gray Eagle UAV.

The San Diego International Airport is the second busiest single runway airport in the world behind Gatwick in London

San Diego's **travel and tourism industry** is growing again. In the lodging sector, fundamentals continue to improve – demand for hotel rooms is up and occupancy rates are rising. Room rates have not yet regained all the ground lost during the recession but are starting to improve. New hotel construction remains at very low levels. It is still a challenge to obtain financing for large construction projects. Instead, existing hotels are upgrading and modernizing their facilities. As the number of visitors increases, the lack of new supply will help push up room rates. While growth will continue in 2012, it will be at a slower pace as visitor numbers start to stabilize.

A plan to expand the San Diego Convention center has been under evaluation for some time. Approval is pending, but if the expansion goes forward, the $550 million project would begin in 2013 and be completed by 2016. In 2011, convention center activities generated an estimated 704,000 room nights and are projected to generate 763,000 room nights in 2012.[5] This year, 98 events including 65 conventions are scheduled. If the expansion occurs, additional and larger conventions would be attracted to San Diego, increasing lodging demand.

The "drive" market is also very important to San Diego's hotel industry. Short stay travelers have nearly as large an impact as convention visitors. As the economies and employment outlook of the

[4] San Diego Business Journal (November 7, 2011)
[5] San Diego Convention Center Corporation

region's feeder markets (e.g. Los Angeles, Orange County, and Phoenix, AZ) continue to improve, San Diego's tourism industry will benefit.

Some trouble spots remain. San Diego has a large cruise ship business which was, until recently, heavily focused on the Mexican Riviera. Over the past few years, however, demand for cruises to Mexico has declined and cruise lines have been shrinking their presence in San Diego. It may be several years before the industry recovers. Much will depend on repairing Mexico's image as a tourist destination.

40% of San Diego's adult population has a bachelor's degree or higher.

San Diego has the nation's highest per capita concentration of PhD degrees.

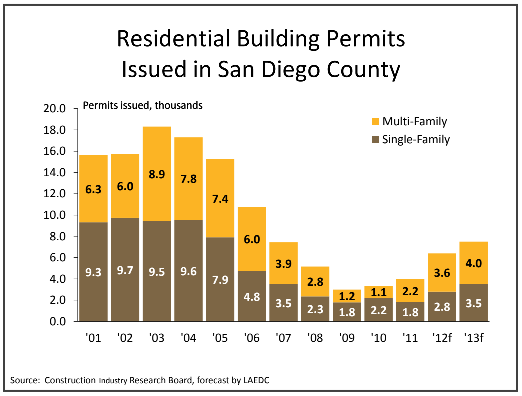
The number of overnight visitors will increase by about 1.3% to 15.8 million in 2012. San Diego's attractions, beaches, casino gaming and sports venues will continue to make San Diego a popular destination for both domestic and international travelers. LEGOLAND, the San Diego Zoo and SeaWorld have all announced or will debut new attractions in 2012, and British Airways' daily direct flights from San Diego to London are having a positive impact on the number of European visitors.

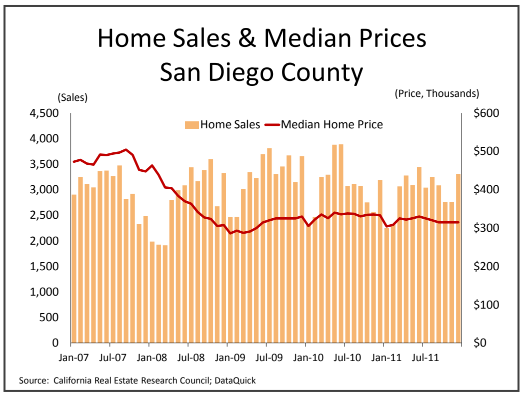
22 Companies in San Diego County made Deloitte, LLP's 2011 Technology Fast 500 list of fastest growing technology companies in the United States

The **manufacturing sector** will employ more workers this year. Technology firms in particular are hiring more engineers, software developers and software support staff. San Diego County has the benefit of several innovative clusters including communications, bio-fuels, genomics, energy storage, cyber-security and clean-tech. San Diego also is home to one of the nation's largest biotech sectors. Navy cargo ships and drone aircraft are made in San Diego as well as electronic products for the military, aviation and space. Benefiting from a highly educated workforce, San Diego is a hub of research and innovation in biotechnology, communications and software development.

While smaller than it once was, San Diego's **agricultural** industry is still significant. It ranks as the 17th largest agricultural economy among counties in the United States. The region has 6,687 farms (covering 302,713 acres), more than any other county in the U.S. The total value of the county's agricultural output in 2010 was $1.6 billion,[6] an increase of 7% from the previous year. The largest commercial crops were nursery plants (59% of the total dollar value of output) and avocados (9%). In spite of having what the National Weather Service describes as the most nearly perfect climate in the country, San Diego growers do face some considerable challenges – land costs are high and water supply is an ongoing concern, specifically the increasing

[6] Farm Bureau San Diego, County of San Diego Department of Agriculture, Weights & Measures, 2010 Crop Statistics & Annual Report





In 2011, 18 office property sales transactions over $10 million were recorded compared with 10 in 2010 and just three in 2009

cost of water. This accounts for the region's concentration on high-value crops. San Diego produces the highest dollar value per acre of any county in California.

Residential real estate is improving but will not see a significant turn-around this year. Local home sales are rising, especially in the multi-family sector. Demand for homes priced in the $300,000 to $500,000 range has increased. New lower loan limits for mortgages eligible for backing from Fannie Mae and Freddie Mac went into effect last October. While this will impact a relatively small number of homes, potential buyers looking in high-cost areas will find it harder to get a loan if the home exceeds the new limits.

Home prices, on the other hand, are still trending down. The large number of distressed properties and foreclosures on the market continue to exert downward pressure on home prices in the region. This makes it difficult for local builders to compete with existing home sales. Still, new home construction was up over the year in 2011 and is expected to post additional gains in 2012. New apartment construction will do better than new single-family home construction. One indication that San Diego's residential real estate market may be on the verge of turning is residential land prices are starting to tick up – the limited supply of land in the county means builders have to compete for desirable properties, especially apartment builders in core urban areas.

In addition to working through the region's foreclosure inventory, employment is a key driver of new home construction. Builders look for land near markets where employment is likely to exhibit strong growth over the coming years.

Nonresidential real estate is on the mend, but remains a long way from fully recovered. Office and industrial vacancy rates remain high, but appear to be stabilizing in some sub-markets. Rents are starting to flatten out in a few markets, but are still declining in others. The flight to quality continues with landlords offering discounted rents and other incentives. Still, steady job growth is raising demand for office and other types of commercial real estate.

San Diego County's commercial real estate (CRE) market weathered the recession better than many regions because the overbuilding seen elsewhere in the country did not occur in San Diego. A study by PwC[7] ranked San Diego's CRE market 10th in the nation (behind list toppers

[7] *2011 Emerging Trends in Real Estate*, PwC LLC & Urban Land Institute

Washington DC, Austin, San Francisco, New York and Boston) among real estate markets to watch for investment opportunities.

The life sciences sector was a strong performer in 2011 and will continue to expand in 2012. San Diego was ranked seventh in the nation for real estate expansion by life sciences companies.[8] Expansions by defense contractors also helped pare industrial vacancy rates. Purchases and new lease activity by defense contractors include General Atomics, Northrop Grumman, BAIC Systems, and SAIC. R&D space is being snapped up by high tech manufacturers in the biotech, telecom and info tech firms.

This year should see continuing, if not spectacular, improvement in San Diego's commercial real estate markets. New development will be focused on redevelopment projects (renovations and additions) or replacement of older buildings.

Summing up: San Diego's economy will expand in 2012. Growth will be slow through the first half of the year, but will pick up steam as the year progresses. Job creation in San Diego will continue to improve as expansion accelerates in key industries (tourism, healthcare and high tech). San Diego has the benefit of a near perfect climate, which attracts an educated and talented workforce; a steady influx of well-off retirees and the presence of the U.S. Navy and Marine Corps. All these attributes mean San Diego is poised for healthy growth in 2012 and beyond.

San Diego County's Largest Industry Clusters by Employment (2010)

Leading Traded Clusters
(Traded clusters drive wealth creation in a region)

1. Business Services	58,200
2. Education and Knowledge Creation	32,000
3. Hospitality and Tourism	37,800
4. Trade (transportation, logistics, distribution)	23,000
5. Financial Services	15,900

[8] Life Sciences Cluster Report, Global 2011; Jones Lang LaSalle

TABLE 19: SAN DIEGO COUNTY ECONOMIC INDICATORS

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy-ment Rate (Ave., %)	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 (%)
2001	2870.1	1218.6	4.2	99.4	34,648	26.3	33.6	14.8	15,638	1,194	4.6
2002	2910.4	1260.8	5.2	103.8	35,670	27.4	35.9	15.0	15,738	1,169	3.5
2003	2944.0	1240.1	5.2	108.3	36,786	29.5	35.7	15.4	18,314	1,169	3.7
2004	2963.4	1260.3	4.7	116.6	39,362	32.3	39.5	15.7	17,306	1,288	3.7
2005	2970.1	1282.1	4.3	122.0	41,086	33.8	43.4	15.7	15,258	1,382	3.7
2006	2982.8	1301.6	4.0	129.6	43,444	34.6	49.8	15.8	10,777	1,622	3.4
2007	3014.2	1308.8	4.5	136.2	45,185	34.3	54.2	15.4	7,445	1,417	2.3
2008	3051.3	1298.7	6.0	142.0	46,529	31.7	54.0	15.2	5,154	1,062	3.9
2009	3077.6	1231.4	9.6	139.6	45,352	28.0	44.0	14.4	2,990	584	0.0
2010	3104.6	1220.2	10.5	143.3	46,171	29.6	48.6	15.1	3,346	659	1.3
2011e	3131.3	1239.6	9.9	150.0	47,905	32.1	53.0	15.6	5,223	1,072	3.7
2012f	3162.6	1260.7	9.3	155.5	49,175	33.4	55.9	15.8	6,375	1,300	2.1
2013f	3197.4	1283.4	8.6	161.1	50,400	34.8	58.9	15.9	7,500	1,450	2.4

% Change										
01/00	1.5%	2.0%		4.1%	2.6%	5.3%	-4.0%	-2.6%	-1.8%	-14.2%
02/01	1.4%	3.5%		4.4%	2.9%	4.4%	6.8%	1.4%	0.6%	-2.1%
03/02	1.2%	-1.6%		4.3%	3.1%	7.7%	-0.6%	2.7%	16.4%	0.0%
04/03	0.7%	1.6%		7.7%	7.0%	9.6%	10.6%	1.9%	-5.5%	10.2%
05/04	0.2%	1.7%		4.6%	4.4%	4.4%	9.9%	0.0%	-11.8%	7.3%
06/05	0.4%	1.5%		6.2%	5.7%	2.5%	14.7%	0.6%	-29.4%	17.4%
07/06	1.1%	0.6%		5.1%	4.0%	-0.9%	8.8%	-2.5%	-30.9%	-12.6%
08/07	1.2%	-0.8%		4.2%	3.0%	-7.6%	-0.4%	-1.3%	-30.8%	-25.1%
09/08	0.9%	-5.2%		-1.7%	-2.5%	-11.8%	-18.5%	-5.3%	-42.0%	-45.0%
10/09	0.9%	-0.9%		2.7%	1.8%	5.9%	10.5%	4.9%	11.9%	12.8%
11/10	0.9%	1.6%		4.6%	3.8%	8.4%	9.0%	3.3%	56.1%	62.7%
12/11	1.0%	1.7%		3.7%	2.7%	4.0%	5.5%	1.3%	22.1%	21.3%
13/12	1.1%	1.8%		3.6%	2.5%	4.2%	5.3%	0.6%	17.6%	11.5%

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

TABLE 20: SAN DIEGO COUNTY NONFARM EMPLOYMENT

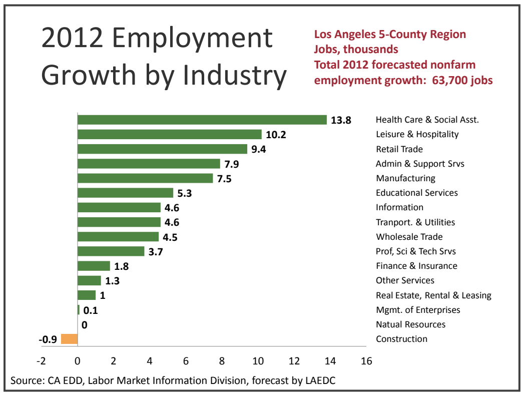
Annual averages in thousands, March 2010 Benchmark

Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2001	1,218.6	0.3	75.1	119.1	*89.3*	*29.8*	41.5	135.6	32.0	35.5
2002	1,230.8	0.3	76.4	112.4	*84.7*	*27.7*	41.3	138.0	29.3	34.4
2003	1,240.1	0.3	80.2	105.3	*78.8*	*26.5*	41.6	140.8	27.3	33.4
2004	1,260.3	0.4	87.7	104.3	*78.1*	*26.2*	41.9	144.9	28.4	32.5
2005	1,282.1	0.4	90.8	104.5	*79.1*	*25.4*	43.6	147.4	28.4	36.6
2006	1,301.6	0.5	92.7	103.9	*78.4*	*25.5*	45.1	148.3	28.7	31.7
2007	1,308.8	0.4	87.0	102.5	*77.3*	*25.2*	45.5	148.1	28.8	31.3
2008	1,298.7	0.4	76.1	102.8	*78.1*	*24.7*	44.9	142.0	29.0	31.4
2009	1,231.4	0.4	61.1	95.3	*73.1*	*22.2*	40.6	131.6	27.4	28.2
2010	1,220.2	0.4	55.5	92.4	*70.6*	*21.8*	39.2	130.0	27.5	25.2
2011	1,239.6	0.4	53.9	92.3	*70.4*	*21.9*	41.4	130.9	28.1	24.9
2012f	1,260.7	0.4	54.8	94.3	*72.0*	*22.3*	42.5	134.7	28.8	25.0
2013f	1,283.4	0.4	57.0	95.6	*73.0*	*22.6*	43.4	137.5	29.4	25.2

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2001	44.9	27.2	101.7	18.6	81.3	17.2	98.8	131.4	44.9	213.8
2002	47.3	27.7	104.2	19.9	81.0	17.2	102.5	133.8	45.6	219.7
2003	51.2	28.8	105.1	19.1	80.5	18.8	103.0	140.7	46.8	217.3
2004	52.8	29.1	103.9	18.2	86.6	20.1	101.6	145.7	47.9	214.3
2005	53.5	29.7	110.8	17.4	87.2	21.1	101.4	149.6	48.8	215.1
2006	53.2	30.5	115.3	16.9	87.1	21.3	103.8	156.5	48.4	217.9
2007	50.2	30.1	118.6	16.1	88.4	22.0	107.6	161.8	48.3	222.4
2008	46.1	29.2	120.4	15.9	85.9	24.4	112.9	164.0	48.4	225.1
2009	43.3	26.5	116.7	16.0	74.1	26.7	117.5	154.2	46.8	224.5
2010	41.4	25.7	117.9	16.9	73.2	26.6	120.6	154.6	47.2	226.0
2011	42.1	25.6	121.4	17.1	74.1	26.8	126.0	160.1	46.4	225.4
2012f	42.9	26.0	125.5	17.4	75.7	27.4	130.6	164.3	46.6	220.7
2013f	43.8	26.6	130.5	17.7	76.9	28.0	134.5	167.1	47.2	219.0

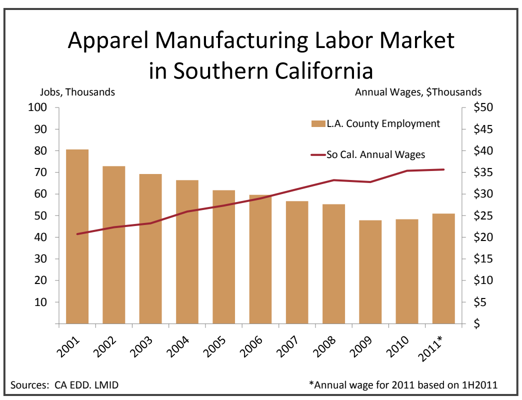
Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC

X. Major Industries of the Southern California Economy



Having coped with job losses in over the past few years, the Los Angeles region experienced a modest turnaround in 2011. The performance across the region's industries was uneven, but most finished the year with at least a slight gain in employment. Health care and related industries led the way with the biggest job gains, while construction alone registered yet another year of job losses. The fate of the industries in the Los Angeles region over the next two years depends largely on the trajectory of the national economy.

Apparel Design & Manufacturing



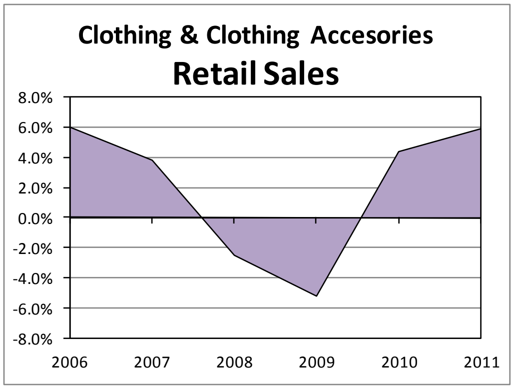
The apparel design and manufacturing industry makes a significant contribution to the Southern California economy, particularly in Los Angeles County. There is strong demand for the "Made in Los Angeles" label both in the U.S. and abroad. In 2011, the growing fashion industry increased employment in local apparel manufacturing for the first time in a decade. Apparel manufacturing employment in Southern California has been in decline for several years. Labor-intensive production of apparel has largely shifted to lower wage countries in Latin America and Asia, particularly China. On the other hand, design related activity has expanded helping Southern California to retail a strong presence in the apparel industry.

Southern California Manufacturing: The 50,900 workforce in apparel manufacturing in Los Angeles County was 5.9% higher in 2011 than 2010. The average wage for Los Angeles County apparel manufacturing employees increased by 0.8% (to $34,500 a year) during the first half of 2011 compared with same period in 2010.

85% of Southern California apparel manufacturers are employed in Los Angeles County.

What is the future of local apparel manufacturing? The *fast fashion* model will continue to provide local employment. Los Angeles based companies rely on a rapid production cycle, locally manufactured apparel instead of waiting for overseas shipments.

In spite of rising demand for Los Angeles fashion, increasing local production is hindered by trade barriers. The apparel and accessories export-to-import ratio is roughly 1:40, measured by dollar value. The disparity reflects import tariffs by countries protecting their own large apparel manufacturing industries. Small- to medium-sized companies, in particular, struggle to gain a foothold with foreign retailers. Recent



Many local apparel wholesalers are self-employed. More than 60% of the remaining establishments are composed of 1-4 employee firms.

free trade agreements may help garment exports destined for South Korea, Panama, and Columbia.

Southern California Design: Thanks to the many apparel design and merchandising schools located in the region, the design sector is thriving. These schools attract students from throughout the world. Big name local brands employ numerous design related workers, but the majority of local designers work independently. The California Fashion Association estimates that there are 1,050 independent fashion designers in the area.

Retailers: Throughout the U.S., retail clothing stores had a much better 2011 compared to 2010. National apparel sales were especially good this holiday season. The Census Bureau reports that apparel sales increased by 5.9% to $226.5 billion in 2011 compared with 2010. Southern California accounts for about 8.3% of the total.

Southern California retailers employed 102,400 persons in apparel and apparel accessories 2011, unchanged from 2010. Los Angeles County apparel wholesalers increased employment to 21,000 jobs in 2011 from 20,500 in 2010.

Textile Mills: The floods in Thailand caused a shortage of textile supplies in Southern California. The producer price of textile products and apparel is a major risk to the apparel industry moving forward. In 2011, the price of textile products and apparel increased by 7.7%, according to BLS preliminary estimates. In a similar survey, the price of fuels and related products increased by 16.5% in 2011 and by 17.1% in 2010, which hurt companies that outsource production segments. Employment in local textile mills has been disappearing for the last decade. The 6,900 jobs in textile mills was 400 less than in 2010.

Business & Professional Management Services

In 2011, California added nearly 70,000 business and professional management services jobs, which represented an increase of 3.3% over the year. In Los Angeles County, nearly 4,600 jobs were added in 2011, an increase of 0.9%. With its high number of white collar and high skill jobs, this diverse sector is expected to be one of the fastest growing in the state and throughout the region in 2012.

Once again the **advertising industry** has perhaps the best growth prospects in 2012 for this sector. In the U.S., spending on advertising rose by 3.4% to $158.9 billion in 2011. The online portion of advertising in the U.S. grew at an even faster rate, increasing by 23% to $32 billion in 2011. Increasingly, more money is being directed to online advertising because of the growing amount of time consumers are spending with digital platforms. The Internet is also a more measurable medium than traditional print and TV advertising. Total ad spending across all media in the U.S. is forecast to increase in 2012 by 6.7% to $169.5 billion.[9]

The summer Olympics and the U.S. Presidential election will provide a boost to ad expenditures this year. Many corporations have built up large cash reserves and will be investing a portion of those reserves in advertising to stimulate consumer demand and build market share. Much of the growth in the advertising industry will depend on increases in consumer spending.

Mergers and acquisitions (M&A) activity is growing increasingly contentious and legally complex. After a promising start last year, deal activity fell during the second half of 2011 by 23.9%. Over the year, deal volume was down by more than 19.0% while values plunged by 35%.[10] Volatile markets and depressed stock prices took a toll on the number of transactions. Deals took longer to complete, especially in industries like telecommunications which are subject to heavy regulatory scrutiny. The financial industry was also hit hard in terms of deal volume. Regulatory and compliance concerns more than ever must be factored in to deal-making. Private equity deals, the one bright spot last year, stepped up both in terms of volume and the value of deals completed in 2011 versus 2010.

As to 2012, there is still an appetite for growth among companies with strong cash reserves and untapped capital to expend. Mergers and acquisitions activity will likely rebound once market volatility subsides. M&A activity benefits everyone needed to complete a deal: accountants, lawyers, investment bankers, advisors and consultants (strategic, valuation, etc.).

Commercial real estate in major metro areas is beginning to improve. There is still little activity on the new construction front, but buying/selling activity for Class A properties is on the upswing. That benefits agents, brokers, lawyers, title companies – anyone involved in the mechanics of property transfer. Additionally, there is still a substantial amount of work to be done by firms handling property workouts or foreclosures.

[9] www.eMarketer.com
[10] *The Gloves are Off,* Thomson Reuters (January 26, 2012)

Business conditions at **architectural** firms are improving in most regions of the U.S. December 2011 marked the second straight month that the AIA's architecture Billings Index increased. This was the first back-to-back gain since February-March 2011. However, the December index indicated the billings figures for the Western region (which includes California) were still too weak to generate growth. Nationwide, most major construction sectors are reporting gains. Firms specializing in residential, commercial/industrial, and institutional projects all reported gains in December. Activity levels will remain volatile during 2012, but cautious optimism is making its way back into architectural firms' outlook.

Financial Services

Many segments of the financial services industry were hard hit by the mortgage meltdown and broader financial crisis that accompanied the Great Recession. Across the state, the industry lost more than 160,000 jobs over four successive years before eking out a slight gain in 2011. But the industry still has some distance to travel before it is fully on the mend.

Financial institutions with large real estate exposure continue to work through loan delinquencies and foreclosures. On the residential side, the number of foreclosures and short sales has probably peaked, but the distressed sale pipeline will be full for at least two more years. As economic and housing market conditions improve this year and next, both the number of underwater properties and the number of delinquencies will even out and decline. Moreover, since tighter underwriting standards have been in place for a number of years, the number of new delinquencies in the coming years should likely decline, and banks should begin to see the light at the end of the tunnel.

Financial institutions still face legal and regulatory hurdles in the years ahead. As of this writing, government officials and five major banks reached an agreement valued at $26 billion to settle alleged foreclosure abuses by lenders. Other lawsuits and legal battles stemming from their lending and investing practices before, during, and after the financial crisis may still be forthcoming. They must also implement measures to comply with financial and consumer protection regulations that passed in 2010.

The future of Fannie Mae and Freddie Mac is still uncertain, and Congress is unlikely to act substantively on this matter until 2013, after the November election passed. Once Congress takes action, actual changes to government's role in real estate finance will take years to implement.

In sum, these legal and regulatory developments may affect the financial industry's willingness and ability to provide more liquidity to businesses and households as the overall economy improves.

HEALTH SERVICES

The Health Services industry is one of the leading segments of the Southern California economy. Anchored by leading medical facilities through the region, the industry accounts for 10% of regional jobs.

Healthcare services added jobs during the course of the recession, and should see job gains continue this year and next. This trend will be driven by demographics, notably continued population growth, longer life expectancy, and increasing numbers of older Southern California residents. One also expects more households to have a greater ability to afford insurance and medical treatment as their finances improve along with the performance of the economy.

In response to growing healthcare needs, several institutions have expanded their facilities or have plans to do so:

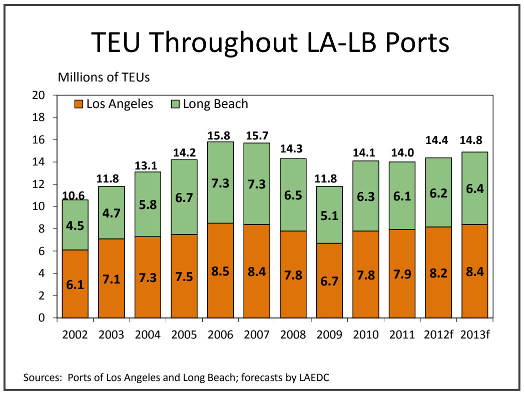
- Los Angeles County: Long Beach Children's Hospital
- Orange County: Kaiser Permanente, St. Jude Medical Center, and Children's Hospital Orange County in Orange County
- Ventura County: Ventura County Medical Center
- San Diego: Sharp Healthcare, Scripps Health and Kaiser Permanente

In addition to providing treatment, several medical research institutions are located in the region. Medical research and production of medical instruments and pharmaceuticals are also an important source of economic growth.

Employment in the health services industry of Southern California is expected to see job growth accelerate from 2.0% in 2011 to 2.7% in 2012, with an additional 2.3% increase in 2013.

INTERNATIONAL TRADE/GOODS MOVEMENT

International trade has played a critical role in our regional economy's recovery over the past two years. In fact, international trade related employment has rebounded strongly since 2009 starting at the local



The Port of Long Beach just recently signed a 40-year $4.6 billion lease with Orient Overseas Container Line (OOCL). This is the largest deal of its kind in U.S. seaport history. The deal secures a tenant for the Middle Harbor Project.

ports and spreading from the coast to the Inland Empire. This sector has a significant economic impact (both directly and indirectly) on the regional economy and the industrial real estate markets in L.A. County (which has the lowest industrial vacancy rate of any metropolitan area), Orange County and the Inland Empire.

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

The 2011 trade figures for the San Pedro Bay Ports (Port of Los Angeles and the Port of Long Beach) were weaker than expected, primarily on the import side, as exports did exceptionally well. Import growth started to taper off in the second quarter of 2011 due to the disasters in Japan, higher oil prices, and the euro zone debt crisis. Moreover, the normal holiday peak season was not as strong this year as retailers restocked inventories less aggressively. As a result, loaded inbound containers barely declined by 0.2% at the San Pedro Bay ports in 2011.

The local ports experienced a decline of 0.7% in total containers in 2011. However, the ports did witness an increase in *total loaded containers* in 2011. The combined ports experienced a jump of 1.9% in total loaded containers, mainly led by loaded outbound containers at the Port of Los Angeles.

The Port of Long Beach experienced a drop in total containers of 3.2% in 2011 as imports fell by 3.3% and exports dropped by 3.6%. However, the big story this past year at the Port of Long Beach was the loss of one of its seven container terminal customers. The departure of the Hyundai to the Port of Los Angeles was the main reason for the drop in activity. On a positive note, the remaining six container terminals actually witnessed strong growth of 8.1% in 2011. Imports climbed by 10.1%, while exports rose by 7.8%.

The Port of Los Angeles experienced a rise in total containers in 2011, registering a 1.4% expansion. Loaded inbound activity rose by 2.3%, while loaded outbound TEUs grew by 14.6. The Port of Los Angeles recorded the highest level of exports in history during 2011. Exports totaled 2,109,394 TEUs surpassing last year's record of 1,841,274 TEUs.

The Port of Los Angeles and Port of Long Beach maintained their top two rankings in the U.S. during 2011, handling a total of 14.0 million containers (down from 14.1 million containers in 2010). The Los

Angeles Customs District (LACD) maintained its number one position in the U.S. in 2011 (through November) with a two-way trade value of $355 billion. The Port of Los Angeles remained the top port in the nation with regards to total container traffic with 7.9 million containers, while the Port of Long Beach maintained its number two ranking with a total of 6.1 million containers. Through November 2011, the value of total two-way trade had increased by 12.3% on a year-to-date basis.

The outlook for 2012 is positive as the global recovery continues, but with many significant risks lingering this year, including the European sovereign debt crisis, oil prices, and the slowdown in China. The Asian economies are once again expected to lead the way with higher rates of growth compared with the economies of Europe and North America, which bodes well for trade volumes at the local ports. However, the Asian economies are not projected to see the growth rates they experienced two years ago or last year as they face lower exports and high inflation rates. Still, the LACD's top five trading partners are all projected to post growth rates of 3% or higher with the exception of Japan.

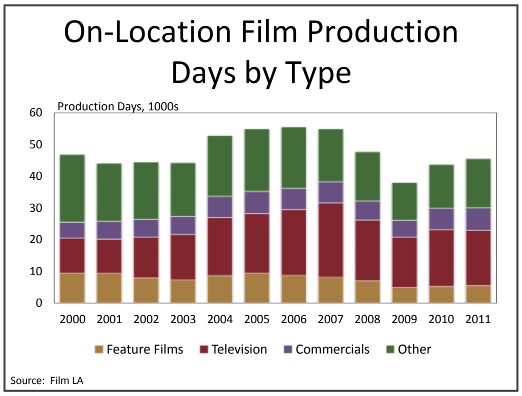
The forecast for 2012 calls for an increase in total trade volumes for both local ports. Total container traffic at the Port of Los Angeles and the Port of Long Beach is projected to expand in 2012 to 14.4 million TEUs, an increase of 2.8% and in 2013 to 14.8 million TEUs, also a rise of 2.8%. Both imports and exports should improve this year with exports outperforming imports. The expected improvement in trade will positively impact both ports as well as all the other goods movement industry players, from the longshoremen's union to the independent truck drivers to the railroads.

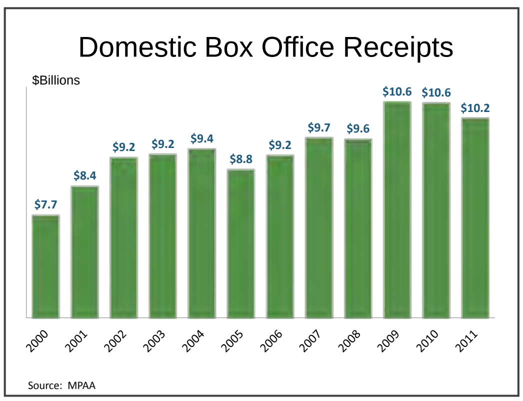
The Big Questions: For the international trade industry, the two main questions are: ***How well will the global economy perform in 2012? When will we see the peak trade volume years of 2006-2007 return?***

The pace of global economic recovery will slow in 2012. The recovery will continue to reflect two different economic stories. The developing economies (especially in Emerging Asia) will lead the global recovery (albeit at a much slower pace than in the last two years), while the advanced economies will see modest improvements in GDP growth and some will fall into recession (i.e. Europe). The growth in Emerging Asia bodes well for trade volumes at our local ports. Overall, the results for 2012 should be healthy as growth will exceed 2011 levels.
The answer to the second question has become more difficult to answer after last year's somewhat disappointing performance. Trade

volumes performed worse than expected last year, which is a bit concerning. Most importantly, there were slightly fewer total containers in 2011 when compared to 2010. As a result, trade volumes are not projected to return to the glory days of 2006-2007 for at least another few years.

MOTION PICTURE/TV PRODUCTION





The Los Angeles entertainment industry, of which motion picture and TV production (MPTP) is a large part, plays a key role in the regional economy. One of Los Angeles' signature industries, MPTP is a major driver of economic activity in the area. For example, when a movie is filmed, actors, costume designers and special effects creators benefit, but so do persons working in industries as disparate as food services, security, transportation and florists. L.A.'s billing as entertainment capital of the world also draws millions of tourists to the region each year.

Since the end of the recession, motion picture and TV production has created a significant number of jobs. In 2011, the industry added 11,700 employees. This represented a gain of 9.6% making MPTP one of the fastest growing industries in the region in terms of direct employment.

On-location film activity also increased in 2011 but has not yet regained all the ground lost during the recession. Measuring film activity by permitted production days does not capture filming that takes place on sound stages, but is still a good proxy for industry activity. Total permitted production days (PPD) were up by 4.2% last year following a post-recession bounce of 14.9% in 2010.

Permitted feature film production rose by 5.7% over the year in spite of a 26.4% decline in the fourth quarter. Commercials were up by 4.4% (setting a new annual record at 7,079 PPD) and "other" jumped by 12.6%. This category includes documentaries, industrial videos, music videos, still photography and student films. Somewhat disturbing was a decline in TV production. The number of TV PPD dropped by 2.7% in 2011. In the fourth quarter, the Los Angeles area lost *ten* one-hour TV drama series to other states.[11]

Fewer people went to the movies last year. Domestic box office receipts last year declined by 3.7% to $10.2 billion in 2011 compared with 2010. Movie theater attendance was down by 4.6% making last

[11] Film L.A., Inc.

year's movie audience the smallest since 1995, while the average price of a ticket edged up by 0.9% to $7.96.[12]

Although 2011 saw employment numbers rebound to a ten-year high, the entertainment industry continued to grapple with a number of complex issues that took root prior to the onset of the recession. Foremost is the role of new technologies that have changed how people consume entertainment. Related to this development is the issue of protecting intellectual property rights and stemming the flow of illegally downloaded media. There is also debate surrounding California's film tax credit and the outflow of movie and TV production from the region.

For consumers of entertainment media, connectivity is critical. Newly connected PCs, Blue-ray players and other network devices using Wi-Fi technology have dramatically changed how consumers access entertainment. The challenge is how to deal with rapidly changing consumer preferences and shorter product life-cycles. Consumer spending on home entertainment was down by 2% in 2011, the seventh consecutive annual decline.[13] Recent attempts by Hollywood to keep people buying movies as they ditch DVD discs in favor of Internet-connected TVs, smartphones and tablets were slow in coming and have gotten off to a rocky start. The recent launch of Ultra Violet is one example. The service was jointly developed by movie studios, electronics makers and retailers to build an "ecosystem" for buying and watching movies across multiple platforms. Some early adopters reported that the service was "confusing and buggy". Still, Ultra Violet represents an important step forward for the industry.

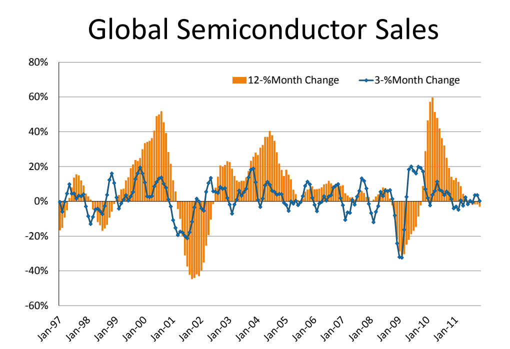
The issue of how much people are willing to pay and how to charge for content across multiple platforms is a contentious one. Piracy and illegal file sharing are an ongoing threat to the industry. Media companies have had some success cracking down on file sharing outfits. Financial losses are hard to quantify but it is safe to say foregone revenues are substantial. The recent showdown between entertainment companies and Internet providers over the Stop Online Piracy Act (SOPA) was a clear demonstration of the competing interests and complexity involved in tackling this problem.

The outward migration of film production has slowed due to the state's program of film tax credits, which took effect in 2009. The state has allocated $100 million annually beginning fiscal year 2009-2010 through fiscal year 2013-2014. The program provides a 20% to

[12] Box Office Mojo
[13] Digital Entertainment Group

25% tax credit on qualified production expenses that can be used to offset state income or sales tax liabilities. A number of cash-strapped states that offer film tax credits have questioned the cost effectiveness of their incentive programs and some are scrapping them, which might reduce competition for local production. On the other hand, other states such as New York, which offers more than four times the amount of funding than does California, continue to aggressively lure production away from California.

TECHNOLOGY



Source: Semiconductor Industry Association

LAVA (Los Angeles Venture Association) is forum where venture capitalists, entrepreneurs, angel investors, and professional advisors meet to discuss possible investment opportunities, especially for local businesses.

The rate of technological innovation continues to grow at a rapid pace. Incentives to innovate are at an all time high with big names filing for initial public offerings (IPO) in 2011 garnering large sums of cash. Meanwhile, jobs in high tech manufacturing were similar to 2010. Global semiconductor sales were flat throughout 2011.

Technology in Southern California reflects a U.S. trend: growth in the demand for tech services outweighs the growth in the demand for manufactured goods.

Technology Service Industry: Southern California's technology service industry is mostly composed of computer systems design, software publishers, management & technical consulting services, and research & development.

Employment in these tech service industries in Southern California for the first half of 2011 was higher than pre-recession levels as tech service employment in these combined industries reached 284,900 workers. The average tech service worker's wage increased by 9.1% to $94,400 annually in the first half of 2011 from the same period in 2010. Wages in tech services are 40% higher than in 2002.

While the top ten Tech IPOs of 2011 failed to feature any Southern California companies (Activision was the closest), development has been rising. Locally created Fandango (movie tickets) and Hulu (video streaming) benefited from their proximity to NBC Universal and Disney in Southern California. **LAVA** has also helped many start-ups get off the ground.

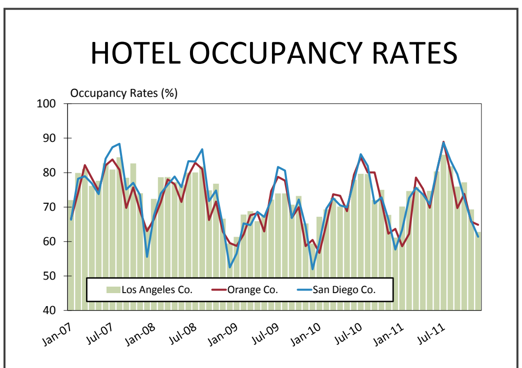
Technology Manufacturing Industry: Southern California's computer & electronic products manufacturing includes computer & peripheral equipment, bare printed circuit boards, semiconductors, fiber optic cables, and many other related products. Some local fast growing companies manufacturing goods have been thriving, but the overall trend slopes downward in terms of employment.

Patents protect the creators of new technologies and encourage innovation. According IFI Claims Patent Services, 224,505 utility patents were filed in 2011. Companies filing the most utility patents were IBM, Samsung, Canon, Panasonic, and Toshiba

Employment in computer & electronics products manufacturing was 115,200 workers in the first half of 2011, 4.7% lower than the same period in 2010. Going into 2010, computer & electronics products manufacturing employment had decreased for five consecutive years.

Expectations for Technology in 2012 and 2013: The technology industry can best exemplify the increasingly connected global economy. When large tech- corporations in Silicon Valley or elsewhere boost or cut budgets, local branches and other businesses follow suit. If the following year is anything like the last, expect large corporations to focus on **patent acquisitions**, mobile web browsing applications, and designing thinner, faster, and visually clearer computer tablets.

TRAVEL & TOURISM[14]



Source: PKF Consulting

Travel and tourism is one of L.A.'s largest industries, employing thousands of people and generating billions of dollars in economic activity. Los Angeles County hosted a record 26.9 million visitors last year, a 4.2% increase over the previous year. Tourists and business travelers spent $15.2 billion in 2011, an increase of 7.8% over 2010, also a record high.

More international travelers arrived in Los Angeles last year – 5.9 million, an increase of 6.7% compared with 2010. The largest number of international visitors came from Mexico (1.6 million) and Canada (675,000). Australia topped the list of *overseas* residents who came to Los Angeles in 2011, followed by the United Kingdom, China, France, Germany and South Korea. International travelers accounted for nearly 22% of the total number of visitors who arrived in L.A. last year and 36.8% of total visitor spending.

Regarding the area's hotel industry, demand was strong in 2011 with gains made in occupancy rates and average daily room rates. As 2012 progresses, the lodging sector will benefit from growth in corporate profits, international visitation, personal income growth (particularly among the professional ranks) and limited new supply. Several sub-markets in the Los Angeles area are expected to return to or surpass peak-2007 occupancy levels.

The outlook for the region's large tourist industry is looking brighter, but there are still concerns. One is the economic problems in Europe

[14] Visitor counts and spending figures provided courtesy of LA INC.

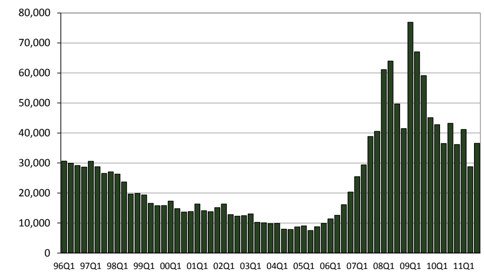
and the Euro's decline in value against the U.S. dollar. This could hurt travel to Southern California from such key markets as Germany, the UK and France. Slower growth in many emerging economies could also have a negative impact on the region's tourism industry. On the domestic front, although the labor markets are on the mend, unemployment remains very high – a deterrent to discretionary travel. Like most industries, the travel and tourism sector is also seeking to use new technologies to attract consumers and influence their travel decisions. Meanwhile, consumers are using mobile devices and social networks to track down the lowest prices and most desirable amenities siphoning pricing power away from airlines, hotels and other travel services providers.

Of course there is always competition from other popular travel destinations in the United States. There are a number of efforts underway to maintain L.A.'s position as a premier travel destination. The Tom Bradley International Terminal at LAX is undergoing a major face lift that will make it more attractive and user friendly for travelers. Local theme parks opened several new attractions last year and more are in the works. A number of hotels are renovating and upgrading their facilities. Los Angeles is also gaining popularity as a convention destination and new attractions such as the Broad Contemporary Art Museum are broadening the region's cultural appeal.

XI. Outlook for Construction and Retailing

Residential Real Estate

Notices of Default in the Los Angeles Five-County Region



Source: DataQuick Information Systems, County Recorders

During the opening months of 2011, several of the ingredients needed for a real recovery in the housing market appeared to be in place. Employment growth was stronger, consumer spending was up and the rental markets were tightening. Depressed home prices, rising rental rates and near-record low mortgage interest rates combined to bring down the cost of homeownership. And yet, as the calendar turned to 2012, the timeline for recovery in the housing market continued to be measured in years and not in months.

There are a number of obstacles blocking the recovery of Southern California's housing and homebuilding industries.

- While existing home sales in the region are only slightly below normal, tighter mortgage lending standards and fundamentals such as slow job growth and flagging consumer confidence have dampened demand.

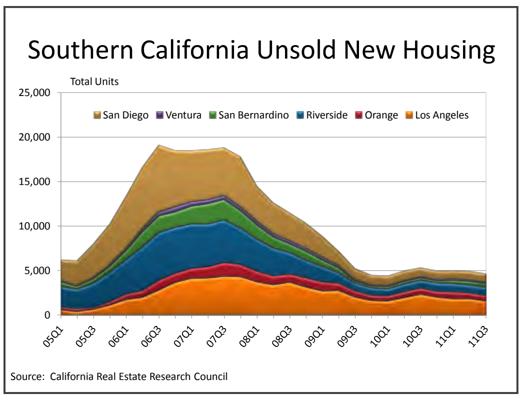
- Home prices fell in 2011 compared with 2010. Remember, though, that home prices received a boost from the home buyer tax incentives in 2010 so last year's decline is somewhat distorted. Still, there are several factors continuing to exert downward pressure on home prices. First and foremost is the large overhang of foreclosures and short sales. Home sales still include a high concentration of distressed and foreclosed properties. The result is a drop in median price.

- Low prices also have the effect of increasing the number of underwater mortgage holders, placing more homes at risk of default and foreclosure.

- Lower conforming limits for loans guaranteed by Fannie Mae and Freddie Mac make it harder for potential buyers of more expensive homes to obtain financing, further skewing sales and prices toward the low end of the market.

New Home Construction: 2011 was one of the worst years on record for new home construction. Five years after the onset of the housing crisis, the market for new homes is still facing significant challenges on the demand side: the glacial pace of new job creation, tighter bank underwriting standards, and conservative appraisals. Foreclosure activity continues to push back the recovery horizon because builders cannot compete with current existing home prices. California has the second highest foreclosure rate in the nation, just behind Nevada.

Uncertainty about how many foreclosures are in the pipeline and how lenders will manage their inventories of foreclosed homes is exerting additional downward pressure on prices. The unknown number of homes that comprise this "shadow" inventory continue to weigh on the housing market by encouraging appraisers to be overly conservative and by keeping mortgage underwriting tighter than it would otherwise be. In December, foreclosures in Southern California accounted for 32.5% of existing home sales. As bleak as this sounds, however, it is still a vast improvement over February 2009, when foreclosure sales peaked at 58.5%.[15]



Builders are reporting a modest uptick in buyer traffic, especially near key employment centers with established infrastructure and desirable amenities, but this is not yet translating into significant sales activity. In Riverside and San Bernardino counties, epicenter of the region's foreclosure crisis, new home inventories increased in the third quarter of 2011 by 1.2% and 59.3% respectively on a year-over basis. After falling in 2008 through mid-2010, unsold inventories in the Inland Empire have increased over the last five quarters. In Los Angeles County, the inventory of new unsold homes declined by 32.3% during the third quarter and in Orange County, new home inventories fell by 12.0%. In Ventura County, the unsold new home inventory increased by 32.4% during the third quarter of 2011.

In 2011, the number of new residential construction permits issued in the five-county area was up by 20.3% to 21,114 new single- and multi-family units compared with 2010 and by 41.3% from 2009 when only 21,114 permits were issued.

- In Los Angeles County, total residential construction permits increased by 39.0% to 10,380 units in 2011. Multi-family homes accounted for 77.6% of permits issued last year, with single-family homes making up the remaining 22.4%.

- In Orange County, a total of 4,818 residential permits were issued in 2011, which was up by 55.9% compared with 2010. Multi-family homes made up 60.8% of new home permits with single-family residences accounting for 39.2%.

[15] *Ibid.*

- Alone among the regions of the Los Angeles five-county area, the Inland Empire posted a decline in new home construction in 2011. Permits fell by 18.6% to 5,214 units last year, which was down by 90% from the region's new home building peak in 2004. Single-family permits continue to dominate in the Inland Empire, making up 71.6% of the total number of new housing permits.

- In Ventura County, a total of 702 residential permits were issued during 2011, an increase of 19.0% from the previous year. Of the housing permits issued in 2011, 77.1% were for multi-family residences. Compared with the rest of the region, less new home construction occurs in Ventura County. Barriers include a lengthy permitting process, limited land availability, and median prices that are relatively high compared with the rest of the Los Angeles five-county area.

Resale Housing: In 2011, existing single-family home sales in California edged up by 1.1% over the year, while the median price fell by 6.3%. Although prices are still declining on a year-over basis, the month-to-month numbers are beginning to exhibit some stability.

Median prices for existing single-family homes by county in 2011:[16]

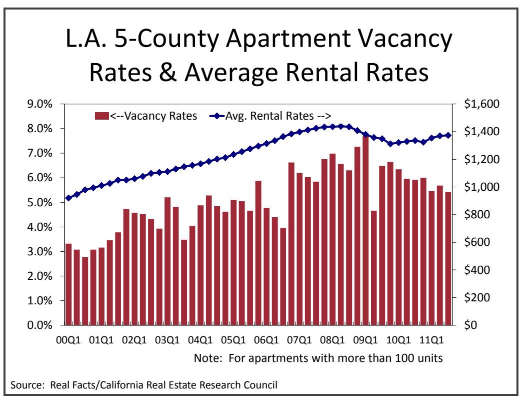
- In Los Angeles County the median price was $307,660, which was down by 4.8% over the year.
- In Orange County, the median home price declined by 6.2% to $512,500.
- The median price in the Inland Empire fell by 3.9% to $172,820.
- Ventura County had a median price of $418,270, a decline of 5.5% from a year ago.

Foreclosure activity has declined significantly from its peak in 2009, but remains at extremely high levels and is largely responsible (along with the lack of financing for higher priced homes) for concentrating sales at the low end of the market. Investors, many of whom pay cash, are filling in some of the gap left by the lack of entry level buyers. In December, investors were responsible for 26.4% of existing home sales in the region. Sales of higher-end homes (priced $500,000 or more) made up just 17.8% of sales in December, hampered by tight credit conditions and since last October, lower conforming loan limits. The ten year monthly average for homes sold in this price range is nearly 28% of total sales (although the decline in median price would affect the number of homes offered at that price point). [17]

[16] California Association of Realtors
[17] Southland December Home Sales (December 17, 2012); DQNews.com

Unsold inventories of resale homes are fairly low. According to the California Association of Realtors, the unsold inventory in California represented a 4.2 month supply at December's sales rates. This was down from 5.0 months in December 2010 (the average for California is about seven months). Normally, this would be a good sign because low inventories lead to increasing prices. However, these are not normal times. Homeowners who would like to sell may be keeping their home off the market because of low prices. On the demand side, the shortage of inventory may be discouraging potential buyers.

To date, rock bottom mortgage interest rates and good affordability have not been enough to entice buyers back to the market. What happens in the 2012 will depend on how fast lenders work through their foreclosure files. Would-be buyers are waiting for prices to stabilize. Also needed are stronger job growth, a more normal rate of household formation, and a greater willingness on the part of lenders to make loans to qualified buyers. Perhaps equally important, is greater confidence on the part of potential buyers that the benefits of purchasing a home will, in the long-term, outweigh the risks.



Apartments: Demand for rental units continued to increase in 2011. The economy is adding jobs enabling more young people to establish independent households. Many potential entry-level home buyers are hesitating to commit to home ownership and are choosing to rent instead. Also adding to the pool of potential renters are former homeowners who lost their homes to foreclosure and will likely have to rent for many years to come.

Apartment vacancy rates were mostly down in the third quarter of 2011 compared with the same period in 2010. The vacancy rate in Los Angeles County was 4.9% compared with 6.1% a year ago. Apartment vacancy rates in Orange County averaged 5.3% (unchanged from a year ago). Riverside County also experienced a decline in vacancy rates over the year, from 7.1% to 6.4%. In San Bernardino County, the rate edged up slightly to 5.7% from 5.6% and in Ventura County it dropped to 4.8% from 5.5%.

Rental rates are also improving. The average rental rate in the Los Angeles five-county region increased by 2.8% during the third quarter on a year-over basis. Rental rates in Los Angeles County were up by 4.1%. Orange County saw an increase of 4.2% over the year. Rents also rose in Riverside County (1.5%) and San Bernardino County (2.6%). In Ventura County the average apartment rent ticked up by 1.0%.

Apartment fundamentals are relatively healthy compared with the detached for-sale housing market. Transaction costs associated with renting are lower than buying, renting does not tie up funds in the form of a down payment, and renting offers greater flexibility if an individual needs to move to obtain a job. Additionally, the apartment market did not suffer from excess supply problems and was less affected by foreclosure crisis. On the other hand, increasing rental rates may lead to a reassessment of the "rent-or-buy" calculation for some households as their financial situation improves along with the economy.

Multi-family construction has been the one bright spot in the residential real estate market during the past year and momentum is building. Many families and individuals are rethinking the choice between purchasing a single-family home in a distant area for the sake of affordability versus long commutes to work. Younger people are embracing the flexibility afforded by renting. New apartment construction remains at relatively low levels but as more people return to work, demand will increase pushing up rents and encouraging builders to forge ahead with new developments.

Housing Forecast: The housing market in Southern California will be better in 2012. Economic reports dealing with housing indicators are showing a little more strength lately. Low mortgage interest rates make buying a home more affordable, the employment outlook is stronger, some easing of mortgage underwriting standards has been reported, and demand appears to be firming a bit.

The biggest risk to the housing market is if the pace of job growth fails to accelerate. Foreclosures and negative equity remain significant hurdles to recovery. Foreclosures will continue to be a major driver of sales in Southern California's distressed areas in 2012 and well into next year. Until that process plays out, the market outlook will remain uncertain. Job growth is essential to reducing foreclosures and delinquencies which, in turn will help stabilize prices – a prerequisite to luring discretionary buyers back to the market. Tight lending standards also threaten to hold back the housing recovery. Many would be borrowers have not been able to benefit from low interest rates because they do not have enough equity in their current homes or have a blemish on their credit or have had uneven income over the past few years.

Despite all of this, the LAEDC expects a modest rise in home sales and new home construction in 2012. We will have to wait for 2013 to see a more robust turn-around. The LAEDC forecasts that a total of 26,650 new housing units will be permitted during 2012 in the five-county region, an increase of 26.2% from 2011, but still down by 70.9% from the 2004 peak level of 91,556 units. Gains in 2012 will stem from improvements in the rest of the economy, particularly stronger job and income growth, increased household formation and better housing affordability. Pent up demand for housing is building. At some point, population growth and young people striking out on their own will reignite demand for housing.

Table 21: Median Existing Single-Family Home Prices

Year	L.A. County	Orange County	Inland Empire	Ventura County
2001	242,426	353,740	147,703	322,560
2002	287,176	408,638	167,726	372,395
2003	348,409	488,439	217,953	462,521
2004	435,954	642,577	295,173	599,282
2005	517,853	706,555	364,407	668,138
2006	577,147	732,517	383,580	685,957
2007	589,166	727,570	367,248	673,940
2008	382,714	540,650	230,710	463,560
2009	299,268	505,589	161,114	416,770
2010	323,290	546,385	179,268	442,820
2011	307,660	512,500	172,280	418,270

Annual % Change

Year	L.A. County	Orange County	Inland Empire	Ventura County
2001	12.3%	11.9%	6.6%	9.3%
2002	18.5%	15.5%	13.6%	15.4%
2003	21.3%	19.5%	29.9%	24.2%
2004	25.1%	31.6%	35.4%	29.6%
2005	18.8%	10.0%	23.5%	11.5%
2006	11.4%	3.7%	5.3%	2.7%
2007	2.1%	-0.7%	-4.3%	-1.8%
2008	-35.0%	-25.7%	-37.2%	-31.2%
2009	-21.8%	-6.5%	-30.2%	-10.1%
2010	8.0%	8.1%	11.3%	6.3%
2011	-4.8%	-6.2%	-3.9%	-5.5%

Source: California Association of Realtors

Table 22: Total Housing Permits

(In millions of dollars)

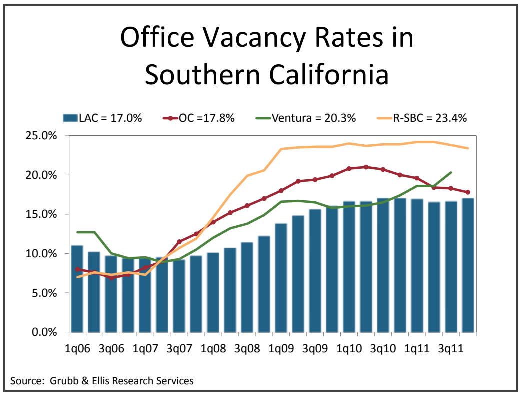
Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2001	18,253	8,646	27,541	3,446	57,886
2002	19,364	12,020	33,280	2,507	67,171
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	91,556
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,363	7,072	20,457	1,847	49,739
2008	13,704	3,159	9,101	842	26,806
2009	5,653	2,200	6,685	404	14,942
2010	7,468	3,091	6,404	590	17,553
2011e	10,380	4,818	5,214	702	21,114
2012f	13,100	6,900	5,800	850	26,650
2013f	16,250	9,000	6,700	950	32,900

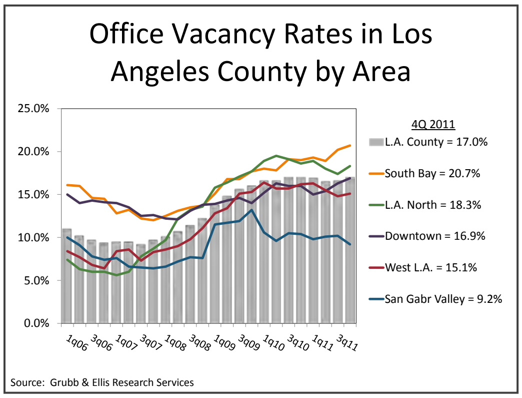
Annual % Change

Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2001	6.9%	-30.1%	25.2%	-13.2%	4.5%
2002	6.1%	39.0%	20.8%	-27.2%	16.0%
2003	10.1%	-22.5%	29.2%	45.0%	15.0%
2004	26.4%	0.1%	22.5%	-28.4%	18.5%
2005	-4.8%	-22.7%	-3.6%	73.5%	-3.7%
2006	2.7%	16.2%	-23.1%	-45.5%	-13.5%
2007	-22.7%	-15.5%	-47.7%	-24.9%	-34.8%
2008	-32.7%	-55.3%	-55.5%	-54.4%	-46.1%
2009	-58.7%	-30.4%	-26.5%	-52.0%	-44.3%
2010	32.1%	40.5%	-4.2%	46.0%	17.5%
2011e	39.0%	55.9%	-18.6%	19.0%	20.3%
2012f	26.2%	43.2%	11.2%	21.1%	26.2%
2013f	24.0%	30.4%	15.5%	11.8%	23.5%

Sources: Construction Industry Research Board, forecasts by LAEDC

NONRESIDENTIAL REAL ESTATE





Office Space: After more than three years of economic growth following the end of the recession, recovery in Southern California's office market is slowly starting to gain traction. Demand for office space is up, reflecting an uptick in hiring and near record low levels of new construction. Most leasing activity is still concentrated in renewals, which quite often involve less space, or in firms with stronger balance sheets taking advantage of low lease rates and moving to higher quality space in more desirable areas. This trend is known as "flight to quality" and has been seen in every market across the region. Leasing activity is expected to increase in 2012, but rents will remain soft. Vacancy rates are so high that even with the declines expected this year, the impact on rental rates will be minimal.

For the time being, the office market is tilted in favor of tenants – high rates of space availability encourage renters to trade up and to demand greater concessions from landlords who desperately want to keep buildings occupied.

Los Angeles County: After showing improvement over the first three quarters of 2011, the Los Angeles County office market closed the year right back where it was at the end of 2010. The average office vacancy rate was 17.0% in the fourth quarter, unchanged from the same period last year. Net absorption for the year was negative 189,272 square feet. The volume of new space under construction was 526,000 square feet, mainly in West Los Angeles.

On average, the county's soft market for office space pushed Class A asking rents down to $2.90/SF in the fourth quarter compared with $2.99/SF during the same period in 2010. Vacancy rates will remain mostly flat during the first half of 2012, but should start to fall during the second half of the year as the economy expands further and as the labor markets to improve. Asking rents are projected to remain flat, with landlord concessions widely available.

Orange County: In Orange County, the average office vacancy rate declined in the fourth quarter of 2011 to 17.8% from 20.0% a year ago. There was no new office construction in Orange County in 2011 and the county posted positive net absorption for the year – leasing almost two million square feet over what was given up.

Orange County had the lowest unemployment rate in the region at 7.8% in December and was creating jobs at a faster rate than the statewide average. Many of these were white collar jobs in professional and technical services that need office space. Many tenants expanded into larger spaces after downsizing during the recession. The increase in demand for office space, however, has not yet translated to higher lease rates. Class A asking rents were mostly flat over the year at $2.18/SF

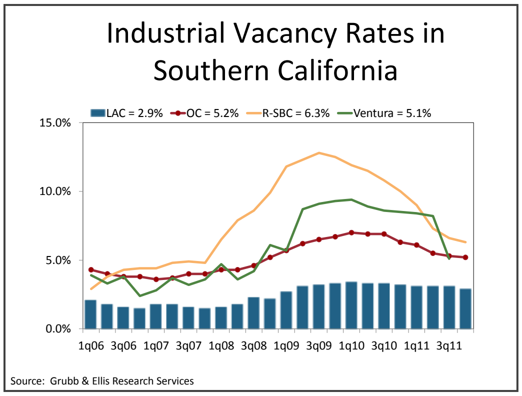
Looking ahead, gains in 2012 will build on last year's improvements. Growth will be slow and steady. With very little new office construction expected this year, and a faster pace of job creation, vacancy rates will continue to edge down. Overall asking rents appear to have bottomed out. Supplies of Class A space and of spaces over 100,000 SF are dwindling. Rental rates should firm up later this year and begin to inch towards the end of 2012.

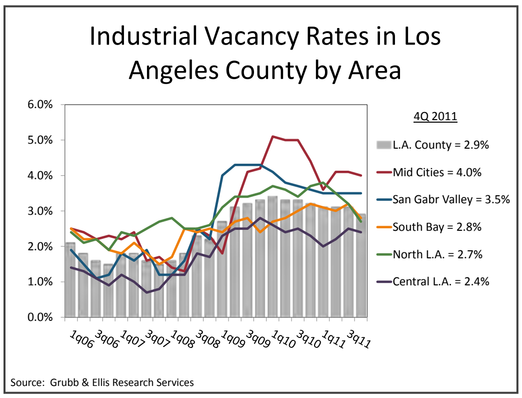
Inland Empire: In the Inland Empire, the vacancy rate was 23.4% in the fourth quarter of 2011, down marginally from the same period in 2010 (24.9%). Rental rates fell by 4.5% to $1.93/SF in the fourth quarter of 2011 compared with $2.02/SF during the same period in 2010. Total net absorption in 2011 was negative 37,000 square feet.

Modest employment gains in the Inland Empire did little to offset tenant downsizing and move-outs. Additionally, of the nearly 2.7 million square feet of speculative construction built since 2007, nearly half was still vacant at the end of 2011. Fallout from the crash of the region's housing market is still impacting industries linked to the housing market. White collar hiring is on the increase, but is not expanding fast enough to fill the large amount of available space. Little improvement is expected for 2012. Recovery in the office leasing market is closely tied to improvement in the region's base of finance, business services, and related sectors, but it will be some time before they absorb the available space.

New Office Construction: During 2011, office building permits valued at $264.6 million were issued in the five-county region. The value of new office construction dropped by 6.9% from 2010's already low levels. Los Angeles County accounted for 59% by valuation of office building permits issued in the five-county region year-to-date compared with 47% during the 2010. Orange County accounted for a 33% share, roughly the same as in 2010. The Inland Empire's share was 7% and Ventura County held a 1% share.

Industrial Space: Southern California is a major center for manufacturing, international trade and logistics, and entertainment. Los Angeles County is the nation's largest manufacturing center and is home to its biggest port complex.





Los Angeles County: The region's manufacturing and logistics industries, both of which are major users of industrial space, persist as the bright spots in an otherwise subdued recovery. The market for industrial property in Los Angeles County held its ground fairly well. At the close of 2011, the Los Angeles County average industrial vacancy rate was 2.9% (the lowest industrial vacancy rate in the nation); down from 3.2% a year ago. New industrial space under construction totaled 531,390 square feet at the close of 2011 and net absorption for the year was positive.

Increased leasing activity has helped stabilize vacancy rates, but there are signs leasing rates might soon turn the corner. Prospective tenants are still aggressive in their lease negotiations, and leases are taking a long time to close. Over the year, the average asking rent for industrial space in Los Angeles County held steady at $0.51/SF. Improvement in 2012 will depend largely on increases in port activity, manufacturing and population growth.

Industrial vacancies in Los Angeles County ended the fourth quarter of 2011 at relatively low levels. Long one of the tightest submarkets in the region, the vacancy rate in Central Los Angeles stood at 2.4%. Central Los Angeles is the county's largest industrial submarket and one of the densest in the nation. Industrial markets elsewhere in the county also remained tight during 4Q11:

Orange County: Orange County's industrial real estate market made significant gains in 2011. The average vacancy rate in the last quarter of 2011 was 5.2% down from 6.3% a year ago. No new space is currently under construction and net absorption for 2011 was positive. During the recession, 6.2 million square feet of industrial space was vacated – since then 3.7 million feet has been reabsorbed.

Demand for industrial space in Orange County is starting to catch up with supply. Rental rates have remained mostly flat in 2011 at $0.71/SF but should start to firm this year. Recovery in Orange County, as elsewhere, will depend on job growth (particularly in the county's technology and biomedical sectors) and stronger consumer demand.

Inland Empire: During the years leading up to the recession, the large influx of distribution businesses into the Inland Empire competed for space with rapidly spreading low-cost housing developments, creating a tight regional industrial real estate market. Conditions deteriorated markedly during the recession as the housing crisis unfolded, unemployment soared and trade related activity declined. The market was flooded with new space built by speculators just as businesses were downsizing or closing up altogether. Vacancy rates soared to nearly 13% and effective rents declined to historic lows.

The latest numbers, however, show the Inland Empire has made significant gains over the past year. The fourth quarter vacancy rate was 6.3%, still somewhat elevated compared to pre-recession levels, but down from 10.0% during the same period last year – a remarkable turnaround. Net absorption was positive in 2011 and when the year ended, 4.5 million square feet of speculative new industrial space was under construction, the first in the region since 2009. The rebound in international trade and strong growth in retail sales have pushed the Inland Empire industrial real estate market out of the trough. Asking rents are strengthening ($0.33/SF versus $0.31/SF a year ago). In 2012, strong demand for Class A warehouse space and limited supply will drive up lease rates, especially for buildings in excess of 100,000 square feet.

New Industrial Construction: During 2011, industrial building permits valued at nearly $214 million were issued in the five-county region. The value of industrial permits nearly doubled compared with 2010. Most of the gain occurred in Los Angeles County, which garnered 64% of the industrial permits issued last year, followed by the Inland Empire with just over 28%.

Forecast for Nonresidential Construction: The value of total private nonresidential construction in the five-county region increased to $5.5 billion in 2011, up by 14.9% compared with 2010. Activity will increase modestly in 2012, with a forecast total permit value of $6.0 billion (or 10.1%). While conditions have mostly stabilized, commercial real estate still has some distance to travel on the road to recovery. The mountain of troubled commercial real estate loans is beginning to erode, mostly due to write-downs and a dearth of new lending, but there are still billions of dollars of real estate loans that will be maturing over the next five years. Special servicers are holding back on disposing of problem assets, playing a game of extend and pretend. As long as the economy continues to expand, banks will continue to resolve troubled loans at an unhurried pace to avoid a refinancing crisis.

Private nonresidential building permit values in Los Angeles County rose by nearly 17% in 2011, will continue on an upward path in 2012, rising by 12.7%. Orange County's total nonresidential construction activity value increased by nearly 12.8% in 2011 and will expand again in 2012, rising by 7.8%. The Riverside-San Bernardino area's total nonresidential building permit values climbed by 16.3% in 2011.

Although fundamentals in the region have improved, nonresidential construction will grow at a slower pace in 2012 (5.8%). Ventura County's total nonresidential construction permit values declined by 8.3% in 2011 but should turn the corner next year and increase by about 2.0%.

For the most part, office space development will be restrained in all five counties of the Southern California region. Office vacancy rates around the region should be stable during 2012 and begin to decline in some areas as the employment situation improves. Average rents may continue to soften in some areas, but also appear to be stabilizing. Recovery will be helped along by the lack of new construction and stronger employment growth. Changes in workplace organization will present a challenge going forward. The necessity of reducing office space during the recession taught companies to use less space per worker. This will slow the office market's return to health unless the pace of job creation picks up significantly.

The outlook for industrial space development is much brighter throughout Southern California. Improvements in vacancy rates and rents will depend largely on growth in trade and manufacturing activity. Another factor is the rate at which speculative developments come on line, particularly in the Inland Empire. Too much supply added too fast could derail recovery. Gasoline prices, which affects the cost of trucking goods from the ports to warehouses, will also have an impact as firms weigh transportation costs against rental rates in cheaper (Inland Empire) versus more accessible areas such as Los Angeles.

Table 23 Office Building Permits Issued
(In millions of dollars)

Year	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
2001	547	174	43	20	30
2002	209	150	36	30	5
2003	182	118	85	61	40
2004	307	133	127	84	18
2005	233	313	148	85	23
2006	241	578	192	115	52
2007	716	282	224	118	55
2008	446	114	118	33	26
2009	192	5	27	8	6
2010	133	98	41	7	5
2011	156	86	17	1	5

Source: Construction Industry Resource Board

Table 24: Industrial Building Permits Issued
(In millions of dollars)

Year	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
2001	202	90	75	331	76
2002	225	62	81	243	31
2003	276	68	113	245	47
2004	178	26	203	436	45
2005	277	27	120	322	23
2006	182	91	288	373	21
2007	109	52	185	351	29
2008	135	14	70	92	57
2009	40	0	12	34	17
2010	56	23	7	22	0
2011	136	10	10	51	7

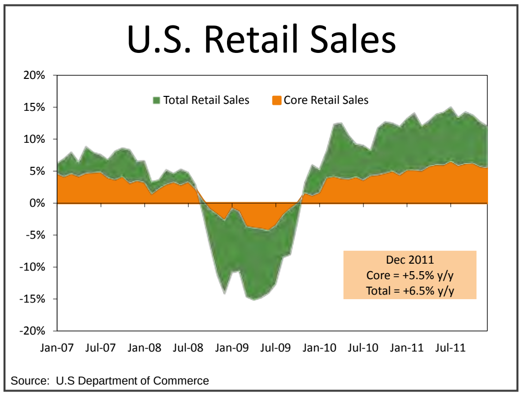
Source: Construction Industry Resource Board

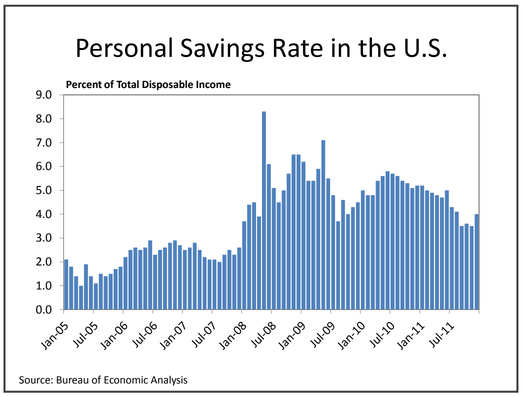
Table 25: Retail Building Permits Issued
(In millions of dollars)

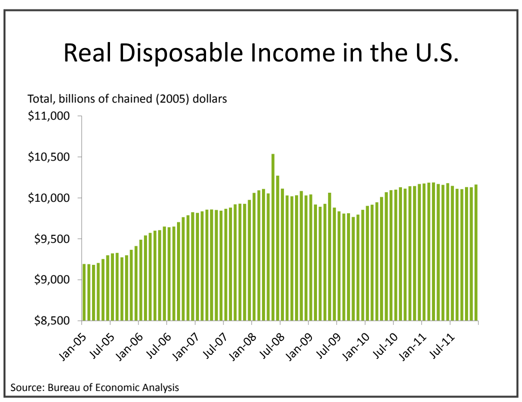
Year	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
2001	434	207	191	178	48
2002	459	194	231	163	81
2003	356	78	231	225	55
2004	484	118	406	176	90
2005	552	133	345	232	69
2006	482	178	372	294	54
2007	493	319	388	351	50
2008	469	132	317	243	63
2009	222	65	56	34	16
2010	263	54	130	27	36
2011	223	78	127	58	24

Source: Construction Industry Resource Board

Southern California Retail Sales Trends







The U.S. retail sector performed strongly in 2011 and will continue to improve in 2012. In December, retail sales posted results up by 6.5% compared with the same period in 2010. Stripping out the more volatile components of retail sales - automobiles, gasoline stations and building & garden centers - to arrive at "core" retails sales, the numbers still looked good. Core retail sales, which make up about 65% of total retail sales were up by 5.5% last year.

There were fewer store closings in 2011 than there were during the previous year. Most retailers have already closed underperforming stores and have made operations as lean as possible. Retailers have also adapted to the post-recession environment where consumers are focused on necessary rather than discretionary purchases. Cost conscious consumers have grown accustomed to waiting for sales and shopping around for the best prices (facilitated by the Internet and mobile apps). Department stores are promoting money-saving private-label and exclusive apparel lines. Demographic changes are also impacting this sector. Large discounters like Target and Wal-Mart turned their attention to underserved urban consumers, concentrating expansion efforts on smaller stores in densely populated city centers and adding more grocery items.

Technology will play an increasing role in the retail industry. Many retailers, large and small are focusing expansion efforts on on-line operations and are increasingly pursuing their customers through a variety of channels. Consumers are making more purchases on-line and are becoming accustomed to self-service checkout and touch screen kiosks. More and more retailers are attempting to influence buying decisions through mobile phone apps and social media. Increasingly popular in the U.S. (which lags Asia and Europe in the spread of this technology), near field communication (NFC) enabled smart phones will allow consumers to tap a product that has an NFC tag on it while inside a store to receive information about the product. The same technology can be used to turn a smart phone into a mobile wallet. An NFC-enabled phone can be used to pay for goods by tapping it at a point of checkout, easing the transaction for the customer and reducing transaction costs for the retailer.

Mirroring the rebound in other commercial property sectors, leasing and occupancy of malls and shopping centers is slowing improving. The retail property sector continues to be hampered by the struggling housing market and weak job growth. Retail vacancy rates were stable at neighborhood centers, while the vacancy rate for malls was up a bit as retailer further reduced footage or abandoned expansion plans.

Power centers did a little bit better, posting a slight decline in vacancy rates. While sales trends have been encouraging, this has yet to translate into demand for more space. On the supply side, developers have added little new speculative construction in the last two to three years which will channel demand to existing centers, helping to fill empty space. Permits for new retail construction in the five-county region totaled $509 million in 2011, unchanged from 2010, but down by 68% compared with the recent peak reached in 2009.

High vacancy rates are creating opportunities for non-traditional tenants to move into high quality retail space in good locations. These kinds of tenants include fitness centers, day care centers, cooking schools, churches and even indoor go-cart tracks. This trend is the result of constrained consumer spending and retail overbuilding. According to the International Council of Shopping Centers, 17% of leasable mall space is occupied by non-retail and non-restaurant businesses, but could climb as high as 25% within a decade.

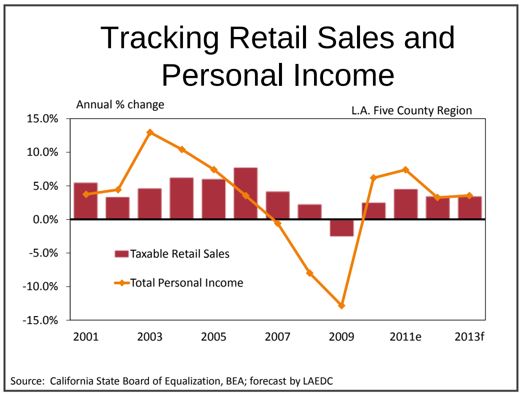
In Los Angeles County, the total retail vacancy rate fell to 4.8% during the fourth quarter of 2011 after averaging 5.1% in 2010. Average rents for retail space in the fourth quarter were down by 2.7% from the average rent in 2010. The Orange County retail vacancy rate was 6.0% in 4Q11, down slightly from 6.1% in 2010. Average rents slipped by 1.0% over the year. In the Inland Empire, the vacancy rate was 8.8%, down from an average of 9.0% during 2010, while retail rents remained steady.[18] Ventura County saw its retail vacancy rate decline to 5.3% at the end of 2011, from an average of 6.0% in 2010, while rents fell by nearly 5.0%. In 2012, vacancy rates and rents will show modest improvement as the economy continues to improve.

Table 26: Los Angeles County Retail Real Estate Market

Type of Retail Space	Total Stock (SF)	Total Vacancy	Q3 2011 Net Absorbtion	YTD Net Absorption	Q3 2011 Average Rent	Y-Y Change
Total Retail	447,755,111	4.9%	445,785	1,272,886	$24.26	-3.60%
Malls	43,142,640	3.1%	-27,243	29,386	$26.92	1.70%
Power Centers	20,546,076	5.7%	-40,334	-18,164	$23.41	-42.30%

Source: Jones Lang LaSalle

[18] Jones, Lang, LaSalle



Trends: Southern California retail sales will continue to grow in 2012. As the employment situation improves, consumer confidence will strengthen and retail sales will enjoy healthy sales gains. Consumer confidence made back-to-back gains during the final two months of 2011 after tumbling to recession era lows earlier in the year. Consumers are feeling better about the short-term economic and the labor market outlooks. Even so, consumers are still facing considerable challenges: sluggish income growth, weak labor markets, high debt levels and loss of wealth resulting from the drastic decline in home prices.

Cost-conscious consumers are flocking to discount retailers, many of which not only weathered the downturn, but thrived and are now expanding. Big ticket purchases for things like appliances and furniture are doing less well, while spending is up on health and personal care, food and beverages and sporting goods. Luxury retailers are also doing well as their affluent clientele tends to be more insulated from the ups and downs of the economy. Mid-level retailers are still experiencing difficulties as middle income shoppers shift their spending to discount retailers.

The LAEDC is forecasting moderate increases in taxable retail sales in 2012 that will range from 4.2% in Orange County to 3.2% in Los Angeles County. San Diego and Ventura counties are both expected to see an increase of 4.0% and in the Inland Empire, retail sales should rise by 3.3%.

The retail real estate market will post more modest progress this year. Growth will vary by sector and region. The areas that were hit hardest by the housing crisis and are saddled with too much supply will be slower to regain lost ground.

The risks to the forecast include slow employment and wage growth. Inflation is muted and expected to remain tame during 2012. The exception could be gasoline prices. Higher prices at the gasoline pump curtail demand for more discretionary purchases. Gasoline (and food) demand is relatively inelastic, that is people have to fill up their gas tanks to get to work and put food on the table. High unemployment and weak wage growth make it hard for retailers to pass through cost increases, hurting their bottom line. Likewise, if shoppers are faced with higher prices and lackluster income growth, discretionary retail purchases could suffer as a result.

Index of Statistical Tables