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News Release

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U.S., California and Southern California in recession. LAEDC sees a modest recovery by year-end 2009.

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Negative trends in most business sectors with some key industries including fashion, entertainment and finance facing changed business models. A modest boost from the Federal stimulus package.

Los Angeles—The 2009-2010 "Economic Forecast & Industry Outlook" from the Kyser Center for Economic Research at the Los Angeles County Economic Development Corporation (LAEDC) sees difficult times ahead for the nation, the state and Southern California through most of 2009. "For now, we think the economy might reach bottom by this summer," said Nancy D. Sidhu, Ph.D., the LAEDC's Chief Economist. "This recession officially began in December 2007, so this would make it some 19-21 months long – the longest downturn since World War II."

Overall, the LAEDC Forecast projects the U.S. economy will shrink by 2.9 percent during 2009 and grow modestly—by 1.5 percent—in 2010. Inflation is unlikely to be a problem in the near term, declining by 1.8 percent in 2009. "Bad news will continue in 2009 for the auto and housing industries," observed Sidhu. About 10.4 million light vehicles are expected to be sold in 2009, compared with 16.1 million sold during 2007. The nation's housing sector has been on a steep downtrend for three years, and the crash still has some more to go. About 525,000 housing starts are projected for 2009, compared with the recent high of 2,077,000 starts in 2005.

"The news on the employment front will reflect this, with U.S. annual nonfarm employment dropping by 4.4 million jobs during 2009," added Sidhu. The unemployment rate will average 8.7 percent during the year, and will run up to 9.5 percent in 2010. The federal government's stimulus plan will start to have a positive impact by year-end 2009.

"As 2009 began, California was in the throes of a serious recession, and the economic news during 2009 will be mostly bad," continued Sidhu. The state's economic downturn should hit bottom before the end of 2009, but when growth resumes it will be moderate at best. The state's non-farm employment will fall by 3.0 percent or by 447,500 jobs, while the unemployment rate will average a painful 10.5 percent in 2009.

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California's housing industry will continue to be depressed, especially in the inland areas of the state. The number of housing permits issued in California during 2009 will slide down to just 52,300 units, compared with the recent high of 212,960 units permitted in 2004. The resale housing segment will continue to see large numbers of foreclosed properties and short-sales hitting the market. The state's retail sector is also being hammered, with sales expected to decline by 6.0 percent in 2009. This comes on the heels of sales declines in both 2007 and 2008. Retail stores of all types will continue to close. Sidhu noted that auto dealers have been especially hard hit, and recycling these sites will be a challenge.

"The five Southern California metro areas will continue to struggle in 2009," said Jack Kyser, Founding Economist of the Kyser Center for Economic Research. "Job losses will continue in construction, manufacturing, retailing and financial services." In terms of percent declines in non-farm employment during the year, the Riverside-San Bernardino area and Ventura County will feel the most pain, each recording declines of -3.2 percent in jobs during. Orange County should see employment drop by 2.9 percent, while Los Angeles County should record a decline of 2.2 percent. San Diego County will see a 1.8 percent loss in non-farm jobs.

New homebuilding in the region will be plumbing new lows, with the best example being in the Riverside-San Bernardino area. Just 6,300 new units should be permitted in 2009, compared with the recent high of 52,696 units in 2004. The homebuilding industry in Ventura County will also be scraping bottom in 2009, with just 800 units permitted compared with 4,516 units in 2005.

The nonresidential real estate market will also struggle in 2009. Funding for new projects or loan roll-overs will be difficult to obtain, and some office and retail developments could go into foreclosure. Reuse of the latter will be difficult given the glut of retail space.

"Almost all major Southern California industries will struggle during 2009," continued Kyser. "Worse, in some cases business models are changing." One example is apparel manufacturing where the number of potential customers for local garment producers is shrinking due to store closings. The other is the motion picture/TV production industry. The TV side of the business was hurt by the Writer's Guild strike that ended in early 2008. In the meantime, the audience for the broadcast networks is shrinking and cost containment is a major concern. In feature film production, attention has been focused on the Screen Actor's Guild contract negotiations. However, California's lack of incentives for the film industry is causing more feature film production to leave the state. "This is not good news for below-the-line workers or the multitude of small suppliers to the industry," fretted Kyser.

International trade activity at the region's ports and airports will continue to decline. Container activity at the Los Angeles/Long Beach port complex peaked back in 2006 when 15.76 million TEUs were handled. In 2009, the forecast is for 12.4 million TEUs to be moved, and the impact of this decline has rippled out to longshoremen, truck drivers and the industrial real estate market.

One piece of good news for the local economy is that the aerospace industry should hold steady. No major change in DoD spending priorities is expected for the next year or so, while more orders should come for the C-17 military cargo plane produced by Boeing in Long Beach.

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Also, the federal government's stimulus package will be a positive for the Southern California economy, especially the infrastructure component. However, those impacts won't start to be felt before year-end 2009.

About the LAEDC
The LAEDC, the region's premier business leadership organization, is a private, non-profit organization established in 1981 under section 501(C) (3). Its mission is to attract, retain, and grow business and jobs for the regions of Los Angeles County. Since 1996, the LAEDC has helped retain or attract more than 147,700 jobs, providing $7.3 billion in direct economic impact from salaries and $124 million in annual tax revenue benefit to local governments and education in Los Angeles County. Visit www.laedc.org or call (888) 4-LAEDC-1.

[Editors: The study results will be posted @ http://www.laedc.org/reports/Forecast-2009-02.pdf and www.MayoCommunications.com. **Media please call George McQuade for advanced copy or link.]**

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