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News Release

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LAEDC Report Says U.S., California, and Southern California recession to bottom by year-end 2009, recovery to begin in 2010

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Negative trends in most business sectors. Some key industries--fashion, entertainment and aerospace--facing changed business models. Federal stimulus funding starting to arrive in Southern California.

Los Angeles—The 2009-2010 "**Mid-Year Economic Forecast & Industry Outlook**" from the Kyser Center for Economic Research at the Los Angeles County Economic Development Corporation (LAEDC) sees difficult times continuing for the nation, the state and Southern California through the rest of 2009 and into 2010. "We think the economy is nearing bottom this summer, so the current economic news looks terrible," said Nancy D. Sidhu, Ph.D., the LAEDC's Chief Economist. "This recession officially began in December 2007 and looks like it will be the deepest downturn since the recession of 1981-1982."

Overall, the LAEDC Forecast projects the U.S. economy will shrink by 2.7 percent during 2009 and grow modestly—by 1.7 percent—in 2010. Inflation is unlikely to be a problem in the near term, declining by 0.8 percent in 2009. "The auto and housing industries are experiencing real difficulties," observed Sidhu. Only 9.9 million light vehicles are expected to be sold during 2009, compared with 16.1 million sold during 2007; this has driven two of the "Detroit Three" and many suppliers to bankruptcy. The nation's housing sector has been shrinking for more than three years now, but it looks like the bottom is near. About 530,000 housing starts are projected for 2009, compared with the recent high of nearly 2.1 million starts in 2005. Business investment spending and U.S. exports also are declining. Federal government spending is the only sector that is growing. Federal stimulus funds are finally beginning to appear in Southern California and their impact will grow through the rest of 2009 and 2010.

"The news on the employment front will reflect all this weakness, with U.S. average nonfarm employment dropping by 5.4 million jobs during 2009," added Sidhu. The unemployment rate will average 9.3 percent during the year, and will run up to 10.4 percent in 2010. These are the highest jobless rates since 1982.

"At mid-year 2009, California too is in a serious recession, and the economic news during 2009 has been

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dismal," continued Sidhu. The state's economic downturn also should hit bottom by the end of 2009, but the recovery will be moderate at best. The state's non-farm employment will fall by 4.6 percent or by 694,100 jobs in 2009, while the unemployment rate will average a painful 11.6 percent.

California's housing industry is in a very depressed state, especially in the inland areas. The number of housing permits issued in California during 2009 will slide down to just 37,000 units, compared with the recent high of 212,960 units permitted in 2004. The resale housing segment continues 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 12.0 percent in 2009, following sales declines in both 2007 and 2008. Retail stores of all types will continue to close throughout the forecast period. Sidhu noted that auto dealers have been especially hard hit, and recycling these sites will be a challenge.

"The five Southern California metro areas are struggling in 2009," said Jack Kyser, Founding Economist of the Kyser Center for Economic Research. "Job losses will continue in construction, manufacturing, retailing and leisure and hospitality services." Measured by percentage declines in non-farm jobs, the Riverside-San Bernardino area and Ventura County are feeling the most pain, and will record employment declines of 6.7 percent and 5.1 percent respectively. Orange County should see employment drop by 4.8 percent, while Los Angeles County should record a decline of 4.1 percent. San Diego County will see a 3.8 percent loss in non-farm jobs.

New homebuilding in the region will plumb new lows. The best example is the Riverside-San Bernardino area, where fewer than 5,000 new units will be permitted in 2009, compared with the recent high of 52,696 units in 2004. The homebuilding industry in Ventura County also will be scraping bottom in 2009, with just 275 units permitted compared with 4,516 units in 2005.

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

"Almost all major Southern California industries are struggling during 2009," continued Kyser. "Worse, in some cases entire 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, while many firms rely on CIT for financing. Another is the motion picture/TV production industry. On the TV side of the business, the audience for the broadcast networks is shrinking and cost containment is a major concern. As to feature film production, while the box office is running at record levels, California's incentives for the film industry were late in coming, and it's not yet clear whether they will be sufficient to stem the continued erosion of in-state feature film production. "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 12.2 million TEUs to be moved, and the impact of this decline has rippled out to longshoremen, truck drivers and the industrial real estate markets throughout the entire metropolitan area.

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The local aerospace industry is confronting its own challenges in 2009-2010. Defense spending is set to slow, while commercial aircraft production is declining outright as profit-starved airlines reduce orders.

This report includes a look at the economic situation in twelve sub-county economic areas of Los Angeles. Measured by the number of jobs lost in 2009, the areas most severely impacted by the current recession are: Santa Clarita (which will lose 6,000 jobs), North Gateway and East L.A./Eagle Rock (both expected to lose 5,300 jobs). Sub-areas losing the fewest jobs will be: the San Fernando Valley (down by 1,700 jobs in 2009); South Bay/LAX (losing 2,400 jobs); the San Gabriel Valley (down by 2,500 jobs); Central L.A./Downtown (losing 2,600 jobs); and the Westside (down by 2,700 jobs). Manufacturing is quite important to several of these sub-areas, including the San Gabriel Valley, South LA, East LA/Eagle Rock and the North Gateway region.

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 152,000 jobs, providing $7.5 billion in direct economic impact from salaries and $128 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: Media please call George McQuade for advanced copy or link to full report. Report will be available to the public on Monday, July 27.]

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