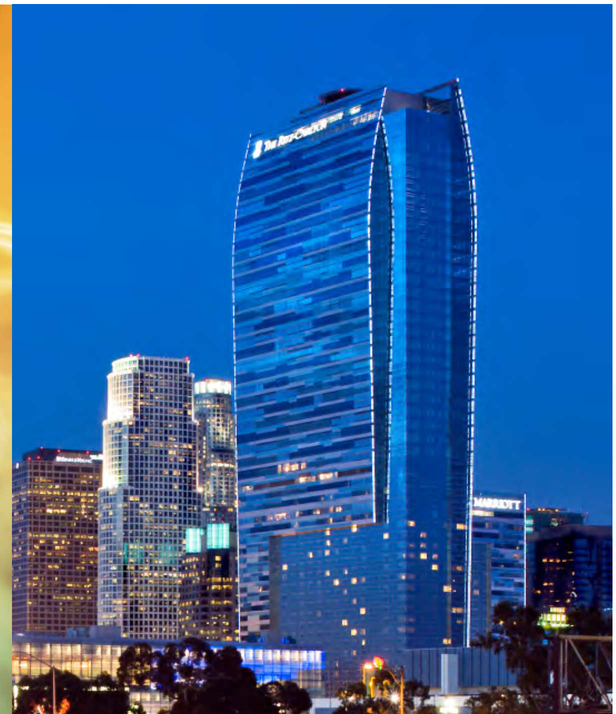
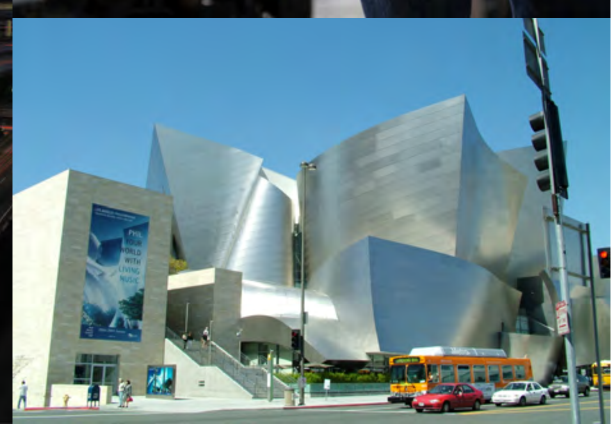


LAEDC

2011-2012 MID-YEAR ECONOMIC FORECAST & INDUSTRY OUTLOOK

JULY 2011



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2011-2012 Economic Forecast and Industry Outlook: Mid-Year Update

California & Southern California
Including the National & International Setting

Prepared by:
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Kimberly Ritter-Martinez
Ferdinando Guerra

July 2011

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Web: http://laedc.org

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 $130 million in tax revenue benefit to local governments and education in Los Angeles County.

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

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

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

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

Leveraging our Leadership
The LAEDC operates the World Trade Center Association Los Angeles-Long Beach (WTCA LA-LB), which facilitates trade expansion and foreign investment, and 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
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LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

July 20, 2011

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's *2011-2012 Mid-Year Economic Forecast* event.

The LAEDC releases an economic forecast each year in February followed by an updated forecast report in July. Each forecast release is accompanied by a major public event featuring the insights of influential economists and public or private sector leaders. The forecast publications and events are highly regarded locally, nationally and internationally. The forecast report is produced by the **Kyser Center for Economic Research** at the LAEDC under the leadership of our Chief Economist, Dr. Nancy Sidhu. LAEDC's economic research reports are used by the media, government, and private industry organizations, and have been ranked #1 by the Wall Street Journal.

Today's event is presented by City National Bank, Manpower, DBS Bank and US Bank. The Mid-Year Economic Forecast features an expert panel of economists who will give presentations about our local housing industry, as well as the outlook for the Los Angeles five-county area and the national economic picture. We will also hear about how financial conditions impact small businesses and jobs and we will discuss the outlook of China's economy and its increasing global reach.

And as we continue to implement the strategies contained in the *L.A. County Strategic Plan for Economic Development*, we are delighted to announce a major success on one of our top state policy initiatives. California Governor Jerry Brown has exempted the Office of Statewide Health Planning and Development (OSHPD) from a government-wide hiring freeze, allowing the agency to begin addressing a multibillion dollar backlog of approvals for hospital construction projects. This exemption will allow the agency to fill 26 positions in its facilities development division, and expand the division's overall employment by about 10 percent.

The LAEDC has led the way – including opinion editorials, letters to legislators, one-on-one meetings with state leaders, social media and mobilizing a multitude of stakeholder organizations – advocating for a common-sense solution to undo the more than $23 billion in stalled OSHPD projects, observing that this multibillion dollar backlog would sustain direct, indirect, and induced impacts, including 232,000 jobs with $15.1 billion in wages and generate approximately $1.7 billion in state and local tax revenue. This is truly a significant development that could lead to the creation of thousands of much-needed jobs right now for our region and our state. Visit *www.LACountyStrategicPlan.com* to read more about this success and the plan itself.

We thank you for your support of the *2011-2012 Mid-Year Economic Forecast* and for your continued support of the LAEDC and our mission to attract, retain and grow jobs for Los Angeles County.

Sincerely,

Bill Allen

Bill Allen, President and CEO

I. OVERVIEW OF THE LAEDC 2011-2012 ECONOMIC FORECAST

The U.S. Economy

	2011	2012
Real GDP	**+2.0%**	**+3.1%**
Inflation	**+3.4%**	**+2.8%**
Fed Funds Rate	**0.25%**	**0.50%**
Mortgage Interest Rate	**4.70%**	**5.15%**

Leading Sectors

#1 Consumer Spending
#2 Exports
#3 Business Equipment Spending

Trailing Sectors

Residential/Nonresidential Construction
State/Local Government Spending

The California Economy

	2011	2012
Nonfarm Employment	**+1.2%**	**+1.7%**

Industry Leaders

#1 High-Tech
#2 Tourism
#3 International Trade

Industry Laggards

Construction
State/Local Government Spending

Southern California County Job Growth

Leaders

#1 High-Tech
#2 Tourism
#3 International Trade
#4 Entertainment

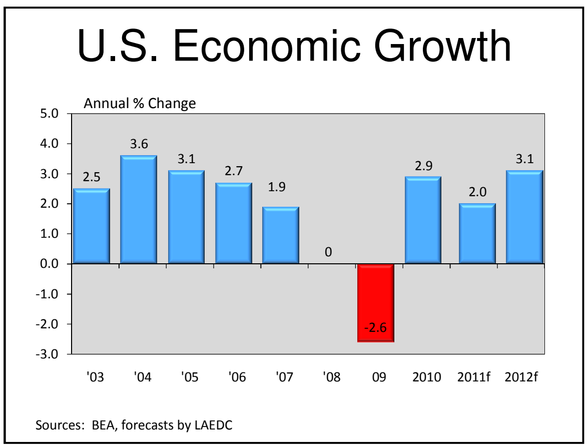
Laggards

Construction
State/Local Government Spending

II. OUTLOOK FOR THE U.S. ECONOMY

HEADWINDS RESTRAIN THE RECOVERY

At the LAEDC, we see a 'soft' growth rate in real Gross Domestic Product (GDP) reported for the second quarter of 2011. A much improved second half follows. We expect a solid growth performance in 2012. In the first quarter of 2011, the confirmed *level* of real GDP, another measure of output and the economy's strength, surpassed by a modest $80B its previous high reached in the last quarter of 2007. Since mid-2009, an upturn in real GDP growth has been the U.S. story — eight quarters in all.



Our view: Slackness in factor markets (both labor and capital) means more modest quarterly GDP growth can come without inflation.

We acknowledge the U.S. economic recovery has been quite unbalanced. Comparing first quarter 2011 GDP with fourth quarter 2007, it's clear the recovery was led by three sectors. The others registered declines or sputtered. Federal government spending increased the most, in both dollar and percentage terms, growing +22% on net during this period. Exports, which plunged during the recession, bounced back and were +15% higher during first quarter 2011 than late in 2007. Consumer spending was the third sector to register net gains over the past three years. The gain was small, though. Just +8% over the 3+ years. But it is really important for the economy as consumer spending is so large.

On the other end, housing has been the weakest performer by far. Despite stabilizing for three quarters now, residential investment remains a whopping -41% below the fourth quarter 2007 pace. Business investment spending (for structures, equipment, and computer software) lagged by -12%, mostly due to a crisis-related plunge in nonresidential building activity. We do note a recovery in equipment & computer software in June 2011. Spending by state and local governments has risen a paltry +4% from the late 2007 level.

Our view: Labor markets do not recover completely for several years. Employment levels fell precipitously in 2008 and 2009. Job losses were replaced by job gains in 2010. Still, damage was considerable. Some 8.4 million jobs disappeared during '08 and '09. Only 1.1 million were added back during '10 and 800 thousand more have come back so far in 2011. Nearly one in eleven workers remain unemployed and looking for work. Almost half are long-term unemployed.

For the rest of 2011 and 2012, key forecasting update issues involve oil prices, the state of housing and bank health, and the direction of government budgets. We hoped home sale would be up from the bottom in 2011. Any recovery in starts, prices, and sales has not materialized. Instead, housing activity has stabilized at historically low levels, as prices keep falling. The dearth of recent housing activity reflects issues on both supply (re-sales of foreclosed homes and short sales) and demand (lackluster since government support programs ended). We can't see any recovery until Spring 2012, at the earliest.

Government budget deficit problems continue to fester at all levels. Spending by many local governments, in particular, continues to be constrained by a lack of revenue. We note large job losses at local government levels. While the economic recovery generated higher tax revenues, federal stimulus funding to states is now on the decline. Boosting tax rates or cutting spending further seem to be obvious solutions to huge federal and state deficits. But both dampen overall real economic activity and require bipartisan political consensus.

Still, it is important not to lose sight of positive macro feedback loops raising underlying fundamentals. Outside the U.S., Japan, and Europe, a global growth story surges ahead. Close to home, for example, Statistics Canada announced in early June 2011 the Canadian economy grew +3.9% on an annualized basis in the first quarter of 2011. Stronger global economies stirring modest U.S. fundamentals is now a core part of a stronger domestic recovery. As time passes, the U.S. economy will gather still more strength, as upward momentum spreads to more sectors. But headwinds of rising oil prices, an anemic construction industry, needed cuts in Federal spending, and planned tax sunsets restrain our GDP forecasts.

Overall, the LAEDC projects the U.S. economy to grow by +2.0% in 2011 and by +3.1% in 2012 after increasing by +2.9% during 2010. Core inflation is unlikely to be a problem in the near term, though higher energy and commodity prices now look to be a more permanent cause for concern. Our forecast of +2.8% inflation in 2012 is for *headline* inflation, that is, a measure that includes food and energy prices.

Monetary policymakers acknowledge the headline inflation risk created by their actions, particularly in commodity markets. But they continue to focus on restoring vigor to the nation's economy and financial sector. Short-term money market rates are likely to remain at extremely low levels. The outlook for long-term rates is for a flat profile, as long as lending demand remains weak. Given the Fed's current zeal for lowering the crucial unemployment rate, and its newly found access to a huge balance sheet, short term policy rates are unlikely to rise much until late 2012.

We review the outlook for key sectors in detail.

Household Spending - A Modest Rise

Consumer spending is the largest sector (70%) of the U.S. economy and is absolutely essential to the positive outlook. The confidence of U.S. households came under considerable stress after the banking crisis, as chaos ensued in public financial markets, employment declined sharply, and joblessness increased. Confidence levels are still not where they were before the madness. Typical of recoveries after bank crises, our forecast for this nation's unemployment rate, currently 9.1%, declines painfully slowly, reaching just below the 9% range by the end of 2011 and the "low eights" by year-end 2012.

Most types of household incomes rose going into 2011. Wages and salaries were up by +3.7% in the first quarter 2011 period compared with the year-ago period. Most other sources of income were up as well. Dividend income rose by +6.0% over the year. Profits of independent, unincorporated businesses also were up by +8.6%. However, interest income fell by -3.3% due to lower interest rates. The government helped out too: personal transfer payments (mostly Social Security, welfare and unemployment benefits) were up by +3.6%.

Bottom line: Nominal disposable personal income (net of personal taxes) grew by a moderate +4.6% over the year to March 2011. An increase enough to outweigh consumer inflation. After inflation and taxes, real disposable income grew by +2.7%.

While incomes are rising for many people, household balance sheets still show mixed after-effects engendered by the housing and financial debacles. On the one hand, a recovery has been underway in equity markets, in part engineered by the Fed's purchasing of $600 billion in fixed income securities since beginning the program in Sept. 2010. By the end of first quarter of 2011, total household financial assets had grown by +7.2% (or by +$3.0 trillion) compared with a year earlier (latest data available). Net worth of households (assets minus total liabilities) increased by +9.8% (or +$255 billion). But net worth of household real estate assets was down by -4.1% to the fourth quarter of 2010, reflecting foreclosures and lower prices.

Meanwhile, total household liabilities have slipped by -$193 billion overall to first quarter 2011. Many households continue to reduce their credit exposures by paying down consumer debt, a process now in its third year. Home mortgage debt (including home equity loans and lines of credit) edged down by -2.5% over the year.

Bottom line: When looking at 2007 levels to benchmark 2010 levels, we are collectively down about -11% in net worth terms.

With personal incomes growing modestly, household wealth regaining 90% of pre-crisis levels, and overall monthly payroll numbers rising for eight months in a row, consumer confidence has improved somewhat. During current months, consumer spending reached above monthly levels seen before the crisis. Almost all types of retail spending have improved despite rising gasoline prices.

The LAEDC forecast now assumes auto sales incorporate a *Japan-related hiccup* in the second and third quarters of this year — 12.0 to 12.2 million vehicles is our call. Then, restored sales rise, beginning somewhere in the third quarter of 2011, finishing the fourth quarter at around 12.75 million vehicles. It is worthy to note that auto sales are still rising in year-on-year terms. When comparing the January to May period in 2011 to the same period in 2010, total light vehicles sales were up over +10%. As the U.S. economic expansion gains steam, with more people who find new jobs, we expect sales to increase +12% to 14.3 million vehicles by the end of 2012.

Summary statistics: The LAEDC sees consumer spending (inflation adjusted) growing by +2.3% in 2011 and by +2.9% in 2012 after rising by +1.7% in 2010.

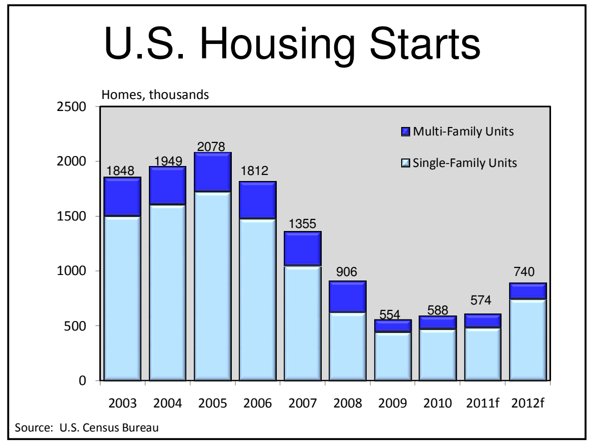
The housing sector is now a 'catfish', coming up from the bottom and heading back down again.

The 2010 annual housing starts total was disappointing--just 587,600 units. All the 2010 improvement came in single-family starts activity. The first quarter of 2011 numbers came in at 582,000 units in annual terms and the second quarter looks a slight bit worse. In the first five months of 2011, multi-family construction starts started to improve, albeit sporadically and in lumps. The spur was a rental vacancy rate that started to decline meaningfully — from 10.3% to 9.4% — in the fourth quarter of 2010. A sizable 'Echo Boomer' cohort is hitting its prime renting years, and the drop in home ownership rates helps fuel demand in the rental market. With many tabled projects now getting financed and built, multi-family construction looks to lead the way out.

The single family housing market continues to struggle with an oversupply of foreclosed and 'short sale' homes on the one hand, and the lack of ready bank financing for new projects on the other. Distressed properties and entry-level homes reportedly dominate the sales mix.

History matters here. New housing starts peaked in 2005 at 2.1 million units, the highest level since 1972. Then, the full extent of shaky sub-prime mortgage underwriting standards emerged and falling prices took over and starts plunged. Home construction activity declined to 554,000 units in 2009, the lowest level since before 1959 (when records began).

Actually, housing starts hit bottom in the first quarter of 2009, trended irregularly upward through early 2010, and then dropped back through the rest of the year. The expiration of government tax incentives in mid-2010 clearly pulled many purchase transactions forward in time, weakening 2011 numbers.



Any outlook for single family housing construction remains an uncertain one. On the positive side, prices are low in many markets and mortgage rates remain attractive. In early June 2011 for Los Angeles, mortgage commitment rates ranged from 3.14% for the average one-year adjustable rate mortgage to 4.53% for a 30-year fixed rate. Six months earlier, these rates were quoted at 3.31% and 4.71%, respectively. Fixed mortgage rates are expected to hover between 4.5% and 5.0% for 30-year fixed rate mortgages over the rest of 2011, at least for prime borrowers. Lenders' terms for non-prime borrowers are likely to remain strict.

However, would-be homebuyers face several obstacles. Mortgage credit is still difficult to obtain for all but "prime" buyers (those with good job tenure and strong, well-documented credit and income histories). Worse yet, many homebuyers are already homeowners, and their current mortgages are "under water;" i.e., the balance they owe on their current mortgage exceeds the home's market value. Before these homeowners can buy a new home, they must sell the current home and pay off their current lender in full, adding an extra cost to the expense of moving.

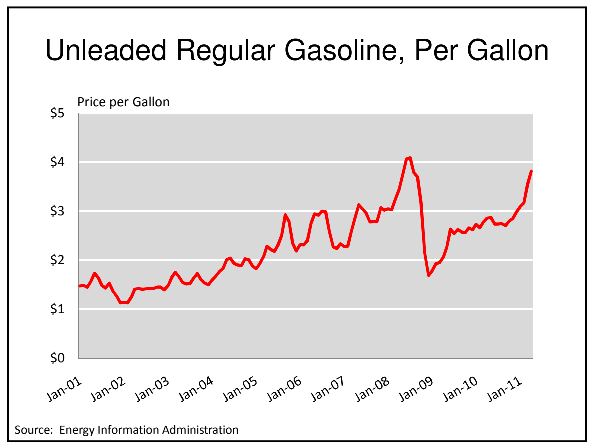
Home prices themselves are the major problem. In most areas, prices are under downward pressure caused by lenders' sales of foreclosed homes, often below normal market prices. Price stability in housing markets will not be assured until lenders and servicers work through the bulk of the distressed loans on their books. Industry observers are unsure how many homes are involved (this is the issue of "shadow supply") and how long it will take to work through them.

It is no surprise, then, that many buyers lack the confidence to purchase a new home. Some are concerned about job security. Others expect home prices to fall further and want to "wait for a better deal." Purchasing a home is the ultimate act of self-confidence. Buyers need to believe their jobs are safe and that home prices have stopped falling. How long will it take to develop such confidence? A growing economy will bring gradual improvement, but no one knows with any precision how long this will take.

Finally, there seems to be a deeper demographic force at work, inhibiting the recovery of construction in the housing sector. According to the Congressional Budget Office, households formations fell during the recession and have remained low. An average of 600,000 new households were added each year between the third quarter of 2007 and the third quarter of 2010. This is well below the average of 1.1 million households added annually over the previous 10 years.

The earlier Feb. 2011 LAEDC housing forecast assumed stricter mortgage underwriting and weak home pricing situations would normalize as we moved through 2011. They have not. As future employment rolls grow, more families do gain the confidence to take the plunge. Younger people will happily move out of their parent's homes. But these circumstances of a 'clearance' economy in the single family housing sector are extraordinary.

Summary statistics: The LAEDC expects total housing starts to stabilize first. At just 587,600 units in 2010, we see 575,000 units in 2011. Starts grow modestly to 740,000 units in 2012.



A Stronger Headwind: Gasoline Prices

In the past six months, a stronger headwind of much higher gasoline prices lowered the LAEDC forecast for consumer spending, subtracting -0.3% from overall GDP growth in 2011 and 2012. A potent mix of popular protest and armed rebellion against long-standing Middle East regimes put a $10 to $20 risk premium on a barrel of oil. A potential collapse of the Saudi Arabian government, while still seen as unlikely by the market, is no longer a zero probability event.

How have things changed for U.S. consumers?

The table below does the math.

In effect, a sudden rise in gas prices from $3.50 to $4.00 a gallon in California and across the nation put a new regressive tax on consumers. Lower income 'consumer units', aka households, and the spending they do, feel the greatest pressure. If the average household can't reduce its demand for gasoline via daily transportation patterns (most cannot), an added $400 a year must be paid at the pump for a fifty cent jump.

BLS Consumer Expenditure Survey - 2009	
U.S. Consumer Units	120,847,000
Avg. Income After Taxes	$60,753
Vehicles	2
Avg. Gallons Used '09	845
Gas Cost '09 ($2.35/gal)	$1,986
Vehicle Purchases	$2,657
Other (Auto Insurance)	$2,536
Public Transport	$ 456
Doing the Math:	
Gas Cost '10 (at $2.80)	$2,366
Gas Cost '11 (at $4.00)	$3,380
Added Cost of Gas '11	-$122 B
US Nominal GDP Q1-11	$15 T
$4.00/gal vs. $2.80/gal	-0.8%
$4.00/gal vs. $3.50/gal	-0.3%

Business Investment - Equipment Spending Up, Most Structures Stay Depressed

Business profits and cash flows have improved greatly since the recession ended. Adjusted total pre-tax corporate profits during the first quarter of 2011 (latest data available) were up by +9% compared to a year earlier.

The most recent profits-by-sector data reflects well the aftermath of a financial crisis. Non-financial industry profit growth surges, while financial industry profit growth lags. While total domestic industry profits were up by +9% over the year, financial industry profit recorded an increase of +5%. Non-financial industry profit was up a more sound +10%.

Much higher profits were reported for manufacturing, up +41% using fourth quarter of 2010 data. Globally-linked industries are leading manufacturing sector profit growth — i.e. computers & electronic products, machinery, and petroleum products. Notably, retail trade profits are up +25%. Wholesale trade and utility profits appeared to be lowered from the oil price hike. Information industry profits remained steady. Net profits earned from the rest of the world grew by +8.0%. Adjusted total corporate cash flow exceeded $1.7 trillion annualized in the first quarter of 2011. In comparison, for the peak year of 2000, ten years ago, they were $820 billion. This is a doubling of corporate profits.

Businesses typically invest their cash in new equipment and computer software. Indeed, ***equipment spending*** rose at a solid +15.3% pace in calendar year 2010. In the first quarter of 2011, equipment spending was just -3% below the pre-recession peak (in first quarter 2008). Business purchases of high technology equipment and computer software declined the least during the recession and have been growing briskly ever since. By the first quarter of 2011, high tech related spending was +18% *above* the previous peak. Other types of equipment spending have improved but still remained appreciably *below* pre-recession levels through the first quarter of 2011.

Purchases of transportation equipment have been steadying the last three quarters, and are now up +13% from four quarters ago, though they remain -16% below the pre-recession peak. In comparison, industrial equipment is up +18% across the same period. Looking to their final demand, we noted new orders of non-defense capital goods continue to recover. However, they are still down -25% from their December 2007 peaks as of March 2011.

Commercial aircraft deliveries were expected to rise in 2011, reflecting airlines' recent return to profitability. However, the rise has not yet materialized through the first four months of the year. Orders for heavy trucks and railroad equipment have turned up along with rising goods movement activity. Demand for several types of machinery--agricultural, construction, and industrial equipment--also has turned up through the end of 2010.

Equipment investment performance stands in stark contrast to the moribund state of most ***commercial structures investment***. Business investment in nonresidential structures has yet to hit bottom —as of the first quarter of 2011— after peaking in mid-2008. Total structures spending has plunged by -53% from its peak through the first quarter of 2011. Three of four sub-sectors are down over the past year. Manufacturing structures investment is down the most at -28%. Commercial & health care structures investment is down -13%. Power & communication investment is down -6%. Only power & communication appears to have hit bottom. The one sub-sector of structures investment to expand over the last year is mining exploration, shafts, & wells, up +32% — an effect of strong price movements in oil and precious metals, and other minerals. Their final demand is linked to the global economy.

The nonresidential construction industry was hard hit first by the credit market fiasco and then by rising unemployment, with vacancy rates high, and property values falling. Most would-be developers of new commercial projects are still unable to obtain adequate outside financing. Few new projects have been initiated during the past two years.

For example, the data provider Reis Inc.'s quarterly report released in April 2011 showed the large shopping mall vacancy rate reached 9.1% in the first three months of the year, up from 8.7% in the fourth quarter. It was the highest vacancy rate since the commercial real estate research firm began tracking the market in 1999. Reis said the vacancy rate could break the 11.1% peak set in 1990 if the 14 million square feet of new properties come online in 2011 as they are scheduled to do.

However, there is a bullish example to consider too. A strong appetite for office property quickly emerged in 2011. But it is limited mostly to major cities. Suburban office properties still suffer from weak vacancy and rental rates. Green Street Advisors reported its index of Midtown Manhattan office-building values is up +88% since its mid-2009 nadir, back to within 15% of their 2007 peak. The index is tilted toward better quality buildings.

One final piece of color. Loan supervision of the commercial real estate (CRE) industry has raised a red flag. The bank examiners suggest we haven't seen the full extent of the CRE income property loan problem. A huge number of these loans, made when property prices were high during peak years, are coming due in two years or so.

These considerations suggest a moderately optimistic outlook for business equipment spending during the forecast period.

Summary statistics: The LAEDC forecast sees pre-tax adjusted profits growing briskly in 2011 and 2012, around +9 to +10% each year. Lean firms deliver sizeable profit margins. In turn, LAEDC believes real business spending for equipment and software grows +10.2% in 2011 and +8.3% in 2012, with improvement spread over more types of equipment. Spending on nonresidential structures may be another 'catfish'. The pickup in equipment spending driven by global indicators is tempered by our pessimism on domestic non-residential structures investment. We think it falls -2.2% by the end of 2011. It rises +4.5% in 2012.

Government Spending - Transfers Soar

Comparing the first quarter of 2008 to the first quarter of 2011 is instructive. Government-in-total increased consumption spending +9%, transfer payment spending +30%, and interest payments (fortunately) only +0.4%.

This latest LAEDC forecast anticipates little growth in federal purchases of goods and services during 2011 and 2012. Stimulus spending and the conflicts in Iraq, Afghanistan, and Pakistan wind down. Spending has been growing rapidly in many other categories, especially workforce training and education, unemployment compensation, and various healthcare programs. Inflation adjusted, we expect federal purchases of goods and services to fall by -0.2% in 2011 and go up by +1.0% in 2012 after rising by +4.8% in 2010.

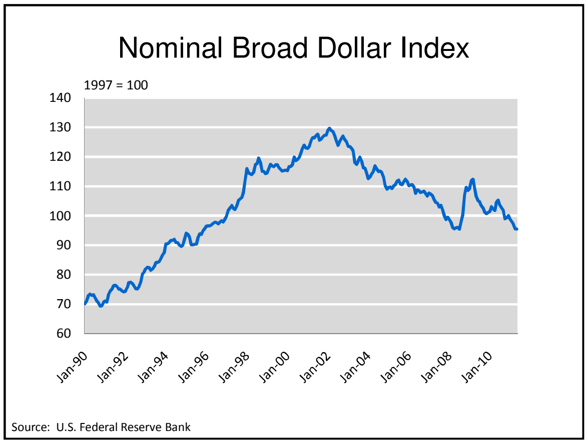
State and local government purchases of goods and services are another matter. Most states continue to experience weak revenue growth. Many are cutting spending and/or increasing taxes. Federal stimulus payments, which supported many state/local jobs last year, are easing down in 2011-2012. Tightening budget constraints mean state/local government spending—even for infrastructure—will be flat *at best* in the near future. The LAEDC forecast anticipates state/local purchases (inflation adjusted) decline in calendar year 2011 by -1.6% and rise by only +0.4% in 2012.

Foreign Trade Flows
A Neutral Force in 2011?

Export-driven spending. The most likely component to surprise positively in 2011.

In 2011, the U.S. dollar has declined in value about -5.0%, and is now back to its level seen at the peak of the financial collapse. This is a level below the dollar's index value in 1997. Strong GDP growth encouraging portfolio capital flows to emerging markets, low interest rates in the U.S., the huge fiscal deficit, and higher oil prices seem to be the mix of ingredients pushing the dollar down. A weaker dollar is a positive for more export growth and helps to slow demand for imports.

By the fourth quarter 2010, total exports of goods and services had *fully made up* the shortfall created by the downturn. The export surge reflected strong growth among the economies of major U.S. trading partners, especially in Asia. Exports of capital goods (excluding transportation) turned up most strongly in 2010, followed by automotive, consumer durable goods, industrial supplies and foodstuffs. Exports (foreign purchases of



U.S. goods and services) plunged by -15% (inflation adjusted) between the second quarter 2008 peak and second quarter 2009. Then, they turned up briskly in the second half 2009.

Through the end of 2012, international macro fundamentals which incorporate continued rapid GDP growth in major Asian, South American, and North American trade partners should drive the U.S. export forecast up. We think exports increase in inflation-adjusted terms by +7.0% in 2011 and by +5.2% in 2012.

U.S. imports peaked during the third quarter of 2008, just before the financial debacle, and collapsed by -32% through the second quarter of 2009 before turning around. As of fourth quarter 2010, growth in total imports of goods and services *made up 90%* of the previous decline. The turnaround reflected not only the upturn in the U.S. economy but also manufacturers' and distributors' needs to replenish inventories to accommodate increased business. As with exports, imports of capital goods, motor vehicles and parts, consumer goods and industrial supplies recorded the largest increases in 2010.

Except for those impacted by Japan supply chain problems, most firms likely have reached their inventory re-stocking targets by mid-2011. So imports should grow at a more moderate pace during the remaining forecast period. Overall, we think U.S. imports of foreign-made goods and services increase +3.4% in 2011 and +5.9% in 2012.

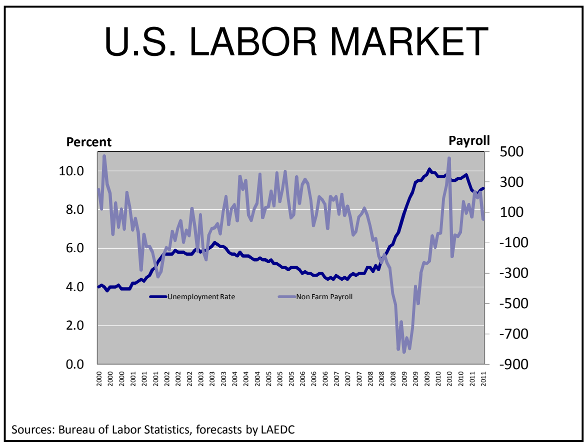
For the U.S. economy, net export growth (equals gross exports minus gross imports) is what matters most to aggregate demand growth. Net exports contributed +1.1 percentage points to the U.S. economic growth rate during 2009. However, positive contributions turned negative (to -0.5 percentage points) in 2010. In the first quarter of 2011, net exports neither added nor subtracted from U.S. real GDP growth. The first quarter has been able to foreshadow the year's contribution the last two years. Imports might grow a bit slower than exports across 2011. But the pattern could turn negative again in 2012.

The net export balance (in constant dollars) reached a low point in 2006, at -$729 billion, and then improved to -$363 billion in 2009, before falling back to -$423 billion in 2010.

Summary statistics: LAEDC forecasts the U.S. trade deficit will be -$378 billion in 2011, as imports catch their breath, followed by further deterioration—to -$414 billion—in 2012, as domestic consumers grow more confident.

Labor Market Conditions

We believe the nation’s unemployment rate will continue unacceptably high through most of the forecast period. This recession has been very severe. Many businesses expect to delay hiring permanent employees until they are sure the current upturn in their business is sustainable. Even then, they likely will bring their laid off and part-time workers back to full-time status before any new workers are hired. In the meantime, current workers are being asked to work longer hours and more temporary employees are being hired. We expect the nation's jobless rate to average 8.9% in 2011. Unemployment may not break through the 8.0% mark until somewhere in 2013.



Unemployment is proving difficult to turn around quickly. Joblessness in the U.S. worsened from mid-2007 until December 2009, when the unemployment rate peaked at 10.0%. Joblessness slowly drifted down during 2010, but only reached 9.4% by December. It was still 9.2% in June. Unique to this downturn, nearly half of the unemployed are classed as long-term unemployed, meaning they are out of work for 27 weeks or more.

The primary exception continues to be strong demand and even shortages of workers with specialized technical skills, particularly engineers and specialists in Info Tech.

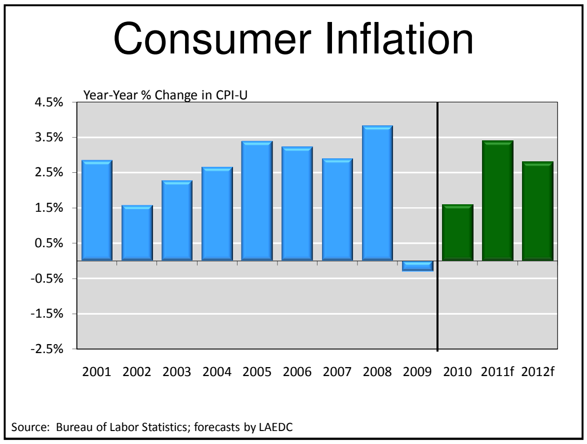
In terms of total employee compensation, worker incomes increased by +2.0% in the year ended March 2011. Wages and salaries increased by +1.5% during that period, while benefit costs grew at a +2.8% rate. These figures are well below the +3% range of pre-recession years. Many businesses reduced labor costs during the recession and have not restored cuts. On the benefits side, employers have shifted an ever larger proportion of health insurance burdens onto workers in order to contain rising costs. This strategy has met with some success and is likely to continue (at least until health care reform kicks in). We expect overall employee compensation costs to continue escalating at a moderate pace during the forecast period—rising by about +2.2% during 2011 and perhaps +2.4% in 2012.

History matters again here. Labor market conditions deteriorated markedly during the 2008-2009 recession. Total nonfarm employment payrolls finally stopped shrinking in February 2010. But the damage was considerable; about -8.8 million jobs disappeared. Nonfarm job counts grew through the rest of 2010 and early 2011, gaining about +2.2 million new jobs through June 2011. Gains were biggest in education & healthcare, business & professional services, tourism, manufacturing and retail trade. Job growth is expected to continue during the forecast period, spreading to more industry sectors and strengthening through 2012.

Summary statistics: Averaging payroll growth to the end of the year, employment should grow +1.1% in 2011. We forecast a 1.1% payroll growth rate in the February report. It could grow by +1.9% in 2012. These rates would mean more than 3.9 million nonfarm jobs will be added in 2011 and 2012.

INFLATION

Going forward, we would assume gasoline increases at +5% a year and food prices increase at trend during the rest of 2011 and 2012. If that happens, and prices of other goods and services follow current trends, then total CPI ("headline inflation" in the U.S.) is expected to increase by an average rate of +3.4% in 2011 and 2.8% in 2012 after rising by +1.6% in 2010.



Measured by the All Items Consumer Price Index, annual "headline" consumer inflation decelerated from 2.9% in 2007 to 1.6% in 2010. *For the first four months of 2011, we are averaging 2.3% in annual terms.* Energy prices increased by +8% during 2010 and were up +21% to May 2011 (before going down -10% in one day), while food price inflation matched the overall trend. Excluding these two categories, prices of all other consumer goods and services increased by just +0.9% annually in the year to April 2011.

Crude oil prices have indeed been on the rise. Using the West Texas Intermediate spot price, (WTI), oil prices bottomed in February 2009 at $39 per barrel and then rose steadily until April 2010, when the price was above $84 per barrel. The WTI price hovered in the mid $70 range through the summer and then track upward to $89 in December 2010. In June 2011, oil trades around $95, after spiking earlier in the year.

The main factors propelling crude oil prices upward were global economic recovery (China); the historic Middle East unrest; and finally, nervousness about the amount of spare capacity available in OPEC. Crude oil consumption looks to continue to rise in 2011 and 2012.

A comment needs to be inserted on the effects of futures markets on commodity prices like oil. With a $10 per barrel sell-off in one day in May, it is clear futures traders do have an effect on prices. Margin has been raised at the exchanges, but the upside momentum and the volatility is very attractive to traders. This is not good news for consumers or the real economy.

On the supply side, OPEC production of crude oil can still take up most of the increase in demand out to 2012. Even so, substantial excess production capacity should continue to exist in the OPEC nations, especially Saudi Arabia. But as spare capacity shrinks, oil markets tighten. Industry observers expect oil prices to rise during the forecast period, averaging $100/barrel for the rest of 2011 and drift north to average $105/barrel in 2012. Political risk price spikes are very possible. If unrest reaches Saudi Arabia, $200 a barrel oil is a possibility. The current $10 to $20 premium means oil market participants place a 10% to 20% probability on this happening.

Natural Gas: The Henry Hub futures price for August 2011 delivery was trading at $4.39 per MMBtu in late June 2011. The markets expect the Henry Hub price to rise to $4.74 per MMBtu by Dec. 2011. Next July 2012 is trading around $4.77 and December contracts are looking at

\$5.20. Since this energy market is entirely domestic, it is good news to see an overall uptrend, even incorporating seasonal declines, in prices going forward. This suggests underlying demand from activities in the economy are sound. On the supply side, the U.S. Energy Information Administration (EIA) expects slowing production growth to contribute to a tightening domestic market next year. Looking at futures trading, uncertainty over future natural gas prices is lower this year compared to last year at this time.

Monetary Policy and Interest Rates

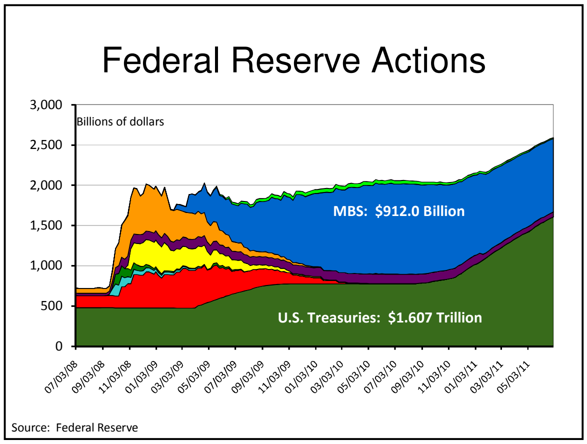
When will the Federal Reserve raise short term interest rates? That is a question on people's minds these days. The Fed has acknowledged concerns its policies may be stoking future inflation, but says core inflation (excludes food and energy prices) is currently too low and unemployment remains too high to begin raising interest rates.

The Federal Reserve has held the target federal funds rate (the rate banks charge each other for overnight loans) at nearly zero since late 2008. The target federal funds rate is normally the Fed's most powerful monetary policy instrument. But in the wake of multiple financial debacles, cutting the rate to almost zero proved insufficient to persuade financial institutions to return to the capital markets. The Fed's next course of action was to devise a number of new "facilities" that channeled necessary liquidity directly to borrowers and investors in key credit markets. At its maximum (in December 2008), the Fed's balance sheet swelled by more than \$1.5 trillion – an extraordinary number when one considers the output of the entire U.S. economy is \$15 trillion. The capital markets gradually became unstuck, and by the first quarter of 2010, almost all of the crisis-driven facilities were allowed to lapse because they were no longer needed.

In addition, to support ailing housing market and mortgage lending, the Fed began buying mortgage backed securities (MBS) from Fannie Mae, Freddie Mac, and Ginnie Mae. This effort was designed to increase mortgage credit availability and keep mortgage interest rates low. As of June 1, the Fed is holding \$920 billion in MBS, down from a high of \$1.1 trillion. The Fed ceased MBS purchases last summer and as these securities mature, the Fed is using proceeds to purchase long-term U.S. Treasuries.

In spite of all these extraordinary measures, the slow pace of the economic recovery in 2010 prompted the Federal Reserve to respond with another round of expansionary policy last September. This time, the Federal Reserve committed to the purchase of \$600 billion of Treasury securities in order to reduce long-term interest rates. The U.S. Treasuries purchased using the proceeds from maturing mortgage backed securities are also part of this second round of quantitative easing, commonly referred to as QE II. The result is that although the composition of the Fed's balance sheet has changed, it is still holding nearly \$2.8 trillion in assets as of June 2011.

With the end of Treasury purchases scheduled for June 2011, we expect extra 'pump priming' to continue minimally through re-investment of proceeds from the huge Fed balance sheet. The stock market has been nervous about the effects of lowered pressure on long-term rates. According to the Fed chairman, QE II amounted to an added 75 basis points of monetary policy easing.



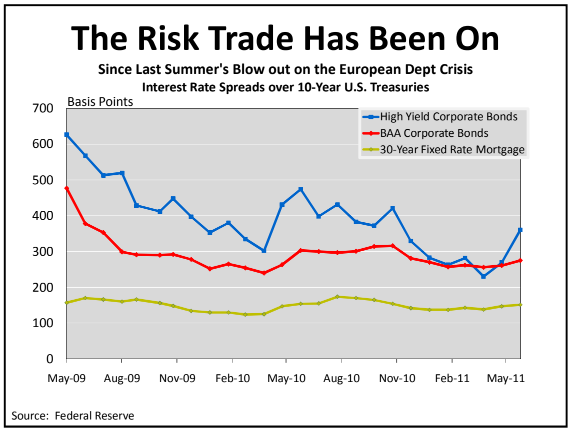
Much money created by the expansion of the Fed's balance sheet resides in commercial bank reserve accounts at the Federal Reserve. Banks' excess reserves (the level was $1.0 trillion as of December 2010 and rose to $1.5 trillion as of June 1, 2011) earn 0.25% in interest per year. Most banks do not need 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, the Fed will 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.

In the short-term, as long as joblessness remains so high, wage push inflation is not relevant. The Fed maintains that until the economy is on a more solid footing, short-term interest rates will stay where they are in 2011. In 2012, if the recovery does strengthen, the LAEDC (with a nod to Fed Futures markets prognostication at the CBOT) looks for the Fed to first attempt a 25 basis point increase, perhaps during the third quarter. And then, follow this with a 25 basis point increase later in 2013.

However, the Fed is relentlessly empirical. It continues to be vigilant. It will shift plans of action out to the future if the hoped-for stronger economy, in the form of a much lower unemployment rate, is not seen in 2012. Conversely, if the economy surprises notably, the Fed will move much sooner. After testing the waters in 2012, the Fed may want to return rates to more normal levels as soon as possible. For one, the Fed would need to signal its intent to keep a lid on inflation. Second, with the federal funds rate so low for so long, the Fed's conventional tool for macroeconomic management has remained shelved, an uncomfortable stance for the hawks on the Board of Governors.

Long-term interest rates stayed surprisingly stable between the fourth quarter of 2008 and late 2010 as the financial markets first seized up and then gradually eased. The 10-year Treasury note yield stood at 3.25% late in 2008, dropped below 3% early in 2009 and then rose to 3.3% in December 2010. During the same period, the 30-year fixed mortgage rate averaged 6.0%, drifted down to the 5% range and was fairly stable over the course of 2009. After reaching near record lows in 2010 (4.23% in October), mortgage interest rates started to edge back up again – rising to 4.7% in December 2010.



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.

In the summer of 2011, recent softness in the U.S. economy has been partly attributed by the Fed to the Japanese tsunami's effects felt here in the U.S economy. Once again, long-term rates fell only slightly on a safe haven motive. Most analysis puts the downward pressure on the U.S. economy via Japan at -0.15% in GDP growth terms in the first half of 2011. Reconstruction and a more vigorous Japanese automotive sector look to add +0.10 in the second half.

Market jitters keep creating a lot of noise, which obscures the fundamental outlook for long-term rates. Still, some clues exist. By itself, economic recovery should put some upward pressure on rates. Further pressure could start to meaningfully boost short-term rates after 2012. Assuming inflation behaves, market expectations of such a move could put the 10-year note yield at about 3.25% toward the end of 2011 and move it up to 3.80% by year end 2012. Meanwhile, the 30-year fixed rate mortgage should remain below 5% (4.7% perhaps) through the end of 2011 and most likely average just above 5.3% in 2012.

FISCAL POLICY

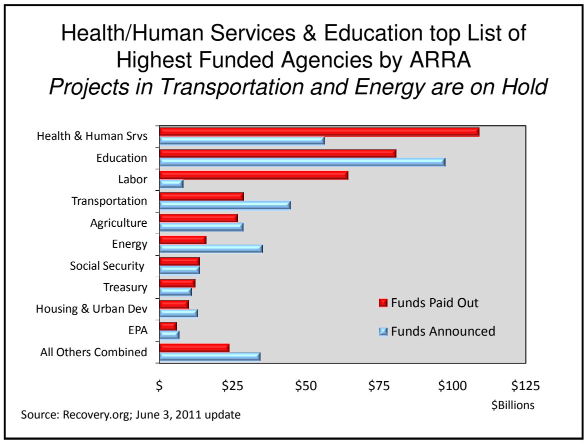
For 2011, the annual U.S. federal budget deficit of nearly -$1.5 trillion is on track to equal -9.8% of GDP, a share nearly 1% higher than 2010, and almost equal to the deficit in 2009. At -10% of GDP, the 2009 deficit was the highest in nearly 65 years. In February 2009, with the U.S. economy in the throes of a deep pullback, and with a new government elected weeks earlier, Treasury Secretary Timothy Geithner stated, "Certainly monetary policy has been very aggressive, and fiscal policy is about to get very aggressive." Indeed.

Go back to add historical perspective.

Following the financial crisis in the aftermath of the Great Depression, an aggressive fiscal expansion also took place. In 1930, federal spending was 3.04% of GNP, receipts averaged 3.80%, creating a +0.76% surplus. In 1939, spending rose to 9.77% of GNP, receipts were 5.50%, creating a -4.27% deficit.[1]

And then, to make matters even worse, the U.S. entered WWII. The highest U.S. deficit ever run occurred during 1943 with WWII raging. It was over -30% of GDP. "Keynesian" economics is

[1] Smiley, Retrieved March 2011



the banner under which economists promote aggressive fiscal programs. It bears commenting on. In the time of J.M. Keynes, it was profound to enlist government spending — it was around only 3% of GDP. Today, things are much changed.

What was the plan put in place in early 2009 for a federal government-led recovery? Heavy on spending and lighter on tax cuts. In the forecasts the administration used to describe the effects of the stimulus, they provided the macro multipliers that guided their actions. Their government purchases multiplier was 1.57, and their tax multiplier was 0.99. Because 1.57 is larger than 0.99, they concluded it was better to spend more than to cut taxes to stimulate growth in demand.

With time's passage, we can get a progress report on what really happened. *Transfer payments* were the big winners. Big states like California, New York, Texas, and Florida got the largest amount of funds. When adjusted by population, though, per capita amounts appeared fairly evenly distributed across states. Something around $1200 in recovery funds were pumped towards each citizen.

As the chart to the left shows, the great bulk of funds went out as transfer payments via the Dept. of Health and Human Services, the Dept. of Education, and the Dept. of Labor. Conserving jobs and services, more than creating jobs, was what really happened in meaningful terms. Directed spending on projects via the Dept. of Transportation and the Dept. of Energy has not reached the levels of funds announced at conception. Obviously, the mechanics of actual 'shovel-ready' projects were more lengthy and involved than stimulus planners realized.

According to an Oct. 2010 OECD report, the *full* 2009 U.S. deficit was -11% of potential GDP. It broke down this way:

Structural deficit	Pre-existing. Unrelated to crisis measures or macro downturn.	-4.4%
Automatic stabilizers	Unemployment benefits, govt. health insurance, etc.	-2.0%
State/Local govt. deficits	Recession at state and local levels; some support from federal	-1.7%
Finance sector support	TARP, Fannie & Freddie, etc.	-1.6%
Stimulus measures	ARRA stimulus, etc.	-1.3%

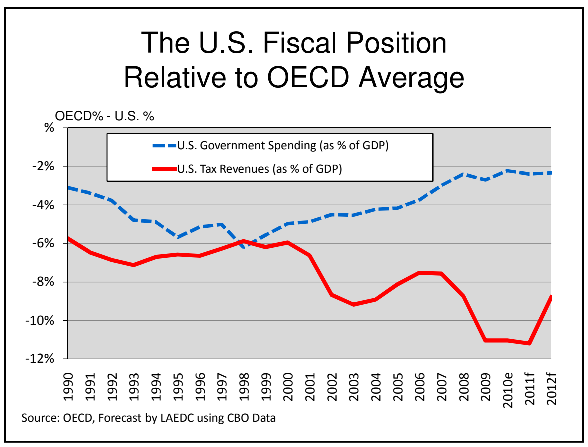
Roughly speaking, a third of the U.S. fiscal deficit existed prior to the downturn, a third was related directly to the downturn itself, and a third was related to measures taken to stabilize the financial sector and stimulate economic activity.

According to OECD data (the country data set which best represents our peers), U.S.

government spending has consistently been below the average of our peers. Internal U.S. data also show government spending growing. According to the Congressional Budget Office (CBO), 2011 outlays equal an estimated 24.7% of GDP, a larger share than 2010. Well above the 20.8% average of the past 40 years too.

OECD data also confirm U.S tax revenues have been consistently well below the average of our peers. Internal U.S. data confirm tax revenues have been shrinking. According to the CBO, revenues in 2011 should equal 14.8% of GDP—*the smallest share since 1950*. At the end of 2011 and 2012 certain tax rates and exemptions are set to expire. Hence, the CBO forecast assumes tax revenues rise in 2012.

This chart draws facts and the outlook:



Fortunately, financing big U.S. deficits has been successful. Long-term interest rates have been flat or falling. Once the crisis hit, private lending demand fell off precipitously. It hasn't returned. And 'safe haven' fixed income investing and Fed buying picked up. Competition for investible funds has not been pressuring the U.S. Treasury-relevant interest rates. Once a widespread pick-up in private lending builds to a sufficient degree, this may or may not remain the case.

The other looming issue? On top of a potential rise in rates, the Standard & Poor's credit ratings agency has adopted a negative ratings watch on U.S. Treasury debt. If the AAA rating given U.S. Treasury debt is cut, the relevant interest rates the U.S. Treasury must pay investors would rise, due to a measure of default risk.

Where are we now?

As a direct result of three years running huge federal deficits to support economic recovery, the U.S. government reached its statutory debt limit in mid-May. Extraordinary measures to buy added time will be exhausted on August 2, 2011. Unless Congress acts before. Behind the delay is an intense debate. How does this nation address its long-term fiscal problems creating these huge deficits?

To build a current perspective, consider this. By the time the bank drama struck in late 2008, annual fiscal surpluses in the late 1990s had already been transformed into substantial annual deficits. How? By the passage of large federal tax cuts, a new entitlement program for prescription drugs, the cost to fight terrorism abroad, and to fortify national security. All worthy purposes to be sure. But, the cumulative effect was a hug increase in the federal deficit.

In April 2011, President Barack Obama made a public address on the matter. He stated this, "So here's the truth. Around two-thirds of our budget—two thirds— is spent on Medicare, Medicaid, Social Security, and national security. Programs like unemployment insurance, student loans, veterans' benefits, and tax credits for working families take up another 20 percent. What's left, after interest on the debt, is just 12 percent for everything else...cuts to that 12 percent won't solve the problem."

On the Republican side, Congressman Paul Ryan's budget, which passed the House of Representatives on a party-line vote, called for deep spending cuts and avoided all tax increases. It deliberately offers no basis for compromise with Democrats, which Republicans know is necessary for any long-term proposal to be enacted.

A fierce partisan contest will be in play.

Risks to the Forecast

The LAEDC baseline forecast in mid-July 2011 sees the U.S. economy on a moderate recovery/expansion path through 2012.

1. Consumer spending seems likely to see steady improvement. Auto purchases should rise in the forecast period. But most likely, due to high gasoline prices, sales levels remain well below the pre-recession levels.

2. Business investment in new equipment should be healthy as long as the combined U.S. and global level of final demand improves.

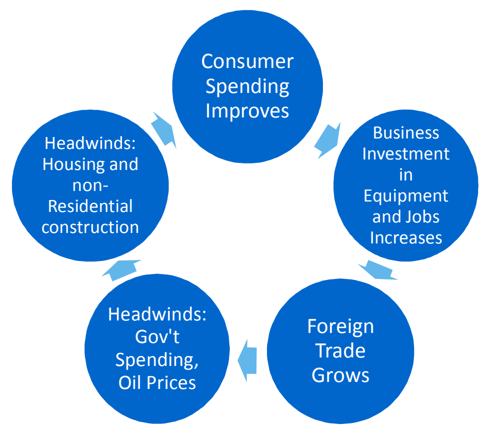
3. Foreign trade volumes should grow, though more slowly than 2010, now global inventory pipelines have been re-filled. A weak dollar helps.

4. As various stimulus plans come to a close and military spending winds down, federal government purchases should be flat. State/local governments continue to struggle.

5. Housing and nonresidential construction activity sputters. It may increase in 2012, but from a very low base.

6. Labor markets improve, easing anxiety somewhat. But hiring lags the economy throughout the forecast period. Employment growth has picked up moderately. The unemployment rate should decline, but remain uncomfortably high in the rest of 2011 and in 2012.

7. Inflation looks OK as long as energy and food prices behave.



Though the U.S. economy is expanding, a number of uncertainties exist. The LAEDC forecast contains several assumptions that might turn out worse than expected—or better. The most important of these include the following:

Financial market fragility—still the biggest threat. U.S. capital markets improved greatly in 2010 and stock prices advanced. Still, the financial system carries undeniable risks, especially in global capital markets. In particular, the largest European banks hold unknown amounts of debt exposure to banks and governments in the weaker peripheral economies (examples: Greece, Portugal, Ireland, Italy, and Spain). As of mid-July 2011, these issues have not been resolved. Recent popular revolts in Tunisia, Syria, Yemen, Bahrain, Egypt, and Libya are reminders of instability in that part of the world. Want more to worry about? How about the weakening financial positions of state and local governments in the U.S? Any of these risks could re-ignite problems in global capital markets that might reverberate through the large U.S. banks to the rest of the domestic economy.

Credit — easing but. . . Commercial banks and thrift institutions operate a key gateway between the financial sector and the rest of the economy. As loan losses worsened during the recession, banks raised credit standards, required more documentation, and boosted fees for all types of borrowers. Many of these restraints are still in operation, though they are starting to ease. Though starting to fall, consumer and business loan delinquencies continue high at many institutions, dampening profitability and capital adequacy of the banks involved and increasing their reluctance to lend. Large commercial banks appear to be healing. However, many small community banks (particularly those beneath $1B in assets) are in weaker positions due to their high exposure to ailing commercial real estate ventures in their local areas.

For the forecast, the key issues are how much longer it will be before bankers begin to loosen up, and when does loan demand picks up? A growing economy requires more credit to finance business and household spending for big-ticket purchases. Recent surveys suggest big banks have stopped tightening but are not making it much easier for their customers to borrow. Only time will tell if bank lending grows adequately.

The housing conundrum — Government support programs propped up U.S. housing markets during 2009 and early 2010. However, activity weakened in second half 2010 after much of the support system was removed. Clearly, the programs caused some transactions to occur earlier than they might have otherwise. Sales of new and existing homes slumped immediately—we assume temporarily. In fact, we simply do not know how long the current dry spell will last, nor when lenders and servicers will have worked through most of their bad loans, nor when home prices will stop falling.

Higher oil & gasoline prices — a potential problem. Sudden, sustained increases in oil and gasoline prices hold the potential to slow down the rate of economic recovery. The bigger the increase in price, the bigger the economic impact. The reason is straightforward. When they drive up to the gas pump, consumers and businesspeople simply *must* pay the higher price in the short run, even though it means they have less income or cash flow available to purchase other things. The economic impact of higher prices is biggest when they first appear and then very gradually ebbs, as incomes and profits grow and drivers purchase more fuel-efficient vehicles. Gasoline prices have risen sharply in early 2011, bringing this risk to the forefront.

"Optimism" — There is an upside risk to the LAEDC forecast. Americans—consumers and businesses alike—have been inundated with media reports of the economy's troubles and policymakers arguing about solutions and who's to blame. No wonder confidence has been volatile. And yet the economy *is* undeniably moving up. Retail sales reached a new high in 2010. Exports rebounded. Industrial production and imports have turned up as well.

Business attitudes are improving along with actually quite strong corporate profits, driving up earnings and the stock market. Business revenue growth is also driving up investment in new equipment. IT products like computer software show demand is on the rise and sometimes strongly. With positive wealth effects from the stock market, and a slowly improving jobs markets easing employment worries, consumers and businesses may relax a bit more.

Raise your spirits!

TABLE 1: U.S. ECONOMIC INDICATORS

(Annual % change except where noted)	2005	2006	2007	2008	2009	2010	2011f	2012f
Real GDP	3.1	2.7	1.9	0.0	-2.6	2.9	2.0	3.1
Nonfarm Employment	1.7	1.8	1.1	-0.6	-4.3	-0.5	1.1	1.9
Unemployment Rate (%)	5.1	4.6	4.6	5.8	9.3	9.7	8.9	8.6
Consumer Price Index	3.4	3.2	2.8	3.8	-0.3	1.6	3.4	2.8
Federal Budget Balance (FY, $billions)	-$319	-$248	-$162	-$455	-$1,415	-$1,294	-$1,500	-$1,100

Sources: BEA, BLS and OMB; forecasts by LAEDC

TABLE 2: U.S. INTEREST RATES

(4th quarter averages, %)	2005	2006	2007	2008	2009	2010	2011f	2012f
Fed Funds Rate	3.21	4.96	5.02	1.93	0.16	0.18	0.25	0.50
Bank Prime Rate	6.19	7.96	8.05	5.09	3.25	3.25	3.30	4.00
10-Yr Treasury Note	4.29	4.79	4.63	3.67	3.26	3.21	3.25	3.80
30-Year Fixed Mortgage	5.86	6.42	6.33	6.04	5.04	4.69	4.70	5.15

Sources: Federal Reserve Board; forecasts by LAEDC

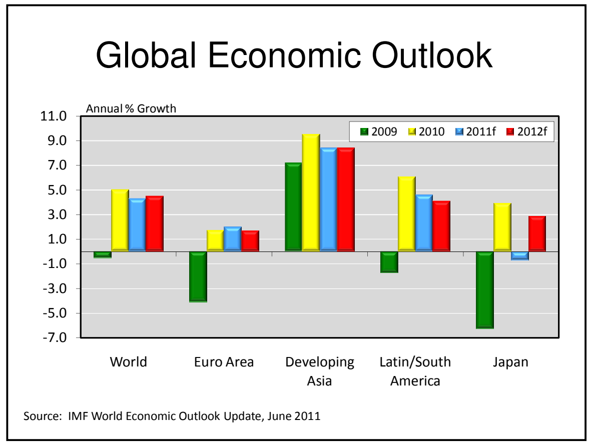
III. Major Developments in the International Economy

Global Economy

The global economy has had to handle some momentous events in 2011, starting with the uprisings in North Africa and the Middle East followed by the horrific disasters in Japan. The turmoil in the Middle East (particularly in Libya) led to an increase in crude oil prices, which along with other higher commodity prices has caused headline inflation to accelerate worldwide. The March earthquake, tsunami, and nuclear disasters in Japan caused a supply-shock to the global economy, as multiple industries that are reliant upon Japanese high-tech intermediate goods were not able to complete production.

In addition, the debt crisis in Europe has continued in 2011. Portugal became the third bailout recipient in May, and Moody's downgraded its debt to junk status. Also, the situation in Greece was headline news again. Indeed, the possibility of a Greek government debt restructuring or default remains a top concern for global policymakers. Fortunately, the Greek crisis has stabilized for now as the government was able to pass the required austerity measures in order to receive the fifth and final installment of the bailout funds agreed to last year. The details of a second bailout are still being negotiated. Also, the threat of another bailout of Spain looms over the euro zone horizon, which would escalate the crisis and cause great concern in financial markets.

The major concern coming into 2011 was what would happen to the global economy once the inventory cycle and the fiscal stimuli ended. In most nations, private demand has picked up some of the slack, particularly in the emerging



and developing economies. **Commodity prices and overall inflation have become the new concerns for 2011 and into 2012.** This is a larger issue in the emerging and developing economies, as they spend a larger percentage of disposable income on food and energy. Other risks to the global recovery in the second half of 2011 include a potential slowdown in China or a slower-than- expected rebound in Japan.

Overall, the global economic recovery remains unbalanced. The advanced economies witnessed weak growth over the first half of the year, while the emerging and developing economies experienced much stronger growth. Output in the advanced economies still remains far below potential. High unemployment along with lackluster growth still dominates the scene. Both Japan and the European Union face obstacles in the short term. In particular, the European Union economies face very difficult days ahead as the impacts of severe austerity measures become more apparent. *On the other hand, the emerging and developing economies are facing a completely different environment as they are attempting to address overheating,* *inflation, and exchange rate appreciation.* The emerging and developing economies are in a much stronger fiscal and financial position. Contractionary or tight monetary policy has been the order of the day. Very high commodity prices have dominated the headlines over the first half of this year and are expected to be a big issue going forward (particularly food prices).

China and India continue to be the most outstanding performers. In addition, the newly industrialized Asian economies (includes South Korea, Taiwan, Hong Kong, and Singapore), Mexico, Brazil, and the Association of Southeast Asian Nations (ASEAN-5, includes Indonesia, Thailand, Vietnam, Malaysia, and the Philippines) were the other key economies in the first half of this year.

The Asian developing nations are expected to lead the way once again in the second half of 2011 and into 2012. However, developing Asia as well as other emerging and developing economies are expected to see a slower pace of growth in the next six months, mainly due to inflation, lower domestic demand, and lower external demand. The expectations for the remainder of 2011 are for China and India to once again be the strongest performers with Indonesia (along with the rest of the ASEAN-5), Mexico, Brazil, Taiwan and South Korea also performing well. The laggards will once again be the advanced economies beginning with Japan, the U.K. and the Euro Zone. Most likely, the Euro Zone (particularly Spain) will be the worst performer amongst the advanced economies in 2011 and 2012. Led by the emerging and developing economies, the global economy will grow by about +4.0% in 2011 and +4.5% in 2012.

Most of the Los Angeles Customs District's top trading partners (with the exception of Japan) should once again witness robust economic growth in the forecast period. These nations include China, South Korea, Taiwan, Thailand, Vietnam, Malaysia, Australia, Singapore, and Indonesia.

In this post crisis environment, the global economy has taken on a new shape. The emerging and developing economies face the opposite set of issues that the advanced economies are addressing. The emerging markets are experiencing strong economic growth, potential overheating, inflation, contractionary monetary policy, currency wars, and sound finances while the advanced economies attempt to overcome high unemployment, below-normal output levels, loose monetary policy, and fiscal deficits. 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.

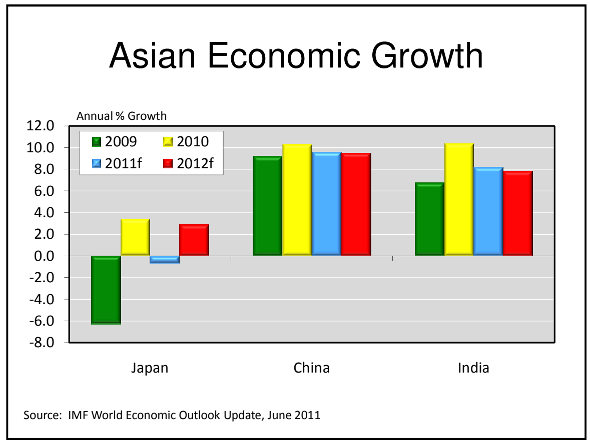
The following section provides an overview of the major regions of the international economy and also includes details on the top five trading partners of the Los Angeles Customs District (LACD) – China, Japan, South Korea, Taiwan and Thailand – as well as the top five sources of foreign direct investment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

MAJOR REGIONS

Asia

Overview: Emerging Asia has led the global recovery this year and will continue to do so, albeit at a slightly slower pace in the second half of 2011 and into 2012. China and India will continue to lead the way, while Japan will be the laggard. South Korea and Taiwan also will experience strong economic growth in 2011 and beyond. Asia was the first region to tighten monetary policies in 2010 as inflation superseded economic growth as the top concern, and those policies have continued this year. To date, resurgences in domestic demand and exports (particularly intra-Asia trade) have been the keys to success. In addition, several Asian economies (including South Korea, Thailand, and Indonesia) have implemented capital controls in order to relieve upward pressure on their currencies. The most immediate concerns facing the Asian region are inflation and a drop in export orders from Europe and the U.S.

China (LACD's #1 Trading Partner): The Chinese economy performed very well in the first quarter of 2011, as GDP climbed by +9.7%. A revival of external demand along with healthy domestic demand and strong real estate investment led to a surge in economic growth. However, some indications of a slowdown began to appear in the first half of 2011, as government-led investment weakened along with bank lending and industrial production. Chinese officials have made efforts to slow economic growth in order to negate inflation concerns. Even so, export figures have performed strongly over the first half of this year, particularly over the first quarter.



Inflation continues to exceed the 3% government target, and is the number one threat to the Chinese economy. This makes it easier to explain why the government has accelerated the pace of Yuan appreciation. Food prices continue to be the biggest problem, and drought conditions have only added worsened the situation.

The global recovery definitely helped Chinese exports, but the biggest story in 2010 and key piece of the economy this year has been the consistency of Chinese domestic demand. Retail sales experienced double digit growth rates in 2010 and continued that strength into 2011. Over the course of 2010 and so far this year, the government directed banks to slow down the pace of credit creation. The majority of those new loans had been in construction and real estate. As a result, the make-up of Chinese economic growth has become more broad-based, with consumption leading the way. In particular, sales of cars and housing have been strong. The most significant concerns for the rest of 2011 and into 2012 are related to the economy's potential overheating, inflation and whether or not asset bubbles have emerged in the real estate and equity markets.

Although economic growth in the second half of 2011 is not expected to be as strong as in the first half (mainly due to contractionary monetary policy, power shortages, drought, and a slowdown in industrial production), the outlook for 2011 and 2012 remains very bright for China. Exports, especially to other developing Asian nations, and domestic demand are expected to have considerable momentum. The Chinese economy is projected to expand by +9.6% in 2011 and +9.5% in 2012.

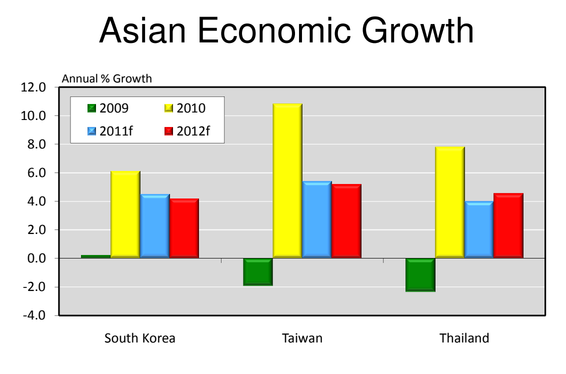
***Japan (#1 source of FDI in LA County and LACD's #2 Trading Partner)*:** The island nation of Japan experienced a devastating triple disaster in March 2011, with a major earthquake, tsunami and nuclear meltdown. As a result, the Japanese economy was severely impacted as consumer spending, business investment and private-sector inventories all deteriorated.

Japanese industrial production dropped by -15.3% in March when compared with February as a direct result of the disasters. This was the largest month-to-month decline since records began in 1953. Also, consumer spending contracted by -8.5% in March. In addition, Japanese exports declined in April and May compared with the same time period last year.
The Japanese economy officially slipped into a recession in the first quarter of this year. Japan's GDP fell -0.9% in the first quarter or at an annualized rate of -3.5% the second consecutive quarterly drop in economic output. Capital investment declined by -1.3% in the first quarter while consumer spending dropped by -0.6%. This weakness has policymakers very concerned about potential remedies.

The overall negative impacts from the March disasters will mostly be felt in the second quarter GDP figures. As a result, the expectations for the Japanese economy are even worse than the first quarter results. Consumer spending and business investment figures are projected to decline before beginning to show some signs of recovery in the second half of this year and into 2012. The reconstruction process should act as an economic stimulus by the end of the year and into 2012, which should lead to economic growth next year.

Many key obstacles lie ahead for Japan. The economy faced big question marks related to its public indebtedness, deflation and a rising currency even before the disasters struck. Japan faces a very unstable political situation in the coming months as current Prime Minister Kan has promised to step down in the coming months. The government still needs to determine how they want to finance additional spending plans to fund the reconstruction efforts. The pace of recovery at the end of the year will be dependent upon reconstruction efforts along with a rebound in exports on the one hand and on consumer spending and business investment on the other. The Japanese economy is projected to contract this year by at least -0.7% and then grow by +2.5% to +3.0% in 2012.

***India*:** India (Asia's third largest economy) continued to lead the global recovery over the past six months and along with China will lead the world economy once again in the second half of 2011 and in 2012. The Indian economy was the second best performer in the first half of 2011 (among the largest economies), with domestic demand and manufacturing leading



Source: IMF World Economic Outlook Update, June 2011

the way. India's GDP expanded by +7.8% in the first quarter of 2011 from a year earlier. Industrial production growth has been strong in the first half of the year along with personal consumption, government spending, and exports. Output at factories increased by +8.8% in March and +6.3% in April. Meanwhile, exports continued to perform exceptionally well as they climbed by nearly +60% in May compared to a year earlier.

Stubbornly high inflation continues to plague India. Inflation was measured at over 9% in May. As a result, the Reserve Bank of India (RBI), the central bank, continued to tighten monetary policy in the first half of 2011. In fact, the RBI has raised rates ten times in fifteen months. Going forward, the RBI is expected to continue raising interest rates, as inflation continues to remain the top concern. India's economy faces the worst inflation rate of any emerging economy.

The summer monsoon season has arrived and this will heavily impact agricultural output. The agricultural industry makes up about 18% of GDP and roughly 60% of employment. The last two monsoon seasons produced a drought in 2009 and floods in 2010. The hope for this year is to return to some sense of normalcy in order to alleviate some of the pressure on food prices. The Indian economy is forecasted to grow by +8.2% in 2011 and +7.8% in 2012. Domestic consumption should be a key growth driver in the second half of 2011 as well as spending on public infrastructure. Exports and foreign direct investment will strengthen, and agriculture should improve.

There are some key downside risks. Another disappointing monsoon season and efforts to curtail high budget deficits could lead to lower-than-expected growth rates. Continued inflationary risks (food prices are the main concern) should lead the Reserve Bank of India to raise interest rates further in the second half of 2011. Overall, Indian economic growth has slowed down in recent months–the economy experienced the slowest growth in five quarters in Q1 2011. The Indian currency, the rupee, should gain strength due to the rise in interest rates, stronger economic growth and an influx of capital inflows.

South Korea (LACD's #3 Trading Partner): Asia's fourth largest economy has been another strong performer among the Asian economies over the past six months. The nation has been one of the leaders of the global recovery and a main beneficiary of China's performance. The South Korean economy has performed well over the first half of 2011. South Korea's GDP in the first quarter of 2011 expanded by +4.2%, with exports continuing their strong performance. Exports, which represent about 50% of total economic output, rose by nearly 24% in May compared to a year earlier. The key has been the consistent strength of demand from Korea's Asian neighbors. In particular, demand from China, which takes 25% 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 have begun to face a more difficult environment as external demand from China, the U.S., Europe, and Japan decelerates.

The second half of 2011 should see growth continue, albeit at a slower pace as both consumption and industrial production cool down. Unlike other parts of Asia, consumer spending has performed below the long-term average in recent months due mainly to household debt. South Korea has one of the highest ratios of debt to disposable income in the world, which has become a major concern to policymakers and a detriment to growth. Also, the manufacturing sector has weakened over the past few months. However, the strong recovery in the Asian economies bodes well for South Korean exports in the second half of this year, and this will be enough to propel solid economic growth. The Bank of Korea (BOK) has tightened monetary policy three times so far this year (following the lead of Thailand, India, and Taiwan) as inflation remains a big concern. Expectations are for the BOK to continue to raise interest rates over the second half of this year. The South Korean economy is projected to grow by +4.5% in 2011 and +4.0% in 2012.

Taiwan (LACD's #4 Trading Partner)**:** Taiwan's economy relies very heavily on trade, as merchandise exports equal nearly 66% of total GDP. As a result, any economic expansion is contingent upon growth in exports. The key to the growth in exports has been the strong demand from the ASEAN economies. During the three month period of March-May, the largest percentage of export orders came from members of ASEAN and not from China (including Hong Kong), which normally demands over 40% of total exports. Nearly 80% of all Taiwanese exports go to Asia. In addition, investment and personal consumption also added to the strong economic performance in Taiwan over the first half of 2011. Taiwan's GDP in the first quarter of 2011 expanded by +6.4%.

The strong economic performance in Taiwan is expected to continue for the remainder of 2011, as exports and domestic consumption lead the way. Exports will grow albeit at a slower pace than in the first half, because demand from Taiwan's two most important markets (China and the U.S) should slow down. On the positive side, the stabilization of domestic consumption and overall household wealth bode well over the short term. Another factor that will positively contribute to economic growth in Taiwan is sustained growth in fixed capital investment stemming from the upswing in merchandise exports. Taiwan and China's breakthrough trade deal known as the Economic Cooperation Framework Agreement (ECFA) will also boost trade between the two nations going forward.

The outlook calls for Taiwanese GDP to expand by +5.0% to +5.5% in 2011 and +4.0% to +4.5% in 2012. Economic growth could be even stronger if the Chinese economy makes significant progress on inflation and does not lose too much steam in the coming months.

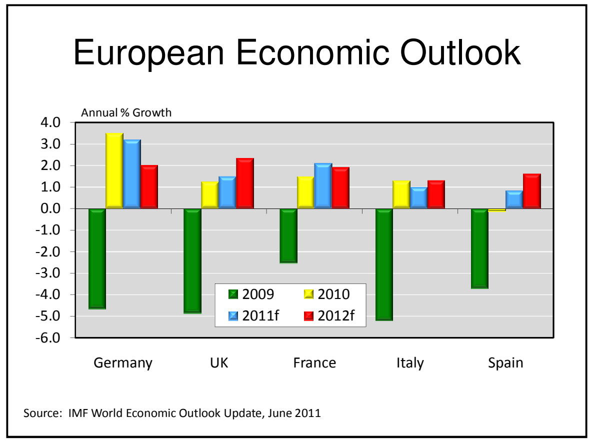
Thailand (LACD's #5 Trading Partner)**:** Thailand's economy has continued to experience solid growth over the first six months of 2011. Ever since political unrest in the first half of 2010, the Thai economy has proven to be resilient, as exports have led the way. Exports account for roughly 70% of Thai GDP and performed exceptionally well over the first five months of 2011, growing by over

+25%. As a result, Thailand's GDP expanded by +3.0% in the first quarter of 2011.

Exports are one key to growth in the Thai economy for the rest of 2011 and in 2012. Growth in personal consumption will be another key determinant. How well Thailand can attract foreign direct investment is another. Naturally, the global economy, particularly the Asian economies, will go a long way in determining how strong exports will be over the next year. Export growth will ultimately boost manufacturing production, employment and investment.

In addition, political stability (political elections were just held on July 3) during the second half of 2011 and in 2012 will be absolutely critical in order for Thailand to regain consumer confidence and tourism dollars. The new government led by the Pheu Thai's party leader Yingluck Shinawatra (the sister of exiled former leader Thaksin Shinawatra) has promised to boost economic growth by implementing policies would add to inflationary pressures. The stability of the new five-party coalition will go a long way in determining Thailand's economic performance in the second half of 2011 and in 2012.

Oil prices are another key factor, as the country is Asia's largest net importer of petroleum relative to GDP. The good news is that oil prices reached their peak in April and have declined ever since. However, headline inflation is becoming a larger problem as food, wages, and input costs have all risen. As a result, the Bank of Thailand has increased interest rates four times so far this year and is expected to tighten monetary policy again if needed in the coming months. Thailand's GDP is projected to increase by +4.0% to +5.0% in 2011 and +5.0% in 2012, depending upon the political situation, external demand from Asia, and strength of consumer demand.



Europe

Overview: The sovereign debt crisis remains the number one concern over the remainder of 2011 and into 2012 for the euro zone economies, along with the effects of austerity measures on economic growth. As a result, the overall economic recovery in Europe will be anemic in 2011 and in 2012. In May, Portugal became the third nation to be bailed out by the European Union and the IMF. Also, most recently, Greece received a second bailout as the Papandreou government managed to stay in power and pass additional austerity measures. Unfortunately, the economic situation in Greece has worsened over the past thirteen months. The recession has deepened, unemployment has increased, and tax revenues have fallen, which has only further deteriorated the fiscal crisis. The news for Portugal just worsened as its debt was downgraded to junk status (which means that its borrowing costs will increase) by Moody's as it is not expected to meet its fiscal targets.

The Euro managed to do well vis-à-vis the U.S. Dollar over the first five months of 2011 and then began to weaken as the situations in Portugal and Greece deteriorated. The peripheral economies have really suffered from an economic output standpoint and will continue to reap the consequences of draconian cuts. The immediate future does not look favorable for most of the euro zone economies with the exception of Germany and France. In particular, the Spanish economy faces many obstacles over the second half of this year and in 2012, as it may face its own debt crisis and go the route of Greece, Ireland, and Portugal.

Germany (#4 source of FDI in LA County)**:** The German economy started out 2011 strongly and has tapered off a bit in recent months. Germany's GDP grew by +5.2% in the first quarter of 2011 when compared to a year earlier, with exports and capital investment as the main contributors. Similar to the Japanese economy, the German economy is heavily reliant on exports, albeit different types of products. German exports have actually been able to overcome a relatively strong Euro so far this year, particularly in the first quarter. In fact, exports rose by over 7% in March to end the first quarter on a high note. However, in April exports dropped back when compared to March. Among the reasons for that decline was a supply chain shortage due to the Japanese disasters. The slowdown in exports was also the result of a decline in demand from Germany's three major export markets, which include the euro zone, China, and the U.S.

New export orders and overall industrial production are continuing to subside and expectations are for this to be the case over the rest of 2011. Demand from other key emerging markets such as Brazil and Turkey will go a long way in determining overall export strength for the rest of 2011 and into 2012. In addition, the euro will play a substantial role in determining what exports will do. Ultimately, the severity of the euro zone debt crisis will impact the performance of the euro.

The key to the strength of the German recovery will undoubtedly be the strength of its world trade volumes in 2011 and 2012. Another key factor will be how strong a comeback the labor market can make, in order to revive private consumption. This will be necessary to offset the coming decline in public expenditures. In fact, the latest indications demonstrate that Germany's labor market continues to persevere as unemployment declined for a 24th straight month in June. Germany's economy should also be aided by low interest rates. The German economy is forecasted to expand by +3.0% to +3.5% this year depending upon global demand, private consumption, and what transpires with the euro zone debt crisis.

France (#3 source of FDI in LA County)**:** The French economy witnessed a relatively strong performance in the first quarter of 2011. In fact, growth surpassed a level not seen in almost five years. France's GDP grew by +2.2% in the first quarter on a year-to-year basis. The euro zone's second largest economy was led by investment and manufacturing. Manufacturing production actually experienced its strongest growth in thirty years over the first three months of the year. In addition, consumer spending contributed to the first quarter growth. However, the rise in the Euro over the first part of the year negatively impacted French exports, as they were more price sensitive than some of the other major European exporters.

The good news is that the French economy has now grown for seven straight quarters. The key driver of the French economy is personal consumption and the hope is that it can be begun to be implemented, which will hamper the outlook for consumer spending in the second half of 2011 and into 2012 along with unemployment concerns. In addition, these measures will also negatively impact investment in the coming months. The prospects for exports are going to be determined by the euro and demand from other European nations, Asia, and the U.S. Inflation poses another significant risk to the economic outlook for France. The general consensus is for the French economy to decelerate in the next six months.

Ultimately, the employment situation, industrial production, and the euro will go a long way in determining how strong the French recovery will be this year. The country will have presidential and legislative elections in May 2012 and the performance of the economy along with the deficit environment will play a large role in the outcome. The French economy is projected to grow by +1.5% to +2.0% in 2011 and by +1.5% to +1.8% in 2012.

***United Kingdom (UK) (#2 source of FDI in LA County)*:** As expected, the performance of the UK economy has been much weaker than that of Germany or France over the first half of 2011. The UK economy grew by +1.8% in the first quarter of 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 in the first quarter. The draconian government spending cuts have begun to come into full force, which will only lead to a further deterioration in private and public spending. In addition, the increase in the British valued added tax (VAT) will only exacerbate the situation. Consumer spending accounts for the sustained in the second half of the year. However, government austerity measures have largest percentage of economic output in the UK and the outlook continues to look bleak for the remainder of 2011 and into 2012. Other headwinds of note that the British economy will have to contend with include 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 second half of the year. The UK economy faces an uphill battle, as it will have to overcome continuing high unemployment, lower incomes, cuts in public spending and a constrained supply of credit. Overall, the UK economy is forecasted to grow by +1.0% this year and +1.5% in 2012. However, there are significant risks, particularly due to the spending cuts and a slowing global economy that could reduce any type of recovery.

***Italy*:** The Italian economy was the worst performer of the top four European economies in the first quarter of 2011. The Italian economy grew by +1.0% in the first quarter of 2011 on a year-to-year basis. The low levels of domestic demand and private investment constrained economic growth in the first quarter and into the second quarter. They will remain a concern for the rest of the year and into 2012. The manufacturing sector has seen a slight improvement over the first half of the year, and exports have done well. In fact, exports jumped by over +16% in the first quarter and were key to the little economic growth that occurred.

Italy's fiscal house has been in great disorder for many years, and the Greek debt crisis finally pushed Italy's real fiscal situation into the limelight. As a result, the Italian government has announced fierce budget cuts in order to begin to address its fiscal problems. The latest three-year plan is structured to eliminate the government's budget deficit by 2014. The Italian economy faces a long road ahead as a rigid labor market; weak consumer spending and private investment along with a very fragile government remain big problems in the second half of the year and into 2012. The potential bright spot for the Italian economy should continue to be exports. The value of the Euro will go a long way in determining how competitive Italian goods will be in world markets. Italian competitiveness has long been a major concern.

The Italian economy will continue to recover over the rest of this year albeit at a very slow pace when compared to some of the other larger euro zone economies. The outlook is muted in 2011, as the existing weaknesses along with an unstable coalition government are likely to hamper the recovery, suggesting growth of +1.0% driven by rising exports. One of the most critical developments facing the Italian economy in the coming months and into 2012 will be what transpires this year in Italian politics as Prime Minister Silvio Berlusconi's government becomes ever more weakened by continuous scandals. The country could face the prospect of early elections as the political environment has only further deteriorated in recent weeks. Italy's economy is also projected to grow by roughly 1% in 2012.

***Spain*:** The Spanish economy has faced many difficult obstacles over the first half of 2011. The first quarter of 2011 saw Spain's economy grow by only +0.8% compared to a year earlier as exports experienced their strongest gain in almost a year. Exports have been the one bright spot for an economy on the verge of falling into a double-dip recession. Exports increased by over +11% on a year-to-year basis, the fifth consecutive yearly jump.

Consumer spending and investment remain huge problems for the country. In particular, Spain has the euro zone's highest unemployment rate at around 21% and has had the most difficulty reversing its economic decline since the 2008 financial crisis. The nation continues to suffer from weak productivity growth and a deteriorating labor market. In addition, the nation's housing industry debacle still plagues the Spanish banking industry as they have an extremely high level per capita of unsold properties. Spanish banks are still facing a long road ahead. Also, the government passed the deepest budget cuts in 30 years in order to address its own fiscal crisis.

Similar to Greece and Italy, political instability presents an obstacle for Spain. The current Zapatero government has a weak coalition that could lead to elections in the coming months. In the meantime, the government has continued to implement unpopular reforms related to retirement and other labor market costs.

Severe unemployment and the continued downturn in the housing and construction sectors have produced poor growth over recent months. Spain may still be the only major euro area nation to fall into another period of negative growth in the second half of the year and into 2012 as it faces its own sovereign debt crisis. The Spanish fiscal situation could be one of the key stories of the second half of 2011, not only for Spain and the euro zone, but for the entire global economy.

Spain's economy has significant problems and the situation is a concern for all of Europe. Most recently, the IMF expressed deep anxiety over the condition of the Spanish economy. The only positive for the Spanish economy in the second half of 2011 should remain exports, especially if the euro weakens in the face of renewed debt problems. The Spanish economy is forecasted to grow by +0.5% at best this year and expand by +1.0% to +1.5% in 2012.

The Americas

<u>Overview</u>: South America has followed Emerging Asia's direction in the global economic recovery process. Mexico was the stellar performer in the first quarter of 2011. However, Brazil was right behind them and should be the leader in the second half of the year and in 2012. Canada's economy also performed well in the first quarter of 2011 as the labor market rebounded strongly while exports have also led the way.

<u>Brazil</u>**:** The Brazilian economy experienced a strong expansion in the first quarter of 2011, growing by +4.2% when compared to a year earlier. The agricultural and industrial sectors led the way while the services sector also contributed to the growth in the economy. The largest contributors to GDP were fixed investment and consumer spending. The growth in both areas has remained consistent over the past year. Brazil's unemployment rate has fallen to its lowest level in almost ten years, which has really benefited personal consumption spending and economic growth.

The reforms put in place over the past decade have truly made a great difference for the country over the past few years as it has become a model for Latin America and other economies.

Domestic demand has remained the key economic driver over the first half of 2011. The Brazilian Real has reached record strength over the first half of the year leading to stronger purchasing power. As a result, imports have surged. In addition, industrial production and the manufacturing sector both experienced robust expansions over the past six months. The economic growth in emerging and developing Asia has helped. Brazilian exports have also performed well in recent months.

The Brazilian government began to implement capital controls over the past year as the economy has become more and more attractive to global investors. The capital controls have been necessary in order to relieve the upward pressure on the Brazilian Real.

Consumer spending accounts for 60% of Brazilian GDP, so the economy in the second half of 2011 should perform well since domestic demand has remained very strong. Still, domestic demand should slow down somewhat as tax reductions and subsidies dissipate. Also, fiscal policy has begun to take center stage as the new Brazilian government led by Brazil's first ever female president Dilma Rousseff will attempt to reduce the budget deficit. Strong capital investment (World Cup in 2014 and Olympics in 2016) along with foreign direct investment over the next few years will continue to generate significant growth in Brazil. 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 central bank has continued to raise rates in order to control inflation over the first part of the year. Inflation will remain an issue during the second half of 2011 and into 2012, particularly food prices. A strong currency will also go a long way in supporting the growth in imports and alleviating inflationary concerns. The Brazilian economy is forecasted to expand by +4.5% in 2011 and by +4% in 2012.

<u>Canada (#5 source of FDI in Los Angeles County)</u>**:** The Canadian economy expanded by +2.9% in the first quarter of 2011 compared to a year earlier. Most contributors to GDP performed well, as exports, inventories, capital investment and government spending all increased. The key to the Canadian economic performance in the first quarter was a replenishment of business inventories. Consumer spending remained stagnant over the first quarter. Record household debt has begun to take a toll on personal consumption and could lead to a decline in borrowing over the coming months. The Canadian economy will continue to rely on business investment and exports over the short term in order to make up for the lack of consumer spending.

The continued strength of exports will definitely depend upon the U.S. economic recovery in the second half of 2011 and in 2012, as 80% of Canadian exports go to the U.S. Employment figures are expected to improve in the coming months and the unemployment rate should fall below the current 7.8%.

The outlook for the rest of 2011 will mainly depend upon how well the U.S. economy performs. Still, the overall outlook for Canada is positive as capital investment and exports should remain strong. Because Canada produces many commodity products, commodity prices (particularly oil) will positively impact economic performance this year. The Canadian economy is expected to expand by +2.5% to +3.0% in 2011 and +2.5% in 2012.

<u>Mexico</u>**:** The Mexican economy witnessed stronger growth than both Brazil and Canada in the first quarter of 2011. It also has a much lower inflation rate than the other nations in Latin America including Brazil. In addition, another advantage Mexico has is that its currency has not strengthened as much as the Brazilian Real and the Chilean Peso.

Latin America's second largest economy has directly benefitted from the upturn in the U.S. economy since last year, 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.

The economic rebound over the past year would even be more impressive if it weren't for the drug war in Mexico, which has had a negative impact on economic growth. Experts estimate that drug violence subtracted at least 1 percentage point from the nation's economic growth last year. The drug war depletes multiple resources and diverts crucial expenditures from the federal and local budgets. In addition, inbound foreign direct investment would be higher in the absence of violence. Meanwhile, tourism continues to perform quite well in light of the situation. Tourism is Mexico's third largest source of dollar inflows after oil and remittances.

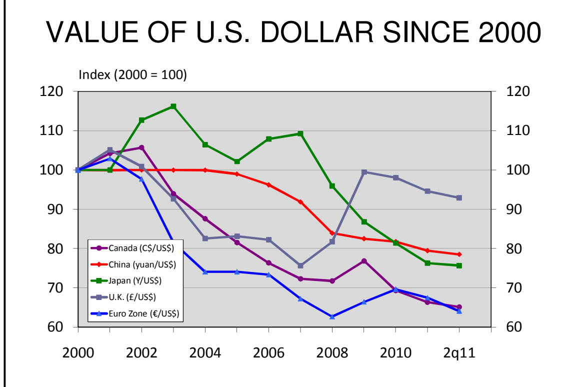
Strong oil prices this year have increased revenues for the Mexican government and should continue to provide support over the rest of the year and in 2012. Manufacturing and industrial production have slowed down in recent months, which could be related to supply disruptions from Japan. Mexico's enduring unemployment problem has improved and this should help consumer spending over the latter part of this year and into next year.

The Mexican economy is forecasted to grow by +4.5% this year and +4.0% in 2012, with improvements in exports, tourism, remittances, and oil revenues. If the U.S. economy performs better than expected, the Mexican economy will no doubt reap the benefits. On the other hand any significant slowdown in the U.S. economy would surely reduce growth. Note that a fiscal 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.

Foreign Exchange Rates

The big foreign exchange story over the first half of 2011 has been the rise of currencies in the emerging and developing economies due to an influx of capital inflows. These economies have experienced robust economic growth over the past year and high inflation due to sharp increases in commodity prices. As a result, economic policy has mainly focused on controlling inflationary pressures, which in turn has led to central banks increasing interest rates. Hence, the large expansion in foreign capital inflows and currency appreciation. The other key factor has been the downward pressure of the Federal Reserve's second round of quantitative easing (QE2) on the U.S Dollar vis-à-vis these currencies.

All of these conditions have been particularly evident in Brazil as the Brazilian Real reached a twelve-year high vis-à-vis the U.S. Dollar this year. Foreign capital has been flowing into Brazil at rapid rates due to high interest rates and a rise in commodity prices. In addition, capital raisings, foreign direct investment, and a large increase in investments related to the upcoming World Cup in 2014 and the Olympics in 2016 have all increased inflows during the first half of this year.



Source: Federal Reserve Board G5

Other key developments in foreign exchange markets have included the continued appreciation of the Chinese Renminbi/Yuan, the implementation of the Federal Reserve's second round of quantitative easing and the waxing and waning of the European debt crisis (most recently with the resurfacing of the Greek debt crisis). All three of these issues have impacted the global economy and currency markets over the first six months of 2011.

For the most part, during the first half of this year, global investors become less risk averse as the global economy continued its recovery process. As a result, the U.S. Dollar depreciated vis-à-vis other key currencies. In particular, the U.S. Dollar lost value versus the emerging market currencies that were leading the global recovery. Also, with interest rates so low, the U.S. Dollar continued to be used as a carry-trade-funding currency. [Investors borrowed in U.S. Dollars and then bought higher yielding assets in other currencies, adding to the weakness of the U.S. Dollar.]

However, there have been periods where the U.S. Dollar strengthened due to investors seeking a safe haven as the global economy stumbled or faced some alarming issues. For example, the Arab uprisings in North Africa and the Middle East caused some instability in oil and financial markets that led to a temporary shift towards U.S. Dollar demand. Also, in May and again in June, the euro zone debt crisis escalated causing downward pressure on the euro.

The other significant development so far this year was related to emerging economies (South Korea, Brazil, Indonesia and Taiwan) implementing further capital controls to subdue the amount of capital flowing into their economies. These export-led economies were fearful that their currencies would appreciate too rapidly, causing their exports to become more expensive. Other emerging market nations are expected to introduce capital controls in the coming months for similar reasons.

Over the first half of this year, the U.S. Dollar depreciated vis-à-vis the Euro, Japanese Yen, Chinese Renminbi/Yuan, Korean Won, Taiwanese Dollar, Canadian Dollar, Mexican Peso, and British Pound. Amongst our top five trading partners, the U.S. Dollar has only appreciated vis-à-vis the Thai Baht so far this year.

The U.S. Dollar has weakened versus the Euro as the Euro Zone debt crisis seemed to be under control until recently. In addition, the Fed's QE2 program continued to put downward pressure on the U.S. Dollar. However, if the European debt situation worsens in the second half of the year, the U.S. Dollar will likely gain strength. Likewise, the U.S. Dollar could strengthen if the crisis in the Middle East worsens or if the Japanese economy does not recover strongly as the reconstruction process begins. In both cases, investors would seek a safe haven once again in world financial markets. Finally, the Fed's QE2 program ended on June 30, which could reverse some of the downward pressure on the greenback in the second half of the year and into 2012. On the other hand, the U.S. Dollar would feel downward pressure if the emerging markets continue to grow strongly. The immediate outlook calls for the emerging economies to slow down over the second half of the year, which should lead to a deceleration in these currencies strengthening.

Los Angeles Customs District's Top Five Trading Partners

Chinese Renminbi/Yuan: The Yuan remained pegged at or very near 6.85 Renminbi/Yuan per U.S. Dollar during the first half of 2010. However, as the year progressed, the government became more concerned about inflation, the economy overheating, and the need to create more domestic demand to address global imbalances. As a result, the Chinese central bank has again allowed the currency to fluctuate.

From June to December 2010, the Renminbi/Yuan appreciated (strengthened) by +3.5% vis-à-vis the U.S. Dollar moving to near

6.60 Renminbi/Yuan per U.S. Dollar. Meanwhile, over the first half of 2011 the Renminbi Yuan has appreciated by +1.5% versus the U.S. Dollar. The expectations are for the Renminbi/Yuan to continue to strengthen in the second half of 2011, though perhaps at a slower pace as profit margins become a very big concern for Chinese manufacturers.

Japanese Yen: The Yen reached a 15-year high in September 2010, which led the Japanese government to devalue the Yen for the first time since 2004. Overall, the Yen appreciated vis-à-vis the U.S. Dollar by nearly +12% in 2010. The Yen started 2011 by weakening vis-à-vis the U.S. Dollar as it moved from 81.38 Yen per U.S. Dollar to 82.88 on March 11. After the horrific disasters struck the island nation, the Japanese Yen surged, moving to 76.25 Yen per U.S. Dollar in the following days. As a result, the G-7 nations decided to intervene in order to prevent the Yen from gaining any additional strength, which would negatively impact Japanese exports and any hope for economic recovery. This decisive move on the part of the international community led to the welcomed weakening of the Yen, which moved above 85 Yen per U.S. Dollar by April 7. However, as of the end of June the Yen has appreciated vis-à-vis the U.S. Dollar moving to nearly 81 Yen per U.S. Dollar. Overall, since the beginning of the year the Yen has slightly appreciated by almost +1%.

South Korean Won: Similar to the Yen, the Won strengthened in 2010, as the economy grew strongly and capital moved into South Korea. Overall, the Won appreciated by nearly +4% versus the U.S. dollar in 2010. As expected, the South Korean Won has continued to strengthen over the first half of 2011 against the U.S. Dollar, as the South Korean economy continued to grow and attract capital. The Won is expected to appreciate further in the second half of 2011.

Taiwanese Dollar: In 2010, the Taiwanese Dollar gained over +9% versus the U.S. Dollar. The Taiwanese Dollar started the year by weakening slightly versus the U.S. Dollar as it moved from 29.18 Taiwanese Dollars per U.S. Dollar to 29.47. However, since then the Taiwanese Dollar has regained strength and has actually appreciated by just over 1% since the beginning of the year.

Thai Baht: The Thai Baht strengthened by over 10% vis-à-vis the U.S. Dollar in 2010 even with the political turmoil of April and May moving to 30 Thai Baht per U.S. Dollar. However, so far this year the Thai Baht has weakened by -2.5% vis-à-vis the U.S. Dollar moving to nearly 31 Baht per U.S. Dollar. This should bode well for Thai exports to the U.S. and the Thai economy. However, the recent election results have strengthened the Baht, and this could continue in the short term as long as the new government remains stable.

OTHER KEY CURRENCIES

Canadian Dollar: The Canadian Dollar took the same course as most other major currencies did in the first half of 2011. The year began with the Canadian Dollar gaining strength versus the U.S. Dollar and then the Canadian Dollar gave back some of its gains by June. Overall, the Canadian Dollar has appreciated by +1% vis-à-vis the U.S. Dollar over the first six months of this year. The short term outlook is for the Canadian Dollar to remain slightly stronger than the U.S. Dollar.

Mexican Peso: Over the past year, the Peso has 2010, the Mexican Peso strengthened by over +5% vis-à-vis the U.S. Dollar. The Peso also performed well in the first half of 2011. The Mexican Peso has appreciated by another +4% in the first six months of this year. The short term outlook is for the currency to gain strength as the economy outperforms its neighbors.

Euro: The European debt crisis triggered by the Greek fiscal situation led to a dramatic decline in the Euro in May 2010. The Euro actually deteriorated by over -17% versus the U.S. Dollar from the beginning of 2010 until the Greek crisis struck in May 2010. Over the second half of the year, the Euro stabilized as many Euro zone countries made significant moves towards fiscal austerity while the European Central Bank and IMF implemented measures to revive confidence in the currency. The Euro ended 2010 down by -8% versus the U.S. Dollar. The Euro continued to perform well over the first half of this year as countries continued to implement fiscal reforms. However, the performed very well versus the U.S. Dollar. In situation in Greece deteriorated again in June leading to a slight drop in the value of the Euro. Then, the Euro bounced back as the Greek debt crisis stabilized after the government passed some crucial votes. Overall, the Euro has appreciated vis-à-vis the U.S. Dollar by +7% this year. The short-to-medium-term outlook for the Euro is to weaken as some European economies face anemic growth.

British Pound: The Pound has witnessed a similar trajectory. The British coalition government led by David Cameron announced its own draconian cuts last summer as it tried to put its fiscal house in order. The announcement helped the Pound reverse its downward spiral versus the U.S. Dollar, ending 2010 with a -4.3% depreciation. However, this year the Pound similar to the Euro has strengthened versus the U.S. Dollar, appreciating by +3%. The outlook is most likely for the British Pound to weaken. The economy will at best experience very sluggish growth as the austerity measures begin to take full effect.

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

Country (Currency)*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1H2011
Broad Currency Basket (index)	119.45	125.93	126.66	119.09	113.63	110.71	108.52	103.40	99.83	105.87	101.97	96.77
Canada (US$/C$)	1.486	1.549	1.570	1.401	1.302	1.212	1.134	1.073	1.066	1.141	1.030	0.977
China (US$/yuan)	8.28	8.28	8.28	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77	6.54
Euro Zone (US$/€)**	0.923	0.895	0.945	1.132	1.244	1.245	1.256	1.371	1.473	1.393	1.326	1.404
Japan (US$/¥)	107.8	121.6	125.2	115.9	108.2	110.1	116.3	117.8	103.7	93.7	87.8	81.9
Mexico (US$/peso)	9.46	9.34	9.66	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62	11.89
South Korea (US$/₩)	1131	1292	1250	1192	1145	1024	954	929	1099	1275	1156	1101
United Kingdom (US$/£)**	1.516	1.440	1.503	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545	1.617

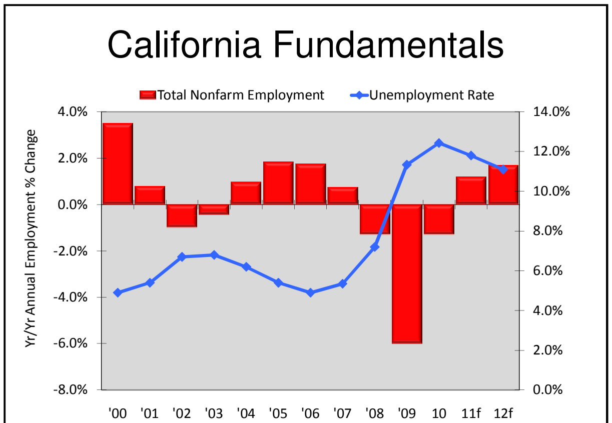
Percent Change***	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1H2011
Broad currency basket (index)	6.3%	5.4%	0.6%	-6.0%	-4.6%	-2.6%	-2.0%	-4.7%	-3.5%	6.1%	-3.7%	-5.1%
Canada (C$)	3.7%	4.3%	1.4%	-10.8%	-7.1%	-6.9%	-6.4%	-5.3%	-0.7%	7.0%	-9.7%	-5.1%
China (yuan)	0.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%	-3.4%
Euro Zone (€)	6.8%	3.0%	-5.6%	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%	-5.9%
Japan (¥)	10.7%	12.8%	3.0%	-7.4%	-6.7%	1.8%	5.6%	1.2%	-11.9%	-9.6%	-6.3%	-6.7%
Mexico (peso)	1.4%	-1.3%	3.5%	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.2%	-6.5%	-5.8%
South Korea (₩)	10.3%	14.2%	-3.2%	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.4%	-4.7%
United Kingdom (£)	7.4%	5.0%	-4.4%	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%	-4.6%

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

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

California economic performance was mixed in early 2011, with most industry sectors growing while a few continued in the doldrums. Retail sales continued to recover some of the losses incurred in 2008-2009, while tourism was up across the board. Residential construction took a turn for the worse, while nonresidential construction activity began to show signs of life. Public works and infrastructure activity was spotty at best. Some types of state and local government tax revenues turned up in line with renewed growth in incomes and sales. However, property values continued to fall. Government spending plans—and public sector jobs—remain at considerable risk.



Source: EDD Labor Market Information Division; forecast by LAEDC

At mid 2011, California's economy appears to be on the rise. Employment has stabilized and begun to grow again in most industries. Just a few are still shedding workers. However, unemployment is still extremely high. Still, the economic news in California should get better as we move through the rest of 2011 and 2012.

What worries us?

The state budget for fiscal year 2011-2012 (which ends June 30, 2012) was enacted by the legislature and signed into law by the Governor on schedule. General Fund revenues are expected to decrease by -$2.5 billion during the budget year, primarily due to the expiration of the temporary 1% rate increase in the sales & use tax enacted several years ago.

Meanwhile, General Fund expenditures will be cut by -$5.5 billion compared with fiscal year 2010-2011 to reflect the coming reduction in resources. The biggest spending cuts will be made in health & human services, followed by K-12 education and higher education.

This year's budget contains fewer optimistic assumptions and one-time fixes than in previous years. However, a large overhang of debts incurred to finance deficits in previous years—estimated at $35 billion—remains to be resolved. We agree with the Governor's statement: "We are not yet done."

Water is another worry despite heavy rains this past winter and ample supplies of water in the state's reservoirs. California's water supply remains at risk. Environmental rulings have the potential to place not only the state's premier agriculture industry but also urban areas that rely on water traversing the Sacramento-Bay Delta.

A Moderate Economic Recovery

California's economy *is* starting to recover from the steep 2008-2009 recession, but it's a "stealth recovery." Certainly, the state's labor market statistics haven't shown much improvement.

Nonfarm employment will grow by +1.2% in California during 2011 and +1.7% in 2012, a two-year increase of +313,600 jobs after losing nearly -1,100,000 jobs between 2007 and 2010.

Just as distressing, the state's unemployment rate continues high and may not drop below 11% for another year. Why the disconnect? Badly burned during the recession, many business firms are reluctant to hire until they are certain that better times will be long-lasting.

Positive Forces Through 2012

High technology: The state's high tech sector is booming. Jobs are growing again in Silicon Valley and elsewhere, and equity capital is flowing into the industry once more.

International Trade: Activity at the state's ports increased at double digit rates in 2010 and early 2011. Growth will continue through the rest of 2011 and 2012, though at a more moderate pace. It's not just a story of growing imports from Asia. Exports of California-made high tech equipment and California-grown agricultural products are also on the rise. Port workers, truckers, railroads and distribution companies all are beneficiaries.

Tourism: The tourism indicators for California are improving and expected to gain strength throughout the forecast period.

Entertainment: Activity in this industry turned up in late 2009 and has continued to grow. Further improvement is expected despite competition from other locations.

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

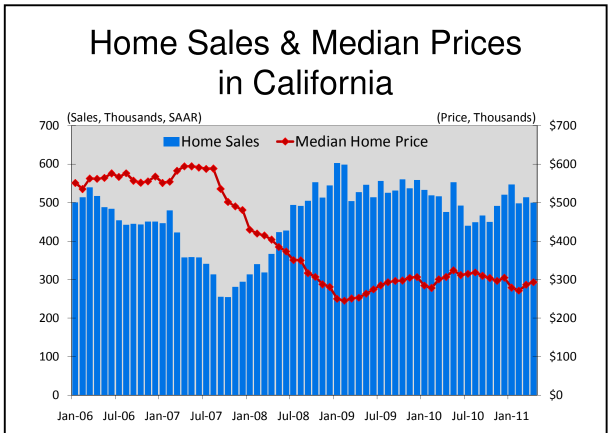
Private education: This industry runs the gamut from private universities to private K-12 schools to technical and career training schools. Demand is driven by the need for more education, training and re-training to make headway in today's rapidly changing economy.

Retail: Spending by consumers turned up in 2010 after dropping sharply in 2009. Taxable retail sales grew by an estimated +6.1% in 2010. More increases are expected in 2011 and 2012.

Some Negative Forces Remain. . .

Automotive: This is expected to be a temporary problem, and is associated with the disasters in Japan, which hit just as the state's automotive dealers were beginning to experience better sales. The key fact is that Japanese nameplates had a 50% share of the California retail market early in 2011. However, manufacturing sector disruptions in Japan have reduced the U.S. supply of vehicles made in Japan, though models made in North America are less affected. Given the automakers' current plans, supplies—and California dealers' sales—should turn up again in the fall. [Note: this problem also could cause sales tax revenues to fall below expectations for the next few months.]

Housing and related activity: Though activity picked up in the first half of 2010, new home construction relapsed after federal tax credits expired and weakness has continued, at least in the single-family detached sector. The market for existing homes tells a similar tale: median prices have fallen, and unit sales are lagging. The timing and strength of any upturn in housing is largely uncertain. The main risk continues be a large round of foreclosures that comes onto the market in a short period of time.



Source: California Real Estate Research Council; DataQuick

Environmental regulations: The recession and its lingering after effects have filled the headlines. Less noticed are efforts to "green" the state and its ports, as well as the coming implementation of AB 32 (the greenhouse gas legislation). A large number of new requirements for California businesses are in the regulatory hoppers. Final AB 32 rules are due before 2012, though implementation may be delayed by lawsuits. At minimum, this process raises uncertainty in today's adverse business climate. California residents and many businesses will face higher energy costs in the not-so-distant future. Paying for the required investments in new vehicles, equipment and buildings also could be an issue.

Demographic Trends

The California economy does have one big thing going for it: a large and growing population. The state's populace numbered 37.37 million persons as of July 1, 2010. That total is expected to swell by about 250,000 persons annually. By mid 2012, the state will have 37.87 million residents.

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

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

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

Trends in Major Industries

Agriculture: All in all, 2010 was a better year for many of California's farms. Revenues were boosted by higher prices and increased exports of California-grown products. However, increased costs remained a concern, especially fuel, energy and feed.

The situation looks even better at mid 2011. Some product prices are rising, and water supplies have increased, for the moment at least. Many farmers across the state have increased plantings to take advantage of the favorable growing conditions.

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

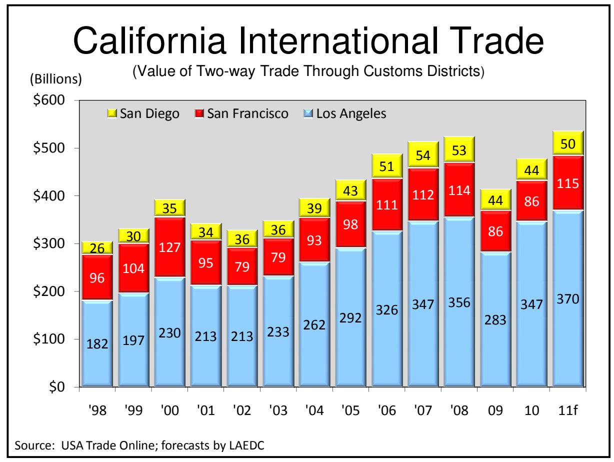
Total gross farm receipts in California rose by +8.1% in 2010, primarily due to rising prices of dairy products and livestock. Gross farm receipts were up by +11.6% in the first 4 months of 2011, partly due to higher prices for dairy and other products.

Exports of California-grown and -bottled products increased by +17.2% during the first 4 months of 2011 after rising by +19.1% in 2010.

During 2010, an average 381,600 workers were employed by California's farms and nurseries, up by +2.6% from the same period in 2009. Agricultural employment is unlikely to change much in 2011, and might even grow a bit if the harvest is bountiful.

Assuming the weather cooperates and court mandated water restrictions are not too severe (both rather large assumptions), 2011 should be a better year for California's farmers than 2010. However, feed and fuel costs are higher, cutting into profitability.

International trade: Imports and exports through California's three customs districts surged by +21.6% in 2010 after plunging by -21.0% in 2009. Exports and imports both increased sharply, reflecting the brisk economic recovery occurring in key Asian markets and the need to refill



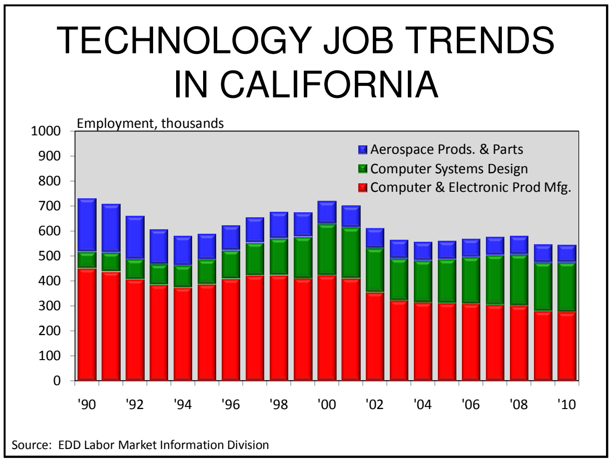
inventory pipelines in the U.S. The growth trend continued into 2011.

During the first 4 months of 2011, the total value of two-way trade through the state's customs districts jumped again, this time by +11.6% compared with early 2010. Export traffic increased by +16.6%, while imports grew by +9.0%.

Two-way trade flows are expected to slow further during the rest of 2011. Exports through California's ports should continue to grow strongly, boosted by healthy demand from the fast-growing Asian nations outside of Japan.

However, imports will be more constrained—initially by Japan's inability to export after the March 11, 2011 disasters. Later, after Japan's U.S. supply pipelines have been refilled, import demand will decelerate to a pace more in keeping with a moderately growing economy.

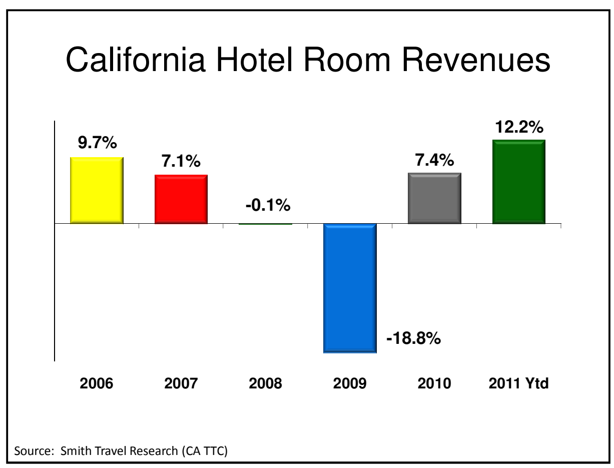
Technology (including aerospace): The various components of California's tech sector have somewhat disparate outlooks. Business demand for technology products strengthened during 2010, and seems likely to continue rising at a healthy pace in 2011. Sales of consumer technology products did even better in 2010, as purchases of tech products like computers, e-readers and cell phones, mushroomed. There's always demand for well-designed personal gadgets like iPods, iPads and smart cell phones. California's high tech manufacturers—especially makers of semiconductors and other electronic components—have benefited from the strong upturn in sales and raised employment levels in early 2011.



In the defense aerospace sector, a number of major government-sponsored defense projects are underway in California, including satellites and unmanned aerial vehicles. Significant sub-contracting also takes place on Air Force fighter planes. The administration has proposed key defense cutbacks that could hurt the state, on net, beginning in 2012. Also, the Defense Department is changing its defense posture to emphasize flexibility and the ability to respond swiftly to new situations. The new defense strategy will be implemented beginning in 2012. It's unclear how the state will make out.

Commercial aerospace presents a more optimistic picture. After shrinking deliveries in 2010, Airbus and Boeing are now adjusting production schedules upward to accommodate their suddenly busier airline customers. However, delays in bringing new aircraft to the market (Boeing's 787 Dreamliner in particular) are a nagging issue. Boeing expects 787 deliveries to begin later in 2011 (originally scheduled for 2008). Both manufacturers have hefty backlogs and are beginning to ramp up production rates of more popular models. California's commercial aerospace sub-contractors are expecting new orders.

Tourism: 2010 was an encouraging year for California's tourism industry and 2011 is following a similar path. According to Smith Travel Research, the state's hotels reported higher occupancy rates last year (averaging +6.1%) along with roughly even room rates. This combination caused total hotel room revenues to grow by a welcome +7.4%. Progress has accelerated this year. Through May 2011, the statewide occupancy rate increased by +6.1%, while average room rates rose by +5.4% producing an increase of +12.2% in total room revenues. This string of gains has retrieved a good share of the losses of 2008-2009.



All major markets are reporting higher room revenues in 2011, except for a few smaller cities in outlying, "drive-to" locations. Room rates are headed up this year as well as occupancy rates.

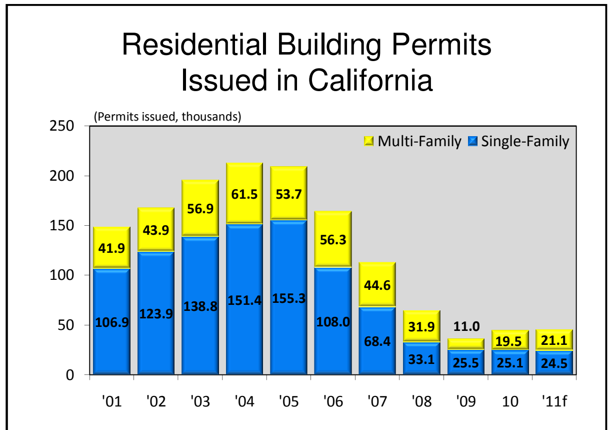
San Francisco/San Mateo recorded a +20.4% jump in room revenues, while San Jose/Santa Cruz recorded a +15.1% increase. Two smaller markets, Bakersfield and Napa Valley, recorded revenue growth of +14.7% and +14.3% respectively. Los Angeles ranked #5, with +14.1% growth in annual room revenues, followed by Oakland, at +13.0%. Both areas saw higher occupancies at higher rates. Increases in room revenues at other major locations were smaller but still respectable, ranging from +8.3% in San Diego to +10.7%% in Orange County.

Going forward, tourism industry revenues should continue on the upswing in 2011, despite the temporary loss of Japanese visitors. The pace of business and leisure travel is quickening. Intra-state travel also is likely to show steady improvement. In addition, tourist industry operators will continue to increase fares and room rates wherever possible.

Construction: And then there is the state's troubled construction industry. New home construction activity hit bottom in 2009, when only 36,421 units were permitted. Activity increased by +22.9% in 2010, to 44,762 permits issued. Still, 2010 was down by a huge -79% from the 2004 peak year (when 212,960 units were permitted). Nonresidential construction also was depressed, with the value of new permits in 2010 reaching $11.2 billion, up by just +2.1% from 2009's rock-bottom low of $10.97 billion.

Residential permits are expected to grow by only +2.8% in 2011. Much of the increase will come in the multi-family sector, as external financing for new condominiums and apartment projects has loosened up faster than single-family mortgage lending. Nonresidential construction activity is projected to grow by +5.4% in 2011.

What about public works? Partly reflecting the impact of federal stimulus spending, publicly funded construction activity increased by +9.7% in 2010. However the value of publicly funded projects will break even at best in 2011. Federal stimulus funding is on the wane—though significant support for alternative energy projects continues—and another round of budget cutbacks will cause local governments and school districts to prune spending.



Source: Construction Industry Research Board; forecast by LAEDC

Trends Around the State

While California has emerged from the recession, the pace has not been uniform. As of May 2011, nonfarm employment was growing in four of the state's thirteen large metropolitan areas compared with May 2010 (though this particular comparison was distorted by the presence of large numbers of federal Census workers last year).

Still, thus far in 2011 three metro areas have consistently grown new jobs at a faster rate than the rest of the state. High tech firms in the San Jose area are rapidly adding new employees as their business improves. Firms in San Diego and Orange counties also are taking on new workers, especially in professional services, tourism and health services.

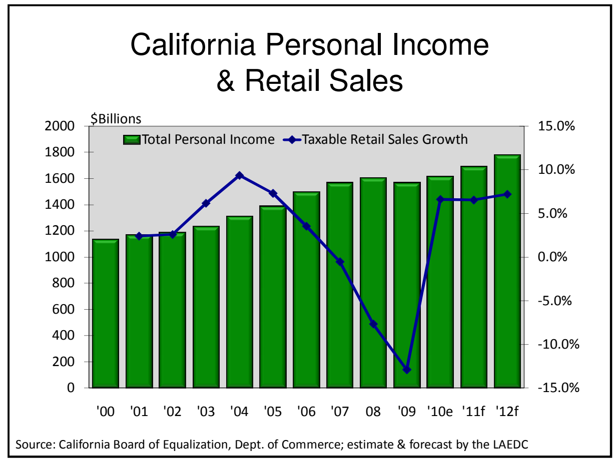
Areas lagging in the employment rankings are all suffering from hangovers after the crash in construction and real estate. These include Sacramento and Stockton MSAs in the Central Valley, Riverside-San Bernardino in Southern California, and the Oakland-Contra Costa area in the East Bay.

Other metro areas are performing in between the two extremes. The industry picture is mixed for most, with some local industries doing well, while others lag behind.

Net Results

Job gains will spread—to more industries and to more areas—as California firms gain more confidence that the business recovery is for real and sustainable. The largest gains this year are expected to occur in leisure & hospitality (+50,000 jobs), administrative & support services (+45,700 jobs), and professional, scientific & technical services (+34,400 jobs). Government payrolls will shrink by -37,100 jobs. Just three industry sectors will lose employees in 2011: finance and insurance (-1,900 jobs), management of enterprises (-1,000 jobs) and real estate (-900 jobs).

The state's unemployment rate will remain in double-digit territory through 2011 and 2012, averaging 11.8% in 2011 and 11.1% in 2012.



Total personal income grew by +3.0% in 2010 to $1.615 billion, following a rare decline of -2.3% in 2009. Personal income will increase by +4.7% in 2011 and by +5.3% in 2012.

California's retailers saw some recovery in 2010, as taxable retail sales grew by +6.1% after a -12.9% plunge the previous year. Taxable retail sales will register gains of +7.5% and +6.3% in 2011 and 2012.

Bottom Line

The near-term outlook for the California economy is definitely better, though problems still linger. Because the recession was so deep and the upturn is just beginning, 2011 doesn't *feel* especially good despite improvements in most industries. However, the state's economy *is* moving in the right direction. The economic environment should feel better by 2012.

GROSS PRODUCT[2]

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

To help keep things straight (at least based on the 2010 figures), call it the "***rule of 9…16…20***." In 2010, the state ranked 9th, the five-county area placed 16th, while Los Angeles County on its own ranked 20th (based on what can be measured) among the nations of the world.

Based on the results for 2010, California fell from 8th place to 9th place in the rankings behind Brazil and Italy. *In fact, Brazil surpassed Italy to become the seventh largest economy in the world in 2010.* Meanwhile, the ranking for the five-county area remained at 16th. Finally, the Los Angeles County ranking moved down from 19th to 20th. It is now behind the Netherlands, Turkey, Indonesia, and Switzerland and ahead of Poland and Belgium.

The 2010 results reinforce the notion that the most substantial increases in GDP came in the emerging economies. They led the global economic recovery and were the big winners (most heavily reliant upon exports) as world trade rebounded strongly in 2010.

California, the five-county area and Los Angeles County also experienced growth in 2010 albeit moderate, as consumer spending, high technology, tourism, and trade all rebounded. However, high unemployment and a weak housing market were still big problems in 2010. The state and Southern California were not able to perform nearly as well as the emerging and developing economies and lost some of their standing last year.

In nominal (not adjusted for inflation – based on market exchange rates) GDP growth terms, the overall increases in the U.S., California, Los Angeles five-county area and Los Angeles County for 2010 were not nearly as high as in the emerging and developing economies like Indonesia and Brazil *(both reached over 30% growth in nominal terms due to the appreciations of both currencies vis-à-vis the U.S. Dollar from 2009 to 2010)*. Taiwan, India, and China were the only economies that experienced double-digit economic growth 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, 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 as they led the global recovery. 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. They faced a severe debt crisis in

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

2010 and the lingering impacts of the financial crisis.

In February 2012, we will publish the new nominal and real GDP estimates for 2011. We once again expect to see the largest 2011 GDP increases amongst the Asian nations (excluding Japan) and the weakest performances in Europe. The key question will be how well the California and local economies perform in 2011.

Table 4: Gross Product Comparisons

($Billions, 2010 Figures)

Rank	Country/Economy	2010	Nominal GDP '09-'10 % Chg	Real GDP '09-'10 % Chg
1	United States	$14,657.80	3.8%	2.8%
2	China	5,878.30	17.8%	10.3%
3	Japan	5,458.90	8.5%	3.9%
4	Germany	3,315.60	-0.7%	3.5%
5	France	2,582.50	-2.8%	1.5%
6	United Kingdom	2,247.50	3.0%	1.3%
7	Brazil	2,090.30	30.6%	7.5%
8	Italy	2,055.10	-2.9%	1.3%
	California	**1,901.10**	**2.9%**	**1.8%**
9	Canada	1,574.10	17.8%	3.1%
10	India	1,538.00	21.2%	10.4%
11	Russia	1,465.10	19.9%	4.0%
12	Spain	1,410.00	-3.9%	-0.1%
13	Australia	1,235.50	25.2%	2.7%
14	Mexico	1,039.10	17.8%	5.5%
15	South Korea	1,007.10	21.0%	6.1%
	Los Angeles 5-co. area	**846.00**	**2.7%**	**1.2%**
16	Netherlands	783.30	-1.7%	1.8%
17	Turkey	741.90	20.7%	8.2%
18	Indonesia	706.70	31.2%	6.1%
19	Switzerland	523.80	6.5%	2.6%
	Los Angeles County	**508.90**	**1.8%**	**0.3%**
20	Poland	468.50	8.8%	3.8%
21	Belgium	465.70	-1.4%	2.0%
22	Sweden	455.80	12.9%	5.5%
23	Saudi Arabia	443.70	17.9%	3.7%
24	Taiwan	430.60	14.1%	10.8%
25	Norway	414.50	9.5%	0.4%

Note: Nominal GDP figures are not adjusted for inflation.

Sources: IMF World Economic Outlook; April 2011, U.S. Bureau of Economic Analysis and LAEDC estimates

TABLE 5: CALIFORNIA ECONOMIC INDICATORS

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	33,994.4	14,488.2	4.9	1,135.3	33,398	287.1	392.0	148,540	26,700
2001	34,481.8	14,602.0	5.4	1,168.7	33,894	294.0	340.7	148,757	23,455
2002	34,867.8	14,457.8	6.7	1,187.3	34,053	301.6	328.1	167,761	19,835
2003	35,236.6	14,392.8	6.8	1,233.0	34,991	320.2	348.0	195,682	18,628
2004	35,538.3	14,532.6	6.2	1,312.2	36,924	350.2	394.8	212,960	19,718
2005	35,770.7	14,801.3	5.4	1,387.7	38,793	375.8	433.8	208,972	21,469
2006	35,947.5	15,060.3	4.9	1,495.5	41,603	389.1	487.6	164,280	23,298
2007	36,185.9	15,173.5	5.2	1,566.4	43,288	387.0	512.9	113,034	23,733
2008	36,538.0	14,981.4	7.2	1,604.2	43,904	357.3	523.3	64,962	19,588
2009	36,887.6	14,084.7	11.3	1,567.0	42,480	311.2	413.3	36,421	10,970
2010	37,266.6	13,896.4	12.4	1,614.6	43,324	330.2	502.6	44,762	11,200
2011f	37,564.7	14,070.0	11.8	1,690.0	44,989	355.0	535.0	46,000	11,800
2012f	37,865.3	14,310.0	11.1	1,780.0	47,009	377.5	560.0	60,000	14,000
% 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%		5.7%	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%	4.0%	-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%	-44.0%
'10/'09	1.0%	-1.3%		3.0%	2.0%	6.1%	21.6%	22.9%	2.1%
11/'10	0.8%	1.2%		4.7%	3.8%	7.5%	6.4%	2.8%	5.4%
12/'11	0.8%	1.7%		5.3%	4.5%	6.3%	4.7%	30.4%	18.6%

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

TABLE 6: CALIFORNIA NONFARM EMPLOYMENT

Annual averages, thousands; March 2010 benchmark

	Total Nonfarm	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	14,488.2	26.5	733.4	1,852.7	1,205.9	646.8	646.2	1,563.4	518.3	576.7
2001	14,602.0	25.6	780.4	1,778.6	1,161.4	617.2	658.9	1,575.9	514.1	551.9
2002	14,457.8	23.1	774.4	1,631.8	1,047.0	584.9	652.1	1,582.2	491.0	497.3
2003	14,392.8	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
2011f	14,070.0	27.5	560.0	1,249.0	777.0	472.0	660.0	1,520.0	470.0	450.0
2012f	14,310.0	28.0	575.0	1,245.0	774.0	471.0	690.0	1,555.0	490.0	460.0

	Finance & Insurance	Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2000	538.2	262.6	930.6	294.8	997.2	229.7	1,177.4	1,335.6	487.7	2,318.1
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
2011f	510.0	247.0	1,055.0	188.0	904.0	330.0	1,500.0	1,525.0	484.5	2,390.0
2012f	512.0	248.0	1,095.0	187.0	940.0	340.0	1,515.0	1,575.0	495.0	2,360.0

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

TABLE 7: CALIFORNIA REGIONAL NONFARM EMPLOYMENT

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

		Northern California			Central California					Southern California				
Year \ MSA	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	1029.7	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	1064.5	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	1099.2	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	1160.0	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	1222.0	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	1267.7	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	1270.9	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	1223.8	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	3,769.0	1,352.9	1111.2	1,220.2	272.5

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)

	Los Angeles	Orange	Riv.-S'Bdo.	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
2011f	3,797.0	1,366.8	1,108.1	274.7	6,546.6	1,237.7	14,070.0
2012f	3,862.0	1,395.0	1,123.4	279.9	6,660.3	1,261.0	14,310.0

Numerical Change from Prior Year (in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	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
2011f	28.0	13.9	-3.1	2.2	41.0	17.5	173.6
2012f	65.0	28.2	15.3	5.2	113.7	23.3	240.0

% Change from Prior Year

	Los Angeles	Orange	Riv.-S'Bdo.	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%
2011f	0.7%	1.0%	-0.3%	0.8%	0.6%	1.4%	1.2%
2012f	1.7%	2.1%	1.4%	1.9%	1.7%	1.9%	1.7%

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				
	Total Technology Employment	Computer & 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
2000	1,027.7	421.8	90.7	38.0	48.2	32.1	206.6	95.1	95.2
2001	1,019.2	409.7	86.3	39.2	50.7	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	876.7	320.9	73.6	39.1	44.7	18.7	168.8	109.7	101.2
2004	877.1	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	950.6	304.1	72.8	44.2	43.0	20.7	199.2	159.0	107.6
2008	971.3	300.0	73.7	43.6	44.9	20.4	205.8	166.8	116.1
2009	924.2	278.6	71.3	43.5	45.0	19.3	195.5	156.1	114.9
2010	934.1	274.6	69.0	43.5	44.8	19.3	200.4	164.2	118.3

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

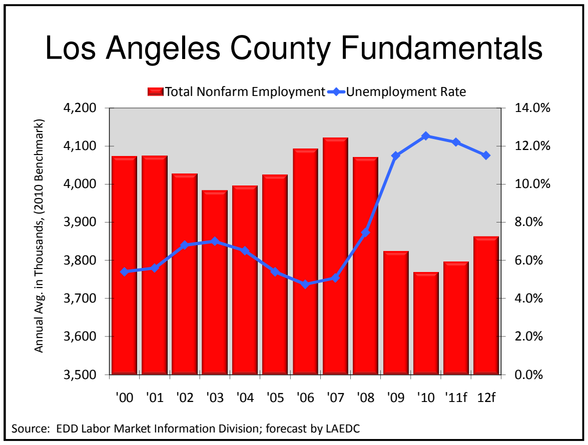
TABLE 10: POPULATION TRENDS IN CALIFORNIA & THE LOS ANGELES 5-COUNTY AREA

	Los Angeles County		Orange County		Riverside & San Bernardino		Ventura County		Total of L.A. 5-Co. Area		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1980	7,500 \		1,945 \		1,572 \		532 \		11,549 \		23,782 \	
		18.1%		24.0%		66.7%		25.8%		26.1%		25.4%
1990	8,860 /		2,412 /		2,620 /		669 /		14,561 /		29,828 /	
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	677	1.2%	14,842	1.9%	30,458	2.1%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686	1.3%	15,091	1.7%	30,987	1.7%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	694	1.2%	15,213	0.8%	31,314	1.1%
1994	9,107	0.3%	2,576	1.0%	2,920	1.2%	701	1.0%	15,304	0.6%	31,524	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.3%	705	0.6%	15,370	0.4%	31,712	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	710	0.7%	15,470	0.7%	31,963	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.7%	15,670	1.3%	32,453	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	15,862	1.2%	32,863	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	16,138	1.7%	33,419	1.7%
2000	9,542	1.6%	2,856	1.9%	3,278	2.5%	756	1.8%	16,432	1.8%	33,994	1.7%
2001	9,634	1.0%	2,891	1.2%	3,376	3.0%	765	1.2%	16,665	1.4%	34,482	1.4%
2002	9,718	0.9%	2,917	0.9%	3,482	3.2%	776	1.5%	16,894	1.4%	34,868	1.1%
2003	9,782	0.7%	2,942	0.8%	3,610	3.7%	783	0.9%	17,117	1.3%	35,237	1.1%
2004	9,808	0.3%	2,956	0.5%	3,743	3.7%	787	0.5%	17,295	1.0%	35,538	0.9%
2005	9,802	-0.1%	2,957	0.0%	3,859	3.1%	785	-0.2%	17,404	0.6%	35,771	0.7%
2006	9,756	-0.5%	2,953	-0.2%	3,965	2.8%	787	0.2%	17,461	0.3%	35,947	0.5%
2007	9,728	-0.3%	2,957	0.2%	4,044	2.0%	789	0.2%	17,518	0.3%	36,186	0.7%
2008	9,772	0.4%	2,989	1.1%	4,089	1.1%	794	0.6%	17,642	0.7%	36,538	1.0%
2009	9,832	0.6%	3,023	1.2%	4,134	1.1%	801	0.9%	17,790	0.8%	36,888	1.0%
2010	9,881	0.5%	3,059	1.2%	4,216	2.0%	810	1.2%	17,966	1.0%	37,267	1.0%
2011f	9,920	0.4%	3,096	0.7%	4,272	1.4%	817	0.8%	18,104	0.8%	37,565	0.8%
2012f	9,960	0.4%	3,133	0.7%	4,328	1.4%	823	0.8%	18,244	0.8%	37,865	0.8%

Source: U.S. Census, California Dept. of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

Though headwinds still blow in some sectors, Los Angeles County's economy is seeing modest improvement in 2011 and should do even better in 2012.



Positive Forces through 2012

The Los Angeles economy is past the bottom of the recession and starting up the recovery path. Several industries are primed for growth, so there are quite a few positives to report for the County's economy.

- **International trade** activity turned up strongly in 2010 after plunging the previous year. Another increase in activity is expected in 2011 despite Japan's woes. More is on the way in 2012. Job counts will rise accordingly.
- **Entertainment industry** activity has increased as well, with more motion pictures, commercials, television pilots and shows being filmed locally. Industry employment has risen.
- **Tourism** also has turned up. New hotels downtown and in Hollywood are drawing more business visitors as well as leisure travelers to the county. The improvement will continue in 2011 and 2012.
- **Private education** is one sector that can grow even in difficult economic times. Led by the county's topnotch universities, this sector also includes private K-12 schools and job training institutions that attract workers and those seeking training for better jobs.
- The **healthcare services** sector should continue to hold its own. Good hospitals attract excellent physicians, and L.A. County has some of the best. Though healthcare reform could be an issue in the future, right now this industry reliably generates jobs year in and year out.
- **Retail sales** turned up in 2010 and will continue to grow in 2011-2012. Businesses and residents of Los Angeles County will grow more confident about their prospects, and tourism is on the rise. All of these will have a positive impact on retail sales.
- **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. Also the new Civic Park and the Broad Art Museum projects are bringing construction activity back into downtown Los Angeles.

Negative Forces through 2012

- **Local government finance** will be a big concern, as the continuing decline in home values and the state's chronic budget problems have hurt school district, city and county budgets. More layoffs and service cuts are coming in 2011 and 2012.

- The **nonresidential real estate sector** continues to struggle with high vacancies, declining lease rates and falling property values in 2011. Nonresidential construction activity will increase in 2011 and 2012 but remain at relatively low levels.

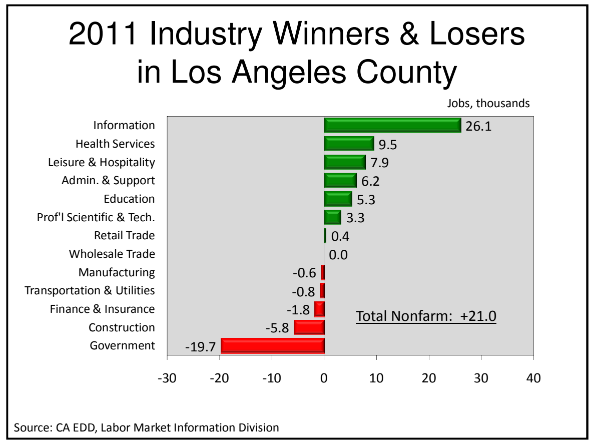
A Note of Uncertainty

The county's aerospace/defense industry is operating in an unpredictable environment caused by changing priorities at the Defense Department and NASA compounded by the federal government's drive to reduce defense budgets. Several programs of interest to Los Angeles will be impacted. Some local firms will receive more orders while other operations are cut back or eliminated. Expect to hear more during the next 18 months, positive and negative.

Net Results

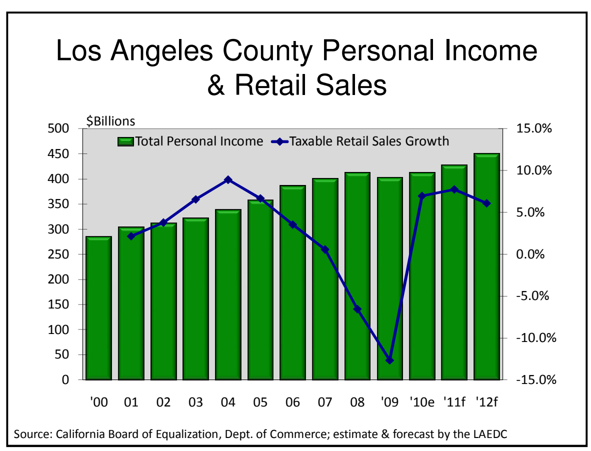
Total nonfarm employment in the County will grow by +0.7% or +28,000 jobs in 2011, after a drop of -1.4% or -60,400 jobs in 2010. Numerically, the largest employment gains during 2011 will come in: information (+26,100 jobs); health services (+9,500 jobs); and leisure & hospitality (+7,900 jobs). Growing budget problems will force government entities to continue shedding jobs (-19,700 jobs during 2011). Additional private-sector job cuts will come in construction (-5,800 jobs) and finance & insurance (-1,800 jobs). In 2012, total nonfarm employment in the County is expected to increase by +1.7% or by +65,000 jobs as the economic recovery takes hold.

The county's unemployment rate will continue at painfully high levels during the forecast period, though it will gradually taper down. Business firms will be cautious in rehiring until they believe the recovery in their own sales and profits is well established. The County's unemployment rate averaged 12.6% during 2010. In 2011, the jobless rate is expected to edge down to 12.2%. In 2012, the unemployment rate will fall to 11.5%.



Total personal income in the county grew by an estimated +2.4% in 2010, after falling by -2.5% in 2009. Income growth is expected to regain momentum in 2011 (+3.6%) and 2012 (+5.4%).

Taxable retail sales turned up in 2010, growing by an estimated +7.0% following a dreadful decline (-12.7%) the previous year. Taxable retail sales are expected to grow by +7.7% in 2011 and +6.1% in 2012.

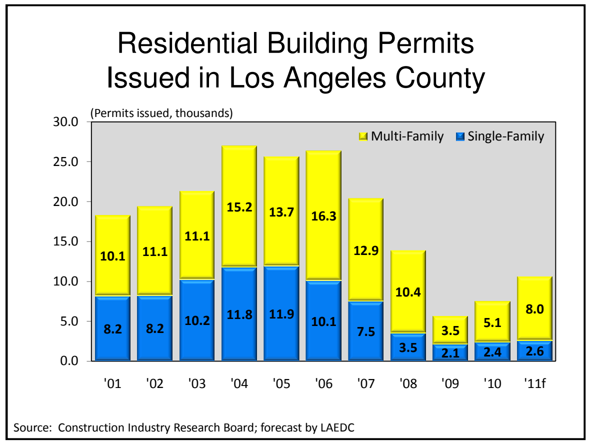


The value of two-way international trade flowing through the Los Angeles Customs District surged by +22.6% during 2010. Healthy increases of +6.7% and +4.6% are forecast for 2011 and 2012.

About 25.7 million overnight visitors came to Los Angeles County in 2010, a nice recovery. The year 2011 should see another uptick in the visitor count to 26.3 million visitors. This increase reflects an increase in the number of large meetings scheduled for 2011 and 2012 at the LA Convention Center, made possible by the opening of two major hotels in downtown Los Angeles and Hollywood. Also with better economic times, more vacationers will come to L.A. County, especially from Asia.

Los Angeles County experienced an uptick in new home construction during 2010, which will continue in 2011 and 2012. We expect 10,600 units in total will be permitted during 2011, rising to 16,800 units in 2012.

The value of nonresidential building permits issued in the County edged down by -3.0% during 2010. The worst problems continue to be in the office sector, while industrial is starting to turn around. Nonresidential building activity should register an increase of +11.8% in 2011 and a +10.3% gain during 2012.



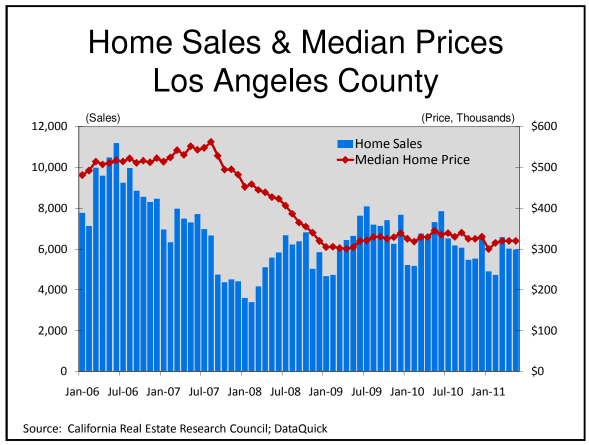


TABLE 11: LOS ANGELES COUNTY ECONOMIC INDICATORS

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)	Chg. in CPI (%)
2000	9,542.1	4,072.1	5.4	284.985	29,866	70.321	230.0	24.2	17,071	3,296	3.3
2001	9,633.7	4,073.6	5.7	303.445	31,498	71.835	212.2	22.8	18,253	3,539	3.3
2002	9,717.8	4,026.8	6.8	311.367	32,041	74.548	212.8	22.1	19,364	2,920	2.8
2003	9,781.8	3,982.9	7.0	322.272	32,946	79.427	232.9	23.3	21,313	2,932	2.6
2004	9,808.4	3,996.5	6.5	338.210	34,482	86.497	261.7	24.3	26,935	3,174	3.3
2005	9,802.3	4,024.2	5.4	357.186	36,439	92.271	291.6	25.0	25,647	3,824	4.5
2006	9,755.9	4,092.5	4.8	385.724	39,537	95.544	326.4	25.4	26,348	3,896	4.3
2007	9,728.0	4,122.1	5.1	400.366	41,156	96.096	347.3	25.8	20,363	4,739	3.3
2008	9,771.5	4,070.7	7.5	412.639	42,229	89.810	355.8	25.6	13,704	4,491	3.5
2009	9,831.9	3,824.1	11.5	402.459	40,934	78.444	282.9	23.8	5,653	2,674	-0.8
2010	9,880.6	3,769.0	12.6	412.235	41,722	83.900	346.9	25.7	7,465	2,593	1.2
2011f	9,920.1	3,797.0	12.2	427.000	43,044	90.400	370.0	26.3	10,600	2,900	2.7
2012f	9,959.8	3,862.0	11.5	450.000	45,182	95.900	387.0	26.8	16,800	3,200	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%	1.6%	-22.7%	21.6%	
'08/'07	0.4%	-1.2%		3.1%	2.6%	-6.5%	2.5%	-0.8%	-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%	8.0%	32.1%	-3.0%	
11/'10	0.4%	0.7%		3.6%	3.2%	7.7%	6.7%	2.1%	42.0%	11.8%	
12/'11	0.4%	1.7%		5.4%	5.0%	6.1%	4.6%	1.9%	58.5%	10.3%	

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 12: LOS ANGELES COUNTY NONFARM EMPLOYMENT

Annual averages, thousands; March 2010 benchmark

	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	4,072.1	3.4	131.7	612.2	*342.3*	*269.9*	219.4	392.0	174.6	243.7
2001	4,073.6	3.8	136.8	577.9	*325.4*	*252.5*	219.4	394.8	175.6	226.3
2002	4,026.8	3.7	134.5	534.8	*299.3*	*235.5*	217.3	398.2	167.2	207.3
2003	3,982.9	3.8	134.6	500.0	*276.2*	*223.8*	214.1	399.2	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
2011f	3,797.0	4.0	98.5	373.6	*206.3*	*167.3*	202.9	385.6	149.5	218.5
2012f	3,862.0	4.0	105.0	364.0	*203.0*	*161.0*	210.5	395.0	156.5	223.5

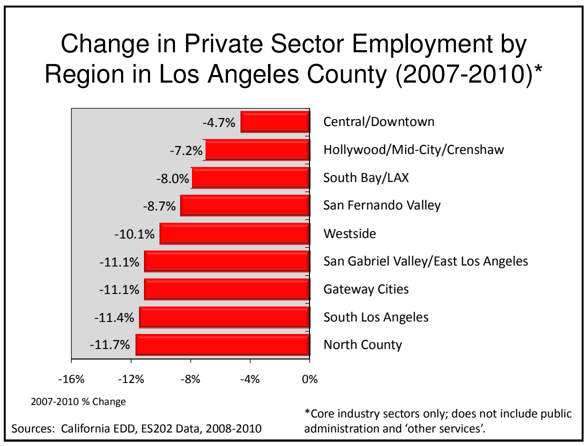
	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2000	149.1	73.8	227.7	85.6	274.6	86.2	332.4	344.7	140.0	581.3
2001	154.5	72.7	233.6	84.4	270.0	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
2011f	136.0	71.0	249.0	51.0	234.5	117.5	420.0	392.5	136.0	556.9
2012f	138.0	71.5	259.0	50.5	244.5	123.5	425.0	404.5	140.0	547.0

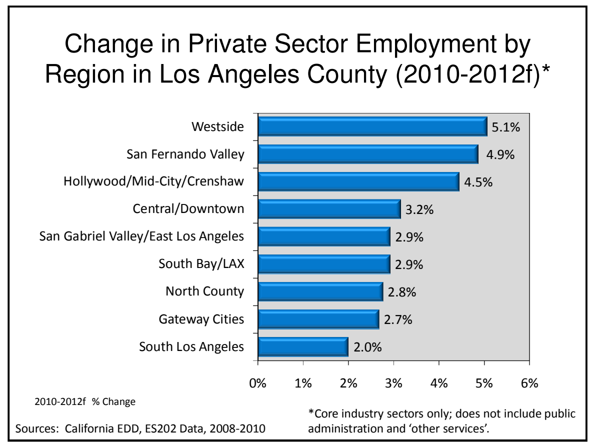
Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC.

VI. Outlook for the Los Angeles County Sub-regions

The LAEDC frequently receives requests for information about sub-regions in Los Angeles County. We have defined nine areas delineated by city limits, freeways and geographic features. A special feature of the Mid-Year Forecast is a review of trends in these regions.

The most complete data available for these regions is employment. In this report, the primary economic indicator used is average annual private sector "core" employment. Jobs in public administration or "other services" are not included. These data have been obtained from the California Employment Development Department's ES202 files.





North County: North County is composed of two distinct regions: Santa Clarita/Valencia in the south and the Antelope Valley (Palmdale/Lancaster) in the north.

Total core employment in the region reached a pre-recession peak of 129,400 jobs in 2007. From 2007 to 2010, employment declined by -11.7% to 114,200 jobs. Retail Trade, Construction, and Professional & Business Services were hit the hardest, losing a combined total of -13,500 jobs. Meanwhile, Education & Health Services posted a gain of +1,400 jobs.

Looking ahead, the LAEDC forecasts modest employment growth of +2.8% between 2010 and 2012. Leisure & Hospitality (+1,000 jobs) and Professional & Business Services (+700 jobs) are expected to lead the way.

In addition to employment, there are some other indicators that can be used to gauge economic activity in North County. The office vacancy rate was 18.0% in the second quarter of 2011, down from 19.0% a year ago. Demand for office space increases when firms are growing and hiring more workers. Business travel and tourism are also improving. Hotel occupancy rates in Santa Clarita increased to

76.5% in May 2011 from 66.5% a year ago. Six Flags Magic Mountain added three new roller coasters last year bringing the park's total up to 18 – the most of any amusement park in the nation. Further ahead, Disney/ABC Studio has plans to build a new sound stage and production facilities at its Golden Oak Ranch Facility (EIR pending), which would bring construction jobs to the region.

Hollywood/Mid-cities/Crenshaw: Total core employment was 208,100 jobs in 2007, but by 2010 the number of jobs had declined by -7.2% to 193,100 jobs. Professional & Business Services and Information (which includes motion picture production) suffered the most significant losses. Combined, these two sectors shed -11,000 jobs.

The LAEDC forecasts jobs to grow in 2011 and 2012 by a combined +4.5%. The Information sector, and entertainment in particular, will lead employment growth, adding +2,700 jobs. Professional & Business Services, which has a large presence in the region, will add +2,200 jobs. Leisure & Hospitality will increase by +1,700 jobs. Manufacturing job growth will continue to lag, but employment growth in Retail Trade and Wholesale Trade will compensate.

Activity in the region's travel and tourism industry can be measured by hotel occupancy rates. In Hollywood, occupancy rates have rallied, rising to 72.9% in May 2011 up from 66.7% a year ago. Among the area's many attractions, the opening of the new Cirque de Soleil show at the Kodak Theater this summer will attract even more visitors.

Central/Downtown: In 2010, total core employment for the downtown region was 187,100 jobs. Since 2007, total employment has fallen by -4.7% (from 196,300 jobs). The biggest losses were in Professional & Business Services, Financial Activities, and Manufacturing (-8,700 jobs combined).

Looking forward, LAEDC expects employment for Professional & Business Services to return to pre-recession levels by 2012 with total employment increasing by +3.2% to 193,000 jobs. Leisure & Hospitality will also boost its workforce by about +1,000 jobs. Many government offices are located in downtown. For these workers, the 2011-2012 outlook is uncertain.

Downtown hotel occupancy rates were 64.6% in May 2011, up from 63.3% a year ago. Convention traffic is up; however, activity at local sports venues this year has been hurt by the Lakers missing the finals and the Dodgers financial woes. Meanwhile, negotiations for a possible new football stadium continue.

Other new development is under way! Twenty new restaurants have opened so far in 2011, a new Target store will open at 7+Fig in the fall of 2012, and revitalization is progressing in Chinatown. Construction of Downtown's $56 Million Civic Park project is creating numerous construction jobs (both on and off-site). Additionally, the Broad Art Foundation is moving forward on its $100 million contemporary art museum.

San Gabriel Valley/East Los Angeles: Total core employment in the San Gabriel Valley/East Los Angeles region was 560,600 jobs in 2010. Of those, 495,400 jobs were in the San Gabriel Valley and the other 65,200 were in East Los Angeles/Eagle Rock. From 2007 to 2010, combined employment plummeted by -11.1%

(from 630,600 jobs). A problem for the region is its exposure to Manufacturing (-19,300 jobs) and Construction (-12,200 jobs). The region's Education & Health Services firms, including City of Hope in Duarte, Huntington Hospital in Pasadena, and Kaiser Permanente in Baldwin Park, kept employment from falling even further by hiring +6,200 workers. City of Hope was recently named one of the top 20 cancer centers in the country.

The LAEDC forecasts a moderate increase of a combined +2.9% in employment in 2011 and 2012 to 577,000 jobs. Professional & Business Services began to rise in 2010 and is expected to lead hiring in 2011 and 2012 (+4,800 jobs). Meanwhile, Education & Health Services growth is expected to moderate in the near term.

The office vacancy rate was 10.1% in the second quarter of 2011. It was still significantly lower than other regions in Los Angeles County, although up from 9.6% a year ago. Industrial vacancy rates, on the other hand, decreased to 3.5% in the second quarter of 2011 from 3.8% a year ago.

The communities of East Los Angeles are exploring the possibility of becoming an incorporated city. Cityhood in East Los Angeles could attract large retailers. A Comprehensive Fiscal Analysis is in progress to determine if the proposed city would be "fiscally viable," i.e. able to generate enough tax revenues on its own.

Gateway: The Gateway region encompasses two distinct regions. The south includes harbor communities such as Long Beach and San Pedro, and the north includes highly industrialized areas like Downey and Norwalk.

Total core employment in the Gateway region was 607,400 jobs in 2007. Job counts decreased by -11.1% during the recession to 539,900 jobs in 2010. Manufacturing (-22,600 jobs) and Professional & Business Services (-16,900 jobs) accounted for more than half of the decline. Employment in North Gateway, because of its concentration of manufacturing firms, decreased by -13.6% (-57,600 jobs), while in South Gateway employment contracted by -5.4% (-9,900 jobs).

The LAEDC forecast is for moderate job increases in 2011 and 2012 with core employment rising by a combined +2.7% to 554,300 jobs in 2012. Professional & Business Services (+4,600 jobs), Leisure & Hospitality (+3,100 jobs), and Wholesale Trade (+2,200 jobs) will provide most of the growth.

Activity at the Ports of Los Angeles and Long Beach returned to form last year, providing a boost to the region's many logistics and trade related firms. At the Port of Los Angeles, trade from a year ago has increased for imports by +15.9% and exports were up by +32.9% in the first five months of 2011, a combined total value of $16.2 billion. At the Port of Long Beach, trade also improved in the same period with imports increasing by +16.8% and exports by +9.2%, for a combined total value of $4.7 billion. Travel and tourism is also flourishing in the region. Hotel occupancy rates were 73.1% in May 2011, up from 63.1% a year ago.

San Fernando Valley: San Fernando Valley can be divided into east and west. The east includes the cities of Burbank and Van Nuys, while the west includes Northridge and Woodland Hills.

In 2010, total core employment in the region was 619,100 jobs. Employment plunged by -

8.7% since 2007 (from 677,800 jobs). The hardest hit sectors were Construction (-13,400 jobs), Manufacturing (-11,000 jobs), and Financial Activities (-9,600 jobs).

The LAEDC forecast calls for total employment to grow by a combined +4.9% in 2011 and 2012 (to 649,200 jobs). Information, which took a hit in 2009, rebounded in 2010. This trend will continue with employment in Information (+16,100 jobs) expected to lead the way for the Valley through 2012, even surpassing pre-recession employment levels. The motion picture/TV production industry, which is centered in the San Fernando Valley's southeast quadrant, posted a +2.9% increase in on-location film production days in the first half of 2011 compared with a year ago.

South Bay/LAX: In 2007, total core employment in the region was 421,500 jobs. An -8.0% decline to 387,900 jobs from 2007 to 2010 was due mainly to job losses in Professional & Business Services (-8,500 jobs) and Manufacturing (-7,000 jobs).

In 2011 and 2012, employment is projected to tick up by a combined +2.9% to 399,200 jobs. Professional & Business Services (+3,800 jobs) may surpass Manufacturing as the main source of employment in the region. Jobs in Leisure & Hospitality (+2,500 jobs) are expected to surpass levels last seen in 2007, while job growth in Transportation & Utilities (+1,800 jobs) will improve as well.

One result of slower employment growth is the ballooning office vacancy rate, which was 18.9% in the second quarter of 2011 vs. 17.8% a year ago. Industrial vacancy rates increased to 3.0% in the second quarter of 2011 from 2.8% a year ago. Still, the South Bay industrial real estate market remains one of the tightest in the nation.

LAX passenger traffic increased slightly in the first five months of 2011, rising by +6.6% from a year ago. Hotel occupancy rates near the airport increased to 85.5% in May 2011 from 79.7% a year ago. International trade also improved at both LAX and the El Segundo Off-Shore Oil Terminal. The value of imports and exports at LAX increased by +$3.1 billion in the first five months of 2011 from a year ago (to $34.0 billion). The El Segundo Off-Shore Oil Terminal is tied to the largest oil producing refinery in the West Coast (owned by Chevron). The value of imports and exports combined increased by +34% from January to May of 2011 compared with a year ago, reflecting higher oil prices.

South Los Angeles: Total core employment in South Los Angeles was 76,500 jobs in 2007. The recession hit the region hard. Employment dropped by -11.4% between 2007 and 2010 to 67,800 jobs. Roughly half of the losses came from Manufacturing (-4,700 jobs), an important industry in the area. Professional & Business Services lost another quarter (-2,000 jobs). South Los Angeles has Los Angeles County's lowest average wage.

LAEDC projects that employment in South Los Angeles will rise in 2011 and 2012 by a combined 2.0% to 69,100 jobs. Many of these jobs are expected to come in Wholesale Trade and Retail Trade (a combined increase of +500 jobs). Leisure & Hospitality will an see increase in job growth as well (+400 jobs).

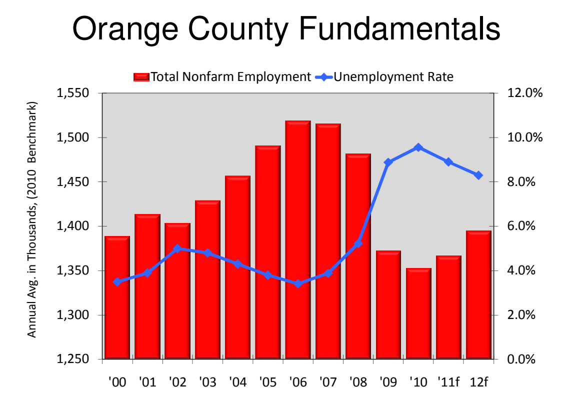
Westside: Total core employment in the region was 361,700 jobs in 2007. With the recession, employment decreased by -10.1% to 325,200 jobs in 2010. Professional & Business Services (-17,300 jobs) were the biggest losers, making up nearly half of the total loss. There were also heavy job losses in Retail Trade as well (-5,800 jobs).

In 2011 and 2012, LAEDC expects the region will have the highest rate of employment growth in the county, rising by +5.1% to 341,700 jobs. Growth will be led by Information (+6,200 jobs), Professional & Business Services (+4,500 jobs), and Leisure & Hospitality (+3,200 jobs).

The Westside benefits from a high concentration of entertainment and advertising firms, including talent agencies and entertainment law firms. As for travel and tourism, in Santa Monica and Marina Del Rey hotel occupancy rates have remained stable at 81% and 74%, respectively, in May of 2011. However, in other West Los Angeles cities, hotel occupancy rates have increased to 80.3% in May of 2011 from 71.0% a year ago. Travel to downtown will improve soon with the opening of the Exposition Blvd. light rail line. The project is expected to complete its first phase in 2012 (from Downtown to Culver City), while the second phase, extending the line to Santa Monica, will continue through 2015.

VII. Outlook for Orange County

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.



Source: EDD Labor Market Information Division; forecast by LAEDC

Nonetheless, Orange County felt the pinch of the 2008-2009 recession. Having become a major regional player in the financial services sector, Orange County was hit early on by the financial crisis. Residential construction, an important economic driver for the area, was decimated by the subprime crisis. A wave of foreclosures followed soon after as the recession deepened and thousands of Orange County residents found themselves unemployed.

When the effects of the recession began to abate, Orange County became the first metropolitan area in the state to add jobs (September 2010). The county currently has the lowest unemployment rate in Southern California, 8.5% in May. The progress of the county's economic recovery will be measured by gains in employment. Job growth will continue be slow, but almost all sectors will add jobs this year. 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.

Positive Forces Through 2011-2012

- Orange County received a total of $212 million in Federal stimulus funds for **infrastructure projects**. The money was divided between highway projects ($97.8 million), buses ($76.0 million), city projects ($37.0 million) and rail ($1.2 million). The most prominent highway project was the $65 million widening of the 91 Freeway between Anaheim and Corona completed in December 2010.[3] The West County Connector Project is currently underway and will connect HOV lanes at the interchange of the 605, 405 and 22 Freeways. At the John Wayne Airport, the multi-year Airport Improvement Program is nearing completion. The project includes a new terminal, new parking structures and a utility plant (recently opened) that will generate 95% of the airport's power needs.

- The **Health Services** industry was one of the few that added jobs through the recession.

[3] Note: $47.9 million in stimulus funds were used. The Orange County Transit Authority contributed $12 million and the Riverside County Transportation Commission contributed $5.0 million

Hoag Memorial Hospital opened its newly renovated facility in Irvine last summer, adding 900 jobs in the past year. Kaiser Permanente's $461 million healthcare complex in Anaheim is on track to open six months ahead of schedule and under budget. Set to open in late 2012, the complex will include a hospital, two medical office buildings, a central utility plant and a parking structure.

- The county's **life science and medical instrument makers** are also a source of growth. Several firms based in the county are moving ahead with new product trials or are awaiting FDA approval for new devices.

- The **high tech** industry is doing quite well. The county's largest computer products makers are adding jobs. Spending on consumer electronics and business spending on technology products are expected to grow moderately this year. Businesses will spend more on software, data storage and computer hardware. A large percentage of the county's high tech products are exported, and strong demand from emerging markets will provide a boost to the industry this year and next.

- **Tourism** is on the rebound. The county's hotels are seeing a rise in occupancy rates and room rates as visitors return to the region – especially the area around the Disneyland Resort and the upscale coastal areas of Newport and Laguna Beach. Tourists are spending a bit more and business travelers are venturing out again.

- **Manufacturing** employment will inch up this year (the county ranks tenth in the nation in the number of factory jobs), and will see modest additional growth in 2012. Expansion is being fueled by export demand in Asia and increasingly, by domestic demand for the county's computer products, medical devices, industrial goods and apparel. Orange County's high tech and clean-tech industries will do especially well.

  The major risks for the manufacturing sector are a resurgence of energy prices and rising prices for commodities used in manufacturing.

NEGATIVE FORCES THROUGH 2011 AND 2012

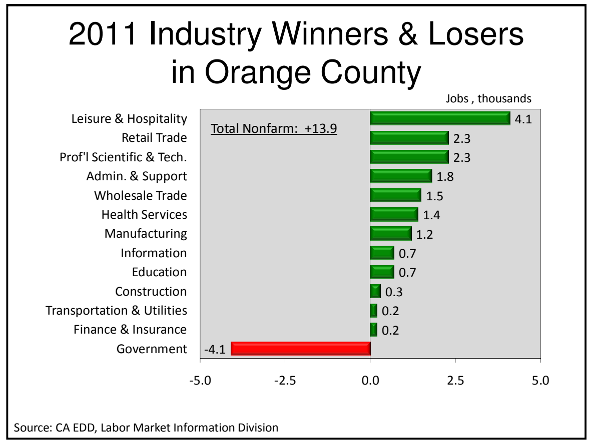
- **Defense** related industries are adjusting to funding cuts and a shift in the military's focus from big-ticket items to satellites, unmanned planes and communications gear. Boeing, Orange County's fourth largest employer with 8,000 workers, is cutting 100 jobs from its Space Exploration Division as the Space shuttle program draws to a close. More defense related jobs will be on the chopping block later this year. Boeing's Brigade Combat Team Modernization Program (army communications) has come up against a reduction in army funding.

- Job losses in the **financial services** industry hit bottom in 2009, but problems remain. Banks and other lenders are facing new federal regulations such as more stringent capital requirements. Banks are also looking to cut costs after new regulations trimmed revenue sources and may do so by cutting employees. While the worst is over, more bank failures are possible and credit remains tight. Some community banks have reduced the number of problem commercial real estate loans on their books, but others are still struggling.

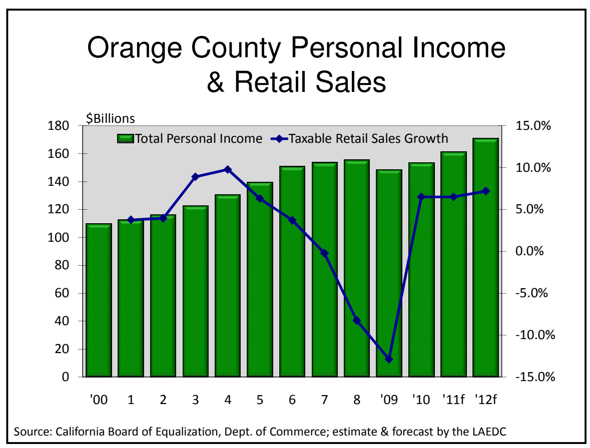
- **Residential real estate** is improving but will lag in 2011 with fewer home sales. Next year may prove to be pivotal for the housing market in Orange County. Much will depend on improvement in the labor market and a return of consumer confidence. The number of distressed properties in Orange County is still near a historic high. Falling home prices are blocking new home construction because builders cannot compete profitably with existing home prices. New loan limits are also set to go into effect October 1. The size of mortgages eligible for backing from Fannie Mae and Freddie Mac will be reduced. In high-cost coastal areas it will be harder to get a loan for homes that exceed the new limits, raising borrowing costs for buyers forced to seek jumbo loans.

Net Results

Nonfarm employment in the county is expected to increase by +1.0% or +13,900 jobs during 2011. This follows a -1.4% job loss in 2010 and a -7.4% decline in 2009. Employment gains will be widespread with the exception of state and local government jobs. The industries that will create the largest numbers of jobs are: Leisure & Hospitality (+4,100 jobs); Retail Trade (+2,300 jobs); Professional Scientific & Technical Services (+2,300 jobs); Administrative & Support Services (+1,800 jobs) and Health Care & Social Assistance (+1,400 jobs). In 2012, employment in the county should climb by +2.1%, posting a more robust increase of +28,200 jobs.



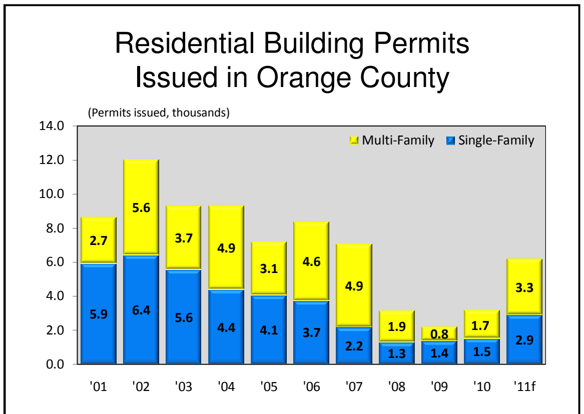
Orange County's unemployment rate averaged 9.6% in 2010. In 2011 the rate should fall back to 8.9% as the economic recovery gains momentum. By 2012 stronger growth will drive the unemployment rate down to 8.3% - still high, but a welcome improvement.



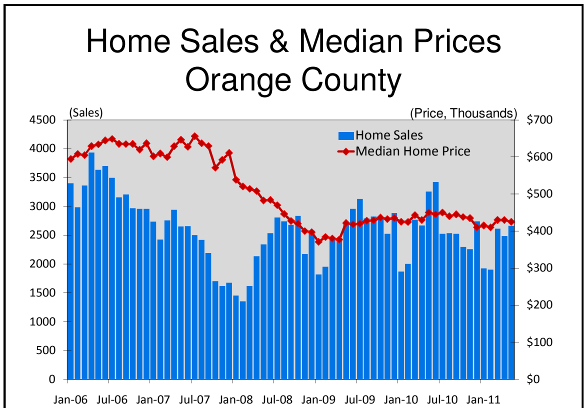
Total personal income in the county should rebound by +5.1% in 2011, with even larger gains coming in 2012 (+6.0%). Per capita personal income should average $52,037 in 2011, up by +3.9% from the previous year. Retailing in Orange County took a beating during the recession but is coming back with an estimated increase in taxable retail sales of +6.5% in 2011 followed by a stronger rebound in 2012 (+7.2%).

New homebuilding in Orange County bottomed out in 2009 and turned up in 2010 (increasing by +44.5% from 2009's extremely low level). Residential construction will continue to improve in 2011 with the forecast calling for 6,175 units to be permitted, nonresidential permit values, which plummeted by -40% in 2009, increased by +20% in 2010, but are expected to edge up by just +2.5% in 2011. By the end of the first quarter of 2011, the county's office vacancy rate inched down to 19.6% after ending 2010 at 20.0%. The industrial vacancy rate was a more manageable 6.1%, down from 6.3% at the end of last year.

The number of overnight tourists to the county should increase again this year, edging up by +0.9% to 43.4 million vistors in 2011. In 2012, the number of overnight visitors is expected to increase by +1.8% to 44.2 million visitors. Demand for hotel rooms and room rates is on the upswing this year. Luxury hotels along the coast are seeing the most improvement. More foreign travelers are taking advantage of the weaker dollar. Orange County is drawing in more regional visitors as a result of domestic travelers taking shorter trips and staying closer to home. Business travelers are returning and meetings and convention bookings are up.



Source: Construction Industry Research Board, forecast by LAEDC



Source: California Real Estate Research Council; DataQuick

TABLE 13: ORANGE COUNTY ECONOMIC INDICATORS

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	2,856.2	1,388.9	3.5	109.490	38,334	27.5	40.2	12,367	1,762
2001	2,890.7	1,413.7	3.9	112.247	38,831	28.5	40.9	8,646	1,350
2002	2,917.2	1,403.7	5.0	116.005	39,766	29.6	41.7	12,020	1,209
2003	2,941.6	1,429.0	4.8	122.428	41,620	32.3	42.7	9,311	1,006
2004	2,956.5	1,456.7	4.3	130.321	44,080	35.4	43.5	9,322	1,133
2005	2,957.4	1,491.0	3.8	139.409	47,139	37.7	44.7	7,206	1,495
2006	2,952.6	1,518.9	3.4	150.598	51,005	39.1	44.9	8,371	2,401
2007	2,957.3	1,515.5	3.9	153.447	51,887	39.0	44.4	7,072	2,005
2008	2,988.5	1,481.6	5.2	155.068	51,888	35.8	43.1	3,159	1,439
2009	3,023.3	1,372.1	8.9	148.373	49,077	31.2	42.7	2,200	952
2010	3,058.9	1,352.9	9.6	153.269	50,106	33.2	43.0	3,180	1,141
2011f	3,095.6	1,366.8	8.9	161.086	52,037	35.3	43.4	6,175	1,170
2012f	3,132.8	1,395.0	8.3	170.751	54,505	37.9	44.2	7,675	1,575
% Change									
01/00	1.2%	1.8%		2.5%	1.3%	3.8%	1.7%	-30.1%	-23.4%
02/01	0.9%	-0.7%		3.3%	2.4%	4.0%	2.0%	39.0%	-10.4%
03/02	0.8%	1.8%		5.5%	4.7%	8.9%	2.4%	-22.5%	-16.8%
04/03	0.5%	1.9%		6.4%	5.9%	9.8%	1.9%	0.1%	12.6%
05/04	0.0%	2.4%		7.0%	6.9%	6.3%	2.8%	-22.7%	32.0%
06/05	-0.2%	1.9%		8.0%	8.2%	3.7%	0.4%	16.2%	60.6%
07/06	0.2%	-0.2%		1.9%	1.7%	-0.2%	-1.1%	-15.5%	-16.5%
08/07	1.1%	-2.2%		1.1%	0.0%	-8.3%	-2.9%	-55.3%	-28.2%
09/08	1.2%	-7.4%		-4.3%	-5.4%	-12.9%	-0.9%	-30.4%	-33.8%
10/09	1.2%	-1.4%		3.3%	2.1%	6.5%	0.7%	44.5%	19.9%
10/11	1.2%	1.0%		5.1%	3.9%	6.5%	0.9%	94.2%	2.5%
11/12	1.2%	2.1%		6.0%	4.7%	7.2%	1.8%	24.3%	34.6%

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

TABLE 14: ORANGE COUNTY NONFARM EMPLOYMENT

Annual averages, Thousands, March 2010 benchmark

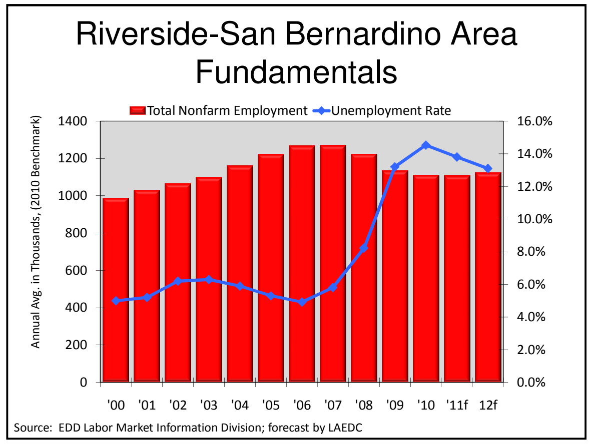
	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,388.9	0.6	76.6	215.5	*152.5*	*63.0*	80.8	147.0	30.3	41.2
2001	1,413.7	0.6	80.7	208.5	*147.8*	*60.7*	83.9	150.1	30.4	40.2
2002	1,403.7	0.6	79.2	190.8	*133.6*	*57.2*	82.4	151.4	28.7	36.8
2003	1,429.0	0.5	83.7	183.9	*127.2*	*56.7*	83.2	152.8	29.0	35.2
2004	1,456.7	0.6	92.2	183.5	*127.1*	*56.4*	82.4	153.2	29.2	33.8
2005	1,491.0	0.7	99.9	182.9	*128.3*	*54.6*	83.0	158.1	28.7	32.8
2006	1,518.9	0.6	106.6	182.7	*128.0*	*54.7*	83.7	160.8	28.2	31.9
2007	1,515.5	0.6	103.1	180.4	*126.2*	*54.2*	86.9	161.2	28.9	31.2
2008	1,481.6	0.6	91.2	174.0	*122.5*	*51.5*	86.7	155.6	29.3	30.1
2009	1,371.4	0.5	74.2	154.8	*109.1*	*45.7*	79.4	141.9	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
2011f	1,366.8	0.5	67.4	151.5	*106.7*	*44.8*	78.9	142.4	26.9	25.7
2012f	1,395.0	0.5	68.6	153.7	*107.7*	46.0	80.6	145.0	27.7	26.9

	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
2000	70.0	30.9	91.2	38.6	117.7	17.7	94.4	145.9	43.9	146.6
2001	73.8	32.1	94.3	39.7	114.5	16.0	98.6	154.3	45.2	150.9
2002	77.4	32.7	95.1	35.8	118.0	15.9	102.5	155.4	45.9	155.1
2003	88.0	34.2	96.4	32.9	123.3	18.9	107.5	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	126.7	19.2	111.8	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	131.1	19.8	113.7	165.0	48.4	155.3
2006	99.0	39.1	109.3	28.9	136.4	20.8	117.0	169.6	47.7	156.7
2007	89.1	38.6	113.5	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
2011f	69.3	34.6	108.0	23.1	116.2	24.5	133.6	172.8	43.0	148.4
2012f	71.5	35.4	111.5	23.8	118.8	25.4	136.8	178.3	44.0	146.5

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

VIII. OUTLOOK FOR RIVERSIDE AND SAN BERNARDINO COUNTIES (INLAND EMPIRE)

The outlook for the Inland Empire area remains partly cloudy for the remainder of 2011 and into 2012, particularly with regards to the housing market and the construction industry. The Inland Empire has experienced some growth albeit weak over the first six months of 2011 after suffering a long and deep recession marked by a surge in the number of foreclosures along with plummeting home values and soaring joblessness.



However, the region began to recover along with the rest of Southern California in 2010. The recovery has undoubtedly been very slow for the Inland Empire, as 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 have still continued to struggle over the past six months. The trade related sectors have performed the best as trade volumes continued to grow over the first half of this year. This has not yet translated into a net increase in new jobs for the region. Over the first five months of 2011, the employment situation has deteriorated somewhat. However, the second half of 2011 should produce some job gains albeit too small to translate into a net gain for the year.

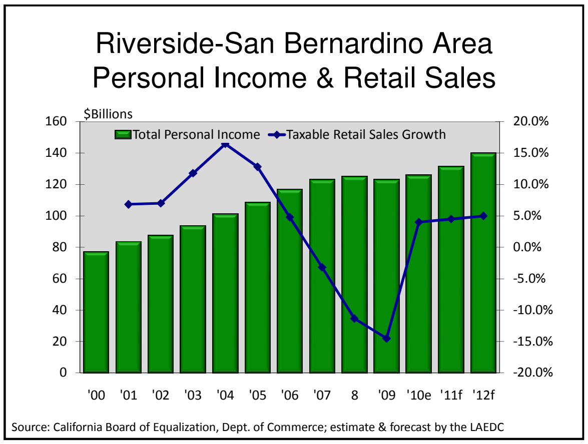
NET RESULTS

The economy of the Inland Empire will not progress 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 appreciated by nearly +12% in the first quarter of 2011 when compared with the lows of 2009. Note that the median price of an Inland Empire home is still significantly below where it was before the crisis.

Total nonfarm employment dropped by -16,900 jobs in May 2011 when compared to a year earlier. Since May 2010, the sectors that have suffered the biggest job losses in the Inland Empire are construction, professional, scientific & technical services, private educational services, other services and government.

The region’s construction industry has been hit the hardest and the results show in the employment figures. Construction employment in May 2011 dropped by -8.6% from May 2010, and was -58% below the peak level of June 2006. New industrial and office construction permits declined dramatically during the recession but 2010 saw slightly better activity. Nonresidential construction should continue to improve slightly in the second half of 2011 and into 2012, but will remain well below peak levels reached prior to the recession.

The unemployment rate in the Inland Empire reached 14.5% in 2010 and is expected to fall to 13.8% this year. Persistently high unemployment has been really difficult for the Inland Empire to overcome and the results can be clearly seen, as retail sales also have suffered. However, taxable retail sales are expected to improve this year and in 2012 as unemployment declines and personal income increases.

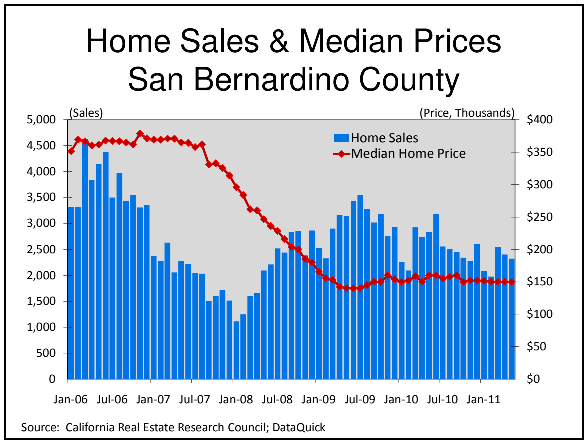


It is important to point out that the recovery in the Inland Empire will still lag other parts of California and the U.S. as the area is attempting to come up out of a very deep hole. The good news is the dramatic declines seen in 2009 have ended and the area has begun the process of recovery. Still, 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 decrease by -0.3% in 2011 and then to increase by +1.4% in 2012.

The stellar recovery at the twin ports had positive results for the Inland Empire's transportation and wholesale trade sectors in 2010, particularly in the latter half of the year and that has continued over the first half of this year. 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 +16% in 2010 and are projected to increase by +6% to +7% this year. In fact, imports from Asia to the U.S. are expected to rise by nearly +8% in 2011. It is important to remember that over 40% of the U.S.'s imported containers come through the ports of LA and Long Beach and roughly 50% 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 the remainder of 2011 and in 2012.

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 1998-2008 was the one of the key economic drivers for the area. However, the economic recovery this year should end the declines in migration, leading demand for housing, retail and services to grow again albeit very slowly through 2012.

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, manufacturing, industrial development and logistics make a comeback. In the short-term, however, the only sector that will witness any real improvement is logistics



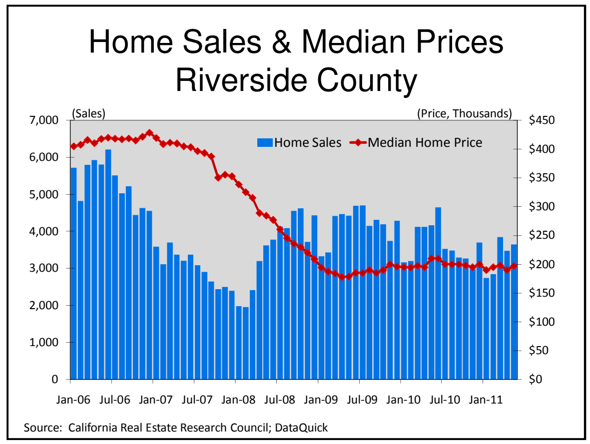
and warehousing as trade volumes continue to grow. Note also that the Inland Empire economy will undoubtedly perform well in the long run due to its position as the central hub for logistics related to international trade and as the area where the most significant population growth is expected. Then, 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 it is just a matter of time and patience, as the region is not expected to see the pre-recession glory days for at least three to four years.

POSITIVE FORCES THROUGH 2011 AND INTO 2012

Housing Affordability: Although home prices have rebounded slightly, 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.

Goods Movement: Trade volumes at the local ports have experienced robust growth. They are expected to grow again in the second half of this year (albeit not as strongly) and in 2012. Next year, the projected levels will approach the records set in 2006 and 2007. The increase in activity will positively impact the Inland Empire warehouse and distribution system network.

Healthcare and Education Sectors: These were the only two areas that grew in 2009. They also experienced growth in 2010, and they have continued that trend over the first half of 2011. Expectations are for this to continue in the second half of 2011 and into 2012.



Industrial Real Estate: Skechers has just recently completed a 1.8 million square-foot facility in Moreno Valley and Castle & Cook will move into its new 520,000 square-foot center in Riverside later this year. Also, the industrial vacancy rate in the Inland Empire, while still relatively high, did improve from 12.4% in 2009 to 10% in 2010 to 9% in the first quarter of 2011.

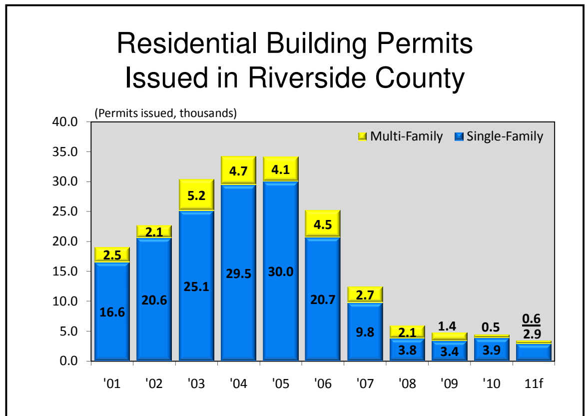
NEGATIVE FORCES THROUGH 2011 AND INTO 2012

Housing and Construction: High rates of defaults and foreclosures will still pressure home values this year. However, foreclosures have finally begun to slow down. The housing recovery is expected to continue in the second half of 2011 and in 2012 albeit at a very slow pace.

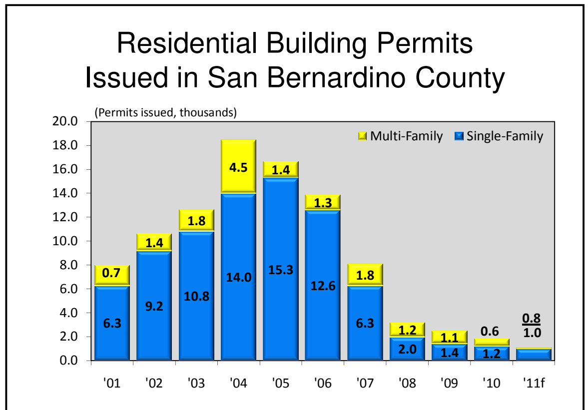
Unemployment: The Inland Empire still has one of the nation's highest unemployment rates among urban areas. Joblessness is forecasted to improve somewhat in 2011 and in 2012.

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 the first half of 2011 and should decline next year as well due to revenue constraints.

Problems in Commercial Real Estate: Office vacancy rates are still very high (24.2% in the first quarter of 2011) and will continue to be a concern for the rest of this year and in 2012.



Source: Construction Industry Research Board, forecast by LAEDC



Source: Construction Industry Research Board, forecast by LAEDC

TABLE 15: RIVERSIDE-SAN BERNARDINO AREA ECONOMIC INDICATORS

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	3,277.5	988.4	5.1	77.1	23,526	25.0	21,990	1,536
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	4,133.6	1,134.8	13.2	123.0	29,749	32.3	6,685	710
2010	4,216.2	1,111.2	14.5	125.8	29,831	33.6	6,269	782
2011f	4,271.6	1,108.1	13.8	131.4	30,769	35.1	4,500	770
2012f	4,327.6	1,123.4	13.1	140.0	32,345	36.8	6,800	1,000
% 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	1.1%	-7.3%		-1.6%	-2.7%	-14.5%	-26.5%	-60.1%
'10/'09	2.0%	-2.1%		2.3%	0.3%	4.0%	-6.2%	10.1%
'11/'10	1.3%	-0.3%		4.5%	3.1%	4.5%	-28.2%	-1.5%
'12/'11	1.3%	1.4%		6.5%	5.1%	5.0%	51.1%	29.9%

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

TABLE 16: RIVERSIDE-SAN BERNARDINO AREA NONFARM EMPLOYMENT

Annual averages, Thousands, March 2010 benchmark

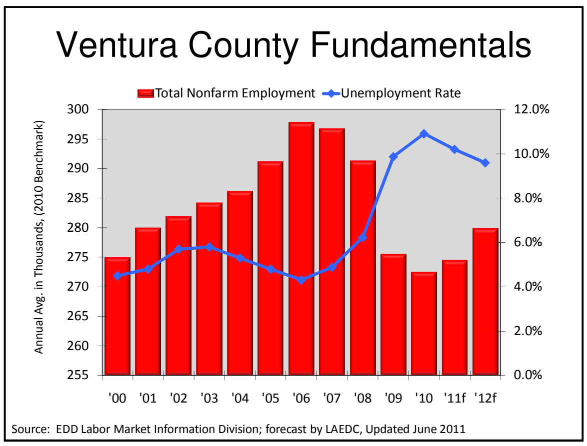
	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities
2000	988.4	1.3	79.9	119.7	85.3	34.4	38.2	127.0	46.3
2001	1,029.7	1.2	88.5	118.7	84.2	34.4	41.6	132.5	45.7
2002	1,064.5	1.2	90.9	115.4	82.0	33.4	41.9	137.5	46.8
2003	1,099.2	1.2	99.0	116.1	82.4	33.7	43.5	142.7	50.1
2004	1,160.0	1.2	111.8	120.1	85.5	34.6	45.6	153.8	55.5
2005	1,222.0	1.4	123.3	121.0	86.1	35.0	49.9	165.7	60.2
2006	1,267.7	1.4	127.5	123.4	86.9	36.5	54.2	173.2	63.8
2007	1,270.9	1.3	112.5	118.5	82.1	36.5	56.8	175.6	69.5
2008	1,223.8	1.2	90.7	106.9	72.5	34.3	54.1	168.6	70.2
2009	1,134.8	1.1	67.9	88.8	58.1	30.6	48.9	156.2	66.8
2010	1,111.2	1.0	59.5	84.6	55.0	29.6	48.8	154.6	66.5
2011f	1,108.1	1.1	57.4	83.8	55.4	28.4	49.3	154.5	68.0
2012f	1,123.4	1.1	58.2	85.1	56.7	28.4	52.0	155.0	71.0

	Finance & Insurance	Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services
2000	21.5	14.2	22.1	10.3	64.4	11.1	90.7	100.6	34.8
2001	22.0	15.3	24.6	10.6	66.6	11.8	94.3	104.5	37.1
2002	23.5	15.9	27.1	11.3	68.4	12.6	99.8	107.2	38.1
2003	25.7	16.9	28.7	11.0	75.7	13.2	102.7	109.0	38.4
2004	28.0	17.7	31.0	11.6	82.9	13.4	104.9	116.7	39.3
2005	30.1	18.9	35.0	12.0	86.2	13.6	106.3	122.6	40.8
2006	31.6	19.9	39.9	10.8	91.7	14.1	108.1	128.1	42.5
2007	30.3	19.5	40.5	9.8	94.9	15.0	112.2	132.6	41.2
2008	27.4	18.7	40.5	9.7	87.5	15.7	116.0	131.0	40.8
2009	26.0	16.6	37.8	8.9	77.6	16.3	117.3	123.8	37.3
2010	25.5	15.5	35.2	8.6	77.7	16.1	117.8	122.1	37.5
2011f	26.6	15.5	36.1	8.5	78.6	16.3	118.7	120.0	36.2
2012f	27.5	16.0	37.5	9.0	79.5	17.1	119.2	121.0	37.5

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

IX. Outlook for Ventura County

A stable overall economic plateau and visible underlying improvement in many sectors is now here. Ventura County is likely to see an ongoing moderate recovery in the rest of 2011 and into 2012. In relative terms, the northern fringe of the metropolitan area, Ventura County, is expanding at a pace that is similar to the southern fringe of San Diego and Orange County.



Positive forces through 2011 and 2012

- The county's productive agriculture industry continues to record good results. Assuming the weather, prices, and water availability cooperate, 2011 should end successfully for this industry.

- To May 2011, the leisure & hospitality and professional & business services industries in Ventura have been supplying 2/3 of the job growth this year. Manufacturing added to payrolls nicely too.

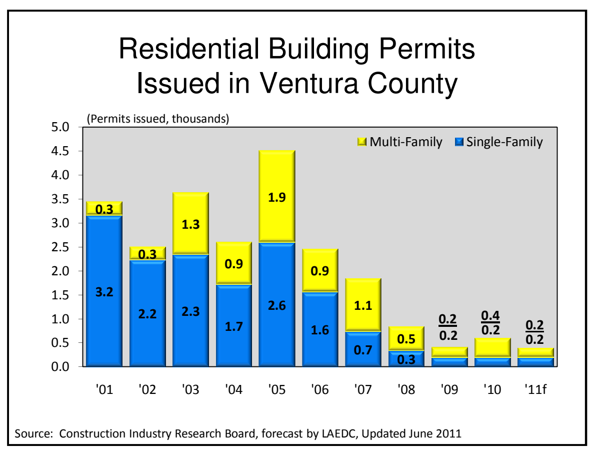
- Overall employment by government in Ventura County has been stable. In fact, the sector added +300 jobs through May 2011, a story not seen in other counties. Recent budgets have been passed that maintain current positions in the County.

- The military presence at Port Hueneme, which includes a Navy Seabee operation and the Point Mugu Naval Air Station, lends stability to the area's employment. Local vendors are also beneficiaries.

- Trends are improving at the Port of Hueneme, due to strong sales of Hyundai and Kia vehicles. Both brands are imported through the facility. It also has the largest refrigerated fruit terminal on the West Coast.

Negative forces through 2011 into 2012

- New homebuilding has fallen to very low levels, with just 404 units permitted in 2009 and 592 more in 2010. The recent peak was 4,516 units in 2005. Much like the rest of the state and country, high unemployment, tighter lending standards, and falling home prices have sidelined many buyers.



- Commercial real estate markets in the county have also been hammered, with the office vacancy rate in first quarter 2011 rising to 17.8%. This rate has exceeded 10% since the fourth quarter of 2007. The Greater Oxnard

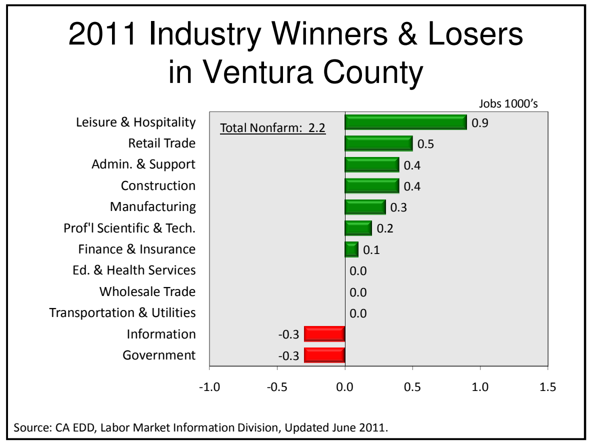
Plain office vacancy rate was strongest at 15.6%. The worst area was Thousand Oaks at 24.6%. Industrial vacancy rates have been coming down slowly now, for three quarters running. Q1-2011 came in at 5.8% for the county. However, while industrial leasing and sub-leasing activity is up, asking prices for the sales of industrial buildings are way down.

NET RESULTS

In the first half of 2011, Ventura County added 6,400 jobs, which brought the *not seasonally adjusted* unemployment rate down to 9.7%. The story by sector has been fairly good up to May 2011; with 8 sectors adding jobs and 2 sectors losing jobs. Some hiring for seasonal business services jobs was related to the spring tax filing season.

Leisure & hospitality and professional and business services added +2000 jobs each. Ventura County is well ahead of the pace of the rest of California in leisure & hospitality. Job growth in this Ventura County industry is similar to what we saw back in 2003-2004. People get out to restaurants and bars more often and take up more hotel rooms at this stage of the recovery in spending. Hotel room rates are flat, but occupancy rates are going up. We are now at employment levels in this industry that we last saw in 2007. Not an expansion here yet, but a full recovery in terms of payroll jobs is here.

Also in the first half of 2011, Ventura added +900 jobs in manufacturing, and surprisingly, added +600 jobs in construction and +300 jobs in government. The two sore spots were trade, transportation, and utilities losing -900 jobs and education and health services losing -300 jobs. Looking into the value chain within T,T,&U (which is the biggest employment sector in Ventura County) shows *upstream* transportation & warehousing stable in employment, *mid-stream* wholesale trade slightly increasing payrolls, and



the dominant *downstream* retail companies continuing to shed jobs.

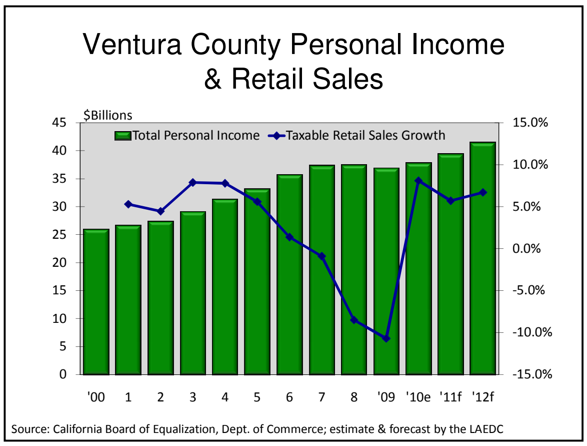
With LAEDC's call for modest improvement in consumer spending, we are hoping this important retail sub-sector hiring trend reverses smartly in the second half. Retail jobs are not high skill. Filling them can come quickly. That would speed up hiring further down the value chain, add new incomes, and help absorb vacant retail and commercial space sitting in the County.

This is an essential step to achieve the next 1% leg down in the unemployment rate over the next 12 months in Ventura County. Less gloomy headlines from the outside world would be most helpful here -- to prompt more hearty consumer confidence among county dwellers and add more visitors from L.A. and abroad. Job adds by business owners will follow.

Nonfarm employment in the County looks to move further into growth territory in 2012, rising by +1.9% or by +5,200 jobs. The largest increases during the year might come in retail trade (+1,600 jobs), in leisure & hospitality services (+9000 jobs), and in construction (+600 jobs). At best, government payrolls are flat. But they could be slightly in the negative column. The county's unemployment rate has been coming down from very high levels, averaging 10.8% in 2010.

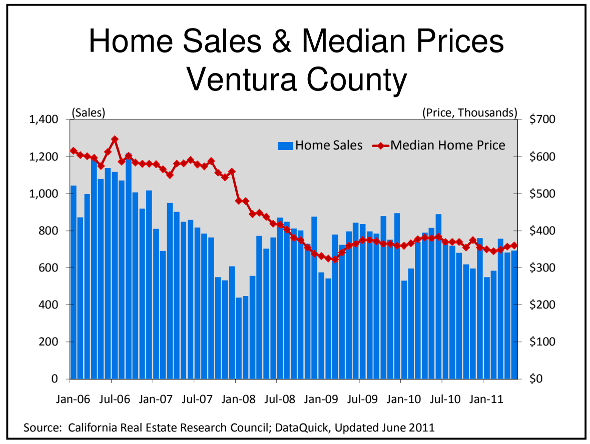
For 2011, the seasonally adjusted rate looks to move down to average 10.2% and then ease down to an average of 9.6% in 2012.

Income growth looks to accelerate in 2011, with an increase of +4.2%, and again in 2012 (+5.2%). Personal income in Ventura County declined by -1.6% in 2009 before turning up by +2.5% in 2010. Retailing in the county also turned up in 2010, rising by +8.1% after three difficult years. Times should be better for area retailers in the rest of 2011 and into 2012, with annual forecast increases of +5.7% and +6.7% respectively.



New homebuilding in the county started to recover (finally!) in 2010, with an increase of +46.5% in the number of units permitted. This figure certainly looks good, but the total was still low at 592 units. Growth appears to miss in 2011, at 400 to 500 units, and start in 2012 (to 600+ units). Times will remain difficult for construction-related activities.

Nonresidential building permit values rose by +4.6% in 2010 after plunging by a horrific -55.7% in 2009. Improvement should continue, though slowly, in 2011 (+6.3%) and 2012 (+8.8%). It is very difficult to call turns in markets. Nonetheless, the high vacancy rates (and very low prices) in commercial and industrial property in places like Thousand Oaks and Camarillo look attractive. These locations offer easy access to freeways, skilled labor (particularly in biotech), strong adjacent communities, and local university support.



Joseph Schumpeter's wave of destruction is typically followed with some wave of creation[4]. Areas like Ventura County will be interesting to watch evolve. One of the keys to truly putting the downturn behind us in Ventura County is to begin weaving new firms into the economic landscape. Firm formation in Ventura County, like so many areas, stalled in late 2008 at around 23,200 firms. In early 2005, there were 20,300 firms. Adding 800 to 1000 net new firms a year was the pace during the boom years. Assuming an average of 36 employees per firm, netting 200 to 300 small new firms in 2012 would make a notable difference to the county's economic outlook. Fresh ideas, new corporate structures, easier-to-get finance, and renewed confidence about the future, is what is needed.

[4] ***Joseph* A. *Schumpeter* "*Creative Destruction*"**. From Capitalism, Socialism and Democracy (New York: Harper, 1975)

TABLE 17: VENTURA COUNTY ECONOMIC INDICATORS

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)
2000	756.4	275.0	4.5	25.9	34,301	6.5	3,971	282
2001	765.2	279.9	4.8	26.6	34,795	6.8	3,446	309
2002	776.4	281.8	5.8	27.3	35,223	7.2	2,507	289
2003	783.3	284.2	5.8	29.1	37,111	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	47,302	8.8	1,847	346
2008	793.7	291.3	6.2	37.5	47,192	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	37.8	46,623	7.8	592	160
2011f	816.8	274.7	10.2	39.4	48,195	8.2	450	125
2012f	823.4	279.9	9.6	41.4	50,299	8.8	600	150
% 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%	7.3%	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%		2.5%	1.3%	8.1%	46.5%	4.6%
'10/'11	0.8%	0.8%		4.2%	3.4%	5.7%	-24.0%	-21.9%
'11/'12	0.8%	1.9%		5.2%	4.4%	6.7%	33.3%	20.0%

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

	Total Nonfarm	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	275.0	0.7	15.4	41.2	*27.7*	*13.4*	10.3	33.6	5.6	7.9
2001	279.9	0.6	16.1	40.5	*26.6*	*13.9*	11.0	34.0	5.9	8.4
2002	281.8	0.7	15.7	38.0	*24.9*	*13.1*	11.7	34.2	5.8	8.1
2003	284.2	0.6	16.6	37.1	*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
2011f	274.7	1.3	11.7	31.9	*19.8*	*12.1*	12.3	35.7	5.4	4.9
2012f	279.9	1.3	12.3	32.2	*20.1*	*12.2*	12.5	37.3	5.5	5.0

	Finance & Insurance	Real Estate, Rental&Leasing	Prof., Sci. & Tech. Srvc.	Mgmt. of Enterprises	Admin. & Support Srvc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	13.8	4.0	13.2	3.7	22.6	6.4	17.7	25.1	9.7	44.3
2001	15.5	4.2	13.8	3.4	20.0	7.1	18.2	26.6	9.6	45.1
2002	17.7	4.6	13.7	3.3	19.6	7.5	18.8	27.2	10.2	45.3
2003	19.2	4.3	13.6	3.9	19.4	7.8	19.8	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	7.8	19.7	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	7.9	20.4	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	7.9	21.0	30.5	10.2	42.5
2007	17.9	4.8	16.2	3.2	18.9	8.9	21.6	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.6	9.3	22.5	31.5	10.0	43.1
2009	16.1	4.3	16.2	2.9	17.0	9.1	23.1	29.8	9.3	42.9
2010	16.2	4.0	15.5	2.7	17.3	9.3	23.4	30.3	8.9	42.6
2011f	16.3	4.0	15.7	2.8	17.7	9.3	23.4	31.2	8.9	42.3
2012f	16.5	4.1	15.9	3.0	18.1	9.3	23.7	32.1	8.9	42.3

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

X. Outlook for San Diego County

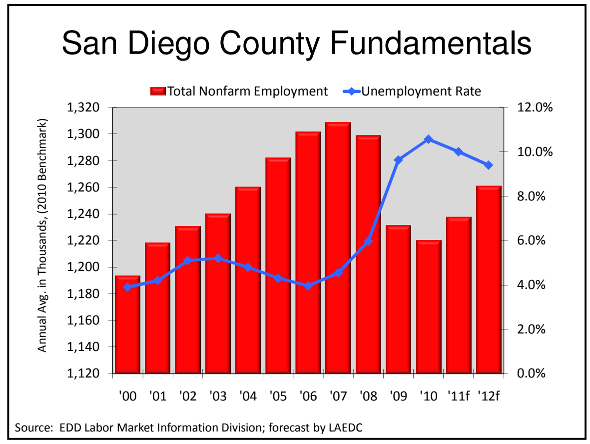
San Diego County has a long history in California. San Diego was created in 1850 as one of California's original 27 counties. Today, the county is smaller in acreage but is home to 3.1 million people, making it the second largest county by population in California.

Since the end of the Cold War, the military presence has diminished, although it remains an important economic driver. In the intervening years, San Diego's economy has diversified. The region is now a thriving hub for the biotech and telecommunications industries. San Diego is also an important manufacturing hub and a popular travel destination.

Following the 2008-2009 recession, San Diego is well on its way to recovery. Employment is improving (if slowly), tourists are coming back, and many of the county's biggest industries are on the mend. Some sectors are still lagging. Housing and construction in particular continue to struggle. Still, the county retains its core strengths - its diverse economy, educated workforce and desirable location. These attributes place San Diego on a solid footing for healthy growth going forward.

Positive Forces Through 2011-2012

- **Health Care** companies are expanding in the region. Scripps Mercy added a parking garage to accommodate more staff and patients, and an energy plant. Scripps is also constructing a new $40 million trauma center which is part of a $200 million hospital modernization and expansion project. At UCSD medical center, groundbreaking is anticipated for a new



450,000 square foot medical center. The $665 million projected is schedule to be complete in 2016.

- The Pentagon's initiative to cut back on **defense** spending will impact San Diego's economy. Fortunately, the region is home to significant military commands and training centers. Defense dollars should continue to flow into the county.

General Dynamics NASSCO (the last major shipyard on the west coast) launched two navy cargo and ammunitions ships this year and recently laid the keel on #14, the last ship in this series. NASSCO recently received a new Navy contract to build two auxiliary ships valued at $744 million. NASSCO is one of the region's largest defense contractors.

Lockheed Martin Corp. announced plans to add 150 jobs locally in October 2011 and March 2012. Makers of unmanned aircraft, Northrop Grumman and General Atomics Aeronautical Systems Inc., are still working under multimillion-dollar government contracts. The Space and Naval Warfare

Systems Command will also continue to hand out contracts to local computer and electronics firms. Small specialty companies make up an important part of San Diego's defense industry, especially in growth areas like cyber-warfare and information protection (i.e. systems that protect intelligence from hackers).

San Diego is feeling the loss of the USS Nimitz, which departed for Puget Sound in December 2010. The county still has two other carriers and is slated to get a third in or after 2016. The Navy also has plans to increase its fleet of smaller ships in San Diego.

San Diego had a mini-building boom in 2010, thanks to the military (and Federal stimulus funds), which embarked on several base modernization projects. Work is underway on a $451 million, 500,000 square foot hospital planned for Camp Pendleton (expected completion date 2014). Camp Pendleton alone has 63 construction projects valued at $1.9 billion. Additional projects are in the works for other Marine Corps and Navy facilities, pending the passage of the new federal budget.

- While smaller than it once was, San Diego's **agricultural industry** is still significant. It ranks #12 out of the nation's 3,000 counties in terms of the value of its output ($1.5 billion in 2009). The largest commercial crops are nursery plants (56% of the total dollar value of output) and avocados (8%). San Diego County is the #1 producer of these crops in the nation[5]. San Diego's agricultural industry remained fairly steady during the recession, declining by just -0.26% in 2009 (latest data available). During the same period, California suffered a -9.0% drop in agricultural output. San Diego's farmers do face considerable challenges, however. Over the past few years, growers have faced drought, fires, freezes, pest quarantines and competition from imports from Mexico. The biggest concern is water supply, specifically the increasing cost of water. Growers are responding by reducing production in some cases, but also by developing new hybrids that use less water. How the county's water problems will be resolved is still an open question.

- San Diego's **tourism industry** is in recovery and adding jobs. Both tourists and business travelers are returning in healthy numbers. Demand for lodging is up – occupancy rates are rising. Room rates are still low, but should start to improve. New hotel construction is at very low levels. 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. Area amusement parks like Legoland, Sea World and the Wild Animal Park remain popular with visitors and are adding new attractions.

  Some trouble spots remain. San Diego also has a large cruise ship business that is heavily focused on the Mexican Riviera.

[5] Farm Bureau San Diego, County of San Diego Department of Agriculture, Weights & Measures, *2009 Crop Statistics & Annual Report*

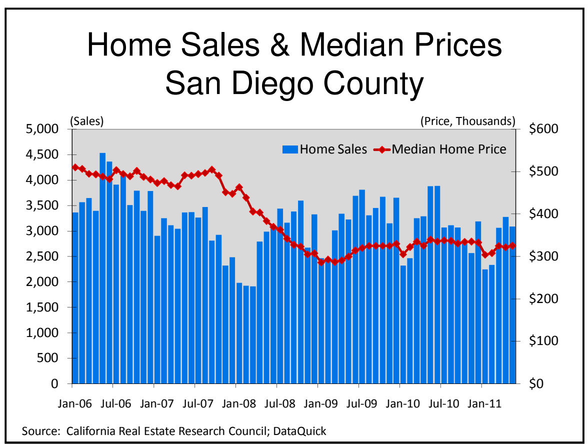
The port of San Diego recently completed a new $28 million terminal. However, diminished interest in travel to Mexico has resulted in the loss of two ships and other vessels being routed elsewhere. Those ships represent a significant loss in revenue for the local economy.

- The **Manufacturing sector** is adding jobs this year. San Diego County has the benefit of several innovative manufacturing clusters including communications, bio-fuels, genomics, energy storage, cyber-security and clean-tech (in the last five years, San Diego has attracted $445 million in venture capital for clean tech). Navy cargo ships and drone aircraft are made in San Diego as well as electronic products for the military, aviation and space. While no one sector dominates San Diego's manufacturing landscape, the region is known for its technology base. Benefiting from an educated workforce (40% of San Diego's adult population has a bachelor's degree or higher), San Diego is a hub of research and innovation in biotechnology, communications and software development.

Negative Forces Through 2011-2012

- The **Financial Services** sector has improved but recovery has been unsteady and several local banks with a large number of problem commercial loans on their books are struggling. Other banks are sitting on large piles of cash, looking for places to deploy it. Loan growth is slow – new regulations play a part in that, but demand is also down. Bank consolidations resulting in job losses are possible. Two banks failed last year: La Jolla Banks ($3.6 billion in assets) and 1st Pacific Bank of California ($400 million in assets), bringing the total number of failed banks in San Diego County to five since the start of the recession.

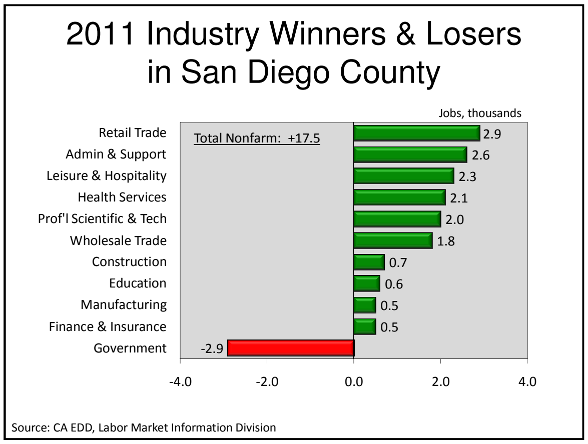
- **Residential real estate** appeared to be on the path to recovery during the first half of 2010, but the expected turnaround last year lost steam after the expiration of the government tax incentive program. Potential home buyers, anticipating falling prices, are waiting it out – who wants to say they paid too much? New loan limits are also set to go into effect October 1. The size of mortgages eligible for backing from Fannie Mae and Freddie Mac will be reduced. While this will affect a relatively small number of homes, potential buyers looking in high-cost areas will find harder to get a loan if the home price exceeds the new limits. The bottom line is residential construction is improving but will remain at very low levels for this year.



Source: California Real Estate Research Council; DataQuick

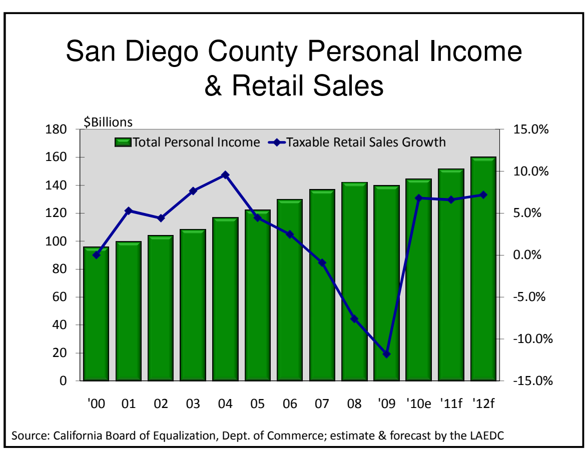
Net Results

San Diego, along with the rest of Southern California is adding jobs this year. Nonfarm employment in San Diego County is expected to



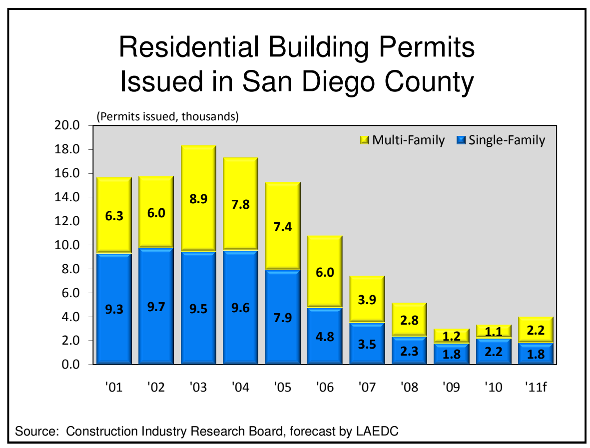
increase by +1.4% or +17,500 jobs in 2011 after a -0.9% drop in 2010. In 2012, the employment situation will improve further, though still at a moderate pace, with job counts increasing by +1.9%. The largest employment gains in 2011 will come from Retail Trade (+2,900 jobs), Administrative & Support Services (+2,600 jobs), Leisure and Hospitality (+2,300 jobs) Health Care (+2,200 jobs),and Professional, Technical & Scientific Services (+2,000 jobs). The only sector that will not experience employment growth is state and local government, which could shed as many as -2,900 jobs this year.

The county's unemployment rate should average 10.0% in 2011 compared with the 2010 average of 10.6%. In 2012, the unemployment rate is expected to drop to 9.4%.



Personal income in San Diego County will increase by +5.0% in 2011. Per capita personal income should average $48,621, up by +3.7% from 2010. The retail situation improved markedly in 2010, with taxable retail sales rising by an estimated +6.8%. In 2011, retail will continue to improve, climbing by +6.6% and in 2012 by 7.2%.

San Diego County's housing market continues to struggle, but should see incremental gains this year. The number of housing units permitted peaked back in 2003 at 18,315 units. In 2010, just 3,342 units were permitted. In 2011, residential construction should see some improvement, with 3,980 permits issued. Stronger growth will arrive in 2012 with a forecast of 6,010 new housing permits.



Even nonresidential construction is starting to look a little better. After tanking in 2009, when the value of new construction was down by -64% from the prerecession peak in 2006, nonresidential construction rose in 2010 by +12.8% to $659 million in new permits and should move up by +8.5% in 2011 to $715 million. Although office tenants are renewing leases, they are looking for ways to reduce their space requirements. Office vacancy rates in the county rose to 19.8% during the first quarter of 2011. Tight credit conditions also continue to be a problem. Industrial space was less affected, but the vacancy rate in the first quarter of 2011 was still quite high at 11.6%.

The number of overnight visitors to the county will increase just a bit in 2011, rising by +2.6% to 15.5 million visitors. This compares with a recent high of 15.8 million in 2006. More visitors will help fill up hotel rooms, which in turn, will exert upward pressure on average daily room rates. More conventions are being booked as well – 72 for 2011 versus 63 in 2010.

Two-way trade through the San Diego Customs District expanded rapidly in 2010, increasing over the prior year by +10.3%. While international trade will continue to grow in 2011, the rate of growth will be less due to slower economic growth in many of San Diego's major trading partners. In 2011, two-way trade should expand by +5.2% to $51.0 billion.

TABLE 19: SAN DIEGO COUNTY ECONOMIC INDICATORS

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income ($ billions)	Per Capita Personal Income ($)	Taxable Retail Sales ($ billions)	Value of Two-way Trade ($ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($ millions)	Chg. in CPI (%)
2000	2826.3	1193.8	3.9	95.507	33,792	25.0	35.0	15.2	15,927	1,391	5.8
2001	2867.4	1218.4	4.2	99.443	34,680	26.3	33.6	14.8	15,638	1,194	4.6
2002	2896.1	1230.7	5.1	103.815	35,846	27.4	35.7	15.0	15,738	1,169	3.5
2003	2908.0	1240.1	5.2	108.297	37,241	29.5	35.6	15.4	18,314	1,169	3.7
2004	2922.2	1260.3	4.8	116.645	39,917	32.3	39.4	15.7	17,306	1,288	3.7
2005	2928.0	1282.1	4.3	122.030	41,678	33.8	43.2	15.7	15,258	1,382	3.7
2006	2934.0	1301.6	4.0	129.584	44,167	34.6	50.5	15.8	10,777	1,622	3.4
2007	2960.6	1308.8	4.5	136.194	46,002	34.3	53.9	15.4	7,445	1,417	2.3
2008	3003.8	1298.7	6.0	141.971	47,264	31.7	53.4	15.2	5,154	1,062	3.9
2009	3037.1	1231.4	9.63	139.577	45,957	28.0	44.0	14.4	2,990	584	0.0
2010	3076.7	1220.2	10.6	144.323	46,908	29.9	48.5	15.1	3,342	659	1.3
2011f	3116.7	1237.7	10.0	151.539	48,621	31.8	51.0	15.5	3,980	715	1.5
2012f	3157.3	1261.0	9.4	159.874	50,637	34.1	53.4	15.7	6,010	838	1.7
% Change											
01/00	1.5%	2.1%		4.1%	2.6%	5.3%	-4.0%	-2.6%	-1.8%	-14.2%	
02/01	1.0%	1.0%		4.4%	3.4%	4.4%	6.3%	1.4%	0.6%	-2.1%	
03/02	0.4%	0.8%		4.3%	3.9%	7.7%	-0.5%	2.7%	16.4%	0.0%	
04/03	0.5%	1.6%		7.7%	7.2%	9.6%	10.7%	1.9%	-5.5%	10.2%	
05/04	0.2%	1.7%		4.6%	4.4%	4.4%	9.6%	0.0%	-11.8%	7.3%	
06/05	0.2%	1.5%		6.2%	6.0%	2.5%	17.0%	0.6%	-29.4%	17.4%	
07/06	0.9%	0.6%		5.1%	4.2%	-0.9%	6.7%	-2.5%	-30.9%	-12.6%	
08/07	1.5%	-0.8%		4.2%	2.7%	-7.6%	-0.8%	-1.3%	-30.8%	-25.1%	
09/08	1.1%	-5.2%		-1.7%	-2.8%	-11.8%	-17.7%	-5.3%	-42.0%	-45.0%	
10/09	1.3%	-0.9%		3.4%	2.1%	6.8%	10.3%	4.9%	11.8%	12.8%	
11/10	1.3%	1.4%		5.0%	3.7%	6.6%	5.2%	2.6%	19.1%	8.5%	
12/11	1.3%	1.9%		5.5%	4.1%	7.2%	4.7%	1.3%	51.0%	17.2%	

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce

TABLE 20: SAN DIEGO COUNTY NONFARM EMPLOYMENT

Annual averages in thousands, March 2010 Benchmark

`	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,194.3	0.3	69.7	122.6	*92.2*	*30.4*	39.1	133.8	29.8	35.8
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
2011f	1,237.7	0.4	56.2	92.9	*70.9*	*22.0*	41.0	132.9	28.0	27.0
2012f	1,261.0	0.4	57.9	94.8	*71.8*	*23.0*	41.7	137.0	28.5	28.7

	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
2000	44.0	27.2	95.9	18.7	84.2	18.2	97.2	129.0	42.2	206.6
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
2011f	41.9	26.2	119.9	17.8	75.8	27.2	122.8	156.9	47.6	223.1
2012f	42.8	26.9	122.4	18.6	77.2	27.9	126.9	160.6	48.6	220.1

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

XI. Major Industries of the Southern California Economy

The Los Angeles region has a diverse array of important industries, including several that sell a significant proportion to customers outside the region. Almost all were impacted by the Great Recession. Going forward, the pace of recovery and growth will be quite uneven.

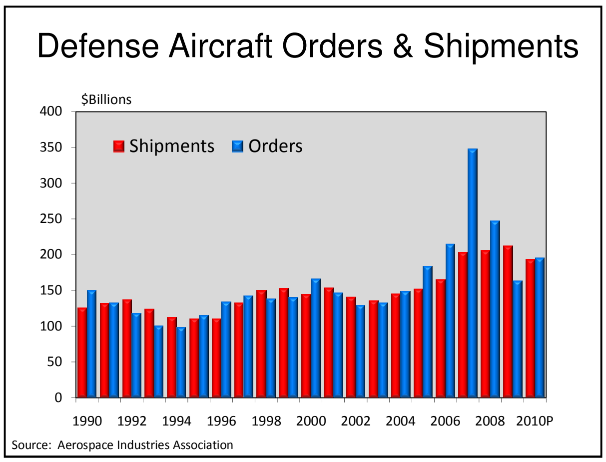
Performance ratings of the region's largest sectors are presented in each LAEDC Forecast using a scale ranging from "A" to "D." The scale is based on overall industry prospects and is not based on job growth or profitability.

Table 21: Performance Ratings of Major Industries

Industry	Grade	Comments
Technology	A	Business technology spending is on the rise; new consumer products are still run-away hits.
Tourism & Travel	A-	More conventions downtown; some new attractions at local theme parks; business and consumer travelers less cautious.
International Trade/Goods Movement	B+	Activity returns to near normal with prospects for more growth. Capacity expansions underway.
Retail	B/B+	Consumers are out shopping again but gasoline prices are an issue. Shoppers are looking for value and convenience; luxury chains are doing well.
Motion Picture/TV Production	B	International box office is huge. More filming in L.A.; tax credit is helping. Big issue is how to protect revenues in digital age.
Business & Professional Management Services	B	Best prospects for advertising, M&A activity and regulatory experts (finance and health care).
Aerospace: Commercial	B	Airline orders are up. Boeing & Airbus are ramping up production and orders to local subcontractors, but lead times are long.
Healthcare Services/Biomed	B-	Modest growth continues; Southern California demographics are strong. Biomed funding is starting to grow again. Federal healthcare reform will have benefits, but also costs.
Aerospace: Defense	C	Defense Department & NASA shift priorities and watch costs. Some local programs under scrutiny; others may benefit.
Apparel Design & Manufacturing	C	Design is a strength. Distribution is expanding, manufacturing is stable.
Financial Services	C-	Fortunes of different financial sectors vary widely. Real estate problems linger. Business lending just starting to turn up. The complaint? Dodd-Frank reform and Basel III
Construction: Nonresidential	D+	New construction up over last year, but still weak. Credit for new projects is still hard to come by. Recovery depends improvement in labor markets and easier credit.
Construction: Residential	D	Activity is up from last year but still very low. Most new construction in multi-family sector. Demand weak and prices still falling; foreclosures drive sales activity

AEROSPACE: GRADE COMMERCIAL B+/DEFENSE C

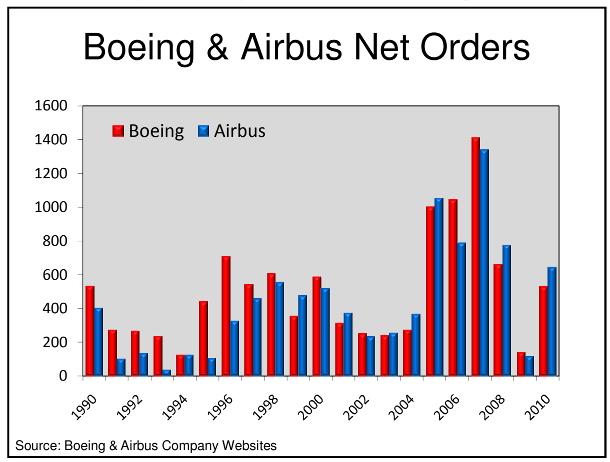
A change in defense priorities is creating much concern in the industry. The Defense Department (DoD) wants the capability to fight simultaneously a number of smaller battles in different parts of the world (vs. two larger wars). The shift places a premium on flexibility and will impact the types and numbers of equipment to be procured.



Budget constraints add another layer of complexity. DoD spending is expected to grow only modestly in the future. The initial effort focuses on eliminating waste throughout the department's operations. Also, contractors have been put on notice the DoD simply will not accept equipment that performs below specification and costs too much.

Several programs of interest to Southern California are caught up in the uncertainty.

- DoD has stopped ordering more C-17 military air lifters, built by Boeing in Long Beach. The plant's build rate has been reduced, and most of the current order book comes from foreign buyers. A new order from India should keep the production line running well into 2014.
- The F-35 fighter program has encountered significant budget over-runs and is on notice to resolve these issues ASAP. A large amount of F-35 subcontracting takes place in Southern California.
- The F/A-18 has received more new orders due to the F-35 delays. The huge Northrop Grumman plant in El Segundo is a key subcontractor, assembling F-18 fuselages.
- Also on the plus side, interest is growing rapidly in unmanned aerial vehicles (UAVs). Several of these are being developed and produced in the region.



On the other hand, the Obama administration's decision to eliminate the space shuttle program in favor of using commercially built space vehicles has roiled NASA and key Congressional space program backers. Los Angeles area jobs that still supported the shuttle program are disappearing fast. As to the future, Hawthorne based SpaceX is active in the commercial competition and has won a large contract from NASA to eventually ferry crews and cargo to the International Space Station.

A surprisingly large amount of advanced R & D work is carried out in Southern California. Some of this activity is visible when, for example, tests are conducted at Edwards AFB, but much is "black" and does not show up in any public information about the industry.

Many aerospace subcontractors in the region supplement their defense contracts with commercial work. Production was cut back when airlines slashed orders during the recession. However, passenger and freight traffic is coming back, airlines are profitable despite higher jet fuel costs, and new orders are coming in once again. Boeing and Airbus both plan to produce and deliver more planes in 2011 and 2012. Local subcontractors will get another boost when Boeing finally is allowed to deliver its new 787 Dreamliner, now expected in fall 2011.

TABLE 22: AEROSPACE EMPLOYMENT

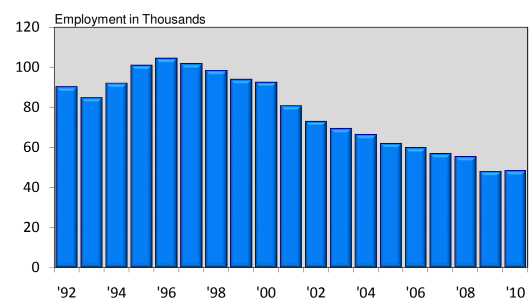
County	2007	2008	2009	2010	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	38,100	38,300	37,600	36,700	-1.6%	0.5%	-1.8%	-2.4%
Orange County	10,900	11,400	10,600	10,000	-3.5%	4.6%	-7.0%	-5.7%
San Diego County	6,300	6,400	5,800	5,700	6.8%	1.6%	-9.4%	-1.7%

Sources: California Employment Development Department

APPAREL DESIGN & MANUFACTURING: GRADE C

In spite of operating in a difficult environment, apparel design and manufacturing remains an important industry in Southern California (primarily Los Angeles and Orange counties) in terms of both revenues generated and the number of persons employed in the industry. Fashion employment in the Los Angeles area is near 121K. While in the New York City area, in comparison, it is around 84K.

APPAREL MANUFACTURING EMPLOYMENT IN LOS ANGELES COUNTY



Sources: CA EDD. LMID

The Los Angeles apparel sector consists mostly of local firms employing designers to create cutting edge fashion, which is then produced in Asia or Central America and shipped back to the U.S. through the San Pedro Bay ports. Often, additional processing such as quality inspections and affixing labels takes place locally. There is also a substantial local manufacturing business in "Fast-Fashion" apparel – cutting edge looks that go from design studio to factory to store shelves in as little as four weeks. "Fast-Fashion" looks to be a key element to bringing apparel manufacturing jobs back to Los Angeles County.

There are several challenges for the local apparel industry, which is mainly small-to-medium sized firms. Immigrants occupy a large number of production positions (e.g. cut and sew jobs) in this industry. Some have been here for years and have become quite skilled. However, the immigration service has adopted a much harder stance regarding undocumented workers, which has impacted the workforce of some apparel manufacturers in the region. Another headache is that the U.S. Customs Service is checking the classification of imported textiles more closely, which can bring unexpected costs and delays in shipments. What is considered to be "in style" changes so rapidly that apparel companies have to continually cycle new product through their supply chains. Delays can put a big dent in the bottom line.

Additionally, designers from other nations want a piece of the casual clothing segment. Italian, French, and English designers have begun to reach meaningfully into the casual, mass-produced space occupied by many SoCal labels. In Europe, the terms for ready-to-wear or "off-the-rack" clothing is *prêt-à-porter*; i.e. factory-made clothing, sold in finished condition, in standardized sizes, as distinct from *couture* clothing tailored to a particular person's frame.

On the retail side, things are looking up. Attendance at the various apparel and textile markets held in Los Angeles is growing. Shoppers have returned to the malls, and retail sales at apparel shops have increased. Hollywood stars continue to launch numerous 'capsule collections' at big box retailers like Target. And a Hollywood star's latest fashions can be quickly sold over the internet too. For the LA industry, the largest retail apparel sales driver is specialty stores, with women's fashion the primary focus. It is also the most entrepreneurial sector, and these stores are closely in step with Los Angeles' fashion entrepreneurs. However, rising cotton prices are a threat. Consumers remain price sensitive and may not yet be willing to accept higher prices for cotton apparel.

Employment in the labor-intensive manufacturing segment of this industry has been in a long term decline as more production shifted overseas. However, there is a desire to begin shifting some operations back to the United States. Employment has stabilized in early 2011. Only time will tell if the shift is permanent or temporary. The other major jobs sector of this industry, wholesaling or 'Jobbers', has been growing in the Los Angeles fashion district.

Fashion design work, which employs a relatively small number of people, looks to increase too. A new initiative, *The Fashion Project Cafe*, located in the lobby of the California Market Center now offers inexperienced designers pattern-making, grading, marking, digitizing, plotting, virtual or actual samples, and short-run production.

Table 23: Apparel & Textiles Employment

Los Angeles County	2007	2008	2009	2010	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Textiles Mills	9,600	9,100	7,800	7,300	-6.8%	-5.2%	-14.3%	-6.4%
Apparel Manufacturing	56,700	55,300	47,900	48,300	-4.9%	-2.5%	-13.4%	0.8%
Apparel & Piece Goods Wholesaling	19,800	21,000	20,000	20,500	3.7%	6.1%	-4.8%	2.5%
Total	86,100	85,400	75,700	76,100	-3.30%	-0.8%	-11.4%	0.5%

Sources: California Employment Development Department

BUSINESS & PROFESSIONAL MANAGEMENT SERVICES: GRADE B

The outlook for this diverse sector ranges from good to getting better.

The advertising industry has perhaps the best prospects for growth in this sector in 2011. The recovery in advertising gained momentum during the second half of 2010 and is expected to pick up speed over the coming year. All together, ad spending rose by +6.4% nationwide during the first three quarters of 2010 compared with the same period in 2009. Television enjoyed the biggest jump in ad spending, posting an increase of +10.5%. While TV pulled ahead early, other media followed: internet display ads (+7.7%), outdoor ads, (+7.3%) and free-standing inserts (+6.7%). Even magazine ads were up (+2.6%), but newspapers continued to lag behind (-2.9%). Looking at ad spending by product category, automobiles jumped by +23.7% (a lot of automobile commercials are filmed in Los Angeles), while telecommunications, financial services and food also posted significant gains. Noteworthy for the local economy, four of the top ten advertisers by dollar volume own movie studios with facilities in the area: News Corporation, Time Warner, G.E. (owns 49% of NBC/Universal) and Disney.

Mergers and acquisition activity is growing alongside the economic recovery. As confidence returned in 2010, deal makers pulled out their check books. Companies reaping higher profits in the wake of the recession make attractive targets. Many companies also managed to take in piles of cash which makes more acquisitions feasible. Deal making has also been helped by gains in the U.S. stock market and cheap credit. The increase in M&A activity benefits everyone needed to complete a deal: accountants, lawyers, investment bankers, advisors and consultants (strategic, valuation, etc.). Last year marked the first annual gain in worldwide M&A activity since the financial crisis. Global dollar volume rose by +23.1% to $2.4 trillion in the U.S., merger volume rose by +14.2% to $822 billion[6]. M&A activity is still well below the peak level reached in 2007, but there is a lot of activity in the pipeline and prospects for further growth are good.

There is an increase in regulatory activity in Washington D.C. as a result of the fall-out from the financial crisis. Financial reform and healthcare reform are keeping flocks of lawyers,

[6] Thomson Reuters

government agencies, public relations firms and more consultants busy, while all the details surrounding these contentious issues are hammered out and implemented. Closer to home, figuring out how to implement AB32 (California's climate change bill), will keep their West Coast counterparts active as well.

Commercial real estate in major metro areas is beginning to improve. New construction is moribund, 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.

Business conditions at architectural firms have slipped in recent months after five consecutive months of recovery. This is an indication of the bumpy road ahead for new residential and commercial construction. Firms working mostly in the commercial/industrial sector have seen the largest fall-off in activity. Firms focused on residential are doing a bit better, benefitting from the resurgence in multi-family construction. Many architectural firms are expanding the kinds of design services they offer, their geographic range or the types of buildings they design (e.g. student housing, retail) Activity levels will remain volatile during 2011, but cautious optimism is making its way back into architectural firms' outlook.

TABLE 24: BUSINESS & PROFESSIONAL MANAGEMENT SERVICES EMPLOYMENT

County/Sector	2007	2008	2009	2010	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	163,400	157,500	146,300	142,400	4.5%	-3.6%	-7.1%	-2.7%
Legal Services	49,400	49,100	47,000	46,400	0.4%	-0.6%	-4.3%	-1.3%
Accounting Services	49,600	41,500	39,000	38,800	6.9%	-16.3%	-6.0%	-0.5%
Architecture & Engineering	39,900	41,500	37,200	35,300	8.4%	4.0%	-10.4%	-5.1%
Advertising	24,500	25,400	23,100	21,900	2.1%	3.7%	-9.1%	-5.2%
Orange County	51,200	52,100	48,300	47,800	3.0%	1.8%	-7.3%	-1.0%
Legal Services	14,400	14,800	14,900	14,900	0.7%	2.8%	0.7%	0.0%
Accounting Services	12,600	13,200	12,400	12,800	4.1%	4.8%	-6.1%	3.2%
Architecture & Engineering	24,200	24,100	21,000	20,100	3.9%	-0.4%	-12.9%	-4.3%
San Diego county	36,800	36,600	34,300	34,600	2.8%	-0.5%	-6.3%	0.9%
Legal Services	12,700	12,500	12,200	12,200	2.4%	-1.6%	-2.4%	0.0%
Architecture & Engineering	24,100	24,100	22,100	22,400	3.0%	0.0%	-8.3%	1.4%

Sources: California Employment Development Department

FINANCIAL SERVICES: GRADE C-

While 2010 was a year of recovery for some firms in the financial services industry, others are still feeling the sting of the 2008-2009 recession. Here's a rundown on the key Southern California sectors.

Community banks—and others with large real estate exposure—are still wrestling with high loan delinquency and foreclosure rates. They will need at least another year to work out these problems. In the meantime, few new loans are being made.

Delinquencies may have peaked at larger commercial banks, though they are not yet down to normal levels. Lending standards for new loans are stricter than they were before the recession. However, the volume of business lending is starting to rise again as banks search for new profit opportunities.

After drastic cutbacks in previous years, there has been little improvement in housing related financial services—mortgage banking, title companies, etc.—as housing industry activity stays flat.

Investment banking firms are gearing up again. However, many financial and nonfinancial companies with access to the capital markets are taking advantage of currently favorable conditions to re-structure their financial positions. They are issuing new debt to lock in low rates for longer terms. New equity issues (IPOs) are showing up in greater numbers as stock prices rise.

Higher stock prices and still-low interest rates also have boosted the values of many investment portfolios. Investment managers in Southern California are enjoying higher fees.

A major uncertainty is how financial industry re-regulation will affect the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July, 2010, specified that a huge set of new rules be developed, which will affect many sectors of the industry. This process is just beginning. Stay tuned.

TABLE 25: FINANCIAL SERVICES EMPLOYMENT – CREDIT INTERMEDIATION & RELATED SERVICES

County	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	82,200	74,200	69,100	68,300	-3.2%	-9.7%	-6.9%	-1.2%
Orange County	44,900	34,000	32,300	32,500	-13.7%	-24.3%	-5.0%	0.6%
Riverside-San Bernardino Area	18,100	16,400	15,500	15,600	-4.7%	-9.4%	-5.5%	0.6%
San Diego County	24,600	20,700	19,500	18,900	-7.5%	-15.9%	-5.8%	-3.1%
Ventura County	9,800	8,600	8,400	8,300	-11.7%	-12.2%	-2.3%	-1.2%

Sources: California Employment Development Department

HEALTH SERVICES/BIO-MEDICAL: GRADE B-

Health care should continue to enjoy steady growth in the months ahead. Certainly the fundamentals look good. The Southern California population is growing, especially those over 65 years of age. This group consumes many more healthcare products—goods and services—than the rest of the population

Southern California hospitals have some significant construction programs underway, partly due to the state's stricter seismic rules. Several are also increasing capacity, as the already-large population. Carrying out such large programs can be a financial struggle, especially for smaller nonprofit hospitals.

How much health care reform (the Patient Protection and Affordable Care Act, enacted March 2010) will help the hospital industry is not certain. On the one hand, the coming expansion of the insured population suggests that hospitals will have to cover less "uncompensated care," especially for emergency room treatment. On the other hand, federal reimbursement rates are set to decline. Also, the new regulations, which have yet to be written, could boost costs or reduce revenues in other ways.

Beyond hospital walls, other health care providers continue to grapple with growth pains (and rising piles of paperwork). They too are sorting through health care reform, trying to determine what it will mean to them.

On the bio-medical front, local pharmaceutical, biotech and medical device firms are focusing on drugs and vaccines to treat a variety of infections and diseases. However, this is not an industry for the impatient or the faint of heart. The time required to carry out the necessary research and testing and gain government approval to market new drugs is long, and many hurdles must be cleared. The FDA lately has insisted on more—and more complex—testing, delaying approvals even more. Venture capital funding is finally beginning to loosen up after a long dry spell. However, VC's are most interested in placing funds with their existing companies and firms near the end of the R&D process. Startups must still seek out their own sources of "patient capital."

Here too, the impact of healthcare reform is uncertain. A larger patient population will be beneficial to the area's biomed firms. However, a new manufacturers' excise tax (of 2.3%) will be imposed on most medical devices beginning in 2013.

Some major biomed firms are expanding in Orange County to take advantage of the local talent pool as well as to have quick access to LAX. An on-going challenge for Southern California's bio-med industry is that many of the area's innovative start-ups get taken over by larger companies and operations are often relocated.

TABLE 26: HEALTH SERVICES EMPLOYMENT

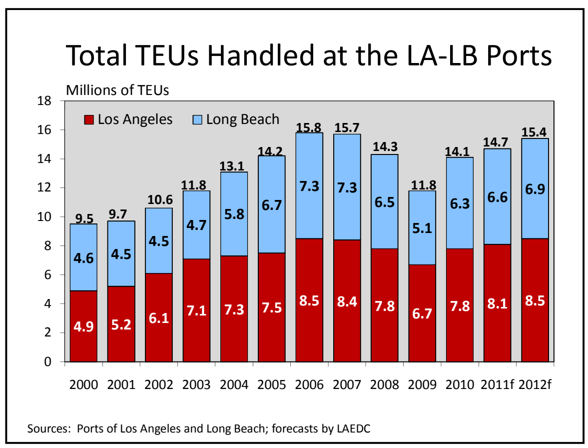
County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	336,700	346,700	350,100	353,000	3.7%	3.0%	1.0%	0.8%
Ambulatory Health Care Services	160,400	165,800	166,100	168,400	2.6%	3.4%	0.2%	1.4%
Hospitals	107,200	110,100	112,600	113,100	0.3%	2.7%	2.3%	0.4%
Nursing Care Facilities	63,200	64,500	65,000	65,100	2.6%	2.1%	0.8%	0.2%
Pharmaceutical & Medicine Mfg.	5,900	6,300	6,400	6,500	---	6.8%	1.6%	1.6%
Orange County	107,700	112,600	113,100	114,300	3.6%	4.5%	0.4%	1.1%
Ambulatory Health Care Services	57,700	60,500	61,400	62,200	2.9%	4.9%	1.5%	1.3%
Hospitals	31,200	31,800	30,700	30,100	5.8%	1.9%	-3.5%	-2.0%
Nursing Care Facilities	18,800	20,300	21,000	21,300	2.2%	8.0%	3.4%	1.4%
Riverside-San Bernardino Area	97,800	101,400	102,000	103,000	3.3%	3.7%	0.6%	1.0%
Ambulatory Health Care Services	47,100	49,000	49,500	50,000	1.5%	4.0%	1.0%	1.0%
Hospitals	30,200	31,800	32,300	32,700	5.2%	5.3%	1.6%	1.2%
Nursing Care Facilities	20,500	20,600	20,200	20,300	4.6%	0.5%	-1.9%	0.5%
San Diego County	90,000	95,000	98,200	100,600	3.8%	5.6%	3.4%	2.4%
Ambulatory Health Care Services	46,200	48,200	48,900	50,800	3.1%	4.3%	1.5%	3.9%
Hospitals	24,500	25,400	26,300	26,500	2.1%	3.7%	3.5%	0.8%
Nursing Care Facilities	19,300	21,400	23,000	23,400	7.8%	10.9%	7.5%	1.7%

Sources: California Employment Development Department

INTERNATIONAL TRADE/GOODS MOVEMENT: GRADE B+

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

The 2011 year-to-date (through May) trade figures for the San Pedro Bay Ports (Port of Los Angeles and the Port of Long Beach) have been strong for both imports and exports. As expected, rising imports contributed to the recovery in trade as demand from U.S. consumers and manufacturers picked up over the first part of the year. This has required a continuation of robust growth in Asian exports, which enter the U.S. through our local ports. However, import growth has tapered off a bit, as retailers are restocking inventories less aggressively. On a May year-to-date comparison, inbound containers have grown by +6.9% at the San Pedro Bay ports.



U.S. exports have slowly undergone a transformation over the past few years from advanced economies (particularly Europe and Japan) to faster growing markets in Asia (mainly China and Southeast Asia). This change in focus has resulted in substantial growth for U.S. exports, which have been the second largest contributor to GDP since the end of the Great Recession. U.S. exports have significantly benefitted over the past year from a rapid recovery and sustained growth in emerging markets, especially developing Asia (China, Thailand, Vietnam, Malaysia, Indonesia, and the Philippines). In addition, the other key factor that has propelled exports is the historically low U.S. dollar, which has made U.S. exports more competitive compared with goods from Europe and Japan. Overall, the main beneficiary of this export growth has been the Los Angeles Customs District (primarily the Port of Los Angeles, Port of Long Beach, and LAX) since the local ports are the main gateway to Asia. On a May year-to-date comparison, loaded outbound containers have grown by +7.4% at the San Pedro Bay ports.

Through May 2011, the two ports have seen total containers climb by +6.4%, moving from 5.2 million containers in 2010 YTD to 5.5 million containers in 2011 YTD. At the Port of Los Angeles, import container volume (excluding empties) increased by +7.3%, while export volumes (excluding empties) climbed by +10.9%. At the Port of Long Beach, the figures were also impressive as imports (excluding empties) grew by +6.5% and exports (excluding empties) by +3.1%.

Both local ports experienced strong years in 2010. The Port of Long Beach had the largest single increase in total TEUs of any major port in the U.S. Total containerized cargo improved by +1.2 million TEUs in 2010. In total, the Port of Long Beach had a total of 6.3 million TEUs in 2010, a +25% jump when compared to 2009. This was the largest yearly gain in the Port of Long Beach's history. Meanwhile, the Port of Los Angeles witnessed the highest level of exports in its history during 2010. Exports totaled 1.84 million TEUs, surpassing the previous record of 1.78 million TEUs in 2008. Together the local ports had their biggest single-year cargo increase in 25 years. To say that 2010 was a remarkable year for both ports would not be an overstatement. With this in perspective, the results so far this year have also been impressive as they are measured off of stellar growth figures from last year.

The POLA and POLB maintained their top two rankings in the U.S. during 2010, handling a total of 14.1 million containers. The Los Angeles Customs District (LACD) maintained its number one position in the U.S. in 2010 with a two-way trade value of $347 billion. The POLA remained the top port in the nation through May with regards to total container traffic with 3.1 million containers, while the POLB maintained its number two ranking with a total of 2.4 million containers. Through April, the value of total two-way trade has increased by +15% on a year-to-date basis.

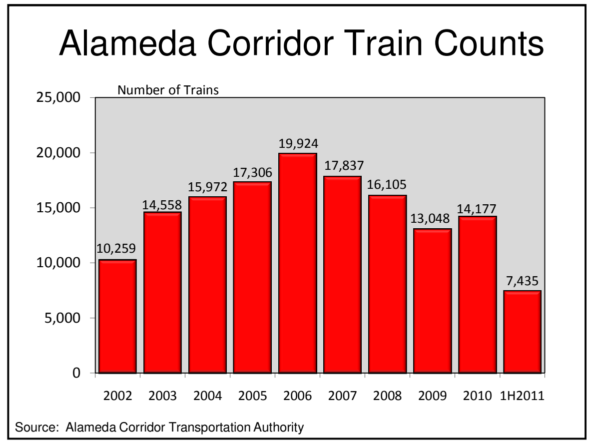
The key reason why trade volumes rebounded so strongly last year was that the Asian economies were growing rapidly, leading the global recovery, as well as the turnaround in demand from the U.S. Over 40% of the nation's products imported in containers come through the ports of Los Angeles and Long Beach. The outlook for the remainder of 2011 and into 2012 is positive as the global economy continues its recovery albeit at a slower pace. The Asian economies are once again expected to grow strongly, which bodes well for trade volumes at the local ports. However, the Asian economies are not projected to see the growth rates they experienced last year or at the beginning of this year as they face high inflation rates and contractionary monetary policies. Still, the LACD's top five trading partners are all projected to post growth rates of +4% or higher with the exception of Japan.

The LAEDC projects a deceleration in trade growth (particularly U.S. imports) for this year and next. The U.S. Dollar will face less downward pressure over the second half of 2011 as QE2 has ended. However, the U.S. Dollar should remain weak vis-à-vis our key trading partners leading to continued strength in LACD exports.

The forecast for the remainder of the year and 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 2011 to 14.7 million TEUs, a rise of +4.0% and in 2012 to 15.4 million TEUs, a rise of +5.0%. 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.

Alameda Corridor

During the recession, the 20-mile rail cargo line that connects both ports to the main railroad yards near downtown Los Angeles experienced a downturn in activity. The number of trains running on the Alameda Corridor plunged by -34.5% between 2006 and 2009. However, in 2010 the number of trains increased by +8.6%. Through June 2011, the number of trains climbed by +13% on a year–to-date basis. That figure should rise over the remainder of this year and into 2012.



Major Projects

- Both ports are actively pursuing expansion projects. The Port of Los Angeles signed a memorandum of understanding in mid-2009 to deepen its main channel to 53 feet so the port can accommodate the larger container ships coming into the global shipping fleet. The project will create thousands of construction jobs in the near-term and more port jobs when the new ships start using the port.

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

- A $1.1 billion Gerald Desmond Bridge replacement project was approved by the California Transportation Commission in late November 2010 and is expected to take five years to complete.

- The Pier G Project at the Port of Long Beach is a multi-year $980 million plan to modernize the International Transportation Services (ITS) container facility and expand on-dock rail operations.

- The Port of Long Beach and the U.S. Army Corps of Engineers have begun work on a $40 million project to deepen the Main Channel to allow for safer transit for the largest ships.

- At the Port of Los Angeles, $1 billion in capital improvements is planned over the next five years. Work at TraPac (a unit of Japan-based Mitsui OSK Lines) is underway to extend TraPac's wharves, deepen water depths, bring in a new on-dock rail facility and upgrade 50 acres of backlands at a cost of about $275 million over five years.

- Work on expanding China Shipping's terminal continues. A new 925-foot section on wharf, 18 additional acres of backland, and four container cranes were just added in the first half of 2011, completing the first phase of the project at a cost of $47.6 million.

- LAX broke ground in April 2011 on the new $1.45 billion Bradley West modernization and expansion project. The renovated international terminal will comprise 1.25 million square feet of new building area, including enlarged passenger waiting areas, food and retail concessions, expanded federal inspection/customs facilities and nine new boarding gates capable of accommodating the Airbus A380 and the Boeing B787 Dreamliner.

The Big Questions

For the international trade industry, the two main questions going forward are: How well will the global economy perform for the rest of the year and in 2012? When will we see the peak trade volume years of 2006-2007 return?

The pace of global economic recovery will slow somewhat in the second half of 2011 and into 2012. The recovery will continue to reflect two different economic stories. The developing economies (especially in Emerging Asia) will lead the global recovery, while the advanced economies will see modest improvements in GDP growth. The growth in Emerging Asia bodes well for trade volumes at the local ports. Overall, the results for the rest of 2011 should be healthy albeit below the growth that was experienced in 2010.

The answer to the second question that everyone wants answered, has become a bit more optimistic. We did see an amazing improvement in trade volumes last year, which is a very encouraging development. Most importantly we have seen continued strength over the first half of 2011. Trade volume levels are projected to return to the glory days of 2006/2007 as soon as next year or in 2013.

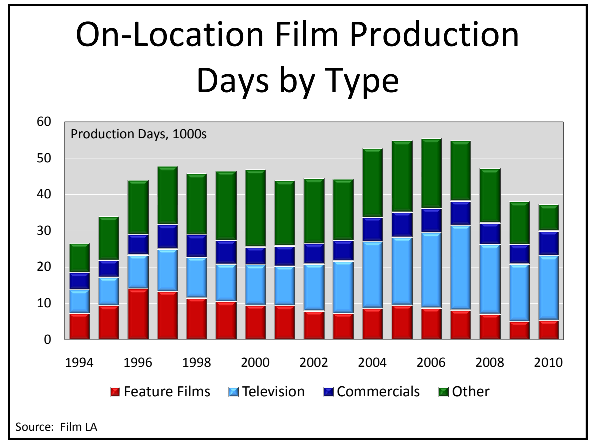
MOTION PICTURE/TV PRODUCTION: GRADE B

The Motion Picture and TV Production industry has been on its own version of Mr. Toad's Wild Ride these past few years. The industry has had to cope with recession, plunging advertising revenues, rapid technological change, piracy, and run-away production.

On-location film permits jumped by +16% in 2010 after declining by -23% the previous year. During the first half of 2011, on-location production days were up by +2.9%.[7] So far this year, feature film permits edged up by +0.5%, but television and commercial permits fell by -2.3% and -2.0% respectively. The "other" category increased permits by +12.7% during the first half of 2011. This category includes stills, music videos and documentaries. Unfortunately, it does not generate a lot of jobs.

Still, this is good news for the motion picture and TV production industry, which was hit hard during the recession by cut-backs in advertising, film production flight and studio belt-tightening. The California Film and Television Tax Credit is helping, although part of the reason for the decline in feature and TV production permits in 2011 was because less money is available this year for projects.

Employment in the industry started to rebound at the end of 2009. Over the past year and a half, the motion picture and TV production sector added 17,300 employees (+14.9%), making entertainment one of the county's



fastest growing segments in terms of employment.

The outward migration of film production was slowed by the state's film tax credit program, which took effect in 2009. The program provides a 20% to 25% tax credit on qualified production expenses that can be used to offset state income or sales tax liabilities. During the first two years of the program, a total of 110 productions have been approved. A number of cash-strapped states with film tax credit programs have been questioning the cost effectiveness of their programs, and some are scrapping them. This might reduce competition for local production.

Domestic box office receipts last year were nearly even with 2009's record $10.6 billion, but that was mostly due to higher priced tickets for 3D movies ($4 to $5 or more per ticket). Movie theater attendance was actually down by -5% in 2010 and is expected to decline again in 2011.

Piracy is a growing threat to the industry. The chaos that engulfed music industry provides a cautionary tale. It has been more than ten

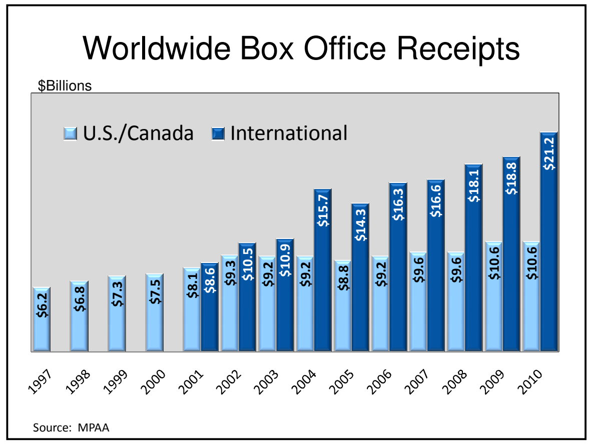
[7] These data do not cover filming that takes place inside the industry's studios and soundstages, but are a good indicator of industry activity

years since compression technology and faster on-line speeds have made it easy to share media on-line.

File sharing remains the primary source for pilfered content, but media companies have had some success cracking down on file sharing outfits. Advances in video on demand (VOD) technology are making it easier and faster to distribute pirated movies, TV shows and music. Streaming and downloading video to cyberlockers in particular, has led to an explosion in illicit websites offering black market content. Some of these sites are so sophisticated they appear to be legitimate to many users.

Financial losses are hard to quantify, but it is safe to say foregone revenues are substantial. Piracy experts employed by the media companies and law enforcement officials will have their work cut out for them. Alternately, figuring out a way to convince people to pay for content (easy access across an array of devices and a price point everyone can live with) is the other side of the same coin.

DVD sales continue to decline. DVDs have become the Model T of content delivery. This is a major concern, because DVD sales were an important revenue source for the studios. With the rise of VOD, people are less inclined to purchase movies and are electing instead to rent or watch movies for free utilizing a variety of technologies. The issue of how much people are willing to pay and how to charge for content is a contentious one, but no one has the answers yet. One thing is clear – entertainment companies are not immune from the same forces that have disrupted the music industry and newspaper publishing. The industry is scrambling to find a solution.



The modest pace of the economic recovery is also having an impact on the entertainment industry. Last summer, for the first time, the number of pay-TV customers declined. While one segment of the population can still afford to go out and buy the latest technology for content delivery, an increasing number of cost conscious individuals are making the choice to cut cable TV. Movie rental services like Red-Box and Netflix are making it easier and cheaper to rent movies. As a consequence, even though the number of transactions is growing, the revenues received by movie studios for rentals is falling. Additionally, as the use of internet-connected TVs and portable devices becomes even more widespread, there could be a permanent shift in consumer behavior, with people preferring to stay home and watch movies. On the other hand, each new wave of technology has brought with it a lot of hand-wringing and forecasts of doom for the industry. We are likely to see a very different entertainment landscape unfold over the next several years as the industry adapts.

TABLE: 27: MOTION PICTURE/TV PRODUCTION EMPLOYMENT

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	148,700	149,400	138,800	154,900	2.5%	0.5%	-7.1%	11.6%
Motion Picture & Sound Industries	129,200	130,000	120,500	136,983	2.5%	0.6%	-7.3%	13.7%
Broadcasting (radio, TV & cable)	19,500	19,400	18,300	17,917	2.1%	-0.5%	-5.7%	-2.1%

Sources: California Employment Development Department

TECHNOLOGY: GRADE A

The new IT industry trends? According to a recent 2011 report funded by IBM**,** the current trend in Information Technology (IT) is "the information explosion". This has been triggered by simultaneous and continuing revolutions in hardware storage capacity, nanotechnology, Internet technologies, analytical software, mobile applications, and social networks.

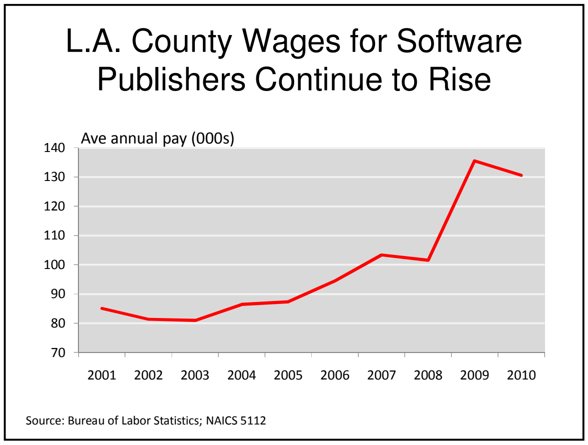
First to note, consumer grade terabyte hard drives can be had for less than $100. Because storage of a massive amount of data is so inexpensive, multiple data sources can be drawn upon, providing any data warehouse and analytics system with additional inputs. At the same time as such hardware developments make data retention easy, they also make privacy hard.

These new data centers also consume so much energy, electric utilities cannot always meet demand. Google and Microsoft have put data centers next to hydroelectric plants in the Pacific Northwest. And 50% of an average air-cooled data center's energy consumption is caught up in powering cooling systems.

Second, dramatic hardware advancements as well as the introduction of 4G network speed have caused smart phones to grow into powerful devices that allow more productivity than ever before. The Gartner Group says 354 million mobile email users will grow to 713 million mobile users in 2014. Once again, the major roadblock in the way of growth in mobile business use has been security.

Finally, more and more backroom IT systems are being made available via 'The Cloud'. These are known as Software as a Service (SaaS) offerings.

The Southern California region can be divided into several distinct regional info tech (IT) clusters. These clusters contain hundreds of companies often in related industries. *Silicon Freeway* is the 101 freeway IT corridor from the San Fernando Valley to Ventura. *Multimedia Gulch* is found in Glendale, Burbank, North Hollywood, and Universal City. The *Westside* cluster is in Santa Monica, Westwood, Venice, Playa Vista, and Culver City. *Downtown Tech Cluster* in Los Angeles is self explanatory. The *Santa Barbara Area* is another one. *Internet Valley* is found in Pasadena, Altadena, Alhambra, and Monrovia. An *Orange County* cluster is found in Irvine, Costa Mesa, and Fountain Valley.



The Los Angeles area has a growing IT startup community, and is now home to startups like DocStoc, mid-size firms like iRise, and a few much larger IT businesses, like Vizio (HDTVs), MySpace (recently sold for $35 million) and CitySearch. One program looking to help foster that community is Launchpad LA, which just opened applications for the second round of its mentorship program. Launchpad LA invites venture capital (VC) bankers and other mentors from the area to help mentor participating companies. But unlike those programs, it doesn't directly invest in the companies — it's purely for mentorship. That said, many VCs and angel investors in the LA area have some involvement, so it has played a role in those companies getting funding down the road.

Indigenous venture capital investment in the Los Angeles region — which includes Los Angeles, Riverside, San Bernardino and Ventura counties — was down for the fifth year in a row in 2010. In 2010, there were 115 deals in the area worth $961.7 million. Funding has shifted squarely to the internet and clean technology; and away from hardware/device startups. The VC firms in LA include Clearstone Ventures, Rustic Canyon Partners, Anthem Ventures, GRP Partners, and many others. However, non-Southern California firms have made numerous, notable, and sizable investments in Southern California. So the actual amount of VC funding involved in the LA area is much larger.

A huge population to serve and lifestyle opportunities within the metropolitan area are some of the attractions. Universities like UCLA, USC, and Cal Tech, and numerous others also feed IT worker pipelines and add new ideas.

A recently compiled list of Los Angeles area achievements include: Hardware and device startups in the greater LA area include firms like: Xirrus (WiFi) in Thousand Oaks, Sonos (wireless music controllers) in Santa Barbara, Row 44 (WiFi systems for aircraft) in Westlake Village, Transphorm (energy-saving gallium nitride semiconducting) in Goleta, and RealD (3D motion picture technology) in Beverly Hills.

In February 2011, a $15M Series C financing round was announced for the company GOGII, Inc. Its two year old phone app product, TextPlus, allows for free text one-to-one and group messaging, and is now the #1 downloaded texting app. It is located in Marina Del Ray.

In early June 2011, the biggest gaming convention in the U.S. — E3 — was held at the Los Angeles Convention Center.

In early July 2011, Affiliated Computer Services, Inc — which was acquired by Xerox in February 2010 — announced it is building a new, electronic toll system on two busy highways (I-10 and I-110) in Los Angeles. It will allow all single car drivers to shift into carpool lanes for a fee.

America's first pipeline-fed, retail hydrogen fueling station opened in Torrance, California, in May 2011. The station will provide hydrogen for fuel cell and hybrid vehicles in the area. It was built through a joint effort by Toyota, Air Products, and Shell alternative energies, with funding from the South Coast Air Quality Management District (SCAQMD) and the U.S. Department of Energy (DOE). The station's first customer was the owner of a Honda FCX Clarity.

A new $300M Trans-Pacific fiber optic link, dubbed Unity, was ready for service in April 2010. The Unity cable system provides direct connectivity between Chikura, located on the Japanese coast near Tokyo, and the West Coast Points-of-Presence in Los Angeles, Palo Alto and San Jose in California. At Chikura, Japan, Unity is seamlessly connected to other cable systems, further enhancing connectivity into Asia.

Movie stars like Ashton Kutcher and Justin Timberlake have become angel investors to a number of new IT firms.

TABLE 28: TECHNOLOGY EMPLOYMENT

County/Sector	2007	2008	2009	2010e	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	146,400	147,100	138,900	135,566	-1.2%	0.5%	-5.6%	-2.4%
Computer & Electronic Products Mfg.	55,700	54,400	51,200	49,842	-6.2%	-2.3%	-5.9%	-2.7%
Internet & Data Processing Services	5,600	5,700	5,200	5,283	0.0%	1.8%	-8.8%	1.6%
Computer Systems Design & Services	27,800	28,600	26,800	26,808	5.7%	2.9%	-6.3%	0.0%
Mgmt, Scientific & Technical Consulting	40,200	40,800	37,900	35,925	3.1%	1.5%	-7.1%	-5.2%
Scientific R&D Services	17,100	17,600	17,800	17,708	-4.5%	2.9%	1.1%	-0.5%
Orange County	79,000	76,700	70,600	69,584	1.0%	-2.9%	-8.0%	-1.4%
Computer & Electronic Products Mfg.	40,600	37,400	33,700	32,642	-3.6%	-7.9%	-9.9%	-3.1%
Computer Systems Design & Services	18,000	18,500	17,500	17,600	6.5%	2.8%	-5.4%	0.6%
Mgmt, Scientific & Technical Consulting	20,400	20,800	19,400	19,342	6.3%	2.0%	-6.7%	-0.3%
San Diego County	50,500	51,400	49,500	48,683	-0.4%	1.8%	-3.7%	-1.7%
Computer & Electronic Products Mfg.	26,000	26,800	26,200	25,083	-2.6%	3.1%	-2.2%	-4.3%
Scientific R&D Services	24,500	24,600	23,300	23,600	2.1%	0.4%	-5.3%	1.3%

Sources: California Employment Development Department

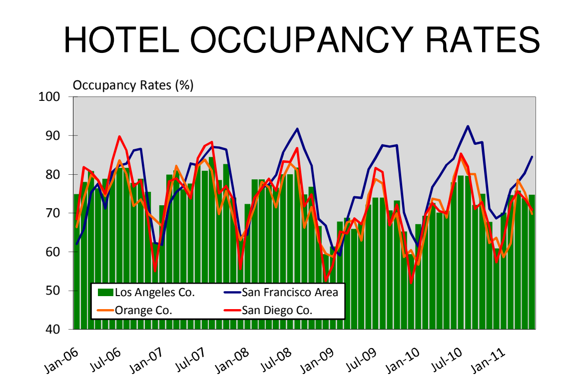
TRAVEL & TOURISM: GRADE A-

Tourism bounced back in 2010 and is continuing to improve in 2011, providing a significant boost to the local economy. 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 total of 25.7 million overnight visitors in 2010, which was up by +8.0% compared with 2009, and is close to 2007's peak of 25.9 million overnight visitors. Tourists and business travelers spent $13.1 billion last year, an increase of +10.4% over 2009.

The ranks of international visitors surged by +20.7% to 5.5 million visitors in 2010, while spending by foreigners rose by +23.2% to $4.6

billion. Australia topped the list of overseas visitors (accounting for 21% of total visits to Los Angeles County and one third of the spending), although Mexico and Canada beat out the overseas market. China and South Korea also saw significant growth in the number of tourists coming to Los Angeles.

Regarding the area's hotel industry, even the modest economic recovery helped raise occupancy rates 2011. Funds for travel are back in the budget for many companies and business travelers are back on the road. Also, more people taking vacations. Attendance at conventions was up in L.A. during 2010. Over the next two years, we will see more conventions coming to the Los Angeles Convention Center. Hotel profitability measures are also gaining momentum. Revenue per available room (RevPAR) is on the rise and average daily room rates are beginning to inch up. Many hotels are feeling confident enough to embark on renovations and upgrades that were delayed during the recession.



Source: PKF Consulting

The outlook for the region's large tourist industry is looking brighter, but there are still concerns. One is the economic problems in Europe and the Euro's sharp 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. Concerns over drug-related violence in Mexico has reduced demand for cruises to the "Mexican Rivera," prompting two cruise lines to remove ships from the Port of Los Angeles. Disney recently relocated a ship to Los Angeles, which will make up some of the shortfall.

Another concern is that hotels are still struggling financially, with more properties at risk despite growth in the number of visitors. Travelers remain fixated on "deals", and continue to demand lower room rates and perks. Mobile devices and social networks allow consumers to constantly receive targeted offers and siphon pricing power away from airliners and hotels. On the other hand, higher occupancy rates and a lack of new hotel construction has enabled some hoteliers to begin backing away from the heavy discounting of last year. In addition to revenue issues, the local tourism industry faces competition from other travel destinations like Hawaii, Florida and Las Vegas .

Countering these concerns are regional efforts 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 continue to add new attractions. Visitors also have an impressive number of world class museum and cultural venues from which to choose. Opening this summer is the Cirque du Soleil show at the Kodak Theater in Hollywood. In 2013, the Broad Art Foundation will open its art Museum downtown, and the Space Shuttle Endeavor is coming to Los Angeles for permanent display at the California Science center.

TABLE 29: TOURISM-CENTRIC INDUSTRIES EMPLOYMENT

County/Sector	2007	2008	2009	2010	%chg. '07/'06	%chg. '08/07	%chg. '09/08	%Chg. '10/09
Los Angeles County	52,300	52,600	48,100	47,500	7.4%	0.6%	-8.6%	-1.2%
Accomodation	40,300	41,200	38,800	38,900	3.1%	2.2%	-5.8%	0.3%
Travel Arrangement & Reservations	12,000	11,400	9,300	8,600	4.3%	-5.0%	-18.4%	-7.5%
Orange County								
Accomodation	23,100	23,700	22,400	22,000	3.1%	2.6%	-5.5%	-1.8%
Riverside-San Bernardino Area								
Accomodation	17,400	16,400	14,800	13,800	-2.2%	-5.7%	-9.8%	-6.8%
San Diego County								
Accomodation	31,900	32,700	30,200	29,400	4.6%	2.5%	-7.6%	-2.6%
Ventura County								
Accomodation	2,900	2,900	2,400	2,000	7.4%	0.0%	-17.2%	-16.7%

Sources: California Employment Development Department

UPDATE: LOCAL ECONOMIC IMPACTS OF THE DISASTERS IN JAPAN

In Japan:

- Economy declined thru May/June but expected to bottom out by Summer 2011
- Electric power still in short supply; hinders recovery
- Key automotive industry expects to resume normal production later this year
- First reconstruction budget was enacted; two more to go

→ As we expected – the Los Angeles region experienced large declines in local activity tied to Japan (mainly international trade, tourism, and autos) in April and May, but impacts should lessen in coming months

International Trade – Japan is the L.A. Customs District's (LACD) second largest trading partner

- 22% of U.S. two-way trade with Japan by dollar value flows through the LACD
- Total imports from Japan through the LACD plummeted by -40.6% (in dollar value terms) in April-May compared to March
- Major products are autos/parts, computers/parts, machinery, electrical equipment and electronic components. All have been negatively impacted – Value dropped by -48.5% in April-May from March

Tourism – 274,000 Japanese visitors traveled to Los Angeles in 2010

- While 2010 was up by +14.6% over 2009, the LA region has seen declines in Japanese visitor counts in 2011, right after the disasters and in April & May
- LAX, South Bay, Downtown hotels, and other venues frequented by Japanese tourists were all impacted

Motor Vehicles

- U.S. market share of Japan-made vehicles dropped by -3.0 %age points in second quarter 2011 vs. 2011q1.
- Worse yet, *total* Japan nameplate share (includes U.S. made vehicles) dropped by -6.7 %age points in 2011q2, to 32.1%.
- Impact in California will be stronger because Japanese nameplate share is higher (49.1% in 2011q1).

→ But remember these things:

- Japan and Los Angeles County both have large economies (Japan – 3rd largest and L.A. County – 20th largest – based on market exchange rates in U.S. dollars)
- Developing Asia is experiencing an economic upswing and will continue to lead the global economic recovery – luckily for the LACD these economies are our top trading partners
- The rebuilding in Japan will contribute to the global recovery later this year and in 2012 – which will only strengthen LACD trade flows

XII. Outlook for Construction and Retailing

Residential Real Estate

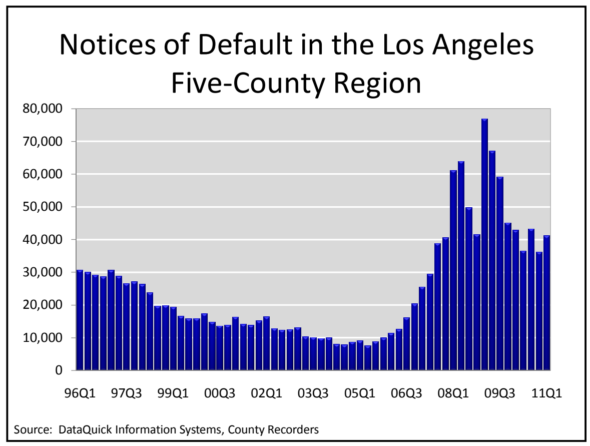
Introduction

Housing started out strong in 2010 but relapsed in the second half of the year after the Federal tax credit program expired. What the Federal tax incentive failed to do was create new demand. Growth in the housing market depends on three things. The first is the formation of new households, the second is first-time buyers entering the market and the third is existing homeowners trading up. When the tax credit expired, supply continued to rise because of foreclosures, but demand dropped off. The number of sales transactions fell and gains in median price slowed, ending the year barely above were they had been in 2009.

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 rental markets were tightening. Additionally, low prices meant home affordability was good and mortgage interest rates were near record lows. And yet, recovery in the housing market remains elusive. Tighter mortgage underwriting standards and uncertainty about how much further prices will fall have dampened demand. Rising food and energy prices in the first quarter of 2011 undercut consumer confidence still further.

New Home Construction

The market for new home construction continues to face significant challenges on the demand side: the glacial pace of new job creation, tighter bank underwriting standards and conservative appraisals (likely to become even more so). As if all that were not enough, foreclosure activity continues to push back the recovery horizon. Builders cannot compete with bargain-priced existing homes, many of which are foreclosures or short sales. During the first quarter of 2011, the average foreclosure sales price in California was approximately 34% below the average sales price of homes not in foreclosure.[8]

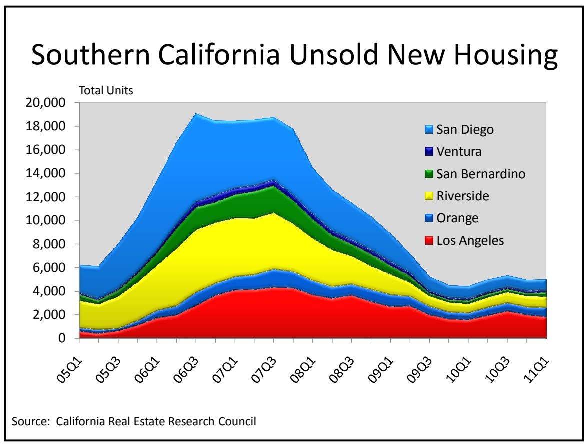


During the first three months of 2011, foreclosure sales accounted for 45% of all residential home sales in California. California had the second highest foreclosure rate in the nation (behind Nevada at 53% and tied with Arizona).[9] Still, foreclosure re-sales are down considerably since peaking at 56.7% in February 2009. While fewer people appear to be entering foreclosure, banks are stepping up home repossessions.

At the height of the housing crisis, lenders were overwhelmed by the number of borrowers who

[8] Realty Trac, Inc. (May 2011)
[9] RealtyTrac, Inc.

fell behind on their loans. Then late last year, issues with foreclosure documentation slowed the process again. Although those issues have not been completely resolved, lenders are not backing off. Additionally, government programs to modify troubled home loans and forestall the foreclosure process have met with very little success. Foreclosures will continue to drive sales across the region. At the same time, 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.



Source: California Real Estate Research Council

One of the consequences of this imbalance in the market (i.e. sales skewed to bargain-priced properties), is builders' levels of unsold new housing began to creep up last year after posting steady declines since the fourth quarter of 2007. Inventories in the first quarter of 2011 rose by +14.9% over the year in Los Angeles County, and by +37.4% in Orange County. In Riverside County, the inventory of new unsold homes jumped by +18.9%, while in San Bernardino County, the number of unsold new homes shot up by +32.7%. In Ventura County, the unsold new home inventory increased by +33.1% over the year.

Table 30: Total Housing Permits

	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2000	17,071	12,367	21,990	3,971	55,399
2001	18,253	8,646	27,541	3,446	57,886
2002	19,364	12,020	33,280	2,507	67,171
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	91,556
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,363	7,072	20,457	1,847	49,739
2008	13,704	3,159	9,101	842	26,806
2009	5,653	2,200	6,685	404	14,942
2010	7,465	3,180	6,269	592	17,506
2011f	10,600	6,175	4,500	450	21,725
2012f	16,800	7,675	6,800	600	31,875

Sources: Construction Industry Research Board, forecasts by LAEDC

The total number of home building permits issued in the Los Angeles five-county region fell steadily from 2004 (when 91,556 total units were permitted) to 2009. During 2010, a total of 17,506 new residential construction permits were issued, an increase of +17.2% compared with 2009, but a decline of -81% from 2004. During the first five months of 2011, total new residential construction in the five-county area was up by +36.3% from the same period in 2010 with 9,133 total permits issued for new single- and multi-family units.

In Los Angeles County, total residential construction permits increased by +32.1% to 7,465 units in 2010. The latest cycle peak for new home construction in Los Angeles County was in 2004 when 26,935 units were permitted. Multi-family homes accounted for 68% of the permits issued last year, with single-family homes making up the remaining 32%. This mix of housing types has become the norm for Los Angeles County as the availability of open land for housing development has diminished.

Shifting demographics and changing consumer preferences are also affecting new home construction. During the first five months of 2011, the number of permits issued for new homes increased by +57.5% (to 4,475 units) compared with the same period in 2010. Of those, 78% were for multi-family residences.

In Orange County, a total of 3,180 residential permits were issued in 2010, which was up by +44.5% compared with 2009, but was still down by -66% from prerecession peak levels (2004). Land availability is relatively low in Orange County and since 2004, multi-family units have accounted for the majority of residential construction permits issued in the county. Last year, however, new home construction was nearly even between single- and multi-family housing. During the first five months of 2011, the number of permits issued for new homes shot up by +165.0% (to 2,650 units) compared with the same period in 2010.

Alone among the regions of the Los Angeles five-county area, the Inland Empire posted a decline in new home permits in 2010, falling by -6.2% to 6,685 units last year, and down by a dismal -88% from the region's new homebuilding peak in 2004. However, San Bernardino County was responsible for the entire decline. Last year, only 1,844 new housing units were permitted in the county, which was down by -27% compared with 2009. Riverside County, on the other hand, actually saw permits for new home construction increase by +5.6% to 4,425 units. Taken as a whole, single-family permits dominated in the Inland Empire, making up 76% of the total number of new housing permits. Unfortunately, the declines continued this year. During the first five months of 2011, the total number of permits issued for new homes in the Inland Empire dropped by -29.4% from the same period a year ago.

Compared with the rest of the region, less new home construction occurs in Ventura County. The lengthy permitting process and limited land available for residential development act as barriers to new construction. The lack of demand for homes at higher price points might also be affecting Ventura County's residential construction industry (median prices are relatively high compared with the rest of the Los Angeles five-county area). A total of 592 residential permits were issued during 2010, an increase of +46.5% from the previous year. Of the housing permits issued in 2010, 67% were for multi-family residences. During the first five months of 2011, the number of permits issued for new homes was down by 32.8% from last year at this time.

Resale Housing

The California resale housing market began 2010 on a strong footing. Spurred by home buyer tax incentives, sales volumes and median prices posted healthy gains over the first half of the year. The second half of the year was a different story entirely. With the expiration of the tax credits, the housing market was forced to wean itself off government aid. The result was a decline in sales and smaller increases in median price. In 2010, existing single-family home sales in California declined by -9.5% over the year, while the median price rose by +10.2%. Over the 12 months ending in May 2011, however, the lift provided by the tax credits dissipated entirely, leaving the housing market reeling. The median price slid by -10.9% over the year and sales dropped by -14.4%.

TABLE 31: MEDIAN EXITING SINGLE-FAMILY HOME PRICES

	Los Angeles County	Orange County	Inland Empire	Ventura County
2000	215,900	316,240	138,560	295,080
2001	241,370	355,620	156,690	322,560
2002	290,030	412,650	176,460	372,400
2003	355,340	487,020	220,940	462,520
2004	446,380	627,270	296,350	599,280
2005	529,010	691,940	365,395	668,140
2006	584,820	709,000	400,660	685,960
2007	589,150	699,590	381,390	673,940
2008	402,110	533,200	234,220	463,560
2009	333,920	477,240	169,680	416,770
2010	346,840	495,210	187,000	442,820
5 mos 2010	297,410	555,800	183,430	440,370
5 mos 2011	272,030	544,700	172,110	425,000

Annual % Change

	Los Angeles County	Orange County	Inland Empire	Ventura County
2000	8.5%	12.6%	7.7%	15.7%
2001	11.8%	12.5%	13.1%	9.3%
2002	20.2%	16.0%	12.6%	15.5%
2003	22.5%	18.0%	25.2%	24.2%
2004	25.6%	28.8%	34.1%	29.6%
2005	18.5%	10.3%	23.3%	11.5%
2006	10.5%	2.5%	9.7%	2.7%
2007	0.7%	-1.3%	-4.8%	-1.8%
2008	-31.7%	-23.8%	-38.6%	-31.2%
2009	-17.0%	-10.5%	-27.6%	-10.1%
2010	3.9%	3.8%	10.2%	6.3%
5 mos 2011	-8.5%	-2.0%	-6.2%	-3.5%

Source: California Association of Realtors

A comparison of median prices for existing single-family homes (over the year ending in May) by county revealed that the median home price in Los Angeles County was $272,030, down by -8.5% over the year. In Orange County, the median home price dipped by -2.0% to $544,700. In Riverside County, the median price dropped by -6.1% to $200,000 and in San Bernardino County, the median price was down by -7.3% to $127,380. Ventura County had a median price of $425,000, a decline of -3.5% from a year ago.[10]

Sales of foreclosed homes continue to make up a large percentage of home sales, especially in Southern California's more affordable inland areas. Foreclosure activity has declined significantly from its peak in 2009, but remains at historically 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 May, investors were responsible for 24.6% of Southland home sales.[11] Sales of homes priced $500,000 and higher fell back a bit in recent months, hampered by tight credit conditions. In May, sales of higher-end homes made up 17.1% of the total number of transactions for the month. In January 2009, only 13.7% of sales reached the $500,000 price point.[12] The housing market will need to return to a more normal distribution of sales across all price points to restore it to a balanced condition.

The weakness of demand, especially for middle tier homes, is slowing the absorption of vacant properties for sale and hindering recovery. Unsold inventories of resale homes, which had fallen dramatically in 2009 and during the first half of 2010, started to climb again. According to the California Association of Realtors, the unsold inventory in California represented a 5.4 month supply at May's sales rates. This was up from 4.5 months in May 2010. While six months inventory is considered a balanced

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[10] California Association of Realtors

[11] DataQuick Information Systems (Southland May Home Sales Report)

[12] DataQuick Information Systems (Southland December Home Sales report)

market and the region is still below peak levels reached in 2007/2006, this is not an indicator we want to see reverse direction.

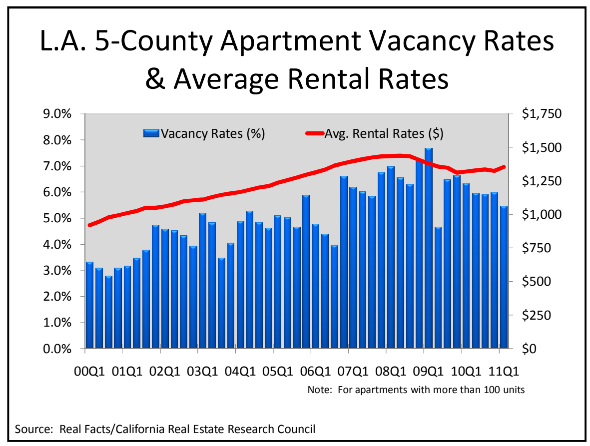
The resale housing market in Southern California is still a buyers' market. However, that presupposes a potential first-time buyer possesses a down payment, good credit, low debt levels and the confidence to buy a home. People who already own a home may likewise be prevented from moving up because they are not prepared to accept low prices from buyers expecting a discount, or they are upside down on their current mortgage and cannot sell.

To date, rock bottom mortgage interest rates and good affordability have not been enough to entice buyers back to the market. Falling prices, a reflection of weak demand and tight credit conditions, reduce the number of potential buyers. What happens in the second half of 2011 and in 2012 will depend on how fast lenders work through their foreclosure files. Would-be buyers are waiting for some indication prices are stabilizing. Most people hesitate to invest in an asset only to see it lose value in the near-term. Also needed are more substantial improvements in the labor market, 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 has been increasing over the past year. During the recession, rental demand was held down by three things. Young adults were forming independent households at a much slower pace and the flow of immigrants coming into the United States was greatly reduced. The high level of unemployment also had an impact on apartment demand, as tenants chose to double up to save money.

Recent trends in the Southern California region indicate the rental market is tightening. The economy is adding jobs and young people who waited out the recession in their parents' homes are starting to fly the nest. Homeowners who lost their homes to foreclosure will likely have to rent for many years to come.



Apartment vacancy rates were down in the first quarter of 2011 compared with the same period in 2010. The vacancy rate in Los Angeles County was 6.1% compared to 6.4% a year ago. Apartment vacancy rates in Orange county averaged 5.0% (down from 5.7%). Riverside County also experienced a decline in vacancy rates over the year, from 7.9% to 5.6%. In San Bernardino, the rate declined to 5.6% (from 6.4%) and in Ventura County it dropped to 5.0% (from 6.0%).

Rental rates are also improving. The average rental rate in the Los Angeles five-county region increased by +2.5% during the first quarter on a year-over basis. Rental rates in Los Angeles County were up by +3.0%. Orange County saw an increase of +1.9%. Over the year, rents also rose in Riverside County (+3.2%) and San Bernardino County (+2.5%). In Ventura County the average apartment rent ticked up by +2.2%. Apartment fundamentals remained relatively healthy during the recession 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 the sub-prime and foreclosure crisis.

Multi-family construction has been the one bright spot in residential real estate market during the past year and momentum is building. New construction is still at low levels, but as demand continues to rise, apartment owners who managed to hang on through the recession will be in a good position. Families are beginning to reevaluate 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. If these shifts in values hold, they will facilitate a move toward high density housing (i.e. multi-family housing) in centralized, transit friendly urban locations.

Housing Forecast

In 2010, the housing market continued to lag behind the rest of the economy. In spite of affordability returning to levels last seen before the pre-recession run-up in prices, and low mortgage interest rates, potential buyers have been unable and/or unwilling to take advantage of what should be a favorable market. The hurdles buyers are facing include: negative equity on existing homes, higher down payment requirements, tougher underwriting standards and more stringent appraisals. Additionally, one cannot discount the role played by consumer confidence. Uncertainty over the short-term economic outlook and prospects for income growth has many people weighing their spending decisions very carefully.

Foreclosures will continue to be a major driver of sales in Southern California's distressed areas for the remainder of 2011 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 necessary condition to lure discretionary buyers back to the market.

Further complicating matters, the Federal government recently announced its intention to take another step back from its intervention in the housing market. New loan limits are set to go into effect October 1, 2011. The maximum size of mortgages eligible for backing from Fannie Mae, Freddie Mac and the FHA will be reduced from the current $727,750 level. In high-cost locales, this will make it harder to obtain loans for homes that exceed the new limits. Potential buyers will be forced to seek jumbo loans which usually require higher down payments and charge higher interest rates. In Southern California, the new loan limits will affect Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties.[13]

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[13] U.S. Department of Housing & Urban Development: *Potential Changes to Single Family Loan Limits* (May 2011)

The LAEDC forecasts that a total of 21,725 new housing units will be permitted during 2011 in the five-county region, an increase of +24.1% from 2010, but still down by -76.3% from the 2004 level of 91,556 units.

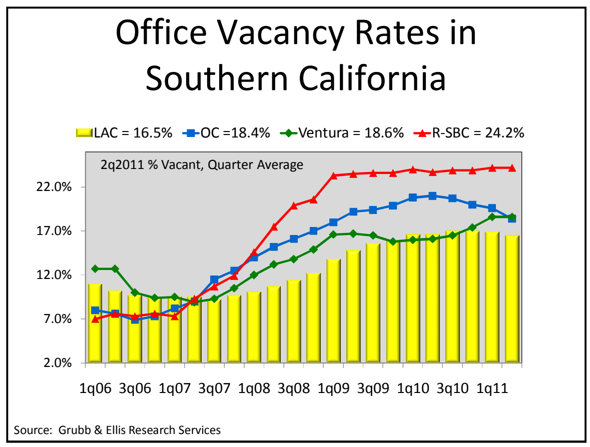
Right now, the biggest risk to the housing market is if the pace of job growth fails to accelerate. Demand for homes is weak and prices are down again. Despite all of this, the LAEDC expect a modest rise in home sales and new home construction in 2011. We will have to wait for 2012 to see a more robust turn-around. Gains in 2011 will stem from improvements elsewhere in the economy, particularly stronger job and income growth and increased household formation.

Nonresidential Real Estate

Office Space

The commercial real estate market was a mixed bag in 2010, but fundamentals for the major property types, including office space, showed signs of stabilizing. The first half of 2011 brought further improvement. Leasing activity and sales are picking up, and values of prime properties are surging. Demand for office space is up slightly (reflecting the modest uptick in hiring and near record low levels of new construction), but most of the activity is still lease renewals, which often involve less space. While some firms remain cautious, signing short term leases to maintain flexibility, firms with strong balance sheets are taking advantage of lower rents and concessions to lock in longer term deals. Looking at sales, traditional buyers are back in the market, but are looking mostly for well located, prime quality, undervalued properties.

After two years of economic growth, Southern California's office market is doing a bit better, but it remains weak and improvement is uneven. The recovery has been relatively sluggish and has failed to generate enough demand to effect a sustained turn around in the commercial real estate markets. Millions of square feet of office space were dumped onto the market during the recession as firms downsized or closed their doors altogether. Given the expected modest pace of job creation, it will take some time to fill up all that empty space.

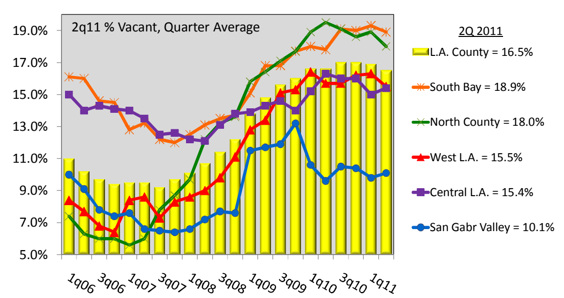


Note: Latest data available for Ventura County is 1q11

Overall, the Los Angeles County office market approached stability over the past year. The average office vacancy rate was 16.5% in the second quarter of 2011 compared with 16.6% during the second quarter of 2010. Net absorption was negative during most of the past year, though it turned briefly positive in the fourth quarter of 2010. The volume of new space under construction was 526,000 square feet, mainly in West Los Angeles (unchanged from 4q10).

On average, the county's soft market for office space pushed Class A asking rents down slightly – to $2.92/SF in the second quarter compared with $3.01/SF during the same period in 2010. Vacancy rates will remain elevated this year due to modest job growth and the new construction scheduled to be delivered in 2011. As a result, asking rents may touch bottom later this year, but are unlikely to pick up significantly. Improvement in 2012 will be gradual – look first for an increase in effective rents, as landlords pull back on concessions in response to increasing demand, and then in asking rents.

Office Vacancy Rates in Los Angeles County by Area



Source: Grubb & Ellis Research Services

The San Gabriel Valley continues to be the region's best performer – it had the lowest office vacancy rate during the second quarter of 2011, although it ticked up to 10.1% from 9.6% during the same period in 2010. The highest office vacancy rate occurred in the South Bay, which saw an increase from 17.8% to 18.9% during the first half of this year. Part of the area's woes stem from Boeing and Northrop Grumman having vacated nearly 300,000 square feet of office space in El Segundo last year.

The remaining sub-markets in Los Angeles County performed better, but just marginally. In North County, the office vacancy rate declined to 18.0% from 19.0%. On the Westside, the office vacancy rate was 15.3%, which was down slightly from 15.4% in 2q10. The Central L.A. sub-region fared a bit better, posting a vacancy rate of 15.4% in the second quarter, down from 15.7% a year ago.

One thing to note about asking rents is that while vacancy rates were climbing, many tenants sought concessions from landlords who were generally willing to go to great lengths to retain a tenant. As a result, effective rents are considerably lower than published asking rents.

Increasing vacancy rates have not uniformly affected the rents among Los Angeles County's various submarkets. North County Class A asking rents dropped to $2.34/SF in the second quarter of 2011, down by -4.1% from a year ago, while South Bay rents slipped to $2.19/SF from $2.26/SF (-3.1% over the year). In spite of losing some large tenants last year, the South Bay region (which includes Long Beach) is heavily dependent on port related activity and has benefited from the year's gains in international trade.

San Gabriel Valley asking rents held steady at $2.41/SF in the second quarter. Downtown rates fell to $3.11/SF from $3.24/SF (-0.6% over the year). Westside Class A asking rents dipped by -0.6% to $3.62/SF in the first quarter compared with a year ago.

In Orange County, the average office vacancy rate edged down in the second quarter of 2011 to 18.4% from 21.0% a year ago. There was no new office construction in Orange County in 2010 and through the second quarter of 2011. Although the county posted negative net absorption for the year, absorption turned positive in the fourth quarter and was positive again in the first quarter of 2011 – another hopeful sign of a market trough.

Orange County has the lowest unemployment rate in the region (8.5% in May 2011) and was the first metro area in the state to begin adding jobs. Many of these were jobs that need office space. Comparing the first quarter of 2011 with the same period last year, the financial, professional, and employment services sectors added 9,200 jobs to the county's payrolls. Nonetheless, problem spots remain. The county's mortgage lending industry is constrained by tighter lending standards and a frail housing market, and a large number of troubled commercial real estate loans coming due this year.

As a consequence, while employment is on the rise, the white collar jobs that fill up office space are not growing fast enough to return the county's office market to a state of health. The result is continuing weak demand for office space and downward pressure on rents. By the end of June, Class A asking rents in Orange County declined by -6.1% over the year to $2.16/SF.

A modest upturn may be in store for the Orange County office market in late 2011, helped by the fact that virtually no new space has come on line. The region also will continue to add white collar jobs.

In the Inland Empire, the vacancy rate was 24.2% in the second quarter of 2011, up from the same period in 2010 (23.7%). Rental rates fell by -6.3% to $1.94/SF in the second quarter of 2011 compared with $2.07/SF during the same period in 2010. Total net absorption in the first quarter declined by -94,573 square feet.

Most leasing activity was generated by industries linked to population growth – law firms, medical-related, and for-profit education. Still, growth in the sectors that create office jobs (professional & business services) has been agonizingly slow.

Though very little new construction is in the pipeline, the office market remains saturated from speculative projects started prior to the real estate bust. Companies wishing to locate in the Inland Empire have their choice of Class A properties to choose from at discounted rental rates. Even assuming the economy is running at full employment, it has been estimated the Inland Empire has a seven-year supply of office space on hand[14].

Across Southern California, leasing activity is expected to remain rather flat and rents soft through the rest of 2011. By year end, we can expect to see more signs of recovery taking hold in areas with stronger job growth. Genuine recovery in the office market will depend on a stronger upswing in the economy to convince firms to start hiring again. Companies will start slow – filling up existing space and exhausting ways to fit more workers into less space – before they look to expand.

[14] 2011 Forecast: Southern California, Grubb & Ellis (2010)

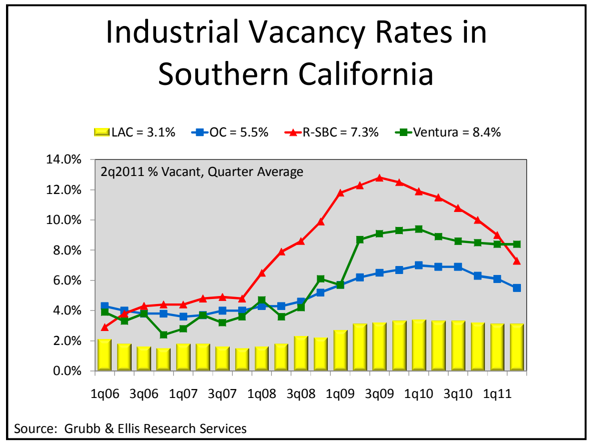
For the time being, the office market is tilted in favor of tenants – high rates of space availability encourage renters to trade up and to demand greater concessions from landlords who desperately want to keep buildings occupied.

During 2010, office building permits valued at $223 million were issued in the five-county region. The value of new office construction dropped by -6.3% from 2009's already low levels, which were off by -67.7% from 2008. In 2011, year-to-date through May, things are looking decidedly better. The value of new office construction was up by +16.9% to $71.3 million compared to a year ago. Los Angeles accounted for 88.7% by valuation of office building permits issued in the five-county region year-to-date compared with 30.1% during the same period last year. Orange County accounted for a 4.4% share, down from 20.8% in 2010. The Inland Empire's share was 5.6% and Ventura County held a 1.7% share.

Industrial Space

Southern California is a major center for manufacturing, international trade and logistics, and entertainment (i.e. sound stages). Los Angeles County is the nation's largest manufacturing center and is home to its biggest port complex. As economic recovery began to take hold around the world in late 2009 (especially in developing Asia), demand for U.S. manufactured goods shot up overseas. As the recovery at home gained traction, domestic demand also perked up, leading to an unexpectedly large rebound in both manufacturing and international trade.

The area's manufacturing and logistics industries, both of which are major users of



Note: Latest data available for Ventura County is 1q11

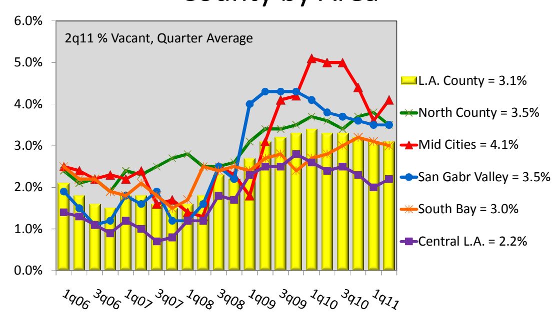
industrial space, were the bright spots in an otherwise subdued recovery. That being said, the market for industrial property in Los Angeles County held its ground fairly well. At the close of 2010, the Los Angeles County average industrial vacancy rate was 3.2% (the lowest industrial vacancy rate in the nation); down from 3.3% a year ago. The first quarter of 2011 saw a decline to 3.1%.

Although weak consumer demand and depressed trade volumes during the recession contributed to a decline of industrial property values and lower asking rents, the county was able to meet the challenge from a position of relative strength. Due to a shortage of land available for new development, Los Angeles did not go through the cycle of overbuilding that occurred in neighboring counties. As a result, the Los Angeles market is turning around ahead of many other large industrial markets in the U.S.

Increased leasing activity has helped stabilize vacancy rates, and 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 increased by +4.4% to $0.47/SF.[15] Asking rental rates have now risen over two consecutive quarters after plunging by -25% from their 2008 peak.[16]

Industrial Vacancy Rates in Los Angeles County by Area



Source: Grubb & Ellis Research Services

Industrial vacancies in Los Angeles County ended the first half of 2011 at relatively low levels. Long one of the tightest submarkets in the region, Central Los Angeles experienced a significant decline in its average industrial vacancy rate during the first three months of this year, falling to 2.2% compared with 2.4% a year ago. Central Los Angeles has the benefit of a diversified tenant base, including small manufacturing firms and wholesale merchandise warehouses. Industrial markets elsewhere in the county also remained tight during 2q11:

- The Mid-Cities submarket experienced the greatest improvement. The industrial vacancy rate dropped to 4.1% versus 5.0% a year ago.

- The San Gabriel Valley saw its industrial vacancy rate decline to 3.5% during the second quarter of 2011 from 3.8% a year earlier.

- While the South Bay vacancy rate in the first quarter of 2011 (3.0%) hovered around a six-year high, the South Bay Market remains one of the strongest in the nation. The region has strong ties to the San Pedro Bay ports and is a prime location for logistics companies.

- In the North County, the 2q11 vacancy rate dipped to 3.5% versus 3.6% year-over-year.

Orange County's industrial real estate market also showed signs of improvement. Leasing activity has been relatively flat, but sales activity continues to improve. The average vacancy rate in the first three months of 2011 was 6.1% down from a high of 7.0% a year ago. No new space is currently under construction and absorption in the first quarter was positive.

Demand for industrial space in Orange County is starting to catch up with supply. Rental rates have responded accordingly, rising to $0.50/SF in the second quarter from $0.49/SF a year ago. Recovery in Orange County, as elsewhere, will depend on job growth (particularly in the county's technology and biomedical sectors) and stronger consumer demand.

As industrial space dwindled in Los Angeles and Orange Counties during the first half of the decade, an increasing number of companies searching for abundant land, lower costs and

[15] Industrial rents in this report refer to Warehouse/distribution facilities
[16] Grubb & Ellis Industrial Trends Report, First Quarter 2011, Los Angeles

proximity to the San Pedro Bay ports, migrated east to the Inland Empire. Up until 2007, the large influx of distribution businesses into the Inland Empire competed for space with rapidly spreading low-cost housing developments, creating a tight regional industrial real estate market. Conditions 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 show the Inland Empire Market may be turning around. The second quarter vacancy rate was 7.3%, elevated compared to pre-recession levels, but well down from 11.5% during the same period last year. Net absorption was positive in the first quarter. The Inland Empire remains the locale of choice for firms seeking out large spaces for expansion or consolidation. In the first quarter, only three buildings in excess of 500,000 square feet were available for lease versus 17 a year ago. Additionally, there were 24 lease transactions for spaces in excess of 100,000 square feet. Already, developers are taking this as a sign that the region can absorb new speculative construction in addition to the build-to-suit projects already underway. Work has begun on a 617,000 square foot warehouse in Redlands[17]. There also are projects slated to break ground later this year in Rialto and Ontario.

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 remain at record lows ($0.31/SF), but appear to be stabilizing. There may be some improvement in lease rates later this year as rising demand begins to absorb limited supply, especially for buildings in excess of 100,000 square feet.

During 2010, industrial building permits valued at just $110 million were issued in the five-county region. The value of industrial permits slid by -1.8% compared with 2009 (which at $112 million was hardly a banner year). So far in 2011, $94.7 million in new permits have already been issued in the region. This was up by +80.1% compared to the same period last year. Most of the gain occurred in Los Angeles County, which garnered nearly all (98%) of the industrial permits issued year-to-date through May.

Forecast for Private Nonresidential Construction

The value of total private nonresidential construction in the five-county region increased to $4.7 billion in 2010, up by +4.2% compared with 2009. Activity will increase modestly in 2011, with a forecast total permit value of $5.0 billion (+6.2%). While conditions have mostly stabilized, commercial real estate has a long way to travel on the road to recovery. The mountain of troubled CRE 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. Property valuations have been rising, but compared to the giddy heights reached in 2007, significant equity gaps will pose a problem for refinancing. Even if economic growth remains on track, developers and lenders will remain cautious.

[17] Grubb & Ellis Industrial Trends Report – First Quarter 2011, Inland Empire

Many projects have been delayed or cancelled outright. With high vacancy rates and depressed property prices, and given the slow rate of economic recovery, some developers could face difficulties rolling over existing loans. Large regional and small community banks alike have built up concentrations of commercial real estate loans, and delinquencies are high. An outgrowth of this trend is builders looking to private equity to finance new projects.

Private nonresidential building permit values in Los Angeles County declined by -3% in 2010 (a marked improvement over 2009's -41% decline), but will turn the corner in 2011, rising by +12%. Orange County's total construction activity value increased by nearly +20% in 2010, but activity has slowed. The LAEDC forecast calls for just +2.5% growth in 2011. The Riverside-San Bernardino area's total nonresidential building permit values climbed by +10% in 2010. Although fundamentals in the regions have improved, nonresidential construction will mostly be flat this year or down slightly (-1.5%). Ventura County's total nonresidential construction permit values increased by +4.6 in 2010 but will stumble again this year, declining by perhaps as much as -20% in 2011. The sluggish rate of economic growth during the first quarter, and forecasted growth rates for the rest of the year have caused us to push back our forecast. Nonresidential construction is coming back more slowly than expected.

For the most part, office space development will be restrained in all five counties of the Southern California region. Most companies have ceased shedding employees but they are still in a wait-and-see stance regarding new hires. Office vacancy rates around the region should be stable for the remainder of 2011 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. Companies that are considering expansion will have plenty of prime Class A space to choose from and favorable asking rents.

The outlook for industrial space development especially in the tight markets of Los Angeles and Orange counties, is much improved. International trade and to a lesser extent, manufacturing, continue to lead the region's economic recovery and will eventually require more industrial space as the nation and its major trading partners recover. The first quarter even saw a new sound stage open in Los Angeles. When the construction recovery finally comes, the Inland Empire will again see the biggest uptick in new industrial construction activity.

TABLE 32: OFFICE BUILDING PERMITS ISSUED

(In millions of dollars)

	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
1995	88	29	10	32	9
1996	133	45	22	9	4
1997	161	129	22	12	6
1998	284	270	9	22	25
1999	393	289	24	16	13
2000	268	354	31	15	32
2001	547	174	43	20	30
2002	209	150	36	30	5
2003	182	118	85	61	40
2004	307	133	127	84	18
2005	233	313	148	85	23
2006	241	578	192	115	52
2007	716	282	224	118	55
2008	446	114	118	33	26
2009	192	5	27	8	6
2010	72	98	41	7	5

TABLE 33: INDUSTRIAL PERMITS ISSUED

(In millions of dollars)

	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
1995	74	34	32	69	20
1996	124	84	51	87	64
1997	109	123	98	189	56
1998	308	234	118	209	82
1999	361	123	112	331	58
2000	359	87	99	405	42
2001	202	90	75	331	76
2002	225	62	81	243	31
2003	276	68	113	245	47
2004	178	26	203	436	45
2005	277	27	120	322	23
2006	182	91	288	373	21
2007	109	52	185	351	29
2008	135	14	70	92	57
2009	40	0	12	34	26
2010	50	23	7	22	8

TABLE 34: RETAIL BUILDING PERMITS ISSUED

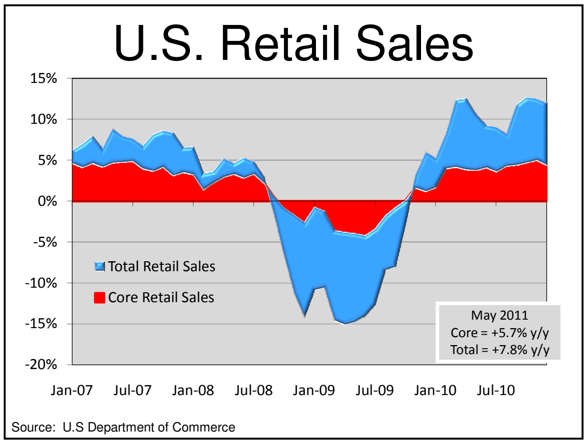
(In millions of dollars)

	Los Angeles County	Orange County	Riverside County	San Bernardino County	Ventura County
1995	209	101	113	149	57
1996	322	136	101	100	43
1997	272	210	203	109	31
1998	368	155	175	158	49
1999	408	217	170	181	101
2000	447	223	316	132	23
2001	434	207	191	178	48
2002	459	194	231	163	81
2003	356	78	231	225	55
2004	484	118	406	176	90
2005	552	133	345	232	69
2006	482	178	372	294	54
2007	493	319	388	351	50
2008	469	132	317	243	63
2009	222	65	56	34	16
2010	263	54	126	27	35

Source: Construction Industry Resource Board

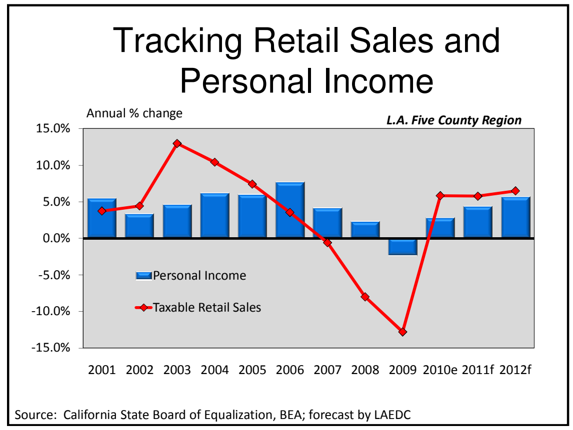
RETAILING

U.S. retail sales rebounded smartly late last year. Climbing past the prerecession peak reached in November 2007, the retail sector continued to perform strongly during the first half of 2011. In May 2011, retail sales posted results well up over last year (+7.8%).



Total retail sales have "wiggled" a bit during the past two months, as the recent decline in gasoline prices lowered gas station revenues. Going forward, however, cheaper gasoline will free consumers to spend more discretionary income on other goods and services. Also, vehicle sales were down in May and June due to supply problems engendered by the disasters in Japan.

The recent dip in consumer confidence is potentially more problematic. Nonetheless, in 2010, even though the unemployment rate remained elevated, people who still had jobs started to feel more secure about hanging on to them. American consumers decided maybe it was okay to go out and replace an aging appliance, upgrade to a notebook computer or to treat themselves to a meal at a good restaurant. And they did so, despite increased pessimism about the economy, still high debt levels and the loss of wealth precipitated by falling home prices.



Retail sales are expected to continue growing in 2011 and 2012. Declining gasoline prices in the near term are a boon for consumers. The supply problems in Japan are temporary and will abate in the coming months. The role played by consumer confidence cannot be discounted, but attitudes should improve during the second half of the year as the pace of economic growth picks up and the economy continues to add jobs.

In the mean time, retailers have adapted to the post-recession environment where consumers are focused on necessary rather than discretionary purchases. 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. Department stores are promoting money-saving private-label and exclusive apparel lines. Many retailers, large and small, are focusing expansion efforts on on-line operations as opposed to increasing their brick and mortar footprint. Not only are consumers making more purchases on-line, but they are becoming more accustomed to self-service checkout and touch screen kiosks instead of checkout clerks and sales people.

After standing empty for a year or two, empty big box spaces are filling up. Last year, saw multiple bids for the huge spaces vacated by Mervyn's and Circuit City. Retail giants like Kohl's, Forever 21 and TJ Maxx that appeal to bargain conscious shoppers have taken over much of that space. Health clubs have also taken advantage of the prime locations and low lease rates offered for these spaces. Unfortunately, the bankruptcies of Borders and Blockbuster dumped a significant amount of vacant space back on to the market that will have to be filled in 2011 and 2012.

Southern California Retail Real Estate Market

Region	2008	2009	2010	2011f
Los Angeles County				
Retail Vacancy Rate	4.5%	6.3%	6.2%	5.9%
Asking Rent ($/sf)	$29.85	$28.24	$28.03	$28.42
Completions (1,000 sf)	3,000	3,100	1,400	410
Orange County				
Retail Vacancy Rate	4.3%	6.3%	6.8%	6.0%
Asking Rent ($/sf)	$31.56	$29.53	$29.46	$30.09
Completions (1,000 sf)	843	229	190	150
Inland Empire				
Retail Vacancy Rate	8.8%	11.8%	11.7%	11.9%
Asking Rent ($/sf)	$21.83	$20.91	$20.53	$20.43
Completions (1,000 sf)	5,755	1,247	199	173

Source: Marcus & Millichap Real Estate Investment Services

Mirroring the rebound in other commercial property sectors, leasing and occupancy of malls and shopping centers is improving. Economic growth in the second half of 2011 and a better employment outlook will prompt more consumers to open their wallets. Demand for retail space will increase. Retail vacancy rates will continue to decline at modest rates. New retail completions in 2010-2011 are also at near record lows – demand is catching up with supply. Lease rates are beginning to tick up.

In Los Angeles County, the retail vacancy rate was 6.2% in 2010 versus 6.3% in 2009. Further improvement is expected in 2011 with the vacancy rate falling to 5.9%. The Orange County retail vacancy rate was 6.8% in 2010, up from 6.3% in 2009. In 2011, the retail vacancy rate is expected to fall to 6.0%. In the Inland Empire, it was 11.7% last year down marginally from 11.8% in 2009. Recovery remains elusive though. The retail vacancy rate is projected to increase to 11.9% this year.[18] The Riverside-San Bernardino area is still suffering from the aftershocks of the housing bust, limited job creation and an excess of retail space built prior to the recession.

Permits for new retail construction in the five-county region totaled $505 million in 2010, which was up by +28% over 2009, but down by -69% compared with 2008. With a few notable exceptions (Blockbuster, Borders), the bankruptcies and store closings of 2009 have largely subsided. In 2011, through May, permits for new retail construction totaled $126.5 million, down by -31.1% from the same period in 2010.[19]

Intrepid surviving retailers are taking advantage of discounted rental rates and/or moving into more desirable space vacated by retailers unable to weather the storm. In 2011, retailers will continue to focus on tailoring store offerings to regional demand, emphasizing value and convenience; streamlining inventory orders and maximizing store-space efficiency.

Southern California Sales Trends

Southern California retail sales resumed growing in 2010 after suffering precipitous declines in 2009. While high unemployment is weighing heavily on consumer confidence, jobs are beginning to return, albeit at a slow pace. Retail sales in most areas bottomed out in the spring or summer of 2009 and rebounded in 2010. As the employment situation improves, consumer confidence will bounce back, and the

[18] Marcus & Millichap Real Estate Investment Services

[19] Construction Industry Research Board

retail industry will enjoy healthy gains. Recovery 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 recover.

Newly cost-conscious consumers are flocking to discount retailers, many of which not only weathered the downturn, but thrived and are now expanding. Even department stores and teen chains, two retail sectors among the hardest hit during the recession, are growing again. 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 economic downturns.

The local retail scene demonstrated its expectations for a rosier future over the past year. Combined, the 25 largest shopping centers in Los Angeles County house a total of 3,800 stores and 28.4 million square feet of leasable space.[20] Malls are regaining some of their lost popularity – nearly 52% of retail spending still takes place in shopping centers.[21] Several of the region's large shopping centers embarked on a series of renovations to lure shoppers back in greater numbers. The largest, Del Amo Fashion Center is planning a $200 million renovation. Crenshaw Mall, one of the oldest in the area is also getting a facelift – the first phase of which, will be completed for the 2011 holiday season.

Local retail development reflects a growing trend toward renovation and redevelopment as opposed to new building, with a focus on creating open spaces that function as a modern-day town square. Still, even old-fashioned "fortress" style malls that are located in prime locations with the right mix of stores and entertainment options are doing better.

The LAEDC is forecasting moderate increases in taxable retail sales that will range from +7.7% in Los Angeles County to +4.5% in the Inland Empire. Orange County should see an increase of +6.5% and Ventura County an increase of +5.7% in retail sales in 2011.

L.A. County's Largest Shopping Centers

Retail Center Name	Gross Leasable Area (SF)	Number of Stores	Year Opened
Del Amo Fashion Center	2,269,000	212	1975
Lakewood Center	2,042,295	270	1951
Westfield Topenga	1,637,088	279	1964
Glendale Galleria	1,500,000	250	1976
Northridge Fashion Center	1,479,470	170	1971
Westfield Santa Anita	1,302,712	242	1974
Burbank Town Center	1,240,000	140	1991
Los Cerritos Center	1,143,613	208	1971
Puente Hills Mall	1,099,299	140	1974
Westfield Valencia Town Center	1,069.792	223	1992

Source: Los Angeles Business Journal

The risks to the forecast include rising commodity prices and slow employment and wage growth. Higher commodity prices make it more expensive to make and ship everything from consumer electronics to food and apparel. On the demand side, higher prices at the gasoline pump and at the grocery store may curtail demand for more discretionary purchases. Food and gasoline demand is relatively inelastic – 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, discretionary retail purchases could suffer as a result.

[20] Los Angeles Business Journal (6/27/11)
[21] International Council of Shopping Centers

XIII. Wrapping it Up

The economic recovery *is* underway, though it may be visible only to economists.

- GDP numbers show the national economy is not only growing, it has surpassed the pre-recession peak and is expanding—though less rapidly than hoped.
- Sales are rising again at many businesses, but not all. Most industries have moved back into the black, though a few still have real problems, new home construction and commercial real estate, for example.
- Nationwide, employment is rising in most private-sector industries. But millions of jobs disappeared during the long recession; so the improvement—while real—simply is not meaningful to non-expert observers.
- Similarly, unemployment rates are starting to come down but remain at lofty levels.

The economies of California and Southern California are running behind the national pace. But they too are in recovery mode.

- Firms in a number of key state/regional industries—like high technology, tourism, international trade, entertainment, even agriculture—are reporting better results.
- Hiring is not as widespread here as in the nation. But it will extend to more industries and more locales over the next year or so.
- Jobless rates are much too high in California and Los Angeles. Some improvement is to be expected. But it will be several years before we see single digits again.
- Nonetheless, wages and salaries of workers who have jobs are going up, and so are retail sales.

On the other hand, there are still more than enough issues to worry about. In particular,

- Housing industry problems seem intractable. Will they never end? There's still a lot of work to come in cleaning up the mortgage mess left after the housing boom went bust. Mortgage lenders and servicers need more time—at least another year—to clean house (no pun intended).

  But that is their goal. Lending institutions gain nothing by fixing yesterday's mistakes. Profits will not return until they can return to making new loans.
- Budget problems of state and local governments constrain this recovery. Spending cuts hurt vendors as well as employees. Raising taxes merely shifts the burden to taxpayers in general. Even here, though, sales tax and income tax revenues are growing, which is certainly better than the alternative.

As the recovery spreads in Southern California, expect economic news to shift from "mixed" to "good" and sometimes "much better". Employment will grow across the region – today Riverside and San Bernardino counties are still posting employment declines. Most industries will be hiring. Right now the sectors adding the most jobs are tourism, international trade and goods movement, entertainment, health care, and business and professional services.

To sum it all up, one could say that three bigger engines of growth (consumer spending, business investment in equipment and software, and international exports) are working moderately well, while two others hold us back from a smart performance.

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