

2009-2010 MID-YEAR UPDATE **ECONOMIC FORECAST** AND INDUSTRY OUTLOOK

JULY 2009



***2009-2010 Economic Forecast and
Industry Outlook: Mid-Year Update***
for California & Southern California
Including the National & International Setting

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The LAEDC, the region's premier business leadership organization, is a private, non-profit 501(c)3 organization established in 1981.

As Southern California's premier business leadership organization, the mission of the LAEDC is to attract, retain, and grow businesses and jobs for the regions of Los Angeles County.

Since 1996, the LAEDC has helped retain or attract more than 152,000 jobs, providing \$7.5 billion in direct economic impact from salaries and more than \$128 million in tax revenue benefit to local governments and education in Los Angeles County.

Regional Leadership

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

Business Services

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

Economic Information

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

Economic Consulting

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

Leveraging our Leadership

The LAEDC operates several subsidiary enterprises, including the World Trade Center Association Los Angeles-Long Beach (WTCA LA-LB), which facilitates trade expansion and foreign investment, the California Transportation and Logistics Institute, which enhances the quantity and quality of workforce training for the logistics industry, and L.A. PLAN, which assists major public land owners in developing real estate through the LAEDC network. In addition, the LAEDC's Center for Economic Development partners with the Southern California Leadership Council to help enable public sector officials, policy makers, and other civic leaders to address and solve public policy issues critical to the region's economic vitality and quality of life.

Global Connections

The World Trade Center Association Los Angeles-Long Beach works to support the development of international trade and business opportunities for Southern California companies as the leading international trade association, trade service organization and trade resource in Los Angeles County. It also promotes the Los Angeles region as a destination for foreign investment. The WTCA LA-LB is a subsidiary of the Los Angeles County Economic Development Corporation. For more information, please visit www.wtca-lalb.org

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LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's 2009-2010 *Mid-Year Economic Update* 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 leading figures from the business, economic, and housing sectors. 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 Founding Economist Jack Kyser and 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 Cal State LA, FedEx, Foley & Lardner, Manpower, and Woodbury University and features two expert panels of economists and elected leaders who will discuss important issues pertaining to our government finance crisis along with presentations on our local housing industry as well as provide an updated outlook for the Los Angeles five-county area along with the national economic picture.

We believe that the information you will find in the LAEDC Mid-Year Economic Update will be invaluable to you whether you are a business person, policy maker, or an individual seeking information on the Los Angeles-area economy. We provide the forecast and other Economic Information products as part of our mission to attract, retain, and grow business and jobs for the regions of Los Angeles County, as well as to identify trends and effect positive change for the local economy. Since 1996, we have helped to attract or retain more than 152,000 jobs for Los Angeles County providing \$7.5 billion in direct economic impact from salaries and \$128 million in annual tax revenue to local government and education in the County.

As the services of the LAEDC are needed now more than ever, we thank you for your support of the 2009-2010 *Mid-Year Economic Update* and for your continued support of the LAEDC.

Sincerely,

A handwritten signature in black ink that reads "Bill Allen". The signature is written in a cursive, flowing style.

Bill Allen
President and CEO
Los Angeles County Economic Development Corporation

I. OVERVIEW OF THE LAEDC 2009-2010 ECONOMIC FORECAST

The U.S. Economy

		<u>2009</u>	<u>2010</u>
Real GDP	Recession now, then recovery	-2.7%	+1.7%
Inflation	Not a problem	-0.8%	+1.6%
Fed Funds Rate	Very low until 2010	0.1%	1.0%
Leading Sectors	Government spending		
Laggards	Business spending, exports		

The California Economy

	<u>2009</u>	<u>2010</u>
Nonfarm Employment	-4.6%	-2.1%
Industry Leaders	Health Care Services (Private) Education	Health Care Services (Private) Education
Industry Laggards	Construction Manufacturing Retail Trade Leisure & Hospitality	Retail Trade Manufacturing Leisure & Hospitality

Job Growth among Southern California Counties

		<u>2009</u>	<u>2010</u>
Leaders	San Diego County	Jobs -3.8%	San Diego County 2.0%
	Los Angeles County	-4.1%	Los Angeles County 2.0%
Laggards	Orange County	-4.8%	Orange County 2.0%
	Riverside-San Bernardino Counties	-6.7%	Ventura County -2.3%
	Ventura County	-5.1%	Riverside-San Bernardino Counties -2.4%

Job Growth among Southern California Sub-Regions

	<u>2009</u>	<u>Jobs</u>
Leaders	San Fernando Valley	-1,700
	South Bay/LAX	-2,400
	San Gabriel Valley	-2,500
	Central/Downtown	-2,600
	Westside	-2,700
Laggards	Santa Clarita	-6,000
	East LA/Eagle Rock	-5,300
	North Gateway	-5,300

II. OUTLOOK FOR THE U.S. ECONOMY

Overview: Recession is Here

The U.S. economy weakened gradually in 2008 and then took a sudden turn for the worse in the fall. The downturn continued through the winter and spring of 2009. Employment fell throughout this period. However, the monthly declines averaged just -137,000 jobs during the first eight months of 2008 but surged to a -564,000 average pace in January through June.

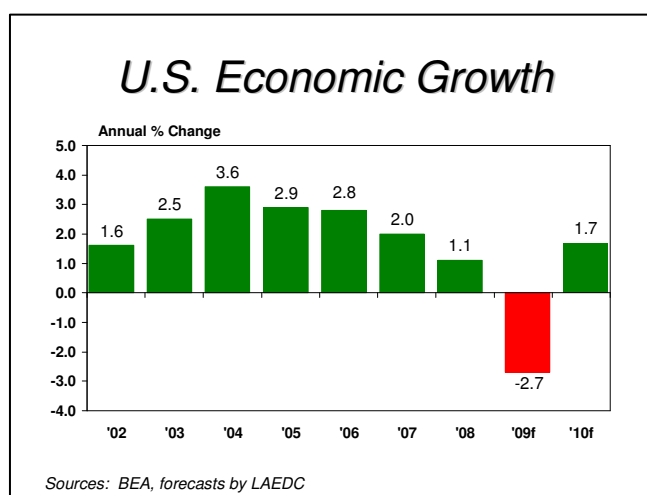
The economy's performance reflected the spreading of troubles from the housing, financial and automotive related sectors to the rest of the U.S. economy and around the world. These problems were aggravated by a sudden, deep financial crisis in global capital markets, an inability to obtain bank financing due to the worsening credit crunch, and a collapse in global international trade flows.

After months of growing distress, the economy is now beginning to throw off mixed signals, suggesting a change in momentum is under way. It is still too soon to declare anything more than "the economy is not falling as fast as in the 4th and 1st quarters." Indeed, it is unclear when the cyclical trough will be reached and how the recovery will proceed. Right now, it appears the economy could hit bottom some time before the end of 2009. Then what? Because the recession has been so serious, the LAEDC recovery forecast is deliberately conservative.

For the rest of 2009 and 2010, the key forecasting issues involve the recession's duration and depth. For now, we think the economy might reach bottom this summer. The recession officially began in December 2007; so that would make it some 20-22 months long, the longest since World War II. As to depth, we are tentatively forecasting a drop of -2.7% in real GDP from 4th quarter 2007 to 2nd quarter 2009, which would rank the current downturn with the three other deep postwar declines—the 1957-58, 1973-75 and 1981-82 recessions.

Overall, the LAEDC projects the U.S. economy will shrink by -2.7% during 2009 and grow modestly -- by +1.7% -- in 2010. Inflation is unlikely to be a problem in the near term, though higher energy prices are cause for concern. Monetary policymakers

acknowledge the inflation risk they are creating by their actions, but are focused on restoring the health of the nation's economic and the financial sector. Thus, they have pushed short-term rates to extremely low levels and poured extraordinary sums into bank reserves. The outlook for long-term rates is more uncertain. Given the Fed's current activist policy stance, they are unlikely to rise much until later in 2010. Below we review the outlook for the key sectors in some detail.



Household Spending Under Stress

Consumer spending is the largest sector of the U.S. economy and holds one of the keys to the economic outlook. Several factors have put U.S. households under considerable stress. Employment has declined sharply since the recession began in December 2007; some 6.5 million jobs have disappeared. Job losses likely will continue until mid 2010. The nation's unemployment rate, currently 9.5%, will rise through the rest of 2009 and reach the "mid 10's" by midyear 2010.

Most types of household incomes have been shrinking in recent months. Wages and salaries were down by -1.1% in March-April-May 2009 compared with the year-ago period. Most other sources of income were down as well. Dividend income fell by -11.3% and interest income by -6.1% due to dividend reductions and lower interest rates. Profits of independent, unincorporated businesses

were down by -3.8% over the year. The government helped out some: personal transfer payments (mostly Social Security, welfare benefits, etc. and some rebates) were up by +13.2%. Bottom line: disposable personal income (net of personal taxes) grew by a modest +2.4% over the year leading up to March-May 2009. That increase was just enough to outweigh consumer inflation. After inflation and taxes, real disposable income grew by +2.0%.

Not only have incomes stopped growing much, but household balance sheets have weakened. Total household assets fell by -13.5% (or by \$10.1 trillion) in the year to March 31, 2009 (latest data available). The value of household real estate assets declined by -9.6%. Home mortgage debt (including home equity loans and lines of credit) edged down by -1.0%. Thus, homeowners' equity declined by -19.4% over the year to March. Meanwhile, consumers' holdings of financial assets declined by -16.3%, mostly because of falling stock prices. Total household liabilities fell by just \$301 billion. The bottom line: U.S. households' net worth (total assets minus total liabilities) shrank by -\$9.8 trillion over the year to March 2009 (-16.2%).

With incomes and household wealth falling, consumer confidence has been weak. Spending declined in 4th quarter 2008 and has barely increased in 2009. Worse yet, surging energy prices in the 2nd quarter threaten the little progress made to date.

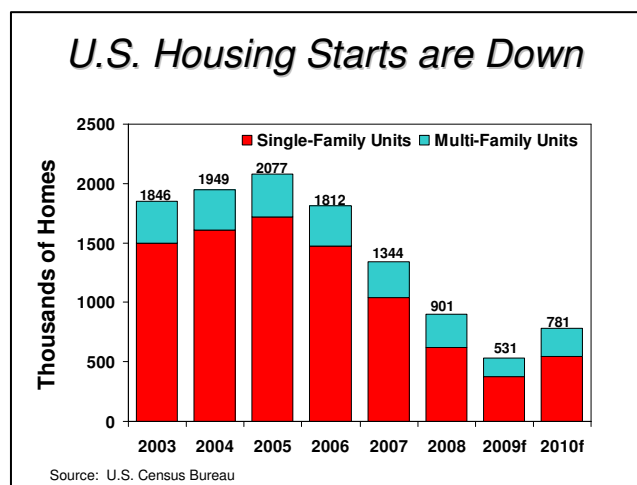
Reflecting all of these factors, demand for motor vehicles plunged late in 2008. About 16.1 million light vehicles (cars and light trucks) had been sold during 2007. However, sales dropped to 9.5 million units during 4th quarter 2008 and showed little improvement early in 2009. Much of the decline has occurred in light trucks with higher fuel consumption rates, but car sales also have fallen. Demand for fuel-efficient vehicles was extremely strong in mid 2008 when gasoline prices moved north of \$3.00/gallon. However, buyers lost interest when gasoline prices retreated later in the year. The LAEDC assumes gasoline and diesel fuel prices, which have risen during the 2nd quarter, will remain below 2008 peaks. However, dealer lots are currently bursting with unsold inventory, even though the auto companies have slashed production. As a result, vehicle production will remain near current low levels until inventories can be cleared out. Only about 9.9 million light vehicles will be sold in 2009 as consumers are edgy and lack the confidence to purchase big ticket items like vehicles.

As the economic recovery gains steam, sales are expected to increase to 11.8 million vehicles in 2010.

The LAEDC expects spending for most other types of consumer goods and services to be slow early in 2009 and to turn up in the latter part of the year—bolstered by the provisions of the new federal stimulus plan. The American Recovery and Reinvestment Act of 2009 (ARRA) involves some \$787 billion of federal spending and tax relief over the next five years, with the bulk of the spending in 2010 and 2011. About one-third of the total is specifically targeted at personal income tax reductions and increased payments for extended unemployment payments, food stamps, etc. These amounts will boost consumer spending going forward.

Overall consumer spending (inflation adjusted) is forecast to decline by -0.8% in 2009 and grow moderately, by +1.7%, in 2010.

The housing sector has been on a steep downtrend for four years now. New housing starts peaked in 2005 at 2 million units, the highest level since 1972. However, home construction activity declined into early 2009, averaging around 534,000 units (annual rate), the lowest level since before 1959 (when records began). The housing crash does not have much farther to go. We expect starts activity to turn up by the end of 2009 and then rise above 900 thousand units (annual rate) by year end 2010.



Mortgage credit is still difficult to obtain for all but “prime” homebuyers (those with well-documented, strong credit and income histories). While loan modification programs are available for distressed homeowners, lending terms for would-be borrowers remain strict. Still, rates have declined somewhat,

which will help borrowers who can get them. As of June 2009, mortgage commitment rates ranged from 4.93% for the average one-year adjustable rate mortgage to 5.42% for a 30-year fixed rate. In December 2008, the same rates were 4.97% and 5.29%, respectively.

Mortgage rates are expected to hover between 5.0% and 5.5% over the rest of 2009, at least for prime borrowers. And lenders' terms for non-prime borrowers are likely to remain strict, despite the

availability of various mortgage workout programs. However, prices of new and existing homes are dropping as builders and lenders attempt to dispose of their inventories of unsold homes. First-time buyers who can qualify for mortgage loans will have many more choices in 2009-2010 than they had in earlier years. Overall, LAEDC expects total housing starts to decline from 901,000 units in 2008 to 530,000 units in 2009 and then rise to 781,000 units in 2010.

Table 1: U.S. Economic Indicators

(Annual % change except where noted)	2003	2004	2005	2006	2007	2008	2009f	2010F
Real GDP	2.5	3.6	2.9	2.8	2.0	1.1	-2.7	1.7
Nonfarm Employment	-0.3	1.1	1.7	1.8	1.1	-0.3	-3.9	-1.3
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	5.8	9.3	10.4
Consumer Price Index	2.3	2.7	3.4	3.2	2.9	3.8	-0.7	1.6
Federal Budget Balance (FY, \$billions)	-\$378	-\$413	-\$318	-\$248	-\$162	-\$455	-\$1,600	-\$1,200

Sources: BEA, BLS and OMB; forecasts by LAEDC

Table 2: U.S. Interest Rates

(4th quarter averages, %)	2003	2004	2005	2006	2007	2008	2009f	2010f
Fed Funds Rate	1.0	2.0	4.0	5.3	4.5	1.1	0.2	1.0
Bank Prime Rate	4.0	4.9	7.0	8.3	7.5	4.1	3.3	4.0
10-Yr Treasury Note	4.3	4.2	4.5	4.6	4.3	3.3	3.5	3.9
30-Year Fixed Mortgage	5.9	5.7	6.2	6.3	6.2	5.9	5.2	5.6

Sources: Federal Reserve Board; forecasts by LAEDC

Business Investment Spending Slows

Business profits and cash flows have deteriorated, in many industries. Adjusted total pre-tax corporate profits during first quarter 2009 (latest data available) were down by -17.6% compared to first-quarter 2008. Profits-by-sector data reflected the widespread economic weakness. Domestic industry profits declined by -21.9% over the year, pulled down by problems in the financial, retail, manufacturing, transportation and other industries. Net profits earned from the rest of the world fell by just -4.8%. Bolstered by increasing depreciation, adjusted total corporate cash flow declined by -4.0% over the year ago period.

Businesses typically invest their cash in new equipment and software. Total equipment spending has tumbled. In first quarter 2009, business purchases of new information processing equipment and software, for example, were down by -10% from first quarter 2008.

At the other end of the spectrum, business purchases of transportation equipment plunged by -61% in that period. Going forward, we expect continued weak demand for commercial aircraft, as commercial airlines are struggling with lower passenger traffic. Fleet purchases of new vehicles will decline, as stretching out lease terms is a good cost-saving measure. Demand for heavy trucks and railroad equipment also will continue weak until goods movement activity turns up.

Business investment in nonresidential structures declined by -9.5% in the year to first quarter 2009. Indeed, several huge refinery upgrade projects boosted investment in manufacturing structures. However, the construction industry has been hard hit by the credit crunch, and few new commercial projects are able to obtain adequate financing. Thus, nonresidential construction activity is expected to wind down during 2009/2010 as projects that are currently under way get completed. Energy drilling activity dropped off as oil and gas prices fell during first half 2009. As prices seem unlikely to rise much more, and cash flows aren't that great, drilling activity is not expected to improve during the forecast period.

The deteriorating profit picture gives good reason for a cautious outlook on business spending. Pre-tax adjusted profits are expected to fall by -13% in 2009 following 2008's decline of -10%. Profitability is expected to edge up some, perhaps by +3% or so, in 2010 as the economy turns around. Meanwhile, real

business spending for equipment and software is forecast to shrink by nearly -20% in 2009 and to flatten out in 2010. Spending for nonresidential structures will decline by -17% in 2009 and by -12% in 2010.

Government Spending Soars

The current forecast anticipates continued growth in federal purchases of goods and services during 2009 and 2010. The wars in Afghanistan and Iraq are costing well over \$150 billion per year. Aside from defense, spending is growing rapidly in all categories except interest (interest payments are down due to lower rates despite the growing federal debt). The biggest dollar increases are in "housing credit" (support for the federal mortgage agencies), unemployment compensation and rising payments for welfare and Medicaid. Inflation adjusted, federal purchases of actual goods and services will increase by 3.7% in 2009 and by 3.4% in 2010.

State and local government purchases of goods and services are another matter. All states are experiencing weak or declining revenue growth. Many are cutting spending and/or increasing taxes. Despite the federal stimulus plan, revenue growth constraints mean that state/local spending will be flat *at best* in the near future. The LAEDC forecast anticipates that state/local purchases (inflation adjusted) will come down by -0.9% in calendar year 2009 and rise by only +0.8% in 2010.

Net Exports – Improvement to Continue

Exports (foreign purchases of U.S. products) are shrinking after brisk growth in prior years. Inflation adjusted, total exports of goods and services grew by +6.2% during 2008. However, exports collapsed in the fourth quarter and early 2009, as U.S. trading partners succumbed to the global recession.

In 2008, export growth was led by rising foreign demand for U.S. industrial supplies, consumer goods, and capital goods. In 2009, exports of automotive products have plunged, along with capital goods and industrial supplies. U.S. exports typically reflect the economic situation of the rest of the world, which is reason to be concerned about the forecast period. The value of the U.S. dollar rose sharply on foreign exchange markets when the global financial crisis broke out, increasing by 12% on a trade weighted basis between September 2008

and March 2009. Half that gain was retraced in the second quarter. The dollar seems unlikely to change much during the rest of 2009 and 2010. This means U.S.-made products will be slightly less competitive on world markets than before the crisis. Looking ahead, we expect the economic situation will have greater influence than the value of the dollar. Exports will decline by -14.0% in 2009 and edge up by +0.5% in 2010.

U.S. purchases abroad declined throughout 2008, and the rate of decline accelerated over the winter and into 2009. Inflation adjusted imports of goods and services fell by -3.5% in 2008 but were down by -17% in first quarter 2009 compared with first quarter 2008. Imports of automotive vehicles and parts fell by about -50% in the first five months of 2009, far outpacing imports of capital goods (-23%) and industrial supplies (-15%), the next two categories. The auto industry's problems aside, U.S. businesses' attempts to reduce fixed investment and inventories of industrial supplies are the main factor pulling down imports. These factors are expected to continue well into 2009. U.S. purchases of foreign-made goods and services are forecast to decline by -17.5% in 2009 and grow by just +1.3% in 2010.

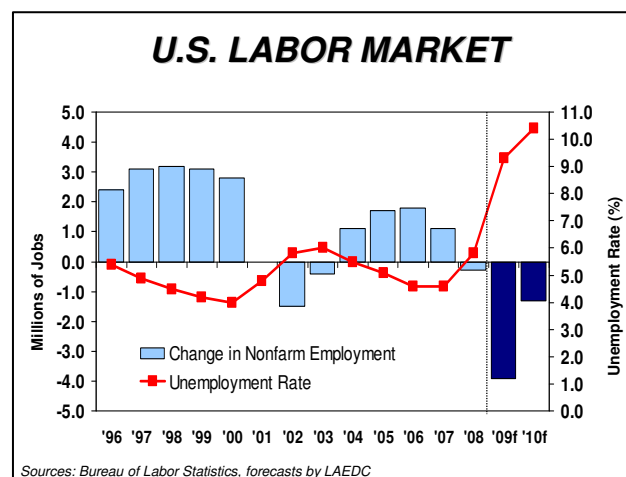
For the U.S. economy, net exports (equals gross exports minus gross imports) are what matters most. Net exports contributed +1.4 percentage points to the U.S. economic growth rate during 2008, but that contribution will drop to just +1.0 percentage points in 2009. The net export balance (in constant dollars) reached a low point in 2006, at -\$617 billion, and then improved to -\$390 billion in 2008. LAEDC forecasts further significant improvement in 2009, to about -\$268 billion, before dropping back to -\$282 billion in 2010.

Labor Market Conditions

U. S. labor markets have reflected the spreading deterioration in the economy during 2008 and 2009. Total nonfarm employment payrolls have shrunk by -5.66 million jobs in the twelve months to June, 2009. Losses were heaviest in manufacturing and construction. However, damage has spread to other sectors, including business & professional services, trade & transportation, and tourism. Employment will continue to shrink during most of the forecast period, which will create considerable angst in the media and in the halls of government. The year-over rate of decline is expected to worsen from -1.7% in

4q2008 to -4.6% in 3q2009 and then moderate to -0.2% by 4q2010.

Joblessness in the U.S. has been increasing since mid 2007, reaching 9.5% in June 2009. The nation's unemployment rate will continue to rise as long as economic growth is sluggish, certainly through the rest of 2009 and into 2010. We expect the nation's jobless rate to average 10.1% by 4q2009, peak at



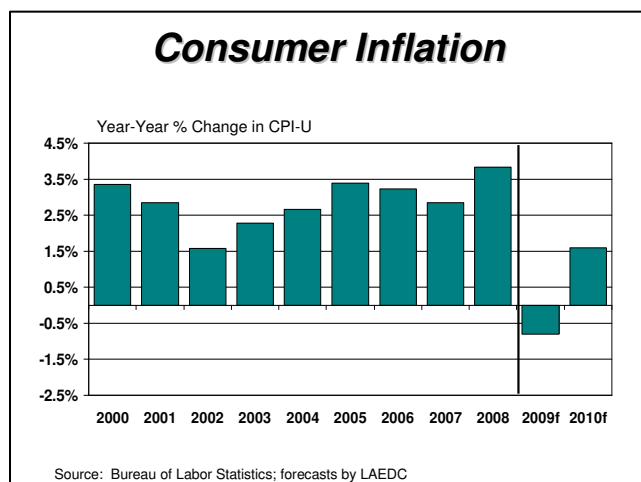
about 10.5% by mid 2010, and end the year closer to 10.2%.

Total compensation of civilian employees increased by 2.1% in the year ended March 2009. Wages and salaries increased by 2.2% during that period, while benefit costs grew at a 2.0% rate. These figures are well below the 3% plus/minus of recent years. Many businesses need to cut labor costs to offset declining sales. Indeed, the very weakness of U.S. labor markets suggests that wage increases should decelerate. On the benefits side, employers have shifted an ever larger proportion of health insurance burdens onto their workers in order to contain rising costs. This strategy has met with some success and is likely to continue. Thus, we expect overall employee compensation costs to escalate at a somewhat slower pace during the forecast period - rising by about 2.0% during 2009 and perhaps 1.8% in 2010.

Inflation

Consumer inflation was higher than economic policymakers wanted in the first three quarters of 2008 but dropped sharply in the 4th quarter and turned negative in early 2009. Measured by the Consumer Price Index, energy prices increased by +7.1% (annualized) between December 2008 and June 2009, while food prices continued to be well behaved, falling by -0.5%. Excluding these two

volatile categories, prices of all other consumer goods and services increased by +1.1%, about the same as their 2008 pace.



Going forward, we assume that gasoline prices will remain moderate during the rest of 2009 and 2010. If that happens, and prices of other goods and services follow current trends, then total CPI (“headline inflation” in the U.S.) will decrease by an average rate of -0.7% during 2009 and increase by +1.6% in 2010—well below the 3.8% increase of 2008.

Crude oil prices have been climbing up and down mountains in recent years. Using the West Texas Intermediate spot price, (WTI), oil prices peaked in June 2008 at nearly \$134 per barrel and then plunged to \$41 per barrel by year end 2008. By June 2009, the price was back up to \$70 per barrel. The main factors propelling crude oil prices downward included global economic weakness and increasing inventories in the OECD nations. Despite higher prices this year, the basic fundamentals haven’t changed much. Crude oil consumption is expected to decline through most of 2009 and turn up modestly in 2010. On the supply side, substantial excess production capacity exists in the OPEC nations, especially Saudi Arabia. Thus, industry observers expect oil prices to remain near current levels, averaging \$55/barrel in 2009 and drifting north to perhaps \$65/barrel in 2010.

Natural gas prices peaked in June 2008 at \$12.70/thousand cubic feet. By December, the Henry Hub price was down to \$5.80/thousand cubic feet. And by June 2009, it was down to \$3.80/thousand cubic feet. Going forward, assuming weather patterns across the nation remain “normal,” industry observers expect industrial usage of natural gas to

rise as the economy recovers. Natural gas prices (delivered to Henry Hub, LA) will average about \$4.20/mcf in 2009 and \$5.80/mcf in 2010.

Monetary Policy and Interest Rates

The Federal Reserve reduced its target federal funds rate ten times between September, 2007—when subprime problems first threatened to destabilize the nation’s capital markets—and December 2008, by which time the financial crisis had spread worldwide. By the time it was all over, the fed funds rate had fallen by 500 basis points to a range of 0% to 0.25%.

But cutting rates did not solve the Fed’s problems. Global capital markets continue to be skittish. Nervous financial institutions—even those not on government life support—are unwilling to make many loans to customers, preferring instead to build up their own reserves in case too many loans go into default. To loosen up this credit crunch, the Fed has poured buckets of liquidity into capital markets using traditional and, increasingly, non-traditional means. A veritable alphabet soup of new programs was developed, with the promise of more to come if necessary. The total tab so far is about \$1.2 trillion, give or take. While some programs are no longer needed and are shrinking, others continue to grow.

Was all this activity really necessary? Government policymakers certainly think so. To put it simply, the economy needs borrowed money in order to grow. Consumers need credit to purchase homes, furniture, appliances, cars and trucks. Business firms need to finance their inventories and purchases of new plant and equipment. State and local governments often borrow to pay for infrastructure projects. When the capital markets seize up, financial institutions become reluctant to take risks, especially lending risks. Thus, the credit crunch has the potential to deepen and extend the current economic recession.

The Fed’s target fed funds rate cannot go down any more. And with few inflation concerns on the near horizon, the Fed believes it can pour reserves into the banking system - and keep rates near current levels - until the economy begins to recover. In turn, this suggests short-term interest rates will stay put at current levels until the latter part of 2010. After that point, however, the Fed will want to return rates to more normal levels as soon as possible.

Long-term rates traced an irregular path between June 2008 and June 2009 as the financial markets first seized up and gradually began to ease. The 10-year Treasury note yield stood at 4.1% in June 2008 and then plunged to 2.4% in December, as investors fled to safety during the worst of the crisis. By June 2009, the 10-year yield was back up to 3.7% as capital market conditions eased and investors sought higher returns elsewhere. During the same period, the 30-year fixed mortgage rate averaged 6.3% in June 2008 and then drifted down to 5.3% in December and 5.4% in June 2009. Just as interesting, corporate bond yields soared in late 2008 and have retreated in recent months. The Moody's BBB yield averaged 7.1% in June 2008, jumped to 8.4% by December, and then fell back to 7.5% in June 2009. Corporate bond issuance, which collapsed during the fall, has increased correspondingly.

The outlook for long-term interest rates is uncertain, and the economic outlook doesn't offer many clues. Dollar depreciation and concerns about swelling government deficits could push long-term rates up. However, the slowing economy and lower inflation should put downward pressure on rates. A tentative compromise forecast anticipates that long-term rates stabilize during the rest of 2009, turning up as signals of recovery become more apparent. This would put the 10-year note yield at about 3.5% toward year end 2009 and perhaps 3.9% by year end 2010. Meanwhile, the fixed mortgage rate would be in the 5.2% range at the end of 2009 and about 5.6% at year end 2010.

Fiscal Policy

Timely fiscal policy can make a real difference to the U.S. economic situation and has been relied on heavily in this recession. Under the first stimulus plan—the Economic Stabilization Act of 2008—tax rebate checks arrived in the second quarter of 2008, just as gasoline prices were shooting up, mitigating consumers' loss of purchasing power.

Later in 2008, the Bush administration and Congress enacted the Troubled Asset Relief Plan (TARP). Under this program, up to \$700 billion is being spent mostly in support of commercial banks' balance sheets but also to provide special assistance to the U.S. auto industry. Now that capital markets have begun to ease, several large banks are returning \$75 billion to the government, which can be re-used for other purposes, including a proposed housing plan. Stay tuned.

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

While spending is rising, federal revenues are falling due to the recession. At minimum, rising unemployment means lower personal income tax payments. Also, falling sales revenues mean lower profits and reduced corporate income tax liabilities. As a result, the federal budget deficit is surging to previously unheard of levels, rising to \$1.6 trillion in fiscal year 2009 before dropping back to perhaps \$1.2 trillion in fiscal year 2010.

Risks to the Forecast

The baseline forecast calls for the U.S. economy to decline through the second quarter of 2009 before entering a modest recovery through 2010. Consumer spending will follow a similar pattern. Automotive and housing related purchases will likely turn up in the recovery. Boosted by the 2009 stimulus plan, federal government spending will grow at a healthy pace, helping to offset the expected declines in business investment spending, and exports. Employment will decline and unemployment will increase in both 2009 and 2010. Inflation looks like it will be a non-problem during the forecast period.

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

1. **The length/depth of the housing downturn.** The housing and real estate industries have a serious inventory problem: large stocks of unsold new and existing homes. Lender-owned foreclosed homes are growing in many regions and also must be sold. How low must new home construction fall to clear the market? And how much more will home prices have to decline to entice enough buyers back into the market (assuming they can get a mortgage)?

Optimistic industry observers expect the construction downturn to bottom out soon, certainly by the end of 2009. Pessimists don't expect the industry to bottom out until late in 2010. We are pretty optimistic (but we have our fingers crossed).

2. **Bank lending.** Commercial banks and thrift institutions operate a key transmission gateway between the troubled housing/mortgage sectors and the rest of the economy. Already, U.S. banks have taken big hits due to *direct* losses on mortgage loans (that had to be foreclosed because the borrowers couldn't/wouldn't make the payments). Also, the value of banks' *indirect or secondary* mortgage holdings has declined along with the capital markets' demonstrated lack of interest in those products. Banks have raised credit standards and required more documentation for all types of borrowers. For homebuyers, most banks offer only conforming mortgages that can be sold to the government housing agencies (FNMA, Freddie Mac, and the FHA).

For the forecast, the issue is how much—and how much longer—bankers' rediscovery of traditional credit analysis (which focuses on the

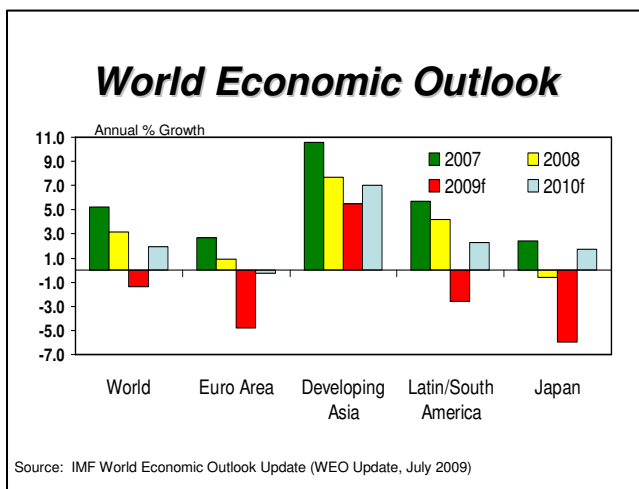
borrower's potential risk—i.e., ability to repay the loan) will dampen business and household borrowing *and spending* for big-ticket purchases.

3. **The length/depth of auto industry restructuring.** The current economic recession has been exacerbated by the "Detroit Three's" long-term loss of U.S. sales and market share to foreign-owned makes. The federal government is providing substantial direct and indirect support, though not without conditions. Now that they're out of bankruptcy, GM and Chrysler will have to find new ways to move forward profitably at a lower level of operations, a difficult task in the current economic situation.
4. **"Fear."** Americans--consumers and businesses alike—are being inundated with media reports of the economy's troubles and policymakers arguing about solutions and who's to blame. The economy has certainly felt the sting of this exposure to grim reality, as consumers and business leaders are acting extremely cautiously. These wary attitudes will have to change before the economy can really begin to recover.

III. MAJOR DEVELOPMENTS IN THE INTERNATIONAL ECONOMY

The global economy has been marred in a deep recession since the final quarter of 2008, brought on by a global credit crunch that paralyzed the real economy. Over-leveraged economies throughout the world experienced reductions in lending, borrowing, spending, investment, production and ultimately growth as the financial crisis expanded in scope and depth throughout the Americas, Europe and Asia (with the exception of China and India). Unemployment rates have climbed dramatically across the world and are expected to worsen in 2009 and 2010. World trade volumes are projected to experience a double-digit decline in 2009.

The slump continued into the first quarter of 2009 albeit at a somewhat reduced pace. The worst of the declining phase may have passed, but at the same time a global recovery remains in the distance. Germany, Japan and other Asian nations heavily dependent on exports have contracted the most and are having a very difficult time finding the right remedies. Global policymakers have implemented strong fiscal and monetary responses. Governments have passed massive stimulus packages and central banks have been equally active by slashing interest rates and increasing money supply. These measures have had a positive impact, - without them nations would have experienced even more severe conditions. Global real GDP is forecasted to contract by about -3.0% in 2009 before recovering slightly in 2010.



Major Regions

Asia

The prospects for Asia are encouraging only because of Chinese and Indian economic resiliency. The overall region should see positive growth in 2009, but one must pay close attention to the details. While growth is expected in China and India, the situation will be much different in Japan, South Korea and Taiwan (all top trading partners of the Los Angeles Customs District). Growth in Asia is projected to slow markedly compared to recent years.

The major slowdown in the region's overall growth rate is due to its high dependence upon exports. World trade volumes are projected to shrink by more than -10.0% in 2009. This will negatively impact business investment and labor markets throughout Asia. In the past, Asian economic recoveries have been based upon export growth, - this will surely not be the case in 2009. Global exports will turn up later in 2009, but at a very sluggish pace.

China

The Los Angeles Customs District's (LACD's) largest trading partner, China, saw its gross domestic product (GDP) increase by +6.1% on a year-on-year basis in the first quarter 2009. While better than most, China had seen double digit growth figures in recent years and as a result has become accustomed to very high growth rates. The Chinese government intends to meet its 8.0% objective for economic growth. The government's stimulus package, passed last year seems to be working. However, the demand for exports, rising unemployment and lackluster industrial output all are matters of concern. As China's largest trading partners continue to suffer from the economic downturn, sluggish demand from the U.S. and Europe will be a problem well into 2010.

As exports nose-dived beginning in the fall of 2008 and into 2009, the Chinese government responded with aggressive fiscal and monetary policies. Government investment actually climbed by +40% in May 2009 over the year. Fiscal discipline had allowed the Chinese government to accumulate massive surpluses over recent years, and now the

government has the capacity to fund large infrastructure projects.

The other great advantage China has in this economic situation is that its financial institutions have been largely unaffected by the global financial crisis. Bank lending surged over the first half of 2009, expanding by +30% on an annual basis.

Though the world economy finds itself caught up in the worst economic predicament in six decades, China's real GDP growth is forecasted to grow by +6% to +8% in 2009 and by +7% to +9% in 2010.

Japan

The Japanese economy is much worse off than the U.S., China and most of the Euro Area. Japan's GDP deteriorated in the first quarter of 2009, sinking by a remarkable -15.2% on an annualized basis following a -14.4% drop in the fourth quarter of 2008. The world's second largest economy (and the LACD's second largest trading partner) has now experienced four consecutive quarters of economic decline, the worst results since records began in 1955. For the fiscal year ending March 31, the economy shrank by -3.5%.

The main factor in Japan's troubles is its reliance upon exports for growth, with domestic demand incapable of negating some of the effects of worsening foreign demand. During the first quarter, exports collapsed by -26.0% on a quarter-to-quarter basis, the largest quarterly decline in history. This alone shaved -4.2 percentage points off GDP growth.

The other factor contributing to the slump in GDP is home grown. Japan has seen a consistent downward trend in consumer and business spending over the past five months. Lower domestic demand reduced GDP by -2.6 percentage points in the first quarter. Business investment plummeted a record -10.4% quarter-to-quarter. Consumer spending fell off by -1.1% in the first quarter.

Japan has experienced the worst recession in its modern history. The main culprit has been the global plunge in demand. The Japanese economy should feel the effects of the government's latest fiscal stimulus package later in 2009 and 2010. The coming quarters are anticipated to experience

lackluster business investment as corporate profits weaken, and abnormally low capacity utilization rates.

Worsening labor market conditions will negatively affect consumer spending. In fact, the unemployment rate in Japan reached 5.2% in May 2009 and could possibly go as high as 6.0% over the coming months. The Japanese economy is projected to contract by -6.0% to -7.0% in 2009 and then grow by a modest +0.5% to +1.0% in 2010.

South Korea

South Korea (the LACD's third largest trading partner) saw its GDP increase by +0.5% in the first quarter of 2009 on an annual basis. South Korea had experienced a significant -5.1 percent GDP decline in the fourth quarter of 2008.

The first quarter rise in GDP was mainly due to a large stimulus package passed by the government. In addition, the Bank of Korea has eased monetary policy by slashing rates to 2%. Both fiscal and monetary actions have helped. The government plans to implement another round of spending later in 2009 to produce sustainable growth.

Recent macroeconomic data were mixed, which make it difficult to determine how close South Korea is to an economic recovery. On the downside exports were discouraging and unemployment rose. Exports are about 50% of GDP. Moreover, factory production has climbed. The South Korean economy is expected to shrink by -2-4% in 2009 and then turn up in 2010 along with the rest of the global economy.

Taiwan

The Taiwanese economy shrank by -8.6% year-over-year in the fourth quarter of 2008 and then by -10.2% in the first quarter of 2009. These were the largest quarterly contractions in recorded history. Exports plummeted by over -27.0% while private consumption and fixed investment fell by -1.4% and -41.0%, respectively. The Taiwanese government has implemented a series of major investment programs to stimulate the economy and offset the impact of weakened global demand. China and the Association of Southeast Asian Nations have become increasingly important trade partners to

Taiwan since 2000. Japan remains the nation's largest supplier of imports. Export shares of the U.S., Europe and Japan have declined as China's share continues to climb.

Taiwan's key economic indexes have turned up in recent months, suggesting that the manufacturing sector will improve and that exports might grow later in 2009. It appears that the worst may be over for the Taiwanese economy. However, GDP is forecasted to deteriorate by -4%-7% in 2009.

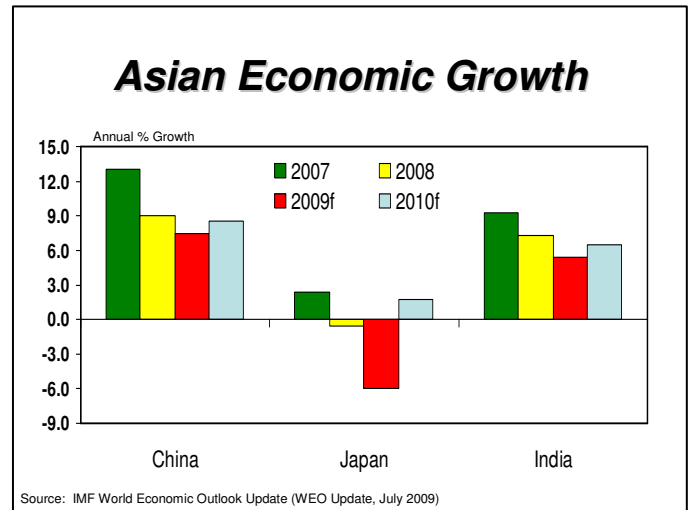
India

India saw its GDP increase by +5.8% in the first quarter of 2009 on a quarterly basis. Like China, India has shown some resiliency through this economic storm. Of course, exports and industrial production have been damaged. But the Indian economy is less dependent on exports than most other Asian nations, though the country has become more reliant upon IT exports in recent years. The election results in India should prove to be beneficial as the ruling Congress party remained in power. An improved investment climate and thawing credit markets have boosted the economic environment.

Some major challenges face the Indian economy in 2009 and 2010. Exports are expected to remain flat well into 2010, which will cause more problems for the industrial sector. Another challenge is the lack of maneuverability the government has with regards to fiscal policy. India's large, double-digit budget deficit leaves the government no room to implement fiscal stimulus. In addition, the economy could face a significant problem in the key agricultural industry, as weather remains a big concern. Delayed monsoons could raise already high food prices and force the government to boost spending in order to support farmers. Added pressure related to fiscal policy is the last thing the government needs. The outcome will not only determine the fate of the agricultural industry, but potentially affect Indian economic growth.

The Reserve Bank of India (RBI) has been cutting its benchmark repo rate since late 2008. However, private banks have not been as aggressive, and banks have been lending well below the RBI's target. GDP is projected to increase by +5-6% in 2009. The most recent indicators along with the recent weather

developments tend to translate into a growth rate closer to +5.0 to 5.5% in 2009.



Europe

In the Euro Area (EA 16), the sixteen nations using the Euro experienced a dip of -9.7% in GDP on an annual basis during the first quarter of 2009. The main factors in the decline were the overall drops in business investment, exports and inventories. Consumer demand weakened by -0.5%, investment declined by -4.2%, and exports collapsed by -8.1%, the worst result since 1995. The decline in household demand was the largest in 15 years.

Unemployment in the Euro area is projected to swell to 9.9% by the end of this year and go as high as 11.5% in 2010. The unemployment rate was 7.5% in 2008. The Euro area is expected to lose roughly 8.5 million jobs over the next two years after experiencing a net increase of 9.5 million jobs from 2006 to 2008.

The European governments also face public finance troubles. The collective budget deficit for the European Union is expected to more than double this year, from 2.3% of combined GDP in 2008 to 6.0% in 2009. This upward trend will continue into 2010 as the deficit jumps to 7.3% of GDP. The weakening fiscal conditions are partly due to the recession itself and also result from the massive stimulus packages implemented by various European governments to counter the economic recession.

As a result of all of this bad news, the European Central Bank (ECB) has cut its main interest rate to a record low 1.0%. No further rate cuts are expected assuming the economy bottoms out soon.

Consensus forecasts now predict that Euro area GDP will decline by -4.0% to -5.0% this year and will be little changed (-0.5% to +0.5%) in 2010. Most observers do not expect the EU economy to recover until the middle of 2010.

Germany

Real GDP has seen four consecutive quarterly declines. In the first quarter GDP dropped by -14.4% on an annual basis. Exports, the most important driver of German economic growth in recent years, have plunged since the inception of the global economic recession. Germany had reaped the benefits of substantial trade in capital goods with emerging-markets (especially Eastern European), a sector where the Germans have a strong competitive advantage. The financial crisis has been devastating, since most capital goods are funded on credit.

The labor market suffered in the first quarter 2009, but added jobs in April, May and June. After reaching a high of 8.3% in January 2009, the unemployment rate has most recently dropped to 8.1% in June 2009. The German government's \$115 billion spending plan has alleviated the situation somewhat.

Recent economic indicators suggest that the worst is over for the Germany economy. The world's top exporter and Europe's largest economy is forecasted to contract by -5% to -6% in 2009 and to show little change (-1.0% to +1.0%) in 2010.

France

France, the Euro zone's second largest economy, has shrunk for four consecutive quarters. French GDP worsened by -4.8% in the first quarter 2009 at an annual rate. Slumping exports contributed to the decline as European trade volumes have plummeted. As exports have fallen so has industrial production. The French unemployment rate increased to 8.7% in the first quarter and could easily exceed 9.0% by the end of 2009 and climb to 10.0% in 2010. The French economy has been supported by a stimulus package and monetary easing over the first half of 2009.

As bad as things seem in France, relative to other countries in Europe, the economy is in pretty good shape. Consumer spending actually rose in the first quarter 2009 by +0.2%. French consumers have continued this spending trend into the second quarter of 2009. Thus, the worst maybe over for the French economy. The consensus forecast seems to be that the French economy will weaken by -3.0 to -4.0% in 2009.

Britain

The British economy tumbled by -9.3% on an annual basis in the first quarter of 2009, the worst decline since 1958. The financial crisis really hit the United Kingdom (UK) extremely hard, as the housing market and the banking sector faced similar issues as in the U.S. Some economic indicators have declined at a slower pace recently but the economic bad news has only continued to come out of the UK. The main problems continue to be unemployment, weak lending, a slowdown in the services sector and slow construction activity. Unemployment exceeded 7.0% in 2Q 2009. Joblessness is expected to continue rising into 2010, possibly approaching 10.0-11.0%. Rising unemployment will hamper any recovery in consumer spending. Construction activity plunged by -6.9% in the first quarter.

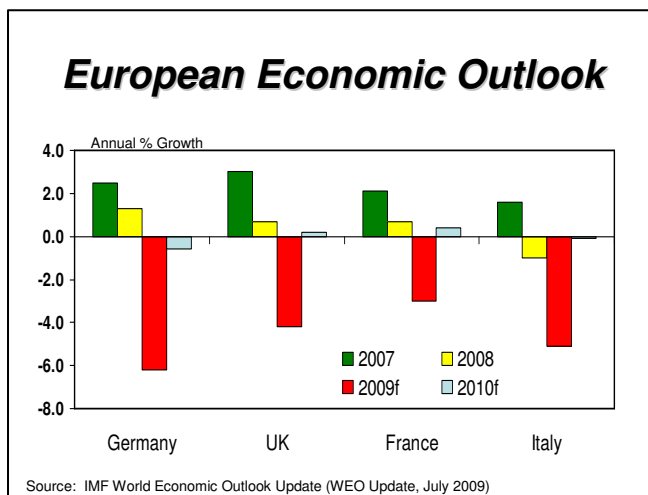
On the policy side, the government has implemented substantial fiscal and monetary stimulus, which should help. Any more government spending seems unlikely as the UK has one of the highest structural deficits in the developed world. In addition, the Bank of England has lowered rates so much that tightening will have to resume in 2010. The bottom line to whether or not the UK can weather the economic storm depends upon the stabilization of the financial system. Projections for the British economy are not encouraging. Britain's economy is forecasted to contract by -4.0% to -4.5% in 2009 and experience a modest recovery in 2010.

Italy

The Italian economy suffered its worst decline in almost thirty years in the first quarter of 2009, as GDP decreased by an annualized rate of -10.1%. Unlike most other European nations, Italy has not been able to stimulate the economy with substantial amounts of government spending because the nation already has a debt-to-GDP ratio of over 100 percent.

As a result, the nation's economy has deteriorated in the first half of 2009.

Unemployment figures have worsened over the past few months and should reach more than 8.0% in 2009. Some indicators have improved slightly in recent months, but the outlook for the Italian economy remains grim. Exports have weakened, especially with regards to luxury goods. On a more positive note, the Italian financial system has proven to be very resilient, as Italian banks have much stronger balance sheets than other large countries. Nevertheless, banks have felt the effects of the financial crisis as credit has tightened and profits have fallen. The Italian economy is projected to contract by -4.0% to -6.0 % in 2009.



The Americas

All of the nations within the Americas have been dramatically affected by the global economic recession and the resulting decline in commodity prices. Also, the plunging U.S. import demand has severely impacted the economies elsewhere in the Americas. This has hit the economies of Canada and Mexico the hardest, as more than 80% of their exports go to the United States. The region has seen a partial comeback in commodity prices over the past few months. The key for Brazil has been its ties with the Chinese economy and maintaining domestic demand. Inflation is no longer the concern it used to be as food and oil prices are lower. Moreover, the recovery in the U.S. will determine the outlook for the Canadian and Mexican economies.

Canada

The Canadian economy in the first quarter of 2009 experienced a decline in GDP of -5.4% at an annualized rate. The economic situation in Canada began to deteriorate in the fourth quarter of 2008. Canada's economic problems resulted directly from the U.S. financial and economic crisis. A sharp decline in demand for Canadian exports by the U.S. devastated investment and employment in the export industries. The other major problem for the Canadian economy was the collapse in commodity prices. The Canadian economy has most likely passed the worst of its economic decline as commodity prices have rebounded and the U.S. economy will bottom soon.

The housing market has declined substantially in Canada. The strength of the Canadian dollar will negatively contribute to the export recovery. Unemployment rose to 8.4% in May, the highest in eleven years, and should go even higher as the auto industry faces massive job cuts. Inflation should not be a factor for the remainder of 2009. There is a risk of deflation in 2010.

On a more positive note, the Canadian banking system has proven to be one of the healthiest in the world. In addition, consumer spending increased in recent months. The Canadian economy will not recover until U.S. and global demand rebounds and world trade recovers. Canada's GDP should weaken by -2 to -3% in 2009 and will reap the benefits of a global recovery in 2010.

Mexico

The Mexican economy is extremely reliant upon the health of the U.S. economy and has deteriorated significantly since late 2008. Nearly 20% of Mexico's economy is dependent upon manufacturing exports to the U.S. Also, Mexicans working in the U.S. provide critical remittances income. Both have collapsed; exports declined by -30% in the first quarter while remittances fell by nearly -20% in May. The Mexican economy fell by -21.5% on an annualized quarterly basis in the first quarter of 2009.

Recently, the outbreak of the swine flu and the stepped-up war on drugs has further contributed to the economic distress across Mexico. Tourism - another of Mexico's economic drivers - have been

hit very hard. Foreign visitors' spending may decline by \$4 billion this year. In addition, business investment and foreign direct investment have tumbled the last six months. Mexico's unemployment rate climbed to 5.3% in May 2009.

Parliamentary elections will determine what types of fiscal reforms are enacted in the coming months. The recent victory by the opposition party should make it more difficult for the President of Mexico to negotiate economic reforms. Inflation has receded, and should continue to be low as the economy struggles into 2010. Many economists have reduced their forecasts for 2009 as the economic indicators continue to disappoint. Current projections are for the Mexican economy to worsen by -6.5-7.5% in 2009 before experiencing positive growth again in 2010.

Brazil

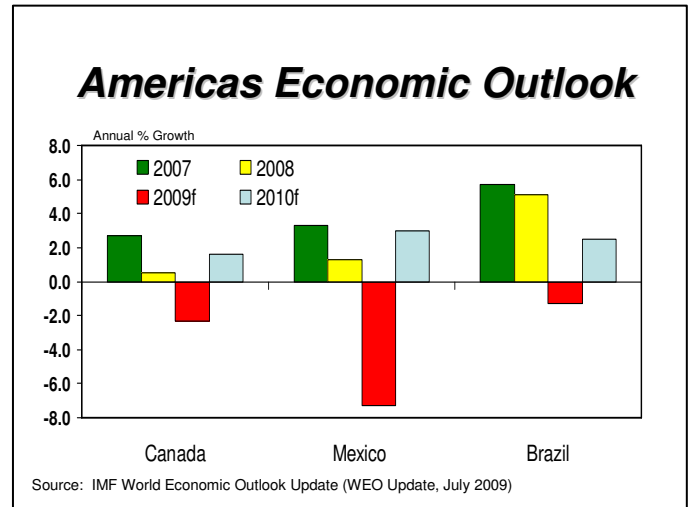
The Brazilian economy shrank by just -3.3 percent at an annualized rate in the first quarter. The small size of the contraction was good news for Latin America's largest economy. The reduction in GDP was predominantly due to a collapse in exports and a plunge in business fixed investment. These were offset by an expansion in consumer spending. Recently, manufacturing has rebounded. As a result, most economists believe that the worst is over for Brazil.

Brazil benefited greatly from surging commodity prices for oil, iron ore and agricultural products in recent years. The global economic recession ended that abruptly. Recent trends suggest demand for these commodities are beginning to come back, which should help Brazil's battered exports.

Brazil has seen the effects of the financial crisis and the global economic recession, but it has managed to cope relatively well. The Central Bank lowered the cost of borrowing and is expected to reduce the policy rate even more in the near future. Economic indicators suggest that the economy should turn-up over the second half of 2009. Consumer spending, renewed investment, strong financial institutions and a recovery in commodity prices have provided the foundation for a potential economic recovery.

Employment has increased and unemployment fell in recent months. Exports have climbed since

March, and industrial production has improved. Brazil's close economic ties to China are proving to be very beneficial, as China has passed the U.S. to become the largest importer of Brazilian goods. Overall, the Brazilian economy is still expected to shrink by -1.0% to -1.5% in 2009, but then grow by +2.0% to +3.0% in 2010



Foreign Exchange Rates

The U.S. dollar appreciated greatly vis-à-vis most other currencies between September 2008 and March 2009. As world investors became risk averse, U.S. Treasury securities appeared to be the safest investment. Huge sales of U.S. government bonds to foreign investors translated directly into the U.S. Dollar strengthening.

Recently, amid signs that the worst might be over for the world economy, investors have become less risk averse. The U.S. Dollar began to weaken again in March 2009. Looking forward, economic recovery is expected to begin in the U.S. before it does in the other developed economies, which suggests that the U.S. Dollar might gain strength in the coming months. On the other hand, the U.S. current account would worsen in this scenario. Thus, the U.S. Dollar is expected to remain within its recent trading range.

Chinese Renminbi: The collapse of world trade toward the end of 2008 led the Chinese central bank to hold the Chinese currency stable in order to aid the struggling export sector. In 2009, the Renminbi has appreciated somewhat versus the U.S. Dollar as the government attempted to minimize inflation.

Japanese Yen: The Japanese Yen weakened over the first quarter of 2009 as the Japanese economy faced its worst economic environment since World War II. However, the Yen has recovered since then. In the first half of 2009, the Yen has depreciated by -5.6%.

South Korean Won: The South Korean Won has fluctuated greatly in 2009 due to the effects of the financial crisis and the global economic recession. The Won weakened in the first three months of 2009 but then rebounded in the second quarter. Overall, in the first half of 2009, the Won depreciated against the Dollar by only -1.6%.

Canadian Dollar: The Canadian Dollar depreciated vis-à-vis the U.S. Dollar by -20.8% following the collapse of Lehman Brothers over the first quarter of 2009. As the U.S. economy started to show signs of life in March the trend reversed and the U.S. Dollar weakened against the Canadian Dollar until early June as the Canadian Dollar appreciated by +21.2%.

Mexican Peso: As was the case with our neighbor north of the border, our southern neighbor experienced a significant drop in its currency from September 2008 until March 2009 as the economic landscape deteriorated rapidly. The Peso depreciated by -46.0% over this time period. Since March 2009 the Mexican Peso has gained ground appreciating by +14.2%. Most recently, the peso has stabilized and its future greatly depends upon U.S. demand recovering. Overall, in the first half of 2009 the Mexican Peso has appreciated by +4.1%.

Euro: The European Monetary Unit (Euro) deteriorated substantially from September 2008 until March 2009 losing almost -12.0%, as investors saw no relief in sight for the world economy. Attitudes became less negative in March and the Euro appreciated in the second quarter by approximately +14.0%.

British Pound: The British Pound lost -20.7% of its value vis-à-vis the U.S. Dollar from September of 2008 to the low point in March 2009. Since then the Pound has strengthened versus the U.S. Dollar by appreciating close to +15.0%. The Pound is still very weak compared to where it was over the past few years.

Table 3: Foreign Exchange Rates of Major U.S. Trading Partners

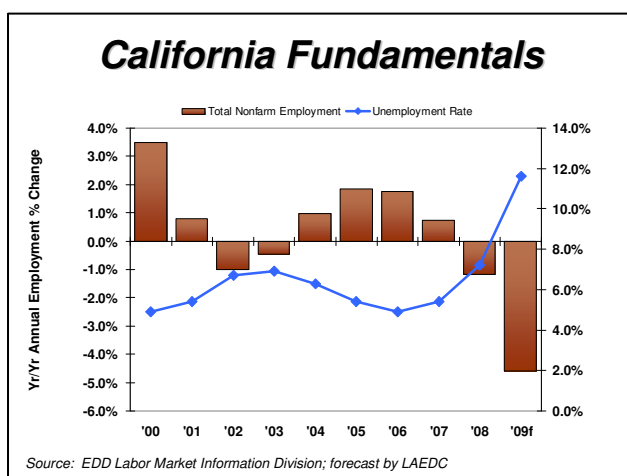
Country (Currency)	2000	2001	2002	2003	2004	2005	2006	2007	2008	1h2009
Broad Currency Basket (index)	119.45	125.93	126.66	119.09	113.63	110.71	108.52	103.40	99.83	105.23
Canada (C\$/US\$)	1.486	1.549	1.570	1.401	1.302	1.212	1.134	1.073	1.066	1.156
China (yuan/US\$)	8.28	8.28	8.28	8.28	8.28	8.19	7.97	7.61	6.95	6.85
Euro Zone (US\$/€)	0.923	0.895	0.945	1.132	1.244	1.245	1.256	1.371	1.473	1.405
Japan (¥/US\$)	107.8	121.6	125.2	115.9	108.2	110.1	116.3	117.8	103.7	95.6
Mexico (peso/US\$)	9.46	9.34	9.66	10.79	11.29	10.89	10.91	10.93	11.14	13.23
South Korea (₩/US\$)	1131	1292	1250	1192	1145	1024	954	929	1099	1285
United Kingdom (US\$/£)	1.516	1.440	1.503	1.635	1.833	1.820	1.843	2.002	1.855	1.652
Percent Change	2000	2001	2002	2003	2004	2005	2006	2007	2008	1h2009
Broad currency basket (index)	6.3%	5.4%	0.6%	-6.0%	-4.6%	-2.6%	-2.0%	-4.7%	-3.5%	5.4%
Canada (C\$)	3.7%	4.3%	1.4%	-10.8%	-7.1%	-6.9%	-6.4%	-5.3%	-0.7%	8.4%
China (yuan)	0.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.4%
Euro Zone* (€)	6.8%	-3.0%	5.6%	19.7%	9.9%	0.1%	0.9%	9.1%	7.4%	-4.6%
Japan (¥)	10.7%	12.8%	3.0%	-7.4%	-6.7%	1.8%	5.6%	1.2%	-11.9%	-7.8%
Mexico (peso)	1.4%	-1.3%	3.5%	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	18.7%
South Korea (₩)	10.3%	14.2%	-3.2%	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	17.0%
United Kingdom (£)	7.4%	-5.0%	4.4%	8.8%	12.1%	-0.7%	1.3%	8.6%	-7.4%	-10.9%

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

IV. OUTLOOK FOR THE CALIFORNIA ECONOMY

The California economy continued to weaken through mid 2009. Problems that originated in housing and mortgage finance spread to the rest of the economy, leaving very few industries untouched. Retail sales deteriorated sharply over the winter and spring, especially at the state's auto dealers. Tourism is down across the state, and the manufacturing and transportation sectors have been hard hit. Nonresidential and public works construction also have declined sharply. As employment, income and taxable sales shrank, state and local government revenues fell putting pressure on government spending plans for coming years.

At mid 2009, California is in the depths of a severe recession. Unemployment has hit post World War II highs. Employment is declining across the state. Only a few industries are growing. The economic news in California will be mostly bad during 2009, with limited improvement likely in 2010.



There are worries in addition to the recession

- One is water. California's water supply is in very short supply in 2009. Many areas face restrictions on water use, as the water level in the state's reservoirs has fallen well below average. Worse yet, environmental rulings are coming that place at risk the state's premier agriculture industry and all urban areas that rely on water traversing the Sacramento-Bay Delta.
- As its revenues continue to shrink, the state government's budget deficit problem has gone from bad to worse to horrific. Wrestling with the resulting problems reveals one salient fact:

whatever the solutions turn out to be, they will cause further economic damage. Government spending and employment at all levels will simply have to come down. Any tax or fee increases would simply shift the spending and employment reductions to the private sector.

A downbeat economic outlook

During 2009, employment will fall by -4.6% in California, or by -694,000 jobs. The unemployment rate will ratchet up into double digits, averaging a painful 11.6% this year. The economic downturn should hit bottom by the end of 2009. When the recovery finally begins, growth will be moderate at best. Firms will be reluctant to hire until they are certain the recovery is "for real." As a result, the state's labor markets will weaken further in 2010, with nonfarm employment declining by -2.1% or by -296,000 jobs. Unemployment will remain uncomfortably high, averaging 12.6% next year.

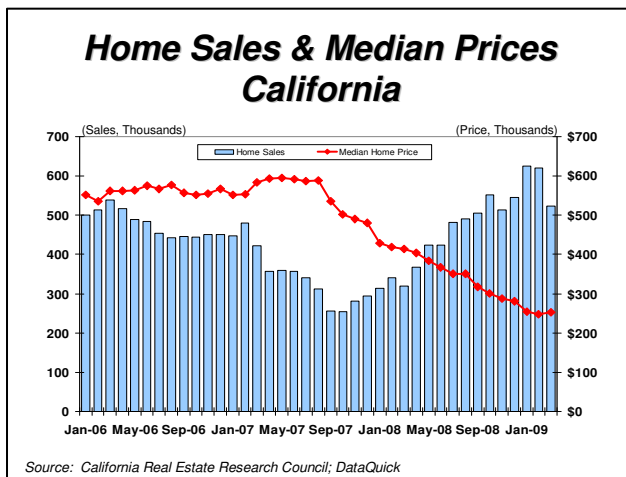
Positive Forces Through 2009 into 2010

Health care: This industry seems to grow in fair economic weather and foul. Demand is driven by the state's ever-increasing population, especially those over 60 years of age, who use medical services intensively.

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

Some Negative Forces

Housing and related activities: New home construction is in a state of gloom right now, and the pain will continue through 2010. However, after four years of malaise, the market for existing homes is giving off some intriguing signals, as unit sales have increased while prices may be stabilizing. Housing appears to be nearing some kind of bottom, though the timing of any upturn is still uncertain. The main risk would be another round of rising foreclosures brought on by increasing joblessness.



Retail and autos: It's no longer just the housing related industries that are struggling. In California, employment has been falling, and consumer spending is dropping too. Retail stores of all types are closing down and jobs are disappearing rapidly. In particular, the state's automotive dealers have been hard hit, especially those selling products made by the "Detroit 3."

Environmental regulations: The recession and its impacts fill the headlines. Less noticed are efforts to "green" the state and its ports, as well as the looming implementation of AB 32 (the greenhouse gas legislation). A large number of new requirements for state businesses are in the regulatory hopper, with final rules likely in the next 18 months. At minimum, this process raises uncertainty in today's adverse business climate. Many industries and citizens will face higher operating costs in the future. Paying for the required investments in new vehicles, equipment and buildings also could be an issue.

Demographic Trends

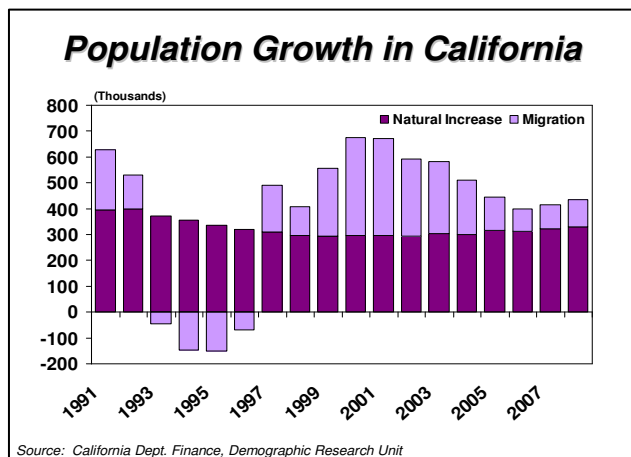
Despite all of its economic troubles, the California economy has one big thing going for it: a large and growing population. The state's populace numbered 38.15 million persons as of midyear 2008. That total is expected to swell by more than 400,000 persons in each of the next two years. By 2010, the state will have 39.0 million residents.

Growth has slowed since the early years of this decade, primarily because the state has been experiencing net domestic migration; i.e., the number of Californians moving out-of-state is greater than the number of out-of-state residents

moving here. Most of the state's population growth comes from natural increase (i.e., births minus deaths), with the remainder from international immigration.

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

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



Trends in Major Industries

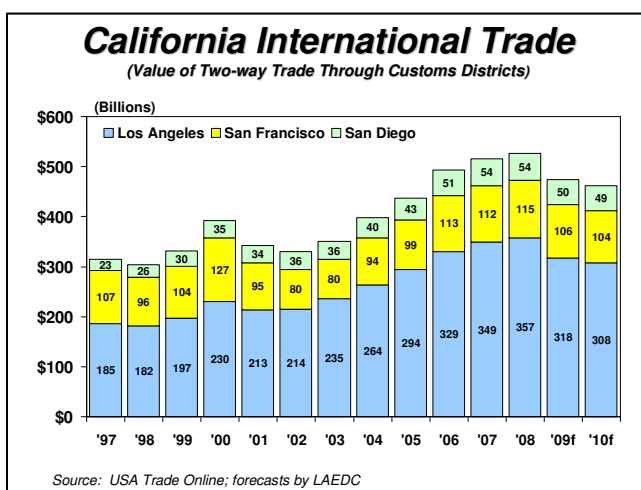
Agriculture: All in all, 2008 was a pretty strong year for the state's farms, with revenues boosted by healthy exports of California grown products. Also, farm labor shortages did not materialize as had been feared. However, the state's farmers were faced with significant cost increases, particularly for feed and fuels, which hurt their bottom line. The situation in 2009 is more pessimistic. Prices of several important products have declined, in some cases by more than costs. In addition, water supply has become an extremely serious concern. California farmers are cutting production to survive.

Farm statistics are released with a lag. Preliminary government estimates suggest that California farms received \$37.3 billion in gross receipts during 2008, up by just +2.0% from 2007. Early returns for 2009

were sobering. Total gross receipts were down by -16.3% in January-March, primarily due to plunging prices of dairy products and livestock. Exports of California-grown and -bottled products decreased by -8.9% during the first five months of 2009 compared with early 2008. Also during the first five months of 2009, an estimated 351,800 workers were employed by California's farms and nurseries, up by +1.1% from the same period of 2008.

2009 will be a challenge for California's farmers. Product prices are weak, which hurts even though fuel costs have fallen too. Further, California farm and food exports may well decline this year, due to lower demand from nations hit hard by the global recession. A final factor to consider is the negative impact of mandated water rationing.

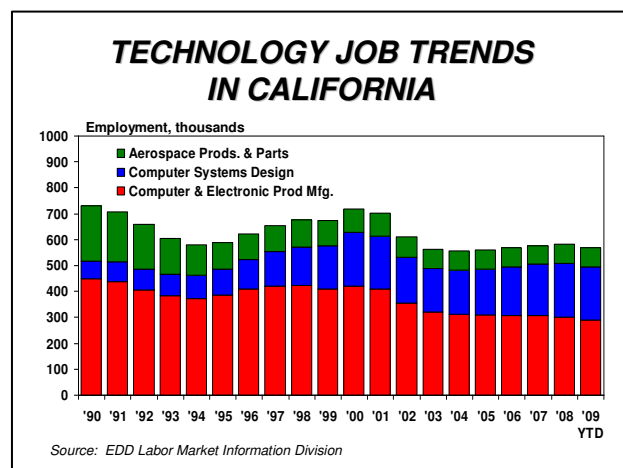
International trade: Imports and exports through California's three customs districts weakened through much of 2008, with a pronounced decline at year end, as the global financial and economic downturn spread to key markets in Asia. For 2008, the value of imports through the state's ports was barely positive, up by +0.1%, while exports increased by +6.9%. Both import and export flows will deteriorate severely in 2009, with imports expected to decline by -22% and exports by -20%. When will the situation change? Imports will bottom and begin to improve once U.S. retailers start to increase orders from their foreign suppliers later in the year. Exports will not improve until global financial and economic conditions begin to mend.



Technology (including aerospace): The various components of California's tech sector have

disparate outlooks. Business demand for technology products was quite weak in the first half of 2009, when businesses were reducing costs drastically in order to survive the recession. Sales have held up a bit better on the consumer side. Demand for high-end consumer electronics is flagging, but gaming software (and machines) will do better, a benefit to the California firms involved in that sector of the industry. And there's always demand for well-designed personal gadgets like iPods and smart cell phones with media players. California's high tech manufacturers—especially makers of semiconductors and other electronic components—responded to the sudden downturn in demand by slashing production and employment in the second half of 2008 and early 2009. It's not clear when production will begin to ramp up again.

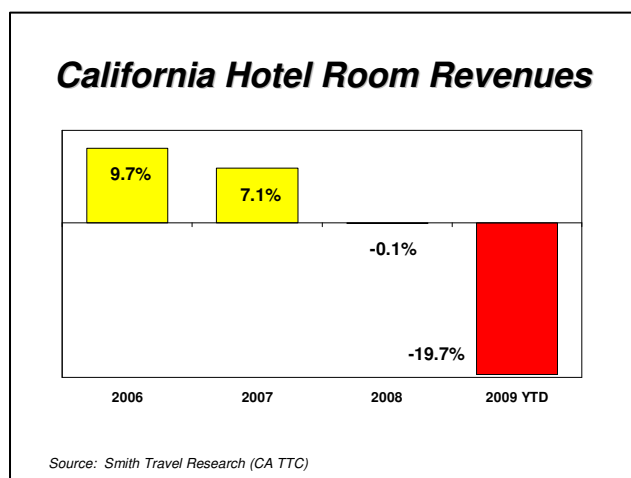
In the aerospace sector, a number of major government-sponsored defense projects are underway in California, including satellites and unmanned aerial vehicles. Significant subcontracting also takes place on Air Force fighter planes. The new administration is proposing key defense cutbacks that would hurt the state, on net, beginning in 2010. However, the Defense Department's upcoming quadrennial review, set to be released late in 2009, could lead to further changes in priorities.



Commercial aerospace presents a darker picture, Airbus and Boeing are scrambling to adjust their production schedules downward as cash-strapped airlines delay deliveries and even cancel orders for new aircraft. Delays in bringing new aircraft to the market (Boeing's 787 Dreamliner and the Airbus 380) have made matters worse. Both manufacturers have hefty backlogs but, with few net new orders, they are shrinking faster than anticipated.

California subcontractors to Airbus and Boeing are understandably on edge, and some may experience holes in their own production schedules after the dust has settled.

Tourism: 2008 was a period of transition for California's tourism industry. The year started out fairly well, but conditions deteriorated markedly later in the year and in 2009. For 2008, according to Smith Travel Research, the state's hotels reported mild declines in occupancy rates last year (averaging -4.5%) but higher room rates (up by +2.8% on average). However, the average occupancy rate dropped by -12.7% in the first five months of 2009, while average daily room rates fell by -10.1%.



A number of new hotel properties have opened in California during the past 15 months, and existing hotels have expanded. As a result, while total hotel room revenues last year were almost even with 2007 (down by just -0.1%), room revenues shrank dramatically, by -19.7%, during the first five months of 2009. All major markets reported double-digit declines in first quarter room revenues. Riverside-San Bernardino and Sacramento were the "least bad" of the major destinations, with room revenues down by -17.5% and -17.7% respectively compared with the first five months of 2008. Revenues in the Bay Area were generally down by -21.5% to -22.5%, but San Jose was down by -

30.3%. In Southern California, Los Angeles and Orange County saw revenues decline by -19.4% and -20.8% respectively year to date, while San Diego was down by -20.4%.

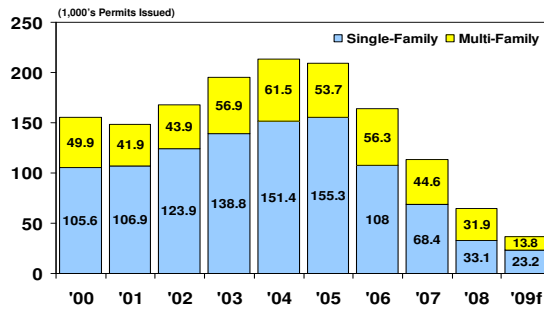
International travel experienced similar pains. After growing by +5% in 2008, the number of international visitors flying into California airports decreased by -18% during the first four months of 2009, as the global recession dampened travel demand. The number of travelers from Europe, Japan, the rest of Asia and Oceania—sources of many visitors to California—fell at double digit rates.

Going forward, tourism industry revenues likely will decline in 2009. Business travel to California destinations will almost certainly decline this year, impacting airlines, hotels and the state's convention centers. Intra-state travel, which accounts for half of total visitation in the state, is likely to show the smallest declines. Travelers of every type will choose the lowest-cost options, whether airfares, rental cars, or hotel rooms.

Construction: And then there is the state's troubled construction industry. New home construction will struggle in 2009, with just 37,000 units permitted, down by -43% from 2008 and a whopping -83% plunge from the 2004 peak year (when 212,960 units were permitted). Nonresidential construction also is taking it on the chin this year, with the value of new permits dropping by -40% to \$11.5 billion.

What about public works? Some state-funded projects have been held back because California is having trouble selling bonds in the current credit-constrained environment when the state has no budget—and therefore no visible means to service the debt. Beyond the state's problems, revenue constraints are causing most local governments to prune spending this year, including construction projects. Federal stimulus funds are beginning to flow into California. While their impact will be relatively small in 2009, public works construction activity should improve in 2010 and 2011.

Residential Building Permits Issued in California



Source: Construction Industry Research Board; forecast by LAEDC

Trends Around the State

California is in the midst of a serious recession, and all thirteen large metropolitan areas have seen significant employment declines. Four metro areas in the Central Valley are in the “least bad” shape, including Bakersfield (with an employment loss of -2.1% over the year to May 2009), Stockton (-3.2%), Fresno and Modesto (both at -3.9% over the year. Still, a central location did not guarantee success; the Sacramento area placed third from the bottom, with a year-over decline of -5.2%.

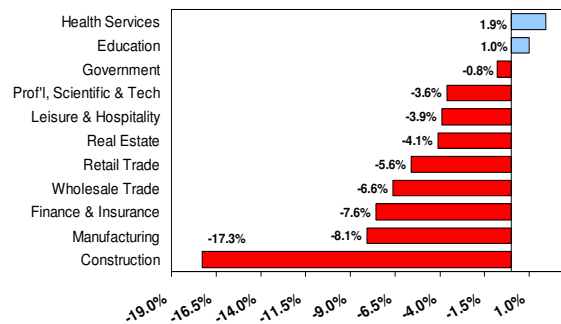
Southern California’s metro areas are spread across the rankings. However, three of the areas in worse shape are Riverside-San Bernardino (down by -6.3% over the year to May 2009), Ventura (-5.6%), and Orange County (-4.7%). Los Angeles (-4.5%) ranked near the middle, while San Diego (-4.0%) placed fifth from the top.

The three Bay Area metros clustered around the middle of the ranking. Oakland and San Jose turned in similar performances, with year-over declines of -4.3% and -4.4% respectively. San Francisco was slightly lower (job counts down by -4.7%), hit by problems in finance, retail and the downturn in tourism.

Net Results

Employment losses in California have spread from housing and finance across the industry spectrum to manufacturing, retail trade, business services, and goods movement. The largest job losses during 2009 will come in construction (-135,800 jobs), manufacturing (-115,400 jobs), retail trade (-92,300 jobs) and administrative & support services (-71,700 jobs). Only two industry sectors will add employees in 2009: health services (+26,700 jobs) and private education services (+3,000 jobs).

2009 Industry Winners & Losers in California



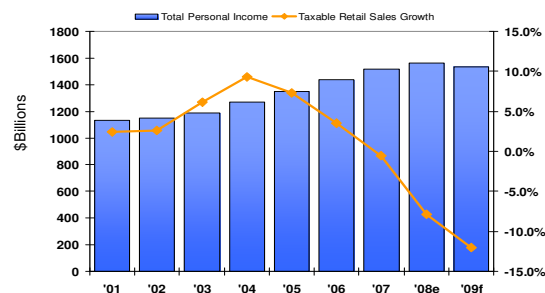
Sources: CA EDD, Labor Market Information Division; forecasts by LAEDC

Already the state’s unemployment rate has moved well into double-digit territory, and will average 11.6% during 2009, compared with 7.2% in 2008. Unfortunately, the jobless rate will continue upwards in 2010, averaging 12.6%.

Total personal income will drop by -2.0% in 2009 to \$1.53 billion, the first annual decline since 1938. Rough times for California’s retailers will continue, with a -12.0% decline in 2009 taxable retail sales.

In 2010, personal income will edge up by only +1.0%, while taxable retail sales will register a gain of just +2.0%.

California Personal Income & Retail Sales



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

Bottom Line

There’s no doubting it. The near-term outlook for the California economy is pretty bleak. The state will see a real recovery and economic expansion but not before 2011. Until then the challenge for everyone—business firms, workers, all levels of government—will be to cope with the downturn and its ongoing consequences.

Gross Product

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

To help keep things straight (at least for 2008), call it the "rule of 8...17...19." In 2008, the state ranked 8th, the five-county area placed 17th, while Los Angeles County on its own ranked 19th (based on what can be measured) among the nations of the world.

In 2008, rankings dropped for both the five-county area (from 16th to 17th) and for Los Angeles County (from 18th to 19th) as the Dutch and Polish economies grew substantially in terms of nominal GDP (though not as much when adjusted for inflation). California's 8th place ranking (behind Italy and ahead of Russia) was unchanged from 2007.

Next year, when we update this table, we should witness a substantial decline in GDP for many nations, especially those that are dependent upon exports. The rankings for the five-county area and Los Angeles County could also slide in 2009 as a result of the severe economic recession in the region. The battered real estate market, high unemployment and dwindling consumer spending have hit the Southern California region really hard and this trend is expected to continue for the rest of 2009. On a comparative basis, Southern California could fare better than export-led countries that have been hit particularly hard due to a severe downturn in world trade.

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

Table 4: Gross Product Comparisons, 2008

(In billions of US\$)

Rank	Country/Economy	2008	Nominal GDP	Real GDP
			'07-'08 % Chg	'07-'08 % Chg
1	United States	\$14,264.60	3.2%	1.1%
2	Japan	4,923.76	11.0%	-0.6%
3	China	4,401.61	25.5%	9.1%
4	Germany	3,667.51	9.5%	1.3%
5	France	2,865.74	9.5%	0.7%
6	United Kingdom	2,674.09	-4.9%	0.7%
7	Italy	2,313.89	9.0%	-1.0%
	California	1,846.80	1.9%	0.4%
8	Russia	1,676.59	23.1%	5.6%
9	Spain	1,611.77	10.7%	1.2%
10	Brazil	1,572.84	16.5%	5.1%
11	Canada	1,510.96	5.0%	0.5%
12	India	1,209.69	9.0%	7.3%
13	Mexico	1,088.13	6.0%	1.3%
14	Australia	1,010.70	10.1%	2.1%
15	South Korea	947.01	-2.4%	2.2%
16	Netherlands	868.94	10.6%	2.0%
	Los Angeles 5-co. area	859.42	0.9%	0.5%
17	Turkey	729.44	9.6%	1.1%
18	Poland	525.74	19.7%	4.8%
	Los Angeles County	513.60	1.1%	0.7%
19	Indonesia	511.77	15.4%	6.1%
20	Belgium	506.39	10.3%	1.1%
21	Switzerland	492.60	13.3%	1.6%
22	Sweden	484.55	6.1%	-0.2%
23	Saudi Arabia	481.63	20.7%	4.6%
24	Norway	456.23	14.6%	2.0%
25	Austria	415.32	10.6%	1.8%
26	Taiwan	392.55	2.3%	0.1%
27	Greece	357.55	12.2%	2.9%
28	Iran	344.82	17.3%	4.5%
29	Denmark	342.93	9.0%	-1.1%
30	Argentina	326.47	20.4%	7.0%
31	Venezuela	319.44	28.7%	4.8%
32	South Africa	277.19	-2.1%	3.1%
33	Finland	273.98	10.1%	0.9%
34	Ireland	273.33	4.4%	-2.3%
35	Thailand	273.25	10.2%	2.6%
36	United Arab Emirates	260.14	26.7%	7.4%
37	Portugal	244.49	8.6%	0.0%
38	Colombia	240.65	15.8%	2.5%
39	Malaysia	222.22	16.0%	4.6%
40	Czech Republic	217.08	19.4%	3.2%

Note: Nominal GDP figures are not adjusted for inflation.

Sources: IMF World Economic Outlook, April '09; LAEDC estimates

Table 5: California Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ billions)	Value of Two-way Trade (\$ billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)
2000	34,095.2	14,487.8	4.9	1,103.8	32,375	287.1	392.0	148,540	18,625
2001	34,766.7	14,602.6	5.4	1,135.3	32,655	294.0	340.7	148,757	16,753
2002	35,361.2	14,457.9	6.7	1,147.7	32,457	301.6	328.1	167,761	14,529
2003	35,944.2	14,393.1	6.9	1,187.0	33,025	320.2	348.0	195,682	13,915
2004	36,454.5	14,532.1	6.3	1,266.0	34,727	350.2	394.8	212,960	15,689
2005	36,899.4	14,800.7	5.4	1,348.3	36,539	375.8	433.8	208,972	18,266
2006	37,298.4	15,059.8	4.9	1,436.4	38,512	389.1	488.0	164,280	21,109
2007	37,712.6	15,173.5	5.4	1,519.5	40,293	387.0	513.4	113,034	22,542
2008e	38,148.5	14,994.1	7.2	1,563.9	40,995	356.3	524.5	64,752	19,218
2009f	38,560.0	14,300.0	11.6	1,532.7	39,748	313.5	412.0	37,000	11,500
2010f	39,000.0	14,004.0	12.6	1,548.0	39,692	319.7	399.6	40,000	11,000

% Change

'01/'00	2.0%	0.8%		2.9%	0.9%	2.4%	-13.1%	0.1%	-10.1%
'02/'01	1.7%	-1.0%		1.1%	-0.6%	2.6%	-3.7%	12.8%	-13.3%
'03/'02	1.6%	-0.4%		3.4%	1.7%	6.2%	6.1%	16.6%	-4.2%
'04/'03	1.4%	1.0%		6.6%	5.2%	9.4%	13.4%	8.8%	12.7%
'05/'04	1.2%	1.8%		6.5%	5.2%	7.3%	9.9%	-1.9%	16.4%
'06/'05	1.1%	1.8%		6.5%	5.4%	3.5%	12.5%	-21.4%	15.6%
'07/'06	1.1%	0.8%		5.8%	4.6%	-0.5%	5.2%	-31.2%	6.8%
'08/'07	1.2%	-1.2%		2.9%	1.7%	-7.9%	2.2%	-42.7%	-14.7%
'09/'08	1.1%	-4.6%		-2.0%	-3.0%	-12.0%	-21.4%	-42.9%	-40.2%
'10/'09	1.1%	-2.1%		1.0%	-0.1%	2.0%	-3.0%	8.1%	-4.3%

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

Table 6: California Nonfarm Employment
(Annual averages, in thousands, 2008 benchmark)

	Total Nonfarm		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Employment	Nonfarm				Durable	Non-durable				
2000	14,487.8	26.5	733.4	1,864.1	1,217.2	646.9	518.3	1,563.2	576.7		
2001	14,602.6	25.6	780.4	1,791.3	1,173.9	617.4	514.1	1,576.1	551.9		
2002	14,457.9	23.1	774.4	1,644.5	1,059.6	584.9	491.0	1,582.1	497.3		
2003	14,393.1	22.2	796.8	1,542.5	976.4	566.1	480.6	1,588.3	476.1		
2004	14,532.1	22.8	850.4	1,523.5	966.0	557.4	482.7	1,617.6	482.4		
2005	14,800.7	23.6	905.3	1,504.8	959.0	545.7	487.1	1,659.3	473.6		
2006	15,059.8	25.1	933.7	1,490.2	947.6	542.6	496.1	1,680.1	466.0		
2007	15,173.5	26.7	892.6	1,464.4	927.9	536.4	507.6	1,689.9	470.8		
2008	14,994.1	28.5	785.8	1,425.4	901.1	524.3	505.8	1,642.3	474.7		
2009f	14,300.0	27.0	650.0	1,310.0	820.0	490.0	480.0	1,550.0	445.0		
2010f	14,004.0	24.0	630.0	1,230.0	780.0	450.0	480.0	1,460.0	445.0		

	Finance & Insurance		Real Estate, Rental & Leasing		Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.		Health Care & Soc. Asst.		Leisure & Hospitality	Other Services	Government
	Employment	Nonfarm	Real Estate, Rental & Leasing	Finance & Insurance			Admin. & Support Svc.	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services			
2000	544.3	262.6	922.7	294.0	997.2	1,171.3	1,335.5	487.7	2,318.0				
2001	568.9	267.2	936.9	283.6	657.6	1,210.6	1,365.1	499.2	2,382.1				
2002	584.8	268.2	905.0	265.9	939.5	1,253.3	1,382.3	505.7	2,447.0				
2003	613.4	272.3	906.6	246.8	931.2	1,278.1	1,400.1	504.3	2,426.0				
2004	625.8	276.4	918.9	230.3	947.8	1,297.1	1,439.4	503.8	2,397.7				
2005	643.6	283.6	970.2	221.2	968.3	1,314.3	1,475.2	505.5	2,420.2				
2006	646.7	288.5	1,026.5	211.6	1003.3	1,336.4	1,519.0	207.1	2,452.3				
2007	621.1	283.5	1,060.4	206.1	997.9	1,381.0	1,560.4	512.2	2,494.6				
2008	573.6	276.4	1,083.5	204.2	956.7	1,423.3	1,570.6	515.4	2,519.3				
2009f	530.0	265.0	1,045.0	193.0	885.0	1,450.0	1,510.0	500.0	2,500.0				
2010f	510.0	255.0	1,025.0	188.0	860.0	1,475.0	1,477.0	490.0	2,500.0				

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

Table 7: California Regional Nonfarm Employment

(Annual averages for major metropolitan areas; in thousands; March 2008 benchmark)

MSA Year	Northern California					Central California					Southern California				
	State of California*	Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside- San Bern.	San Diego	Ventura	
1990	12,499.8	879.2	947.3	824.3	170.7	224.5	117.5	618.5	152.7	4,135.7	1,172.4	712.6	966.6	230.3	
1991	12,358.9	879.7	939.5	815.4	177.3	227.3	117.8	630.9	155.2	3,982.7	1,143.7	718.9	962.6	230.4	
1992	12,153.5	870.2	914.4	801.7	173.3	230.2	120.0	623.2	154.8	3,804.5	1,126.0	729.6	947.7	226.6	
1993	12,045.4	873.5	908.3	806.7	169.9	233.6	121.6	626.0	156.2	3,707.6	1,115.4	733.9	947.0	227.0	
1994	12,159.5	877.4	903.6	810.3	170.8	237.2	122.2	643.8	157.3	3,701.9	1,126.8	751.3	955.3	233.3	
1995	12,422.0	897.5	916.5	842.9	172.8	243.5	124.0		160.3	3,746.6	1,151.7	779.9	978.5	237.3	
1996	12,743.4	916.4	948.2	891.9	174.9	246.8	127.8	681.5	163.5	3,788.5	1,184.3	803.5	1,006.2	237.9	
1997	13,129.7	947.8	983.5	939.7	179.2	249.8	131.7	702.0	167.4	3,865.0	1,233.8	841.5	1,054.3	242.7	
1998	13,596.1	976.2	1,012.2	969.7	184.3	253.5	137.2	731.4	171.5	3,943.5	1,299.1	882.2	1,105.5	252.3	
1999	13,991.8	1,008.0	1,040.0	985.2	188.8	262.0	141.7	770.5	178.7	4,002.9	1,345.2	939	1,152.9	263.6	
2000	14,487.8	1,044.6	1,082.1	1,044.3	194.1	270.6	144.2	797.1	185.8	4,072.1	1,388.9	988.4	1,193.8	275.0	
2001	14,602.6	1,054.8	1,053.9	1,017.9	202.2	275.9	149.7	818.9	191.1	4,073.6	1,413.7	1029.7	1,218.4	280.0	
2002	14,457.9	1,039.8	987.1	917.2	205.1	282.0	150.7	832.2	194.0	4,026.8	1,403.7	1064.5	1,230.7	281.8	
2003	14,393.1	1,025.6	950.7	870.3	207.1	282.7	152.3	846.0	197.3	3,982.9	1,429.0	1099.2	1,240.1	284.2	
2004	14,532.1	1,023.7	939.3	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1160.0	1,260.3	286.2	
2005	14,800.7	1,032.2	945.8	869.9	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1222.0	1,282.1	291.2	
2006	15,059.8	1,046.9	964.4	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1267.7	1,301.6	297.7	
2007	15,173.4	1,048.2	989.1	911.2	238.4	306.4	160.1	903.0	211.5	4,122.1	1,515.5	1270.9	1,308.8	296.8	
2008	14,999.3	1,029.8	995.1	915.1	238.4	302.8	156.6	881.8	206.1	4,069.3	1,484.7	1222.5	1,299.2	289.4	

* Based on Current Employment Series

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

Table 8: Total Nonfarm Employment in Southern California**Actual Data & Forecasts** (Annual averages in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2000	4,072.1	1,388.9	988.4	275.0	6,724.4	1,193.8	14,487.8
2001	4,073.6	1,413.7	1,029.7	280.0	6,797.0	1,218.4	14,602.6
2002	4,026.8	1,403.7	1,064.5	281.8	6,776.8	1,230.7	14,457.9
2003	3,982.9	1,429.0	1,099.2	284.2	6,795.3	1,240.1	14,393.1
2004	3,996.5	1,456.7	1,160.0	286.2	6,899.4	1,260.3	14,532.1
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,800.7
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,059.8
2007	4,122.1	1,515.5	1,270.9	296.8	7,205.3	1,308.8	15,173.5
2008	4,069.3	1,484.7	1,222.5	289.4	7,065.9	1,299.2	14,994.1
2009f	3,901.6	1,413.1	1,140.6	274.6	6,729.9	1,249.3	14,300.0
2010f	3,822.9	1,384.4	1,114.7	268.0	6,590.0	1,223.7	14,004.0

Numerical Change from Prior Year (in thousands)

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
2000	69.2	43.7	49.4	11.4	173.7	40.9	496.0
2001	1.5	24.8	41.3	5.0	72.6	24.6	114.8
2002	-46.8	-10.0	34.8	1.8	-20.2	12.3	-144.7
2003	-43.9	25.3	34.7	2.4	18.5	9.4	-64.8
2004	13.6	27.7	60.8	2.0	104.1	20.2	139.0
2005	27.7	34.3	62.0	5.0	129.0	21.8	268.6
2006	68.3	27.9	45.7	6.5	148.4	19.5	259.1
2007	29.6	-3.4	3.2	-0.9	28.5	7.2	113.7
2008	-52.8	-30.8	-48.4	-7.4	-139.4	-9.6	-179.4
2009f	-167.7	-71.6	-81.9	-14.8	-336.0	-49.9	-694.1
2010f	-78.7	-28.7	-25.9	-6.6	-139.9	-25.6	-296.0

% Change from Prior Year

	Los Angeles	Orange	Riv.-S'Bdo.	Ventura	LA 5-Co.	San Diego	California
1991	-3.7%	-2.4%	0.9%	0.0%	-2.8%	-0.4%	-1.1%
2000	1.7%	3.2%	5.3%	4.3%	2.7%	3.5%	3.5%
2001	0.0%	1.8%	4.2%	1.8%	1.1%	2.1%	0.8%
2002	-1.1%	-0.7%	3.4%	0.6%	-0.3%	1.0%	-1.0%
2003	-1.1%	1.8%	3.3%	0.9%	0.3%	0.8%	-0.4%
2004	0.3%	1.9%	5.5%	0.7%	1.5%	1.6%	1.0%
2005	0.7%	2.4%	5.3%	1.7%	1.9%	1.7%	1.8%
2006	1.7%	1.9%	3.7%	2.2%	2.1%	1.5%	1.8%
2007	0.7%	-0.2%	0.3%	-0.3%	0.4%	0.6%	0.8%
2008	-1.3%	-2.0%	-3.8%	-2.5%	-1.9%	-0.7%	-1.2%
2009f	-4.1%	-4.8%	-6.7%	-5.1%	-4.8%	-3.8%	-4.6%
2010f	-2.0%	-2.0%	-2.3%	-2.4%	-2.1%	-2.0%	-2.1%

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

Table 9: California Technology Employment

(Average annual employment in 000s, March 2008 benchmark, based on NAICS)

	Total Technology Employment	Computer & Electronic Product Manufacturing	Manufacturing Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	Internet Services, Data Processing	Services Computer Systems Design & Rel. Services	Management, Scientific, & Technical Consulting	Scientific R&D Services
2000	1,020.5	421.8	90.7	38.0	48.2	24.9	206.6	95.1	95.2
2001	1,011.5	409.7	86.3	39.2	50.7	23.0	204.4	99.1	99.1
2002	921.4	353.7	79.6	39.5	48.8	20.1	177.1	102.1	100.5
2003	879.3	320.9	73.6	39.1	44.7	21.3	168.8	109.7	101.2
2004	878.9	313.4	73.7	40.6	42.6	20.3	168.5	119.0	100.8
2005	903.4	310.8	73.4	42.0	41.6	20.4	175.6	135.4	104.2
2006	932.2	308.2	73.0	44.0	41.3	20.9	187.3	151.3	106.2
2007	950.6	304.1	72.8	44.2	43.0	20.7	199.2	159.0	107.6
2008	975.3	302.1	73.5	43.0	43.8	20.3	206.6	169.9	116.1
2009f	939.9	280.0	71.5	42.0	43.1	19.7	201.0	166.0	116.6

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

Table 10: California Motion Picture/TV Production Employment

(In thousands, March 2008 benchmark, based on NAICS)

	Motion Picture & Related Industries *	Motion Picture & Video Industries*	Sound Recording Industries	Broadcasting (Radio, TV & Cable)	Magnetic Media Manufacturing & Reproduction	Independent Artists, Writers, & Performers
2000	246.9	160.2	10.0	46.3	16.0	14.4
2001	223.7	142.2	7.6	45.4	13.8	14.7
2002	218.6	139.0	6.8	45.0	12.4	15.4
2003	217.5	139.2	5.7	45.2	11.5	15.9
2004	229.7	152.5	4.9	46.8	10.7	14.8
2005	224.0	146.7	4.9	47.3	9.4	15.7
2006	221.1	143.4	4.6	47.7	8.2	17.2
2007	224.1	146.0	5.1	48.5	7.4	17.1
2008	228.5	152.0	4.2	48.3	6.9	17.1
2009f	216.1	144.0	3.8	45.5	6.5	16.3

*Includes motion picture & video production, broadcasting, and some other activities

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

Table 11: Population Trends in California and the Los Angeles Five-County AreaData from Decennial Census

Population estimates as of April 1, in thousands

	Los Angeles County		Orange County		San Bern. & Riverside Area		Ventura County		Total L.A. 5-Co. Area		State of California	
	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg	Data	%Chg
1900	170		20		46		14		250		1,485	
1910	504	196%	34	70%	93	102%	18	29%	650	160%	2,378	60%
1920	936	86%	61	79%	124	33%	29	61%	1,149	77%	3,427	44%
1930	2,208	136%	119	95%	215	73%	55	90%	2,597	126%	5,677	66%
1940	2,786	26%	131	10%	267	24%	70	27%	3,253	25%	6,907	22%
1950	4,152	49%	216	65%	452	69%	115	64%	4,934	52%	10,586	53%
1960	6,039	45%	704	226%	810	79%	199	73%	7,752	57%	15,717	48%
1970	7,032	16%	1,420	102%	1,143	41%	376	89%	9,972	29%	19,953	27%
1980	7,478	6%	1,933	36%	1,558	36%	529	41%	11,498	15%	23,668	19%
1990	8,863	19%	2,411	25%	2,589	66%	669	26%	14,532	26%	29,760	26%
2000	9,519	7%	2,846	18%	3,255	26%	753	13%	16,374	13%	33,872	14%

Source: U.S. Dept. of Commerce, Bureau of the Census

Data from Demographic Research Unit, California Department of Finance

Population estimates as of July 1, 2008, in thousands

	Los Angeles County		Orange County		San Bern. & Riverside Area		Ventura County		Total of L.A. 5-Co. Area		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1980	7,500	\	1,945	\	1,572	\	532	\	11,549	\	23,782	\
		18.10%		24.00%		66.70%		25.80%		26.10%		25.40%
1990	8,860	/	2,412	/	2,620	/	669	/	14,561	/	29,828	/
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	677	1.2%	14,842	1.9%	30,458	2.1%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686	1.3%	15,091	1.7%	30,987	1.7%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	694	1.2%	15,213	0.8%	31,314	1.1%
1994	9,107	0.3%	2,576	1.0%	2,920	1.2%	701	1.0%	15,304	0.6%	31,524	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,959	1.3%	705	0.6%	15,370	0.4%	31,712	0.6%
1996	9,108	0.1%	2,646	1.6%	3,006	1.6%	710	0.7%	15,470	0.7%	31,963	0.8%
1997	9,186	0.9%	2,700	2.0%	3,062	1.9%	722	1.7%	15,670	1.3%	32,453	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729	1.0%	15,862	1.2%	32,863	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	743	1.9%	16,138	1.7%	33,419	1.7%
2000	9,576	1.9%	2,863	2.1%	3,281	2.6%	759	2.2%	16,479	2.1%	34,095	2.0%
2001	9,736	1.7%	2,917	1.9%	3,392	3.4%	773	1.8%	16,818	2.1%	34,767	2.0%
2002	9,893	1.6%	2,960	1.5%	3,498	3.1%	787	1.8%	17,138	1.9%	35,361	1.7%
2003	10,023	1.3%	3,000	1.4%	3,631	3.8%	798	1.4%	17,452	1.8%	35,944	1.6%
2004	10,123	1.0%	3,032	1.1%	3,765	3.7%	806	1.0%	17,726	1.6%	36,454	1.4%
2005	10,190	0.7%	3,057	0.8%	3,895	3.5%	812	0.7%	17,954	1.3%	36,899	1.2%
2006	10,232	0.4%	3,071	0.5%	4,011	3.0%	818	0.7%	18,132	1.0%	37,298	1.1%
2007	10,273	0.4%	3,095	0.8%	4,100	2.2%	824	0.7%	18,292	0.9%	37,713	1.1%
2008	10,347	0.7%	3,126	1.0%	4,167	1.6%	830	0.7%	18,470	1.0%	38,148	1.2%

Source: California Dept. of Finance, Demographic Research Unit

Table 12: Components of Population Change - California & Southern California Counties

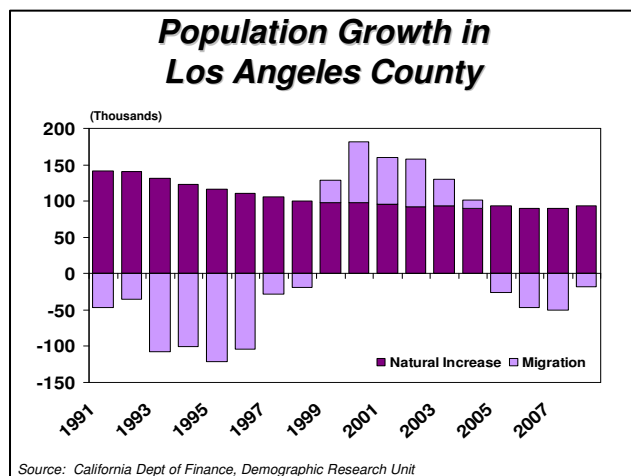
Figures in thousands, July 1 data compared with July 1 data the previous year

Los Angeles County							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	130.1	152.4	59.4	93.0	37.2	71.9	-34.8
2004	100.8	151.3	61.2	90.1	10.7	70.2	-59.5
2005	66.4	151.4	58.6	92.8	-26.4	61.7	-88.1
2006	42.1	150.1	60.1	90.0	-47.4	67.4	-114.8
2007	40.6	151.4	61.0	90.4	-49.8	76.7	-126.5
2008	74.3	154.2	61.3	92.8	-18.5	81.9	-100.4
Orange County							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	41.5	45.2	16.9	28.3	12.2	18.6	-6.3
2004	31.6	45.0	17.5	27.5	4.7	18.1	-13.5
2005	25.1	44.7	16.5	28.2	-4.0	15.2	-19.2
2006	14.2	44.1	17.1	27.0	-12.8	17.1	-30.0
2007	24.2	43.8	17.2	26.7	-2.5	19.9	-22.4
2008	30.9	44.6	17.3	27.3	3.6	21.3	-17.8
Riverside County							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	80.8	27.7	12.9	14.7	65.3	6.5	58.8
2004	82.6	28.5	13.6	14.9	67.7	6.9	60.8
2005	81.6	30.4	13.5	16.9	62.6	6.5	56.1
2006	78.2	32.4	14.2	18.2	60.0	7.9	52.1
2007	60.5	34.2	14.3	20.0	40.6	8.9	31.7
2008	44.2	35.5	14.4	21.2	23.0	9.4	13.7
San Bernardino County							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	54.1	30.5	11.7	18.8	34.2	6.0	28.2
2004	56.3	31.1	12.3	18.8	35.1	6.5	28.6
2005	51.3	32.4	11.8	20.6	30.6	5.6	25.0
2006	38.0	33.8	12.6	21.2	16.8	6.9	9.9
2007	28.6	35.2	12.7	22.5	6.1	7.8	-1.7
2008	22.4	35.6	12.7	22.8	-0.4	8.3	-8.8
Ventura County							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	11.4	11.9	4.8	7.0	4.3	4.0	0.4
2004	8.3	11.9	5.2	6.8	1.6	4.1	-2.5
2005	5.5	12.0	4.6	7.4	-1.9	3.2	-5.0
2006	6.3	12.4	4.9	7.4	-1.2	3.5	-4.6
2007	5.8	12.4	5.0	7.4	-1.5	4.0	-5.6
2008	6.3	12.2	5.0	7.2	-0.9	4.3	-5.2
San Diego County							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	46.5	44.9	19.3	25.6	20.9	14.8	6.1
2004	25.9	45.2	20.4	24.7	1.6	14.7	-13.5
2005	27.3	46.0	19.0	27.0	0.3	13.0	-12.7
2006	24.3	46.2	19.8	26.4	-2.1	12.7	-14.7
2007	38.8	47.2	19.9	27.3	11.5	14.9	-3.4
2008	46.6	47.6	20.1	27.5	19.1	16.1	3.0
State of California							
Year	Pop. Chg.	Births	Deaths	Natural Incr. (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
2003	583.0	537.4	233.3	304.1	278.9	204.2	74.7
2004	510.3	539.9	239.3	300.6	209.7	204.1	5.60
2005	444.9	547.1	231.1	316.0	128.8	181.7	-52.9
2006	399.0	553.0	239.0	314.0	85.0	195.8	-110.8
2007	414.2	564.6	240.5	324.1	91.1	225.9	-135.8
2008	435.9	571.2	241.9	329.3	106.6	241.8	-135.2

Source: California Department of Finance, Demographic Research Unit

V. OUTLOOK FOR LOS ANGELES COUNTY

The year 2009 is proving to be quite difficult for Los Angeles County's economy. The outlook for the balance of 2009 and 2010 calls for even more intense pain. Several of the County's major industries will face significant challenges in 2009 and 2010.



Positive Forces Through 2009 into 2010

While a lot of gloom is in the air, there are a few bits of positive news for the County's economy during 2009.

- The **healthcare services** sector should hold its own this year. The new 600-bed L.A. County-USC hospital has opened at last, and other area hospitals are engaged in building programs to meet stricter earthquake standards and to accommodate new patient handling techniques. Good hospitals attract excellent physicians, and L.A. County has some of the best. This industry reliably generates jobs year in and year out.
- **Private education** is another sector that grows even in difficult economic times. Led by topnotch universities, this sector also includes K-12 institutions and job training schools that attract workers and the unemployed seeking training for better jobs.
- **Major public and private construction projects** will provide significant support, with a significant boost from the federal government's infrastructure program likely by year-end 2009. In the meantime, there are several terminal expansion projects under way at the two ports

plus highway and transit projects funded in whole or in part by Measure R, the County's new half-cent sales tax.

Business and residents of Los Angeles County might be feeling a little more confident about their prospects by mid 2010, which should have a positive impact on retail sales.

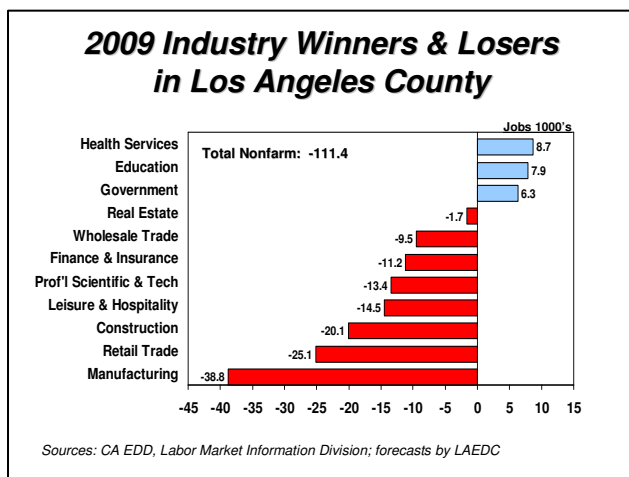
Negative Forces Through 2009 into 2010

- **International trade** activity is in sharp decline, with only a modest recovery expected by 2010.
- **Manufacturing** employment will continue to decline, reflecting reduced consumer spending and the problems in construction and housing.
- **Tourism** will slide in 2009, an unpleasant situation after several years of growth that sparked the development of several new hotels.
- **New home construction** activity will decline again in 2009.
- The **nonresidential real estate sector** will struggle with rising vacancies, declining lease rates and falling property values. With very little new project finance available, nonresidential construction activity will slow markedly. More commercial properties could go into foreclosure.
- **Local government finance** will also be a concern (the decline in home values, the slump in retail sales, and the state's budget problems have hurt municipal and county budgets), with staff layoffs and service cuts looming.

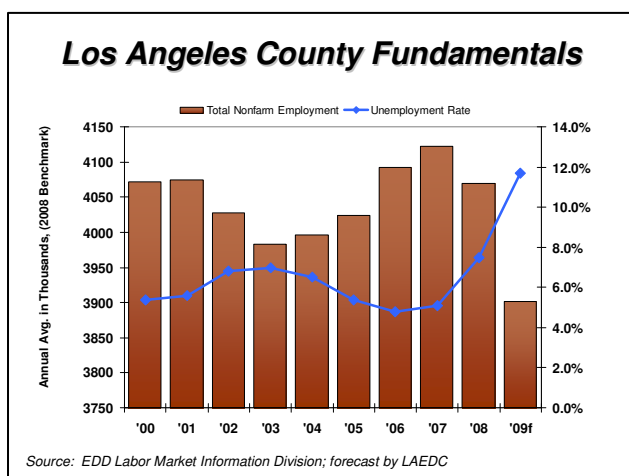
Net Results

Total nonfarm employment in the County should decline by -4.1% or -168,000 jobs in 2009, after a drop of -1.3% or -52,800 jobs in 2008. Numerically, the largest employment losses during 2009 will come in: manufacturing (-38,800 jobs); retailing (-25,100 jobs); administration & support services (-22,100 jobs); and construction (-20,100 jobs). There also will be moderate job losses in leisure & hospitality (-14,500 jobs) and the information sector (which includes the movie industry). Education and health services will add jobs during 2009 (+7,900 and +8,700 jobs respectively). Growing budget problems will force local government entities to

shed jobs during the second half of 2009, but average employment for the year will show an increase nonetheless. In 2010, total nonfarm employment in the County should decline by -2.0% or by -78,700 jobs.

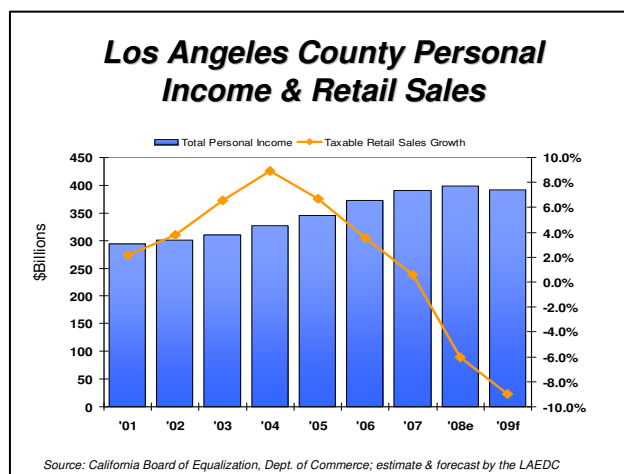


Unemployment rates will run at high levels during the forecast period. In 2008, the average was 7.5%. In 2009, the County's unemployment rate should average 11.7%. For comparison, the County's unemployment rate averaged 9.9% in 1992, with a high of 10.9% in July. In 2010, the unemployment rate should average 12.8%, as business will be cautious in rehiring until the recovery is well established.

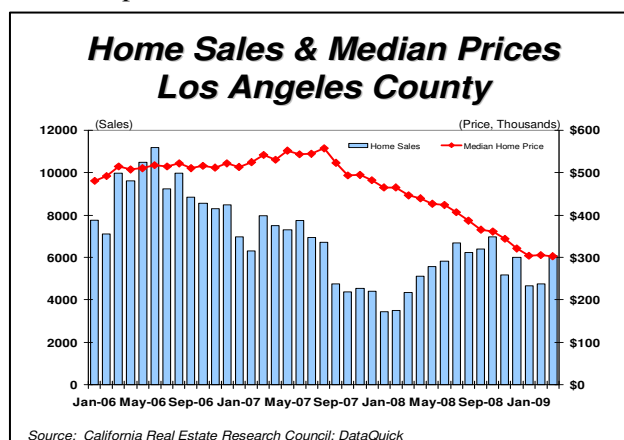


Total personal income will decline by -1.6% in 2009, before regaining a little momentum in 2010 (+1.0%). Per capita personal income should average \$37,577, down by -2.4% from the previous year. Inflation will ease a bit, providing some offset, with the local Consumer Price Index (for the five-county

area) down by -0.7% in 2009. Taxable retail sales could decline by as much as -9%, on the heels of a -6% decline in 2008. This weakness is bad news for retail landlords as well as local governments. Recycling vacant retail space will be a real challenge, especially auto dealers.



While Los Angeles County did not experience the huge boom in new home construction that other areas in Southern California did, the decline in permits issued for new units has been rather dramatic. In 2009, only 6,465 new units will get started, a -75% decline from the 2006 peak of 26,348 units. As if the problems with foreclosed single family homes weren't enough, the County also has an oversupply of apartments and condos to deal with. The value of nonresidential building permits issued should fall by -45% during 2009 to \$2.47 billion. The problem sectors are office and retail. The County's office vacancy rate was 13.8% in March, 2009 and climbing. Comprehensive retail vacancy rates for the County are lacking, but the problems are quite visible in local shopping malls and in strip retail.



After a solid performance in 2008, the number of overnight visitors to Los Angeles should ease to 24.9 million in 2009. The year 2010 should see an uptick in the visitor count to perhaps 25.1 million visitors despite a still fragile economy. This reflects the opening of the convention center hotel in downtown Los Angeles, which will attract more business visitors.

The value of international trade at the Los Angeles Customs District will decline by -20.7% in 2009. A smaller decline of -3.0% is forecast for 2010, though activity should be increasing by year end.

Hot Spots

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

- One such project is “LA Live” in Downtown Los Angeles. The convention center hotel’s opening in early 2010 is expected to give a significant boost to the convention center and the travel industry.
- The other is the W Hotel and condominium development at the intersection of Hollywood and Vine. This project will provide an anchor for the eastern end of Hollywood Blvd, as well as more hotel rooms for the revitalized community of Hollywood (while down in 2009, the area’s occupancy and room rates have been running above the county average).

Risks

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

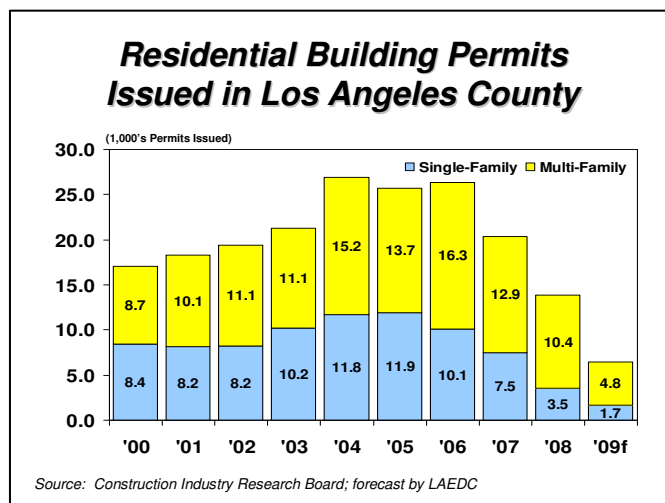


Table 13: Los Angeles County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ billions)	Value of Two-way Trade (\$ billions)	Total Overnight Visitors (millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)	Chg. in CPI (%)
2000	9,575.8	4,072.1	5.4%	279,050	29,141	70,321	230.0	24.2	17,071	3,296	3.3
2001	9,735.7	4,073.6	5.6%	294,508	30,250	71,835	212.5	22.8	18,253	3,539	3.6
2002	9,893.0	4,026.8	6.8%	301,003	30,426	74,548	212.8	22.1	19,364	2,920	2.7
2003	10,023.1	3,982.9	7.0%	309,827	30,911	79,427	232.9	23.3	21,313	2,932	2.7
2004	10,123.9	3,996.5	6.5%	326,402	32,241	86,497	261.8	24.3	26,935	3,174	3.3
2005	10,190.3	4,024.2	5.4%	346,053	33,959	92,271	291.7	25.0	25,647	3,824	4.5
2006	10,232.5	4,092.5	4.8%	373,322	36,484	95,544	326.5	25.4	26,348	3,896	4.4
2007	10,273.1	4,122.1	5.1%	390,296	37,992	96,096	347.5	25.8	20,363	4,739	3.7
2008	10,347.4	4,069.3	7.5%	398,500	38,512	90,330	356.1	25.6	13,886	4,494	3.5
2009f	10,432.0	3,901.6	11.7%	392,000	37,577	82,180	252.0	24.9	6,465	2,470	-0.7
2010f	10,507.0	3,822.9	12.8%	396,000	37,689	84,610	273.5	25.1	6,855	2,370	1.6

% Change

'01/'00	1.7%	0.0%		5.5%	3.8%	2.2%	-7.6%	-5.8%	6.9%	7.4%
'02/'01	1.6%	-1.1%		2.2%	0.6%	3.8%	0.1%	-3.1%	6.1%	-17.5%
'03/'02	1.3%	-1.1%		2.9%	1.6%	6.5%	9.4%	5.4%	10.1%	0.4%
'04/'03	1.0%	0.3%		5.3%	4.3%	8.9%	12.4%	4.3%	26.4%	8.3%
'05/'04	0.7%	0.7%		6.0%	5.3%	6.7%	11.4%	2.9%	-4.8%	20.5%
'06/'05	0.4%	1.7%		7.9%	7.4%	3.5%	11.9%	1.6%	2.7%	1.9%
'07/'06	0.4%	0.7%		4.5%	4.1%	0.6%	6.4%	1.6%	-22.7%	21.6%
'08/'07	0.7%	-1.3%		2.1%	1.4%	-6.0%	2.5%	-0.8%	-31.8%	-5.2%
'09/'08	0.8%	-4.1%		-1.6%	-2.4%	-9.0%	-29.2%	-2.7%	-53.4%	-45.0%
'10/'09	0.7%	-2.0%		1.0%	0.3%	3.0%	8.5%	0.8%	6.0%	-4.0%

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 14: Los Angeles County Nonfarm Employment
(Annual averages, in thousands, March 2008 benchmark)

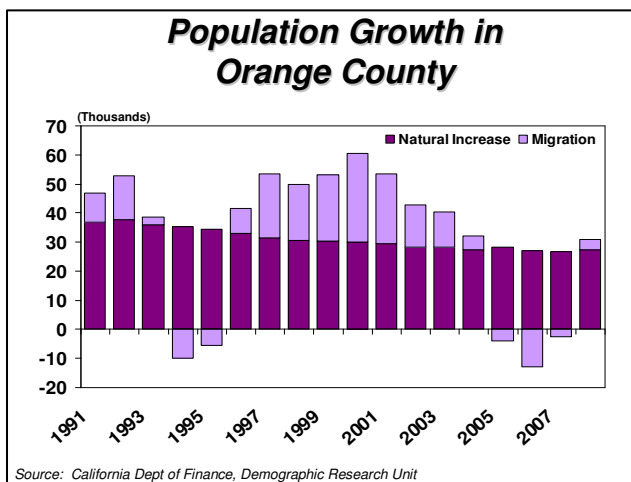
	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
					Durable	Non-durable				
2000	4,072.1	3.4	131.7	612.2	342.3	269.9	219.4	392.0	174.6	243.7
2001	4,073.6	3.8	136.8	577.9	325.4	252.5	219.4	394.8	175.6	226.3
2002	4,026.8	3.7	134.5	534.8	299.3	235.5	217.3	398.2	167.2	207.3
2003	3,982.9	3.8	134.6	500.0	276.2	223.8	214.1	399.3	161.5	202.3
2004	3,996.5	3.8	140.2	483.6	267.8	215.8	215.1	405.4	161.1	211.9
2005	4,024.2	3.7	148.7	471.7	263.4	208.3	219.3	414.4	161.7	207.6
2006	4,092.5	4.0	157.5	461.7	257.3	204.4	225.7	423.3	165.2	205.6
2007	4,122.1	4.4	157.6	449.7	250.9	198.8	227.0	426.0	165.6	209.8
2008	4,069.3	4.4	145.1	433.8	242.9	191.0	224.5	417.4	162.0	211.3
2009f	3,901.6	4.3	125.0	395.0	220.0	175.0	215.0	392.3	150.0	196.0
2010f	3,822.9	4.3	115.0	267.6	206.0	161.6	210.0	370.0	150.0	200.0

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	150.8	73.8	227.7	85.6	274.6	86.2	330.7	344.7	140.0	581.3
2001	156.2	72.7	233.6	84.4	270.0	88.6	343.6	348.5	143.2	598.3
2002	159.8	72.8	231.6	82.5	261.0	93.0	357.4	354.2	145.6	606.1
2003	165.0	74.8	233.5	77.4	249.1	94.8	365.6	362.6	145.5	599.3
2004	165.0	76.7	237.7	71.2	253.6	95.4	371.6	372.8	144.7	587.1
2005	166.2	77.8	250.9	67.6	257.7	97.4	373.9	377.8	144.3	583.7
2006	169.0	79.8	264.0	63.0	271.9	99.4	379.3	388.6	145.2	589.4
2007	165.8	80.3	273.9	58.8	272.7	102.9	387.5	397.9	147.1	595.7
2008	156.2	79.2	270.4	56.6	257.1	105.1	396.3	399.5	146.5	603.7
2009f	145.0	77.5	257.0	54.0	235.0	113.0	405.0	385.0	142.5	610.0
2010f	140.0	77.5	250.0	52.5	225.0	115.0	412.0	380.0	142.0	612.0

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

VI. OUTLOOK FOR ORANGE COUNTY

Orange County has absorbed some tremendous hits since the onset of the recession and is still reeling. Unfortunately, the County's economic fortunes are closely tied to the two sectors that lay at the heart of the economic downturn: the financial services industry and construction. The housing bubble inflated to a greater extent in Orange County than it did elsewhere. On the other hand, the County's unemployment rate (8.6% as of May) is the lowest in Southern California. And, the foundations of the region's pre-recession success (demographics, universities, location, and high tech industries) remain intact.



Positive Forces Through 2009 into 2010

- The County should benefit from federal government stimulus funds earmarked for **infrastructure projects**. For some local developers, the government is the only source of sustained revenue these days. Coming down the pipeline are projects to widen the 91 freeway and to expand capacity at the John Wayne Airport. The Orange County Transportation Authority is also upgrading Metrolink rail commuter services. A series of construction projects (\$382 million) to expand service are slated to begin this summer and continue through 2011.
- There is also some good news in the **defense and aerospace industry**. Contracts awarded during the previous administration are currently being carried out, although there is concern

regarding the current administration trimming the defense budget. Total employment for the County's 25 largest defense companies has fallen only by -4% over the past 12 months (though results varied widely by company). The Pentagon cancelled the vehicle portion of the Future Combat Systems Program (worth \$87 million) that it had awarded to Boeing, but has opened bids for a new vehicle. There are 50 Orange County suppliers working on the program. Also, Arden Engineering (an aerospace parts maker) recently signed one of the largest leases for industrial space (100,000 square feet) that the area has seen for quite some time.

- The **Health Services** industry is one of the few that will be adding jobs this year and next. Orange Coast Memorial Medical Center (Fountain Valley) is wrapping up work on a \$50 million expansion, Kaiser has a \$560 million hospital project in Anaheim and Children's Hospital of Orange County is securing funding for a \$562 million expansion. In addition, the County's life science and medical instrument makers are, for the most part, holding up well.
- The **High Tech** industry is also doing relatively well. The county's 20 largest software companies experienced a 7% revenue gain over the past year through March. Some consumer electronic firms, such as manufacturers of flat screen TVs, are benefiting from a shift in consumer preferences to at-home entertainment options.
- Disney** will be continuing their major \$1.1 billion makeover of the California Adventure Park.

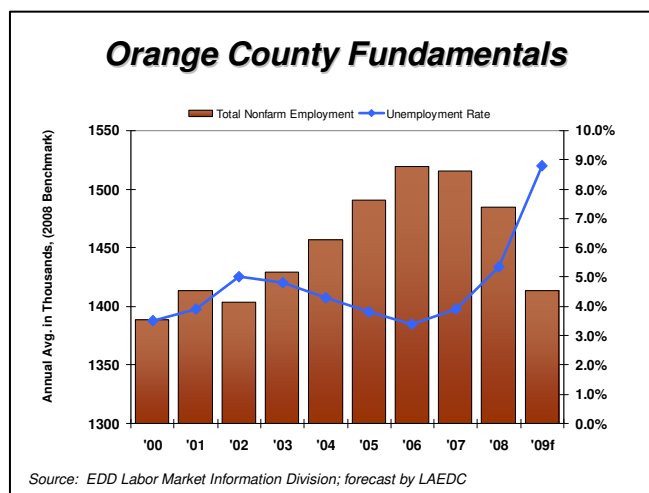
Negative Forces Through 2009 into 2010

- Financial services** will rack up heavy job losses in 2009 though the decline should moderate over the course of 2010. Local banks anticipate a new round of problem commercial real estate loans. Declining property values and a lack of funds to lend will make it hard to renew loans. On a (slightly) more positive note, the FDIC leased 200,000 square feet of office space at the Irvine Spectrum in November with plans to hire

450 – 600 workers to deal with the increase in the number of bank failures nationwide.

- **Retail** has also been a drain on the region's economy. Vacancy rates are on the rise as stores close due to bankruptcies or companies scaling back operations in response to weak consumer demand.
- **Tourism** activity will be down but should begin to improve by the end of the year with the area around Disneyland one of the primary beneficiaries.
- **Manufacturing** employment will continue to slide (the County ranks eighth in the nation in the number of factory jobs).

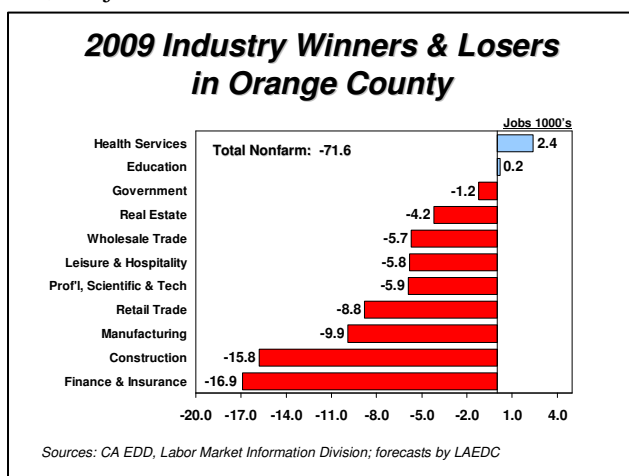
will be no relief in 2010, with the unemployment rate expected to average 9.7%.



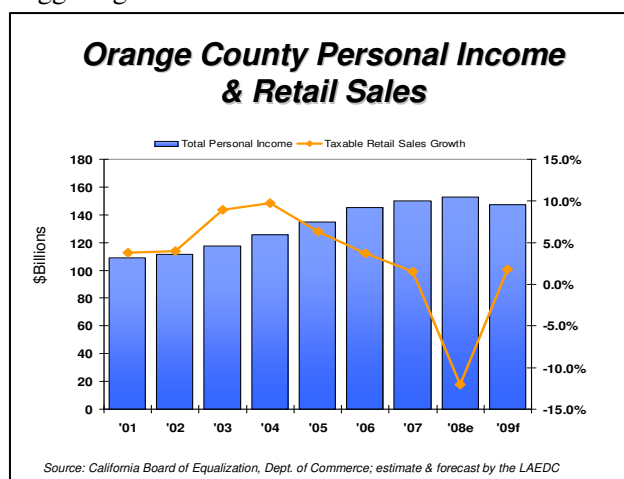
Net Results

Nonfarm employment in the County during 2009 is expected to decline by -4.8% or -71,600 jobs. This comes on the heels of a -2.0% job loss in 2008 and a -0.2% decline in 2007. In 2009, the largest employment losses will come in: finance & insurance (-16,900 jobs); construction (-15,800 jobs), manufacturing (-9,900 jobs), and retailing (-8,800 jobs). In 2010, employment losses in the County should moderate to -2.0%, but the picture is still pretty dismal with firms cleaving another 28,700 jobs.

Total personal income in the County should decline by -3.5% in 2009, with a further drop of -0.1% in 2010. Per capita personal income should average \$46,804 during 2009, down by -4.4% from the previous year. Retailing in Orange County has taken a beating, with a decline in taxable sales of -0.2% in 2007, followed by a drop of -8.6% in 2008. For 2009, another decline is expected, down by a staggering -12.0%.



Orange County's unemployment rate averaged 5.4% in 2008, and in 2009 the rate could move up to 8.8%. This would be the highest rate for the County in the current data series which starts in 1990. There



New homebuilding in Orange County will remain depressed with the forecast for 2009 calling for a meager 1,295 units to be permitted. Nonresidential permit values plummeted by -28.2% in 2008, and a further tumble of -39.7% is expected in 2009. At the end of the first quarter of 2009, the County's office vacancy rate was 18.0% and is expected to

continue climbing as the employment situation worsens. The industrial vacancy rate was a more manageable 5.7% but is also trending higher.

The number of overnight tourists to the County should ease down by -3.7% to 41.5 million in 2009, but will start to climb again in the fourth quarter and inch back up to 42.3 million visitors (+1.9%) in 2010. The tourist infrastructure surrounding Disneyland will begin to recover first. Upscale resorts and hotels will feel the pain longer as financially battered travelers trade down to less expensive hotels.

Risks

The major risks to Orange County's outlook will come from the financial sector, especially commercial real estate. The decline in consumer spending will continue to have a negative impact on retail sales and local government tax revenues. There is also a great deal of uncertainty surrounding the State's budget crisis and how it will affect the area's economy.

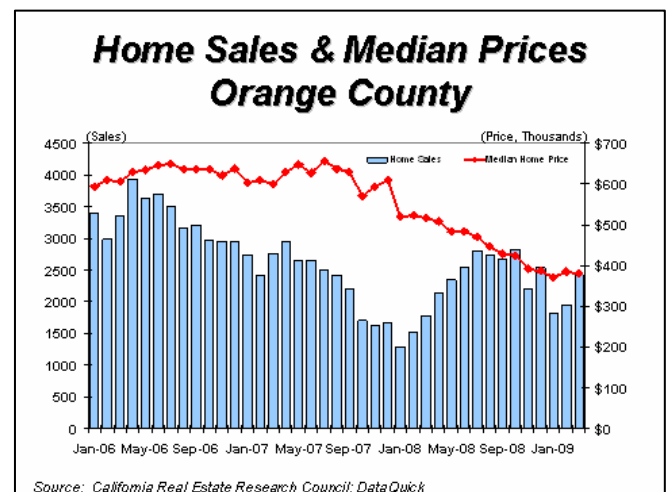
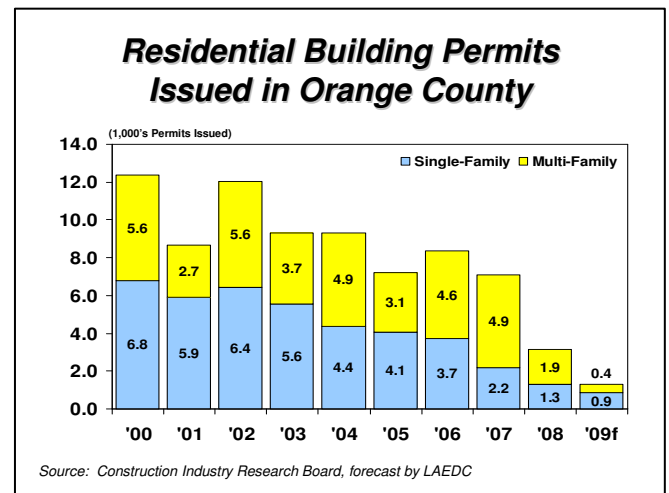


Table 15: Orange County Economic Indicators

	Population on July 1 of	Nonfarm Employment	Unemp. Rate	Total Personal Income	Per Capita Personal Income	Taxable Retail Sales	Total Overnight Visitors	Housing Unit Permits	Nonresidential Building Permits
	(000s)	(avg., 000s)	(avg., %)	(\$ billions)	(\$)	(billions)	(millions)	Issued	(\$ millions)
2000	2,863.4	1,388.9	3.5%	106.004	37,021	27.485	40.2	12,367	1,762
2001	2,916.8	1,413.7	3.9%	109.010	37,373	28.519	40.9	8,646	1,350
2002	2,959.7	1,403.7	5.0%	111.750	37,757	29.647	41.7	12,020	1,209
2003	3,000.2	1,429.0	4.8%	117.722	39,238	32.288	42.7	9,311	1,006
2004	3,032.4	1,456.7	4.3%	125.798	41,485	35.442	43.5	9,322	1,133
2005	3,056.5	1,491.0	3.8%	135.070	44,191	37.673	44.7	7,206	1,495
2006	3,070.7	1,518.9	3.4%	145.436	47,363	39.074	44.9	8,371	2,401
2007	3,094.9	1,515.5	3.9%	150.214	48,536	38.988	44.4	7,072	2,005
2008	3,125.8	1,484.7	5.4%	153.087	48,976	35.630	43.1	3,156	1,439
2009f	3,156.3	1,413.1	8.8%	147.729	46,804	31.350	41.5	1,295	867
2010f	3,186.0	1,384.4	9.7%	147.581	46,322	31.910	42.3	1,375	830
% Change									
'01/'00	1.9%	1.8%		2.8%	1.0%	3.8%	1.7%	-30.1%	-23.4%
'02/'01	1.5%	-0.7%		2.5%	1.0%	4.0%	2.0%	39.0%	-10.4%
'03/'02	1.4%	1.8%		5.3%	3.9%	8.9%	2.4%	-22.5%	-16.8%
'04/'03	1.1%	1.9%		6.9%	5.7%	9.8%	1.9%	0.1%	12.6%
'05/'04	0.8%	2.4%		7.4%	6.5%	6.3%	2.8%	-22.7%	32.0%
'06/'05	0.5%	1.9%		7.7%	7.2%	3.7%	0.4%	16.2%	60.6%
'07/'06	0.8%	-0.2%		3.3%	2.5%	-0.2%	-1.1%	-15.5%	-16.5%
'08/'07	1.0%	-2.0%		1.9%	0.9%	-8.6%	-2.9%	-55.4%	-28.2%
'09/'08	1.0%	-4.8%		-3.5%	-4.4%	-12.0%	-3.7%	-59.0%	-39.7%
'10/'09	0.9%	-2.0%		-0.1%	-1.0%	1.8%	1.9%	6.2%	-4.3%

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

Table 16: Orange County Nonfarm Employment
(Annual averages, in thousands, March 2008 benchmark)

	Total Nonfarm		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Employment	Resources				Durable	Mfg. -- Nondurable				
2000	1,388.9	0.6	76.6	215.5	152.5	63.0	80.8	147.0	30.3	41.2	
2001	1,413.7	0.6	80.7	208.5	147.8	60.7	83.9	150.1	30.4	40.2	
2002	1,403.7	0.6	79.2	190.8	133.6	57.2	82.4	151.4	28.7	36.8	
2003	1,429.0	0.5	83.7	183.9	127.2	56.7	83.2	152.8	29.0	35.2	
2004	1,456.7	0.6	92.2	183.5	127.1	56.4	82.4	153.2	29.2	33.8	
2005	1,491.0	0.7	99.9	182.9	128.3	54.6	83.0	158.1	28.7	32.8	
2006	1,518.9	0.6	106.6	182.7	128.0	54.7	83.7	160.8	28.2	31.9	
2007	1,515.5	0.6	103.1	180.4	126.2	54.2	86.9	161.2	28.9	31.2	
2008	1,484.7	0.6	91.2	173.8	122.3	51.5	85.9	155.7	29.4	30.1	
2009f	1,413.1	0.6	75.4	163.9	114.7	49.2	80.2	146.9	27.9	27.9	
2010f	1,384.4	0.5	73.1	158.4	110.9	47.5	78.4	138.4	27.9	27.6	

	Real Estate, Finance & Insurance			Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.	Health Care & Soc. Asst.		Leisure & Hospitality	Other Services	Government
	Real Estate, Rental & Leasing	Finance & Insurance	Educational Services								
2000	30.9	70.0	91.2	38.6	117.7	17.7	94.4	145.9	43.9	146.6	
2001	32.1	73.8	94.3	39.7	114.5	16.0	98.6	154.3	45.2	150.9	
2002	32.7	77.4	95.1	35.8	118.0	15.9	102.5	155.4	45.9	155.1	
2003	34.2	88.0	96.4	32.9	123.3	18.9	107.5	158.6	46.7	154.2	
2004	36.3	96.0	97.6	30.6	126.7	19.2	111.8	162.9	47.4	153.4	
2005	37.5	100.9	103.2	30.0	131.1	19.8	113.7	165.0	48.4	155.3	
2006	39.1	99.0	109.3	28.9	136.4	20.8	117.0	169.6	47.7	156.7	
2007	38.6	89.1	113.5	28.0	132.0	21.6	121.1	172.9	47.4	159.4	
2008	37.4	76.3	116.2	25.8	125.9	22.7	126.9	176.8	48.0	162.0	
2009f	33.2	59.4	110.3	24.4	116.5	22.9	129.3	171.0	46.6	160.8	
2010f	32.3	55.0	107.2	23.8	113.2	23.3	131.5	167.3	45.7	160.8	

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

VII. OUTLOOK FOR THE RIVERSIDE-SAN BERNARDINO AREA

The outlook for the Riverside-San Bernardino (Inland Empire) area is gloomy over the remainder of 2009 and into 2010, particularly with regards to the housing and labor markets. The Inland Empire will experience a longer and deeper recession than the rest of Southern California. A surge in the number of foreclosures along with plummeting home values has resulted in the worst ever economic crisis for the Inland Empire. The region most likely will not recover until the housing market recovers and that is not expected for at least a year. Housing prices are projected to weaken further in 2010 and reach levels not seen in twenty years in some areas. Riverside and San Bernardino counties have registered more defaults and foreclosures per capita during this economic downturn than any other Southern California county.

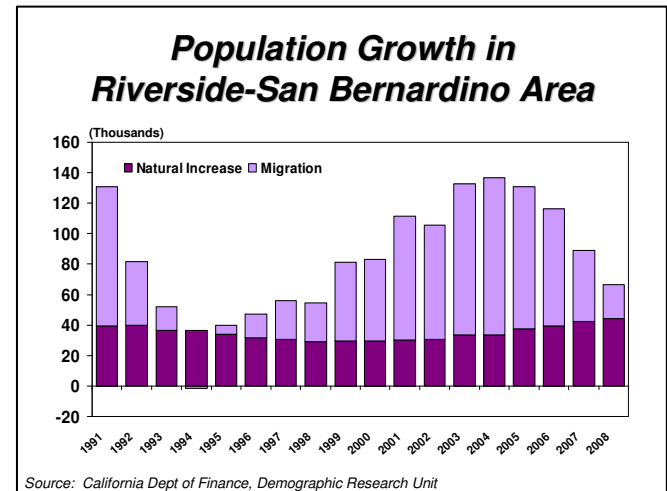
The region's construction industry has been hammered by these developments and the results show in the employment figures. Construction employment in May 2009 dropped by -22,600 jobs over May 2008, a -24.2% decline. The unemployment rate in the Inland Empire was 13.0% in May, compared to 7.4% at the same time last year. Unemployment is forecasted to reach 13.5% in 2009 and possibly escalate close to 15.0% in 2010.

Total nonfarm employment has dropped by nearly -80,000 jobs over the year. The other sectors in the Inland Empire most affected by this recession are manufacturing, trade and transportation. All have been directly impacted by the severe collapse in international trade volumes through the local ports. The Inland Empire plays a pivotal role as a distribution center for approximately 80% of the goods flowing through the ports of Long Beach and Los Angeles. Although the worst declines maybe over in international trade, the damage has been done; 2009 world trade volumes are projected to decline by -10 to -12% over 2008.

The combination of the depressed housing market along with the plunge in world trade (predominantly from Asia) has devastated the Inland Empire economy. Ironically, the region's competitive advantage has become its worst enemy. The availability of abundant undeveloped land had been the major economic driver propelling its economic growth. This economic recession has reversed that

advantage as the downturn has negatively impacted the industries that rely on cheap land the most. Home construction, manufacturing, industrial development and logistics have all collapsed.

Overall, economic conditions in the Inland Empire are not expected to improve much until at least 2011. When that recovery occurs, 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. Note that the economy must ultimately rebound due to its location as the central hub for logistics related to international trade. World trade volumes are forecasted to recover slightly in 2010 and then reach growth rates of +5 to +6% in 2012-2013.



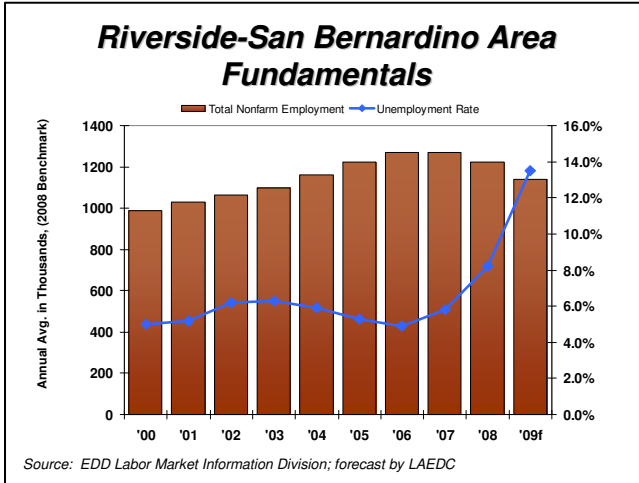
Positive Forces Through 2009 into 2010

Housing affordability: The region has some of the highest foreclosure rates in the state and housing prices have taken a nose-dive.

Transportation projects: The federal stimulus package will increase infrastructure construction and off-set some of the job losses in the construction industry.

Healthcare, education and government sectors: These are the only areas that have grown throughout the economic recession. Expectations are for this to continue in the second half of 2009 and into 2010.

Extension of rail service: Metrolink is proposing a 24-mile extension line to Perris including seven stations.



Negative Forces Through 2009 into 2010

Housing crash: Builders, financial institutions, construction employment and retailers all have been negatively affected. The continued onslaught of defaults and foreclosures will pressure home values even more. Local governments face significant financial issues as property and sales taxes decline.

Unemployment: The Inland Empire has the nation's second highest unemployment rate among urban areas, and it will increase in the second half of 2009 and over 2010.

International trade: Trade volumes at local ports are experiencing record lows in 2009 with only a moderate recovery in 2010. This will hammer the Inland Empire warehouse and distribution system.

Problems in commercial real estate: Net absorption rates have turned from positive to negative. Increased foreclosures in the commercial real estate market (1,715 commercial properties were in various stages of foreclosure at the mid-way point of 2009) along with an 8.1% vacancy rate could prolong the region's recovery. A two-year oversupply exists in warehouse (almost 12% vacancy rate) and office space (over 20% vacancy rate).

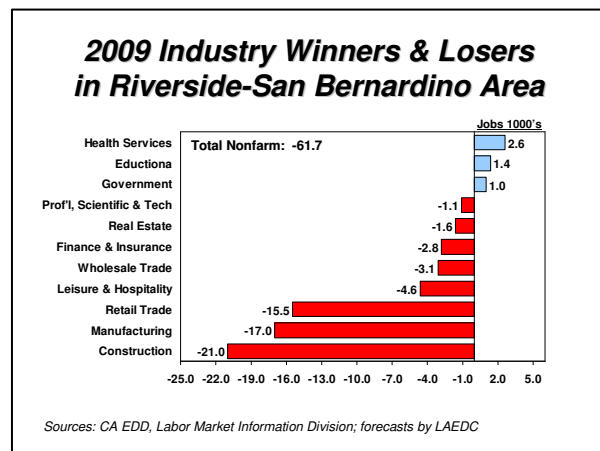
Weakness in tourism: Travel to the Inland Empire has dropped off significantly and the leisure and hospitality industry is projected to lose -4,600 jobs in 2009.

Loss of auto dealerships: More than 10 dealerships have closed since 2008 as the region has seen the largest auto sales declines in California.

Water supply: This remains a very critical issue for the area as drought conditions persist adding to the dismal development environment.

Net Results

The key to the Inland Empire's economic decline are the subprime mortgage crisis and the resulting escalation of foreclosure rates. Construction employment should weaken by -21,000 jobs in 2009. In addition, the finance and real estate sectors will lose another -4,400 jobs. Wholesale and retail trade related job counts should fall by -18,600 jobs in 2009. The Inland Empire is also projected to lose -17,000 in the manufacturing sector due to its exposure to housing related products and motor homes. Only government, health services and education are projected to add employment over the course of 2009. Health services should add +2,600 jobs, educational services should see +1,400 jobs, while government should add +1,000 jobs in 2009.



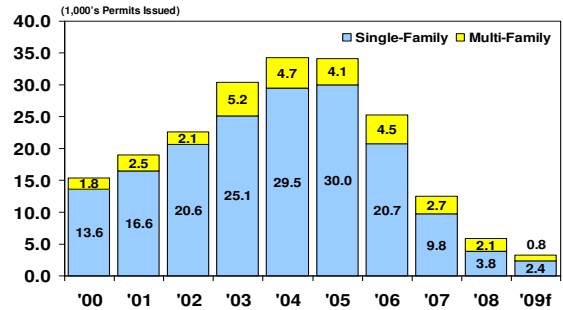
Total personal income in the Inland Empire is projected to decline by -3.0% in 2009. Per capita personal income should drop by -4.3% to \$27,270, which continues to be the lowest level in the 5-county area. Taxable retail sales fell by -9.0% in 2008 and in 2009 the downward trend is forecasted to continue with a -13.5% contraction. Large and

small retailers have seen sales deteriorate as personal income levels have fallen so as demand. Sales of building supplies, furniture, appliances, automobiles and restaurants have been the hardest hit.

Risks

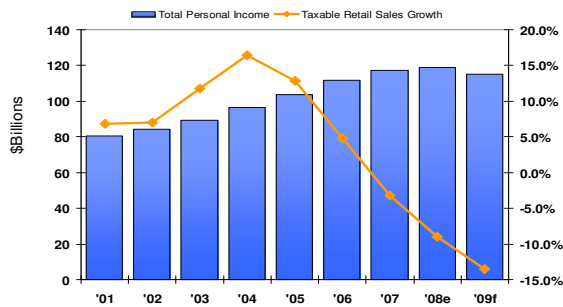
- A slower-than-expected recovery for the area's housing market
- An increase in foreclosures (both residential and non-residential), particularly in commercial real estate
- A slower-than-expected recovery at the local ports
- More business for the east coast ports

Residential Building Permits Issued in Riverside County



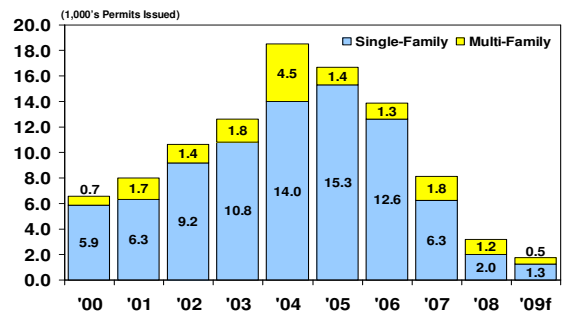
Source: Construction Industry Research Board, forecast by LAEDC

Riverside-San Bernardino Area Personal Income & Retail Sales



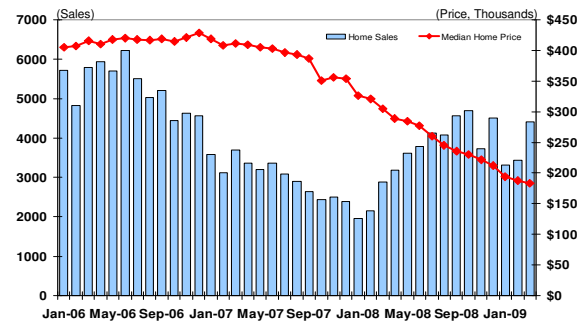
Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

Residential Building Permits Issued in San Bernardino County



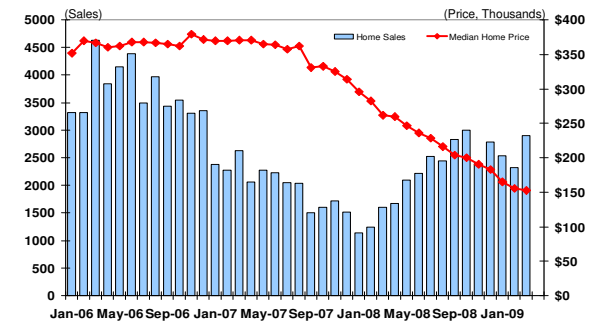
Source: Construction Industry Research Board, forecast by LAEDC

Home Sales & Median Prices Riverside County



Source: California Real Estate Research Council; DataQuick

Home Sales & Median Prices San Bernardino County



Source: California Real Estate Research Council; DataQuick

Table 17: Riverside-San Bernardino Area Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)
2000	3,281.5	988.4	5.0%	74,787	22,791	24,992	21,990	1,536
2001	3,392.6	1,029.7	5.2%	80,406	23,701	26,699	27,541	1,423
2002	3,498.0	1,064.5	6.2%	84,151	24,057	28,570	33,280	1,473
2003	3,631.0	1,099.2	6.3%	89,476	24,642	31,936	43,001	1,720
2004	3,764.5	1,160.0	5.9%	96,756	25,702	37,194	52,696	2,485
2005	3,895.3	1,222.0	5.3%	103,716	26,626	41,960	50,818	2,394
2006	4,011.4	1,267.7	4.9%	111,762	27,861	43,973	39,083	2,852
2007	4,100.5	1,270.9	5.8%	117,134	28,566	42,578	20,457	2,824
2008	4,167.1	1,222.5	8.2%	118,736	28,494	38,746	9,180	1,781
2009f	4,223.5	1,140.6	13.5%	115,174	27,270	33,515	4,955	640
2010f	4,280.8	1,114.7	14.7%	116,211	27,147	34,521	5,515	610
% Change								
'01/'00	3.4%	4.2%		7.5%	4.0%	6.8%	25.2%	-7.4%
'02/'01	3.1%	3.4%		4.7%	1.5%	7.0%	20.8%	3.5%
'03/'02	3.8%	3.3%		6.3%	2.4%	11.8%	29.2%	16.8%
'04/'03	3.7%	5.5%		8.1%	4.3%	16.5%	22.5%	44.5%
'05/'04	3.5%	5.3%		7.2%	3.6%	12.8%	-3.6%	-3.7%
'06/'05	3.0%	3.7%		7.8%	4.6%	4.8%	-23.1%	19.1%
'07/'06	2.2%	0.3%		4.8%	2.5%	-3.2%	-47.7%	-1.0%
'08/'07	1.6%	-3.8%		1.4%	-0.3%	-9.0%	-55.1%	-36.9%
'09/'08	1.4%	-6.7%		-3.0%	-4.3%	-13.5%	-46.0%	-64.1%
'10/'09	1.4%	-2.3%		0.9%	-0.5%	3.0%	11.3%	-4.7%

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

Table 18: Riverside-San Bernardino Area Nonfarm Employment
(Annual averages, in thousands, March 2008 benchmark)

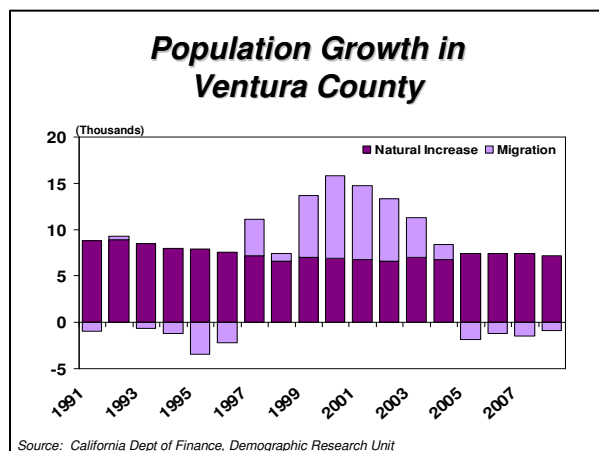
	Total Nonfarm Employment		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Employment	Nonfarm				Durable	Nondurable				
2000	988.4		1.3	79.9	119.7	85.3	34.4	38.2	127.0	46.3	14.3
2001	1,029.7		1.2	88.5	118.6	84.2	34.4	41.6	132.5	45.7	14.6
2002	1,064.5		1.2	90.9	115.4	82.0	33.4	41.9	137.5	46.8	14.1
2003	1,099.2		1.2	99.0	116.1	82.4	33.7	43.5	142.7	50.1	13.9
2004	1,160.0		1.2	111.8	120.1	85.5	34.6	45.6	153.8	55.5	14.0
2005	1,222.0		1.4	123.3	121.1	86.1	35.0	49.9	165.7	60.2	14.5
2006	1,267.7		1.4	127.5	123.4	86.9	36.5	54.2	173.2	63.8	15.3
2007	1,270.9		1.3	112.5	118.6	82.1	36.5	56.8	175.6	69.5	15.4
2008	1,222.5		1.2	90.5	107.0	72.6	34.4	55.1	168.0	70.2	14.8
2009f	1,140.6		0.8	69.5	90.0	60.0	30.0	52.0	152.5	65.0	13.2
2010f	1,114.7		0.7	65.0	82.0	56.0	26.0	50.5	146.0	64.4	13.3

	Real Estate, Finance & Insurance		Rental & Leasing	Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.	Health Care & Soc. Asst.		Leisure & Hospitality	Other Services	Government
	Employment	Nonfarm					Educational Services				
2000	21.5		14.2	22.1	10.3	64.4	11.1	90.7	100.6	34.8	192.1
2001	22.0		15.3	24.6	10.6	66.6	11.8	94.3	104.5	37.1	200.2
2002	23.5		15.9	27.1	11.3	68.4	12.6	99.8	107.2	38.1	212.7
2003	25.7		16.9	28.7	11.0	75.7	13.2	102.7	109.0	38.4	211.6
2004	28.0		17.7	31.0	11.6	82.9	13.4	104.9	116.7	39.3	212.5
2005	30.1		18.9	35.0	12.0	86.2	13.6	106.3	122.6	40.8	220.4
2006	31.7		19.9	39.9	10.8	91.7	14.1	108.0	128.1	42.5	222.5
2007	30.7		19.5	40.5	9.8	94.7	15.0	112.1	132.6	41.2	225.3
2008	27.8		18.5	40.1	9.9	86.7	15.8	115.9	130.1	40.9	230.0
2009f	25.0		16.9	39.0	9.0	76.5	17.2	118.5	125.5	39.0	231.0
2010f	23.9		16.1	38.2	8.8	74.2	17.5	120.9	121.7	38.2	233.3

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

VIII. OUTLOOK FOR VENTURA COUNTY

This area has struggled in recent years, with more than its share of problems in key industries. These include the housing and automotive slumps as well as layoffs at some major local employers. Unfortunately, there won't be much relief for the Ventura County economy until late in 2010.



Positive Forces Through 2009 into 2010

- The County has a well-developed set of **health care** related industries, running the gamut from biotech R&D to biomedical manufacturing to hospitals to health insurance.
- The County's **agricultural sector** should hold up during the forecast period, assuming the weather cooperates. The area is quite versatile producing a wide variety of crops. The most important are strawberries, lemons, celery, and nursery stock (including Christmas trees).
- There is a significant **military** presence in the County at and close to Port Hueneme, which provides a stabilizing influence—another oasis of (noisy) calm amid the economic storms.
- A number of **infrastructure projects** are in the works, to be funded by Proposition 1B and the federal government stimulus plan.

Negative Forces Through 2009 into 2010

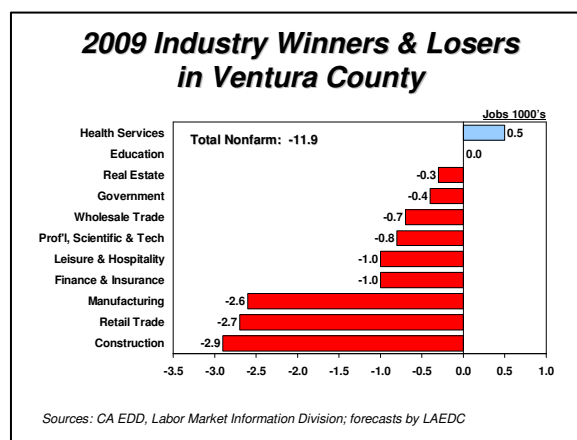
- The effects of **large layoffs** at some of the County's major employers—especially Amgen and Countrywide Financial—will linger on through the forecast period, impacting the outlook for the eastern end of the County.

More cutbacks could be in store as Countrywide's operations are consolidated into Bank of America.

- International trade** activity at Port Hueneme has plunged in 2009, with the value of two-way trade down by -51% through May. Virtually all of the decline has come in imports of automotive vehicles and parts.
- Privately financed **construction** is shrinking. The number of new housing permits issued through May, 2009 was down by -67%. The value of nonresidential permits was down by -49% during the same interval.
- The **commercial real estate** sector is under stress, especially in the east County. The average office vacancy rate moved up to 16.6% in the first quarter of 2009. It was 12.0% only a year earlier.

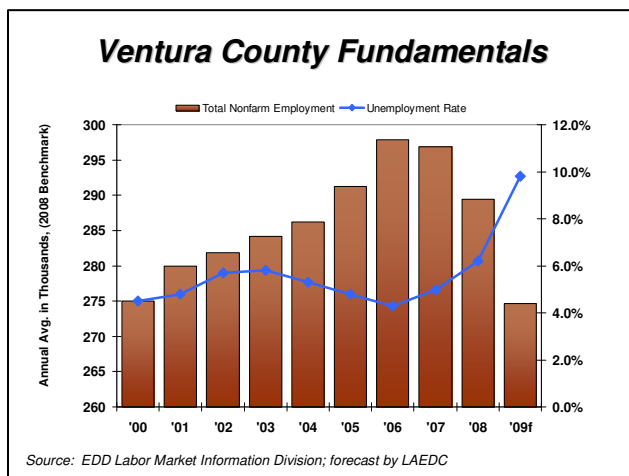
Net results

Nonfarm employment in the County should fall by -5.1% in 2009 or by -14,800 jobs. This comes on the heels of a -2.5% decline in 2008 and a -0.3% slippage in 2007. The biggest employment losses during 2009 should be in: construction (-2,900 jobs); retail (-2,700 jobs); and manufacturing (-2,600 jobs). The only notable increase will be in health services, up by +500 jobs.



The County's unemployment rate should average 9.8% in 2009, rising to 10.3% in 2010. The previous annual high was 9.1% in 1993, with a monthly peak of 10.4% in July 1992.

Total personal income in Ventura County should decline by -1.8% in 2009, following a -1.1% drop-off in 2008. Taxable retail sales will continue to disappoint, plunging by -12% in 2009, after declines of -9.3% in 2008 and -0.9% in 2007.



Only 275 housing unit permits are expected to be issued in the County during 2009. This will be a significant decline from the recent high of 4,516 units permitted in 2005. Nonresidential construction activity will fall by -49%, reflecting high and rising commercial vacancy rates (office at that disturbing rate of 16.6%, while industrial was at a more manageable 5.7%).

Challenges

- Whatever the problem seems to be these days, Ventura County has more of it. A further deterioration of the overall Southern California economy would be an unpleasant surprise.
- The County's large agricultural sector is partly dependent on imported water that is subject to rationing due to the drought and reduced supplies from northern California.

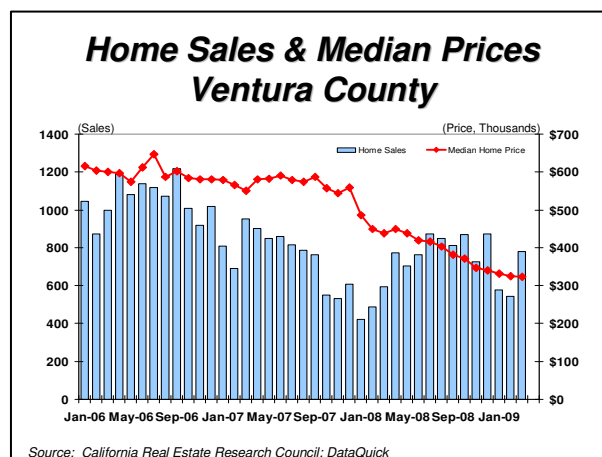
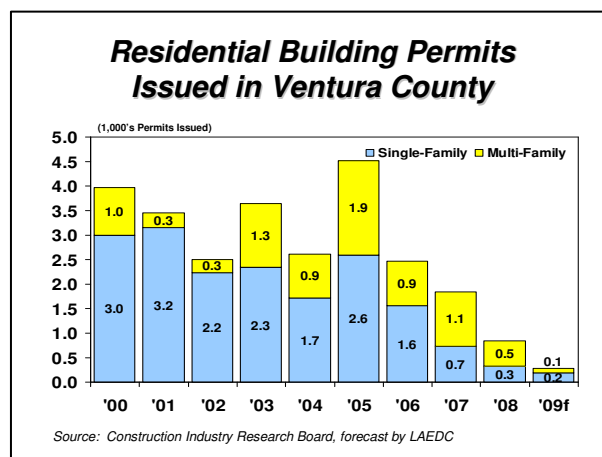
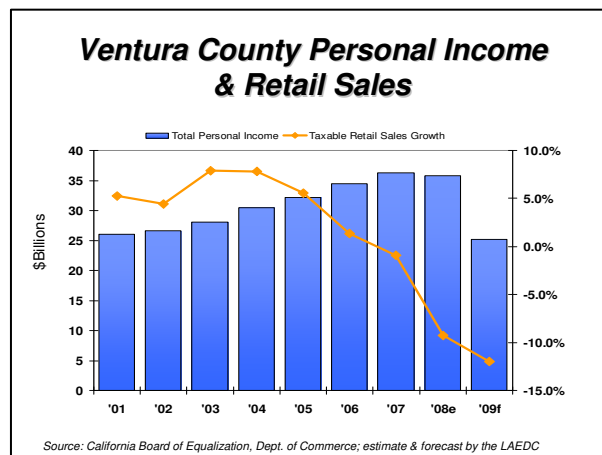


Table 19: Ventura County Economic Indicators

	Population on July 1 of (000s)	Nonfarm Employment (avg., 000s)	Unemp. Rate (avg., %)	Total Personal Income (\$ billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$ billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$ millions)
2000	758.6	275.0	4.5%	25,364	33,435	6,504	3,971	282
2001	773.3	280.0	4.8%	25,964	33,576	6,848	3,446	309
2002	786.7	281.8	5.7%	26,648	33,875	7,153	2,507	289
2003	798.1	284.2	5.8%	28,057	35,157	7,717	3,635	379
2004	806.4	286.2	5.4%	30,438	37,746	8,317	2,603	353
2005	811.9	291.2	4.8%	32,127	39,568	8,782	4,516	372
2006	818.2	297.7	4.3%	34,505	42,172	8,902	2,461	326
2007	824.0	296.8	4.8%	36,210	43,943	8,823	1,847	346
2008	830.3	289.4	6.2%	35,798	43,112	8,000	845	345
2009f	838.0	274.6	9.8%	35,154	41,949	7,040	275	175
2010f	845.0	268.0	10.3%	35,505	42,018	7,075	300	165
% Change								
'01/'00	1.9%	1.8%		2.4%	0.4%	5.3%	-13.2%	9.6%
'02/'01	1.7%	0.7%		2.6%	0.9%	4.5%	-27.2%	-6.5%
'03/'02	1.4%	0.9%		5.3%	3.8%	7.9%	45.0%	31.1%
'04/'03	1.0%	0.7%		8.5%	7.4%	7.8%	-28.4%	-6.9%
'05/'04	0.7%	1.7%		5.5%	4.8%	5.6%	73.5%	5.4%
'06/'05	0.8%	2.3%		7.4%	6.6%	1.4%	-45.5%	-12.4%
'07/'06	0.7%	-0.3%		4.9%	4.2%	-0.9%	-24.9%	6.1%
'08/'07	0.8%	-2.5%		-1.1%	-1.9%	-9.3%	-54.3%	-0.3%
'09/'08	0.9%	-5.1%		-1.8%	-2.7%	-12.0%	-67.5%	-49.3%
'10/'09	0.8%	-2.4%		1.0%	0.2%	0.5%	9.1%	-5.7%

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

Table 20: Ventura County Nonfarm Employment
(Annual averages, in thousands, March 2008 benchmark)

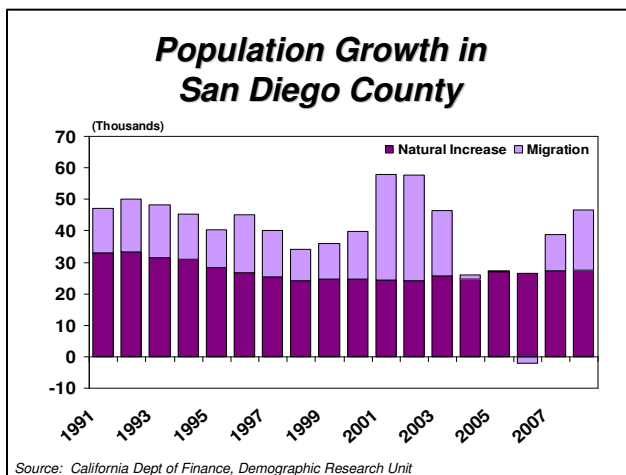
	Total Nonfarm		Natural Resources	Construction	Manufacturing	Mfg. --		Wholesale Trade	Retail Trade	Transport. & Utilities	Information
	Employment					Durable	Nondurable				
2000	275.0	0.7	15.4	41.1	27.7	13.4	10.3	33.6	5.6	7.9	
2001	280.0	0.6	16.1	40.5	26.6	13.9	11.0	34.0	5.9	8.4	
2002	281.8	0.7	15.7	38.0	24.9	13.1	11.7	34.2	5.8	8.1	
2003	284.2	0.6	16.6	37.0	24.0	13.0	11.8	34.5	5.6	7.2	
2004	286.2	0.7	16.9	38.3	24.2	14.1	12.2	35.3	5.7	6.8	
2005	291.2	0.8	18.8	37.8	23.9	13.9	12.5	36.5	5.8	6.2	
2006	297.7	1.1	20.5	38.4	24.1	14.3	12.6	37.6	6.1	6.0	
2007	296.8	1.1	18.6	38.0	23.9	14.1	13.0	37.6	6.1	5.8	
2008	289.4	1.1	16.5	35.6	23.2	12.4	12.6	36.9	6.4	5.6	
2009f	274.6	1.1	13.6	33.0	21.0	12.0	11.9	34.2	6.0	5.2	
2010f	268.0	1.1	12.0	31.5	20.0	11.5	12.0	32.5	6.0	5.2	

	Finance & Insurance		Real Estate, Rental & Leasing		Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.	Health Care & Soc. Asst.		Leisure & Hospitality	Other Services	Government
								Educational Services				
2000	13.8	4.0	13.2	3.7	22.6	6.5	17.6	25.1	9.7	44.3		
2001	15.5	4.2	13.8	3.4	20.0	6.8	18.5	26.6	9.6	45.1		
2002	17.7	4.6	13.7	3.3	19.6	7.4	18.9	27.2	10.2	45.3		
2003	19.2	4.3	13.6	3.9	19.4	7.8	19.9	27.6	10.4	44.8		
2004	19.8	4.4	14.2	3.6	19.5	7.6	19.9	28.5	10.3	42.5		
2005	20.0	4.4	15.1	3.5	19.8	7.8	20.5	29.2	10.4	42.2		
2006	19.6	4.5	16.0	3.3	20.1	7.9	21.0	30.5	10.2	42.5		
2007	17.9	4.8	16.2	3.2	18.9	8.7	21.7	32.0	9.9	43.0		
2008	16.4	4.7	16.0	3.0	18.3	9.2	22.4	31.8	10.1	42.9		
2009f	15.4	4.4	15.2	2.3	17.1	9.2	22.9	30.8	9.8	42.5		
2010f	15.0	4.2	15.0	2.2	16.1	9.2	23.6	30.2	9.7	42.5		

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

IX. OUTLOOK FOR SAN DIEGO COUNTY

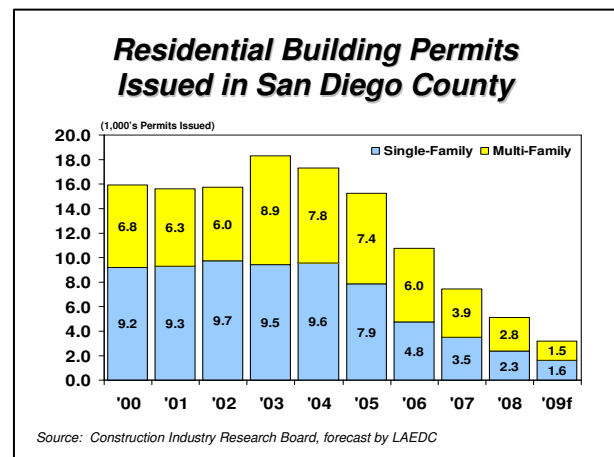
San Diego County definitely had its share of bad economic news over the first half of 2009, but based on key indicators, the County's economy outperformed the rest of California and the nation as a whole. San Diego County's core strengths are its demographics, diverse economy and its desirable location. In 2008, San Diego ranked 8th in the nation in venture capital investment. Among the first regions in the US to be hit by the housing market downturn, San Diego County could be among the first to recover.



Positive Forces Through 2009 into 2010

- While there have been some layoffs in the **Defense and Aerospace Industry**, employment has been fairly stable. A number of firms have received contracts from the Navy Department's SPAWAR group (ViaSat, Forward Slope, Inc., and L-3 Services, Inc/Advanced Products & Design). There is some uncertainty, however, revolving around the Future Combat Systems program. The Department of Defense is considering restructuring or terminating some parts of the program. SAIC, a major contractor for the program has 4,300 employees in the San Diego area.
- Construction:** Jobs in construction have declined since the collapse of the housing market and the onset of the recession. However, military construction initiatives resulting from February's economic stimulus package should help slow the decline and stabilize job losses.

The military is on track to award \$1.7 billion in contracts within the Southwest region by the end of FY2009, with a substantial portion going to San Diego's Camp Pendleton and various naval facilities. Additionally, there is the \$600 million Palomar Pomerado Health PMC West (hospital) project and the Scripps Memorial Hospital in Encinitas is working on a \$350 million expansion project. Poseidon Resources has been approved to start construction of a \$300 million desalination plant in Carlsbad.



- The **Health Services** industry is one of the few that will be adding jobs in 2009 and 2010.

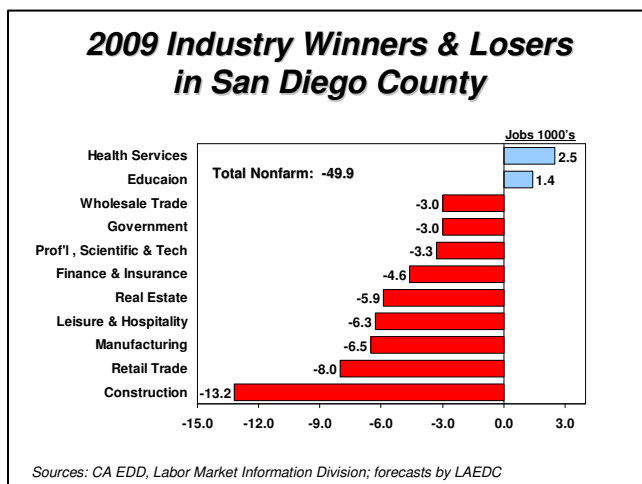
Negative Forces Through 2009 into 2010

- Tourism** has long been a positive mainstay of San Diego County's economy, but it will be hit hard this year as families cut back on vacation expenses. Hotel occupancy rates are declining and foreclosures of hotel properties are on the rise. The industry is expected to start to recover in 2010.
- Retail Trade:** The area economy will not get a boost from consumer spending this year. Depressed home prices have withered equity lines of credit, and uncertainty in the job market has led to higher rates of saving. In addition to weak demand, the trend towards self check out is also contributing to job losses in the retail sector.

- Delays at the **San Ysidro border crossing** are a given, but recent enhanced efforts by the US and Mexico to check the flow of illegal drugs, guns, cash and stolen cars into Mexico have increased congestion. This could have a negative effect on San Diego businesses as longer transit times increase costs.
- During better times, the **Biotechnology** industry (comprised of 600 businesses) annually contributed \$9 billion dollars to the area economy. Although the biotech sector performed better than the overall economy through 2008, the first half of 2009 has brought extensive layoffs as the flow of research capital that previously fueled growth has dried up. On the positive side, the federal stimulus package includes \$22 billion for science and research, but when and how these funds will be deployed is an open question.

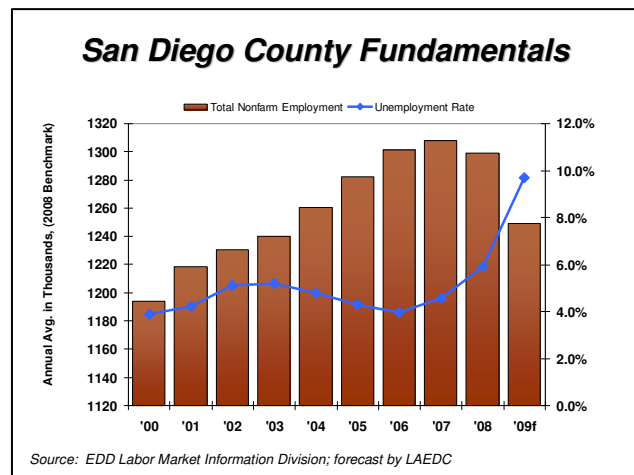
Net Results

San Diego, along with the rest of Southern California continues to lose jobs. The few sectors that are adding workers are concentrated at the low end of the wage scale. Nonfarm employment in San Diego County is likely to fall by -3.8% or -49,900 jobs in 2009, after a -0.7% drop in 2008. In 2010, the employment situation will continue to weaken, but at a slower pace, declining by -2.0%.

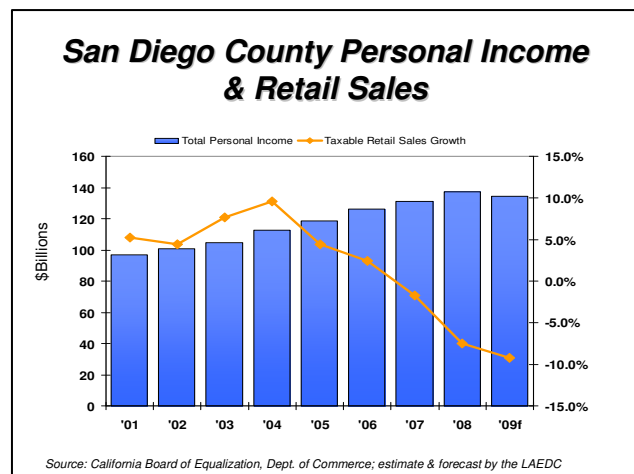


The biggest employment losses in 2009 will come from construction (-13,200 jobs) and retail (-8,000 jobs). Small employment gains should be recorded in education (+1,400) and health services (+2,500)

The County's unemployment rate should average 9.7% in 2009 compared with the previous high of 7.9% recorded in 1993. In 2010, the unemployment rate is expected to average 10.5%.

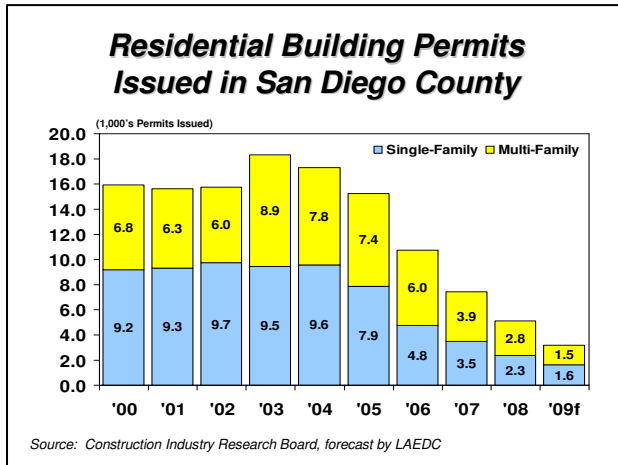


Personal income in San Diego County will shrink by -2.0% in 2009. Per capita personal income should average \$42,093, down by -3.2% from 2008. The retail situation has been dismal, with a -7.5% drop in 2008. In 2009, another decline in sales volume of -9.2% is expected.



San Diego County's housing market has been subjected to intense scrutiny, as this was where problems in the housing industry first showed up (the downtown condo development surge and bust). The number of housing units permitted peaked back in 2003 at 18,314 units. In 2009, just 3,160 units are forecasted to be permitted. Nonresidential construction also will decline, dropping by -48%. Although office tenants are renewing leases, they are

looking for ways to reduce their space requirements. In the near term, there may be some growth in government tenants, but office vacancy rates in the County shot up to 16.8% during the first quarter of 2009 with 392,060 square feet of new space still under construction (down from 700,000 square feet at the end of 2008). Tight credit conditions also continue to be a problem. Two big downtown projects, Lane Field (two high rise hotels/retail) and the expansion of Sea Port Village (retail) have been delayed due to lack of financing.



The number of overnight visitors to the County should slide down in 2009 by -4.9% to 14.5 million visitors. Fewer visitors equates to declining hotel rates, which in turn is exerting downward pressure on hotel values. San Diego County has 12.9% of the total number of hotels in the state in foreclosure, and 8% of those that are in default. This has been a little unnerving for the travel and tourism industry (one of San Diego's top job creators), after a string of years with 15 million or more overnight visitors. On the other hand, July 2009 bookings were stronger than expected and tourism is expected to rebound slightly in 2010.

Two-way trade through the San Diego Customs District will also ease in 2009, falling by -6.4% to \$50.0 billion.

Hot Spots

This list is depressingly slim, but increased military spending, and some large construction projects (hospitals, highways, military facilities) provide a few bright, if not exactly hot, spots.

Risks

Continued uncertainty about the local economy and high rates of unemployment through 2010 will result in sluggish personal income growth, dampening consumer demand and business investment. Further straining consumer budgets, property taxes for 75% of San Diego County homeowners will increase another 2% this year (increases are based on overall inflation excluding real estate). Water shortages are an ongoing problem, especially for the County's agricultural sector.

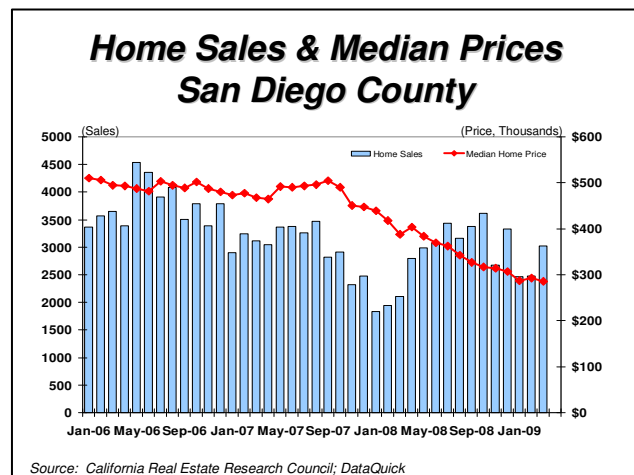


Table 21: San Diego County Economic Indicators

	Population on July 1 of	Nonfarm Employment	Unemp. Rate	Total Personal Income	Per Capita Personal Income	Taxable Retail Sales	Value of Two-way Trade	Total Overnight Visitors	Housing Unit Permits	Nonresidential Building Permits	Chg. in CPI
	(000s)	(avg., 000s)	(avg., %)	(\$ billions)	(\$)	(\$ billions)	(\$ billions)	(millions)	Issued	(\$ millions)	(%)
2000	2836.5	1193.8	3.9%	92.654	32,665	24,953	35.0	15.2	15,927	1,391	5.8
2001	2894.4	1218.4	4.2%	97.009	33,517	26,263	33.6	14.8	15,638	1,194	4.6
2002	2952.1	1230.7	5.1%	100.656	34,096	27,422	35.9	15.0	15,738	1,169	3.5
2003	2998.6	1240.1	5.2%	104.630	34,893	29,521	35.7	15.4	18,314	1,169	3.7
2004	3024.5	1260.3	4.8%	113.003	37,363	32,345	39.5	15.7	17,306	1,288	3.7
2005	3051.8	1282.1	4.3%	118.793	38,926	33,785	43.4	15.9	15,258	1,382	3.7
2006	3076.1	1301.6	4.0%	126.194	41,024	34,619	50.8	15.8	10,777	1,622	3.4
2007	3114.8	1308.8	4.5%	130.900	42,025	34,039	54.2	15.3	7,445	1,417	2.3
2008	3161.5	1299.2	5.9%	137.445	43,475	31,500	53.4	15.2	5,155	1,062	2.5
2009f	3200.0	1249.3	9.7%	134.696	42,093	28,588	50.0	14.5	3,160	557	1.1
2010f	3241.0	1223.7	10.5%	136.043	41,976	29,250	49.0	14.7	3,375	535	1.8

% Change

'01/'00	2.0%	2.1%		4.7%	2.6%	5.2%	-4.0%	-2.6%	-1.8%	-14.2%	
'02/'01	2.0%	1.0%		3.8%	1.7%	4.4%	6.8%	1.4%	0.6%	-2.1%	
'03/'02	1.6%	0.8%		3.9%	2.3%	7.7%	-0.6%	2.7%	16.4%	0.0%	
'04/'03	0.9%	1.6%		8.0%	7.1%	9.6%	10.6%	1.9%	-5.5%	10.2%	
'05/'04	0.9%	1.7%		5.1%	4.2%	4.5%	9.9%	1.3%	-11.8%	7.3%	
'06/'05	0.8%	1.5%		6.2%	5.4%	2.5%	17.1%	-0.6%	-29.4%	17.4%	
'07/'06	1.3%	0.6%		3.7%	2.4%	-1.7%	6.7%	-3.2%	-30.9%	-12.6%	
'08/'07	1.5%	-0.7%		5.0%	3.5%	-7.5%	-1.5%	-0.7%	-30.8%	-25.1%	
'09/'08	1.2%	-3.8%		-2.0%	-3.2%	-9.2%	-6.4%	-4.9%	-38.7%	-47.6%	
'10/'09	1.3%	-2.0%		1.0%	-0.3%	2.3%	-2.0%	1.7%	6.8%	-3.9%	

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

Table 22: San Diego County Nonfarm Employment
(Annual averages, in thousands, March 2008 benchmark)

	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2000	1,193.8	0.3	69.7	122.6	92.2	30.4	39.1	133.8	29.8	39.2
2001	1,218.4	0.3	75.1	119.1	89.3	29.8	41.5	135.6	32.0	38.8
2002	1,230.7	0.3	76.4	112.4	84.7	27.7	41.3	138.0	29.3	37.7
2003	1,240.1	0.3	80.2	105.3	78.8	26.5	41.6	140.8	27.3	36.9
2004	1,260.3	0.4	87.7	104.3	78.1	26.2	41.9	144.9	28.4	36.6
2005	1,282.1	0.4	90.8	104.5	79.1	25.4	43.6	147.4	28.4	37.4
2006	1,301.6	0.5	92.7	103.9	78.4	25.5	45.1	148.3	28.7	37.6
2007	1,308.2	0.4	87.0	102.5	77.3	25.2	45.5	148.1	28.8	38.7
2008	1,299.2	0.3	76.2	102.3	77.8	24.5	44.5	142.2	29.3	38.0
2009f	1,249.3	0.3	63.0	95.8	74.9	20.9	41.5	134.2	27.8	37.4
2010f	1,223.7	0.2	61.1	93.1	72.6	20.5	40.6	126.4	27.8	37.8

	Finance & Insurance	Real Estate, Rental & Leasing	Prof., Sci. & Tech. Svc.	Mgmt. of Enterprises	Admin. & Support Svc.	Educational Services	Health Care & Soc. Asst.	Leisure & Hospitality	Other Services	Government
2000	44.0	27.2	92.3	18.7	84.2	18.2	97.2	129.0	42.2	206.6
2001	44.9	27.2	98.3	18.6	81.3	17.2	98.8	131.4	44.9	213.8
2002	47.3	27.7	100.8	19.9	81.0	17.2	102.5	133.8	45.6	219.7
2003	51.2	28.8	101.6	19.1	80.5	18.8	103.0	140.7	46.8	217.3
2004	52.8	29.1	99.8	18.2	86.6	20.1	101.6	147.7	47.9	214.3
2005	53.5	29.7	105.9	17.4	87.2	21.1	101.4	149.9	48.8	215.1
2006	53.2	30.5	109.7	16.9	87.1	21.3	103.8	156.5	48.4	217.9
2007	50.5	30.0	112.3	16.1	88.4	22.0	107.6	161.8	48.3	222.4
2008	46.3	29.5	114.6	16.2	86.2	23.4	112.1	163.6	48.8	225.2
2009f	41.7	23.6	111.3	15.6	79.8	24.8	114.6	157.3	46.7	223.2
2010f	40.3	22.7	109.2	15.2	77.5	25.7	115.7	153.9	45.8	223.2

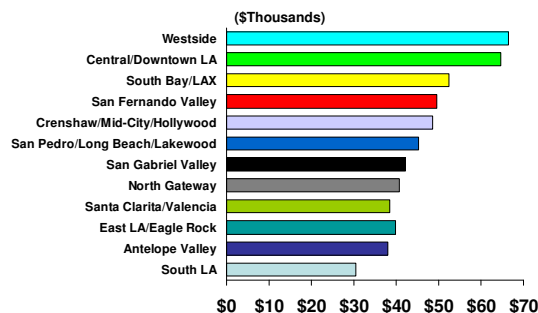
Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization;
Construction Industry Research Board; estimates and forecasts by the LAEDC

X. OUTLOOK FOR LOS ANGELES SUB-COUNTY ECONOMIC AREAS

The LAEDC frequently receives requests for information about sub-regions in Los Angeles County. A special feature of the Mid-year Forecast is a look at trends in 12 areas of Los Angeles County. These are natural market areas, defined by city limits, freeways and geographic features. As such there can be quite a disparity in size among them. They are reported here in alphabetical order.

The main indicator for all of these regions is employment. Data have been obtained from the California Employment Development Department's ES 202 files.

Average Annual Pay Regions in Los Angeles County



Source: CA EDD, Labor Market Information Division, ES202 Data

Antelope Valley

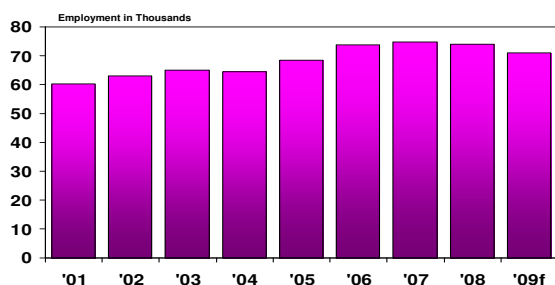
The largest employment sectors in the Antelope Valley, which includes the cities of Palmdale and Lancaster, are government, retail, education and health, and leisure and hospitality (food service and hotels). The area has been hard hit by the slump in residential construction, and this sector will remain depressed into 2010. There has also been a decline in retail activity, including auto dealers, which has all hurt the budgets of the two cities. A bright spot for the Valley is the huge aerospace R & D base driven by Boeing, Lockheed Martin, Northrop Grumman and Edward's Air Force Base. They are focused on advanced aerial vehicles including unmanned craft, and should not be greatly impacted by upcoming shifts in defense spending priorities.

Total employment in the Valley declined by -1.3% in 2008. For 2009 a -4.1% drop is forecast taking total employment to 71,000 jobs. Note that a significant number of the Valley's residents commute into the San Fernando Valley and other areas of Los Angeles County for jobs.

Crenshaw/Mid-Cities/Hollywood

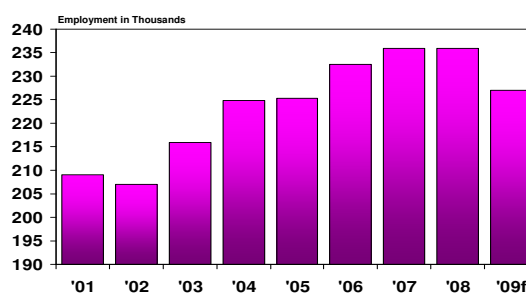
This area has been struggling with housing problems in "Korea Town," and uncertainty in film industry activities. One positive will be the upcoming opening of the W Hotel in Hollywood (which also includes condos). Construction of the Exposition Blvd. light rail line will skim along the southern border of the area.

Antelope Valley



Source: California Employment Dept., ES202 Data; estimate by LAEDC

Crenshaw/Mid-Cities/Hollywood



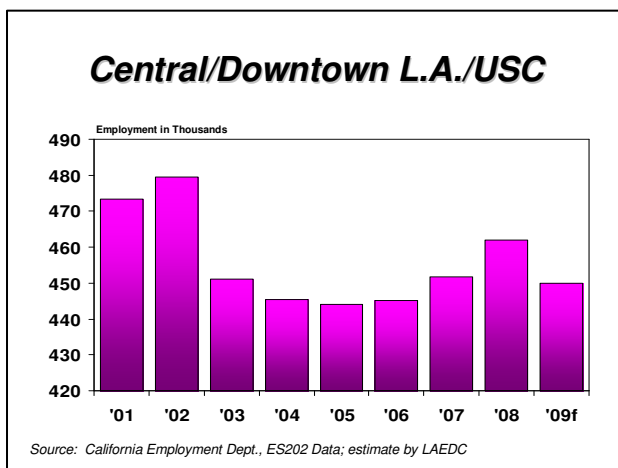
Source: California Employment Dept., ES202 Data; estimate by LAEDC

The largest employment sectors in the area are education and health services (Kaiser Hollywood and Children's Hospital), professional business services, and leisure & hospitality (food service and hotels). The latter reflects the area's twin tourism hubs, Hollywood for traditional travel, and Korea Town which is a center for South Korean visitors. In 2008, the area enjoyed no change in total employment, but in 2009 a -3.8% decline is forecast, taking the total to 227,000 jobs.

Central Los Angeles/Downtown

This area, which includes the USC campus, went against overall trend with a +2.2% increase in employment during 2008. This increase reflected a lot of construction projects; the LA Live project, including the convention center hotel, several residential high-rises, the Los Angeles Trade Technical College campus expansion, and initial work on the Exposition Blvd. light rail line and completion of the Gold Line extension.

Work on the Expo light rail will continue through 2010, while the convention center hotel will open in February 2010, giving a boost to business and trade show activity Downtown. However, the area's residential real estate market has become glutted with both rental and for sale units, and new construction will trail off in the coming years. The County's apparel industry is centered in Downtown, and it has been struggling due to the bleak retail situation. Despite the turmoil in manufacturing, the industrial vacancy rate in Downtown was just 1.5% at last reading.

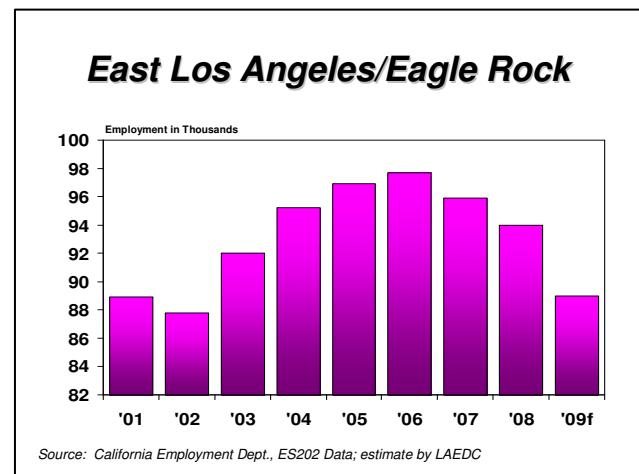


The largest employment sectors in Downtown are government (an outsized 55% share of the total),

professional business services, and education and health services. For 2009, a -2.6% decline in employment is forecast, taking the total down to 450,000 jobs. The average annual pay for Downtown workers ranks second in the County at \$64,585.

East Los Angeles/Eagle Rock

This is a "seam" area; it's not Downtown and not in the San Gabriel Valley. 2008 saw some major events, with the opening of the new County/USC Medical Center, and the late 2009 opening of the Gold Line light rail. Discussions are underway on potential uses for the "old" County/USC building (it's a historic landmark), while USC continues to expand its medical campus.



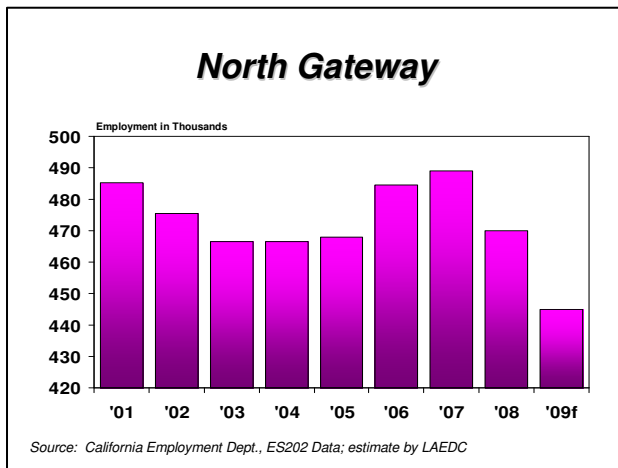
There is still under developed land in the area, mainly between County/USC and the Cal State Los Angeles campus to the east.

The largest employment sectors in the area are government, manufacturing, and education and health services. In 2008, total employment in the areas dropped by -2.1%. For 2009 a -5.3% decline is being forecast as the completion of the hospital and light rail will take a nick out of construction. This decrease would take the employment count down to 89,000 jobs.

North Gateway

This is the southeast portion of Los Angeles County. Its major industries are manufacturing (the largest concentration in the County), professional business services, and wholesale trade (reflecting the area's location just north of the ports).

The area has been hit by slumps in manufacturing (19,000 factory jobs were lost in 2008) and international trade. Retailing has also taken lumps, especially auto dealers. Some of the smaller cities are struggling financially. While manufacturing will continue to shrink in 2010, there should be a modest uptick in international trade activity.



Despite the chaos in manufacturing, industrial vacancy rates in the North Gateway area range from 0.7% to 3.0%. Firms are being opportunistic, leasing better space close to the ports and the two major rail yards when it becomes available.

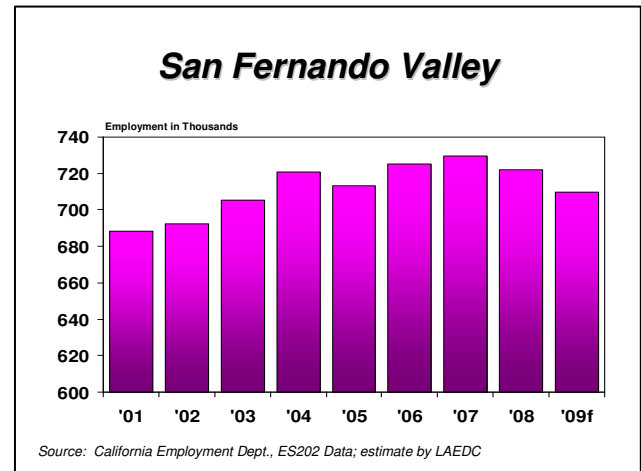
The area saw total employment decline by – 3.9% in 2008, and a further decline of -5.3% is forecast for 2009. This will take the workforce count down to 445,000 jobs.

San Fernando Valley

The top employment sectors in the Valley are professional business services, information (which includes the film and TV industry – including both production of content as well as broadcasting), and education and health services. The western end of the Valley was hurt by mergers in the financial industry, while the east end was roiled by problems in entertainment.

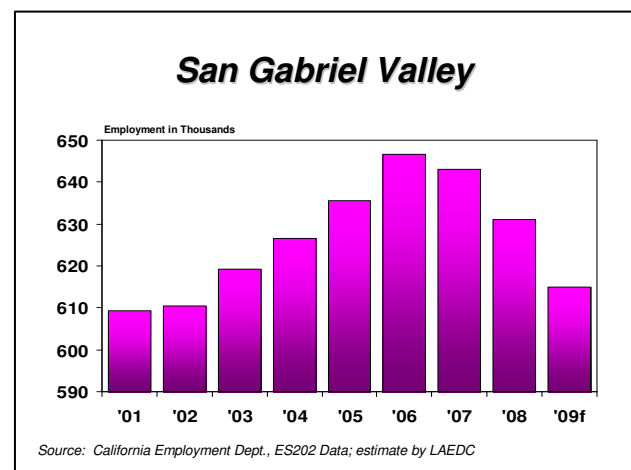
Looking ahead, residential construction will remain depressed, as the Valley has a significant overhang of unsold housing. Commercial construction also will remain lackluster, as office vacancy rates – especially in the West Valley – are high and rising. The outlook will be helped by construction of the Orange Line bus way

extension, while activity should pick up in entertainment in 2010. Total employment dropped by -1.0% in 2008. A 1.7% decline is being forecast for 2009, taking the workforce count down to 710,000 jobs.



San Gabriel Valley

The largest employment sectors in the Valley are education and health, retail, government and manufacturing. The Valley has been battered by the downturns in both manufacturing and international trade. Retail trade also has struggled, again with auto dealers closing down. Smaller cities in the Valley are struggling financially.



Commercial construction will remain depressed, as office vacancy rates in the Valley are on the high side. Industrial vacancy rates have moved up, but are still a reasonable 3.8%.

In mid-2009, Pasadena opened its expanded convention center, which should help it snare more business shows.

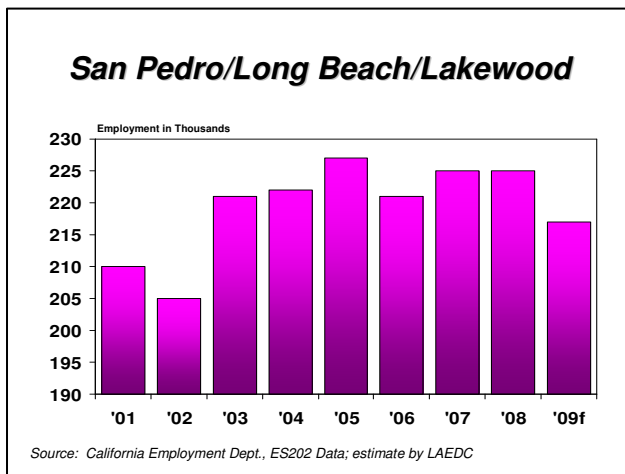
In 2008, the Valley saw total employment slip by -1.9%. A -2.5% decline is being forecast for 2009, moving the workforce count down to 615,000 jobs.

San Pedro/Long Beach/Lakewood

The largest employment sectors in the area are government, professional business services, and education and health. The slump in international trade has taken a toll on the area, as has the weakening in tourism. Also, a lot of nail biting is going on over the fate of the C-17 military cargo lifter, which is produced at Boeing's Long Beach plant.

Work is getting underway on new container facilities at both ports. Meanwhile, some of the anxiety about the C-17 was assuaged by an order for 8 more planes from the Department of Defense. This will keep the plant going into 2011.

There was no change in employment in the area in 2008. For 2009 a -3.6% decline is forecast, taking the total down to 217,000 jobs.

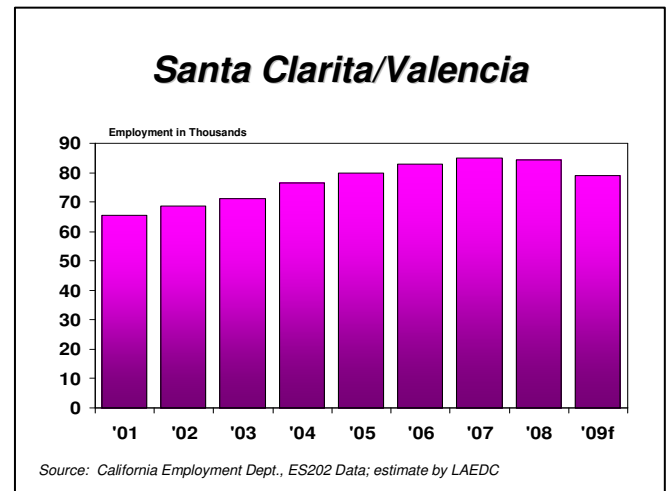


Santa Clarita/Valencia

The major employment sectors are professional business services, leisure and hospitality (Six Flags Magic Mountain), government and manufacturing. The area also has exposure to entertainment, as it has several rental sound stage complexes. One problem for the area is the large amount of vacant

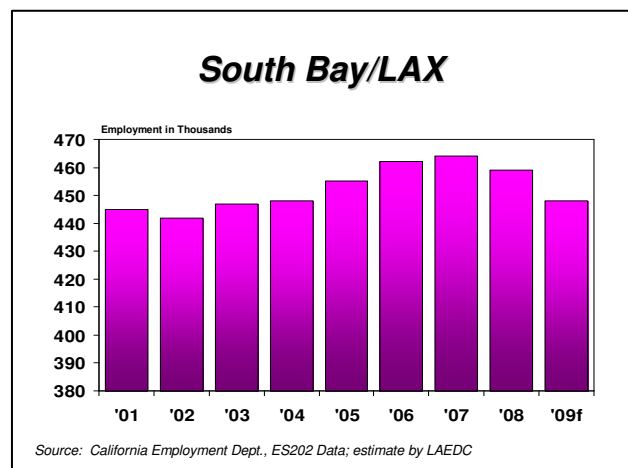
office space (a 25.3% office vacancy rate in early 2009).

The area saw a comparatively modest employment decline of -1.2% in 2008. There will be more pain in 2009, with a -6.0% drop taking the total down to 79,000 jobs.



South Bay/LAX

The largest employment sectors here are manufacturing (it ranks second in the County in number of factory jobs), professional business services, and leisure & hospitality. The slump in airline travel has hurt the area, as has the slowdown in international trade (a lot of logistics companies like the location due to its access to both LAX and the ports).



Major improvements are underway at LAX, which should enhance its reputation. In the meantime,

there is a lot of aerospace work conducted in the area, building satellites, as well as subcontracting on both commercial and military aircraft. However, the outlook for these sectors is unsettled.

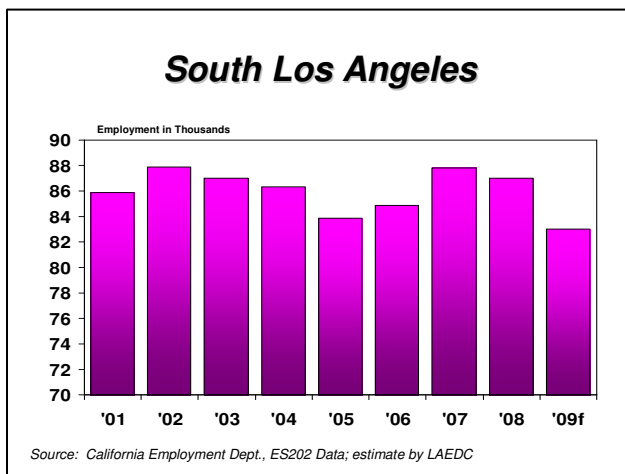
The area saw total employment fall by -1.1% in 2008. The 2009 forecast calls for a -2.4% decline, which will take the workforce count down to 448,000 jobs. The area ranks third among the regions of Los Angeles County in terms of average annual pay.

South Los Angeles

The major employment sectors here are manufacturing, education and health, and retailing. The slump in manufacturing has hurt. The area does attract interest from developers, but there is a shortage of large plots of developable land.

The area was hurt by the closure of the ML King Hospital. Discussions about reopening the facility are continuing.

Total employment fell by -1.1% in 2008. For 2009 a -4.6% decline is being estimated. This would take the workforce count down to 83,000 jobs.

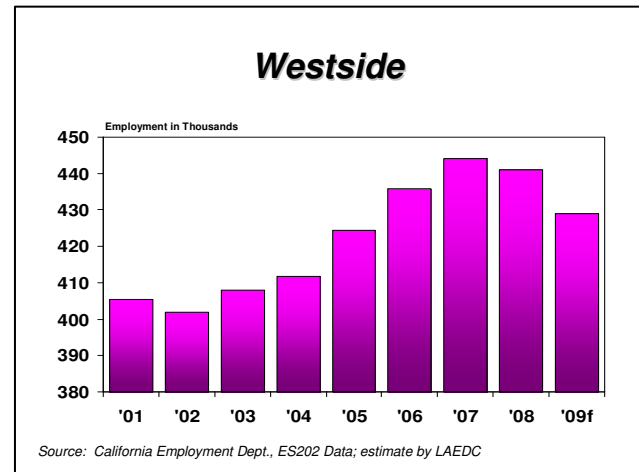


Westside

The top employment sectors here are professional business services, leisure & hospitality, and government. There are also 39,900 people at work in information, which includes the entertainment industry. The area has been battered by problems in the entertainment industry as well as finance (a lot of investment houses are located on the

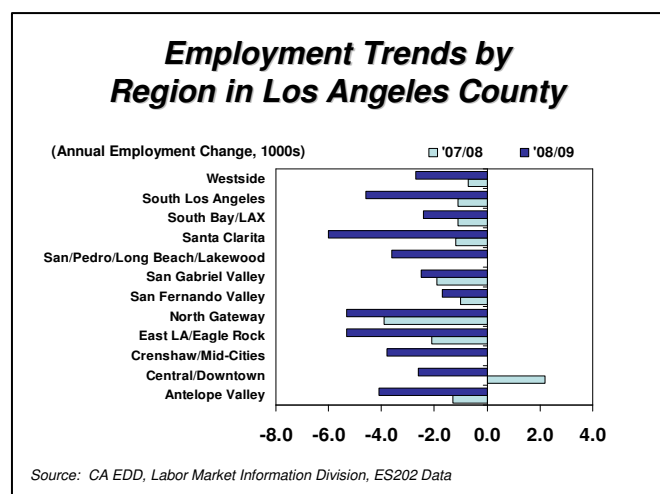
Westside). The slowdown in tourism, especially high-end travel, has also taken a toll.

One result is that the area has a very high office vacancy rate, 12.5% at last reading. Even so, a major office building is under construction, the “Red” building at the Pacific Design Center in West Hollywood.



Helping over the balance of 2009 will be a return to semi-normal in the entertainment industry, but conditions in several professional business service sectors will remain in turmoil (advertising and law).

Employment in the area slipped by -0.7% in 2008. The forecast for 2009 calls for a -2.7% decline, taking the workforce count down to 429,000 jobs. One distinction for the area – its annual average pay tops the County at \$66,497.



XI. OUTLOOK FOR MAJOR ECONOMIC DRIVERS OF THE SOUTHERN CALIFORNIA ECONOMY

The concept of an “economic driver” is that the industries or sectors sell a significant portion of their goods or services outside the region, thus bringing new money into the Southern California economy. The region is fortunate in having an array of drivers, but most have been impacted by the recession. In several cases, business models are being changed. A good example is the production of TV shows, where there is now an

intense focus on costs because advertising revenues are down. Producers are now paying more attention to incentives offered by other states.

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

Table 23: Performance Ratings of Major Industries

Industry	Grade	Comments
Aerospace: defense	C	Important programs (C-17, Future Combat System) at risk in new administration's proposed DoD budget
Aerospace: commercial	C-	Large backlogs at Boeing & Airbus, but shrinking due to financial problems of airline customers
Apparel design & manufacturing	D+	Problems with retail will continue, but stores keeping lean inventories and want merchandise that turns over quickly
Business & professional mgmt. services	B to C-	Best prospects for engineering and R&D; worst for advertising
Financial services	C-	More bank failures - watch for new government regulations
Health care services	C/C-	Ample demand for services, but continued financial problems for providers; watch for government health care reform proposals
Health services: bio-medical	C+	Venture capitalists remain cautious; firms with promising products getting more funds from "Big Pharma"
International trade	C	Small pick-up in activity in 2010; new terminal projects under way - environmental challenges remain
Motion picture/TV production	B-	Box office doing well but drop in advertising revenues hit TV/radio/cable programming
Technology	C+	Demand is still weak but there is some life in the consumer market
Tourism & travel	C+	Business and international travel still weak, but new attractions to whet interest in Southern California

Aerospace

This industry is at a major inflection point. The Department of Defense (DoD) budget is set to decline (in FY '09 it was \$655 billion, while the proposed FY '10 budget is \$534 billion plus \$130 billion in a supplemental bill). The decline reflects the winding down of the engagement in Iraq, and overall pressures on the federal budget as well as the new administration's view on defense spending. There is still no clear direction for NASA, which is approaching the end of the Space Shuttle's service life (end of 2010) and delays in fielding its replacement.

A lot of studies are being conducted about the nation's defense and space activities. The Quadrennial Defense Review is produced by the DoD and should be released by year-end. Also, a study of the military's mobility needs is underway. Finally, an independent commission has been established to determine where NASA should go.

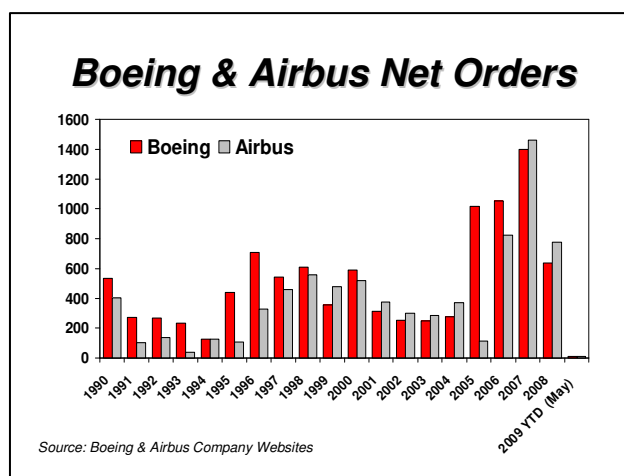
Of major concern to Southern California is the looming end of production of the C-17 military cargo lifter produced by Boeing in Long Beach. Orders for 8 additional planes are included in a 2009 supplemental funding bill, which will keep the production line going to 2011. But the C-17's fate is unclear after that. The C-17 is the last conventional airplane fully produced in Southern California, with over 4,000 people at work on the program. In the new DoD budget, production of the F-22 fighter was to be ended at 187 planes. Significant subcontracting on it takes place in the region. There are efforts to order more. Funding on the Future Combat System program is being trimmed. Boeing's Orange County facilities have a major roll in this system. One piece of good news in the new defense budget is an increase in production of the F-35 fighter. Major subcontracting work on this plane takes place in the region.

On the commercial aircraft side of the industry, the outlook for the global airline industry has taken a turn for the worse with huge losses forecast for the industry in 2009 and a problematic outlook for 2010. Passenger traffic, especially business travel, is down, and there is still too much airline capacity. While no commercial aircraft are produced in the region, significant subcontracting work is done locally for

Industry Score Card	
<i>Defense - Aerospace</i>	
B+	C
2/2009	7/2009
<i>Commercial Aerospace</i>	
C+	C-
2/2009	7/2009

Airbus and Boeing. Both are trimming production schedules, but continue to point to their sizable backlogs (each has orders for about 3,500 aircraft). The companies are also scrambling to help buyers line up financing. So far in 2009, neither Airbus nor Boeing has recorded many net new orders.

In other aerospace sectors, Boeing, Lockheed Martin and Northrop Grumman are all pursuing work on a variety of unmanned aerial vehicles in the Antelope Valley area of Los Angeles County. Several of these are classified programs. Some new orders for satellites have also been received.



Aerospace employment in Southern California will continue to decline over the balance of 2009 and into 2010. There is some irony in the industry's concern over an aging work force, with little attention being paid to solutions. Too many people in Southern California think that all the aerospace "has gone away," and don't even try to preserve the good jobs that still exist.

Table 24: Aerospace Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	38,700	38,100	38,300	37,300	36,500	-1.6%	0.5%	-2.6%	-2.1%
Orange County	11,300	10,900	11,400	11,200	10,600	-3.5%	4.6%	-1.8%	-5.4%
San Diego County	5,900	6,300	6,400	6,200	6,300	6.8%	1.6%	-3.1%	1.6%

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

Apparel & Textiles

This industry continues to experience a tumultuous environment, with no significant improvement in view on the horizon. There have been many retail stores closures, from mainstream Mervyn's to trendy boutiques on hot shopping streets. Some retailers with less-than-stellar credit have "credit holds" on their accounts, which make it hard for manufacturers to ship orders. Retailers also are keeping tighter inventories, and buying close to the season. While a headache for garment producers, this trend plays to the strengths of the local apparel industry which can do small orders and quick turns of those orders. There has been some speculation that some garment production might be moved back from Asia. If it is, the most likely destinations would be Mexico and Central America. Finally, stores are being cautious about both expanding and introducing new retail concepts while business is slow.

Some apparel manufacturers are moving to "consignment" to get goods in to stores. This move helps cash-strapped retailers and is a way to get new, edgier items in the stores. However, all of the risk is on the manufacturers.

New condo showrooms have been developed in the downtown Los Angeles "Fashion District." Many of these projects are being developed by Korean investors. Currently, there are four large "mart" facilities in the Fashion District, with three additional locations emerging. In Orange County, the action/sport continues to be strong, but with lots of changes.

Southern California's apparel industry has many specific concerns, including:

- When will consumers start to shop a little more aggressively?
- Apparel makers also need to watch how retailers respond to a troubled market. Currently, price is very important, but low prices may not be the best strategy when the recovery comes.
- A particular concern is the luxury and near luxury retail market. This sector was severely destabilized by aggressive price cutting at the end of 2008. Consumers are cautious about spending for expensive items in the recession, so

Industry Score Card *Apparel/Textiles*

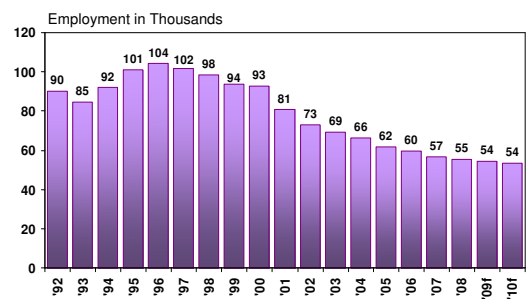
D+ D+
2/2009 7/2009

- high-end stores are offering more affordable items.
- The Consumer Product Safety Act is creating headaches for both manufacturers and retailers over compliance and costs.
- Immigration compliance is another worry, as a significant number of garment workers are believed to be undocumented.
- Future "cap & trade" regulations have the garment industry concerned, especially textile producers who use heat processes.

Employment will continue its slow decline in both apparel and textiles manufacturing, while wholesaling should hold fairly steady.

(Note: The state Employment Development Department no longer reports monthly job numbers for Orange County. However, according to the QCEW report, as of the third quarter of 2008, nearly 8,000 people were at work in apparel manufacturing.)

APPAREL MANUFACTURING EMPLOYMENT IN LOS ANGELES COUNTY



Sources: CA Employment Development Dept.; estimate & forecast by LAEDC

Table 25: Apparel & Textiles Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
<u>Los Angeles County</u>	97,800	94,700	93,500	85,600	80,200	-3.2%	-1.3%	-8.4%	-6.3%
Textiles mills	10,300	9,600	9,100	8,400	7,900	-6.8%	-5.2%	-7.7%	-6.0%
Textile product mills	8,800	8,600	8,300	7,300	6,600	-2.3%	-3.5%	-12.0%	-9.6%
Apparel manufacturing	59,600	56,700	55,300	48,800	44,300	-4.9%	-2.5%	-11.8%	-9.2%
Apparel & piece goods wholesaling	19,100	19,800	20,800	21,100	21,400	3.7%	5.1%	1.4%	1.4%
<u>Riverside-San Bernardino Area</u>									
Textile mills	14,200	13,800	13,100	11,500	10,000	-2.8%	-5.1%	-12.2%	-13.0%

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

Business & Professional Management Services

This sector has a quite mixed outlook. Advertising will continue to struggle with declining ad spending (a decline of over -4% has been forecast for 2009) and ongoing questions about how best to reach the desired audience. Local newspapers, radio and TV are all feeling the pain from the ad spending slump. Law is also struggling, with larger firms laying off staff. A factor here is that merger and acquisition activity has almost come to a complete halt. However, out-of-area law firms are moving into the Southern California market. They may be anticipating business from foreclosures, restructurings and work outs. Accounting has also seen some employment declines, especially in consulting and advisory work.

Industry Score Card *Business & Professional Management Services*

B+/C B/C-
2/2009 7/2009

Engineering firms have the best prospects over the rest of 2009, as Measure R in Los Angeles County went into effect (an increase in retail sales tax to fund transportation improvements) in July 2009. In addition, federal infrastructure funds are starting to flow. Research could also get a boost from the federal stimulus package.

Employment in this sector will continue to decline over the balance of 2009 and into 2010.

Table 26: Business & Professional Management Services Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	195,400	203,600	198,700	188,800	181,700	4.2%	-2.4%	-5.0%	-3.8%
Legal services	49,200	49,400	49,100	46,600	44,600	0.4%	-0.6%	-5.1%	-4.3%
Accounting services	46,400	49,600	40,800	37,700	35,900	6.9%	-17.7%	-7.6%	-4.8%
Architecture & engineering	36,800	39,900	41,700	39,600	37,800	8.4%	4.5%	-5.0%	-4.5%
Mgmt., sci. & tech. consulting	39,000	40,200	41,700	41,100	41,400	3.1%	3.7%	-1.4%	0.7%
Advertising	24,000	24,500	25,400	23,800	22,000	2.1%	3.7%	-6.3%	-7.6%
Orange County	68,900	71,600	73,300	71,500	71,300	3.9%	2.4%	-2.5%	-0.3%
Legal services	14,300	14,400	14,800	14,800	14,900	0.7%	2.8%	0.0%	0.7%
Accounting services	12,100	12,600	13,300	12,900	12,700	4.1%	5.6%	-3.0%	-1.6%
Architecture & engineering	23,300	24,200	24,200	23,300	23,100	3.9%	0.0%	-3.7%	-0.9%
Mgmt., sci. & tech. consulting	19,200	20,400	21,000	20,500	20,600	6.3%	2.9%	-2.4%	0.5%
San Diego County	35,800	36,800	37,000	36,700	36,506	2.8%	0.5%	-0.8%	-0.5%
Legal services	12,400	12,700	12,500	12,300	12,200	2.4%	-1.6%	-1.6%	-0.8%
Architecture & engineering	23,400	24,100	24,500	24,400	24,306	3.0%	1.7%	-0.4%	-0.4%

Note: Includes computer software development

Sources: California Employment Development Department, forecasts by LAEDC

Financial Services

This sector will continue to see change well in to 2010. Most notable has been the emergence of new players in the region's banking sector, due to mergers and takeovers (this has created a mini-business boom for sign companies and printers). Expect more small banks to get into trouble over the rest of the year due to problems with commercial real estate loans. Auto loans and credit card portfolios could also encounter some rough going in the months ahead.

Industry Score Card

Financial Services

C- C-
2/2009 7/2009

A lot of new banks were being organized in some areas of Southern California. However, this activity has simmered down as investors become more cautious.

On the brokerage and investment side of financial services, business will continue to be bumpy as stock markets will remain volatile. However, new private investment funds are being started to scoop up distressed firms and real estate projects.

Re-regulation of the financial markets is looming ahead, which might cause some headaches. However, this could also create business opportunities for accounting and law firms, as financial firms work to comply with the new laws.

Employment in financial services will decline in both 2009 and 2010, though the losses in the latter year will be more moderate.

Table 27: Financial Services Employment -- Credit Intermediation & Related Services

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	84,900	82,200	73,400	65,800	60,300	-3.2%	-10.7%	-10.4%	-8.4%
Orange County	52,000	44,900	34,100	31,000	28,100	-13.7%	-24.1%	-9.1%	-9.4%
Riverside-San Bernardino Area	19,000	18,100	16,100	14,300	12,600	-4.7%	-11.0%	-11.2%	-11.9%
San Diego County	26,600	24,600	20,800	18,600	16,800	-7.5%	-15.4%	-10.6%	-9.7%
Ventura County	11,100	9,800	8,700	7,900	7,200	-11.7%	-11.2%	-9.2%	-8.9%

Sources: California Employment Development Department, forecasts by LAEDC

Health Services/Bio-medicine

Hospitals are feeling more financial pressure, as endowments have shrunk, while they are seeing more uninsured patients. One result is that hospitals have become more cautious in staffing. All health service providers are watching Washington DC to see what type of “health care reform” might be enacted. California health care providers also have to keep an eye on Sacramento to see what impacts the state budget crisis might have.

In the bio-medical sector, venture capital firms are still being quite cautious, causing financial problems for small start-up bio-med firms. Some small bio-med firms in the region are getting offers from larger firms if they have an interesting market “niche.” One piece of good news was the lifting of the federal ban on funding for embryonic stem cell research, where the state had a head start due to passage of the stem cell bond. The “California Institute for Regenerative Medicine” is now ramping up their grant program. In addition, the federal economic stimulus package is supposed to contain more funding for health research.

In spite of all this uncertainty, several large hospitals are under construction around the region. Some of this activity is to meet seismic requirements, but much is needed to keep up with growth in Southern California’s population.

Employment in this sector will continue to grow, but at a slower pace over the course of 2009 and 2010.

Industry Score Card

Health Care Services

D+ C/C-
2/2009 7/2009

Bio-medicine

C+ C+
2/2009 7/2009

Table 28: Health Services Employment

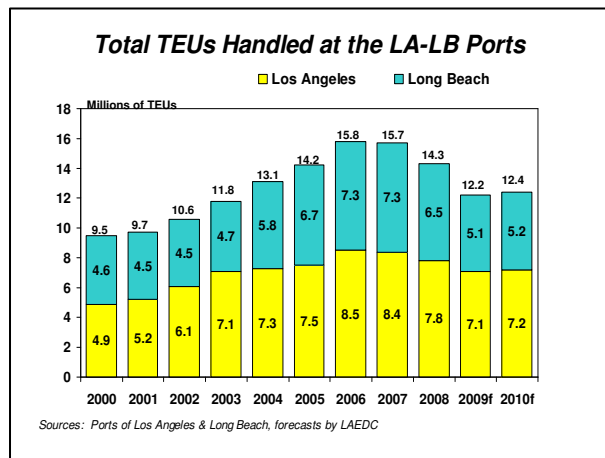
	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. '10/'09
Los Angeles County	324,800	330,800	339,500	346,000	352,000	1.8%	2.6%	1.9%	1.7%
Ambulatory health care services	156,300	160,400	165,300	167,200	168,900	2.6%	3.1%	1.1%	1.0%
Hospitals	106,900	107,200	110,200	113,400	116,400	0.3%	2.8%	2.9%	2.6%
Nursing care facilities	61,600	63,200	64,000	65,400	66,700	2.6%	1.3%	2.2%	2.0%
Orange County	104,000	107,700	112,600	114,900	116,900	3.6%	4.5%	2.0%	1.7%
Ambulatory health care services	56,100	57,700	60,500	60,900	61,300	2.9%	4.9%	0.7%	0.7%
Hospitals	29,500	31,200	31,900	32,600	33,100	5.8%	2.2%	2.2%	1.5%
Nursing care facilities	18,400	18,800	20,200	21,400	22,500	2.2%	7.4%	5.9%	5.1%
Riverside-San Bernardino Area	94,700	97,800	101,500	103,500	105,200	3.3%	3.8%	2.0%	1.6%
Ambulatory health care services	46,400	47,100	48,600	49,000	49,200	1.5%	3.2%	0.8%	0.4%
Hospitals	28,700	30,200	32,100	33,500	34,900	5.2%	6.3%	4.4%	4.2%
Nursing care facilities	19,600	20,500	20,800	21,000	21,100	4.6%	1.5%	1.0%	0.5%
San Diego County	86,700	90,000	94,100	94,700	95,300	3.8%	4.6%	0.6%	0.6%
Ambulatory health care services	44,800	46,200	48,100	48,200	48,300	3.1%	4.1%	0.2%	0.2%
Hospitals	24,000	24,500	25,200	25,500	25,800	2.1%	2.9%	1.2%	1.2%
Nursing care facilities	17,900	19,300	20,800	21,000	21,200	7.8%	7.8%	1.0%	1.0%

Sources: California Employment Development Department, forecasts by LAEDC

International Trade

After the financial crisis struck in September 2008, international trade flows collapsed around the world. The Los Angeles/Long Beach ports were hammered by this development. The number of loaded import containers handled at the local ports fell by -9.7% in 2008, the second consecutive year that imports declined. However, loaded export containers increased by +9.0% (though conditions deteriorated at the end of 2008).

The 2009 year-to-date figures are discouraging for both imports and exports. Year-to-date in 2009, import container volume (excluding empties) has fallen by -27.4%, while export volume (excluding empties) has dropped by -29.3% at the Long Beach (LB) port. At the Los Angeles (LA) port, the figures



are a little bit better as imports (including empties) have declined by -16.8% and exports (including empties) by -15.4% year-to-date.

The ports of LA and LB maintained their top two rankings measured by the number of containers handled during 2008. The port of LA also remained the top port in the nation in 2008, with regards to total two-way trade valued at \$245.4 billion, while the port of LB was ranked #9 with a value of \$91.9 billion.

The outlook for the rest of 2009 is pretty grim as the global recession lingers on. A big concern is that the declines in trade flows could worsen if the Los Angeles Customs District key trading partners decide to promote protectionist policies in an attempt to revive domestic demand. Of course, a lot will depend upon when the U.S. economy recovers and how much China and the rest of Asia can grow.

Industry Score Card ***International Trade***

C- C
2/2009 7/2009

Total container traffic at the LA and LB ports is projected to decline in 2009 to 12.2 million TEUs, a drop of -14.7%. The decline in trade has financially impacted both ports as well as all the various industry players, from the longshoremen's union to the independent truck drivers to the railroads.

Positive Forces Through 2009 into 2010

- The port of LA signed a memorandum of understanding in June 2009 to deepen its main channel to 53 feet so the port can accommodate larger container ships that operate in the global shipping fleet. The project will create thousands of construction jobs in the near-term.
- The Long Beach City Council voted to endorse the Middle Harbor project at the Long Beach port. The 10-year project will upgrade terminals, more than double cargo capacity, add 14,000 new jobs and nearly 1,000 construction jobs annually. The project is also expected to cut air pollution by 50%.
- Federal economic stimulus package includes funding for Southern California ports, highways and bridges, which will alleviate capacity constraints.
- The new intermodal discount and the rail cargo incentive programs launched in 2009 will make the ports of LA and LB more competitive. In addition, the ports have decided to postpone the infrastructure cargo fee that was scheduled to begin on July 1, 2009.
- The ports of LA and LB are the two most highly rated ports in the U.S. – the ports continue to have strong financial situations and competitive market positions.

Negative Forces Through 2009 into 2010

- The LA and LB ports might lose market share due to aggressive competition from Gulf and East Coast ports along with some from the Northwest ports (Seattle, Prince Rupert, British Columbia and Vancouver). The local ports have the highest charges for moving containers, including Alameda Corridor container fees, PierPass fees and clean truck fees. West coast ports have lost some market share over the past few years to the Gulf and East Coast ports.
- Final implementation of the TWIC card (Transportation Worker Identification Credential) is expected by the end of 2009. The number of port truck drivers who possess these cards is smaller than expected, which could become an issue once volumes recover.
- The Clean truck programs at the local ports have increased costs for shippers. The \$35 per container charge to finance “clean” trucks could be gone by early 2010.
- Western railroads are still charging higher intermodal rates.
- International Longshore and Warehouse Union (ILWU) pension costs are rising rapidly.

- The City of Riverside is suing the local ports - they are concerned about the increased traffic generated by the expansion of the local ports.

The Big Question

The main question everyone wants answered to is when will the global economic recovery begin and when will we get back to 2006 trade volume levels. The general consensus seems to be that the global economy has begun to stabilize and a weak recovery will take place in 2010. Trade volumes at the local ports could improve slightly by the end of 2009. Overall, the results for 2009 will be very depressing as total containers handled will be significantly lower than the good old days in 2006 and 2007.

In 2009, employment in international trade is projected to shrink by 46,000 workers, a -9.3% decline over 2008. This would be the third consecutive year that the international trade industry lost employment after experiencing double digit growth rates from 2004 to 2006.

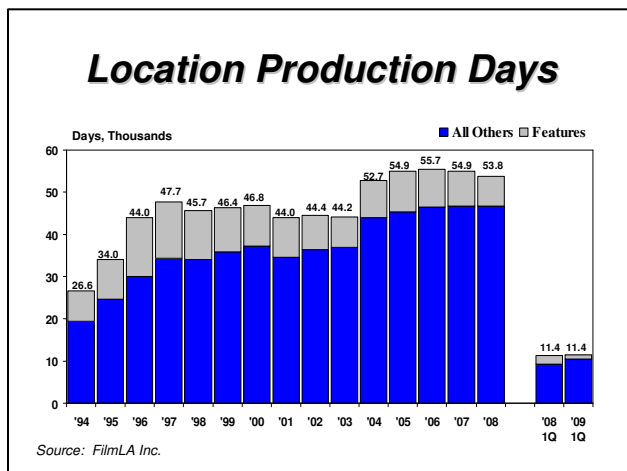
Motion Picture/TV Production

This is another Southern California industry that is at a significant inflection point, with local cost of production and incentives offered by other states being key factors. While local job loss is a major cause for concern, an additional concern is that the movie industry is a signature activity for the region with links to other important local industries such as tourism.

One piece of good news for the entertainment industry was the strong start for domestic box office receipts in 2009, although by mid-year the advantage over 2008 receipts had narrowed. International box office receipts are also doing well, with some high profile films doing better abroad than domestically.

How bad is the issue of run-away production? One measure is location/off-studio lot production days tallied by Film LA. The agency covers filming in the city of Los Angeles, unincorporated Los Angeles County, five other cities in Los Angeles County, and other jurisdictions. The series starts in 1995.

The high for feature films was reached in 1996, when there were 13,980 permitted location production days. Activity eased to 13,284 days in 1997. Since then activity has declined, with a low of 7,043 production days recorded in 2008. While the latter year was no doubt impacted by the uncertain labor situation, run-away production of feature films is a growing threat to the local economy. Run-away production is not an ephemeral thing. It represents lost jobs and tax revenues to the Los Angeles economy.



Moreover, there are other problems facing the entertainment industry. One is the evident peaking of DVD sales.

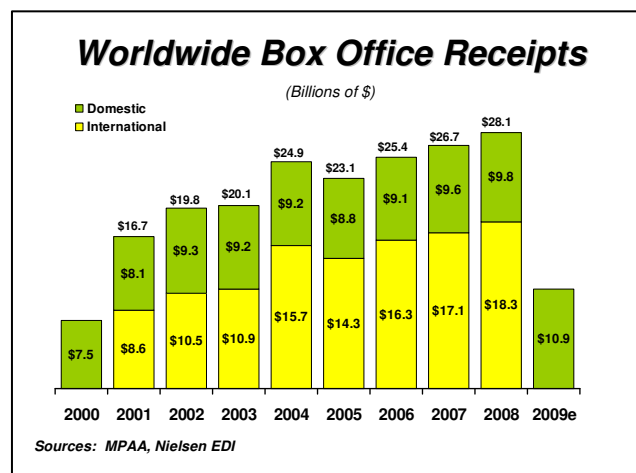
These were a major cash cow for the film studios.

Industry Score Card

Motion Picture Production

B+ B-
2/2009 7/2009

While there could be a near-term bump in local feature film production activity due to the recent SAG settlement, much production work could go to states offering incentives. Production costs have become a major concern for broadcast TV networks, due to the weak advertising market. Thus, the incentives offered by other states are now starting to lure more production of pilots out of the Los Angeles area. While the state of California has finally started to offer incentives, they are felt by many in the industry to be too narrow and not focused on feature film production. Canada is seeing an upswing in filming, with Vancouver being the major beneficiary.



NBC's move of Jay Leno into the 10:00 pm hour Monday through Friday is also drawing lots of attention. While it could be good news for NBC, it means that at least five scripted TV series will not be produced.

There is turmoil in allied industries, reflecting the slow down in feature film production. Prop houses and post production businesses are shutting down.

The industry is also still sorting out the merger of talent agencies William Morris and Endeavour.

Keep an eye on the SAG board elections in September. The balance of power between the moderates and the hardliners will be important, as late in 2010 a TV contract will have to be negotiated.

Calculating total employment in the motion picture/TV production industry is difficult. Many of the workers are “independent contractors,” and not captured in the state Employment Development Department’s data. Moreover, suppliers such as prop houses and location caterers get swept into other sectors.

Employment should experience a small bump in 2010, after lackluster results in 2009.

Table 29: Motion Picture/TV Production Employment in Los Angeles County

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. 10/'09
Los Angeles County	155,600	158,300	161,100	156,200	157,500	1.7%	1.8%	-3.0%	0.8%
Motion picture & sound industries	126,000	129,200	132,000	128,000	130,000	2.5%	2.2%	-3.0%	1.6%
Broadcasting (radio, TV & cable)	19,100	19,500	19,400	17,800	16,300	2.1%	-0.5%	-8.2%	-8.4%
Ind. Artists, writers & performers	10,500	9,600	9,700	10,400	11,200	-8.6%	1.0%	7.2%	7.7%

Sources: California Employment Development Department, forecasts by LAEDC

Technology

This is another sector that is feeling quite a bit of pain thus far in 2009. Information technology spending is down sharply, especially for computers and related products. Software spending is also lackluster. However, there are some nascent signs of life in consumer spending for flat screens TVs, Blu-ray DVD players (although this technology did not give the expected boost to DVD spending), and notebooks.

Video game spending has also been rather soft, though new technology is being introduced, mainly on the console side.

As to venture capital (VC), many VCs get most of their capital from institutional investors who have suffered large losses in the markets. VCs are pulling back on early-stage funding of companies, due to the higher risk involved, and are looking for very solid business plans.

Employment should continue to move down over the balance of 2009 into 2010.

Industry Score Card

Technology

B- C+
2/2009 7/2009

Table 30: Technology Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. '10/'09
Los Angeles County	154,100	152,900	153,400	147,900	146,700	-0.8%	0.3%	-3.6%	-0.8%
Computer & electronic products mfg.	59,400	55,700	54,200	51,800	49,700	-6.2%	-2.7%	-4.4%	-4.1%
Software publishers	5,900	6,500	5,600	5,300	5,500	10.2%	-13.8%	-5.4%	3.8%
Internet & data processing services	5,600	5,600	5,600	5,200	5,000	0.0%	0.0%	-7.1%	-3.8%
Computer systems design & services	26,300	27,800	28,800	27,700	27,900	5.7%	3.6%	-3.8%	0.7%
Mgmt., scientific, & technical consulting	39,000	40,200	41,700	40,700	41,200	3.1%	3.7%	-2.4%	1.2%
Scientific R&D services	17,900	17,100	17,500	17,200	17,400	-4.5%	2.3%	-1.7%	1.2%
Orange County	78,200	79,000	76,700	73,300	71,700	1.0%	-2.9%	-4.4%	-2.2%
Computer & electronic products mfg.	42,100	40,600	37,400	34,800	33,000	-3.6%	-7.9%	-7.0%	-5.2%
Computer systems design & services	16,900	18,000	18,300	18,000	18,100	6.5%	1.7%	-1.6%	0.6%
Mgmt., scientific, & technical consulting	19,200	20,400	21,000	20,500	20,600	6.3%	2.9%	-2.4%	0.5%
San Diego County	54,600	54,600	55,500	56,100	57,400	0.0%	1.6%	1.1%	2.3%
Computer & electronic products mfg.	26,700	26,000	26,100	25,400	25,200	-2.6%	0.4%	-2.7%	-0.8%
Software publishers	3,900	4,100	4,100	4,300	4,500	5.1%	0.0%	4.9%	4.7%
Scientific R&D services	24,000	24,500	25,300	26,400	27,700	2.1%	3.3%	4.3%	4.9%

Sources: California Employment Development Department, forecasts by LAEDC

Travel & Tourism

Tourist activity literally fell off the table at the end of 2008, and the outlook through 2010 is guarded. Business travel is down, with firms either cancelling functions or sending fewer people to major trade shows. International travel is also down, as the economies of key visitor-originating countries for the Los Angeles area are struggling. As a result, local tourist attractions have stepped up their marketing with a focus on the regional market.

While the current news on travel and tourism is downbeat, there are quite a few spots of light on the Southern California horizon. In February, 2010, the new convention center hotel will open in downtown Los Angeles. It has already stimulated a surge in business show bookings at the Los Angeles Convention Center. In the fall of 2009, a W Hotel will open in Hollywood, expanding the room supply at this popular destination. Pasadena has just opened their expanded convention center. The Walt Disney Company will base a cruise ship at the port of Los Angeles in 2011. And renovations are underway on the California Adventure at the Disneyland resort in Anaheim, with the “World of Color” attraction slated to open in spring 2010. A Madame Tussauds (wax museum) will open in Hollywood in August 2009. Universal Studios Hollywood will bring back their King Kong attraction in 2010. Finally, the Kodak Theater in Hollywood will become the permanent home for a Cirque du Soleil production in mid-2010.

All of this should be a boon to destinations marketing to the “star-cation” market.

The hotel industry in Southern California has been struggling, with occupancy and room rates down sharply from last year. For example, in Los Angeles County through the first five months of 2009, the occupancy rate was 66.2% compared with 76.3% in the like period of 2008. Worse, the average daily room rate was down by -10.6%. Orange County’s hotel occupancy rate during the early months of 2009 declined to 63.7% compared with 72.9% in 2008. The average daily room rate dropped by -11.6%. In San Diego County, the occupancy rate to date in 2009 was 65.2% compared with 74.8% in 2008. The average daily room rate fell by -13.1%.

Industry Score Card *Tourism & Travel*

C+ C+
2/2009 7/2009

Several hotels around the region have encountered financial distress, most ironically the St. Regis at Monarch Bay (site of the infamous AIG event that gave a bad name to corporate events). More hotels, especially high-end properties, will encounter trouble in the next 12 months. Yet, new properties are being developed, even in the Riverside-San Bernardino area, where the winter tourist season has been weak and the Indian casinos have seen business slide.

One of the more intriguing hotel projects is the redevelopment of the Wilshire Grand hotel site in downtown Los Angeles. The existing structure will be torn down. Plans call for a 40 story hotel tower and a 60 story office building.

Employment in the local hotel industry will decline in 2009, but start to stabilize in 2010.

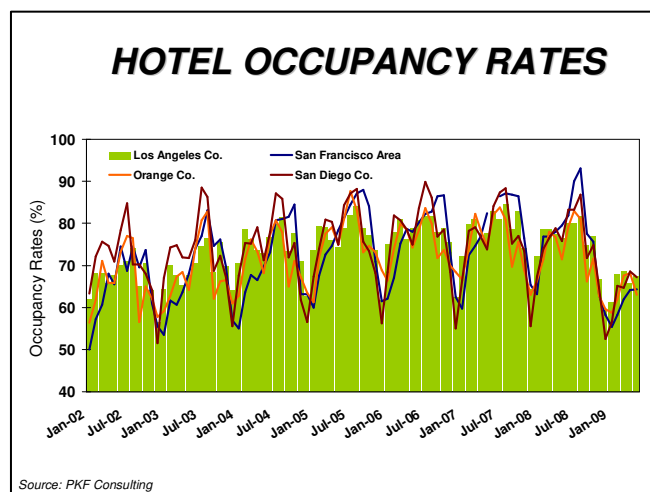


Table 31: Tourism-centric Industries Employment

	2006	2007	2008	2009f	2010f	%chg. '07/'06	%chg. '08/'07	%chg. '09/'08	%chg. '10/'09
<u>Los Angeles County</u>	54,390	56,600	58,000	52,300	52,500	4.1%	2.5%	-9.8%	0.4%
Amusement parks & arcades	3,790	4,300	5,200	5,000	5,300	13.5%	20.9%	-3.8%	6.0%
Accommodation	39,100	40,300	40,800	35,800	35,900	3.1%	1.2%	-12.3%	0.3%
Travel arrangement & reservations	11,500	12,000	12,000	11,500	11,300	4.3%	0.0%	-4.2%	-1.7%
<u>Orange County</u>									
Accommodation	22,400	23,100	23,400	23,000	22,800	3.1%	1.3%	-1.7%	-0.9%
<u>Riverside-San Bernardino Area</u>									
Accommodation	17,800	17,400	15,900	13,900	12,100	-2.2%	-8.6%	-12.6%	-12.9%
<u>Ventura County</u>									
Accommodation	2,700	2,900	2,900	2,500	2,200	7.4%	0.0%	-13.8%	-12.0%
<u>San Diego County</u>									
Accommodation	30,500	31,900	32,300	30,000	27,900	4.6%	1.3%	-7.1%	-7.0%

Sources: California Employment Development Department, forecasts by LAEDC

XII. OUTLOOK FOR CONSTRUCTION & RETAILING

Residential Real Estate

New Homebuilding

In the first half of 2009, the story of Southern California's housing market was one of continuing deterioration as the fallout from the sub-prime crisis of 2007 gave way to the financial crisis of 2008 and the worst national recession since the Great Depression. After months of unmitigated bad news, a slight breath of change is in the air. Nonetheless, there are substantial obstacles to recovery in the region's housing market. It would do well to keep in mind that hitting bottom is not the same as climbing back out. Builders' unsold inventories are falling and home price deflation is showing signs of leveling off. On the other hand, foreclosure activity remains near record levels and lenders have many units to sell.

Rising unemployment in the five-county area is also a contributing factor to the foreclosure mess. Already at record levels, the jobless rate is not expected to reverse course until 2010. Just as the effects of the foreclosure crisis and high unemployment were uneven across Southern California, we can expect to see uneven improvement within the sector and across the region.

Total homebuilding permits in the Los Angeles five-county region have been declining ever since 2004 (91,556 total units). During 2008, a total of 27,067 new residential construction permits were issued, a decline of -46% compared with 2007 and down by -70% from 2004. During the first five-months of 2009, total new residential construction in the five-county area was down by -53% from the same period in 2008 with just 6,049 total permits issued for new single and multi-family units.

Los Angeles County and the Inland Empire accounted for most of the permits issued in 2009, about 84% combined. The difference between the two counties was that most of the permits issued in Los Angeles County (69%) were for multi-family units (there is less open land available for housing development in Los Angeles County except in the Antelope and Santa Clarita Valleys).

Industry Score Card

Residential Construction

D- D-
2/2009 7/2009

Nonresidential Construction

C-/D+ D-
2/2009 7/2009

Table 32: Performance Ratings of Construction and Retailing

Industry	Date of Rating		
	7/2008	2/2009	7/2009
New Homebuilding	D-	D-	D-
Resale Housing	D	C-	C
Nonresidential construction	B	C-	D-
Value retailing	B	B-	C
Automotive retailing	n/r	D+/C-	D+
Other retailing	C-	C-	C-

n/r = not rated

Table 33: Total Housing Permits

	L.A.	Orange	R-SBC	Ventura	LA-5
1988	50,498	23,455	54,429	5,154	133,536
1989	48,341	16,637	45,653	5,026	115,657
1990	25,045	11,979	28,840	2,612	68,476
1991	16,195	6,569	16,191	2,194	41,149
1992	11,907	5,943	15,444	1,720	35,014
1993	7,259	6,410	13,151	1,372	28,192
1994	7,621	12,544	13,016	2,464	35,645
1995	8,405	8,300	10,899	2,166	29,770
1996	8,607	10,207	12,513	2,353	33,680
1997	10,424	12,251	15,377	2,316	40,368
1998	11,692	10,101	18,606	3,182	43,581
1999	14,383	12,348	21,651	4,442	52,824
2000	17,071	12,367	21,990	3,971	55,399
2001	18,253	8,646	27,541	3,446	57,886
2002	19,364	12,020	33,280	2,507	67,171
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	91,556
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,363	7,072	20,457	1,847	49,739
2008	13,886	3,156	9,180	845	27,067
2009F	6,465	1,295	4,955	275	12,990
2010F	6,855	1,375	5,515	300	14,045

Sources: Construction Industry Research Board, forecasts by LAEDC

The Inland Empire is just the opposite, as most of the new homes permitted were for single-family units (74%).

In Los Angeles County, total residential construction dropped to 13,886 units in 2008, a decline of -32% from the prior year and down by -48% from 2004. During the first five months of 2009, the number of permits issued for new homes was down by -55% compared with the same period in 2008.

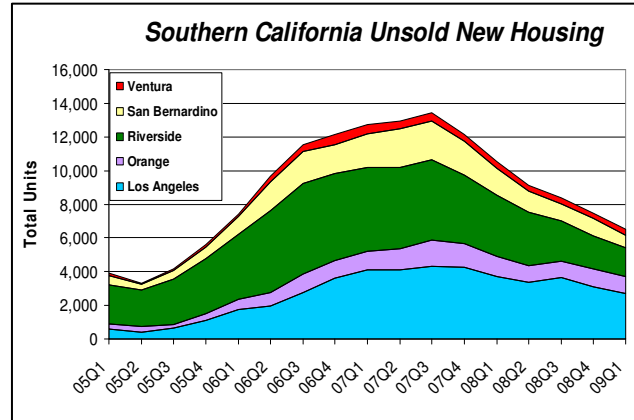
Total residential construction in the Inland Empire was down by -55% from 2007 to 9,180 units and a staggering -83% from 2004. The first half of 2009 did not bring much in the way of improvement; new permits fell to just 2,344 units, down from 4,286 issued during the first five months of 2008 (-45%).

In Orange County a total of 3,156 residential permits were issued in 2008, a decline of -55% in 2008 compared with the 2007 level and down by -74% since 2000. Land availability is relatively low in Orange County, and multi-family units accounted for the majority of residential construction permits issued in 2008 (59%). This trend started in 2004; prior to that, Orange County was considered a stronghold of single-family development. However, during the first half of 2009, multi-family permits plunged by -74.6% to 327 units (40% of total housing permits) compared with a decline in single family permits of “only” -27.4% to 487 units.

Compared with the rest of the region, less construction occurs in Ventura County because of the lengthy permitting process and constraints on land available for residential development. A total of 845 residential permits were issued during 2008, a decline of -54% from the previous year and down by -81% from its peak in 2005. So far this year, residential construction activity has plunged by -67% over the same period in 2008. Of the housing permits issued this year, 68% were for single-family residences.

On the upside, builders’ levels of unsold new housing have fallen significantly over the past year in all five counties. Inventories in the first quarter of 2009 fell by -27.3% in Los Angeles County over the year, -15.1% in Orange County, -52.0% in Riverside County, -54.3% in San Bernardino County and by -17.5% in Ventura County. Even more telling is to

compare recent unsold new home inventories with their peak levels: Los Angeles -37.8% (3q07), Orange County -33.8% (3q07), Riverside County -67.6% (3q06), San Bernardino County -67.6% (3q07) and Ventura County -43.2% (4q06).



Resale Housing

Unsold inventories of resale homes also have fallen dramatically over the year. According to the California Association of Realtors, the unsold inventory in California represented a 4.2 month supply at May’s sales rates, compared with 8.7 months from the previous year. Existing home sales in California increased by +35.2% over the 12 months ending in May. However, the median price fell by -30.4% over the same period, due primarily to the large share of homes purchased out of foreclosure.

Foreclosures continued to be a major driver of sales in Southern California’s more distressed (i.e. affordable) inland areas, but as a percentage of total sales across the Southland, the number fell in May to 50.2% from February’s peak of 56.7%. Nonetheless, foreclosure activity remains at near-record 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.

The resale housing market in Southern California has radically shifted in favor of buyers (assuming they are able to qualify for a loan under the more-stringent lending standards now imposed by nervous financial institutions).

A comparison of median May 2009 with the same period in 2008 by the California Association of Realtors revealed that the Los Angeles County median home price was \$313,270, down by -26.2% year-over-year. Orange County's median home price was \$474,110 a decline of -17.4% from a year earlier. Ventura County had a median home price of \$414,580 in May, a drop of -14.8% from a year ago. The Riverside-San Bernardino market had the toughest year, with a median home price of \$160,880 in May, down by -37.6% from last year. More foreclosures are expected to flood distressed markets in 2009 while leaving others relatively unscathed. Median home prices are expected to decline further in the former areas, but may have leveled off in the latter.

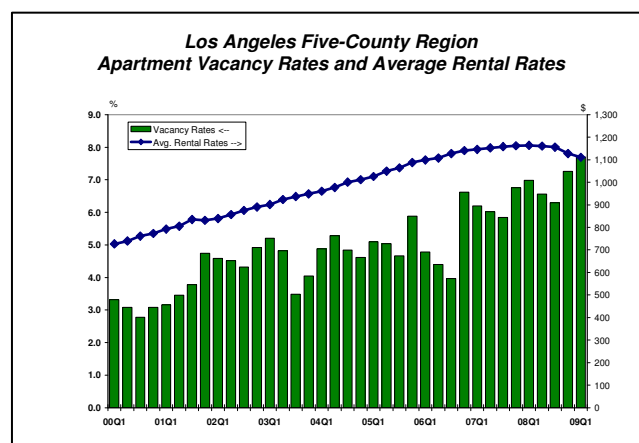
Table 34: Median Existing Single-Family Home Prices

	LA	Orange	Riv-SB	Ventura
1996	\$172,886	\$213,370	\$115,240	\$205,720
1997	176,517	229,840	114,340	219,300
1998	191,700	261,700	121,500	233,770
1999	198,980	280,900	128,670	254,950
2000	215,900	316,240	138,560	295,080
2001	241,370	355,620	156,690	322,560
2002	290,030	412,650	176,460	372,400
2003	355,340	487,020	220,940	462,520
2004	446,380	627,270	296,350	599,280
2005	529,010	691,940	365,395	668,140
2006	584,820	709,000	400,660	685,960
2007	589,150	699,590	381,390	673,940
2008	402,110	533,200	234,220	463,560
May '08	424,485	573,893	257,660	487,790
May '09	313,270	474,110	160,880	415,580

Annual % Change

	LA	Orange	Riv-SB	Ventura
1997	2.1%	7.7%	-0.8%	6.6%
1998	8.6%	13.9%	6.3%	6.6%
1999	3.8%	7.3%	5.9%	9.1%
2000	8.5%	12.6%	7.7%	15.7%
2001	11.8%	12.5%	13.1%	9.3%
2002	20.2%	16.0%	12.6%	15.5%
2003	22.5%	18.0%	25.2%	24.2%
2004	25.6%	28.8%	34.1%	29.6%
2005	18.5%	10.3%	23.3%	11.5%
2006	10.5%	2.5%	9.7%	2.7%
2007	0.7%	-1.3%	-4.8%	-1.8%
2008	-31.7%	-23.8%	-38.6%	-31.2%
May '09	-26.2%	-17.4%	-37.6%	-14.8%

Source: California Association of Realtors



Apartment

The apartment market experienced modest gains during the first half of 2008, but stalled as the year drew to a close. Apartment rents, which had been rising steadily in the Los Angeles five-county region, posted a decline of -3.0% by the end of the year. In the first quarter of 2009, rents in Los Angeles and Orange counties decreased by -2.8% and -2.9% respectively. Over the year, rents also fell for Riverside County (-4.8%), San Bernardino County (-4.3%) and Ventura County (-5.1%).

At the end of the first quarter of 2009, the average apartment vacancy rate in Los Angeles County was 6.7% compared to 6.2% a year ago. Apartment vacancy rates in Orange County averaged 7.7% (up from 6.6%). Riverside County experienced a slight decline in vacancy rates over the year, falling from 8.8% to 8.7%. In San Bernardino, the rate rose to 8.2% (from 7.5%) and in Ventura it rose to 7.2% (from 5.8%).

While fundamentals for apartment rentals remain relatively healthy compared to the detached for-sale housing market, mounting job losses are exerting pressure on both rental and vacancy rates. With the foreclosure crisis continuing to unravel, one would expect to see an increasing number of former homeowners moving back into apartments. This has not happened to the extent expected, however. A number of lenders, unable to sell their newly foreclosed units, are renting them instead, sometimes to the former owners. Demand for apartment units has also been affected by the increasing affordability of detached housing as rents and median prices aligned more closely with

incomes. On the other hand, the difficulty of qualifying for a home loan lessens this effect.

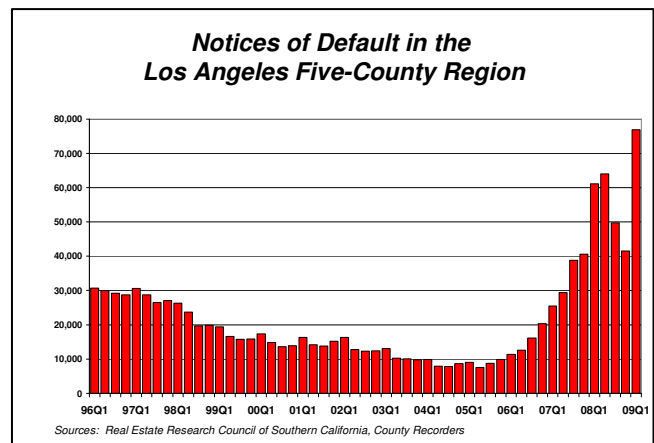
Housing Forecast

In 2008, home affordability (the ratio of income to home prices) fell back in line with historic averages seen prior to the run up and collapse of the housing bubble in 2007. Sales of existing homes have been brisk as buyers benefited from an advantageous confluence of favorable prices, historically low mortgage rates and various buyer tax credits. The sales gains realized over the past year are diminishing however, as the supply of bargain-priced homes at the low to mid-end of the market are snapped up.

In California, the median home price has hovered around the \$250,000 mark for the first five months of 2009. Normally, this would be an indication home prices are stabilizing, but a change in the mix of the types of homes sold may presage additional declines in some regions. Foreclosures continue to be a major driver of sales in Southern California's distressed areas.

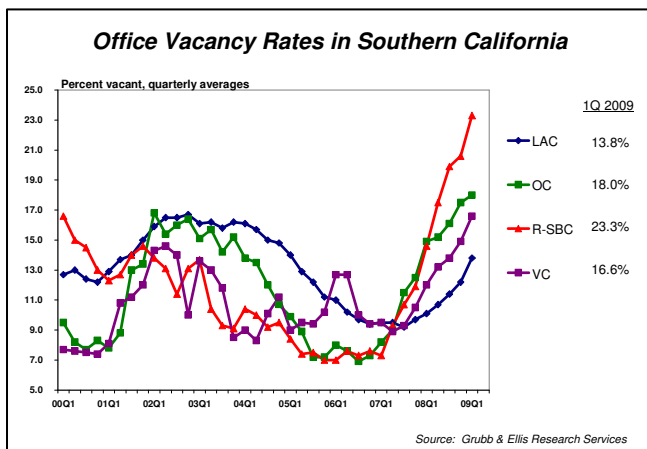
The LAEDC forecasts that a total of 12,990 new housing units will be permitted in the five-county region, a decline of -52% from 2008 and a -86% drop from the 2004 level of 91,556 units. As the number of unemployed workers rises, foreclosure rates will continue to depress home prices. An additional risk to recovery lurks in the "shadow" market. Shadow inventory includes homes in or close to foreclosure that have not been put up for sale by banks or other lenders. This market is difficult to quantify, and is also affected by state and federal programs designed to reduce the number/rate of foreclosures. To the extent that lenders dole out properties slowly to obtain the best possible price, it could delay recovery of the housing market.

Although credit conditions remain tight, mortgage interest rates are lower than last year and existing home inventories are falling as bargain hunters snap up distressed properties. However, recovery will require a renewed willingness on the part of mortgage lenders to make loans to qualified buyers and substantial improvement in the jobs market. Housing activity will continue to be low until these factors come together. There are encouraging signs the residential real estate market may hit bottom in 2009. Climbing back out is another story entirely. The recovery in 2010 could well be a slow, uneven scramble (as opposed to a bounce) with home prices remaining low for quite some time.

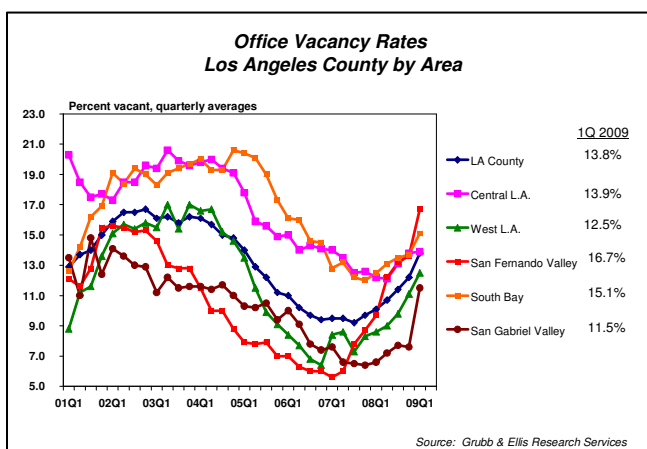


Nonresidential: Office

Southern California's job growth came to a grinding halt in 2008 and ended the year with the highest level of unemployment in 14 years. Initially triggered by the meltdown of the financial system, the crisis quickly spread to the real economy, and unemployment increased across the board. Job losses continued to mount through the first half of 2009, reaching record levels as the recession deepened. Subsequently, office vacancy rates throughout the region increased as companies closed or downsized. Areas within the region have fared better or worse than others depending on their exposure to problem industries and the volume of new construction, but none remained unaffected.



Los Angeles County's average office vacancy rate increased to 12.2% at the end of 2008 and by the end of the first quarter of 2009, it had grown to 13.8% (compared with 10.1% a year ago). Vacancy rates this high are well above what is considered a "balanced market" (10%) and are the



highest the county has experienced in almost four years. Among Los Angeles' various sub-regions, the San Gabriel Valley and the Westside markets had the lowest office vacancy rates at the end of the first quarter, 12.8% and 11.5% respectively. The biggest year-over-year increase in a vacancy rate occurred in the San Fernando Valley - up by seven percentage points from a year ago to 16.7% at the end of the first quarter 2009, the highest level in a decade. During the first quarter, over 30,000 square feet of space came on the market in the San Fernando Valley as Washington Mutual, Countrywide and IndyMac closed offices.

The South Bay also fared poorly during the first quarter, jumping to a ten year high of 15.1% by the end of March compared with 12.5% in March 2008. Across the county, effects of the subprime fiasco linger as tenant losses were heavily weighted toward the financial services industry. AIG, Countrywide Financial and Washington Mutual dumped millions of square feet of office space.

On average, the County's soft market for office space pushed Class A asking rents down to \$3.18 per square foot (or by -9.1% y/y) in the first quarter. While this represents a fairly modest drop compared to a number of regions across the country, the rate of decline has accelerated. That is worrisome, especially since industry analysts expect additional declines as the year progresses.

Increasing vacancy rates have not uniformly affected the Class A asking rents among Los Angeles County's various communities. Westside asking rates dropped to \$4.08/sf over the first quarter, declining by -13.6% (y/y) while downtown rates rose slightly to \$3.36/sf from \$3.14/sf in March 2008 (+7.0%). The Westside tenant base, with its heavy concentration of financial services firms, was among the hardest hit in the county by the recession, while the downtown area and its more diversified base was less affected.

San Gabriel asking rates declined by -4.8% (y/y) in the first quarter to \$2.60/sf making it the most

stable market in the county. The San Fernando Valley ended the quarter at \$2.63/sf (down by -7.7%). South Bay rents, which rose during the fourth quarter of 2008, were pulled down by rising vacancy rates during the first three months of 2009, declining by -8.7% (y/y) to \$2.21/sf. Tenants originally drawn by the South Bay's relatively cheaper rates migrated to the Westside as asking rents in that area became more economical.

In Orange County, the average office vacancy rate jumped to 18.0% in March from 14.9% a year earlier. Although Orange County has fared better than several of its neighbors in terms of job losses, unemployment is high and likely to get higher. Losses are mounting at banks and credit remains tight, a problem for the county's mortgage industry.

New construction came to a virtual standstill over the course of 2008, but there is still enough additional space coming on line to exert downward pressure on rental rates. Current leasing activity is comprised mainly of renewals, many of which are short term (one to two years) as tenants and landlords grapple with uncertainty about the economy. Additionally, there is a large supply of "shadow space." This is space that is technically leased, but is empty and will return to the market when the lease expires. On average, Class A rents have fallen by -11.1% over the year to \$2.72/sf.

The Inland Empire's average office vacancy rate soared to 23.3% at the end of the first quarter compared with 14.6% just one year earlier. The increase in vacancy rates was due primarily to job losses in industries related to finance, real estate and professional/business services. Market saturation from speculative construction projects in progress prior to the real estate bust was also a contributing factor.

In spite of the high vacancy rate, the region experienced positive net absorption over the first quarter. Rental rates increased by +3.6% (to \$27.18/sf in the first quarter of 2009 compared to \$26.24/sf during the same period in 2008), as new

construction commands higher rates than older product.

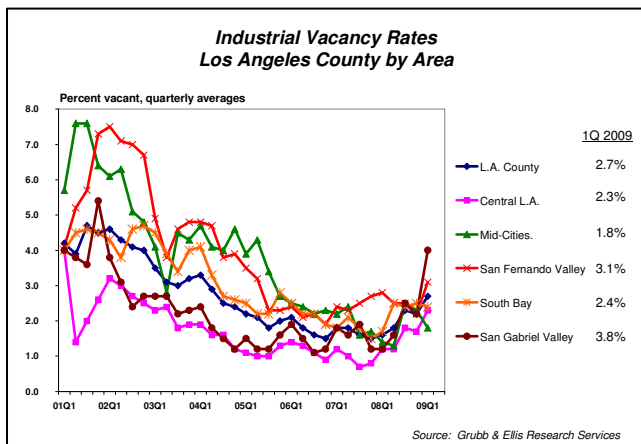
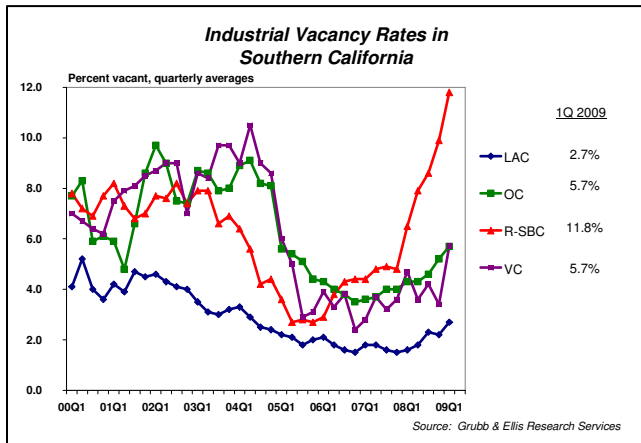
The credit crunch and economic slowdown have definitely stalled new office construction in Southern California as the cost of borrowing has gone up and risk-averse lenders maintain a tight grip on credit availability. Soaring unemployment from businesses scaling back or closing has resulted in a shift of emphasis from new development to filling existing office space. Even so, leasing activity is expected to remain flat and rents soft through the remainder of 2009. Recovery in the office market is tied to a revival of the economy and the labor market, which is not expected to occur until sometime in 2010. Until then, it will remain a tenant's market - high rates of availability will encourage renters to demand greater concessions in the form of higher improvement allowances, free rents and reduced parking fees.

Nonresidential: Industrial

Southern California is a major center for manufacturing, international trade and logistics and, of course, entertainment. Los Angeles County remains the nation's largest manufacturing center and is home to its biggest port complex. Two years ago, the energetic flow of international trade goods ensured the region's warehouses were filled to bursting. Since the onset of the recession, however, declining demand worldwide for U.S. exports and a steep drop in domestic demand for imported goods has led to a sharp slowdown in port activity. The area's manufacturing and logistics industries, both of which are major users of industrial space, have suffered as well. Still, all things considered, the market for industrial property in Los Angeles has shown remarkable resiliency. In spite of an increase in vacancy rates to 2.7% during the first quarter of 2009 from 2.2% at the end of 2008 and up from 1.6% a year earlier, the industrial vacancy rate in Los Angeles County is still the lowest in the nation.

Although declining trade volumes at the port and weak consumer demand through the first quarter inflicted a measure of discomfort on the Los Angeles County industrial real estate market, the

county was able to meet the challenge from a position of relative strength. Due to a shortage of land available for development, Los Angeles did not go through the cycle of overbuilding that occurred in neighboring counties. This lack of space has kept vacancy rates low but not so low that there has not been considerable downward pressure on asking rents. Prospective tenants have become much more aggressive in their lease negotiations, and leases are taking longer to close. Landlords have been forced to concentrate on maintaining occupancy as opposed to holding out for higher rents.



Industrial vacancies ended 2008 at relatively low levels, but the extent and depth of the recession is taking a toll. The industrial vacancy rate of Central Los Angeles was 2.3% at the end of the first quarter 2009 and remains the tightest in the region. However, weak consumer spending could trim garment and toy industry demand for warehouse space. Industrial markets elsewhere in the county also remained tight. One area, Mid-cities, actually saw a decrease in its vacancy rate

(1.8%) and an increase in asking rent rates. In the South Bay, the vacancy rate stood at 2.4% - good news considering the high concentration of logistics related firms in the area that have been hurt by the slowdown at the ports. The San Gabriel Valley suffered the highest increase in vacancy rates over the first quarter, rising to 3.8% from 1.2% a year ago. At 3.1%, the San Fernando Valley is coping with the highest vacancy rate seen in four years.

Orange County's industrial real estate market fared less well, ending the first quarter of 2009 with a 5.7% vacancy rate, up from 4.3% a year ago. Construction levels are at their lowest in years, but weak consumer demand and sluggish business investment has reduced demand for industrial space and asking rates have declined accordingly. Businesses are taking a "wait and see" attitude about expanding or relocating to the area. Recovery in Orange County, as elsewhere, will depend on an improvement in the local economy and a revitalization of consumer demand.

As industrial space dwindled in Los Angeles and Orange counties, an increasing number of companies searching for abundant land, lower costs and proximity to the San Pedro Bay ports, migrated east to the Inland Empire. Up until 2007, the large influx of distribution businesses into the Inland Empire competed for space with rapidly spreading low-cost housing developments, creating a tight regional industrial real estate market. Conditions have deteriorated markedly since then, however, with the first quarter vacancy rate standing at 11.8% compared with 6.5% a year ago.

What are some key trends in the Riverside-San Bernardino area? As a defensive measure against the recession, several established businesses seeking cost savings have consolidated along the I-215 corridor. This has caused localized variation in vacancy rates and asking rents. Vacancy rates are climbing at warehouse and distribution centers for retail chains; casualties of the demise of several big retailers and plummeting consumer demand. The Inland Empire also serves as a conduit for goods moving between the ports to

the rest of the nation. The area is home to a substantial logistics industry. High growth rates in international trade and goods movement encouraged builders to engage in extensive speculative construction. However, a decrease of -8.5% in container traffic at the Ports of Long Beach and Los Angeles in 2008 worsened to -18.2% (y/y) by the end of May 2009, contributing to a substantial rise in industrial vacancy rates. As a result, total industrial construction dropped by -96% over the year as builders called a halt to speculative projects.

During 2008, industrial building permits valued at \$327 million were issued in the five-county region. During the first five months of 2009, the value of industrial permits issued plunged by -67%. The Inland Empire accounted for 50% by valuation of industrial building permits issued in the five-county area so far in 2009, compared with 36% in 2008. Los Angeles accounted for a 17% share for the first half of this year, down from 39% during the same period in 2008. Ventura held a 14% share, while Orange County recorded no industrial permit activity over the first five months of this year.

Forecast for Private Nonresidential Construction

Total private nonresidential construction in the five-county region declined in 2008 to \$8.1 billion. Activity will fall again in 2009, with a forecast building permit value of only \$4.2 billion for the region, a -48% drop. Contributing to the slump in construction activity is the fall-off in port activity, high and rising unemployment, and steep declines in consumer spending and business confidence. Businesses are reluctant to commit to new construction while the economic outlook remains uncertain. Meanwhile, credit markets remain tight and it is not yet clear when they will begin to function normally again. With property prices falling and vacancy rates rising across Southern California, and given the weak economy, some developers could face difficulties rolling over their loans. Many banks are heavily exposed to commercial real estate loans; an increase in delinquencies might prompt them tighten credit even further. At the end of June, 263 commercial properties in Los Angeles (valued of \$4.5 billion – a

113% increase since the beginning of 2009) were in default, foreclosure or bankruptcy.¹

Private nonresidential building permit values in Los Angeles County will decline by -45% in 2009 and again in 2010 but at a slower rate (-4%). Orange County's total construction activity value will drop by about -40% in 2009 and by -4% in 2010. The Riverside-San Bernardino area's total nonresidential building permit values will decrease by a staggering -64% in 2009 and by just under -5% in 2010. As the economy recovers, increased port activity will encourage more distribution and warehousing companies to look inland for sizeable properties at more affordable prices. Ventura County's total nonresidential construction permit values will contract by about -49% in 2009. The outlook for the entire region will depend on the return of jobs.

For the most part, office space development will be restrained in all five counties of the Southern California region. Companies will continue shedding employees or delaying hiring due to the uncertain economic outlook for 2009 and 2010. With some new projects just coming on the market, office vacancy rates around the region will increase. Average rents will soften with a greater demand for concessions, especially in Orange County and the Inland Empire. The few companies considering expansion will look at several different markets to obtain more competitive lease rates.

The outlook for industrial space development, especially in the tight markets of Los Angeles and Orange counties, while not bright, is at least somewhat less terrible. International trade continues to lead the region's economy and will eventually require more distribution and warehouse space as the nation and its major trading partners recover. When the construction recovery finally comes, the Inland Empire will see most of the new industrial construction activity, but land is getting scarce in the western end of the region as well. Development activity will spread east again along I-10 or go north over the Cajon pass to the High Desert.

¹ Source: Real Capital Analytics, Inc., July 9, 2009

Table 35: Office Building Permits Issued
(In millions of dollars)

	LA	O	R	SB	V
1990	623	236	68	67	31
1991	386	118	50	34	33
1992	121	27	34	22	28
1993	144	51	41	17	6
1994	108	41	12	22	4
1995	88	29	10	32	9
1996	133	45	22	9	4
1997	161	129	22	12	6
1998	284	270	9	22	25
1999	393	289	24	16	13
2000	268	354	31	15	32
2001	547	174	43	20	30
2002	209	150	36	30	5
2003	182	118	85	61	40
2004	307	133	127	84	18
2005	233	313	148	85	23
2006	241	578	192	115	52
2007	716	282	224	118	55
2008	446	114	118	33	26
5-mos '08	148	50	79	17	9
5-mos '09	57	3	4	8	0

Source: Construction Industry Resource Board

Table 36: Industrial Building Permits Issued
(In millions of dollars)

	LA	O	R	SB	V
1990	309	59	120	182	43
1991	141	39	38	117	35
1992	92	22	21	38	37
1993	55	18	13	59	23
1994	71	11	14	76	32
1995	74	34	32	69	20
1996	124	84	51	87	64
1997	109	123	98	189	56
1998	308	234	118	209	82
1999	361	123	112	331	58
2000	359	87	99	405	42
2001	202	90	75	331	76
2002	225	62	81	243	31
2003	276	68	113	245	47
2004	178	26	203	436	45
2005	277	27	120	322	23
2006	182	91	288	373	21
2007	109	52	185	351	29
2008	135	14	70	92	16
5-mos '08	75	10	37	70	0
5-mos '09	11	0	12	32	9

Source: Construction Industry Resource Board

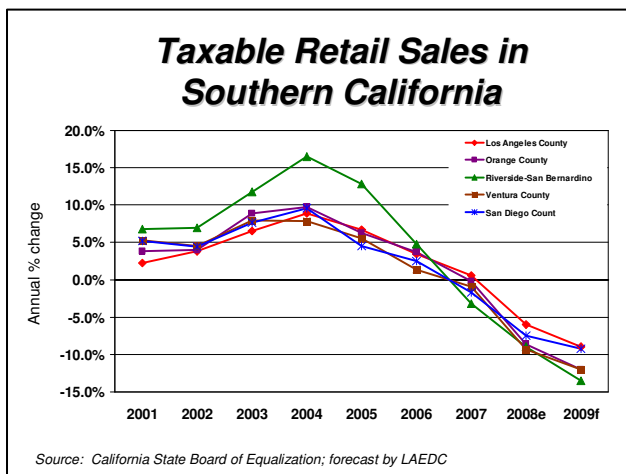
Table 37: Retail Building Permits Issued
(In millions of dollars)

	LA	O	R	SB	V
1990	509	222	174	201	46
1991	351	110	172	147	16
1992	244	91	216	87	7
1993	249	73	87	71	52
1994	265	144	77	97	16
1995	209	101	113	149	57
1996	322	136	101	100	43
1997	272	210	203	109	31
1998	368	155	175	158	49
1999	408	217	170	181	101
2000	447	223	316	132	23
2001	434	207	191	178	48
2002	459	194	231	163	81
2003	356	78	231	225	55
2004	484	118	406	176	90
2005	552	133	345	232	69
2006	482	178	372	294	54
2007	493	319	388	351	50
2008	468	132	317	243	63
5-mos '08	241	59	164	114	47
5-mos '09	84	27	27	21	10

Source: Construction Industry Resource Board

Retailing

If retailing had a bleak year in 2008, 2009 is hardly looking any better. What makes this recession different from others in recent history is the collapse of credit availability. Consumers lack access to home equity lines and other forms of credit. Consumer credit has declined, on average \$3.8 billion per month over the past year (-1.8%). Falling personal income and the deep plunge in consumer confidence have also made individuals reluctant to dip into personal savings to maintain their usual levels of consumption. In fact, personal savings as a percentage of disposable personal income was 6.9% in May, the highest level in years. Retail sales have also been severely affected by record levels of unemployment. Many employees who managed to keep their jobs are working fewer hours. All this instability makes people feel insecure, so they want to save their money rather than spend it. American consumers are unlikely spend their way out of the recession any time soon, which is bad news for retailers.



Retail sales volumes began to slow with the collapse of the housing market in late 2007. The first wave in a series of store closings washed over the retail landscape in 2008. These involved retailers such as Starbucks and Ann Taylor, both of whom had pursued massive expansion plans and found themselves overextended. Casual dining restaurants were especially hard hit as more individuals opted to trim expenses and dine at home. Sales volumes continued to decline through 2008 as the recession deepened, falling to levels not seen in decades.

Industry Score Card

Retailing-Value

B **C**
2/2009 **7/2009**

Retailing-Other

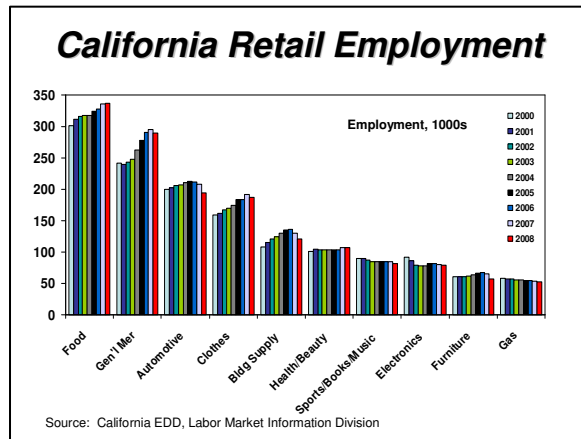
C-/D+ **C-**
2/2009 **7/2009**

To say the business climate for most retailers is hostile understates the magnitude of the challenges they are facing. The 2008 list of retailers who did not survive and those who were forced to close stores and scale back operations in the name of self preservation was substantial. Unfortunately, the list in 2009 could also be lengthy. By the end of 2008, the International Council of Shopping Centers estimated the number of retail closures nationwide would total 148,000 for the year and that the first half of 2009 would see another 73,000 establishments shutting their doors for good. Many retail organizations that are hanging on are facing huge levels of debt and plummeting share prices. The severe downturn in the retail industry has left it open for some major structural changes. There are estimates that in 2009, approximately 10% of retailers will restructure, file for bankruptcy protection or liquidate.

As retailers downsize or close their doors altogether, retail space vacancy rates are skyrocketing. There is also the issue of what to do with empty big box locations (e.g. Circuit City, Mervyn's). Malls are left with large spaces vacated by former anchors that are not easy to fill, especially in today's uncertain economy.

A similar problem concerns the closures by General Motors and Chrysler, of over 1,000 and 800 dealerships respectively, across the nation. Re-use of these sites will be difficult. In addition to the direct job losses resulting from retail closures, jobs may be lost among the firms that supply them and the media that rely heavily on retail advertising revenues. City coffers will also feel the effect in reduced sales and property tax revenues.

There are some bright spots amidst the gloom, however. Newly cost-conscious consumers have



created opportunities for discount retailers. Ross Stores opened 19 new stores during the first quarter and sales were up by +9% over the same period last year. JC Penny is pushing ahead with plans to have 17 new stores up and running by the end of 2009. Dollar General Corp. reported first quarter earnings were up by +16% and expects to open 450 new stores. People are still lavishing attention on their pets as well, as is evidenced by growing sales at PetSmart. Retailers that survive the recession will benefit from increased market share as weaker competitors fall away. And,

liquidation operators will gain from the increase in store closures.

Sales Trends

Southern California retail sales have been in a steady decline until very recently. While no county has been spared, core retail sales (retail sales less gas stations, automobiles and home building supply) have been fairly stable since the start of the year. Falling gasoline and diesel prices, which had the effect of boosting real disposable incomes, reversed direction in May/June adding to retailer's uncertainty. In 2009, declines in taxable retail sales will range from -9.0% in LA County to -13.5% in the Riverside-San Bernardino area. Orange County is expected to see a drop of -12.0% in retail sales while sales in Ventura and San Diego County are expected to decline by -12.0% and -9.2% respectively.

In 2010, when the credit markets stabilize and businesses regain confidence, jobs will begin to return. As unemployment begins to abate and consumer confidence gains traction, the retail sector will start to improve, but much will depend on recovery in the labor market.

A Sample of Retailer Pain & Casualties 2009	
Company	Status
Walden Books	Plans to close 240-250 stores
Anchor Blue Retail Group	Filed Chapter 11 Bankruptcy - Levi Strauss to acquire 73 stores
Ann Taylor	Closing 163 stores by the end of FY 2010
Rite Aid Corp.	Plans to close 117 stores over the year
J. Jill	Sold by parent company Talbot's - closing 75 stores
Eddie Bauer Holdings	Filed Chapter 11 Bankruptcy
Circuit City	Bankruptcy - Liquidation (567 Stores & 40,000 Employees)
Costco	7% International decline in sales
Goody's Family Clothing Inc.	Bankruptcy - Liquidation (287 stores)
Jones Apparel Group	1Q 2009 profits down by -98% - plans to close 225 stores
Home Depot	Closing Home Expo division
Boaters World	Shut down by parent company Ritz Camera - 129 stores closing
General Motors	Over 1000 dealerships closing
Chrysler	800 Dealerships closing
Pier One	Closing 80 stores
Macy's	Closing 11 stores
Sears	Closed 28 stores in 2008 and plans to close 24 in 2009
Pacific Sunwear	Scaling back staff as cost cutting measure
Zales	Closing 115 stores
Bulgari	2008 Profits down by -45% - planning store closures
Phillips-Van Heusen	Closing 175 stores
Virgin Mega Store	All US stores set to close by summer
Starbucks	Closed 600 stores 2008, announced another 300 closures for 2009
Clair's	Closing 119 stores
Z Gallerie	Closing 25 of 77 locations
Gottschalks	Bankruptcy - 58 department stores closing
Ritz Camera	Bankruptcy - 300 stores closing

Source: www.walletpop.com

XIII. WRAPPING IT UP

The Southern California economy is being severely tested by a deep recession in 2009—the deepest since 1973-75. Unfortunately, a lot of businesses are downsizing or closing. Jobs are being lost at a dismal pace, and unemployment is at all-time highs. For workers, finding good employment could well be difficult, as the recovery in 2010 will be slow.

This report has documented huge declines in residential construction across the nation and throughout the state. In addition, the plunge in international trade flows has impacted many areas in Southern California.

State and local government budget problems are growing steadily worse. Some hard decisions on staffing and services will have to be made—and soon. We’ve been through budget crises before, but this one is extraordinary and the effects will be long lasting.

The federal stimulus program will provide some support, but the funds are just beginning to flow in significant quantities, and noticeable impacts will not be visible until later in 2009. The infrastructure programs will be especially helpful. The jobs involved have a significant ripple impact, and the transportation projects will help the state remain competitive.

As if the economics weren’t enough trouble, California is in a drought, and the water we normally get from northern parts of the state has been cut back for environmental reasons. The MWD and local agencies have implemented curbs on water use for both business and consumers. The region’s vital agricultural industry and its suppliers will have to adjust to a water-constrained world.

The economy will reach the bottom of this recession soon, probably before year end. However, the recovery will seem to be agonizingly slow because we’ll be at the bottom of a very deep hole. What are the prescriptions for survival in this environment?

- For **business**, keeping costs under control will be critical until sales begin to revive.
- For **government**, understand that budgets will be under pressure for several more years; so short-term “fixes” won’t be sufficient.
- For **consumers**, there will be chronic worrying about employment. Watch the economy, but take a measured view of the headlines.
- For **every one** – businesses, consumers and government – more attention needs to be paid to the value adding sectors of the state’s economy. Other states are gearing up for more aggressive business recruiting efforts aimed at California. We can no longer be passive. Much of our aerospace base disappeared in the early 1990s, while the motion picture industry is currently being wooed vigorously by other states. If we want to keep these good jobs, it will take work and some changed attitudes.

One last observation: we are economists, not financial advisors, but there are opportunities out there even in these hard times. Now could be the time for brave souls to “buy low.” There is developable residential land for sale by distressed homebuilders. There is also a growing supply of vacant but well-located commercial and industrial space for lease at lower rents. Niche opportunities will surely pop up for new small businesses. At a minimum, with the bottom of the recession coming up, it is time to plan for growth



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