

News Release

George McQuade or Aida Mayo
(818) 340-5300 or (818) 618-9229



www.MayoCommunications.com

PR@MayoCommunications.com

Southland Economy Looks Good For Overall Growth, But Spotty Performance by Area and by Industry, LAEDC Forecast Says

Housing will remain a drag through early 2009, while Hollywood and the ports face uncertainty because of labor contracts – will there be a strike?

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Los Angeles—Southern California’s economy will turn in a “decent” performance in 2007, a gain of 1.4% or 98,100 new nonfarm jobs, despite the drag from the housing sector, according to the “Mid-Year 2007 Economic Forecast” from the Los Angeles County Economic Development Corporation (LAEDC).

“However, housing won’t be the only thing to worry about,” said Jack Kyser, Chief Economist for the LAEDC. “The film industry has a string of critical labor contracts to negotiate. In addition, international trade is facing environmental challenges, but in 2008 will also have a labor contract of its own to negotiate although the two parties have agreed to start negotiations early.”

Highlights of the LAEDC Forecast:

- Among the five local metropolitan areas, the Riverside-San Bernardino area will be the leader as measured by job growth in 2007 and 2008. However, this area is being restrained by the housing slowdown. “Laggards” include Orange and San Diego counties, with the former being hurt by the melt down in subprime lending and the latter by overbuilding of condos.
- 2007 will mark an important milestone for Los Angeles County, as nonfarm employment (an average of 4,142,600 jobs) will finally surpass the previous high attained way back in 1990 (an average of 4,135,700 jobs).
- Local industries with the best growth prospects over the next two years include professional, scientific & technical services (which include accounting, law, engineering, computer software design, and scientific R & D), health services, and leisure & hospitality services. International trade will also provide support, with an increase of 6.3% to 16.75 million containers handled in 2007.
- “Laggard” industries in the region will include residential construction, durable goods manufacturing, and finance and insurance in 2007.

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- The LAEDC Mid-year Forecast also checks the health of smaller areas within the five local metropolitan areas. In Los Angeles County, the best performance will be turned in by the Antelope Valley and the East San Fernando Valley. The laggard will be the perennial problem child, South Los Angeles. In Orange County, “south” county will grow a little faster than the north, with job losses in financial services a problem for both. In the Riverside-San Bernardino area, the I-15 Corridor and the High Desert will turn in the best performances, while the Moreno Valley will be a laggard, again due to housing.

“A frequently asked question is when the housing industry will turn around,” said Kyser. “We are a tad bearish, forecasting a distressing 33.7% decline in the number of new housing permits in the 5-county area in 2007 and a 6.8% slide in 2008. This comes on the heels of declines in 2005 and 2006. Housing weakness will remain in evidence through late 2008, and the recovery will be restrained. Don’t look for a return to double digit gains in prices.”

Another key local industry facing rough going is the motion picture/TV production industry, with the Writers Guild contract expiring in October 2007, and the Screen Actors and Directors guild contracts up for renewal in June 2008. “The dialogue between the two parties has been rather harsh,” observed Kyser. “There is a high potential for a disruption in this industry, either a strike or a “de facto” strike. Stockpiling of filmed product is already underway.”

Support for the Southern California economy will continue to come from major construction projects, both public and private. \$1.3 billion in improvements are underway at Los Angeles International Airport, while ground was broken in mid-2007 for the convention center hotel in downtown Los Angeles.

The LAEDC Forecast looks for moderate growth in the U.S. economy, but does not expect a recession. Gross domestic product should increase by 2.2% in 2007 and by 3.1% in 2008. Housing isn’t the only drag on the national economy; the domestic auto industry is extremely troubled as well.

“While the forecast is for continued growth in the Southern California economy during 2007 and 2008, it won’t be easy for the business community,” observed Kyser. “There is a looming state health care plan with unknown costs, possible tweaks to the workmen’s compensation insurance program, and ambitious plans on the environmental front. The cost of doing business in the state will go up.”

However, the Forecast pointed out that government agencies will face slower growth in tax revenues, as well as calls for increased investment in infrastructure. All government agencies will need a healthy and growing economy to generate the required tax revenue, yet little thought is generally given to economic development, and providing a better climate for industries to grow.

About the LAEDC

The LAEDC, the region’s premier business leadership organization, is a private, non-profit organization established in 1981 under section 501(C) (3). Our mission is to attract, retain, and grow business and jobs for the regions of Los Angeles County. Since 1996, the LAEDC has helped retain or create more than 132,300 jobs, providing \$5.5 billion in direct economic impact from salaries and \$94 million in annual tax revenue benefit to Los Angeles County. For more information, please visit www.laedc.org or call (888) 4-LAEDC-1.

[Editors: Please call for an advanced copy of the embargoed study or link and to do advanced interviews with LAEDC Chief Economist Jack Kyser, and LAEDC President Bill Allen. Spanish speakers available, too. **The study results will be posted at 12:01 A.M., Wed, July 18, 2007, @ www.MayoCommunications.com and <http://laedc.org/reports/Forecast-2007-07.pdf>. For interviews call, George McQuade @ 818-340-5300 or 818-618-9229].**