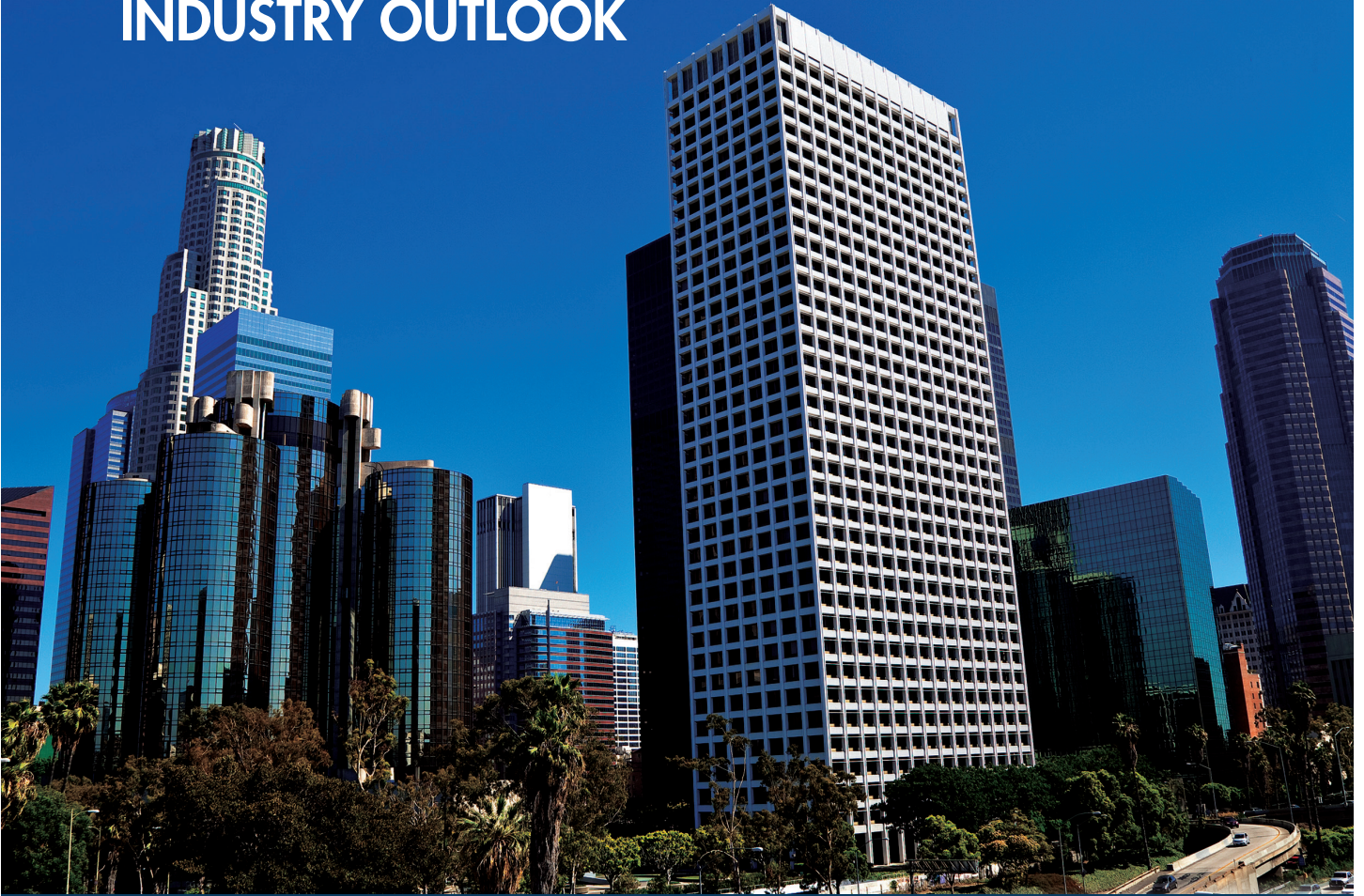


# 2013-2014 MID-YEAR ECONOMIC FORECAST & INDUSTRY OUTLOOK



## THE KYSER CENTER FOR ECONOMIC RESEARCH



**LAEDC**

**LOS ANGELES COUNTY**  
ECONOMIC DEVELOPMENT CORPORATION



## ABOUT LOS ANGELES COUNTY:



Los Angeles County is a nation-sized region that spans more than 4,000 square miles, has nearly 10 million residents who speak 140 languages from around the world, and leads the nation as the #1 Entertainment Capital, the #1 Manufacturing Capital, and #1 International Trade Capital of America. L.A. County also has the nation's #1 ranked seaport, the busiest origin and destination airport (LAX) and three world-class research institutions plus 118 other colleges and universities, all of which contribute to the region's annual economic activity of \$544 billion. By measure of GDP alone, L.A. County would be larger than Sweden, Saudi Arabia or Taiwan.

Los Angeles County is governed by five Supervisors, including Supervisor Gloria Molina (District 1), Supervisor Mark Ridley-Thomas (District 2), Supervisor Zev Yaroslavsky (District 3), Supervisor Don Knabe (District 4), and Supervisor Michael Antonovich (District 5). For more information about Los Angeles County, visit: <http://www.chooselacounty.com>.

THE LAEDC THANKS THE FOLLOWING BUSINESS LEADERS FOR THEIR GENEROUS SUPPORT:



For information about LAEDC membership, contact Justin Goodkind (213) 236-4813.

THE 2013-2014 MID-YEAR ECONOMIC FORECAST IS SPONSORED BY:

TITLE SPONSOR

**ExxonMobil**

EVENT SPONSOR

**CITY NATIONAL BANK**  
The way up.® 

MEDIA SPONSOR

LOS ANGELES BUSINESS JOURNAL

**KNX 10.70<sup>TM</sup>**  
**NEWSRADIO**

# **2013-2014 Mid-Year Economic Forecast and Industry Outlook**

California and Southern California  
Including the National and International Setting

## **Prepared by:**

Robert A. Kleinhenz, Ph.D.  
Kimberly Ritter-Martinez  
Ferdinando Guerra

July 2013

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 nearly 180,000 jobs, providing \$11.0 billion in direct economic impact from salaries and an estimated \$850 million in property and sales tax revenues to the County of Los Angeles.

### **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 and Policy Analysis Group**

The LAEDC Economic and Policy Analysis Group offers thoughtful, highly regarded economic and policy expertise to private- and public-sector clients. The group focuses on economic impact studies, regional industry analyses and economic issue studies, particularly in water, transportation, infrastructure and workforce development policy.

### **Leveraging our Leadership**

The LAEDC operates the World Trade Center Association Los Angeles-Long Beach (WTCA LA-LB), which facilitates trade expansion and foreign investment, and the LAEDC Center for Economic Development partners with the Southern California Leadership Council to help enable public sector officials, policy makers, and other civic leaders to address and solve public policy issues critical to the region's economic vitality and quality of life.

### **Global Connections**

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

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's 2013-2014 Mid-year Forecast.

The LAEDC's Economic Forecast is Southern California's premier source for in-depth economic information and analysis on our global, national, state and regional economies. Each forecast release is accompanied by a public event featuring the insights of influential economists and leaders from the public, private and education sectors. The forecast report is produced by the LAEDC's Kyser Center for Economic Research, led by its Chief Economist, **Dr. Robert Kleinhenz**.

Dr. Kleinhenz is joined today by a panel of prominent and highly regarded presenters who will discuss current trends in and the outlook for the energy sector in the Southland. This engaging panel, which includes **Rob Gardner**, Manager Economics and Energy Division, ExxonMobil Corporation, and **Dr. Nate Lewis**, Caltech's George L. Argyros Professor of Chemistry and the Scientific Director of the DOE Energy Innovation Hub in Fuels from Sunlight, will enlighten us, about global energy demand and supply, the role of innovation in the energy sector, and the impact of public policy and other developments that will affect the future of the sector going forward. Repeating his role as Master of Ceremonies, is **Frank Mottek** who reports on the regional business and economic news for KNX 1070 NewsRadio where he is host of the KNX Business Hour, the number one business radio show in Southern California.

This morning's event has been made possible by a number of generous sponsors, including ExxonMobil and City National Bank. Our media sponsors for this event are KNX 1070 NewsRadio and the Los Angeles Business Journal.

As part of the LAEDC's over 30-year continual track record providing collaborative, innovative and strategic economic development leadership here in Los Angeles County, I also want to take this opportunity to congratulate the LAEDC's team of Business Assistance and Development professionals for having been awarded the prestigious Grand Prize award, from the California Association for Local Economic Development (CALED) for economic development excellence, in recognition of the LAEDC's Layoff Aversion Program. Now a two-time CALED award winner, the LAEDC's Business Assistance and Layoff Aversion programs provide free-of-charge services to help businesses survive, grow and thrive by connecting them to all the resources that Los Angeles County has to offer and by working to build networks in local communities around the critical need to keep the front doors of struggling businesses open and their workers employed.

We have seen this distinctive Layoff Aversion program become an exemplar for cross-sector collaboration in other communities and a model for other similar efforts going on throughout the state and nation. With your ongoing commitment, the LAEDC continues to show California and the nation just what can be achieved when public, private and education sector leaders come together to help people meet their need for a job.

Thank you for your continued support of the LAEDC and our mission to attract, retain, and grow businesses and jobs for the residents of Los Angeles County.

Sincerely,  
Bill Allen – President and CEO

## Prepared and Researched by:

**Robert A. Kleinhenz Ph.D**  
**Chief Economist**

National Outlook  
California Outlook  
Los Angeles County Outlook  
Ventura County Outlook

**Kimberly Ritter-Martinez**  
**Economist**

Orange County Outlook  
San Diego County Outlook  
Construction and Real Estate  
Industry Profiles

**Ferdinando Guerra**  
**International Economist**

International Outlook  
Gross Product Comparisons  
Inland Empire Outlook  
Industry Profiles

**With Special Thanks To:**

George Entis, Kyser Center Intern  
Kaili Liu, Kyser Center Intern

# Table of Contents

I.	2013-2014 FORECAST AT A GLANCE.....	1
II.	OUTLOOK FOR THE U.S. ECONOMY.....	2
	Key Sectors .....	2
	Economic Policy .....	5
	U.S. Forecast and Risks .....	6
III.	OUTLOOK FOR THE INTERNATIONAL ECONOMY .....	9
	Foreign Exchange Rates .....	14
IV.	OUTLOOK FOR THE CALIFORNIA ECONOMY.....	18
	Gross Product Comparisons.....	21
V.	OUTLOOK FOR LOS ANGELES COUNTY .....	31
	Los Angeles Sub-county Regions .....	37
VI.	OUTLOOK FOR ORANGE COUNTY .....	44
VII.	OUTLOOK FOR THE INLAND EMPIRE.....	50
VIII.	OUTLOOK FOR SAN DIEGO COUNTY.....	57
IX.	OUTLOOK FOR VENTURA COUNTY.....	63
X.	MAJOR INDUSTRIES OF THE SOUTHERN CALIFORNIA ECONOMY.....	68
	Manufacturing.....	68
	Aerospace and Defence .....	69
	Apparel Design and Manufacturing.....	72
	Computer and Electronic Product Manufacturing .....	73
	Professional and Business Services .....	73
	Financial Services .....	74
	Healthcare Services/Biomedical .....	75
	International Trade/Goods Movement .....	76
	Motion Picture/TV Production.....	79
	Real Estate and Construction .....	80
	Retail Trade.....	91
	Travel and Tourism.....	93
XI.	INDEX OF STATISTICAL TABLES.....	96



## 2013-2014 Forecast at a Glance

### The U.S. Economy

- Slow growth for the remainder of 2013, accelerating in 2014
- Continuing improvement in the labor markets, consumer sector will show strength
- Risks: uncertainty regarding economic problems in Europe, slow growth among key trading partners; continuing drag on economy from U.S. fiscal policy.

	2012	2013F	2014F
Real GDP (% Change)	2.2	1.8	2.4
Nonfarm Jobs (% Change)	1.7	1.6	1.7
Unemployment Rate	8.1	7.6	7.2
Consumer Price Index (% Change)	2.1	1.4	1.7

**Leading Sectors:** Consumer spending, business equipment spending, professional and business services, and construction

**Trailing Sectors:** State/local government spending

### The California Economy

- Private sector job gains, unemployment rate down gradually but steadily
- Housing and construction up substantially
- Risks: near-term drag on state and local economies from sequestration budget cuts; supply-constrained price increases and rising interest rates take edge off gains in the housing sector

	2012	2013F	2014F
Unemployment Rate	10.5%	9.1%	8.7%
Nonfarm Jobs (% Change)	0.8%	1.7%	1.7%
Population Growth (% Change)	0.7%	1.0%	1.0%

**Leading Sectors:** Leisure and hospitality, construction, professional business services and health services

**Trailing Sectors:** Information, manufacturing, state/local government spending

### The Southern California Economy

- Regional economy continues to improve, but unevenly across counties and industries
- Private sector expansion continues, but labor market recovers at a slow pace

**Leading Sectors:** Leisure and hospitality, health services, professional and business services, construction

**Trailing Sectors:** Manufacturing and state/local government spending

# Outlook for the U.S. Economy

At the midway point through 2013, many details of the U.S. economy's performance have played out as expected. The private sector was expected to grow and add jobs, but federal spending cuts and tax increases would temper economic gains through the year, as would sluggish performances of our trading partners across the globe. The Federal Reserve Bank would continue its lifelines to the economy by keeping the federal funds rate effectively at zero, while purchases of securities would hold down long rates. The result would be GDP growth at slightly less than two percent and the unemployment rate continuing to edge down at an uncomfortably slow rate.

Indeed, GDP might have expanded by about three percent this year if not for the budget cuts and tax increases (higher tax rates on high income earners and the end of the Social Security payroll tax cut), which together have sapped about one percent of GDP growth from the economy.

So, the economy is growing, which is good. But the post-recession two percent growth trajectory has fallen short of the economy's long-run three percent growth trend, and is about half of what the U.S. economy typically experiences in post-recession years. Historically, higher than average growth in post-recession years has enabled the economy to catch up with the previous growth trend and bring the unemployment rate down relatively quickly. The absence of above-average growth is one reason why the unemployment rate has edged down so slowly.

## Key Sectors

**Consumers:** Consumer spending made up just over 70% of all spending in the U.S. economy last year, making it by far the largest segment of the economy. The financial health of households is all-important to making progress in both consumer spending and the performance of the overall economy. Fortunately, there have been noteworthy improvements to the household sector over the last several months.

The consumer sector benefitted last year from steady job gains that reduced the unemployment rate by nearly a full percentage point. Real wage earnings have registered year-to-year increases in 12 of the last 13 months through May 2013.

Meanwhile, the balance sheets of U.S. households improved on the gains achieved in 2012, with household wealth exceeding the pre-recession peak in the first quarter of this year. Homeowners' equity in real estate rose throughout last year, with another 29.4% year-to-year gain coming in the first quarter of this year as home prices increased across the country (see Real Estate section below). Meanwhile, household balance sheets continued to improve through the first

quarter as a result of gains in the financial market. Net worth of households should advance further as the year progresses.

Consumers are experiencing somewhat better access to credit compared to the years immediately following the recession. Total outstanding consumer credit has increased steadily in recent quarters as households have become more willing to use credit. And, of course, many consumer rates remain quite low by historic standards, especially mortgage rates.

Thus far in 2013, real wage gains, improvement in household balance sheets, and a somewhat rosier consumer outlook appear to have cushioned the blow of higher taxes, resulting in higher consumer spending. Consumer spending grew 2.6% (annualized quarter-to-quarter) during the first quarter of the year. Durable goods purchases, including new vehicles, continued to show strength with a 7.6% increase. Home sales have been on the rise, despite lean supplies, with May sales of existing homes rising 12.9% compared to a year earlier and the median price of a home nationally up 15.8% year-to-year. More of the same is expected through the rest of this year and into next year, with total real consumer spending growing by two to three percent this year and next.

**Businesses:** Total investment spending, which accounted for 13% of GDP last year, includes business expenditures on nonresidential structures, equipment and software, and additions to inventory. Also included is residential investment, that is, new single-family and multi-family home construction.

Business investment (nonresidential fixed investment) spending on structures, equipment and software was flat in the first quarter of this year. Business spending for all of this year will be about half of the 8.0% gain of 2012. Spending on structures will be up marginally this year, with a modest three percent increase coming next year. Equipment and software will rise by mid-single digit percentages this year and next, with larger increases in computers, peripherals, and communications equipment.

Residential construction spending gained momentum last year (up 12.0% over 2011) and expanded sharply in the first quarter of this year. Improvements in residential construction have given a much needed boost to a hard-hit industry, and are also indicative of a healthier consumer sector.

Looking through this year and into 2014, business spending is expected to grow by a modest 4% this year, strengthening to 6% next year. There will be sizable increases in purchases of IT and communications equipment but modest gains in aircraft and other transportation investment. Investment in structures will generally be flat this year but will recover nicely in 2014. New residential construction expenditures will experience double-digit percentage growth in each of the next two years (15% in 2013, 18% in 2014).

**Government:** Government spending at the federal, state, and local levels accounted for just over 18% of GDP last year, down from recent years, when it made up as much as 20% of GDP. Federal, state, and local spending has fallen in recent years, a trend that is likely to continue through this year.

Federal government expenditures will drop below the \$1 trillion threshold this year for the first time since 2008. Meanwhile, the legal requirement that state and local budgets be balanced has forced these jurisdictions to cut expenditures during the last several years, a pattern that will continue through this year.

Overall, total government expenditures, which totaled \$2.48 trillion last year, are projected to decline by 3% this year, and be roughly flat next year. At the federal level, sequestration-driven decreases are expected through the end of this decade. However, with state and local economies on the mend, government revenues have improved and will likely lead to an uptick in state and local spending next year.

**Trade:** Exports grew by 3.4% last year to more than \$1.84 trillion (adjusted for inflation), but fell 1.1% on an annualized basis in the first quarter of this year. A muted increase of roughly 2% is expected this year due to slow growth among the nation's trading partners, but things should improve in 2014. Imports grew by 2.4% to \$2.24 trillion in 2012, but slower growth of about 1.5% is expected this year. A gain of about 5% is expected next year as the pace of the U.S. economy accelerates.

For every dollar of exports last year, the U.S. had \$1.22 imports, meaning that the U.S. continues to be a net importer of goods and services. However, the gap between imports and exports has shrunk, especially since the end of the Great Recession. The gap stood at \$729 billion in 2006, but should be in the range of \$400 billion this year and next. The prospects for further declines in the trade gap look good, particularly as the U.S. becomes more energy self-sufficient and relies less on foreign sources of petroleum products.

**Labor:** Having fallen from 8.9% in 2011 to 8.1% last year, the U.S. unemployment rate has edged down ever so slowly. The monthly rate has stood at 7.6% during three of the last four months. Even so, monthly nonfarm wage and salary job gains averaged 202,000 during the first six months of this year, up from an average of 183,000 last year. While monthly changes are more widely publicized, year-over-year adjustments exhibit greater stability. Nonfarm jobs grew steadily at an annual rate of 1.7% last year, and have increased by an average of 1.6% year-to-year over the first half of this year.

With GDP growth expected at just below 2% this year and somewhat above that rate next year, nonfarm job gains will stay on course, up 1.6% for all of 2013 and up 1.7% in 2014. This will bring the unemployment rate down slowly, with an annual average of 7.6% expected this year and 7.2% next year. Unless the economy moves to a higher growth trajectory, the long-run normal rate of unemployment of about 6% is two to three years off.

**Inflation:** Inflation has been low in recent years and should remain in check over the next two years. Domestically, slack in the labor market should limit wage increases, except for highly sought-after occupations. Similarly, capacity utilization, which measures the share of the nation's industrial production in use, has been under 79%, well below the 83% to 85% range that corresponds to full utilization of the nation's productive capacity. Finally, increases in commodities prices – largely determined by global market forces -- have been muted by weak global growth. This could turn around in the next couple of years as global economic conditions improve. All in all, inflation based on the Consumer Price Index (CPI) is expected to be 1.4% this year and 1.7% next year, while other gauges of inflation will be similarly low.

## Economic Policy

**Fiscal Policy:** There is good news and bad news on the fiscal policy front. Addressing the bad news first, Congress appears unlikely to replace the across-the-board sequestration cuts with less-disruptive discretionary cuts in the fiscal year that begins October 1. At about the same time, Congress must raise the federal debt ceiling. Authorizing an increase in the debt ceiling is nothing new to Congress, but the deliberations have been contentious in recent years, disrupting both the financial markets and the overall economy. It appears at this point that Congress will authorize the increase, but there may be some fireworks as the deadline approaches.

The good news is that the federal budget deficit is now projected to be smaller this year than was previously expected, partly because of budget cuts and partly because of increased revenues. This year's deficit projection of \$746 billion is well below the trillion dollar deficits of the past four years, and next year's deficit should fall to under \$650 billion.

**Monetary Policy and Interest Rates:** With the onset of the financial crisis and recession, the Federal Reserve Bank (the Fed) resorted to both conventional and unconventional monetary policies to stabilize and then stimulate the economy. On the conventional side, the Fed has effectively kept the federal funds rate at zero since 2009, thereby keeping short-term rates low. On the unconventional side, the Fed has employed a succession of balance sheet actions (in the form of purchases/sales of securities) to keep long-term rates low. The most recent of these, known as QE3 because it is the third round of quantitative easing (QE), has entailed \$45 billion of purchases of long-term U.S. Treasury securities and \$40 billion of purchases of mortgage backed securities.

The Fed remains committed to no short-term rate hikes until the unemployment rate recedes to 6.5%, probably in late 2015. However, the Fed recently suggested that it will begin to wind down this program later this year, in an effort to wean the economy from the Fed's lifeline and enable the credit markets to return to normal operations. While this news triggered a surge in interest rates over the last several weeks, rates continue to be near historic lows.

## U.S. Forecasts and Risks

Overall, the economy will grow at a modest pace during the next two years, with greater evidence of consistent gains across in a wide array of economic indicators. The private sector will strengthen even as government spending cuts and weak global economic conditions create headwinds for the economy. Consumer spending and business spending will increase modestly.

Looking at risks to the economy over the next year, a few are related to U.S. domestic policies. First, the Fed's unwinding of their bond-buying program should begin later this year and run through some time in 2014. While expected to be a systematic and orderly process, it could cause overreaction in financial markets at times. Second, the negative impact of sequestration budget cuts will be less formidable in 2014 than this year, but will still create a mild drag on the economy. Third, uncertainty will continue over the rollout of healthcare reform, with responses on the part of employers and households not entirely predictable. While none of these are likely to derail expansion in the economy, they will likely temper growth at times during the year.

Beyond policy-related risks, the economy faces risks abroad. Slow growth in China and ongoing weakness in Europe will hold back U.S. exports. Faster global growth would help the U.S. economy over the next year, but the outlook is pointed more toward more of the same weak growth.

Finally, increases in the price of oil can have an adverse impact, both on activity in energy-intensive sectors of the economy and on consumer spending. While oil price spikes have been an ever-present risk for most of the past forty years, it is worth noting that recent efforts to tap into the nation's energy resources may enable the U.S. to become energy self-sufficient in the next decade, thus becoming somewhat less reliant on foreign energy sources.

**Table 1: U.S. Economic Indicators**

Annual % change except where noted	2007	2008	2009	2010	2011	2012	2013f	2014f
Real GDP	1.9	-0.3	-3.1	2.4	1.8	2.2	1.8	2.4
Nonfarm Employment	1.1	-0.6	-4.4	-0.7	1.2	1.7	1.6	1.7
Unemployment Rate (%)	4.6	5.8	9.3	9.6	8.9	8.1	7.6	7.2
Consumer Price Index	2.8	3.8	-0.4	1.6	3.2	2.1	1.4	1.7
Federal Budget Balance (FY, \$billions)	-\$162	-\$455	-\$1,416	-\$1,294	-\$1,297	-\$1,089	-\$746	-\$650

Sources: BEA, BLS and CBO; forecasts by LAEDC

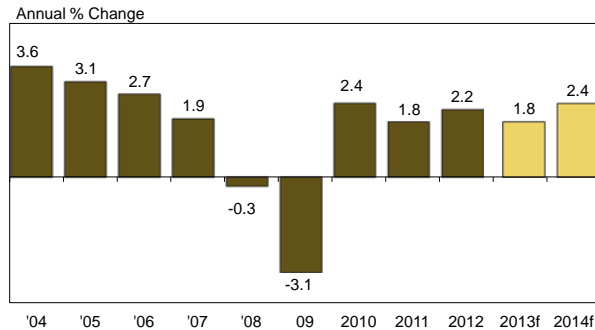
**Table 2: U.S. Interest Rates**

Annual Average, %	2007	2008	2009	2010	2011	2012	2013f	2014f
Fed Funds Rate	5.02	1.93	0.16	0.18	0.10	0.14	0.16	0.16
Bank Prime Rate	8.05	5.09	3.25	3.25	3.25	3.25	3.25	3.25
10-Yr Treasury Note	4.63	3.67	3.26	3.21	2.79	1.80	2.09	2.50
30-Year Fixed Mortgage	6.34	6.04	5.04	4.69	4.46	3.66	3.67	4.08

Sources: Federal Reserve Board; forecasts by LAEDC

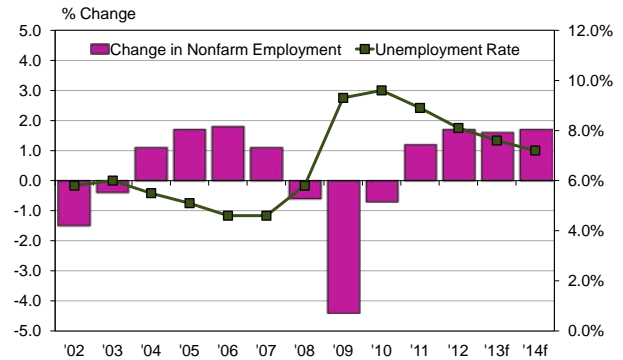
## U.S. Economic Snapshot

### U.S. Economic Growth



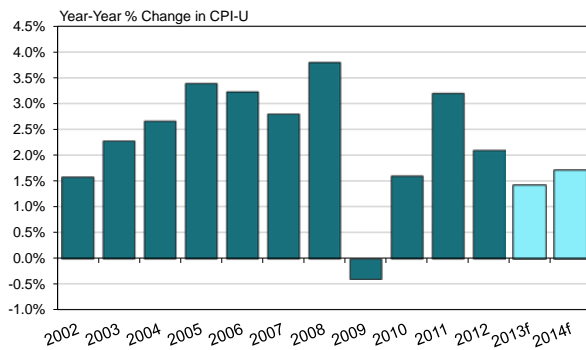
Sources: Bureau of Economic Analysis, forecasts by LAEDC

### U.S. Labor Market



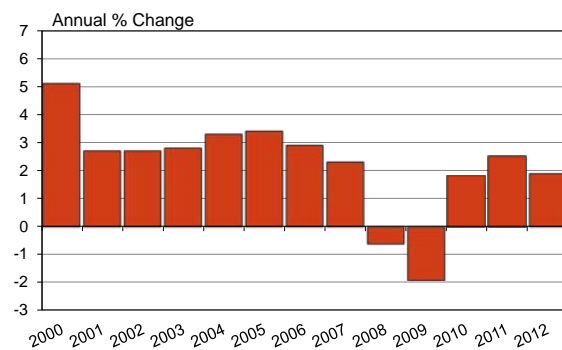
Sources: Bureau of Labor Statistics, forecasts by LAEDC

### Consumer Inflation



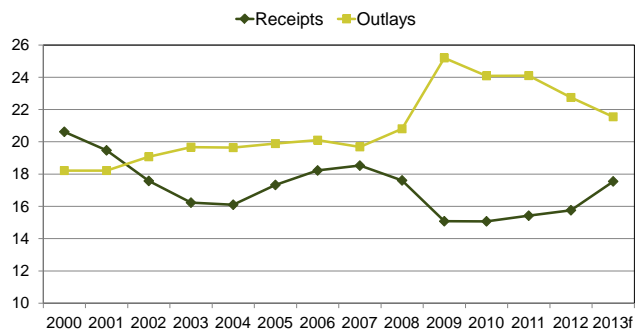
Source: Bureau of Labor Statistics; forecasts by LAEDC

### U.S. Personal Consumption



Source: Bureau of Economic Analysis

### Federal Budget Receipts & Outlays as Percentage of GDP



Source: Office of Management & Budget

## Outlook for the International Economy

The Southern California regional economy is very much linked to the global economy, through international trade, movies, tourism, and education. The region's goods, services, academic institutions and human capital are in high demand. The region is closely linked to the international economy through trade, foreign direct investment (FDI), and capital flows, making it essential to monitor the developments of both its top trading partners (particularly our top export markets) and top sources of FDI. With that established, China, Japan, Korea, Canada, and Mexico will have the greatest impact on our international trade and goods movement industries. In addition, FDI and capital inflows will be substantially affected by these same countries along with Europe.

### Key Developments

The key developments over the first half of 2013 have centered on Europe (the European Union collectively has the largest economy in the world), China (has the third largest economy in the world after the EU and the U.S.), and Japan (has the fourth largest economy after the EU, U.S., and China). First, the **euro zone** recession continued in the first quarter of 2013 and the overall economic environment remains extremely weak. The austerity measures undertaken have caused weak economic growth or contraction throughout the euro zone, creating a significant drag on global growth and especially in those export-driven economies that are dependent upon European demand. World trade volumes have been one of the main casualties of the recessions in Europe.

Next, **China's** economic performance has suffered, both as a result of internal factors and the global slowdown (especially in Europe). The Chinese economy appeared to have had turned the corner at the end of 2012, posting a growth rate of 7.9% in the fourth quarter, but GDP growth slowed to 7.7% in the first quarter of this year and has likely persisted into the second quarter. The country's new leaders have attempted to address key concerns facing the Chinese economy (including finding a balance between quantity and quality of growth). A continued slowdown would be just as detrimental to the global economy in the second half of 2013 as it was in 2012. The LAEDC expects the Chinese economy to grow by 7.0% to 7.5% this year and in the range of 7.5% to 8.0% in 2014.

---

*China's new leaders have attempted to address key concerns facing the Chinese economy including finding a balance between quantity and quality of growth.*

---

Finally, **Japan** is undergoing changes like no other major economy. The newly elected government has implemented expansionary fiscal and monetary policies (basically both fiscal and monetary stimulus), including a bold plan by the Bank of Japan to double the 1% inflation target to 2% through accommodative monetary policy and additional asset purchases (Japan's own quantitative easing or "QE"). The Japanese Yen has depreciated by roughly 20% over the past seven months, spurring Japanese exports while increasing the relative cost of exports from other countries. The increase in Japanese exports over the first half of 2013

has directly translated into higher economic growth for Japan. The LAEDC projects the Japanese economy to expand by roughly 2.0% in 2013 and in the range of 1.0% to 1.5% in 2014.

These three economic powerhouses along with the U.S. will largely determine the direction of the global economy through the rest of this year and into 2014. The good news is that the U.S. and Japanese economies continue to strengthen, but the ongoing recession in Europe coupled with slower growth in China will continue to influence the pace of growth globally in the near future.

## Outlook for Major Trading Partners 2013-2014

The performance of the economies of Northeast Asia (China, Japan, South Korea and Taiwan) will clearly have an impact on the trade picture in Southern California. China is the Los Angeles Customs District's (LACD) largest trading partner. Based on research by the Brookings Institution, it is also the Los Angeles Metropolitan Area's third largest export market, where the metropolitan area is defined to include Los Angeles County and Orange County. Similarly, Japan is the LACD's second largest trading partner and largest source of foreign direct investment. Several other countries in Asia and elsewhere in the world have important links to the Southern California region.

**South Korea:** The Korean economy grew by 2.0% in 2012, the slowest growth rate in three years. Korea's three main growth engines all stalled in 2012: exports, corporate investment and domestic demand. In the first quarter of this year, the Korean economy expanded by 1.5% compared with a year earlier. Growing household debt could constrain future borrowing and could hamper domestic demand in 2013 and 2014.

The South Korean economic outlook for the rest of 2013 and into 2014 will mainly depend upon the global economic environment, especially developments in China, South Korea's largest export market, and in Europe, which is also a significant destination for Korean exports. Korean exports to the LACD could be negatively affected by the weaker yen as competing Japanese goods become more attractive to U.S. consumers. However, the ever-increasing benefits of the Korea-U.S. Free Trade Agreement will become more visible in 2013 and in 2014 and should negate some of the losses resulting from the weaker yen. Based on expectations of a slight improvement in export growth and a fiscal stimulus plan passed in May, the Korean economy should expand by 2.5% to 3.0% in 2013 and by 3.0% to 3.5% in 2014.

**Canada:** Canada is the Los Angeles Metropolitan Area's largest export market and Los Angeles County's fifth largest source of foreign direct investment (FDI). Similar to the U.S. economy, the Canadian economy witnessed sluggish growth in 2012. Canada's economy depends heavily upon exports, nearly 80% of which go to the U.S. Thus, economic performance is especially tied to the U.S.

economy. The Canadian economy is also connected to the Chinese economy mainly due to commodity exports. The global slowdown in 2012 along with a fall in commodity prices (particularly petroleum prices) negatively impacted the economy.

Canada's GDP grew by 2.5% at an annualized rate in the first quarter of 2013. Exports increased by 1.5% in the first quarter, with mining, oil, and gas industries leading the way. However, domestic consumption only grew by 0.1%, which was the weakest growth rate since 2009. The Canadian economy is expected to expand by close to 2% in 2013 and to experience stronger growth of 2.0% to 2.5% in 2014. Of course, this will all depend upon what happens in the U.S., commodity prices, and domestic consumption.

**Mexico:** Mexico is the Los Angeles Metropolitan Area's second largest export market after Canada and one of Los Angeles County's largest sources of FDI. Similar to the Canadian economy, the Mexican economy is heavily dependent upon U.S. demand as nearly 80% of its manufactured exports (goods) go to the U.S. As a result, the strength of U.S. economy will go a long way in determining the potential for growth. In recent years, Mexico's economy has undergone a transformation, becoming more diversified, while relying less on external demand and more on domestic demand. This transformation has allowed Mexico to experience close to 4% growth rates over the past two years.

---

*The Mexican government has embarked on an aggressive reform agenda that includes 95 initiatives that fall within five categories including economic growth, employment and competitiveness.*

---

The Mexican government has embarked on an aggressive reform agenda that includes 95 initiatives that fall within five categories including economic growth, employment and competitiveness. Most importantly, that includes education, energy, fiscal and social security reforms that would have a very significant impact on future economic growth. In fact, it has been estimated that economic growth could reach 6% according to the Organization of Economic Co-operation and Development (OECD) if all of the reform agenda is implemented.

The Mexican economy expanded by only 0.8% in the first quarter mainly due to weak external demand and strong decline in industrial production, but it should experience a better second half as exports and investment face an improved environment, particularly from the U.S. The Mexican economy should grow by roughly 3.0% in 2013 and by 3.0% to 3.5% in 2014 as the U.S. economy strengthens.

**Taiwan:** Taiwan is the LACD's fourth largest trading partner and one of Los Angeles County's top 10 sources of FDI. Similar to South Korea and Thailand, Taiwan heavily depends upon external demand. It is more interconnected to the Chinese economy than any other nation in the world. The slowdown in China, along with the recession in Europe, weakened the economy last year and has continued to do so over the first half of 2013. The Taiwanese economy increased

by 1.7% in the first quarter when compared to the same period a year earlier. The LAECD expects the Taiwanese economy to expand by roughly 2.5% in 2013 and by closer to 3.0% in 2014.

**ASEAN-5:** The Association of Southeast Asian Nations (ASEAN-5) is a group of five economies that includes Thailand, Vietnam, Indonesia, Malaysia, and the Philippines. All of these countries fall into the top ten trading partners of the LACD. Thailand's (our fifth largest trading partner) economy came back very strongly in 2012 after the devastating floods in 2011. Its economy is heavily dependent upon exports, which will be a concern going forward as long as the global environment remains fragile. In fact, export growth hurt the Thai economy in the first quarter as GDP contracted on a quarterly basis, which was the first time since the last quarter of 2011 when the disastrous floods hit. However, the Thai economy expanded by 5.3% in the first quarter of this year on a year-to-year basis due to the impact of the flooding on the economy in the first quarter of 2012. Exports will continue to be a key component of growth in the Thai economy for 2013-2014. Thailand's GDP is projected to increase by roughly 5.0% this year, cooling to about 4% in 2014 as infrastructure spending declines.

---

*The Philippines witnessed the strongest economic growth in Asia over the first quarter, surpassing even China with growth of 7.8%.*

---

The most significant linkages between the LACD and the ASEAN-5 over the past few years have been with Vietnam. Similar to Mexico, Vietnam has greatly benefitted from the increase in Chinese wages as more footwear, apparel, and furniture manufacturing has re-located there.

The LAEDC projects the ASEAN-5 economies will continue to be one of the strongest regions of growth in the international economy over the forecast period and beyond. All of the ASEAN-5 economies experienced at least 4% GDP growth in the first quarter of 2013. In fact, the Philippines witnessed the strongest economic growth in Asia over the first quarter, surpassing even China with growth of 7.8%. Other noteworthy growth was seen in Indonesia as it witnessed 6% GDP growth over the first quarter. Both Indonesia and the Philippines are two of the best long-term prospects of the emerging economies and both present excellent opportunities for our exporters as they will experience a surge in middle class expansion. The ASEAN-5 will expand in the range of 5.5% to 6.0% over the next couple of years as domestic demand and an improved external environment lead the way.

---

*The Los Angeles regional economy continues to establish closer economic ties with the largest Latin American economy, a trend that will continue in the short- and long-term as Brazil further becomes one of the largest economies in the world.*

---

**Brazil:** Brazil is the Los Angeles Metropolitan Area's seventh largest export market. The Los Angeles regional economy continues to establish closer economic ties with the largest Latin American economy, a trend that will continue in the short- and long-term, as Brazil becomes one of the largest economies in the world.

Brazil's economy only grew by roughly 1% in 2012. Brazil's GDP grew by 1.9% in the first quarter of 2013. However, the outlook for the second half of 2013 and into 2014 is brighter. The major reasons for stronger growth over the next two

years are linked to an expansionary fiscal and monetary policy. In particular, the increase in short-term investments related to the World Cup and the Olympics will have a stimulative effect. The LAEDC projects the Brazilian economy will grow by roughly 2.5% in 2013 and by 3.0% to 3.5% in 2014 as global growth accelerates.

**India:** The Indian economy has experienced a difficult period over the past year as the economy decelerated and only expanded by roughly 5% in 2012 after witnessing over 10% growth just two years ago. In fact, recent quarterly growth rates have been the weakest seen in the past decade. The Indian economy continues to face many challenges including large fiscal deficits, declining investment, high inflation, and high interest rates. Government spending is constrained by a burgeoning fiscal deficit and the central bank of India cannot implement expansionary monetary policy as inflation remains a top concern.

The Indian economy continued to demonstrate some weakness over the first part of this year as first quarter GDP grew by 4.8%. The good news is that the Indian economy seems to have bottomed out and should turn the corner in the second half of this year. We project the Indian economy to expand by 5.5% in 2013 and by roughly 6.5% in 2014.

## Key Risks For 2013-2014

The largest risk for the global economy coming into 2013 was the European sovereign debt crisis. Due to actions taken by European policymakers and the European Central Bank (ECB) last year, the probability of a resurgent debt crisis has diminished. Moreover, Germany's Chancellor Merkel has made great efforts to ensure that no further deterioration of the financial situation occurs before the September elections, while Italy's new technocratic government has prevented the situation from worsening over the first half of the year.

If the European debt situation is less problematic in the near-term, the most significant risk for the global economy could very well be the situation in the Middle East and North Africa. The civil war in Syria, a wider regional conflict, or nuclear standoff with Iran all have the potential send oil prices soaring, with negative consequences for the global economy.

The pace of growth in China is also a concern. After years of double-digit growth rates, China's economy appears to be looking at large single-digit growth over the near future. This has ramifications both for global growth and for the volume of trade passing through the Southern California region.

---

*If the European debt situation is less problematic in the near term, the most significant risk for the global economy could very well be the situation in the Middle East and North Africa.*

---

## Conclusion

The developing nations of Asia are expected to experience the fastest growth rates once again this year, with a higher pace of growth next year, provided China regains some steam as demand from the advanced economies will be stronger, especially in Europe. According to the latest IMF World Economic Outlook (WEO) update published in July 2013, the global economy is expected to grow by 3.1% in 2013 and 3.8% in 2014 after experiencing growth of 3.1% in 2012. China, India, and the ASEAN-5, will be the strongest performers this year and next. Once again, the advanced economies will grow at slower rates beginning with the euro zone and the United Kingdom. The euro zone (particularly Greece, Spain, Portugal and Italy) will be the weakest of the advanced economies in 2013 and 2014. Greece, Spain, Portugal, and Italy all registered declines in output during the first quarter of 2013. In fact, all three economies, and now even France, are expected to see declines in GDP during 2013 before returning to minimal growth in 2014.

## Foreign Exchange (FX) Rates

Since November 2012, the Japanese Yen has weakened (or depreciated) by roughly 20% as the Bank of Japan has embarked upon a substantial expansionary monetary policy that includes a mix of traditional tools with a dose of quantitative easing similar to the actions of the U.S. Federal Reserve over the past few years. This has led to the strengthening of the U.S. Dollar over the past few months. More generally, the depreciation of the Japanese Yen is having a substantial impact on currency markets, international trade, corporate earnings, and foreign direct investment. There is some potential to cause near-term currency wars or protectionism as other nations react to these policies. So far over the first half of 2013, Japanese exports have greatly benefitted from a weaker yen. On the flip side, this does not bode well for Southern California's ability to attract foreign direct investment from Japan. It will be very interesting to see how much of an impact this will have on two-way trade flows between the LACD and Japan in 2013 and in 2014.

Over the first half of 2013, the U.S. Dollar appreciated vis-à-vis the Japanese Yen, the British Pound, the Korean Won, the Canadian Dollar, the Taiwanese Dollar and the Euro. Amongst the Los Angeles Customs District's top five trading partners and the Los Angeles Metropolitan Area's top five export markets, the U.S. Dollar only depreciated (albeit slightly) vis-à-vis the Chinese Yuan, the Mexican Peso and the Thai Baht.

The U.S. Dollar strengthened versus the euro as the euro zone remained in recession (the longest in its history surpassing the 2009 Great Recession). If the European debt situation remains stable and does not worsen over the second half of this year (as it did in the second half of 2012 and first half of 2013), the U.S. Dollar will likely lose some momentum. Alternatively, the U.S. Dollar will

---

*The Fed has stated that they will begin to decrease the amount of quantitative easing (QE3) in the coming months and potentially end QE3 by the middle of 2014.*

*This has become the key currency news story going into the second half of 2013 and will put upward pressure on the greenback for the rest of 2013 and into 2014.*

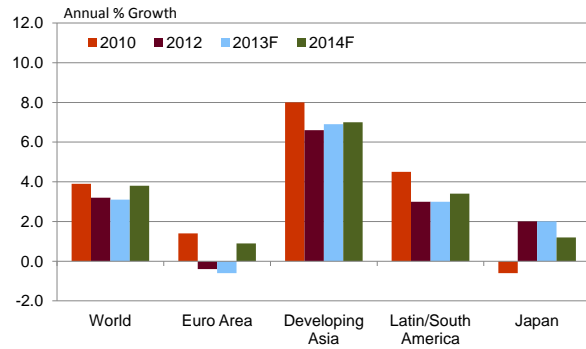
---

strengthen if the debt crisis deteriorates or if something were to trigger an increase in oil prices.

The Fed has made major announcements recently about future policy movements that have surprised and rattled global financial markets. The Fed has stated that they will begin to decrease the amount of quantitative easing (QE3) in the coming months and potentially end QE3 by the middle of 2014. This has become the key currency news story going into the second half of 2013 and it will put upward pressure on the greenback for the rest of 2013 and into 2014. In addition, commodity prices have dropped mainly due to the slowdown in China and in other key emerging economies, which has put additional upward pressure on the U.S. Dollar (as most key commodities are priced in U.S. Dollars). However, this will be countered by downward pressure if the emerging markets grow stronger in the second half of 2013 and into 2014.

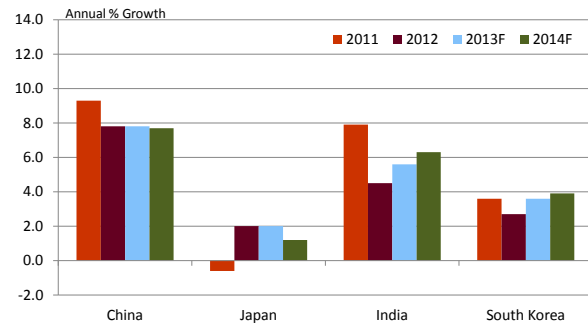
## Global Economic Snapshot

### Global Economic Outlook



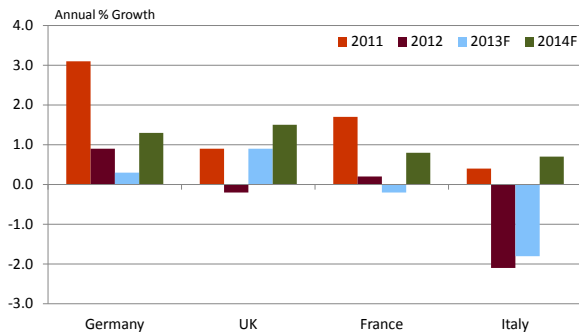
Source: IMF World Economic Outlook Update, July 2013

### Asian Economic Outlook



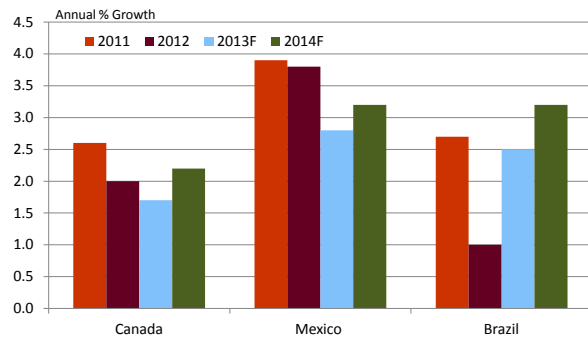
Source: IMF World Economic Outlook Update, July 2013

### European Economic Outlook



Source: IMF World Economic Outlook Update, July 2013

### Americas Economic Outlook



Source: IMF World Economic Outlook Update, July 2013

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

Country (Currency)*	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	1H2013
Broad Currency Basket (index)	126.66	119.09	113.63	110.71	108.52	103.40	99.83	105.87	101.97	97.17	99.82	101.61
Canada (US\$/C\$)	1.570	1.401	1.302	1.212	1.134	1.073	1.066	1.141	1.030	0.989	0.999	1.031
China (US\$/yuan)	8.28	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77	6.46	6.31	6.13
Euro Zone (US\$/€)**	0.945	1.132	1.244	1.245	1.256	1.371	1.473	1.393	1.326	1.404	1.286	1.320
Japan (US\$/¥)	125.2	115.9	108.2	110.1	116.3	117.8	103.7	93.7	87.8	79.7	79.8	97.2
Mexico (US\$/peso)	9.66	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62	12.43	13.15	12.96
South Korea (US\$/₩)	1250	1192	1145	1024	954	929	1099	1275	1156	1107	1126	1135
United Kingdom (US\$/£)**	1.503	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545	1.604	1.585	1.549

Percent Change***	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	1H2013
Broad currency basket (index)	0.6%	-6.0%	-4.6%	-2.6%	-2.0%	-4.7%	-3.5%	6.1%	-3.7%	-4.7%	2.7%	1.8%
Canada (C\$)	1.4%	-10.8%	-7.1%	-6.9%	-6.4%	-5.3%	-0.7%	7.0%	-9.7%	-4.0%	1.0%	3.2%
China (yuan)	0.0%	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%	-4.5%	-2.4%	-2.8%
Euro Zone (€)	-5.6%	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%	-5.9%	8.4%	-2.6%
Japan (¥)	3.0%	-7.4%	-6.7%	1.8%	5.6%	1.2%	-11.9%	-9.6%	-6.3%	-9.2%	0.1%	21.8%
Mexico (peso)	3.5%	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.2%	-6.5%	-1.6%	5.8%	-1.4%
South Korea (₩)	-3.2%	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.4%	-4.2%	1.7%	0.8%
United Kingdom (£)	-4.4%	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%	-3.8%	1.2%	2.3%

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

Notes:

\*Foreign currency units per U.S. Dollar

\*\*The value in U.S. Dollars versus the foreign currency

\*\*\*Performance of U.S. Dollar versus the foreign currency

## Outlook for the California Economy

Having coped with a more severe recession than that of the nation as a whole, California has come back over the last 18 months with growth that has outpaced the nation. California's Gross State Product grew by 3.5% last year, well above the U.S. rate of 2.2%. It also added nonfarm jobs at a faster clip, up 2.1% compared to the national average of 1.7%. This pared the state's unemployment rate from 11.0% in January of 2012 to 9.8% by December. This trend prevailed through the first half of 2013, with California averaging a 1.9% year-to-year increase in nonfarm jobs and the unemployment rate falling in just five months to 8.6% in May. By comparison, nonfarm jobs nationally increased at an average year-to-rate of 1.6% in the first half of this year, while the U.S. unemployment rate has been essentially flat at 7.6%.

Regionally, recovery is underway in every part of the state, although the pace varies. The Bay Area and Silicon Valley have led the statewide economy for well over a year with nonfarm job gains consistently above the 3% threshold, low unemployment rates, and pronounced advances in many sectors, including housing. Southern California counties have experienced moderate job growth and corresponding gains in their unemployment rates, while parts of the Central Valley have lagged the rest of the state in recovery.

Orange County and San Diego have led job growth in Southern California, with average year-to-year nonfarm job gains of just over 2% through the first five months of this year. Los Angeles County was not too far behind at 1.9%, while the Inland Empire and Ventura County have averaged 1.8% and 1.5% increases, respectively. All of Southern California has seen unemployment rates come down. Orange County was at the front of the pack in May with an unemployment rate of 5.5%.

### Trends in Major Industries

California lost more than 1.3 million jobs between December 2007 and January 2010. It has since regained 767,000 jobs through May of this year. This year alone, the state has added 202,500 jobs in year-to-date terms. However, whereas every private sector industry added workers to their ranks last year, the first five months of this year have been more mixed. Year-to-year job gains occurred in most major industries of the economy, but were flat in government and other services and down in retail (-0.5% year-to-year), manufacturing (-0.6%), and mining and logging (-1.6%)

The five largest private sector industries (leisure and hospitality; retail trade; health care; professional, scientific and technical services, and administrative and support services) contributed 125,000 or over half of the jobs added so far this

year. However, retail trade lost 8,250 jobs over that period. Meanwhile, government employment actually rose by 2,850.

**Aerospace and Technology:** California's technology sector is diverse and includes manufacturing and service industries in aerospace, information technology, electronics, and biomedical technology. Average monthly employment during the first five months of this year was just over one million, an increase of 34,700 or 3.6% from the same period last year.

The biggest gains were in management, scientific and technical consulting (up 21,400) and computer systems and design (up 10,720), with smaller increases in chemical manufacturing, data processing, and scientific research and development services. Both aerospace product and parts manufacturing and electronic product manufacturing experienced losses of less than one percent.

**Agriculture:** The agricultural industry accounts for just under two percent of Gross State Product and employed 385,200 workers last year, slightly less than three percent of California's wage and salary workers. Employment was flat compared to a year earlier.

Agricultural and related products are also one of California's largest exports to the rest of the world. Cash receipts for all commodities grew 5.1% from \$41.4 billion in 2011 to a record high of \$43.5 billion in 2012. Crop receipts rose 8.3% to \$31.5 billion, while livestock fell 2.5% to \$12.0 billion. California ranked first among the 50 states in terms of net farm income at \$16.3 billion, based on 2011 data, which is the latest available.

**International Trade:** International trade continues to play an important role in the state's economy. A large share (about 40%) of the nation's consumer goods that are produced in Asia come through California's ports, while California ranks as the second largest exporting state in the country. California's largest exports come from computer products, transportation equipment (mainly aerospace-related), machinery, chemicals (pharmaceuticals) and agriculture. Imports outweigh exports by a two-to-one margin.

Statewide two-way trade was \$578.2 billion last year, a new annual record. However, growth slowed considerably last year falling from double-digit gains during the previous two years to 3.5% in 2012. Below-par 2% GDP growth in the U.S. constrained imports while economic weakness among our trading partners led to muted gains in exports. Through the first four months of this year, two-way trade grew by just 1.8%. Two-way trade for all of 2013 is expected to grow by about one percent, with a 4.6% increase anticipated for next year.

**Tourism:** The tourism and hospitality industry in the state built on the gains of last year during the first part of 2013.<sup>1</sup> Both the occupancy rate and the average daily rate for all of California rose over the first five months of this year when compared with the same period last year. All of the major California metropolitan areas experienced gains in both occupancy rates and average daily rates as well. Similarly, tourism and hospitality related jobs climbed 4.1% from 1.55 million in 2011 to 1.60 million last year. During the first five months of 2013, tourism and hospitality jobs totaled 1.63 million, an increase of 4.3% compared with the same period last year. These developments in the tourism industry are good for the industry itself, but they also imply that spending by consumers and businesses is gradually returning to normal levels.

**Construction:** Construction activity and employment have both experienced noteworthy gains in 2013 after struggling for several years. Nonresidential construction permits are projected to increase by 14.7% this year and 17.6% next year. New home permits are likewise expected to show hefty gains of 37.5% in 2013 and 47.6% next year, albeit on a 2012 base that was very low by historic standards. As for employment, this sector was one of the hardest hit during the recession with the number of jobs falling from a peak of 933,700 in 2006 to a low of 559,800 in 2010, a loss of 373,900 jobs (down 40%). The sector experienced modest job gains over the last two years, but has averaged over 621,000 jobs during the first five months of 2013, a 5.5% increase over last year. Additional increases will accompany growth in construction activity that is expected in the coming years.

## California Forecast

Looking over the next two years, California's overall economy should outpace the U.S., with a growth rate of about three percent this year, accelerating to just under four percent next year. Nonfarm employment gains this year and next should come in at 1.7%. Virtually all private sector industries will add jobs this year and next.

As the economy shows continued improvement, the fiscal situation at the state and local government levels will stabilize and improve. Taxable retail sales will grow over the next two years by 3% to 5% per year. Government jobs are expected to be flat this year and show a marginal gain in 2014.

Overall, the state economy will build on the gains of 2012 and expand over the next two years. However, a fully recovered state economy and a normal labor market appear to be at least two years off.

---

<sup>1</sup>Based on data through May 2013 from Visit California

## Gross Product Comparisons <sup>2</sup>

Not only is California the most populous state in the U.S., it also has one of the largest economies in the world. Likewise, Los Angeles, which has the largest population and economy of any county in the nation, would also be a sizable economy if it were a country in its own right.

Which are the world's largest economies in U.S. Dollars based on market exchange rates? Based on 2012 final figures, California fell below both Russia and Italy to become the tenth largest economy in the world. The five-county Los Angeles region retained its 16th place, ranking just behind South Korea. Finally, Los Angeles County remained in 21st place. Los Angeles County is behind Saudi Arabia and Switzerland, and ahead of Iran, Sweden, Norway, Poland and Belgium.

In nominal terms (not adjusted for inflation and based on market exchange rates which can significantly distort values), final GDP growth rates in 2012 for the U.S., California, the Los Angeles five-county region and Los Angeles County were relatively strong even compared to some of the emerging and developing nations (with the exception of China and Russia). This was particularly noteworthy as it represented a reversal of recent trends as emerging markets have significantly outperformed the U.S./California/Southern California economies since the Great Recession. China and Iran were the only economies that experienced double-digit growth rates in nominal terms in 2012. However, in real terms (adjusted for inflation and at constant prices) China, Saudi Arabia, and Indonesia experienced the strongest growth rates at 7.8%, 6.8%, and 6.2% respectively.

The U.K. regained its ranking as the sixth largest economy in the world in 2012 as Brazil fell back to seventh place mainly due to a combination of weak growth and market exchange rates. Other notable developments include Canada and India swapping rankings with Canada dropping to 11th place, while India moved up a spot to 10th. Australia moved ahead of Spain (which has been mired in a long recession) to become the 12th largest economy, while Turkey moved up one spot to become the 17th largest economy ahead of the Netherlands. Saudi Arabia moved into 19th place in the rankings.

When compared in real GDP terms, most of the key emerging and developing economies posted stronger growth than the California and Southern California economies (as emerging economies have been the global growth leaders for over a decade and this trend will continue). China, Saudi Arabia, and Indonesia

---

<sup>2</sup> This list is based on market exchange rates (nominal method) and not adjusted for purchasing power parity (PPP) exchange rates.

experienced the largest GDP gains, boosted by investment, consumer spending and, in the case of Saudi Arabia, higher than expected crude oil production. Other notable performances in real terms during 2012 included the economies of India, Mexico and Russia.

Similar to 2011, the weakest performing economies were in the euro zone. So what should we look for in 2013? Brazil will likely overtake the U.K. again and reclaim its place as the sixth largest economy. California will surpass Italy to become the ninth largest economy and could surpass Russia as well. Both Mexico and South Korea will close in on Spain. Also, look for Indonesia to approach the \$1 trillion mark and keep a close eye on Saudi Arabia (which will ultimately depend upon oil production and prices) as it could surpass the Netherlands.

## Table 4: Gross Product Comparisons, 2012

(Billions of \$US)

Rank	Country/State/Region	2012	Nominal GDP2 '11-'12 % Chg	Real GDP '11-'12 % Chg
1	United States	\$15,684.75	4.0%	2.2%
2	China	8,227.04	12.4%	7.8%
3	Japan	5,963.97	1.1%	2.0%
4	Germany	3,400.58	-5.7%	0.9%
5	France	2,608.70	-6.1%	0.1%
6	United Kingdom	2,440.51	0.4%	0.2%
7	Brazil	2,395.97	-3.9%	0.9%
8	Russia	2,021.96	6.5%	3.4%
9	Italy	2,014.08	-8.3%	-2.4%
	<b>California</b>	<b>2,003.48</b>	<b>4.9%</b>	<b>3.5%</b>
10	India	1,824.83	-0.7%	4.0%
11	Canada	1,819.08	2.1%	1.8%
12	Australia	1,541.80	3.4%	3.6%
13	Spain	1,352.06	-8.6%	-1.4%
14	Mexico	1,177.12	1.6%	3.9%
15	South Korea	1,155.87	3.5%	2.0%
	<b>Los Angeles 5-Co. area</b>	<b>932.36</b>	<b>3.9%</b>	<b>1.9%</b>
16	Indonesia	878.19	3.8%	6.2%
17	Turkey	794.47	2.6%	2.6%
18	Netherlands	773.12	-7.7%	-0.9%
19	Saudi Arabia	727.31	8.6%	6.8%
20	Switzerland	632.40	-4.3%	0.9%
	<b>Los Angeles County</b>	<b>572.46</b>	<b>3.7%</b>	<b>1.8%</b>
21	Iran	548.90	10.7%	-1.8%
22	Sweden	526.19	-2.3%	1.2%
23	Norway	501.10	2.1%	3.0%
24	Poland	487.67	-5.1%	2.0%
25	Belgium	484.69	-5.8%	-0.2%

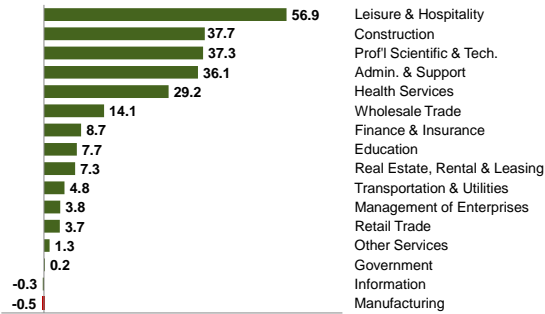
*Note: Based on Market Exchange Rates and not on Purchasing Power Parity (PPP) Rates  
Nominal GDP figures are not adjusted for inflation*

*Sources: IMF WEO -- April 2013, BEA, and IHS Global Insight*

## California Snapshot

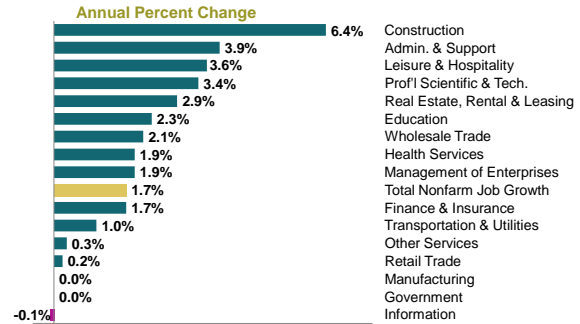
### California Employment Growth, 2013

Total nonfarm job growth forecast for 2013 (thousands): 247.9 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

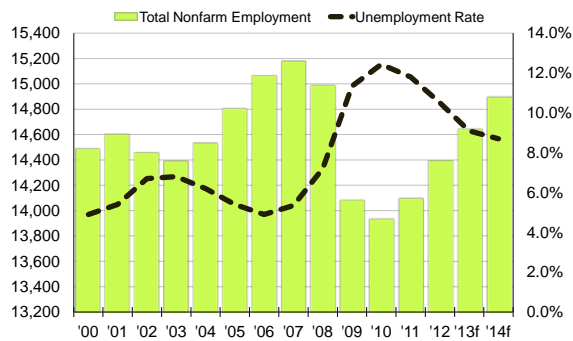
### California Employment Growth, 2013



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

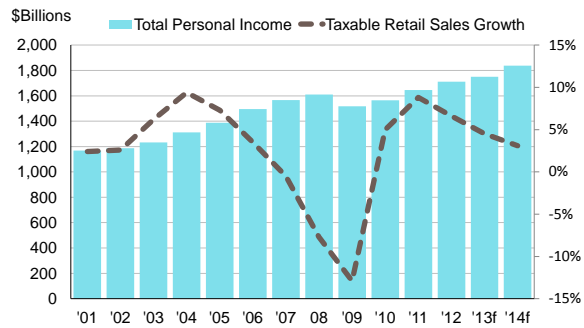
### California Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

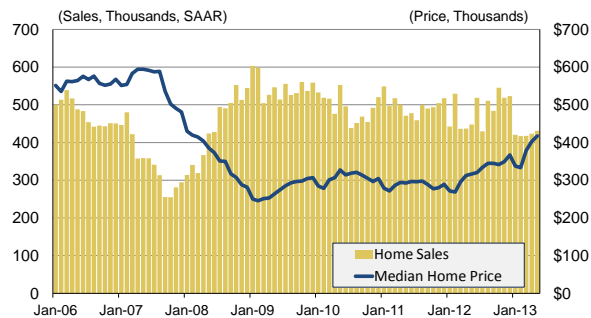
### California Personal Income & Retail Sales



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

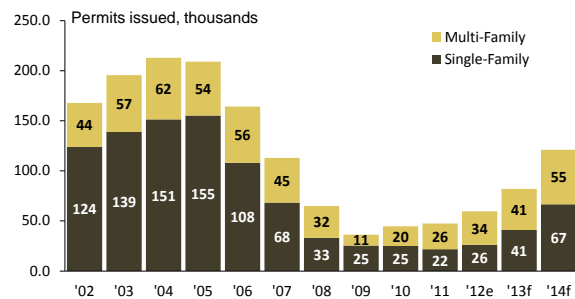
### Home Sales & Median Prices in California

Existing, single-family homes



Source: California Association of Realtors

### Residential Building Permits Issued in California



Source: CIRB, California Homebuilding Foundation; forecast by LAEDC

**Table 5: California Economic Indicators**

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemployment Rate (ave., %)	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)
2002	34,938.3	14,458.4	6.7	1187.3	34,049	301.6	327.9	167,761	19,835
2003	35,388.9	14,393.5	6.8	1233.0	34,975	320.2	347.8	195,682	18,628
2004	35,752.8	14,533.3	6.2	1312.2	36,887	350.2	394.3	212,960	19,718
2005	35,985.6	14,802.0	5.4	1387.7	38,731	375.8	433.1	208,972	21,469
2006	36,246.8	15,061.0	4.9	1495.5	41,518	389.1	487.6	164,280	23,298
2007	36,552.5	15,174.5	5.4	1566.4	43,211	387.0	512.9	113,034	23,733
2008	36,856.2	14,982.7	7.2	1610.7	44,003	357.3	523.3	64,962	19,588
2009	37,077.2	14,085.4	11.3	1516.7	41,034	311.2	413.3	36,421	10,866
2010	37,309.0	13,936.6	12.4	1564.2	41,893	326.8	502.6	44,762	11,200
2011	37,570.0	14,098.8	11.8	1645.1	43,647	355.5	558.5	47,336	12,166
2012	37,826.0	14,394.5	10.5	1711.1	44,980	379.0	578.2	59,638	14,815
2013f	38,189.1	14,642.4	9.1	1750.5	45,408	395.9	583.8	82,000	17,000
2014f	38,555.7	14,890.5	8.7	1837.6	47,214	408.0	613.7	121,000	20,000
<b>% Change</b>									
02/01	1.2%	-1.0%		1.6%	0.5%	2.6%	-3.8%	12.8%	-15.4%
03/02	1.3%	-0.4%		3.8%	2.7%	6.2%	6.1%	16.6%	-6.1%
04/03	1.0%	1.0%		6.4%	5.5%	9.4%	13.4%	8.8%	5.9%
05/04	0.7%	1.8%		5.7%	5.0%	7.3%	9.9%	-1.9%	8.9%
06/05	0.7%	1.7%		7.8%	7.2%	3.5%	12.6%	-21.4%	8.5%
07/06	0.8%	0.8%		4.7%	4.1%	-0.5%	5.2%	-31.2%	1.9%
08/07	0.8%	-1.3%		2.8%	1.8%	-7.7%	2.0%	-42.5%	-17.5%
09/08	0.6%	-6.0%		-5.8%	-6.7%	-12.9%	-21.0%	-43.9%	-44.5%
10/09	0.6%	-1.1%		3.1%	2.1%	5.0%	21.6%	22.9%	3.1%
11/10	0.7%	1.2%		5.2%	4.2%	8.8%	11.1%	5.8%	8.6%
12/11	0.7%	2.1%		4.0%	3.1%	6.6%	3.5%	26.0%	21.8%
13/12	1.0%	1.7%		2.3%	1.0%	4.5%	1.0%	37.5%	14.7%
14/13	1.0%	1.7%		5.0%	4.0%	3.1%	5.1%	47.6%	17.6%

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

**Table 6: California Nonfarm Employment**

Annual averages, Thousands, March 2012 benchmark

Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2002	14,458.4	23.1	774.4	1,633.9	1,049.0	584.9	650.0	1,582.2	491.0	497.3
2003	14,393.5	22.2	796.8	1,544.5	978.5	566.0	647.4	1,588.4	480.6	476.1
2004	14,533.3	22.8	850.4	1,523.4	966.0	557.4	653.0	1,617.8	482.8	482.4
2005	14,802.0	23.6	905.3	1,504.8	959.0	545.7	673.6	1,659.3	487.1	473.6
2006	15,061.0	25.1	933.7	1,490.2	947.6	542.6	700.3	1,680.1	496.1	466.0
2007	15,174.5	26.7	892.6	1,464.4	927.9	536.4	715.3	1,689.9	507.7	470.8
2008	14,982.7	28.7	787.7	1,425.3	899.8	525.6	703.5	1,640.9	504.9	475.5
2009	14,085.4	26.1	623.1	1,281.9	798.9	483.0	645.3	1,522.5	474.5	440.4
2010	13,936.6	26.8	559.8	1,242.0	771.1	470.8	644.0	1,513.0	466.3	427.8
2011	14,098.8	29.3	581.8	1,248.6	780.6	468.0	670.8	1,549.2	481.2	430.9
2012	14,394.5	30.1	587.5	1,252.8	782.8	470.0	676.8	1,561.8	486.5	430.4
2013f	14,642.4	29.9	625.2	1,252.3	787.5	464.8	690.9	1,565.5	491.3	430.1
2014f	14,890.5	30.4	671.8	1,262.5	796.5	466.1	705.4	1,567.3	504.2	427.7

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Svcs	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2000	538.2	262.6	930.6	294.8	997.2	229.7	1,177.1	1,335.6	487.7	2,318.1
2001	562.6	267.2	945.6	284.5	957.1	237.3	1,216.6	1,365.1	499.2	2,382.1
2002	578.5	268.2	913.8	266.8	939.3	245.5	1,259.4	1,382.4	505.7	2,447.1
2003	606.6	272.2	906.6	247.7	931.0	258.2	1,284.7	1,400.1	504.3	2,426.1
2004	618.8	276.4	918.9	231.3	947.8	262.9	1,303.8	1,439.4	503.9	2,397.7
2005	636.6	283.6	970.2	222.1	968.3	272.2	1,320.9	1,475.2	505.5	2,420.2
2006	639.3	288.5	1,026.5	212.6	1,003.3	277.6	1,343.4	1,519.0	507.1	2,452.3
2007	613.1	283.5	1,060.4	207.2	997.9	289.3	1,388.7	1,560.4	512.2	2,494.6
2008	566.0	275.9	1,079.6	207.2	951.6	300.6	1,432.3	1,572.6	511.3	2,518.9
2009	528.1	254.9	1,014.4	197.3	848.6	304.3	1,455.2	1,503.1	486.1	2,479.6
2010	511.9	248.3	1,016.6	195.4	861.5	309.7	1,478.6	1,501.6	484.9	2,448.4
2011	519.8	249.8	1,083.1	201.2	908.5	333.0	1,531.6	1,575.6	499.6	2,386.1
2012	523.7	250.9	1,104.3	201.7	929.0	336.1	1,543.1	1,599.1	505.7	2,375.1
2013f	532.4	258.2	1,141.6	205.5	965.1	343.8	1,572.3	1,656.0	507.0	2,375.3
2014f	538.7	261.1	1,181.5	201.6	1,022.5	340.1	1,608.2	1,671.9	510.3	2,385.3

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

# Table 7: California Regional Nonfarm Employment

Annual averages for major metropolitan areas, thousands; March 2012 benchmark

\MSA	State of California	Northern California			Central California					Southern California				
		Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside-San Bernardino	San Diego	Ventura
Year \														
1990	12,500.2	879.2	947.3	824.2	170.7	224.5	117.5	618.5	152.7	4,135.8	1,172.4	712.6	966.6	230.3
1991	12,359.3	879.7	939.5	815.3	177.3	227.3	117.8	630.9	155.2	3,982.8	1,143.7	718.9	962.6	230.4
1992	12,154.0	870.2	914.4	801.8	173.3	230.2	120.0	623.2	154.8	3,804.5	1,126.0	729.6	947.7	226.6
1993	12,045.8	873.4	908.3	806.8	169.9	233.6	121.6	626.0	156.2	3,707.6	1,115.4	733.9	947.0	227.0
1994	12,159.8	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	12,422.4	897.4	916.5	842.8	172.8	243.5	124.0	662.8	160.3	3,746.6	1,151.7	779.9	978.5	237.3
1996	12,743.8	916.3	948.2	891.8	174.9	246.8	127.8	681.6	163.5	3,788.4	1,184.3	803.5	1,006.2	237.9
1997	13,130.1	947.7	983.5	939.7	179.2	249.8	131.7	702.1	167.4	3,865.1	1,233.8	841.5	1,054.3	242.7
1998	13,596.7	976.2	1012.2	969.7	184.3	253.5	137.2	731.5	171.5	3,943.5	1,299.1	882.2	1,105.5	252.3
1999	13,992.3	1008.0	1040.0	985.1	188.8	262.0	141.7	770.6	178.7	4,002.9	1,345.2	939.0	1,152.9	263.6
2000	14,488.7	1044.6	1082.1	1044.3	194.1	270.6	144.2	797.2	185.8	4,072.1	1,388.9	988.4	1,193.8	275.0
2001	14,602.5	1054.7	1053.9	1017.9	202.2	275.9	149.7	818.9	191.1	4,073.6	1,413.7	1,029.7	1,218.4	279.9
2002	14,458.4	1039.8	987.1	917.2	205.1	282.0	150.7	832.2	194.0	4,026.8	1,403.7	1,064.5	1,230.7	281.8
2003	14,393.5	1025.6	950.7	870.3	207.1	282.7	152.3	846.0	197.3	3,982.9	1,429.0	1,099.2	1,240.1	284.2
2004	14,533.3	1023.6	940.1	862.0	211.8	286.9	154.6	859.1	200.7	3,996.5	1,456.7	1,160.0	1,260.3	286.2
2005	14,802.0	1032.2	948.1	870.0	222.1	294.3	159.1	880.9	205.8	4,024.2	1,491.0	1,222.0	1,282.1	291.2
2006	15,061.0	1045.4	967.7	891.2	233.3	302.6	159.8	899.0	209.1	4,092.5	1,518.9	1,267.7	1,301.6	297.7
2007	15,174.0	1048.1	989.1	911.2	238.7	306.4	160.1	903.0	211.5	4,122.2	1,515.5	1,271.0	1,308.8	296.7
2008	14,982.7	1031.1	996.7	914.9	238.5	303.0	156.4	882.1	205.7	4,070.7	1,481.6	1,225.3	1,298.7	290.8
2009	14,085.4	968.8	945.3	856.4	228.1	286.5	146.8	831.5	193.8	3,824.1	1,372.2	1,141.5	1,231.3	274.8
2010	13,936.6	948.3	936.1	855.1	226.3	279.5	146.3	809.9	187.6	3,772.5	1,353.7	1,124.0	1,222.5	272.7
2011	14,098.8	970.4	982.2	893.7	237.9	282.4	147.3	815.6	189.6	3,797.1	1,368.7	1,128.8	1,233.4	274.8
2012	14,394.5	979.7	998.1	905.2	241.6	282.9	148.7	822.5	189.9	3,864.3	1,400.3	1,151.6	1,258.8	278.8
2013f	14,642.4	978.3	991.2	922.8	237.9	290.0	145.4	824.0	195.2	3,930.0	1,431.1	1,170.0	1,286.5	281.7
2014f	14,890.5	997.9	1,007.1	944.1	243.8	295.2	148.0	839.6	199.1	3,980.7	1,468.3	1,203.8	1,313.5	286.1

Sources: California EDD, Labor Market Division, Current Employment Series; forecasts by LAEDC

## Table 8: Total Nonfarm Employment in Southern California

Annual averages, thousands; March 2012 benchmark

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2005	4,024.2	1,491.0	1,222.0	291.2	7,028.4	1,282.1	14,802.0
2006	4,092.5	1,518.9	1,267.7	297.7	7,176.8	1,301.6	15,061.0
2007	4,122.2	1,515.5	1,271.0	296.7	7,205.4	1,308.8	15,174.0
2008	4,070.7	1,481.6	1,225.3	290.8	7,068.4	1,298.7	14,982.7
2009	3,824.1	1,372.2	1,141.5	274.8	6,612.6	1,231.3	14,085.4
2010	3,772.5	1,353.7	1,124.0	272.7	6,522.9	1,222.5	13,936.6
2011	3,797.1	1,368.7	1,128.8	274.8	6,569.4	1,233.4	14,098.8
2012	3,864.3	1,400.3	1,151.6	278.8	6,695.0	1,258.8	14,394.5
2013f	3,930.0	1,431.1	1,170.0	281.7	6,812.8	1,286.5	14,642.4
2014f	3,980.7	1,468.3	1,203.8	286.1	6,938.9	1,313.5	14,890.5

Numerical Change from Prior Year (in thousands)

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2005	27.7	34.3	62.0	5.0	129.0	21.8	268.7
2006	68.3	27.9	45.7	6.5	148.4	19.5	259.0
2007	29.7	-3.4	3.3	-1.0	28.6	7.2	113.0
2008	-51.5	-33.9	-45.7	-5.9	-137.0	-10.1	-191.3
2009	-246.6	-109.4	-83.8	-16.0	-455.8	-67.4	-897.3
2010	-51.6	-18.5	-17.5	-2.1	-89.7	-8.8	-148.8
2011	24.6	15.0	4.8	2.1	46.5	10.9	162.2
2012	67.2	31.6	22.8	4.0	125.6	25.4	295.7
2013f	65.7	30.8	18.4	2.9	117.8	27.7	247.9
2014f	50.7	37.2	33.8	4.4	126.1	27.0	248.1

% Change from Prior Year

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2005	0.7%	2.4%	5.3%	1.7%	1.9%	1.7%	1.8%
2006	1.7%	1.9%	3.7%	2.2%	2.1%	1.5%	1.7%
2007	0.7%	-0.2%	0.3%	-0.3%	0.4%	0.6%	0.8%
2008	-1.2%	-2.2%	-3.6%	-2.0%	-1.9%	-0.8%	-1.3%
2009	-6.1%	-7.4%	-6.8%	-5.5%	-6.4%	-5.2%	-6.0%
2010	-1.3%	-1.3%	-1.5%	-0.8%	-1.4%	-0.7%	-1.1%
2011	0.7%	1.1%	0.4%	0.8%	0.7%	0.9%	1.2%
2012	1.8%	2.3%	2.0%	1.5%	1.9%	2.1%	2.1%
2013f	1.7%	2.2%	1.6%	1.0%	1.8%	2.2%	1.7%
2014f	1.3%	2.6%	2.9%	1.6%	1.9%	2.1%	1.7%

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

**Table 9: California Technology Employment**

Annual averages, thousands, March 2012 benchmark, based on NAICS

Year	Manufacturing				Services				
	Total Technology Employment	Electronic Product Manufacturing	Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	ISPs, Web Portals, Data Processing	Computer Systems Design & Rel. Services	Management, Scientific & Technical Consulting	Scientific R&D Services
2001	1,019.2	409.7	86.3	39.2	52.6	28.8	204.4	99.1	99.1
2002	922.0	353.7	79.6	39.5	48.8	20.7	177.1	102.1	100.5
2003	876.7	320.9	73.6	39.1	44.7	18.7	168.8	109.7	101.2
2004	877.1	313.4	73.7	40.6	42.6	18.5	168.5	119.0	100.8
2005	902.6	310.8	73.4	42.0	41.6	19.6	175.6	135.4	104.2
2006	932.2	308.2	73.0	44.0	41.3	20.9	187.3	151.3	106.2
2007	950.6	304.1	72.8	44.2	43.0	20.7	199.2	159.0	107.6
2008	971.3	300.0	73.7	43.6	44.9	20.4	205.8	166.8	116.1
2009	925.3	278.6	72.4	43.5	45.0	19.3	195.5	156.1	114.9
2010	931.7	271.8	73.1	43.4	45.0	18.6	201.0	160.5	118.3
2011	988.4	273.9	70.8	44.0	50.2	19.8	223.1	183.7	122.9
2012	1,005.1	271.6	70.8	44.5	51.6	20.5	229.9	190.7	125.5

Sources: California EDD, LMID

**Table 10: Population Trends in California and the Los Angeles Five-County Area**

Population Estimates as of July 1 each year

Year	Los Angeles County		Orange County		Riverside & San Bernardino		Ventura County		Total of L.A. 5-Co. Area		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1990	8,860.3	---	2,412.0	---	2,620.4	---	669.1	---	14,561.8	---	29,828.5	---
1991	8,955.3	1.1%	2,458.8	1.9%	2,751.3	5.0%	676.9	1.2%	14,842.4	1.9%	30,548.6	2.4%
1992	9,060.2	1.2%	2,511.8	2.2%	2,832.9	3.0%	686.3	1.4%	15,091.2	1.7%	30,987.4	1.4%
1993	9,083.7	0.3%	2,550.4	1.5%	2,885.0	1.8%	693.8	1.1%	15,212.9	0.8%	31,314.2	1.1%
1994	9,106.5	0.3%	2,575.7	1.0%	2,919.9	1.2%	700.6	1.0%	15,302.7	0.6%	31,523.7	0.7%
1995	9,101.1	-0.1%	2,604.5	1.1%	2,959.6	1.4%	705.1	0.6%	15,370.3	0.4%	31,711.8	0.6%
1996	9,108.1	0.1%	2,646.1	1.6%	3,006.6	1.6%	710.5	0.8%	15,471.2	0.7%	31,962.9	0.8%
1997	9,185.6	0.9%	2,699.6	2.0%	3,062.6	1.9%	721.7	1.6%	15,669.4	1.3%	32,452.8	1.5%
1998	9,265.8	0.9%	2,749.6	1.9%	3,117.1	1.8%	729.1	1.0%	15,861.6	1.2%	32,863.0	1.3%
1999	9,394.3	1.4%	2,802.8	1.9%	3,198.4	2.6%	742.8	1.9%	16,138.4	1.7%	33,418.6	1.7%
2000	9,544.0	1.6%	2,853.9	1.8%	3,276.5	2.4%	756.9	1.9%	16,431.3	1.8%	34,000.8	1.7%
2001	9,635.8	1.0%	2,889.9	1.3%	3,386.2	3.3%	769.0	1.6%	16,680.9	1.5%	34,512.7	1.5%
2002	9,722.4	0.9%	2,914.4	0.8%	3,489.2	3.0%	779.9	1.4%	16,906.0	1.3%	34,938.3	1.2%
2003	9,791.0	0.7%	2,939.7	0.9%	3,622.5	3.8%	789.4	1.2%	17,142.6	1.4%	35,388.9	1.3%
2004	9,822.5	0.3%	2,956.5	0.6%	3,757.1	3.7%	795.0	0.7%	17,331.1	1.1%	35,752.8	1.0%
2005	9,809.6	-0.1%	2,957.2	0.0%	3,877.5	3.2%	796.9	0.2%	17,441.1	0.6%	35,985.6	0.7%
2006	9,787.3	-0.2%	2,955.4	-0.1%	3,994.1	3.0%	801.2	0.5%	17,538.1	0.6%	36,246.8	0.7%
2007	9,773.9	-0.1%	2,965.8	0.4%	4,085.3	2.3%	805.9	0.6%	17,630.9	0.5%	36,552.5	0.8%
2008	9,796.8	0.2%	2,982.8	0.6%	4,139.4	1.3%	812.0	0.8%	17,731.0	0.6%	36,856.2	0.8%
2009	9,805.2	0.1%	2,998.8	0.5%	4,180.7	1.0%	818.5	0.8%	17,803.3	0.4%	37,077.2	0.6%
2010	9,824.9	0.2%	3,017.3	0.6%	4,230.4	1.2%	825.1	0.8%	17,897.7	0.5%	37,309.4	0.6%
2011	9,860.8	0.4%	3,047.1	1.0%	4,286.2	1.3%	830.2	0.6%	18,024.4	0.7%	37,570.0	0.7%
2012	9,911.7	0.5%	3,071.9	0.8%	4,309.4	0.5%	834.1	0.5%	18,127.1	0.6%	37,826.0	0.7%
2013f	9,961.2	0.5%	3,105.7	1.1%	4,387.0	1.8%	842.9	1.1%	18,296.8	0.9%	38,189.1	1.0%
2014f	10,001.1	0.4%	3,146.1	1.3%	4,466.0	1.8%	851.5	1.0%	18,464.6	0.9%	38,555.7	1.0%

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

## Table 11: Components of Population Change in California and Southern California Counties

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

	Pop. Chg.	Births	Deaths	Natural Increase (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
<b>Los Angeles County</b>							
2008	22.9	151.9	59.1	92.9	-69.9	56.4	-126.3
2009	8.4	143.9	56.8	87.1	-78.7	46.6	-125.3
2010	21.8	135.6	56.8	78.8	-57.0	34.9	-91.9
2011	35.9	132.6	56.9	75.7	-39.8	21.1	-60.9
2012	50.8	131.7	57.0	74.7	-23.9	31.4	-55.3
<b>Orange County</b>							
2008	17.0	44.2	17.4	26.8	-9.9	17.9	-27.7
2009	16.0	41.1	16.6	24.5	-8.4	14.2	-22.6
2010	18.3	39.3	16.7	22.6	-4.3	11.7	-16.0
2011	29.8	38.2	17.1	21.1	8.7	5.9	2.8
2012	24.8	38.1	17.2	21.0	3.8	8.8	-5.0
<b>Riverside County</b>							
Year							
2008	40.3	34.4	14.1	20.3	20.0	8.4	11.6
2009	35.5	32.0	13.6	18.4	17.0	6.5	10.6
2010	33.4	31.0	13.6	17.4	16.0	4.6	11.4
2011	28.6	31.0	13.9	17.1	11.5	2.3	9.2
2012	23.9	30.7	14.0	16.8	7.1	3.4	3.7
<b>San Bernardino County</b>							
2008	13.9	34.8	12.0	22.8	-8.9	7.2	-16.1
2009	5.8	32.7	11.4	21.3	-15.5	5.8	-21.3
2010	16.5	31.4	11.4	20.0	-3.6	4.2	-7.8
2011	14.8	31.4	12.2	19.2	-4.4	2.2	-6.6
2012	11.7	30.7	12.2	18.5	-6.8	3.3	-10.1
<b>San Diego County</b>							
2008	37.1	47.5	19.3	28.3	8.8	16.6	-7.8
2009	26.4	45.9	19.0	26.9	-0.5	13.6	-14.1
2010	26.9	44.5	19.0	25.5	1.5	10.1	-8.6
2011	22.6	44.7	19.2	25.4	-2.9	6.4	-9.3
2012	21.9	43.7	19.3	24.4	-2.5	9.5	-12.0
<b>Ventura County</b>							
2008	6.1	12.2	5.0	7.2	-1.0	3.6	-4.7
2009	6.5	11.8	4.9	6.9	-0.4	2.8	-3.2
2010	6.8	11.2	4.9	6.2	0.6	2.0	-1.4
2011	5.1	11.0	5.1	6.0	-0.8	0.9	-1.8
2012	3.9	10.6	5.1	5.6	-1.7	1.4	-3.0
<b>State of California</b>							
2008	303.7	565.7	236.8	328.9	-25.2	195.7	-220.9
2009	221.0	538.0	227.9	310.1	-89.1	160.5	-249.7
2010	241.3	515.7	228.1	287.6	-46.3	123.0	-169.3
2011	260.9	509.5	233.6	275.9	-15.0	64.9	-80.0
2012	255.9	503.5	234.1	269.4	-13.5	96.5	-110.0

Source: California Department of Finance, Demographic Research Unit

# Outlook for Los Angeles County

With nearly 10 million residents, Los Angeles County is the most populous county in the nation. Its population is larger than that of 42 states. If it were a country, it would have the 21<sup>st</sup> largest economy in the world, just ahead of Iran and just behind Switzerland.

Los Angeles County carried momentum from a strong second half of last year into the first half of this year, with year-to-year percentage job gains that outpaced the nation and the state. Many local industries added jobs since the start of the year. The unemployment rate has fallen rapidly so far this year, dropping into single-digit territory for the first time since late 2008. Housing prices have experienced hefty increases since the start of the year. All in all, the first half of 2013 brought significant and much needed improvements in the local economy.

## Employment

During the first five months of this year, nonfarm jobs in Los Angeles County increased at an average year-to-year rate of 1.9%, on par with the state and ahead of the 1.6% growth rate nationally. Total nonfarm employment for the county averaged 3.91 million during the first five months of the year, the highest level since 2008. Job gains over the past several months drove the county unemployment rate down from 10.8% in May 2012 to 9.2% this past May, but a normal unemployment rate (7.0% to 7.5%) is still years away.

Average employment through the first five months of 2013 rose in all private sector industries, except for manufacturing. The largest gains were in leisure and hospitality (the second largest private sector industry by employment in the county), professional, scientific, and technical services (the county's fifth largest by employment), and administrative and support services. Health care and social assistance (the county's largest industry by employment) continued its long-term trend of job gains. These four industries accounted for four out of five jobs created during the first part of 2013. Construction also added a significant number of jobs and experienced the largest year-to-year percentage gain at 11.6%. Following the trend of recent years, both manufacturing and government sector jobs lost ground.

## Entertainment and Trade

The entertainment industry and the transportation and trade industry are two of the most visible industries in Los Angeles County. The motion picture and sound recording sector accounts for most of the county's entertainment industry employment. Motion picture and sound recording jobs have been more volatile than usual since the start of the year, beginning the year with a January employment figure of 106,500, rising to 131,600 in March, and dropping to

112,100 in May. Part of this volatility is typical of the seasonal employment patterns found in the industry from one year to the next. Nevertheless, average industry employment since the start of the year was 120,500, 3.3% higher compared to a year earlier. Industry job gains reflect an increase in industry activity: On-location film production through the first two quarters of this year rose 13.1% compared to the same time a year earlier.

International trade passing through the ports and LAX depends on the condition of both the national and global economies. The San Pedro Bay ports of Los Angeles and Long Beach are the two largest container ports in the nation and Los Angeles International Airport (LAX) is one of the busiest air cargo terminals in the nation. Much of the nation's imported consumer goods from Asia and the Pacific Rim enter the United States through the twin ports. The number of TEUs (twenty-foot equivalent units) moving through the ports during the first half of this year increased by 2.5% over the first half of 2012. For all of 2013, a gain of 2.2% is projected to 14.4 million TEUs. If achieved, TEU throughput would be at its highest level since 2008, but still fall short of the pre-recession peak of 15.8 million units in 2006. The value of two-way trade through the Los Angeles Customs District (LACD) is a broader measure of trade volume. LACD two-way trade rose to a record of \$403.4 billion last year. Year-to-date through May, trade is up by 1.6%, with a slight increase expected for all of this year. As economies around the globe (including the U.S.) accelerate in 2014, two-way trade will also pick up.

## Professional Services and Technology

The professional, scientific, and technical services industry is the fifth largest in Los Angeles County. Firms in this industry employ a wide array of professionals, including architects, engineers, and attorneys. It is an important but often overlooked source of highly compensated jobs in the local economy. Industry employment stood at 267,000 in 2012, up 3.5% from a year earlier. Growth is expected to continue in this sector over the next two years, with projected gains of over 9,000 jobs this year and nearly 12,000 jobs next year.

The technology sector, which includes manufacturing and service industries in aerospace, information technology, electronics, and biomedical technology, employed 184,000 workers in 2012, up 2.4% from a year earlier. Like the professional, scientific, and technical services industry, it is a source of highly compensated jobs in the local economy. From January through May of this year, average employment in this sector rose 1.8% and is expected to post modest gains this year and next.

## Conclusion

The Los Angeles County economy will continue to advance on many fronts through the rest of this year and into 2014. Population should cross the 10 million

threshold in 2014, while nonfarm jobs in Los Angeles County should grow by 1.7% for all of this year and 1.3% 2014. Even so, it may be 2015 or 2016 before nonfarm employment exceeds the pre-recession peak of 4.12 million reached in 2007. The largest gains for 2013 are expected in leisure and hospitality, health care, professional, scientific and technical services, and construction. Job losses will continue in manufacturing, but government jobs may end the year roughly flat, with a slight gain expected next year.

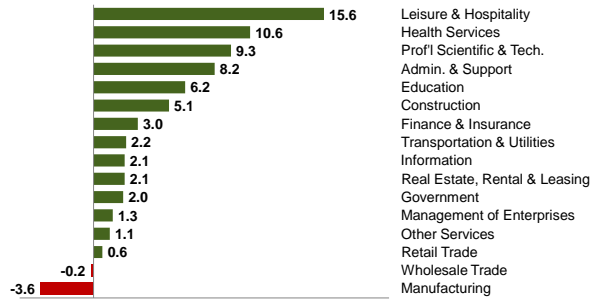
With these employment gains, total personal income will also grow. A 2.1% gain is expected this year and a 4.9% increase is projected for 2014. Similarly, taxable retail sales will increase by 3.1% this year and by 3.8% next year, following a 10.3% surge in 2012.

While the general outlook is positive, there are concerns about the impact of federal budget cuts on specific segments of the local economy. In particular, defense-related cuts may lead to civilian job losses locally. It remains to be seen whether these cuts will be implemented and how deeply they will affect the local aerospace industry.

# Los Angeles County Snapshot

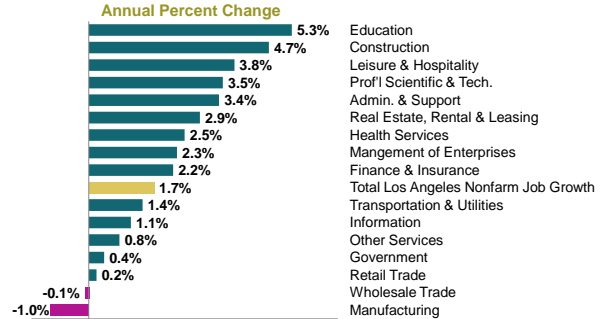
## Los Angeles County Employment Growth, 2013

Total nonfarm job growth forecast for 2013 (thousands): 65.7 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

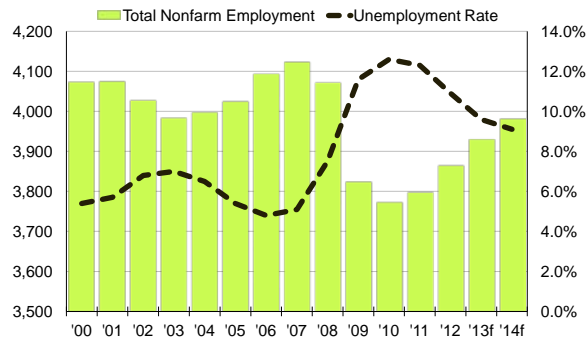
## Los Angeles County Employment Growth, 2013



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

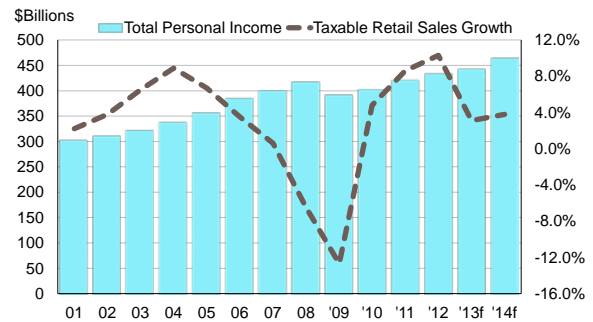
## Los Angeles County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

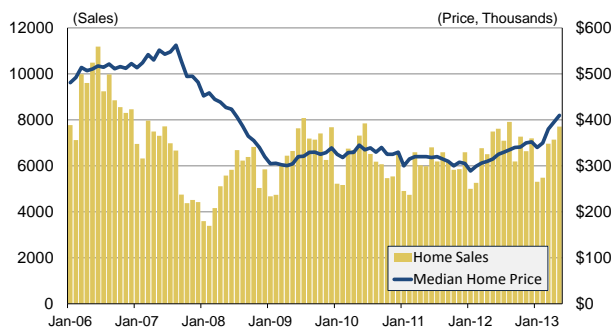
## Los Angeles County Personal Income & Retail Sales



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

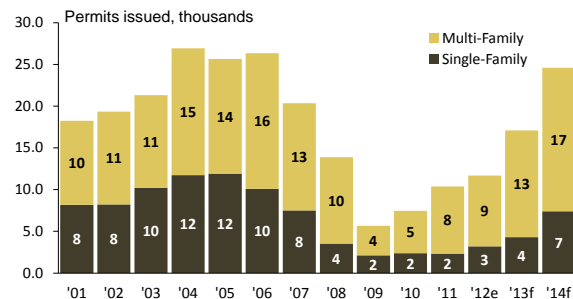
## Home Sales & Median Prices

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

## Residential Building Permits Issued in Los Angeles County



Source: CIRB, California Homebuilding Foundation; forecast by LAEDC

**Table 12: Los Angeles County Economic Indicators**

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$Billions)	Value of Two-way Trade (\$Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)	Chg. in CPI (%)
2002	9,722.4	4,026.8	6.8	311.4	32,080	74.5	212.8	---	19,364	2,920	2.8%
2003	9,791.0	3,982.9	7.0	322.3	32,995	79.4	232.9	---	21,313	2,932	2.6%
2004	9,822.5	3,996.5	6.5	338.2	34,534	86.5	261.7	---	26,935	3,174	3.3%
2005	9,809.6	4,024.2	5.4	357.2	36,498	92.3	291.6	---	25,647	3,824	4.5%
2006	9,787.3	4,092.5	4.8	385.7	39,610	95.5	326.4	---	26,348	3,896	4.3%
2007	9,773.9	4,122.2	5.1	400.4	41,273	96.1	347.3	35.7	20,363	4,739	3.3%
2008	9,796.8	4,070.7	7.5	417.5	42,881	89.8	355.8	36.5	13,704	4,491	3.5%
2009	9,805.2	3,824.1	11.6	392.6	40,111	78.4	282.9	34.4	5,653	2,674	-0.8%
2010	9,824.9	3,772.5	12.6	403.1	41,025	82.2	346.8	38.5	7,468	2,677	1.2%
2011	9,860.8	3,797.1	12.3	420.9	42,564	89.3	386.7	40.4	10,390	2,965	2.7%
2012	9,911.7	3,864.3	10.9	433.9	43,625	98.4	403.5	41.4	11,715	3,683	2.0%
2013f	9,961.2	3,930.0	9.6	443.2	44,349	101.5	407.3	42.1	17,000	4,400	1.2%
2014f	10,001.1	3,980.7	9.1	464.7	46,305	105.4	426.0	42.7	24,600	5,350	1.3%
<b>% Change</b>											
01/00	1.0%	0.0%		6.5%	5.5%	2.2%	-7.8%	---	6.9%	7.4%	
02/01	0.9%	-1.1%		2.6%	1.8%	3.8%	0.3%	---	6.1%	-17.5%	
03/02	0.7%	-1.1%		3.5%	2.9%	6.5%	9.5%	---	10.1%	0.4%	
04/03	0.3%	0.3%		4.9%	4.7%	8.9%	12.4%	---	26.4%	8.3%	
05/04	-0.1%	0.7%		5.6%	5.7%	6.7%	11.4%	---	-4.8%	20.5%	
06/05	-0.2%	1.7%		8.0%	8.5%	3.5%	11.9%	---	2.7%	1.9%	
07/06	-0.1%	0.7%		3.8%	4.2%	0.6%	6.4%	---	-22.7%	21.6%	
08/07	0.2%	-1.2%		4.3%	3.9%	-6.5%	2.5%	2.2%	-32.7%	-5.2%	
09/08	0.1%	-6.1%		-6.0%	-6.5%	-12.7%	-20.5%	-5.8%	-58.7%	-40.5%	
10/09	0.2%	-1.3%		2.7%	2.3%	4.8%	22.6%	11.9%	32.1%	0.1%	
11/10	0.4%	0.7%		4.4%	3.8%	8.6%	11.5%	4.9%	39.1%	10.8%	
12/11	0.5%	1.8%		3.1%	2.5%	10.3%	4.3%	2.5%	12.8%	24.2%	
13/12	0.5%	1.7%		2.1%	1.7%	3.1%	1.0%	1.7%	45.1%	19.5%	
14/13	0.4%	1.3%		4.9%	4.4%	3.8%	4.6%	1.4%	44.7%	21.6%	

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

**Table 13: Los Angeles County Nonfarm Employment**

Annual averages, Thousands, March 2012 benchmark

Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2002	4,026.8	3.7	134.5	536.9	301.4	235.5	215.2	398.2	167.2	207.3
2003	3,982.9	3.8	134.6	502.1	278.3	223.8	212.0	399.3	161.5	202.3
2004	3,996.5	3.8	140.2	485.8	270.0	215.8	213.0	405.4	161.1	211.9
2005	4,024.2	3.7	148.7	473.9	265.6	208.3	217.1	414.4	161.7	207.6
2006	4,092.5	4.0	157.5	463.9	259.5	204.4	223.5	423.3	165.2	205.6
2007	4,122.2	4.4	157.6	449.2	250.9	198.3	227.0	426.0	165.6	209.8
2008	4,070.7	4.4	145.2	434.4	243.2	191.2	223.7	416.5	163.1	210.3
2009	3,824.1	4.1	117.3	389.2	217.6	171.6	204.5	387.0	151.2	191.2
2010	3,772.5	4.1	104.5	373.2	207.0	166.2	203.0	385.7	150.6	191.5
2011	3,797.1	4.0	105.0	366.8	204.1	162.7	205.2	390.7	151.8	191.9
2012	3,864.3	4.2	108.8	365.7	203.3	162.4	210.9	396.8	154.3	190.3
2013f	3,930.0	4.2	113.9	362.1	200.2	161.9	210.7	397.4	156.5	192.4
2014f	3,980.7	4.1	122.9	361.9	200.2	161.7	210.9	397.1	159.0	192.0

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2002	158.0	72.8	231.6	82.5	261.0	93.0	359.2	354.2	145.6	606.1
2003	163.1	74.8	233.5	77.4	249.1	94.8	367.5	362.6	145.5	599.3
2004	163.0	76.7	237.7	71.2	253.6	95.4	373.5	372.8	144.7	587.1
2005	164.3	77.8	250.9	67.6	257.7	97.4	375.8	377.8	144.3	583.7
2006	166.9	79.8	264.0	63.0	271.9	99.4	381.3	388.6	145.2	589.4
2007	163.6	80.3	273.9	58.8	272.7	102.9	389.8	397.9	147.1	595.7
2008	153.9	79.4	269.6	56.7	256.4	105.1	400.7	401.6	146.1	603.7
2009	142.3	73.8	250.2	54.4	225.3	110.1	404.6	385.6	137.9	595.8
2010	137.8	71.7	245.6	53.2	228.7	111.1	410.9	384.8	136.7	579.6
2011	136.8	71.6	255.3	55.3	232.4	114.2	419.2	394.6	136.9	565.5
2012	138.6	71.7	267.0	56.1	244.1	116.1	428.2	414.1	140.7	556.8
2013f	141.6	73.8	276.3	57.4	252.3	122.3	438.8	429.7	141.8	558.8
2014f	142.1	74.9	288.0	59.2	263.6	125.1	446.3	431.7	141.6	560.4

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

# Outlook for the 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 review of nine L.A. County sub-regions, which are delineated by city limits, freeways and geographic features.

The most complete data available for these regions is employment. In this report, the primary economic indicator used is average annual private sector or “core” employment. These data come from a joint state-federal program called the Quarterly Census of Employment and Wages (QCEW).

**North County:** North County is composed of two distinct regions, Santa Clarita/Valencia in the south and the Antelope Valley (Palmdale/Lancaster) in the north. Total core employment in the region increased by 3.8% or 4,400 jobs from 2011 to 2012. A significant amount of hiring occurred in professional and business services (800 jobs), education and health services (1,400 jobs), and leisure and hospitality (1,200 jobs). Employment gains were partially offset by job losses in natural resources (-100 jobs) and wholesale trade (-100 jobs).

Hotel occupancy rates in Santa Clarita dipped slightly to 80.3% in April 2013 from 81.6% a year ago, but an occupancy rate above 70% is considered healthy. Office and industrial vacancy rates were also weaker during the first quarter of this year reflecting slow employment growth.

**Hollywood/Mid-Cities/Crenshaw:** Total core employment in the region increased by 1.2% or 2,400 jobs from 2011 to 2012. Education and health services (1,600 jobs), and leisure and hospitality (3,200 jobs) had significant employment gains while large jobs losses occurred in the financial services sector (-3,300 jobs).

The region’s travel and tourism industry, as measured by hotel occupancy rates, is improving. In Hollywood, occupancy rates reached 90% in April 2013 compared with 83.4% a year ago.

**Central/Downtown:** Total core employment for the downtown region increased by 1.0% or 1,800 jobs in 2012. Hiring in the region picked up with gains in wholesale trade (700 jobs), leisure and hospitality (1,800 jobs), and professional and business services (3,000 jobs). Manufacturing was one of the few industries in the region to experience job losses (-1,700 jobs).

Office vacancy rates remained unchanged during the first quarter of 2013 compared with the same period last year, while industrial vacancy rates edged

down slightly. Industrial real estate in the central/downtown area historically has one of the lowest vacancy rates in the county.

Improvements in public transportation such as the Metro Expo Line and new apartment/condo developments are helping to reduce congestion, a major cost for businesses operating in the area. There has been something of a boom in the construction of multi-family housing downtown that is attracting high-wage earners such as those working in professional and business services.

Downtown Los Angeles's leisure and hospitality industry is also doing well. The occupancy rate for hotels exceeding an average daily rate of \$110.00 was 79.4% in April 2013, up from 75.9% a year ago. Hotel occupancy rates for the remaining hotels were 75.0% in April 2013, up from 67.7% during the same period a year ago.

**San Gabriel Valley/East Los Angeles:** Total core employment in the San Gabriel Valley/East Los Angeles region increased by 0.8% or 4,400 jobs in 2012. All gains in core employment are a result of 4,900 jobs (up by 1.0%) added in the San Gabriel Valley, while East Los Angeles/Eagle Rock posted a loss of 500 jobs (down by 0.7%). The lion's share of hiring occurred in the leisure and hospitality sector (2,700 jobs), followed by professional and business services (1,000 jobs), financial activities (800 jobs), and wholesale trade (800 jobs). Job losses in manufacturing (-800 jobs) and education and health services (-400 jobs) mostly occurred in the San Gabriel Valley.

Hotels in the region attract many guests traveling for business related activities. Pasadena hotel occupancy rates improved to 84.5% in April 2013, from 83.8% a year ago. Hotel occupancy rates for the remaining San Gabriel Valley also edged up, rising from 71.2% in April 2012 to 75.4% in April 2013.

Both office and industrial vacancy rates declined during the first quarter. The San Gabriel Valley's geographic location and transportation links make it an especially attractive location for warehouse and distribution firms. On the other hand, the manufacturing sector is now three quarters the size of what it was five years ago in terms of employees and establishments.

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

Total core employment in the Gateway region rose by 2.3% or 12,500 jobs in 2012. Job gains occurred in leisure and hospitality (1,300 jobs), education and health services (2,200 jobs), professional and business services (3,400 jobs), construction (1,600 jobs), manufacturing (1,200 jobs), and wholesale trade (1,200 jobs).

The Ports of Los Angeles and Long Beach reported mixed results during the first half of 2013. The number of TEUs handled increased at the Port of Long Beach, but decreased at the Port of Los Angeles. The travel and tourism sector is improving in the region. Hotel occupancy rates were 74.1% in April 2013, up from 73.8% during the same period a year ago.

**San Fernando Valley:** The San Fernando Valley begins in Glendale and Burbank in the east and extends as far north and west as Sylmar and Woodland Hills.

In 2012, total core employment in the region grew by 0.5% or 3,400 jobs. The professional and business service sector led employment growth (4,600 jobs), followed by education and health services (3,700 jobs), and leisure and hospitality (1,600 jobs). However, job gains were largely offset by a loss of 5,800 jobs in the information sector.

Hotel occupancy rates were 78.4% in April 2013, up from 75.6% during the same period a year ago. In 2012, the number of passengers flying through Bob Hope Airport in Burbank declined by 2.4% compared with 2011, with activity weakening further during the first half of 2013.

**South Bay/LAX:** In 2012, total core employment in the region grew by 1.7% or 6,900 jobs. Over the year, significant hiring took place in professional and business services (2,700 jobs), leisure and hospitality (1,500 jobs) and construction (1,200 jobs). However, the region's information sector saw payrolls contract by 1,300 jobs.

LAX passenger traffic increased slightly during the first five months of 2013, rising by 3.7% from the same period a year ago. Domestic passenger travel increased by 5.0%, while international passenger travel increased by 0.3%. Hotel occupancy rates near the airport increased to 88.3% in April 2013 from 83.1% a year ago.

**South Los Angeles:** Total core employment in South Los Angeles grew by 4.7% or 3,200 jobs in 2012. The recession hit the region hard although core employment is seeing a gradual return to pre-recession levels, gaining 4.7% or 3,200 jobs. Professional and business services grew by 27.9% or 1,500 jobs, while education and health services contributed 1,300 jobs (9.5%) to core employment.

**Westside:** Total core employment in the region rose by 3.4% or 11,300 jobs in 2012. The professional and business service sector led employment growth with a gain of 2,800 jobs, followed by leisure and hospitality (2,700 jobs) and information (2,400 jobs). As for travel and tourism, Santa Monica hotel occupancy rates edged up to 86.5% in April 2013 from 85.3% a year ago. Daily room rates continued to grow, increasing 6.0% over the same period. Hotel

occupancy in Marina Del Rey however dipped to 76.4% in April 2013, from 77.8%. West Los Angeles office vacancy rates declined during the first quarter of this year compared with 95,000 square feet of new office space is currently under construction.

### Table 14: North County Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	129.4	0.5	12.6	20.1	5.1	24.7	3.9	2.3	7.6	17.6	15.8	19.1
2008	125.3	0.5	10.2	18.8	4.7	23.6	4.1	2.2	7.5	18.1	16.3	19.1
2009	116.4	0.5	7.6	17.9	4.4	21.5	5.4	2.2	7.5	14.3	16.6	18.4
2010	114.3	0.6	7.0	17.4	4.5	21.1	5.2	2.0	7.4	13.2	17.3	18.7
2011	114.7	0.4	6.7	17.5	4.8	21.5	5.1	2.0	7.3	12.9	17.7	18.8
2012e	119.1	0.3	6.9	18.0	4.7	21.7	5.5	2.0	7.3	13.7	19.1	20.0

Source: California EDD, QCEW series

### Table 15: Hollywood/Mid-cities/Crenshaw Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	208.1	0.0	4.0	7.5	5.0	25.6	2.4	24.5	14.2	42.7	47.8	34.2
2008	210.6	0.0	4.1	7.5	5.2	25.6	2.4	20.9	16.0	46.2	47.9	34.7
2009	195.9	0.0	3.5	6.3	4.7	24.5	2.1	17.9	15.1	40.1	47.7	33.8
2010	193.0	0.1	3.0	6.1	4.5	24.4	1.9	16.3	14.6	39.5	48.9	33.8
2011	204.1	0.1	3.1	6.3	4.7	25.2	1.9	17.0	18.6	41.1	50.1	36.0
2012e	206.4	0.0	3.2	6.4	4.9	25.5	2.0	16.8	15.3	41.4	51.7	39.2

Source: California EDD, QCEW series

### Table 16: Central/Downtown Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	196.3	0.3	1.5	20.4	22.4	16.0	4.6	5.5	24.7	45.0	36.0	19.9
2008	200.2	0.3	1.7	20.0	22.4	15.4	5.7	4.6	26.3	46.7	37.0	20.1
2009	189.1	0.3	1.6	17.7	21.1	14.3	5.3	4.0	24.0	42.8	37.4	20.5
2010	185.6	0.2	1.4	17.8	21.1	14.0	5.6	4.1	22.2	41.8	37.8	19.6
2011	182.6	0.2	1.5	13.6	21.1	14.2	5.9	4.2	21.2	45.6	34.7	20.4
2012e	184.4	0.3	1.5	11.8	21.7	14.0	5.6	4.3	21.2	49.1	34.6	22.1

Source: California EDD, QCEW series

### Table 17: San Gabriel Valley/East Los Angeles Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	630.6	3.0	35.5	88.4	49.1	89.6	29.0	14.7	47.6	94.6	111.7	67.5
2008	611.1	2.3	31.6	83.7	48.1	86.6	29.4	12.8	44.2	93.2	111.1	68.2
2009	570.3	1.8	25.9	73.8	43.6	79.2	27.9	11.4	40.7	86.2	114.5	65.4
2010	558.9	1.8	23.4	68.7	43.9	78.2	25.3	10.7	38.2	86.8	118.2	63.7
2011	564.1	1.8	23.8	69.0	45.1	77.4	25.8	10.8	37.6	86.4	121.7	64.9
2012e	568.5	1.8	23.5	68.2	45.9	77.8	25.8	10.9	38.4	87.4	121.3	67.5

Source: California EDD, QCEW series

### Table 18: Gateway Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	607.4	2.0	31.2	122.5	67.2	76.7	40.2	7.5	25.7	99.8	71.6	62.9
2008	588.1	1.9	28.4	116.9	66.1	76.6	40.6	7.2	23.9	89.1	74.2	63.0
2009	546.0	1.7	22.6	104.9	60.1	71.1	40.1	6.7	22.8	81.7	74.3	59.9
2010	540.7	1.8	21.0	99.2	59.7	72.2	40.8	6.9	21.3	83.7	74.5	59.5
2011	546.5	1.8	21.2	101.5	61.1	72.8	41.2	6.4	22.0	83.0	75.8	59.6
2012e	559.0	2.0	22.8	102.8	62.3	72.6	41.6	6.8	22.8	86.4	78.1	60.9

Source: California EDD, QCEW series

### Table 19: San Fernando Valley Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	677.8	1.8	39.3	74.0	31.9	86.2	13.6	102.7	59.3	107.3	93.9	67.8
2008	669.2	1.5	35.9	71.9	30.1	84.0	13.3	108.3	55.1	105.9	95.9	67.3
2009	622.8	1.3	29.4	66.4	27.5	77.9	12.3	96.9	51.7	98.3	96.7	64.3
2010	615.7	1.3	25.6	63.2	26.3	76.8	11.6	99.2	49.2	100.9	98.0	63.7
2011	622.5	1.3	25.7	62.7	26.9	78.6	11.7	98.7	48.8	102.8	100.2	65.1
2012e	625.9	1.2	25.6	63.5	26.4	78.9	11.5	92.9	47.9	107.4	103.9	66.7

Source: California EDD, QCEW series

### Table 20: South Bay/LAX Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	421.5	2.2	18.4	79.1	28.2	47.9	45.7	10.6	21.5	77.0	40.8	50.2
2008	419.8	2.1	18.6	80.2	25.8	47.9	44.4	10.5	21.8	74.4	43.9	50.2
2009	394.0	2.0	14.6	74.2	24.0	45.4	41.4	8.9	20.4	69.9	45.5	47.7
2010	388.0	2.0	12.3	72.1	23.8	43.5	41.1	10.9	19.5	68.5	46.2	48.1
2011	393.9	2.0	12.6	69.3	23.1	44.6	41.7	11.8	19.8	72.4	47.8	48.9
2012e	400.7	2.0	13.8	68.9	23.6	44.4	42.7	10.5	20.4	75.1	48.8	50.4

Source: California EDD, QCEW series

### Table 21: South Los Angeles Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	76.5	0.1	2.0	21.8	7.1	11.1	2.8	1.2	3.1	6.8	12.8	7.7
2008	75.0	0.1	1.7	20.6	7.3	10.9	2.7	1.6	2.9	6.0	13.3	7.9
2009	68.9	0.1	1.6	17.8	6.7	10.2	2.5	1.0	2.9	5.2	13.5	7.4
2010	68.2	0.1	1.5	16.8	6.5	10.3	2.5	1.2	3.2	5.4	13.1	7.5
2011	67.7	0.1	1.4	15.8	6.5	10.5	2.4	1.0	3.0	5.4	13.7	7.9
2012e	70.9	0.1	1.3	15.8	6.4	10.9	2.6	0.8	2.5	6.9	15.1	8.5

Source: California EDD, QCEW series

### Table 22: Westside Core Employment

Annual averages, thousands

Year	Total Core Employment	Natural Resources	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transport. & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality
2007	361.7	1.8	11.2	8.9	11.2	44.1	4.6	38.8	36.7	97.1	43.5	63.8
2008	356.0	2.0	10.3	9.2	10.7	43.8	4.3	40.1	35.0	91.9	44.1	64.7
2009	331.7	2.0	8.7	7.6	9.8	38.9	3.6	39.0	32.8	82.5	43.8	63.1
2010	324.6	2.2	7.6	7.4	9.8	38.5	3.5	38.3	31.5	79.2	43.9	62.6
2011	336.1	2.1	7.3	7.3	10.3	39.6	3.6	38.9	31.8	83.6	46.1	65.4
2012e	347.4	2.2	7.4	7.3	10.6	40.7	3.7	41.3	31.8	86.4	47.8	68.2

Source: California EDD, QCEW series

# Outlook for Orange County

A century ago, Orange County's agriculture and petroleum extraction industries fueled much of the region's growth. Since the 1950s, Orange County has transformed itself into a prosperous hub for high-tech and aerospace manufacturing, financial activities and tourism. Since the end of the Great Recession, Orange County generally tracked the national recovery, moved ahead over the past year at a slightly more energetic pace. Facilitating the county's growth is its highly educated workforce. Over 86% of the adult population has a high school diploma and 34% has a bachelor's degree or higher. Quality of life is another attribute in which Orange County ranks high and plays an important role in attracting skilled and creative workers.

## Employment

Having now reached the midpoint of 2013, the Orange County economy continues to expand at a faster rate than both the nation and California. The unemployment rate in Orange County peaked at 9.5% in 2010, but by 2012, had fallen to an average annual rate of 7.6%. By May 2013, the unemployment rate in Orange County stood at 5.5%, one of the lowest in the state. The LAEDC forecasts the unemployment rate will average 5.5% this year before falling to 5.2% in 2014.

---

*By the end of 2013, the LAEDC forecasts Orange County payrolls will increase by 30,800 jobs.*

---

Orange County total nonfarm employment in 2012 was 7.8% below the peak reached in 2006. Nevertheless, most private industry sectors posted an increase in payrolls last year. The largest gains were in administrative and support services, professional, scientific and technical services, and leisure and hospitality. Of the 13,300 jobs created in Orange County in 2012, over 62% or 8,300 jobs were added in just those three sectors.

By the end of 2013, the LAEDC forecasts Orange County payrolls will increase by another 30,800 jobs (2.2%). The largest gains are expected to be in leisure and hospitality (5,700 jobs), construction (4,500 jobs), health care (4,000 jobs), and professional, scientific and technical services (3,600 jobs).

Orange County's manufacturing sector posted a small employment gain in 2012, and may edge up again this year. Nondurable goods manufacturing (e.g. apparel) employment fell over the year to May (2013), while durable goods, such as aerospace products and parts and machinery posted a slight increase in payroll jobs. The county's computer and electronics parts manufacturing sector was a mixed bag. Manufacturers of semiconductors expanded payrolls over the 12 months ending in May, while electronic instruments manufacturers shed jobs. The slow rate of economic expansion overall is one factor holding the county's manufacturing sector in check. The sequestration may also be affecting manufacturing growth, particularly in the aerospace industry.

## Real Estate and Construction

In step with the rest of Southern California, Orange County's residential real estate market turned the corner in 2012. Sales of existing homes have been relatively strong, but with little new construction taking place over the last five years, inventories are extremely lean. Also limiting available inventory is the large number of homeowners who, in spite of the yearlong run up in median price, cannot afford to sell because they still owe more than their homes are worth.

The median price of an existing single-family home in Orange County was \$542,700 in 2012, which represented an increase of 5.9% compared with 2011.<sup>3</sup> Continuing to post double digit year-over-year price increases during each of the first five months of this year, the median price of an existing single-family home in Orange County reached \$655,630 in May.

In addition to higher demand and limited inventory, shifts in the types of homes in the sales mix have also pushed up the median price. The number of foreclosures on the market has declined drastically. Not only are banks slower to foreclose these days, but investors have been buying up distressed properties and converting them to rentals. At the same time, there has been an increase in sales of higher priced homes, especially in the coastal areas of the county. Encouraged by higher prices, new home builders are stepping up activity. Economic growth and demographic pressures are combining to push new home construction significantly higher in Orange County this year and next.

Local commercial real estate is also improving. Office and industrial vacancy rates have stabilized, and while lease rates are still soft, some submarkets are starting to see rents edge up in response to stronger demand. Financing for new projects is also becoming somewhat easier to obtain. New commercial construction as measured by the value of new building permits was down in 2012 compared with 2011, but as leasing fundamentals strengthen, the county will see an increase in the number of new office and industrial projects breaking ground this year and next.

## Population and Consumer Spending

Consumer spending in Orange County as measured by taxable retail sales will post moderate gains this year and next. Growth in both employment and personal income, along with improvements in the housing market and household wealth all point to stronger consumer spending during the next two years.

Population growth is expected to accelerate in the near-term, providing a boost to retail sales in the county (and sales tax revenues to local government).

---

<sup>3</sup> California Association of Realtors

Per capita income is also expected to increase. The opportunities afforded by Orange County's growing high tech sectors, quality of life and congenial climate are magnets for attracting and retaining a talented and highly skilled workforce, which in turn, enhances the vitality of the regional economy.

## Conclusion

Orange County's economy is expanding and the near-term outlook warrants growing optimism. In many ways, Orange County, with the collapse of a number of locally based mortgage giants was hit harder by the financial crisis and the recession that followed than other regions in Southern California. Initially lagging behind the nation, Orange County's recovery quickly gathered strength.

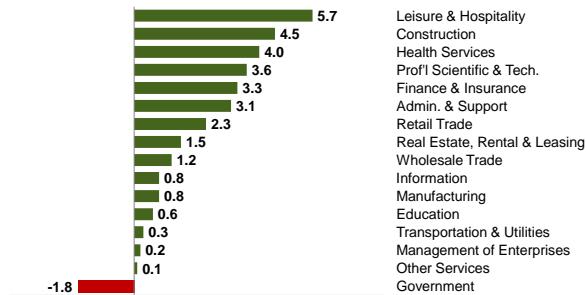
Banks are generally on a stronger footing and in a better position to make loans, although some are still mired in post-financial crisis clean-up mode. The technology sector is expanding in the areas of data storage, data networking, mobile technology and cloud computing. The county's life sciences firms and medical instrument makers also continue to be a source of economic growth. A number of the county's larger health care providers have expanded facilities in recent years to meet growing demand for health services. The region is now seeing renewed commercial development activity – several long delayed construction projects are set to move forward. Orange County's travel and tourism sector has also rebounded. Increasing numbers of both leisure and business travelers are filling up Orange County's hotels and visiting area attractions.

Orange County has several attributes that have historically supported strong economic growth, namely its diverse economy, its highly respected universities and the pull of its tourist attractions. Going forward these core strengths will provide a firm base for ongoing expansion.

# Orange County Snapshot

## Orange County Employment Growth, 2013

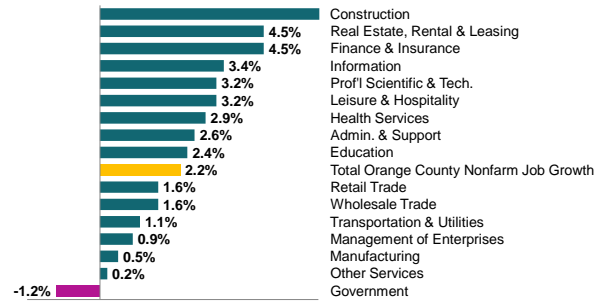
Total nonfarm job growth forecast for 2013 (thousands): 30.8 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

## Orange County Employment Growth, 2013

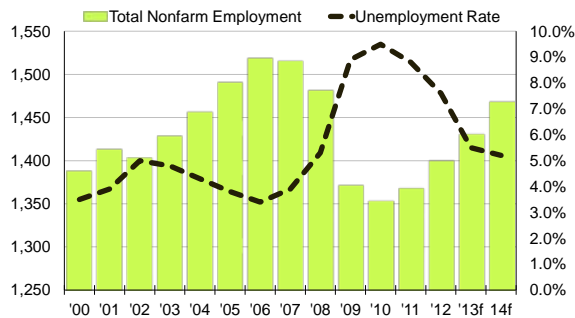
Annual Percent Change



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

## Orange County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

## Orange County Personal Income & Retail Sales

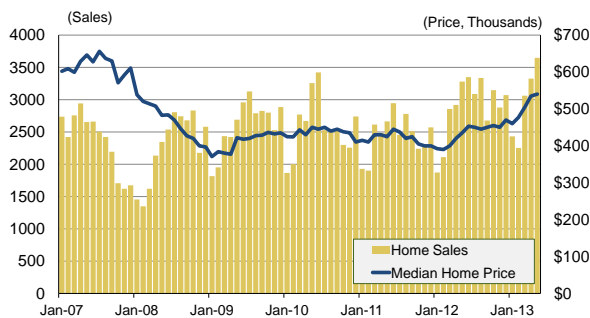
\$Billions



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

## Home Sales & Median Prices Orange County

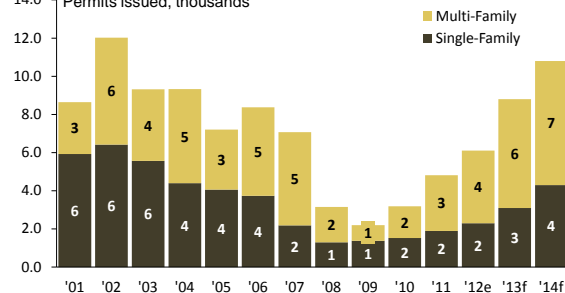
New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

## Residential Building Permits Issued in Orange County

Permits issued, thousands



Source: CIBR, California Homebuilding Foundation; forecast by LAEDC

**Table 23: Orange County Economic Indicators**

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy- ment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2002	2,914.4	1,403.7	5.0	116.0	39,804	29.6	41.7	12,020	1,209
2003	2,939.7	1,429.0	4.8	122.4	41,646	32.3	42.7	9,311	1,006
2004	2,956.5	1,456.7	4.3	130.3	44,080	35.4	43.5	9,322	1,133
2005	2,957.2	1,491.0	3.8	139.4	47,143	37.7	44.7	7,206	1,495
2006	2,955.4	1,518.9	3.4	150.6	50,956	39.1	44.9	8,371	2,401
2007	2,965.8	1,515.5	3.9	153.4	51,738	29.0	44.3	7,072	2,005
2008	2,982.8	1,481.6	5.3	155.9	52,275	35.8	43.1	3,159	1,439
2009	2,998.8	1,372.2	8.9	145.2	48,435	31.2	42.7	2,200	952
2010	3,017.3	1,353.7	9.5	147.1	48,765	32.6	42.7	3,091	1,152
2011	3,047.1	1,368.7	8.8	154.1	50,583	35.6	42.9	4,805	1,291
2012	3,071.9	1,400.3	7.6	159.2	51,819	37.2	43.8	6,163	1,271
2013f	3,105.7	1,431.1	5.5	163.2	52,537	38.4	44.7	8,800	1,400
2014f	3,146.1	1,468.3	5.2	172.3	54,767	39.6	45.1	10,800	1,575

% Change									
02/01	0.8%	-0.7%		3.3%	2.5%	4.0%	2.1%	39.0%	-10.4%
03/02	0.9%	1.8%		5.5%	4.6%	8.9%	2.4%	-22.5%	-16.8%
04/03	0.6%	1.9%		6.4%	5.8%	9.8%	1.7%	0.1%	12.6%
05/04	0.0%	2.4%		7.0%	6.9%	6.3%	2.8%	-22.7%	32.0%
06/05	-0.1%	1.9%		8.0%	8.1%	3.7%	0.4%	16.2%	60.6%
07/06	0.4%	-0.2%		1.9%	1.5%	-25.8%	-1.3%	-15.5%	-16.5%
08/07	0.6%	-2.2%		1.6%	1.0%	23.4%	-2.7%	-55.3%	-28.2%
09/08	0.5%	-7.4%		-6.8%	-7.3%	-12.9%	-1.0%	-30.4%	-33.8%
10/09	0.6%	-1.3%		1.3%	0.7%	4.5%	0.1%	40.5%	21.0%
11/10	1.0%	1.1%		4.8%	3.7%	9.3%	0.5%	55.5%	12.1%
12/11	0.8%	2.3%		3.3%	2.4%	4.6%	2.1%	28.3%	-1.6%
13/12	1.1%	2.2%		2.5%	1.4%	3.3%	1.9%	42.8%	10.1%
14/13	1.3%	2.6%		5.6%	4.2%	3.0%	0.9%	22.7%	12.5%

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

# Table 24: Orange County Nonfarm Employment

Annual averages, Thousands, March 2012 benchmark

Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2002	1,403.7	0.6	79.2	190.8	133.6	57.2	82.4	151.4	28.7	36.8
2003	1,429.0	0.5	83.7	183.9	127.2	56.7	83.2	152.8	29.0	35.2
2004	1,456.7	0.6	92.2	183.5	127.1	56.4	82.4	153.2	29.2	33.8
2005	1,491.0	0.7	99.9	182.9	128.3	54.6	83.0	158.1	28.7	32.8
2006	1,518.9	0.6	106.6	182.7	128.0	54.7	83.7	160.8	28.2	31.9
2007	1,515.5	0.6	103.1	180.4	126.2	54.2	86.9	161.2	28.9	31.2
2008	1,481.6	0.6	91.2	174.0	122.5	51.5	86.7	155.6	29.3	30.1
2009	1,372.2	0.5	74.2	154.8	109.1	45.7	79.4	142.3	27.8	27.3
2010	1,353.7	0.5	68.0	150.4	106.5	43.9	77.6	140.1	26.7	24.8
2011	1,368.7	0.5	70.8	156.3	112.8	43.5	77.0	141.3	27.4	24.0
2012	1,400.3	0.5	71.8	157.8	114.0	43.8	76.7	142.2	27.7	24.2
2013f	1,431.1	0.5	76.3	158.6	114.4	44.2	77.9	144.5	28.0	25.0
2014f	1,468.3	0.5	82.5	160.6	115.9	44.7	79.2	147.5	28.4	25.5

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2002	77.4	32.7	95.1	35.8	114.1	15.9	102.5	155.4	45.9	155.1
2003	88.0	34.2	96.4	32.9	119.3	18.9	107.5	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	122.6	19.2	111.8	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	126.9	19.8	113.7	165.0	48.4	155.3
2006	99.0	39.1	109.3	28.9	132.2	20.8	117.0	169.6	47.7	156.7
2007	89.1	38.6	113.5	27.9	127.7	21.6	121.1	172.9	47.4	159.4
2008	76.1	37.0	116.1	26.1	120.2	23.6	127.1	176.4	46.5	160.8
2009	70.6	34.5	107.3	24.3	104.8	23.4	128.8	169.1	42.6	156.6
2010	69.4	34.1	106.1	22.8	110.8	23.6	131.9	168.6	42.2	152.3
2011	73.3	34.1	109.9	23.1	113.1	24.6	137.7	177.9	43.7	148.3
2012	73.6	34.4	112.7	23.2	120.0	24.7	138.7	180.5	44.3	147.8
2013f	76.9	35.9	116.3	23.4	123.1	25.3	142.7	186.2	44.4	146.0
2014f	79.8	37.4	122.7	23.9	126.5	26.2	146.2	189.8	43.7	148.0

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

## Outlook for the Inland Empire

The performance of the Inland Empire (Riverside and San Bernardino counties) economy has improved over the first half of this year and the outlook for the rest of 2013 and into 2014 continues to brighten. The economy has demonstrated encouraging job growth since mid-2012 and has improved due to gains in the ever-important logistics industry. The expansion of U.S. demand for consumer and household goods from Asia (primarily China) has translated into an increase in imports coming through the local ports and making their way to warehouses and distribution centers throughout the Inland Empire. The other critical factor on the demand side has been robust growth in e-commerce and its overall impact on the economy.

---

*Nonfarm employment is expected to increase by 1.6% in 2013 and to increase further by 2.9% in 2014.*

---

In addition, the Inland Empire economy has a renewed optimism in housing, construction, and manufacturing, which should equate into a solid improvement in the economic environment over the next couple of years and into the medium term. This is all positive news for Riverside and San Bernardino counties as they have had to overcome a long and deep recession and a very slow recovery over the past four years.

### Employment

The Inland Empire has witnessed an improvement in the labor market over the past year, with an average of nearly 16,000 nonfarm jobs added in 2012 and another 13,000 jobs added year-to-date through May. In fact, the region outperformed the state in job growth for most of the past 18 months. Additionally, the region has experienced monthly declines in the unemployment rate since January. The unemployment rate, which hit a high of 14.6% in January 2010, fell nearly three percentage points from 13.9% in August 2011 to 11.0% in December 2012 and has now fallen to 9.2%. This is the lowest unemployment rate since the fall of Lehman Brothers back in September 2008.

---

*The biggest industry job gains in the Inland Empire so far this year have been in leisure and hospitality, education and health services, professional and business services, and trade, transportation and utilities.*

---

The biggest industry job gains in the Inland Empire so far this year have been in leisure and hospitality, education and health services, professional and business services and trade, transportation and utilities. However, job losses continue in construction and government. The good news is that the construction industry is going to see significant gains in the coming months as industrial and residential real estate witness a jump in demand. Also, government employment (meaning state and local government employment) is expected to rise over the forecast period.

## Real Estate and Goods Movement

Through 2012 and into the first half of this year, defaults and foreclosures exerted less downward pressure on home values as foreclosures slowed down. In fact, the region witnessed a housing market recovery due to an improved labor market, low inventories of properties for sale, and higher demand for lower priced homes that could be used as rentals. The median price of a home in the Inland Empire reached \$230,000 in May 2013, which is a 40% improvement from its cyclical low in 2009. While Inland Empire median prices are now higher, they are still about 43% below the peak levels of the mid-2000s. Housing affordability continues to be much greater than just before the recession. Going forward over the forecast period and beyond, housing in the area will remain affordable relative to earlier years and to the rest of Southern California.

The industrial vacancy rate in the Inland Empire has improved substantially over the past four years – falling from 12.4% in 2009 to 6.2% in the first quarter of 2013, the lowest since before the Great Recession. In fact, the vacancy rate is expected to go below 6% by the end of this year. Office vacancy rates did improve at the end of 2012 and continue to move downward albeit by a small amount (as they are still very high at over 21%), especially when compared to the rest of Southern California. Although they have fallen over the past year, they are expected to remain stagnant over the rest of this year. They will continue to be a concern into 2014.

All sectors related to the logistics industry (mainly wholesale trade and transportation) will experience significant growth in 2013 due to increases in imports and e-commerce. Retail trade will also witness solid growth this year as unemployment declines and business activity picks up.

Loaded inbound containers (imports) at the combined local ports have increased YTD (through May) by 3.1% and are moving towards the peak levels reached back in 2006 and 2007. Cargo volumes are expected to grow over the next two years as the U.S. economy improves and the overall global economy experiences a stronger growth trajectory. The increase in activity along with substantial growth in E-commerce will continue to positively impact the Inland Empire warehouse and distribution system network.

## Conclusion

Nonfarm employment is expected to increase by 1.6% in 2013 and to increase further by 2.9% in 2014. The Inland Empire will witness improvements in almost all areas in 2013 and 2014.

The worst days of record setting numbers of foreclosures, plummeting home values and soaring joblessness are gone. Better days are for sure ahead for the Inland Empire barring any unforeseen events that weaken the U.S. or global economies. It is very important to remember that the Inland Empire is much more dependent upon the U.S. and global environments, when compared to most other counties in the region, state and nation.

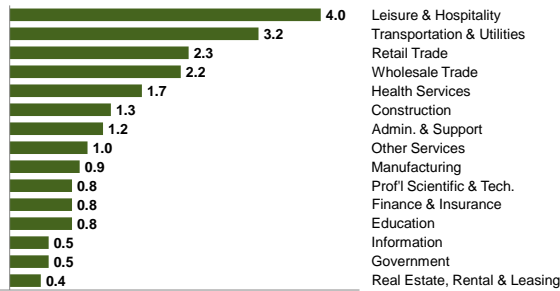
The four main drivers of the Inland Empire economy are logistics, housing, construction, and manufacturing. All of these industries will ultimately determine the strength of the region's economy over the short term and more importantly, the long term.

In the coming years, the key advantages for the Inland Empire will continue to be the affordability of housing, population growth and available low-cost land for additional warehouse construction.

## Inland Empire Snapshot

### Inland Empire Employment Growth, 2013

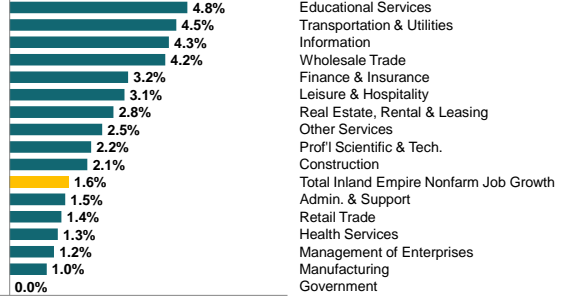
Total nonfarm job growth forecast for 2013 (thousands): 18.4 jobs



Sources: CA EDD, Labor Market Information Division, forecast by LAEDC

### Inland Empire Employment Growth, 2013

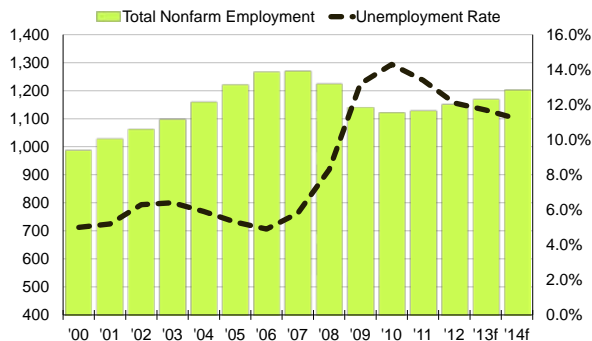
Annual Percent Change



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

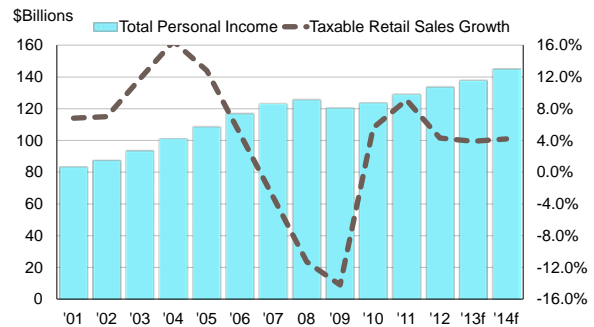
### Inland Empire Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

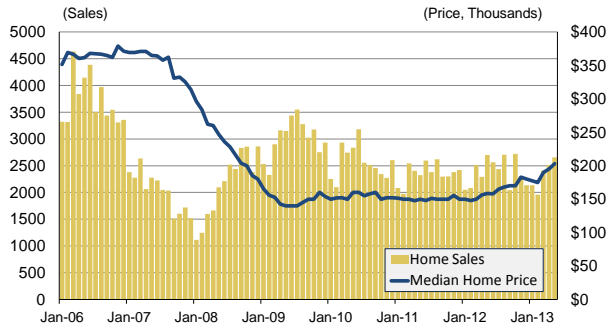
### Inland Empire Personal Income & Retail Sales



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

## Home Sales & Median Prices San Bernardino County

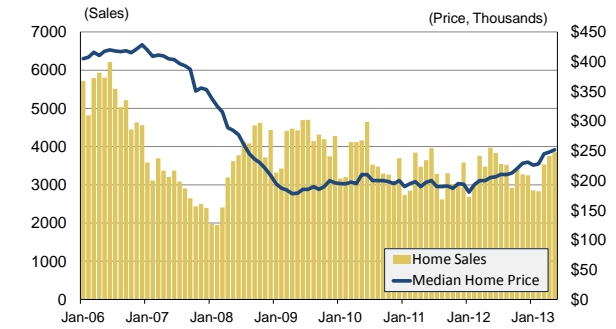
New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

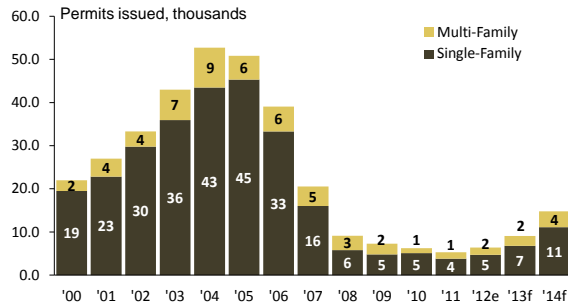
## Home Sales & Median Prices Riverside County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

## Residential Building Permits Issued in the Inland Empire



Source: CIRB, California Homebuilding Foundation; forecast by LAEDC

**Table 25: Inland Empire Economic Indicators**

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$Billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2002	3,489.2	1,064.5	6.3	87.6	25,095	28.6	33,280	1,473
2003	3,622.5	1,099.2	6.4	93.7	25,867	31.9	43,001	1,720
2004	3,757.1	1,160.0	5.9	101.1	26,914	37.2	52,696	2,485
2005	3,877.5	1,222.0	5.3	108.6	28,007	42.0	50,818	2,394
2006	3,994.1	1,267.7	4.9	116.9	29,274	44.0	39,083	2,852
2007	4,085.3	1,271.0	5.8	123.0	30,119	42.6	20,457	2,824
2008	4,139.4	1,225.3	8.3	125.6	30,343	37.8	9,101	1,781
2009	4,180.7	1,141.5	13.2	120.4	28,799	32.4	6,685	710
2010	4,230.6	1,124.0	14.3	123.6	29,216	34.2	6,404	792
2011	4,286.2	1,128.8	13.4	128.9	30,073	37.3	5,280	904
2012	4,309.4	1,151.6	12.1	133.6	31,007	38.9	6,419	1,220
2013f	4,387.0	1,170.0	11.7	137.7	31,397	40.4	9,000	1,400
2014f	4,466.0	1,203.8	11.2	145.0	32,468	42.1	14,900	1,625
<b>% Change</b>								
02/01	3.0%	3.4%		4.8%	1.7%	7.0%	20.8%	3.5%
03/02	3.8%	3.3%		7.0%	3.1%	11.8%	29.2%	16.8%
04/03	3.7%	5.5%		7.9%	4.0%	16.5%	22.5%	44.5%
05/04	3.2%	5.3%		7.4%	4.1%	12.8%	-3.6%	-3.7%
06/05	3.0%	3.7%		7.7%	4.5%	4.8%	-23.1%	19.1%
07/06	2.3%	0.3%		5.2%	2.9%	-3.2%	-47.7%	-1.0%
08/07	1.3%	-3.6%		2.1%	0.7%	-11.3%	-55.5%	-37.0%
09/08	1.0%	-6.8%		-4.1%	-5.1%	-14.2%	-26.5%	-60.1%
10/09	1.2%	-1.5%		2.7%	1.4%	5.6%	-4.2%	11.5%
11/10	1.3%	0.4%		4.3%	2.9%	9.1%	-17.6%	14.1%
12/11	0.5%	2.0%		3.7%	3.1%	4.3%	21.6%	35.0%
13/12	1.8%	1.6%		3.1%	1.3%	3.9%	40.2%	14.8%
14/13	1.8%	2.9%		5.3%	3.4%	4.2%	65.6%	16.1%

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

**Table 26: Inland Empire Nonfarm Employment**

Annual averages, Thousands, March 2012 benchmark

Year	Total Nonfarm	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
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	121.0	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	1,271.0	1.3	112.5	118.5	82.1	36.5	56.8	175.6	69.5	15.4
2008	1,225.3	1.2	90.7	106.9	72.5	34.3	54.1	168.6	70.2	14.8
2009	1,141.5	1.1	67.9	88.8	58.1	30.6	48.9	156.2	66.8	14.1
2010	1,124.0	1.0	59.7	85.1	55.3	29.8	48.6	155.5	66.6	13.9
2011	1,128.8	1.0	59.0	85.1	55.8	29.2	49.0	158.5	68.7	12.1
2012	1,151.6	1.2	61.2	86.5	56.8	29.7	51.3	161.7	70.8	11.6
2013f	1,170.0	1.2	62.5	87.4	56.9	30.5	53.5	164.0	74.0	12.1
2014f	1,203.8	1.3	66.9	89.0	57.9	31.2	56.0	166.5	76.5	12.8

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
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	31.6	19.9	39.9	10.8	91.7	14.1	108.1	128.1	42.5	222.5
2007	30.3	19.5	40.5	9.8	94.9	15.0	112.2	132.6	41.2	225.3
2008	27.4	18.7	40.5	9.7	87.5	15.7	116.0	131.0	40.8	230.0
2009	26.0	16.6	37.8	8.9	77.6	16.3	117.3	123.8	37.3	227.3
2010	25.5	15.5	34.9	8.5	77.3	15.6	118.2	122.8	38.2	234.3
2011	25.3	14.6	35.6	8.6	78.5	15.7	122.6	123.9	39.1	227.5
2012	26.0	14.8	37.2	8.3	77.8	16.7	128.8	129.5	40.4	224.5
2013f	26.8	15.2	38.0	8.4	79.0	17.5	130.5	133.5	41.4	225.0
2014f	28.0	16.0	41.0	9.0	82.8	18.0	134.0	137.0	42.0	227.0

Sources: California Employment Development Department, LMI; forecasts by LAEDC

# Outlook for San Diego County

One of San Diego's most important assets is the diversity of its economy and its reputation as a center for innovation. The region is a thriving hub for the biotechnology and telecommunications industries. San Diego also has a significant high tech manufacturing sector and is a popular travel destination. Quality of life is among the best in the nation and the region's population has higher levels of educational attainment relative to the state overall. About 85% of the population has a high school diploma or more, while 34% has a bachelor's degree or more.

## Employment

The unemployment rate in San Diego County peaked at 10.5% in 2010 but fell to an average annual rate of 8.9% in 2012. As of May of this year, the unemployment rate stood at 6.7%. The LAEDC forecasts San Diego will post an average annual unemployment rate of 6.5% for 2013 and 6.2% in 2014.

In 2012, employment was just 3.8% below the peak level reached in 2007 and by 2014, the LAEDC forecasts job growth will return employment pre-downturn levels. Growth has been broad based with nearly every private sector industry adding jobs in 2012. The industry sectors that added the most jobs were: leisure and hospitality, wholesale trade, transportation and utilities, professional, scientific and technical services, retail trade, and finance and insurance.

By the end of 2013, the LAEDC forecasts county payrolls will increase by 27,700 jobs (2.2%). The largest gains are expected in professional, scientific and technical services (7,000 jobs), leisure and hospitality (4,200 jobs), and health care (2,700 jobs). Construction employment is also expected to improve, increasing by about 3,100 jobs this year (5.4%), but it will be a long time before construction employment regains pre-recession levels. Manufacturing employment will edge up by 0.3% (300 jobs).

---

*By the end of 2013, the LAEDC forecasts San Diego payrolls will increase by 27,700 jobs (2.2%).*

---

## Real Estate and Construction

San Diego County's residential real estate market is also on the mend. Over the year, the median price for an existing single-family home rose by 4.1% to \$385,520.<sup>4</sup> The number of foreclosures on the market has declined drastically. Not only are banks slower to foreclose these days, but investors have been buying up distressed properties and converting them to rentals. Demand for higher priced homes is on the rise and inventories of homes for sale closed 2012

---

<sup>4</sup> California Association of Realtors

well below normal levels. New home building has yet to gain much traction but the pace of new construction is picking up and will accelerate in 2014.

Local commercial real estate markets are also looking up a bit. As employment expands, nonresidential permits will transition away from alterations (which were running at 50% of new construction permits YTD through April) to new construction of retail, office, industrial and hotel space. Leasing fundamentals appear to have stabilized in 2012 and should strengthen this year. Expect steady gains for industrial space and moderate improvement for office.

## Population and Consumer Spending

Consumer spending as measured by taxable retail sales is on the upswing. Although the unemployment rate is still elevated (the 10-year average prior to 2008 was 4.3%), job and income growth, along with the housing market recovery are providing consumers with the means to spend (if somewhat cautiously). High educational attainment (which generally results in better-paying jobs) and growth in high-tech industries will provide a boost to the region's per capita income as well.

There is also a rising trend in population growth, most of which has come from natural population growth (i.e. births and deaths as opposed to immigration). Population growth will accelerate in the near term due to the improving housing market, the region's booming tech sector and perhaps not least, the congenial climate. As San Diego County's population grows, total taxable retail sales will also increase, boosting business activity, job creation and local government revenues.

## Conclusion

San Diego's economy is moving in the right direction; the pace of growth during the first half of 2013 can only be described as moderate, but momentum is building. Job creation in San Diego will occur in 2013 across all private industry sectors. The public sector also may register a small employment gain this year.

San Diego continues to attract a large share of the nation's venture capital. During the first quarter, San Diego ranked eighth in the nation in terms of the total amount of venture capital received.<sup>5</sup> While smaller than it once was, San Diego's agricultural industry is still significant (ranking 18th largest in the U.S.) and has a higher dollar-value per acre (\$450,000) than any other county in

---

*During the first quarter of 2013, San Diego ranked eighth in the nation in terms of the total amount of venture capital received.*

---

<sup>5</sup> Diego ranked below Silicon Valley, New England, NY Metro, Texas, L.A./Orange County, Southeast and DC/Metroplex

California.<sup>6</sup> In 2012, farm employment was up by 3.2% to 9,800 workers compared with the prior year but was still 10.1% lower than it was in 2007.

San Diego has the benefit of a near perfect climate, a key attribute that attracts a well-educated and talented workforce and a steady influx of well-off retirees. The presence of the U.S. Navy and Marine Corps also makes a significant contribution to the region's economy. All of these elements mean San Diego, which had a robust and diverse economy before the recession, will be even stronger moving forward.

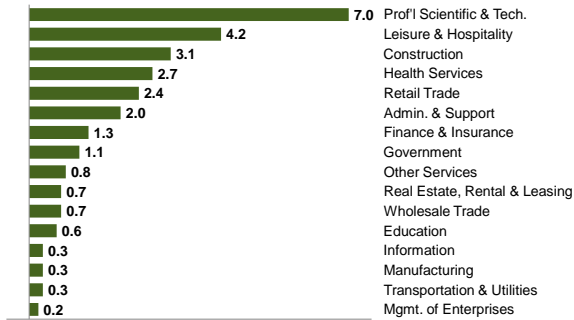
---

<sup>6</sup> Farm Bureau San Diego, County of San Diego Department of Agriculture, Weights & Measures, 2011 Crop Statistics & Annual Report

# San Diego County Snapshot

## San Diego County Employment Growth, 2013

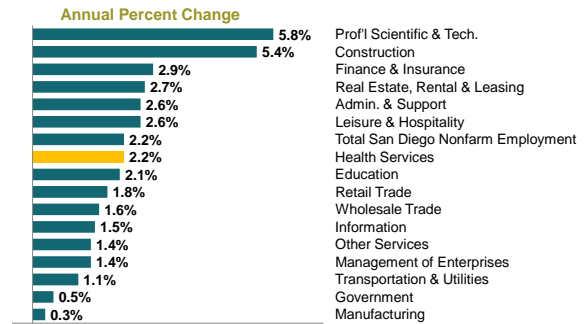
Total nonfarm job growth forecast for 2013 (thousands): 27.7 jobs



Source: CA EDD, Labor Market Information Division; forecast by LAEDC

## San Diego County Employment Growth, 2013

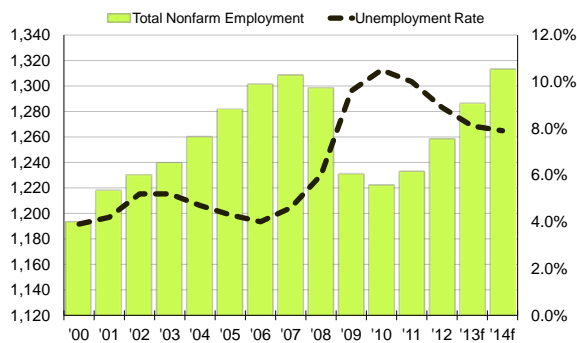
Total nonfarm job growth forecast for 2013, percent change: 2.2%



Source: CA EDD, Labor Market Information Division; forecast by LAEDC

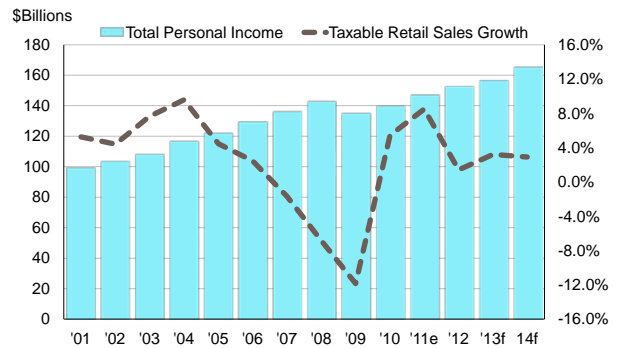
## San Diego County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

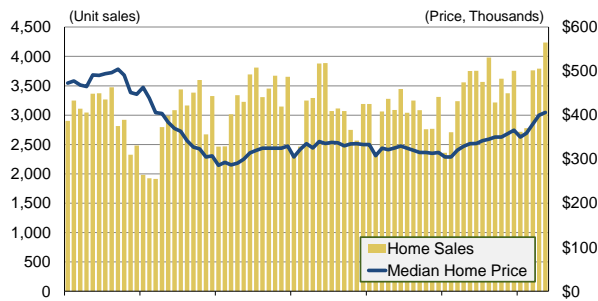
## San Diego County Personal Income & Retail Sales



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

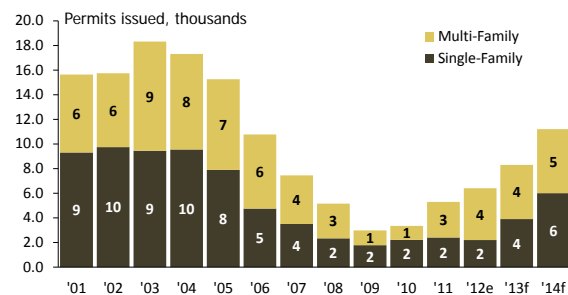
## Home Sales & Median Prices San Diego County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

## Residential Building Permits Issued in San Diego County



Source: CIRB, California Homebuilding Foundation; forecast by LAEDC

**Table 27: San Diego County Economic Indicators**

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$Billions)	Value of Two-way Trade (\$Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)	Chg. In CPI (%)
2002	2910.4	1230.7	5.2	103.8	35,670	27.4	35.7	32.2	15738	1169	3.5
2003	2944.0	1240.1	5.2	108.3	36,786	29.5	35.6	32.1	18314	1169	3.7
2004	2963.4	1260.3	4.7	116.6	39,362	32.3	39.4	31.8	17306	1288	3.7
2005	2970.1	1282.1	4.3	122.0	41,086	33.8	43.2	31.8	15258	1382	3.7
2006	2982.8	1301.6	4.0	129.6	43,444	34.6	50.5	32.2	10777	1622	3.4
2007	3014.2	1308.8	4.6	136.2	45,185	34.0	53.9	31.6	7445	1417	2.3
2008	3051.3	1298.7	6.0	142.6	46,746	31.7	53.4	31.1	5154	1062	3.9
2009	3077.6	1231.3	9.6	135.0	43,872	28.0	43.9	29.6	2990	584	0.0
2010	3102.7	1222.5	10.5	139.6	44,985	29.5	48.4	29.9	3346	659	1.3
2011	3125.3	1233.4	10.0	147.0	47,021	32.0	52.6	31.1	5280	1006	3.0
2012	3147.2	1258.8	8.9	152.4	48,424	32.4	56.4	32.3	6419	1235	1.6
2013f	3178.7	1286.5	6.5	156.6	49,250	33.5	57.7	33.0	8300	1375	1.3
2014f	3216.8	1313.5	6.2	165.3	51,386	34.5	61.5	34.0	11200	1575	1.6

% Change										
02/01	1.4%	1.0%		4.4%	3.0%	4.4%	6.3%	0.2%	0.6%	-2.1%
03/02	1.2%	0.8%		4.3%	3.1%	7.7%	-0.5%	-0.3%	16.4%	0.0%
04/03	0.7%	1.6%		7.7%	7.0%	9.6%	10.7%	-0.8%	-5.5%	10.2%
05/04	0.2%	1.7%		4.6%	4.4%	4.4%	9.6%	-0.2%	-11.8%	7.3%
06/05	0.4%	1.5%		6.2%	5.7%	2.5%	17.0%	1.3%	-29.4%	17.4%
07/06	1.1%	0.6%		5.1%	4.0%	-1.7%	6.6%	-2.0%	-30.9%	-12.6%
08/07	1.2%	-0.8%		4.7%	3.5%	-6.8%	-0.8%	-1.5%	-30.8%	-25.1%
09/08	0.9%	-5.2%		-5.3%	-6.1%	-11.8%	-17.8%	-4.8%	-42.0%	-45.0%
10/09	0.8%	-0.7%		3.4%	2.5%	5.4%	10.2%	0.9%	11.9%	12.8%
11/10	0.7%	0.9%		5.3%	4.5%	8.5%	8.6%	4.3%	57.8%	52.6%
12/11	0.7%	2.1%		3.7%	3.0%	1.4%	7.3%	3.6%	21.6%	22.8%
13/12	1.0%	2.2%		2.7%	1.7%	3.2%	2.3%	2.3%	29.3%	11.3%
14/13	1.2%	2.1%		5.6%	4.3%	2.9%	6.5%	3.0%	34.9%	14.5%

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

**Table 28: San Diego County Nonfarm Employment**

Annual averages in thousands, March 2012 Benchmark

Year	Total Nonfarm Payroll	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2002	1,230.7	0.3	76.4	112.4	84.7	27.7	41.3	138.2	29.3	34.4
2003	1,240.1	0.3	80.2	105.3	78.8	26.5	41.6	140.8	27.3	33.4
2004	1,260.3	0.4	87.7	104.3	78.1	26.2	41.9	144.9	28.4	32.5
2005	1,282.1	0.4	90.8	104.5	79.1	25.4	43.6	147.4	28.4	32.6
2006	1,301.6	0.5	92.7	103.9	78.4	25.5	45.1	148.3	28.7	31.7
2007	1,308.8	0.4	87.0	102.5	77.3	25.2	45.5	148.1	28.8	31.3
2008	1,298.7	0.4	76.1	102.8	78.1	24.7	44.9	142.0	29.0	31.4
2009	1,231.3	0.4	61.1	95.3	73.1	22.2	40.6	131.6	24.4	28.2
2010	1,222.5	0.4	55.4	92.9	71.0	21.9	40.1	130.7	26.5	25.1
2011	1,233.4	0.4	55.8	93.3	71.0	22.3	42.0	134.7	26.1	24.0
2012	1,258.8	0.4	56.3	93.4	70.7	22.8	43.5	135.6	27.6	24.6
2013f	1,286.5	0.4	59.4	93.7	70.8	22.9	44.2	138.0	27.9	24.9
2014f	1,313.5	0.4	64.4	94.9	71.7	23.2	45.0	140.7	28.3	25.2

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2000	44.0	27.2	95.9	18.7	84.4	18.2	97.2	129.0	42.2	206.6
2001	44.9	27.2	101.7	18.6	81.4	17.2	98.8	131.4	44.9	213.8
2002	47.3	27.7	104.2	19.9	81.0	17.2	102.5	133.8	45.6	219.7
2003	51.2	28.8	105.1	19.1	80.5	18.8	103.0	140.7	46.8	217.3
2004	52.8	29.1	103.9	18.2	86.6	20.1	101.6	145.7	47.9	214.3
2005	53.5	29.7	110.8	17.4	87.2	21.1	101.4	149.6	48.8	215.1
2006	53.2	30.5	115.3	16.9	87.1	21.3	103.8	156.5	48.4	217.9
2007	50.2	30.1	118.6	16.1	88.4	22.0	107.6	161.8	48.3	222.4
2008	46.1	29.2	120.4	15.9	85.9	24.4	112.9	164.0	48.4	225.1
2009	43.3	26.5	116.7	16.0	74.1	26.7	117.5	154.8	46.8	224.5
2010	41.3	25.9	117.5	17.1	73.2	25.4	120.2	154.5	46.1	230.4
2011	42.7	25.7	119.8	17.8	76.0	28.0	125.4	158.6	48.6	228.3
2012	43.6	25.9	120.9	18.0	76.6	28.4	126.1	161.0	49.3	227.6
2013f	44.9	26.6	127.9	18.2	78.6	29.0	128.8	165.2	50.1	228.7
2014f	46.4	27.5	135.4	18.5	80.9	29.5	131.0	166.7	50.1	228.7

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

## Outlook for Ventura County

Ventura County is the smallest of the counties in the five-county L.A. area based on population, but it is home to a broad array of industries that include agriculture, professional business services, technology, and tourism. It is also a little-known shipping hub for automobiles and agricultural goods. Port Hueneme serves as a distribution point for automobile manufacturers, and is a collection point for many agricultural goods that are shipped throughout the nation.

Economic activity in Ventura County accelerated at the start of 2013. Most industries added jobs since the start of the year, resulting in an impressive decline in the unemployment rate since the start of the year. The housing market is also on the mend with the county's median price for an existing home in the \$500,000 range for the first time in five years.

### Employment

Ventura County's unemployment rate registered remarkable improvement in the first part of this year, declining from 9.0% in January to 6.6% in May. This came as average monthly nonfarm employment grew 1.6% in the first five months of 2013 compared to the same period last year. Ventura County has the second lowest unemployment rate in the greater Los Angeles area, surpassed only by Orange County.

Average employment rose in most private sector industries through the first five months of 2013. The largest gains were in leisure and hospitality (the second largest private sector industry by employment in the county), administrative and support services, construction, and professional, scientific, and technical services. Mining and logging, manufacturing, and finance and insurance all lost jobs. Employment in the government sector was roughly flat. In percentage terms, construction led the way with an 8.3% gain followed by a 7.3% jump in leisure and hospitality.

### Tourism

The size of the leisure and hospitality sector (14% of nonfarm employment) reflects the importance of tourism to Ventura County. On a year-to-date basis through May, occupancy rates were down marginally, but room rates and room revenues were up by just under 3%. Gains in retail employment may also be due in part to an increase in the number of tourists. As the Los Angeles County economy improves in the coming years, Ventura County's tourism industry will benefit from more visits by its next-door neighbors.

## Professional Services and Technology

About seven percent of Ventura County's wage and salary jobs are found in the professional, scientific, and technical services industry. The county is also known for having a significant presence in the pharmaceutical industry. These industries employ well-paid professionals such as architects, attorneys, engineers, and scientists. This is one reason for higher per capita income in Ventura County compared to other counties in Southern California. Growth in the professional, scientific, and technical services industry is expected to continue, with job gains of approximately 5% per year expected over the next two years.

## Conclusion

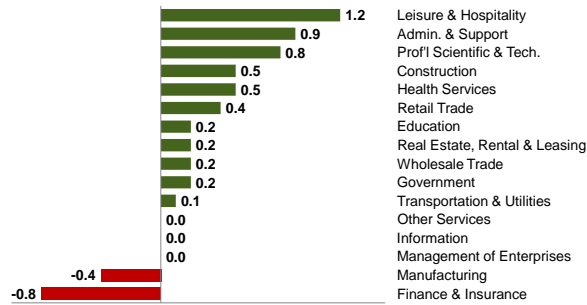
The Ventura County economy will see progress in a number of areas through the rest of this year and into 2014. Population should cross the 850,000 mark for the first time in 2014, while nonfarm jobs should continue to grow through the rest of this year and into the next. However, it may be 2015 or 2016 before nonfarm employment exceeds the 2006 peak of 298,000 jobs. The largest gains for 2013 are expected in leisure and hospitality, administrative and support services, professional, scientific and technical services, and construction. In percentage terms, the largest job gains will occur in administrative and support services, real estate, rental, and leasing, and in private education. Job losses will continue in manufacturing, natural resources, and finance and insurance.

With improved industry and employment prospects, total personal income will also grow. A 2.9% gain is expected this year and a 5.2% increase is projected for 2014. Similarly, taxable retail sales will grow modestly this year and next (up 2.9% and 2.6% respectively) following a 10.5% jump in 2012.

# Ventura County Snapshot

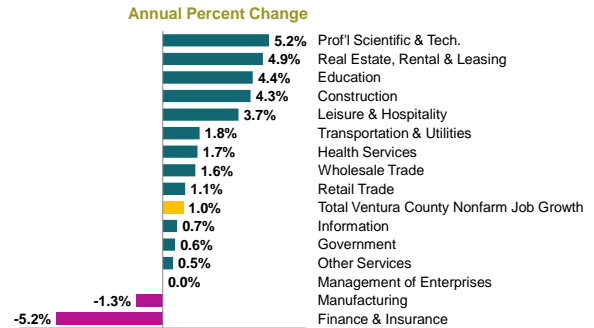
## Ventura County Employment Growth, 2013

Total nonfarm job growth forecast for 2013 (thousands): 2.9 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

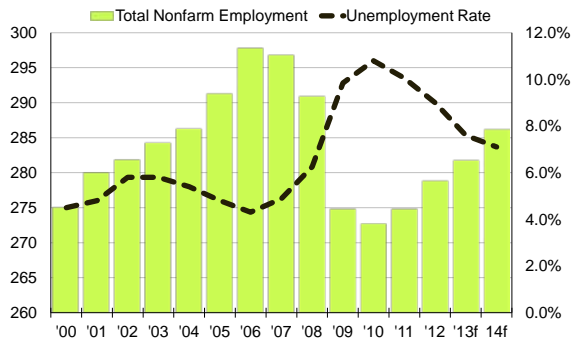
## Ventura County Employment Growth, 2013



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

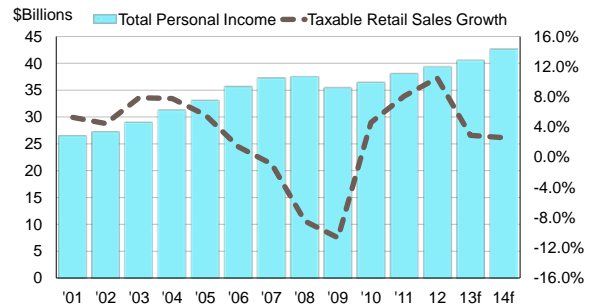
## Ventura County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

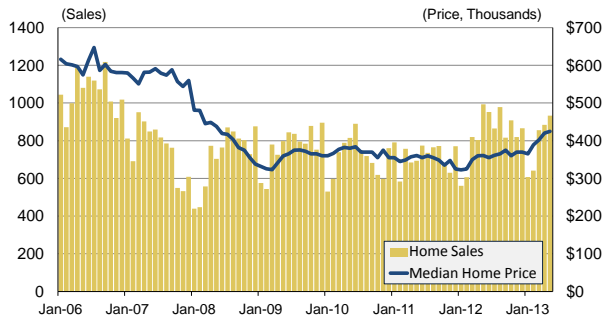
## Ventura County Personal Income & Retail Sales



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

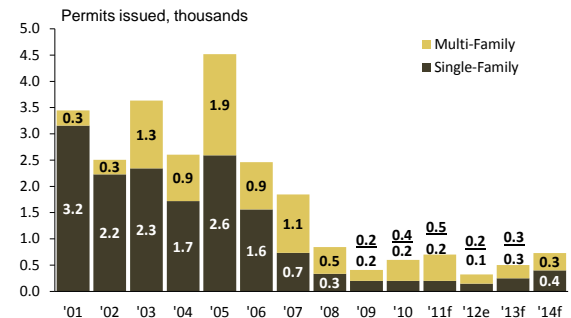
## Home Sales & Median Prices Ventura County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

## Residential Building Permits Issued in Ventura County



Source: CIBR, California Homebuilding Foundation; forecast by LAEDC

**Table 29: Ventura County Economic Indicators**

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy- ment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Taxable Retail Sales (\$Billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2002	779.9	281.8	5.8	27.3	35.1	7.2	2,507	289
2003	789.4	284.2	5.8	29.1	36.9	7.7	3,635	379
2004	795.0	286.2	5.4	31.3	39.5	8.3	2,603	353
2005	796.9	291.2	4.8	33.2	41.7	8.8	4,516	372
2006	801.2	297.7	4.3	35.7	44.7	8.9	2,461	326
2007	805.9	296.7	4.9	37.3	46.6	8.8	1,847	346
2008	812.0	290.8	6.3	37.6	46.6	8.1	842	345
2009	818.5	274.8	9.9	35.5	43.6	7.2	404	153
2010	825.1	272.7	10.8	36.5	44.2	7.5	590	160
2011	830.2	274.8	10.1	38.1	45.9	8.2	706	141
2012	834.1	278.8	9.0	39.4	47.0	9.0	322	108
2013f	842.9	281.7	7.6	40.6	47.8	9.3	500	120
2014f	851.5	286.1	7.1	42.7	49.8	9.5	730	135

% Change								
02/01	1.4%	0.7%		2.7%	1.0%	4.5%	-27.2%	-6.5%
03/02	1.2%	0.9%		6.3%	5.1%	7.9%	45.0%	31.1%
04/03	0.7%	0.7%		7.8%	7.0%	7.8%	-28.4%	-6.9%
05/04	0.2%	1.7%		5.8%	5.8%	5.6%	73.5%	5.4%
06/05	0.5%	2.2%		7.7%	7.2%	1.4%	-45.5%	-12.4%
07/06	0.6%	-0.3%		4.5%	4.2%	-0.9%	-24.9%	6.1%
08/07	0.8%	-2.0%		0.8%	0.0%	-8.5%	-54.4%	-0.3%
09/08	0.8%	-5.5%		-5.5%	-6.5%	-10.7%	-52.0%	-55.7%
10/09	0.8%	-0.8%		2.7%	1.4%	4.6%	46.0%	4.6%
11/10	0.6%	0.8%		4.5%	3.7%	8.1%	19.7%	-12.1%
12/11	0.5%	1.4%		3.4%	2.5%	10.5%	-54.4%	-23.0%
13/12	1.0%	1.0%		2.9%	1.8%	2.9%	55.3%	10.8%
14/13	1.0%	1.6%		5.2%	4.1%	2.6%	46.0%	12.5%

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

**Table 30: Ventura County Nonfarm Employment**

Annual averages in thousands, March 2012 Benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
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	296.7	1.1	18.8	38.0	23.9	14.1	13.0	37.6	6.1	5.8
2008	290.8	1.2	16.7	35.9	23.2	12.7	12.8	37.3	6.0	5.6
2009	274.8	1.2	13.2	32.6	20.4	12.2	12.0	35.1	5.4	5.3
2010	272.7	1.2	11.3	31.5	19.5	12.0	12.3	35.5	5.3	5.1
2011	274.8	1.3	11.3	30.6	18.8	11.8	12.4	36.3	5.5	4.9
2012	278.8	1.3	11.7	29.7	18.1	11.6	12.5	37.1	5.7	4.9
2013f	281.7	1.2	12.2	29.3	17.8	11.5	12.7	37.5	5.8	4.9
2014f	286.1	1.2	13.3	29.4	17.9	11.5	12.8	37.6	5.8	4.9

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2002	17.7	4.6	13.7	3.3	19.6	2.7	22.0	27.2	10.2	45.3
2003	19.2	4.3	13.6	3.9	19.4	3.1	23.2	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	3.3	22.9	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	3.4	23.7	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	3.4	24.3	30.5	10.2	42.5
2007	17.9	4.8	16.2	3.2	18.8	3.8	25.3	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.0	4.2	26.5	31.5	10.0	43.1
2009	16.1	4.4	16.2	2.9	16.1	4.3	27.2	29.8	9.3	42.9
2010	16.0	4.3	15.3	2.7	15.8	4.4	27.9	30.3	9.2	44.2
2011	16.2	4.2	15.0	2.4	16.0	4.3	28.5	31.4	9.2	44.4
2012	15.3	4.1	15.4	2.3	17.0	4.5	29.7	33.0	9.5	43.9
2013f	14.5	4.3	16.2	2.3	17.9	4.7	30.2	34.2	9.5	44.1
2014f	14.2	4.5	17.1	2.4	18.7	4.8	30.9	34.7	9.6	44.1

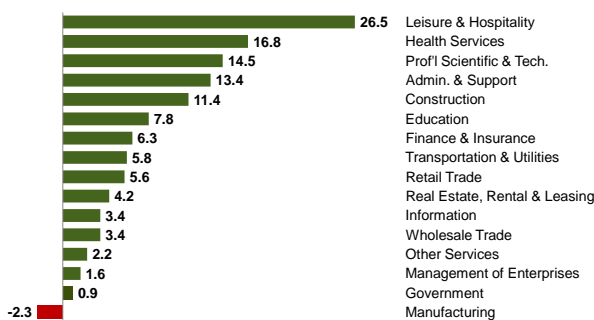
Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC

# Major Industries of the Southern California Economy

Uneven performances across the industries of Southern California in 2011 gave way to more widespread and consistent gains during 2012, a trend that persisted through the first half of this year. Continued progress over the next 18 months depends on the trajectory of the national economy as well as improvements in the economic and financial well-being of local households and businesses.

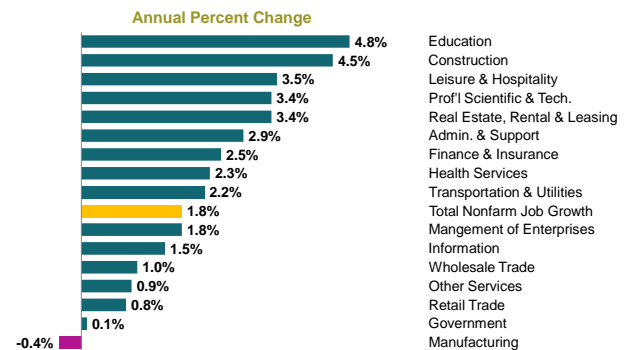
## L.A. 5-County Employment Growth, 2013

Total nonfarm job growth forecast for 2013 (thousands): 117.8 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

## L.A. 5-County Employment Growth, 2013



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

## Manufacturing

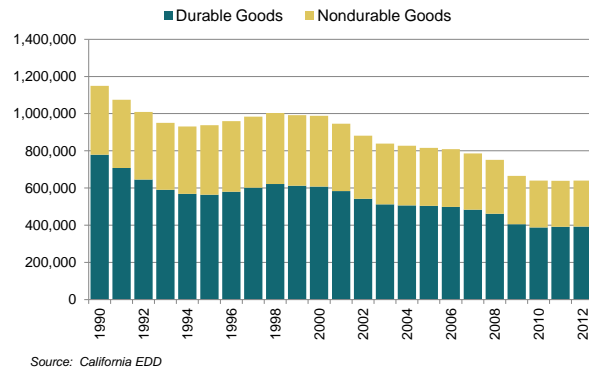
The manufacturing base in southern California is the nation's largest. In Los Angeles and Orange counties alone there were over 523,000 manufacturing jobs in 2012, nearly one-fifth more than the Chicago metropolitan area, which was the next largest manufacturing center at just under 410,600 jobs. The Los Angeles five-county area employed over 640,000 in manufacturing, while San Diego employed another 93,400 for a total of 733,100 manufacturing workers.

Over 60% of the manufacturing jobs in Southern California fall in the durable goods category that include aerospace, computers and related activities, metal manufacturing, and machinery fabrication. Non-durable goods include pharmaceuticals, apparel, textiles, and food and beverage processing.

The manufacturing base of over 365,000 jobs in Los Angeles County was more than double that of Orange County, which was second with nearly 160,000 jobs. The mix of industries varies considerably across the Southern California counties. In Los Angeles County, over 55% of the manufacturing jobs were in durable goods, compared to over 70% in Orange and San Diego counties, roughly 65% in the Inland Empire, and 60% in Ventura County.

Manufacturing employment in Southern California and elsewhere in the county has followed a trend decline for several decades as firms seek lower production costs elsewhere and greater efficiency through labor-saving innovations in the manufacturing process. Despite these job losses, manufacturing is in no way fading from the economic landscape. In fact, the value of manufacturing output for the state as a whole grew by more than 60% over the past 10 years.

### SoCal Manufacturing Employment



### Value of Manufacturing Output - California



### Aerospace and Defense

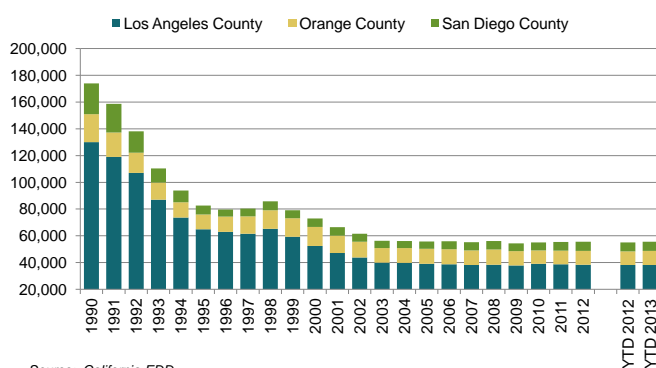
The aerospace and defense industries continue to be vital components of the regional economy – something too many of Southern California’s residents have failed to recognize until recent job losses related to the sequestration brought this sector back into the headlines. Also making headlines during the past year were the departures from Los Angeles of Northrop Grumman’s corporate headquarters to Virginia and a Raytheon unit headquarters to Texas.

While the industry is considerably smaller than it was 25 years ago, Southern California’s aerospace firms continue to provide a significant number of high-paying jobs and are an important source of technological innovation. New technologies developed by the aerospace industry have spilled over into the wider economy, providing platforms for advancements in a number of other industries and scientific disciplines.

The aerospace industry is characterized by a small number of large firms (Boeing, Northrop Grumman, Lockheed Martin, Raytheon) supported by a large base of subcontracting firms. In addition to the traditional giants of the aerospace industry, Southern California has attracted a number of groundbreaking newcomers like SpaceX, Virgin Galactic and Scaled Composites.

In 2012, the aerospace products and parts manufacturing sector<sup>7</sup> employed approximately 55,500 workers across Los Angeles, Orange and San Diego counties. This was an increase of 100 jobs (1.0%) compared with 2011. During the first five months of 2013, aerospace products manufacturing employment held steady, continuing to average 55,500 across all three counties. This represented an increase of 0.9% (480 jobs) compared with the same period in 2012. By county, job counts during this period declined slightly in Los Angeles County (down by 100 jobs, 0.2%), but were up in Orange County (360 jobs, 3.6%) and San Diego County (180 jobs, 2.7%).

### SoCal Aerospace Products Manufacturing Employment



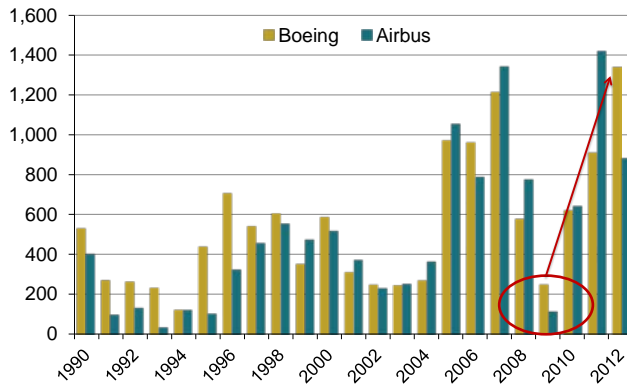
The long-term employment trend for this sector has been one of decline (although job counts have been fairly stable since 2004). There are a number of reasons for this. California still has the largest number of aerospace workers in the nation, but other states have developed significant aerospace and defense industries of their own. Foreign outsourcing is another factor. Technological change has also played an important role in this transition, either by increasing worker efficiency or by taking over jobs that used to require a human being to perform. Furthermore, aircraft components that once were mechanical and required more assembly steps, have become more compact electronic components that require less assembly. Conversely, although employment levels have fallen, the value of the aerospace products manufactured in the region has actually increased. The export of aerospace products also makes a positive contribution to the nation's balance of trade.

The civil side of the industry is doing well. Passenger and freight traffic is booming and new orders are flowing into the world's aircraft manufacturers.

<sup>7</sup> Definitions of the aerospace industry vary widely and often include the manufacture of search, detection, and navigation instruments, and military applications such as land and naval vehicles as well as security and defense contracting software and services. The employment numbers above encompass only NAICS 3364 Aerospace Products and Parts Manufacturing, thus the true scope of aerospace-related employment in the region is actually much larger.

According to the Aerospace Industries Association, Boeing and Airbus have enough orders on their books to keep production lines humming through the next six to seven years. This is good news for the large number of subcontractors in Southern California who produce parts for these two giants of commercial aviation.

## Boeing & Airbus Orders



Source: Boeing & Airbus Company Websites

Federal budget cuts are the foremost challenge faced by Southern California's aerospace firms in the near- to mid-term, especially companies with a large defense component. In addition to reduced Pentagon outlays for procurement, federal spending on defense-related R&D has also decreased. Maintaining the industry's base of skilled workers and investment in R&D is essential for growth now and in the future. If lost, the U.S. could find itself falling behind foreign competitors in the development of new technologies.

Federal budget cuts will also have a significant effect on the region's space industry over the next decade. Meanwhile, the United States space industry is facing growing competition from India, China and Russia. In an effort to strengthen the competitive stance of the industry in the U.S., the government (NASA) is increasing its reliance on commercial systems, such as SpaceX's Dragon Spacecraft, to enhance U.S. space programs and launch capabilities. In the near- to mid-term, the market will continue to be dominated by demand for satellites and launch services, but other opportunities are emerging. Aerospace firms in Southern California are working to develop reusable manned vehicles to service the International Space Station and are collaborating with NASA to build spacecraft (manned and unmanned) for conducting scientific experiments. There is even a nascent "space tourism" industry represented by Virgin Galactic and their SpaceShipTwo, a vehicle that is designed to carry six passengers into suborbital space.

Los Angeles County retains several advantages that will continue to attract and retain high-tech aerospace activities in the region, including an abundance of

skilled labor, an extensive infrastructure of test fields, universities and other educational and research centers, and the existence of a strong electronics industry. Firms primarily engaged in defense-related activities are also eyeing opportunities in adjacent markets. While transitioning production to civil markets has proved difficult in the past, civil aviation does provide an opportunity for growth in an era of declining defense budgets. Moreover, even on the defense side of the industry, demand for cyber security, intelligence, surveillance, defense electronics and energy security is expected to remain strong. The development and manufacture of unmanned aerial vehicles (drones) provides another avenue of growth for the region's aerospace industry, which is already a major player in this sector. Global spending on drones is expected to nearly double to \$11.4 billion over the next decade.<sup>8</sup>

Aerospace is once again an industry in transition, but new market opportunities are enhancing the region's ability to compete in the commercial space sector, civil aviation and commercial applications of defense technologies.

## Apparel Design and Manufacturing

Apparel design, manufacturing, and wholesaling make a significant contribution to the Southern California economy, particularly in Los Angeles County. There is strong demand for the "Made in Los Angeles" label both in the U.S. and abroad.

Even with a trend decline in apparel manufacturing wage and salary employment, Southern California is one of the few places in the U.S. where apparel manufacturing remains. Nowhere is this more apparent than in Los Angeles' position as the global capital of premium denim. Still, production of most apparel items has largely shifted to lower wage countries in Latin America and Asia with a few exceptions. High-end apparel that requires strict quality control and specialized skills or processing (e.g. premium jeans) tends to be manufactured locally. Design-related activity also helps the apparel industry retain a strong presence in Southern California, as does apparel wholesaling. Moreover, independent contractors add to the ranks of those employed in the industry along with wage and salary workers.

Much of the apparel manufacturing and wholesaling workforce in Southern California is located in Los Angeles County, although a smaller but significant number of workers may be found in Orange County. Apparel manufacturing employed 45,500 wage and salary workers in Los Angeles County in 2012, while apparel wholesaling employed 22,000 workers, for total industry employment of 67,500. Employment in 2012 grew by just 0.9% from a year earlier due to the loss of 1,100 manufacturing jobs. In contrast, apparel wholesaling added 800 jobs for a 3.7% increase.

---

*In May, the European Union increased the tariff on American-made women's and girls' denim jeans to 38% from the previous rate of 12%. According to U.S. government figures, the value of women's and girls' denim jeans shipped to EU markets last year was \$30.3 million. The California Fashion Association estimates that 75% of high-end denim in the world comes from Southern California. Many of L.A.'s premium denim brands have made the appeal of a "Made in the U.S.A." label a fundamental part of their marketing efforts. The increase in the E.U. tariff could force many brands to reconsider where they manufacture, which would lead to further job losses in the Los Angeles apparel industry.*

---

<sup>8</sup> The Teal Group Corporation

Apparel manufacturing remains one of the most labor-intensive industries in the world, which gives countries with lower wages/cost of living a competitive edge. Technological innovation, an apparel specific outward-oriented trade policy, or a dramatic change in the relative costs of manufacturing clothing abroad could slow or even arrest this decline. However, over the near-term future, local apparel manufacturing employment will continue the downward trend that began in the late 1990s.

Thanks to the many apparel design and merchandising schools located in the region, the design sector is thriving. These schools attract students from throughout the world. Big name local brands employ numerous design related workers, but the majority of local designers work independently. The Bureau of Labor Statistics estimates 3,560 fashion designers worked in Southern California in May 2011, with mean annual wages ranging from \$64,500 in Orange and San Diego counties to \$75,900 in Los Angeles County.

## **Computer and Electronic Product Manufacturing**

The computer and electronic product manufacturing industry employed 41,700 workers in Los Angeles County last year, with another 34,300 in Orange County and 24,700 in San Diego County. Ventura County employment in the industry was much smaller at 5,400. For the region as a whole, there were 106,000 workers in this industry last year.

Like the apparel industry, this industry has experienced a trend decline in employment dating back to the late 1990s when there were nearly 172,000 workers in this industry. In 2012, the industry experienced a 3.5% decline in jobs across the region, with the largest losses occurring in Los Angeles County (2,700 jobs) and Ventura County (780 jobs). During the first five months of 2013, total employment across the Southern California region was 104,400 workers, down from 106,920 (-2.4%) compared with the same period in 2012. Nevertheless, the industry employs a number of skilled workers in both professional and production jobs that generally earn higher than average wages.

## **Professional and Business Services**

The professional and business services industry includes a wide spectrum of industries, ranging from the professional, scientific, and technical to temporary employment services. There were just over 1,000,000 workers in the Los Angeles five-county region last year, up 3.4% from 2011. In Los Angeles County alone, this industry employed over 580,000 workers last year, with Orange County exceeding 250,000, and nearly 130,000 in the Inland Empire. In Los Angeles County, nearly 25,000 jobs were added in 2012, an increase of 4.4%. Orange County saw an increase of approximately 2.0% last year, while the Inland Empire added jobs at a rate of 1.1%.

Within Los Angeles County, business and professional services job growth has varied widely by segment. Comparing employment growth during the first five months of 2013 with the same period last year, temporary employment services added the largest number of workers, expanding payrolls by 11,900 jobs, an increase of 13.2%. It is typical for temporary employment services to be among the faster growing sectors following a recession, but the fact employers are still using a large number of temporary workers may be indicative of firms' uncertainty regarding the near-term economic outlook and demand for their services.

Illustrating the wide diversity of this industry, below are jobs gains by subsector for the period January through May of 2013 compared with the same five months last year:

- Accounting, tax preparation and bookkeeping added 6,600 jobs (15.0%)
- Consulting services added 4,260 jobs (9.6%)
- Investigation and security lost 20 jobs (0.0%)
- Computer systems design added 80 jobs (0.3%)
- Management of companies added 300 jobs (0.5%)
- Legal services and business support services lost a combined total of 820 jobs (1.3%)

With its high number of white collar and high skill jobs, this diverse sector will continue to be one of the fastest growing in the region over this year and next.

## Financial Services

The finance and real estate services industry suffered deep cuts during the Great Recession and accompanying financial crisis. From a peak of 639,300 jobs in 2006, the statewide industry lost over 167,000 jobs before stabilizing at 511,900 jobs in 2010. Financial services lost 127,000 jobs during the downturn and 40,000 were lost in real estate. Financial services jobs registered a 1.7% statewide increase last year, while real estate jobs increased also by 1.7%. The picture was mixed across the counties of Southern California with modest gains in Los Angeles, San Diego and Ventura counties, and slight losses in Orange County and the Inland Empire. Continuing to gather momentum this year, total employment in financial services in Southern California climbed to an average of 336,440 workers during the first five months of 2013, a gain of 16,300 jobs (5.1%) compared with the same period in 2012. Real estate is also adding jobs at a faster pace, with employment up by 4,980 jobs to 153,200 (3.4%) over the same period.

Financial institutions continue to work through loan delinquencies and foreclosures, but the scope of this problem will diminish further this year. The number of foreclosures and short sales in the residential market is on the way

down and will influence the market to a lesser degree this year and next. Meanwhile, loans made since the recession and financial crisis have met much stiffer credit standards and should pose few problems going forward. Dodd-Frank regulation continues to change the way the financial industry serves businesses and households.

With each year that passes, the financial crisis of the last decade moves further in the background and the financial system continues to heal. This will be reflected in Southern California in the form of small to modest single-digit employment gains both in financial services and in real estate jobs both this year and 2014.

## Healthcare Services and Biomedical

Los Angeles County has a population of roughly 10 million with over 18 million in the Los Angeles five-county region. Put simply, nearly half of the people in the nation's most populated state reside in the southern California region. With such a large population in a relatively small geographic area, Southern California has a number of large medical centers. It is also an attractive location for medical research and training. The state university systems and several private institutions have continually provided a platform for innovative research in biomedicine, as have major medical centers such as Cedars-Sinai and City of Hope.

The health care industry employed 745,000 people in the five-county Los Angeles region, with another 129,000 in San Diego County. Los Angeles County is home to over 435,000 jobs, accounting for almost 60% of industry employment in the five-county area. The industry consistently added jobs across the region over the past several years, with a 2.9% gain last year. Some of the fastest growth has occurred in Orange County, adding 6,200 jobs, an increase of 4.5%.

Within Los Angeles County, health care service job growth has varied widely by segment. Comparing employment growth during the first five months of 2013 with the same period last year, ambulatory health care services added the largest number of workers, expanding payrolls by 4,740 jobs, an increase of 2.6% year-to-date. Further contributions to job growth came from nursing and residential care facilities, adding 2,980 jobs, or 4.2% year-to-date.

In addition to providing health care services, biomedical research is a thriving high-tech industry in Southern California. For the state as a whole, California is home to over 2,300 biomedical companies, the largest number of biomedical companies of any state in the country. Within the Southern California region, the healthcare companies who engage in research and development of medical devices and pharmaceuticals employ nearly 60,000 people. Both medical research and the manufacturing of medical instruments and pharmaceuticals are an important source of economic growth in Southern California.

The health services industry of Southern California is expected to see job growth of approximately 2.3% in 2013, with bigger gains in the communities and counties that are experiencing larger increases in population.

## International Trade/Goods Movement

International trade is a key driver of goods movement in Southern California. Based on recently completed research, the LAEDC estimates that there were 268,269 export-oriented trade jobs in 2011 across the five-county region. Los Angeles County had the largest number of these jobs totaling 176,844. This cluster combines transportation, logistics, and distribution services to form the largest traded industry cluster in Southern California.

Within the industry cluster, the largest concentration of jobs falls in transportation and warehousing. Southern California transportation and warehousing jobs grew by 1.1% last year, an increase of nearly 2,600 jobs. Over the first five months of this year, 2,800 jobs had been added, with gains in Los Angeles County, the Inland Empire, San Diego County and Ventura County. The most significant expansion was witnessed in the Inland Empire and San Diego County. However, Orange County experienced a slight decline in jobs.

The focal point for much of the region's goods movement industry is the San Pedro Bay port complex, which is the nation's (and the Western Hemisphere's) largest container port complex. Los Angeles County, Orange County and the Inland Empire support the majority of this trade and goods movement with expanses of warehouse space. There is over 1.6 billion square feet of industrial space in Los Angeles County, Orange County and the Inland Empire, with over ten million square feet of additional space under construction in 2013.

As the logistics hub of Southern California and in many respects the nation, this industry is especially critical to the Inland Empire economy. Warehouse construction in the Inland Empire rose 81% in the fourth quarter 2012 on an annual basis and was the most active in the nation. In fact, nearly eight million square feet of industrial space is under construction, up from 4.3 million at the end of 2011. Roughly 75% of all goods coming into the local ports pass through the Inland Empire by truck and rail. Vacancy rates for industrial space in Los Angeles County and Orange County are the lowest in the nation. Meanwhile, in the Inland Empire the vacancy rate in the first quarter hit its lowest level since the recession and is also one of the lowest in the nation.

---

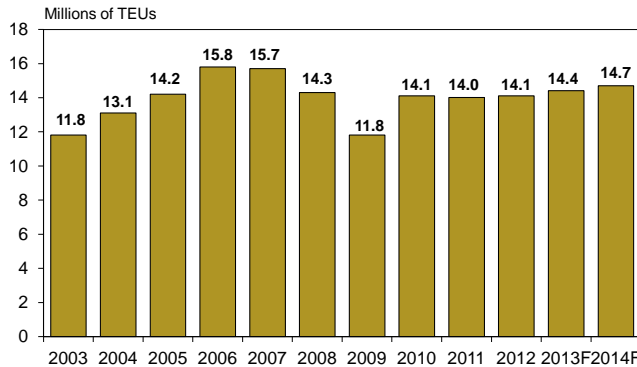
*Total container traffic at the Port of Los Angeles and the Port of Long Beach is projected to expand in 2013 to 14.4 million TEUs, a rise of 2.2% and in 2014 to 14.7 million TEUs, a rise of 2.0%.*

---

The 2013 year-to-date trade figures through May for both ports portray two very different pictures, with cargo volume at the Port of Long Beach up by 17.2%, while total volume at the Port of Los Angeles was down by 7.5%. This was primarily due to the new trend whereby shippers form alliances to allow cargo

volumes to move more fluidly between the ports. In addition, the Port of Long Beach was able to gain three new strings of vessels from Asia that began services last May. The combined total for both ports was up 2.5% year-to-date, with the majority of that increase attributable to stronger import growth, as improvement in the labor and housing markets has led to an increase in U.S. demand for consumer goods and household items over the past few months.

## TEU Throughput San Pedro Bay Ports



Sources: Ports of Los Angeles and Long Beach; forecasts by LAEDC

The Ports of Los Angeles and Long Beach maintained their top two rankings in the U.S. during 2012, handling a total of 14.1 million containers. In addition, the Los Angeles Customs District (LACD) regained its number one position in the U.S. in 2012 with a two-way trade value of \$403.4 billion (ahead of New York at \$381.3 billion). In 2012, the value of total two-way trade at the LACD increased by 4.3% on a year-over-year basis. Through May 2013, the value of total two-way trade at the LACD has increased by 1.6% on a year-to-date basis.

International airport cargo, which generally consists of small, lightweight, high-value products that require quick delivery, passes through both LAX and Ontario International Airport. Tonnage passing through LAX fell by 2.4% on a year-to-date basis through April 2013, while at Ontario, tonnage increased by 2.4% on a year-to-date basis through April 2013.

Over 40% of the nation's imported containers come through the ports of Los Angeles and Long Beach. The outlook for the remainder of 2013 and into 2014 is still relatively positive as the U.S. economy continues to grow. The most encouraging signs over the first half of the year have been the housing and labor markets. This has translated into an increase of imported household items and consumer goods.

---

*Through May 2013, the value of total two-way trade at the LACD has increased by 1.6% on a year-to-date basis.*

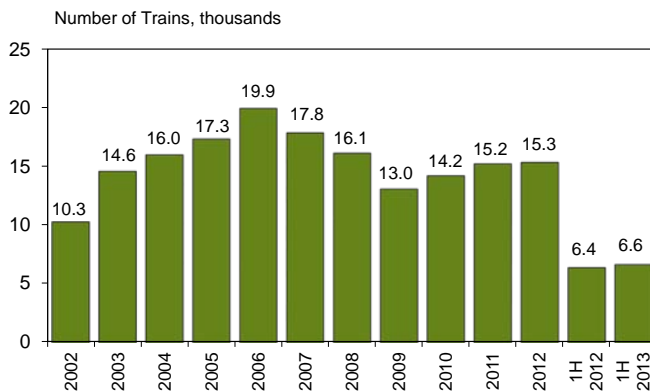
---

The forecast for the remainder of the year and for 2014 calls for a small increase in total trade volumes for both local ports. Total container traffic at the Port of Los Angeles and the Port of Long Beach is projected to expand in 2013 to 14.4 million TEUs, a rise of 2.2% and in 2014 to 14.7 million TEUs, a rise of 2.0%. Both imports and exports should improve this year with imports outperforming exports. The expected improvement in trade will positively impact both ports as well as all the other goods movement industry players, from the longshoremen's union to the independent truck drivers and the railroads.

As the National Export Initiative (NEI) enters into its fourth year, the U.S. continues to make progress toward the NEI's goal of doubling exports by the end of 2014. In fact, since 2009 exports have risen from \$1.6 trillion to \$2.2 trillion in 2012. However, the pace of export growth substantially declined last year and has continued to experience only moderate growth over the first half of this year.

**Alameda Corridor:** The 20-mile rail cargo line that connects both ports to the main railroad yards near downtown Los Angeles continues to be an instrumental part of the entire goods movement process. The number of trains running on the Alameda Corridor has seen consistent growth since 2010 and that trend continues. Through May 2013, the number of trains rose by 4.0% on a year-to-date basis. The number of containers moving via the corridor has also grown, rising by 2.3% on a year-to-date basis through April. Both figures should increase over the remainder of this year with stronger growth occurring in 2014, as both the U.S. and international economies improve.

## Alameda Corridor Train Counts



Source: Alameda Corridor Transportation Authority

---

*In 2012, the average daily number of trains transiting through the corridor was 42. The Alameda Corridor was designed to accommodate growth in port activity far into the future with a capacity of over 150 trains per day.*

---



---

*The Southern California International Gateway (SCIG), a new near-dock rail facility adjacent to the Port of Los Angeles, was approved in May of this year. Upon completion of the \$500 million project, an estimated 1.5 million containers annually will be diverted from trucks (now traveling the 24 miles to the intermodal yards near downtown Los Angeles) to trains through the Alameda Corridor, reducing freeway congestion and improving overall air quality.*

---

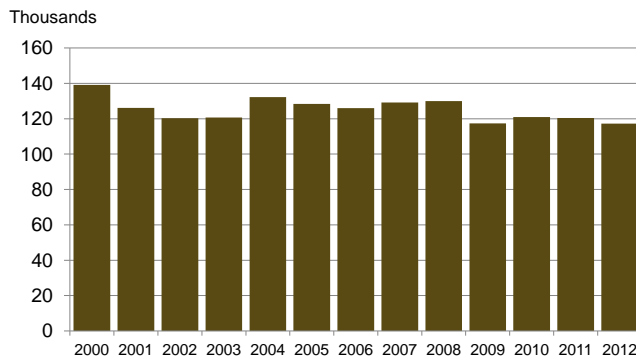
## Motion Picture/TV Production

The Southern California entertainment industry plays a key role in the regional economy both by itself and as a tourist attraction. Los Angeles' billing as entertainment capital of the world draws millions of visitors to the region each year. The industry's spillover effects into other areas of the local economy are noteworthy. When a movie is filmed, actors, costume designers and special effects creators benefit, but so do persons working in industries as disparate as food services, security, transportation, and floral design.

Motion picture and sound recording is the largest part of the industry by far and the greatest concentration of wage and salary jobs in the entertainment industry may be found in Los Angeles County. In 2012, there were 117,300 wage and salary jobs in motion picture and sound recording, which represents a decline of 2.6% or 3,100 jobs compared with 2011. During the first five month of 2013, employment averaged 120,200 workers versus 116,380 during the same period last year, a gain of 3.3%. This sector is still struggling to return to pre-recession levels of employment and remains well below the 2004 peak of 132,200 jobs.

The entertainment industry also employs a large number of independent contractors. Independent contractors approached 82,400 prior to the recession, but fell in number to just over 81,000 in 2009. The number of independent contractors is estimated to exceed 85,000 as of 2012, adding substantially to the overall job count in the industry.

### Motion Picture & Sound Recording Employment in Los Angeles County

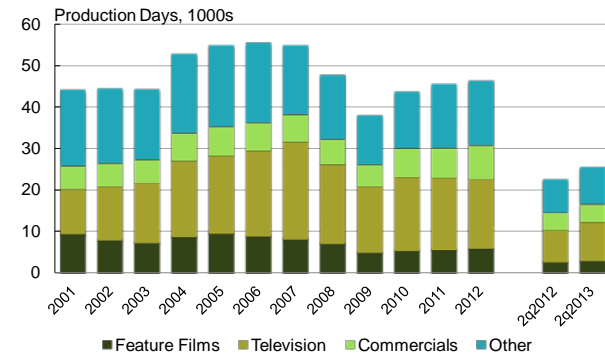


Sources: CA EDD, LMI

One measure of activity on the ground is permitted on-location production days. While this does not capture filming that takes place on sound stages, it is a reasonable proxy for industry activity. On-location film activity registered a 1.7% gain in 2012 to 46,254 production days. While on-location activity fell short of pre-recession peak levels of roughly 55,000 days that prevailed from 2005 through 2007, it was the third consecutive annual increase since bottoming

out in 2009. During the first two quarters of 2013, on-location production days were up by 13.1% compared with the same period in 2012. By category, Feature Films rose by 9.7%, Television increased by 22.4%, Commercials edged up by 1.7%, and “Other” was up by 11.5%.

## On-Location Film Production Days by Type



Source: Film LA

Total box office receipts were up by 6.4% in 2012 to \$34.7 billion. International box office receipts, which comprise 69% of the total, increased by 6.7% while domestic receipts rose by 5.9%.<sup>9</sup> At-home entertainment spending was essentially flat at \$18 billion last year. Revenue growth occurred through online digital distribution (electronic sell-through) but rentals and purchases fell.

In addition to employment and tourism, the region’s entertainment industry has an impact on commercial real estate. Three major studios have either started or are planning major renovations to their lots: Walt Disney Co., Paramount Pictures Corp and NBCUniversal Inc. After five years of limited new commercial development in Los Angeles County, these projects will provide a significant number of new construction jobs. The fact that these studios are making such a large investment in Los Angeles County to upgrade facilities and infrastructure is an indication they are confident about attracting and retaining film production in the region. Extending the state film and television tax credit program would also contribute to the long-term viability of the industry in the region.

## Real Estate and Construction

### Residential Real Estate

Southern California’s housing market recovery is gaining momentum. In 2012, as the number of foreclosures declined, many markets experienced significant gains in median price for the first time since government support programs expired two years earlier. Potential buyers are returning to the market, drawn by increasing confidence in the economic outlook and a sense of urgency created by rising home prices and mortgage interest rates.

<sup>9</sup> Motion Picture Association of America

Although the housing market in Southern California has started on the road to recovery, maintaining a cautious view is still a smart bet. Certain fundamentals are improving. Considerable progress has been made in reducing the backlog of foreclosures while the pipeline of future foreclosures has narrowed. Last year, 1.7 million homeowners across the nation escaped negative equity positions<sup>10</sup> and can now afford to sell their homes. This will help revive the move-up market. Lastly, rising employment will enable more people to make the financial commitment required by homeownership.

On the other hand, there is an important demand driver for the housing market that has not improved with rising prices. A sustained housing market recovery also requires rising rates of homeownership. That part of the recovery is missing – homeownership rates are still declining. One factor is the foreclosure crisis reduced the number of potential homeowners. Additionally, many young people are entering the workforce with high levels of student debt and are thus more likely to rent. This also leads to delays in starting families. New household formation was just 980,000 in 2012, while the annual average from 1965 to 2001 was 1.28 million.

The unprecedented influx of investor purchases, both individual and institutional, has pushed the housing market into unknown territory. Investor purchases have helped to clear out the inventory of foreclosures but in doing so have also played a large role in driving up median prices. At some point, as prices and interest rates continue to rise, investor activity will begin to back off, dampening the run up in prices. In any event, the large double-digit year-over price increases seen during the past 15 months in Southern California are unlikely to continue since they based are on last year's near bottom-of-the-market price levels.

Lastly, while mortgage interest rates have started to inch up, they should not be an impediment to the housing market recovery (unless they rise more than expected this year and next). Mortgage lending standards, on the other hand, are still a problem, shutting out many potential first-time buyers and pushing them to the rental market.

**Existing Home Sales:** In 2012, existing single-family home sales in California were up by 5.4% over the year, while the median price increased by 11.6%.<sup>11</sup> As of May of this year, the median price for an existing single-family home was \$417,350, up by 31.9% compared with May 2012. For reference, the median price of an existing home nationally was just \$208,000 in May. The statewide median price has now posted year-over gains for 15 consecutive months. Much of the statewide gain was attributable to particularly strong sales in the San Francisco Bay area – a region where job and economic growth as well as home price gains have outpaced Southern California.

---

*In 2012, existing single-family home sales in California were up by 5.4% over the year, while the median price increased by 11.6%. As of May of this year, the median price for an existing single-family home was \$417,350, up by 31.9% compared with May 2012.*

---

<sup>10</sup> CoreLogic

<sup>11</sup> California Association of Realtors

In the Southland, sales are rising fastest in many mid- to high-end markets. Sales of homes priced between \$300,000 and \$800,000 (a range that includes “move-up” buyers) have outpaced sales of homes priced below \$300,000. The run-up in median price is due in large part to the significant increase in sales of higher-priced homes coupled with inventory constraints on lower-priced properties, (particularly foreclosures).

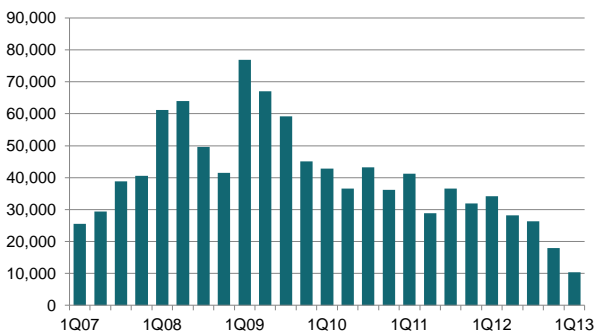
Foreclosure sales accounted for 10.8% of the region’s resale market in May compared with 26.9% a year earlier and 56.7% in February 2009 when foreclosure sales peaked.<sup>12</sup> Investors and cash buyers continue to be a sizable force in Southern California’s housing market, accounting for about 30% of existing home sales so far this year.

---

*The LAEDC forecasts that homebuilders will pull permits for 35,300 new units in the Los Angeles five-county region this year, an increase of 43.4% compared with 2012.*

---

### Notices of Default in the L.A. 5-County Region



Source: DataQuick Information Systems, County Recorders

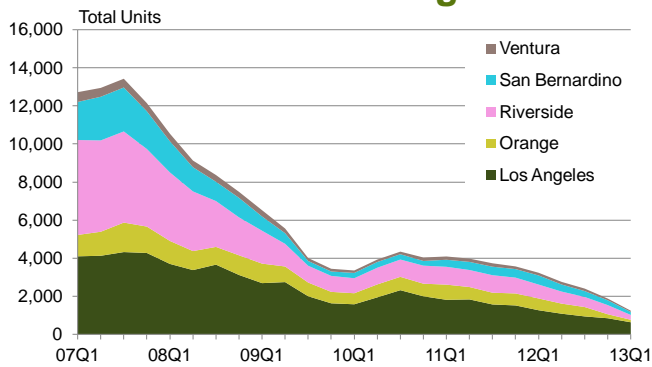
**New Home Construction:** Permits for new home construction in Southern California rebounded slightly last year, rising by 16.2% to an estimated 24,619 units. Since bottoming out in 2009 at 14,942 total units permitted, housing permits were up by 64.8%. Permit levels since the recession have been a fraction of the peak of 91,556 reached in 2004. Inventories of new homes are extremely low, a situation that is helping to drive recent gains in new home building. Rising prices for existing homes is another hopeful sign for homebuilders. The reduction in the number of distressed properties on the market has relieved downward pressure on prices, so that new homes are increasingly able to compete on price with existing homes.

The LAEDC forecasts that homebuilders will pull permits for 35,300 new units in the Los Angeles five-county region this year, an increase of 43.4% compared with 2012. The pace of new home construction will gather speed in 2014, jumping to 51,030 new units permitted. In addition to rising home prices, employment will be a key driver of new home construction, leading builders to look for available land near markets where employment is likely to exhibit strong growth over the coming years.

<sup>12</sup> DQNews.com; *Southland Closes 2012 with Higher Sales and Prices*

**Unsold Inventories of New Homes:** Inventories of homes for sale are extremely tight. According to the California Association of Realtors, the unsold inventory of existing homes in California represented a 2.6-month supply in May. This was down from 3.6 months in May 2012. The historical average for California is about seven months. Locally, inventories ranged from a low of 2.5 months in Los Angeles County (versus 3.6 months a year ago), to 3.2 months in Ventura County.

### Southern California Unsold New Housing



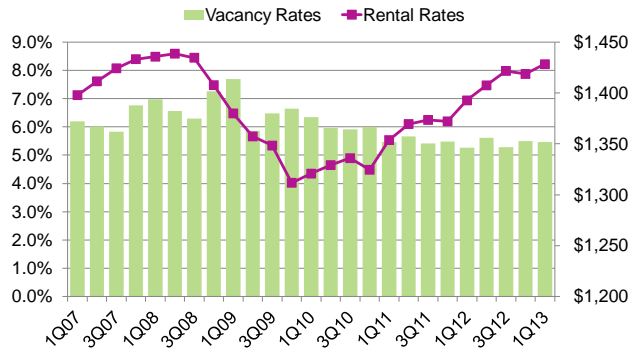
Source: California Real Estate Research Council

Inventories of new unsold homes are also very low. Together with stronger demand and rising prices, conditions are rapidly improving for homebuilders (although rising material prices are a concern). In Los Angeles County, the inventory of new unsold homes fell by 50.0% during the first quarter of 2013 compared with the same period last year. In Orange County, inventories declined by 78.6%. In the Inland Empire, unsold inventories in Riverside County were down by 65.4% during the first quarter, while in San Bernardino County, inventories declined by 66.7%. In Ventura County, the unsold new home inventory dropped by 54.9% during the first quarter of 2013.

**Apartments:** Demand for rental units is strong and will remain robust this year and next. Vacancy rates are at or near record lows and property owners have been able to raise prices without much of an impact on demand. There are a number of factors driving demand for apartment rentals. Job growth has enabled more young people to strike out on their own and many are choosing to rent. In some cases, the decision to rent is due to preference, but other factors such as student loan debt may also play a role. Additionally, tight mortgage lending standards have pushed many would-be buyers to the rental markets, and former homeowners who lost their homes to foreclosures will probably have to rent for many years to come. On the other end of the spectrum, longer life expectancy and better health care are increasing demand for senior housing as retiring Baby Boomers (ages 49 to 67) downsize from the family home and transition to multi-family communities.

Multi-family has been the one bright spot for new residential construction over the past several years, but the rapid pace of building that commenced soon after the recession is likely to slow somewhat this year and next as supply catches up with demand.

### L.A. Five-County Region Apartment Vacancy Rates & Average Rental Rates



Note: For apartments with more than 100 units  
Source: Real Facts/California Real Estate Research Council

**Conclusion:** The housing market in Southern California is undeniably in better shape than it was a year ago. Sales activity has increased across a broad range of home prices – an indication the market is moving back to a more balanced position. Continuing improvement this year and next will depend in large part on progress in the rest of the economy; strong job and income growth has historically led to new household formation, spurring new home construction. This dynamic may take some time to play out this time around. Homeownership rates have only recovered to where they were in the mid-1990s. It could be that more time and distance from the housing crisis is needed to change the mindset of individuals reluctant to take on homeownership. On the upside, increasing numbers of households are on a more solid financial footing. Household wealth has surpassed prerecession levels mostly due to rising equities (although these benefits have mostly accrued to high-income households).

Summing it all up, affordability, low interest rates and investor purchases are driving housing demand. Record numbers of cash buyers are snapping up properties, but gains in “move-up” markets are also on the rise. As prices continue to appreciate, fewer people will owe more than their homes are worth, thus enabling them to sell. These factors are attracting more first-time and move-up buyers as well as investors. Many, but not all, of the housing market fundamentals are in place pointing the way to a very gradual recovery.

**Table 31: Median Existing Single-Family Home Prices**

Year	L.A. County	Orange County	Inland Empire	Ventura County	Annual % Change				
					Year	L.A. County	Orange County	Inland Empire	Ventura County
2002	287,176	408,638	167,726	372,395	2002	18.5%	15.5%	13.6%	15.4%
2003	348,409	488,439	217,953	462,521	2003	21.3%	19.5%	29.9%	24.2%
2004	435,954	642,577	295,173	599,282	2004	25.1%	31.6%	35.4%	29.6%
2005	517,853	706,555	364,407	668,138	2005	18.8%	10.0%	23.5%	11.5%
2006	577,147	732,517	383,580	685,957	2006	11.4%	3.7%	5.3%	2.7%
2007	589,166	727,570	367,248	673,940	2007	2.1%	-0.7%	-4.3%	-1.8%
2008	382,714	540,650	230,710	463,560	2008	-35.0%	-25.7%	-37.2%	-31.2%
2009	299,268	505,589	161,114	416,770	2009	-21.8%	-6.5%	-30.2%	-10.1%
2010	323,290	546,385	179,268	442,820	2010	8.0%	8.1%	11.3%	6.3%
2011	307,660	512,500	172,280	418,270	2011	-4.8%	-6.2%	-3.9%	-5.5%
2012	327,470	542,700	189,300	427,000	2012	6.4%	5.9%	9.9%	2.1%

Source: California Association of Realtors

**Table 32: Total Housing Permits**

Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5	Annual % Change					
						Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2002	19,364	12,020	33,280	2,507	67,171	2002	6.1%	39.0%	20.8%	-27.2%	16.0%
2003	21,313	9,311	43,001	3,635	77,260	2003	10.1%	-22.5%	29.2%	45.0%	15.0%
2004	26,935	9,322	52,696	2,603	91,556	2004	26.4%	0.1%	22.5%	-28.4%	18.5%
2005	25,647	7,206	50,818	4,516	88,187	2005	-4.8%	-22.7%	-3.6%	73.5%	-3.7%
2006	26,348	8,371	39,083	2,461	76,263	2006	2.7%	16.2%	-23.1%	-45.5%	-13.5%
2007	20,363	7,072	20,457	1,847	49,739	2007	-22.7%	-15.5%	-47.7%	-24.9%	-34.8%
2008	13,704	3,159	9,101	842	26,806	2008	-32.7%	-55.3%	-55.5%	-54.4%	-46.1%
2009	5,653	2,200	6,685	404	14,942	2009	-58.7%	-30.4%	-26.5%	-52.0%	-44.3%
2010	7,468	3,091	6,404	590	17,553	2010	32.1%	40.5%	-4.2%	46.0%	17.5%
2011	10,390	4,805	5,280	706	21,181	2011	39.1%	55.5%	-17.6%	19.7%	20.7%
2012	11,715	6,163	6,419	322	24,619	2012	12.8%	28.3%	21.6%	-54.4%	16.2%
2013f	17,000	8,800	9,000	500	35,300	2013f	45.1%	42.8%	40.2%	55.3%	43.4%
2014f	24,600	10,800	14,900	730	51,030	2014f	44.7%	22.7%	65.6%	46.0%	44.6%

Sources: Construction Industry Research Board, California Homebuilding Foundation; forecasts by LAEDC

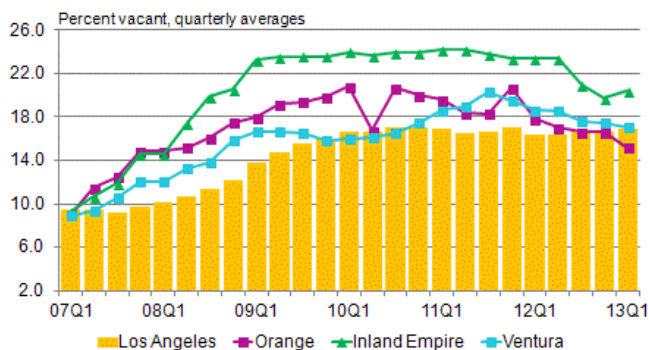
## Nonresidential Real Estate<sup>13</sup>

### Office Space

The modest pace of economic growth over the past four years has led to painfully slow improvements in both operating fundamentals and new construction for the region's commercial real estate sector, especially office properties. Employment growth in industries that utilize office space (for example finance and business services) has not been strong enough to drive down vacancy rates. Additionally, changes in technology have reduced the amount of office space utilized per worker. The focus on reducing space per worker is most noticeable in finance and business services. These types of firms tend to occupy space in expensive, prime locations and face revenue pressures to reduce occupancy expenses. Much stronger employment growth is needed to offset these trends.

Southern California's office market is showing signs of stabilization but there is a great deal of variation by county and submarket. It will take several more quarters of improvement before the region's office market is truly on the road to recovery. Leasing activity is generally on the rise, but the impact on rental rates has been minimal.

### Office Vacancy Rates in Southern California



Source: Grubb & Ellis Research Services/RERC

**Los Angeles County:** The Los Angeles County office market continues to be challenging. During the first quarter, the average vacancy rate nearly returned to its highest level in this cycle. Downsizing at entertainment, legal and financial services firms led to an increase in vacancy rates in almost every submarket in the county. In one of the most notable space givebacks during the first quarter, Walt Disney Co. vacated 400,000 square feet in Burbank. The Central Business District (CBD) also experienced an increase in vacancy rates with a number of firms “right sizing”. More space givebacks are expected later this year.

<sup>13</sup> The LAEDC is grateful to Cushman and Wakefield (West Region) and Grubb & Ellis Research Services (Torrance) for providing the data in this section.

One bright spot has been the Westside. A number of Silicon Valley companies are establishing a presence in Los Angeles; Google Inc., YouTube Inc., and Facebook Inc. have all opened offices on the Westside. Microsoft Corp. leased two spaces during the first quarter – one in Santa Monica and one in Playa Vista.

During the first quarter of 2013, the office vacancy rate in Los Angeles County was 16.9%, up from 16.4% during the same period last year. Absorption was negative 643,649 square feet. No new construction was completed during the first quarter, but there was 495,000 square feet of new construction in the pipeline, 400,000 square feet of which, was concentrated in the CBD. Asking rent for Class A space was \$2.83 per square foot during the first quarter of 2013. This represents an increase in rents of 0.7% compared with the first quarter of 2012 but the gain was primarily concentrated on the Westside. Even with the uptick in activity on the Westside, and in spite of several years of almost no new construction, the Los Angeles County office market recovery will be tenuous at best until employment improves.

**Orange County:** Orange County closed 2012 with two consecutive years of substantial positive net absorption. Last year also saw the geographic broadening of the county's office market recovery. Availability in the most desirable areas (Newport Center, Irvine Spectrum) is tight and rents are starting to reflect demand for space in these prime locations. During the first quarter of 2013, Orange County's office market was off to a healthy start. Vacancy rates have been on a downward trend since late 2010 and rental rates have been mostly flat. Demand for office space is strong among technology and medical services companies, law firms, mortgage companies and even small entrepreneurial firms.

In Orange County, the average office vacancy rate declined in the first quarter of 2013 to 15.2% from 17.8% a year ago. Net absorption was positive 518,722 square feet during the first quarter of this year. No new office space was delivered, but there is 490,000 square feet of new construction underway. Two of the largest projects are Hyundai's new headquarters in Fountain Valley (469,000 sf) and PIMCO's new office building at Fashion Island (479,800 sf). The average Class A asking rent in Orange County declined by 2.3% over the year to \$2.10 per square foot during the first quarter. However, some submarkets are starting to see rents slowly increase. Rents at the Irvine Spectrum are as much as a dollar higher than other submarkets.

---

*In Orange County, demand for office space is strong among technology and medical services companies, law firms, mortgage companies and even small entrepreneurial firms.*

---

**Inland Empire:** The Inland Empire office market should continue to stabilize over the rest of 2013, but true recovery is still somewhere down the road. Employment growth in the industries that use office space is slowly improving, but nowhere near fast enough to fill available vacant space. The market has been dominated by large user purchases for the last several quarters while leasing activity has been quite low, totaling just 121,453 square feet during the first quarter. This amounted to an 18.9% year-over decline and was the lowest level of activity since the fourth quarter of 2008.

In the Inland Empire, the office vacancy rate was 20.4% during the first quarter of 2013, down from the same period in 2012 (23.4%). Rental rates were flat at \$2.01 per square foot over the same period. Total net absorption during the first quarter of 2013 was 195,290 square feet, mainly due to user purchases. There were no new construction completions and no projects in the pipeline. With vacancy rates still over 20%, builders are understandably reluctant to break ground on new office developments. On the other hand, investors are taking advantage of depressed sales prices and low interest rates to purchase office properties.

### Industrial Space

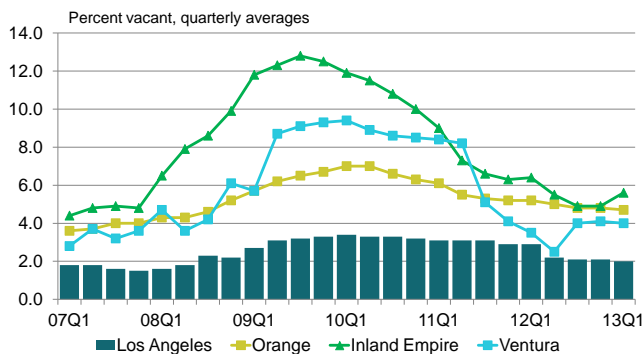
Southern California is a major center for manufacturing, international trade and logistics, and entertainment, all of which are potential users of industrial space. Los Angeles County is the nation's largest manufacturing center and is home to its biggest port complex. An adequate supply of industrial land with ready access to the region's transportation infrastructure facilitates trade and enhances the competitiveness of the region. Moreover, industrial real estate is job-producing land, offering employment opportunities for all skill and education levels; it supports jobs in other business sectors, and generates taxes that sustain and improve the quality of life elsewhere within the greater Los Angeles region.

---

*As of the first quarter of 2013, nearly 366,000 SF of new industrial construction was completed in Los Angeles County with an additional 2.9 million square feet of new space in the pipeline.*

---

## Industrial Vacancy Rates in Southern California



**Los Angeles County:** Last year, Los Angeles County's industrial real estate market was defined by the static level of cargo volumes at the San Pedro Bay ports. Despite having one of the largest concentrations of industrial space anywhere in the country, the availability of large warehouse facilities is tight. The challenge for Los Angeles' industrial market is supply. Transportation and logistics firms have to compete with Los Angeles' large manufacturing sector for space. In addition, lease renewal rates are high making it hard for companies who would like to have a presence in the area to gain entry.

There is some new supply in the pipeline. During the first quarter of this year, nearly 366,000 square feet of new construction was completed with an additional

2.9 million square feet of new space under construction. Net absorption was positive (over 1.4 million square feet). Third-party logistics providers are a dominant force in the region and many are willing to pay premiums on high-cube buildings with large yards to accommodate trailer parking.

At the close of the first quarter of 2013, the direct industrial vacancy rate in Los Angeles County was 2.0%, down from 2.9% during the same period last year. Over the year, the average asking rent for industrial space edged up to \$0.55 per square foot from \$0.52 per square foot. Much of the lack of upward pressure on rents was attributable to flattening inbound container cargo traffic through the ports. Nevertheless, recovery is well underway and lease activity is increasing. Lease rates are likely to stay soft in 2013, but should begin to rise appreciably beginning in 2014.

**Orange County:** Like Los Angeles County, Orange County has one of the tightest industrial real estate markets in the country. Net absorption during the first quarter of this year was just over 383,000 square feet compared with 651,000 square feet during the same period last year. Construction, aerospace and distribution firms are driving demand, especially for buildings 100,000 square feet and larger. Many buildings are leased before they even hit the market.

There were no new construction projects completed in the first quarter, but there was approximately 204,000 square feet under construction, which represented a substantial improvement over the first quarter of 2012 when only 26,000 square feet of new industrial construction was underway. The average direct vacancy rate in the first quarter of 2013 was 4.7%, which was down from 5.2% during the same time a year ago. During the first quarter, the average asking rent increased to \$0.69 per square foot from \$0.64 per square foot during the comparable period last year.

Orange County's industrial real estate market is on track for recovery although the pace is slower than anyone would like. Higher land costs make the area less attractive to users of large warehouses, but with low interest rates and low sales prices, investor activity should post significant gains in 2013.

**Inland Empire:** Weaker than expected growth in trade last year as measured by container volumes moving through the San Pedro Bay ports appears to have slowed the upward momentum of the Inland Empire's industrial real estate market as well. During the first quarter of 2013, net absorption was a positive 1.4 million square feet compared with over 2.4 million square feet during the same period last year.

The first quarter direct vacancy rate was 5.6%, which was down slightly from the 6.4% vacancy rate posted during the first quarter of 2012. Asking rents were flat over the same period at \$0.38 per square foot.

Significant declines in vacant space with strong demand for warehouse space above 300,000 square feet have prompted substantial new development since the end of the recession. New construction totaling 2.6 million square feet was delivered to the market during the first quarter of this year and another 7.3 million square feet is in the pipeline. The Inland Empire leads the nation in industrial construction and demand for large-scale distribution facilities should easily absorb new construction in 2013. As vacancies decline, and if demand stays on course, rents will start to rise but are expected to remain below prerecession levels for the foreseeable future.

**Forecast for Private Nonresidential Construction:** For the most part, new office space development will proceed at a cautious rate in all five counties of the Southern California region. Office vacancy rates should be stable through the remainder of 2013 and begin to decline in some submarkets as the employment situation improves. Average rents may continue to be soft in some areas, but for the most part, appear to be stabilizing. The lack of new construction and stronger employment growth next year will help drive the region's office market recovery. Changes in workplace organization will present a challenge going forward.

The outlook for industrial space development is somewhat more positive, especially for warehouse and distribution, data centers, and to a lesser extent manufacturing and R&D centers. However, improvements in vacancy rates and rents will depend largely on trade and manufacturing activity. Another factor is the rate at which speculative developments come online – too much supply added too fast could push vacancy rates higher. Additionally, as the housing market recovery gains strength, it will be a challenge for developers to find land that is not being converted to residential.

On the finance side, commercial mortgage delinquencies are down. They have not yet returned to prerecession levels, but the downward trend has been consistent. Lending standards for commercial real estate loans continue to loosen and demand is strengthening.

The value of total nonresidential construction the five-county region rose to an estimated \$6.3 billion in 2012, up by 18.5% compared with 2011. In 2013, as general economic and labor market conditions improve, the LAEDC forecasts nonresidential construction in the region will increase to \$7.3 billion (16.5%). While this increase appears large in percentage terms, the market is coming off a very low base. The road to recovery is still unfolding and will be a long one.

## Table 33: Private Nonresidential Construction Permits

(By valuation, \$millions)

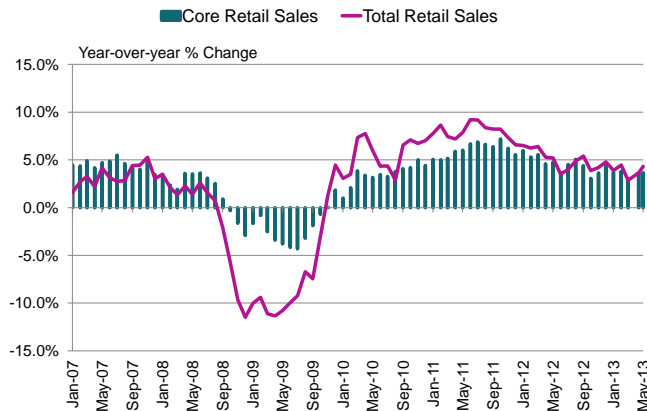
Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County	Annual % Change					
	Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County	Year	L.A. County	Orange County	Inland Empire	Ventura County
2002	2,920	1,209	1,473	289	5,891	2002	-17.5%	-10.4%	3.5%	-6.5%	-11.0%
2003	2,932	1,006	1,720	379	6,037	2003	0.4%	-16.8%	16.8%	31.1%	2.5%
2004	3,174	1,133	2,485	353	7,145	2004	8.3%	12.6%	44.5%	-6.9%	18.4%
2005	3,824	1,495	2,394	372	8,085	2005	20.5%	32.0%	-3.7%	5.4%	13.2%
2006	3,896	2,401	2,852	326	9,475	2006	1.9%	60.6%	19.1%	-12.4%	17.2%
2007	4,739	2,005	2,824	346	9,915	2007	21.6%	-16.5%	-1.0%	6.1%	4.6%
2008	4,491	1,439	1,781	345	8,055	2008	-5.2%	-28.2%	-37.0%	-0.4%	-18.8%
2009	2,674	952	710	153	4,489	2009	-40.5%	-33.8%	-60.1%	-55.5%	-44.3%
2010	2,677	1,152	792	160	4,782	2010	0.1%	20.9%	11.7%	4.7%	6.5%
2011	2,965	1,291	904	141	5,301	2011	10.8%	12.1%	14.1%	-12.1%	10.9%
2012	3,683	1,271	1,220	108	6,282	2012	24.2%	-1.5%	35.0%	-23.4%	18.5%
2013f	4,400	1,400	1,400	120	7,320	2013f	19.5%	10.1%	14.8%	11.1%	16.5%
2014f	5,350	1,575	1,625	135	8,685	2014f	21.6%	12.5%	16.1%	12.5%	18.6%

Sources: Construction Industry Research Board, California Homebuilding Foundation; forecasts by LAEDC

## Retail Trade

The retail sector plays an important role in the U.S. and local economies. Consumer demand for retail goods and services is one indication of the health of the economy. Retailers also serve as large employers. In 2012, 11.0% of the work force in the Los Angeles five-county region was employed in the retail sector – that equates to nearly 738,000 jobs.

## U.S. Retail Sales



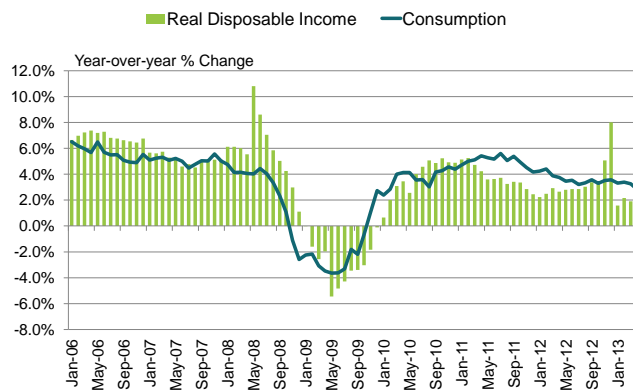
Source: U.S. Census Bureau

The U.S. retail sector posted a relatively solid performance in 2012 – sales were up by 5.0% compared with 2011. Through the first five months of 2013, retail sales continued to improve, rising by 3.8% compared with the same period last year. Even after stripping out the more volatile components of the retail sector (automobiles, gasoline stations, and building and garden centers) to arrive at

“core” retail sales,<sup>14</sup> the gains were still a relatively healthy 3.5%. The best performing retail sectors were auto sales and nonstore retailers (on-line and mail order houses). Nonstore retailers outpaced other segments of the retail sector by a wide margin – growing by 11.7% over the first five months of 2013 compared with the same period in 2012.

Retailers are generally optimistic about the outlook for the second half of 2013, but gains are expected to be modest. Consumers are slowly regaining confidence and are cautiously increasing their spending. However, households still face significant challenges. Although the labor markets are improving, unemployment is still high and income growth has been weak. Credit is becoming more accessible, especially for automobile loans, but consumers have been reluctant to run up high balances on their credit cards.

## Real Disposable Personal Income



Source: Bureau of Economic Analysis

Cautious consumers mean retailers have to work harder for every sale. Given this increasingly competitive environment, retailers are investing in new technology to take advantage of the expanding number of ways in which customers interact with retailers. Major trends have emerged that are changing the face of the retail sector. Retailers are increasingly incorporating customer feedback into their marketing efforts and are using technology and social media to target previously untapped portions of the shopping public.

Consumers have largely adapted to using the internet, mobile phones and tablets for comparing prices and making purchases. As a result, many major retail chains are downsizing physical retail stores and shifting more resources to developing their on-line presence. The push to develop ways to customize the on-line shopping experience has been particularly strong. Another growing trend for shoppers who prefer to visit a retailer’s brick and mortar store is the expansion of self-service options to find and purchase items.

<sup>14</sup> Core retail sales make up about 65% of total retail sales.

The recovery in the housing market is good news for consumers. Household real estate wealth increased by \$816 billion to \$9.1 trillion during the first quarter of 2013. Total household net worth climbed \$3 trillion to \$70.3 trillion – a new record.<sup>15</sup> This is potentially a big positive for consumer spending. Rising asset prices create a “wealth effect”. As homeowners see the value of their homes and financial assets increase, they tend to spend more from current income (viewing the equity in their homes as a sort of savings account). Additionally, lower and stable gasoline prices have allowed households to redirect spending from gasoline stations to spending on other consumer goods and entertainment. Low interest rates are another bright spot, making it more affordable to finance the purchase of appliances and other durable goods.

Looking ahead, consumer spending is expected to post modest gains this year, with somewhat stronger growth over the course of 2014. The expiration of the 2% payroll tax cut in January took a bite out workers’ paychecks but lower gasoline prices and the low overall rate of inflation have helped to prop up consumer purchasing power. As the year progresses, the economy will continue to expand, bringing gains in employment and real disposable income. Total U.S. personal consumption expenditures are expected to increase in 2013 by two to three percent, a large component of which, are retail sales.<sup>16</sup>

Southern California retail sales will closely track national trends. The LAEDC is forecasting moderate increases in taxable retail sales for 2013 that will range from 3.9% in the Inland Empire to 2.9% in Ventura County. Orange, San Diego and Los Angeles counties should see increases in taxable retail sales of 3.3%, 3.2% and 3.1% respectively.

## Travel and Tourism

Hospitality and tourism is one of Southern California’s largest and most visible industry sectors, employing hundreds of thousands of people and generating billions of dollars in economic activity. Los Angeles County alone hosted a record 41.4 million visitors (day and overnight) last year, a 2.5% increase over the previous year. Tourists and business travelers spent \$16.5 billion in 2012, an increase of 6.9% over 2011, also a record high.

Six million more international travelers arrived in Los Angeles last year, an increase of 1.2% compared with 2011. While Mexico and Canada sent the largest number of *international* visitors to Los Angeles County, China moved into the top spot as Los Angeles County’s number one *overseas* market. Other significant overseas markets for Los Angeles County include Australia, the United Kingdom, Japan, France, South Korea and Germany. International

---

<sup>15</sup> Federal Reserve Flow of Funds Report (Z1); first quarter 2013

<sup>16</sup> In addition to retail sales, personal consumption expenditures also include housing and health care.

travelers accounted for 14.5% of the total number of visitors (day and overnight) who arrived in Los Angeles last year, compared with 14.6% of the total in 2011. Slower economic growth in Asia and the euro zone in 2012 may explain in part why domestic visitor growth (2.7%) outpaced international growth (1.2%), but the disparity may also reflect growing domestic demand for travel and hospitality-related goods and services.

Demand for the region's hotel rooms was strong in 2012, with gains in both occupancy rates and average daily room rates. Occupancy rates in Los Angeles County are estimated to have reached 77.7% in 2012, which means occupancy rates have recovered to pre-recession levels. Average daily room rates (ADR) improved as well, regaining the ground lost during the downturn. Last year, ADR in Los Angeles County was estimated to be \$171.54 compared with \$151.31 in 2009 (the low point of the current cycle) and \$170.87 in 2008 (the peak).<sup>17</sup> The basic story is much the same throughout Southern California although there is considerable variation by county and submarket. Through the remaining months of 2013 and into next year, the lodging sector will benefit from stronger corporate spending, personal income growth and international visitation. Transient-occupancy taxes, a significant revenue source for local governments, should also register increases.

Leisure and hospitality employment is on the rise as well. In 2012, the leisure and hospitality industry<sup>18</sup> added 12,100 jobs, representing a 1.6% year-over gain in employment. During the first five months of 2013, leisure and hospitality employment was up by 4.8% (35,280 jobs) over the same period last year. Over half of the gain was concentrated in Los Angeles County (18,340 jobs), but job counts were up across the region. Restaurants and bars, which employ about 69% of all workers in the leisure and hospitality sector, expanded payrolls by 26,780 workers (5.3%) over the first five months of this year compared with the same period in 2012.

The outlook for the region's signature leisure and hospitality industry is bright. Slow economic growth both at home and abroad is a concern, but after two consecutive years of record visitor counts and spending, it seems there is little reason for worry. Additional evidence of optimism in the industry is that after several years of almost no new hotel construction, there are at least eight hotel projects currently under construction in Los Angeles County with 11 more projects planned for the next two years.<sup>19</sup> A number of prominent hotel properties have also undergone extensive remodels in an effort to keep guests coming back and to attract new customers.

---

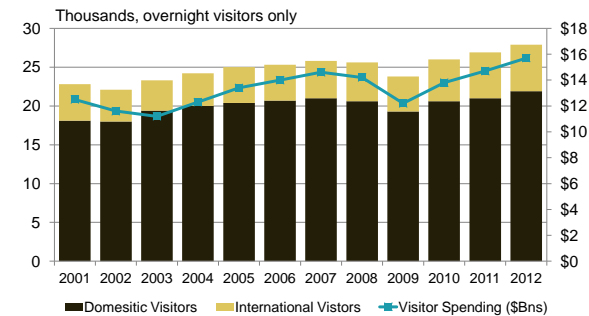
<sup>17</sup> PKF Consulting: *2013 Southern California Lodging Forecast*

<sup>18</sup> This sector (NAICS 72) includes lodging, food services, the performing arts, museums, amusement parks and gambling establishments, all of which cater to residents as well as tourists so employment figures are not entirely attributable to tourist-related activities.

<sup>19</sup> *Hoteliars Find Rooms in L.A.*, Los Angeles Business Journal, May 13-19, 2013

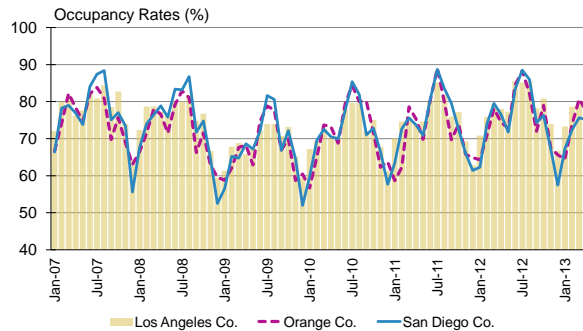
Efforts to maintain Southern California's position as a premier travel destination are ongoing. LAX is in the midst of a multi-billion dollar investment program to upgrade facilities. The centerpiece of this effort is the modernization of the Tom Bradley International Terminal (scheduled to open in August). San Diego International and Orange County's John Wayne Airport have also recently undergone major upgrades. In addition to Orange and San Diego counties, Los Angeles is becoming increasingly popular as a convention destination. A lack of nearby hotels has hampered Los Angeles' ability to attract large conventions, but with the addition of new hotel properties in the adjacent area, this is quickly changing. Local theme parks continue to invest in innovative attractions and the region's ever-expanding offering of cultural attractions is a major draw for visitors.

### L.A. County Visitor Counts and Spending



Source: L.A. Tourism and Convention Board

### Hotel Occupancy Rates



Source: PKF Consulting

# Index of Statistical Tables

Table 1: U.S. Economic Indicators .....	7
Table 2: U.S. Interest Rates .....	7
Table 3: Foreign Exchange Rates of Major U.S. Trading Partners.....	17
Table 4: Gross Product Comparisons, 2012.....	22
Table 5: California Economic Indicators .....	24
Table 6: California Nonfarm Employment .....	25
Table 7: California Regional Nonfarm Employment.....	26
Table 8: Total Nonfarm Employment in Southern California .....	27
Table 9: California Technology Employment.....	28
Table 10: Population Trends in California and the Los Angeles Five-County Area .....	29
Table 11: Components of Population Change in California and SoCal Counties .....	30
Table 12: Los Angeles County Economic Indicators .....	35
Table 13: Los Angeles County Nonfarm Employment.....	36
Table 14: North County Core Employment.....	41
Table 15: Hollywood/Mid-cities/Crenshaw Core Employment .....	41
Table 16: Central/Downtown Core Employment .....	41
Table 17: San Gabriel Valley/East Los Angeles Core Employment .....	42
Table 18: Gateway Core Employment.....	42
Table 19: San Fernando Valley Core Employment .....	42
Table 20: South Bay/LAX Core Employment.....	43
Table 21: South Los Angeles Core Employment.....	43
Table 22: Westside Core Employment .....	43
Table 23: Orange County Economic Indicators.....	48
Table 24: Orange County Nonfarm Employment.....	49
Table 25: Inland Empire Economic Indicators .....	55
Table 26: Inland Empire Nonfarm Employment .....	56
Table 27: San Diego County Economic Indicators.....	61
Table 28: San Diego County Nonfarm Employment.....	62
Table 29: Ventura County Economic Indicators.....	66
Table 30: Ventura County Nonfarm Employment.....	67
Table 31: Median Existing Single-Family Home Prices.....	85
Table 32: Total Housing Permits .....	85
Table 33: Private Nonresidential Construction Permits.....	91