2014-2015 ECONOMIC FORECAST & INDUSTRY OUTLOOK

THE KYSER CENTER FOR ECONOMIC RESEARCH

LAEDC

LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

COUNTY OF LOS ANGELES
CALIFORNIA

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California and Southern California

Including the National and International Setting

February 2014

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

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

Since 1996, the LAEDC has helped retain or attract more than 190,000 jobs, providing approximately $12 billion in direct economic impact from salaries and over $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. 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.

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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.

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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 entire region's economic vitality and quality of life.

Global Connections
Our World Trade Center 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 prime destination for foreign investment. For more information, please visit *www.wtca-lalb.org*

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LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's 2014-2015 Annual 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 pair of highly respected presenters. **Thomas M. Priselac**, President and CEO, Cedars-Sinai Health System Los Angeles, will share his insights into the extraordinary transformation taking place in our enormously important health care sector due to technological innovation, public policy, and other market factors. **Tad Rivelle**, Chief Investment Officer – Fixed Income, Group Managing Director, Trust Company of the West (TCW), will share his views on the unintended consequences of Fed policy and give us his perspective on the capital markets. 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 our presenting sponsor **University of Phoenix**, as well as **Cedars-Sinai Health System**, and **Union Bank**. Our media sponsors for this event are KNX 1070 NewsRadio and the Los Angeles Business Journal.

This week the LAEDC is also proud to announce the formation of "inLA," our county-wide initiative to accelerate the pace of innovation in our region, and its first program, the Blackstone Launchpad, funded by a multi-million dollar grant from the Blackstone Foundation to encourage entrepreneurship at UCLA, USC, and UC-Irvine.

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
L.A. County Economic Development Corporation

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- Consumer sector showing more strength; business investment on the upswing
- Federal deficit gap narrows; government employment stabilizes
- Risks: Slower than expected growth among U.S. trading partners; winding down of Fed's bond buying program; disruption to global energy supplies

	2013	2014F	2015F
Real GDP (% Change)	1.9%	2.5%	2.9%
Nonfarm Jobs (% Change)	1.7%	1.7%	1.9%
Unemployment Rate	7.4%	6.6%	6.1%
Consumer Price Index (% Change)	1.5%	1.7%	2.1%

The California Economy

- Private sector jobs gains, steady decline in unemployment rate
- Housing and construction up substantially; strong gains leisure and hospitality; health services; construction; professional and business services
- Improved fiscal outlook; water issues loom large

	2013	2014F	2015F
Unemployment Rate	8.9%	7.9%	7.1%
Nonfarm Jobs (% Change)	1.7%	1.8%	2.1%
Population Growth (% Change)	0.9%	0.9%	1.0%

The Southern California Economy

- Employment gains stronger and more broad based than the region has experienced since the end of the recession
- Leading industries: Health services; leisure and hospitality; construction; professional, scientific and technical services
- Lagging industries: Information; real estate, rental and leasing

THE U.S. ECONOMY

Most indicators suggested that the U.S. economy ended last year with growing momentum that would presumably carry into 2014. This was good news considering the challenges the economy faced throughout the year. Sluggish growth marked the first half of the year, in part because of federal sequestration budget cuts and other tax and spending policy changes affectionately called the Fiscal Cliff. Then, in October, the federal government shut down for over two weeks, causing more disruption to the economy. Still, above trend growth materialized during the second half of the year, the unemployment rate fell from 7.9% to 6.7% (December to December), inflation remained benign, and the stock market turned in an outstanding performance.

2014 should shape up as a year of solid but modest growth with continued improvement in the labor market and with nearly all sectors of the macroeconomy contributing to that growth.

Surely, a strong finish in 2013 should translate into a strong start to 2014. This year has other things going for it as well. For example, Congress reached a bipartisan agreement, passing a budget for the current fiscal year, with tentative agreement on the budget for the fiscal year ending September 2015. The unemployment rate continues to edge down while consumer confidence is on the rise and global economic growth is expected to accelerate this year and next.

Not so fast. Signals are mixed so far this year. The unemployment rate may be falling but monthly wage and salary job growth has been disappointing over the last two months, and the stock market indices have slipped below their year-end highs. Despite concerns over these developments, 2014 should shape up as a year of solid but modest growth with continued improvement in the labor market, and with nearly all sectors of the macroeconomy contributing to that growth.

KEY SECTORS

Consumers: Households drew strength from a better labor market picture and increases in the value of both real and financial assets, but they also dipped into savings, increased their use of credit, and finally replaced that old car in the driveway. Consumer spending rose two percent last year, with increased spending across the board on goods and services. Consumer spending on durable goods rose by 7.1% last year, with spending on household furnishings and other durable goods exceeding pre-recession levels for the second year in a row, and with strong gains in vehicle expenditures that will exceed prerecession levels this year.

This is a good sign for both households and the broader economy. Consumer spending accounts for nearly 70% of total spending in the U.S. economy. So when households feel better about both current and future conditions, consumer spending increases and drives the entire economy to a higher level of growth. A higher level of consumer spending is good, but increases in spending on durable goods are particularly important because they stem from both greater consumer confidence and the expectation of a better financial picture for households going forward.

Households have seen gains in the labor market, a lower unemployment rate, new job creation, and a slight increase in real wages. Household balance sheets also have improved markedly in recent years. Households initially deleveraged by paying down existing debt. Once the recovery was underway, non-revolving debt increased over each of the last four years as they took out more student loans and financed vehicle purchases with new car loans. But they proceeded cautiously with revolving credit in the immediate wake of the recession. Eventually, households moved forward with slight increases in credit card and other revolving debt in 2011-12 that were followed in 2013 by a very modest 1.9% increase. On the asset side of the balance sheet, stock market gains and increases in home prices have improved the financial situation of many households.

The recent performance of the housing market has helped households in many ways. The U.S. median price of an existing home rose by 11.5% last year. Higher home prices increased the equity position of homeowners, helping many who were once underwater. For those who finally had sufficient equity to be able to refinance at lower mortgage rates, the newly freed up income could be saved or it could be spent on home improvements and other expenditures. Last year was also a good year for homebuyers who were able to take advantage of the low interest rate environment. Existing home sales rose by 9.2% last year and new home sales rose by 15.7%. Purchases of these homes were partly responsible for the increase in durable goods purchases mentioned earlier. Buying a home triggers a positive ripple effect through the economy with purchases of new appliances, home furnishings, and other items for the home.

The inflation-adjusted growth rate of consumer spending is expected to increase more quickly than at any time since the recession.

Consumer spending should continue to grow over the next two years as household fundamentals improve. The inflation-adjusted growth rate of consumer spending is expected to increase more quickly than at any time since the recession, approaching three percent this year and marginally exceeding that threshold next year. Spending on consumer durables, nondurables, and services should all increase this year and next. New vehicle sales will also rise to levels that are consistent with consumer sector fundamentals but below the pre-recession peak. Home prices will also increase although supply constraints may limit sales.

Businesses: Total investment spending accounts for 16% of GDP and rose by 5.5% last year. However, these figures include residential investment, that is, single- and multi-family construction. Netting out residential investment results in (nonresidential) business investment spending of just under two trillion dollars last year, which is 13% of GDP. Business investment spending rose by 5.0% last year. Within that broad category, spending on structures rose by 3.8%, while equipment expenditures rose 6.3% and spending on intellectual property rose 4.1%.

Business spending has increased over the past five years, with annual increases exceeding seven percent in 2010 and 2011 as firms made overdue capital expenditures and replenished inventories. Temporary tax credits and accelerated depreciation allowances also contributed to the rebound soon after the recession. Smaller increases occurred in 2012 and 2013.

Based on recent results from the Federal Reserve's Senior Loan Officer Survey, there has been a modest increase in commercial and investment loans with banks reporting modest easing of lending standards. These are good signs, as increased access to borrowed capital should enable firms to grow with expansion in the general economy. With the Federal Reserve Bank expected to hold short-term rates steady, but winding down the bond-buying program at the long-term end, short-term loan rates should be more or less unchanged in 2014 while long-term rates may rise.

Total investment spending (including residential investment) is expected to accelerate over the next two years with more than a 9% gain this year and a 7% increase next year. Business investment spending should increase by nearly 7% this year, climbing to nearly 8% next year. All major categories of business investment should trend up over this year and into 2015.

Government: With sequestration budget cuts reducing federal expenditures last year and improved economic conditions lifting government receipts, the federal budget made dramatic gains over the last couple of years. Back in 2009, the budget deficit was 1.4 trillion dollars, equivalent to nearly 10% of GDP. By 2013, the deficit had fallen to 4.3% of GDP. With the budget for 2013-14 in place and with tentative agreement on the 2014-15 budget, the deficit is expected to fall to 3.9% of GDP this year, 3.5% in 2015, and to 3.0% by 2016, slightly higher than the 2.6% average since 1960.

Total investment spending (including residential investment) is expected to accelerate over the next two years with more than a 9% gain this year and a 7% increase next year.

Of the three levels of government, the federal budget is the most visible at the macroeconomic level, but the federal government has less than 13% of total government employment. By comparison, state employment accounts for 23% of all government jobs and local employment makes up 64% of all government jobs.

Federal employment peaked in 2010, but by 2013 had lost 211,000 jobs (-7.1%) falling to 2.8 million employees. State and local employment both peaked in 2008, but the requirement to balance budgets forced draconian cuts in response to reduced receipts, leading to large job cuts. From 2008 through last year, state governments lost 129,000 jobs (a 2.5% cut), finishing at 5.0 million jobs in 2013. Local government took the biggest hit, losing 521,000 jobs cut (down 3.6%) over the same period, and finishing with 14.0 million jobs in 2013. State and local government employment should stabilize or show a slight gain over the next two years as the economic and fiscal situation recovers.

Looking ahead, federal spending is expected to decrease by 2.0% this year and will continue to edge down over the next few years. State and local budgets should stabilize after four successive years of cuts, with a slight 0.5% increase this year giving way to an increase of approximately one percent in 2015. As the recession recedes further from view, state and local budgets will continue to improve.

Trade: Net inflation-adjusted exports improved in 2013 over 2012, as income gains among US households drove a modest increase in imports; and because of increased demand for US exports, in part the result of the falling dollar. Imports grew just 1.4% last year, the fourth increase in as many years, but less than the 2.2% gain of 2012. As for exports, a moderate 3.5% gain in 2012 gave way to a more modest 2.8% increase last year.

Exports surpassed the $2 trillion mark for the first time, an important milestone at a time when the US hopes to improve its balance of trade by growing exports. For every dollar of exports last year, the U.S. had $1.20 in imports, about the same as in 2012. This means that the U.S. continues to be a net importer of goods and services. However, the gap between imports and exports has shrunk over the years, falling from $786.2 billion in 2006 to $409.1 billion last year.

Over this year and next, more pronounced growth in both imports and exports is anticipated, driven by faster growth here and abroad. Both imports and exports will advance to new records levels, with the gap widening slightly over the next two years.

Labor: The overall or "headline" unemployment rate fell below the seven percent threshold in the last two months, reaching 6.6% in January 2014. This was the lowest monthly rate since the fall of 2008, and is a noteworthy improvement given that the unemployment rate was 7.9% a year earlier. The broader U-6 unemployment rate, which includes discouraged workers, part-time workers who would like to work full time, and other categories of distressed workers, also fell from 14.4% in January 2013 to 12.7% this year. However, monthly nonfarm job growth, which is commonly cited along with the headline unemployment rate, rose by just over 70,000 jobs in each of the last two months. By comparison, the average for all of 2013 was 194,000 jobs per month, up 8,000 from 2012 when the labor market experienced gains averaging 186,000 jobs per month. The slowdown in job growth is a concern, but it is expected to be temporary and will give way to more solid job growth later in the year.

With economic growth expected to be closer to trend over the next two years, job creation should accelerate and pull the unemployment rate down to its long run average of 6.2% sometime this year, with the rate dropping below 6% next year.

Inflation: Inflation has been low in recent years, and is expect to remain low over the foreseeable future. The labor market has tightened over the past year as the unemployment rate ratcheted down, but continuing slack in the labor market will limit wage increases, except for occupations that are in high demand. Similarly, capacity utilization measures the share of the nation's industrial production in use. Recent readings have been under 79%, still below the 83% to 85% range that corresponds to full utilization of the nation's productive capacity. Finally, increases in commodities prices -- 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 1.7% this year and 2.1% next year, while other gauges of inflation will be similarly low.

ECONOMIC POLICY

Fiscal Policy: As a rule, fiscal policy ought to help the national economy as it recovers from a recession, or at least exert a neutral influence. Over the last few years, however, that objective has collided with efforts to rein in spending and balance the budget. As a result, fiscal policy has become a drag on the economy that has worked against gains in the private sector. Growth was hampered earlier in 2013 by tax increases, including the restoration of the full payroll tax rate.

Sequestration cuts became more problematic as the year progressed, and then the October government shutdown slowed down economic growth in the final quarter of the year. In all, federal spending cuts reduced GDP by an estimated 0.4% last year.

With the Bipartisan Budget Act of 2013, sequestration cuts were replaced with a smaller set of discretionary cuts this year and next. Significantly, this agreement covers both the current 2013-14 and the upcoming 2014-15 fiscal years. Thus, even though budget cuts will still offset private sector activity this year and next, they will be smaller than were previously anticipated, and that will be more predictable, thereby reducing policy uncertainty over the forecast horizon.

Monetary Policy: The Federal Reserve Bank (the Fed) has employed a two-pronged approach to stimulating the economy since 2009. The first prong was to reduce the federal funds rate to zero, thereby keeping short-term rates low. The second prong was a series of bond buying programs known as Quantitative Easing, through which the Fed has purchased long-term U.S. Treasury bonds and mortgage backed securities in an effort to keep long rates low. As of this writing, the Fed has reduced its purchases from $85 billion per month to $65 billion per month. Barring a dramatic and sustained slowdown in the economy, the Fed (under its new Chair, Janet Yellen) will wind down this program over the next several months. However, it is likely to adhere to the current short-term rate policy until sometime next year to ensure that the economy is on a solid footing as it moves forward.

US FORECAST AND RISKS

Private spending will continue to drive the economy forward as conditions improve for both businesses and households. Government spending will offset private sector growth slightly in 2014 and 2015, but will not be as much of a drag as it was in 2013. The labor market should register gains through this year and the next as GDP growth approaches three percent, which is roughly the long-term growth rate of the US economy.

The downside risks to economic growth and a healthier labor market largely reside elsewhere in the world. Slower than expected growth among U.S. trading partners could result in a slower growth rate here. In addition, as the Fed winds down its bond-buying program, interest rates in the U.S. will increase, possibly triggering an emerging markets currency crisis that can potentially derail growth in these countries. Finally, despite increases in energy self-sufficiency, a disruption to global energy supplies, whether due to a natural disaster or a man-made one, has the potential to increase domestic energy prices, create economic uncertainty, and limit economic growth over the next two years.

Table 1: U.S. Economic Indicators

Annual % change except where noted	2008	2009	2010	2011	2012	2013	2014f	2015f
Real GDP	-0.3	-2.8	2.5	1.8	2.8	1.9	2.5	2.9
Nonfarm Employment	-0.6	-4.4	-0.7	1.2	1.7	1.7	1.7	1.9
Unemployment Rate (%)	5.8	9.3	9.6	8.9	8.1	7.4	6.6	6.1
Consumer Price Index	3.8	-0.4	1.6	3.2	2.1	1.5	1.7	2.1
Federal Budget Balance (FY, $billions)	-455	-1416	-1294	-1297	-1089	-680	-$585	-$589

Sources: BEA, BLS and CBO; forecasts by LAEDC

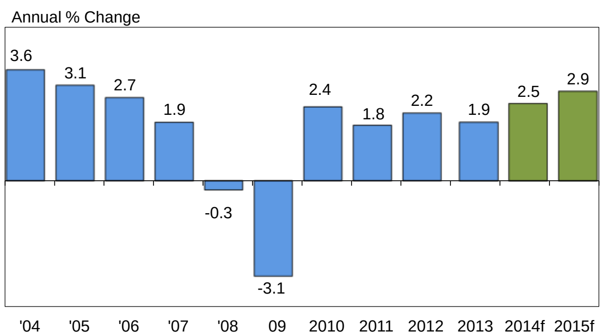
Table 2: U.S. Interest Rates

Annual Average, %	2008	2009	2010	2011	2012	2013	2014f	2015f
Fed Funds Rate	1.93	0.16	0.18	0.10	0.14	0.11	0.16	0.35
10-Yr Treasury Note	3.67	3.26	3.21	2.79	1.80	2.35	3.10	3.60
30-Year Fixed Mortgage	6.04	5.04	4.69	4.46	3.66	3.98	4.80	5.20

Sources: Federal Reserve Board; forecasts by LAEDC

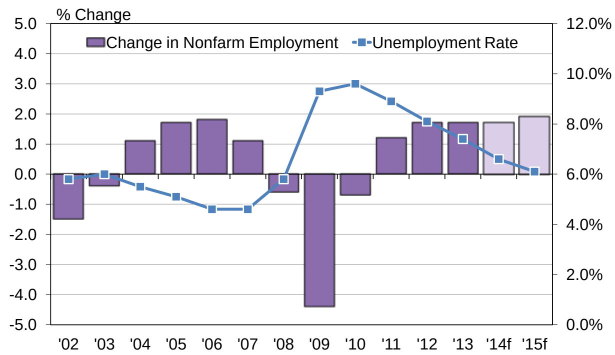
U.S. Economic Snapshot

U.S. Economic Growth



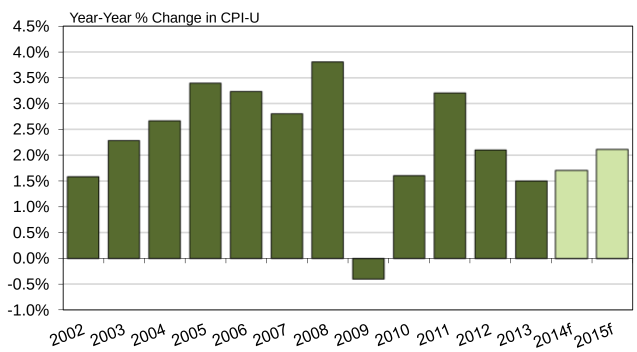
Sources: Bureau of Economic Analysis, forecasts by LAEDC

U.S. Labor Market



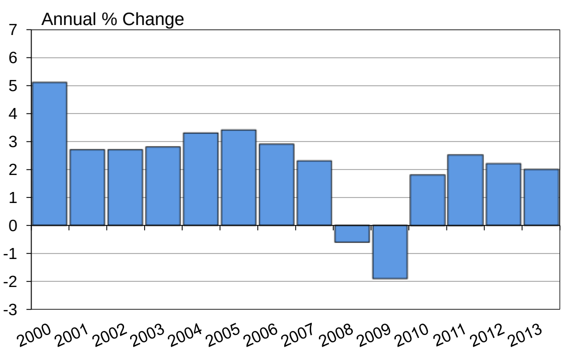
Sources: Bureau of Labor Statistics, forecasts by LAEDC

Consumer Inflation



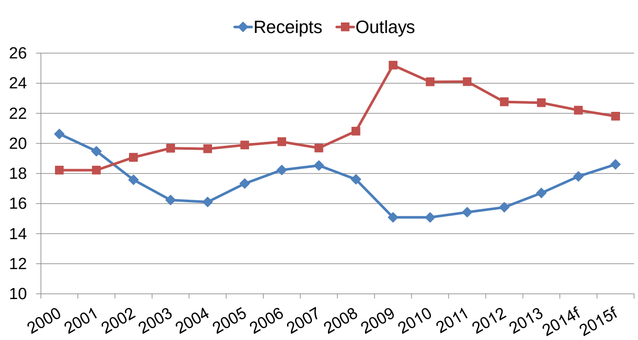
Sources: Bureau of Labor Statistics; forecasts by LAEDC

U.S. Personal Consumption



Source: Bureau of Economic Analysis

Federal Budget Receipts & Outlays as Percentage of GDP



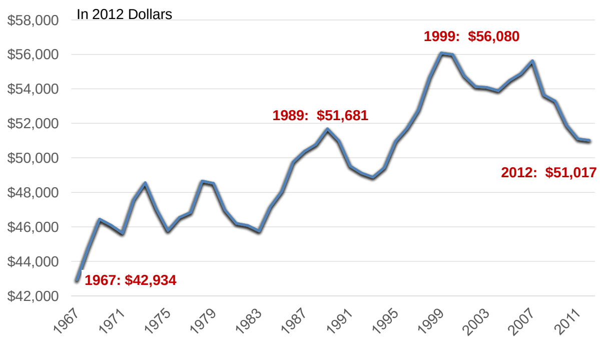
Source: Office of Management & Budget

Income Growth and Inequality

Income inequality has increased dramatically in the U.S. over the last three decades. Economic growth has not translated to shared prosperity. In the aftermath of the recession, millions of people remain unemployed or underemployed, greatly exacerbating the problem. Does the growing gap between the wealthy and everyone else deserve our attention? If so, what should we do about it?

Income inequality can be socially destabilizing. It is difficult to preserve a functioning democracy if prosperity is not broadly shared. Income inequality perpetuates societal divides, erodes social mobility, and can lead to intergenerational transfer of poverty. This flies in the face of the American dream that one can advance through hard work and ingenuity. Although there are many reasons for the growing gap in income inequality, this discussion will focus on structural changes that have occurred in the labor market that favor the most highly skilled workers.

U.S. Median Household Income 1967-2012



Source: U.S. Census Bureau

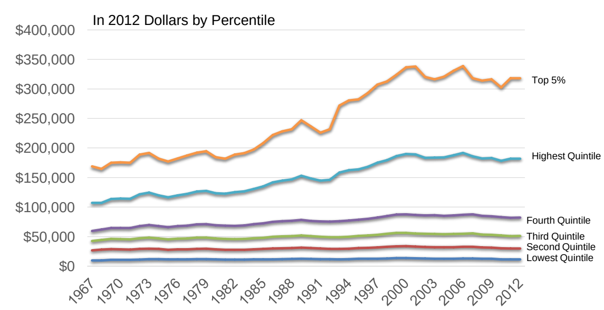
The recession may be long over, but the recovery has yet to reach every corner of the economy. In 2012, the U.S. median household income (adjusted for inflation) was slightly less than it was in the late 1980s and 9% below its peak in 1999. The "good" news is the precipitous decline that began in 2007 (before the recession) appears to be leveling out. Incomes were basically flat in 2011 and 2012.

Note: This definition of income reflects before tax cash income and does not account for changing tax burdens and the impact of income sources that do not take the form of cash (e.g. employer provided healthcare).

Declines in real income have not affected all Americans equally. Since 1967, incomes for the lowest quintile have grown by 19.5% and by 20.3% for the middle quintile. Meanwhile, incomes for the highest quintile increased by 69.8% and for the top 5% of income earners by 88.2%.

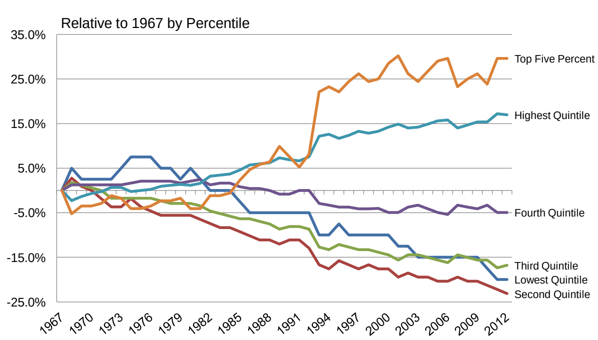
Between 2007 and 2012 (recession and recovery), incomes declined for almost all households, falling by 10.9% for the lowest quintile, 7.5% for the middle and by 2.2% for the highest quintile. Incomes for the top 5% were unchanged.

U.S. Mean Household Income 1967-2012



Source: U.S. Census Bureau

Change in Share of Total Income in U.S. 1967-2012

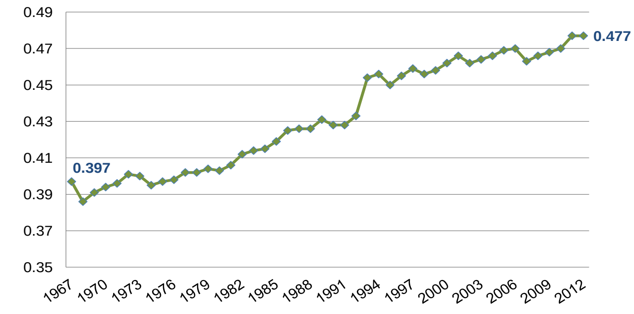


Source: U.S. Census Bureau

Another way to look at how well American households are faring is to examine the distribution of income. This chart shows the change in the share of income going to each quintile. Although the bottom quintile saw its share of income increase during the 1970s, the gains were quickly erased in the 1980s. Since then, only the highest quintile and the top 5% have seen their share of income increase, while the share of income going to everyone else has declined.

The Gini Index is a measure of income inequality. The Gini Index varies between zero and one. A value of one indicates perfect inequality where only one household has any income. A value of zero indicates perfect equality where all households have equal income. Since 1967, the Gini Index for the United States has been rising, meaning the distribution of household income has become more unequal. In 2012, out of 136 countries the United States was the 41st most unequal, just ahead of Uruguay but behind the Philippines (*The World Factbook, CIA*). By state, in 2011, Wyoming had the most equal distribution (.4081) of household income, while New York was most unequal (.5033). Ranking fifth in terms of inequality, California (.4812) was not far behind, and above the national average.

Change in Gini Index of Inequality, for the U.S.1967-2012



Source: U.S. Census Bureau

Similar to the rest of the United States, incomes in California declined across the spectrum during the recession and inequality increased. However, compared to the rest of the nation, incomes in California declined even more at the bottom while incomes at the top declined less.

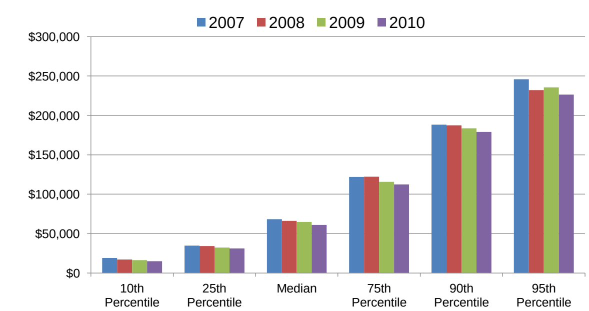
During the recession, the unemployment rate in California spiked at 12.4%, the duration of unemployment rose and many who were working, saw their hours cut or could only find part-time work. Recent research suggests that underemployment as opposed to declining wages was the primary cause for the decline in incomes during and after the recession. Additionally, the slow recovery has limited demand for labor and suppressed wage growth. Thus, policies that promote job creation and especially full-time employment may be a more effective tool for raising incomes than focusing on wage rates.

Over the longer term, the trend of growing inequality is in part the result of structural changes in the labor market that have favored the most highly skilled workers over everyone else. A second, related trend, is the polarization of job opportunities. Job opportunities in high-skill high-wage occupations are expanding at one end, while jobs in low-skill low-wage occupations are expanding at the other end. Opportunities for middle-skill workers have diminished, pushing many former white-collar workers into lower-paying service jobs.

Since the mid-1970s, individuals with the highest levels of education (more than 16 years) have experienced a steady increase in wages. Persons with a bachelor's degree or some college are also earning more, but nowhere near their counterparts with an advanced degree. On the other hand, individuals with a high school diploma or less suffered a decline in real wages in the 70s and 80s; wages rebounded slightly in the 90s but have been stagnant ever since.

This suggests the most relevant issue for public policy is the growing gap between individuals with high skill levels and the rest of the population. To close that gap we need policies that focus on the disparities across education and skills, and on ways to upgrade the earnings capacity of the majority of Americans.

California Family Income Growth 2007-2010



Source: Public Policy Institute of California

A particularly alarming symptom of the income gap is the growing fissure in educational achievement as measured by math and reading test scores. While the racial gap has declined, the differences in performance between high and low-income students are widening. Kids at the top have advantages that are simply out of reach for kids at the bottom. Disadvantaged children are reaching college without the skills to persevere and graduate – the result is a growing gap in college completion.

There are a number of policies needed to address these problems. Reforms to the tax code or increases in the minimum wage may be part of the solution, but the nation also needs polices that promote education and skills acquisition across the broadest possible section of the population. This issue goes beyond questions of fairness, right and wrong. The ability of the United States to compete and prosper in a global economy depends on its willingness to make investments that will enable all Americans to have the education and skills necessary to compete in the global labor market.

THE INTERNATIONAL ECONOMY

The Southern California regional economy is linked to the global economy through international trade, foreign direct investment, tourism, movies, and education. The region's goods, services, academic institutions, human capital and weather are in high demand the world over. This makes it essential to monitor the developments of both its top trading partners (particularly export markets) and top sources of FDI. [1]

KEY DEVELOPMENTS OF 2013

The key developments of 2013 centered on China, Japan, Europe, and the emerging economies. First, as was expected, the Chinese economy continued to slow down in 2013. This had a negative effect on global growth and global trade flows. But even with the slowdown, China grew in the 7% plus range rather than the experiencing a hard landing with growth under 5% as some anticipated.

Second, the other key development of 2013 was related to the Japanese economy. Yes, inflation is back in Japan and "Abenomics" is working. Prime Minister Shinzo Abe's government has effectively implemented expansionary (providing stimulus) fiscal and monetary policies that have provided the desired outcomes.

Third, the euro zone finally came out of a long and deep recession during the second half of 2013. This was a major relief for the global economy and it propelled stronger growth for most economies mentioned in this section as the euro zone is the largest economy in the world. However, for the year, the euro zone still contracted by 0.4%.

Finally, the possibility of the Fed tapering its QE3 program sent shock waves throughout the international economy at the end of May 2013 and in June 2013, particularly in the emerging markets. The emerging markets that were most affected were India, Turkey, Indonesia, Brazil and South Africa. These economies experienced an immediate, significant capital outflow, which resulted in negative shocks to their currency, stock and bond markets. Unfortunately, and most recently (end of January and into February) this situation has returned in 2014 and it has once again rattled the global markets/economy. As a result, this will be the most important issue to focus on in the short term.

China, Europe, Japan along with the U.S. (the four largest economies in the world) will largely determine the direction of the global economy through the rest of this year and into 2015. The good news is that the advanced economies overall will perform more strongly and contribute more to global growth in 2014.

[1] Please reference the LAEDC's series of Growing Together country reports for further information: *http://laedc.org/economic-research-analysis/laedc-reports/*

However, the bad news is that most (not all) of the emerging economies are not performing well and for the first time since the Great Recession they will be contributing less to global growth.

Outlook for 2014-2015

China, Japan, South Korea and Taiwan are our top four trading partners, representing more than 75% of total container volume through the ports of Los Angeles and Long Beach. China actually represents nearly 60% of two-way trade flows just by itself. Adding in the ASEAN-5 nations, roughly 90% of all trade that takes place at the San Pedro Bay ports results from China, Japan, South Korea, Taiwan, Thailand, Vietnam, Indonesia, Malaysia and the Philippines – meaning Northeast and Southeast Asia. In addition, many of these nations are the Los Angeles Metro Area's top export markets and largest sources of FDI into Los Angeles County. Finally, Canada and Mexico are also closely connected to our regional economy. This section will provide an outlook for these 11 economies and pay special attention to the *Chinese, Japanese, Korean, Taiwanese, Canadian and Mexican* economies as they will have the greatest impact on our regional economy.

China: China is the Los Angeles Customs District's (LACD) #1 trading partner and the Los Angeles Metropolitan Area's #3 export market. In addition, China is one of the largest sources of FDI into Los Angeles County. In fact, Chinese investment has grown substantially in the past couple of years. The growth potential for Chinese investment into our region is enormous. China's continued economic rise will only benefit Southern California's goods and services exports and investment attraction leading to the creation of thousands of jobs and billions in capital flows.

The Chinese economy continued to slowdown in 2013, particularly over the first half of 2013. There was a slight improvement over the second half of 2013, which was encouraging. Growth was strongest in the third quarter of 2013 as it reached 7.8%. However, the Chinese economy has disappointed lately with weaker economic data over the past couple of months. Naturally, this is a big concern for the global economy and will ultimately go a long way in determining what actually happens to global growth in 2014.

The Chinese economy is expected to grow by 7.0% to 7.5% in 2014. As growth accelerates in Europe and the U.S. in 2014 (which will propel exports), and with continued infrastructure investment in the inland areas along with economic reforms, China should avoid growth below 7%. However, as the Chinese government relies less on growth from fixed investments the economy will continue to weaken. As a result, the Chinese economy will witness growth in the 7% range in 2015.

Japan: Japan is Los Angeles County's #1 source of foreign direct investment. In addition, it is the LACD's #2 trading partner and the Los Angeles Metropolitan Area's #4 export market. The Japanese economy performed relatively well in 2013 as a direct result of expansionary fiscal and monetary policies. The first half of 2013 witnessed the strongest growth due to the fiscal and monetary policies put in place at the end of 2012 and the beginning of 2013. Expansionary monetary policy has led to a substantial drop in the value of the yen, falling by nearly 30% over the past year vis-à-vis the U.S. Dollar. Of course, this has translated into a strong resurgence of Japanese exports, including to the U.S. and the Los Angeles Customs District.

The economic policies of Prime Minister Shinzo Abe (nicknamed “Abenomics”) are based on three fundamental pillars. These three pillars include government spending, increasing the money supply and structural reforms. The first two pillars have been implemented but the third has been postponed until June 2014. The 10.3 trillion yen fiscal stimulus package along with the bold plan by the Bank of Japan to double the one percent inflation target to two percent through accommodative monetary policy and additional asset purchases, has had the expected positive impact on economic growth. However, this should lead to growth only in the 1% to 1.5% range in both 2014 and 2015 as consumer spending will be constrained by an increase in the value-added tax (sales tax) from 5% to 8% in April.

South Korea: After experiencing the slowest growth rate in three years in 2012, the Korean economy grew by close to 3% in 2013. Korea’s three main growth engines (exports, corporate investment, and domestic demand) all recovered in 2013. The strongest economic growth in Korea took place in the third quarter of 2013 as construction and manufacturing led the way. In addition, consumer spending and exports were relatively healthy. Exports, which represent roughly 50% of Korea’s GDP performed well in 2013, particularly over the first half of last year. Growth slowed a bit in the second half of 2013 due to a decline in Chinese demand and the strengthening of the Korean Won vis-à-vis the Japanese Yen.

The South Korean export and economic outlook for 2014 and 2015 will mainly depend upon the global economic environment, especially developments in China, Europe, and the U.S., all of which are significant destinations for Korean exports. The good news is that both Europe and the U.S. will experience more robust growth in 2014. Moreover, over time, Korea will benefit from free trade agreements with Europe and the U.S. Since Japan and South Korea export similar goods to Europe and the U.S., the relative strength of the Korean Won vis-à-vis the Japanese Yen has weakened export demand in both Europe and the U.S. as Japanese goods have become relatively cheaper. However, the benefits of the free trade agreements have negated some of those losses as the lowering or elimination of tariffs has made Korean goods more affordable for European and American consumers.

Based on expectations of an improvement in export growth and higher government spending along with higher corporate investment, the Korean economy is expected to expand by 3.5% to 4.0% in 2014 and by 4.0% in 2015.

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). Like the U.S., the Canadian economy witnessed sub-par growth over the past couple of years, which is not surprising considering the fact that Canada’s economy depends heavily upon exports, roughly 75% to 80% of which go to the U.S. In the same vein, acceleration in the U.S. economy should benefit Canada’s economy in 2014. The Canadian economy has also become more connected to the Chinese economy mainly due to commodity exports. The fall in commodity prices (particularly petroleum prices) has negatively impacted the economy over the past two years.

Canada's GDP grew by roughly 1.7% in 2013 as weakness in housing and consumer spending along with tepid export growth prevented any further expansion. A weaker Canadian Dollar, U.S. GDP growth along the lines of 3%, and a stronger global economy will bode well for Canada in 2014 and 2015. Canada will witness an increase in exports in 2014 and most likely a jump in business investment. These factors along with household consumption will go a long way in determining whether Canada can get over the hump and begin to push for growth in the 2.5% range.

The Canadian economy is expected to expand in the range of 2.0% to 2.5% in 2014 and to experience stronger growth of 2.5% or higher in 2015. This all depends upon what happens in the U.S., commodity prices, domestic consumption and the household debt situation.

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 directly influences Mexico's growth potential. However, 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 allowed Mexico to grow by close to 4% going into 2013, but that trend did not continue due to a decline in construction and a reduction in government spending. A slight slowdown in exports to the U.S. made the situation even worse.

The big story out of Mexico in 2013 was related to the economic reforms that the President Nieto-led government has accomplished. Back at the end of 2012, the new Mexican government embarked on an aggressive reform agenda that targeted energy, education, fiscal policy and social security. Monumental reforms were passed that will come into effect in 2014 and 2015, the most significant of which was to open both the oil and gas industries to foreign investment. If successful, these reforms can potentially transform the Mexican economy on many levels, and spur long run growth reaching 6% according to the Organization of Economic Co-operation and Development.

The Mexican economy should grow by roughly 3.0% in 2014 and by 3.5% in 2015 as exports, government spending, and investment face an improved environment, and as the U.S. economy strengthens. As mentioned above, Mexico has substantial long-run potential and will become one of the ten largest economies in the world by 2030.

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, with roughly 70% of Taiwan's GDP related to exports, mainly to China. 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 over the past couple of years, prompting the Taiwanese government to intervene by implementing both expansionary monetary and fiscal policies. The Taiwanese economy expanded by 2.2% in 2013 as exports decelerated for most of the year. The LAEDC expects Taiwan to come back strongly over the next couple of years by growing close to 4% in 2014 and 2015.

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 was the worst performing of the five economies mainly due to a slowdown in exports and political protests. Its economy is heavily dependent upon exports (70% to 75% of GDP), which was a key issue over the past couple of years. However, with faster growth expected around the globe, this will actually benefit the Thai economy over the next couple of years as Thailand's GDP is projected to increase by roughly 5.0% in 2014 and 2015. All of the ASEAN-5 economies are expected to experience at least 5% GDP growth in both 2014 and 2015.

KEY RISKS FOR 2014-2015 AND CONCLUSIONS

The key risks for the global economy include China and other emerging markets and the situation in the Middle East and North Africa. The developing nations of Asia are expected to experience a higher rate of growth next year, provided China remains in the 7.0% to 7.5% growth range. Demand from the advanced economies will also be stronger this year and next, especially in Europe. According to the latest IMF World Economic Outlook (WEO) update published in January 2014, the global economy is expected to grow by 3.7% in 2014 and 3.9% in 2015 after experiencing growth of 3.0% in 2013.

The Fed's announcement in mid-2013 that it would start tapering at some point in the future rattled global financial markets. In fact, immediately afterwards, many emerging markets began to see their currencies weaken dramatically.

FOREIGN EXCHANGE RATES

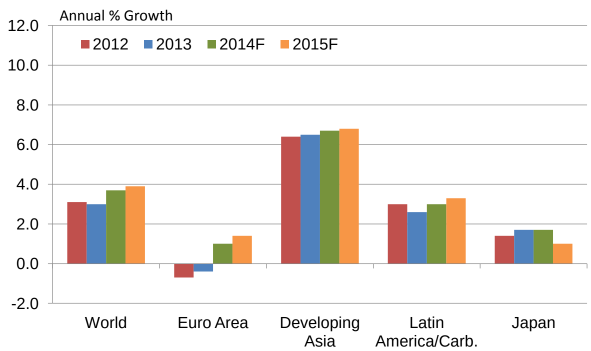
The biggest currency story in 2013 was related to the Japanese Yen. The current Japanese government implemented new expansionary economic policies upon assuming power in late 2012, which, among other things, resulted in yen falling from 77/dollar in late 2012 to 100/dollar by the end of 2013. This had a substantial impact on currency markets, international trade, corporate earnings, and foreign direct investment. Japanese exports greatly benefitted from a weaker yen. Japanese corporations with operations abroad have also profited from this development. On the flip side, this does not bode well for Southern California's ability to attract foreign direct investment from Japan. However, Japanese companies are very keen on investing abroad in order to find new markets and revenues to offset slowing domestic markets as the Japanese population ages. It remains to be seen how much of an impact this will have on two-way trade flows between the LACD and Japan in 2014 and in 2015.

In 2013, the U.S. Dollar appreciated vis-à-vis the Japanese Yen, the Canadian Dollar, and the Brazilian Real. However, the U.S. Dollar depreciated or weakened vis-à-vis the Chinese Yuan, the euro, the British Pound and the Korean Won. The U.S. Dollar remained relative stable vis-à-vis the Taiwanese Dollar. 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 depreciated slightly vis-à-vis the Chinese Yuan, the Korean Won, the Mexican Peso and the Thai Baht. The U.S. Dollar weakened versus the euro as the European debt situation remained stable over the year. The U.S. Dollar would strengthen if the debt crisis resurfaced and deteriorated or if something were to trigger an increase in oil prices.

The Fed's tapering of bond purchases began in late 2013 and should be completed by the by the fourth quarter of this year. This is the key currency news story of 2014 as it will put upward pressure on the greenback in the coming months. Declining commodity prices, mainly due to the slowdown in China and in other key emerging economies, has put additional upward pressure on the U.S. dollar (as most key commodities are priced in U.S. Dollars).

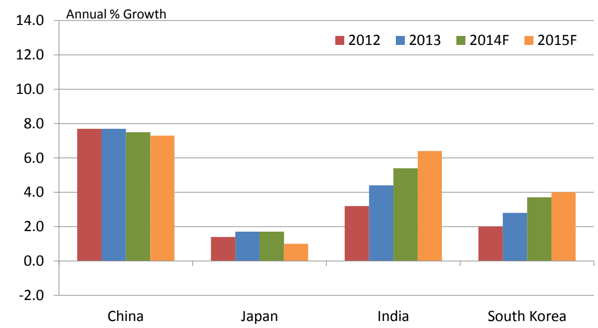
Global Economic Snapshot

Global Economic Outlook



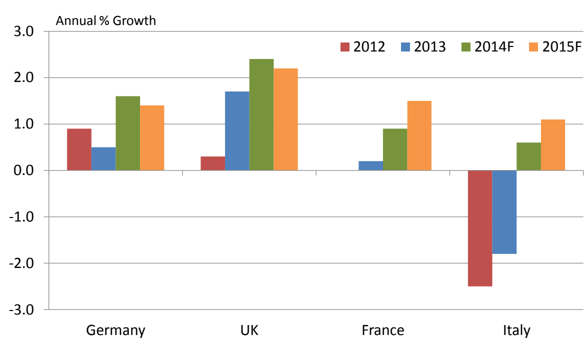
Source: IMF World Economic Outlook, January 2014 Update

Asian Economic Outlook



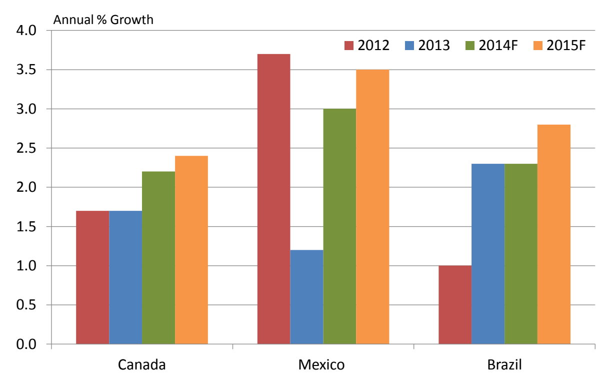
Source: IMF World Economic Outlook, January 2014 Update and October 2013

European Economic Outlook



Source: IMF World Economic Outlook, January 2014 Update

Americas Economic Outlook



Source: IMF World Economic Outlook, January 2014 Update

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

Country (Currency)*	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Broad Currency Basket (index)	119.09	113.63	110.71	108.52	103.40	99.83	105.87	101.97	97.17	99.82	101.12
Canada (US$/C$)	1.401	1.302	1.212	1.134	1.073	1.066	1.141	1.030	0.989	0.999	1.030
China (US$/yuan)	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77	6.46	6.31	6.15
Euro Zone (US$/€)**	1.132	1.244	1.245	1.256	1.371	1.473	1.393	1.326	1.404	1.286	1.328
Japan (US$/¥)	115.9	108.2	110.1	116.3	117.8	103.7	93.7	87.8	79.7	79.8	97.6
Mexico (US$/peso)	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62	12.43	13.15	12.76
South Korea (US$/₩)	1192	1145	1024	954	929	1099	1275	1156	1107	1126	1095
United Kingdom (US$/£)**	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545	1.604	1.585	1.564

Percent Change***	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Broad currency basket (index)	-6.0%	-4.6%	-2.6%	-2.0%	-4.7%	-3.5%	6.1%	-3.7%	-4.7%	2.7%	1.3%
Canada (C$)	-10.8%	-7.1%	-6.9%	-6.4%	-5.3%	-0.7%	7.0%	-9.7%	-4.0%	1.0%	3.1%
China (yuan)	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%	-4.5%	-2.4%	-2.6%
Euro Zone (€)	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%	-5.9%	8.4%	-3.3%
Japan (¥)	-7.4%	-6.7%	1.8%	5.6%	1.2%	-11.9%	-9.6%	-6.3%	-9.2%	0.1%	22.3%
Mexico (peso)	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.2%	-6.5%	-1.6%	5.8%	-3.0%
South Korea (₩)	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.4%	-4.2%	1.7%	-2.8%
United Kingdom (£)	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%	-3.8%	1.2%	1.3%

Source: Federal Reserve Statistical Release G.5A; 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*

THE CALIFORNIA ECONOMY

INTRODUCTION

California is back on track to reclaim its status as the Golden State. The steep decline of the California economy during the recession was exacerbated by seemingly intractable fiscal challenges that began well before the downturn. Now, after nearly five years of recovery, California is on a more solid footing. Although the recovery continues to be very slow, the unemployment rate is falling, more people are finding jobs, the housing market is improving and for the first time in years, budget surpluses are in sight.

California lost more than 1.3 million jobs between December 2007 and January 2010. By the close of 2013, California had recovered nearly 70% of the jobs lost in the state during the recession. Nonfarm payrolls increased in California by 1.7% in 2013, a rate slightly faster than the nation as a whole (1.6%). This pared the state's unemployment rate from 10.5% in 2012 to 8.9% in 2013. California should continue to add jobs at an annual growth rate of 1.8% (261,800 jobs) through this year, increasing to 2.1% in 2015.

California should continue to add jobs at an annual growth rate of 1.8% in 2014, increasing to 2.1% in 2015.

Regionally, the recovery is advancing in nearly every part of the state. From the earliest stages of the recovery, the Bay Area and the Silicon Valley have led the state economy with lower unemployment rates and, since 2011, year-over-year job gains averaging about 3.0%. While the Central and Imperial valleys continue to lag behind the rest of the state, the counties of Southern California have experienced moderate job growth with corresponding declines in unemployment rates.

Orange and San Diego counties were the job growth leaders in Southern California in 2013, averaging year-over-year nonfarm job gains of 2.1% and 1.8% respectively. Los Angeles and Ventura counties were not far behind at 1.7%, while in the Inland Empire nonfarm payrolls increased by 1.2%. Although unemployment rates have declined throughout Southern California, Orange County was at the front of the pack in 2013 with an unemployment rate of 6.1% (the long-run average for Orange County is 4.4%).

TRENDS IN MAJOR INDUSTRIES

Aerospace and Technology

California's technology sector is diverse and includes manufacturing and service industries in aerospace, information technology and biomedical technology. This collection of industries makes up the core of the state's information, knowledge, and innovation economy. Aerospace and technology employment is mostly concentrated in Los Angeles and Orange counties, San Diego County and the Silicon Valley.

Average monthly employment in California's technology sector in 2013 was 1.03 million workers, an increase of 23,400 or 2.3% compared with 2012. The biggest gains were in management, scientific and technical consulting (16,800 jobs) and computer systems and design (4,600 jobs), with smaller increases in pharmaceutical and medicine manufacturing, software publishing, and data processing. Electronic product manufacturing was flat while aerospace product and parts manufacturing and scientific R&D services were down marginally. The aerospace and technology industries are strategically important to California for the revenue and wealth they create, their high levels of employment and compensation, and for the exports and tax revenues they generate.

Average monthly employment in California's technology sector in 2013 was 1.03 million workers, an increase of 23,400 or 2.3% compared with 2012.

Agriculture

The agriculture industry accounts for about 1.3% of gross state product and employed 397,100 workers last year, which is equivalent to just over 2.3% of total civilian employment in the state. Employment rose by 3.1% in 2013 compared with 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 by 3.2% from $43.3 billion in 2011 to a record high of $44.7 billion in 2012. Crop receipts rose by 5.2% to $32.6 billion, while livestock receipts fell by 1.7% to $12.2 billion. California ranked first among the 50 states in terms of net farm income at $16.0 billion, based on 2012 data (latest available).

Health Care

The health care industry in California has been a steady source of employment, adding jobs even during the recession, with year-over-year gains averaging 2.1% from 2009 through the first half of 2013. During the second half of 2013, however, the rate of job growth weakened to 1.7%. Doctors' offices and outpatient facilities, which account for about 45% of California health care employment, experienced the most sizable slow down – from an average of 3.2% to 1.7%. The pace of hiring at hospitals also slowed, while hiring at nursing homes and residential care facilities remained constant.

The slowdown in hiring comes as the industry faces significant cost pressures that have forced health care providers to rein in operating costs. Under the federal government's sequestration, nearly all Medicare payments to providers have been put at risk of a 2% annual cut. The Affordable Care Act also puts new limits on Medicare reimbursements to providers.

In the long-term, health care employment in California will increase as its population grows and as the ranks of Baby Boom retirees expand. However, the industry has some obstacles to overcome that will affect employment – namely actual and anticipated changes in reimbursements to providers. That said, many parts of the health care industry will continue to see robust job growth. Outpatient and home health care employment should see strong gains this year, partially offsetting weaker hiring at hospitals.

International Trade

International trade is a pillar of the state's economy. A large share (about 40%) of the nation's consumer goods that are produced in Asia transit through

California's ports, while California ranks as the second largest goods exporting state in the country. California's largest exports are 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 $596.4 billion last year, a new annual record. However, growth slowed to a 3.1% gain in 2013 compared with a 3.5% increase in 2012 and double digit percentage increases in 2010 and 2011 as the economy dug out of the Great Recession. Below-par two percent GDP growth in the U.S. constrained imports while economic weakness among U.S. trading partners led to muted gains in exports. Two-way trade for 2014 is expected to grow by about 4.6%, with a 7.0% increase anticipated for 2015.

Tourism

The tourism and hospitality industry is yet another pillar of California's economy. Visitations were up by an estimated 2.4% in 2013 and are expected to increase by an additional 2.3% in 2014, with leisure travel growing at a faster rate than business travel. Visitors to California also spent more money last year, pumping approximately $112.8 billion into the state's economy. This was up by 5.7% compared with 2012, and is expected to increase by 5.9% to $119.4 billion in 2014.[2] Moreover, overnight travel is growing at a faster pace as the improving economy encourages longer distance travel and more willingness to spend.

Visitors to California spent more money last year (5.7%), pumping approximately $112.8 billion into the state's economy.

Rising demand for hotel rooms has led to an increase in both occupancy rates and average daily room rates in all of California's major metropolitan areas. Similarly, leisure and hospitality jobs climbed by 4.3% from nearly 1.6 million in 2012 to 1.7 million last year. Rising by 4.5%, payrolls grew the fastest at restaurants and bars, which make up about 70% of all leisure and hospitality employment.

Construction

Construction activity and employment both experienced noteworthy gains in 2013 after struggling to find traction for several years. Nonresidential construction permits are projected to increase by 4.1% this year and by 5.4% next year. New office construction continues to lag, but industrial construction has made robust gains, especially in the technology, energy and distribution sectors. New home permits are likewise expected to show significant gains of 41.4% in 2014 and 35.0% next year, although the year-over comparisons are still coming up from a very low base.

As for employment, construction was one of the hardest hit sectors during the recession with the number of jobs falling from a peak of 933,700 in 2006 to a low

[2] VisitCalifornia.com; California Travel & Tourism Outlook, 2013 (Tourism Economics)

of 559,800 in 2010, a loss of 373,900 jobs or 40% of total construction employment. Although construction payrolls expanded modestly in 2011 and 2012, expansion gained momentum last year as the housing recovery took off. Construction jobs increased at a rate of 5.3% compared with 2012, rising to 620,200 jobs. Even so, employment is still nearly 34% below peak levels.

LOOKING AHEAD

California's recovery is good news for the rest of the country due to the sheer size of the state's economy. Looking ahead to the next two years, California's economy is projected to grow by 2.8% (versus 2.7 % for the nation) in 2014 and by 3.5% in 2015. During the second half of the decade, the expansion of California's Gross State Product should match or exceed the nation's growth rate. Nonfarm employment gains are expected to increase at an annual rate of about 1.7% throughout the same period. California's strongest sectors will continue to be technology, tourism, and exports, but virtually all private sector industries will add jobs this year and next.

California's economy is projected to grow by 2.8% in 2014 and by 3.5% in 2015. The expansion of California's Gross State Product should match or exceed the nation's growth rate into the second half of the decade.

One of the most important elements of California's recovery is the improving fiscal outlook. Surpluses are in sight and budgets are being passed on time – three years in a row for the first time in 30 years. Under current policies, a $5.6 billion surplus is projected by the end of the 2014-2015 fiscal year. Of course, achieving budget surpluses will depend on continuing economic growth in California and restrained spending. So far this fiscal year (2013-2014), revenues are beating expectations. This is primarily due to higher personal income tax receipts, particularly receipts resulting from capital gains - a very volatile source of revenues, hence the push by the Governor to start shoring up the state's rainy day fund.

In spite of a more positive outlook for California's economy, a number of risks are lurking on the not-so-distant horizon. The first of these is the state budget. The state still needs a more stable source of revenue. Furthermore, projected surpluses are too small to do much more than chip away at the state's debt and little progress has been made in tackling unfunded public pension liabilities.

Higher electricity costs resulting from the state's mandate to obtain 33% of electricity from renewable resources by 2020 could put California at a disadvantage just as other states are benefiting from low natural gas prices. Rising health care costs, the lack of immigration reform, domestic out-migration and California's perennial water problems (see page 23) all represent additional risks to the state economy. California's economic vitality stems from many assets: abundant natural resources, creative people, a strong entrepreneurial tradition, world-class higher education institutions, leading edge technologies, and connections to global market. California will continue to build upon this base, expanding on the gains made in 2013 as the state returns to full economic health.

The Future of Water in California

On January 17, 2014, Governor Brown issued an official drought proclamation for California. Last year was the driest in the state in 199 years of record keeping. Some communities that depend on local surface supplies are already rationing water. The situation is far less dire in Southern California. Water managers in the region say water reserves are sufficient to last through 2014 and possibly into 2015 without rationing. Southern California aggressively embraced water conservation and recycling following the droughts of the 1970s and 1990s. The region has also invested in new reservoirs and ground water banks. Although Southern California's residents and businesses have drastically reduced per capita water consumption, the region's growing population means demand for water will continue to increase.

Southern California has two major sources of imported water. One, the Colorado River is in the midst of the longest dry cycle in recorded history. The other source is the network of reservoirs in the northern part of the state, where water levels are well below average and dropping. It is likely Southern California will receive very little water from Northern California this year. More conservation and recycling will help the region keep pace with growth and reduce reliance on imported water, but such measures are only part of the solution.

On January 14, 2014, the California Natural Resource Agency released the Bay Delta Conservation Plan (BDCP). The BDCP is a $25 billion project that calls for the construction of two water diversion tunnels (40 feet in diameter and 35 miles long) that would channel water from the Sacramento River under the delta. The goal of the project is to stabilize water supplies and improve wildlife habitat. The tunnels will cost approximately $15 billion to build and will be funded by water agencies benefiting from the project. Taxpayers will fund the remaining $10 billion for habitat restoration.

There are a number of things the plan does not address and leaves to future political action. For example, details of how the project will be financed and how much water the tunnels will divert are not stated in the plan. Additionally, communities adjacent to the proposed tunnel route are concerned about the negative impacts on their economies resulting from the decade-long construction process. The DBCP also acknowledges the plan would have permanent effects on scenery and tourism, while habitat restoration will remove an estimated 5,600 acres of farmland from production.

> Water infrastructure is critical to California's economy. The state's industrial and agricultural jobs base depends on reliable and affordable water supplies.

California's variable climate is punctuated with long droughts and severe floods. The state's current system of water storage and conveyance facilities is aging, vulnerable to earthquakes and inadequate to face the challenges of climate change. Moreover, conflicts between water for human use and water needed for fish and wildlife are becoming more intense. Whether the BDCP goes ahead or not, California's water infrastructure urgently needs to be expanded and modernized.

The state's industrial and agricultural jobs base depends on reliable and affordable water supplies. The quality of life for the state's residents is also inextricably linked to water. Economic growth and the future prosperity of California depend on investing in secure, reliable and affordable water supplies that also protects fragile ecosystems.

For more information regarding the Delta Bay Conservation Plan, go to the California Natural Resources Agency at www.resources.ca.gov

GROSS PRODUCT COMPARISONS

The state of California is the most populous in the U.S. and has one of largest economies in the world. Likewise, Southern California and Los Angeles County also have two of the largest economies in the world. In fact, Los Angeles County, which has the largest population and economy of any county in the U.S., would actually be the 21st largest if it were a country in its own right.

Based on 2013 estimated figures, California just barely surpassed Italy to become the ninth largest economy in the world. The Los Angeles five-county region retained its 16th place, ranking behind South Korea and Los Angeles County remained in 21st place. Los Angeles County is behind Saudi Arabia and Switzerland, and ahead of Sweden, Norway, Poland, Belgium and Taiwan.

For the second consecutive, year India and Canada swapped rankings as Canada moved from #11 to #10. Other notable developments include Iran dropping out of the top 25 rankings in 2013 due to the crippling economic sanctions and the weakening of its currency. As a result, Sweden, Norway, Poland and Belgium all moved up one spot. Finally, Taiwan entered into the top 25 rankings.

By and large, emerging and developing economies have been experiencing larger growth rates than developed economies over the past few years. For example, China and other emerging markets saw GDP growth in the high single digits, while the U.S. and the European economies grew by small single digits. Both California and Los Angeles County grew at rates that were closer to that of the U.S. rather than that of China or other emerging economies.

As has been the case for the last few years, the weakest performing economies were in the euro zone. So what should we look for in 2014? California could surpass Russia to become the eighth largest economy in the world. Mexico should surpass Spain as the 13th largest economy in the world, while 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, 2013
(Billions of $US)

Rank	Country/State/Region	2013	Nominal ’12-‘13 % Chg	Real ’12-‘13 % Chg
1	United States	$16,724.3	6.6%	1.6%
2	China	$8,939.3	8.7%	7.6%
3	Japan	$5,007.2	-16.0%	2.0%
4	Germany	$3,593.2	5.7%	0.5%
5	France	$2,738.7	5.0%	0.2%
6	United Kingdom	$2,489.7	2.0%	1.4%
7	Brazil	$2,190.2	-8.6%	2.5%
8	Russia	$2,117.8	4.7%	1.5%
	California	**$2,075.5**	**3.6%**	**2.6%**
9	Italy	$2,068.4	2.7%	-1.8%
10	Canada	$1,825.1	0.3%	1.6%
11	India	$1,758.2	-3.7%	3.8%
12	Australia	$1,488.0	-3.5%	2.5%
13	Spain	$1,355.7	0.3%	-1.3%
14	Mexico	$1,327.0	12.7%	1.2%
15	South Korea	$1,197.5	3.6%	2.8%
	Los Angeles 5-Co. area	**$947.8**	**3.2%**	**1.9%**
16	Indonesia	$867.5	-1.2%	5.3%
17	Turkey	$821.8	3.4%	3.8%
18	Netherlands	$800.5	3.5%	-1.3%
19	Saudi Arabia	$718.5	-1.2%	3.6%
20	Switzerland	$646.2	2.2%	1.7%
	Los Angeles County	**$583.9**	**3.4%**	**2.2%**
21	Sweden	$552.0	4.9%	0.9%
22	Norway	$515.8	2.9%	1.6%
23	Poland	$513.9	5.4%	1.3%
24	Belgium	$507.4	4.7%	0.9%
25	Taiwan	$484.7	2.2%	2.2%

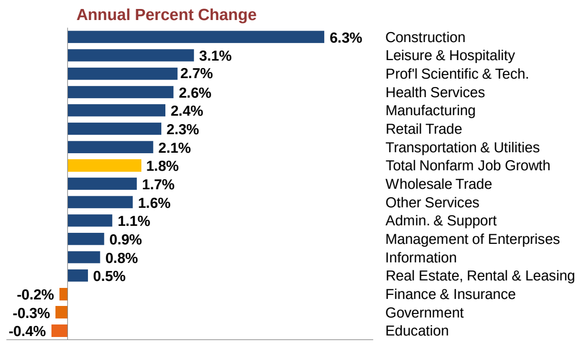
Note: Based on Market Exchange Rates and not on Purchasing Power Parity (PPP) Rates Exchange Rates. Nominal GDP figures are not adjusted for inflation

Sources: IMF WEO -- October 2013 and IHS Global Insight

California Snapshot

California Employment Growth, 2014

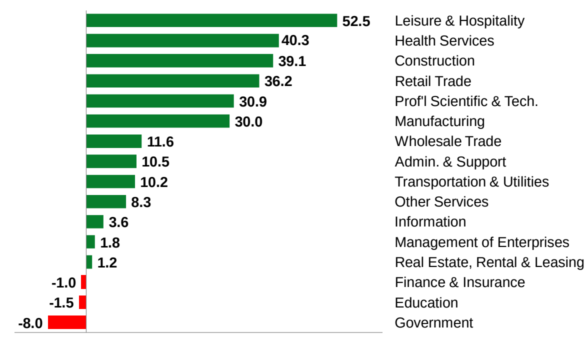
Total nonfarm job growth forecast for 2014, percent change: +1.8%



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

California Employment Growth, 2014

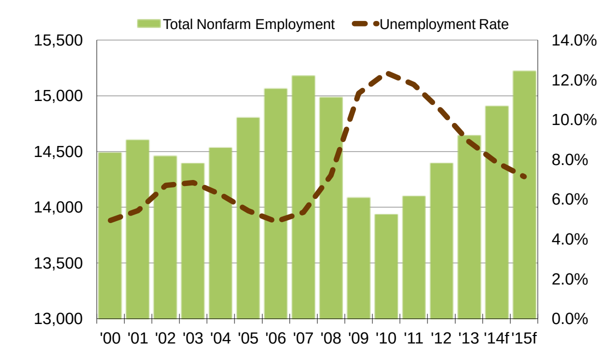
Total nonfarm job growth forecast for 2014 (thousands): +261.8 jobs



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

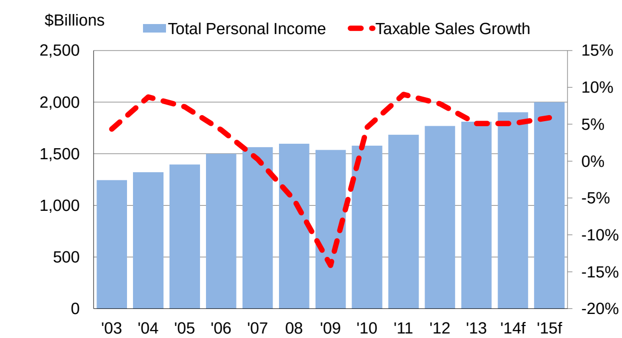
California Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

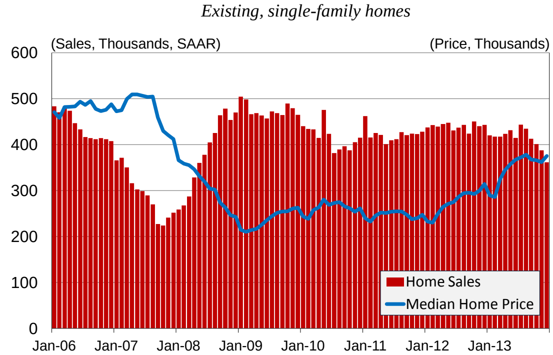
California Personal Income & Taxable Sales Growth



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

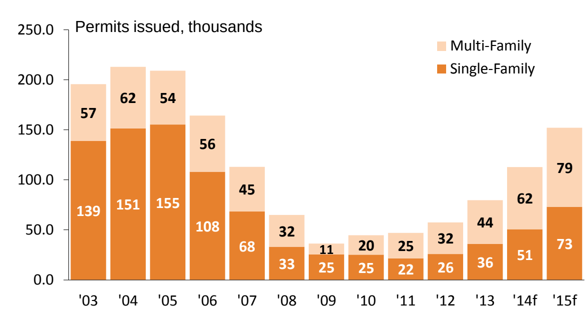
Home Sales & Median Prices California

Existing, single-family homes



Source: California Association of Realtors

Residential Building Permits Issued in California



Source: CIRB, California Home Building Foundation, forecast by LAEDC

Table 5: California Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemploy-ment Rate (ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Total Taxable Sales ($Billions)	Value of Two-way Trade ($Billions)	Housing Unit Permits Issued	Nonresidential Buidling Permits ($Millions)
2003	35,388.9	14,393.5	6.8	1244.4	35,298	460.1	347.8	195,682	18,628
2004	35,752.8	14,533.3	6.2	1321.6	37,150	500.1	394.3	212,960	19,718
2005	35,985.6	14,802.0	5.4	1396.2	38,969	536.9	433.1	208,972	21,469
2006	36,246.8	15,061.0	4.9	1499.5	41,627	559.7	487.6	164,280	23,298
2007	36,552.5	15,174.5	5.4	1564.4	43,157	561.1	512.9	113,034	23,733
2008	36,856.2	14,982.7	7.2	1596.3	43,609	531.7	523.3	64,962	19,588
2009	37,077.2	14,085.4	11.3	1536.4	41,569	456.5	413.3	36,421	10,866
2010	37,309.4	13,936.6	12.4	1579.1	42,297	477.3	502.6	44,762	11,200
2011	37,570.1	14,098.8	11.8	1683.2	44,666	520.6	558.5	47,016	13,134
2012	37,872.4	14,394.5	10.5	1768.0	46,477	561.1	578.2	57,496	11,727
2013	38,204.6	14,642.4	8.9	1810.5	47,174	589.6	596.4	79,700	20,218
2014f	38,548.4	14,904.2	7.9	1901.0	49,061	619.7	624.1	112,700	21,053
2015f	38,933.9	15,217.2	7.1	1999.8	51,122	656.0	667.9	152,100	22,195

% Change									
03/02	1.3%	-0.4%		4.3%	3.1%	4.3%	6.1%	16.6%	-6.1%
04/03	1.0%	1.0%		6.2%	5.2%	8.7%	13.4%	8.8%	5.9%
05/04	0.7%	1.8%		5.6%	4.9%	7.4%	9.9%	-1.9%	8.9%
06/05	0.7%	1.7%		7.4%	6.8%	4.2%	12.6%	-21.4%	8.5%
07/06	0.8%	0.8%		4.3%	3.7%	0.2%	5.2%	-31.2%	1.9%
08/07	0.8%	-1.3%		2.0%	1.0%	-5.2%	2.0%	-42.5%	-17.5%
09/08	0.6%	-6.0%		-3.7%	-4.7%	-14.1%	-21.0%	-43.9%	-44.5%
10/09	0.6%	-1.1%		2.8%	1.8%	4.6%	21.6%	22.9%	3.1%
11/10	0.7%	1.2%		6.6%	5.6%	9.1%	11.1%	5.0%	17.3%
12/11	0.8%	2.1%		5.0%	4.1%	7.8%	3.5%	22.3%	-10.7%
13/12	0.9%	1.7%		2.4%	1.5%	5.1%	3.1%	38.6%	72.4%
14/13	0.9%	1.8%		5.0%	4.0%	5.1%	4.6%	41.4%	4.1%
15/14	1.0%	2.1%		5.2%	4.2%	5.9%	7.0%	35.0%	5.4%

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
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	1,504.7	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	1,464.3	927.9	536.4	715.3	1,689.9	507.7	470.8
2008	14,982.7	28.7	787.7	1,425.4	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	1,241.9	771.1	470.8	644.0	1,513.0	466.3	427.8
2011	14,098.8	29.3	561.2	1,247.8	778.7	469.1	657.9	1,549.2	474.3	428.8
2012	14,394.5	30.1	588.9	1,252.8	782.8	470.0	676.8	1,561.8	486.5	430.4
2013	14,642.4	29.6	620.2	1,248.1	782.3	465.8	698.2	1,568.4	495.8	434.4
2014f	14,904.2	29.6	659.3	1,278.1	812.3	465.8	709.8	1,604.6	506.0	438.0
2015f	15,217.2	30.1	731.9	1,295.9	830.0	465.9	726.8	1,620.0	521.8	440.0

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
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	514.8	247.1	1,050.9	199.3	881.6	325.4	1,509.9	1,535.8	493.7	2,404.9
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
2013	529.0	257.8	1,136.1	206.9	959.5	347.5	1,571.7	1,668.5	510.0	2,359.0
2014f	528.0	259.0	1,167.0	208.7	970.0	346.0	1,612.0	1,721.0	518.3	2,351.0
2015f	528.0	259.0	1,210.0	208.7	980.1	345.0	1,650.5	1,785.0	519.4	2,365.0

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

Table 7: California Regional Nonfarm Employment

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

		Northern California			Central California					Southern California				
\ MSA Year \	State of California	Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside-San Bernardino	San Diego	Ventura
1990	12,500.2	879.1	947.4	824.3	170.7	224.4	117.5	618.4	152.7	4,136.7	1,172.7	712.9	966.7	230.2
1991	12,359.3	879.7	939.9	815.5	177.2	227.2	117.8	630.9	155.2	3,984.0	1,144.1	719.1	962.8	230.4
1992	12,154.0	870.2	914.4	801.8	173.3	230.1	120.0	623.2	154.8	3,804.1	1,125.9	729.6	947.5	226.5
1993	12,045.8	873.5	908.1	806.6	169.8	233.5	121.5	625.9	156.2	3,707.3	1,115.4	733.6	946.7	227.0
1994	12,159.8	877.3	903.6	810.2	170.8	237.1	122.2	643.8	157.3	3,702.3	1,126.9	751.0	955.2	233.3
1995	12,422.4	897.4	916.5	842.9	172.8	243.5	124.0	662.8	160.3	3,747.1	1,151.8	779.9	978.6	237.3
1996	12,743.8	916.4	948.5	892.0	174.9	246.8	127.8	681.5	163.4	3,789.2	1,184.7	803.7	1,006.4	237.9
1997	13,130.1	947.9	983.7	939.8	179.3	249.9	131.7	702.2	167.5	3,864.8	1,233.8	841.7	1,054.3	242.7
1998	13,596.7	976.1	1,012.0	969.8	184.3	253.6	137.2	731.4	171.5	3,942.6	1,298.9	882.1	1,105.2	252.3
1999	13,992.3	1,007.9	1,039.5	984.8	188.8	262.1	141.7	770.5	178.7	4,002.2	1,344.8	938.5	1,152.4	263.6
2000	14,488.7	1,044.7	1,081.8	1,044.4	194.2	270.7	144.2	797.2	185.8	4,072.7	1,388.9	988.4	1,193.9	275.0
2001	14,602.5	1,054.7	1,054.3	1,018.1	202.3	275.9	149.7	818.9	191.1	4,074.4	1,413.8	1,029.7	1,218.5	279.9
2002	14,458.4	1,039.8	987.6	917.4	205.1	281.9	150.6	832.2	194.0	4,027.7	1,403.9	1,064.5	1,230.9	281.8
2003	14,393.5	1,025.8	951.1	870.3	207.2	282.8	152.3	846.3	197.3	3,982.7	1,428.9	1,099.2	1,240.2	284.2
2004	14,533.3	1,023.5	939.7	861.8	211.7	286.9	154.6	859.0	200.6	3,995.8	1,456.4	1,160.0	1,259.9	286.2
2005	14,802.0	1,032.0	947.9	869.8	222.0	294.3	159.0	880.9	205.8	4,024.3	1,490.9	1,222.0	1,281.9	291.2
2006	15,061.0	1,045.3	967.5	891.1	233.3	302.6	159.9	899.0	209.0	4,093.1	1,519.0	1,267.7	1,301.6	297.7
2007	15,174.5	1,048.1	988.8	911.0	238.6	306.4	160.2	902.8	211.5	4,122.9	1,515.8	1,271.0	1,308.8	296.7
2008	14,982.7	1,030.8	996.6	915.1	238.3	303.0	156.5	882.1	205.7	4,069.6	1,481.4	1,225.3	1,298.9	290.8
2009	14,085.4	968.7	945.1	856.6	228.2	286.3	146.7	831.4	193.7	3,823.3	1,371.8	1,141.5	1,231.2	274.8
2010	13,936.6	948.6	935.9	855.1	226.5	279.5	146.3	809.9	187.7	3,773.3	1,353.8	1,124.0	1,222.5	272.8
2011	14,098.8	957.4	960.0	876.3	233.3	281.1	146.0	808.7	187.5	3,798.5	1,368.9	1,128.8	1,233.3	274.9
2012	14,394.5	979.6	998.4	905.8	241.4	282.9	148.7	822.7	190.2	3,864.3	1,400.7	1,151.8	1,258.8	278.8
2013	14,642.4	991.9	1,024.9	932.3	245.4	285.9	149.8	831.6	193.8	3,925.9	1,430.1	1,165.9	1,281.9	283.6
2014f	14,904.2	1,008.7	1,046.4	954.7	251.3	291.7	152.7	843.3	198.2	3,987.7	1,460.1	1,191.6	1,306.5	288.7
2015f	15,217.2	1,029.9	1,066.3	976.7	258.1	297.2	155.4	861.8	202.4	4,035.5	1,489.3	1,226.5	1,332.6	294.1

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

Table 8: Total Nonfarm Employment in Southern California

Actual Data & Forecasts (Annual averages in thousands)

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2005	4,024.3	1,490.9	1,222.0	291.2	7,028.4	1,281.9	14,802.0
2006	4,093.1	1,519.0	1,267.7	297.7	7,177.5	1,301.6	15,061.0
2007	4,122.9	1,515.8	1,271.0	296.7	7,206.4	1,308.8	15,174.5
2008	4,069.6	1,481.4	1,225.3	290.8	7,067.1	1,298.9	14,982.7
2009	3,823.3	1,371.8	1,141.5	274.8	6,611.4	1,231.2	14,085.4
2010	3,773.3	1,353.8	1,124.0	272.8	6,523.9	1,222.5	13,936.6
2011	3,798.5	1,368.9	1,128.8	274.9	6,571.0	1,233.3	14,098.8
2012	3,864.3	1,400.7	1,151.8	278.8	6,695.6	1,258.8	14,394.5
2013	3,925.9	1,430.2	1,165.9	283.6	6,805.5	1,281.9	14,642.4
2014f	3,987.7	1,460.1	1,191.6	288.7	6,928.2	1,306.5	14,904.2
2015f	4,035.5	1,491.6	1,226.5	294.1	7,047.7	1,332.6	15,217.2

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
2006	68.8	28.1	45.7	6.5	149.1	19.7	259.0
2007	29.8	-3.2	3.3	-1.0	28.9	7.2	113.5
2008	-53.3	-34.4	-45.7	-5.9	-139.3	-9.9	-191.8
2009	-246.4	-109.6	-83.8	-16.0	-455.7	-67.7	-897.3
2010	-50.0	-18.0	-17.5	-2.0	-87.5	-8.7	-148.8
2011	25.2	15.0	4.8	2.1	47.1	10.7	162.2
2012	65.8	31.8	23.0	3.9	124.6	25.6	295.7
2013	61.6	29.5	14.1	4.8	110.0	23.1	247.9
2014f	61.8	30.0	25.7	5.2	122.6	24.6	261.8
2015f	47.8	31.5	34.9	5.3	119.5	26.1	313.0

% 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
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	-1.3%	-2.3%	-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%	-0.7%	-1.3%	-0.7%	-1.1%
2011	0.7%	1.1%	0.4%	0.8%	0.7%	0.9%	1.2%
2012	1.7%	2.3%	2.0%	1.4%	1.9%	2.1%	2.1%
2013	1.6%	2.1%	1.2%	1.7%	1.6%	1.8%	1.7%
2014f	1.6%	2.1%	2.2%	1.8%	1.8%	1.9%	1.8%
2015f	1.2%	2.2%	2.9%	1.8%	1.7%	2.0%	2.1%

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

Table 9: California Technology Employment

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

		Manufacturing			Services				
Year	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	1019.2	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	962.0	275.2	71.5	43.3	48.3	18.8	214.5	169.7	120.7
2012	1006.3	271.5	70.5	44.6	51.7	20.5	230.6	191.5	125.4
2013	1029.7	271.6	69.6	45.7	52.8	21.5	235.2	208.3	125.1

Sources: California EDD, LMID

Table 10: Population Trends in California and the Los Angeles 5-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	% ∆	Data	% ∆	Data	% ∆	Data	% ∆	Data	% ∆	Data	% ∆
1990	8,860	---	2,412	---	2,620	---	669.1	---	14,562	---	29,828	---
1991	8,955	1.1%	2,459	1.9%	2,751	5.0%	676.9	1.2%	14,842	1.9%	30,549	2.4%
1992	9,060	1.2%	2,512	2.2%	2,833	3.0%	686.3	1.4%	15,091	1.7%	30,987	1.4%
1993	9,084	0.3%	2,550	1.5%	2,885	1.8%	693.8	1.1%	15,213	0.8%	31,314	1.1%
1994	9,106	0.3%	2,576	1.0%	2,920	1.2%	700.6	1.0%	15,303	0.6%	31,524	0.7%
1995	9,101	-0.1%	2,605	1.1%	2,960	1.4%	705.1	0.6%	15,370	0.4%	31,712	0.6%
1996	9,108	0.1%	2,646	1.6%	3,007	1.6%	710.5	0.8%	15,471	0.7%	31,963	0.8%
1997	9,186	0.9%	2,700	2.0%	3,063	1.9%	721.7	1.6%	15,669	1.3%	32,453	1.5%
1998	9,266	0.9%	2,750	1.9%	3,117	1.8%	729.1	1.0%	15,862	1.2%	32,863	1.3%
1999	9,394	1.4%	2,803	1.9%	3,198	2.6%	742.8	1.9%	16,138	1.7%	33,419	1.7%
2000	9,544	1.6%	2,854	1.8%	3,276	2.4%	756.9	1.9%	16,431	1.8%	34,001	1.7%
2001	9,636	1.0%	2,890	1.3%	3,386	3.3%	769.0	1.6%	16,681	1.5%	34,513	1.5%
2002	9,722	0.9%	2,914	0.8%	3,489	3.0%	779.9	1.4%	16,906	1.3%	34,938	1.2%
2003	9,791	0.7%	2,940	0.9%	3,623	3.8%	789.4	1.2%	17,143	1.4%	35,389	1.3%
2004	9,823	0.3%	2,956	0.6%	3,757	3.7%	795.0	0.7%	17,331	1.1%	35,753	1.0%
2005	9,810	-0.1%	2,957	0.0%	3,878	3.2%	796.9	0.2%	17,441	0.6%	35,986	0.7%
2006	9,787	-0.2%	2,955	-0.1%	3,994	3.0%	801.2	0.5%	17,538	0.6%	36,247	0.7%
2007	9,774	-0.1%	2,966	0.4%	4,085	2.3%	805.9	0.6%	17,631	0.5%	36,553	0.8%
2008	9,797	0.2%	2,983	0.6%	4,139	1.3%	812.0	0.8%	17,731	0.6%	36,856	0.8%
2009	9,805	0.1%	2,999	0.5%	4,181	1.0%	818.5	0.8%	17,803	0.4%	37,077	0.6%
2010	9,825	0.2%	3,017	0.6%	4,230	1.2%	825.1	0.8%	17,898	0.5%	37,309	0.6%
2011	9,861	0.4%	3,047	1.0%	4,274	1.0%	830.2	0.6%	18,011	0.6%	37,570	0.7%
2012	9,945	0.9%	3,075	0.9%	4,314	0.9%	833.4	0.4%	18,167	0.9%	37,872	0.8%
2013	10,019	0.7%	3,105	1.0%	4,344	0.7%	840.3	0.8%	18,309	0.8%	38,205	0.9%
2014f	10,090	0.7%	3,139	1.1%	4,409	1.5%	847.0	0.8%	18,485	1.0%	38,548	0.9%
2015f	10,160	0.7%	3,173	1.1%	4,493	1.9%	854.7	0.9%	18,681	1.1%	38,934	1.0%

Source: U.S. Census, California Department of Finance, E-2. California County Population Estimates; forcasts by LAEDC

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
Los Angeles County							
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	35.8	132.6	58.0	74.6	-38.8	21.1	-59.9
2012	84.1	130.6	57.9	72.7	11.5	37.6	-26.1
2013	74.3	132.4	58.5	73.9	0.4	55.9	-55.5
Orange County							
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	29.5	38.2	17.6	20.6	8.9	5.9	3.0
2012	27.8	38.3	17.8	20.5	7.3	10.5	-3.2
2013	30.1	38.4	17.9	20.5	9.6	15.6	-6.0
Riverside County							
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	28.5	31.0	14.4	16.6	11.9	2.3	9.6
2012	29.4	30.4	14.6	15.8	13.5	4.3	9.3
2013	18.0	30.5	14.8	15.7	2.3	6.1	-3.9
San Bernardino County							
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	14.6	31.4	12.2	19.2	-4.6	2.2	-6.9
2012	11.0	30.5	12.1	18.4	-7.4	4.1	-11.5
2013	12.3	30.9	12.3	18.5	-6.3	6.0	-12.3
San Diego County							
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	23.0	44.7	19.6	25.0	-2.1	6.4	-8.5
2012	28.1	44.3	19.9	24.5	3.6	10.5	-6.8
2013	28.2	44.7	20.0	24.6	6.6	15.9	-12.4
Ventura County							
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	5.9	-0.8	0.9	-1.8
2012	3.2	10.6	5.0	5.6	-2.4	1.6	-4.0
2013	7.0	10.7	5.1	5.6	1.4	2.4	-1.0
State of California							
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	260.7	509.5	237.5	272.0	-11.3	64.9	-76.2
2012	302.3	502.9	239.3	263.6	38.7	113.7	-75.0
2013	332.2	506.7	240.8	265.9	66.3	169.3	-103.0

Source: California Department of Finance, E-2. California County Population Estimates and Components of Change by Year

LOS ANGELES COUNTY

INTRODUCTION

Los Angeles County has the largest population of any county in the U.S. and it has a larger population than 43 states. The county has 88 cities, of which the city of Los Angeles is the largest, followed by Long Beach, Glendale, and Santa Clarita. In addition, Los Angeles County has the largest county economy in the nation and would be the 21st largest economy in the world if it were a country. Los Angeles County is also the top exporter of any county in the U.S. It is one of the original counties, created when California became a state in 1850.

Los Angeles County has the largest county economy in the nation and would be the 21st largest economy in the world if it were a country.

Los Angeles County entered 2014 with momentum from a county labor market that slowed during the second half of 2013. The early part of 2013 was a continuation of 2012, but sluggish conditions nationally contributed to less-than-satisfactory job growth during the summer and last part of 2013. Still, almost all of the major private sector industries added jobs in 2013.

In 2013 nonfarm jobs in Los Angeles County grew at a year-over-year rate of 1.6%, matching the growth rate nationally but slightly behind the state's 1.7% growth rate. This contributed to a one percent decline in the annual unemployment rate, which fell from 10.9% in 2012 to 9.8% last year. The unemployment rate is expected to fall to 8.7% this year and drop to 7.8% in 2015. Total nonfarm employment for the county stood at 3.93 million jobs last year. The county added over 61,600 nonfarm jobs in 2013, following an increase of 65,800 in 2012 and 25,200 in 2011. With such improvements, a normal unemployment rate (7.5%) is still a couple of years away.

Most private industry sectors posted an increase in payroll employment last year. The largest gains were in leisure and hospitality, professional, scientific and technical services, healthcare and social assistance, and construction. These four industries combined contributed more than 73% of the jobs created last year. Administrative and support services also added 9,500 jobs, but most of that increase came in the form of temporary workers. Only manufacturing and transportation, warehousing and utilities lost jobs, down by slightly over 4,200 positions or 1.2% last year and by over 400 jobs or just slightly down by -0.3% respectively. While the decline in manufacturing continued a long-time trend, construction witnessed a third consecutive year of gains after three years of declines in the wake of the Great Recession. Construction added nearly 7,500 jobs last year, equivalent to a nearly 6.8% increase. In the public sector, job losses continued for yet another year with 6,800 jobs given up in 2013, a 1.2% decline.

Nonfarm jobs in Los Angeles County are expected to grow by 1.6% this year, with another 1.2% gain to come in 2015. With these improvements, nonfarm employment will exceed four million in 2015 for the first time since 2008.

Nonfarm jobs in Los Angeles County are expected to grow by 1.6% this year, with another 1.2% gain to come in 2015. With these improvements, nonfarm employment will exceed four million in 2015 for the first time since 2008. The largest gains for 2014 are expected in healthcare and social assistance (13,800), leisure and hospitality (8,800 jobs), professional, scientific and technical services (8,800 jobs), administrative and support services (7,700 jobs), and construction (5,800 jobs). Manufacturing is expected to experience slight job growth over the next couple of years for the first time in several years. As for government, employment will be flat or down slightly in 2014 and in 2015.

TRENDS IN MAJOR INDUSTRIES

Entertainment

The entertainment industry is one of the most visible and important industries in Los Angeles County. The motion picture and sound recording sector accounts for most of the county's entertainment industry employment. Both motion picture and sound recording jobs and broadcasting jobs registered slight year-over-year increases in 2013. Average annual employment in motion picture and sound recording rose to just over 118,000 jobs. Meanwhile, broadcasting almost reached the 19,860 employment level. The first half of 2013 was stronger than the second half for both motion picture and sound recording and broadcasting. Whether more substantial job gains can be achieved in motion picture and sound recording may depend in part on the success of the California Film Tax Credit program in the coming years. There has been a steady rise in local production since the recession. In 2013, on-location feature film production rose by 18.3% to 6,972 days, the fourth consecutive yearly gain. Total production days (includes film, TV, and commercials) in 2013 increased by 11.7% to 51,670.

The past year was a strong year for trade flows at the local parts as the number of TEUs moving through the ports edged up by 3.4% to 14.6 million containers. Two-way trade should increase by 4.5% this year, and accelerate to a 6.9% growth rate in 2015 as prospects improve for the U.S. and its trading partners.

International Trade

International trade continues to play an important role in the local economy. International trade is among the top three largest trade-oriented industry clusters in Los Angeles County based on 2012 figures (most recent available). Activity levels depend not only on the health of the national economy but the global economy as well.

The San Pedro Bay ports of Los Angeles and Long Beach are the two busiest container ports 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 past year was a strong year for trade flows at the local ports as the number of TEUs (twenty-foot equivalent units) moving through the ports edged up by 3.4% to 14.6 million containers. The value of two-way trade through the Los Angeles Customs District, a broader measure of trade volume, rose by 2.7% last year to a record $414.5 billion. Two-way trade should increase by 4.5% this year, and accelerate to a 6.9% growth rate in 2015 as prospects improve for the U.S. and its trading partners. Container activity is projected to grow 4.6% this year in response to increased imports and exports through the twin ports.

Professional Services and Technology

The professional, scientific, and technical services industry is the fifth largest in Los Angeles County. Firms in the 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 276,800 in 2013, up 3.7% from a year earlier. Growth is expected to continue in this sector over the next two years, with projected gains of 8,800 jobs this year and over 9,000 in 2015.

The technology sector, which includes manufacturing and service industries in aerospace, information technology, electronics, and biomedical technology, employed 184,000 workers in 2012, and it employed 186,400 people in 2013, up 1.4% from a year earlier. Most of the growth occurred in consulting, which was offset partially by declines in the manufacturing segments of the technology sector. Like the professional, scientific, and technical industry, it is a source of highly compensated jobs in the local economy.

LOOKING AHEAD

The Los Angeles County economy will continue to move forward in 2014 and in 2015, barring any unforeseen shocks to the national economy. Population eclipsed the 10 million mark in 2013, and will continue on a modest growth trajectory of just under one percent per year. By 2015, nonfarm employment should exceed four million, but it may be 2016 or 2017 before nonfarm employment exceeds the peak of 4.12 million reached in 2007.

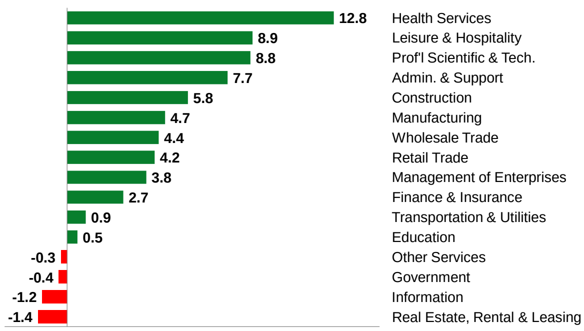
With these gains, total personal income will move further away from the recession-low of just over $390 billion. Personal income increased 1.8% in 2013 to $451.1 billion and is expected to surpass $493 billion by 2015. Total taxable sales will increase by 5.3% this year and by 6.1% next year, following 5.3% growth in 2013. Both of these indicators suggest that the local consumer sector is improving, an all-important fact for retailers and other consumer-serving businesses.

As for the business sector, 2014 will bring opportunities for emerging as well as existing industries. Over the short to medium term, expansion will continue in the major industries. In addition, Silicon Beach will continue to grow as Silicon Valley companies seek to capitalize on the presence of creative content here in Los Angeles. Also, venture capital will continue to flow to the area as startups in a variety of technology industries grow in number. Finally, even as concerns about funding for government aerospace programs linger, private firms will continue to pursue commercial space ventures from their operations in Los Angeles County and elsewhere in Southern California.

Los Angeles County Snapshot

L.A. County Employment Growth, 2014

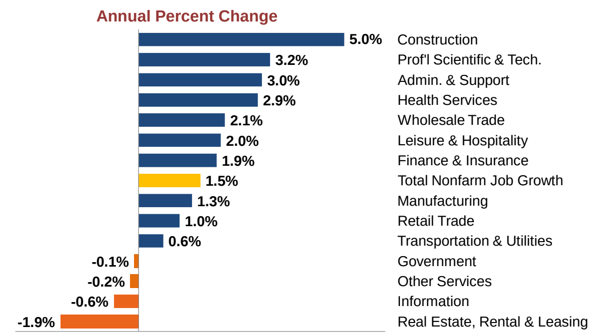
Total nonfarm job growth forecast for 2014 (thousands): +58.9 jobs



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

L.A. County Employment Growth, 2014

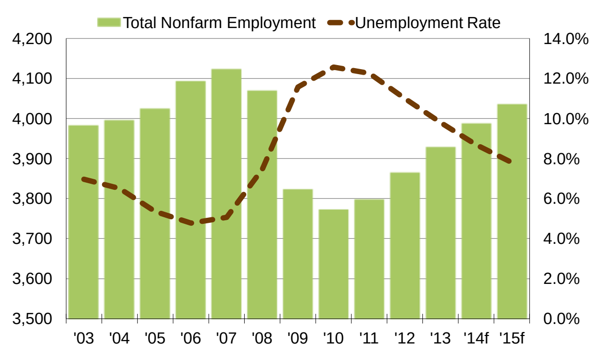
Total nonfarm job growth forecast for 2014, percent change: +2.1%



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

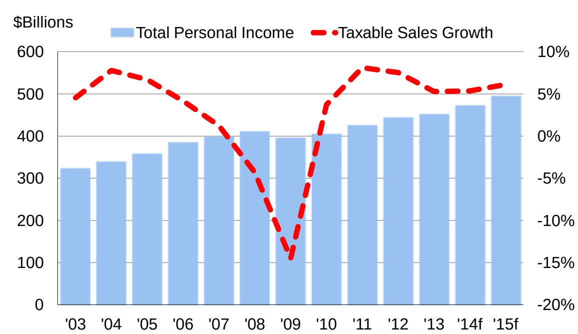
Los Angeles County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

Los Angeles County Personal Income & Taxable Sales Growth



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

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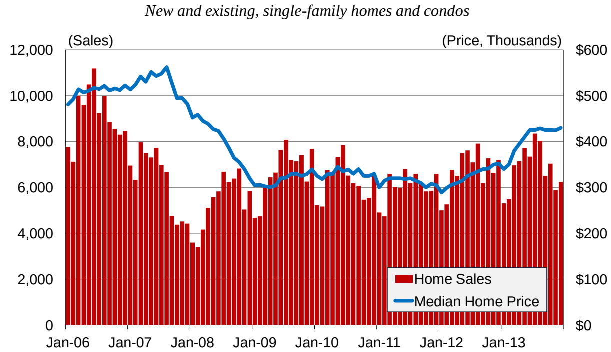
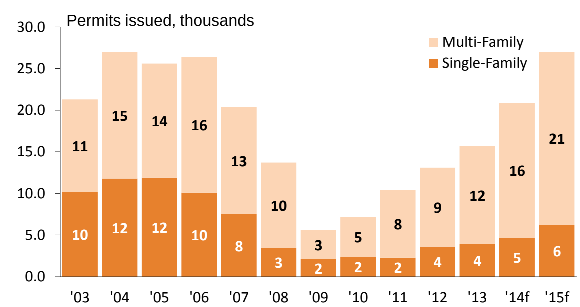
Home Sales & Median Prices Los Angeles County

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 Home Building Foundation, forecast by LAEDC

Table 12: Los Angeles County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Total Taxable Sales ($Billions)	Value of Two-way Trade ($Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)	Chg. in CPI (%)
2003	9,791.0	3982.7	7.0	323.3	33,101	113.7	232.9	---	21,313	2,932	2.6%
2004	9,822.5	3995.8	6.5	338.7	34,584	122.5	261.7	---	26,935	3,174	3.3%
2005	9,809.6	4024.3	5.4	357.3	36,513	130.7	291.6	---	25,647	3,824	4.5%
2006	9,787.3	4093.1	4.8	384.4	39,471	136.2	326.4	37.4	26,348	3,896	4.3%
2007	9,773.9	4122.9	5.1	397.9	41,016	137.8	347.3	35.7	20,363	4,739	3.3%
2008	9,796.8	4069.6	7.5	410.0	42,114	131.9	355.8	36.5	13,704	4,491	3.5%
2009	9,805.2	3823.3	11.6	394.9	40,351	112.7	282.9	34.4	5,653	2,674	-0.8%
2010	9,825.1	3773.3	12.6	404.0	41,113	116.9	346.8	38.5	7,468	2,677	1.2%
2011	9,860.9	3798.5	12.3	424.8	42,953	126.4	386.7	40.4	10,403	2,965	2.7%
2012	9,945.0	3864.3	11.0	443.1	44,474	136.0	403.5	41.4	13,100	3,683	2.0%
2013	10,019.4	3925.9	9.8	451.1	44,919	143.2	414.5	42.2	15,700	4,028	1.1%
2014f	10,089.5	3987.7	8.7	471.4	46,715	150.8	433.3	43.2	21,100	4,550	1.4%
2015f	10,160.1	4035.5	7.8	493.5	48,724	160.0	463.2	44.5	27,000	4,975	1.9%

% Change										
03/02	0.7%	-1.1%		3.8%	3.2%	4.5%	9.5%	---	10.1%	0.4%
04/03	0.3%	0.3%		4.8%	4.5%	7.8%	12.4%	---	26.4%	8.3%
05/04	-0.1%	0.7%		5.5%	5.6%	6.7%	11.4%	---	-4.8%	20.5%
06/05	-0.2%	1.7%		7.6%	8.1%	4.2%	11.9%	---	2.7%	1.9%
07/06	-0.1%	0.7%		3.5%	3.9%	1.2%	6.4%	-4.5%	-22.7%	21.6%
08/07	0.2%	-1.3%		3.0%	2.7%	-4.3%	2.5%	2.2%	-32.7%	-5.2%
09/08	0.1%	-6.1%		-3.7%	-4.2%	-14.5%	-20.5%	-5.8%	-58.7%	-40.5%
10/09	0.2%	-1.3%		2.3%	1.9%	3.7%	22.6%	11.9%	32.1%	0.1%
11/10	0.4%	0.7%		5.1%	4.5%	8.1%	11.5%	4.9%	39.3%	10.8%
12/11	0.9%	1.7%		4.3%	3.5%	7.5%	4.3%	2.5%	25.9%	24.2%
13/12	0.7%	1.6%		1.8%	1.0%	5.3%	2.7%	1.9%	19.8%	9.4%
14/13	0.7%	1.6%		4.5%	4.0%	5.3%	4.5%	2.4%	34.4%	13.0%
15/14	0.7%	1.2%		4.7%	4.3%	6.1%	6.9%	3.0%	28.0%	9.3%

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
2003	3,982.7	3.8	134.6	502.1	278.3	223.8	212.0	399.3	161.5	202.3
2004	3,995.8	3.8	140.2	485.8	270.0	215.8	213.0	405.4	161.1	211.9
2005	4,024.3	3.7	148.7	473.9	265.6	208.3	217.1	414.4	161.7	207.6
2006	4,093.1	4.0	157.5	463.9	259.5	204.4	223.5	423.3	165.2	205.6
2007	4,122.9	4.4	157.6	449.2	250.9	198.3	227.0	426.0	165.6	209.8
2008	4,069.6	4.4	145.2	434.4	243.2	191.2	223.7	416.5	163.1	210.3
2009	3,823.3	4.1	117.3	389.2	217.6	171.6	204.5	387.0	151.2	191.2
2010	3,773.3	4.1	104.5	373.2	207.0	166.2	203.0	385.7	150.6	191.5
2011	3,798.5	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
2013	3,925.9	4.2	116.2	360.8	200.1	160.8	212.2	398.1	153.9	193.9
2014f	3,987.7	4.3	122.0	365.5	201.3	164.7	216.6	402.3	154.8	192.7
2015f	4,035.5	4.3	134.4	367.8	202.3	165.5	218.8	406.4	156.3	192.9

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
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
2013	140.2	75.4	276.8	57.0	253.6	122.0	437.4	433.0	141.2	550.0
2014f	142.9	74.0	285.6	60.8	261.3	122.5	450.2	441.8	140.9	549.6
2015f	142.2	73.3	294.7	62.7	269.6	123.0	454.0	446.2	139.5	549.6

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

ORANGE COUNTY

INTRODUCTION

Orange County's agricultural (mainly orange groves) and oil industries used to fuel much of the regional economy's growth. However, beginning in the 1950s, Orange County started to transform itself into a prosperous hub for the current day high-tech, aerospace, manufacturing and tourism industries. Facilitating this transformation was Orange County's well educated work force. Nearly 90% of the adult population has a high school diploma and roughly 35% has a bachelor's degree or higher. Quality of life is another attribute in which Orange County ranks high amongst counties in the U.S.

The economy in Orange County has expanded at a faster pace than both the nation and the state over the past few years.

The economy in Orange County has expanded at a faster pace than both the nation and the state over the past few years, a trend that continued in 2013. The unemployment rate in Orange County peaked at 9.5% in 2010, but fell to an average annual rate of 6.0% in 2013. By December 2013, the unemployment rate in Orange County stood at 5.2%, the lowest in Southern California (fourth lowest in the state) and one of the lowest in the nation. The LAEDC forecasts the unemployment rate will average 5.2% in 2014 and 4.6% in 2015.

Orange County total nonfarm employment went from being 8.5% below the peak reached in 2006 to 6.2% below the peak in 2013, as most private industry sectors posted an increase in payrolls last year. The largest gains were in construction, leisure and hospitality, and healthcare and social assistance. Of the 29,800 jobs created in Orange County in 2013, 56% (or 16,800 jobs) were added in just those three sectors.

In 2014, the LAEDC forecasts Orange County payrolls will increase by roughly 30,000 jobs (3.1%)

In 2014, the LAEDC forecasts Orange County payrolls will increase by roughly 30,000 jobs (2.1%). The largest gains are expected to be in construction (5,400 jobs), professional, scientific and technical services (4,500 jobs), manufacturing (4,000 jobs), leisure and hospitality (3,200 jobs), and administrative and support services (2,800 jobs). The county will continue to add jobs in 2015, and will approach the prerecession peak level of jobs (1.52 million) later in the decade.

Orange County's manufacturing sector posted relatively strong gains last year, as employment increased by 2,300 jobs or 1.4%. The rate of economic expansion was one factor that contributed to the growth. Also, some of Orange County's small and midsized manufacturing firms are bringing back previously outsourced operations as a result of rising shipping and labor costs overseas.

TRENDS IN MAJOR INDUSTRIES

Real Estate and Construction

Orange County's residential real estate market continued its upward momentum in 2013 after beginning to rebound in 2012. Sales of existing homes were relatively strong this past year, but inventories were extremely lean. According to the *California Association of Realtors* the median price of an existing single-family home in Orange County was $542,700 in 2012, which represented an increase of 5.6% compared with 2011. In 2013, the median price jumped nearly 20% to $660,000. While still high by historical standards, foreclosures have dropped significantly over the past two years and more quickly than other regions in Southern California due to the improving economy. New home building gained significant traction last year with a 63% increase in total housing permits, divided between 4,000 single family and 4,800 multifamily permits. Stronger economic growth and demographic pressures will push new home construction higher this year and into 2015.

In 2013, the median price of an existing single-family home reached $660,000, a jump of nearly 20% over the year.

Local commercial real estate has also improved. Office and industrial vacancy rates have inched down and lease rates have stabilized. Non-residential building permits were up by over 15% in 2013 compared with 2012. Leasing fundamentals should continue to strengthen this year, paving the way for strong gains in new non-residential construction in 2014 and 2015.

Leisure and Hospitality

Consumer spending as a result of the tourism industry in Orange County is another key economic driver for the region. Based on estimates from the *Orange County Visitor and Convention Bureau*, over 44 million people visited the County and spent in excess of $9.5 billion last year, including roughly $7 billion on lodging, meals and beverages and amusement parks. There were an estimated 3.7 million international visitors in 2013, supporting 156,000 tourism-related jobs last year.

Over 44 million people visited Orange County in 2013 and spent in excess of $9.5 billion.

Manufacturing and Exports

Orange County has a strong manufacturing sector that includes sophisticated technology companies (especially computer related), aerospace firms and medical device manufacturers. These sectors rely on a highly skilled workforce, something Orange County is able to provide in abundance. Of all total nonfarm employment in Orange County, roughly 11% are engaged in manufacturing. The other key sectors include leisure and hospitality, health care, administrative and support services and professional and business services along with retail trade. Manufacturing in Orange County employs more workers in the durable goods sector (roughly 73% of the total), producing products like computers, machinery, and transportation equipment, with smaller but significant numbers in nondurable goods sectors such as apparel (primarily surf and skating oriented) and food manufacturing industries.

The county witnessed a 15% decline in manufacturing jobs over the course of the recession. However, the county has regained 3.5% of those job losses over the past four years, reaching 160,050 workers in 2013. Last year, durable goods experienced an increase of over 2,700 jobs, while, non-durable goods saw a loss of 500 jobs last year. Computer and electronic products continued to be the largest sub-sector in 2013 with over 34,000 jobs followed by fabricated metal products (with nearly 23,000 jobs) and transportation equipment (with roughly 14,000 jobs).

It is important to remember that Orange County is also part of the nation's strongest export region (includes both goods and services) meaning the Los Angeles Metropolitan Area (which is comprised of both LA and Orange Counties) mainly due to its competitive and comparative advantages in manufacturing and tourism. The Los Angeles Metropolitan Area witnessed roughly $94 billion in exports in 2012 (most recent data). Of this total, roughly 26% or $25 billion was related to Orange County exports.

LOOKING AHEAD

Orange County's economy is expanding and the near-term outlook is growing even brighter. Initially lagging behind the national recovery, Orange County's recovery quickly gathered strength. The region has now seen renewed development activity – several long delayed construction projects are set to move forward.

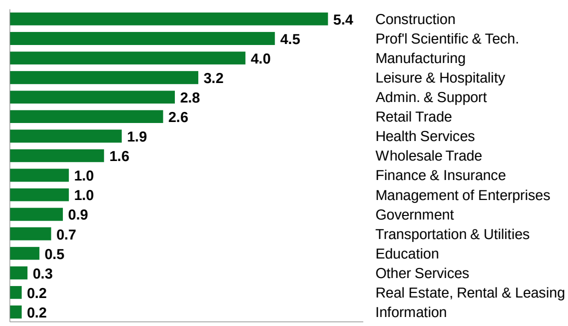
Consumer spending as measured by total taxable sales will post healthy gains this year and next. Growth in both employment and personal income, along with improvements in the housing market all point to stronger consumer spending during the next two years.

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

Orange County Snapshot

Orange County Employment Growth, 2014

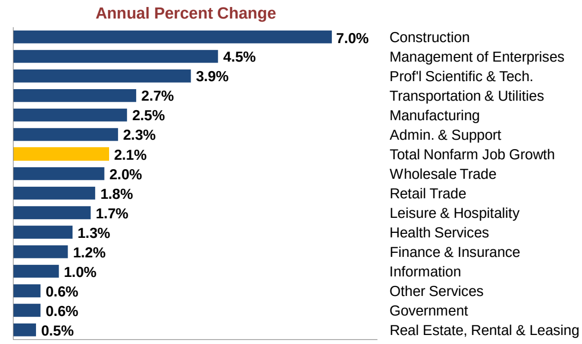
Total nonfarm job growth forecast for 2014 (thousands): +30.0 jobs



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

Orange County Employment Growth, 2014

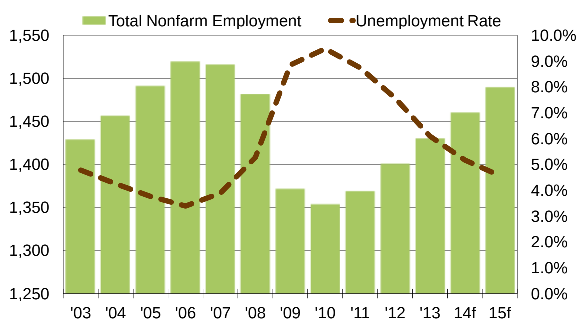
Total nonfarm job growth forecast for 2014, percent change: +2.1%



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

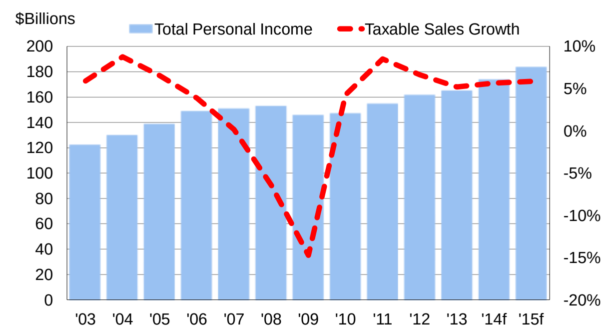
Orange County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

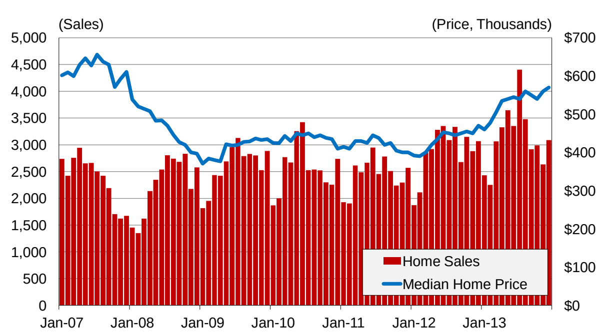
Orange County Personal Income & Taxable Sales Growth



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

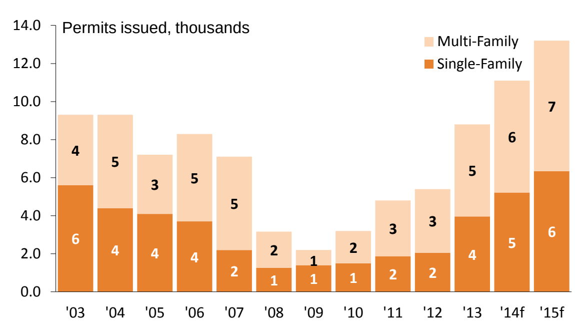
Home Sales & Median Prices Orange County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

Residential Building Permits Issued in Orange County



Source: CIRB, California Home Building Foundation, forecast by LAEDC

Table 14: Orange County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Total Taxable Sales ($Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2003	2,939.7	1,428.9	4.8	122.5	41,805	47.5	42.7	9,311	1,006
2004	2,956.5	1,456.4	4.3	129.9	44,169	51.7	43.5	9,322	1,133
2005	2,957.2	1,490.9	3.8	138.7	47,172	55.1	44.7	7,206	1,495
2006	2,955.4	1,519.0	3.4	148.9	50,775	57.2	44.9	8,371	2,401
2007	2,965.8	1,515.8	3.9	151.0	51,492	57.3	44.3	7,072	2,005
2008	2,982.8	1,481.4	5.3	152.9	51,688	53.6	43.1	3,159	1,439
2009	2,998.8	1,371.8	8.9	145.9	48,841	45.7	42.7	2,200	952
2010	3,017.3	1,353.8	9.5	147.2	48,769	47.7	42.7	3,091	1,152
2011	3,046.8	1,368.9	8.8	154.8	50,642	51.7	42.9	4,807	1,291
2012	3,074.5	1,400.7	7.6	161.7	52,342	55.2	43.8	5,400	1,263
2013	3,104.7	1,430.1	6.1	165.1	52,865	58.0	44.3	8,800	1,454
2014f	3,138.8	1,460.1	5.2	173.9	55,033	61.3	45.2	11,100	1,725
2015f	3,173.4	1,489.3	4.6	183.6	57,454	64.9	46.6	13,200	1,875
% Change									
03/02	0.9%	1.8%		5.1%	4.5%	5.9%	2.4%	-22.5%	-16.8%
04/03	0.6%	1.9%		6.1%	5.7%	8.8%	1.7%	0.1%	12.6%
05/04	0.0%	2.4%		6.7%	6.8%	6.5%	2.8%	-22.7%	32.0%
06/05	-0.1%	1.9%		7.4%	7.6%	3.9%	0.4%	16.2%	60.6%
07/06	0.4%	-0.2%		1.4%	1.4%	0.2%	-1.3%	-15.5%	-16.5%
08/07	0.6%	-2.3%		1.3%	0.4%	-6.4%	-2.7%	-55.3%	-28.2%
09/08	0.5%	-7.4%		-4.6%	-5.5%	-14.7%	-1.0%	-30.4%	-33.8%
10/09	0.6%	-1.3%		0.9%	-0.1%	4.3%	0.1%	40.5%	21.0%
11/10	1.0%	1.1%		5.1%	3.8%	8.5%	0.5%	55.5%	12.1%
12/11	0.9%	2.3%		4.5%	3.4%	6.7%	2.1%	12.3%	-2.2%
13/12	1.0%	2.1%		2.1%	1.0%	5.2%	1.1%	63.0%	15.1%
14/13	1.1%	2.1%		5.3%	4.1%	5.7%	2.0%	26.1%	18.6%
15/14	1.1%	2.0%		5.6%	4.4%	5.9%	3.1%	18.9%	8.7%

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 15: 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
2003	1,428.9	0.5	83.7	183.9	127.2	56.7	83.2	152.8	29.0	35.2
2004	1,456.4	0.6	92.2	183.5	127.1	56.4	82.4	153.2	29.2	33.8
2005	1,490.9	0.7	99.9	182.9	128.3	54.6	83.0	158.1	28.7	32.8
2006	1,519.0	0.6	106.6	182.7	128.0	54.7	83.7	160.8	28.2	31.9
2007	1,515.8	0.6	103.1	180.4	126.2	54.2	86.9	161.2	28.9	31.2
2008	1,481.4	0.6	91.2	174.0	122.5	51.5	86.7	155.6	29.3	30.1
2009	1,371.8	0.5	74.2	154.8	109.1	45.7	79.4	142.3	27.8	27.3
2010	1,353.8	0.5	68.0	150.4	106.5	43.9	77.6	140.1	26.7	24.8
2011	1,368.9	0.5	70.8	156.3	112.8	43.5	77.0	141.3	27.4	24.0
2012	1,400.7	0.5	71.8	157.8	114.0	43.8	76.7	142.2	27.7	24.2
2013	1,430.2	0.4	77.5	160.1	115.2	44.8	78.9	141.5	27.5	24.4
2014f	1,460.1	0.5	82.9	164.1	118.1	45.9	80.5	144.1	28.2	24.6
2015f	1,491.6	0.5	92.0	165.7	119.3	46.4	82.1	146.0	28.3	24.8

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
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
2013	78.1	35.4	113.7	23.1	123.4	25.2	143.3	186.6	44.8	146.3
2014f	79.1	35.5	118.1	24.2	126.2	25.6	145.2	189.8	45.1	147.2
2015f	79.3	35.6	122.9	25.1	131.3	25.9	146.9	192.0	44.9	148.2

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

RIVERSIDE AND SAN BERNARDINO COUNTIES: THE INLAND EMPIRE

INTRODUCTION

The Inland Empire, consisting of Riverside County and San Bernardino County, has struggled in recent years to shake off the effects of the Great Recession and the housing crisis. The region added population throughout the recession, but at growth rates well below those of the pre-recession years. The unemployment rate declined by nearly two percentage points last year to an annual rate of 10.2% and the region added jobs, but the performance of the region's major industries was mixed. Meanwhile, housing indicators gained ground, notably new home construction permits and home prices.

Wage and salary (nonfarm) employment in the region rose by 1.2% last year to 1.17 million jobs. The Inland Empire has regained over 40,000 of the 147,000 jobs lost during the recession, adding more than 14,000 jobs in 2013 alone. Leisure and hospitality contributed more than half of the job gains last year with 7,500 jobs added, followed by a 2,600 increase in wholesale trade. Retail, health care, and transportation, warehousing and utilities all added two thousand jobs or more over the past year, while professional scientific and technical services added 1,900 jobs. These gains were offset by a loss of 2,700 jobs in the government sector, and declines in administrative and support services (-2,200 jobs), manufacturing (-1,500 jobs) and construction (-1,200 jobs). Real estate rental and leasing employment, and information sector employment experienced smaller decreases, while the remaining industries were generally flat.

Employment in the Inland Empire rose by 1.2% last year and the unemployment rate declined by nearly two percentage points to an annual rate 10.2%.

Within leisure and hospitality, most of the increase was attributed to eating and drinking establishments where nearly 6,000 jobs were added. Despite the decline in manufacturing employment overall, the food processing industry posted a 2.1% gain over the prior year, rising to just over 10,000 workers. The decline in administrative and support services was mainly due to cuts in temporary employment.

The decline in construction jobs appeared to be at odds with increases in housing permits and nonresidential construction over the past year. It should be noted that the job counts refer to wage and salary workers employed by firms in the Inland Empire. To the extent that construction activity is conducted by firms headquartered outside the region, and to the extent that these firms are using non-wage and salary workers (that is, independent contractors), the job counts for the region are not indicative of construction activity occurring on the ground throughout the region.

TRENDS IN MAJOR INDUSTRIES

Transportation, Logistics, and Distribution

Collectively the transportation, warehousing, and wholesale industries accounted for nearly 121,000 wage and salary workers in 2013, or just over 10% of all nonfarm employment in the region. About 45,000 workers were in transportation, 22,000 were in warehousing and storage, and nearly 54,000 were employed in wholesale activities. The sector added over 4,500 jobs last year with wholesaling contributing more than 2,500 jobs, warehousing 1,100, and the balance from transportation.

The region places high hopes on its current and future role as the transportation and distribution center to Southern California and the nation. The region's industrial vacancy rate continues to decline even as new industrial space has been added in recent years. As both the U.S. and its major trading partners experience stronger economic growth, increased levels of trade through the San Pedro Bay ports is expected drive gains in the Inland Empire's transportation, logistics and distribution industries.

Real Estate

Aside from industrial property, nonresidential real estate in the Inland Empire has a long road to recovery. On the residential side, however, the region has made real gains in terms of home prices and construction activity. The median price of an existing home in the Inland Empire rose above the $200,000 threshold for the first time in five years, hitting $241,620 in 2013. The 27.6% annual increase for the Inland Empire was the largest in the five-county area, and was due mainly to strong demand constrained by a lean supply of homes for sale (under four months at year end).

The 27.6% annual increase in the median home price in the Inland Empire was the largest in the Los Angeles five-county area.

New home construction responded to tight market conditions and higher home prices last year with a 46% increase in housing permits. Of the 8,829 permits in 2013, seven out of ten were single-family homes. Even so, the permit count for last year was a fraction of the permit levels that prevailed before the recession.

The Inland Empire housing market will continue to register gains in 2014 and 2015. The supply of homes for sale should increase over the next two years, but will fall short of long run levels. This will contribute to large price increases this year and next. In reaction to higher prices, permit levels are expected to rise to nearly 14,000 this year and nearly 20,000 next year. While higher permit levels are indicative of a regional housing market that is recovering, the projected levels for this year and next will be well below pre-recession peak levels.

LOOKING AHEAD

The Inland Empire's unemployment rate has come down more quickly than in other parts of Southern California, but other indicators suggest that the region is lagging its neighbors in recovery. Momentum in the Inland Empire economy should pick up this year and next, with job gains exceeding two percent per year in 2014 and 2015. Nearly all private sector industries will add jobs, and even government employment should turn the corner in 2014 with slight gains this year and next.

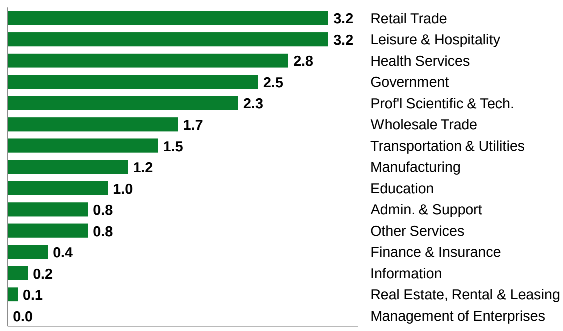
The household sector of the Inland Empire will continue to heal over the next two years. Personal income is expected to increase by 5% to 6% this year and next, driving modest increases in total taxable sales. Per capita income will increase by 3.5% to 4% this year and next, as well. These developments are driving job gains in leisure and hospitality as well as retail activity, and will contribute to full recovery across the region in the years to come.

Looking toward the second half of the decade, the Inland Empire's population growth rate should accelerate as it once again becomes the destination in Southern California to relieve pent-up demand for affordable housing and lifestyles. The region will also recover from recession-induced job losses, finally seeing wage and salary jobs surpass the 2007 peak of 1.27 million sometime in late 2016 or early 2017. With its ongoing investment in transportation and warehousing infrastructure, the region will be well-positioned to benefit from the anticipated long-term growth trend in Pacific Rim trade. Meanwhile, industries that serve the local population will see gains as the overall economy moves forward.

Inland Empire Snapshot

Inland Empire Employment Growth, 2014

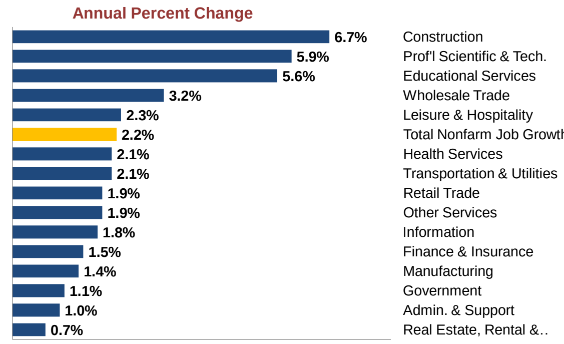
Total nonfarm job growth forecast for 2014 (thousands): 25.7 jobs



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

Inland Empire Employment Growth, 2014

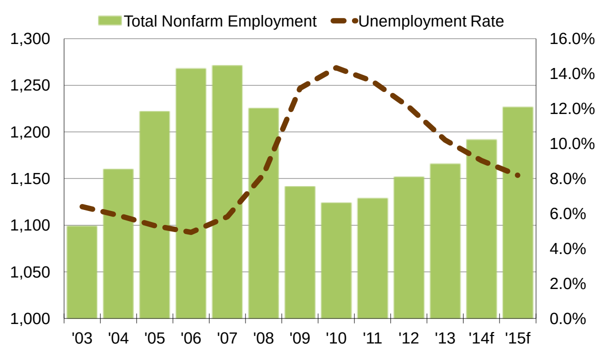
Total nonfarm job growth forecast for 2014, percent change: +2.2%



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

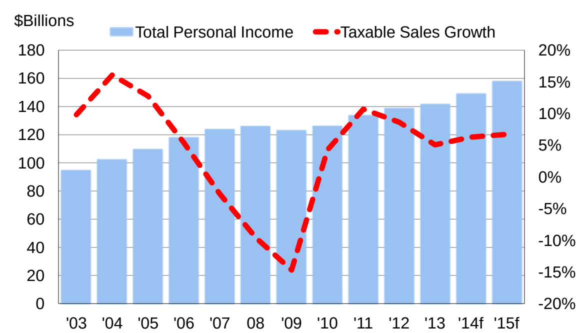
Inland Empire Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

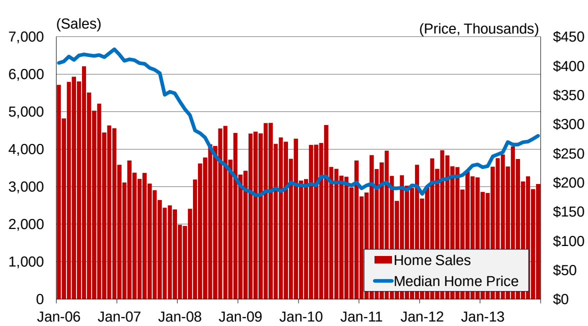
Inland Empire Personal Income & Taxable Sales Growth



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

Home Sales & Median Prices Riverside County

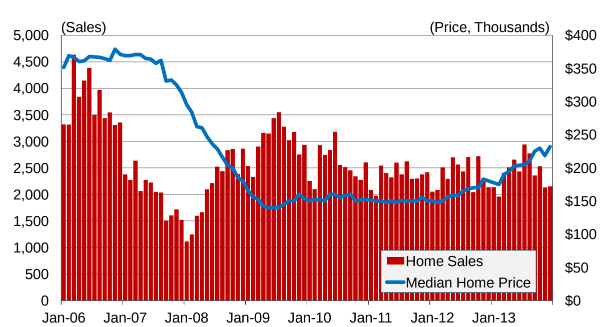
New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

Home Sales & Median Prices San Bernardino County

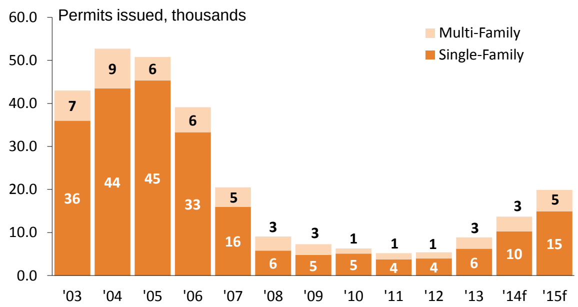
New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

Inland Empire Snapshot

Residential Building Permits Issued in the Inland Empire



Source: CIRB, California Home Building Foundation, forecast by LAEDC

Table 16: Inland Empire Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billons)	Per Capita Personal Income ($)	Total Taxable Sales ($Billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2003	3,623	1099.2	6.4	94.9	26,245	44.3	43,001	1,720
2004	3,757	1160.0	5.9	102.6	27,309	51.4	52,696	2,485
2005	3,878	1222.0	5.3	109.8	28,338	58.0	50,818	2,394
2006	3,994	1267.7	4.9	118.1	29,637	61.1	39,083	2,852
2007	4,085	1271.0	5.8	123.9	30,464	59.5	20,457	2,824
2008	4,139	1225.3	8.3	126.2	30,669	53.8	9,101	1,781
2009	4,181	1141.5	13.2	123.2	29,605	45.9	6,685	710
2010	4,230	1124.0	14.3	126.3	29,749	47.8	6,269	792
2011	4,274	1128.8	13.6	133.8	31,096	53.0	5,214	904
2012	4,314	1151.8	12.1	138.8	31,900	57.5	5,400	1,074
2013	4,344	1165.9	10.2	141.8	32,215	60.5	8,900	1,555
2014f	4,409	1191.6	9.0	149.1	33,385	64.3	13,700	1,875
2015f	4,493	1226.5	8.2	157.9	34,686	68.6	19,900	2,100

% Change								
03/02	3.8%	3.3%		7.6%	3.7%	9.8%	29.2%	16.8%
04/03	3.7%	5.5%		8.0%	4.1%	16.1%	22.5%	44.5%
05/04	3.2%	5.3%		7.1%	3.8%	12.7%	-3.6%	-3.7%
06/05	3.0%	3.7%		7.6%	4.6%	5.4%	-23.1%	19.1%
07/06	2.3%	0.3%		4.9%	2.8%	-2.7%	-47.7%	-1.0%
08/07	1.3%	-3.6%		1.8%	0.7%	-9.6%	-55.5%	-37.0%
09/08	1.0%	-6.8%		-2.4%	-3.5%	-14.7%	-26.5%	-60.1%
10/09	1.2%	-1.5%		2.5%	0.5%	4.3%	-6.2%	11.5%
11/10	1.0%	0.4%		6.0%	4.5%	10.7%	-16.8%	14.1%
12/11	0.9%	2.0%		3.7%	2.6%	8.6%	3.6%	18.8%
13/12	0.7%	1.2%		2.2%	1.0%	5.1%	64.8%	44.8%
14/13	1.5%	2.2%		5.2%	3.6%	6.3%	53.9%	20.6%
15/14	1.9%	2.9%		5.9%	3.9%	6.7%	45.3%	12.0%

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

Table 17: Inland Empire 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
2003	1099.2	1.2	99.0	116.1	82.4	33.7	43.5	142.6	50.4	13.9
2004	1160.0	1.2	111.8	120.1	85.5	34.6	45.6	153.6	56.3	14.0
2005	1222.0	1.4	123.3	121.0	86.1	35.0	49.9	165.3	61.6	14.5
2006	1267.7	1.4	127.5	123.4	86.9	36.5	54.2	172.5	65.7	15.3
2007	1271.0	1.3	112.5	118.5	82.1	36.5	56.8	175.6	69.5	15.4
2008	1225.3	1.2	90.7	106.9	72.5	34.3	54.1	168.6	70.2	14.8
2009	1141.5	1.1	67.9	88.8	58.1	30.6	48.9	156.2	66.8	14.1
2010	1124.0	1.0	59.7	85.1	55.3	29.8	48.6	155.5	66.6	14.0
2011	1128.8	1.0	59.0	85.1	55.8	29.3	49.0	158.5	68.7	12.1
2012	1151.8	1.2	61.2	86.5	56.8	29.8	51.3	161.7	70.8	11.6
2013	1165.9	1.2	60.0	85.0	55.9	29.1	53.9	164.2	72.8	11.4
2014f	1191.6	1.2	64.0	86.2	56.9	29.3	55.6	167.4	74.3	11.6
2015f	1226.5	1.2	71.3	88.1	58.6	29.5	57.4	171.7	76.1	11.9

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
2003	25.7	16.9	28.7	11.0	75.7	13.2	102.7	109.0	38.2	211.6
2004	28.0	17.7	31.0	11.6	82.9	13.4	104.9	116.7	38.8	212.5
2005	30.1	18.9	35.0	12.0	86.2	13.6	106.3	122.6	39.9	220.4
2006	31.6	19.9	39.9	10.8	91.7	14.1	108.1	128.1	41.2	222.5
2007	30.3	19.5	40.5	9.8	95.1	15.0	112.2	132.6	41.2	225.3
2008	27.4	18.7	40.5	9.7	88.0	15.7	116.0	131.0	40.8	231.0
2009	26.0	16.6	37.8	8.9	78.5	16.3	117.3	123.8	37.3	235.2
2010	25.5	15.5	34.9	8.5	80.0	15.6	118.2	122.8	38.2	234.3
2011	25.3	14.6	35.6	8.6	81.6	15.7	123.4	124.0	39.1	227.5
2012	26.0	14.8	37.2	8.3	81.3	16.7	128.8	129.5	40.4	224.5
2013	26.4	14.6	39.3	8.4	79.1	18.0	131.5	137.1	42.0	221.8
2014f	26.8	14.7	41.6	8.4	79.9	19.0	134.3	140.3	42.8	224.3
2015f	27.3	15.0	44.9	8.7	80.5	20.1	137.5	143.7	43.8	228.1

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

SAN DIEGO COUNTY

INTRODUCTION

San Diego County is a thriving innovation hub for the telecommunications, medical device, and biotechnology industries. San Diego County's life sciences sector ranks second in the nation just behind Boston-Cambridge in terms of employment, establishments, and venture capital.[3] San Diego County also has a significant high-tech manufacturing sector and is a popular travel destination.

The unemployment rate in San Diego County peaked in 2010 at 10.5%, but by 2013 had fallen to an average annual rate of 7.4%. The LAEDC forecasts the unemployment rate will decline to 6.4% in 2014 and to 5.6% in 2015.

Last year, the number of nonfarm jobs in San Diego County was just 2.0% below the peak level reached in 2007, and by 2015 the LAEDC forecasts job growth will finally push employment above pre-downturn levels. Growth has been broad-based with every private sector except manufacturing adding jobs in 2013. By the end of 2014, the LAEDC forecasts county payrolls will increase by 24,400 jobs (1.9%).

Last year, the number of nonfarm jobs was just 2.0% below the peak level reached in 2007 and by 2015, the LAEDC forecasts job growth will finally push employment in San Diego County above pre-downturn levels.

Consumer spending as measured by total taxable sales is also 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 increase spending. 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 outnumbering deaths as opposed to immigration). Population growth will accelerate in the near term due to improvements in the housing market, the region's booming tech sector, and the high quality of life to be found in San Diego. As the population of San Diego County grows, total taxable sales will also increase, boosting business activity, job creation and local government revenues.

TRENDS IN MAJOR INDUSTRIES

Aerospace and Defense

The aerospace and defense sector in San Diego County is an integral part of the region's economy. Military spending will be flat or down slightly this year, but the industry is bracing for uncertain and possibly severe cuts to the Pentagon's budget in the years ahead. Although defense-related firms are rightly concerned

[3] Jones Lang LaSalle, Life Sciences Cluster Report, Global 2012

about Pentagon budget cuts, a significant amount of the work being done by local contractors is related to the development of systems that are likely to continue growing even as defense budgets are cut: unmanned aerial vehicles, cyber security, intelligence surveillance, and defense-related electronics and software.

Agriculture

While smaller than it once was, San Diego's agricultural industry is still significant (ranking 19th largest in the U.S.) and has a higher dollar-value per acre ($479,000) than any other county in California. In 2013, farm employment was down by 0.9% to 9,700 workers compared with the prior year. The largest commercial crops were nursery plants and avocados. In spite of having what the National Weather Service describes as the most nearly perfect climate in the country, San Diego growers do face some considerable challenges – land costs are high and water supply is an ongoing concern, specifically the increasing cost of water. Questions regarding water supply in the long-term loom large as well.

In 2013, the San Diego region ranked 9th in the nation in the amount of venture capital invested – much of it going to the biotechnology sector.

Biotechnology and Health Care

San Diego's biotechnology and health care sectors added jobs and services to the region. In 2013, the San Diego region ranked ninth in the nation (the "Midwest" was eighth) in the amount of venture capital invested – much of it going to the biotechnology sector. Of the 50 life sciences companies across the country that went public last year, seven were located in San Diego.[4]

Health care services continue to expand. Several new hospital facilities opened in 2013 and more are on the way. These include the newly completed $456 million naval hospital at Camp Pendleton and the Scripps Proton Therapy Center, which is expected to attract patients from around the world. Considering the advanced state of the region's health care industry, San Diego has the potential to become a hub for medical tourism. The region is also home to a large number of retirees who typically require more health care services.

Tourism and Hospitality

San Diego's travel and tourism industry is growing. With demand for hotel rooms outpacing new supply, fundamentals in the lodging sector should continue to improve. Occupancy rates hit 80.4% in the third quarter of 2013 compared with 79.4% during the same period in 2012. Average daily room rates have also accelerated, rising to $150.89 and surpassing the previous peak set in 2008. New hotel construction is still at very low levels, but financing for hospitality projects is finally beginning to thaw. In the meantime, hotels are undergoing extensive renovations, including the three largest by room count, clustered around the convention center.

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[4] San Diego Business Journal, V34 n. 49; December 9-15, 2013

The number of San Diego visitors (day and overnight) rose by 2.2% in 2013 to 33 million. Visitor expenditures exceeded $8.3 billion last year. Visitor counts are expected to increase by 1.6% to 33.5 million in 2014 and total expenditures by 5.4% to $8.8 billion. Longer term, visitor growth is forecast to rise above two percent in 2015 before setting down to an average growth rate of 1.8%. Spending growth will slow after 2014, but remain stable through 2016.[5]

LOOKING AHEAD

San Diego's economy is moving in the right direction; the pace of growth since the recovery can only be described as moderate, but momentum is building. The region is investing in infrastructure that will improve long-term growth prospects, including upgrades to Lindberg Field and a project to expand the border crossing at San Ysidro.

The 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 adult population has a high school diploma or more, while 34% has a bachelor's degree or higher.

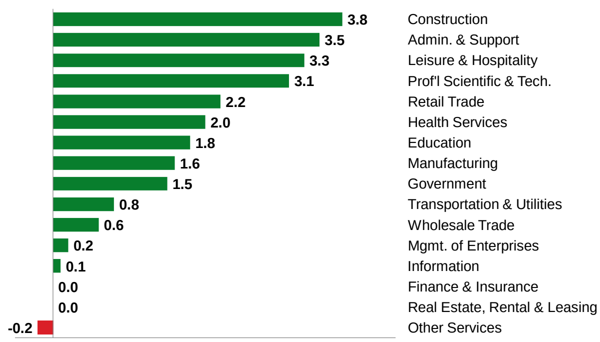
San Diego has the benefit of a near perfect climate, a key attribute that attracts a well-educated and talented workforce and a steady influx of well-off retirees. San Diego has become one of the nation's leading innovation hubs. The presence of the U.S Navy and Marine Corps also makes a significant contribution to the region's economy.

[5] Tourism Economics, San Diego County Travel Forecast, December 2013

San Diego County Snapshot

San Diego County Employment Growth, 2014

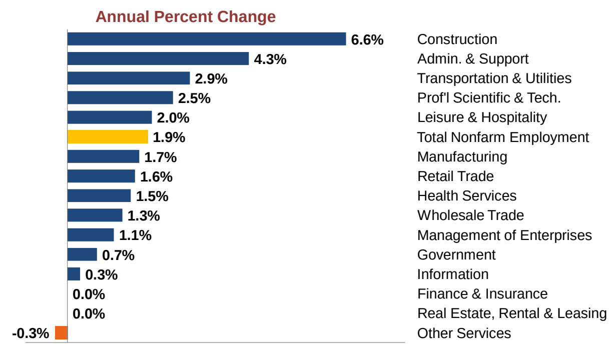
Total nonfarm job growth forecast for 2014 (thousands): +24.6 jobs



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

San Diego County Employment Growth, 2014

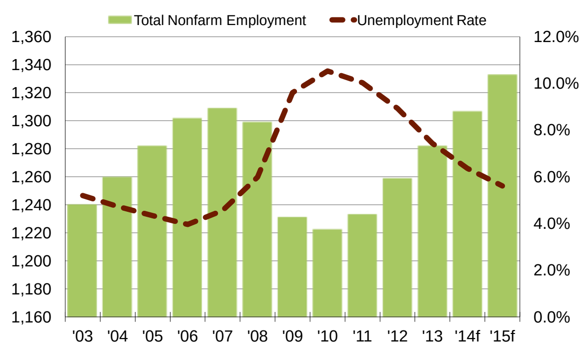
Total nonfarm job growth forecast for 2014, percent change: +1.9%



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

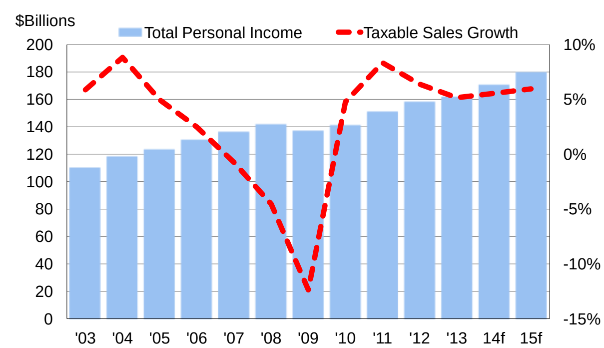
San Diego County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

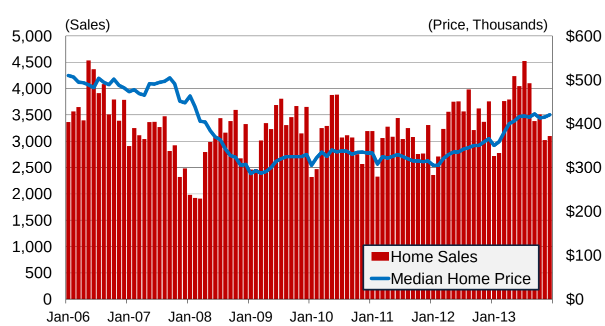
San Diego County Personal Income & Taxable Sales Growth



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

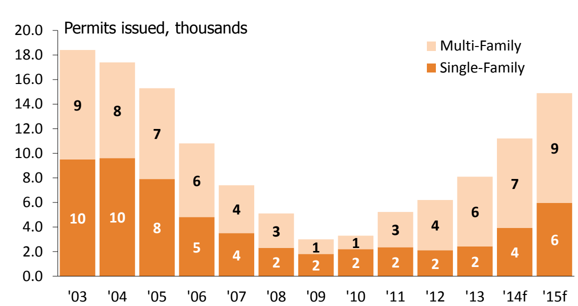
Home Sales & Median Prices San Diego County

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 Home Building Foundation, forecast by LAEDC

Table 18: San Diego County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Total Taxable Sales ($Billions)	Value of Two-way Trade ($Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)	Chg. In CPI (%)
2003	2,944.0	1,240.2	5.2	110.2	37,796	40.9	35.6	32.1	18,314	1,169	3.7%
2004	2,963.4	1,259.9	4.7	118.2	40,345	44.5	39.4	31.8	17,306	1,288	3.7%
2005	2,970.1	1,281.9	4.3	123.4	42,012	46.7	43.2	31.8	15,258	1,382	3.7%
2006	2,982.8	1,301.6	4.0	130.5	44,266	47.8	50.5	32.2	10,777	1,622	3.4%
2007	3,014.2	1,308.8	4.6	136.1	45,742	47.5	53.9	31.6	7,445	1,417	2.3%
2008	3,051.3	1,298.9	6.0	141.6	46,851	45.3	53.4	31.1	5,154	1,062	3.9%
2009	3,077.6	1,231.2	9.6	137.0	44,767	39.7	43.9	29.6	2,990	584	0.0%
2010	3,104.6	1,222.5	10.5	141.0	45,431	41.6	48.4	29.9	3,346	659	1.3%
2011	3,125.8	1,233.3	10.0	150.8	48,066	45.1	52.6	31.1	5,223	1,006	3.0%
2012	3,153.9	1,258.8	8.9	158.0	49,719	48.0	56.4	32.3	6,193	1,089	1.6%
2013	3,182.1	1,281.9	7.4	161.6	50,216	50.4	59.0	33.0	8,100	1,379	1.2%
2014f	3,220.3	1,306.5	6.4	170.3	52,275	53.2	61.5	33.5	11,200	1,450	1.4%
2015f	3,258.9	1,332.6	5.6	179.5	54,471	56.4	65.9	34.2	14,900	1,550	1.8%

% Change										
03/02	1.2%	0.8%		4.9%	4.4%	5.9%	-0.5%	-0.3%	16.4%	0.0%
04/03	0.7%	1.6%		7.3%	6.7%	8.8%	10.7%	-0.8%	-5.5%	10.2%
05/04	0.2%	1.7%		4.4%	4.1%	5.0%	9.6%	-0.2%	-11.8%	7.3%
06/05	0.4%	1.5%		5.7%	5.4%	2.5%	17.0%	1.3%	-29.4%	17.4%
07/06	1.1%	0.6%		4.3%	3.3%	-0.7%	6.6%	-2.0%	-30.9%	-12.6%
08/07	1.2%	-0.8%		4.0%	2.4%	-4.5%	-0.8%	-1.5%	-30.8%	-25.1%
09/08	0.9%	-5.2%		-3.2%	-4.4%	-12.4%	-17.8%	-4.8%	-42.0%	-45.0%
10/09	0.9%	-0.7%		2.9%	1.5%	4.8%	10.2%	0.9%	11.9%	12.8%
11/10	0.7%	0.9%		7.0%	5.8%	8.3%	8.6%	4.3%	56.1%	52.6%
12/11	0.9%	2.1%		4.7%	3.4%	6.4%	7.3%	3.6%	18.6%	8.3%
13/12	0.9%	1.8%		2.3%	1.0%	5.2%	4.6%	2.3%	30.8%	26.6%
14/13	1.2%	1.9%		5.4%	4.1%	5.5%	4.2%	1.5%	38.3%	5.1%
15/14	1.2%	2.0%		5.4%	4.2%	6.0%	7.2%	2.1%	33.0%	6.9%

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 19: 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
2003	1,240.2	0.3	80.2	105.3	*78.8*	*26.5*	41.6	140.8	27.3	33.4
2004	1,259.9	0.4	87.7	104.3	*78.1*	*26.2*	41.9	144.9	28.4	32.5
2005	1,281.9	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	1,298.9	0.4	76.1	102.8	*78.1*	*24.7*	44.9	142.0	29.0	31.4
2009	1,231.2	0.4	61.1	95.3	*73.1*	*22.2*	40.6	131.6	27.3	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	1,233.3	0.4	55.2	93.1	*70.9*	*22.2*	41.3	133.4	26.1	24.2
2012	1,258.8	0.4	56.3	93.5	*70.7*	*22.8*	43.5	135.6	27.6	24.6
2013	1,281.9	0.4	58.4	92.6	*69.9*	*22.7*	43.8	137.0	28.8	24.7
2014f	1,306.5	0.4	62.3	94.2	*71.2*	*23.0*	44.4	139.2	29.6	24.8
2015f	1,332.6	0.4	69.3	95.2	*72.0*	*23.2*	44.8	140.7	30.0	25.0

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
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	25.6	118.6	17.5	73.7	27.1	125.4	155.6	47.6	228.3
2012	43.6	25.9	120.9	18.0	76.6	28.4	126.1	161.0	49.3	227.6
2013	44.0	25.9	122.8	18.3	80.4	30.2	129.9	166.1	50.3	228.5
2014f	44.1	26.0	125.9	18.5	83.9	32.0	131.8	169.4	50.1	230.0
2015f	44.1	26.0	131.9	18.8	87.5	33.4	133.1	172.1	50.0	230.8

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

VENTURA COUNTY

INTRODUCTION

Ventura County is the smallest of the counties in the Los Angeles five-county region based on population, but it is home to a broad array of industries that include agriculture, professional business services, technology, and tourism. Fine dining, wine tasting, a myriad of outdoor activities and 43 miles of coastline attract visitors seeking to get away for the weekend or needing a stopover point between Los Angeles and San Francisco. This has certainly helped Ventura County's leisure and hospitality sector this past year.

Ventura County is not only a port of call for travelers but is also a 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. In 2013, the port handled 4.9 million tons of cargo with total two-way trade valued at $8.3 billion.

On an annual basis, Ventura County's unemployment rate dropped from 9.0% in 2012 to 7.6% in 2013. However, among the Tri-Counties area, Ventura lags behind San Luis Obispo County (with an unemployment rate of 6.4%) and Santa Barbara County (6.6%). Although 7.6% represents a significant improvement, the unemployment rate remains elevated compared with prerecession averages. The LAEDC expects the unemployment rate will drop half a percentage point in 2014 to 6.8% and by another half of a percentage point in 2015 to 6.3%.

Nonfarm employment grew by 1.7% last year, averaging 283,600 nonfarm jobs during 2013. Despite adding jobs over the past three years, Ventura County nonfarm employment in 2013 was 14,200 jobs below the peak level reached in 2006, corresponding more closely to levels last seen in the early part of the 2000s. The LAEDC forecasts nonfarm employment to grow at a modest pace of 1.8% for both 2014 and 2015.

Ventura had some clear winners in 2013. Among the best performing sectors were leisure and hospitality (accounting for nearly two-thirds of the total nonfarm job gains in the county), construction, health care, wholesale trade, and professional scientific and technical services. Administrative and support services also improved through the year, largely because of increases in temporary employment.

TRENDS IN MAJOR INDUSTRIES

Tourism

Ventura boasts a strong market for tourists looking for an alternative to the higher priced Santa Barbara area. Benefits include the short distance from Los Angeles County and more affordable lodging. Gains are expected for 2014. The number of occupied rooms is expected to increase by 1.3% with hotel occupancy rates reaching 69.2%, and average daily room rates rising by 3.0%. The revenue per available room should increase by 4.4% to $73.56.

Housing and Consumer Spending

The Ventura County housing market saw positive developments in both home prices and sales volumes in 2013. The median price for an existing single-family home rose to $428,100, an increase of 20.2% compared with 2012. Similar to other regions in Southern California, increased demand for housing is constrained by tight lending standards and limited supplies of homes for sale.

The LAEDC expects Ventura County's population to increase at a moderate pace for the next two years, growing to 854,700 individuals by 2015. Total personal income should increase by 4.7% this year and by 5.0% the following year. As long as job growth continues to accelerate at its current pace, per capita income will rise by 3.8% this year and by 4.1% in 2015. For 2014, consumer spending is also expected to see strong growth.

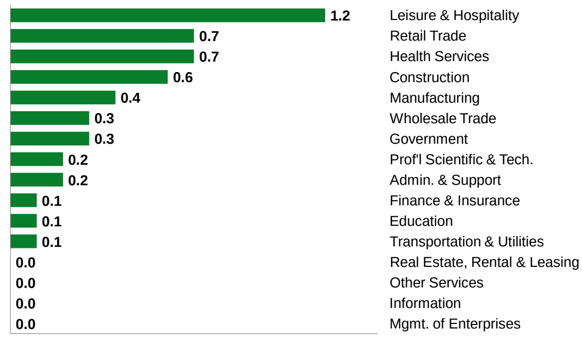
LOOKING AHEAD

The Ventura County economy will advance broadly over the next two years. The LAEDC forecasts expansion in all private industry sectors in 2014 with similar gains in 2015. Leisure and hospitality, health care, and retail trade will lead the way. The construction sector will also post notable gains as new home building, and to a lesser extent, nonresidential development, will recover The fastest growing occupations will be network systems and data communications analysts, home health aides, pharmacy technicians, physical therapists, and fitness trainers. The next three to five years should see continued growth across the county's major industries.

Ventura County Snapshot

Ventura County Employment Growth, 2014

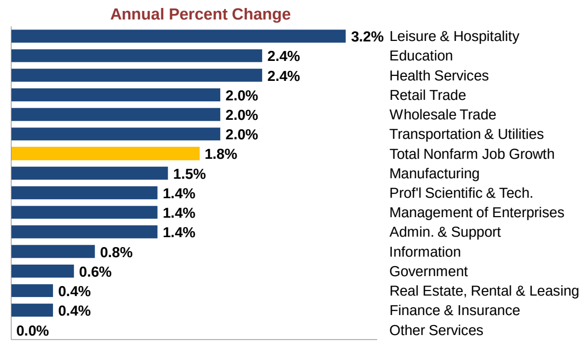
Total nonfarm job growth forecast for 2014 (thousands): +5.2 jobs



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

Ventura County Employment Growth, 2014

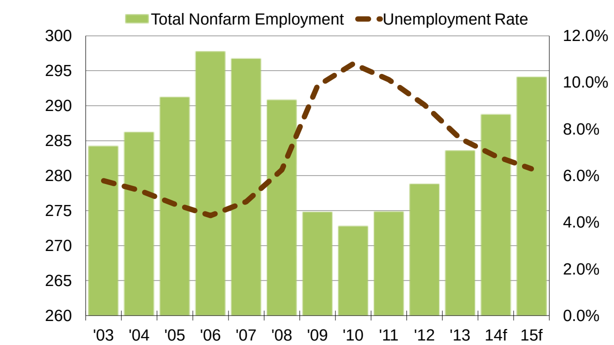
Total nonfarm job growth forecast for 2014, percent change: +1.8%



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

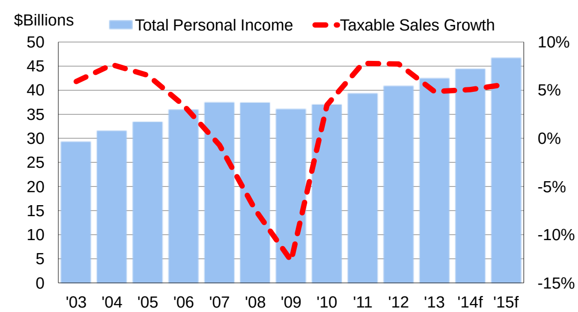
Ventura County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

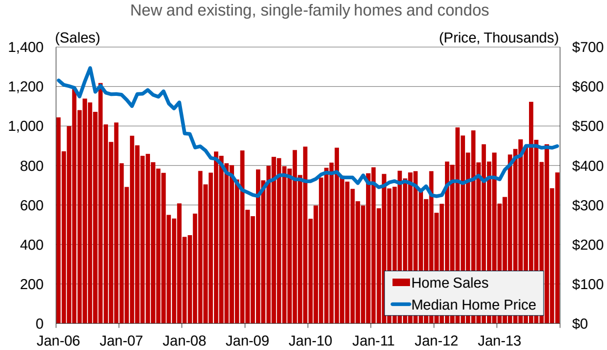
Ventura County Personal Income & Taxable Sales Growth



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

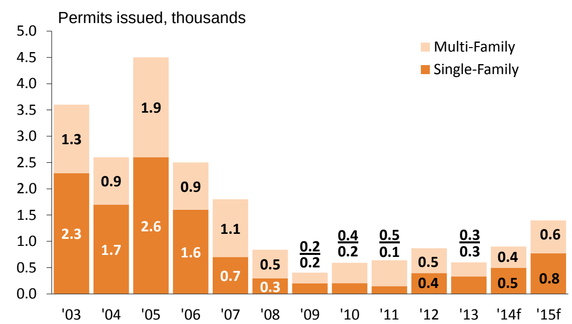
Home Sales & Median Prices Ventura County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

Residential Building Permits Issued in Ventura County



Source: Construction Industry Research Board, forecast by LAEDC

Table 20: Ventura County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemploy-ment Rate (Ave., %)	Total Personal Income ($Billions)	Per Capita Personal Income ($)	Total Taxable Sales ($Billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2003	789.4	284.2	5.8	29.3	37.2	10.4	3,635	379
2004	795.0	286.2	5.4	31.6	39.7	11.2	2,603	353
2005	796.9	291.2	4.8	33.4	42.1	11.9	4,516	372
2006	801.2	297.7	4.3	35.9	45.0	12.3	2,461	326
2007	805.9	296.7	4.9	37.5	46.8	12.2	1,847	346
2008	812.0	290.8	6.3	37.4	46.3	11.3	842	345
2009	818.5	274.8	9.9	36.0	44.2	9.9	404	153
2010	825.1	272.8	10.8	37.0	44.8	10.2	590	160
2011	830.2	274.9	10.1	39.3	47.3	11.0	640	141
2012	833.4	278.8	9.0	40.8	48.8	11.9	870	127
2013	840.3	283.6	7.6	42.4	49.8	12.4	600	124
2014f	847.0	288.7	6.8	44.4	52.1	13.1	900	135
2015f	854.7	294.1	6.3	46.6	54.7	13.8	1,400	145
03/02	1.2%	0.8%		6.6%	5.4%	5.9%	45.0%	31.1%
04/03	0.7%	0.7%		7.8%	7.0%	7.7%	-28.4%	-6.9%
05/04	0.2%	1.7%		5.9%	5.9%	6.6%	73.5%	5.4%
06/05	0.5%	2.2%		7.5%	7.0%	3.4%	-45.5%	-12.4%
07/06	0.6%	-0.3%		4.2%	4.0%	-0.7%	-24.9%	6.1%
08/07	0.8%	-2.0%		-0.2%	-1.0%	-7.4%	-54.4%	-0.3%
09/08	0.8%	-5.5%		-3.6%	-4.6%	-12.7%	-52.0%	-55.7%
10/09	0.8%	-0.7%		2.7%	1.4%	3.5%	46.0%	4.6%
11/10	0.6%	0.8%		6.2%	5.4%	7.8%	8.5%	-12.1%
12/11	0.4%	1.4%		3.9%	3.3%	7.7%	35.9%	-9.7%
13/12	0.8%	1.7%		3.9%	1.9%	4.8%	-31.0%	-2.4%
14/13	0.8%	1.8%		4.7%	4.7%	5.1%	50.0%	8.9%
15/14	0.9%	1.8%		5.0%	5.0%	5.6%	55.6%	7.4%

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

Table 21: 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
2003	284.2	0.6	16.6	37.1	*24.0*	*13.0*	11.8	34.5	5.6	7.2
2004	286.2	0.7	16.9	38.3	*24.2*	*14.1*	12.2	35.3	5.7	6.8
2005	291.2	0.8	18.8	37.7	*23.9*	*13.9*	12.5	36.5	5.8	6.2
2006	297.7	1.1	20.5	38.4	*24.1*	*14.3*	12.6	37.6	6.1	6.0
2007	296.7	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	272.8	1.2	11.3	31.5	*19.5*	*12.0*	12.3	35.5	5.3	5.1
2011	274.9	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	29.8	*18.1*	*11.6*	12.5	37.1	5.7	4.9
2013	283.6	1.2	12.4	29.2	*17.7*	*11.5*	12.9	37.4	5.8	4.9
2014f	288.7	1.3	13.1	29.6	*18.0*	*11.7*	13.1	38.2	5.9	4.9
2015f	294.1	1.4	14.6	30.0	*18.2*	*11.8*	13.3	38.6	6.0	5.0

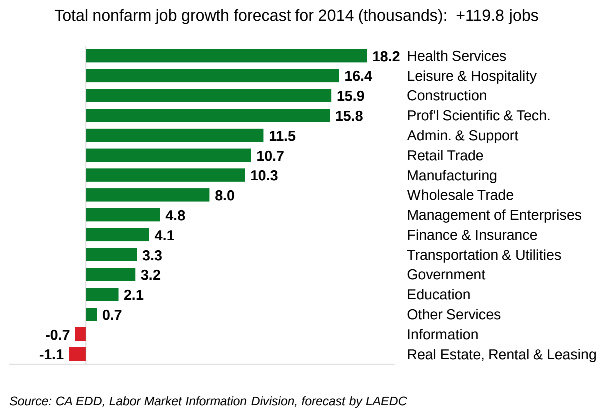
Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2003	19.2	4.3	13.6	3.9	19.4	3.3	24.3	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	3.5	24.0	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	3.5	24.8	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	3.5	25.4	30.5	10.2	42.5
2007	17.9	4.8	16.2	3.2	18.8	4.0	26.5	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.0	4.4	27.4	31.5	10.0	43.1
2009	16.1	4.4	16.2	2.9	16.1	4.4	27.9	29.8	9.3	42.9
2010	16.0	4.3	15.3	2.7	15.8	4.4	28.4	30.3	9.2	44.2
2011	16.2	4.2	15.0	2.4	16.0	4.4	29.4	31.4	9.2	44.4
2012	15.3	4.1	15.4	2.3	17.0	5.0	30.3	33.0	9.5	43.9
2013	14.4	4.1	15.8	2.3	17.8	5.1	30.8	36.1	9.5	43.8
2014f	14.4	4.2	16.0	2.4	18.0	5.2	31.5	37.3	9.4	44.1
2015f	14.5	4.2	16.6	2.5	18.7	5.3	32.0	37.9	9.4	44.3

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

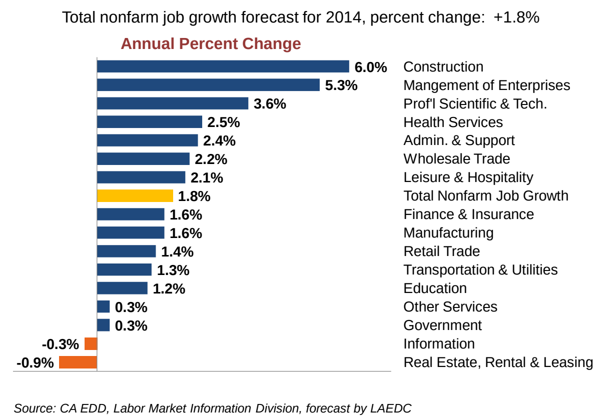
MAJOR INDUSTRIES OF THE SOUTHERN CALIFORNIA ECONOMY

Employment gains in the major industries of Southern California in 2013 were stronger and more broad based than the region has experienced over the five years since the end of the recession, a trend that should prevail again this year. Continued improvement over the next 24 months depends on the trajectory of the national and international economies as well as improvements in the economic and financial well-being of local households and businesses.

L.A. 5-County Employment Growth, 2014



L.A. 5-County Employment Growth, 2014

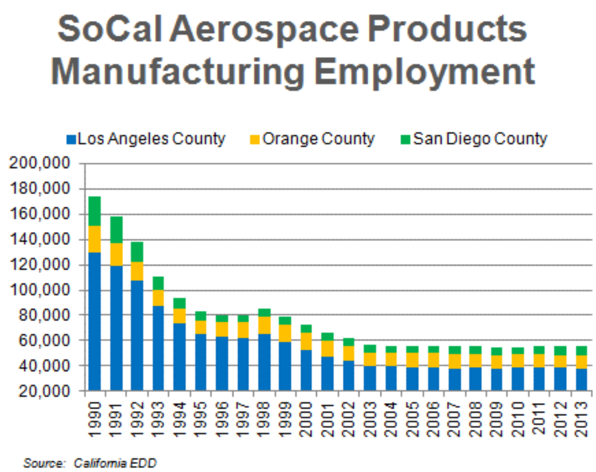


AEROSPACE AND DEFENSE

Employing a significant number of highly skilled and well-paid workers, Southern California's aerospace firms are an important source of technological innovation. New technologies developed by the aerospace industry have spilled over into the wider economy, providing platforms for advances in a number of other industries and scientific disciplines. The export of aerospace products also makes a positive contribution to the nation's trade balance.

Although the aerospace and defense industry has proven resilient while facing many challenges over the past two decades, it is an industry in transition. In Southern California, this transition has been particularly tumultuous. The past several years have seen the departure of a number of aerospace firms in whole or in part to other states for reasons that include seeking lower costs, the desire to be near a major customer and the consolidation of operations.

In 2013, the aerospace products and parts manufacturing sector employed approximately 55,500 workers across Los Angeles, Orange and San Diego counties. Although job counts last year were basically unchanged from 2012, the long-term employment trend of this sector has been one of decline. California still has the largest number of aerospace workers in the nation, but the dispersion of manufacturing to other states and countries has reduced employment in the region. Technological innovation has also played a role in this transition, either by increasing worker productivity or by taking over jobs that previously required a human being to perform. The result is that even as employment levels have fallen, the value of the aerospace products manufactured in the region has increased.



Civil Aviation: Following a deep downturn during the recession, commercial aviation quickly returned to its long-run growth rate of about five percent per year for both passenger and cargo traffic.[6] According to the Aerospace Industries Association, Boeing and Airbus have enough orders on their books to keep production lines running for the next six to seven years. While Boeing and Airbus do not manufacture aircraft in Southern California, the projected growth of commercial aircraft manufacturing is a boon to the large number of subcontractors in the region who produce parts for these two giants of commercial aviation.

Defense: Federal budget cuts pose a huge challenge to Southern California's aerospace and defense firms. In addition to reduced Pentagon outlays for procurement, federal spending on defense-related R&D has also declined. On the other hand, demand for cyber security, intelligence, surveillance, defense electronics and energy security are expected to remain strong. While California failed to land one of the six test sites handed out by the Federal government for testing the use of drones in U.S. airspace, the development and manufacture of unmanned aerial vehicles will continue to provide an avenue of growth for the region's aerospace industry.

Looking Ahead: Southern California has long been a leader in aerospace innovation, but that role has not gone unchallenged. The region's aerospace firms need to work with educational institutions and policy makers to ensure an

[6] Current Market Outlook 2013-2032, Boeing Commercial Airplanes (2013)

adequate supply of skilled workers. It is also imperative that the flow of federal research and development dollars continues.

Southern California has several advantages as an aerospace center, including a deep well of skilled labor, an extensive infrastructure of test fields, universities and other educational and research centers, and the existence of a strong electronics industry. Aerospace may be 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. The fashion industry in Orange County is smaller, but is still quite diverse. Los Angeles is the global capital for premium denim and casual cool, while Orange County is best known for women's sportswear and fashions inspired by the surf and skate culture of the region. In addition to apparel, the region's fashion industry also includes textiles and jewelry manufacturing as well as footwear, handbag and cosmetics production, and wholesaling activities.

Southern California employs the largest number of apparel workers in the United States and is one of the few places in the U.S. where apparel continues to be manufactured. Although production of most apparel items has largely shifted to lower wage countries in Latin America and Asia, high-end apparel that requires strict quality control and specialized skills or processing tends to be manufactured locally.

Design-related activity also contributes to maintaining the apparel industry's presence in Southern California. The "Made in L.A." label has strong appeal around the world. Fashion goes hand-in-hand with the entertainment industry and the region's energetic art scene. Designers are attracted to the creative freedom that abounds in Los Angeles. The proximity of designers to local manufacturers enables them to check up on product and personally communicate with production managers.

The local industry is also a leader in "fast-fashion" apparel production – a term used to describe the production of clothing that reflects current fashion trends that go from the runway to store shelves in as little as four weeks.

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 43,000 wage and salary workers in Los Angeles County in 2013, while apparel wholesaling employed 22,700 workers, for total industry employment of 65,700 workers. Employment in 2013 fell by 2.6% from a year earlier due to the loss of 2,500 manufacturing jobs. In contrast, apparel wholesaling added 742 jobs for a 3.4% increase.

The apparel industry also employs a large number of independent contractors, significantly boosting total employment numbers. In 2011 (latest data available), there were nearly 7,900 independent contractors working in Los Angeles and Orange counties manufacturing and wholesaling textiles, apparel, footwear, leather goods and jewelry.

Thanks to the many apparel design and merchandising schools located in the region, the design sector is thriving. These schools attract students from all over the world. Big name local brands employ numerous design-related workers, but the majority of local designers work independently.

Apparel manufacturing remains one of the most labor-intensive industries in the world, which gives countries with lower wages and low cost of living a competitive edge. Technological innovations, 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, local apparel manufacturing employment will continue the downward trend that began in the late 1990s, but creative design work will flourish.

COMPUTER AND ELECTRONIC PRODUCT MANUFACTURING

The computer and electronic product manufacturing industry employed 40,300 workers in Los Angeles County last year with another 34,300 in Orange County and 24,600 in San Diego County. Ventura County employment in the industry was much smaller at 5,300 workers. For the region as whole, there were 104,500 persons employed in this industry last year.

Like many other manufacturing industries, computer and electronic product manufacturing has experienced a trend decline in employment dating back to the late 1990s when there were nearly 172,000 workers in the industry. In 2013, the industry experienced a 1.4% decline in jobs across the region, with the largest loss occurring in Los Angeles County (1,300 jobs). In spite of the falling job counts, this continues to be an important industry for the region because it employs a large number of skilled workers in both professional and production occupations that generally earn higher than average wages.

PROFESSIONAL AND BUSINESS SERVICES

The professional and business services industry includes a diverse set of industry sectors including professional, scientific and technical services; management of companies and enterprises (i.e. corporate headquarters); and administrative, support and waste services.

There were just over one million workers in the Los Angeles five-county region last year, up 2.6% from 2012. In Los Angeles County alone, this industry employed 587,400 workers last year, with Orange County exceeding 260,000 and nearly 127,000 in the Inland Empire. In Los Angeles County, about 20,200 jobs were added in 2013, an increase of 3.6%. Orange County saw an increase of 1.7% last year, while professional and business services jobs in the Inland Empire edged down by 0.1%.

Breaking down the numbers by sector demonstrates a great deal of variation in job growth within the professional and business services industry. Across the Los Angeles five-county region, professional, scientific and technical services expanded payrolls by 3.0% in 2013, while management of companies and enterprises added jobs at a rate of 1.0%. Administrative, support and waste services saw job growth of 2.5%. Employment services, which includes temporary employment agencies, was the fastest growing subsector within this group with job growth of 6.3% (in Los Angeles County, employment services jobs expanded at a rate of 11.3%). Since the end of the recession, temporary employment services has been among the fastest growing sectors, which is typical following a recession. The fact that employers are still using a large number of temporary workers may be indicative of firms' continuing uncertainty regarding demand for their services.

Illustrating the wide diversity of this industry, below are additional job counts by subsector for Los Angeles County in 2013:

- Accounting, tax preparation and bookkeeping added 4,970 jobs (11.3%)
- Consulting services added 3,450 jobs (7.4%)
- Investigation and security gained 725 jobs (1.6%)
- Computer systems design was flat over the year
- Legal services and advertising lost a combined total of 158 jobs (-0.2%)

With a mix of occupations that include a wide range of skill and income levels, this diverse sector will continue to be one of the largest and fastest growing in the region over this year and next.

FINANCIAL SERVICES

The financial activities industry has now experienced two consecutive years of growth after suffering deep cuts during the Great Recession and accompanying financial crisis. From the peak in 2006 through 2010 the industry lost over 103,000 jobs throughout Southern California, mostly in the finance and insurance sub-sector.

However, financial activities employment growth has resurfaced throughout Southern California with the exception of Ventura County over the past three years. Both Orange and Los Angeles counties have seen the most significant growth on a percentage basis. Los Angeles County added the largest number of jobs in 2013, with over 5,400 jobs mainly in real estate and rental leasing. Orange County was a close second with nearly 5,400 jobs added in 2013, mainly stemming instead from finance and insurance. The rest of Southern California witnessed slight increases with the exception of Ventura County which lost a total of 900 jobs in 2013.

With respect to the main sub-sectors which include finance and insurance and real estate and rental leasing the story was slightly different. Both the Inland Empire and San Diego actually experienced jobs losses in the real estate and rental leasing sub-sector, while Ventura County saw job gains in this area.

Overall, the Southern California area added over 17,000 jobs over the last two years. Although the total number of jobs is still nowhere near the 2006 peak total of 544,000, the job market has improved and is trending in the right direction as the financial and housing situations have substantially improved over the past three years.

The number of foreclosures and short sales in the residential market is significantly lower 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. Also, the 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 single-digit employment gains both in financial services and in real estate jobs both this year and in 2015.

HEALTH CARE SERVICES AND BIOMEDICAL

The Los Angeles-five county region has a population of 18.3 million people, 10 million of whom live in Los Angeles County. 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 is able to support a number of important and influential medical centers, and a thriving life sciences industry. Educational institutions within the UC and CSU systems, along with several private universities provide training for medical professionals and engage in cutting edge research.

In 2013, the health care industry employed nearly 743,000 people in the Los Angeles five-county region, with another 129,900 in San Diego County. Los Angeles County was home to 438,400 jobs of those jobs, accounting for almost 59% of total industry employment in the five-county area. Over the past several years, health care employment has grown consistently, expanding by 2.4% in 2013. Orange County has been one of the faster growing areas and is capturing an increasing share (19.3% in 2013) of Southern California's health care employment.

The largest segment of healthcare employment in the five-county region is ambulatory health care services, accounting for 43.6% of healthcare jobs, followed by hospitals, with a 23.2% share of employment. Nursing and residential care facilities experienced the fastest industry growth in the region, increasing by 3.3% over the year in 2013.

Health care is a large industry in the U.S. In 2012, health care spending reached $2.8 trillion ($8,915 per person), up from $2.7 trillion ($8,680 per person) in 2011. For the nation, health care spending accounted for 17.2% of gross domestic product. The industry will have to adapt as the nation's population ages, new medical technologies emerge, and as the federal Affordable Care Act continues to roll out. Efforts to contain costs will collide with increased demand for health care services that will accompany both the graying of the boomer population and expanded health care coverage.

In addition to providing health care services, biomedical research is a thriving high-tech industry in Southern California. Within Los Angeles County, the healthcare companies who engage in research and development of medical devices and pharmaceuticals employed 22,469 workers in 2012. Both medical research and the manufacturing of medical instruments and pharmaceuticals are an important source of jobs and economic growth in Southern California.

The Southern California health services industry will continue to add jobs over the next two years. Employment in Los Angeles County is expected to grow by 3.2% in 2014 and by 1.0% in 2015. Orange County should see health care payrolls expand by 1.3% and 1.2% over the next two year; employment in San Diego will increase by 1.5% and 1.0%; and in the Inland Empire by 2.1% and 2.4%.

INTERNATIONAL TRADE/GOODS MOVEMENT

International trade is a critical component of the Los Angeles County economy and a key driver of goods movement in Southern California. Based on recently completed research, the LAEDC estimates that there were 158,542 trade related jobs in 2011 in Los Angeles County (most recent data available). This cluster combines transportation, logistics, and distribution services to form the largest traded industry cluster in Los Angeles County.

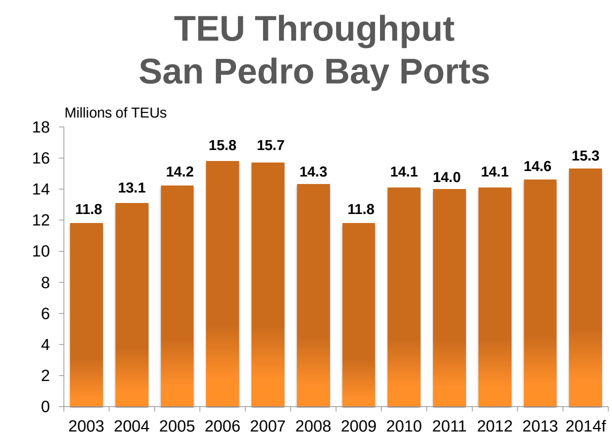
Within the industry cluster, the largest concentration of jobs falls in transportation and warehousing. For the region as a whole, Southern California transportation and warehousing jobs grew by nearly 1,900 jobs in 2013 after gaining 2,600 jobs in 2012. Looking at individual counties, Los Angeles County experienced a slight decline in jobs in 2013, although air and truck transportation did witness small gains. In the Inland Empire (a warehousing and distribution center) nearly 2,000 jobs were added (up by 3%), while San Diego added nearly 1,000 jobs.

The combined San Pedro Bay ports witnessed a strong year in 2013. The combined total loaded cargo for both ports was up by roughly 3%. This was mainly attributed to a stronger than expected peak season and to a much stronger than expected November and December. Total loaded cargo volume at the Port of Los Angeles was down again in 2013 by roughly 4%, while total loaded volume at the Port of Long Beach was up by over 12%. A new trend has emerged in the industry over the past two years whereby shippers form alliances to allow cargo volumes to move more fluidly between the Ports of Los Angeles and Long Beach.

The Ports of Los Angeles and Long Beach maintained their top two rankings in the U.S. during 2013, handling a total of 14.6 million containers, up by 3.4%. In addition, the Los Angeles Customs District (LACD) maintained its number one position in the U.S. in 2013 with a two-way trade value of $414.5 billion (ahead of New York). In 2013, the value of total two-way trade at the LACD increased by 2.7% on a year-over-year 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. Freight tonnage passing through LAX just slightly dropped by -0.98% in 2013 on an annual basis, while at Ontario, freight tonnage increased by 1.4% in 2013.

Over 40% of the nation's imported containers come through the ports of Los Angeles and Long Beach. The outlook for 2014 and into 2015 is bright as the U.S. economy could reach a three percent GDP growth rate and most of our top trading partners should experience strong growth. Total container traffic at the Port of Los Angeles and the Port of Long Beach is projected to expand in 2014 to 15.3 million TEUs, a rise of 4.6%, and then continuing to increase in 2015. 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.

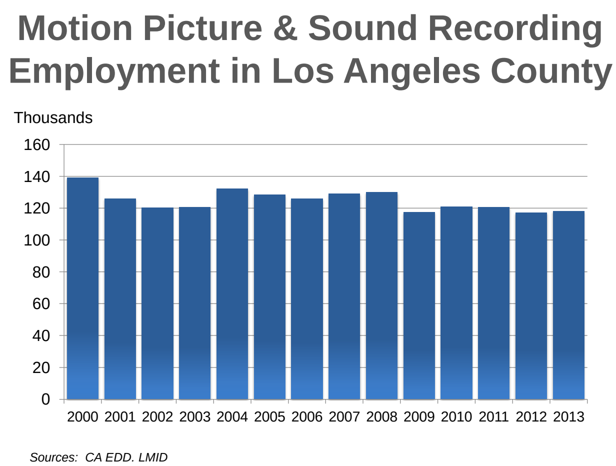


Sources: Ports of Los Angeles and Long Beach; forecast by LAEDC

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. In 2013, the number of trains rose by 8.2% on a year-to-date basis through November. The average number of trains per day rose from 42 in 2012 to 45 in 2013. The real positive news was that the 2013 peak season train levels were similar to the 2007 figures. Both the number of trains and the number of containers should increase this year as both imports and exports witness robust growth due to the improvement in the U.S. and international economies.

MOTION PICTURE/TV PRODUCTION

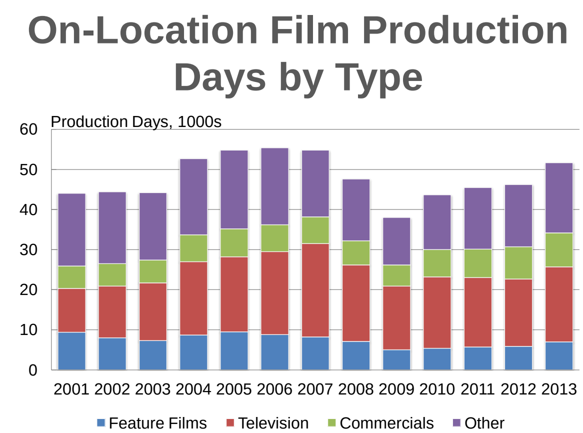
The entertainment industry is a cornerstone of the Los Angeles County economy both in its own right and as a tourist attraction. Activity directly related to the motion picture and sound-recording industry generates huge economic benefits for the region both directly and indirectly. Stroll past an on-location film shoot in downtown Los Angeles and in addition to actors, camera operators and directors, one will see workers employed to drive equipment trucks and provide security; caterers may be on site to feed crews. Behind the scenes, the industry employs accountants, lawyers and insurance firms. Film studios and related activities are users of large amounts of office and industrial real estate. The entertainment industry is also a major source of export revenues for the region because of the royalties earned overseas by locally produced films and TV shows.



In 2013, there were 118,100 wage and salary jobs in the motion picture and sound recording industry in Los Angeles County, a slight increase of 0.7% or 780 jobs compared with 2012. This sector is still struggling to return to prerecession employment levels and remains well below the 2004 peak of 132,200 jobs. Within motion picture and sound recording, motion picture and video production is the largest part of the industry by far with the greatest concentration of wage and salary jobs in the entertainment industry. Other important subsectors include motion picture distribution, post production services, and sound recording.

The entertainment industry also employs a large number of independent contractors. Independent contractors approached 82,400 prior to the recession (2008), but fell in number to just over 81,000 in 2009. By 2011 (latest data available), that figure increased to nearly 89,200, significantly adding to the overall job count in the industry.

Another indicator of industry activity is the number of permitted on-location film days. On-location film activity increased by 11.7% in 2013 to 51,670 production days. While on-location activity in 2013 fell short of prerecession peak levels of roughly 55,000 days that prevailed from 2005 through 2007, it was the fourth consecutive annual increase since bottoming out in 2009. By category, feature films rose by 18.7%, television increased by 11.5%, commercials rose by 5.4% and "other" (student and industrial films; music videos, etc.) was up by 12.6%.[7]



Source: Film LA

The National Association of Theatre Owners estimates the number of tickets sold in 2013 was about even with 2012 (1.36 billion), but below the record level of 1.57 billion set in 2002. Total box office receipts increased by 6.4% in 2012 to $34.7 billion (latest data available). International box office receipts, which comprise 69% of the total, were up by 6.7%, while domestic receipts rose by 5.9%.[8] Meanwhile, ticket price inflation is helping to push revenues for theater operators to an all time high in spite of the decline in movie theater attendance.

In 2013, total at-home entertainment spending was essentially flat at $18.2 billion. Revenue growth occurred in electronic sell-through (consumers pay a one-time fee to download a media file), video on demand and subscription streaming, while rentals (excluding video on demand) declined.[9]

Clearly, the way in which the public consumes entertainment content is still evolving. Fewer people are attending traditional movie theaters, opting instead to watch movies and TV shows on whatever screen is at hand – maybe a tablet computer at home or on a smart phone while waiting to catch a flight. Increasing numbers of people are abandoning cable TV plans in favor of subscription services like Netflix or Hulu. With the proliferation of personal electronic devices

[7] Film L.A. Inc., L.A. Area On-Location Production 2012-2013
[8] Motion Picture Association of America, Theatrical Market Statistics, 2012
[9] The Digital Entertainment Group, 2013 Annual Home Entertainment Report

and content providers, people now expect entertainment to be at their fingertips anytime, anywhere.

Recognizing the importance of the film industry to the region, in 2009 California enacted a program that allocates $100 million annually to film and TV productions in the form of a tax credit for qualified production expenses. While the provision of California's film tax credit has slowed runaway production and boosted local activity, programs in New York ($430 million in 2012) and Louisiana ($229 million), eclipsed the $100 million annually offered by California. In total, 39 states handed out $1.5 billion in film tax credits in 2012.[10] In spite of the cost advantages offered by competing states, Los Angeles County has remained an attractive location for movie and TV production because of the deep labor pool and extensive film infrastructure. However, other states have been investing heavily in production facilities and workforce development.

REAL ESTATE AND CONSTRUCTION

Residential Real Estate

The housing market recovery in Southern California gained momentum in 2013. By the close of the year, median home prices in the region had risen on a year-over-year basis for 21 consecutive months[11] while foreclosures and short sales fell to the lowest level since before the recession.

Price increases over the past year were driven in part by investors scooping up blocks of single-family homes in foreclosure – creating a new asset class in the process: single-family real estate investment trusts. However, the tendency of investors to pay cash has shut many traditional buyers, especially first-timers, out of the lower end of the market. Meanwhile, as prices continued to rise, more mid- to high-end homes were listed for sale, pushing prices up across the board.

Although the region's housing market is in a much stronger position than it was a year ago, a number of impediments stand in the way of faster recovery. The fundamentals that drive demand for housing are not improving quickly enough to keep pace with the run-up in prices: job growth, income growth and household formation. On the supply side, the inventory of homes for sale is responding slowly to price appreciation. Furthermore, as the economy improves interest rates will rise and hinder affordability.

A sustained housing market recovery requires rising rates of household formation and homeownership. Although household formation has been lagging, it is improving. The average number of new U.S. household formations fell to a recent low of 357,000 in 2010. By 2011, as labor market conditions improved, household formation rebounded to 1.1 million. The long run average since 1948 is 1.2 million new households per year.

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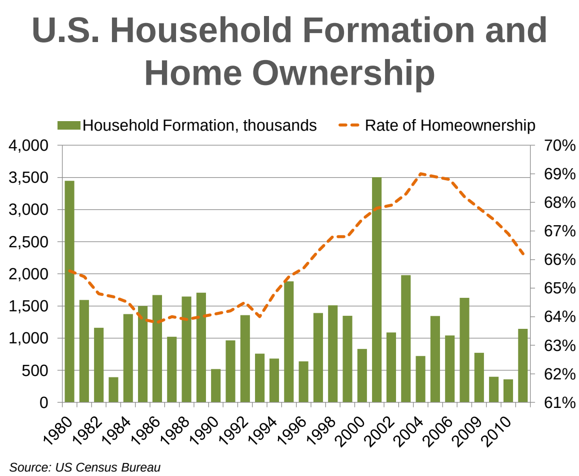
[10] Los Angeles Times, Making Film Deals with Tax Credits (12/26/13)
[11] Note: New and resale single-family homes and condominiums

The rate of homeownership in the United States has been in decline since peaking in 2004 at 69.0%. The rate for 2013 was 65.2%. One factor contributing to the decline since 2007 was the foreclosure crisis, which reduced the number of potential buyers. Tighter credit standards have also prevented many would-be buyers from entering the market. Additionally, many young people are entering the workforce with high levels of student debt and are more likely to rent or remain living in their parents' homes. This also leads to delays in starting families and forming new households.



Looking ahead to 2014 and 2015, stronger economic growth should pull traditional buyers back to Southern California's housing markets. The number of homes sold in the $300,000 to $799,000 price range (a range that includes trade-up buyers) has been rising, with sales of homes priced above $800,000 growing at an even faster rate. In contrast, sales of homes priced below $300,000 have dropped off sharply.[12] Transactions in this more affordable segment of the market are declining because of a lack of homes for sale and because many homeowners in this market still owe more than their homes are worth.

The combination of higher home prices and rising mortgage interest rates mean housing affordability has taken a hit. While still good by Southern California standards, the recent decline in affordability coupled with the slow increase in supply have the potential to scare away buyers and slow the pace of the recovery. Tighter mortgage underwriting standards will continue to be a hurdle as well.[13] The upside of this equation is rising prices should encourage more people

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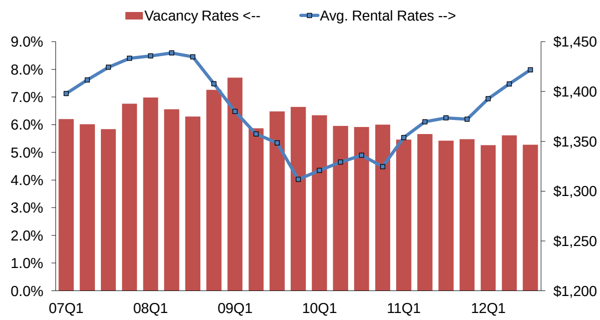
[12] DQNews.com: December Homes Sales at Six-Year Low; Median Price Jumps (1/14/14)

[13] Note: Tighter mortgage underwriting standards became official with the Qualified Mortgage Rule that went into effect January 10. For a detailed explanation see the Consumer Financial Protection Bureau: *http://www.consumerfinance.gov/regulatory-implementation/*

to list their homes for sale thereby easing inventory constraints. Prices will continue to rise in 2014, but at what rate will depend on how quickly (or not) additional inventory becomes available.

Apartments: Demand for rental is units is strong and will remain robust this year and next. Vacancy rates are low and rental rates are rising – property owners have been able to raise rents without much of an impact on 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

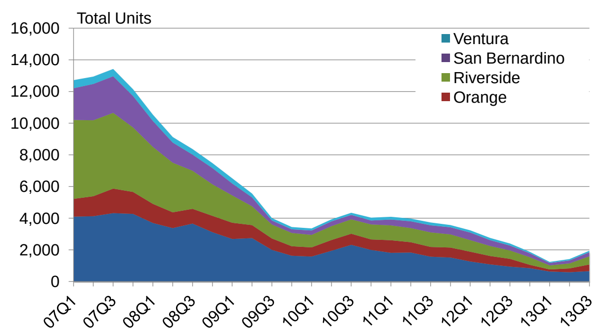
There are a number of economic and demographic factors driving demand for apartment rentals. Stronger job growth has enabled more young people to leave the family nest and many are choosing to rent. In some cases, the decision to rent is due to preference, but other factors such as student loan debt may also play a role. Additionally, tight mortgage lending standards have pushed many would-be buyers to the rental market. On the other end of the age spectrum, longer life expectancy and better health care are increasing demand for senior housing as retiring Baby Boomers (ages 50 to 68) downsize from the family home and transition to multi-family communities.

Multi-family has been a bright spot for new residential construction over the past several years, but the rapid pace of building that commenced soon after the recession has prompted worries that the pace of new completions could overwhelm demand. To date, improvement in underlying fundamentals (employment growth, household formation) suggest current demand can absorb supply. Still, the increase in completions will exert some upward pressure on the vacancy rate in the years ahead.

Unsold Inventories of California 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 3.0-month supply in December. This was up from a 2.6-month supply in December 2012 (The historical average for California is about a seven month supply). Locally, inventories ranged from a low of 2.8 months in Ventura County to 4.0 months in Riverside County.

Inventories of unsold new homes are also very lean. Together with stronger demand and rising prices, conditions are rapidly improving for homebuilders. In Los Angeles County, the inventory of new unsold homes fell by 30.0% during the third quarter of 2013 compared with the same period in 2012. In Orange County, inventories declined by 15.2%. In the Inland Empire, unsold inventories in Riverside County were down by 2.8% during the third quarter, while in San Bernardino County, inventories declined by 15.2%. In Ventura County, the unsold new home inventory dropped by 29.8% during the third quarter of 2013.

Southern California Unsold New Housing



Source: California Real Estate Research Council

New Home Construction: Builders are generally more optimistic about 2014. Inventories of new homes are extremely low and existing home prices are on the rise, a situation that is driving recent gains in new home building.

Permits for new home construction in Southern California picked up speed last year, rising by 37.4% to an estimated 34,000 units. Since bottoming out in 2009 at 14,942 total units permitted, housing permits have rebounded by 128%. Even so, permit levels remain a fraction of the peak of 91,556 units reached in 2004.

The LAEDC forecasts that homebuilders will pull permits for 46,800 new units in the Los Angeles five-county region this year, an increase of 37.6% compared with 2013. New home construction will gather speed in 2015, jumping to 61,500 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.

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 has moved back to a more balanced position. Support for existing home sales and new home construction is shifting away from investor purchases and back to traditional buyers. Credit conditions will remain restrictive and mortgage interest rates are on the rise,[14] but gains in median prices will continue through 2014 albeit at a more moderate pace as supply constraints ease.

Further 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. After previous recessions, residential investment typically contributed one to two percent to annual economic growth. During the first two years of the current recovery, residential investment made no contribution to GDP growth, but as of 2011 the housing sector finally began to provide a small lift to the economy.

[14] Note: Rates on a 30-year fixed mortgage are expected to increase this year from 3.98% in 2013 to 4.80% as the Fed eases back on its program of MBS purchases.

Table 22: Median Existing Single-Family Home Prices

Year	L.A. County	Orange County	Inland Empire	Ventura County
2003	348,409	488,439	217,953	462,521
2004	435,954	642,577	295,173	599,282
2005	517,853	706,555	364,407	668,138
2006	577,147	732,517	383,580	685,957
2007	589,166	727,570	367,248	673,940
2008	382,714	540,650	230,710	463,560
2009	299,268	505,589	161,114	416,770
2010	323,290	546,385	179,268	442,820
2011	307,660	512,500	172,280	418,270
2012	327,470	542,700	189,300	427,000
2013	405,580	651,650	241,620	516,470

Annual % Change

Year	L.A. County	Orange County	Inland Empire	Ventura County
2003	21.3%	19.5%	29.9%	24.2%
2004	25.1%	31.6%	35.4%	29.6%
2005	18.8%	10.0%	23.5%	11.5%
2006	11.4%	3.7%	5.3%	2.7%
2007	2.1%	-0.7%	-4.3%	-1.8%
2008	-35.0%	-25.7%	-37.2%	-31.2%
2009	-21.8%	-6.5%	-30.2%	-10.1%
2010	8.0%	8.1%	11.3%	6.3%
2011	-4.8%	-6.2%	-3.9%	-5.5%
2012	6.4%	5.9%	9.9%	2.1%
2013	23.9%	20.1%	27.6%	21.0%

Source: California Association of Realtors

Table 23: Total Housing Permits

Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2003	21,313	9,311	43,001	3,635	77,260
2004	26,935	9,322	52,696	2,603	91,556
2005	25,647	7,206	50,818	4,516	88,187
2006	26,348	8,371	39,083	2,461	76,263
2007	20,363	7,072	20,457	1,847	49,739
2008	13,704	3,159	9,101	842	26,806
2009	5,653	2,200	6,685	404	14,942
2010	7,468	3,091	6,269	590	17,418
2011	10,403	4,807	5,214	640	21,064
2012	13,100	5,400	5,400	840	24,740
2013	15,700	8,800	8,900	600	34,000
2014f	21,100	11,100	13,700	900	46,800
2015f	27,000	13,200	19,900	1,400	61,500

Annual % Change

Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2003	10.1%	-22.5%	29.2%	45.0%	15.0%
2004	26.4%	0.1%	22.5%	-28.4%	18.5%
2005	-4.8%	-22.7%	-3.6%	73.5%	-3.7%
2006	2.7%	16.2%	-23.1%	-45.5%	-13.5%
2007	-22.7%	-15.5%	-47.7%	-24.9%	-34.8%
2008	-32.7%	-55.3%	-55.5%	-54.4%	-46.1%
2009	-58.7%	-30.4%	-26.5%	-52.0%	-44.3%
2010	32.1%	40.5%	-6.2%	46.0%	16.6%
2011	39.3%	55.5%	-16.8%	8.5%	20.9%
2012	25.9%	12.3%	3.6%	31.3%	17.5%
2013	19.8%	63.0%	64.8%	-28.6%	37.4%
2014f	34.4%	26.1%	53.9%	50.0%	37.6%
2015f	28.0%	18.9%	45.3%	55.6%	31.4%

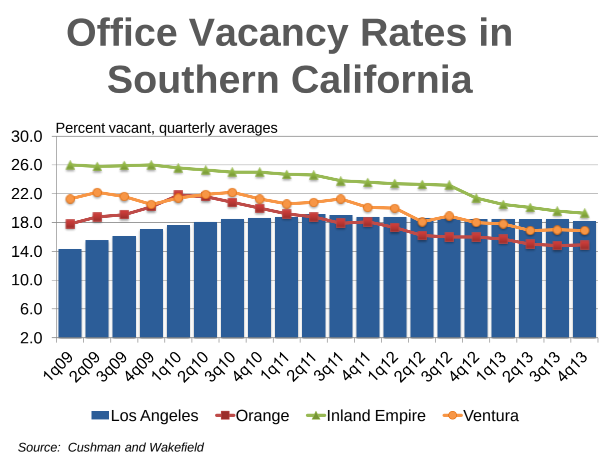
Sources: Construction Industry Research Board, California Homebuilding Foundation; forecasts by LAEDC

Nonresidential Real Estate

Commercial real estate has experienced a much slower turnaround in fundamentals in the aftermath of the great recession compared with previous recovery periods. However, emerging trends indicate commercial real estate will gain momentum in 2014.

Office Space

The modest pace of economic growth over the past five 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 is approaching prerecession levels but changes in technology and workplace organization have reduced the amount of office space utilized per worker. Firms have realized dramatic cost savings by reducing their real estate footprint – real estate is usually the second highest corporate cost after employment. Much stronger employment growth is needed to offset these trends.



Southern California's office market appears to be stabilizing but there is a great deal of variation by county and submarket. The sectors that are driving demand for office space include energy, technology, health care, biomedical research, and to a lesser extent education and financial services. Leasing activity is generally on the rise, but the impact on rental rates has been minimal. It will take several more quarters of improvement before the region's office market recovery becomes firmly entrenched

Los Angeles County: Although performance was uneven in 2013, Los Angeles County's office market closed the year on a more positive note than anticipated. Vacancy rates edged down, occupancy increased and there was even a small bump in rental rates.

During the fourth quarter of 2013, the overall office vacancy rate in Los Angeles County was 18.2%, down marginally from 18.4% during the same period in 2012. Net absorption in 2013 was positive 295,483 square feet (compared with 1.0 million square feet in 2012) with the Westside and L.A. North responsible for most of the gain. No new construction was completed during 2013, but there was 790,748 square feet of new construction working through the pipeline. The average asking rent for Class A space was $2.83 per square foot during the fourth quarter of 2013. This represents an increase in rents of 0.7% compared with the fourth quarter of 2012.

The central business district submarket had the highest vacancy rate in Los Angeles County (20.6%). There were significant occupancy losses last year as several firms downsized – a trend that is expected to slow in 2014. The Westside posted the lowest overall vacancy rate (15.4%) where demand is strong for both traditional and creative space. In Santa Monica, creative user demand dropped the vacancy rate to 8.5%, while in the South Bay, El Segundo is home to one of the fastest growing office markets in Los Angeles County and is emerging as a creative tenant favorite. Demand from advertising firms for space in Playa Vista's "agency row" was also strong last year.

Orange County: Orange County closed 2013 with three consecutive years of substantial net absorption. Demand from health care and technology companies drove much of the improvement in Orange County's office market, while by geography, demand was strongest in the greater airport area.

In Orange County, the average office vacancy rate declined in the fourth quarter of 2013 to 14.9% from 16.0% a year ago. Net absorption in 2013 was positive 1.1 million square feet compared with 1.4 million square feet in 2012. No new office space was delivered, but there is nearly 790,000 square feet of new construction underway. The average Class A asking rent in Orange County increased by 3.9% over the year to $2.14 per square foot during the fourth quarter.

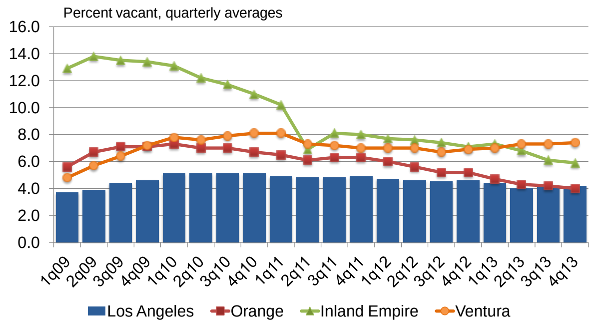
Inland Empire: The Inland Empire office market should continue to stabilize over the rest of 2014, but true recovery is still somewhere down the road. Employment growth in the industries that use office space is slowly improving, but nowhere near fast enough to fill available vacant space.

In the Inland Empire, the office vacancy rate was 19.3% during the fourth quarter of 2013, down from 21.4% during the same period in 2012. Rental rates edged down to $1.97 per square foot from $2.06. Total net absorption in 2013 was 446,000 square feet compared with 586,000 square feet in 2012.

Industrial Space

Southern California is a major center for manufacturing, international trade and logistics, and entertainment, all of which are 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 competiveness 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.

Industrial Vacancy Rates in Southern California



Source: Cushman and Wakefield

Los Angeles County: The Los Angeles industrial real estate market continues to improve. Vacancy rates are trending down and rental rates are slowly edging up. New construction activity was also strong in 2013.

At the close of 2013, the overall industrial vacancy rate in Los Angeles County was 4.4%, down from 4.6% in during the same period last year. Over the year, the average asking rent for industrial space jumped from $0.49 per square foot to $0.58 per square foot. Overall absorption for 2013 was just over one million square feet.

In 2013, nearly 2.5 million square feet of new industrial construction was completed with another 2.6 million square feet in the pipeline at the end of the year. This was the largest amount of space under construction at year-end since 2008. The South Bay and Central Los Angeles submarkets are leading the way, with 1.1 and 1.6 million square feet of new product added last year.

Orange County: Like Los Angeles County, Orange County has one of tightest industrial real estate markets in the country. Net absorption during 2013 was nearly 1.8 million square feet. New industrial construction totaled 308,080 square feet last year with another 209,715 square feet currently underway.

The average direct vacancy rate in the fourth quarter of 2013 was 4.0%, which was down from 5.2% during the same time a year ago. During the fourth quarter, the average asking rents increased to $0.72 per square foot from $0.68 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 2014.

Inland Empire: Strong demand for large-scale distribution space in the Inland Empire decreased the overall vacancy rate to 5.9% in the fourth quarter of 2013 from 7.1% during the fourth quarter of 2012. This was the lowest vacancy rate since the first quarter of 2008. Asking rents edged up, rising from $0.38 per square foot in the last quarter of 2012 to $0.40 per square foot during the final quarter of 2013. Net absorption for the year was just under 12.6 million square feet.

New construction in 2013 added 9.5 million square feet of new industrial product to the Inland Empire with an additional 17.5 million square feet still under construction. The Inland Empire leads the nation in industrial construction and demand for large-scale distribution facilities should easily absorb new construction in 2014. As vacancies decline, and if demand stays on course, rents will rise but are expected to remain below prerecession levels for the near 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 will be stable or decline through 2014, but how fast will depend on improvement in the labor markets. Average rents may continue to be soft in some areas, but for the most part, appear to be stabilizing or even increasing in some of the more desirable submarkets. Although changes in workforce organization will present a challenge going forward, the lack of new construction and stronger employment growth this year will help drive the region's office market recovery.

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.

The value of total nonresidential construction in the five-county region rose to an estimated $7.2 billion in 2013, up by 16.5% compared with 2012. In 2014, as general economic and labor markets conditions improve, the LAEDC forecasts nonresidential construction in the region will increase to $8.3 billion (15.8%). 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 24: Private Nonresidential Construction Permits

(By valuation, $millions)

Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County
2002	2,920	1,209	1,473	289	5,891
2003	2,932	1,006	1,720	379	6,037
2004	3,174	1,133	2,485	353	7,145
2005	3,824	1,495	2,394	372	8,085
2006	3,896	2,401	2,852	326	9,475
2007	4,739	2,005	2,824	346	9,915
2008	4,491	1,439	1,781	345	8,055
2009	2,674	952	710	153	4,489
2010	2,677	1,152	792	160	4,782
2011	2,965	1,291	904	141	5,301
2012	3,683	1,263	1,074	127	6,147
2013	4,028	1,454	1,555	124	7,162
2014f	4,550	1,725	1,875	140	8,290
2015f	4,975	1,875	2,100	150	9,100

Annual % Change

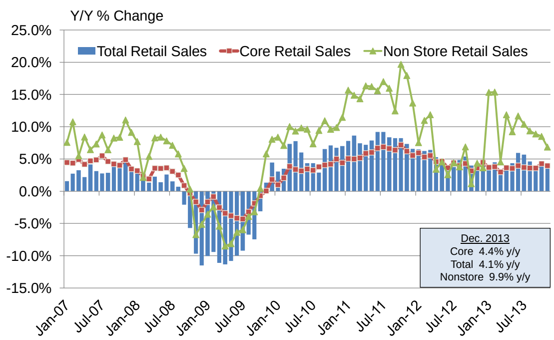
Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County
2002	-17.5%	-10.4%	3.5%	-6.5%	-11.0%
2003	0.4%	-16.8%	16.8%	31.1%	2.5%
2004	8.3%	12.6%	44.5%	-6.9%	18.4%
2005	20.5%	32.0%	-3.7%	5.4%	13.2%
2006	1.9%	60.6%	19.1%	-12.4%	17.2%
2007	21.6%	-16.5%	-1.0%	6.1%	4.6%
2008	-5.2%	-28.2%	-37.0%	-0.4%	-18.8%
2009	-40.5%	-33.8%	-60.1%	-55.5%	-44.3%
2010	0.1%	20.9%	11.7%	4.7%	6.5%
2011	10.8%	12.1%	14.1%	-12.1%	10.9%
2012	24.2%	-2.2%	18.9%	-10.3%	16.0%
2013	9.4%	15.1%	44.8%	-2.2%	16.5%
2014f	13.0%	18.6%	20.5%	13.2%	15.8%
2015f	9.3%	8.7%	12.0%	7.1%	9.8%

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

RETAIL TRADE

The retail sector is a key component of the economy at both the national and local levels. Because such a large portion of U.S. economic activity depends on consumer spending, purchases of retail goods and services is an important economic indicator. Retailers also provide an enormous number of jobs that encompass a wide range of skill and income levels. In 2013, nearly 11% of the work force in the Los Angeles five-county region was employed in the retail sector. That amounted to 741,300 jobs, an increase of 1.3% compared with 2012.

U.S. Retail Sales



Source: U.S. Census Bureau

The U.S. retail sector continued to improve in 2013, but has not yet achieved full recovery. Consumers remain cautious and are careful about what they buy, especially low and middle-income consumers. Still, retail sales were up by a solid 4.2% compared with 2012 while core retail sales[15] increased by 3.8%. The best performing retail sectors were auto sales (up 8.7%) and non-store retailers i.e. on-line and catalogs (up 10.1%).

Retailers have cause to be more optimistic about 2014 and 2015. Consumer confidence surged in December of last year after falling during the previous three months. It appears the government shutdown during the fall of 2013 had little lasting effect on consumer spending and consumers are now feeling more positive about their current circumstances and the outlook. The labor markets have been showing steady improvement and the unemployment rate reached a five-year low by the close of 2013. On the other hand, while personal income[16]

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[15] Note: Core retail sales strip out automobiles, gasoline, and building material and garden supply stores, and are used to estimate consumer spending.

[16] Note: In addition to wages and salaries, personal income includes rental income, interest, dividends, employer contributions to retirement funds, government social insurance, and government transfers.

is rising, growth rates have been weak at best and the gains unevenly distributed among the broader population. Adjusted for inflation, the median weekly wage for American workers in 2013 (first three quarters) was the same as 2007.[17]

A healthier housing market will also help fuel increases in retail spending over the next two years. Rising home prices tend to make people feel wealthier and encourage them to spend more. Household net worth has already surpassed prerecession levels, rising to $77.3 trillion in the third quarter of last year, 17% higher than it was in 2007 before the Great Recession and the financial crisis. Household nonmortgage debt also reached that milestone and stands at 15% over its prerecession peak. Although growth in credit card debt has been restrained, low interest rates have made it more affordable for consumers to finance the purchase of automobiles and household appliances.

Cautious consumers mean most retailers have to work harder for every sale (luxury retailers are doing somewhat better). Retailers also have had to adjust to rapidly evolving changes in consumer buying habits. People are spending more on services like travel, movie downloads, concerts and sporting events, and less on goods like clothing. Consumers have also become better informed, more discerning and more interactive. Retailers are collecting and using large amounts of data in order to provide a more personal shopping experience for their customers. The use of tablets and smart phones to enhance and expand the shopping experience has become standard for comparing prices, finding coupons and making purchases.

Up and coming technologies include computer-simulated 3-D environments viewed through a computer screen or wireless glasses. A number of big-name retailers are already experimenting with applications of this technology to improve store layouts and in-store navigation for shoppers. In the near-future, a consumer will be able to walk into a grocery store and know instantly what gluten-free products are available by way of an app on her smart phone. Virtual dressing rooms are also being tested – imagine “trying on” and accessorizing an outfit that appears and changes as the shopper views herself on a large screen.

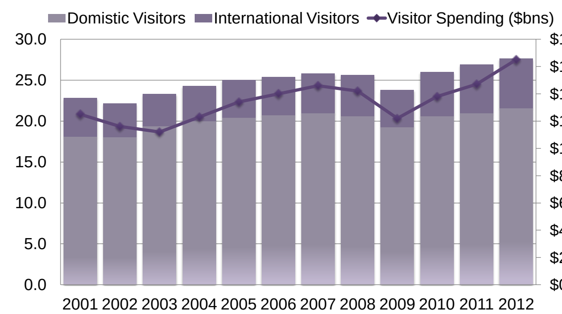
Looking ahead, consumer spending is expected to post gains that are more robust this year with even stronger growth over the course of 2015. Total U.S. personal consumption expenditures, a large part of which are retail sales, are expected to increase in 2014 by 2.8% compared with 2.0% in 2013, and rise to 3.1% in 2015. Southern California retail sales closely track national economic trends. The LAEDC is forecasting moderate increases in total taxable sales, of which retail sales make up about two-thirds, for 2013 that will range from 6.3% in the Inland Empire to 5.1% in Ventura County. Orange, San Diego, and Los Angeles counties should see increases in taxable sales of 5.7%, 5.5% and 5.3% respectively.

[17] Bureau of Labor Statistics, Current Population Survey: http://www.bls.gov/cps/#data

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. In 2013, Los Angeles County hosted a record 42.2 million visitors (day and overnight), a 2.0% increase over the previous year. This was the third straight year that Los Angeles County achieved record breaking visitor counts. Tourists and business travelers spent a chart topping $16.5 billion in 2012 (latest data available), which was an increase of 6.9% over 2011. The numbers for 2013 are expected to be even better. The total economic contribution of the hospitality and tourism sector to the Los Angeles region was over $30 billion in 2012.[18]

L.A. County Overnight Visitor Counts and Spending



Source: L.A. Tourism and Convention Board

Over six million additional international travelers arrived in Los Angeles in 2013 compared with 2012, an increase of 2.6%. International travelers accounted for 14.6% of the total number of visitors (day and overnight) who arrived in Los Angeles in 2013, compared with 14.5% in 2012. Slightly stronger global economic growth in 2013 may explain in part why international growth (2.6%) outpaced domestic visitor growth (1.9%).

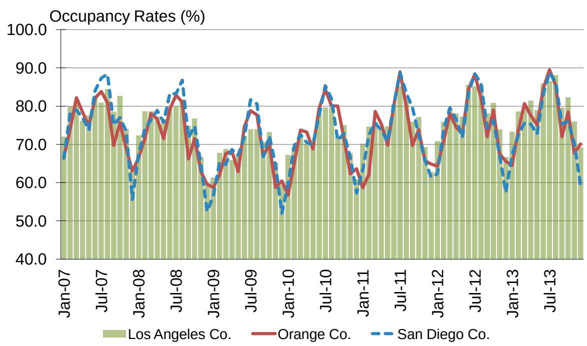
While Mexico and Canada sent the largest number of *international* visitors to Los Angeles County, China remained in the top spot as Los Angeles County's number one *overseas* market. China sent 570,000 visitors to Los Angeles County in 2013, a jump of over 21% compared with the previous year. In fact, the Los Angeles Tourism and Convention Board opened up a second office in China last year to promote travel to Los Angeles. A recent analysis by *CLSA Asia-Pacific Markets* predicts that the number of Chinese visitors to the U.S. will triple from 1.5 million in 2012 to 5.7 million by 2020. This is excellent news for the hospitality and tourism industry in California and Los Angeles County. Nearly half of all Chinese traveling to the U.S. visit California and over 72% (based on 2013 figures) of those visiting California come to Los Angeles County. As a result, Los

[18] The Los Angeles Tourism and Convention Board

Angeles County could see anywhere from one and a half to two million Chinese visitors by 2020, a development that would benefit hotels, restaurants, cultural venues, tourist attractions and luxury brand retailers.

Demand for the region's hotel rooms was very strong in 2013, with record high levels in both occupancy rates and total rooms sold. The average occupancy rate in Los Angeles County was estimated to have reached 76.8% in 2013, up from 75.4% in 2012. Total rooms nights sold reached 27.2 million last year, an expansion of 2.1% from 2012. 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 $136.52, an increase of 4.9% compared with 2012. The story is much the same throughout Southern California although there is considerable variation by county and submarket. In 2014 and into 2015, 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. [19]

Hotel Occupancy Rates



Source: PKF Consulting

Leisure and hospitality employment is on the rise as well. In 2013, the leisure and hospitality sector[20] added 37,293 jobs, representing a 4.1% year-over gain in employment. Over half of the gain was concentrated in Los Angeles County (18,817 jobs), but job counts were up across the region with significant gains in the Inland Empire and San Diego County. Restaurants and bars, which employ about 70% of all workers in the leisure and hospitality sector, also expanded payrolls in 2013. The outlook for the region's signature leisure and hospitality industry is even brighter in 2014 and 2015. Stronger economic growth both at home and abroad will provide a nice uptick in activity. Additionally, after several years of almost no new hotel construction, there are multiple hotel projects under construction in Southern California with more projects planned for the next two

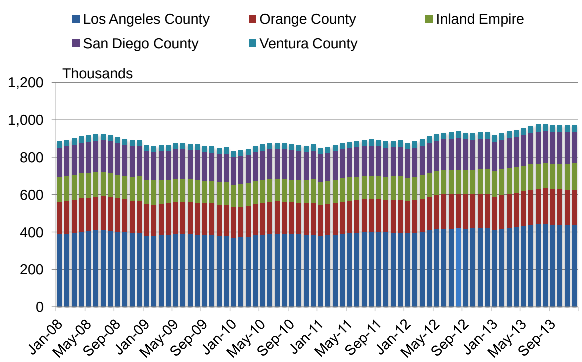
[19] Note: This section was largely based on figures from the *Los Angeles Tourism and Convention Board* as well as *PKF Consulting*.

[20] Note: 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.

years. A number of prominent hotel properties have also undergone extensive remodels in an effort to keep guests coming back and to attract new customers.

Efforts to maintain Southern California's position as a premier travel destination are ongoing. LAX has acted on a multi-billion dollar investment program to upgrade facilities. The centerpiece of this effort was the modernization of the Tom Bradley International Terminal, which opened in September 2013. San Diego International and Orange County's John Wayne Airport have also recently undergone major upgrades.

SoCal Leisure & Hospitality Employment



Source: California EDD

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