

2015-2016

ECONOMIC FORECAST & INDUSTRY OUTLOOK

THE KYSER CENTER FOR ECONOMIC RESEARCH

LAEDC

COUNTY OF LOS ANGELES CALIFORNIA

ABOUT LOS ANGELES COUNTY:

Los Angeles County is a nation-sized region that spans more than 4,000 square miles, has 10 million residents who speak more than 150 languages from around the world, and leads the nation as the #1 Entertainment Capital, the #1 Manufacturing Capital, and #1 International Trade Capital of America. L.A. County also has the nation's #1 and #2 ranked seaports, the busiest origin and destination airport (LAX) and three world-class research institutions plus 118 other colleges and universities, all of which contribute to the region's annual economic activity of $584 billion. By measure of GDP alone, L.A. County would be larger than Sweden, Norway, Poland and Belgium.

Los Angeles County is governed by five Supervisors, including Supervisor Hilda Solis (District 1), Supervisor Mark Ridley-Thomas (District 2), Supervisor Sheila Kuehl (District 3), Supervisor Don Knabe (District 4), and Supervisor Michael Antonovich (District 5). For more information about Los Angeles County, visit: **www.laedc.org**.

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

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California and Southern California

Including the National and International Setting

February 2015

Los Angeles County Economic Development Corporation
The Kyser Center for Economic Research
444 S. Flower St., 37th Floor, Los Angeles, CA 90071
Tel: 213-622-4300 | 888-4-LAEDC-1 | Fax: 213-622-7100
Web: http://laedc.org | E-mail: research@laedc.org

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 200,000 jobs, providing over $12 billion in direct economic impact from salaries and over $1.1 billion 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.

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

Leveraging our Leadership
The LAEDC 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*

444 S. Flower Street, 37th Floor., Los Angeles 90071
T: (213) 622-4300 | F: (213) 622-7100 | www.laedc.org

Good morning, Ladies and Gentlemen, and welcome to the LAEDC's Economic Forecast and Industry Outlook for 2015-2016, with a special focus on the tourism and hospitality industry of Los Angeles County.

The LAEDC 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 Kyser Center for Economic Research, led by its Chief Economist, **Dr. Robert Kleinhenz**.

Dr. Kleinhenz is joined today by **Ernest Wooden Jr, President and CEO, Los Angeles Tourism and Convention Board**, who will share his insights into what is needed to reach our goal of attracting 50 million annual visitors to Los Angeles by 2020.

Our two panels will take on key issues in tourism and hospitality, with the help of moderator **Sean Burton, President of the Board of Airport Commissioners**. Discussing the new business models and enhancers in the industry are **Veronica Juarez, Director of Government Relations at Lyft** and S**teve Gomez, General Manager of Los Angeles and Southern California at Airbnb.** Presenting the new report on economic impact and employment of the tourism and hospitality industry in L.A. County is **Christine Cooper, Ph.D., at the LAEDC Institute for Applied Economics.** She is joined by **Troy L. Jones, West Region Real Estate Sector Leader at Ernst & Young (EY)** who will discuss key trends in the industry and provide insights into the future.

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 sponsors, **Turkish Airlines** and **Bank of America**. Our event sponsor is **Ernst & Young (EY)** and our media sponsor for this event is **KNX 1070 NewsRadio.** Our sincere thanks go to all of them.

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. This work has directly led to **200,000** good jobs for L.A. County, a milestone we were elated to announce earlier this month. The impact these jobs have on the health and well-being of families and communities of our region is a great reminder of the true value of economic development.

Sincerely,

Bill Allen,
President and CEO
LAEDC

Raul A. Anaya,
President, Bank of America - Greater Los Angeles
Chairman, LAEDC

LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

PREPARED AND RESEARCHED BY:

Robert A. Kleinhenz Ph.D
Chief Economist

Kimberly Ritter-Martinez
Economist

George Entis
Research Analyst

About the Kyser Center for Economic Research

The Kyser Center for Economic Research was named in November 2007 in honor of the LAEDC's first Chief Economist, Jack Kyser. The Kyser Center's economic research encompasses the Southern California region, which includes the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. The center also tracks developments and produces forecasts, studies, and reports on the California, national and international economies.

The economy of the greater Los Angeles region is driven by more than its famed entertainment industry. The region's broad economic base also includes aerospace, automotive, biotechnology, fashion, manufacturing and international trade. The Kyser Center conducts research on the individual industries of the region to gain a better understanding of ongoing changes in the economy.

The Kyser Center is highly regarded for its accurate and unbiased assessment of the economy. Kyser Center economists are also sought-after public speakers and frequent contributors to media coverage of the economy. At the heart of the Kyser Center is its mission to provide information, insights and perspectives to help business leaders, government officials and the general public understand and take advantage of emerging trends.

TABLE OF CONTENTS

FORECAST AT A GLANCE

The U.S. Economy

- Faster growth, job gains to continue
- Consumer sector lends momentum to growth with business investment holding steady
- Federal deficit gap narrows in next two years; price of oil low but on rise
- Risks: slower than expected growth among U.S. trading partners; Fed's normalization of short-term policy rates

	2013	2014	2015F	2016F
Real GDP (% Change)	2.2%	2.4%	3.0%	3.0%
Nonfarm Jobs (% Change)	1.7%	1.9%	1.9%	1.8%
Unemployment Rate	7.4%	6.2%	5.6%	5.4%
Consumer Price Index (% Change)	1.5%	1.6%	1.3%	2.3%

The California Economy

- Private sector job gains, steady decline in unemployment rate
- Housing and construction up substantially; strong gains in health services; administrative and support services; professional, scientific and technical services; and leisure and hospitality
- Public sector employment edging up; improved fiscal outlook; water issues loom large

	2013	2014	2015F	2016F
Unemployment Rate	8.9%	7.5%	6.7%	6.3%
Nonfarm Jobs (% Change)	3.0%	2.2%	2.2%	2.1%
Population Growth (% Change)	0.8%	0.9%	1.0%	1.0%

The Southern California Economy

- Continued employment gains and decline in local unemployment rates
- Leading industries: healthcare and social assistance; construction; professional, scientific and technical services; administrative, support and waste services
- Lagging industries: other services; nondurable goods manufacturing, financial activites

THE U.S. ECONOMY

The U.S. economy largely moved out of the shadow of the Great Recession in 2014. Despite a bumpy start, the year was marked by solid economic gains and the fastest growth rate in the past four years. The labor market responded by adding jobs at a pace not seen in over 15 years, driving the unemployment rate to its lowest in six years and giving the average wage increase a slight edge over inflation. Every major industry finished the year with year-to-year job gains, reflecting the breadth of the recovery.

The U.S. economy entered 2015 with expectations of faster growth that would be spurred by a much anticipated surge in residential construction, and buoyed by increases in consumer and business spending. Over the next two years, the unemployment rate will fall to its long-run natural rate, and stronger wage gains will materialize. Global weakness may take the edge off U.S. growth but will not halt it.

KEY SECTORS

Consumers: The consumer sector typically accounts for about two-thirds of activity in the U.S. economy, making it the largest of the economy's four sectors. Since consumer spending depends on jobs and incomes, the declining jobless rate and related growth in income have supported increases in consumer spending since the end of the Great Recession.

Consumer spending grew at a 2.5% rate in 2014 in response to a similarly modest 2.4% increase in disposable personal income. Consumer expenditures on durable goods rose sharply in recent years as households replaced vehicles, household furnishings and other items. Following a 6.7% inflation-adjusted increase in 2013, purchases of durable goods rose by 7.0% in 2014, with impressive increases in spending on vehicles, household goods, and recreational items. Light vehicle sales were particularly strong, rising at a 5.7% annual rate to 16.8 million vehicles, the strongest pace of annual sales since 2006.

With improved incomes and higher consumer confidence, households have relied increasingly on credit to finance purchases. Consumer credit of all types rose by three percent from the third quarter of 2013 to the third quarter of 2014.[1] A 10.5% year-to-year increase in auto loans accompanied the surge in vehicle sales and student loan balances rose by 9.6% year-to-year over the same period.

Continued increases in household wealth have also led to higher levels of spending. Household net worth surpassed the pre-recession peak as of July 2012. It has climbed steadily since the end of the recession, initially as a result of higher returns in the financial markets, with increases in residential property values making significant contributions over the last two years. Homeowner's equity increased by over a quarter in

[1] *Quarterly Report on Household Debt and Credit*, Federal Reserve Bank of New York, November 2014

2012 and 2013, and rose by 17% through the first three quarters of 2014 compared with the same period in 2013.

Housing put in a disappointing performance in 2014. Nationally, existing home sales fell by 3.1%, and although the median price of a home rose 5.8% last year, housing starts increased by an unexpectedly low 8.5%, barely crossing the one million mark. With demographic trends suggesting more new household formation over the next few years and with more households in a position to buy, the outlook for the next two years is more upbeat.

Consumer spending should accelerate over the next two years, with a 3.1% surge in 2015 and growth of 2.7% during 2016. Increased spending on durable goods will be led by higher expenditures on vehicles and other discretionary purchases, while purchases of both nondurable goods and services will show steady gains in the three-percent range. This will be a good development, not just for households but also for the entire economy. As households see their economic circumstances improve over the next two years, consumer spending will make incrementally larger contributions to GDP growth, thereby lending flywheel-like momentum to the overall economy.

Businesses: Investment spending has grown consistently in recent years, making steady contributions to GDP growth since the end of the Great Recession. In 2014, business investment increased by 6.1% over 2013, led by an 8.0% increase in structures, with equipment purchases showing a 6.3% gain and intellectual property products rising by 4.6%. Much of the increase in equipment purchases took the form of industrial and transportation equipment.

Business investment will grow somewhat more slowly over the next two years, with increases of approximately five percent expected for both 2015 and 2016. Business investment in equipment should rise by about seven percent in both years, as firms ramp up purchases of IT and industrial equipment. Business investment in structures overall will be flat or up slightly, but commercial/health care and manufacturing facilities will show impressive gains over the next two years. However, the trend will turn for aircraft, and power and mining structures, all of which grew last year, but will face a mixed outlook over the next two years.

Government: Government spending had a slight negative impact on the overall economy last year with a 0.2% decrease from 2013. A 0.9% increase in state and local government purchases last year was more than offset a 2.0% decline at the federal level, brought on in part by sequestration budget cuts. With Congress and the Administration reaching agreement on less draconian cuts for the current budget year, federal spending will be approximately flat, and increases at the state and local level will result in a slight uptick in overall government spending this year, with next year showing a slight increase as well.

Trade: While the domestic U.S. economy may be dominated by services, the nation's international trade is more heavily tilted towards goods, as would be expected. In inflation-adjusted terms, exports have grown in each of the last five years. However, the growth trajectory has flattened in the last two years from 6.9% in 2011 to 3.1% last year. Despite concerns about the global economy, the economies of our closest trading partners will improve over the next two years, and should trigger modest increases of about three percent in U.S. exports, both in goods and in services. On the import side, gains in household incomes and a brighter picture for businesses drove imports to a record high last year. Import growth will accelerate this year and next from just under four percent last year to the 5.0% to 5.5% range over the next two years. With the U.S. economy growing more quickly than its trading partners, imports will grow faster than exports, and the nation's trade gap will worsen this year and next, as it did in 2014.

Labor: Job gains in most sectors of the economy contributed to a decline in the unemployment rate throughout the year. Nonfarm jobs increased at a rate of 1.9% annually in 2014, the fastest annual growth rate since the year 2000. This modest but consistent rate of job creation has driven the annual unemployment rate down from 7.4% in 2013 to 6.2% last year. As of January 2015, the monthly unemployment rate stood at 5.7%, within striking distance of the natural rate of unemployment, which is thought to be somewhere between 5.2% and 5.5%.

Although headline numbers such as these seem to imply that the labor market is nearly back to normal, other indicators suggest otherwise. The share of part-time workers is coming down slowly, but at 19% in 2014, it is still high compared to an average of 18% since 1990. In addition, wages barely rose above the rate of inflation last year, and it is not yet clear whether the drop in the labor force participation rate is mostly due to demographics (retiring Boomers), or if it is due to cyclical forces that must still play out. Beyond-the-headline analysis such as this has prompted the Federal Reserve Bank (the Fed) to proceed at a much slower pace in normalizing its monetary policy.

With continued growth in the overall economy, the labor market should experience job gains of slightly less than two percent both this year and next. This will help drive the unemployment rate down to its natural rate of unemployment (full-employment) of roughly 5.5%. It should also be a year of stronger wage growth as the labor market tightens.

Inflation: Inflation has been low in recent years, a trend that is expected to continue this year and next, in part because of the plunge in oil prices and weakness in the prices of other commodities. With the labor market approaching full employment, wages should rise more quickly but will not ignite higher inflation. Moreover, there is still slack elsewhere in the economy. Capacity utilization, which measures the share of the industrial production in use, came in at 79.7% in December, still under the 83% to 85% range that corresponds to full utilization of the nation's productive capacity. Inflation based on the Consumer Price Index (CPI) was 1.6% last year, and is projected to be 1.3% this year and 2.3% in 2016, while other measures of inflation should also remain similarly low.

ECONOMIC POLICY

Fiscal Policy: With revenue growth and decreases in federal outlays, the budget deficit measured relative to GDP fell to 2.8% in 2014, dropping below the 3.1% thirty-year average for the first time since 2007. Just five years earlier, the budget deficit was nearly ten percent of GDP, as revenues plunged during the worst of the recession and outlays spiked.

The Bipartisan Budget Act of 2013 provided temporary relief from sequestration budget cuts in fiscal years 2014 and 2015, but the full set of sequestration cuts from the Budget

Control Act of 2011 (BCA) will return for the 2016 fiscal year, which begins on October 1, 2015. If Congress passes a 2016 budget that is consistent with the BCA, nondefense discretionary spending would be cut by 4.1% compared to the previous year and discretionary defense spending would be reduced by 10.7%.[2] However, there is time to override these large cuts and pass a budget with more modest reductions in spending. Even so, nondiscretionary outlays will increase this year and next, mainly due to increases in mandatory spending such as Social Security, major health care programs, and interest payments.

Monetary Policy: Over the past few years, the Fed has acted aggressively to reduce the unemployment rate. According to the Congressional Budget Office, full-employment is thought to occur when unemployment rate is in the mid-five percent range. As of January, the monthly unemployment rate had reached 5.7%. Anticipating improvements in the labor market and the broader economy, the Fed ended the bond-buying program known as Quantitative Easing (QE III) last October, but its federal funds rate is still effectively at zero.

Citing slow wage growth, a higher than normal share of part-time workers, and continued decreases in the labor force participation rate, the Fed is concerned that the labor market has not achieved a full-fledged recovery. Given its concerns about both the domestic economy and global economic weakness, the Fed is expected to be patient in moving the federal funds rate to a more neutral, as opposed to its current expansionary, position. While it appears that the Fed will begin to increase the federal funds rate sometime in the middle of this year, much depends on developments in the global economy.

U.S. FORECAST AND RISKS

The U.S. economy should see somewhat faster growth over the next two years, in part because of acceleration in housing and construction, and improvement in the state and local government picture. GDP is projected to accelerate from a 2.4% growth rate in 2014 to 3.0% over the next two years. Broad-based job growth will continue across most sectors of the economy and the labor market should approach full employment.

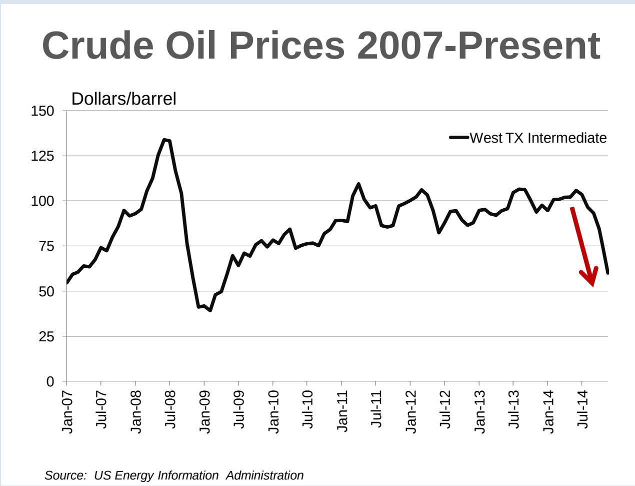
Risks to the forecast mainly come from elsewhere in the world. Europe and Japan have struggled to ignite sustained growth within their economies, while China's economy has downshifted from double-digit growth of the last few years to growth in the seven percent range. Political and security concerns in the Middle East, between Ukraine and Russia, and elsewhere around the world have raised both political and economic uncertainty, both of which can stifle economic activity.

For the first time in decades, the threat of high energy prices is not a near-term risk. However, low oil prices are partly the result of underlying weakness in the global economy, while also being due in part to the current supply glut.

[2] Wells Fargo Special Commentary, Five Key Issues to Watch in the 114th Congress (January 26, 2015)

IMPACT OF PLUNGE IN OIL PRICES

For the first time in decades, a possible spike in energy prices does not pose a near-term risk to the U.S. economy. Rather, quite the opposite has happened. The price of oil had been dancing around the one hundred dollar mark for most of the past three years, but the market took a dramatic turn in recent months with the price of oil plunging by more than 50% from $106 per barrel in June 2014 to $48 per barrel in January 2015. What has caused the steep drop in oil prices? What is the outlook for the next few years? Who are the winners and who are the losers?



What caused the drop? The decline in oil prices came about because of rising supply and weak demand. On the supply side, U.S. domestic production has surged in recent years, while OPEC nations, notably Saudi Arabia, have maintained their production levels. On the demand side, the U.S. is the world's largest consumer of oil, but consumption has been declining in recent years. However, global demand for oil has weakened in response to anemic economic conditions in Europe and Japan and slowing growth in developing regions such as China. In that sense, low oil prices are symptomatic of a weak global economy.

What is the outlook? Oil prices may bottom out sometime in 2015, but a return to $100 per barrel is years off. The Energy Information Administration projects that oil prices will bottom out in 2015 at about $55 per barrel, climbing to $71 next year. It is expected that the $100 threshold will be reached later in the decade.

Winners and losers? Households, businesses, and governments all benefit to the extent that lower oil and fuel prices cut energy-related expenditures, leaving more money to spend elsewhere or save. As for losers, those in the oil industry will face hard times in the years ahead. Large global energy companies such as Shell have slashed their spending on extraction and exploration, while smaller firms are looking at cuts as well. The ripple effects of these cuts will be felt both upstream and downstream in the supply chain. **The net effect on the overall economy will be positive**, as lower gas prices leave more money in the pockets of consumers and increased savings for businesses despite the negative impact on the oil - related sectors of the economy.

Table 1: U.S. Economic Indicators

Annual % change except where noted	2009	2010	2011	2012	2013	2014	2015f	2016f
Real GDP	-2.8	2.5	1.6	2.3	2.2	2.4	3.0	3.0
Nonfarm Employment	-4.3	-0.7	1.2	1.7	1.7	1.9	1.9	1.8
Unemployment Rate (%)	9.3	9.6	8.9	8.1	7.4	6.2	5.6	5.4
Consumer Price Index	-0.4	1.6	3.2	2.1	1.5	1.6	1.3	2.3
Federal Budget Balance (FY, $billions)	-1413	-1294	-1300	-1087	-680	-$483	-$468	-$467

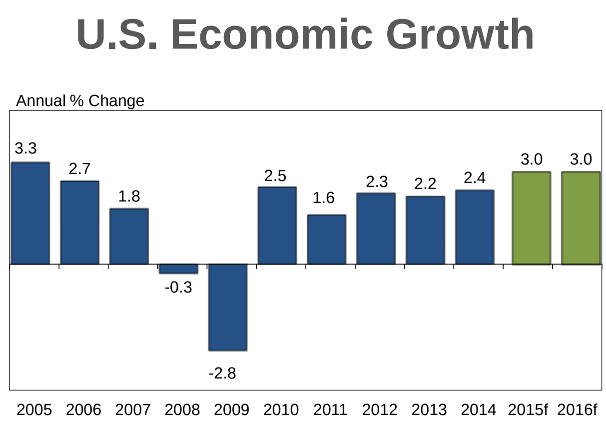
Sources: BEA, BLS and CBO; forecasts by LAEDC

Table 2: U.S. Interest Rates

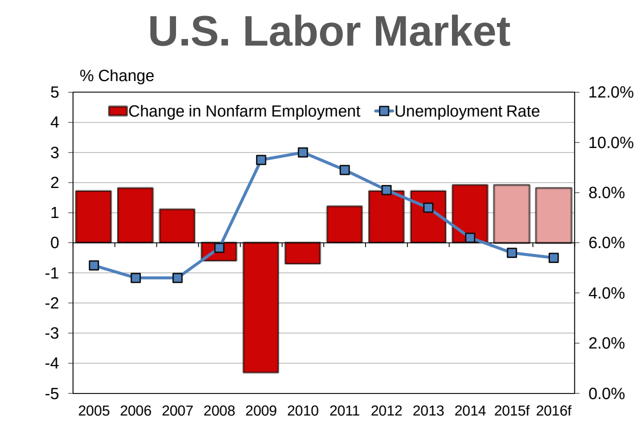
Annual Average, %	2009	2010	2011	2012	2013	2014	2015f	2016f
Fed Funds Rate	0.16	0.18	0.10	0.14	0.11	0.10	0.40	1.60
10-Yr Treasury Note	3.26	3.22	2.78	1.80	2.35	2.40	2.70	3.50
30-Year Fixed Mortgage	5.04	4.69	4.45	3.66	3.98	4.20	4.30	5.20

Sources: Federal Reserve Board; forecasts by LAEDC

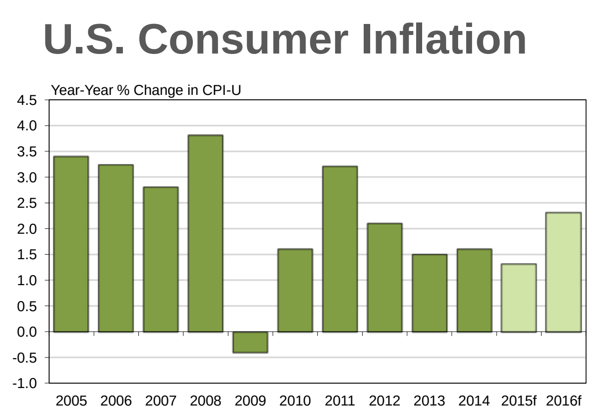
U.S. Economic Snapshot



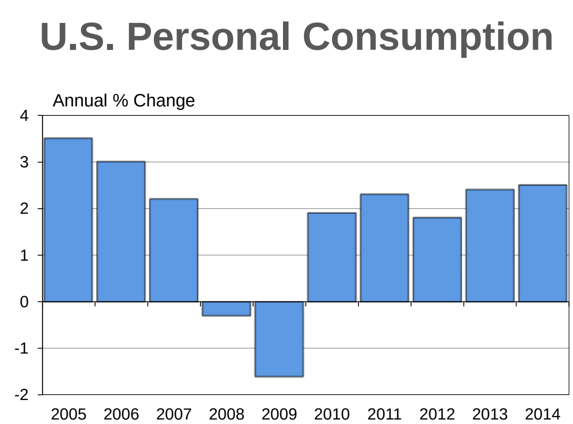
Sources: Bureau of Economic Analysis, forecasts by LAEDC



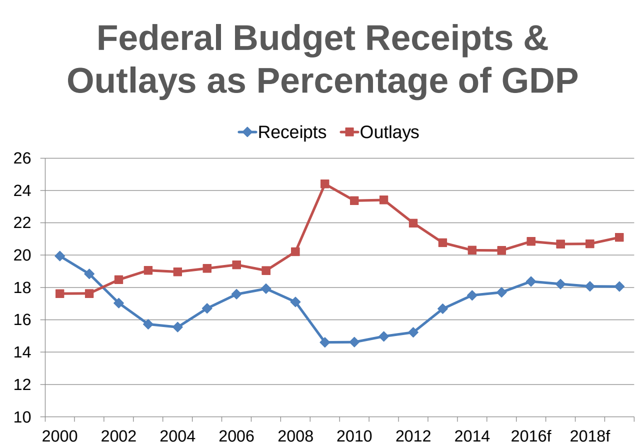
Sources: Bureau of Labor Statistics, forecasts by LAEDC



Source: Bureau of Labor Statistics; forecasts by LAEDC



Source: Bureau of Economic Analysis



Source: Office of Management & Budget

THE INTERNATIONAL ECONOMY

The Southern California regional economy is linked to the international economy through international trade, foreign direct investment (FDI), tourism, entertainment, and education. The region's goods, services, academic institutions and human capital are in high demand the world over. One could credibly argue that no other region in the U.S. is more connected to the global economy, and that the ties between Southern California and its Asia-Pacific, Latin American and European partners will only strengthen in the coming decades. This makes it essential to monitor the international economy and more specifically, developments affecting Southern California's top trading partners (particularly export markets) and largest sources of FDI. [3]

RECENT DEVELOPMENTS

The key developments of 2014 centered on the euro zone, China, Japan, and the disruption of global energy supplies. The euro zone economy has faced problems of stagnant growth, high debt and elevated unemployment. In response, the European Central Bank (ECB) is engaging in a program of quantitative easing by purchasing sovereign bonds to increase the supply of money and reduce interest rates. This in turn, is expected to weaken the value of the euro relative to the U.S. Dollar, boosting European exports. While the ECB's easing of monetary policy is likely to translate into economic growth for Europe, a strengthening U.S. Dollar may dampen inflation in the U.S. and make American goods more expensive for European consumers thus reducing U.S. exports.

Meanwhile, growth in the Chinese economy slowed to 7.4% in 2014, the lowest rate since 1990. Chinese economic growth is expected to slow further to 6.8% in 2015 as a result of declining business investment and a slow-down in China's housing markets. A similar performance is anticipated through 2016 as China transitions from investment-led growth to an economy that is increasingly driven by—and dependent on—internal consumption.

In Japan, a hike in the sales tax in the second quarter, which was aimed at reducing the country's debt, sent Japan into its third recession in five years. However, the economy rebounded in the fourth quarter of 2014 with an acceleration in consumer spending, exports and corporate investment. Less encouraging, Japan's efforts to tackle deflation may be hurt by falling oil prices, which are continuing to lower producer prices. For the timing being, however, even though forecasts are calling for lower inflation, growth projections for 2015 were significantly revised upwards.

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

OUTLOOK FOR 2014-2015

China, Japan, South Korea and Taiwan are Southern California's top four trading partners, representing more than 75% of total container volume through the ports of Los Angeles and Long Beach. China alone represents nearly 60% of two-way trade flows. Adding in the ASEAN-5 nations (Thailand, Vietnam, Indonesia, Malaysia and the Philippines), roughly 90% of all trade that takes place at the San Pedro Bay ports results from nine countries. These nations are also among the Los Angeles metropolitan area's top export markets and the largest sources of FDI into Los Angeles County. Canada and Mexico are also closely connected to the Southern California economy. They are the region's top export markets and Canada ranks as the fifth leading source of FDI.

China: China is the Los Angeles Customs District's (LACD) largest trading partner and the Los Angeles metropolitan area's third biggest export market. China is also one of the leading sources of FDI into Los Angeles County. Chinese investment has doubled over the past five years and shows no sign of slowing. On the export side, Chinese tourism has nearly quadrupled over the past four years making China the top overseas market for visitors to Los Angeles County. China's economic rise has been a boon for Southern California's exporters, while the inflow of billions of investment dollars has facilitated the creation of thousands of new jobs in the region.

The pace of Chinese economic growth slowed to 7.4% in 2014, low by recent standards, but still significant for an emerging market with a $10 trillion economy. China's GDP is projected to decelerate to 6.8% in 2015 and 6.3% in 2016.[4] As the Chinese government relies less on growth from capital expenditures and more on increased domestic consumption, the pace of economic growth will moderate. Concerns over deflation have prompted interest rate cuts and a series of stimulus measures. The Chinese central bank is likely to keep using monetary policy tools to stabilize growth and prevent deflation. While sluggish economic growth may dampen short-term trade prospects in the Los Angeles area, one could argue that in the long-term, as China transitions to consumption-led growth, rising incomes and stronger purchasing power will increase Chinese demand for U.S. goods and services, which will benefit the Los Angeles economy.

Japan: Japan is Los Angeles County's leading source of foreign direct investment. It is also the LACD's second largest trading partner and the Los Angeles metropolitan area's fourth most important export market. The Japanese economy contracted in the second and third quarters of 2014 in response to the sales tax increase that went into effect in April. A rebound in consumer spending in the fourth quarter led to upward revisions of GDP forecasts to 2.1% in FY 2015 and 1.6% in FY 2016 (Bank of Japan).

The economic policies of Prime Minister Shinzo Abe, known as Abenomics, are based on "three arrows" that consist of flexible government spending, monetary easing, and structural reforms. Fiscal policy is focused on tax breaks to companies that increase wages and make capital investments. Expansionary monetary policy was effective in bringing inflation back to Japan. It also weakened the yen, making Japanese exports

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[4] International Monetary Fund, *World Economic Outlook*

more competitive. Japan's structural reforms are broad in scope, and are engineered to counter sluggish growth, demographic challenges such as Japan's aging population, and an increasingly competitive China. Reform plans include a flexible health care system, reducing the corporate tax burden, making government pension funds more efficient, deregulating the agricultural sector, and encouraging the participation of women in the workforce.

On the one hand, lower oil prices should bring relief to Japanese consumers and contribute significantly to economic growth, but lower prices will also complicate efforts by the Bank of Japan to generate and sustain a two percent inflation rate.

Mexico: Mexico is the Los Angeles metropolitan area's second largest export market and one of Los Angeles County's largest sources of FDI. The value of two-way trade between Mexico and the LACD increased by 6.4% in 2014 to $2.8 billion. Like Canada, Mexico depends heavily on U.S. demand – nearly 80% of Mexican manufactured goods end up in the U.S. Mexico achieved record high industrial production and export volumes in 2014, with 82% of automobiles produced in Mexico exported to American consumers. This has contributed to a year defined by strong growth in exports and investment in the private sector. In the public sector, however, increased government spending and falling oil prices (Mexico's budget is highly dependent on oil revenues) contributed to a widening of the budget deficit.

The Mexican economy should continue to recover, expanding by 3.2% this year and by 3.5% in 2016. A weaker peso and a stronger U.S. economy will help boost Mexican exports. However, weak domestic demand and planned cuts to government spending may impede some of that growth.

Canada: Canada is the Los Angeles metropolitan area's largest export market and Los Angeles County's fifth largest source of foreign direct investment. Canada's economy is heavily dependent upon exports. Roughly 75% to 80% of Canadian exports ship to the U.S., a large part of which is motor vehicles and related parts. As such, the Canadian economy benefitted from robust U.S. auto sales last year, expanding by 2.4%.

The biggest threat to Canada's economy moving forward is the decline in the price of crude oil, the country's largest export, which could result in tightened business investment spending and hamper Canada's efforts to transition to an economy driven more by business investment and non-petroleum exports. A weaker Canadian Dollar, stronger U.S. GDP growth and a stronger global economy will help Canada expand by 2.3% in 2015 and by 2.1% in 2016.

South Korea: Despite a slow fourth quarter resulting from sluggish trade and anemic business spending, the Korean economy generated a growth rate of 3.7% in 2014. Korea's three main growth engines (exports, corporate investment, and domestic demand) declined due to slowing growth in China and a recession in Japan, its top two trading partners. Falling energy prices may alleviate inadequate consumer spending and increasing household debt, but may also have a negative impact on exporters. The South Korean economic outlook for 2015 and 2016 will largely depend upon energy prices and the global economic environment, especially developments in China, Europe, Japan and the U.S., all of which are significant destinations for Korean exports.

Taiwan: Taiwan is the LACD's fifth largest trading partner. Two-way trade increased by 6.4% to $7.6 billion in 2014. Taiwan is also one of Los Angeles County's top 10 sources of FDI. Similar to South Korea, Taiwan relies on external demand, with 70% to 75% of Taiwan's GDP tied to exports, mainly to China. Taiwan is more interconnected to the Chinese economy than any other nation in the world. The slowdown in China has dampened growth in Taiwan over the past two years, but GDP still grew by 3.5% last year. Stronger U.S. demand along with a weaker Taiwanese Dollar has helped the Taiwan economy. This trend should continue as the country steadily expands by 3.8% this year and 4.2% in 2016.

RISKS FOR 2014-2015 AND CONCLUSIONS

The story of the year in 2014 was the precipitous decline of oil prices as a result of surging production, especially in North America, coupled with weaker demand in the emerging markets. Lower oil prices have conflicting implications for global growth. While cheaper fuel is a boon to U.S. consumers and should help U.S. GDP growth, it poses a risk to economies such as the euro zone and Japan, where falling oil prices have raised concerns over deflation and accompanying cuts to business investment and spending. Furthermore, it poses a challenge to governments whose budgets rely heavily on oil exports, such as Canada, Mexico and Russia. Still, low oil prices should be a net positive for advanced economies and should generally boost global demand. World output is expected to increase by 3.5% in 2015 and 3.7% in 2016.

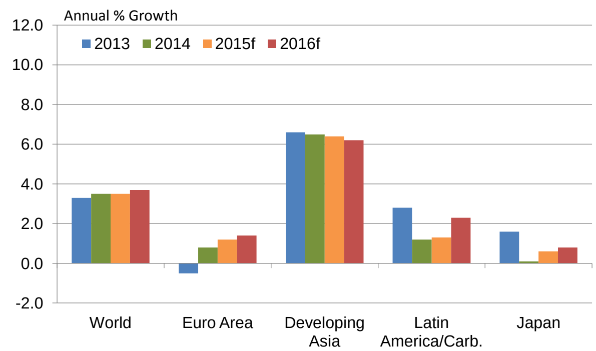
The ongoing conflict in Ukraine could be the biggest geopolitical threat to the global economy. Germany, the euro zone's largest economy, is closely linked to Russia through strong trade and investment ties, and can ill-afford the added stress as it copes with slower growth in its own economy. Western Europe is very reliant upon Russian energy sources as a key input for production and for heating oil in the winter. Any disruption of Russian energy imports can potentially push the euro zone into another recession. The conflict in Ukraine, falling oil prices, economic sanctions and a depreciating ruble will dampen growth prospects for the Eastern European region.

Another significant risk to global growth is the conflict related to the Islamic State. The threat of terrorist attacks could destabilize the entire Middle East and lead to a spike in oil prices, a development that could jeopardize global growth.

With China's economy losing steam, there are concerns over the regional effects on emerging Asia, with regional growth forecasts slowing to 6.4% in 2015 and 6.2% in 2016. The Association of Southeast Asian Nations (ASEAN-5) should see their economies collectively expand by 5.2% and 5.3% over the next two years. This has important implications for the Los Angeles economy, as all five countries are among its top 15 trading partners.

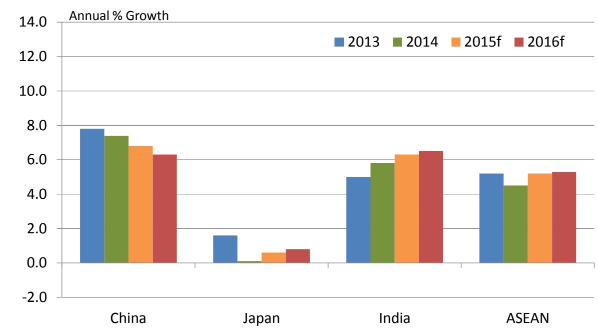
Global Economic Snapshot

Global Economic Outlook



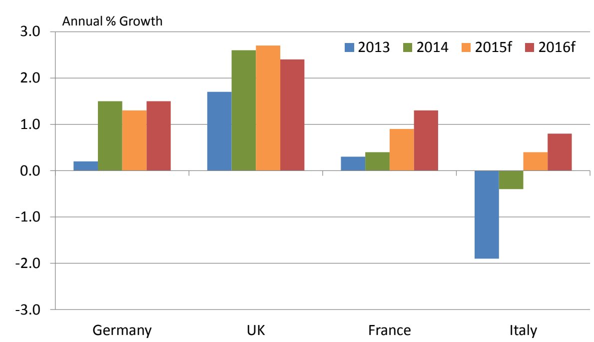
Source: IMF World Economic Outlook, January 2015 Update

Asian Economic Outlook



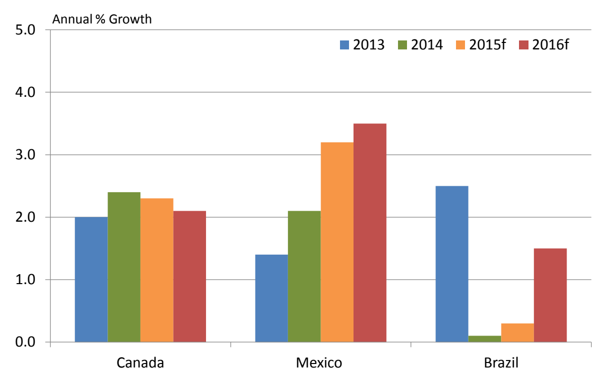
Source: IMF World Economic Outlook, January 2015 Update

European Economic Outlook



Source: IMF World Economic Outlook, January 2015 Update

Americas Economic Outlook



Source: IMF World Economic Outlook, January 2015Update

FOREIGN EXCHANGE RATES

In 2013, the U.S. Dollar strengthened against the currencies of all but four major nations. That trend not only continued last year, but intensified as the U.S. Dollar gained value relative to the Canadian Dollar, the Chinese Yuan, the euro, the Japanese Yen, the Mexican Peso and even the British Pound. The only major currency against which the U.S. Dollar lost value was the South Korean Won.

Last year marked a turning point for the dollar-yuan exchange rate. After losing value relative to the Chinese Yuan from 2005 through 2013, the U.S. Dollar gained value against China's currency last year. The U.S. Dollar also appreciated relative to the pound and the Canadian Dollar at a significantly faster rate in 2014 than the year prior. However, the loss in value of the Japanese Yen against the U.S. Dollar slowed significantly last year, losing 8.3% in 2014 versus 22.3% of its value relative to the U.S. Dollar in 2013.

The dollar's almost-across-the-board strengthening against other currencies could be a cause of concern for American exporters, who will find their products are increasingly expensive for buyers in almost every major export market, most notably Europe, Japan and China. U.S. exporters will also have a wary eye on the Fed's efforts to normalize short-term interest rates, as increases in U.S. interest rates will also lend strength to the dollar and make U.S. exports more expensive.

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

Country (Currency)*	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Broad Currency Basket (index)	119.27	113.76	110.84	108.70	103.58	99.88	105.67	101.82	97.15	99.81	100.98	104.15
Canada (US$/C$)	1.401	1.302	1.216	1.134	1.073	1.066	1.141	1.030	0.989	1.000	1.030	1.104
China (US$/yuan)	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77	6.46	6.31	6.15	6.16
Euro Zone (US$/€)**	1.132	1.244	1.245	1.256	1.371	1.473	1.394	1.326	1.393	1.286	1.328	1.330
Japan (US$/¥)	115.9	108.2	110.1	116.3	117.8	103.4	93.7	87.8	79.7	79.8	97.6	105.7
Mexico (US$/peso)	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62	12.43	13.15	12.76	13.30
South Korea (US$/₩)	1192	1145	1024	954	929	1099	1275	1156	1107	1126	1095	1052
United Kingdom (US$/£)**	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545	1.604	1.585	1.564	1.648

Percent Change***	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Broad currency basket (index)	-6.0%	-4.6%	-2.6%	-1.9%	-4.7%	-3.6%	5.8%	-3.6%	-4.6%	2.7%	1.2%	3.1%
Canada (C$)	-10.9%	-7.1%	-6.6%	-6.7%	-5.3%	-0.7%	7.1%	-9.8%	-4.0%	1.1%	3.1%	7.2%
China (yuan)	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%	-4.5%	-2.4%	-2.6%	0.2%
Euro Zone (€)	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%	-5.1%	7.7%	-3.3%	0.1%
Japan (¥)	-7.4%	-6.7%	1.8%	5.6%	1.2%	-12.2%	-9.4%	-6.3%	-9.2%	0.2%	22.3%	8.3%
Mexico (peso)	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.1%	-6.5%	-1.6%	5.8%	-3.0%	4.3%
South Korea (₩)	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.3%	-4.2%	1.7%	-2.8%	-3.9%
United Kingdom (£)	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%	-3.8%	1.2%	1.3%	5.4%

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 has a large and fast-growing economy. The state accounts for over 13% of U.S. GDP, by far the largest of any state. California's gross product grew by an estimated 3.3% in 2014, outpacing the national growth rate of 2.4%.

California is a national leader in the technology, aerospace and life sciences industries as well as entertainment, tourism and agriculture. In recent years, California firms have attracted venture capital funding that has equaled or exceeded the amount received by firms in the other 49 states combined.[5] Since 2012, the state has added jobs at a faster rate than the nation as a whole and in June 2014, recovered all the wage and salary jobs that were lost during the recession - just one month behind the nation. California's unemployment rate is still elevated but it has fallen steadily over the past three years and is presently below its average long-run annual rate.

> ***In 2014, California's economy outperformed the nation: gross state product grew at a rate of 3.3% versus the national rate of 2.4%.***

The eight largest metro areas in California accounted for 12.3 million of the 15.5 million wage and salary jobs in 2014. Among the major metro areas, Los Angeles County added the largest number of jobs in absolute terms (78,700 of the state's 336,000 new jobs). However, the Silicon Valley (San Jose MSA) generated jobs at the fastest pace (over 3.7%), followed by the San Francisco Bay area (3.3%). With 34% of the population, the Los Angeles-Orange County region produces about 36% of California's economic output, while the Bay Area with just 17% of the population produces 25% of the state's economic output. This is mostly due to the region's high value technology sector.

Within Southern California, the Inland Empire (Riverside County-San Bernardino County) and San Diego County experienced the fastest rates of growth, both at 2.6% followed by Orange County at 2.0%. Employment in Los Angeles County expanded at a rate of 1.9%, while in Ventura County, nonfarm employment grew by 1.7%. Apart from the Inland Empire's recent performance, the interior areas of the state have generally recovered from the recession more slowly than the coastal portions of the state.

Nearly every industry sector added jobs in 2014, but the gains were mainly concentrated in just five. Over the past year, more than seventy percent of California's new jobs occurred in: health care and social assistance; leisure and hospitality; administrative, support and waste services; professional, scientific and technical services; and construction. In percentage terms, construction added jobs at the fastest rate (5.6%),

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[5] "*Cal Facts*" Legislative Analyst's Offices, December 2014

followed administrative, support and waste services (5.0%). Information and professional, scientific and technical services both expanded payroll counts by 4.0%. In absolute terms, health care added the largest number of jobs (67,900) with administrative support and waste services second at 48,500 jobs, followed by leisure and hospitality with 46,000 jobs. Only two sectors recorded job declines in 2014: nondurable goods and financial services. The government sector finally saw a modest addition to payrolls in 2014 following four consecutive years of losses.

TRENDS IN MAJOR INDUSTRIES

Aerospace and Technology: California's technology sector consists of a combination of manufacturing and service industries in aerospace, information technology and biomedical technology. The aerospace and technology industries are concentrated in Los Angeles and Orange counties, San Diego County and the San Francisco Bay/Silicon Valley region. Together, these industries make up the core of the state's information, technology and innovation economy. They also receive a majority of the venture capital dollars that flow into California.

Technology employment exceeded 1.1 million workers in 2014 surpassing the previous peak of just over one million reached in 2013. While overall employment is growing, the mix of jobs across industries has changed markedly over the last decade. In 2004, jobs in technology manufacturing and services were about evenly split – about 51% versus 49% -- but by 2014, employment in technology services had grown to over 64% of total sector employment.

During 2014, total technology employment grew by 2.9% (30,000 jobs), matching the annual increase recorded for 2013. Over half of the new jobs came from management, scientific and technical consulting (15,400 jobs) with computer systems and design contributing 8,600 jobs. Smaller increases occurred elsewhere except for aerospace product and parts manufacturing, which lost 1,800 jobs in 2014. Similar trends are anticipated in the foreseeable future, with the largest gains occurring in technology services and technology manufacturing flat or down marginally.

Agriculture: California is the nation's leading producer of fruits, vegetables and nuts. The state's highest value commodities are milk, grapes, almonds and nursery plants. Agricultural and related products are also one of California's largest exports to the rest of the world. Industry employment in 2014 averaged 411,300 workers or about 2.6% of total civilian employment in the state, virtually unchanged from 2013. Agriculture accounted for about 1.4% of gross state product in 2014.

California's 80,500 farms and ranches generated cash receipts of $43.7 billion (in real terms) in 2013, up by 2.4% compared with 2012 and a new record high. Crop receipts rose by 2.7% to $31.5 billion, while livestock receipts increased by 2.7% to $12.0 billion. California was the number one state in cash farm receipts in 2013 with 10.4% of the total for the U.S. In 2013, California also ranked first among the 50 states in terms of net real farm income at $12.5 billion.

Last year, California's agricultural industry endured the third driest year on record. A UC Davis study[6] estimated the drought could cost California $2.2 billion in lost output through 2016. Direct costs to agriculture were projected to run as high as $1.5 billion with the Central Valley watershed taking the hardest hit. The report also estimated that as many as 17,000 jobs could be lost. While agricultural output is a relatively small share of California's gross product, water shortages are already causing hardship in many farm communities and sectors that support farming or process farm products. In addition to the economic costs to California, the drought could affect food supplies and prices nationally.

Health Care: The health care and social assistance industry in California has been a reliable source of employment growth for a number of years, continuing to add jobs even during the recession. With just over two million workers, the industry accounts for slightly more than 13% of the state's wage and salary jobs making it the largest of the major industry sectors. During 2014, health care added nearly 68,000 jobs, an annual growth rate of 3.5%.

Within the broadly defined industry, the largest job gains in 2014 occurred in individual and family services, with an increase of 29,000 jobs (up by 5.7%). Doctors' and dentists' offices added 13,100 jobs (3.4%) and outpatient facilities contributed another 7,700 jobs (6.9%). Employment in hospitals was down marginally while nursing homes employment rose slightly.

> ***In 2015, health care industry employment in California is expected to increase by 3.1% to nearly 2.1 million jobs across a range of skill and income levels.***

In 2015, health care industry employment is expected to increase by 3.1% to nearly 2.1 million jobs across a range of skill and income levels. Among the 50 occupations in California that are projected to have the most annual job openings (2012-2022),[7] personal care aides ranked at the top with 228,000 annual job openings. Also in the top 50 were registered nurses, nursing assistants and medical assistants. While the number of job openings in these occupations is impressive, with the exception of registered nurses, these are also relatively low paying jobs. A separate review of the 50 *fastest* growing occupations in California shows that 14 are in the health care sector. This group includes several high skill/high wage occupations such as health care social workers, pharmacists and diagnostic medical sonographers.

In the long-term, the health care industry must respond to the state's growing population, a larger share of older residents and increased longevity due to better diet and health

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[6] "*Economic Analysis of the 2014 Drought for California Agriculture*". Howitt, R. et al, UC Davis (July 2014)

[7] California Employment Development Department, LMID

care. As with the nation, the challenge for the state will be to manage the ongoing costs associated with these developments and expanded access to health care.

International Trade: The international trade sector is a significant part of California's economy and a vital link in the nation's trade network. The majority of the nation's goods trade is highly concentrated in corridors between the largest metropolitan areas.[8] The Los Angeles-Riverside and San Francisco-San Jose trade corridors are among the largest in the U.S. Likewise, eight of the nation's 25 most valuable international trade corridors are in California.[9]

Statewide two-way trade hit a record-high of $608 billion in 2014 and is expected to increase to $616 billion by the end of 2015 with additional gains anticipated in 2016. California is the second largest goods exporting state in the country (just behind Texas, which is heavily dependent on energy-related exports). California's largest exports are computer products, transportation equipment (mainly aerospace-related), machinery, agricultural products and chemicals (pharmaceuticals). Imports outweigh exports by a two-to-one margin.

Global trade is expected to contract in 2015 in both nominal and possibly real terms as well. The nominal value of trade measured in U.S. Dollars will shrink because of the appreciation of the U.S. Dollar, and because of declines in the price of oil and other raw materials. In real terms, world trade growth in recent years has been weak due to subpar global demand and the lack of progress in international trade negotiations. Slower growth in China, the euro zone and elsewhere have not yet had much of an impact on trade volumes in California, but could begin to weigh more heavily on the state's economy in the future.

Tourism: The multi-billion dollar travel and tourism industry has achieved a prominent position in California's economy. In 2013 (latest figures available), the gross product generated by California's travel industry was $51.6 billion or approximately 2.5% of total state gross product. California also had the largest market share of domestic travel among all 50 states with 10.4% of the total.[10]

Total visitor counts were up by 3.4% on an annual basis in 2014 and are expected to increase by 2.3% in 2015. International visitor counts grew at an even faster pace in 2014, rising by 4.7% over the year. Expenditures by business and leisure travelers to the state totaled $116.6 billion in 2014, an increase of 6.3% compared to 2013. Domestic travelers accounted for $93.9 billion, while international visitors spent $22.7 billion on California's travel-related goods and services. On average, hotel occupancy rates closed

[8] Tomer, Adie and Kane, Joseph; "*Mapping Freight: The Highly Concentrated Nature of Goods Trade in the United States*" Brookings Institute (November 2014)

[9] International trade corridors ranked by value: (1) San Jose to China, (2) Los Angeles to China, (3) Los Angeles to Mexico, (4) San Jose to Mexico, (5) Los Angeles to Canada, (6) San Francisco to China, (7) San Francisco to Canada, and (8) San Francisco to Mexico. (Brookings Institute)

[10] "*California Travel Impacts by County*"; Dean Runyan Associates, VisitCalifornia.com (May 2014)

in on 75% in 2014. Increased demand, lack of new hotel construction and high occupancy rates drove revenue per room growth past 11% last year.[11]

Leisure and hospitality (NAICS 72) jobs account for about 11% of all wage and salary jobs in California. While a significant part of leisure and hospitality activity is associated with tourism, many of these jobs serve the local population more so than the region's tourists. Jobs in this industry include lodging, food services, the performing arts, museums, amusement parks and gambling establishments. Leisure and hospitality employment grew by 2.6% in 2014 to 1.7 million jobs, following a 4.5% gain in 2013. Payrolls grew the fastest at restaurants and bars, which make up over 70% of all leisure and hospitality employment.

> ***Total visitor counts in California were up by 3.4% in 2014 and are expected to increase again in 2015. Expenditures by business and leisure travelers to the state totaled $116.6 billion in 2014, an increase of 6.3% compared with 2013.***

All of California's major tourism markets are expected to see gains in 2015. Improvements in the labor markets, income growth and rising consumer confidence will support higher household spending, which in turn suggests strong near-term growth for the state's travel and tourism industry. In spite of weakness abroad, the growth rate of international visitation will continue to outpace that of domestic visitors.

Construction: Construction activity and employment in 2014 both exhibited welcome and long awaited increases after struggling in the years during and immediately after the recession. New office construction continues to lag because of high vacancy rates, but industrial construction has grown especially in the goods movement and distribution, technology, and energy industries. Nonresidential construction permits increased by 8.7% in 2014 and are expected to increase by 4.3% this year. New home permits which showed a modest gain in 2014 (3.7%) are expected to accelerate this year with an increase of 28.9%.

Construction employment saw substantial gains in 2014, growing by 5.6% and adding 35,700 jobs. These gains have only begun to offset the loss of 373,900 jobs or 40% of total construction employment from a 2006 peak of 933,700 to a low of 559,800 in 2010. Construction employment is expected to grow by 5.6% again this year with a 6.3% gain projected for 2016. Already, shortages of workers in some of the more skilled construction trades are being reported including equipment operators, carpenters, project managers and supervisors. Many former construction workers have turned to other occupations, left the state or exited the workforce altogether. This in turn, is helping drive up wages for some specialty trades.

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[11] "*California Travel & Tourism Outlook*"; Tourism Economics, VisitCalifornia.com (Fall 2014)

LOOKING AHEAD

While progress in the national and state economies has boosted confidence, optimism on the part of both consumers and businesses is still tempered by caution. Following a 2.2% increase in 2014, nonfarm jobs are expected to increase by 2.2% again in 2015, slowing slightly to 2.1% in 2016. The unemployment rate will fall from 7.5% in 2014 to 6.7% this year and 6.3% in 2016. With continued improvement in the labor market, both personal income and total taxable sales should increase by four percent this year, accelerating to six percent in 2016.

In addition to improvements in the labor market, California has recently made headway against a number of other problems that have plagued the state for years, if not decades. California's finances have stabilized and after years of deficits, the General Fund closed the 2013-2014 fiscal year with a cash surplus. In the area of water policy, significant reforms were enacted to improve the sustainable management of the state's ground water resources. At the same time some seemingly intractable problems persist. The unfunded liability of state retiree health care costs grew to $71.8 billion last year, critical infrastructure projects continue to be deferred and there is a severe shortage of affordable housing, particularly in the metro areas that are experiencing the fastest rates of job growth.

Based on a number of indicators California's economy is booming. Many regions in the state are close to regaining all of the jobs lost during the recession. Expanding the gains to a larger share of the population is the next big step. Meeting this challenge will require attracting skilled workers to the state, increasing college enrollment and completion rates, upgrading the state's physical infrastructure and careful management of the state's finances and water resources.

GROSS PRODUCT COMPARISONS

California has a diversified and innovative economy that ranks as one of the largest in the world. If Southern California and Los Angeles County were nations on their own, they would also rank among the world's 25 leading economies. Contributing to the strength of the economies of California and Southern California are strong and well developed technology, manufacturing, entertainment and tourism sectors. Also underlying their success is openness to international trade, particularly in Southern California, which in addition to being one of the nation's largest consumer markets, serves as the primary conduit for trade and travel between the U.S. and Asia.

With an estimated gross state product of $2.3 trillion in 2014, California had the seventh largest economy in the world, coming in just behind France and the United Kingdom. California ranked eighth in 2013 and tenth in 2012. Pushing California up in the ranks is a rate of real economic growth that, in addition to outpacing the United States as a whole (3.3% versus 2.4%), is outperforming many of the world's leading developed and emerging nations including Japan, Germany, Brazil and Australia. At the same time, the rise in value of the U.S. Dollar has played a role in boosting the nominal value of California's output.

The Los Angeles five-county region had an estimated gross product of over $1.0 trillion in 2014 making it the sixteenth largest economy in the world and Los Angeles County earned the twenty-first position on the list with an estimated gross product of nearly $641 billion.

Table 4: Gross Product Comparisons, 2014

(Billions of $US)

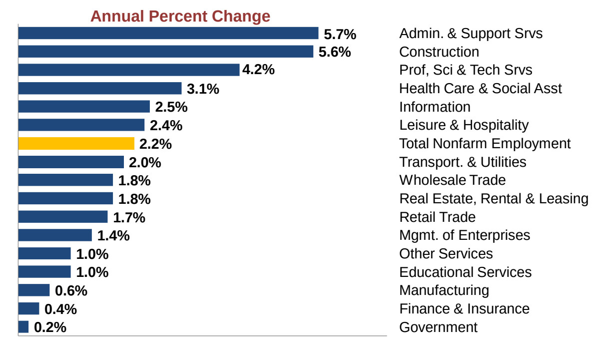
Rank	Country/State/Region	Nominal GDP 2014(e) $US Billions	Nominal 2013-2014 % Change	Real 2013-2014 % Change	Nominal Per Capita Income 2014(e)
1	United States	$17,420.7	3.9%	2.4%	$54,678
2	China	$10,355.4	9.4%	7.4%	$7,572
3	Japan	$4,769.8	-2.6%	0.9%	$37,540
4	Germany	$3,820.5	5.1%	1.4%	$47,201
5	France	$2,902.3	3.4%	0.4%	$45,384
6	United Kingdom	$2,847.6	12.9%	3.2%	$44,141
	California	**$2,311.6**	**4.9%**	**3.3%**	**$50,191**
7	Brazil	$2,244.1	-0.1%	0.3%	$11,067
8	Italy	$2,129.3	2.8%	-0.2%	$35,512
9	Russia	$2,057.3	-1.9%	0.2%	$14,317
10	India	$2,047.8	9.1%	5.6%	$1,626
11	Canada	$1,793.8	-1.8%	2.3%	$50,577
12	Australia	$1,482.5	-1.6%	2.8%	$62,822
13	Korea	$1,449.5	11.1%	3.7%	$28,739
14	Spain	$1,400.5	3.1%	1.3%	$30,113
15	Mexico	$1,295.9	2.8%	2.4%	$10,837
	L.A. 5-County Region	**$1,041.9**	**4.2%**	**2.5%**	**$56,267**
16	Netherlands	$880.4	3.1%	0.6%	$52,249
17	Indonesia	$856.1	-1.6%	5.2%	$3,404
18	Turkey	$813.3	-0.8%	3.0%	$10,518
19	Saudi Arabia	$777.9	3.9%	4.6%	$25,401
20	Switzerland	$679.0	4.4%	1.3%	$84,344
	Los Angeles County	**$640.7**	**4.1%**	**2.4%**	**$48,330**
21	Nigeria	$594.3	13.9%	7.0%	$3,416
22	Sweden	$559.1	0.0%	2.1%	$57,557
23	Poland	$552.2	6.7%	3.2%	$14,330
24	Argentina	$536.2	-12.1%	-1.7%	$12,778
25	Belgium	$527.8	3.8%	1.0%	$47,164

Note: *Figures based on market exchange rates*
Source: *IMF World Economic Outlook (WEO), October 7, 2014*
Bureau of Economic Analysis; Global Insight

California Snapshot

California Employment Growth, 2015

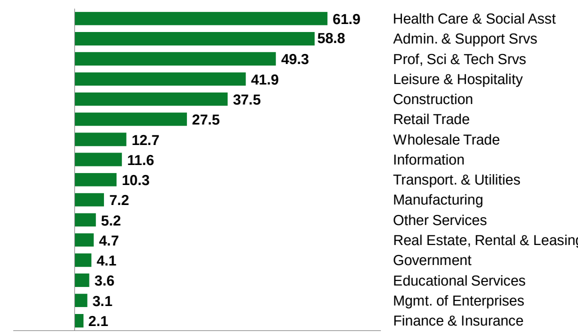
Total nonfarm job growth forecast for 2015, percent change: +2.2%



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

California Employment Growth, 2015

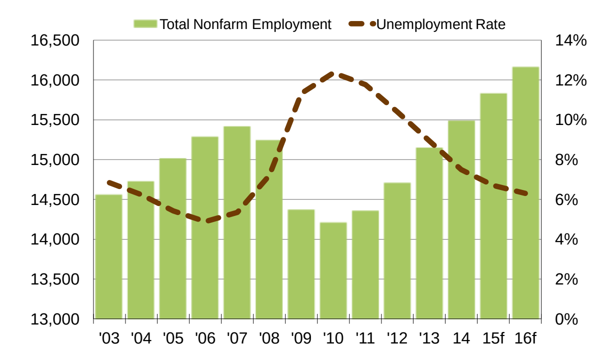
Total nonfarm job growth forecast for 2015 (thousands): +340.7 jobs



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

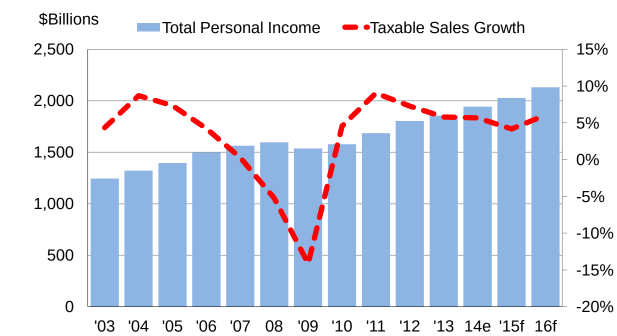
California Employment

Annual average in thousands, 2013 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

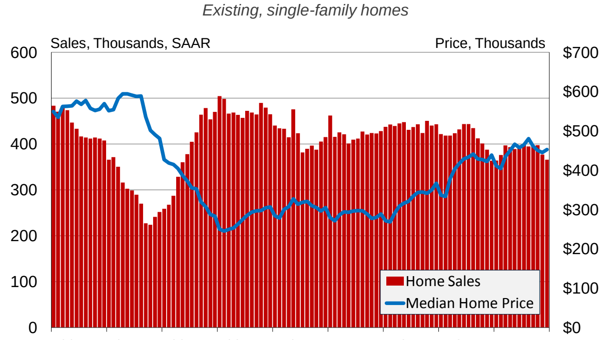
California Personal Income & Taxable Sales Growth



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

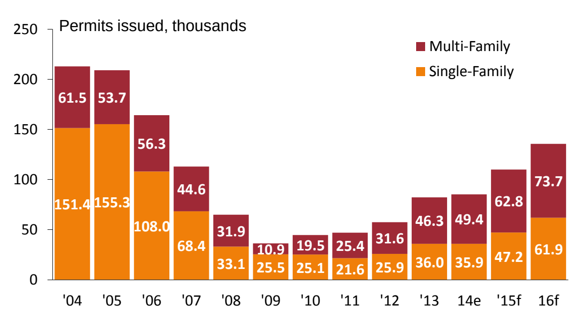
Home Sales & Median Prices California

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 TaxableSales ($Billions)	Value of Two-way Trade ($Billions)	Housing Unit Permits Issued	Nonresidential Buidling Permits ($Millions)
2003	35,388.9	14,558.0	6.8	1,244.5	35,303	460.1	347.8	195,682	18,628
2004	35,752.8	14,723.6	6.2	1,321.8	37,156	500.1	394.3	212,960	19,718
2005	35,985.6	15,012.1	5.4	1,396.0	38,964	536.9	433.1	208,972	21,469
2006	36,246.8	15,284.3	4.9	1,499.3	41,623	559.7	487.6	164,280	23,298
2007	36,552.5	15,410.8	5.4	1,564.3	43,152	561.1	512.9	113,034	23,733
2008	36,856.2	15,240.5	7.2	1,596.2	43,608	531.7	523.3	64,962	19,588
2009	37,077.2	14,371.5	11.3	1,537.1	41,587	456.5	413.3	36,421	10,866
2010	37,309.4	14,210.3	12.4	1,578.6	42,282	477.3	502.6	44,762	11,200
2011	37,570.1	14,358.1	11.8	1,685.6	44,749	520.6	558.5	47,090	12,166
2012	37,867.5	14,706.3	10.4	1,805.2	47,505	558.4	578.2	57,628	14,815
2013	38,164.0	15,147.4	8.9	1,856.6	48,434	590.8	596.4	82,283	21,792
2014	38,499.4	15,483.5	7.5	1,943.1	50,500	624.4	608.5	85,310	23,686
2015f	38,884.4	15,824.2	6.7	2,028.6	52,200	650.3	615.9	110,000	24,700
2016f	39,273.2	16,156.5	6.3	2,132.7	54,400	689.8	646.2	135,600	27,000
% Change									
03/02	1.3%	-0.2%		4.3%	3.1%	4.3%	6.1%	16.6%	-6.1%
04/03	1.0%	1.1%		6.2%	5.2%	8.7%	13.4%	8.8%	5.9%
05/04	0.7%	2.0%		5.6%	4.9%	7.4%	9.9%	-1.9%	8.9%
06/05	0.7%	1.8%		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%	-1.1%		2.0%	1.1%	-5.2%	2.0%	-42.5%	-17.5%
09/08	0.6%	-5.7%		-3.7%	-4.6%	-14.1%	-21.0%	-43.9%	-44.5%
10/09	0.6%	-1.1%		2.7%	1.7%	4.6%	21.6%	22.9%	3.1%
11/10	0.7%	1.0%		6.8%	5.8%	9.1%	11.1%	5.2%	8.6%
12/11	0.8%	2.4%		7.1%	6.2%	7.3%	3.5%	22.4%	21.8%
13/12	0.8%	3.0%		2.8%	2.0%	5.8%	3.1%	42.8%	47.1%
14/13	0.9%	2.2%		4.7%	4.3%	5.7%	2.0%	3.7%	8.7%
15/14	1.0%	2.2%		4.4%	3.4%	4.2%	1.2%	28.9%	4.3%
16/15	1.0%	2.1%		5.1%	4.2%	6.1%	4.9%	23.3%	9.3%

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 2013 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2003	14,558.0	22.2	796.8	1,544.5	978.5	566.0	647.4	1,588.4	480.6	476.1
2004	14,723.6	22.8	850.4	1,523.4	966.0	557.4	653.0	1,617.8	482.8	482.4
2005	15,012.1	23.6	905.3	1,504.8	959.0	545.7	673.6	1,659.3	487.1	473.6
2006	15,284.3	25.1	933.7	1,490.2	947.6	542.6	700.3	1,680.1	496.1	466.1
2007	15,410.8	26.7	892.6	1,464.4	927.9	536.4	715.3	1,689.9	507.7	471.1
2008	15,240.5	28.7	787.7	1,425.3	899.8	525.6	703.5	1,640.9	504.9	476.1
2009	14,371.5	26.1	623.1	1,281.9	798.9	483.0	645.4	1,522.5	474.5	441.3
2010	14,210.3	26.8	559.8	1,241.9	771.1	470.8	644.0	1,517.7	466.2	429.0
2011	14,358.1	28.8	561.3	1,247.8	778.7	469.1	657.9	1,546.6	474.3	430.6
2012	14,706.3	30.5	589.9	1,252.1	781.4	470.7	675.7	1,572.3	487.3	435.1
2013	15,147.4	30.6	636.2	1,250.9	780.8	470.0	697.4	1,601.4	503.7	450.4
2014	15,483.5	31.4	671.9	1,249.9	787.5	462.4	712.5	1,625.5	514.5	468.2
2015f	15,824.2	30.5	709.4	1,257.1	793.6	463.5	725.2	1,653.0	524.8	479.8
2016f	16,156.5	30.4	754.1	1,265.9	801.5	464.4	742.6	1,680.0	537.0	492.3

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	1,449.3	1,400.1	504.3	2,426.1
2004	618.8	276.4	918.9	231.3	947.8	262.9	1,494.2	1,439.4	503.9	2,397.7
2005	636.6	283.6	970.2	222.1	969.0	272.2	1,530.4	1,475.2	505.5	2,420.2
2006	639.3	288.5	1,026.4	212.6	1,004.4	277.6	1,565.7	1,519.0	507.1	2,452.3
2007	613.1	283.5	1,060.1	207.2	998.9	289.3	1,623.9	1,560.4	512.2	2,494.6
2008	566.0	275.9	1,079.1	207.2	952.5	300.6	1,689.3	1,572.6	511.3	2,518.9
2009	528.1	254.9	1,013.6	197.3	850.2	304.3	1,739.6	1,503.0	486.2	2,479.6
2010	511.9	248.3	1,015.3	195.4	863.0	309.7	1,746.2	1,501.5	484.9	2,448.5
2011	514.8	247.1	1,049.1	199.3	882.5	325.8	1,758.0	1,535.8	493.6	2,404.9
2012	522.7	250.8	1,100.5	205.2	932.6	336.2	1,835.9	1,598.7	504.7	2,376.3
2013	523.9	258.4	1,138.0	216.8	976.1	346.4	1,960.7	1,671.3	515.2	2,370.1
2014	514.4	263.5	1,183.0	224.8	1,024.6	356.3	2,028.6	1,717.3	521.0	2,376.3
2015f	516.5	268.3	1,232.3	227.9	1,083.4	359.8	2,090.5	1,759.2	526.2	2,380.4
2016f	517.0	275.5	1,283.2	228.8	1,146.4	359.5	2,149.0	1,780.3	524.6	2,389.9

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 2013 benchmark

		Northern California			Central California				Southern California				
\ MSA	State of California	Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Los Angeles	Orange	Riverside-San Bernardino	San Diego	Ventura
1990	12,538.8	882.8	949.5	824.9	171.4	226.9	117.9	620.9	4,148.4	1,173.7	715.7	969.8	230.5
1991	12,406.5	883.7	942.5	816.2	178.1	229.9	118.2	634.0	3,997.8	1,145.2	722.8	966.8	230.7
1992	12,208.8	874.7	918.1	802.7	174.3	233.3	120.5	626.8	3,822.1	1,127.7	733.9	952.5	227.0
1993	12,097.2	877.8	912.0	807.7	170.8	236.6	122.1	629.3	3,724.7	1,116.9	737.8	951.2	227.4
1994	12,215.2	882.0	907.5	811.2	171.9	240.1	122.8	647.7	3,721.2	1,128.3	755.5	959.2	233.8
1995	12,481.1	902.2	920.3	843.8	174.0	246.6	124.7	666.9	3,768.1	1,153.1	784.2	982.1	237.8
1996	12,810.0	921.8	952.4	892.9	176.2	250.3	128.6	686.0	3,814.1	1,185.6	807.8	1,009.6	238.4
1997	13,207.8	953.8	988.6	940.9	180.7	253.9	132.6	707.0	3,896.6	1,235.2	846.3	1,057.9	243.3
1998	13,695.2	981.9	1,023.0	971.1	186.0	258.7	138.5	737.4	3,985.3	1,300.7	888.2	1,109.8	253.0
1999	14,101.6	1,014.6	1,051.8	986.7	190.6	267.7	143.1	776.5	4,048.6	1,346.8	945.5	1,157.5	264.3
2000	14,590.4	1,050.0	1,089.8	1,045.6	195.7	275.5	145.3	801.9	4,116.5	1,390.2	993.7	1,197.6	275.6
2001	14,716.6	1,060.5	1,061.2	1,019.4	203.9	281.0	151.1	824.3	4,125.4	1,415.4	1,036.4	1,222.8	280.5
2002	14,591.0	1,046.3	995.2	919.4	207.0	287.8	152.2	839.1	4,086.1	1,406.1	1,072.5	1,235.7	282.5
2003	14,558.0	1,034.4	960.9	873.8	209.3	289.1	154.2	855.4	4,054.2	1,432.5	1,109.6	1,247.3	285.0
2004	14,723.6	1,033.6	951.6	867.6	214.1	294.5	156.8	870.0	4,077.3	1,461.3	1,173.0	1,268.6	287.0
2005	15,012.1	1,042.2	959.9	876.5	224.8	301.9	161.4	892.7	4,118.0	1,495.9	1,235.9	1,291.3	292.0
2006	15,284.3	1,055.6	980.2	898.2	236.2	310.1	162.3	911.7	4,192.9	1,524.3	1,282.1	1,311.6	298.8
2007	15,410.8	1,059.2	1,002.1	918.9	241.6	314.1	162.8	916.9	4,227.4	1,521.0	1,286.0	1,319.7	297.8
2008	15,240.5	1,044.6	1,013.6	925.2	241.6	311.3	159.6	897.6	4,183.9	1,489.4	1,242.8	1,311.5	292.4
2009	14,371.5	983.6	963.9	868.2	231.3	295.2	150.2	848.2	3,949.5	1,382.7	1,162.8	1,245.2	276.7
2010	14,210.3	962.9	954.9	865.6	229.3	288.1	149.7	825.5	3,888.4	1,366.0	1,144.2	1,236.4	274.6
2011	14,358.1	970.9	978.7	886.0	235.9	288.8	149.0	823.0	3,909.0	1,381.2	1,147.3	1,246.0	276.3
2012	14,706.3	999.9	1,024.8	921.1	245.1	292.6	152.0	841.8	4,006.9	1,418.1	1,179.2	1,279.2	281.3
2013	15,147.4	1,033.9	1,070.1	961.8	249.9	305.3	156.5	864.4	4,112.6	1,454.2	1,226.4	1,312.0	286.6
2014	15,483.5	1,055.8	1,105.0	997.1	254.7	315.9	159.2	883.0	4,191.3	1,483.5	1,258.2	1,346.0	291.4
2015f	15,824.2	1,083.3	1,138.2	1,021.1	261.9	321.9	161.9	899.8	4,270.9	1,510.2	1,293.5	1,378.3	296.6
2016f	16,156.5	1,104.9	1,162.1	1,040.5	267.6	327.7	164.6	916.9	4,341.4	1,537.6	1,325.9	1,404.1	301.2

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

Table 8: Total Nonfarm Employment in Southern California

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2006	4,192.9	1,524.3	1,282.1	298.8	7,298.1	1,311.6	15,284.3
2007	4,227.4	1,521.0	1,286.0	297.8	7,332.2	1,319.7	15,410.8
2008	4,183.9	1,489.4	1,242.8	292.4	7,208.5	1,311.5	15,240.5
2009	3,949.5	1,382.7	1,162.8	276.7	6,771.7	1,245.2	14,371.5
2010	3,888.4	1,366.0	1,144.2	274.6	6,673.2	1,236.4	14,210.3
2011	3,909.0	1,381.2	1,147.3	276.3	6,713.8	1,246.0	14,358.1
2012	4,006.9	1,418.1	1,179.2	281.3	6,885.5	1,279.2	14,706.3
2013	4,112.6	1,454.2	1,226.4	286.6	7,079.8	1,312.0	15,147.4
2014	4,191.3	1,483.5	1,258.2	291.4	7,224.4	1,346.0	15,483.5
2015f	4,270.9	1,510.2	1,293.5	296.6	7,371.2	1,378.3	15,824.2
2016f	4,341.4	1,537.6	1,325.9	301.2	7,506.1	1,404.1	16,156.5

Numerical Change from Prior Year (in thousands)

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2006	74.9	28.4	46.2	6.8	156.3	20.3	272.2
2007	34.5	-3.3	3.9	-1.0	34.1	8.1	126.5
2008	-43.5	-31.6	-43.2	-5.4	-123.7	-8.2	-170.3
2009	-234.4	-106.7	-80.0	-15.7	-436.8	-66.3	-869.0
2010	-61.1	-16.7	-18.6	-2.1	-98.5	-8.8	-161.2
2011	20.6	15.2	3.1	1.7	40.6	9.6	147.8
2012	97.9	36.9	31.9	5.0	171.7	33.2	348.2
2013	105.7	36.1	47.2	5.3	194.3	32.8	441.1
2014	78.7	29.3	31.8	4.8	144.6	34.0	336.1
2015f	79.6	26.7	35.3	5.2	146.8	32.3	340.7
2016f	70.5	27.4	32.4	4.6	134.9	25.8	332.3

% 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	1.8%	1.9%	3.7%	2.3%	2.2%	1.6%	1.8%
2007	0.8%	-0.2%	0.3%	-0.3%	0.5%	0.6%	0.8%
2008	-1.0%	-2.1%	-3.4%	-1.8%	-1.7%	-0.6%	-1.1%
2009	-5.6%	-7.2%	-6.4%	-5.4%	-6.1%	-5.1%	-5.7%
2010	-1.5%	-1.2%	-1.6%	-0.8%	-1.5%	-0.7%	-1.1%
2011	0.5%	1.1%	0.3%	0.6%	0.6%	0.8%	1.0%
2012	2.5%	2.7%	2.8%	1.8%	2.6%	2.7%	2.4%
2013	2.6%	2.5%	4.0%	1.9%	2.8%	2.6%	3.0%
2014	1.9%	2.0%	2.6%	1.7%	2.0%	2.6%	2.2%
2015f	1.9%	1.8%	2.8%	1.8%	2.0%	2.4%	2.2%
2016f	1.7%	1.8%	2.5%	1.6%	1.8%	1.9%	2.1%

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

Table 9: California Technology Employment

Annual averages, thousands, March 2013 Benchmark, based on NAICS

		|------------------ Manufacturing		-------------------|	|---------------------------		Services		----------------------------|
Year	Total Technology Employment	Electronic Product Manufacturing	Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	Data Processing, Hosting & Related Services	Computer Systems Design & Rel. Services	Management, Scientific & Technical Consulting	Scientific R&D Services
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	932.1	308.2	73.0	44.0	41.3	20.9	187.2	151.3	106.2
2007	950.3	304.1	72.8	44.2	43.0	20.7	198.9	159.0	107.6
2008	970.7	300.0	73.7	43.6	44.9	20.4	205.2	166.8	116.1
2009	924.4	278.6	72.4	43.5	45.0	19.3	194.6	156.1	114.9
2010	930.4	271.8	73.1	43.4	45.0	18.6	199.7	160.5	118.3
2011	960.1	275.2	71.5	43.3	48.3	18.8	212.6	169.7	120.7
2012	999.7	270.0	71.1	44.4	51.9	21.0	228.2	187.5	125.6
2013	1029.1	263.0	71.9	45.4	53.5	23.6	241.8	201.7	128.3
2014	1059.0	263.6	70.2	45.6	53.9	25.4	250.4	217.1	132.9

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	8,860.3	---	2,412.0	---	2,620.4	---	669.1	---	14,561.8	---	29,828.5	---
1991	8,955.3	1.1%	2,458.8	1.9%	2,751.3	5.0%	676.9	1.2%	14,842.4	1.9%	30,548.6	2.4%
1992	9,060.2	1.2%	2,511.8	2.2%	2,832.9	3.0%	686.3	1.4%	15,091.2	1.7%	30,987.4	1.4%
1993	9,083.7	0.3%	2,550.4	1.5%	2,885.0	1.8%	693.8	1.1%	15,212.9	0.8%	31,314.2	1.1%
1994	9,106.5	0.3%	2,575.7	1.0%	2,919.9	1.2%	700.6	1.0%	15,302.7	0.6%	31,523.7	0.7%
1995	9,101.1	-0.1%	2,604.5	1.1%	2,959.6	1.4%	705.1	0.6%	15,370.3	0.4%	31,711.8	0.6%
1996	9,108.1	0.1%	2,646.1	1.6%	3,006.6	1.6%	710.5	0.8%	15,471.2	0.7%	31,962.9	0.8%
1997	9,185.6	0.9%	2,699.6	2.0%	3,062.6	1.9%	721.7	1.6%	15,669.4	1.3%	32,452.8	1.5%
1998	9,265.8	0.9%	2,749.6	1.9%	3,117.1	1.8%	729.1	1.0%	15,861.6	1.2%	32,863.0	1.3%
1999	9,394.3	1.4%	2,802.8	1.9%	3,198.4	2.6%	742.8	1.9%	16,138.4	1.7%	33,418.6	1.7%
2000	9,544.0	1.6%	2,853.9	1.8%	3,276.5	2.4%	756.9	1.9%	16,431.3	1.8%	34,000.8	1.7%
2001	9,635.8	1.0%	2,889.9	1.3%	3,386.2	3.3%	769.0	1.6%	16,680.9	1.5%	34,512.7	1.5%
2002	9,722.4	0.9%	2,914.4	0.8%	3,489.2	3.0%	779.9	1.4%	16,906.0	1.3%	34,938.3	1.2%
2003	9,791.0	0.7%	2,939.7	0.9%	3,622.5	3.8%	789.4	1.2%	17,142.6	1.4%	35,388.9	1.3%
2004	9,822.5	0.3%	2,956.5	0.6%	3,757.1	3.7%	795.0	0.7%	17,331.1	1.1%	35,752.8	1.0%
2005	9,809.6	-0.1%	2,957.2	0.0%	3,877.5	3.2%	796.9	0.2%	17,441.1	0.6%	35,985.6	0.7%
2006	9,787.3	-0.2%	2,955.4	-0.1%	3,994.1	3.0%	801.2	0.5%	17,538.1	0.6%	36,246.8	0.7%
2007	9,773.9	-0.1%	2,965.8	0.4%	4,085.3	2.3%	805.9	0.6%	17,630.9	0.5%	36,552.5	0.8%
2008	9,796.8	0.2%	2,982.8	0.6%	4,139.4	1.3%	812.0	0.8%	17,731.0	0.6%	36,856.2	0.8%
2009	9,805.2	0.1%	2,998.8	0.5%	4,180.7	1.0%	818.5	0.8%	17,803.3	0.4%	37,077.2	0.6%
2010	9,825.2	0.2%	3,017.2	0.6%	4,230.4	1.2%	825.1	0.8%	17,898.0	0.5%	37,309.4	0.6%
2011	9,862.4	0.4%	3,046.5	1.0%	4,273.3	1.0%	830.1	0.6%	18,012.4	0.6%	37,570.1	0.7%
2012	9,946.9	0.9%	3,073.5	0.9%	4,312.9	0.9%	833.4	0.4%	18,166.8	0.9%	37,867.5	0.8%
2013	10,013.3	0.7%	3,099.5	0.8%	4,338.6	0.6%	839.3	0.7%	18,290.6	0.7%	38,164.0	0.8%
2014p	10,069.0	0.6%	3,132.7	1.1%	4,386.9	1.1%	844.3	0.6%	18,432.9	0.8%	38,499.4	0.9%
2015f	10,117.4	0.5%	3,157.7	0.8%	4,438.2	1.2%	849.8	0.7%	18,563.1	0.7%	38,884.4	0.9%
2016f	10,156.6	0.4%	3,179.8	0.7%	4,511.6	1.7%	855.7	0.7%	18,703.7	0.8%	39,273.2	0.9%

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							
2010	21.8	135.6	56.8	78.8	-57.0	34.9	-91.9
2011	38.8	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
2014	55.7	126.5	61.1	65.4	-9.6	50.2	-59.8
Orange County							
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
2014	33.2	38.5	19.2	19.2	14.0	14.2	-0.2
Riverside County							
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
2014	30.7	30.6	15.3	15.3	15.4	5.6	9.8
San Bernardino County							
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
2014	17.5	30.9	13.2	17.6	-0.1	5.3	-5.4
San Diego County							
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	3.6	15.9	-12.4
2014	35.5	45.2	21.1	24.1	11.4	12.5	-1.0
Ventura County							
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
2014	5.0	10.3	5.6	4.6	0.3	2.1	-1.8
State of California							
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
2014	335.4	496.6	253.6	242.9	92.4	151.1	-58.6

Source: California Department of Finance, Demographic Research Unit

LOS ANGELES COUNTY

INTRODUCTION

With a population of over 10 million, Los Angeles County has more residents than 43 states. The county covers 4,084 square miles and includes 88 cities, the largest being the City of Los Angeles. If it were a nation, it would be the twenty-first largest economy in the world. The economy of Los Angeles County is enormous and complex. In addition to its signature industries – entertainment, international trade, and tourism – Los Angeles is also an important center of manufacturing and innovation.

The county added 78,700 jobs in 2014, equivalent to a 1.9% annual increase that matched the U.S. as a whole. Most of the county's major industries added jobs last year, and as a result, the unemployment rate fell to 8.2%, the lowest in six years. Los Angeles County should surpass its pre-recession jobs peak by virtue of another 1.9% gain expected this year and continue to add jobs at a 1.7% annual rate in 2016. The unemployment rate should improve to 7.2% this year and 6.6% in 2016.

> ***Nonfarm employment in Los Angeles County will expand by 1.9% in 2015, with the total number of nonfarm jobs hitting 4.27 million and finally surpassing the prerecession peak reached in 2007.***

Total personal income, which increased by just 2.3% in 2013, responded to strength in the broader economy with an estimated 4.7% increase in 2014. Personal income will maintain its trajectory with anticipated 4.6% and 5.0% gains this year and next. Per capita income outpaced the 1.6% increase in 2013 with a 4.0% gain in 2014. It should increase by 4.1% this year and accelerate to 4.6% in 2016. Similarly, local spending, as measured by total taxable sales, rose by an estimated 5.9% last year, and should see continued improvement with increases of 5.2% and 5.5% expected this year and next. This means local governments will see an increase in sales and use tax revenues.

Population growth is expected to slow this year and next, with the rate of growth at approximately 0.5% annually. Most of the recent population growth in Los Angeles County has been the result of natural increase (births outnumbering deaths), while net migration fell last year. The county's high cost of living and lack of affordable housing units for low and middle-income households are contributing to the slowdown in population growth.

Like most other parts of the state, the housing market in Los Angeles County has improved over the last two years. The median price for all homes finished the year in December with median price of $460,000 (a 7.0% year-to-year increase), while sales rose by 3.5% compared to a year earlier. New home construction increased last year (although the gain was less than expected), and is projected to accelerate this year and next, especially in the multi-family and rental sectors. *For a more detailed discussion of the region's housing market, see the Real Estate and Construction section of this report.*

TRENDS IN MAJOR INDUSTRIES[12]

Job gains occurred across most of the county's major industries over the past year, with a handful of industries hitting record high employment levels in 2014. In annual terms, the largest job gains occurred in health care and social assistance (22,800 jobs), followed by administrative, support and waste services (14,300 jobs), and leisure and hospitality (9,700 jobs). The fastest growing sectors in percentage terms were construction (7.0%), administrative, support and waste services (5.6%), and management of companies and enterprises (4.6%). Other industries with noteworthy job gains included professional, scientific and technical services, and information, which includes motion picture and sound recording. Private sector job losses occurred in manufacturing, finance and insurance, and wholesale trade, while the government sector also lost employment.

International Trade: As America's gateway to Asia, international trade plays an important role in the Los Angeles economy. The twin ports had their third-best year in 2014 with throughput of 15.2 million containers. Two-way trade through the Los Angeles Customs District hit a record-setting volume of $416.6 billion in 2014. Transportation and warehousing added 3,600 jobs (up by 2.5%), but wholesale trade employment in the county was flat. Given the economic fundamentals of the U.S. and its trading partners, both container activity and two-way trade have the potential to achieve new record high levels in 2015. Such an outcome depends on timely resolution to the pending labor negotiations and clearing the current backlog of vessels and containers as quickly as possible.

The long-term prospects for international trade are promising. Public and private entities are investing heavily in trade-related infrastructure and important new trade agreements in place or currently being negotiated, have the potential to increase employment in the region and generate new wealth.

Entertainment: The entertainment industry is a cornerstone of the Los Angeles economy. The industry's largest component is the motion picture and sound recording industry, which is a subsector of the major industry, information services. According to FilmL.A. [13] total production activity rose in 2014, with increases in television and commercial production and a decrease in feature film activity. Corresponding to this increase, the county's motion picture and sound recording industry added jobs at more than four times the national rate generating 8,000 jobs (a gain of 6.5%) and achieving the highest annual employment in ten years (130,900 jobs). It remains to be seen how the revamped and expanded California Film Tax Credit might contribute to further increases in industry employment.

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[12] This section features key industries that produce goods or services that are generally exported outside the region, hence generating an inflow of income to the region. See also ***Major Industries of the Southern California Economy*** for trends on other industries in the local economy

[13] See FilmL.A. news release regarding trends in production days and a new measurement, shooting days.

Professional Services and Technology: In terms of employment, the professional services super-sector is the second largest in Los Angeles County with over 616,000 workers in 2014. There are three major industries in this group: professional, scientific and technical services; management of enterprises; and administrative, support and waste services. These industries are among the fastest growing in the county, providing jobs across a wide range of skill and income levels.

Professional, scientific and technical services includes legal, accounting, architecture, computer systems design, consulting, research and advertising. It was the largest subsector in 2014 with 285,500 workers, adding 9,200 jobs, equivalent to a 3.3% growth rate. Management of enterprises, which encompasses corporate headquarters, is smaller at 60,400 jobs, but it experienced a somewhat faster growth rate (4.6% or 2,700 jobs) over the same period.

The largest contribution to jobs last year was the administrative, support and waste services sector, adding 14,300 jobs (5.6%) for a total of 270,600. Much of the growth in this subsector came from employment services (temporary agencies) which accounted for 5,800 of the 14,300 additional jobs last year. The continuing growth of temporary jobs may be due in part to employers who are still reluctant to take on full time employees, but may be part of a longer trend of hiring temporary workers (through employment agencies or as contract workers) to maintain more flexibility and lower costs of operation.

All three components of professional services and technology are expected see significant job gains in 2015 and 2016, both in absolute and in percentage terms.

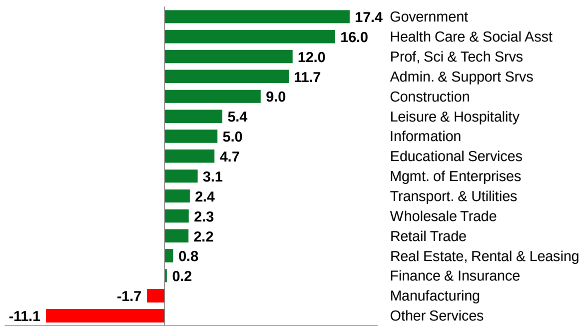
LOOKING AHEAD

Los Angeles County has seen steady improvement over the past three years, both in terms of job gains and decreases in its unemployment rate. A handful of industries have been the source of most job creation over the past year, a pattern that will continue over the next few years. Long-awaited but modest wage increases should factor into the picture as well, as the local labor market tightens. It will be some time before middle-wage job growth catches up with the gains that have been seen among high-wage and low-wage occupations.

Los Angeles County Snapshot

L.A. County Employment Growth, 2015

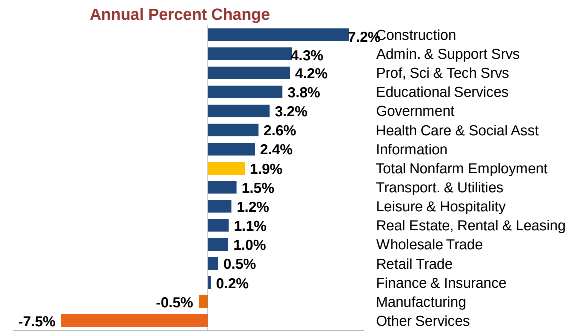
Total nonfarm job growth forecast for 2015 (thousands): +79.5 jobs



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

L.A. County Employment Growth, 2015

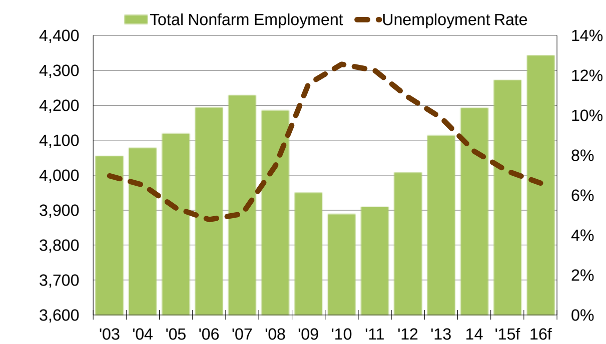
Total nonfarm job growth forecast for 2015, percent change: +1.9%



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

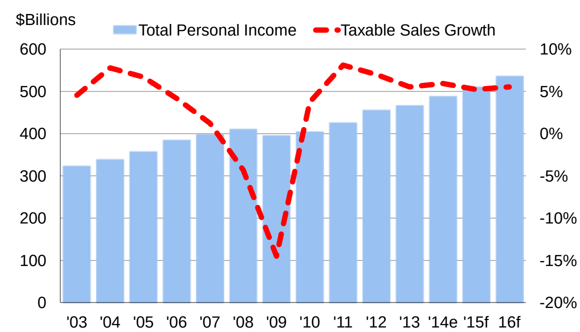
Los Angeles County Employment

Annual average in thousands, 2013 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

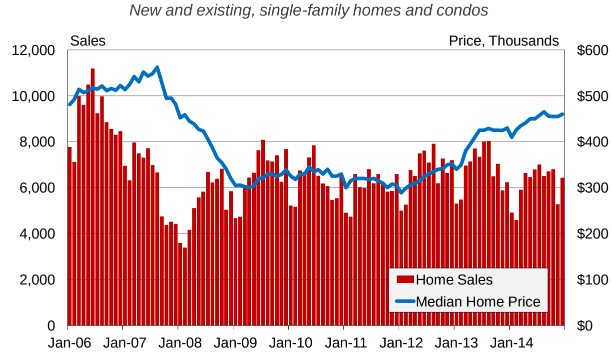
Los Angeles County Personal Income & Taxable Sales Growth



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

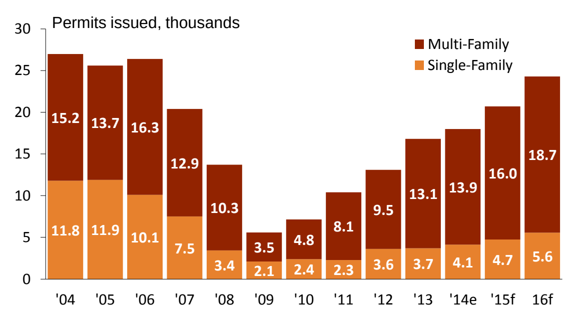
Home Sales & Median Prices Los Angeles County

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 TaxableSales ($Billions)	Value of Two-way Trade ($Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)	Chg. in CPI (%)
2003	9,791.0	4,054.2	7.0	323.7	33,145	113.7	232.9	---	21,313	2,932	2.6
2004	9,822.5	4,077.3	6.5	339.2	34,632	122.5	261.7	---	26,935	3,174	3.3
2005	9,809.6	4,118.0	5.4	357.6	36,540	130.7	291.6	---	25,647	3,824	4.5
2006	9,787.3	4,192.9	4.8	384.7	39,508	136.2	326.4	---	26,348	3,896	4.3
2007	9,773.9	4,227.4	5.1	398.3	41,058	137.8	347.3	35.7	20,363	4,739	3.3
2008	9,796.8	4,183.9	7.5	410.5	42,165	131.9	355.8	36.5	13,704	4,491	3.5
2009	9,805.2	3,949.5	11.6	395.4	40,396	112.7	282.9	34.4	5,653	2,674	-0.8
2010	9,825.2	3,888.4	12.6	404.5	41,163	116.9	346.8	38.5	7,468	2,677	1.2
2011	9,862.4	3,909.0	12.3	425.7	43,062	126.4	386.7	40.4	10,403	3,129	2.7
2012	9,946.9	4,006.9	10.9	455.8	45,800	135.3	403.5	41.4	10,709	1,836	2.0
2013	10,013.3	4,112.6	9.9	466.1	46,530	142.8	414.5	42.2	16,850	4,280	1.1
2014	10,069.0	4,191.3	8.2	487.9	48,400	151.2	416.6	43.2	18,000	6,674	1.3
2015f	10,117.4	4,270.9	7.2	510.5	50,400	159.1	421.6	44.1	20,700	7,200	0.1
2016f	10,156.6	4,341.4	6.6	535.8	52,700	167.9	442.3	45.0	24,300	7,975	2.2

% Change										
03/02	0.7%	-0.8%		3.8%	3.2%	4.5%	9.5%	---	10.1%	0.4%
04/03	0.3%	0.6%		4.8%	4.5%	7.8%	12.4%	---	26.4%	8.3%
05/04	-0.1%	1.0%		5.4%	5.5%	6.7%	11.4%	---	-4.8%	20.5%
06/05	-0.2%	1.8%		7.6%	8.1%	4.2%	11.9%	---	2.7%	1.9%
07/06	-0.1%	0.8%		3.5%	3.9%	1.2%	6.4%	---	-22.7%	21.6%
08/07	0.2%	-1.0%		3.1%	2.7%	-4.3%	2.5%	2.2%	-32.7%	-5.2%
09/08	0.1%	-5.6%		-3.7%	-4.2%	-14.5%	-20.5%	-5.8%	-58.7%	-40.5%
10/09	0.2%	-1.5%		2.3%	1.9%	3.7%	22.6%	11.9%	32.1%	0.1%
11/10	0.4%	0.5%		5.2%	4.6%	8.1%	11.5%	4.9%	39.3%	16.9%
12/11	0.9%	2.5%		7.1%	6.4%	7.0%	4.3%	2.5%	2.9%	-41.3%
13/12	0.7%	2.6%		2.3%	1.6%	5.5%	2.7%	1.9%	57.3%	133.1%
14/13	0.6%	1.9%		4.7%	4.0%	5.9%	0.5%	2.4%	6.8%	55.9%
15/14	0.5%	1.9%		4.6%	4.1%	5.2%	1.2%	2.1%	15.0%	7.9%
16/15	0.4%	1.7%		5.0%	4.6%	5.5%	4.9%	2.0%	17.4%	10.8%

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 2013 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2003	4,054.2	3.8	134.6	502.0	278.3	223.8	212.0	399.3	161.5	202.3
2004	4,077.3	3.8	140.2	485.7	270.0	215.8	213.0	405.4	161.1	211.9
2005	4,118.0	3.7	148.7	473.8	265.6	208.3	217.1	414.4	161.7	207.6
2006	4,192.9	4.0	157.5	463.9	259.5	204.4	223.5	423.3	165.2	205.6
2007	4,227.4	4.4	157.6	449.2	250.9	198.3	227.0	426.0	165.6	209.8
2008	4,183.9	4.4	145.2	434.5	243.2	191.2	223.7	416.5	163.1	210.3
2009	3,949.5	4.1	117.3	389.2	217.6	171.6	204.5	387.0	151.2	191.2
2010	3,888.4	4.1	104.5	373.2	207.0	166.2	203.0	386.4	150.5	191.5
2011	3,909.0	4.0	105.0	366.8	204.1	162.7	205.2	392.9	151.8	191.9
2012	4,006.9	4.3	109.1	367.2	204.2	163.0	211.3	400.9	154.4	191.4
2013	4,112.6	4.6	116.5	366.5	203.9	162.7	217.8	405.9	156.9	197.3
2014	4,191.3	4.8	124.7	354.4	199.8	154.6	217.0	415.6	160.1	205.0
2015f	4,270.8	4.7	133.7	352.7	197.9	154.8	219.3	417.8	162.5	210.0
2016f	4,341.3	4.6	144.7	353.4	197.3	156.1	222.9	422.6	165.9	207.4

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	438.8	362.6	145.5	599.3
2004	163.0	76.7	237.7	71.2	253.6	95.4	454.3	372.8	144.7	587.1
2005	164.3	77.8	250.9	67.6	257.7	97.4	469.6	377.8	144.3	583.7
2006	166.9	79.8	264.0	63.0	271.9	99.4	481.7	388.6	145.2	589.4
2007	163.6	80.3	273.9	58.8	272.7	102.9	495.0	397.9	147.1	595.7
2008	153.9	79.4	269.6	56.7	256.4	105.1	513.9	401.6	146.1	603.7
2009	142.3	73.8	250.2	54.4	225.3	110.1	529.8	385.5	137.9	595.9
2010	137.8	71.7	245.6	53.2	228.7	111.1	526.1	384.8	136.7	579.6
2011	136.8	71.6	255.3	55.3	232.4	114.2	528.8	394.6	136.9	565.5
2012	138.6	72.1	268.2	56.7	245.1	115.7	558.4	415.3	141.6	556.8
2013	137.1	74.7	276.3	57.7	256.3	119.2	594.2	436.7	145.5	549.2
2014	135.5	76.4	285.5	60.4	270.6	122.6	617.0	446.4	147.9	547.4
2015f	135.7	77.2	297.5	63.5	282.2	127.3	633.0	451.8	136.8	564.8
2016f	135.6	77.8	308.3	66.4	292.7	132.0	648.0	457.3	142.2	559.5

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

ORANGE COUNTY

INTRODUCTION

In the 1950s as tract homes began to replace the farms that formed the backbone of Orange County's mid-twentieth century economy, the tourism, manufacturing and services industries moved in. Aided by new freeway construction and the presence of significant military bases, the population swelled; new cities were being incorporated every year. In the latter part of the decade, aerospace and light industry expanded, and as the population neared the one million mark, more jobs became available at hospitals, restaurants and stores. The opening of Disneyland in 1955 made Orange County an international tourist destination.

Facilitating the transformation of Orange County's economy was its success in attracting a highly skilled workforce. Beginning with the establishment of Orange Coast College in 1948 to the opening of UC Irvine in 1965, Orange County is home to highly regarded colleges and universities. Nearly 84% of the adult population in Orange County has a high school diploma and roughly 37% has a bachelor's degree or higher. Quality of life is another attribute in which Orange County ranks high among regions of the U.S.

> ***In 2014, the unemployment rate in Orange County fell to an average annual rate of 5.3%, the lowest in Southern California and the fourth lowest in the state.***

The Orange County economy has been one of the standout performers in California. During the current economic cycle, the unemployment rate in Orange County peaked at 9.5% in 2010, but in 2014 fell to an average annual rate 5.3%, the lowest in Southern California and the fourth lowest in the state. The LAEDC forecasts the unemployment rate will average 4.9% in 2015 and 4.5% in 2016. Still, it will be some time before the unemployment rate in Orange County falls to its prerecession level of about four percent.

At its lowest point in this cycle, Orange County total nonfarm employment fell 6.2% below the peak reached in 2006. In 2014, employment improved but was still 2.7% short of where it was in 2006. The LAEDC forecasts Orange County payrolls will increase by roughly 26,700 jobs (1.8%) in 2015. The largest gains are expected to be in health care and social assistance (4,400 jobs), professional, scientific and technical services (4,300 jobs), construction (4,000 jobs), and leisure and hospitality (2,900 jobs). By 2016 total nonfarm employment is expected to reach 1.54 million, finally exceeding 2006 levels.

TRENDS IN MAJOR INDUSTRIES

Real Estate and Construction: Orange County's residential real estate market continues to improve, but it will be some time before the housing sector can be pronounced fully recovered. Sales of existing homes declined on a year-over-year basis in each month of 2014. Median prices on the other hand have risen year-over-year for 32 consecutive months (though December 2014). According to the California Association of Realtors, the median price of an existing single-family home in Orange County was $687,930 in 2014, up by 20.1% compared with the median price in 2013. Accompanying the decline in existing home sales, new home building fell in 2014. Permits issued for new home construction were down by an estimated 3.4% compared with 2013, but stronger economic growth and demographic pressures should push permits up by nearly fourteen percent in 2015. New master planned communities Irvine Ranch, Great Park Neighborhoods and Rancho Mission Viejo are already reporting strong sales.[14]

> ***The median price of an existing single-family home in Orange County was $687,930 in 2014, up by 20.1% compared with the median price in 2013.***

Local commercial real estate has also improved. Office and industrial vacancy rates are declining and lease rates are either stable or starting to improve in some submarkets. Institutional investors are pushing up sales prices in expectation of rental increases. The office vacancy rate fell to 13.6% in the fourth quarter of 2014 from the year ago rate of 14.9% and net absorption was 1.2 million square feet. The industrial vacancy rate dropped to 3.7% in the fourth quarter of 2014, the lowest vacancy rate recorded since the third quarter of 2008 when it was 3.5%. New absorption in the fourth quarter YTD was 1.2 million square feet.

Non-residential building permits were up by 25.3%, but are coming off of very low levels of new construction. The bulk of the value in nonresidential construction in Orange County (and elsewhere in Southern California) continues to be remodels and renovations as opposed to new buildings. Leasing fundamentals should continue to strengthen through 2015, paving the way for additional gains in new non-residential construction next year. *For a more detailed discussion of the region's real estate and construction sectors, see the Real Estate and Construction section of this report.*

Leisure and Hospitality: Tourism is one of Orange County's most important industries. The Orange County Visitor and Convention Bureau reported that over 44 million people (including 3.7 million international travelers) visited Orange County and spent in excess of $9.5 billion in 2013 (latest data available). Attractions like Disneyland, Fashion Island and local beaches have been drawing increasing numbers of international visitors, particularly tourists from China and the Middle East. In the lodging sector, both occupancy rates and average daily room rates have surpassed pre-recession rates and

[14] Orange County Business Journal, "*Year in Review 2014*". December 15, 2014 v39 n50

continue to improve. The rise in occupancy rates has prompted several prominent hotels to renovate rooms and conference facilities.

After achieving record high employment levels in 2014, leisure and hospitality jobs in Orange County are projected to reach 195,500 workers in 2015, an increase of 1.5%.

Health Care*:* Health care is an integral part of the Orange County economy. Almost eleven percent of the county's wage and salary jobs are in the health care sector. Employment in 2014 was up by 3.0% with job counts exceeding 161,000. The health care industry also has a major impact on commercial real estate. More than one million square feet of new healthcare-related leases were signed in Anaheim, Orange, Garden Grove and Santa Ana over the past year.[15] As the industry grows, health care organizations are forming partnerships to expand their reach and control costs. New affiliations formed last year include Hoag Memorial Hospital Presbyterian and USC Norris on cancer; UC Irvine Health and Corona Regional Medical Center; MemorialCare and Anthem Blue Cross; Kaiser and Target Stores on clinics; St. Joseph Hoag Health with Children's Hospital of Orange County on accountable care organization.

Manufacturing and Exports: Orange County has a strong high tech manufacturing sector that includes computer and related electronic products, aerospace parts and products, and medical device manufacturers. These sectors rely on Orange County's highly skilled workforce. Manufacturing employment also accounts for about eleven percent of total nonfarm jobs in Orange County. However, unlike the health care sector which has seen jobs increase by two-thirds since 2000, manufacturing jobs have declined by one-third.

About 73% of manufacturing jobs in Orange County are concentrated in durable goods (e.g. computers, machinery, and aerospace parts and products). The balance of manufacturing workers produce nondurable goods such as apparel and food. In 2014, total manufacturing jobs in Orange County edged down by 0.5% to 157,100 workers, but there were some sectors that saw a small increase in employment last year: fabricated metal products (up by 0.4%); machinery (1.5%); and transportation equipment – primarily aerospace-related (6.2%). In 2015, total manufacturing employment in Orange County is expected to turn back up, increasing by a modest 0.9%.

LOOKING AHEAD

Orange County's economy made significant headway this year in terms of economic growth, job creation and bringing down its unemployment rate. As employment prospects improve, population growth will continue, increasing by 0.8% this year and by 0.7% in 2016. Most of the recent population growth in the county has come from natural increases (births outnumbering deaths) as opposed to migration. Along with job growth and higher incomes, improvements in the housing market all point to stronger consumer

[15] Orange County Business Journal, "*Obamacare Provides List for Central OC Real Estate*". January 5, 2015 v38 n1

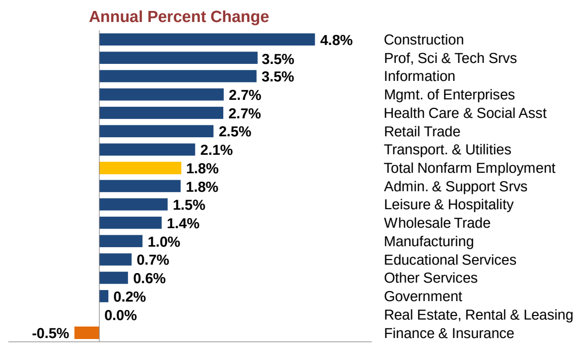
spending this year and next with total taxable sales rising by 5.6% to 6.0% over the next two years.

Orange County's health care, high tech and biomed industries, tourism and professional business services sectors will lead job and economic growth over the forecast period, providing opportunities for the region's talented and highly skilled workforce.

Orange County Snapshot

Orange County Employment Growth, 2015

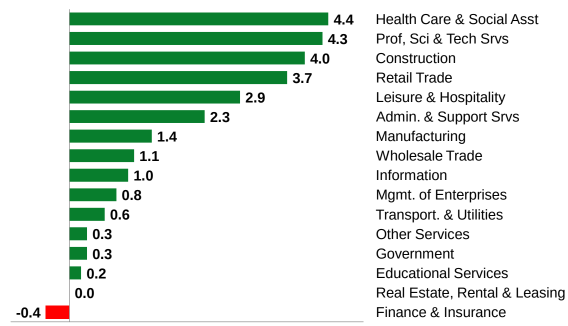
Total nonfarm job growth forecast for 2015, percent change: +1.8%



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

Orange County Employment Growth, 2015

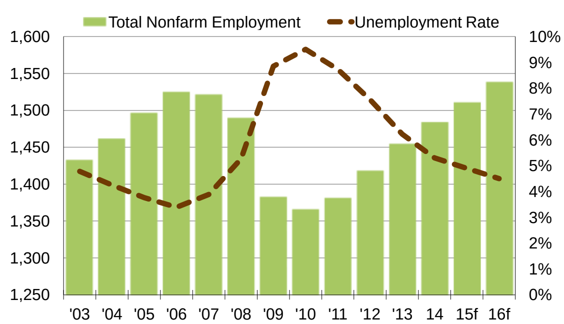
Total nonfarm job growth forecast for 2015 (thousands): +26.7 jobs



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

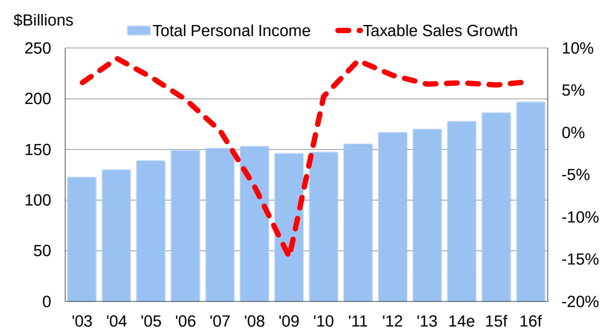
Orange County Employment

Annual average in thousands, 2013 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

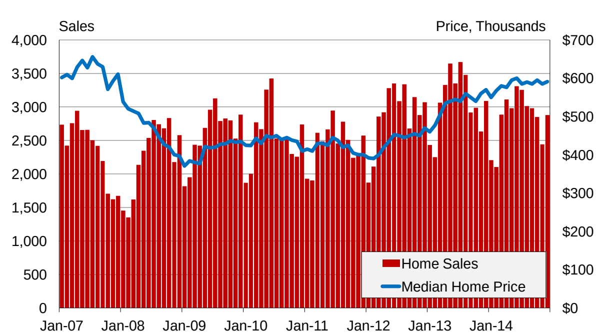
Orange County Personal Income & Taxable Sales Growth



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

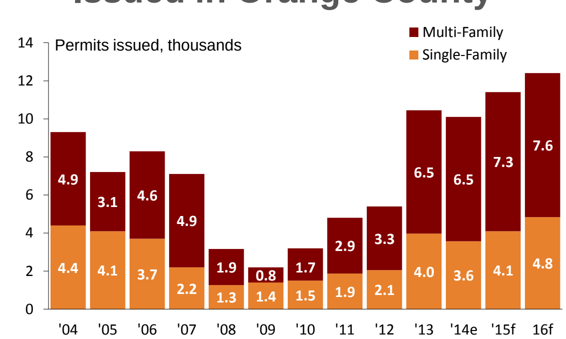
Home Sales & Median Prices Orange County

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 TaxableSales ($Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2003	2,939.7	1,432.5	4.8	122.6	41,851	47.5	42.7	9,311	1,006
2004	2,956.5	1,461.3	4.3	130.1	44,216	51.7	43.5	9,322	1,133
2005	2,957.2	1,495.9	3.8	138.8	47,203	55.1	44.7	7,206	1,495
2006	2,955.4	1,524.3	3.4	149.0	50,808	57.2	44.9	8,371	2,401
2007	2,965.8	1,521.0	3.9	151.1	51,542	57.3	44.3	7,072	2,005
2008	2,982.8	1,489.4	5.3	153.0	51,741	53.6	43.1	3,159	1,439
2009	2,998.8	1,382.7	8.9	146.0	48,865	45.7	42.7	2,200	952
2010	3,017.2	1,366.0	9.5	147.4	48,826	47.7	42.7	3,091	1,152
2011	3,046.5	1,381.2	8.7	155.3	50,839	51.7	42.9	4,807	1,299
2012	3,073.5	1,418.1	7.6	166.6	54,008	55.2	43.8	6,862	1,263
2013	3,099.5	1,454.2	6.2	169.8	54,519	58.4	44.4	10,453	1,554
2014	3,132.7	1,483.5	5.3	177.7	56,700	61.8	45.7	10,100	1,947
2015f	3,157.7	1,510.2	4.9	186.1	58,800	65.3	46.9	11,400	2,060
2016f	3,179.8	1,537.6	4.5	196.6	61,500	69.3	48.0	12,400	2,240

% Change									
03/02	0.9%	1.9%		5.5%	4.8%	5.9%	2.4%	-22.5%	-16.8%
04/03	0.6%	2.0%		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%	-2.1%		1.3%	0.4%	-6.4%	-2.7%	-55.3%	-28.2%
09/08	0.5%	-7.2%		-4.6%	-5.6%	-14.7%	-1.0%	-30.4%	-33.8%
10/09	0.6%	-1.2%		1.0%	-0.1%	4.3%	0.1%	40.5%	21.0%
11/10	1.0%	1.1%		5.4%	4.1%	8.5%	0.5%	55.5%	12.8%
12/11	0.9%	2.7%		7.3%	6.2%	6.8%	2.1%	42.8%	-2.8%
13/12	0.8%	2.5%		1.9%	0.9%	5.7%	1.4%	52.3%	23.1%
14/13	1.1%	2.0%		4.7%	4.0%	5.9%	2.9%	-3.4%	25.3%
15/14	0.8%	1.8%		4.8%	3.7%	5.6%	2.6%	12.9%	5.8%
16/15	0.7%	1.8%		5.6%	4.6%	6.0%	2.3%	8.8%	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 2013 Benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2003	1,432.5	0.5	83.7	183.9	*127.2*	*56.7*	83.2	152.8	29.0	35.2
2004	1,461.3	0.6	92.2	183.5	*127.1*	*56.4*	82.4	153.2	29.2	33.8
2005	1,495.9	0.7	99.9	182.9	*128.3*	*54.6*	83.0	158.1	28.7	32.8
2006	1,524.3	0.6	106.6	182.7	*128.0*	*54.7*	83.7	160.8	28.2	31.9
2007	1,521.0	0.6	103.1	180.4	*126.2*	*54.2*	86.9	161.2	28.9	31.2
2008	1,489.4	0.6	91.2	174.1	*122.5*	*51.5*	86.7	155.9	29.3	30.1
2009	1,382.7	0.5	74.2	154.8	*109.1*	*45.7*	79.4	143.0	27.8	27.3
2010	1,366.0	0.5	68.0	150.4	*106.5*	*43.9*	77.6	141.3	26.7	24.8
2011	1,381.2	0.5	69.2	154.2	*110.7*	*43.5*	77.0	142.5	27.5	23.8
2012	1,418.1	0.5	71.4	158.2	*114.4*	*43.9*	76.9	143.9	28.0	24.3
2013	1,454.2	0.5	77.3	157.9	*114.8*	*43.1*	79.2	145.7	27.9	25.4
2014	1,483.5	0.5	84.2	157.1	*115.3*	*41.8*	79.9	147.0	28.4	26.0
2015f	1,510.2	0.5	88.2	158.6	*116.5*	*42.1*	81.0	150.7	29.0	26.9
2016f	1,537.6	0.5	94.2	158.9	*116.8*	*42.1*	81.9	153.0	29.2	26.7

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	123.3	18.9	111.0	158.6	46.7	154.2
2004	96.0	36.3	97.6	30.6	126.7	19.2	116.3	162.9	47.4	153.4
2005	100.9	37.5	103.2	30.0	131.1	19.8	118.7	165.0	48.4	155.3
2006	99.0	39.1	109.3	28.9	136.4	20.8	122.3	169.6	47.7	156.7
2007	89.1	38.6	113.5	27.9	132.0	21.6	126.6	172.9	47.4	159.4
2008	76.1	37.0	116.1	26.3	124.5	23.6	134.3	176.4	46.5	160.8
2009	70.6	34.5	107.3	25.0	108.7	23.4	138.0	169.1	42.6	156.6
2010	69.4	34.1	106.1	23.9	114.6	23.6	141.9	168.6	42.2	152.3
2011	71.1	33.6	108.6	24.7	114.1	24.3	143.7	174.0	43.2	149.3
2012	73.7	34.5	113.0	26.4	120.5	24.7	149.1	180.6	44.6	147.9
2013	76.6	35.9	115.4	27.8	121.2	25.5	156.4	187.8	45.5	148.3
2014	74.0	35.6	120.5	29.2	122.6	28.1	161.1	192.6	47.2	149.5
2015f	73.6	35.6	124.7	30.0	124.8	28.3	165.5	195.5	47.5	149.8
2016f	73.8	35.7	130.0	31.0	128.5	29.0	169.6	197.2	47.6	150.9

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

RIVERSIDE AND SAN BERNARDINO COUNTIES

INTRODUCTION

Job growth in the Inland Empire, as the combined Riverside County-San Bernardino County region is known, outpaced the state and the rest of Southern California for the third year in a row in 2014. The Inland Empire suffered a more severe blow during the Great Recession and took longer to turn around so this is a welcome development. Job gains have reduced the unemployment rate and have contributed to rising personal income, which has supported growth in a number of consumer-driven industries.

Wage and salary (nonfarm) jobs in the Inland Empire grew at a rate of 2.6% in 2014, outpacing the state's 2.2% growth rate during the same year. With 1.26 million jobs in 2014, the region is still shy of the prerecession annual peak of 1.29 million jobs from 2007. It should surpass that threshold in 2015, more than five years after the technical end of the recession.

> ***Nonfarm jobs in the Inland Empire grew at a rate of 2.6% in 2014, outpacing the state's 2.2% growth rate. In 2015, the Inland Empire should regain all of the jobs lost during the recession.***

The unemployment rate in 2014 fell to 8.5%, down from 10.2% a year earlier, and down significantly from the recession-era peak of 14.3% in 2010. Job creation accounted for most of the decline in the unemployment rate, while the labor force increased marginally (0.2%) from 2013 to 2014.

Most of the job gains in the Inland Empire last year were in a handful of industries. One out of every five jobs created in 2014 was in the health care and social assistance sector. The bulk of the remaining job gains were concentrated in leisure and hospitality, administrative, support and waste services, retail trade, and transportation, warehousing and utilities. Noteworthy increases also occurred in construction and government, the latter finally recovering from the job cuts that were exacted in the wake of the recession when government coffers were severely depleted. While consumer-serving industries such as leisure and hospitality, and retail trade have seen large gains in absolute terms, other business-serving industries (transportation and warehousing, wholesale trade, professional, scientific and technical services) have also added jobs. Meanwhile, nondurable goods manufacturing, financial services, management of companies and enterprises, and other (personal) services lost jobs over the course of the year.

TRENDS IN MAJOR INDUSTRIES

Goods Movement: The goods movement industry includes transportation and warehousing along with wholesaling. The industry employed nearly 140,000 workers in the Inland Empire in 2014, which accounted for just over 11% of total nonfarm employment. Transportation and warehousing employment increased by 4.6% (or 3,600 jobs) over the year in 2014 to 82,200 jobs. Wholesale trade added 1,700 jobs (up by 3.0%) over the same period, with employment averaging 57,700 jobs in 2014.

The region's goods movement industry has benefited from increased activity at the Ports of Los Angeles and Long Beach during the last two years resulting from the pickup in U.S. economic growth. The number of containers passing through the twin ports was stuck at roughly 14 million from 2010 through 2012, but jumped by 3.4% to 14.6 million in 2013, and by 3.8% to 15.2 million in 2014, in spite of ongoing labor disputes and port congestion. Given the economic fundamentals of the U.S. and its trading partners, container activity has the potential to achieve a new record high in 2015. Such an outcome depends on timely resolution to the pending labor negotiations and clearing the current backlog of vessels and containers as quickly as possible.

Real Estate: Like so much of the region and the U.S., the housing sector in the Inland Empire turned in an uneven performance in 2014. The median price of a home in Riverside County rose to levels not seen since early 2008, with a 2014 median of $293,000. San Bernardino's median price has also been on the rise, increasing to $239,000 in 2014, roughly on par with home prices during the middle of 2008. After posting double digit price increases through most of 2014, median price appreciation slowed to single digits towards the end of 2014, long after the other counties of Southern California experienced a similar slowdown.

Rising prices were partly attributable to the limited supply of homes for sale, which in turn resulted in an 8.1% year-to-year decline in sales in 2014. The unsold inventory (supply) of existing homes in Riverside County was just 4.7 months in December while the figure for San Bernardino was 4.4 months. Both readings are less than a month higher than a year ago and inventory levels continue to be somewhat below long-run average levels. On the supply side, low inventories have constrained sales, while demand has been hindered by declining affordability and tighter-than-normal underwriting standards.

New home construction responded to tight market conditions and higher home prices in 2013 with a 57% increase in new residential permits issued. Uncertainty about the future direction of the market cooled homebuilding activity in 2014 — new home permits increased by just 2.6%. Pent-up demand is expected to speed up the housing market over the next two years; permits should advance more quickly, with a jump of 33% expected in 2015 followed by a gain of 23.3% in 2016. Even with these large percentage gains, permit levels during the next two to three years will remain well below peak levels of the last decade. About two out of three homes built in 2014 were single-family homes, a pattern that should continue into 2015 with the share of single-family homes rising to 75% in 2016.

The Inland Empire housing market will continue to register gains in 2015. The supply of new and existing homes for sale should increase in response to stronger demand as population grows and as the financial condition of households in the region improves. In turn, both higher prices and sales are expected.

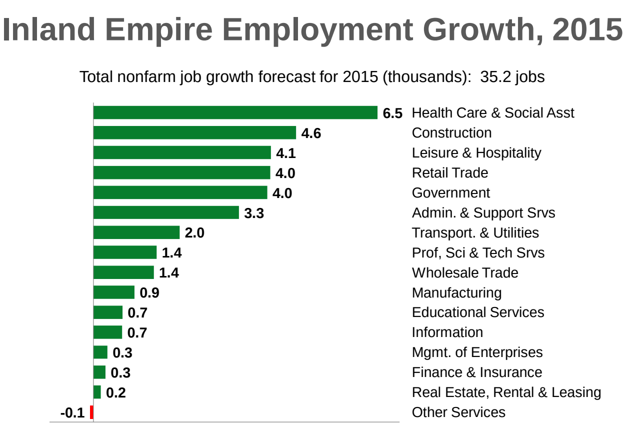
For a more detailed discussion of the region's housing market, see the Real Estate and Construction section of this report.

LOOKING AHEAD

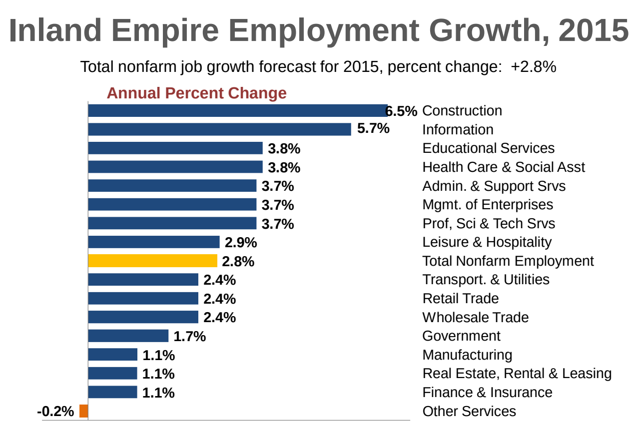
While job growth in 2014 did not match the 4.0% growth rate of the previous year, the 2.6% increase was still among the fastest in the state. Jobs should grow by 2.8% in 2015 and 2.5% in 2016, with annual wage and salary employment expected to hit a new high. Over the next two years, nearly all industries will add jobs, with the largest increases expected in health care and construction (one out of every three jobs), followed by leisure and hospitality, administrative, support and waste services, and retail trade. Transportation, warehousing and utilities will continue to grow, while construction jobs will accelerate in response to an uptick in new residential and nonresidential building across the region. Job losses will continue in financial and other services.

As the Inland Empire's industries grow over this year and next, the unemployment rate will fall from 8.5% in 2014 to 7.6% this year and 7.1% in 2016, below the 8.8% average since 2002. As the economy moves forward, and population growth accelerates, personal income will grow by 5.0% in 2015 and 5.8% in 2016, and give rise to further gains in taxable sales and continued job growth in population-serving industries.

Inland Empire Snapshot



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

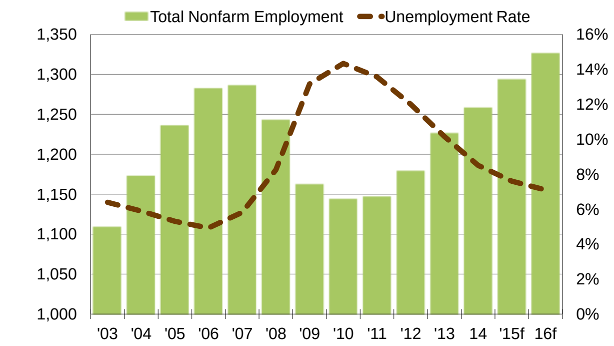


Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Inland Empire Snapshot

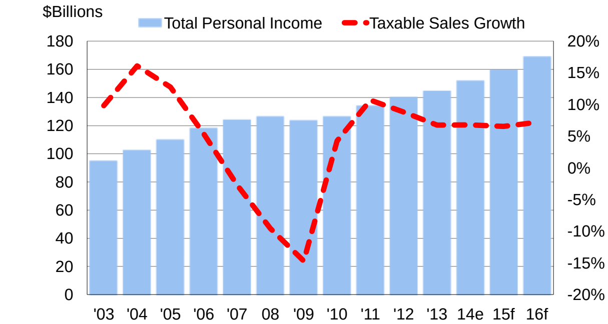
Inland Empire Employment

Annual average in thousands, 2013 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

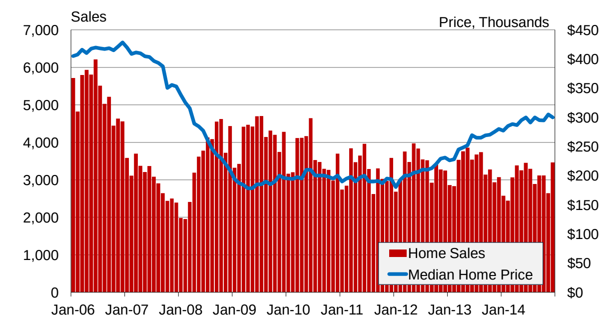
Inland Empire Personal Income & Taxable Sales Growth



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

Home Sales & Median Prices Riverside County

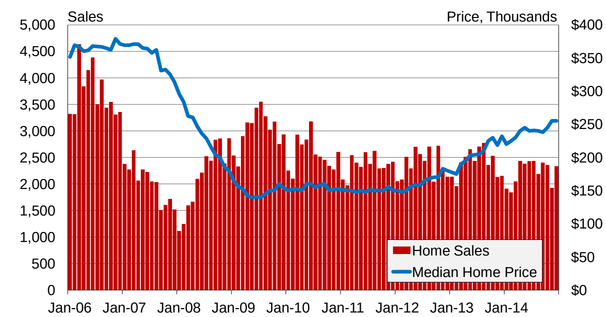
New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

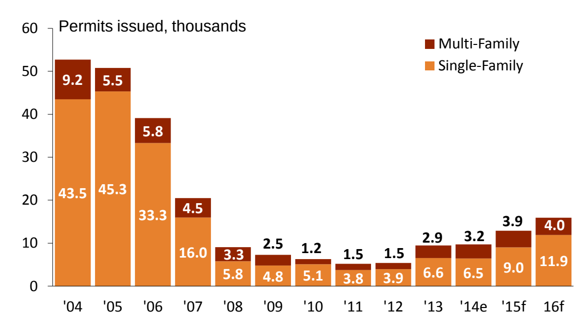
Home Sales & Median Prices San Bernardino County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

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 TaxableSales ($Billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2003	3,622.5	1,109.6	6.4	95.1	26,300	44.3	43,001	1,720
2004	3,757.1	1,173.0	5.9	102.8	27,371	51.4	52,696	2,485
2005	3,877.5	1,235.9	5.3	110.1	28,401	58.0	50,818	2,394
2006	3,994.1	1,282.1	4.9	118.4	29,703	61.1	39,083	2,852
2007	4,085.3	1,286.0	5.8	124.2	30,535	59.5	20,457	2,824
2008	4,139.4	1,242.8	8.3	126.5	30,749	53.8	9,101	1,781
2009	4,180.7	1,162.8	13.2	123.8	29,757	45.9	6,685	710
2010	4,230.4	1,144.2	14.3	126.5	29,805	47.8	6,269	792
2011	4,273.3	1,147.3	13.6	134.2	31,218	53.0	5,214	921
2012	4,312.9	1,179.2	12.0	140.3	32,301	57.6	6,034	1,074
2013	4,338.6	1,226.4	10.2	144.7	33,025	61.5	9,456	1,554
2014	4,386.9	1,258.2	8.5	151.9	34,600	65.7	9,700	1,605
2015f	4,438.2	1,293.5	7.6	159.6	36,000	70.0	12,900	1,820
2016f	4,511.6	1,325.9	7.1	168.8	37,400	75.0	15,900	2,030
% Change								
03/02	3.8%	3.5%		7.6%	3.7%	9.8%	29.2%	16.8%
04/03	3.7%	5.7%		8.0%	4.1%	16.1%	22.5%	44.5%
05/04	3.2%	5.4%		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%	-3.4%		1.8%	0.7%	-9.6%	-55.5%	-37.0%
09/08	1.0%	-6.4%		-2.1%	-3.2%	-14.7%	-26.5%	-60.1%
10/09	1.2%	-1.6%		2.2%	0.2%	4.3%	-6.2%	11.5%
11/10	1.0%	0.3%		6.1%	4.7%	10.7%	-16.8%	16.3%
12/11	0.9%	2.8%		4.5%	3.5%	8.8%	15.7%	16.7%
13/12	0.6%	4.0%		3.1%	2.2%	6.8%	56.7%	44.6%
14/13	1.1%	2.6%		5.0%	4.8%	6.8%	2.6%	3.3%
15/14	1.2%	2.8%		5.0%	4.0%	6.5%	33.0%	13.4%
16/15	1.7%	2.5%		5.8%	3.9%	7.2%	23.3%	11.5%

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 2013 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2003	1,109.6	1.2	99.0	116.1	82.4	33.7	43.5	142.6	50.4	13.9
2004	1,173.0	1.2	111.8	120.1	85.5	34.6	45.6	153.6	56.3	14.0
2005	1,235.9	1.4	123.3	121.0	86.1	35.0	49.9	165.3	61.6	14.5
2006	1,282.1	1.4	127.5	123.4	86.9	36.5	54.2	172.5	65.7	15.3
2007	1,286.0	1.3	112.5	118.5	82.1	36.5	56.8	175.6	69.5	15.4
2008	1,242.8	1.2	90.7	106.9	72.5	34.3	54.1	168.6	70.2	14.8
2009	1,162.8	1.1	67.9	88.7	58.1	30.6	48.9	156.2	66.8	14.1
2010	1,144.2	1.0	59.7	85.1	55.3	29.8	48.6	155.5	66.6	14.0
2011	1,147.3	1.0	59.1	85.1	55.8	29.3	49.0	158.5	68.8	12.1
2012	1,179.2	1.2	62.6	86.7	56.9	29.8	52.1	162.3	73.8	11.5
2013	1,226.4	1.2	69.3	86.8	57.0	29.8	56.0	164.8	78.6	11.3
2014	1,258.2	1.2	71.2	87.4	57.7	29.8	57.7	168.7	82.2	11.5
2015f	1,293.5	1.3	75.8	88.4	58.3	30.1	59.0	172.8	84.2	12.2
2016f	1,325.9	1.4	81.0	89.5	59.1	30.5	60.5	177.0	86.2	12.2

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2003	25.7	16.9	28.7	11.0	75.7	13.2	113.1	109.0	38.2	211.6
2004	28.0	17.7	31.0	11.6	82.9	13.4	118.0	116.7	38.8	212.5
2005	30.1	18.9	35.0	12.0	86.2	13.6	120.2	122.6	39.9	220.4
2006	31.6	19.9	39.9	10.8	91.7	14.1	122.5	128.1	41.2	222.5
2007	30.3	19.5	40.5	9.8	95.1	15.0	127.2	132.6	41.2	225.3
2008	27.4	18.7	40.5	9.7	88.0	15.7	133.6	131.0	40.8	231.0
2009	26.0	16.6	37.8	8.9	78.5	16.3	138.7	123.8	37.3	235.2
2010	25.5	15.5	34.9	8.5	80.0	15.6	138.5	122.8	38.2	234.3
2011	25.3	14.6	35.6	8.6	81.6	15.8	141.8	124.0	39.1	227.5
2012	26.0	14.8	36.7	8.5	82.0	16.3	150.9	129.3	40.1	224.6
2013	26.4	15.6	37.6	8.8	86.1	17.1	164.9	136.2	40.8	225.0
2014	26.1	16.1	39.5	8.8	90.9	17.6	171.0	141.9	38.9	227.4
2015f	26.4	16.3	41.0	9.1	94.2	18.3	177.5	145.9	38.8	231.4
2016f	26.6	16.4	42.7	9.5	98.1	18.8	183.1	148.1	39.0	234.8

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

SAN DIEGO COUNTY

INTRODUCTION

With a population of 3.2 million, San Diego County is the second most populous county in California after Los Angeles County. The City of San Diego is the largest of its 18 cities, with over 1.3 million residents. The county's population has higher levels of educational attainment relative to the state overall: nearly 86% of the adult population has a high school diploma or more, while 35% has a bachelor's degree or higher.

After peaking at 10.6% in 2010, the unemployment rate in San Diego County fell to 6.2% last year, down from the year ago rate of 7.5% and the lowest rate since 2008. The improvement in the unemployment rate came as a result of job growth that exceeded 2.5% for the third year in a row. The LAEDC forecasts continued job gains over the next two years that will drive the unemployment rate to 5.4% this year and 5.0% next year, well below the long-run average unemployment rate 6.0%.

> ***The number of nonfarm jobs in San Diego County should exceed 1.3 million in 2014, surpassing the prerecession peak by 23,800 jobs.***

By 2014, San Diego County recovered all the jobs it had lost during the Great Recession. Last year's nonfarm job count stood at 1.35 million, surpassing the 2007 peak of 1.32 million jobs by 30,000. The county will see a slight decline in the pace of job growth over the next two years, with an expected 2.4% increase this year and a 1.9% increase next year.

As employment prospects improve, population growth will accelerate, increasing by 1.2% both this year and 1.1% next year. Most of the recent population growth in the county has come from natural increases (births outnumbering deaths) as opposed to migration. Along with job growth and higher incomes, consumer spending as measured by total taxable sales will also be on the rise, with increases exceeding five percent over the next two years.

Although still not fully recovered, San Diego's housing market has improved. The median price for all homes was $440,000 in December 2014, up 4.8% from a year earlier, while sales increased by 6.2% year-to-year. New housing permits fell in 2014, but are expected to increase substantially over the next two years as San Diego County sees an increase in housing activity, much like the rest of the state and nation. *For a more detailed discussion of the region's housing market, see the Real Estate and Construction section of this report.*

TRENDS IN MAJOR INDUSTRIES

San Diego County experienced gains across every major industry except finance and insurance in 2014. This includes government where 2,100 jobs were added. In absolute terms, professional, scientific and technical services added the largest number of jobs

(7,000), followed by leisure and hospitality (5,600 jobs), construction (5,200 jobs), and health care and social assistance (4,500 jobs). The fastest growing major industries in percentage terms in 2014 were construction (8.5%), professional, scientific and technical services (5.7%), and wholesale trade (5.0%). Most industries are expected to add jobs over the next two years, led by construction, health care and social assistance, and leisure and hospitality.

Aerospace and Defense: San Diego County's transportation equipment industry includes aerospace and ship building, both of which have close ties to the local defense sector. Transportation equipment manufacturing jobs edged up from 13,800 jobs in 2013 to 13,900 jobs last year, mainly because of increases in ship building that more than offset declines in aerospace employment. Military spending will be flat or down slightly this year, but the industry has been preparing for uncertain and possibly severe cuts to the Pentagon's budget in the years ahead. Although defense-related firms are concerned 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: cyber security, intelligence surveillance, defense-related electronics and software, and unmanned aerial systems. Thus, while manufacturing is expected to increase in San Diego County over the next two years, most of the gains will occur in other manufacturing sectors.

Agriculture: San Diego's agricultural industry is the nineteenth largest in the U.S. and has a higher dollar-value per acre ($479,000) than any other county in California. From 2013 to 2014, farm employment rose by 0.8% to 9,850 workers. The largest commercial crops were nursery plants and avocados. San Diego growers do face some considerable challenges, the foremost being high land costs, and the uncertain supply and increasing cost of water.

Biotechnology and Health Care: San Diego's life sciences sector benefits from its close ties to the area's research institutions and from local efforts to nurture and grow the industry. During the fourth quarter of 2014, San Diego County ranked eighth in the nation in the total amount of biotechnology venture capital invested.[16]

The county's health care and social assistance industry is expanding, similar to the trend elsewhere in the state. The industry added 4,500 jobs (3.0%) over the past year, with employment standing at 153,800 in 2014. Several new hospital facilities opened in recent years 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. With its advanced treatment and diagnostic facilities, San Diego also has the potential to become a hub for medical tourism.

Tourism and Hospitality: San Diego's travel and tourism industry is growing. Despite a decline in the number of San Diego visitors (day and overnight) from 33.1 million in 2013 to 31.0 million last year, visitor expenditures rose from $8.4 billion to $8.5 billion over that

[16] PwC MoneyTree

period.[17] Projections for hotel occupancy rates and average daily rates in 2015 for rooms are positive.[18] Leisure and hospitality employment in the county increased by 3.3% (5,600 jobs) in 2014, and is expected to see additional job gains over the course of this year and next.

With demand for hotel rooms outpacing new supply, fundamentals in the lodging sector continue to improve. San Diego hotels command a premium relative to the rest of California and the U.S. New hotel construction is expected to continue over the near term, while existing hotels are undergoing extensive renovations, including the three largest by room count, clustered around the convention center.

LOOKING AHEAD

San Diego's economy added jobs at a faster rate than other counties in Southern California over most of the last three years, bringing its unemployment rate down to 6.2% in 2014. While the pace of job growth may edge down this year and next, it will continue to add substantial numbers of jobs across the county's major industries. The county will continue to benefit from its role as an innovation hub for telecommunications, medical devices, life sciences, and high-tech manufacturing. San Diego is also 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. San Diego is a popular travel destination and the presence of the U.S. Navy and Marine Corps also makes a significant contribution to the region's economy.

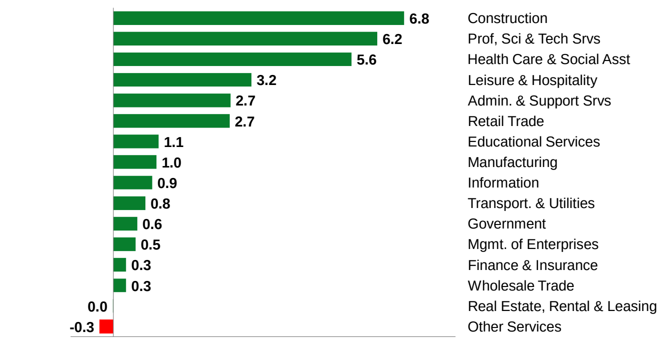
[17] San Diego Tourism Authority

[18] PKF Consulting

San Diego County Snapshot

San Diego County Employment Growth, 2015

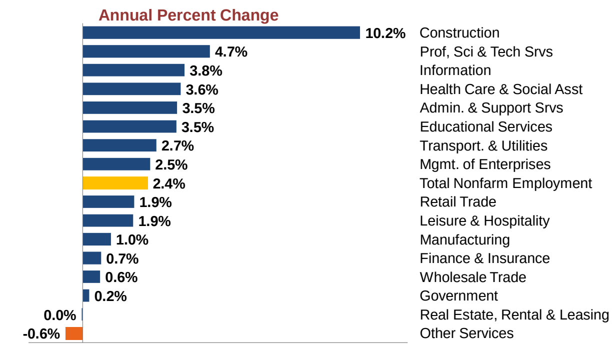
Total nonfarm job growth forecast for 2015 (thousands): +32.3 jobs



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

San Diego County Employment Growth, 2015

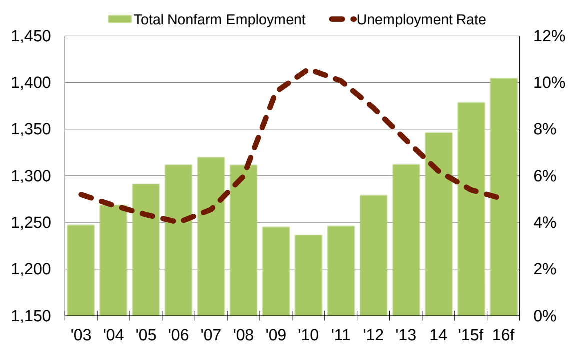
Total nonfarm job growth forecast for 2015, percent change: +2.4%



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

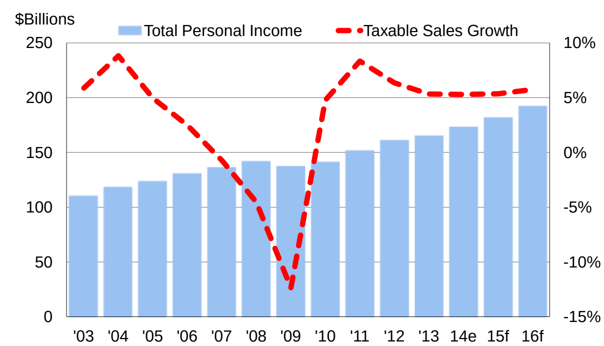
San Diego County Employment

Annual average in thousands, 2013 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

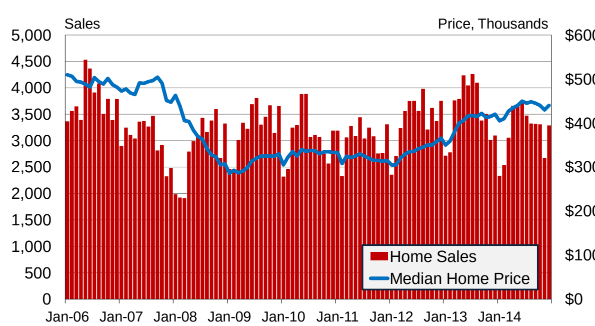
San Diego County Personal Income & Taxable Sales Growth



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

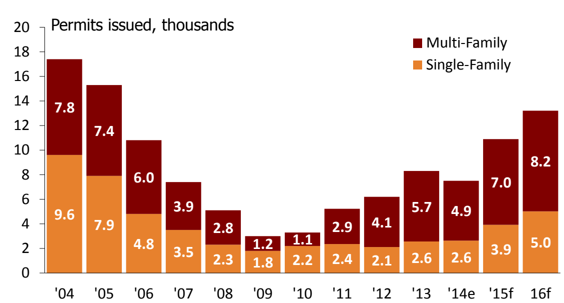
Home Sales & Median Prices San Diego County

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	1,247.3	5.2	110.3	37,854	40.9	35.6	32.1	18,314	1,169	3.7
2004	2,963.4	1,268.6	4.7	118.4	40,397	44.5	39.4	31.8	17,306	1,288	3.7
2005	2,970.1	1,291.3	4.3	123.6	42,075	46.7	43.2	31.8	15,258	1,382	3.7
2006	2,982.8	1,311.6	4.0	130.7	44,331	47.8	50.5	32.2	10,777	1,622	3.4
2007	3,014.2	1,319.7	4.6	136.3	45,814	47.5	53.9	31.6	7,445	1,417	2.3
2008	3,051.3	1,311.5	6.0	141.8	46,920	45.3	53.4	31.1	5,154	1,062	3.9
2009	3,077.6	1,245.2	9.6	137.3	44,864	39.7	43.9	29.6	2,990	584	0.0
2010	3,102.9	1,236.4	10.6	141.2	45,501	41.6	48.4	29.9	3,346	659	1.3
2011	3,125.7	1,246.0	10.1	151.5	48,260	45.1	52.6	31.1	5,223	1,072	3.0
2012	3,153.4	1,279.2	8.9	160.9	50,664	47.9	56.4	32.3	6,193	1,089	1.6
2013	3,176.8	1,312.0	7.5	165.0	51,384	50.5	58.8	33.1	8,342	1,418	1.3
2014	3,212.3	1,346.0	6.2	172.9	54,000	53.2	63.9	31.0	7,500	1,977	2.0
2015f	3,250.1	1,378.3	5.4	181.5	56,100	56.0	64.7	31.8	10,900	2,075	0.3
2016f	3,287.3	1,404.1	5.0	191.8	58,600	59.2	67.9	32.6	13,200	2,250	2.5

% Change	Population	Nonfarm Employment	Unemployment Rate	Total Personal Income	Per Capita Personal Income	Total Taxable Sales	Value of Two-way Trade	Total Overnight & Day Visitors	Housing Unit Permits Issued	Nonresidential Building Permits
03/02	1.2%	0.9%		4.9%	4.3%	5.9%	-0.5%	-0.3%	16.4%	0.0%
04/03	0.7%	1.7%		7.3%	6.7%	8.8%	10.7%	-0.8%	-5.5%	10.2%
05/04	0.2%	1.8%		4.5%	4.2%	5.0%	9.6%	-0.2%	-11.8%	7.3%
06/05	0.4%	1.6%		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%	-0.6%		4.0%	2.4%	-4.5%	-0.8%	-1.5%	-30.8%	-25.1%
09/08	0.9%	-5.1%		-3.1%	-4.4%	-12.4%	-17.8%	-4.8%	-42.0%	-45.0%
10/09	0.8%	-0.7%		2.8%	1.4%	4.8%	10.2%	0.9%	11.9%	12.8%
11/10	0.7%	0.8%		7.2%	6.1%	8.3%	8.6%	4.3%	56.1%	62.7%
12/11	0.9%	2.7%		6.2%	5.0%	6.3%	7.3%	3.7%	18.6%	1.6%
13/12	0.7%	2.6%		2.5%	1.4%	5.3%	4.2%	2.5%	34.7%	30.2%
14/13	1.1%	2.6%		4.8%	5.1%	5.3%	8.7%	-6.3%	-10.1%	39.4%
15/14	1.2%	2.4%		5.0%	3.9%	5.4%	1.2%	2.6%	45.3%	5.0%
16/15	1.1%	1.9%		5.7%	4.5%	5.7%	4.9%	2.5%	21.1%	8.4%

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 2013 Benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	*Mfg. -- Durable*	*Mfg .-- Nondurable*	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2003	1,247.3	0.3	80.2	105.3	*78.8*	*26.5*	41.6	140.8	27.3	33.4
2004	1,268.6	0.4	87.7	104.3	*78.1*	*26.2*	41.9	144.9	28.4	32.5
2005	1,291.3	0.4	90.8	104.5	*79.1*	*25.4*	43.6	147.4	28.4	32.6
2006	1,311.6	0.5	92.7	103.9	*78.4*	*25.5*	45.1	148.3	28.7	31.7
2007	1,319.7	0.4	87.0	102.5	*77.3*	*25.2*	45.5	148.1	28.8	31.3
2008	1,311.5	0.4	76.1	102.8	*78.1*	*24.7*	44.9	142.0	29.0	31.4
2009	1,245.2	0.4	61.1	95.3	*73.1*	*22.2*	40.6	131.6	27.3	28.2
2010	1,236.4	0.4	55.3	92.9	*71.0*	*21.9*	40.1	130.7	26.5	25.1
2011	1,246.0	0.4	55.2	93.1	*70.9*	*22.2*	41.3	133.4	26.1	24.2
2012	1,279.2	0.4	56.9	94.3	*71.3*	*23.1*	43.3	137.2	27.3	24.5
2013	1,312.0	0.4	61.2	94.6	*70.8*	*23.8*	44.3	140.8	27.2	24.1
2014	1,346.0	0.4	66.4	96.7	*72.8*	*23.9*	46.5	142.8	27.6	24.2
2015f	1,378.3	0.4	73.2	97.7	*73.5*	*24.1*	46.8	145.5	28.3	25.1
2016f	1,404.1	0.4	78.7	98.0	*73.9*	*24.2*	46.7	147.0	28.9	24.9

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	51.2	28.8	105.1	19.1	80.5	18.8	110.2	140.7	46.8	217.3
2004	52.8	29.1	103.9	18.2	86.6	20.1	109.8	145.7	47.9	214.3
2005	53.5	29.7	110.8	17.4	87.2	21.1	110.7	149.6	48.8	215.1
2006	53.2	30.5	115.3	16.9	87.1	21.3	113.8	156.5	48.4	217.9
2007	50.2	30.1	118.6	16.1	88.4	22.0	118.5	161.8	48.3	222.4
2008	46.1	29.2	120.4	15.9	85.9	24.4	125.6	164.0	48.4	225.1
2009	43.3	26.5	116.7	16.0	74.1	26.7	131.5	154.8	46.8	224.5
2010	41.3	25.9	117.5	17.1	73.2	25.4	134.1	154.5	46.1	230.4
2011	41.9	25.6	118.6	17.5	73.7	27.1	135.7	155.6	47.6	229.0
2012	44.0	26.1	120.7	19.0	76.5	29.0	141.4	161.7	49.1	227.8
2013	44.6	26.8	124.3	20.2	78.2	30.0	149.3	167.5	49.2	229.5
2014	44.0	27.0	131.3	20.9	78.6	30.6	153.8	173.1	50.5	231.6
2015f	44.3	27.0	137.5	21.4	81.3	31.7	159.4	176.3	50.2	232.2
2016f	44.5	27.0	143.7	21.8	84.1	32.6	163.6	178.7	50.3	233.1

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 area based on population, but it is home to a broad array of industries including agriculture, professional business services, technology, and tourism. Proximity to one of the world's leading wine growing regions and 43 miles of coastline attracts large numbers of visitors, many of whom make the quick trip up from Southern California for a weekend getaway.

Ventura County is not only a port of call for travelers but also a shipping hub for automobiles and agricultural goods. Port Hueneme serves as a distribution hub for automobile manufacturers, and is a collection point for many agricultural goods that are shipped throughout the nation. Port Hueneme handled 5.2 million tons of cargo in 2014, up by 6.6% from 2013. In 2014, two-way trade was valued at $9.2 billion, an increase of 10.3% from a year earlier.

On an annual basis, Ventura County's unemployment rate dropped over a full percentage point from 7.8% in 2013 to 6.6% in 2014. However, within the Tri-Counties area, Ventura lags behind both San Luis Obispo County (5.6%) and Santa Barbara County (5.9%). While 6.6% is the lowest unemployment rate since 2008, it is still short of prerecession levels. The LAEDC expects that the unemployment rate will fall to 6.0% in 2015 and to 5.9% in 2016.

Ventura's best performing industries in 2014 were leisure and hospitality (accounting for nearly one-quarter of total nonfarm job gains), and administrative and support services. Professional, scientific and technical services had a particularly robust year, with employment growing by 4.9% in 2014, compared with 1.9% in 2013. Construction expanded by 3.9% last year (the slowest pace in three years) but is forecast to be Ventura County's fastest growing industry 2015 and 2016, with growth rates of 8.7% and 7.3%, respectively.

In 2014, total nonfarm employment grew by 1.7% and averaged 291,400 nonfarm jobs. Despite adding jobs over the last four years, nonfarm employment in 2014 was 7,400 jobs below the peak of 2006. The LAEDC forecasts nonfarm employment will grow by 1.8% in 2015 and 1.6% in 2016, finally surpassing the prerecession employment peak in 2016.

TRENDS IN MAJOR INDUSTRIES

Tourism: Ventura is an ideal destination 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. Hotel supply has changed little in the last few years but there are several projects in the pipeline for this year and next. Occupancy rates reached 72.9% in 2014 compared with 68.3% a year earlier. Average daily room rates also edged up, rising to $109.28 in 2014 (from $102.56 in 2013). Further gains are expected in 2015. The number of occupied rooms is forecast to increase by 1.5% with market occupancy rates reaching 74%, and average daily rates rising by 5.1%. The revenue per available room should increase by 6.7% to $84.94.

Housing and Consumer Spending: Although Ventura County's housing market continues to improve, problems persist. Sales of existing homes have declined on a year-over-year basis for the last twelve out of fourteen months. With increasing demand, median prices have been growing on a year-over-year basis for 30 consecutive months (through December 2014). The median price of an existing single-family home in Ventura County was $477,250 in December 2014, up by 6.2% compared with a year ago. New home building slowed in 2014 with the number of permits issued for new construction falling by 4.6% compared with 2013 levels. With steady gains in the housing market expected over the next two years, new home construction should soar with a 30% increase in permits in 2015 and a 23.1% jump in 2016.

LOOKING AHEAD

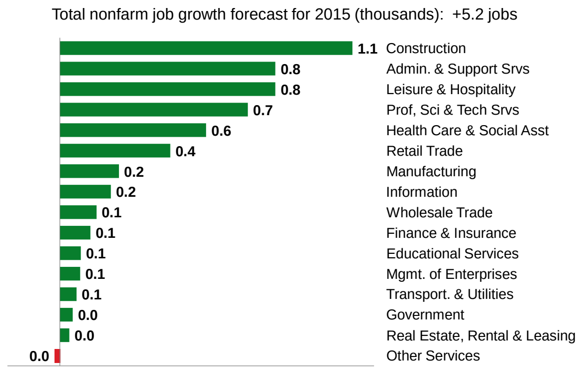
The LAEDC forecasts total personal income in Ventura County will rise by 4.6% this year and by 5.1% in 2015. As long as job growth continues at its current pace, per capita income will rise by 4.0% this year and by 4.4% in 2015. Consumer spending is expected to see strong growth this year and next as the labor market continues to strengthen and personal incomes improve.

The population of Ventura County is made up of 844,300 individuals that are 47.5% white non-Hispanic, 41.2% Hispanic, 6.8% is Asian-Pacific Islander, and 4.5% black or other races. The LAEDC expects the population to increase at a moderate pace for the next two years, growing to 849,800 and 855,700 individuals in 2015 and 2016, respectively.

The Ventura County economy will advance broadly over the next two years. The LAEDC forecasts expansion in nearly all private industry sectors in 2015 with similar gains in 2016. Construction will lead the way with anticipated job gains of 8.7% in 2015 and 7.3% in 2016. This year should also see significant employment gains in the leisure and hospitality, administrative and support services, and the professional, scientific and technical services sectors. Construction will account for nearly one out of every five jobs created in 2015 and 2016, while about one third of job gains over the next two years will be in professional and business services.

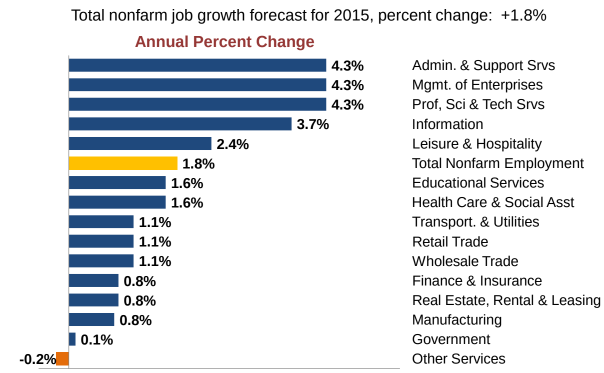
Ventura County Snapshot

Ventura County Employment Growth, 2015



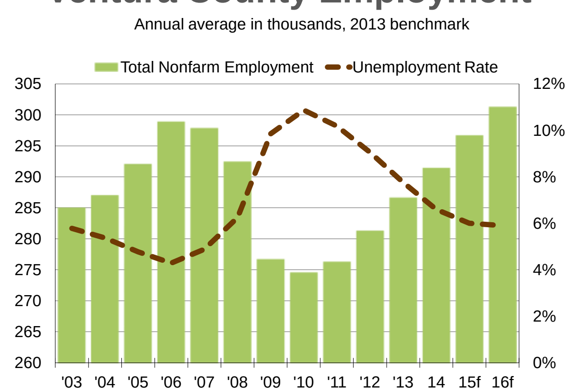
Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Ventura County Employment Growth, 2015



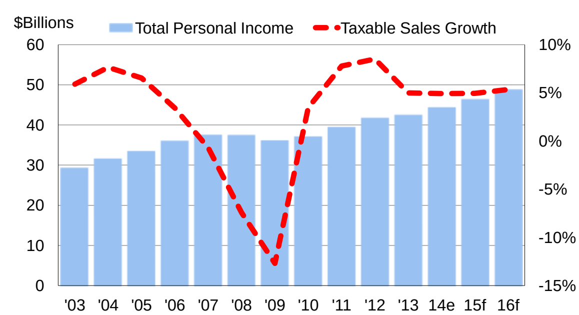
Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Ventura County Employment



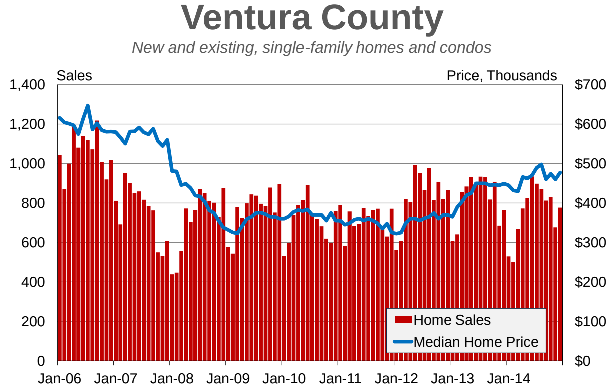
Source: EDD Labor Market Information Division; forecast by LAEDC

Ventura County Personal Income & Taxable Sales Growth



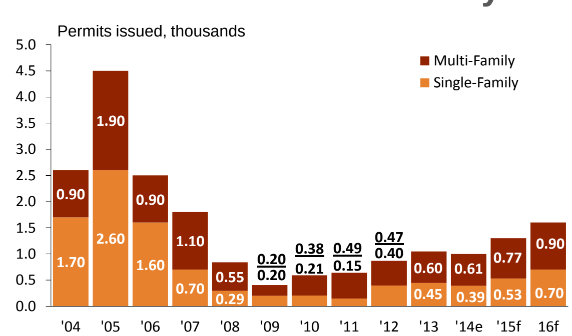
Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

Home Sales & Median Prices Ventura County



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 TaxableSales ($Billions)	Housing Unit Permits Issued	Nonresidential Building Permits ($Millions)
2003	789.4	285.0	5.8	29.3	37,218	10.4	3,635	379
2004	795.0	287.0	5.4	31.6	39,810	11.2	2,603	353
2005	796.9	292.0	4.8	33.5	42,129	11.9	4,516	372
2006	801.2	298.8	4.3	36.0	45,077	12.3	2,461	326
2007	805.9	297.8	4.9	37.5	46,870	12.2	1,847	346
2008	812.0	292.4	6.3	37.4	46,427	11.3	842	345
2009	818.5	276.7	9.9	36.1	44,287	9.9	404	153
2010	825.1	274.6	10.9	37.1	44,912	10.2	590	160
2011	830.1	276.3	10.2	39.4	47,463	11.0	640	147
2012	833.4	281.3	9.1	41.7	49,982	12.0	410	127
2013	839.3	286.6	7.8	42.4	50,507	12.6	1,048	143
2014	844.3	291.4	6.6	44.3	52,400	13.2	1,000	128
2015f	849.8	296.6	6.0	46.3	54,500	13.8	1,300	135
2016f	855.7	301.2	5.9	48.7	56,900	14.6	1,600	140
% Change								
03/02	1.2%	0.9%		6.5%	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%	5.8%	6.6%	73.5%	5.4%
06/05	0.5%	2.3%		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%	-1.8%		-0.2%	-0.9%	-7.4%	-54.4%	-0.3%
09/08	0.8%	-5.4%		-3.6%	-4.6%	-12.7%	-52.0%	-55.7%
10/09	0.8%	-0.8%		2.7%	1.4%	3.5%	46.0%	4.6%
11/10	0.6%	0.6%		6.4%	5.7%	7.8%	8.5%	-8.1%
12/11	0.4%	1.8%		5.8%	5.3%	8.5%	-35.9%	-13.9%
13/12	0.7%	1.9%		1.7%	1.1%	5.0%	155.6%	13.2%
14/13	0.6%	1.7%		4.4%	3.7%	4.9%	-4.6%	-10.6%
15/14	0.7%	1.8%		4.6%	4.0%	4.9%	30.0%	5.5%
16/15	0.7%	1.6%		5.1%	4.4%	5.3%	23.1%	3.7%

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 2013 Benchmark

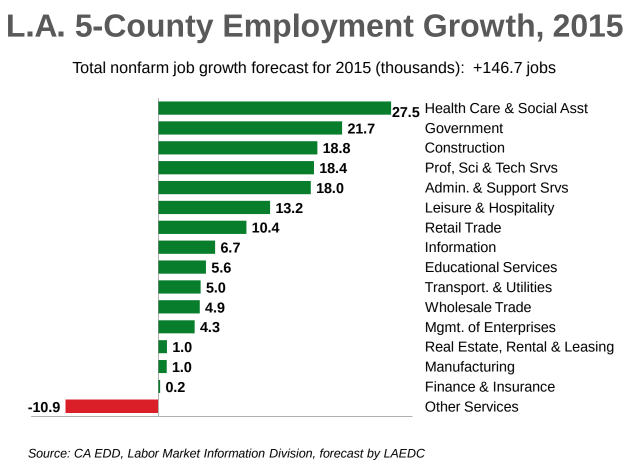
Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2003	285.0	0.6	16.6	37.1	*24.0*	*13.0*	11.8	34.5	5.6	7.2
2004	287.0	0.7	16.9	38.3	*24.2*	*14.1*	12.2	35.3	5.7	6.8
2005	292.0	0.8	18.8	37.7	*23.9*	*13.9*	12.5	36.5	5.8	6.2
2006	298.8	1.1	20.5	38.4	*24.1*	*14.3*	12.6	37.6	6.1	6.0
2007	297.8	1.1	18.8	38.0	*23.9*	*14.1*	13.0	37.6	6.1	5.8
2008	292.4	1.2	16.7	35.9	*23.2*	*12.7*	12.8	37.3	6.0	5.6
2009	276.7	1.2	13.2	32.6	*20.4*	*12.2*	12.0	35.1	5.4	5.3
2010	274.6	1.2	11.3	31.5	*19.5*	*12.0*	12.3	35.5	5.3	5.1
2011	276.3	1.3	11.3	30.6	*18.8*	*11.8*	12.4	36.3	5.5	4.9
2012	281.3	1.3	11.8	29.9	*18.2*	*11.7*	12.6	37.3	5.7	5.1
2013	286.6	1.2	12.4	29.8	*18.1*	*11.7*	12.8	38.5	5.8	5.1
2014	291.4	1.3	12.9	29.8	*18.0*	*11.9*	13.0	39.1	5.9	5.3
2015f	296.6	1.4	14.0	30.0	*18.1*	*11.9*	13.1	39.5	6.0	5.5
2016f	301.2	1.5	15.0	30.1	*18.2*	*12.0*	13.2	39.9	6.0	5.4

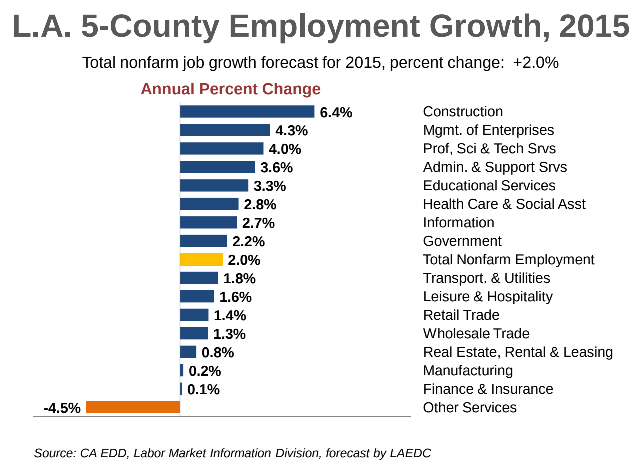
Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2003	19.2	4.3	13.6	3.9	19.4	3.4	25.0	27.6	10.4	44.8
2004	19.8	4.4	14.2	3.6	19.5	3.6	24.7	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	3.7	25.5	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	3.7	26.3	30.5	10.2	42.5
2007	17.9	4.8	16.2	3.2	18.8	4.1	27.5	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.0	4.6	28.8	31.5	10.0	43.1
2009	16.1	4.4	16.2	2.9	16.1	4.7	29.6	29.8	9.3	42.9
2010	16.0	4.3	15.3	2.6	15.8	4.7	30.0	30.3	9.2	44.2
2011	16.2	4.2	15.0	2.1	16.0	4.7	30.8	31.4	9.2	44.4
2012	15.4	4.2	15.7	1.9	17.2	5.3	32.2	32.7	9.4	43.6
2013	14.5	4.3	16.0	1.8	18.4	4.9	34.1	33.7	9.6	43.6
2014	14.1	4.4	16.8	1.8	19.3	5.0	34.7	34.7	9.7	43.6
2015f	14.3	4.4	17.5	1.9	20.1	5.0	35.3	35.6	9.7	43.7
2016f	14.3	4.5	18.1	2.0	20.8	5.2	36.1	36.0	9.7	43.8

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 2014 were stronger and more broad-based than the region has experienced since the end of the recession. This trend should prevail in both 2015 and 2016. Continued improvement 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.





AEROSPACE AND DEFENSE

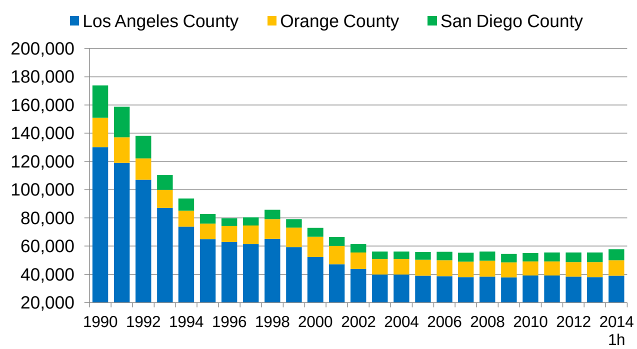
The aerospace and defense industry was instrumental in shaping the landscape, culture, and economy of Southern California during the 20th Century. The end of the Cold War, industry consolidation, and more recent cuts in defense spending have reduced the industry's presence in the region's economy, but it has not disappeared. Southern California has remained a center of aerospace activity in the U.S. even as the industry has transformed itself in recent decades.

Southern California's aerospace industry is valued as an asset to the Southern California economy on a number of levels. It employs a significant number of highly skilled and well-paid workers, and its exports make a positive contribution to the nation's trade balance. Moreover, new technologies developed by aerospace firms have spilled over into the wider economy, providing platforms for advances in a number of other industries and scientific disciplines.

Aerospace products and parts manufacturing firms are located in all of the counties of Southern California, adding up to roughly 60,000 jobs.[19] Most of the industry jobs are concentrated in Los Angeles County (60%), followed by Orange County (17%) and San Diego County (11%), with much smaller shares in the Inland Empire and Ventura County. Looking at the aerospace products and parts manufacturing sector only, the California EDD's Quarterly Census of Employment and Wages shows Los Angeles County employed approximately 38,900 workers during the first half of 2014, down from 39,700 for all of 2013, while employment in Orange County was 11,100 workers (up from 10,700) and in San Diego County employment edged up from 6,900 to 7,200 jobs over the same period.

In Los Angeles County alone, the industry employed more than 130,000 workers prior to the post-Cold War cuts that occurred in the early 1990s. More recently, the dispersion of firms and manufacturing activities to other parts of the country along with technological innovation have contributed to the long-term decline in employment. Capital is increasingly replacing labor, while labor itself has become more productive. Even so, last year's employment was not atypical, as jobs in the county have varied between 37,000 and 40,000 for the last dozen years. Despite lower employment levels, the value of aerospace products manufactured in the region has increased.

SoCal Aerospace Products Manufacturing Employment



Source: California EDD, QCEW Series

Civil Aviation: According to the Aerospace Industries Association, at the close of 2014, the backlog of U.S. civil transport aircraft was 5,552 airplanes valued at $429 billion, with foreign orders accounting for the lion's share of the backlog. While commercial jetliners are no longer manufactured in Southern California, the projected growth of civil aircraft is a lifeline for the large number of subcontractors in the region who produce parts for

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[19] A broader definition of aerospace includes ancillary industries such as search and navigation instruments, which accounts for nearly 50,000 additional jobs in the six-county Southern California region.

Boeing and Airbus. Boeing alone has 3,300 suppliers in California,[20] many of which are located in Southern California.

Defense: Federal budget cuts pose an ongoing challenge to Southern California's aerospace and defense firms, but there is a possibility that some cuts will be restored in the new budget cycle. Meanwhile, demand for cyber security, intelligence, surveillance, and defense electronics are expected to remain strong. Already a leader in the development and manufacture of unmanned aircraft systems (UAS), the region's aerospace industry will greatly benefit from robust and growing demand for UAS for military and civilian uses in the years ahead.

Looking Ahead: New applications of defense and civilian aerospace technology continue to emerge. Commercial satellites manufactured in Southern California have orbited the earth for decades, providing GPS, cell phone, and radio/television communications. More recently, "alternative-space" (private companies engaged in activities that were once the sole domain of NASA) has set down roots in Southern California with the arrival of companies like SpaceX, Scaled Composites and Virgin Galactic. Given its long-standing expertise in defense, surveillance, and secure communications, the 21st Century aerospace industry has branched out to cyber security and intelligence applications outside of the military.

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. 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 adequate supply of skilled workers. It is also imperative that the flow of federal research and development dollars continues. 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 significant contributions to the Southern California economy, particularly in Los Angeles County. The fashion industry in Orange County is smaller, but has crafted its own identity separate from Los Angeles. In addition to apparel, Southern California's fashion industry includes textiles, jewelry, footwear, handbags and cosmetics.

Together, Los Angeles and Orange counties employ the largest number of apparel workers in the United States and are one of the few places in the U.S. where apparel continues to be manufactured on a large scale. Although production of most apparel

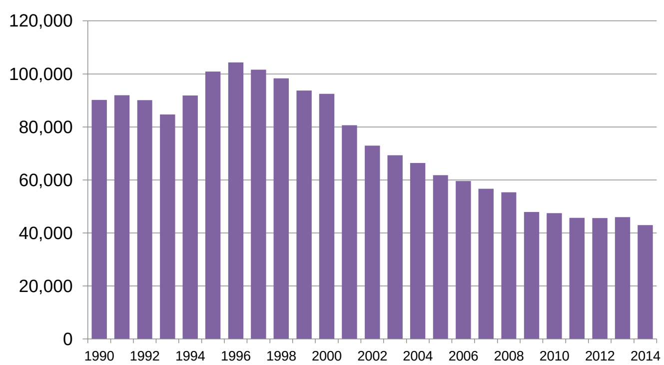
[20] *Boeing in the States: http://www.boeing.com/assets/pdf/aboutus/govt_ops/state_cards/card_CA.pdf*

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 is often manufactured locally. There is also a small but active community of designer led boutiques that specialize in locally designed and manufactured fashions that emphasize well made, local and sustainably sourced apparel.

On the opposite end of the manufacturing spectrum, the local industry is likewise a leader in “fast-fashion” apparel production – a term used to describe the high volume production of inexpensive clothing that reflects current fashion trends and can go from the sketch to store shelves in as little as four weeks with retailers sometimes receiving daily shipments. The fast-fashion segment of the apparel market, which primarily targets young women and teens, depends on such quick turnaround times that a trend may come and go by the time a container crosses the Pacific Ocean from Asia.

Design-related activity also contributes to maintaining the apparel industry’s presence in Southern California. One of the great strengths of the local fashion industry is the collection of designers responsible for the global appeal of the “Made in L.A.” label. In 2013 (latest data available), there were nearly 4,500 fashion designers working in Los Angeles and Orange counties. The many apparel design and merchandising schools that are located in the region attract talented students from all over the world. Fashion is also closely linked with the entertainment industry and the region’s flourishing art scene.

Apparel Manufacturing Employment
In Los Angeles County



Source: EDD Labor Market Information Division

Much of the apparel manufacturing and wholesaling workforce in Southern California is located in Los Angeles County, although a significant number of workers may be found in Orange County as well. In 2014, apparel manufacturing employment in Los Angeles County averaged 42,900 workers, while wholesaling employed 24,400 for total industry employment of 67,300 workers. Compared with 2013, this represented a decline of nearly 2,700 workers due to the loss of 3,100 (-6.8%) manufacturing jobs. In contrast, apparel wholesaling added 433 jobs.

The apparel industry also employs a large number of independent contractors, significantly boosting total employment numbers. In 2012 (latest data available), there were nearly 8,100 independent contractors working in Los Angeles and Orange counties manufacturing and wholesaling textiles, apparel, footwear, leather goods and jewelry. In contrast to wage and salary employment, the number of independent contractors is trending up. Having increased by 2.4% or 188 jobs in 2012 (latest data available), it is likely that growth continued in 2013 and 2014.

In addition to employment directly related to the local manufacture and distribution of apparel and textiles, a large number of jobs in ancillary industries depend on local fashion activities: import/export agents; goods movement (to handle the volume of apparel goods coming in from Asia); and equipment leasing and financing firms that specialize in servicing the fashion industry.

Apparel manufacturing remains one of the most-labor intensive industries in the world, which gives countries with lower wages and a lower cost of living a competitive edge. This is why newly industrializing nations nearly always begin with the manufacture of textiles and basic apparel. However, when strict quality control or fast turnaround times are required, apparel manufacturers in Southern California have shown they can be competitive. As labor costs rise overseas, some local apparel companies are experimenting with bringing more of their production back to Los Angeles. Nevertheless, over the near- to mid-term, local apparel manufacturing employment is likely to continued to trend downward before stabilizing, while creative design work will continue to flourish.

COMPUTER AND ELECTRONIC PRODUCT MANUFACTURING

The computer and electronic product manufacturing industry is one of the largest manufacturing industries in Los Angeles County, surpassed only by apparel manufacturing, fabricated metal products, and aerospace. The industry employed 37,400 workers in Los Angeles County in 2014, with another 32,200 in Orange County, and 5,100 in Ventura County. San Diego County also had 24,600 workers in this industry.

Like many other manufacturing sectors, computer and electronic product manufacturing has experienced a long-term decline in employment dating back over twenty years. This trend continued into 2014, with a 5.2% decline in Los Angeles County and smaller percentage decreases in Orange and Ventura Counties. Only San Diego County bucked this trend with a marginal increase (0.1%).

Despite declining job counts, the industry remains an important part of the region's manufacturing base, and more broadly, its economic base. It employs a large number of skilled workers in both professional and production occupations, drawing from the deep pool of skilled labor in the region. Occupations within this industry generally earn wages that are substantially higher than the average for the region.

PROFESSIONAL AND BUSINESS SERVICES

The professional and business services super-sector includes three major subsectors: professional, scientific and technical services; management of companies and enterprises; and administrative, support, and waste services. Collectively, these industries employ over one million workers in the five-county Los Angeles metropolitan area, with 616,000 workers in Los Angeles County alone, over 270,000 in Orange County, nearly 140,000 in the Inland Empire, and just under 38,000 in Ventura County. San Diego County employs more than 230,000 individuals in professional and business services.

Several occupations in these industries are high paying, requiring at least an undergraduate degree, and often advanced education or training. These occupations include architects, engineers, IT consultants and other business consultants, accountants, and lawyers. Professional and business services employment has experienced substantial gains throughout the region, achieving a new peak in Los Angeles County in 2014, and fast approaching pre-recession peaks elsewhere in the region. By subsector, employment in professional, scientific and technical services increased by 3.8% (17,000 jobs) in the Los Angeles five-county area last year, jobs in management of companies and enterprises rose by 4.3% (4,100 jobs) during the same period, while administrative, support and waste services jobs expanded by 4.4% (21,300 jobs). Forty percent of the increase in administrative, support, and waste services across the five-county area occurred in employment services, which includes temporary employment.

FINANCIAL SERVICES

After peaking in 2006 at 524,400 jobs, employment in Southern California's financial services industry was hit hard by the triple impact of the financial meltdown, the housing crisis and the Great Recession. By 2010, employment had declined by 103,000 jobs across the region. There are two major subsectors in this industry: finance and insurance, and real estate, rental and leasing. Most of the jobs losses over this five year period were concentrated in finance and insurance. After struggling to regain ground during the early years of the recovery, the financial services industry recorded job gains in 2012 and 2013, but employment contracted again in 2014, falling by 0.8% or 3,700 jobs, effectively wiping out the gains achieved during the previous two years.

Within the financial services Industry, the real estate, rental and leasing sub-sector improved across Southern California with gains of 1.3%, or 2,000 jobs. However, roughly two-thirds of jobs in financial activities are in the finance and insurance sector, which struggled in all counties, falling by 1.9% or 4,900 jobs across the region.

In Los Angeles County, where nearly half of Southern California's financial services jobs are concentrated, employment was flat last year. Orange County was responsible for the lion's share of the job losses, down by 3,200 jobs from a year ago. Meanwhile, San Diego and Ventura counties both posted marginal declines in financial services employment.

The Inland Empire was the only Southern California County to post a gain in this sector last year by adding 200 jobs.

Growth in financial activities is expected to be sluggish over the forecast period due to national economic factors. Interest rates will rise as the Fed winds down its "quantitative easing" program which will negatively impact housing demand and thus demand for mortgage lending. Furthermore, continued consolidation in the banking industry will slow employment in financial services. This will limit financial services jobs growth in Southern California to 1.0% in 2015 and 0.1% in 2016.

HEALTH CARE SERVICES AND BIOMEDICAL

Together, the Los Angeles five-county region and San Diego County have a population of 21.5 million people, over 10 million of whom live in Los Angeles County. With such a large population, Southern California is able to support a number of important and influential medical centers and a thriving life sciences industry. The health care sector is also one of the largest employers in Southern California. In addition to serving the local population, a number of medical centers in the region are attracting growing numbers of foreign patients as well.

In 2014, the health care industry employed 1.1 million workers in Southern California. Los Angeles County alone was home to 617,000 jobs, and accounted for over 54% of total industry employment in the region. Over the past several years, health care employment has shown very strong growth. Employment increased by 38,700 jobs (3.5%) compared with 2013. In Los Angeles County, health care jobs grew at an even faster pace (3.8%) adding 22,800 jobs.

Across the region, the subsector ambulatory health care services (offices of physicians and dentists) added 12,800 jobs (3.4%), while employment at hospitals was up marginally. The health care services industry also includes social assistance (individual and family services and child day care services). The bulk of the jobs in this subsector are centered in Los Angeles County, which saw employment jump by 18,900 jobs in 2014, up by 6.5% from 2013.

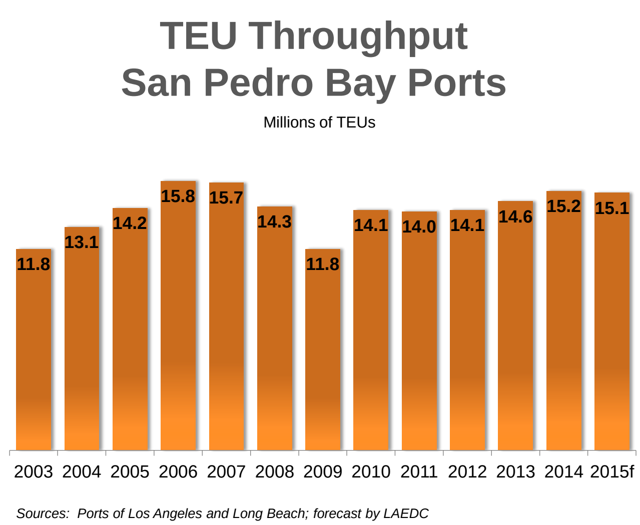
Health care is a large industry in the U.S. In 2013, national health care expenditures increased by 3.6% to $9,255 per person ($2.9 trillion in total) and accounted for 17.4% of GDP. Between 2012 and 2022, health care expenditures are projected to grow at an average rate of 5.8% per year.[21] Efforts to contain costs are colliding with increased demand for health care services and more transparent pricing. Fiscal pressures, sweeping regulatory changes under the Affordable Care Act and more empowered consumers are creating a new health care economy.

[21] Centers of Medicare and Medicaid Services; NHE Fact Sheet, CMS.gov

In addition to providing health care services, biomedical research is a thriving industry in Southern California. Across the region, life sciences firms engaged in research and development of medical devices and pharmaceuticals employed approximately 78,800 workers in the second quarter of 2014, up by 0.1% (or 500 workers) compared with the same period a year ago (This data is based on the Quarterly Census of Employment and Wages with the second quarter of 2014 as the latest available period). Orange County employed the largest number of medical device and pharmaceuticals manufacturing workers at 27,700 (up by 0.6% from the second quarter of 2013). In Los Angeles County, employment increased by 2.3% to 26,100 workers and in San Diego, there were 17,200 jobs in these sectors in (up by 4.7% over the year). Both life sciences research and the manufacture of medical instruments and pharmaceuticals are an important source of high paying jobs and economic growth in Southern California.

INTERNATIONAL TRADE/GOODS MOVEMENT

International trade is a vital part of the Southern California economy. In 2012, the LAEDC estimates that there were 163,601 trade-related jobs in Los Angeles County alone (most recent data available). The international trade sector includes transportation, logistics, and distribution services. The largest concentration of jobs is in transportation and warehousing. Southern California transportation and warehousing jobs increased by 3.4% in 2014. Over 9,000 jobs were added in 2014 compared with the same period in 2013. Looking at the individual counties, the Inland Empire (an important warehousing and distribution hub), experienced the largest increase, adding 3,800 positions (or 5.2%). In a close second, Los Angeles gained 3,600 jobs during the same period, with many jobs in support activities for transportation and trucking. Orange, Ventura and San Diego counties also saw job gains in this sector.



About forty percent of the nation's imported containers enter the United States through the San Pedro Bay ports. Los Angeles and Long Beach rank number one and two respectively in total container volumes handled of any port in the U.S. In 2014, the Ports of Los Angeles and Long Beach handled a total of 15.2 million containers, an increase of 4.1% compared with 2013. On an individual port basis, total loaded cargo volume at the Port of Los Angeles was up by 5.2%, while total loaded volume at the Port of Long Beach edged down by 0.7% in 2014.

The Los Angeles Customs District (LACD) also maintained its top position in the U.S. in 2014. The value of two-way trade climbed to $508.1 billion, an increase of 1.0% over the year. International airport cargo, which generally consists of small, lightweight, high-value products that require quick delivery, pass through both LAX and Ontario International Airport. Freight tonnage transiting through LAX fell slightly (-0.2%) last year, while at Ontario, freight tonnage increased by 3.0% over the same period.

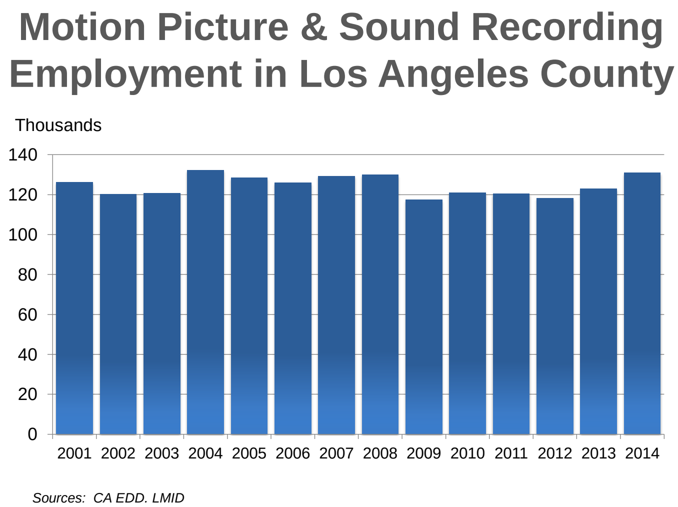
Both imports and exports should improve this year with imports outperforming exports. The anticipated improvement in trade will result in employment gains throughout the international trade sector.

Alameda Corridor: The 20-mile rail cargo line that connects both ports to the main intermodal yards near downtown Los Angeles is an integral part of the entire goods movement system. The number of trains running on the Alameda Corridor has increased steadily since 2010. In 2013, the number of trains rose by 8.2% over the year, while the average number of trains per day was up from 42 in 2012 to 45 in 2013, the highest train per day figure since 2007. Train counts increased by 8.0% year-to-date (through May 2014) compared with the same period a year ago.

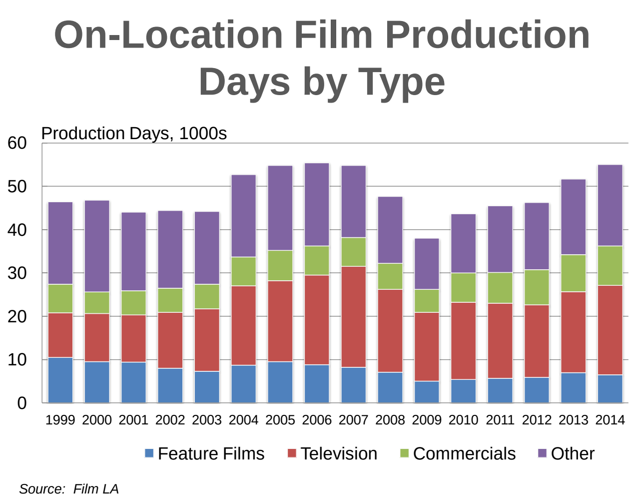
MOTION PICTURE AND VIDEO PRODUCTION

Motion picture and sound recording is a signature industry in the Los Angeles County economy. Activity related to the industry generates substantial economic benefits for the region both directly and indirectly. Filming on sound stages and on-location employs actors, camera operators and directors, but production activity also employs technicians, equipment truck drivers, security guards and caterers. The industry also provides jobs for accountants, lawyers and insurance firms. In addition, film studios and related activities are users of large amounts of office and industrial real estate. Significantly, the entertainment industry is a major source of export revenues for the region because of the royalties earned overseas by locally produced films and TV shows.

There were 130,900 wage and salary jobs in the motion picture and sound recording industry in Los Angeles County last year, an increase of 6.5% over 2013. While this was the largest employment total in ten years, employment is still below the prerecession peak of 132,200 from 1999. Even so, local job gains over the last two years outpaced the trend nationally. Within the motion picture and sound recording industry, employment is concentrated in the subsector motion picture and video production. Other important subsectors include motion picture distribution, post production services and sound recording.



Another indicator of industry activity is the number of permitted on-location film days. On-location activity reached the second-highest level based on data going back to 2001, with just over 55,000 production days. On-location production in total rose by 6.5% over 2013, the fifth consecutive annual increase since bottoming out in 2009. By category, television increased by 10.3%, commercials increased by 7.4%, and “other” productions (student and industrial films; music videos, etc.) were up by 7.6%, but feature films fell by 7.7% after increasing four years in a row.



North American box office revenue in 2014 fell to its lowest level in three years at $10.3 billion, decreasing 5.5% from 2013. Ticket sales declined by five percent from 2013, but ticket prices rose by nearly two percent over the same period. International revenues, which are typically more than double North American revenues, were not yet available for

2014. However, box office revenues increased by over a third in China[22] and set a new record last year in Japan.[23]

Total home entertainment spending fell by 1.8% from $18.1 billion in 2013 to $17.8 billion in 2014. Spending has been more or less flat over the last three years. However, strong revenue gains occurred in electronic sell-through (consumers pay a one-time fee to download a media file) and subscription streaming, while other categories such as rentals (excluding video on demand) declined.[24]

Having enacted California Film Tax Credit in 2009, the California legislature expanded the program in 2014, tripling the amount to $330 million annually. This bill is aimed at reversing runaway film production by offering more incentives to studios to keep production in California. The increase in filming locally is expected to create or retain jobs in the state and is expected to pay for itself in that the credits will lead to increased tax revenues to state and local government over and above the credits themselves.

REAL ESTATE AND CONSTRUCTION

Residential Real Estate

Although 2014 proved to be a disappointing year for Southern California's housing market, there are reasons to feel more optimistic about 2015. Housing market indicators that are on a firmer foundation include:

- Stronger job growth which has increased the number of potential qualified buyers
- Improving inventories (if only slowly)
- Lowest foreclosure resale rate since 2007
- Mortgage interest rates near historic lows, with only a modest increase expected later this year
- Mortgage lending standards that are starting to ease

What is holding the housing market back from making a full recovery this year? Southern California home sales in 2014 declined by 8.7% compared with 2013. As of December, sales throughout the five-county region had fallen on a year-over-year basis for 15 consecutive months. Institutional investors have largely withdrawn from the housing market, but traditional first-time buyers have not returned in sufficient numbers to fill the void. While mortgage lending standards have eased, they remain restrictive. Only a relatively small group of potential buyers with strong credit scores and big down

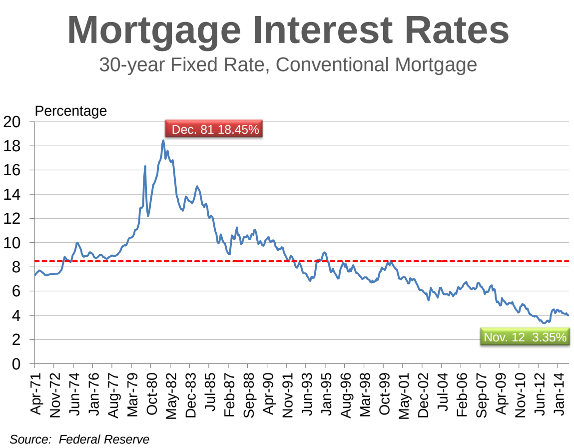
[22] http://www.latimes.com/world/asia/la-et-ct-china-box-office-revenues-surge-2014-20150105-story.html

[23] http://www.eiren.org/statistics_e/index.html

[24] The Digital Entertainment Group, 2014 Year-End Home Entertainment Report

payments are able to get financing. There are some encouraging signs, however. Mortgage applications, a leading indicator of future home sales fell to their lowest level 14 years in the fall of 2014, but surged higher after the first of the year, posting the largest weekly gain during the first week of January since November 2008. Moreover, the first cohort of homeowners whose credit was impaired by foreclosures during the housing crisis will be able to qualify for a new home loan this year – it generally takes seven years to rebuild credit after a foreclosure – potentially boosting market activity.

Another roadblock is the sharp rebound in home prices, which have outpaced improvements in the labor market, particularly wage growth. Affordability is still good compared with historic norms, but many potential buyers have already been priced out of the market. In 2014, the median price of an existing single family home in California climbed by 9.8% over the year to $447,010. Many new and young households either cannot afford to buy (even with today's exceptionally low interest rates) or cannot qualify for a mortgage loan. Disappointingly, surveys have shown that there is a great deal of confusion and misperception regarding mortgage loans among the public. Within the pool of qualified buyers, many do not even apply for a mortgage loan because they think the process is too expensive and time consuming, or they do not believe they can get a loan.



At the same time, rents are soaring even faster than home prices (and income) in many parts of the country. In the Los Angeles metro area, the share of income needed make the monthly mortgage payment on a median priced home was 40.8% (third quarter, 2014). It was even higher for first-time homebuyers (50.7%) because they tend to make smaller down payments. The share of income needed to afford median rent in Los Angeles was 47.9%, the highest of any large metro area in the country.[25] With more income needed for rent, many households cannot save for a down payment on a home. Additionally, since households spend the largest share of their average annual

[25] "*Renting is Twice as Expensive as Buying*", Garrison, Trey. Zillow.com (December, 9, 2014)

expenditures on housing, increases in housing expenditures can have a detrimental effect on other areas of consumer spending like clothing, entertainment, medical care or even food.

A sustained housing market recovery also requires rising rates of household formation and homeownership. Job growth has improved to the point where household formations are on the upswing. In 2013, household formations picked up to nearly 1.4 million. In 2014, the number of new households dropped back to the long-run average of 1.2 million, but is projected to increase to 1.5 million in 2015.

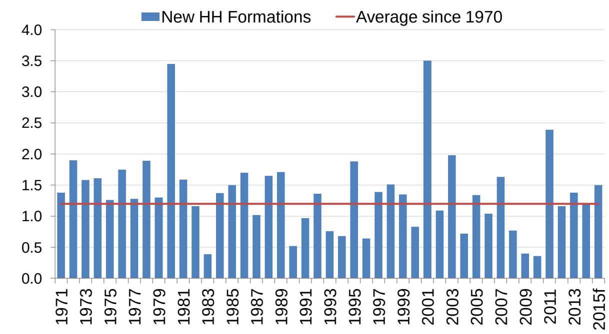
Rates of homeownership on the other hand have not recovered. Homeownership peaked at 69.0% nationally in 2004 and has been declining ever since, falling to 64.3% in the third quarter of 2014. In California, homeownership peaked later, in 2006 at 60.2% and has also been on a trend decline. In 2013, the homeownership rate in California dropped to 54.3%, the lowest rate since 1987. One reason for the decline is the slow pace of wage and salary growth since the end of the recession – homeownership tends to rise with income. A another reason may be that homeownership rates during peak years were unsustainable because of the easy lending practices that prevailed at the time, which enabled less-than-qualified households to become homeowners, many of whom subsequently lost their homes during the housing meltdown and recession.

Attitudes toward homeownership are also less favorable than they have been in the past, especially among younger households. Yet, the perception that there has been long-term shift in preferences of renting versus owning a home is probably premature. Given the challenging job market, slow wage growth and high levels of student debt, many young families are likely to remain renters for longer than in the past, but a number of surveys have shown that most young families (and an increasing number of singles) still aspire to own a home.

***Apartments*:** The apartment market has been strong for several years. Demand for rental units shows no sign of slowing. Vacancy rates are low

U.S. Household Formation

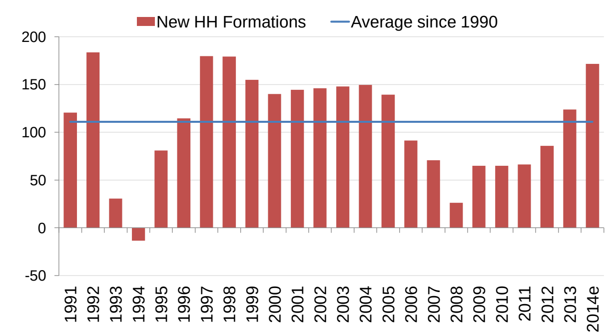
Annual change number of households, millions



Source: U.S. Census Bureau, Wells Fargo Economics Group

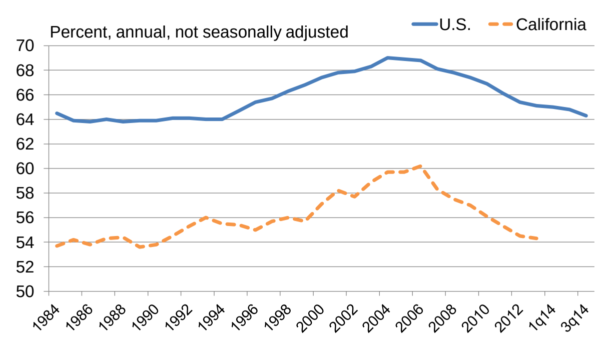
California Household Formation

Annual change number of households, thousands



Source: HIS Global Insight

Homeownership rates are declining in the U.S. and California

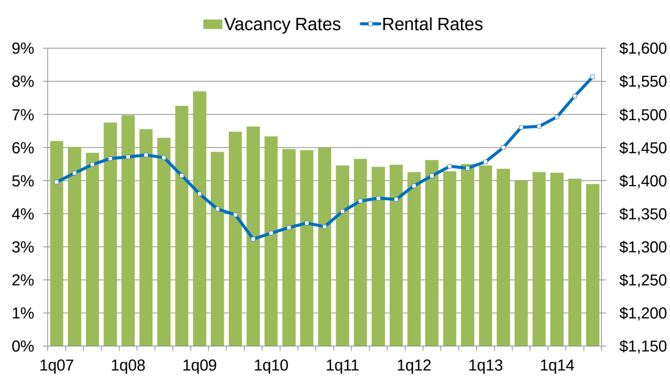


Source: Federal Reserve Bank of St. Louis and rental rates continue to rise. In spite of the local flurry of new apartment construction, supply has not kept up with demand, especially in the market for more affordable units.

A number of economic and demographic factors are driving demand for apartment rentals. Stronger job growth has enabled more young people to form separate households 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 influence this decision. The difficulty of qualifying for a mortgage loan or coming up with a down payment have also pushed many would-be buyers to the rental market. Additionally, as enrollment at the nation's colleges and universities has increased, so has demand for student rental housing. At the other end of the age spectrum, longer life expectancy and better health are swelling demand for senior housing. It is not yet clear how many aging baby-boomers will opt to remain in the family home versus downsizing to a condo or apartment.

Since the end of the recession, multi-family has been the most active area of new residential construction and is set to rise at an even faster rate in the coming years. The increasing ratio of multi- to single-family new home construction is clearly visible in many metro areas in California. So far improvement in underlying fundamentals (employment and income growth, household formation) suggest that current demand can absorb supply but rising rental rates have made affordability an issue. Looking ahead, as more apartment units become available, the added supply will push vacancy rates higher and check the rate at which rental rates have been rising.

Apartment rents soar as vacancy rates decline in Southern California

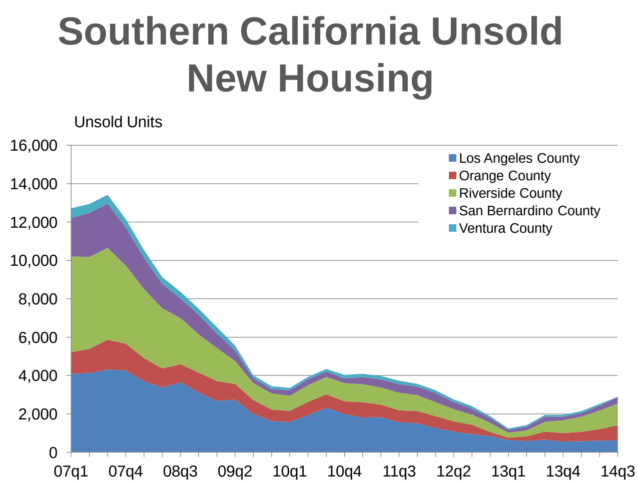


Note: For apartments with more than 100 units
Source: Real Facts/California Real Estate Research Council

Unsold Inventories of Homes: Inventories of homes for sale have improved marginally from the exceptionally low levels seen last year. According to the California Association of Realtors, the unsold inventory of existing single-family homes in California represented a 3.3-month supply in December. This was up from a 3.0-month supply in December 2013. In a balanced market, a seven-month supply is the norm for California. Locally, inventories ranged from a low of 3.1 months in Orange County to a high of 4.7 months in Riverside County.

Inventories of unsold new homes are also lean, but have been on the rise across most of the region. In Los Angeles County, the inventory of new unsold housing declined by 6.2% to 618 units, during the third quarter of 2014 compared with the same period in 2013. The number of unsold homes plunged during the final months of 2013 (to 563 units) but rose on a quarter-to-quarter basis in 2014. Inventories in Orange County were up by 90.2% (793 units) during the third quarter of 2014 compared with year ago levels. In the Inland Empire, unsold inventories in Riverside County jumped by 119.2% (1,129 units) and in San Bernardino County, by 30.9% (342 units). In Ventura County the unsold new home inventory was up by 10.9% (102 units).

Why are inventories so low? On the existing home front, the foreclosure pipeline has slowed to a trickle, investors are holding rather than flipping, and many would-be owner-occupant sellers still have insufficient equity to trade up. On the new home side, there has been little new construction other than apartments for the last several years. While these conditions have limited supply, this situation will improve as uncertainty about the future direction of the housing market lessens.



Source: California Real Estate Research Council

New Home Construction: New home construction is slowly coming back, but the pace has been disappointing. Part of the problem has been a lack of construction and development lending. The lending environment is improving, but the time it takes to develop new residential land is lengthy in California and the supply of available land is limited throughout much of the region. New multi-family housing, the one bright spot in residential construction is expected to begin shifting from apartments to townhouses and condominiums as older Millennials enter their mid-thirties, begin to have families and look to buy a home.

Permits for new home construction in Southern California increased moderately in 2014, rising by 2.6% to 38,800 units. Since bottoming out in 2009 at 14,942 total units permitted, housing permits have rebounded by nearly 160%. 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 46,300 units in the Los Angeles five-county region this year, an increase of 19.3% compared with 2014. New home construction is expected continue on much the same trajectory in 2016 with a projected increase of 17.1% to 54,200 units permitted. In addition rising home prices, employment, income and population growth will drive new home construction. This is likely to be a process that will stretch out over many years.

Conclusion: Southern California's housing market is on the mend. Although the pace so far has been too slow to provide much of a boost to sales of existing homes or new home construction, conditions will improve this year and show more pronounced gains in 2016.

Increases in median home prices moderated significantly over the course of 2014 – a sign the housing market is moving back to a more balanced position. While support for existing home sales has shifted away from investor purchases and back to traditional buyers, stronger job and wage growth is needed to support housing demand and price appreciation. The decline in sales over the course of 2014 may be a reflection of the market adjusting to this shift.

Further improvement this year and next will depend in large part on progress in the rest of the economy, including the housing credit market. As price increases continue to moderate, Southern California's housing market will rely more on job and income growth to support housing demand and prices.

Table 22: Median Existing Single-Family Home Prices

Year	L.A. County	Orange County	Inland Empire	Ventura County
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	405,630	651,640	241,410	516,470
2014	449,510	687,930	273,890	573,560

Annual % Change

Year	L.A. County	Orange County	Inland Empire	Ventura County
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%	27.5%	21.0%
2014	10.8%	5.6%	13.5%	11.1%

Source: California Association of Realtors

Table 23: Total Housing Permits

Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
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	10,709	6,862	6,034	410	24,015
2013	16,850	10,453	9,456	1,048	37,807
2014e	18,000	10,100	9,700	1,000	38,800
2015f	20,700	11,400	12,900	1,300	46,300
2016f	24,300	12,400	15,900	1,600	54,200

% Annual Change

Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
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	2.9%	42.8%	15.7%	-35.9%	14.0%
2013	57.3%	52.3%	56.7%	155.6%	57.4%
2014e	6.8%	-3.4%	2.6%	-4.6%	2.6%
2015f	15.0%	12.9%	33.0%	30.0%	19.3%
2016f	17.4%	8.8%	23.3%	23.1%	17.1%

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

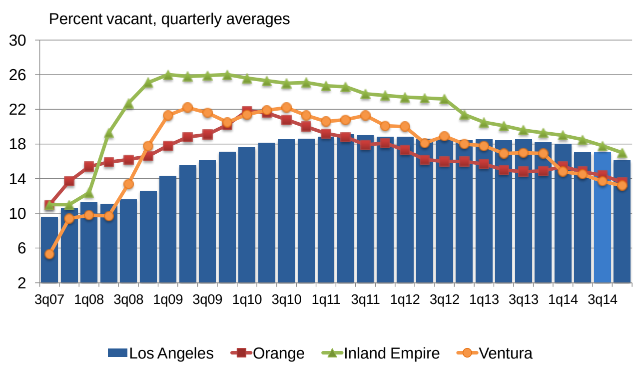
Nonresidential Real Estate[26]

Commercial real estate has experienced a slow turnaround in the aftermath of the Great Recession compared with previous downturns, but is finally responding to the pull of a stronger economy. At the national level, a number of forward-looking indicators[27] suggest nonresidential construction is gaining traction. Investment in nonresidential structures rose by 8.0% in 2014 and is expected grow in the mid-seven percent range in 2015. Businesses are starting to feel a bit more comfortable with the idea of investing in long-term projects. As economic growth continues to gain momentum and labor market conditions approach something akin to normal, increased spending on nonresidential structures will follow.

Office Space

The modest pace of economic growth over the past five years has led to slow improvements in both operating fundamentals and new construction for the region's commercial real estate sector, especially office properties. However, it now appears Southern California's office market may have reached an inflection point. The region's office market fundamentals strengthened in the final quarter of 2014 signaling a new stage of growth for the region. The overall vacancy rate declined by 1.9 percentage points over the year to 14.8%, the lowest level since 2007. Leasing activity was up by 7.4% to 28.8 million square feet leased, the highest level since 2006. Occupancy gains of 6.7 million square feet were the highest in 13 years and direct class-A asking rents increased by 7.6% over last year to $2.88 per square foot.

Office vacancy rates are slowly declining across the region



Source: Cushman and Wakefield

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[26] The LAEDC thanks Cushman and Wakefield for providing office and industrial vacancy rates, rental rates and the figures for leasing activity that are cited in this section.

[27] These indicators include starts, architectural billings and the Dodge Momentum Index.

Los Angeles County: Although the Los Angeles County office market has lagged behind other major cities in recent years, this may be changing. Fundamentals surged during the second half of 2014, with some indicators even surpassing prerecession levels. Tech is the primary driver behind the uptick in demand in a number of submarkets. Funding for startups reached $3.0 billion in 2014, an historical high and up by 188% over 2013.[28] Former warehouses and old downtown buildings are being made over into “creative” office space. Illustrating this trend, a four year old, 300,000 square foot office complex in Playa Vista that had never been occupied is undergoing a complete renovation, incorporating design elements to make it attractive to companies in the creative industries. Slated for completion during the first quarter of 2015, a number of firms have already signed leases.

During the fourth quarter of 2014, the overall office vacancy rate in Los Angeles County was 16.1%, down from 18.2% during the same period in 2013 and was the lowest since 2008 when it was also 16.1%. Leasing activity of 13.6 million square feet exceeded 2013 activity by 5.6%. Occupancy gains in 2014 were over 3.6 million square feet, the largest gain in 13 years. Over the next several years, occupancy gains will be led by high-tech, entertainment, education and alternative energy firms.

At the close of 2014, there was 1.5 million square feet of new office space under construction. Construction levels have not been this high since 2009. The average asking rent for class-A space was $2.98 per square foot during the fourth quarter, up from $2.79 per square foot during the same period in 2013.

The vacancy rate in the central business district submarket was 19.5% during the fourth quarter, down from the year ago rate of 21.4%. Leasing activity in 2014 encompassed nearly 2.7 million square feet, an increase of 69% compared with 2013. Occupancy gains outpaced move-outs by over 428,190 square feet. Asking rents rose by 7.0% to $3.05 per square foot. The vacancy rate in the Westside submarket declined by the largest margin – falling 2.9 percentage points to 12.5% in the fourth quarter. It also saw the largest bump in asking rents, which rose over the year by 9.7% to $3.73 per square foot. West Los Angeles, specifically Play Vista, also made the largest contribution to total occupancy gains in the county.

The South Bay had the highest office vacancy rate in Los Angeles County (22.7%), but asking rents still increased over the year by 5.8% to $2.38 per square foot. Most of the leasing activity in the South Bay is coming from tech firms concentrating in El Segundo. At 98,201 square feet, the occupancy gain for 2014 was more than double the gain in 2013 and rents increased by 5.9%.

Orange County: The Orange County office market had a great year. In 2014, occupancy gains totaled 1.2 million square feet, up by 4.8% over last year. The Newport Beach, Irvine and Irvine Spectrum micro markets were responsible for much of the absorption. Leading occupancy gains in Orange County over the next few years will be IT, defense, medical and alternative medicine companies.

[28] Built in Los Angeles (*http://www.builtinla.com/*); *LA Startup Report 2014* (1/14/15)

The Orange County average office vacancy rate declined in the fourth quarter of 2014 to 13.6% from 14.9% during the same period in 2013. Leasing activity increased by 19.1% to 8.8 million square feet, the highest level in eight years. There was 475,000 square feet of new office space under construction during the fourth quarter with 815,000 square feet of new completions delivered to the market in 2014. The most notable project delivered last year was the Irvine Company development at Fashion Island in Newport Beach (355,000 square feet).

The average class-A asking rent in Orange County shot up by 23.3% over the year to $2.64 per square foot during the fourth quarter.

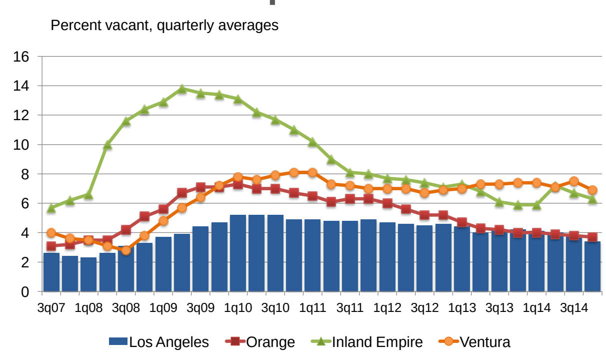
Inland Empire: The Inland Empire office market is slowly turning around. Office-using job sectors (professional business services, financial services, education and health care) have posted significant employment gains over the year. Vacancy rates are falling and rents are edging up, but leasing activity lags behind other counties in Southern California. The Inland Empire office market is still in a period of stabilization as opposed to expansion. Job growth will need to accelerate in the coming quarters for the Inland Empire's office market to improve at a more robust pace.

The region's office vacancy rate was 17.0% during the fourth quarter of 2014, down from 19.3% during the same period in 2013 and the lowest since the first quarter of 2008 when it was 12.4%. Rental rates were up slightly, rising by 1.5% over the year to $2.00 per square foot. Leasing activity totaled 736,000 square feet in 2014, a decline of 11.6% compared with 2013, but occupancy gains (new leases less move outs) were 466,000 square feet. Two transactions by religious organizations in Ontario and San Bernardino accounted for 265,400 square feet (or 57%) of the occupancy gains. There was no new office space under construction during the fourth quarter of 2014 and only 58,000 square feet of completions delivered over the year. The lack of new construction will keep upward pressure on vacancy rates in check and ease downward pressure on asking rents.

Industrial Space

As a major gateway market for consumer goods, Southern California's industrial real estate markets have seen steady improvement since the end of the recession. The region is a hub 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.

Industrial vacancy rates continue to improve



Source: Cushman and Wakefield

Los Angeles County: Energy and optimism characterized Los Angeles' industrial real estate market in 2014. Leasing activity increased, vacancy rates continued to fall and rental rates were up. Although the supply of land for development is tight, there was 2.5 million square feet of new industrial space (mostly concentrated in the San Gabriel Valley) in the pipeline at the close of the fourth quarter with over 2.7 square feet in new completions. In spite of the miniboom in new industrial construction, new developments only represent 0.2% of existing stock, and with demand expected to stay strong, the market will remain tight.

During the fourth quarter of 2014, the overall industrial vacancy rate in Los Angeles County was 3.4%, down from 4.2% during the same period last year and the lowest in six years. Driving the decline in the vacancy rate, occupancy gains totaling 9.6 million square feet were at their highest level since 2006. Over the year, the average asking rent for industrial space increased from $0.58 per square foot to $0.60 (an increase of 3.4%). Leasing activity in the fourth quarter YTD was over 40 million square feet, up by 11.9% compared with the same period a year ago and was the strongest period of leasing activity on record.

Orange County: Like Los Angeles County, Orange County has one of the tightest industrial real estate markets in the country. Continued declines in vacancy rates are expected through 2015, creating upward pressure on rents.

The overall vacancy rate is approaching record lows, falling to 3.7% in the fourth quarter, 0.5 percentage points below the year ago rate. Asking rents increased by 4.2% over the year to $0.75 per square foot. There was 529,000 square feet of new industrial space under construction in the fourth quarter, with 976,000 square feet of new completions hitting the market last year – the highest amount since 2005

In 2014, positive net absorption was 1.7 million square feet, down from 2.2 million square feet in 2013. Over the last four years, the Orange County market has absorbed 6.1 million square feet of industrial space. Total leasing activity was also down over the year with industrial space users signing leases for 11.0 million square feet, 4.6% less than was signed in the previous year.

Inland Empire: The numbers for the Inland Empire industrial real estate market are encouraging. Increases in container counts (in spite of the recent slow down at the San Pedro Bay ports) and the growing importance of e-commerce continue to drive the improvement in fundamentals for the Inland Empire's industrial real estate market. The stronger overall economy has also provided a boost – through the second half of 2014, the Inland Empire was one of the faster growing metro regions in California.

The vacancy rate during the fourth quarter edged up to 6.3% - a year ago it was 5.9%. Nonetheless, asking rates jumped by 7.5% to $0.43 per square foot. Net absorption was 16.7 million square feet in 2014. Over the last four years, the Inland Empire has averaged almost 3.5 million square feet of positive absorption per quarter for a total of 56 million square feet. Total leasing activity increased by 9.9% to 39.7 million square feet over the year. With new product hitting the market almost every quarter, there is a possibility of a bump in vacancy rates in the short term, but as the labor market continues to improve, moderate increases in leasing and sales activity are expected to persist through 2015.

FORECAST FOR PRIVATE NONRESIDENTIAL CONSTRUCTION

New office space development will proceed at a cautious rate in all five counties of the Southern California region. Office vacancy rates will continue to decline through 2015, but how fast will depend on job growth and the strength of the overall economy. Also on the mend, average asking rents are firming across most areas, especially in the more desirable submarkets. Although changes in work force organization present a challenge in the near-term, the lack of new construction and stronger employment growth this year and next will help expand and strengthen the region's office market recovery.

The outlook for industrial space development is much more positive, especially for warehouse and distribution facilities, data centers and R&D centers. Solid readings in the ISM manufacturing index, capacity utilization and regional purchasing manager surveys all point to a stronger outlook. Additional improvement in vacancy rates and asking rents will depend largely on increases in international trade, industrial production and e-commerce. Developers will also have to contend with rising construction costs and shortages of workers in some of the skilled construction traders.

The value of total nonresidential construction in the Los Angeles five-county region is expected to reach $11.2 billion in 2015, up by 8.3% compared with 2014. In 2016, as economic growth accelerates and the labor markets return to normal, the LAEDC forecasts nonresidential construction in the region will increase by 10.4% to $12.4 billion.

Table 24: Private Nonresidential Construction Permits

(By valuation, $millions)

Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County
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	3,129	1,299	921	147	5,496
2012	1,836	1,263	1,074	127	4,300
2013	4,280	1,554	1,554	143	7,531
2014e	6,674	1,947	1,605	128	10,354
2015f	7,200	2,060	1,820	135	11,215
2016f	7,975	2,240	2,030	140	12,385

Annual % Change

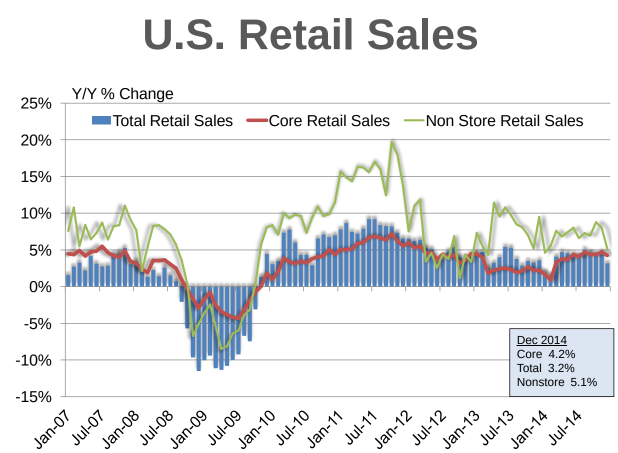
Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County
2004	8.3%	12.6%	44.5%	-6.9%	18.4%
2005	20.5%	32.0%	-3.7%	5.4%	13.2%
2006	1.9%	60.6%	19.1%	-12.4%	17.2%
2007	21.6%	-16.5%	-1.0%	6.1%	4.6%
2008	-5.2%	-28.2%	-37.0%	-0.4%	-18.8%
2009	-40.5%	-33.8%	-60.1%	-55.5%	-44.3%
2010	0.1%	20.9%	11.7%	4.7%	6.5%
2011	16.9%	12.8%	16.2%	-8.4%	14.9%
2012	-41.3%	-2.8%	16.6%	-13.6%	-21.8%
2013	133.1%	23.0%	44.7%	12.6%	75.1%
2014e	55.9%	25.3%	3.3%	-10.5%	37.5%
2015f	7.9%	5.8%	13.4%	5.5%	8.3%
2016f	10.8%	8.7%	11.5%	3.7%	10.4%

Sources: Construction Industry Research Board, California Homebuilding Foundation; California Department of Finance, Economic Research Unit; forecasts by LAEDC

RETAIL TRADE

The retail sector occupies a prominent place in the economy at both the national and local levels. Because such a large portion of U.S. economic activity depends on consumer spending, sales of retail goods and services is an important economic indicator. Retailers also generate an enormous number of jobs that provide employment for individuals across a wide range of skill and income levels. In 2014, there were 770,000 people employed in the retail sector in the Los Angeles five-county area. Add in San Diego and the total job count increases to over 913,000. That equates to nearly 11% of all nonfarm payroll jobs in Southern California. Compared with 2013, retail employment in the Los Angeles five-county region was up by 2.0% (or 15,400 jobs) and came within 3.7% of reaching pre-recession job counts.

In 2014, total U.S. retail sales were up by 4.0% over the year. The best performing retail sectors were motor vehicles and parts dealers (up by 8.1%) and nonstore (e-commerce, catalogs, vending machines) retailers (7.1%). The only major retail sectors to experience a decline over the year were sporting goods, hobby, book and music stores (-0.1%); department stores (-2.1%); and gasoline stations (-2.7%). The decline in gasoline sales was mostly due to the effect of the drop in gasoline prices



Source: US Census Bureau

The tremendous growth of non-store retailers (specifically on-line) sales is one of the more significant trends reshaping the retail industry. Over the past decade there has been a pronounced shift from brick and mortar retail to e-commerce. In 1995, non-store retail sales accounted for 4.2% of total retail sales but by 2014, non-store sales more than doubled to 9.1% of the total. That said, consumers still value the in-store shopping experience particularly at supermarkets, drug stores and home improvement centers.[29]

[29] *Deloitte's 2014 annual Holiday Survey*, Deloitte University Press

As with so many industries, technology is transforming both the face and the underlying structure of the retail industry. In-store innovations include self checkout, payment via a mobile device in the hands of a sales associate, price checking scanners and in the near future, virtual dressing rooms. Retailers are expanding social media channels to engage with and grow their customer base. Retailers are also collecting and using large amounts of data (raising privacy and security concerns in the process) in order to provide a more personal shopping experience for their customers. In turn, consumers are increasing their use of shopping apps on mobile devices to search for bargains, research products, locate stores, post reviews and pay for purchases. Consumers today are better informed, more discerning and more interactive.

Not only are consumers changing the way they shop, but this shift is affecting the composition of retail employment and commercial real estate – fewer sales people and smaller retail footprints are giving way to more warehouse and distribution centers. The increase in on-line shopping has also led to innovations in product distribution and tracking technology to keep up with the rapidly increasing volume of e-commerce shipments and consumer demand for speedy deliveries.

On the demand side, retailers are feeling more optimistic. Consumers remain cautious in their spending habits, but households are feeling moderately more secure about their financial footing. Rising home prices and equity values have contributed to increases in household wealth and the labor markets have shown steady improvement. Household wealth in the United States is now $13 trillion higher than its prerecession peak and the unemployment rate is at a six year low. One of the remaining trouble spots has been a lack of wage growth – wages are just keeping pace with inflation. The good news is wage and salary gains are expected to accelerate in 2015. Although consumers have been using credit cards sparingly, low interest rates have made it more affordable for American shoppers to finance the purchase of automobiles (which sold at prerecession rates last year) and other big ticket household goods.

Retailers have had to adjust to rapidly evolving changes in consumer buyer habits. It is not just how consumers are buying, but what they are buying. People are spending an increasing share of their disposable income on goods and services like travel, movie downloads, concerts and sporting events. Experiences are becoming more important than the acquisition of things, especially among younger people.

Looking ahead, total U.S. personal consumption expenditures, a large part of which are retail sales, increased by 2.5% this year, slightly ahead of the 2.4% rate posted in 2013. The sharp decline in economic activity during the first quarter of 2014 partially offset the stronger gains made throughout the rest of the year. In 2015, however, consumer spending is expected to bounce back, expanding by 3.1% with Southern California closely tracking the national trend. The LAEDC is forecasting stronger increases in total taxable sales, of which retail sales make up about two-thirds, for 2015 throughout the region that will range from 6.5% in the Inland Empire to 4.9% in Ventura County. Los Angeles, Orange and San Diego counties should see increases in taxable sales of 5.2%, 5.6% and 5.4% respectively.

TRAVEL AND TOURISM

Hospitality and tourism is one of Southern California's largest, most visible and valuable industry sectors, employing thousands of people and generating billions of dollars in economic activity. The region boasts numerous natural and built attractions within a relatively compact area: beaches, amusement parks, art museums, architectural landmarks, outdoor activities, shopping districts and some of the nation's most highly rated restaurants. And, of course, L.A.'s iconic entertainment industry and Hollywood draw millions of visitors here every year.

In 2014, Los Angeles County alone hosted a record 43.4 million visitors (day and overnight), an increase of 3.0% over the previous year. 2015 visitation is expected to reach 44.2 million, a 1.8% increase over 2014. That would make 2015 the fifth consecutive year in which Los Angeles County achieved record breaking visitor volume.[30] Orange County also reported a very good year for 2014, with 45.7 million visitors.

Source: L.A. Tourism and Convention Board

International visitation is especially strong in Los Angeles County. In 2014, 6.5 million international visitors arrived in Los Angeles, nearly 15% of the total, and a 5.6% uptick over 2013. To put this in context for California overall, international visitors comprise only 6% of total state visitation. While Mexico and Canada sent the largest number of *international* visitors, China (excluding Hong Kong) was Los Angeles County's number one *overseas* market for the third year in a row and is positioned to overtake Canada to become the largest international market after Mexico. China is also the region's fastest growing market with 20.4% more visitors in 2014 than in 2013. Rounding out the top five

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[30] *Los Angeles County Tourism by Numbers 2014 Quick Facts*, (January 2015) Los Angeles Tourism and Convention Board

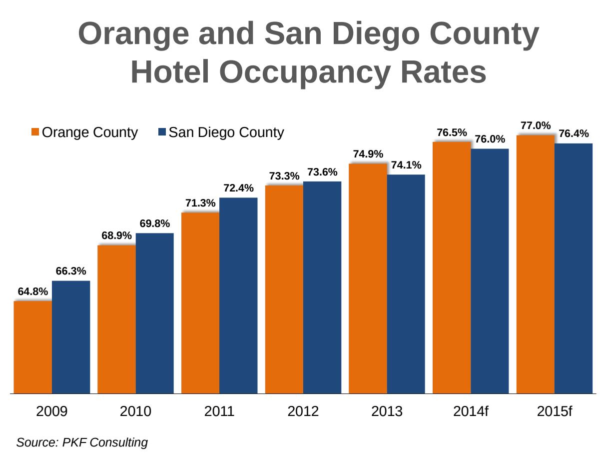
international visitor markets for Los Angeles County are Australia and the United Kingdom.

Of the 85% of Los Angeles County overnight visitors who are U.S. residents, 20% originate from the Los Angeles five-county region, followed by the San Francisco Bay area (11.8%), San Diego (8.0%), the New York City area (7.4%) and Phoenix (4.7%).

The Los Angeles Tourism and Convention Board reports that all Los Angeles County business and leisure travelers spent a total of over $18 billion in 2013, a new record, and up 5.5% from $17.4 billion in 2012. Of this spending, U.S. origin visitors spent $12.4 billion or 66%, while international visitors spent $6 billion, or 33% of the total, more than double their corresponding 15% share of visitor volume, showing the importance of international visitors to the market.[31]

Driving domestic demand for travel-related goods and services were gains in the U.S. labor markets and stronger personal income growth, both of which point to an increase in consumer spending. While the global economy still looks lackluster, overseas markets are expected to outperform the overall visitor market in 2015.

The national and Southern California lodging markets have recovered faster than the general economy since the end of the recession. Much of this is related to solid growth in international visitation, which started during the recession years when many foreign currencies strengthened relative to the U.S. Dollar. Rising demand together with few additions to supply also helped improve lodging fundamentals.

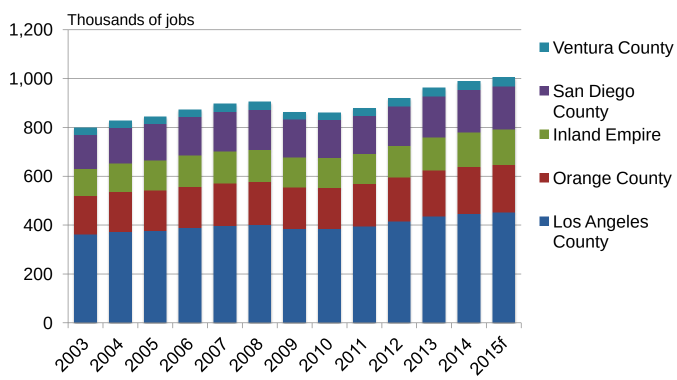


[31] 2014 Tourism spending figures will be available from the Los Angeles Tourism and Convention Board in May 2015.

Lodging fundamentals – room demand, occupancy rates and average daily room rates as reported by PKF Consulting, are strong and continue to trend up in Los Angeles and throughout the five-county region.[32] Overall, in 2014 countywide occupied hotel rooms increased by an estimated 3.8%. At the same time, hotel room supply edged up by just 1.2%. As a result, Los Angeles County finished 2014 with an average occupancy rate at an unprecedented 81.9% compared with 79.9% in 2013, and several submarkets are experiencing occupancy rates well above their long-run averages. The Los Angeles County average daily room rate grew by a healthy by 6.3% over the year to $172.14 in 2014.

Looking ahead to 2015, the lodging sector will continue to benefit from stronger corporate spending, personal income growth and international visitation. Transient-occupancy taxes, an important revenue source for local governments, will also increase. While a significant part of leisure and hospitality[33] activity is associated with tourism, many of these jobs fundamentally serve the local population more so than the region's leisure and business travelers. Restaurants and bars employ over 70% of all workers in the leisure and hospitality sector. In 2014, leisure and hospitality jobs in the Los Angeles five-county region increased by 21,200 jobs to 815,600. In 2015, stronger economic growth both at home and abroad will increase employment by an additional 13,200 jobs.

Leisure & hospitality job counts reach new record high



Source: California EDD

[32] *Trends in the Hotel Industry* (September 2014) and *2014 Southern California Lodging Forecast*, PKF Consulting USA

[33] Leisure and hospitality (NAICS 72) includes lodging, food services, the performing arts, museums, amusement parks and gambling establishments.

After several years of limited new hotel construction following the recession, multiple hotel projects are underway in Southern California including the Wilshire Grand in downtown Los Angeles that will house the largest InterContinental Hotel property in the Americas. In Orange County, there are 14 hotel projects in various stages of planning or development and in San Diego there are 18 new projects slated for completion between 2015 and 2017 that will bring nearly 2,700 rooms to market. In addition, several prominent hotel properties have undergone extensive renovations in an effort to keep guests coming back and to attract new customers. A number of cultural venues and amusement parks have also invested heavily in improvements to attract both local and out-of-area visitors.

Transportation and infrastructure projects to maintain Southern California's position as a premier travel destination include a multi-billion dollar investment program to upgrade passenger terminals and improve traffic flow at LAX and an expansion of Los Angeles' light rail system. San Diego International and Orange County's John Wayne Airport have also recently completed major upgrades.

INDEX OF STATISTICAL TABLES