

News Release

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IMMEDIATE RELEASE

California 2008-09 economic forecast – few bright spots says LAEDC

Study says Entertainment and International Trade uncertain, but trends in Foreign Direct Investment show major contributions to economy creating 359,000 LA County Jobs and \$1 Billion in State and Local Taxes

Los Angeles, July 16, 2008— The California economy is “on the brink of a recession,” some parts of the state are already in recession, and the cause of the downturn will persist into 2009, the Los Angeles County Economic Development Corp. (LAEDC) and the Kyser Center for Economic Research said Wednesday.

LAEDC and the Kyser Center released two major economic reports – the **2008-2009 Mid-Year Economic Forecast** and the **Foreign Direct Investment Report**.

“The housing market crash, problems in the financial sector, and soaring prices for gasoline and diesel have severely hammered the state and local economies,” said Jack Kyser, LAEDC chief economist and senior vice president. “They are on the brink of falling into a recession.”

The Kyser Center for Economic Research said a housing recovery might come as late as 2010. High gasoline and diesel prices will continue to hurt businesses and consumers – and could change the way key industries such as international trade and tourism operate. California is officially in a drought and water supply will affect the agriculture industry as well as development patterns. Government budgets are under extreme stress. Program and job cuts are possible. Kyser said employment in California will slip by 0.2 percent, or 29,600 jobs, in 2008.

“The unemployment rate for the year will average a painful 6.4 percent,” he said. “Muted growth will return in 2009 with non-farm employment increasing by 0.6 percent or by 85,600 jobs.”

Among the bright spots, the LAEDC Forecast noted, San Francisco and San Jose are experiencing relatively low economic discomfort. However, some areas – including two in Southern California – can be considered to be in a recession now.

“Orange County lost 5,900 jobs in 2007, and will lose 18,600 more in 2008,” said Kyser. “Much of this reflects fallout from the sub-prime lending mess.”

Riverside-San Bernardino had minimal job growth in 2007 and stands to lose 20,500 jobs in 2008, due to the steep fall off in new homebuilding and softness in international trade/logistics.

Los Angeles and San Diego counties should escape job losses in 2008 – with L.A. County adding 2,300 jobs and San Diego County adding 1,200. Both, however, will see spikes in their unemployment rates,

LAEDC Mid-Year Forecast and FDI Report

with LA County jumping from 5 percent in 2007 to 6.2 percent in 2008 and San Diego County rising from 4.6 percent in 2007 to 5.7 percent in 2008.

The best prospects for the rest of the year are in technology and bio-medicine.

The entertainment industry got off to a sour start in 2008 due to the Writers Guild of America strike, which cost the local economy \$2.5 billion. Difficult contract talks between producers and the Screen Actors Guild have contributed to a slowdown in production of feature films in Los Angeles. The standoff could continue for some time, and industry employment could decline by 5,500 direct jobs in 2008.

The 2007 slump in imports has continued into 2008 but there has been a boom in exports out of the Los Angeles Customs District. The number of containers handled at the ports of Los Angeles and Long Beach dropped 0.6 percent in 2007, and a further decline of 4.5 percent to 15.0 million TEUs is forecast for 2008. However, the total value of two-way international trade handled at the local customs district in 2008 should increase by 5 percent to a new record level of \$367.0 billion.

The travel/tourism sector has been buffeted by soaring gasoline prices and problems with airline service, but international travel was strong due to the weakness of the U.S. dollar. All of Southern California's major theme parks introduced new rides in 2008, which should promote local resident visits. Overnight visits to the region will ease modestly, with Los Angeles County moving from 25.8 million in 2007 to 25.6 million in 2008. Orange County should see 44.2 million overnight visitors in 2008 compared with 44.4 million in 2007.

New homebuilding in Southern California will decline further in 2008, reflecting oversupply of existing units and difficulty in financing for builders and homebuyers. Los Angeles County should see a 31.6 percent decline to 13,900 units permitted. Orange County should see permits issued fall by 40.6 percent to 4,200 units. The biggest decline will come in the Riverside-San Bernardino area, where the number of permits issued will fall by 50.1 percent to just 10,200 units. The recent high for this area was 52,696 units issued in 2004, so the magnitude of the readjustment is quite evident. Foreclosures will continue to rise but buyers are moving in to take advantage of bargains.

The retail industry in Southern California has taken a beating, especially auto dealers, furniture and building supply stores. Consumers are looking for bargains and even high-end stores have been hurt. There have been store closures, and more are expected over the balance of 2008. All local metro areas will see declines in taxable sales in 2008: Los Angeles -1.1 percent; Orange County -1.6 percent; Riverside-San Bernardino -3.7 percent; and San Diego -0.5 percent.

A special feature of the LAEDC 2008-2009 Mid-Year Economic Forecast is an analysis of trends in the sub-regions in Los Angeles and Orange counties and in the Riverside-San Bernardino area. In Los Angeles County, the strongest job growth in 2007 was in the normally long-suffering South Los Angeles area, up by 3.4 percent. However, most of the growth was due to government jobs. The next strongest performance came in the Santa Clarita/Valencia area, despite the slowdown in homebuilding. In Orange County, the North County area saw an employment loss of -0.9 percent, with almost all major business sectors exhibiting weakness. One irony: employment losses in finance were larger in South County, which still managed a 0.8 percent overall increase in job counts. The "Inland Empire," the western end of the Riverside-San Bernardino area, saw a 0.3 percent increase in employment in 2007, despite weakness in homebuilding and international trade.

"The period 2007 through 2009 will be quite challenging for Southern California, and there will be more bad news," said Kyser. "However, the region has some industry sectors that are still growing, such as

LAEDC Mid-Year Forecast and FDI Report

international tourism, technology, healthcare, and private education. Moreover, it has a large and growing population and business base, and is a magnet for foreign investment.”

Foreign Direct Investment Report Highlights

In a groundbreaking report issued today, the LAEDC said foreign direct investment in Los Angeles County generated 359,000 direct and indirect jobs – 9.9 percent of all private sector jobs – and \$1 billion in sales and personal income taxes.

“The Los Angeles region is largely known for its entertainment industry. The Foreign Direct Investment Report showcases the numerous other types of industries and businesses that drive the L.A. County economy and contribute \$1 billion in sales and personal income taxes,” said Vance Baugham, president of the World Trade Center Association Los Angeles-Long Beach, a subsidiary of the LAEDC.

A foreign-owned establishment is a Los Angeles County firm that is at least 10 percent owned by a parent company located in a country outside the United States. The LAEDC counted 4,521 such establishments, operated by companies from 52 foreign countries. The top foreign sources of ownership were: Japan (1,413 establishments); United Kingdom (794); France (360); Germany (334); and Canada (278).

The top industry sectors for foreign-owned and -affiliated businesses in the county were: retail trade (981 establishments); wholesale trade (930); manufacturing (608); finance and insurance (481); and transportation and warehousing (347). The list of such establishments includes 7-Eleven, Toyota, Honda, BAE Systems, Motel 6, Trader Joe’s, Circle K stores, Nestle, Sunglass Hut, and A.C. Nielsen.

The Southeast area of the County (known as the Gateway Cities) had the most foreign-owned establishments with 796, followed by South Bay/LAX (741); San Fernando Valley (725); San Gabriel Valley (698); and the Westside (415).

The top five cities in the County for the location of a foreign-owned or -affiliated firm were: Los Angeles (1,591 establishments); Torrance (310); Long Beach (212); Santa Monica (134); and Pasadena (127).

There were 136,000 direct FDI jobs and 223,000 indirect FDI jobs in the County. Total wages earned were \$7.6 billion, with Japan accounting for \$2.6 billion, the report said.

About the LAEDC: The LAEDC, the region’s premier business leadership organization, is a private, non-profit organization established in 1981 under section 501(C) (3). Its mission is to attract, retain, and grow business and jobs for the regions of Los Angeles County. Since 1996, the LAEDC has helped retain or attract more than 145,646 jobs, providing \$6.3 billion in direct economic impact from salaries and \$105 million in annual tax revenue benefit to local governments and education in Los Angeles County. Visit www.laedc.org or call (888) 4-LAEDC-1.

[Editors: For media interviews please contact **George McQuade, MAYO Communications, (818) 340-5300 or PR@MayoCommunications.com**. Advanced copies of the Mid-Year Economic Forecast and FDI reports are located at <http://www.laedc.org/reports/Forecast-2008-07.pdf> and <http://www.laedc.org/reports/FDI-2008.pdf>.