

## 2001 Press Releases

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### LAEDC RELEASES MID-2001 ECONOMIC FORECAST -- SOUTHERN CALIFORNIA AND CALIFORNIA TO NARROWLY AVOID A RECESSION

**LOS ANGELES** - The nation, California and Southern California will narrowly avoid a recession in 2001, but the growth slowdown will be painful for both business, government and local residents according to the "Mid-year Update -- 2001-2002 Economic Forecast and Industry Outlook" just published by the Los Angeles County Economic Development Corporation (LAEDC).

"The State and the Los Angeles area are coping with a variety of forces, including the sharp slowing of the U.S. economy, a full-blown State energy "crisis," and an unexpectedly rapid and deep tech sector crash," said Jack Kyser, Chief Economist for the LAEDC. "And there will be a slow economic climb-out in 2002. In addition, there will be two more important labor contracts expiring next year, including the Longshoremen and the Directors Guild.

"The forecast observed that despite all the uproar over the problems, there are still some positive forces at work in 2001 for the region. These include a host of major infrastructure projects, as well as major business expansions. "The LAEDC verifies major (a lease or construction value of \$1 million or more) projects in the five-Southern California counties, and for the first 6 months of this year 196 such investments have been made, with a value of \$1.7 billion. This is an indication that business is looking beyond the State's energy crisis to more normal times in 2003," said Kyser.

The Forecast noted that the energy crisis has set off a new round of "California bashing" by the national media. "Close on the media's heels is a horde of out-of-state business recruiters using the energy crisis as a lever to pry away firms from the State and Southern California." Kyser pointed out that the focus is on high value jobs, which are precisely the same type of jobs that local leaders want to keep.

Some highlights of the LAEDC Mid-year Forecast update include:

- The **U.S. economic forecast** under girding this document calls for an increase in Real GDP of 1.8% in 2001, with a slow climb out underway by the 4th quarter. In 2002, a GDP increase of 2.6% is forecast. The Forecast noted a variety of negative forces including an inventory overhang, the slump in the once high-flying tech sector, overcapacity at factories, and poor corporate profits. The corporate sector will continue to be troubled, while the consumer and government sectors are keeping the nation's economy afloat.

- On the **monetary policy** front, the LAEDC Forecast noted that the full impact of the Federal Reserve Board's interest rate cuts should be felt by the 4th quarter of 2001. However, more Fed rate cuts are expected, with the Federal Funds Rate falling to 3.0% by fall and holding at this level through 2002.

- On the **international** front, the LAEDC Forecast called for slower growth among the State's major trading partners. Japan is experiencing another recession, with a modest 0.5% increase in GDP forecast for this year. Canada will see slower growth, with a 2.2% GDP gain, while Mexico should see its GDP increase by 2.5%. The U.S. dollar which has been strong in 2001 is expected to weaken in 2002, good news for California's exporters.

- Growth in **California** will ease sharply in 2001, with a projected increase in non-farm employment of 2.2% or 318,000 jobs. This is down from 2000's stunning 3.8% or 526,200 job gain. The 2001 forecast includes a tech-induced downturn in manufacturing, and a significant slowdown in the services sector,

reflecting troubled times in the computer software, motion picture production and temporary help sectors. In addition, the energy crisis is expected to take a toll on business. The State's unemployment rate should average 5.0%, versus 4.9% in 2000. While this might appear to represent little change, the State's unemployment rate started the year at 4.6%. The LAEDC Forecast noted that all four of the State's major industries, agriculture, international trade, technology and tourism, will be under pressure in 2001.

- **Los Angeles County's** economy will also post slower growth in 2001, with a 1.4% increase in employment, or 59,200 jobs. Several of the County's major industries have encountered choppy waters, including apparel/textile manufacturing, international trade and motion picture production. Trends in aerospace/technology are mixed. While new home construction will post a 10.4% increase, the unit count will be a relatively modest 18,700. Nonresidential real estate, which caused problems during the early 1990s restructuring, is in good shape, especially the industrial sector.

- **Orange County's** economy will post slower than expected growth in 2001, due to the tech sector crash (major job losses in South County), and more muted tourism activity. However, support is coming from the "classic" aerospace sector. Non-farm employment should increase by 2.6% or by 35,900 jobs in 2001, while the County's unemployment rate should move up to an average of 2.7%. However, the County's homebuilding industry will turn in a dismal performance, with the number of units permitted dropping by 33.0%. One potential risk is the increase in new industrial construction coupled with the tech crash.

- The **Riverside-San Bernardino** area will also see slower than expected growth in 2001, but it will still set the economic pace for Southern California. Non-farm employment will move up by 3.7% or by 36,700 jobs, while the unemployment rate should average 5.0%. The two-county area is coping with slowdowns in the logistics and construction industries. However, average non-farm employment in 2001 will move over the one million mark, 1,028,000 to be exact. However, because of the energy crisis and its rapidly growing business base, the area has become a target for out-of-state business recruiters. A potential problem for the area is the rapid increase in the price of new housing, which could damage its affordability situation.

- **Ventura County's** economy will perform about as initially expected in 2001. Non-farm employment will move up by 2.4% or by 6,500 jobs, while the unemployment rate will be moving up during the year, with an average of 4.3%. Issues for the County include the tech crash and high housing prices. A major event is the opening of the new Cal State campus in Camarillo in the fall.

- Southern California's signature **motion picture production** industry dodged a bullet of strikes by writers and actors, but there was a rush of production in the first quarter. Now the industry is suffering a "de facto" strike with employment down by 14,500 jobs from its recent December, 2000 peak. Overall employment in the industry should be unchanged in 2001. However, box office results will be cheery with an 8.5% increase to \$8.3 billion. Issues for the industry include the slump in advertising, and run-away production to Canada. And 2002 will bring contract negotiations with the Director's Guild, where technology issues could rear their ugly head.

- After a stunning performance in 2000, activity in **international trade** has slowed sharply. The total value of two-way trade handled by the Los Angeles Customs District should inch up 1.8% to \$234.1 billion, quite a slowdown from 2000's 16.7% gain. Productivity at the ports is an on-going issue, while the problems at LAX are a concern for the international air cargo segment. In 2002, the contract with the ILWU comes up for negotiation.

- There are mixed trends in **high-technology** industries in Southern California. Employment in "classic" aerospace seems to be bottoming out, and recent events speak to the potential for increased activity building on the region's research and development capabilities. The region's high technology sector is seeing job losses in 2001, and a slowdown in venture capital funding. However, the area is strong in advanced technology and VC and grant money is still available for cutting edge research.

- Los Angeles County's **apparel/textiles** industry is continuing to struggle with a loss of 2,800 jobs expected in 2001. The energy crisis has hurt textiles manufacturing, while the harsh regulatory environment and pressure from retailers for lower costs are also taking a toll. Ironically, there is a renewed interest in "Los Angeles fashion," but local leaders have not thought about how to take advantage of the apparel industry's high "sizzle" factor.

The LAEDC Forecast also makes some **policy recommendations**, including the following:

- It would be worthwhile to rethink what might be the major industry of the region, which is now considered to be entertainment, which is glitzy but very limiting. The real major industry of Southern California is an asset or resource . . . the intellectual capacity or creativity that drives existing high value industries and helps create new ones.

- A more aggressive effort is required in exporting the unique goods and services produced in the region, taking better advantage of the "L.A. brand." The resources to assist the region's small-to-medium-sized business base are already in place, but a more aggressive outreach effort is required.

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