

## 2002 Press Releases

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**LAEDC releases 2002-2003 Industry Outlook for LA County economy; passing grades given but some risks identified**

**LOS ANGELES** - The Los Angeles County Economic Development Corporation (LAEDC) released its 2002-2003 industry outlook for Southern California today at its First Quarter membership meeting, "and the results are muted," according to Jack Kyser, the LAEDC's chief economist. "Only one industry got a grade of A-, while there were three B+ ratings. Moreover, two large local industries got C- rankings, and there are important labor negotiations pending that could impact business trends for most industries during the year. These could make the recovery process more difficult."

The LAEDC rates key industries as to job and sales growth prospects, using a scale of A+ to D-. It was noted that rankings for several industries will be shifting over the course of 2002-2003.

**Industry trends:**

**A- Residential construction:** In 2002, 51,150 new housing units should be permitted in the five-county area, down from the 2001 total of 57,473. In 2003, the total should move up to 55,200. New homebuilding has held relatively steady during the current economic cycle due to attractive mortgage rates plus the fact that most of the units are aimed at the middle to upper range of the market. However, no progress is being made in addressing the region's affordable housing shortfall; between 2000 and 2003, 219,222 units are forecast to be permitted compared with a population gain of 928,900.

**B+ Classic aerospace:** While activity on commercial passenger jets will be moving to lower levels, activity will be picking up on the military side of the business. No huge new assembly lines are expected, but Southern California is well positioned on a host of major programs, and will benefit from its advanced R & D capability. Employment in 2002 will ease down to an average of 99,900 from 2001's average of 101,900. In 2003, employment should move up to 103,500.

**B+ Motion picture/TV production:** After the strike against commercial producers in 2000, and the "de facto" strike of 2001, production activity will pick up in 2002 and 2003. Employment in the industry will move ahead by 1,600 jobs in 2002, with another 1,500 added in 2003. However, run-away production remains a major issue for the industry, and to date no viable solution has been devised.

**B+ Value retailing:** Value retailers have turned in strong performances in recent years, with both Target and Wal-Mart making major expansions in Southern California. In 2003, Kohl's is poised to enter the market, which will ratchet up the competition for all retailers in the region.

**B** This list is lengthy and includes: business and professional management services; bio-medical; fabricated metal products; financial services; international trade; technology; and Orange County tourism.

However, while international trade should see a 1.8 percent increase in total two-way trade value in 2002 after a painful 6.2 percent decline in 2001, the industry gets an asterisk since the ILWU contract expires July 1. Currently, the dialogue between the Pacific Maritime Association and the ILWU is rather heated, and even the threat of a strike would be disruptive. The LAEDC forecast noted that there could be a surge

in shipments followed by a slump. Worse, the strike threat could cause some shippers to explore alternatives to West Coast ports, and the diversions might be long-term.

Kyser also pointed out that the UPS contract with the Teamsters expires July 31, and people need to follow the situation, as the last strike against UPS was painful for many industries.

As to technology, the LAEDC forecast noted that there have been local layoffs, but for firms specializing in advanced communications and security, business prospects will be improving. In addition, venture capital firms are starting to look at well crafted business plans. Los Angeles County should see technology employment hold steady from 2001 to 2002, while Orange County will see modest job losses.

C+ Los Angeles County tourism: The number of overnight visitors to Los Angeles County should inch up by 0.4 percent to 24.8 million, after remaining flat between 2000 and 2001. The County is at a competitive disadvantage to California's other major tourist destinations, since it does not have a large "headquarters" hotel adjacent to its convention center.

In addition, the latter is in a dreary location. While there are proposals in the works for such a hotel, there are a variety of hurdles to the process.

C+ Other retailing: Given the customer's focus on value, and the constrained growth forecast for retail sales ( in 2002, the sales gains range from 1.3 percent in Los Angeles County to 4.2 percent in the Riverside-San Bernardino area)), the environment for middle to upper end retailers will still be difficult. In addition, the entry of Kohl's into the market will ratchet up competitive pressure, and some poorer performing store locations could be closed.

C+ Nonresidential construction: Declines in nonresidential permit values are forecast for all four local metropolitan areas in 2002, while vacancy rates are not at dangerous levels. While developers and lenders have exercised caution, some submarkets did see over building such as Westside Los Angeles and south Orange County. Only modest gains in non-residential permit values are forecast for 2003.

C- Apparel & textiles manufacturing: In a word, the outlook for this industry is lousy, with Los Angeles County expected to lose 3,500 jobs in 2002, and another 2,800 in 2003. However, Orange County's industry should hold its own. The reasons for the dismal trend include the consumers focus on value, chaos in the retail industry, and the disinterest on the part of local leaders towards the industry. Given that Los Angeles County has 69 percent of the state's garment workers (97,800 in apparel and 16,000 in textiles), this should be a concern.

C- Health services: This industry is being pummeled by rising costs for drugs and equipment, a shortage of nurses, health care professionals upset over pay scales, difficulties in the managed care industry and consumer concern over the cost and quality of health care. While modest growth in employment is forecast (an increase of 5,200 jobs to a total of 453,800), the profit outlook remains gloomy.

"While an economic recovery will be in full view for Southern California by early 2003, there are a multitude of issues to consider if this growth is to be directed along desired paths," Kyser observed. He added that linkages between major local industries (such as tourism depending on the lure of Hollywood) need to be better understood.

Kyser also noted that certain important local industries require immediate economic "triage," since they confront a host of hostile forces. On this list are apparel & textiles manufacturing, motion picture production, and tourism. "The apparel industry has lots of "sizzle," and this benefit needs to be captured. The motion picture industry is becoming a global activity, and everybody wants a piece of the action. Not good news for the host of people in Los Angeles working 'below the line' (craft and support activities). As to tourism, the industry in Los Angeles has to work on its tourism product, or it will soon be at a painful

competitive disadvantage to Orange County, San Francisco and San Diego. For example, Disney is tweaking the attraction mix at the California Adventure, which should make it more of a draw."

The LAEDC is a private non-profit organization. As the premier business leadership organization, the LAEDC's mission is to attract, retain and grow businesses and jobs in the regions of Los Angeles County, as well as identifying trends and affecting positive change for the local economy. Since 1995, the LAEDC has helped in the creation of 56,632 jobs from 278 projects. The economic impact of those jobs translates into \$1.9 billion in salaries and more than \$222 million in tax revenue generated to support schools and local government in the LA County region annually.

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