

## 2003 Press Releases

FOR IMMEDIATE RELEASE: July 21, 2003

### **“2003-2004 LAEDC MID-YEAR FORECAST” SAYS CALIFORNIA ECONOMY WILL LAG THE NATION DUE TO BUDGET DEFICIT, GOVERNOR RECALL AND WORKER’S COMP.**

*The “Terrible Trio” Riverside-San Bernardino areas and San Diego and LA Counties, while agriculture, international trade, and tourism growth are expected, as well. The budget deficit drama, worker’s compensation insurance crisis further cost increases for business won’t help.*

Los Angeles, CA, July 21, 2003 — Three major problems are casting a dark cloud over California’s Economy according to the “2003-2004 Los Angeles County Economic Development Corporation (LAEDC) Mid-Year Forecast,” released today (Monday, July 21, 2003). The entire forecast can be found at [www.laedc.info/pdf/Forecast-2003-07.pdf](http://www.laedc.info/pdf/Forecast-2003-07.pdf) and [www.MayoCommunications.com](http://www.MayoCommunications.com).

“One is the state’s yawning budget deficit, compounded by an effort to recall the Governor,” said Chief Economist Jack Kyser, LAEDC. “The state deficit solution will impact local governments, and it will trickle down to business in the form of fee hikes and fewer government contracts.”

The second hurdle causing the state’s economy to remain in a jobless growth and a major problem for California business firms as well as local governments is the workers’ compensation insurance crisis. “The huge increases in the cost of coverage have caused other business to hold back on hiring or even let workers go,” explained Kyser. “While reform efforts are in the works, they are in limbo due to social policy agendas in the state legislature. So, though the national economy will recover over the balance of this year and in 2004, California will lag.”

The forecast highlights “Hot Spots,” a handful of positive forces, key industry trends and risks to the forecast. “The biggest risk to the outlook is the situation in Sacramento,” Kyser said. “The budget problem, the on-going grinding down of the business community and the meager 76,700 new jobs forecast for the state 2003 could fade away if bad decisions continue to be made.” The state’s unemployment rate is expected to stay at 6.7 percent in 2003, easing to 6.2 percent in 2004.

#### Positive force

The industry outlook looks for a modest recovery in the tech sector to be visible by late 2003, and it will gather momentum in 2004. Agriculture will hold steady and the industry can expect some benefit from the decline in the value of the U.S. dollar. Growth in international trade will continue to move ahead, most notably in imports. In addition, some California exporters could benefit from the weaker U.S. dollar and economic recovery abroad. Another positive note includes a prediction of modest growth in tourism, mainly domestic travelers. International tourism will continue lackluster into 2004.

#### Negative forces

On the less than optimistic side of the forecast, the budget deficit drama could drag out until the end of 2003, which means an extended period of uncertainty for county and city governments, and their service providers. This uncertainty will trickle down to the business community as they wait to see how budget gaps are plugged (i.e., will they see local fee and tax increases?) according to the forecast.

“The workers’ compensation insurance crisis will continue to act as a “tax” on new job creation (and is probably driving workers into the ‘informal’ economy,” said Kyser. “- There will be other

negatives in the state's business environment, including the January 1, 2004 start of paid family leave, an increase in the employer contribution to the unemployment insurance fund, and an increase in vehicle license fees which will hurt fleet operators (this issue is being challenged in court)."

The "Mid-Year Forecast" says L.A. County will see good growth in international trade, modest job growth in the aerospace sector and a strong performance in new homebuilding in 2003 and 2004. The County's unemployment rate will average at 6.7 percent in 2003, easing to 6.2 percent in 2004.

"The Bay Area economy will be slowly working its way out of its problems with a job loss of 42,800 in 2003, compared with the 2002 loss of 171,900 jobs. But both the residential and non-residential real estate sectors will need to be closely monitored for the possible bursting of 'bubbles,' said Kyser.

In Orange County, the outlook calls for a good growth in tourism, sparked by new attractions (both in 2003 and 2004) at the Disneyland Resort complex as well as several new coastal resorts. Both new and resale housing costs will present a problem in business retention/attraction. After a "decent" performance this year, new homebuilding activity will ease in 2004. The forecast says there will be a modest recovery in the tech sector next year.

The Riverside-San Bernardino area continues to be a bright spot for the Southland economy. The LAEDC "Forecast" says new home-building will continue to run at high levels (an estimated 46.3 percent increase for 2003 to a total of 48,800 units, the highest level since 1988) and at state-leading levels. The two county areas will also see a rebound in nonresidential construction. However, infrastructure issues there will continue to nag as the area's population and business community expand, but "growth in the logistics industry will pick up speed."

In Ventura County, tourism looks brighter as traveler's focus on trips close to home and value. The "Forecast" says the tech sector continues to weigh on the local economy this year (loss of 2,600 jobs), but should see a modest recovery in 2004. "Agriculture will remain steady, and there will be a positive impetus from the recently opened California State University Channel Islands campus," said Kyser. But he warns "home prices are moving into the 'danger zone' for business retention/attraction. Ironically, the Ventura County is viewed as an escape value from Santa Barbara's high home prices."

Farther south, as the military sector gets back to "normal," San Diego County could see some new units moving in the area. The Iraq war brought turmoil for the Marine and Navy units, but the tourism sector continued to turn in a healthy performance and it is expected to show a strong performance next year, with Indian gaming becoming more of a force. Residential construction is expected to continue at high levels, too. Downtown San Diego continues to be a hot bed of new residential and hotel development and a new home for the Padres is taking shape in the Gaslamp District. Nonfarm jobs should grow by 0.9 percent or by 11,000 jobs in 2003 and 21,700 jobs or a jump of 1.7 percent in 2004.

Downtown Los Angeles will end 2003 on a high note, with the opening of the Gold Line and the Disney Concert Hall. The "Forecast" says the housing boom continues with conversions of older buildings as well as some new Construction. One of the factors to keep the latter trend going will be the opening of a 50,000 square foot supermarket in 2005. "In the downtown area of Long Beach, the new terminal for Carnival Cruises has opened, while the 'Pike at Queensway Bay' is rapidly moving to completion," said Kyser. "There is also a housing boom there, too.

"The message to Sacramento is that California does not operate in a 'bubble,' said CEO & President Lee Harrington of the Los Angeles County Economic Development Corporation. "We need to consider the global needs of the five county region, or "sixty mile circle" as we like to call it. We need to think about how to provide affordable housing, solve the transportation knot, as well

as other issues like water and waste management. Without the jobs base, we won't have the tax revenues to get the job done.”

For the “2003 LAEDC Mid-Year Forecast,” visit: [www.laedc.info/pdf/Forecast-2003-07.pdf](http://www.laedc.info/pdf/Forecast-2003-07.pdf) or [www.MayoCommunications.com](http://www.MayoCommunications.com).

The LAEDC is a private, non-profit organization whose mission is to attract, retain and expand business and jobs in the region. It provides economic and industry forecasts as well as strategic consulting in trade, infrastructure, logistic and land use. The LAEDC Business Assistance Program works one-on-one with businesses throughout the county. Visit [www.laedc.org](http://www.laedc.org) .

# # #



**Contact:**

George McQuade  
818-340-5300 or 818.618.9229.