

2005 Press Releases

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"SOUTHERN CALIFORNIA ECONOMY IS AT A CROSSROADS," 2005-06 LAEDC ECONOMIC FORECAST SAYS

Los Angeles, CA - "Southern California's economy is at a crossroads and faces some specific challenges that could impact the year's results and its future growth," according to the "2005-2006 Economic Forecast & Industry Outlook" released today (01-26-05) by the Los Angeles County Economic Development Corporation (LAEDC). The study is posted at: <http://laedc.info/pdf/Forecast-2005-01.pdf>.

The LAEDC Forecast looks at prospects in 2005-2006 for five local metropolitan areas, and expected trends in key local industries.

Around the region, the Riverside-San Bernardino will set the pace in nonfarm employment growth, with a 3.5 percent or a 39,000 job increase between 2004 and 2005. In terms of numerical growth, Los Angeles County will be first, adding 66,800 jobs during 2005, for a 1.6 percent gain. Orange County's nonfarm employment will move ahead by 1.7 percent or by 23,700 jobs during 2005.

"While these gains are good news, we do face a challenge of more people working as independent contractors due to pressures in the labor markets," said Jack Kyser, vice president and chief economist for LAEDC. "This is making it increasingly difficult to measure the magnitude and needs of the local economy and key industries."

Powering the region's growth during 2005 will be:

- **Aerospace**, due to the \$26.0 billion in Department of Defense prime contract awards over the last two fiscal years. However, there could be a "glancing" blow from DOD efforts to cut its spending.
- **International trade** will have another strong year, with the number of containers handled at the Los Angeles/Long Beach port complex forecast to increase by 9.9 percent to 14.4 million TEUs. However, it will be nip and tuck as to whether there will be more congestion problems during the year. This industry has been and will continue to be one of the largest sources of new jobs in the region.
- **The motion picture/TV production industry** should continue to see employment growth during 2005, with the average in Los Angeles County climbing by 12,000 jobs to 144,200. This will bring the count close to the high of 146,000 jobs in 1999, but the industry faces some major challenges. These include piracy and run-away production, not "offshore" but to other states which have gotten very aggressive in offering incentives.
- **Tourism** should enjoy a strong performance in 2005, with the number of overnight visitors to Los Angeles County moving ahead by 3.9 percent to 23.9 million, while Orange County should see a 3.0 percent gain to 44.9 million. Providing the thrust will be the 50th anniversary of Disneyland, the King Tut exhibit at the Los Angeles County Museum of Art, and a flood of international visitors thanks to the decline in the value of the U.S. dollar.
- **Housing** - The picture on new homebuilding will be mixed during 2005. The Riverside-San Bernardino area should see permits issued for 49,500 units, down by 3.2 percent from 2004, but still high enough to lead the state in this measure. Los Angeles County's housing permit total should ease down by 11.0 percent to 22,400 units.

The LAEDC Forecast sees a mixed picture as to resale housing prices during 2005. Some counties could see modest declines, while prices could move sideways in other areas. "The five-county area's economy will be strong during 2005, and while interest rates will be moving up the 30-year fixed rate mortgage should end 2005 at 6.5 percent, which would still be manageable for many buyers," Kyser noted.

There are several major factors that will influence the course of the California and Southern California economies over the course of 2005.

"We call these the three **B's and a C**," explained Kyser. "They are: the BRAC process, with the bases to be closed scheduled to be announced in May. If Los Angeles Air Force Base is on the list, it would have a major impact on both the state and Los Angeles County, with 112,000 jobs and \$350 million in state taxes at risk.

"The second B is the state budget, and efforts to bridge the deficit could impact both business and local government. The third B is the business environment which continues to be difficult in California," he said.

Kyser observed that "it is expensive to add a worker in the state, and a significant portion of our business base is trying to contain costs." The C represents congestion, especially for goods movement. The region's highway and rail network is under extreme duress.

"In addition, Southern California's economy faces an added risk during 2005 and that is the possibility of power shortages, especially if we have a hot summer," Kyser said.

"While Southern California enjoys a stunningly diverse base of 'export' industries, a distressingly high percentage faces intense competition or structural change or both," noted Kyser. "Most people look at industries as being monolithic, but we are at risk of seeing many of these under-perform in the coming years."

"Southern California is at a critical juncture in terms of its economy," said CEO & President Lee K. Harrington, LAEDC. "In our just-completed study, 'Recapturing the Dream,' we found that there is an increasingly ambivalent attitude among local leadership about economic growth. Increasingly, concerns about environmental or social justice are considered far more important than sustaining quality job growth and business creation."

"The Los Angeles area must reclaim its commitment to broad-based economic growth and job creation as the single most effective way to lift people from poverty and help them achieve upward mobility, said Harrington. "We have outlined a series of steps that we will work at implementing in the next few months."



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