



2016-2017

ECONOMIC FORECAST & INDUSTRY OUTLOOK

LAEDC KYSER CENTER FOR ECONOMIC RESEARCH



LAEDC

LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

2016-2017

ECONOMIC FORECAST & INDUSTRY OUTLOOK

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ECONOMIC FORECAST *AND* INDUSTRY OUTLOOK

California and Southern California

Including the National and International Setting

February 2016



Los Angeles County Economic Development Corporation
The Kyser Center for Economic Research
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As Southern California's premier economic development leadership organization, the Los Angeles County Economic Development Corporation (LAEDC) is focused on raising the standards of living for the residents of L.A. County by increasing economic opportunity and regional prosperity.

We achieve this through objective economic research and analysis, strategic assistance to government and business, and targeted public policy. Our efforts are guided and supported by the expertise and counsel of our business, government and education members and partners.

Strategic Planning

LAEDC has again facilitated a collaborative, public consensus process to develop a regional blueprint for progress on regional economic priorities, resulting in the *2016-2020 L.A. County Strategic Plan for Economic Development*, which will guide collective action throughout the region.

Drawing Strength from Regional Leaders

The membership of the LAEDC includes civic leaders and ranking executives of the region's leading public and private organizations. Through financial support and direct participation in the mission, programs and public policy initiatives of the LAEDC, the members are committed to playing a decisive role in shaping the region's economic future.

Business Assistance and Job Creation

The LAEDC's Business Development and Assistance Program provides essential services to L.A. County businesses at no cost, including coordinating site searches, securing incentives and permits, and identifying traditional and nontraditional financing. Since 1996, the LAEDC has directly helped retain or attract more than 200,000 jobs.

Economic Information and Analysis

Through our objective economic research and analysis, the LAEDC provides valuable insight to business decision makers, education, media and government. The LAEDC **Kyser Center for Economic Research** publishes a variety of industry focused and regional analysis, including our Economic Forecast report, which has been ranked No. 1 by the Wall Street Journal. The LAEDC **Institute for Applied Economics** offers highly regarded economic and policy expertise to private- and public-sector clients, and produces regional industry cluster analyses, related workforce studies and occupational forecasts, as well as fee-based studies that help clients understand economic impact of policy options, industries, or projects.

Representing Southern California at the State Level

The LAEDC partners with the Southern California Leadership Council, to help enable public sector officials, policy makers and other civic leaders to address and solve public policy issues critical to the entire Southern California region's economic vitality and quality of life.

Global Connections

Our World Trade Center Los Angeles works to support the development of international trade and business opportunities for Southern California companies, by fostering exports, finding international market opportunities, and promoting the Los Angeles region as a prime destination for foreign investment.

The LAEDC is a public-benefit, private,
non-profit 501(c)3 organization established in 1981.

On behalf of our dedicated members and talented staff, we are pleased to present the LAEDC 2016-2017 Economic Forecast and Industry Outlook, with a special focus on the future of mobility and the ways we will be moving people and goods through the Los Angeles region in the years to come.

The LAEDC Economic Forecast is Southern California's premier source for in-depth economic information and analysis on our global, national, state and regional economies, produced by the LAEDC Kyser Center for Economic Research, led by its Chief Economist, **Dr. Robert Kleinhenz**.

Dr. Kleinhenz is joined at the event this year by **Brogan BamBrogan**, CTO & Co-founder, Hyperloop Technologies, Inc., **Wilhelm Cashen**, Chairman, UAV Systems Association, **Jim Cooper**, Entrepreneur in Residence, PortTech Los Angeles, **Keith Kaplan**, CEO & Co-Founder, Tesla Foundation Group, **Nick Sampson**, SVP, R&D and Product Development, Faraday Future, **Joshua L. Schank**, Chief Innovation Officer, Los Angeles County Metropolitan Transportation Authority (LA Metro), **Michael Shabun**, Marketing Manager, DJI, and **Rodney E. Slater**, Partner, Squire Patton Boggs and former U.S. Secretary of Transportation. These guest experts provide an insider's look at what lies ahead for our region in the areas of autonomous vehicles, commercial drones, high-speed commuting, goods movement, and the impact of such innovation on our cities.

Repeating his role as Master of Ceremonies, is **Frank Mottek**, the voice of business news in Los Angeles, and the host of the top-rated KNX NEWSRADIO Money Hour.

This event has been made possible by our generous sponsors, **Squire Patton Boggs**, **CDS Insurance Services**, and **Southern California Association of Governments (SCAG)**. Our media sponsor is **KNX NEWSRADIO 1070**. Our sincere thanks go to them.

Thank you for your continued support of the LAEDC and our work to attract, retain, and grow businesses and jobs for the residents of Los Angeles County. This work has directly led to more than **200,000** good jobs for L.A. County. The beneficial impacts these jobs have on the health and well-being of families and communities of our region is a great reminder of the true value of economic development.

We also want to thank the hundreds stakeholders from all across our region who helped develop the new **2016-2020 L.A. County Strategic Plan for Economic Development**, a blueprint for a strong economy and more widely shared prosperity for L.A. County's residents. To learn more about the plan and how you can get involved in its implementation, please visit **www.LACountyStrategicPlan.com**

Sincerely,

Bill Allen,
President and CEO
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Praful Kulkarni, President, gkkWorks
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About the Kyser Center for Economic Research

The Kyser Center for Economic Research was named in November 2007 in honor of the LAEDC's first Chief Economist, Jack Kyser. The Kyser Center's economic research encompasses the Southern California region, which includes the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. The center also tracks developments and produces forecasts, studies and reports on the California, national and international economies.

The economy of the greater Los Angeles region is driven by more than its famed entertainment industry. The region's broad economic base also includes aerospace, automotive, biotechnology, fashion, manufacturing and international trade. The Kyser Center conducts research on the individual industries of the region to gain a better understanding of ongoing changes in the economy.

The Kyser Center is highly regarded for its accurate and unbiased assessment of the economy. Kyser Center economists are also sought-after public speakers and frequent contributors to media coverage of the economy. At the heart of the Kyser Center is its mission to provide information, insights and perspectives to help business leaders, government officials and the general public understand and take advantage of emerging trends.

TABLE OF CONTENTS

2016-2017 Forecast at a Glance	1
The U.S. Economy.....	2
The International Economy	9
Foreign Exchange Rates.....	17
The California Economy.....	19
Gross Product Comparisons	25
Los Angeles County.....	34
Orange County.....	40
Riverside and San Bernardino Counties.....	46
San Diego County	53
Ventura County	59
Major Industries of the Southern California Economy.....	64
Aerospace and Defense.....	64
Apparel Design and Manufacturing.....	66
Computer and Electronic Product Manufacturing	68
Professional and Business Services	68
Financial Services	69
Health Care Services and Biomedical	69
International Trade/Goods Movement	70
Motion Picture and Video Production.....	72
Real Estate and Construction	73
Retail Trade.....	86
Travel and Tourism	87
Index of Statistical Tables	92

2016-2017 FORECAST AT A GLANCE

The U.S. Economy

- Economic and job growth continue at a moderate pace
- Consumer sector maintains momentum with business investment holding steady
- Service sector adds jobs, while manufacturing performance is mixed
- Low oil prices help the overall economy more than they hurt
- Risks: weak global growth; Fed's move to normalize key policy rates

	2014	2015	2016F	2017F
Real GDP (% Change)	2.4	2.4	2.5	2.5
Nonfarm Jobs (% Change)	1.9	2.1	1.7	1.4
Unemployment Rate	6.2	5.3	4.9	4.7
Consumer Price Index (% Change)	1.6	0.1	2.0	2.4

The California Economy

- Most industries see job gains, unemployment rate improves gradually
- Housing and construction up; strongest employment gains in health services; professional, scientific and technical services; administrative and support services; and leisure and hospitality
- Public sector employment achieving moderate gains; improved fiscal outlook; ongoing water issues

	2014	2015	2016F	2017F
Unemployment Rate	7.5	7.0	6.2	5.9
Nonfarm Jobs (% Change)	3.0	3.0	2.4	1.6
Population Growth (% Change)	0.9	0.9	0.9	0.9

The Southern California Economy

- Employment gains at slower pace, continued improvement in local unemployment rates
- Leading industries: health care and social assistance; professional and business services; retail trade; and leisure and hospitality
- Lagging industries: natural resources, finance and insurance, and other services

THE U.S. ECONOMY

The first quarter has been a treacherous one in recent years, marked by natural disasters (East Coast snowstorm), government machinations (sequestration budget cuts) and sovereign debt crises. This year is no different: the U.S. has been attacked by an economic Hydra in the form of plunging oil prices, central bank uncertainty and volatility in China.

Let's begin with China. This is a story with two parts. First, the country is transitioning from an industrializing, export-oriented economic system to one that will be driven more by internal forces such as the consumer sector. Second, China's financial markets are evolving and experiencing growing pains to say the least. How will these developments affect the U.S. this year?

Exports are the most direct link between the U.S. and China, but U.S. exports to China equate to less than one percent of U.S. GDP. As such, China's economic transition will have little effect on the performance of the U.S. economy in the near term. Financial market linkages, however, pose a greater risk. China's financial markets may be small, but their growing pains can cause "referred pain" around the globe, and, given the extensive integration of global markets, can increase volatility in U.S. financial markets. In turn, uncertainty in financial markets can have an adverse effect on consumer and business confidence.

Meanwhile, who would have thought ten years ago that the world would be awash in oil? The U.S. has seen oil production increase in recent years, Saudi Arabia is flooding the market with its supplies, and other oil producers are scrambling to maintain their revenue stream in the midst of plunging oil prices. Low oil prices are good for consumers and most businesses in the U.S., but the global glut in oil is just one symptom of weak demand in the global economy.

Finally, central banks, and the Federal Reserve in particular, continue to play a central role in economic policy. With the U.S. economy at full employment, the Fed would like to raise rates and prepare itself for the next battle. But central banks in Europe, Japan and elsewhere around the globe are dealing with fragile economies, which rate hikes will further weaken.

In the midst of all this, the U.S. economy keeps chugging along, with a 2.4% GDP growth rate last year that matched that of 2014. Two percent growth is not stellar, but it has been steady, and the tightening labor market should prompt long-awaited increases in the wages of many workers. Modest growth of 2.5% is expected this year and next, partly because of the momentum inherent in the consumer sector, the economy's flywheel, but also because of improving numbers in housing. It will help that the U.S. economy is relatively isolated from the rest of the world.

KEY SECTORS

Consumers: The consumer sector represents nearly seventy percent of the U.S. economy. Its size and its acceleration helped the U.S. economy turn in a respectable performance last year. With the consumer sector accounting for 2.1% of the economy's 2.4% growth rate, increases in consumer spending accounted for nearly all of the economic growth in the U.S. in 2014=5.

Advancing by 3.1% last year, consumer spending grew at the fastest pace in ten years. While spending was led by a 6.0% increase in purchases of durable goods, slower-growing segments (services were up by 2.8% and nondurable goods rose by 2.7%) accounted for most of the absolute increase in consumer spending. Vehicle purchases made up a large part of household durable goods purchases. In fact, with 17.8 million vehicles sold, 2015 matched the record that was set in 2000. Improvement in the housing market and general gains in household income led to a sizable increase in spending on home furnishings, appliances and the like. With declining oil and energy prices, households spent less on fuel and energy, and instead increased both their savings and their purchases of other goods and services.

With growing confidence in their financial situation, households have been more willing to use credit. Credit card balances rose by 5.0% in the third quarter of 2015 compared with the same period a year earlier, but are still nearly 20% below their peak prior to the recession. Record-tying vehicle sales triggered an 11.9% year-to-year increase in auto loans, while student loan balances rose by 6.8% year-to-year.¹ Overall, total household debt is still 4.8% lower than the peak of the third quarter of 2008. This may be due to greater caution on the part of households with respect to using credit, but it is also related to homeownership, which stood at 63.7% in the third quarter of last year, considerably below the 69.2% peak that was achieved in early 2005. In fact, mortgage debt in the third quarter of last year still lagged behind its peak (third quarter of 2008) by 11.1%. Assuming the housing market improves over this year and next, homeownership and mortgage debt will increase together, pushing total household debt to a new high.

Increased household wealth has also supported higher levels of spending. Household net worth surpassed the prerecession peak three years ago in response to higher returns in the financial markets and improving property values. Homeowner's equity increased by 11.6% year-to-year in the third quarter of 2015, continuing a string of double-digit gains that began in mid-2012. Homeowner's equity was still 7% below peak in the third quarter of last year, but the gap has closed steadily. If anticipated gains in housing are realized this year and next, the gap will ultimately be closed.

Continued gains in the labor market and the higher incomes that are associated with those gains will sustain somewhat higher levels of consumer spending this year and next. Increases in expenditures of both goods and services can be expected. Moreover, consumer spending on appliances and furnishings and other items for the home should be pulled forward by the housing market. As mentioned elsewhere, several forces will

¹ Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York, November 2015

support increased demand for housing: more Millennials coming of age and forming households, stronger incomes supporting increased capacity to buy or rent, and heightened urgency to buy in anticipation of higher mortgage rates. In recent years, these trends have been met by sluggish increases in supply. Inventories of existing homes are lean, and while new home building has been rising at a respectable rate (about 10% annually), new construction has consistently fallen below expectations. *For a more detailed discussion of the region's real estate and construction sector, see the [Real Estate and Construction](#) section of this report.*

Businesses: Investment spending accounts for one-sixth of GDP and has made regular contributions to the current economic expansion, increasing by 5.0% in 2015 despite weakness in the energy sector. Nonresidential fixed investment spending (business investment spending except for residential construction and inventory changes) increased by 2.9% last year. Increased spending on equipment and intellectual property more than offset a decline in spending on structures due to a pullback in the energy sector. It is worth noting that investment spending is notoriously volatile, increasing by an impressive 9.0% in 2012, followed by a subdued 3.0% gain in 2013, which doubled to a 6.2% increase in 2014.

Other components of investment spending include residential construction and changes in inventories. Residential investment spending (construction) advanced at an 8.6% rate last year, which is roughly in line with the performance of other housing-related indicators. Residential construction has been on the rise in recent years, but remains somewhat tentative. As for changes in inventory, weakness in final demand last year, both in the U.S. and abroad, resulted in increases in inventories across many of the economy's key industries, including agriculture, construction, mining and utilities, and the retail sector. Elevated inventories will have to be drawn down in 2016, which will likely take the edge off of growth rates in the first half of the year.

With the overall economy is expected to maintain its trajectory over the next two years, investment spending is expected to grow more slowly (just under four percent) this year, mainly because of inventory corrections and continued weakness in energy. However, investment spending should accelerate to a growth rate between six and seven percent in 2017. Looking at the major categories of investment spending, business fixed investment should grow by five percent this year and next, with increased spending anticipated in equipment, intellectual property and structures. Residential investment spending should see sustained growth of approximately ten percent this year and next, while inventory changes will register wide swings, first offsetting the 2015 buildup with a sharp dip in 2016, then rising modestly in 2017.

Government: After four consecutive years of decline, government purchases saw a slight gain (0.8%) in 2015. This occurred despite a 0.4% cut in federal government expenditures because increased spending at the state and local level more than offset another decrease in federal spending. State and local finances have generally improved in recent years, resulting in a 1.5% increase in expenditures last year. Even so, state and local outlays were 7% lower in inflation-adjusted terms when compared with the 2009 peak. State and local spending will accelerate somewhat this year growing by 1.5%, with a 1.2% gain expected next year. Federal spending will be a mixed bag, up this year with next year less certain. Overall, total government expenditures are expected to rise by 2.3% this year, downshifting to a 0.4% increase in 2017.

Trade: The headline in recent months may have been China, but the main themes in the story on U.S. trade have been the value of the dollar and the health (or lack thereof) of our trading partners. With a stronger economy and anticipated increases in interest rates, the U.S. Dollar appreciated nearly 13% against a basket of foreign currencies last year. When coupled with the fact that many of our trading partners are facing weak conditions at home, it should be no surprise that U.S. exports of goods (adjusted for inflation) fell last year. However, the decline in exports of goods was just 0.2%, and the exports of both goods and services actually rose by 1.1% last year. (Locally, the situation was more dire, with exports of containers from the twin San Pedro ports falling by 10.0% in 2015). Meanwhile, imports rose by 5.0% last year in response to strength of the U.S. economy. All in all, the trade picture is not all that bad. As for China and its likely impact on the U.S. economy, one should note that U.S. exports to China equate to less than one percent of GDP. As such, volatility in China's economy should have a muted effect in the U.S.

Over the next two years, exports are expected to increase modestly (just over two percent), while imports should stay on track with last year's growth rate. With imports exceeding exports by about thirty percent, net trade will make a net negative contribution to growth in the U.S. economy. However, it bears mentioning that strong imports (rather than weak exports) drive the negative contribution and are the result of strength in the domestic economy.

Labor: The labor market hit key milestones in 2015. First, the headline unemployment rate fell to 5.1% in August, which is equivalent to the economy's long-run natural rate as gauged by the Congressional Budget office. Second, nonfarm jobs are on track to increase at a rate of 2.1% this year, which would be the fastest growth rate in the past 15 years.

Inflation: Despite the Federal Reserve Bank's hopes for inflation approaching two percent, prices showed little movement in 2015, with the consumer price index rising by a scant 0.1%. The biggest sources of inflation in recent years have been increases in consumer and commodities prices, but weak global demand has kept a lid on those prices. Together with the price of oil, which has been dancing around the \$30 mark as of this writing, there is little to ignite inflation. However, tightening labor markets should trigger wage increases over this year and next, resulting in inflation hitting 2.0% this year and 2.4% in 2017.

ECONOMIC POLICY

Fiscal Policy: Fiscal policy has been on automatic pilot in recent years. Although federal government expenditures have exerted a net drag on the economy over the last few years, an uptick in spending is expected this year and next. Meanwhile, there is not much chance that any changes in taxation policy will be forthcoming. Thus, despite 2016 being an election year, fiscal policy will have little effect on the direction and overall performance of the economy this year and next.

Monetary Policy: All eyes have been on the Federal Reserve Bank (the Fed) for some time now. With little happening in the fiscal policy arena, the Fed has been left to single-

handedly pursue its dual mandate of achieving full employment in the labor market while maintaining price stability. Full employment was reached in recent months and prices are

stable, but the rate of inflation is well below the Fed's two percent target. Even so, the Fed's current task-at-hand is to normalize the federal funds rate which has effectively been at zero since late in 2008. That is, it would like to move the federal funds rate to a neutral position of 2.5 to 3% to be ready for future contingencies. In theory, a set of well-timed increases should get the Fed to that neutral position sometime in 2017 or 2018. But increases in U.S rates can wreak havoc on economies around the globe: Europe, Japan, China, and emerging economies. With that in mind, the Fed must balance the need to move forward with rate hikes against the damage such a move may inflict on other countries.

Table 1: U.S. Economic Indicators

Annual % change except where noted	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Real GDP	-2.8	2.5	1.6	2.3	2.2	2.4	2.4	2.5	2.5
Nonfarm Employment	-4.3	-0.7	1.2	1.7	1.7	1.9	2.1	1.7	1.4
Unemployment Rate (%)	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.7
Consumer Price Index	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	2.0	2.4
Federal Budget Balance (FY, \$billions)	-1413	-1294	-1300	-1087	-680	-\$485	-\$426	-\$414	-\$454

Sources: BEA, BLS and CBO; forecasts by LAEDC

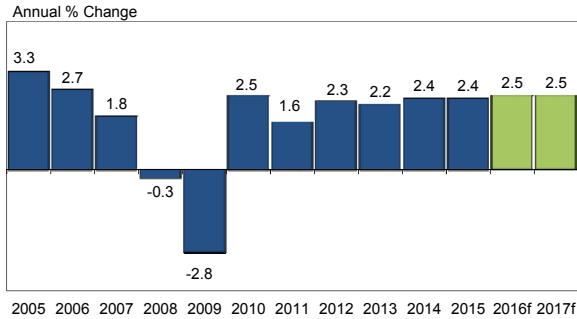
Table 2: U.S. Interest Rates

Annual Average, %	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Fed Funds Rate	0.16	0.18	0.10	0.14	0.11	0.10	0.10	0.90	1.90
10-Yr Treasury Note	3.26	3.22	2.78	1.80	2.35	2.50	2.10	2.60	2.80
30-Year Fixed Mortgage	5.04	4.69	4.45	3.66	3.98	4.20	3.90	4.30	4.60

Sources: Federal Reserve Board; forecasts by LAEDC

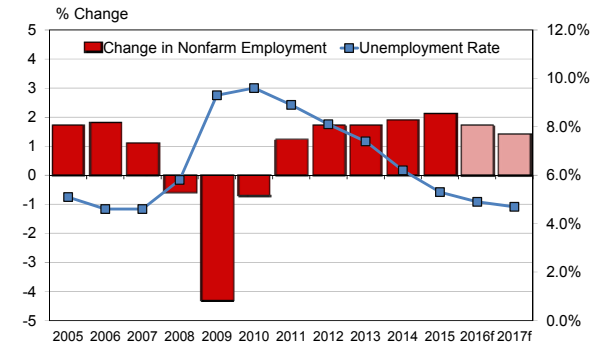
U.S. Economic Snapshot

U.S. Economic Growth



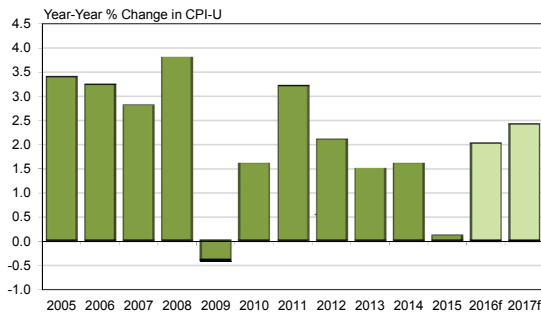
Sources: Bureau of Economic Analysis, forecasts by LAEDC

U.S. Labor Market



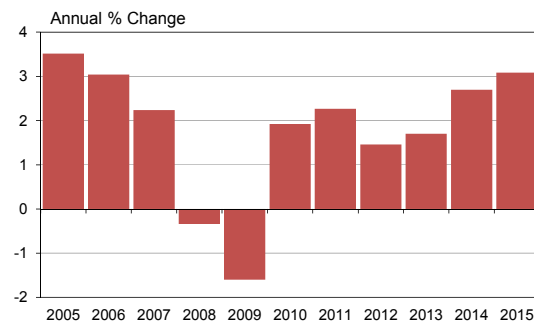
Sources: Bureau of Labor Statistics, forecasts by LAEDC

U.S. Consumer Inflation



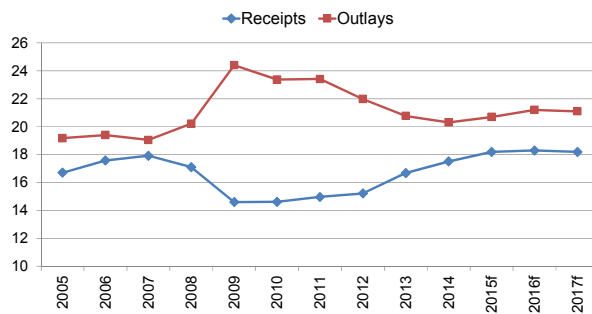
Source: Bureau of Labor Statistics; forecasts by LAEDC

U.S. Personal Consumption



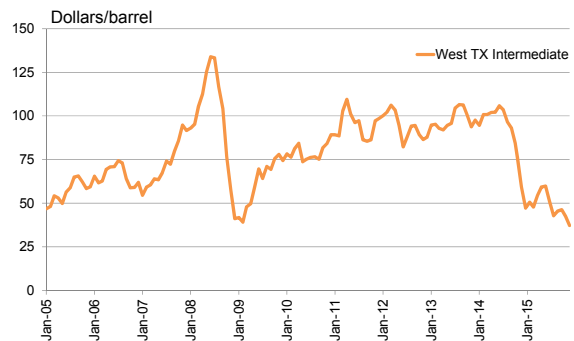
Source: Bureau of Economic Analysis

Federal Budget Receipts & Outlays as Percentage of GDP



Source: Office of Management & Budget

Crude Oil Prices 2007-Present



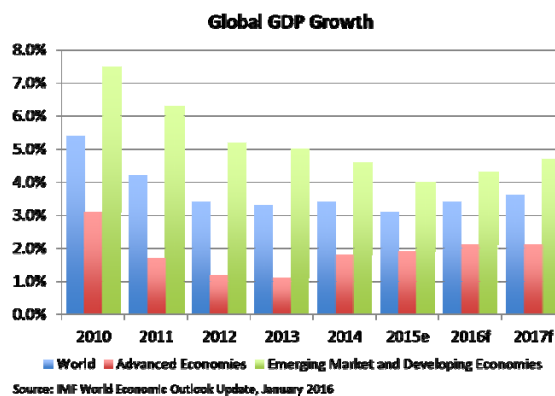
Source: US Energy Information Administration

THE INTERNATIONAL ECONOMY

Southern California's ties to the international economy, and especially China, continued to strengthen in 2015. With the nation's dominant customs district and the world's 16th largest economy, Southern California continues to be a principal gateway for international business activity, a leading destination for foreign direct investment (FDI), and a popular destination location, with 2015 seeing particularly strong growth in Chinese tourism.

CURRENT CONTEXT

Although expectations for global growth were revised downward in January, the IMF World Economic Outlook anticipates a partial global uptick in growth over the course of this year and next. In advanced economies, growth rates are expected to continue along their trend of the last few years: modest but increasing. Emerging market and developing economies saw declining growth for a fifth consecutive year in 2015, but growth is expected to improve in both 2016 and 2017 despite continued adverse external conditions such as the rebalancing of the Chinese economy, weak global demand, depressed commodity prices, tightening of U.S. monetary policy, and constraints on the application of monetary and fiscal stimulus.



“The projected pickup in growth in the next two years—despite the ongoing slowdown in China—primarily reflects forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East, though even this projected partial recovery could be frustrated by new economic or political shocks.”

—IMF World Economic Outlook Update January 2016

The downward revisions to expected global GDP growth are based on weak global demand resulting in weak global trade. “Robust trade and global growth go hand in hand,” says OECD chief economist Catherine Mann.² This weakness can be traced back to China’s slowdown as it moves to consumption-led growth. China’s slower growth has resulted in lower demand for commodities, leading to a decline in global commodity prices. Many global forecasts are based on the assumption that prices will stabilize and rebound somewhat in 2016, with the effects of low commodity prices fading into 2017. Assuming interest-rate and currency-value adjustments do not create unforeseen shocks, GDP growth is then expected to ease back up toward 3.5%. Two cautions, however. First, the current economic environment is fraught with risk, especially for emerging market and developing economies. Second, these generalized numbers mask considerable diversity in growth rates across countries, with expectations being similarly uneven.

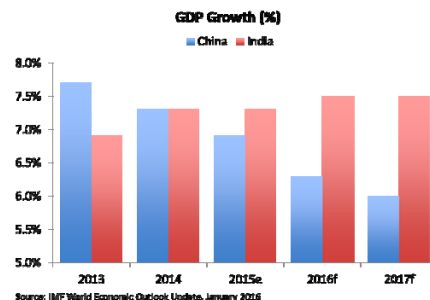
² <http://www.bbc.com/news/business-34763751>

SELECTED COUNTRY AND REGION SUMMARIES³

CHINA

GDP GROWTH (%)

China's policymakers are orchestrating a gradual slowdown and rebalancing of economic activity away from investment and manufacturing toward consumption and services. The scope of China's deliberate slowing of economic growth is, perhaps, best seen in comparison to India, which is projected to continue growing at a robust pace.



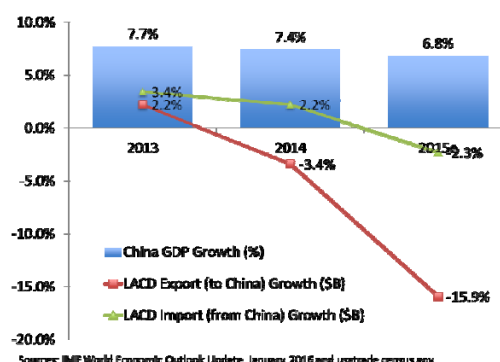
SOURCES OF RISK

China's slowdown in growth as the economy continues to rebalance is evolving broadly as projected, but with a faster-than-expected slowdown in imports and exports. These developments, along with market concerns about future performance, are spilling over into other economies through decreased trade, weaker commodity prices, and diminished confidence in increasingly volatile financial markets. China is a significant source of future risk to the forecast, as a sharper-than-expected slowdown could magnify these international spillovers, impacting global financial markets and currency values.

SOUTHERN CALIFORNIA IN FOCUS

As it shifts from an investment-led economy to a consumption-led economy, China's demand for global exports is declining along with GDP growth. Not surprisingly, then, trade with China (mainland) through the Los Angeles Customs District (LACD) has also decreased over the last year—exports to China more so than imports from China. But in conjunction with slowing economic growth, Chinese policymakers are allowing more money to leave the country, and the U.S. is an attractive haven for Chinese nationals looking to invest. Chinese foreign direct investment (FDI) to the U.S. increased over 30% in 2015 according to a Rhodium Group report, with California attracting over 20% of the total. A forthcoming Kyser Center analysis of FDI in Southern California specifically will be released at the *SelectLA* Summit in June.

- #1 TRADING PARTNER
- #1 EXPORT MARKET
- #1 SOURCE OF TOURISM GROWTH
- #2 SOURCE OF TOURISM

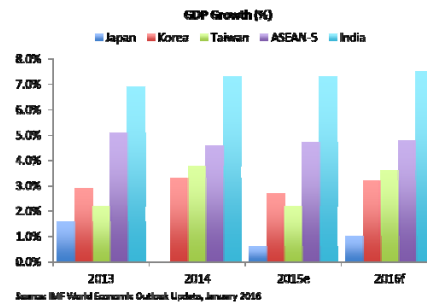


³ Adapted from the IMF World Economic Outlook, 10/2015 and the IMF World Economic Outlook Update, 1/2016

ASIA PACIFIC REGION

GDP GROWTH (%)

Expectations for GDP growth in the Asia-Pacific region are uneven. India and emerging Asia are expected to continue their robust growth, while advanced economies in the region, which saw relatively low growth in 2015, should pick up somewhat in 2016. All countries in this region face the risk of headwinds from China's economic rebalancing.



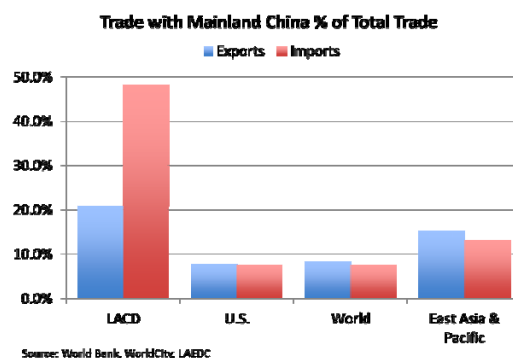
SOURCES OF RISK

According to the Brookings Institution, the Asia-Pacific region accounted for 60% of global GDP and 50% of international trade. It has also been the fastest-growing region of the world since 2012. But decreased demand from China and the resulting disruptions to global trade flows are having outsized effects on other countries in the Asia-Pacific region, and new regional relationships are emerging. As the Wall Street Journal described it, "The U.S. and China are vying for commercial as well as military influence in one of the most important corners of the global economy."⁴

SOUTHERN CALIFORNIA IN FOCUS

As patterns of global trade shift, a spotlight is being placed on trade agreements. Even as China's slowdown in GDP growth has led to larger-than-expected declines in exports to China, especially from East Asia, Washington is promoting the Trans-Pacific Partnership (TPP) to expand U.S. trade ties in the Asia-Pacific region. The TPP includes LACD's #2 trading partner, Japan, which is shifting away from past protectionist policy and looking to increased trade to boost growth. Other LACD trading partners participating in the TPP include Vietnam (#5) and Australia (#10), while South Korea (#3), Taiwan (#4) and Thailand (#7) have announced an interest in joining.

- #2- #5 TRADING PARTNERS
JAPAN, SOUTH KOREA, TAIWAN, VIETNAM
- #2- #8 EXPORT MARKETS
JAPAN, SOUTH KOREA, HONG KONG, TAIWAN, AUSTRALIA, SINGAPORE, INDIA
- #1 SOURCE OF FDI: JAPAN

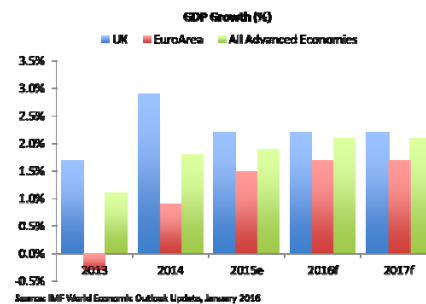


⁴ May 16, 2012 "The Significance of the Trans-Pacific Partnership for the United States", <http://www.brookings.edu/research/testimony/2012/05/16-us-trade-strategy-meltzer> and November 18, 2015, "U.S., China Intensify Trade Competition on APEC Stage," <http://www.wsj.com/articles/u-s-china-intensify-trade-competition-on-apec-stage-1447849577>

U.K. AND EUROZONE

GDP GROWTH (%)

In general, uneven growth is expected across advanced economies in 2016. Along with the U.S., the U.K. is well into the recovery process, whereas the Eurozone, where the recovery has been more tentative, is still grappling with continued austerity demands, the refugee crisis, and uncertainty about the E.U. as the U.K. 2017 exit vote approaches.



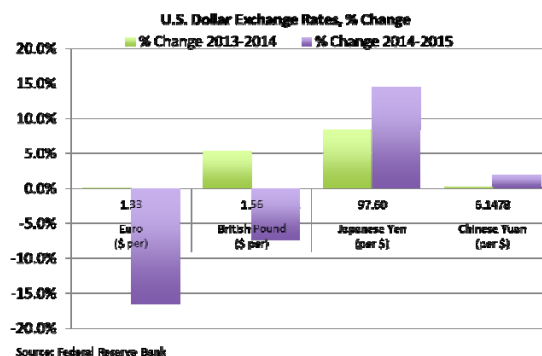
SOURCES OF RISK

Most advanced economies have relied on accommodative monetary policy to prop up weak growth. In the Eurozone, easy financial conditions combined with lower oil prices are supporting consumption, outweighing weakness in net exports. Japan followed the lead of the European Central Bank in announcing negative interest rates at the end of January, but the Bank of England is expected to follow the Fed's lead and begin raising interest rates later this year as growth stabilizes. Prospects of increasing interest rates and financial volatility have already contributed to tighter financial conditions, declining capital flows and further currency depreciations in many emerging market economies. Much as one would like to see future interest rate normalization proceed smoothly, transitions such as these commonly cause disruptions in some parts of the global economy during the process.

SOUTHERN CALIFORNIA IN FOCUS

With the Fed taking the lead in tightening monetary policy, the dollar has appreciated. The implications of a stronger dollar are widespread, but it has direct impacts on one of Southern California's largest industries: trade. On the one hand, a stronger currency supports trade and trade-related industries as domestic demand increases because foreign imports are cheaper. On the other hand, trade may be depressed as demand—both domestic and foreign—declines because the cost of money, including the cost of credit card and other types of debt, has increased. The Fed's careful signaling of its interest rate policy speaks to the concern about global sensitivity to these effects.

- #6 TRADING PARTNER: GERMANY
- #14 TRADING PARTNER: UK
- #10 EXPORT MARKET: GERMANY
- 9 TOP 20 SOURCES OF FDI⁵

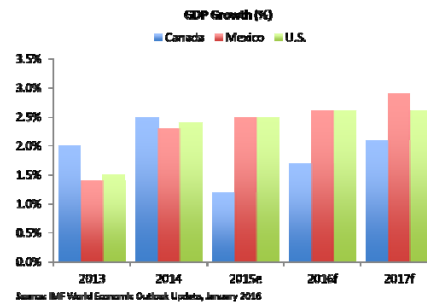


⁵ Excluding non-euro countries Sweden and Switzerland

CANADA AND MEXICO

GDP GROWTH (%)

Growth in the U.S. and Mexico was slower than expected in 2015, but should stay stable this year. Lower oil prices tempered growth in Canada relative to other advanced countries, but growth is expected to increase in 2016 as commodity prices stabilize.



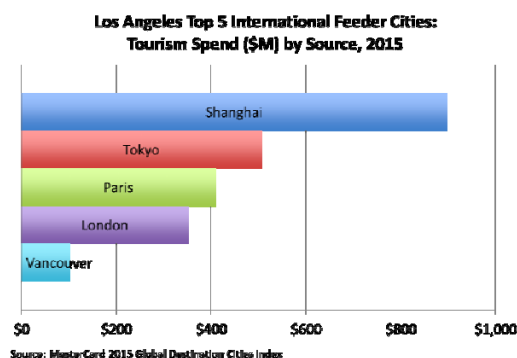
SOURCES OF RISK

So far, the strengthening dollar has not seemed to harm Southern California's tourism industry, which has benefitted from solid GDP growth in Mexico, Southern California's number one source of foreign visitors, and is on track to meet Mayor Garcetti's goal of 50 million visitors by 2020. However, in the current environment of higher risk aversion, market volatility and ongoing geopolitical tensions, it may not take much to depress confidence, disturb the markets, and disrupt trade and tourism.

SOUTHERN CALIFORNIA IN FOCUS

Despite global economic weakness and the strengthening dollar, Southern California is still a popular travel destination. Tourism experienced its fifth consecutive year of record visitors in 2015 and tourism-industry supported employment is well above its pre-recession peak. Mexico was still the top source of foreign visitors, but China displaced Canada as the number two source in 2015. This has pushed visitor spending up, as visitors from China tend to stay longer and spend more than visitors from other countries. According to the Mastercard 2015 Global Destination Cities Index, visitors from Shanghai (Los Angeles' #1 spenders) spent over \$2,800 each, on average, whereas visitors from Vancouver (#5) spent only a little over \$300 each. Rounding out the top five cities are Tokyo (\$1,692), Paris (\$1,377) and London (\$1,020).

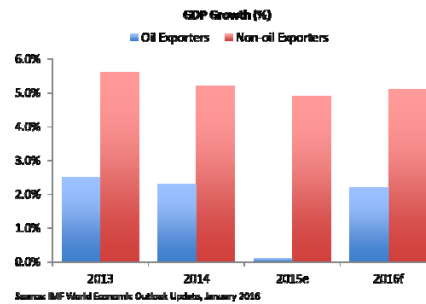
- #1 SOURCE OF TOURISM: MEXICO
- #3 SOURCE OF TOURISM: CANADA
- IN TOP 15 SOURCES OF FDI
- #25-26 TRADING PARTNERS: CANADA, MEXICO



OIL AND COMMODITY PRODUCERS

GDP GROWTH (%)

Expectations based on futures markets are for modest oil price increases in 2016 and 2017. Lower oil prices strain the fiscal positions of fuel exporters and weigh on their growth prospects. On top of that, many oil exporters are facing other financial pressures that have made it more difficult to smooth the shock of lower oil prices, leading to reductions in their domestic demand.



SOURCES OF RISK

Commodity markets pose two-sided risks. On the downside, further price declines will worsen the outlook for already-fragile commodity producers. On the upside, declines in oil prices support household spending and lower business and energy costs, especially in advanced economies where price declines are more fully passed on to end users. Since oil importers tend to spend more than oil exporters, a decline in oil prices should increase global demand as importers spend their windfall. However, the pickup in consumption by oil importing countries has so far been weaker than evidence from past episodes of oil price declines would have suggested.

SOUTHERN CALIFORNIA IN FOCUS

In Southern California, a net oil importer, declining oil prices would be expected to support the consumer spending that drives regional GDP growth. Each of the nearly six million commuters in the Los Angeles MSA drove, on average, 40 miles per day in 2014 (five miles more than is average in U.S. urban areas), according to the Texas Transportation Institute. The drop in gasoline prices, puts Southern California's annual savings somewhere in the neighborhood of \$3.3 billion, based on the back-of-the-envelope calculation shown at right. The decline in oil prices should, therefore, leave the region with more discretionary income, supporting GDP growth. The effect may be dampened, however, by declining LACD import/export activity, where gasoline and other fuels were the 11th largest export and oil was the third largest import in 2014.

- #15 TRADING PARTNER: IRAQ
- #21 TRADING PARTNER: SAUDI ARABIA
- #23 EXPORT MARKET: QATAR

BACK-OF-THE-ENVELOPE CALCULATION OF SAVINGS FROM LOWER GAS PRICES IN SOUTHERN CALIFORNIA

Southern California commuters drive, on average:
 40 miles per day x 250 work days per year
 = 10,000 miles per year

The average price of gasoline (per gallon) in the region has decreased by:
 \$3.89 (in 2013) — \$2.79 (February 2016)
 = \$1.10 per gallon

Assuming an average of 20 mpg:
 10,000 miles / 20 mpg = 500 gallons
 500 gallons x \$1.10 per gallon = \$550 per commuter
 \$550 x 6 million commuters = \$3.3 billion

RISK ASSESSMENT

Several factors could affect global economic growth in 2016. Political instability, immigration policy, commodity prices, export diversification, monetary policy normalization, increasing global demand, investment to accommodate aging populations and infrastructure, and reserve buffers against unexpected natural disasters (such as last year's Ebola outbreak, the 7.8 magnitude earthquake in Nepal or worldwide flooding episodes), will all be important for keeping economic expectations on track across the globe in the coming year.

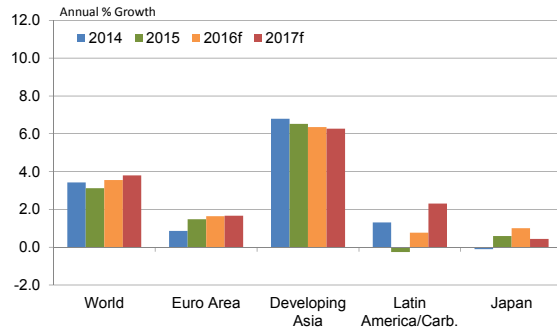
While many of the economic concerns of 2015 have carried over into 2016, so have several optimistic notes, too. China's economic transition will take some time – measured in years, not in months – and there may be bumps in the road. But ultimately, it is moving to a path of slower but sustainable growth. U.S. relations with Cuba are normalizing, a nuclear deal was reached with Iran, Africa marked the one-year anniversary of no new cases of wild polio, the United Nations Climate Change Conference in Paris led to a 195-country agreement, and the list goes on. There are many reasons to be optimistic about 2016, so long as one or more of the many risks to the global growth forecasts do not derail expectations.

“Risks to the global outlook remain tilted to the downside and relate to ongoing adjustments in the global economy: a generalized slowdown in emerging market economics, China’s rebalancing, lower commodity prices, and the gradual exit from the extraordinarily accommodative monetary conditions in the United States. If these key challenges are not successfully managed, global growth could be derailed.”

—IMF World Economic Outlook Update January 2016

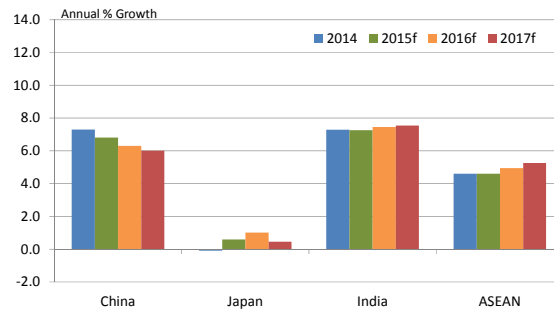
Global Economic Snapshot

Global Economic Outlook



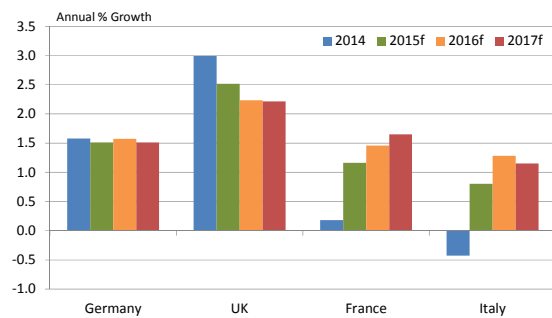
Source: IMF World Economic Outlook, January 2016 Update

Asian Economic Outlook



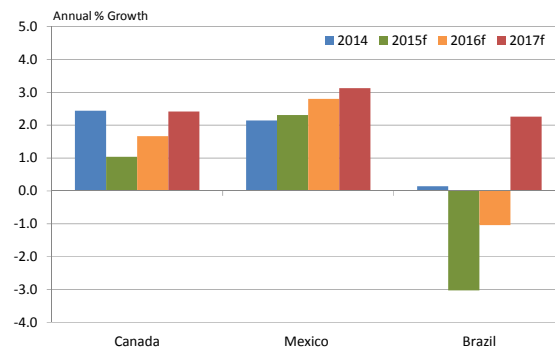
Source: IMF World Economic Outlook, January 2016 Update

European Economic Outlook



Source: IMF World Economic Outlook, January 2016 Update

Americas Economic Outlook



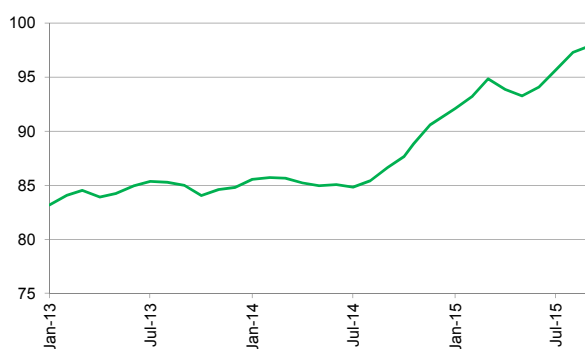
Source: IMF World Economic Outlook, January 2016 Update

FOREIGN EXCHANGE RATES

#

In 2015, the U.S. Dollar strengthened significantly, appreciating 12.6% relative to the broad currency basket.⁶ Appreciation was especially strong relative to the Mexican Peso (+19.3%), the Euro (+16.6%), the Canadian Dollar (+15.8%) and the Japanese Yen (+14.5%). The dollar's across-board strengthening against other currencies is a concern for American exporters, who will find their products are increasingly expensive for buyers in top export markets such as China (#1), Japan (#2) and South Korea (#3).

**Real Trade Weighted U.S. Dollar Index:
Broad, 2013-Present**



Source: Federal Reserve via FRED

With the increase in the Federal Funds rate of December 16, 2015, as well as expectations for a slow but steady continuing increase in 2016, while other central banks continue to loosen their monetary policy, the dollar is expected to continue to appreciate this year. According to the IMF forecast:

“The constellation underpinning dollar appreciation over the past year or so is expected to remain in place for some time in the baseline forecast. It includes domestic demand strength relative to most other advanced economies, monetary policy divergence among major advanced economies, and an improved external position with lower oil prices. U.S. dollar appreciation against most currencies could thus continue, causing a lasting upswing in the dollar, as has happened previously. If this risk were to materialize, balance sheet and funding strains for dollar debtors could potentially more than offset trade benefits from real depreciation in some economies.”

—IMF World Economic Outlook October 2015

⁶ A weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners

Table 3: Foreign Exchange Rates of Major U.S. Trading Partners

Country (Currency)*	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Broad Currency Basket (index)	119.27	113.76	110.84	108.70	103.58	99.88	105.67	101.82	97.15	99.81	100.98	104.16	117.28
Canada (US\$/C\$)	1.401	1.302	1.216	1.134	1.073	1.066	1.141	1.030	0.989	1.000	1.030	1.104	1.279
China (US\$/yuan)	8.28	8.28	8.19	7.97	7.61	6.95	6.83	6.77	6.46	6.31	6.15	6.16	6.28
Euro Zone (€/US\$)**	1.132	1.244	1.245	1.256	1.371	1.473	1.394	1.326	1.393	1.286	1.328	1.330	1.110
Japan (US\$/¥)	115.9	108.2	110.1	116.3	117.8	103.4	93.7	87.8	79.7	79.8	97.6	105.7	121.1
Mexico (US\$/peso)	10.79	11.29	10.89	10.91	10.93	11.14	13.50	12.62	12.43	13.15	12.76	13.30	15.87
South Korea (US\$/₩)	1192	1145	1024	954	929	1099	1275	1156	1107	1126	1095	1052	1131
United Kingdom (£/US\$)**	1.635	1.833	1.820	1.843	2.002	1.855	1.566	1.545	1.604	1.585	1.564	1.648	1.528

Percent Change***	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Broad currency basket (index)	-6.0%	-4.6%	-2.6%	-1.9%	-4.7%	-3.6%	5.8%	-3.6%	-4.6%	2.7%	1.2%	3.1%	12.6%
Canada (C\$)	-10.9%	-7.1%	-6.6%	-6.7%	-5.3%	-0.7%	7.1%	-9.8%	-4.0%	1.1%	3.1%	7.2%	15.8%
China (yuan)	0.0%	0.0%	-1.0%	-2.7%	-4.6%	-8.7%	-1.7%	-0.9%	-4.5%	-2.4%	-2.6%	0.2%	2.0%
Euro Zone (€)	-19.7%	-9.9%	-0.1%	-0.9%	-9.1%	-7.4%	5.4%	4.8%	-5.1%	7.7%	-3.3%	0.1%	-16.6%
Japan (¥)	-7.4%	-6.7%	1.8%	5.6%	1.2%	-12.2%	-9.4%	-6.3%	-9.2%	0.2%	22.3%	8.3%	14.5%
Mexico (peso)	11.7%	4.6%	-3.5%	0.1%	0.2%	2.0%	21.1%	-6.5%	-1.6%	5.8%	-3.0%	4.3%	19.3%
South Korea (₩)	-4.7%	-3.9%	-10.6%	-6.8%	-2.7%	18.3%	16.0%	-9.3%	-4.2%	1.7%	-2.8%	-3.9%	7.5%
United Kingdom (£)	-8.8%	-12.1%	0.7%	-1.3%	-8.6%	7.4%	15.6%	1.3%	-3.8%	1.2%	1.3%	5.4%	-7.3%

Source: Federal Reserve Statistical Release G.5A; Annual Averages

Notes:

*Foreign currency units per U.S. dollar

**The value in U.S. dollars versus the foreign currency

***Performance of U.S. dollar versus the foreign currency

THE CALIFORNIA ECONOMY

INTRODUCTION

California has enjoyed remarkable economic growth in recent years. For three years running, the state has added jobs at a faster pace than the nation as a whole. California's economy is also growing at a faster rate than that of the nation (3.9% vs. 2.4% in 2015, estimated) and accounts for over 13% of U.S. GDP, by far the largest of any state. California's gross product is expected to expand by 3.1% this year, outpacing the 2.5% pace anticipated for U.S. GDP.

California has a large and fast-growing economy. Running counter to the narrative that the state is uniformly unfriendly to business, California received more venture capital funds in 2015 than all 49 other states combined (\$33.5 billion vs. \$24.2 billion).⁷ California is a global leader in the technology, aerospace, and life sciences industries as well as entertainment, tourism and agriculture. Silicon Valley leads the world in technological innovation, San Diego is a global hub for biotechnology and pharmaceutical research, and Los Angeles ranks third in the world behind New York and London as the preferred city for foreign real estate investment (up from tenth place last year).⁸

In 2015, California's unemployment rate averaged 7.0%, the lowest in eight years. Nonfarm employment was up over the year by 468,900 wage and salary jobs, an increase of 3.0%. The five largest metro areas in California accounted for over 60% of the increase. Los Angeles added 92,100 jobs, the largest number of any metro area. This equated to a growth rate of 2.2%. Silicon Valley (San Jose MSA) generated jobs at the fastest pace (5.4%), followed by Riverside-San Bernardino (3.8%). Elsewhere in Southern California, Orange County nonfarm employment increased by 3.2% over the year; San Diego County followed with a rate of 3.1%, while in Ventura County, nonfarm employment grew by 1.6%.⁹

Over the course of last year, nearly every major industry sector in the state added jobs. The largest gains occurred in professional, scientific and technical services (72,100 jobs); leisure and hospitality (70,700); healthcare and social assistance (63,600); administrative, support and waste services (48,700); and construction (46,700). These five industries accounted for 64% of total job gains for the year. In percentage terms, construction added jobs at the fastest rate (6.9%), followed by professional, scientific and technical services (6.2%). Administrative, support and waste services added jobs at a rate of 4.8%, while leisure and hospitality employment expanded by 4.0%.

The only two industries to post declines in 2015 were nondurable goods manufacturing (down by 1.2%, or 5,700 jobs) and natural resources (down by 6.2% or 2,000 jobs). The

⁷ Price Waterhouse Coopers Money Tree Survey

⁸ Association of Foreign Investors in Real Estate, 2016 Foreign Investment Survey

⁹ Job counts and growth rates in this section are based on seasonally adjusted numbers

decline in natural resources was due primarily to a pullback in energy sector investment resulting from low energy prices.

Unfortunately, California's current prosperity has not been spread equally across the state. There are regions within the state where the labor markets continue to struggle with high unemployment and low growth. As of December 2015, 12 of California's 58 counties still had an unemployment rate over ten percent, predominately agricultural or rural areas. The highest recorded unemployment rates were Imperial County at 19.6% and Colusa County at 19.3%.

TRENDS IN MAJOR INDUSTRIES

Aerospace and Technology: California's technology sector consists of a combination of manufacturing and service industries in aerospace, information technology and biomedical technology. The aerospace and technology industries are concentrated in Los Angeles and Orange counties, San Diego County and the San Francisco/Silicon Valley region. Together, these regions make up the core of the state's information, technology and innovation economy. They also receive the majority of the venture capital dollars that flow into California.

Technology employment exceeded 1.12 million workers in 2015, advancing past the previous peak of 1.06 million reached in 2014 by 5.0%. While overall employment is growing, most jobs are concentrated in the service sector. As late as 2004, employment was about evenly split between jobs in technology manufacturing and services, but as of 2015, employment in technology services had grown to over 66% of total sector employment.

Nearly half of the new technology jobs created in 2015 were in computer systems design (23,700 jobs) with management and consulting contributing 16,300 jobs. Smaller increases occurred elsewhere, except for aerospace product and parts manufacturing, which lost 1,900 jobs over the year. These trends are expected to continue with the largest gains occurring in technology services, while technology manufacturing employment remains flat or down marginally.

Agriculture: California is the nation's leading producer of fruits, vegetables, nuts and dairy products. The state's highest value commodities are milk, grapes, almonds and nursery plants. California's top producing agricultural counties are Fresno, Tulare, Kern, Monterey and Merced, which together had a combined share of 44% of the total state farm receipts in 2014.

Agricultural and related products are also one of California's largest exports to the rest of the world – already the slowing of China's economy has made itself felt through a drop in demand for California almonds, dairy products and wine. The number of farm workers totaled 417,000 in 2015, which was 0.1% lower than recorded in 2014. Agricultural output in California increased by an estimated 2.9% in 2015 accounting for about 1.1% of the state's gross product and 2.6% of civilian employment, both of which are consistent with recent trends.

California's 76,400¹⁰ farms and ranches generated cash receipts of \$51.8 billion (inflation adjusted) in 2014 (latest data available), up by 3.6% compared with 2013 and a new record high in spite of California's ongoing drought. Crop receipts edged down by 1.4% to \$35.1 billion, while livestock receipts increased by 17.5% to \$14.1 billion. California was also the top state in cash farm receipts in 2014 with 12.0% of the total for the U.S. In 2014, California ranked first among the 50 states in terms of net real farm income at \$13.9 billion, or 16.7% of the national total.

According to the USDA, as of March 2015, over 97% of California's \$43 billion agricultural sector was experiencing severe, extreme or exceptional drought. California's agricultural sector has proven exceptionally resilient but if this year's winter El Niño storms are followed by more dry years, employment, which is already beginning to erode, will suffer further declines along with a drop in production as more land is left fallow. Researchers at UC Davis estimate that the drought cost the state economy \$2.74 billion in 2015.¹¹

Health Care: The health care and social assistance industry is California's largest private sector employer and one of the fastest growing. With over 2.1 million workers, this sector accounts for slightly more than 13% of the state's 16.1 million wage and salary jobs. Over the course of 2015, health care added 63,600 jobs, an annual growth rate of 3.1%. By the close of 2016, health care employment is expected to post an even stronger annual increase of 3.3%, bringing total health care jobs up to nearly 2.2 million across a range of skill and income levels.

The health care industry continues to adjust to rising costs, rapidly evolving technologies and new regulations legislated by the Affordable Care Act. Over the past two years, a wave of consolidations has rippled through the industry as health care providers, insurers and large corporate customers formed partnerships and alliances in order to survive the shift to value-based (as opposed to volume-based) health care. Meanwhile, the expansion of health care technology has been explosive. Rapidly evolving technological advancements include not only diagnostic and treatment equipment, but also wearable tracking devices, patient centered care, and increased data demands and data security concerns.

Over the longer term, the health care industry must respond to the state's growing population, a larger share of older residents and increased longevity.¹² The challenge for California will be to manage the ongoing costs associated with demographic changes and expanded access to high quality health care.

International Trade: The international trade sector is a significant part of California's economy and a vital link in the nation's trade network. The majority of the nation's goods

¹⁰ California Department of Food and Agriculture

¹¹ Howitt, Richard, et al; *"Economic Analysis of the 2015 Drought For California Agriculture"*, UC Davis (August 17, 2014)

¹² California's senior population is expected to grow by 87%, or four million people, over the next two decades (PPIC August 2015)

trade is highly concentrated in the corridors between its largest metropolitan areas. The Los Angeles-Riverside and San Francisco-San Jose trade corridors are among the largest in the U.S. Likewise, eight of the nation's 25 most valuable international trade corridors are in California. This should come as no surprise given the state's extensive trade infrastructure, and its geography and status as one of the nation's largest consumer markets.¹³

California is the second-largest goods exporting state in the country (just behind Texas, which is heavily dependent on energy-related exports). California's largest export categories by value are computer products, transportation equipment (mainly aerospace-related), machinery, agricultural products, and chemicals (pharmaceuticals). Measured by value, imports outweigh exports by a two-to-one margin.

California is also a major exporter of services to the rest of the world. Film and music industry royalties are a major source of export revenues as are financial services, management and consulting services, entertainment services and information technology services.

Global trade slowed sharply in 2015. Last year, statewide two-way trade declined by 4.5% to \$581 billion after reaching a record setting \$608 billion in 2014. With expectations for subdued global growth in 2016, two-way trade in California is forecast to decline again this year (by 0.4%) before rebounding in 2017 to \$632 billion (a gain of 9.2%) and achieving a new record high. The IMF names three key factors underlying low expectations for trade this year. The first is the slowdown and rebalancing of economic activity in China. The second is lower prices for energy and other commodities, and the third is the tightening of U.S. monetary policy against the backdrop of other major advanced economies continuing to ease policy.

Expectations for a recovery in global trade volumes over the next two years are based on U.S. and Eurozone growth, which will spur trade of both capital and consumer goods. The drag on global trade will also be reduced as conditions stabilize in China and as other Asian economies regain their footing.

Tourism: The multibillion dollar travel and tourism industry has achieved a prominent position in California's economy. In 2014 (latest figures available), the gross product generated by California's travel industry was \$57.6 billion,¹⁴ or approximately 2.5% of total state gross product. California also had the largest share of the domestic travel market among all 50 states.

Total visitor counts were up by an estimated 2.1% on an annual basis in 2015, slowing from a stronger growth rate of 3.5% in 2014. The growth of international visitors slowed considerably in 2015, to 2.2% (estimated) from 9.9% the previous year. The forecast for 2016 is an increase of 2.3% in total visits, with domestic travel forecast to increase by

¹³ Tomer, Adie and Kane, Joseph; "Mapping Freight: The Highly Concentrated Nature of Goods Trade in the United States" Brookings Institute (November 2014)

¹⁴ "California Travel Impacts"; Dean Runyan Associates, VisitCalifornia.com (April 2015)

2.1% and international travel by 4.2%.¹⁵ The slower pace of visitor growth last year is primarily attributable to the stronger dollar and slow domestic wage growth.

Expenditures by business and leisure travelers to the state totaled \$120.7 billion in 2015, an increase of 2.7% compared with 2014. Domestic travelers accounted for \$96.6 billion, while international visitors spent \$24.1 billion. On average, hotel occupancy rates closed in on 75% in 2015, while increased demand, lack of new hotel construction and high occupancy rates drove revenue per room to \$112 from \$102 in 2014.¹⁶

Leisure and hospitality jobs account for about 11% of all wage and salary jobs in California. While a significant part of leisure and hospitality activity is associated with tourism, many of these jobs serve the local population more so than the region's tourists and business travelers. Jobs in this industry include lodging, food services, the performing arts, museums, amusement parks and gambling establishments. Leisure and hospitality employment grew by 4.0% in 2015 to 1.8 million jobs, with an additional expected gain of 2.7% in 2016. Payrolls continue to grow the fastest at restaurants and bars, which account for over 70% of all leisure and hospitality employment.

All of California's major tourism markets are expected to see gains this year and next. Continuing improvements in the labor markets, income growth and rising consumer confidence will support higher household spending, which in turn suggests solid near-term growth for the state's travel and tourism industry in spite the stronger dollar and uneasiness abroad.

Construction: Construction activity and employment in 2015 posted another welcome increase after struggling in the years during and immediately following the Great Recession. New office construction continues to lag because of elevated vacancy rates in many regions of the state, but industrial construction is gaining momentum, especially in the goods movement and distribution and technology sectors. Nonresidential construction permits in 2015 rose by 4.3% to \$24.7 billion and are expected to increase by 9.3% this year. New home permits, which showed a moderate gain in 2015 (12.4%), are expected to accelerate slightly this year rising to 110,000 permitted units, an increase of 14.0%.

Construction employment saw substantial growth in 2015, growing by 6.9% to 722,100 jobs. Employment gains in recent years have finally started to offset the 373,900 construction jobs lost during the recession. Construction employment is expected to grow by an additional 5.8% this year with a 5.5% gain projected for 2017, bringing California construction employment to within 14% of the pre-downturn peak.

¹⁵ Tourism Economics (July 2015), VisitCalifornia.com

¹⁶ 2016 STR, Inc, VisitCalifornia.com

LOOKING AHEAD

On many levels, California's economy is doing very well. Following a 3.0% increase in 2015, nonfarm jobs are expected to grow by 2.4% in 2016, slowing to 1.6% in 2017. The unemployment rate averaged 7.0% last year and is expected to decline to 6.2% in 2016 (the long-run average since 1990 is 7.5%). With further improvements anticipated for the labor market, personal income and total taxable sales should increase by 4.5% and 5.5% respectively this year, with additional gains expected in 2017.

In addition to a relatively strong employment outlook, California has made significant headway in setting its fiscal house in order. The state's finances have stabilized, and after years of deficits, the General Fund is expected to end the current fiscal year with a cash surplus for the third consecutive year. California's bond rating has also improved (although the state still ranks among the bottom three – only New Jersey and Illinois have a lower rating), saving the General Fund millions of dollars per year in borrowing costs. In January, Governor Brown proposed a 2016-17 budget that would bring the state's cash reserves up to \$10.2 billion by the end of the next fiscal year while increasing spending on infrastructure and education. Although passing a budget is in the hands of the Legislature, the Governor has communicated his position that planning for the next downturn is necessary to protect the remarkable economic progress California has achieved in recent years.

At the same time, a number of persistent problems continue to defy resolution. The unfunded liability of state retiree health care costs (currently at \$74.1 billion) remains a concern. Moreover, it is not yet certain how much the Legislature will budget to fund critical and long deferred infrastructure projects and maintenance. There is also a severe shortage of housing (affordable and otherwise) particularly in the metro areas that are experiencing the fastest rates of job growth. At the same time, many of California's inland and rural regions have not shared in the economic growth enjoyed by the state's larger coastal metro areas. Additionally, California's poverty rate remains depressingly high, 16.4% by official measures and as high as 21% if California's high cost of living is factored in.¹⁷

Still, most regions in the state have regained all of the jobs lost during the recession or are very close to doing so. Expanding the benefits of the state's economic growth to a larger share of the population is the next big step. Meeting this challenge will require attracting skilled workers to the state, increasing college enrollment and completion rates, upgrading the state's physical infrastructure, and careful management of California's finances and water resources.

¹⁷ "Poverty in California", Public Policy Institute of California (December 2015)

GROSS PRODUCT COMPARISONS

California has a diverse and innovative economy that ranks as one of the largest in the world. If Southern California and Los Angeles County were nations in their own right, they would also rank among the world's 25 leading economies. Contributing to the strength of the economies of California and Southern California are strong and well developed technology, manufacturing, entertainment and tourism sectors. Also underlying their success is openness to international trade. In addition to being one of the nation's largest consumer markets, Southern California, also serves as the primary conduit for trade and travel between the U.S. and Asia.

With an estimated nominal gross state product of \$2.4 trillion in 2015, California had the sixth largest economy in the world, coming in between the United Kingdom and France. California ranked eighth in 2014 and 2013, rising from the tenth position in 2012. California has moved up in the ranks in part because its economy has outpaced the United States in terms of real economic growth and is outperforming many of the world's leading developed and emerging nations including Japan, Germany, Korea, and Australia. At the same time, the rise in value of the U.S. Dollar has played a role in boosting the nominal value of California's output.

The Los Angeles five-county region had an estimated gross product of over \$1.1 trillion in 2014, making it the 16th largest economy in the world. Los Angeles County earned the 20th position on the list with an estimated gross product of over \$664 billion.

Table 4: Gross Product Comparisons, 2015
Estimated (Billions of \$US)

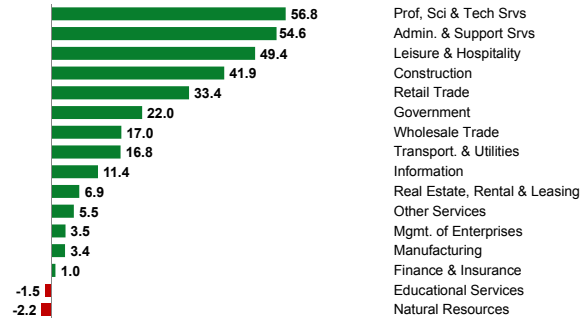
Rank	Country/State/Region	Nominal GDP 2015(e) \$US Billions	Nominal 2014-2015 % Change	Real 2014-2015 % Change	Nominal Per Capita Income 2015(e)
1	United States	\$17,968.2	3.4%	2.4%	\$55,904
2	China	\$11,384.8	9.9%	6.8%	\$8,280
3	Japan	\$4,116.2	-10.6%	0.6%	\$32,481
4	Germany	\$3,371.0	-13.0%	1.5%	\$41,267
5	United Kingdom	\$2,864.9	-2.9%	2.5%	\$44,118
	California	\$2,430.3	5.4%	3.9%	\$52,569
6	France	\$2,422.6	-14.5%	1.2%	\$37,728
7	India	\$2,182.6	6.4%	7.3%	\$1,688
8	Italy	\$1,819.0	-15.3%	0.8%	\$29,847
9	Brazil	\$1,799.6	-23.3%	-3.0%	\$8,802
10	Canada	\$1,572.8	-11.9%	1.0%	\$43,935
11	Korea	\$1,393.0	-1.2%	2.7%	\$27,513
12	Australia	\$1,240.8	-14.0%	2.4%	\$51,642
13	Russia	\$1,235.9	-33.6%	-3.8%	\$8,447
14	Spain	\$1,221.4	-13.2%	3.1%	\$26,327
15	Mexico	\$1,161.5	-10.0%	2.3%	\$9,592
	L.A. 5-County Region	\$1,093.4	4.4%	2.7%	\$58,426
16	Indonesia	\$872.6	-1.8%	4.7%	\$3,416
17	Netherlands	\$750.8	-14.8%	1.8%	\$44,333
18	Turkey	\$722.2	-9.5%	3.0%	\$9,290
19	Switzerland	\$677.0	-3.8%	1.0%	\$82,178
	Los Angeles County	\$664.2	4.1%	2.4%	\$49,772
20	Saudi Arabia	\$632.1	-15.3%	3.4%	\$20,139
21	Argentina	\$578.7	6.6%	0.4%	\$13,428
22	Taiwan	\$518.8	-2.0%	2.2%	\$22,083
23	Nigeria	\$493.0	-14.1%	4.0%	\$2,758
24	Sweden	\$483.7	-15.2%	2.8%	\$48,966
25	Poland	\$481.2	-12.2%	3.5%	\$12,662

Note: Figures based on market exchange rates
Source: IMF World Economic Outlook (WEO), January 2016
Bureau of Economic Analysis; Global Insight

California Snapshot

California Employment Growth, 2016

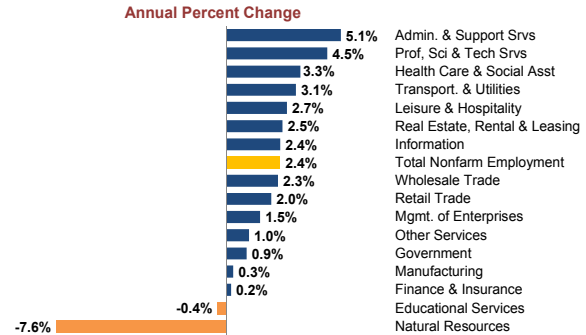
Total nonfarm job growth forecast for 2016 (thousands): +389.7 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

California Employment Growth, 2016

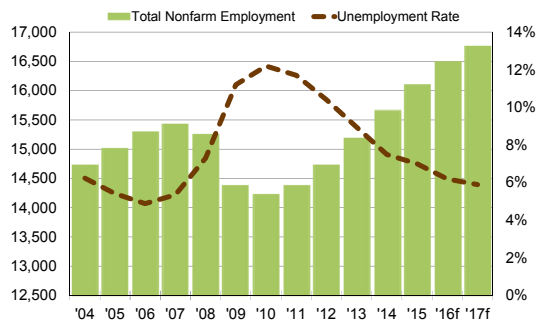
Total nonfarm job growth forecast for 2016, percent change: +2.4%



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

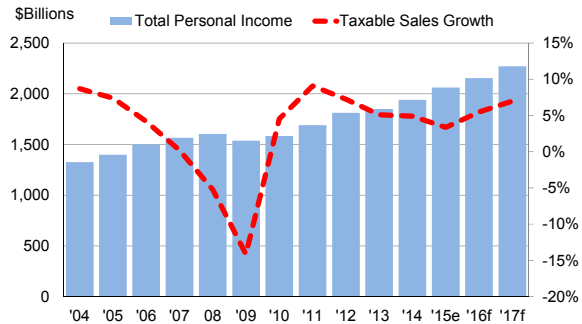
California Employment

Annual average in thousands, 2015 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

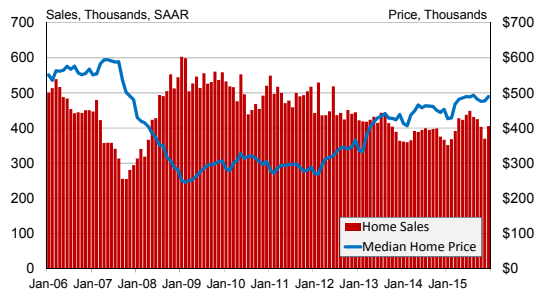
California Personal Income & Taxable Sales Growth



Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

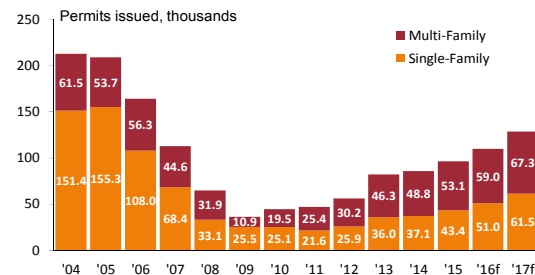
Home Sales & Median Prices California

Existing, single-family homes



Source: California Association of Realtors

Residential Building Permits Issued in California



Source: CIRB, California Home Building Foundation, forecast by LAEDC

Table 5: California Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Total Taxable Sales (\$Billions)	Value of Two-way Trade (\$Billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2004	35,752.8	14,723.6	6.2	1,324.9	34,244	500.1	394.3	212,960	19,718
2005	35,985.6	15,012.9	5.4	1,399.0	39,046	536.9	433.1	208,972	21,469
2006	36,246.8	15,285.9	4.9	1,501.8	41,693	559.7	487.6	164,280	23,298
2007	36,552.5	15,413.5	5.4	1,565.3	43,182	561.1	512.9	113,034	23,733
2008	36,856.2	15,244.1	7.3	1,602.7	43,786	531.7	523.3	64,962	19,588
2009	37,077.2	14,375.8	11.2	1,537.1	41,588	456.5	413.3	36,421	10,866
2010	37,339.5	14,215.5	12.2	1,583.4	42,411	477.3	502.6	44,762	11,200
2011	37,676.0	14,364.1	11.7	1,691.0	44,852	520.6	558.5	47,090	12,991
2012	38,037.9	14,712.1	10.4	1,812.3	47,614	558.4	578.2	57,496	14,815
2013	38,366.5	15,183.3	8.9	1,849.5	48,125	586.8	596.4	82,283	21,792
2014	38,725.1	15,645.1	7.5	1,939.5	49,985	615.5	608.5	85,846	23,686
2015	39,071.3	16,114.0	7.0	2,060.3	52,700	636.2	581.0	96,451	24,700
2016f	39,423.0	16,503.7	6.2	2,153.6	54,600	671.0	579.0	110,000	27,000
2017f	39,777.8	16,768.0	5.9	2,271.5	57,100	718.1	632.1	128,800	29,100

% Change									
04/03	1.0%	1.1%		6.2%	-3.2%	8.7%	13.4%	8.8%	5.9%
05/04	0.7%	2.0%		5.6%	14.0%	7.4%	9.9%	-1.9%	8.9%
06/05	0.7%	1.8%		7.3%	6.8%	4.2%	12.6%	-21.4%	8.5%
07/06	0.8%	0.8%		4.2%	3.6%	0.2%	5.2%	-31.2%	1.9%
08/07	0.8%	-1.1%		2.4%	1.4%	-5.2%	2.0%	-42.5%	-17.5%
09/08	0.6%	-5.7%		-4.1%	-5.0%	-14.1%	-21.0%	-43.9%	-44.5%
10/09	0.7%	-1.1%		3.0%	2.0%	4.6%	21.6%	22.9%	3.1%
11/10	0.9%	1.0%		6.8%	5.8%	9.1%	11.1%	5.2%	16.0%
12/11	1.0%	2.4%		7.2%	6.2%	7.3%	3.5%	22.1%	14.0%
13/12	0.9%	3.2%		2.1%	1.1%	5.1%	3.1%	43.1%	47.1%
14/13	0.9%	3.0%		4.9%	3.9%	4.9%	2.0%	4.3%	8.7%
15/14	0.9%	3.0%		6.2%	5.4%	3.4%	-4.5%	12.4%	4.3%
16/15	0.9%	2.4%		4.5%	3.6%	5.5%	-0.4%	14.0%	9.3%
17/16	0.9%	1.6%		5.5%	4.6%	7.0%	9.2%	17.1%	7.8%

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce, Construction Industry Research Board; California Homebuilding Foundation; estimates and forecasts by the LAEDC

Table 6: California Nonfarm Employment

Annual averages, thousands, March 2014 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2004	14,723.6	22.8	850.4	1,523.5	966.1	557.4	653.0	1,617.8	482.8	482.4
2005	15,012.9	23.6	905.3	1,505.2	959.4	545.7	673.6	1,659.3	487.1	473.6
2006	15,285.9	25.1	933.7	1,490.9	948.3	542.6	700.3	1,680.1	496.1	466.1
2007	15,413.5	26.7	892.6	1,465.4	929.0	536.4	715.3	1,689.9	507.7	471.1
2008	15,244.1	28.7	787.7	1,426.7	901.1	525.6	703.5	1,640.9	504.9	476.1
2009	14,375.8	26.1	623.1	1,283.6	800.6	483.0	645.3	1,522.5	474.5	441.3
2010	14,215.5	26.8	559.8	1,244.0	773.1	470.8	644.0	1,517.7	466.3	429.0
2011	14,364.1	28.8	561.3	1,250.1	781.0	469.1	657.9	1,546.6	474.3	430.6
2012	14,712.1	30.5	589.9	1,254.7	784.0	470.7	675.5	1,571.3	487.3	435.1
2013	15,183.3	30.6	637.3	1,256.3	783.5	472.8	693.8	1,597.0	502.8	448.6
2014	15,645.1	31.3	675.4	1,269.6	794.2	475.4	715.1	1,633.8	522.2	457.9
2015	16,114.0	29.4	722.1	1,271.0	801.3	469.7	738.7	1,669.9	541.5	472.9
2016f	16,503.7	27.1	763.9	1,274.4	806.1	468.3	755.7	1,703.3	558.3	484.3
2017f	16,768.0	27.8	806.0	1,291.6	821.5	470.2	769.3	1,705.0	573.9	493.9

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Srvs	Mgmt. of Enterprises	Admin. & Support Srvs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2004	618.8	276.4	918.9	231.4	947.8	262.9	1,493.9	1,439.4	503.9	2,397.7
2005	636.6	283.6	970.2	222.8	969.0	272.2	1,530.1	1,475.2	505.5	2,420.2
2006	639.3	288.5	1,026.4	213.8	1,004.4	277.6	1,565.4	1,519.0	507.1	2,452.3
2007	613.1	283.5	1,060.1	208.8	998.9	289.3	1,624.0	1,560.4	512.2	2,494.6
2008	566.0	275.9	1,079.1	209.4	952.5	300.6	1,689.3	1,572.6	511.3	2,518.9
2009	528.1	254.9	1,013.6	199.9	850.2	304.3	1,739.6	1,503.1	486.1	2,479.6
2010	511.9	248.3	1,015.3	198.6	863.0	309.7	1,746.3	1,501.6	484.9	2,448.4
2011	514.8	247.1	1,049.1	203.0	882.5	325.8	1,758.1	1,535.8	493.7	2,404.9
2012	522.7	250.8	1,100.5	209.3	932.6	336.2	1,836.1	1,598.7	504.7	2,376.3
2013	524.1	258.7	1,139.1	221.2	981.0	344.5	1,980.9	1,676.4	516.6	2,374.3
2014	518.4	265.9	1,187.0	225.2	1,021.2	355.3	2,059.0	1,757.1	539.8	2,411.0
2015	521.2	274.0	1,261.1	230.7	1,069.9	365.6	2,122.6	1,827.8	549.8	2,445.9
2016f	522.3	280.9	1,317.9	234.1	1,124.5	364.2	2,192.7	1,877.1	555.3	2,468.0
2017f	508.2	284.8	1,345.6	235.8	1,179.6	362.0	2,238.7	1,903.4	552.5	2,490.2

Sources: California Employment Development Department, LMI; estimates and forecasts by LAEDC

Table 7: California Regional Nonfarm Employment

Annual averages for major metropolitan areas, thousands; March 2014 benchmark

\ MSA	State of California	Northern California			Central California					Southern California				
		Oakland	San Francisco	San Jose	Bakersfield	Fresno	Modesto	Sacramento	Stockton	Los Angeles	Orange	Riverside-San Bernardino	San Diego	Ventura
1990	12,538.7	887.9	868.4	829.3	172.8	228.8	118.5	624.8	153.8	4,179.5	1,182.0	720.4	977.9	232.1
1991	12,406.4	890.7	861.7	822.9	179.7	232.2	119.2	639.7	156.9	4,035.2	1,155.9	729.5	977.2	233.2
1992	12,208.7	881.8	837.4	809.3	175.6	235.2	121.5	633.3	156.5	3,855.6	1,138.0	741.5	962.7	229.5
1993	12,097.1	884.8	830.3	813.7	172.2	238.3	123.0	635.6	157.9	3,753.2	1,126.6	745.6	960.1	229.9
1994	12,215.1	887.2	822.0	816.1	172.8	241.4	123.5	653.2	158.5	3,741.5	1,136.3	760.3	965.7	235.3
1995	12,481.0	907.6	833.1	848.9	174.8	247.9	125.1	673.6	161.7	3,789.0	1,161.2	789.0	988.6	239.3
1996	12,809.8	926.9	862.8	897.8	176.7	251.5	129.0	692.6	164.9	3,834.2	1,193.5	812.0	1,015.5	239.6
1997	13,207.6	958.4	894.4	945.7	181.3	255.2	132.9	712.6	169.0	3,914.9	1,242.2	850.3	1,063.3	244.4
1998	13,695.0	986.2	924.3	976.0	186.5	259.3	138.8	742.1	172.9	4,003.3	1,307.6	891.8	1,115.2	254.2
1999	14,101.3	1,016.7	948.1	989.3	190.9	267.9	143.3	779.6	179.9	4,057.3	1,350.6	947.3	1,160.0	265.1
2000	14,590.2	1,051.7	984.5	1,047.9	195.8	275.7	145.4	804.0	186.9	4,123.2	1,393.0	995.1	1,199.7	276.0
2001	14,716.3	1,061.5	954.9	1,020.6	203.9	281.0	151.1	825.1	192.3	4,129.9	1,417.4	1,037.3	1,224.1	280.7
2002	14,590.7	1,046.9	888.9	920.0	207.0	287.8	152.3	839.6	195.6	4,088.9	1,407.2	1,073.0	1,236.5	282.5
2003	14,557.8	1,034.8	855.0	874.3	209.3	289.1	154.2	855.7	199.3	4,056.3	1,433.4	1,110.1	1,247.9	285.0
2004	14,723.6	1,034.0	846.7	867.9	214.1	294.5	156.8	870.4	203.3	4,079.1	1,462.1	1,173.3	1,269.1	287.0
2005	15,012.9	1,042.7	855.7	876.7	224.8	301.9	161.4	893.0	208.6	4,119.9	1,496.7	1,236.2	1,291.9	292.0
2006	15,285.9	1,056.3	875.0	898.3	236.2	310.1	162.3	912.0	212.0	4,194.5	1,525.1	1,282.4	1,312.1	298.9
2007	15,413.5	1,060.1	895.7	918.8	241.7	314.2	162.8	917.0	214.7	4,229.0	1,521.7	1,286.2	1,320.1	297.8
2008	15,244.1	1,045.8	906.5	924.9	241.6	311.3	159.6	897.7	209.4	4,185.4	1,490.0	1,243.1	1,311.9	292.4
2009	14,375.8	984.9	863.4	867.9	231.4	295.4	150.4	848.5	197.7	3,951.0	1,383.5	1,163.2	1,245.9	276.9
2010	14,215.5	964.3	854.9	865.2	229.4	288.1	149.8	825.7	191.2	3,890.0	1,366.7	1,144.7	1,237.1	274.7
2011	14,364.1	972.7	877.3	885.9	236.0	288.7	149.0	823.3	190.7	3,911.6	1,382.4	1,148.0	1,247.0	276.6
2012	14,712.1	1,002.1	920.9	921.0	245.3	291.5	152.0	842.4	195.0	4,010.5	1,419.6	1,180.3	1,280.5	281.6
2013	15,183.3	1,037.5	964.6	960.8	250.4	303.0	157.1	866.8	202.6	4,129.8	1,459.4	1,231.9	1,317.8	287.9
2014	15,645.1	1,065.0	1,009.7	1,004.3	256.8	313.4	161.7	890.4	208.8	4,226.4	1,495.9	1,285.1	1,348.0	293.0
2015	16,114.0	1,087.5	1,054.3	1,058.5	259.6	323.6	165.4	913.8	214.8	4,321.1	1,543.3	1,333.5	1,389.4	298.0
2016f	16,516.9	1,110.3	1,090.2	1,098.7	262.5	332.0	168.5	934.8	220.0	4,394.5	1,581.9	1,374.9	1,424.1	302.8
2017f	16,781.1	1,131.4	1,109.8	1,124.0	267.2	337.6	171.6	952.5	223.5	4,438.5	1,608.8	1,410.6	1,449.7	307.3

Sources: California EDD, Labor Market Division, Current Employment Series; forecasts by LAEDC

Table 8: Total Nonfarm Employment in Southern California

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2008	4,185.4	1,490.0	1,243.1	292.4	7,210.9	1,311.9	15,244.1
2009	3,951.0	1,383.5	1,163.2	276.9	6,774.6	1,245.9	14,375.8
2010	3,890.0	1,366.7	1,144.7	274.7	6,676.1	1,237.1	14,215.5
2011	3,911.6	1,382.4	1,148.0	276.6	6,718.6	1,247.0	14,364.1
2012	4,010.5	1,419.6	1,180.3	281.6	6,892.0	1,280.5	14,712.1
2013	4,129.8	1,459.4	1,231.9	287.9	7,109.0	1,317.8	15,183.3
2014	4,226.4	1,495.9	1,285.1	293.0	7,300.4	1,348.0	15,645.1
2015	4,321.1	1,543.3	1,333.5	298.0	7,495.9	1,389.4	16,114.0
2016f	4,394.5	1,581.9	1,374.9	302.8	7,654.0	1,424.1	16,516.9
2017f	4,438.5	1,608.8	1,410.6	307.3	7,765.2	1,449.7	16,781.1

Numerical Change from Prior Year (in thousands)

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2008	-43.6	-31.7	-43.1	-5.4	-123.8	-8.2	-169.4
2009	-234.4	-106.5	-79.9	-15.5	-436.3	-66.0	-868.3
2010	-61.0	-16.8	-18.5	-2.2	-98.5	-8.8	-160.3
2011	21.6	15.7	3.3	1.9	42.5	9.9	148.6
2012	98.9	37.2	32.3	5.0	173.4	33.5	348.0
2013	119.3	39.8	51.6	6.3	217.0	37.3	471.2
2014	96.6	36.5	53.2	5.1	191.4	30.2	461.8
2015	94.7	47.4	48.4	5.0	195.5	41.4	468.9
2016f	73.5	38.6	41.3	4.8	158.1	34.7	402.8
2017f	43.9	26.9	35.7	4.5	111.1	25.6	264.3

% Change from Prior Year

Year	Los Angeles County	Orange County	Inland Empire	Ventura County	L.A. 5-County Region	San Diego County	State of California
2008	-1.0%	-2.1%	-3.4%	-1.8%	-1.7%	-0.6%	-1.1%
2009	-5.6%	-7.1%	-6.4%	-5.3%	-6.1%	-5.0%	-5.7%
2010	-1.5%	-1.2%	-1.6%	-0.8%	-1.5%	-0.7%	-1.1%
2011	0.6%	1.1%	0.3%	0.7%	0.6%	0.8%	1.0%
2012	2.5%	2.7%	2.8%	1.8%	2.6%	2.7%	2.4%
2013	3.0%	2.8%	4.4%	2.2%	3.1%	2.9%	3.2%
2014	2.3%	2.5%	4.3%	1.8%	2.7%	2.3%	3.0%
2015	2.2%	3.2%	3.8%	1.7%	2.7%	3.1%	3.0%
2016f	1.7%	2.5%	3.1%	1.6%	2.1%	2.5%	2.5%
2017f	1.0%	1.7%	2.6%	1.5%	1.5%	1.8%	1.6%

Sources: EDD, Labor Market Information Division; all estimates and forecasts by LAEDC

Table 9: California Technology Employment

Annual averages, thousands, March 2014 benchmark

Manufacturing					Services				
Year	Total Technology Employment	Electronic Product Manufacturing	Aerospace Product & Parts Manufacturing	Pharmaceutical & Medicine Manufacturing	Software Publishers	Data Processing, Hosting & Related Services	Computer Systems Design & Rel. Services	Management, Scientific & Technical Consulting	Scientific R&D Services
2002	922.0	353.7	79.6	39.5	48.8	20.7	177.1	102.1	100.5
2003	876.7	320.9	73.6	39.1	44.7	18.7	168.8	109.7	101.2
2004	877.1	313.4	73.7	40.6	42.6	18.5	168.5	119.0	100.8
2005	902.6	310.8	73.4	42.0	41.6	19.6	175.6	135.4	104.2
2006	932.1	308.2	73.0	44.0	41.3	20.9	187.2	151.3	106.2
2007	950.3	304.1	72.8	44.2	43.0	20.7	198.9	159.0	107.6
2008	970.7	300.0	73.7	43.6	44.9	20.4	205.2	166.8	116.1
2009	924.4	278.6	72.4	43.5	45.0	19.3	194.6	156.1	114.9
2010	930.4	271.8	73.1	43.4	45.0	18.6	199.7	160.5	118.3
2011	960.1	275.2	71.5	43.3	48.3	18.8	212.6	169.7	120.7
2012	999.7	270.0	71.1	44.4	51.9	21.0	228.2	187.5	125.6
2013	1026.9	262.9	72.0	45.6	53.8	23.6	243.6	197.9	127.5
2014	1063.5	262.6	71.4	47.4	55.5	25.4	263.0	208.8	129.4
2015	1117.1	265.2	69.5	47.6	57.9	27.3	286.7	225.1	138.0

Sources: California EDD, LMID

Table 10: Population Trends in California and the Los Angeles 5-County Area

Population estimates as of July 1 each year

Year	Los Angeles County		Orange County		Riverside & San Bernardino		Ventura County		Total of L.A. 5-Co. Area		State of California	
	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ	Data	% Δ
1990	8,860.3	---	2,412.0	---	2,620.4	---	669.1	---	14,561.8	---	29,828.5	---
1991	8,955.3	1.1%	2,458.8	1.9%	2,751.3	5.0%	676.9	1.2%	14,842.4	1.9%	30,548.6	2.4%
1992	9,060.2	1.2%	2,511.8	2.2%	2,832.9	3.0%	686.3	1.4%	15,091.2	1.7%	30,987.4	1.4%
1993	9,083.7	0.3%	2,550.4	1.5%	2,885.0	1.8%	693.8	1.1%	15,212.9	0.8%	31,314.2	1.1%
1994	9,106.5	0.3%	2,575.7	1.0%	2,919.9	1.2%	700.6	1.0%	15,302.7	0.6%	31,523.7	0.7%
1995	9,101.1	-0.1%	2,604.5	1.1%	2,959.6	1.4%	705.1	0.6%	15,370.3	0.4%	31,711.8	0.6%
1996	9,108.1	0.1%	2,646.1	1.6%	3,006.6	1.6%	710.5	0.8%	15,471.2	0.7%	31,962.9	0.8%
1997	9,185.6	0.9%	2,699.6	2.0%	3,062.6	1.9%	721.7	1.6%	15,669.4	1.3%	32,452.8	1.5%
1998	9,265.8	0.9%	2,749.6	1.9%	3,117.1	1.8%	729.1	1.0%	15,861.6	1.2%	32,863.0	1.3%
1999	9,394.3	1.4%	2,802.8	1.9%	3,198.4	2.6%	742.8	1.9%	16,138.4	1.7%	33,418.6	1.7%
2000	9,544.0	1.6%	2,853.9	1.8%	3,276.5	2.4%	756.9	1.9%	16,431.3	1.8%	34,000.8	1.7%
2001	9,635.8	1.0%	2,889.9	1.3%	3,386.2	3.3%	769.0	1.6%	16,680.9	1.5%	34,512.7	1.5%
2002	9,722.4	0.9%	2,914.4	0.8%	3,489.2	3.0%	779.9	1.4%	16,906.0	1.3%	34,938.3	1.2%
2003	9,791.0	0.7%	2,939.7	0.9%	3,622.5	3.8%	789.4	1.2%	17,142.6	1.4%	35,388.9	1.3%
2004	9,822.5	0.3%	2,956.5	0.6%	3,757.1	3.7%	795.0	0.7%	17,331.1	1.1%	35,752.8	1.0%
2005	9,809.6	-0.1%	2,957.2	0.0%	3,877.5	3.2%	796.9	0.2%	17,441.1	0.6%	35,985.6	0.7%
2006	9,787.3	-0.2%	2,955.4	-0.1%	3,994.1	3.0%	801.2	0.5%	17,538.1	0.6%	36,246.8	0.7%
2007	9,773.9	-0.1%	2,965.8	0.4%	4,085.3	2.3%	805.9	0.6%	17,630.9	0.5%	36,552.5	0.8%
2008	9,796.8	0.2%	2,982.8	0.6%	4,139.4	1.3%	812.0	0.8%	17,731.0	0.6%	36,856.2	0.8%
2009	9,805.2	0.1%	2,998.8	0.5%	4,180.7	1.0%	818.5	0.8%	17,803.3	0.4%	37,077.2	0.6%
2010	9,839.4	0.3%	3,017.2	0.6%	4,239.1	1.4%	824.9	0.8%	17,920.6	0.7%	37,339.5	0.7%
2011	9,902.6	0.6%	3,051.5	1.1%	4,291.7	1.2%	831.8	0.8%	18,077.6	0.9%	37,676.0	0.9%
2012	9,946.9	0.4%	3,086.3	1.1%	4,329.7	0.9%	836.8	0.6%	18,199.6	0.7%	38,037.9	1.0%
2013	10,056.4	1.1%	3,113.4	0.9%	4,367.4	0.9%	842.8	0.7%	18,380.0	1.0%	38,366.5	0.9%
2014	10,123.7	0.7%	3,139.6	0.8%	4,414.9	1.1%	848.0	0.6%	18,526.2	0.8%	38,725.1	0.9%
2015p	10,192.4	0.7%	3,165.2	0.8%	4,458.8	1.0%	853.0	0.6%	18,669.3	0.8%	39,071.3	0.9%
2016f	10,253.5	0.6%	3,198.1	1.0%	4,527.7	1.5%	859.3	0.7%	18,838.6	0.9%	39,423.0	0.9%
2017f	10,294.5	0.4%	3,230.6	1.0%	4,606.3	1.7%	865.7	0.7%	18,997.1	0.8%	39,777.8	0.9%

Source: California Dept. of Finance, Demographic Research Unit, E2; forecasts by LAEDC

Table 11: Components of Population Change in California and Southern California Counties

Figures in thousands, July 1 data compared with July 1 data the previous year

	Pop. Chg.	Births	Deaths	Natural Increase (Birth-Death)	Net Total Migration	Net Int'l Migration	Net Domestic Migration
Los Angeles County							
2011	63.2	132.6	58.0	74.6	-11.4	38.8	-50.2
2012	88.6	129.1	57.9	71.2	17.3	42.0	-24.6
2013	65.3	130.6	60.1	70.5	-5.3	44.6	-49.8
2014	67.3	129.4	57.9	71.4	-4.2	47.7	-51.9
2015	68.7	131.3	58.9	72.3	-3.7	46.7	-50.3
Orange County							
2011	34.3	38.2	17.6	20.6	13.7	12.3	1.3
2012	34.8	37.8	17.8	20.0	14.7	12.2	2.5
2013	27.1	37.6	18.8	18.8	8.3	12.5	-4.2
2014	26.2	37.9	18.3	19.5	6.7	13.4	-6.7
2015	25.6	38.9	18.5	20.5	5.1	13.2	-8.1
Riverside County							
2011	32.2	31.0	14.4	16.6	15.6	4.9	10.7
2012	25.3	30.1	14.6	15.5	9.8	5.4	4.4
2013	23.5	29.9	15.0	14.9	8.6	5.3	3.3
2014	28.6	30.3	14.9	15.4	13.1	5.1	8.1
2015	26.1	30.5	15.0	15.6	10.6	5.1	5.4
San Bernardino County							
2011	20.3	31.4	12.2	19.2	1.1	4.1	-3.1
2012	12.7	30.1	12.1	18.1	-5.4	4.7	-10.1
2013	14.2	3.6	12.7	17.8	-3.6	4.6	-8.2
2014	19.0	30.7	12.8	17.8	1.1	4.5	-3.3
2015	17.7	31.6	12.7	18.8	-1.1	4.6	-5.8
San Diego County							
2011	34.4	44.7	19.6	25.0	9.4	10.5	-1.1
2012	37.5	43.8	19.9	24.0	13.6	11.2	2.3
2013	34.4	43.7	20.8	23.0	11.4	11.1	0.3
2014	38.3	44.2	19.7	24.5	13.8	12.0	1.8
2015	28.0	45.0	19.9	25.0	3.0	11.7	-8.7
Ventura County							
2011	6.9	11.0	5.1	5.9	1.0	2.1	-1.1
2012	5.0	10.5	5.0	5.5	-0.5	2.0	-2.6
2013	6.0	10.5	5.4	5.2	0.8	1.8	-1.0
2014	5.2	10.3	5.3	5.1	0.1	1.7	-1.6
2015	5.0	10.6	5.3	5.3	-0.3	1.7	-2.0
State of California							
2011	336.5	509.5	237.5	272.0	64.5	127.8	-63.3
2012	361.9	497.3	239.3	258.0	103.8	130.4	-23.6
2013	328.7	499.5	247.8	251.8	76.9	135.8	-58.9
2014	358.6	498.7	242.9	255.8	102.8	149.7	-46.9
2015	346.2	507.3	245.0	262.3	83.9	145.0	-61.1

Source: California Department of Finance, Demographic Research Unit

LOS ANGELES COUNTY

INTRODUCTION

With over 10 million residents in 88 cities spread across 4,100 square miles, Los Angeles County's population exceeds that of 43 states. If it were a country, it would be the twentieth largest economy in the world (having displaced Saudi Arabia to move up one spot from last year). In addition to its signature industries—entertainment, tourism and fashion—its enormous and diversified economy is home to the largest port complex in the Western Hemisphere and the **largest number of manufacturing jobs of any county in the country**. Other major industries include health care, education and knowledge creation and business services.

The county added 94,700 jobs in 2015, equivalent to a 2.2% annual increase. A majority of the county's major industries added jobs last year, as broad-based growth pushed wage and salary jobs to a record high. Los Angeles County should continue to add jobs at a 1.7% annual rate this year, followed by a 1.0% annual rate in 2017. Along with job growth, the unemployment rate fell to 6.7%, the lowest rate of the post-recession period. The unemployment rate should further improve to 6.2% this year and 5.9% in 2017.

Total personal income increased by 4.5% in 2015, and is expected to maintain its trajectory this year with anticipated gains of 4.4%, followed by a gain of 5.3% in 2017. Now that the economy is back to full employment, upward pressure on wages, a strong dollar, and weak inflation may lead to significant gains in household purchasing power this year. Per capita income growth, which held relatively steady with a 3.6% gain in 2015, should respond to accelerating wage growth to rebound to 3.9% this year and accelerate to 4.9% in 2017. Since much of the gain in income is expected to be spent, local spending as measured by total taxable sales is expected to increase by 5.5% this year and 6.8% the next after a lackluster 2.9% increase in 2015. This means local sales and use tax revenues will climb, putting local government agencies on a sounder financial footing.

Population growth is expected to slow slightly this year and next, with the rate of growth at approximately 0.6% this year and 0.4% in 2017. Even at such low growth rates, the county will increase by over 100,000 residents during that time period. Most of the recent population growth in Los Angeles County has been due to natural increase (births outnumbering deaths), while net migration was slightly negative again last year. The county's high cost of living and lack of affordable housing units for low and middle-income households are contributing to the slowdown in population growth.

Like most other parts of the state, the housing market in Los Angeles County improved in 2015. The median sales price for a home was \$485,980, a 7.8% increase over 2014's median price of \$450,960. Moreover, home sales were up 6.2% compared with a year earlier. New home construction finally accelerated in 2015 and should continue to grow, although at lower rates, both this year and next. *For a more detailed discussion of the region's housing market, see the [Real Estate and Construction](#) section of this report.*

TRENDS IN MAJOR INDUSTRIES¹⁸

Like the nation and state, Los Angeles County experienced broad-based job gains in 2015, adding approximately 95,000 jobs last year. Job gains were seen in most of the county's major industries, with records reached in seven (out of 17) and two more poised to surpass their pre-recession peaks in 2016. The largest job gains occurred in health care and social assistance (21,800 jobs), followed by leisure and hospitality (19,600 jobs) and government (10,000 jobs). The fastest growing sectors in percentage terms were construction (5.9%), leisure and hospitality (4.2%), wholesale trade (3.5%), and health care and social assistance (also 3.5%). Private sector job losses occurred in manufacturing, information, finance and insurance, and the natural resources sector.

International Trade: As America's gateway to Asia, international trade plays an important role in the Los Angeles economy. The twin ports rebounded after the labor negotiations early in the year to post their third-best year in 2015, with throughput of 15.4 million containers. Despite this, low inflationary pressure combined with a strong dollar brought the value of two-way trade through the Los Angeles Customs District down to \$393.4 from the record-setting volume of \$416.6 billion in 2014.

The Kyser Center tracks employment in two industries that are part of the international trade and goods movement sector: transportation and warehousing, and wholesale trade. Transportation and warehousing employment added 3,100 jobs (2.0%) in 2015, while wholesale trade added 7,800 jobs (3.5%), for a net gain of 10,900 jobs. Given the strength of the U.S. economy relative to other countries, imports have the potential to increase in 2016, but total container activity and two-way trade should be relatively flat. Longer-term, the prospects for the industry are promising, with expected stabilization leading to important payoffs to public and private investment in trade-related infrastructure and important new trade agreements that are either in place or currently being negotiated.

Entertainment: The entertainment industry is the part of the economy that is most closely associated with Los Angeles. The industry's largest component is the motion picture and sound recording industry, which is part of the information services supersector. Activity for this industry was mixed in 2015. According to FilmL.A.,¹⁹ on-location filming in Los Angeles rose 1.3% in 2015 to 37,289 shoot days, mainly due to scripted television production. Projects that qualified for the California Film and Television Tax Credit generated 7.2% (1,130 shoot days) of local on-location television production in 2015. Despite this, the county's motion picture and sound recording industry lost 600 jobs (-0.5%), falling to 119,425 jobs. This reflects an overall decline in local on-location feature production (down 4.2% to 4,344 shoot days), which, however, picked up in the fourth quarter with five incentivized feature projects that should boost shoot days into 2016.

¹⁸ This section features key industries that produce goods or services that are generally exported outside the region, hence generating an inflow of income to the region. See also **Major Industries of the Southern California Economy** for trends on other industries in the local economy

¹⁹ See FilmL.A.'s 2015 Production Retrospective

Professional Services and Technology: In terms of employment, the professional services super-sector is the second largest in Los Angeles County, with over 620,000 workers in 2015 (surpassed only by health care and education). There are three major industries in this group: professional, scientific and technical services; management of enterprises; and administrative, support and waste services. All saw solid gains in 2015.

Professional, scientific and technical services was the largest of the three with 288,700 jobs in 2015. The industry, which includes legal, accounting, architecture, computer systems design, consulting, research and advertising, added 5,800 jobs, equivalent to a 2.0% growth rate. Management of enterprises, which encompasses corporate headquarters, is smaller at 61,100 jobs, but experienced a somewhat faster growth rate of 2.8% (1,700 jobs) over the same period. Finally, the administrative, support and waste services sector added 4,900 jobs (1.8%) for a total of 271,900. All three components of professional services and technology are expected see additional job gains in 2016 and 2017.

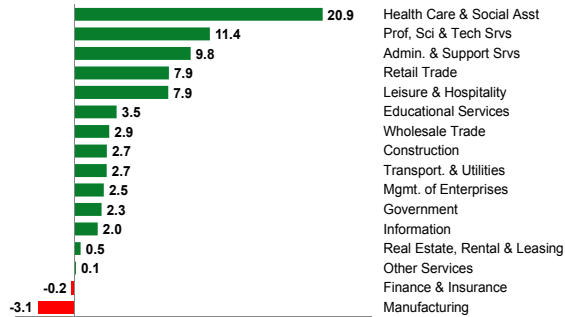
LOOKING AHEAD

Los Angeles County has seen steady improvement over the past four years, both in terms of job gains and unemployment rate declines. This improvement is expected to continue in 2016 and 2017, although at a slower pace. With the economy back at full employment levels, wage gains are expected over the next year across many occupations. Households could experience significant gains in purchasing power this year as wage gains spread out more broadly than in recent years.

Los Angeles County Snapshot

L.A. County Employment Growth, 2016

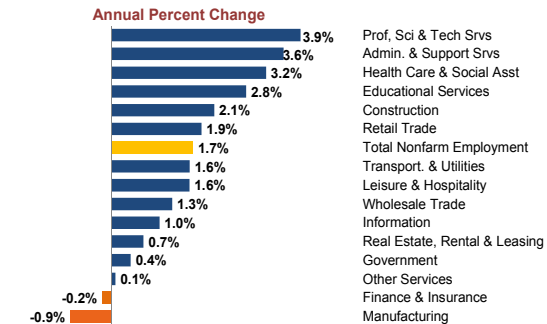
Total nonfarm job growth forecast for 2016 (thousands): +73.4 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

L.A. County Employment Growth, 2016

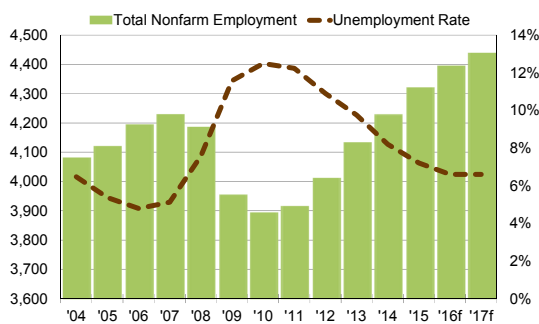
Total nonfarm job growth forecast for 2016, percent change: +1.7%



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

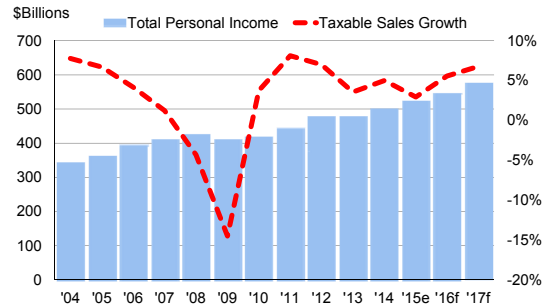
Los Angeles County Employment

Annual average in thousands, 2015 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

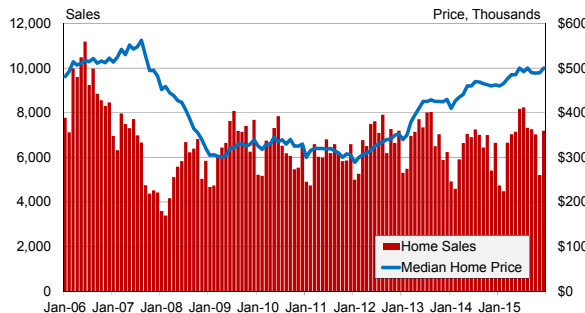
Los Angeles County Personal Income & Taxable Sales Growth



Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

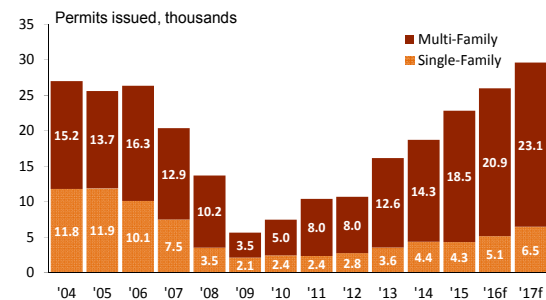
Home Sales & Median Prices Los Angeles County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick/CoreLogic

Residential Building Permits Issued in Los Angeles County



Source: CIBR, California Home Building Foundation, forecast by LAEDC

Table 12: Los Angeles County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Total Taxable Sales (\$Billions)	Value of Two-way Trade (\$Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)	Chg. in CPI (%)
2004	9,822.5	4,079.1	6.5	343.4	35,070	122.5	261.7	---	26,935	3,174	3.3
2005	9,809.6	4,119.9	5.4	363.0	37,095	130.7	291.6	---	25,647	3,824	4.5
2006	9,787.3	4,194.5	4.8	392.7	40,326	136.2	326.4	---	26,348	3,896	4.3
2007	9,773.9	4,229.0	5.1	409.2	42,187	137.8	347.3	35.7	20,363	4,739	3.3
2008	9,796.8	4,185.4	7.6	424.8	43,633	131.9	355.8	36.5	13,704	4,491	3.5
2009	9,805.2	3,951.0	11.6	408.3	41,714	112.7	282.9	34.4	5,653	2,674	-0.8
2010	9,839.4	3,890.0	12.5	418.0	42,540	116.9	346.8	38.5	7,468	2,677	1.2
2011	9,902.6	3,911.6	12.2	441.7	44,627	126.4	386.7	40.4	10,403	3,119	2.7
2012	9,946.9	4,010.5	10.9	475.9	47,713	135.3	403.5	41.4	10,709	1,803	2.0
2013	10,056.4	4,129.8	9.8	478.4	47,580	140.1	414.5	42.2	16,200	3,585	1.1
2014	10,123.7	4,226.4	8.3	499.2	49,400	147.1	416.6	44.2	18,707	6,658	1.3
2015	10,192.4	4,321.1	6.7	521.9	51,200	151.4	393.4	45.5	22,831	5,464	0.9
2016f	10,253.5	4,394.5	6.2	545.1	53,200	159.8	393.7	46.6	26,000	5,967	1.1
2017f	10,294.5	4,438.5	5.9	574.0	55,800	170.6	431.7	47.8	29,600	6,431	2.2

% Change										
04/03	0.3%	0.6%		5.0%	4.8%	7.8%	12.4%	---	26.4%	8.3%
05/04	-0.1%	1.0%		5.7%	5.8%	6.7%	11.4%	---	-4.8%	20.5%
06/05	-0.2%	1.8%		8.2%	8.7%	4.2%	11.9%	---	2.7%	1.9%
07/06	-0.1%	0.8%		4.2%	4.6%	1.2%	6.4%	---	-22.7%	21.6%
08/07	0.2%	-1.0%		3.8%	3.4%	-4.3%	2.5%	2.2%	-32.7%	-5.2%
09/08	0.1%	-5.6%		-3.9%	-4.4%	-14.5%	-20.5%	-5.8%	-58.7%	-40.5%
10/09	0.3%	-1.5%		2.4%	2.0%	3.7%	22.6%	11.9%	32.1%	0.1%
11/10	0.6%	0.6%		5.7%	4.9%	8.1%	11.5%	4.9%	39.3%	16.5%
12/11	0.4%	2.5%		7.7%	6.9%	7.0%	4.3%	2.5%	2.9%	-42.2%
13/12	1.1%	3.0%		0.5%	-0.3%	3.6%	2.7%	1.9%	51.3%	98.8%
14/13	0.7%	2.3%		4.3%	3.8%	5.0%	0.5%	4.7%	15.5%	85.7%
15/14	0.7%	2.2%		4.5%	3.6%	2.9%	-5.6%	2.9%	22.0%	-17.9%
16/15	0.6%	1.7%		4.4%	3.9%	5.5%	0.1%	2.4%	13.9%	9.2%
17/16	0.4%	1.0%		5.3%	4.9%	6.8%	9.7%	2.6%	13.8%	7.8%

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce, Los Angeles Tourism and Convention Board, Construction Industry Research Board, California Homebuilding Foundation; estimates and forecasts by the LAEDC

Table 13: Los Angeles County Nonfarm Employment

Annual averages, thousands, March 2014 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2004	4,079.1	3.8	140.2	485.9	270.1	215.9	213.4	405.5	161.2	212.0
2005	4,119.9	3.7	148.7	474.0	265.7	208.4	217.6	414.5	161.7	207.7
2006	4,194.5	4.0	157.5	464.1	259.6	204.5	224.0	423.4	165.2	205.7
2007	4,229.0	4.4	157.6	449.4	251.0	198.4	227.4	426.1	165.6	209.9
2008	4,185.4	4.4	145.2	434.7	243.3	191.3	224.1	416.6	163.1	210.4
2009	3,951.0	4.1	117.3	389.3	217.6	171.7	204.8	387.1	151.2	191.3
2010	3,890.0	4.1	104.5	373.3	207.1	166.3	203.4	386.5	150.6	191.6
2011	3,911.6	4.1	105.1	366.9	204.2	162.8	205.8	393.0	151.8	192.0
2012	4,010.5	4.3	109.2	367.4	204.3	163.1	211.9	401.0	154.5	191.5
2013	4,129.8	4.6	116.2	368.2	204.3	163.8	218.7	406.0	157.5	196.4
2014	4,226.4	4.7	120.2	364.9	203.1	161.8	223.5	414.5	162.7	195.9
2015	4,321.1	4.5	127.3	361.6	201.1	160.4	231.3	422.4	166.0	195.8
2016f	4,394.5	4.1	130.0	358.5	199.1	159.4	234.2	430.4	168.7	197.8
2017f	4,438.5	3.9	137.1	360.5	200.3	160.3	234.0	432.6	169.2	198.3

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Services	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2004	163.1	76.7	238.0	71.2	254.0	95.5	454.3	372.8	144.7	587.1
2005	164.4	77.8	251.2	67.6	258.0	97.5	469.7	377.8	144.3	583.7
2006	167.0	79.8	264.3	63.0	272.3	99.4	481.7	388.6	145.2	589.4
2007	163.7	80.3	274.1	58.8	273.1	102.9	495.1	397.9	147.1	595.7
2008	154.0	79.4	269.8	56.7	256.8	105.1	513.9	401.6	146.1	603.7
2009	142.3	73.8	250.4	54.4	225.6	110.1	529.9	385.6	138.0	595.8
2010	137.9	71.7	245.8	53.2	229.1	111.1	526.2	384.8	136.7	579.6
2011	137.0	71.6	255.8	55.3	232.9	114.3	528.9	394.7	137.0	565.5
2012	138.8	72.2	269.0	56.7	245.9	115.7	558.6	415.4	141.7	556.8
2013	137.1	74.7	278.1	58.2	258.4	119.8	599.8	439.3	145.7	551.2
2014	133.3	76.4	282.9	59.4	267.0	122.8	625.3	464.6	151.7	556.7
2015	132.4	78.2	288.7	61.1	271.9	126.3	647.1	484.2	155.6	566.7
2016f	132.2	78.7	300.1	63.5	281.6	129.8	667.9	492.1	155.7	569.0
2017f	128.4	78.8	310.4	65.8	290.3	130.9	675.9	496.1	153.9	572.4

Sources: California Employment Development Department, LMI; estimates and forecasts by LAEDC.

ORANGE COUNTY

INTRODUCTION

The Orange County economy has been one of the standout performers in California. During the current economic cycle, its unemployment rate peaked in 2010 at 9.5%, falling to an average annual rate of 4.4% in 2015. By December of last year, the unemployment rate stood at 4.1%, the lowest in Southern California and the fourth lowest in the state. In 2016, the unemployment rate is expected to decline yet further to 3.5%, the lowest since 2006 when it was 3.4%.

At its lowest point in this cycle, Orange County total nonfarm employment fell 10.4% below the previous peak reached in 2006. Last year, rising job counts pushed nonfarm employment past its previous peak (by 1.1%) to reach 1.54 million jobs, a new record high. The largest gains were in healthcare and social assistance (up by 6,900 jobs); construction (6,500 jobs); leisure and hospitality (6,000 jobs); and professional, technical and scientific services (5,500 jobs). In 2016, total nonfarm employment in Orange County is expected to average 1.58 million jobs, a gain of 2.5% over 2015 with an additional gain of 1.7% anticipated for 2017.

TRENDS IN MAJOR INDUSTRIES

Health Care: Health care is a large and integral part of the Orange County economy. Over eleven percent of the county's wage and salary jobs are in the health care sector. Employment in 2015 rose by 4.2% to 171,600 jobs, making it the largest private sector employer in the county. In 2016, employment is expected to reach 177,500 jobs, representing an annual gain of 3.4%. The health care industry has also had a major impact on commercial real estate in the county through the expansion of medical offices and healthcare facilities. As the industry grows, healthcare organizations, insurance companies and large employers are reshaping the region's healthcare industry as they form new partnerships and alliances to expand their reach and control costs.

Technology and Manufacturing: Orange County has a strong high-tech manufacturing sector that includes computer and related electronic products, aerospace parts and products and medical devices. These capital-intensive sectors rely on Orange County's highly skilled and productive workforce to remain competitive. Manufacturing employment also accounts for nearly eleven percent of total nonfarm jobs in Orange County. However, unlike the healthcare sector, which has seen jobs increase by two-thirds since 2000, manufacturing jobs have declined by two-thirds. More recently, Orange County's manufacturing sector has experienced a small resurgence, adding jobs at a moderate pace in four of the last five years with further gains anticipated in 2016 and 2017.

About 73% of manufacturing jobs in Orange County are concentrated in durable goods (computers, machinery, aerospace parts and products, and medical devices). The balance of manufacturing workers produces nondurable goods such as pharmaceuticals, apparel and food. In 2015, total manufacturing jobs in Orange County increased by 2.7%

to 163,100 workers with all four of Orange County's primary manufacturing sectors showing gains compared with 2014: fabricated metal products (up by 1.2%); machinery (1.0%); computer and electronic products (5.0%); and transportation equipment – primarily aerospace (1.3%). The LAEDC anticipates manufacturing employment will average 165,100 jobs for all of 2016, increasing to 167,000 in 2017.

Real Estate and Construction: Orange County's housing market has been recovering since 2012 but is like most parts of California and the nation in that it is still not fully normalized. Sales of existing homes (single-family and condominiums) have now risen on a year-over-year basis for nine of the past ten months. Median prices, on the other hand, have climbed year-over-year for 44 consecutive months. According to the CoreLogic, the median home price in Orange County rose by 8.2% over the year in December to \$630,000, which is just 4% below the previous peak reached in 2007. Strong demand (among both domestic and foreign buyers) and a lack of inventory have pushed up prices and reduced affordability, but have resulted in only a moderate pickup in new home building activity. The number of permits issued for new residential construction in 2015 increased by an estimated 7.4% to 11,428 compared with the previous year. In 2016, activity is expected to accelerate in response to job growth and rising wages, increasing to 13,600 new homes permitted, a gain of 19.0%.

The local commercial and industrial real estate markets have made significant progress over the past year. Office and industrial vacancy rates continue to decline and lease rates are on the rise throughout the county. The overall office vacancy rate decreased by 2.1 percentage points to 11.5% during the last quarter of 2015 compared with the year ago rate. Direct class A asking rents increased by 6.3% to \$2.70/square foot during the same period, while occupancy gains increased for all of 2015 by 26.6% to 1.7 million square feet.

Orange County's industrial market performed well in 2015, but it was constrained by a lack of new development. The industrial vacancy rate dropped to 2.8% during the final half of 2015, reaching a new record low. Net absorption last year was 2.4 million square feet compared with 1.7 million square feet in 2014. Meanwhile, the year closed with over 1.1 million square feet of new industrial space added to the market with an additional 625,000 square feet in development.

Non-residential building permits edged up by 1.0% to nearly \$2 billion in 2015 after increasing by 49.5% during the previous year. The bulk of the value of nonresidential construction in Orange County (and elsewhere in Southern California) continues to be remodels and renovations as opposed to new structures. Leasing fundamentals are expected to further strengthen through 2016, paving the way for more substantial gains in new non-residential construction next year. *For a more detailed discussion of the region's real estate and construction sector, see the [Real Estate and Construction](#) section of this report.*

Leisure and Hospitality: Tourism is one of Orange County's most important industries and is its second largest industry employer after healthcare. The Orange County Visitor and Convention Bureau reported that over 47 million people (including 4.3 million international travelers) visited Orange County and spent \$11.3 billion in 2015. Visitor counts and spending are expected to continue to increase at a moderate pace this year and next.

Attractions like Disneyland, Fashion Island, and the county's spectacular beaches are drawing increasing numbers of international visitors, particularly tourists from China and the Middle East. Orange County is also a major convention destination. In the spring of 2015, the Anaheim Convention Center began work on an expansion to increase total meeting space to one million square feet. In the lodging sector, both occupancy rates and average daily room rates continue to achieve new peak levels. Countywide occupation averaged 77.8% in 2015 while the average daily room rate increased by 6.1% over the year to \$156.74.²⁰

After once again achieving record high employment levels in 2015, leisure and hospitality jobs in Orange County are projected to increase by 2.0% to 203,400 workers in 2016.

LOOKING AHEAD

The Orange County economy has made significant headway over the last six years in terms of economic growth and job creation. As employment prospects continue to improve, the population will grow moderately, although the high cost of housing will constrain that growth. An increase in population of about 1.0% is expected this year and next. Most of the recent population growth in the county has come from natural increases (births outnumbering deaths), as opposed to migration. Along with job growth and higher incomes, rising home values all point to strong consumer spending with total taxable sales rising by 6.2% this year and next.

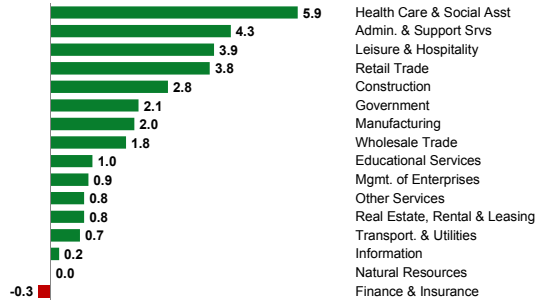
Since the 1950s, Orange County's economy has evolved from one based largely on agriculture to what it is today – an economy rooted in the high-tech and biomed industries, health care, tourism and professional business services. Facilitating the transformation of Orange County's economy was its success in attracting a highly skilled workforce. Home to well regarded colleges and universities, nearly 84% of the adult population in Orange County has a high school diploma and roughly 37% has a bachelor's degree or higher, both above the statewide average. Quality of life is another attribute in which Orange County ranks high. Orange County's "new economy" and traditional industries alike will continue to expand, leading to economic and job growth over the forecast period, providing opportunities for the region's talented workers.

²⁰ 2016 Southern California Lodging Forecast", PKF Consulting USA/CRBR Hotels

Orange County Snapshot

Orange County Employment Growth, 2016

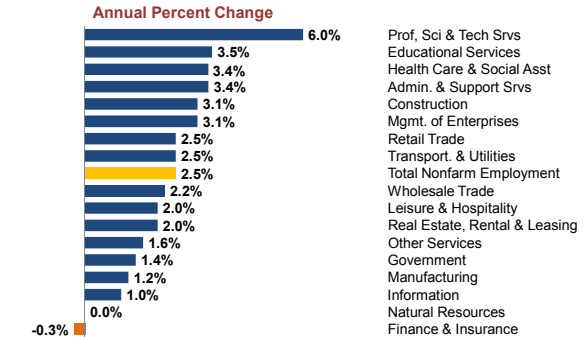
Total nonfarm job growth forecast for 2016 (thousands): +38.6 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Orange County Employment Growth, 2016

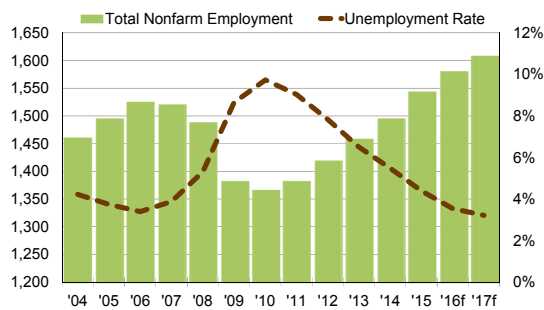
Total nonfarm job growth forecast for 2016, percent change: +2.5%



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

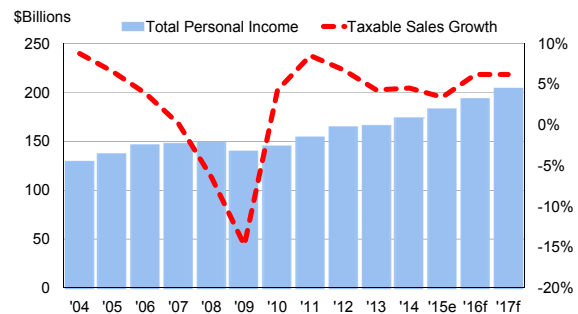
Orange County Employment

Annual average in thousands, 2015 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

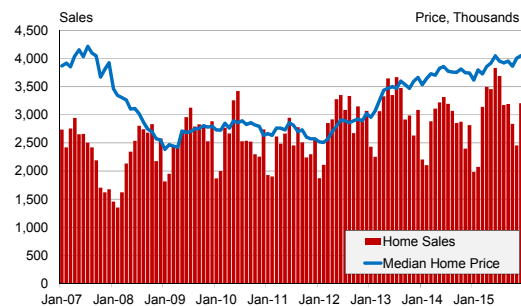
Orange County Personal Income & Taxable Sales Growth



Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

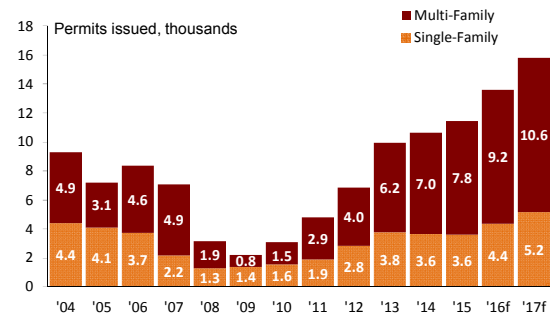
Home Sales & Median Prices Orange County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick/CoreLogic

Residential Building Permits Issued in Orange County



Source: CIRB, California Home Building Foundation, forecast by LAEDC

Table 14: Orange County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Total Taxable Sales (\$Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2004	2,956.5	1,462.1	4.2	128.9	43,805	51.7	43.5	9,322	1,133
2005	2,957.2	1,496.7	3.7	137.3	46,702	55.1	44.7	7,206	1,495
2006	2,955.4	1,525.1	3.4	146.4	49,931	57.2	44.9	8,371	2,401
2007	2,965.8	1,521.7	3.9	147.5	50,315	57.3	44.3	7,072	2,005
2008	2,982.8	1,490.0	5.3	148.9	50,334	53.6	43.1	3,159	1,439
2009	2,998.8	1,383.5	8.7	140.2	46,924	45.7	42.7	2,200	952
2010	3,017.2	1,366.7	9.7	144.9	48,007	47.7	42.7	3,091	1,152
2011	3,051.5	1,382.4	9.0	154.5	50,547	51.7	42.9	4,807	1,300
2012	3,086.3	1,419.6	7.8	165.0	53,390	55.2	43.8	6,862	1,227
2013	3,113.4	1,459.4	6.5	165.9	53,128	57.6	44.4	9,936	1,301
2014	3,139.6	1,495.9	5.5	173.8	55,096	60.2	45.7	10,636	1,945
2015	3,165.2	1,543.3	4.4	183.5	58,000	62.3	47.3	11,428	1,965
2016f	3,198.1	1,581.9	3.5	193.1	60,400	66.2	48.5	13,600	2,025
2017f	3,230.6	1,608.8	3.2	204.3	63,300	70.3	49.5	15,800	2,124

% Change									
04/03	0.6%	2.0%		5.7%	5.3%	8.8%	1.7%	0.1%	12.6%
05/04	0.0%	2.4%		6.5%	6.6%	6.5%	2.8%	-22.7%	32.0%
06/05	-0.1%	1.9%		6.6%	6.9%	3.9%	0.4%	16.2%	60.6%
07/06	0.4%	-0.2%		0.8%	0.8%	0.2%	-1.3%	-15.5%	-16.5%
08/07	0.6%	-2.1%		0.9%	0.0%	-6.4%	-2.7%	-55.3%	-28.2%
09/08	0.5%	-7.1%		-5.8%	-6.8%	-14.7%	-1.0%	-30.4%	-33.8%
10/09	0.6%	-1.2%		3.4%	2.3%	4.3%	0.1%	40.5%	21.0%
11/10	1.1%	1.1%		6.6%	5.3%	8.5%	0.5%	55.5%	12.8%
12/11	1.1%	2.7%		6.8%	5.6%	6.8%	2.1%	42.8%	-5.6%
13/12	0.9%	2.8%		0.5%	-0.5%	4.3%	1.4%	44.8%	6.0%
14/13	0.8%	2.5%		4.8%	3.7%	4.5%	2.9%	7.0%	49.5%
15/14	0.8%	3.2%		5.6%	5.3%	3.4%	3.5%	7.4%	1.0%
16/15	1.0%	2.5%		5.2%	4.1%	6.2%	2.5%	19.0%	3.1%
17/16	1.0%	1.7%		5.8%	4.8%	6.2%	2.1%	16.2%	4.9%

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce, CIC Research, Inc., Construction Industry Research Board; California Homebuilding Foundation; estimates and forecasts by the LAEDC

Table 15: Orange County Nonfarm Employment

Annual averages, thousands, March 2014 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2004	1,462.1	0.6	92.2	183.5	127.1	56.4	82.6	153.3	29.2	33.8
2005	1,496.7	0.7	99.9	182.9	128.3	54.6	83.2	158.2	28.7	32.8
2006	1,525.1	0.6	106.6	182.7	128.0	54.7	83.9	160.9	28.2	31.9
2007	1,521.7	0.6	103.1	180.4	126.2	54.2	87.1	161.2	28.9	31.2
2008	1,490.0	0.6	91.2	174.1	122.6	51.5	86.9	155.9	29.3	30.1
2009	1,383.5	0.6	74.2	154.9	109.1	45.7	79.6	143.0	27.8	27.3
2010	1,366.7	0.6	68.0	150.5	106.5	43.9	77.8	141.3	26.7	24.8
2011	1,382.4	0.6	69.2	154.3	110.8	43.5	77.3	142.6	27.5	23.8
2012	1,419.6	0.6	71.3	158.3	114.4	43.9	77.2	144.0	28.0	24.3
2013	1,459.4	0.6	76.8	158.0	115.1	43.0	79.4	145.5	27.5	25.0
2014	1,495.9	0.7	82.0	158.8	116.6	42.2	81.7	148.7	26.6	24.2
2015	1,543.3	0.7	88.5	163.1	119.6	43.5	83.3	150.5	28.0	23.9
2016f	1,581.9	0.7	91.3	165.1	121.4	43.7	85.1	154.3	28.7	24.1
2017f	1,608.8	0.7	96.6	167.0	123.1	43.9	85.6	155.6	29.0	24.3

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Svcs	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2004	96.1	36.3	97.8	30.6	126.9	19.2	116.3	162.9	47.4	153.4
2005	101.0	37.5	103.4	30.0	131.3	19.8	118.7	165.0	48.4	155.3
2006	99.1	39.1	109.5	28.9	136.6	20.8	122.3	169.6	47.7	156.7
2007	89.2	38.6	113.7	27.9	132.2	21.6	126.6	172.9	47.4	159.4
2008	76.1	37.0	116.2	26.3	124.7	23.6	134.3	176.4	46.5	160.8
2009	70.6	34.6	107.3	25.0	108.9	23.4	138.0	169.2	42.6	156.6
2010	69.4	34.1	106.2	23.9	114.8	23.6	141.9	168.6	42.2	152.3
2011	71.2	33.6	108.8	24.7	114.3	24.4	143.7	174.0	43.2	149.3
2012	73.8	34.5	113.3	26.4	120.9	24.7	149.2	180.6	44.6	147.9
2013	77.0	36.1	116.5	27.7	123.2	25.2	159.0	187.8	45.6	148.7
2014	76.2	37.9	122.4	28.7	124.7	25.7	164.7	193.5	47.7	151.9
2015	76.8	39.2	127.9	29.1	126.4	28.7	171.6	199.5	51.0	155.4
2016f	76.5	40.0	135.6	30.0	130.6	29.7	177.5	203.4	51.8	157.5
2017f	75.1	40.4	142.9	30.7	133.9	30.1	180.1	205.8	51.6	159.4

Sources: California Employment Development Department, LMD; estimates and forecasts by LAEDC

RIVERSIDE AND SAN BERNARDINO COUNTIES

INTRODUCTION

Job growth in the Inland Empire, as the combined Riverside County-San Bernardino County region is known, outpaced the state and the rest of Southern California for the fourth year in a row in 2015. This has been a welcome development, as the Inland Empire suffered a more severe blow during the Great Recession and took longer to turn around. Job gains have brought the unemployment rate down and contributed to rising personal income, which has supported growth in a number of consumer-driven industries.

Wage and salary (nonfarm) jobs in the Inland Empire grew at a rate of 3.8% in 2015, outpacing the state's 3.0% growth rate during the same year. With 1.33 million jobs in 2015, the region has finally surpassed the prerecession annual peak of 1.29 million jobs from 2007, about six years after the technical end of the recession.

The unemployment rate in 2015 fell to 6.6%, down from 8.5% a year earlier, and down significantly from the recession-era peak of 14.3% in 2010. Job creation accounted for most of the decline in the unemployment rate last year, as the labor force increased marginally (+1.2%) from 2014 to 2015.

The composition of employment gains in the Inland Empire was broad-based with many strong performers, including business and professional services, goods movement, leisure and hospitality, construction and manufacturing. Manufacturing had its largest gains since 2004, growing by 3.9% last year. Noteworthy increases also occurred in construction and government, the latter finally recovering from the job cuts in the wake of the recession when local government coffers were severely depleted.

While consumer-serving industries such as leisure and hospitality have seen large gains in absolute terms, other business-serving industries (transportation and warehousing, wholesale trade, professional, scientific and technical services) have also added jobs. Administrative, support and waste services led the way, growing by 9.4% on a year-over-year basis while professional, scientific and technical services grew by 7.5% in 2015. Meanwhile, natural resources and mining and information lost jobs during the course of the year, not unlike many other parts of Southern California.

TRENDS IN MAJOR INDUSTRIES

Goods Movement: The goods movement industry includes transportation and warehousing along with wholesaling. The industry employed over 156,000 workers in the Inland Empire in 2015, accounting for almost 12% of total nonfarm employment. Transportation and warehousing employment rose to 93,700 jobs, having added 6,400 jobs in 2015 compared to 2014 (a 7.3% yearly gain). Wholesale trade added 3,600 jobs (a 6.1% yearly gain) over the same period, with employment averaging 62,600 jobs in 2015.

The region's goods movement industry has benefited from improvement in activity at the Ports of Los Angeles and Long Beach in the last two years as the national economy has

moved forward. The number of containers passing through the twin ports was stuck at roughly 14 million from 2010 through 2012, but jumped by 3.8% to 15.2 million in 2014, and edged up by 1.6% to 15.4 million in 2015, even despite a slowdown from labor disputes and port congestion. The outlook for 2016 is a modest 1.6% increase to 15.6 million containers. Accordingly, transportation and warehousing along with wholesaling should hit new record highs for employment in 2016 and add to that in 2017.

Real Estate: Housing in the Inland Empire had a solid performance in 2015, with a strong labor market and low interest rates driving demand. The median price of a home in Riverside County returned to levels that were last seen in early 2008, with a 2015 median of \$310,500. San Bernardino's median price has also been on the rise, with homebuyers spending an average of \$272,000 in 2015, also roughly on par with home prices in early 2008. Overall, the Inland Empire continued to see steady price appreciation for the fourth year in a row. Price increases have been partly due to limited supplies of homes for sale, and partly due to rising incomes and demographics, both of which are driving increases in demand. Despite rising prices, home sales have increased by 6.8% in the Inland Empire as the region has become an affordable alternative to the more expensive coastal regions.

On the supply side, low inventories have constrained sales. The unsold inventory (supply) of existing homes in Riverside County was just 4.4 months in December while the figure for San Bernardino was 3.5 months. Both readings are higher than a year ago, but continue to be somewhat below long-run average levels. Demand has been hindered by declining affordability and tighter-than-normal underwriting standards.

New home construction responded to tight market conditions and higher home prices in 2013 with a 46.3% increase in housing permits. This trend was expected to continue through 2014 and into 2015, but uncertainty about the future direction of the market depressed homebuilding activity in 2015, which fell by -4.7%. With pent-up demand expected to speed up the housing market over the next two years, permits for new home construction should advance more quickly, with an increase of 15.9% expected in 2016 followed by a gain of 18.8% in 2017. Permit levels will remain well below peak levels of the last decade, however. About three out of four homes built in 2015 were single-family homes, a pattern that should continue into 2016 and 2017.

The Inland Empire housing market will register additional gains in 2016. The supply of new and existing homes for sale should increase in response to stronger demand as the population grows and as the financial condition of households in the region improves. In turn, both higher home prices and sales are expected. *For a more detailed discussion of the region's housing market, see the [Real Estate and Construction](#) section of this report.*

LOOKING AHEAD

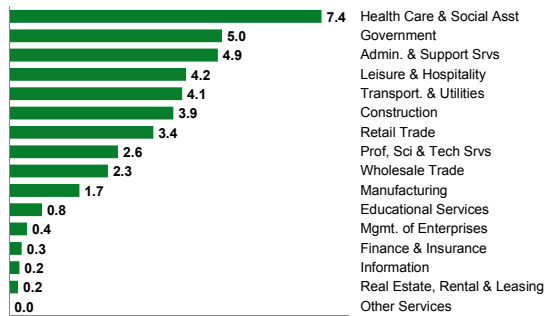
While job growth in 2015 did not achieve the 4.3% growth rate of the previous year, the 3.8% increase was still among the fastest in the state. Employment should expand by an additional 3.1% in 2016 before contracting by 3.0% in 2017, with annual wage and salary employment expected to hit a new high this year.

As the region's industries grow over this year and next, the unemployment rate will fall from 6.6% in 2015 to 5.6% this year and 5.1% in 2017, well below the 8.8% average since 2002. As the economy moves forward and population growth accelerates, personal income will grow by 5.5% in 2016 and 6.3% in 2017, and give rise to further gains in taxable sales and continued job growth in population-serving industries.

Inland Empire Snapshot

Inland Empire Employment Growth, 2016

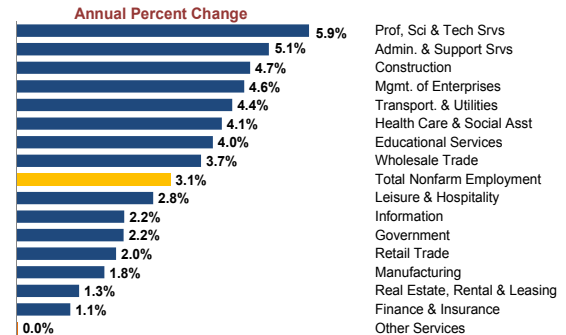
Total nonfarm job growth forecast for 2016 (thousands): 41.4 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Inland Empire Employment Growth, 2016

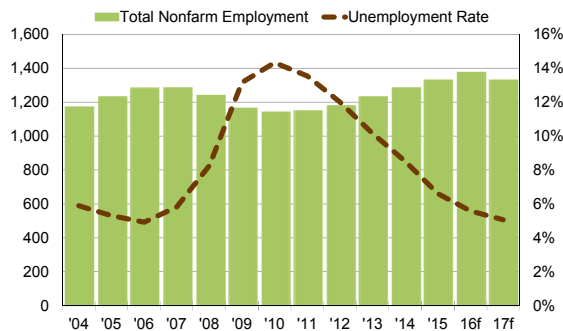
Total nonfarm job growth forecast for 2016, percent change: +3.1%



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

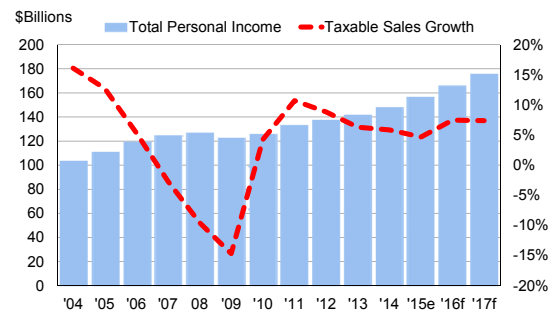
Inland Empire Employment

Annual average in thousands, 2015 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

Inland Empire Personal Income & Taxable Sales Growth

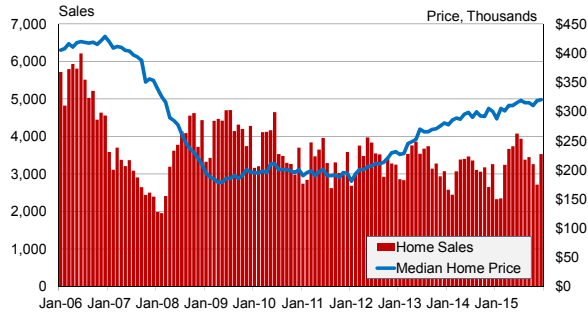


Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

Inland Empire Snapshot

Home Sales & Median Prices Riverside County

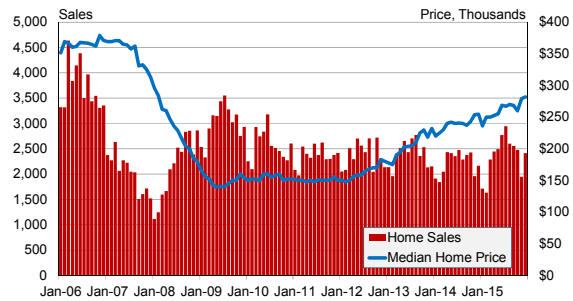
New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick/CoreLogic

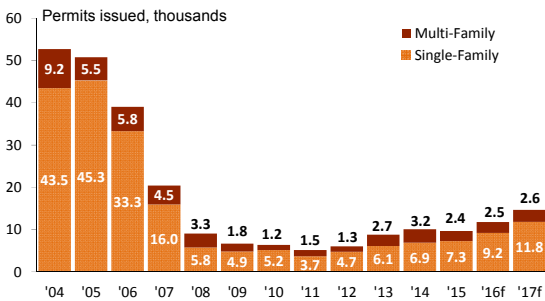
Home Sales & Median Prices San Bernardino County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick/CoreLogic

Residential Building Permits Issued in the Inland Empire



Source: CIRB, California Home Building Foundation, forecast by LAEDC

Table 16: Inland Empire Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Total Taxable Sales (\$Billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2004	3,757.1	1,173.3	5.9	103.5	27,535	51.4	52,696	2,485
2005	3,877.5	1,236.2	5.3	110.8	28,573	58.0	50,818	2,394
2006	3,994.1	1,282.4	4.9	119.0	29,802	61.1	39,083	2,852
2007	4,085.3	1,286.2	5.8	124.0	30,357	59.5	20,457	2,824
2008	4,139.4	1,243.1	8.3	126.6	30,583	53.8	9,101	1,781
2009	4,180.7	1,163.2	13.2	122.8	29,376	45.9	6,685	710
2010	4,239.1	1,144.7	14.3	125.4	29,577	47.8	6,404	792
2011	4,291.7	1,148.0	13.6	132.5	30,870	53.0	5,214	921
2012	4,329.7	1,180.3	12.0	136.9	31,628	57.6	6,034	1,040
2013	4,367.4	1,231.9	10.2	141.0	32,280	61.2	8,829	1,343
2014	4,414.9	1,285.1	8.5	147.7	33,461	64.8	10,141	1,942
2015	4,458.8	1,333.5	6.6	156.6	35,123	67.8	9,665	1,910
2016f	4,527.7	1,374.9	5.6	165.2	36,492	72.9	11,800	2,160
2017f	4,606.3	1,333.5	5.1	175.6	38,126	78.3	14,700	2,386

% Change								
04/03	3.7%	5.7%		8.6%	4.7%	16.1%	22.5%	44.5%
05/04	3.2%	5.4%		7.1%	3.8%	12.7%	-3.6%	-3.7%
06/05	3.0%	3.7%		7.4%	4.3%	5.4%	-23.1%	19.1%
07/06	2.3%	0.3%		4.2%	1.9%	-2.7%	-47.7%	-1.0%
08/07	1.3%	-3.4%		2.1%	0.7%	-9.6%	-55.5%	-37.0%
09/08	1.0%	-6.4%		-3.0%	-3.9%	-14.7%	-26.5%	-60.1%
10/09	1.4%	-1.6%		2.1%	0.7%	4.3%	-4.2%	11.5%
11/10	1.2%	0.3%		5.7%	4.4%	10.7%	-18.6%	16.3%
12/11	0.9%	2.8%		3.4%	2.5%	8.8%	15.7%	12.9%
13/12	0.9%	4.4%		3.0%	2.1%	6.3%	46.3%	29.1%
14/13	1.1%	4.3%		4.8%	3.7%	5.8%	14.9%	44.6%
15/14	1.0%	3.8%		6.0%	5.0%	4.7%	-4.7%	-1.6%
16/15	1.5%	3.1%		5.5%	3.9%	7.5%	22.1%	13.1%
17/16	1.7%	-3.0%		6.3%	4.5%	7.4%	24.6%	10.5%

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce Construction Industry Research Board; estimates and forecasts by the LAEDC

Table 17: Inland Empire Nonfarm Employment

Annual averages, thousands, March 2014 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2004	1,173.3	1.2	111.8	120.1	85.5	34.6	45.7	153.6	56.3	14.0
2005	1,236.2	1.4	123.3	121.0	86.1	35.0	50.0	165.3	61.6	14.5
2006	1,282.4	1.4	127.5	123.4	86.9	36.5	54.3	172.5	65.7	15.3
2007	1,286.2	1.3	112.5	118.5	82.1	36.5	56.9	175.6	69.5	15.4
2008	1,243.1	1.2	90.7	106.9	72.5	34.3	54.2	168.6	70.2	14.8
2009	1,163.2	1.1	68.0	88.8	58.2	30.6	49.0	156.2	66.8	14.1
2010	1,144.7	1.0	59.7	85.2	55.4	29.8	48.7	155.5	66.6	14.0
2011	1,148.0	1.0	59.1	85.1	55.8	29.3	49.2	158.5	68.8	12.2
2012	1,180.3	1.2	62.6	86.7	56.9	29.8	52.2	162.4	73.9	11.7
2013	1,231.9	1.2	70.0	87.3	57.3	30.1	56.4	164.8	79.4	11.5
2014	1,285.1	1.3	77.0	90.2	59.8	30.4	59.0	168.7	87.3	11.2
2015	1,333.5	1.2	82.2	93.7	62.0	31.7	62.6	169.6	93.7	11.2
2016f	1,374.9	1.2	86.0	95.3	63.0	32.4	64.9	173.0	97.8	11.4
2017f	1,333.5	1.2	93.3	97.6	64.4	33.2	66.6	174.4	100.8	11.7

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof. Sci & Tech Services	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2004	28.0	17.7	31.0	11.6	83.1	13.4	118.0	116.7	38.8	212.5
2005	30.1	18.9	35.1	12.0	86.3	13.6	120.3	122.6	39.9	220.4
2006	31.6	19.9	39.9	10.8	91.8	14.1	122.5	128.1	41.2	222.5
2007	30.3	19.5	40.5	9.8	95.2	15.0	127.2	132.6	41.2	225.3
2008	27.4	18.7	40.5	9.7	88.1	15.7	133.6	131.0	40.8	231.0
2009	26.0	16.6	37.8	8.9	78.7	16.3	138.7	123.8	37.3	235.2
2010	25.5	15.5	34.9	8.5	80.1	15.6	138.5	122.8	38.2	234.3
2011	25.3	14.6	35.7	8.6	81.8	15.8	141.8	124.0	39.1	227.5
2012	26.0	14.9	36.8	8.5	82.3	16.3	150.9	129.4	40.1	224.6
2013	26.5	15.6	37.9	8.8	85.7	17.6	166.9	135.9	41.1	225.2
2014	26.5	16.2	40.5	8.9	88.4	18.6	175.0	144.3	43.2	228.8
2015	27.6	16.9	43.5	9.2	96.7	19.6	177.9	151.7	43.7	232.7
2016f	27.9	17.1	46.1	9.6	101.6	20.3	185.3	155.8	43.7	237.7
2017f	27.7	17.0	48.5	10.0	106.1	20.8	189.7	158.8	43.7	242.7

Sources: California Employment Development Department, LMD; forecasts by LAEDC

SAN DIEGO COUNTY

INTRODUCTION

With 3.3 million residents, San Diego County is the second largest in California in terms of population. The City of San Diego is the largest of the county's 18 cities, and is second in population in the state after the City of Los Angeles. With several companies engaged in life sciences and technology as well as a number of higher education institutions, the county's residents have higher levels of educational attainment compared to the state as a whole.

The county added 41,400 wage and salary (nonfarm) jobs, increasing its job base from 1.35 million in 2014 to 1.39 million in 2015. This corresponded to a 3.1% annual growth rate, which outpaced the nation (2.1%) and edged out the state (3.0%). In turn, the county's unemployment rate fell from 6.4% a year ago to 5.1% in 2015, well below the long run rate of 6.0%.

The county will see continued job gains this year and next, with a 2.5% gain expected this year followed by a more modest 1.8% increase next year. Job gains will contribute to a lower unemployment rate, which will fall to 4.2% this year and 3.9% next year.

Economic gains and increases in population tend to go hand in hand, so it is no surprise that population growth in San Diego County will accelerate from 0.9% in 2015 to 1.2% both this year and next. Ninety percent of the county's population growth last year came from natural increases (births outnumbering deaths), markedly higher than in previous years. Migration's (mostly international) contribution to population growth will likely increase this year and next. Along with job and population gains, the county will also see increases in per capita income (mid-four percent this year and next), which in turn will trigger higher consumer spending as measured by total taxable sales.

Last year was a good one for San Diego's housing market. The median price for all homes was \$475,000 in December, up 8.0% from a year earlier but still shy of the January 2006 peak of \$510,000. Sales for all of 2015 rose by 9.0% over the previous year, consistent with the trend for California as a whole. New home construction rose sharply in 2015 after a drop the year before. Building permits rose by 52.2% from 6,603 units in 2014 to 10,049 units in 2015. Significant increases are expected this year and next, supported by increases in income, demographics, and an urgency to beat higher rates in the future. *For a more detailed discussion of the region's housing market, see the [Real Estate and Construction](#) section of this report.*

TRENDS IN MAJOR INDUSTRIES

Every industry in the county added jobs last year except for mining and logging, which was flat. The biggest percentage gains showed up in professional, scientific, and technical services (6.6%), construction (6.5%), and real estate, rental, and leasing (4.9%). In absolute terms, professional, scientific and technical services added the largest number of jobs (8,600), followed by health care and social assistance (7,000), and

leisure and hospitality (6,500 jobs). Job gains in the government sector accelerated in response to the improved fiscal circumstances of state and local jurisdictions. Most industries are expected to add jobs in 2016, led once again by professional, scientific, and technical services, health care and social services, and leisure and hospitality.

Aerospace and Defense: San Diego County's transportation equipment industry has close ties to the local defense sector. It includes both aerospace and ship building. Transportation equipment manufacturing jobs edged up from 14,400 jobs in 2014 to 15,400 jobs in 2015, mainly because of increases in ship building. The Pentagon budget outlook remains uncertain, but much of the work being done by local contractors is related to work on systems should continue in the near future regardless of the overall budget picture: cyber security, intelligence surveillance, defense-related electronics and software and unmanned aerial systems.

Agriculture: San Diego County farm employment rose 3.0% last year from 10,000 jobs in 2014 to 10,300 in 2015. County crop sales totaled \$1.82 billion in 2014 (the latest available), just shy of the \$1.85 billion record from 2013.²¹ The largest commercial crops were ornamental trees and shrubs, followed by indoor flowering and foliage plants. San Diego growers do face challenges in the coming years, the most significant being high land costs and uncertainty about the cost and supply of water.

Biotechnology and Health Care: San Diego's life sciences sector benefits from its close ties to the area's research institutions and from the county's long-standing efforts to support and grow the industry. During the fourth quarter of 2015, San Diego County ranked third in the nation in the total amount of life sciences venture capital received.²²

The county's health care and social assistance industry is expanding, similar to the trend elsewhere in the state. The industry employed 163,500 workers in 2015, up 7,000 jobs (4.0%) from a year earlier. Job gains were distributed across ambulatory and health care services, hospitals, and nursing and residential care facilities. With its advanced treatment and diagnostic facilities, San Diego is a center for both medical research and medical services.

Tourism and Hospitality: Last year was expected to be another record year for San Diego's travel and tourism industry, with estimated visitor expenditures increasing by seven percent to \$9.9 billion. The number of visitors hit a record high of 34.2 billion in 2015, and is expected to hit record high levels again this year and next.²³ Hotel occupancy rates and average daily rates will continue to rise over this year and next. With demand for hotel rooms outpacing new supply, several new hotels are being built across the county while existing hotels are undergoing extensive renovations.

²¹ San Diego Farm Bureau, *San Diego Crop Statistics and Annual Report, 2014*

²² PwC MoneyTree

²³ San Diego Tourism Authority

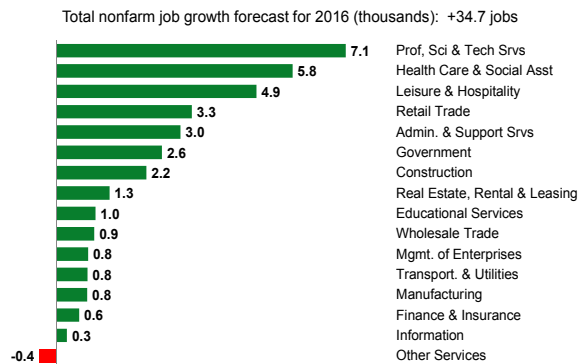
With continued growth in tourism and in the local economy as a whole, leisure and hospitality employment will grow through 2016. Leisure and hospitality is expected to increase by 2.7%, from 183,300 jobs in 2015 to 188,200 this year, followed by a 1.5% (2,900 jobs) gain expected next year.

LOOKING AHEAD

In the near future, San Diego's economy is expected to match or exceed the state's pace of job growth and experience job gains across most of its industries. This will cut the county's unemployment rate from 5.1% in 2015 to 4.2% in 2016, with the rate dropping below 4% in 2017. The region will continue to benefit from its role as an innovation hub for telecommunications, medical devices and life sciences, and high-tech manufacturing. Moreover, San Diego will continue to serve as a popular travel destination.

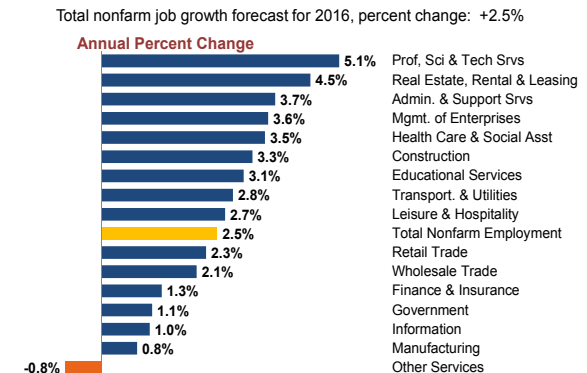
San Diego County Snapshot

San Diego County Employment Growth, 2016



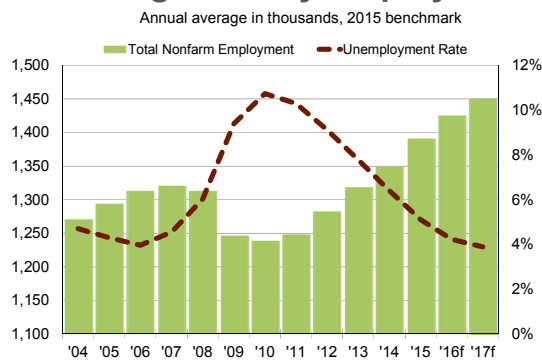
Source: CA EDD, Labor Market Information Division; forecast by LAEDC

San Diego County Employment Growth, 2016



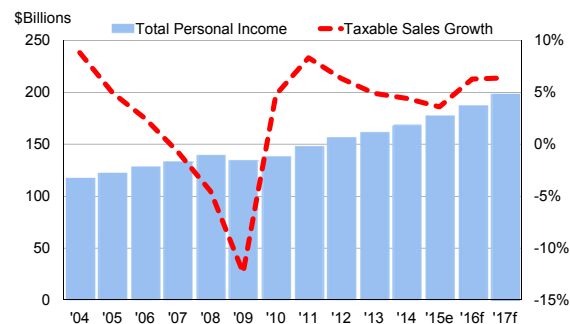
Source: CA EDD, Labor Market Information Division; forecast by LAEDC

San Diego County Employment



Source: EDD Labor Market Information Division; forecast by LAEDC

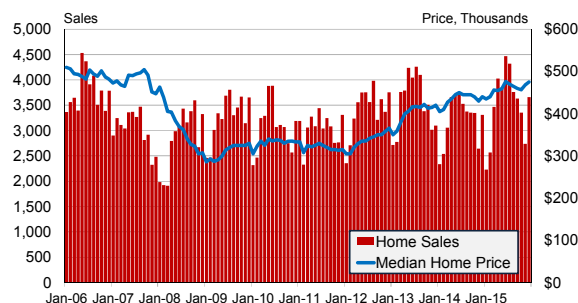
San Diego County Personal Income & Taxable Sales Growth



Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

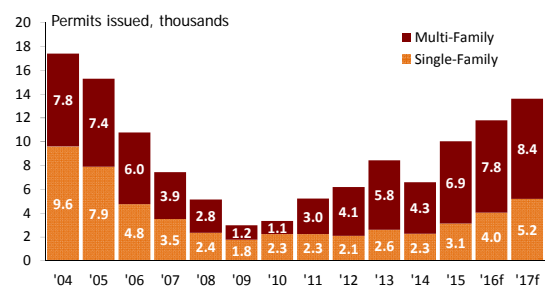
Home Sales & Median Prices San Diego County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick/CoreLogic

Residential Building Permits Issued in San Diego County



Source: CIBR, California Home Building Foundation; forecast by LAEDC

Table 18: San Diego County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Total Taxable Sales (\$Billions)	Value of Two-way Trade (\$Billions)	Total Overnight & Day Visitors (Millions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)	Chg. In CPI (%)
2004	2,963.4	1,269.1	4.7	116.7	39,839	44.5	39.4	31.8	17,306	1,288	3.7
2005	2,970.1	1,291.9	4.3	121.5	41,365	46.7	43.2	31.8	15,258	1,382	3.7
2006	2,982.8	1,312.1	4.0	128.1	43,457	47.8	50.5	32.2	10,777	1,622	3.4
2007	3,014.2	1,320.1	4.6	133.0	44,680	47.5	53.9	31.6	7,445	1,417	2.3
2008	3,051.3	1,311.9	6.0	138.7	45,886	45.3	53.4	31.1	5,154	1,062	3.9
2009	3,077.6	1,245.9	9.4	134.1	43,819	39.7	43.9	29.6	2,990	584	0.0
2010	3,102.9	1,237.1	10.7	138.3	44,563	41.6	48.4	29.9	3,346	659	1.3
2011	3,137.3	1,247.0	10.3	148.0	47,095	45.1	52.6	31.1	5,223	1,072	3.0
2012	3,174.8	1,280.5	9.1	156.0	48,990	47.9	56.4	32.3	6,193	1,095	1.6
2013	3,209.2	1,317.8	7.8	160.8	49,907	50.3	58.8	33.1	8,447	1,282	1.3
2014	3,247.5	1,348.0	6.4	167.9	51,459	52.5	63.9	33.8	6,603	1,921	1.9
2015	3,275.5	1,389.4	5.1	177.3	54,100	54.4	69.6	34.2	10,049	1,857	1.6
2016f	3,314.8	1,424.1	4.2	186.9	56,400	57.8	69.9	35.0	11,800	1,944	1.5
2017f	3,353.6	1,449.7	3.9	198.1	59,100	61.5	76.8	35.7	13,600	2,095	2.6

% Change										
04/03	0.7%	1.7%		6.8%	6.2%	8.8%	10.7%	-0.8%	-5.5%	10.2%
05/04	0.2%	1.8%		4.1%	3.8%	5.0%	9.6%	-0.2%	-11.8%	7.3%
06/05	0.4%	1.6%		5.4%	5.1%	2.5%	17.0%	1.3%	-29.4%	17.4%
07/06	1.1%	0.6%		3.8%	2.8%	-0.7%	6.6%	-2.0%	-30.9%	-12.6%
08/07	1.2%	-0.6%		4.3%	2.7%	-4.5%	-0.8%	-1.5%	-30.8%	-25.1%
09/08	0.9%	-5.0%		-3.3%	-4.5%	-12.4%	-17.8%	-4.8%	-42.0%	-45.0%
10/09	0.8%	-0.7%		3.1%	1.7%	4.8%	10.2%	0.9%	11.9%	12.8%
11/10	1.1%	0.8%		6.9%	5.7%	8.3%	8.6%	4.3%	56.1%	62.7%
12/11	1.2%	2.7%		5.4%	4.0%	6.3%	7.3%	3.7%	18.6%	2.1%
13/12	1.1%	2.9%		3.1%	1.9%	4.9%	4.2%	2.5%	36.4%	17.1%
14/13	1.2%	2.3%		4.4%	3.1%	4.4%	8.7%	2.1%	-21.8%	49.8%
15/14	0.9%	3.1%		5.6%	5.1%	3.6%	8.9%	1.2%	52.2%	-3.3%
16/15	1.2%	2.5%		5.4%	4.3%	6.3%	0.4%	2.3%	17.4%	4.7%
17/16	1.2%	1.8%		6.0%	4.8%	6.4%	10.0%	2.0%	15.3%	7.8%

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce, CIC Research, Inc., Construction Industry Research Board; California Homebuilding Foundation; estimates and forecasts by the LAEDC

Table 19: San Diego County Nonfarm Employment

Annual averages in thousands, March 2014 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2004	1,269.1	0.4	87.7	104.4	78.2	26.2	42.0	145.0	28.4	32.5
2005	1,291.9	0.4	90.8	104.6	79.2	25.4	43.7	147.5	28.4	32.6
2006	1,312.1	0.5	92.7	104.0	78.5	25.5	45.2	148.4	28.7	31.7
2007	1,320.1	0.4	87.0	102.6	77.4	25.2	45.6	148.1	28.8	31.3
2008	1,311.9	0.4	76.1	102.9	78.2	24.7	45.0	142.0	29.0	31.4
2009	1,245.9	0.4	61.1	95.4	73.3	22.2	40.6	131.7	27.3	28.2
2010	1,237.1	0.4	55.4	93.1	71.2	21.9	40.2	130.7	26.5	25.1
2011	1,247.0	0.4	55.2	93.4	71.1	22.2	41.5	133.4	26.1	24.2
2012	1,280.5	0.4	57.0	94.5	71.4	23.1	43.5	137.2	27.3	24.5
2013	1,317.8	0.4	60.9	95.2	71.1	24.1	43.9	141.3	27.2	24.3
2014	1,348.0	0.4	63.5	96.4	71.4	24.9	43.9	144.2	26.8	24.6
2015	1,389.4	0.4	67.7	98.2	73.3	25.0	45.4	146.9	27.0	25.2
2016f	1,424.1	0.4	69.9	99.0	73.9	25.1	46.3	150.2	27.7	25.5
2017f	1,449.7	0.4	74.3	100.4	75.1	25.4	46.4	150.9	28.0	25.8

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Services	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2004	52.8	29.1	104.0	18.2	86.7	20.1	109.8	145.7	47.9	214.3
2005	53.5	29.7	110.9	17.4	87.3	21.1	110.7	149.6	48.8	215.1
2006	53.2	30.5	115.4	16.9	87.2	21.3	113.8	156.5	48.4	217.9
2007	50.2	30.1	118.7	16.1	88.5	22.0	118.5	161.8	48.3	222.4
2008	46.1	29.2	120.5	15.9	86.0	24.4	125.6	164.0	48.4	225.1
2009	43.3	26.5	116.8	16.0	74.2	26.7	131.5	154.8	46.8	224.5
2010	41.3	25.9	117.5	17.1	73.3	25.4	134.2	154.5	46.1	230.5
2011	42.0	25.7	118.8	17.5	73.9	27.1	135.7	155.6	47.7	229.0
2012	44.1	26.1	121.0	19.0	76.7	29.0	141.5	161.7	49.2	227.8
2013	44.5	26.9	124.6	20.9	79.3	29.9	151.2	168.6	49.3	229.5
2014	42.9	27.6	129.2	21.4	79.4	30.4	156.5	176.8	52.3	231.9
2015	43.1	29.0	137.8	21.7	81.0	31.4	163.5	183.3	52.7	235.3
2016f	43.7	30.3	144.8	22.5	84.0	32.4	169.3	188.2	52.3	237.9
2017f	42.6	30.5	151.5	23.2	86.8	32.9	172.6	191.1	52.1	240.3

Sources: California Employment Development Department, LMI; estimates and forecasts by LAEDC

VENTURA COUNTY

INTRODUCTION

Ventura County is the smallest of the counties in the Los Angeles five-county area based on population, but it is home to a broad array of industries, including agriculture, professional business services, technology and tourism. Proximity to one of the world's leading wine growing regions and 43 miles of coastline attracts large numbers of visitors, many of whom make the quick trip up from Southern California for a weekend getaway.

Ventura County is not only a port of call for travelers, but also a shipping hub for automobiles and agricultural goods. Port Hueneme serves as a distribution hub for automobile manufacturers and is a collection point for many agricultural goods that are shipped throughout the nation. Port Hueneme handled 5.3 million tons of cargo in 2015, up by 0.7% from 2014. In 2015, two-way trade was valued at \$9.9 billion, an increase of 7.5% from a year earlier.

On an annual basis, Ventura County's unemployment rate continued to decline, dropping over a full percentage point from 6.7% in 2014 to 5.5% in 2015. However, within the Tri-Counties area, Ventura lags behind both San Luis Obispo County (4.6%) and Santa Barbara County (5.1%). While 5.5% is the lowest unemployment rate recorded in Ventura since 2008, it is still just shy of prerecession levels. The LAEDC expects that the unemployment rate will fall to 4.8% in 2016 and to 4.6% in 2017, levels not seen since the mid-2000s.

In 2015, nonfarm employment grew by 1.7% (5,000 jobs) averaging 298,000 nonfarm jobs for the year. Despite adding jobs over the last five years, nonfarm employment in 2015 was still 900 jobs short of the peak in 2006. The LAEDC forecasts Ventura County will surpass its prerecession peak in 2016, with projected growth of 1.6% this year and 1.5% in 2017.

The increase in hiring has been led by a surge in professional, scientific and technical services (up by 10.8%), where many tech-related occupations tend to show up. The industry accounted for roughly one out of every three net new jobs added in 2015 following a flat performance in 2014. Health care and social assistance also accounted for one-third of net job gains, expanding by 5.0% last year, up from 1.7% in 2014. Leisure and hospitality continued to be a major contributor to local job growth, with growth in the three percent range for the third year in a row. Slow and steady improvement in other major industries such as construction, retail trade and government services offset declining employment in the manufacturing sector.

TRENDS IN MAJOR INDUSTRIES

Tourism: Ventura is an ideal destination for tourists looking for an alternative to the higher-priced Santa Barbara area. Benefits include the short distance from Los Angeles County and more affordable lodging.

Occupancy rates reached 73.7% in 2015, compared with 72.3% a year earlier. Average daily room rates also edged up, rising to \$118.26 in 2015 from \$109.43 in 2014. Further gains are expected in 2016. The number of occupied rooms is expected to remain flat this year, while market occupancy rates should reach 74.5%. Average daily room rates are expected to rise by 5.3%, while revenue per available room should increase by 6.5% to \$92.81.

Hotel supply has remained largely unchanged since 2013 and while several projects are in the pipeline through 2016, they were not recorded into 2015 estimates and the 2016 forecast for room supply and their effects on occupancy rates because these projects are not scheduled to actually open until possibly 2017.²⁴

Housing and Consumer Spending: Although Ventura County's housing market continues to improve. Sales of existing homes were strong in 2015, with double-digit growth. With increasing demand, median prices have been steadily growing on a year-over-year basis for much of the last four years. The median price of an existing single-family home in Ventura County was \$491,000 in December 2015, up by 2.9% compared with a year ago. New home building has slowed in 2015 as permits issued for new construction fell 3.9% below 2014 levels. With steady gains in the housing market expected over the next two years, new home construction should gain momentum, with a 15.4% increase in permits expected in 2016 and a 25.0% jump in 2016.

LOOKING AHEAD

The LAEDC forecasts total personal income will rise by 4.7% this year and by 5.4% in 2015. As long as job growth continues at its current pace, per capita income will grow by 4.0% this year and by 4.6% in 2017. Consumer spending is expected to see strong gains this year and next as the labor market continues to strengthen and personal incomes improve.

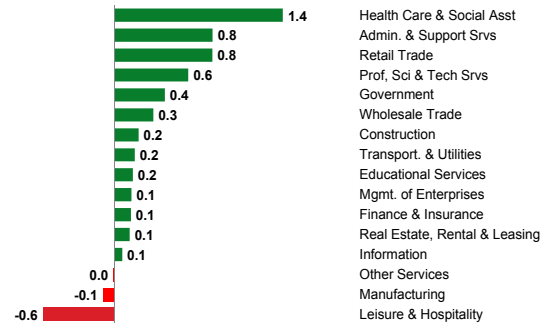
The Ventura County economy will advance unevenly over the next two years. The LAEDC forecasts job growth in professional, scientific and technical services, and administration, waste and support services to lead the way. These two sectors make up a large part of the professional and business services sector, which is expected to produce one-third of net job gains in both 2016 and 2017. Construction, health care and social assistance and government should continue to be steady contributors. A mixed performance is expected for the remaining industries.

²⁴ "2016 Southern California Lodging Forecast", PKF Consulting

Ventura County Snapshot

Ventura County Employment Growth, 2016

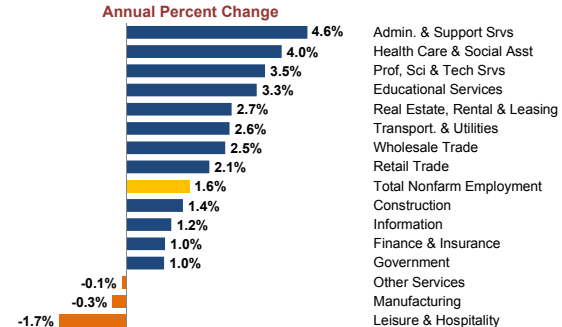
Total nonfarm job growth forecast for 2016 (thousands): +4.5 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

Ventura County Employment Growth, 2016

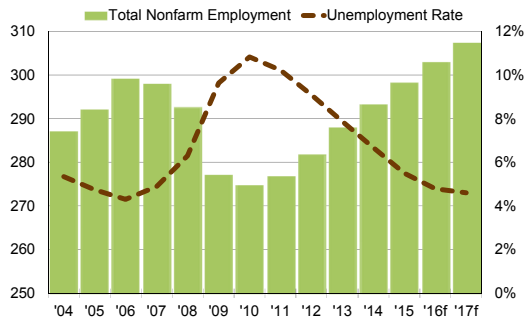
Total nonfarm job growth forecast for 2016, percent change: +1.6%



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

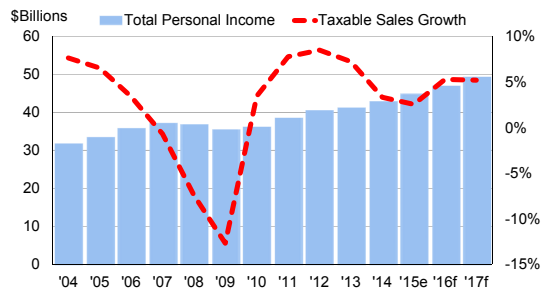
Ventura County Employment

Annual average in thousands, 2015 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

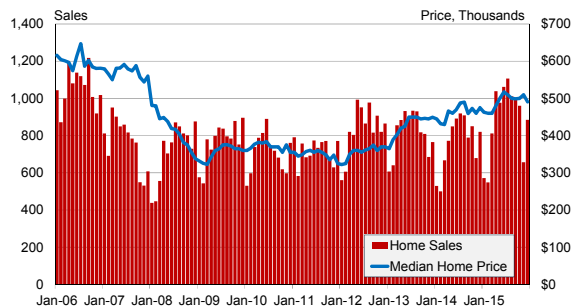
Ventura County Personal Income & Taxable Sales Growth



Source: California Board of Equalization, Dept. of Commerce; estimate & forecast by the LAEDC

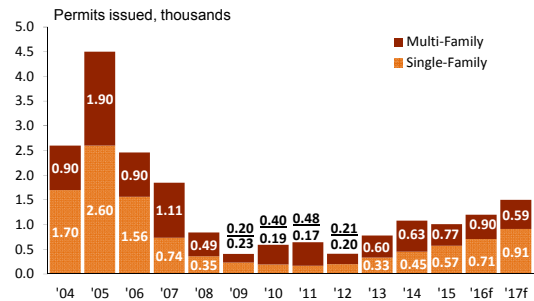
Home Sales & Median Prices Ventura County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick/CoreLogic

Residential Building Permits Issued in Ventura County



Source: Construction Industry Research Board, forecast by LAEDC

Table 20: Ventura County Economic Indicators

Year	Population on July 1 (Thousands)	Nonfarm Employment (Ave., Thousands)	Unemployment Rate (Ave., %)	Total Personal Income (\$Billions)	Per Capita Personal Income (\$)	Total Taxable Sales (\$Billions)	Housing Unit Permits Issued	Nonresidential Building Permits (\$Millions)
2004	795.0	287.0	5.3	31.5	39,612	11.2	2,603	353
2005	796.9	292.0	4.7	33.4	41,861	11.9	4,516	372
2006	801.2	298.9	4.3	35.6	44,413	12.3	2,461	326
2007	805.9	297.8	4.9	37.1	46,011	12.2	1,847	346
2008	812.0	292.4	6.3	36.7	45,158	11.3	842	345
2009	818.5	276.9	9.6	35.1	42,910	9.9	404	153
2010	824.9	274.7	10.8	36.0	43,683	10.2	590	160
2011	831.8	276.6	10.2	38.2	45,918	11.0	640	147
2012	836.8	281.6	9.1	40.4	48,269	12.0	410	109
2013	842.8	287.9	7.9	40.9	48,577	12.8	777	102
2014	848.0	293.0	6.7	42.7	50,298	13.3	1,082	250
2015	853.0	298.0	5.5	44.5	52,204	13.6	1,006	182
2016f	859.3	302.8	4.8	46.6	54,278	14.3	1,200	243
2017f	865.7	307.3	4.6	49.2	56,783	15.1	1,500	291

% Change								
04/03	0.7%	0.7%		7.5%	6.8%	7.7%	-28.4%	-6.9%
05/04	0.2%	1.7%		5.9%	5.7%	6.6%	73.5%	5.4%
06/05	0.5%	2.4%		6.7%	6.1%	3.4%	-45.5%	-12.4%
07/06	0.6%	-0.4%		4.2%	3.6%	-0.7%	-24.9%	6.1%
08/07	0.8%	-1.8%		-1.1%	-1.9%	-7.4%	-54.4%	-0.3%
09/08	0.8%	-5.3%		-4.2%	-5.0%	-12.7%	-52.0%	-55.7%
10/09	0.8%	-0.8%		2.6%	1.8%	3.5%	46.0%	4.6%
11/10	0.8%	0.7%		6.0%	5.1%	7.8%	8.5%	-8.1%
12/11	0.6%	1.8%		5.7%	5.1%	8.5%	-35.9%	-25.9%
13/12	0.7%	2.2%		1.4%	0.6%	7.2%	89.5%	-6.4%
14/13	0.6%	1.8%		4.2%	3.5%	3.3%	39.3%	145.1%
15/14	0.6%	1.7%		4.4%	3.8%	2.6%	-7.0%	-27.2%
16/15	0.7%	1.6%		4.7%	4.0%	5.3%	19.3%	33.5%
17/16	0.7%	1.5%		5.4%	4.6%	5.2%	25.0%	19.8%

Sources: State of California: Dept. of Finance, Employment Development Department, Board of Equalization; U.S. Dept of Commerce Construction Industry Research Board; estimates and forecasts by the LAEDC

Table 21: Ventura County Nonfarm Employment

Annual averages in thousands, March 2014 benchmark

Year	Total Nonfarm Employment	Natural Resources	Construction	Manufacturing	Mfg. -- Durable	Mfg. -- Nondurable	Wholesale Trade	Retail Trade	Transport. & Utilities	Information
2004	287.0	0.7	16.9	38.3	24.2	14.1	12.2	35.3	5.7	6.8
2005	292.0	0.8	18.8	37.7	23.9	13.9	12.5	36.5	5.8	6.2
2006	298.9	1.1	20.5	38.4	24.1	14.3	12.6	37.6	6.1	6.0
2007	297.8	1.1	18.8	38.0	23.9	14.1	13.0	37.6	6.1	5.8
2008	292.4	1.2	16.7	35.9	23.2	12.7	12.8	37.3	6.0	5.6
2009	276.9	1.2	13.2	32.6	20.4	12.2	12.1	35.1	5.4	5.3
2010	274.7	1.2	11.3	31.5	19.5	12.0	12.3	35.5	5.3	5.1
2011	276.6	1.3	11.3	30.6	18.8	11.8	12.5	36.3	5.5	4.9
2012	281.6	1.3	11.8	29.9	18.2	11.7	12.6	37.3	5.7	5.2
2013	287.9	1.2	12.6	29.9	18.2	11.8	12.9	38.5	5.9	5.2
2014	293.0	1.3	13.7	30.5	18.5	12.0	13.0	39.0	6.2	5.5
2015	298.0	1.2	14.1	29.7	18.1	11.6	13.2	39.5	6.5	5.6
2016f	302.8	1.2	14.3	29.6	18.1	11.5	13.5	40.4	6.7	5.7
2017f	307.3	1.2	15.2	30.0	18.3	11.7	13.6	40.5	6.7	5.7

Year	Finance & Insurance	Real Estate, Rental & Leasing	Prof, Sci & Tech Services	Mgmt. of Enterprises	Admin. & Support Svcs	Educational Services	Health Care & Social Asst	Leisure & Hospitality	Other Services	Government
2004	19.8	4.4	14.2	3.6	19.5	3.6	24.7	28.5	10.3	42.5
2005	20.0	4.4	15.1	3.5	19.8	3.7	25.5	29.2	10.4	42.2
2006	19.6	4.5	16.0	3.3	20.1	3.7	26.3	30.5	10.2	42.5
2007	17.9	4.8	16.2	3.2	18.8	4.1	27.5	32.0	9.9	43.0
2008	16.4	4.7	16.7	3.1	18.0	4.6	28.8	31.5	10.0	43.1
2009	16.1	4.4	16.2	2.9	16.1	4.7	29.6	29.8	9.3	42.9
2010	16.0	4.3	15.3	2.6	15.8	4.7	30.0	30.3	9.2	44.2
2011	16.2	4.2	15.1	2.1	16.1	4.7	30.8	31.4	9.2	44.4
2012	15.4	4.2	15.7	1.9	17.3	5.3	32.2	32.8	9.4	43.6
2013	14.5	4.4	16.1	1.8	18.3	4.9	34.1	33.8	9.7	43.6
2014	14.2	4.5	16.1	1.8	17.6	5.0	34.7	35.0	9.9	43.8
2015	13.9	4.8	17.8	1.9	18.2	4.7	36.4	36.0	9.9	44.5
2016f	14.1	4.9	18.5	2.0	19.0	4.8	37.9	35.4	9.9	44.9
2017f	13.9	4.9	19.0	2.2	19.8	4.9	38.5	36.0	9.9	45.3

Sources: California Employment Development Department, LMID; estimates and forecasts by LAEDC

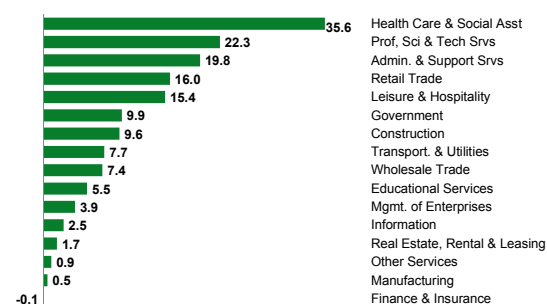
MAJOR INDUSTRIES OF THE SOUTHERN CALIFORNIA ECONOMY

Southern California has experienced four consecutive years (2012-2015) of solid employment gains. Every county in the region has seen consistent increases in nonfarm jobs, contributing to the decline in unemployment rates across the region. While most of the major industries have added jobs, rates of growth have varied across industries. Indeed, two thirds of the absolute job gains occurred in just a half-dozen major industries, while others saw more modest gains and a few lost jobs.

Growth is in the picture for local industries in 2016 and 2017 as the U.S. economy continues to expand. However, the pace of job gains will become more tempered this year and next as the overall economy reaches “cruising altitude”.

L.A. 5-County Employment Growth, 2016

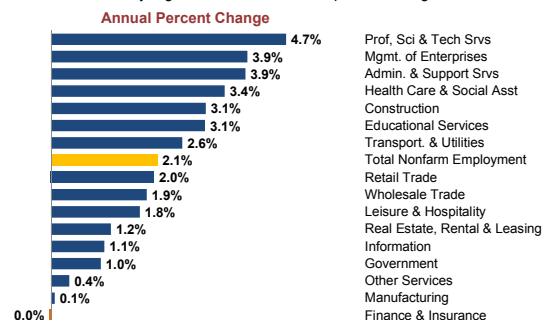
Total nonfarm job growth forecast for 2016 (thousands): +158.2 jobs



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

L.A. 5-County Employment Growth, 2016

Total nonfarm job growth forecast for 2016, percent change: +2.1%



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

AEROSPACE AND DEFENSE

The aerospace and defense industry has been a cornerstone of the Southern California economy for over a century, and has played a role in shaping the region's landscape, culture and economy. The aerospace industry in Southern California may employ fewer people than in the past, but it continues to be on the forefront of industry developments and remains a center of aerospace activity for the nation.

Southern California's aerospace industry contributes to the regional economy on a number of levels. First, it employs a large number of highly skilled and well-paid workers. Second, its exports make a positive contribution to the nation's trade balance. Finally, new technologies with roots in aerospace have spilled over into other areas of the economy.

In 2015, the aerospace products and parts manufacturing sector employed approximately 61,600 workers²⁵ across Southern California, up from 57,200 in 2014. Industry

²⁵ These figures are based on data from the Quarterly Census of Employment and Wages (U.S. Bureau of Labor Statistics) for Los Angeles, Orange and San Diego Counties. Other Southern California counties have much smaller

employment last year was about 70% below the 1990 level, with most of the decline occurring in the early 1990s. More recently, regional employment in the industry has stabilized at between 55,000 and 59,000 workers. Capital is increasingly replacing labor, while labor itself has become more productive. The result is that even as employment levels have fallen, the value of aerospace products manufactured in the region has increased.

Through the first three quarters of 2015, the Aerospace Industries Association²⁶ estimates shipments of aerospace products at \$230 billion, up 9.0% over the same period a year earlier. Foreign orders comprise a significant portion of the industry's business, with exports over the same period at \$92 billion, up 5.8% from a year earlier. Moreover, backlogs were 6.8% higher than a year earlier with a monthly average of \$732 billion.

Civil Aviation: Commercial jetliners are no longer manufactured in Southern California, but the region is home to thousands of subcontractors who produce parts for Boeing, Airbus and other aircraft manufacturers. The latest U.S. Department of Commerce²⁷ data suggest that 2015 was a good year, but the next couple of years could see a pullback in activity. Shipments of nondefense aircraft and parts rose by 10.3% from \$153.0 billion in 2014 to \$168.8 billion in 2015. However, unfilled orders were down 1.0% at \$606.1 billion while new orders fell by 32.7% to \$162.5 billion.

Defense: Federal budget cuts pose an ongoing challenge to Southern California's aerospace and defense firms. However, federal spending on defense-related R&D should be buoyed in the next few years by demand for cyber security, intelligence, surveillance and defense electronics. Moreover, as a leader in the development and manufacture of unmanned aircraft systems (UAS), the region's aerospace industry will greatly benefit from growing demand for UAS for military and civilian uses in the years ahead.

Looking Ahead: Southern California is home to one out of eight aerospace workers nationally. With its deep pool of skilled labor, its extensive array of test fields, numerous universities and other educational and research centers, and a strong electronics industry, the region will be a center for the aerospace and defense industries for many years to come. The region is home to a wide selection of research, development and testing operations, as well as aerospace contractor and sub-contractor facilities. Commercial satellites manufactured in Southern California orbit the earth, providing GPS, cell phone and radio/television communications. More recently, Southern California companies such as SpaceX, Scaled Composites and Virgin Galactic have engaged in private commercial space activities, once the sole domain of NASA.

numbers of workers in the industry and are excluded to maintain comparability with previous LAEDC research on the industry.

²⁶ Aerospace Industries Association US Aerospace Manufacturing Update, 1Q-3Q 2015

²⁷ <https://www.census.gov/manufacturing/m3/prel/pdf/s-i-o.pdf>

APPAREL DESIGN AND MANUFACTURING

The fashion industry is one of Southern California's signature industries. Apparel design, manufacturing and wholesaling continue to make significant contributions to the Southern California economy even as the industry adapts to the shifting forces of globalization and technological change. The industry is characterized by short product life cycles, fickle consumers, almost unimaginable product variety and complex supply chains.

While the local industry is dominated by activity in Los Angeles County, Orange County has carved out a distinct identity of its own. In addition to apparel, Southern California's fashion industry includes textiles, jewelry, footwear, handbags and cosmetics. The region is also home to a number of highly-regarded fashion design and merchandizing schools such as FIDM, Otis College of Art and Design, and Los Angeles Trade Tech.

Los Angeles and Orange counties employ the largest number of apparel workers in the United States and together, are one of the few regions in the U.S. where apparel continues to be manufactured on a large scale. Although production of most apparel items has largely shifted to lower-cost countries in Latin America and Asia,²⁸ high-end garments and accessories that require strict quality control and specialized skills or processing are often manufactured locally. There is also a small but vigorous community of designer-owned boutiques that specialize in locally designed and manufactured fashions that emphasize well-made, local and sustainably sourced apparel.

On the opposite end of the apparel spectrum, the local industry is a leader in "fast-fashion" apparel production – a term used to describe the high-volume production of inexpensive clothing that reflects current fashion trends and can go from sketch to store shelves in as little as four weeks, with retailers sometimes receiving daily shipments. The fast-fashion segment of the apparel market, which primarily targets young women and teens, depends on such rapid turnaround times that a trend may come and go by the time a container makes the voyage from Asia to Los Angeles.

Design-related activity also contributes to maintaining the apparel industry's presence in Southern California. One of the great strengths of the local fashion industry is the community of designers responsible for the global appeal of the "Made in L.A." label. In 2014, there were 4,650 fashion designers working in Los Angeles and Orange counties.²⁹ Los Angeles may not receive the same level of attention as New York due to a lack of highly publicized fashion shows, but L.A. designers are noted for their more wearable (and saleable) designs. The many apparel design and merchandising schools that are located in the region attract talented students from all over the world. Fashion is also closely linked with the entertainment industry and the region's flourishing art scene. Much of the apparel manufacturing and wholesaling workforce in Southern California is located

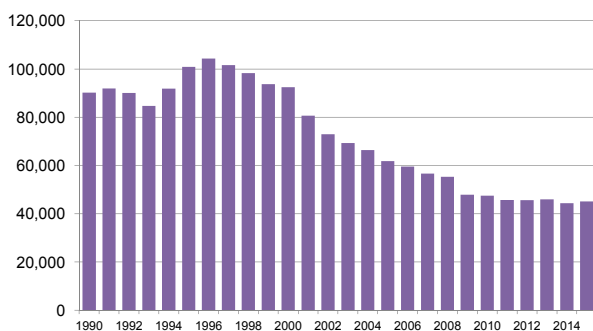
²⁸ Africa may be the final frontier for low-cost apparel manufacturing. According to the International Labor Organization, Ethiopia's garment sector has no minimum wage (garment workers start at \$21 per month), while in Bangladesh, workers earn at least \$67 per month. *Search for Even Cheaper Garment Factories Leads to Africa, Wall Street Journal, July 12, 2015*

²⁹ There were 5,750 fashion designers in California in 2015, compared with 7,190 in New York.

in Los Angeles County, although a significant number of workers may be found in Orange County as well.

In 2015, apparel manufacturing employment in Los Angeles County averaged 45,100 workers, while wholesaling employed 26,400 for total industry employment of 71,600 workers. Compared with 70,100 the previous year, this represented an increase of 2.1%. Both apparel manufacturing and wholesaling added jobs over the year, 675 and 775, respectively. The apparel industry also employs a large number of independent contractors, significantly boosting total employment numbers. In 2013 (latest data available), there were nearly 8,000 independent contractors working in Los Angeles and Orange counties manufacturing and wholesaling textiles, apparel, footwear, leather goods and jewelry. Although the number of independent contractors has generally been trending up, the number slipped slightly in 2013, falling by 1.1%.

Apparel Manufacturing Employment in Los Angeles County



Source: EDD Labor Market Information Division

In addition to employment directly related to the local manufacture and distribution of apparel, accessories and textiles, a large number of jobs in ancillary industries depend on local fashion-related activities: import/export agents; goods movement (to handle the large volume of apparel goods arriving from Asia); and equipment leasing and financing firms that specialize in servicing the fashion industry.

In spite of numerous technological advances, apparel manufacturing remains one of the most labor-intensive industries in the world. This is what gives countries with lower wages and lower standards of living a competitive advantage. It is also why newly industrializing nations often begin with the manufacture of textiles and basic apparel. However, when strict quality control or fast turnaround times are required, apparel manufacturers in Southern California are competitive. With the rising cost of Chinese labor, some local apparel companies are experimenting with bringing more of their production back to Los Angeles, but this is necessarily a limited option. Local manufacturing employment is not likely to significantly reverse course, but creative design work, merchandizing and wholesaling will continue to do well.

COMPUTER AND ELECTRONIC PRODUCT MANUFACTURING

The computer and electronic product manufacturing industry is one of the largest manufacturing industries in Los Angeles County, surpassed only by transportation, apparel and fabricated metal product manufacturing, and roughly the same size as aerospace product and parts manufacturing, and food manufacturing. The industry employed 38,100 workers in Los Angeles County in 2015, with another 34,800 in Orange County and 5,000 in Ventura County. San Diego County also had 24,000 workers in the industry.

Like many other manufacturing sectors, computer and electronic product manufacturing has experienced a trend decline in employment dating back over twenty years. Last year was the first time in a decade that employment growth entered positive territory, growing marginally by 0.6% across the six-county Southern California region. Employment declined in Los Angeles County by 2.1% in 2015, but this was offset by a gain of 4.5% in Orange County. Employment in San Diego County was essentially flat over the same period (up 0.6%).

Even so, the industry continues to be a significant source of employment and an important part of the region's manufacturing base. It employs a large number of skilled workers in both professional and production occupations, drawing from the deep pool of skilled labor in the region. Moreover, occupations in this industry generally earn above-average wages.

PROFESSIONAL AND BUSINESS SERVICES

The professional and business services supersector includes three major subsectors: professional, scientific and technical services; management of companies and enterprises; and administrative, support and waste services. Collectively, these industries employed more than 1.3 million workers in the six-county Southern California region in 2015. Los Angeles County was home to over 620,000 jobs, with nearly 283,000 in Orange County, 240,000 in San Diego County, over 149,000 in the Inland Empire and nearly 38,000 in Ventura County.

Many occupations in these industries pay well and often require advanced education or training. These occupations include architects, engineers, IT consultants and other business consultants, accountants and lawyers.

Professional and business services employment in the six-county Southern California region rose by 3.2% in 2015, an increase of 41,800 jobs from 2014. Most of the region has achieved record-high levels of industry employment during the last year. By major industry, regional employment in professional, scientific and technical services increased by 4.0% (23,400 jobs) in 2015, with the largest gains in management, scientific and technical consulting services; advertising and related services; architectural and engineering services; and scientific research and development services. Jobs in management of companies and enterprises rose by 2.1% (2,600 jobs), while administrative, support and waste services jobs expanded by 2.8% (15,900 jobs), with a large number of jobs created in employment services.

FINANCIAL SERVICES

After peaking in 2006 at 544,300 jobs, employment in Southern California's financial services industry was hit hard by the triple impact of the financial meltdown, the housing crisis and the Great Recession. By 2010, the industry had lost 103,000 jobs throughout Southern California. There are two major subsectors in this industry: finance and insurance, and real estate, rental and leasing. Most of the job losses over this five-year period were concentrated in finance and insurance. After struggling to regain ground during the early years of the recovery, the financial services industry recorded job gains in 2012 and 2013, but employment contracted again in 2014 and grew only marginally in 2015 (by 1.3%). The industry has seen a soft rebound, recovering approximately 20,300 jobs (or 4.6%) since 2011. However, employment growth is expected to slow moving forward.

In Southern California, Orange County posted the largest financial services job gains in 2015, contributing over 1,900 jobs (or 1.7%), while the Inland Empire trailed closely with a gain of nearly 1,800 positions (or 4.2%). Los Angeles County, where nearly half of Southern California's financial jobs are concentrated, experienced marginal growth. In fact, since 2008, the share of financial jobs in Los Angeles County has decreased by over two percent while Orange County has added two percent during the same time period.

The real estate and rental and leasing sub-sector improved across Southern California, with gains of 3.2%, or 5,300 jobs. All counties in the region experienced strong gains since 2013. However, roughly two-thirds of jobs in financial activities are in the finance and insurance sector, which has generally struggled since the recession. Within finance and insurance, growth has been scattered across the region, with the Inland Empire recording the only notable employment growth, increasing by 4.3% from 2014 to 2015. Wage and salary gains were flat across Southern California, registering gains of 0.2% during the same time period.

Overall, the Southern California area created nearly 6,000 financial services jobs last year, bringing the total to 461,900. While contributing to the recovery of jobs lost since the recession, employment is still a far cry from the 2006 peak of 544,300 jobs. Growth in financial activities is expected to be sluggish due to national economic factors. The Fed finally raised interest rates, the first of what is expected to be a series of rate hikes over the next two years. Higher interest rates will negatively impact housing demand. Furthermore, continued consolidation of the banking industry will slow employment in financial services. This will limit growth of the sector in Southern California to 0.6% in 2016, and employment will contract by 1.3% in 2017.

HEALTH CARE SERVICES AND BIOMEDICAL

Together, the Los Angeles five-county region and San Diego County have a population of nearly 22 million people, over 10 million of whom live in Los Angeles County. With such a large population, Southern California is able to support a number of important and influential medical centers and a thriving life sciences industry. The health care sector is also one of the largest employers in Southern California. In addition to serving the local population, a number of medical centers in the region are attracting growing numbers of foreign patients as well.

In 2015, the health care industry employed over a million workers in Southern California. Los Angeles County alone was home to 647,100 jobs and accounted for over 60% of total industry employment in the region. Over the past year, health care employment has shown strong growth, increasing by 33,400 jobs (3.3%) compared with 2014. In Los Angeles County, health care jobs grew at an even faster pace (3.5%), adding 21,800 jobs. Both Orange County and San Diego County had growth rates over 4%, adding 6,900 and 7,000 jobs, respectively.

Across the region, the subsector ambulatory health care services (offices of physicians and dentists) added 18,200 jobs (3.4%), while employment at hospitals was up marginally. The health care services industry also includes social assistance (individual and family services and child day care services). The bulk of the jobs in this subsector are centered in Los Angeles County, which saw employment jump by 6,050 jobs in 2015, up 2.5% from 2014.

Health care is a large industry in the U.S. In 2014, national health care expenditures increased by 5.3% to \$9,523 per person (\$3.0 trillion in total) and accounted for 17.5% of GDP. This relatively fast pace of annual growth was due to expansions of coverage under the Affordable Care Act. Between 2014 and 2024, health care expenditures are projected to grow at an average rate of 5.8% per year.³⁰ Efforts to contain costs are colliding with increased demand for health care services and more transparent pricing. Fiscal pressures, sweeping regulatory changes under the Affordable Care Act and more empowered consumers are creating a new health care economy.

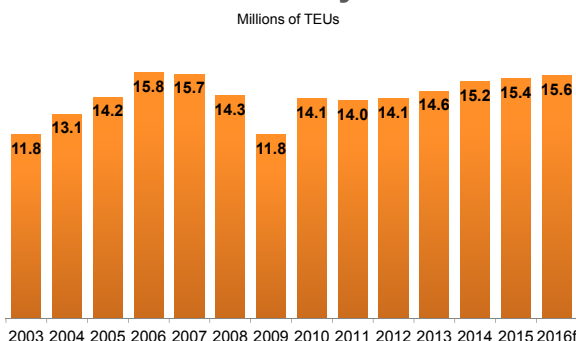
INTERNATIONAL TRADE/GOODS MOVEMENT

International trade is a vital part of the Southern California economy. The goods movement sector includes transportation and warehousing along with wholesale trade. Jobs in the region's goods movement sector grew steadily in 2015, adding 24,200 jobs (3.8%) relative to 2014. Looking at the individual counties, Los Angeles experienced the largest employment gain, adding 10,800 jobs (2.9%). The Inland Empire (an important warehousing and distribution hub) was a close second, adding 10,000 positions (or 7.1%). Orange and Ventura counties also saw job gains in this sector, as well as San Diego County to the south.

About forty percent of the nation's imported containers enter the United States through the San Pedro Bay ports. Los Angeles and Long Beach rank number one and two, respectively, in total container volumes handled of any port in the U.S. In 2015, the Ports of Los Angeles and Long Beach handled a total of 15.4 million containers, an increase of 1.3% compared with 2014. On an individual port basis, total loaded cargo volume at the Port of Los Angeles was down by 2.2%, while total loaded volume at the Port of Long Beach was up by 5.4% in 2015.

³⁰ Centers of Medicare and Medicaid Services; NHE Fact Sheet, CMS.gov

TEU Throughput San Pedro Bay Ports



Sources: Ports of Los Angeles and Long Beach; forecast by LAEDC

The Los Angeles Customs District (LACD) also maintained its top position in the U.S. in 2015, despite the fact that the value of two-way trade dropped to \$393.4 billion, a decrease of 5.6% over the year. The LACD also includes international airport cargo passing through both LAX and Ontario International Airport, which generally consists of small, lightweight, high-value products that require quick delivery. Freight tonnage transiting through LAX increased markedly (6.0%) last year, while at Ontario freight tonnage increased by 5.1% over the same period.

Given the weakness in global economic growth and the strength of the dollar, U.S. export growth could be weak or even negative in 2016 due to depressed foreign demand (especially from China, the LACD's top trading partner). Meanwhile, U.S. import growth should continue to increase on the back of strong domestic demand. For the LACD, import growth should outweigh the weakness in exports, resulting in an overall increase in two-way trade and trade-related employment.

Alameda Corridor: The 20-mile rail cargo line that connects both ports to the main intermodal yards near downtown Los Angeles is an integral part of the entire goods movement system. Until this past year, the number of trains running on the Alameda Corridor had been increasing steadily since 2010. In 2014, the total number of trains rose by 2.9% over the year, while the average number of trains per day increased to 47 from 45 in 2013 (the highest train per day figure since 2007). However, in 2015, total train counts plummeted 23.7%, and the average number of trains per day dropped to 39. These declines reflect the overall weakness in global trade, and especially the decline in trade with China as that country undergoes an economic rebalancing.

MOTION PICTURE AND VIDEO PRODUCTION

Entertainment is probably the best-known industry in Los Angeles County. The focal point of this sector is the motion picture and sound recording industry, which also anchors the county's broader creative economy, contributing more than a quarter of the county's 417,000 creative industry jobs.

Within the motion picture and sound recording industry, the largest employment subsector is motion picture and video production, but motion picture distribution, post production services and sound recording all have a significant presence in the county's broader entertainment industry. The industry generates substantial economic benefits for the region. It is a major source of new income by virtue of the royalties that are earned by locally produced films and TV shows. Closely related to this industry is tourism, with people from all over the world drawn to Hollywood and the entertainment industry's theme parks.

Los Angeles County was home to 119,400³¹ wage and salary jobs in the motion picture and sound recording industry last year, down slightly (0.5%) from 120,000 jobs in 2014. Employment remains below the prerecession peak of 132,200 and the all-time high of 146,600 from 1999.

Another indicator of local-industry activity is the number of permitted on-location shoot days, which reflected a mixed performance last year. The total number of shoot days rose 1.3% over 2014 to 37,289, and television shows experienced a substantial 9.5% increase, but shoot days for commercials were essentially flat (up 0.2%), and both feature films and other video (which includes student films, industrial films, and music videos) were down (4.2% and 5.5% respectively).

Domestic box office receipts rose by nearly four percent from \$10.4 billion in 2014 to an estimated \$11.1 billion last year.³² Worldwide receipts totaled an estimated \$27.6 billion last year, an increase of 2.2% over 2014. Tickets sold rose from 1.27 billion in 2014 to 1.34 billion last year.³³

At-home entertainment spending turned around in 2015, with a one percent increase from \$17.9 billion in 2014 to \$18.07 billion last year. At-home spending was \$18.13 billion in 2013. Substantial revenue growth occurred last year in electronic sell-through (+24.9%) and subscription streaming (+18.3%), while rentals uniformly fell.³⁴

³¹ Industry wage and salary job counts are subject to an annual benchmarking process in the first quarter of the year. It is expected that the 2015 job count for this industry will be revised upward once the benchmarking process is completed.

³² Estimated by the LAEDC based on data from www.boxofficemojo.com. Final numbers will be released by the MPAA later this year.

³³ Estimate from www.the-numbers.com. Final numbers will be released by the MPAA later this year.

³⁴ The Digital Entertainment Group, 2015 Annual Home Entertainment Report

The revamped California Film Tax Credit program should lure more productions back to the state and retain those that are already here. The program was modified to expand eligibility to big-budget feature films and one-hour television series, and funding was increased from \$100 million to \$330 million. The increase in local filming is should result in the creation of thousands of jobs and strengthen one of Los Angeles' signature industries.

REAL ESTATE AND CONSTRUCTION

Residential Real Estate

Throughout 2015, Southern California's housing markets made notable progress after pausing in 2014. This year, housing and new home construction are poised for stronger gains. Contributing to the improvements realized and anticipated for 2016 are:

- Strong job growth, which creates a larger pool of qualified buyers
- Increases in homes sales and new home construction
- Continued home price increases
- Increases in the number of homeowners with positive equity
- Low but rising mortgage interest rates that may prompt would-be buyers to get off the fence.

Notwithstanding progress made in 2015, in the eight years that have passed since the onset of the housing crisis, Southern California's housing markets have yet to make a full recovery. Mortgage availability and, increasingly affordability, have kept progress in check.

Although mortgage lending standards have shown a slight but persistent easing, they remain tighter than historical norms. Lenders now require higher credit scores and larger down payments. This is not to say a return to the credit environment that existed in the years leading up to the housing collapse would be desirable, but it may be that lending standards have swung a bit too far the other way.

Mortgage Interest Rates

30-year Fixed Rate, Conventional Mortgage



Source: Federal Reserve

Following the Federal Reserve's rate hike in December, mortgage interest rates are expected to rise moderately this year. The Mortgage Bankers Association is projecting mortgage origination growth of 10% in 2016 in the purchase market in spite of higher interest rates. However, total mortgage volume is expected to decline this year because of fewer refinances.

In addition to stricter lending standards, another obstacle for many potential buyers is the sharp appreciation of home prices. Median home prices in California have greatly outpaced wage growth, especially in California's coastal and large metro areas where job growth is concentrated. After four years of steadily rising prices, affordability is rapidly declining and many traditional and first-time buyers (already at historically low shares) have been priced out of the market.

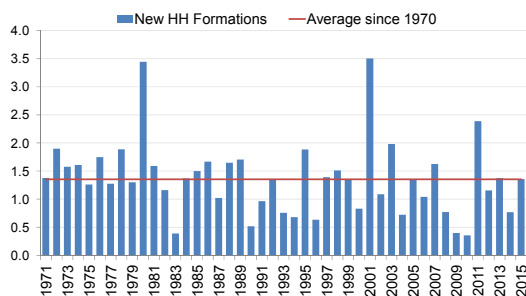
In 2015, the median price of an existing single-family home in California was \$474,420, an increase of 6.2% over 2014. At that price, only about 30% of Californians could afford to buy a median priced home.³⁵ In some areas, affordability is even more problematic. In San Francisco for example, with a median home price of \$1.2 million, only 10% of residents could afford to buy. In Southern California, affordability ranges from 20% in Orange County to 54% in San Bernardino County, with Los Angeles coming in at 24%. The national figure is 56%.

Early in the recovery, price appreciation was driven by investor purchases of single-family homes that were converted to rentals. Now prices are rising in response to higher demand, the lack of new construction and low inventories of existing homes for sale.

In addition to wage growth and credit availability, a sustained housing market recovery also requires rising rates of household formation and homeownership. In this respect, the outlook is encouraging. Job growth has improved to the point where U.S. household formation (the number of new housing units occupied) returned to its long-run average in 2015 with the addition of 1.4 million new households nationwide. California household formation also surpassed its long-run average with the addition of 145,000 households last year.

U.S. Household Formation

Annual change number of households, millions

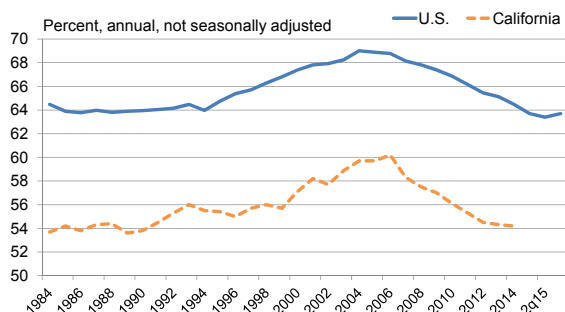


Source: U.S. Census Bureau, Wells Fargo Economics Group

³⁵ California Association Realtors

Although most Americans continue to have a positive view of homeownership,³⁶ declining affordability and tight lending standards have resulted in most of the gains in household formation going to the rental markets. In the aftermath of the housing crisis and recession, Millennials are delaying the home-buying decision to a later point in life. The rate of homeownership peaked at 69% nationally in 2004 and then began a long decline that predated the onset of the recession. By the second quarter of 2015, it had fallen to 63.4%. During the third quarter there was a slight uptick to 63.7% but it is too soon to tell if homeownership rates have turned the corner.³⁷ In California, homeownership peaked in 2006 at 60.2% but dropped to 54.2% in 2014 (latest data available), the lowest rate since 1985. One reason for the decline is the slow pace of wage and salary growth over the last five years – homeownership tends to rise with income. Another reason may be that homeownership rates during peak years were unsustainable because of the easy lending practices that prevailed at the time.

Homeownership rates are declining in the U.S. and California



Source: Federal Reserve Bank of St. Louis

As of December 2015, home sales (single-family and condominiums) in Southern California had increased on a year-over-year basis for 11 consecutive months following a year and a half of nearly continuous year-over-year declines. With steady employment and anticipated wage gains, traditional buyers are slowly returning to the market. Additionally, now that eight years have passed since the housing bust, former homeowners caught up in the first wave of foreclosures can now contemplate returning to homeownership.

Rental Market: The rental market in Southern California has been strong for several years and demand for rental units shows no sign of slowing. Vacancy rates are low and rental rates continue to rise. In spite of the local boom in new apartment construction and the increase in rentals of single-family homes, supply has not kept up with demand, especially in the market for more affordable units.

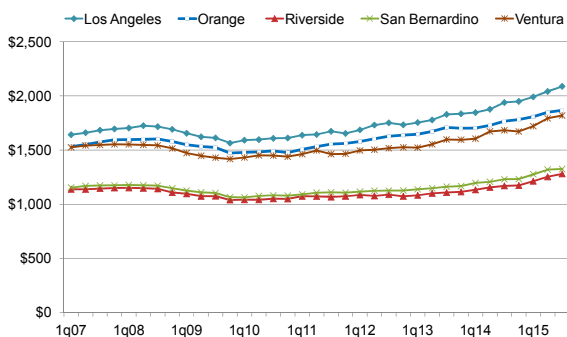
³⁶ Fannie Mae National Housing Survey (December 2015)

³⁷ These numbers are not seasonally adjusted and there have been a number of quarterly increases since 2004 that have not affected the overall trend.

A number of economic and demographic factors are driving demand for rental housing. Stronger job growth has enabled more young people to form separate households and many are choosing to rent. In some cases, the decision to rent is due to preference, but other factors such as student loan debt may also influence this decision. This trend has kept younger people out of the housing market and may also be preventing their parents from downsizing their homes and relocating to neighborhoods with amenities geared to older adults. The difficulties of qualifying for a mortgage loan or coming up with a down payment have also pushed many would-be buyers to the rental market. Rents in Southern California are soaring even faster than home prices.

In Los Angeles County, a household earning median income and paying median rent will spend about half their monthly income in rent. A household spending more than 30% of their income on rent is considered “cost burdened” and when that ratio rises to over 50%, households are considered “severely cost burdened”. In many areas, it is now more expensive to rent than to own. With such a large share of income needed for rent, many households cannot save for a down payment on a home. Since housing typically constitutes the largest share of average annual household expenditures, increases in housing costs can have a detrimental effect on other areas of consumer spending like food, healthcare, clothing and transportation.

Apartment rents continue to climb in Southern California



Note: For apartments with more than 100 units
Source: Real Facts/California Real Estate Research Council

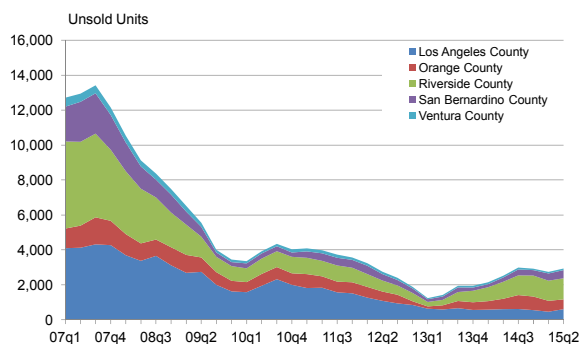
Since the end of the recession, multi-family (mostly apartments) has been the most active area of new residential construction. The increased ratio of multi- to single-family new home construction is clearly visible in many metro areas in California, including Los Angeles. So far, improvement in underlying fundamentals (household formation, employment and income growth) suggest that current demand can absorb supply. Looking ahead, as more apartment units become available, the added supply should push vacancy rates higher and check the rate at which rental rates have been rising. The big question is when.

New Home Construction: New home construction is still at low levels but the next two years should bring a long anticipated surge in new home building. Contributing to the sluggish turn-around has been a lack of construction and development lending. The lending environment has improved, but the time it takes to develop new residential land in California is lengthy and with the exception of the Inland Empire, the supply of available land for single-family tract housing is limited throughout much of Southern California.

Inventories of unsold new homes have been on the rise throughout much of Southern California but remain very lean. In Los Angeles County, the inventory of new unsold housing edged up by 0.3% over the year in the third quarter of 2015 to 620 units. By way of comparison, at the peak of the housing boom in 2007, there were 4,320 unsold units in Los Angeles County. The supply of new homes in Orange County was up by 7.2% (to 850 units) over the year (3q2015). In Riverside County, the number of unsold new homes increased by 4.9% (to 1,184 units), while in San Bernardino the increase was 66.5% (to 571 units). Ventura County was the only area in Southern California to see the inventory of new homes decline, sliding 10.8% to just 91 units available in the third quarter. With inventories of completed new single-family homes still near record lows, any increase in sales should pull construction higher.

Why do such low inventories persist? On the existing home front, sales of distressed properties have slowed to a trickle, investors are holding (as rentals in many cases) rather than flipping and many would-be owner-occupant sellers still have insufficient equity to trade up. Although after two years of continuous year-over-year price increases, this problem should be fading. On the other hand, even as existing homeowners recover their equity, they may still be constrained by tight credit conditions. Since 2011, the inventory of existing homes for sale across the state has been under six months, the traditional measure of a balanced market. On the new home side, there has been little new construction other than apartments for the last several years. With limited inventory, potential buyers have had little opportunity to take advantage of low interest rates, especially when prices were still relatively low.

Southern California Unsold New Housing



Source: California Real Estate Research Council

With little new inventory, the stronger economy and rising rates of household formation imply increased demand for new housing in the near future. Permits for new home construction in Southern California increased moderately in 2015, rising by 10.8% to 44,930 units. The LAEDC forecasts that homebuilders will pull permits for 50,100 units in the Los Angeles five-county region this year, an increase of 11.5% compared with 2015. New home construction is expected to continue on a slightly faster trajectory in 2017, with a projected increase of 14.2% to 57,200 units permitted. In addition to rising home prices, employment, income, population growth and rising rates of household formation will drive new home construction. This is likely to be a process that will stretch out over many

years. Heavily skewed to multi-family construction in recent years, the mix is expected to shift to a greater share of single-family homes as older Millennials enter their mid-thirties, begin to have families and look to buy a home.

Conclusion: The demand for housing is largely derived from the underlying growth of the U.S. economy. The housing market is one of the last sectors of the economy to recover from the Great Recession, but a number of forward-looking indicators such as pending home sales and mortgage applications remain solidly positive, suggesting that housing will gain additional momentum through the end of this year and into 2017. New programs introduced by the FHA and the Department of Housing and Urban Development seek to expand credit access to underserved borrowers.

While there has been considerable overall improvement in Southern California's housing markets, the strength of the rebound is divided between regions where employment and population are growing the fastest: coastal versus inland regions; central city areas versus distant suburbs. This bifurcation is also manifested in the demand for apartments and rentals versus owner-occupied single-family homes.

Southern California's housing market is steadily working its way back to something that might be considered normal. Housing should once again be a bright spot for the region's economy, but the strongest rebound will be in the areas where job growth is the strongest, while foreign purchases will continue to influence recovery in certain local markets.

Table 22: Median Existing Single-Family Home Prices

					Annual % Change				
Year	L.A. County	Orange County	Inland Empire	Ventura County	Year	L.A. County	Orange County	Inland Empire	Ventura County
2004	435,954	642,577	295,173	599,282	2004	25.1%	31.6%	35.4%	29.6%
2005	517,853	706,555	364,407	668,138	2005	18.8%	10.0%	23.5%	11.5%
2006	577,147	732,517	383,580	685,957	2006	11.4%	3.7%	5.3%	2.7%
2007	589,166	727,570	367,248	673,940	2007	2.1%	-0.7%	-4.3%	-1.8%
2008	382,714	540,650	230,710	463,560	2008	-35.0%	-25.7%	-37.2%	-31.2%
2009	299,268	505,589	161,114	416,770	2009	-21.8%	-6.5%	-30.2%	-10.1%
2010	323,290	546,385	179,268	442,820	2010	8.0%	8.1%	11.3%	6.3%
2011	307,660	512,500	172,280	418,270	2011	-4.8%	-6.2%	-3.9%	-5.5%
2012	327,470	542,700	189,300	427,000	2012	6.4%	5.9%	9.9%	2.1%
2013	405,630	651,640	241,410	516,470	2013	23.9%	20.1%	27.5%	21.0%
2014	449,510	687,930	273,890	573,560	2014	10.8%	5.6%	13.5%	11.1%
2015	476,830	707,460	290,700	609,410	2015	6.1%	2.8%	6.1%	6.3%

Source: California Association of Realtors

Table 23: Total Housing Permits

						% Annual Change					
Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5	Year	L.A. County	Orange County	Inland Empire	Ventura County	LA-5
2004	26,935	9,322	52,696	2,603	91,556	2004	26.4%	0.1%	22.5%	-28.4%	18.5%
2005	25,647	7,206	50,818	4,516	88,187	2005	-4.8%	-22.7%	-3.6%	73.5%	-3.7%
2006	26,348	8,371	39,083	2,461	76,263	2006	2.7%	16.2%	-23.1%	-45.5%	-13.5%
2007	20,363	7,072	20,457	1,847	49,739	2007	-22.7%	-15.5%	-47.7%	-24.9%	-34.8%
2008	13,704	3,159	9,101	842	26,806	2008	-32.7%	-55.3%	-55.5%	-54.4%	-46.1%
2009	5,653	2,200	6,685	404	14,942	2009	-58.7%	-30.4%	-26.5%	-52.0%	-44.3%
2010	7,468	3,091	6,404	590	17,553	2010	32.1%	40.5%	-4.2%	46.0%	17.5%
2011	10,403	4,807	5,214	640	21,064	2011	39.3%	55.5%	-18.6%	8.5%	20.0%
2012	10,709	6,862	6,034	410	24,015	2012	2.9%	42.8%	15.7%	-35.9%	14.0%
2013	16,200	9,936	8,829	777	35,742	2013	51.3%	44.8%	46.3%	89.5%	48.8%
2014	18,707	10,636	10,141	1,082	40,566	2014	15.5%	7.0%	14.9%	39.3%	13.5%
2015	22,831	11,428	9,665	1,006	44,930	2015	22.0%	7.4%	-4.7%	-7.0%	10.8%
2016f	26,000	13,600	11,800	1,200	52,600	2016f	13.9%	19.0%	22.1%	19.3%	17.1%
2017f	29,600	15,800	14,700	1,500	61,600	2017f	13.8%	16.2%	24.6%	25.0%	17.1%

Sources: Construction Industry Research Board, California Homebuilding Foundation; forecasts by LAEDC

Nonresidential Real Estate³⁸

The fundamentals of commercial (offices, retail and hotel) and industrial real estate are strong, supported by employment growth and stronger economic activity. Delinquency rates on commercial and industrial loans, and default rates on CMBS are near all-time lows. Nationally, investment in nonresidential structures took a step back in 2015, declining by an estimated 1.2% over the year after increasing by 8.1% in 2014, but is expected rise by 2.0% or more this year and next. Meanwhile, the value of nonresidential structures put in place increased by 11.4% in 2015 and is projected to rise by 8.8% in 2016.

Overall, businesses are feeling more comfortable with the idea of investing in long-term projects. In Southern California, vacancy rates continue to decline, rental rates are up and interest from foreign investors is on the rise. A recent survey (January 2016) of foreign investors from the Association of Foreign Investors in Real Estate (AFIRE) listed Los Angeles as the third most desirable city globally (up from #10 in 2015) and the second nationally for real estate investment.

Office Space

Office employment growth across the Southern California region is healthy and in some submarkets vacancy rates are approaching or have crossed their long-run average, an indication that new office construction may start to ramp up in the near future. In the fourth quarter of 2015, the overall vacancy rate in Southern California declined by 1.7 percentage points (pps.) to 13.7%. Leasing activity in 2015 totaled 22.9 million square feet, little changed from 2014. Net absorption (occupancy gains) was 5.5 million square feet, also on par with 2014. Across the region, the average direct class A asking rent increased by 6.0% compared with the final quarter of 2014, to \$3.04/square foot.

Los Angeles County: The Los Angeles County office market picked up momentum in the final quarter of 2015. Rents are returning to prerecession highs and the countywide vacancy rate is now below 15%. In 2016, with additional gains in office employment expected, vacancy rates should continue to trend lower.

During the fourth quarter of 2015, the overall vacancy rate declined over the year by 1.7 pps. to 14.4%, the lowest since the first quarter of 2009, when it stood at 14.3%. Total leasing activity for the year was 14.3 million square feet, up from 13.6 million square feet in 2014. Occupancy gains of 3.9 million square feet were about even with 2014. The steady decline in vacancy rates is placing upward pressure on lease rates. Direct class A asking rents increased by 8.9% to \$3.15 per square foot in the fourth quarter of 2015, compared with year ago rates. During 2015, 770,400 square feet of new office space was completed and the year closed with 1.8 million square feet of additional new office space under construction.

³⁸ The LAEDC thanks CBRE and Cushman and Wakefield for providing office and industrial vacancy rates, rental rates and the figures for leasing activity that are cited in this section.

At 10.8% (10% is considered a balanced market), the Westside submarket had the lowest vacancy rate during the final quarter of 2015. It also the highest average rental rate at \$4.07 per square foot, an increase of 11.5% over the year. Leasing activity was also strong (4.3 million square feet), but was down by 2.6% compared with 2014. The Westside also accounts for about 30% of the new office construction currently in the pipeline for Los Angeles County.

Vacancy rates were highest in the South Bay (20.1%) but were lower by 2.1 pps. points compared with a year ago. The average class A rental rate was \$2.49, an increase of 5.1% from the final quarter of 2014. Vacancy rates in the Central submarket³⁹ remain relatively high, averaging 18.1% during the fourth quarter of 2015, but are also trending down. Meanwhile, the class A asking rent rose by 5.1% to \$3.10/square foot. In spite of an average vacancy rate still north of 15%, 54% of new office construction in Los Angeles is occurring downtown. The area's influx of residents, restaurants, retail and entertainment options are attracting a growing number of office-space using tenants, and developers are responding.

Orange County: The Orange County office market is characterized by low availability and rising lease rates. Strong employment growth has been the primary force behind improving fundamentals. Meanwhile, the mix of tenants driving demand for office space has changed. Traditionally (before the recession), the office market in Orange County was dominated by the finance, insurance and real estate industries. Today, the primary movers are education, healthcare and technical services. This new diversity will help provide stability to the market as education and healthcare tend to be less cyclical. Having performed well over the last year, momentum is expected to build through 2016.

The Orange County overall vacancy rate decreased by 2.1 pps. to 11.5% during the last quarter of 2015, compared with the year ago rate. Leasing activity declined by 11.0% over the year to 7.8 million square feet in 2015, while occupancy gains expanded by 26.6% to 1.7 million square feet of positive absorption. Direct class A asking rents increased by 6.3% to \$2.70/square foot during the final quarter of 2015 from the same period in 2014. The year closed with 477,387 square feet of new office space under construction, but no new product was added during the year. Looking ahead, there are over a dozen proposed projects that, if built, would add significant new square footage to the region's office market.

Strong demand is providing lift for asking rents in the most desirable areas where large blocks of space are hard to come by. The strongest submarket was South Orange County, which posted a vacancy rate of 8.2% (4q15), down by 2.0 pps. compared with 4q14. The direct class A asking rent averaged \$2.86/square foot, an increase of 19.2% compared with the year ago rate. The South County market includes the Irvine Spectrum, which is where 90% of new office construction currently in the pipeline is located. Elsewhere, submarket vacancy rates ranged from 10.7% in the Greater Airport Area to 15.5% in Central County.

³⁹ The Central submarket consists of the Central Business District, South Park, Little Tokyo/Chinatown, the Historic District and Mid-Wilshire.

Inland Empire: The Inland Empire office market has improved significantly over the past five years, maintaining a slow but steady pace. Benefiting from the strongest employment growth in the Los Angeles five-county region, vacancy rates drifted downward through 2015. It is still a renter's market, however. The vacancy rate averaged 16.1% during the last quarter of 2015, down by just 0.9 pp over the year. Leasing activity totaled 816,335 square feet, an increase of 10.9% compared with 2014. Because of occupancy losses, however, positive absorption was only 157,489 square feet for the year, down from 466,407 square feet in 2014. Still, the Inland Empire has now seen four consecutive years of positive absorption. Direct class A asking rents increased by 1.5% to \$2.04/square foot in the final quarter of last year compared with the same period in 2014. No new office space was delivered to the market in 2015 and the year closed with no construction in the pipeline.

There are three primary submarkets in the Inland Empire. Inland Empire West had the lowest vacancy rate in the fourth quarter of 2015 (14.5%). This region includes Ontario, Rancho Cucamonga, Fontana, Chino and Upland. Next was Inland Empire East (16.9%), followed by Inland Empire South (17.5%).

Primary among tenants leasing space in the Inland Empire are payroll and staffing firms, government agencies and health care firms. These are industries either bound by geography (they serve local clients) or are not client-facing and so do not require space in more desirable, and thus more expensive, areas. Strong population growth has also fueled demand for office space in a variety of industries. With the lack of new development activity and increasing tenant demand, existing office space in the Inland Empire is steadily being absorbed. Vacancy rates should continue to trend down this year, driving lease rates up.

Industrial Space

As a major gateway market for consumer and business goods, Southern California's industrial real estate markets have seen several years of steady improvement. The region is a hub for manufacturing, international trade and logistics, and entertainment, all of which are users of industrial space. Los Angeles County is the nation's largest manufacturing center and is home to its biggest port complex. Right now, the primary concern for the region's industrial market is not demand, but supply. Fundamentals for all of Southern California's major industrial product types are healthy and continue to strengthen.

Los Angeles County: The Los Angeles industrial market tilted further into landlords' favor in 2015. Overall vacancy rates continue to decline and average asking lease rates have steadily increased. Availability levels are at record lows, constricting activity in the face of rising demand. Lease rates are expected to continue to rise over the next 12 months as developers push to deliver new product to the market.

During the fourth quarter of 2015, the overall vacancy rate declined by 0.6 pps. over the year to 1.3%. Total leasing activity reached 42.2 million square feet, slightly surpassing the total for 2014. Nearly half of that activity was generated in the South Bay and Central Los Angeles. Net absorption for the year was 5.8 million square feet, which was slightly below the 2014 level. The average class A asking rent was \$0.70/square foot in the final quarter of 2015, an increase of 9.4% over the final quarter of 2014. In 2015, over 3.6

million square feet of new industrial space was delivered to the market. In addition, the Greater Los Angeles region currently has over 2.8 million square feet of new industrial space under construction. Most of this new development is concentrated in the South Bay and the San Gabriel Valley (1.9 million square feet).

The Los Angeles County industrial market closed 2015 on a high note. All of the county's submarkets experienced a decline in vacancy rates and an increase in lease rates. With demand expected to hold steady, vacancy rates will continue to fall well into 2016 and then moderate as a substantial amount of new space becomes available.

Orange County: Like Los Angeles, Orange County has one of the tightest industrial real estate markets in the country. Declines in vacancy rates are expected to continue through 2016, creating additional upward pressure on rents. The major challenge for Orange County is a lack of development activity. Because vacancy rates are so tight, there were no major move-ins or move-outs in 2015. Tenants are choosing remain where they are. CBRE reported that there were over 60 lease renewals totaling 3.9 million square feet last year and since 2014, there have been 142 lease renewals totaling more than 8.5 million square feet.

The Orange County overall vacancy rate decreased by 0.9 pps to 2.8% during the last quarter of 2015 compared with the year ago rate. Total leasing activity reached 12.5 million square feet, 12.9% higher than it was in 2014. Occupancy gains were 2.4 million square feet, the highest level of absorption in nine years and the fifth consecutive year of growth. The average class A asking rent increased by 6.7% to \$0.80/square foot. Over 1.1 million square feet of new industrial space was added to the market in 2015, with an additional 625,000 square feet still under construction at year end.

Orange County's industrial real estate market performed well in 2015. It was a year marked by increasing rental rates and historically low vacancy rates. It was also a year in which the market moved solidly into the landlord's favor. Fierce competition for space has allowed many landlords to increase rents and cut concessions on new deals. On the other hand, additional progress was constrained by a lack of new development. In many cases, particularly near the airport, industrial buildings have been replaced by other kinds of commercial development and apartments. Critical to future growth are new construction and development projects.

Inland Empire: The Inland Empire industrial market can, without exaggeration, be described as outstanding. In 2015, tenant demand broke multiple records, propelling the market to highs last seen in the early 2000s. Port activity and the growing importance of e-commerce continue to drive improvement in the Inland Empire's industrial real estate market. The stronger overall economy also provided a boost – since the second half of 2015, the Inland Empire has been one of the faster-growing metro regions in California. In addition to undiminished demand for large warehouse/distribution facilities (over 500,000 square feet), demand for product under 250,000 square feet has been also robust.

The Inland Empire overall vacancy rate decreased by 0.6 pp to 5.7% during the fourth quarter of 2015 compared with the year ago rate. Leasing activity reached 43.7 million square feet last year, blowing by the previous record of 34.0 million square feet reached in 2005. Occupancy gains totaled 22.4 million square feet for the year, the second best

year on record. The Inland Empire has now posted 26 consecutive quarters of positive absorption. Low vacancy rates and strong demand pushed the overall average asking rent in the final quarter to \$0.48/square foot, an increase of 11.6% from the year ago rate and a new record high. Strong demand has also kept development levels high with 20.8 million square feet of newly completed inventory added to the market in 2015 and another 16.7 million square feet in the pipeline.

The Inland Empire is one of the strongest and most dynamic industrial markets in the nation, benefiting from logistics advantages, high demand, growing lease rates and a substantial amount of available land for future industrial projects. The outlook for the market continues to be positive through 2016. Alone among the Los Angeles five-county region, new development and construction is expected to be strong with demand easily absorbing new supply.

FORECAST FOR PRIVATE NONRESIDENTIAL CONSTRUCTION

New office space development will continue to proceed at a cautious rate in all five counties of the Southern California region. Vacancy rates in the most desirable areas are just beginning to cross below their long-run averages while remaining elevated (above 15%) in the Inland Empire. Office vacancy rates will continue to decline through 2016 but how fast will depend on job growth and the strength of the overall economy. Average asking rents are firming and in some cases, approaching previous peak levels. Although changes in work force organization have resulted in less space needed per employee, the lack of new construction and continuing employment growth this year and next will help expand and strengthen the region's office market recovery. Growth in health care, entertainment, technology and business services employment will propel improvements in the office market. The outlook for industrial development is much more optimistic, especially for warehouse and distribution facilities, data centers and R&D centers. Additional improvements in vacancy rates and asking rents will depend on increases in international trade and industrial production (both question marks in early 2016), and e-commerce.

The value of total nonresidential construction in the Los Angeles five-county region is expected to reach \$9.5 billion in 2016, a decline of 11.8% compared with 2015. In 2016, building on continuing economic growth and additional employment gains, the LAEDC forecasts nonresidential construction in the region will reverse course and increase by 9.2% to \$10.4 billion.

Table 24: Private Nonresidential Construction Permits

(By valuation, \$millions)

						Annual % Change					
Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County	Year	L.A. County	Orange County	Inland Empire	Ventura County	L.A. 5-County
2002	2,920	1,209	1,473	289	5,891	2002	-17.5%	-10.4%	3.5%	-6.5%	-11.0%
2003	2,932	1,006	1,720	379	6,037	2003	0.4%	-16.8%	16.8%	31.1%	2.5%
2004	3,174	1,133	2,485	353	7,145	2004	8.3%	12.6%	44.5%	-6.9%	18.4%
2005	3,824	1,495	2,394	372	8,085	2005	20.5%	32.0%	-3.7%	5.4%	13.2%
2006	3,896	2,401	2,852	326	9,475	2006	1.9%	60.6%	19.1%	-12.4%	17.2%
2007	4,739	2,005	2,824	346	9,915	2007	21.6%	-16.5%	-1.0%	6.1%	4.6%
2008	4,491	1,439	1,781	345	8,055	2008	-5.2%	-28.2%	-37.0%	-0.4%	-18.8%
2009	2,674	952	710	153	4,489	2009	-40.5%	-33.8%	-60.1%	-55.5%	-44.3%
2010	2,677	1,152	792	160	4,782	2010	0.1%	20.9%	11.7%	4.7%	6.5%
2011	3,119	1,300	921	147	5,487	2011	16.5%	12.9%	16.2%	-8.4%	14.8%
2012	1,803	1,227	1,040	109	4,179	2012	-42.2%	-5.6%	12.9%	-25.9%	-23.8%
2013	3,585	1,301	1,343	102	6,331	2013	98.8%	6.0%	29.1%	-6.4%	51.5%
2014	6,658	1,945	1,942	250	10,795	2014	85.7%	49.5%	44.6%	145.2%	70.5%
2015	5,464	1,965	1,910	182	9,520	2015	-17.9%	1.0%	-1.6%	-27.3%	-11.8%
2016f	5,967	2,025	2,160	243	10,395	2016f	9.2%	3.1%	13.1%	33.6%	9.2%
2017f	6,431	2,124	2,386	291	11,233	2017f	7.8%	4.9%	10.5%	19.8%	8.1%

Sources: Construction Industry Research Board, California Homebuilding Foundation; RERC
 California Department of Finance, Economic Research Unit; forecasts by LAEDC

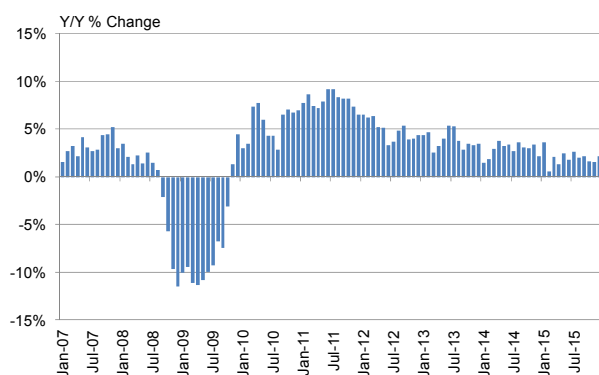
RETAIL TRADE

The retail sector occupies a prominent place in the economy at both the national and local levels. Because such a large portion of U.S. economic activity depends on consumer spending, sales of retail goods and services is an important economic indicator. While primarily serving the local population, visitors from outside the Los Angeles region who purchase souvenirs or shop in the area's unique boutiques and upscale shops bring new money into the economy, boosting the region's wealth.

Retailers also generate an enormous number of jobs that provide employment for individuals across a wide range of skill and income levels. Nationwide, retail is one of the largest private sector employers. In 2015, there were 782,100 retail workers in the Los Angeles five-county area, an increase of 1.5% over 2014. Add in San Diego, and the total job count increases to over 929,000. This equates to 10.5% of all nonfarm payroll jobs in Southern California.

In 2015, total U.S. retail sales were up by 2.1% compared with 2014. The best performing sectors were food services and drinking places (up by 8.1%); motor vehicles and parts (7.0%); nonstore retailers (6.3%); and furniture and home furnishings stores (5.8%). E-commerce sales increased by an estimated 11.4% over the year and accounted for about 8.0% of total retail sales. Although the growth of e-commerce is one of the more significant trends reshaping the retail industry, there are a handful of sectors that still command a larger share of total retail sales, the largest being motor vehicles and parts with a 20% share.

U.S. Retail Sales



Source: U.S. Census Bureau

While the rise of e-commerce has had a profound impact on the retail industry, technological change has transformed the face and the underlying structure of retail in other ways as well. In-store innovations include self-checkout, payment via a mobile device in the hands of a sales associate, and kiosks that allow consumers to browse product catalogs. Retailers are also expanding social media channels to engage with and grow their customer base. This entails the collection of large amounts of data (raising privacy and security concerns in the process) in order to provide a more personal

shopping experience. In turn, consumers are increasing their use of shopping apps on mobile devices to find coupons, research products, locate stores, post reviews and pay for purchases. Consumers today are better informed, more discerning and more interactive.

Changes in consumer shopping habits are also reshaping the composition of retail employment and impacting supply chains and commercial real estate. As more sales have migrated online, some brick and mortar stores have responded with smaller footprints and fewer sales people. In an effort to attract shoppers, mall developers are creating inviting open air “town squares” that mix traditional retail outlets with experiential opportunities like restaurants, gyms and entertainment venues. Huge warehouse and distribution facilities are springing up to accommodate the massive growth in online shopping. Amazon alone has three large facilities in the Inland Empire. The increase in online shopping has also led to innovations in product distribution and tracking technology to keep up with the rapidly increasing volume of shipments and consumer demand for speedy deliveries.

On the demand side, consumers continue to exhibit caution but households report feeling more secure about their financial footing. Unemployment is at a seven-year low and household wealth is at record-high levels. The slow rate of wage growth has constrained some households, but wage and salary gains are expected to accelerate in 2016 as the local labor markets near full employment. Although consumers have been using credit cards sparingly, low interests rates have made it more affordable for American shoppers to finance the purchase of automobiles (sales hit a record high level in 2015) and other big ticket household goods. Even so, increases in the cost of housing, healthcare and education are demanding a larger share of consumers’ disposable income. Additionally, savings from lower fuel prices appeared to have remained just that – savings. In 2015, the national saving rate increased to 5.2% versus 4.9% in 2014.

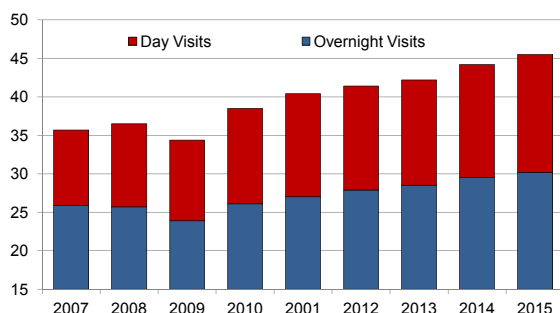
In 2015, personal consumption expenditures increased by an estimated 3.4% (3.1% after inflation) compared with 2014. Nominal consumer spending is expected to rise by 4.0% in 2016 and accelerate to 5.2% in 2017. Southern California, one of the nation’s largest consumer markets, should closely track national trends. The LAEDC forecasts total taxable sales, of which retail sales make up about two-thirds, to increase throughout the region in 2016, ranging from 7.5% in the Inland Empire to 5.3% in Ventura County. San Diego County, Orange County and Los Angeles County should see increases of 6.3%, 6.2% and 5.6%, respectively.

TRAVEL AND TOURISM

Hospitality and tourism is one of Southern California’s largest, most visible and valuable industry sectors, employing thousands of people and generating billions of dollars in economic activity. The region boasts numerous natural and built attractions within a relatively compact area: beaches, amusement parks, art museums, architectural landmarks, outdoor activities, shopping districts and some of the nation’s most highly rated restaurants. And, of course, L.A.’s iconic entertainment industry and Hollywood draw millions of visitors here every year.

In 2015, Los Angeles County alone hosted a record 45.5 million visitors (day and overnight), an increase of 2.8% over the previous year and the sixth consecutive year in which Los Angeles County achieved record breaking visitor volume.⁴⁰ While still on track to reach Mayro Garcetti's goal of 50 million visitors by 2020, visitation is expected to slow in 2016, coming in at just over 46.5 million. This is due to the strong dollar and the expectation that U.S. monetary policy is expected to diverge even more widely from that of other countries. Orange County also hosted nearly 46 million visitors, including four million international travelers, and visitor counts are expected to increase at a moderate pace this year and next.⁴¹ San Diego County hosted a record high 34.2 million visitors in 2015, a number that is also expected to increase again this year and next.⁴²

Visitors to Los Angeles County reach record highs



Source: L.A. Tourism and Convention Board

International visitation is especially strong in Los Angeles County. In 2015, 6.7 million international visitors arrived in Los Angeles, nearly 15% of total visitation, and a 1.6% uptick over 2014. To put this in context, for California overall, international visitors comprise only 6.5% of total state visitation. While Mexico sent the largest number of *international* visitors, China (excluding Hong Kong) was Los Angeles County's number one *overseas* market, surpassing Canada in overall visitation to become the second largest international market in 2015. China is also the region's fastest-growing market, with 13.6% more visitors in 2015 than in 2014. Rounding out the top five international visitor markets for Los Angeles County are Australia and the United Kingdom.

Of the 85% of Los Angeles County overnight visitors who are U.S. residents, 20% originate from the Los Angeles five-county region, followed by the San Francisco Bay area (12.0%), the New York City area (7.7%), San Diego (7.2%) and Phoenix (4.3%).⁴³

⁴⁰ *Los Angeles County Tourism by Numbers 2015 Quick Facts*, (February 2015). The LAEDC thanks Los Angeles Tourism and Convention Board for providing the visitation figures that are cited in this section

⁴¹ Orange County Visitor and Convention Bureau

⁴² San Diego Tourism Authority

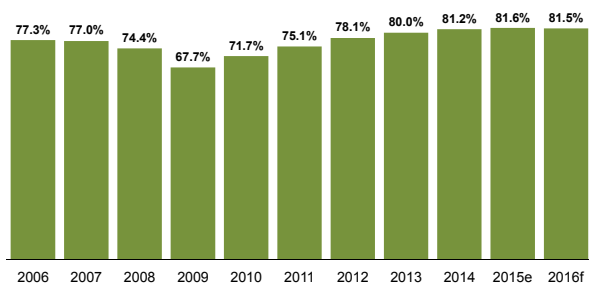
⁴³ Based on 2014 data as latest available.

The Los Angeles Tourism and Convention Board reports that all Los Angeles County business and leisure travelers spent \$19.6 billion in 2014 (latest available data), up 6.8% from 2013, a new record. Of this, U.S. origin visitors spent \$13.2 billion or 67%, while international visitors spent \$6.4 billion, or 33% of the total. This was more than double the corresponding 15% international share of visitor volume, showing the importance of international visitors to the market.⁴⁴

Driving domestic demand for travel-related goods and services were gains in the U.S. labor markets and stronger personal income growth, both of which point to an increase in consumer spending. While the global economy still looks lackluster, overseas markets are expected to outperform the overall visitor market in terms of percentage gains again in 2016.

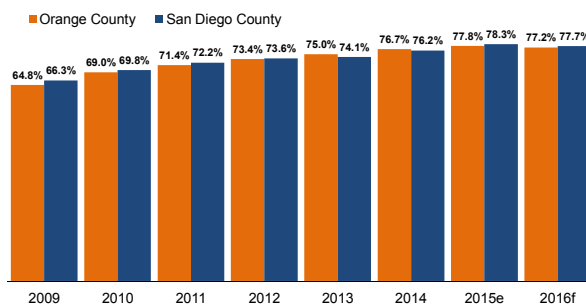
Southern California lodging markets are doing very well. Lodging fundamentals—room demand, occupancy rates and average daily room rates as reported by PKF Consulting—are strong and continue to trend up. In 2015, the number of occupied hotel rooms in Los Angeles County increased by 1.2%. At the same time, hotel room supply edged up by just 0.6%. As a result, the Los Angeles County average occupancy rate rose slightly to 81.6%, compared with 81.2% in 2014. With several submarkets experiencing occupancy rates well above their long-run averages. The Los Angeles County average daily room rate grew by a healthy 7.4% in 2015 to \$187.58.⁴⁵

**Los Angeles County
Hotel Occupancy Rates**



Source: PKF Consulting

**Orange and San Diego County
Hotel Occupancy Rates**



Source: PKF Consulting

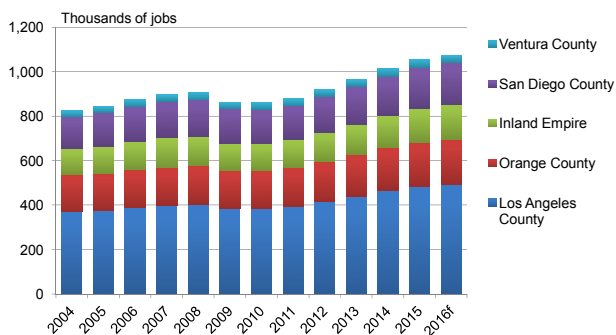
Looking ahead to 2016, the lodging sector will continue to benefit from personal income growth, international visitation and healthier corporate travel and retreat budgets. Transient-occupancy taxes, an important revenue source for local governments, will also increase.

⁴⁴ 2015 Tourism spending figures will be available from the Los Angeles Tourism and Convention Board in May 2016.

⁴⁵ 2016 Southern California Lodging Forecast, PKF Consulting USA | CBRE Hotels

While a significant part of leisure and hospitality⁴⁶ activity is associated with tourism, many of these jobs fundamentally serve the local population more so than the region's leisure and business travelers. Restaurants and bars employ over 70% of all workers in the leisure and hospitality sector. In 2015, leisure and hospitality jobs in the Los Angeles five-county region increased by 34,000 jobs to 871,400. In 2016 and 2017, job growth is expected to continue as local consumption solidifies, but the stronger dollar may dampen the rate of that growth somewhat to the extent that it discourages tourism.

Leisure and hospitality job counts reach new record high



Source: California EDD

In 2015, Los Angeles County had 98,135 hotel rooms at 997 properties—the sixth largest supply of hotel rooms in the U.S.⁴⁷ After several years of limited new hotel construction following the recession, multiple hotel projects are underway in Southern California, including the Wilshire Grand in downtown Los Angeles that will house the largest InterContinental Hotel property in the Americas, the J.W. Marriott/Ritz-Carlton hotel expansion at L.A. Live, the 18-story Hotel Indigo that will be part of the Metropolis project and several new boutique hotels.

Orange County projects include the 466-room J.W. Marriott in Anaheim and the 250-room Pasea Hotel and Spa in Huntington Beach. San Diego County projects include the 317-room Pendry Hotel as well as a proposed 831-room waterfront hotel at the convention center. In addition to expansion, several prominent hotel properties have undergone extensive renovations in an effort to keep guests coming back and to attract new customers. A number of cultural venues and amusement parks have also invested heavily in improvements to attract both local and out-of-area visitors, the largest being Disneyland's plans to add a 14-acre Star Wars-themed land to their Anaheim park.

Transportation and infrastructure projects to maintain Southern California's position as a premier travel destination include an \$8.5 billion modernization project at LAX, an

⁴⁶ Leisure and hospitality (NAICS 72) includes lodging, food services, the performing arts, museums, amusement parks and gambling establishments.

⁴⁷ *Los Angeles County Tourism by Numbers 2015 Quick Facts*, (February 2015) Los Angeles Tourism and Convention Board

additional \$5 billion in projects to connect LAX via rail and continued expansion of the county rail system. San Diego International and Orange County's John Wayne Airport have also recently completed major upgrades.

INDEX OF STATISTICAL TABLES

<i>Table 1: U.S. Economic Indicators.....</i>	<i>7</i>
<i>Table 2: U.S. Interest Rates.....</i>	<i>7</i>
<i>Table 3: Foreign Exchange Rates of Major U.S. Trading Partners.....</i>	<i>18</i>
<i>Table 4: Gross Product Comparisons, 2015.....</i>	<i>25</i>
<i>Table 5: California Economic Indicators</i>	<i>27</i>
<i>Table 6: California Nonfarm Employment.....</i>	<i>28</i>
<i>Table 7: California Regional Nonfarm Employment.....</i>	<i>29</i>
<i>Table 8: Total Nonfarm Employment in Southern California</i>	<i>30</i>
<i>Table 9: California Technology Employment</i>	<i>31</i>
<i>Table 10: Population Trends in California and the Los Angeles Five-County Area.....</i>	<i>32</i>
<i>Table 11: Components of Population Change in California and SoCal Counties.....</i>	<i>33</i>
<i>Table 12: Los Angeles County Economic Indicators</i>	<i>38</i>
<i>Table 13: Los Angeles County Nonfarm Employment.....</i>	<i>39</i>
<i>Table 14: Orange County Economic Indicators</i>	<i>44</i>
<i>Table 15: Orange County Nonfarm Employment.....</i>	<i>45</i>
<i>Table 16: Inland Empire Economic Indicators</i>	<i>51</i>
<i>Table 17: Inland Empire Nonfarm Employment.....</i>	<i>52</i>
<i>Table 18: San Diego County Economic Indicators</i>	<i>57</i>
<i>Table 19: San Diego County Nonfarm Employment.....</i>	<i>58</i>
<i>Table 20: Ventura County Economic Indicators</i>	<i>62</i>
<i>Table 21: Ventura County Nonfarm Employment</i>	<i>63</i>
<i>Table 22: Median Existing Single-Family Home Prices</i>	<i>79</i>
<i>Table 23: Total Housing Permits.....</i>	<i>79</i>
<i>Table 24: Private Nonresidential Construction Permits</i>	<i>85</i>