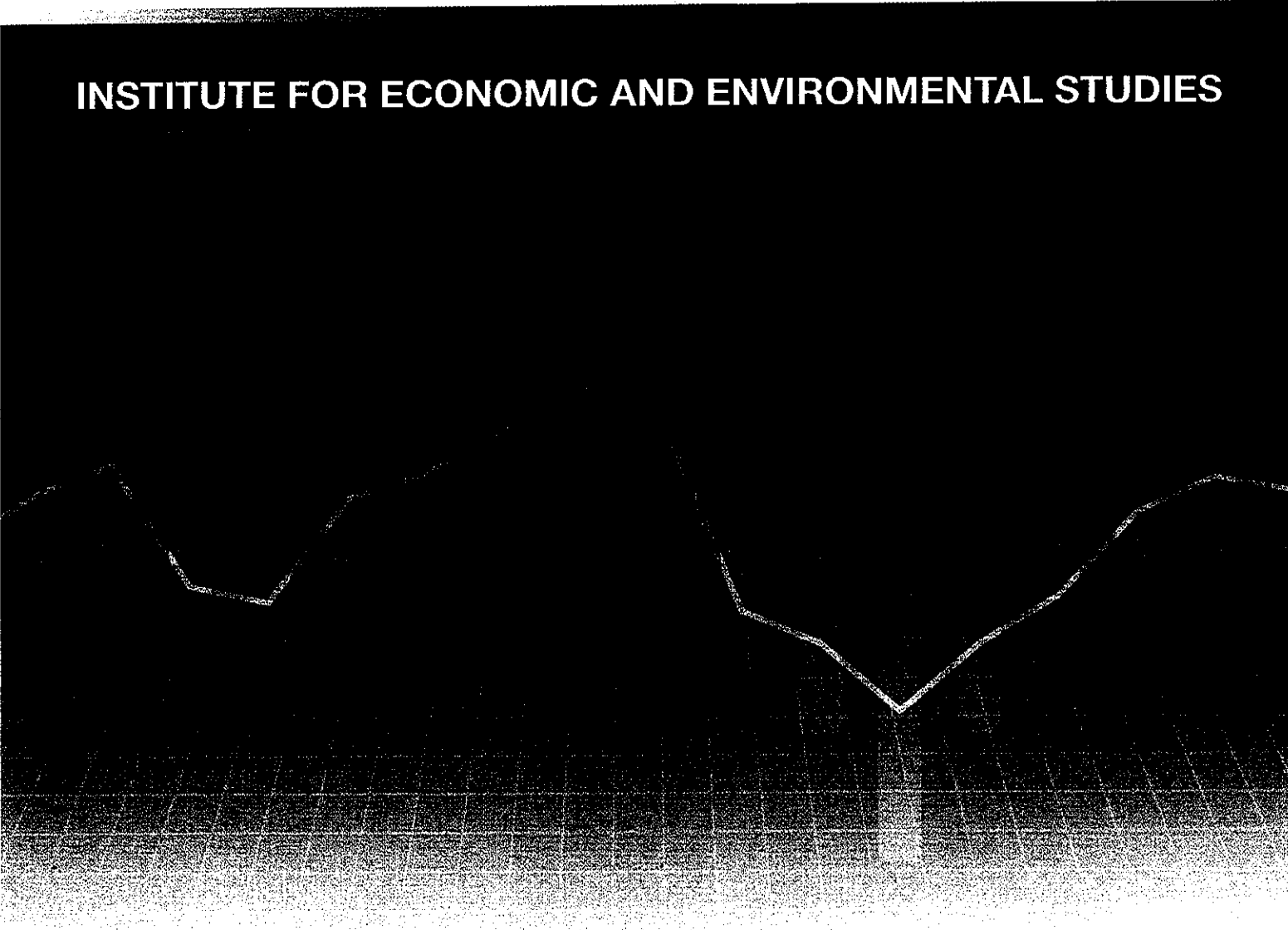


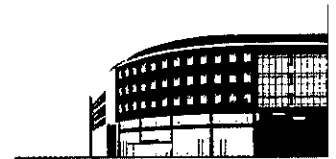
# 2012 ECONOMIC FORECAST

The Nation, Southern California and Orange County

INSTITUTE FOR ECONOMIC AND ENVIRONMENTAL STUDIES



MIHAYLO COLLEGE  
OF BUSINESS AND ECONOMICS



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# Where's My Boom? Growth and Sustainability in the New Economy

The Nation, Southern California and Orange County

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## U.S. Economic Outlook and Forecasts

### Surviving the Recovery: Shaken, and Stirred...

"It ain't over 'til it's over" - Yogi Berra's words have never rung more true than during these days of a continuing litany of bleak macro data and gloomy economic projections. Indeed, for most sectors and most folks, the recession never really ended no matter how many times economists and market analysts continue to repeat that the recession was "technically" over a little more than two years ago. Summer blues have further stoked concerns that things are likely to get worse before they get better, further depressing the feeble shreds of confidence that managed to survive the crisis.

The problem lies both with the depth of the recession, which seems progressively worse with each revision of the data, and with the shallowness of the recovery. Real economic activity fell by an astounding -5.1% during the recession – a much deeper collapse than the revised -4.1% (from an original -3.8%) reported a year earlier. The subsequent recovery turned out to be much flatter with the first half of 2011 eking out a 0.7% annualized growth, well below levels consistent with long-run trends. Signs of weakness are widespread: the labor market is frozen, financial markets are operating in panic-mode, housing shows no sign of life, consumers appear shell-shocked, businesses are uncertain, and sovereign debt issues are poised to become a burden for as far as the eye can see.

To be sure, anything that could go wrong has gone wrong: high oil prices early in the year took a sizable chunk out of discretionary spending, and Japan's tsunami and earthquake severely disrupted supply chains around the world. However, these arguments began to wear thin as the year progressed and it is now painfully obvious that other, more ominous factors are at play. To start, this recovery is inherently more anemic than the garden-variety kind having followed in the footsteps of a severe housing crisis and a global financial near-collapse. In addition, the healing process has begun amidst a seismic shift that started three decades ago and is rooted in the deep structural changes associated with globalization and innovation. Some wounds are nothing less than self-inflicted: the policy response from Eurozone officials to the area's growing crisis has been slow, half-hearted, and at times discordant, adding to the uncertainty and reducing options available as time passes. The debt deal passed

*...the recession never really ended no matter how many times economists and market analysts continue to repeat that the recession was "technically" over a little more than two years ago.*

*A few factors, though moderating from earlier in the year, are expected to sustain growth: consumer spending will continue to inch forward, the labor market should begin to breathe again, business investments is expected to remain robust, corporate balance sheets are healthy, and export growth should continue.*

by the US Congress to avoid a default, is set to deliver only \$2.1 trillion in spending cuts over the next 10 years, nearly half of the intended estimate (with \$1.5 trillion still to be decided). Worse, the deal prescribes austerity measures in the short-term - enough to drag the frail recovery into another recession - but fails to deliver large medium- and long-term deficit reductions through entitlement and tax reforms.

With these developments, our outlook for the US economy has downshifted further even below our conservative estimates and the odds of a double-dip have increased. Nonetheless, our baseline scenario is for continued weak, sub-par, slow growth, with intermittent bouts of market panics and near-slumps, at least over the next four quarters. While skating on thin ice, the economy will skirt another recession, but just barely. The blows from high oil prices, Japan's disaster, Eurozone crisis, US credit downgrade, and financial market turmoil, have substantially weakened an already fragile recovery, leaving it one shock away from relapsing into a recession. In absence of such a shock, the US economy will be mired in doldrums of an insipid recovery, which is likely to drag for the better half of this decade.

There is not much to celebrate in our outlook, other than the hope that we're not slumping into another recession. This "no-recession" view does not come from building up on the positives but rather from the observation that almost every sector is already so shrunken that further declines would be hard-pressed to deliver a fatal blow, unless those shocks simultaneously hit the economy. A few factors, though moderating from earlier in the year, are expected to sustain growth: consumer spending will continue to inch forward, the labor market should begin to breathe again, business investments is expected to remain robust, corporate balance sheets are healthy, and export growth should continue. There isn't one main driver for the long slog ahead - just incremental improvements across a number of sectors.

The main risks to the forecasts - both on the downside and upside - come primarily from the government sector. As things stand, most of the advanced economies are poised for a significant fiscal contraction in the near term - enough to derail the fragile recovery. Monetary easing is expected to continue, but the Fed cannot directly influence employment and growth and seems all too willing to pass the baton to the fiscal sector.

We are four years into what can potentially turn into our lost decade. According to our projections, in the baseline scenario, unemployment is likely to return to its full potential (around 5%) only by the end of 2018 and perhaps later if the current recovery is derailed. If done right, the government sector could be an important catalyst in this process by maintaining short-term fiscal stimulus while addressing much-needed long-term budgetary issues through fiscal consolidation, tax and entitlement reforms. But such a "grand bargain" does not appear likely in the current environment.

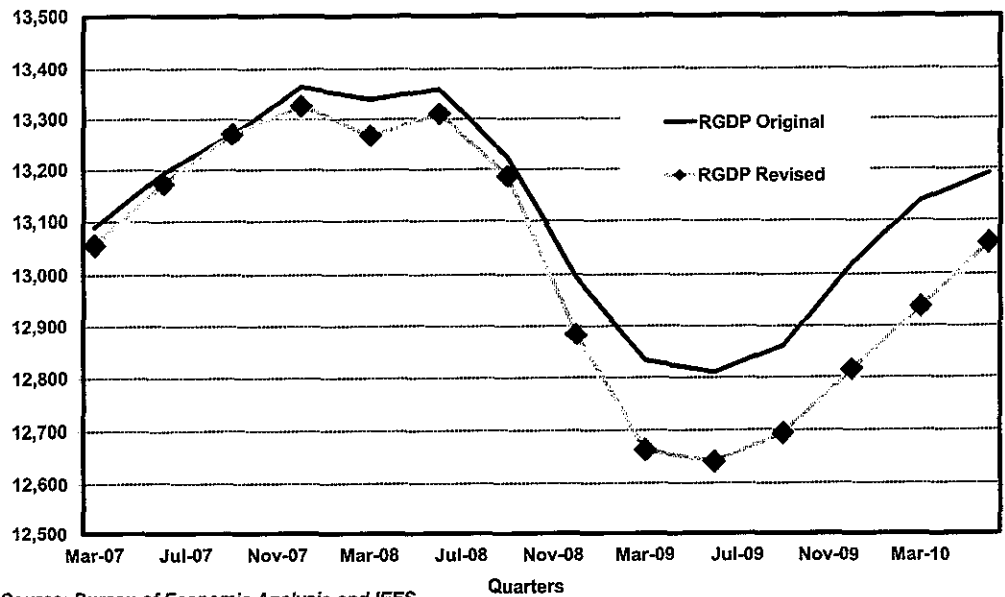
So, our best scenario is one of "muddling through" or "long slog no slide." The discussion below provides the rationale for our economic outlook and national forecasts and serves as a basis for our regional economic analysis of Southern California and Orange County.

**Muddling Through: Long Slog but no Slide**

*Atlas Shrugged: Real GDP still Below Pre-crisis*

There is much talk about the economy moving at "stall speed" these days. The concern is that a stalled economy can easily slip back into recession – which is further evidenced by data showing that, since the 70s, whenever GDP has grown by less than 1% in a given quarter a recession has followed more than half the time. In what has now become a depressing routine, the US GDP figures were revised downward yet again revealing a disheartening story: the recession was deeper than previously reported and the subsequent recovery even shallower (Figure 1). At some point in Q4 2008, the economy was contracting at a shocking rate of -8.9%, the largest drop in five decades. For the current year, the US economy stumbled forward at a mere rate of 0.4% in Q1 2011 and a pitiful 1% in Q2 2011. As of now, US GDP has yet to reach the peak of 2007 which means that the economy has shrunk over the four year period even though population grew by close to 10 million during this time.

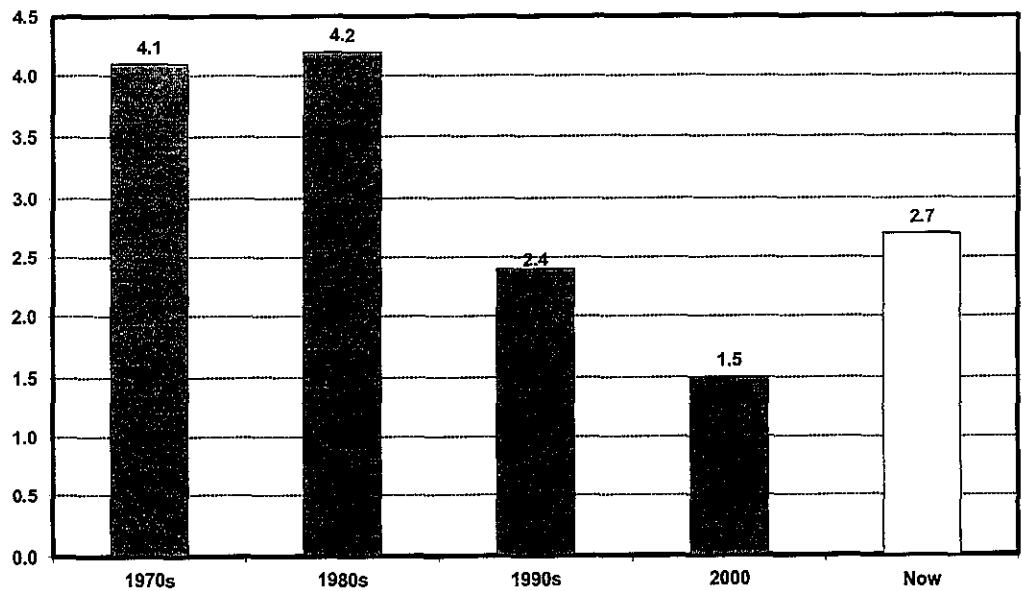
**FIGURE 1**  
**Mind the Gap**  
**(Real GDP, level)**



Source: Bureau of Economic Analysis and IEES

Though stall speeds are dangerous and the recovery now is more vulnerable than it has ever been in its two-year life-span, we do not foresee it falling back into recession, at least not unless pushed by other shocks. There are a couple of reasons for this. First, the rate of growth has been slower in the past three recoveries compared to the previous ones. Real GDP grew by an average of 4.2% in the six quarters following the recessions of 1970s and 1980s, but only by an

**FIGURE 2**  
**Average Real GDP Growth in the First Six Quarters of the Recovery (Real GDP, average % change)**



*Housing construction never got off the floor, inventory to sales ratio, which soared during the recession, is now back to normal levels, employment has yet to pick up after draconian cuts, and production is well below capacity.*

average of 2.4% in 1990s and 1.5% in 2001 (Figure 2). The current recovery expanded at a 3% pace in 2010, but has inched forward only by 0.7% in the first half of 2011, in line with the overall pace of the last two recoveries.

The second reason for (muted) optimism has to do with the fact that the imbalances that would normally shove the economy into a recession are simply not there. Housing construction never got off the floor and now makes up only 2.4% of the GDP. Inventory to sales ratio, which soared during the recession, is now back to normal levels, employment has yet to pick up after draconian cuts, and production is well below capacity. Of course, one cannot underestimate the possibility that policy makers on both sides of the Atlantic could produce the unwanted push towards a double dip, be it from an abrupt fiscal tightening in the US, further haggling over US budget cuts, or more confusion from Eurozone's crisis. Barring these events, the US economy should continue to grow at sub-speeds over the next two years, gathering a bit more steam in mid-2013.

**Who Ate My Job? The Fate of the Labor Market**

It has become all too painfully obvious by now that the US is plagued by a jobs crisis. Of the 8.7 million jobs wiped out during the recession, only 1.9 million have returned since the start of the recovery. The latest data paint an even more gut-wrenching picture: after adding an average of 215,000 jobs in the first three months of the year, the pace of job formation has downshifted significantly to an average of 53,000 jobs in the second quarter. The underlying trends are even more worrisome: the unemployment rate currently stands at a disturbing 9.1%, the number of workers employed part time for "economic reasons" is at a near-record high of 8.8 million, long-term unemployment accounts for 42.9% of total unemployment (a post war record), and employment-to-population ratio (58.2%) as well as labor participation rates (64%) are at their lowest in nearly three decades.

Woes in the labor market are both cyclical and structural. On the cyclical side, the sheer size of job losses during the recession was so massive that even if recovery was proceeding at a robust pace (300,000 jobs per month), it would take three more years for labor markets to normalize. If the pace of job creation was at a respectable 200,000 per month (as earlier in the year), the unemployment rate would reach a level consistent with full potential only by the end of 2018 (Table 1).

However, the current recovery is anything but robust, extending a trend that began two decades ago where each subsequent recovery is more "jobless"

**Table 1  
How Soon Will the Labor Market Normalize?**

Jobs per Month	Number of Jobs Needed to Keep up with the Labor Force	Timeline
125,000	125,000	Never back to Normal
200,000	125,000	Q4 2018
250,000	125,000	Q1 2016
300,000	125,000	Q4 2014
400,000	125,000	Q3 2013

than the previous one. Pre-1990s, labor markets took on average 6-8 months to recover after a GDP rebound to pre-recession levels. This was extended to 15 months after the 1990s recession and to 40 months in 2001 (Figure 3). Of course,

we have yet to start counting up in the current cycle since GDP has not reached its pre-crisis level but there is no doubt that this recovery will be even more snail-paced than the previous two.

Structurally, the crisis revealed and reinforced deep-seated issues in the labor markets that originated more than three decades ago: globalization and innovation. Between 1990 and 2008, the US added a total of 28 million jobs with 98% of these jobs created in the nontradable

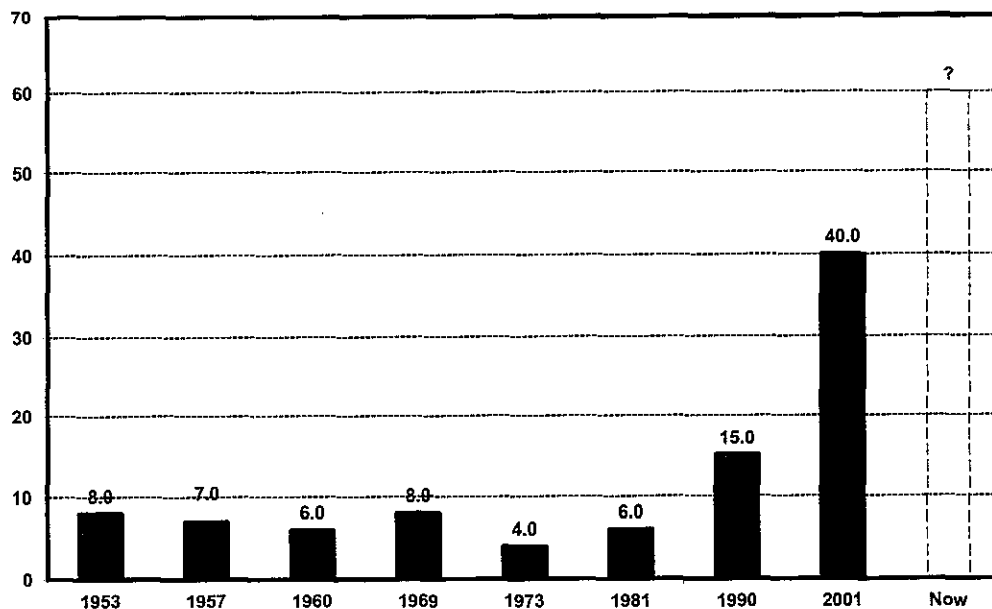
sector. Government and health care sectors were the largest job creators during this time, combining for roughly 40% of all new jobs. Not surprisingly, these sectors have experienced virtually no productivity growth during this period and are threatened least by forces of globalization. In contrast, manufacturing jobs has suffered the most, shrinking by a total of 6.6 million jobs (-36%) over the past thirty years with the pace of job destruction gathering speed with each successive decade. Moreover, the pace of job creation was faltering even before the recession began: from 2000-2007 the US added a total of 9.2 million jobs, half the rate of the previous decade.

Given these powerful cyclical and structural factors, our outlook for the labor market is cautious. While job growth should continue, its pace will remain uncomfortably slow over the next two years. Job gains should average around 120,000-140,000 per month over the next year, barely sufficient to keep up with the pace of labor force expansion and not enough to significantly dent the jobless rate. Gains in health sector, though robust are expected to moderate over the next decade and public sector finances should substantially limit job growth in the government sector. Skill mismatches are likely to weigh in the labor market in the long run (fewer college graduates with the right degrees) as well as in the short term (construction workers cannot be turned into nurses overnight!).

For the unemployment rate to drop to a level of 5%, the US needs to add a total of 21.5 million jobs over this decade. By all accounts, this is a Herculean task. Our baseline scenario calls for job growth of 15 million during this time, which means that the unemployment rate will remain above 7.5% well into the second half of the decade. Short term, the unemployment rate is expected to remain elevated, reflecting the slow pace of job creation and an increase in labor force, averaging 9.1% both in 2011 and 2012.

FIGURE 3

**Time Lag Between GDP Recovery and Employment Recovery (Number of Months)**



*For the unemployment rate to drop to a level of 5%, the US needs to add a total of 21.5 million jobs over this decade.*

*With a labor market that seems stalled, a gruesome multi-year deleveraging process, a housing market that is flat on its back, and a jittery financial sector, it is a wonder that consumers have held up as well as they did so far.*

### **What Are You Doing for Your Country? Consumption Spending on the Fritz**

US consumers seem downright exhausted from the onslaught of negative data and downbeat expectations. After rising by an annual rate of 3% in 2010, real spending grew by 2.1% in Q1 2011 and a feeble 0.7% in the second quarter, the lowest level since Q2 2009 at the height of the recession. This is below the historical average of 3.1% and far below the 4.2% average post-recession rate. The latest data shows a robust pick-up in retail sales, the largest in the past seven months, but in real terms sales have yet to reach pre-recession peaks.

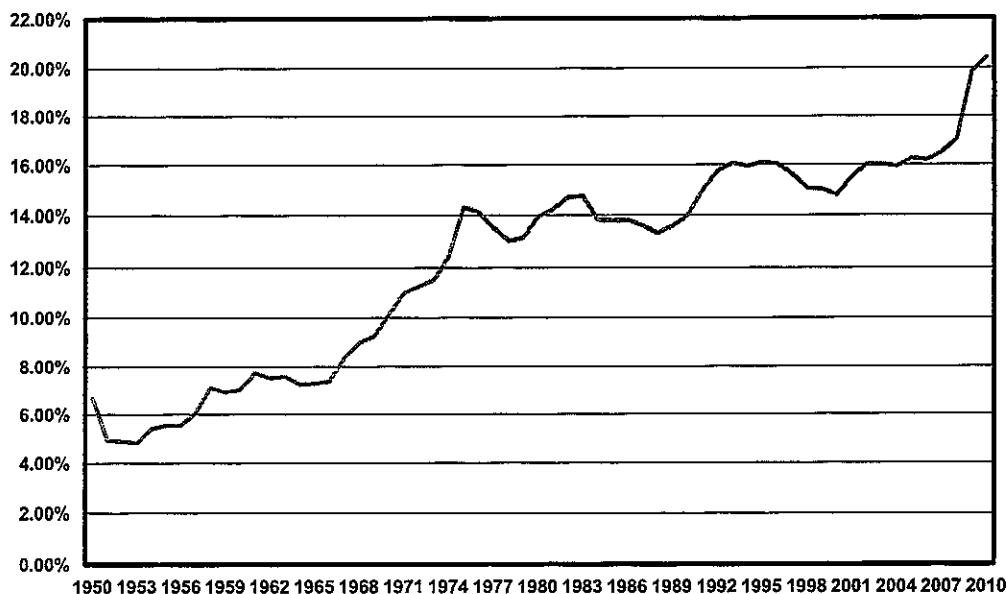
Of course, much of this is expected given the formidable forces weighting on consumers. With a labor market that seems stalled, a gruesome multi-year deleveraging process, a housing market that is flat on its back, and a jittery financial sector, it is a wonder that consumers have held up as well as they did so far. To be sure, they've had plenty of help: government support has translated into an \$800 billion swing in disposable income from end-2007 to mid-2009. While wages and income fell by an astounding 7% during the recession, disposable income (which includes benefits, investments, and government transfers) never dipped below 2%. Tax payment now

subtract only 12% of income (down from 14%), Social Security contributions eat up 8% (instead of 9.6%) of income, whereas transfer payments have soared to record highs accounting for an unprecedented 20.3% of disposable income (Figure 4).

We expect consumer spending to remain positive though depressed over the next year, growing at a lack-luster annual pace of 1.3%. Consumer confidence is badly bruised by the barrage of adverse shocks and now stands at its lowest

level since November 2008. Government support has likely reached its upper bound and without further extensions of tax breaks and unemployment benefits, it is poised to take a sizable bite out of consumption spending in 2012. Erosion of financial wealth, relatively elevated high gas prices, high unemployment rates and continued deleveraging will continue to restrain any meaningful upswing in household spending over the near term.

**Figure 4**  
**Government Transfers have Escalated**  
**(Transfer Income as % of Disposable Income)**



### **Bringing Down the House: Household Finances**

Balance sheet recessions are deeper and subsequent recoveries much flatter

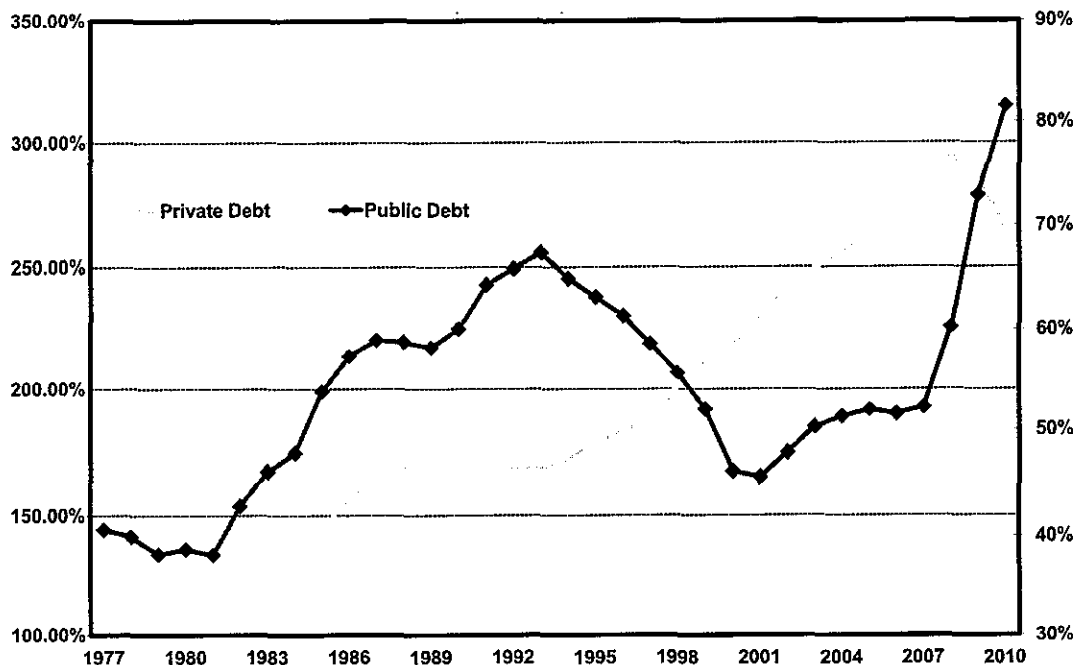
precisely because the process of deleveraging – which must follow to restore imbalances – is long and painful. As we argue in our special report on consumer and business finances (see pg. 37-43), the US consumers have been on this road for about two years now and seem to a bit more than a third through. Debt levels have declined swiftly during this time from an unsustainable 127% debt-to-income ratio at the peak of the credit boom to around 112%, certainly an improvement but still a ways off from a historical average of 80%.

The process of deleveraging is that much harder this time around because of persistent declines in home values and wild swings in financial markets. Though rising by 18.1% from the 2009 trough, household net worth is still 11.3% below 2007 peaks. Wealth is expected to drop in the third quarter given the recent collapse in the financial sector. In addition, persistent declines in home values - which have shrunk homeowner equity to a mere 38.6% (down from 61% a decade ago) - should place additional pressures on household finances.

An even more worrisome development is the replacement of private debt by public debt: while household debt in the US has fallen from nearly 100% of the GDP down to around 89%, public debt has accelerated massively ballooning from a pre-crisis level of 50% to slightly over 92% (Figure 5). Public debt overhang is more harmful to growth in the long-term: trend growth falls by around 0.1% for every 10% rise in government debt-to-GDP while the

impact of corporate debt-to-GDP is roughly half as large. By this estimate, current public debt levels may have permanently knocked-off about 0.5% from long-run US growth, and could inflict more damages if left unchecked.

**FIGURE 5**  
**Private and Public Debt on Divergent Paths**  
(% of GDP)



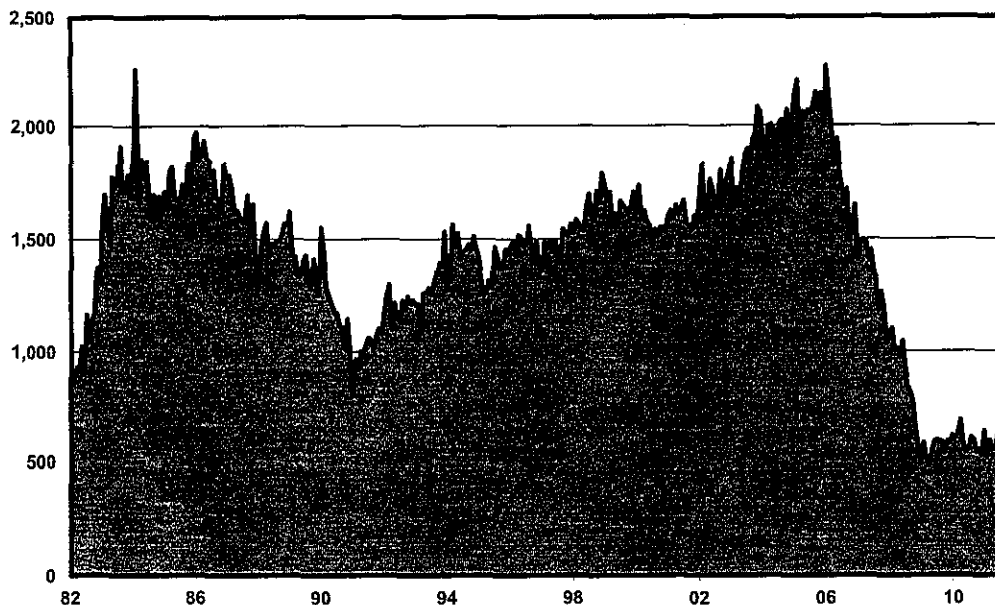
**The "Homeless" Recovery - Housing Blues**

The housing market remains depressed. Simply put, housing is unsettled, undercapitalized, overbuilt and undersold. Housing equity has shriveled to less than half its pre-crisis level, declining from a peak of \$13.5 trillion to \$6.1 trillion. As of the latest data, nearly 11 million residential loans (roughly 23%) of all residential property has negative equity with an additional 2.4 million having less than 5% equity. Roughly 4.1

million loans are either 90 or more days delinquent or in foreclosure proceedings.

Housing activity is also stuck in a post-crash funk. After a precipitous plunge, housing starts have bounced around at their lowest levels in record, averaging 580,000

**Figure 6**  
**Housing Starts at Historical Lows**  
(level, thousands)



for the current year - a tad below the 584,000 level recorded last year (Figure 6). Other developments in the housing market are just as uninspiring. Existing home sales rose by 7.7% in August, but the gain is largely seasonal and sales are down around 7% since the start of the year. In line with our expectations, home prices are in the second leg of a continued downtrend which began about a year ago and has recently escalated to a -4.5% annual drop. Not a collapse, to be sure, but a continual eroding of home values which

have plunged by a total of -33% since their peak with further potential declines in the pipelines.

*The outlook for the housing market is grim. Home values should show signs of recovery in late 2013 but are unlikely to reach their pre-crisis level until 2021. As far as housing goes, this is already a lost decade.*

There is clearly no easy policy solution to the housing crisis, but most would agree that the policy response so far has been tentative, piecemeal, and ineffective. As of the second quarter of this year, the Home Affordable Refinance Program (HAMP) has offered relief to only 800,000 households, far short of the 4 million target it originally intended to help. Perhaps a more successful approach would be to streamline the refinancing process, speed up the foreclosure process, and create an own-to-rent program where oversupplied owned units are moved to the undersupplied rental market.

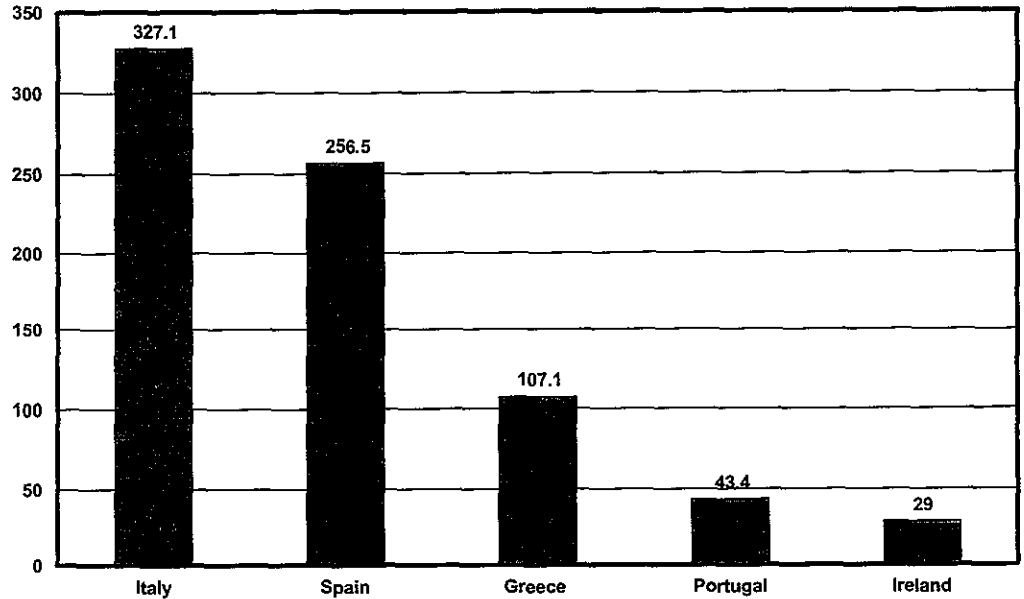
The outlook for the housing market is grim. Starts should inch up slowly, averaging 582,000 this year and 645,000 in 2012. Home prices should trend lower for the balance of the year, stabilizing at the bottom in mid 2012. Home values should show signs of recovery in late 2013 but are unlikely to reach their pre-crisis level until 2021. As far as housing goes, this is already a lost decade.

#### ***From Europe...with Love: The Outlook for Global Economy and Trade***

The global economy has taken a turn for the worse this year. Troubles abound: from a slowing of China and Latin America due to an engineered "soft-landing" by their governments, to supply interruptions from Japan's earthquake and tsunami, to oil shocks from developments in the Middle East. But these are minor discomforts

when compared to the looming potential catastrophe in Europe. There is little sense any more to talk about "core" and "periphery": the problem is pan-European and potentially global given the risk exposure of the banking sector to at-risk sovereign debt (Figure 7). All told, outstanding government debt totals around 3 trillion euros with Spain and Italy combining for a gigantic 2.5 trillion euros. Saving the euro is no easy task, but the cost of a European break-up is immeasurably higher: by some estimates it may cost peripheral economies as much as 40%-50% in lost GDP in the first year and around 20-25% for core countries.

**FIGURE 7**  
**European Bank Exposure to At-risk Sovereign Debt**  
**(billions of Euros)**



In light of these developments, the outlook for global growth has downshifted significantly. While emerging economies should continue to grow, the pace is expected to be slower than last year. China's GDP rate, while still spectacular, has edged down to 9.5% in Q2 2011 from 9.7% in Q1 as the government grapples with inflationary pressures and potential asset price bubbles. Growth should also moderate in Latin America as the slowing of advanced economies and lower remittances weigh on the economic activity of the region. Barring a full-blown crisis from Europe, the global economy is expected to grow over the forecast horizon by a more modest 4.2%, spurred primarily by emerging economies.

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A slowing of the world economy means lower US exports, which in turn, adversely impacts US growth. The US dollar is also expected to strengthen over the short term as market jitters force investors into the relative safety of US bonds. With a projected downshift in global economic activity and a stronger dollar, US exports are also forecasted to grow at more moderate rates, contributing only 0.6%-0.8% to US GDP growth in 2012.

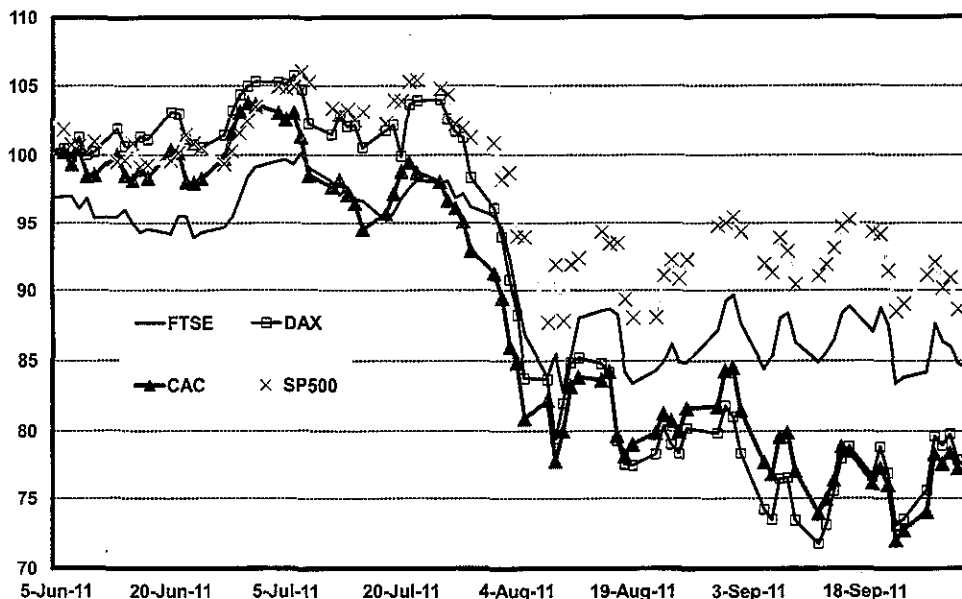
**Fearing Fear: Financial Markets on a Wild Ride**

This was supposed to be a good year for the markets. Early on, the recovery seemed on track, expansion was supposed to gain strength and breadth, and the transition from government-supported growth to private-led activity was to continue in earnest.

But all this seems a distant past given today's unsettled and uncertain environment. Since early summer, the markets have been battered by an onslaught of news that got worse as time went by. The wrangling over the US debt ceiling, the ensuing disappointing deal, and the subsequent US credit-rating downgrade depressed market

confidence. Downward revisions of GDP growth numbers and a spate of negative macro data from around the globe triggered alarm about a possible double dip. And

**FIGURE 8**  
**Financial Markets on a Slide**  
**(Index, January 2011-100)**

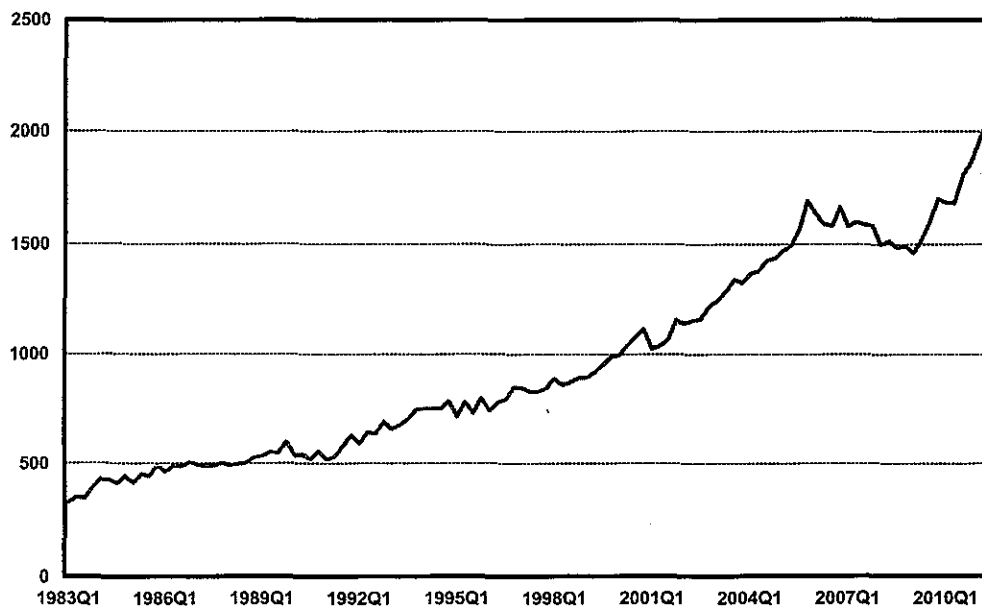


as if this was not enough, the Eurozone saga continues to wreck havoc almost daily, sending investors from euphoria to outright panic from one hour to the next. S&P500 tanked 17% from the cycle peak of May, entirely erasing all gains from one year ago. European stocks have fared much worse: the DAX Index is down -33%, France's CAC Index has lost -31%, and Italy's MIB has slumped by -43% (Figure 8).

Though direct and indirect US bank exposure to Eurozone is limited (around \$150 billion, or 1% of GDP), the threat from domestic mortgage defaults is

high and is unlikely to be resolved over the near term given the continued slump in the housing market. JPMorgan Chase, Wells Fargo, and Bank of America combine for over \$60 billion debt in foreclosed properties, with BofA owning an additional \$75 billion in delinquent debt, followed by Wells Fargo at \$69 billion. The main trouble this time around rests with European banks which are woefully undercapitalized and heavily exposed to peripheral Euro debt. Though calculations on losses from potential charge-offs vary widely, a restructuring of at-risk sovereign debt may cost the

**FIGURE 9**  
**Corporate Cash Levels at Record High**  
**(level, billions of dollars)**



European banking sector as much as \$350 billion in potential mark-to-market write downs.

Charting a long-term solution for Eurozone and working through soured mortgage debt in the US will take time. Regulations for further capital requirement from Basel III and the Dodd-Frank Act are expected to place additional strains on the banking sector over the next few years. In the meantime, markets are expected to remain unsettled until a clearer picture emerges in

Eurozone's management of the debt crisis, the US shows signs of a credible plan to fiscal sustainability, and the economy re-accelerates from stall-speed.

### ***The Business Sector: A Tale of Two-Tiers***

The road to recovery has been favorable for large corporations but downright miserable for small businesses. Cash and other liquid assets at nonfinancial companies rose to \$2.05 trillion in the second quarter of this year, accounting for 7.1% of all companies' assets - the highest level since 1945 (Figure 9). These gains are almost entirely due to aggressive adjustments on the cost side: sales and revenues have generally languished but wage cuts and layoffs, have resulted in drastic increases in labor productivity.

In contrast, for most small businesses the recovery has not yet began. Unable to tap the securities markets and largely dependent on bank loans, with a housing collateral that has dwindled appreciably during the recession, small businesses continue to struggle to get loans. According to the National Federation of Independent Businesses (NFIB), business confidence has taken a huge hit this year, collapsing for the past 6 straight months and currently standing at its lowest level since the height of the recession.

Clearly, these trends do not bode well for the economic outlook in the near-term. If weak demand had sidelined both corporations and small businesses early on, the shocks from this summer have most certainly further frayed confidence. Profits are also expected to grow at a lower rate over the next year, reflecting the overall recent downshift in economic activity. On the plus side, labor productivity seems to have slowed down in recent quarters, which should ultimately lead to an increase in employment once some certainty and confidence returns.

### ***Last Man Standing: Federal Reserve on the Final Frontier***

In times of stress, central bankers have historically been easy targets. Interestingly, the criticism for the Fed this time around cuts both ways as it is being accused of both doing too much and too little - which is a true test of the unusual uncertainty of the current economic landscape. To be clear, the Fed has been undoubtedly aggressive and quite creative over the past three years swiftly providing massive amounts of liquidity and maintaining an extremely accommodative bias.

However, the Fed's response to the recent darkening of outlook has been rather muted compared to its earlier hyper-activity. In mid-August, after drastically lowering its outlook for growth, it pledged to keep interest rates at current low levels until mid-2013, and it embarked on "operation twist" - a QE-light type program which lengthens the average maturity of its balance sheet by selling short-term issues and replacing them with long-term bonds. The simple message from all this seems clear: the Fed can no longer do it alone. In fact, in his annual address in Jackson Hole, Bernanke spent a considerable amount of time lecturing fiscal policy makers on the need to act soon which indicates that the Fed, while not entirely out of bullets, has

*The Fed still has a few tools left to mitigate somewhat the current downshift in economic activity. It can restore some market confidence by conducting open-ended quantitative easing (where the timeline and the size of operations are not pre-set in advance), by conducting "credit easing" instead of "quantitative easing" (purchasing private claims that are further out on the credit chain than government bonds), and by maintaining a low-interest rate environment.*

*Ideally, the plan would maintain short-term stimulus while addressing long-term budgetary issues. The short-term support could combine a number of targeted measures: extension of payroll tax cuts on employees, a deeper payroll tax cut for employers, tax credit for business investments, easing and streamlining regulations, aid to state and local governments, extension of unemployment benefits tied to specific work-training programs, a credible plan for housing, and some infrastructure projects.*

become more aware of its limited reach in the macroeconomy.

The Fed still has a few tools left to mitigate somewhat the current downshift in economic activity. It can restore some market confidence by conducting open-ended quantitative easing (where the timeline and the size of operations are not pre-set in advance), by conducting "credit easing" instead of "quantitative easing" (purchasing private claims that are further out on the credit chain than government bonds), and by maintaining a low-interest rate environment. We expect the Fed to adopt some combination of these measures going forward.

### ***Forgive Us Our Trespasses: One More Chance for Fiscal Policy***

Few would have thought that after massive government interventions - which pumped an estimated \$3 trillion dollars in the economy and caused a sharp deterioration in public finances - there would be any appetite left for more government support. Yet, the US economy - and for that matter - the world economy, is at its most vulnerable point since the crisis, being precariously perched on the cusp of another recession. Fiscal policy can single-handedly turn things around, but only if done right and only if it is simultaneously accompanied by tough long-term credible plans for an orderly unwinding of the massive amounts of government debt.

The problem with more fiscal support is two-fold: first, with benefit of hindsight, fiscal stimulus so far has turned out to be too expensive, too ill-targeted, and too transitory. Second, government books are in shambles and without a credible long-term commitment to draconian spending cuts and entitlement reforms, persistent budget deficits will have a detrimental impact on long-term growth. Left untouched, the US national debt will be twice the size of the US GDP by 2035. No economy can stay afloat with that much red ink.

The first rule of a successful plan should be: first, do no harm. As things stand, next year the US is headed for the most severe fiscal contraction in history. The expiration of last year's tax deal and the fading impact of ARRA are expected to subtract around -1.8% of real GDP growth. Continued cuts in state and local governments subtracted -0.2% from real GDP growth in 2010 and are on pace to lop off another -0.4% of GDP growth in 2011. Without changes, the fiscal squeeze could easily knock the recovery back into a prolonged recession.

Ideally, the plan would maintain short-term stimulus while addressing long-term budgetary issues. The short-term support could combine a number of targeted measures: extension of payroll tax cuts on employees, a deeper payroll tax cut for employers, tax credit for business investments, easing and streamlining regulations, aid to state and local governments, extension of unemployment benefits tied to specific work-training programs, a credible plan for housing, and some infrastructure projects. Some are more effective than others: the highest boost to GDP comes from providing aid to the unemployed (around 1.3%), by reducing employer's payroll taxes (0.9%), from infrastructure investment (0.8%), and from aid to states (0.75%). Other ideas such as creating an infrastructure bank or investing in R&D in new technologies, are unlikely to provide an immediate impact chiefly because they take a long

time to set up (an infrastructure bank put together in a hurry may do more harm than good) and returns on new technologies - if successful - take years to materialize (the time-lag for investing in renewables is around 7-15 years).

The plan should be put in place only if accompanied with specific details on reducing long term deficits. This would mean a radical reform of the tax system - which should broadens the base, lower the marginal tax rates on individuals and corporations, change the mix of taxation away from labor and capital and towards consumption, and eliminate loopholes. Compared to other advanced economies, the US taxes labor and capital too much and consumption too little which creates unnecessary distortions in the labor markets and reduces growth. Taxing the rich alone won't fill the gaping hole of budget deficits. Rather a coherent argument ought to be made which explains to the electorate that taxes will necessarily have to increase across the board for this to work. On the entitlement side, bold steps need to be taken towards serious reform.

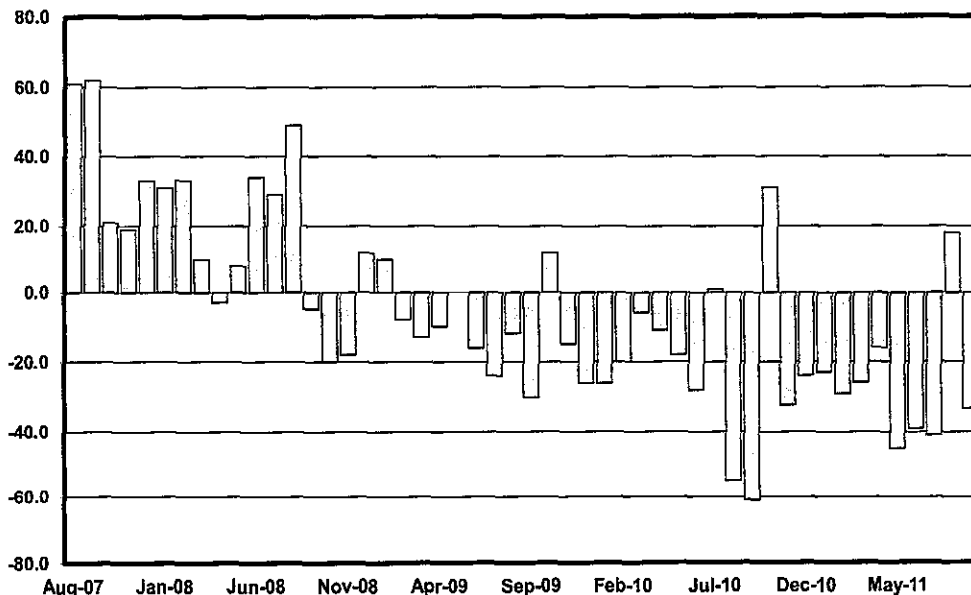
A "grand bargain" of this scale may be hard to come by these days. In its absence, policy makers could agree on smaller steps that would support the recovery in the short term while paving the way for long-term deficit reductions. For example, if tax cuts are to be continued, it is helpful to have them last for a longer stretch - say a 5-year horizon, which could arguably help reduce uncertainty for businesses when planning hiring or expansions. The same goes for easing and/or streamlining regulations. More importantly, doing the small things such as ending gridlock and paralysis while removing policy uncertainty should go a long way in restoring some of the much needed confidence in the economy.

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**On the Chopping Block: State and Local Government Spending**

The situation is particularly dire for state and local governments. While federal employment levels have swelled by 53,000 jobs since the last quarter of 2008, state and local government has shrunk by 666,000 over this time, of which more than 500,000 have taken place at the local level (Figure 10). Though tax revenues have increased by 8% this year compared to 2010, a struggling housing market continues to place additional strains on local government finances, given that a sizable chunk of their revenue (around 70%) comes from property taxes.

**FIGURE 10**  
**State and Local Employment has Shrunk Since the Start of Recession (level, thousand of employees)**



*The road ahead will continue to resemble the long haul we've become accustomed to with slow, halting growth, a depressed housing sector and exceptionally high unemployment rates.*

Conditions are expected to deteriorate further in the short-term as sharp cutbacks in federal aid increase fiscal pressures at the local level. In addition, the current low interest-rate environment has made it that much harder for state and local government to meet their pension obligations given that actuarial tables assume a yield of around 6%-8%, which is rather difficult to achieve these days.

### ***The Bottom Line***

The US economy is on the cusp of another recession. With proper policy response and some good luck, it should be able to avoid a full-blown recession but the continued recovery will be even more lackluster than originally envisioned. Business investments in equipment and software, incremental improvements in the labor market, consumption spending, and exports are expected to provide weak support for growth as they edge forward. The road ahead will continue to resemble the long haul we've become accustomed to with slow, halting growth, a depressed housing sector and exceptionally high unemployment rates. Risks from the Eurozone are high and a new global recession can be easily triggered if the region does not sort out its sovereign debt issues in a timely manner.

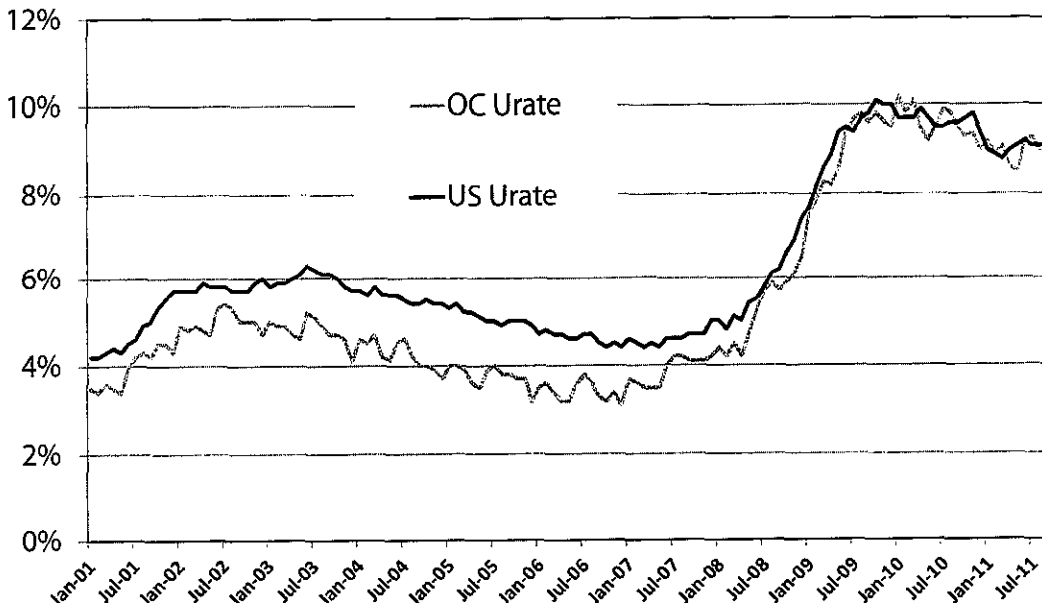
We anticipate U.S. GDP growth rate of 2% in Q3 2011 and 1.6% in Q4 2011. In annual terms, the US economy should grow by 1.7% in 2011 and by 1.6% in 2012. The labor market is expected to heal very slowly hampered by both cyclical (weak demand, slow recovery) and structural (globalization, displacement, innovation) issues. The unemployment rate should nudge up slightly above the current level and remain above 9% well into 2012. A detailed summary of our projections for national variables is presented in Table 1 following this report.

**Orange County and Southern California Economic Outlook and Forecasts**

***Caboose to the Slow National Train?***

Southern California region (counties of Orange, Los Angeles, Riverside, San Bernardino, Ventura and Imperial) appears to have followed the national woes more closely than ever before. In the last twelve months, growth has been dismal at both the national and the regional level. In fact, this has proven to be one of the most stagnant periods in the region's economy. GDP, income, employment and other main economic indicators have risen but only anemically and in fits and starts. There has been, of course, more than normal level of volatility at both the national and global level.

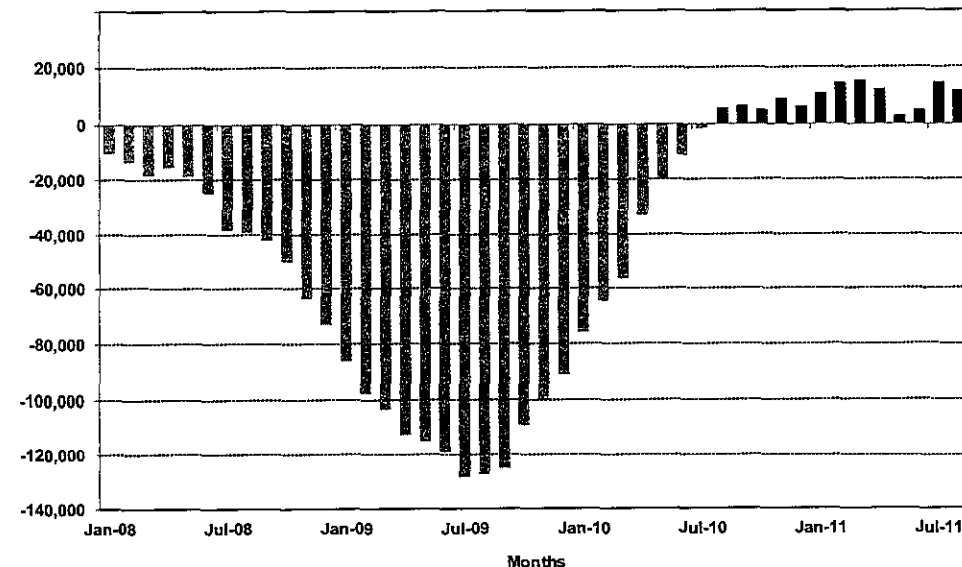
**FIGURE 11**  
**Unemployment Rates**  
**US versus OC**



In some adverse ways, the region actually leads the nation in the worst types of statistics, such as in unemployment. Currently, the unemployment rate for California stands at 12.1% - a full three points higher than the national rate of 9.1%. The region fares worse: in August, the average Southern California unemployment rate was 12.4%, while for Orange County it was 9.1%.

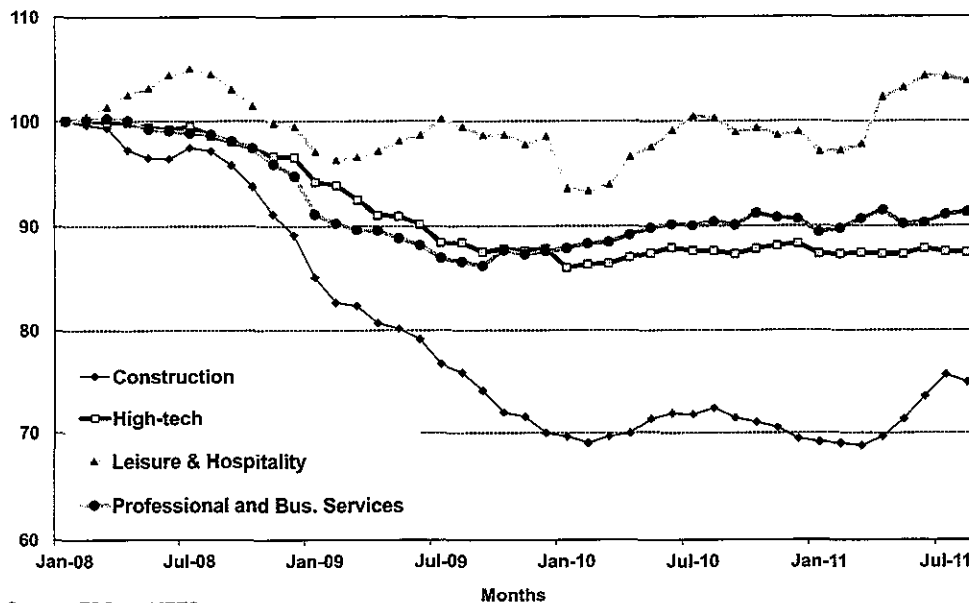
This passes for good news these days: the real employment situation is even worse than the headline numbers indicate. The rates of unemployment for the young and less skilled workers are much higher and the data does not even capture those who have stopped looking for work. In fact, in spite of population increases over the past five years, the Southern

**FIGURE 12**  
**Orange County Payroll Employment**  
**(year-over-year changes)**



Source: EDD and IEES

**FIGURE 13**  
**Orange County Sectors**  
**(year-over-year changes)**



Source: EDD and IEES

California labor force, i.e., those working or looking for work, is still at approximately the same level as in 2006. Additionally, as in the national economy, persistent unemployment – those who are unemployed for a long period – is at historically high levels.

Orange County's payroll employment through August 2011 shows a paltry increase of only about 6,000 jobs, or .4% on an annualized basis – far below the historical, pre-recession, annual

growth of 20,000. This number looks better only when compared to the losses suffered during the previous three years; 34,000 jobs lost in 2008, 110,000 in 2009 and 19,200 in 2010. On a monthly basis, year-over-year increases have been positive for 2011 and were on an increasing path through the first half of the year. However, following the downshift of the national economy, Orange County employment reversed trend and the rate of job growth has slowed in the third quarter of 2011.

*However, there has been a greater emphasis lately on clean tech and renewable energy and hopes are riding high for these sectors to take a more prominent role in driving the regional economy.*

Employment trends in the wider Southern California region followed a similar trend. The upward momentum that was evident towards the end of 2010 and in the early months of this year began to wane in spring. Following payroll losses of 138,000 in 2008, 462,000 in 2009 and 102,000 in 2010, through August 2010, annualized growth for 2011 has been virtually non-existent.

The sector profiles are also quite similar in Orange County and the Southern California region. Construction suffered the most, losing approximately a third of its payroll jobs in the last three years, 2008-2011. In OC, employment in the sector fell from 91,000 jobs in 2008 to 68,000 job in 2011 and for the SC region it declined from 344,000 to 240,000 over the same period. These levels are holding steady since last year, indicating that we may have reached a bottom for this cycle on construction employment.

The largest industry group, Professional Business Services, saw its employment levels in OC contract from 267,000 in 2008 to 245,000 in 2011, a decline of 8.1%. The greatest losses were in the categories of Architectural, Engineering and related services (16%) and Computer Systems Design (16%). Among other larger sectors in Orange County, Retail Trade lost 19,000 jobs (a 12% decline), Manufacturing shed

24,000 (a 13% decline), and Government fell by 11,000 jobs (or a 6.5% decline). Among the gainers were Educational and Health Services for an increase of 8,000 jobs, or a 5.4% increase. Leisure and Hospitality held steady. For the broader Southern California region the declines over the same three-year period were 9.6% in Business and Professional Services, 8.2% in Retail, 14.7% in Manufacturing, 4.1% in Government and 4.7% in Leisure and Hospitality. No major sectors in the region's economy are so far in the positive territory for this year. The survey of Orange County businesses conducted by the Institute for Economic and Environmental Studies indicates further slowdown at least through the rest of the year.

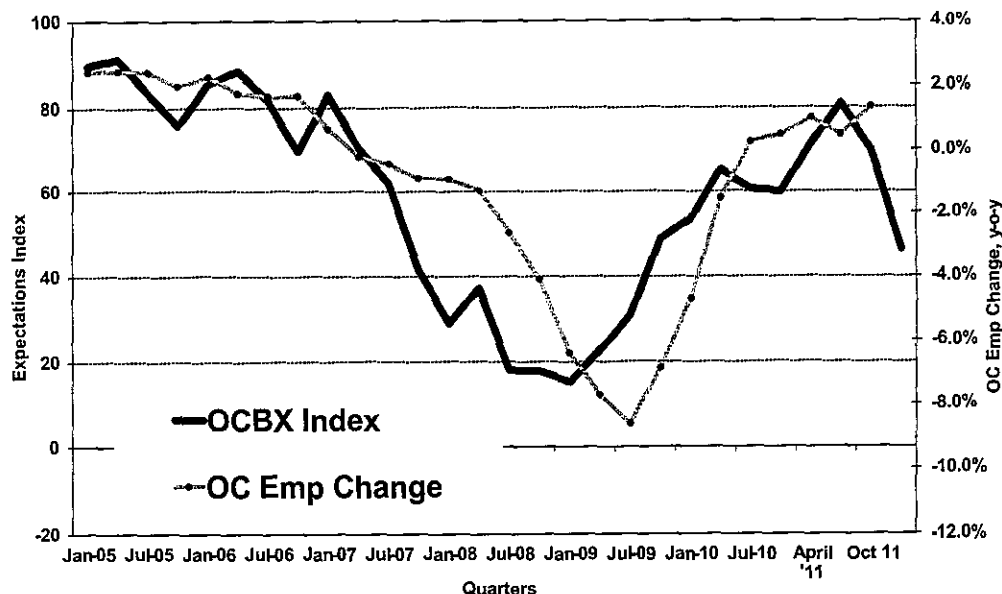
Employment growth – once the economy picks up – will come primarily from the traditional sectors of Orange County such as high-tech manufacturing, construction, business services and leisure related industries. However, there has been a greater emphasis lately on clean tech and renewable energy and hopes are riding high for these sectors to take a more prominent role in driving the regional economy. At a national level, the Obama administration has gone as far as to make support for these sectors a national priority. Given the current spotlight, below we provide a summary analysis of these sectors for Southern California and Orange County.

**CleanTech and Sustainable Energy**

Emerging trends in clean technology industries and sustainable energy remain small but growing. Quite often employment in these two sectors is combined under the term “green jobs.” Following the Employment Development Department’s (EDD) classification, employment in “green sectors” can be defined as 1) generate and store renewable energy; 2) collect and/or process recyclable materials; 3) energy efficient product manufacturing, distribution, construction, installation, and maintenance; 4) education, compliance and awareness; 5) natural and sustainable product manufacturing.

A statewide census conducted by the EDD in 2010 estimated that there were 204,000 such jobs in the five-county Southern California region (not including Imperial and San Diego counties) which makes up approximately 3.1% of the total

**FIGURE 14  
Business Expectations & Employment  
Change - Orange County**

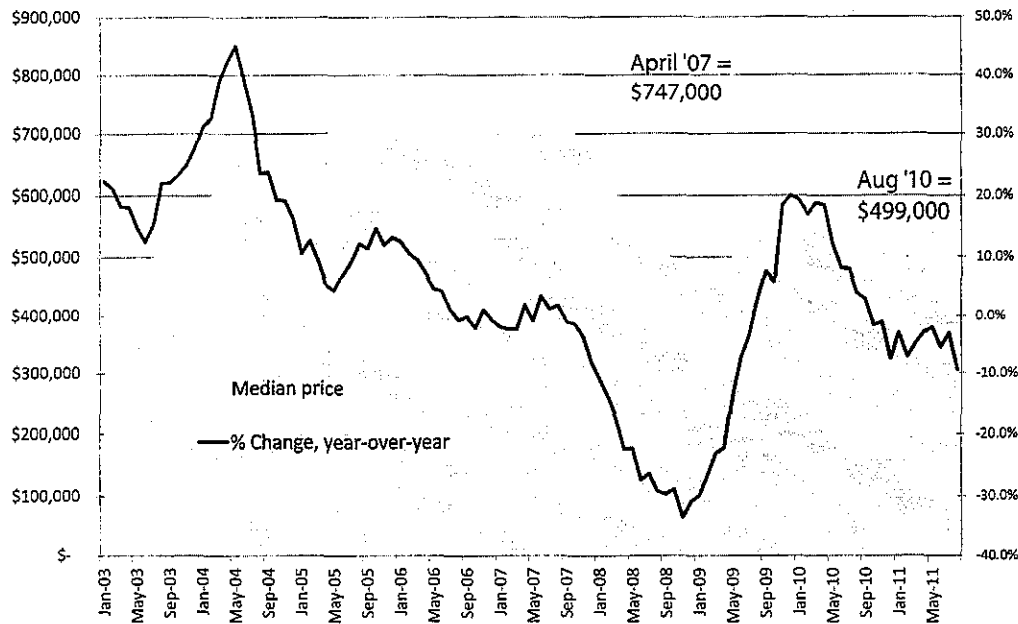


Source: IEES

*Orange County median housing price, based on the California Association of Realtors data, was \$560,000 which is 9.2% below the year ago level and 32% below the peak price in April 2006. On a year-over-year basis, the median price has been declining since October 2010.*

payroll jobs. Most of these jobs offer middle to low level of wages and generally require on-the-job training. No separate figures are available for Orange County but

**FIGURE 15**  
**Orange County Median Housing Price, Existing Homes**



using simple analysis it can be estimated that the county has approximately a fifth of these jobs, or about 41,000, which makes up roughly 3% of the total employment.

With its abundant natural resources, California has been able to meet for a long time a part of its energy needs from renewable sources. In 2009, 11.6% of all electricity came from renewable sources such as wind, solar, geothermal, biomass and hydroelec-

tric plants. In April 2011, the state adopted a more ambitious measure under which 20 percent of all retail electricity in 2013 must come from renewable energy. This requirement goes up to 25% by the end of 2016 and up to 33% by 2020. In Orange County, 14% of the current electric consumption is met by renewable sources, mostly from biomass sources. Given the relatively small base of "green jobs" and renewable energy sources in the County, it does not appear likely that even a faster growth in these sectors will make a substantial contribution to the employment levels in the near term. However, as better technology and growing public demand come to bear on these sectors, they will increasingly become more important in the employment picture.

**Housing and Construction**

Orange County median housing price, based on the California Association of Realtors data, was \$560,000 which is 9.2% below the year ago level and 32% below the peak price in April 2006. On a year-over-year basis, the median price has been declining since October 2010. These trends are prevalent throughout the region with prices being lower by 41% in Los Angeles and by 62% in San Bernardino from their peak values. We expect continued stagnation in housing prices showing less than five percent annual increase for the next two years.

While construction has been on a standstill for some time, there are early signs of some activity in selected segments. One of these is in the hotel construction sector. Mega hotel construction is still some time away, but there have been interesting development in the construction of medium to small hotels as well as refurbishing of existing hotels. Hotel rental rates are climbing providing further incentives for such

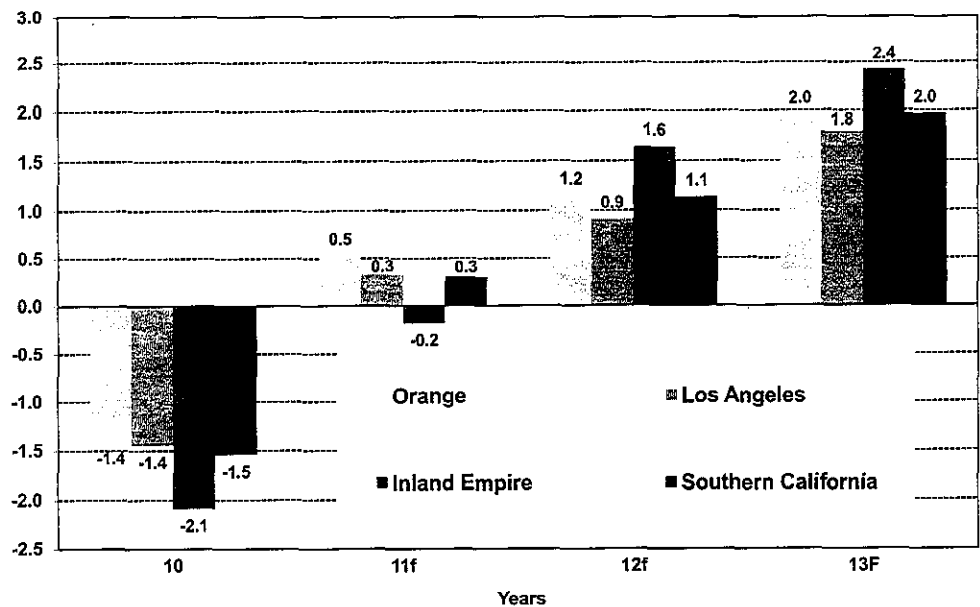
construction. This phenomenon may be a result of vacations taken close to home or staycations. This trend may last a while given the prognosis of weak economic growth over an extended period of time. Given the unprecedented low mortgage rates, the overall sentiment for housing construction is slowly turning the corner and moving upwards. Permitting activity is picking up yet the progress is expected to be painfully slow for the next two years. Given the extremely low construction activity in the past three years, current recorded percentage increases seem

impressive but only because these are starting from extremely low bases. In reality, it will take up to three years before normal levels of construction activity and employment in the sector are achieved.

**Regional Forecasts**

Given the myriad of problems in the horizon both within the U.S. and globally, and prospect of little political will for forceful actions, the scenario of “muddling through” is expected not only at the national level but also at the local and regional levels. Our forecasts of payroll growth for Orange County are for a gain of only 7,300 jobs in 2011 and 16,300 jobs in 2012, or .5% and 1.2%, well below the historical average for the twenty years preceding the recession. Southern California region is expected to add only 20,000 jobs in 2011 and 95,000 jobs in 2012. As mentioned above, once the economy begins to establish an upward trend and gains momentum, jobs will be created mostly in areas of the region’s strength - construction, high-tech, business services, and leisure and hospitality. Over time we expect productivity to improve with a greater focus on exports. Details of our forecasts for Southern California counties and the region as a whole are given in the following pages.

**FIGURE 16**  
**Payroll Employment Forecasts**  
**(% change)**



*...jobs will be created mostly in areas of the region’s strength - construction, high-tech, business services, and leisure and hospitality. Over time we expect productivity to improve with a greater focus on exports.*

Robert Giuliano provided expert research assistance for this forecast. Any errors are the authors’ responsibility.

**TABLE 1A**  
**National - Historical Data**

	2006	2007	2008	2009	2010
<b>GDP</b>					
Real GDP (Bil. \$)	2,959	13,206	13,162	12,703	13,088
Nominal GDP (Bil. \$)	13,377	14,029	14,292	13,939	14,527
% change RGDP	2.7	1.9	-0.3	-3.5	3.0
<b>RGDP Components</b>					
Personal Consumption (% change)	2.9	2.3	-0.6	-1.9	2
Business Fixed Investment (% change)	2.4	-1.9	-7.1	-18.8	2.6
Residential (% change)	-7.3	-18.7	-23.9	-22.2	-4.3
Nonresidential (% change)	8.0	6.5	-0.8	-17.8	4.4
Exports (% change)	9.0	9.3	6.1	-9.4	11.3
Imports (% change)	6.1	2.4	-2.7	-13.6	12.5
Current Account Balance (Bil. \$)	-798	-716	-679	-377	-479
Current Account Balance (% of GDP)	-6.0	-5.1	-4.8	-2.7	-3.3
Federal Deficit (Bil. \$)	-248	-161	-459	-1413	-1293
<b>Labor Sector</b>					
Unemployment Rate (%)	4.6	4.6	5.8	9.3	9.6
Payroll Employment (% change)	1.8	1.1	-0.6	-4.4	-0.7
Hourly Workweek (saar)	33.9	33.8	33.6	33.1	33.4
Labor Productivity (saar)	0.9	1.5	0.6	2.3	4.1
<b>Prices and Wages</b>					
CPI (% change)	3.2	2.9	3.8	-0.3	1.7
Core CPI (% change)	2.5	2.3	2.3	1.7	1.0
GDP Deflator (% change)	3.2	2.9	2.2	1.1	1.2
Wage Costs/Labor Compensation (% change)	3.8	4.0	3.4	1.6	2.1
Unit Labor Costs (% change)	2.8	2.4	2.2	-0.7	-2.0
<b>Income</b>					
Personal Income (% change)	7.5	5.7	4.6	-4.3	3.7
Real Disposable Income (% change)	4.0	2.4	2.4	-2.3	1.8
Savings Rate (% of disp. income)	2.6	2.4	5.4	5.1	5.3
After-Tax Profits (bil. \$)	1,349.5	1,292.9	1,050.9	1,183.3	1,408.4
<b>Financial Markets</b>					
Federal Funds Rate (%)	5.0	5.0	1.9	0.2	0.2
3-Month T-bill rate (%)	4.7	4.4	1.4	0.2	0.1
10-Year Treasury Note (%)	4.8	4.6	3.7	3.3	3.2
30-Year Fixed Mortgage Rate (%)	6.4	6.3	6.0	5.0	4.7
Exchange Rate, Major Trading Partners (%)	-1.51	-5.62	-4.54	4.38	-2.96
<b>Other Key Measures</b>					
Oil - WTI (\$ per Barrel)	66.1	72.3	99.6	61.7	79.4
Industrial Production (% change)	2.2	2.7	-3.7	-11.0	5.3
Housing Starts (Mill. Units, saar)	1.8	1.3	0.9	0.6	0.6
Existing Home Sales (Mill. Units, saar)	6.5	5.7	4.9	5.2	4.9
Consumer Confidence Index (level)	106	103	58	45	53

**TABLE 1B**  
**National - Forecast Data**

	2010f	2011f	2012f	3-year change, 10-13
<b>GDP</b>				
Real GDP (Bil. \$)	13,310	13,523	13,862	774
Nominal GDP (Bil. \$)	15,049	15,576	16,199	1,673
% change RGDP	1.7	1.6	2.5	1.9
<b>GDP Components</b>				
Personal Consumption (% change)	2	1.6	2	1.9
Private Investment (% change)	6.1	6.2	9.0	7.1
Residential (% change)	-4.2	3.9	7.4	2.2
Nonresidential (% change)	8.5	6.7	9.3	8.2
Exports (% change)	7.6	6.8	8.7	7.7
Imports (% change)	6.7	4.5	6.3	5.8
Current Account Balance (Bil. \$)	-486	-469	-452	27
Current Account Balance (% of GDP)	-3.2	-3.0	-2.8	-2
Federal Deficit (Bil. \$)	-1294	-1102	-859	434
<b>Labor Sector</b>				
Unemployment Rate (%)	9.1	9.2	8.8	-0.8
Payroll Employment (% change)	1.0	1.3	1.5	1.3
Hourly Workweek (saar)	33.7	33.5	33.4	0.0
Labor Productivity (saar)	1.1	0.9	1.4	1.1
<b>Prices and Wages</b>				
CPI (% change)	3.0	2.1	2.4	2.5
Core CPI (% change)	1.6	1.8	1.9	1.8
GDP Deflator (% change)	2.0	1.4	1.6	1.7
Wage Costs/Labor Compensation (% change)	2.3	2.5	2.8	2.5
Unit Labor Costs (% change)	1.8	2.1	2.0	2.0
<b>Income</b>				
Personal Income (% change)	5.3	3.1	3.5	4.0
Real Disposable Income (% change)	1.9	1.5	1.9	1.8
Savings Rate (% of disp. income)	5.1	5.0	4.6	-0.7
After-Tax Profits (bil. \$)	1,492	1,583	1,744	336
<b>Financial Markets</b>				
Federal Funds Rate (%)	0.2	0.1	0.2	0.0
3-Month T-bill rate (%)	0.1	0.1	0.2	0.1
10-Year Treasury Note (%)	2.9	2.7	3.1	-0.1
30-Year Fixed Mortgage Rate (%)	4.4	4.2	4.8	0.1
Exchange Rate, Major Trading Partners (%)	-6.8	-3.5	-4.2	-4.8
<b>Other Key Measures</b>				
Oil - WTI (\$ per Barrel)	93.2	90.4	99.3	19.9
Industrial Production (% change)	3.6	2.7	3.9	3.4
Housing Starts (Mill. Units, saar)	0.58	0.64	0.83	0.2
Existing Home Sales (Mill. Units, saar)	4.9	5.1	5.4	0.5
Consumer Confidence Index (level)	63	66	73	20.0

**TABLE 2A**  
**Orange County – Historical Data**

<i>Levels in Thousands</i>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Population</b>					
Total population	2,953.1	2,957.9	2,989.1	3,026.8	3,062.6
Annual percentage change	-0.1%	0.2%	1.1%	1.3%	1.2%
<b>Household Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labor Force	1601.8	1609.4	1617.2	1588.7	1580.9
Total Employment	1547.3	1547.0	1532.3	1447.7	1429.7
Total Unemployment	54.4	62.4	84.9	141.0	151.2
Unemployment Rate	3.4%	3.9%	5.3%	8.9%	9.6%
<b>Wage &amp; Salary Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	1,518.9	1,515.5	1,481.6	1,372.1	1,352.9
Goods Producing	289.9	284.0	265.9	229.5	217.8
Mining and Logging	0.6	0.6	0.6	0.5	0.5
Construction	106.6	103.1	91.2	74.2	67.1
Manufacturing	182.7	180.4	174.1	154.8	150.2
Durable Goods	128.0	126.2	122.5	109.1	106.2
Nondurable Goods	54.7	54.2	51.5	45.7	44.1
Service Providing	1,229.0	1,231.5	1,215.7	1,142.7	1,135.2
Trade, Transportation and Utilities	272.8	277.0	271.6	249.5	244.2
Wholesale Trade	83.7	86.9	86.7	79.4	77.4
Retail Trade	160.8	161.2	155.6	142.3	140.1
Transportation, Warehousing and Utilities	28.2	28.9	29.3	27.8	26.7
Information	31.9	31.2	30.1	27.3	25.0
Financial Activities	138.2	127.7	113.1	105.1	103.6
Professional and Business Services	274.5	273.3	266.6	240.2	242.8
Educational and Health Services	137.7	142.6	150.7	152.1	156.0
Leisure and Hospitality	169.6	172.9	176.4	169.1	168.7
Other Services	47.7	47.4	46.5	42.6	42.4
Government	156.7	159.4	160.8	156.6	152.5
<b>Percentage change</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	1.9%	-0.2%	-2.2%	-7.4%	-1.4%
Goods Producing	2.2%	-2.0%	-6.4%	-13.7%	-5.1%
Mining and Logging	-14.3%	-4.2%	8.7%	-16.0%	-11.1%
Construction	6.7%	-3.3%	-11.5%	-18.7%	-9.6%
Manufacturing	-0.1%	-1.3%	-3.5%	-11.1%	-2.9%
Durable Goods	-0.3%	-1.4%	-2.9%	-11.0%	-2.7%
Nondurable Goods	0.2%	-1.0%	-4.9%	-11.3%	-3.6%
Service Providing	1.8%	0.2%	-1.3%	-6.0%	-0.7%
Trade, Transportation and Utilities	1.1%	1.6%	-2.0%	-8.1%	-2.1%
Wholesale Trade	0.9%	3.8%	-0.3%	-8.3%	-2.6%
Retail Trade	1.7%	0.2%	-3.4%	-8.6%	-1.5%
Transportation, Warehousing and Utilities	-1.6%	2.4%	1.3%	-5.1%	-4.0%
Information	-2.8%	-2.0%	-3.8%	-9.0%	-8.5%
Financial Activities	-0.2%	-7.6%	-11.4%	-7.0%	-1.5%
Professional and Business Services	3.9%	-0.4%	-2.5%	-9.9%	1.1%
Educational and Health Services	3.2%	3.6%	5.6%	1.0%	2.5%
Leisure and Hospitality	2.8%	2.0%	2.0%	-4.2%	-0.2%
Other Services	-1.3%	-0.7%	-1.8%	-8.4%	-0.6%
Government	0.9%	1.7%	0.9%	-2.6%	-2.6%
<i>Levels in millions</i>					
<b>Personal Income</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Personal Income	150.6	153.4	155.1	148.4	153.7
Annual percentage change	8.0%	1.9%	1.1%	-4.3%	3.6%
Per capita income (\$)	\$50,997	\$51,877	\$51,877	\$49,020	\$50,197
<b>Taxable Sales</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total taxable sales	57.2	57.3	53.6	45.7	47.4
Year to year percentage change	3.9%	0.2%	-6.4%	-14.7%	3.7%

**TABLE 2B  
Orange County – Forecast Data**

<i>Levels in Thousands</i>				
	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
<b>Population</b>				
Total population	3090.8	3117.7	3145.0	82.4
Annual percentage change	0.9%	0.9%	0.9%	2.7%
<b>Household Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Labor Force	1573.9	1592.7	1612.6	31.7
Total Employment	1439.1	1477.3	1516.7	87.0
Total Unemployment	138.1	123.9	113.2	-38.0
Unemployment Rate	8.8%	7.8%	7.0%	-2.5%
<b>Wage &amp; Salary Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	1,360.2	1,375.9	1,402.8	49.9
Goods Producing	218.9	221.8	228.9	11.1
Mining and Logging	0.4	0.4	0.4	0.0
Construction	67.9	69.5	71.8	4.7
Manufacturing	150.5	151.9	156.7	6.5
Durable Goods	106.5	107.8	111.6	5.4
Nondurable Goods	44.0	44.1	45.1	1.1
Service Providing	1,141.3	1,154.1	1,174.0	38.8
Trade, Transportation and Utilities	243.5	246.0	249.9	5.7
Wholesale Trade	77.5	78.7	80.5	3.2
Retail Trade	139.2	140.2	141.5	1.3
Transportation, Warehousing and Utilities	26.8	27.1	27.9	1.2
Information	24.7	25.2	25.8	0.8
Financial Activities	104.0	103.6	103.9	0.4
Professional and Business Services	245.4	250.0	257.3	14.5
Educational and Health Services	158.1	160.7	163.5	7.5
Leisure and Hospitality	172.5	176.8	182.4	13.7
Other Services	42.1	42.2	42.2	-0.1
Government	151.1	149.6	148.9	-3.6
<b>Percentage change</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	0.5%	1.2%	2.0%	3.7%
Goods Producing	0.5%	1.3%	3.2%	5.1%
Mining and Logging	-5.7%	-7.5%	2.9%	-10.3%
Construction	1.3%	2.4%	3.2%	7.0%
Manufacturing	0.2%	0.9%	3.2%	4.3%
Durable Goods	0.4%	1.2%	3.5%	5.1%
Nondurable Goods	-0.2%	0.2%	2.4%	2.4%
Service Providing	0.5%	1.1%	1.7%	3.4%
Trade, Transportation and Utilities	-0.3%	1.0%	1.6%	2.3%
Wholesale Trade	0.2%	1.5%	2.3%	4.1%
Retail Trade	-0.7%	0.7%	0.9%	1.0%
Transportation, Warehousing and Utilities	0.5%	1.1%	2.7%	4.4%
Information	-1.1%	1.8%	2.5%	3.2%
Financial Activities	0.4%	-0.3%	0.3%	0.3%
Professional and Business Services	1.1%	1.9%	2.9%	6.0%
Educational and Health Services	1.3%	1.7%	1.7%	4.8%
Leisure and Hospitality	2.2%	2.5%	3.2%	8.1%
Other Services	-0.6%	0.1%	0.1%	-0.3%
Government	-1.0%	-1.0%	-0.5%	-2.4%
<b>Levels in millions</b>				
<b>Personal Income</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Personal income	162.7	169.3	177.7	24.0
Annual percentage change	5.8%	4.1%	4.9%	15.6%
Per capita income (\$)	\$52,633	\$54,311	\$56,502	6305.1
<b>Taxable Sales</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total taxable sales	50.1	52.9	55.6	8.2
Year to year percentage change	5.7%	5.5%	5.1%	17.2%

**TABLE 3A**  
**Southern California – Historical Data**

<i>Levels in Thousands</i>					
<b>Population</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total population	17627.0	17691.6	17819.1	17987.8	18195.8
Annual percentage change	0.4%	0.4%	0.7%	0.9%	1.2%
<b>Household Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labor Force	8639.7	8741.6	8824.5	8770.0	8737.8
Total Employment	8241.7	8296.4	8183.1	7767.5	7643.8
Total Unemployment	398.0	445.1	641.4	1002.4	1094.0
Unemployment Rate	4.6%	5.1%	7.3%	11.4%	12.5%
<b>Wage &amp; Salary Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	7,221.5	7,251.3	7,113.6	6,652.1	6,549.9
Goods Producing	1,229.8	1,190.0	1,106.9	948.8	893.5
Mining and Logging	9.0	9.3	9.3	8.5	8.2
Construction	412.1	392.0	343.8	272.6	242.1
Manufacturing	808.7	788.7	753.8	667.6	643.2
Durable Goods	497.1	483.9	462.3	405.8	388.5
Nondurable Goods	311.6	304.8	291.5	261.9	254.7
Service Providing	5,991.7	6,061.3	6,006.7	5,703.4	5,656.4
Trade, Transportation and Utilities	1,445.5	1,465.3	1,435.0	1,327.0	1,315.6
Wholesale Trade	377.8	385.6	379.2	346.5	343.0
Retail Trade	802.6	807.8	785.4	727.6	721.9
Transportation, Warehousing and Utilities	265.1	271.9	270.4	253.0	250.7
Information	259.1	262.6	261.3	239.4	238.9
Financial Activities	461.8	445.4	414.9	385.3	375.3
Professional and Business Services	1,057.7	1,065.0	1,028.1	933.0	928.3
Educational and Health Services	772.4	795.8	823.1	836.5	849.0
Leisure and Hospitality	720.1	738.9	744.1	711.7	709.0
Other Services	246.7	246.8	244.6	227.9	225.9
Government	1,028.5	1,041.5	1,055.8	1,042.6	1,014.5
<b>Percentage change</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	2.1%	0.4%	-1.9%	-6.5%	-1.5%
Goods Producing	1.2%	-3.2%	-7.0%	-14.3%	-5.8%
Mining and Logging	7.4%	3.0%	-0.1%	-8.7%	-3.6%
Construction	5.5%	-4.9%	-12.3%	-20.7%	-11.2%
Manufacturing	-0.9%	-2.5%	-4.4%	-11.4%	-3.7%
Durable Goods	-1.1%	-2.7%	-4.5%	-12.2%	-4.3%
Nondurable Goods	-0.5%	-2.2%	-4.4%	-10.2%	-2.8%
Service Providing	2.3%	1.2%	-0.9%	-5.1%	-0.8%
Trade, Transportation and Utilities	2.8%	1.4%	-2.1%	-7.5%	-0.9%
Wholesale Trade	3.1%	2.1%	-1.7%	-8.6%	-1.0%
Retail Trade	2.6%	0.7%	-2.8%	-7.4%	-0.8%
Transportation, Warehousing and Utilities	2.7%	2.6%	-0.6%	-6.4%	-0.9%
Information	-0.9%	1.4%	-0.5%	-8.4%	-0.2%
Financial Activities	1.4%	-3.6%	-6.8%	-7.1%	-2.6%
Professional and Business Services	4.3%	0.7%	-3.5%	-9.2%	-0.5%
Educational and Health Services	1.9%	3.0%	3.4%	1.6%	1.5%
Leisure and Hospitality	3.2%	2.6%	0.7%	-4.4%	-0.4%
Other Services	0.8%	0.0%	-0.9%	-6.8%	-0.9%
Government	1.0%	1.3%	1.4%	-1.3%	-2.7%
<i>Levels in millions</i>					
<b>Personal Income</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Personal Income	692.9	718.5	734.9	715.4	738.1
Annual percentage change	7.9%	3.7%	2.3%	-2.6%	3.2%
Per capita income (\$)	\$39,312	\$40,610	\$41,240	\$39,774	\$40,565
<b>Taxable Sales</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total taxable sales	269.0	269.1	252.8	216.0	233.0
Year to year percentage change	4.4%	0.0%	-6.1%	-14.5%	7.9%

**TABLE 3B**  
**Southern California – Forecast Data**

<i>Levels in Thousands</i>				
	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
<b>Population</b>				
Total population	18391.1	18589.8	18793.1	597.3
Annual percentage change	1.1%	1.1%	1.1%	3.3%
<b>Household Employment</b>				<b>3 Yr. Change '10-'13</b>
Labor Force	507.4	516.3	523.5	15.5
Total Employment	438.8	449.8	459.4	20.8
Total Unemployment	69.1	63.8	61.1	-8.4
Unemployment Rate	13.6%	12.3%	11.7%	-2.0%
<b>Wage &amp; Salary Employment</b>				<b>3 Yr. Change '10-'13</b>
Total Nonfarm	6,569.9	6,644.6	6,775.0	225.1
Goods Producing	892.4	904.8	928.2	34.7
Mining and Logging	8.2	8.4	8.6	0.4
Construction	238.6	241.9	247.8	5.7
Manufacturing	645.6	654.5	671.8	28.6
Durable Goods	390.5	396.6	410.0	21.5
Nondurable Goods	255.1	257.9	261.8	7.1
Service Providing	5,677.4	5,739.8	5,846.8	190.4
Trade, Transportation and Utilities	1,318.1	1,339.2	1,371.6	56.0
Wholesale Trade	344.4	351.4	361.7	18.7
Retail Trade	721.2	729.7	743.8	21.9
Transportation, Warehousing and Utilities	252.5	258.0	266.2	15.5
Information	246.7	253.0	262.4	23.5
Financial Activities	374.5	375.8	380.1	4.7
Professional and Business Services	933.9	947.4	969.7	41.5
Educational and Health Services	860.9	877.0	897.8	48.7
Leisure and Hospitality	719.0	731.2	747.3	38.3
Other Services	223.9	223.1	223.1	-2.8
Government	1,000.4	993.2	994.9	-19.6
<b>Percentage change</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	0.3%	1.1%	2.0%	3.4%
Goods Producing	-0.1%	1.4%	2.6%	3.9%
Mining and Logging	0.7%	1.5%	2.6%	4.9%
Construction	-1.5%	1.4%	2.4%	2.3%
Manufacturing	0.4%	1.4%	2.6%	4.5%
Durable Goods	0.5%	1.6%	3.4%	5.5%
Nondurable Goods	0.2%	1.1%	1.5%	2.8%
Service Providing	0.4%	1.1%	1.9%	3.4%
Trade, Transportation and Utilities	0.2%	1.6%	2.4%	4.3%
Wholesale Trade	0.4%	2.0%	2.9%	5.4%
Retail Trade	-0.1%	1.2%	1.9%	3.0%
Transportation, Warehousing and Utilities	0.7%	2.2%	3.2%	6.2%
Information	3.3%	2.5%	3.7%	9.8%
Financial Activities	-0.2%	0.3%	1.1%	1.3%
Professional and Business Services	0.6%	1.4%	2.4%	4.5%
Educational and Health Services	1.4%	1.9%	2.4%	5.7%
Leisure and Hospitality	1.4%	1.7%	2.2%	5.4%
Other Services	-0.9%	-0.4%	0.0%	-1.2%
Government	-1.4%	-0.7%	0.2%	-1.9%
<b>Levels in millions</b>				
<b>Personal Income</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Personal Income	45.4	47.1	49.3	6.3
Annual percentage change	5.4%	3.8%	4.6%	14.5%
Per capita income (\$)	\$2,467	\$2,535	\$2,624	257.7
<b>Taxable Sales</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total taxable sales	12.9	13.6	14.3	2.2
Year to year percentage change	7.0%	5.7%	4.7%	18.4%

**TABLE 4A**  
**Los Angeles County - Historical Data**

<i>Levels in Thousands</i>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Population</b>					
Total population	9760.6	9734.7	9779.3	9848.0	9909.8
Annual percentage change	-0.4%	-0.3%	0.5%	0.7%	0.6%
<b>Household Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labor Force	4808.6	4874.6	4930.9	4900.1	4879.5
Total Employment	4578.7	4626.9	4563.2	4336.6	4262.3
Total Unemployment	229.9	247.7	367.6	563.5	617.2
Unemployment Rate	4.8%	5.1%	7.5%	11.5%	12.6%
<b>Wage &amp; Salary Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	4,092.5	4,122.1	4,070.7	3,824.1	3,769.0
Goods Producing	623.2	611.2	584.0	510.6	482.7
Mining and Logging	4.0	4.4	4.4	4.1	4.2
Construction	157.5	157.6	145.2	117.3	104.3
Manufacturing	461.7	449.2	434.5	389.2	374.2
Durable Goods	257.3	250.9	243.2	217.5	207.2
Nondurable Goods	204.4	198.3	191.2	171.6	166.9
Service Providing	3,469.3	3,510.9	3,486.7	3,313.5	3,286.3
Trade, Transportation and Utilities	814.1	818.5	803.3	742.7	738.4
Wholesale Trade	225.7	227.0	223.7	204.5	202.9
Retail Trade	423.3	426.0	416.5	387.0	385.2
Transportation, Warehousing and Utilities	165.2	165.6	163.1	151.2	150.3
Information	205.6	209.8	210.3	191.2	192.4
Financial Activities	246.7	243.8	233.3	216.0	209.2
Professional and Business Services	598.9	605.4	582.6	529.8	526.1
Educational and Health Services	480.8	492.7	505.8	514.6	522.7
Leisure and Hospitality	388.6	397.9	401.6	385.6	384.6
Other Services	145.2	147.1	146.1	137.9	136.3
Government	589.4	595.7	603.7	595.8	576.6
<b>Percentage change</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	1.7%	0.7%	-1.2%	-6.1%	-1.4%
Goods Producing	-0.1%	-1.9%	-4.5%	-12.6%	-5.5%
Mining and Logging	9.0%	9.3%	-0.8%	-6.5%	2.9%
Construction	5.9%	0.0%	-7.9%	-19.2%	-11.1%
Manufacturing	-2.1%	-2.7%	-3.3%	-10.4%	-3.9%
Durable Goods	-2.3%	-2.5%	-3.1%	-10.6%	-4.7%
Nondurable Goods	-1.9%	-3.0%	-3.6%	-10.2%	-2.8%
Service Providing	2.0%	1.2%	-0.7%	-5.0%	-0.8%
Trade, Transportation and Utilities	2.3%	0.5%	-1.9%	-7.5%	-0.6%
Wholesale Trade	2.9%	0.6%	-1.5%	-8.6%	-0.7%
Retail Trade	2.1%	0.6%	-2.2%	-7.1%	-0.5%
Transportation, Warehousing and Utilities	2.2%	0.2%	-1.5%	-7.3%	-0.6%
Information	-1.0%	2.0%	0.3%	-9.1%	0.6%
Financial Activities	1.9%	-1.2%	-4.3%	-7.4%	-3.2%
Professional and Business Services	3.9%	1.1%	-3.8%	-9.1%	-0.7%
Educational and Health Services	1.6%	2.5%	2.7%	1.7%	1.6%
Leisure and Hospitality	2.9%	2.4%	0.9%	-4.0%	-0.3%
Other Services	0.7%	1.3%	-0.7%	-5.6%	-1.1%
Government	1.0%	1.1%	1.3%	-1.3%	-3.2%
<b>Levels in millions</b>					
<b>Personal Income</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Personal Income	385.7	400.4	412.6	402.5	414.4
Annual percentage change	8.0%	3.8%	3.1%	-2.5%	3.0%
Per capita income (\$)	\$39,519	\$41,128	\$42,195	\$40,867	\$41,818
<b>Taxable Sales</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total taxable sales	136.2	137.8	131.9	112.7	125.4
Year to year percentage change	4.2%	1.2%	-4.3%	-14.5%	11.2%

**TABLE 4B**  
**Los Angeles County – Forecast Data**

<i>Levels in Thousands</i>				
	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
<b>Population</b>				
Total population	9965.8	10024.5	10086.0	176.3
Annual percentage change	0.6%	0.6%	0.6%	1.8%
<b>Household Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Labor Force	4880.5	4909.3	4939.4	59.9
Total Employment	4313.9	4369.3	4485.0	222.7
Total Unemployment	602.0	540.0	454.4	-162.8
Unemployment Rate	12.3%	11.0%	9.2%	-3.4%
<b>Wage &amp; Salary Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	3,781.4	3,815.8	3,884.0	115.0
Goods Producing	483.0	487.7	494.8	12.1
Mining and Logging	4.2	4.2	4.1	-0.1
Construction	103.6	104.9	106.3	2.0
Manufacturing	375.2	378.7	384.3	10.2
Durable Goods	207.5	209.7	214.0	6.7
Nondurable Goods	167.7	169.0	170.4	3.5
Service Providing	3,298.3	3,328.1	3,389.2	102.9
Trade, Transportation and Utilities	738.8	748.8	766.1	27.7
Wholesale Trade	203.0	205.1	209.5	6.6
Retail Trade	385.8	390.7	397.8	12.7
Transportation, Warehousing and Utilities	150.0	153.1	158.7	8.4
Information	200.1	205.5	214.0	21.7
Financial Activities	207.4	208.1	210.8	1.6
Professional and Business Services	528.0	534.0	544.8	18.7
Educational and Health Services	530.1	538.7	551.3	28.5
Leisure and Hospitality	389.8	395.8	403.8	19.2
Other Services	135.5	135.7	136.3	0.0
Government	568.7	561.6	562.2	-14.4
<b>Percentage change</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	0.3%	0.9%	1.8%	3.1%
Goods Producing	0.1%	1.0%	1.4%	2.5%
Mining and Logging	-0.9%	-0.1%	-0.6%	-1.5%
Construction	-0.7%	1.2%	1.4%	1.9%
Manufacturing	0.3%	0.9%	1.5%	2.7%
Durable Goods	0.1%	1.0%	2.0%	3.2%
Nondurable Goods	0.5%	0.8%	0.8%	2.1%
Service Providing	0.4%	0.9%	1.8%	3.1%
Trade, Transportation and Utilities	0.1%	1.4%	2.3%	3.7%
Wholesale Trade	0.0%	1.0%	2.2%	3.2%
Retail Trade	0.2%	1.3%	1.8%	3.3%
Transportation, Warehousing and Utilities	-0.2%	2.1%	3.7%	5.6%
Information	4.0%	2.7%	4.2%	11.3%
Financial Activities	-0.9%	0.3%	1.3%	0.8%
Professional and Business Services	0.4%	1.1%	2.0%	3.5%
Educational and Health Services	1.4%	1.6%	2.3%	5.5%
Leisure and Hospitality	1.4%	1.5%	2.0%	5.0%
Other Services	-0.6%	0.2%	0.4%	0.0%
Government	-1.4%	-1.3%	0.1%	-2.5%
<b>Levels in millions</b>				
<b>Personal Income</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Personal Income	434.7	449.8	469.0	54.6
Annual percentage change	4.9%	3.5%	4.3%	13.2%
Per capita income (\$)	\$43,617	\$44,871	\$46,502	4683.9
<b>Taxable Sales</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total taxable sales	131.8	139.4	148.6	23.2
Year to year percentage change	5.1%	5.8%	6.6%	18.5%

**TABLE 5A**  
**Riverside-San Bernardino Counties – Historical Data**

<i>Levels in Thousands</i>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Population</b>					
Total population	3968.5	4048.9	4092.8	4143.1	4240.6
Annual percentage change	2.8%	2.0%	1.1%	1.2%	2.4%
<b>Household Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labor Force	1745.6	1767.6	1774.8	1774.9	1769.4
Total Employment	1659.7	1665.1	1628.9	1540.7	1513.2
Total Unemployment	85.9	102.6	145.9	234.2	256.2
Unemployment Rate	4.9%	5.8%	8.2%	13.2%	14.5%
<b>Wage &amp; Salary Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	1,267.7	1,270.9	1,223.8	1,134.8	1,111.2
Goods Producing	252.3	232.4	198.8	157.8	145.1
Mining and Logging	1.4	1.3	1.2	1.1	1.0
Construction	127.5	112.5	90.7	67.9	59.5
Manufacturing	123.4	118.5	106.9	88.8	84.6
Durable Goods	86.9	82.1	72.5	58.1	55.0
Nondurable Goods	36.5	36.5	34.3	30.6	29.6
Service Providing	1,015.4	1,038.5	1,025.0	977.0	966.0
Trade, Transportation and Utilities	291.1	301.9	292.9	271.9	269.9
Wholesale Trade	54.2	56.8	54.1	48.9	48.8
Retail Trade	173.2	175.6	168.6	156.2	154.6
Transportation, Warehousing and Utilities	63.8	69.5	70.2	66.8	66.5
Information	15.3	15.4	14.9	15.1	15.9
Financial Activities	51.5	49.8	46.1	42.5	41.1
Professional and Business Services	142.4	145.2	137.7	124.3	121.5
Educational and Health Services	122.1	127.2	131.8	133.6	133.8
Leisure and Hospitality	128.1	132.6	131.0	123.8	122.1
Other Services	42.5	41.2	40.8	37.3	37.5
Government	222.5	225.3	229.9	228.4	224.3
<b>Percentage change</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	3.7%	0.3%	-3.7%	-7.3%	-2.1%
Goods Producing	2.7%	-7.9%	-14.4%	-20.6%	-8.1%
Mining and Logging	4.3%	-5.9%	-8.2%	-6.2%	-9.5%
Construction	3.4%	-11.8%	-19.3%	-25.1%	-12.5%
Manufacturing	1.9%	-3.9%	-9.8%	-16.9%	-4.6%
Durable Goods	1.0%	-5.6%	-11.6%	-19.9%	-5.4%
Nondurable Goods	4.2%	0.0%	-5.9%	-10.8%	-3.2%
Service Providing	4.0%	2.3%	-1.3%	-4.7%	-1.1%
Trade, Transportation and Utilities	5.5%	3.7%	-3.0%	-7.2%	-0.7%
Wholesale Trade	8.4%	4.9%	-4.7%	-9.7%	-0.1%
Retail Trade	4.5%	1.4%	-4.0%	-7.3%	-1.0%
Transportation, Warehousing and Utilities	5.9%	9.0%	1.0%	-4.8%	-0.4%
Information	5.3%	0.8%	-3.0%	1.3%	5.1%
Financial Activities	5.2%	-3.3%	-7.5%	-7.7%	-3.4%
Professional and Business Services	6.9%	2.0%	-5.2%	-9.8%	-2.2%
Educational and Health Services	1.8%	4.1%	3.6%	1.4%	0.1%
Leisure and Hospitality	4.5%	3.5%	-1.2%	-5.5%	-1.4%
Other Services	4.2%	-3.2%	-0.9%	-8.4%	0.5%
Government	0.9%	1.3%	2.0%	-0.6%	-1.8%
<i>Levels in millions</i>					
<b>Personal Income</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Personal Income	116.9	123.0	125.0	123.0	126.9
Annual percentage change	7.7%	5.2%	1.6%	-1.6%	3.2%
Per capita income (\$)	\$29,463	\$30,390	\$30,547	\$29,680	\$29,932
<b>Taxable Sales</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total taxable sales	61.1	59.5	53.8	45.9	48.2
Year to year percentage change	5.4%	-2.7%	-9.6%	-14.7%	5.0%

**TABLE 5B**  
**Riverside-San Bernardino Counties – Forecast Data**

<i>Levels in Thousands</i>				
	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
<b>Population</b>				
Total population	4338.2	4437.5	4538.3	297.7
Annual percentage change	2.3%	2.3%	2.3%	7.0%
<b>Household Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Labor Force	1742.7	1782.6	1823.1	53.6
Total Employment	1502.2	1559.8	1620.7	107.5
Total Unemployment	240.5	222.8	202.4	-53.8
Unemployment Rate	13.8%	12.5%	11.1%	-3.4%
<b>Wage &amp; Salary Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	1,109.2	1,127.3	1,154.6	43.5
Goods Producing	141.7	144.5	151.2	6.0
Mining and Logging	1.0	1.0	1.1	0.0
Construction	56.2	56.4	58.1	-1.4
Manufacturing	84.5	87.1	92.0	7.4
Durable Goods	55.7	57.2	61.1	6.0
Nondurable Goods	28.8	29.9	31.0	1.3
Service Providing	967.5	982.8	1,003.5	37.4
Trade, Transportation and Utilities	273.4	280.2	288.8	18.9
Wholesale Trade	50.2	53.3	56.5	7.7
Retail Trade	154.8	156.6	160.5	5.9
Transportation, Warehousing and Utilities	68.5	70.3	71.8	5.3
Information	16.2	16.5	16.8	0.9
Financial Activities	41.5	42.3	43.3	2.2
Professional and Business Services	121.6	123.6	126.8	5.3
Educational and Health Services	136.2	140.7	146.0	12.2
Leisure and Hospitality	121.8	122.6	123.9	1.9
Other Services	36.9	36.0	35.6	-1.9
Government	219.8	220.9	222.2	-2.1
<b>Percentage change</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	-0.2%	1.6%	2.4%	3.9%
Goods Producing	-2.4%	2.0%	4.6%	4.2%
Mining and Logging	-2.5%	3.3%	2.9%	3.6%
Construction	-5.5%	0.4%	3.0%	-2.3%
Manufacturing	-0.2%	3.1%	5.7%	8.7%
Durable Goods	1.2%	2.7%	6.7%	11.0%
Nondurable Goods	-2.8%	3.8%	3.7%	4.5%
Service Providing	0.2%	1.6%	2.1%	3.9%
Trade, Transportation and Utilities	1.3%	2.5%	3.1%	7.0%
Wholesale Trade	2.7%	6.3%	6.0%	15.7%
Retail Trade	0.1%	1.2%	2.5%	3.8%
Transportation, Warehousing and Utilities	3.0%	2.6%	2.2%	8.0%
Information	1.8%	2.2%	1.8%	5.9%
Financial Activities	1.1%	2.0%	2.2%	5.4%
Professional and Business Services	0.1%	1.6%	2.6%	4.4%
Educational and Health Services	1.8%	3.3%	3.7%	9.1%
Leisure and Hospitality	-0.2%	0.7%	1.1%	1.5%
Other Services	-1.6%	-2.6%	-1.0%	-5.1%
Government	-2.0%	0.5%	0.6%	-0.9%
<b>Levels in millions</b>				
<b>Personal Income</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Personal Income	133.4	138.3	144.5	17.6
Annual percentage change	5.1%	3.7%	4.5%	13.8%
Per capita income (\$)	\$30,742	\$31,170	\$31,836	1904.6
<b>Taxable Sales</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total taxable sales	51.7	54.3	58.8	10.7
Year to year percentage change	7.3%	5.1%	8.3%	22.1%

**TABLE 6A**  
**Ventura County – Historical Data**

<i>Levels in Thousands</i>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Population</b>					
Total population	788.1	789.7	794.8	803.0	811.6
Annual percentage change	0.3%	0.2%	0.6%	1.0%	1.1%
<b>Household Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labor Force	420.6	423.9	429.2	430.3	430.9
Total Employment	402.5	403.3	402.5	387.8	384.3
Total Unemployment	18.1	20.6	26.7	42.5	46.6
Unemployment Rate	4.3%	4.9%	6.2%	9.9%	10.8%
<b>Wage &amp; Salary Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	297.7	296.8	291.3	275.6	272.5
Goods Producing	59.9	57.9	53.8	47.0	44.0
Mining and Logging	1.1	1.1	1.2	1.2	1.2
Construction	20.5	18.8	16.7	13.2	11.3
Manufacturing	38.4	38.0	35.9	32.6	31.6
Durable Goods	24.1	23.9	23.2	20.4	19.6
Nondurable Goods	14.3	14.1	12.7	12.2	12.0
Service Providing	237.8	239.0	237.5	228.6	228.4
Trade, Transportation and Utilities	56.4	56.8	56.1	52.5	52.8
Wholesale Trade	12.6	13.0	12.8	12.0	12.3
Retail Trade	37.6	37.6	37.3	35.1	35.2
Transportation, Warehousing and Utilities	6.1	6.1	6.0	5.4	5.4
Information	6.0	5.8	5.6	5.3	5.2
Financial Activities	24.0	22.7	21.1	20.4	20.2
Professional and Business Services	39.3	38.3	38.3	36.1	35.5
Educational and Health Services	28.9	30.5	31.8	32.3	32.9
Leisure and Hospitality	30.5	32.0	31.5	29.8	30.3
Other Services	10.2	9.9	10.0	9.3	8.9
Government	42.5	43.0	43.1	42.9	42.6
<b>Percentage change</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	2.3%	-0.3%	-1.9%	-5.4%	-1.1%
Goods Producing	4.6%	-3.4%	-7.1%	-12.5%	-6.4%
Mining and Logging	35.5%	2.4%	8.5%	6.4%	-4.0%
Construction	9.0%	-8.0%	-11.5%	-20.9%	-14.7%
Manufacturing	1.8%	-1.1%	-5.4%	-9.3%	-3.1%
Durable Goods	0.9%	-0.8%	-2.8%	-11.9%	-4.1%
Nondurable Goods	3.2%	-1.5%	-9.7%	-4.4%	-1.5%
Service Providing	1.7%	0.5%	-0.6%	-3.8%	-0.1%
Trade, Transportation and Utilities	2.9%	0.6%	-1.1%	-6.5%	0.6%
Wholesale Trade	0.9%	3.0%	-1.4%	-6.3%	2.1%
Retail Trade	3.2%	-0.1%	-0.9%	-5.9%	0.2%
Transportation, Warehousing and Utilities	5.6%	0.0%	-2.2%	-10.8%	0.2%
Information	-3.4%	-2.4%	-3.4%	-5.6%	-1.4%
Financial Activities	-1.8%	-5.6%	-7.1%	-3.4%	-0.7%
Professional and Business Services	2.6%	-2.6%	0.0%	-5.7%	-1.8%
Educational and Health Services	2.1%	5.3%	4.4%	1.6%	1.7%
Leisure and Hospitality	4.5%	4.8%	-1.3%	-5.4%	1.6%
Other Services	-2.2%	-2.2%	0.4%	-7.1%	-3.5%
Government	0.8%	1.2%	0.2%	-0.5%	-0.7%
<i>Levels in millions</i>					
<b>Personal Income</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Personal Income	35.7	37.3	37.5	36.9	38.1
Annual percentage change	7.7%	4.5%	0.4%	-1.6%	3.4%
Per capita income (\$)	\$45,309	\$47,246	\$47,130	\$45,908	\$46,975
<b>Taxable Sales</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total taxable sales	12.3	12.2	11.3	9.9	10.1
Year to year percentage change	3.4%	-0.7%	-7.4%	-12.7%	2.5%

**TABLE 6B**  
**Ventura County-- Forecast Data**

<i>Levels in Thousands</i>				
	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
<b>Population</b>				
Total population	820.6	829.9	839.2	27.7
Annual percentage change	1.1%	1.1%	1.1%	3.4%
<b>Household Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Labor Force	430.4	437.4	442.6	11.6
Total Employment	384.8	392.4	399.7	15.4
Total Unemployment	44.5	37.8	33.5	-13.1
Unemployment Rate	10.3%	8.6%	7.6%	-3.2%
<b>Wage &amp; Salary Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	274.7	280.2	287.4	15.0
Goods Producing	45.1	46.9	49.6	5.5
Mining and Logging	1.3	1.4	1.5	0.3
Construction	10.8	11.1	11.7	0.4
Manufacturing	33.0	34.4	36.4	4.8
Durable Goods	20.3	21.3	22.9	3.3
Nondurable Goods	12.7	13.0	13.5	1.5
Service Providing	229.6	233.3	237.8	9.4
Trade, Transportation and Utilities	52.0	53.6	56.2	3.4
Wholesale Trade	12.1	12.7	13.4	1.1
Retail Trade	34.6	35.4	37.2	2.0
Transportation, Warehousing and Utilities	5.3	5.5	5.6	0.2
Information	5.3	5.4	5.3	0.1
Financial Activities	20.3	20.4	20.7	0.5
Professional and Business Services	36.5	37.4	38.4	2.9
Educational and Health Services	32.9	33.2	33.3	0.4
Leisure and Hospitality	31.4	32.3	33.4	3.1
Other Services	8.7	8.5	8.3	-0.7
Government	42.5	42.5	42.3	-0.3
<b>Percentage change</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	0.8%	2.0%	2.6%	5.5%
Goods Producing	2.4%	4.0%	5.7%	12.6%
Mining and Logging	10.7%	5.2%	10.9%	29.2%
Construction	-3.9%	2.8%	4.8%	3.5%
Manufacturing	4.4%	4.3%	5.7%	15.1%
Durable Goods	3.5%	5.2%	7.2%	16.7%
Nondurable Goods	5.8%	2.9%	3.3%	12.5%
Service Providing	0.5%	1.6%	2.0%	4.1%
Trade, Transportation and Utilities	-1.5%	3.0%	4.8%	6.4%
Wholesale Trade	-1.3%	4.6%	5.8%	9.3%
Retail Trade	-1.7%	2.5%	4.9%	5.7%
Transportation, Warehousing and Utilities	-0.7%	3.0%	1.8%	4.2%
Information	1.3%	1.6%	-1.5%	1.4%
Financial Activities	0.4%	0.2%	1.7%	2.3%
Professional and Business Services	3.0%	2.4%	2.6%	8.3%
Educational and Health Services	0.0%	1.1%	0.2%	1.3%
Leisure and Hospitality	3.6%	2.8%	3.4%	10.2%
Other Services	-2.7%	-1.7%	-3.3%	-7.5%
Government	-0.2%	0.0%	-0.3%	-0.6%
<b>Levels in millions</b>				
<b>Personal Income</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Personal Income	40.2	41.8	43.8	5.6
Annual percentage change	5.5%	3.9%	4.7%	14.8%
Per capita income (\$)	\$49,020	\$50,359	\$52,142	5166.8
<b>Taxable Sales</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total taxable sales	10.9	11.6	12.2	2.0
Year to year percentage change	7.7%	6.2%	5.0%	20.1%

**TABLE 7A**  
**Imperial County - Historical Data**

<i>Levels in Thousands</i>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Population</b>					
Total population	156.8	160.4	163.1	166.9	171.4
Annual percentage change	2.4%	2.3%	1.7%	2.3%	2.7%
<b>Household Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labor Force	63.2	66.1	72.4	75.9	77.1
Total Employment	53.5	54.2	56.2	54.7	54.3
Total Unemployment	9.7	11.9	16.2	21.2	22.9
Unemployment Rate	15.4%	18.0%	22.3%	27.9%	29.7%
<b>Wage &amp; Salary Employment</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	44.7	45.9	46.2	45.5	44.4
Goods Producing	4.5	4.5	4.4	3.9	3.9
Mining, Logging, and Construction	2.0	1.9	1.9	1.5	1.3
Construction	0.0	0.0	0.0	0.0	0.0
Manufacturing	2.6	2.6	2.5	2.3	2.6
Durable Goods	0.8	0.8	0.8	0.6	0.5
Nondurable Goods	1.7	1.7	1.7	1.8	2.1
Service Providing	40.2	41.4	41.8	41.6	40.5
Trade, Transportation and Utilities	11.2	11.1	11.1	10.5	10.3
Wholesale Trade	1.6	1.9	1.9	1.7	1.6
Retail Trade	7.7	7.5	7.4	7.0	6.8
Transportation, Warehousing and Utilities	1.8	1.8	1.8	1.8	1.8
Information	0.4	0.4	0.4	0.4	0.4
Financial Activities	1.4	1.4	1.4	1.3	1.3
Professional and Business Services	2.6	2.7	2.9	2.7	2.4
Educational and Health Services	2.9	2.9	3.0	3.8	3.7
Leisure and Hospitality	3.3	3.5	3.6	3.4	3.3
Other Services	1.1	1.2	1.2	0.8	0.7
Government	17.4	18.1	18.3	18.8	18.4
<b>Percentage change</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Nonfarm	5.2%	2.7%	0.7%	-1.6%	-2.3%
Goods Producing	6.5%	-0.4%	-2.0%	-12.7%	0.9%
Mining, Logging, and Construction	3.1%	-0.9%	-0.4%	-22.0%	-13.8%
Construction					
Manufacturing	9.3%	0.0%	-3.3%	-5.4%	10.3%
Durable Goods	0.0%	1.0%	-3.0%	-28.1%	-13.0%
Nondurable Goods	14.2%	-0.5%	-3.4%	5.5%	17.9%
Service Providing	5.0%	3.0%	1.0%	-0.4%	-2.6%
Trade, Transportation and Utilities	3.4%	-0.3%	-0.2%	-5.6%	-1.8%
Wholesale Trade	-3.0%	13.7%	1.8%	-11.8%	-3.0%
Retail Trade	6.2%	-3.0%	-0.8%	-6.2%	-2.0%
Transportation, Warehousing and Utilities	-1.8%	-1.4%	0.0%	3.3%	0.0%
Information	0.0%	0.0%	0.0%	0.0%	0.0%
Financial Activities	6.4%	1.2%	-1.8%	-3.6%	-1.9%
Professional and Business Services	19.0%	6.5%	4.6%	-6.1%	-10.0%
Educational and Health Services	3.9%	0.9%	3.4%	27.5%	-3.5%
Leisure and Hospitality	9.0%	6.3%	0.5%	-5.4%	-2.0%
Other Services	11.1%	8.5%	0.0%	-32.6%	-9.5%
Government	3.4%	4.3%	1.1%	2.4%	-1.8%
<b>Levels in millions</b>					
<b>Personal Income</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Personal Income	4.0	4.3	4.7	4.8	4.9
Annual percentage change	7.3%	7.4%	8.9%	2.5%	3.0%
Per capita income (\$)	\$25,463	\$26,742	\$28,641	\$28,681	\$28,761
<b>Taxable Sales</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total taxable sales	2.1	2.3	2.2	1.8	1.9
Year to year percentage change	7.4%	4.9%	-3.3%	-18.6%	8.4%

**TABLE 7B**  
**Imperial County – Forecast Data**

<i>Levels in Thousands</i>				
	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
<b>Population</b>				
Total population	175.7	180.2	184.6	13.2
Annual percentage change	2.6%	2.5%	2.5%	7.7%
<b>Household Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Labor Force	77.1	79.0	81.0	3.9
Total Employment	54.0	57.4	59.6	5.4
Total Unemployment	24.6	26.0	27.5	4.7
Unemployment Rate	32.0%	32.9%	34.0%	4.4%
<b>Wage &amp; Salary Employment</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	44.4	45.3	46.2	1.8
Goods Producing	3.7	3.8	3.9	0.0
Mining, Logging, and Construction	1.3	1.4	1.4	0.1
Construction	0.0	0.0	0.0	0.0
Manufacturing	2.4	2.4	2.4	-0.2
Durable Goods	0.5	0.6	0.6	0.1
Nondurable Goods	1.9	1.9	1.8	-0.2
Service Providing	40.7	41.5	42.3	1.8
Trade, Transportation and Utilities	10.4	10.6	10.7	0.5
Wholesale Trade	1.6	1.7	1.7	0.1
Retail Trade	6.8	6.8	6.8	0.0
Transportation, Warehousing and Utilities	1.9	2.0	2.2	0.4
Information	0.4	0.4	0.4	0.0
Financial Activities	1.4	1.4	1.4	0.1
Professional and Business Services	2.4	2.4	2.4	0.0
Educational and Health Services	3.7	3.8	3.8	0.1
Leisure and Hospitality	3.5	3.6	3.7	0.4
Other Services	0.7	0.7	0.7	0.0
Government	18.3	18.7	19.2	0.7
<b>Percentage change</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total Nonfarm	0.0%	2.1%	1.9%	4.0%
Goods Producing	-4.2%	2.1%	1.5%	-0.7%
Mining, Logging, and Construction	1.2%	4.5%	3.9%	9.9%
Construction				#DIV/0!
Manufacturing	-7.0%	0.8%	0.1%	-6.1%
Durable Goods	1.7%	8.9%	7.0%	18.5%
Nondurable Goods	-9.1%	-1.3%	-1.9%	-11.9%
Service Providing	0.4%	2.1%	2.0%	4.5%
Trade, Transportation and Utilities	0.8%	1.9%	1.6%	4.4%
Wholesale Trade	-0.6%	3.7%	1.9%	5.0%
Retail Trade	0.2%	0.0%	0.1%	0.3%
Transportation, Warehousing and Utilities	4.6%	7.2%	6.4%	19.3%
Information	0.9%	3.9%	0.3%	5.1%
Financial Activities	4.0%	1.7%	0.5%	6.3%
Professional and Business Services	0.0%	-0.1%	0.3%	0.2%
Educational and Health Services	0.5%	1.5%	-0.2%	1.8%
Leisure and Hospitality	5.5%	3.7%	3.4%	13.1%
Other Services	-1.4%	1.9%	1.6%	2.1%
Government	-0.9%	2.3%	2.7%	4.0%
<b>Levels in millions</b>				
<b>Personal Income</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Personal Income	5.2	5.3	5.5	0.6
Annual percentage change	4.5%	3.5%	4.1%	12.6%
Per capita income (\$)	\$29,312	\$29,582	\$30,056	1294.9
<b>Taxable Sales</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>3 Yr. Change '10-'13</b>
Total taxable sales	2.0	2.0	2.1	0.2
Year to year percentage change	3.3%	2.8%	3.1%	9.5%

**TABLE 8**  
**Construction and Real Estate** ('000)

	2008	2009	2010	2011f	2012f	2013f
<b>Orange County</b>						
Permits	3.2	2.2	3.1	5.2	7.1	8.8
Residential Valuation	1,037.7	849.6	1,029.4	1,344.7	1,710.9	2,417.9
Non-residential Valuation	1,439.1	951.6	1,151.9	1,037.5	1,210.0	1,504.8
Percentage Change						
Permits	-55.4%	-30.9%	41.6%	68.1%	37.1%	23.9%
Residential Valuation	-42.1%	-18.1%	21.2%	30.6%	27.2%	41.3%
Non-residential Valuation	-28.2%	-33.9%	21.1%	-9.9%	16.6%	24.4%
<b>Los Angeles County</b>						
Permits	13.7	5.6	7.5	9.3	11.7	15.2
Residential Valuation	3,952.7	2,396.9	2,842.5	3,347.6	3,519.7	4,501.8
Non-residential Valuation	4,488.1	2,670.4	2,676.9	3,199.6	3,555.0	4,768.5
Percentage Change						
Permits	-32.7%	-58.8%	32.2%	24.1%	26.8%	29.4%
Residential Valuation	-33.6%	-39.4%	18.6%	17.8%	5.1%	27.9%
Non-residential Valuation	-5.3%	-40.5%	0.2%	19.5%	11.1%	34.1%
<b>Riverside-San Bernardino Counties</b>						
Permits	9.1	6.7	6.4	6.3	7.3	8.9
Residential Valuation	2,149.4	1,495.1	1,436.9	1,389.8	1,578.0	1,891.8
Non-residential Valuation	1,780.6	709.6	792.4	729.8	862.4	1,000.1
Percentage Change						
Permits	-55.5%	-26.4%	-4.4%	-2.0%	15.8%	23.2%
Residential Valuation	-48.0%	-30.4%	-3.9%	-3.3%	13.5%	19.9%
Non-residential Valuation	-37.0%	-60.1%	11.7%	-7.9%	18.2%	16.0%
<b>Ventura County</b>						
Permits	0.8	0.4	0.6	0.7	1.1	1.2
Residential Valuation	281.2	175.2	181.9	158.8	269.9	342.3
Non-residential Valuation	344.6	153.3	160.4	185.3	250.2	258.2
Percentage Change						
Permits	-54.3%	-52.1%	45.7%	14.2%	65.6%	11.6%
Residential Valuation	-39.5%	-37.7%	3.8%	-12.7%	69.9%	26.8%
Non-residential Valuation	2.3%	-55.5%	4.7%	15.5%	35.0%	3.2%
<b>Imperial County</b>						
Permits	0.5	0.2	0.1	0.1	0.1	0.1
Residential Valuation	62.7	40.5	23.7	28.0	30.2	33.4
Non-residential Valuation	50.1	20.8	33.9	37.2	34.0	36.1
Percentage Change						
Permits	-57.0%	-58.0%	-47.7%	9.2%	-3.7%	7.3%
Residential Valuation	-54.6%	-35.4%	-41.5%	18.4%	7.7%	10.7%
Non-residential Valuation	-46.8%	-58.5%	63.1%	9.7%	-8.5%	6.0%
<b>Southern California</b>						
Permits	27.3	15.1	17.7	21.5	27.4	34.3
Residential Valuation	7,483.7	4,957.2	5,514.3	6,268.9	7,108.7	9,187.1
Non-residential Valuation	8,102.6	4,505.7	4,815.6	5,189.4	5,911.5	7,567.7
Percentage Change						
Permits	-46.3%	-44.5%	16.7%	21.9%	27.1%	25.5%
Residential Valuation	-40.0%	-33.8%	11.2%	13.7%	13.4%	29.2%
Non-residential Valuation	-19.0%	-44.4%	6.9%	7.8%	13.9%	28.0%

Sources: Number of housing permits and valuation data, in thousands, are from Construction Industry Research Board.

# Consumer and Business Finances: How much More Pain? An Overview of the US, California, Southern California and Orange County

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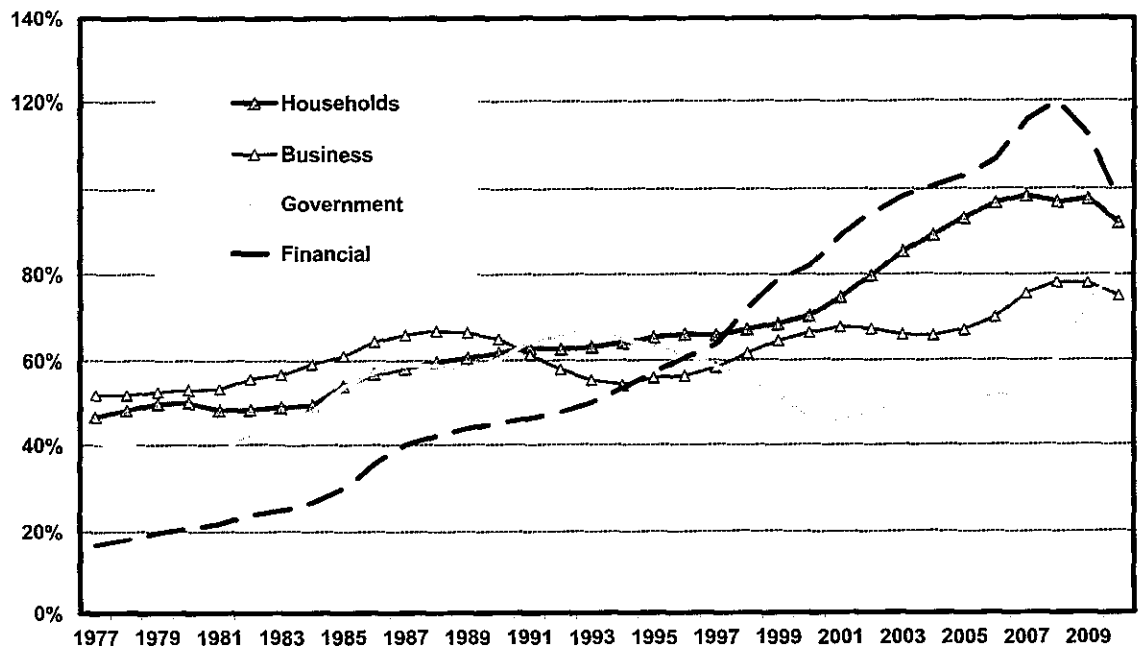
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Debt reduction, or deleveraging, is a long and painful process. In large part, it explains the deep recession and the snail-paced recovery the US and other advanced economies are experiencing. This type of recovery is typically a long slog, lasting on 6-7 years, during which time growth will be especially weak, unemployment will remain high, and the economy particularly vulnerable to shocks. Deleveraging is a lot harder this time around because (a) many advanced economies are reducing debt levels simultaneously, and (b) public debt has replaced much of the private debt so the overall debt levels in many rich countries have barely budged. In the US, total debt as a fraction of GDP has declined from 365% to 335% – but this is still much higher than the historical average of 225% which means that additional significant adjustments are still on the way.

On an aggregate level, the pattern of adjustment for various sectors of the US economy has varied. The financial sector has paid down debts at a faster clip than any other sector, deleveraging from a high of 120% of GDP to 92%. The household sector is second, having reduced its debts from 98% of GDP to 89% as of Q2 2011. The business sector, entered the crisis fairly lean, with an overall debt burden of around 80% which has nudged down to around 73% of GDP (Figure 1). Problematically, public debt levels have sky-rocketed since the crisis as the government scrambled to ease the burden on consumers and banks.

In this special report, we take a close look at the balance sheets of two main players in the US economy: consumers and businesses. Using proprietary data from the leading global credit information company, Experian, based in Costa Mesa, California, we discuss trends at the

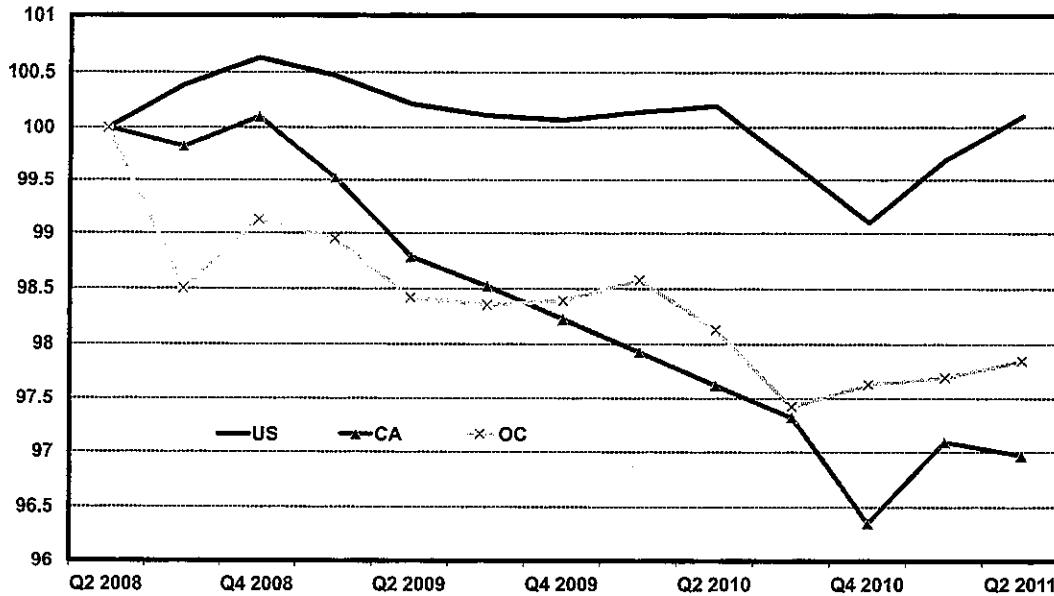
**Figure 1**  
**Debt Levels have Fallen for all but the Public Sector**  
**(debt, % of GDP)**



Source: Federal Reserve Board of Governors and IEES

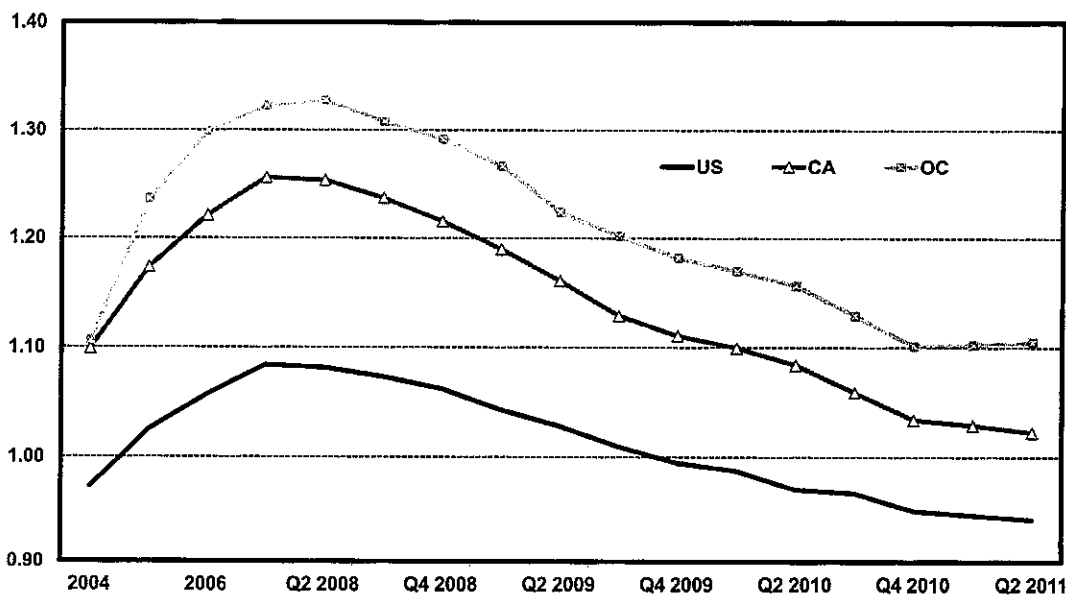
national, state, Southern California, and Orange County level. This rich data set provides a unique insight on the

**Figure 2**  
**Mortgage Debt: US, CA and OC**  
 (Index, Q2 2008=100)



Source: Experian and IEES

**Figure 3**  
**Average Number of Real Estate Trades: US, CA and OC**  
 (level)



Source: Experian and IEES

overall health of consumers and business and the different patterns across regions.

**Consumer Finances**

While not easy, there are four ways of reducing consumer indebtedness: 1) belt-tightening (higher thrift), 2) defaults, 3) higher inflation, and 4) higher growth. Judging from Experian data, the experience of US households since the crisis seems to be a combination of austerity and defaults, which tend to be particularly painful to bear.

However, the pain is not equally spread across areas and regions. For example, consumer balance sheets in Orange County seem to be healthier than the national average, the state of California, and Southern California. Instead, California households are faring worse than the US which is likely due to the severe housing crisis experienced by the state. Since its peak in the

fourth quarter of 2008, overall mortgage debt has declined by 2.1% in Orange County, 3.2% in California and only by a mere 0.5% in the US (Figure 2). Though reductions in mortgage levels are higher in California, most of

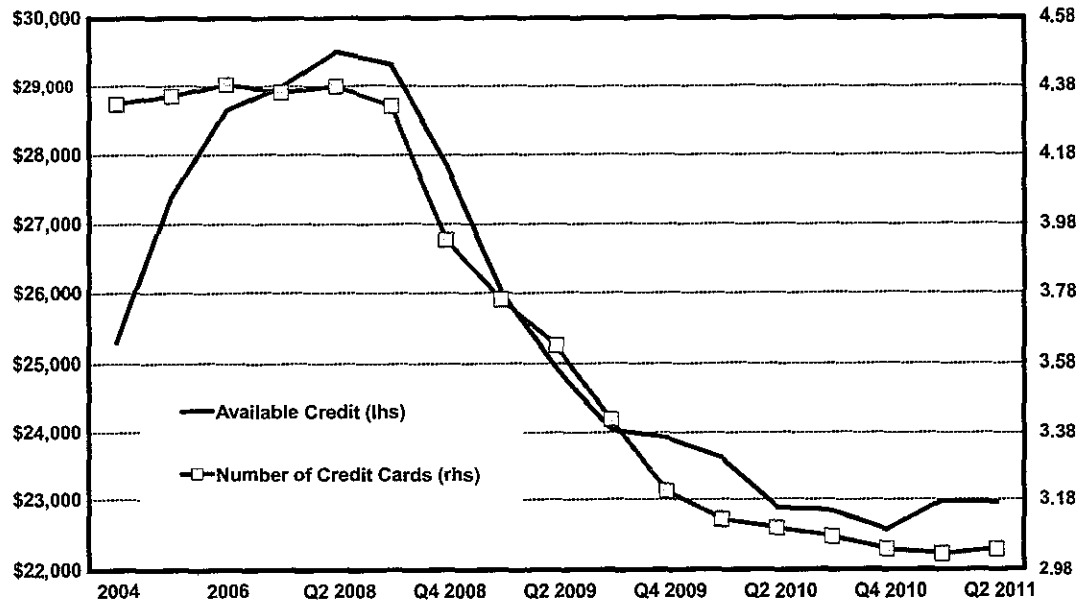
this decline is due to foreclosures (CA is has the third highest foreclosure rate in the nation) rather than genuine payment of mortgage loans.

This is not surprising in light of the view that Orange County foreclosures and mortgage delinquencies are significantly less than the state: OC foreclosures currently stand at 2.09% (compared to 2.71% for CA), whereas mortgage delinquencies are at 6.24% (compared to 8.17% for CA). The strain from mortgage foreclosures in the state can also be gleaned from another statistic collected by Experian – the number of real estate trades. While this number has fallen across the board for OC, CA and US, the numbers of open trades for OC and US are currently back at their pre-boom levels (Figure 3). In contrast, the number of real estate trades for the state of California is even below the levels recorded in 2004, which suggests that much of the mortgage deleveraging in the state is due to defaults and foreclosures.

The deleveraging process has also been much faster for OC and CA consumers relative to the national average. In fact, both in the county and the state, overall debt levels (excluding mortgage debt) are currently below 2004 levels. From their peak in Q3 2008, consumer debt has fallen by 12.4% in Orange County, by 10.7% in California and by 5.7% in the US. But while much of the reduction at the county level seems to reflect real efforts on the part of the consumers to lower debt, deleveraging at the state level seems rather distressed. For example, while the

number of credit cards as well as available credit has shrunk for all regions, the decline is particularly pronounced for the state of California. The average number of open credit cards in the state has fallen from a high of 4.38 at the peak of the boom to 3.04, while average available credit has declined by a total of 21% (Figure 4). This suggests that a significant portion of debt reduction for California consumers is due to closures of credit and home-equity lines by the banks, which places additional strains on household balance sheets.

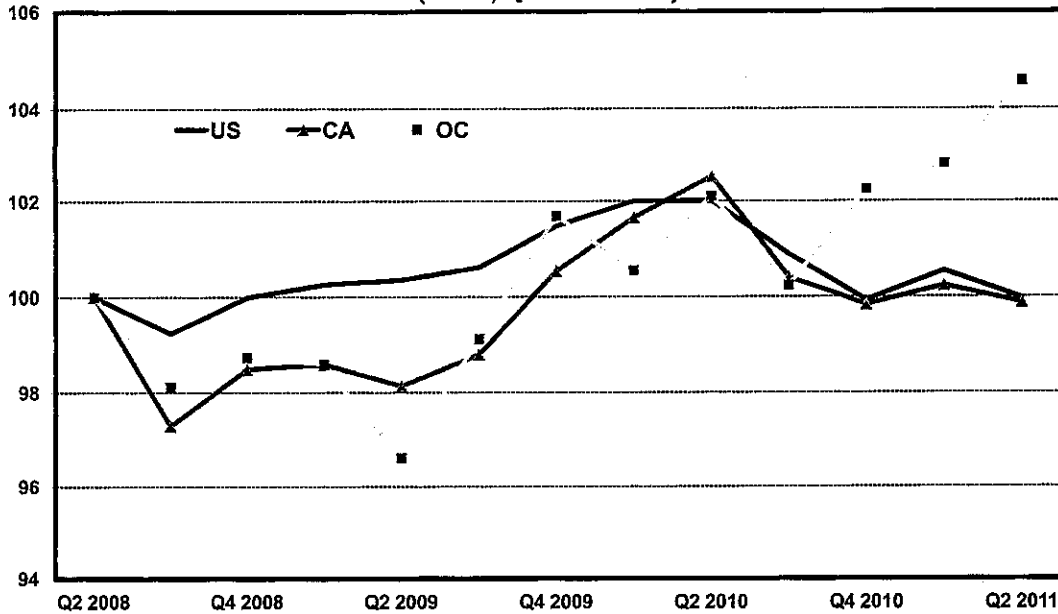
**Figure 4**  
**Available Credit has Shrunk Rapidly for CA**  
**(level)**



Source: Experian and IEES

This trend is further confirmed when looking at the average monthly payments. While payment (as percent of total debt) rose from Q2 2008 to Q2 2010 for California and the US, they have been on a consistent downtrend ever since reflecting slow income growth and high delinquencies (Figure 5). In contrast, Orange County monthly payments have risen in almost every quarter since 2009, which indicates that household balance sheets in the county are mending faster than in the state or the nation.

**Figure 5**  
**Monthly Debt Payments: US, CA and OC**  
 (Index, Q2 2008=100)

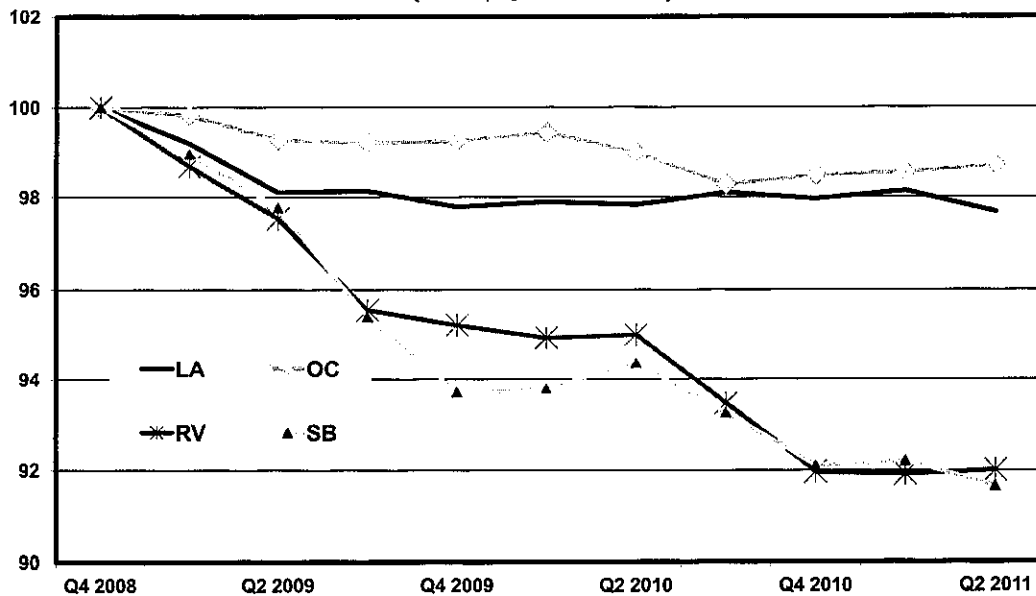


Source: Experian and IEES

Orange County households also seem to be faring better when compared to the rest of the Southern California region (Figure 6). Here, the pain is especially pronounced for Riverside and San Bernardino counties where consumer balance sheets are under a great deal of stress: mortgage and credit card debt has fallen precipitously due to a sharp rise in foreclosures and defaults, average monthly payments continue to fall, and average available

credit has plummeted by more than 25% since early 2008. Worse, the household balance sheets are likely to deteriorate further in the Inland Empire before they improve: at an average of \$227,000, mortgage debt for the two county region is still higher than the \$195,000 average recorded from 2004-2006.

**Figure 6**  
**Mortgage Debt: SoCal Region**  
 (Index, Q2 2008=100)



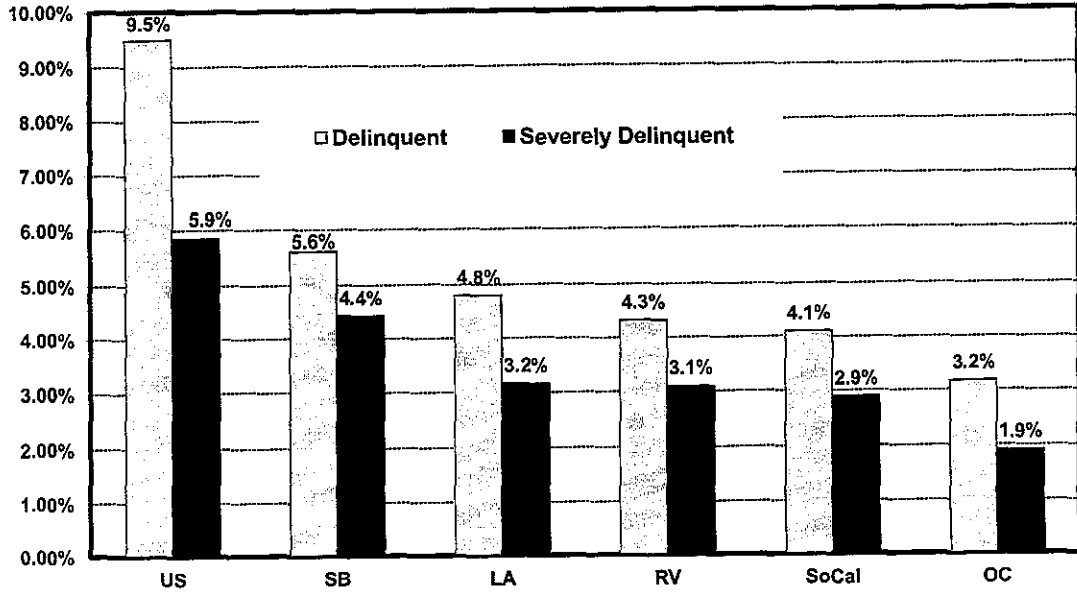
Source: Experian and IEES

Despite their relatively healthier position compared to the rest of the region, the balance sheets of Orange County consumers will need to undergo further adjustments. The average number of late payments though down from peak levels at the height of the recession are still above 2004 levels. More disturbingly, the number of trades that are delinquent more than 30 days has been on a continued uptrend and balances on mortgage debt remain high on a historical basis.

**Business Finances**

The balance sheets of the business sector were in relatively decent shape before the recession; debt in the non-corporate sector never exceeded 30% of GDP whereas for the corporate sector it hovered around 50% (of GDP) for much of the boom period. The challenges for the business sector are largely related to sharp declines in demand during the crisis and the exceptionally weak recovery. Small businesses have had a particularly difficult time in obtaining loans, which has further hampered their ability to plan for potential expansions once demand picks up.

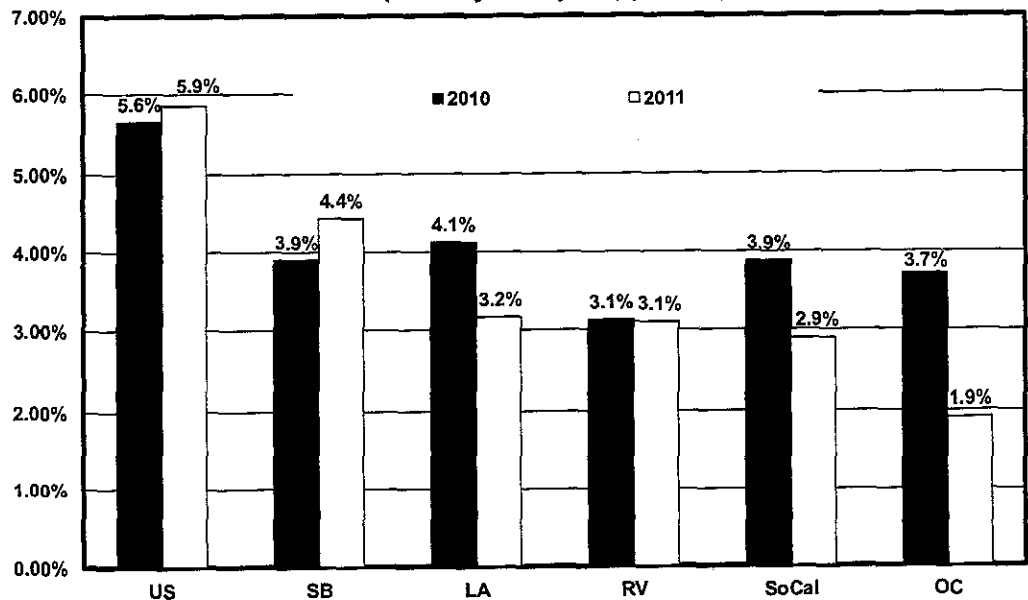
**Figure 7 - Business Finances**  
**2011 Snapshot of Delinquent and Severely Delinquent Dollars: US, SoCal and OC**  
 (percent)



Source: Experian and IEES

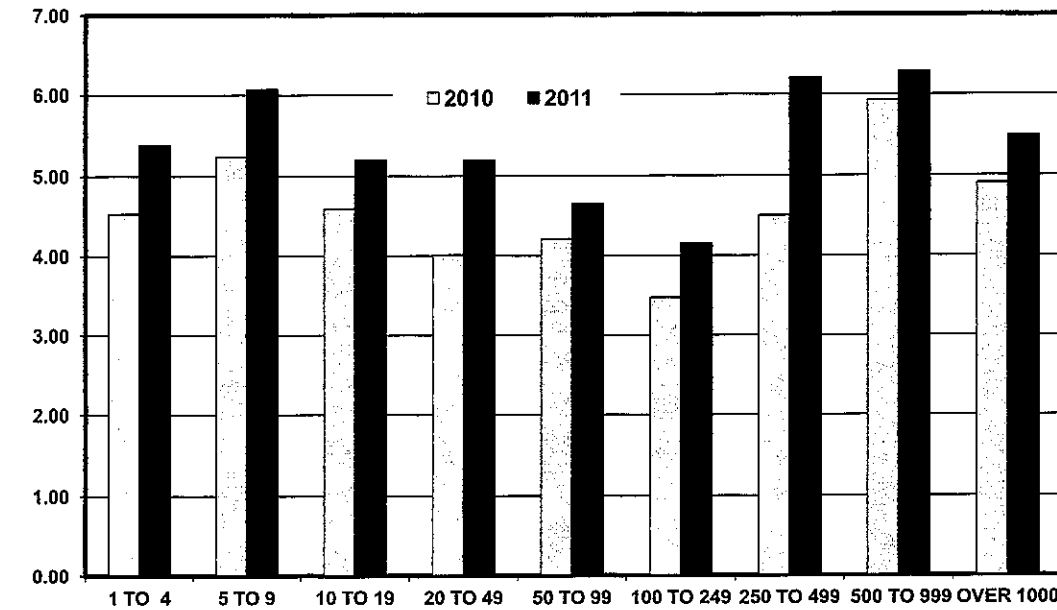
The health of the business sector varies widely by region. A quick snapshot based on delinquency data from Experian, reveals that the overall business landscape is generally healthier for the regional economy compared to the nation. For example, while the overall dollar delinquency was 9.5% for the US, it stood at almost half its value at 4.1% for the Southern California region (Figure 7). Among the various counties, delinquencies are the highest for San Bernardino (5.6%), Los Angeles (4.8%) and

**Figure 8 - Business Finances**  
**Delinquencies have generally fallen for SoCal and OC, but risen for US**  
 (severely delinquent, percent)



Source: Experian and IEES

**Figure 9**  
**OC Business Health By Company Size**  
**Late Payments: Average Number of Days Beyond Term**  
**(level)**



Source: Experian and IEES

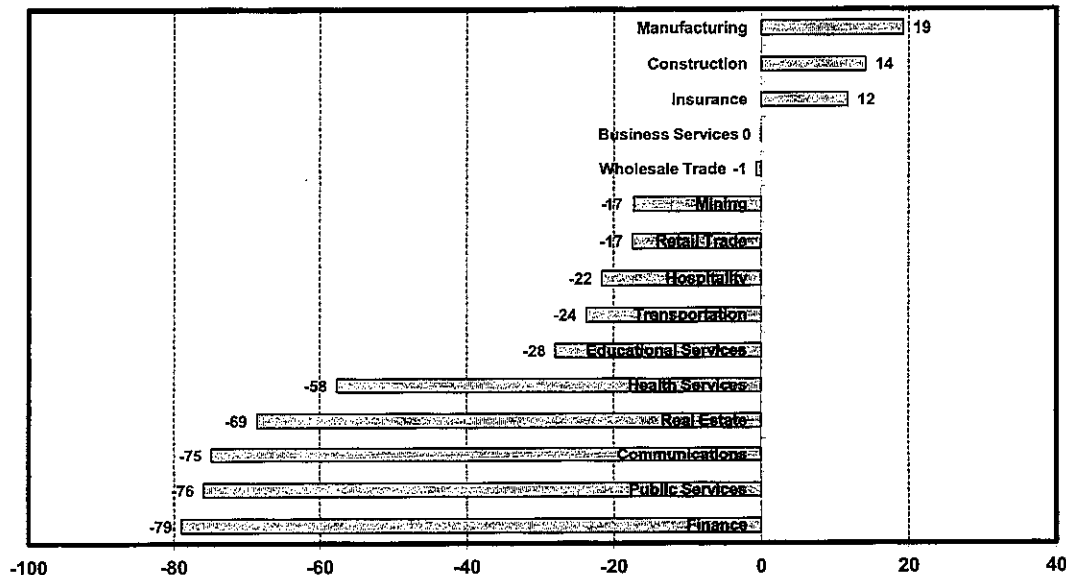
Riverside (4.3%). Orange County had the lowest percentage of dollars delinquent (3.2%) and severely delinquent (1.9%).

While the outlook has deteriorated over the past year at the national level, it has generally improved for the region. The amount severely delinquent for the US has edged up from 5.6% in June 2010 to 5.9% in June 2011, whereas for the region it declined by a full percentage point – from 3.9% to 2.9% – over

the same time. Orange County registered the largest improvements, Riverside stayed virtually unchanged, while San Bernardino showed a deterioration, rising by 0.5% (Figure 8).

Despite these improvements at the county level, business health varies with business size and across sectors.

**Figure 10**  
**OC Business Health By Sector**  
**Percent Change in Severe Delinquencies from One Year Ago**  
**(percent, y-o-y)**



Source: Experian and IEES

From 2010 to 2011, the amount of delinquent debt fell drastically for very small businesses (less than 10 employees) but it more than doubled for very large companies (1000+ employees). Delinquencies also fell dramatically for relatively large companies (between 250 and 1000 employees), but edged up slightly for medium size businesses. More worryingly, average number of days beyond term (which measures the average of days that businesses are late with

payments), has increased across all company sizes, indicating further deteriorations in business finances over the short term horizon (Figure 9).

A few sectors performed better than others: Finance, Government, Communications and Real Estate, Health, and Education Services recorded a decline in severely delinquent rates of more than 60% compared to a year ago. Wholesale Trade and Business Services maintained largely the same delinquency rate as one year ago, whereas Insurance, Manufacturing, and Construction deteriorated further with severe delinquencies rising by an average of 15% on a year-over-year basis (Figure 10).



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I would like to thank the *Experian* staff for invaluable help and support with data. Special thanks go to Michele Raneri, Joyce Hwang, Sandy Royster, Adam Fingersh, Laura DeSoto, Alan Duckworth, and Susan Henson.