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Economy & Efficiency Commission Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

**PRESENTATIONS BY
Mr. Jack Kyser
Chief Economist
Los Angeles Economic Development Corporation LAEDC)**

***Topic: The Economy of Los Angeles County
October 5, 2006***

Chair Hill introduced Mr. Kyser and welcomed him to the Commission.

The Economy of Los Angeles County

Mr. Kyser opened by saying that there is a slow down in economic growth but coming off a strong position since the unemployment rate for California and Los Angeles County is basically at full employment. He elaborated on the public's concern over the peak achieved by the Housing Industry on a national and local level. Federal Reserve Chairman Ben S. Bernanke on 10/4/06 stated housing industry is in the midst of a significant correction. US retail sales; Mr. Kyser noted that everyone is tying the strength of the housing market to consumer spending. The justification is that consumers have been taking out a lot of home equity loans. September retail sales figures reflect that a lot of the major retail chains are profitable, especially the high and low end retailer's are performing the best.

Mr. Kyser noted that after tax corporate profits have been very strong, a positive indicator. Although; there are pressure's building on corporate profits due to low unemployment rates; which means that workers can ask for more money. Los Angeles County still makes a great number of products so business spending on plant equipment is up. The key areas of spending are on Information Processing & Industrial Equipment. This is important since Los Angeles is the nation's manufacturing center in terms of manufacturing employment.

Mr. Kyser also offered information on interest rates. He said that the Feds will probably hold interest rates steady and possibly in the 2nd quarter of 2007 move the rate down. This projection is implicitly tied to inflation. Some good news is that oil prices have backed off, relieving some of the inflationary pressure. The Consumer Price Index for the 5 County Los Angeles Region is running at a much higher rate than nationally. Problems which contribute to this surge are housing cost and energy prices.

The unemployment rate for the state of California has dropped dramatically. There is also strong growth in personal income in the state; it's over 7% year over year. Regional growth patterns reflect that all areas in the state are growing including the Bay area which is a major market for the Travel & Tourism industry. Mr.

Kyser noted there are concerns of what's driving the job growth in the state. A major contributing factor was the housing boom. California showed construction jobs were the largest sector in 2004/2005 and dropped back down in 2006. Mr. Kyser projects construction to drop out of the top three highest producing sectors in 2007/2008.

California tax revenue from personal income, sales & use tax aids in the state towards decent financial shape. A long term issue is the structural imbalance in the states budget. Los Angeles County fundamentals shows an up and down pattern in job growth. The rate of job growth is approximately 50,000 annually which is not bad, but we could do better. Mr. Kyser said this number is driven by a different employment survey and that other players are: Leisure & Hospitality services, Professional, Technical & Scientific Services which provide high wage good quality jobs.

Mr. Kyser addressed the trends of key industries for the County, which included job loss within the Apparel Industry. This sector continues to lose jobs year over year since much of the production has gone offshore. Local industry is changing and a lot of the smaller apparel manufactures are focusing on what they call "quick turn", which delivers finished product in a week's time, or high quality. Mr. Kyser said this industry makes a major contribution to the economy but still struggles as people try to understand the shift in the market.

Mr. Kyser said that there is concern about Department of Defense (DOD) Prime Contract Awards over the next couple of years because there is a huge run-up in DOD spending. People say this level of spending cannot be sustained but in the meantime the military is running their equipment to the down to the bone. The war in Afghanistan and Iraq has caused this situation to manifest itself. Los Angeles County Aerospace products and parts displayed lateral movement up until last week; due to funding for 22 additional C-17 planes. By the LAEDC's calculations this will keep the Long Beach plant open until 2011. Mr. Kyser iterated there would be no surprise if special appropriations came through to build more of the C-17's since the military is using the first wave so intensely and logging more hours than originally expected. As an aside, the contract for the Crew Exploration Vehicle was awarded to Lockheed Martin.

Commissioner Parks asked how the country is going to pay for the war. Mr. Kyser responded that the Administration is facing significant budget challenges in the years ahead. Commissioner Padilla asked how much more is the war costing above that which would normally be spent. Mr. Kyser felt that the war costs are significant; several billion dollars a month above what would be considered "normal".

Cargo traffic at the Ports of Los Angeles & Long Beach is running at record levels. The shipping companies display regained confidence in the Ports capacity to handle cargo, running at 11% ahead of benchmark established last year of total containers handled. Infrastructure bonds 1A & 1B are not polling very strongly and may not do well at the November ballot. The good news is traffic is growing robustly; the bad news is the land side infrastructure has people nervous.

The LAEDC tracks principal photography for motion pictures and the latest reading are 21 feature films shot in LA County, 3 shot elsewhere in California, 32 shot in the rest of the US and 23 shot in foreign locales - 11 of which were shot in Canada. Mr. Kyser expressed the fact that many other states and countries are offering the same Hollywood services but couple it with incentives. These incentives translate into additional job and tax revenues for the applicable states.

The Hotel Industry is running at record levels of occupancy and room rates; they are taking advantage of the decrease in the value of the dollar. Since visa requirements for international travel is quite hard to secure, part of this industry's base is not included for growth. A way around the visa requirement is to be part of a trade delegation. Computer & Electronic product manufacturing struggles as a vast amount of production goes offshore.

Mr. Kyser said the housing industry has moved into a new phase and now exhibit signs of a buyers market. The median home price displays lateral movement and significant buildup in inventory in the resale housing market. New home building over 7 months exhibits a downturn in Riverside/San Bernardino and San Diego, but Los Angeles County as is Orange County is ahead of last years figures. Strengths are in "multi-family"

which includes apartments and condos. They feel that there is a significant glut in the condo market in certain locations. The unsold new housing inventory for the County reveals a substantial increase, aside from the condos in downtown Los Angeles.

Apartments are still strong. Office vacancy rates are coming down and the market is improving. The overall County Industrial vacancy rate is 1.8%, in the central area it's 1.3%. A double impact lends itself to the fact that Los Angeles County is running out of land on which to develop new industrial. Another dynamic observed is that residential developers with deep pockets are going into older industrial areas; the whole east side of downtown. The intent is to buy property for condo conversion. Nobody seems to ask what the implications are to the City's finances when you convert these areas from industrial to residential. Office building permits indicates a small increase, whereas industrial building permits are down. Los Angeles County has no land on which to develop quality jobs. Commissioner Petak pointed out that this loss in jobs will be exacerbated by the increase in residential. Mr. Kyser acknowledged the distortions in the current market. The good news is that there is a lot of money being spent on public construction.

Mr. Kyser noted that job trends for the County display fair improvements. If the County were operating at optimum capacity 75,000 – 100,000 new jobs could be added annually. Los Angeles County has not hit this benchmark for some time now. The last record of such an event was during the Non Farm employment peak in 1991 when approximately 200,000 Aerospace jobs were lost. LAEDC is currently working with the City to take on a more business friendly approach. Another statistic is "Non-Employer Firms". There are about 12,000 of these firms that do not have any paid employees, i.e. real estate, actors, health care.

Key events that Mr. Kyser is playing close attention to are the November election and the state bond issue that is on the ballot. There are some initiatives which make people nervous, especially Proposition 90. Dates for concern include March 2007 when the supermarket contract expires and October 2007 when the Writers and Screen Actors Guild may begin striking. In 2008 Longshoreman contract expires and they want to push more productivity in the way of technical equipment.

Top Challenges for Los Angeles County's Economy

To date, there is no economic development strategy for the County. Research proved that none exist for City of Los Angeles but representatives are thinking about it, the City of Long Beach is trying to develop one. Questions still remain as to what such a strategy might be. There are also unrecognized shifts in the fundamentals of key industries such as apparel manufacturers who now need to focus on a niche of high quality fast turnover production. The motion picture industry is also affected and requires a new way to do business. Infrastructure needs attention with the latest survey gave road quality a very poor rating. Also rail infrastructure is needed since the corridors are reaching capacity. Rail issues are implicitly tied into the fact that there is a shortage of land in the urban core leads to very poor land use decisions. Concerns arise to the impacts to local government financing as housing slows. Most local government had a generous influx of money because homes are selling and the property values are going up. Mr. Kyser said as the real estate market slows a correction will result in less money coming into the cities.

Mr. Kyser commented that the LAEDC would be making an award to the most business friendly city within the County. Chair Hill asked what factors were considered. Mr. Kyser responded that they look at what has been done in terms of business. These cities can often reduce taxes in other areas as a result of their business activities. In closing, Mr. Kyser stated that the business of attracting business operates in a very competitive environment.

Questions and Comments

Commissioner Petak asked about the rationale economic development vs. irrational development. The question is what are the public policy issues in addressing this economic behavior? Mr. Kyser stated that the City of Los Angeles has a de-facto moratorium on conversion from what they call M land to R land. If the conversion is done then there is some type of impact on the business that was displaced. In addition, what are the financial implications for a city as you move from industrial to residential? Some inferences include a higher demand for public safety, police, fire and parks. Commissioner Petak asked if the LAEDC is

focused on how to address this type of issue. Mr. Kyser replied the Southern California Association of Governments asked if the LAEDC would consider constructing an economic development strategy for the County. Mr. Kyser's organization is currently looking for funding to support that effort.

Commissioner Padilla asked how CalWorks influences the preparation for people entering the labor market who have not been employed or participating sub-optimally. Mr. Kyser said he is not familiar with CalWorks but a standard response is the need for individuals that have the ability to read, write and speak English well; good interpersonal skills and computer literate also resonates across the board. High schools no longer teach industrial arts. There is a lot of irrational thinking on land use and education. Commissioner Petak recognized that high schools no longer teach skills.

Mr. Kyser stated that companies want to come to Los Angeles to capitalize upon such things as being an international business center, the transportation systems and the large markets. It will be necessary to look at things in different ways in the future. Commissioner Padilla replied that cities need property tax revenues to accommodate its future fiscal needs. Mr. Kyser responded that a revitalization of an industrial area to residential does not consider what will happen to the jobs that are displaced.

Chair Hill thanked Mr. Kyser for his informative presentation.

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