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No recession on the horizon
LAEDC sees diverse economy helping to offset real estate woes

By Gregory J. Wilcox
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An anemic housing market and strike-battered entertainment sector may drag on the Southern California economy, but the region will still remain strong enough to avoid recession through 2009, a leading forecast said today.

As measured by job creation, the regional economy should grow by 0.5 percent this year and to 1 percent in 2009, said the Economic Forecast and Industry Outlook compiled by the Los Angeles County Economic Development Corp.

Jack Kyser, the LAEDC's senior vice president and chief economist, said the local economy will benefit from the diversity of its employment base.

"We feel that overall, Southern California should escape falling into a recession, but you are going to have spot recessions in some areas," Kyser said, noting that communities hit hard by the subprime mortgage crisis were particularly vulnerable.

"Life is never dull in Southern California."

In a report card on their economic health, five jobs sectors - business and professional services, commercial aerospace, biomedicine, technology and tourism - received grades ranging from A-plus to A-minus.

The business and professional services sector retained the A-plus it received in 2007, primarily due to the legal problems stemming from the credit crisis and resulting housing slump.

"The legal profession is going to get a lot of business out of the subprime lending mess for a couple of years," Kyser said.

The technology sector also retained an A-minus for another year, with venture capitalists continuing to invest in information services and medical devices, Kyser said.

Still, tepid job growth across all sectors is keeping Kyser on a recession watch.

"It's a two-track economy," he said, explaining that housing and related activities are struggling while the rest of the economy is growing, albeit slowly.

"For a lot of people, it's going to feel like a recession," Kyser said. "In a lot of areas, it's going to be very painful."

Daniel Blake, director of the San Fernando Valley Economic Research Center at California State University, Northridge, concurred with Kyser's assessment.

"It's a slowdown," he said, noting that job growth will probably be just one-third to one-half of last year's rate.

Kyser's conclusion also is similar to the UCLA Anderson Forecast for the last quarter of 2007, which predicted that Southern California would be able to resist recession.

Craig Howard, a paper products distributor from Oak Park, agreed with Kyser's outlook for continuing growth.

"I see my clients maintaining the same or improving. But I don't see any of them going down," said Howard, 55, who was attending a job fair at the Hilton Hotel in Canoga Park, where he was on the lookout for possible competition from other markets.

The weakest sector in Kyser's forecast - and the one getting the most attention - is the struggling residential real estate market.

"Basically, the housing industry ... is in a depression," he said. "And anything allied to this industry will continue to suffer."

He does not foresee any improvement in the Los Angeles area until next year and no recovery until 2010 for the Inland Empire, where many residents used subprime mortgages to move into booming neighborhoods.

Kristina Theard, 28, of Porter Ranch is all too familiar with the crisis.

She lost her job early last year in the collapse of mortgage lender New Century Financial Corp. She quit a commercial banking position at the beginning of this month and was at Tuesday's job fair, sponsored by HireQuest, as part of her aggressive job search.

"By the end of the month I'll probably know where I will land, but I definitely want to stay away from mortgage management," she said.

And for good reason.

Kyser, in his annual economic report card, gave the five-county residential construction sector a D-minus based on housing permits obtained by builders.

This year he expects 42,550 permits to be issued, 14.4 percent fewer than a year ago.

Motion picture and television production, also key contributors to the Valley economy, received a C-minus, down from a C last year.

Kyser said the three-month strike by the Writers Guild of America cost the regional economy $2.5 billion. Even with the recent settlement, the pain will linger.

"Some new TV shows will be cancelled and others will not resume full production until the fall season," he said.

Next up is the Screen Actors Guild negotiations and possibly more trouble.

"SAG's leaders are talking tough. So there is growing concern that they will go on strike despite settlements by the two other guilds," Kyser points out.

Some positive factors for entertainment are gains in domestic and international box office revenue. The industry has learned how to use the Internet to market products, and the weak U.S. dollar has also slowed runaway production to foreign locations.

The weak dollar is also boosting local tourism, Kyser said.

CSUN's Blake said that he hopes SAG takes a cue from the Writers Guild pact.

"It would behoove the economy and the entertainment industry if they could get an agreement even before that contract is up," he said.

Q&A ON RECESSION

Q: Who decides when a recession occurs?

A: The Business Cycle Dating Committee of the Natural Bureau of Economic Research (www.nber.org), a seven-member panel based in Cambridge, Mass. While some economists consider a recession to be two or more successive quarters of downward activity, the NBER takes a broader view. It says a recession begins just after the economy reaches a peak and ends as the economy reaches its trough.

Q: Is the nation in a recession?

A: No, the economy is still growing but at such a slow pace it feels like a recession. However, because of the ongoing housing slump, the residential real estate sector is considered to be in a recession.

Q: What do some of these indicators say now?

A: U.S. employment dropped in January for the first time in four years. Real personal income ticked downward in the last quarter of 2007 but is edging back up to September levels. Industrial production is recovering from a 0.6 percent drop in October.