Quarterly Report

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The Troubled Southern California Economy

The 1990-1992 recession has been particularly severe in the Los Angeles area. Employment levels have dropped at a rate far exceeding the nationwide rate, with job losses occurring even in normally more stable service sectors. This sharp recession comes at the end of a decade of change for Southern California. During the 1980s, the defense industry expanded as a major employer, foreign immigration played an increasingly large role in population growth, and negative business climate factors—from housing costs to worker compensation costs, from traffic congestion to growth control—grew in prominence. The severe recession, accompanied by these changes, has led many to predict that the Los Angeles area's economy is in the midst of a permanent restructuring, one that will leave the area in a very different competitive position than it held in the 1980s.

This article draws from ongoing research at the Center for Real Estate and Urban Economics to examine the changes that have occurred in the four largest Los Angeles area counties—Los Angeles, Orange, Riverside, and San Bernardino. These four counties, which comprise three separate "metropolitan statistical areas" (MSAs), capsulize the economic issues facing the region.

A Severe Recession

From 1990 through the first five months of 1992, employment levels dropped far more sharply in the Los Angeles area than nationwide or statewide. Total nonagricultural wage and salary employment dropped by 1.5% nationwide from 1990 to 1991, and by 2.4% on average in the nation's metropolitan areas (excluding rural areas). In comparison, California lost 2.6% of jobs, while the Los Angeles area lost 4.5% of jobs. The most severe job losses were in Los Angeles County, where employment dropped by over 200,000 in 1991 (a rate of 4.9%). For the first five months of 1992, job growth leveled out nationwide, with losses at a rate of only 0.2%. The nation's metropolitan areas continued to lose employment at an annual rate of 1.2% in 1992, California's jobs dropped by 1.5%, and the Los Angeles area lost 2.3% of jobs. Los Angeles County again had the highest rate of loss, at 2.5%, but Orange County was close behind, at 2.4%, and job losses grew in the Riverside-San Bernardino area, from a rate of loss of 0.9% in 1991 to 1.2% in 1992 (see Figure 1).

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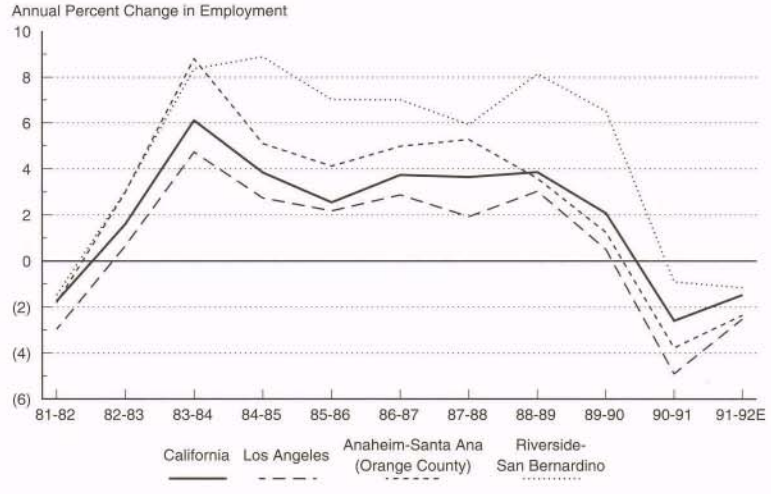
FIGURE 1
Nonagricultural Employment, Annual Growth Rate
Los Angeles Area MSAs – 1981-82 to 1991-92



Source: CREUE from Bureau of Labor Statistics data.

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Sectoral Losses Vary by Metropolitan Area

For the Los Angeles area as a whole, construction, manufacturing and retail trade account for the greatest number of jobs lost, as they do statewide and nationwide. Regionwide, 30.4% of jobs lost in 1991 and 41.6% of jobs lost in 1992 were in manufacturing (see Table 1). Construction jobs accounted for 19.5% of jobs lost in 1991 and 15.6% of jobs lost in 1992, while retail trade accounted for about 20% of jobs lost in both 1991 and 1992.

Job losses in Los Angeles County were particularly troubling, as they were spread broadly among industrial sectors. While manufacturing accounted for 29.5% of jobs lost in 1991 (close to the regional average), construction played a smaller role than in other parts of the region, accounting for 11.3% of job losses. Retail trade accounted for 19.4% of

TABLE 1
Employment Impacts of Recession
Los Angeles Area and the Rest of State

	Total Employment (thousands)	Annual Rate of Change		Percent of Employment by Sector		
				Total Jobs	Job Loss (or Gain)	
Place	1990	1990-91	1991-92E	1990	1990-91	1991-92E
Los Angeles Area (4-County)						
Total Nonfarm	6,179.1	-4.2%	-2.3%			
Mining	11.1	-4.5%	-6.5%	0.2%	0.2%	0.5%
Construction	282.8	-18.0%	-9.2%	4.6%	19.5%	15.6%
Manufacturing	1,196.5	-6.6%	-5.1%	19.4%	30.4%	41.6%
Trans & Pub Util	292.2	-1.6%	-1.5%	4.7%	1.8%	3.1%
Wholesale Trade	419.4	-7.2%	-2.4%	6.8%	11.5%	6.7%
Retail Trade	1,024.9	-5.2%	-2.9%	16.6%	20.4%	20.6%
F.I.R.E.	419.3	-4.4%	-2.4%	6.8%	7.1%	7.0%
Services	1,716.7	-1.7%	-0.6%	27.8%	11.3%	7.3%
Government	816.1	0.8%	0.3%	13.2%	-2.4%	-2.1%
Rest of State, minus Los Angeles Area						
Total Nonfarm	6,651.0	-1.1%	-0.7%			
Mining	28.8	-2.1%	-8.2%	0.4%	0.8%	5.1%
Construction	367.6	-13.3%	-7.0%	5.5%	67.8%	46.5%
Manufacturing	930.3	-2.3%	-2.7%	14.0%	30.0%	51.2%
Trans & Pub Util	341.6	-0.3%	-1.2%	5.1%	1.2%	8.5%
Wholesale Trade	355.5	-1.7%	-1.7%	5.3%	8.5%	12.3%
Retail Trade	1,216.5	-1.3%	-1.0%	18.3%	22.7%	26.3%
F.I.R.E.	419.9	-0.3%	-0.3%	6.3%	1.7%	2.5%
Services	1,732.2	1.5%	1.7%	26.0%	-35.2%	-62.6%
Government	1,258.7	-0.2%	-0.4%	18.9%	3.1%	11.3%
United States						
Total Nonfarm	109,921	-1.5%	-0.2%			
Mining	710	-2.7%	-8.0%	0.6%	1.2%	31.8%
Construction	5,133	-8.7%	-3.2%	4.7%	27.8%	80.7%
Manufacturing	19,117	-3.5%	-1.4%	17.4%	41.1%	145.5%
Trans & Pub Util	5,808	-0.6%	-0.6%	5.3%	2.2%	18.2%
Wholesale Trade	6,200	-2.1%	-1.6%	5.6%	8.1%	56.8%
Retail Trade	19,677	-2.1%	-1.1%	17.9%	25.9%	119.9%
F.I.R.E.	6,729	-0.8%	-0.3%	6.1%		

Source: CREUE from BLS data.
Note: In the final column, some job loss or gain percentages appear very high (e.g., for the U.S., manufacturing or services). This occurs because net losses are relatively high in some sectors (e.g., manufacturing), while others have gains (e.g., services), balancing out losses and making the total job losses more moderate.

Los Angeles County jobs losses in 1991, and services accounted for a troubling 17.3% of jobs lost. This pattern, while serious, is less extreme than losses experienced in some northeastern cities such as Boston and New York, which have suffered a 10-12% loss in jobs since their 1989 peaks, and have experienced about one-fourth of this loss in services. Los Angeles job losses have slowed in 1992, but continue to affect all sectors of the economy.

Orange County shows the more typical recessionary pattern observed statewide and nationwide, with job losses concentrated in construction, manufacturing and retail trade. The Riverside/San Bernardino MSA overall experienced far more modest job losses than either Los Angeles or Orange County. While in 1991 most of the MSA's nonmanufacturing sectors were still growing, losses in construction and manufacturing more than exceeded job gains in other sectors. Construction employment losses alone, at 15,800, were more than twice the total job losses in the MSA (6,700 jobs), reflecting the sharp cutback in building activity. The MSA lost 4,100 manufacturing jobs, while gaining employment in retail, finance/insurance/real-estate, services and government. Many of the MSA's nonmanufacturing sectors lost jobs in 1992, but construction and manufacturing continued to account for the largest share of jobs lost.

Los Angeles Area Dominates Statewide Losses

If the Los Angeles area were excluded from California statistics, the recession in the rest of California would appear far less severe. Los Angeles and its neighbors are responsible for far more than their representative share of job losses in the state. Overall, the four counties account for just under half of employment statewide but for three-quarters of jobs lost in 1991 and 1992. The Los Angeles area accounted for half of jobs lost in construction statewide, for three-quarters of the state's manufacturing job losses, and for 90% of finance/insurance/real estate jobs lost. The Los Angeles area lost almost 40,000 jobs in services between 1990 and 1992, while the rest of the state gained over 50,000 services jobs.

These Southern California counties, then, are moving not with the state and nation, as they have in the past, but away from current trends. Conditions are far more severe in the Los Angeles area in this recession than they have been in other recent recessions. This raises the concern of how much of this difference is due to the effects of the recession on the Southern California job mix, versus how much is due to long term changes in other factors that affect the Los Angeles area's competitiveness.

Vulnerability in the Los Angeles Economic Structure

The underlying composition of the region's key employment sectors have made the area particularly vulnerable to job losses in this recession. The export base of the region's larger metropolitan areas (Los Angeles and Orange) has been closely tied to defense-related employment, while the smaller Riverside-San Bernardino area has been highly dependent on construction-related industries. This can be seen by looking at Los Angeles area industrial sectors with high *location quotients*. A *location quotient* is a relative measure showing whether a local area has more than its "natural" share, based on nationwide averages, of employment in a sector (technically, it is the ratio of local employment in a single sector to total local employment, divided by the ratio of national employment in the sector to total national employment). Export industries, (also called basic industries) are generally defined as having a location quotient significantly greater than one.

Figures 2, 3 and 4 show major employment sectors with location quotients greater than one in one or more of the Los Angeles area counties. Los Angeles County, in particu-

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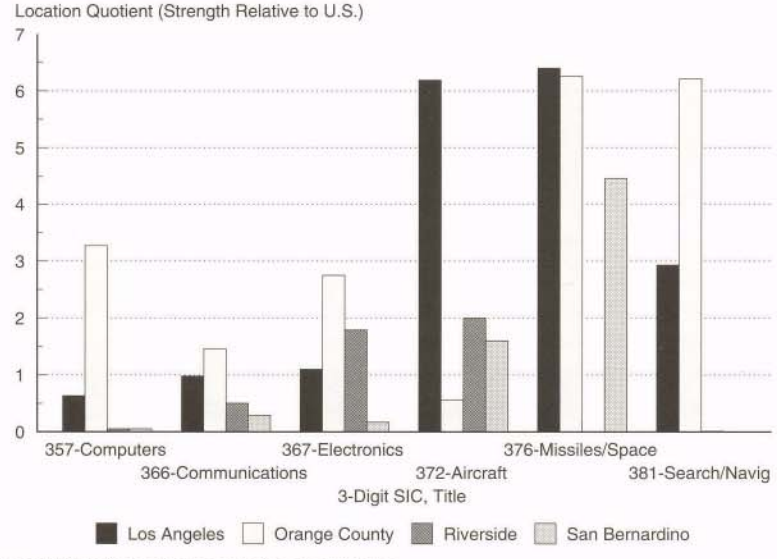
FIGURE 2
Industries Showing High Levels of Export Activity, Los Angeles Area — High Tech Manufacturing



Source: CREUE from County Business Patterns.
Note: A location quotient greater than one indicates the county is exporting beyond the region.

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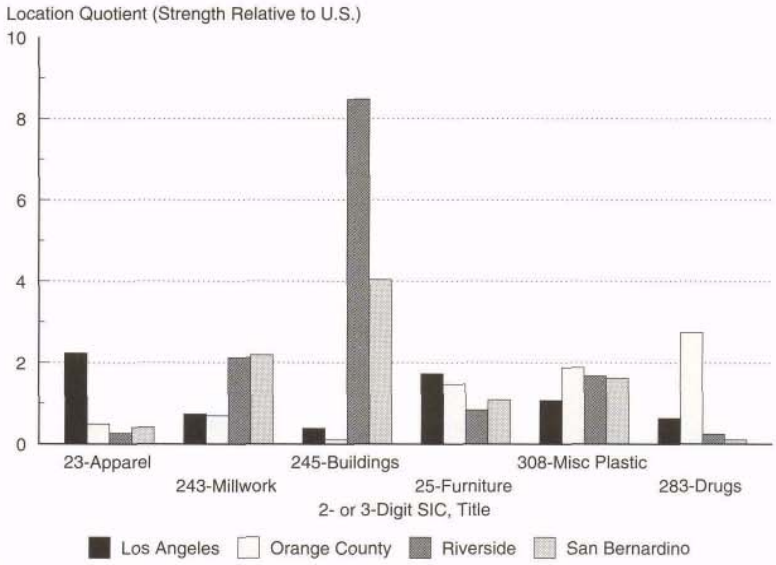
lar, is heavily dependent on defense. Of the major high tech sectors, Los Angeles has high location quotients only for aircraft (SIC 372), guided missiles and space vehicles (SIC 376), and search and navigation equipment (SIC 381). Orange County appears far more diversified, with location quotients of two or higher for computers (SIC 357) and electronic equipment (SIC 367), as well as for search and navigation equipment and for guided missiles and space vehicles. Both Los Angeles and Orange County show some strengths outside of high-tech manufacturing. Other Los Angeles export sectors include lower skilled manufacturing sectors, such as apparel and furniture, functions related to international trade, such as air transportation and transportation services, and the movie industry. Orange County diversification leans more towards higher skilled manufacturing and technical services sectors, such as drugs (SIC 283), and engineering and architecture (SIC 871). Riverside and San Bernardino counties show evidence of some dependence on defense combined with heavy dependence on manufacturing sectors related to building activity, such as millwork (SIC 243) and manufactured buildings (SIC 245). Both Orange County and the Riverside-San Bernardino MSA also have significant tourism-based employment (e.g., SIC 79).

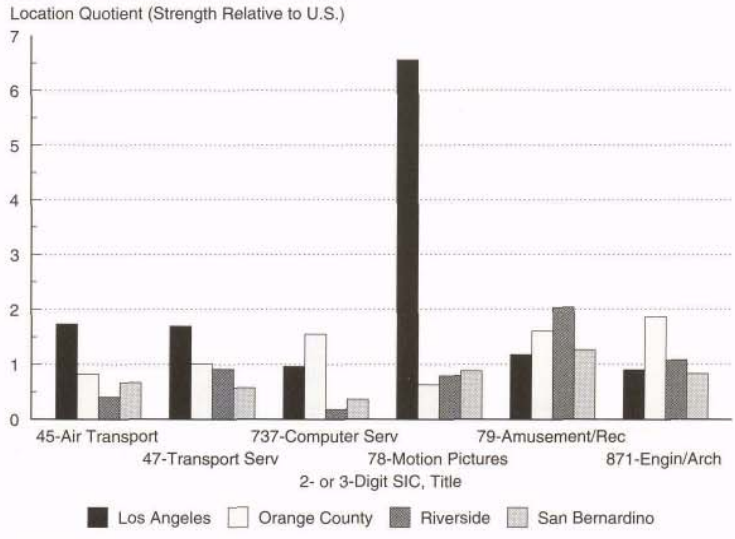
Key Southern California industries that are performing poorly nationwide are performing more poorly in the Los Angeles area. The difference in degree of loss appears to be related, at least in part, to the degree of dependence on defense-related industries. The Los Angeles area shows proportionately very high shares of employment losses in all of the high tech manufacturing sectors. For example, with 43.7% of statewide employment in industrial machinery (including computers), the Los Angeles area accounted for 69.7% of jobs lost statewide in this sector between 1990 and 1992 (see Table 2). In its dominant sector of transportation equipment (SIC 37; largely defense related), the Los Angeles area accounts for about two-thirds of employment statewide but for almost four-fifths of employment losses. Among high tech sectors, transportation equipment has the highest rate of job loss both statewide and in the Los

FIGURE 3
Industries Showing High Levels of Export Activity
Los Angeles Area — Other Manufacturing



Source: CREUE from County Business Patterns.
Note: A location quotient greater than one indicates the county is exporting beyond the region.

FIGURE 4
Industries Showing High Levels of Export Activity
Los Angeles Area — Distribution and Services



Source: CREUE from County Business Patterns.
Note: A location quotient greater than one indicates the county is exporting beyond the region.

TABLE 2
Estimated Two-Year Employment Change: Los Angeles Area Total Nonagricultural, Business Services, Defense Industry Related and High Tech Sectors Employment:1990 to 1992 (Employment in Thousands)

Change in Employment: 1990-1992	Nonagricultural Employment	Key Defense Industry and High Tech Sectors				Total Defense Related	Business Services (SIC 73)
		Industry Machinery (SIC 35)	Electrical Equipment (SIC 36)	Transportation Equipment (SIC 37)	Instruments (SIC 38)		
L.A. Area:							
Los Angeles	-325.2	-5.7	-11.6	-30.2	-12.8	-60.3	-30.6
Anaheim-Santa Ana	-73.9	-2.5	-4.6	-3.8	-1.4	-12.3	-6.1
Riverside-San Bernardino	-7.9	-0.3	0.5	-2.0	0.2	-1.6	-0.4
Total, L.A. Area	-407.0	-8.5	-15.7	-36.0	-14.0	-74.2	-37.1
California	-466.0	-12.2	-27.9	-46.1	-16.3	-102.5	-22.5
L.A. Area Share of State	87.3%	69.7%	56.3%	78.1%	85.9%	72.4%	164.9%
Percent Change in Employment: 1990-1992							
L.A. Area:							
Los Angeles	-7.6%	-9.6%	-17.9%	-18.6%	-13.9%	-15.9%	-1.2%
Anaheim-Santa Ana	-6.1%	-7.8%	-12.3%	-13.0%	-3.9%	-9.1%	-7.5%
Riverside-San Bernardino	-1.1%	-6.0%	10.4%	-13.2%	5.4%	-5.6%	-1.5%
Total, L.A. Area	-6.6%	-8.8%	-14.7%	-17.4%	-10.6%	-13.7%	-9.9%
California	-3.6%	-5.5%	-10.7%	-15.3%	-7.2%	-10.1%	-3.1%
U.S.	-1.5%	-7.8%	-8.2%	-7.5%	-5.9%	-7.4%	0.0%

Source: CREUE from BLS data.
Note: Changes are estimated using average employment for the first five months of each year. This gives an annual average estimate, rather than a peak-to-trough estimate.

Angeles area. (At the nationwide level, where the rate of loss is less extreme in SIC 37, the sector includes a greater share of nondefense related industries). Within high tech sectors, the worst growth conditions appear for Los Angeles County, perhaps because of the county's particularly high level of dependence on defense industries. In contrast, Orange County and the Riverside-San Bernardino areas have performed better than the state as a whole for both SICs 37 and 38.

In construction related sectors, the Los Angeles area's losses are much more closely in line with its existing share of activity (see Table 3). The Los Angeles area experienced employment losses only slightly above average in construction and in stone/clay/glass manufacturing, relatively low losses in lumber and wood products, especially in Los Angeles County, and far higher than normal job losses in rubber and plastics manufacturing and real estate. Orange County and the Riverside-San Bernardino MSA performed more poorly than Los Angeles County in most construction-related activities. Nationwide rates of loss are far less for these sectors, reflecting California's very high rates of building activity in the past decade.

Perhaps most troubling in observing the Los Angeles area's economy is the experience with business services—a diversified sector not necessarily tied to defense, real estate, or any other single sector. In Los Angeles and Orange counties, this sector has experienced high rates of job loss, especially when compared to the State and the nation.

A Shift in Relative Growth Rates

It is tempting to attribute the poor performance of the Southern California economy to the specific conditions of the 1991-1992 recession and to the downsizing of the defense industry. However, a look at relative growth rates of Los Angeles area MSAs compared to the U.S. as a whole suggests that the slowdown in growth began more than a decade ago, and is not simply recession-based.

The *differential shift* is a measure of the difference between local growth rates and national growth rates, for a particular industrial sector. Trends in this index are disturbing for the Los Angeles area. Figure 5, for example, compares percentage

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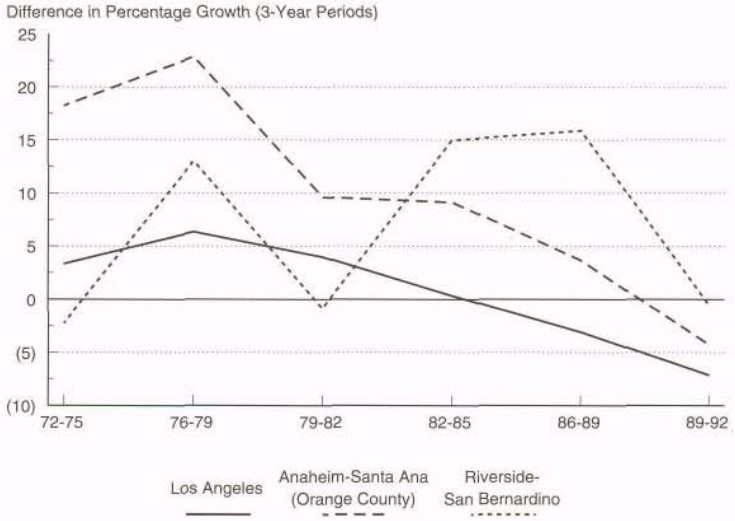
growth in manufacturing employment for three-year periods for the Los Angeles area and the nation, over the past two decades. Both Los Angeles and Orange Counties grew more quickly (or lost jobs more slowly) than the U.S. throughout the 1970s and into the early 1980s. This growth-rate advantage continued even in through periods that included recessions (e.g., 1972-75, 1979-82). Since 1979, however, both MSAs have experienced a steady decline in their growth rate differentials compared to the nation. Los Angeles has grown at the U.S. rate or more slowly since 1982, while Orange County slipped from a position of strong advantage through the mid-1980s to one of a negative differential (slower growth) in the current recessionary period. The Riverside-San Bernardino area has shown a more cyclical trend, growing much more rapidly than the nation during periods of expansion, and dropping to a negative differential during recessions.

Similar (although less extreme) shifts are occurring in nonmanufacturing sectors such as the industrial categories of finance, insurance and real estate (FIRE). In FIRE categories, Orange County's strong advantage in the 1970s, became more moderate in the 1980s, and growth slipped below the U.S. rate after 1989. Los Angeles experienced growth close to the U.S. level for most of the past two decades, but experienced a much sharper drop, into a position of disadvantage, in the current recession compared to earlier periods. Only the Riverside-San Bernardino area has performed better in this recession than it did in earlier recessions.

It is not necessarily surprising that the growth differential of the larger Southern California MSAs over other areas has been narrowing over time.

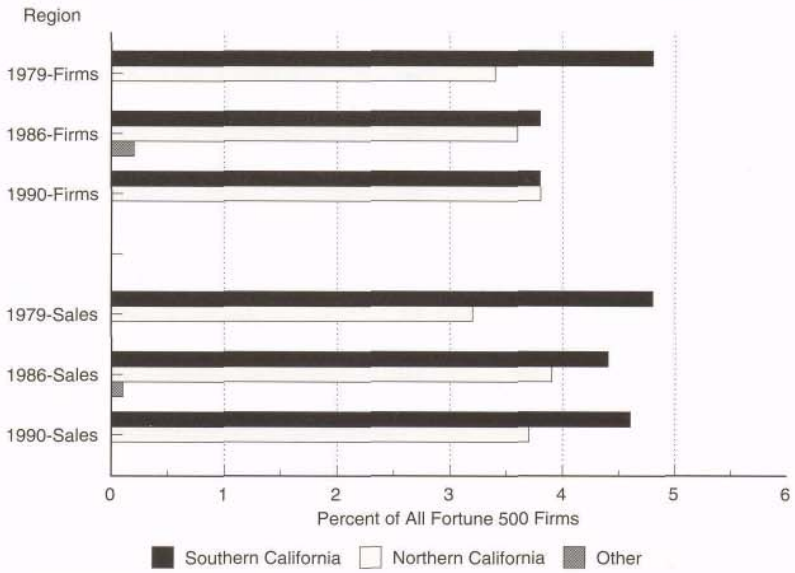
FIGURE 5
Growth Rate Differentials, Los Angeles Area Compared to U.S., Three-Year Periods Manufacturing Employment, 1972-1992



Source: CREUE calculations using BLS data.

This is a natural process that is likely to occur, especially as a rapidly expanding suburban area, such as Orange County, matures into a more moderately growing urban area. However, both Los Angeles and Orange County have experienced significant job losses during the current recession. If they do not regain some of their growth rate advantage as the nation recovers, these metropolitan areas will be faced with continuing social and economic problems over the next decade.

FIGURE 6
Trends in Fortune 500 Companies California Regions, 1979, 1986 and 1990



Source: CREUE from Fortune Magazine.

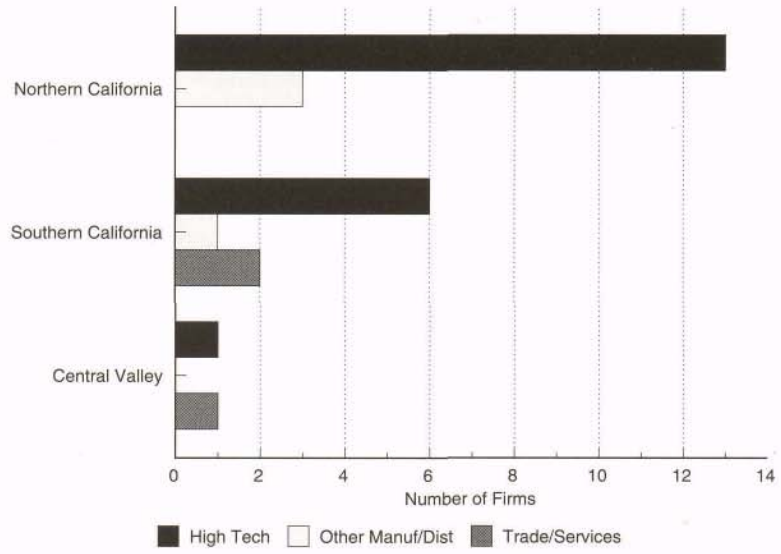
Business Climate and a Changing Labor Force

While to some extent the slowing of the Southern California economy can be seen as a natural maturing process, concern also exists that these changes represent more than the naturally slower growth of a larger urban area. A poor business climate, shifts in population characteristics, and weak business entrepreneurship are also possible problems associated with slower growth. Many of the business climate factors—workers compensation laws, traffic congestion, environmental regulations, anti-growth sentiments—are statewide factors and do not explain differences between Southern California and the rest of the state. Indeed, for much of the 1980s, Southern California counties had the reputation of being more hospitable to business expansion than their San Francisco Bay Area counterparts. Labor force and entrepreneurship factors, however, are more unique to Southern California.

Los Angeles is one of the California counties most heavily affected by foreign immigration over the past decade. The county received a net inflow of 1.13 million foreign immigrants during the 1980s, compared to a net population increase of 1.39 million for the decade. As a result, the labor force is probably the most diverse in the state. As shown in Table 4, almost one-fourth of the county's population are not U.S. citizens, compared to 14.9% statewide. While many new immigrants come with skills or capital, others present educational challenges to the public sector. Over 15% of the county's adult population speaks English poorly or not at all. Educational skills are bifurcated, with the county showing high proportions in both the least educated and most highly educated categories for the adult population.

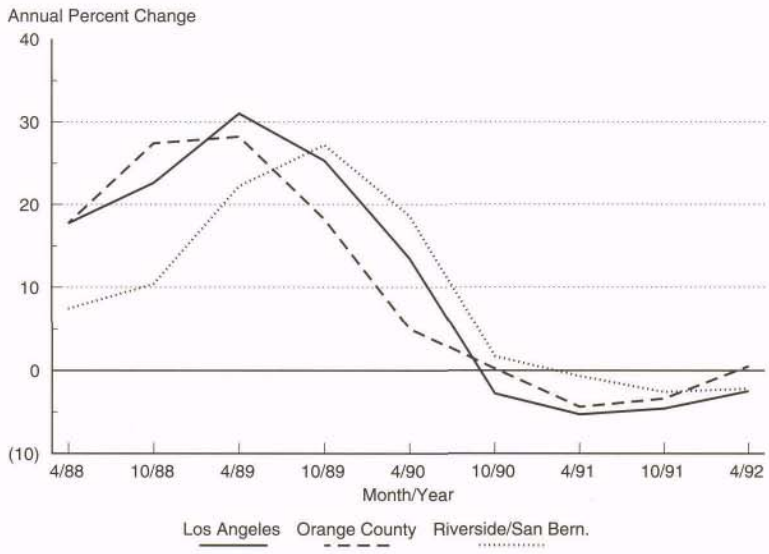
The Los Angeles data should not necessarily be interpreted to mean that a high level of immigration necessarily leads to a drop in skill levels. Orange County has also had relatively high levels of foreign immigration, compared to the state as a whole, and has a relatively large share of non-English-speaking adults. Nevertheless, its proportion of high-school drop-outs is smaller than average, and the county has a very high proportion of college graduates. Even in Los Angeles County, high drop-out levels are no greater in 1990 than they were in 1980. Riverside and San Bernardino Counties have

FIGURE 7
Southern California Share of INC-100 Firms, 1989
(100 Fastest Growing Small Firms in the U.S.)



Source: CREUE from INC Magazine.

FIGURE 8
Annual Percentage Change in Home Prices
Los Angeles Area MSAs, 1988-1992



Source: Real Estate Research Council of Southern California. CREUE July 1992.

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expanded rapidly through domestic immigration, rather than through foreign immigration. These counties have historically had a relatively less skilled labor force, with far fewer college educated adults than are found either statewide or in other parts of Southern California.

The implications of the region's changing demographic base are mixed. Much of the area's skilled labor force remains in the area, a factor likely to keep many existing firms in the area and to generate growth of new firms. An influx of lower skilled, non-English-speaking immigrants presents challenges to the educational and social system, but has also allowed the region to maintain lower labor costs than would otherwise be expected.

Business Movement, Entrepreneurship and Growth Potential

Much of the concern over Southern California's future centers on the perceived outmigration of firms from the region. The Los Angeles Economic Development Corporation has identified at least 238 firms that have moved part or all of their operations from Southern California to other states since 1989, representing a loss of almost 60,000 jobs. However, a full picture of trends requires a look at the type of firms leaving, growth of remaining firms and the establishment and expansion of new firms.

Our preliminary research suggests that Southern California is losing competitive advantage in a number of diverse areas. Within the defense industry, the region has experienced not only a drop-off in contracts but also some significant moves of firms to other states. Extrapolating from the EDC data indicates that more than one-fifth of Los Angeles area job losses in SIC 37 (primarily defense-related) are attributable to firm movement out of state, and that over 30% of industrial equipment job losses (many of which are not defense-related) are attributable to firm movement. Credit agencies and transportation services firms are also shifting some significant establishments to nearby states. Firms sensitive to environmental constraints are sometimes moving beyond the United States entirely, as with the movement of several furniture manufacturers to Mexico.

Losses of firms are occuring among the largest companies. Some

TABLE 3
Estimated Two-Year Employment Change: Los Angeles Area
Nonagricultural Employment, Construction and Real Estate Related Sectors
1990 and 1992 (Employment in Thousands)

		Key Construction and Real Estate Related Sectors					
Change in Employment: 1990-1992	**Non-agricultural Employment**	**Construction (SIC 15-17)**	**Lumber and Wood Product (SIC 24)**	**Rubber and Plastics (SIC 30)**	**Stone, Clay and Glass (SIC 32)**	**Real Estate (SIC 65)**	**Total Construction & Real Estate Related**
L.A. Area:							
Los Angeles	-325.2	-36.1	-2.1	-3.1	-3.6	-5.3	-50.2
Anaheim-Santa Ana	-73.9	-19.7	NA	NA	-1.0	-3.8	NA
Riverside-San Bernardino	-7.9	-23.8	-2.0	-0.3	-1.0	NA	NA
Total, L.A. Area	-407.0	-79.6	NA	NA	-5.6	NA	NA
California	-466.0	-150.4	-14.7	-4.5	-9.4	-9.2	-188.2
L.A. Area Share of State	87.3%	52.9%	NA	NA	59.6%	NA	NA
Percent Change in Employment: 1990-1992							
L.A. Area:							
Los Angeles	-7.6%	-22.9%	-16.0%	-9.0%	-19.8%	-8.3%	-2,120.0%
Anaheim-Santa Ana	-6.1%	-28.8%	NA	NA	-23.8%	-12.3%	NA
Riverside-San Bernardino	-1.1%	-36.2%	-25.3%	-4.5%	-14.3%	NA	NA
Total, L.A. Area	-6.6%	-27.3%	NA	NA	-19.0%	NA	NA
California	-3.6%	-23.0%	-21.6%	-5.7%	-16.6%	-4.5%	-14.3%
U.S.	-1.5%	-12.6%	-9.1%	-1.9%	-8.7%	-1.6%	-9.2%

Source: CREUE from BLS data.
Note: Changes are estimated using average employment for the first five months of each year. This gives an annual average estimate, rather than a peak-to-trough estimate.

TABLE 4
Demographic Characteristics of the Southern California Population

County	Citizenship Status (Percent)			Educational Attainment (Percent)		Percent Speaking English Poorly	
	U.S. Citizen						
	Native Born	Foreign Born	Not a Citizen	Less than HighSchool	College Graduate	Aged 5-17	Over 18
Los Angeles	67.3%	8.9%	23.7%	30.0%	22.3%	9.2%	15.4%
Orange	76.1%	7.2%	16.6%	18.8%	27.8%	7.8%	10.5%
Riverside	85.2%	4.6%	10.3%	25.9%	14.6%	4.2%	7.0%
San Bernardino	86.8%	4.2%	9.0%	24.6%	14.9%	3.4%	5.7%
California	78.3%	6.8%	14.9%	24.8%	20.8%	6.1%	9.5%

Source: CREUE from U.S. Census of Population, 1990.

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permits are down by 60% in Riverside-San Bernardino, by 67% in Los Angeles, and by 76% in Orange County. Retail and industrial permits are also down sharply. The slowdown in construction is outpaced by the drop in demand, leading vacancy rates to rise in all nonresidential products (see Figure 9). While growing vacancy rates are in part due to the current recession, they also reflect years of overbuilding in the face of a long-predicted drop off in demand.

Critical Factors in a Five-Year Outlook

Recent trends in Southern California reflect some longer term changes as well as the more immediate results of a recession. However, to concentrate only on the level and pace of job decline is to ignore the very large, diverse employment and human resource base remaining in the region. With a large consumer market, a growing labor force, and expanding international markets, the Southern California area continues to have a strong foundation for job retention in many sectors and for job development in some new areas. Some critical questions that face the region are: 1) Can the highly skilled, displaced defense workers be retained and directed to new employment or business development opportunities? 2) To what extent will new business growth build on the growing immigrant labor force, taking advantage of their skills and lower costs? 3) Environmental constraints in the region are real—which businesses can grow and flourish within these constraints? 4) Will lower real estate costs and available commercial and industrial space make business retention more feasible? 5) Can statewide business climate issues be resolved to make retention of existing firms more likely?

The most pessimistic outlook for the region would assume that jobs would continue to leave the area at a rapid pace, that skilled workers would follow jobs out of the region, that real estate prices would drop precipitously, and that unemployment would continue to rise, along with many social ills. A more optimistic picture would be that the job losses will level off over the next year, that weak real estate prices would discourage skilled workers from "cashing in" and leaving the area, and that a new range of businesses would begin to expand, offering entrepreneurial opportunities for displaced skilled workers and employment possiblities for less skilled workers. Forces moving in favor of the more optimistic outlook are the inertia of many companies (most prefer to make nearby rather than distant moves), the lower cost real estate market, and the qualities of the diverse and often highly skilled labor force. Risks of realizing the more negative possiblities come from deteriorating services and administration from state government and the possibility of a major earthquake or continued civil unrest. Even under the more optimistic outlook, recovery from this recession is likely to be slow, with improvements in unemployment rates and job growth lagging the nation. The Southern California economy that emerges from this recession will be less dependent on defense and quite possibly less high-tech oriented and less affluent than it was relative to the nation a decade ago.

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The Center for Real Estate and Urban Economics, founded in 1950, promotes research in real estate finance and construction, land use, and urban and regional development. It serves as a practical forum for academics, government officials, and business leaders and sponsors creative and thoughtful academic research and executive education programs with the goal of promoting understanding and encouraging innovation in the field of real estate. There were no contractors or sub-contractors used in the preparation of this publication.