

Economic Outlook 2008 Mid-Year Report

Economy Crawls Through 2008

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During the course of the year, Long Beach's traditional revenue sources posted lackluster performances as a direct result of the sluggish national economy. Property taxes, for instance, are expected to be \$2.5 million less than last year's projections, and the Transient Occupancy Tax will likely yield \$500,000 less than the forecast.

The estimated losses could have pushed Long Beach's budget into the red, if not for the rising cost of oil – also a byproduct of the economy. According to city officials, oil revenue is expected to top \$11.8 million in fiscal year 2008, which ends in September.

"I don't think anyone could have predicted the run-up in oil," says Long Beach Mayor Bob Foster. "What we have facing us next year is . . . a structural deficit in this budget. We're going to have to bring it into balance. My hope and my commitment is that we can do this within our existing revenue sources, and I'm confident . . . we can put a budget together that will do that."

While high energy prices may fare well for Long Beach's budget, consumers are feeling the impact on their wallets. The price of Wilmington crude oil currently hovers around \$145 per barrel and gasoline costs more than \$4.50 a gallon.

In addition to softening consumer confidence, today's prices are pushing up the cost of other commodities, creating a ripple effect. As a result, businesses are changing the ways they operate and the services they offer.

Jack Kyser, senior vice president and chief economist at the Los Angeles County Economic Development Corporation, notes the international trade industry could experience a setback as importers examine cheaper ways to move goods. For example, he says, transporting cargo

through the Panama Canal – instead of going through the West Coast ports and sending cargo on trains – may be a new option for companies looking to keep their costs down.

Kyser is also closely watching the travel and tourism industry because fuel prices continue to pose challenges for drivers and airlines alike. "You have a lot of people who are changing their vacation plans," he says. "The other thing, of course, is airline service as the airlines are pulling back on less profitable routes. So we have our fingers crossed that we don't get too badly hit."

On a more positive note, international tourism is steady, given the weak value of the dollar. A recent memorandum of understanding between the U.S. and Chinese governments is expected to transform California into a vacation destination for Chinese tourists, while the openings of Toy Story Mania in Disneyland and The Simpson's Ride at Universal Studios will call attention to local attractions.

The aerospace industry should also have a good year, Kyser says, noting that he expects The Boeing Company to receive additional orders for C-17 aircraft, which would be good news for Long Beach.

More good news for the International City is that its diverse economy has largely shielded it from trends emerging across the nation. While surrounding areas such as the Inland Empire and Orange County are feeling the pressures of the housing fallout, Long Beach has managed to hold up.

"You'd have to say for Southern California, some areas are in recession – like Riverside, San Bernardino and Orange County," Kyser says. "Others, like L.A. County, are sort of on the knife point."

UCLA economists, meanwhile, uphold their "no recession" forecast for the national economy – though the economic outlook through the end of 2009 is "decidedly sub-prime," according to UCLA Anderson Senior Economist David Shulman.

Figures show the national economy grew by one percent during the first quarter of 2008, and Shulman expects GDP growth to average “a very tepid” 1.2 percent from the third quarter of 2007 through the end of 2009.

Kyser shares a similarly guarded outlook, noting that while media headlines tend to be gloomy, the national economy has weathered worse conditions.

“Things will improve in 2009, but it’s going to be a slow recovery,” he says. “It will be 2010 before we really get back to where people feel comfortable about what’s going on with the economy. And a lot of that is due to just the hangover from housing.”

City Views

Moving forward, city leaders from Long Beach, Signal Hill and Carson are cautiously optimistic about the way in which the national economy plays out locally.

On the one hand, Foster says, the weak dollar has contributed to flat import volumes. But on the other hand, American manufacturing and products are becoming much cheaper overseas, which bodes well for Long Beach’s export industry.

“I think it’s going to be a year in which everyone’s going to have to make some changes. We’re going to have to try to figure out how we live in a new world with high oil prices – probably not as high as they are now in the long run – but certainly very unlikely it’ll go back to very low levels,” he says.

“I think national policy is going to have to reflect a real drive to get us off of Mid-East oil, and that’s going to take some changes in the economy,” he adds. “When you have changes in the economy, you’re going to have some disruptions and you’re going to have volatility.”

Signal Hill – which also boasts a strong petroleum sector – is poised for a mixed year ahead, according to City Manager Ken Farfsing. Automobile dealerships and retailers that offer good deals, for example, should continue to do well.

“We’re hanging in there with a three percent growth forecast in overall sales tax for next year. Part of our situation here is that we’re kind of driving forward, but we’re looking through the rearview mirror,” he says. “We don’t get our sales tax data from the state until six months after it’s actually occurred. . . . It’ll be interesting to see those – to see how we did compared to a year ago.”

In addition to a number of commercial projects, Signal Hill is continuing work on capital improvement develop-

ments that will yield long-term economic benefits. A \$15 million police station at Walnut Avenue and 27th Street is slated to start construction in early 2009 and is expected to be complete within one year.

Another \$1.6 million has been allocated toward street improvement projects, such as resurfacing roads citywide. Additionally, the city is working with the Long Beach Redevelopment Agency to prepare for the widening of Cherry Avenue at Pacific Coast Highway.

Despite the economic downturn, Carson is still moving forward, says Mayor Jim Dear, noting the city’s healthy reserves. He expects to see continued development on the renovation of SouthBay Pavilion and the construction of the Avalon at South Bay, which are both located along the 405 Freeway. University Square – on the northwest corner of Albertoni Street and Avalon Boulevard – broke ground in February, with completion planned for the end of this year.

“I believe that Carson and Long Beach and our neighboring cities are going to weather this storm quite well,” he says. “It may not be a full recession, and I’m praying that that’s not the case.” ■