

Long Beach

BUSINESS JOURNAL

January 18-31, 2011

Economists: Recovery To Be Slightly 'More Visible' During 2011

Economic Outlook 2011



Photograph by the Business Journal's Thomas McConville

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After a yearlong increase in trade activity and a healthy rise in consumer spending during the holidays, economists are now singing a more upbeat tune for economic recovery in 2011, though the new year still has its own set of uncertainties.

As California's new governor, Jerry Brown, begins to outline ways to fix a near \$25 billion state budget deficit, attitudes toward reducing government spending and spurring economic development have taken a new turn. Recent employment gains are not enough to offset the job loss caused by the recession, and many experts still foresee a tough road ahead for private industry and the housing market as federal stimulus funding plays less of a role in the nation's recovery.

Still, experts said the economy is becoming more settled, financial services are loosening up and investors are looking to back projects. Congress, in last-minute decision-making, extended tax cuts and some benefits in a compromise to maintain the pace of the slight rebound. Overall, economic forecasters say stability is set to gradually continue with more pronounced growth later this year.

"The difference between 2011 and 2010, is that [economic recov-

ery] is going to be visible in more places and in more industries," said Nancy Sidhu, chief economist for the Los Angeles Economic Development Corporation's Kyser Center for Economic Research. "There's been some industries, to begin at least, [to show] a distinct change in activity last year and that will continue . . ."

According to the latest UCLA Anderson Forecast, the Federal Reserve plans to purchase \$600 billion in bonds until June in an effort to keep long-term interest rates low and stimulate consumption and investment. As the economy improves more rapidly, a 3 percent growth in the nation's GDP is predicted by the end of the year while inflation is expected to be at or above a predicted rise of 2 percent, according to the forecast.

High Unemployment, Foreclosures Still Concerns

Long Beach remains a "microcosm" of what is seen throughout the Los Angeles metropolitan area, and it's even more important the job market is going to lead recovery, according to Gary Painter, associate professor for USC's Lusk Center for Real Estate. He expects this year to still have a fair amount of foreclosures on the market.

Slight improvements in prices for both residential and commercial sectors are expected, Painter said, with construction to start

picking up again, but no extreme changes. "I'm optimistic that there will be improvements, I just don't want people to have their hopes set too high that there will be dramatic improvements," he said.

UCLA's forecast predicts unemployment to remain above 9 percent nationwide until late-2012. Data released in December for November by the state's employment development department shows a 12.4 percent unemployment rate for California, a 13 percent unemployment rate for Los Angeles County and a 14.3 percent rate for Long Beach.

Jerry Nickelsburg, a senior economist for UCLA and co-author of the forecast, said most of California's economic activity is likely to mirror last year's conditions with continued growth and no indication of a "double dip recession." But the growth is still not enough to topple the relatively high unemployment. A predicted 1.6 percent overall growth in hiring this year isn't nearly enough to make up for the 1.3 million jobs lost in California during the recession, he said.

The problem is that while businesses have increased productivity, many are still reluctant to increase hiring due to technological challenges, increased competition and the global marketplace. The encouraging sign though is that "economic growth eventually has to lead to job growth," Nickelsburg said.

"Our expectations for 2011 are we're going to see in the first half of the year, similar types of slow growth, additions to the work force but not such that's going to drive down the unemployment rate in a dramatic way," he said. "As we get towards the second half of the year, things start to pick up and we'll be growing faster."

Joe Magaddino, local economist and chair of California State University, Long Beach's economics department, agreed that the rise in employment late last year was not enough to dramatically improve the unemployment rate. He said 2010 ended with a net loss of jobs.

In order for strong economic growth this year, the country needs at least 250,000 to 300,000 new jobs every month to not only provide for new entrants [to the workforce] but also to bring down the number of people currently on unemployment, he added.

"The problem is that [2011] is really not going to be robust economic growth," Magaddino said. "Every year we have about one million new entrants into the labor force so at the national level, even if everyone kept their job, we still would see a rise in unemployment unless we generated a million extra jobs."

Even if hiring improves this year on the local level, that might not help Long Beach residents since statistics don't reflect a true representation of the local economy, he added. Some unemployed have even stopped looking for work altogether and have moved in with relatives or are receiving other financial assistance.

Some Thriving, Some Struggling

There have been, however, some encouraging signs of more widespread improvement in Long Beach and across the state, say economists. Magaddino predicts the logistics industry (encompassing transportation, international trade and port-related services) to be the first to continue hiring again this year along with the hospitality and tourism industry, which has seen slight sales gains recently. Healthcare is also in a good position, he said, driven by the region's demographics. Some smaller sectors to pick up include financial services, professional and business services and temporary employment.

On the other hand, other sectors are still expected to struggle this year, holding off on new hiring until the country fully rebounds. Public education, for instance, is going to have to make major cuts due to state reductions while government jobs are in much the same position of being furloughed if not eliminated

across the state. The retail trade sector is still a question, Magaddino added.

Boeing announced last year that it would be extending the C-17 aircraft program to 2013 due to the potential of 10 more orders from India after slowing production and positioning as a global firm. But Magaddino said the aerospace industry is going to eventually move out of the Long Beach area entirely, it's just a matter of when. The loss would be a major blow to the local economy since about half of the manufacturing jobs in Long Beach (about 10,000 jobs including contractors and suppliers) are related to aerospace, Magaddino said.

"[Long Beach] may not be the most cost effective place to engage in manufacturing, so that may happen," he said. "The later it happens certainly the better for the economy because those are relatively high skilled, high wage jobs, but it actually will happen."

Nickelsburg added that [from a regional perspective], while the defense budget has been substantially reduced, there still appears to be life in commercial aerospace, and most companies in the highly competitive industry today are moving forward more on a year-to-year basis.

Trade Growth To Subdue

For 2011, international trade growth through the San Pedro Bay ports isn't expected to be as sharp as last year, according to Sidhu, who predicts only a 5 to 10 percent rise in cargo volumes by year's end.

Data shows that during 2010 the Long Beach and Los Angeles ports combined experienced about an overall 20 percent increase in cargo volume activity compared to 2009. Long Beach had a near 24 percent boost over the prior year for November, while Los Angeles had an overall 16 percent increase for all of 2010 compared to 2009.

The reason for the big surge last year, Sidhu said, had a lot to do with retailers, wholesale distributors and manufacturers "refilling pipelines" for new consumers and replenishing stock after the recession fallout. In an effort to scrimp and save during the downturn, many businesses had allowed shelves to gradually empty out, all the way back through manufacturing and even in Asia.

But now that many of those pipeline distributions and inventories are backfilled, trade levels are expected to depend more on "fundamental levels of demand," she said. A good sign, however, was that last year reflected a GDP growth rate of 2.8 percent with inventories accounting for about 1.5 percent and the other half coming from consumer spending. "That's a very good sign and that's usually what happens – consumer spending dominates the activity in the economy," Sidhu said. "So we consumers, by spending all the stuff, are the primary buyers, if you will."

Cities Balancing Shortfalls

Many local cities experienced double-digit drops in sales tax revenues due to the economic downturn, which, when coupled with increased expenses, left Long Beach and other cities in a deficit situation. But economists see somewhat better conditions this year with rising auto sales and other big-ticket items along with improved holiday spending and tourism gains that show a slight turn around.

Mayor Bob Foster said the city must continue to look at providing incentives for private activity and investments, along with making processes simpler, faster and more efficient. But private industry isn't going to survive on incentives alone, he added. "I think you have to be realistic about this, what this is going to take is a very commercial-friendly attitude on the part of the city and it's going to take a pretty robust private sector to pull us out of this recession," he said.

Additionally, the city has to make more cuts and changes early on in order to alleviate shortfalls projected for the next three to four years, Foster added. "That is something we're going to try to grapple with on a multi-year basis not just deal with one year at a time. We're able to do that and do it, I wouldn't say without any pain, but I think we've done pretty well in keeping essential services going . . . particularly the police and fire departments [which] really stepped up to the plate and have managed to do their job with fewer resources."

One major area of reform needed, Foster said, is the city's pension obligations, which if aren't addressed soon could lead to a collapse of the entire system. The city currently has a \$1.2 billion unfunded liability in the CalPERS system, with contributions unable to keep up with the pace of requirements, he said. The mayor's proposal includes new pension rules, such as increasing the retirement age, reducing the formula percentage, increasing contributions from employees and a new tier for new workers.

"It's going to be a major concern for the foreseeable future," Foster said. "We simply will come to a time where we just can't afford this. To put a fine point on this, for every dollar we spend on public safety salaries we'll have to set aside 45 cents for pension costs. That's how high it is . . . We've got to solve this and it has to be done quickly."

Construction On The Rise

The biggest bright spot for this year may be the handful of construction projects, totaling billions of dollars in Long Beach and many of which have been in planning for nearly a decade, now slated to get underway. Foster said the projects are expected to generate hundreds of needed local jobs.

Projects expected to break ground this year include the Middle Harbor project at the port, the Gerald Desmond Bridge replacement project, the new courthouse project downtown, the Alamitos Bay Marina rebuild project, the Airport's new concourse/terminal project and capital improvements along the Tidelands.

"I think we're set to have really robust construction spending in Long Beach in 2011," Mayor Foster said. "I think the bright side is you're going to see a pretty good injection of construction dollars, along with all that activity coming into Long Beach."

While employment continues to be a major concern, Signal Hill City Manager Ken Farfsing said the city is expecting modest improvements as projects are also set for construction this year. "I think because of the situation with the banks and savings and loans, the lending market is starting to loosen up a bit and we're starting to see some interest in residential construction," he said. "We basically have not had residential construction in probably two years."

One residential project includes construction of a three-story condominium complex called "Pacificwalk" at Orizaba and Pacific Coast Highway with 54 units. Commercial projects include a new transfer facility and separate administration headquarters for EDCO Waste Services, Inc. and a new In-N-Out Burger at the Signal Hill Gateway Center, expected to open later this year. As auto sales have picked up, a new dealership called Hooman Nissan has also recently opened on Spring Street at the Signal Hill Auto Center.

Carson Mayor Jim Dear said he is "very optimistic" about the economy and expects a slow, gradual rebound. He's also confident there will be more jobs created in 2011.

Some Carson milestones this year include Vintage Capital, the new owner of the South Bay Pavilion Mall, moving forward with

plans for expansion and a \$150 million project for remediation of the 168-acre Boulevard at South Bay, along with additions to the Carson Street Corridor. "I definitely feel there's more certainty," he said. "I feel there's a sense of confidence and I see indicators that give me hope."

New Governor, New Budget

Although Foster points out that the passage of Proposition 22 makes it harder for California to grab from local governments, many officials say the state's financial woes are going to affect cities across the state, including Long Beach.

The Governor Brown's recently announced "realignment" of the state budget indicates the possibility of eliminating local redevelopment agencies (RDAs) and doing away with enterprise zones, which have been the city's main tools for removing blight and providing business incentives.

In initial reactions, Foster said Long Beach would be greatly affected by the loss of redevelopment projects used to improve areas affected by poverty and crime. In addition, the city stands to lose benefits of the enterprise zone, which offers state tax breaks for hiring low-income workers and equipment purchases to businesses in a 41-square-mile radius. "Whenever the state has a budget deficit the size that it has, you always have to be on guard of whether they're going to take from local government," Foster said.

The new plan proposes to cut close to \$12.5 billion from the state's budget, with all RDAs abolished, effective July 1, through urgency legislation, with existing debt being paid through the creation of a new entity, according to Tom Modica, Long Beach director of government affairs.

That would cause Long Beach to lose close to \$60 million in RDA tax increment if passed, according to Modica, accounting for \$16.6 million for low and modern income housing set-aside funds and \$43 million for projects and supporting programs such as graffiti abatement, code enforcement, neighborhood improvement and administrative costs for FY 2011.

RDA funds are attached to many different projects moving forward this year, including the new \$490 million courthouse project. City officials said the state's plan would negatively impact the city's General Fund. In addition, the city has \$68.5 million in public projects approved for the next three years, which would all be at risk, including the North Long Beach Library, the Eastside Police Station and four parks.

Last year, the city issued 6,900 employee vouchers to local businesses in the enterprise zone worth a total of \$86 million. "This is a huge economic development and annual tax program," Modica said. "It would be tax credits we would be no longer able to offer."

Farfsing said the Signal Hill Redevelopment Agency has been a major part of restructuring the city's oil-hilled landscape into a community of bustling businesses and livable neighborhoods. "The agency here cleans up contaminated soil, closes old oil wells, basically takes these little parcels and puts them all together and cleans them up," he said. "If the governor and legislature decide to move forward with eliminating redevelopment . . . it raises a lot of uncertainty and it makes it difficult for us to move ahead with projects."

Mayor Dear, who said he already turned over millions in redevelopment funds to the state last year, is also at odds with the plan. "My question is, if you were to eliminate redevelopment agencies, what solution do you have in its place to eliminate blight and create jobs, and beautify and strengthen a city's vitality?" Dear said. ■