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CEO's Corner

Trade is having an increasingly important impact on the economy of Southern California. According to the Los Angeles Economic Development Corporation, one out of every 14 jobs in Southern California is directly related to international trade. As SDI's Senior Economist Kelly Cunningham points out in this month's Economic Ledger, San Diego has been steadily reaping some of the rewards of increased globalization, with the value of goods coming through the San Diego Customs District growing by more than $40 billion since 1993.

Critical to our continued success in the trade game is the willingness of the region to invest in its trade infrastructure. The modern economy is built on speed of delivery. Companies want to minimize the amount of time that goods sit in warehouses. Hundreds of billions of dollars have been spent by the logistics and manufacturing sectors to implement "just-in-time" manufacturing processes, and component parts go from the loading dock to final product in record time. This minimizes inventory, speeds the delivery of products to market, and produces tremendous savings

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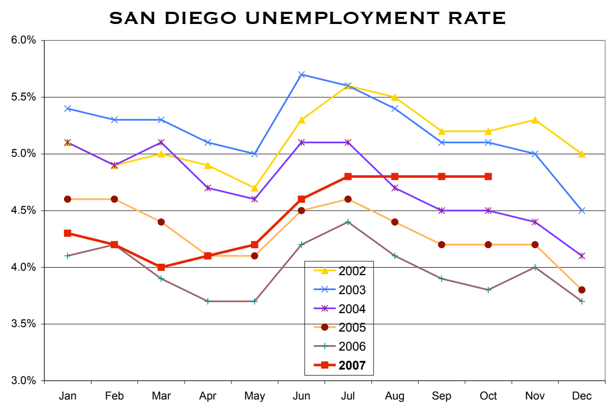
Dashboard Observations

by Kelly Cunningham, Economist, Sr. Fellow



Indicator	Oct. 2007	Month Change (Sea. Adj.)	Annual Change
Unemployment Rate[1] San Diego County	4.8%	0.1% ▼	1.0% ▼
Residential Building[2] Units Authorized for Construction San Diego County	550	84.5% ▲	-34.1% ▼
New Business Licenses[3] Issued by City of San Diego	1,019	-52.7% ▼	-12.8% ▼
San Diego Stock Index[4] San Diego based public cos. 2nd Thursday of month	146.5	8.1% ▲	8.7% ▲
Economic Consumer Confidence Index[5]	113.1	-7.3% ▼	

[1]California Employment Development Department.
[2]Construction Industry Research Board.
[3]Business Tax Program, City of San Diego.
[4]Second Thursday of month, Bloomberg News, San Diego Daily Transcript.
[5]Survey by Competitive Edge Research and Communications, conducted the first week of November 2007.
For detail of data, see website: *www.sandiegoinstitute.com*

Three Out of Five San Diego Economic Indicators Show Lagging Activity as of October 2007

San Diego's **unemployment rate** reached a plateau of 4.8 percent in July 2007, normally a high point for the year when students aged 16 and over enter the labor force during the break between school years. Workers are also often transitioning between jobs during the summer and temporarily counted as unemployed. Traditionally, the unemployment rate decreases once the school year starts up again in September and continues to fall through the end of the year as businesses add workers for the holiday shopping season.

This year, however, San Diego's unemployment rate has not declined but, as of October 2007, remains at 4.8 percent for an unprecedented fourth consecutive month. This unusual occurrence reflects San Diego's slackening economy. Adjusting for seasonal variation, the rate has actually risen 0.3 percentage points since July, and over the past year is up by a full 1.0 percentage point. The unemployment rate is at the highest level in San Diego for October since 2003 and appears to not be going

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San Diego Benefits from International Trade

San Diego has become significantly more internationally focused over the past two decades. It is somewhat surprising that the region did not previously take full advantage of being located along the border with Mexico, other than through tourism trade with Tijuana. The viable natural harbor and coastal setting are superb for shipping, and the region's long aviation history would seemingly make air transportation an important industry for the local economy. International trade, however, was not a major force in San Diego's economy until more modern times.

The region was somewhat isolated from the rest of the U.S. and primarily seen as an extension of Los Angeles, where international trade developed and thrived. Undoubtedly there were efforts to promote international business in previous eras, but development and trade never really took off until

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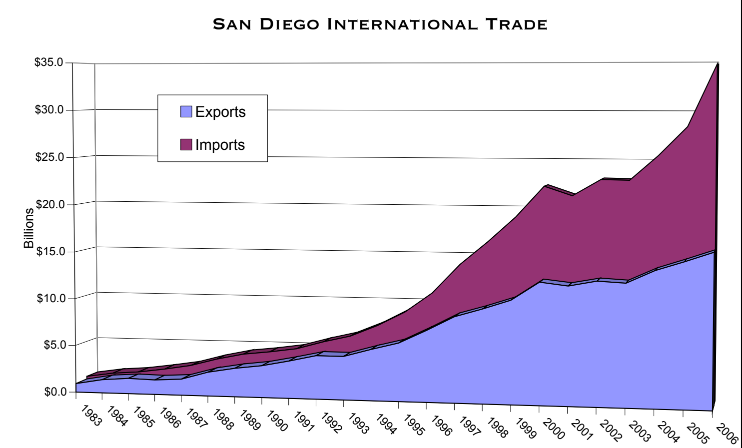


Source: U.S. Deptartment of Commerce, Bureau of the Census; Foreign Trade Division.

International Trade

continued from page 1

Mexico opened up barriers and embraced international business. At the same time commercial technology industries also began to arise in San Diego and became much more focused on international business. Rapid gains in San Diego's international business transactions developed with the evolution of the maquiladora industry in Mexico, the opening of free trade brought on by the North America Free Trade Agreement (NAFTA), and the expansion of shipping facilities at the Port of San Diego.

Indeed, since NAFTA was passed in 1993, international trade in San Diego has nearly quintupled from $10.8 billion to $50.8 billion. During 2006 alone, the total dollar value of international trade moving through the San Diego customs district advanced 17 percent, according the Foreign Trade Division of the U.S. Census Bureau.
The total value of international trade passing through the California customs districts, which in addition to San Diego includes Los Angeles and San Francisco, increased 12.6 percent in 2006. San Diego's trade volume is increasing at a faster pace than the rest of the state while rising from a much smaller base. In 2006, international trade through the Los Angeles customs district rose 12.1 percent, and San Francisco processed a 12.3 percent gain.

"San Diego's diversified high-tech driven economy benefited tremendously as international business grew with the evolution of the maquiladora industry, NAFTA, and expansion of shipping facilities at the Port of San Diego"

–Kelly Cunningham, Economist and Senior Fellow, San Diego Institute for Policy Research

Export/Import Imbalance for San Diego and California

San Diego brings in much more merchandise than sends out. Imports totaled $34.8 billion during 2006, while exports were less than one-half that amount at $16.0 billion. The growth of trade shows this trend continues to expand as imports increased 22.3 percent in 2006 and exports rose only 6.6 percent.

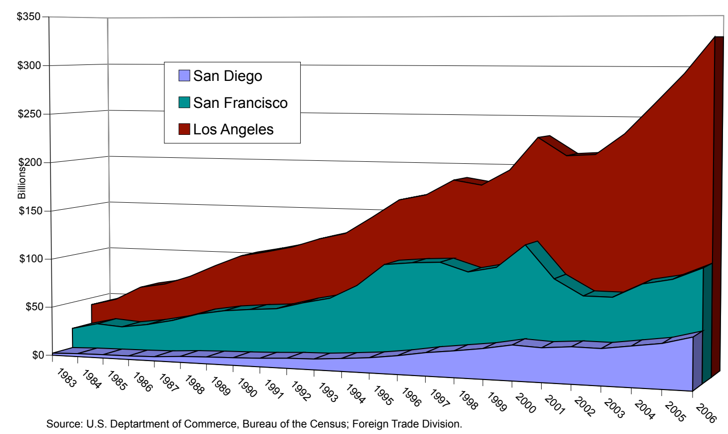
The ratio between imports and exports in the entire state of California is just as imbalanced as it is for San Diego. California's exports account for 30.1 percent of total international trade, compared to San Diego exports at 31.5 percent.

The Los Angeles customs district, one of the largest ports in the world, accounts for 2/3rds of California's international trade volume. The value of Los Angeles imports (73.5%) is nearly three times the value of exports (27.5%). San Francisco has the best trade balance among California's three customs districts, but is still significantly over-balanced as exports account for just 33 percent of international trade dollars flowing through that customs district. California's trade imbalances are only slightly greater than for the U.S. overall, as exports account for 35 percent of total U.S. international merchandise trade.

The U.S. Census Bureau's trade statistics do not directly measure international trade production within the state or customs districts, but are an indication for the total dollar volume of merchandise flowing through the customs districts. International trade dollars also only reflect the value of merchandise or commodities exported and imported, and does not include services or other international trade activity.

International service trade totaled $765 billion in 2006 for the U.S., with the balance of trade favoring the U.S. by $80 billion. Exports of services totaled $423 billion, while imports were $342 billion. The Census Bureau does not publish the value of international services by state or customs district. The volume of international services in California as a whole, as well as for San Diego specifically, is undoubtedly immense with substantial international dealings for business, education, and technology services.

International Trade through California Customs District



Source: U.S. Deptartment of Commerce, Bureau of the Census; Foreign Trade Division.

San Diego's International Trade

Three methods of international entry or departure of merchandise for San Diego are available by land, sea, and air. The primary and busiest is the port of entry at Otay Mesa. Other border crossing points with Mexico include San Ysidro, which is primarily a non-commercial people crossing, and Tecate, both merchandise and people crossings. In total, the San Diego-Baja California international border is the busiest in the world with more than 58 million people crossing each year.

The greatest volume of San Diego's international merchandise trade passes through border crossing points with Mexico by truck. Although a limited amount of merchandise now goes by railroad, surprisingly little is sent by train from San Diego to Mexico on the way east to Arizona. North and south bound train tracks to Los Angeles end in downtown San Diego, miles away from the border.

With the many maquiladora factories south of the border, the movement of goods across the border is a critical factor for San Diego's international commerce. Moving the goods from Mexico into the United States for distribution has become critical as border wait times at the Otay Mesa crossing sometimes exceeds eight hours, adding to air pollution problems, as well the economic impacts of lost productivity.

A recent study by the San Diego Association of Governments (SANDAG) concluded that border wait times have a significant economic impact on the region and are only getting worse. The lost economic benefits to the San Diego-Baja California region in personal travel and freight movements exceed $5.1 billion of lost output and 51,500 jobs lost in 2007 alone.

A third border crossing, the Otay Mesa East-Otay II Port of Entry has been proposed near the intersection of Highway 905 and the recently opened Highway 125 toll-road, via a new Highway 11. This new border crossing is envisioned as a smart border crossing using the latest technology and a FasTrak type approach to allow much faster border crossing times for merchandise transport.

International Trade through San Diego Customs District by Shipping and Air

	Total	By Ship	By Air	Percent of Total	
		(millions)		by Ship	by Air
Exports	$15,979.6	$63.1	$165.0	0.4%	1.0%
Imports	34,793.3	7,258.9	335.5	20.9%	1.0%
TOTAL	$50,772.9	$7,322.0	$500.5	14.4%	1.0%

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Merchandise Trade; Los Angeles Economic Development Corporation.

Top Trading Partners of San Diego Customs District, 2006

	Exports	Imports	Total	Balance	Percent of Total			Imp-to-
Country	(Millions of U.S. Dollars)				Exports	Imports	Total	Exp ratio
Mexico	$15,733.8	$26,528.9	$42,262.7	-$10,795.1	98.5%	76.2%	83.2%	1.7
Japan	13.6	4,235.0	4,248.6	-4,221.4	0.1%	12.2%	8.4%	311.4
Germany	12.2	1,352.8	1,365.0	-1,340.6	0.1%	3.9%	2.7%	110.9
China	18.4	660.6	679.0	-642.2	0.1%	1.9%	1.3%	35.9
South Korea	4.2	474.1	478.3	-469.9	0.0%	1.4%	0.9%	112.9
United Kingdor	15.8	240.0	255.8	-224.2	0.1%	0.7%	0.5%	15.2
Taiwan	4.1	188.5	192.6	-184.4	0.0%	0.5%	0.4%	46.0
Slovakia	0.0	191.3	191.4	-191.3	0.0%	0.5%	0.4%	8561.3
Finland	0.6	167.5	168.1	-166.9	0.0%	0.5%	0.3%	279.2
Ecuador	21.7	144.1	165.8	-122.4	0.1%	0.4%	0.3%	6.6
All others	155.2	610.3	765.5	-455.1	1.0%	1.8%	1.5%	3.9
TOTAL	$15,979.6	$34,793.3	$50,772.9	-$18,813.7	100.0%	100.0%	100.0%	2.2

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Merchandise Trade; Los Angeles Econ Dev Corp.

Unlike the free crossings at San Ysidro and Otay Mesa, state, federal and regional leaders have proposed charging a fee to trucks and vehicles in order to help offset the costs of the Otay East facility and equipment. The crossing is projected to have a 30-minute wait time for trucks, in contrast to the current four to eight-hour wait at Otay Mesa.

In addition to the region's border crossings, the other international ports for transporting goods are through the Port of San Diego by ship and the San Diego International Airport by air. Among the $34.8 billion in imports to San Diego in 2006, 20.9 percent came by ship, and only 1.0 percent by air. Among the $16.0 billion of exports from San Diego, only 0.4 percent was sent by ship, and 1.0 by air. The discrepancy in value of merchandise brought into San Diego and the value of goods exported from the region suggests ships visiting the Port of San Diego are mostly leaving with empty cargo holds. Likewise, according to the air transport data, planes leave San Diego with one-half the volume brought in.

As previously noted, this international trade data only reflects the merchandise passing through the San Diego customs district, and does not necessarily originate or stay in San Diego. Goods produced in San Diego may be shipped to international markets through Los Angeles, for example, and be counted with Los Angeles customs district totals when leaving the country. On the other hand, cargo trucked from Mexico may be destined for anywhere in the nation and merely passes through San Diego.

International Trade Partners

Mexico accounts for the lion's share of San Diego's international trade volume. More than three-quarters (76.2 percent) of all merchandise imported to San Diego come from Mexico and nearly all (98.5 percent) merchandise exported from San Diego.

San Diego's trade with Mexico shows dramatic growth over the past decade, particularly accelerating since the enactment of NAFTA. Trade with Mexico rose from exports of $4.3 billion in 1993 to $15.7 billion in 2006, while imports advanced from $5.3 billion to $26.5 billion.

In addition to Mexico, trade with other countries has risen substantially over the past two decades as well. The significant investments to improve maritime infrastructure and increasing capacity for load merchandise by the Port of San Diego has paid off in considerable more trade coming through San Diego-at least in imports. Development of the first refrigerated container operation increased the capacity of cold storage facilities for produce, while improvements in loading capacity and docking facilities boosted maritime shipping.

Japan is San Diego's second largest international trade partner primarily because of the considerable number of automobiles coming through the Port of San Diego by ship. Japan imported $4.2 billion of merchandise into San Diego during 2006, although just $13.6 million was exported back to Japan.

Furthermore, many Japanese corporations own manufacturing plants in Mexico assembling goods which ultimately come into the United States as well. Merchandise from these plants show up as imports from Mexico.

Germany is the only other country San Diego receives imports totaling more than $1 billion. Imports from Germany rose substantially over the past decade from $33.4 million in 1998 to $1.4 billion by 2006. Partly because of the congestion at Los Angeles auto importing facilities, German passenger vehicles are now shipped through the San Diego customs district. Unfortunately, exports to Germany from San Diego remain relatively minor as only $12.2 million was sent in 2006.

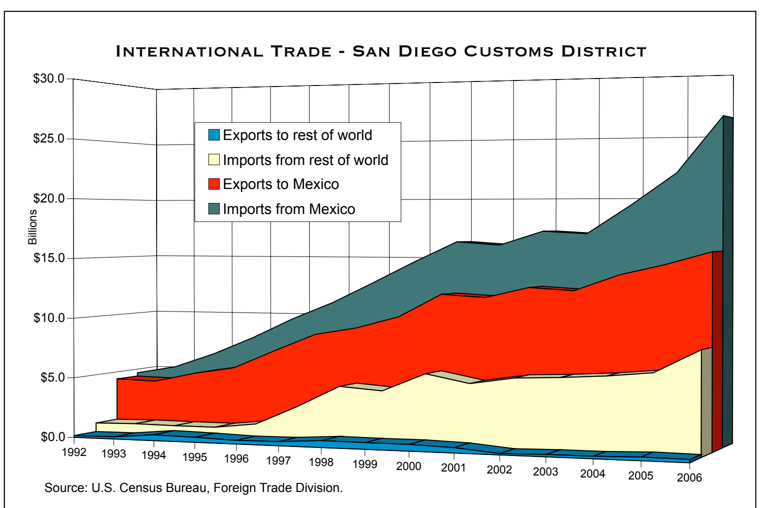
Other countries with substantial imports to San Diego include China (both the Mainland and Taiwan), South Korea, United Kingdom, Slovakia, Finland, and Ecuador, each with at least $100 million in imports.

Canada, the other NAFTA partner, is San Diego's second largest export destination. Singapore, Ecuador, China, and the United Kingdom are the next largest export destinations from San Diego counted in only the tens of millions of dollars.

International Trade Through San Diego Customs District by Product, 2006

Product	Exports	Imports	Imp-to-Exp Ratio	Percent of Total
	(millions)			
Machinery & equipment	$5,998.6	$16,352.9	2.7	44.0%
Vehicles, vessels, aircraft	1,443.0	8,184.4	5.7	19.0%
Base metals & related	1,687.9	1,216.4	0.7	5.7%
Instruments	656.6	1,897.0	2.9	5.0%
Plastics & rubber	1,821.6	647.6	0.4	4.9%
Other manufactures	369.2	1,384.8	3.8	3.5%
Textiles/apparel	793.9	926.5	1.2	3.4%
Vegetable products	354.9	1,123.7	3.2	2.9%
Special classification	54.9	1,167.3	21.3	2.4%
Paper products	691.8	345.1	0.5	2.0%
Prepared foodstuff	461.1	526.3	1.1	1.9%
Chemical products	491.1	178.1	0.4	1.3%
Stone & related products	182.9	360.5	2.0	1.1%
Wood & related	288.8	111.7	0.4	0.8%
Live animals & products	296.8	101.9	0.3	0.8%
Mineral products	267.4	50.7	0.2	0.6%
Footwear & related	19.2	129.2	6.7	0.3%
Travel goods, leather, hides	26.7	54.5	2.0	0.2%
Precious stones/metals/pea	34.0	20.4	0.6	0.1%
Fats & waxes	34.7	5.9	0.2	0.08%
Art & antiques	2.2	5.5	2.5	0.02%
Armaments	2.4	2.9	1.2	0.01%
TOTAL	$15,979.6	$34,793.3	2.2	100.0%

Source: U.S. Department of Commerce, Bureau of the Census; U.S. Merchandise Trade; Los Angeles Economic Development Corporation.



International Trade Commodities

The largest category for merchandise both exported and imported from San Diego is machinery and equipment. This merchandise alone accounts for 44 percent of the total value of San Diego's international trade.

Vehicles, vessels, and aircraft are the second largest category, which are mostly automobiles. While this category makes up 23.5 percent of San Diego imports, it only accounts for 9.0 percent of exports.

About 375,000 vehicles came through the Port of San Diego in 2006, and the number is anticipated to reach more than 450,000 in 2007. Imports are processed by Pasha Automotive Services, located at the National City Marine Terminal.

It is interesting to note that "plastics and rubber" is San Diego's second largest export category, followed by "base metals and related". Along with paper, chemicals, wood, animal, and mineral products, plus precious stones and fats and waxes, these are the only categories for merchandise that San Diego exports more than it imports. These materials are largely sent to Mexico for further assembly and manufacture in maquiladora factories, and most of the items are sent back to San Diego as machinery, vehicles, instruments, or other finished products. ■

CEO's Corner

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for the ultimate consumer. If San Diego companies continually find themselves facing long waits at the border, in traffic gridlock on our highways and without enough capacity at the region's marine's terminal, then business necessity will dictate that firms shift their logistical activity to other, more trade-friendly regions. While San Diego is struggling with how to create good jobs, such an outcome would be tragic and detrimental to our long term prosperity.

Trade and logistics are not the kind of industries that garner tremendous amounts of media attention. No one is likely to make billions in a public stock offering and it isn't a coincidence that the world's leading shipping firm picked a non-descript brown color for its company's logo and identity. But in the 21st Century, the jobs and opportunities created by this activity can provide economic prosperity to a region. That is why San Diego needs to embrace this activity and make the investments needed to grow our region's share of the trade pie.

-Erik Bruvold, President and CEO, San Diego Institute for Policy Research

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down much for the holiday season.

With San Diego's unemployment rate remaining at 4.8 percent, the County crept closer to California's overall October rate of 5.4 percent. The state unemployment rate has similarly stayed up since the summer high of 5.5 percent in July. In contrast, the U.S. unemployment rate declined and fell below San Diego's rate in August for the first time since the year 2000. The U.S. rate continued to decrease to 4.4 percent as of October.

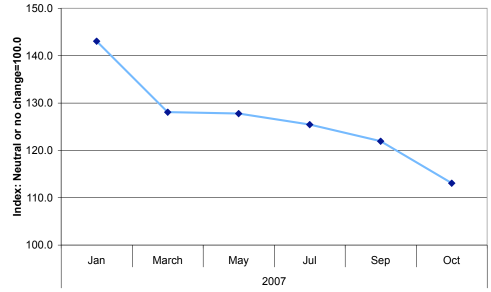
Consumer confidence continues to sink as the overall index for San Diego dropped 7.3 percent in just the two months between the previous survey in September and November. Three of the four impressions of economic activity declined, led by "expectations for business conditions" plunging 19.0 percent to 100.7, indicating consumers are now neutrally split between expecting conditions to stay the same. This particular index has fallen the most, some 30.0 percent since an index of 143.8 recorded in January.

Only the index for "now being the time to purchase an expensive item" remains lower, which was the only confidence indicator to rise over the past two months, increasing 2.1 percent to 87.1, which still indicates most consumers consider now is not a good or poor time to make an expensive purchase. Certainly the devastating fires impacting San Diego in October, with wide-spread negative news on the real estate market meltdown and spreading financial mortgage crisis undoubtedly contributed to the sinking views expressed for the local economy.

New business licenses issued by the City of San Diego also show a decline, plummeting a seasonally adjusted 53 percent in October, and 13 percent lower than in October 2006. With significant upward revisions reported for the previous three months, however, the year-to-date number is on pace for a record number of new licenses being issued in 2007. While this is generally seen as a good indication for San Diego's entrepreneurial economy, it may also reflect local residents being laid off from regular salaried positions and being compelled to start their own business. These workers are usually not earning the same income levels, particularly in the start-up phase of their self-owned business venture. An increase of business licenses issued was also initially observed during San Diego's severe recession in the early '90s.

New residential units authorized for construction are down precipitously despite the latest one-month seasonally adjusted 84.5 percent increase in October.

CITY OF SAN DIEGO ECONOMIC CONSUMER CONFIDENCE INDEX



SAN DIEGO ECONOMIC CONSUMER CONFIDENCE INDEX

Index*	Jan 2007	Sep 2007	Nov 2007	Nov/ Sep	Nov/ Jan
Overall	143.1	122.0	113.1	-7.3%	-21.0%
Current:					
State of local economy	115.6	106.5	103.9	-2.5%	-10.2%
Purchase expensive household item	109.9	85.3	87.1	2.1%	-20.7%
Six Months in Future:					
Expect business conditions	143.8	124.4	100.7	-19.0%	-30.0%
Own financial situation	202.9	171.6	160.7	-6.4%	-20.8%

*Index: 100.0=neutral or remain same.

Source: Competitive Edge Research & Communication, Inc.; San Diego Institute for Policy Res.

The number is still 34.1 percent less than a year ago, and the year-to-date number is down to one-half to one-third the number over the same period in previous years for the past decade.

The San Diego stock index continues to exhibit significant up and down swings. The local index has generally risen, with the latest month showing a seasonally adjusted 8.1 percent increase for the month of October, as well as being 8.7 percent higher than a year ago.

Although a rising stock market usually reflects profitable companies doing well and increasing in value, a stock market bubble can arise as occurred in the late 90s/early 2000, setting up for a significant market correction. There is considerable concern among stock market analysts that this is now happening again across the U.S. The lowering of interest rates by the Feds three times this year was to reassure investors, prop up the flailing mortgage industry, and keep the country from slipping into recession. However, this gift to Wall Street may be robbing from the future. The general consensus among economists is that a correction, albeit painful for many home-owners, is needed in the housing market as too many loans were given to too many underqualified buyers and propelled homes prices to unsustainable levels. Postponing this correction only heightens the inevitable fall to come, and stimulates inflationary pressures that are already arising because of the higher cost of oil which will cause the price of many other goods and services to rise as well. ■

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