National
Economic Forecast

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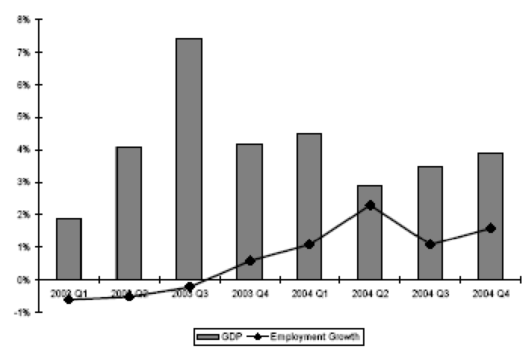
The National Economy

- Real growth domestic product (GDP) growth for the nation will be slightly greater than 4%.
- Growth with slighly be slower in 2005 due to high oil prices.
- National economy is now in a sustained growth mode.
- Net exports and investments will remain strong over the next two years.

Figure 1. National GDP and Employment Growth



- U.S. dollar will continue to declune
- Conventional mortgage rates should slowly rise to 6.5% in 2005.
- Lack of robust job growth constrains the growth of income.
- Higher oil and energy prices are likely to continue.

State and Regional
Economic Forecast

The State Economy

- California's economy is showing signs of improvement.
- After two years of net job loses in California, nonfarm employment was up by 0.8% in August 2004, representing a gain of 112,300 jobs.
- Government sector remains depressed.
- Economy to continue to improve including the recovery of the State's tourism industry.

The Regional Economy

- In August 2004, employement in Southern California was up by 0.6% compared to the previous year.
- Professional and business services, health services, transportation, and retail sectors have begun to add jobs at an accelerated pace.
- Except for Los Angeles County, the manufacturing sector is also now adding jobs.
- The construction, finance, and real estate sectors, which have done so well in recent years, will slow as interest rates continue to creep upwards.

Los Angeles County

- The County is now seeing positive job growth after two years of job losses.
- Significant growth in the service sector, particularly in the areas of health and professional and business services.
- Job losses in the air travel sector has slowed dramatically from over 9% in 2003 to just a 1.8% drop over the last twelve months due to a weaker U.S. dollar, strong capital defense expenditures related to the war in Iraq, and the recovery of the tourism sector.