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City of Los Angeles Economic Activity Index

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CITY OF LOS ANGELES ECONOMIC ACTIVITY INDEX

SECOND QUARTER 2026

INTRODUCING THE INDEX

At the national level, there is an abundance of economic data available to policymakers and business leaders: gross domestic product (GDP), labor market, real estate, industrial production, construction, inflation, the list goes on. Even at the state level, there is a very large amount of available data for analysis. However, at the local level, the data is sparser, underscoring the need for more comprehensive indicators to produce a clearer picture of economic activity.

To that end, the Pepperdine School of Public Policy and Beacon Economics have developed an Economic Activity Index to provide the most up-to-date and accurate measure of economic activity in the City of Los Angeles. The index draws on a variety of local economic indicators that capture the labor market, consumer spending, tourism, trade, construction, commercial real estate, and the entertainment industry.

What goes into the index?

The index is compiled from nine indicators for the City of Los Angeles chosen to cover the major channels through which the city economy generates income and business activity:

Component	Measure	Sector captured
Total jobs	Payroll employment	Labor market
Average job postings	Unique online job postings	Labor demand
Building permit value	Valuation of permits issued by LADBS, adjusted for construction costs	Construction
Commercial occupancy	Occupancy rate across commercial property	Commercial real estate
Port volume	Loaded container throughput (TEUs)	Trade and logistics
LAX passengers	Total passenger volume	Tourism and travel
Taxable sales	Taxable retail and business sales, inflation-adjusted	Consumer spending
Hotel RevPAR	Revenue per available room, inflation-adjusted	Tourism
Entertainment production	Investment in new film, television, music and other entertainment originals (BEA; national series)	Entertainment industry

Three features of the index are worth noting:

- It includes an entertainment-production component, reflecting the industry's vital role in the city's economy.
- Commercial real estate is measured through occupancy rates, so a rising share of occupied space signals improving economic conditions.
- All dollar-denominated series are adjusted for inflation, using the California Construction Cost Index for permit values and the PCE price index for the rest, ensuring the index tracks real activity rather than prices.

RECENT PERFORMANCE



Economic activity in Los Angeles was essentially flat in the second quarter of 2026, down 0.1% from the first quarter but up 0.9% from a year earlier. The first-quarter 1.5% gain—the first increase after five consecutive quarterly declines—has held: the index sits 1.4% above its late-2025 low but remains 9.0% below its second-quarter 2022 peak.

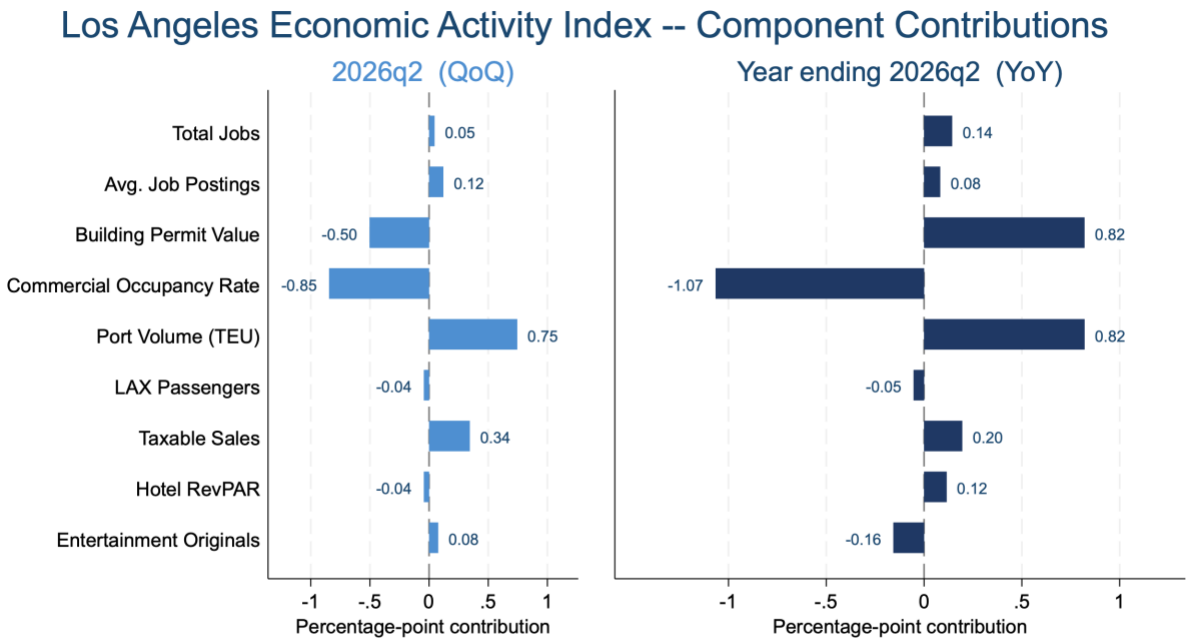
Activity remains well below the 2022 peak due to the index falling from 104.5 in the second quarter of 2022 to 95.1 in the second quarter of 2026, a 9.0% decline. Because the index is additive in its components, that decline can be decomposed as shown below.

Component	Index points	Share of drag[1]	Underlying move, 2022q2 → 2026q2
Commercial occupancy rate	−5.2	50%	Occupancy fell 91.6% → 87.4% (−4.2 pp); subtracted in 10 of 16 quarters
Job postings	−1.8	18%	Postings fell 56% from the 2022q2 hiring peak
Taxable sales	−1.8	17%	−17.2% in real terms
Building permit value	−1.1	10%	Real valuation fell 37% from the 2022q2 spike
Hotel RevPAR	−0.2	2%	−7.4% in real terms
Entertainment production	−0.2	2%	−0.8%; roughly flat over the window
Port volume (TEU)	+0.6	—	+7.4%; the largest positive contributor
LAX passengers	+0.2	—	+7.7%
Total jobs	+0.1	—	+0.5% overall; −0.3% from the mid-2023 peak

Source: Beacon Economics.

- In brief, the shortfall from the post-pandemic peak is largely a commercial real estate issue. The occupancy rate has fallen from 91.6% in the second quarter of 2022 to 87.4% today, a decline that accounts for half of the index's reduction over the past four years.
- A sharp pullback in labor demand and consumer spending accounts for most of the rest. Job postings are 56% below their second-quarter 2022 high, and inflation-adjusted taxable sales, which peaked in the same quarter, remain 17.2% below that peak. Trade and travel have moved in the other direction: port volume, LAX passengers, and total jobs are all above their mid-2022 levels, partly offsetting the decline.
- In the second quarter, gains in trade were offset by declines in real estate. Port volume added 0.75 index points as loaded container volume rose 9.5% from the first quarter to its highest level since late 2020, and taxable sales added a further 0.34. Those gains were cancelled out by commercial occupancy, which subtracted 0.85 points as the occupancy rate fell to 87.4% (the lowest level in the series' 25-year history), and by building permits (−0.50), which partially reversed their first-quarter surge.
- The index is up 0.9% year-over-year, with six of the nine components contributing to the gain. Building permits and port volume each added 0.8 index points, with smaller gains coming from taxable sales, total jobs, hotel RevPAR, and job postings. Commercial occupancy subtracted 1.1 points, more than any other component, and entertainment production and LAX passengers declined modestly. Excluding commercial real estate, the index would have *risen* 2.0% over the year.
- Job postings, a leading indicator of hiring intentions, rose 5.6% in the second quarter of 2026 and are 3.8% above their level a year ago, a tentative sign that labor demand is stabilizing. Even so, postings have fallen in four of the last six quarters and remain 56% below their 2022 peak, while total employment remains 0.3% below its mid-2023 high.

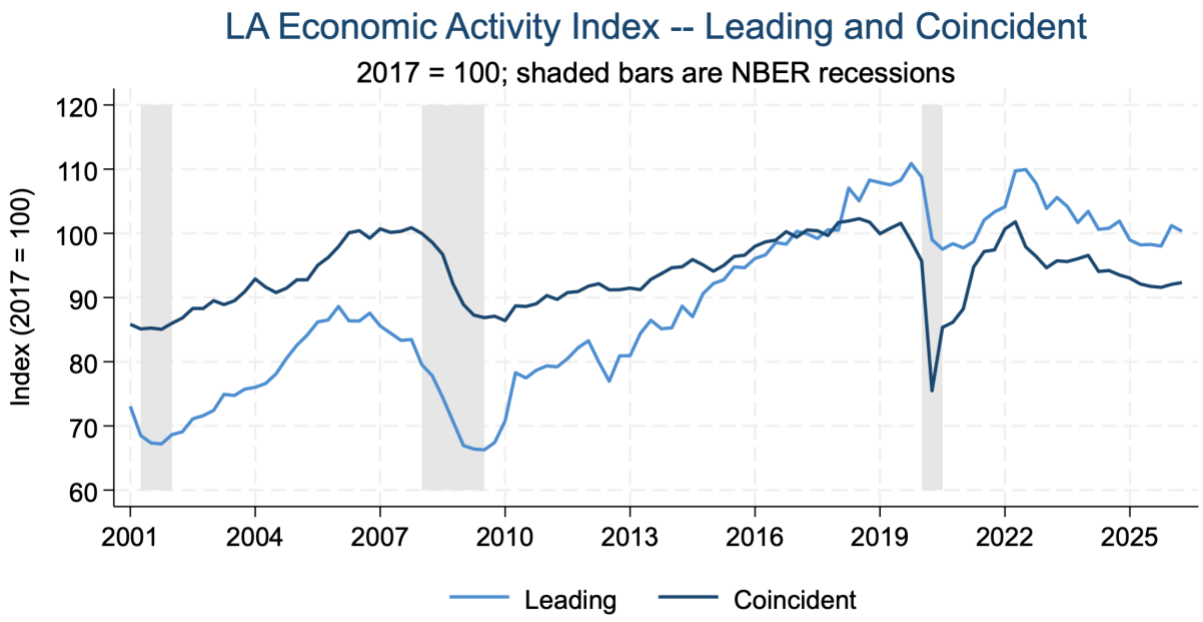
[1] Shares are calculated as a percentage of total negative contributions and therefore exclude the positive contributions from port volume, LAX passengers and total jobs.



Source: Beacon Economics. Standardized symmetric percent changes, inverse-volatility weighted; occupancy entered as the inverted percent change in implied vacancy.
Dollar series are PCE-deflated; permit values are deflated with the DGS California Construction Cost Index.

LEADING AND COINCIDENT INDEXES

- To separate present economic conditions in the city from expected developments, the index's nine components are also grouped into two sub-indexes built with the same method. The coincident index, made up of total jobs, LAX passengers, taxable sales, hotel RevPAR, port volume, and commercial occupancy, tracks current activity. The leading index groups the three components that tend to move before a recessionary period: job postings precede hiring, building permits precede construction, and investment in new production precedes the activity it generates. Before the Great Recession, the leading index began to decline in early 2006, seven quarters before the broader economy peaked.
- The coincident index rose 0.3% in the second quarter of 2026, its second consecutive increase after five straight declines. The index is 0.2% above its level a year earlier but, at 92.3, remains 9.7% below its 2018 peak. Port volume and taxable sales drove the gain, while the fall in commercial occupancy alone subtracted 1.3 points.
- The leading index slipped 0.9% in the quarter, after rising 3.3% in the first. Despite the quarterly decline, it remains 2.2% above its level a year earlier, driven largely by the recovery in permit values. This suggests that activity could improve modestly rather than enter another downturn. The signal warrants some caution, as the index has a relatively short lead and its largest component, entertainment, has declined 4% from its 2023 peak.



Source: Beacon Economics.
Leading: job postings, real permit values, real entertainment-originals investment.
Coincident: jobs, LAX passengers, real taxable sales, real RevPAR, loaded TEU, commercial occupancy.

A CLOSER LOOK AT CONSTRUCTION

- Inflation-adjusted permit valuation fell 19.2% in the second quarter of 2026, giving back part of the first quarter's 54% surge. However, it remains 42% above its level a year earlier. Permits issued in the second quarter were valued at $1.85 billion in nominal, seasonally adjusted terms, while real permit valuation was 39% higher than in the preceding four-quarter period.
- Valued at $333 million, an early-start foundation permit for the new LAX Terminal 5 was the largest single permit issued in the quarter. Together with the $141 million Central Terminal Area curbside and landscape program and two Tom Bradley International Terminal modernization permits ($35 million), the airport accounted for $521 million (28%) of the $1.87 billion in permits issued citywide (not seasonally adjusted). Outside LAX, permit valuation fell 37% from the first quarter, when several large projects boosted activity. These included the Convention Center expansion, a $120 million research building, and the 800-unit Coliseum Street development.
- Residential permitting was lower but tilted heavily toward affordable housing and office conversions. Every new apartment building of 100 units or more permitted in the quarter was an affordable or mixed-income project. Among the largest were a 395-unit development in Canoga Park ($51 million) and a 244-unit building in Reseda ($26 million). Three office buildings—two on Wilshire Boulevard and one in Westlake—also received permits for conversion to 649 apartments and live-work units, including 170 affordable units under the state's Homekey+ program. In total, permits were issued for roughly 3,300 units in conventional buildings, down from 6,900 in the first quarter, while permits for accessory dwelling units rose to more than 1,800.
- **The bottom line:** Economic activity in Los Angeles has stabilized, but a broad-based recovery has yet to emerge. The index held its first-quarter gain in the second quarter, and the leading components point to modest improvement ahead. The recovery remains uneven: trade and consumer spending are improving, construction is

volatile, and labor demand is only beginning to stabilize. Commercial occupancy continues to fall and remains the largest source of weakness in the index, over both the quarter and the year.

