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## State of the San Fernando Valley

The dominant economic story to emerge in the San Fernando Valley since 2013 is that the Valley's economy has significantly outpaced the broader Los Angeles County economy. The contrast is even more stark when comparing the Valley with neighboring Ventura County. Currently, if you straddle the Ventura-Los Angeles County line anywhere along the Western border of the San Fernando Valley, you are standing with one foot in a regional economy enduring a significant recession and one foot in a regional economy experiencing robust growth.



From 2014 to 2016, Real GDP for the San Fernando Valley grew annually by 4.2, 5.5, and 2.6 percent. Average annual growth was 4.1 percent over the period. By comparison, the economy of the Los Angeles / Orange County statistical area grew at an average rate of just 3.6 percent over the same period. Meanwhile, Ventura County experienced the worst three years of growth since at least the 90s, shrinking at an average annual rate of -0.7 percent. The San Fernando Valley's growth rate is strong no matter which geography you choose as a comparison. The Valley is outpacing the broader State economy as well as the Nation.

Growth in economic activity is highly concentrated in two specific sectors of the San Fernando Valley economy. Output from Information and Technology, a broad industry sector that includes software engineering, data processing, and internet development as well as the

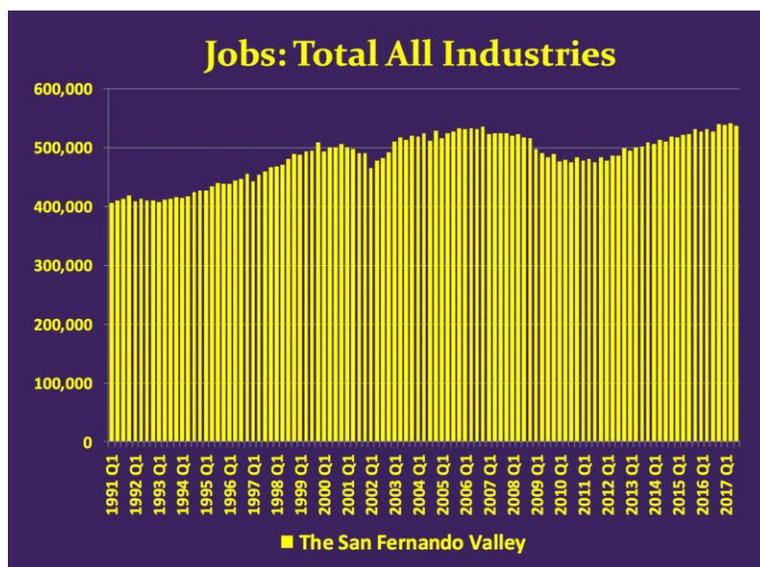
Motion Picture and video production for which the Valley is famous, has grown by an astonishing 74.1 percent over the past decade. During that same time, output from Financial Activities, which includes real estate, has grown by nearly 15 percent.

The importance of output gains in the Financial Activity sector are tempered by the transformation of the real estate sector that has taken place since the Financial Crisis. The significant decline in home ownership and the prevalence of investor-owned single-family detached and multi-family attached homes means that some of the economic activity represented as growth in this sector is little more than a transfer of ownership from households to investors. The number of jobs in Financial Activities has actually declined by 13.7 percent over the past decade, affirming our skepticism about the value and promise of economic growth in this sector

That leaves Information and Technology as the major engine driving the San Fernando Valley's impressive economic growth over the past several years.

## Industries and Occupations

Job creation in the San Fernando Valley has been less impressive than the growth in total economic output. Post Recession, the San Fernando Valley has experienced a reshuffling of the industry composition of jobs that is similar in many ways to greater Los Angeles and to the State. Like those other geographies, while the San Fernando Valley has more than recovered the number of pre-recession jobs, the jobs that have been added do not resemble those that were lost.



Ten years out from the Great Recession, the number of jobs in Agriculture, Natural Resources, Utilities, Non-Durable and Durable Goods Manufacturing, Whole Sale Trade, and Financial Activities are all down double digits, with three of these sectors down 20 percent or more. Jobs in Transportation and Warehousing, Information and Technology, Education and Health Services, and Leisure and Hospitality have all seen significant growth. With the exception of Information and Technology, the other sectors which have experienced post-Recession growth are sectors with low average salaries which would not likely support a lifestyle that includes home ownership in the Valley.



It is worth noting that the flight of businesses and jobs in high value sectors, especially goods-producing sectors, is in many ways the result of broader State policies which increase the cost of doing business in California. Many high-value sectors have left and continue to leave in search of lower cost environments beyond the borders of the State. This pattern is captured in net domestic migration statistics for California. As noted in the nearby California Forecast essay, last year, 108,000 more residents left California for one of the other 49 states than came to California from one of the 49. A relative lack of new housing construction and soaring home prices exacerbate this problem and are impacted significantly by local policy making.

Aside from an uptick in Construction jobs, the latest jobs report provides evidence that the post-Recession jobs trend is continuing. High-paying sectors of the Valley economy are in decline while low paying sectors are continuing to rise.

<b>The San Fernando Valley Job Market</b>						
<i>not seasonally adjusted data</i>						
Sectors	Dec 2016	Changes During the Last Year		Changes Since the Great Recession		
	Thousands	Dec 2015 - Dec 2016	Dec 2015 - Dec 2016	Dec 2007 - Dec 2016	Dec 2007 - Dec 2016	
		Change-thousands	Percent change	Change-thousands	Percent change	
Agriculture	0.8	0.0	2.2	-0.6	-43.8	
Natural Resources and Mining	0.1	0.0	-22.8	0.0	-32.9	
Utilities	0.5	0.0	-2.7	-0.1	-14.1	
Construction	28.3	1.5	5.8	-2.1	-6.9	
Durable Goods Manufacturing	29.7	-0.1	-0.3	-9.8	-24.8	
Non-Durable Goods Manufacturing	15.3	-0.5	-2.9	-3.5	-18.7	
Wholesale Trade	21.5	-0.6	-2.9	-3.6	-14.3	
Retail Trade	64.1	-1.2	-1.9	-4.4	-6.4	
Transportation and Warehousing	11.8	0.7	6.0	1.4	13.5	
Information & Technology	24.4	-0.3	-1.2	3.3	15.4	
Financial Activities	36.7	1.1	3.0	-5.8	-13.7	
Professional and Business Services	74.6	2.5	3.4	-3.0	-3.9	
Education/Health/Personal/Repair/Maintenance	136.4	5.2	4.0	33.7	32.8	
Leisure and Hospitality	58.3	0.8	1.4	10.9	23.1	
Government	41.4	0.3	0.6	0.3	0.8	
<b>Total All Industries</b>	<b>543.9</b>	<b>9.4</b>	<b>1.8</b>	<b>16.7</b>	<b>3.2</b>	

Source: US Bureau of Labor Statistics

As with total economic output, the major exception to the San Fernando Valley jobs trend is Information and Technology. In the 10 years since the financial crisis, the number of jobs in Information and Technology has increased by 15.4 percent. This growth is noteworthy, especially compared to the increase in economic output in that sector. A 15.4 percent increase in the number of jobs, accompanied by a 74.1 percent increase in total economic output, means that Information and Technology is an extremely high output per employee sector. This translates into high average annual salary. As of the most recent quarter for which there is data, the average annual salary in the Information and Technology sector was \$147,297. Once again, Information and Technology is a source of economic vitality for the San Fernando Valley that is enviable compared to neighboring regional economies.

The number of jobs in Information and Technology actually declined in the most recent year for which there is data, however, the magnitude of the decline leads us to conclude that this is simply normal volatility. The trend in this industry sector is still positive.

<b>The San Fernando Valley: Industry Data</b>					
<i>not seasonally adjusted data</i>					
	Employment (Jobs)	Average Salary -Annualized (thousands of dollars)			
	2016 Q4	2001 Q4	2016 Q4	Change	% Change
AGRICULTURE	799	24,235	40,999	16,763	69.2
MINING	96	60,812	158,332	97,521	160.4
UTILITIES	551	51,657	71,383	19,726	38.2
CONSTRUCTION	28,282	36,651	56,513	19,862	54.2
MANUFACTURING-DURABLE	29,613	47,013	71,831	24,818	52.8
MANUFACTURING-NONDURABLE	15,295	36,697	52,215	15,518	42.3
WHOLESALE TRADE	21,570	49,642	72,465	22,822	46.0
RETAIL TRADE	63,044	29,202	42,742	13,540	46.4
TRANSPORTATION & WAREHOUSING	10,737	35,883	52,201	16,319	45.5
INFORMATION & TECHNOLOGY	24,803	104,269	147,297	43,027	41.3
FINANCE & INSURANCE & REAL ESTATE	36,519	55,145	84,021	28,875	52.4
PROFESSIONAL & BUSINESS SERVICES	74,200	46,333	76,593	30,261	65.3
EDUCATION/HEALTH CARE/PERSONAL/REPAIR/MAINTENANCE	136,163	31,345	43,081	11,736	37.4
LEISURE & HOSPITALITY	57,861	36,320	59,212	22,892	63.0
GOVERNMENT	41,304	40,031	57,367	17,336	43.3
<b>ALL INDUSTRIES, TOTAL NUMBER OF JOBS</b>	<b>540,837</b>				
<b>AVERAGE SALARY, ALL INDUSTRIES</b>		<b>43,034.4</b>	<b>61,933.9</b>	<b>18,899.4</b>	<b>43.9</b>

Source: California Employment Development Department (QCEW data program)

## San Fernando Valley's Forecast

Our outlook for the Construction, Transportation and Warehousing, Information and Technology, and Professional and Business services sectors in the San Fernando Valley is strong. These sectors provide a combination of both middle-paying and higher-paying job types. These fast growing sectors are supported by the combined Education/Healthcare/Personal/Repair/Maintenance sector and Leisure and Hospitality. While the latter two sectors provide numerical job growth, the jobs in these sectors are not typically high paying or high economic value added. In our view, these strong and supporting sectors will dominate the slower growing or insignificant sectors in the Valley going forward, which include Agriculture, Mining, Manufacturing, Trade, and Government.

We forecast ongoing construction activity, at a rate that is better than that of coastal communities and continued growth in Cargo and Passengers at the Hollywood-Burbank airport. We expect that tourism activities at Universal Studios will not subside anytime soon.

There could be benefits from the forthcoming *Golden State Specific Plan*, which should provide regional benefits in the form of enhanced business-to-business activities, transit improvements, and real estate development or re-development opportunities.

We forecast that the San Fernando Valley will continue to exhibit strong growth. The Valley will benefit from the above mentioned sectors and operations to the extent that they offset declining industries. These benefits are expected to provide growth that exceeds that of its neighbors, California, and the nation, throughout the forecast horizon.

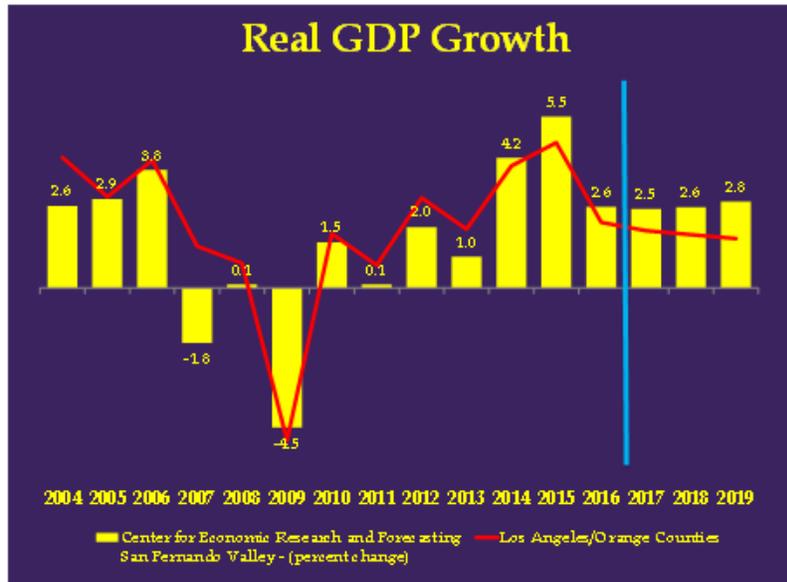
The current forecast calls for the growth premium that the San Fernando Valley currently enjoys over the greater Los Angeles economy to expand between now and 2019. The rate of growth is forecast to increase in the San Fernando Valley from 2.5 percent in 2017 to 2.8 percent in 2019. By comparison, Economic growth for Los Angeles and Orange Counties is forecast to decline from 2.2 percent this year to 2.0 percent in 2019.

Total economic output is forecast to continue growing at a rate which exceeds job growth. The forecast calls for job growth of 1.7 percent this year followed by just 1.4 percent in 2018 and 1.5 percent in 2019. Although this represents a modest slow down in job growth relative to recent history, these are still relatively strong numbers relative to all other geographies. We anticipate that the San Fernando Valley will continue to produce jobs faster than greater Los Angeles, the State of California and the Nation.

The balance of risks to the forecast are not symmetric. The probability of economic growth that exceeds our forecast is quite low, while the probability that economic growth underperforms our forecast is relatively higher. A lack of industrial space and the limitations that this places on business formation and expansion are a concern. So too is competition from other regions (and from other states) for the Information & Technology activity that is a major driver of economic vitality in the San Fernando Valley.

As discussed in the nearby real estate essay, a dramatic lack of housing affordability is a major constraint on doing business in the Valley. The ability of businesses to attract and retain qualified employees is likely to become a major obstacle even for companies in the highest paying sectors.

Risks to the forecast aside, the San Fernando Valley exhibits economic vitality of a sort that is uncommon within the broader economic climate. Absent an unexpected shock to the status quo, we anticipate continued growth and vitality across the entire forecast horizon.



## Forecast Charts

