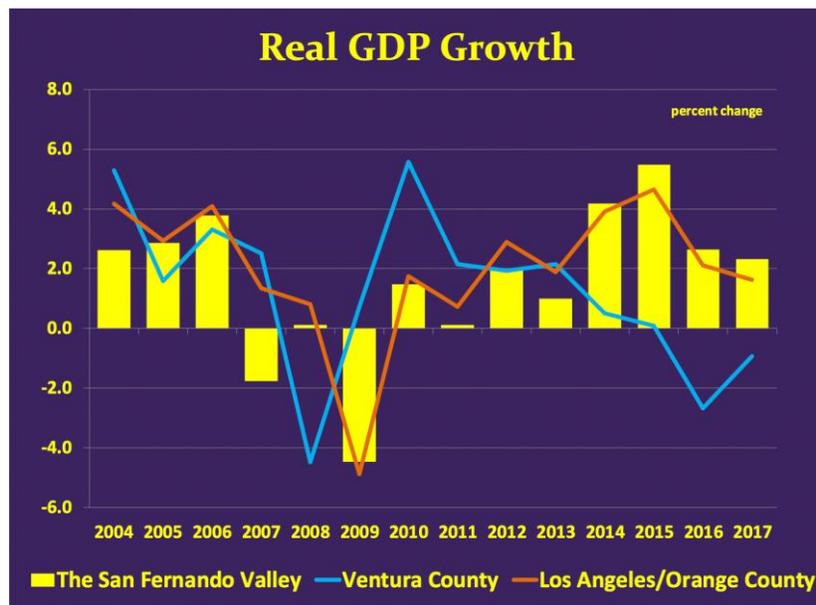


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State of the San Fernando Valley

In November, we noted that the San Fernando Valley economy has shown signs of significant economic strength in recent years. Since 2014, the Valley's economy has outpaced the economies of neighboring geographies. It even grew more rapidly than the California economy through 2014 and 2015. As of this writing, the San Fernando Valley economy continues to outperform its neighbors although we note that economic growth has cooled for 3 years in a row. Because of this slowdown in growth, we are now more cautious about what is still a relatively bright economic outlook for the San Fernando Valley.



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 this period, very strong by any comparison. Economic growth in 2017 was just 2.3 percent, marking a continuation of slowing that began in 2015. By comparison, the economy of the greater Los Angeles metropolitan area grew at an average rate of just 3.6 percent from 2014 to 2016 and grew just 1.6 percent last year. That is to say, the greater Los Angeles economy has slowed even more rapidly than the economy of the San Fernando Valley.

Looking to the west, the San Fernando Valley compares especially favorably with Ventura County, which has exhibited a negative average growth rate over the past four years. The San

Fernando Valley’s economic strength stands in stark contrast to the recessionary conditions which persist just over the county line.

Economic growth is highly concentrated in one particular sector of the San Fernando Valley economy. Output from Information & Technology, a broad industry sector that includes software engineering, data processing, and internet development, as well as the Valley’s iconic Motion Picture industry, has grown by an astonishing 75.5 percent over the past 10 years. Information & Technology is the San Fernando Valley’s Golden Goose. Gains in this high economic value added sector explain nearly all of the growth premium enjoyed by the Valley relative to its neighbors.

The San Fernando Valley Economy					
Gross Domestic Product		Changes During the Last Year		Changes Since the Great Recession	
billions of 2009 dollars		2016 - 2017	2016 - 2017	2007 - 2017	2007 - 2017
Sectors	billions	Change-billions	Percent change	Change-billions	Percent change
Agriculture	0.0	0.0	2.1	0.0	-54.9
Natural Resources and Mining	0.1	-0.1	-58.3	-0.1	-52.6
Utilities	0.3	0.0	-1.7	-0.1	-23.1
Construction	3.3	0.3	9.6	-0.4	-11.6
Durable Goods Manufacturing	5.0	0.3	6.5	0.1	1.9
Non-Durable Goods Manufacturing	2.4	0.0	0.7	0.0	0.5
Wholesale Trade	3.9	-0.1	-2.6	-0.8	-16.2
Retail Trade	5.2	0.0	-0.6	0.1	1.1
Transportation and Warehousing	1.1	0.0	3.8	0.1	5.8
Information & Technology	11.4	0.1	0.8	4.9	75.5
Financial Activities	26.7	0.5	1.8	3.9	16.9
Professional and Business Services	8.8	0.3	3.6	0.5	6.3
Education/Health/Personal/Repair/Maintenance	9.2	0.4	4.7	2.6	38.5
Leisure and Hospitality	3.4	0.1	2.6	0.4	14.3
Government	4.3	0.1	3.1	0.3	7.2
Total All Industries	84.9	1.9	2.3	11.4	15.5

Source: CLU CERF

Here again, the comparison between the San Fernando Valley and Ventura County is meaningful. Ventura County also relied for many years on astonishing growth in a single industry sector, the bio-technology-dominated non-durable manufacturing sector. The rise of Amgen, begun in a garage in Thousand Oaks and now the world’s largest independent bio-technology company, fueled the growth of a major industry cluster and sparked regional economic prosperity. Declines in non-durable manufacturing, driven by the widespread dislocation of bio-technology jobs, are the cause of the contraction seen in recent years. Output in nondurable manufacturing declined by more than \$1 billion in 2016 alone.

We trust local employers when they communicate what it makes it difficult to conduct and grow business in a particular region. Amgen recently announced that they are building a 135,000 square foot office building in Tampa Florida and a next generation manufacturing

facility in Rhode Island. This news arrives after Amgen has laid off more than 1,500 Ventura County employees in the last five years. The reason Amgen cited for moving operations out of state: “affordable cost of living and the potential for growth.” The message for the San Fernando Valley is clear. *Be vigilant.* The Golden Goose should not be taken for granted. Conditions must be created which are favorable to retaining and growing incumbent businesses, especially those in the Valley’s rich Information & Technology sector. And workforce housing affordability matters.

Industries and Occupations

We continue to note that job creation in the San Fernando Valley has been less impressive in recent years than the growth in total economic output. In fact, job growth across all industries was stronger in the greater Los Angeles metro area than in the San Fernando Valley in both 2015 and 2016. All industries job growth for California has exceeded that of the San Fernando Valley in every year from 2014 to 2017. The divergence of the San Fernando Valley’s GDP growth and jobs growth holds important meaning. The fact that the Valley’s GDP growth outpaced that of greater Los Angeles while its job growth lagged behind implies that the jobs being added in the San Fernando Valley are relatively more productive. More productive, higher output jobs correspond to higher average salaries and greater economic opportunity for workers. In this way, we believe that job growth in the San Fernando Valley has been marked by a relative abundance of “good jobs,” specifically ones which are more likely to allow employees to afford the high cost of housing in the region.



See the nearby California Economy & Forecast essay for a deeper discussion of *good jobs* and *bad jobs*. While other economists have been quoted saying “EVERY job is a good job,” we believe that a good job does not require extraordinary housing accommodation or an absurdly long commute. A good job provides workers with both economic opportunity and upward economic mobility. The San Fernando Valley appears to be fostering the growth of so-called good jobs at a faster pace than its neighbors.

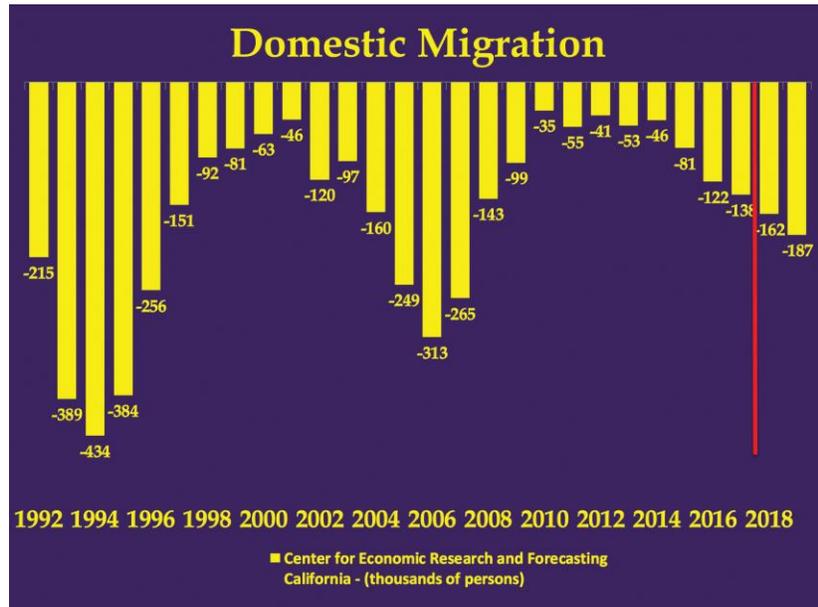
Over the past 10 years, the number of jobs in Agriculture, Natural Resources, Utilities, Non-Durable and Durable Goods Manufacturing, Whole Sale Trade, and Financial Activities are all down more than 10 percent. Jobs in Agriculture and Natural Resources, admittedly small sectors in the broader Valley economy, are down an eye-popping 53 percent and 73 percent respectively. Jobs in Manufacturing are down more than 20 percent. Transportation & Warehousing and Information & Technology, have seen only modest job growth. Sectors which have experienced strong post-Recession job growth are generally sectors with low average salaries.

The San Fernando Valley Economy					
<i>Jobs and job growth</i>					
<u>Sectors</u>	<u>2017 ‡</u> <i>Thousands</i>	<i>Changes During the Last Year</i>		<i>Changes Since the Great Recession</i>	
		<u>2016 -</u> <u>2017</u> <i>Change-thousands</i>	<u>2016 -</u> <u>2017</u> <i>Percent change</i>	<u>2007 -</u> <u>2017</u> <i>Change-thousands</i>	<u>2007 -</u> <u>2017</u> <i>Percent change</i>
Agriculture	0.7	0.0	-2.5	-0.8	-53.1
Natural Resources and Mining	0.0	-0.1	-60.1	-0.1	-73.3
Utilities	0.5	0.0	-4.3	-0.1	-12.5
Construction	28.7	1.1	3.8	-2.9	-9.3
Durable Goods Manufacturing	29.5	-0.3	-0.9	-10.2	-25.7
Non-Durable Goods Manufacturing	15.3	-0.4	-2.8	-4.1	-21.2
Wholesale Trade	21.1	-0.9	-3.9	-4.4	-17.4
Retail Trade	60.7	-1.2	-1.9	-4.6	-7.0
Transportation and Warehousing	10.6	0.2	1.9	0.7	6.9
Information & Technology	24.0	-0.9	-3.5	1.3	5.8
Financial Activities	36.1	-0.3	-0.9	-8.0	-18.2
Professional and Business Services	74.3	2.1	2.9	-2.0	-2.6
Education/Health/Personal/Repair/Maintenance	139.4	6.4	4.8	39.1	39.0
Leisure and Hospitality	58.4	1.5	2.6	11.5	24.4
Government	41.2	0.9	2.3	0.7	1.8
Total All Industries	540.7	8.1	1.5	16.0	3.0

Source: CLU CERF. ‡ 2017 are estimates based on quarters 1 and 2. Data are Full-Year averages.

As we did in November, we remind readers that the decline 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. As noted above with Amgen, many high-value sectors have left and continue to leave in search of lower cost environments beyond the borders of California. This pattern is captured in net domestic migration statistics for California. In 2017, 138,000 more residents left California for one of the other 49 states than came to California from one of the 49. Departures from the state are especially common among

younger, working age adults. Although California exhibits this mass exodus statewide, we still believe strongly that local policy matters. In fact, we see strong evidence that differences in local policies related to growth explain the stark contrast that currently exists between the San Fernando Valley and Ventura County.



The latest jobs report provides evidence that the post-Recession jobs trend is continuing. With the exception of Professional & Business Services, high-paying sectors of the Valley economy declined over the past 12 months while low paying sectors continued to grow.

In job growth as in GDP growth, Information & Technology has been a bright spot for the San Fernando Valley. Over the past 10 years, the number of jobs in Information & Technology has increased by 5.8 percent. Since the recessionary trough, the increase has been a more impressive 14 percent. Consider that this 14 percent increase in the number of jobs corresponds to a 75.5 percent increase in total economic output. Output per employee in the Information & Technology sector is extremely high. Not surprisingly, Information & Technology has an average salary that is higher than all other industry sectors, with the exception of Mining. Information & Technology is a source of economic vitality for the San Fernando Valley that is enviable and that sets it apart from neighboring geographies.

The San Fernando Valley: Industry Data					
2001 quarter 4 to 2017 quarter 4					
not seasonally adjusted data	Employment (Jobs)	Average Salary - Annualized (thousands of dollars)			
	2017 Q4	2001 Q4	2017 Q4	Change	% Change
AGRICULTURE	812	24,235	41,798	17,563	72.5
MINING	87	60,812	162,545	101,733	167.3
MINING	541	51,657	73,447	21,790	42.2
CONSTRUCTION	29,368	36,651	57,734	21,083	57.5
MANUFACTURING-DURABLE	29,786	47,013	73,437	26,424	56.2
MANUFACTURING-NONDURABLE	14,790	36,697	54,292	17,595	47.9
WHOLESALE TRADE	21,762	49,642	74,457	24,814	50.0
RETAIL TRADE	63,204	29,202	37,373	8,171	28.0
TRANSPORTATION & WAREHOUSING	11,298	35,883	53,361	17,478	48.7
INFORMATION & TECHNOLOGY	24,706	104,269	136,678	32,409	31.1
FINANCE & INSURANCE & REAL ESTATE	36,771	55,145	86,241	31,096	56.4
PROFESSIONAL & BUSINESS SERVICES	75,455	46,333	78,328	31,995	69.1
EDUCATION/HEALTH CARE/PERSONAL/REPAIR/MAINTENANCE	139,570	31,345	44,256	12,911	41.2
LEISURE & HOSPITALITY	59,302	36,320	60,508	24,188	66.6
GOVERNMENT	41,721	40,031	58,711	18,680	46.7
ALL INDUSTRIES, TOTAL NUMBER OF JOBS	549,174				
AVERAGE SALARY, ALL INDUSTRIES		43,034	61,969	18,934.8	44.0

Source: California Employment Development Department (QCEW data program)

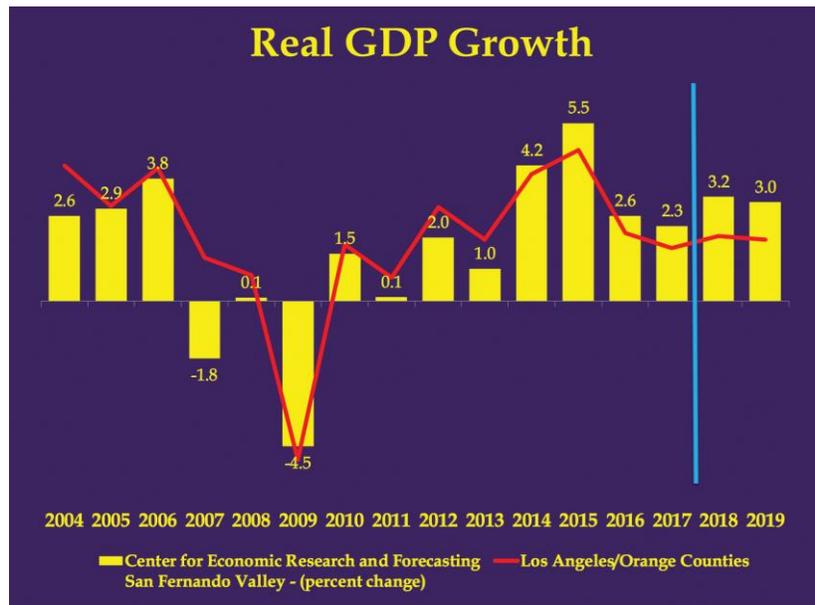
San Fernando Valley's Forecast

We forecast that the San Fernando Valley will continue to exhibit strong growth over the next two years. In fact, the current forecast represents a significant upward revision to the forecast published just six months ago. The reason for the more positive outlook is corporate tax reform. As discussed in detail in the nearby U.S. Forecast essay and in the San Fernando Valley Highlights essay, we believe that reforms to the U.S. corporate tax system passed in December are unambiguously positive for economic growth. For the U.S. economy, this translates into an increase in forecasted average growth of approximately 0.5 percent over the next two years. The effect on the California economy is forecasted to be a more modest 0.2 percent increase in economic growth relative to the pre-tax-reform forecast. This is to say that the state of California will forego some of the benefits of corporate tax reform, largely due to a punishing business environment marked by onerous taxes and regulation, a workforce housing affordability crisis, and an accelerating exodus of businesses and households from the state. We expect the San Fernando Valley to benefit relatively strongly, and the current forecast calls for average growth over the next two years that is 0.4 percent higher than the December forecast.

GDP Forecasts		
	2018	2019
San Fernando Valley		
Forecast published Dec 2017	2.6	2.8
Forecast published May 2018	3.2	3.0
Los Angeles/Orange County		
Forecast published Dec 2017	1.7	1.6
Forecast published May 2018	2.0	1.9
California		
Forecast published Dec 2017	2.8	2.5
Forecast published May 2018	3.0	2.7
United States		
Forecast published Dec 2017	2.4	2.2
Forecast published May 2018	2.8	2.7

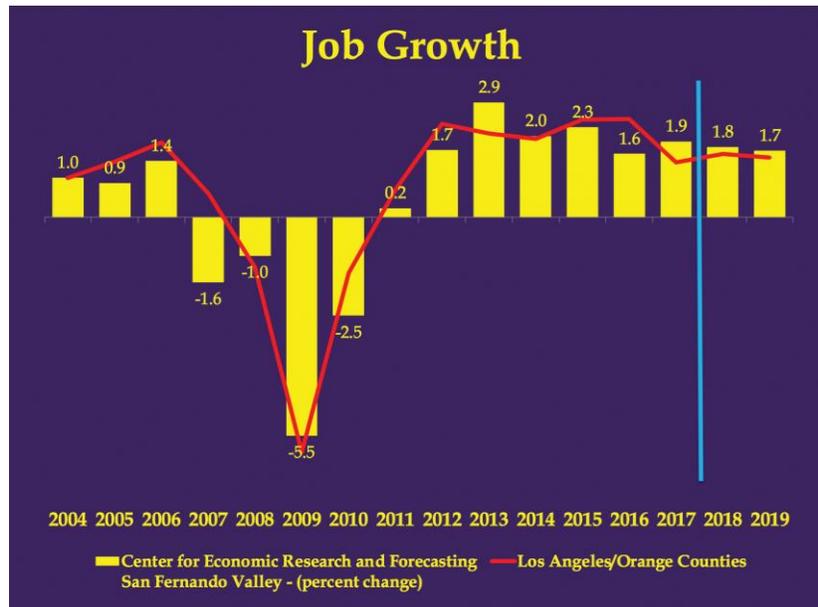
Source: CERF at California Lutheran University

The current forecast calls for the growth premium that the San Fernando Valley currently enjoys over the greater Los Angeles economy to expand considerably between now and 2019. The rate of growth is forecast to increase in the San Fernando Valley from 2.3 percent in 2017 to 3.2 percent in 2018 and 3.0 percent in 2019. By comparison, Economic growth for greater Los Angeles is forecast to be 2.0 percent in 2018 and 1.9 percent in 2019.



Total economic output is forecasted to continue growing at a rate which exceeds job growth. The forecast calls for job growth of 1.8 percent and 1.7 percent over the next two years respectively.

Although this represents a modest slow down in job growth relative to recent years, these are still relatively strong numbers compared to neighboring geographies. We anticipate that the San Fernando Valley will continue to produce jobs faster than greater Los Angeles and Ventura County.



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. The single biggest potential shock to the San Fernando Valley’s economy is the threat of an international trade war. Please see the nearby U.S. Economy essay for a thorough discussion of International Trade and the damage already being done by President Trump’s trade policies.

As in the previous publication, another concern is competition from other regions (including other states) for the Information & Technology activity that is a major driver of economic vitality in the San Fernando Valley. A dramatic lack of workforce housing and the resulting affordability crisis could prove to be 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 Information & Technology.

Risks aside, the San Fernando Valley exhibits uncommon economic strength, especially compared to its neighbors. We anticipate continued strength and economic vitality across the entire forecast horizon, even as we keep a wary eye on International trade policy and on local developments which impact business location decisions.

Forecast Charts

