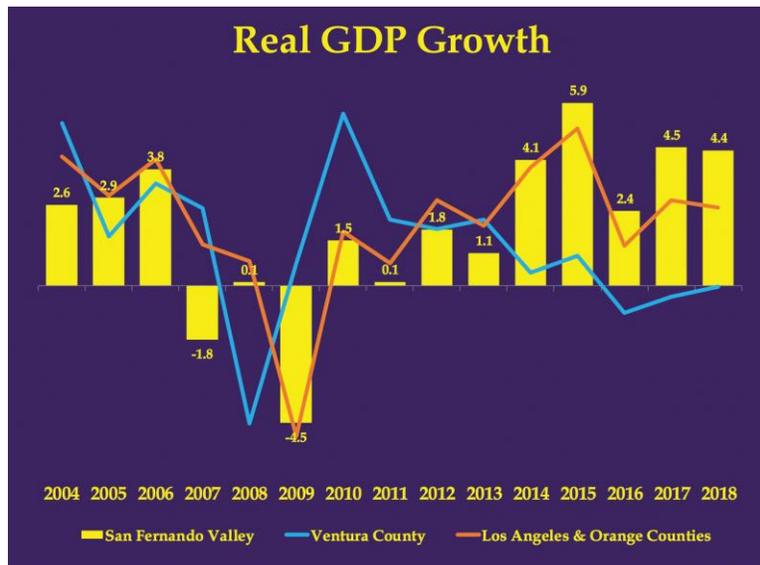


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State of the San Fernando Valley

The San Fernando Valley is home to a vibrant, dynamic economy. It is a true economic hotspot among neighboring regions, and compares favorably to both the state of California and the nation. The Valley's stretch of economic dynamism is now in its fifth year and shows little sign of subsiding. The past two years have been particularly strong. Any caution that we expressed in the 2018 San Fernando Valley Economic Forecast publication has been replaced with bullishness in the current outlook.



From 2014 to 2018, Real GDP for the San Fernando Valley grew at an average annual rate of 4.3 percent. Growth this rapid would be enviable almost anywhere in the country. The Valley's growth compares especially favorably to the broader Metro-LA economy, which includes both Los Angeles and Orange Counties. Metro LA's economy grew at just 3.1 percent over the same period. The San Fernando Valley economy is thoroughly besting its immediate neighbor to the west. Ventura County, which surely competes with the Valley for high value-added business in Manufacturing, Information & Technology, Financial Activities and Professional & Business Services, is losing that competition. Ventura County's economy had average annual growth of 0.0 percent over the past five years. Two of the past three years saw economic contraction.

Looking at the Real GDP Growth chart above, readers of this publication should not be misled by the apparent decline in economic activity in the San Fernando Valley in 2016. We interpret this as the normal volatility associated with economic data generated by geographies of this size. Here, that volatility is driven more by the timing of when economic activity was measured rather than by actual increases or decreases in economic activity. We look at the past five years in the San Fernando Valley and see clear signs of sustained, robust economic growth of greater than 4 percent.

In the 2018 forecast publication, we cautioned that economic growth for the San Fernando Valley, Metro-LA and the state of California appeared to have cooled for 3 consecutive years. The Bureau of Economic Analysis (BEA) released data in November which altered that history. The November BEA numbers included truly surprising revisions to the previous three years' growth figures. The slowdown that appeared to begin in 2015 and run through 2017 has now been revised away for the San Fernando Valley. As noted in the nearby California [Economy & Forecast](#) essay, revisions to historical data also changed the outlook for the state of California. That outlook is now brighter than it was just a year ago, although not nearly as brilliant as the outlook for the San Fernando Valley.

A second caution that we offered in the previous forecast publication is that the San Fernando Valley's economic growth appeared to be highly concentrated in a single industry sector. We worried that an economy whose strength is built on a single industry sector is an economy balanced on the knife's edge. We noted that neighboring Ventura County's economic vibrancy for many years hinged on the bio-technology industry which comprised most of the County's Non-durable Manufacturing activity. The County's current economic woes are largely attributable to the decline of non-durable manufacturing over the past 10 years.

This year's picture of the San Fernando Valley economy is one of more broad-based strength. Over the past year, the San Fernando Valley saw considerable economic gains across every single sector of the non-farm economy. Utilities, Information & Technology, and Financial Activities (representing 3 of the 4 highest value-added per employee sectors) were among the fastest growing.

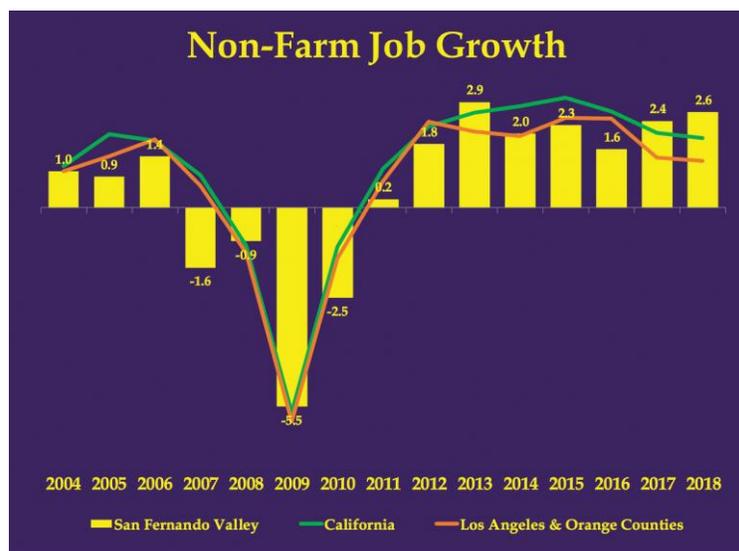
Information and Technology, a broad sector that includes software engineering, internet development, and motion picture production continues to be a driver of strong economic growth. Output in Information & Technology has increased more than 100 percent since before the recession, more than double the growth of the second fastest growing sector. In addition to the astronomical gains in Information & Technology, we see evidence of more diverse economic strength. Every sector of the Valley's non-farm economy saw economic gains in the past year.

The San Fernando Valley Economy			
Gross Domestic Product		2018	
billions of 2009 dollars			
Sectors	billions	Changes During the Last Year	
		2017 - 2018	2017 - 2018
		Change-billions	Percent change
Agriculture	0.0	0.0	1.1
Natural Resources and Mining	0.0	0.0	-14.8
Utilities	0.4	0.0	12.1
Construction	3.4	0.2	7.3
Durable Goods Manufacturing	4.8	0.2	3.5
Non-Durable Goods Manufacturing	2.4	0.1	3.0
Wholesale Trade	4.0	0.1	2.4
Retail Trade	5.5	0.2	3.4
Transportation and Warehousing	1.3	0.1	5.4
Information & Technology	13.4	0.6	4.7
Financial Activities	28.1	1.2	4.5
Professional and Business Services	9.4	0.4	4.1
Education/Health/Personal/Repair/Maintenance	9.7	0.4	4.0
Leisure and Hospitality	3.6	0.2	5.6
Government	4.4	0.2	4.7
Total All Industries	90.6	3.8	4.4
		Changes Since the Great Recession	
		2007 - 2018	2007 - 2018
		Change-billions	Percent change
		0.0	-52.9
		-0.1	-83.2
		0.0	10.0
		-0.2	-6.7
		-0.1	-1.6
		0.1	2.1
		-0.7	-14.4
		0.4	8.3
		0.2	16.6
		6.9	107.2
		5.3	23.0
		1.2	14.4
		3.1	46.0
		0.7	22.2
		0.4	10.2
		17.0	23.2

Source: CLU-CERF

Industries and Occupations

While we have noted in previous publications that job growth is weaker than economic growth in the San Fernando Valley, we see evidence of stronger job creation in recent years. Even as job growth declined across Metro LA and the broader California economy in each of the past three years, the San Fernando Valley has enjoyed accelerating job growth. With job growth of 2.4 percent in 2017 and 2.6 percent in 2018, San Fernando Valley job growth now significantly outpaces that of Metro LA and the state.



All sectors of the non-farm economy except two saw job gains in 2018. The Utilities and Construction sectors saw the strongest single year gains, with jobs growing by 8.4 and 6.7 percent respectively. Only Non-durable Manufacturing and Wholesale Trade saw declines, and fortunately, these declines were small at just -0.8 and -0.4 percent.

The San Fernando Valley Economy					
<i>Jobs and job growth</i>					
Sectors	2018	Changes During the Last Year		Changes Since the Great Recession	
	Thousands	2017 - 2018	2017 - 2018	2007 - 2018	2007 - 2018
		Change-thousands	Percent change	Change-thousands	Percent change
Agriculture	0.7	0.0	-0.7	-0.8	-52.5
Natural Resources and Mining	0.0	0.0	-16.6	-0.1	-82.3
Utilities	0.8	0.1	8.4	0.1	23.4
Construction	31.4	2.0	6.7	-0.3	-0.9
Durable Goods Manufacturing	29.7	0.2	0.8	-10.0	-25.3
Non-Durable Goods Manufacturing	15.1	-0.1	-0.8	-4.4	-22.6
Wholesale Trade	20.7	-0.1	-0.4	-4.9	-19.0
Retail Trade	61.7	0.2	0.3	-3.6	-5.4
Transportation and Warehousing	11.2	0.4	4.0	1.3	13.6
Information & Technology	25.5	0.6	2.6	2.8	12.4
Financial Activities	37.0	0.7	1.9	-7.1	-16.1
Professional and Business Services	77.2	2.5	3.3	0.9	1.2
Education/Health/Personal/Repair/Maintenance	144.8	3.9	2.7	44.6	44.4
Leisure and Hospitality	62.5	3.3	5.7	15.5	33.0
Government	41.3	0.7	1.7	0.9	2.1
Total All Industries	559.7	14.4	2.6	35.0	6.7

Source: CLU CERF. Data are Full-Year averages.

Accelerating job creation has not yet made up for the considerable hole left in the San Fernando Valley labor market by the Great Recession and the weak economic recovery that followed. Since 2007, jobs in Durable and Non-durable Goods Manufacturing are both down more than 20 percent. Jobs in Financial Activities are down more than 15 percent. The only two sectors to exhibit major increases in jobs are Education, Health & Maintenance Services and Leisure & Hospitality. Utilities, Transportation & Warehousing and Information & Technology have each seen modest increases in jobs, although the 4,000 additional jobs created in these three sectors are dwarfed by the 60,000 jobs created in Education & Health Services and Leisure & Hospitality.

The fact that job growth continues to be weaker than economic growth is not all bad news. One obvious explanation is that some of the jobs being created in the San Fernando Valley are extremely high economic value-added jobs. In particular, jobs in the Utilities and Information & Technology sectors each add substantial economic output to the region's economy.

One way to capture this is to compare two different sector-specific characteristics: a sector's share of the total number of jobs in the economy and the sector's share of total economic output (GDP). For example, the Information & Technology sector currently accounts for 4.6 percent of the jobs in the San Fernando Valley. At the same time, the Information & Technology

sector accounts for 14.8 percent of the Valley’s total economic output. Information & Technology’s GDP share is currently 3.3 times its job share, revealing that economic output per employee in this sector is very high. The Utilities sector currently enjoys a ratio of GDP share to jobs share that is nearly as impressive, at 3.0.

The San Fernando Valley Economy						
Industrial Sectors: 2018						
Sectors	Jobs	Job Share	GDP	GDP Share	Ratio:	
	jobs	percent share	thousands	percent share	GDP share to Jobs share	
Agriculture	744	0.1	39	0.0	0.3	
Natural Resources and Mining	28	0.0	24	0.0	5.3	
Utilities	755	0.1	366	0.4	3.0	
Construction	31,378	5.6	3,447	3.8	0.7	
Durable Goods Manufacturing	29,680	5.3	4,818	5.3	1.0	
Non-Durable Goods Manufacturing	15,060	2.7	2,404	2.7	1.0	
Wholesale Trade	20,706	3.7	3,959	4.4	1.2	
Retail Trade	61,720	11.0	5,540	6.1	0.6	
Transportation and Warehousing	11,215	2.0	1,256	1.4	0.7	
Information & Technology	25,494	4.6	13,424	14.8	3.3	
Financial Activities	37,038	6.6	28,098	31.0	4.7	
Professional and Business Services	77,229	13.8	9,428	10.4	0.8	
Education/Health/Personal/Repair/Maintenance	144,810	25.9	9,719	10.7	0.4	
Leisure and Hospitality	62,490	11.2	3,621	4.0	0.4	
Government	41,339	7.4	4,435	4.9	0.7	
Total All Industries	559,686		90,579			

Sources: CA Employment Development Department, U.S. Bureau of Economic Analysis

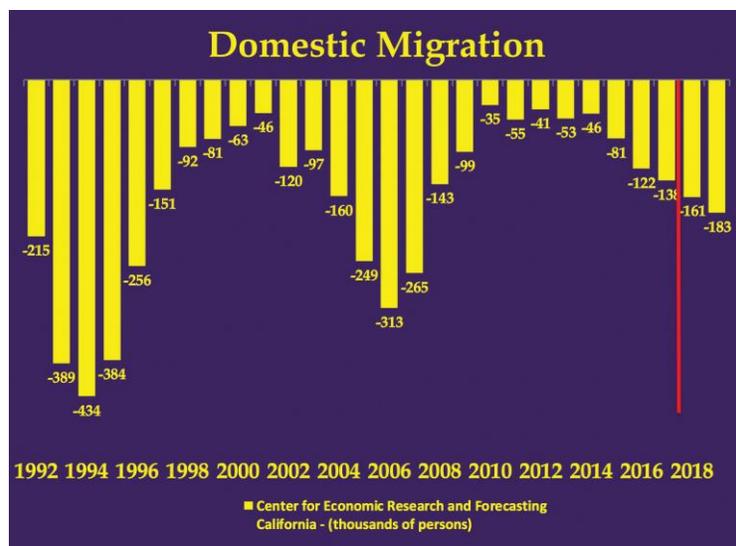
The table above reveals the relative economic value of the average job in each of the sectors of the San Fernando Valley economy. Comparing the ratios in the right-hand column, we see that, on average, jobs in Information & Technology (relative economic ratio of 3.3) produce more than 7.5 times the economic output per job of those in Leisure & Hospitality (relative economic ratio of 0.4). Generally, a relative economic ratio above 1.0 represents high output per employee. A relative economic ration below 1.0 represents low output per employee. To the extent that the San Fernando Valley continues to produce a sufficient number of jobs with high relative economic value, economic growth can continue to outpace job growth.

Not surprisingly, the average salary of jobs in the Valley’s Information & Technology sector is the highest of any sector, at nearly 110,000 dollars in 2018. Sectors with high output per employee often produce high average salaries. Jobs in the Utilities sector have the second highest average salary at 98,000 dollars. For comparison, the Leisure & Hospitality sector has an average salary of only 42,000 dollars.

The San Fernando Valley: Industry Data					
2001 to 2018					
not seasonally adjusted data	Employment (Jobs)	Average Salary -Annualized (thousands of dollars)			
	2018	2001	2018	Change	% Change
AGRICULTURE	744	25,631	44,300	18,669	72.8
MINING	28	56,132	53,757	-2,375	-4.2
UTILITIES	755	49,166	98,098	48,932	99.5
CONSTRUCTION	31,378	36,187	57,626	21,440	59.2
MANUFACTURING-DURABLE	29,680	50,462	78,490	28,028	55.5
MANUFACTURING-NONDURABLE	15,060	32,178	56,661	24,484	76.1
WHOLESALE TRADE	20,706	44,725	73,440	28,715	64.2
RETAIL TRADE	61,720	26,868	37,212	10,344	38.5
TRANSPORTATION & WAREHOUSING	11,215	33,141	50,389	17,249	52.0
INFORMATION & TECHNOLOGY	25,494	79,210	108,747	29,536	37.3
FINANCE & INSURANCE & REAL ESTATE	37,038	52,619	90,754	38,135	72.5
PROFESSIONAL & BUSINESS SERVICES	77,229	42,388	69,591	27,203	64.2
EDUCATION/HEALTH CARE/PERSONAL/REPAIR/MAINTENANCE	144,810	27,461	42,764	15,304	55.7
LEISURE & HOSPITALITY	62,490	26,473	42,117	15,644	59.1
GOVERNMENT	41,339	39,361	61,212	21,851	55.5
ALL INDUSTRIES, TOTAL NUMBER OF JOBS	559,686				
AVERAGE SALARY, ALL INDUSTRIES		39,083	57,759	18,675.5	47.8

Source: California Employment Development Department (QCEW data program)

The San Fernando Valley’s pattern since the Great Recession of adding large numbers of jobs in relatively low-value sectors and losing significant numbers of jobs in relatively high value sectors, especially goods-producing sectors, is not unique. This pattern is in many ways the result of broader State policies which increase the cost of doing business. Businesses 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 2018, 138,000 more residents left California for one of the other 49 states than came to California from one of the 49.



While we do not have accurate net domestic migration numbers for the narrower geography of

the San Fernando Valley, demographic statistics give reason for worry. As shown in the chart below, the San Fernando Valley is undergoing a hollowing-out of its Middle Class. The share of the population with incomes between 15,000 and 100,000 dollars has declined since 2010. The sharpest decline is among the segment with incomes of 50,000 to 75,000 dollars.

Simultaneously, the share of the population with annual income greater than 100,000 dollars is growing substantially. Some of the shift in income distribution is explained by the aging of the San Fernando Valley's population. Some of the shift may also be explained by the growth in high-value sectors of the economy and the addition of jobs with high average salaries.



What is completely missing from this demographic shift is the many tens of thousands of jobs being produced in lower-paying sectors of the economy. We are left to conclude that many of hundreds of thousands of employees in Retail Trade, Leisure & Hospitality, and Education & Health Services are finding it increasingly difficult to live in the San Fernando Valley. Jobs in these sectors likely require major accommodation, including lengthy commutes from outside the Valley. There are social costs to this pattern.

One of the challenges that the San Fernando Valley will increasingly face in the years ahead is how to provide vibrant communities to compliment the vibrant economy that the Valley currently enjoys. Our definition of a vibrant community is one that can employ and house individuals of many income levels, providing widespread opportunity and upward economic mobility.

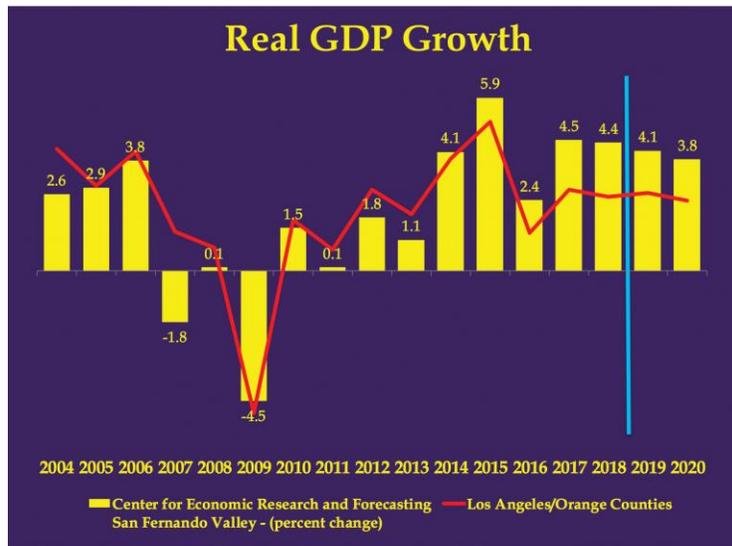
San Fernando Valley's Forecast

For the second straight year, our current forecast of economic growth for the San Fernando Valley represents a significant upward revision from the previous forecast. The Valley economy is forecast to grow by 4.1 percent in 2019. Last year, we were predicting growth of just 3.1 percent in 2019. Absent an outside shock such as a global economic slowdown or a major natural disaster, we anticipate that robust growth will continue, with the Valley's economy growing at 3.8 percent in 2020. At an average growth rate of approximately 4 percent over the next two years, we anticipate that the San Fernando Valley economy will continue to significantly outpace Greater Los Angeles, California and the Nation.

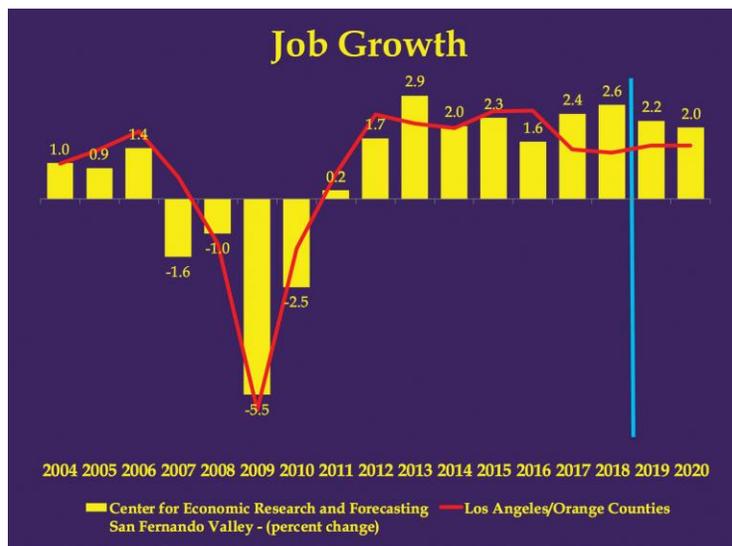
GDP Forecasts		
	2019	2020
San Fernando Valley		
Forecast published May 2018	3.1	n/a
Forecast published Feb 2019	4.1	3.8
Los Angeles/Orange County		
Forecast published May 2018	1.9	n/a
Forecast published Feb 2019	2.7	2.4
California		
Forecast published Mar 2018	2.5	n/a
Forecast published Dec 2018	3.3	2.9
United States		
Forecast published Mar 2018	2.5	n/a
Forecast published Dec 2018	2.8	2.6

In each of the two previous forecast publications, we have predicted that the San Fernando Valley would enjoy a significant growth premium over its neighbors. In each case, we have *underestimated* the growth premium. The Valley has outperformed even our optimistic forecasts. It seems you can't be too bullish on the San Fernando Valley economy. The current forecast calls for the growth premium that the San Fernando Valley currently enjoys over the greater Los Angeles economy and over the state of California to be maintained for the entire forecast horizon.

Total economic output is forecasted to continue growing at a rate which exceeds job growth. The forecast calls for job growth of 2.2 percent and 2.0 percent over the next two years respectively. This an upward revision from the previous publication's forecast of 1.7 percent growth in 2019. Economic growth will continue to exceed job growth. We anticipate that the San Fernando Valley will continue to produce jobs faster than greater Los Angeles and the state of California.



The risks to this forecast are fairly balanced. Having underestimated the strength of the San Fernando Valley in each of the two previous publications, it would be foolish for us to say that there is no upside risk to the current forecast. The San Fernando Valley’s economic dynamism could expand beyond our predictions. The biggest downside risks to the forecast are external shocks. These include an expanded international trade war, global economic slowdown, and a downturn in the U.S. business cycle.



Risks aside, the San Fernando Valley exhibits uncommon economic strength. We anticipate continued strength and economic vitality in the years ahead.

Forecast Charts

