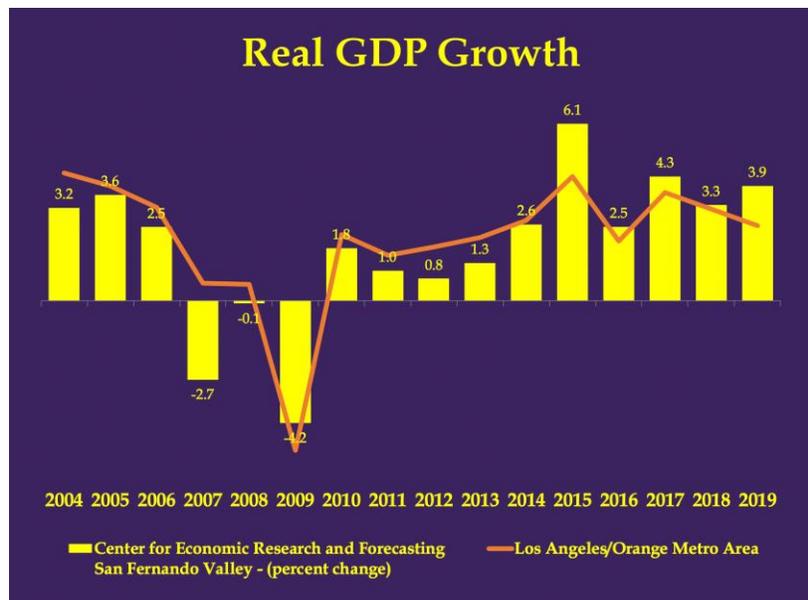


Matthew Fienup
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State of the San Fernando Valley

When the CERF team first set out to analyze the discrete economy of the San Fernando Valley, we didn't quite know what to expect. As long time neighbors of the San Fernando Valley, we had an intuition that the Valley was home to a strong and vibrant economy. But what we found surpassed even our elevated expectations. The San Fernando Valley is a true economic hotspot, whose performance compares favorably to almost any other geography. The San Fernando Valley enjoys a substantial economic *growth premium*, which elevates it above the broader Los Angeles metropolitan area, above the nation, and even above a strong state economy.

With the advent of this year's forecast, the Valley's growth premium is certainly intact. The Valley is in the midst of a stretch of robust economic growth that is now entering its sixth year. Over the past five years, economic growth in the Valley has averaged more than 4 percent. By comparison, the broader Los Angeles metropolitan area has averaged growth of just 3.1 percent and the nation has averaged just 2.5 percent. During this same period, the State of California has enjoyed growth of 3.9 percent, nipping at the heels of the San Fernando Valley economy. But interestingly, our estimates of GDP growth for 2019 indicate that the California's economic growth rate slowed significantly while the San Fernando Valley's accelerated.

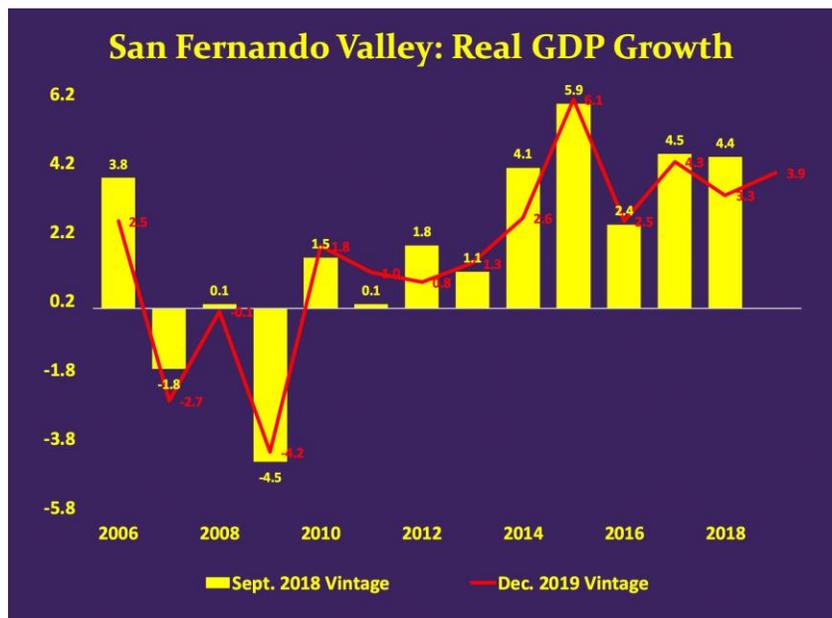


As detailed in the nearby California Highlights essay, California's slowdown in economic growth owes both to state level policies which inhibit economic growth and to the trade war which is currently being waged across the globe. The State's economic slowdown is significant yet still small compared to the nation's. As detailed in the nearby U.S. Forecast essay, the U.S. economy is truly

buckling under the weight of the most restrictive international trade policies in nearly 90 years. Business investment has cratered in the environment of uncertainty that the trade war has produced. As a result, the economic outlook for the nation has eroded dramatically. To our delight, even as the state of California and the nation are experiencing economic slowdowns, the San Fernando Valley’s economic growth continues apace. In this way, the underlying strength of the San Fernando Valley economy seems to provide a degree of insulation from outside factors and trends.

The biggest change in our outlook from a year ago stems from data released by the Bureau of Economic Analysis (BEA). On December 12, the BEA released its annual Metro GDP dataset which provides economic growth figures for the Los Angeles / Orange County Metropolitan Statistical Area, which is an input to our analysis of the San Fernando Valley. The release provided a new growth estimate for 2018 as well as significant revisions to the economic history of the region going back to 2002. This year’s BEA release also incorporates updates and methodology revisions for the state of California and the nation.

Both the Los Angeles Metro Area and the San Fernando Valley saw significant revisions to economic growth numbers for the past 4 years. As shown in the chart below, the San Fernando Valley’s economic growth estimates were revised upwards in 2015 and 2016 (by 20 and 10 basis points, respectively) and downwards in 2017 and 2018 (by 20 and 110 basis points respectively). The downward revision to the growth estimate for 2018 might seem worrisome were it not for a significant rebound in the growth rate that we estimate happened in 2019. As mentioned above, this rebound is especially noteworthy given the major slowdown being experienced at every other scale of geography, including the broader metro region, the state and the nation.



Economic growth data for the LA Metro Area was revised upward for 2016, 2017 and 2018 (see chart below). That is, economic activity in the greater LA economy was stronger in these years than

previously thought.

Despite the upward revisions to its economic growth figures, the LA Metro economy saw a significant decline in economic growth over the past 3 years. Economic growth was 3.7 percent in 2017 and 3.1 percent in 2018. Our estimate of growth in 2019 is just 2.6 percent, equal to our estimate of growth for the state at large. In other words, the Los Angeles and Orange County Metropolitan Area is seeing an economic slow down similar to the state’s and the nation’s (although not as dramatic as the nation’s). In our view, this makes it even more remarkable that economic growth in the Valley remains strong. Declining economic growth across comparable geographies goes a long way to ensuring the San Fernando Valley will maintain its growth premium for the foreseeable future.

Revisions of the sort that were released in 2019 and which altered the historical record for both the California and LA/Orange Metropolitan Area economies (and in effect the San Fernando Valley economy) give us pause. There is a natural tendency on our part to wonder if the historical data won’t be revised again next year and in ways which fundamentally alter the economic outlook. Despite our caution, four years of analysis have taught us to never underestimate the San Fernando Valley economy.



As with last year’s publication, we once again see signs of economic strength in the San Fernando Valley that is broad based and enduring. During the past year, only the small and highly volatile Agriculture and Resource Extraction sectors saw declines in economic output. That is, every single sector of the Non-farm, non-extraction economy saws gains. The fastest growing sectors were Construction, Transportation & Warehousing, and Information & Technology.

Information and Technology, a broad sector that includes software engineering, internet

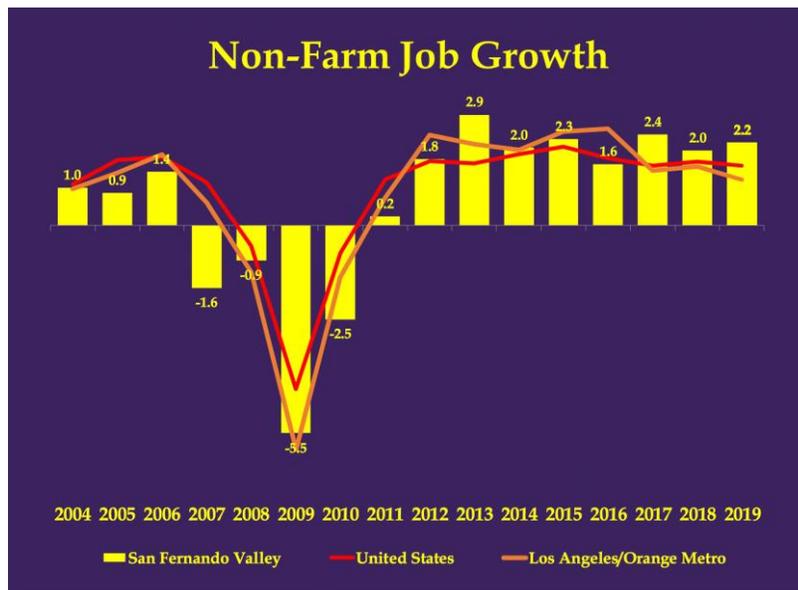
development, and motion picture production continues to be a significant driver of the Valley's strong outlook. Output in this sector increased 5.9 percent in the past year and is up more than 100 percent since before the recession.

The San Fernando Valley Economy					
Gross Domestic Product		Changes During the Last Year		Changes Since the Great Recession	
<i>billions of 2012 dollars</i>		2018 - 2019	2018 - 2019	2007 - 2019	2007 - 2019
<u>Sectors</u>	<u>billions</u>	<u>Change-billions</u>	<u>Percent change</u>	<u>Change-billions</u>	<u>Percent change</u>
Agriculture	0.1	0.0	-2.2	0.0	-35.6
Natural Resources and Mining	0.0	0.0	-1.3	-0.1	-89.1
Utilities	0.3	0.0	10.4	0.2	102.2
Construction	3.6	0.2	5.3	-0.2	-4.9
Durable Goods Manufacturing	5.3	0.1	1.8	0.7	15.1
Non-Durable Goods Manufacturing	2.6	0.1	3.4	-0.3	-11.1
Wholesale Trade	4.8	0.2	3.3	-0.2	-3.5
Retail Trade	5.7	0.1	2.1	0.1	1.7
Transportation and Warehousing	1.5	0.1	8.0	0.4	30.6
Information & Technology	13.4	0.7	5.9	7.1	110.6
Financial Activities	25.1	0.9	3.8	4.6	22.3
Professional and Business Services	10.5	0.5	4.6	1.9	21.9
Education/Health/Personal/Repair/Maintenance	11.1	0.4	3.9	3.9	54.2
Leisure and Hospitality	4.0	0.1	3.6	0.7	20.9
Government	4.5	0.1	2.1	0.3	6.4
Total All Industries	92.7	3.6	4.0	18.9	25.6

Source: CLU-CERF, U.S. BEA, CA-EDD

Industries and Occupations

On top of increases in total economic output, the San Fernando Valley is enjoying a third straight year of relatively strong job growth.



As with GDP growth, while job growth slowed from 2018 to 2019 across the LA Metro area, job growth appears to have ticked up in the San Fernando Valley. Over the past three years, job growth has averaged 2.2 percent in the Valley, while averaging 1.6 percent for the nation and only 1.4 percent for the LA Metro area.

All sectors of the non-farm economy except two saw job gains in 2019. Utilities, Transportation & Warehousing and Construction saw the largest gains, with the number of jobs in these sectors growing 8.3, 6.6 and 5.5 percent respectively. The gains in construction jobs are especially noteworthy, as this year’s publication marks the first time that the San Fernando Valley has finally recovered the pre-Recession number of construction jobs. The fact that it took more than 11 years to recover is astonishing and underscores the lasting impact of the Financial Crisis and Great Recession on the San Fernando Valley and the broader region.

Retail Trade and Durable Goods Manufacturing are the only sectors to have lost jobs over the past year. Combined, the two sectors lost only 800 jobs. This number is fortunately small, although the most recent loss of manufacturing jobs compounds earlier losses. Jobs in Durable Goods Manufacturing are now down 28 percent from the pre-recession high. This sector has lost jobs in each of the four years that we have produced the San Fernando Valley economic forecast.

The San Fernando Valley Economy					
<i>Jobs and job growth</i>					
<u>Sectors</u>	<u>2019</u>	<u>Changes During the Last Year</u>		<u>Changes Since the Great Recession</u>	
	<i>Thousands</i>	<i>2018 - 2019</i>	<i>2018 - 2019</i>	<i>2007 - 2019</i>	<i>2007 - 2019</i>
		<i>Change-thousands</i>	<i>Percent change</i>	<i>Change-thousands</i>	<i>Percent change</i>
Agriculture	0.7	0.0	-0.8	-0.8	-52.4
Natural Resources and Mining	0.0	0.0	-3.4	-0.1	-88.7
Utilities	1.1	0.1	8.3	0.5	77.7
Construction	33.4	1.8	5.5	1.8	5.6
Durable Goods Manufacturing	28.7	-0.2	-0.6	-11.0	-27.7
Non-Durable Goods Manufacturing	14.5	0.0	0.0	-5.0	-25.6
Wholesale Trade	20.5	0.3	1.5	-5.0	-19.6
Retail Trade	61.0	-0.6	-1.0	-4.2	-6.5
Transportation and Warehousing	12.0	0.7	6.6	2.1	21.6
Information & Technology	25.9	0.6	2.5	3.2	14.2
Financial Activities	36.6	0.3	0.9	-7.6	-17.2
Professional and Business Services	78.7	2.7	3.5	2.4	3.2
Education/Health/Personal/Repair/Maintenance	153.0	4.8	3.2	52.7	52.6
Leisure and Hospitality	61.9	1.7	2.8	14.9	31.7
Government	40.2	0.0	-0.1	-0.3	-0.8
Total All Industries	568.2	12.1	2.2	43.5	8.3

Source: CLU-CERF, CA-EDD. Data are Full-Year averages.

Despite the long overdue recovery of jobs in construction, the San Fernando Valley labor market is still very different than the one which prevailed prior to the Great Recession. Since 2007, jobs in goods producing and other high value added sectors have seen sustained declines. Durable and Non-durable Goods Manufacturing jobs are each down more than 25 percent. Jobs in Financial Activities and Wholesale Trade are both down close to 20 percent. Utilities and Transportation & Warehousing have defied this trend and have each seen strong gains in percentage terms. Utilities

jobs have increased by 77 percent. Transportation & Warehousing had increased 22 percent. While these numbers are welcome, they represent small sectors of the Valley's labor market and combine to have added only 2,600 jobs since prior to the recession.

Jobs in Information & Technology continue to be a bright spot, having grown nearly 15 percent since 2007. When you consider that the total economic output in the Information & Technology sector has grown by more than 100 percent in that time, it must be the case that these are, on average, highly productive jobs of a sort that any community would envy. Not surprisingly, Information & Technology has far and away the highest average salary of any industry sector, with an average salary of over \$110,000, more than 20 percent higher than the second highest paying sector.

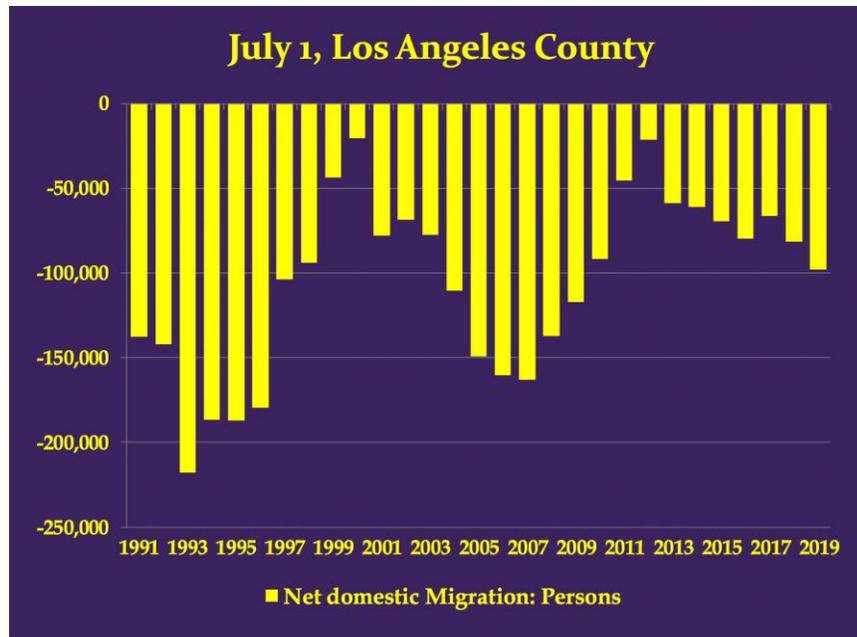
The strongest jobs growth since the recession is concentrated in Education, Health & Maintenance Services and Leisure & Hospitality. Together, these two sectors have added an astounding 67,600 jobs. As we have noted in previous San Fernando Valley publications, jobs in these sectors are a mixed economic blessing. First, the prevalence of job creation in these sectors generally indicates the presence of a prosperous and wealthy consumption-based society. At the same time, the jobs created in these sectors are generally low value added and thus low paying. Given the high cost of living in the Valley and the surrounding metro area, most of these new jobs require extraordinary accommodation on the part workers who fill them.

not seasonally adjusted data	Employment (Jobs)	Average Salary -Annualized (thousands of dollars)			
	2019	2001	2019	Change	% Change
AGRICULTURE	744	25,631	42,871	17,240	67.3
MINING	18	56,132	57,304	1,172	2.1
UTILITIES	1,087	49,166	81,211	32,045	65.2
CONSTRUCTION	33,425	36,187	59,470	23,284	64.3
MANUFACTURING-DURABLE	28,708	50,462	75,935	25,473	50.5
MANUFACTURING-NONDURABLE	14,470	32,178	56,651	24,473	76.1
WHOLESALE TRADE	20,547	44,725	71,377	26,652	59.6
RETAIL TRADE	61,033	26,868	38,540	11,672	43.4
TRANSPORTATION & WAREHOUSING	12,003	33,141	51,438	18,297	55.2
INFORMATION & TECHNOLOGY	25,903	79,210	112,681	33,471	42.3
FINANCE & INSURANCE & REAL ESTATE	36,552	52,619	91,372	38,752	73.6
PROFESSIONAL & BUSINESS SERVICES	78,693	42,388	73,434	31,046	73.2
EDUCATION/HEALTH CARE/PERSONAL/REPAIR/MAINTENANCE	152,957	27,461	42,648	15,187	55.3
LEISURE & HOSPITALITY	61,901	26,473	42,708	16,236	61.3
GOVERNMENT	40,160	39,361	62,147	22,786	57.9
ALL INDUSTRIES, TOTAL NUMBER OF JOBS	568,200				
AVERAGE SALARY, ALL INDUSTRIES		39,083	58,493	19,409.9	49.7

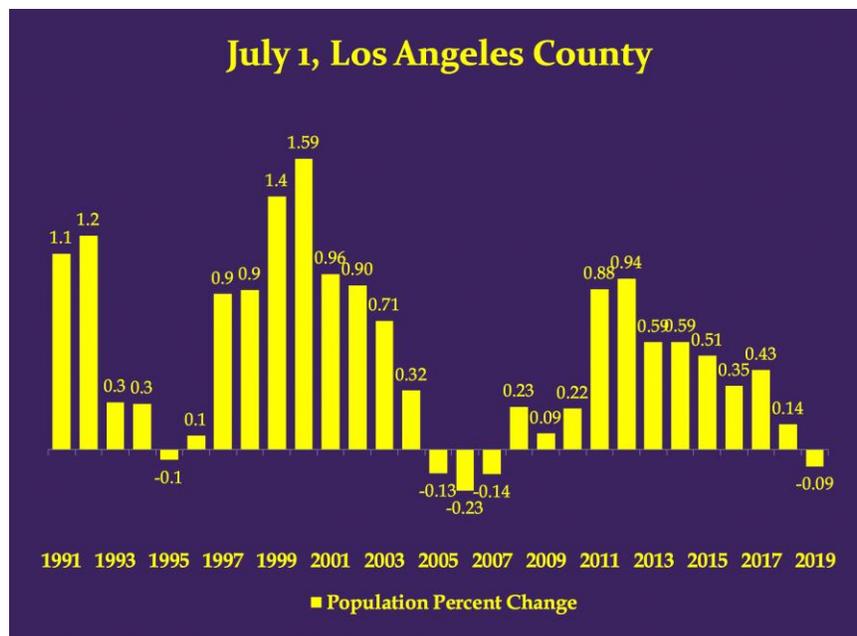
Sources: CLU-CERF and CA-EDD

The median single family home in the San Fernando Valley is currently 17 times the average salary in both Leisure & Hospitality and Education & Healthcare. To put this in perspective, nation wide, the median home price is just 3.4 times the median income. Income multiples of the size of the San Fernando Valley's are almost unthinkable across most of the United States. The mismatch between housing costs and incomes has significant social costs. These include lengthy work commutes from more affordable regions far away or packing a large number of individuals into a single dwelling in order to afford rents closer to work. They also include a lack of upward economic mobility for large

shares of the region’s population and a net exodus of workers, especially younger and lower and middle income workers.



While we lack net domestic migration estimates for the narrow geography of the San Fernando Valley, net migration statistics for Los Angeles County bear this out. LA County is currently seeing a large and accelerating exodus of people. In 2019, nearly 100,000 more people left Los Angeles County for somewhere else in the U.S. than came to Los Angeles County from somewhere else.

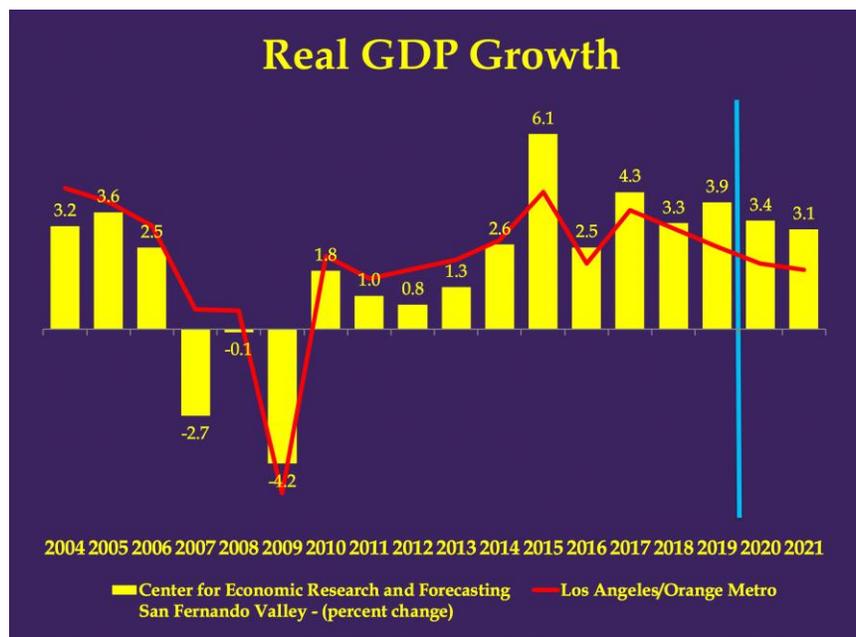


Net domestic outflow in Los Angeles County is currently strong enough that it overwhelms both natural population growth (births minus deaths) and net foreign migration. As a result, Los Angeles County's population actually shrank in 2019.

Population decline is more than an early warning sign. As Charles Crumpley, Publisher of the San Fernando Valley Business Journal, wrote regarding neighboring Ventura County whose population also declined in 2019, "Detroit loses population, not Ventura County." We would add, "Nor Los Angeles County!" Admittedly, the San Fernando Valley economy is significantly stronger than that of either Los Angeles County or Ventura County. But we urge business leaders and public officials alike to heed the warnings being issued by data in the Valley's neighbors. The housing shortage is now a crisis which threatens economic prosperity. Given the growth premium that the San Fernando Valley enjoys, its leaders should demand an earnest effort to address the housing shortage and to invest in the long term sustainability of the Valley's economy. This means providing vibrant communities to compliment the vibrant economy that the Valley currently enjoys. Vibrant communities support and house workers of all income levels.

San Fernando Valley's Forecast

The Valley economy is forecasted to grow by 3.4 percent in 2020 and 3.3 percent in 2021. This may at first seem disappointing relative to recent years' economic performance. The Valley is indeed forecasted to grow at a rate significantly below the 4 percent average of the past five years.



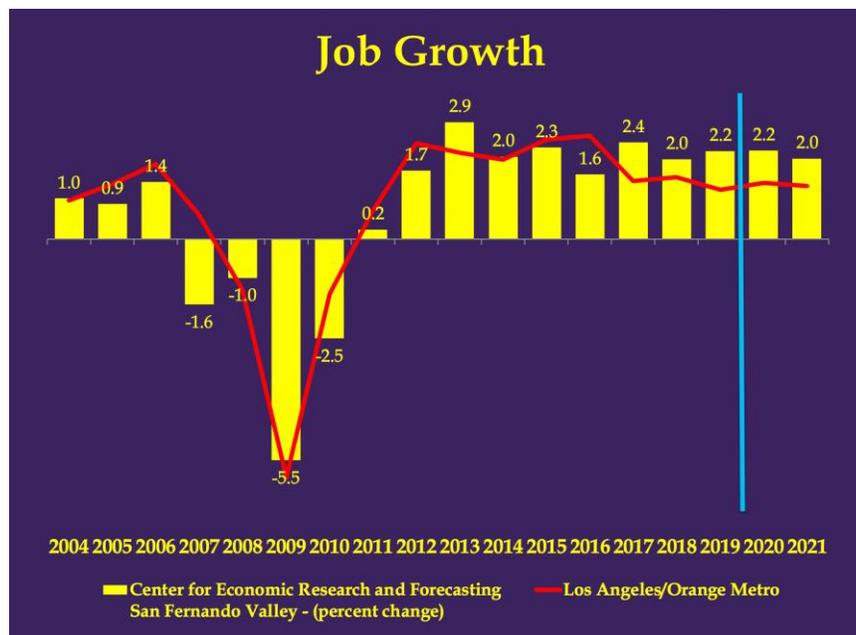
While this represents an undeniable slowdown for the San Fernando Valley economy, we remind readers that this is still a bullish forecast relative to any comparable geography. The broader LA Metro economy is forecasted to grow at just 2.0 percent in 2020 and 1.8 percent in 2021. That is to

say, although the Valley is forecast to experience an economic slowdown, the Valley’s growth premium will likely *grow*. From 2016 to 2018, the economic growth premium enjoyed by the San Fernando Valley averaged a little more than 40 basis points above the LA Metro economy. If the current CERF forecast holds, the growth premium will average 135 basis points over the next two years. The San Fernando Valley’s economic growth will also remain extremely favorable relative to both the state of California and the nation.

	2020	2021
San Fernando Valley	3.4	3.1
LA / Orange Metro Area	2.0	1.8
California	2.5	2.4
United States	1.8	1.6

Source: CLU-CERF

The U.S. economic outlook is eroding rapidly, as the economy absorbs the impacts of the Trade War. The current national outlook is weak compared to almost any historical context. The current U.S. forecast anticipates growth that is weak even compared to the anemic two percent average growth rate which marked the decade following the Great Recession. The California economy is also forecasted to slow substantially. We mentioned previously that the San Fernando Valley economy appears to be somewhat insulated from these broader macro economic trends. It is insulated, but it is not immune. Precipitous declines in business investment, caused in large measure by the trade war, do impact the San Fernando Valley economy, if not as much as comparable geographies.



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 is consistent with recent history and with the previous year's forecast. We anticipate that the San Fernando Valley will continue to produce jobs faster than the LA Metro economy and the state of California.

The risks to the current forecast are likely to the downside on net, but are not simply one-sided. The single biggest risk to the forecast is the Trade War and the impacts on business investment and hiring decisions. The Administration in Washington D.C. simply does not possess a commitment to free trade and the considerable economic benefits that flow from it. As a result, we are skeptical that any agreement reached with China will be an improvement over the situation that existed prior to the current trade battle. The Administration's NAFTA-replacement, dubbed USMCA, is worse than the status quo. Tariffs have also now been in place long enough that it could take years to undo the harm that has already been done. The question is not whether these developments will impact the economy of the San Fernando Valley but by how much. We are making the claim at this time that the impacts will be muted relative to other regions of the United States. We could be wrong.

The biggest upside risk to the current forecast is the San Fernando Valley itself. It is no accident that the Valley is a true economic hot spot. The lengthy creative and technological legacies of the San Fernando Valley, coupled with an attitude and with policies that, on-balance, embrace growth and economic dynamism, will surely continue to pay dividends. As we have concluded in previous forecasts, the San Fernando Valley exhibits uncommon economic strength. We anticipate that the region will remain uncommonly strong in the years ahead.

The Appendix with forecast charts in on the next page.

Appendix: Forecast Charts

