Valley Economic Forecast

Matthew Fienup, executive director of California Lutheran University's Center for Economic Research and Forecasting, speaks at the Valley Economic Forecast breakfast on Jan. 15.

PHOTO BY SHELDON BOTLER

Valley Still 'True Economic Hotspot'

The economy of the San Fernando Valley will grow by 3.4 percent this year – slower than the 4 percent average it has grown in recent years but still faster than the greater Los Angeles-Orange County area, faster than Ventura County and faster than the state as a whole. In fact, it'll grow faster than about anywhere else. That's the conclusion of the economists at **California Lutheran University**'s **Center for Economic Research and Forecasting**.

"The San Fernando Valley is a true economic hotspot, whose performance compares favorably to almost any other geography," said **Matthew Fienup**, the executive director of the economic research group in Westlake Village.

Fienup along with **Dan Hamilton**, the director of economics at the research group, have produced the Valley Economic Forecast for the Business Journal for four years. Their latest findings were presented at a breakfast event Jan. 15 at the **Hilton Woodland Hills** hotel, and their reports appear on subsequent pages.

Broadly, they see the U.S. economy growing at a much slower clip in 2020 largely because of the ongoing trade war; the "outlook for the nation has eroded dramatically," Fienup said. California's economy will slow but less than that of the United States as a whole. The Valley's economy will slow but less than that of the state.

On the jobs front, a sector that economists call "Information and Technology" continues booming in the Valley. The reason: that sector includes motion picture production as well as software engineering and the like. It happens to be the highest paying sector, too, and goes a long way toward explaining why the Valley is an economic star.

Not all is rosy in the Valley. It has excruciatingly high housing costs, even compared to its high-priced neighbors, and "the mismatch between housing costs and incomes has significant social costs," Fienup said. Notably, those costs include a lack of upward economic mobility for many along with an exodus of workers, especially younger and lower- and middle-income workers.

In separate reports on the following pages, Hamilton assesses both commercial and residential real estate in the Valley and he examines the Glendale and Burbank economies in a separate report. That's because those two cities are relatively large and can tip the overall forecast in such a way as to distort the picture the rest of the San Fernando Valley.

GDP GROWTH FORECASTS

	2020	2021
San Fernando Valley	3.4	**3.1**
Los Angeles/Orange County	2.0	**1.8**
California	2.5	**2.4**
United States	1.8	**1.6**

Source: CLU-CERF

Valley Still an Economic Star But Will Grow Slower This Year

By MATTHEW FIENUP

When our team from the Center for Economic Research and Forecasting 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 California's economic growth rate slowed significantly while the San Fernando Valley's accelerated.

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. 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.

New growth estimate

The biggest change in our outlook from a year ago stems from data released by the Bureau of Economic Analysis. On Dec. 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. The 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 L.A. Metro Area was revised upward for 2016, 2017 and 2018. That is, economic activity in the greater L.A. economy was stronger in these years than previously thought.

Despite the upward revisions to its economic growth figures, the L.A. 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 slowdown 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 saw gains. The fastest growing sectors were Construction, Transportation and Warehousing, and Information and 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.

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 L.A. 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 L.A. Metro area.

All sectors of the non-farm economy except two saw job gains in 2019. Utilities, Transportation and 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

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HOW THE VALLEY'S GDP HAS CHANGED

GROSS DOMESTIC PRODUCT - BILLIONS OF DOLLARS

		CHANGES DURING THE LAST YEAR		CHANGES SINCE THE GREAT RECESSION	
SECTORS	2019 $ BILLIONS	2018-19 CHANGE $ billions	2018-19 PERCENT CHANGE	2007-19 CHANGE $ billions	2007-19 PERCENT CHANGE
Agriculture	0.1	0.0	-2.2	0.0	-35.6
Natural Resources/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	1.7	0.7	15.0
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/Warehousing	1.4	0.1	4.5	0.3	26.4
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/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/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**	3.5	3.9	18.8	25.5

Source: CLU CERF

HOW THE VALLEY'S JOB COMPOSITION HAS CHANGED

JOBS AND JOB GROWTH

		CHANGES DURING THE LAST YEAR		CHANGES SINCE THE GREAT RECESSION	
SECTORS	2019 thousands	2018-19 CHANGE- thousands	2018-19 PERCENT CHANGE	2007-19 CHANGE- thousands	2007-19 PERCENT CHANGE
Agriculture	0.7	0.0	-0.8	-0.8	-52.4
Natural Resources/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/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/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/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
*Data are full-year averages.

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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.

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 and Warehousing have defied this trend and have each seen strong gains in percentage terms. Utilities jobs have increased by 77 percent. Transportation and 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 and 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 and 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 and 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 and Maintenance Services and Leisure and 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 of workers who fill them.

High housing costs

The median single-family home in the San Fernando Valley is currently 17 times the average salary in both Leisure and Hospitality and Education and Healthcare. To put this in perspective, nationwide, 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. L.A. 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 United States 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.

INDUSTRY DATA

2001 TO 2019

	JOBS	AVERAGE SALALRY - ANNUALIZED (thousands of dollars)			
SECTORS	2019	2001	2019	CHANGE-	PERCENT CHANGE
Agriculture	744	25,631	42,871	17,240	67.3
Natural Resources/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
Durable Goods Manufacturing	28,708	50,462	75,935	25,473	50.5
Non-Durable Goods Manufacturing	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
Financial Activities	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/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
TOTAL All Industries	**568,200**	39,083	58,493	19,409.9	49.7

Source: CLU-CERF and CA-EDD
*2019 estimated with partial year data.

Economist Matthew Fienup released his findings to about 130 business leaders at the Hilton Woodland Hills.

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.

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.

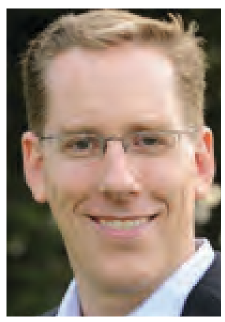
While this represents an undeniable slowdown for the San Fernando Valley economy, we remind readers that this is still a bullish forecast relative to any comparable geography. The broader L.A. Metro economy is forecasted to grow at just 2 percent in 2020 and 1.8 percent in 2021. That is to say, although 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 L.A. 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.

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 2 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 L.A. Metro economy and the state of California.

The risks to the current forecast are likely to be on 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.



Matthew Fienup, Ph.D., is executive director of the Center for Economic Research and Forecasting at California Lutheran University.

Industrial Inventory Very Low; Office Vacancy Tightening Again

By DAN HAMILTON

Our review of San Fernando Valley commercial real estate activity includes data through the third quarter of 2019. The office marketspace appears to have been impacted by a change in the type of space available for lease in 2019. The industrial marketspace was impacted by a lack of inventory for the most recent measurement period. As we argue for residential real estate, we call for greater development of industrial space in the San Fernando Valley. We applaud the renaissance in hotel development, as this will benefit future business development activities in the San Fernando Valley.

Office space

The San Fernando Valley's net absorption, an important indicator of market activity, turned a corner for the worse for the first three quarters in 2019. On the face of it, this is not congruent with our analysis of the Valley's jobs and GDP data, which have continued to exhibit strength. However, office specialist brokers in the San Fernando Valley assure me that the Valley's office market is doing well despite certain shifts in the data presented here.

This downturn was accompanied by a jump in the Valley's office space lease rates. In the same quarters as the absorption slowdown, quarters 1, 2 and 3 of 2019, the Valley's lease rates jumped 10 percent from the prior year.

The type of space that has become available can impact these data. If there was office space that came open for leasing that was not absorbed, this would push net absorption down. And if this newly available space was expensive relative to the other space open for lease, then we would see a bump in the asking rates as mentioned above.

The Valley's office-space vacancy rate continues to tighten relative to its neighbors. While Los Angeles and the Conejo Valley vacancies stayed in the 14-15 percent range during 2018 and 2019, the San Fernando Valley's rate fell from a 12 percent average in 2018 to 10.8 percent in 2019.

Industrial space

The San Fernando Valley's 2019 industrial vacancy rate fell yet again, which is remarkable given that it was already very tight in 2018. The 2019 three-quarter average was 0.8 percent. It is very uncommon for a rate like this to fall to less than 1 percent and then stay at that level, given the time it takes for establishments to make the decisions necessary to leave, move or enter new space.

L.A. County's vacancy rate is double the San Fernando Valley's rate. The Conejo Valley's rate has consistently risen for more than a year now and was almost 3 percent by the third quarter of 2019. A market this tight calls for the development of new industrial space.

As we have pointed out before, it is not just traditional industrial space users in these buildings, but also various non-traditional entities. Examples include Cross-Fit gyms, indoor rock-climbing facilities, wine tasting rooms, and more. These companies can get into industrial space for a per-square-foot cost that is less than half the available office space cost.

Lease rates for industrial space have continued to rise during most of 2019, relative to 2018, with asking rates well over $1 a square foot in the second quarter of 2019. 2019 sales and leases picked up to 2.3 million square feet, in the first three quarters, up from 1.2 million for all four quarters of 2018. These data are a testament to the ongoing vitality of the Valley's economy.

Hotel space

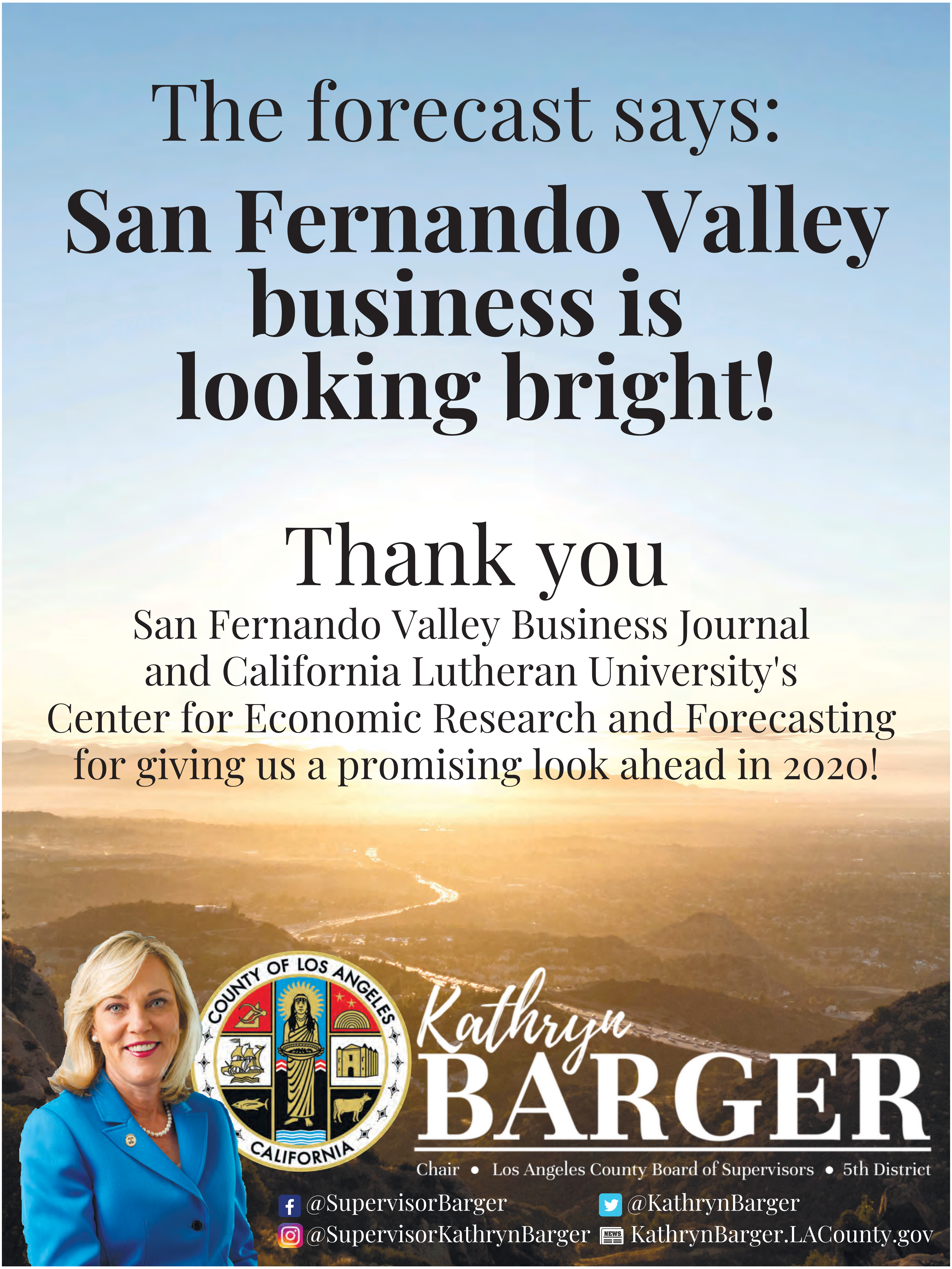
The Valley is set for a hotel building boom in the next few years. There are five properties in the planning stage near the Warner Center, and a Home2 Suites is already under construction nearby. Sherman Oaks has two hotels in planning stages, and Glendale has eight new hotels in early development planning. Burbank has seven hotels in planning stages, and the AC Hotel Burbank is already under construction.

The broader region is set to be a new hotel space leader in 2020, with Los Angeles County having more hotel rooms under construction than any other California county, ending 2019 with 3,166 rooms.

A brief comment on Woodland Hills retail

The owner of the Westfield Topanga complex plans to redevelop the former Sears store into a dining and entertainment complex in Woodland Hill. Old and dormant retail spaces that have fallen out of favor with the market are found all across the state and are detrimental to their communities. The projected completion date of late 2021 for the dining and entertainment complex is great news for Woodland Hills and the San Fernando Valley and is logically coherent with the forecast of robust economic activity for the Valley that is presented in this publication.

Dan Hamilton is director of economics of the Center for Economic Research and Forecasting at California Lutheran University.


The forecast says:
San Fernando Valley business is looking bright!
Thank you
San Fernando Valley Business Journal
and California Lutheran University's
Center for Economic Research and Forecasting
for giving us a promising look ahead in 2020!
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Valley's Home Prices High Despite Weak Sales

By DAN HAMILTON

The San Fernando Valley's housing market continues to become more expensive. Ventura County's existing single-family home price growth has slowed a bit and levels average $660,000 in the past three months of data. Los Angeles County's levels are about $635,000, while the Valley's levels in the same time period are over $730,000.

As in many places, the Valley's home sales growth slowed substantially during the Winter of 2018 to 2019. The declines were double-digit from August 2018 through March of 2019. Typical high season sales rates of 600 homes a month subsided to a bit under 500 homes per month and the Valley experienced a 36-year historical low sales rate of only 266 homes in February of 2019. A recovery began starting April 2019, but it has been weak. Our estimate of 5,166 closed escrows for 2019 is still 200-units off the 2018 rate. Using sales as a metric, this is still a weak housing market, locally and nationally.

The recent sales recovery in the Valley's condominium market is much stronger than that for single-family homes, up 23 percent using the last three months of data. This is to be expected as prices for those housing units, in the $440,000 range, imply a $1,900 monthly mortgage payment at 3.92 percent, while the single-family home prices imply a $3,100 monthly mortgage payment.

What are the prospects for future interest rates? They will stay low. The Federal Reserve Board has pursued extraordinary monetary policy since late 2008. They are convinced that the large-institution liquidity benefits and short-rate control benefits the Fed accrues from a large balance sheet outweigh the negatives of reduced financial intermediation, investment, and slower growth. Our Center for Economic Research and Forecasting disagrees strongly, but there is no mistaking the commitment behind this massive and fundamental policy shift that has occurred at the central bank of the United States.

The Fed will maintain a large presence in the mortgage-backed securities market for at least the next few years, which implies that the existing downward pressure on mortgage rates will continue.

Do the low rates help home buyers? Not much. Prices are high enough that the prospect of buying a modest home, not even a large or fancy residence, in the San Fernando Valley creates a *principle* problem for the buyer, not a *rate* problem. The prices are so high that low rates cannot overcome the affordability problem.

In smaller beach counties such as Ventura County, price growth is often a result of supply constraints rather than income generation. In the San Fernando Valley, prices are driven by supply constraints, and as well by a combination of wealth and income accumulation, which in turn is driven by economic activity. As shown in the accompanying table, the Valley's median household income is only 12 percent greater than the United States' median, while its median home price is 242 percent greater than that of the United States!

HOUSEHOLD INCOME AND HOME PRICES - 2019

	MEDIAN HOUSE PRICES[1]	MEDIAN HOUSEHOLD INCOME	MEDIAN MULTIPLE[2]
San Fernando Valley	$733,000	$70,501	10.4
Los Angeles County	$635,283	$67,655	9.4
Ventura County	$659,750	$86,683	7.6
California	$600,243	$74,605	8.0
United States	$214,167	$63,174	3.4

Sources: National, California and Southland Regional Associations of Realtors and Claritas.

[1] September to November
[2] Home prices divided by median income.

The vitality of the Valley's economy is partly responsible for the home prices.

The robust economy is not the only factor. Our Center for Economic Research and Forecasting has repeatedly documented that the post-2008 new home building rate in the United States has set a *historically low* standard for building in an expansionary economy. We have also documented that California's building rate is about *half* the U.S. rate. Given the San Fernando Valley's location in California, we can deduce the Valley's home building rate is less than that of the United States.

Most regions in California do not build enough homes, and the economy loses vitality as a result. A rational economic development policy includes a rational real estate development policy, and most communities, including the San Fernando Valley, do not have either.

When Added to Valley, Volatile Burbank and Steady Glendale Boost Overall Economy

By DAN HAMILTON

For this article, we include geographic coverage of Burbank and Glendale, geographies that we add alongside our "narrow" definition of the rest of the San Fernando Valley. Burbank and Glendale are integral to the Valley as well as to Southern California and the nation. As such, we combine the San Fernando Valley, Glendale, and Burbank into a larger geography that we call the Greater San Fernando Valley economy.

Burbank and Glendale forecast

The structure and evolution of Glendale's economy are quite similar to that of the San Fernando Valley. The composition of industries is fairly similar, and Glendale is to an extent a bedroom community for the rest of the Valley. This means that some of Glendale's households provide many of the workers in the San Fernando Valley. This provides a link between Glendale's business cycle and the Valley's. Given this, we are not surprised to see that Glendale's economic growth, revealed in both the history as well as the forecast, track the San Fernando Valley's growth rates closely.

We estimate that Glendale's economic growth improved a bit in 2019 despite a slight downtick in jobs growth. This is driven by a positive productivity shock to Glendale's economy in 2019. By productivity shock we mean that GDP accelerated more than jobs, and positive productivity shocks are a great thing. The 2020 to 2021 forecast calls for that productivity boost to subside somewhat during those years, but Glendale's growth will be steady and stronger than growth for the United States.

Burbank's economy is much more volatile than Glendale's economy, or for that matter most other regional economies in the United States. Burbank is home to a number of large project-driven enterprises including Warner Bros. Studios, Walt Disney Studios, The Burbank Studios, Nickelodeon Animation, Cartoon Network, and the list goes on. These companies work on very large projects, such as movies, TV series, and animation projects. When they gear up for such an effort, the boost to jobs and economic growth is massive. Then, when a particular project ramps down, Burbank's economy contracts just as vigorously as it expanded. This results in an extremely volatile economy.

When a noteworthy project hits, economic growth rates for Burbank are often in the double digits, providing an economic boost many times greater than that of most areas. How does Burbank do in the long run? To answer this, we compute a centered 5-year moving average for Burbank and compare this metric against its neighbors. For most of the years that we have data, Burbank's overall growth, or average growth, is substantially greater than the growth of its neighbors. If recently estimated and forecasted data are correct, Burbank's long-run average growth will converge toward that of its neighbors.

The economic forecast for Burbank implies a slowdown, but not a recession, in 2020, and then a pickup in 2021. This is in effect a forecast of project activity, which means that the forecast error is large relative to the potential errors in either the San Fernando Valley or Glendale forecasts.

Greater Valley forecast

By the Greater San Fernando Valley, we mean the combination of Burbank, Glendale, and the rest of the Valley, as most people think of it.

The GDP growth of the Greater Valley geographic concept is more volatile than GDP growth of the narrow definition of the Valley. We have Burbank to thank for that. What does not change is that the area's economic growth typically exceeds that of the United States, at least in the years since 2013.

Our forecast maintains the Greater Valley's growth premium over the United States. There is a reduction in growth in 2020, followed by an increase in 2021. This pattern is driven in part by a similar pattern in the jobs forecast. Geographically, the main driver behind this pattern is Burbank, which we forecast will experience growth in both years but at a noticeably slower growth rate in 2020 compared with either 2019 or 2021.

What are the risks to this forecast? Geographically, we believe most of the risk is from Burbank and to a lesser extent the San Fernando Valley. The forecast of Glendale's growth is benign. If Burbank does not have the slowdown in activity in 2020, or the pickup in 2021, then this forecast will be off. For Burbank, the San Fernando Valley, and, to a lesser extent, Glendale, economic growth is partially driven by the technology sector. If activity in this sector falters, the San Fernando Valley's economic vitality will diminish.

AT THE EVENT

About 130 business leaders met for breakfast at the Hilton Woodland Hills hotel on Jan. 15 and heard a San Fernando Valley-specific economic forecast for 2020.

1 **Dan Hamilton**, center, is the chief economist of California Lutheran University's Center for Economic Research and Forecasting.

2 Among those in attendance is **Holly Schroeder**, executive director of the Santa Clarita Valley Economic Development Corp.

3 **Randy Witt**, center, is chair of the Valley Economic Alliance.

4 Getting breakfast are **Kevin Tamaki**, economic development director for Los Angeles City Councilmember **Bob Blumenfield**, left, and **Coby King**, chief executive of High Point Strategies. Both men are former chairs of the Valley Industry and Commerce Association.

5 **Tony Battaglia** of Raymond James in Woodland Hills speaks before the economic forecast is presented. Standing at right is Business Journal Publisher **Charles Crumpley**.

6 Among those taking notes is **Kevin Davis** of Aerotek.

7 **John Parker** of Parker Brown speaks before the economic forecast is presented.

8 **Cindy Keitel** of California Lutheran University, left, with **Jarrod DeGonia**, Senior Field Deputy for Los Angeles County Supervisor **Kathryn Barger**.

9 **Matthew Fienup**, the executive director of California Lutheran University's Center for Economic Research and Forecasting, presents his economic assessment and forecast of the San Fernando Valley.

PHOTOS BY SHELDON BOTLER